



In Focus: Beef

March 2016

Highlights

The Australian cattle industry is in the midst of a significant transition following a period of almost unprecedented growth in cattle prices, combined with a surge followed by retreat in slaughter rates.

Cattle slaughter rates began to rise in 2013 as drought conditions started to bite in Queensland and elsewhere, forcing some producers to reduce stock levels. By 2014, US demand ramped up as the US cattle herd waned following a major drought in US cattle ranching states. This pushed US 90cl export prices, and later domestic saleyard prices, much higher. The depreciation of the Australian dollar over the period provided further support to prices.

However, the above confluence of factors largely reflects one off events. Since mid-2015, Australian slaughter rates have retreated owing to a shortage of stock, the key US 90cl beef export benchmark has retreated from its highs of September last year and while we forecast the Australian dollar to fall to around 67 US cents by the end of the year, the majority of the adjustment in the currency has already occurred.

We forecast domestic saleyard prices to stay high this year, but with volumes falling, the value of Australian beef exports is forecast to fall 10.4% in 2016-17. There appears to be little upside for US export prices given growing US beef supply.

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Summary and overview

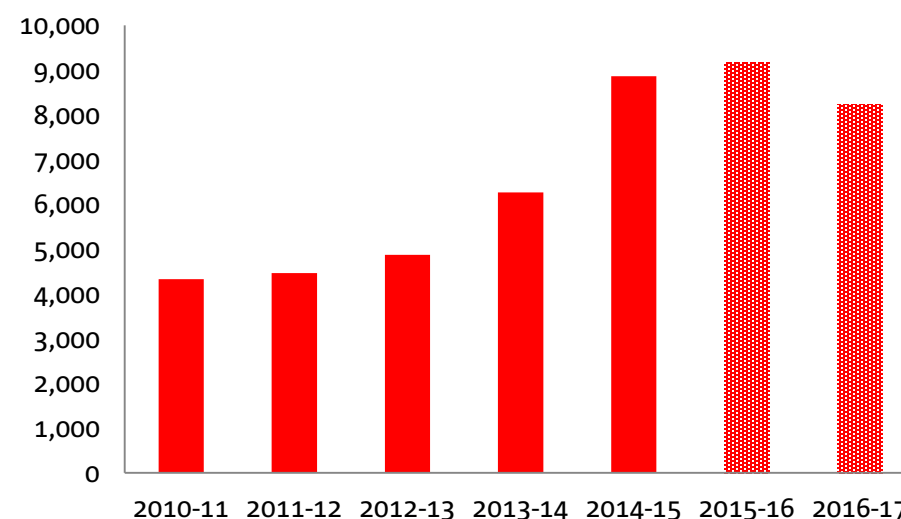
Headline NAB beef forecasts

In our latest [Australian Agricultural Export Update](#), we downgraded our forecasts for the value of beef exports amid slowing export volumes and a disconnect between domestic saleyard and US export prices. As domestic restocking becomes the dominant driver of saleyard prices in 2016, we still expect saleyard prices to remain at record levels this year, however, the latest USDA forecasts point to increasing US beef production. This will limit any upside for 90cl beef prices, especially with the Australian dollar trading in a tighter range. Beyond 2016, higher exports from Brazil and Argentina are likely to increase competition in the US market.

In export volume terms, the second half of 2015 saw a pull-back from exports to the US (Australia's biggest beef export market), as cattle slaughter slowed from very elevated levels as stock became scarcer. This followed a significant expansion in exports to the US that began in early 2014 in response to the drought in the US.

We forecast the value of Australian beef exports to be 3.7% higher in 2015-16 but to fall 10.4% in 2016-17.

Value of Australian beef exports – NAB forecasts
AUD millions



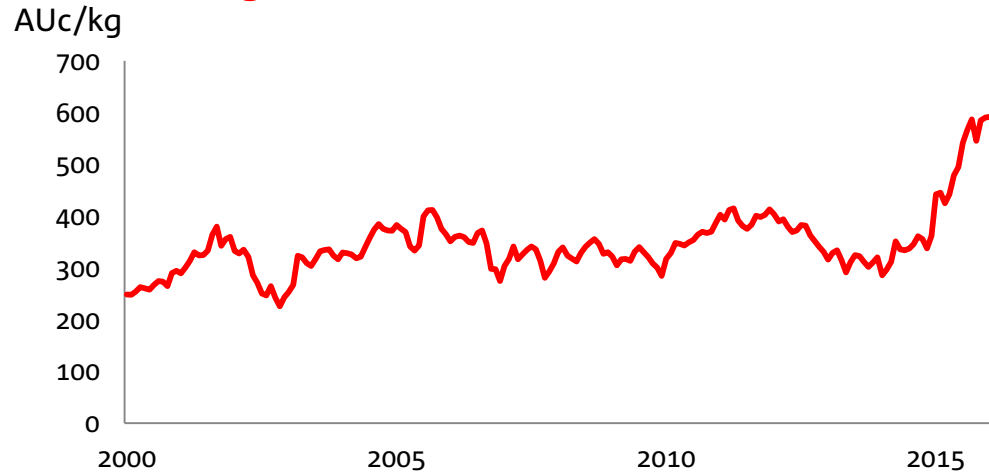
Headline production, price and export forecasts

Production change		Price change		Export value change	
2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
▼ 9.1%	▼ 6.6%	▲ 45.4%	▼ 1.7%	▲ 3.7%	▼ 10.4%

