

IN FOCUS: BEEF

NOVEMBER 2017



KEY POINTS

The Australian beef cattle industry has enjoyed a great run over the past couple of years, with the Eastern Young Cattle Indicator (EYCI) hitting a record over 720c/kg in September last year. Prices this year have generally drifted lower, although recent rain in Queensland and New South Wales has seen prices jump again. The EYCI currently stands in the high 570s range.

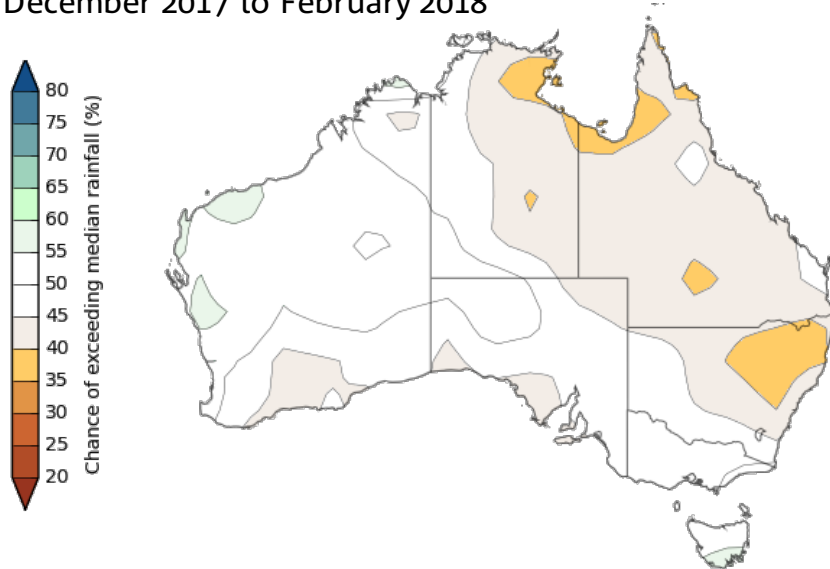
Importantly, a major driver of Australian cattle prices has been the impact of seasonal conditions on restocker interest rather than global fundamentals. This makes forecasting cattle prices an exercise in forecasting weather patterns – a tough ask at the best of times, but even more difficult amid one of the unpredictable Australian seasons for some time.

In the short term, the restocker story is likely to remain ascendant, although ultimately Australian prices cannot remain detached from global fundamentals forever. With the US cattle herd rebuilding, grain remaining very cheap globally and South American producers improving their position, we see price pressures in Australia as downward. Our view for some time has been that the EYCI will fall to 500c/kg, but the timing has been a challenge to pick. If the weather swings back to drier (as the latest BoM outlook shows), the EYCI could yet see a 4 in front of it in 2018.

