

Industry projections 2020

Australian cattle – April update

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KEY POINTS

- Prospect of the national herd entering rebuild has emerged
- Annual adult cattle slaughter revised lower on the back of improved conditions
- COVID-19 adds uncertainty to already complex global protein trade environment



KEY 2020 NUMBERS



Slaughter:
6.9 million head



Carcase weights:
294 kg/head



Production:
2.05 million tonnes cwt



Beef exports:
990 thousand tonnes swt

* Graphic illustrates year-on-year change

Summary

Stifled by unrelenting drought and compounded by the national bushfire crisis, Australian cattle producers endured an extremely difficult start to 2020. However, for many, the outlook has changed dramatically on the back of widespread and consistent rainfall since February.

These vastly improved conditions, combined with a positive rainfall outlook, have led to a forecast adult cattle slaughter in 2020 of 6.9 million head, a drop of 19% on 2019. From a cattle supply perspective, the impact of improved conditions on producer intentions is anticipated to see cattle turnoff decline to the lowest point since the mid-90s and remain at historically low levels for the next two years. For the first time since 2017, many producers are now in a position to seriously consider rebuilding depleted herds, in particular for those across southern Queensland and New South Wales.

National beef production is forecast to decline 16% to 2.05 million tonnes carcass weight (cwt), with increasing carcass weights offsetting some of the decline in slaughter. Greater feed availability, low stocking rates and historically high cattle prices, should all combine to place producers in a position to feed for longer and to finish to heavier weights. However, the intense competition for store cattle will challenge the lot feeding sector and the number of cattle on feed is anticipated to ease, limiting the upside potential for average carcass weight gains.

In terms of the global protein trade, the emphasis for the start of 2020 was on the protein deficit in China, created by the impact of African Swine Fever on pork production. This remains a critical issue for markets to contend with, however, its disappearance from headlines came as the unprecedented impact of COVID-19 emerged. The impact on the meat industry from COVID-19 is impossible to predict, but is likely to include an Australian and global recession, a temporary collapse in foodservice demand, reduced demand for higher value meat cuts and some disruptions to supply chains and trade.

Critically, China appears to be emerging from their COVID-19 shutdown, with strong meat import demand beginning to return. However, the crisis is escalating in the rest of the world and will continue to disrupt the consumption of Australian red meat domestically and internationally in the coming months. Balancing the uncertainty of COVID-19 with other key factors, such as African Swine Fever and US-China Phase-One Agreement, will be critical for the performance of Australian red meat in 2020.

Australian cattle prices surged to record levels across all categories in March. Young cattle and breeding stock have seen demand rise significantly on the back of improved seasonal conditions, as restockers, feeders and processors compete over a reduced pool of livestock. Finished cattle prices found support and reached historically high levels, however, global demand uncertainty has applied downward pressure to prices in recent weeks.

Looking ahead, driven by limited supply availability, domestic conditions continue to be a key factor influencing Australian cattle prices. However, developments in local and global markets, specifically foodservice demand and on-going economic conditions, will continue to pressure prices.

Seasonal assumptions

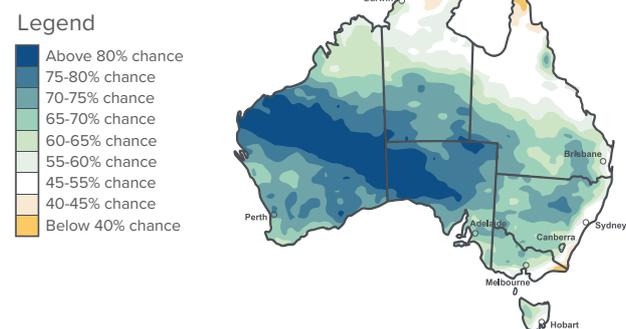
Average to above-average seasonal conditions have been assumed for the majority of Australia's cattle producing regions for the remainder of the year.