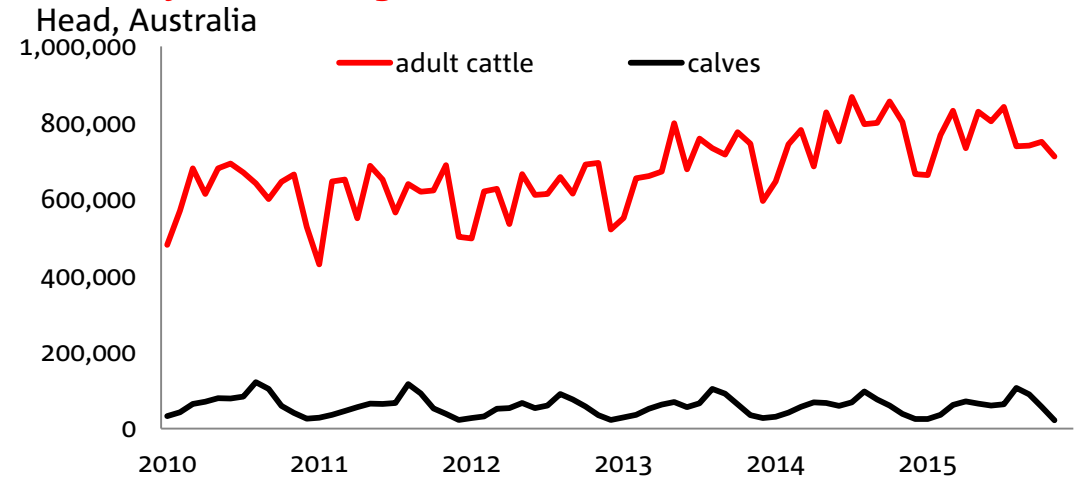
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Bureau of Statistics, Bloomberg and Profarmer.

