

Industry projections 2020

Australian cattle – July update

MLA's Market Information – globalindustryinsights@mla.com.au

KEY POINTS

- Adult cattle slaughter to fall substantially
- COVID-19 uncertainty dampens upside for cattle prices
- Herd rebuild delayed but still on the horizon
- African Swine Fever remains a critical influence on the global protein trade in 2020



KEY 2020 NUMBERS

- ↓ **Slaughter:**
7.0 million head
- ↗ **Carcase weights:**
294 kg/head
- ↓ **Production:**
2.06 million tonnes cwt
- ↗ **Beef exports:**
1.02 million tonnes swt

* Graphic illustrates year-on-year change

Summary

The Australian cattle market, like so many other commodities markets, finds itself in uncharted territory, with many diverging factors impacting the industry. On the back of an excellent autumn break for many southern cattle producing regions and the desire to rebuild, renewed optimism swept the domestic cattle market. However, the domestic market increasingly faces the drag of demand uncertainty as COVID-19 outbreaks continue to disrupt the local and global marketplace.

Opportunities for producers to restock paddocks have emerged, with many of the southern states seeing significant improvements in soil moisture and water availability since February. This has been reflected in the number of cattle heading south. While central and south-east Queensland received a break, it came at the end of the northern wet season. Some good winter rainfall will be required to support deficiencies in the region and the latest three-month outlook does provide some confidence.

From a cattle supply perspective, a contraction in the availability of livestock has occurred, however, robust live export shipments and only a modest contraction in processor throughput for the year-to-May has resulted in a slight revision higher for cattle turn-off since the April projections update. At 7 million head, total adult cattle slaughter is forecast to drop 17% compared to 2019 levels.

The commencement of the herd rebuild is anticipated to occur towards the end of 2020, with current sustained high female slaughter rates, expected to taper off. The pace of the rebuild has been slowed by the high female slaughter rate, along with the strong levels of live exports and an adjustment lower to the national herd as at June 2020. The Australian cattle herd is now expected to increase by 1.9% in the year to 30 June 2021, lifting back to 25 million head.

National beef production is forecast to decline by 14% to 2.06 million tonnes carcass weight (cwt), with a sharp lift in average carcass weights helping to offset some of the decline in slaughter. Greater feed availability, low stocking rates and historically high cattle prices should all combine to place producers in a position to feed for longer and to finish to heavier weights, resulting in a growing portion of males in the total kill.

Global markets remain shrouded in uncertainty, and Australia is no exception, with the economy shrinking for the first time in nine years during the March quarter and the first recession in 29 years on the horizon. Since the start of the COVID-19 outbreak international market demand has been volatile, particularly due to challenges faced by the foodservice sector. Adding to this, supply disruption to some of Australia's major competitors has led to a variable trading environment.

Despite the easing of restrictions in a number of key markets, the threat of a renewed outbreak remains a real possibility, hence until a vaccine is available COVID-19 will continue to disrupt the consumption of Australian red meat domestically and internationally.

In terms of cattle prices, a positive rainfall outlook continues to encourage producers, despite the unpredictable nature of COVID-19 in Australia's key markets. However, after posting records in June, cattle prices have started to soften and once spring hits, prices will likely come under further downward pressure, albeit remaining within a historically high range.

Seasonal assumptions

Average to above-average seasonal conditions have been assumed for the majority of Australia's cattle producing regions until October. The major exception is in western and northern Queensland and the NT, as the monsoon was again late and short this year, without any major flooding of the channel country. This implies poor feed supply across much of northern Australia from spring until the 2021 monsoon rains begin – necessitating early weaning and offloading of stock from breeding properties.

The latest three-month outlook from the Bureau of Meteorology (BOM) forecasts that August to October will see above-average rainfall across most of the eastern states and parts of WA. South-east regions of SA, as well as Victoria, western and central Tasmania and southwest Western Australia have equal chance of wetter or drier conditions. Days during August to October are likely to be warmer-than-average across the country.

Despite the positive outlook for the next three months, national rainfall in June was the third lowest on record. Subsequently, large parts of WA, SA, north-west NSW and central west regions of Queensland saw significant declines in soil moisture compared to May levels. However, most of Victoria and the eastern regions of NSW and Queensland have maintained average to above-average soil moisture, supporting pasture growth through winter.

