

more give, less take



## In Focus

### Beef market update – April 2015

Phin Ziebell, NAB Agribusiness Economist



agribusiness

## Key points

- Cattle prices began to ease in February and continued to fall until late March, before trending upward in early April in line with higher 90CL export prices to the US. Overall, the Eastern Young Cattle Indicator fell 4.6% (AUD) month on month to 424.7 AUc/kg.
- The beef industry fundamentals for 2015 remain 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 74 US cents by the end of 2015.
- While prices remain much higher than the same time last year, A lack of rainfall remains the biggest challenge for the Australian beef industry. Drought remains an ongoing risk in Q2 and beyond.

*Front page: Cattle at Euroa, Victoria. Photo: Mai Thai*

## Contents

<a href="#">Industry outlook</a>	3
<a href="#">Climate update</a>	4
<a href="#">Production and price update</a>	5
<a href="#">Trade: United States</a>	6
<a href="#">Trade: Asia</a>	7
<a href="#">Regional perspectives: NAB Agribusiness</a>	8

## Price and domestic production forecasts

Month on month price change: March 2015 (AUD)	2014-15 annual production change	2014-15 annual price change (AUD)
▼ 4.6%	▲ 0.4%	▲ 22.6%

Source: NAB Group Economics, Meat and Livestock Australia and ABARES. Forecasts represent year-on-year average changes. Production forecast as per ABARES.



## Industry Outlook

The beef industry fundamentals for 2015 remain 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 74 US cents by the end of 2015.

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 parts of the United States and international grain prices pushed lower, Australian beef exports to the United States may slow in the coming years if additional US domestic beef supply becomes available.

A lack of rainfall remains the biggest challenge for the Australian beef industry. After an encouraging start in many areas, the wet season saw a generally disappointing finish and parts of Queensland, especially in the west, remain mired in drought. Even southern areas, which have generally fared better, are seeing a shortage of pasture and may lose the autumn break if rain does not come soon. While the latest forecast for above average rain coming into winter is welcome news, particularly in the south, it may arrive too late for strong autumn pasture growth. The rainfall is likewise too late for northern producers.

Our central case forecast is for the EYCI to rise 22.6% year on year from 2013-14 to 2014-15 and for production to increase 0.4% over the same period.



## Climate update

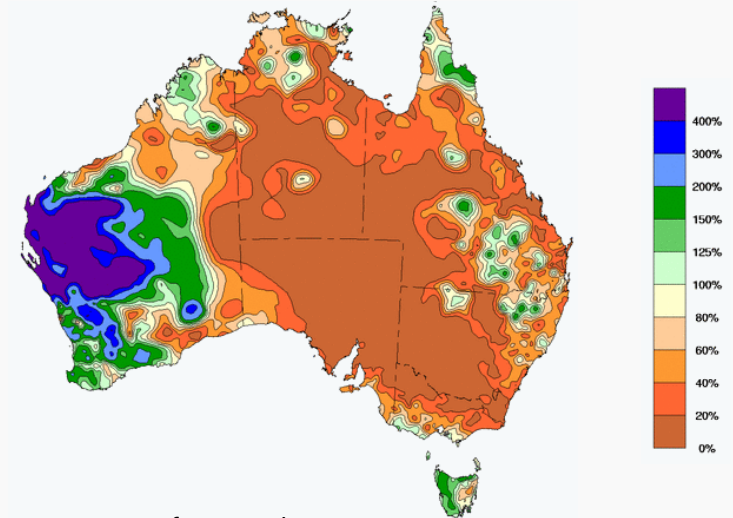
Rainfall across Australia was generally well below average in March, with the exception of Western Australia, Tasmania, parts of the Darling Downs and northern New South Wales. Parts of Western Australia, excluding the Pilbara and the state's easternmost areas, enjoyed above average rainfall. The dryer conditions, especially in Queensland, precipitated a less optimistic mood than earlier in the year, when parts of Queensland enjoyed decent rainfall.

The Bureau of Meteorology's rainfall outlook for May to July 2015 forecasts above average rainfall for almost all the continent, with the exception of Cape York, Arnhem Land and Tasmania. Parts of Outback South Australia and the South West Western Australia are forecast to have a more than 80% chance of receiving above average rainfall.

While the latest forecast is welcome news, particularly for southern beef farmers, it may arrive too late for strong autumn pasture growth. The rainfall is likewise too late for northern producers, who saw a difficult finish to the wet season in many areas.

