



Economic Report

In focus: Queensland beef industry outlook

Phin Ziebell, NAB Agribusiness Economist



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.

Contents

Industry trends – 2014	3
Beef exports	4
Climatic conditions	5
Outlook for 2015	6

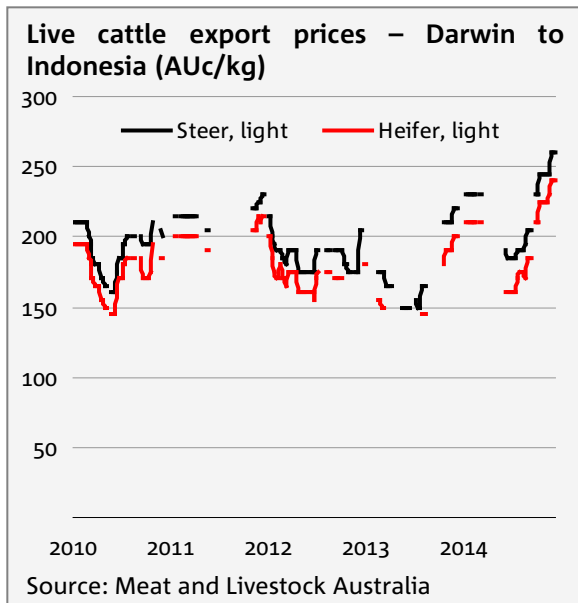
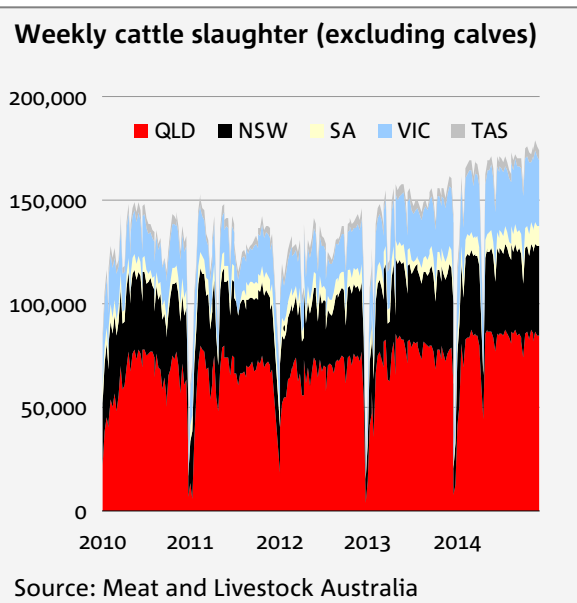
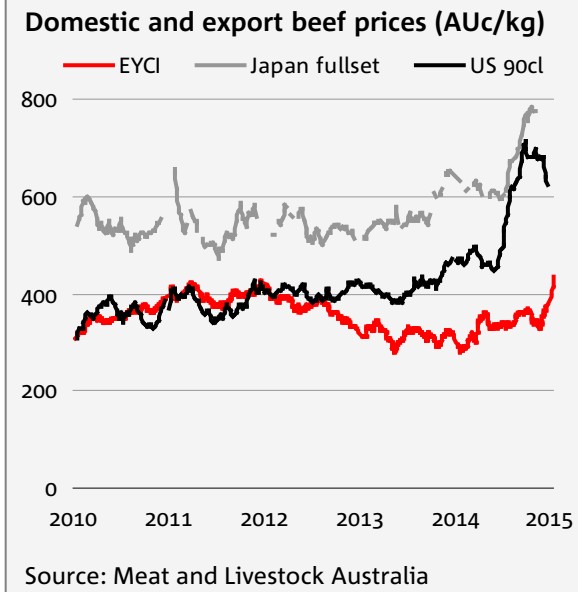
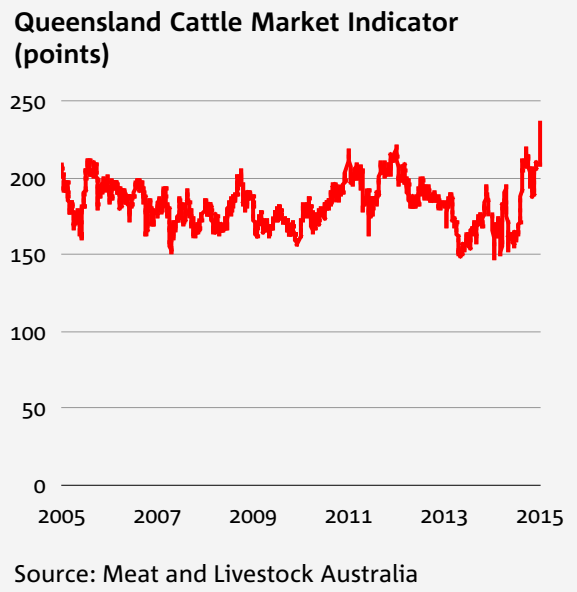


