



The global beef situation

..and its implications for Indonesia

Jakarta, 11 April 2018



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Global outlook view



- 1 Rising global production to push prices lower this year
- 2 India: the fall-back supplier
- 3 China's long term demand will grow beyond export capacities
- 4 Implications for Indonesia

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Rising global production to push prices lower this year



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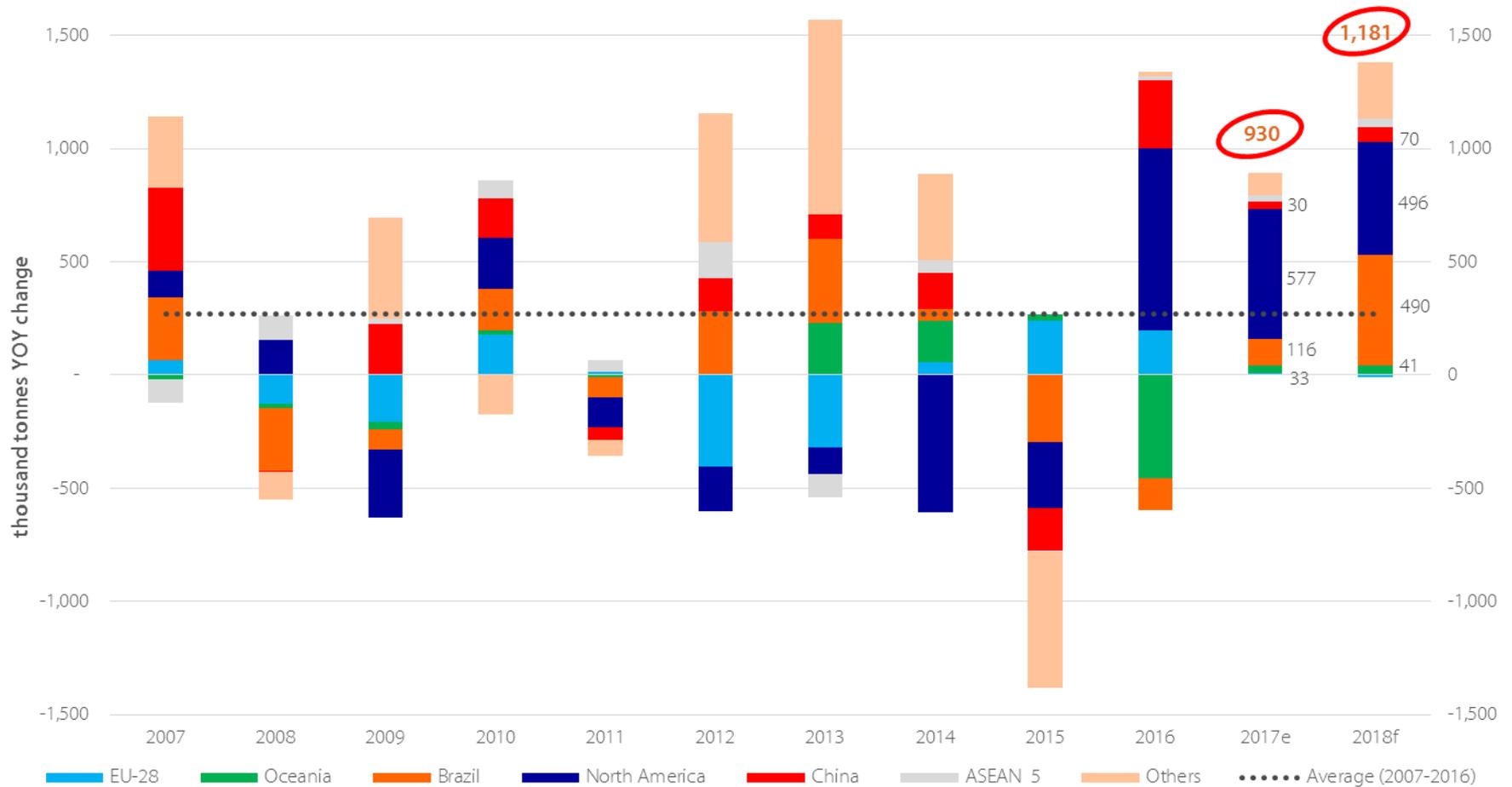
Beef production outlook

Expectations are for production increases in all regions, surpassing the ten-year average



Strong production increase being driven by Brazil, US, China

YoY changes in global beef production, by region

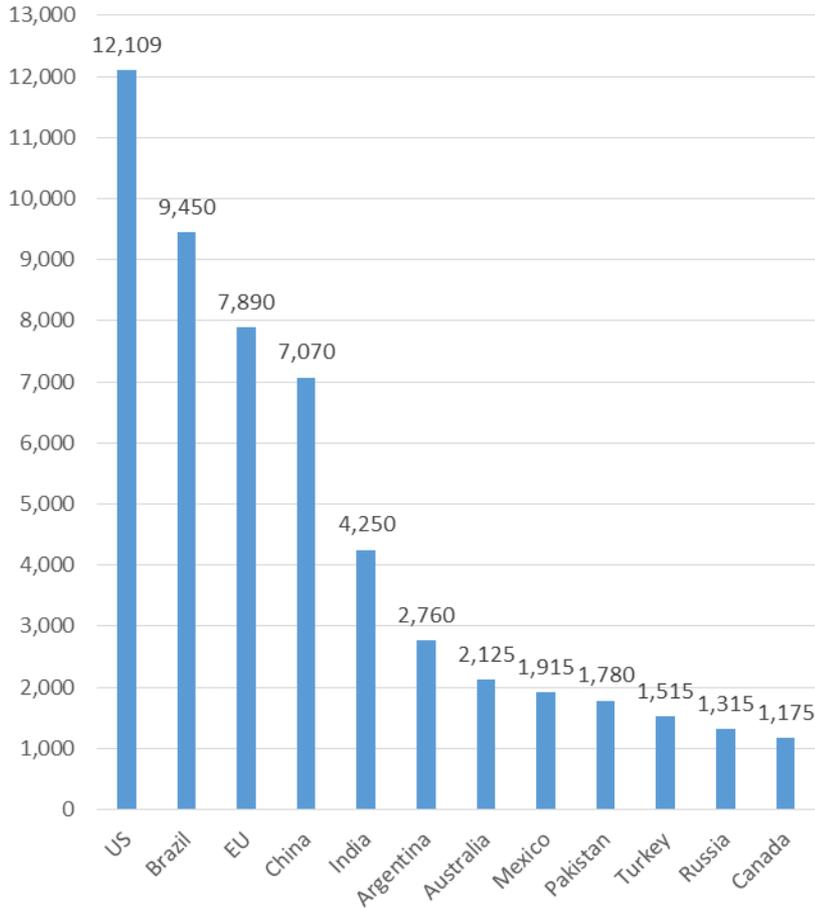


- Increases in North America and Brazil production will keep global production above ten-year average (59.5 million tonnes) in 2018

Source: USDA; Eurostat; Rabobank 2017

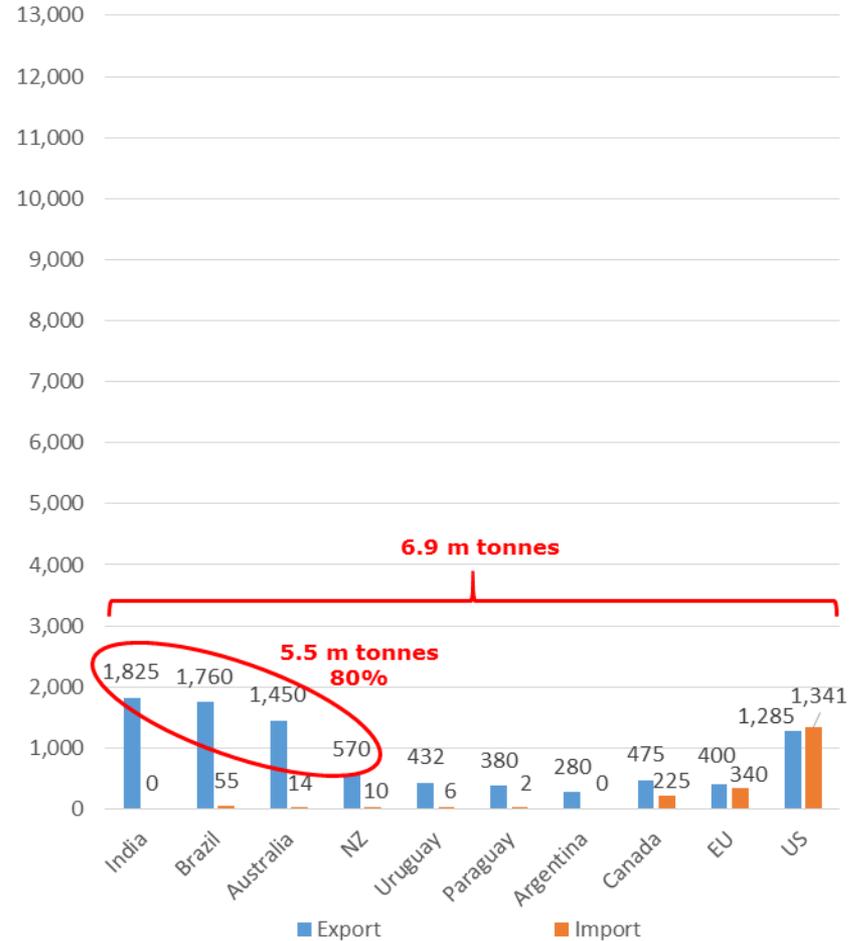
Global production vs. trade: Only 4 countries matter

