



# IN FOCUS: BEEF CATTLE

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Photo Marco Pagliaro

# KEY POINTS

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Since the eastern states drought broke in early 2020, Australian cattle prices have been on an absolute tear. The Eastern Young Cattle Indicator (EYCI) closed out 2019 at 482c/kg but cracked 700c in late February 2020, 800c in October and peaked at 888c last month. This near doubling over a 14 month period represents an extraordinary turnaround.

While young cattle prices have eased a little since their peak, strong rains across many previously dry areas of Queensland cattle country suggests prices are likely to see at least a short-term resurgence as the herd rebuild continues. We are already seeing signs of this, with EYCI jumping to 878c yesterday.

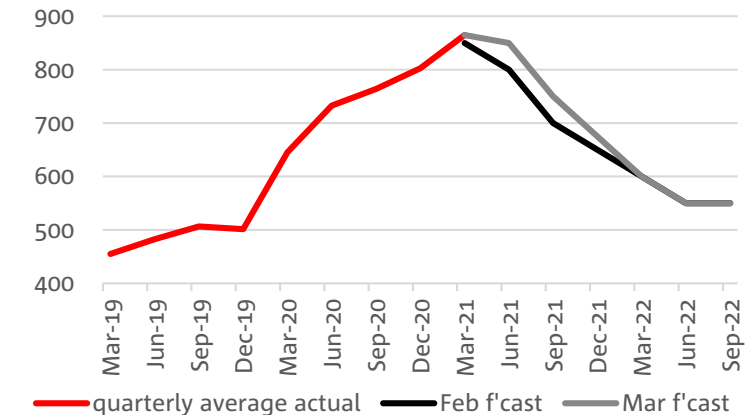
With the national herd so depleted, rebuilding will take considerable time. MLA data puts the herd at 24.6 million in June 2020, the lowest level since 1993. ABARES' estimates are lower again. The MLA and ABARES differ somewhat in their herd forecasts, with the MLA expecting a sharper recovery. Any meaningful herd rebuild will put upward pressure on young cattle prices, especially given the herd is at a 27-year low.

Last month, we released cattle price forecasts pointing to downside risk from Q2 2021 on. While we still see risks as largely on the downside, there could be some further buying activity in the short term. We have now revised up our forecasts somewhat, as shown to the right. We now see EYCI at 850c/kg in Q2 2021, but still see it falling to 600c by Q1 2022.

Flooding, particularly in New South Wales, is likely to see some movement constraints, although strong demand has seen considerable stock movement from the north, with tropical breeds now reported with increasing frequency in the state.

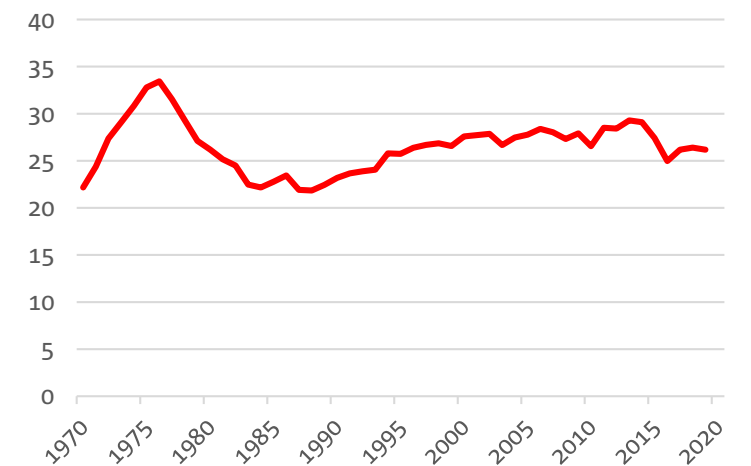
## EYCI ACTUAL AND FORECAST

AUc/kg, quarterly



## NATIONAL CATTLE HERD

Millions, annual



Source: ABS, MLA, ABARES and NAB Group Economics



# HOW MUCH HAS RECENT RAINFALL MOVED THE DIAL?

Summer was generally wetter and cooler than average (with the notable exception of Queensland), giving southern Australian producers a much needed summer respite and generally good soil moisture levels.

