

Industry projections 2020

Australian cattle

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KEY POINTS

- National herd expected to fall to lowest level since 1992
- Adult cattle slaughter to see sharp contraction on the back of sustained drought
- China the centre for global protein trade in 2020



KEY 2020 NUMBERS

-  **Slaughter:**
7.2 million head
-  **Carcase weights:**
292 kg/head
-  **Production:**
2.1 million tonnes cwt
-  **Beef exports:**
1.0 million tonnes swt

* Graphic illustrates year-on-year change

Summary

The national cattle herd is set to drop to its lowest level in more than two decades in 2020, following one of the most challenging years on record. In 2019 Australian producers experienced the warmest and driest year ever which was compounded by floods and bushfires at either end of the year. However, despite all these pressures, global and domestic demand for beef has remained robust and helped support cattle prices during these extreme conditions. From a cattle supply perspective, numbers over the next two years are expected to tighten considerably; to what extent will be determined by domestic and global influences, with rainfall and demand from China the stand-out variables.

Adult cattle slaughter in 2020 is currently forecast to drop 15% to 7.2 million head. Rainfall throughout January has provided an element of renewed confidence for producers. However, the impact of the extreme conditions last year is expected to maintain elevated slaughter in the first quarter, with an expected tightening of supply as the year progresses. Female slaughter reached new highs in 2019, but is expected to drop off in 2020 as the herd shifts from contraction to rebuild phase – assuming a return to average seasonal conditions. However, with feed and water availability tight in many regions, any persistence of dry conditions beyond the start of year may see 2020 follow the trends seen in 2019.

The lot feeding sector has been growing in recent years in response to strong demand for high quality grainfed beef and its key role in finishing cattle in drought conditions. Over one million head of cattle on feed has been maintained over the last seven quarters and this is set to continue in 2020, despite the potential for higher feed and feeder costs. In the past year lot feeders have been a key buyer, paying a premium for cattle and helping maintain prices at historically strong levels. The expected increased grainfed portion of turn-off combined with the lower percentage of female slaughter means carcass weights are expected to increase 3% in 2020. Higher weights should offset some of the decline in slaughter, with production forecast to be down 13% to 2.1 million tonnes carcass weight (cwt).

The global protein market experienced an exceptional year in 2019, with the impact of African Swine Fever in China creating a massive protein deficit and a reshaping of the global meat trade as more product was directed to the China market. Australian beef exports were very much part of this shift, with exports to China growing 85% and the market emerging as Australia's largest market by volume. The protein deficit in China is set to be just as apparent in 2020, but many shifts in the global landscape will impact how this unfolds, including the US-China trade relationship, production and policies from South American suppliers and policy shifts within China itself. Demand for beef from many other key markets around the world remains robust, but buyers must now compete more fiercely for that product.

Australian cattle prices are expected to find support in 2020 in the event of a major improvement in seasonal conditions as restockers, feeders and processors compete over a reduced pool of livestock. Young cattle and breeding stock prices will be influenced significantly by the extent of the improvement in pasture availability. With cattle supplies anticipated to tighten over the next few years, continued support for finished cattle prices is expected. Even without rain, finished cattle prices should remain at historically high levels as a result of the aforementioned strong demand fundamentals.

Assumptions

Close to average seasonal conditions have been assumed for the majority of Australia's cattle producing regions until April 2020, with the assumption of a return to average seasonal conditions for the remainder of the projections period.

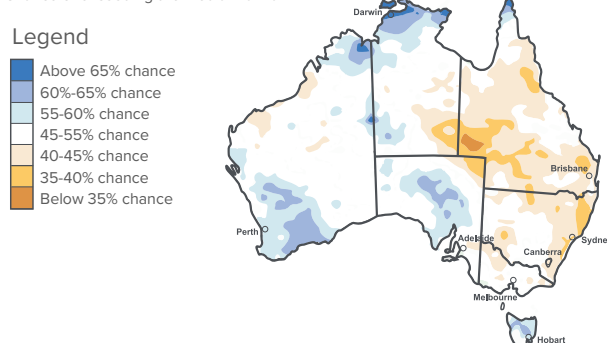
The latest three-month outlook from the Bureau of Meteorology (Figure 1) forecasts that February through April will see close-to-average rainfall and a slight easing in the higher-than-average temperatures. Parts of northern WA, the Cape York Peninsula of Queensland and the far north of the NT are expected to see above average rainfall throughout this time.

Critically, the improved outlook does not promise the above-average rainfall needed to fully and quickly reverse the impact of the extreme conditions last year. 2019 was officially the warmest and driest year on record. The annual national mean temperature was 1.5°C above average and national rainfall was 40% below average. Soil moisture deficiencies in the root zone (from 0 to 100 cm deep) have depleted to a point where sustained rainfall is required to return to adequate levels. Large parts of NSW and Queensland have received some useful rainfall throughout January, however further widespread rain will be required to sustain pasture growth.

The Australian dollar depreciated to its lowest level in 15 years, averaging 69US¢ in 2019. This provided great support to Australian red meat exports and the major banks anticipate much of the same in 2020, with forecasts ranging from 67US¢ to 71US¢.

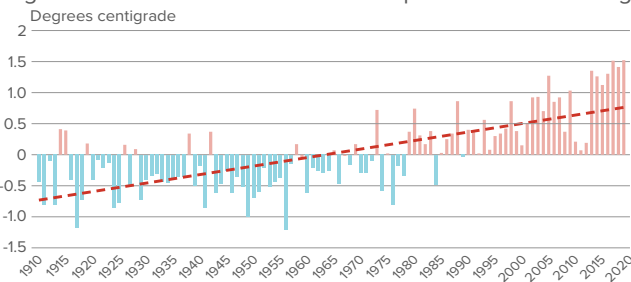
At this stage, the full impact on livestock from the devastating national bushfire crisis is unknown as fires are still underway in some regions and access to some areas restricted. There have been some reported significant losses in specific regions including Kangaroo Island and in north-east Victoria and southern NSW with a mix of dairy and beef farms affected. The current reported losses represent under 0.1% of the national herd, but this may climb in coming weeks.

