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COMMODITY UPDATE

QUARTER 3 - 2024

CATTLE

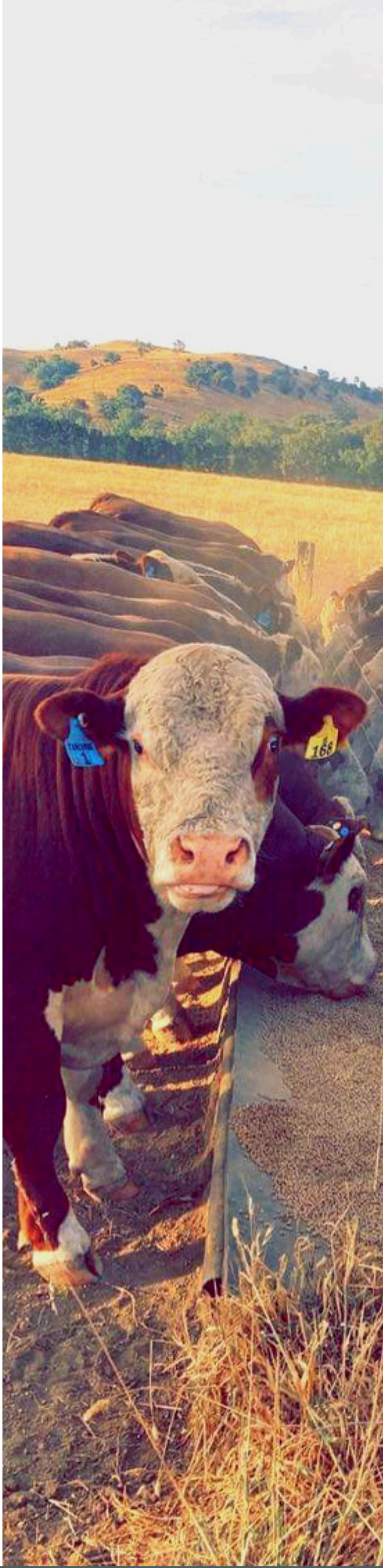
Meat & Livestock Australia (MLA) have released their September cattle market projections and they have changed the Australian herd estimates from the earlier projections to bring them into line with the recently updated Australian Bureau of Statistics (ABS) figures. This shows a big lift in the herd estimates, on paper, from their January 2024 report. However, the trend over the next few years is for the Australian cattle herd to decline, according to MLA.

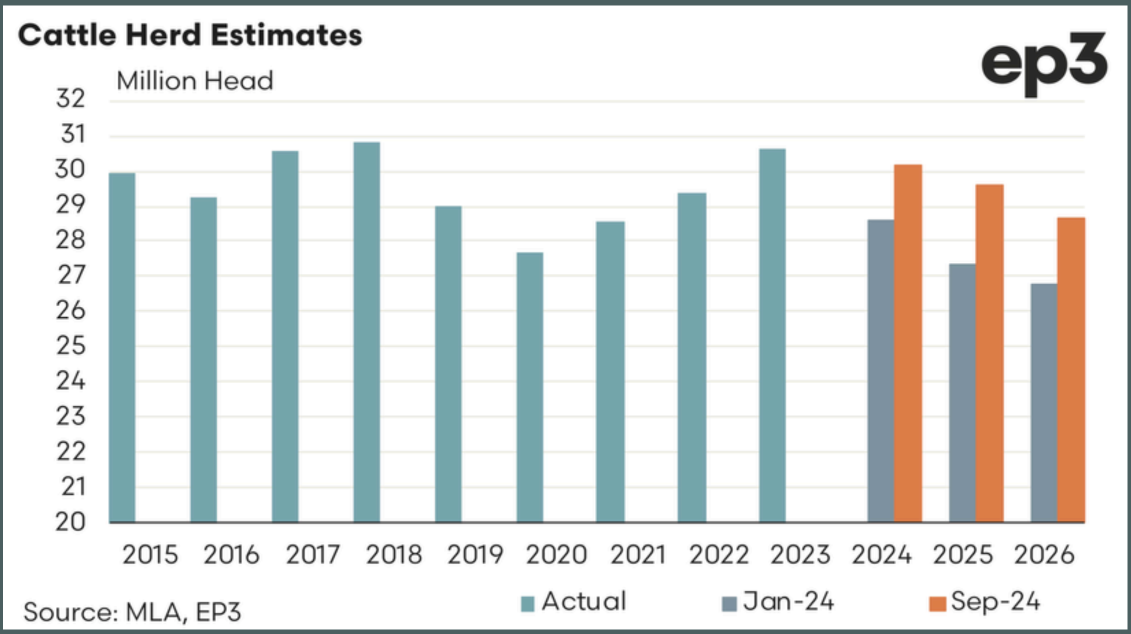
This year MLA expect the herd to decrease by 1.4% from 30.6 million head to 30.2 million head. In 2025 a further 2% fall is forecast taking the herd below 30 million head to 29.6 million. In 2026 a decrease of 3% is anticipated by MLA to see the herd back to 28.7 million head, the lowest herd since 2021. Underpinning the herd drawdown is a higher revision to annual cattle slaughter figures for 2024 and 2025. MLA have revised the 2024 slaughter up 4.2% from their earlier projections and now anticipate annual slaughter this year to hit 8.2 million head. An additional 1.3% lift in slaughter has been forecast for 2025 taking the slaughter projections to 8.4 million head next year. In 2026 MLA now expect slightly softer annual slaughter with a 3.2% drop from their previous estimates to see 8 million head of cattle turned off.

Feedlot numbers increased by nearly 5% over the second quarter of 2024 to see 1.418 million head held in the nation’s feedlot system. Queensland feedlot’s saw a 6.4% increase in cattle numbers to 853,439 head, representing 60% of the total number of cattle on feed in Australia. Notable increases were also cited in SA – up 7.1%, NSW – up 5.4% and Victoria – up 3.2%. Meanwhile WA saw a 17% fall in feedlot numbers over Q2, 2024.

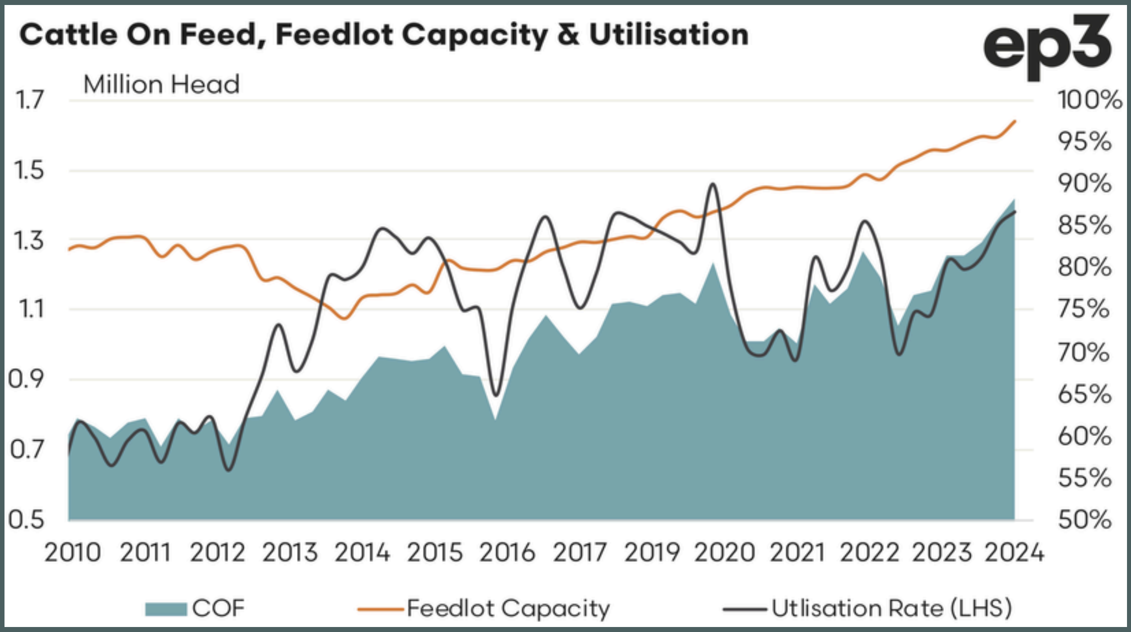
Feedlot capacity also grew by nearly 3% to hit a record capacity of 1.64 million head for the nation. A larger proportional increase in cattle on feed versus capacity saw the national feedlot utilisation ratio increase from 85% in Q1 to 87% in Q2. Compared to Q2, 2023 the current feedlot volumes are sitting nearly 13% higher and the seasonal average pattern over each quarter for the last five years shows that current numbers of cattle on feed are 23% higher than the second quarter seasonal average levels.

Reduced cattle turnoff over quarter two, with marketings down by 3.6% from 761,550 in Q1 to 734,096 in Q2, has supported the growth in total numbers of cattle on feed. While turnoff has reduced over the first half of 2024 a comparison to the five-year average seasonal pattern for cattle feedlot marketings shows that the current turnoff levels are still sitting nearly 4% above the average trend.

