MEAT & LIVESTOCK AUSTRALIA

Industry projections 2018

Australian cattle

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KEY POINTS

- Herd rebuilding to continue
- Cattle supplies to remain tight with small increase in slaughter
- Drop in cattle on feed from record highs
- Strong international competition from US and Brazil

KEY 2018 NUMBERS

Slaughter:
7.4 million head

Carcase weights:
293kg/head

Production:
2.17 million tonnes cwt

Beef exports:
1.05 million tonnes swt

* Graphic illustrates year-on-year change

Summary

Cattle supplies are anticipated to remain tight in 2018 with only a small rise forecast in adult slaughter to 7.4 million head, as the herd rebuild continues. A dry winter/spring across many parts of Australia resulted in higher than expected turn-off in the second half of 2017, which is likely to result in another restricted year for cattle flow in 2018. If the three-month rainfall outlook from the Bureau of Meteorology (BOM) comes to fruition, it is likely to see tight supplies in certain regions, particularly through the mid part of the year.

After a record year for carcase weights in 2017, 2018 will likely see this drop back in line with long-term trends. This, combined with the forecasted increase in slaughter, would see beef production lifting 1% to 2.17 million tonnes carcase weight (cwt).

A lower number of cattle on feed is expected after the highs seen in 2017, where there were three consecutive quarters with over one million head on feed. A decline towards the 850,000–950,000 head mark is expected, driven by increasing grain prices combined with a growing gap between feeder and 100-day finished over-the-hook prices (¢/kg) – underpinned by restockers continuing to pay premiums in the young cattle market and increased US competition in key grainfed export markets.

It is shaping up to be a challenging year ahead for Australian beef exports, with expected increases in production and exports from many of our major competitors, including the US and Brazil. Australia's boxed beef exports are still expected to edge above one million tonnes shipped weight (swt) following the forecasted growth in production, which will be larger than any year prior to 2013, as many strong international demand fundamentals remain in place. A key factor will be if the US consumer continues increasing their per capita consumption – soaking up much of the growing US production and preventing a large portion of product from entering export markets.

Prices will come under pressure in 2018 and 2019 as the aforementioned international competition intensifies, with a key watchout being the premium Australia can continue to command for its high quality product. Restocker interest throughout the year will again be a key driver of the Eastern Young Cattle Indicator (EYCI). The rally seen throughout October/November 2017, due to some good rainfall across Queensland and NSW, demonstrated restocker intent given the right conditions.

Assumptions

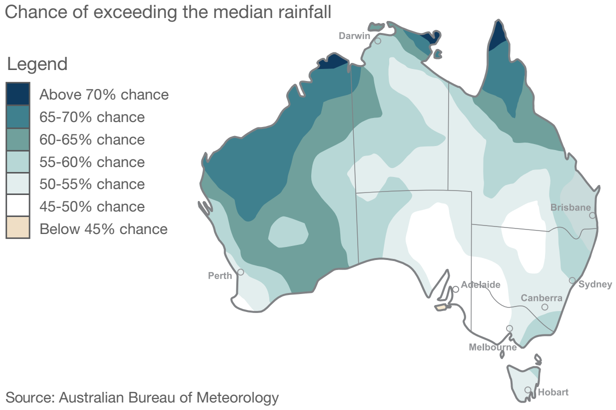
For the purpose of these projections, average seasonal conditions have been assumed for Australia's cattle producing regions out to 2022. The latest BOM three-month outlook indicates a higher chance of 'above average' rainfall for many parts of WA, northern Australia and the east coast for the February to April period. The remainder of the country has a roughly equal chance of a wetter or drier three months.

The Australian dollar fluctuated throughout 2017 but on average was slightly higher against the main currencies, including the US dollar (3%), Chinese renminbi (5%) and Japanese yen (6%). Notable exceptions were the lack of any significant change against the Korean won, Euro and Indonesian rupiah. The Australian/US exchange rate moved 5US¢ higher over the course of the year, opening at 73US¢, reaching a top of 80US¢ in September before closing the year at 78US¢.

The major banks have contrasting views on the Australian dollar for 2018 with predictions for the Australian/US exchange rate ranging from 70US¢ to 85US¢. The main determinants of our performance in 2018 will be comparative economic performances, central banks' monetary policy and the performance of key commodities.

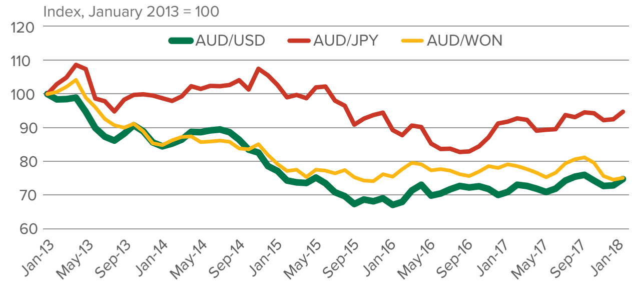
Fluctuations in the Australian dollar are, as ever, extremely difficult to predict. Hence, the status quo is assumed for these projections, while noting where changes in exchange rates may have a major influence.

Figure 1: Australian rainfall outlook February to April 2018



Source: Australian Bureau of Meteorology

Figure 2: AUD currency movements



Source: XE.com

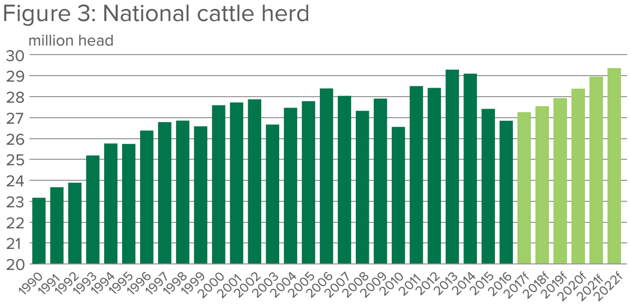
Cattle herd and slaughter

Despite the dry winter and spring, the herd rebuild is still very much underway across many parts of the nation. The southern regions of NSW and Victoria are expected to achieve pre-drought herd numbers in the coming year, with their recovery helped along by comparatively higher and less volatile branding rates.

