

Industry projections 2019

Australian cattle – October update





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KEY POINTS

- Sustained high female slaughter prolongs herd liquidation
- China demand drives global and domestic cattle prices
- 2019 beef exports on track to be third largest on record



KEY 2019 NUMBERS

-  **Slaughter:**
8.4 million head
-  **Carcase weights:**
283 kg/head
-  **Production:**
2.4 million tonnes cwt
-  **Beef exports:**
1.19 million tonnes swt

* Graphic illustrates year-on-year change

Summary

Winter and early spring offered no reprieve from widespread dry conditions for the majority of Australian cattle producers, who continue to contend with scarce water availability, rising feed costs and growing financial pressure.

High processor throughput, in particular the elevated female slaughter, reflects ongoing herd liquidation and impacts forecasted beef production. On a 12-month rolling basis, the female percentage of adult slaughter remains at 54%, keeping the national herd firmly locked in a contraction phase. The excess turnoff of breeding stock and poor rainfall outlook has resulted in adult cattle slaughter for 2019 being revised higher to 8.4 million head, up 7% on last year.

Beef production has also been adjusted higher for the year to reflect the elevated turnoff and is forecast at 2.4 million tonnes carcass weight (cwt), up 4%. A downward trend in adult carcass weights has offset some of the impacts of increased slaughter, despite the number of cattle on feed reaching a new record in the June 2019 quarter, at just below 1.15 million head.

China has become a key pillar in world meat trade with an increasing impact on the global market and subsequent price movements in the Australian domestic market. The strong finished cattle prices seen in 2019 have been supported by surging demand in China (underpinned by the ongoing African Swine Fever epidemic) and a favourable Australian dollar.

The ongoing US-China trade war has created uncertainty for the global economy and future demand for red meat. However, broad demand factors in many key export markets are still holding, and with the forecast for Australian cattle supplies to tighten over the next few years, continued support for finished cattle prices is expected.

Store cattle prices have remained steady throughout winter and into spring, with southern regions supporting the north, where conditions are hampering restocker activity. It remains a matter of when, not if, the store market experiences a significant increase, once seasonal conditions improve.

Seasonal conditions

Rainfall deficiencies through winter and the start of spring delivered below average rainfall for most of Australia. Higher than average temperatures further depleted scarce water storages and soil moisture.

NSW remains the worst affected state, with 99% of the state drought declared and receiving very much below average rainfall over the past three months. The reality of 'day zero' – when water reserves are completely exhausted – is fast approaching for many regional towns.

With the exception of western and southern Victoria and southern Tasmania, which received average to above average rainfall during the winter months, the majority of producers had no relief from current dry conditions.

This year's bushfire season began earlier than usual, with Queensland and NSW reporting bushfires in August and September, driven by strong winds, higher than average temperatures and below average rainfall. For the remainder of the southern dry season, there is elevated bushfire potential in the eastern states and southwest WA.

Looking ahead, the outlook for November to January favours another period of below average rainfall. Most of southern and northeast Australia have a less than 40% chance of exceeding median rainfall. The forecast for northwest Australia is more optimistic, with roughly equal chances of being wetter or drier in the next three months. Temperatures are projected to be warmer than average across the country for the rest of 2019.

Figure 1: Australian rainfall – July to September 2019
Rainfall decile ranges

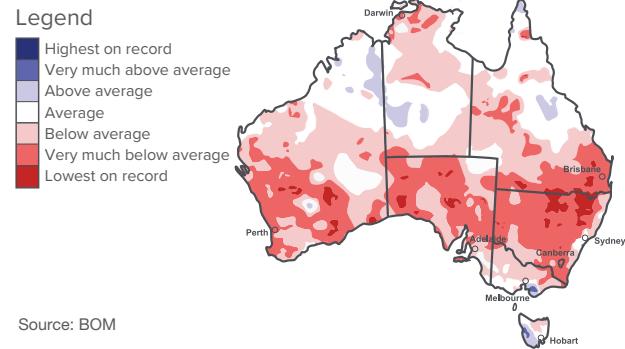
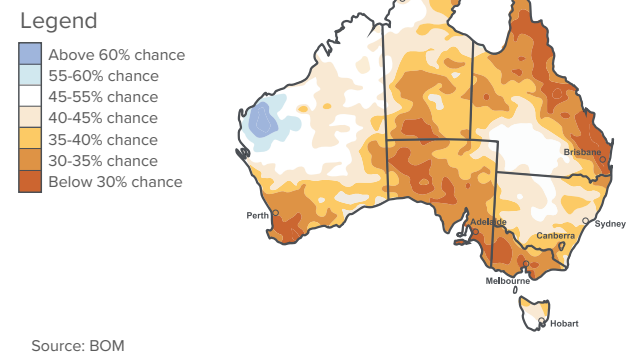


