

Legacy Livestock™

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COMMODITY UPDATE

QUARTER 4 - 2024



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CATTLE

The cattle processing figures released from the Australian Bureau of Statistics (ABS) for the third quarter of 2024 shows that the Australian herd remains in liquidation territory, but the female slaughter ratio (FSR) has dipped back a little over Q3 towards the pivot between liquidation and rebuild, which sits at 47%.

Q3, 2024 saw the FSR drop from 53.4% in Q2 to 52.2% during Q3, 2024 and this brings the annual FSR for 2024 to 51.5%. As it stands presently we are nowhere near the 56% FSR that saw strong liquidation of the herd in 2019 & 2020. Going forward the trend in the FSR hinges very much on what we get in terms of Bureau of Meteorology (BOM) forecast rainfall for the 2025 autumn break.

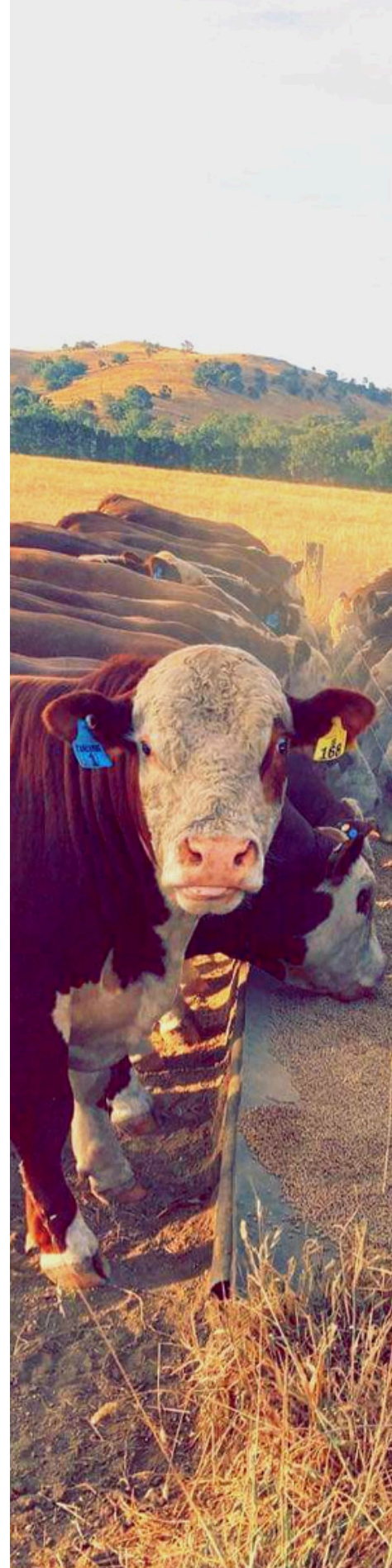
Recent ocean patterns in the Pacific appear to suggest a return to La Nina is possible into 2025, which could bring a wetter than average second half of summer and an early autumn break. A wetter than average outcome in early 2025 will see the ratio slide further towards the pivot point at 47%.

During the September quarter 2024 the cattle numbers on feed in Australian feed lots lifted marginally by 0.4% to see a new record created of 1.42 million head. The capacity of the feedlot sector also grew by 0.4% to see it reach over 1.64 million head. Given both cattle on feed and capacity increased by the same amount nationally the capacity utilisation remained unchanged from Q2, 2024 at 87%.

The September 2024 quarterly cattle turnoff hit 859,930 head, which is the second highest quarterly marketing levels on record. You would have to go back to the March quarter of 2020 to find the peak in quarterly turnoff at 863,403 head.

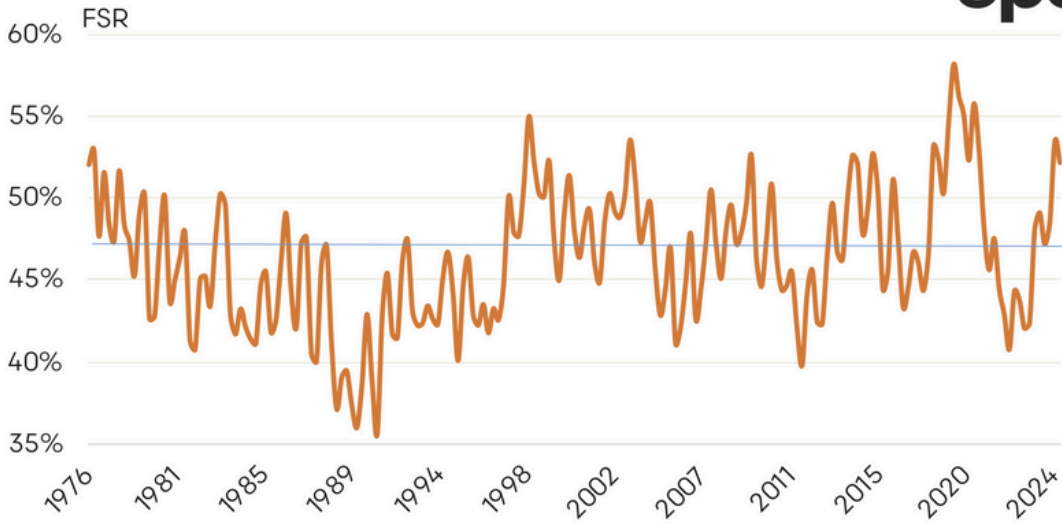
Meanwhile, Australian Bureau of Statistics (ABS) cattle slaughter data to the September quarter 2024 shows that a total of 6.17 million head of cattle have been processed, of which 3.81 million head were grass finished and 2.35 million head were grain finished. This reflects a grain finished cattle turnoff ratio of 38.2% 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 38.2% of total cattle slaughtered is still well down on the peak of 46.9% grain fed turnoff ratio seen during 2022.



Female Cattle Slaughter Ratio

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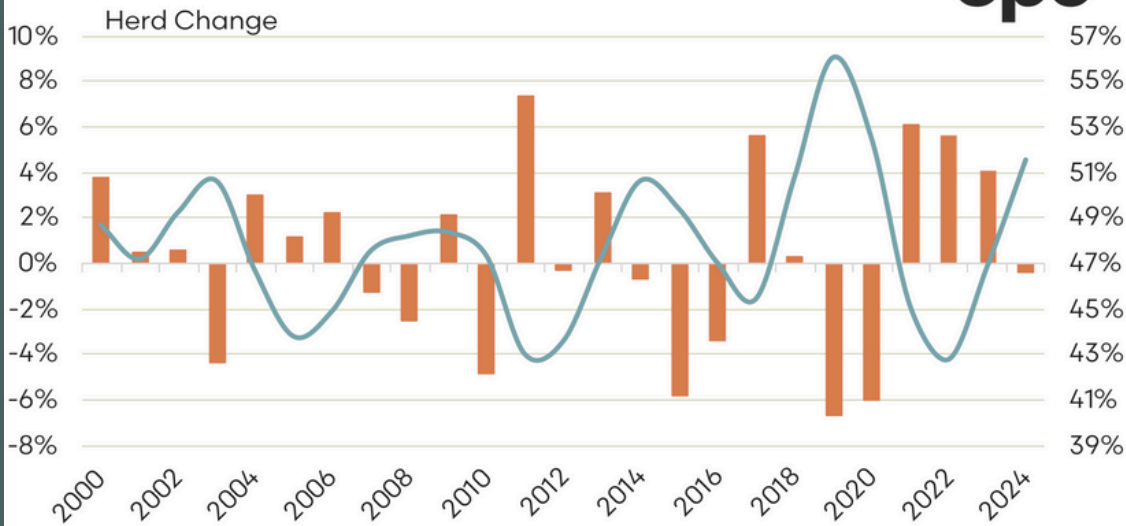


