

Industry projections 2018

Australian cattle – July update

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KEY POINTS

- Slaughter numbers surge, driven by females
- Herd has shifted into contraction
- EYCI resilient despite supply pressure and international competition
- Exports up to most major markets, particularly Japan and China



KEY 2018 NUMBERS

- ➔ **Slaughter:**
7.8 million head
- ➔ **Carcase weights:**
292 kg/head
- ➔ **Production:**
2.3 million tonnes cwt
- ➔ **Beef exports:**
1.1 million tonnes swt

* Graphic illustrates year-on-year change

Summary

Persistent drought conditions have driven increased slaughter in the first half of 2018, with the female portion experiencing a pronounced increase in recent months. This, combined with a poor three-month weather outlook, has led annual slaughter to be revised upwards to 7.8 million head for 2018. While kill levels are expected to remain elevated and a modest contraction in the herd is forecast, the inundation of supply and subsequent price reaction the industry experienced in 2013-2015 is not currently anticipated to repeat itself. Overall, higher slaughter is expected to more than compensate for a fall in the national average carcase weight with forecast beef production for 2018 revised upwards, to 2.3 million tonnes carcase weight (cwt).

The weight of supply placed some pressure on prices throughout autumn, particularly for young cattle. However, price declines could have been much more pronounced if not for strong growth in some key Asian export markets. Demand in these markets has held firm in the face of increased product coming from both Australia and the US. The flow-on for producers, domestically, has been continued price-support for finished cattle, cows and feeder suitable cattle.

Seasonal conditions during spring will play a huge role in how the market performs in the second half of the year, with any improvement to pasture conditions likely to see demand for young cattle and females increase. In the meantime, a weak Australian dollar continues to assist exporters of Australian beef, as domestic processors continue to rely on overseas markets to absorb increased supply.

Seasonal conditions

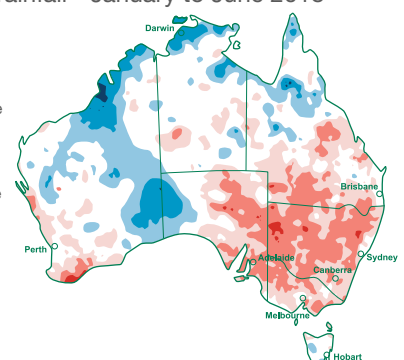
It has been a tough first half of the year for many Australian producers – particularly the southeast mainland, and Southern WA.

For the year-to-date, severe rainfall deficiencies exist across many parts of NSW, southwest Queensland and northeast SA – with some areas still yet to receive any significant rainfall this year (Bureau of Meteorology). There are also serious rainfall deficits in place in central Queensland, northern Victoria and Gippsland, and southeast SA – with most receiving only 30% to 60% of their average rainfall for the first half of the year.

Figure 1: Australian rainfall - January to June 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

Based on the Bureau of Meteorology's latest three-month rainfall outlook, August to October will likely see a continuation of drier-than-average conditions for the majority of Australia's beef producing regions.

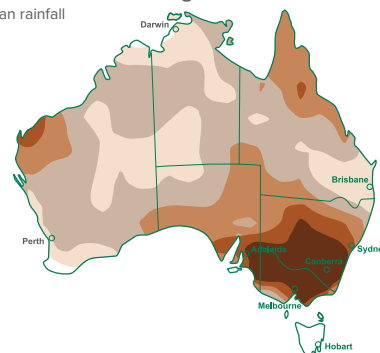
Drought affected areas in the southern and eastern mainland are less likely to see conditions improve significantly in the next three months. With the Murray-Darling basin having experienced the driest January to June since 1986, the forecast raises serious concerns surrounding not only stock feed, but also water.

