



Consultancy & Research
Prospective et Stratégie

Abridged summary of presentation on
Global meat markets,
with implications for hide & skin supply

for

World Leather Congress

September 8th 2015

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STRUCTURE:

1. Global meat demand overview

Global beef and sheepmeat production & trade overview

2. Selective national highlights (for cattle/beef)

KEY POINTS:

Global meat consumption continues to rise

Chicken is the main beneficiary

Red meat supply is tight

Future red meat supply driven more by intensification, than numbers

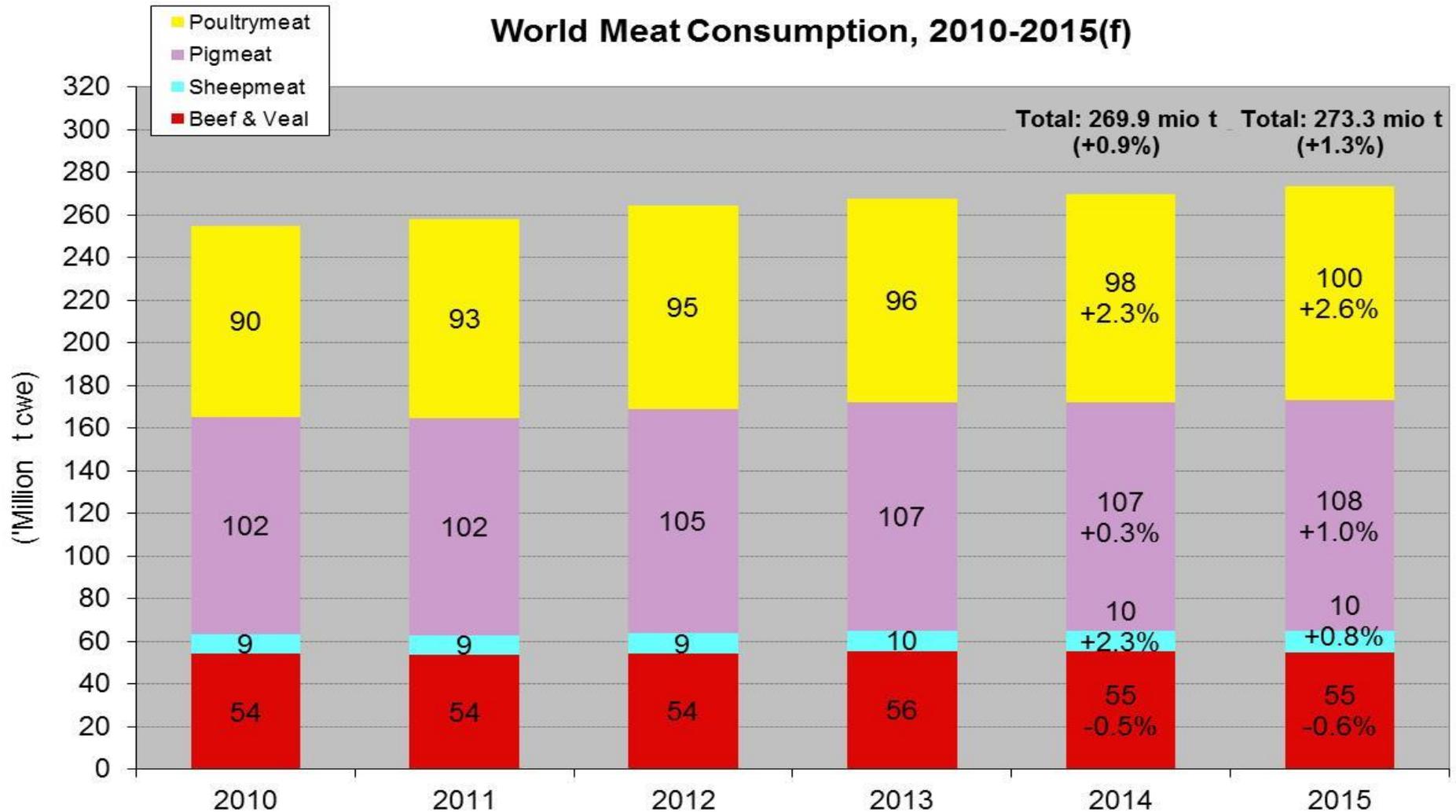
JBS emerges as by far the biggest global supplier, (and tannery)

Changing meat dynamics which impact on hide & skin supply

2015: overall global meat market characteristics
December 2014 GMC forecast for profit consolidation in a year of low feed costs ... for most, but not all!

- **2013: year of production *caution*: high feed cost** (2012 US heatwave)
- **2014: year of *contradiction*: disease & political disruptions ... very profitable for many**
 - **especially US** (and CA) with record prices and falling costs ... also AU, BR
 - but not for EU, nor CN
- **2015: year of *consolidation*: Economic growth should be better:** but much more risk than prior years
 - Political instability ... and weaker commodity markets
 - RU economic crisis: threat to import volumes and origins ... and global prices.
 - Signals of CN slowdown.
- **Modest 1.3% global meat production & consumption growth**
 - Continued tight supply situation of BF and SH: but growing PK and PY supply
 - still at lower rate than historical average
- **Continued low feed costs**

World meat consumption, 2010-2015f
Modest 2014/15 growth: less than expected due to disease and disruptions

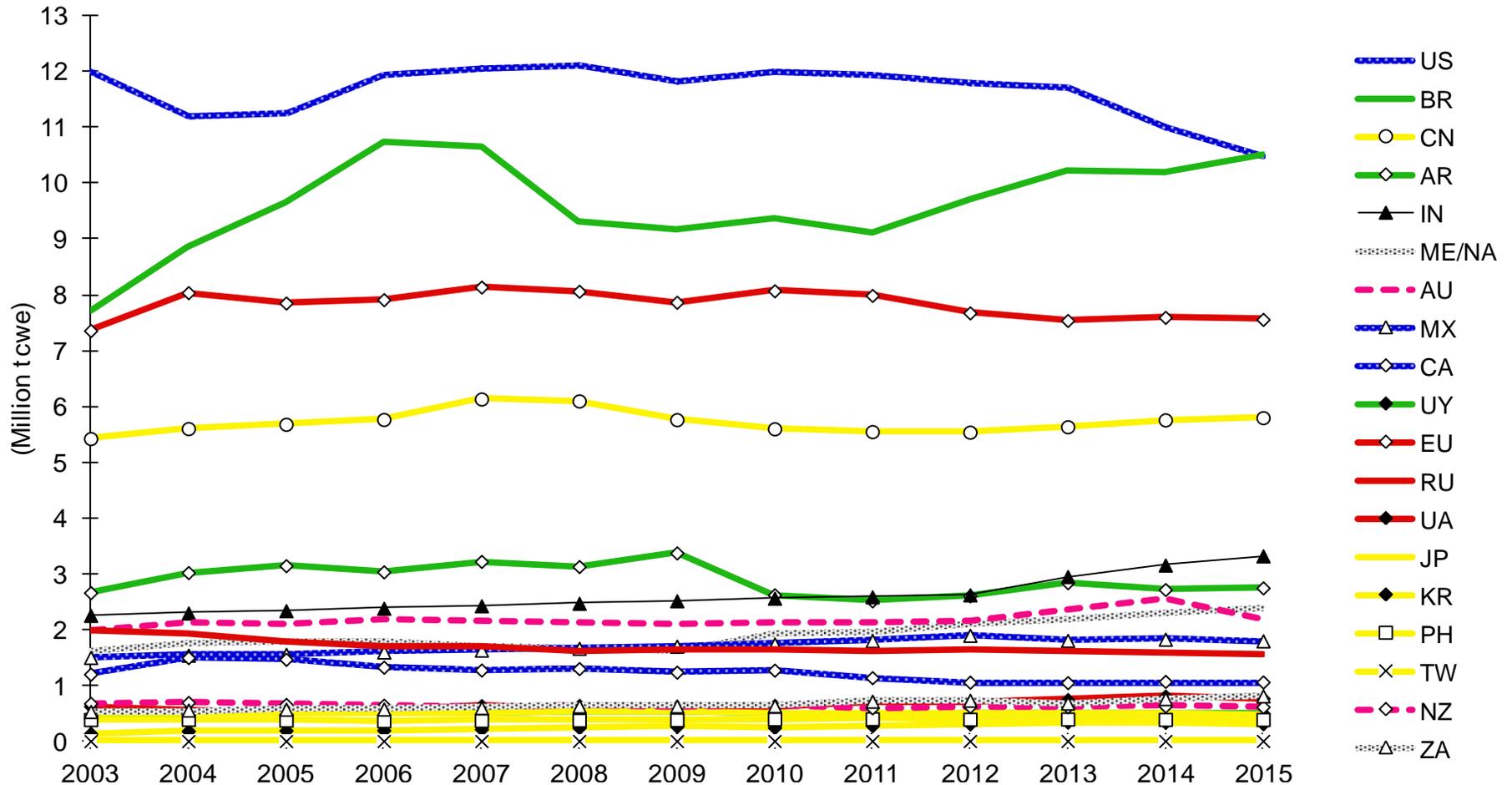


Chicken continues to grow most ... followed by pork
 Gira's mid-year view is that **growth may be slightly higher** than this Dec14 GMC forecast

Beef & Veal Net Production by Country

Striking US decline after years of herd reductions BR sharp rise and AU drought impact