Source: ABS, EP3

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Annual Female Slaughter Ratio to Herd Change

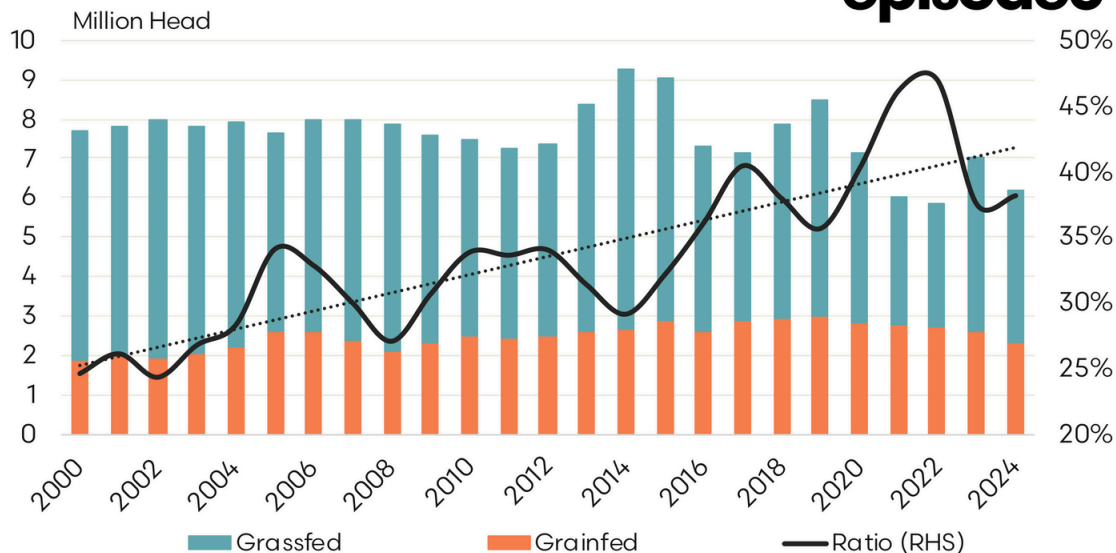
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In line with a move into cattle herd liquidation territory with the FSR the MLA forecast for the Australian cattle herd has shifted to a period of herd decline.

Australian Grainfed vs Grassfed Cattle

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Annual cattle slaughter for 2024 shows the ratio of grainfed to grassfed cattle has increased from 37.5% in 2023 to 38.2% as at Q3, 2024.

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CATTLE

Throughout 2024, the cattle herds in the top global exporting countries experienced various changes, significantly impacting their production capacities. Brazil saw a decline of 0.9% in its cattle herd, reflecting broader climatic challenges and tough market conditions. Australia's herd decreased by 1.4%, after coming off three favourable seasons of solid herd rebuild. India's herd was without major change but holds the largest herd globally so remains a significant source of beef export supply.

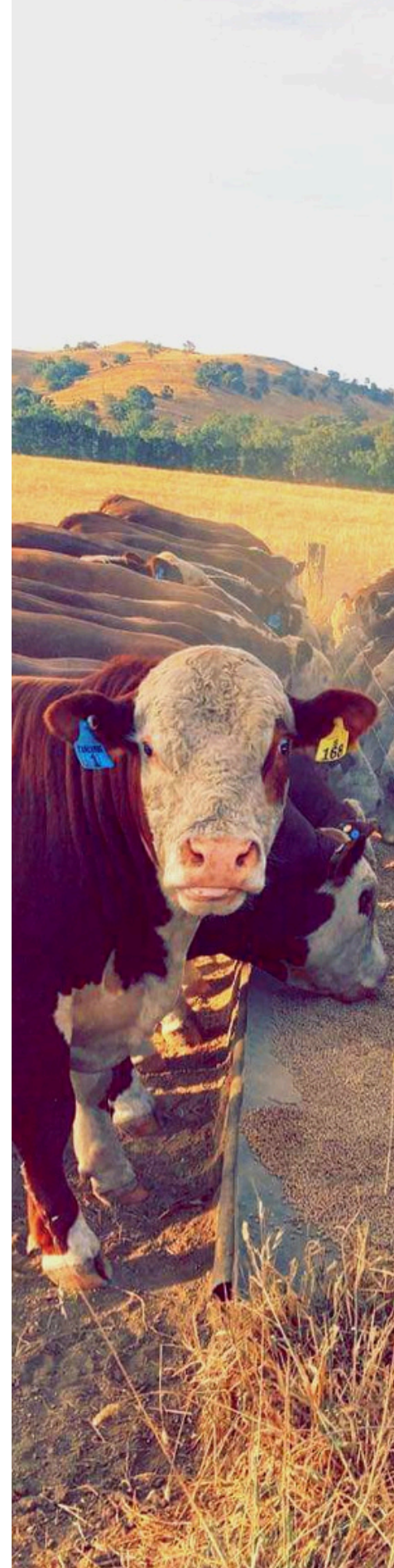
The United States reported a more substantial reduction of 1.9%, driven by ongoing drought and is presently in its fifth consecutive year of liquidation. Argentina's cattle numbers decreased by 1.4%, aligning with local economic pressures and turbulent beef export policy. During 2024 only two of the top beef producing nations, China and Mexico, saw herd growth of 2.9% and 0.4% respectively.

Looking ahead to 2025, the trends in cattle herd sizes are expected to continue influencing these top beef exporters, albeit with some variations. Brazil is anticipated to see a further decrease of 3.0% in its cattle herd, continuing its trend from the previous year. Australia is expected to decrease too, with a projected decline of 2.0%.

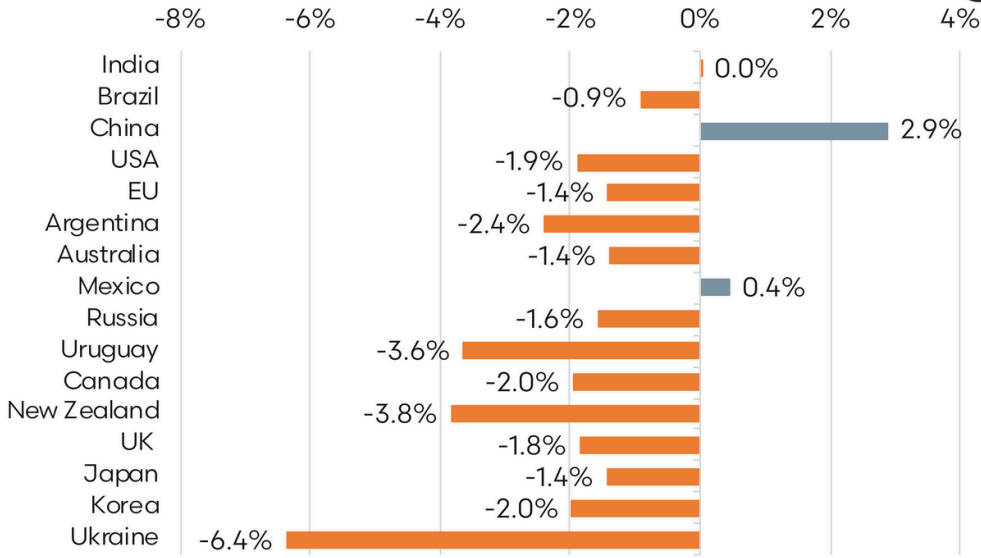
India is again unchanged, suggesting relative stability in its cattle industry. The United States is forecasted to undergo a reduction of 1.3% in herd size, reflecting ongoing industry adjustments and the sixth year of liquidation pushing its herd to the lowest level in six decades.