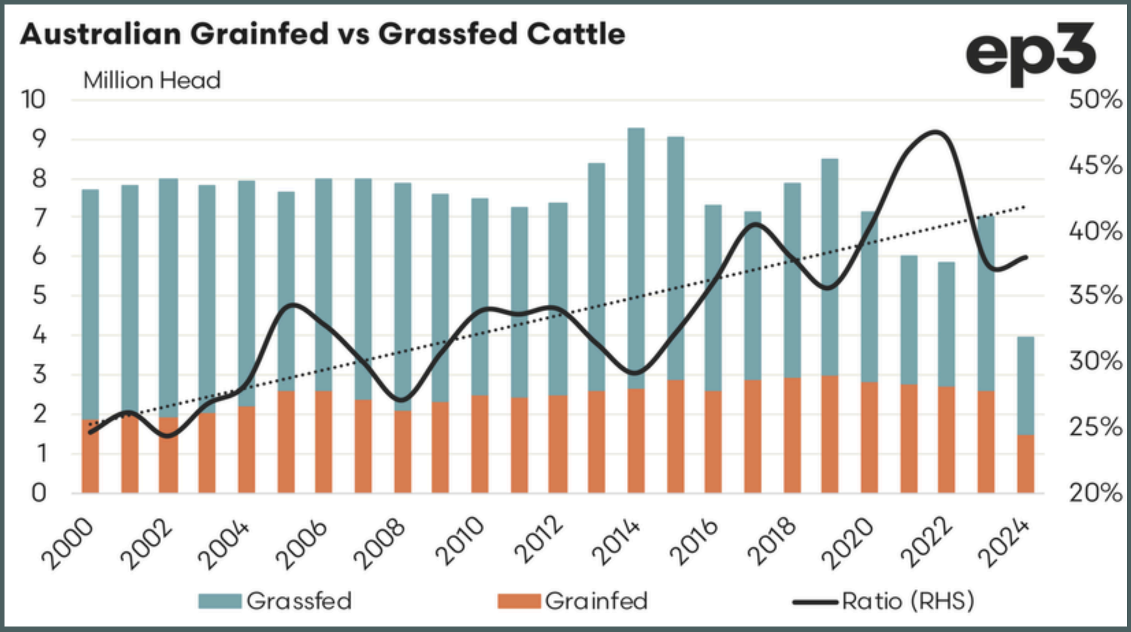




The MLA September cattle market projections have seen Australian herd estimates adjusted upwards to mirror the recent ABS herd estimate revisions .



Second quarter national cattle on feed numbers hit a new record level of 1.4 million head and feedlot capacity is up too reaching a record of 1.64 million head.



Annual cattle slaughter for 2024 shows the ratio of grainfed to grassfed cattle has increased from 37.5% in 2023 to 38% as at Q2, 2024.

CATTLE

Meanwhile, Australian Bureau of Statistics (ABS) cattle slaughter data for the first half of 2024 shows that a total of 3.94 million head of cattle have been processed, of which 2.44 million head were grass finished and 1.49 million head were grain finished. This reflects a grain finished cattle turnoff ratio of 38% for 2024, up from 37.5% in 2023. Despite the record volumes of cattle on feed this year the proportion of grain fed turnoff of 38% of total cattle slaughtered is still well down on the peak of 46.9% grain fed turnoff ratio seen during 2022.

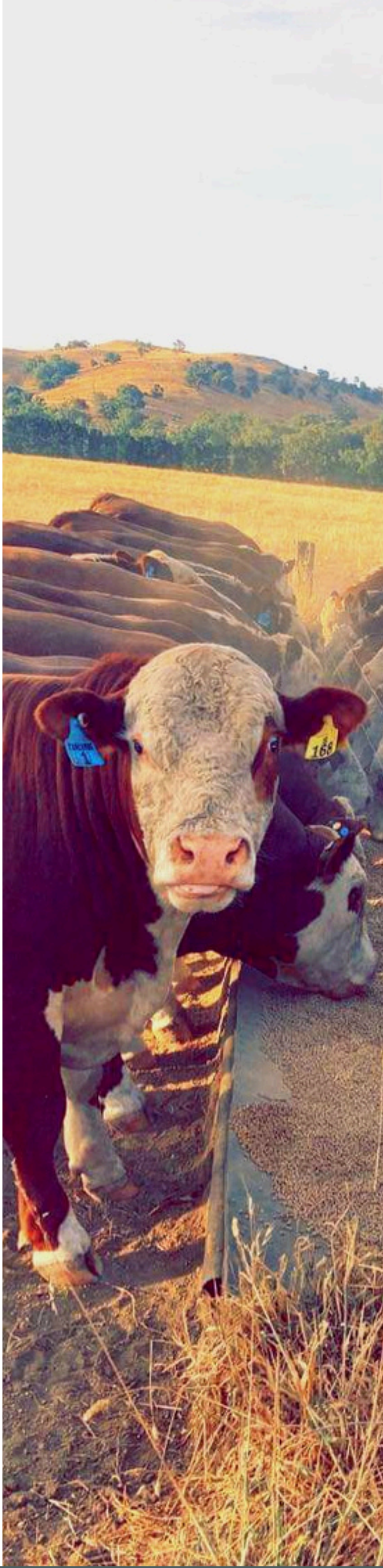
There was 365,840 tonnes of beef shipped out of Australia during the third quarter of 2024, which is a new record volume for the September quarter. It represented levels 12% higher than what was shipped out in Q2, 2024 and nearly 37% higher than the Q3 quarterly average volumes seen exported over the last five years. Although, the recent dock workers strike in the USA may slow down volumes to this destination over the last quarter of 2024 if the situation cannot be resolved in an efficient manner.

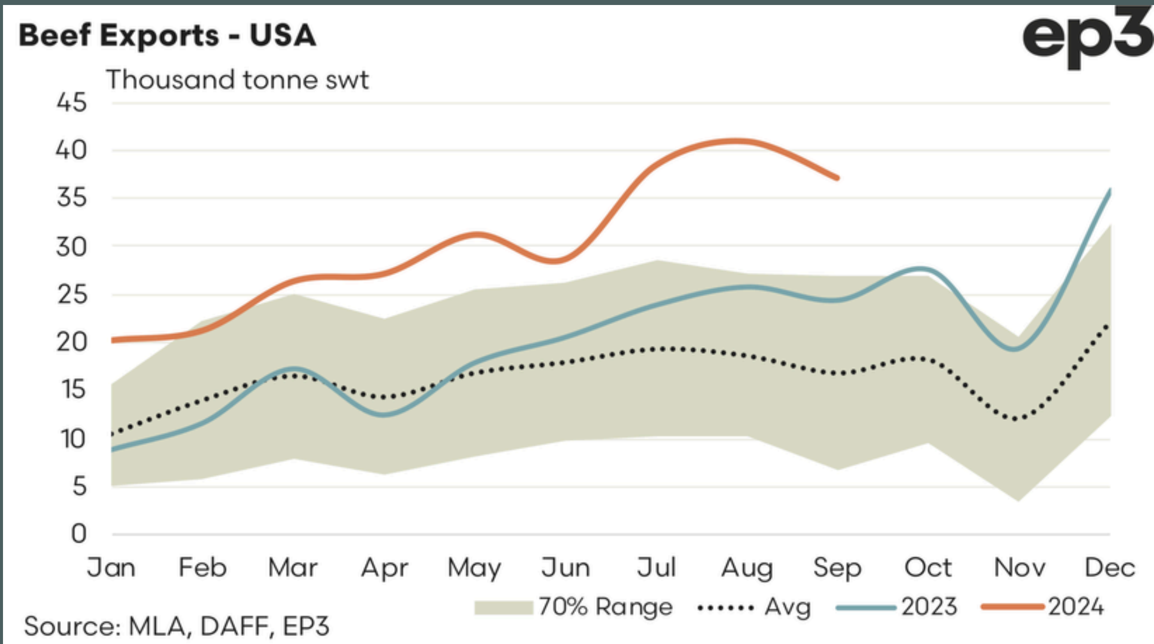
A summary of the trade flows to the top two beef export destinations is as follows.

USA – Exports of Aussie beef to the USA saw a 34% increase from Q2 to Q3, 2024 to hit 116,117 tonnes. This makes the recent quarter the strongest trade volumes since Q2, 2015. Current quarterly volumes to the USA are nearly 58% higher than Q3 last year and 112% above the five-year quarterly average levels.

