B.LIV.0340 Final Report

Live Export Market Reporting Service

Project code:	**B.LIV.0340**
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Date published:	**March 2008**
ISBN:	9781741914719

PUBLISHED BY
Meat & Livestock Australia
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NORTH SYDNEY NSW 2059

Meat & Livestock Australia acknowledges the matching funds provided by the Australian Government to support the research and development detailed in this publication.

Executive summary

The Australian livestock export industry participants do not currently have access to a comprehensive market outlook service. Such information is required by the industry to assist both short-term (strategic marketing decisions) and long-term decisions (planning and investment).

The Project has successfully operated a comprehensive market situation and outlook service for both the cattle and sheep live export sector in the form of a series of four quarterly reports for both cattle and sheep. These reports have been widely distributed and well received by industry participants.

The industry has benefitted from having timely and accurate reports that provide an overview of current market conditions and an analysis of the medium-term outlook. The industry also benefits from having an experienced analysis focussed specifically on live export markets, something not catered for by existing. These reports were also used as inputs in industry cattle and sheep projections and over time will assist in aiding market understand and improving forecast accuracy.

The reports will help improve communication of industry in-market issues and market dynamics right along the supply chain and aid in improving industry decision making. The independence of this service has helped to eliminate the bias that tends to occur between various interests such as producers, processors, exporters and importers.

The author of the report has maintained linkages with all participants within the chain such that a balanced picture of price, supply and demand can be communicated to the wider industry.

Contents

1 Background

1.1 Background

1.1.1 Industry Overview and Outlook

Australia is the world's number one exporter of livestock. Livestock exports are a valuable component of Australian livestock industries accounting for 7-10% of cattle turn-off, 15-20% of sheep and lamb turn-off and in excess of 50% of goat turn-off. The current annual value of the trade is estimated at around $700 million.

A big jump in exports to Indonesia (up by 133,000 head, to 520,000 head to a new record) propelled cattle exports to above 722,000 head in 2007 (from 634,000 head in 2006). Cameo appearances from Mexico and Russia helped to partly offset lower activity to Malaysia and the Middle East. In the medium-term cattle exports are set to rise further as the outlook for live cattle export markets looks significantly better than the outlook in southern cattle feeder markets. In 2008, cattle exports should rise again to 760,000 head and will play an important role in helping the industry to avoid a downturn in profitability stemming from US re-entry into north Asian beef markets.

Live sheep exports fell 8%, to just under 3.8m head in 2007, down from 4.2m head in 2006. The reasons for the decline included: tight supplies of suitable quality stock, significant price rises (although A$/head rates have remained the same, $US/head rates increased with the stronger $A), lesser quality (the sheep have been younger and lighter), increased competition from North Africa and tight shipping capacity. It is expected that ongoing supply tightness will restrict sheep export volumes to 3.6m head in 2008 – a fall of 5% on 2007 export levels.

Over the next decade the live export industry faces a number of challenges from both internal and external factors ranging from animal health issues to the interplay between the processing sector and the live market. It is expected that the volatile nature of demand for livestock exports will continue.

While the eastern states of Australia have particularly dominant processing sectors that can help to absorb the impact of fluctuations in demand for live exports, the WA and NT livestock sectors have become highly reliant on the live export sector.

Access to accurate, independent and timely market intelligence is vitally important to assist producers in these areas to both maximise profitability in the short to medium term and to plan for the future.

2 Project objectives

The objectives for this project were:

1. Further develop the pilot outlook service to produce separate quarterly live export market outlook reports across all the major destinations for Australian cattle and sheep/goats, i.e. two reports each quarter.

2. Report on the strengths and weaknesses of the service such that MLA can determine the future of the outlook service.

The key output has been the development and operation of a periodical livestock export market outlook report that analyses and forecasts supply and demand from key markets. The key objective was to gain industry acceptance of the report structure and content.

As part of the service key influencing factors are analysed and forecast over the medium term. These include; exchange rate movements, capacity constraints, competition, government and trade policy and these forecasts form part of the assessment of future medium term changes in supply and demand.

As part of the service key threats and opportunities are identified and investigated. For example, the service has quantified the impact that north African sheep exports are having on our key Middle Eastern export markets. In cattle we have identified that the expected increase in shipping capacity servicing these routes and access to greater number of QLD cattle should assist another rise in volumes in the medium term.

3 Methodology

Project methodology involved forecasting key economic variables across major export markets and combining this with in-market intelligence and local supply forecasts to forecast export volumes and prices. Much of the forecast process is qualitative and involves discussion with various supply chain participants.

4 Results and discussion

The project has successfully delivered four quarterly reports within targeted timelines for distribution across the live export industry. The reports have been well received by participants across the entire supply chain.

5 Conclusions and recommendations

That the industry continues to fund the ongoing development of the live export market reporting service.

6 Appendices

6.1 March Quarter 2008 Live Cattle Export Report

6.2 March Quarter 2008 Live Sheep Export Report

Australian Live Export Cattle Quarterly Projections

Dec Quarter 2007

SNAPSHOT OF KEY INDICATORS

CHART 1
LIVE EXPORT PRICES - INDONESIA (¢/KG LW)

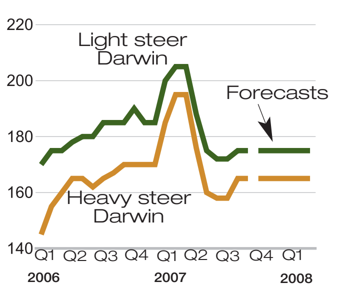
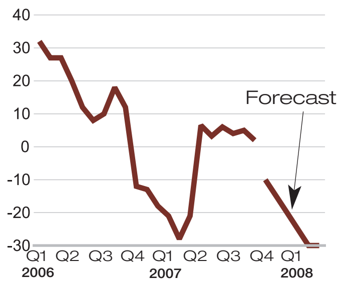


CHART 2
DIFFERENTIAL STH FEEDER VS LIVE EXPORT



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CATTLE EXPORTS - INDONESIA (HEAD)

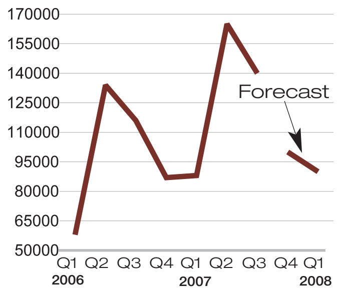
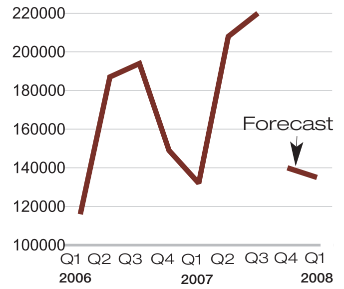


CHART 4
TOTAL AUSTRALIAN CATTLE EXPORTS (HEAD)



Middle East volumes set to expand?