Local and international factors regarding anticipated beef demand and supply have been incorporated into our heavy steer fair value modelling for the next few years.

For 2025, the model forecasts a price range of 290 to 440 cents, assuming normal rainfall conditions. This range reflects potential fluctuations based on factors such as herd sizes, trade conditions, and global beef demand. Looking further ahead, the 2026 projection predicts a fair value range of 315 to 470 cents, signalling a slight upward trend as global and domestic dynamics evolve. It is important to note that the 2026 fair value range is also based upon an assumption of normal rainfall conditions, much wetter or drier actual rainfall results would impact upon this range.

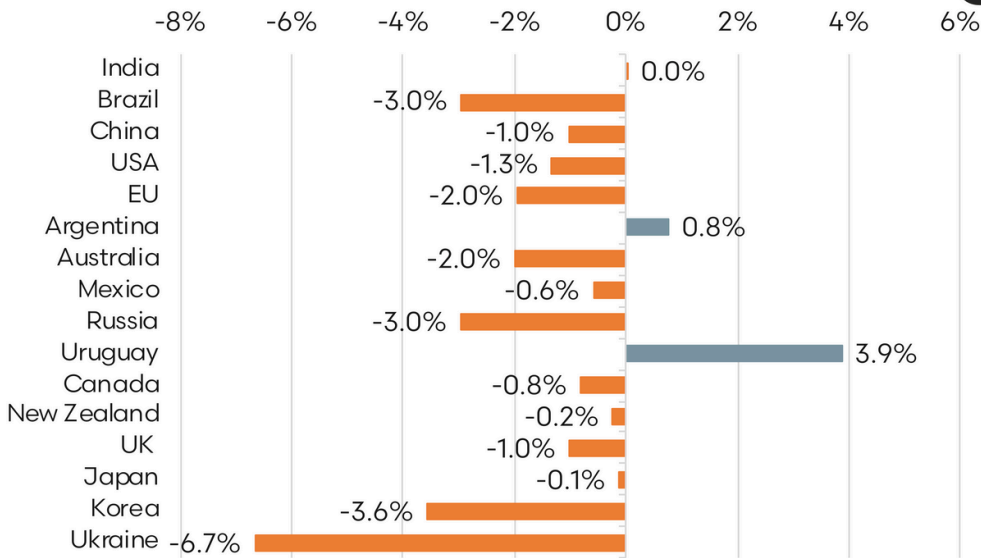


Top Beef Producing Countries Herd Change - 2024



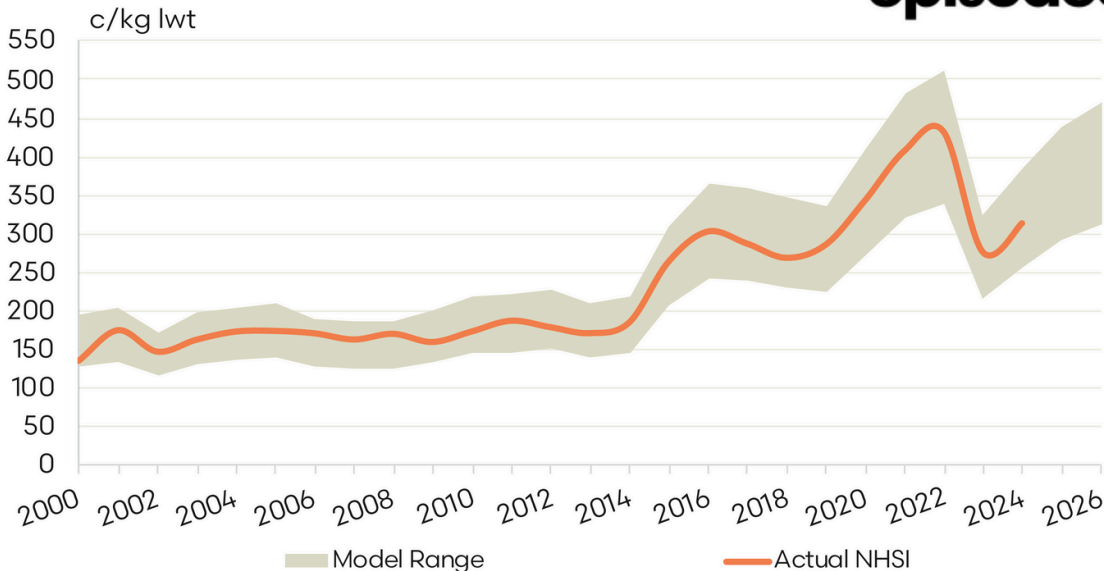
Global beef supply began to tighten in 2024 as key exporting nations such as Brazil, Australia and the USA were in liquidation phase.

Top Beef Producing Countries Herd Change - 2025



2025 will continue to see supply tighten in the top beef exporting nations. Of the top 15 beef producers globally only two will move to a rebuild phase in 2025.

NHSI Fair Value Model - Annual Average



Current fair value modelling for the National Heavy Steer projects improved pricing for 2025 and 2026.



SHEEP

The release of Australian Bureau of Statistics meat production and processing data for quarter three 2024 allows us to have a assess what the sheep turnoff ratio (STR) has been doing over the last quarter. At the mid year mark the flock was on the cusp of moving into liquidation territory and now as at the end of Q3, 2024 we have formally crossed the line with the STR moving to 14.4%.

Historically when the STR has been above 14% the flock has begun to liquidate. Currently we are only marginally over the line so there is much more water to pass under the bridge before we see a strong move towards liquidation. At current levels the MLA forecast for flock decline in 2024 and beyond still seems a bit high based on where the STR sits presently. That's not to say we won't continue to see the STR trend higher as the year progresses, and a much drier 2025 or 2026 could see some reasonable liquidation begin, but it is way too early to call this as a likely outcome just yet - particularly as recent Bureau of Meteorology reports suggest a developing La Nina weather pattern is present in the Pacific ocean.

As global beef supplies tighten in 2025, driven by herd reductions in key producing nations such as the USA, Australia is uniquely positioned to capitalise as their primary competitor into key beef export markets like Japan and South Korea. Coupled with New Zealand's waning competitiveness in sheep meat exports due to a declining flock and falling export volumes, Australia's position as the leading global supplier of sheep meat is advantageous.

Free Trade Agreements (FTAs) signed since 2020 have unlocked greater access to developing markets and Australia has already begun to see significant growth in red meat exports to nations like Indonesia, PNG, India, and the UK, with further opportunities emerging in the UAE and ongoing negotiations with the EU.

