

Australian cattle

Industry projections 2015 October Update



KEY POINTS

- Slaughter declining in final quarter
- Cattle prices to remain high
- A\$ to continue weakening
- Beef exports to slow in final quarter

KEY 2015 NUMBERS

Slaughter	Production	Beef Exports	Live exports
 8.85 (million head)	 2.46 (million tonnes cwt)	 1.24 (million tonnes swt)	 1.15 (million head)

* Graphic illustrates year-on-year change

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Introduction

The Cattle Industry Projections October Update remains relatively consistent with the July forecast, with adult cattle slaughter and beef and veal production on track to near earlier estimates. Exports have been revised slightly lower, yet will still be the second highest volume on record, behind 2014.

The three month rainfall outlook is neutral to slightly below average for the most key cattle producing regions around the country, while the A\$ is forecast to continue weakening (BMI).

These are two deviating factors for Australian beef producers going into the final quarter of 2015.

Figure 1 Australian rainfall: 1 January to 30 September 2015

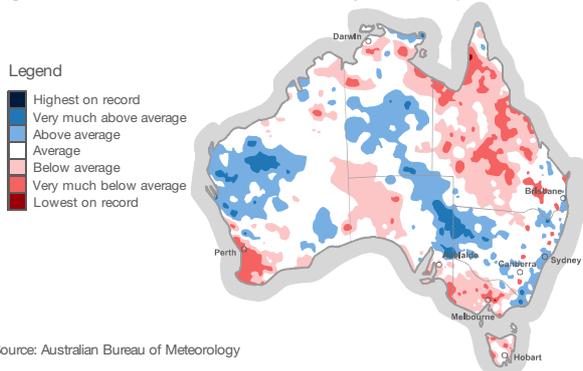
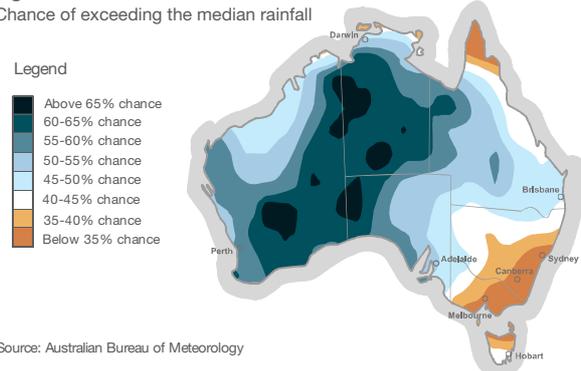


Figure 2 Australian rainfall outlook: 1 Oct to 31 Dec 2015
Chance of exceeding the median rainfall



Slaughter and production

After spending the first six months of 2015 above year-ago levels, eastern states cattle slaughter has begun edging closer towards the long-term weekly average of 137,000 head. During September, 150,000-155,000 head weekly kills were regularly registered, but during the first half of next year, this is forecast to drop back towards the average.

Female slaughter remains a concern for future beef production, with 3.2 million head processed during the first eight months, up 26% on the five-year average. In turn, this means the proportion of females processed has accounted for 51% of the total adult cattle kill – up considerably from the 10-year average of 47%. This will ultimately lead to fewer calves and lower beef production for the duration of the projection period.

By year's end, annual cattle slaughter is estimated to be 8.85 million head, while beef production estimates are 2.46 million tonnes cwt.

Figure 3 Australian adult cattle slaughter

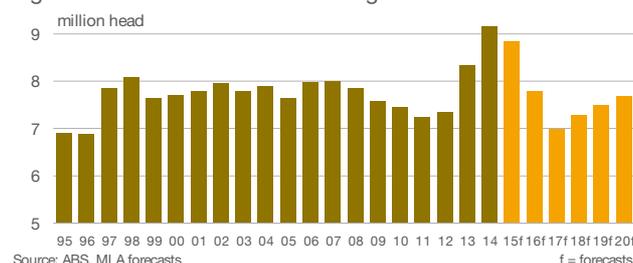
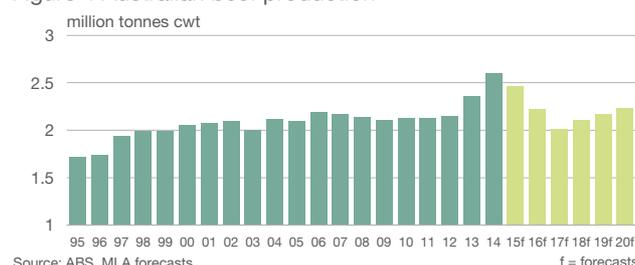


Figure 4 Australian beef production



Turn-off as % of the national herd

The 10-year average ratio of cattle turned-off (processed plus live export) relative to the size of the national herd is 31%. Any movement above or below that figure tends to indicate producer intentions to liquidate or rebuild, respectively. A percentage point either side is quite significant. This can, however, be affected by abnormally high or low calving rates, which for the past two years has been relatively poor in the north.

