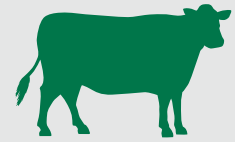


Australian cattle

Industry projections 2017



KEY POINTS

- 3% drop in cattle slaughter
- Small herd recovery
- Restockers continue to drive market
- Beef exports to still be fifth largest

KEY 2017 NUMBERS

Slaughter



7.1
(million
head)

Production



2.1
(million
tonnes cwt)

Beef
Exports



970,000
(tonnes
swt)

Live
exports



800,000
(head)

* Graphic illustrates year-on-year change

MLA's Market Information – Ben Thomas
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Summary

The Australian beef industry will more than likely continue the first half of 2017 in much the same fashion as last year – tight supplies, robust restocker demand and the subsequent likelihood of a strong young cattle market.

As the year progresses though, beef production is expected to slowly start increasing again and, as this eventuates, some downward pressure is likely to be placed on the market.

Expectations are for a further 3% decline in Australian cattle slaughter in 2017, to 7.1 million head. While this is a significant fall, it's not nearly to the same extent that was seen over the past 12 months, when an extremely rare 19% drop occurred.

Despite forecasts for slightly heavier cattle, Australian beef production is forecast to follow suit and decrease 3%, to 2.1 million tonnes cwt. Again, it's the first half of the year that is most likely to see supplies at their tightest, and production will probably start slowly rebuilding thereafter.

The number of cattle on feed is forecast to remain constrained by the still very high feeder cattle prices, which closed 2016 up 80% from the pre-surge average levels. While entry cattle prices remain dear, solace comes from cheaper Australian feed grain prices and, under this scenario, forecasts are for cattle to stay on feed for 10-30% longer than what otherwise would have been the case. The overall outcome is the expectation for numbers on feed to range from 700-750,000 head per quarter, and turning off just over 2.5 million head (35% of total adult slaughter).

Moving onto prices, the Australian market is following a similar pattern to what occurred in America, although just 1-2 years behind. Once the US market broke through its long-term average trading range, it took just over two years to hit a high, before taking 15 months to lose much of the gains. Encouragingly though, the US has stabilised 38% above the previous level, which potentially indicates a new floor.

Summary continued...

While Australian cattle prices also took two years to reach a peak, only the very early stages of a decline are imminent and a major price easing is likely to await a more balanced cattle market (probably from 2018), as production builds and restocking pressure recedes. Hypothetically, if Australia does follow the same pattern as what occurred in the US, and taking into account other factors, like global production and cattle / beef price forecasts, the Australian cattle market could see a 20-40% decline from the peak, yet settle at a similar magnitude above the 10-year average.

Australian beef and veal exports are likely to correlate with the lower beef production and are estimated to decline a further 5% in 2017. While this is expected to be the third consecutive fall, it will still be the fifth highest export volume on record.

The domestic market is showing some stronger signs and per capita beef consumption in Australia is forecast to rise slightly in 2017, edging close to 26kg per person.

Live exports will also continue to be challenged by the smaller pool of cattle (especially in the north), resistance from some markets at current price levels and continued uncertainty around import policies. For 2017, live exports are forecast to be 800,000 head, down a further 24% – following on from the 21% decline that occurred last year.

Assumptions

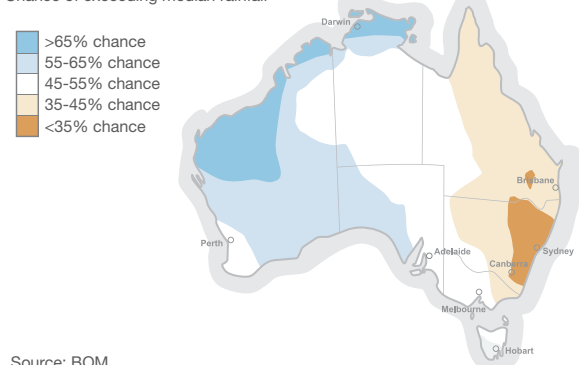
Average seasonal conditions have been assumed for the majority of Australia's cattle producing regions for the 2017 to 2021 projections. The latest BOM three month outlook indicates mostly 'below average' rainfall and 'above average' temperatures over eastern Australia during the January to March period. South-east Queensland and north-east NSW have a lower chance of exceeding median rainfall and higher chance of exceeding median temperatures, while the remainder of the country has a mostly neutral chance of a wetter or drier (and warmer or cooler) January to March period.

According to the International Monetary Fund (IMF), global economic growth for 2016 was estimated at 3.1%, and is forecast to recover slightly to 3.4% in 2017. This is in fact a 0.1 percentage point downward revision from earlier forecasts, reflecting a more subdued outlook for advanced economies following the June UK vote in favour of leaving the EU and weaker-than-expected growth in the US.

The Australian dollar rose against most major trading partner's currencies across the entirety of 2016. A\$/US\$ moved 3US¢ higher over the course of the year, before falling back to currently trade at 73US¢. A number of key political outcomes throughout 2016 created an element of volatility in the market. The US election triggered the US\$ to rally into the New Year, pulling the Australian dollar lower. The A\$/yen moved just shy of 10¥ higher from October until December, stimulated primarily by the strengthening US\$. A\$/KRW peaked at 90won in March – while the economic downturn in South Korea caused some weakness to the Australian dollar, the impeachment of South Korea's president at the close of 2016 provided some resistance – currently trading at 883won. 'Brexit' caused shockwaves across the European Union, as the United Kingdom voted to leave the EU; creating an extremely attractive proposition for Australian exporters if further trade access can be granted. Since the vote was confirmed, the Australian dollar has moved 20% higher against the GBP.

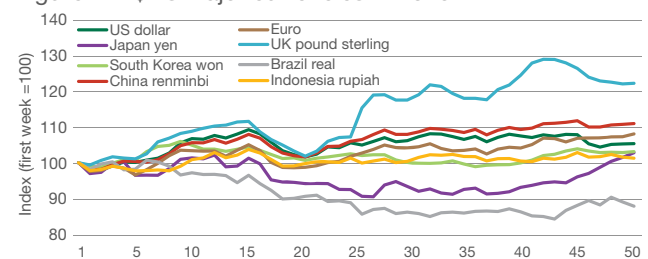
All of these elements are likely to remain in play throughout 2017.

Figure 1: Australian rainfall outlook January to March 2017
Chance of exceeding median rainfall



