

Industry projections 2019

Australian cattle – August update





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KEY POINTS

- Female slaughter levels enter uncharted territory
- Young cattle market in the balance as finished cattle prices find support
- Demand across major international markets remains strong



KEY 2019 NUMBERS

-  **Slaughter:**
8.1 million head
-  **Carcase weights:**
282.5 kg/head
-  **Production:**
2.3 million tonnes cwt
-  **Beef exports:**
1.13 million tonnes swt

* Graphic illustrates year-on-year change

Summary

The pace of herd liquidation has accelerated in recent months as widespread dry conditions persist across many key production regions, limiting feed availability and generating severe stock water shortages. Many producers have destocked, or are now managing significantly depleted breeding herds, highlighted by record levels of cow and heifer slaughter – 58% of total adult cattle slaughter from March-May. This most recent wave of destocking further compounds the pace of future rebuilding prospects.

Elevated female slaughter and poor conditions have combined to drive average carcass weights lower this year. Despite forecast national slaughter being revised higher to 8.1 million head in 2019, the lower slaughter weights have underpinned unchanged production levels, at an estimated 2.3 million tonnes carcass weight (cwt).

The lot feeding sector continues to support national beef production and has been a critical link in the supply chain during the prolonged dry period. The number of cattle on feed reached a new record in the March 2019 quarter and remained above the 1.1 million head mark for the fourth consecutive quarter. This number is expected to remain high, given finishing cattle on limited pasture remains challenging.

Demand for Australian beef has been robust so far in 2019, supported by a depreciating Australian dollar and China. However, competition is still intense with a record amount of beef being traded globally and more focus than ever on Asian markets. Australian beef exports are forecast to finish the year steady, at 1.13 million tonnes shipped weight (swt).

Prices for finished cattle have improved this year and are likely to find continued support given an expected tightening of supply during the remainder of the year. Young cattle prices have been reasonably subdued and, until seasonal conditions allow restockers to re-enter the market with confidence, the store market is unlikely to see any significant price corrections. However, if a solid break in conditions were to materialise, there is the potential for young cattle and productive female prices to see significant upside.

Seasonal conditions

The national footprint of the drought has grown over the past 12 months with higher than average temperatures exacerbating significant rainfall deficiencies across the country. This trend has continued in the last three months with nearly all states recording below average rainfall.

There was some scattered rainfall, with parts of south-east Queensland and the northern tropics recording some heavy falls. The central and north-east coast of NSW recorded above average rainfall, as did large areas of central and western Victoria. Parts of western NSW and the south-west region of WA saw between 100–200mm of rain, however with the lack of follow-up rain there has been little reprieve from the dry conditions.

Looking forward, the outlook for August to October favours a drier than average three months, with large parts of northern and eastern Australia, as well as south west WA, given a less than 40% chance of exceeding median rainfall. The forecast for parts of WA is more optimistic, with a 40–45% chance of exceeding median rainfall. Temperatures across the country are predicted to be warmer than average, with nights also expected to be warmer. The latest reports from the Bureau of Meteorology (BOM) reconfirm that for significant drought recovery to occur, prolonged rainfall over months or seasons will be needed, which is unlikely in the latest 3-month outlook.

Figure 1: Australian rainfall – January to July 2019
Rainfall decile ranges

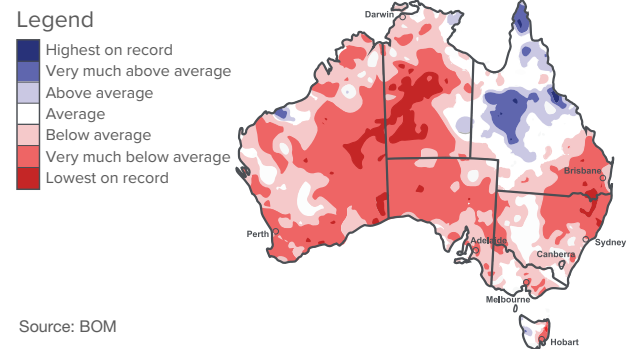
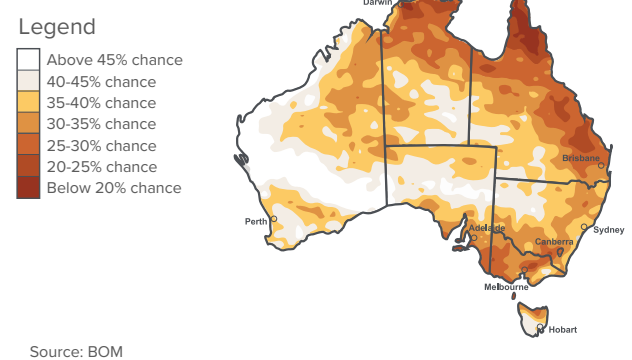