Largest 12 beef producers (2017) – '000 tonnes cwt



Source: USDA FAS

Largest 10 beef net exporters (2017) – '000 tonnes cwt



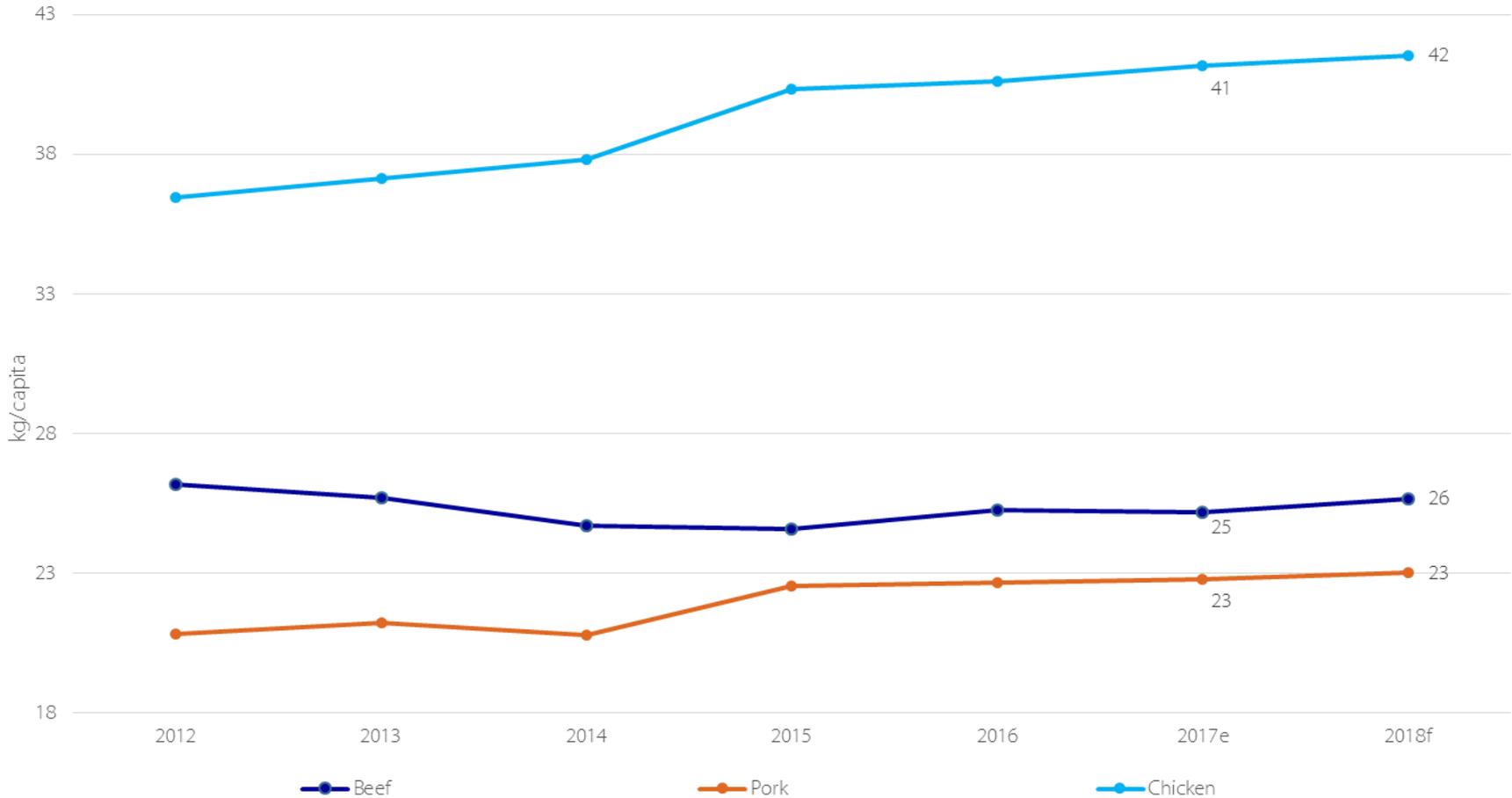
Source: USDA FAS

North America: rising production and consumption

Ongoing production expansion increases the dependence on trade



Per capita consumption in the US to be higher in 2018



- US protein consumption is set to grow. Total animal protein per capita consumption is expected to increase by 1.3% in 2018
- Beef consumption per capita will lead consumption growth in 2018, with a 2% increase YOY

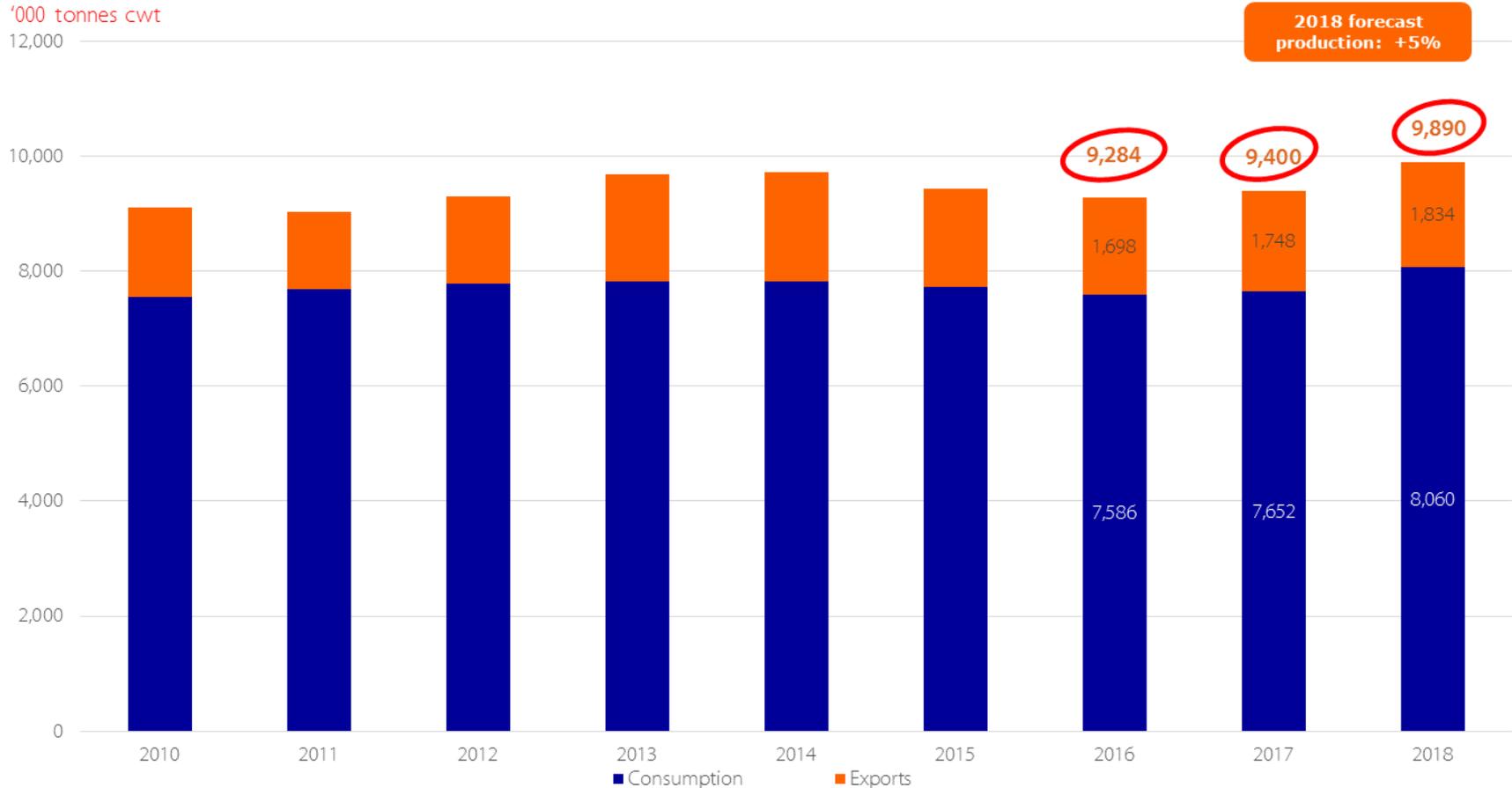
Source: USDA; Rabobank

Brazil: Beef supply to increase in 2018

Brazil is set to increase beef production by 5%



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- Beef production is likely to increase by 5% YOY in 2018. Relatively low feeder cattle prices should benefit feedlots in 2018.
- 2018 exports are expected to increase by 5%. But if demand disappoints, prices could be pressured.
- After two years in recession, Brazilian 2018 GDP is expected to increase by around 2%. This should support recovery in domestic beef consumption, which declined by around 4kg per capita during the recession.

