

Industry projections 2018

Australian cattle – October update

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KEY POINTS

- Elevated female cattle slaughter driving herd contraction and dropping carcass weights
- Finished cattle prices supported by robust export demand and a depreciating Australian dollar
- Beef exports expanding but facing growing competition in Asia



KEY 2018 NUMBERS

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

* Graphic illustrates year-on-year change

Summary

Poor growing conditions continued to drive domestic supply trends during the September quarter, while growing global demand supported finished cattle prices. The female slaughter rate has risen to levels not seen since the 2015 drought – though notably, this time off a lower base herd – which will have repercussions for herd size and domestic production in coming years.

For 2018, beef production is forecast to finish 6% up on last year, at 2.3 million tonnes carcass weight (cwt), driven by a 9% increase in slaughter.

The store market has remained depressed, with restocker buyers deterred by lack of pasture and expensive supplementary feed. On the other hand, finished cattle prices strengthened in the September quarter, driven by a sustained depreciation of the Australian dollar and growing demand stemming from Asia.

The fast approaching warmer summer months represent both risk and opportunity, highlighted by recent market developments. Well-received October storms sparked optimism in the young cattle market, with the Eastern Young Cattle Indicator (EYCI) quickly rising to a six-month high. Producers will no doubt be looking for opportunities to rebuild, meaning follow-up rain would likely see prices continue on their current upward trajectory. A lack of rain, however, would see drought conditions intensify, inducing further destocking and placing downward pressure on prices. Queensland will be a key state to watch in the summer months.

Seasonal conditions

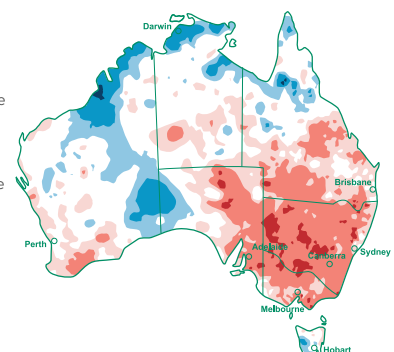
The 2018 Bureau of Meteorology (BOM) rainfall map to September still had most of mainland southeast Australia swathed in red (severe deficiency), following the driest September on record. Rainfall over the first nine months of this year was the second lowest on record for the Murray-Darling Basin, third lowest for NSW and eighth lowest for Victoria.

October finally brought useful (though not drought-breaking) rain in the eastern states, restoring some confidence to the store market, although widespread follow-up rain is needed for any lasting benefit to pastures and crops.

Figure 1: Australian rainfall – January to September 2018
Rainfall decile ranges

Legend

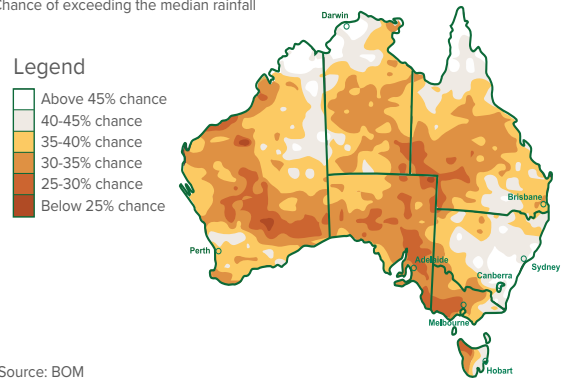
- Highest on record
- Very much above average
- Above average
- Average
- Below average
- Very much below average
- Lowest on record



Source: BOM

The prospects of drought-breaking follow-up rains are not good, with the BOM's November to January outlook highlighting "areas currently affected by drought are less likely to see significant respite in the coming three months". There is only a 25–35% chance of exceeding median rainfall for November across most of Australia, with the BOM forecasting a drier than usual start to the northern wet season. The outlook for December is somewhat more positive for NSW, with a roughly equal chance of a drier or wetter than average month.

Figure 2: Australian rainfall outlook November to January 2019
Chance of exceeding the median rainfall



Source: BOM

Slaughter

The lack of rainfall across many key cattle producing regions led to ongoing elevated adult cattle slaughter in winter and early spring and female turnoff has continued to surge as the national herd contracts. Pasture availability continues to be a major challenge for many producers and the cost of supplementary feed has surged.

