Brazil regained official access to China in May 2015. After being excluded from the market in 2012, Brazil has continued to supply an increasing volume of beef to Hong Kong. It is expected that this official access may lead to some substitution out of the Hong Kong market, back into the official Chinese market; however, it is not expected that, in the short term, this will lead to any greater exports from Brazil. Brazil is also looking to achieve access to the US market, with an announcement expected later this year.

Chinese retail beef prices continue to remain stable in the first half of 2015. Driven by the slower economy, the overall Chinese meat market demand is slower than in previous years. But tight supplies have supported higher beef prices, while pork and poultry prices have shown signs of decline.

Australian beef production and exports continue at record levels. Australian exports to the US reached 185,275 tonnes swt in May. If they continue at the same rate as experienced in 2014, they will reach the US quota level of 418,000 tonnes around November. Australian exports to the US of this volume have not been seen in the last 25 years.

The US dollar continues to perform strongly against the currencies of major beef-trading nations, assisting those countries exporting to the US, such as Canada, Mexico, Australia and New Zealand.
Feature

Indian export growth is slowing

India is a major player in the global bovine market. In 2014, it produced 4.1 million tonnes cwt and exported 2.1 million tonnes cwt, making it the fourth-largest producer and the world’s largest exporter (see Figure 1). Production and trade have been growing, and in 2014, Indian bovine meat exports recorded their highest export earnings, at USD 4.7 billion.

Despite record exports in 2014, the YOY growth in exports was slower. The average growth of exports from 2010 to 2013 was 30 percent per annum, compared to 11 percent growth in 2014. For the financial year (April to March) 2015, exports are expected to be at around 1.5 million tonnes (boneless), an increase of 7 percent over the previous financial year. 1

Production capacity

In the period between 2004 and 2009, the Indian bovine inventory saw large growth. Since 2009, with strong export demand, inventory levels have been declining, largely as a result of the reduction in the male buffalo population. The last livestock census (completed in 2012) showed a decline in the male bovine population of 4 percent from the previous census, while the female population increased. Indian bovine production is heavily dependent on the dairy buffalo herd.

While there have previously been schemes to encourage rearing male buffalo calves to increase the bovine production, these programmes have not been very successful. In addition, feeding costs also make it uncompetitive in the export market.

With the reduction of male buffalos in the national inventory, along with the lack of incentives to build the male rearing component, exports are expected to stabilise at a more conservative 8 percent to 10 percent growth rate in the near future, more reflective of the growth in female dairy herd. The slower export growth will also be influenced by challenges arising on the policy front, with the ruling government imposing bans on beef processing in some states.

India’s export markets

Driven by the export growth in the past five years, the industry has invested in infrastructure for export-oriented processing centres. India now has 53 abattoirs/processing plants approved for exports by ADEPA (the Agricultural and Processed Food Products Export Development Authority), compared to 37 in 2012.

India exported 662,373 tonnes of boneless meat to Vietnam in 2014, an increase of 24 percent over 2013, making it the largest export market (see Figure 2). It is believed that much of this meat is destined for the Chinese market—and with China clamping down on movement of bovine meat from Vietnam and Thailand, this poses a big risk to India’s future bovine industry. Despite India signing a memorandum of understanding (MoU) with China in 2013, no further progress has been made to get official access. With bovine meat a low priority for the new Indian government, the ability to access the Chinese market directly may be further delayed.

India has been successful in regaining access to Russia after being banned for phytosanitary reasons. Four meat processing plants were already approved, and six were on the verge of approval in late 2014.

India should continue to supply to global markets at similar levels and at a low cost, but the growth rate going forward could be much lower than what we have seen in the past five years. However, India needs to find more markets going forward in order to mitigate the volume slowdown risk from China.

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1 India uses a boneless classification for bovine meat. To convert to carcass weight, divide by 0.65.
Regional outlooks

**Australia: high supply continues, but prices hold firm**

Australian cattle prices remain near record highs, despite slaughter numbers also continuing in record territory. The Eastern Young Cattle Indicator (EYCI) averaged AUD 4.62/kg cwt for the two months of April and May 2015, 34.7 percent higher than the same two months in 2014 (see Figure 3). After dipping slightly throughout March and April, prices across all cattle classes improved in May.

Production levels continue to stay in record territory. For the first four months of 2015, cattle slaughter totalled 2.99 million head, 5 percent higher than the same period in 2014 and 25 percent higher than the five-year average. At this rate, slaughter numbers for 2015 could reach 9.5 million head. Despite continuing dry conditions across eastern states, the average beef production per head has increased, and for the first four months of 2015, it averaged 278 kg, compared to 275 kg in 2014. Total production increased 6 percent YOY, to 835,539 tonnes, for the first four months of 2015.

