# Australian cattle

## Industry projections 2015 Q3 Update

July 2015

### KEY POINTS

- Cattle prices highest on record
- High turn-off set to continue
- Beef exports to exceed last year's record
- Domestic retail prices highest on record

### KEY 2015 NUMBERS

| Slaughter | Production | Beef Exports | Live exports |
|---|---|---|---|
| 9 (million head) | 2.5 (million tonnes cwt) | 1.3 (million tonnes swt) | 950,000 (head) |

* Graphic illustrates year-on-year change

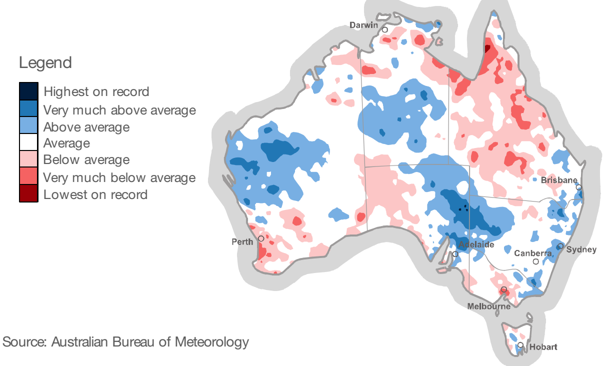
MLA's Market Information – Ben Thomas
bthomas@mla.com.au

# Introduction

Underpinned by momentum from the first half of 2015, adult cattle slaughter has been revised to almost reach last year's record turn-off, which will ultimately result in a much smaller cattle herd over the coming years. On the beef export front, a new record volume is likely, meaning the amount consumed in the domestic market will decline in the face of higher beef prices. Under these circumstances, the strong cattle prices observed during the first half of the year are expected to continue.

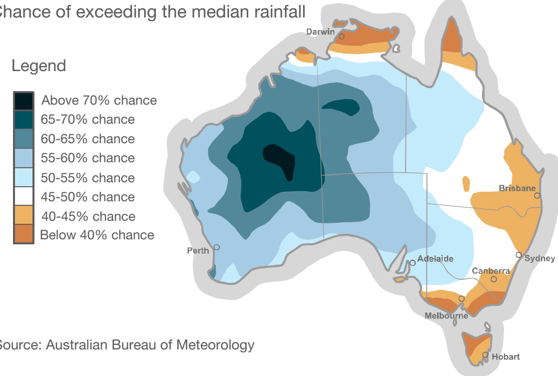
Rainfall for the first six months of 2015 was mostly 'below average', while the most recent three month rainfall outlook from the Bureau of Meteorology is only 'average' at best for most of the eastern states, which has influenced the July update.

Figure 1 Australian rainfall: 1 January to 30 June 2015




Source: Australian Bureau of Meteorology

Figure 2 Australian rainfall outlook: 1 July to 30 Sept 2015
Chance of exceeding the median rainfall




Source: Australian Bureau of Meteorology

# Slaughter & production

Eastern states cattle slaughter for the first six months of 2015 has already surged to 3.8 million head, up 5% on the same period last year, which ended with a record turn-off.

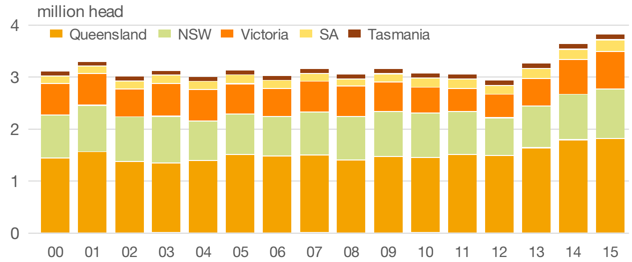
Emphasising how high slaughter has been this year, the eastern states kill is up 20% on the five-year average.

National adult cattle slaughter for 2015 has been revised to 9 million head, back just 2% from 2014, with a slow-down predicted to be most marked in the final quarter. The flow on effect from what will become the third consecutive year with more than 9 million head exiting the system will be much tighter supplies, especially in 2017, when adult cattle slaughter is forecast to fall below 7 million head for the first time since 1996.