A pick-up in sheep shipping activity (relative to early year volumes), and greater shipping capacity servicing Middle East routes, has allowed an acceleration in cattle exports to the Middle East during the September quarter after a very slow second quarter (pick-up in volumes will be mainly to Israel and Saudi Arabia).

Libya received its first shipment of Australian cattle since 1999. The shipment was well received although due to shipping schedules, another shipment prior to the end of 2008 is unlikely.

The high cost of Australian cattle and the ready availability of good quality cheaper cattle from Nth Africa, eastern Europe and Sth America is preventing larger shipments. However, with seasonal conditions tightening in Sth Australia, there is a chance exporters may gain access to cheaper cattle, which would boost volumes.

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Publisher's information:
- Published by Meat & Livestock Australia Limited*
- ABN 39 081 678 364
- November 2007

- ISSN or ISBN

Cattle exports above expectations

Despite relatively high cattle prices and a strong $A, live cattle exports have performed above expectations for most of 2007. Shipments during the June quarter were 208,000 head – 40,000 head above our forecast.

With Ramadan falling in September, cattle shipments have remained strong in July/August as Indonesian feedlotters sourced cattle to place on feeding programs aimed at Ramadan (mid-September).

During the September quarter, despite wild currency fluctuations and tougher trading conditions in Indonesia, total export volumes have been maintained at solid levels at around 220,000 head. A pick-up in activity to secondary markets (Middle East, Malaysia and Philippines) has assisted another rise in volumes from the hectic pace of the June quarter.

Indonesian market extremely competitive

Heavy Indonesian export volumes are partly the result of heavy shipping commitments entered into by some traders early in the year. Coupled with the operation of large carrying capacity ships out of northern QLD ports, this has changed the pricing structure in the Indonesian market and has contributed to the competitive environment.

The highly competitive Indonesian market has encouraged some exporters to look to secondary markets where margins are better. The improved availability of cheaper secondary quality cattle has supported improved volumes into Malaysia and the Philippines.

Improved cattle availability to assist trade

Provided clearances over Ramadan are strong, the increased availability of QLD cattle should assist solid export volumes into year's end. We expect cattle volumes for the December quarter to ease from June and September, to around 143,000 head.

For the year, cattle exports will total 706,000 head – the highest annual export total since 2003 and well above our initial forecasts of 620,000 head for the year.

For the last few years, the live cattle export industry has been constrained by growth in the southern feedlot industry – but this is about to change. The recent tremendous appreciation in global grain values has tipped feeding profitability on its head.

It is expected that the live export price premium will rise to around 20-30¢/kg lw over southern cattle toward the end of the year and into the early part of 2008.

This should improve cattle availability for the live export sector and should see volumes maintained at above the levels of recent years, despite a higher $A.

Live export prices have held up well and should be maintained as supplies start to tighten into the northern wet season, but will start to come under increasing pressure in early 2008 as supplies start to increase following the end of the wet season.

Lower cattle prices should assist strong early season volumes of 150,000 head in the March quarter of 2008.

TABLE 1 - LIVE CATTLE EXPORT FORECASTS (000 HEAD)

	Dec Qtr 07f	Dec Qtr 06 (% chng 07)	2007f	2006 (% chng 07)	Mar Qtr 08f	Mar Qtr 07 (% chng 07)	2008 forecast
Live cattle exports	143	149 (-4%)	706	637 (11%)	135	132 (2%)	720
to Indonesia	100	87 (15%)	513	387(33%)	90	88 (2%)	523
to Malaysia	6	21 (-71%)	37	56 (-34%)	5	5 (2%)	38
to Mid East/N Africa	15	15 (0%)	68	113 (-40%)	20	20 (2%)	69
to China	5	3 (67%)	17	10 (70%)	3	3 (2%)	17
to Philippines	5	0 (N/A)	21	13 (62%)	4	4 (2%)	21
to Japan	6	4 (50%)	24	22 (9%)	6	6 (2%)	24
to Other	6	19 (-68%)	26	36 (-28%)	6	6 (2%)	27
Live cattle price*	1.75	1.86 (-6%)	1.83	1.88 (2%)	1.75	2.04 (-14%)	
$A/US	0.9	0.78 (15%)	0.84	0.76 (11%)	0.92	0.79 (16%)	
$A/Rp	8,150	7,111 (15%)	7,689	6,925 (11%)	8,300	7,206 (15%)	
$A/Rg	3.04	2.81 (8%)	2.90	2.77 (5%)	3.1	2.75 (13%)	

f = forecast *A$/kg lw ex Darwin

CATTLE PRICES

How low can prices go?

With conditions toughening in north Asia and feeding margins being squeezed, unless seasonal conditions improve, forced sales of cattle may be priced off the US manufacturing beef market (our only other high volume outlet). This would significantly reduce southern feeder cattle prices – currently, processors are paying $0.90-1.30/kg for slaughter cows, which may provide some indication of where southern feeder prices could end up without some respite in the season.

Japanese demand for beef is exhibiting increased price elasticity, which is preventing Australian exporters from passing on the higher costs of production, and maintaining volume. There is speculation that Japan will ease age restrictions on US beef, which would increase competition and further weaken Japanese demand for Aussie beef.

US shipments into Korea are making good inroads, with 11,823t of US beef clearing customs as of the end of September (compared to just 906t two months prior). Despite recent further US beef safety issues, Korean analysts are anticipating the restrictions on US beef to be eased over the next six months in a bid to reduce high internal prices of beef in Korea.

The US manufacturing market does not look all that strong. Although prices have held up in US¢/kg terms, the appreciating A$ has reduced $A returns. Although US beef production is expected to ease from mid-year (owing to lower placements), US consumer demand is being slowed by poor economic conditions; this will limit the chance of a sustained rise in US export prices, particularly if Australian volumes increase.

With lacklustre beef export market conditions, in the absence of a turnaround in seasonal conditions, Australian cattle prices could fall significantly due to a contraction in feedlot demand. The Australian lot feeding sector contributes to some 30% of total turnoff and is a very important source of feeder cattle demand, particularly in times of tough seasonal conditions. Many smaller feedlots in sth Qld have either closed or are reducing cattle numbers to less than 40%, with larger feedlots reducing numbers by up to 30%.

Currently, feeder steers in sth Qld markets are averaging around 150¢/kg lw – down 15% from year-ago levels. We anticipate that these prices could fall another 20-30¢/kg lw in the absence of a turnaround in seasonal conditions, as feeder steers price themselves into the US manufacturing beef market. A pullback in southern prices would increase the attractiveness of QLD cattle for live export and coupled with lower prices, this will see export activity maintained at higher levels through the end of 2007 and into early 2008.

$A

$A to push above 90¢

The Aussie dollar has hit an 23-year high, breaking the 90US¢ barrier. The upward trend appears set to continue (in the absence of further financial market calamity), as our interest rate premium of 1.75% over official US interest rates is set to increase.