With higher production, exports were also up 9.6 percent YOY for the first five months of 2015. The US continues to be a strong market, up 50 percent YOY for the first five months of 2015, to 185,279 tonnes swt. At this rate, Australia will reach the 418,000 tonne quota later in 2015. Other strong markets include Japan (up 9 percent), Korea (up 4 percent) and Canada (up 43 percent).

Brazil: tight supplies are leading to stable prices

Live cattle prices remained quite stable in Brazil during the first five months of 2015. In May, the price hovered around BRL 148/15 kg, which is just 0.5 percent above January’s average. But compared to May 2014, prices are 15 percent higher (see Figure 4). With the advent of winter in Q3 — where pasture quality declines and the supply of finished cattle drops — beef prices are expected to remain firm for the remainder of 2015. The slowdown in the Brazilian economy, however, is having an impact on consumer incomes, and subsequently, wholesale prices are under pressure not to increase, reducing packers’ margins.

A low supply of finished cattle in Brazil is driving the high cattle prices. Slaughter was almost 10 percent lower in Q1 2015 YOY. This is a result of the drought in the last two years, which has led to lower cattle inventory, together with the preservation of cows in the herd in order to take advantage of high calf prices.

Brazilian beef supply is not expected to recover and grow until 2016, given the increase in rain and the expected good crop of calves arriving late in 2015.

Brazil obtained direct access to China in May. Eight Brazilian factories have been approved to export to China, and authorities anticipate that 17 additional factories will get permission during 2015. Part of the volume that Brazil currently exports to Hong Kong is believed to be destined for China, and therefore, official access may only see a substitution of this volume from Hong Kong to China, rather than a short-term growth in exports. It is expected that an announcement on the opening of the US markets for Brazilian fresh beef will occur soon. Providing approved access would not only open up a new export market; it also has the potential to improve the reputation of Brazilian beef in global trade, leading to further export market opportunities.
Canada: tight cattle supplies are driving prices higher

Canada’s cattle industry is very similar to where the US market was in 2014. Cattle supplies have tightened, driving cattle prices up substantially compared to a year ago. But this combination of tight cattle supplies and substantially higher prices is causing problems for margin operators. Feeder cattle supplies in Canada have been drained from aggressive shipments to the US, driven by high prices and further compounded with the strength of the US dollar. Adding to already tight cattle supplies and strong export demand is new heifer retention, which is only placing additional demand on already tight supplies.

Largely due to declining replacement cattle supplies and high prices, Canadian cattle on feed numbers have been running roughly 10 percent below a year ago YTD (January to June), and there are expectations for additional declines in placements, which will further inhibit fed cattle supplies.

For the YTD, Canadian shipments of feeder cattle to the US are down 1 percent from a year earlier, shipments of fed cattle are down 47 percent, slaughter cows down 9 percent, and shipments of breeding females are 63 percent below year-ago levels.

Currently, fed steer prices in Canada are holding at CAD 200/CWT, compared to CAD 154/CWT at the same point a year ago (see Figure 5). 500-pound to 550-pound calves are currently selling for CAD 325/CWT, compared to CAD 236/CWT a year ago, with cull cows CAD 147/CWT, compared to CAD 109/CWT a year ago. Fed cattle prices are expected to remain strong and improve seasonally. Feeder cattle and calf prices are expected to post additional gains, while breeding female prices are expected to have strong price increases.

China: weaker demand, but prices are stable

In the first two quarters of 2015, China’s beef prices have been stable. The average retail price was CNY 63/kg in May, levelling off compared with the same period in 2014 (see Figure 6). Driven by the slower economy, the overall meat market demand is lower than in previous years. But tighter supplies of beef have supported the higher prices, while pork and poultry prices have decreased. In Q3, beef prices are likely to remain stable, as supply-and-demand fundamentals are expected to remain unchanged.

China’s beef imports reached 106.3 thousand tonnes for the period from January to April 2015, an increase of 5.32 percent on the same period last year. Australia remained the biggest beef supplier to China despite volume falling 26 percent YOY. Uruguay, the second-largest supplier, experienced strong growth, with volume rising by 39 percent YOY, to 33,000 tonnes in the first four months of 2015. Imports from Argentina increased by 202 percent, from 4,000 tonnes in the first four months of 2014 to 12,000 tonnes in 2015.

