

SUMMARY – BEEF MARKET

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IN FOCUS

- Coverage of the global beef trade tends to focus on North and South America and Oceania, but is India another Brazil in the making?

INDIAN BEEF EXPORTS

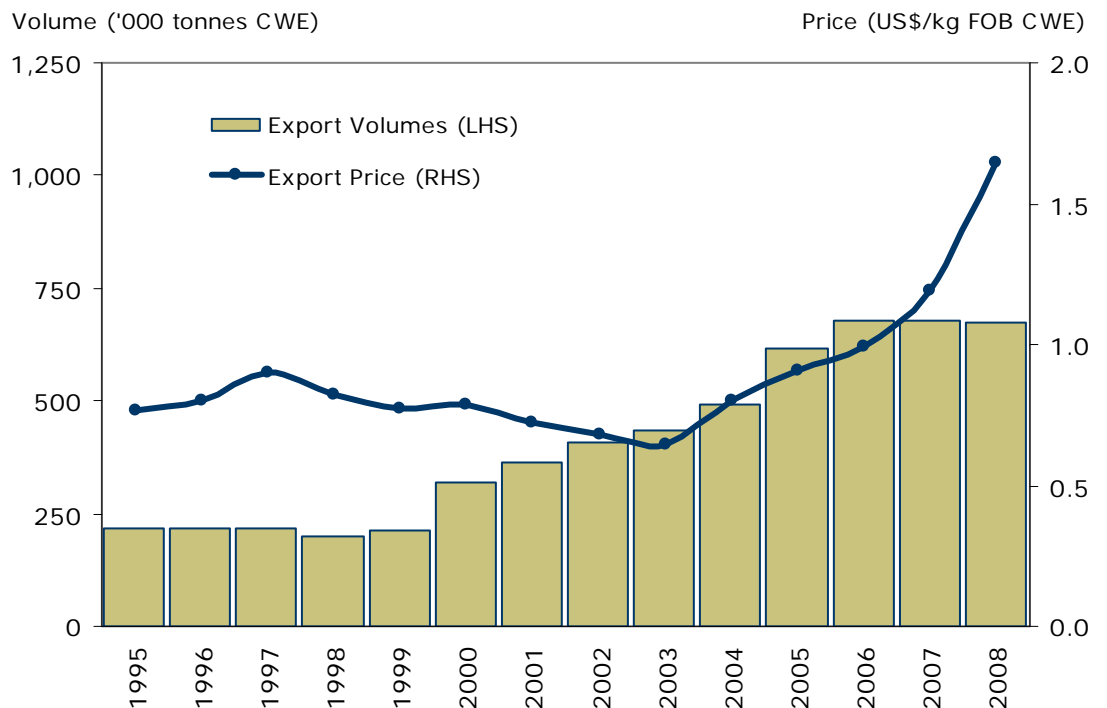
- Since the turn of the millennium, India has shown a remarkable ability to grow beef export volumes.
- In total, Vietnam, the Philippines and Malaysia imported around 40% of all Indian beef exports in recent years.

AUSTRALIAN MARKET

- Indonesia has become an increasingly important market for Australia.
- Indonesia is planning to commence Brazilian beef imports, with the precedent to import beef from Foot and Mouth Disease (FMD) free zones within a FMD-declared country.

FIGURE 1. THE CHEAPEST SOURCE OF RED MEAT PROTEIN IN THE WORLD

Indian Beef Exports



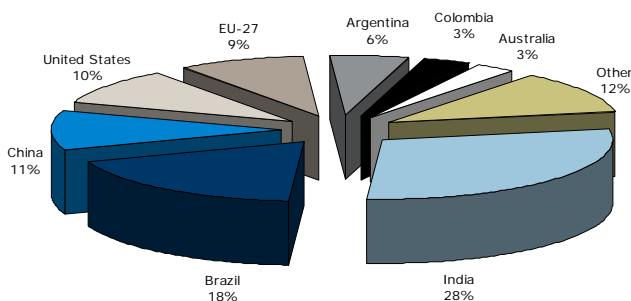
Beef Market

Coverage of the global beef trade tends to focus on North and South America and Oceania, but is India another Brazil in the making? In this report we look at India's existing and future prospects for beef production and exports; and some latest trade developments relevant to Australia.

INDIAN CATTLE INDUSTRY

India has by far the largest cattle¹ herd in the world. Indian cattle numbers have been relatively stable in recent years, at 280 million head, representing around 30% of the global cattle inventory. The size of the Indian herd is that of Brazil's and USA's combined (Figure 2).

Figure 2. Global cattle inventory



However, it is not only the size of the Indian cattle herd that makes this market interesting from a supply perspective. The composition of the herd is unique, reflecting historical and cultural differences to other major exporting beef countries.