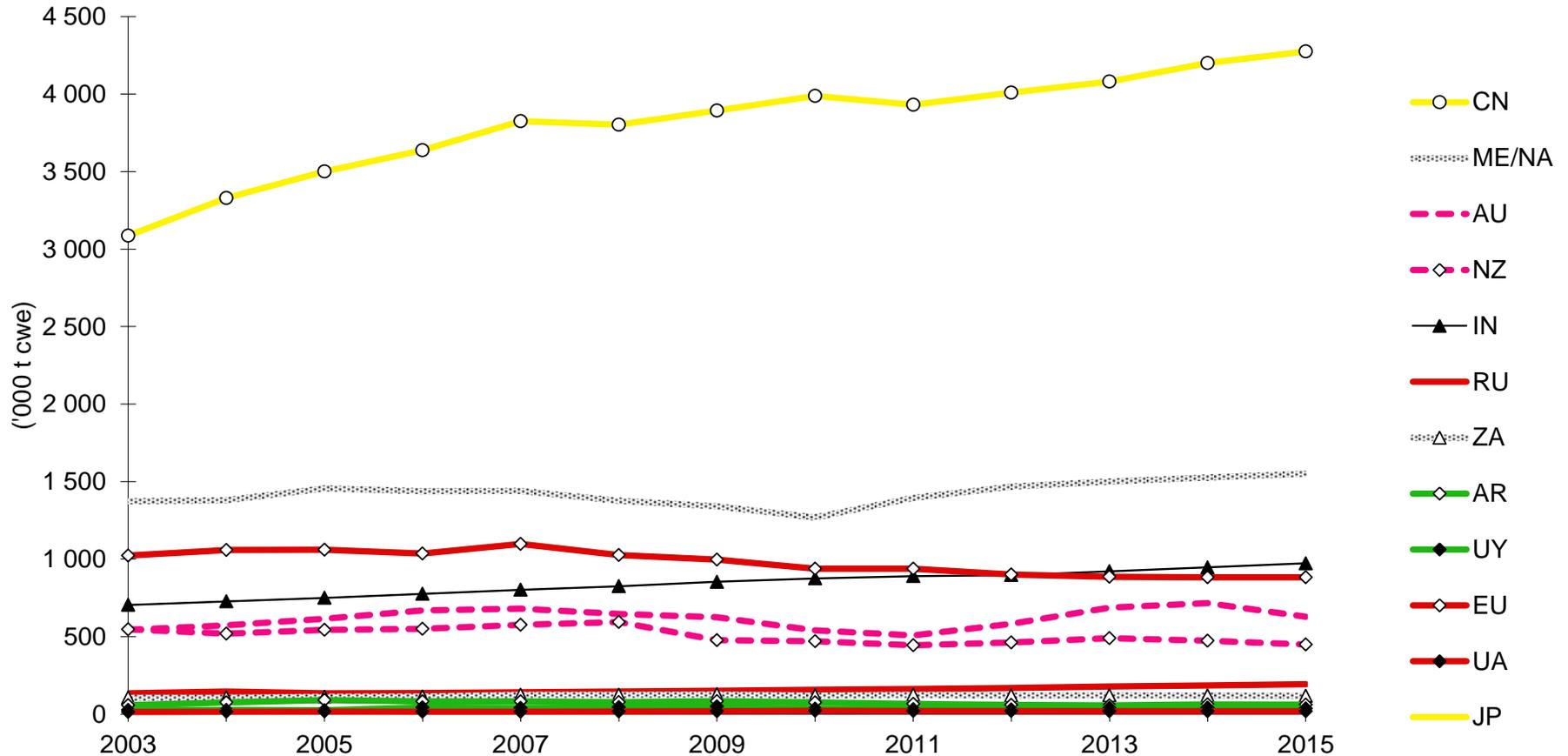
Figure SYN-BF 2: Beef & Veal Production, 2003-2015



Sheepmeat Net Production by Country 2003-2015

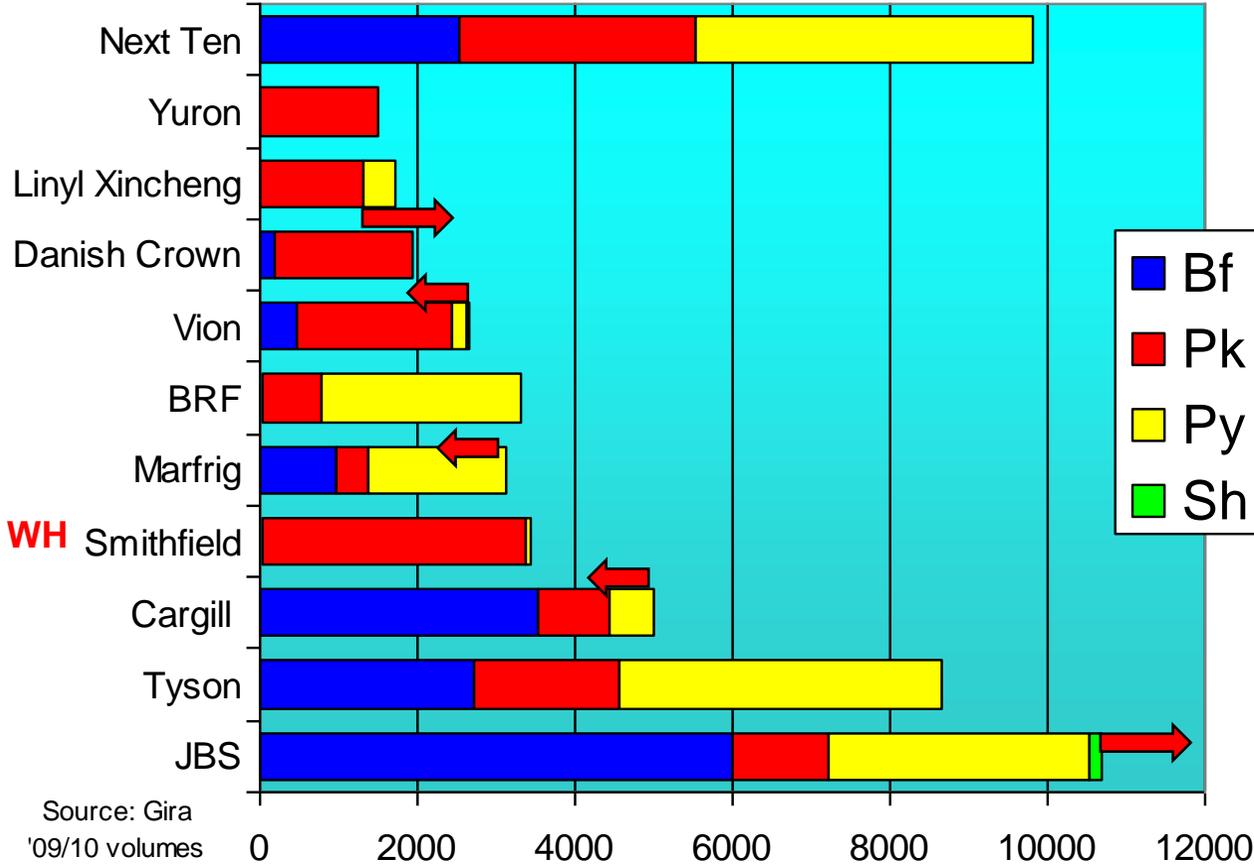
CN, MENA and IN growing. EU gently falling
Oceania impacted by drought

Figure SYN-SH 2: Sheepmeat Production, 2003-2015



Significant changes amongst the processors... with some very contradictory trends

Major Global Meat Processors
 Approx primary processing volume '000t cwe



Source: Gira
 '09/10 volumes

	BF	PK	PY	SH	TOTAL
Top 10 share	23%	14%	13%	1%	15%
Next Ten share	4%	3%	4%	0%	3%

- Mostly the global red meat industry is **fragmented**, and **national**
- The top 10 list has **changed dramatically** (since we drew these 2010 data)
- **JBS... bouyant, multi-species, multi-national and still acquisitive**
 - Bought Seara BR, XL ... and then more BR PY, Primo, Moy Park Cargill PK ...
 - Profitable ... everywhere ... in 2014
 - with tanneries
- **CN & RU: still investing** — with excess capacity
- Some others are shrinking:
 - Low sector growth
 - Inadequate profit
 - Volatility

2015 mid-year update on global meat market

Slightly higher supply and less positive demand growth are leading to lower prices than forecast – but feed cost still low

- **Slightly weaker economic growth** than expected
 - **Low oil prices: negative impact on the Russian economy and currency**, but more positive for consumer disposable income in many other parts of the world
 - **Chinese slowdown**
 - Greek financial crisis: risk of banking contagion in other vulnerable EU countries
 - **Brazilian economic downturn** and currency devaluation:

- **Weaker meat import demand** than forecast
 - Russian imports below forecast: mainly due to the RUB devaluation
 - Chinese imports tempered by low domestic pork prices:
 - Stronger USD than expected: leading to US import ‘pull’, export ‘squeeze’

- **Global meat production & consumption growth: slightly higher than +1.3% forecast**
 - **US Pork and chicken growth:** more like +5%, than the +3.3% forecast

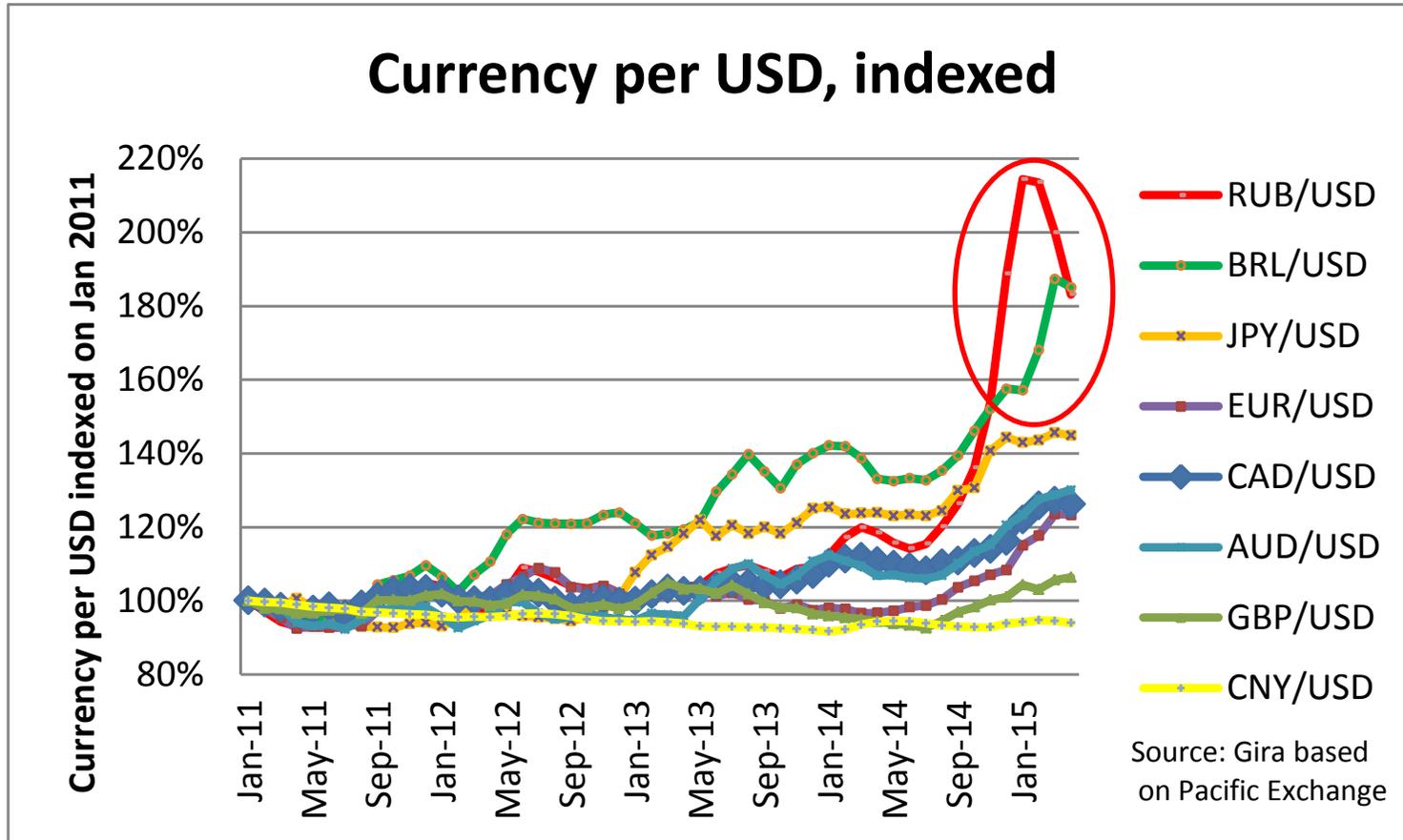
- **Lower meat prices than expected: except US cattle and beef**

