

Australian cattle

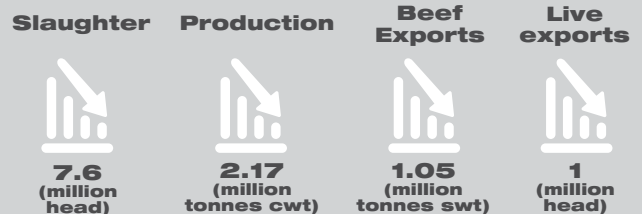
Industry projections 2016 April Update



KEY POINTS

- Growing global market pressure
- Mixed northern wet season
- A\$ forecast to stabilise
- Disconnect between young and finished cattle prices

KEY 2016 NUMBERS



* Graphic illustrates year-on-year change

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Overview

Three months since the release of MLA's 2016 Beef Projections, only minor revisions have been made to the production and export forecasts.

Pressures have grown on the demand side of the equation though, caused by an A\$ that has appreciated unexpectedly; growing export competition; and persistent hot and dry conditions. The April Update will focus on these market pressures.

Weather

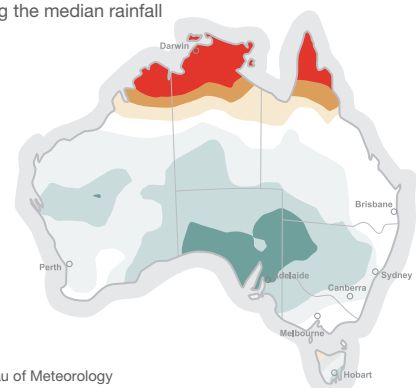
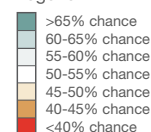
The northern wet season appears to have been a mixed one. Parts of Queensland and the Kimberley region of WA fell short of normal rainfall and endured hotter than average conditions. There are also some producers in NT concerned over the extent of the availability of feed and water for the upcoming dry season. However, there were also a number of areas where higher than average rainfall was measured, leaving those producers with a comfortable winter feed bank.

Southern producers eagerly await the autumn break, with the southern wet season commencing this month – and BOM has good prospects of at least average rainfall, especially in May/June, following an extended hot and dry summer.

Figure 2 Australian rainfall outlook: 1 April to 31 June

Chance of exceeding the median rainfall

Legend



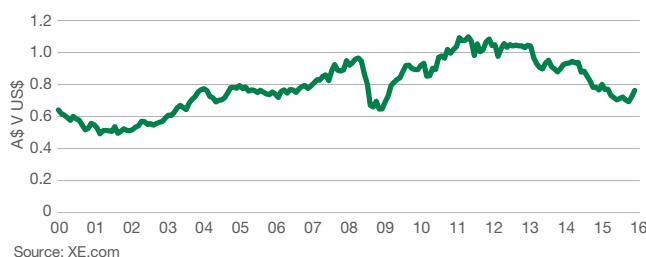
Source: Australian Bureau of Meteorology

Currency

After dropping below 70US¢ in January for the first time since 2009, the A\$ unexpectedly strengthened to 76US¢, driven by a rebound in commodity prices, stronger than expected performance in the Australian economy, easing concerns over China and a weaker US\$.

Looking forward, many analysts forecast the rapid shift in sentiment to consolidate and for the A\$ to trade between the mid-to-low 70US¢ range for the remainder of the year, offering more support for trade. Placing this in context, the A\$ actually averaged 74US¢ in 2015 – on par with current estimates for how the A\$ will be valued for the remainder of 2016.

Figure 2 A\$ vs. US\$



Source: XE.com

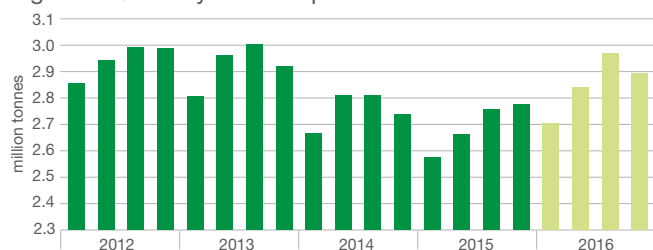
US production

World Agriculture Supply and Demand Estimates (WASDE) for US beef production are now (as of March) on track to exceed last year's level by 4%, taking production to 11.13 million tonnes cwt. Not only that, but US pork production is now expected to rise 2%, to 11.35 million tonnes cwt, and poultry up 3%, to 18.64 million tonnes cwt. In short, across the board for the major proteins in the US, production will be higher in 2016, on the back of abundant corn supplies.

