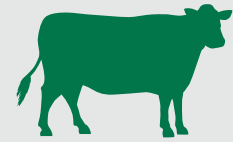


Australian cattle

Industry projections 2017 July update



KEY POINTS

- Slaughter expectations level with 2016
- Record carcass weights assist production
- Exports expected to exceed 1 million tonnes swt
- Cattle prices beginning to feel supply pressure

KEY 2017 NUMBERS

Slaughter



7.25
(million head)

Production



2.17
(million tonnes cwt)

Beef Exports



1.02
(million tonnes swt)

Live exports



750,000
(head)

* Graphic illustrates year-on-year change

MLA's Market Information – Ben Thomas
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Summary

A poor July to September rainfall outlook for southern Australia (figure 1) following the dry autumn (figure 2), 20-year low cow and heifer slaughter and volatile global market activity have resulted in number of minor revisions in the MLA 2017 Cattle Industry Projections.

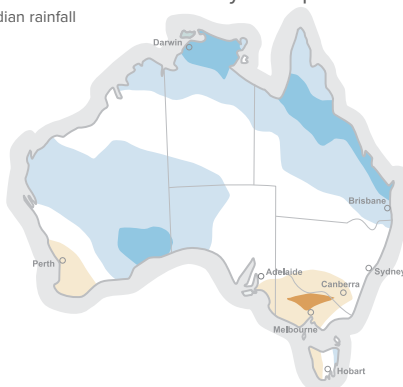
Notwithstanding, the slowly building national cattle herd indicates the peak of the cattle price surge is more than likely behind us, and downward pressure will continue to slowly mount for the foreseeable future. Despite this, Australian cattle prices are unlikely to drop back to pre-2013 levels, buoyed by some lingering restocker activity when pasture conditions eventually improve, along with the unlikelihood of a strengthening A\$ and reducing tariff regimes into Japan, Korea and China.

Figure 1: Australian rainfall outlook - July to Sept 2017

Chance of exceeding median rainfall

Legend

- >55% chance
- 45-55% chance
- 35-45% chance
- 25-35% chance
- <25% chance

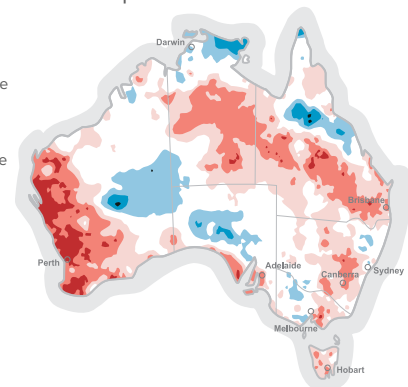


Source: BOM

Figure 2: Australian rainfall - 1 April to 30 June 2017

Legend

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



Source: BOM

Summary continued...

Interestingly, June 2017 marked a crossroads for the Australian beef industry. Eastern states slaughter consistently tracked higher than year-ago levels for the first time in three years, while at the same time, cattle prices dropped below year-ago levels, also for the first time in three years. These trends are likely to remain in place for the remainder of 2017 and have a significant impact on price and production expectations.

Slaughter

Australian female cattle slaughter for the year-to-April (latest ABS data at time of publishing) highlights not only the intent many producers have to replenish depleted herds, but also just how few cows and heifers there are nationally in the wake of several years of drought liquidation.

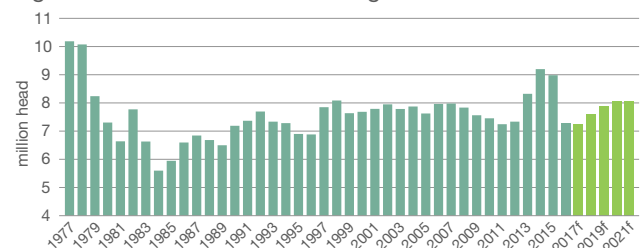
After four months of 2017, female cattle slaughter was just 973,000 head – the lowest since 1995 and representing 45% of the overall adult kill, three percentage points below the 10-year average (48%).

