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Chinese Sheepmeat Disappointing import outlook

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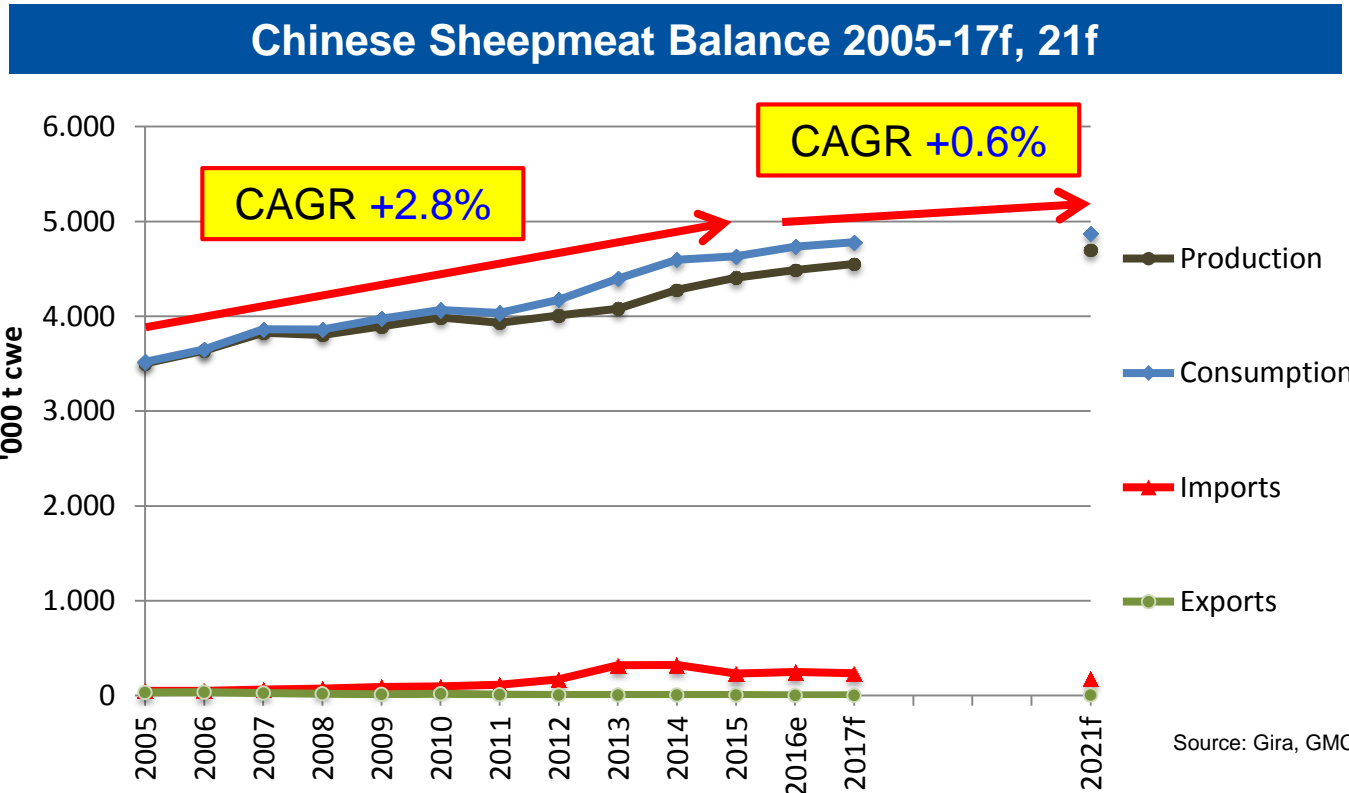
European Commission - Forecast Working Group – Sheep and Goat Meat

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Strong domestic production growth Imports challenged by domestic production growth



- Growth in domestic production is from small / medium scale producers
- 2017 growth slowed by dry 2016 in key pastoral areas
- Imports remain crucial at a world level... but less significant in the Chinese market
 - Imported lamb is preferred in high end modern retail counters, and western dishes