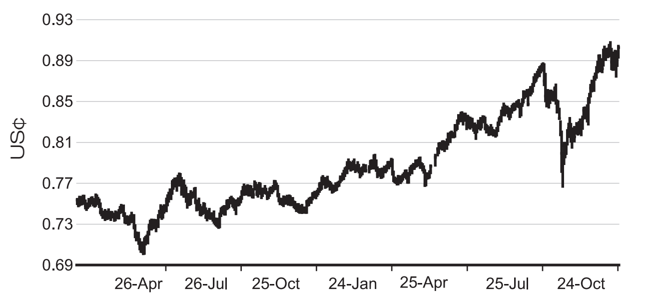
Other factors adding to the strength of the A$ include our strong terms of trade (RBA says we are enjoying a once-in-100-years terms of trade event), an improved balance of payments position, and solid relative economic growth.

Our interest rate advantage over the US has the potential to widen further, with the US Federal Reserve expected to cut US interest rates again in an attempt to avoid recession while the RBA remains on a tightening bias (although the RBA decided recently to leave the cash rate unchanged, there has been a series of rate increases since 2002). With Aussie interest rates at a significant premium to interest rates in most of the major economies, more foreign money is expected to flow into Australian investments and push the A$ higher.

Real GDP during the September 2007 quarter is estimated at 4.4%, compared to 2.4% a year earlier. Growth in the Australian economy is being driven by demand for new housing, strong spending from the government and business sectors, and solid export demand from Asia.

Chart 5

AUSTRALIAN / U.S. DOLLAR



Source: Proview

But it should be kept in mind that the A$ (and the likelihood of further appreciation) remains heavily reliant on external factors including the decisions of overseas investors, economic growth in Asia, and any broader economic shocks.

On the back of further US Federal Reserve rate cuts, we expect the A$ to consolidate above US90¢ by Christmas and remain above 90US¢ into early 2008.

SUPPLY

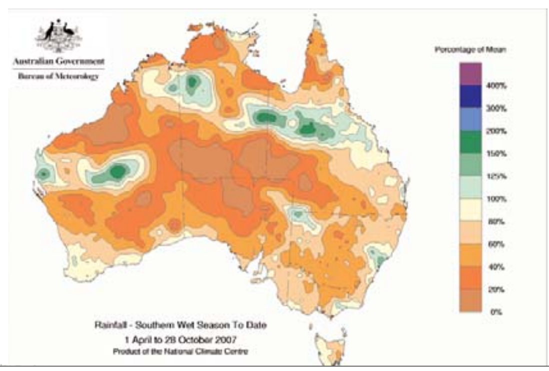
High grain prices to improve export cattle availability

International grain stocks – built by decades of production subsidies in Europe and the US – have been eroded by the combined forces of strong demand from both the food sector (strong economic growth and increased capacity to pay) and fuel sector. It is a safe assumption that grain prices have moved to a new higher level for the foreseeable future and this, combined with increasing access for US beef in north Asian markets, means that southern Qld feedlot activity will be significantly lower until at least late 2008.

Already we are seeing a reduction in southern cattle values and improving access to Qld cattle for live exporters. Tight supplies in the north will keep Darwin prices firm, but with increased access to Qld cattle, a broadening in rates is expected between good well-bred cattle and low grade brahman/bos indicus cattle.

Over the last part of 2007, it is expected that north Qld will start to supply a larger percentage of live exports. Cattle will be trucked up from Longreach to Darwin while cattle east of Hughenden will be trucked out of Townsville. There have been several large shipments of 15,000-20,000 head out of Townsville. Currently, exporters are actively sourcing cattle out of the Gulf to fill smaller shipments out of Karumba.

RAINFALL SEASONAL MEAN PERCENTAGE - SOUTHERN WET SEASON APR - OCT 07



INDONESIA

Indonesian volumes hold up

Exporters report that the Indonesian market has been extremely competitive, owing in part to heavy shipping commitments made early in the year by some importers. This has necessitated price discounting to keep ships running.

Lower sheep exports have created excess livestock carrying capacity, providing the cattle export industry with relatively cheap ocean freight rates. The operation of large carrying capacity ships out of northern Qld ports is also changing the pricing structure in the Indonesian market and has contributed to the competitive environment. Large monthly export volumes have started to ease during September as some shipping capacity has been diverted to service the Middle East market for Ramadan.

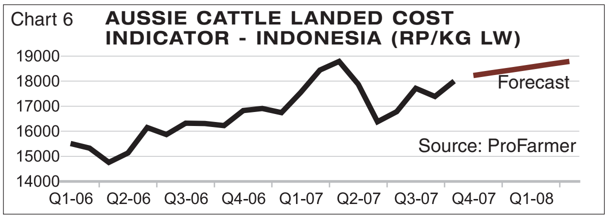
Clearances over Ramadan have been relatively strong and the increased availability of Qld cattle should assist solid export volumes into year's end. We expect cattle volumes for the December quarter to ease from June and September, to around 100,000 head (feedlots are reportedly at 80% capacity) but remain some 40% above 2006 levels. For the year, cattle exports to Indonesia will total 513,000 head – well above the 387,000 head exported to Indonesia last year and the highest annual export total on record for Indonesia.

Larger volumes are despite strength in the $A lifting the Indonesian landed cost indicator to over 18,000Rp/kg lw – the highest since Feb/Mar when cattle prices were over $2/kg lw. We expect a steadily rising $A to keep pressure on the landed cost of cattle into early 2008 until the June quarter of 2008, after which time cattle prices should ease and result in a decrease in the landed cost of Australian cattle.

TABLE 2 - WHOLESALE PRICES ($RP/KG)

	Sep Qtr 2006	Jun Qtr 2007	Sep Qtr 2007	% Chng on Qtr	% Chng on Yr
Ch Striploin	112,060	111,403	114,267	2.5%	2%
Ch Topside	70,568	71,103	71,100	n/c	1%
Fr Topside	51,025	51,840	51,500	-1%	1%

Source: MLA



MALAYSIA

Export volumes to Malaysia pick up

Very competitive export market conditions in Indonesia, improved access to cheaper quality secondary stock and a lift in demand for Ramadan has seen Malaysia record relatively strong volumes through the September quarter. August shipments, at almost 11,000 head, were the highest since October last year (also associated with Ramadan demand).

Improved cattle availability in the north is widening the discount for secondary quality cattle, which is making Australian livestock competitive in Malaysia, despite a higher $A. This trend is set to continue and although volumes will taper after the peak Ramadan demand period, annual exports to Malaysia should be maintained at a relatively healthy 35,000-40,000 head before rising moderately again next year.