Despite pasture conditions deteriorating in some regions, and the poor rainfall outlook, expectations are for the female component of the cattle kill to remain below the 10-year average, simply due to limited availability and already relatively low stocking rates.

The adult cattle kill was 13% below 2016 levels, at 2.16 million head, after the first four months of the year (also the lowest since 1995). However, numbers processed across the eastern states recovered in June and are anticipated to remain above year-ago levels for the rest of 2017.

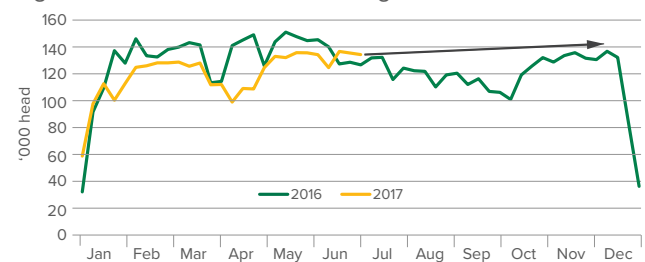
The result is a small revision to the annual total, to be steady with 2016 at 7.25 million head (April estimates were 7.1 million head), before the momentum continues through to 2018, when 7.6 million head are anticipated to be processed.

Figure 3: Annual adult cattle slaughter



Source: ABS, MLA estimates

Figure 4: Eastern states cattle slaughter



Source: MLA

Production

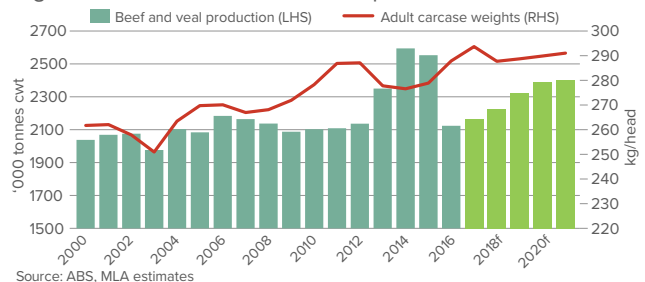
A significant consequence of the low female cattle slaughter, combined with high numbers of cattle on feed (covered in following section), is that average carcass weights for the year-to-date were 296.3kg/head – a staggering 7.8kg (3%) increase on the previous record set in 2012.

While low female cattle slaughter was a similarity between the two periods, pasture conditions were considerably better in 2012. This meant that, in 2012, the bulk of the weight was underpinned by heavy grassfed cattle, as opposed to a greater proportion of grain finished beef this time.

Carcass weights are anticipated to reduce slightly as the year progresses, but stay above the long-term average for the remainder of 2017.

As a result of the increase in cattle slaughter, combined with heavier carcass weights, 2017 beef and veal production is now estimated to be 2.17 million tonnes cwt, up 2% year-on-year (figure 5).