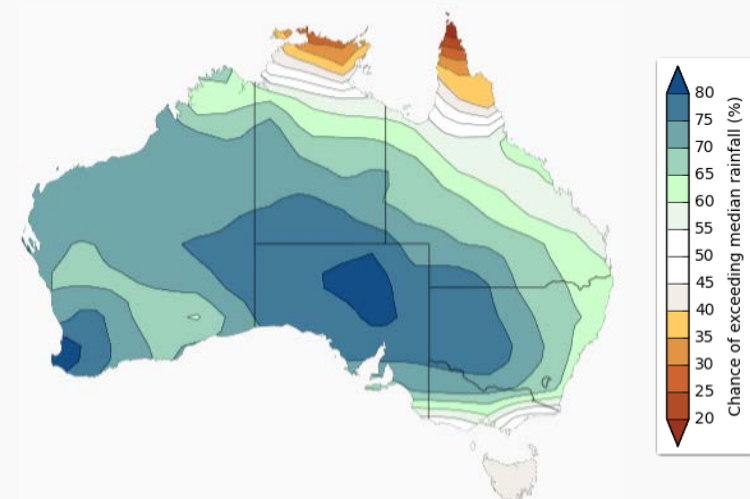


Figure 2: Australian rainfall percentages – March 2015



Source: Bureau of Meteorology

Figure 3: Australian rainfall outlook – May to July 2015



Source: Bureau of Meteorology

## Production and price update

After peaking in late 2011, cattle prices declined for much of 2012 and 2013 as the drought took hold in Queensland. 2014 saw moderately higher saleyard prices as exports surged, but price growth was kept in check by elevated slaughter rates in part caused by drought induced destocking in Queensland. The benchmark Eastern Young Cattle Indicator gained 5.9% in 2014.

With good rain in parts of Queensland in December 2014 and January 2015, prices shot up in the new year, breaking 450 AUc/kg in February. However, as rainfall dissipated across major Queensland beef regions by February and March, prices fell back below 420 AUc/kg in late March. From early April however, prices have partly recovered in line with a recovery in US 90CL beef export prices driven by a lower AUD.

While prices remain much higher than the same time last year, poor conditions in some Queensland beef regions continues to temper restocker enthusiasm. Drought remains an ongoing risk in Q2 2015 and beyond.

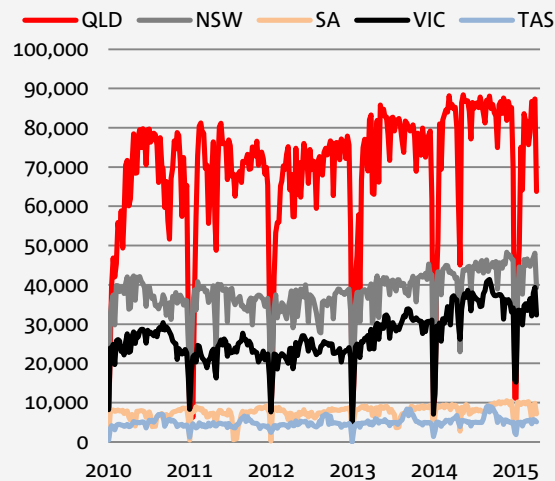
Slaughter rates remain elevated in 2015. Q1 2015 eastern states slaughter (including calves) was up 1.1% on the already elevated Q1 2014 slaughter rate. These elevated rates partly reflect strong processor demand for export, but also a lack of rainfall precluding herd rebuilding.

Eastern Young Cattle Indicator (AUc/kg)



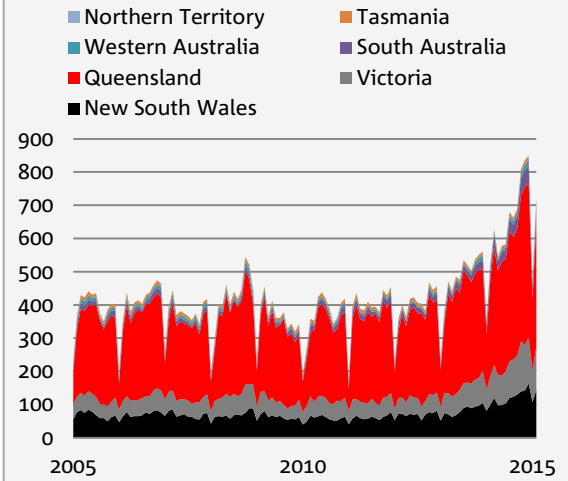
Source: Meat and Livestock Australia

Weekly eastern states cattle and calf slaughter



Source: Meat and Livestock Australia

Value of monthly beef exports by state of origin (AUD million) (ex. live cattle)