The latest three-month outlook from the Bureau of Meteorology (Figure 1) forecasts that May through July will see above average rainfall across all main cattle regions. Pockets in northern and eastern Australia, along with southern Tasmania, have roughly an equal chance of wetter or drier conditions. May to July days are likely to be warmer than average across northern and eastern Australia, but cooler across much of the southern mainland.

Critically, the positive outlook builds on higher-than-average rainfall for much of Australia in the first three months of 2020. Soil moisture deficiencies improved greatly, supporting pasture growth. However, despite February and March being wet over large areas of eastern and western Australia, the influence of very low rainfall over the last twelve months is still evident. This highlights the importance of sustained average to above-average seasonal conditions over the coming months.

Figure 1: Australian rainfall outlook – May to July 2020

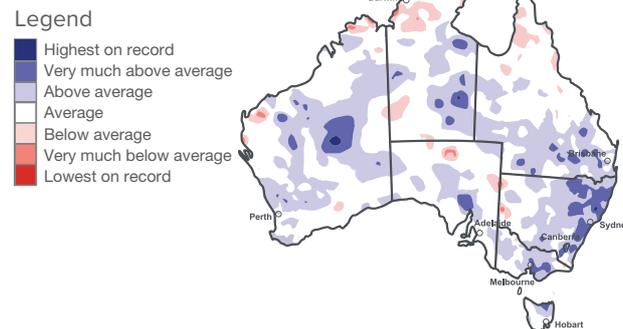
Chance of exceeding the median rainfall



Source: Bureau of Meteorology

Figure 2: Australian rainfall – January to March 2020

Rainfall decile ranges



Source: Bureau of Meteorology

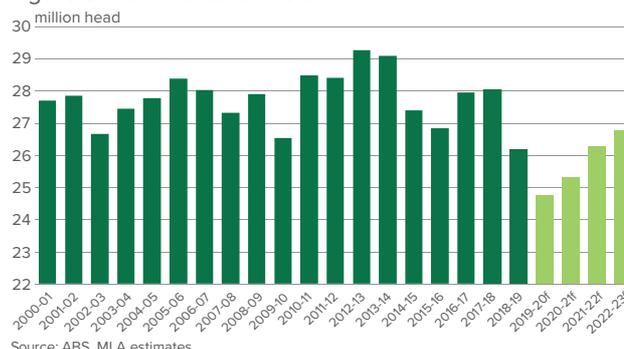
Cattle herd and slaughter

With a renewed sense of optimism in the cattle market and improved seasonal conditions, the prospect of the national herd entering an expansion phase has emerged. The national herd is estimated to have contracted by almost 12% over the extended drought period. Although devastating to many communities, the recent national bushfire crises did not see any material cattle losses in the context of the national herd and impacted less than 1% of Australia's grazing country.

This year, beef producers will be weighing up the attraction of selling stock at historically high prices, the need for cash flow, debt reduction and balancing concerns regarding COVID-19 against the available feed, low stocking rates and a desire to rebuild depleted breeding herds.

Critically, the above-average rainfall across large areas of the eastern states has provided an abundance of good feed, replenished dry dams and seen water restrictions eased. In response, producers have commenced holding back cattle to assess rebuild opportunities or initially retracted processor contracts to add additional weight, given the remarkable price rises in February and March.

Figure 3: National cattle herd



In March, the National Livestock Reporting Service (NLRS) reported an 18% decline for eastern states cattle slaughter compared to 2019 levels.

More indicative of the shift towards a rebuild is the decline in female slaughter levels, which achieved record highs in 2019. In February, the female portion of total slaughter reached 52%, the lowest level since January 2019. On a 12-month rolling average basis, it will take time to achieve the 47% required to signal the national herd is expanding, given the extent of breeding stock turnoff in 2019. However, the prospect of this occurring in the second half of the year has increased significantly, supported by a favourable three-month rainfall outlook and a sharp contraction in forecast national slaughter.

The national herd is forecast to have declined 5.2% year-on-year by the end of June 2020, to 24.8 million head. In line with improved conditions and the transition towards an expansion phase, the national herd is anticipated to rebuild at a quicker pace out to the end of the current projections period than earlier forecasts anticipated.