Figure 2: Australian rainfall outlook – Nov 2019 to Jan 2020
Chance of exceeding the median rainfall



Cattle herd and slaughter

August marked 16 consecutive months of above year-ago levels of adult cattle slaughter. The sustained high processor throughput, in particular the elevated levels of female slaughter, confirms that producers are still liquidating herds. The national herd forecast for the end of June 2020 has been adjusted lower to 25.5 million head, reflecting higher slaughter levels in the second half of 2019 and estimated branding rates running well-below trend, as feed availability and water deficiencies advance to critical levels.

For the calendar year to August, total adult slaughter was 7% above 2018 levels, underpinned by cow and heifer slaughter increasing 18% over the same period. On a 12 month rolling basis, the female percentage of adult slaughter stands at 54%, as the turnoff of breeding stock remains at an unprecedented level, ultimately leading to fewer calves and likely lower beef production out until 2022, if the herd rebuild commences.

Unfortunately, the BOM outlook for the remainder of 2019 offers nothing to suggest any improvement before February/March next year. Southern Australia will likely be waiting until March before the possibility of improved conditions. Current predictions are for a late start of the northern wet season, especially in the eastern half of Queensland. As a result, adult cattle slaughter has been revised higher to 8.4 million head in 2019, 7% above last year.

Figure 3: National cattle herd

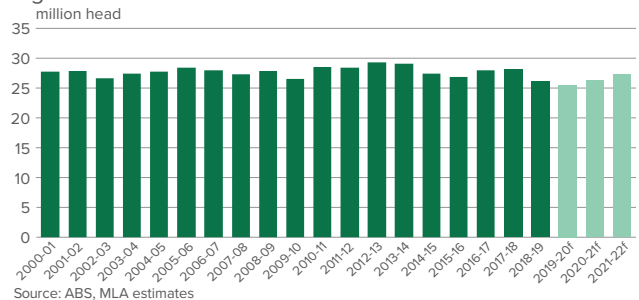
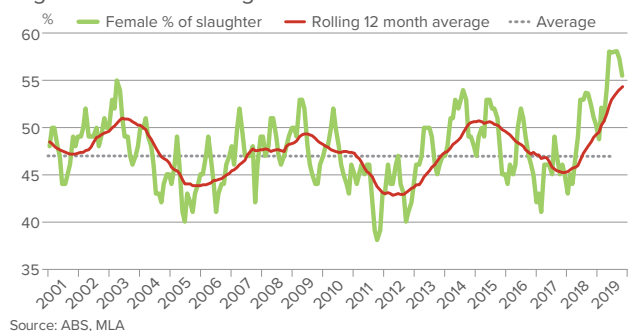


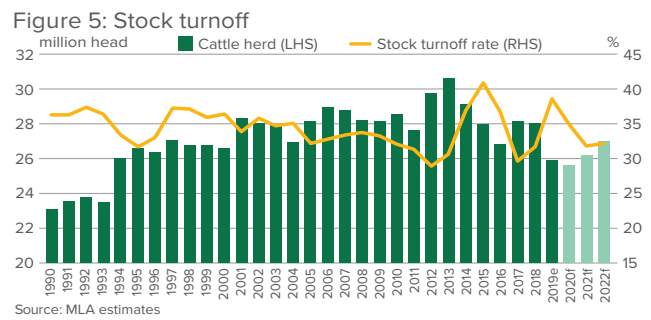
Figure 4: Female slaughter



Stock turnoff (slaughter plus live cattle exports) relative to the size of the national herd reflects the desire and ability of producers to liquidate or rebuild herds. The 10-year average sits at 33% but based on 2019 forecasts, the stock turnoff ratio is anticipated to account for 38.5% of the national herd. This level was only surpassed in 2015, highlighting the extent of current destocking.