- **Continued low feed costs:** in spite of lower 2015 Northern Hemisphere harvest outlook

- **Sector profitability lower:** but JBS M&A stream continues again

- **Diseases continue to disrupt:** ASF spreading further in Europe, HPAI in US, CN, W.Africa etc. ... but at least PEDv of lower impact than expected

*Crashing oil prices and politics create an unstable world ...
 illustrated by currency*

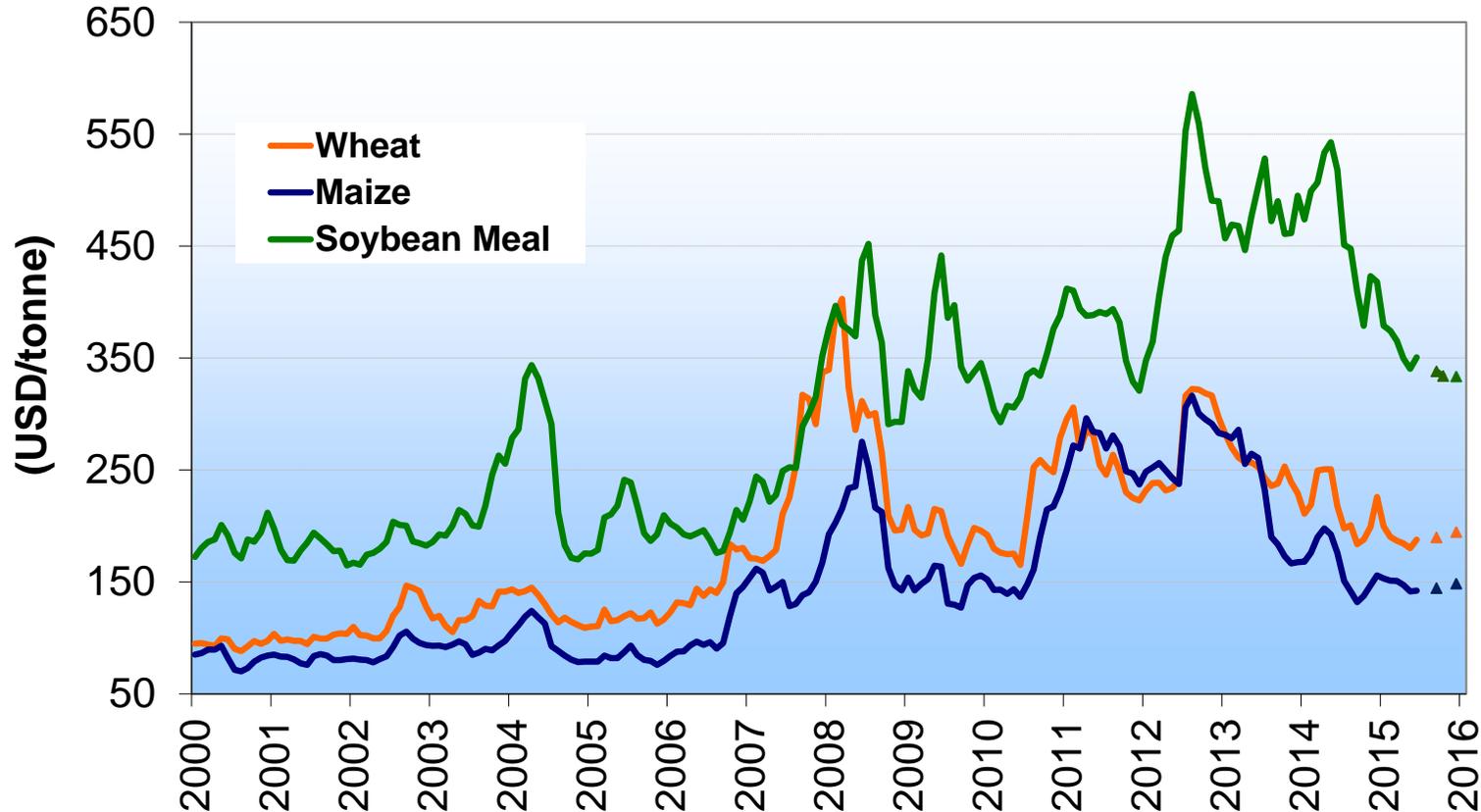


- ❑ Immediate impact on the meat sector – especially trade competitiveness ...
- ❑ ... all sorts of other medium term impact on prices, production, trade etc

2015/2016 Main Assumptions: Feed costs

Feed grain costs continue to be weak in spite of smaller 2015 crop

CBOT SPOT PRICES & FUTURES



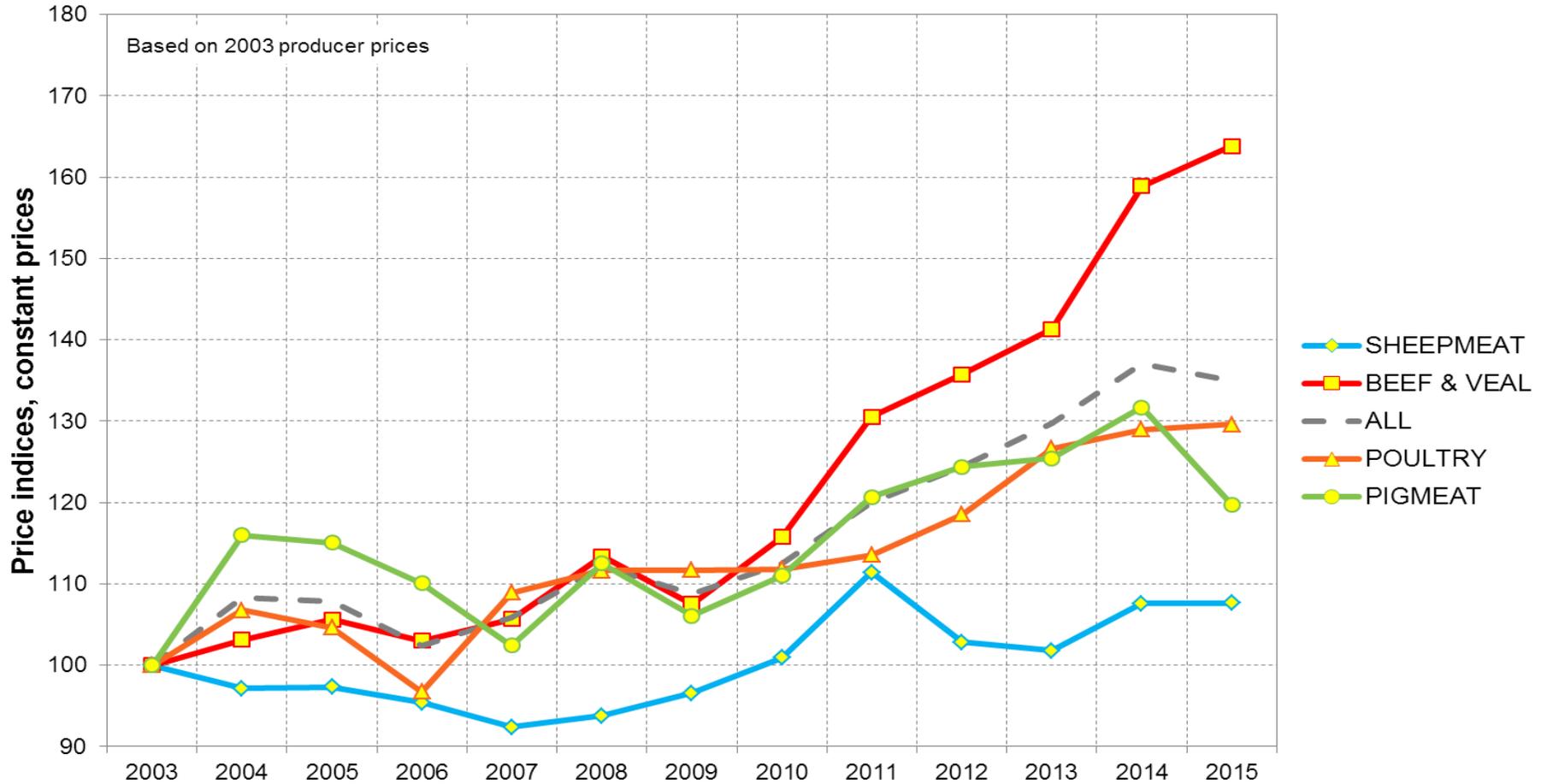
Source: GIRA from HGCA

- ❑ **2014 exceptional harvests** across the northern hemisphere: significant price fall to 2012 level
- ❑ **2015/16 prices continue low**: in spite of lower European harvest prospects. US looks positive
- ❑ **Relief for livestock farmers**