Underpinned by a significantly reduced cattle herd, and facilitated by the wetter start to 2020 and bullish three-month rainfall outlook, Australian adult cattle slaughter for 2020 is forecast to decline 19% on the previous year, to 6.9 million head. At this level, processor throughput will be at the lowest level since the mid-90s and current forecasts indicate back-to-back years of historically low turnoff - under the assumption of sustained average seasonal conditions.

On the back of consecutive drought years, excess turnoff and substantially lower branding rates, there was a limited availability of steers for finishing last year, as the female portion of total slaughter was the driving force of turnoff increases. Based on the aforementioned adult cattle slaughter estimates, male slaughter is anticipated to fall a further 4% in 2020 compared to year ago levels, while female slaughter will see close to a 30% decline.

After a sharp drop in adult cattle slaughter due to recent rainfall, elevated cattle numbers resurfaced towards the end of March, in response to record prices. However, as the year progresses adult cattle slaughter is anticipated to track well below year-ago levels. The available feed should carry producers through the winter and provide them with confidence to retain or increase stocking rates.

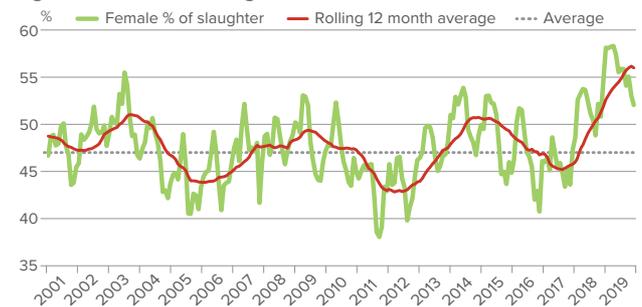
Carcase weights and production

The flow-on effect of a sharp decline in adult cattle slaughter will be a significant drop in beef production in 2020. Total beef production is forecast at 2.05 million tonnes carcass weight (cwt), 16% lower year-on-year.

According to the latest ABS statistics, total beef production in January and February was up 2% on year ago levels, despite adult cattle slaughter remaining flat over the same period. This has been driven by a vast improvement in adult carcass weights, averaging 294kg through the first two months of 2020, 2% higher compared to year ago levels. The impact of improved conditions will translate into a sharp decline in slaughter from March onwards, particularly through winter, pressuring total beef production.

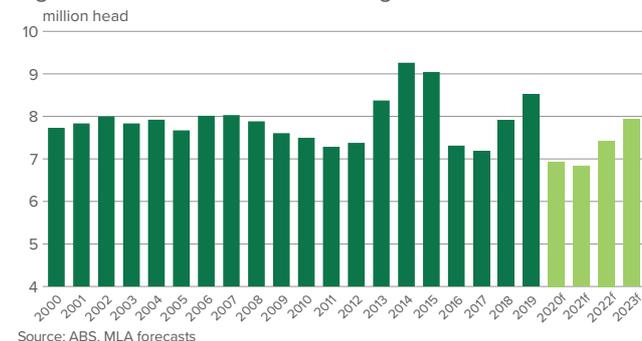
However, national adult carcass weights are forecast to lift 10.4kg to average 294kg/head in 2020, driven by an improvement in feed, lower stocking rates and easing percentage of female slaughter. Male and female average carcass weights are forecast to lift by 4.5kg and 5.1kg, respectively.