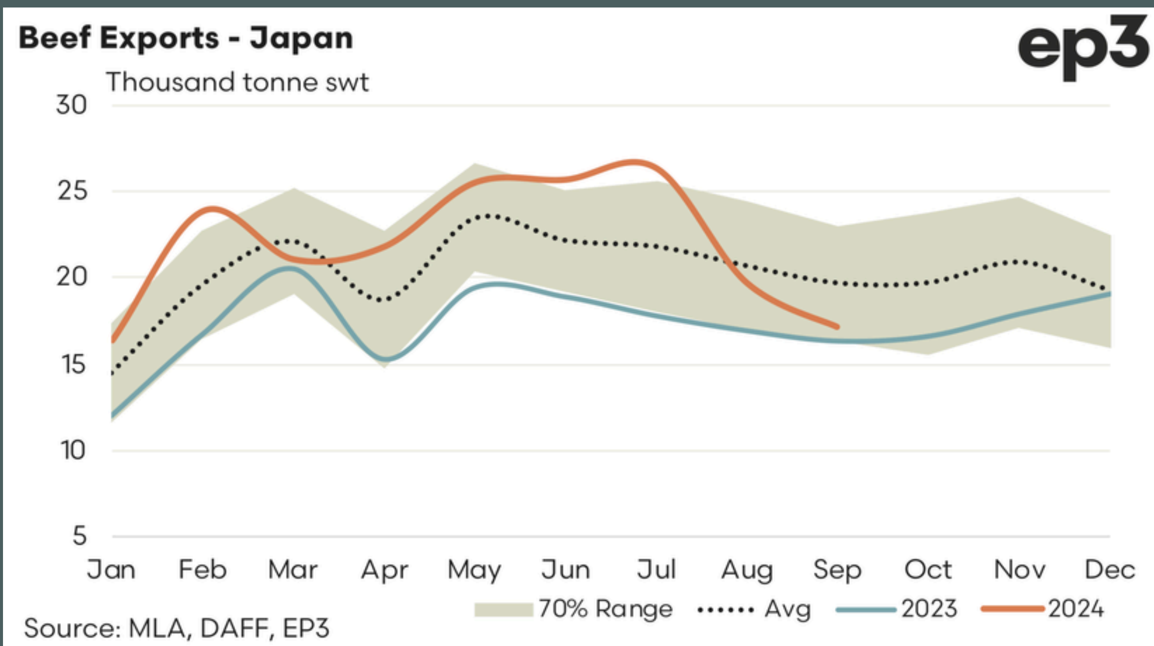
Japan – After a strong first half of 2024 the Q3 flows to Japan have eased over the September quarter to hit a seasonal low of 17,104 tonnes in September. For the whole of Q3, 2024 flows have pulled back to 63,076 tonnes which is 13% down on the Q2, 2024 volumes and very close to the five-year Q3 average levels. Current Q3 exports to Japan sit 1.5% above the five-year average levels.

Over the last five-years, on average, Australia has exported 71% of the beef it has produced and the ratio of beef exported versus domestic consumption has increased from 67% in 2022 to nearly 75% in 2024, as forecast by Meat & Livestock Australia (MLA). Over the next few years the ratio of beef exports is anticipated to remain relatively firm staying at 74.7% in 2025 and easing marginally to 73.9% in 2026.





Quarterly beef export flows for Q3 2024 to the US have come in 112% higher than the third quarter average flows from the last five years.



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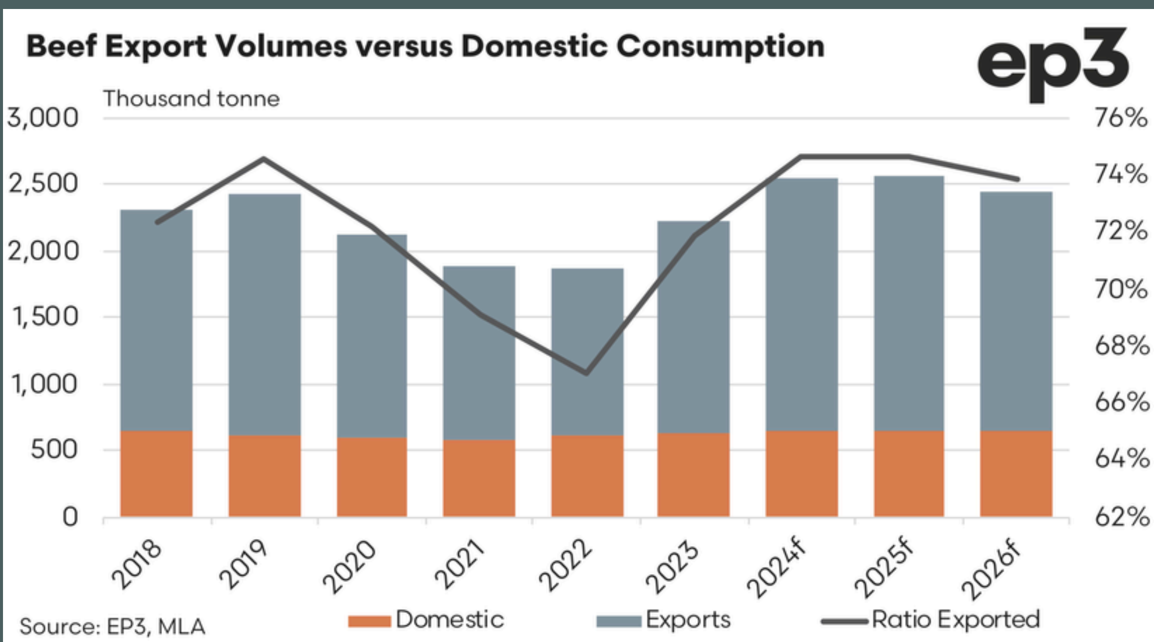


Over the last five years Australia has exported 71% of the beef it has produced and the ratio of beef exported versus domestic consumption has increased from 67% in 2022 to nearly 75% in 2024.

SHEEP

Meat & Livestock Australia (MLA) have released their September 2024 update to sheep industry projections, showing some significant revisions to some elements since the February 2024 update. The size the national sheep flock has been revised up by 3.4% in 2024 to 79.1 million head. However the trend over the next few years is for flock decline.

In 2025, MLA continue to expect the flock to decrease from 2024 to 76.9 million head, but this figure was also revised up from the February 2024 outlook by 3.9%. In 2026 MLA have only a marginal revision to the flock, just 0.7% lower than the earlier update suggested, from 74.5 million head to 74.0 million head.

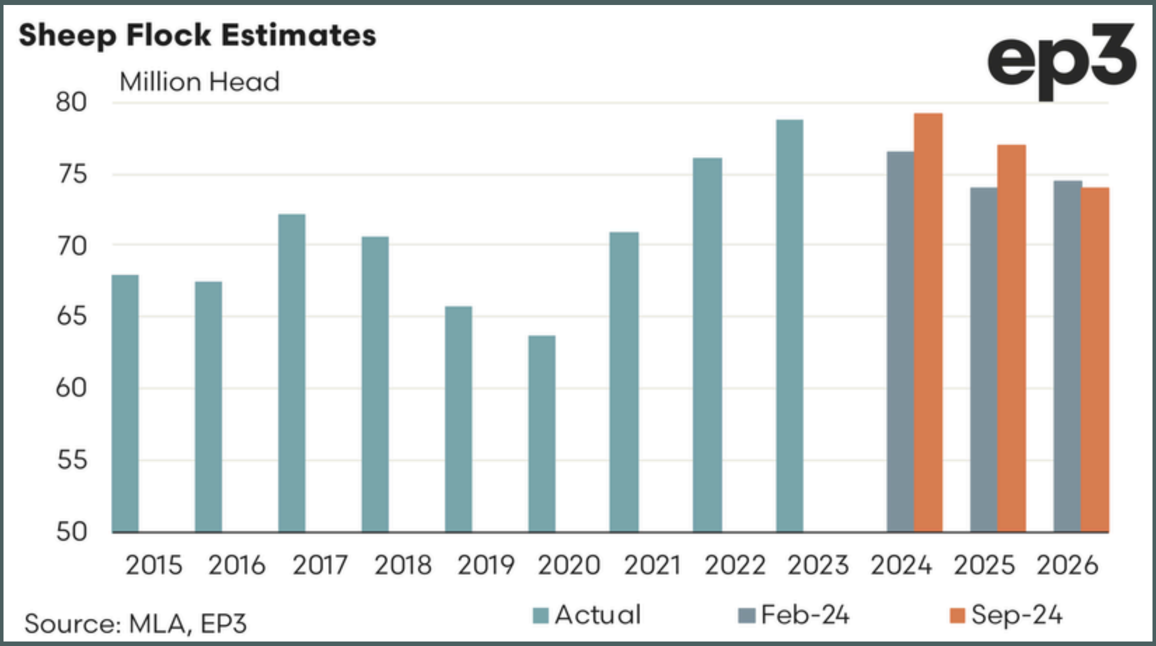
Underpinning the decline in the national flock are higher revisions to slaughter estimates for both lamb and sheep, but the sheep sector is showing a much bigger lift in anticipated turnoff in the coming years.

In 2024, MLA expect lamb slaughter to be 6.2% higher than their February estimates with 27.7 million head now forecast for annual slaughter. A similar revision upwards is now expected for 2025 with 26.3 million head of lamb to be turned-off, an increase of 5.8% from the February projections. In 2026 MLA have lifted the lamb slaughter to 25.5 million head, an increase of 4.2%.

There has been marginal change to the 2024 sheep slaughter estimate, down 1.1% from the February outlook to 10.0 million head. However, MLA expect a big lift in the sheep cull in 2025 with the new forecast coming in 21.3% higher than the February projections at 11.3 million head. An even larger increase has been calculated for 2026 with sheep slaughter 38.5% higher than the earlier forecasts at 11.1 million head, up from just 8 million from the February outlook.

Australian Bureau of Statistics (ABS) sheep slaughter numbers, along with live sheep export volumes, for the second quarter of 2024 have been released and it shows thats the sheep turnoff ratio (STR) is edging ever closer to flock liquidation territory.

