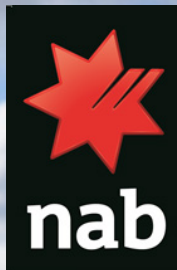


IN FOCUS: CATTLE MARKET



MARCH 2020

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Photo: Marco Pagliaro

KEY POINTS

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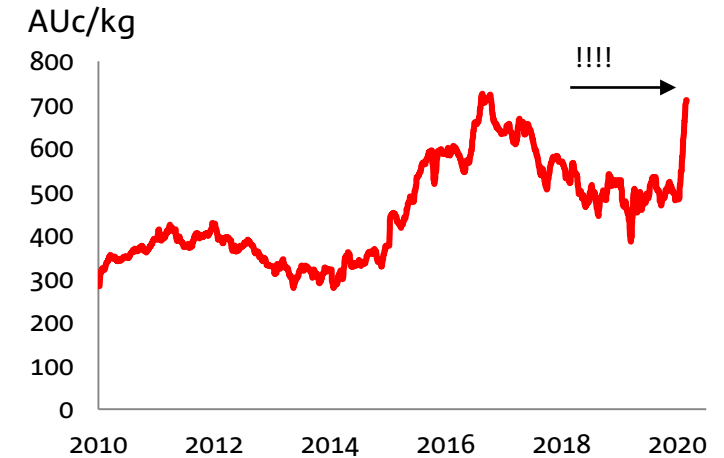
It is absolutely pedal to the metal for the cattle restocker market at present. The Eastern Young Cattle Indicator (EYCI) has reached 755c/kg, breaking its previous record of 726c/kg, set in August 2016. EYCI is now up over 58% since the start of January, an extraordinary result in two months. The speed of the 2020 EYCI rise is simply without precedent in modern Australian cattle market history.

The cause of this rally rests almost entirely with very good rainfall across much – but not all – of eastern Australia in January and February. Some regions have seen several hundred millimetres of rain already this year. This has put a rocket under the restocker market at a time where good stock have been hard to find on account of protracted drought.

Finished cattle prices have been good for some time – again reflecting difficulty sourcing quality stock due to the drought – but also on account of very strong export market performance. This has been particularly the case for China, which became Australia's largest beef export market in the second half of last year. The impact of African Swine Fever on Chinese pig meat has been such that Chinese consumers are scrambling for protein.

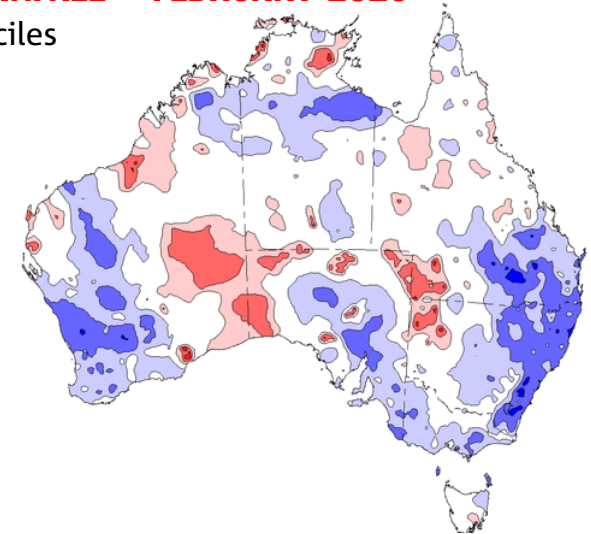
However, it is important to note that the market faces two very substantial risks. The strength in the restocker market this year comes off the back of just two months of good rain in many (but not all) areas, following a crippling drought. On the other hand, the 2016 rally occurred amid the best seasonal conditions in living memory for many. Furthermore, of Australia's four largest beef export markets, three (China, Japan and South Korea) face large coronavirus outbreaks. If these continue, demand fundamentals will certainly suffer. Coronavirus has brought a lower AUD (now mid-60s US cents), but this alone is unlikely to offset coronavirus impacts.

