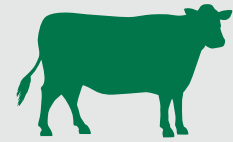


Australian cattle

Industry projections 2017 October update



KEY POINTS

- Slaughter remains in line with 2016
- Carcase weights continue to rise
- Record number of cattle on feed
- Cattle prices soften with lower restocker activity

KEY 2017 NUMBERS

| Slaughter | Production | Beef Exports | Live exports |
|---------------------|---------------------------|---------------------------|----------------|
| | | | |
| 7.25 (million head) | 2.18 (million tonnes cwt) | 1.03 (million tonnes swt) | 800,000 (head) |

* Graphic illustrates year-on-year change

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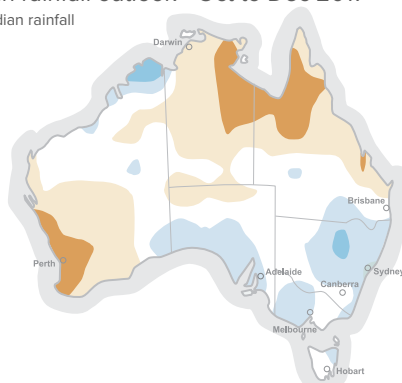
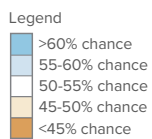
Summary

As anticipated in the July update, a dry finish to winter and an exceptionally warm and dry September ensued across much of the country. The main impact of the poor season has been the downward trajectory of Australian cattle prices – largely caused by waning restocker demand. In recent weeks, however, some rain across southern Queensland and northern NSW has revived the market, with reduced yardings and stronger restocker buyer activity lifting prices.

The dry is yet to jeopardise the national herd rebuild, with adult cattle slaughter remaining on track with the July update. However, record numbers on feed and a relatively low proportion of females making up cattle slaughter has resulted in an upwards revision to average carcase weights. This, in turn, has flowed on to a slight increase in projected beef production and export volumes.

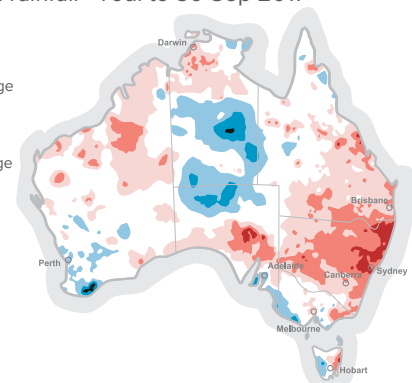
Figure 1: Australian rainfall outlook - Oct to Dec 2017

Chance of exceeding median rainfall



Source: BOM

Figure 2: Australian rainfall - 1 Jul to 30 Sep 2017



Source: BOM

Summary continued...

Although coming off the boil in recent weeks, the appreciation of the A\$ over the last few months has challenged Australian exporters – particularly at a time when the US, Australia's greatest competitor on the global market, has been expanding its beef production and global market share.

The cattle market hangs in the balance, with the price direction in the short-term dependent on how the season plays out in the lead up to summer. If the positive rainfall outlook for eastern Australia in October comes to fruition, this will go a long way to supporting young cattle prices.

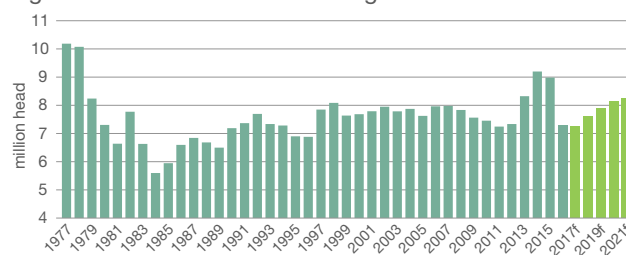
Slaughter

After a slow start to 2017, adult cattle slaughter has started to ramp up in the second half of the year. Numbers processed have been tracking ahead of year-ago levels since June, as seasonal conditions deteriorated. The total for the year-to-August (latest available ABS data) was 4.8 million head, just 3% behind 2016 for the same period (but 22% below the same period in 2015).