Source: USDA, Rabobank

Argentina: ramping up supply slowly

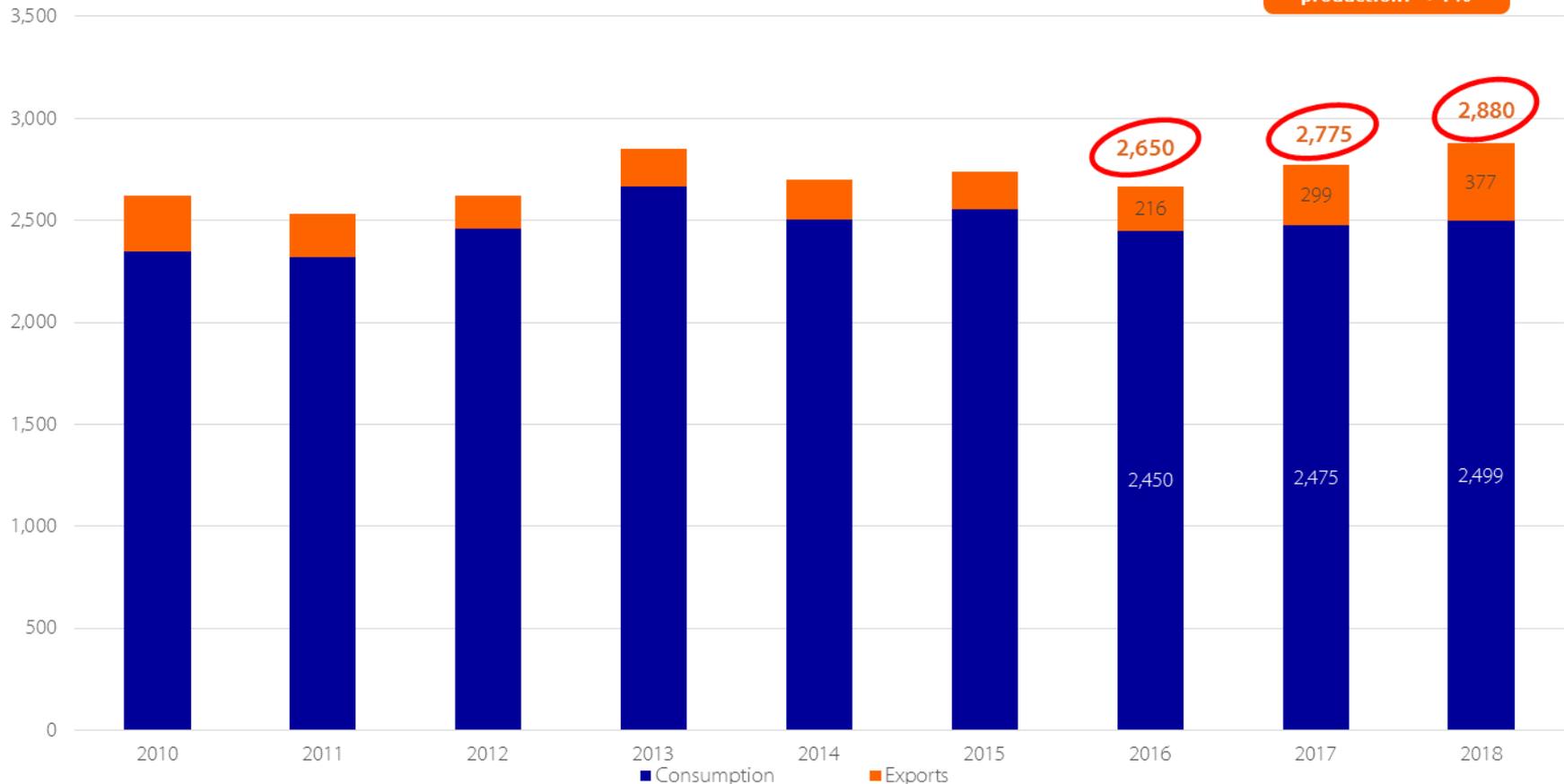
Argentine beef production to also increase in 2018



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'000 tonnes cwt

2018 forecast
production: +4%

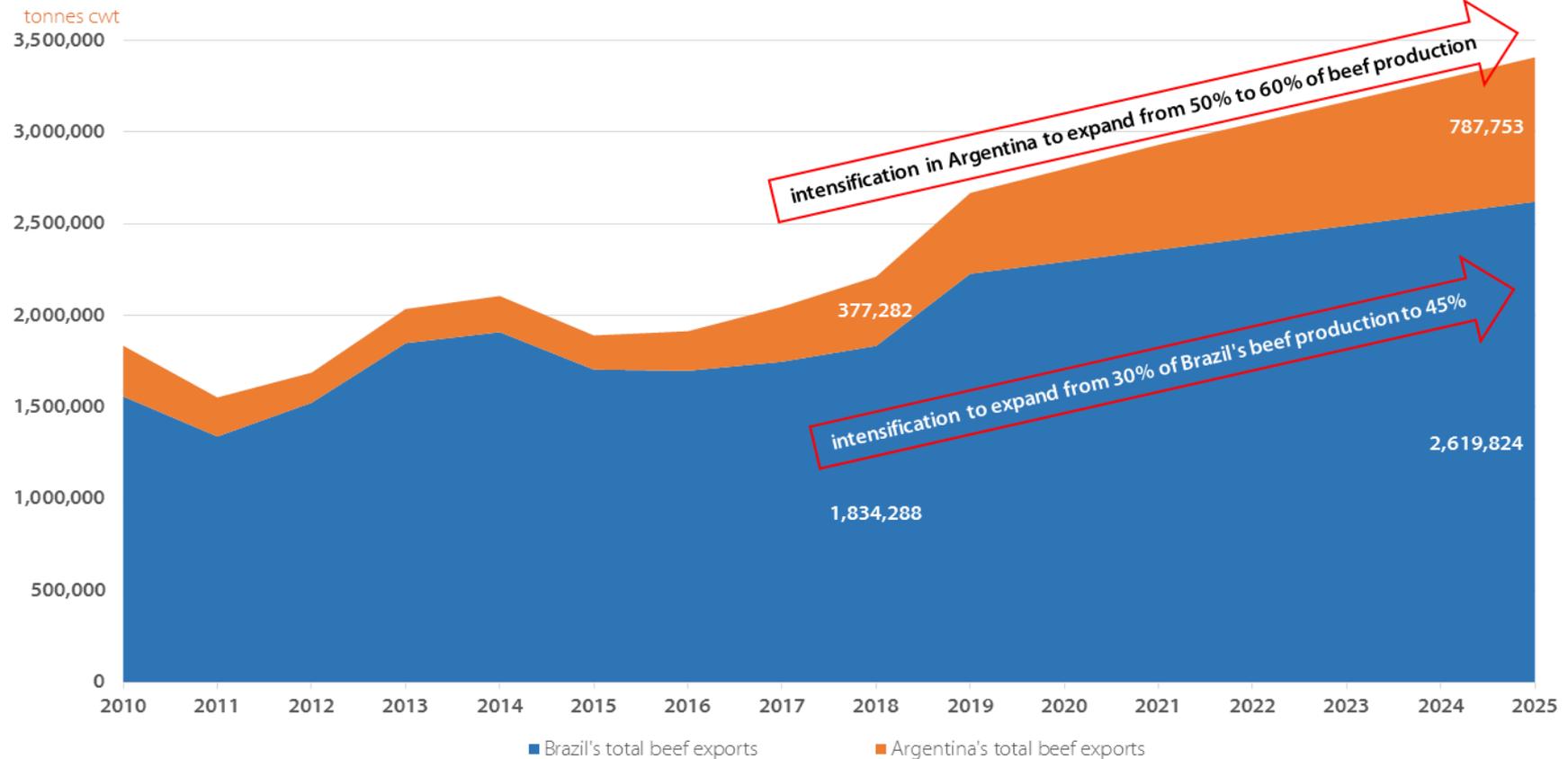


- Favorable policies for exports over the past two years have benefited the Argentine beef sector
- Beef cattle producers have been encouraged to increase herd. This should increase 2018 beef production by 4% YOY to almost 2.9 million tonnes
- Exports are projected to reach 380,000 tonnes in 2018