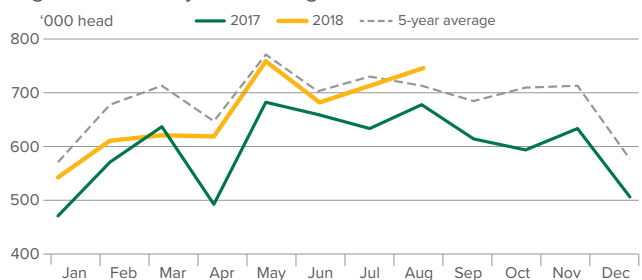
For the first eight months of 2018, Australian adult cattle slaughter totalled 5.3 million head – an increase of 10%, or 470,000 head, from the same period last year, although still 4% below the five-year average (ABS). This increase was entirely driven by females, with a 23% rise in the number of cows and heifers processed this year versus last year.

The proportion of females in the national kill has reached heights not seen since the 2015 drought. Typically, the Australian cattle herd contracts when the proportion of female slaughter exceeds 47% of total slaughter (ABS) – a threshold first surpassed in May and the female contribution to the kill has increased since.

The start of the northern wet season marks a pivotal time – especially so this year. If November and December are drier-than-average, as predicted, there is likely to be another wave of destocking in parts of Queensland, particularly for producers that held onto stock during a tough winter.

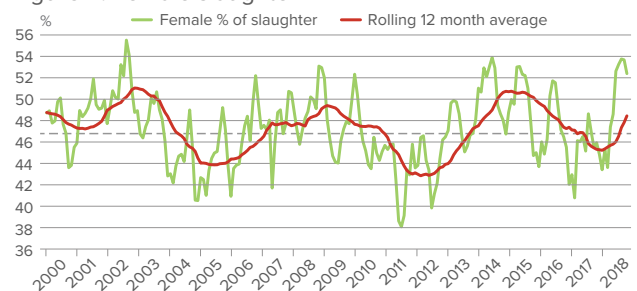
The drought and poor rainfall outlook has lifted the forecast national adult cattle slaughter, to 7.8 million head for the year – 9% higher than the 2017 total. Despite poor prospects for pastures entering into 2019, slaughter numbers will begin to be constrained by a shrinking pool of available cattle.

Figure 3: Monthly adult slaughter



Source: ABS

Figure 4: Female slaughter



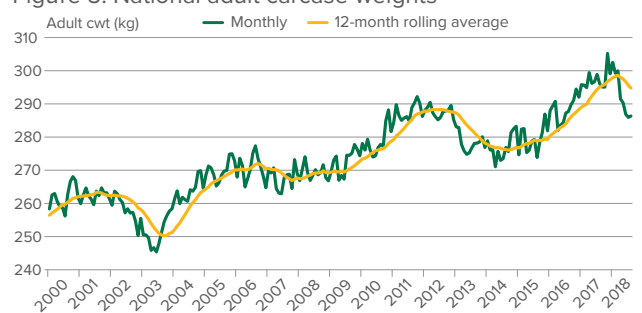
Source: ABS

Carcase weights and production

The high percentage of females contributing to slaughter continues to put downward pressure on national average carcass weights. While record numbers of cattle on feed have provided some level of support, at just over 1.1 million head mid-year, average adult cattle carcass weights have fallen from over 300kg in March to 286kg/head in August. Despite the decline in carcass weights, production has continued to rise – year-to-August levels are up 10% from the same period in 2017.

While average female carcass weights fell 10% between January and August, attributed to the surge in store-condition cow and heifer slaughter, male cattle increased 1% to 330kg/head, due to feedlots preferring steers.

Figure 5: National adult carcass weights

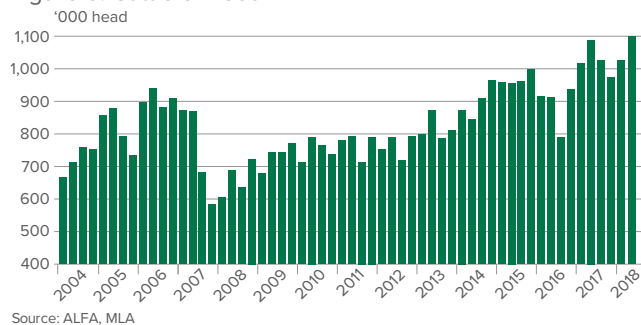


Source: ABS

Cattle on feed have remained elevated despite the high cost of feed – Darling Downs feed wheat reached \$461/tonne at the beginning of October, prices not seen since the world food price crisis in 2008 (Profarmer).