Source: BOM

Figure 2: A\$ vs major currencies in 2016



Source: XE.com

Situation and outlook for the Australian cattle industry

| | 2013 | 2014 | 2015 | 2016 ^a | 2017 ^f | % change | 2018 ^f | 2019 ^f | 2020 ^f | 2021 ^f | % change 2021 ^f on 2017 |
|---|---------------|---------------|---------------|-------------------|-------------------|----------|-------------------|-------------------|-------------------|-------------------|------------------------------------|
| Cattle numbers ('000 head)* | 29,291 | 29,100 | 27,413 | 26,142 | 26,810 | | 27,641 | 28,216 | 28,359 | 28,487 | 6% |
| percentage change | 2.8% | -0.7% | -6.4% | -4.6% | -2.2% | | 3.1% | 2.1% | 0.5% | 0.5% | |
| Slaughterings ('000 head) | | | | | | | | | | | |
| cattle | 8,344 | 9,226 | 9,007 | 7,300 | 7,100 | -3% | 7,400 | 7,700 | 8,100 | 8,100 | 14% |
| calves | 690 | 688 | 655 | 630 | 625 | -1% | 640 | 680 | 700 | 710 | 14% |
| total | 9,034 | 9,914 | 9,662 | 7,930 | 7,725 | -3% | 8,040 | 8,380 | 8,800 | 8,810 | 14% |
| Avg carcase weight (kg) | | | | | | | | | | | |
| cattle | 278.0 | 276.8 | 279.0 | 287.0 | 287.0 | 0% | 288.0 | 289.0 | 290.0 | 291.0 | 1% |
| calves | 58.5 | 60.1 | 56.0 | 60.0 | 60.0 | 0% | 60.0 | 60.0 | 60.0 | 60.0 | 0% |
| Production ('000 tonnes carcase weight) | | | | | | | | | | | |
| beef | 2,320 | 2,554 | 2,513 | 2,095 | 2,038 | -3% | 2,131 | 2,225 | 2,349 | 2,357 | 16% |
| veal | 40.4 | 41.4 | 32.9 | 37.8 | 37.5 | -1% | 38.4 | 40.8 | 42.0 | 42.6 | 14% |
| total beef and veal | 2,360 | 2,595 | 2,546 | 2,133 | 2,075 | -3% | 2,170 | 2,266 | 2,391 | 2,400 | 16% |
| Cattle exports ('000 head) | 850 | 1,292 | 1,332 | 1,050 | 800 | -24% | 800 | 950 | 1,000 | 1,000 | 25% |
| Beef exports** ('000 tonnes) | | | | | | | | | | | |
| total, carcase weight | 1,611 | 1,881 | 1,889 | 1,497 | 1,426 | -5% | 1,514 | 1,602 | 1,720 | 1,720 | 21% |
| total, shipped weight | 1,100 | 1,294 | 1,285 | 1,018 | 970 | -5% | 1,030 | 1,090 | 1,170 | 1,170 | 21% |
| Domestic utilisation ('000 tonnes c/c weight)*** | | | | | | | | | | | |
| imports | 3.6 | 4.4 | 3.0 | 3.5 | 3.5 | 0% | 3.5 | 3.5 | 3.5 | 3.5 | 0% |
| total, carcase weight | 736 | 702 | 646 | 623 | 636 | 2% | 642 | 650 | 658 | 666 | 5% |
| kg/head**** | 31.8 | 29.9 | 27.1 | 25.8 | 25.9 | 1% | 25.8 | 25.7 | 25.6 | 25.6 | -1% |

Source: ABS, DAWR, MLA forecasts

* As at 30 June, 2016 is an MLA estimate

** excl. canned/misc, shipped weight

*** Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcase weight

**** kg/head consumption calculated from total carcase weight divided by Australian population

Cattle herd

The Australian cattle herd is expected to increase during 2017 – for the first time in three years.

While the rebuild will be by no means uniform, due to varying seasonal fortunes and breed compositions, the general expected trend is for southern Australia (New South Wales and Victoria in particular) to rebuild at a faster rate than their northern counterparts. In fact, assuming an average natural fall, the southern Australian herd could return to pre-drought levels by 2018. In contrast, the northern Australian herd is not only in a greater deficit, the extremely hot conditions during November and December are likely to have inhibited the otherwise anticipated above-average branding rates in early 2017 and, pending severity, could delay rebuilding in some regions. It seems unlikely that the full Queensland herd will recover to pre-drought levels until 2021.

However, the Queensland and northern rebuild could be accelerated considerably if the regional average branding rate exceeds 70% (only likely if 'above average' rainfall is received), and if this does occur, it's likely the northern herd will recover by 2019-2020. Another factor that may accelerate the herd rebuild is the time at which the Australian cattle market remains at levels enough to incentivise producers to concentrate on rebuilding efforts. At the same time, it's worth noting the significantly lower variation and the consistently higher average branding rates from year-to-year in southern Australia compared to the north. This will more than likely always see the southern herd deficit recover quicker than the north.

The female percentage of adult cattle slaughter on a rolling 12 month average edged below 47% for the first time in 35 months during November 2016, indicating that the herd is well on the way to recovery.

Figure 3: Australia brandings

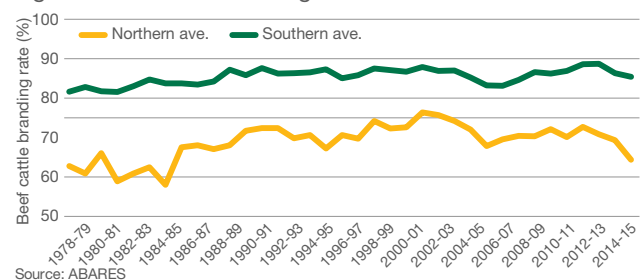
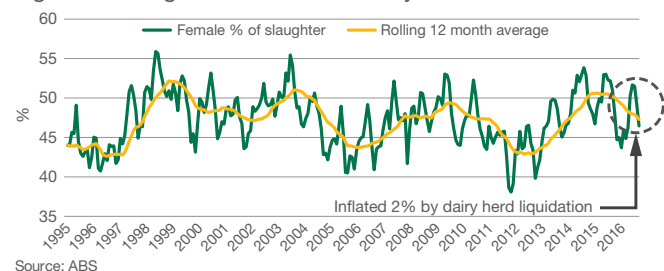


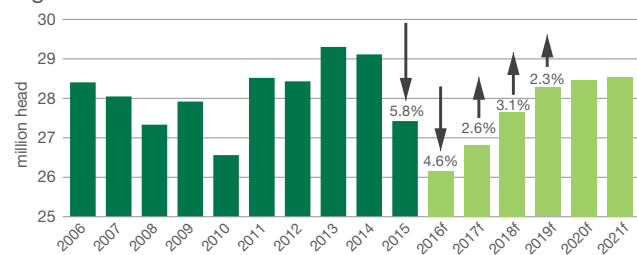
Figure 4: Slaughter in rebuild territory



Cattle herd continued...

All-in-all, however, national cattle numbers are anticipated to increase 3% year-on-year in 2017, to 26.9 million head, with the majority of that increase not anticipated to be realised until the second half of the year. Thereafter, and again assuming average seasonal conditions, diminishing herd growth rates are predicted through until the end of the projection period (2021), when the herd is predicted to reach 28.5 million head, within 3% of the 2013 peak.

Figure 5: Cattle herd



Source: ABS, MLA estimates

Adult cattle slaughter

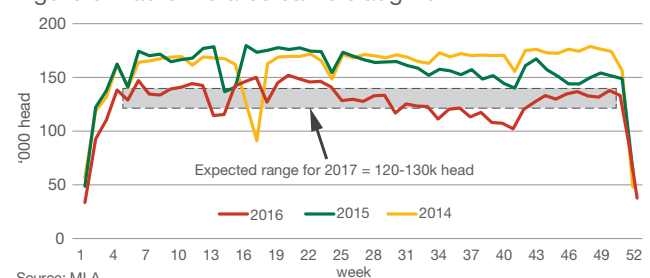
After declining abruptly in 2016 – from 9 million head in 2015, to 7.3 million head (down 19% year-on-year) – expectations for 2017 are for yet another decline in adult cattle slaughter, however much smaller. The primary reason for the lower slaughter is the expectation that many producers will be retaining as many cattle as possible to replenish depleted herds, and, even though the herd is larger than last year, it is still historically low.

Breaking the slaughter down even further, the majority (if not all) of the 200,000 head decline is likely to be made up of females, based on the expectation of strong rebuilding intent, and this could flow on to lower lean manufacturing beef volumes relative to the prime cuts.