It is a challenge to determine how the national herd and annual slaughter might track over the remainder of the projections period (2020-2022). Processor and live export demand will likely be strong on the back of robust international demand combined with a much smaller pool of cattle to source from. Producers with livestock on hand will likely be incentivised by well supported (possibly record) prices for finished cattle and a heightened need for cash flow, so will potentially maintain a certain level of turnoff. However, considering the amount of destocking that has occurred in the past 18 months, adult cattle slaughter is expected to run well below 2019 levels for the next few years.

Under the assumption of a return to average seasonal conditions from next autumn, 2020 adult cattle slaughter is anticipated to fall sharply to 6.9 million head. However, the contraction could be greater depending on the scale and timing of a break. The bottom of the supply cycle is currently expected in 2021, at 6.8 million head, when the industry is expected to prioritise herd expansion.



Carcase weights and production

Beef production in 2019 is forecast at 2.4 million tonnes cwt, 4% higher year-on-year and 2% above the five-year average. Revisions to annual beef production, come on the back of elevated slaughter levels, although declining carcass weights have offset some of the increase. For the calendar year to August, male and female carcass weights declined 2% compared to last year, averaging 323kg/head and 251kg/head, respectively. In August, male carcass weights came under greater pressure, averaging 319kg/head, their lowest level since January 2017.

Despite seasonal conditions being the overarching factor driving average carcass weights lower in the short-term, long-term productivity growth and record numbers of cattle on feed, have kept average adult carcass weights at historically high levels. The average adult carcass weight is expected to decline to 283kg in 2019, down 3% but equal to the average of the preceding 10 years.

Any improvement in pasture availability in coming months should see carcass weights recovery quickly, however beef production would ease as slaughter numbers tighten.

If the current drought continues beyond summer/autumn, herd liquidation will be prolonged and many producers will face even harder decisions on whether to buy in feed (and possibly water) or offload more core breeders. However, even in this pessimistic scenario, finished cattle supplies are expected to tighten to some extent, due to the reduced herd and the number of calves born from 2017-19. Under any scenario, beef production is highly unlikely to exceed 2019 levels over the next two years.

Figure 6: National adult carcass weights

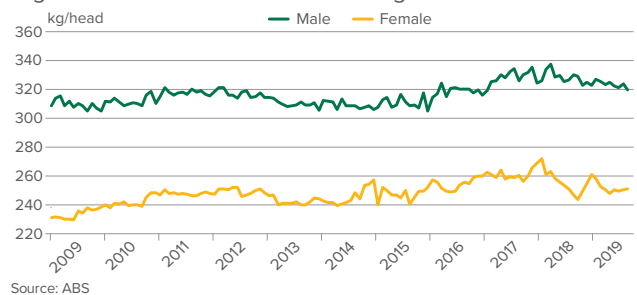
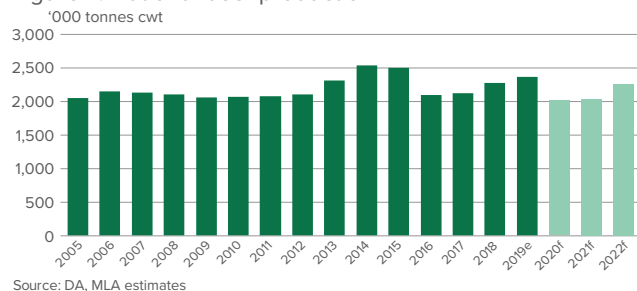


