

Australian cattle

Industry projections 2016 October Update



KEY POINTS

- Tightest cattle supplies in 20 years
- Up to 40% herd decline in parts of western Queensland
- Live cattle exports constrained by availability and prices
- Beef exports back 24%

KEY 2016 NUMBERS

Slaughter	Production	Beef Exports	Live exports
7.1 (million head)	2 (million tonnes cwt)	980,00 (tonnes swt)	1.05 (million head)

* Graphic illustrates year-on-year change

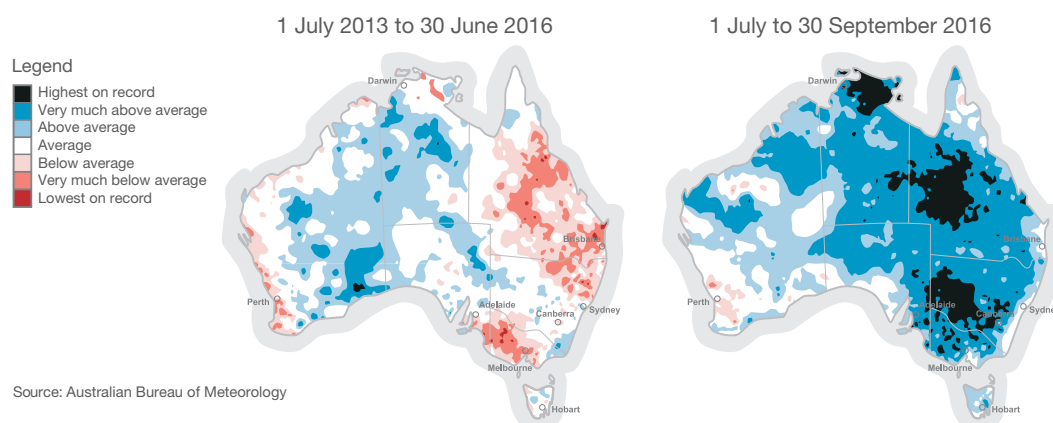
Introduction

MLA's Market Information – Ben Thomas
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Supplies, supplies, supplies. The key feature of the October 2016 Cattle Industry Update is the Australian beef supply situation. 2014 and 2015 were back-to-back years of record adult cattle turn-off and the result is now a severely depleted national cattle herd, with tight supplies exacerbated by widespread rainfall across some of Australia's largest cattle producing regions. Expectations are for the extremely tight supply situation to remain for the duration of 2017, before slowly increasing from 2018 onwards.

While Australian cattle supplies are at such tight levels, Australian cattle producers are being insulated from generally softer global markets. With Australian prices moving in a different direction to those globally, it becomes more likely that once Australian production does eventually increase, prices will realign with global trends.

Figure 1 From dust to deluge - Australian rainfall



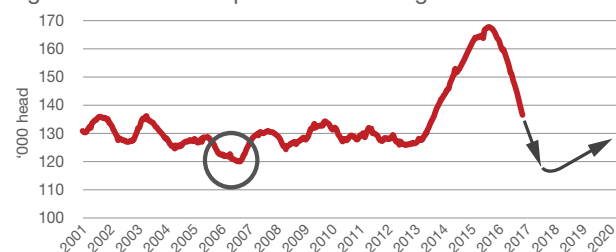
Slaughter, production and herd

Eastern states adult cattle slaughter is destined to head from one unprecedented level to another in the space of just 18 months. In July 2015, the 12-month rolling average adult cattle slaughter peaked at an all-time high of 162,829 head, coinciding with near-record live cattle exports, and consequently, eastern states cattle slaughter is soon likely to edge below 120,000 head for the first time since 2006. During 2006, the rolling average remained below that level for 23 consecutive weeks as a result of strong herd rebuilding intentions. This time, expectations are for the rolling average slaughter to remain below 120,000 head for the majority of 2017 – the result of the herd having fallen to a 20-year low, at 26.2 million head.

Solace comes from the expectation that the abrupt slow-down in cattle slaughter will result in more calves on the ground in 2017 and higher beef production in 2018. In the meantime though, there will be extremely strong competition for the limited numbers available.