SEASONAL CONDITIONS

THREE MONTH RAINFALL OUTLOOK

December 2017 to February 2018

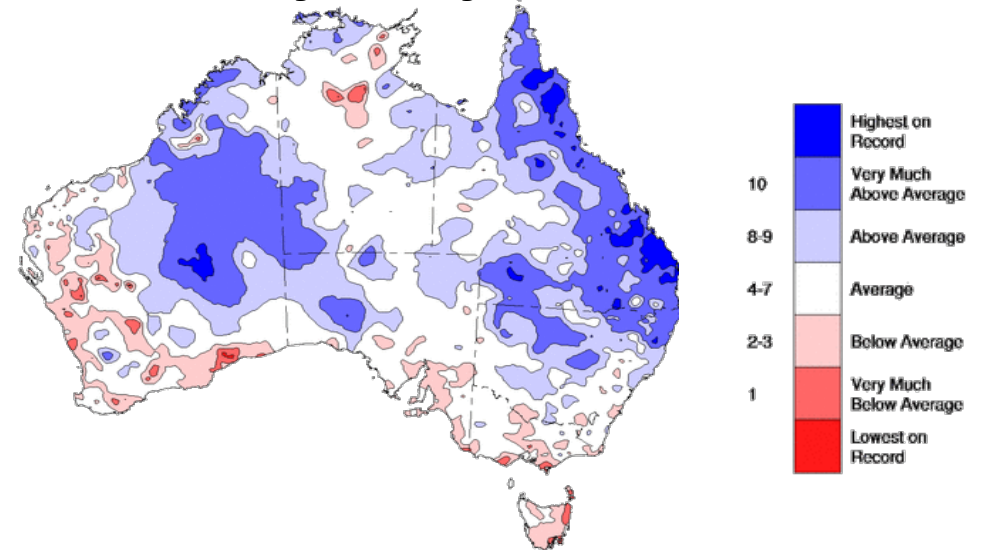


2017 has been an absolutely wild year for weather. It has seen floods, droughts, heavy frosts and heatwaves in different parts of the country across a short space of time. This reflects complex meteorological factors, including a La Niña watch, but with atypical conditions in the Indian Ocean, making the rainfall outlook hard to forecast.

October rainfall was generally average to below average in the south, but well above average in most of the north. Northern New South Wales and most of Queensland enjoyed well above rainfall. More recent rains this month have seen much of the country soaked.

RAINFALL DECILES – OCTOBER

Deciles based on long run average data



The Bureau of Meteorology's latest outlook for the summer points to below average rainfall across Queensland, the Northern Territory and northern New South Wales – key cattle regions with summer-dominant rainfall. If this outlook comes to pass (a big if), there is likely to be a downside for cattle markets.

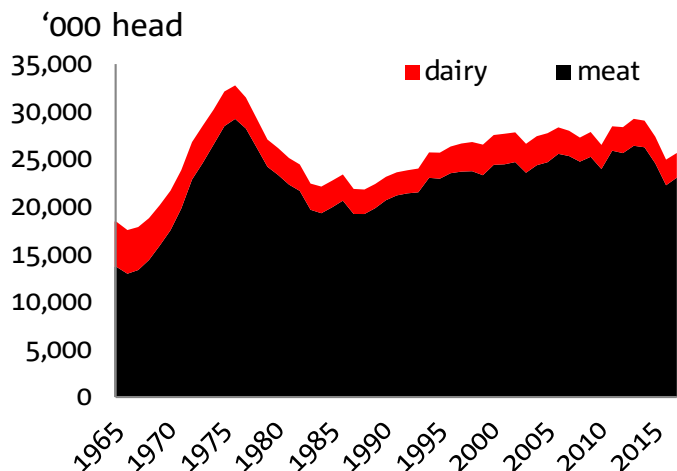
Seasonal conditions overall remain weakest in New South Wales. Much of the state has experienced severe rainfall deficiencies. While Western Australia started the year with very tough conditions, later season rains have been an improvement.