Figure 7: National beef production



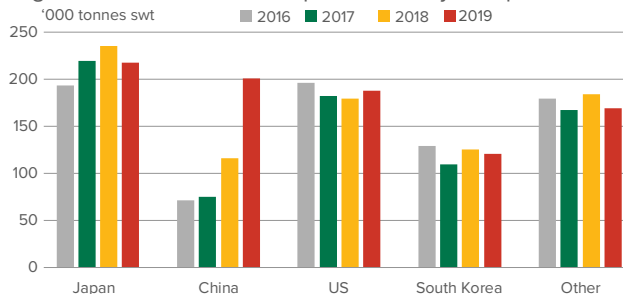
International markets

Beef exports have surged so far in 2019, driven by robust international demand and above average cattle turnoff. Also the value of the Australian dollar has recently hit a 10-year low (A67¢ to the US dollar as of 1 October). This has made Australian beef exports more affordable within an increasingly competitive international market, while also driving value for the industry.

The strength of the export market is best illustrated by looking at the value of beef exports. For the calendar year to August the beef export value reached A\$6.8 billion, up 22% on the same period in 2018.

Following the forecast increase in production, beef exports have also been revised upwards and are now expected to hit 1.19 million tonnes shipped weight (swt) in 2019, the third highest on record (only surpassed by the other severe drought-years of 2014 and 2015). Overall, the general global demand outlook for beef remains quite positive, but there are growing areas of uncertainty.

Figure 8: Australian beef exports: January – September



Source: DA

China and African Swine Fever

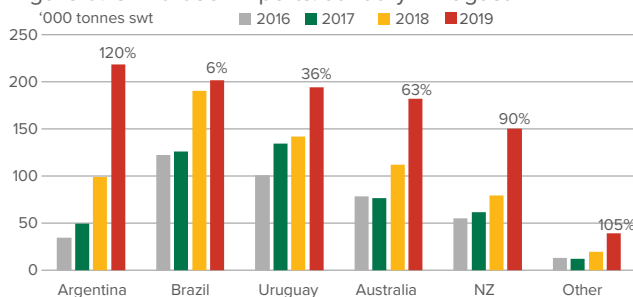
The impact of African Swine Fever (ASF) across Asia appears to be growing by the month and the demand for substitute animal protein is mounting. It is estimated there will be a 10 to 20 million tonne shortfall of pork in China as a result from the epidemic. No single country has the capacity to fill this supply gap, so China has been busy expanding meat access and approving more exporter plants around the world.

Significantly higher volumes of beef have been imported from South America in particular. Brazil, Argentina and Uruguay have all been buoyed by an undervalued currency and have shifted the focus of their supply towards Asia, rivalling Australian and New Zealand offerings. If the China market was to slow, South American suppliers would have the greatest exposure given their growing reliance on China.

Australian beef exports to China for the year to September were at 200,000 tonnes swt, up 73% on 2018. China has even surpassed Japan as Australia's top destination for beef for July, August and September. Much of this growth has come from a 91% increase in the volume of manufacturing beef, closely followed by blade which has improved by 81%. Undoubtedly, these cheaper cuts of frozen beef make for an affordable pork substitute.

When the Australia China Free Trade Agreement (ChAFTA) quota of 174,500 tonnes swt was hit mid-August, the tariff rate paid on exports was bumped up to 12%. However, with China looking to stockpile inventory leading up to the Chinese New Year, the increased tariff is not expected to substantially impact demand.

Figure 9: China beef imports: January – August



Source: IHS Markit (Percentage figures denote year-on-year growth from 2018 to 2019)

US

Australia's volume of exports to the US was at 187,000 tonnes swt for the year to September, up by 4% on 2018, and export value was up 19% for the year to August. This growth is consistent across frozen and chilled product categories, with particular improvement coming from flank (up 15% on 2018) and shank (up 33% on 2018) cuts.

The US economy is currently performing well, with unemployment at a low 3.5%, however, the economic landscape is changing with the ongoing trade war with China. The New York Federal Exchange listed a 35% possibility of a recession in the US by August 2020. The risk for Australia is the possibility this slow down could spread through the foodservice industry. Fortunately, demand in the US fast food sector so far has been robust. This has helped drive beef prices to the US to record levels in early October, with the import price of 90CL Australian beef to the US above 750A¢/kg cost, freight and insurance (CIF), up 36% year-on-year.