TABLE 3- WHOLESALE PRICES ($RG/KG)

	Sep Qtr 2006	Jun Qtr 2007	Sep Qtr 2007	% Chng on Qtr	% Chng on Yr
Ch Aust Topside	18.13	17.7	17.76	n/c	-2%
Fr Aust Topside	16.40	16.60	16.27	-2%	-1%
Fr Aust Lamb leg	19	18.77	18.77	n/c	-1%
Buffalo topside	6.97	7.47	8.33	12%	20%
Buffalo tenderloin	11.13	13.93	15.7	13%	41%

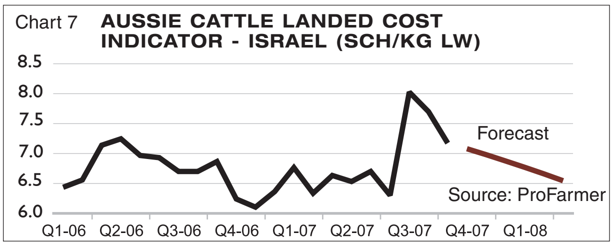
MIDDLE EAST

Middle East volumes recover, but down on last year

The Middle East market (Israel/Saudi Arabia) has stabilised, with the market becoming more discerning, taking British breed bull calves out of southwest WA. Saudi Arabia is demanding better quality Brahman bulls. Jordan continues to be out of the market, preferring to source cattle from north Africa. A ban on cattle exports to Egypt remains until Egypt can satisfy Australia that they have a closed processing system where cattle will be slaughtered in controlled and humane conditions. With strong volumes to Libya and Israel in the past quarter, September quarter shipments will reach 25,000 head.

We anticipate that the high grain prices and the associated decline in feedlot demand will place plenty of pressure on southern cattle values. Also, with the very high grain prices and seasonal difficulties, producers are looking to offload livestock in order to free up paddocks for more cropping in 2008. This should increase access to cattle for exporters looking to service Middle East markets.

Despite a strengthening $A against most Middle Eastern currencies (many of which maintain some peg against the $US), the expected easing in southern cattle prices should see the landed costs of cattle into the Middle East start to fall into late 2007 and early 2008. This should see the maintenance of volumes at around 15,000 head per quarter, with a strong lift possible in 2008 if the Egyptian market opens again. Although volumes are recovering, 2007 volumes are expected to be just over half those of 2006.

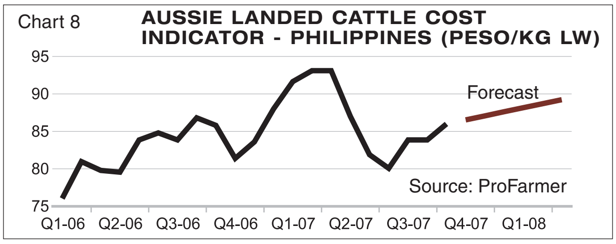


PHILIPPINES

Slight pick-up in the Philippines trade

Similar influences that have boosted Malaysian market volumes are at work in the Philippines, with volumes starting to build moderately. Shipments to the Philippines this year should exceed 20,000 head – up on only 13,000 head in 2006.

The last time the Philippines market took in large shipments from Australia was in 2003. In that year, Philippine steer prices ex Townsville were $1.20-$1.40/kg and the Peso was below 30 per $A. This meant that landed cattle costs during this period were some 50-60 Pesos/kg liveweight, compared to current landed costs of 80-90 Pesos/kg. If the $A remains above 40 Pesos, Australian cattle prices would have to fall to below $1/kg in order to reduce landed costs to a level that would encourage a significant rise in export volumes. We do not foresee this during our forecast period and as such, cattle export volumes into the Philippines will remain constrained.



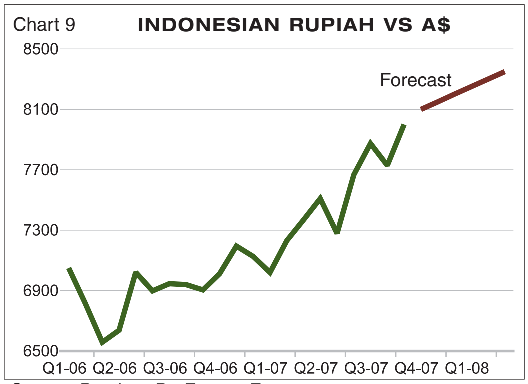
INDONESIA

Indonesian economy performs strongly

Bank Indonesia has kept interest rates unchanged for the third consecutive month, at 8.25% in October. The Bank says that the economy has held up well despite US financial market turmoil, and estimates economic growth in the September quarter of 6.2% (in line with expectations and the 2007 target of 6.3%). Growth is being driven by strong exports, domestic demand and increased investment (encouraged by the lower borrowing costs).

Inflation edged higher during August (up 45 points to 6.51%), reflecting higher prices for staple food items and kerosene; however, core inflation remained in check. Bank Indonesia remains confident that its target inflation rate of 6-7% will be achieved in 2007, with high unemployment limiting wage increases and oil prices relatively stable.

The rupiah has come under pressure from large capital outflows resulting from the US subprime mortgage fallout. In A$ terms, the rupiah firmed during August before trading at over $1A = 8,100 Rp in October. We expect the rupiah to continue to weaken for the remainder of the year, on the back of A$ strength.



Source: Proview, ProFarmer Forecasts

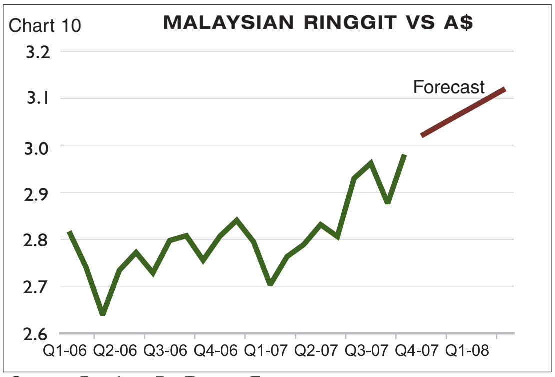
MALAYSIA

Malaysian economy remains steady

Malaysian economic growth is forecast to average 5.9% in 2007 on the back of private consumption and investment growth, and greater fiscal spending. The economy should also be buoyed by greater export demand from China, and increased trade flows arising from the signing of several trade agreements.

Inflation increased during August (reflecting price rises in the food and beverages, restaurants and hotels, and recreation services and culture categories) but remains relatively low, at 1.9%. Inflation is forecast to average 2.1% in 2007.

Like the Indonesian currency, the ringgit appreciated against the A$ during August (averaging A$1 = 2.88 Rg), before weakening again in September to A$1 = 2.98 Rg. We expect the ringgit to come under pressure from the A$ over the remainder of the year, as the ringgit is partially pegged to the $US.