Figure 2: Australian rainfall outlook – August to October 2019
Chance of exceeding the median rainfall



Cattle herd and slaughter

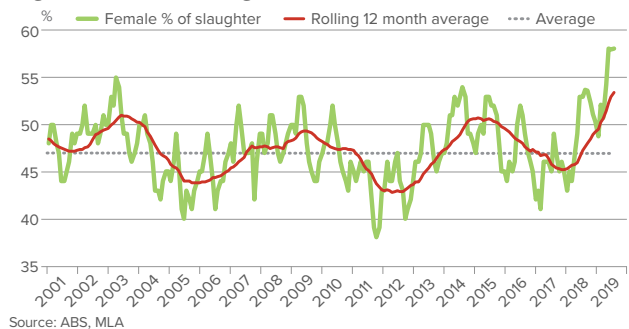
The national herd is estimated to have declined 7.3% to 26 million head for the year ending June 2019, underpinned by the drought-induced elevated turn-off of the breeding herd, as severe water shortages accelerate the current wave of destocking. Estimated branding rates have also fallen, reducing the number of calves on the ground this season.

The herd adjustment, compared to April's cattle projections, is largely due to higher than expected published Australian Bureau of Statistics (ABS) herd figures for mid-2018, which remained surprisingly stable against mid-2017 numbers. Despite the onset of deteriorating conditions towards the back half of 2017, which lifted slaughter levels, branding rates appear to have held up across the year, reflected in the unchanged number of calves less than one-year-old across the periods above. However, at 26 million head, the current national herd reflects the full impact of the drought on the 2018-19 breeding year and the large outflow of cattle from the production system for the year ending June 2019.

High turn-off so far this year has largely been facilitated by a sustained surge in female slaughter, which in May totalled 58% of total adult cattle slaughter and matched the levels recorded in March and April. Three consecutive months of record elevated female slaughter rates have significantly reduced the volume of breeding stock, a factor that will considerably slow the pace of any rebuild once conditions improve.

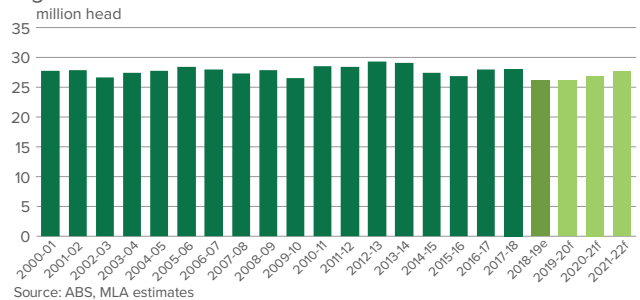
On a 12-month rolling basis, the female percentage of adult slaughter stands at 53%, reflecting the prolonged period of dry conditions. While the rate of heifers and cows in the national kill continues to rise, up 23% in the calendar year-to-May, male slaughter across the same period ran 6% below 2018 levels.

Figure 3: Female slaughter



Australian adult cattle slaughter for 2019 is forecast to lift 3% year-on-year to 8.1 million head, due to slaughter levels opening the year well above 2018 levels. However, the availability of slaughter cattle is still expected to tighten in the later part of the year. The extent of the contraction for national slaughter will be dependent on any widespread rainfall from spring onwards. Looking further ahead, and taking into account the current high female slaughter levels, low branding rates and producer intentions to rebuild, adult cattle slaughter is forecast to fall significantly in 2020, based on the assumption of an improvement in conditions.

Figure 4: National cattle herd



Carcase weights and production

Both male and female carcase weights have declined year-on-year so far in 2019 and with female cattle accounting for an unprecedented percent of slaughter over the last three months, the average adult carcase weight is expected to decline considerably in 2019.