Interestingly, average carcase weights have been slightly heavier year-on-year, causing an upward revision in beef and veal production, which is expected to hit 2.55 million tonnes cwt, back 2% year-on-year.

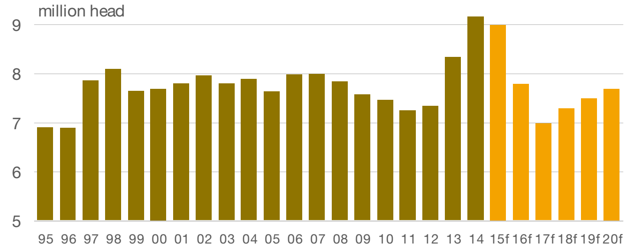
Along with cattle slaughter, it is the mid-point of the projection period when Australian beef supplies will be the tightest.

Figure 3 Eastern states slaughter*




Source: NLRS *=first 24 weeks

Figure 4 Australian adult cattle slaughter




Source: ABS, MLA forecasts f = forecasts

# Live exports

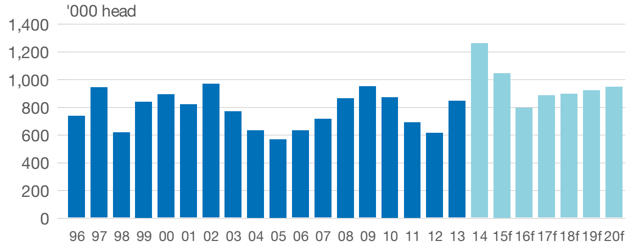
Australian live cattle exports are projected to reach 950,000 head in 2015, down 27% year-on-year.

Shipments to Indonesia were up 3% after five months, at 293,275 head. With demand and prices remaining high, cattle exports for the remainder of the year are only likely to be constrained by tightening northern cattle availability and permit allocations, which indicate the second half of 2015 will be lower than the same time last year.

Vietnam demand is also likely to remain strong, especially considering numbers shipped after the first four months were more than double year-on-year, at 169,450 head, easily placing the market on track to exceed last year's record shipment.

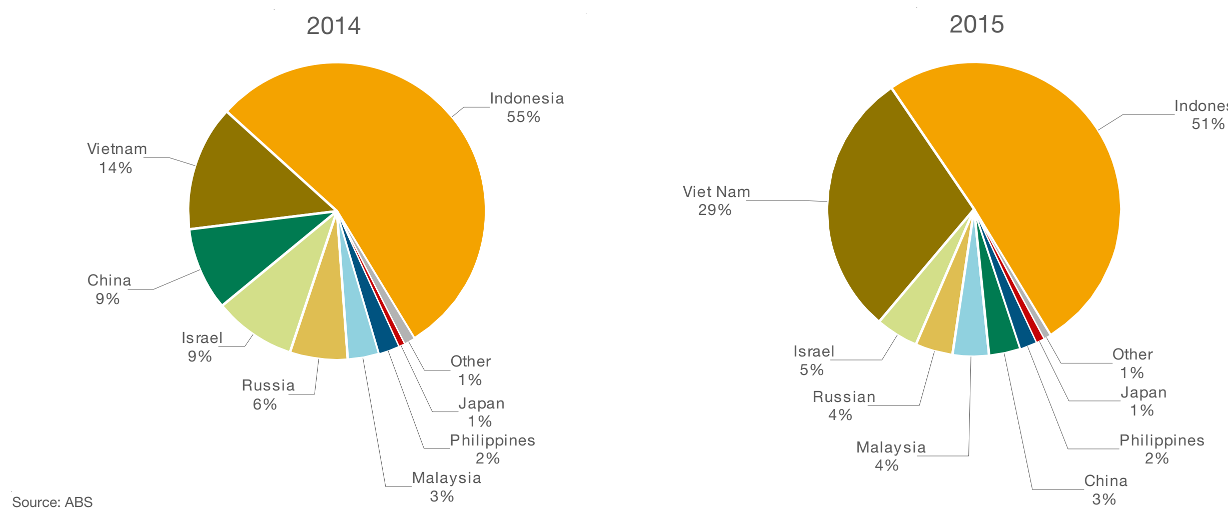
Indicative prices Darwin have remained robust all year, with feeder steers peaking at 275¢/kg lwt, to average 257¢/kg lwt, after six months, while those from Townsville hit a high of 245¢ in February, averaging 227¢/kg lwt.