In Q1, 2024 the STR was sitting at 13.7% just 0.3% below the 14% threshold between flock rebuild and liquidation. As of quarter two 2024 the STR has lifted to 13.9%, virtually sitting right on the fence between a flock increase and a flock decline.



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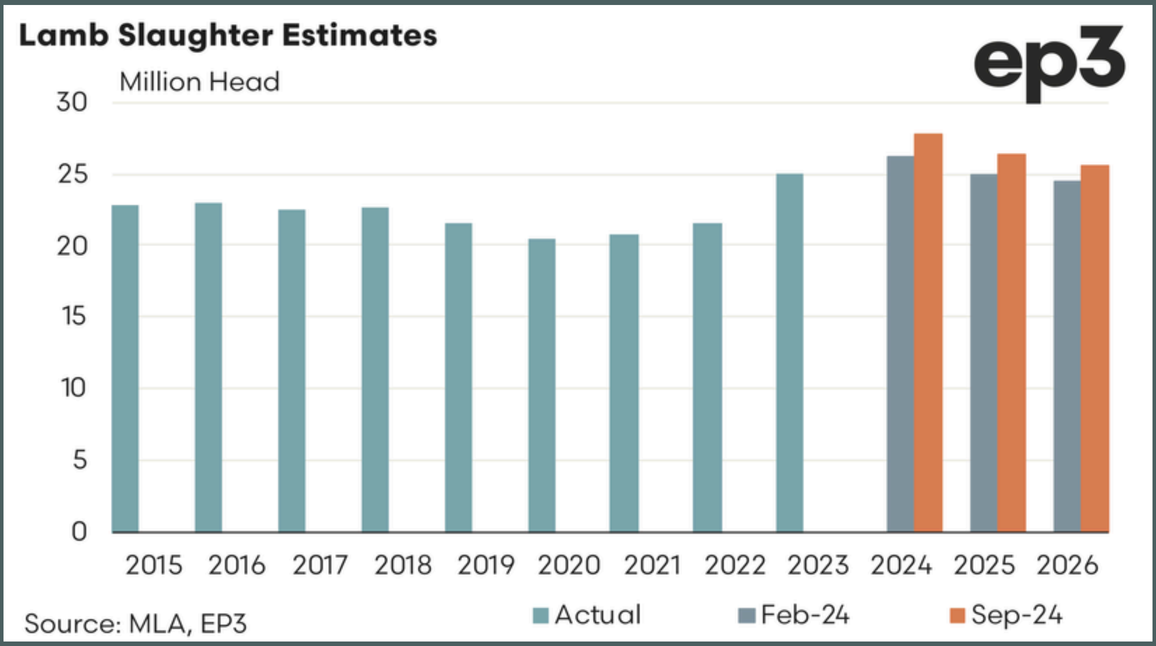
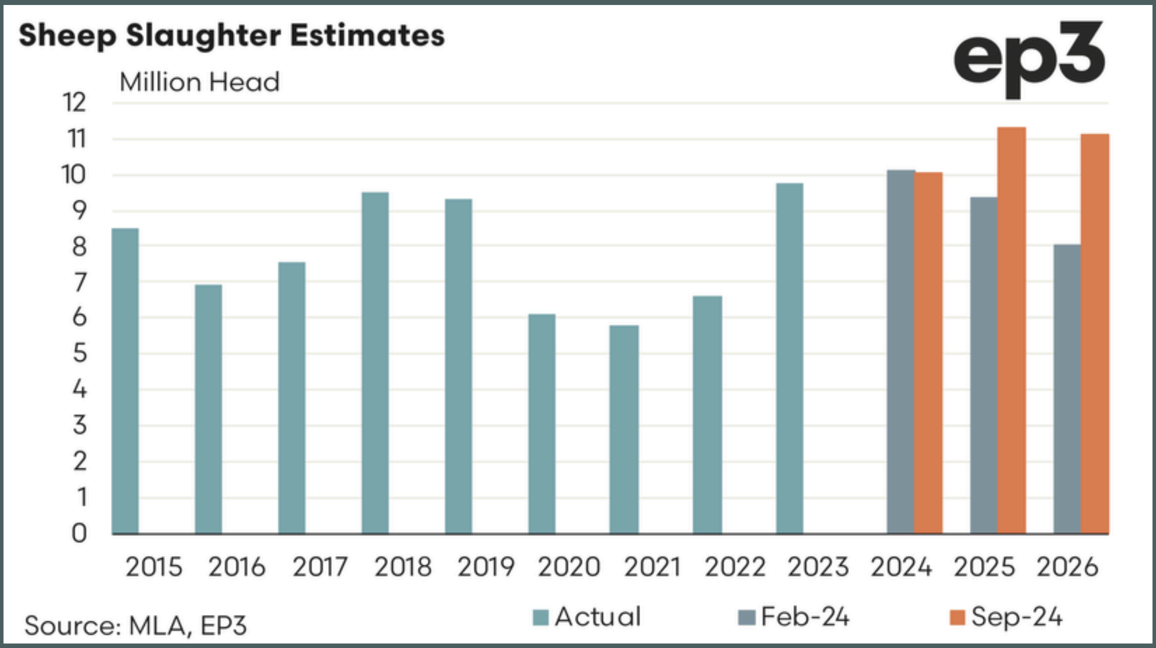


MLA expect lamb slaughter in 2024 to be 6.2% higher than their February estimates with 27.7 million head now forecast for annual slaughter.



MLA expect a big lift in the sheep cull in 2025, 21.3% higher than the February projections. An even larger increase has been calculated for 2026 with sheep slaughter 38.5% higher than the earlier forecasts.

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SHEEP

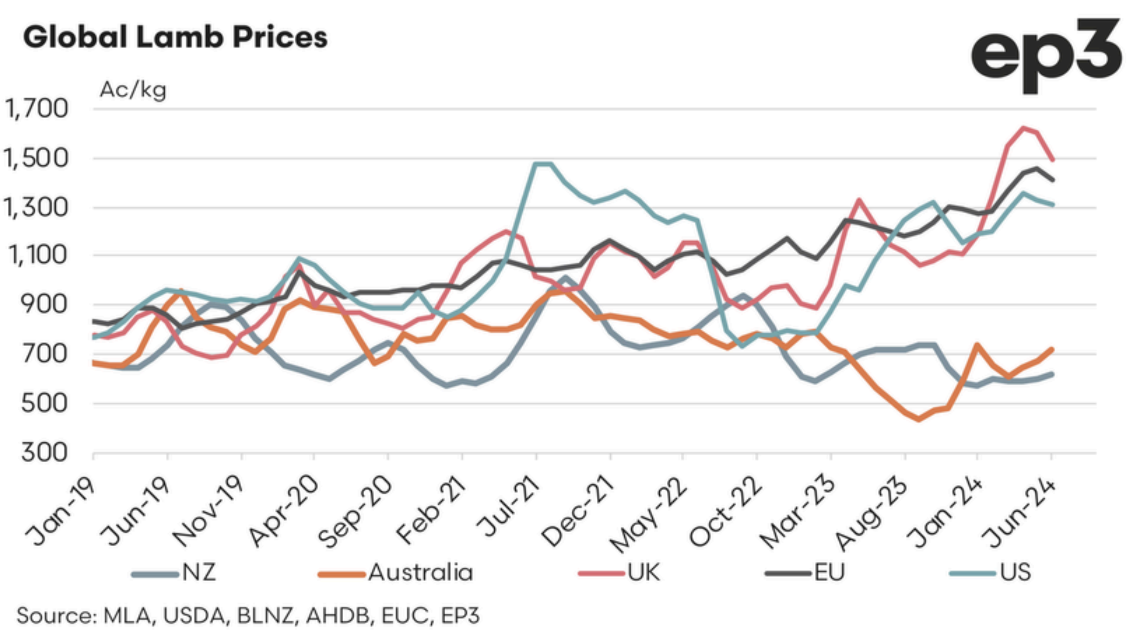
A few years back during the strong Australian flock rebuild we saw local lamb prices narrow the gap between offshore counterparts, particularly for lamb from the northern hemisphere. However, since mid-2021 the gap between lamb prices in the northern hemisphere versus the southern hemisphere have widened significantly.

The Australian lamb market collapse in late 2023 saw Aussie lamb drop to the cheapest of the five nations featured, even running at a strong discount to Kiwi lambs for several months when prices dipped sub 500AU cents per kilogram. So far in 2024 the monthly average Australian lamb price has recovered to trade above its Kiwi counterpart, sitting about 100 AU cents higher as of the end of June 2024. However a continual strong surge in northern hemisphere lamb prices from the USA, UK and the EU since late 2022 has seen current monthly average Aussie lamb price running at levels that are between 600 – 800 AU cents below lambs from the northern hemisphere.