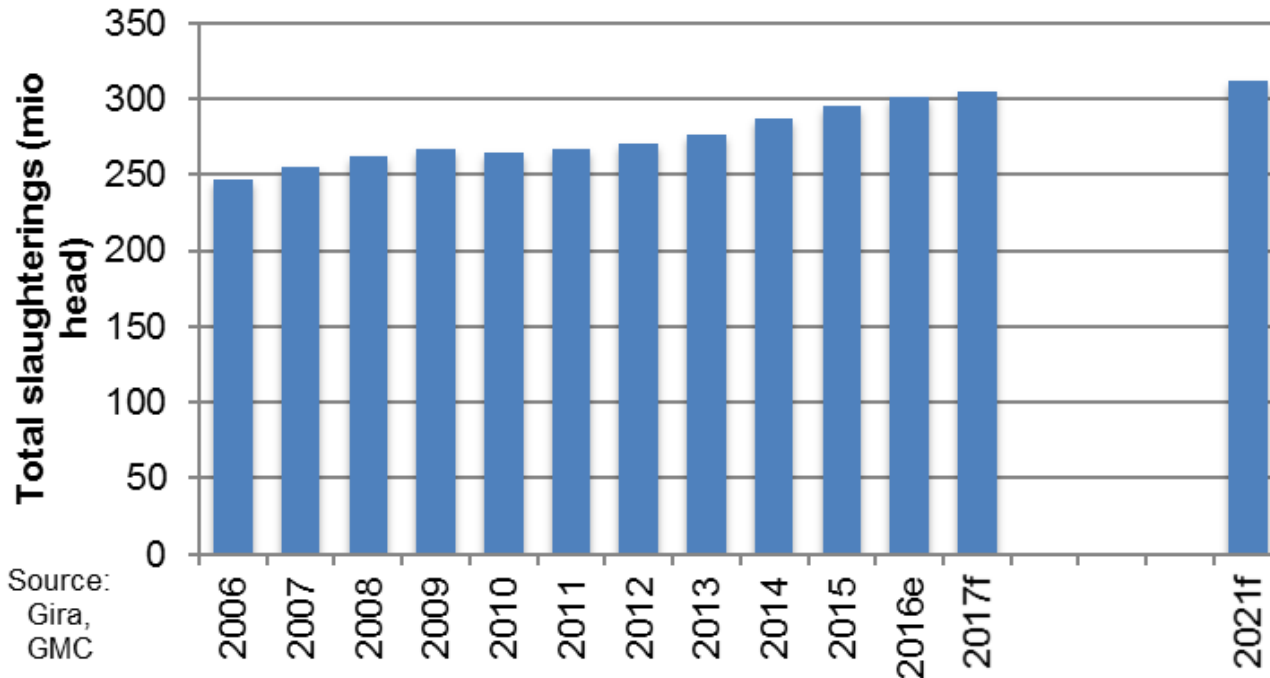
Domestic demand growth is the key driver Increased disposable incomes combine with more availability

- Whilst sheepmeat is new to the mainstream market... it has lost the brand-new edge that drove the hotpot craze
 - Still eaten in small volumes – 3.4 kg /hd (2016e)
- Record prices (above beef) reached a ceiling, with real resistance, and less growth... coincided with:
 - Scandal around adulterated meat
 - The hot pot craze fading
- This has coincided with an increase in domestic production, which combined with weaker demand led to a decline in prices... and continued, but slower volume growth
- Producers report poor prices in 2016, will lead to less investment in 2017... and slower mid-term growth



Sheep production – remains fragmented and informal Allowed growth to be off small pockets of land across the country