Once 2015 concludes, it will become the second consecutive year of 36% turn-off, a sequence never seen before, and one that illustrates just how extraordinary the past two years have been. By the time 2017 comes through, national turn-off is estimated to account for just 30% of the starting herd (26.1 million head), resulting in a significant adjustment for the industry in terms of the numbers available for live export and processing.

Figure 5 Female cattle slaughter

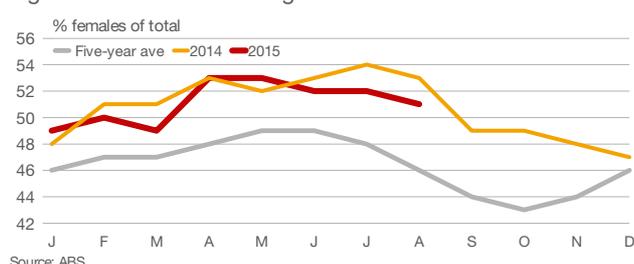
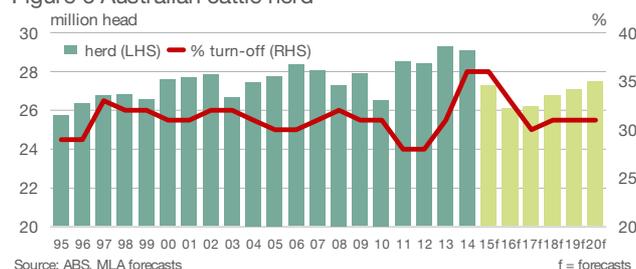


Figure 6 Australian cattle herd



Demand factors

After the first nine months of 2015 Australian beef and veal exports are 39,000 tonnes swt ahead of the same time last year (which ended as a record volume), yet due to the expected slowdown in slaughter, and subsequent reduced exports in the final quarter, shipments have been revised down to 1.24 million tonnes swt. This will still be the second largest volume on record. While exports to the US will slow, a key factor working in Australia's favour is the weakening A\$, which dipped to as low as 69US¢ during September. This will help maintain the value of exports and a more competitive position for Australian beef relative to other major exporting nations.

Disconcertingly, in the final week of September, the US domestic 90CL beef price dropped 25US¢/lb (55US¢/kg) in one week – the largest weekly drop ever recorded. The imported 90CL cow beef indicator, in contrast, declined 1US¢, to 229US¢/lb CIF. This is 62US¢ lower than one year ago. In A\$ terms however, the currency movements of the last year have been favourable, meaning that the indicator at the end of September was 720.76A¢/kg CIF, just 14.8A¢ lower than one year ago.

Demand factors continued...

Price declines in the US beef market are not unusual at this time of year, but the recent falls have been much larger than normal. The current large supply situation affecting the US feedlot sector means there will likely be subdued prices until the end of the year. Australian beef export volumes will remain constrained by what exporters have available under the quota, and how much they are willing and able to trade outside the quota.

There is concern over the fatter end of the US trimmings market, with high volumes in storage the result of reduced short plate exports to Asia (influenced by the high US\$) and competition from less expensive proteins in the foodservice sector. A potential positive however, is that if fatter trimmings remain cheap, it may allow greater flexibility in what US importers and end users can pay for lean trimmings – Australia's largest volume product exported to the US.

While exports in 2015 are forecast to fall short of last year's record by 4%, and beef production is also tipped to decline 4%, the net result will be slightly less beef on the domestic market this year, at 683,000 tonnes cwt.

Interestingly, according to MLA estimates, over the 2014-15 financial year, a 9% year-on-year increase in weighted average Australian retail beef prices (\$16.78/kg - Australian Bureau of Statistics) was enough to offset the fall in consumption over that period, with average expenditure on beef holding steady at \$330.66 per person.