In terms of trade, higher US production will be a negative on two fronts for Australia. US exports (largely to Japan and Korea – Australia's second and third largest markets), are forecast to increase 9% year-on-year, to 1.12 million tonnes cwt, while at the same time, US imports are forecast to ease 16%, to 1.29 million tonnes cwt. If these forecasts come to fruition, it will mean Australian beef previously destined to the US could be redirected to other markets, and at prices below those enjoyed last year.

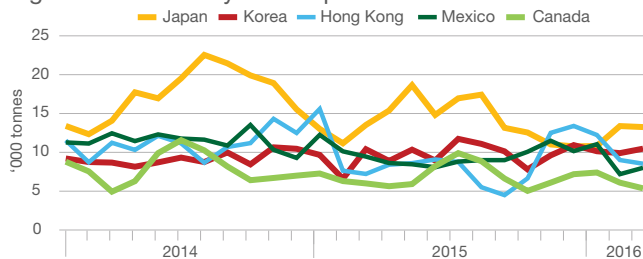
In fact, US imported 90 CL prices have moved lower most weeks so far in 2016, with the average price for April at 549.5A¢/kg FOB – down 18% year-on-year and 25% below the record highs of August 2015. The extent to which prices continue to fall will be influenced by the speed at which cold stores clear. Considering less beef will be imported and more exported, this will assist alleviating some of the supply pressures – some solace for Australia.

Figure 3 Quarterly US beef production



Source: WASDE

Figure 4 US monthly beef exports



Source: GTA

Brazil production

Despite Business Monitor International (BMI) recently revising Brazilian beef production forecasts for 2015-16 lower on the back of higher than expected corn prices, beef output is still expected to keep rising over the years ahead. In fact, according to BMI, Brazilian beef output will increase at an average of 2.3% per annum over the next five years. This will mean beef production is forecast to be 10.6 million tonnes cwt in 2019-20, up 12% from the 2014-15 levels – adding to the volumes available for export.

According to BMI, Brazilian beef consumption growth will lag that of production over the next few years, reflecting the lacklustre domestic economy. BMI expects the Brazilian recession to deepen in 2016 with real GDP contracting 4% year-on-year, which will weigh on consumer spending. Beef will probably be the primary loser from this trend, due to its high price relative to other proteins. In contrast, poultry and pork will benefit from a shift to cheaper protein sources and, as a result, BMI have revised 2016 beef consumption forecast down to 7.8 million tonnes, a 1.6% year-on-year decline.

Brazil production continued...

With higher beef production, sluggish domestic demand, a historically low currency value and improved market access, Brazil is making significant in-roads on the export front. In fact, the 12 month rolling average export volume started increasing again in January 2016, and the volume for March was 110,890 tonnes swt – up 35% year-on-year.

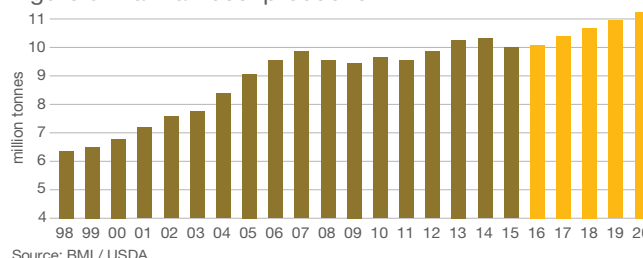
For the year-to-date, Hong Kong and Egypt have been Brazil's two largest export destinations, but the real mover has been China, in third. All gains have occurred on the back of there now being 16 plants approved by Chinese authorities to export beef to that market. Interestingly, the recent rise in shipments has not been at the expense of trade to Hong Kong.