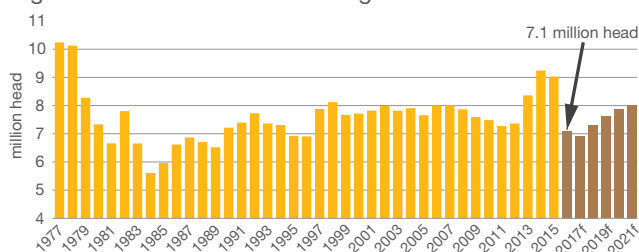
Expectations are for adult cattle slaughter to drop to 7.1 million head in 2016, down 21% year-on-year, before falling a further 2% to 6.9 million head in 2017. In short, a shock to the processing sector in 2016, a matter of managing the limited numbers available in 2017, before a small rise in 2018.

Figure 2 From one unprecedented slaughter level to another



Source: MLA, rolling 12 month average eastern states cattle slaughter

Figure 3 Annual adult cattle slaughter



Source: ABS, MLA forecasts

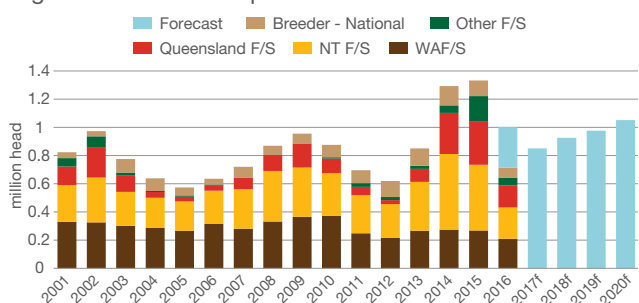
Live cattle exports

Live cattle exports have also been constrained this year by the limited cattle available, but additionally, are also suffering from significant uncertainty in Indonesia around the government breeder-for-feeder policy, and importer resistance at current price levels – particularly in China, Vietnam and Indonesia.

The Middle East is one of the better performing regions in 2016. With Turkey resuming live cattle imports from Australia this year, combined with strong Israeli demand for Australian cattle, shipments to the region are forecast to be slightly greater year-on-year. Further boosting supplies to the region has been the general increase in the WA cattle herd over the past three years, compared to declines elsewhere in the country. The rise to the Middle East, however, is not nearly enough to offset declines to Vietnam and Indonesia.

Moreover, live cattle shipments for the year-to-September are at 840,000 head – on track to exceed annual totals for most years prior to 2014. Like slaughter though, live cattle exports are expected to remain constrained by limited supplies and resistance from some importers at the expected high prices during 2017. Live shipments are anticipated to decline from the estimated 1.05 million head in 2016, to 850,000 head in 2017.

Figure 4 Live cattle exports



Source: ABS, MLA forecasts

F/S= Feeder and Slaughter cattle

Of course, this is largely dependent on whether or not there are market access restrictions in place during 2017 and exactly what resistance there will be if current cattle prices are sustained. It's understood that negotiations are also taking place between Vietnamese and Brazilian/Colombian officials around the health protocols for Vietnam to import from South America. If agreements are reached, the presence in Vietnam of cattle from either, or both, countries may further suppress demand for Australian live cattle over the longer-term.

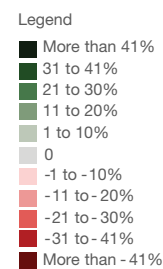
Regional herd population map

The map below illustrates the herd population changes in each of the major beef producing regions across Australia from when the herd peaked in 2012-13, to where it was in 2015-16. Unsurprisingly, the more severe the rainfall deficit over the past three years, the larger the region's herd decline. In fact, parts of western Queensland and NSW had herd declines of up to 40% in just three years, while many other populous beef regions had reductions of up to 20%. Bucking the trend was the net increase in cattle in WA, where more fortunate seasons allowed for a general rise across the state. It should be noted that WA has a relatively small herd (2.3 million head), compared to Queensland (10.5 million head), NSW (5.4 million head) and Victoria (4 million head).