Source: Proview, ProFarmer Forecasts

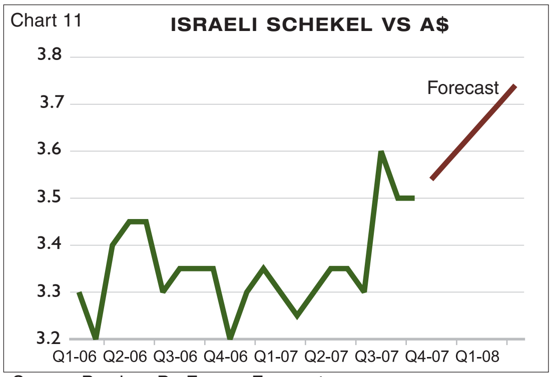
MIDDLE EAST

Reduced production limits growth in some economies, but offset by strong oil prices

The Middle East region continues to exhibit solid growth, largely arising from strong oil revenues. Some OPEC members have chosen to limit oil production this year in order to offset the impact of increased non-OPEC oil output on prices; this has acted as a constraint on the growth of some Middle Eastern economies such as Saudi Arabia. In the case of the UAE and Qatar, economic growth of 8.2% and 7.8%, respectively, is expected to push inflation to 12% in 2007.

However, oil income is allowing governments to reduce public debt, and thus improve their balance of payments position. The region is attempting to attract foreign investment and pursue privatisation; however, the success of these policies will remain dependent on the degree of political, and economic, stability achieved.

The Israeli Schekel was relatively stable during the September quarter (in Australian dollar terms), trading around A$1 = 3.5-3.6Sch. The strength of the Australian currency is expected to result in an easing in the Schekel throughout the December quarter.



Source: Proview, ProFarmer Forecasts

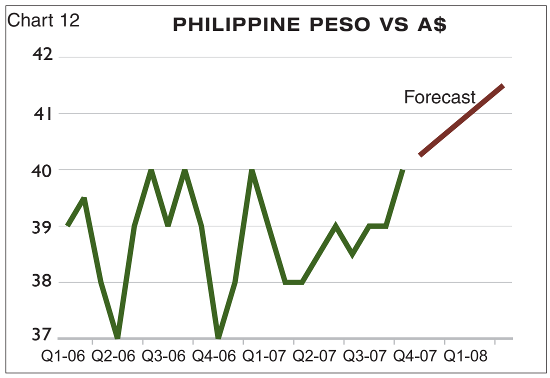
PHILIPPINES

Economic indicators looking better

The BSP Monetary Board lowered its key policy interest rates by 25 points in October, to 5.75% for overnight borrowing and 7.75% for overnight lending. This follows inflation of just 2.7% in September, which is well below the Board's desired range of 4-5%. Inflation is expected to average 2.8% in 2007, compared to 6.3% the year prior, due to slower growth in the overall money supply, a modest increase in agricultural output and the relatively strong Peso (compared to year-ago levels).

An increase in private consumption is expected to drive economic growth to 6% in 2007, which is a 0.6% increase from last year. Investment is also likely to pick up, with the recent cut in interest rates making borrowing more affordable.

The Peso was relatively stable during the September quarter, with A$1 trading around 39-40 Pesos. Increased inflows from Filipinos working overseas are expected to be more than offset by the strengthening A$, and thus we anticipate the Peso to depreciate against the A$ over the remainder of the year.



Source: Proview, ProFarmer Forecasts

Australian Live Sheep Export Quarterly Projections

Dec Quarter 2007

SNAPSHOT OF KEY INDICATORS

CHART 1
LIVE EXPORT PRICES ($/HEAD)

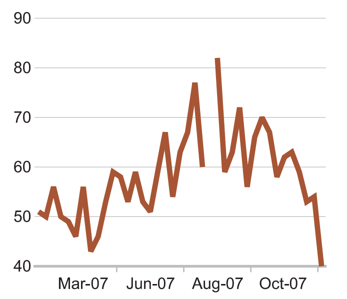


CHART 2
MUTTON PRICES (¢/KG DW)

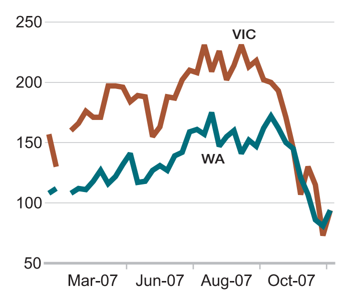


CHART 3
LIVE SHEEP EXPORTS (TOTAL)

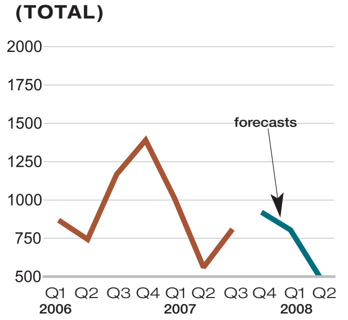
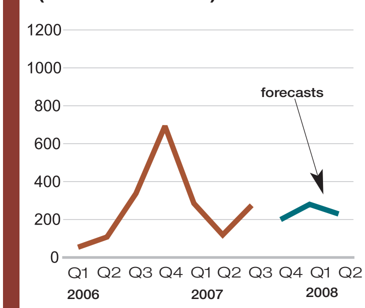


CHART 4
LIVE SHEEP EXPORTS (SAUDI ARABIA)



Tight supplies set to continue

The major factor constraining Australian sheep exports – that of tight supplies of available sheep – looks set to worsen.

The decline in the wool industry has seen cheap supplies of cull wethers decline considerably over the past decade.

Now, Australian sheep stocks are under further threat from the explosion in grain values, with anecdotal evidence suggesting that another cull of sheep may be underway to make way for increased crop planting in 2008.

Other factors, such as the decreasing availability of labour in rural and regional areas and declines in sheep handling infrastructure (fences and yards), will work against a quick turnaround in the fortunes of the Australian sheep industry. The industry will need to start preparing itself to manage the trend of declining stock availability.

Exports continue to struggle

Tight shipping capacity, higher costs (the $A, sheep prices, fuel and fodder costs all rose during the quarter) and constrained availability of suitable Australian sheep, and increased competition from alternative suppliers all conspired to limit Australian live sheep exports during the June quarter.

Shipments were a disappointing 560,000 head – the lowest June quarter shipments on record since 1989.

The return of some sheep shipping capacity (which had been servicing the live cattle export trade out of northern Australia) to service the peak Ramadan period, and the reintroduction of a vessel after modifications to comply with 2007 AMSA standards in September, should boost numbers in the September quarter to around 800,000 head.

Volumes will rise further in the December quarter as Haj shipments supplement the need for importers to restock after Ramadan. December quarter volumes will lift to 920,000 head, taking annual volumes to 3.3 million head (4.2 million head in 2006).

It is difficult to envisage activity picking up much in the early part of 2008, with the same forces that have limited trade through 2008 at work.

Sheep availability could tighten even further with an improvement in seasonal conditions. Another poor spring and very high grain prices have seen producers bring supplies forward, which could leave a large gap in supplies during autumn 2008.