Producer/wholesale price indices (excl CN): LC

Strong recent producer price rises ... but falling 2015 PK prices

**All meat producer/wholesaler price indices, 2003-2015(f) (2003 L.C.)
 Excluding China**



Source: GIRA GMC 2014

Weighted (consumption) averages

Gira's mid-year view is that **prices will be slightly lower** than this Dec14 GMC forecast

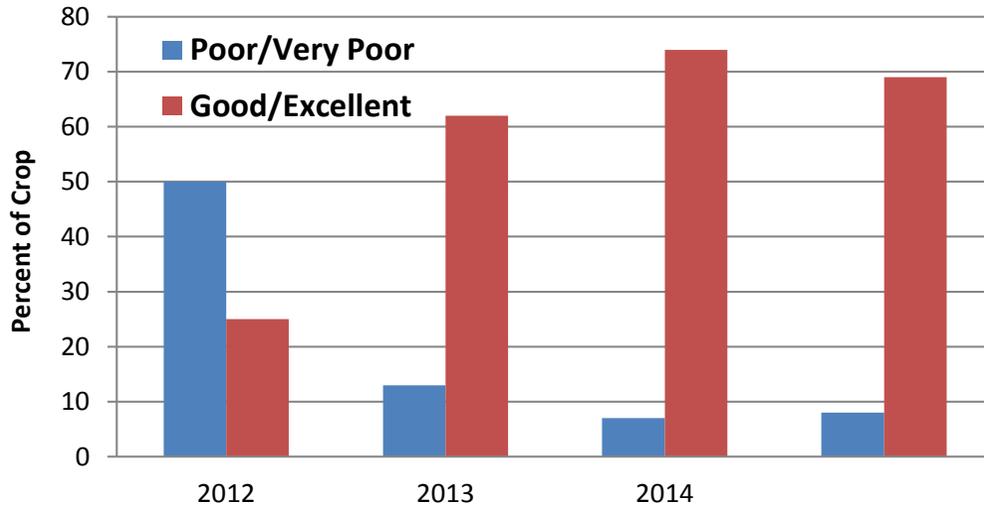


Strong currency and higher production of PK and PY has downward price impact

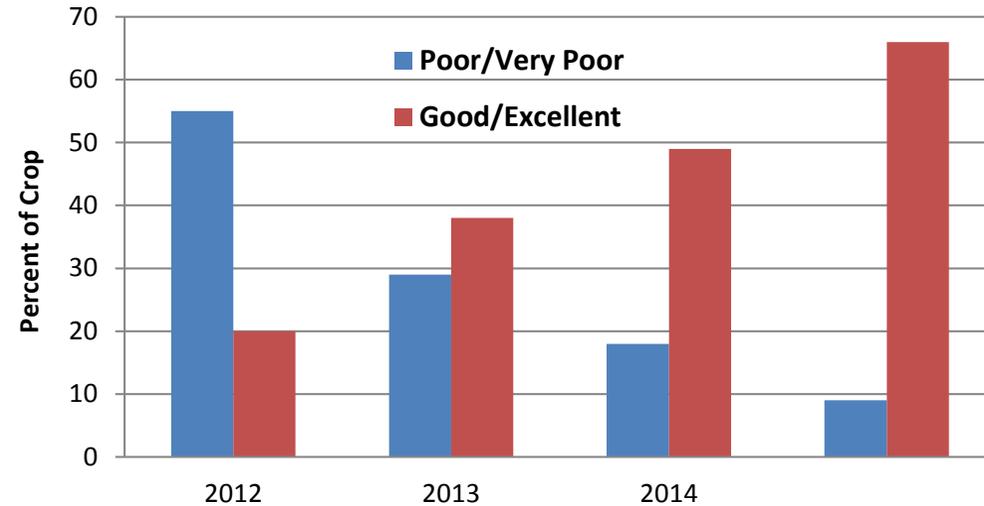
- ❑ **USD stronger than expected**
 - Downward pressure on export prices and volumes
 - Attractive USD prices for imports
- ❑ **Higher pork and broiler supply than expected**
 - PEDv less impact than expected
 - In spite of H5N2 (mainly effecting turkeys & layer production, and export access)
- ❑ **Producer prices decline more than expected**
 - Less profitable for integrators than hoped after 2014
 - More caution in production planning
 - ... but still profitable for JBS (and other major integrators), after an exceptional (and well timed 2014 year)
- ❑ **Domestic beef supply still tight**
 - Motivating USD prices for imports
 - Encouraging herd rebuilding in the US
 - But price limited by higher supply of competing meats
- ❑ ... so **not such a good 2015 for the meat chain**
- ❑ ... but **feed costs still relatively low**



Corn Crop Conditions Fourth Q 2012-2015



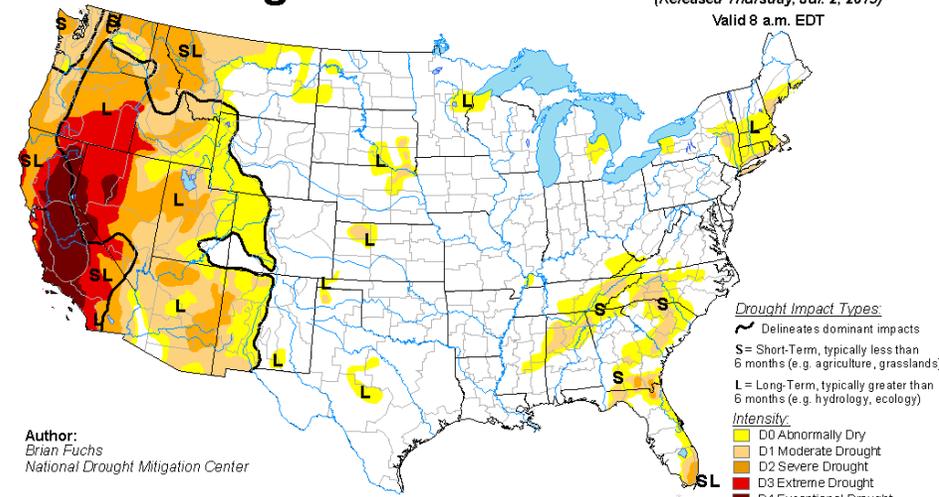
Pasture and Range Conditions Fourth Q 2012-2014



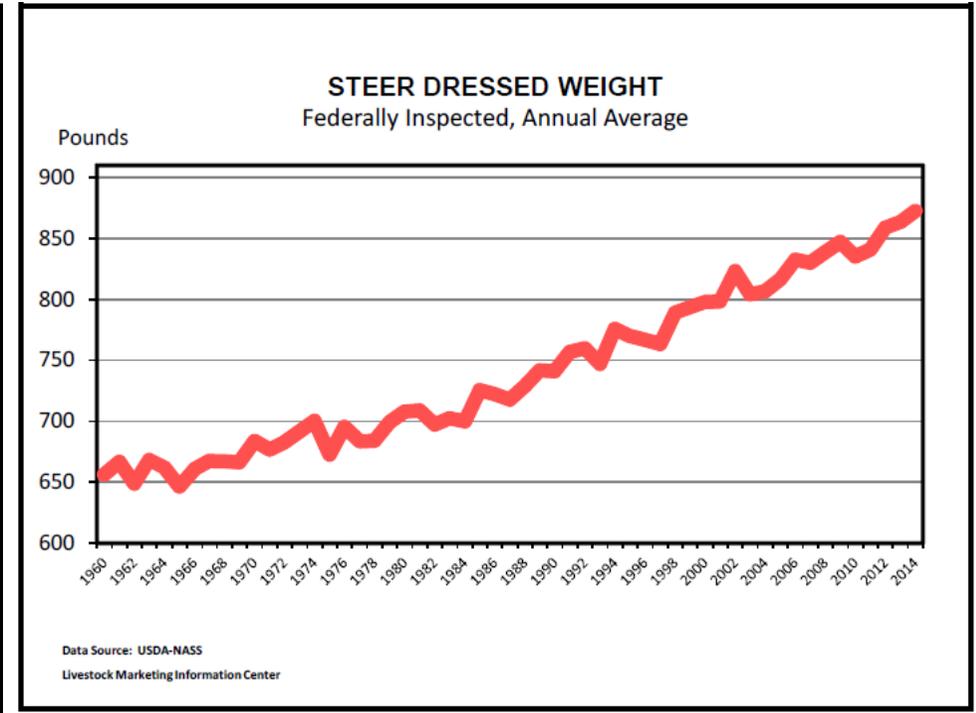
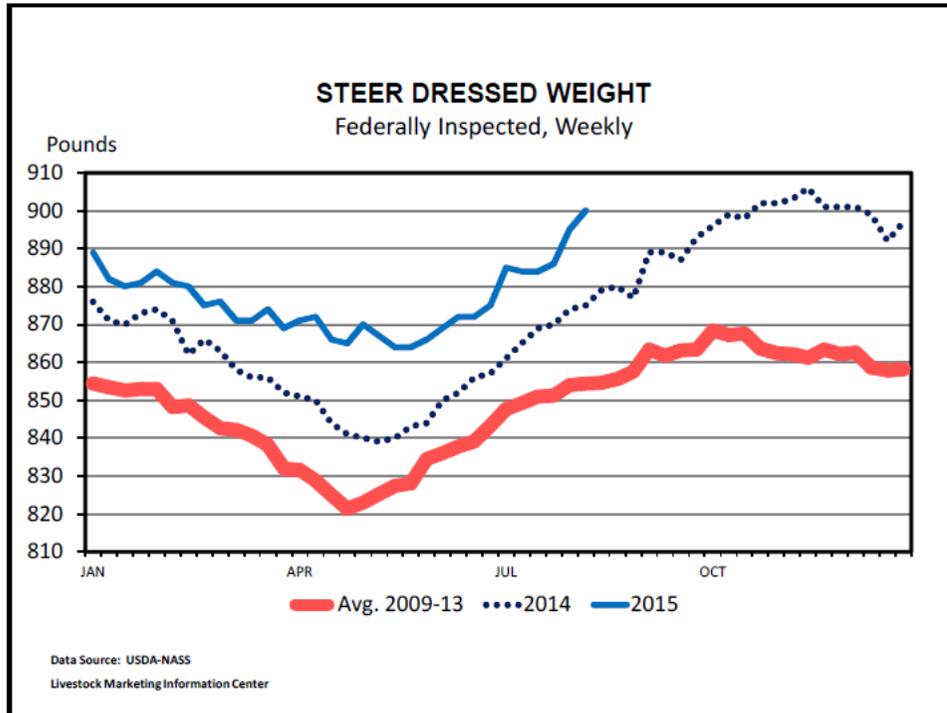
- Ample moisture in US crop and rangeland with the exception of California
- Mid-year crop conditions are very positive
- Downward pressure on crop pricing
- Good or Excellent pasture conditions are building upon positive price conditions to facilitate and encourage expansion of the cattle herd

