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Consumption Trends in Emerging Markets: China is already the world's biggest SH market

International Sheepmeat Forum
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Supply

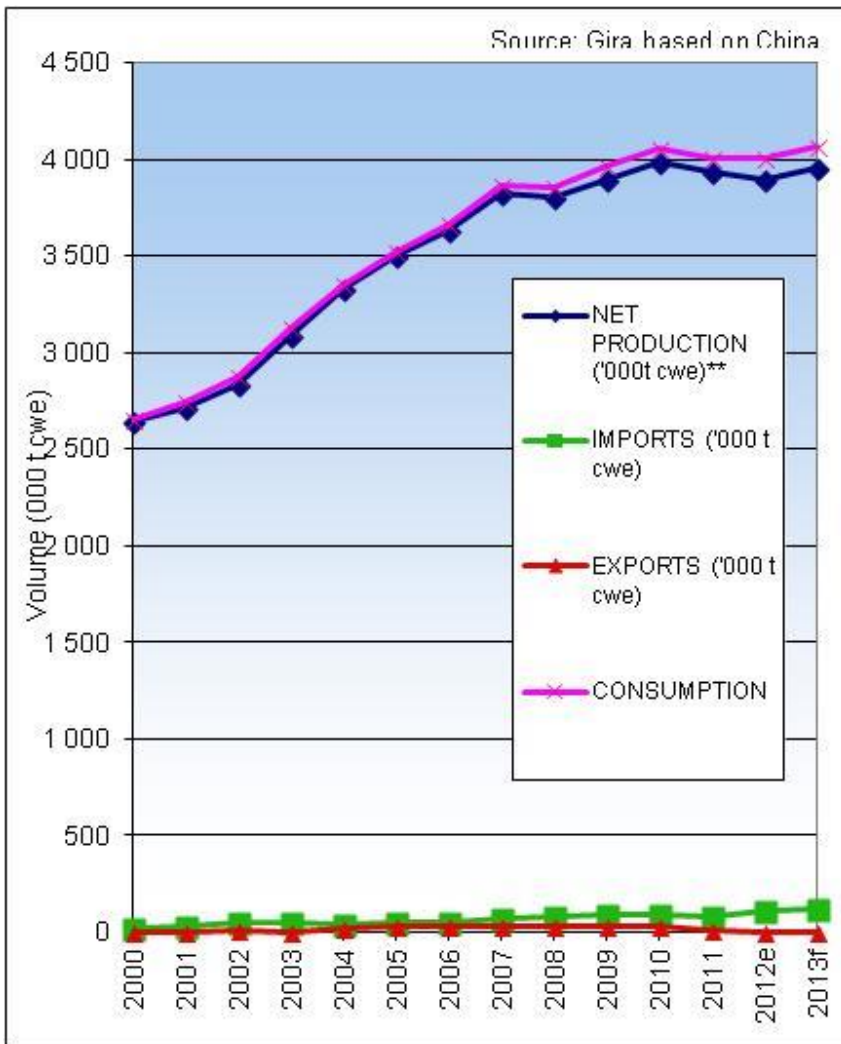
Supply constraints (& rising demand) have led to
record prices

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Chinese sheepmeat supply is constrained by pasture degradation

Chinese Sheepmeat Balance



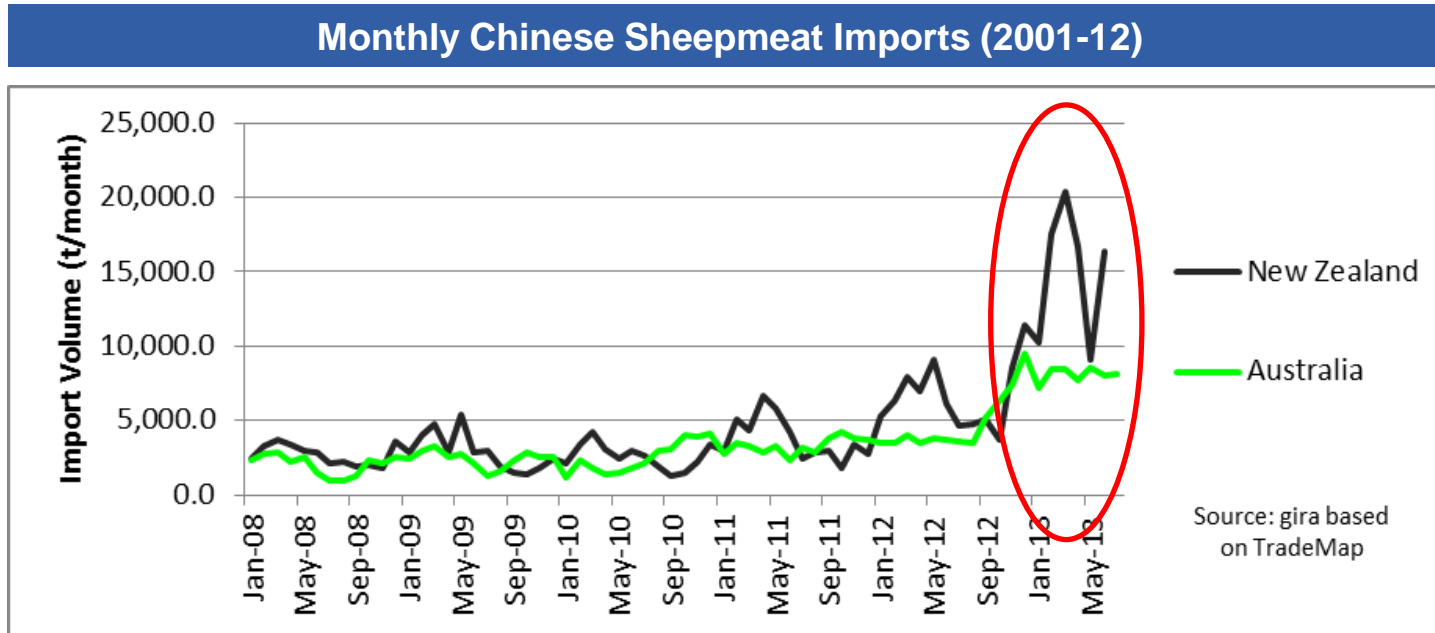
- Domestically focused industry
- Sustained by traditional ethnic minority preferences ... but spreading to the wider Chinese market
- Per Capita consumption ~3Kg/hd
 - Huge regional variation
 - Main meat in NW China
 - Growth slowed by high price
- Degradation of grassland led to stagnation in production
- Imports increasing
- Volume is internationally significant
 - Production is 4.5x the EU!