Below-average rainfall across much of the country during winter gave many producers little option but to turnoff stock. However, this has been more focused on males in order to preserve their breeding herd. For the year-to-August, male slaughter was up 2% against last year, whilst female slaughter was 8% down over the corresponding period. The female proportion of cattle slaughter for 2017 is anticipated to be 45% of the total adult kill, which would be the lowest level since 2012. Many producers appear intent on increasing female herd numbers, which are at historically low levels (lowest since the early 2000's).

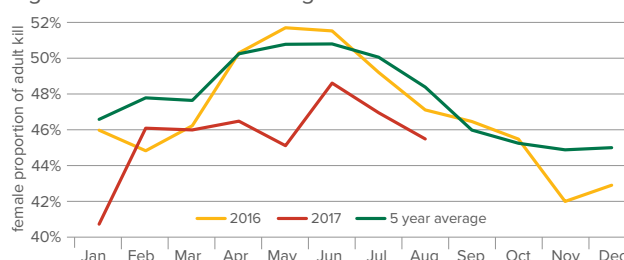
Overall adult slaughter is anticipated to continue recovering over the coming months, in line with the typical seasonal trend. As a result, national adult cattle slaughter is projected to remain in line with what was forecast in the July update, at 7.25 million head – down slightly year-on-year. Producers are not expected to further accelerate their current turnoff at this stage. While the rainfall outlook for the October to December period is more positive, further dry weather could derail the broad industry rebuild that is underway and challenge many producers with some tough decisions.

Figure 3: Annual adult cattle slaughter



Source: ABS, MLA estimates

Figure 4: Female cattle slaughter



Source: ABS

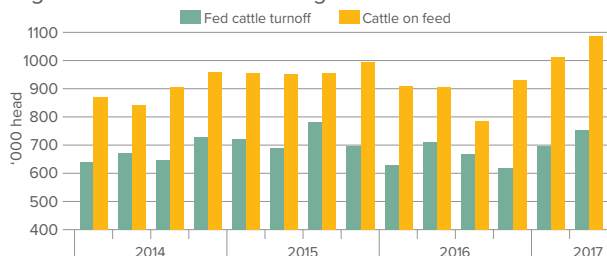
Cattle on feed

The number of cattle in Australian feedlots has been at record levels this year, with just under 1.1 million head on feed at the end of the June quarter. Furthermore, the turnoff rate (proportion of cattle on feed that exit the feedlot during the quarter) in the June quarter was 74%, a slight decline from the March quarter and 2014 and 2015 average. This is having two impacts; more grainfed cattle are being processed as a proportion of adult cattle slaughter and cattle are staying on feed for longer, which is contributing to the rise in average carcase weights.

The large numbers on feed have been caused by strong grainfed beef demand from Japan and Korea, historically low (though rising) grain costs and deteriorating pasture conditions. Lower feeder cattle prices have also assisted in recent months.

The recent dry conditions have caused a downward revision to ABARES' crop yield forecast in the Darling Downs region for the last quarter of 2017. This could see grain prices increase further, which will in turn impact feedlot margins. Typically, numbers on feed in the December quarter increase 8% on average but, given the current record levels and rising grain costs, and the possibility feeder cattle prices could lift, a further expansion in numbers seems unlikely this year.

Figure 5: Cattle on feed and grainfed turnoff



Source: ALFA / MLA survey

Carcase weights and production

Australian adult cattle carcase weights have held up well in 2017. In fact, the national average hit a record monthly high in April (299.2kg) and has averaged a record 296.5kg for the year-to-August – 10kg or 4% higher than the corresponding period last year.