U.S. Drought Monitor

June 30, 2015
 (Released Thursday, Jul. 2, 2015)
 Valid 8 a.m. EDT

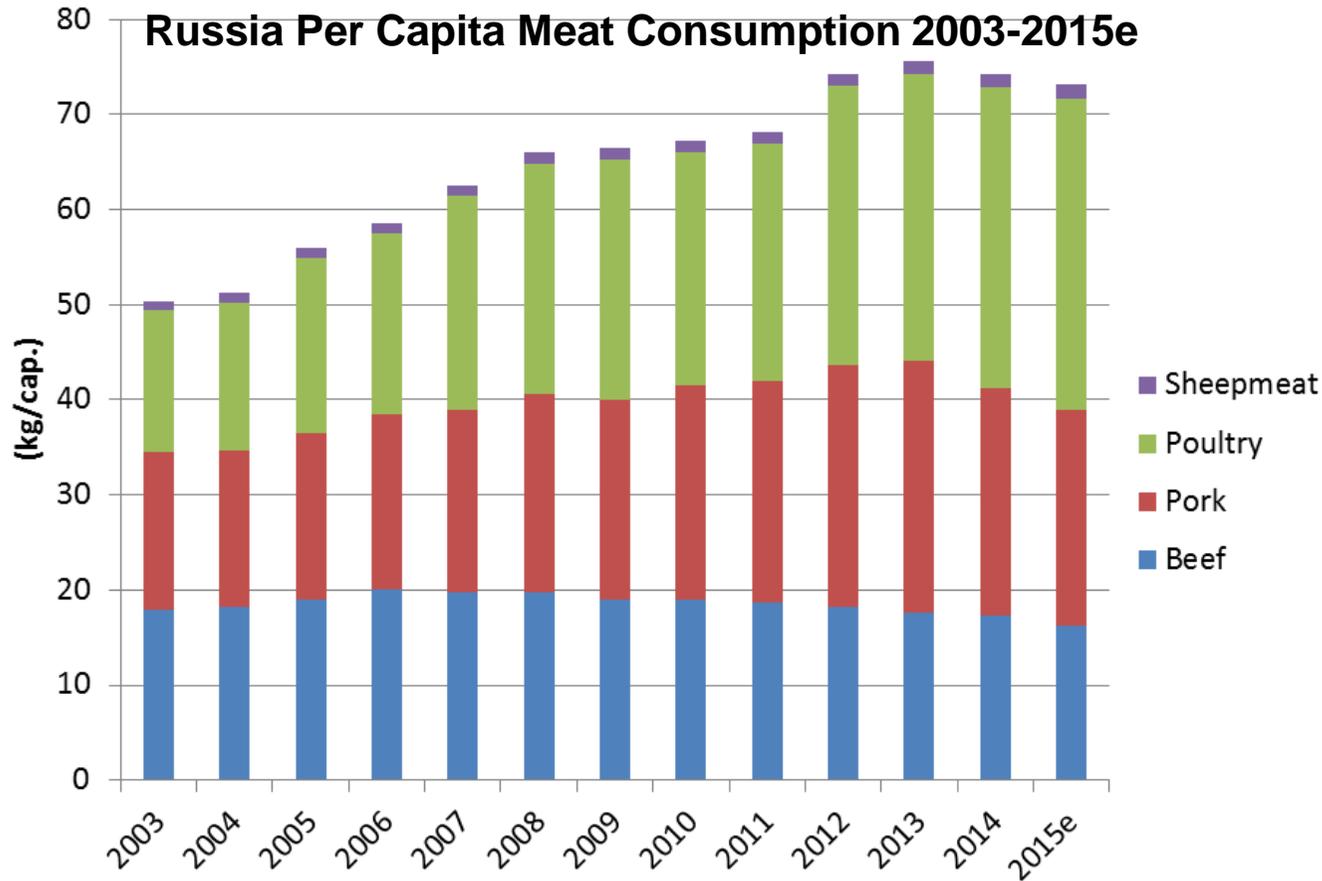


Author:
 Brian Fuchs
 National Drought Mitigation Center



- ❑ US cattle **slaughter weights have risen >2%** so far this year: reflecting high meat and cattle prices, low feed costs and feedlot decisions
 - Continuation of an extraordinary trend
- ❑ Meantime US **cattle slaughterings are -7%** as of mid-year, reflecting:
 - Impact of previous droughts (and inadequate profitability) on the herd size
 - **(some) herd rebuilding**, as (some) farmers opt to retain more cows and heifers to breed

Slightly lower than our initial forecast in reaction to lower GDP and currency devaluation

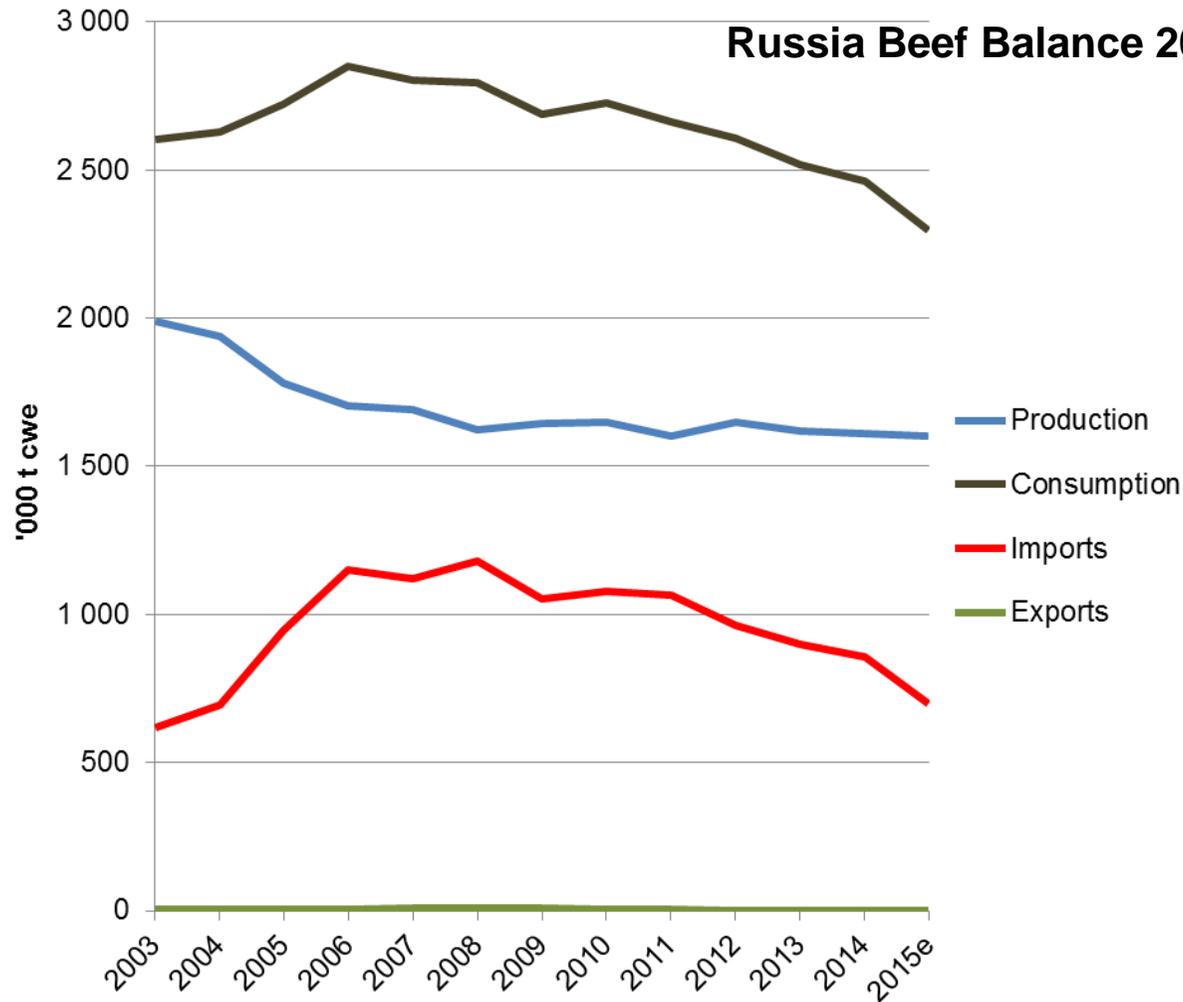


GIRA compilations, estimates and forecasts

- Higher domestic chicken supply solves the meat demand and supply problem



Production almost flat, imports strongly impacted by the ban and by a weak demand

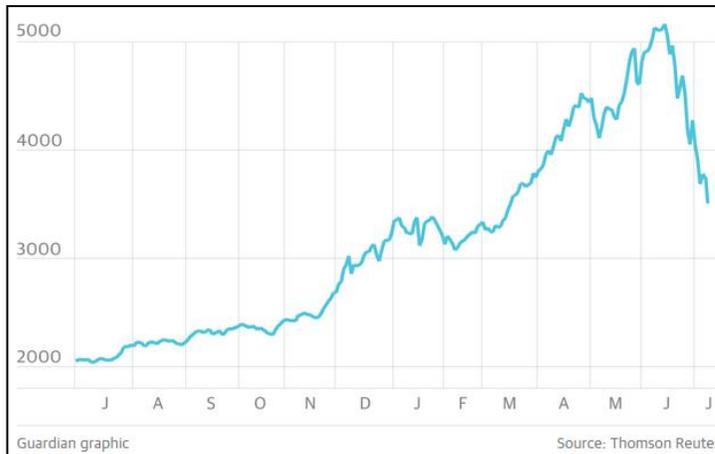


GIRA compilations, estimates and forecasts



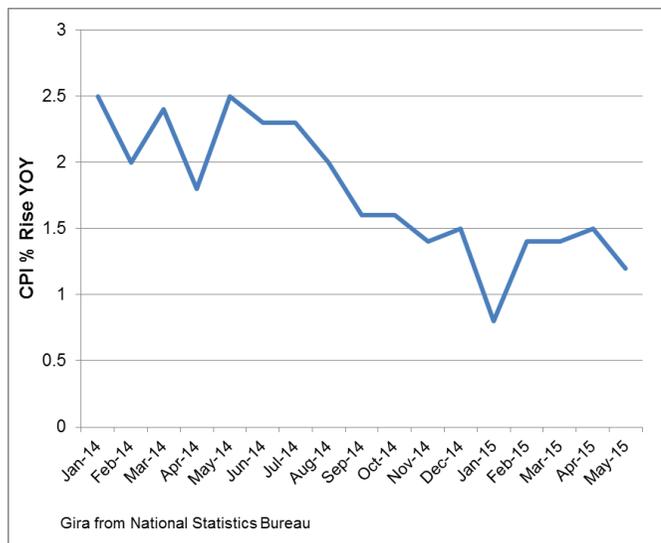
Slightly lower economic growth rates are impacting the meat market

