Industry projections 2022

Australian cattle – June update

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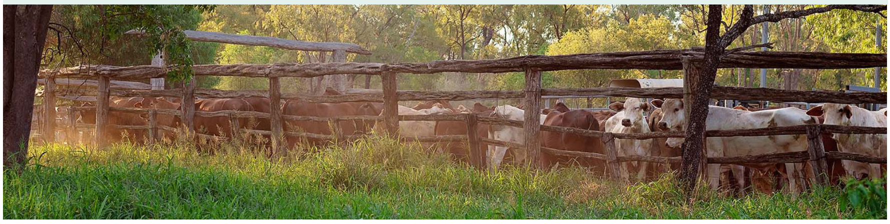
KEY POINTS

- National herd rebuild to continue operating at two paces, rising nationally by 5.6% to 27.5m head in 2022
- Slaughter numbers have been revised down to total 6.15m head in 2022, driven by processor capacity and supply chain issues
- Record carcase weights are forecast to offset lower slaughter volumes, production is forecast to rise by 4.5% to 1.97m tonnes



KEY 2022 NUMBERS

Slaughter:
6.15 million head

Carcase weights:
320 kg/head

Production:
1.97 million tonnes cwt

Beef exports:
1.38 million tonnes swt

*Graphic illustrates year-on-year change

Summary

The national herd rebuild will proceed as a result of lower slaughter volumes and the continuation of strong seasons in most cattle regions across the country.

Northern:

- An above-average wet season is needed to rebuild the herd following a disappointing 2021–22 wet season.

Southern:

- Southern Australia will continue to drive national herd growth. Substantial rainfall in the southern cattle regions of Queensland will assist NSW and Victoria in building cattle numbers to pre-drought levels.

Since the first release of the cattle projections document in February 2022, significant challenges in terms of processor capacity and throughput have limited production and slaughter volumes reaching their potential. This has impacted export performance and, as a result, softened volumes across all markets. Although supply remains constrained, alleviating processor capacity challenges will increase their ability to cope with increased supply towards the second half of 2022 and into 2023.

The gradual growth in volume terms of emerging international markets such as Thailand and Indonesia – with their affluent populations and demand for high quality beef – demonstrate the opportunities our Australian product has on the global stage. Demand from emerging markets demonstrates the high regard Australian beef is held in, no matter the culture, country or region.

Domestically, processor capacity issues due to a lack of labour and COVID-19 are hindering production capabilities. Meanwhile, across the globe, shipping, logistical and port issues are impacting the potential of Australian product to entering markets.

However, resilience in domestic processor capacity and demand for Australian product globally are key positives for the Australian beef sector. With a forecast increase in supply, continued demand for Australian beef and record carcase weights, the Australian beef industry is well placed to capture opportunities as slaughter and production ramps up.

Table 1: Situation and outlook for the Australian cattle industry

	2016	2017	2018	2019	2020	2021e	% change 2021e on 2020	2022f	2023f	2024f	% change 2024f on 2021
Cattle numbers ('000 head)*											
As at 30 June	26,845	27,965	28,052	26,187	24,621	*26,111*	*6%*	*27,583*	*28,703*	*28,866*	*11%*
Percentage change	-2.0%	4.0%	0.0%	-7.0%	-6.0%	*6.0%*		*5.6%*	*4.1%*	*0.6%*	
Slaughterings ('000 head)											
cattle	7,288	7,158	7,873	8,482	7,145	*6,018*	*-16%*	*6,150*	*6,850*	*7,400*	*23%*
calves	542	413	468	565	414	*285*	*-31%*	*325*	*390*	*380*	*33%*
total	7,830	7,571	8,341	9,047	7,559	*6,303*	*-17%*	*6,475*	*7,240*	*7,780*	*23%*
Avg carcase weight (kg)											
cattle	288.2	297.6	290.8	283.4	*294.3*	*313.0*	*6%*	*320*	*317.5*	*312.0*	*0%*
calves	44.7	45.7	41.3	49.3	*48.5*	*40.5*	*-16%*	*39.4*	*45.1*	*45.9*	*13%*
Production ('000 tonnes carcase weight)											
beef	2,100	2,130	2,289	2,404	2,103	*1,883*	*-10%*	*1,968*	*2,175*	*2,309*	*23%*
veal	24	19	19	28	20	*12*	*-40%*	*13*	*18*	*17*	*42%*
total beef and veal	2,125	2,149	2,309	2,432	2,123	*1,895*	*-11%*	*1,981*	*2,192*	*2,326*	*23%*
Cattle exports ('000 head)											
	1,142	867	1,126	1,304	1,049	*772*	*-26%*	*500*	*530*	*640*	*-17%*
Beef exports ('000 tonnes)**											
total shipped weight	1,497	1,492	1,655	1,807	1,528	*1,305*	*-15%*	*1,380*	*1,566*	*1,676*	*28%*
carcase weight	1,018	1,015	1,126	1,229	1,039	*888*	*-15%*	*940*	*1,065*	*1,140*	*28%*
Domestic utilisation ('000 tonnes carcase weight)***											
total carcase weight	604	638	635	599	575	*578*	*1%*	*588*	*609*	*633*	*10%*
kg/head***	25.2	26.0	25.6	24.3	22.8	*22.5*	*-1%*	*22.2*	*22.6*	*22.8*	*1%*