The success of the wet season in Queensland will set the stage for the year ahead and determine how supply (and prices) should be expected to track. Queensland, which hosts about half the national beef herd, has not had a substantial wet season since 2011–12 and will be thirsty for cattle given the right conditions. There has been somewhat better rainfall than last year and the outlook for the rest of the northern wet season (February to April) slightly positive which, if it comes to fruition, should lay solid foundations for the continued rebuild.

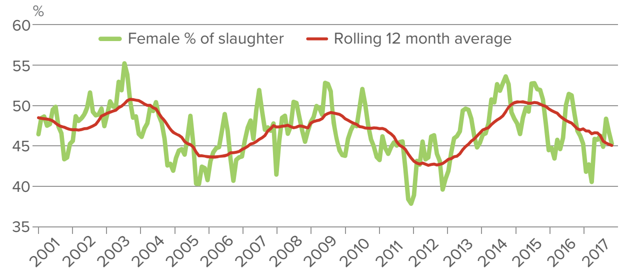
Female slaughter remains in rebuild territory, averaging 45% of the adult kill for the year-to-November. The rolling annual total is likely to remain under 47% for the next few years as the rebuild progresses. Current projections have the national herd reaching its pre-drought (2012) levels by 2020 under the assumption of average seasonal conditions between now and then.

Figure 3: National cattle herd



Source: ABS, MLA forecasts

Figure 4: Female slaughter



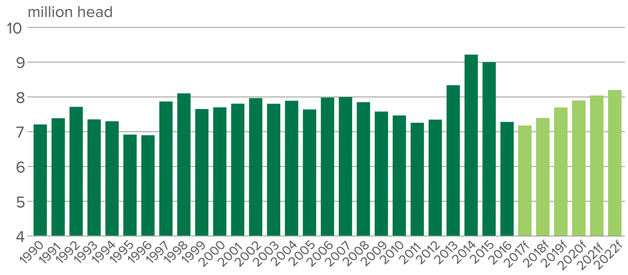
Source: ABS

The poor winter and spring across a number of regions in 2017 temporarily halted or undid many producers' herd rebuilding efforts in the affected areas. This has meant many young cattle were pushed into feedlots in 2017 due to lack of decent pasture – stock that otherwise would have been finished in the paddock and sent to market in 2018. This is part of the reason there is an expectation of tighter slaughter numbers than previously forecast in 2018, as these producers look to rekindle rebuilding efforts.

Overall, there should be some improvement in adult slaughter next year with a 3% lift to 7.4 million head. From 2019, slaughter levels are expected to return to long-term averages as the herd numbers grow.

As mentioned above, the impact and recovery from the drought years has been by no means uniform and, as such, availability of slaughter cattle will vary across the nation. Cattle flow from Victoria and southern NSW should see some decent improvements in 2018, while WA and NT, which both went largely unaffected through the drought years, will continue to perform as the season dictates. Both Queensland and SA will likely see the tightest supplies and strong restocker demand, should weather provide the opportunity.

Figure 5: Annual adult cattle slaughter



Source: ABS, MLA forecasts

As always, seasonal conditions will play a critical role in the pace of slaughter throughout the year and a lot is still riding on how the northern wet season plays out. It is likely that the winter months will be tight in 2018 compared to 2017, if average seasonal conditions prevail, before supplies potentially improve towards the end of the year.

Female slaughter will likely remain relatively low for the next few years given the rebuild and, when combined with the ongoing growth in the proportion of Meat Standards Australia (MSA) cattle, there should be an improving quality of product coming through the system. It is important to note, however, that ultimately the female kill will increase as the herd comes out of the rebuild, increasing the reliance on our manufacturing markets.

Cattle on feed

The number of cattle on feed reached record highs in 2017 with three consecutive quarters of over one million head on feed (March, June and September). Heightened investment in the lot feeding sector, growing global demand for high quality grainfed product and lower grain prices at the start of 2017 incentivised many lot feeders to increase numbers and retain cattle for longer. Additionally, the dry winter and spring conditions across much of Queensland also resulted in a greater number of cattle placed on feed rather than finished in the paddock.

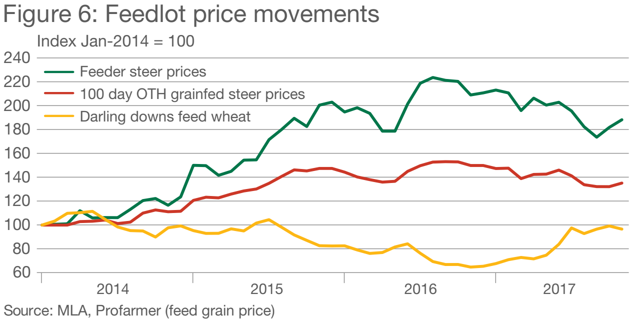
Cattle on feed numbers are forecast to drop below one million head in 2018, to average around the 850,00–950,000 head mark.

This expected decline in cattle on feed is being driven by a number of factors, including the fall in grain harvests (the 2017–18 winter harvest was down an estimated 23% and summer is forecast to fall 41% nationally – ABARES), the subsequent lift in feed grain prices in late 2017 and the growing gap between feeder (¢/kg) and finished (¢/kg) prices.

More specifically, when comparing prices at the end of 2017 to those two years earlier, feeder prices have only eased 2% to 305¢/kg live weight (lwt) while the Queensland 100-day over-the-hook (OTH) grainfed steer indicator dropped 9% to 507¢/kg carcase weight (cwt). This fall in the 100-day OTH indicator, which is now at its lowest level since mid-2015, is weighing heavily on feedlot margins. The performance and quality of Australian grain crop yields in 2018 will have a major impact on whether this number recovers.