The expected average male carcase weight for 2019 has been revised slightly lower to 323kg. The continued high number of cattle on feed, which is skewed towards males, is contributing to the stability of male carcase weights. Female carcase weights are expected to record a larger decline to 248kg, 7kg lower than last year.

Adult carcase weights have risen steadily over the last 15 years, as genetics and production methods improve. This continual growth has meant that even during dry periods, annual averages have so far resisted ending the year lower than the five-year average. However, female carcase weights in 2019 are expected to fall below the five-year average by nearly 3kg, another indication of the national pasture deficit.

The decrease in carcase weights has offset the expected 3% rise in slaughter, leading to production forecasts remaining unchanged year-on-year. Beef production is expected to be 2.3 million tonnes carcase weight (cwt), 2% below the five-year average.

A significant change in the season would likely see carcase weights return towards the five-year average as the female kill falls and the feed bank increases. However, this is unlikely to have a positive impact on production in the short term, as rain would significantly tighten the cattle supply and negate any support from heavier carcase weights.

Figure 5: Cattle on feed

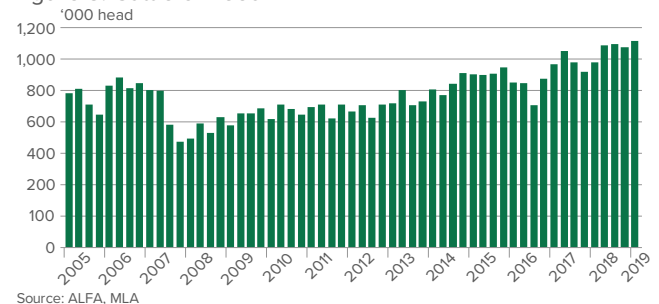
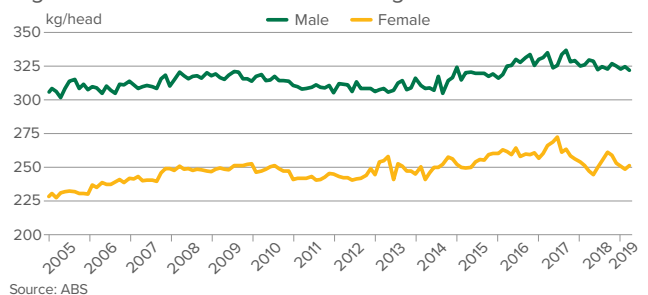


Figure 6: National adult carcase weights

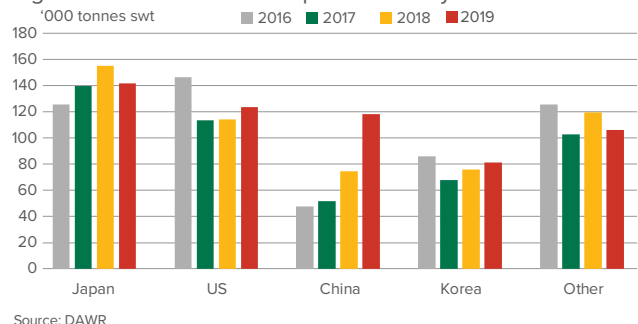


International markets

Global beef demand has been strong so far in 2019, particularly among Australia's major export markets. In the first half of the year, total beef exports increased 6% and grainfed shipments reached record levels. However, coming up against some supply constraints in the second half of the year, 2019 exports are expected to finish the year steady at 1.13 million tonnes shipped weight (swt).

China-led growth across both high and lower value product, expanding 59% year-on-year in the first six months of 2019. Shipments to the US have increased 8% amid strong demand for lean frozen manufacturing beef to offset the swelling volume of domestic fatty trim, while orders for chilled grassfed primal cuts also recorded solid growth.

Figure 7: Australian beef exports: January-June



On the back of growing US exports, Australian beef has experienced increased competition with US product in Japan and Korea. Australian exports to Korea have increased 8% so far in 2019, driven solely by greater grassfed shipments, with US beef competing strongly within grainfed loin and forequarter cut categories. Shipments to Japan have eased 9% so far this year; however, 2018 was a high comparison period as US beef was temporarily hit with additional tariffs in the first quarter. Despite the strong presence of US beef in the market and growing buying pressure from China on brisket, blade and manufacturing cuts, Australian shipments to Japan have been in line with 2017 volumes and the five-year average.