Source: ABS, DAWR, MLA forecasts

f = forecast
e = estimate

* From 2017 is an MLA estimate based on ABS Data - Figures as of 30th June. Please note, the flock estimates are based off the new EVAO cut off used by the ABS.Previously this was $5,000 EVAO, but was changed upwards to $40,000 EVAO. For more information, please visit www.abs.gov.au

** 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.

Assumptions

Weather

According to the Bureau of Meteorology (BOM), there has been a gradual easing in the La Niña and there will be a return to a neutral El Niño-Southern Oscillation phase by early winter. In this neutral stage, trade winds push warm surface water west building up in the north of Australia to increase rainfall in these areas.

Despite, the ENSO transitioning to a neutral phase, BOM have forecast above-average rainfall for majority of the nation, including for NSW, Victoria and SA.

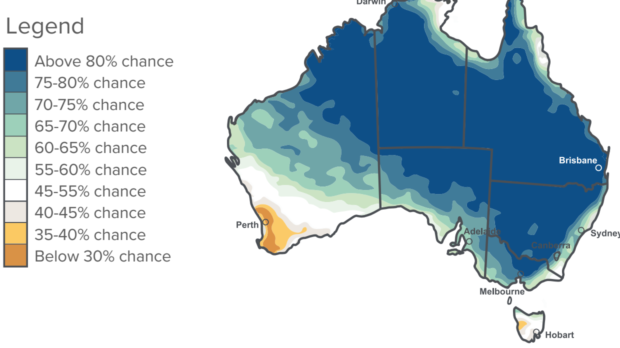
Meanwhile, areas of WA and Tasmania are predicted to have average rainfall between June and August.

Temperatures are expected to increase above-average maximum temperatures in the very northern and southern parts of Australia. This could limit pasture growth in these regions and reduce water availability due to evaporation.

The reliance of northern Australia on summer rainfall, may reduce the effectiveness of the above average winter rain that is forecast.

Figure 1: Australian rainfall outlook – June to August 2022

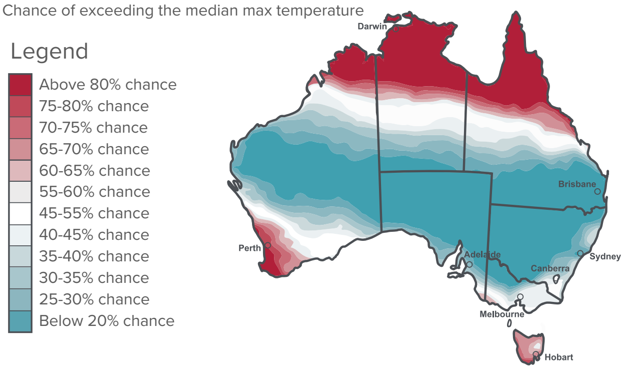
Chance of exceeding the median rainfall



Source: Bureau of Meteorology

Figure 2: Australian temperature outlook – June to August 2022

Chance of exceeding the median max temperature



Source: Bureau of Meteorology

Feedlots

The feedlot sector saw record numbers of cattle on feed, greater capacity and higher throughput in the first quarter of 2022. There has also been an increase in number of days cattle are spending on feed.

In the March quarter, the number of cattle on feed rose by 9.5%. During the quarter utilisation also rose 5% to 85% – meaning 85% of all accredited feedlots are full. This record utilisation was achieved during a time when total capacity hit a record high of 1,453,580 head. There was also a much higher Wagyu throughput through the sector. Into the future, input costs such as grain prices and wages could effect numbers on feed, although capacity is increasing demonstrating the longterm confidence of the industry.

Data from the Australian Lot Feeders' Association (ALFA) shows that from January to March 2022, grainfed beef accounted for 55% of total beef production. Up from the five-year average of 44.8%. In the quarter grainfed cattle accounted for over 50% of cattle slaughtered.

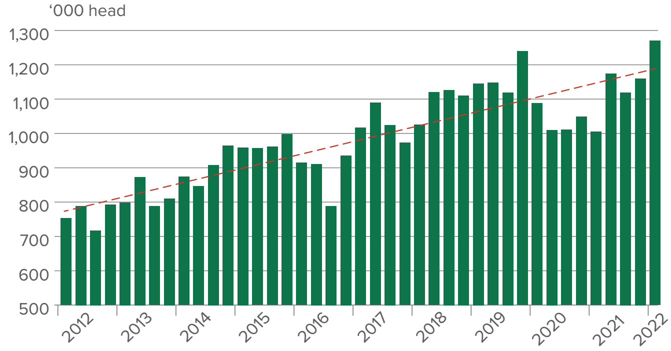
Interest rates

The Reserve Bank of Australia (RBA) increased the cash rate for the first time since 2010 in May 2022 and is forecast to continue to increase it to combat inflationary pressures. The RBA increased the cash rate by 25 basis points to 35 basis points and increased the interest rate on exchange settlement balances from 0% to 25 basis points. Inflation is at 3.5% as of 8 April 2022.