India's cattle herd consists of a mix of low productivity native cows used for dairy production and buffalo, with India estimated to have nearly 60% of the world's buffalo population.

A combination of Hinduism being the predominant religious tradition in South Asia and a large number of the rural population still below the poverty line, explains why buffalo features so predominately in India's livestock population.

Bos indicus and *Bos taurus*² cow slaughter is banned in most states with minimal consumption due to religious beliefs. But there are no such restrictions on buffalo, providing almost one third of the country's population living below the poverty line (marginal farmers) with a cheap protein source (meat and milk) and a draft animal for field work.

¹ Throughout this report the terms 'cattle' and 'beef' includes buffalo and buffalo meat (carabeef) respectively.

² Domestic cattle (*Bos indicus* and *Bos taurus*) and buffalo (*Bubalus bubalis*) are from the same Bovine subfamily but are different species.

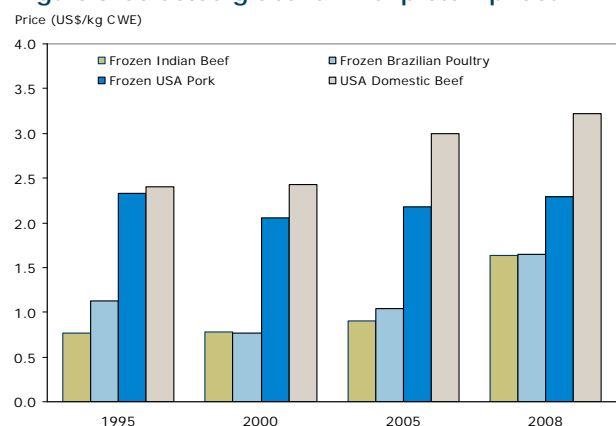
INDIAN BEEF EXPORTS

Since the turn of the millennium, India has shown a remarkable ability to grow beef export volumes. On the demand side, this is not surprising given Indian beef exports are supplying world markets with one of the cheapest animal protein sources in the world (Figures 1 & 3).

Indian beef exports are almost exclusively buffalo meat and since 1999 have grown from 220,000 tonnes carcass weight equivalent (CWE) to 675,000 tonnes in 2008, a 205% increase. Export volumes of Indian beef have been static since 2006 at around the 670-680,000 tonne mark and 2010 export volumes are expected to remain at the upper end of this narrow range.

The top 10 destinations of Indian beef account for 80% of total volumes. All major destinations are in the price sensitive markets in South East Asia, the Middle East and Africa. Combined, Vietnam, the Philippines and Malaysia imported around 40% of all Indian beef exports in 2008, while Egypt, Kuwait, Saudi Arabia, UAE and Jordan as a group accounted for a further 28% or 190,000 tonnes.

Figure 3. Selected global animal protein prices



Note: Frozen prices are on a FOB export basis.

FUTURE POTENTIAL

Over the last 5 years India's cattle herd has declined marginally (<1%), but masks an underlying trend of increases in the buffalo herd at the expense of *Bos* cattle breeds.

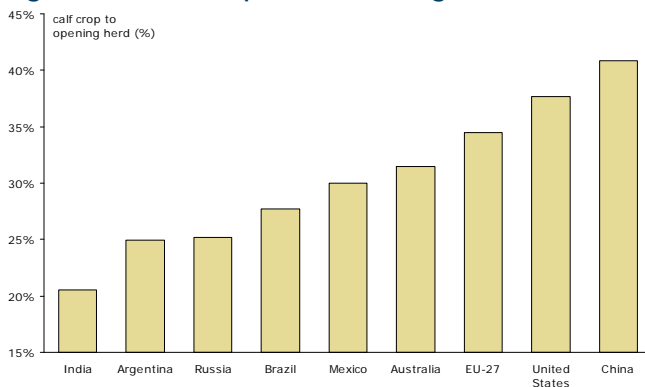
At the same time, official figures indicate that the annual calf crop has increased by 3.5% over the last 5 years. In terms of the number of calves produced relative to the size of the herd, Indian cattle productivity lags significantly behind every other major beef producing country (Figure 4).

Beef Market

India's annual calf crop represents just 20% of total inventory numbers, well below ratios achieved in South America, Australia, or Russia.

Does this indicate potential upside to India's output over the medium term? Inherent in the buffalo breed is a considerable difference in reproductive performance to *Bos* cattle that is unlikely to be rectified through breeding or better nutrition. The breed has a later maturity date (time of first calving) and a longer dry period between calving. This issue, plus others like the fragmentation in the industry (average herd size is 4 cows) is likely to limit any significant upside in production from additional calf numbers for the foreseeable future.

