In focus: Queensland beef industry outlook
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Cattle on CSIRO’s Belmont Research Station, central Queensland. Photo: CSIRO
Key points

• Much of Queensland enjoyed significant rainfall in December 2014 and January 2015, leading to optimism that Queensland’s drought may be coming to an end (although the Bureau of Meteorology forecasts below average rainfall for many areas for the rest of the wet season). In response, cattle prices have risen substantially as Queensland producers look to restock. The Eastern Young Cattle Indicator (EYCI) is already up more than 20% on its December 2014 average, breaking through 400c/kg for the first time since early 2012 and now hovering just below 450c/kg.

• Rainfall in Queensland, combined with strong industry fundamentals, gives us cautious optimism towards Queensland’s beef industry. A decent finish to the wet season will further stoke restocker interest and spur the rebuilding of drought depleted Queensland herds, putting further upward pressure on cattle prices.

• However, a number of challenges remain. If further rainfall does not materialise, feed availability will fall and difficult conditions may return. Further, with more favourable weather returning to the United States and international grain prices pushed lower by falling oil prices, growth in exports to the United States may slow in the coming years.
Industry trends - 2014

2014 saw moderately higher beef prices combined with elevated slaughter rates. The benchmark EYCI in 2014 was 5.9% higher than in 2013, while the Queensland Cattle Market Indicator (QCMI) was up 6.0% over the same period.

The combination of substantially elevated slaughter but only moderately higher prices, was due in large part to drought conditions in Queensland, which caused higher destocking rates in line with poorer land carrying capacity. While producers in southern parts of Australia enjoyed somewhat more favourable climatic conditions, elevated supply available for slaughter precluded any large price increases.

Much of this extra supply was sent overseas as chilled and frozen beef, in particular to the US (see page 4). Live cattle exports also performed well, with Asia becoming an increasingly important market.

Source: Meat and Livestock Australia
Chilled and frozen beef exports

2014 was a standout year for Australian beef exports, led by 90cl hamburger beef destined for the United States. The US has increasingly looked to imports on account of drought conditions depleting the US cattle herd. With Australian slaughter elevated for much of 2014 (owing in part to drought induced destocking), Australian producers have been able to meet this demand.

While Australian beef exports to East Asia did not grow significantly in 2014, recently signed Free Trade Agreements with Japan and China may spur demand for Australian beef in the coming years (see page 6).

Climatic conditions

Having endured drought conditions for much of 2014, large parts of Queensland, with the notable exception of Cape York, enjoyed average to above average rainfall in December 2014. January 2015 has seen further encouraging rains in many areas of Queensland.

However, the Bureau of Meteorology’s rainfall outlook February to April 2015 shows below average rainfall forecast for most of Queensland. In particular, much of south west Queensland is forecast to have a less than 40% chance of exceeding median rainfall over the period.
Outlook for 2015

The beef industry fundamentals for 2015 are generally strong. Demand for protein in Asia is likely to grow in the medium term, and the recently signed free trade agreements with Japan and China will improve Australia’s competitive position, especially when combined with a falling AUD. We forecast the AUD to fall to 78 US cents by the end of 2015.

The recent rain has seen growth in demand from Queensland producers, both to rebuild herds depleted by the drought and to meet surging demand. We are now seeing significant stock movements from southern Australia to Queensland.

The drought is far from over. Further significant rainfall is needed across vast areas of QLD and NSW before the drought can be declared "over" and the herd rebuilding can commence.

We are very optimistic about the fundamentals for the beef industry: export demand is strong with new live export markets in Asia and significant growth in 90cl beef to the United States.

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The Japan-Australia Economic Partnership Agreement will see Japanese tariffs on Australian frozen beef fall from 38.5% to 30.5% this year and ultimately to 19.5% over 18 years. Tariffs on chilled beef will fall from 38.5% to 32.5% this year and ultimately to 23.5% over 15 years. The China-Australia Free Trade Agreement will see Chinese tariffs on Australian beef fall from 12-25% to zero over nine years, although a discretionary safeguard (i.e. where trade barriers may be imposed) remains above 170,000 tonnes. Australia exported just under 125,000 tonnes of beef to China in 2014.

Likewise, US demand for 90cl hamburger beef is likely to continue while US herds rebuild following a severe drought. However, with more favourable weather returning to the United States and international grain prices pushed lower by falling oil prices, Australian beef exports to the United States may slow in the coming years as additional US domestic beef supply becomes available.

While there is considerable interest in moving cattle from Victorian and New South Wales saleyards to Queensland (as Queensland producers look to restock), if further rainfall does not materialise, restocker interest may dissipate. In contrast, a good finish to the wet season is likely to see stronger interest and contracting supply available for slaughter.

Our central case forecast is for the EYCI to rise 21.3% year on year from 2013-14 to 2014-15 and for production to decline 0.6% over the same period. However, there is potential for prices to increase above our central case forecast. If prices remain at their current levels for the remainder of 2014-15, the EYCI will rise more than 25% year on year.
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