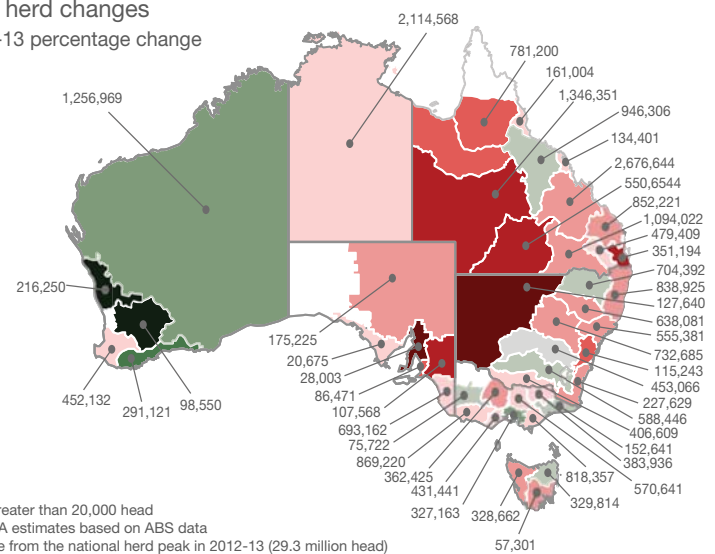
The question from here though – how long will it take for each region to recover to pre-drought levels? Southern Australia has been impacted to a slightly lesser extent, and combined with the generally better branding rates and rainfall during the primary pasture growing season, it is highly likely that NSW, Victoria, Tasmania and SA will recover at a much faster rate than Queensland and the NT. In fact, considering the ample rainfall during winter and spring this year, it's possible that a full recovery could occur by 2018. For the north, with poorer herd fertility and branding rates than the south, pre-drought herd numbers are unlikely until at least 2019 – assuming average seasonal conditions.

The map clearly depicts where the tightest retention of cattle will be and where the strongest restocking interest will come from. It also illustrates the general increase in the WA herd, which has assisted the aforementioned rise in the live cattle trade to the Middle East.

Figure 5 Cattle herd changes 2015-16 on 2012-13 percentage change



Note:
 Shaded regions have greater than 20,000 head
 2015-16 figures are MLA estimates based on ABS data
 Percentage changes are from the national herd peak in 2012-13 (29.3 million head)



Feedlots

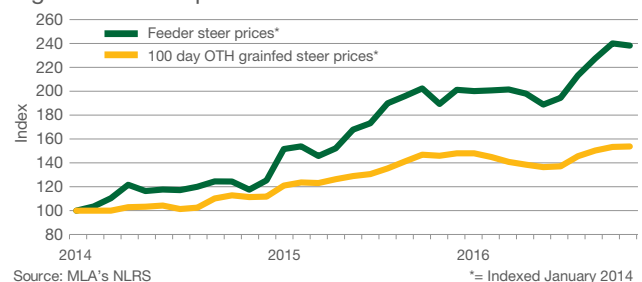
Expectations for the number of cattle on feed are to remain relatively high, although not as high as previously forecast, simply because of the shift in feeder cattle prices relative to finished grainfed cattle prices. Numbers on feed are likely to edge back towards 800-850,000 head by the end of 2017.

Currently, feeder cattle prices from the saleyards are averaging 137% above where they were at the beginning of 2014 – when the number of cattle on feed surged above the long-term average. Over the same period, grainfed over-the-hook (OTH) prices have increased just 53%. Expectations of lower feedgrain prices for the duration of 2016 and 2017 will be of assistance, but the considerable disconnect between feeder cattle prices and those for the finished article will continue to pressure feedlots.

Nevertheless, the fall in numbers on feed is anticipated to be less than in grassfed cattle slaughter, implying a 39% grainfed production share (61% grassfed) in 2017 – which is typical of the relative quantities during strong herd rebuilding phases. By comparison, during herd liquidation (high grassfed cattle turn-off) phases in the past decade, grainfed beef production has accounted for as low as 31%.

Thus, total beef and veal production in 2017 is forecast to be 2 million tonnes cwt, of which around 780,000 tonnes cwt is expected to be grainfed.

Figure 6 Feedlot price movements



Exports

Beef exports have been in decline and trade will continue to slow over the remainder of 2016. Lower processing in the final quarter, combined with mounting competition from Brazil and the US have led the 2016 beef export expectations to be 980,000 tonnes swt, down 24% year-on-year.

The same factors slowing trade this year will be carried through to 2017, and result in shipments declining a further 4% to 940,000 tonnes swt – the lowest volume since 2010. This means the domestic to export ratio will return to longer-term average levels and exports are likely to account for 68% of production, compared to 74% in 2015.

