

Industry projections 2018

Australian cattle – April update

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KEY POINTS

- Poor rainfall has temporarily subdued rebuilding efforts
- Slaughter revised up slightly along with carcase weights
- EYCI dropped to lowest level in three years
- US supply surge to impact in coming months



KEY 2018 NUMBERS

 **Slaughter:**
7.48 million head

 **Carcase weights:**
294 kg/head

 **Production:**
2.2 million tonnes cwt

 **Beef exports:**
1.06 million tonnes swt

* Graphic illustrates year-on-year change

Summary

Rebuilding efforts were challenged at the start of 2018 with poor rainfall across many cattle regions. The first quarter has seen both male and female slaughter running above 2017 levels and, combined with a largely neutral weather outlook, has led to a slight upward revision in the annual slaughter forecasts. The Eastern Young Cattle Indicator (EYCI) has responded to the larger flow of cattle and challenging conditions for many restockers, dipping below 500¢/kg carcase weight (cwt) for the first time since mid-2015 when the herd rebuild began in earnest.

A strong start to the year for carcase weights, combined with an increase in expected slaughter has seen 2018 beef production revised slightly higher and export volumes to follow suit. A close eye will need to be kept on production and consumption levels in the US, with a significant lift in fed cattle kills expected in coming months, which is likely to flow through to increased competition in our key export markets.

Seasonal

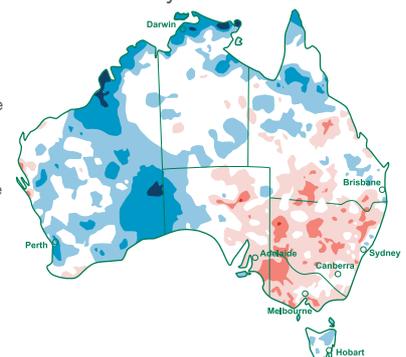
Despite the establishment of *La Niña* conditions at the end of last year, eastern Australia was dealt a primarily hot and dry summer. A late season tropical low brought much needed rainfall to parts of Queensland in March, allowing some regions to enter winter with a good body of feed. Further to the south, conditions have deteriorated significantly during summer and the start of autumn. Large parts of NSW have serious rainfall deficiencies, with producers eagerly awaiting an autumn break before frosts set in.

Figure 1: Australian rainfall - January to March 2018

Rainfall decile ranges

Legend

-  Highest on record
-  Very much above average
-  Above average
-  Average
-  Below average
-  Very much below average
-  Lowest on record



Source: BOM

Turning to the Bureau of Meteorology's (BOM) May to July rainfall outlook, the prospect of above average rainfall is roughly equal for most beef-producing regions.

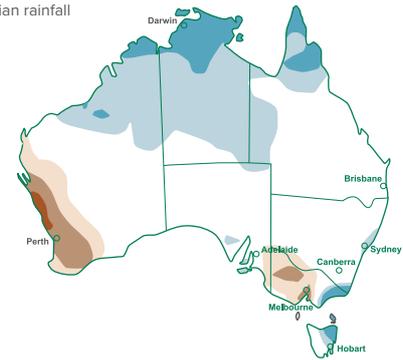
Western Victoria and areas surrounding Perth are faced with the poorest outlook with only a 35-40% chance of exceeding median rainfall. The Gippsland region in Victoria and northern parts of Australia are more likely to receive above average rainfall over the three months. Many southern producers, particularly in NSW, will face some difficult decisions in the absence of decent autumn rainfall.

Figure 2: Australian rainfall outlook May to July 2018

Chance of exceeding the median rainfall

Legend

- Above 60% chance
- 55-60% chance
- 45-55% chance
- 40-45% chance
- 35-40% chance
- Below 35% chance



Source: BOM

Slaughter

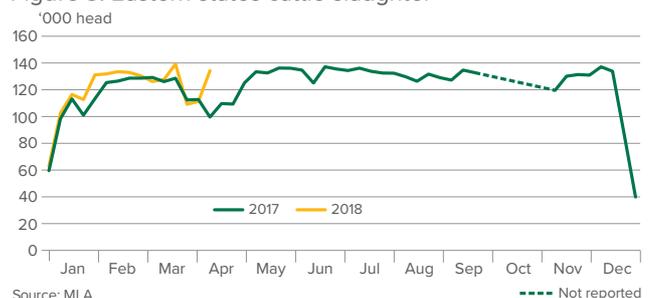
For the year-to-February, adult cattle slaughter (latest available ABS data) was 1.15 million head, 113,000 head higher than the same period in 2017. In order to reflect the impact of the seasonal conditions on slaughter and only an average BOM rainfall outlook out to winter, the projected slaughter for 2018 has been revised slightly upwards to 7.48 million head, up 4% year-on-year.