Figure 1: Australian rainfall outlook – February to April 2020
Chance of exceeding the median rainfall



Source: Bureau of Meteorology

Figure 2: Australia's annual mean temperature is increasing
Degrees centigrade



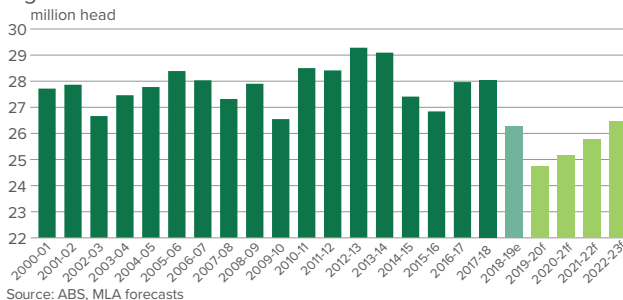
Cattle herd and slaughter

Australian cattle producers enter 2020 on the back of one of the most challenging years on record. Conditions in 2019 deteriorated to critical levels as the longevity, severity and widespread nature of the current drought exhausted feed and water availability in most production regions, in particular, south-east Queensland and northern NSW. On top of the drought conditions, north Queensland experienced severe flooding in early 2019, resulting in the loss of hundreds of thousands of cattle. More recently, many parts of Australia have been affected by devastating bushfires. For some, the financial pressures associated with keeping livestock on-farm reached a tipping point.

The extent of widespread destocking is reflected in the high percentage of female slaughter. Last year, on a 12-month rolling average basis, the female portion of total slaughter reached 55% and in three consecutive months (June, July and August) hit an unprecedented 58%. The scale of destocking within the national breeding herd in the second half of 2019, combined with a mostly neutral outlook in the first quarter of 2020, is likely to result in cattle turn-off remaining elevated. Subsequently, the national herd is forecast to decline 5.8% year-on-year by the end of June 2020. At 24.7 million head, this would represent a cumulative fall of 12.4% since June 2018.

When forecasting national cattle slaughter in 2020, both domestic and international influences offer a range of potential scenarios. However, the impact of the unrelenting drought has seen the pool of available slaughter cattle contract. Adult cattle slaughter is expected to fall 15% year-on-year to 7.2 million head in 2020 and to 7.1 million head in 2021.

Figure 3: National cattle herd
million head



Almost all key production regions, except for north-east Queensland and southern Victoria, have seen consecutive years of substantially lower branding rates. The male component of national slaughter in 2019 highlighted the challenges producers have faced over the past two years in regards to productivity. For 2019 (year-to-November) male slaughter eased 7% year-on-year, underlining the limited availability of steers for finishing.

The trajectory of global meat prices will also have a bearing on processor numbers over the next 12 months. Any further rises, which could eventuate given the anticipated global protein deficit, would likely see livestock grids increase as well. Producers, particularly in the worst affected regions, could be incentivised to sell during this window as opposed to prioritising a herd rebuild.

It will require a period of sustained average or above average seasonal conditions to reinvigorate market confidence. In the event of additional widespread rainfall, before the end of the northern wet season and solid autumn break in the south, adult cattle slaughter could fall below 7 million head in 2020. Conversely a continuation of drought conditions would continue to force many producers to offload stock and, despite the depleted herd numbers, slaughter could rise to 8 million head.

Current forecasts have 2021 as the likely low point for supply should Australia see a return to average seasonal conditions, with a herd rebuild commencing in the second half of this year and continuing over the remainder of the projection period (2020 to 2023).

Figure 4: Female slaughter

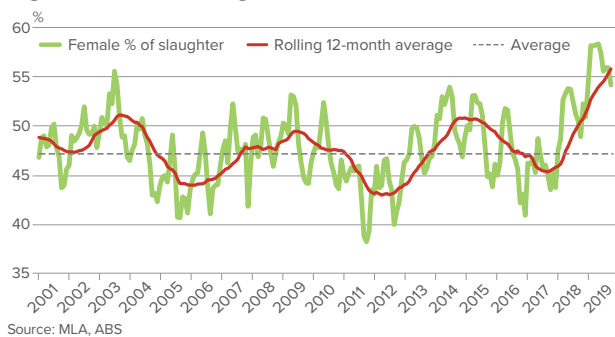
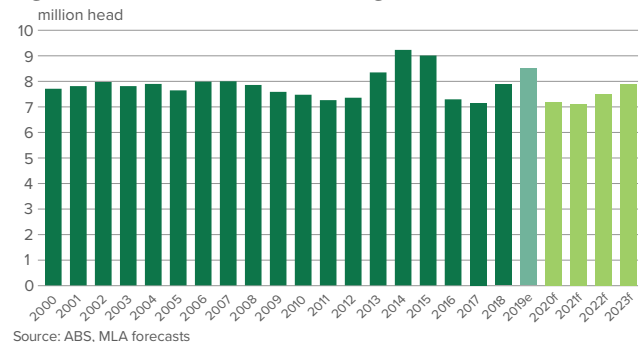


Figure 5: National adult cattle slaughter



Cattle on feed

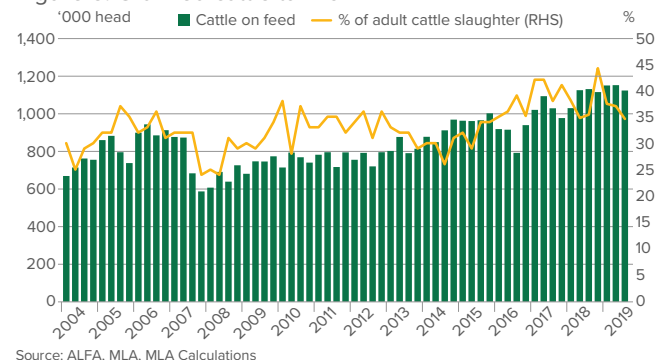
Cattle on feed hit record levels in 2019, as the lot feeding sector utilised increased capacity to respond to strong demand from high quality grainfed markets and provide a key role in drought mitigation for producers. Feedlot inventories have now been sustained above one million head for seven consecutive quarters. For the year ahead, the number of cattle on feed is expected to remain at a historically high level, albeit likely easing from the record numbers in 2019.

