



**Rabobank**

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## ***Sheepmeat – riding the rollercoaster of returns***

The sheepmeat industries in both Australia and New Zealand have been riding a ‘rollercoaster of returns’ in the past few years and, while prices have retreated more recently, the outlook remains positive for the sector, according to agribusiness banking specialist Rabobank.

In a recently-released report ‘**Sheepmeat – riding the rollercoaster of returns**’ reviewing the sheepmeat sectors in Australia and New Zealand, Rabobank animal proteins analyst Matt Costello says, despite some current challenges, the long-term future of the industry remains positive as conditions improve in established export markets.

However, the sheepmeat sector must retain sufficient scale and market presence relative to competing meats, the report cautions.

“Given the industry’s exposure and reliance on export markets, and the fact that sheepmeat is a higher valued product, the industry is dependent on the economic environment and indeed the consumers in these markets,” Mr Costello says.

“With an improving outlook in some of the lucrative sheepmeat export markets and with the optimism surrounding the potential of developing markets such as China – Australia and New Zealand will be the only countries positioned to supply these markets.”

Mr Costello warns that the sheepmeat sector will need to retain significant scale and market presence in comparison to competing meats to remain viable.

### **The big ‘dip’**

The Rabobank report finds that the variation in returns for sheepmeat producers and exporters over the past few years has been significant, with “unprecedented” volatility.

Mr Costello says there is a lack of confidence among producers in the sheepmeat sector.

“The extreme high and low points over the past few years have not helped anyone, only serving to add to frustration and disillusionment,” he says.

“In simple terms, historically tight supply from both Australia and New Zealand underpinned the initial surge in livestock prices during 2010 and 2011, and the ensuing weak prices through 2012 and 2013 have been driven by higher production due to the extremely dry conditions across both countries.”

### **Market and currency challenges**

Globally, rising prices have been met by stubborn consumers in the major



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export markets of the EU, UK and the US. The emergence of growing markets throughout Asia and the Middle East has helped to offset the declines in volumes and to a lesser extent, returns from the traditional export markets.

Not only is weak consumer demand impacting returns for the industry currently, but a persistently high exchange rate is also challenging both countries.

Even with a slight fall in recent weeks, the prolonged high dollar in both Australia and New Zealand has been pressuring competitiveness in the global market, resulting in substitution and weaker export demand for sheepmeat, the Rabobank report says.

### **Middle East growth helping**

Growth in demand from markets in the Middle East is also contributing to the positive long-term outlook for sheepmeat, the Rabobank report says.

“Unlike most emerging markets throughout Asia, consumers in the Middle East have a preference for red meat, Mr Costello says.

“And the Middle East region has long been an established export market for Australia and New Zealand, with the outlook for growth remaining positive.”

Mr Costello says the majority of exports to the Middle East are leg and carcass shipments, but there is also a wide range of cuts exported depending on the specific market dynamics of each country, as the spread of wealth varies drastically.

The Rabobank report shows total Australian sheepmeat exports to the Middle East during 2012 reached 98,523 tonnes – 32 per cent higher than 2011, with a 48 per cent jump in lamb shipments, while New Zealand exports increased 26 per cent from 2011 to 38,572 tonnes.

“Exports from both Australia and New Zealand to the Middle East are forecast to grow further in 2013 as a result of growing incomes and populations and a preference for quality sheepmeat further develops,” Mr Costello says.

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