The situation in Queensland remains more complex. La Nina failed to deliver in many parts of the state over summer, but the last two weeks has brought considerable rains through much of the state. While some producers have missed out, many have enjoyed substantial falls.

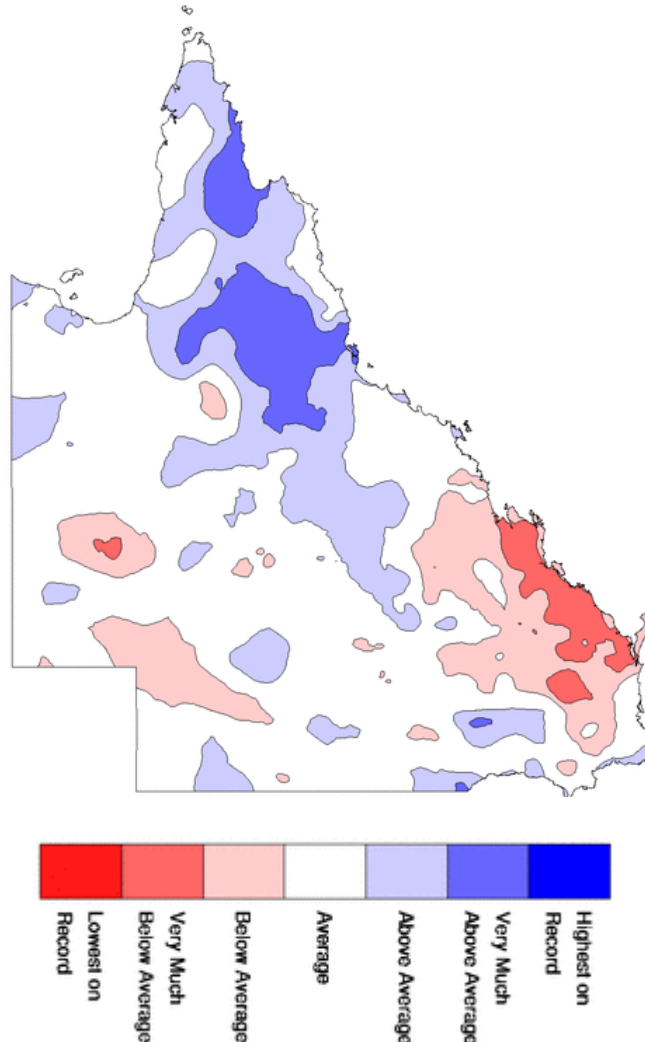
So, does this move the dial for Queensland producers? The short answer is yes, and these rains will turn many from sellers to buyers. But the benefits may only last a few months and are not guaranteed to make up for summer deficits. With stock levels so low, it will be an ongoing challenge to restock.

While three-month rainfall outlook for the state is wetter than average, challenges for the Queensland cattle industry are not over.

The latest El Nino outlook from the Bureau of Meteorology points to an end for La Nina (as is normal in autumn), and a return to more neutral conditions over winter. The outlook is unlikely to contain meaningful information for the state until spring 2021.