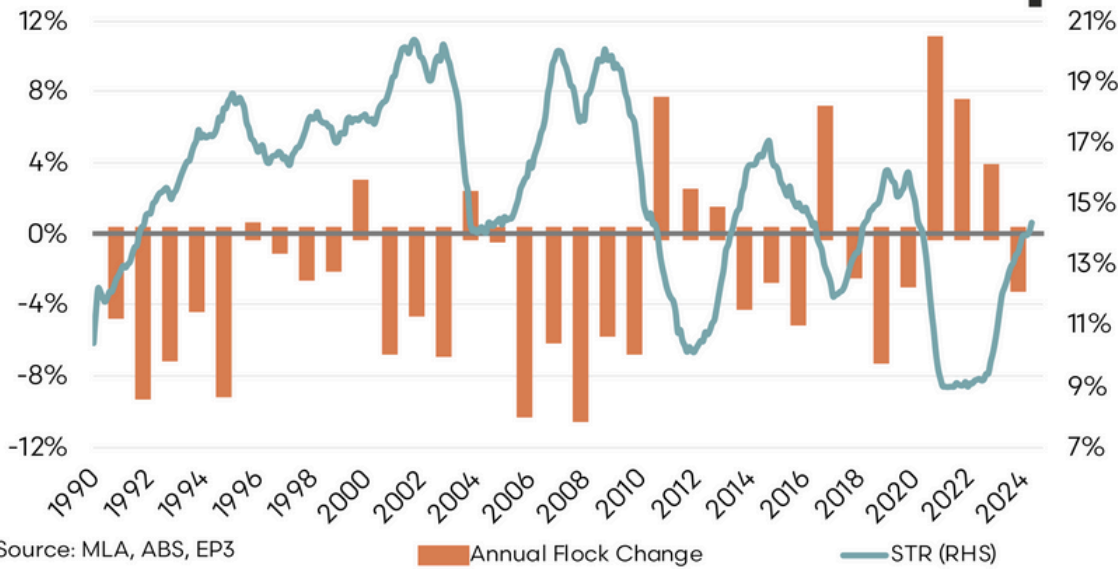
New Zealand's declining competitiveness further enhances Australia's prospects in global sheep meat markets. While New Zealand remains Australia's closest competitor, with around 38% market share compared to Australia's 41%, its ability to compete is being undermined by a shrinking sheep flock and falling sheep meat export volumes.

A summary of the growth in red meat exports from Australia to the selected export destinations, since their respective FTA deals came into force shows the development of new markets for Australian producers. In 2025 an FTA with the UAE comes into force and trade volumes have already started to improve during 2024.



Sheep Turnoff Ratio vs Annual Flock Change

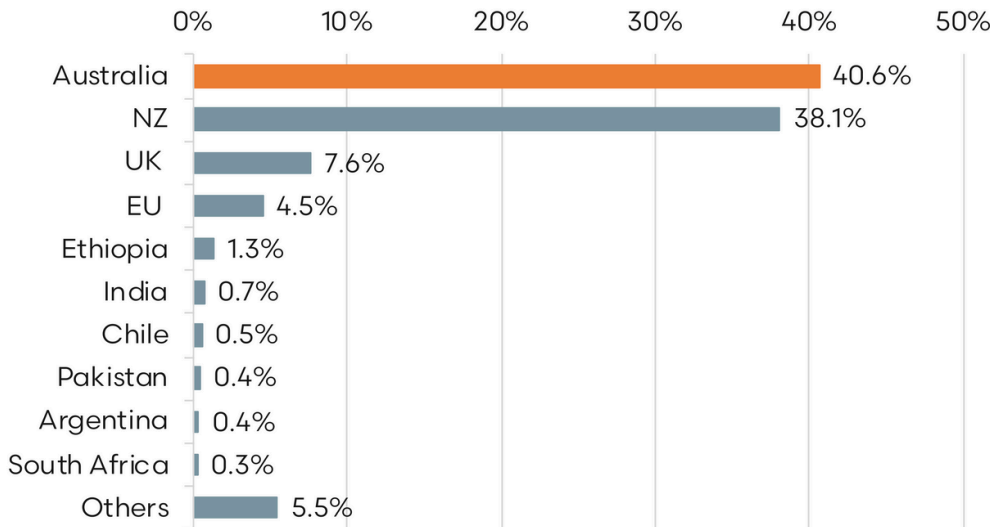
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As at Q2, 2024 the flock was on the cusp of moving into liquidation territory and now as at the end of Q3, 2024 we have formally crossed the line with the STR moving to 14.4%.

Top 10 Sheepmeat Exporting Countries

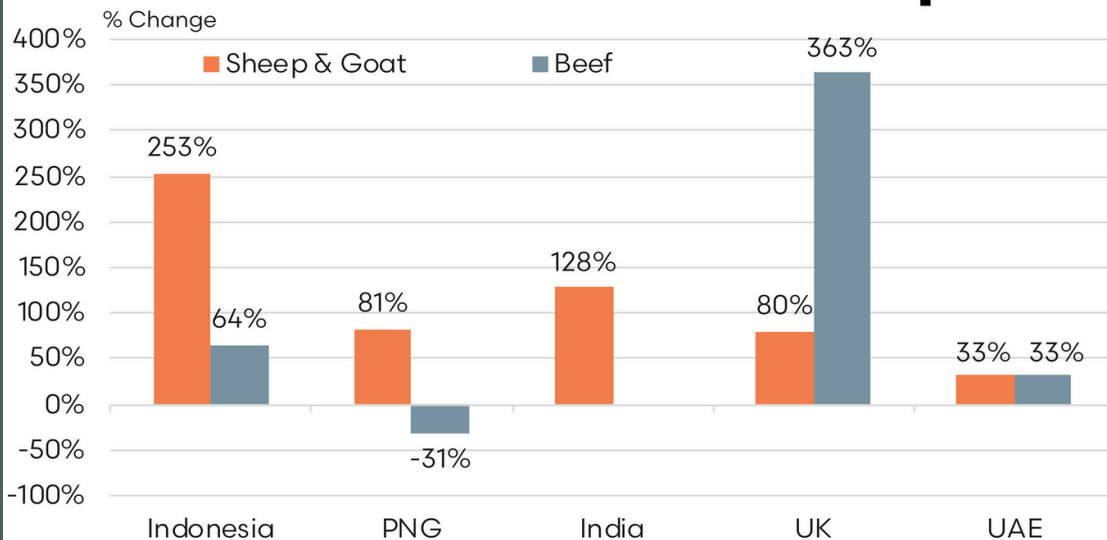
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Australia dominates the sheep meat export trade globally with New Zealand as their only real competitor.

Change in Red Meat Imports from Australia

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Recent FTA deals have provided several export growth opportunities for Australian red meat producers and the UAE FTA begins in 2025.

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SHEEP

The Sheep Processor Trading Conditions (SPTC) Index provides a unique and innovative tool for understanding the performance and trading conditions of Australian sheep meat processors. Designed to function like a rain gauge, the model ranks processor trading conditions on a scale from 0% to 100%, reflecting percentile rankings compared to historical data. A higher score indicates more favourable conditions, making the SPTC Index an intuitive and valuable benchmark for assessing processor performance over time. A score of 90% indicates that the current sheep processor trading conditions are better than 90% of the historic conditions going back to 2007, a bit like a decile 9 on a rainfall chart highlighting much wetter than average conditions.

In 2024, the SPTC Index demonstrated considerable variability, capturing the challenges and shifts faced by processors throughout the year. The year began on a positive note, with the first quarter showing a promising improvement in conditions. This upward trajectory continued into the second quarter, which recorded slightly above-average results, signalling relative stability for the industry. However, by mid-year, conditions became notably tougher, with several factors combining to strain processor margins and disrupt earlier gains.