Figure 1: Australian rainfall outlook – August to October 2020
Chance of exceeding the median rainfall

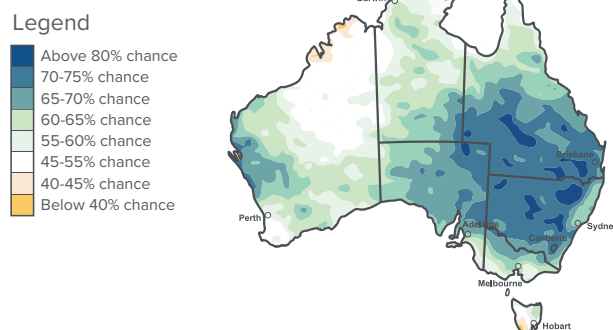
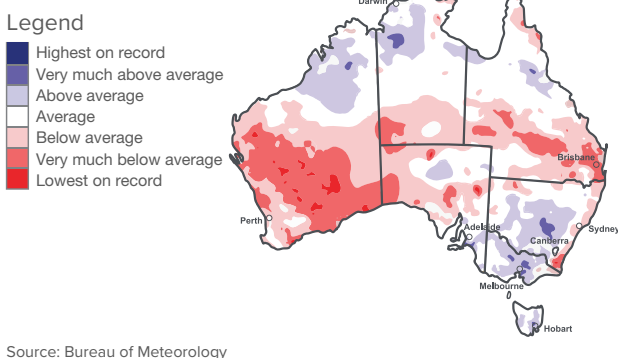


Figure 2: Australian rainfall – April to June 2020
Rainfall decile ranges



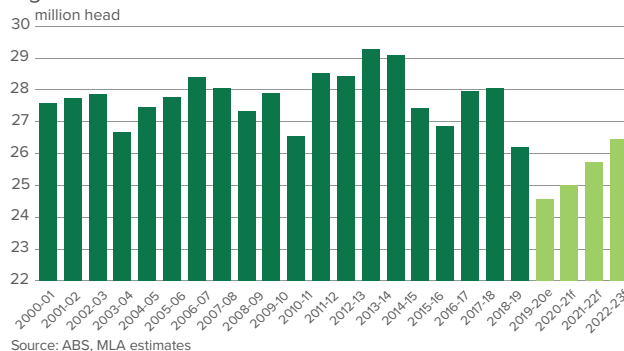
Cattle herd and slaughter

The Australian cattle herd was anticipated to enter a period of expansion in 2020 and beyond, given the improved soil moisture and feed availability in many cattle producing regions. However, female slaughter rates have remained stubbornly elevated, delaying the commencement of the rebuild towards the end of the year. The challenge for many cattle producers will be weighing up a desire to restock paddocks, while still needing to maintain cash flows and reduce debt.

Since the April projections update, domestic supplies have begun to show the anticipated contraction, but not quite to the levels expected. The National Livestock Reporting Service (NLRS) eastern states slaughter report for the calendar year-to-date indicates an 8% decline in turn-off compared to 2019 levels, hence annual processor throughput now appears unlikely to fall below 7 million head in 2020. At 7 million head, Australian adult cattle slaughter for 2020 is forecast to decline 17% on the previous year, with 2021 remaining the forecast low point for supply, at 6.9 million head.

Competition for breeding stock was always going to be fierce when conditions improved, given the extent of breeding stock turn-off in 2019 and 2018. While restocker demand for productive cattle has lifted, elevated female slaughter levels have continued in 2020, despite signs of producer rebuilding intentions since February.

Figure 3: National cattle herd



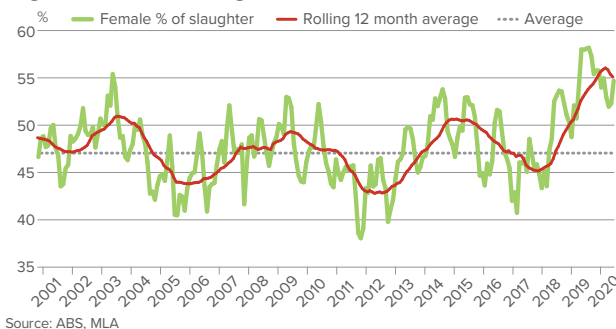
In May, the female portion of total slaughter reached 56%, the highest level this year. Critically, the elevated female slaughter numbers provide a setback to the timing of the herd rebuild, as on a 12-month rolling average basis the female portion of total slaughter sits at 55%, well above the 47% typically used to signal the national herd is expanding.