Projected national carcass weights have been revised downwards to 290kg/head for 2018, while production is projected to increase 6% year-on-year, on the back of increased slaughter. When decent rainfall does eventuate there will be a sharp reduction in the supply of female cattle. However, a continuation of the dry weather patterns will continue to push poor conditioned cows onto the market. With stock-feed supply tight and expensive, supplementary feeding to finish cattle will remain an expensive option for producers into 2019.

Figure 6: Cattle on feed



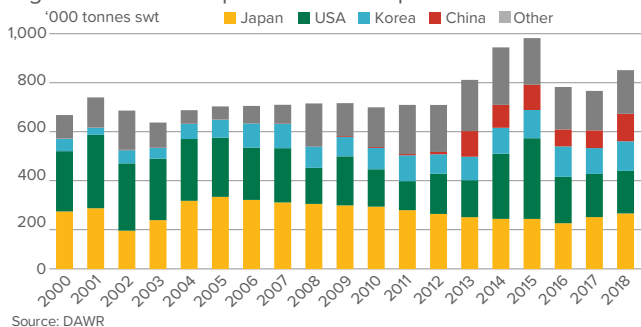
International markets

Australian exports

Increased beef production, a softer Australian dollar and robust demand fundamentals, particularly in established Asian markets, has underpinned a 9% increase in forecast beef exports in 2018 to 1.1 million tonnes shipped weight (swt).

Despite increasing competition, beef exports for the calendar year-to-September grew 12% year-on-year, to 840,500 tonnes swt. On the back of record grainfed turn-off, exports to Japan and Korea have recorded increases of 7% and 15% respectively. Exports to China in the first nine months of 2018 surged 55% year-on-year, while shipments to the US were slightly down, heavily impacted by increasing domestic production. South East Asia has also seen strong growth, led by Indonesia and the Philippines, as the region becomes a more established destination for secondary cuts and manufacturing beef.

Figure 7: Year-to-September beef exports



United States supply

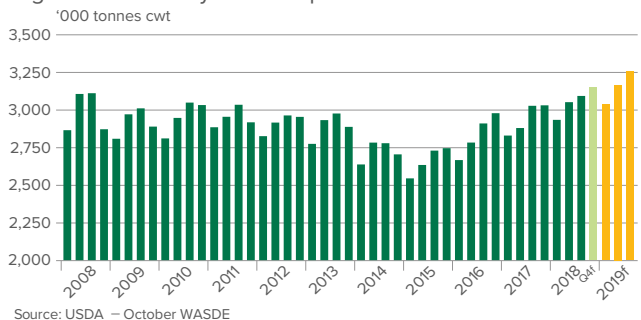
The US remains Australia's primary competitor and has been challenging market share in Japan and Korea. US beef production is forecast to rise a further 4% in 2019, on top of 3% growth in 2018, according to the *USDA World Agricultural Supply and Demand Estimates*. Large feedlot inventories – a function of an increased calf crop – combined with heavier carcass weights will continue to support production gains over the next two years.

The USDA have forecast the US cattle herd to peak next year, marking the end of a five-year expansion phase – the result of reduced cow-calf profitability and drought in key beef states. For the year-to-August, total cow slaughter was up 8% compared to a year prior, with the beef cow component 12% higher than last year.

Despite robust domestic US demand for beef – supported by tax cuts and a prospering economy – the increase in beef production has flowed through to export markets. For the calendar year-to-August, total US exports have increased 14% year-on-year to 673,000 tonnes swt.

As has been the case for Australia, US exports have benefited from growing import demand from Asian markets, with US shipments to Japan and Korea for the year-to-August up 8% and 41% respectively. The US tariff advantage over Australia in Korea increased from 5.3% to 18.7% in October, following Australia triggering the KAFTA safeguard, which will remain the case until the New Year. However, Australia maintains preferential access over the US in Japan, under Japan-Australia Economic Partnership Agreement (JAPEA), which could further improve this year following other members ratifying the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Figure 8: Quarterly US beef production



However, the US is yet to make significant inroads in China – the standout market for 2018. US beef exports to China recorded some growth over the past year after it regained access, peaking at 828 tonnes swt in May, but the trade has remained constrained by strict HGP-free requirements and, more recently, fallen victim to the escalating trade war.