National prices, production and trade data

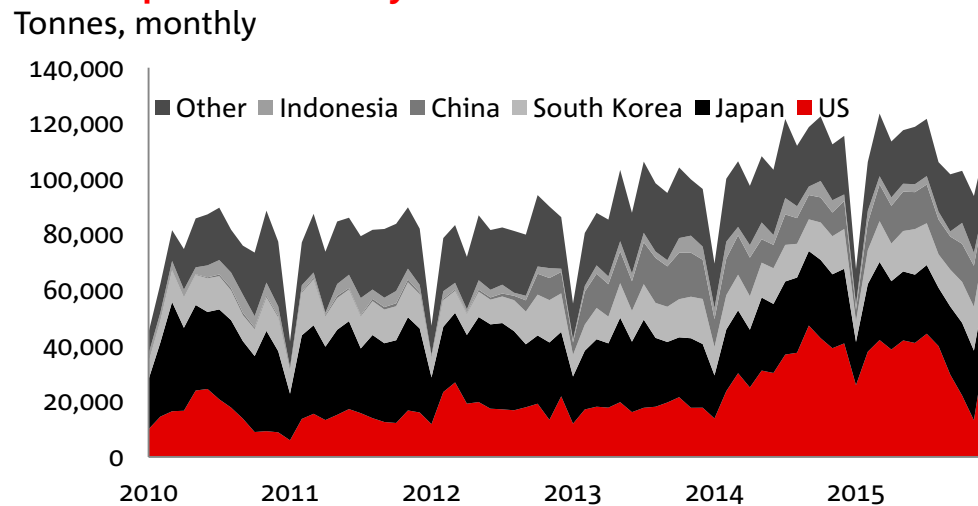
Eastern Young Cattle Indicator



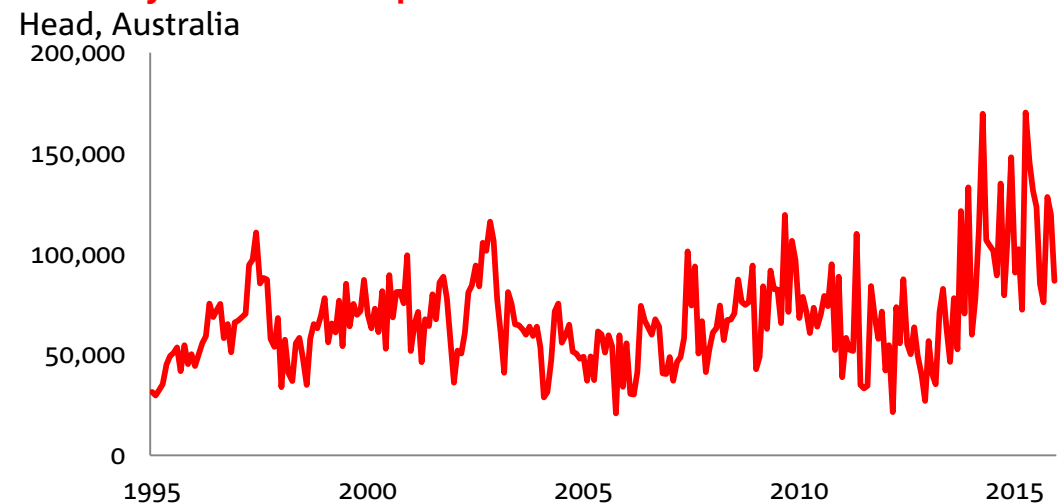
Monthly cattle slaughter



Beef export volume by destination



Monthly live cattle export volume

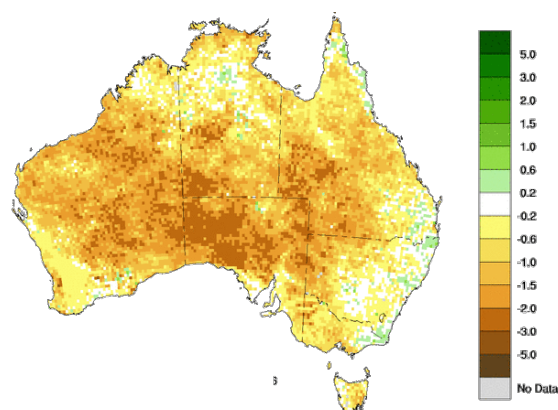


Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics

Climate outlook

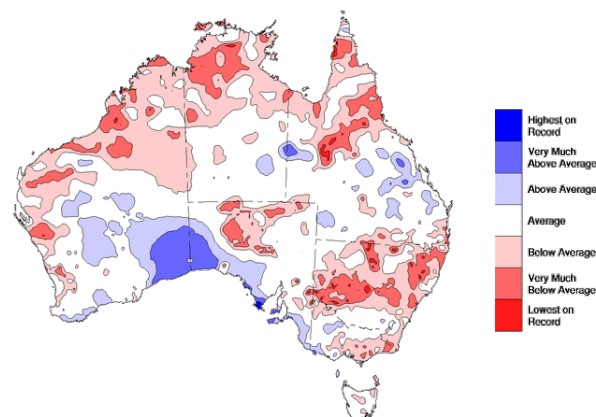
NDVI Anomaly

Six months to 29 February 2016



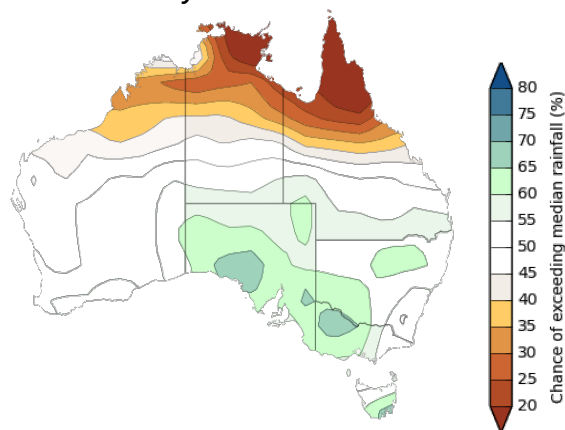
Australian rainfall deciles

February 2016



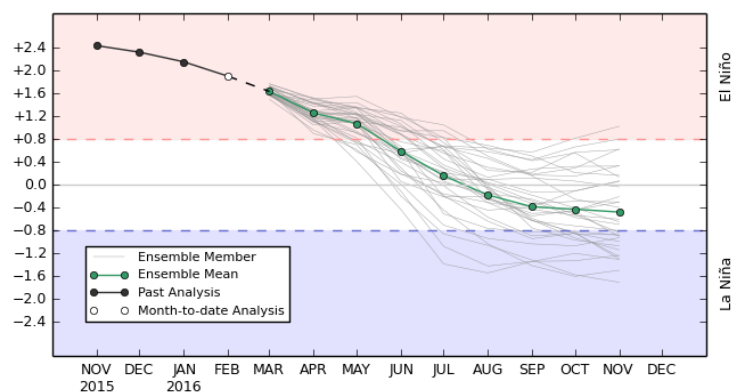
Three month rainfall outlook

March to May 2016



BoM POAMA El Niño outlook model

Monthly mean NINO34



2015 was very patchy overall – much of New South Wales, parts of the Northern Territory and northern Western Australia enjoyed a good season, but conditions were very dry in most of Queensland, Victoria, Tasmania and parts of the Western Australian wheatbelt. While January 2016 brought welcome rains to many areas, recent conditions have been patchier.

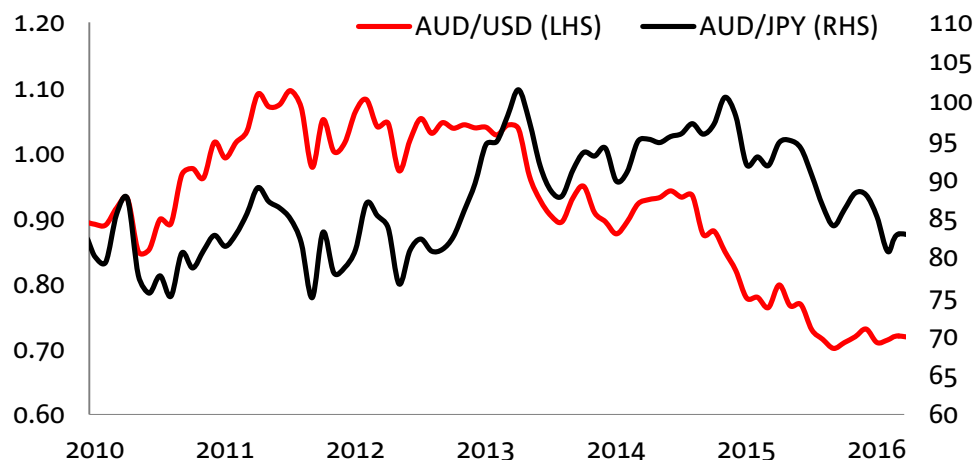
Looking ahead into autumn, the Bureau of Meteorology forecasts neutral to above average rainfall in the south (although March is likely to remain dry) but well below average rainfall in Northern Australia.

The outlook beyond autumn is partly contingent on the pace of El Niño's retreat. Bureau of Meteorology modelling shows a return to more neutral conditions in winter, tending more closely to La Niña in spring. La Niña tends to bring wetter conditions to northern and eastern Australia.