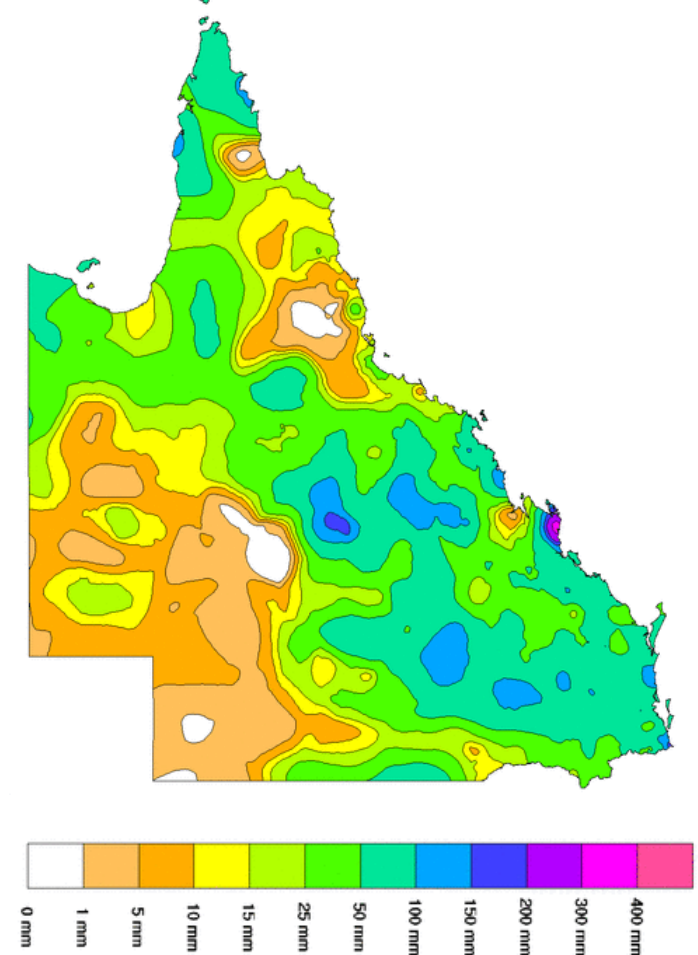
## QLD SUMMER 20-21 RAINFALL

deciles, three months to 28 Feb 2021



## QLD RAINFALL TOTALS – LAST WEEK

Week ending 21 March 2021



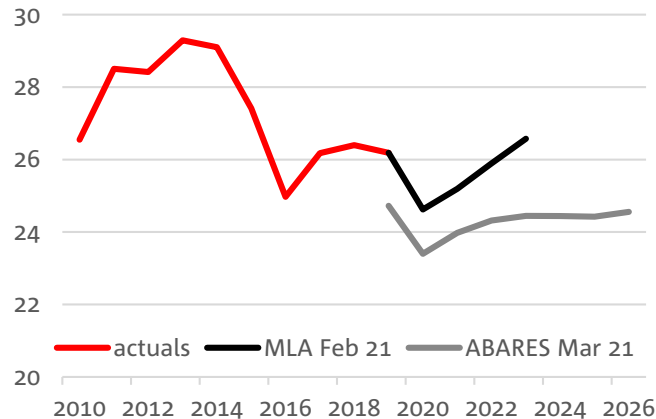
Source: Bureau of Meteorology



# STATE OF THE HERD AND SLAUGHTER

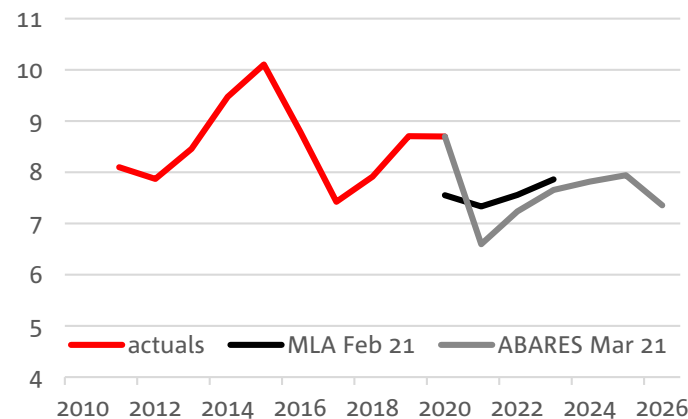
## SELECTED CATTLE HERD FORECASTS

millions, as at 30 June



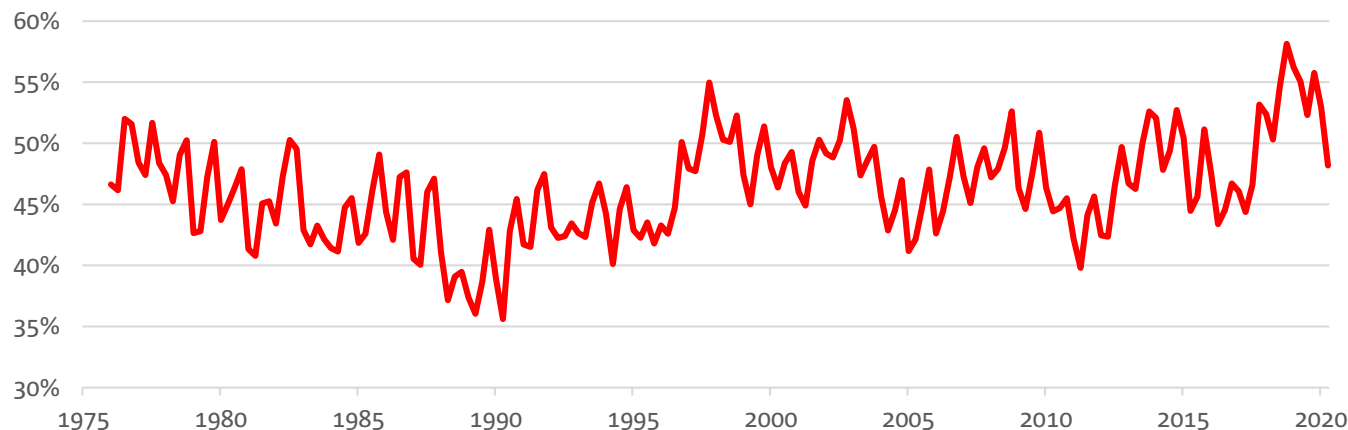
## SLAUGHTER FORECASTS

millions, as at 30 June, total cattle



## FEMALE SLAUGHTER SHARE

Quarterly, adult cattle



The Australian cattle herd has been in a tough spot since the 2014 to early 2016 liquidation phase. While 2016-17 offered a brief respite, with