Shanghai composite stock index 2014-2015



- ❑ **PBOC revised down GDP 2015f to +7%**
 - Higher growth in 2H15
 - Inflation: from 2.2% to 1.4%
- ❑ **Disappointing growth** in industrial production, exports, investment in property and manufacturing
- ❑ **Banks have become more cautious**
- ❑ **Capital flew to Stockmarkets** with speculation, until June-15 **bubble burst** ... with a 30% fall
 - Risk of contagion to other markets
 - Difficult for government to intervene ... but it is trying
- ❑ **GoC anti-corruption campaign affects domestic consumption**, especially the high-end
 - Weaker demand for BF and SH **Weaker meat import demand** than expected
 - Continued shift to direct imports
 - Continued management of grey imports: currently restricting Hong Kong

Consumer Price Index Trend, 2014-2015

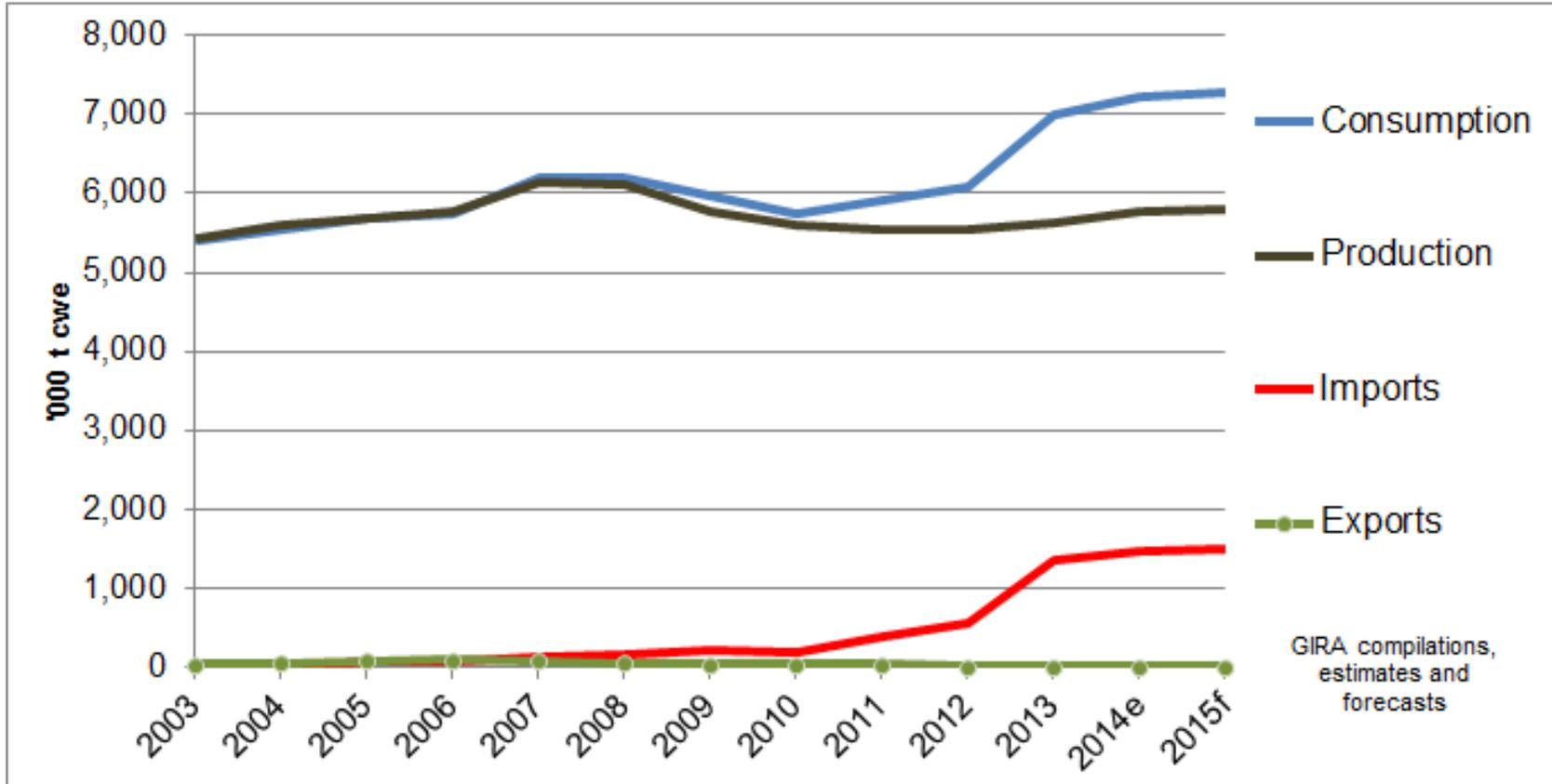


Chinese Beef Balance: recent surge in imports

Fuelled by grey channel supplies from India



Chinese Beef balance 2003-15f (000 t cwe)



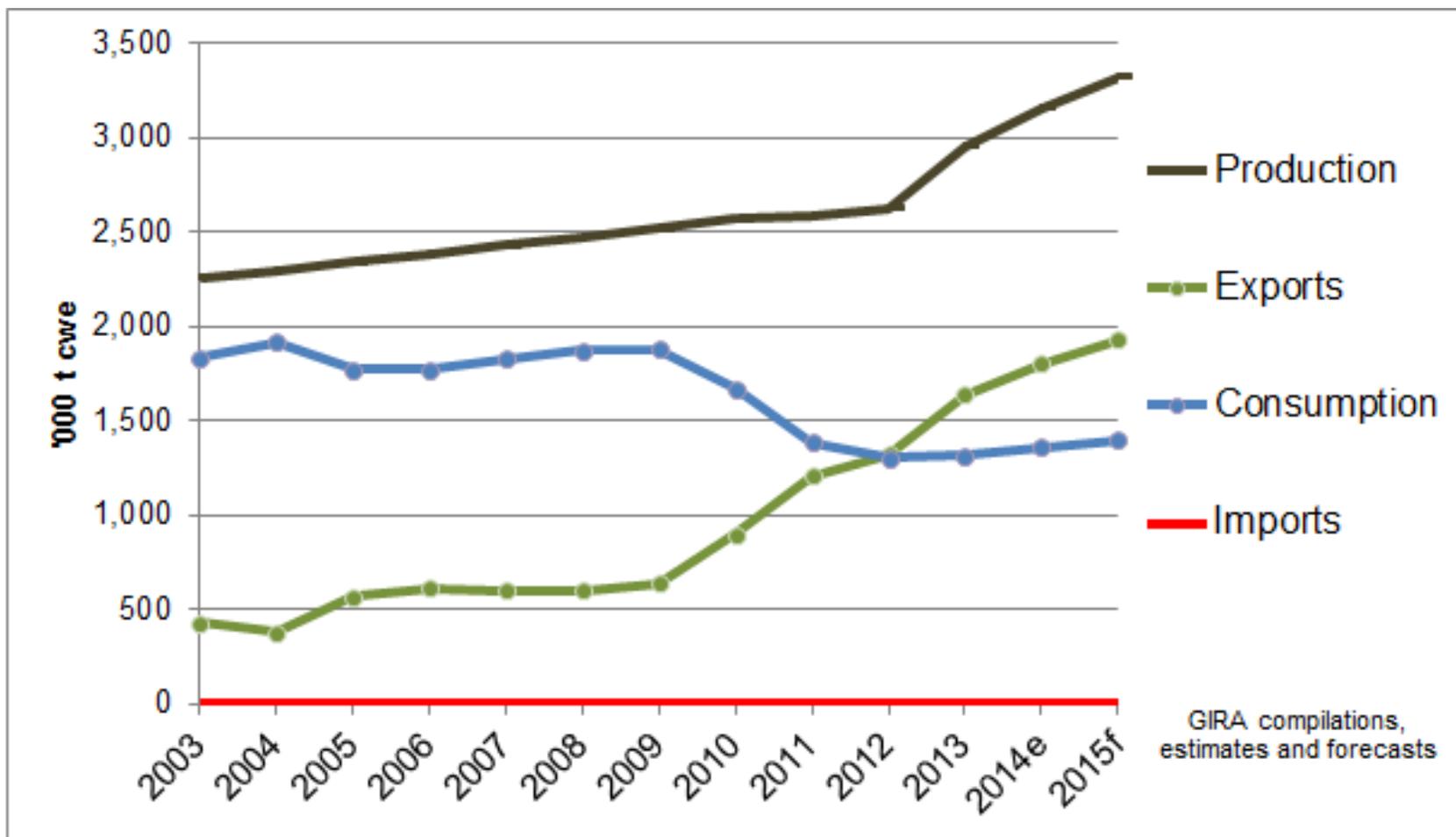
Imports passed 1.4* mio t cwe!!