EASTERN YOUNG CATTLE INDICATOR



RAINFALL – FEBRUARY 2020

deciles



Source: NAB Group Economics, Meat and Livestock Australia, Bureau of Meteorology

SEASONAL CONDITIONS

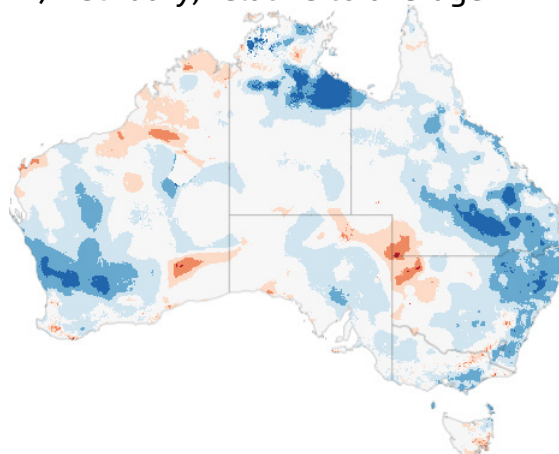
2019 was a very very tough season in many parts of Australia. New South Wales and parts of Queensland saw the most severe rainfall deficits over the year.

Since January, many – but not all – of these areas have seen excellent rainfall. This is clearly an extremely welcome relief for producers. Soil moisture levels across northern New South Wales, the Darling Downs and central Queensland are especially encouraging and have led to very spirited activity in the cattle restocker market.

However, it is worth comparing underlying conditions now compared to the last great EYCI rally in 2016. EYCI peaked at 726c/kg in August 2016, amid the best seasonal conditions in arguably decades. The map on the bottom right shows three months of rainfall (relative to average) in the lead up to August 2016 – a sea of blue, with most areas above average and many very much above average. Compared to the three months leading up to the present (map bottom left) conditions were very substantially better in 2016. While some areas now have enough moisture to see them through for a good period, many areas still need a full season of above average rain. This is a risk for prices.