Furthermore, for the eastern states, the expectation for the duration of 2017 is for the kill to range from 120-130,000 head per week, with the first half of the year hovering closer to the lower bound, while slaughter in the second half will move towards the upper bound. This will indeed be at considerably lower levels than the unprecedented numbers seen in 2015. From 2018, slaughter is likely to consistently return to long-term average levels.

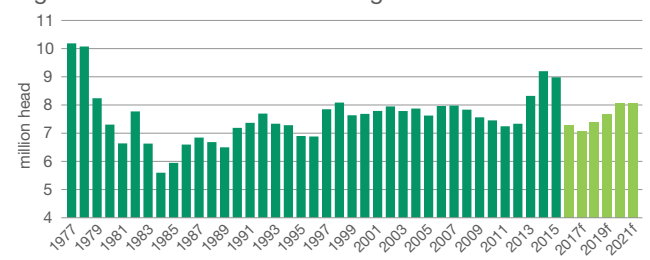
Looking further ahead, and towards the end of the projection period, cattle slaughter should continue to gradually increase, before eventually reaching 8 million head again by 2021 (still around 1 million below the 2014 and 2015 peak during the herd liquidation).

Figure 6: Eastern states cattle slaughter



Source: MLA

Figure 7: Annual adult cattle slaughter



Source: ABS, MLA estimates

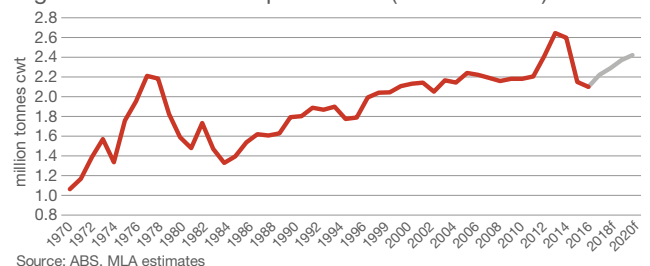
Production and carcass weights

With fewer females expected to be processed, combined with generally lower national stocking rates across the nation, the average carcass weight of Australian adult cattle is expected to rise slightly from last year's level – from 286kg/head, to 287kg/head in 2017.

While the rise is small, when multiplied across the 7.1 million head of cattle anticipated to be slaughtered, beef production will likely be 2.05 million tonnes cwt, which is 2% lower than the previous year. Like cattle slaughter, the first half of the year will be when production levels are at their lowest, relative to 2016, however, they should commence building from July onwards. Looking further ahead, 2018 is forecast to see beef and veal production increase 6% from the 2017 levels, to 2.17 million tonnes cwt – close to the 10-year average (2.23 million tonnes cwt).

In short, what this means for Australian beef producers is that 2017 will see the relatively tight supplies continue, particularly for the first half of the year. However, as the year progresses production will slowly build, before 2018 resembles somewhat of an “average” year. Producers trading cattle or looking to restock should take this into account when calculating the price they would comfortably enter the market at, as the inevitable build in supplies will probably have the opposite impact on prices.

Figure 8: National beef production (beef and veal)



Source: ABS, MLA estimates

Similarly for importers, while Australian beef availability was noticeably shorter in 2016 compared to 2015, supplies should start increasing again as the year progresses and continue to do so through to the end of the projection period.

Cattle on feed

The number of cattle on feed seems likely to drop significantly in 2017. However, the expectation of cheap feed grain prices is likely to result in cattle remaining on feed for longer. The anticipated quarterly average for 2017 is from 700-750,000 head on feed. This should equate to turn-off of around 2.5 million head, down 100,000 from the estimated 2.6 million head in 2016.

There was an extraordinary lift in feeder cattle prices throughout 2015 and 2016. For the years 2010 to 2014, the eastern states saleyard feeder steer indicator averaged 191¢/kg lwt. During December of 2016, a good indication of where the markets will begin in 2017, the average feeder steer price was 345¢/kg lwt, up 81% from that five-year average. At the close of markets in 2016, the market was 8% dearer than a year earlier – all on the back of the extremely short cattle supplies and fierce restocker bidding. Looking ahead, feeder cattle prices are unlikely to have any major reprieve, particularly in the first half 2017, as the availability of cattle remains tight.

Moving onto the finished article, and while there has been a rise in the Queensland 100 day over-the-hook grainfed steer indicator, it has not been to nearly the same extent as occurred in feeder cattle prices. In fact, the indicator averaged 365¢/kg cwt from 2010-2014, and closed 2016 at 569¢/kg cwt, up 56% – compared with a rise of over 80% for feeder steers.

Considering there are more headwinds on the horizon for finished cattle, it is likely the downward pressure will continue to mount on this end of the market as a result of greater US competition in Australia's largest grainfed beef export destinations.

Feed grain prices really are the only reprieve for many lot feeders at the moment, and the enormous Australian crop from 2016 (together with a well-supplied world market) is likely to see those prices remain suppressed for the duration of 2017.

Taking all this into account, the number of cattle on feed for 2017 is likely to trend below the ten-year average of 800,000 head for the duration of the year. The only reason this wouldn't occur is if there was an unforeseen sudden drop in feeder cattle prices – but the likelihood of that is low unless widespread drought reappears. However, while there will be fewer cattle on feed, expectations are for cattle to stay on feed for 10-20 days longer, due to the low feed grain prices, which should raise weights and mitigate the fall in grainfed beef production, to some extent.

The flow on to grainfed beef exports will be noticeable. 2016 saw Australian grainfed beef exports fall just short (1%) of the record set one year earlier, with 260,386 tonnes swt shipped. Japan was again the largest destination, with 129,005 tonnes swt, back 8%, while volumes to Korea more than offset the decline to Japan, up 26% year-on-year, to 55,756 tonnes swt. Similarly, grainfed beef volumes to China rose 9% last year, to reach 23,557 tonnes swt, while volumes to the EU eased 1%, to 15,980 tonnes swt.

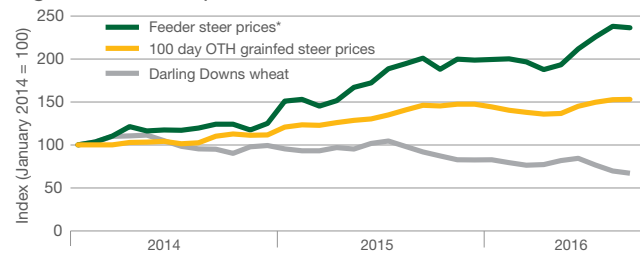
The drop in the number of cattle on feed is likely to impact grainfed beef exports – with limited supply, rather than poor demand, the inhibiting factor.

Cattle prices

Australian young cattle prices are likely to come under pressure when the extremely high restocking demand eventually wanes. A brief look globally indicates that the Australian cattle market is currently out of kilter with those internationally, and that's largely due to the restockers.

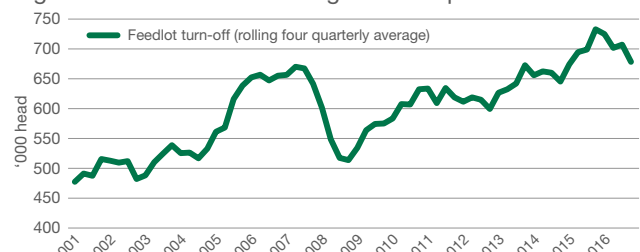
In fact, throughout 2016 yearling steers sold to restockers averaged a 26¢/kg premium to those sold to lot feeders, and a 31¢/kg lwt premium to processors. This actually stretched to as much as 55¢ and 65¢/kg lwt, respectively, during October, when exceptionally strong restocking intent was clearly demonstrated.

