



Rabobank

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Australia's major boxed beef export markets – the 'steaks' are changing

Changing dynamics in traditional key export markets are presenting both hurdles and opportunities for Australia's boxed beef exporters, according to a recently-released industry report.

The report, **Australia's major boxed beef export markets – the 'steaks' are changing**, produced by agribusiness banking specialist Rabobank, says exporters of boxed beef are facing a number of hurdles, including the strong Australian dollar, which, combined with an aggressive US marketing campaign into Japan, is continuing to see US product displace Australian beef in its key market. In addition, Korea's surplus of domestically-produced 'Hanwoo' beef has reduced imports from all countries.

In more positive news for Australia though, the report's author Rabobank senior animal proteins analyst Sarah Sivyer says the US is facing tighter supply and rising beef prices as a result of its worst drought in 50 years. These subsequent rising input costs are creating short and medium term opportunities for Australian producers.

Looking forward, Ms Sivyer says the issue of increased domestic inventory in Korea is cyclical and should begin to subside in 2013 whilst exports to Japan will remain strongly correlated with currency movements.

The battle for Japan

US beef exports are capturing market share from Australia in the increasingly price-sensitive Japanese market, according to Rabobank's recently-released beef industry report.

Ms Sivyer says Australian beef exports to this key market have fallen 7.5 percent over the past 12 months and 13 percent from the five-year average, while Japanese beef imports from the US have jumped five percent in the past year.

"Reduced competitiveness due to a strong Australian dollar, aggressive marketing by the US and price-sensitive consumers in the Japanese markets have combined in a shift in demand away from Australian beef in 2012," she said.

"In 2013, the US will be faced with a production decrease between three and nine per cent, depending on whether the drought continues. This tight supply, combined with increased local feed costs will lead to increased prices which will see limited availability of US product for export."

Korean competition

The Rabobank boxed beef report shows Australian exports to Korea are down 20 per cent, but are likely to see some recovery in late 2013.



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Over the past 10 years, the domestic beef herd in Korea has increased in size by 72 per cent from two million to 3.5 million head.

Ms Sivyer says that with an oversupply and the Korean government now intent on reducing this herd size, government financial incentives are in place to stimulate the slaughter of 'lower performing' cows.

"Whilst production in Korea will increase in 2012 as a result of this increased slaughter, the government incentives, combined with low cattle prices, will lead to an expected slowdown in calf production moving forward into 2013," she said.

"When Korean production starts to subside, we will then see some reinvigoration in the import market which we expect to occur in late 2013."

United States retracts

Whilst Korea and Japan are facing slower prospects in the short term, the Rabobank boxed beef report suggests the US market has been Australia's "shining light" with Australian exports up 38 percent year-to-date.

"This is mostly a result of increased demand for manufacturing beef which has been driven by a number of factors, not least the lean fine textured beef (LFTB) issue," Ms Sivyer said.

"Back in March 2012, the US was faced with the removal of the equivalent of two per cent of their supply chain as the LFTB news broke – Australia was quick to move and took advantage of the increased demand.

"However we need to note that while manufacturing beef exports to the US are up 57 per cent this year relative to 2011, if compared to the last three-year average, they are only up 13 per cent."

US drought presents opportunities

Ms Sivyer says there had been a great deal of initial speculation that the US drought would lead to significant herd liquidation as producers ran out of pasture, resulting in an acceleration of the already declining herd population.

"With liquidation speculation rife, the indicator that has been most interesting to follow throughout the last six months has been US cow slaughter," she said.

"While total cow slaughter may be sitting above five-year averages, this is being driven by dairy cow slaughter rather than beef cow slaughter."

Ms Sivyer says other indicators of tight beef supply in the US include feedlot placements dropping to their lowest levels since the mid 1990s reinforcing the reduced production levels, again creating an opportunity for Australia to meet this US demand.



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2013 beef outlook

Looking forward, the Rabobank report suggests that recent price spikes in feed grain in the US are expected to be sustained through to at least the first half of 2013 and, combined with reduced US beef production, will continue to lead to higher domestic beef prices for the US.

“If it rains in the US, then producers will retain their heifers and production will be down closer to nine per cent. If the drought continues, production in the US is likely to be down closer to three per cent,” Ms Sivyler said.

“This again provides opportunities for Australia in competing export markets such as Korea and Japan with almost all of the US herd grainfed, compared with 34 per cent of the Australian herd.”

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Rabobank Australia is a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 47 countries, servicing the needs of approximately 10 million clients worldwide through a network of close to 1600 offices and branches. Rabobank Australia is one of the country's leading rural lenders and a significant provider of business and corporate banking and financial services to the Australian food and agribusiness sector. The bank has 61 branches throughout Australia.

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