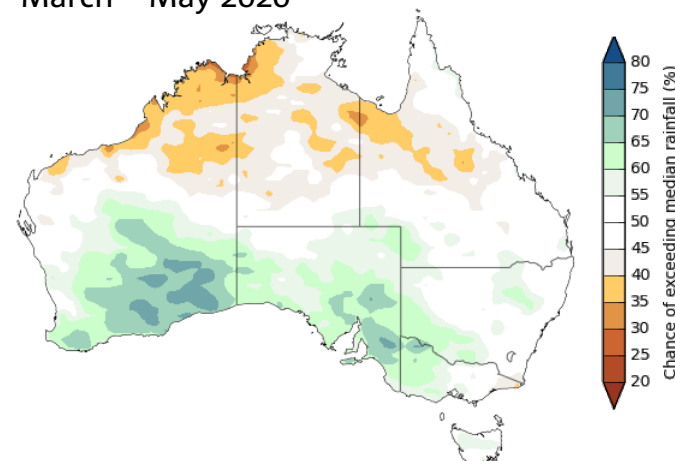
ROOT ZONE SOIL MOISTURE

27 February, relative to average



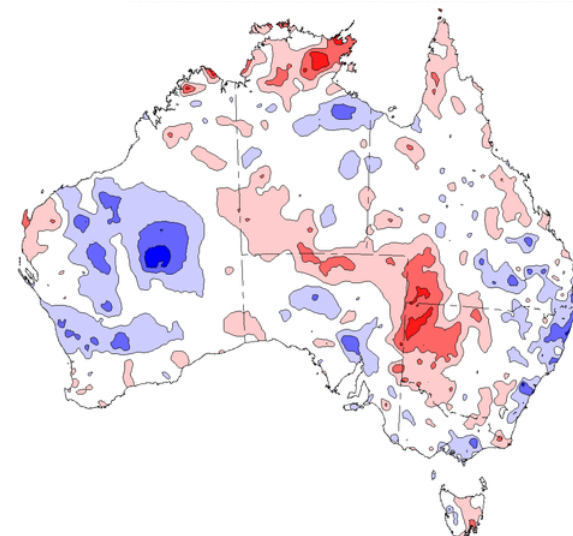
BOM RAINFALL OUTLOOK

March – May 2020



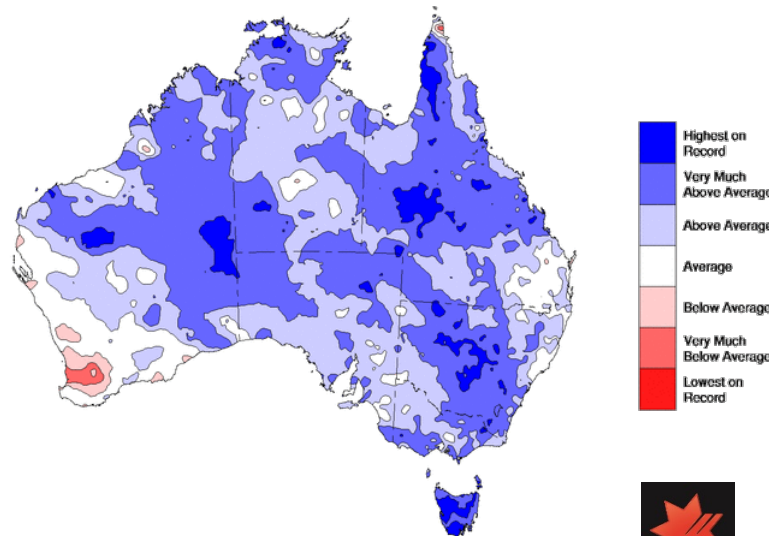
THREE MONTH RAINFALL DECILES

December 2019 – February 2020



THREE MONTH RAINFALL DECILES

May – July 2016

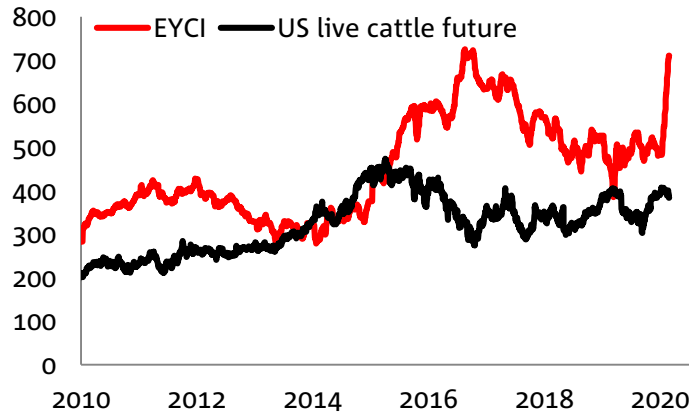


Source: Bureau of Meteorology

DOMESTIC CATTLE MARKET

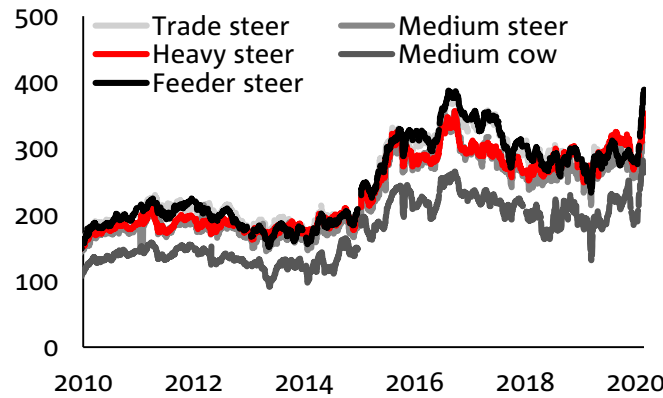
EYCI AND US PRICE

AUc/kg cwt (EYCI)