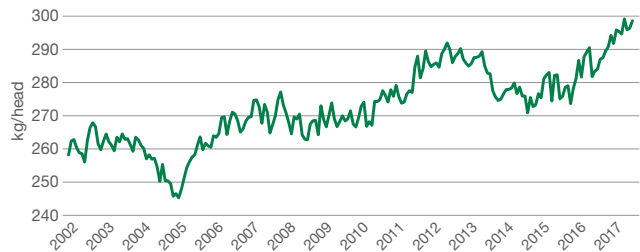
Typically, prolonged dry conditions see carcase weights fall, underpinned by a greater proportion of females making up the kill and producers finishing cattle to lower weights. So far this year, however, carcase weights have bucked that trend. This largely comes down to two factors. Firstly, the female herd is already historically low, having not yet recovered from the previous drought-driven destocking phase. The female proportion of total slaughter for the year-to-August 2017 averaged 46% – considerably lower than the 52% and 51% recorded over the same period in 2014 and 2015, respectively. Nationally, adult female cattle carcase weights averaged 260.3kg for the year-to-August, while adult males averaged 327.2kg – both up 3% year-on-year.

Secondly, there have been more cattle on feed this year than ever before and cattle have been retained on feed for longer, producing more beef per beast. Despite being a predominantly grass-based industry, finishing more cattle on feed has offset the impact that poor pasture conditions would normally have had on average carcase weights.

As a result, the 2017 forecast for the national average adult cattle carcase weight has been revised higher than what was projected in the July update, to a record 297.4kg. This represents a 3% (or 9.2kg) increase from the record reached in 2016.

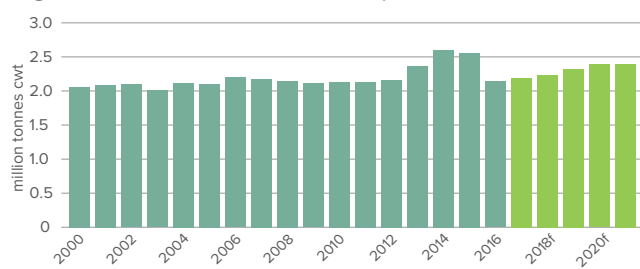
Heavier carcasses have seen beef and veal production revised slightly higher than the previous update, to 2.18 million tonnes cwt – up 3% year-on-year.

Figure 6: National adult carcase weight



Source: ABS

Figure 7: Australian beef and veal production



Source: ABS, MLA estimates

International trade environment

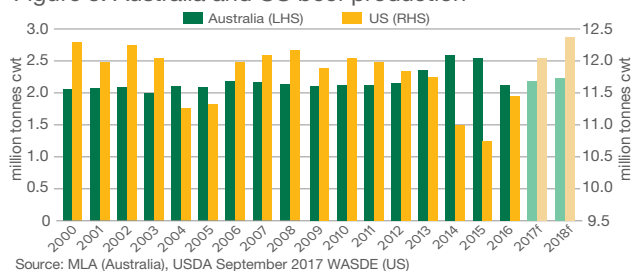
Competitive pressure remains the constant on the export market, primarily underpinned by increased volumes of US beef. Furthermore, while a range of scandals in Brazil made headlines, the impact on trade was muted – namely trade quickly returned after a short-term ban on Brazilian beef into China, and the end of exports to the US market reflected very small volumes.

The US is Australia's greatest competitor in Japan, Korea and the US itself – markets which combined account for two thirds of Australia's exports – and it is pushing increasing volume through all three.

US beef production has recorded significant growth throughout 2017, underpinned by a stronger than expected recovery in the cow herd, more cattle being placed on feed and historically high fed cattle carcase weights. After increasing 6% in 2016, the USDA has forecast beef production to grow 5% and 3% in 2017 and 2018, respectively. This sharp turnaround in supply from the world's biggest producer comes at a time when Australia is forecast to record only a modest increase over the next two years.