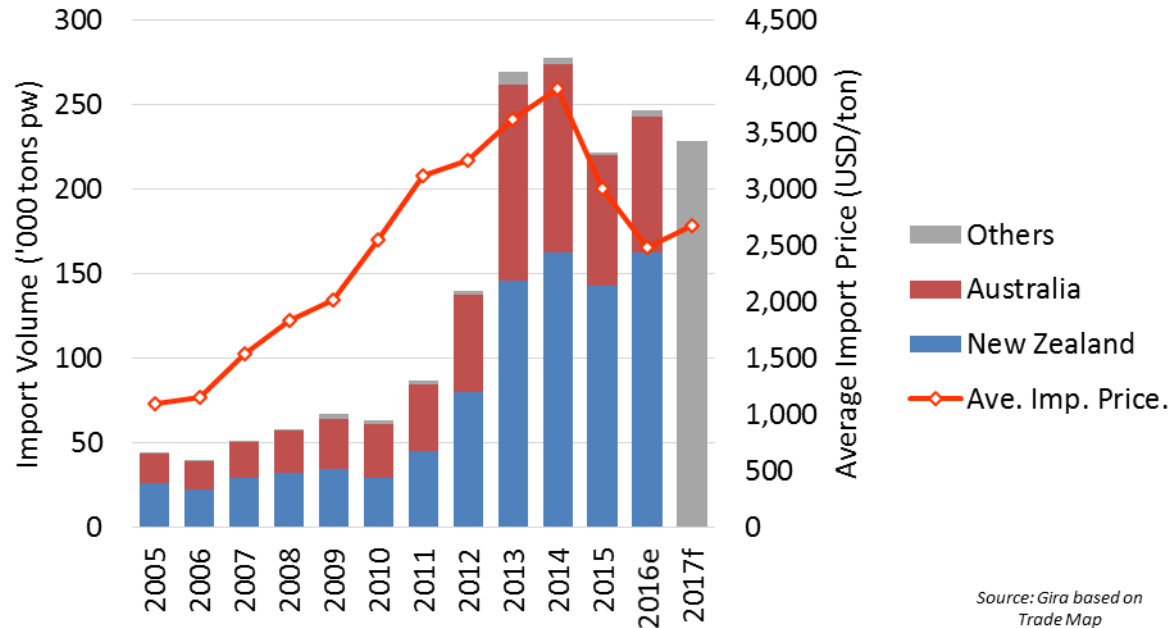
Chinese Sheep Slaughtering, 2006-21f



- Producers responded to high prices on two tracks:
 - Major investments in commercial farming in feedlots in NE China
 - Small farmers in virtually every province, even Beijing and Shanghai
- Fragmented production base led to rapid and unrelated growth in recent years
- Supply surge has led to less profitable market

Direct Chinese Sheepmeat Imports – the main channel Dominated by Australia & New Zealand

Direct Chinese Sheepmeat Imports, 2005-17f

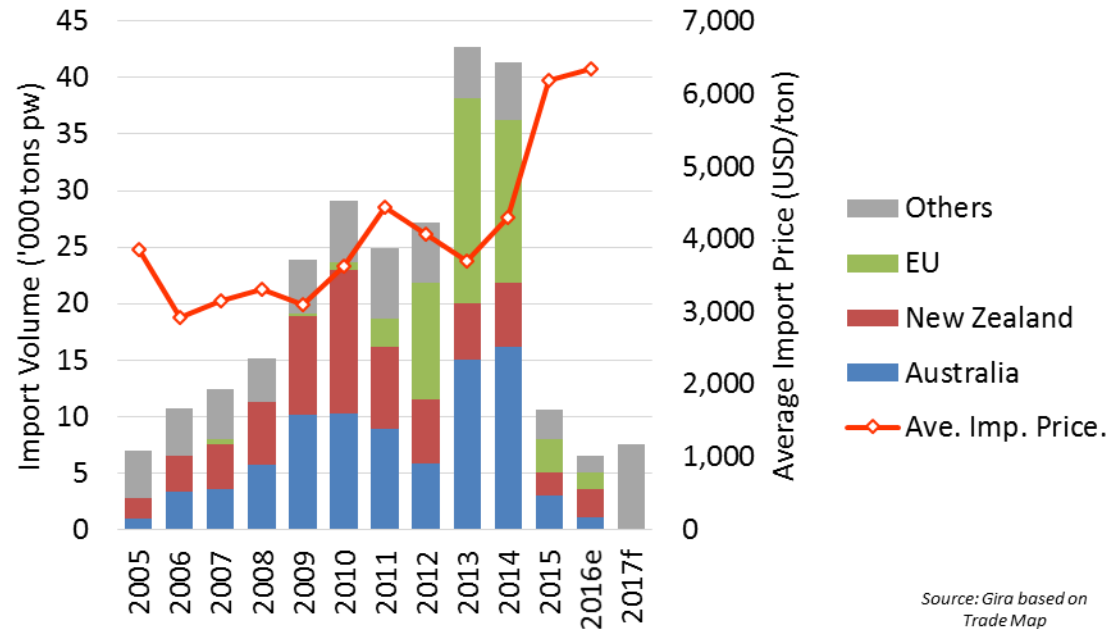


Source: Gira based on Trade Map

- New Zealand 66% and Australia 32% lead supply
- Falling prices as demand weakens and global supply rebalances to the new market
- EU continues to try and establish direct trade... so far with limited success!

