

Australian cattle

Industry projections 2015 Q2 Update

April 2015



KEY POINTS

- 2015 production revised to 8.2 million tonnes
- EYCI averaged 437¢/kg cwt in Q1
- Feeder steers from Darwin 271¢/kg lwt in Q1
- Positive rainfall outlook

KEY 2015 NUMBERS

Slaughter



8.2
(million head)

Production



2.3
(million tonnes cwt)

Beef Exports



1.15
(million tonnes swt)

Live exports



990,000
(head)

* Graphic illustrates year-on-year change

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Introduction

Higher than expected first quarter cattle slaughter has resulted in an upward revision for the 2015 total, with the effect rippling out to production and exports over the course of the year. In turn, the impact of tighter supplies on markets will be exacerbated in 2017, when slaughter is tipped to trough, before slowly increasing thereafter.

Influencing the second quarter 2015 beef update has been the persistence of dry conditions for most of central Queensland, and the likelihood of restocking interest remaining minimal until the next wet season. However, the rainfall outlook for southern Australia over the June quarter is very positive, which – if coming to fruition – will see the southern markets support cattle prices and alleviate some of the slaughter pressure.

Figure 1 Australian rainfall: 1 January to 31 March 2015

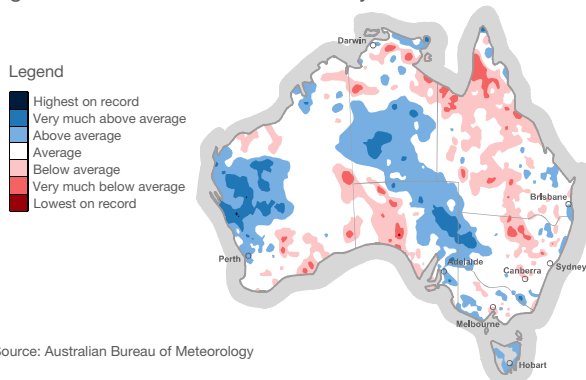
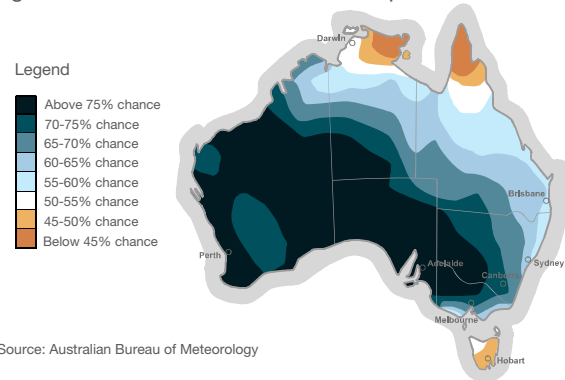


Figure 2 Australian rainfall outlook: 1 April to 30 June 2015



Slaughter

Following higher than expected cattle slaughter across the eastern states during the first quarter of 2015, the national adult kill has now been revised up to 8.2 million head. While this is still 11% below last year's three decade high cattle kill, it will make the rare sequence of three consecutive years with greater than 8 million adult cattle killed.

High slaughter is anticipated to continue through the second quarter of 2015, before tapering off as the year progresses – provided average rainfall is received at the beginning of the wet season (at the end of the year). The current and projected high numbers of cattle on feed is expected to support slaughter throughout the year, and reduce the degree of contraction when it eventuates. Looking further out, a 9% year-on-year decline in adult cattle slaughter is anticipated for 2016, to 7.5 million head, before bottoming out in 2017 at 7.1 million head.

Figure 3 Eastern states adult cattle slaughter

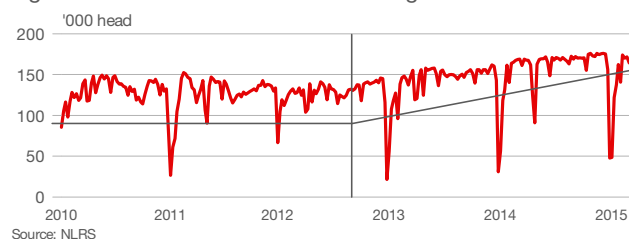
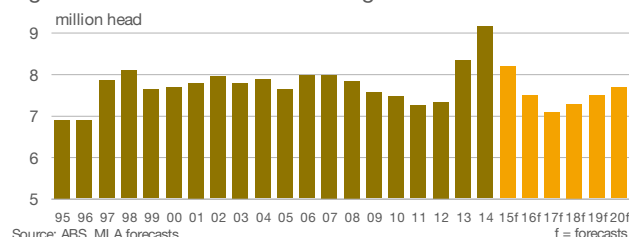