Figure 4: Female slaughter



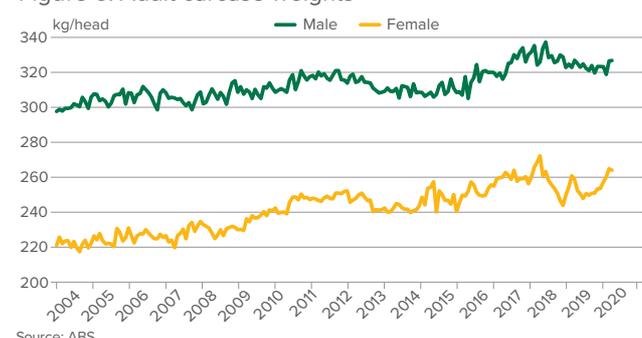
Source: ABS, MLA

Figure 5: National adult cattle slaughter



Source: ABS, MLA forecasts

Figure 6: Adult carcass weights

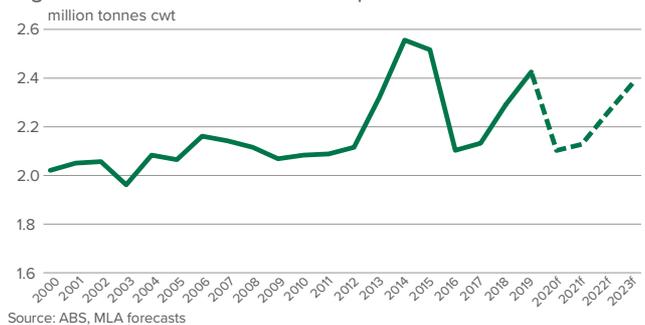


Source: ABS

The number of cattle on feed is anticipated to ease from the recent record highs, which will provide a dampening effect to overall turnoff weights. Revived restocker interest generated a sharp lift in store cattle prices and the competition with feeder buyers intensified.

Despite, robust finished cattle prices, feedlot inputs have come under pressure and cattle placements are reported to have fallen sharply. Looking ahead, restocker pressure and the impact of COVID-19 on foodservice demand, in particular longfed programs, will pressure feedlot inventory numbers.

Figure 7: National beef and veal production



Domestic and international markets

COVID-19 has had a rapid and overbearing influence upon global markets and, given the unpredictability of the outbreak and the fluid nature of its impact, it is very difficult to gauge the complete range and scale of impact it will have on the Australian red meat industry. The outbreak of COVID-19 is an event the modern world has not previously experienced and, as such, has created a new level of uncertainty around the global marketplace.

The global economy, and most of Australia's key red meat markets, are facing a significant slowdown or outright recession as a result of the COVID-19 outbreak. While the impact from COVID-19 on Australian red meat demand may be more severe than any economic downturn in recent history, the industry will be more sheltered than most sectors.

People still need to eat and swelling retail demand for red meat across Australia and in many key export markets reflects this appetite. However, any significant and widespread impact on disposable incomes could encourage greater consumption of lower-priced substitutes. Already the softening global environment has moderated the fierce buying competition that existed late in 2019 for beef, which led to some record prices.

One positive for exports, has been the softening Australian dollar, which crashed to its lowest level in 18 years, before recovering to 64US¢. A softer Australian dollar will help mitigate the price impact and provide support to Australian red meat exports.

Among the speculation and uncertainty of COVID-19, Australian red meat exports have been relatively steady for the first quarter of the year, reaching 266,000 tonnes shipped weight (swt), sitting even with 2019 levels.

However, based on the aforementioned dropping supply, beef exports are forecast to reach just 990,000 tonnes swt in 2020, back 20% on last year. The COVID-19 global disruption outside of China, which intensified in March, will likely mean some significant shifts will be seen in coming months.

The impact of COVID-19 on each country's red meat market will be shaped by many factors including its dependence on imports, level of disposable income, the prominence of red meat in consumer diets, as well as many evolving factors, such as the level of restrictions imposed by governments.

Foodservice and retail

It is estimated that around two-thirds of Australian beef exports are ultimately consumed through foodservice channels. However, across many markets, shopping and consumption behaviour have changed rapidly and the typical balance of demand for Australian beef has shifted.

As foodservice channels slow and, in some cases, grind to a halt, demand for meat through retail, particularly online, has lifted significantly. While flourishing retail demand is a positive and has helped to partially offset the lack of demand from the foodservice sector, a number of issues have emerged from this shift. Typically, higher value loin cuts make their way into foodservice, balancing out the overall value of the carcass for processors.