China

Australia's surge in exports to China has not been an isolated case, with even larger growth from South American suppliers, led by Brazil and Argentina. While official import data has not been published since March, export data from major suppliers suggests close to 50% year-on-year import growth in the first eight months of 2018.

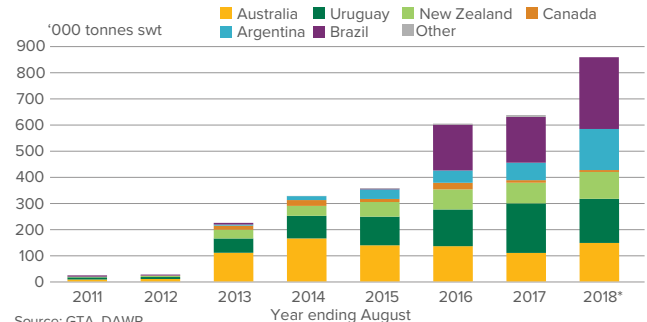
In the space of six years, China has transformed from a minor buyer of beef to a global importing powerhouse – second only to the US imported beef market. In terms of global intercontinental trade, many trade flows have pivoted towards China with it now being the single largest export market for beef from Brazil, Argentina and Uruguay, and a major buyer of product from New Zealand (second) and Australian (fourth).

Despite trade wars and the economy showing jitters, China is throwing its weight around the global beef market. The expansion of beef imports reflects demand from a growing class of urban consumers that can afford it and the economy's transition from being investment to consumption-led.

More recently, concerns regarding the impact of African Swine Fever outbreaks in China and tighter credit conditions for domestic processors may also be feeding demand for additional imports.

While chilled beef exports from Australia have grown, the trade remains limited by approved plant listings and shipments are predominantly frozen product. Grainfed exports have performed particularly strongly, up 88% during the first nine months of the year, while grassfed product increased 45% over the same period.

Figure 9: China beef imports establish new level



Source: GTA, DAWR
 *2018 is an MLA estimate constructed from individual direct exports, excluding re-exports from Vietnam or Hong Kong

Prices

During winter and early spring, the lack of rain saw young cattle prices remain depressed, with market supply high and restocker buyers absent. On the other hand, the finished market received continued support, bolstered by constrained supply of quality cattle, robust export demand and a depreciating Australian dollar.

During the September quarter, the Eastern Young Cattle Indicator (EYCI) averaged 486¢/kg carcass weight (cwt), down 73¢, or 13%, year-on-year. The market for young cattle tracked sideways during winter and early spring, with the EYCI seldom leaving a relatively narrow band of 460–510¢/kg cwt between April and mid-October.

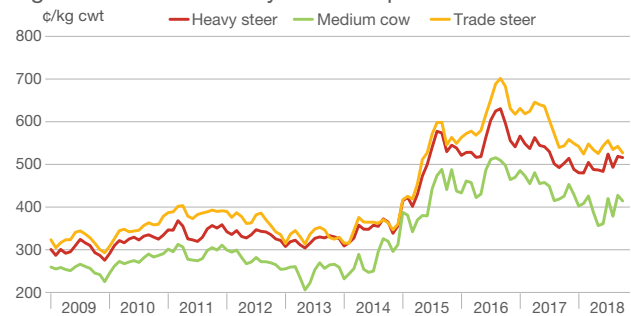
More recently, rainfall in some key eastern production regions saw the EYCI break through the 510¢/kg cwt mark on 17 October. Looking forward, follow-up rain could see demand for young cattle spike, particularly females, which recorded heightened turn-off during winter. However, the continuation of dry conditions (or just 'one-off' rainfall events) would likely see another wave of destocking, especially in the north, and further downward pressure on prices.

Despite increased turnoff, cow prices found a degree of support in saleyards during the September quarter, as Asian manufacturing markets came forward as eager buyers. The eastern states medium cow indicator averaged 198¢/kg live weight (lwt) during the quarter, down just 11¢ year-on-year, then rose to 218¢/kg lwt on 16 October.