After the first nine months, the four largest export markets (US, Japan, Korea and China) have dominated market share, with volumes to those markets up 24%, steady, up 9% and up 10% year-on-year, respectively. Shipments to most other markets however, were lower for the year-to-September, with volumes to the EU, the Middle East and Taiwan down 5%, 12% and 21% year-on-year, respectively. Volumes to individual markets are on page five.

Figure 7 Australian beef and veal exports

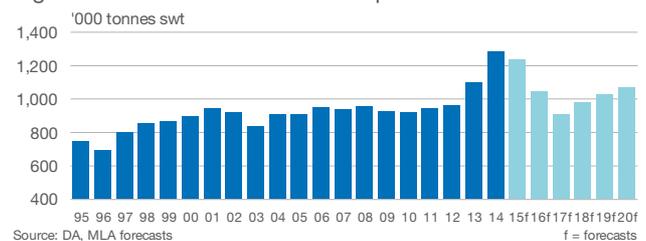
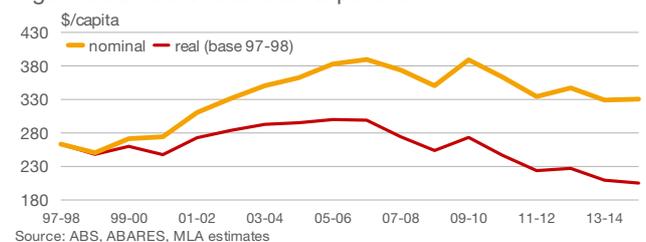


Figure 8 Domestic retail beef expenditure



Competitor beef production

Australian beef production has continued at record levels in 2015, but is expected to dip to a low point in 2017, while production trends in the other large beef exporting nations are following divergent trends.

Beef and veal production in the US, for example, is forecast by OECD-FAO to decline 4% year-on-year in 2016 (and lose the mantle as the world's largest beef producer to Brazil), at 9.97 million tonnes cwe, before declining a further 1% in 2017 to 9.8 million tonnes cwe. Thereafter, production will start increasing again.

On the other hand, beef production in Brazil is forecast to continuously increase over the next decade, with volumes in 2016 expected to be 10.1 million tonnes cwe, before edging up to 10.2 million tonnes cwe in 2017. Similarly, beef/buffalo production in India is expected to remain above Australia's totals and progressively edge higher over the next decade, with volumes at 3.1 million tonnes cwe and 3.12 million tonnes cwe in 2016 and 2017, respectively.

Higher production in these competing countries will continue to pressure Australia's market share in regions where there is common access, and more than likely see Australia's market share decrease due to relative product availability.

Figure 9 Global beef production

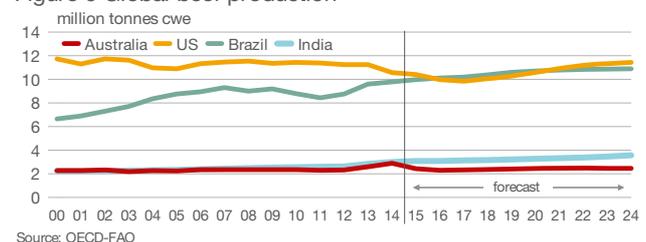
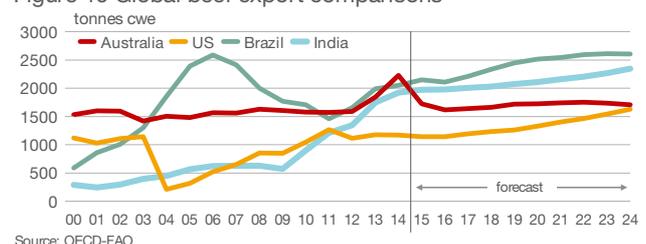


Figure 10 Global beef export comparisons



Cattle prices

The Australian cattle market reached new highs during the September quarter, with the Eastern Young Cattle Indicator (EYCI) finishing September at 593¢/kg cwt. The newly developed Western Young Cattle Indicator (WYCI) was also strong during the quarter, averaging close to 600¢/kg cwt during September.

The heavier end of the cattle market also consistently found new highs throughout 2015, with the national average heavy steer (500-600kg C4) saleyard indicator finishing September 35% above where it commenced the year, at 311¢/kg lwt.