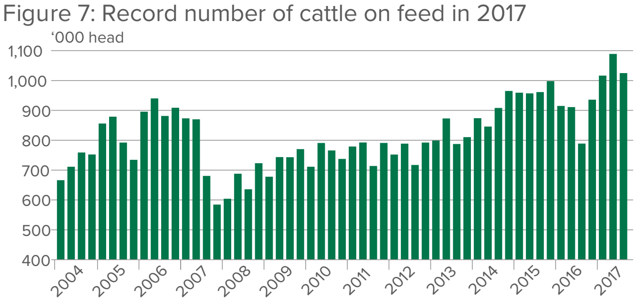
The expected drop in cattle on feed will have a flow through impact on grainfed exports, which also reached new highs in 2017. Considering the headwinds for finished cattle in the increasingly competitive international market, there is likely to be some downward pressure on exports (more in the Competitor section).

Figure 6: Feedlot price movements



Source: MLA, Profarmer (feed grain price)

Figure 7: Record number of cattle on feed in 2017



Source: ALFA, MLA

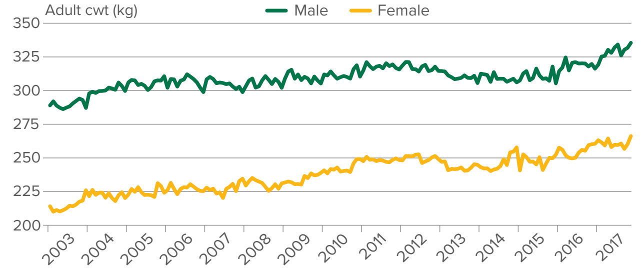
Carcase weights and production

Adult carcase weights increased almost 10kg year-on-year in 2017 to 298kg, following record numbers of cattle on feed and a low proportion of female slaughter. In the last 10 years, carcase weights have increased across both males (1.4kg/year) and females (2.8kg/year) on the back of improved genetics, management techniques and growth in the feedlot sector.

In 2018, carcase weights are expected to ease from the record levels of 2017, back in line with long-term trends, but will still be the second highest calendar year average on record, at 293kg. There are a number of key drivers behind this year-on-year decrease, mainly the aforementioned drop in the number of cattle on feed, higher grain prices impacting supplementary feeding and female slaughter proportion likely to plateau. Females are on average 65kg (carcase weight) lighter than their male counterparts, so the proportion of female slaughter has a strong correlation to total average carcase weights.

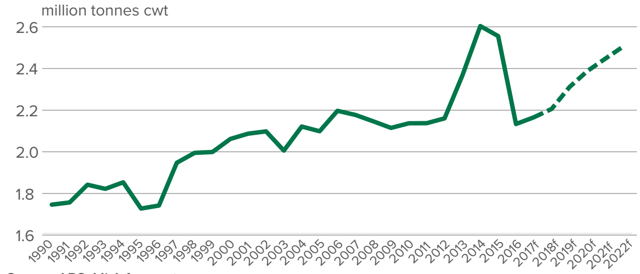
Total beef production for 2018 is expected to lift to 2.17 million tonnes cwt – an increase from both 2016 and 2017 levels, but well down on the drought impacted levels of 2013–2015. Overall, the modest increase in slaughter is expected to more than outweigh the anticipated drop in carcase weights.

Figure 8: Male and female carcase weights



Source: ABS

Figure 9: National beef and veal production



Source: ABS, MLA forecasts

Competitors - US, Brazil and India

Competition across many of our international markets is likely to intensify in 2018, with forecasted increases in production from many of Australia's competitors, in particular the US and Brazil.

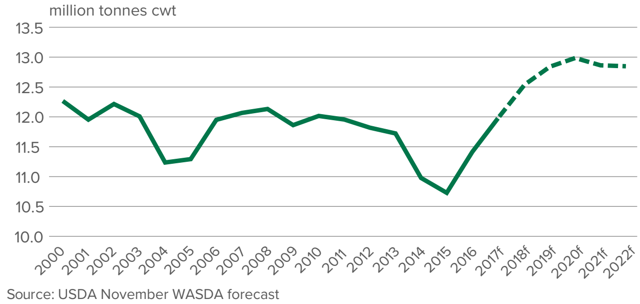
United States

According to the United States Department of Agriculture, the US is on track for their biggest ever year of beef production in 2018 and then again in 2019. Strong returns in recent years incentivised cow-calf producers to accelerate the US herd recovery and a couple years of record corn production have all helped lead to this potential record year of production. The increases in production (4% in 2017 and 5% forecast for 2018) are being driven by both increasing calf crops and growing carcase weights. The latest female slaughter percentage indicates US herd expansion is slowing, but not yet over.

The US also gained renewed access into China in 2017, however will need to comply with some rigorous requirements, including the prohibition of the use of hormone growth promotants (HGP). It is expected it will take a number of years for volumes to become significant, due to costs incurred in producing HGP-free beef in the US and question marks on China's willingness to pay those premiums.

Demand for beef from domestic US consumers has also seen significant increases on the back of growing consumer confidence and strong economic indicators, along with shifting attitudes to animal fats and increased retail focus on beef. US beef per capita consumption grew by 3-5% in 2016 and 2017, with many industry experts forecasting this to continue in coming years. From Australia's perspective, it is critical that domestic consumption keeps pace or exceeds the rate of increase in production, otherwise this excess beef will be flowing into our competing export markets, particularly Japan and Korea.