Figure 5 Australian live cattle exports




Source: ABS f = forecasts

Figure 6 Live cattle exports by destination - Jan to May




Source: ABS

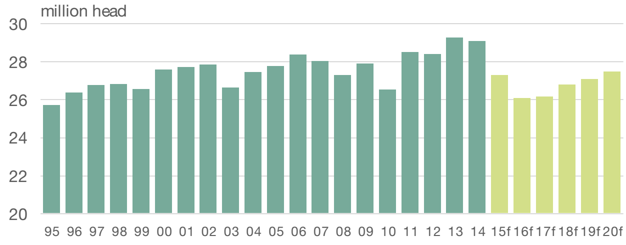
# National cattle herd

Considering the combined turn-off (live exports and cattle slaughter) will again exceed 36% of the starting herd inventory in 2015, something that had never happened before last year, and that female cattle slaughter has been higher year-on-year for 31 consecutive months, the herd is expected to fall to 26.1 million head in 2016, down 11%, or 3.2 million head, since the drought began in 2012.

While the herd will become the lowest it has been since 1995, only a slow rebuild is expected due to the producer need for cash flow after three years of severe drought. Also, there will be strong processor and live export demand for what will be a much smaller pool of cattle, potentially enticing a greater level of turn-off than otherwise would have occurred.

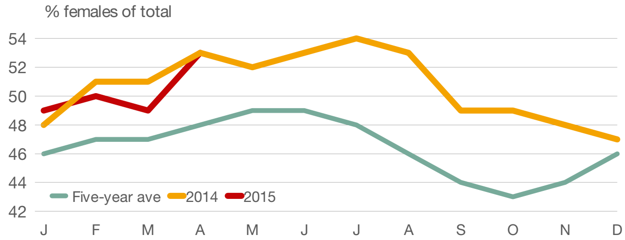
The smaller pool of cattle will put the Australian beef industry in a very interesting situation over the next five years, especially at the processing end, with only 6.9 million head of cattle expected to be slaughtered in 2017 (down 23% from the 9 million head forecast in 2015), which will flow right through to lower volumes available for all consumers.

Figure 7 Australian cattle herd




Source: ABS, MLA forecasts f = forecasts

Figure 8 Female cattle slaughter




Source: ABS

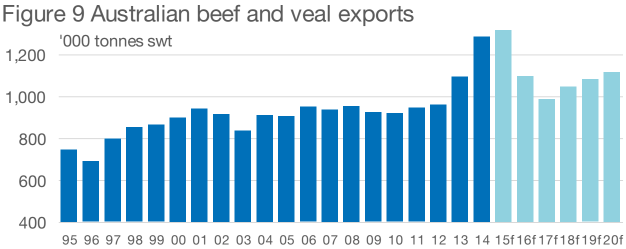
# Demand outlook

Australian beef and veal exports for the first six months of 2015 have been surging, with shipments at 646,685 tonnes swt, up 11% year-on-year – driven by high cattle slaughter and strong demand, principally from the US, Japan and Korea. This momentum is only likely to slow a small amount, if at all, in the second half and exports are now on track to be 2% higher than the 2014 record, at 1.32 million tonnes swt.

The US will comfortably be the largest market again this year. After six months, the volume to the US was 227,148 tonnes swt, up 48%, followed by Japan (141,814 tonnes swt, up 7%) and Korea (78,786 tonnes swt, up 8%). These are the only major markets where export volumes were significantly up year-on-year after the first six months. The common factor has been the lower A$/US$ exchange rate and high US cattle and beef prices, leading to a lift in demand for imported Australian beef. China continues to perform well, with volumes steady (68,263 tonnes swt) year-on-year.

