



Rabobank

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Record global supplies to challenge beef prices in 2017

Increasing global beef supplies are exerting downward pressure on global beef prices, with this trend expected to continue into 2017, according to Rabobank's latest beef outlook.

In its recently-released **Beef Quarterly** report, Rabobank says the global beef market will continue to grow in 2017, led by strong growth out of Brazil, Argentina and the US.

This is likely to keep global prices low, the report says, identifying four key developments that will influence global beef trade in the coming year.

Report co-author Rabobank animal proteins analyst Matthew Costello says softening global prices are likely to challenge New Zealand beef prices.

"In the coming months, New Zealand cattle prices will be largely influenced by how quickly domestic cattle supplies come on-line," he says. "However we expect New Zealand farmgate prices to come under increasing pressure as we move further into 2017.

"This is largely due to the expected increase in US beef production, pegged to be up by three per cent in 2017, which will soften US demand for New Zealand beef.

"The US election result will also have an impact, albeit in the medium to longer-term, as any chance of the Trans-Pacific Partnership agreement being approved is now unlikely – which would give Australian beef exports to Japan more than a 10 per cent tariff advantage over New Zealand beef."

Mr Costello says despite these factors exerting some pressure on New Zealand beef prices, prices are likely to remain well-above historical averages.

"While there will be downward pressure on beef prices, we are forecasting a restriction in domestic beef production as the New Zealand herd recovers from liquidation," he says, "and this will help limit any potential downside for prices."

Another factor which will support prices for New Zealand beef, Mr Costello says, is the low beef supply forecast out of Australia in coming years.

"The Australian cattle herd is at 20 year lows as producers rebuild their herds," he says. "As a result there is going to be a lot less Australian beef produced and exported over the next few years, and this will help reduce competition for New Zealand beef in export markets.

"These factors should ensure New Zealand farmgate prices stay above the five-year average in 2017."

Four key developments impacting beef markets



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The report identifies four key developments that are expected to have the biggest influence on the direction of beef markets heading into 2017; South American growth, space in the US market, China's demand and demand growth in South East Asia.

"On balance, these developments will see the global beef prices remain low in 2017, with the capacity of the market to balance this growth in supply relying heavily on demand out of Asia," Mr Costello says.

Mr Costello says much of the expected increase in global beef supply will come out of South America, which will continue increasing its presence and cost competitiveness in global markets next year.

"Beef supply in both Brazil and Argentina is forecast to rise after several months of female retention to increase calf production, which is likely to lead to a stronger export program out of both countries in 2017," he says.

A further key factor is competition for space in the US market, Mr Costello says, not only for importing countries but also domestically-produced competing proteins.

"Domestic beef production in the US is forecast to increase, while continued competition from other proteins will also limit the upside to beef prices," he says. "The willingness of the US consumer to absorb this volume will have ramifications across global beef markets."

The report says China's import demand is another key factor which will shape global beef trade in 2017.

"China is absorbing a large portion of additional global supply and lower domestic beef production will see imports continue to increase. However, demand growth is expected to slow in certain segments of the Chinese market as a result of weak economic conditions," Mr Costello says.

The report identifies demand out of South East Asia as the fourth key influence on beef trade moving into next year.

"South East Asian demand for beef is growing rapidly," Mr Costello says, "although generally speaking consumers are price sensitive and as a result have relied on domestic cattle, live imported cattle and imported bovine from India.

"India's ability to supply these growing number of consumers and compete directly with exporters will heavily influence demand out of the South East Asian region."

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Media contacts:

David Johnston
Marketing & Media Relations Manager
Rabobank New Zealand
Phone: 04 819 2711 or
027 477 8153
Email: david.johnston@rabobank.com

Skye Ward
Media Relations Manager
Rabobank Australia & New Zealand
Phone: +61 2 48551111 or
+61 4 18216103
Email: skye.ward@rabobank.com