Source: Australian Bureau of Statistics

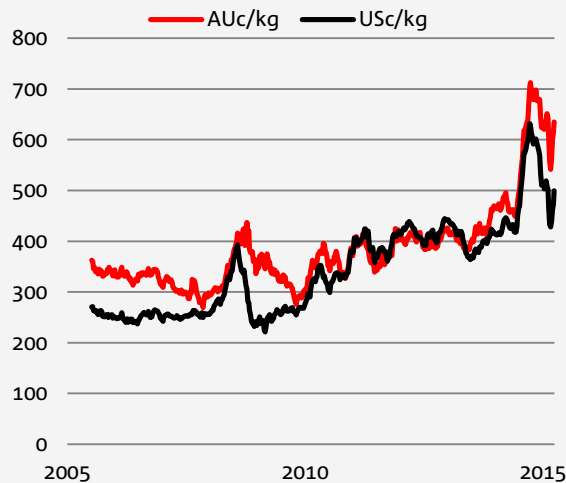
## Trade update: United States

Australia is the United States' biggest source of imported beef and 2014 was a record year for Australian beef exports to the United States. The US has increasingly looked to imports in the 90CL hamburger beef market on account of drought conditions depleting the US cattle herd. With Australian slaughter elevated for 2014 and into 2015 (owing in part to drought induced destocking), Australian producers have been able to meet this demand. Meanwhile, export prices jumped significantly from mid-2014.

Late 2014 and early 2015 brought a dip in the quantity exported although this has since rebounded. The March 2015 export volume stood at 42,028 tonnes, not far shy of the recent peak of 47,238 tonnes in September 2014. Australian beef exports to the US have not reached these levels since the early 2000s.

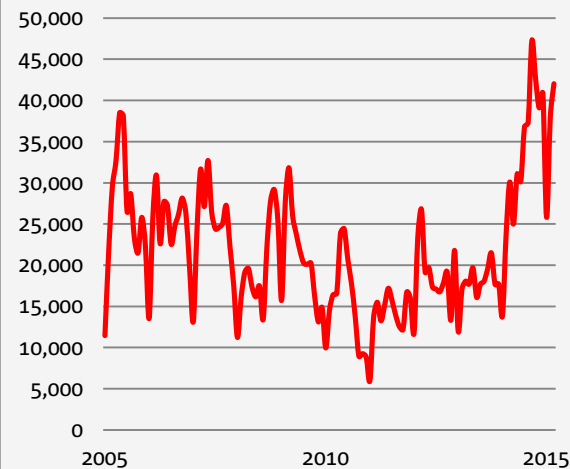
The 90CL export price stood at 635.2 AUc/kg on 26 March 2015, 32.2% higher than the same time in 2014. While the sharp jump in USD prices from June to September 2014 unwound, prices in AUD terms remain at elevated levels due to currency depreciation.

Australian 90CL beef export price to the US



Source: Meat and Livestock Australia

Monthly Australian beef exports to the US (tonnes)



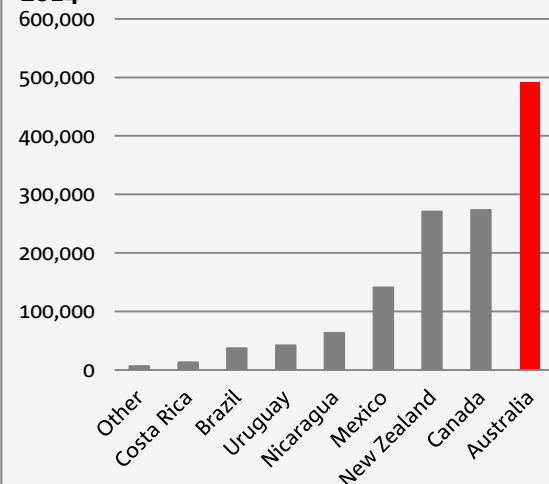
Source: Meat and Livestock Australia

### US economic conditions

*Growth in the U.S. economy appears to have slowed at the start of 2015, similar to last year (when it actually went backwards in the first quarter). Like last year the winter has been unusually harsh but other factors are clearly also in play this time around, including US dollar strength and sectoral impacts from the oil price declines. Like last year, we expect the weakness to be short-lived, and for the economy to resume growing at an above trend pace.*