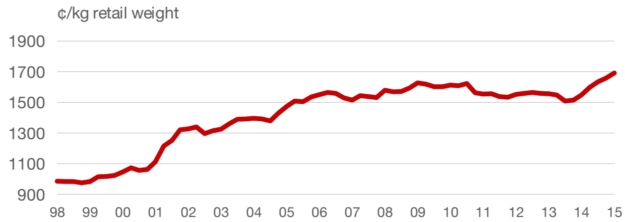
Brazil has recently been granted limited access to China and the US, yet the short-term impact is likely to be minimal due to the necessary approval of establishments. Longer-term, access to the US will be restrained by quota (the 64,835 tonnes swt global quota) and an out-of-quota tariff of 26.5%, while to China the rate of plant approvals will be the main influence.

Figure 9 Australian beef and veal exports




Source: DA, MLA forecasts f = forecasts

Figure 10 Domestic retail beef prices




Source: ABS

Back at home, the consequence of an intense international trading environment (and consequent high beef prices) is tighter beef volumes available for the domestic market. Domestic utilisation for 2015 is forecast to drop 15% year-on-year, to 608,400 tonnes cwt, resulting in per capita consumption slipping to 25.63kg. This trend will continue, with the expectation of lower slaughter and production over the projection period. Despite this ongoing decline in consumption over the coming years, Australia will remain the most valuable market for Australian beef and the main market for loin cuts.

Underpinned by the unprecedented international demand, ABS reported domestic beef retail prices lifted to $16.93/kg rwt in the March quarter – up 9% over 12 months and the highest price on record. This is a common trend in many developed countries, like the US, in Europe and NZ.

# Cattle prices

Cattle prices gradually increased during the first six months of 2015, despite the majority of the eastern states yet to have significant relief from drought conditions – a remarkable situation.

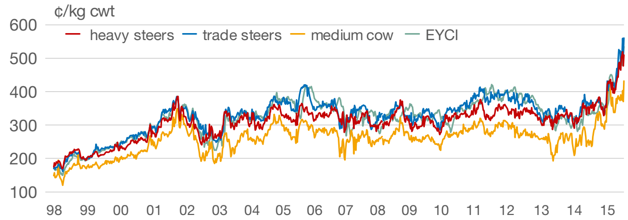
The national heavy steer (500-600kg, C4) saleyard indicator averaged a record 443¢/kg cwt for the first six months, up 32%, or 108¢/kg cwt year-on-year, buoyed by strong demand and the progressively tighter availability of heavy finished cattle. Similarly, the trade steer (330-400kg, C3) indicator averaged 32% (113¢/kg cwt) higher, at a record 461¢/kg cwt.

Despite starting from a slightly lower base, medium cows (400-520kg, D3) gained the most ground, averaging 375¢/kg cwt for the first half of 2015, up 121¢/kg cwt (47%) year-on-year – reflecting exceptionally strong demand (especially from the US), a lower A$ and some lift in southern restocker interest.

The quality of cattle heading through NSW saleyards improved in the second quarter, with the ratio of finished yearlings increasing relative to those in store condition, largely assisted by more frequent rainfall in the key cattle growing regions. The ratio of finished to store cattle entering Queensland and Victorian saleyards remains similar to the same time last year.

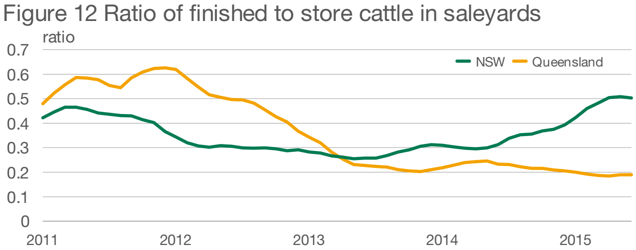
The strong cattle market is set to continue for the remainder of 2015 and, provided the current supply and demand situation holds true, 2016 is likely to again see a historically dear cattle market. This is especially the case for breeding females, as the core breeding herd continues to dwindle with every week that passes by, with above average female cattle kills.