Source: Bureau of Meteorology

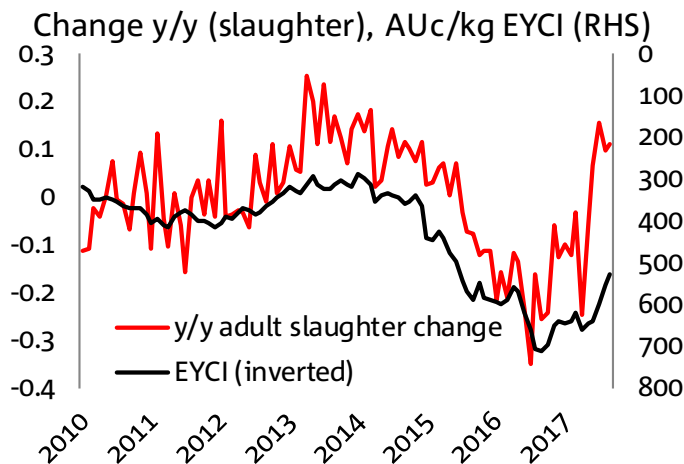
STATE OF THE HERD AND SLAUGHTER



AUSTRALIAN CATTLE HERD

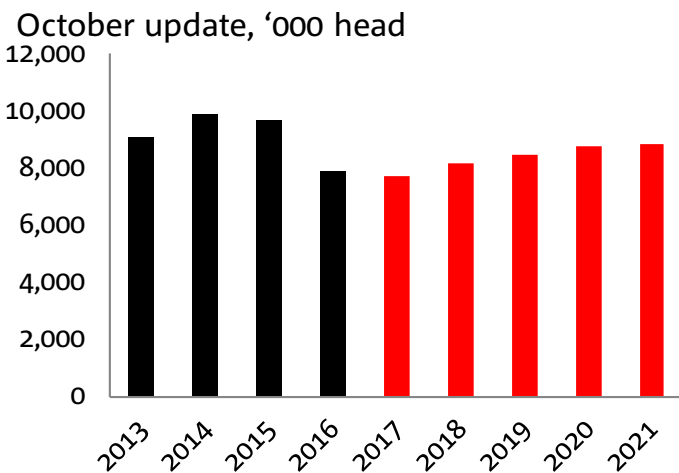


SLAUGHTER AND PRICES

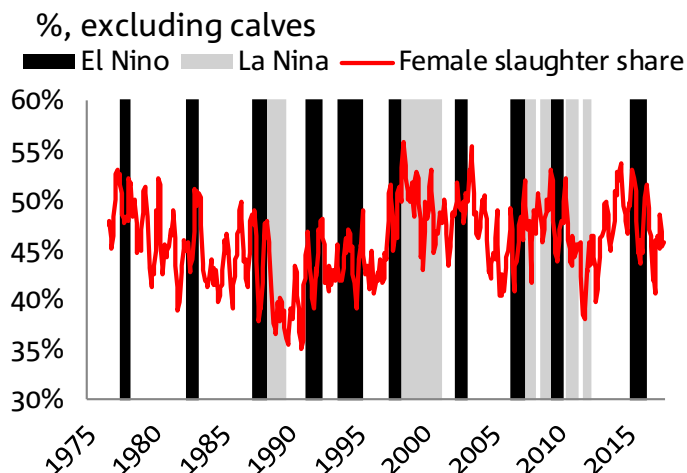


The Australian cattle herd took a downward turn from 2013 to early 2016, as very dry conditions in Queensland in particular saw heavy destocking. An incredibly wet 2016 saw this turn around and herd rebuilding was in full swing for most of last year, reflected in a drop in the female slaughter share and general tightness in markets. This year has been more mixed. Very dry conditions in Queensland and New South Wales saw slaughter once again rise, but recent rain has seen restocker interest once again increase.

MLA SLAUGHTER FORECASTS



FEMALE SHARE OF SLAUGHTER



Slaughter data to September reflects these dynamics, with bulls and steers up 6.7% and cows and heifers up 8.5% y/y on a per head basis. However, it is likely that the October and November data will show lower slaughter. Looking over the coming years, Meat and Livestock Australia expects a gradual recovery in head of cattle slaughtered out to 2021.

The restocker story has come to dominate prices. Since 2010, the EYCI has been strongly negatively correlated with changes in adult cattle slaughter, with increased restocker interest driving up prices and seeing fewer stock sent for slaughter. Conversely, drought induced destocking in the 2013-15 period was reflected in lower prices.

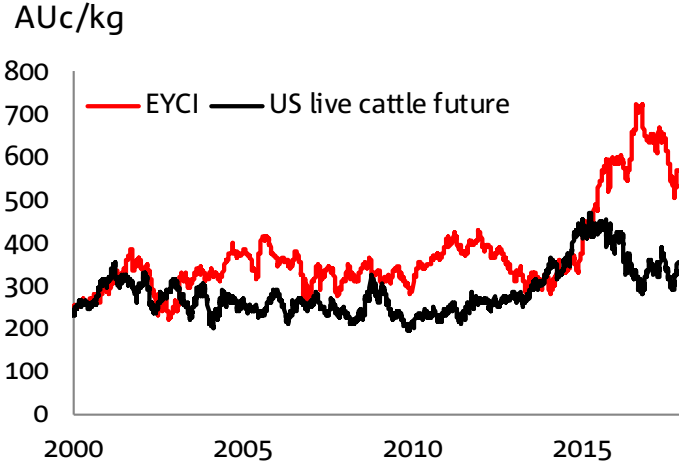
Source: ABARES, Australian Bureau of Statistics, Meat and Livestock Australia, Bureau of Meteorology and NAB Group Economics