Industry trends - 2014

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.

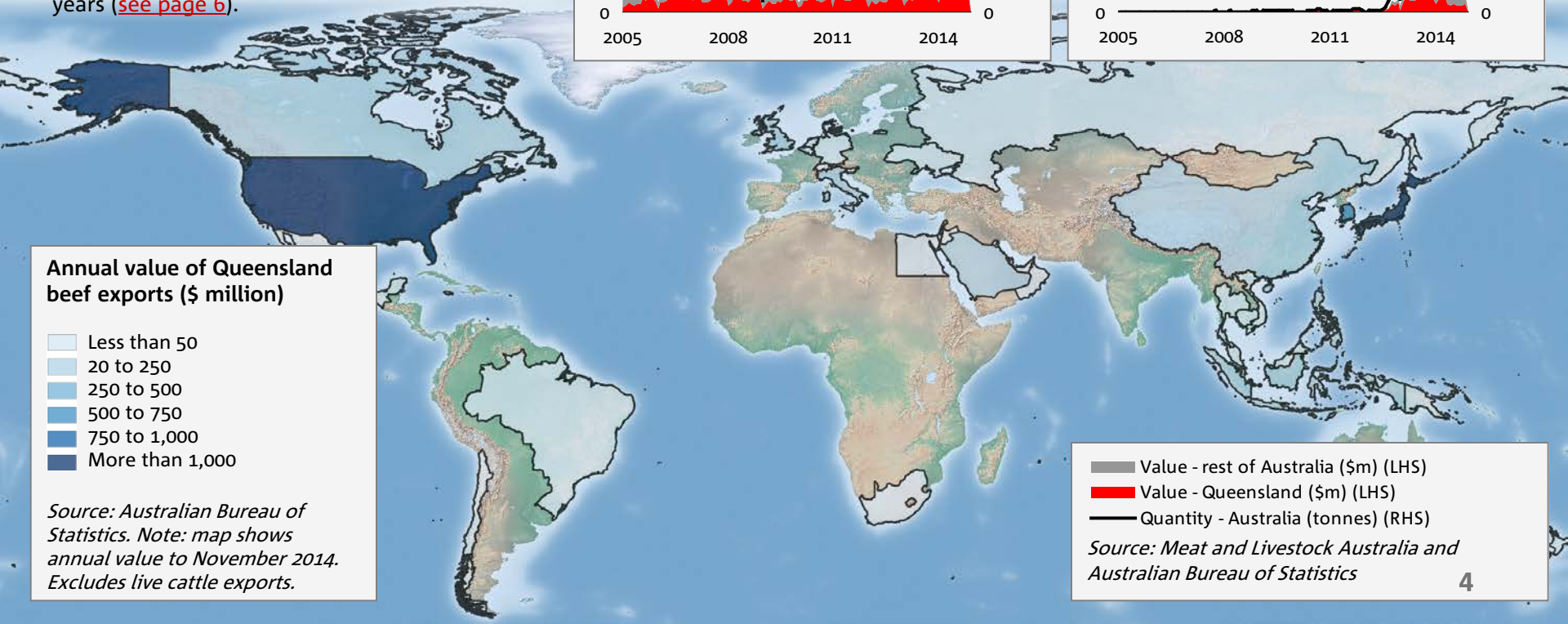
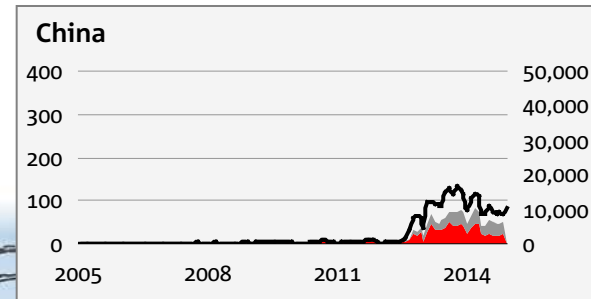
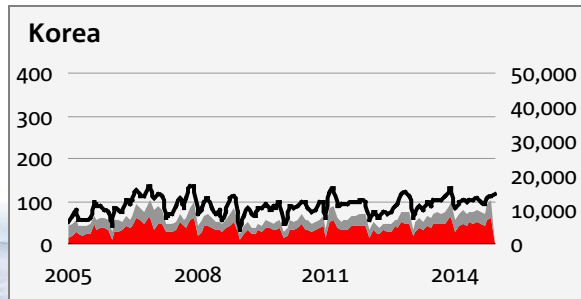
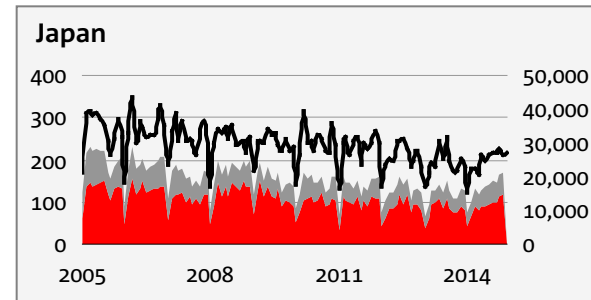
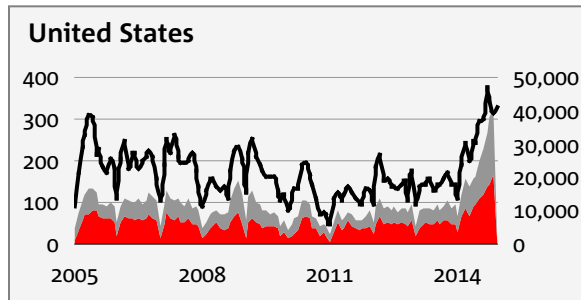
Much of this extra supply was sent overseas as chilled and frozen beef, in particular to the US (see [page 4](#)). Live cattle exports also performed well, with Asia becoming an increasingly important market.