Tony Kelly  
Senior Economist, United States

US beef imports by source country (tonnes) 2014



Source: USDA and NAB Group Economics

## Trade update: Asia

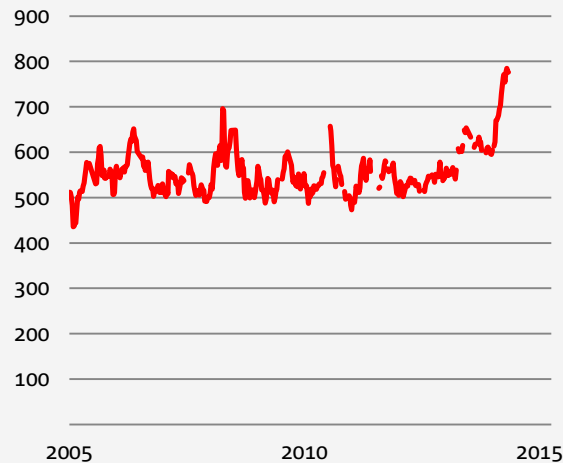
Australian beef exports to East Asia did not grow significantly in 2014, although volumes are mostly up in 2015. Exports to Japan were up 24.1%, to Korea up 14.7% and to China down 6.7% in March 2015 compared to the same time in 2014.

In addition, recently signed Free Trade Agreements with Japan and China may spur demand for Australian beef in the coming years.

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.

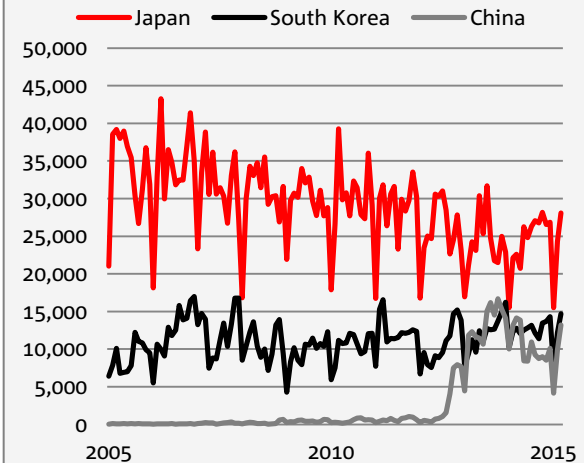
The China-Australia Free Trade Agreement will see Chinese tariffs on Australian beef fall from 12-25% to zero over nine years, although a discretionary safeguard (i.e. where trade barriers may be imposed) remains above 170,000 tonnes. Australia exported just under 125,000 tonnes of beef to China in 2014.

### Australian chilled grass fed fullset export price to Japan (AUc/kg)



Source: Meat and Livestock Australia

### Monthly Australian beef exports to the Japan, South Korea and China (tonnes)



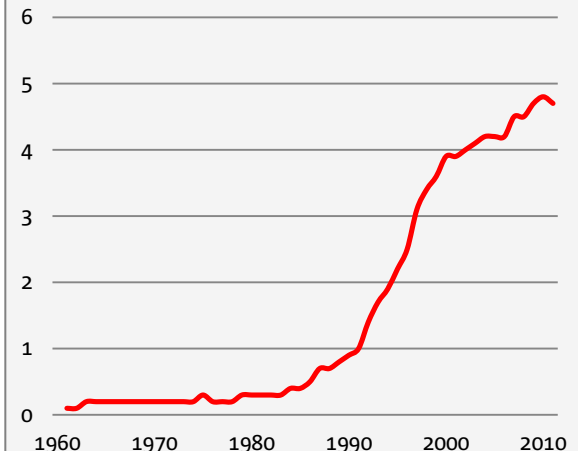
Source: Meat and Livestock Australia

### Chinese economic conditions

*China's latest national accounts data showed that the economy expanded by 7.0% in the first quarter of 2015, down from 7.3% in Q4 2014 and the weakest rate of growth since March 2009. Our forecasts are unchanged – with China's economy to grow by 7.1% in 2015 and 6.9% in 2016. Chinese authorities have expended considerable political capital in describing the slowing trend as the 'new normal' and are unlikely to tolerate growth falling below their target for a second straight year.*