Australia's feedlot capacity has been steadily increasing in recent years, accounting for a greater portion of Australian beef production, particularly during times of constrained grassfed availability. With the expectation of a sharp decline in slaughter in 2020, driven by a reduction in the number of cows and heifers being processed, grainfed cattle as a percentage of national slaughter will likely reach record levels.

Supporting the sustained high number of cattle on feed will be critical in limiting the impact of a fall in cattle slaughter and beef production on processor throughput and profitability, given robust global demand and meat prices.

Elevated feed prices and concerns over water availability continue to provide challenges for the lot feeding sector. However, the biggest challenge for many feedlots will be the potential price of feeder cattle. Any improvement in pasture conditions will revive restocker interest and see a quick response in prices. In the absence of strong competition for store cattle heading back to the paddock in 2019, restocker buyers traded at a consistent discount to feeder buyers. A reverse of fortunes would pressure feedlot inputs, with store prices overtaking finished livestock prices. Compared to young cattle, finished cattle traded at an average premium of 10% in 2019, however the 10-year average favours a 5% premium in favour of store cattle.

Figure 6: Grainfed cattle turn-off



Carcase weights and production

National adult carcase weights are estimated to have fallen 7.3kg to 283kg in 2019, driven by poor pasture conditions and the high percentage (55%) of female slaughter. Since the record highs in 2017, average carcase weights have followed a downward trend, declining across both males and females by 5kg/head and 8kg/head respectively.

Average adult carcase weights are forecast at 292kg in 2020, a 3% increase from 2019. Heavier carcase weights are forecast as the result of a decline in the percentage of female slaughter, lower stocking rates, a higher ratio of cattle on feed and the prospect of better pasture conditions. Male and female average carcase weights are forecast to increase to 326kg and 256kg respectively in 2020.

In 2019, a number of processors offered grid price premiums for HGP (hormone growth promotants) free beef, largely driven by the growing influence of China – a HGP free destination for Australian beef – and consumer demand for more natural ('free-from') beef. If HGP premiums remain or grow, more producers may consider sacrificing weight gain for market access, potentially curbing the upside for average carcase weights.

Total beef and veal production is forecast to drop 13% in 2020 to 2.1 million tonnes cwt as a result of the sharp decline in adult cattle slaughter. As mentioned, the impact of widespread rainfall in the first half of 2020 could see beef production fall further as cattle supplies tighten.

However, with available feed (low stocking rates) and the prospect of high (possibly record) finished prices, producers would have a strong incentive to add weight, helping to offset some of the expected decline in production.

Figure 7: Adult carcase weights

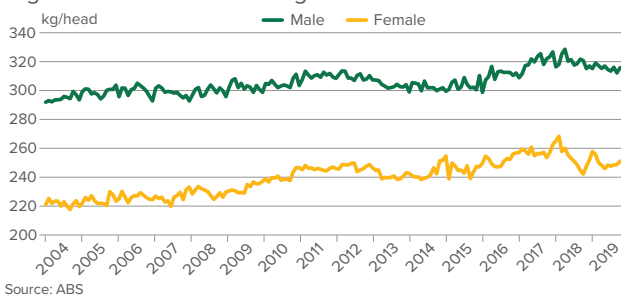
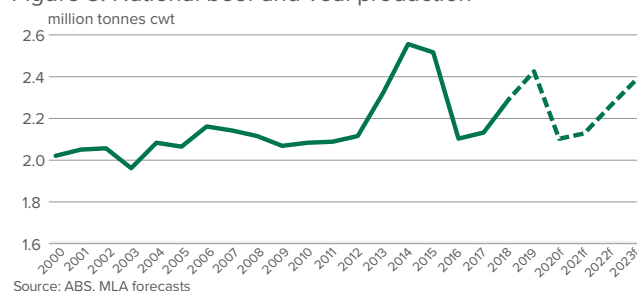


Figure 8: National beef and veal production



Domestic demand

Australia remains one of the largest per capita consumers of beef in the world and is still the largest market for Australian beef. However, total consumption of beef dropped slightly in 2019 as the backdrop of a soft Australian economy and rising retail prices impacted affordability and consumer demand. Australians have experienced stagnant wage growth in recent years and, coupled with rising living costs, this has placed increased pressure on food spend, the second largest household cost after housing.

All of the major proteins experienced a rise in retail prices in the last 12 months as the drought impacted feed costs for all suppliers. The average retail price of beef climbed to \$20.24/kg, up 5% on last year, with lamb up 14%, pork up 1% and poultry up 4% to its highest price on record. Beef remains 3.6 times the price of chicken and, with the growing price differential of beef to other major proteins, justifying and delivering value to the consumer has become critical.

Despite the price pressure, beef dollar sales increased in the retail channel last year, with growth across the major retailers as well as in butcher shops. Demand has been particularly strong in premium areas such as prime steak, pre-prepared beef and premium mince, highlighting the value consumers place on beef despite the price gap. In 2019, beef maintained its market leading position on Australian retail shelves, with 34% market share of fresh meat retail sales – more than three times the size of fresh pork (AC Nielsen Homescan).

