



Rabobank

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Bullish on beef – industry report

Elevated currencies, global economic uncertainty and climate risks might be posing short-term obstacles for global beef markets, however the longer-term outlook remains bullish, according to a recently-released industry report, the **Rabobank Beef Quarterly**.

Australian markets will also feel some ongoing pressure through to the first quarter of 2012, however a number of factors should provide support for prices in the second half of next year, the report says. One key factor will be the reduction in the cattle herd due to the severe drought taking place across the US, which is a key competitor in Australian beef export markets.

The Australian live export market looks strong with the potential to reach record prices this quarter.

Through to quarter one 2012, Rabobank expects an increase in global beef competitor meat supplies. This will take place amidst a backdrop of uncertain economic growth. However, cattle prices are likely to reach record highs later next year as markets transition from a short-term supply bulge – primarily in the US where herds are diminishing due to drought – to materially lower supplies.

Report co-author, Wendy Voss says the longer-term view is that global meat protein supplies will continue to lag income and population growth in important emerging markets.

“This places pressure on supply, increasing prices throughout the supply chain, from feeder cattle buyers, processors and all the way through to consumers,” Ms Voss says.

Australia

Ms Voss says a number of factors combined to drive prices down in Australian markets during quarter two and three of 2011. Specifically, a very high Australian dollar, the effect of the tsunami in Japan and a seasonal easing of demand from Korea and Russia. By late third quarter however, Ms Voss says a number of these pressures eased and prices began to recover.

Live cattle exporters also faced a turbulent quarter three due to uncertainty surrounding the resumption of trade with Indonesia, the report highlights. The suspension of live exports by the Australian government was lifted in early July, yet exports did not begin until August as it took time for the government-required supply chain audits to be conducted. Once the shipments resumed, prices rose sharply, reaching record highs for September.

“The rise in prices has been due to the restriction on availability of cattle that meet Indonesian market requirements, in particular the 350kg maximum live weight limit,” Ms Voss says.



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“Given the north of Australia is fast approaching the wet season, which will seasonally reduce supplies, prices for live export cattle are likely to remain high during quarter four and may even exceed these record levels.”

Rabobank expects prices for southern Australia’s finished cattle, which have risen rapidly in recent weeks, will ease during the upcoming quarter. Spring pasture offerings are expected to increase.

However, demand will remain curtailed by eroding export returns from a strong Australian dollar and the uncertain global economy’s impact on consumer confidence in some key Australian beef markets.

US drought a major factor in 2012

The report highlights that 25 per cent of US beef cows live in the drought-stricken states of Texas, Oklahoma and New Mexico – areas that are experiencing the worst drought on record following the heels of another extreme drought in 2006, causing 84 per cent of ranchers to reduce their herd.

Drought is driving aggressive cow slaughter rates on an already-low herd. As a result, US beef production will surge in early 2012, but rapidly decline later in the year and production will remain low until at least 2014.

“For Australian cattle producers, a decline in US beef production in 2012 will likely be a support for higher farm gate prices. The US is a major export market for Australia and a key competitor in a number of significant overseas markets,” Ms Voss says.

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