One of the most significant developments was the 10-20% increase in sheep and lamb prices paid by processors from Q2 to Q3. While higher livestock costs often signal strong demand, they simultaneously erode processor profitability unless offset by equivalent gains in export or domestic pricing.

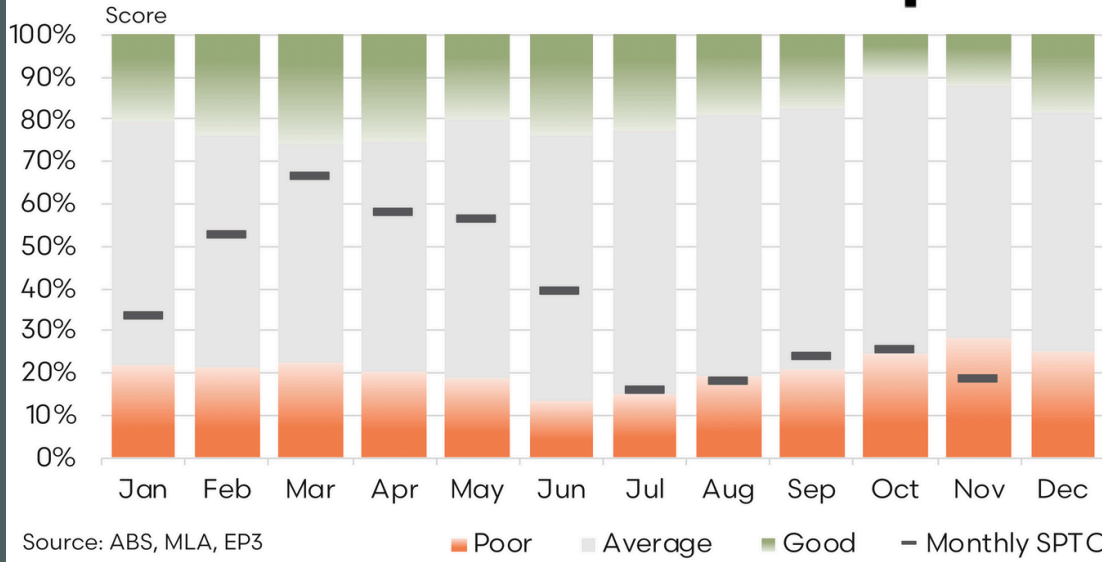
Export performance during this period presented a mixed picture. Chinese export prices for Australian sheep meat rose sharply, averaging a 23% increase and providing a much-needed boost. However, performance in other critical export markets was less encouraging. For instance, export pricing to Malaysia remained flat, the United Arab Emirates (UAE) recorded only a modest 8% increase, and the U.S. market experienced a 9% decline. These uneven results placed additional pressure on processors, as the gains from the Chinese market alone were insufficient to compensate for weaker outcomes elsewhere.

A comparison of the annual index score for the SPTC versus ABARES sheep farm profitability also expressed as an index shows that the two ends of the supply chain often experience counter cyclical results. For example, when trading conditions are good for sheep meat processors this often coincides with lower sheep farm profitability.



Sheep Processor Trading Conditions Scorecard

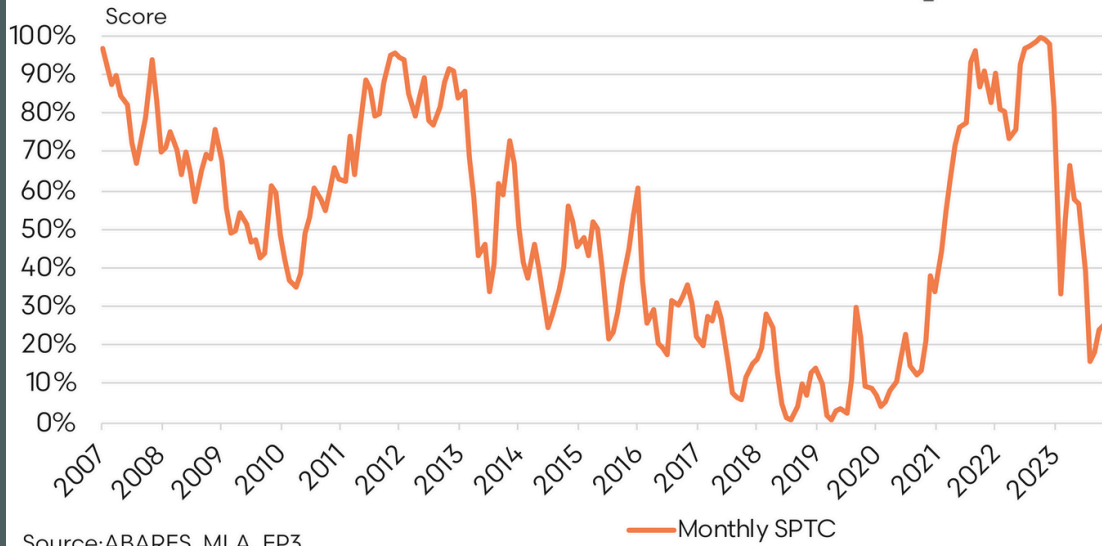
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After a positive start to 2024 the sheep processor trading conditions index deteriorated in the second half of 2024.

Sheep Processor Trading Conditions Index

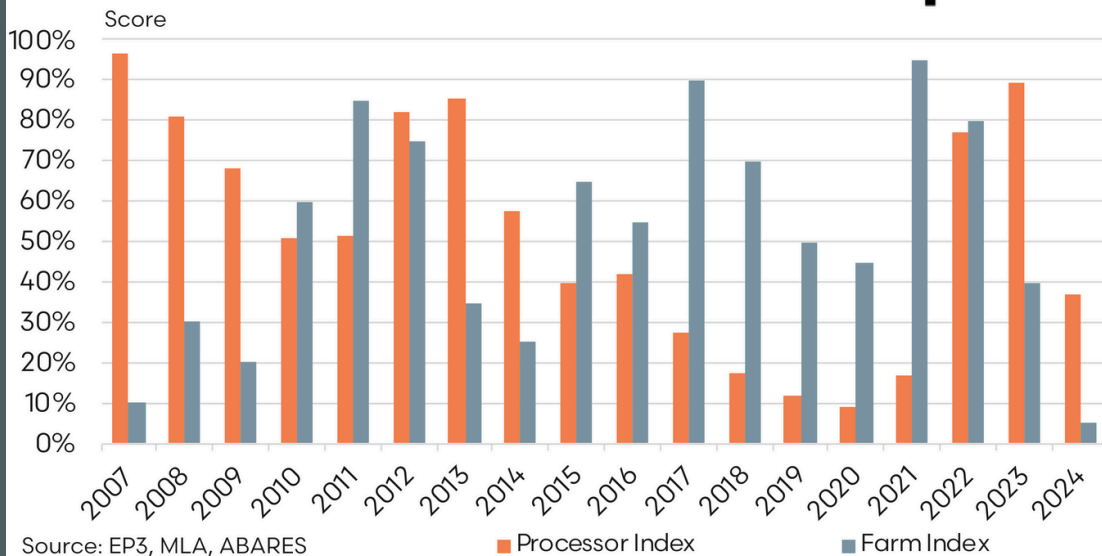
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Uncharacteristically strong lamb prices during spring 2024 and mixed trends for sheep meat export pricing for key markets saw trading conditions for processors come under pressure since mid-2024.