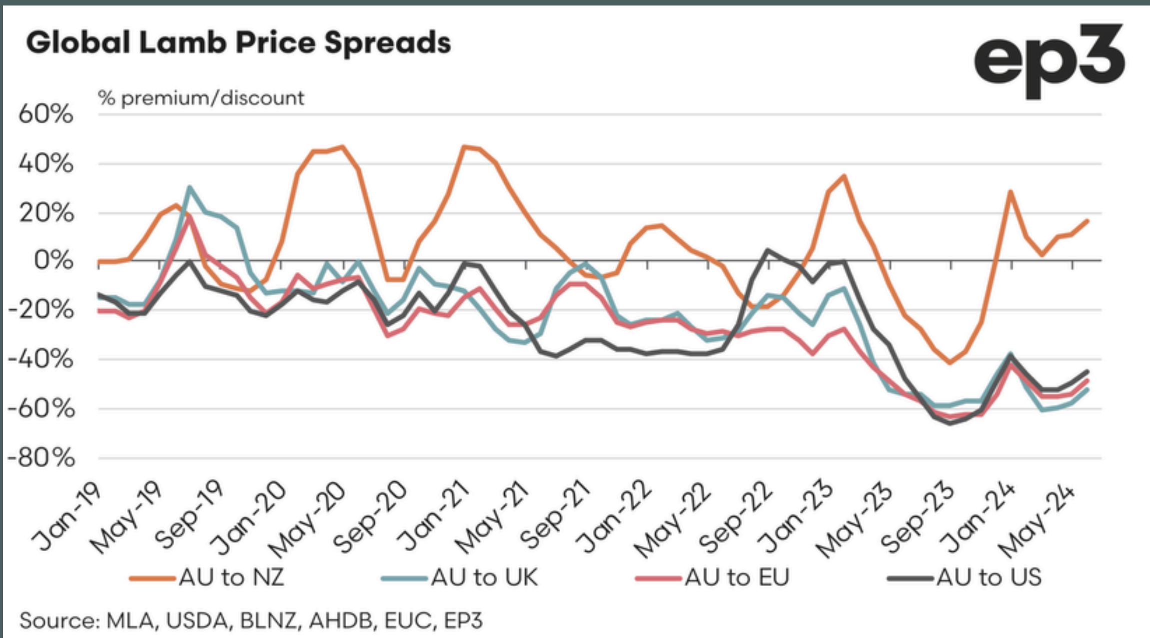
Analysis of the average monthly price spreads in percentage premium and discounts paints a vivid picture with the market crash in late 2023 pushing Australian spreads to a 40% discount to New Zealand lamb prices and towards a 60% discount compared to northern hemisphere lamb. In 2024 Australian lamb spread to Kiwi lambs have returned to a premium, presently sitting at 16% above New Zealand lamb levels. However, compared to the USA they are 45% lower. The picture is even worse across the Atlantic with June 2024 Aussie lamb price discounts to the EU at 49% and to the UK at 52%.

Total sheep meat exports from Australia (mutton and lamb, combined) remains firm and has been on a relatively steady trajectory over the September quarter. There was 150,294 tonnes shipped during Q3, 2024 which is the strongest Q3 on record and has beaten the previous record peak for Q3 from last year by 10%. Compared to the five-year average for the September quarter the current flows are running nearly 44% stronger, a huge result for Australian sheep meat producers and the sheep industry.

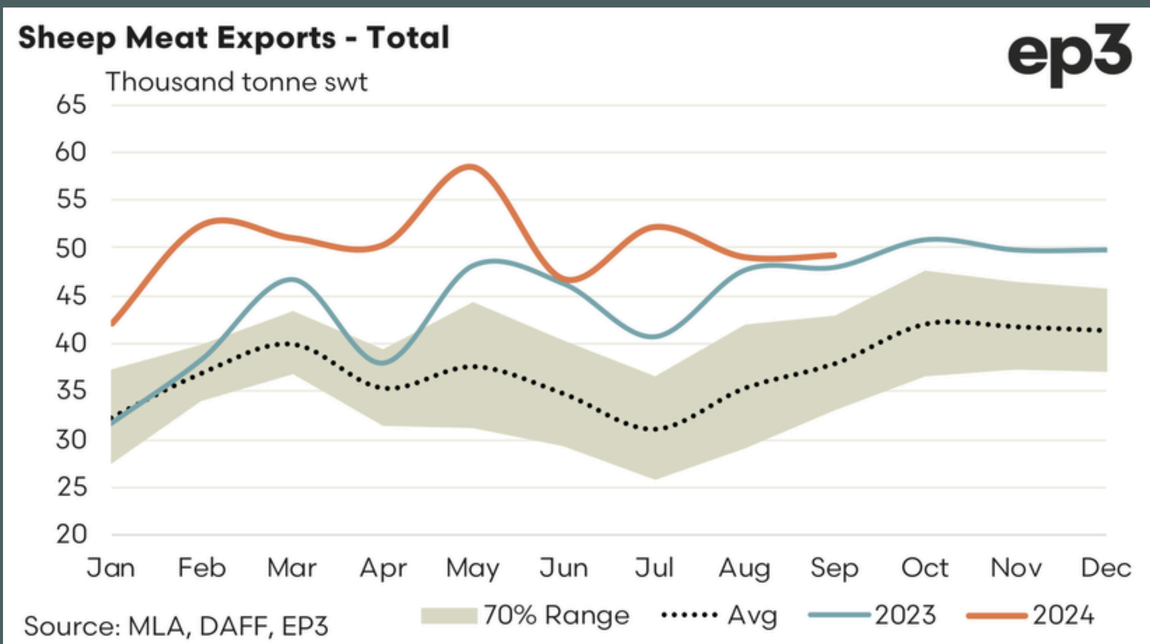
Sheep meat exports to the USA continue to boom with a 6% gain for the September quarter on the already strong volumes that were sent during Q2, 2024. Q3, 2024 saw 27,343 tonnes exported to the USA from Australia which is the strongest Q3 result on record. This result places the current volumes 27% higher than Q3, 2023 and 33% above the five-year average for Q3 export flows.



The monthly average Australian lamb price has recovered during 2024 to trade above its Kiwi counterpart, sitting about 100 AU cents higher as of the end of June 2024.



Premium and discount spreads show the market crash in late 2023 pushing Australian spreads to a 40% discount to New Zealand lamb prices and towards a 60% discount compared to northern hemisphere lamb.



Total sheep meat exports remains steady & strong. There was 150,294 tonnes shipped during Q3, 2024 which is the strongest Q3 on record and has beaten the previous record peak for Q3 from last year by 10%.

WOOL

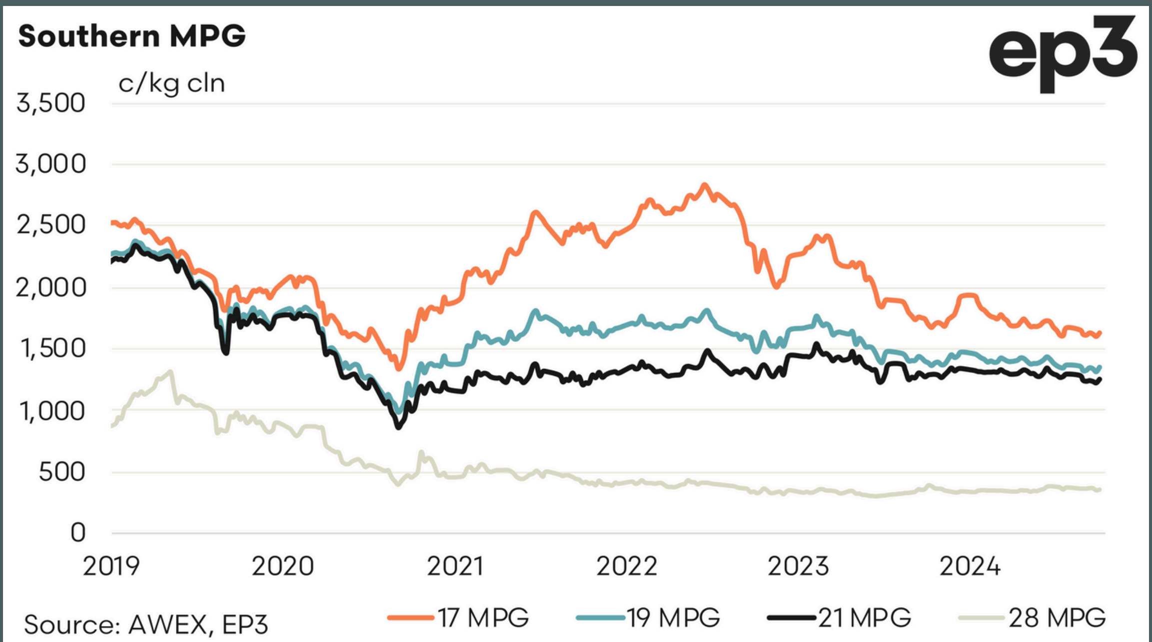
Australian wool prices remain lacklustre as offshore demand remains constrained due to economic slowdown in key economies such as China, USA and across Europe. Price dynamics within the market have shown some stability, albeit at lower levels than desired. The Eastern Market Indicator (EMI) started the 2024/25 season at 1125 Au cents per clean kg and observed a decrease to 1104 Au cents by the end of week 14, reflecting a decline of 1.8%. This trend underscores a challenging market environment where prices have struggled to rebound significantly despite a reduction in supply.

Significant price discounts for broader coarse wool persist this season. These broader wools have not only maintained their lower price points but have faced further pressures. While medium micron types (19-22 MPG) have held better to their values compared to the finer segments, they still recorded a loss in value, highlighting a general downturn across all wool types . Another significant factor is the overall decrease in demand for wool which has affected the broader wools more severely. The demand for finer wools often remains somewhat more robust due to their use in high-quality apparel and luxury goods.