Source: USDA, Rabobank

Exportable supplies of Brazil & Argentina

Exportable amount to increase from 1.7 m tonnes in 2017 to 2.6m tonnes in 2025



- Brazil has around 75m hectares of underused pasturelands that are likely to be converted into grain producing areas
- More integrated beef production is moving inland, closer to grain production areas; supplementing pasture with low-cost feed. The intensification process will transfer 10m hectares into corn production to produce the required additional 3.2m tonnes by 2026
- Grain producers are also entering the beef sector. Cross-breeding is also taking place to improve yield/adaptability for tropical climate
- These will result in shorter cycles, heavier final weight, improved beef quality and higher margins

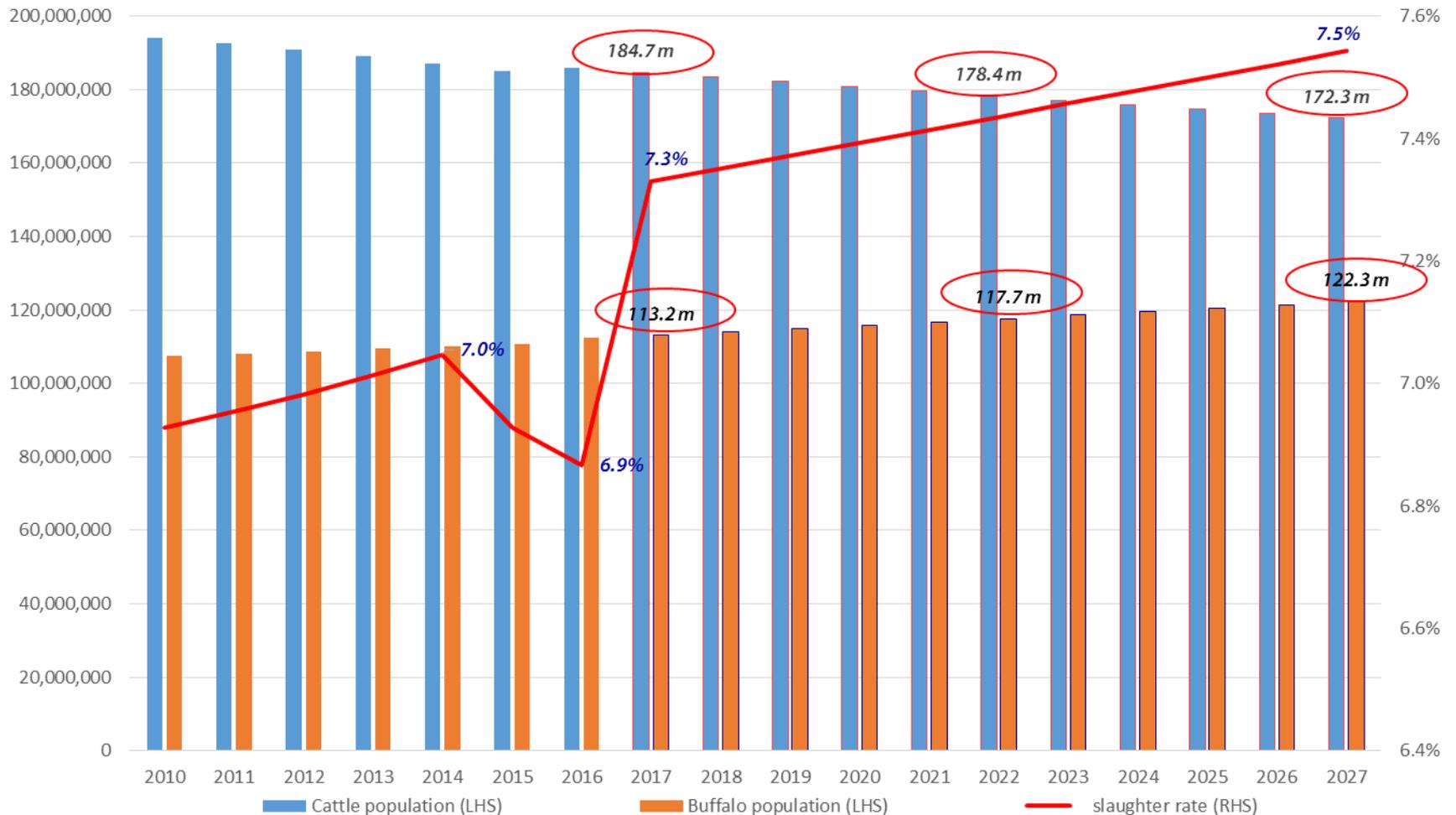
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India: the fall-back supplier



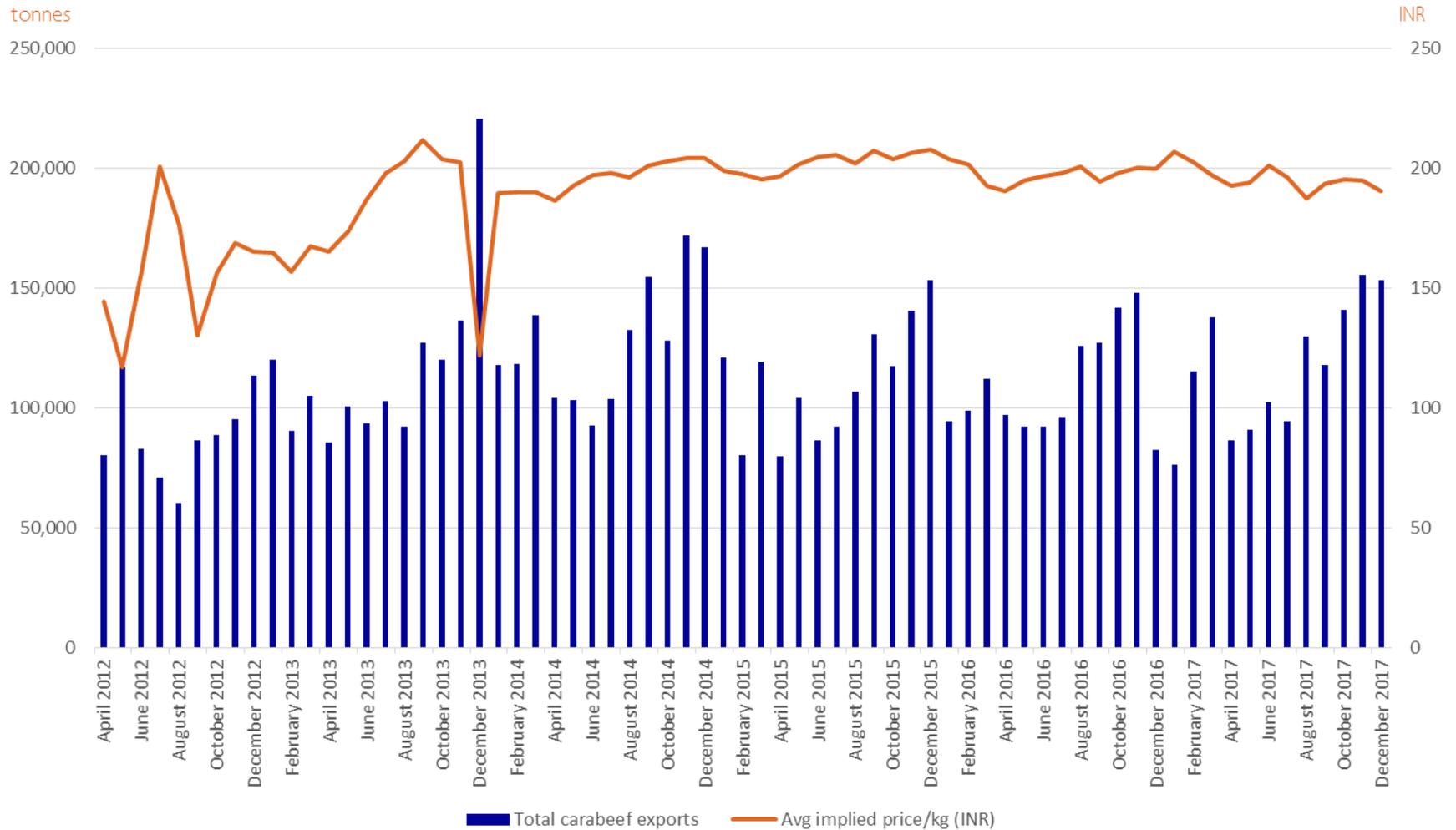
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India's carabeef exports may drop 11% in 10 years



- Population and slaughter rate in India have not increased since 2010, as it is largely a by-product of dairy industry.
- We believe India's carabeef supply will lag behind both export and domestic demand (assuming per capita consumption is to stay flat)

No correlation between Indian carabeef exports and price



- Between 2012 and 2017 there was an no correlation between exported volumes and prices (INR terms) of Indian carabeef exports
- This suggests that demand will fall back on Indian carabeef as global prices rises due to Chinese shift in imports

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China's long term demand will grow beyond export capacities



