# Kiwi beef market outlook strong

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LOWER beef production will be the ally of farmgate returns over the next few years.

Farm gate prices in New Zealand were still among the highest in the world, even if off the peaks of 2014, but the high pricing could not be sustained in the medium to longer term, Rabobank animal protein analyst Matt Costello said.

Prices would settle at above historic averages and reduced supply would still leave NZ in a strong spot in premium markets.

> *For the US imported beef price we don't see a lot of upside.*

The industry would be competing against record levels of world beef production in the period to 2020 as well as from plentiful supply of lower-cost proteins such as pork and poultry, Sydney-based Costello said in his report on the Australian and NZ outlook beyond the price peak.

Australian production was expected to be well down over the next few years as farmers rebuilt herds after heavy climate-induced culling over the past three years.

The rebuilding could even be slower than earlier expected because some producers might look to cash-in on the high Australian cattle prices and because it was NZ's major competitor in premium markets that would also benefit NZ pricing.

Australia's annual fall in exports was expected to be not far short of equalling NZ's total yearly production and would partly offset increased production in the United States and Brazil, the two biggest beef producers, and Argentina.

Six factors would influence farmgate returns, Costello said.

They were lower domestic production, record global production, increased competition from cheaper proteins, China's role in global trade, market access and currency.

The influences were listed in order of importance with the proviso currency was a critical component but one that Rabobank did not give a guide on. When the report was written the NZ dollar was at US$0.72.

"If it depreciates significantly you're looking at higher returns but on the flip side if it stays high then you're not."

Some of the developments would provide headwinds in what was an underlying positive outlook.

NZ's big dairy herd cull meant it had benefited from the spike in US manufactured beef prices in 2014-15 but production would return to more traditional levels in coming seasons.

That would coincide with world production increasing. Rabobank forecast a five-million tonne increase out to 2020 compared to 2015 production levels.

Of that, about 1.5m tonnes would to go on the export market, most of it destined for China and other emerging markets.

Chinese demand was expected to outstrip domestic supply by 1.5m to 2m tonnes so it had the potential to absorb all the extra beef going on to the market.

The US remained the biggest market for NZ – a large part of every animal went there as manufacturing beef – and as the biggest producer as well was the main reason for the cautious part of Rabobank's outlook.

**BALANCE: A fall in Australian beef production is likely to be the same size as New Zealand's entire production, Rabobank analyst Matt Costello says.**

The rebuild of the US beef herd had probably happened a bit quicker than expected and more product was coming on stream.

"For the US imported beef price we don't see a lot of upside. There's also a lot of pork and poultry supply as well so there are a lot of options for US consumers and that's a challenge for producers."

Among beef producers, Brazil was more of a potential threat. It had new approval for the US market but not yet at a significant level.

However, it provided a cheaper product and the US access might set the precedent for growth and improved access into other markets.

The major issue for NZ and Australia was the advantage they had as disease-free suppliers was diminishing as the differentiation between suppliers eased given the increased competition into some export markets.

NZ had to keep working hard staying ahead of the competition through free-trade agreements and the removal of technical trade barriers.

FTAs with China and South Korea would provide great benefits out to 2020 but in high-price, high-tariff markets such as Japan, Australia had an advantage.

Within NZ, the inevitable fluctuations in price could be better managed by more collaboration and innovation across the supply chain, Costello said.

# Processor margins low on beef sales

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PROCESSOR margins are the worst they've been for many years in the beef sector and should be a warning for farmers paying high prices to rebuild their herds, Rabobank analyst Matt Costello says.

There was a clear disparity between procurement prices and what the processors were receiving for exports.

Farmers paying up now for young stock in the saleyards should be thinking what their beef values were likely to be worth in two years time.

They should be using a mid to high $4/kg number as a more medium to longer-term fundamental guide rather than a view many seemed to have of $6 at the front of it.

Rabobank's latest report on the Australian and New Zealand beef sectors, sub-titled Looking beyond the price peak, had just been released.

It did not go closely into calculations or margin comparisons but said at an indicator level the margins for processors on their procurement and export pricing on NZ prime bulls were about the worst they'd been.

Beef farmers buying stock to rebuild herds should be taking an optimistic but cautious approach to what they were paying.

Sheep and beef farmers did not have to look back too far to see the impact of consumers pushing back against record-high prices. A few years ago, NZ lamb prices had fallen about 40% in value over 18 months.

A fall of such severity for beef prices was not expected but it remained a cautionary tale, Costello said.