EASTERN STATES SALEYARD INDICATORS

AUc/kg lwt

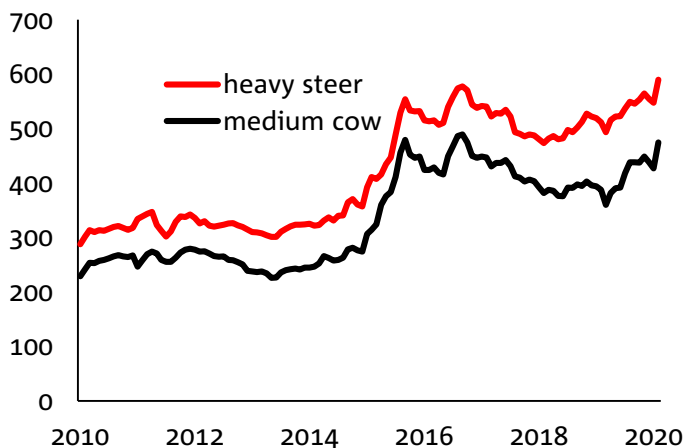


2019 was a generally tough year for the Australian cattle industry, reflecting poor seasonal conditions in much of the country. Two key statistics underline this: a female slaughter share at 56% (a record per MLA) and slaughter up 8%. These point to a market in the liquidation phase.

But this has all changed in 2020, in response to very good rains in many areas. Restocker interest is through the roof and domestic prices have responded accordingly. EYCI has surged 50% since the start of the year, from 487c/kg on 13 January to 755c/kg this week. Eastern states saleyard indicators (shown left) have responded likewise.

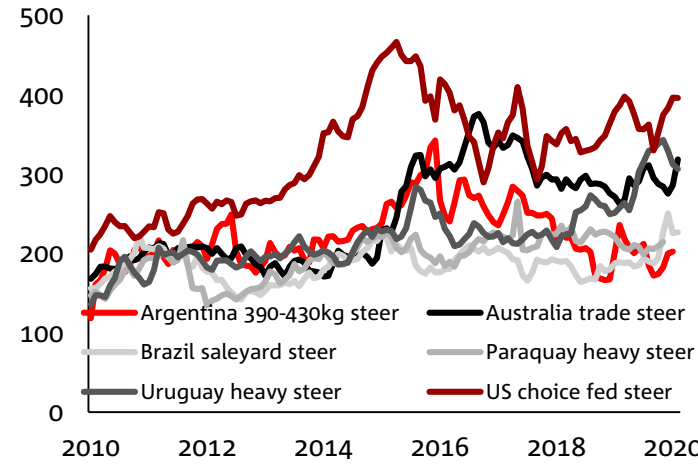
OVER THE HOOKS PRICES

AUc/kg cwt, national



AUSTRALIAN VS INTERNATIONAL PRICES

AUc/kg lwt



Finished cattle prices never saw the same unwinding as young cattle in the 2017-19 period, reflecting strong international demand for Australian beef and difficulty in sourcing good stock during drought. That said, national over the hooks indicators are essentially back to their Q3 2016 peak.

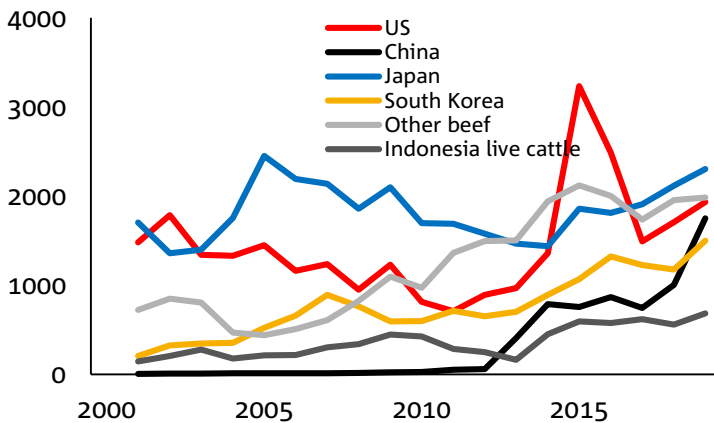
The price outlook for 2020 will depend very heavily on rainfall. While some areas are set for an extended period, many aren't and a decent full season will be needed to get back on an even keel. If anything this points to more downside than upside for EYCI.