Figure 2: Australian rainfall outlook August to October 2018

Chance of exceeding the median rainfall

Legend

- Above 45% chance
- 40-45% chance
- 35-40% chance
- 30-35% chance
- 25-30% chance
- Below 25% chance



Source: BOM

Slaughter

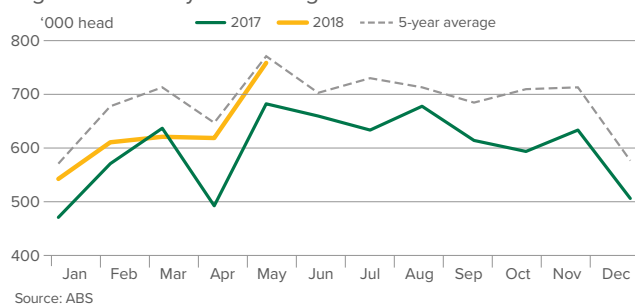
The aforementioned persisting dry conditions have pushed the Australian cattle herd away from a rebuilding phase, and towards a period of contraction. Feed availability through winter is a big concern for many producers, due to the lack of autumn rain needed to establish pastures and the high cost of supplementary feed.

For the first five months of 2018, Australian adult cattle slaughter totalled 3.1 million head – an increase of 11%, or 300,000 head, from the same period last year, although still 7% below the five-year average (ABS).

It has largely been females driving the year-on-year increase, with a 21% rise in the number of cows and heifers processed, and a modest 2% lift in male cattle slaughter. The proportion of females in the national kill typically lifts slightly in autumn and winter, however in April and May this year females accounted for 53% – whereas the five-year average for these months is 50-51%. Female cattle slaughter in May almost reached 403,200 head – the highest monthly volume since July 2015.

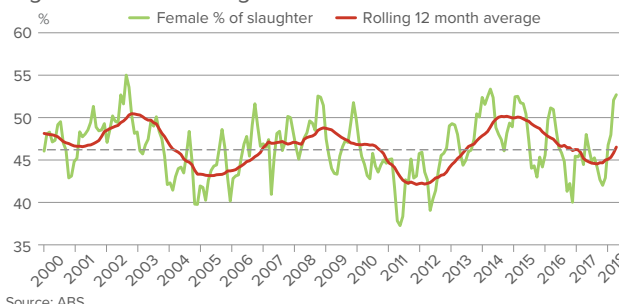
Given the poor rainfall outlook for the remainder of winter and into spring, turn-off is expected to continue to track above year-ago levels, although likely not to the extent seen so far this year, as the pool of available cattle diminishes. As a result, the 2018 national adult cattle kill has been revised higher from the previous update, to 7.8 million head – 9% higher than the 2017 total.

Figure 3: Monthly adult slaughter



Source: ABS

Figure 4: Female slaughter



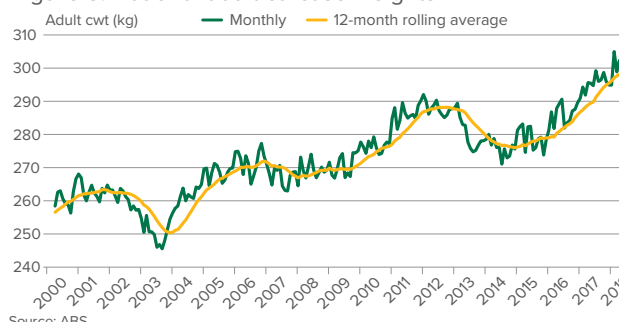
Source: ABS

Carcase weights and production

During the March quarter, high numbers on feed continued to drive carcase weights higher despite a lack of pasture availability. More recently, the same dynamics are apparent, however increased female slaughter has led to a fall in the national average, from 300kg/head in March to 290kg/head in May.

The number of cattle on feed in the March quarter totalled 1.03 million head, an increase of 53,000 head (or 5%) from the December 2017 quarter. While the cost of feed grain has risen considerably during the past year, lower feeder cattle prices and relatively stable finished cattle prices have relieved some of the cost pressures on lot feeders.