Figure 10: US beef production



Source: USDA November WASDA forecast

Brazil

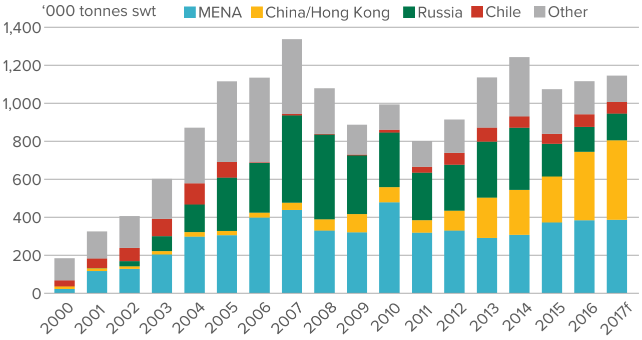
2017 was a challenging year for the Brazilian beef industry with very slow economic growth, restricted market access, the 'weak meat' scandal in late March and corruption involving the country's largest meat processing company.

Despite all this, beef production increased in 2017 and female cattle slaughter registered an increase for the first time in recent years indicating that Brazil may be coming out of its latest retention phase. Consequently, beef production is expected to rise in coming years, outstripping growth in domestic consumption and lifting beef exports significantly.

While Brazil continues to be restricted in some of Australia's major markets such as the US, Japan and Korea, they will continue to be a price setter in the lower value segments in the Middle East and China, which sets a baseline for these markets. China and the Middle East are becoming increasingly important markets for Brazil, with the decline of Russia and Venezuela as export destinations, and combined now account for almost 65% of Brazil's exports.

The Brazilian beef industry will remain focused on improving its market access, productivity, sanitary status and eating quality. However, the current political and economic uncertainty could compromise further investments in the beef industry.

Figure 11: Brazil exports by destination



Source: GTA

India

The Indian beef and buffalo meat sector remains a volatile market. Despite this, India is currently the largest bovine meat exporter in the world. Beef production in India is predominantly a by-product of the dairy industry and, on the back of private investment and government support in the dairy sector, herd size and bovine production and exports are expected to increase in coming years.

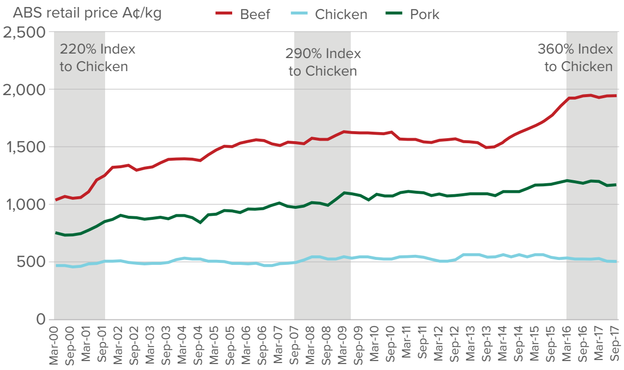
India is heavily reliant on one export destination with close to 50% of exports destined for Vietnam (most will then flow over the border to China) and is a low quality, low value frozen boneless product. However, India has started to expand their international footprint and, though unlikely to ever gain access to high value markets such as Japan, US and Korea, there may be some impact on Australian exports in markets they have entered such as Indonesia. Ongoing disruptions from its own domestic processing regulations, limited market access and lack of FMD-free status will continue to severely restrict India's presence in many markets. The Australian beef industry's credentials as a safe and high quality meat supplier with an integrated traceability system should continue to differentiate Australian from Indian product in most key export markets.

Domestic demand

Australia's domestic beef consumption (absolute) has been tracking sideways since the 1990s and has only seen a sharper drop in the last three years, following significant increases in beef retail prices. The average retail price of beef for the first three quarters of 2017 was on par with 2016, which was the highest on record. Beef's pricing relative to chicken highlights the competitive pricing pressures it is facing. Beef was at a 220% retail price index to chicken in 2000, which jumped to an average 360% index so far in 2017. During this time, beef's average retail price has almost doubled, while chicken's has only gone up 12%.

Consumer research is showing that as the retail price of red meat has trended upwards since 2013, consumers increasingly claim price to be the main reason for eating less red meat, above health or animal welfare/ environment concerns. Maintaining value share will be a challenge if beef's price premium to chicken/pork grows larger.

Figure 12: Retail prices by protein

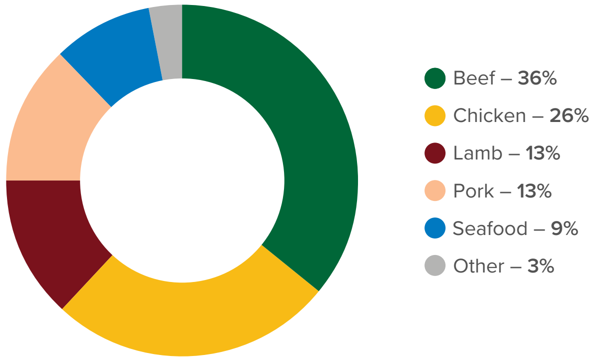


Source: ABS

Despite some of these recent challenges, Australians remain one of the largest per capita consumers of beef in the world, with beef having the highest share of retail sales of any fresh meat in Australia in 2017, around 36% share of fresh meat sales (by value) *(Source: AC Nielsen Homescan)*.

Australia's changing demographic provides some macro challenges for beef with two broad trends of increased migrations from Asian countries (where pork is the dominant protein), and an ageing population who consume less red meat for health/functional/price reasons. The most recent ABS survey showed that more than a quarter of Australia's residents are now born overseas and for the first time in Australia's history, the majority of these people born abroad are from Asia rather than Europe.

Figure 13: Retail fresh meat value share in Australia – 2017



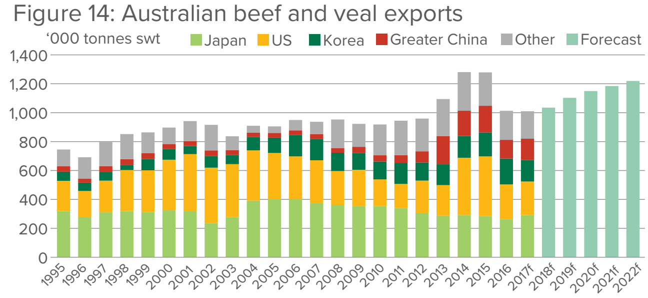
Source: AC Nielsen Homescan, MAT to 30/12/2017

International demand

The global economy has a much more positive outlook than this time last year with key regions, including the US and many parts of Asia, registering improvements in key economic indicators. Along with this, many developing markets are also marked for some significant improvements in household wealth, which generally flows through to an increase in protein consumption. This, combined with natural population growth, should see beef consumption continue to expand on a global level.

