

IN FOCUS: BEEF

MAY 2018



KEY POINTS

2018 has been exceptionally dry across much of Australia, with knock-on downside to restocker interest and young cattle prices. We are now one-third of the way through the year and while parts of Queensland have been lucky with weather, large parts of the country have missed out. The EYCI dropped below 500c/kg last month for the first time in three years, signalling that the herd rebuilding underway since 2015 is very much on hold.

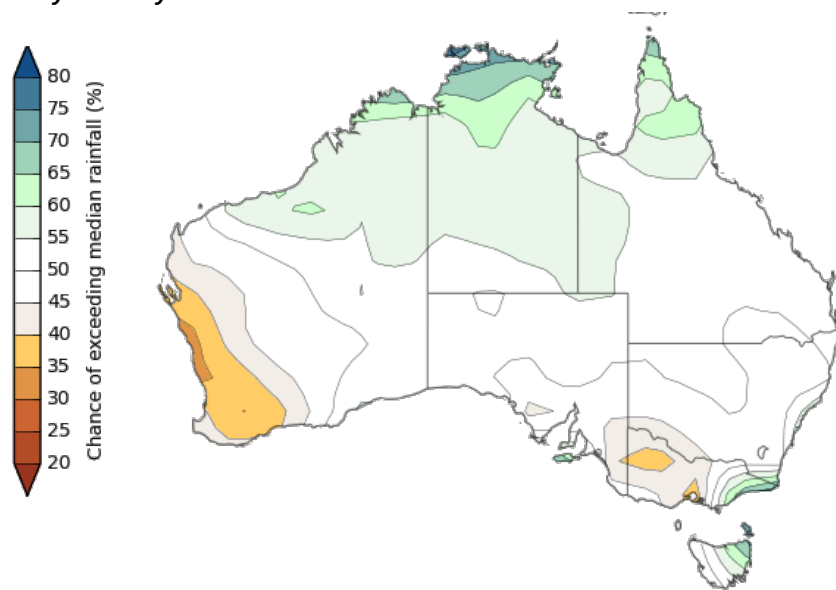
Against this challenging domestic picture, global markets provide mixed signals. Export prices to US and Japan have been reasonably resilient, although with the USDA forecasting higher production this year, it is likely that there will be some pressure in the US and perhaps more broadly across our key export markets. Meanwhile, the live export market to Indonesia has been relatively weak, dropping below \$3/kg amid Indian buffalo competition.

On the other hand, there are some good reasons for optimism. Firstly, many producers are in a strong position following the 2015-17 boom, reflected in strong Farm Management Deposit inflows. Beef producers now have over \$800m in FMDs. Secondly, a good break should bring confidence back reasonably quickly, although it is getting a little late in the season. Thirdly, the AUD has fallen more than 5 US cents since the end of January, boosting local returns. And finally, the boom was driven by one-off factors, notably US demand in 2014 and 2015 and a restocker boom in 2016. Our forecasts suggest that prices will remain above their pre-boom levels. On balance, we see the EYCI falling to 475c/kg this year, but back to the 500c range in 2019.