Source: Bureau of Meteorology

Exchange rates and interest rates

Monthly exchange rate movements



The Australian dollar is now hovering in the mid-70 US cents range, up from a low sub-70 cents in January. The US Federal Reserve now looks to be on hold at least for the first half of 2016, which, along with other factors, is likely to delay sending the Australian dollar below 70 US cents for an extended period in the first half of the year.

We have revised our forecasts and now see the Australian dollar falling below 70 US cents in the second half of the year, reaching a low of 67 US cents at year end before trending slowly upward over 2017.

Despite the global economic risks, we anticipate further recovery across the Australian non-mining economy and expect the RBA to keep the cash rate on hold throughout 2016.

NAB FX strategy targets

	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
AUD/USD	0.72	0.71	0.69	0.67	0.69	0.70	0.72	0.73
NZD/USD	0.65	0.64	0.62	0.60	0.61	0.62	0.63	0.65
USD/JPY	115	116	117	118	119	119	121	121
EUR/USD	1.09	1.10	1.09	1.08	1.08	1.09	1.10	1.10
USD/CNY	6.60	6.70	6.75	6.80	6.80	6.75	6.75	6.70

Source: NAB

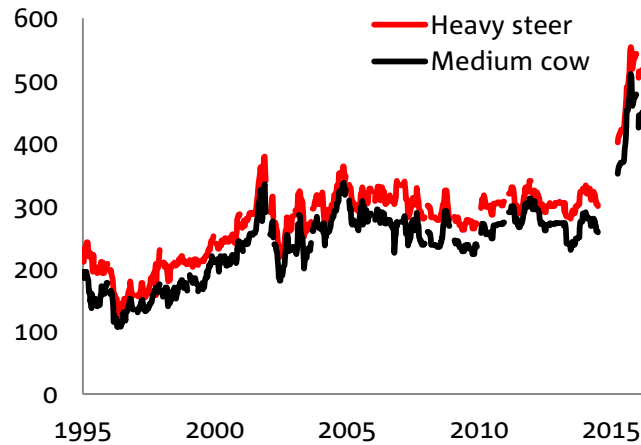
A photograph of a herd of cattle, including several brown and white cows, standing in a field of tall, dry grass. In the background, there are many green trees under a clear sky. A red rectangular box is overlaid on the bottom left of the image, containing white text.