Australian beef exports ended 2017 in line with 2016 levels at 1.01 million tonnes swt, with both chilled and frozen product consistent year-on-year. There have been some changes in the destination of our exports for the year, with an uplift in volumes going to Japan and China helping to offset a drop off in volumes to Korea and Indonesia.

Figure 14: Australian beef and veal exports



Source: DAWR, MLA forecasts

Australia's slightly improving supply situation comes at the same time global supply is expected to increase by over one million tonnes in 2018. In other words, Australian beef exports will be competing in a global market with a very strong supply of beef. As a result, global beef prices will likely come under pressure, reinforcing the need for Australia to continually position itself as a superior supplier of high quality product.

Australian beef exports are expected to slightly increase to 1.04 million tonnes swt in 2018, in line with production. Although this increase is modest on 2017 volumes and is down on 2013–2015 levels, it will still be bigger than any year prior to 2013.

The US and China are forecasted to be the two key growth countries for beef consumption globally in coming years (in absolute terms) and both countries will be critical in soaking up growing world beef supply. The recent jump in US domestic per capita consumption of around one kilogram equates to 295,000 tonnes that was retained domestically in the US rather than exported (this is equal to approximately 30% of Australia's beef exports). The other key market in the equation is China/Hong Kong, which now accounts for 30% and 50% of Brazil and Uruguay's exports, respectively.

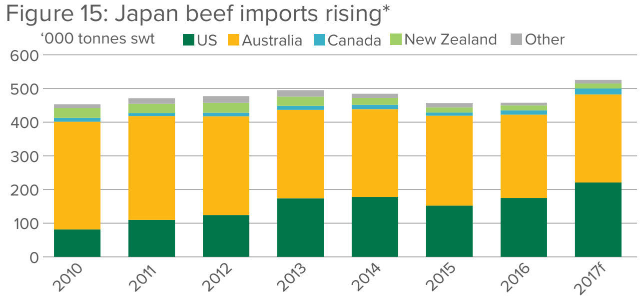
Japan

Japan finished 2017 as Australia's biggest export market for beef, despite tough competition faced from the US throughout the year. Volumes to Japan increased by 11% to 292,000 tonnes swt driven by growth across both frozen grainfed (+20%) and frozen grassfed (+18%) beef, with the chilled segment remaining stable.

There have been a few key reasons behind this growth, one of which was Japan's frozen beef imports hitting safeguard volumes in July 2017, which saw tariffs on frozen beef from 'non-EPA' nations (e.g. US, NZ, Canada) 'snapback' to 50% until 1 April 2018. This has given Australia a 22.8% tariff advantage for frozen beef exports over this time, with Australian frozen beef exports only incurring a 27.2% tariff under the Japan-Australia Economic Partnership Agreement (JAEPA).

Some other key factors contributing to this growth are the ongoing high costs and tight supply of local beef, increasing interest in leaner meat *(akami)* and steaks and strengthening of the True Aussie brand, which is now recognised by 40% of Japanese consumers.

Figure 15: Japan beef imports rising*



Source: Japan Ministry of Finance, *Year-to-November beef imports

Please read the *Japan beef snapshot* for more information on the opportunities and challenges for the industry.

United States

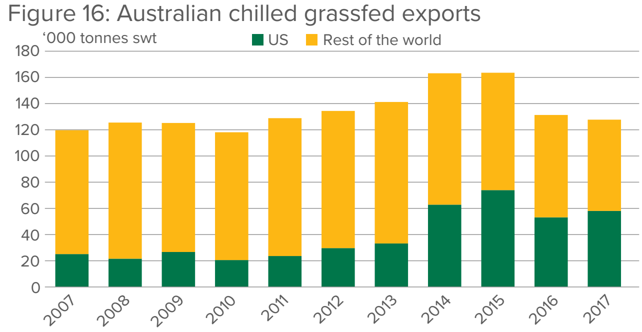
Beef exports to the US ended 2017 just below 2016 levels at 234,000 tonnes swt, and continue to be challenged by domestic supply constraints and rising US beef production. However, robust US domestic demand driven by an increased retail focus on beef (resulting in lower retail prices) has helped absorb much of this increased US production. Manufacturing beef is still dominant, accounting for 63% of Australian exports.

The US continues to take a growing share of Australian chilled grassfed exports reaching 58,000 tonnes swt in 2017 compared to 21,000 tonnes swt in 2010. This chilled product is utilised in both the foodservice and retail channels with US consumers perceiving grassfed beef as better for animal welfare and the environment and more 'natural' – helping grassfed beef to find its way onto more menus and into more stores in the US.

On the back of a continuing strong economy and low unemployment, the US beef market is expected to remain robust with continued demand for lean Australian manufacturing beef and ongoing demand for chilled grass/pasture-fed product.

Please read the *US beef snapshot* for more information on the opportunities and challenges for the industry.