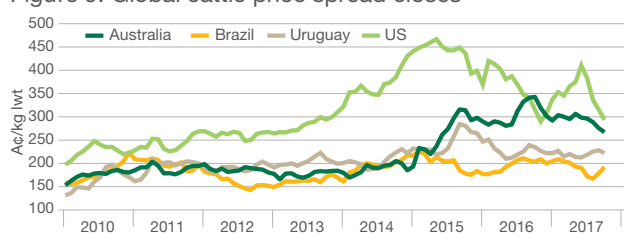
Australian exports over the last nine months have been the lowest in five years. Coupled with increased US exports, Australia's market share in Japan and Korea is under pressure, declining from 55% to 50% and 52% to 46%, respectively (volume basis for the year-ending-August). While Australia remains the larger of the two suppliers in both markets, the lost share has shifted entirely to the US.

Figure 8: Australia and US beef production



Source: MLA (Australia), USDA September 2017 WASDE (US)

Figure 9: Global cattle price spread closes



Source: MLA's NLRS (Australia); Esalq/Cepea (Brazil); INAC (Uruguay); USDA (US) Cattle specifications vary between indicators.

International trade environment continued...

Fortunately, Japan and Korea have registered overall beef import growth in 2017 – up 15% and 5%, respectively, over the year-to-August period. In fact, Australian exports to Japan have increased 13% year-on-year over the first nine months of 2017 and will be further assisted by the considerable tariff advantage (after the safeguard was triggered in August) over US frozen beef until 31 March 2018. Both Canada and New Zealand have also increased shipments into Japan this year but their market share has remained steady, both at about 3%.

Meanwhile, developments in China have seen a handful of large Australian processing plants temporarily suspended from Australia's fourth largest market and exports to China declined significantly in August before improving somewhat in September. While the US has recently gained access to the China market, questions remain as to whether the industry will be able to supply significant volumes of HGP-free beef (a necessary requirement).

Brazil and Uruguay have made significant inroads in mainland China over the last two years, overtaking Australia as the primary supplier of beef through official channels. New Zealand and Argentina have also increased shipments to China over the last 24-months. China, however, still remains a significant market for Australia, and product from South America is satisfying demand in the commodity beef trade as opposed to displacing high value Australian product (exports to China in the first nine months of 2017 are up 5% year-on-year, despite the plant suspension).

Growing supplies in the US have resulted in cattle prices tanking. After spiking in May, the 5-state choice steer indicator has lost almost 30% (in A\$ terms). Over the same period, Australian finished cattle prices have declined closer to 10%, wiping-off much of the premium buffer the US typically holds and reinforcing the fact that the Australian market, even after recent falls, remains elevated compared to the rest of the world.



[Click here to view the latest US competitor snapshot](#) ▷

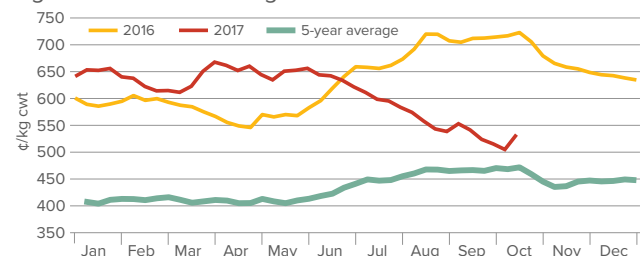
Cattle prices

Saleyard cattle prices continued their unseasonal downward trajectory following the July update, with the Eastern Young Cattle Indicator (EYCI) averaging 560¢/kg cwt in the September quarter, as restocker buying activity waned due to limited rainfall across much of NSW and Queensland.

Ongoing dry conditions were the major driver behind the reduction in producer market activity. However, rainfall in early October across key cattle producing areas saw the EYCI kick, regaining 25¢/kg cwt (5%) over the first week of October – a clear indication of the likely larger response if a more complete seasonal break arrives. In particular, the restocker steer indicators in NSW and Queensland each lifted 6% across the week, with producers outbidding all other buyers in the market.