Figure 9: Feedlot price movements



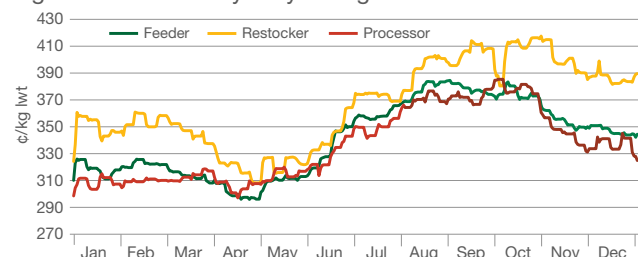
Source: MLA's NLRS

Figure 10: Feedlot turnoff vs grainfed exports



Source: DAWR, MLA/ALFA quarterly survey

Figure 11: 2016 saleyard yearling steer



Source: MLA

Cattle prices continued...

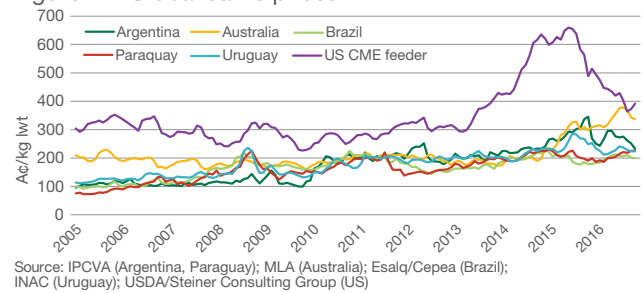
Globally, indicative cattle prices (when converted to Australian dollars) generally trended lower in the major beef producing nations throughout 2016. However, recent US beef price trends are particularly interesting.

Firstly, before commencing its rapid rise, the US CME feeder cattle index had a five-year (2008 to 2012) average of 281A¢/kg lwt. After breaking through it took 25 months to reach a peak 133% above the five-year average, at 656A¢/kg lwt in July 2015. Intriguingly, the eastern states feeder steer indicator has followed a very similar path – albeit belated by around two years (due to the severe three-year drought). The five-year average price for the eastern states indicator was 191A¢/kg lwt, which eventually doubled in value 21 months after breaking through the long-term trading range. While the magnitude of the rise in Australia, and the time frame it occurred were not identical, the patterns were still very close when all things are taken into account.

Secondly, as a clue as to what may happen in Australia going forward, the US CME feeder steer index ended up declining at virtually the same rate it went up, and took 15 months to bottom out at 361A¢/kg lwt – 45% below the peak. Australia is likely to follow a similar path to the US, though the fall may not be as large. Providing some solace for Australian producers is the fact that the US market has appears to have stabilised, and at the close of 2016 was still 38% above the aforementioned five-year average price. If the same scenario were replicated in Australia, and taking into account global beef production, demand and cattle / beef prices forecasts; an expected fall in the A\$ and ongoing tariff reductions; the Australian cattle market could potentially decline 20-40% from its peaks once production eventually rebuilds, but like the US, stabilise above the previous long-term average.

This scenario is, of course, very dependent on seasonal conditions, trading environment, currency fluctuations and the rate at which Australian beef production recovers.

Figure 12: Global cattle prices



Beef demand outlook

Following the 21% year-on-year decline in 2016, Australian beef and veal exports will probably be lower again in 2017 – although not nearly to the same extent as what recently occurred, as beef and veal production is expected to stabilise as the year progresses.

Expectations are for beef and veal exports to ease a further 5% in 2017, to 970,000 tonnes swt, which will mean 69% of Australian production will be destined for international markets.

At the same time, consumption in the Australian market is projected to stabilise in 2017, with a small per capita rise anticipated. Nationally, the 25.77kg/capita consumed in 2016 is forecast to rise to 25.9kg, the first increase for many years.

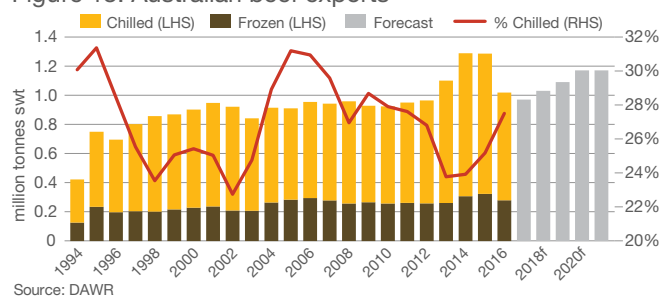
Beyond 2017, Australian beef and veal exports are likely to exceed 1 million tonnes swt again from 2018 onwards, benefiting from the eventual rise in production and firm demand. Similarly, relatively stronger demand from the domestic sector should see incremental rises in Australian per capita consumption, although it seems unlikely to exceed 30kg again over the foreseeable future.

Overall, while Australian beef exports are forecast to decline for the third consecutive year, they will in fact still be the fifth largest export year for Australia, behind 2014, 2015, 2016 and 2013.

As mentioned in the lot feeding section, it is likely that the grainfed component will fall to a slightly greater extent than grassfed beef exports in 2017, especially in the first half of the year.

Finally, considering the relatively high cost of Australian beef, compared to other producers in the world, until the Australian market moderates, it's likely the beef exports will trend towards the less price sensitive markets.

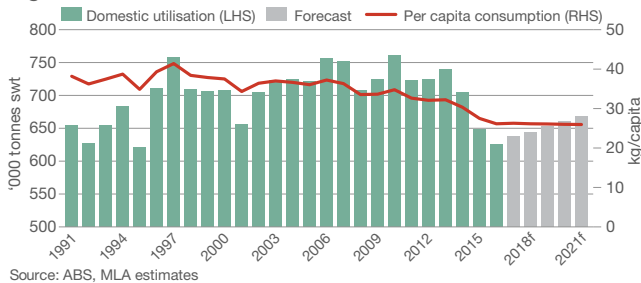
Figure 13: Australian beef exports



Australian market outlook

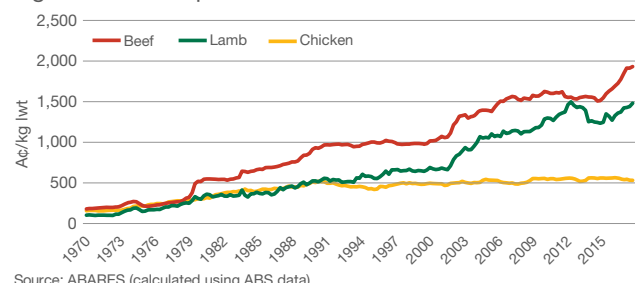
Australian consumers are becoming increasingly cautious and price-sensitive as a result of disposable income not keeping pace with inflation. While this creates some challenges, beef consumption in Australia also has some opportunities.