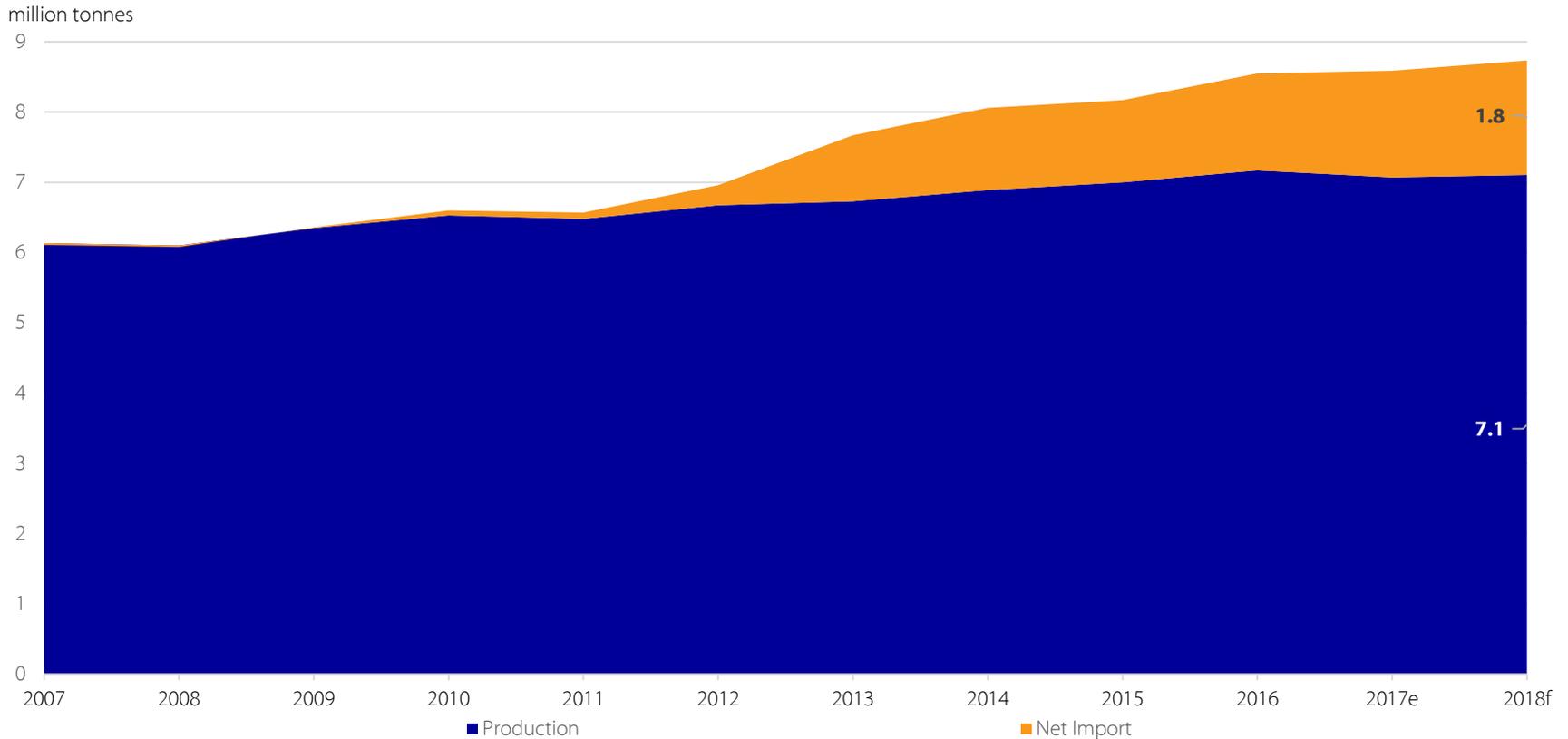
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China: driven by boxed beef imports

Beef supply will grow steadily, with imports as the main driving force

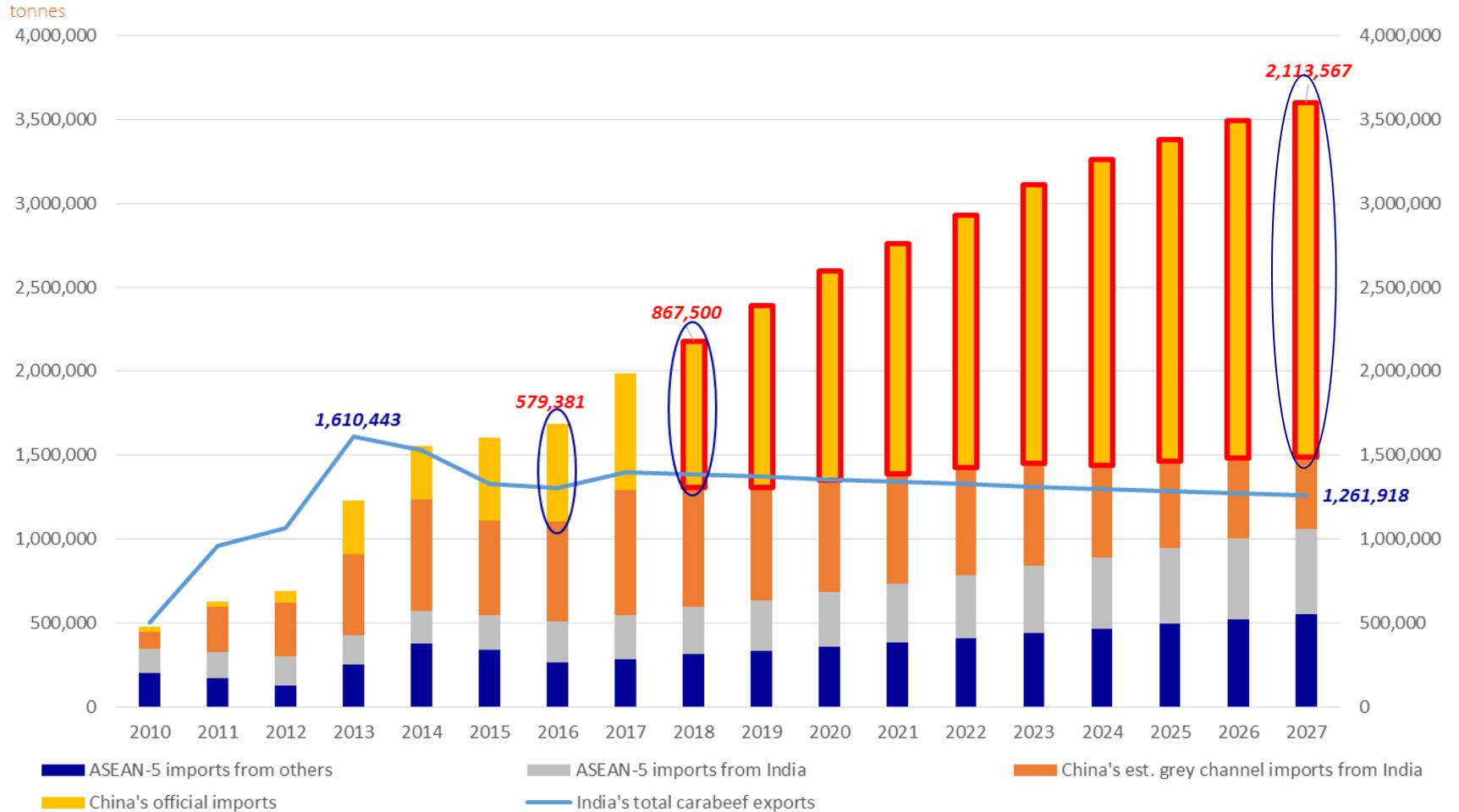


Beef imports will increase steadily, as production remains flat



- China's domestic beef production will increase marginally in 2018.
- Some regional governments, such as Inner Mongolia and Heilongjiang, have launched measures to promote local beef production. But in others, beef production will continue to face resource challenges and competition from low-priced beef imports.
- China has added more countries to the list of beef importers, including US.

China's growing appetite for beef



China's grey channel imports are expected to shift away from India; and towards official imports, fed by growth in Brazil, Australia and US beef production. A shift of such magnitude could exert pressure on global prices in the event of drought or trade barriers along the supply chain.