The US cattle herd has recently reached its expected cyclical peak and will likely contract over the coming years. US beef production is set to lift and demand for imported boneless beef could come under pressure. However, demand for manufacturing beef from Asia will likely uphold competition for imported beef in the US market.

Japan, Korea and other markets

Beef exports to Japan eased this year, down 7% to 217,000 tonnes swt for the year to September (value to August was up 3%). This can be attributed to a large drop off in frozen beef exports, particularly within the two largest cut categories, manufacturing (-11%) and brisket (-12%), reflecting pressure from China and other Asian destinations. However, the chilled market appears to be holding steady, easing by 0.6%, but maintaining good growth within blade, silverside and rump cuts.

Exports to South Korea were down 3% to 121,000 tonnes swt for the year to September, but value rose 12% for the year to August. Australia triggered the Korean beef safeguard in October so the tariff for Australian products was raised from 24% to 30% – effective until 31 December 2019.

Since Australia has triggered the safeguard volume, the tariff differential between Australia and the US will increase from 5.3% to 11.3%. While the differential will create challenges for Australian beef in an already highly competitive market, this is a marked improvement on 2018, when the tariff differential was 18.7%.

Saudi Arabia and Vietnam are other beef export markets which performed well regardless of international pressure on demand. Shipments to Saudi Arabia were up by 41% (to 9,500 tonnes swt for the year to September), while Vietnam increased by 29% (also to 9,500 tonnes swt for the year to September).

Prices

Young cattle prices have largely remained stable through winter, with a slight decline during August, offset by a modest increase in September. Weather variability has created a disparity between northern and southern regions, with prices in the south considerably stronger than their northern counterparts.

The Eastern Young Cattle Indicator (EYCI), has settled between 465¢/kg carcass weight (cwt) and 500¢/kg cwt, a trend that goes back to March, except for a brief period in July, August and more recently in October when the indicator rose above the 500¢/kg mark.

On a state-by-state basis, it is easy to see the winter variability. Many southern parts of the eastern seaboard, the Hunter region and western Victoria received at least average winter rainfall, strengthening restocker intent and prices. EYCI eligible cattle in Victoria averaged 529¢/kg cwt in October, 42¢ above NSW and 56¢ above average Queensland prices, as the vast majority of NSW and all the northern states continue to struggle with critical drought conditions. Prices in WA are performing the best of all states, with young cattle averaging 546¢/kg cwt so far in October.

One of the major factors behind the strength in the current market, despite the ongoing drought, is the demand for well finished cattle. This is particularly relevant for feedlots, which have remained active in the store market, often at a premium to restockers and processors, in order to attain suitable feeder cattle for export programs. The heavy steer indicator traded at a 14% premium to the EYCI in September, the largest spread since 2002, providing incentives for feedlots, despite elevated grain prices.

The medium cow indicator continued to strengthen into spring, averaging 437¢/kg cwt in October. This is in line with levels a year ago and the five-year average, a strong performance considering the high level of female slaughter. Improving cow prices found support from aforementioned record 90CL prices, as demand for manufacturing beef has intensified.

Looking ahead, the market is poised to change markedly in the event of any widespread rainfall. The modest improvement in conditions in the south provides an indication of the potential upside, with prices higher than the northern states and, given the potential for increased restockers activity in the north, prices will see significant upside.

However, the outlook until the end of the year indicates a limited chance of above average rainfall for the majority of Australia. As a result, substantial price movement is unlikely until at least the new year.