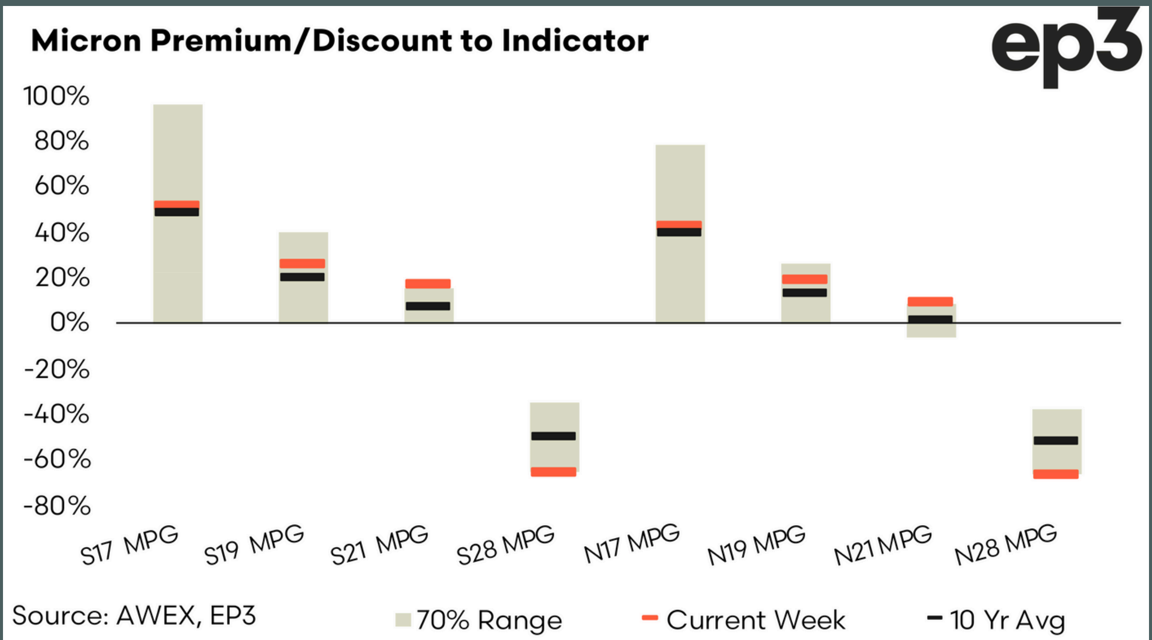
According to the Australian Wool Testing Authority (AWTA) there has been a 3.8% drop in production by tested wool figures from the previous season, with an initial forecast predicting a further 5.8% decline in the 2024/25 season, highlighting a trend towards reduced wool outputs.

The reduced wool output is partly attributable to adverse weather conditions affecting key wool-producing regions, leading to varied production results across states. Notably, Tasmania experienced a sharp decline due to severe drought conditions, impacting the overall national production volumes and influencing market supply dynamics. Auction data from the start of the 2024/25 season further illustrates these trends, where there was a 20.8% decrease in wool offered and a similar decline in wool sold compared to the same period in the previous year. This reduction in auction volume correlates with the broader supply constraints and has contributed to the overall market softness.

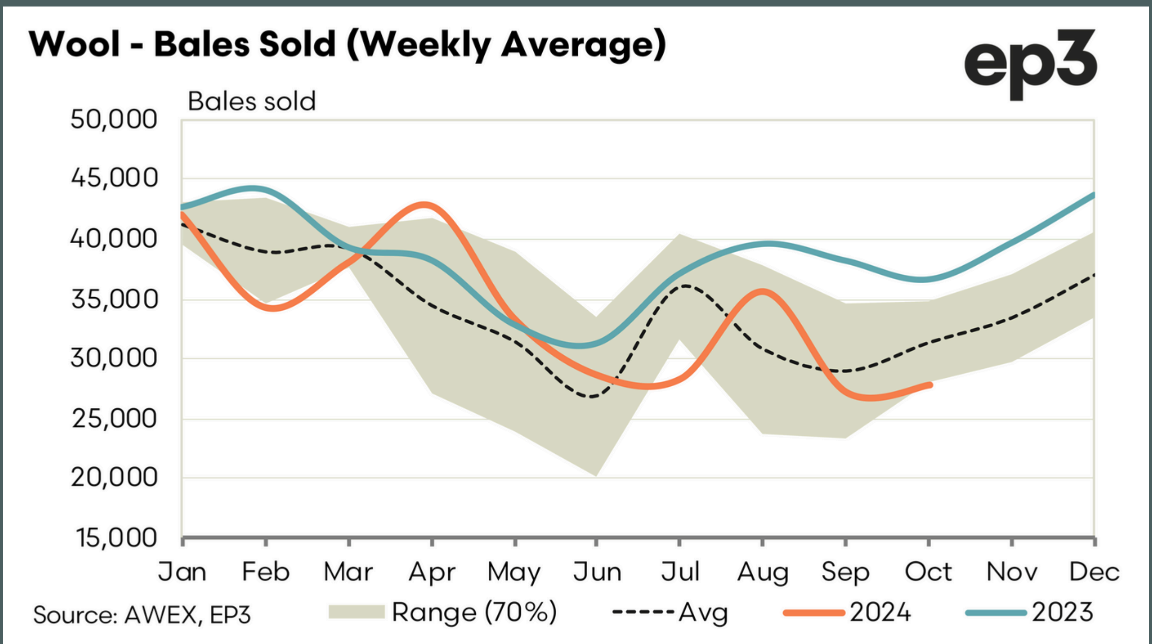
Internationally, the demand for Australian wool remains heavily concentrated, with China continuing to dominate as the primary importer, representing a significant portion of both volume and export value. This concentration highlights the dependency of the Australian wool market on Chinese demand, which continues to shape market outcomes amidst global economic pressures and competition from other fibre types.



Australian wool prices continue to demonstrate sluggish pricing across all micron types with low demand from key offshore markets.



Premium and discount spreads for selected micron types to the EMI show broader micron wool continue to run at greater discounts than could normally be expected for this time in the year.



Wool supply, in terms of average weekly bales sold, has trended below average levels throughout September and has run significantly below levels seen during 2023 since June .

WHEAT

Wheat production in Australia is set to be above average for this coming harvest, although there is a lot of conjecture about exactly how much higher it will be.

During September, frost has affected many crops in New South Wales, which performed extremely well until that point. Frost has the ability to wipe out crops, but we typically find that estimates for losses are exaggerated.

As an example in a district, the frost will not hit equally; some areas will be warmer than others. There were some estimates that 20% of the wheat crop in New South Wales was lost, but we believe this is far too high.

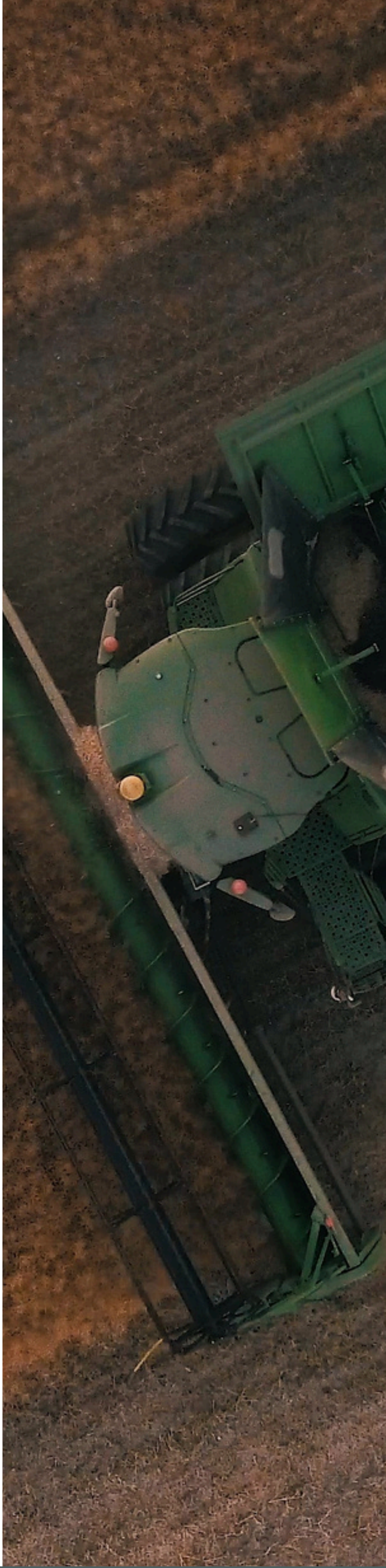
A consensus of the main analysts focused on Australian agriculture by Reuters showed that in August, the average expectation was for a 32.62mmt wheat crop, in September this has been revised downward to 30.92mmt.