Beef shipments for the year-to-September are down 21% year-on-year, with trade to most of the key markets slower than the year before. Most notably, shipments to the US, Japan, China and the Middle East are all back year-on-year, while volumes to Korea are higher, where tight domestic Hanwoo beef has led to high prices and stronger import demand. This situation is expected to last for the duration of 2017 and see Korea continue to grow in importance as a market for Australian beef.

Interestingly, and encouragingly for Australian beef producers, the decline in chilled beef exports (or higher valued product) this year has been less than for frozen beef to each of the largest markets. In fact, chilled volumes for the year-to-date are down 12% year-on-year, while frozen is down 23%. This has resulted in chilled exports comprising 27% of the overall total for the year-to-date, compared to 25% and 24% in the two years prior, and indicates the strong international demand for high quality chilled Australian beef. The greater chilled volumes have also assisted the average export unit values, with the average unit price of \$6.96/kg in the June quarter down just 4% from the peak in the 2015 October quarter.

Beyond 2017, Australian beef and veal exports are expected to rise in line with production, and exceed 1 million tonnes swt from 2018 onwards.

Figure 7 More beef to remain on Aussie shores

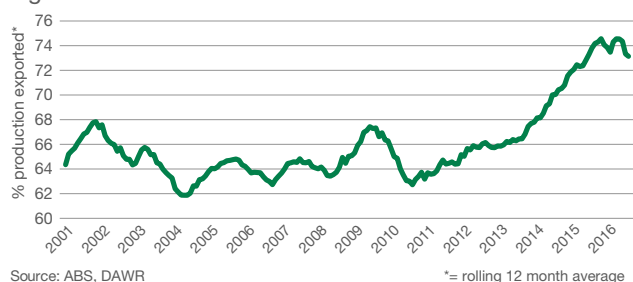
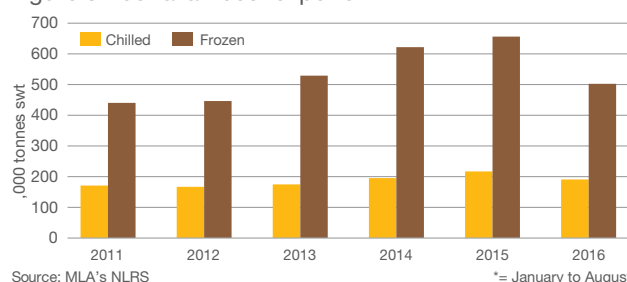


Figure 8 Australian beef exports*



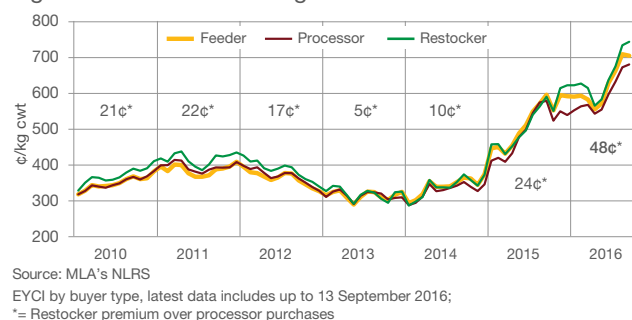
Prices

Most global beef price indicators are easing as a result of growing global beef (and meat) production. Australian beef cattle prices, on the other hand, have been getting higher and higher, simply because the number of cattle available has fallen to a 20-year low, and likely to remain such for the remainder of 2017. Producers should be aware, though, that because of the contrasting global beef price trends, once Australian production eventually ramps up, Australia will probably realign with global movements.

The drivers of the current record Australian cattle prices are clearly illustrated in the Eastern Young Cattle Indicator (EYCI) chart on the right, where prices are segregated by buyer type. Restockers are leading the charge when it comes to prices paid for young cattle through saleyards. In fact, the 49¢/kg cwt average restocker premium so far in 2016 is actually 8% more than processors, compared to 6% and 5% in 2010 and 2011, respectively.

The level at which the market eventually settles in the medium-term (2018-2020) will largely be dictated by the global trade environment, currency movements and the rate at which global demand increases. However, all things considered, it is unlikely that Australian cattle prices will return to pre-2013 levels, but rather establish a new level – somewhere in between existing long-term averages and the current record highs.