SEASONAL CONDITIONS

THREE MONTH RAINFALL OUTLOOK

May to July

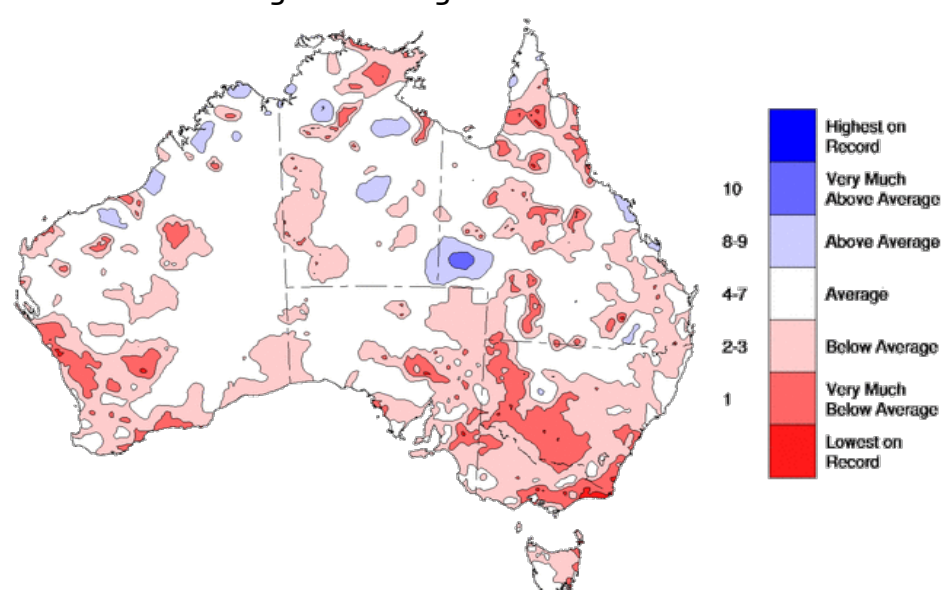


The latest three month outlook from the Bureau of Meteorology points to mixed conditions across Australia. While Northern Australia, Gippsland and parts of Tasmania may see above average falls, conditions in north-west Victoria and the Western Australian wheatbelt point to below average rainfall.

A roughly average winter would certainly be a boost to the industry, which has seen little rain this year. However, if the autumn break does not come, there is likely to be increased selling, especially given that grain and hay are in short supply and expensive.

RAINFALL DECILES – APRIL

Deciles based on long run average data



Rainfall data for April shows that conditions were drier than average across much of the country. Queensland was patchy, but New South Wales, Victoria and South Australia have seen arguably the toughest conditions.

Looking at conditions for the last three months, rainfall has been lowest across basically all of New South Wales, Victoria and the major agricultural regions of South Australia. Rainfall for this period has been at its lowest level on record in some parts of New South Wales.