Volumes lift with Ramadan

Saudi volumes picked up in the September quarter, as demand strenghtened ahead of Ramadan, and should remain strong into year's end as some 300,000 fat tail lambs are shipped prior to the start of the Haj in late November.

An easing in sheep values out of Australia during the later part of September quarter has assisted volumes. Sheep values averaged $62/head, or US$52/head, during the June quarter but had come back to $50-55/head by the end of September and may ease a further $5/head.

But the rally in the $A has taken much of the gloss off the decline in values, with prices holding at US$48/head. Exports to Saudi will be around 200,000 head in the September quarter and lift to 280,000 head in December quarter. Annual exports will reach 884,000 head – well down on 1.2m head in 2006.

Gulf markets look to alternate supplies

Our Gulf customers have been loyal supporters of Australian livestock through the recent period of high prices and tight availability; however, patience is wearing thin.

Supply gaps are starting to appear more regularly and for longer periods as Australian sheep numbers continue to fall.

Governments throughout the Gulf are coming under increasing pressure to move to shore up supplies. This has precipitated a relaxation of animal health protocols in Bahrain, with the importation of the first shipment of Somali sheep since they were banned in the late 1990s following the outbreak of Rift Valley Fever.

Although Australian exports to Gulf customers are holding up, it appears that they will be under constant threat from regional suppliers. Gulf countries will most probably look to Iran to supply a greater proportion of sheep needs until Australian supplies improve.

TABLE 1 - LIVE SHEEP EXPORT FORECASTS (000 HEAD)

	Dec Qtr 07	Dec Qtr 06 (% chng 06)	2007	2006 (% chng 06)	Mar Qtr 08	Mar Qtr 07 (% chng 07)	2008 forecast
Live sheep exports	920	1,390 (-34%)	3,303	4,167 (-21%)	805	1,012 (-20%)	2,850
to Saudi Arabia	280	693 (-60%)	884	1,193 (-26%)	230	285 (-19%)	700
to Kuwait	250	239 (5%)	881	962 (-8%)	200	2,159 (-7%)	800
to Bahrain	120	115 (4%)	482	557 (-13%)	120	145 (-17%)	400
to Jordan	100	137 (-27%)	378	685 (-45%)	75	178 (-58%)	300
to Oman	80	84 (-5%)	310	320 (-3%)	100	108 (-7%)	300
to Quatar	45	54 (-17%)	160	192 (-17%)	30	33 (-9%)	150
to UAE	45	44 (2%)	197	209 (-6%)	50	53 (-6%)	200
Live export price*	45	51 (-12%)	54	56 (-3%)	50	52 (-4%)	
$A/US	0.86	0.78 (10%)	0.83	0.76 (10%)	0.92	0.79 (16%)	

*A$/head ex Freo

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Publisher's information:
- Published by Meat & Livestock Australia Limited*
- ABN 39 081 678 364
- December 2006

- ISSN or ISBN

COMPETITOR ACTIVITY

Regional supplies increase competition

The inability of Australia to supply the required numbers of suitable quality sheep has created opportunities for regional suppliers. North Africa has established a presence in the Red Sea markets of Saudi and Jordan. In August in the leadup to Ramadan, Jordan imported its first shipment since March.

The success of the Dijbouti quarantine facility is evident in the Red Sea markets, with numbers of Australian livestock entering for most of 2007 down by 100,000 head on the constrained levels in 2006. One feedlot in Jeddah visited by an Australian representative contained mostly Sudanese and Somalian sheep, with only 15% Australian.

In Somalia, rangeland conditions are holding up despite poor recent rain, given the cummulative effect on rangelands of prior favourable seasons. Livestock prices for all species (camel, cattle, sheep and goats) have increased considerably over the last 12 months and are now at peak levels compared to long term trends due to improved body conditions and increasing export and local demand. The average prices of export quality sheep and goats in July were 24% higher when compared to the same month last year.

In recent times, Gulf markets have imposed tighter import health protocols on livestock, which has prevented the import of larger numbers of north African sheep. However, governments throughout the Gulf are under intense pressure to act in order to relieve the very tight supplies of imported livestock.

Bahrain is a good example. Local butchers were quoted saying they could only get one Australian sheep when they needed ten to survive and to meet market demand. This led to criticism of the Bahrain Government for not ensuring meat for the country's population. Recently, around 5,000 Somali sheep and goats were imported into Bahrain. Somalia was banned from exporting to many Gulf nations for an extended period from the late 1990s due to an outbreak of Rift Valley Fever (RVF). Before the ban, Somalia exported 3-3.5 million sheep and goats annually to Gulf nations.

Another major competitive threat is Iran. Iran has the fourth largest sheep flock in the world (60-80m head) and is now thought to be supplying some 50% of all sheep entering Kuwait. Large numbers of Iranian sheep are entering Oman, while Syria is thought to be supplying most of Qatar's needs.

SUPPLY

High grain prices will help supply in short-term

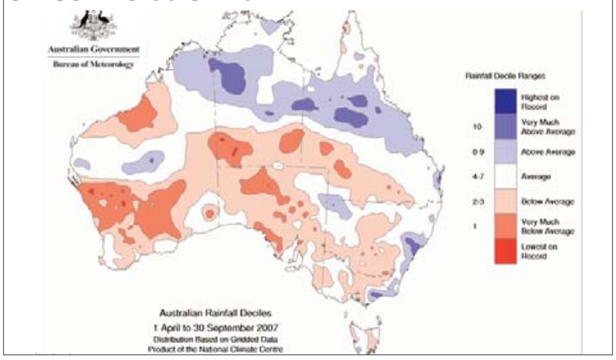
Below-average winter rainfall in many regions of Australia has resulted in low pasture availability and high feed costs. The impact has been continued high yardings (particularly lambs), weak demand from restockers, and a fall in lamb and sheep prices.

As a result of high slaughterings during the drought, the Australian sheep flock is estimated to have fallen by over 6%, to 87 million head, in the year to June 2007. Despite expectations that producers will begin to rebuild flocks in 2007-08, the Australian sheep flock is forecast to fall to around 86 million head by June 2008, primarily due to a smaller breeding flock coming into the current year and relatively high slaughterings of lambs.

Poor spring conditions and the relative attractiveness of cropping will assist sheep and lamb availability in the short-term. Exporters report that supplies leading up to Ramadan improved as producers in southern WA looked to offload another age group of whethers in order to free up another paddock for cropping in 2008. There have been some excellent lines of quality sheep sold to exporters this spring throughout the southern wheat-sheep belt. WA rams sales have been very disappointing, indicating a preference for cropping over increasing livestock numbers.

Supplies in the northern part of southern WA have dwindled after another big sell-off in April-May this year, as seasonal conditions remained very poor. In the short-term, high grain prices will help increase short-term supplies, but with flock numbers continuing to fall, this is at the expense of longer-term supplies.