Sheep Processor & Sheep Farm Profit Index

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Longer terms trends to the SPTC index shows that processor conditions often run counter cyclically to sheep farm profitability.

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WOOL

In 2024, the Australian wool market experienced notable fluctuations influenced by various supply and demand factors. The Eastern Market Indicator (EMI), a benchmark for wool prices, opened the year at 1,213 cents per kilogram and concluded at 1,154 cents, marking a 4.9% decline over the year. The EMI reached a high of 1,212 cents in December 2023 and a low of 1,087 cents in August 2024, reflecting the market's volatility during this period.

A significant contributor to this price movement was the decrease in wool supply. The Australian Wool Production Forecasting Committee (AWPFC) projected that shorn wool production for the 2024/25 season would drop to 279.4 million kilograms greasy, a 12% decrease from the previous forecast. This decline is attributed to a reduction in the number of sheep shorn, estimated at 63.2 million, down 11.7%. While reduced supply often places upward pressure on prices, this effect was mitigated in 2024 by subdued global demand.

Episode 3 created the Global Growth Index (GGI) as a key indicator describing wool price trends. The GGI, constructed from economic indicators such as the Chinese Purchasing Managers Manufacturing Index (PMI), the U.S. ISM Manufacturing PMI, and the Eurozone Manufacturing PMI, tracks global economic health.

Global economic expansions typically boosting demand for wool as consumer spending on textiles and luxury goods increases. In contrast, economic slowdowns or recessions, as reflected by a declining GGI, result in reduced demand and downward pressure on wool prices.

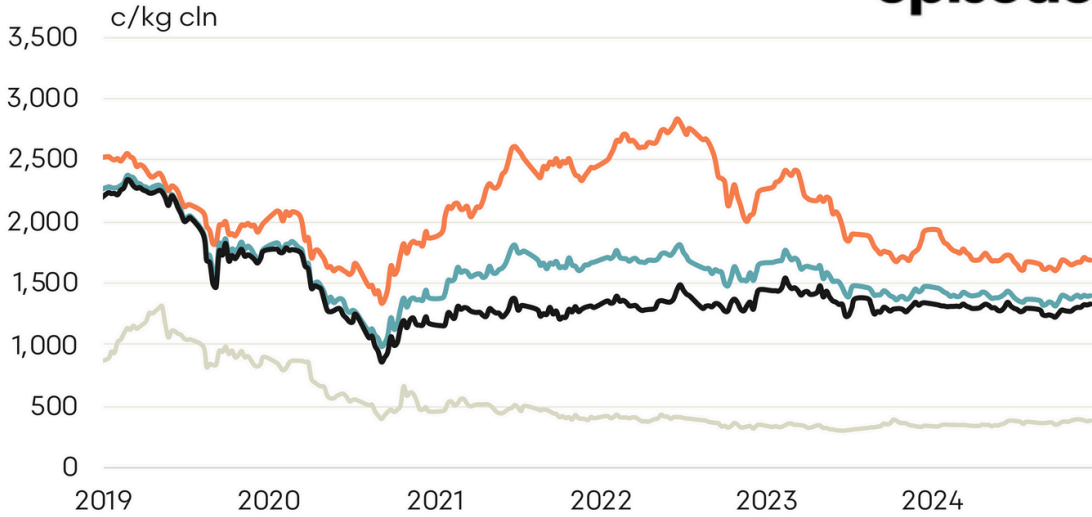
Global economic conditions played a pivotal role in shaping demand throughout 2024. Economic slowdowns in key markets, particularly China and Europe, led to reduced consumer spending on textiles and apparel, dampening demand for wool. This dynamic underscores the importance of global economic health in driving wool demand and prices over the longer term.

The 2024 wool market was shaped by a combination of decreased supply, subdued global demand, and broader economic influences captured by the GGI. Understanding the interplay between production levels, economic conditions, and global indicators like the GGI is essential for stakeholders aiming to navigate the complexities of the wool industry effectively. Despite the tighter supply expected into 2025 for Australian wool continued economic concerns in China and inflationary pressures in the US and Europe will likely keep wool prices subdued this year.



Southern MPG

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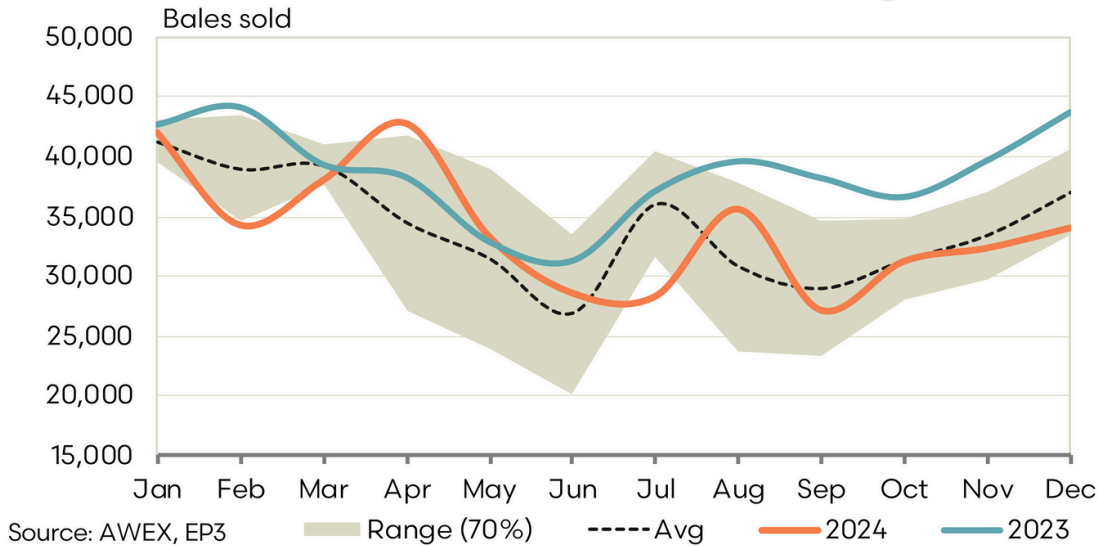
Source: AWEX, EP3

— 17 MPG — 19 MPG — 21 MPG — 28 MPG

Australian wool prices continue to demonstrate sluggish pricing during the final quarter of 2024 despite reduced supply.