Figure 16: Australian chilled grassfed exports



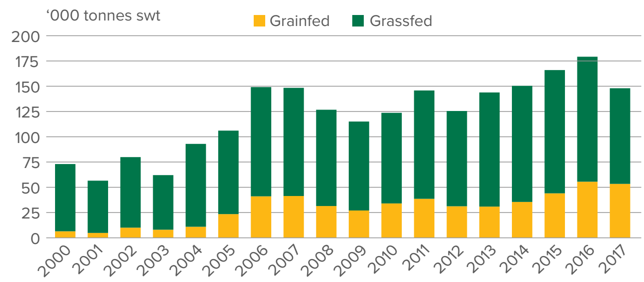
Source: DAWR

Korea

For the first time in five years, there was a decline in Australian beef exports to Korea in 2017, down 17% to 149,000 tonnes swt. The increase in US production and consequent easing of US beef prices has created strong competition for Australia in this market. This, combined with Australia's triggering of the Korean safeguard tariff (increasing the tariff from 29% to 40%) and reduced local production, saw the US become the largest supplier to Korea in 2017. While the competition from the US in Korea is expected to remain strong, Australia is well positioned to continue to grow with Australia's reputation as a clean green supplier underpinning the demand from local supermarket shoppers that want a trusted product for their family.

Please read the *Korea beef snapshot* for more information on the opportunities and challenges for the industry.

Figure 17: Australian exports to Korea



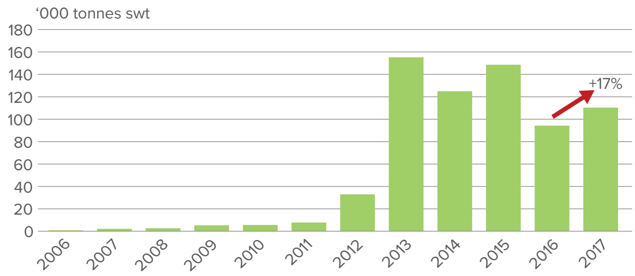
Source: DAWR

China

Over recent years, Australia's beef exports to China have been relatively volatile, with changing import protocols and the easing of restrictions placed on other countries impacting exports. In 2017, beef export volumes to China increased, after a significant drop in 2016. Almost all of this growth has been driven by frozen grassfed product (+22%), which makes up around 70% of Australian exports to the market. This reflects the growing Chinese consumer demand for quality and safe imported beef as China's economy shifts to become more consumption-driven.

Looking forward, China remains a very price-sensitive market and hence a challenging destination for Australian exports. Changes in market access for Australian chilled product are also ongoing. Australia was the sole approved supplier of chilled beef to China up until 2017, but China has now granted access to the US, approving 37 establishments, and New Zealand on a preliminary six-month trial basis involving 10 establishments.

Figure 18: Australian beef exports to China



Source: DAWR

Please read the *China beef snapshot* for more information on the opportunities and challenges for the industry.

South-East Asia

It was a mixed bag for exports to South-East Asia (SEA) in 2017. Shipments to Australia's major destination in the region, Indonesia, were down 19% while shipments to Australia's second largest destination, the Philippines, jumped significantly (+13%). The growth in the Philippines has predominantly consisted of frozen manufacturing cuts, while volumes to Indonesia have fallen with the increasing presence of cheaper Indian buffalo meat.

Please read the *SEA beef snapshot* for more information on the opportunities and challenges for the industry.

Other markets

The Middle East was stable in 2017, with some slight declines in Australia's biggest markets for beef (Saudi Arabia and Dubai) offset by increases in some of Australia's smaller markets in the region such as Kuwait, Abu Dhabi and Qatar. Volumes to Europe have dropped off in 2017 across both the UK and other destinations, caused partly by high Australian cattle prices and growing competition for limited quota allocation.

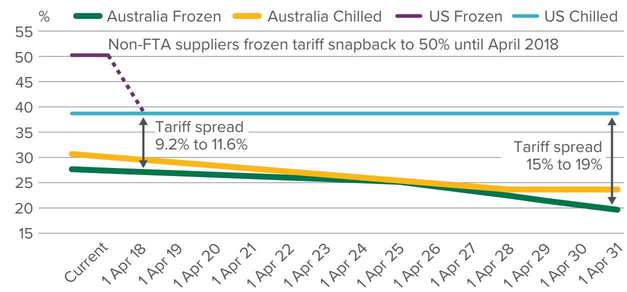
Please read the *Global beef snapshot* for more information on the opportunities and challenges for the industry.

Market access

Maintaining favourable access conditions and reducing both economic and non-tariff barriers will continue to be a key lever in improving Australian beef's global competitiveness. Changes in global political dynamics have seen the desire for liberalised global trade slow, with a general trend towards smaller regional or bilateral trade agreements, along with the renegotiation of agreements as protectionist talk has gained momentum in some major economies. The increase in protectionism, led particularly by the US's new approach to global trade, does pose a risk for Australian exports, but in some circumstances presents opportunities.

In line with scheduled tariff cuts and quota relaxations, there will be changes in access for Australian beef imports into key North Asian partner markets in 2018. Import tariffs on Australian chilled beef into Japan will be reduced from the current 29.9% to 29.3% in April 2018 under the Japan-Australia Economic Partnership Agreement (EPA), while chilled beef from other suppliers with no-EPA will continue to attract 38.5% tariff. In terms of frozen beef, the tariff on Australian product will be 27.2% (down 0.3% from the current 27.2%), versus 38.5% for non-EPA suppliers.

Figure 19: Japan import tariffs under JAEPA*



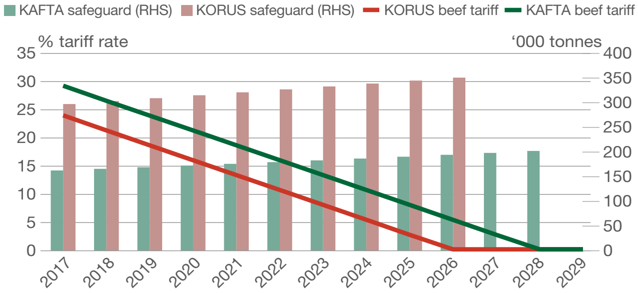
Source: DFAT

*pending entry into force of CPTPP tariff on both frozen and chilled beef to Japan will fall to 9% over 15 years

January 2018 saw a reduction in tariffs under the Korea- Australia Free Trade Agreement (KAFTA). Import tariffs for Australian beef (both chilled and frozen) are now 26.6%, down from 29.3% in 2017. However, Australian product still faces a tariff disadvantage with the US, who have a 5.3% tariff advantage and also a much larger safeguard volume due to the Korea-US FTA (KORUS) coming to force two years ahead of the KAFTA.