Figure 4. Productive performance of global cattle herds



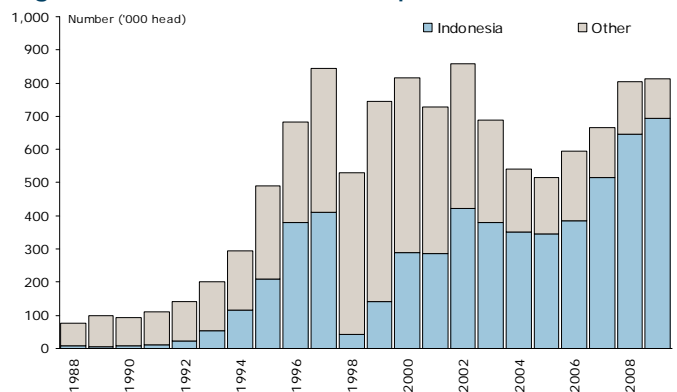
On the demand side, the two major untapped markets for Indian beef are Indonesia and Russia. Both countries to date have maintained import bans on Indian beef on animal disease concerns. India's current FMD status as reported by the World Organisation of Animal Health is "Disease limited to one or more zones". The government has implemented programs in recent years to create FMD free zones for the major beef export regions.

AUSTRALIAN MARKET

In recent years Indonesia has become an increasingly important live cattle and beef market for Australia.

From 2001 to 2006, Australian frozen beef exports hovered around 10,000 tonnes shipped weight, but in the last 3 years volumes have exploded, and for calendar year 2009 reached 52,000 tonnes. The growth story is equally impressive for the live cattle market from Australia to Indonesia. In 2009, nearly 700,000 head of cattle were exported live, up 100% or 350,000 head compared with 2004/05.

Figure 5. Australian Live Cattle Exports



Note: Live cattle exports from WA, NT and Queensland.

The most recent development in Indonesia relating to market access are reports of easing restrictions by the government on Brazilian beef imports. While this has been talked about for a number of years, latest media reports indicate that the Indonesian government had applied to the WTO to be allowed to choose beef import sources by zone, not by country. This has reported to have been approved with the Indonesian Agricultural Minister stating in December 2009 that they will sign a decree to legalise beef imports from Brazil.

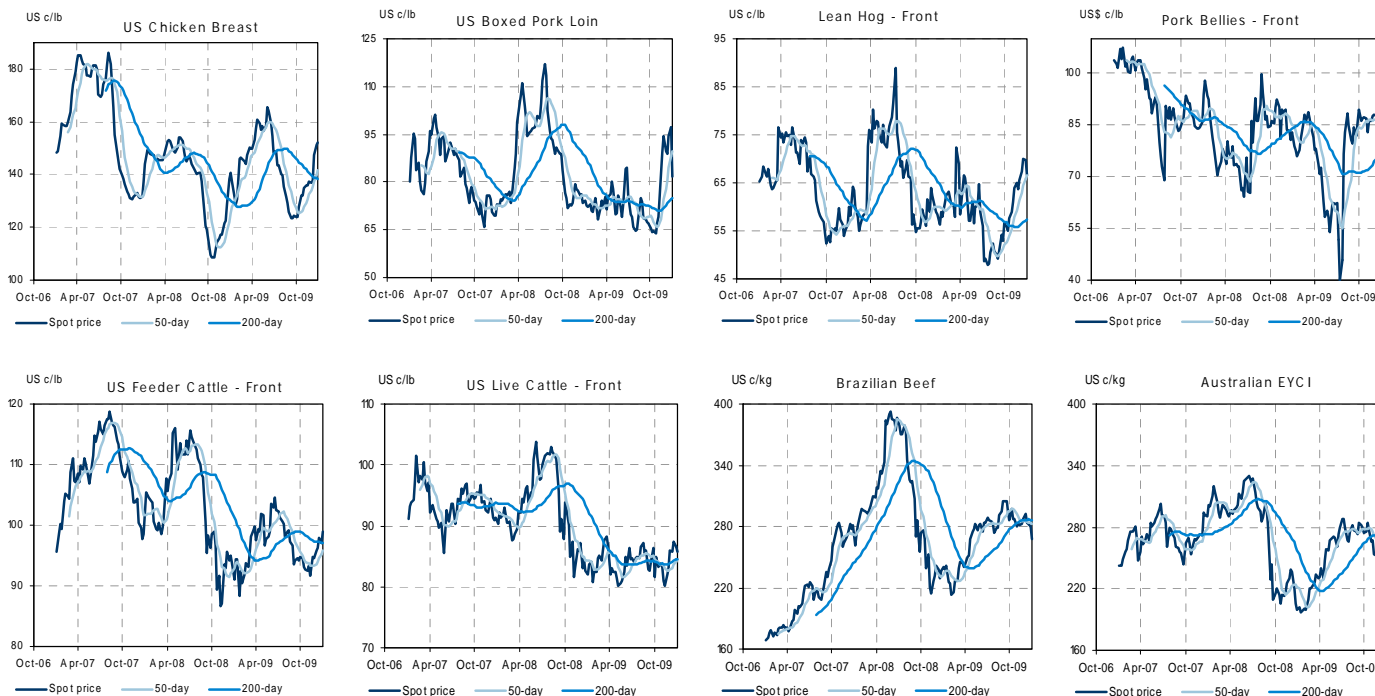
While Brazilian beef is likely to displace some Australian and New Zealand beef when imports eventually commence, Brazilian beef is not the threat it once was. Up until 2007, Brazilian cattle prices traded at a heavy discount to Australian and US cattle prices, but after rising strongly in 2007 have continued to trade near global export parity.