Figure 9: Australian retail prices

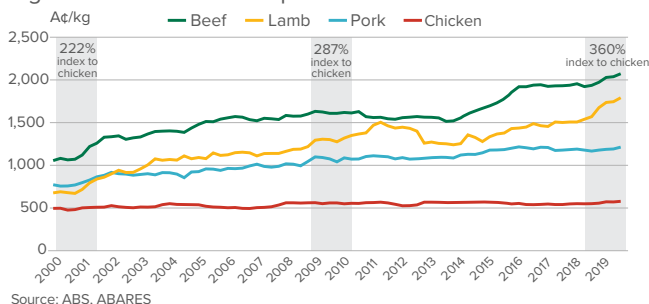
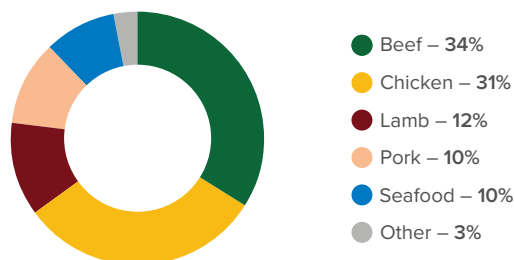


Figure 10: Retail fresh meat value share in Australia – 2019



Source: AC Nielsen Homescan, MAT to 03/11/2019

Australian retail shelves are becoming increasingly competitive each year as our population demographics shift with growing migration (30% of Australians are born overseas) and exposure to new cuisines expands. Maintaining per capita beef consumption will be a challenge as forecast supply constraints in coming years place further pressure on beef prices and lead to a growing price spread against chicken and pork. However, there are still plenty of opportunity areas, particularly when focusing on growing consumer demand for better quality, more nutritious, versatile and convenient food offerings.

International markets

Global beef demand lifted in 2019, as China further entrenched its position as the world's largest imported beef market. Fuelled by the spread of African Swine Fever and a swelling affluent consumer class, the conditions in China that have underpinned demand growth look set to continue in 2020. More broadly, despite trade wars and key countries experiencing a slowdown in manufacturing output, the global economy resisted recession last year and consumer markets, particularly in the US and China, proved surprisingly resilient.

Australian beef exports expanded 9% year-on-year in 2019 to 1.23 million tonnes shipped weight (swt), with all the additional volume being captured by China. Frozen beef exports surged, up 11% year-on-year, while chilled beef exports crept up 4%. Export unit prices lifted to new highs, averaging A\$8.17/kg FOB over the 12 months to November 2019, up from A\$7.31/kg FOB a year prior, reflecting a softer Australian dollar and strong global demand.

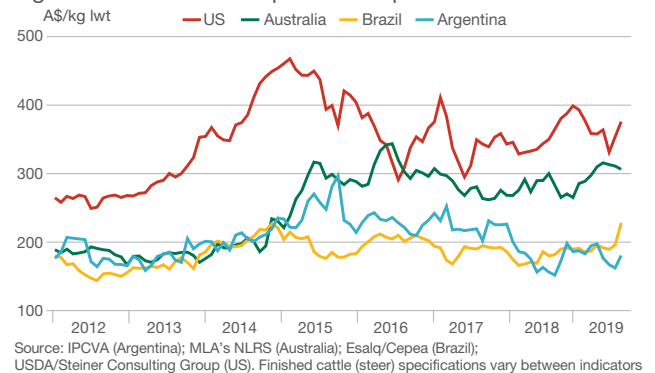
The Australian dollar remained soft for the entirety of 2019, lessening the impact of rising cattle prices on international consumers. However, South American currencies such as the Brazilian real and Argentine peso remained even weaker, reinforcing their export position and making them highly price-competitive in global markets.

Australian finished cattle prices crept closer to their US counterparts throughout 2019 but diverged towards the end of the year. Prior to 2015, Australian cattle prices closely tracked those in South America on a currency adjusted basis, but the separation in markets following the 2014–15 drought has not reversed, partly due to relatively tight supplies of finished cattle in Australia and South American currencies coming under significant downward pressure in recent years. While elevated prices are positive for Australian producers, when compounded by high slaughter and supply chain costs, it makes Australian beef relatively expensive and defending share, especially in price-sensitive markets, particularly challenging.

Looking ahead, the International Monetary Fund have the global economy forecast to expand 3.3% in 2020, up marginally from the 2.9% estimated in 2019, with six of Australia's top ten export markets expected to grow in excess of 2%. However, the global economy remains sensitive to US-China trade relations and a further slowdown in some sectors could spill over to hurt consumer confidence and beef demand.

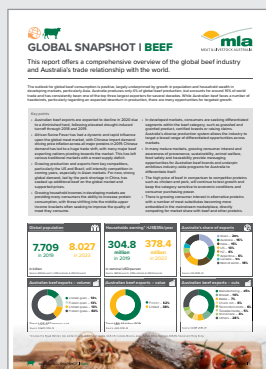
In 2020 Australian beef exports are forecast to decline 16% to 1.03 million tonnes swt, one of the lowest levels in recent years, but still higher than any year before 2013. At 3–4% of global beef production, Australia alone cannot keep pace with global demand growth, but rather needs to continue identifying and developing markets which are able to pay a premium for its high quality beef. While China has rapidly become the largest market in the world, Australia has access to many of the most valuable markets in the world, including Japan, Korea and the US. Australia's access to this broad and diverse global market is critical in contributing to the industry's growth and ability to mitigate risks.