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Implications for Indonesia



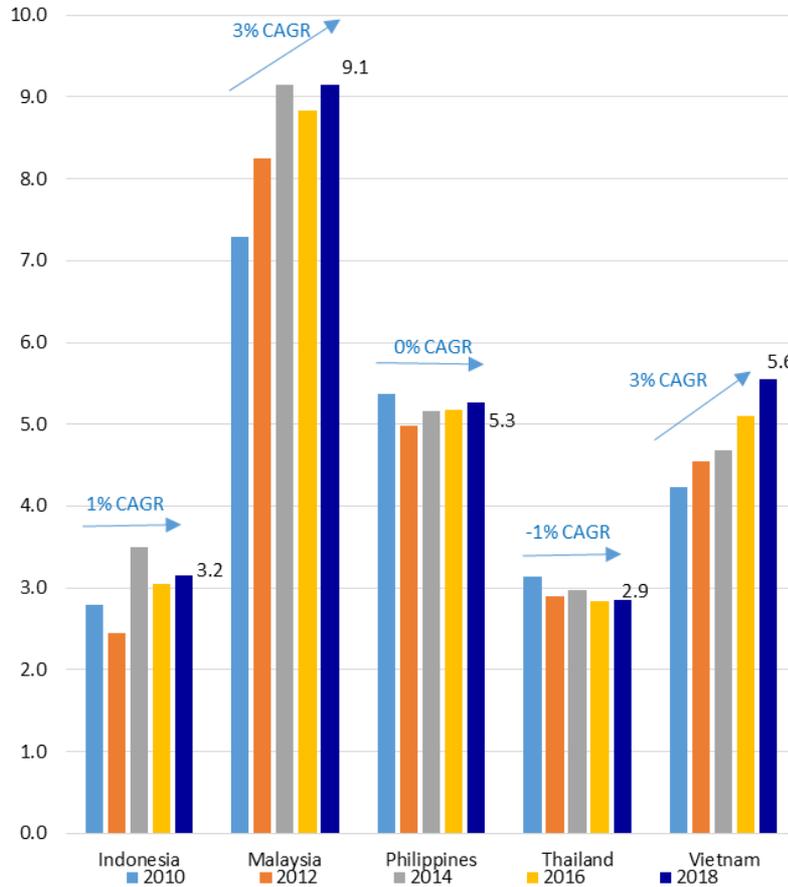
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AP consumption in Southeast Asia

Growth in beef demand – will continue to be met by imports with a focus on price.

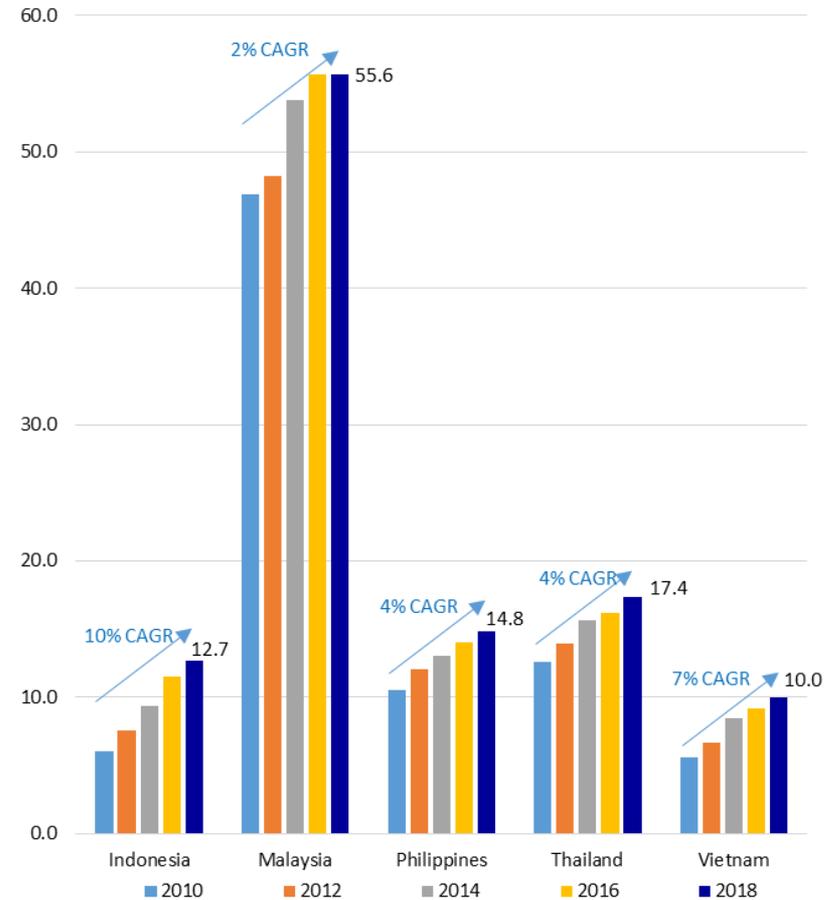


Beef consumption (kg cwt/capita)



Source: FAO, OECD-FAO, USDA, Rabobank

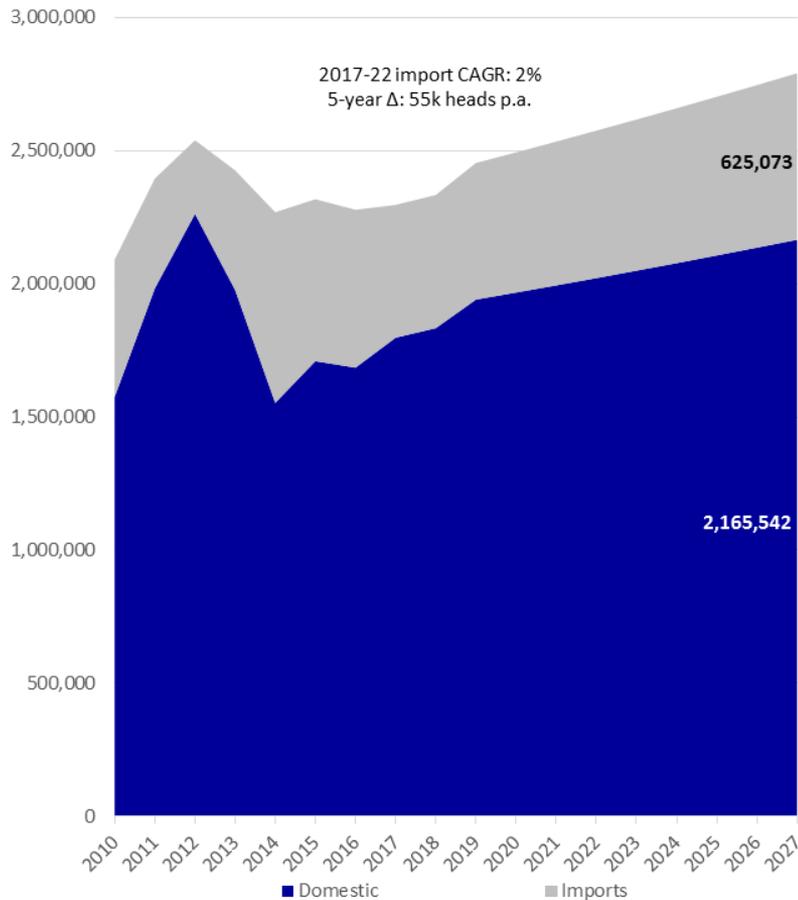
Poultry consumption (kg cwt/capita)



Source: FAO, OECD-FAO, USDA, UN ComTrade, Rabobank

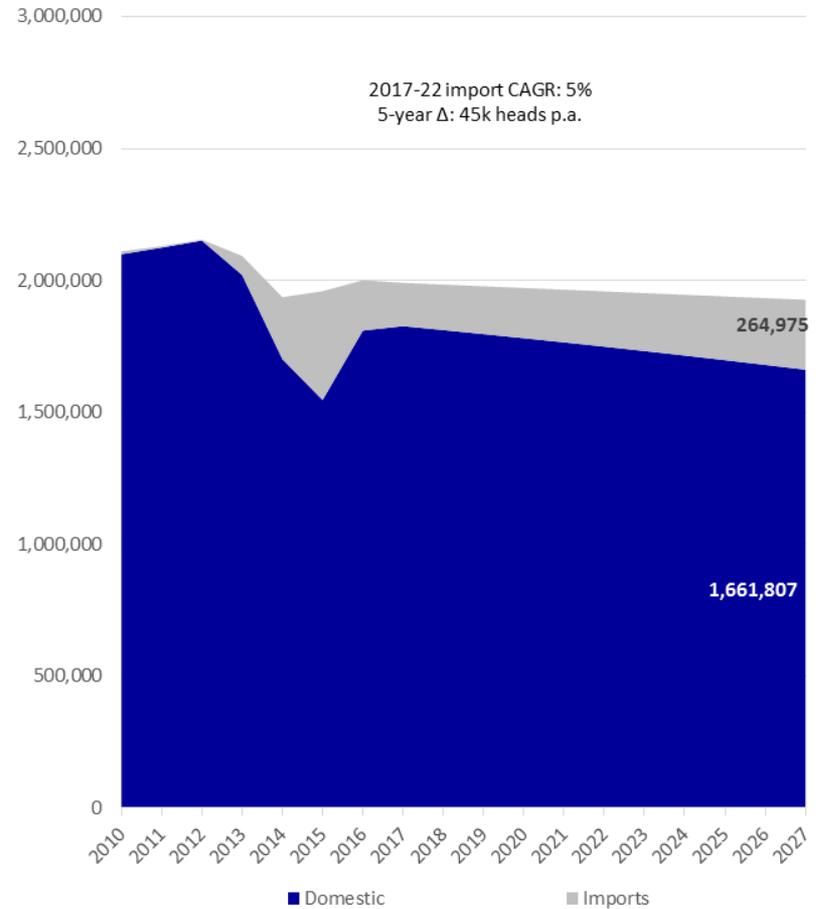
Key ASEAN-5 feeder cattle importers

Indonesia (heads)