Figure 5: National adult carcase weights



Source: ABS

Ongoing dry conditions will likely see more cows and heifers sent to kill floors over the coming months and lower the quality condition of grassfed cattle. The average national adult carcase weight forecast for the 2018 calendar year has been revised downwards, to 292kg/head.

The upwards revision to slaughter more than outweighs the expected drop in carcase weights, with beef production for 2018 now forecast to increase 7% to 2.3 million tonnes cwt.

Figure 6: Cattle on feed

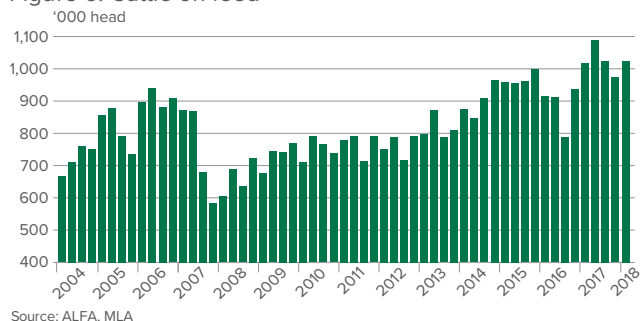
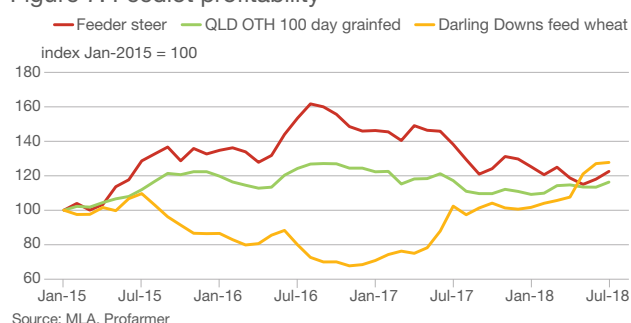


Figure 7: Feedlot profitability



International markets

Shifting US trade policy and the series of tariffs and retaliatory measures have dominated headlines in recent months. Australian beef exports have so far navigated the evolving trade environment and started 2018 on a solid footing, with shipments up 13% for the year-to-date (Jan-Jun) with key markets, such as Japan, Korea and China, recording double digit growth.

Australia continues to compete head-to-head with the US and its 'wall of beef' entering Japan and Korea. USDA have forecast US beef production to expand 4% in 2018 and 2% in 2019, which would be a record year if it comes to fruition. Fortunately, the imported beef markets in Japan and Korea continue to grow but safeguards restrict both Australia and the US.

The Japanese imported beef market is at levels not seen since pre-BSE, driven by an improving economy and increasing preference for meat, especially among young people. Australian grain and grassfed beef exports have recorded 8% and 13% year-on-year growth, respectively, so far this year-to-June and the trade is on track to be worth A\$2 billion FOB for the year. Countries with no Economic Partnership Agreement (EPA) triggered the frozen beef safeguard last year, which resulted in higher import tariffs on frozen beef from these countries, including the US (Australia is exempt from this system due to Japan-Australia EPA). The safeguard could be triggered again if US beef continues to pour in, with the December 2018 and March 2019 quarter safeguard triggering volumes noticeably smaller.

Australian beef exports to Korea declined 4% in the 2017-18 financial year, but have been tracking higher over the last six months, particularly grainfed product which hit record levels over this period. After overtaking Australia as the leading supplier in 2017, the US continues to push beef into the market, driven by a surge in chilled product. Australian exports have been capped by the safeguard, imposed under the Korea-Australia Free Trade Agreement (KAFTA), which is 167,327 tonnes shipped weight (swt) in 2018 but expanding over time. Halfway through the year, Australia has already used 70% of the annual safeguard volume. In contrast, the US has far greater room to expand, only utilising 60% of their safeguard last year, which is almost twice that of Australia. The US also has advantageous tariff rate over Australia (currently at 21.3% while Australia is at 26.6%), due to their FTA being signed prior to Australia.