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

EXPORT MARKET FUNDAMENTALS

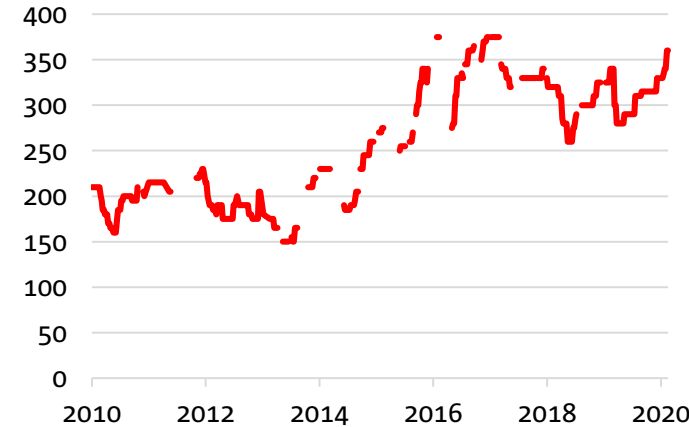
BEEF EXPORT VALUE BY DESTINATION

AUD millions



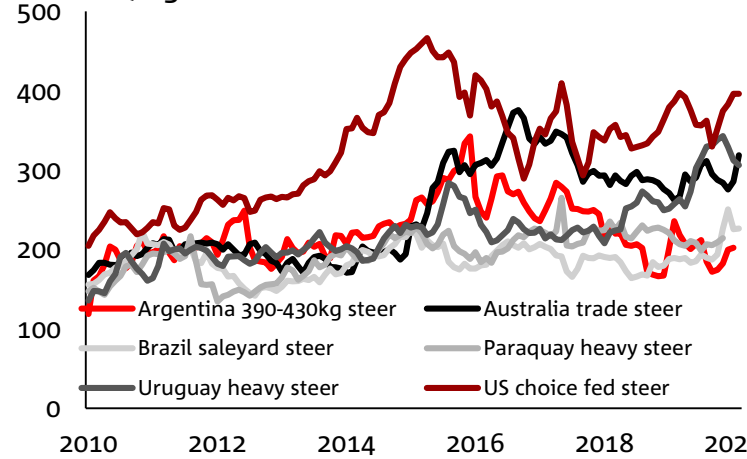
LIVE EXPORT PRICE

Light steer ex Darwin, AUc/kg lwt



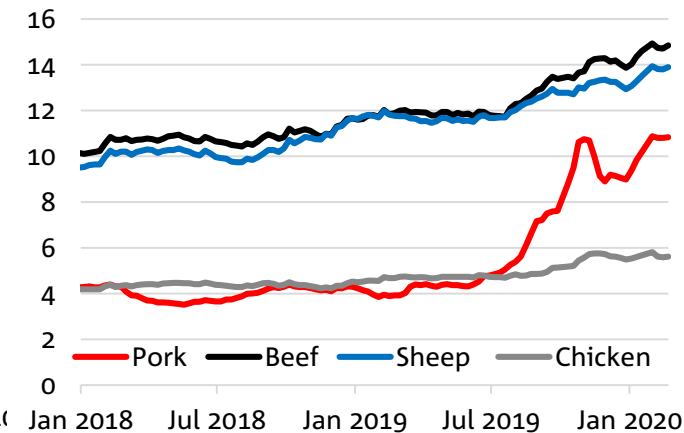
AUSTRALIAN VS INTERNATIONAL PRICES

AUD/kgms



CHINA DOMESTIC WHOLESALE MEAT

AUD/kg



Export market fundamentals have been very strong across the last year, indeed Australia became the world's biggest beef exporter by value in 2019. But the question for 2020 will be this: to what extent will coronavirus reduce protein – particularly premium – protein demand across east and south-east Asia?

So far, Chinese domestic wholesale meat prices have held up despite the epidemic. With swine fever decimating the Chinese pork industry last year, protein demand remains very strong. MLA reports Chinese beef import volumes rose 60% in 2019, although Australian data for 2020 suggest that export volumes have retreated in the new year.

Beyond China, South Korea and Japan now both have major coronavirus outbreaks, and big questions remain around US preparedness. The extent to which this will dent Australian beef exports remains to be seen, particularly given the uncertain impact on supply chains as the world reaches pandemic stage. Overall, this is a risk that requires careful monitoring.

The Indonesia-Australia Comprehensive Economic Partnership Agreement will improve market access for Australian live cattle. We will consider the impact of this further in a future Rural Commodities Wrap.

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

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