Grey route for meat is now minor... most volumes now for HK market

Hong Kong Sheepmeat Imports, 2005-17f

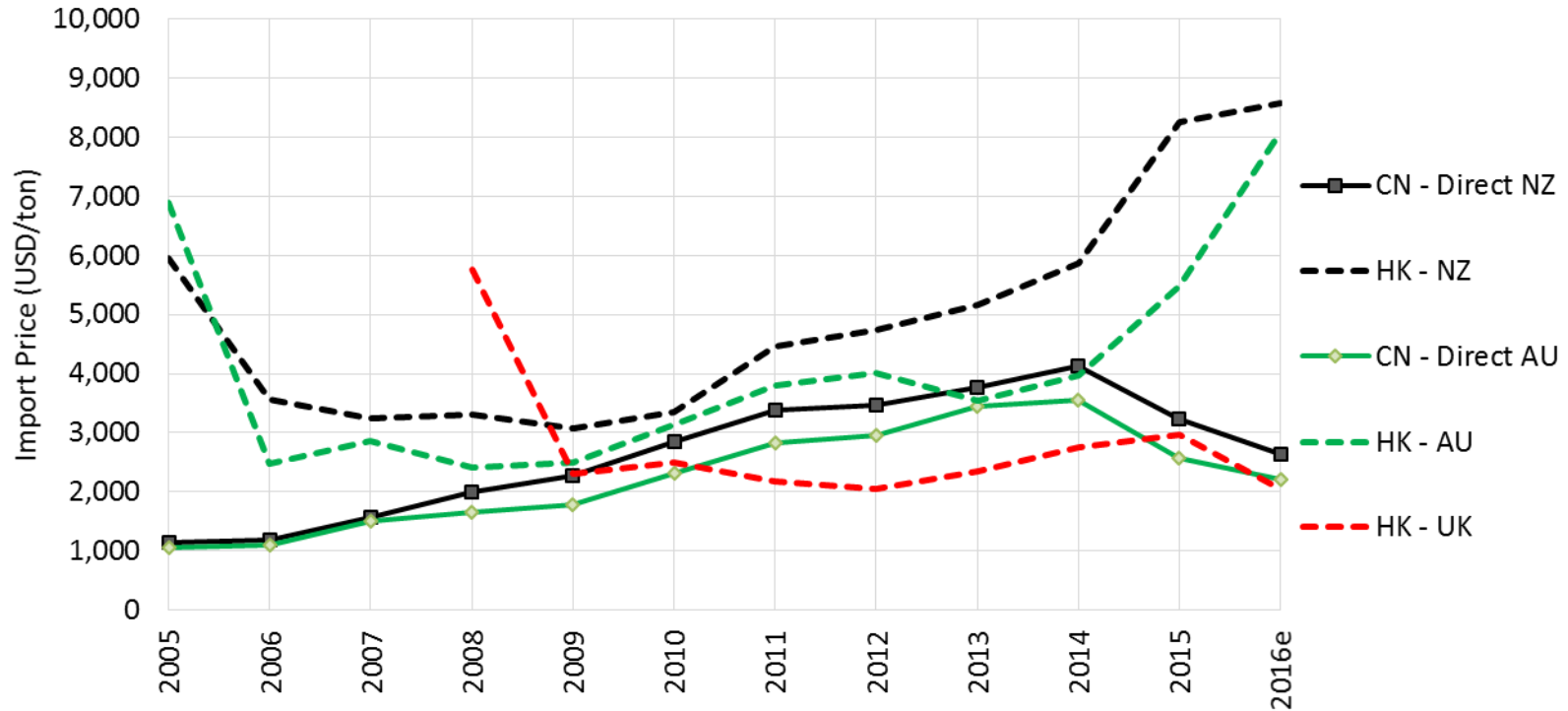


- Was a major access route for EU to China...
- Grey trade to China is insignificant... even after restrictions eased
- Key suppliers via HK also have direct access... but EU is missing out!