Figure 11: Global cattle prices compared



Global beef snapshot

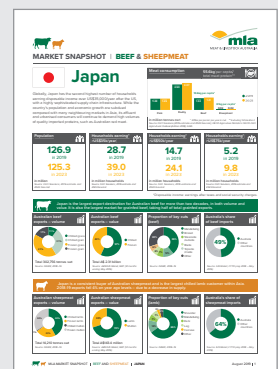
This report offers a comprehensive overview of the global beef industry and Australia's trade relationship with the world.



[▶ To view the Global Beef snapshot click here](#)

Market snapshots

MLA's market snapshots aim to give a better understanding of Australia's main red meat markets along with insights into what's driving consumer demand.



[▶ To view market specific snapshots click here](#)

China

The spread of African Swine Fever in China – and the sizable protein gap left in its wake – has had a dynamic and swift influence on global meat markets, intensifying demand for imported beef and stimulating meat price inflation in the second half of 2019. Chinese pork production in 2020 is forecast to be down 40% on 2017 (pre-ASF) levels, estimated to equate to a pork shortfall of 22 million carcass weight (cwt) metric tonnes.

The pork vacuum in China has drawn unprecedented amounts of meat into the market but volumes still pale in significance compared to the losses in domestic pork production. China beef imports exceeded 1.5 million tonnes shipped weight (swt) in 2019, an increase of about 60% on top of the already elevated levels recorded in 2018.

Underpinned by African Swine Fever and a swelling affluent consumer class, China emerged as the top destination for Australian beef exports in 2019, with shipments surpassing 300,000 tonnes swt, up 84% year-on-year. Strong growth was recorded in premium and lower-value exports alike. Albeit off a smaller base, chilled exports to China more than doubled to 30,000 tonnes swt, while frozen exports increased by 81% to 270,000 tonnes swt.

China represented 24% of total Australian beef exports in 2019, up from 14% in 2018 and just 11% in 2017. In October, November and December, monthly beef export volumes to China exceeded 30,000 tonnes swt, drawing product away from other markets that struggled to compete on price.

In the last two years China has emerged as the principal beef export destination for most of the other major producing nations, with the US a notable exception. Argentina, Brazil and New Zealand also experienced year-on-year export growth to China in excess of 50% in 2019 as rising prices pulled supply from their domestic and alternative export markets. While Chinese demand appears insatiable, the imported beef market has become increasingly crowded as more countries are granted access and additional plants in South America, particularly Brazil and Argentina, are approved.

While there has never been so much beef traded on the global market, it is increasingly geared to one buyer and remains sensitive to demand and policy shifts in China. This was evident late last year when, after the market overheated, importers sought to renegotiate contracts with product on the water. A broader slowdown in demand from China – either from an eventual recovery in its pig herd or an economic contraction – would directly hurt Australian exports and indirectly increase competition elsewhere as major exporters redirect beef to other markets.

Japan

Japan remains an important export market for Australian beef but it relinquished its number one spot in 2019, falling short of shipments to China by 13,000 tonnes swt. Australian beef exports to Japan decreased by 9% to 287,000 tonnes swt, and were predominantly made up of chilled grainfed (92,000 tonnes swt) and frozen grassfed (117,000 tonnes swt) product. Relative to 2018, the 13% decline in frozen beef exports accounted for the majority of the drop in total shipments to Japan, while chilled exports were less affected, back just 3%. Lower frozen shipments from Australia were offset by greater volumes from Canada, New Zealand and Mexico.

Broadly, beef demand in Japan remains strong with per capita beef consumption growing since 2015 and forecast to continue, with imports to play an increasing role due to flat domestic beef production. Additionally, the Olympics in Japan this year will bring in significant numbers of tourists and provide a boost to beef demand through foodservice channels.

Australia is the top imported beef supplier to Japan, but is set to face stronger competition from the US in 2020 due to improved access. The recently negotiated mini trade deal with Japan will bring tariff rates on US beef in line with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and create a US-specific safeguard starting at 242,000 metric tonnes (increasing by 4,860 metric tonnes a year from years 3 through 9).

Figure 12: Exports to China from major beef suppliers

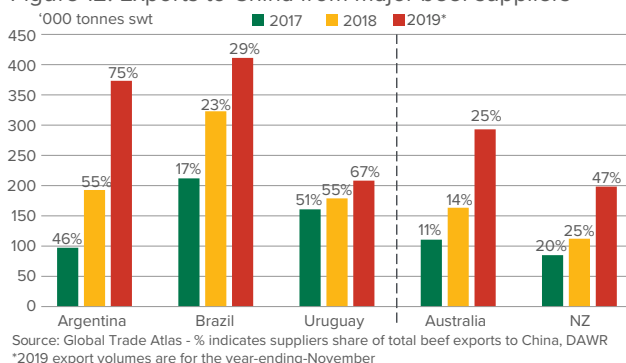
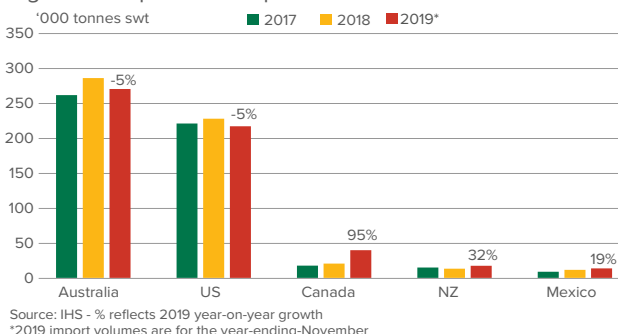


Figure 13: Japan beef imports



United States

Australian beef exports to the US reached 252,000 tonnes swt in 2019, up 9% year-on-year and representing 20% of total shipments. Overall US consumer demand and foodservice traffic remained robust, with the economy humming along and unemployment low.