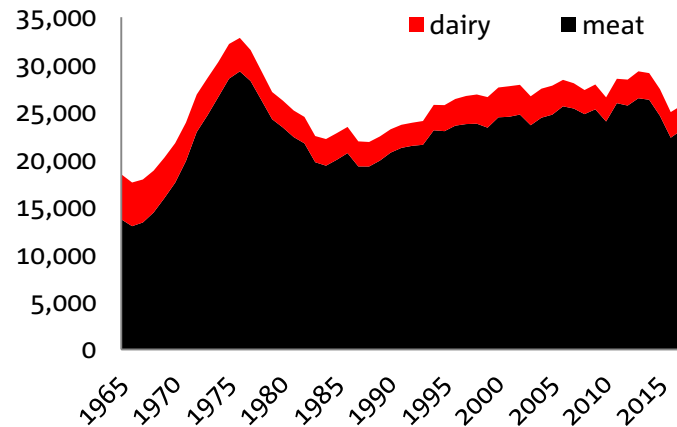
Source: Bureau of Meteorology

STATE OF THE HERD AND SLAUGHTER



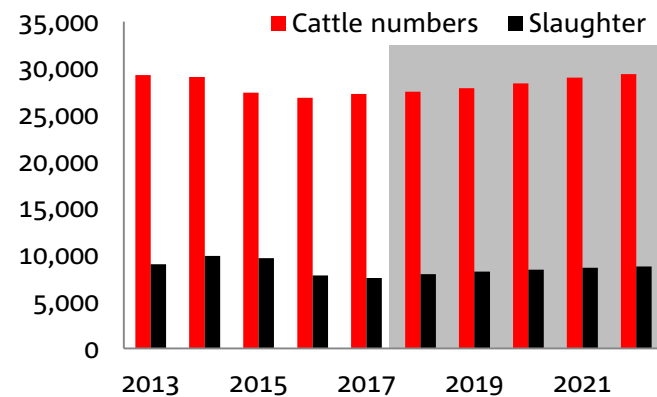
AUSTRALIAN CATTLE HERD

'000 head



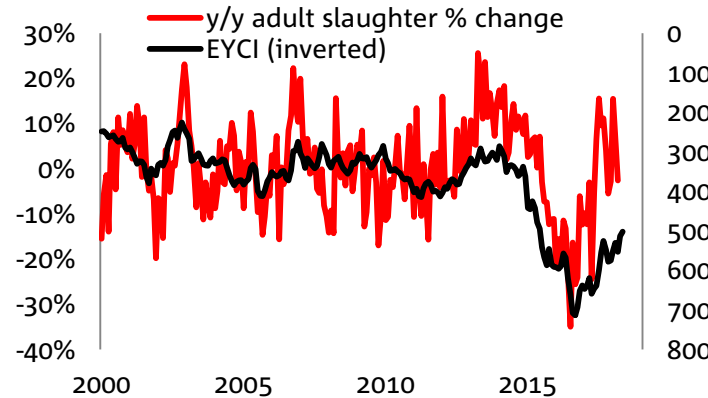
MLA CATTLE FORECASTS

April update, '000 head



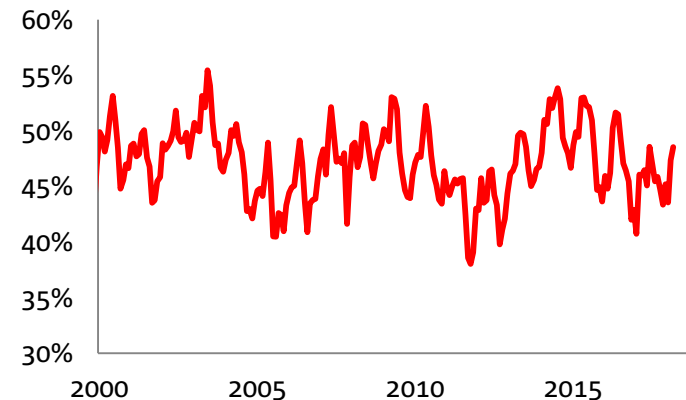
SLAUGHTER AND PRICES

Change y/y (slaughter), AUc/kg EYCI (RHS)



FEMALE SHARE OF SLAUGHTER

%, excluding calves



The herd rebuilding period, which peaked during a very wet 2016, has been on hold recently, as a very dry start to the year has seen the female share of slaughter tick up once again.

ABS slaughter data to March reflects these dynamics, with the female share of slaughter up to 48.5%, although bull and steer slaughter was down.

Meat and Livestock Australia's forecasts point to a gradual recovery in the herd, after bottoming out at 26.8 million in 2016. Slaughter is expected to rise gradually to just under 8 million head this year, and 8.2 million next year.

Restocker interest has been quite well correlated with young cattle 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, dry conditions have seen slaughter increase and prices decline.

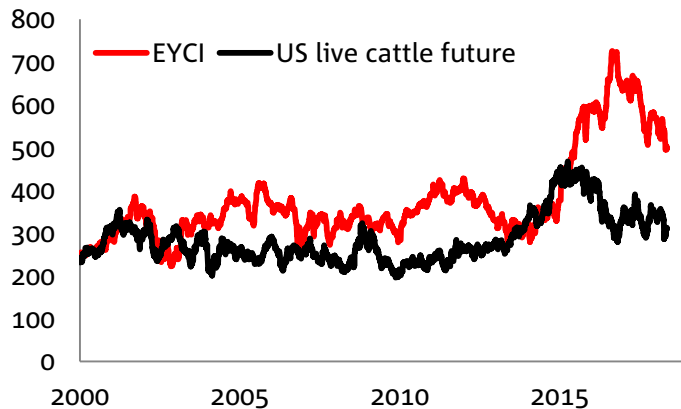
Source: ABARES, Australian Bureau of Statistics, Meat and Livestock Australia, Bureau of Meteorology and NAB Group Economics