Figure 14: Australian beef utilisation



Source: ABS, MLA estimates

Figure 15: Retail prices



Source: ABARES (calculated using ABS data)

Strengths:

- Australians remain the fourth-largest consumers of meat, and the sixth-largest consumers of beef in the world (OECD)
- Beef value share has remained steady as retail prices have increased to record highs – while consumers are eating less, the same amount of money is allocated to beef each shop. For perspective, the weighted average retail beef price in September 2016 was \$19.34/kg, which was not only the highest on record, but 25% above where it was at the beginning of 2014 – when export prices also surged. Interestingly, a rise in retail prices over a short time frame is not unprecedented, and what has always followed is a plateauing, or stabilisation, for eight to ten years, and that same pattern is forecast to re-occur over the foreseeable future and assist domestic demand – especially with the emergence of new major retailers
- Despite the price barrier, beef remains a very popular meat choice that has pride of place in Australian hearts and minds
- According to MLA’s 2016 Global Consumer Survey, Australians see beef as the most superior of proteins due to its several unique strengths – being an essential part of a healthy diet for growing children, its versatility, its consistent quality standards, delicious taste and for being easy/convenient to prepare

Challenges:

- Changing demography – including increased migrations from Asian countries where pork is the dominant protein, and an aging population who are avoiding red meat for health/functional/price reasons
- There is also the increased competition from pork and chicken that will continue to challenge beef consumption
- Social factors, such as increased consumer consciousness of environmental impact, animal welfare and health concerns, and increased demand for food integrity, provide challenges but also opportunities to consider in red meat messaging

The Bottom Line:

Beef consumption in Australia is likely to stabilise in 2017, as a result of softer international demand, combined with an expectation of consumers no longer having to face further rises in retail prices. Nationally, domestic utilisation is forecast to be 635,800 tonnes cwt, up 2% from the previous year, resulting in the volume consumed on a per capita basis edging up to 25.9kg/capita.

Looking further ahead, population growth should assist overall demand on the domestic market, leading to domestic utilisation reaching 681,000 tonnes cwt by 2021.

United States

Australian beef exports to the US are in an interesting position. On the one hand, it's one of the stronger performing economies globally, putting them in a favourable position to afford Australian beef but, on the other hand, they have just registered two consecutive years of growth in domestic beef production. These ongoing factors, and a stabilisation in Australian supplies and prices, should make for interesting trading during 2017.

Figure 16: Shipments to US



Source: DAWR

Figure 17: US imported 90CL prices



Source: Steiner Consulting Group

Strengths:

- Largest economy in the world, and demonstrating signs of strengthening
- Chilled grassfed beef exports continue to climb. While both chilled and frozen volumes declined significantly throughout 2016, the proportion of chilled grassfed beef exports edged to the record 24%, demonstrating particularly strong demand for that segment of the market. Chilled grassfed beef exports during 2016 were 53,393 tonnes swt
- A\$ relative to the US\$ is expected to continue trading in the mid-to-low 70US¢ range
- In 2016, imported 90CL prices into the US averaged 11% below the 2015 level, at 577A¢/kg CIF, however remained 15% above the five-year average. Encouragingly, despite the expectation of higher domestic supplies in 2017, Steiner Consulting Group is predicting a stabilisation in manufacturing beef prices

Challenges:

- While US beef production has been increasing over the past two years, the number of female cattle processed has been at historically low levels. This means there is a higher likelihood of more cows being processed in 2017 and 2018 as the US emerges from their rebuilding phase, leading to a greater volume of manufacturing beef on the market
- During 2016, Australian beef exports to the US dropped 42% year-on-year (to 242,013 tonnes swt), with the majority of the fall in manufacturing beef. Manufacturing beef export to the US fell 45% to 150,679 tonnes swt, the combined result of higher US production, lower imported prices, a higher A\$/US\$ and lower Australian manufacturing beef production. Of these factors, rising US production will probably present the main challenge for Australia in 2017, while US prices, the A\$/US\$ and Australian supplies should stabilise
- Brazilian beef is now entering the US. While the potential volumes shipped will be inhibited by quota and tariffs, the low Brazilian real relative to the Australian, New Zealand and Canadian dollars will probably assist Brazil finding a position in the market. It may take a number of years before there is widespread acceptance of Brazilian beef, meaning the quality and safety of Australian beef cannot be compromised

The bottom line:

After a huge drop in exports in 2016, a stabilisation is anticipated for Australia's trade to the US in 2017. Expectations are for a further decline, yet not nearly to the same magnitude as what occurred during 2016.

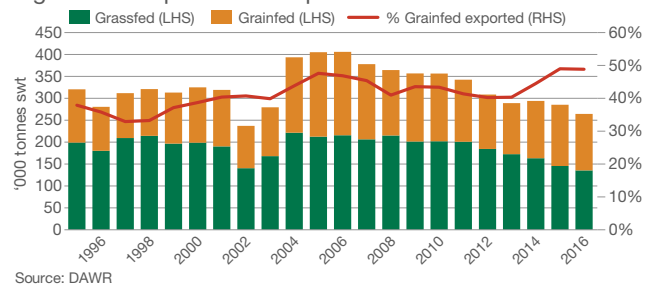
Japan

Japan recently reclaimed the honours of Australia's largest beef export destination (following a much smaller decline in shipments than that to the US). The market continues to demand Australian beef, underpinned by a solid base of end-users and the country's reliance on imports to fulfil beef requirements. However, Australia is also likely to feel the increasing pressure of mounting US beef competition in 2017.

During 2016, 264,325 tonnes swt of Australian beef was exported to Japan, of which 116,657 tonnes swt was chilled, down 9%, while 147,668 tonnes swt was frozen, down 6% year-on-year. Breaking the quantities down further, grassfed beef was 135,320 tonnes swt, down 7%, while grainfed beef was 129,005 tonnes swt, down 8% year-on-year.

Despite the declines, Japan remained the largest destination for grainfed beef (50% of total exports, or 129,005 tonnes swt), followed by Korea (21% or 55,576 tonnes swt), and chilled beef (42% or 116,657 tonnes swt), followed by the US (22% or 61,364 tonnes swt).

Figure 18: Shipments to Japan



Source: DAWR

Strengths:

- Japan is the third largest economy and one of the largest meat importers globally. Japan will continue to depend on imports to fulfill its beef requirements
- While Japanese consumers favour local Kokusan and Wagyu Beef, Australia has the highest awareness and frequency of consumption (Source: MLA Global Consumer Tracker survey, 2016)
- Japan-Australia Economic Partnership (JAEPA) continues to reduce beef import tariff for Australian beef. As of 1 April 2017, import tariff for chilled and frozen Australian beef will decrease to 29.9% (from current 30.5%), and to 27.2% (from 27.5%) under the JAEPA. Other suppliers including the US, are applied 38.5% tariff for both chilled and frozen beef

Challenges:

- Japan is essentially a mature market, and its long-term demographic trends (aging and declining population) will limit opportunities for volume growth
- The US improved its market share in Japan during 2016, on the back of increased production, a lower US\$/A\$ exchange and subsequent price fall. Besides the pricing, the availability of single cuts in large quantities, and re-invigorated interest in US products by Japanese trade continue to pose strong competition to Australia
- Japanese traditional Wagyu beef occupies a unique position in consumer's mind in terms of product specification, prices and preference. In that sense, it is US products (in beef category) and pork (both domestic and imports) that a consumer would consider and compare with Australian products, at the time of meal planning and shopping

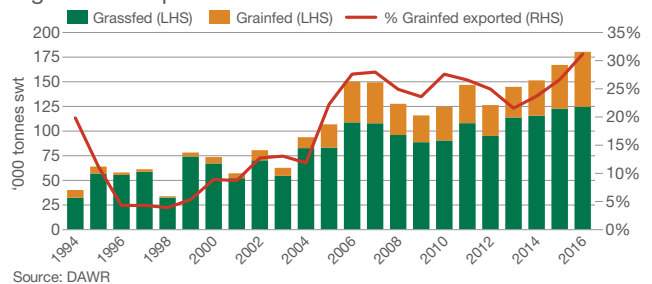
The bottom line:

While Japan will probably remain the largest export volume and value destination for Australian beef again in 2017, volumes will again be constrained by the slightly lower Australian production, and the growing presence of US beef. Shipments are anticipated to be steady, to slightly lower in 2017.

