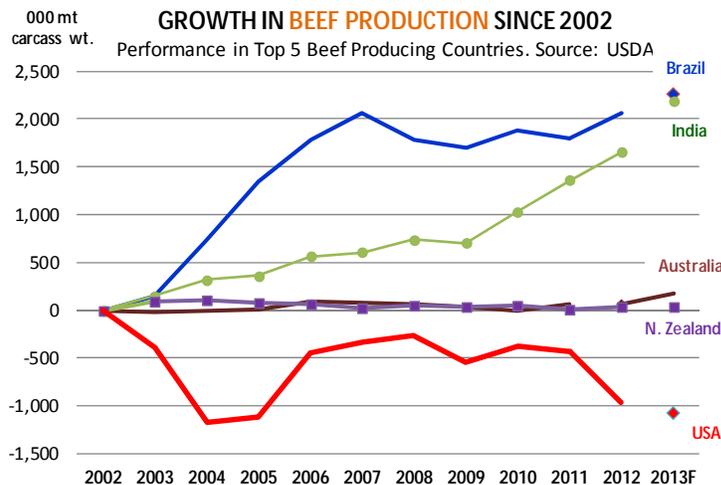


On Friday we provided an overview of the changes in cattle numbers in key countries and the implications this had for US beef imports/exports in the coming year.

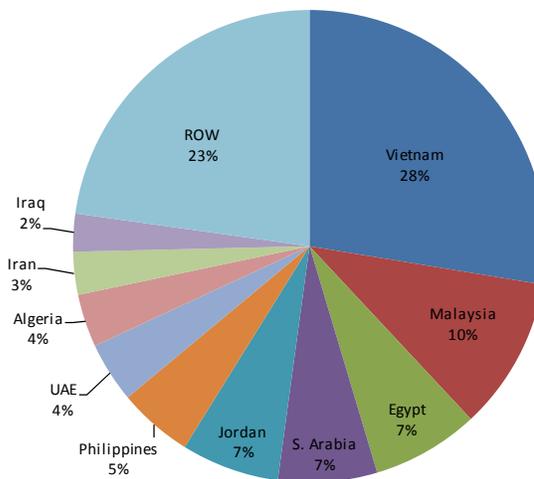
But as some of our readers correctly pointed out, our discussion omitted India, a country that has emerged as a significant global supplier of bovine meat in recent years. Note here that we use 'bovine meat' as a catchall phrase to include beef produced from both cattle and buffaloes. There were two reasons why we left India out of our Friday letter. First, the discussion was specifically focused on the US and we think that India is only a marginal competitor with the US as it does not have access to key Asian markets due to its FMD status. Second, we also were focusing on countries that are or may become beef suppliers to the US. Again, due to the FMD status, we do not see India shipping beef to the US in the foreseeable future. Having said that, we think the rise of India in the global beef trade is a tremendously important factor. Global beef demand is expected to expand in the coming decade with improving incomes and diets in developing markets. As the US seeks to expand in non traditional markets in the Middle East, Africa and Southeast Asia, it will face stiff competition from abundant, cheaper and sometimes socially preferred (halal preferences) Indian beef.

The chart to the right illustrates the growth of India bovine meat output since 2002. While US production has declined by some 1 MM MT and Australia/New Zealand have been about steady in terms of output, Brazil and India have dramatically ramped up production. Brazil output in 2013 is currently projected by USDA at about 9.5 MM MT (carcass wt basis), an increase of about 2.2 MM MT since 2002. India production also has expanded rapidly. India already has the largest bovine herd in the world. USDA's latest projection pegged Indian bovine stocks at 327 million head, with about 210 million being cattle while the rest are water buffaloes. There are two main reasons for having bovines in India, milk production and draft power. Most rural families own one or two bovines. But as herds have expanded in recent years and because domestic beef consumption is minimal due to the status of cattle in Indian religion, the supply of beef available for export has expanded. Most of this beef is from water buffaloes. Cattle slaughter remains a significant social taboo. Since 2002, bovine meat production in India as increased by almost 2.2 MM MT (carcass weight), and much of that growth has gone to export. And because almost all Indian beef slaughter conforms to halal standards, it has gained significant acceptance in countries with large Muslim populations. In many Middle Eastern countries, Indian is the biggest supplier of beef, with Brazil a second option. US exports to the Middle East remain relatively small. Exports to Vietnam have increased significantly in recent years, in part be-



Top Markets for India Bovine Meat Exports

Based on 2011 Export Data. Source: Global Trade Atlas



cause some of this beef was transhipped to China. As China has sought to close some of the "gray" trade channels, we will likely start to see more beef going directly from India to China. This would certainly make it more challenging for US beef to compete in the Chinese market. For now, FMD issues prevent Indian beef from breaking in markets such as Japan. But future demand growth is in the developing world, and those are markets that India is already successfully competing in.



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