AUSTRALIAN RAINFALL DECILES - SOUTHERN WET SEASON TO 30 SEP 07



A$

$A to pushes above 90¢

The Aussie dollar has hit an 23-year high, breaking the 90US¢ barrier. The upward trend appears set to continue (in the absence of further financial market calamity), as our interest rate premium of 1.75% over official US interest rates is set to increase.

Other factors adding to the strength of the A$ include our strong terms of trade (RBA says we are enjoying a once-in-100-years terms of trade event), an improved balance of payments position, and solid relative economic growth.

Our interest rate advantage over the US has the potential to widen further, with the US Federal Reserve expected to cut US interest rates again in an attempt to avoid recession while the RBA remains on a tightening bias (although the RBA decided recently to leave the cash rate unchanged, there has been a series of rate increases since 2002). With Aussie interest rates at a significant premium to interest rates in most of the major economies, more foreign money is expected to flow into Australian investments and push the A$ higher.

Real GDP during the September 2007 quarter is estimated to be 4.4%, compared to 2.4% a year earlier. Growth in the Australian economy is being driven by demand for new housing, strong spending from the government and business sectors, and solid export demand from Asia.

Chart 5

AUSTRALIAN / U.S. DOLLAR

Source: Proview

But it should be kept in mind that the A$ (and the likelihood of further appreciation) remains heavily reliant on external factors, including the decisions of overseas investors, economic growth in Asia, and any broader economic shocks.

On the back of further US Fed Reserve rate cuts, we expect the A$ to consolidate above US90c by Christmas and remain above 90US¢ into early 2008.

SAUDI ARABIA

Saudi volumes wane as north Africa takes over

Saudi has been one of the real disappointments this year. For the year so far Saudi has only taken 524,000 head and although volumes should increase seasonally into year's end, it appears volumes are set to fall well short of last year's level of 1.2m head. Australia's inability to consistently supply good quality sheep is forcing Saudi to turn to other suppliers.

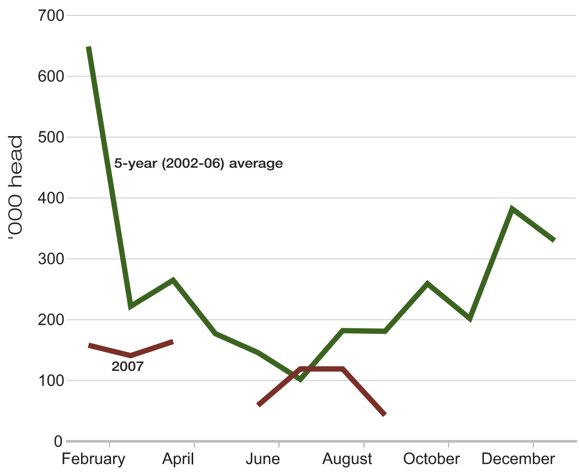
Customers will maintain loyalty during intermittent supply gaps, but long term supply deficiencies are seeing customers turn to our competitors for a more consistent supply. Australian sheep are valued at around US$90-100/head mark delivered to the Middle East. This is the dearest in history, and combined with associated smaller size, lighter weight and perceived lower quality is damaging our reputation and is providing opportunities for other suppliers to establish a foot-hold in this market.

The very high price of Australian sheep, combined with an enormous rise in barley prices (although the Government give Bedouins an import subsidy), has seriously tightened feeding margins and is also encouraging importers to look at ways they can reduce the price of sheepmeat.

The long tail season has just commenced and it is expected that around 300,000 head will be imported in the coming months for the Haj festival, which commences late November. Some competition on Haj supplies has been noted from eastern Europe. Demand for Haj will help numbers, but it is expected that the trade will post a serious fall this year, to 880,000 head, down almost 25% of 2006. It is difficult to see how the Australian trade will be able to address this competitiveness issue as supplies moving forward are set to tighten even further.

Chart 6

RED SEA* VOLUME SEASONALITY



*Saudi, Jordan

KUWAIT

Gulf nations relax import restrictions

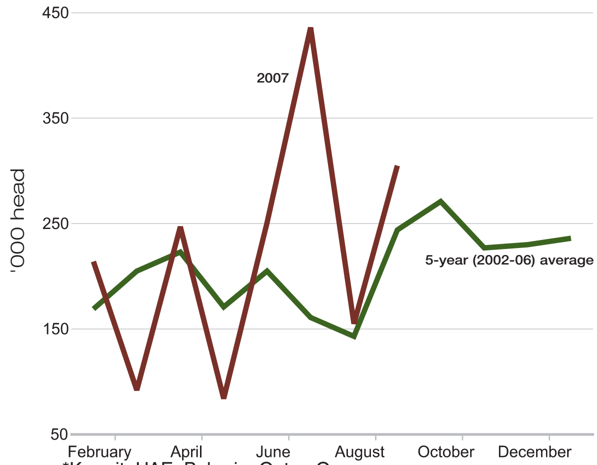
Like with Red Sea markets, the inability of Australia to supply required volumes of suitable sheep has been the major factor constraining shipments to Gulf markets. As mentioned the perception that a long-term supply deficiency may exist in Australia is placing pressure on Governments throughout the region to investigate alternative supply avenues in a bid to secure continuity of supply. For the Gulf markets, Iran appears to be the logical solution with north African markets representing serious health issues.

Officals in Kuwait have been quoted as suggesting they can only source about 50% of required volumes from Australia. In contrast to Red Sea markets, volumes into Gulf nations (due to restrictions placed on north African livestock) have held up reasonably well. Annual shipments to Kuwait should reach 880,000 head – down from 960,000 head last year. Exports to Bahrain are similarly affected – down to 480,000 head from 560,000 head last year.

Volumes to Oman (310,000 vs 320,000 head in 2006), Qatar (160,000 vs 190,000 head in 2006) and the UAE (200,000 head vs 210,000 head in 2006) are expected to remain in line with forecasts and historical levels, although there is talk that Oman is set to ramp up volumes considerably in 2008, by around 500,000 head.

Chart 7

GULF* VOLUME SEASONALITY



*Kuwait, UAE, Bahrain, Qatar, Oman

JORDAN

Jordan finds alternative supplies of livestock

Shipments to the other major Red Sea destination, Jordan, remained well down as importers turned to alternative sources of stock in north Africa. A lift in demand for north African sheep has lifted prices by some 25% and is helping to attract larger volumes.

Jordan has imported just over 200,000 head of Australian sheep for the year so far, which is less than half of last year's shipments at the same time.

Several vessels that traditionally service Australian shipping routes will be diverted to other destinations (north Africa or sth America) during the December quarter. With the majority of Red Sea shipping capacity servicing the Saudi market over the last part of 2007, it will be difficult to increase volumes into Jordan. We anticipate that for the year, Jordan may only import some 380,000 head, which is just under half the volume of 2006.