Korea

Korea (South Korea) was one of Australia’s better performing markets during 2016, largely due to limited domestic supply and subsequent high prices. Overall volumes reached a record 179,854 tonnes swt – up 8% from the previous record set in 2015. Chilled Australian shipments rose 3% to 36,641 tonnes swt, with the remainder being frozen product, increasing 9% year-on-year.

Figure 19: Shipments to Korea



Strengths:

- Korea has consistently been the third largest export destination for Australian beef, and the second largest for grainfed beef, underpinned by a large middle-high income consumer base
- Korean consumers favour local Hanwoo beef, but Australian beef awareness and frequency of consumption is higher than other imports (Source: MLA Global Consumer Tracker, 2016)
- Low domestic beef supplies and its strong prices mean that the market will continue to rely on imports to fulfil its beef requirements, and any increase in demand will have to come from imports
- Korea-Australia Free Trade Agreement (KAFTA) continues to reduce beef import tariff until it is eliminated in 2028

Challenges:

- Increased US presence through growth in production and a tariff advantage over Australian beef. US beef import tariff in 2017 is 24% under the Korea-US FTA, which is 5.4% less than Australian tariff
- The new Anti-Bribery Act was introduced in 2016, and has the potential to impact premium foodservice beef consumption and retail beef gifting
- Safeguard* restricts tariff benefits that Australia gained under the KAFTA
- Trade mechanism under KAFTA that Korea can revert to the 40% tariff level when imports exceed agreed volume.

The bottom line:

With increasing competition from pork and US beef, the expectation is for Australian beef shipments to ease slightly in 2017. However, Korea will remain Australia’s third largest export destination, and important destination for forequarter cuts.

MLA’s Market Snapshots – understand your markets



MLA's market snapshots aim to give producers a better understanding of what's driving demand in the main markets where Australian beef is consumed and therefore help producers 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 the publications click here](#)

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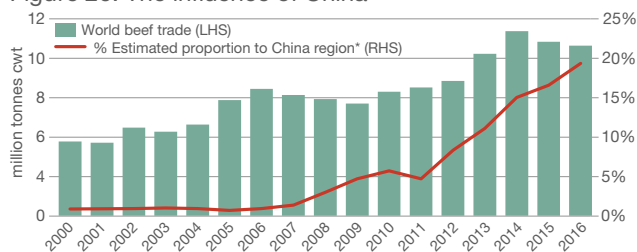
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China

After emerging as one of Australia's largest export destinations in 2013, the volumes shipped to China have been quite tumultuous, largely due to changing import protocols and the implementation, then easing, of restrictions placed on other countries. 2016 was no different, as Australian beef exports dropped 37% year-on-year, to 94,040 tonnes swt. Last year was heavily impacted by the increased shipments of Brazilian beef to China, both directly and through the grey channels, combined with the general decline in Australian beef availability. Looking forward:

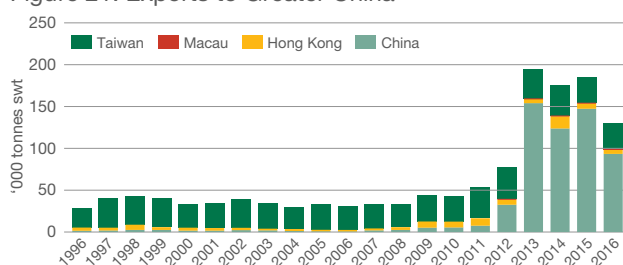
Figure 20: The influence of China



Source: Global Trade Atlas, OECD-FAO

*Calculated by adding the volumes shipped from Australia, US, Brazil, India, Uruguay and NZ to Hong Kong, China and Vietnam using Global Trade Atlas data. Estimates were made to convert to GTA volumes from shipped weight to carcase weight, and GTA data was calculated as a % of world trade from OECD-FAO data.

Figure 21: Exports to Greater China



Source: DAWR

Strengths:

- While Australian beef volumes did drop dramatically in 2016 compared to the previous year, volumes remain significantly higher than anything shipped prior to 2014. Although grassfed beef volume dropped 44% YOY, grainfed volumes grew 9%, with the bulk of that increase coming from chilled grainfed beef, which increased 136%, albeit from a low base
- ChAFTA entered into force in December 2015, with Australian beef benefiting from two tariff reductions in 2016 and annual tariff reductions occurring on 1 January until they reach zero in 2024
- Chinese demand for imported beef continues to expand, driven by urbanisation and income growth, limited capacity for significant local production expansion and recent market liberalisation
- Although the number of affluent consumers who can regularly afford to buy imported beef is comparatively small, their number is expected to double over the next 5 years
- Per capita beef consumption in China is small relative to other proteins but is forecast to continue to gradually increase – from 3.8kg in 2015 to 4.6kg in 2025 (+21%) (OECD-FAO)
- Beef and beef offal has traditionally been used in a variety of stir fry, stew, soup and hot pot recipes. In urban upper middle class households, there is increasing trial of western style steaks and burgers
- Affluent consumers appreciate Australian beef and recognise it offers advantages that are worth paying more for, such as safety and consistent quality standards as well as its superiority when it comes to taste and nutritional value

Challenges:

- The China beef market is large and complex, necessitating a sophisticated segmentation approach to identifying market opportunities
- The China beef market is a very competitive one and will become increasingly so as more countries are granted access
- China has one of the world's largest beef cattle herds, estimated at 50.7 million head in 2015 (GIRA), with domestic beef production expected to see continued but slow growth in the coming years (BMI, GIRA)
- Direct beef imports comprised around 9% of the beef consumed in China in 2015. In 2016, the year-to-date Jan-Nov volume of direct imports grew 27% on 2015, highlighting strong demand and expanded formal access, with Brazil alone significantly around 29% of imported frozen beef. Uruguay has consistently been a significant supplier to China, with volumes increasing significantly during 2016

The bottom line:

Australian beef exports will more than likely continue to feel the pressures from other suppliers in 2017, Brazilian product particularly. While a year-on-year rise in exports to the market is not forecast, China should remain Australia's fourth largest beef export destination.

Taiwan

The Taiwanese market performed particularly well in 2016, being one of only a few major markets where a year-on-year rise in beef exports was registered. Over the course of the year, volumes increased 3%, to 31,385 tonnes swt, with the chilled component rising 6%, to 5,056 tonnes swt. While there are the same competitive pressures likely from the US, Taiwan should remain a strong market for Australian beef in 2017.

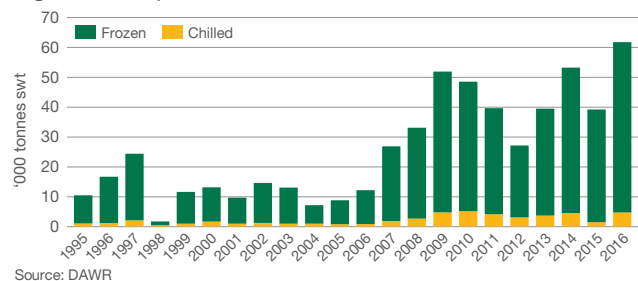
Hong Kong

In 2016, Australian beef shipments to Hong Kong felt the same supply and competitive pressure as many other markets globally, and declined 32% year-on-year, to 4,494 tonnes swt. Given the proximity to China and similar competitive pressures, a rise in Australian exports in 2017 seems unlikely, despite coming from a relatively low base.