These prices are bucking the global trend, with indicative heavy steers in Brazil back 16% at 186A¢/kg lwt at the end of September. The US domestic cattle price also continues to weaken, with choice fed steers at 427A¢/kg lwt, down 6% from the beginning of 2015.

The breakdown of cattle buyers in Australian saleyards throughout the third quarter remained heavily skewed towards feedlot and processor buyers, with little interest from restockers.

NSW is the only state where seasonal conditions have been reasonable this year, and is likely to be the region where restocking buyers become dominant the soonest, although this largely depends on the willingness to purchase in an expensive market, and follow up rainfall.

Caused by a weakening US cattle market and a dry outlook, the market is likely to follow a normal seasonal decline to the end of the year. However, Australian producers with cattle to sell should have confidence with the longer term, especially considering the anticipated tight Australian beef supplies, combined with the weakening A\$ and strong export demand.

Figure 11 National saleyard indicators



Figure 12 Global cattle price comparisons



Situation and outlook for the Australian cattle industry

	2011	2012	2013	2014	2015 ^f	% change	2016 ^f	2017 ^f	2018 ^f	2019 ^f	2020 ^f	% change 2020 ^f 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	8,850	-4.1%	7,800	7,000	7,300	7,500	7,700	-17%
calves	682	625	690	688	630	-8.4%	630	625	640	680	700	2%
total	7,943	7,977	9,034	9,914	9,480	-4.4%	8,430	7,625	7,940	8,180	8,400	-15%
Avg carcase weight (kg)												
cattle	287.3	287.5	278.0	276.8	278.5	0.6%	280.0	282.0	283.0	284.0	285.0	3%
calves	62.7	62.2	58.5	60.1	60.0	-0.2%	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	2,465	-3.5%	2,184	1,974	2,066	2,130	2,195	-14%
veal	42.8	38.9	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	2,153	2,360	2,595	2,503	-3.6%	2,222	2,012	2,104	2,171	2,237	-14%
Cattle exports ('000 head)	695	619	850	1,294	1,150	-11%	900	890	900	925	950	-27%
Beef exports** ('000 tonnes)												
total, carcase weight	1,398	1,419	1,611	1,881	1,823	-3.1%	1,544	1,338	1,441	1,514	1,573	-16%
total, shipped weight	949.2	963.8	1,099.8	1,294	1,240	-4.2%	1,050	910	980	1,030	1,070	-17%
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	751	717	683	-4.8%	681	677	667	660	667	-7%
kg/head****	32.7	32.3	32.6	30.7	28.8	-6.2%	28.3	27.7	26.9	26.2	26.1	-15%

Source: ABS, DA, MLA forecasts

* 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

f = forecast (in italics)

Australian beef and veal exports ('000 tonnes swt)

	2011	2012	2013	2014	% change 2014 on 2013	2014 Jan-Sep	2015 Jan-Sep	% change
To:								
Japan	342.2	308.5	288.8	293.8	2%	212.2	212.0	0%
US	167.8	224.1	212.7	397.9	87%	275.3	340.8	24%
Korea	146.4	126.0	144.4	150.9	5%	109.5	119.1	9%
China	7.8	32.9	154.8	124.6	-20%	97.0	106.6	10%
Canada	10.1	15.7	17.9	32.9	84%	24.9	32.6	31%
Taiwan	36.7	38.3	35.7	36.4	2%	27.9	22.0	-21%
Indonesia	39.6	27.1	39.4	53.1	35%	40.5	25.6	-37%
Philippines	21.0	25.7	27.0	34.4	27%	23.5	17.7	-25%
Singapore	9.7	14.1	10.6	10.1	-4%	8.0	6.5	-19%
Malaysia	14.4	15.5	15.9	13.1	-18%	10.3	9.2	-11%
Thailand	2.5	2.8	4.3	5.4	27%	2.9	3.6	25%
Hong Kong	8.9	6.3	5.1	14.7	191%	10.3	4.9	-52%
EU	12.8	14.9	19.8	24.6	24%	18.9	18.0	-5%
Middle East	32.1	31.4	61.0	59.8	-2%	47.1	41.3	-12%
Other	97.2	80.4	62.1	35.2	-43%	28.5	15.9	-44%
Total	949.2	963.8	1,099.5	1,287.0	17%	936.7	975.9	4%

Source: DA

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



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