Exchange rate

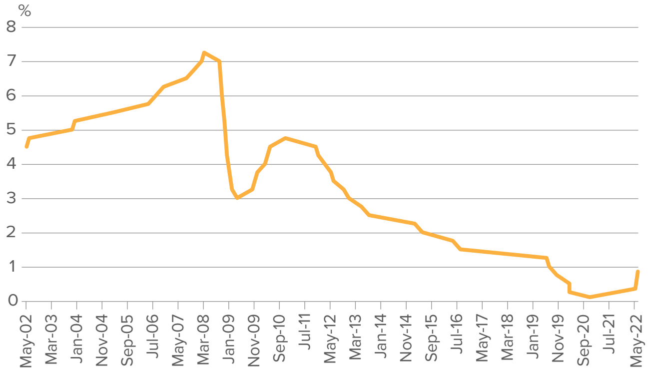
The Australian dollar (A$) had been depreciating to the US dollar since the middle of April but has appreciated in the last month. As of 8 June 2022, the AUD$ is trading at 0.72USD. An appreciation of the Australian dollar makes Australian exports less affordable and reduces our competitiveness on the global market. This increases the competitiveness of other country's exports. Global inflation is high because of major supply side shocks and is likely to remain this way until these issues are resolved.

Figure 3: Cattle on feed



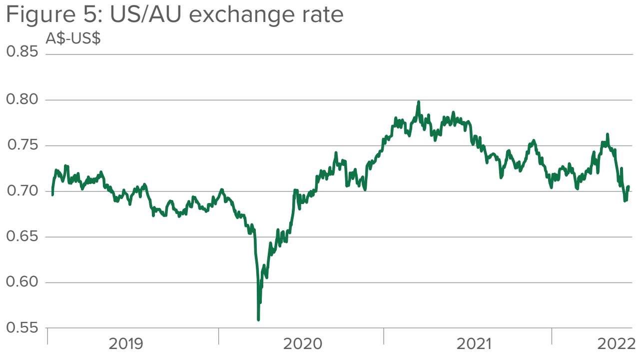
Source: ALFA, MLA

Figure 4: Australian cash rate



Source: RBA

Figure 5: US/AU exchange rate



Source: RBA, NAB, ANZ, CBA, Westpac

Supply

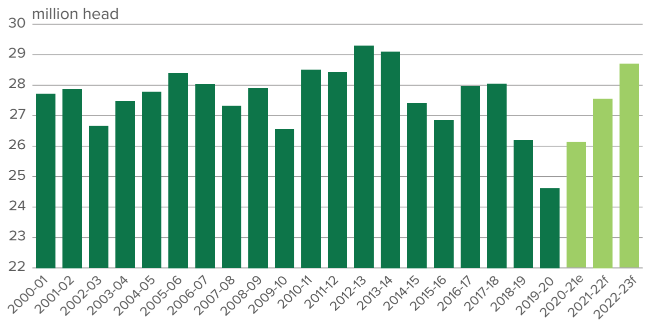
Herd

As favourable seasonal conditions persist through 2022 and the regional herd rebuild continues in the south, the national herd is expected to grow by 6% to reach 27.6 million head.

The herd is expected to grow a further 4.6% by 2024 to reach 28.9 million head. Strong seasonal conditions in key cattle producing regions and favourable prices are the main factors driving this rebuild. The investment in young heifers made in 2020 and 2021 will not be fully realised (in terms of new progeny) until late 2022 and 2023.

As the herd matures from rebuilding, many young females are expected to come into calf for their first or second joining. With favourable reproductive conditions and higher than average joining and branding percentages, the national increase of the herd is expected to continue. The pace of the rebuild will plateau in 2024 – growing by only 163,000 in that year. By 2024 the national herd will have increased for four successive years. It is in 2023 that the number of breeders is expected to have recovered to pre-drought levels.

Figure 6: National cattle herd



Source: ABS, MLA forecasts

The southern systems are driving the higher prices in the market and the strong demand for young heifers. Meanwhile, the northern systems have seen a lower-than-average wet season, forcing mustering to start earlier than usual.

Slaughter

Moving through 2022, slaughter numbers are expected to rise by 2.2% to reach 6.15 million head. With more cattle on feed than ever before and processors working through a backlog of supply, more cattle will be moving through the grainfed supply chain. This is expected to continue throughout the year, with processors booked out for months in advance due in part to strong supply from the feedlot sector.

The beginning of 2022 saw an easing of slaughter rates nationally down by 6% when compared to Q1 2021.

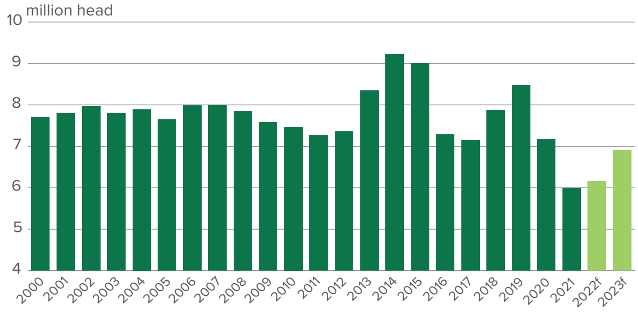
By 2024, slaughter volumes are expected to reach 7.4 million head for cattle. This is a 23% increase in volumes when compared to 2021 levels. As the supply backlog and number of grassfed animals increase supply will improve into 2023.