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](#)).



Annual value of Queensland beef exports (\$ million)

- Less than 50
- 20 to 250
- 250 to 500
- 500 to 750
- 750 to 1,000
- More than 1,000

Source: Australian Bureau of Statistics. Note: map shows annual value to November 2014. Excludes live cattle exports.

- Value - rest of Australia (\$m) (LHS)
- Value - Queensland (\$m) (LHS)
- Quantity - Australia (tonnes) (RHS)

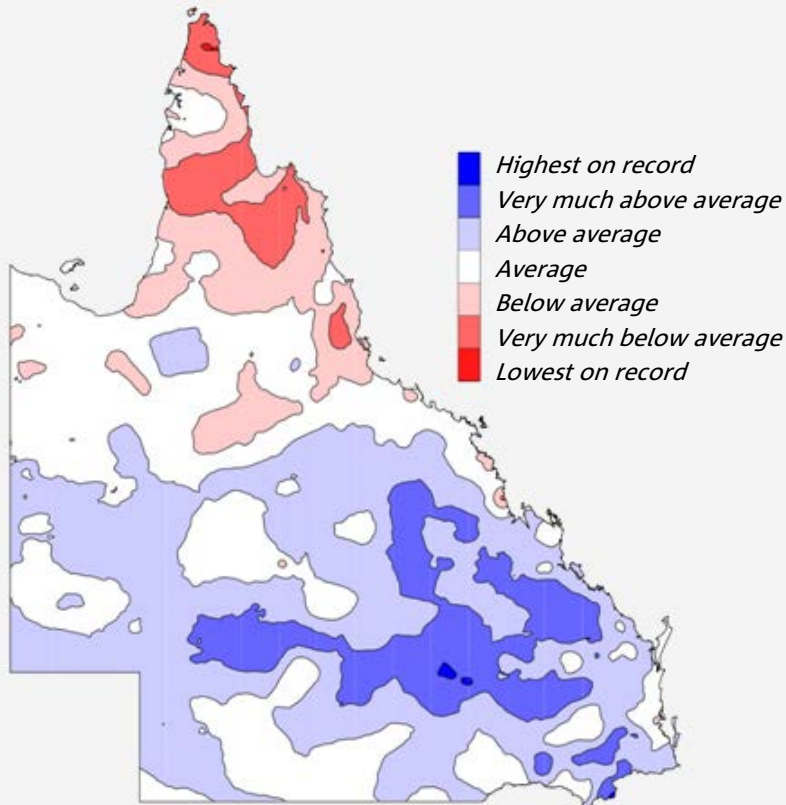
Source: Meat and Livestock Australia and Australian Bureau of Statistics

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.

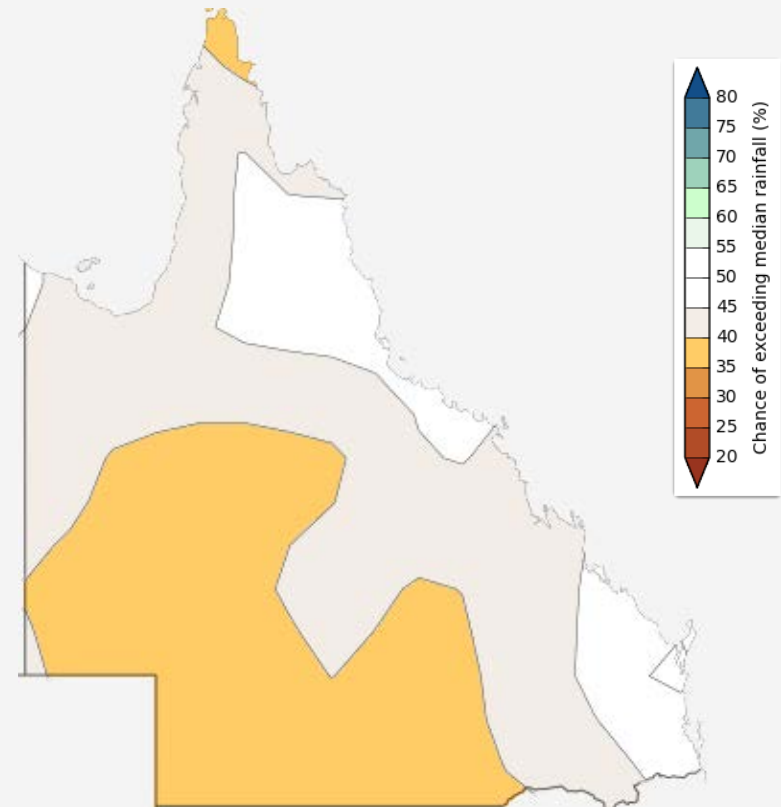
However, the Bureau of Meteorology's rainfall outlook February to April 2015 shows below average rainfall forecast for most of Queensland. In particular, much of south west Queensland is forecast to have a less than 40% chance of exceeding median rainfall over the period.

Rainfall deciles – December 2014



Source: Bureau of Meteorology

Rainfall outlook – February to April 2015



Source: Bureau of Meteorology

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 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.

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.

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.

*Geoff Howard
Regional Agribusiness Manager
Townsville, Queensland*

Contact details

Agribusiness

Khan Horne
General Manager –
Agribusiness

Zaklina Kukeski
Senior Consultant
+61 (0) 439 255 981

Economic Research

Alan Oster
Chief Economist
+61 3 8634 2927

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

Risk Management Services

Greg Noonan
Head of Agribusiness
& Health – Business
Markets
Specialised Sales
+61 (0) 477 717 607

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.