In terms of the potential for Indian beef to gain access into Indonesia, it is worth remembering that this threat to the Australian beef industry has existed for over a decade, and so predicting if and/or when Indonesia changes its policy on this issue is fraught with danger. However, given Indonesia has moved to select beef imports by zone rather than country, the precedent in deciding to import beef from FMD free zones within a FMD-declared country has been set.

If the objective of increase competition and lower beef prices for consumers, by allowing Brazilian beef into the Indonesian market, fails, this may once again open the door for Indonesia to look at Indian beef imports.

Beef Market

PRICE TRENDS



	Last	1 Wk	1 Mth	3 Mth	12 Mth
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USA Protein (US\$ c/lb)

	Last	1 Wk	1 Mth	3 Mth	12 Mth
Chicken Breast	154	2%	12%	24%	11%
RTC Whole Chicken	83	0%	1%	1%	-5%
Chicken Thighs	93	1%	-4%	1%	-20%
Chicken Wings	176	0%	7%	15%	21%
Pork Carcase	68	-12%	0%	16%	17%
Pork Loin	77	-21%	-18%	17%	5%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
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CME Hog (US\$ c/lb)

	Last	1 Wk	1 Mth	3 Mth	12 Mth
Lean Hog - Front	64	-8%	1%	14%	9%
Lean Hog - 2nd	66	-8%	-3%	4%	3%
Lean Hog - 4th	75	-6%	-3%	4%	-1%
Pork Bellies - Front	81	-7%	-8%	-10%	0%
Pork Bellies - 2nd	80	-7%	-8%	-8%	-2%
Pork Bellies - 4th	86	-6%	-4%	-5%	2%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
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Oceania Beef (cwt c/kg)

	Last	1 Wk	1 Mth	3 Mth	12 Mth
NZ Bull (NZ\$)	293	2%	0%	6%	-13%
NZ Steer (NZ\$)	311	1%	-1%	2%	-10%
Aust EYCI (A\$)	324	1%	14%	6%	4%
NZ Bull (US\$)	207	1%	0%	4%	17%
NZ Steer (US\$)	219	0%	-1%	0%	20%
Aust EYCI (US\$)	285	-2%	14%	4%	39%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
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USA Beef (US c/lb)

	Last	1 Wk	1 Mth	3 Mth	12 Mth
Spot Live Steer	85	1%	3%	-1%	4%
Spot Dressed Steer	136	-2%	3%	1%	3%
Boxed Cutout	140	-2%	1%	0%	-5%
Boxed Loin	181	-3%	-5%	-1%	-4%
Boxed Rib	205	0%	0%	-9%	5%
Boxed Chuck	122	-2%	6%	6%	-9%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
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CME Cattle (US\$ c/lb)

	Last	1 Wk	1 Mth	3 Mth	12 Mth
Feeder - Front	98	1%	3%	3%	5%
Feeder - 2nd	100	0%	6%	5%	8%
Feeder - 4th	102	1%	6%	6%	7%
Live - Front	85	-1%	3%	5%	3%
Live - 2nd	89	-2%	5%	4%	4%
Live - 4th	87	-1%	1%	-2%	3%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
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Currency

	Last	1 Wk	1 Mth	3 Mth	12 Mth
USD Index	80	1%	2%	4%	-8%
AUD/USD	0.88	-2%	0%	-2%	35%
NZD/USD	0.71	-1%	0%	-2%	33%
BRL/USD	0.54	-1%	-5%	-5%	26%
ARG/USD	0.15	0%	-1%	0%	-25%
INR/USD	0.02	0%	1%	2%	6%

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