OUTLOOK FOR PRICES



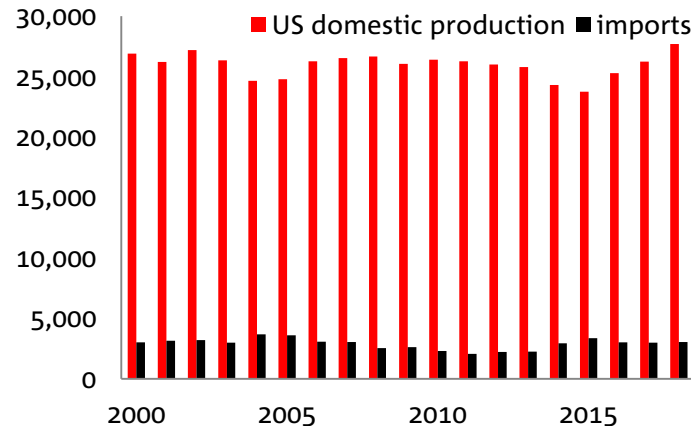
EYCI AND US LIVE CATTLE FUTURES

AUc/kg



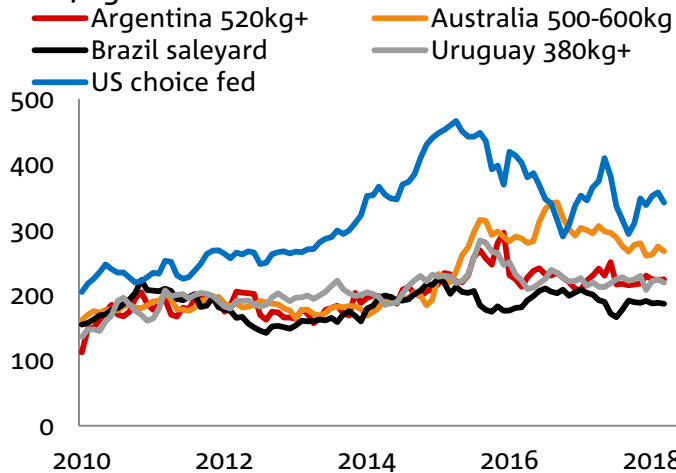
US BEEF PRODUCTION

Million lb cwt, USDA forecast



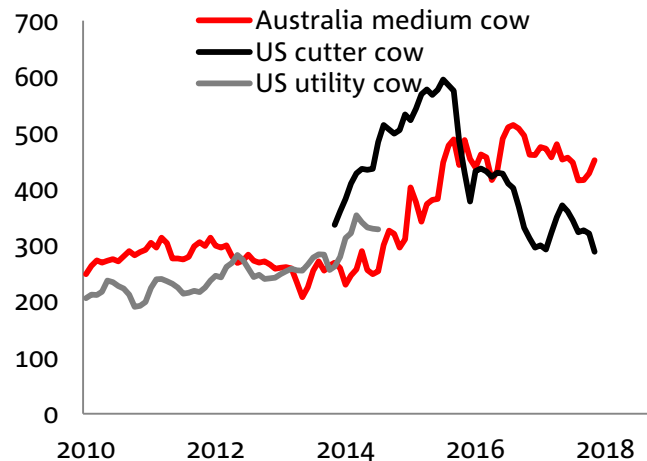
GLOBAL STEER PRICES

AUc/kg lwt



AUSTRALIAN AND US COW PRICES

AUc/kg cwt



Australia's performance against international price benchmarks has been very mixed. 2014 and 2015 saw a rally in US cattle indicators, reflecting the hangover from the 2011 US drought, dampening domestic production. But the US herd has rebuilt rapidly. Indeed, USDA forecasts point to US domestic beef production rising 5.7% in 2018, while imports are expected to grow only 1.5% in 2018, a far cry from the 31% growth in 2014.

While Australian beef into the US has remained resilient (generally in the high 500s AUc/kg over the last six months), the reality is that forecast increases in US production will likely flow through to prices across our major export markets. This will be compounded by higher exports from low cost producers in South America.

Ultimately, short term movements in the EYCI will largely reflect rainfall. But over the course of months and years these aforementioned global developments will have an impact on the domestic market. The industry has enjoyed a very good run, reflecting US demand in 2014 and 2015 and elevated restocker interest in 2016. But with both of these drivers now negative, we see a risk to prices. The EYCI could spend some time below 500c this year if rain continues to be below average.

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

CONTACTS

Phin Ziebell
Agribusiness Economist
+61 (0) 475 940 662

Alan Oster
Group Chief Economist
+61 3 8634 2927

Dean Pearson
Head of Economics
+61 3 8634 2331

Khan Horne
General Manager
NAB Agribusiness

Justine Dimond
Senior Consultant
+61 (0) 455 085 137

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