A major problem for slaughter volumes moving forward are the continued issues around COVID-19 and labour availability, as well as forced shutdowns due to public holidays or weather events. The beginning of 2022 has seen many processing facilities have to run shorter weeks because of continued public holidays or rain making the transportation of livestock difficult. Some facilities are working a six-day week to try and make up the time lost and work through the excess supply. Even though running longer weeks may help, restrictions on labour availability due to COVID-19 has been a major challenge. With people having to isolate due to close contact restrictions and a reduction in international travel, the amount of skilled labour available to processors has been limited.

Hopefully, throughout 2022, with the opening of borders and new visas being issued, labour shortages will ease slightly. However, there is an eight-month long time lag for training in processing facilities, which could have a significant impact on slaughter numbers moving forward.

The severity of the 2017-2019 drought decimated the herd to its lowest level since the 1990's. Therefore, the rebuild was starting from a extremely low base. Destocking occurred to such an extent that there is still capacity on many farms to increase their stocking rates, even after three years of sustained rainfall. These factors are contributing to producers retaining more stock and withholding it from slaughter.

Figure 7: National adult cattle slaughter



Source: ABS, MLA estimates

▶ Click here to access the MLA's NLRS Weekly Slaughter Report

Carcase weights

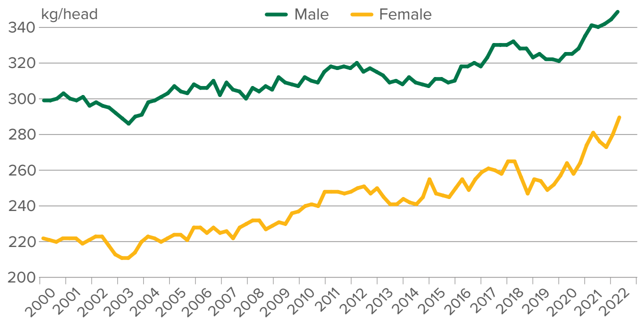
Carcase weights continue to increase, enabling production to be maintained even after an easing of slaughter rates. Large volumes of cattle on feed are driving the higher carcase weights along with higher prices, which are incentivising producers to increase weights before selling.

Carcase weights are forecast to continue to reach records moving through 2022. Carcase weights in the first three months of this year have reached a national average of 324.4kg per head – 10.8kg higher than the average in 2021 – due to good seasonal conditions across the nation.

Queensland hit male cattle carcase weights of 336kg per head – 12kg higher than the national average for bullocks and steers. Even though WA had the lightest average male carcase weights, they were still a record for the state.

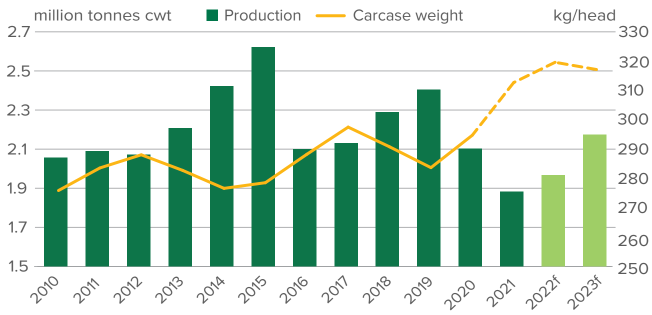
In 2024, carcase weights are forecast to return to 2021 levels. Strong seasonal conditions are allowing feed to remain abundant but increasing grain prices could put pressure on feedlot systems.

Figure 8: Adult carcase weights



Source: ABS

Figure 9: Cattle carcase weights and production



Source: ABS, MLA forecasts

Production

Good rainfall in recent times and high prices have encouraged producer sentiment to increase weight gains before turning off cattle to processors. Even though slaughter rates have eased 6% in the first quarter of 2022 compared to the first quarter of 2021, production only softened 2.5%.

This easing of production for the beginning of 2022 is mainly due to the issues around processing with shorter weeks and labour shortages. Heavier carcase weights have improved the yield per head to enable production to be maintained.

Moving forward through 2022, production is expected to increase as processors come back online.

By 2024, production is expected to reach 3 million tonnes, a 23% increase on 2021 levels. This 2.3m tonnes of beef will be the second highest production volume achieved in 9 years – just behind the 2.4m tonnes produced during the 2019 drought induced herd liquidation.

Live export

MLA has revised its previous February forecast of live export numbers for 2022 down 33% from 772,000 to 500,000 head, as a result of several developments over the past few months on both the supply and demand sides. These numbers are expected to strengthen in 2023 and 2024, reaching 640,000 head.