Growth rate for Chinese sheep flock is limited

- Chinese sheep flock is recovering from a period of decline, due to limited grazing,
- Recovery has been helped by:
 - High prices
 - Better grass management, end of '09 drought
- Importantly the future growth rate will be limited, due to:
 - Ultra-traditional producers (with little or no education)
 - Competition for land from competing land use: cattle, crops, urban sprawl, etc
 - Lack of Governmental extension services
 - Limited water



Monthly imports have accelerated since 4Q12



- Historic focus of Chinese Sheepmeat imports has been cheaper cuts
 - But increased levels of prime cuts are entering the market
- Seasonal peak in imports in 2Q
- 2012 ended with a big uplift
 - +100-200% year-on-year increase!!

Australian Imports

Main products = cheaper cuts

- Breast & Flap 54%
- Manufacturing 17%

But share is moving to higher value cuts

Consumption

Traditional origins, but beginning to follow western trends

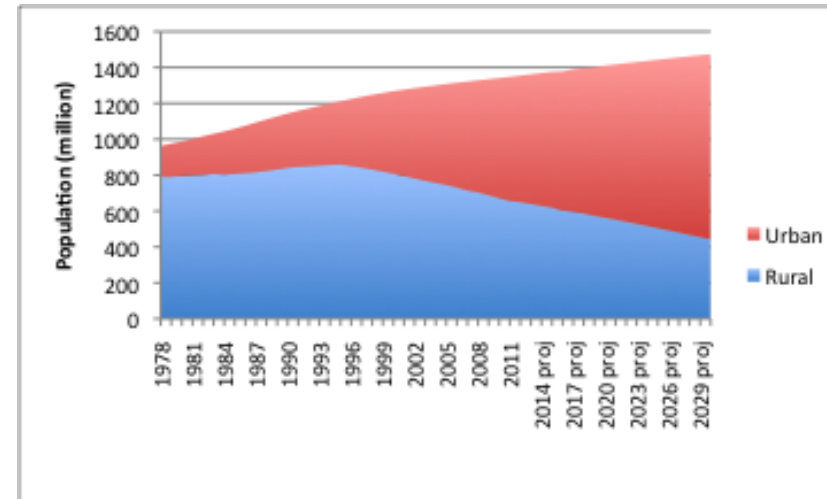
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Traditional sheepmeat cuisine is still the key area of demand expansion

- Demand growth for mutton and lamb is strong, despite the very high relative price... driven by two key factors:
 1. Freer movement of people since the '90's has allowed regional dishes to be introduced to a wider audience
 2. Increased disposable incomes led first to consumers wanting more protein... and now to wanting variety beyond pork and chicken
- Main growth is still in mutton and low value cuts, better suited to traditional dishes
- Leading cities developing taste for western lamb dishes... and paying above western prices, with a preference for imported lamb.
 - This is a minority market in terms of overall Chinese demand
 - But significant in terms of global trade volumes of high end cuts

Chinese Rural/Urban Migration 1978-2030f



Key market growth potential is driven by the expanding urban population... and its increased disposable income

The Outlook

Strong demand will continue to grow...

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CN demand for sheepmeat will continue to grow

- Key drivers for **increasing demand** for sheepmeat continue in mid term;
 - Increasing disposable incomes
 - Exposure to wider audience
- There continues to be a change in **eating habits**, which benefit sheepmeat;
 - Demand saturation for pork at top of market
 - Exposure to western eating habits, boosts lamb cut demand
- Improved chill-chain distribution helps to increase availability
 - By allowing sheepmeat to be stocked in areas where it is not traditionally produced
 - Improving levels of import penetration
- Despite the high cost of sheepmeat making it very expensive compared to other meats

Supply will be the key limiting factor in China

- Domestic production is once again on the rise
 - But the flocks are generally: poorly invested, non-intensive, and a long way from the key markets
 - Slaughtering is still heavily reliant on informal sector
 - Recovery will be tempered by limited grasslands & competition with other land use
- The reality is that any future growth in domestic production will be slow
 - Which is good news for producers elsewhere in the world...
- Imports volumes are growing quickly
 - Providing a lift to global prices, especially for breast & flaps
 - Increasingly paying European prices for; legs, chops, racks... in small but growing volumes
- But future high prices (due to short supply) will moderate consumption growth
 - Just as well for a world with a limited supply of sheepmeat
 - Especially as it continues to lift world SH prices to a more sustainable level for producers

Thank you for your attention...

If you would like the full presentation, or parts of it,
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