Exports to the US are up just 1% for the year-to-date (Jan-Jun), supported by ongoing demand for lean manufacturing trim for burger production, which is up 2% year-on-year. Despite growing beef production in the US, consumption has been tracking higher underpinned by a strengthening economy. However, US pork, which has fallen victim to two rounds of Chinese and Mexican retaliatory tariffs on imports, is entering a period of uncertainty as it approaches peak production – part of that additional pork may remain on the domestic market, pressuring space in the beef cabinet.

Figure 8: January to June beef exports by destination

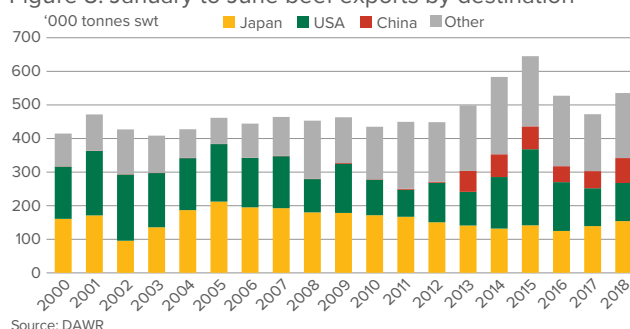
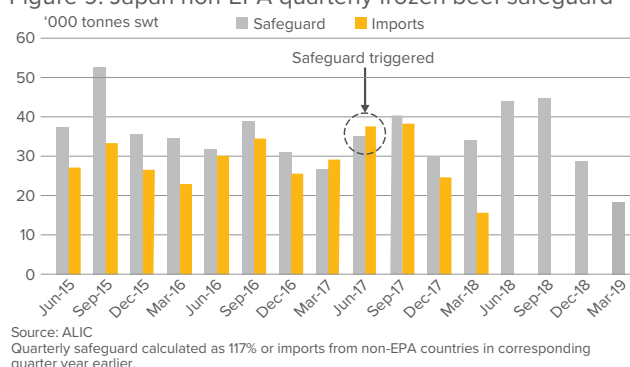


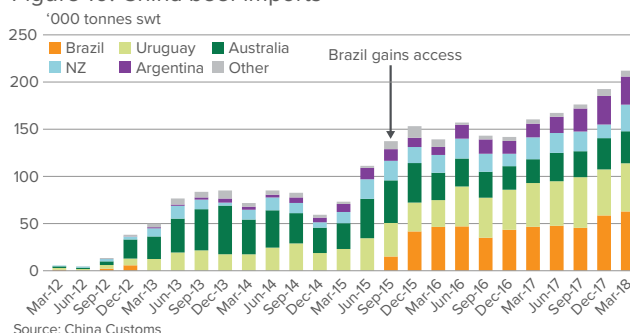
Figure 9: Japan non-EPA quarterly frozen beef safeguard



After easing in 2016 and 2017, amid tight supplies and increased competition from Brazil, Australian exports to China posted a strong recovery in the first half of 2018, up 46% year-on-year overall (up 65% for chilled). The China market continues to expand, and beef imports in the March quarter surged to record levels, exceeding 200,000 tonnes swt for the first time. US beef exports to China remain small, though this is a trade still in its infancy and unlikely to grow significantly with an escalating trade war. South America continues to push into the expanding market. In the first three months of the year, shipments from Brazil and Uruguay accounted for 30% and 24%, respectively, of the China imported beef market, while Argentina has emerged (14% share) as a significant player after the government reformed export regulation and floated the currency. France, the UK and Ireland have all recently been granted access to China but none are in a position to ship significant volumes in the longer term and, for now, Ireland is the only of the three with plants already approved.

Amid growing production and some favourable demand fundamentals in key export markets, Australian beef exports are forecast to increase 10% in 2018, to 1.11 million tonnes swt.