Figure 8: Australian beef exports: January – March

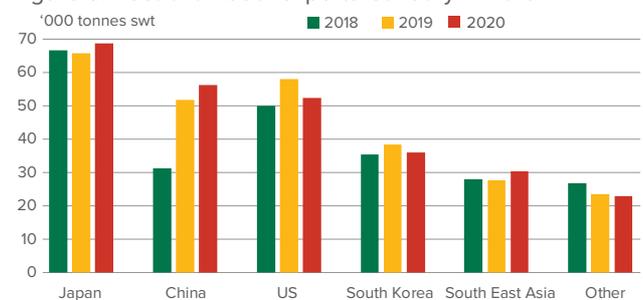
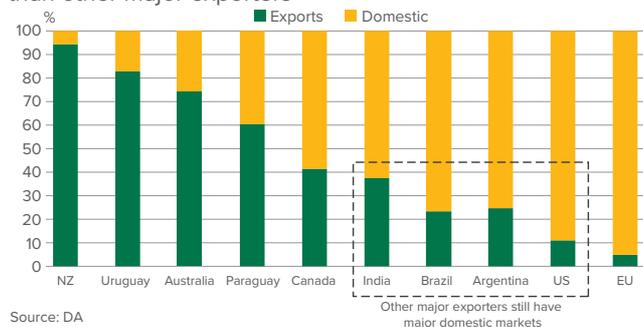


Figure 9: Australia is more exposed to world economy than other major exporters



With most markets facing a concurrent decline in foodservice demand, carcase balance has become a major challenge, as profit margins on manufacturing meat and secondary cuts are much smaller and the sale of high-value cuts are necessary to maintain profitability.

The impact of COVID-19 restrictions will be different across markets, depending on the weighting of consumption between retail and foodservice, as well as the ability for supply chains to shift product and adapt to the changes in demand. However, if this lopsided demand remains, and the premium injection from foodservice is forgone, it will likely impact processor purchasing power for cattle.

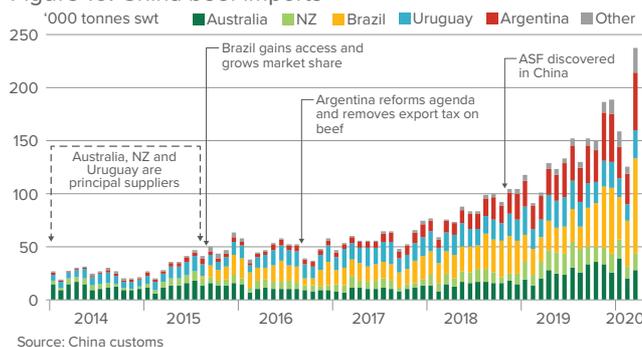
COVID-19 difficulties have been compounded by logistical and operational barriers, such as port bottlenecks, refrigerated container availability, disruptions to air freight, labour shortages and slow customs clearance. These factors have all complicated the red meat supply chain, and have caused disruptions across markets. While it may be optimistic to suggest that the majority of key markets have now pushed through the 'shock and reaction' phase, adapting to these difficulties and considering how to function with as much normality and consistency as possible will ensure that Australian red meat is well positioned to continue to meet demand, particularly from markets that rely on imports for national food security.

China and ASF

Competition within Australia's top export market China, is expected to heighten following the recent US-China Phase-One trade deal. Scenario modelling completed by the Centre for International Economics indicates that US beef exports to China (and Hong Kong) could grow to 190,000 to 250,000 tonnes swt by 2023 however much uncertainty surrounds the US-China trade relationship. For example, if the US economy were to fall into a deep recession and foodservice remained closed for an extended period, the US beef industry may find it has significant 'excess' volumes of loin cuts it can push into Asian markets, including China, creating more competition for Australian grainfed beef.

Meanwhile, African Swine Fever remains a critical issue for global protein markets to grapple with. While it has disappeared from headlines, it continues to spread across South East Asia (most recently into PNG) and the massive pork gap it has created in China will continue to bolster global protein markets over the next few years. China's total imports of beef are forecast to increase by 15% from record levels seen last year, which should lend price support to Australian red meat exports and buoy demand during the months of uncertainty ahead. The success of the battle against African Swine Fever will continue to weigh heavily on global meat markets and trade in years to come.