Figure 5: Australian beef and veal production



Source: ABS, MLA estimates

Situation and outlook for the Australian cattle industry

	2013	2014	2015	2016	2017 ^f	% change	2018 ^f	2019 ^f	2020 ^f	2021 ^f	% change 2021 ^f on 2017
Cattle numbers ('000 head)*	29,291	29,100	27,413	26,143	26,747	2%	27,480	28,025	28,206	28,453	6%
percentage change	2.8%	-0.7%	-6.4%	-4.6%	-2.4%		2.7%	2.0%	0.6%	0.9%	
Slaughtering ('000 head)											
cattle	8,344	9,226	9,007	7,288	7,250	-1%	7,600	7,900	8,100	8,100	12%
calves	690	688	667	542	625	15%	640	680	700	710	14%
total	9,034	9,914	9,674	7,830	7,875	1%	8,240	8,580	8,800	8,810	12%
Avg carcase weight (kg)											
cattle	278.0	276.8	279.1	288.2	294.0	2%	288.0	289.0	290.0	291.0	-1%
calves	58.5	60.1	49.1	44.7	60.0	34%	60.0	60.0	60.0	60.0	0%
Production ('000 tonnes carcase weight)											
beef	2,320	2,554	2,514	2,101	2,132	1%	2,189	2,283	2,349	2,357	11%
veal	40.4	41.3	32.9	24.2	37.5	55%	38.4	40.8	42.0	42.6	14%
total beef and veal	2,360	2,595	2,547	2,125	2,169	2%	2,227	2,324	2,391	2,400	11%
Cattle exports ('000 head)	850	1,292	1,332	1,126	750	-33%	750	775	800	800	7%
Beef exports** ('000 tonnes)											
total, carcase weight	1,611	1,881	1,889	1,497	1,499	0%	1,558	1,646	1,720	1,720	15%
total, shipped weight	1,099.8	1,287	1,285	1,018	1,020	0%	1,060	1,120	1,170	1,170	15%
Domestic utilisation ('000 tonnes c/c weight)***											
imports	3.6	4.4	3.0	3.5	3.5	0%	3.5	3.5	3.5	3.5	0%
total, carcase weight	736	702	646	614	656	7%	656	664	658	666	2%
kg/head****	31.8	29.9	27.1	25.4	26.7	5%	26.3	26.3	25.6	25.6	-4%

Source: ABS, DAWR, MLA forecasts

* As at 30 June, 2016 is an MLA estimate

** excl. canned/misc. shipped weight

*** Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcase weight

**** kg/head consumption calculated from total carcase weight divided by Australian population

^f = forecast (in italics)

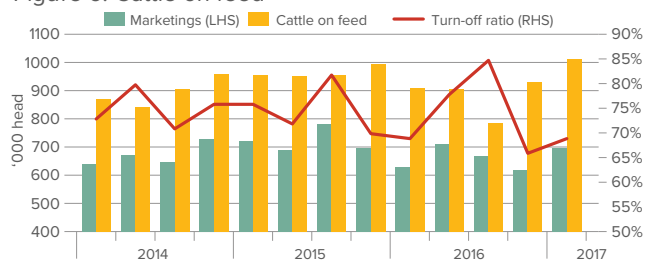
Cattle on feed

As eluded earlier, cattle on feed remain at record high levels, with numbers across Australia in the March quarter in excess of one million head. Interestingly though, and contributing to the record high, is a slower than usual turn-off rate (i.e. cattle being retained on feed for longer).

During the March quarter, the proportion of cattle marketed (turned-off) relative to the number on feed was 69%, compared to the quarterly average of 75% over the past three years. This is a continuation of a trend that began in 2016, and is one that is likely to hold for the second half of 2017, and into 2018.

This should result in relatively strong feeder cattle buyer activity and reasonably high average carcase weights, even when female cattle slaughter is anticipated to return to more typical levels in 2018.

Figure 6: Cattle on feed



Source: ALFA / MLA survey

International trade environment

The first half of 2017 has witnessed a range of shifts in global beef markets: the US continued to challenge Australia's position in North Asia; quality concerns with Brazilian beef resulted in temporary and indefinite market closures; the Indian government attempted to ban the sale of slaughter buffalo and cattle through livestock markets; and the US regained direct access to China. While the implications of these changes for Australia are not completely clear, the first two have had some material impact on the global trade.

Custom cleared beef imports into Korea so far this year are up 12% year-on-year, but Australia's share of the market has slipped from 53% to 47% on a volume basis – all of which has gone to the US. Likewise, imports into Japan have increased 16% over the same period, but Australia's share has declined from 56% to 49%.

While Australian exports to Korea for the year-to-June are back 23% from record 2016 volumes, the market is still expected to grow in the long term, as highlighted in the recently released outlook on the Korean beef market.

[Click here to view the Korean Beef market report](#) ▶



International trade environment continued...