The weak Real (Brazilian currency) has meant the average global export value for Brazil was \$A4.95/kg FOB in March, compared to Australia's \$A6.87/kg FOB. To China, the market where Brazil and Australia compete the closest, Brazilian product averaged \$A5.29/kg FOB, compared to Australia's \$A6.17/kg FOB.

Where Australia has a large advantage over Brazil, and the primary reason behind the higher unit values, is the market access Australia enjoys in Korea, the US and Japan. However, in markets where there is common access, like China and Hong Kong, competition will heighten in 2016 and beyond.

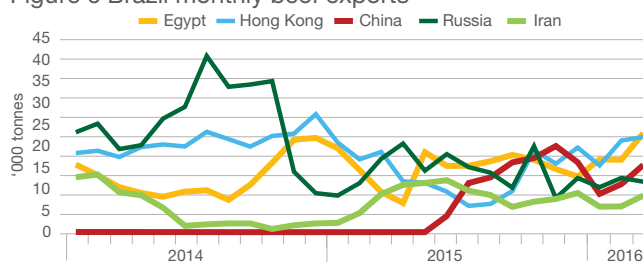
Moreover, for Australian beef exporters and producers, the constantly increasing Brazilian beef production, improving market access, weak Real and sluggish domestic demand will mean pressure from Brazil will persist, particularly in China/ Hong Kong, Southeast Asia and the Middle East.

Figure 5 Brazilian beef production



Source: BMI / USDA

Figure 6 Brazil monthly beef exports



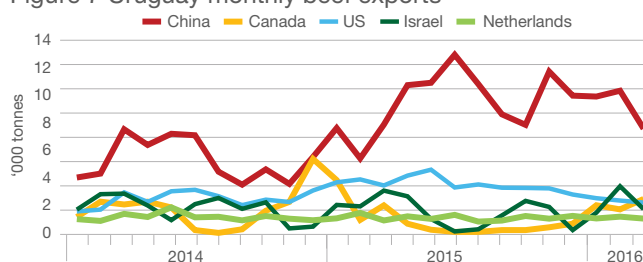
Source: GTA

Argentina and Uruguay production

Argentina has recently enjoyed improved export conditions, with the removal of a 15% export tariff at the commencement of 2016 under the new government. Assisted by the improved conditions, exports after two months are already higher year-on-year, with increases across the board to Argentina's largest markets – China, Israel, Chile, Germany and the Netherlands. Aside from the EU, Argentina will pose the greatest competition to Australian beef in China, the Middle East and Southeast Asia – price sensitive markets.

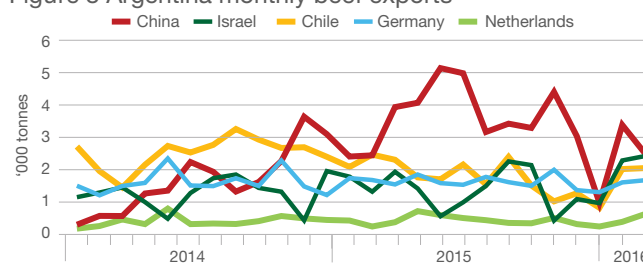
Uruguay's rolling 12 month average beef export volume is 21,735 tonnes swt, with China consistently the largest market. The higher valued regions of the US, Canada and the EU are accessible for Uruguay, but production capacity is capped by limited land availability and exports face quotas, mitigating the competitive pressures. OECD forecast Uruguay beef production to be 625,000 tonnes cwt in 2016 – 28% of the production forecast for Australia.

Figure 7 Uruguay monthly beef exports



Source: GTA

Figure 8 Argentina monthly beef exports



Source: GTA

Indian carabeef production

Weak monsoonal conditions in India during 2015 and 2016 mean domestic grain and oilseed supply will shrink in 2015-16, leading to a rise in feed prices. Consequently, a check in beef production growth should occur this year – slowing from 6% in 2014-15 to 4.2% in 2015-16.