Amid strong demand from Australia's top four traditional markets and ongoing pricing pressure, some other export markets have receded. Most notably, shipments to South East Asia were back 12% in the first half of 2019, with the decline driven by frozen product. Chilled exports to the region, particularly to Indonesia and Singapore, actually expanded 9% over the same period, reflecting the growing possibility for Australian product to carve out premium high-value opportunities.

While demand has been robust, global trading conditions have become ever more competitive. On a 12-month rolling basis, the top 10 largest exporters sold 6.74 million tonnes swt of beef on the global market over the last 12 months - an extra 400,000 tonnes swt, or 6%, compared to a year earlier and 840,000 tonnes swt compared to two years ago. Furthermore, of the top 10 largest exporters, only India and Paraguay recorded a contraction in beef exports over the most recent 12-months of available data. Argentina led export growth (up 64% year-on-year) amid a collapse in the local currency and a relaxation of export controls, while the US (up 5%), Brazil (up 15%), Canada (up 12%), New Zealand (up 8%), Uruguay (up 2%) and the EU (up 1%) all joined Australia in an export expansion. Reflecting this growth, the US Department of Agriculture have estimated a record 17.3% of global beef production will be traded internationally in 2019, up from 13.2% in 2010.

Never has there been so much beef moving around the global market but, in addition, this beef is increasingly being directed into Asian markets – a region where Australia has traditionally maintained a leading position. Part of this pivot to Asia is the strong return of US beef into Japan and Korea, following the ban and restrictions after it recorded a case of bovine spongiform encephalopathy (BSE) in 2003. However, more recently, South America has moved out of its traditional markets of Europe, Russia and the Middle East and is increasingly geared towards China.

Live export

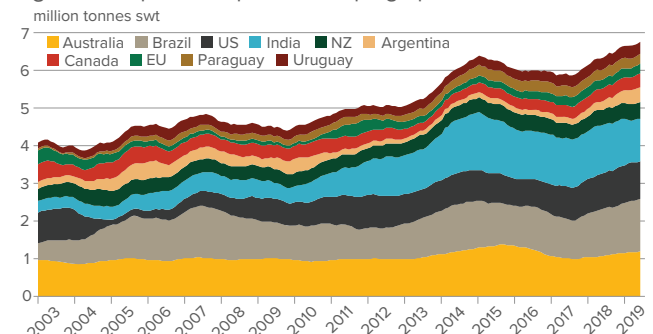
Dry conditions have also supported cattle exports, with total shipments up 19% in the first half of 2019. The Indonesian feeder trade has underpinned this rise, while feeder and slaughter exports to Vietnam have also gone through a period of growth. Although dairy cattle shipments to China have expanded, the slaughter trade to the market has halved during the first six months of 2019.

Looking ahead, supply is expected to slow in the back half of 2019 and over coming years if the herd enters a rebuild phase. Cattle shipments are forecast to finish 2019 at 1.15 million head, up 6% year-on-year. In terms of demand, the cost of cattle out of Australia will remain a primary challenge in price-sensitive markets, with feeder steers over 300¢/kg live weight out of Darwin still testing markets where Indian buffalo meat is present.

Prices

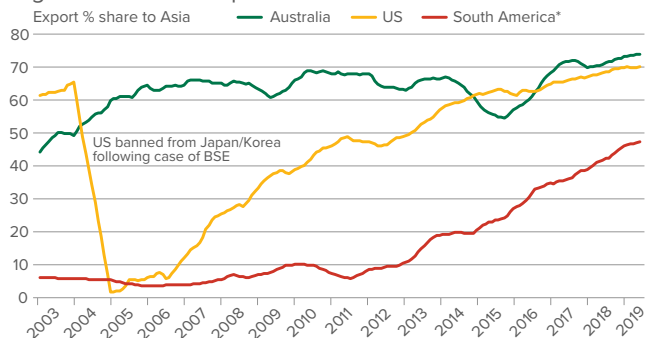
The cattle market has mostly tracked sideways in recent months, as strong demand for finished cattle has offset the pressure of continued drought induced elevated supply. Prices, particularly for store cattle, are in the balance, with a decent break in the weather having potential to push prices back up towards 2016 highs. Inversely, an extension of dry weather will place renewed pressure on prices. Currently, poor conditions in most major cattle regions continue to dampen restocker activity; however, the prospect of an eventual tightening of supply and strong international demand are providing price support.