a big drop in female slaughter share, by mid-2018 female slaughter was back above 50%, peaking at 58% in mid-2019 – the highest on record.

While the herd rebuilding phase has resumed since early 2020 (reflected in the sharp drop in female slaughter), the rebuilding process will be long.

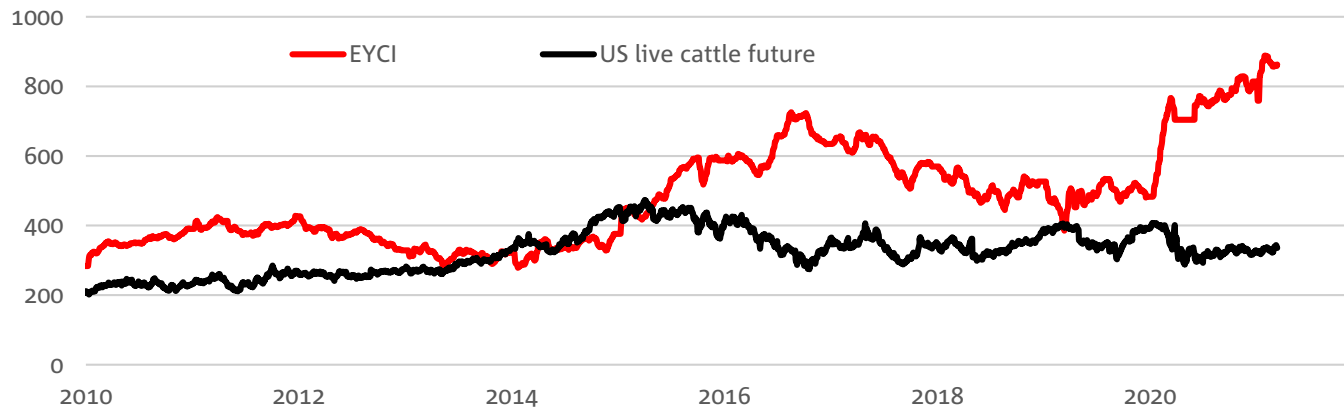
MLA data puts the herd at 24.6 million in June 2020, the lowest level since 1993. ABARES' estimates are lower again. The MLA and ABARES differ somewhat in their herd forecasts, with the MLA expecting a sharper recovery. But with the national cattle herd at the lowest level since 1993 (including dairy cattle), this process is likely to be an extended affair.