Figure 9 Restockers driving markets



Situation and outlook for the Australian cattle industry

	2011	2012	2013	2014	2015	2016 ^f	% change	2017 ^f	2018 ^f	2019 ^f	2020 ^f	2021 ^f	% change 2021 ^f on 2015
Cattle numbers ('000 head)*	28,506	28,418	29,291	29,100	27,413	26,142		26,542	27,404	28,054	28,653	29,380	7%
percentage change	0.4%	-0.3%	3.1%	-0.7%	-6.4%	-4.6%		1.5%	3.2%	2.4%	2.1%	2.5%	
Slaughterings ('000 head)													
cattle	7,261	7,352	8,344	9,226	9,007	7,100	-21%	6,900	7,400	7,600	7,850	8,000	-11%
calves	682	625	690	688	655	630	-4%	625	640	680	700	710	8%
total	7,943	7,977	9,034	9,914	9,662	7,730	-20%	7,525	8,040	8,280	8,550	8,710	-10%
Avg carcase weight (kg)													
cattle	287.3	287.5	278.0	276.8	279.0	287.0	3%	289.0	291.0	293.0	295.0	296.0	6%
calves	62.7	62.2	58.5	60.1	56.0	60.0	7%	60.0	60.0	60.0	60.0	60.0	7%
Production ('000 tonnes carcase weight)													
beef	2,086	2,114	2,320	2,554	2,513	2,038	-19%	1,994	2,153	2,227	2,316	2,368	-6%
veal	42.8	38.9	40.4	41.4	32.9	37.8	15%	37.5	38.4	40.8	42.0	42.6	29%
total beef and veal	2,129	2,153	2,360	2,595	2,546	2,076	-18%	2,032	2,192	2,268	2,358	2,411	-5%
Cattle exports ('000 head)	695	619	850	1,292	1,332	1050	-21%	850	925	975	1050	1100	-17%
Beef exports** ('000 tonnes)													
total, carcase weight	1,398	1,419	1,611	1,881	1,889	1,441	-24%	1,382	1,529	1,588	1,661	1,698	-10%
total, shipped weight	949.2	963.8	1,099.8	1,294	1,285	980	-24%	940	1,040	1,080	1,130	1,155	-10%
Domestic utilisation ('000 tonnes c/c weight)***													
imports	7.7	5.7	3.6	4.4	3.0	3.5	17%	3.5	3.5	3.5	3.5	3.5	17%
total, carcase weight	720	720	736	702	646	621	-4%	636	650	667	683	699	8%
kg/head****	32.1	31.6	31.8	29.9	27.1	25.7	-5%	25.9	26.1	26.4	26.6	26.8	-1%

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)

Australian beef and veal exports ('000 tonnes swt)

	2011	2012	2013	2014	2015	% change	2015 Jan-Sep	2016 Jan-Sep	% change
To:									
Japan	342.2	308.5	288.8	293.8	285.2	-3%	212.0	193.5	-9%
US	167.8	224.1	212.7	397.9	416.0	5%	340.8	196.2	-42%
Korea	146.4	126.0	144.4	150.9	166.6	10%	119.1	128.6	8%
China	7.8	32.9	154.8	124.6	148.2	19%	106.6	71.4	-33%
Canada	10.1	15.7	17.9	32.9	42.6	29%	32.6	16.9	-48%
Taiwan	36.7	38.3	35.7	36.4	30.4	-16%	22.0	23.3	6%
Indonesia	39.6	27.1	39.4	53.1	39.1	-26%	25.6	44.7	75%
Philippines	21.0	25.7	27.0	34.4	25.4	-26%	17.7	21.5	21%
Singapore	9.7	14.1	10.6	10.1	8.8	-13%	6.5	5.4	-17%
Malaysia	14.4	15.5	15.9	13.1	12.3	-6%	9.2	7.4	-19%
Thailand	2.5	2.8	4.3	5.4	5.9	9%	3.6	3.3	-8%
Hong Kong	8.9	6.3	5.1	14.7	6.7	-55%	4.9	3.2	-35%
EU	12.8	14.9	19.8	24.6	23.4	-5%	18.0	16.9	-6%
Middle East	32.1	31.4	61.0	59.8	53.4	-11%	41.3	24.3	-41%
**Other	97.2	80.4	62.1	35.2	21.0	-40%	15.9	12.8	-20%
Total	949.2	963.8	1,099.5	1,287.0	1,285.0	0%	975.9	769.4	-21%

Source: DAWR

** Main countries in other = PNG, South Africa, Central and South America, Russia

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