Indian Beef: Huge surge in Exports

All apparently buffalo: largely heading to CN & MENA

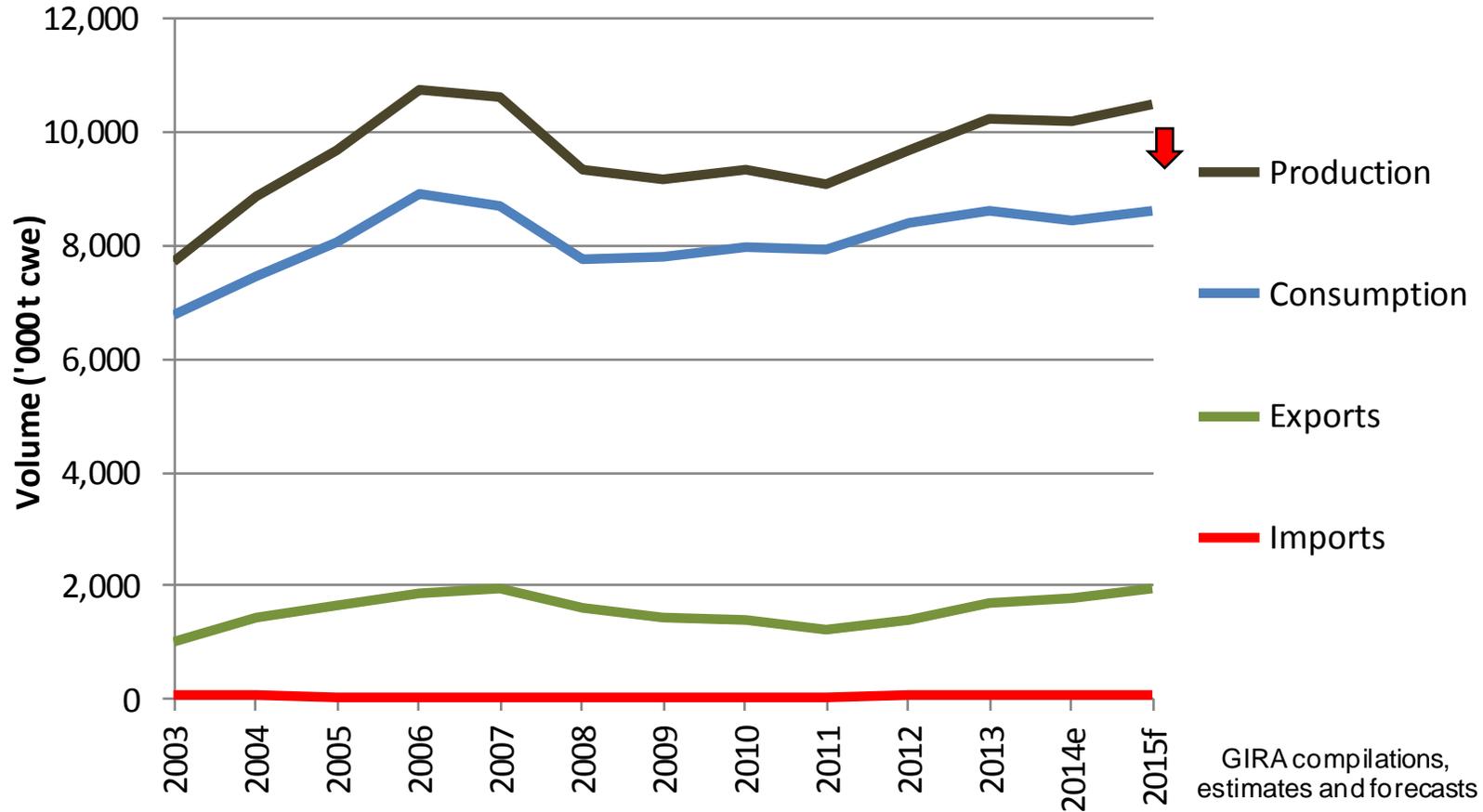


Indian Beef balance 2003-15f (000 t cwe)





Brazilian BF Balance Summary



□ **Slaughterings in 1Q15 down 7.7% y.o.y**

- Share of cows & heifers in total slaughterings also down suggesting that a period of herd rebuilding is beginning

Slow BR move towards intensive finishing

Considerable scope for higher meat yields & growth rates



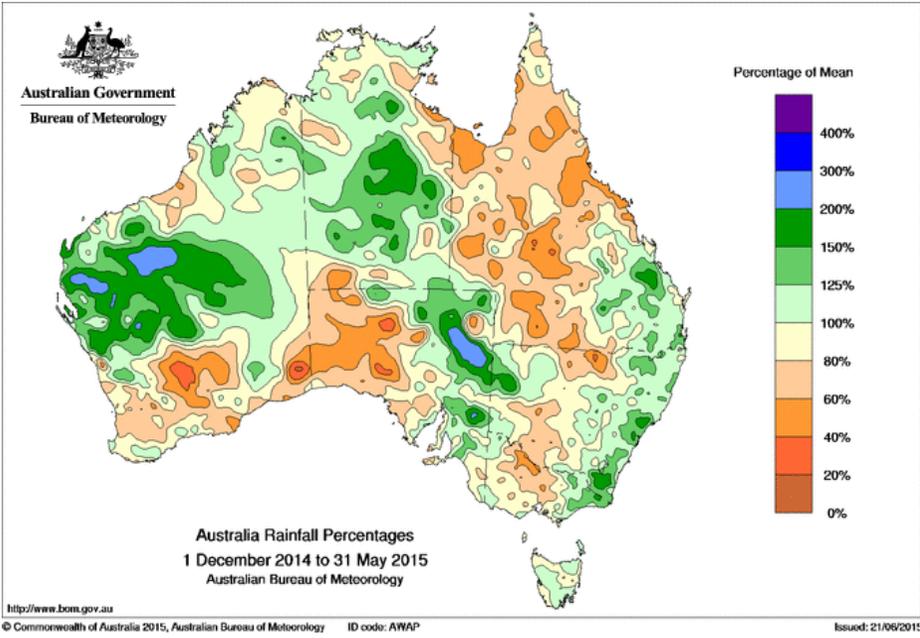
24 month Angus Nelore Cross young bull, feedlot BR



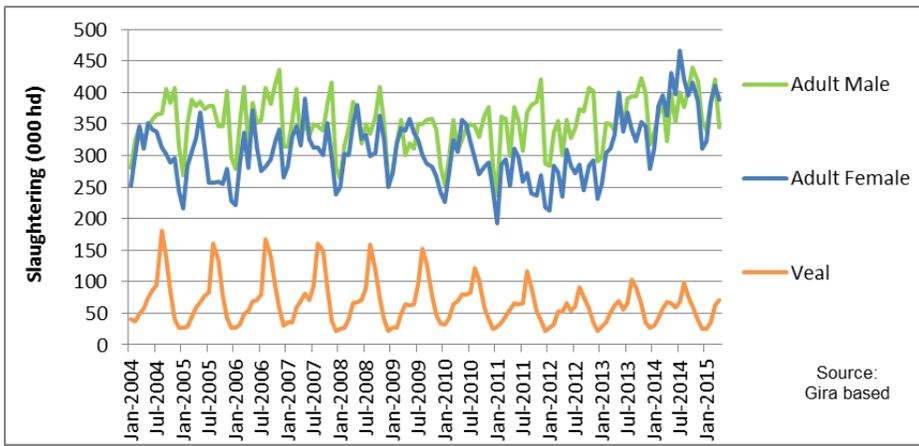
- Optimistic long term global meat and beef demand outlook
- In a world short of beef, with competition for BR land
- More **intensive breeding**
 - Cross-breeding
 - Better grass management
- More **intensive finishing**
- **Responding** to the varied demands of a portfolio of customers
- Implications for hide supply
 - Quantity & quality



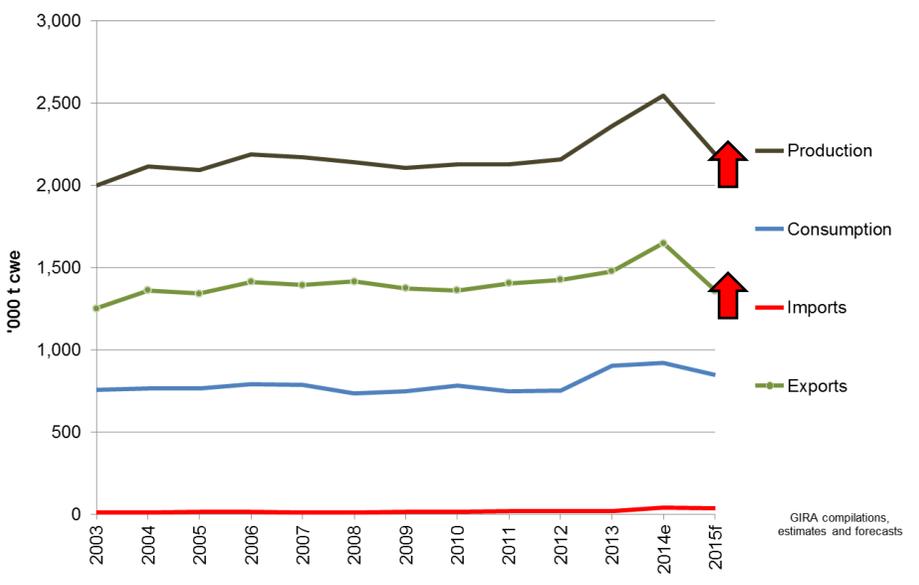
Drought persists in Australian cattle country



Monthly Cattle Slaughter Jan'04-april'15



Australian Beef balance 2003-15f (000 t cwe)



- ❑ Gira's 2015f production fall has not happened ...
- ❑ AU drought persisted from 2013-14 into 1H15 in most of the important AU cattle regions especially in the east
- ❑ De-stocking continues: but 2H15f fall in slaughterings
- ❑ 2016-19f Australian beef production will decline steeply as farms retain cows & heifers for breeding

EU market situation

2015 outcome should be more-or-less as forecast at GMC
 ... but with lower pigmeat sector performance