It is likely a high number of females remained in feedlots during the first half of the year, underpinning the sustained high level of female turn-off. However, to some extent, the lift in the female portion of total slaughter has also been amplified by extremely low male turn-off numbers. The limited availability of steers for finishing is highlighted in the male component of total slaughter for the year-to-May, with bulls, bullocks and steers totalling only 1.49 million head, the lowest level since 1987. A combination of drought-driven destocking, consecutive years of low branding rates and robust live export shipments have contributed to the decline in the number of male cattle on hand.

As at 30 June 2020, the national cattle herd was estimated at 24.6 million head, back 6% compared with year-ago levels. The significant turnaround in seasonal conditions very early in 2020 was not enough to arrest the impact of extreme drought in the previous eight months of the fiscal year.

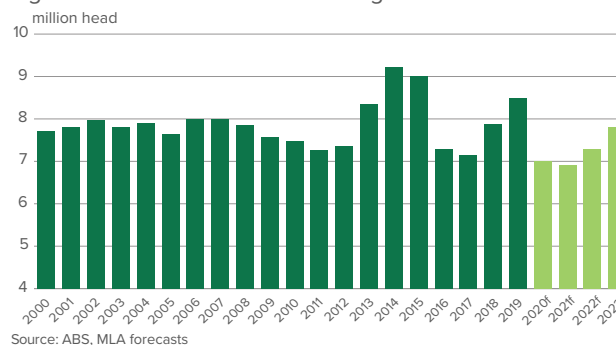
Looking ahead, the Australian cattle herd is expected to increase by 1.9% in the year to 30 June 2021, to 25 million head. This represents a slower rebuild compared to the April projections update, largely due to heightened female turn-off and elevated live cattle export shipments during the first half of the calendar year. However, the improvement in seasonal conditions should be enough of a catalyst to initiate a slow and progressive herd rebuild, despite the need for cash flow, debt reduction and concerns regarding the impact of COVID-19.

Figure 4: Female slaughter



Source: ABS, MLA

Figure 5: National adult cattle slaughter



Source: ABS, MLA forecasts

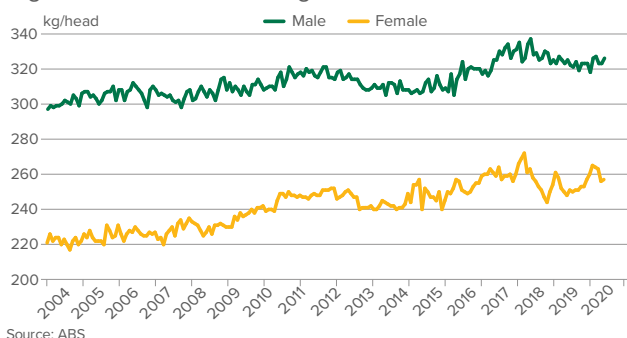
Carcase weights and production

Average adult carcase weights have increased during 2020, as improved feed availability has encouraged producers to feed for longer and to heavier weights.

For the year-to-May, average adult carcase weights increased 7kg year-on-year to 291kg/head. Male carcase weights for the first five months of the year averaged 1kg higher than the same period last year, with female carcase weights reporting a strong 9kg increase.

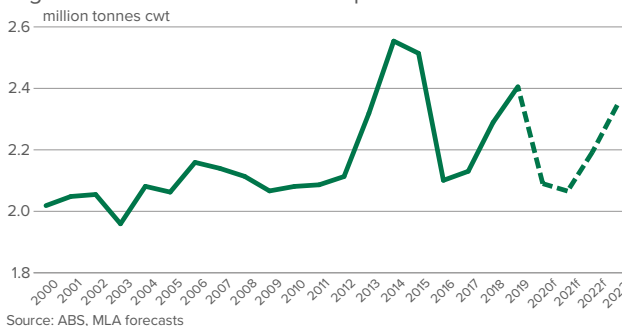
While the number of cattle on feed is expected to decline during the remainder of 2020, carcase weights are likely to find ongoing support as feeder buyers compete with restockers to secure stock in a reduced supply pool. Improved seasonal conditions, greater pasture availability, low stocking rates and historically high finished cattle prices, should continue to drive carcase weight increases this year. At 294kg/head, average adult carcase weights for 2020 are forecast to lift 4% on the year prior, with male and female carcase weights projected to increase by 3kg and 8kg, respectively.