Frozen manufacturing beef exports (152,000 tonnes swt) made up the lion's share of shipments to the US. Lean Australian trim remains an integral component of the US burger complex but many grinders in the market had to match higher bids from China to secure product. In contrast to Australia, US imports of frozen New Zealand beef, which enters similar channels, declined 31% year-on-year from January to November of 2019 as product shifted to China. Despite elevated cow slaughter in Australia in 2019, the US imported 90CL price indicator nudged past the 2014 record, briefly peaking at 300US¢/lb in November due to strong competition from China.

Premium branded grassfed beef remains a key growth category in US retail and foodservice. Chilled Australian grassfed beef primal shipments to the US grew 5% to 63,200 tonnes swt in 2019, accounting for a quarter of beef exports to the market.

Consumer confidence in the US, which remains sensitive to the broader health of the economy, will drive overall consumption levels in 2020. As seen following the Global Financial Crisis, a slowdown in beef demand could be problematic given the record amount of production anticipated this year. However, imported Australian beef will remain a critical feature of the market, given the US's ongoing requirement to blend frozen lean trim with local fattier product and its limited ability to produce grassfed beef.

South Korea

Australian beef exports to Korea decreased 5% in 2020 to 162,000 tonnes swt. This was due to the increased competition from US beef, the hitting of the tariff safeguard and product being drawn away into the Chinese market. The US captured a further 2% of Korean imported beef market share in 2019, at 52%, while Australia's market share dipped 2% to 41%.

While the US will likely increase competitive pressure in the market, Koreans' preference for Australian beef is expected to remain unchanged. Country of origin remains extremely important for Korean customers, with Australian beef the most favoured among all imported beef and regarded as the most superior, among the safest to eat and a family favourite.

South-East Asia

Australian beef exports to South-East Asia eased 6% in 2019 to 122,000 tonnes swt, however, trends varied at a country level. Indonesia was the top market and accounted for 47% of shipments to the region, followed by the Philippines at 21% and Vietnam at 11%.

Frozen grassfed beef remains the largest category shipped to South-East Asia (97,000 tonnes swt). However, sensitive to price movements, frozen manufacturing shipments to Indonesia and the Philippines declined 14% and 33% respectively, as China increased bids. Subsequently, cheaper Brazilian beef filled the gap in the Philippines while increased Indian buffalo meat covered the shortfall in Indonesia. Vietnam remained the standout growth market in the region in 2019, with exports increasing 29% year-on-year to 14,000 tonnes swt of predominantly frozen product.

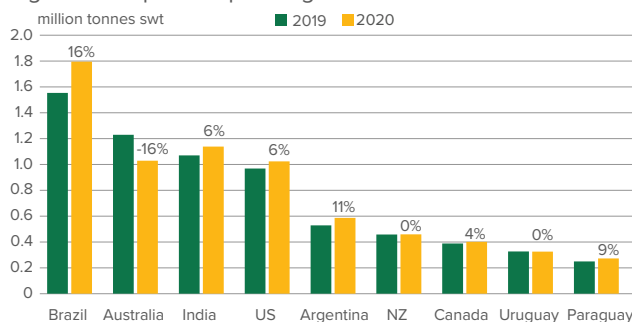
The chilled beef trade into South-East Asia expanded 7% year-on-year in 2019, to 16,000 tonnes swt. This growth is driven by demand from higher value channels such as modern retail, foodservice and hotels – segments that are more sheltered from China buying power and geared to affluent consumers and tourist and business travel.

Competitors

Australia is facing greater competition in key exports markets, the flow-on effect of major beef producing nations expanding production but also diverting more beef onto the global market. In particular, much of the additional competition has been generated by the growing presence of South American beef in Asian markets. Brazil, Argentina and Uruguay have all dramatically grown their market share in Asia, with a distinct focus upon China.

Brazilian beef production is expected to continue growing in coming years, underpinned by a slowly expanding herd, the opening up of new land, greater availability of slaughter cattle and strong international demand.

Figure 14: Exports expanding in 2020



Source: Markit, USDA, MLA (Australia)
% reflects 2019 year-on-year growth

Brazil exported 494,000 tonnes swt of beef to China in 2019, a 53% increase year-on-year, underpinned by a significant increase in the number of plants approved to service the market. While Brazilian beef still lacks access to Japan, Korea and the US, it is very price competitive in China and South East Asia and poses a significant competitive threat given its large production capability to draw from and heavily depressed currency.

Argentina has become heavily geared towards China, doubling beef exports to the market last year. This staggering volume (372,000 tonnes swt shipped over the year-to-November) equates to 75% of Argentina's total beef exports. Argentina experienced elevated slaughter through 2019 in response to booming demand, However, with an undervalued peso and economy in turmoil, much of the export growth was stripped from the domestic market. Beef production is expected to expand 3% in 2020, incentivised by demand from China, however the Argentine beef industry remains vulnerable to export controls being implemented by the recently elected Peronist government.

The US, with a substantial domestic feed grain supply, large herd and consolidated feedlot industry, is the world leader in beef production and a major competitor to Australia in key export markets such as Japan, Korea and its own domestic market. However, thanks to a strong dollar, US exports were back in 2019, down 5% year-on-year from January to November, despite swelling domestic supplies.

The US cattle herd is currently near its cyclical peak and will likely contract over the coming years. However, driven by higher levels of fed cattle and cow slaughter, US beef production is expected to expand further in 2020, leading to increased volume available for export and greater competition in Japan and Korea. The notable gap in the US's export portfolio is China, however the signing of US-China Phase-One trade agreement has left the US beef industry in a far stronger position than where it was prior.