Figure 8: Top beef exporters ramping up



Source: IHS Markit, MLA calculations, 12-month rolling total of top-10 exporters

Figure 9: Beef trade pivot to Asia



Source: IHS Markit, MLA calculations

*South America includes Brazil, Argentina, Uruguay and Paraguay

The Eastern Young Cattle Indicator (EYCI) finished the first half of the year similar to where it started the year, at close to 500¢/kg cwt but 7% below the five-year average for the January-June period. So far in 2019 feedlot buyers have provided key support for young cattle prices and have continued to pay a premium to restockers for EYCI eligible cattle. This is being driven by strong demand for grainfed beef in international markets and a shortage in feed driving up prices for finished cattle more generally, assisting feedlot margins despite high grain prices.

Strong international demand and a low Australian dollar have combined to underpin the average price of Australian beef exports in 2019, up 11% on year-ago levels over the year-to-May to A\$7.90/kg free on board (FOB), providing key support for domestic cattle prices.

Heavy steers through the saleyard have outperformed other major indicators, averaging 537¢/kg cwt in June 2019 and up 11% year-on-year, while trade steers were flat at 539¢/kg cwt. The limited supply of finished cattle has driven a price wedge between them and their lighter counterparts. This year has seen the largest premium between the heavy steer indicator and the EYCI in the last decade, emphasising the severity of the dry conditions and strength of demand. In 2019, the average heavy steer sold in saleyards traded at an 8%, or 37¢, premium to EYCI eligible cattle. However, since 2010 the EYCI has averaged 23¢, or 6%, more than heavy steers, highlighting the upside potential of young cattle prices with a change in seasonal conditions. However, the current poor BOM rainfall forecast will likely mean recent challenges in adding weight to cattle will remain, and so should the premium over store cattle recorded at the finished end of the market.

The national medium cow indicator was up 6% in June on year-ago levels, averaging 382¢/kg cwt, with strong export demand for lean manufacturing beef lending support to cows in good condition despite the elevated supply. The imported US 90CL beef price indicator has appreciated significantly in 2019, rising 80A¢/kg to around 700A¢/kg cost insurance and freight (CIF) and pushing the premium to the Australian medium cow indicator over 300A¢/kg, well above the five-year average of 195A¢/kg. Underpinned by rising international demand for manufacturing beef, this sizable spread indicates there is considerable upside potential for cow prices if seasonal conditions improve.

As always, the weather will have a significant impact on future domestic cattle prices. The intent from restockers to rebuild is still evident and the longer the herd remains in liquidation, the fiercer the competition for cattle will be once conditions allow the rebuild to commence. Beyond the weather, factors such as exchange rates, US production and cattle price movements, trade developments and China demand will remain important price drivers for Australian beef.