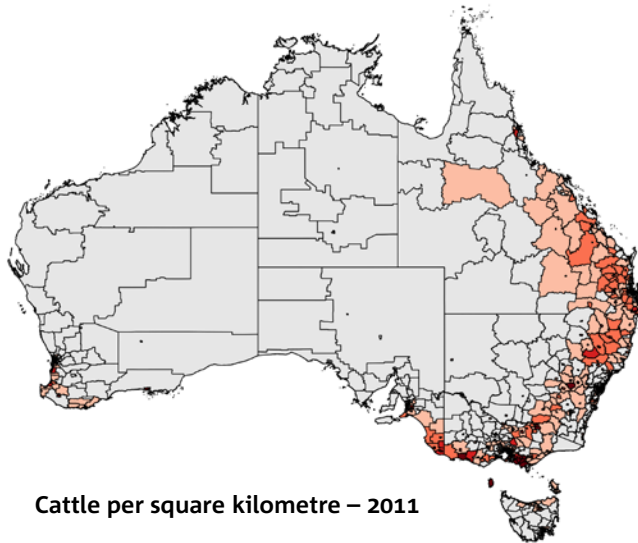
Gerard Burg  
Senior Economist, China

### Per capita beef and veal supply – China (kg per capita per year)

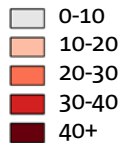


Source: UN FAOSTAT

## Regional perspectives: NAB Agribusiness bankers



Cattle per square kilometre – 2011



Source: Australian Bureau of Statistics and  
NAB Group Economics

### Conditions in North Queensland

*Cattle prices are strong and global demand is really driving the industry, especially with such strong exports to the US. The lower AUD is having a real impact and there is even talk of sending live breeder cattle to the US. Fundamentals in the industry are strong, but heading into the fourth year of drought is really hurting many producers and communities.*

*The wet season didn't arrive, and what rainfall was received was patchy. Some have been lucky, although most haven't and the wet is basically now over. Producers are now taking action, moving stock, agisting, selling stock, and in some cases purchasing well grassed properties. The focus is now on maintaining herds and keeping breeding stock alive until the wet season returns in late 2015.*

Geoff Howard  
Regional Agribusiness Manager  
Townsville, Queensland

### Conditions in New England

*The store market has been strong recently and prices to feedlots and processors have also been strong.*

*Restocking is also on the agenda with numbers down after last year. Whilst the rain hasn't been great, we did see some good falls in January and more recently we saw some useful rain around Easter, even though April can be a tough month. Feed is looking good in some areas but less so in others, although overall conditions are much better than this time last year.*

Peter Haynes  
Agribusiness Manager  
Armidale, New South Wales



## Contact details

### Agribusiness

**Khan Horne**  
General Manager –  
Agribusiness

### Economic Research

**Alan Oster**  
Chief Economist  
+61 3 8634 2927

**Phin Ziebell**  
Economist -  
Agribusiness  
+61 (0) 475 940 662

### Risk Management Services

**Joseph Righetti**  
Associate Director –  
Commodities  
Business Banking  
Tel: +61 (2) 9237 9832

### Corporate Communications

**Chris Owens**  
Senior Manager  
Corporate Communications  
+61 (0) 409 945 476

## Disclaimer

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Products are issued by NAB unless otherwise specified.

So far as laws and regulatory requirements permit, NAB, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (the "NAB Group") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("**Information**") is accurate, reliable, complete or current. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. The Information is not intended to be relied upon and in all cases anyone proposing to use the Information should independently verify and check its accuracy, completeness, reliability and suitability obtain appropriate professional advice. The Information is not intended to create any legal or fiduciary relationship and nothing contained in this document will be considered an invitation to engage in business, a recommendation, guidance, invitation, inducement, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest, buy, sell or deal in any securities or other financial instruments.

The Information is subject to change without notice, but the NAB Group shall not be under any duty to update or correct it. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

The NAB Group takes various positions and/or roles in relation to financial products and services, and (subject to NAB policies) may hold a position or act as a price-maker in the financial instruments of any company or issuer discussed within this document, or act and receive fees as an underwriter, placement agent, adviser, broker or lender to such company or issuer. The NAB Group may transact, for its own account or for the account of any client(s), the securities of or other financial instruments relating to any company or issuer described in the Information, including in a manner that is inconsistent with or contrary to the Information.

Subject to any terms implied by law and which cannot be excluded, the NAB Group shall not be liable for any errors, omissions, defects or misrepresentations in the Information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the NAB Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

This document is intended for clients of the NAB Group only and may not be reproduced or distributed without the consent of NAB. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia.

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

**United Kingdom:** If this document is distributed in the United Kingdom, such distribution is by National Australia Bank Limited, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 800 Bourke Street, Docklands, Victoria, 3008. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated by the Australian Prudential Regulation Authority. Authorised in the UK by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

**US Disclaimer:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**Hong Kong:** In Hong Kong this document is for distribution only to "professional investors" within the meaning of Schedule 1 to the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person. Issued by National Australia Bank Limited, a licensed bank under the Banking Ordinance (Cap. 155, Laws of Hong Kong) and a registered institution under the SFO (central entity number: AAO169).

**New Zealand:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

**Japan:** National Australia Bank Ltd. has no license of securities-related business in Japan. Therefore, this document is only for your information purpose and is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action.