An encouraging development in January 2018 saw the conclusion of Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) negotiations and announcement that the 11 member countries would sign the agreement in March 2018. The CPTPP will add significant value to the Australian beef industry, particularly through improved access in key beef markets such as Japan, Mexico and Canada, complementing gains derived from other free trade agreements Australia has concluded to date and maintaining the competitiveness of Australian beef, particularly in Japan. Expeditious entry into force of the CPTPP agreement will be integral to realising potential benefits.

Figure 20: KAFTA and KORUS beef tariff schedules



Source: DFAT and USDA FAS

In the year ahead, Australia is engaged in a number of trade talks globally. Priorities include the EU, in anticipation of the launch of the Australia-EU FTA, and UK, regarding the upcoming 'Brexit', along with continued support for expeditious entry into force of the CPTPP. In addition, there are new opportunities for Australian exporters with the ratification of the Peru-Australia Free Trade Agreement (PAFTA) and Mexico formally extending access to the 200,000 tonne tariff-free global beef quota to the end of 2019. By far the biggest opportunity remains overcoming the plethora of non-tariff trade barriers with many of our existing trade partners.

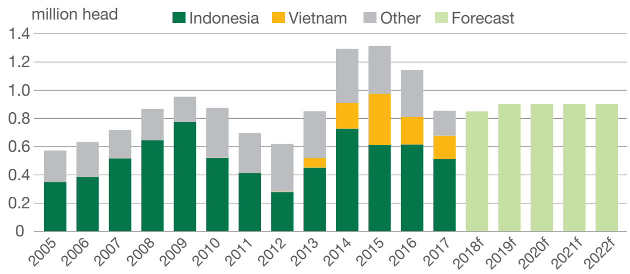
Live exports

2018 will likely mirror 2017 for live exports, which were restricted by the tight domestic supply (especially in the north), high cattle prices and ongoing uncertainty around import policies. Australian live cattle exports for 2017 were back 22% to just under 855,000 head.

There have been some extraordinary years for live exports, with the liquidation of Australia's 30-year high cattle herd through 2014 and 2015. However, 2017 saw a significant contraction in export cattle, largely due to fewer available supplies as the herd rebuilding commenced. Over the next few years some increases in live export are expected from the 2017 levels as the herd recovers, but it is unlikely to get back to recent highs.

South-East Asia remains the key export region for Australia's live cattle, taking over 80% of Australia's live cattle, with Indonesia (60%) and Vietnam (19%) the leading destinations.

Figure 21: Live cattle exports



Source: ABS (pre-2015), DAWR, MLA forecasts

Shipments of feeder and slaughter cattle to Indonesia in 2017 totalled 499,000 head, back 16% from a year ago. High Australian cattle prices, the Indonesian government's agricultural policy goal to achieve self-sufficiency for major commodities including beef, along with price stabilisation methods that enabled the import of Indian Buffalo Meat are the prominent factors in reduced cattle exports to the country. The prospects for 2018 remain uncertain, depending in part on implementation of the 5:1 (five feeder cattle imports to one breeder) policy requirements, which would see an increase in breeder exports occurring next year. The Indonesian government's 5:1 policy is scheduled for the first audit in December 2018.

Cattle exports to Vietnam reached just above 165,000 head in 2017, down 15% from year-ago levels. Australian cattle sales are relatively subdued due to the availability of local (regional) cattle combined with the tight supply and higher prices of Australian cattle. Demand for beef increases in the lead up to Vietnamese New Year festival in February, which should help support demand for Australian cattle.

Prices

Beef and cattle prices are likely to come under some pressure in 2018 as international competition intensifies and supply increases. The impact of this will partly depend on the level of restocker activity and strength of the underlying demand for beef in Australia and overseas.

Australian cattle prices roughly realigned themselves with US beef and cattle prices in 2017. The relative price difference between finished cattle in both countries (in US dollar terms) returned to long-term averages with Australia at a 20% discount, after hitting a massive 57% discount in the grip of drought (and record US prices) and a historic premium when both indicators crossed over for the first time in 2016.

While Australia appears to be back in sync with the US, currency movements and the rise in Australian cattle prices over the past three years have made South America a more competitive supplier to the global market. Up until 2015, Australian cattle prices tracked relatively closely to those in Brazil, Uruguay, Paraguay and Argentina. However, steers in Australia are now tracking close to a 50% premium to those in Brazil.

Currently, the EYCI, heavy steer and medium cow indicators all remain below where they tracked this time in 2017, with finished cattle prices still historically high – above any level prior to mid-2015. Restockers have played a prominent role in the high levels the EYCI has maintained during 2016 and 2017. There has been a recent shift in the price premiums that restockers typically pay between the northern and southern states, with Queensland the driving force while Victorian restocker demand has eased.

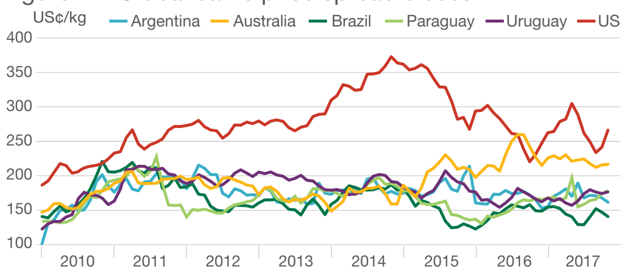
The rally of the EYCI seen in October/November 2017 (from a two-year low in late September) with some good rainfall across Queensland and northern NSW demonstrate restocker intent given the right conditions.