Figure 6: Adult carcase weights



Source: ABS

Figure 7: National beef and veal production



Source: ABS, MLA forecasts

The increase in carcase weights will help offset some of the impact of reduced cattle slaughter on national beef production. However, on the back of a sharp decline in cattle turn-off, national beef production is forecast to decline 14% year-on-year to 2.06 million tonnes cwt.

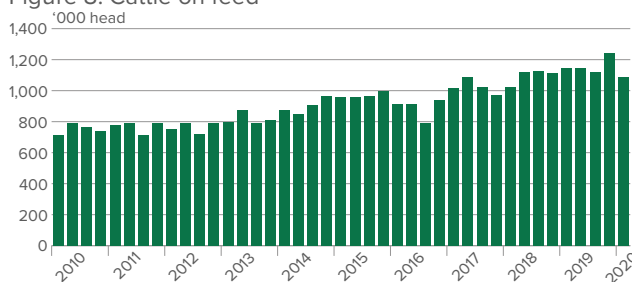
National beef production for the calendar year-to-May reported a 4% decline from year-ago levels to 933,300 tonnes cwt. Limited supply availability (particularly through winter), exacerbated by intense restocker activity in the store market and heightened stock retention, is expected to see national beef production track well below 2019 levels for the remainder of the year.

Cattle on feed

Subdued demand for high-value grainfed cuts, combined with rising feeder cattle costs, point to a difficult 2020 for the Australian lot feeding industry. Grain prices have eased, albeit from historically high levels. Additionally, fluctuations in the Australian dollar could add further pressure to an already challenging export outlook, particularly for long-fed programs.

The most recent results from the ALFA/MLA quarterly lot feeding survey showed that during the March quarter 2020, there was an estimated 1,087,000 head of cattle in Australian feedlots – 58,000 head less than during the corresponding period in 2019. Given the uncertain market outlook for high-valued grainfed beef for the year ahead and the strong demand and prices for young cattle, the number of cattle on feed is anticipated to average below one million head for the remainder of the year.

Figure 8: Cattle on feed



Source: ALFA, MLA

Domestic, international markets and live exports

The global beef industry has experienced a series of tumultuous events over the last two years, including the spread of African Swine Fever across Asia and the outbreak of COVID-19. Australia's domestic market has also been further impacted by severe drought, bushfires and flood events.

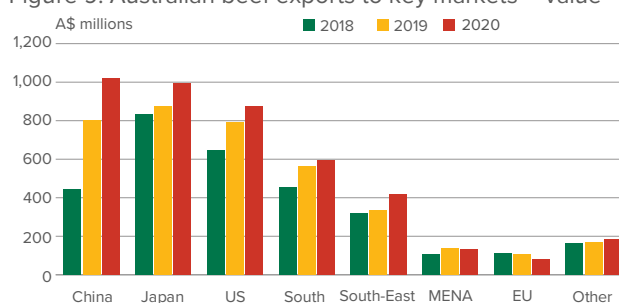
COVID-19 has had a multi-layered influence upon the global beef market, with implications likely to continue and evolve over the coming years. International market demand has been volatile, particularly due to challenges faced by the foodservice sector, while random supply shocks created by logistical challenges and processing issues have further compounded difficulties. Although many key export markets have contained the spread, the threat of further outbreaks remains a real possibility.

The low cases of COVID-19 in Australia so far, and only minor supply chain disruptions, have allowed the Australian beef industry to carry on largely uninterrupted. However, supply will continue to emerge as a major challenge for the industry to grapple with as the herd rebuilding commences and limited availability of slaughter animals continues through the rest of the year and into 2021.