The herd rebuild has been underway in the north as it has nationally, however, the recent northern wet season has been relatively poor. In the NT, the 2021–2022 wet season began early but also finished early, with overall rainfall 8% below the 1961–1990 average for the Territory and mean maximum temperatures above average for most areas. In addition, high cattle prices saw significant numbers of cattle sold and moved south and has continued to tempt some producers to sell a significant number of weaners early, particularly in the northwest of the Territory, which has had a less favourable season. These factors are expected to reduce the numbers of feeder cattle available for live export for the rest of 2022.

Two significant factors are weighing on slaughter cattle exports to Vietnam. The first is improved conditions in Queensland following good rainfall, which has encouraged producers and restockers to hang on to their cattle for longer and as a result, caused a further tightening in cattle supply available for live export.

The second factor is weak import demand from Vietnam, with a surplus of cattle and other proteins in the market. This weak import demand has been exacerbated by continued border closures with China and reduced purchasing power of wet market shoppers due to rising inflation.

Strong export numbers for May out of Townsville reflected some delayed shipments from April due to rain event disruptions.

Since September 2021, India has exported strong volumes of Indian buffalo meat into the Southeast Asia region, averaging a monthly volume of 36,000 tonnes swt over the past 12 months to February 2022 and filling some of the gap due to lower Australian live cattle numbers.

Brazil is yet to export a second live cattle shipment to Vietnam following their first in September 2021, with current weak demand in Vietnam likely to delay further shipments for the time being.

A fall in the Australian dollar in recent weeks has been a positive for exporters.

The Australian live cattle export industry has been experiencing extremely challenging trading conditions for the past two years.

▶ Click here to visit MLA's LiveLink interactive Dashboard for export statistics

▶ Click here to visit MLA's Live Export Price Indicator (LEPI) for prices on cattle to Indonesia

Demand

Domestic market demand

More than two years on from the start of the pandemic, Australians continue to feel the effects of COVID-19. Labour shortages and ongoing supply chain disruption have contributed to the reduced availability of fresh meat in the first quarter of this year. All proteins saw a decline in volume sales versus this time last year due to decreasing household purchasing, with beef and chicken seeing the largest declines in frequency. Beef was the only protein to see marginal growth in dollar sales (+1.3%) in the latest quarter compared to the same period last year *(Source: Nielsen Homescan)*.

Beef and lamb prices have been increasing at a higher rate compared to other proteins. Beef prices have had the steepest increase, up 12% on year-ago levels – just over three times the rate at which chicken is growing *(Source: ABARES, calculated using ABS data)*. These rising prices of beef have contributed to beef value share remaining stable compared to two years ago and increasing 2.1% compared last year in retail. Continuing the trend that's been seen over the past two years, shoppers are decreasing their shopping trip frequency but spending more on each occasion. Other retailers saw growth in the last quarter as supply issues impacted the ability of major supermarkets to keep shelves stocked *(Source: Nielsen Homescan)*.

While the past two years has seen a steady increase in online adoption, the latest quarter saw dollar growth slowing for fresh meat through the online channel, coinciding with a relaxation of COVID-19 restrictions across Australia. However, a permanent shift in behaviour from bricks and mortar stores as the primary purchase point to cross-shopping of both bricks and mortar and online channels has been driven by the pandemic, with +6.6 household penetration since the start of the pandemic and a small portion of consumers now shopping exclsively online *(Source: Nielsen Homescan)*.

Beef mince and sausages remain the two most popular beef cuts sold, accounting for over half of retail sales. In this latest quarter, these two cuts have made the greatest contribution to volume decline but continue to make the greatest contribution to dollar growth for beef. Scotch fillet and corned/silverside beef saw the largest value declines this last quarter *(Source: Nielsen Homescan)*.

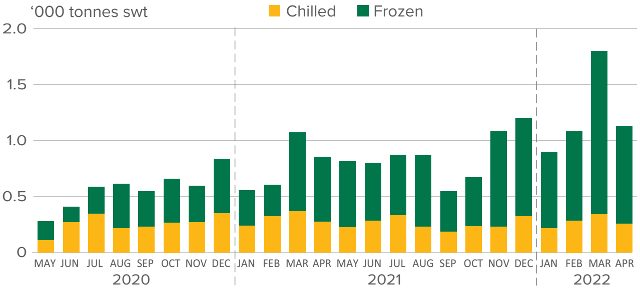
International market summary

Thailand

Thailand is a growing high-value beef market. The country has a sizeable but gradually declining domestic beef industry alongside a flourishing affluent population that is increasing demand for beef.

The Thai economy is also recovering from the pandemic with government restrictions easing and the country re-opening for international tourists. In the first three months of 2022, Thailand received almost 450,000 foreign tourists and is expected to rebound more rapidly once restrictions are lifted from May. Current forecasts have tourism reaching pre-pandemic levels of 40 million visitors by 2024 *(Source: Fitch Solutions)*. With foodservice shut during lockdowns, consumers increased home cooking, driving up the proportion and volume of beef sold through retail. However, foodservice is expected to regain market share from 2022. Against the backdrop of an economy gradually re-normalising and a moderate inflation rate of 5% in April 2022, Thai demand for beef is expected to remain strong. This is being fuelled by the number of affluent Thai households which is forecast to double to over 620,000 between 2021 and 2026 *(Source: Fitch Solutions)*.