Wool - Bales Sold (Weekly Average)

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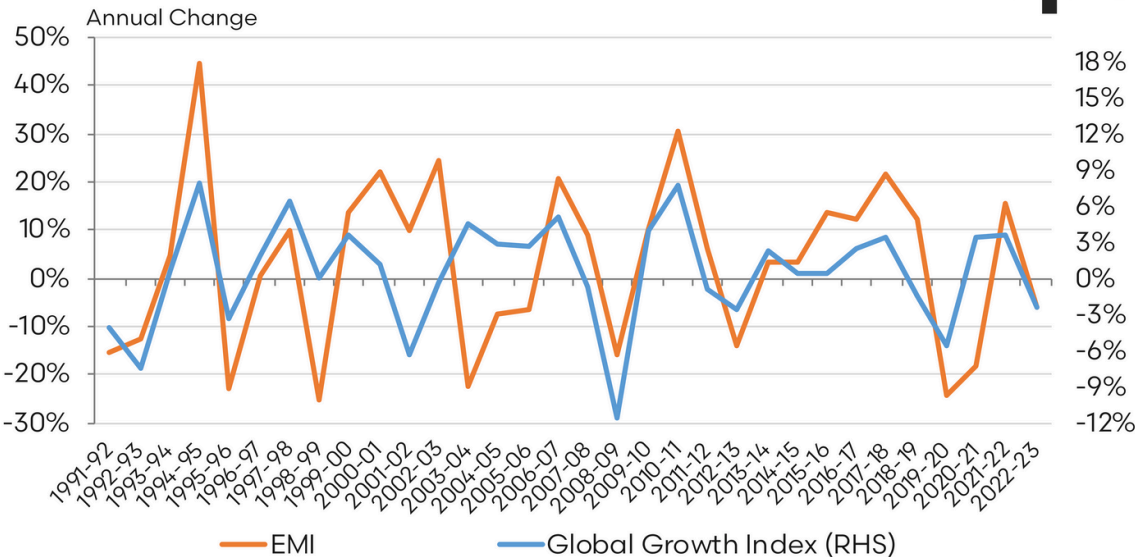
Source: AWEX, EP3

■ Range (70%) - - - - Avg — 2024 — 2023

Wool bales sold at auction ran below the average seasonal trend for much of the final quarter of 2024.

EMI versus Global Growth Index (Annual Change 1991 - 2023)

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Long term changes to annual Australian wool prices, such as the EMI, reflect a strong relationship to key global growth indicators.

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WHEAT

Harvest is all but complete in Australia, and the performance has been much higher than initial expectations. Whilst final figures will be released in February, the December forecasts have the Australian wheat crop at 31.89mmt.

The production of wheat in Australia is currently at the 4th largest on record, and 5.3mmt higher than last season. The current production estimate of 31.89mmt just behind 2020 at 31.93mmt, we expect that with increasing production in Western Australia, that by February estimates will be revised higher with this year eventually moving into third place.

Despite the overall national volume being high, there were parts of the country in strife, which is not unusual considering the scale of this continent. South Australia and Victoria both suffered through low rainfall which resulted in lower than average production.

It is too early to speculate on Australian production for the coming harvest, at there will be no real validity to forecasts until at least late July, but we can look at production elsewhere, and this is where it gets interesting with Russia. There are estimates that the winter wheat crop is 37% in poor condition, compared with only 4% in the prior year.

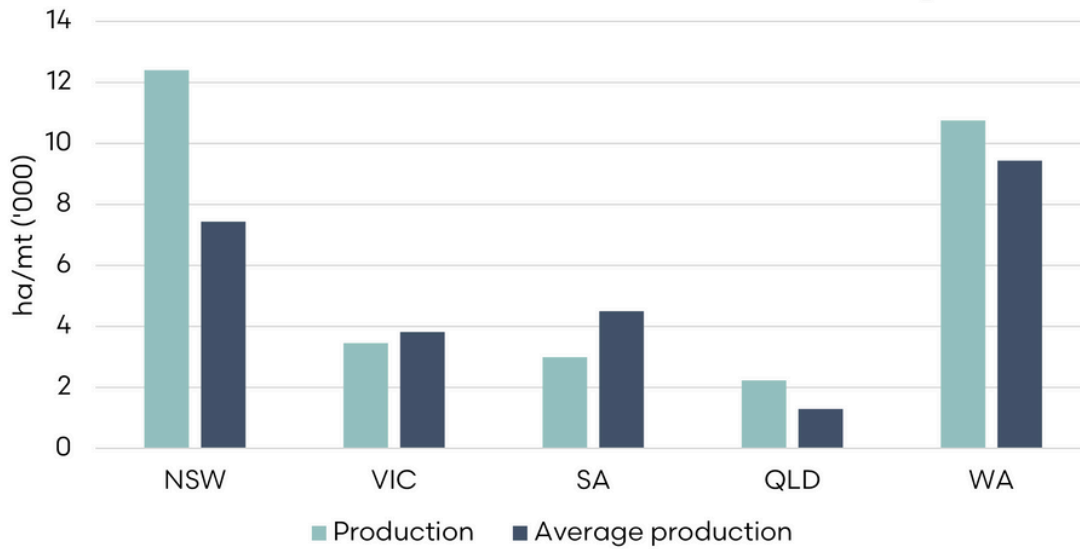
Winter wheat accounts for 70-80% of the crop and has a higher yield due to being grown in milder regions and having a longer growing period. Therefore, if there is a problem with the winter crop, then that has huge ramifications for their ability to enter the export market.

Russia is the key to wheat prices. If they have an issue then the market will rally, if they don't the market stays subdued. At the turn of the century Russia was providing <5% of the global trade in wheat, now it is above 20%. The state of the Russian crop will be one to watch in 2025, it will drive the direction of our pricing.



Wheat - Area and Production (Australia)

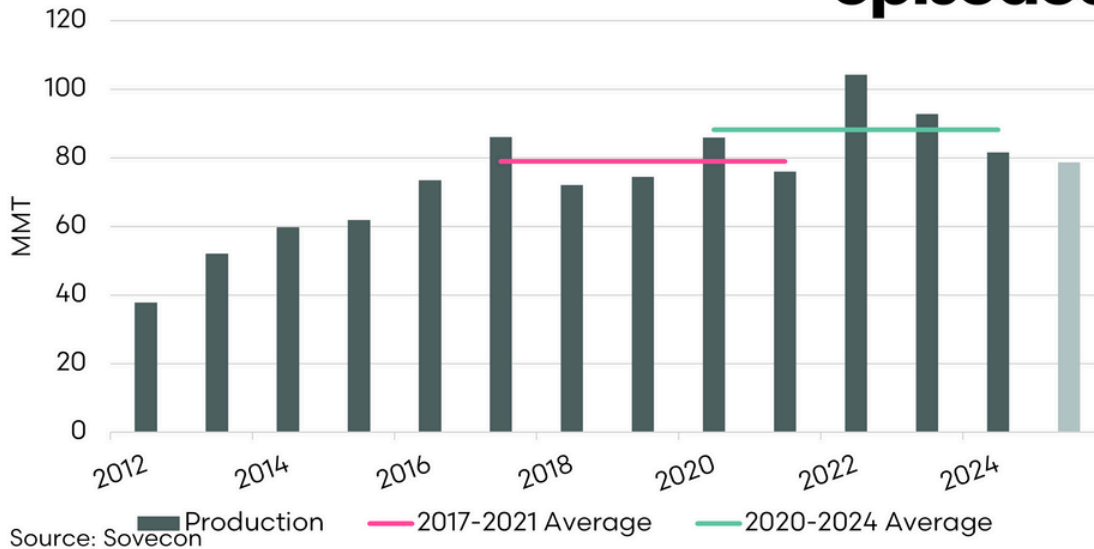
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The higher than above average wheat crop in Australia was as a result of exceptional production in WA and NSW.