Despite the volatility in international markets, Australian beef exports have performed relatively well through 2020 so far, back just 3% on 2019 levels, reaching 550,000 tonnes shipped weight (swt) for the year-to-June. The beef export forecast has been revised upwards from April projections and is now expected to exceed one million tonnes swt, down 17% on 2019. Key drivers of this revision are the enduring international demand for safe, quality beef, bolstered by a general lift in the sale of beef through most retail channels, continued protein shortage caused by African Swine Fever (especially in China and Vietnam), US supply disruptions and forecast higher domestic turn-off.

The outlook for world economic growth has been revised lower in recent months as the impacts of COVID-19 upon markets and economies have set in. In June, the International Monetary Fund released a forecast for global GDP in 2020 to decline 4.9%. This is in stark contrast to the 3.3% growth forecast back in January. Eleven of Australia's top-15 most valuable beef export markets are now expected to enter recession in 2020 and those that are still expanding have had their expected growth rates slashed.

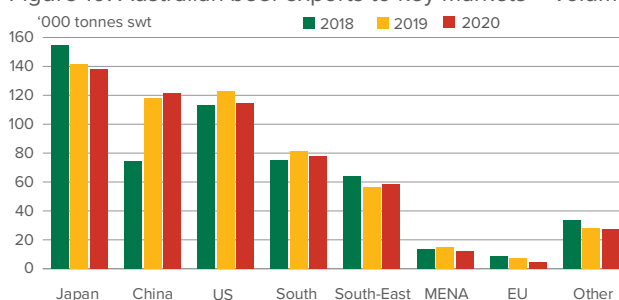
Figure 9: Australian beef exports to key markets – value



Source: DAWE

Note: Data is for the year-to-May

Figure 10: Australian beef exports to key markets – volume



Source: IHS

Note: Data is for the year-to-June

Foodservice and retail

While the domestic market is the largest single outlet of Australian red meat, around three quarters of production is typically exported overseas. Additionally, it is estimated that nearly two thirds of Australia's beef exports are ultimately consumed within foodservice outlets. Performance of this sector is critical to the Australian industry, as it encompasses a diverse range of occasions and products, ranging from offal, to manufacturing beef, to high-end Wagyu.

Foodservice has been one of the most impacted sectors as a result of COVID-19, with wide-scale shutdowns and operation restrictions across almost all countries in recent months. Consequently, the typical balance of demand for Australian beef has shifted and fluctuated significantly as countries experienced the different stages of combatting COVID-19 and processors worked through expanding demand in alternate channels. Operators in the foodservice sector that have been able to pivot to focus on takeaway or delivery models have typically been more successful, as consumers continue to pursue convenience.

The other major challenge for the foodservice industry is the unknown and unpredictable timeline for recovery. An escalation of cases within a market is likely to see a re-introduction of restrictions and place many businesses back in a very challenging financial position.

The shift to greater home consumption has been a boon for retailers with increasing sales of all proteins, but particularly the familiar staple cuts used for traditional day-to-day dishes. There have been some consistent shifts in consumer behaviour across the markets, including an increased use of online meat purchasing, increased focus on quality and safety, price sensitivity, and more support for local businesses.

Markets

Supported by an emerging middle class and supercharged by the spread of African Swine Fever (ASF), China has emerged as the largest imported beef market over the last few years. While COVID-19 has dislodged ASF from media headlines, the significance of the decline in Chinese pork production remains as critical as ever. While there have been some reports of integrated hog facilities operating successfully under increased quarantine measures, the global pig herd remains severely depleted compared to pre-ASF levels. China has become Australia's most valuable market for the year so far, up 27% on 2019, despite only a modest 3% lift in terms of export volume. A key component driving this value growth is the strong demand for the higher-value primal cuts of beef.

The United States (US) continues to be impacted by the spread of COVID-19, which adds uncertainty into the market outlook for the remainder of the year. Although COVID-19 has triggered an unprecedented run on retail beef prices in the US, it has also dampened foodservice demand, where the majority of Australian beef is consumed. As such, the recent rise in US beef prices has primarily supported domestic product entering retail channels, with only limited support offered to imported manufacturing prices. Consequently, export volumes to the US are back 7% on 2019 for the year-to-June. A range of factors will influence US demand in the coming months, including the fat-lean mix of the overfed backlog of US cattle, the recovery of US fast food burger demand and the buying power of China to draw product from Australia and New Zealand.