Figure 10: Eastern Young Cattle Indicator

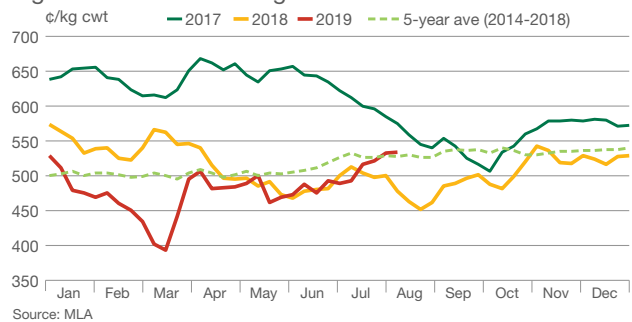


Figure 11: Young cattle vs finished cattle

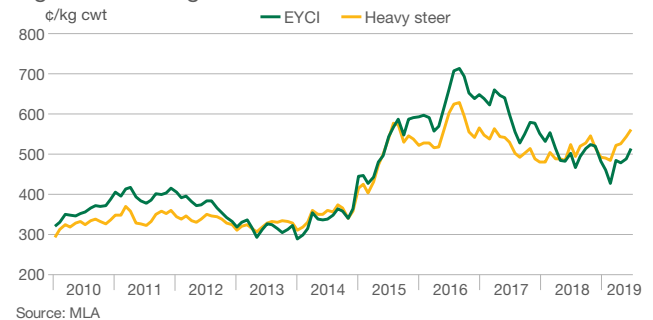
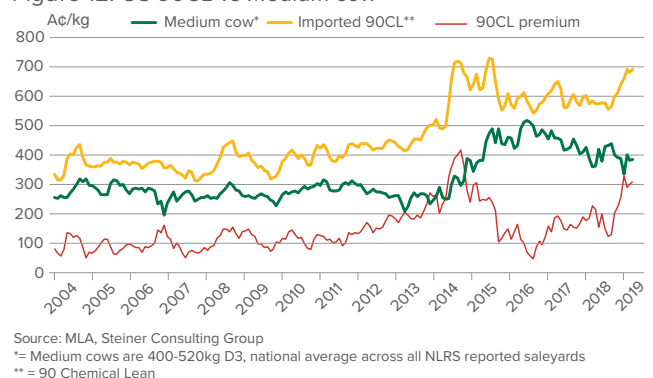


Figure 12: US 90CL vs Medium cow



Situation and outlook for the Australian cattle industry

	2014	2015	2016	2017	2018	2019 ^f	% change 2019 ^f on 2018	2020 ^f	2021 ^f	2022 ^f	% change 2022 ^f on 2018
Cattle numbers ('000 head)*											
cattle	29,100	27,413	26,845	27,965	28,052	26,000		25,800	26,500	27,300	-3%
percentage change	-0.7%	-5.8%	-2.1%	4.2%	0.3%	-7.3%		-0.7%	2.6%	3.0%	
Slaughterings ('000 head)											
cattle	9,226	9,007	7,288	7,158	7,873	8,100	3%	6,900	7,150	7,500	-5%
calves	688	667	542	413	468	470	0%	400	430	460	-2%
total	9,914	9,675	7,830	7,571	8,341	8,570	3%	7,300	7,580	7,960	-5%
Average carcass weight (kg)											
cattle	276.8	279.1	288.2	297.6	290.8	282.5	-3%	295.6	300.1	302.4	4%
calves	64.9	55.6	53.9	45.7	41.3	43.0	4%	45.0	45.0	45.0	9%
Production ('000 tonnes carcass weight)											
beef	2,554	2,514	2,101	2,130	2,289	2,291	0%	2,039	2,145	2,268	-1%
veal	41.3	32.9	24.2	18.9	19.3	20.2	5%	18.0	19.4	20.7	7%
total beef and veal	2,595	2,547	2,125	2,149	2,309	2,311	0%	2,057	2,165	2,289	-1%
Cattle exports ('000 head)											
cattle	1,292	1,332	1,126	855	1,089	1,150	6%	900	900	950	-13%
Beef exports** ('000 tonnes)											
total, carcass weight	1,881	1,888	1,497	1,493	1,655	1,661	0%	1,413	1,516	1,636	-1%
total, shipped weight	1,287	1,285	1,018	1,015	1,126	1,130	0%	961	1,031	1,113	-1%
Domestic utilisation ('000 tonnes carcass weight)***											
total, carcass weight	702	646	614	643	639	634	-1%	628	633	637	0%
kg/head***	29.9	27.1	25.2	26.0	25.6	25.0		24.4	24.2	24.0	

Source: ABS, DAWR, MLA forecasts

* From 2016 is an MLA estimate based on ABS Data - Figures as of 30th June

** excl. canned/misc, shipped weight

*** Domestic meat consumption is measured by removing the portion of exports (DAWR data) from total production (ABS data) and assuming the difference is consumed (or at least disappears) domestically. Imports are also added to domestic consumption when present. Per capita consumption is calculated by dividing domestic consumption by ABS population data. Please note that domestic per capita consumption is entirely a supply statistic and does not take account of waste or non-food uses of livestock meat products.