EU economy remains fragile

EU meat consumption was forecast to increase fractionally: this seems realistic

- Probably achieved at lower prices than forecast

EU pig sector continues to struggle

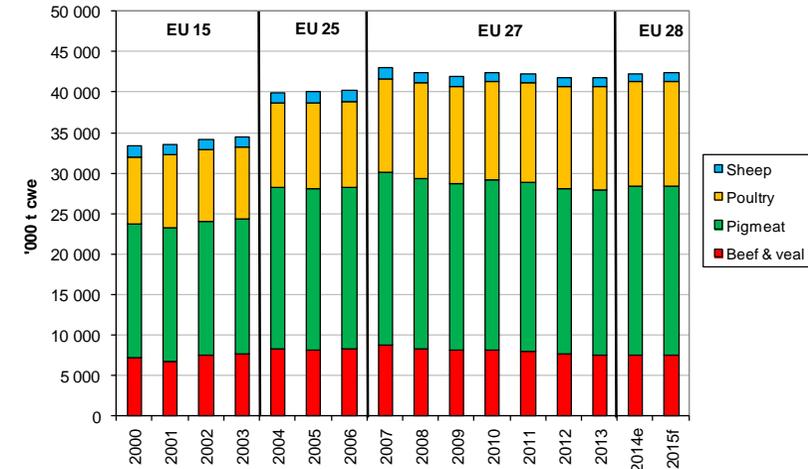
- In spite of low feed cost
- Little hope of consumption growth: even before the impact of a cold spring ... followed by heatwave
- 3rd country export demand is unpredictable... Russia remains closed ... for at least another year

Beef & veal revival depends on price recovery of milk: sheep sector has declined more

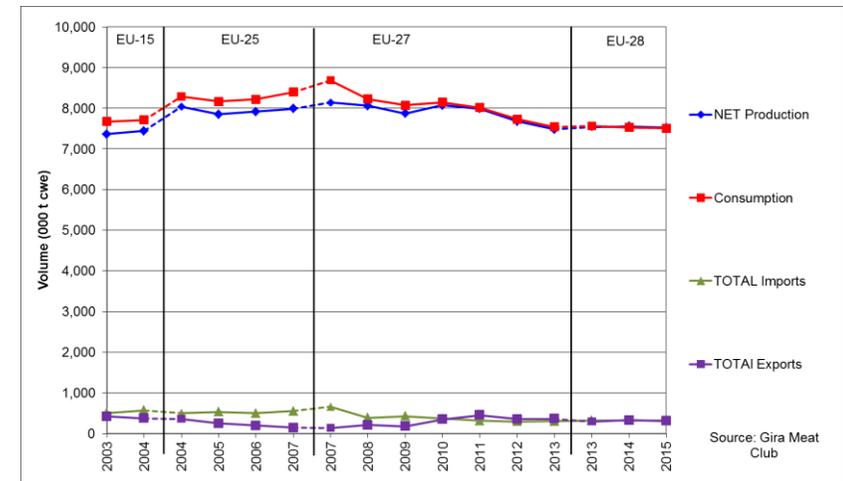
Some major M&A in the poultry sector

- JBS purchase of Moy Park, Plukon acquired by de Heus/EW

EU Meat Consumption, 2000-2015(f)



EU Beef & Veal Balance Summary

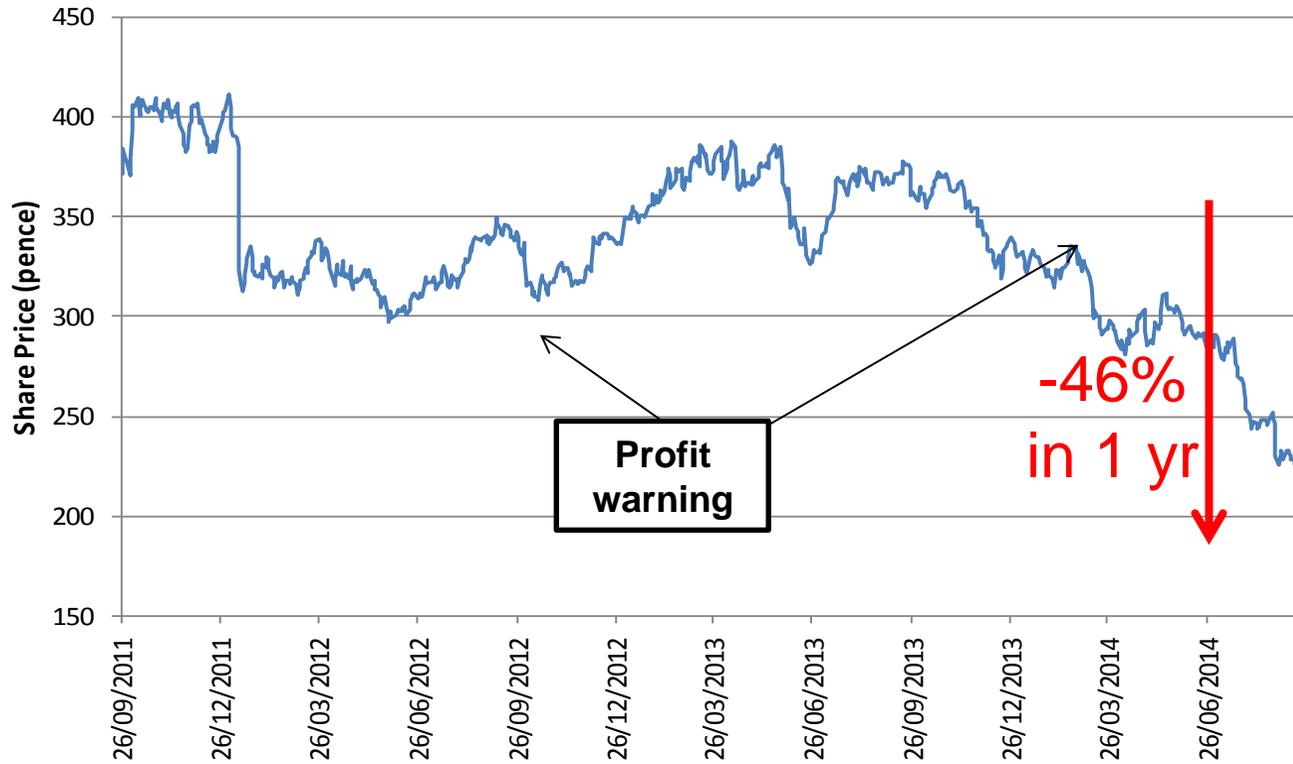


Source: GMC14

Tesco: After decades of relentless growth, it lost its way ...



Tesco Plc Share Price, LSE, 9/2011-9/2014



Drastic times: need to improve Tesco's brand image problem, with a shift in its overall strategy. Meantime **more price pressure on suppliers**

Global meat market implications for the leather industry

Growing global meat demand

- ❑ Most growth in the **developing world** ... but **current year wobble**
- ❑ **Chicken** and pigmeat growing faster than beef and sheepmeat

Reasonable red meat demand growth ... 'pulling' production growth

- ❑ More through **intensification**, than through herd growth
- ❑ Mainly in the developing world: e.g. India ... but some political challenges

Slow increase in cattle & sheep slaughterings, but shifts in:

- ❑ Location
- ❑ Type of slaughter animal (different breeding & finishing)
- ❑ Processors (becoming more concentrated ... and seeking added-value and cost efficiency)

These changes will inevitably effect hide & skin supply

THANK YOU FOR YOUR ATTENTION



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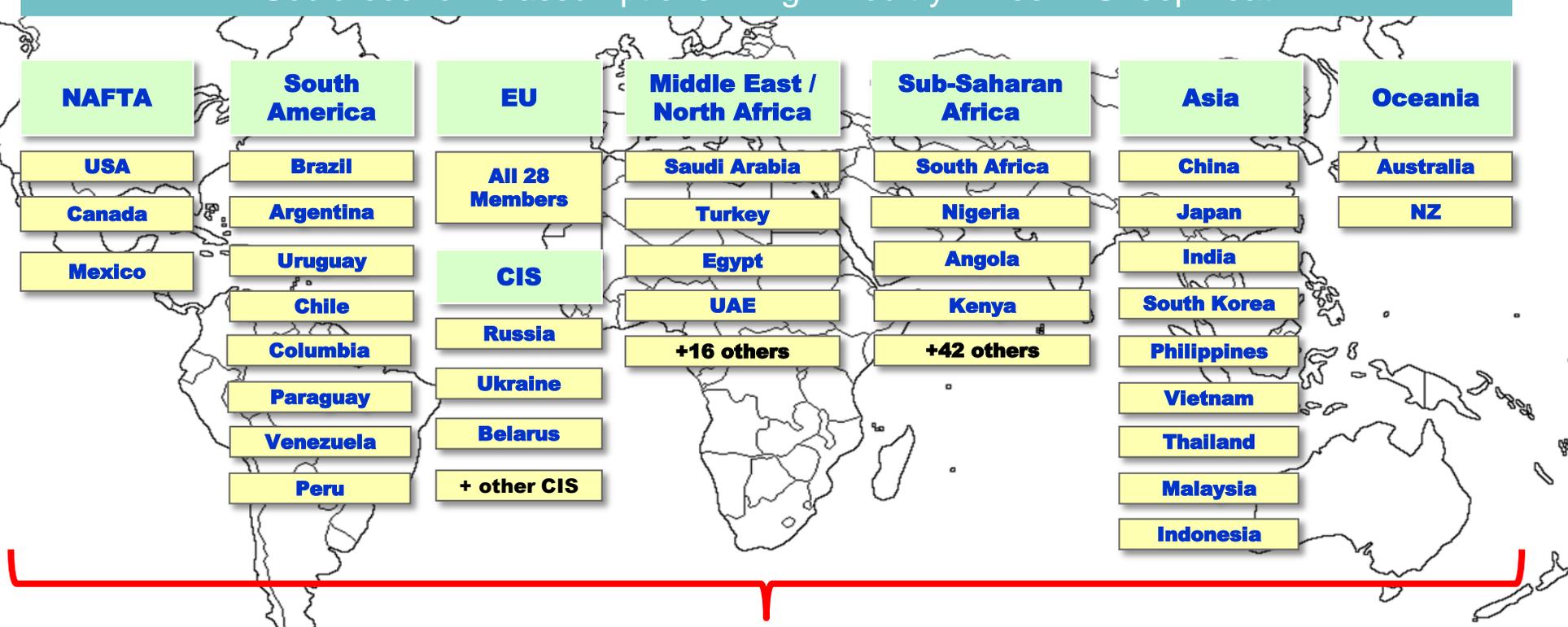
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REGIONAL MARKET INSIGHTS, DATA & FORECASTS BY SPECIES

Socio-economic assumptions – Pig – Poultry – Beef – Sheepmeat



GLOBAL SYNTHESIS

Socio-economics – Production – Consumption – Trade – Prices – Industrial developments

Total Meat

Global Pigmeat

Global Poultry

Global Beef

Global Sheepmeat