Japan has been Australia's largest market destination by volume so far this year, sustained by strong, consistent demand from this established market, where Australian beef maintains a favourable reputation and place in both retail and foodservice channels. Beef export value to Japan in May was up 14% on last year, despite volume being down 2% for the first six months of 2020.

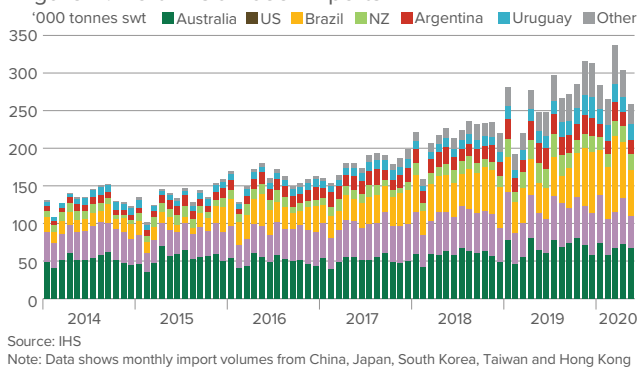
Beef exports to South Korea have remained steady, with solid monthly exports and little variation across cut volumes. South Korea reacted particularly well to the COVID-19 outbreak, and managed to contain the spread without issuing widespread stay at home orders, allowing many businesses to remain open and operating. Year-to-June beef exports to South Korea were back 4% on 2019 levels, and value up 6% to May, a testament to stable demand amid volatile circumstances.

Competitors

While COVID-19 has lowered foodservice demand worldwide, it has also disrupted competitor supply chains, especially in the US, helping to maintain export demand for Australian beef. However, this is likely to generate a backlog of supply in competitor countries that will boost competition once supply chain disruptions recede. Hence, competition within Australia's export markets seems likely to build by late 2020 and through 2021. Due to this backlog, herd growth in South America and the US and a likely rebound in Chinese and global pork supplies.

Leading up to and through the month of May, capacity cuts to US meat-packing facilities resulted in abnormally low levels of cattle slaughter. Consequently, a backlog of overfed cattle has built up in US feedlots. This will likely drive elevated cattle placements over the next six months, while higher carcass weights will likely compound beef production in 2021.

Figure 11: North Asian beef imports



While Australia may have benefited from a short-term ease in US competition across shared markets, the US will be a prominent competitor through the back end of 2020 and into 2021, likely exporting more beef to global markets than Australia.

Despite production difficulties, Brazil maintains a strong presence in export markets. Export figures show the rate of Brazilian beef exports are yet to slow, with total volumes for the first six months of the year up 13% on 2019. South American competitors are at risk of becoming over-leveraged in China, with demand from other markets wavering because of COVID-19. 47% of all Brazilian beef exports this year have been destined for China, a staggering lift from the 2019's figure of 21%. Over the year-to-April, Brazil has exported 28% of its beef production, the highest proportion since 2007. This is due to strong export markets, weak domestic demand, rising Brazilian cattle prices and lower Brazilian exchange rates. As a result, the domestic market may bear the brunt of any short-term shortage due to any COVID-19 supply disruptions, while exports will likely remain strong.

Live cattle exports

For the year-to-June, Australia shipped 599,000 head of cattle, back just 1% on 2019. Feeder exports to Indonesia remain the bedrock of the trade, despite having contracted 16% to 254,000 head. In contrast, feeder and slaughter cattle to Vietnam have recorded fantastic growth, expanding 39% to 167,000 head.

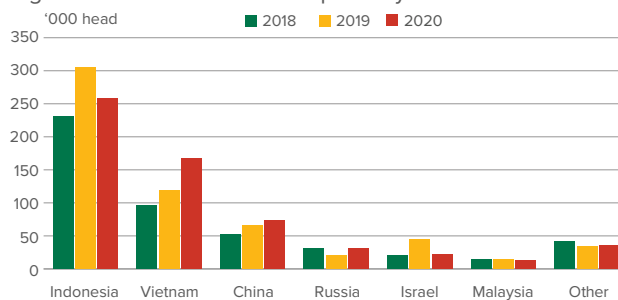
Cattle exports are expected to contract 16% in 2020, to 1.1 million head. This is fundamentally due to contracting supply in the northern regions of Australia.