Figure 4 Australian adult cattle slaughter



Production

With slaughter adjusted higher, and carcase weights expected to be steady with last year, Australian beef and veal production is anticipated to be 2.28 million tonnes cwt – back 10% from last year. The projected large number of cattle on feed will act to partially offset the proportion of store cattle slaughtered, which is expected to be significant, especially in northern Australia.

In line with slaughter, the greatest decline in production is likely to be felt in the final quarter of 2015, forming a period of consistently lower year-on-year production throughout 2016 and 2017. Beef and veal production is forecast to reach a low point in 2017, at 2.04 million tonnes cwt, back a further 11% on 2015 volumes – stimulating strong competition for what will be a tight pool of beef.

Figure 5 Australian beef and veal production

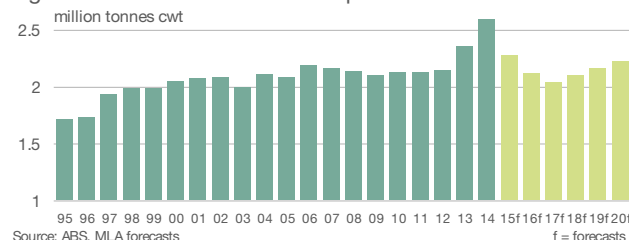
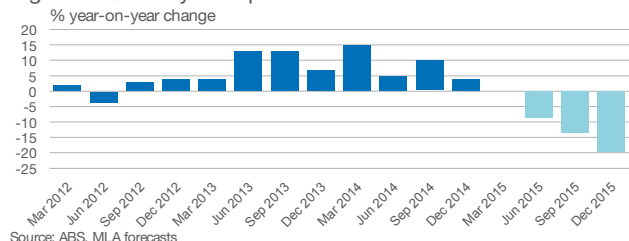


Figure 6 Quarterly beef production



Cattle on feed

While good rain at the start of the year boosted saleyard feeder prices, with the eastern states feeder steer indicator averaging 242¢/kg lwt and 246¢/kg lwt in January and February, respectively, grainfed OTH rates kept pace, pushing further into record territory.

While prices at the other end remain strong, lot feeders have also been encouraged to continue purchasing large numbers in anticipation that supplies will become tight once Australia phases out of drought. In addition, as much of eastern Australia failed to receive above average rainfall in March, feedlots have continued to be utilised as a platform to finish cattle. Hence, looking forward, numbers on feed are expected to be 980,000 head for the March quarter, before slowly easing through to the end of 2015 – yet still remaining at historically high levels.

Figure 7 Cattle numbers on feed

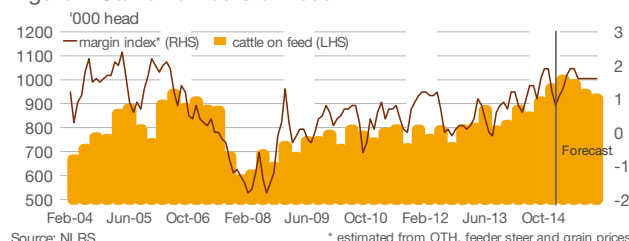
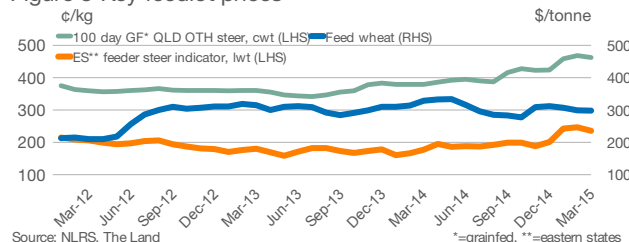


Figure 8 Key feedlot prices



Demand outlook

International demand for Australian beef and veal for the remainder of 2015 is set to continue with the same intensity as the first quarter. Exports are forecast to reach 1.15 million tonnes swt, back 11% year-on-year, but still the third consecutive year exceeding one million tonnes swt.

After three months, beef exports are up 8% year-on-year, at 297,055 tonnes swt, with the US comfortably the largest market, accounting for 36% of the total volume, followed by Japan (23%), Korea (12%) and China (9%).