Chinese Sheepmeat Import Prices have peaked

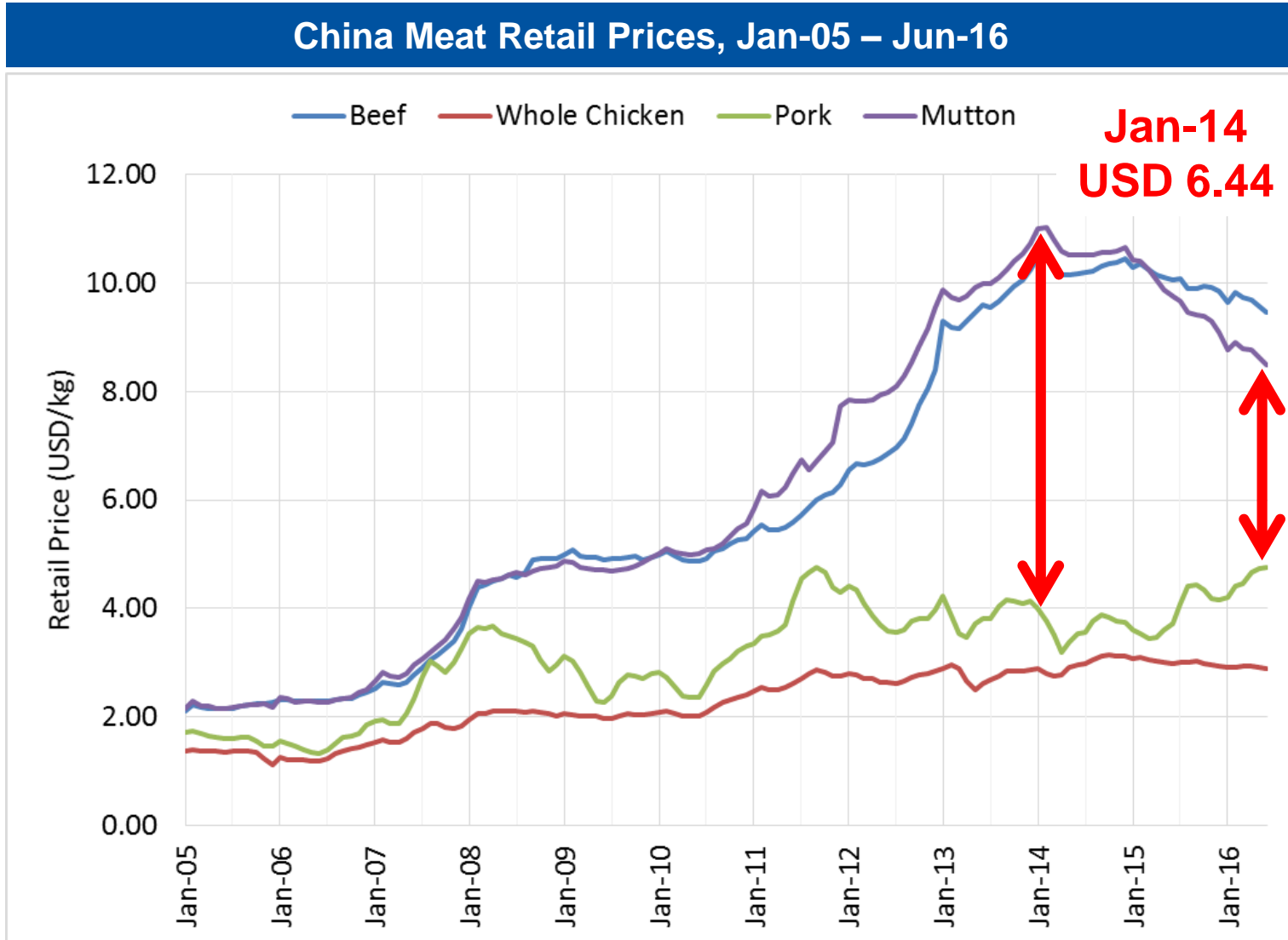
Falling domestic 'pull' reduces import price from main suppliers

Chinese Sheepmeat Import Prices, 2005-16e



- Hong Kong import price increase is due to the reduced volumes leaving higher quality cuts for Hong Kong
 - Rather than lower value flaps for China via the grey route

CN retail meat prices: Price gap to beef widens
 Gap to pork is now lower than last 3 years... consumption revival?



**Jun-16
 USD 3.73**

2017 – Domestic production holds imports down Domestic market has weakened considerably

2016 Brakes:

- Demand bubble has burst
- Increased domestic supply, as demand slows
- Hotpot restaurants have lost favour

2016 Drivers:

- High pork prices and falling sheepmeat prices
- Increased availability from increased domestic production base

Midterm Outlook:

- The initial surge has faded, but consumption continues to grow, at the current lower prices
- This means that the outlook should be more balanced for the market
- Imports decline slowly as domestic production grows further
 - Possibility of import growth if global prices decline... and Chinese consumption can be encouraged by new lower prices...

Thank you for your attention