Despite some short-term COVID-19 related price instability, demand for feeder cattle from Indonesia has been robust, underpinned by strong sales during the *Ramadhan* and *Eid al-Fitr* festive seasons. Competitor presence has also been restrained, as there has been limited supply of Indian Buffalo Meat due to COVID-19 impacts on Indian production, while more attractive demand from China has meant that limited volumes of Brazilian beef have been shipped.

Vietnam is currently the major growth market for Australian cattle exports. COVID-19 restrictions across Vietnam are minimal, as the spread of the virus was well managed and effectively contained from the onset, therefore demand for locally slaughtered cattle has remained buoyant. However, international visitors are still banned from entry, so businesses associated with tourism and international travel remain disadvantaged and the ongoing impact on premium foodservice will continue. Additionally, Vietnam continues to struggle with outbreaks of African Swine Fever, which have been impacting local meat supplies and supporting demand for imported cattle.

The demand fundamentals supporting beef consumption in Australia's cattle markets remain strong. However, many markets across South East Asia remain price-sensitive, which will continue to challenge the trade in light of the current supply outlook and elevate the threat of increased competition from low-cost competitors.

Figure 12: Australian cattle exports by market



Source: IHS
Note: Data is for the year-to-May

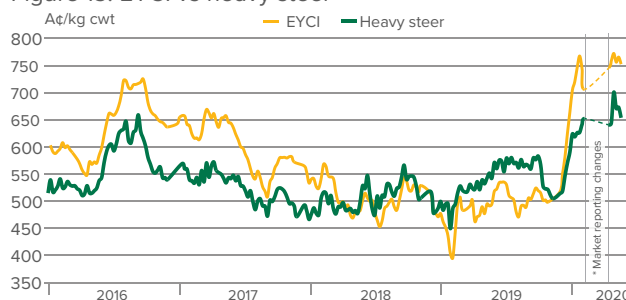
Prices

The Australian cattle market moved into record territory in June, showcasing the excellent season for many key cattle producing regions and high demand for store and prime cattle. Domestic conditions remain the overarching driver of Australian cattle prices, despite unprecedented circumstances in overseas markets.

The Eastern Young Cattle Indicator (EYCI) reached a new record at 772¢/kg cwt on 17 June, surpassing the previous record of 766.75¢/kg on 11 March 2020. The dramatic turnaround in the season, primarily across New South Wales and Victoria, propelled prices to over 250¢/kg above year-ago levels. The record finished cattle prices, reduced cattle herds and the abundance of feed resulting in reduced dependence on supplementary feeding, have been the main factors driving producers to buy cattle and increase herd numbers.

Since March, the EYCI has maintained a premium to the heavy steer indicator, with calves and vealers selling at a premium to other categories, the opposite of the entirety of 2019 when grown steers sold at a premium to younger cattle. Although lagging the east, the Western Young Cattle Indicator (WYCI) hit record levels at 776.50¢/kg cwt on 6 July, up 243¢/kg on the previous year. Recent southern rainfall in WA increased competition for young cattle, while demand from eastern states buyers has also supported prices in the west.

Figure 13: EYCI vs heavy steer



Source: MLA's NLRS. * Market reporting changes occurred from 26 March until 3 June

With many producers moving towards rebuilding their herds, a combination of demand and supply dynamics have placed upward pressure on prices since the April projections update. Feeder buyers continue to face intense competition for lighter cattle and are increasingly looking to source cattle to suit established feed programs. Restocker demand will likely remain robust for the remainder of 2020, especially if the three-month rainfall outlook comes to fruition.