Figure 10: Australian monthly beef exports to Thailand



Source: : DAWE

Thailand is a significant live cattle exporter in its region, exporting around 258,000 head of cattle mostly to Laos, Vietnam, Malaysia and Myanmar in 2021 *(Source: Trade Map)*. Higher demand for Thai cattle from neighbouring countries has reduced availability for the domestic market. As local production is unable to meet increasing domestic demand, imported beef will need to fill the widening gap. Despite government efforts to improve the quality of the local herd by importing breeders, these represent a small proportion of the cattle herd and remains a long-term objective for the country.

Thailand has been increasing beef imports over the past five years, with volume almost doubling between 2019 and 2021 and continuing to rise in 2022. Australia is Thailand's largest beef supplier, shipping 9,961 tonnes shipped weight in 2021. This is a 49% increase year-on-year valued at A$113.3 million. Smaller but significant volumes are also supplied by Argentina, New Zealand, Brazil and the US.

Since 2019, South American countries have substantially increased their exports of mostly frozen beef due to their lower price advantage. By contrast, about a third of Australia's boxed beef exports to Thailand are chilled. This is a higher value segment that has experienced sustained growth in recent years and is dominated by Australia, who accounted for 97% of import volume share in this category in 2021. Market demand has also been shifting in recent years to higher-value cuts. Grainfed exports have grown faster than commodity product, indicating premiumization in the market.

Table 2: Top 10 Australian beef cuts exported to Thailand

2017		2021	
Cut	**Volume (tonnes swt)**	**Cut**	**Volume (tonnes swt)**
Minced beef (ground)	754	Brisket	2,182
Striploin	681	Chuck roll	1,323
Hamburger (ground)	679	Outside flat	1,124
Chuck roll	591	Striploin	907
Outside flat	560	Cube roll/rib eye roll	641
Brisket	501	Minced beef (ground)	599
Tenderloin	459	Blade	575
Cube roll/rib eye roll	445	Manufacturing	529
Manufacturing	330	Topside/inside	412
Blade	194	Rump	404

Source: DAWE

Australian beef enjoys the highest awareness among Thai consumers of all import suppliers. Although local beef is seen as cheaper and 'easy every day', Australian beef is perceived to be a high quality and superior product. The Australia-Thailand Free Trade Agreement provides a significant competitive advantage for Australia over South American and North American suppliers, who face a 50% tariff. Australia is well-positioned to meet growing demand for premium quality beef in Thailand.

To read more insights on the Thailand beef market, see MLA's Thailand Red Meat Market Snapshot

Indonesia

Indonesia's economy is recovering from the pandemic and has seen strong growth over the last four quarters, remaining as the largest economy in South-East Asia. High international commodity prices and a gradual easing of pandemic restrictions has led to the activation of the Indonesian economy.

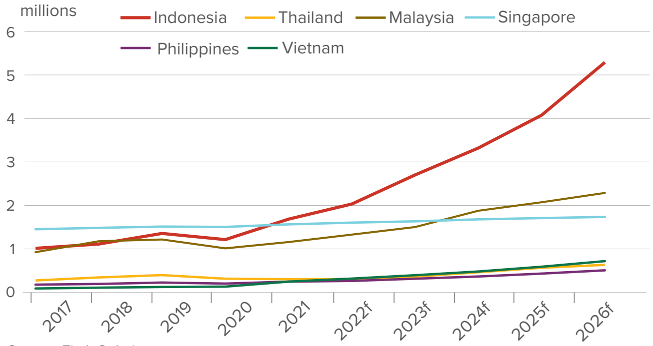
Commendably for the current high inflationary global context, Indonesia is one of the few countries maintaining its inflation rate within the government target. However, if the conflict in Europe is sustained, there is a heightened risk to economic recovery in the country.

Improvement in the economic situation will contribute to increasing beef demand, with high quality imported beef demand being driven mostly by affluent consumers and international travellers. Entry requirements for international tourists are being eliminated, with inbound visitors expected to gradually increase and exceed pre-pandemic levels of over 16 million tourists annually by 2024. Frequent consumers of Australian boxed beef are affluent households with annual disposable incomes of at least US$35,000. Indonesia has not only the largest affluent consumer segment in Southeast Asia with over two million households in 2022, but it is also the fastest growing, at a CAGR of 27% to reach 5.3 million in 2026.

Indonesia’s domestic cattle industry is currently battling new animal disease outbreaks. In early March, Lumpy Skin Disease (LSD) was detected in cattle in Riau province and in mid-April, Gresik identified the first Foot and Mouth Disease (FMD) case since 1986. The Indonesian government is implementing measures to contain the outbreaks.

In 2021, domestic beef production supplied over 60% of total Indonesian consumption and boxed beef imports reached a record high of 211,429 tonnes swt. Australia and India (buffalo meat) are the main suppliers, accounting for 39.8% and 40.2% of boxed beef imports in 2021 respectively. Australia's boxed beef exports to the country grew 28% in 2021 year-on-year and were 5% higher than pre-pandemic volumes in 2019. Combined, other suppliers such as Brazil, the US, New Zealand and Spain have increased export volumes by 70% year-on-year to 42,117 tonnes swt.

