



# Update

8 March 2010

## *Dear Shareholder/Supplier*

### **Year-to-Date-Performance**

The season to date has been frustrating for the company. The current high value of the New Zealand dollar has prevented market price gains transferring to improved livestock prices. Year-to-date foreign exchange rates are 22% unfavourable compared to the same period last year.

Climatic conditions to date have been favourable resulting in an abundance of feed in many regions. Suppliers have been able to produce additional meat volume providing some offset to the negative exchange rate effect on revenue.

While this has been positive for farmers, the normal supply profile has altered with lambs being held longer on-farm. Livestock flows were just sufficient to ensure orders were filled for the critical Easter chilled trade.

With the last shipments for Easter having departed, caution will need to be exercised to prevent a late season run of heavyweight lambs having a negative affect on the market.

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### **Market Update**

Market dynamics and fundamentals continue to change with varying influences on our global business -

- some economies showing renewed growth;
- continuing reduction in protein availability;
- customers looking for supply security;
- lower availability of Australian product assisting New Zealand's competitive position; and
- increased demand for lower valued protein from all species providing improved returns.

## **Lamb**

Production for the peak Easter trade is complete with strong demand after a positive Christmas uptake throughout Europe and the UK. Climatic conditions restricted New Zealand's ability to maximise chilled opportunities for both critical selling periods. Reduced UK domestic availability and severe winter conditions across the whole of Europe resulted in strong demand for lamb.

Frozen supply out of New Zealand has remained scarce as chilled commitments remain the priority. As the processing season remains behind original forecast flows, there will be an opportunity to cover some traditional key account frozen business post the Easter production period.

Lamb sales at retail have continued to perform well globally. Food service, which has suffered on the back of poor performing economies, is starting to show some recovery, especially on middle cuts into the North American and European regions.

Lower valued products remain in strong demand. China, the Middle East, Taiwan and parts of South-east Asia are short of supply due to increasing populations, improving economies and reducing availability of their domestic supply base.

## **Mutton**

Reduced volume out of Australia is having a positive influence on prices, particularly in diversified markets such as the Middle East and Asia. Demand also remains firm in Europe but the EU is struggling to match levels being achieved in other regions and as such markets will remain under-supplied. Interest in selected mutton carcass grades throughout the Middle East and Asia remains strong with fewer live imports from Australia.

## **Venison**

Feedback from the markets suggests a good uptake during the important Christmas period but the market still remains cautious as economic recovery in the key German market is slow. The projected reduction in New Zealand supply is expected to assist in maintaining current price levels on all product lines.

## **Beef**

Price levels for manufacturing product in the US have been firming where recent heavy snowfalls appear to be affecting domestic supply and animal weights. The general outlook remains steady to firm. North Asian markets have improved slightly due to supply shortages and despite the economies of Japan and Korea being slow to recover from the global economic crisis. South Asian markets remain steady although some are struggling to remain in touch with recent increases in market price. Europe and the Middle East continue to seek supplies of high quality beef.

Cattle hide prices have significantly improved from the 2009 collapse and should continue to strengthen.

## **Lamb and Sheep Skins**

Demand for salted wool-on-skins remains strong, driven by good sales of Ugg boots and furnishings. Pickled lamb pelts are also undergoing a new surge in demand driven mainly by global shortages of raw material. Demand for sheep pelts is improving as clients realise supply volumes from New Zealand and Australia is much lower than previous years. Tanners report that demand for lamb skin hand-bags remains strong, while demand for leather garments is mediocre and orientated around lower priced products.

## **Rendered Products**

After a very strong start to the season for meat and bone meal and tallow pricing, levels have eased off slightly in the past few weeks due to improved forecasts for soya meal and oil from South America. Ovine meal sales to speciality pet food manufacturers have been slower than usual but there are signs of improvement in sales at the retail level.

## Livestock

### Opti-Health

Suppliers are reminded of the Opti-Health service available at all Alliance Group plants. The service is offered in conjunction with AsureQuality.

The Opti-Health service can provide suppliers with information in three key areas -

- trace elements, ie, copper; selenium and cobalt;
- a post mortem report identifying disease or health issues; and
- worm counts.

Your Livestock Representative can provide you with more detailed information and make the necessary arrangements on your behalf.

### New Zealand Ewe Hogget Competition

As a major sponsor of the New Zealand Ewe Hogget Competition, Alliance Group encourages suppliers to consider entry into this event.

The competition provides farmers with the opportunity to benchmark their flocks against others on both a local and national level.

Entries close on 20 March 2010. Suppliers who are interested in entering can contact your Alliance Group Livestock Representative for an entry form.

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## 2010 Undergraduate Bursary

Miss Samantha Edgar has been awarded the AGL Undergraduate Bursary for 2010.

Samantha, who is from Waikoikoi, attended Columba College in Dunedin and intends to study towards a Bachelor of Veterinary Science at Massey University.

Samantha was involved in a number of sports, predominantly netball and volleyball, and was also very involved in coaching junior pupils. She received the Forest and Bird Society Award and the Otago Regional Council Award for her entry of "Testing Nitrates in the Pomahaka River" in the Otago Senior Schools Science Fair.

We offer our congratulations to Samantha on her selection.

*Thank-you for your continuing support.*



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