Russian wheat production

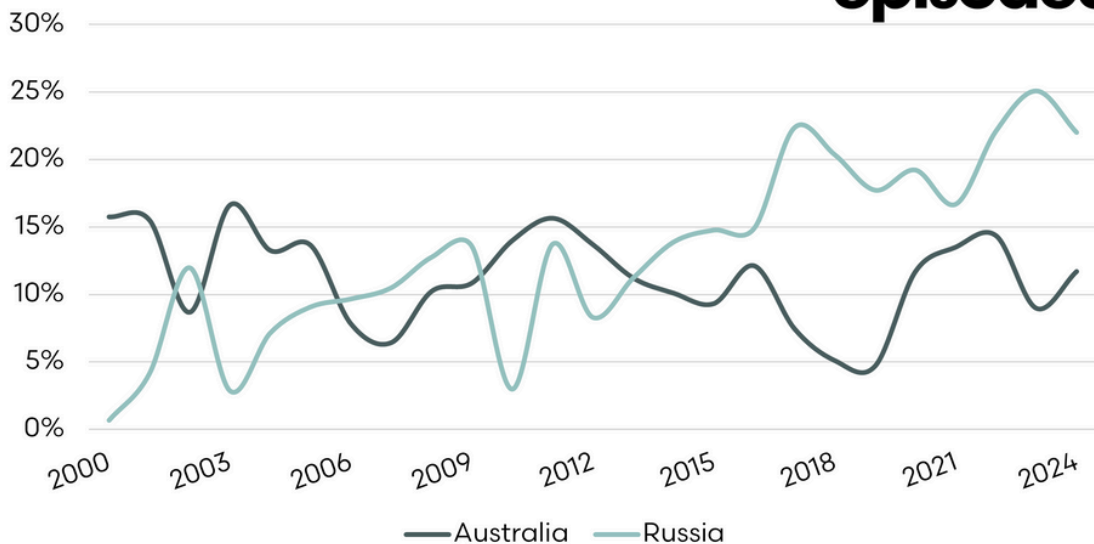
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Expectations are poor for the coming Russian wheat crop. If we see production forecasts decline further then we can see global supply drop dramatically.

Contribution to global wheat trade

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In the past 25 years Russia has increased its importance to the global trade in wheat from being less relevant to being the most important.

WHEAT

At a global level, wheat prices have traded in a narrow band throughout the last quarter of 2024, with little new fundamental information to maintain a rally. This has kept an element of stability, for better or worse.

At a local level, basis levels, the premium or discount against overseas futures, have seen Australian values fall in 2024 versus last year. This tends to happen when production locally rises. In a year of deficit in Australia, our wheat will start trading at a strong premium to the rest of the world, and the opposite during times of surplus.

What is assisting Australian grain values from further falls, is the weakness of the Australian dollar. When the Australian dollar falls in value compared to the US dollar, it can be beneficial for wheat farmers in Australia. Wheat is sold globally in US dollars, so when the Australian dollar is weaker, farmers receive more Australian dollars for the same amount of wheat.

For instance, if wheat sells for \$300 USD per tonne, a weaker Australian dollar means farmers get more money when it is converted back to Australian dollars.

A lower Australian dollar also makes Australian wheat cheaper and more appealing to international buyers. This often increases demand, which can increase wheat prices in Australia. As a result, farmers can sell more wheat and receive a better price for it, improving their income.

A falling Australian dollar is typically advantageous for Australian wheat farmers. It boosts their earnings from exports and helps them remain competitive in global markets, even if some of their expenses increase.

The Australian dollar is currently trading around 62c, the lowest since 2019 and 2020. This was a time when there were concerns about the US-Chinese trade tensions (we are reliant on China), then we had the impact of COVID.



CBOT Wheat (March 2025)

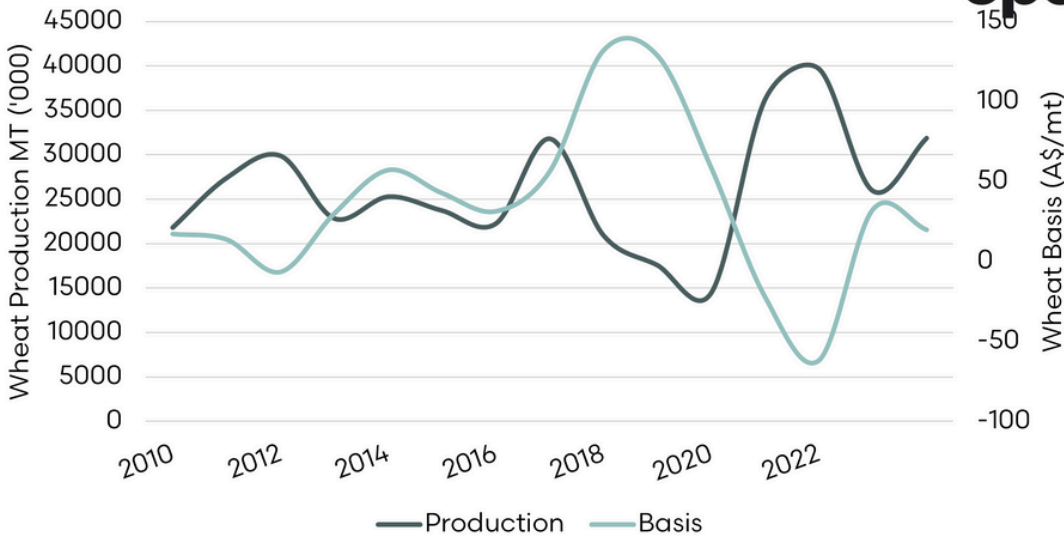
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Chicago futures, a good indicator of global pricing, has traded in a narrow band for the past quarter, with not enough bullish data to cause a sustained rally.

Wheat production and basis

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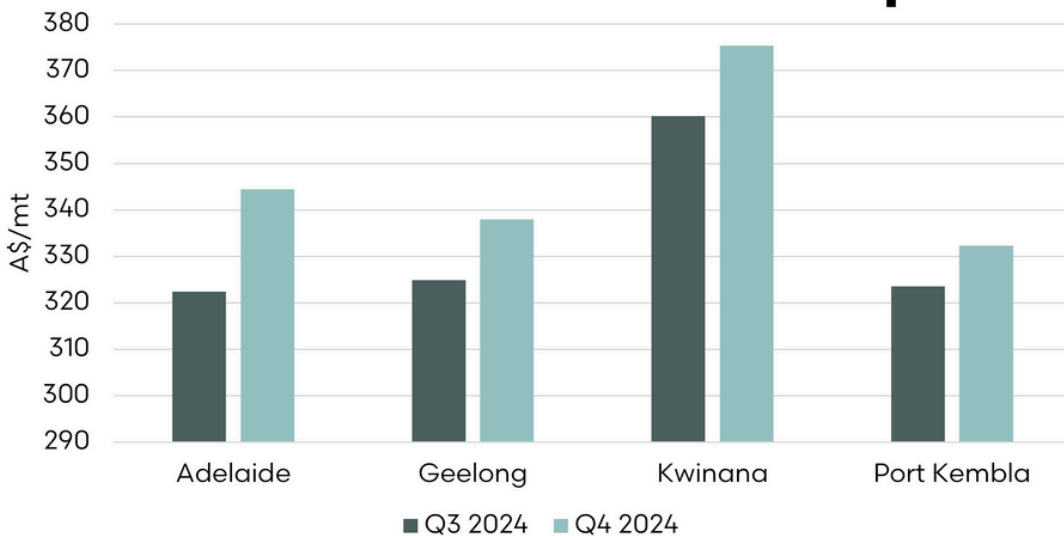


This chart represents the relationship between production and our premium/discount to the rest of the world.

Higher production = lower premium, and vice versa.

Australian Wheat Pricing

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Despite the relatively flat overseas environment, Australian physical prices have driven higher across the country. This chart represents the average for the quarter.

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