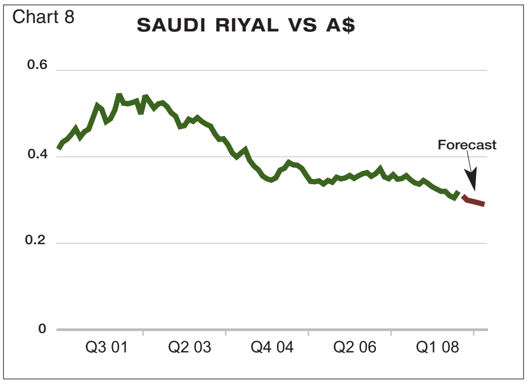
SAUDI ARABIA

Inflation is the main threat to Saudi prosperity

Declining oil production (an attempt by some OPEC members to keep prices high) is constraining economic growth; however, growth is still expected to average 4.8% in 2007. High oil prices are allowing the Government to boost expenditure on capital projects (in an effort to keep potential public opposition at bay) and reduce public debt. A lack of political reform, and ongoing concerns over domestic security, continue to constrain foreign investment.

Inflation reached a seven-year high during August (at 4.4%), following a spike in accommodation rental costs and food prices. It has since been suggested by the Saudi Arabian Monetary Agency (SAMA) that inflation could reach a 13-year high.

The SAMA refused to lower interest rates in the September quarter (the official rate is at 5.5%), despite US rate cuts. This saw the riyal reach a 21-year high against the greenback and has led to increased speculation that the SAMA is set to break the riyal's peg against the US$, particularly given current inflationary pressure. The currency was relatively stable in A$ terms during the quarter, at around $1SR = 0.31$A but is expected to decline during the December quarter.



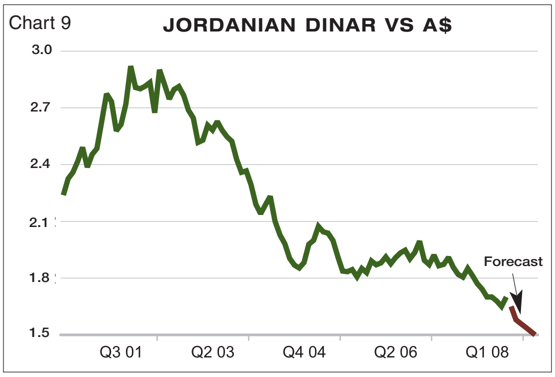
Source: Proview, ProFarmer Forecasts

JORDAN

High debt levels leave Jordan vulnerable

Economic growth of 5.5% is forecast for 2007, reflecting solid investment from both local and foreign entities (particularly the Gulf states). Like many of the other Middle Eastern countries, the Government is seeking to boost foreign investment and privatisation in an attempt to reduce its substantial public debt. Approximately 60% of this debt is denominated in foreign currencies; coupled with high unemployment, political instability in the region, and question marks over the financial strength of some commercial banks (due to recent credit market growth), this means the economy remains vulnerable to external shocks. Inflation is forecast to reach 4.9% in 2007, compared to 6.2% the year prior. However, this estimate has been thrown into question, with a recent survey showing that Jordanian household expenditure is about 20% greater than income.

The Jordanian dinar depreciated against the A$ during the quarter (to average $1JD = $A1.68) and is expected to continue this trend throughout the remainder of the year (to reach $1JD = $A1.56 by December).



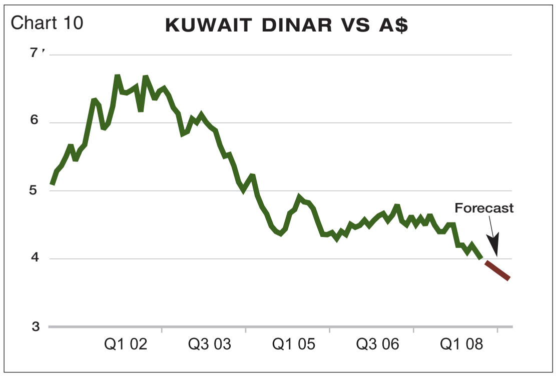
Source: Proview, ProFarmer Forecasts

KUWAIT

Kuwait cuts interest rates

Kuwait's oil-dependent economy is expected to experience growth of 4% in 2007, following a modest increase in oil output and oil-funded public infrastructure projects. However, inflation has been tracking at between 4-5% during the year. The Government has announced plans to ramp-up price controls and prosecute anyone found to be raising prices unnecessarily.

In response to US interest rate cuts in September, the Central Bank of Kuwait cut its repurchase rate by 0.5% to 4.75%. This came on top of a 0.25% cut the week prior. While the benchmark discount rate was left unchanged at 6.25%, the cut to repurchase rates will do no favours for domestic inflation. At the beginning of October, the dinar reached its highest point in 19 years following several upward revisions (against the US$) by the Central Bank. In A$ terms, the currency was trading at around $1DN = $A4.1 during the quarter, and is expected to depreciate to around $1DN = $A3.9 dinar by December.



Source: Proview, ProFarmer Forecasts

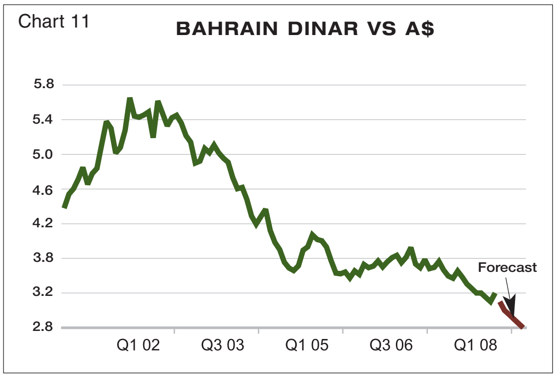
BAHRAIN, UAE, QATAR, OMAN

Region's revenues start to diversify

The UAE is expected to experience growth of 8.2% in 2007 (on the back of oil wealth and strong investment); however, like many economies in the region, this will come at the expense of high inflation. Inflation in Abu Dhabi jumped to 11.3% at the end of June, compared to 8.3% a year earlier, reflecting rising rents and fuel costs.

Qatar is forecast to reach average growth of 7.8% in 2007 (reflecting booming gas revenues); however, inflation reached 12.8% in the June quarter (following inflation of 14.78% in the previous quarter). The cost of rental housing is the key driver, with rent accounting for 60-90% of personal income. Inflation is also being spurred on by increased imports, due to a lack of domestic production of staple goods.

Strong oil revenues are expected to see Bahrain achieve average economic growth of 6.6% in 2007. Unlike some of its neighbours, inflation is relatively stable and is expected to average 3.5% this year. The dinar is anticipated to depreciate modestly against the A$ throughout the remainder of the year, to average around $1BD = $A3 dinar during the December quarter.



Source: Proview, ProFarmer Forecasts

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