Source: MOA, FAO, MLA, UN ComTrade, Rabobank

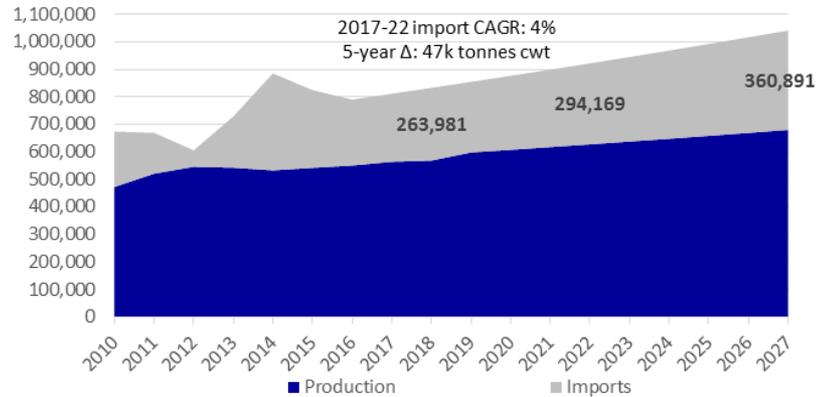
Vietnam (heads)



Source: GSO, FAO, MLA, UN ComTrade, Rabobank

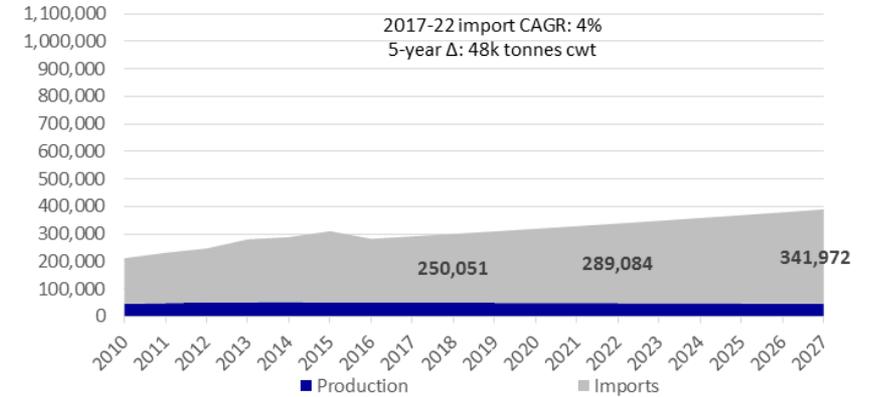
Key ASEAN-5 beef importers

Indonesia (tonnes cwt)



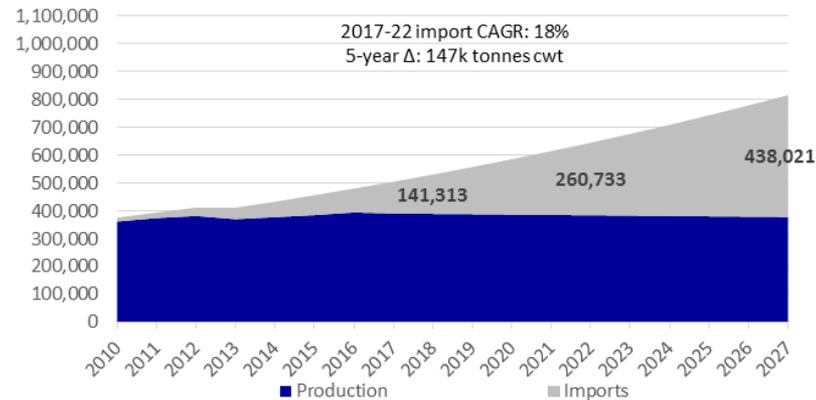
Source: MOA, FAO, MLA, UN ComTrade, Rabobank

Malaysia (tonnes cwt)



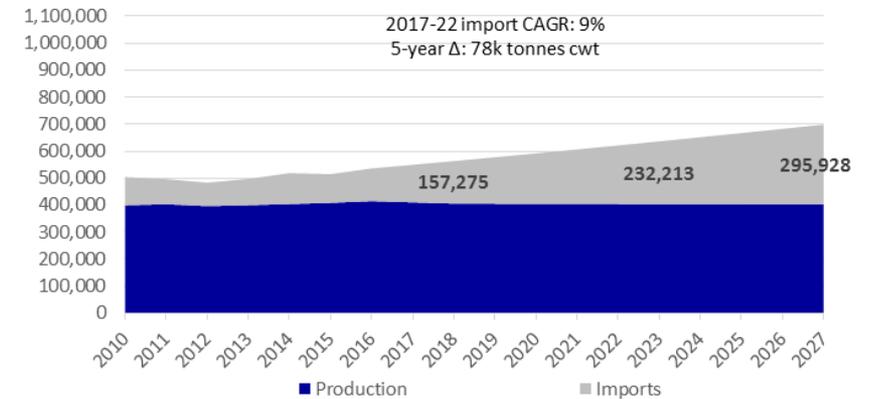
Source: FAO, MLA, UN ComTrade, Rabobank

Vietnam (tonnes cwt)



Source: GSO, FAO, MLA, UN ComTrade, Rabobank

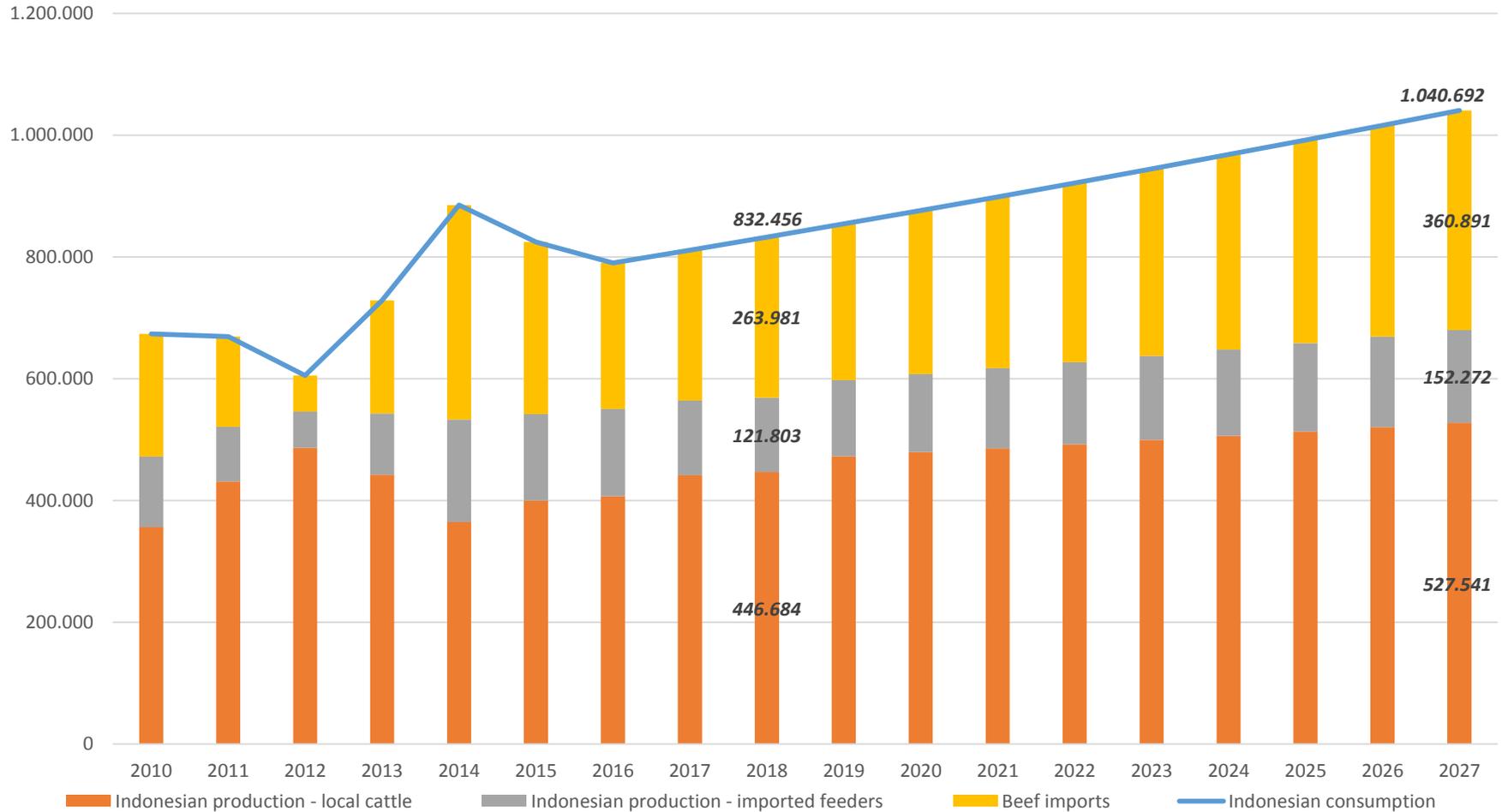
Philippines (tonnes cwt)