Regional outlook and trade

Northern Australia

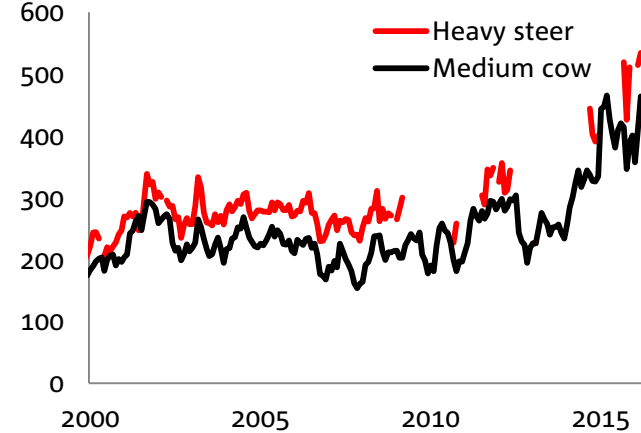
North Queensland OTH indicators

AUc/kg cwt



Western Australia saleyard Indicators

AUc/kg cwt

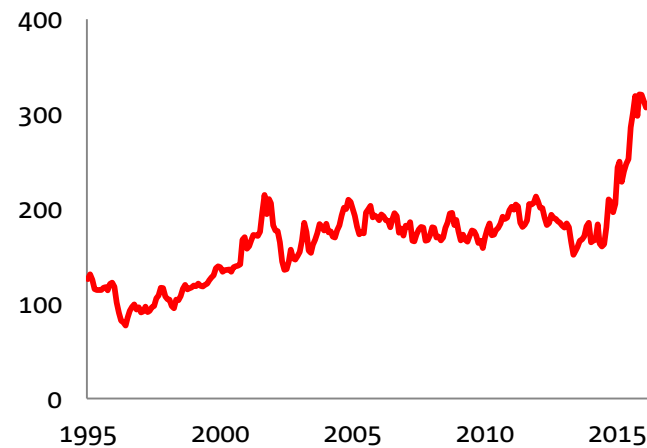


Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics

Note: MLA defines as North Queensland as north of and including Rockhampton

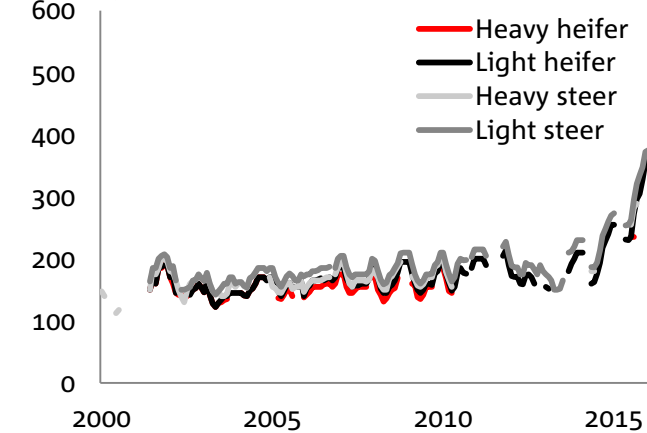
Queensland Cattle Market Index

Index



Northern Territory live export prices

AUc/kg lwt



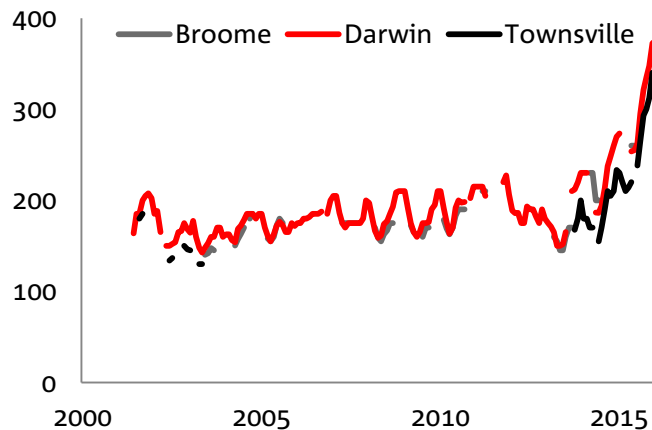
The Northern Australian cattle industry is broadly defined as the cattle industries of Queensland, the Northern Territory and Western Australia's Pilbara and Kimberley regions. It is dominated by tropical, primarily *bos indicus* breeds but have considerable diversity. The expansive outback stations of the top end are focussed heavily on live export, while the more densely stocked areas of central and south-east Queensland cater more to the chilled and frozen beef export market.

All major regional market indicators have jumped significantly since 2014, reflecting strong international demand. Slaughter and live export volumes likewise surged until mid-2015, but have since receded somewhat on a shortage of stock. For more detail on live exports, see [page 10](#). For more detail on beef exports to the US and Asia, see [pages 12 and 13](#).

Live cattle exports

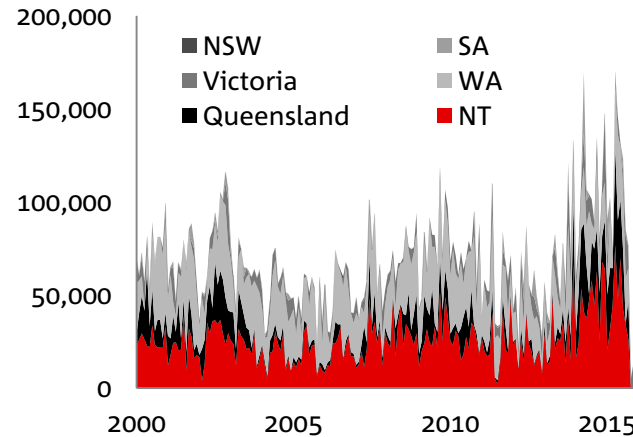
Live cattle export prices

AUc/kg live weight, monthly average



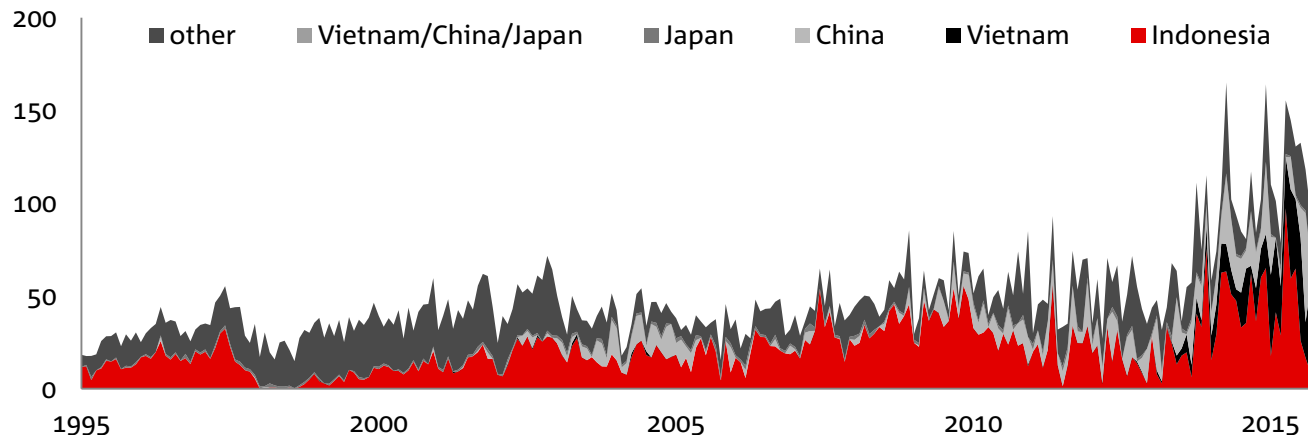
Volume of live cattle exports

Head by state of origin, monthly



Value of live cattle exports by destination

AUD million per month



Most live export cattle are sourced from Northern Australia and are sent primarily to east and south-east Asia. Indonesia and Japan were traditionally the most important destinations for Australian live cattle, but while Indonesia has emerged as the largest market, exports to Japan have declined somewhat. Vietnam and China have also become significant markets.

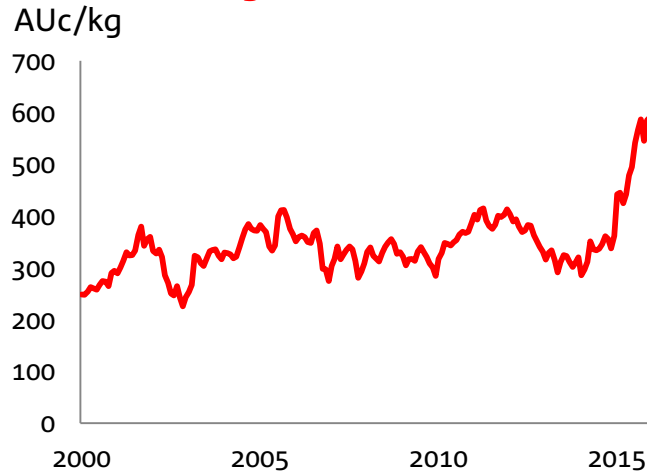
Live cattle export volumes have trended significantly higher since early 2013, reflecting the combined effects of a recovery from the 2011 suspension of live exports to Indonesia and the emergence of dry conditions, particularly in Queensland and parts of the Northern Territory.