Figure 10: China beef imports



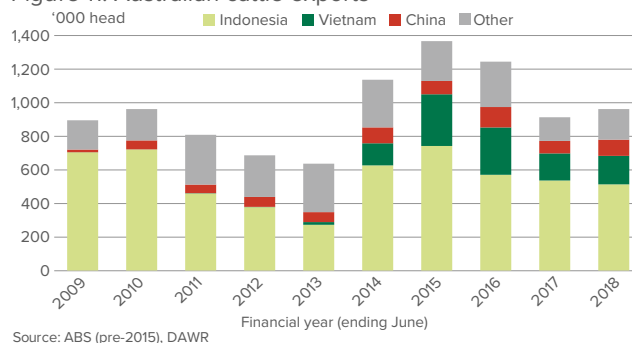
Live exports

Live cattle exports have also seen a revival in the past six months, increasing 23% year-on-year to 487,000 head. After a couple of reasonable wet seasons across the NT and Kimberley, and a build-up of carrying stocks, the uplift in the first half of this year was led by increased throughput out of Darwin (up 23%), while Townsville contracted amidst strong competition from the processing and feedlot sectors. Meanwhile, the expansion of sea-freight slaughter cattle shipments to China and re-entry of Russia as a feeder buyer saw exports out of Portland increase almost three-fold in the first half of 2018, to 66,000 head.

Trading conditions in Indonesia, Australia's single largest cattle export market, remain difficult for importers, however some respite has come from easing cattle prices out of Australia. Cattle exports to Indonesia have been on par with year-ago levels in the last six months. The 5:1 (feeder: breeder) policy remains in place but breeder shipments since October 2016 are well below the target levels (by about 116,000 head) required to offset the number of feeders that have already entered the market – that number of breeders will be a challenge to procure before the end of year deadline.

Wet market beef prices, a key priority for the Indonesian government, remained stable during Ramadan, with additional imports of low-cost Indian buffalo meat supplementing supply and tempering the additional demand over the holiday period. Indian buffalo meat has now established itself in the market and continues to provide ongoing competition for imported live cattle.

Figure 11: Australian cattle exports

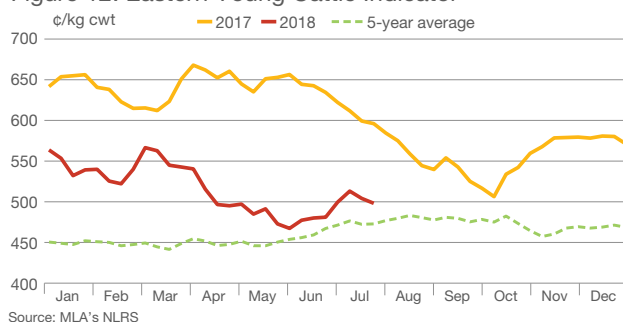


Prices

Since early autumn, the Australian cattle market has seen a slight divergence. Prices for finished cattle and those suitable to feed have either held firm or risen slightly. On the other hand, the weather-driven market for young cattle has come under pressure, though a recent uptick highlights the existence of underlying demand given the right conditions.

The Eastern Young Cattle Indicator (EYCI) fell below 500¢/kg cwt in mid-April, and has since struggled to find support above that level for an extended time period. Overall, the EYCI fell 8% during the June quarter, from opening the start of April at 541¢/kg cwt to closing June at 499¢/kg cwt. However, other eastern states saleyard indicators have been more resilient. Feeder steers fell just 1%, to end the quarter at 286¢/kg live weight (lwt), with lot feeders maintaining a strong presence in saleyards. In a demonstration of continued demand for finished cattle, the heavy steer indicator managed a 2% gain over the quarter, finishing at 280¢/kg lwt.