Figure 11 National saleyard indicators




Source: NLRS

Figure 12 Ratio of finished to store cattle in saleyards




Source: NLRS

# Situation and outlook for the Australian cattle industry

| | 2011 | 2012 | 2013 | 2014 | *2015f* | *% change* | *2016f* | *2017f* | *2018f* | *2019f* | *2020f* | *% change 2020f on 2014* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cattle numbers ('000 head)*** | **28,506** | **28,418** | **29,291** | **29,100** | ***27,300*** | | ***26,100*** | ***26,200*** | ***26,800*** | ***27,100*** | ***27,500*** | **-5%** |
| percentage change | 0.4% | -0.3% | 3.1% | -0.7% | *-6.8%* | | *-4.4%* | *0.4%* | *2.3%* | *1.1%* | *1.5%* | |
| **Slaughterings ('000 head)** | | | | | | | | | | | | |
| cattle | 7,261 | 7,352 | 8,344 | 9,226 | *9,000* | *-2.4%* | *7,800* | *6,900* | *7,300* | *7,500* | *7,700* | *-17%* |
| calves | 682 | 625 | 690 | 688 | *630* | *-8.4%* | *630* | *625* | *640* | *680* | *700* | *2%* |
| total | 8,046 | 7,977 | 9,110 | 9,914 | *9,630* | *-2.9%* | *8,430* | *7,525* | *7,940* | *8,180* | *8,400* | *-15%* |
| **Avg carcase weight (kg)** | | | | | | | | | | | | |
| cattle | 287.3 | 287.5 | 278.0 | 276.8 | *279.0* | *0.8%* | *280.0* | *282.0* | *283.0* | *284.0* | *285.0* | *3%* |
| calves | 62.8 | 68.0 | 58.5 | 60.0 | *60.0* | *0.0%* | *60.0* | *60.0* | *60.0* | *60.0* | *60.0* | *0%* |
| **Production ('000 tonnes carcase weight)** | | | | | | | | | | | | |
| beef | 2,086 | 2,114 | 2,320 | 2,554 | *2,511* | *-1.7%* | *2,184* | *1,946* | *2,066* | *2,130* | *2,195* | *-14%* |
| veal | 42.8 | 42.5 | 40.4 | 41.4 | *37.8* | *-8.7%* | *37.8* | *37.5* | *38.4* | *40.8* | *42.0* | *1%* |
| total beef and veal | 2,129 | 2,156 | 2,360 | 2,595 | *2,549* | *-1.8%* | *2,222* | *1,983* | *2,104* | *2,171* | *2,237* | *-14%* |
| **Cattle exports ('000 head)** | 695 | 619 | 850 | 1,294 | *950* | *-27%* | *900* | *890* | *900* | *925* | *950* | *-27%* |
| **Beef exports** ('000 tonnes)** | | | | | | | | | | | | |
| total, carcase weight | 1,398 | 1,419 | 1,611 | 1,881 | *1,940* | *3.1%* | *1,617* | *1,397* | *1,544* | *1,595* | *1,646* | *-12%* |
| total, shipped weight | 949.2 | 963.8 | 1,099.8 | 1,290 | *1,320* | *2.3%* | *1,100* | *950* | *1,050* | *1,085* | *1,120* | *-13%* |
| **Domestic utilisation ('000 tonnes c/c weight)***** | | | | | | | | | | | | |
| imports | 5.1 | 3.8 | 2.4 | 2.9 | *3.0* | *3.4%* | *3.0* | *3.0* | *3.0* | *3.0* | *3.0* | *3%* |
| total, carcase weight | 731 | 733 | 750 | 716 | *611* | *-8.0%* | *608* | *589* | *564* | *579* | *593* | *-17%* |
| kg/head**** | 32.6 | 32.2 | 32.5 | 30.6 | *25.7* | *-9.0%* | *25.3* | *24.1* | *22.7* | *22.9* | *23.2* | *-15%* |