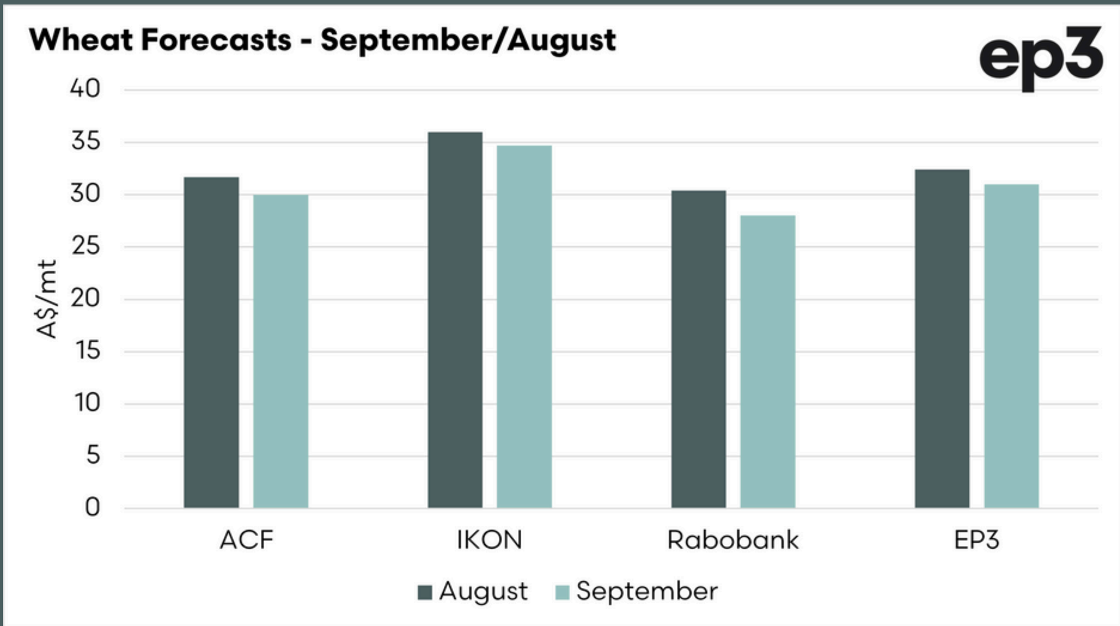
At a global level, stocks are relatively tight in the main exporters of wheat, with the stocks-to-use ratio at the joint lowest level since at least the turn of the century. This is concerning as at some point one or more of the exporters will have a production issue which will cause supply to drop.

On the flip side, the top ten wheat buyers represent over 50% of the world's import demand. These nations are the countries of most importance from a demand point of view.

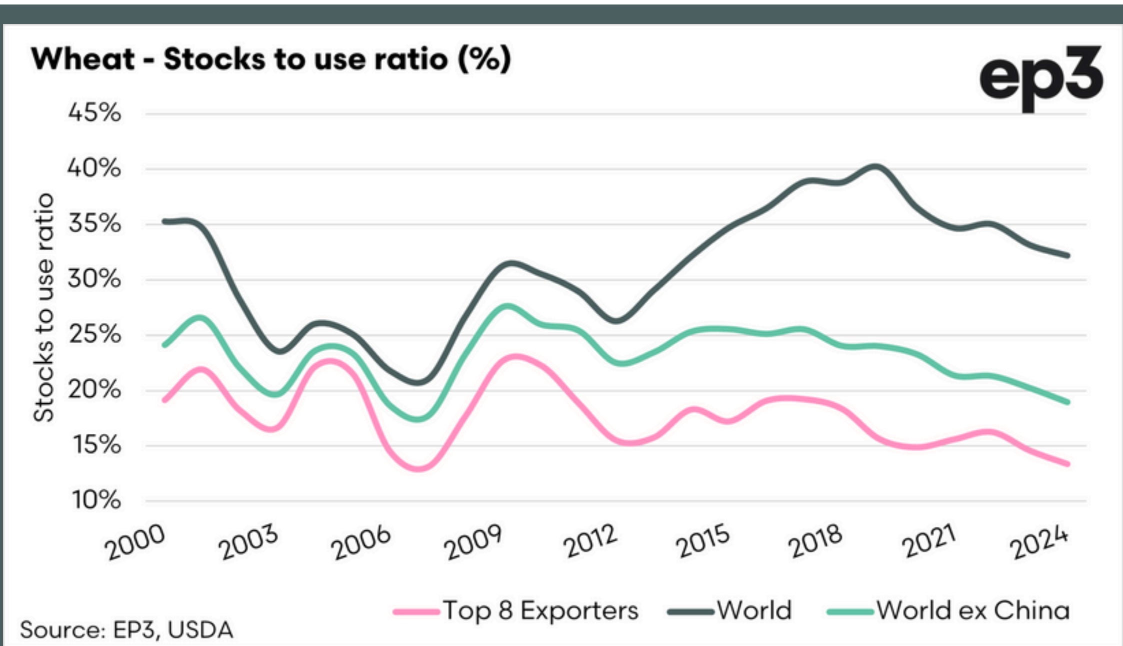
If we look at consumption in these nations, we can see that it has risen, but not at the same rate that stocks have risen. The increase from the first five years of the century to the past five years has been 183% for ending stocks and 124% for consumption.

The importers are well stocked, which means that if there are major supply issues in the world, they will have a buffer stock. In comparison at the start of the century the importers had low stocks, and when export nations had crop failures, the market rallied strongly causing many geopolitical issues including the 'Arab Spring'.

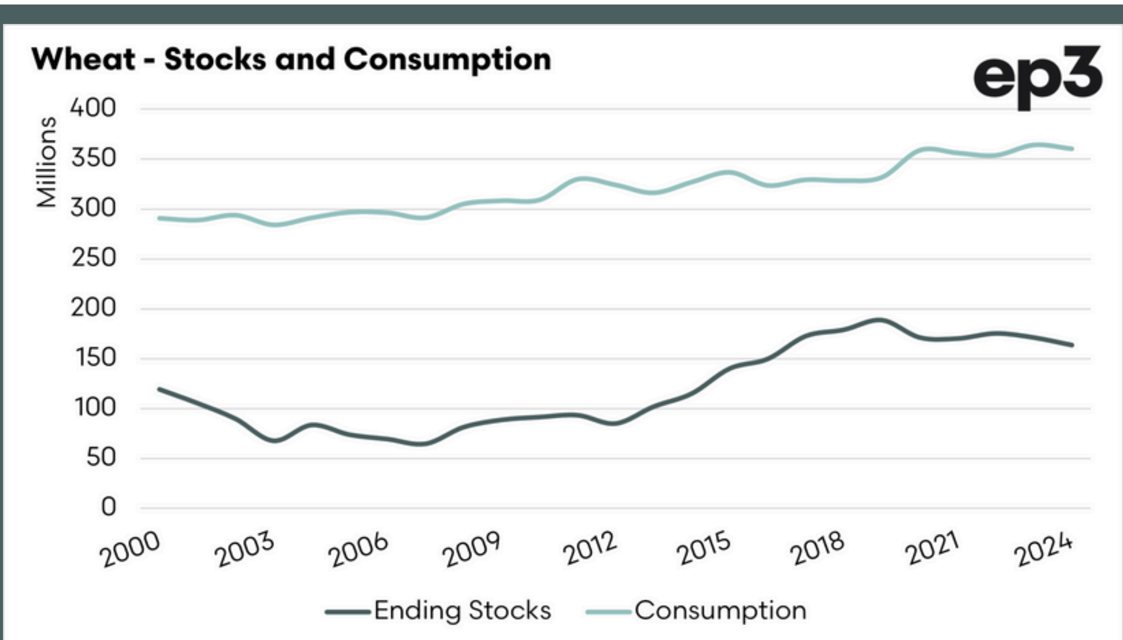




Wheat forecasts were revised downwards for September due to frost and dry conditions in parts of the country.

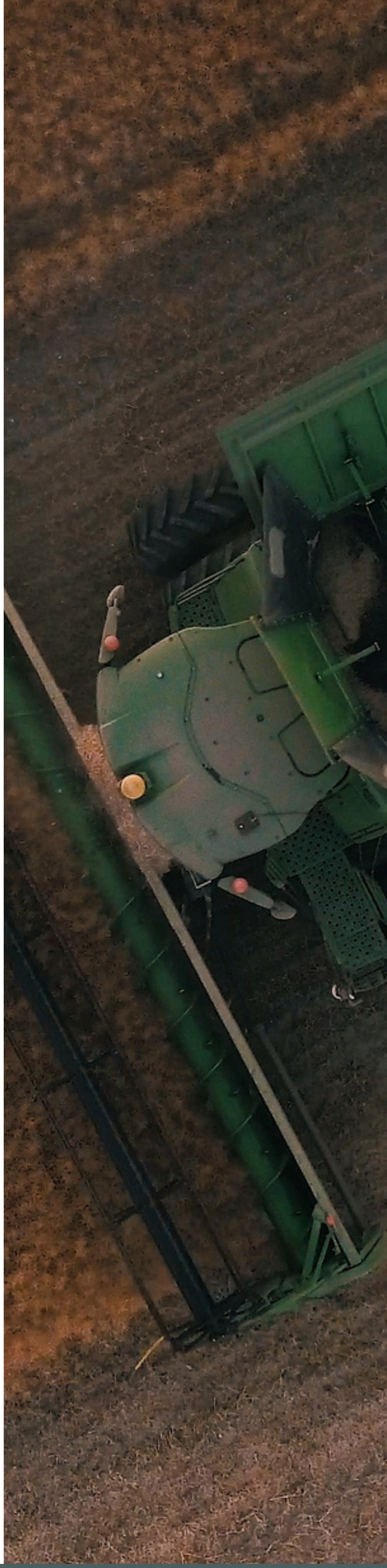


The stocks to use ratio of the worlds exporters is joint lowest.