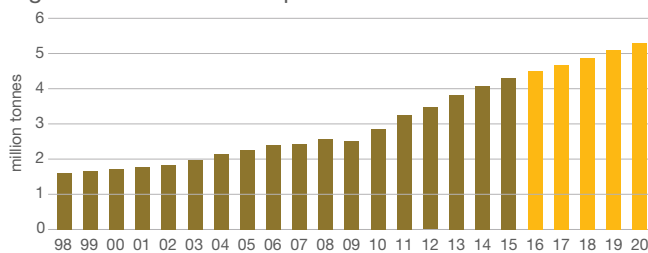
India has enjoyed phenomenal carabeef export growth in recent years, becoming the world's largest beef exporter from 2014 until 2015 – underpinned by some states relaxing laws around the use of old unproductive females and young males for meat production.

There may be challenges for the growth in India's buffalo/beef exports, with Chinese demand waning as the government clamps down on the smuggling of imported goods from Vietnam. Furthermore, in October 2015, Russia banned buffalo meat imports from India after Foot and Mouth Disease (FMD) was detected in an imported shipment. This was reflected in Indian beef exports dropping 13% year-on-year in 2015, to 1.29 million tonnes swt.

Nevertheless, the almost exclusively halal slaughtered product has a price advantage in many price sensitive Southeast Asian and Middle Eastern countries, which will assist competitiveness over the longer term.

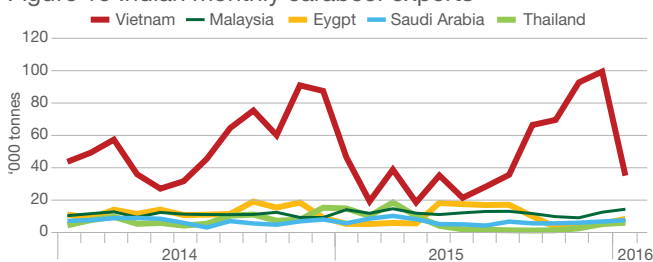
Indian beef exports averaged \$A4.24/kg FOB in 2015, compared to Australia's \$A7.06/kg FOB. Like competition from Brazil, the direct impact is limited by market access, but the greater volumes available to world trade could indirectly influence global beef prices.

Figure 9 Indian carabeef production



Source: BMI / USDA

Figure 10 Indian monthly carabeef exports



Source: GTA

Conclusions - Australian cattle prices

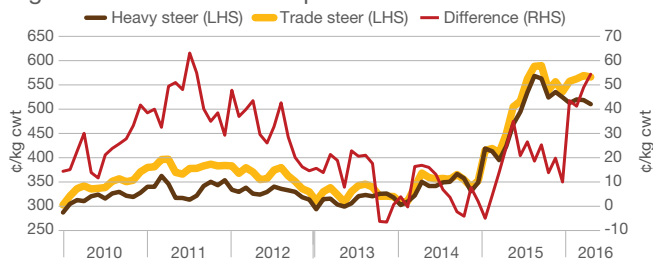
Wrapping up, the heavy/manufacturing end of the cattle market will continue to be challenged by the softening US market, growing global beef exports and the A\$ in 2016. For these reasons in particular, it is important for Australia to foster the integrity systems in place to ensure sustained market access and to keep in front of competitors on safety and quality attributes.

The younger end of the market, on the other hand, will more than likely be supported by competition between lotfeeders and restockers for the significantly smaller pool of Australian cattle (currently estimated at 26.2 million head). This will only heighten if there is widespread relief from the ongoing hot and dry conditions.

Disconnection between young and finished cattle prices needs to be monitored closely though, as a narrower margin leads to a riskier trade. For 2016, the two indicators have trended in opposite directions (feeders dearer, and finished cattle cheaper) to an unusually high margin of 56¢/kg cwt (as at 13 April), and is something all producers should be mindful of.

Moreover, MLA remains confident that cattle prices in 2016 will average higher than 2015, but lower than the peaks recorded at the beginning of the year. 2017 will probably see a reduction in average prices – influenced by growing global supply pressures.