The high volumes of beef, poultry and pork currently in US cold stores seems likely to apply some downward pressure on the US market over the coming quarter. The build has been exacerbated by the slowdown in exports as a result of the west coast port disputes, and this has been compounded by an appreciating US\$, very high pork and poultry production and a cold winter.

On the flip side, the US port issues have meant reduced competition from US beef in Japan, with Australian beef exports to the market up 13% during the first quarter, boosted by chilled grainfed product, up 32%, at 35,704 tonnes swt.

Further assisting Australian trade over the first quarter has been the A\$ trading below 80US¢, which is expected to continue for the remainder of 2015, and the high export volume will continue to constrain supplies on the domestic market.

The northern live cattle trade is also likely to be boosted in coming months, following the release of Indonesian import permits for 250,000 feeder cattle in the second quarter. Cattle exports had increased 60,000 head in the first two months of 2015, with Indonesia taking 67,821 head and total shipments at 191,263 head.

Figure 9 Australian beef and veal exports

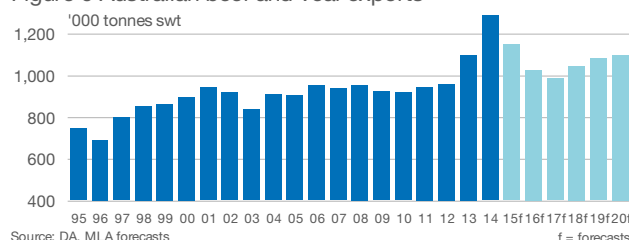
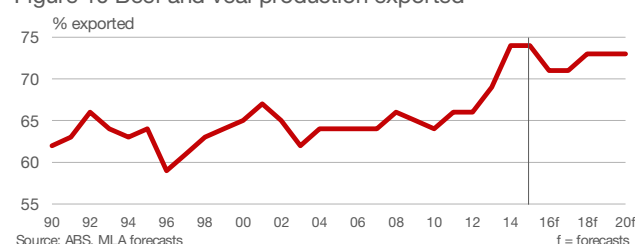


Figure 10 Beef and veal production exported



Cattle prices

Australian cattle prices started 2015 on a very positive note, with the Eastern Young Cattle Indicator (EYCI) averaging 437¢/kg cwt over the March quarter, the highest quarterly average on record, assisted by particularly strong demand for feeder cattle.

Northern National Livestock Reporting Service (NLRs) reported markets at the beginning of the year had the most significant gains in response to rainfall during January, yet through February and March there was very little follow up, and the 100¢/kg cwt premium over southern markets for EYCI eligible cattle diminished as the quarter progressed.

Similarly, direct-to-works prices across all categories averaged significantly higher year-on-year, with the national heavy steer (300-420 kg cwt) indicator up 25%, at 404¢/kg cwt. Similarly, live export prices were very strong over the first quarter, with feeder steers from Darwin averaging 271¢/kg lwt, while the same category from Townsville averaged 228¢/kg lwt, up 21% and 22% year-on-year, respectively.

Going forward, the continued strength of the cattle market will depend on whether or not the positive three month rainfall outlook comes to fruition, and the timeliness if it does. The robust international demand fundamentals will remain in play and act as support for cattle prices, but a significant contraction in supplies to processors is needed to sustain substantial support for the market. Northern prices should be underpinned by the large pre-Ramadan shipments of cattle to Indonesia, but considerable uncertainty remains over Indonesian permits for the remainder of the year.