Indonesia

The relaxation of import protocols on meat and offal products by the Indonesian government, combined with strong demand for beef from consumers, resulted in a strong recovery of Australian boxed beef exports to the market during 2016 (up 58% from 2015, to 61,676 tonnes swt). This was despite the influence of tightened cattle supply from Australia (and higher prices), as well as an entry of Indian buffalo meat to the market.

Figure 22: Exports to Indonesia



Source: DAWR

Strengths:

- Large and growing population, which is forecast to be 272 million people by 2020
- The current number of consumers who can regularly afford to buy imported beef is comparatively small, however household income is forecast to grow strongly
- With the majority of consumers being Muslim, beef and chicken are most common meat proteins in Indonesia. More beef is consumed in urban areas due to concentration of higher income consumers in major cities
- Consumers have strongly positive associations with Australian beef, particularly desired for its taste, nutritional value and quality. In turn, local beef is more associated with freshness, price (cheaper) and being halal (MLA Global Consumer Tracker 2016)

Challenges:

- Ongoing uncertainty and changes to import protocols / regulations
- Importation of Indian buffalo meat (carabeef). As at December 2016, approximately 25,000 tonnes of buffalo meat have reportedly been imported into the market, with another 85,000 tonnes anticipated to arrive prior to post Ramadan festive season by June 2017. Besides wet markets, Buffalo meat is being sold in modern hypermarkets and meat shops
- Australian beef is the favourite beef but frequency of consumption is low in this highly price sensitive market

The bottom line:

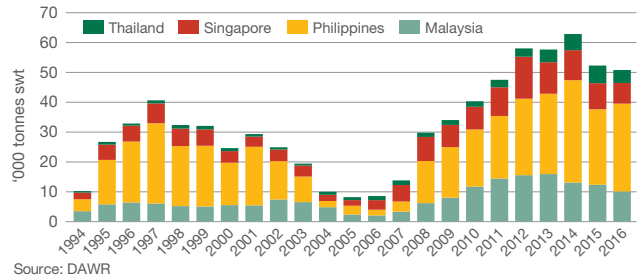
Australian beef exports are likely to consolidate the significant gains of 2016 and hold steady for 2017, as further demand growth is offset by increasing competition from Indian product and a slightly lower Australian beef availability.

South-East Asia (excluding Indonesia)

SEA (includes Malaysia, Thailand, Singapore, the Philippines, Vietnam, Brunei, Cambodia, Laos and Myanmar) is a fast growing destination for Australian red meat, with their meat consumption steadily rising in line with the region's economic development and population increase.

Price remains a key driver for beef consumption in the region, and Australia will continue to face competition from other competitively priced beef suppliers, such as India and Brazil.

Figure 23: SEA relatively steady



Strengths and challenges surrounding SEA include:

- Household earning across the markets is steadily on the rise, increasing the number of households who can regularly afford to buy higher value proteins such as premium imported beef. Per capita consumption of beef is also forecast to grow
- Red meat demand surges during festive season, including Ramadan month
- Tourism in the region is growing, assisting the growth of the high end foodservice
- Current demand for Australian beef is primarily focused on manufacturing beef (particularly from the Philippines). Increasing cut profile, and promoting quality attributes of Australian beef, remain a challenge

The bottom line:

Australian beef and veal exports to South-East Asia (excluding Indonesia) in 2016 bucked the general trend and increased 2%, to 58,203 tonnes swt, with the Philippines underpinning the majority of the growth. With continued demand growth anticipated (driven by population and income) and Brazil and Indian beef export growth centred on China and Indonesia, respectively, Australian shipments could rise modestly again in 2017.

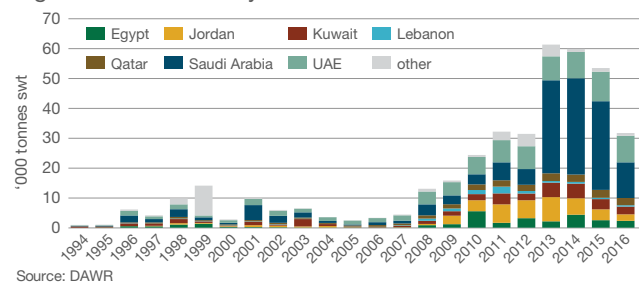
The Middle East & North Africa (MENA)

Australian frozen beef volumes to the MENA region in 2016 were down significantly from 2015 (45% YOY) due in large part to a combination of Brazil re-entry to key MENA markets, higher cattle prices and sustained low oil prices. At the same time, some markets – Qatar Lebanon and Oman – saw growth in Australian chilled beef imports.

In 2016, Australia exported beef to some 16 countries in the MENA region, an important market for Australia totalling 30,813 tonnes swt.

Saudi Arabia was Australia's 9th largest beef export market by volume in 2016, followed closely by the UAE. Significant volumes were also exported to Kuwait, Egypt, Qatar and Jordan.

Figure 24: MENA likely to take 30k



Strengths:

- Increasing urbanisation, growing disposable incomes, a young population and large expatriate professional populations as well as developing tourism markets and modern retail in a number of countries are all key long-term growth drivers for imported beef demand
- Though higher in some countries than others, per capita beef consumption in most MENA countries is forecast to continue to increase

The Middle East continued...

Challenges:

- MENA countries' trade and consumer confidence & spending are impacted by factors such as oil & gas prices and conflict, adding some unique complexity and volatility to these markets
- MENA is one of the most highly competitive and price-sensitive meat markets in the world, being open to almost all suppliers and meats
- Whilst the total population of the MENA region was around 430 million in 2016, the number of households that can afford to regularly buy Australian red meat varies, with spending on imported meat higher across the Middle East compared to North Africa, particularly in GCC countries that have a large and growing wealthy consumer base
- Beef is a secondary protein after chicken and fish in most MENA diets
- For Australian red meat exports, tariff barriers are generally not onerous for most MENA countries compared to some other markets but there are significant technical barriers to trade. Those associated with product age and expiry dates have the biggest impact

The bottom line:

Australian beef exports to the region will continue to find the trading environment competitive in 2017, especially in the face of ongoing weak oil prices, and growing competition from Brazil. Australian shipments are anticipated to be slightly lower again in 2017.

The European Union

Australian beef exports to the EU slowed in the final stages of 2016, resulting in the annual shipment being 20,841 tonnes swt, down 11% year-on-year. Separating grainfed and grassfed exports though, the trends are slightly different. Grainfed shipments held ground much better than grassfed, with the grainfed volume down only 1% from the previous year, at 15,980 tonnes swt, while grassfed was down 34% – largely the result of tighter availability compared to grainfed product, particularly during the second half of the year.

Within the region, the UK remained the largest destination, with 7,699 tonnes swt, followed by the Netherlands (6,629 tonnes swt) and Italy (4,604 tonnes swt).