The US-China Phase-One deal removes many of the technical restrictions that were limiting trade from the US to China, including loosening of the strict HGP-free requirements, recognition of US industry traceability systems and the removal of the 30-month age limit on cattle supplying the trade. However, the trade deal has not wound back the existing 47% tariff on US beef and restrictions on ractopamine remain in place. While there is potential for the US to establish a significant trade within China over the coming years, it will likely be redirected from its other major markets (domestic, Japan, Korea) where Australia is a major supplier and well-positioned to take advantage of any subsequent supply gaps.

Live exports

Australia shipped 1.3 million head of cattle in 2019, up 19% year-on-year. Feeder exports to Indonesia remained the bedrock of the trade, increasing 15% to 676,000 head, but feeder and slaughter cattle to Vietnam recorded strong growth, expanding 32% to 267,000 head.

Cattle exports are expected to contract in 2020 to 900,000 head due to a severely depleted northern herd. While dependent on seasonal conditions and speed of herd recovery, cattle exports are anticipated to remain below one million head over the next four years. As such, supply conditions in 2020 should more reflect 2017, when Australia exported 867,000 head, of which 513,000 head were destined for Indonesia.

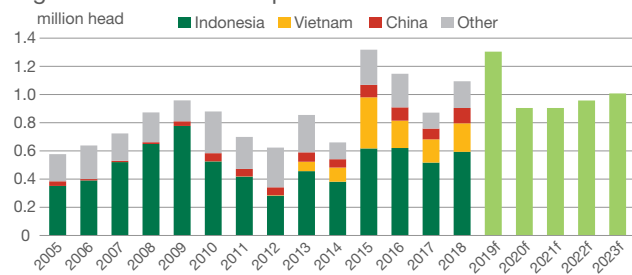
Demand for Australian cattle in South East Asia is expected to remain robust despite increased competition from Indian buffalo meat and Brazilian beef in Indonesia. In the first 11 months of 2019, Indonesia imported 81,000 tonnes swt of Indian buffalo meat, double the volume recorded over the same period in 2017. Brazil was permitted 50,000 tonnes swt of frozen beef access to Indonesia in August and in November sent its first shipment of 3,500 tonnes swt to the market (but then nothing in December).

However, this additional product entering Indonesia is yet to have a marked impact on Australian cattle exports and prices, reflecting the current low volume of beef consumption and ability of the market to readily absorb any increase in supply. While there is a more diverse array of suppliers servicing the Indonesian market, the pie is growing and an expanding pool of affluent consumers are demanding better quality meat, facilitating a shift to greater tiering within the beef offering.

Regional prices of cattle across Myanmar, Thailand, Laos, Cambodia and Vietnam continue to be driven by demand from China. For Australian cattle, Vietnam remains the principle market in the region. After it expanded rapidly between 2013–2015, exports to Vietnam cooled from 2016–2018 but recovered in 2019. After the volatility of recent years, the market has matured to more sustainable levels. While still dominated by slaughter cattle (85% of shipments in 2019) feeder exports doubled last year, as importers looked to weight gain to boost margins.

The demand fundamentals supporting beef consumption in Australia's cattle markets remain strong. However, many markets across South East Asia remain price-sensitive, which will continue to challenge the trade in light of the current supply outlook and elevate the threat of increased competition from low-cost competitors.

Figure 15: Live cattle exports



Source: ABS (pre-2015), DAWR, MLA forecasts

Prices

In periods of prolonged dry, cattle prices have historically fallen away as conditions deteriorate. However, the store market displayed an element of resilience in 2019 and robust global demand pushed finished prices higher.

The Eastern Young Cattle Indicator (EYCI) saw a minor decline of 5% on year-ago levels to average 487¢/kg cwt in 2019, with small periods of volatility in the indicator largely influenced by weather events. Feeder buyers provided the main support to the EYCI during the year, operating at an average premium of 55¢ to restockers and 45¢/kg cwt to processors. With high finished prices relative to feeder cattle, lot feeders were competitive to ensure consistent feedlot turn-off.

Heightened global protein demand saw finished cattle operate above all other categories and was a key factor in stabilising the store market.

Heavy steers averaged 534¢/kg cwt in 2019, trading at a 10% premium to EYCI cattle. However, over the past decade, the inverse of that premium has been more evident. The pressure of sustained drought on the store market was more than offset by significant upside at the finished end of the market. There is an expectation for finished cattle to remain elevated in 2020, given the tightening pool of cattle available for slaughter and upside in global meat prices, driven by China demand. However, under the assumption of a return to average seasonal conditions, store cattle will likely surpass their finished counterparts, as producers look to restock paddocks, suggesting the potential for significant price increases.

The national medium cow indicator improved 3% year-on-year to 413¢/kg cwt, as demand for manufacturing beef saw the US imported 90CL price surge to record levels on the back of aggressive buying from China. Considering the extent of breeder destocking, cow prices held up extremely well. A significant improvement in conditions will see producers look to commence rebuilding herds and demand for productive cattle will increase, providing further price support.

Looking ahead, seasonal conditions will continue to have the largest influence on domestic cattle prices, however international factors, including exchange rates, overseas production and demand from key export markets, will also impact price. In recent weeks the impact of widespread rainfall has been reflected in sharp lifts across all livestock categories. More will be required, however it appears that restocker optimism has started to turn.

Given the aforementioned influences, especially the assumed improved seasonal conditions, historically high (if not record) cattle prices will likely be reached and maintained in the next few years.