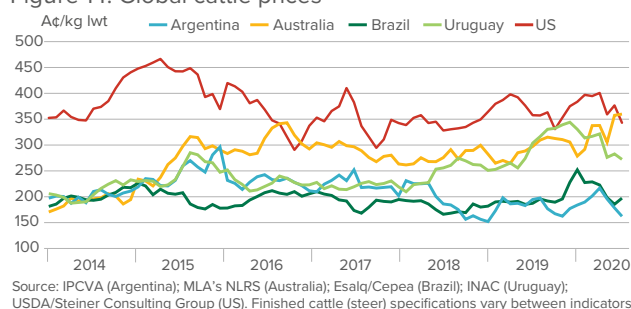
For the June quarter, restockers have furthered the price premium for yearling steers over feeders and processors. However, outside of the store market, producers have looked at other specifications, maximising the available pool of livestock to capitalise on green pastures. Restockers have competed heavily with processors for cows, narrowing the premium paid by processors to 11¢/kg live weight (lwt), compared to 43¢/kg last year.

With the throughput of finished cattle limited, processors have maintained strong price grids, while the tight availability of slaughter cattle at saleyards has also underpinned robust prices. The national heavy steer indicator is currently reported at 353¢/kg, back from its peak in June at 383¢/kg lwt but up 14% compared to year-ago levels.

Global conditions are yet to override the improved domestic market when looking at the impact on domestic prices, highlighted by the recent record price levels. However, Australia now faces a cattle market out-of-sync with key competitors and with a global recession on the horizon. While cattle prices may soften after the winter months, they should remain elevated within a historically high range, as supply should tighten further and store cattle will be in demand to restock and utilise rejuvenated pastures.

The outcome is less clear for finished cattle, as the negative impact of COVID-19 across markets and channels and the potential for increased competitor pressure needs to be balanced against tighter Australian supplies and the ongoing protein deficit created by African Swine Fever. Together, these factors create an uncertain, evolving and challenging scenario.

Figure 14: Global cattle prices



Situation and outlook for the Australian cattle industry

	2015	2016	2017	2018	2019	2020f	% change 2020f on 2019	2021f	2022f	2023f	% change 2023f on 2020f
Cattle numbers ('000 head)*											
cattle	27,413	26,845	27,965	28,052	26,187	24,600		25,050	25,800	26,500	8%
percentage change	-5.8%	-2.1%	4.2%	0.3%	-6.6%	-6%		1.9%	2.9%	2.8%	
Slaughtering ('000 head)											
cattle	9,007	7,288	7,158	7,873	8,482	7,000	-17%	6,900	7,300	7,800	11%
calves	667	542	413	468	565	430	-24%	435	460	460	7%
total	9,675	7,830	7,571	8,341	9,047	7,430	-18%	7,335	7,760	8,260	11%
Average carcase weight (kg)											
cattle	279.1	288.2	297.6	290.8	283.6	294.4	4%	299.4	300.4	300.7	2%
calves	55.6	53.9	45.7	41.3	43.0	49.0	14%	47.0	48.0	48.0	-2%
Production ('000 tonnes carcase weight)											
beef	2,514	2,101	2,130	2,289	2,406	2,061	-14%	2,066	2,193	2,346	14%
veal	32.9	24.2	18.9	19.3	24.3	21.1	-13%	20.4	22.1	22.1	5%
total beef and veal	2,547	2,125	2,149	2,309	2,430	2,082	-14%	2,086	2,215	2,368	14%
Cattle exports ('000 head)											
cattle	1,332	1,126	855	1,089	1,304	1,100	-16%	900	950	1,000	-9%
Beef exports** ('000 tonnes)											
total, carcase weight	1,888	1,497	1,493	1,655	1,801	1,500	-17%	1,508	1,623	1,762	18%
total, shipped weight	1,285	1,018	1,015	1,126	1,229	1,023	-17%	1,029	1,108	1,202	18%
Domestic utilisation ('000 tonnes carcase weight)***											
total, carcase weight	646	614	643	639	616	567	-8%	562	576	590	4%
kg/head***	27.1	25.2	26.0	25.6	24.3	22.0	-9%	21.5	21.7	21.9	0%

Source: ABS, DAWR, MLA forecasts

* From 2016 is an MLA estimate based on ABS Data - Figures as of 30th June

** excl. canned/misc, shipped weight

*** Domestic meat consumption is measured by removing the portion of exports (DAWR data) from total production (ABS data) and assuming the difference is consumed (or at least disappears) domestically. Imports are also added to domestic consumption when present. Per capita consumption is calculated by dividing domestic consumption by ABS population data. Please note that domestic per capita consumption is entirely a supply statistic and does not take account of waste or non-food uses of livestock meat products.

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