As weight gains became increasingly hard to attain, a convergence in ¢/kg prices for store and finished cattle became apparent in saleyards. The national saleyard trade steer indicator averaged 541¢/kg cwt in January, while the national saleyard heavy steer indicator averaged 480¢/kg cwt. For the first three weeks of October, trade steers averaged 526¢/kg cwt, while heavy steers averaged 515¢/kg cwt – the premium for trade steers has fallen from 61¢ in January to 11¢ in October.

At the finished end of the market, the national over-the-hooks (OTH) indicators rose between 2–7% from the end of June to the end of September, with the medium cow indicator leading the gains. Growth in key export markets continued to support prices for slaughter-ready stock, while deteriorating seasonal conditions increased the discount applied to poorer-conditioned cattle.

Figure 10: National saleyard cattle prices

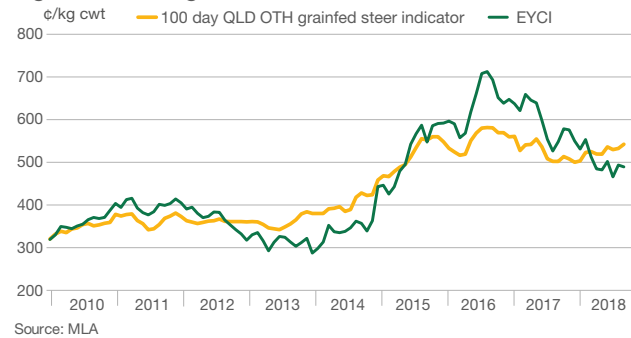


Source: MLA

Comparing the OTH Queensland 100-day grainfed steer indicator with the EYCI hints at the potential upside in young cattle prices if seasonal conditions were to improve significantly. In a better season, with increased feed availability, restocker demand typically drives higher prices for young cattle when compared to their finished counterparts on a ¢/kg cwt basis, as was the case in 2016 and 2017. In 2018 however, the EYCI has traded at a discount to the finished market since April, as worsening seasonal conditions deter restocker buyers.

Other clues for future prices may lie in the west, as many production regions in WA received closer-to-average winter rainfall. At 559¢/kg cwt on 16 October, the Western Young Cattle Indicator sat at a 48¢ premium to the EYCI on the same day.

Figure 11: Young versus finished cattle



Situation and outlook for the Australian cattle industry

	2013	2014	2015	2016	2017	2018 ^f	% change 2018 ^f 2017	2019 ^f	2020 ^f	2021 ^f	2022 ^f	% change 2022 ^f 2017
Cattle numbers ('000 head)*												
cattle	29,291	29,100	27,413	26,845	27,965	27,400	-2.0%	27,350	27,950	28,500	28,800	3%
percentage change	3.1%	-0.7%	-5.8%	-2.1%	4.2%			-0.2%	2.2%	1.9%	1.2%	
Slaughterings ('000 head)												
cattle	8,344	9,226	9,007	7,288	7,158	7,800	9%	7,250	7,450	7,800	8,000	12%
calves	690	688	667	542	413	475	15%	450	500	550	600	45%
total	9,034	9,914	9,675	7,830	7,571	8,275	9%	7,700	7,950	8,350	8,600	14%
Average carcase weight (kg)												
cattle	278.0	276.8	279.1	288.2	297.6	290.2	-2%	296.0	298.8	300.4	301.6	1%
calves	64.5	64.9	55.6	53.9	45.7	42.0	-8%	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	2,264	6%	2,146	2,226	2,343	2,412	13%
veal	40.4	41.3	32.9	24.2	18.9	20.0	6%	24.8	27.5	30.3	33.0	75%
total beef and veal	2,359	2,595	2,547	2,125	2,149	2,284	6%	2,171	2,253	2,374	2,445	14%
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	1,624	9%	1,515	1,585	1,696	1,761	18%
total, shipped weight	1,099	1,287	1,285	1,018	1,015	1,105	9%	1,031	1,078	1,154	1,198	18%
Domestic utilisation ('000 tonnes carcase weight)***												
total, carcase weight	736	702	646	614	643	647	1%	643	655	665	672	5%
kg/head***	31.8	29.9	27.1	25.2	26.0	25.8		25.2	25.3	25.3	25.2	

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.

f = forecast (in italics)

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