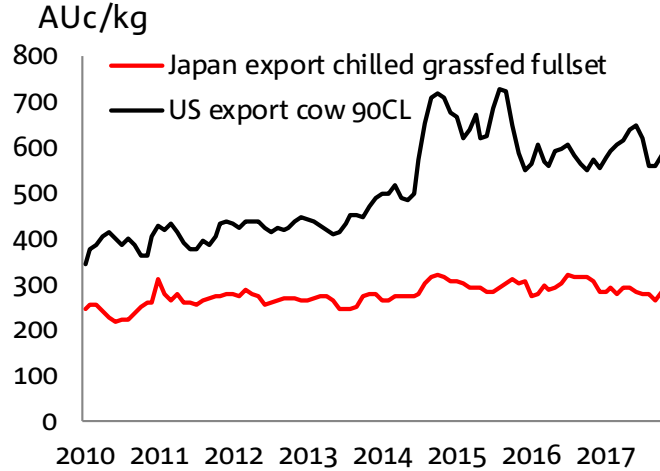
PRICES AND OUTLOOK



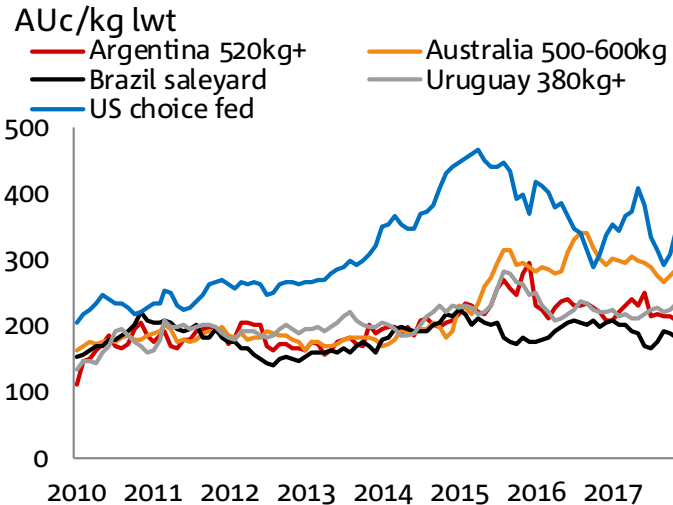
EYCI AND US LIVE CATTLE FUTURES



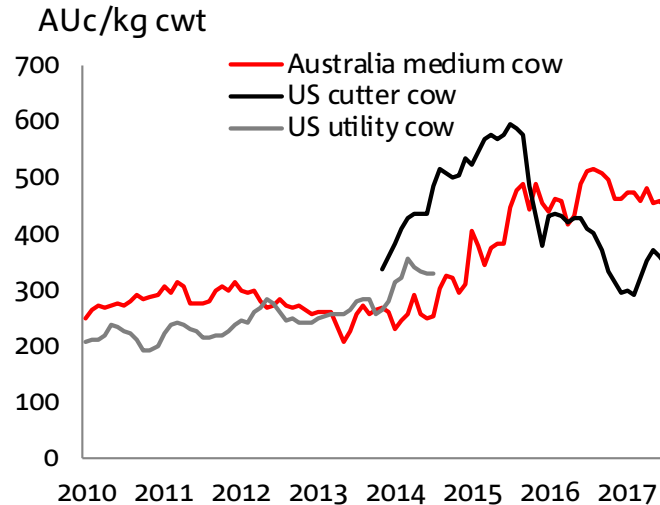
SELECTED AUSTRALIAN EXPORT PRICES



GLOBAL STEER PRICES



AUSTRALIAN AND US COW PRICES



Source: ABARES, Australian Bureau of Statistics, Meat and Livestock Australia, USDA and NAB Group Economics

Australia's performance against international price benchmarks makes for a difficult comparison. Certainly, the 2014 to 2015 period saw a huge boom in US cattle indicators, as the effects of the 2011 US drought were felt in lower US stock levels. However, the US herd has rebuilt fairly rapidly. The total US cattle herd grew 4.8% from January 2013 to January 2017 and beef cow numbers were up 6.5% over the period. Combined with cheap feed grain, US indicators have been generally lower since their 2015 peak.

The challenge for Australia is that restocker interest (and prices) peaked in 2016 just as US prices were declining, creating a challenge for Australian processors. Another challenge for Australia is in emerging markets such as China, where the low cost of South American beef has been a major challenge for Australian exporters.

Ultimately, the key question for Australia is to what extent saleyard prices simply reflect grass fever rather than global fundamentals. Our view is that global trends are likely to put downward pressure on Australian prices. We still see the EYCI at the 500 mark over the coming months, although a good summer would challenge this. A price with a 4 in front of it remains a decent possibility in 2018.



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