Figure 10: Young cattle vs finished cattle

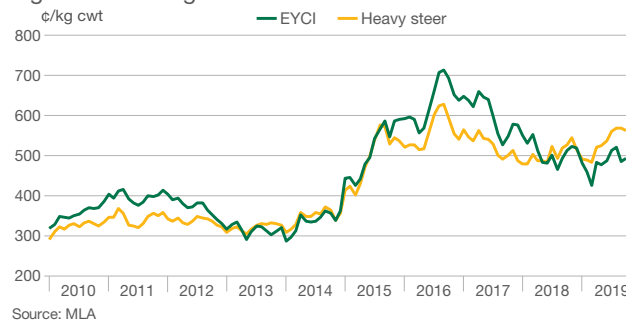
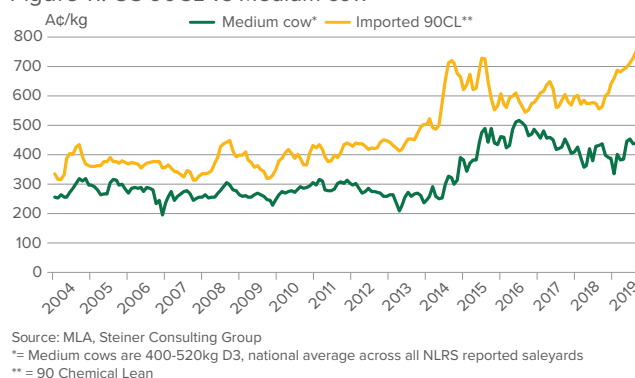


Figure 11: US 90CL vs Medium cow



Situation and outlook for the Australian cattle industry

	2014	2015	2016	2017	2018	2019 ^f	% change 2019 ^f on 2018	2020 ^f	2021 ^f	2022 ^f	% change 2022 ^f on 2018
Cattle numbers ('000 head)*											
cattle	29,100	27,413	26,845	27,965	28,052	26,000	-7.3%	25,550	26,450	27,420	-2%
percentage change	-0.7%	-5.8%	-2.1%	4.2%	0.3%			-1.6%	3.5%	3.7%	
Slaughtering ('000 head)											
cattle	9,226	9,007	7,288	7,158	7,873	8,400	7%	6,900	6,800	7,500	-5%
calves	688	667	542	413	468	480	3%	400	430	460	-2%
total	9,914	9,675	7,830	7,571	8,341	8,880	6%	7,300	7,230	7,960	-5%
Average carcase weight (kg)											
cattle	276.8	279.1	288.2	297.6	290.8	282.9	-3%	293	300.0	302.4	4%
calves	64.9	55.6	53.9	45.7	41.3	43.0	4%	45.0	45.0	45.0	9%
Production ('000 tonnes carcase weight)											
beef	2,554	2,514	2,101	2,130	2,289	2,376	4%	2,022	2,043	2,268	-1%
veal	41.3	32.9	24.2	18.9	19.3	20.6	7%	18.0	19.4	20.7	7%
total beef and veal	2,595	2,547	2,125	2,149	2,309	2,397	4%	2,040	2,062	2,289	-1%
Cattle exports ('000 head)											
cattle	1,292	1,332	1,126	855	1,089	1,175	8%	900	900	950	-13%
Beef exports** ('000 tonnes)											
total, carcase weight	1,881	1,888	1,497	1,493	1,655	1,746	6%	1,396	1,413	1,636	-1%
total, shipped weight	1,287	1,285	1,018	1,015	1,126	1,188	6%	949	962	1,113	-1%
Domestic utilisation ('000 tonnes carcase weight)***											
total, carcase weight	702	646	614	643	639	634	-1%	628	633	637	0%
kg/head***	29.9	27.1	25.2	26.0	25.6	25.0		24.4	24.2	24.0	

Source: ABS, DAWR, MLA forecasts

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

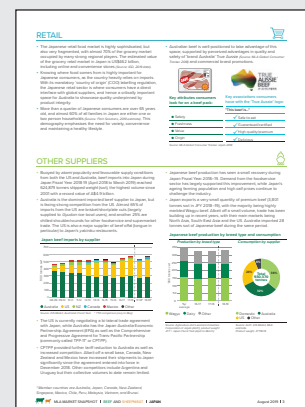
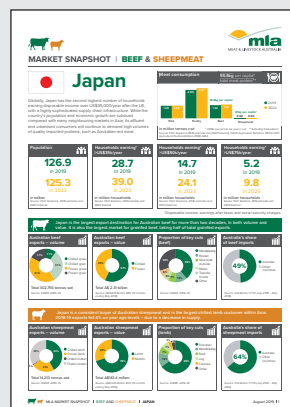
** excl. canned/misc. shipped weight

*** 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.

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



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