Although there has been greater US presence, Australian exports to Japan increased 12% over the year-to-June, underpinned by ideal seasonal conditions over the holiday period and low domestic Wagyu supplies.

Furthermore, rallying US beef prices (figure 7) for the year-to-May have provided some shelter to Australia. While US cattle prices have since eased, they still finished June 4% above where they tracked this time last year. Looking forward, however, cheap grain and increased placements on feed indicate that US beef production will continue to rise and the futures market is pricing cattle at a discount to the spot market through to the end of 2017.

Brazil has been mired by a range of highly publicised scandals this year. While China, Chile, Hong Kong, Egypt and Saudi Arabia were amongst some of Brazil's largest export destinations to impose a suspension on imports, following an initial meat scandal in March, most markets have resumed trade. Brazilian beef exports in April subsequently hit a five-year low but bounced back in May.

Meanwhile, after gaining access to the US market last year, the USDA announced the suspension on all fresh and frozen beef imports from Brazil, unsatisfied the self-imposed suspension of five processing facilities sufficiently addressed ongoing food safety and quality concerns. Brazilian exports to the US had grown to a 4,500 tonne swt peak in May but were still dwarfed by the 30,000 tonnes swt out of Australia during the same month.

Nevertheless, despite the significant shifts in global beef markets, the forecast 2% year-on-year rise in Australian beef production for 2017 should see exports match the 1.02 million tonnes swt shipped last year. This would mean the fifth consecutive year of over one million tonnes exported (figure 8).

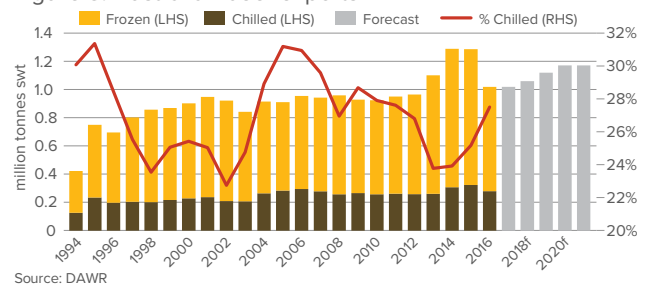
At the same time, a small softening in Australian retail beef prices during the first half of 2017 is likely to alleviate the declining per capita utilisation trend. Expectations for 2017 are for a 5% rise year-on-year, to 26.7kg/capita.

Figure 7: Imported 90CL Prices to the US



Source: Steiner Consulting Group

Figure 8: Australian beef exports



Source: DAWR

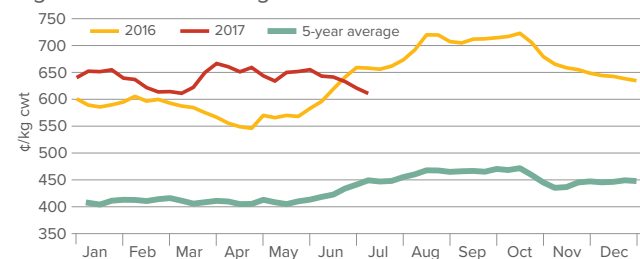
Cattle prices

As previously mentioned, saleyard cattle prices fell below year-ago levels for the first time in over three years during June 2017, with the Eastern Young Cattle Indicator (EYCI) averaging 636¢/kg cwt (figure 9). It should be noted, though, that while the market has softened, prices are in comparison to record highs and are still significantly higher than the five-year average.

As the Australian cattle herd continues to build, causing restocking activity to eventually wane and resulting in a more abundant supply of finished cattle, the overall cattle market will struggle to match the trends of recent years. Store cattle right through to the finished end of the market are likely to feel the impact of supply, with store cattle experiencing greater volatility.

While this trend is anticipated, continual growth in export demand, combined with reducing tariff schedules, should see the Australian cattle market remain above the existing five-year average for the duration of the projected period.

Figure 9: Eastern Young Cattle Indicator



Source: MLA