The stocks in the worlds major importers are high creating a buffer stock.

WHEAT



The northern hemisphere growing period tends to bring higher levels of volatility than the rest of the year. This year, volatility was lower. The volatility during quarter 3 has been below the standard deviation.

During quarter 2 there were major concerns about the state of the Russian wheat crop as it had suffered from low moisture. However, these concerns were not felt in the export market, as Russia moved to increase its shipments.

During August, Russia exported a record monthly volume. It has to be noted that Russia will struggle to maintain these export levels in the coming months. Stocks within Russia are likely to be tight coming into 2025 and ahead of their next harvest.

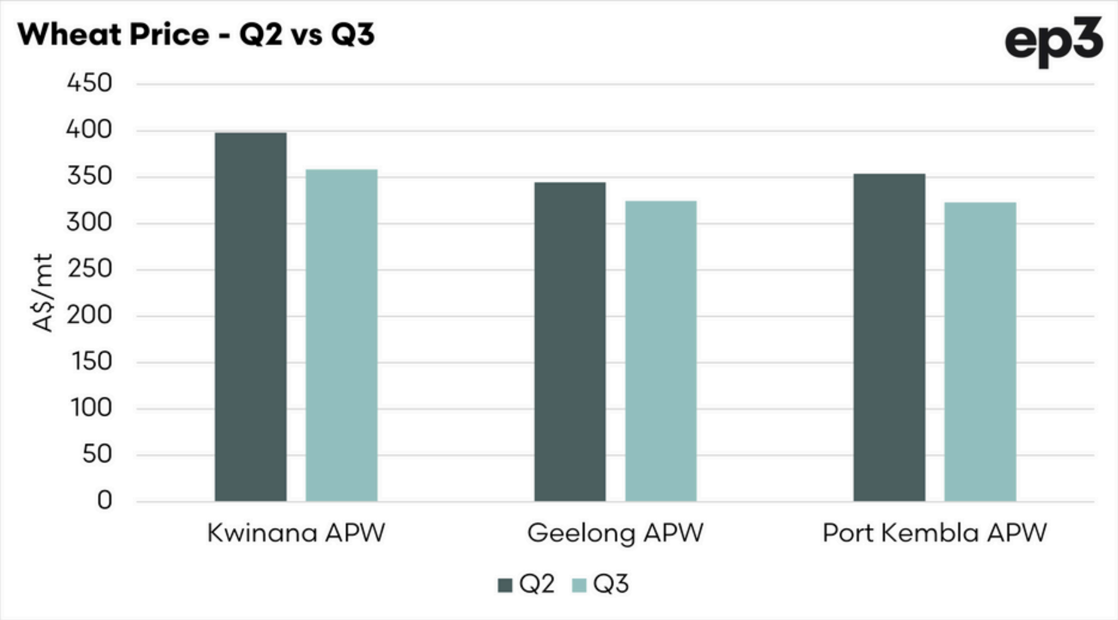
The Northern Hemisphere's wheat harvest in the U.S. was strong, further increasing global availability. However, Europe had a challenging season, with wet weather affecting both yield and quality.

The high export pace of Russia along with solid production in other parts of the world was enough to offset losses in Europe. This has lead to wheat prices falling to four year lows during the quarter.

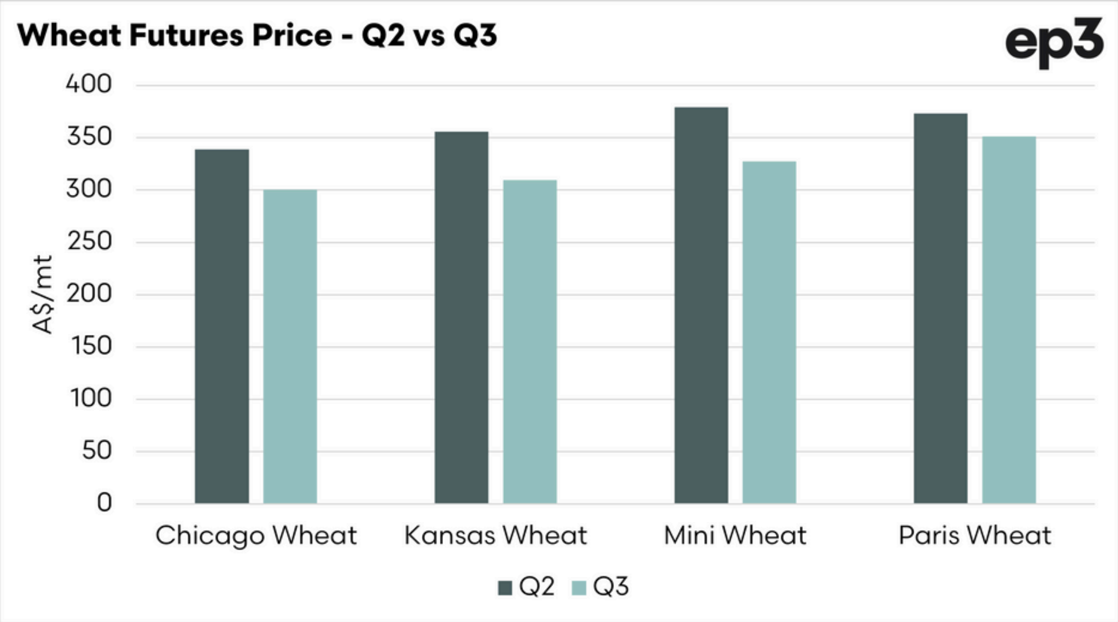
The futures prices around the world all fell, with use values falling between A$40 to 50 for the quarter. The French wheat futures contract had the smallest fall of only A$20, due to the localised issues felt in France.

At a local level, ASX wheat futures fell A$30 for the quarter. The basis level (premium/discount) to Chicago futures has remained in positive territory and may increase if yield losses from frost are higher than anticipated. Physical prices around the country fell between 6 to 10%, with the biggest falls being in Western Australia.

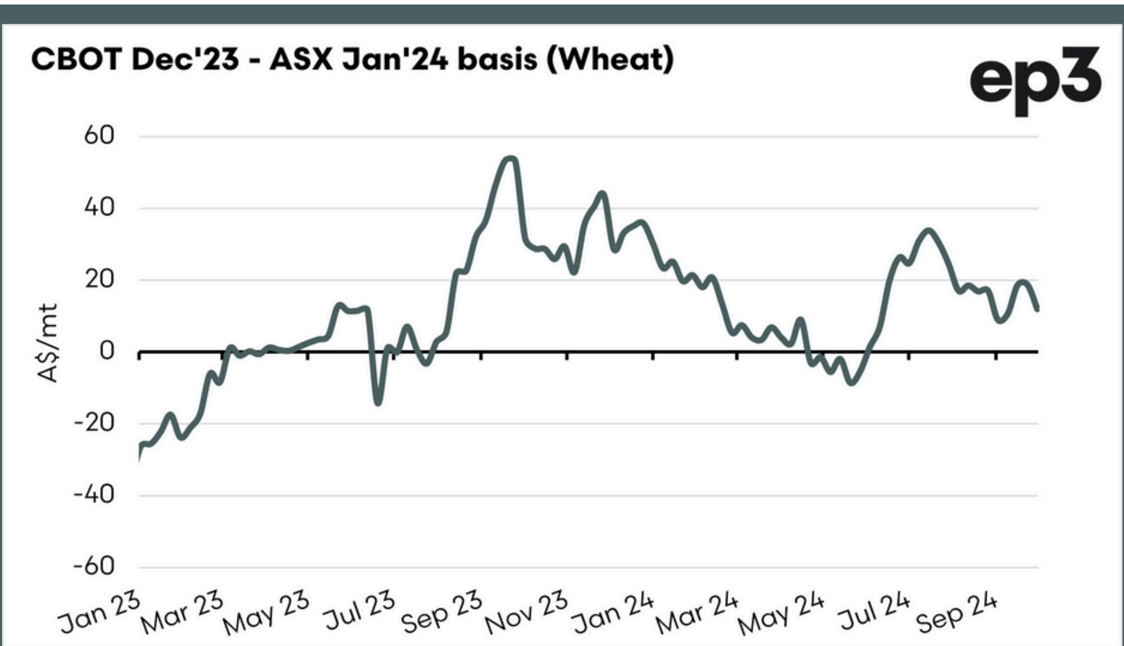
We expect that in the absence of any significant black swan event, wheat pricing will be bearish for the coming quarter, especially as growers in Australia start to sell their wheat, as they are currently undersold.



Wheat prices around Australia fell during quarter 3. These were largely in line with overseas values. Western Australia had the largest fall as saving rains hit during Q3.



As Russian supplies hit the market, futures in the US fell strongly.
Those in Europe did not fall to the same extent due to the localised issues.



Australian wheat has maintained a premium over US wheat futures.
If the frosts during Mid to late September were worse than expected, we may see basis levels rise.

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