Source: PSA, FAO, OECD-FAO, MLA, UN ComTrade, Rabobank

Indonesia supply outlook

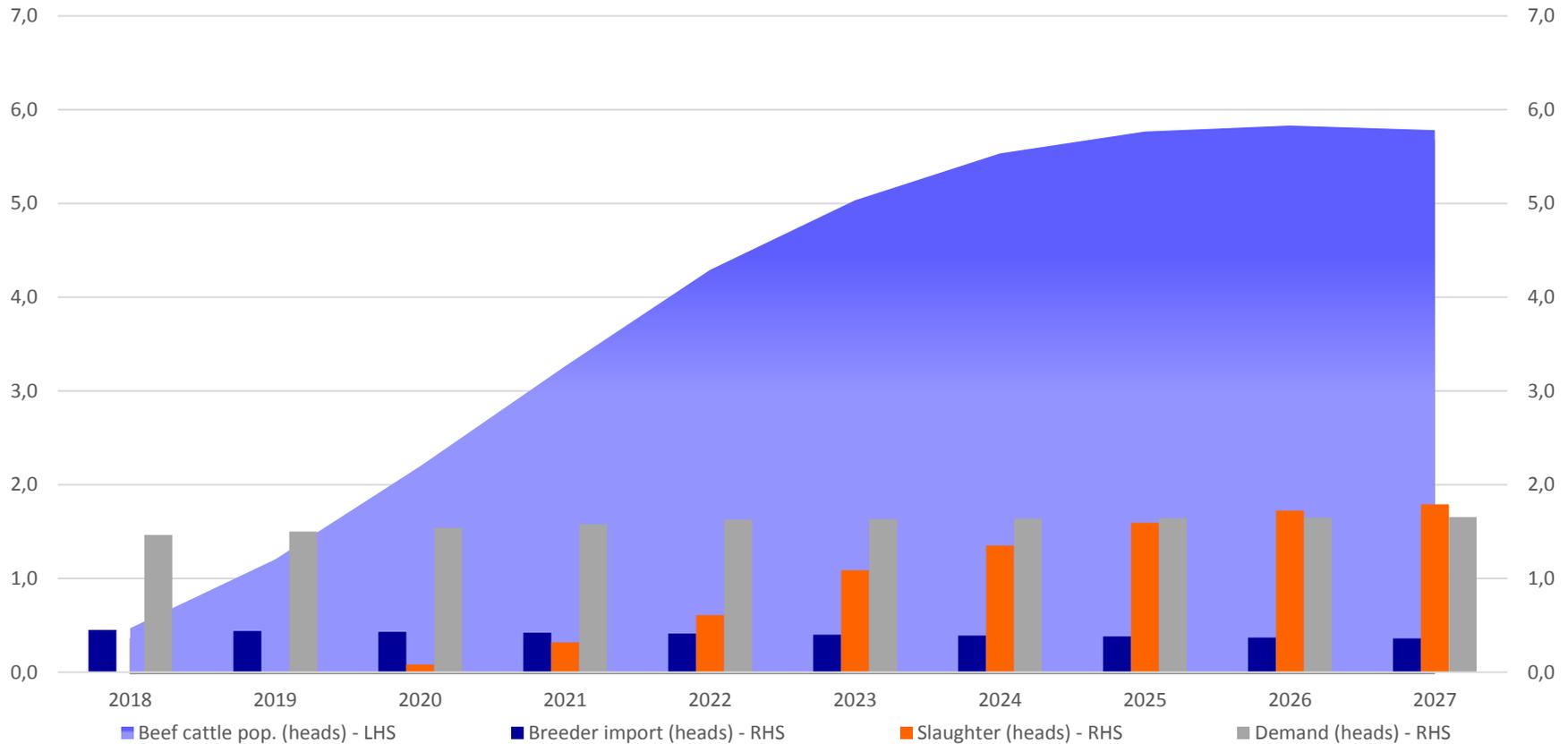
tonnes cwt



Indonesia has no obvious cost advantage as a beef cattle producer. Longer term, competition with China for supply outside India means that beef and feeder cattle prices will continue to increase over the long term

The challenge in beef self-sufficiency

Beef self-sufficiency may never be realised

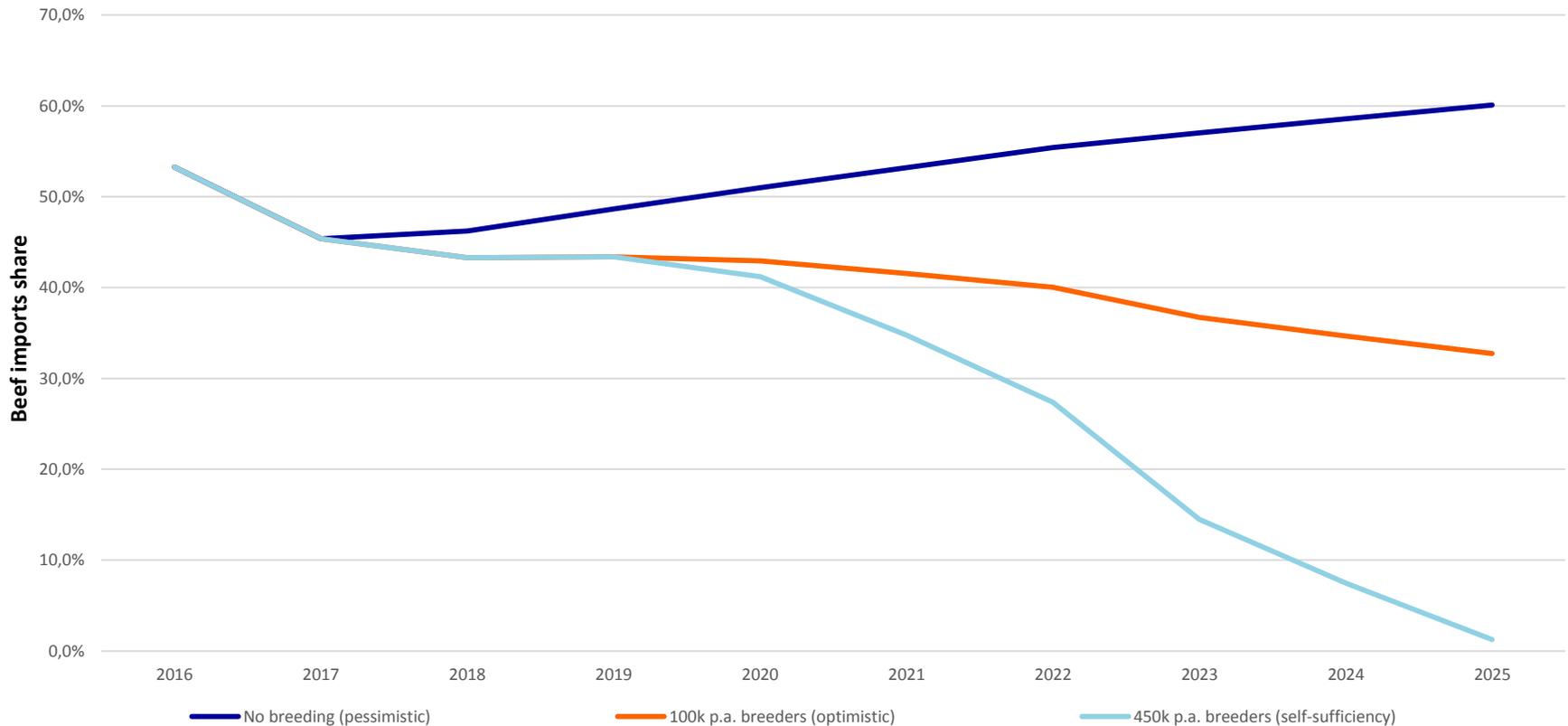


Source: Rabobank estimates

- By our estimates, Indonesia will need a steady supply of 1.6 million additional slaughter cattle p.a. to be self-sufficient in beef
- Indonesia needs to import 450,000 breeders p.a. – assumed to start this year – and to achieve beef self-sufficiency by 2026
- There is simply not enough available breeders supply or enough grazing land to accommodate self-sufficiency

Exploring scenarios

Indonesia's beef + feeder imports with diff. scenarios



Source: Rabobank estimates

- If imported carabeef price is allowed to undercut beef produced from imported feeders, feeder imports are assumed to diminish
- Share of imported beef will increase from 45% in 2017 (including 15% share of beef from imported feeders), to 55% by 2022, and 60% by 2025
- Local beef prices will thus be dictated by exchange rate movements and China's appetite

After-thought: available options

1. Invest in complete domestic supply chain; i.e. breeding, feedlotting, slaughterhouses, and cold chain to compete with beef imports
2. Diversify either towards cheaper proteins; or towards high value-added protein markets
3. Invest in grass-fed calves overseas; and import the end products

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