Figure 10: China beef imports



Shifting consumer needs

The multi-layered impact of COVID-19 has prompted some significant shifts in usual purchasing behaviour, but also in consumer perceptions. MLA recently commissioned some consumer research in China which highlights that consumers in a crisis gravitate to brands they trust. Australia's strong credibility, with high safety and quality standards, gained in many markets over decades of combined industry efforts, will continue to underpin strong consumer demand for Australian red meat.

Prices

It was widely acknowledged that Australian cattle prices would push record levels in the event of improved seasonal conditions, especially considering the resilience cattle prices had shown during the prolonged drought. However, the speed in which records tumbled was unexpected.

For the entirety of 2019, store cattle traded at a discount to their finished counterparts. This was, in part, due to deteriorating domestic conditions but also the result of global demand fundamentals supporting finished cattle prices. However, this trend reversed quickly on the back of above-average rainfall across many key cattle producing regions from February onwards.

The Eastern Young Cattle Indicator (EYCI) surged to a new record, at 766.75¢/kg carcase weight (cwt) on Wednesday 11 March, easily surpassing the previous record of 725.75¢/kg on 17 August 2016. The indicator moved a remarkable 290¢ from where it opened the year to its peak. A comparison on year-ago levels shows the indicator almost doubled, recording a 375.35¢ increase from the published EYCI on 11 March 2019.

With the national herd sitting at historically low levels, restocker buyers have re-entered the store market with vigour, spurred on by excellent feed availability and the first opportunity in over two years to restock paddocks with confidence. However, the competition restocker buyers face from feeder buyers, for a smaller pool of young cattle, has never been greater. Feedlot occupancy levels in 2019 were at record highs, supported by favourable finished cattle prices, relative to input costs. Market dynamics have now shifted and while feeder buyers will continue to provide competition, the ongoing uncertainty in global markets, caused by COVID-19, is likely to see even greater downwards pressure on grainfed cattle prices in the weeks ahead, due to its prevalence through foodservice outlets.

Breeding stock were always going to be in short supply and see strong price support when conditions turned. Unsurprisingly producers looking to recommence rebuilding herds have driven demand for productive cattle. The national medium cow indicator achieved a record 278.8¢/kg live weight (lwt) on 16 March, representing a 47% increase since 1 January. However, the indicator has since settled at 236¢/kg lwt, as it has aligned closer to its historical relationship with the imported US 90CL indicator.

In 2019 a clear disconnect was established, as the relationship between the aforementioned indicators diverged. Ultimately, a red hot China market drove demand for manufacturing beef to record levels. However, recent COVID-19 disruptions have taken the zest out of aggressive Chinese bidding, at a time when domestic restocker confidence has lifted.

Current market dynamics provide countless scenarios as to the trajectory of future cattle prices. However, the overarching driver of the store market will be the progress of domestic conditions. The outcome is less clear for finished cattle, as balancing the impact of COVID-19 with the global protein deficit, created by African Swine Fever, is complex. The national heavy steer indicator is currently reported at 285¢/kg lwt, back from its peak in March at 350¢/kg lwt but 7% higher since January.

A look at US cattle prices provides some indication of short-term movements, given the historical relationship between the US and Australian prices. In recent weeks, the US cattle futures market took a nosedive, as ongoing uncertainty regarding the broader economy, consumer demand and a backlog of finished cattle in the event of reduced processing capacity, hit the market. The uncertain outlook of market demand has been unfavourable for global cattle prices.

Australian cattle prices have seesawed since the turn of the year, as the sharp, rain-driven price increases recently altered course. A correction was inevitable as market participants re-set their horizons, while in the background, COVID-19 disruptions are providing numerous significant headwinds. Currently, Australian prices remain out of sync with global price trends, largely due to the influence of domestic conditions. While this seesaw effect may continue given the global uncertainty, Australian cattle prices are expected to maintain a certain level of support for the next 12-18 months, given limited domestic supply and strong restocker demand.