Source: ABS, DA, MLA forecasts

*f = forecast (in italics)*

* As at 30 June, 2012 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

## Australian beef and veal exports ('000 tonnes swt)

| | 2011 | 2012 | 2013 | 2014 | % change 2014 on 2013 | 2014 Jan-Jun | 2015 Jan-Jun | % change |
|---|---|---|---|---|---|---|---|---|
| **To:** | | | | | | | | |
| Japan | 342.2 | 308.5 | 288.8 | 293.8 | 2% | 132.1 | 141.8 | 7% |
| US | 167.8 | 224.1 | 212.7 | 397.9 | 87% | 153.8 | 227.1 | 48% |
| Korea | 146.4 | 126.0 | 144.4 | 150.9 | 5% | 72.8 | 78.8 | 8% |
| China | 7.8 | 32.9 | 154.8 | 124.6 | -20% | 68.0 | 68.3 | 0% |
| Canada | 10.1 | 15.7 | 17.9 | 32.9 | 84% | 15.1 | 23.0 | 52% |
| Taiwan | 36.7 | 38.3 | 35.7 | 36.4 | 2% | 19.5 | 14.2 | -27% |
| Indonesia | 39.6 | 27.1 | 39.4 | 53.1 | 35% | 27.2 | 17.4 | -36% |
| Philippines | 21.0 | 25.7 | 27.0 | 34.4 | 27% | 14.6 | 9.8 | -33% |
| Singapore | 9.7 | 14.1 | 10.6 | 10.1 | -4% | 5.9 | 4.2 | -29% |
| Malaysia | 14.4 | 15.5 | 15.9 | 13.1 | -18% | 6.9 | 6.2 | -10% |
| Thailand | 2.5 | 2.8 | 4.3 | 5.4 | 27% | 2.2 | 2.6 | 22% |
| Hong Kong | 8.9 | 6.3 | 5.1 | 14.7 | 191% | 4.3 | 3.3 | -23% |
| EU | 12.8 | 14.9 | 19.8 | 24.6 | 24% | 12.1 | 11.4 | -5% |
| Middle East | 32.1 | 31.4 | 61.0 | 59.8 | -2% | 31.9 | 26.5 | -17% |
| Other | 97.2 | 80.4 | 62.1 | 35.2 | -43% | 18.3 | 11.0 | -40% |
| **Total** | **949.2** | **963.8** | **1099.5** | **1287.0** | 17% | **584.7** | 645.7 | 10% |

Source: DA

Main countries in other = PNG, South Africa, Central and South America, Russia
Eastern Europe & CIS includes Poland

## Australian live cattle exports (head)

| | 2010 | 2011 | 2012 | 2013 | 2014 | % change 2014 on 2013 | 2014 Jan-May | 2015 Jan-May | % change |
|---|---|---|---|---|---|---|---|---|---|
| **To:** | | | | | | | | | |
| Indonesia | 521,002 | 413,726 | 278,767 | 452,239 | *728,404* | *61%* | 285,979 | *293,275* | *3%* |
| Vietnam | 1,427 | 1,276 | 3,353 | 66,953 | *181,561* | *171%* | 71,048 | *169,450* | *139%* |
| China | 57,418 | 53,570 | 55,912 | 66,530 | *117,906* | *77%* | 50,086 | *19,621* | *-61%* |
| Israel | 43,212 | 53,925 | 50,087 | 98,320 | *78,181* | *-20%* | 47,323 | *27,562* | *-42%* |
| Russia | 12,538 | 30,568 | 38,977 | 34,584 | *47,780* | *38%* | 31,992 | *23,554* | *-26%* |
| Malaysia | 17,084 | 12,287 | 32,781 | 47,534 | *53,004* | *12%* | 17,638 | *22,271* | *26%* |
| Philippines | 16,244 | 21,708 | 32,268 | 19,412 | *28,873* | *49%* | 11,817 | *10,919* | *-8%* |
| Japan | 15,041 | 14,216 | 11,281 | 13,639 | *9,473* | *-31%* | 3,590 | *4,527* | *26%* |
| Others | 190,950 | 93,520 | 115,992 | 51,062 | 47,020 | -8% | 6,287 | 12,104 | *93%* |
| **Total** | **874,916** | **694,796** | **619,418** | **850,273** | ***1,292,202*** | ***52%*** | **525,760** | ***583,283*** | ***11%*** |

Source: ABS, MLA forecasts

*e = estimate (indicated in italics)*