Our outlook is for prices to remain high in 2016, although prices have come under pressure from dry conditions in the last month. Scarce domestic cattle supply will continue to see export volumes trend lower. In Indonesia, the move from three to four monthly quotas for Australian cattle will give the industry slightly more certainty, although efforts to diversify Indonesian beef and cattle imports could emerge as a risk for Australian producers in the medium term.

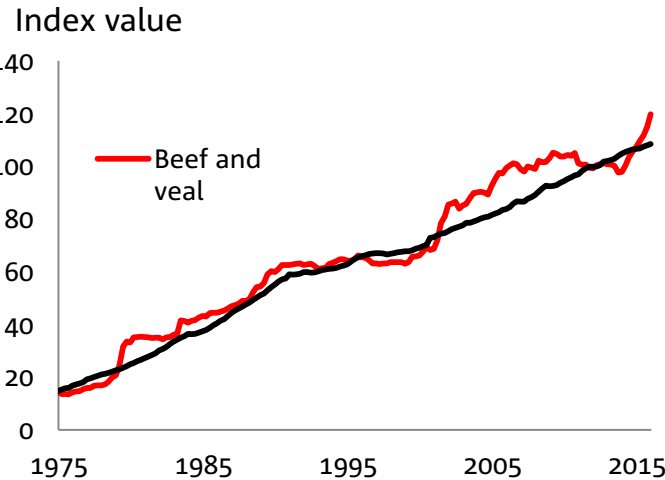
Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics

Southern Australia

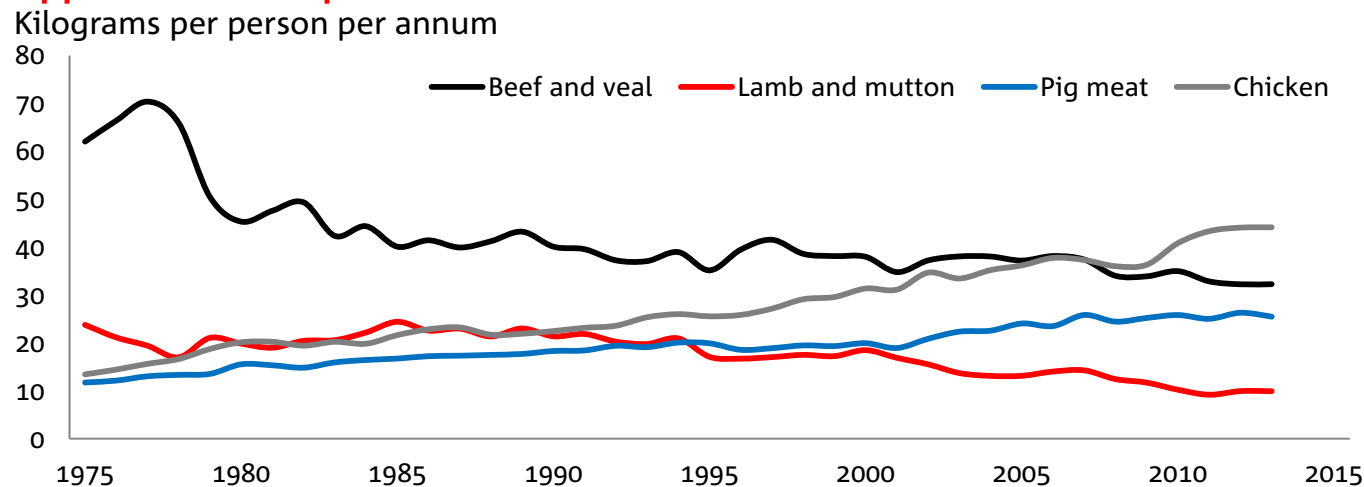
Eastern Young Cattle Indicator



ABS beef and veal CPI



Apparent consumption of selected meats



Source: Meat and Livestock Australia, Australian Bureau of Statistics, ABARES and NAB Group Economics

Southern Australia's beef industry consists largely of *bos taurus* cattle, generally British and European breeds. While the industry has a strong export focus, it also provides much of Australia's domestic beef supply.

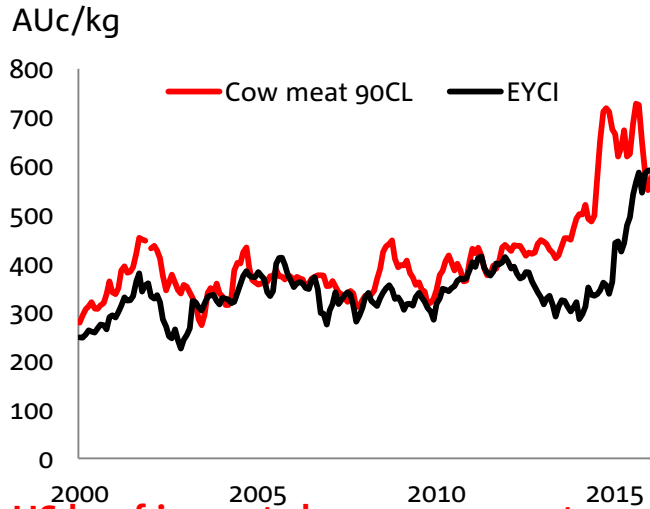
Southern saleyard and over the hooks prices have jumped significantly since 2014. The Eastern Young Cattle Indicator, which includes a strong southern component, has tracked around or slightly below 600 AUc/kg this year to date – well into record territory.