Many producers entered 2018 seeking to rebuild female herds given the right weather conditions, which was particularly the case in Queensland following a string of failed wet seasons. While late summer rainfall provided a reprieve for some areas, kill numbers reflect a largely challenging summer. As a result, any substantial Queensland herd increases will likely need to wait another year.

For the first two months of 2018, national male slaughter was up 7% against last year, while female slaughter was up 16%. The lateness of the rainfall in Queensland in March is likely to impact the timing of the typical winter spike in cattle numbers from Queensland. The southern states of NSW, Victoria and SA, however, are still awaiting a decent break in the season and, combined, have recorded increased slaughter year-on-year. The impact of the dry conditions is evident in the number and type of cattle coming through the saleyards, for example yardings at Dubbo for the year-to-April are up 61% from 2017 levels. If, or when, an autumn break does arrive for southern areas, cattle supply will tighten.

Despite a recent up-tick, the female proportion of slaughter remains below historical averages on a 12-month rolling average basis, at 46%. With intentions of herd expansion still evident, those beef-producing regions with decent grass cover heading into winter will look to retain females. At a national level, female slaughter is expected to trend below 47% for the remainder of the year.

Figure 3: Eastern states cattle slaughter



Source: MLA

Figure 4: Female slaughter



Source: ABS

Carcase weights and production

In 2017, Australian adult cattle carcase weights crept higher as the year progressed, resulting in a record annual average. Growth was underpinned by record numbers of cattle on feed in the March, June and September quarters, and a lower percentage of females making up the total kill.

Considering the December quarter saw cattle numbers on feed drop 5% from the previous quarter, 2018 carcase weights were expected to fall slightly year-on-year. So far, this has not occurred, with the year-to-February national average carcase weight sitting at 301kg, 5kg higher than the same period in 2017. This was supported by female carcase weights hitting the heaviest monthly average on record in January, although this shifted back in line with typical levels in February.

For the 2018 calendar year, the national adult cattle carcase weight is still expected to average slightly lower than last year's record levels. However, with a stronger than anticipated start to the year, the 2018 forecast has been adjusted a little higher than what was predicted in the January projections, to 294.4kg.

The combined upwards revision to slaughter and carcase weights flows through to a small increase to the production forecast for 2018, to 2.2million tonnes cwt.

Figure 5: National adult carcase weights

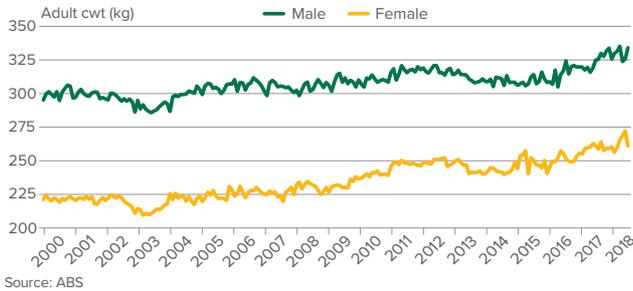
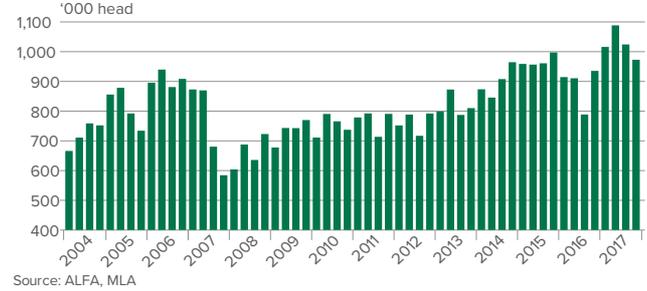


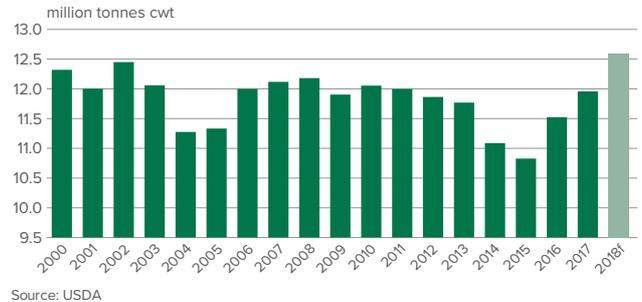
Figure 7: Cattle on feed



US production

US beef production is on course to exceed 12.5 million tonnes in 2018 according to the latest United States Department of Agriculture (USDA) projections. This figure represents a 5% production increase compared to last year, as low rainfall in a number of the largest cattle producing states combined with sustained drought in the Northern Plains drive more cattle onto feed. The latest USDA *Cattle on feed report* (20 April) indicates a 24% increase year-on-year for the supply of +120 day cattle on feed and the largest number on feed in March since 2006. Recent movements in US cattle futures reflect concerns around a backlog of market ready cattle.