Figure 11: Number of households with annual disposable income over US$35,000



Source: Fitch Solutions

Boxed exports in Q1 2022

Australia is the country’s leading live cattle supplier but high cattle prices in Australia have been the key factor driving the drop in exports. Q1 2022 volumes were 22% lower on the previous quarter and 32% down on the same quarter in 2021.

Against the backdrop of high global beef prices, growing demand and the traditional demand peak around the Ramadan, Lebaran and Qurban celebrations, beef prices have remained high. Across wet markets, local prices for fresh beef have been trending up since 2020 and recorded a peak in March 2022. Australian beef is highly regarded by consumers, enjoying the highest awareness among imported suppliers. In an environment with heightened concerns around meat safety, Australian beef and cattle are well-positioned to provide the country with safe, superior quality beef. The AI-CEPA agreement means Australian beef enters tariff-free and there are no quota restrictions on boxed beef (except frozen bone-in, which has a 2.5% tariff to be removed in 2023) – giving Australian beef a competitive advantage over other quality beef suppliers.

Key macro issues

Labour

Labour shortages continue to be an issue across the entire supply chain, especially regarding skilled labour within the processing sector. Training within this sector can take up to eight months and has seen a detrimental impact on capacity rates. MLA has factored in the labour shortages and capacity in its supply forecasts. Visa issues and the slower than expected return of international labour has also halted the flow of new people in the country that could potentially fill these gaps.

Global supply chain disruption

Exports

The first four months of 2022 have been slow for exporters, as low supply and logistical challenges have made exporting difficult despite high prices offered in overseas markets.

238,837 tonnes of beef were exported in the first four months of 2022, a 12% decline from 2021. This drop was spread relatively evenly across Australia’s largest markets as Japan, South Korea and the United States all saw exports fall by 11–14%.

The only major market to buck this trend was China, which saw exports drop 2% in the year to date and have seen exports increase in April. Frozen exports have fared better than chilled exports, with frozen exports dropping by 8% and chilled exports dropping by 23%.

One of the main constraints on export volumes has been supply. Beef production in Q1 2022 was 3% lower than 2021 and slaughter has declined 6.3% year-on-year. Although this constrains export volumes in the short term, it is a promising sign for the industry. Weights are 2% higher in 2022 than the 2021 average and 9% higher than the 2020 average.

Prices

Prices on international markets have remained robust and demand for Australian beef is evident despite the lack of supply. The US imported 90CL indicator has averaged $9.05/kg this year – 35% higher than last year – while the average price of Australian exports has been AU$10.68/kg, a 28% increase from 2021. Australian exports have a price premium of approximately 21% over the global export average, which has remained relatively constant over the past five years.

Input prices: grain

Key inputs across the supply chain have risen over the year, as supplies have been disrupted by political events and difficulties in the supply chain. The cost of grain has increased considerably over the year, as the Russian invasion of Ukraine has disrupted supply from the world's largest exporter.

To date, grain prices in 2022 are 30% higher than this point in 2021 and 66% above the five-year average. Moreover, very high price volatility has been observed since February, making accurate assessments of the market difficult.

Shipping

At the same time, oil prices have increased, adding pressure to shipping costs in an already difficult market. The OPEC basket is now marked at US$108.22, 60% higher than May 2021 and 101% higher than the five-year average. This has a marked effect on freight prices, driving prices up and making long-haul routes relatively less attractive.

Additionally, freight movements have been disrupted by the Russian invasion of Ukraine and the lockdown of Shanghai in China.

The Russian invasion of Ukraine has had several effects on shipping. Firstly, several large shipping lines have refused to ship goods bound for Russia. This led to a sharp shock in March, as goods became stranded in European ports and exporters had to seek alternate destinations for their produce.

Beyond this, the Russian Government has banned several airlines for flying in Russian airspace as retaliation for sanctions placed on Russia. The additional time required to circumvent Russian airspace has increased costs, which has forced some exporters to use freight ships, increasing pressure on the system.

Finally, an estimated 17% of merchant sailors are either Russian or Ukrainian and they are disproportionately officers and senior leaders. The suspension of Russian banks from the SWIFT transfer system has made payment difficult and some Ukrainian sailors have enlisted in the military. This has made it difficult to source experienced sailors and made operations less efficient.

The lockdown of Shanghai has also affected shipping. The port of Shanghai is the busiest port in the world, and the lockdown policy has decreased the efficiency of the port markedly. Ships bound for Shanghai have been delayed, in some cases for weeks at a time, which has effectively reduced the capacity of the global fleet. Australian beef exports to Shanghai have fallen by 56% year-on-year since the lockdown was announced in late March 2022, even as overall exports to China rose by 8%.

Together, these factors have made management of logistics difficult and have kept prices at historically high levels. The Global Supply Chain Pressure Index suggests current pressure is close to an all-time high, around three times worse than average. Prices are also remaining high despite a slight cooling since the November 2021 peak, with average prices in May 2022 being 289% higher than the 2016–21 average.