Slaughter has trended downwards since mid-2015 following elevated slaughter since 2013. However, regional conditions have been patchy. Much of New South Wales enjoyed a good season, while Victoria, Tasmania and parts of South Australia were very dry. While January saw good rainfall, dry conditions since are likely keeping slaughter at higher levels while producers look for autumn rains.

For Australian consumers, beef is becoming more expensive, reflecting higher wholesale prices. This will further entrench the primacy of chicken meat as the most consumed in Australia. Retail poultry prices have remained relatively stable for many years, reflecting the scalable industrial nature of production for the industry.

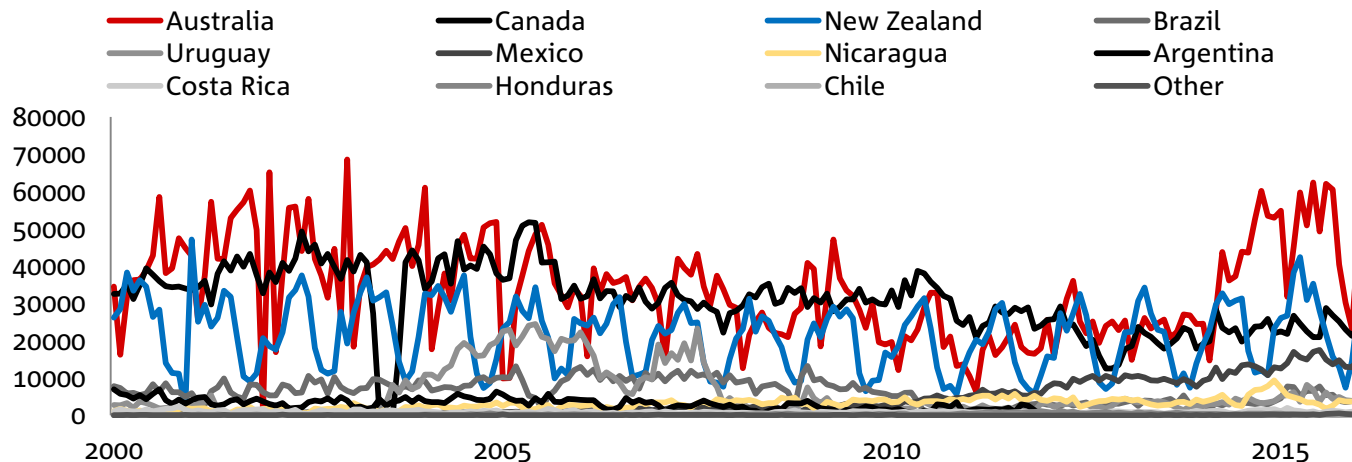
Beef exports: United States

EYCI and US 90CL



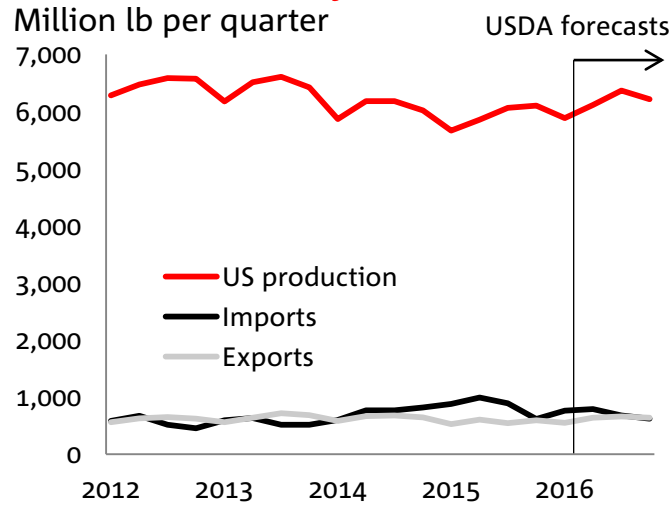
US beef imports by source country

Tonnes, monthly



Source: Meat and Livestock Australia, USDA, Australian Bureau of Statistics and NAB Group Economics

USDA beef industry forecasts



Australia is the biggest supplier of imported beef to the United States, followed by New Zealand, Canada and Mexico in volume terms.

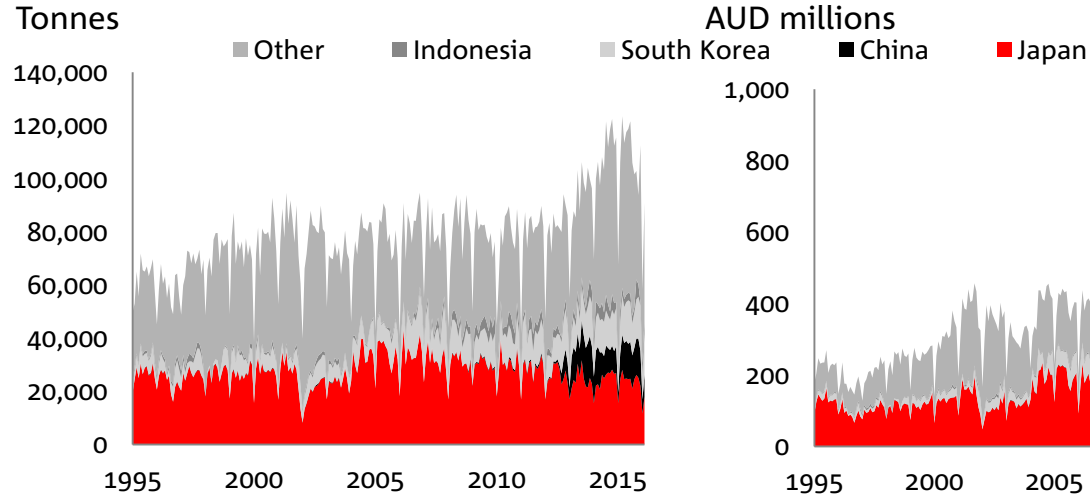
The US beef industry saw a period of decline following the 2011 La Niña induced drought. This saw domestic production fall from 2013 with largely Australian (and New Zealand) beef filling the gap. However, with the drought long over in most major US cattle regions and US feed grain prices low, the industry has been rebuilding and domestic production began to increase in 2015.