Figure 11 Eastern Young Cattle Indicator

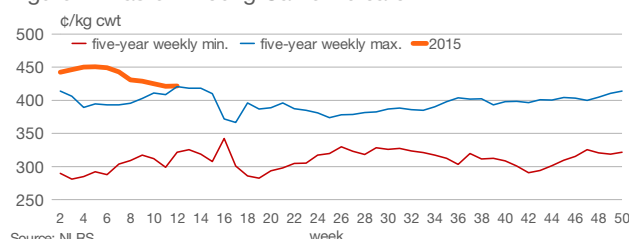


Figure 12 Australian saleyard and live export cattle prices



Situation and outlook for the Australian cattle industry

	2011	2012	2013	2014	2015 ^f	% change	2016 ^f	2017 ^f	2018 ^f	2019 ^f	2020 ^f	% change 2020 ^f on 2014
Cattle numbers ('000 head)*	28,506	28,418	29,291	28,456	26,800		26,500	26,600	27,100	27,500	27,900	-2%
percentage change	0.4%	-0.3%	3.1%	-2.9%	-8.5%		-1.1%	0.4%	1.9%	1.5%	1.5%	
Slaughterings ('000 head)												
cattle	7,261	7,352	8,360	9,226	8,200	-11.1%	7,500	7,100	7,300	7,500	7,700	-17%
calves	682	625	690	688	630	-8.4%	630	625	640	680	700	2%
total	8,046	7,977	9,110	9,914	8,830	-10.9%	8,130	7,725	7,940	8,180	8,400	-15%
Avg carcase weight (kg)												
cattle	287.3	287.5	278.0	276.8	276.0	-0.3%	278.0	282.0	283.0	284.0	284.0	3%
calves	62.8	68.0	65.0	60.0	60.0	0.0%	60.0	60.0	60.0	60.0	60.0	0%
Production ('000 tonnes carcase weight)												
beef	2,086	2,114	2,324	2,554	2,263	-11.4%	2,085	2,002	2,066	2,130	2,187	-14%
veal	42.8	42.5	44.9	41.4	37.8	-8.7%	37.8	37.5	38.4	40.8	42.0	1%
total beef and veal	2,129	2,156	2,369	2,595	2,301	-11.3%	2,123	2,040	2,104	2,171	2,229	-14%
Cattle exports ('000 head)	695	619	850	1,294	990	-23%	900	890	900	925	950	-27%
Beef exports** ('000 tonnes)												
total, carcase weight	1,424	1,446	1,649	1,935	1,696	-12.3%	1,514	1,455	1,544	1,595	1,617	-16%
total, shipped weight	949.2	963.8	1,099.8	1,290	1,150	-10.9%	1,030	990	1,050	1,085	1,100	-15%
Domestic utilisation ('000 tonnes c/c weight)***												
imports	5.1	3.8	2.4	2.9	3.0	3.4%	3.0	3.0	3.0	3.0	3.0	3%
total, carcase weight	705	706	709	660	610	-8.0%	609	584	561	575	612	-7%
kg/head****	31.5	31.1	30.8	28.2	25.7	-9.0%	25.3	23.9	22.6	22.9	23.9	-15%

Source: ABS, DA, MLA forecasts

f = forecast (in italics)

* As at 30 June, 2012 is an MLA estimate

** excl. canned/misc, shipped weight

*** Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcase weight

**** kg/head consumption calculated from total carcase weight divided by Australian population

Australian beef and veal exports ('000 tonne swt)

	2011	2012	2013	2014	% change 2014 on 2013	2014 Q1	2015 Q1	% change
To:								
Japan	342.2	308.5	288.8	293.8	2%	60.3	67.9	13%
US	167.8	224.1	212.7	397.9	87%	67.6	105.7	56%
Korea	146.4	126.0	144.4	150.9	5%	35.3	34.3	-3%
China	7.8	32.9	154.8	124.6	-20%	37.3	27.2	-27%
Canada	10.1	15.7	17.9	32.9	84%	8.0	10.6	33%
Taiwan	36.7	38.3	35.7	36.4	2%	8.8	5.8	-34%
Indonesia	39.6	27.1	39.4	53.1	35%	13.1	9.1	-30%
Philippines	21.0	25.7	27.0	34.4	27%	7.5	4.6	-38%
Singapore	9.7	14.1	10.6	10.1	-4%	2.5	2.3	-8%
Malaysia	14.4	15.5	15.9	13.1	-18%	4.0	3.1	-21%
Thailand	2.5	2.8	4.3	5.4	27%	1.4	1.4	-1%
Hong Kong	8.9	6.3	5.1	14.7	191%	1.1	1.8	66%
EU	12.8	14.9	19.8	24.6	24%	5.5	5.0	-10%
Middle East	32.1	31.4	61.0	59.8	-2%	14.4	12.6	-12%
Other	97.2	80.4	62.1	35.2	-43%	9.1	5.6	-38%
Total	949.2	963.8	1099.5	1287.0	17%	275.8	297.1	8%

Source: DA

Main countries in other = PNG, South Africa, Central and South America, Russia
Eastern Europe & CIS includes Poland

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