Figure 16: EYCI vs heavy steer

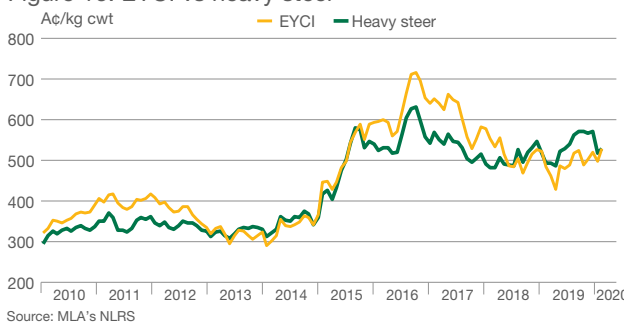
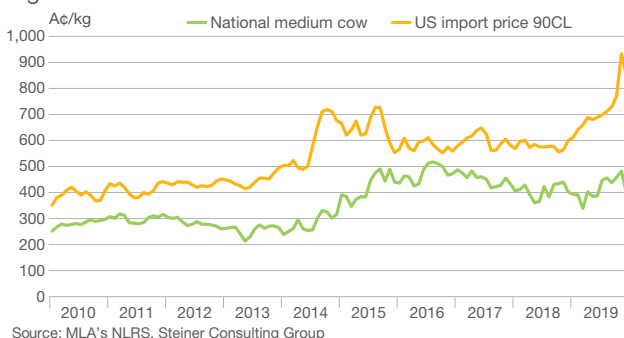


Figure 17: Medium cow vs US 90CL



Situation and outlook for the Australian cattle industry

| | 2015 | 2016 | 2017 | 2018 | 2019 ^e | 2020 ^f | % change 2020 ^f on 2019 | 2021 ^f | 2022 ^f | 2023 ^f | % change 2023 ^f on 2020 |
|-------------------------------------------------------------|--------|--------|--------|--------|-------------------|-------------------|---------------------------------------|-------------------|-------------------|-------------------|---------------------------------------|
| Cattle numbers ('000 head)* | | | | | | | | | | | |
| cattle | 27,413 | 26,845 | 27,965 | 28,052 | 26,200 | 24,700 | | 25,050 | 25,600 | 26,250 | 6% |
| percentage change | -5.8% | -2.1% | 4.2% | 0.3% | -6.6% | -5.8% | | 1.6% | 2.2% | 2.4% | |
| Slaughterings ('000 head) | | | | | | | | | | | |
| cattle | 9,007 | 7,288 | 7,158 | 7,873 | 8,500 | 7,200 | -15% | 7,100 | 7,500 | 7,900 | 10% |
| calves | 667 | 542 | 413 | 468 | 565 | 430 | -24% | 435 | 460 | 460 | 7% |
| total | 9,675 | 7,830 | 7,571 | 8,341 | 9,065 | 7,630 | -16% | 7,535 | 7,960 | 8,360 | 10% |
| Average carcase weight (kg) | | | | | | | | | | | |
| cattle | 279.1 | 288.2 | 297.6 | 290.8 | 283.4 | 291.7 | 3% | 299.4 | 300.4 | 300.7 | 3% |
| calves | 55.6 | 53.9 | 45.7 | 41.3 | 43.0 | 45.0 | 5% | 45.0 | 45.0 | 45.0 | |
| Production ('000 tonnes carcase weight) | | | | | | | | | | | |
| beef | 2,514 | 2,101 | 2,130 | 2,289 | 2,408 | 2,100 | -13% | 2,126 | 2,253 | 2,376 | 13% |
| veal | 32.9 | 24.2 | 18.9 | 19.3 | 24.3 | 19.4 | -20% | 19.6 | 20.7 | 20.7 | 7% |
| total beef and veal | 2,547 | 2,125 | 2,149 | 2,309 | 2,432 | 2,120 | -13% | 2,145 | 2,274 | 2,396 | 13% |
| Cattle exports ('000 head) | | | | | | | | | | | |
| cattle | 1,332 | 1,126 | 855 | 1,089 | 1,299 | 900 | -31% | 900 | 950 | 1,000 | 11% |
| Beef exports** ('000 tonnes) | | | | | | | | | | | |
| total, carcase weight | 1,888 | 1,497 | 1,493 | 1,655 | 1,801 | 1,511 | -16% | 1,533 | 1,653 | 1,769 | 17% |
| total, shipped weight | 1,285 | 1,018 | 1,015 | 1,126 | 1,229 | 1,028 | -16% | 1,043 | 1,124 | 1,203 | 17% |
| Domestic utilisation ('000 tonnes carcase weight)*** | | | | | | | | | | | |
| total, carcase weight | 646 | 614 | 643 | 639 | 619 | 592 | -4% | 596 | 605 | 611 | 3% |
| kg/head** | 27.1 | 25.2 | 26.0 | 25.6 | 24.4 | 23.0 | -6% | 22.8 | 22.8 | 22.7 | -1% |

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
e = estimate

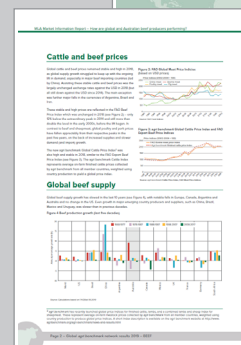
Australian beef producers were globally efficient and competitive prior to latest severe drought: *agri benchmark*

Globally, the vast majority of beef cattle enterprises in most countries are achieving profitability in both the cow-calf and finishing enterprises. This is the assessment of *agri benchmark*, a productivity-focused global network, in its 2019 report.

Agri benchmark highlights the impact of China in lifting global demand and of the various resource and environmental constraints constraining global beef supply. However, it also notes the threat being posed by droughts in many countries (most notably Australia) and by the recent growth in plant-based protein substitutes at retail and foodservice.

The *agri benchmark* farm performance results indicate that Australian cattle producers remain internationally competitive and efficient, with most achieving medium-term profits in 2018, in the early stages of the latest severe drought. However, on some efficiency parameters, such as weaning rates, there would appear to be room for further improvement relative to key competitors.

The full 2019 *agri benchmark* report entitled *How are global and Australian beef producers performing?* can be found on the MLA website at: www.mla.com.au/prices-markets/Trends-analysis/agribenchmark/



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