As a result, there has been a precipitous decline in US prices over the last several months. The key 90cl cow meat benchmark for Australian beef has fallen almost 14% since the peak in September 2015 (month to date average). USDA forecasts point to US beef production increasing 3.8% in 2016. Beyond 2016, higher exports from Brazil and Argentina are likely to increase competition in the US market.

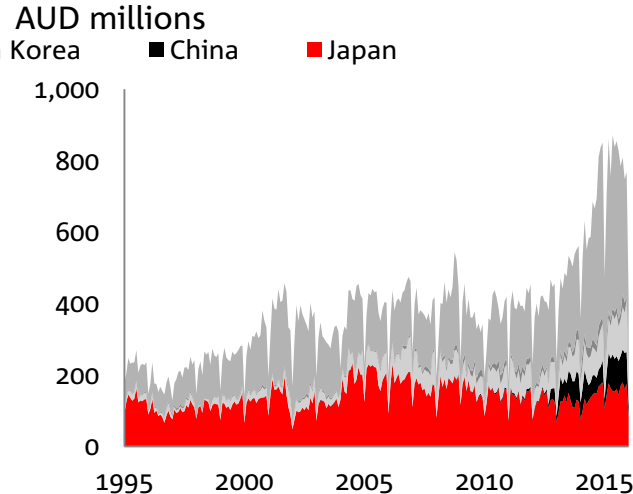
While a scarcity of stock in Australia precludes a major upside in volume terms, lower US export prices combined with high Australian saleyard prices is putting pressure on Australian feedlots and processors.

Beef exports: Asia

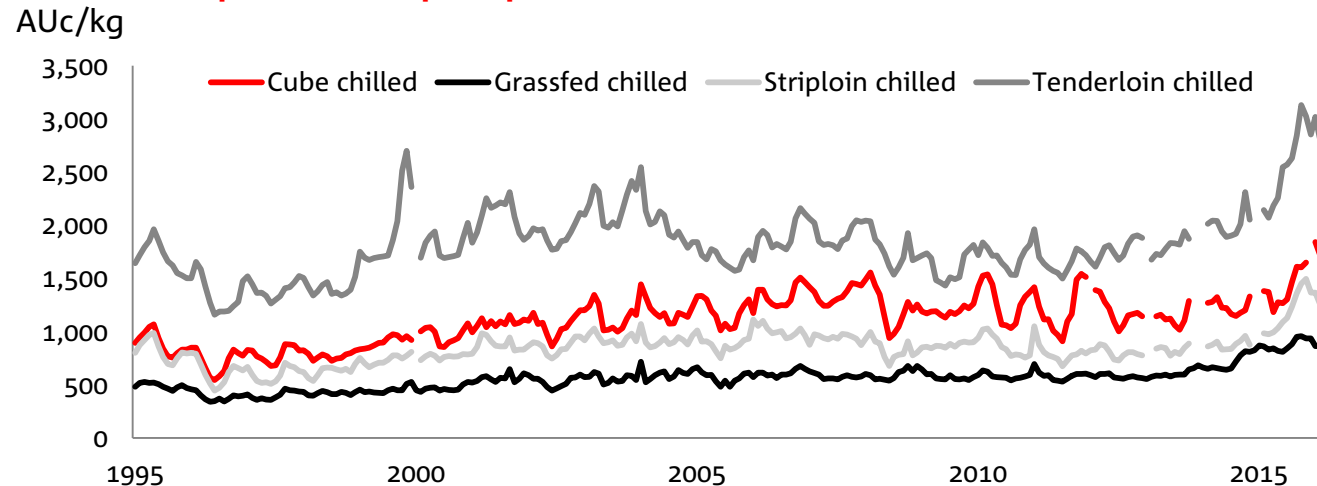
Australian beef export volume



Australian beef export value



Australia-Japan beef export prices



Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics

Japan, South Korea and China were the second, third and fourth biggest destinations for Australian beef in volume terms in 2015.

Japan has long been a major market for Australian beef, particularly for higher quality cuts. In 2015, 22.2% of Australian beef exports were destined for Japan. However, Japan is not a growth market, reflecting an aging and declining population and very low GDP growth. While the Japan-Australia Economic Partnership Agreement and Trans-Pacific Partnership (should it come into force) will improve access for Australian beef, although we do not expect significant growth in the coming years, noting that we forecast Japanese GDP to grow by only 0.5% in 2016.

South Korea has been an important market since the early 2000s, accounting for 13.0% of Australian beef exports in 2015. China grew rapidly from 2012 to 2013, but has since been stable in volume terms. China accounted for 11.5% of Australian beef exports in 2015. The China-Australia Free Trade Agreement, combined with a growing middle class, points to medium-term strength for Australian beef exports to China, notwithstanding recent market concerns around Chinese growth.

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