Price

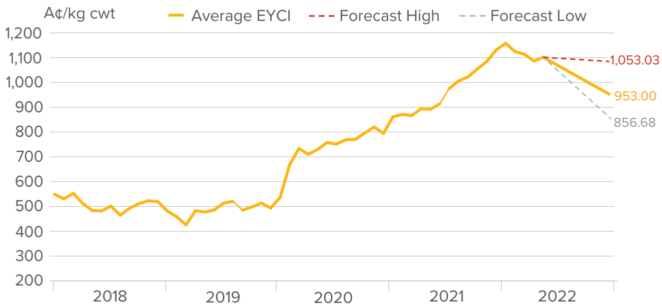
Overview

The continued resilience of the Eastern Young Cattle Indicator (EYCI) after a dramatic fall from its record of 1,191¢/kg cwt set on 24 January 2022 demonstrates the demand from both restockers and feeders competing for a tightened supply of cattle.

The indicator softened to its most significant discount of -10% compared to the record price of 1,191¢/kg cwt on April 19. Since then, the indicator has appreciated for the most part, reaching its highest price since late March on 1 June at 1,130¢/kg cwt.

In the west, the Western Young Cattle Indicator (WYCI) reached a new record on 3 May at 1,222¢/kg cwt, driven by strong competition between restockers and feeders in similar circumstances to the EYCI. An early autumn break for WA assisted strong restocker buying intentions and increased the already strong competition for tight supply of cattle.

Figure 12: Aggregated industry average EYCI price forecast



Source: MLA, ABARES, Thomas Elder Markets, Mercado, NAB

Supply

Cattle supply in the first half of 2022 has continued to remain tight, currently operating in year-to-date terms, 6% lower on a national basis compared with 2021 volumes. This limited supply across the nation demonstrates producers' attitudes towards rebuilding numbers, even though the market continues to show exceptional price resilience and strength, enticing producers to sell.

The national female slaughter ratio (FSR) confirms the current strength of a rebuild and is operating at its lowest level (41%) for the March quarter in 2022 for over a decade, having declined strongly since Q3 2019. The FSR is a technical indicator for the percentage of female cattle killed compared to the total.

Click here to read MLA's in-depth analysis of the importance of the FSR and the herd rebuild

Buyers and demand

Premiums between restockers and feeder buyers have tightened in recent weeks to average 115¢/kg cwt since the start of May. Feeders continue to dominate EYCI purchase volumes, in 2022, feeder buyers have averaged 52% of total purchases for the EYCI each day, whereas restockers have accounted for 41% on average. Demonstrating the robust feedlot demand for cattle has continued into 2022.

Click here to access the latest Lot feeding brief, underpinned by MLA's recently released March quarter

Looking ahead

The key driver of Australia's cattle market is the weather and for many producers, the seasons have delivered in spades. In some instances, too much rain has impacted transportation to market and weight gain performance. However, overall, the season for 2022 so far has been excellent for most cattle regions – and with a favourable winter outlook leading into a negative IOD, this confidence is expected to continue.

Industry analysts are forecasting for the EYCI to decline significantly from where it is currently. By 31 December, these analysts expect the EYCI to sit at 953¢/kg cwt.

Cattle supply is expected to increase significantly in the second half of this year as the calf drops of Spring 2020 and Autumn 2021 reach kill weights. Processor capacity due to labour and supply chain constraints may limit throughput, although it is expected actual cattle supply will begin to increase in 2022 and into 2023.

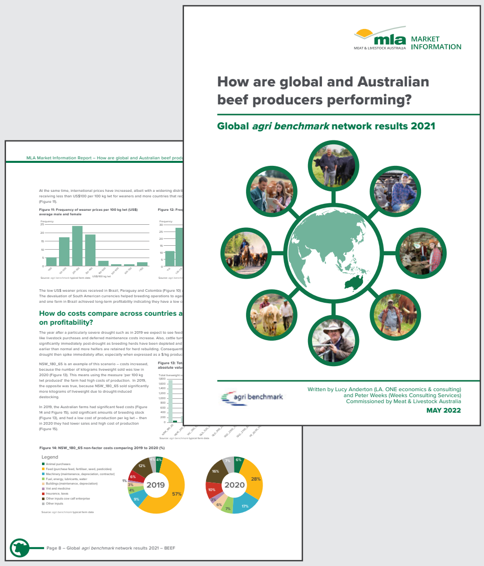
Australian beef producers emerged from the 2019 drought in good shape: *agri benchmark*

Australian beef farms emerged from the particularly severe 2019 drought is good shape, due to a combination of resourcefulness, successful drought strategies and high cattle prices. This is the assessment of *agri benchmark*, a farm productivity-focused global network coordinated by the German Thünen Institute, in its 2020 Australian farm performance report commissioned by Meat & Livestock Australia (MLA).

However, there was a wide variation in performance between the Australian farms, caused by the extent and impacts of drought, the circumstance of each farm and the different drought strategies adopted.

While 2019 was undoubtedly a tough year, seven of the eight typical Australian agri benchmark farms still earnt a whole-farm profit in 2019 and in 2020 – a most remarkable result. However, the breeding section of the business was more profitable than the finishing component – due to the high weaner prices.

The full 2021 *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



Click here for the 2021 *agri benchmark* report

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