Figure 7: US beef production



Demand for beef from US consumers has kept pace with the US production with USDA forecasting a 3% increase in domestic per capita consumption to 38kg per capita (carcase weight equivalent). How US demand shapes up as the 'grilling season' approaches will be critical given the influx of beef expected to hit the market in the second quarter. US exports are forecast to increase 5% this year, but market sentiment suggests this could be at the conservative end.

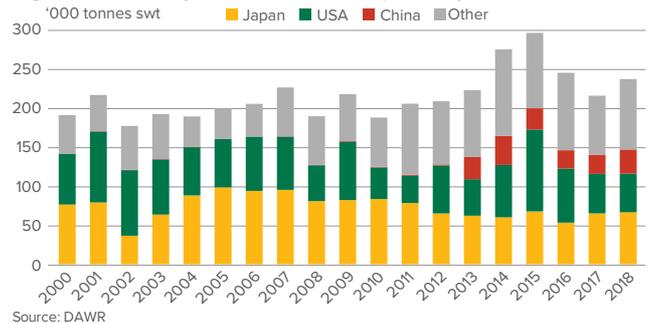
Exports

Increased supplies in the first quarter saw Australian beef exports lift 10% compared to the same period last year, at 237,700 tonnes shipped weight (swt). Historically, exports in March surpass January and February levels – this year was no different, given trade resumption after the holiday period and the additional processing days.

On the back of record grainfed turn-off over the last 12 months, exports to Japan and Korea have both recorded increases for the calendar year-to-March, up 2% and 8%, respectively. A variety of market challenges affected trade to Korea in 2017 and while some will continue – specifically US competition – Australian beef remains extremely popular among Korean consumers through both foodservice and retail.

Under the Japan-Australia Economic Partnership Agreement (JAEPA), tariffs on Australian chilled and frozen beef imports reduced to 29.3% and 26.9%, respectively, in April. However, the US saw tariffs on frozen beef exports to Japan revert back to 38.5% in April, following the 'snapback' to 50% in July 2017, when safeguard volumes were exceeded by 'non-EPA' nations (e.g. US, NZ, Canada).

Figure 8: January to March beef exports by destination



Shipments to the US have edged lower year-on-year, influenced by increasing domestic production, however certain segments, such as chilled grassfed have continued to perform well.

Beef exports to China have performed strongly during the first three months of 2018, up 27%. While China remains a very price-sensitive and hence a challenging market for Australia, exports in 2017 and so far this year provide a strong indication of growing demand for high quality Australian product.

A recent key trade development was the official signing of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Once in force, it will see Australia gain enhanced market access in key red meat markets such as Japan, Mexico and Canada, and offer new export opportunities across the Asia-Pacific region.

Argentina and Brazil are both likely to increase beef exports this year on the back of rising production, with a focus on improving their market access to some of Australia's key export markets. As these South American producers push more strongly into Asia, creating increased competition for Australia, it will be important to closely monitor each country's position and potential impact on Australian exports.

In line with higher beef production, beef exports for 2018 are expected to record a slight increase on 2017 levels, at 1.06 million tonnes swt.

To view the competitor snapshots on Brazil, Argentina and Uruguay click here



Prices

At the beginning of the year, the BOM's seasonal outlook suggested favourable conditions for northern restockers, which would support Eastern Young Cattle Indicator (EYCI) eligible cattle. However, the dry start to the year across many parts of the country drove up supply and cattle markets trended downwards.

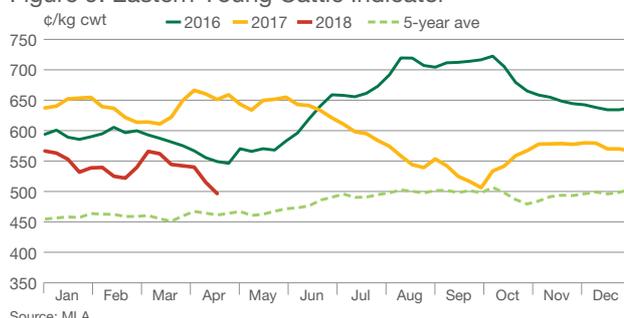
The EYCI lost 60¢/kg from November 2017 (580¢/kg cwt) through to February 2018 (520¢/kg cwt), before receiving a 40¢/kg boost back up to 560¢/kg cwt following some significant rains in Queensland at the start of March. However this rise was short-lived, with most markets trending back down for the end of March and early April. For the March quarter the EYCI averaged 544¢/kg cwt – down 14% year-on-year, although well above (19%) the five-year average for the period.