Figure 11: EYCI vs heavy steer



Figure 12: Medium cow vs US 90CL

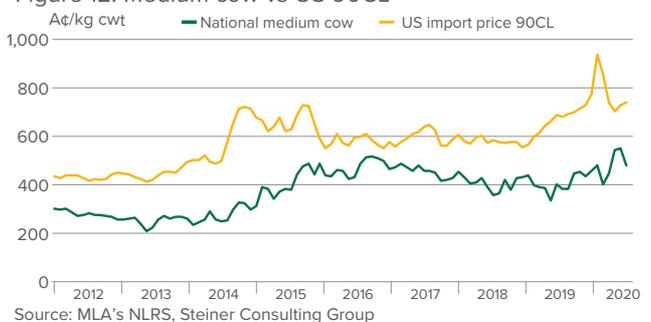
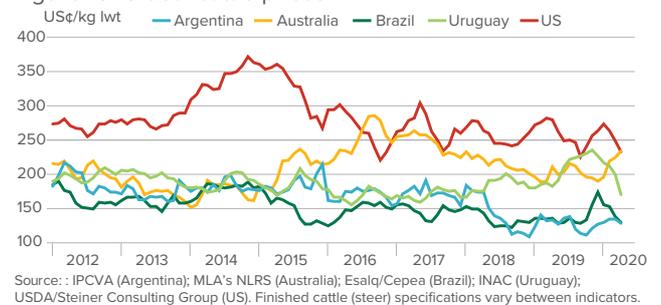


Figure 13: Global cattle prices



Situation and outlook for the Australian cattle industry

	2015	2016	2017	2018	2019	2020 ^f	% change 2020 ^f on 2019	2021 ^f	2022 ^f	2023 ^f	% change 2023 ^f on 2020
Cattle numbers ('000 head)^a											
cattle	27,413	26,845	27,965	28,052	26,200	24,800		25,500	26,250	26,850	8%
percentage change	-5.8%	-2.1%	4.2%	0.3%	-6.6%	-5.2%		2.8%	2.9%	2.3%	
Slaughterings ('000 head)											
cattle	9,007	7,288	7,158	7,873	8,482	6,900	-19%	6,800	7,400	7,900	14%
calves	667	542	413	468	565	430	-24%	435	460	460	7%
total	9,675	7,830	7,571	8,341	9,047	7,330	-19%	7,235	7,860	8,360	14%
Average carcase weight (kg)											
cattle	279.1	288.2	297.6	290.8	283.6	294.0	4%	299.4	300.4	300.7	2%
calves	55.6	53.9	45.7	41.3	43.0	46.0	7%	47.0	48.0	48.0	4%
Production ('000 tonnes carcase weight)											
beef	2,514	2,101	2,130	2,289	2,406	2,028	-16%	2,036	2,223	2,376	17%
veal	32.9	24.2	18.9	19.3	24.3	19.8	-19%	20.4	22.1	22.1	12%
total beef and veal	2,547	2,125	2,149	2,309	2,430	2,048	-16%	2,056	2,245	2,398	17%
Cattle exports ('000 head)											
cattle	1,332	1,126	855	1,089	1,304	900	-31%	900	950	1,000	11%
Beef exports** ('000 tonnes)											
total, carcase weight	1,888	1,497	1,493	1,655	1,801	1,445	-20%	1,460	1,632	1,781	23%
total, shipped weight	1,285	1,018	1,015	1,126	1,229	990	-20%	1,000	1,114	1,215	23%
Domestic utilisation ('000 tonnes carcase weight)***											
total, carcase weight	646	614	643	639	616	587	-5%	580	597	601	2%
kg/head***	27.1	25.2	26.0	25.6	24.3	22.8	-6%	22.2	22.5	22.3	-2%

Source: ABS, DAWR, MLA forecasts

^a 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

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