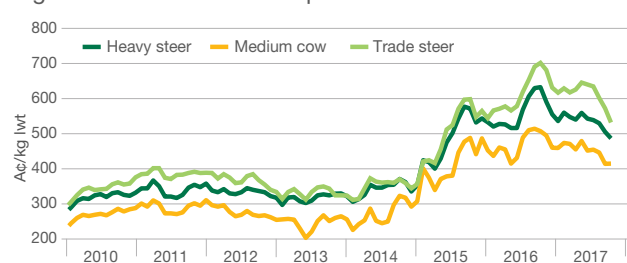
Feedlot demand has also supported the EYCI, driven in part by robust export demand for high quality grainfed product in Japan and Korea, especially over the past few months. The availability of light weight stock through markets remains limited with the herd rebuilding cycle still underway, which should see prices continue to track above the five-year-average for the remainder of the year.

Figure 10: Eastern Young Cattle Indicator



Source: MLA

Figure 11: Australian cattle prices



Source: MLA

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 | 26,845 | 27,008 | | 27,670 | 28,141 | 28,504 | 28,890 | 7% |
| percentage change | 3.1% | -0.7% | -5.8% | -2.1% | 0.6% | | 2.5% | 1.7% | 1.3% | 1.4% | |
| Slaughtering ('000 head) | | | | | | | | | | | |
| cattle | 8,344 | 9,226 | 9,007 | 7,288 | 7,250 | -1% | 7,600 | 7,900 | 8,150 | 8,250 | 14% |
| calves | 690 | 688 | 667 | 542 | 480 | -11% | 550 | 565 | 575 | 600 | 25% |
| total | 9,034 | 9,914 | 9,675 | 7,830 | 7,730 | -1% | 8,150 | 8,465 | 8,725 | 8,850 | 14% |
| Avg carcase weight (kg) | | | | | | | | | | | |
| cattle | 278.0 | 276.8 | 279.1 | 288.2 | 297.4 | 3% | 288.9 | 289.8 | 291.2 | 292.5 | -2% |
| calves | 58.5 | 60.1 | 49.3 | 44.7 | 48.4 | 8% | 55.0 | 55.0 | 55.0 | 55.0 | 14% |
| Production ('000 tonnes carcase weight) | | | | | | | | | | | |
| beef | 2,319 | 2,554 | 2,514 | 2,101 | 2,156 | 3% | 2,196 | 2,289 | 2,373 | 2,413 | 12% |
| veal | 40.4 | 41.3 | 32.9 | 24.2 | 23.2 | -4% | 30.3 | 31.1 | 31.6 | 33.0 | 42% |
| total beef and veal | 2,359 | 2,595 | 2,547 | 2,125 | 2,180 | 3% | 2,226 | 2,320 | 2,404 | 2,446 | 12% |
| Cattle exports ('000 head) | 850 | 1,292 | 1,332 | 1,126 | 800 | -29% | 800 | 825 | 850 | 850 | 6% |
| Beef exports** ('000 tonnes) | | | | | | | | | | | |
| total, carcase weight | 1,611 | 1,881 | 1,888 | 1,497 | 1,514 | 1% | 1,558 | 1,646 | 1,727 | 1,764 | 17% |
| total, shipped weight | 1,099 | 1,287 | 1,285 | 1,018 | 1,030 | 1% | 1,060 | 1,120 | 1,175 | 1,200 | 17% |
| Domestic utilisation ('000 tonnes c/c weight)*** | | | | | | | | | | | |
| imports | 2.4 | 2.8 | 3.0 | 3.5 | 3.5 | | 3.5 | 3.5 | 3.5 | 3.5 | 0% |
| total, carcase weight | 736 | 702 | 646 | 614 | 652 | 6% | 654 | 661 | 664 | 669 | 3% |
| kg/head**** | 31.8 | 29.9 | 27.1 | 25.4 | 26.6 | 5% | 26.3 | 26.1 | 25.9 | 25.7 | -3% |

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)