On 21 May, China lifted the ban on Brazilian beef. Eight beef processing factories and one poultry plant have been approved to export to China. Brazil has been an important supplier to China, and before the ban, China imported USD 37 million of Brazilian beef each year. In 2014, exports from Brazil to Hong Kong—most of which are believed to go to mainland China—were above USD 1.5 billion. While it is not expected that the total trade from Brazil to China and Hong Kong will increase in the short term, following the policy change, the channels of Brazil’s exports are expected to shift from Hong Kong to China.
EU: strong exports are supporting cattle prices

After increasing towards the end of Q1, prime beef prices came under pressure in Q2, due to lacklustre domestic demand and increasing supply across the EU (see Figure 7).

EU slaughter numbers increased 4.2 percent YOY in Q1 2015, and bullock and bull slaughter numbers surged, with a MOM increase of 6 percent in January to 20 percent in February and 39 percent in March.

Strong global demand and high prices, together with a depreciation of the euro against the US dollar, supported strong export growth. Exports in Q1 grew 18.3 percent YOY, to 133,000 tonnes cwe, despite the negative impact of the Russian ban, which resulted in a decline of exports by 94 percent, to 1,344 tonnes cwe YOY. Export volumes to other countries rose, including Lebanon (+6,138 tonnes cwe), Turkey (+5,970 tonnes cwe) and Hong Kong (+4,700 tonnes cwe).

In Q1 2015, low dairy prices, together with the high out-of-quota production, which attracts an additional levy, led dairy farmers to cull large numbers of dairy cows, with slaughter increasing 23.9 percent in Q1 2015 YOY. At the same time, in preparation for the after quota period with unlimited production opportunities, producers are retaining heifers for future milk production. Heifer slaughter declined 50 percent in Q1 YOY.

For 2H 2015, the EU beef market is expected to stabilise. Declining production in Ireland and the UK (where 2015 production is forecast to drop 7 percent and 2 percent, respectively, YOY) is expected to be offset by production growth on the mainland, mainly in the Netherlands (+7 percent), France (+5 percent) and Italy (+3 percent). In the longer term, EU beef production will slightly increase, with both the dairy and suckler (beef) herd expanding by 0.4 percent and 1.4 percent, respectively, YOY.

Indonesia: prices are firm in the lead-up to Ramadan

The Indonesian Q2 live cattle import quota of 250,000 head was extended by an additional 28,000 head to manage the expected increase in demand driven by the Ramadan festival, which started in June and runs through mid-July. BULOK (an Indonesian state-owned enterprise) has also received a quota to import 1,000 tonnes of beef during the Ramadan month. The Q2 live cattle quota was a huge increase of 175 percent on the Q1 quota, which was much lower than the 2014 Q1 quota. Total imports for 1H 2015 are estimated to be 376,000 head, similar to levels received in 1H 2014. It is expected that Q3 quota will be similar to 2014, which was 167,000 head.

Wholesale prices started rising in April, driven by lower supplies at the end of Q1. In mid-June, prices were 2.3 percent higher than the average price in Q1. Prices have been relatively stable for the months August 2014 to April 2015; however, driven by Ramadan, demand prices tend to increase during July. The average price in Q1 2015 was 3 percent higher YOY, and it is expected that prices in Q2 could remain 4 percent higher than the previous year. It is not expected that price rises will be as severe as seen in the past, given import numbers are now similar to 2014 levels, and demand is sluggish; however, concern does remain regarding timely availability in the market, given the lower imports of live cattle in Q1.

The Indonesian rupiah has depreciated by almost 4 percent against the US dollar since the beginning of May 2015, impacting importers and general consumer purchasing power. With wholesale beef prices not expected to rise as rapidly in the past, currency movements will put pressure back on importers and feedlot players. In addition, despite the exchange rate with the Australian dollar remaining relatively stable since January, increasing cattle prices in Australia will put further pressure on importers and feedloters.
Mexico: US market driving exports and prices

Despite tight Mexican cattle supply, a strong US market is driving cattle exports and export prices. Mexican cattle exports for January to May reached 540,000 head, up from 472,000 head for the same period last year. They are anticipated to reach 1.2 million head in 2015, an increase of 6 percent on 2014. This may increase even further if the controversial Country of Origin Labelling (COOL) measure is removed by the US Congress.

Cattle prices increased 40 percent between June 2014 and June 2015. On the other hand, beef carcass prices have been relatively bearish, declining 5 percent YOY, reflecting the inability of packers to transfer high cattle prices to the domestic retail beef prices, as domestic demand remains relatively lethargic (see Figure 9). Packers have not only been able to find relief, but also a profitable market abroad, with Mexican beef exports increasing 29 percent—from 54,689 tonnes in the first five months of 2014 to 70,780 tonnes in 2015. This rate of growth is anticipated to continue through the rest of the year and break 150,000 tonnes at the end of the year. At the same time, imports declined 16 percent YOY for the year to May, reaching 70,000 tonnes, and they are expected to remain sluggish in the second half of the year.

