



Rabobank

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Global beef demand to remain tight yet Australian cattle prices decline – industry report

After reaching record levels in the first quarter of 2011, cattle prices in Australia have rapidly declined due to a number of factors including the season, the high Australian dollar, and subdued demand in some key export markets, according to the recently-released Rabobank **Beef Quarterly report**.

Globally, tight cattle supplies are carrying prices higher, however report co-author, Rabobank senior analyst Wendy Voss says Australian prices will likely remain under pressure for much of the third quarter, before seeing some improvement (towards the end of the quarter) as Russia and Korea once again begin to buy increased volumes as current stock levels decline.

'Ups' and 'downs' for Australian beef

Ms Voss says there have been a number of factors behind the decline in Australian cattle prices which brought heavy steers down from AUD 3.50 per kilogram at the end of March to AUD 3.00 per kilogram by late June.

"The first reason for the decline is seasonality as the supply of cattle going to market increases in northern Australia as the wet season ends and mustering can begin," she says.

"Another factor has been the subdued demand out of Japan which has been impacted by the tsunami and strong competition from the US."

The Korean and Russian markets, which provided strong demand in the first quarter, have also seen a slowing in sales as importers look to reduce some of the large stocks of beef purchased earlier in the year.

"The Australian dollar is also putting significant pressure on export returns, with the currency at record levels against the US dollar," Ms Voss says.

The Australian government's decision to suspend live exports to Indonesia in June – following reports of mistreatment of Australian cattle in Indonesian processing plants – also brought further uncertainty to cattle producers – particularly in the north. While the complete ban lasted less than a month, exports are expected to remain below pre-ban levels due to the restrictions on the number of abattoirs which will be able to process Australian cattle.

Global outlook

The Rabobank outlook for quarter three is for global beef demand to remain tight due to the ongoing herd rebuilding in Brazil, Argentina, Australia and Uruguay, coupled with the seasonal dryness in key countries and high grain prices globally. The report says this should affect production in regions such as the EU and the US.



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Ms Voss says: "The US has become a net exporter of beef this year due to a lower US dollar, robust global demand driven by supply challenges in Japan and Korea and contracting imports as the lower US dollar makes alternative marketers more attractive to suppliers such as Australia, New Zealand and Canada". She says this trend is expected to continue throughout 2011.

The softening demand in the US, Japan and EU remains a concern for beef producers internationally.

"Renewed concerns in the Euro area over fiscal difficulties in Greece and other periphery members have seen consumer confidence dampened in recent months," Ms Voss says.

"In the United States, high gasoline prices and anaemic growth are also dampening US demand prospects just as demand seemed to be gathering momentum early in the year and fears of a double-dip in the US housing market has eroded consumer confidence in June."

Overall, the Rabobank Beef Quarterly concludes that demand should remain firm over the coming months, however, the current challenging macroeconomic scenario in the US and the EU, along with the recent tightening monetary policy undertaken in many emerging countries, could cool down consumers' willingness to pay more for beef.

Rabobank says that beef prices around the world will remain firm in the mid-term, although a further significant increase could trigger substitution with other meats.

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