The dry summer has particularly affected NSW and Victoria, where the supply of young cattle is playing a key role in driving the EYCI lower. Seasonal conditions across the country are apparent when comparing year-on-year movements in trade steer pricing across the states for the March quarter, with NSW down 13% to 300¢/kg lwt, Victoria down 16% to 279¢/kg lwt, Queensland down 8% to 292¢/kg lwt and WA back 11% to 274¢/kg lwt.

So far this year, the EYCI is following a fairly similar trend to 2017. The early-autumn uplift in the EYCI in 2017 was also due to a significant weather event – Cyclone Debbie – and the very wet weather across the east coast that ensued. However, a dry winter in 2017 led to elevated cattle slaughter and close to a 150¢/kg decline in the EYCI between June and October. This was in stark contrast to 2016, which had a very good winter for rainfall with prices increasing 150¢/kg to record highs.

The development of the seasonal conditions for the remainder of autumn and into winter this year will dictate the availability of young cattle and how fierce the competition will be among the different buyers, particularly in NSW. The growing volume of exports out of the US and some South American countries is also expected to place some downward pressure to the finished cattle market.

Figure 9: Eastern Young Cattle Indicator



Source: MLA

Situation and outlook for the Australian cattle industry

	2013	2014	2015	2016	2017	2018 ^f	% change 2018 ^f on 2017	2019 ^f	2020 ^f	2021 ^f	2022 ^f	% change 2022 ^f on 2017
Cattle numbers ('000 head)*												
cattle	29,291	29,100	27,413	26,845	27,268	27,500		27,900	28,400	29,000	29,400	8%
percentage change	3.1%	-0.7%	-5.8%	-2.1%	1.6%	7%		1.5%	1.7%	2%	1.4%	
Slaughterings ('000 head)												
cattle	8,344	9,226	9,007	7,288	7,158	7,475	4%	7,700	7,900	8,050	8,200	15%
calves	690	688	667	542	413	500	21%	530	550	600	600	45%
total	9,034	9,914	9,675	7,830	7,571	7,975	5%	8,230	8,450	8,650	8,800	16%
Avg carcase weight (kg)												
cattle	278.0	276.8	279.1	288.2	297.6	294.4	-1%	295.0	297.2	298.8	300.5	1%
calves	64.5	64.9	55.6	53.9	45.7	55.0	20%	55.0	55.0	55.0	55.0	20%
Production ('000 tonnes carcase weight)												
beef	2,319	2,554	2,514	2,101	2,130	2,201	3%	2,272	2,348	2,405	2,464	16%
veal	40.4	41.3	32.9	24.2	18.9	27.5	46%	29.2	30.3	33.0	33.0	75%
total beef and veal	2,359	2,595	2,547	2,125	2,149	2,228	4%	2,301	2,378	2,438	2,497	16%
Cattle exports ('000 head)												
cattle	850	1,292	1,332	1,126	855	850	-1%	900	900	900	900	5%
Beef exports** ('000 tonnes)												
total, carcase weight	1,611	1,881	1,888	1,497	1,493	1,556	4%	1,623	1,693	1,746	1,796	20%
total, shipped weight	1,099	1,287	1,285	1,018	1,015	1,059	4%	1,104	1,151	1,187	1,222	20%
Domestic utilisation ('000 tonnes c/c weight)***												
total, carcase weight	736	702	646	614	643	657	2%	663	670	678	685	7%
kg/head****	31.8	29.9	27.1	25.2	26.0	26.2		26.0	25.9	25.8	25.7	

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

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

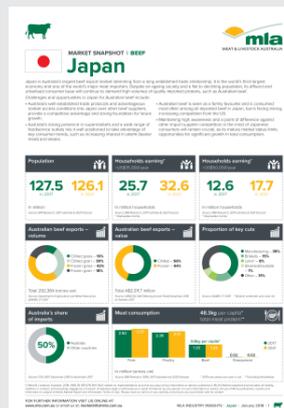
**** kg/head consumption calculated from total carcase weight divided by Australian population

f = forecast (in italics)

Market snapshots

MLA's market snapshots aim to give producers a better understanding of what's driving demand in the main markets where Australian red meat is consumed. These will enable producers to be more informed when having discussions with their supply chain partners and – armed with a better understanding of where their product is going – make more informed business decisions about their own production and on-farm investments.

To view market specific snapshots click here



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