Figure 12: Eastern Young Cattle Indicator



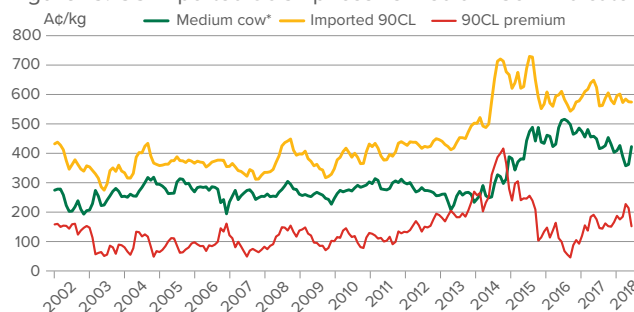
The market for cows softened early in the June quarter, but has rallied strongly since the beginning of May. Overall, the the medium cow indicator fell 9% over the course of the June quarter, to 181¢/kg lwt, but quickly rose to above 200¢/kg lwt by mid-July. Australian cow prices have historically had a strong correlation to imported US manufacturing beef prices, with a large portion of slaughter destined for grinding meat in the United States. The recent rise in cow prices has shifted the medium cow indicator closer to it's longer term average spread against the US Cow 90CL indicator, at 120¢/kg lwt.

National over-the-hook indicators saw little activity during the June quarter, with most recording minor falls of 2-3%. However, in the first few weeks of July, indicators began to react to gains in saleyard prices with the trade steer, medium cow and heavy steer indicators all up between 4-5%.

Turning to the outlook for the rest of winter and early spring, slaughter-ready cattle will likely find continued price support, underpinned by a low Australian dollar and healthy export demand in key markets. Prices will rely on solid demand within key Asian markets, which are currently absorbing excess production stemming from Australia and the US.

The supply of suitable feeder cattle is beginning to decline due to a lack of pasture, however, and such stock will remain sought-after. Demand for high-quality grainfed product in the domestic, Korean and Japanese markets is to some degree offsetting high grain prices, which continue to challenge feedlot margins. Lighter store cattle will likely continue to struggle to attract decent prices in the absence of decent rain in the coming months.

Figure 13: US Imported 90CL prices vs Medium Cow Indicator



Source: MLA, Steiner Consulting Group

*= Medium cows are 400-520kg D3, national average across all NLRS reported saleyards

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	27,965	27,450	-1.8%	27,950	28,400	28,650	28,800	3%
percentage change	3.1%	-0.7%	-5.8%	-2.1%	4.2%	-1.8%		1.8%	1.6%	0.9%	0.5%	
Slaughterings ('000 head)												
cattle	8,344	9,226	9,007	7,288	7,158	7,800	9%	7,300	7,600	7,900	8,150	14%
calves	690	688	667	542	413	500	21%	500	550	600	625	51%
total	9,034	9,914	9,675	7,830	7,571	8,250	10%	7,800	8,150	8,500	8,775	16%
Average carcase weight (kg)												
cattle	278.0	276.8	279.1	288.2	297.6	292.0	-2%	296.1	297.8	299.5	300.9	1%
calves	64.5	64.9	55.6	53.9	45.7	50.0	9%	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	2,278	7%	2,162	2,263	2,366	2,452	15%
veal	40.4	41.3	32.9	24.2	18.9	25.0	33%	27.5	30.3	33.0	34.4	82%
total beef and veal	2,359	2,595	2,547	2,125	2,149	2,303	7%	2,189	2,293	2,399	2,487	16%
Cattle exports ('000 head)												
cattle	850	1,292	1,332	1,126	855	975	14%	925	925	925	950	11%
Beef exports** ('000 tonnes)												
total, carcase weight	1,611	1,881	1,888	1,497	1,493	1,636	10%	1,512	1,608	1,706	1,787	20%
total, shipped weight	1,099	1,287	1,285	1,018	1,015	1,113	10%	1,029	1,094	1,160	1,215	20%
Domestic utilisation ('000 tonnes carcase weight)**												
total, carcase weight	736	702	646	614	643	652	1%	662	670	678	685	7%
kg/head***	31.8	29.9	27.1	25.2	26.0	26.0		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)

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