Figure 11 Australian cattle prices



Source: MLA

Situation and outlook for the Australian cattle industry

	2011	2012	2013	2014	2015e	2016 ^f	% change	2017 ^f	2018 ^f	2019 ^f	2020 ^f	% change 2020 ^f on 2015
Cattle numbers ('000 head)*	28,506	28,418	29,291	29,100	27,682	26,179		25,894	26,427	27,019	27,710	0%
percentage change	0.4%	-0.3%	3.1%	-0.7%	-5.5%	-5.4%		-1.1%	2.1%	2.2%	2.6%	
Slaughterings ('000 head)												
cattle	7,261	7,352	8,344	9,226	9,007	7,600	-16%	7,000	7,300	7,500	7,900	-12%
calves	682	625	690	688	667	630	-6%	625	640	680	700	5%
total	7,943	7,977	9,034	9,914	9,674	8,230	-15%	7,625	7,940	8,180	8,600	-11%
Avg carcase weight (kg)												
cattle	287.3	287.5	278.0	276.8	279.0	286.0	3%	289.0	291.0	293.0	295.0	6%
calves	62.7	62.2	58.5	60.1	56.0	60.0	7%	60.0	60.0	60.0	60.0	7%
Production ('000 tonnes carcase weight)												
beef	2,086	2,114	2,320	2,554	2,513	2,174	-14%	2,023	2,124	2,198	2,331	-7%
veal	42.8	38.9	40.4	41.4	32.9	37.8	15%	37.5	38.4	40.8	42.0	28%
total beef and veal	2,129	2,153	2,360	2,595	2,546	2,211	-13%	2,061	2,163	2,238	2,373	-7%
Cattle exports ('000 head)	695	619	850	1,292	1,332	1000	-25%	925	950	1000	1100	-17%
Beef exports** ('000 tonnes)												
total, carcase weight	1,398	1,419	1,611	1,881	1,889	1,550	-18%	1,397	1,492	1,558	1,683	-11%
total, shipped weight	949.2	963.8	1,099.8	1,294	1,285	1,055	-18%	950	1,015	1,060	1,145	-11%
Domestic utilisation ('000 tonnes c/c weight)***												
imports	5.1	3.8	2.4	2.9	3.0	3.0	0%	3.0	3.0	3.0	3.0	0%
total, carcase weight	731	733	751	717	663	664	0%	667	674	683	692	4%
kg/head****	32.7	32.3	32.6	30.7	27.9	27.5	-1%	27.3	27.1	27.1	27.0	-3%

Source: ABS, DAWR, 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 tonnes swt)

	2011	2012	2013	2014	2015	% change	2015 Jan-Mar	2016 Jan-Mar	% change
To:									
Japan	342.2	308.5	288.8	293.8	285.2	-3%	67.9	53.4	-21%
US	167.8	224.1	212.7	397.9	416.0	5%	105.7	69.6	-34%
Korea	146.4	126.0	144.4	150.9	166.6	10%	34.3	41.1	20%
China	7.8	32.9	154.8	124.6	148.2	19%	27.2	23.5	-14%
Canada	10.1	15.7	17.9	32.9	42.6	29%	10.6	7.6	-28%
Taiwan	36.7	38.3	35.7	36.4	30.4	-16%	5.8	5.9	2%
Indonesia	39.6	27.1	39.4	53.1	39.1	-26%	9.1	12.5	37%
Philippines	21.0	25.7	27.0	34.4	25.4	-26%	4.6	6.3	37%
Singapore	9.7	14.1	10.6	10.1	8.8	-13%	2.3	1.9	-17%
Malaysia	14.4	15.5	15.9	13.1	12.3	-6%	3.1	2.1	-32%
Thailand	2.5	2.8	4.3	5.4	5.9	9%	1.4	1.0	-29%
Hong Kong	8.9	6.3	5.1	14.7	6.7	-55%	1.8	1.0	-44%
EU	12.8	14.9	19.8	24.6	23.4	-5%	5	5.6	12%
Middle East	32.1	31.4	61.0	59.8	53.4	-11%	12.6	9.7	-23%
Other	97.2	80.4	62.1	35.2	21.0	-40%	5.7	4.6	-19%
Total	949.2	963.8	1,099.5	1,287.0	1,285.0	0%	297.1	245.8	-17%

Source: DAWR

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

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