Strengths:

- The value of Australian beef exports to the EU continues to grow, with the average value per tonne in 2016 up 6%, at \$13,430/tonne – the highest to any major export destination
- Australian beef through its strong presence in the foodservice sector is positioned to capitalise on improved spending on goods & services in 2017. The majority of beef consumed in the EU is in the EU-15 countries with the population expected to increase

Challenges:

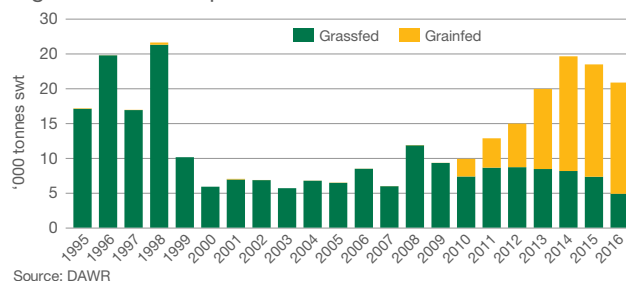
- Australia's current red meat access is limited by the EU's highly restrictive import regime – involving low volume import quotas and high above quota import tariffs. The EU's regime is in stark contrast to the majority of Australia's other export markets.
- The 48,200 tonne grainfed global quota was filled on 10 December 2016. Therefore, no product could be cleared through the ports until 1 January 2017, without incurring full duty

The bottom line:

While the EU is constrained by quota, it is more than likely going to remain Australia's highest value market (on a \$/tonne basis) in 2017, and the overall volume exported should remain relatively steady with 2016 levels. Looking beyond 2017, currently the scoping process is underway with the aim to launch formal negotiations.

Current trading arrangements between Australia and EU (including the UK) will remain unchanged for the next two years (until April 2019) while Brexit negotiations are carried out. It has been announced that Australia and the European Union (EU) will begin procedures to secure a closer bilateral trade partnership – the precursor to launching formal free trade agreement (FTA) negotiations between the two parties.

Figure 25: Beef exports to the EU



Source: DAWR

Live export

Australian live cattle exports are currently estimated to have reached just over 1 million head for 2016, which was significantly below (21%) the 2015 level – largely constrained by resistance from some markets at the current price levels, limited Australian cattle availability and restricted trading with Indonesia for two months of the year due to permit delays.

Price resistance is not surprising, as light steers from Darwin to Indonesia averaged 341¢/kg lwt, up 17% year-on-year and 56% higher than the five-year average.

2017 is likely to see equally constrained supplies and expectations are for a further 24% drop in Australian live cattle exports in 2017. While this seems dramatic, the number will be on par with the 2009-2013 average – before the back-to-back records of 2014 and 2015, which coincided with record turnoff and much lower price.

This means live exports will account for 10% of turn-off in 2017, which again, is back towards a long-term average level.

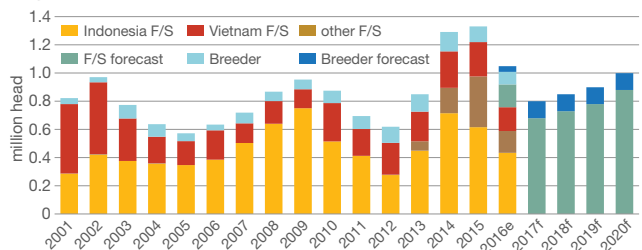
Live shipments to Indonesia will increasingly feel the added pressure from the presence of Indian Buffalo meat in the market – some estimates are for 100,000 tonnes to enter in the 2016/17 financial year, of which only an estimated 25,000 tonnes had entered up until December 2016. Further adding to likely pressure beyond Ramadan (27 May 2017) are the implications the 5:1 feeder breeder policy will have. This may not create much pressure in the first stages of the year, but as time draws closer to December 2018, when the Indonesian Government audit is scheduled to occur, it may limit shipments. However, the longer-term outlook for Indonesia remains optimistic, with the burgeoning population, of which most are Muslim, combined with strong economic growth and a wet market beef preference for fresh meat continuing to underpin demand for Australian live cattle. The anticipated number of cattle exported in 2017 is likely to be lower than the estimated 580,000 head shipped in 2016.

Australian cattle exports to Vietnam consolidated the previous three years growth in 2016 and are estimated to have reached 200,000 head. Considering that market is still very much in a consolidation phase, and given the current price level for Australian cattle, expectations for 2017 are for numbers to remain relatively steady year-on-year. One factor to watch will be developments from the discussions the Vietnamese government is currently having with Mexico, Uruguay, Brazil and Columbia over health protocols to import cattle from those counties.

The remainder of South-East Asia will continue to feel the pressure from limited Australian cattle availability in 2017, and is expected to be steady to slightly lower from 2016 levels in 2017.

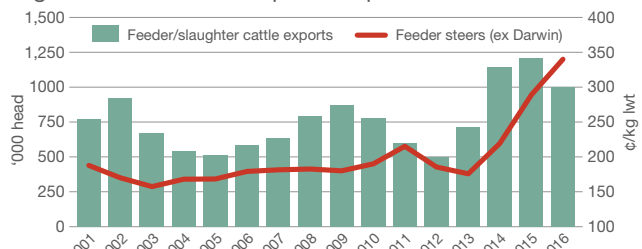
Similarly, numbers to the Middle East were down slightly year-on-year in 2016, and aside from internal pressures on the Israeli government, volumes to that region should be similar, to slightly lower again, in 2017.

Figure 26: Live cattle exports



Source: ABS, MLA forecasts

Figure 27: Live cattle exports vs prices



Source: ABS, Landmark

Appendix

Australian beef and veal exports ('000 tonnes swt)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | % change |
|--------------|--------------|--------------|----------------|----------------|----------------|----------------|-------------|
| To: | | | | | | | |
| Japan | 342.2 | 308.5 | 288.8 | 293.8 | 285.2 | 264.3 | -7% |
| US | 167.8 | 224.1 | 212.7 | 397.9 | 416.0 | 241.1 | -42% |
| Korea | 146.4 | 126.0 | 144.4 | 150.9 | 166.6 | 179.9 | 8% |
| China | 7.8 | 32.9 | 154.8 | 124.6 | 148.2 | 94.0 | -37% |
| Canada | 10.1 | 15.7 | 17.9 | 32.9 | 42.6 | 19.0 | -55% |
| Taiwan | 36.7 | 38.3 | 35.7 | 36.4 | 30.4 | 31.4 | 3% |
| Indonesia | 39.6 | 27.1 | 39.4 | 53.1 | 39.1 | 61.7 | 58% |
| Philippines | 21.0 | 25.7 | 27.0 | 34.4 | 25.4 | 29.4 | 16% |
| Singapore | 9.7 | 14.1 | 10.6 | 10.1 | 8.8 | 6.7 | -24% |
| Malaysia | 14.4 | 15.5 | 15.9 | 13.1 | 12.3 | 10.4 | -16% |
| Thailand | 2.5 | 2.8 | 4.3 | 5.4 | 5.9 | 5.6 | -5% |
| Hong Kong | 8.9 | 6.3 | 5.1 | 14.7 | 6.7 | 4.5 | -32% |
| EU | 12.8 | 14.9 | 19.8 | 24.6 | 23.4 | 20.8 | -11% |
| Middle East | 32.1 | 31.4 | 61.0 | 59.8 | 53.4 | 30.8 | -42% |
| **Other | 97.2 | 80.4 | 62.1 | 35.2 | 21.0 | 18.5 | -12% |
| Total | 949.2 | 963.8 | 1,099.5 | 1,287.0 | 1,285.0 | 1,018.1 | -21% |

Source: DAWR

** Main countries in other = PNG, South Africa, Central and South America, Russia

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