Per capita beef consumption is anticipated to pick up modestly during the second half of the year, given pork and chicken prices are anticipated to increase due to the porcine epidemic diarrhoea virus (PED) and avian influenza (AI). This recovery will partially offset the lower consumption growth of the past six months. At the end of 2015, per capita consumption is expected to be at 14.8 kg, slightly below the 14.9 kg seen in 2014.

In early June, Mexico sought authorisation from the World Trade Organization (WTO) to impose USD 653 million/year in retaliatory tariffs on US products due to the Country of Origin Labelling (COOL).

New Zealand: prices are easing, but are still ahead of last year

High domestic slaughter levels, as well as continued strong competition in export markets by Australia, has put downward pressure on farmgate and export returns during Q2 of 2015, although returns still remain ahead of year-ago levels.

North Island bull prices fluctuated between NZD 5.25/kg cwt and NZD 5.65/kg cwt during Q2. In the second week of June, prices were averaging NZD 5.40/kg cwt, 30 percent higher than the same week last year (see Figure 10).

Prices have largely been influenced by strong cattle slaughter, which for the processing year (October-April) sits 11 percent higher YOY, at 1.64 million head. The overall increase has been underpinned by surging cow processing volumes (645,165 head), 25 percent higher over the same period. As Q2 brings the largest processing volumes, Q3 should see a sharp contraction in supply, which will support higher farmgate and export prices.

Exports to the US continue to dominate overall shipments, with April exports reaching 21,451 tonnes swt, up 3 percent YOY. Total exports were steady compared to April last year, at just under 40,000 tonnes swt, with volumes YTD (January-April) up 8 percent YOY, to 177,344 tonnes swt.

Imported US beef prices still remain heavily discounted compared to domestic US prices (~USc 80/lb), due to the large volumes of beef available from New Zealand and Australia. Imported 90CL prices in the first week of June averaged USD 2.16/lb, 7 percent higher YOY. Due to an appreciating USD/NZD exchange rate, this equates to a 29 percent increase YOY in NZ dollar terms. The spread between domestic and imported prices should narrow as New Zealand supply tightens moving into Q3, providing upward pressure on New Zealand farmgate prices.

Figure 9: Mexican cattle and beef prices, 2014-2015

![Figure 9: Mexican cattle and beef prices, 2014-2015](image)

Source: GCMA, 2015

Figure 10: New Zealand farmgate and US imported prices, 2013-2015

![Figure 10: New Zealand farmgate and US imported prices, 2013-2015](image)

Source: Steiner Consulting Group, Rabobank, 2015
**US: cattle prices are in a state of transition**

US fed cattle prices are in a state of seasonal transition. Prices eroded, from a spring high of USD 170/CWT to USD 155/CWT in early June (see Figure 11). At the same time, the market is starting to give increased consideration to the limited availability of market-ready cattle for the second half of the year. Fed cattle prices are expected to find a summer low in the USD 150/CWT to USD 155/CWT range, and they are currently expected to recover into the mid- to high USD 160/CWT range later in the year.

The CME Feeder Index is currently trading in a range of USD 222/CWT to USD 225/CWT. Prices continue to be supported from tight availability, and aggressive heifer retention is only further tightening the available supply of feeder cattle. Record-breaking rains across the centre of the US grazing area are allowing producers to retain cattle on grass. Early grain crop progress suggests the US will have an ample to excess feed supply, further supporting the market. Feeder cattle prices are expected to trade seasonally higher through the summer, reaching a seasonal peak in the August-to-September period in the USD 240/CWT price area.

Replacement female prices continue to hold exceptional levels. Replacement cows continue to be in stronger demand than bred heifers. Prices for bred cows continue to hold a mid-price range of USD 3,000 to USD 3,500 per head. Bred heifer prices are reported in a range of USD 2,500 to USD 3,000 per head.

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**Figure 11: Western Kansas steer price, Jan 2014–Mar 2015**

USD/CWT

Source: USDA, Rabobank, 2015
**Figure 12: Rabobank 7 Nation Finished Cattle Price Index Jan 2009 - Jan 2015**

Index, Jan 2006=100

Source: Rabobank, 2014

**Figure 13: Index exchange rate development against USD, Jun 2014 - Jun 2015**

Index, Jan 2014=100

Source: OANDA, 2014

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