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

# PRICES AND OUTLOOK

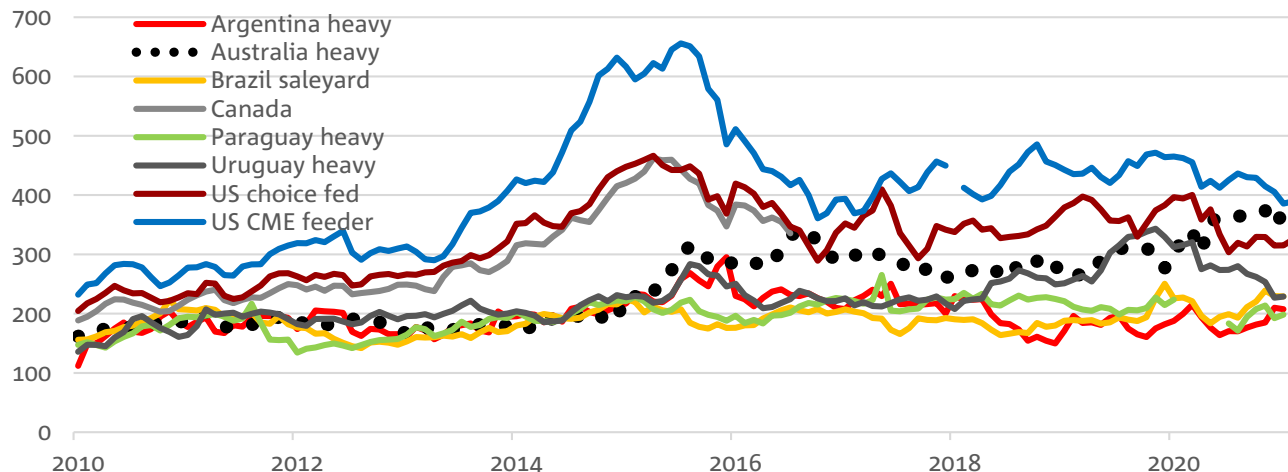
## EYCI AND US CATTLE FUTURES

AUc/kg



## GLOBAL STEER PRICES

AUD lwt



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

EYCI has been on an absolute stellar run since early 2020, largely reflecting rain-induced restocking. While young cattle prices have eased a little since their all-time record of 888c/kg last month, strong rains across many previously dry areas of Queensland cattle country suggests prices are likely to see at least a short-term resurgence.

But we do not see this as permanent. While we have now revised up our forecasts somewhat in response to recent rainfall and now EYCI at 850c/kg in Q2 2021, we still see risks as largely on the downside. While there is likely to be further buying in the short term, we see EYCI falling to around 600c by Q1 2022.

Somewhat more concerning is the rapid appreciation of Australian cattle prices compared to international peers. As the chart to the left shows, Australian steer prices tracked reasonably closely to key South American indicators until around 2015, when the 2016-17 seasonal bonanza saw the first big uptick in Australian cattle prices. Since then, Australian prices have become out of step with our peers, with heavy steers now almost double their South American equivalents.

While we have no real difficulty moving Australian beef in key markets, our price competitiveness is a key challenge.



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