In the November price rally, Queensland restockers showed their appetite, purchasing 52% of EYCI eligible cattle in saleyards across the state at a 54¢/kg cwt premium to feeders. In contrast, Victorian restockers secured 14% of the market and premiums to that of feeder buyers narrowed from 20¢ earlier in the year to 7¢/kg cwt. Restocker requirements for cattle have lessened in Victoria as herds have been largely rebuilt – the state's herd size is forecast to return to average levels this year.

Queensland restockers may enter the market in force in 2018 if feed supplies allow. However, this may pull both young and finished cattle higher, again potentially placing Australia out of sync with global competitors.

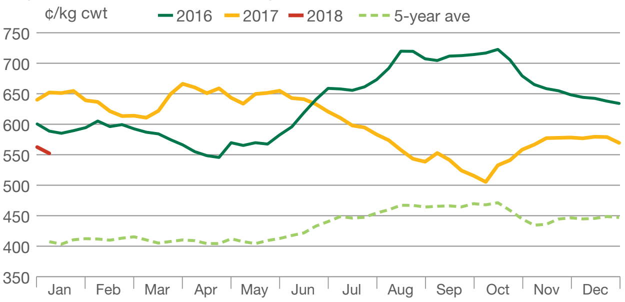
As always, prices will be impacted both positively and negatively by a number of variables such as seasonal conditions, trading environment, currency fluctuations and the pace of recovery in Australian beef production.

Figure 22: Global cattle price spread closes



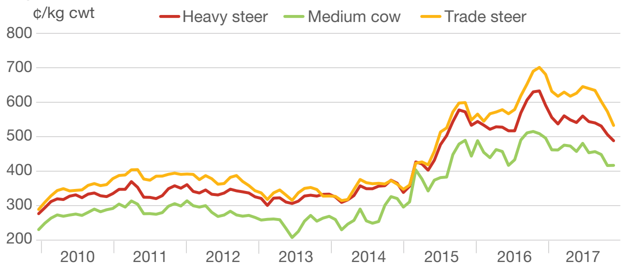
Source: MLA (Australia); Esalq/Cepea (Brazil); INAC (Uruguay); USDA (US); IPCVA (Argentina, Paraguay), Steiner, USDA, CME (22 Nov. 17). Cattle specifications vary between indicators.

Figure 23: Eastern Young Cattle Indicator



Source: MLA

Figure 24: Australian cattle prices



Source: MLA

Situation and outlook for the Australian cattle industry

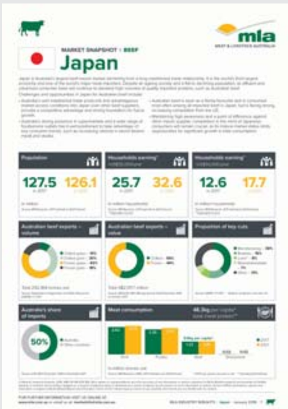
	2013	2014	2015	2016	2017^{e}	2018^{f}	% change 2018^{f} on 2017^{f}	2019^{f}	2020^{f}	2021^{f}	2022^{f}	% change 2022^{f} on 2017^{e}
Cattle numbers ('000 head)*												
cattle	29,291	29,100	27,413	26,845	27,245	*27,550*		*27,916*	*28,373*	*28,954*	*29,370*	*8%*
percentage change	3.1%	-0.7%	-5.8%	-2.1%	1.5%	*1.1%*		*1.3%*	*1.6%*	*2.0%*	*1.4%*	
Slaughterings ('000 head)												
cattle	8,344	9,226	9,007	7,288	7,175	*7,400*	*3%*	*7,700*	*7,900*	*8,050*	*8,200*	*14%*
calves	690	688	667	542	480	*550*	*15%*	*565*	*575*	*600*	*600*	*25%*
total	9,034	9,914	9,675	7,830	7,655	*7,950*	*4%*	*8,265*	*8,475*	*8,650*	*8,800*	*15%*
Avg carcase weight (kg)												
cattle	278.0	276.8	279.1	288.2	297.9	*292.9*	*-2%*	*295.0*	*297.2*	*298.8*	*300.5*	*1%*
calves	64.5	64.9	55.6	53.9	48.4	*55.0*	*14%*	*55.0*	*55.0*	*55.0*	*55.0*	*14%*
Production ('000 tonnes carcase weight)												
beef	2,319	2,554	2,514	2,101	2,137	*2,167*	*1%*	*2,272*	*2,348*	*2,405*	*2,464*	*15%*
veal	40.4	41.3	32.9	24.2	23.2	*30.3*	*30%*	*31.1*	*31.6*	*33.0*	*33.0*	*42%*
total beef and veal	2,359	2,595	2,547	2,125	2,161	*2,198*	*2%*	*2,303*	*2,379*	*2,438*	*2,497*	*16%*
Cattle exports ('000 head)												
cattle	850	1,292	1,332	1,126	855	*850*	*-1%*	*900*	*900*	*900*	*900*	*5%*
Beef exports ('000 tonnes)**												
total, carcase weight	1,611	1,881	1,888	1,497	1,493	*1,537*	*3%*	*1,637*	*1,709*	*1,761*	*1,811*	*21%*
total, shipped weight	1,099	1,287	1,285	1,018	1,015	*1,045*	*3%*	*1,114*	*1,163*	*1,198*	*1,232*	*21%*
Domestic utilisation ('000 tonnes c/c weight)***												
total, carcase weight	736	702	646	614	654	*661*	*1%*	*666*	*670*	*678*	*685*	*5%*
kg/head****	31.8	29.9	27.1	25.2	26.4	*26.3*		*26.1*	*25.9*	*25.8*	*25.7*	

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
*** 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)
e = estimate

Market snapshots

MLA's market snapshots aim to give producers a better understanding of what's driving demand in the main markets where Australian red meat is consumed. These will enable producers to be more informed when having discussions with their supply chain partners and – armed with a better understanding of where their product is going – make more informed business decisions about their own production and on-farm investments.



To view market specific snapshots click here