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Market Insights

Unprecedented, Unsustainable & Unbalanced…the state of the cattle market in early March 2021

*"**Unprecedented**"*

Unprecedented must be the most over used word since the Covid-19 outbreak took hold around 12-months ago. It is also the best way to explain the activities of the cattle market over the same period. The EYCI hitting 888.25c/kg cwt in the final week of January 2021 would have been well beyond all optimistic forecasts at the start of 2020, as drought conditions plagued most growing regions.

However, sustained rain throughout the past 12 months, across most regions, has created a cattle market that is underpinned by rebuilding intentions and producers furiously searching for cattle to capitalise on pasture bursting paddocks – at least through most parts of southern Australia. Indeed, the only people working harder than agents to source cattle may have been the contract bailers, as many empty hay sheds quickly filled.

For AuctionsPlus reported categories, February 2021 averages ranged from 15-37% higher compared to February 2020, while for proven and assessed breeders, the increases climbed as high as 63% and 54%, for cows with CAF and PTIC heifers, respectively. Indeed, almost by definition, record high cattle prices in 2021 would be "unprecedented", given that they have never been this high previously.

However, if we are to look at cattle prices in terms of percentage changes recorded across a sustained period, this recent surge is **not unprecedented**. From November 2014, through to September 2016, the EYCI recorded a 111% increase, going from an average of 338c/kg cwt to a then "unprecedented" 712c/kg cwt. While the 22-months rise was on the back of improved seasonal conditions, it was also from a very low starting point in November 2014… again following a devasting period of dry conditions.

Rebuilding intentions and restockers clamoring for young stock put the momentum into cattle prices through 2015 and into 2016, assisted by improved seasonal conditions, including a very wet winter in 2016. Sounds familiar?

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Looking further back in the history of the EYCI, there have been similar periods of large percentage gains. Comparing monthly averages and percentage changes over a one-year-period:

- April 1998 – April 1999 = 45%
- September 2000 – September 2001 = 39%
- November 2002 – November 2003 = 43%
- December 2009 – December 2010 = 36%
- November 2014 – November 15 = 73%
- March 2019 – March 2020 = 72%

So, in conclusion, 2021 is unprecedented in terms of absolute cattle price levels, but the industry has seen similar run-ups in previous periods, albeit, from much lower price levels.

"Unsustainable"

Any cattle producer that has sold in the past several months would acknowledge that the current price levels are unsustainable, but at the same time, are in no rush to see a sustained decline. The boost in incomes for 2020-21, while most likely partly offset by reduced total head sold, will have gone some way to paying off drought incurred debts.

Any recent forecasts for Australian cattle prices into the second half of 2021 indicates a decline – although, given the recent highs, this is not a difficult stance to take. Indeed, while the consensus is a downward trend to come, it will be the speed and timeframe in which this occurs that is crucial for all participants.

Of the organisations that look ahead and forecast cattle prices, the Australian Bureau of Agricultural and Resource Economics (ABARES) provides the longest view ahead, while NAB in its *Rural Commodities Wrap*, put some near-term numbers for the second half of 2021 on the table. In December 2020, AuctionsPlus also had its first foray into price forecasting.

From ABARES, the national weighted cattle price is forecast to decline every year through to 2025-26. In the near term, the average price is expected to be back 7% in 2021-22, another 7% in 2022-2023, and then 4% through to 2023-24. Indeed, from 2020-21, through to 2024-25, the weighted national cattle price is forecast to contract 19%.

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In its February *Rural Commodities Wrap,* NAB boldly predicted the *"EYCI at 700c in Q3 and 650c in Q4 2021"*. However, it would only be fair to NAB to also provide the next sentence for context, *"It is important to consider that there is substantial uncertainty around cattle prices for the coming year, with weather events, currency moves, global demand and global supply (particularly if processor capacity improves in the Americas), all major influences"*.

Finally, AuctionsPlus' inaugural cattle price forecast released in December 2020, had the market back 5-10% by the end of the June quarter in 2021, albeit based on a EYCI of 800c/kg cwt at the time of publication. Given the surge in the EYCI in early 2021 and additional information becoming available, an EYCI between 790-820c/kg cwt now looks more likely by the end of June 2021.

"Unbalanced"

The resurgent confidence and record prices received for cattle during 2020 and early 2021 is not an evenly shared experience across the industry. Whether it be regionally, due to poorer rainfall through central Queensland, or structurally, due to the uneven burdens felt through the supply chain, massive inequalities are being created. These inequalities cannot last for too long, as any chain with a compromised link will ultimately be weaker, shorter, and disadvantaged over the long term.

As a supply chain that is structured upon margin and the next-in-line "paying more", the cattle and beef industry is almost always unbalanced at any point in time. During drought periods, the growers take the burden of the negative, while processors and exporters accept the positive. In contrast, like today, the growers are positive, while the negatives being made by the processing and exporting links of the supply chain are substantial and growing, and at risk of overusing a word, unsustainable.

Given the extent of the drought in 2018 and 2019, no-one would be begrudging the prices and conditions currently being experienced. Indeed, cow and calf producers are the nursery that ensures the rest of the cattle supply chain has product to be utilised in years to come. As we can see today, sequential years of drought and herd liquidation has the national herd at a multi-decade low, which has "shortened" the volume available within the supply chain upon the return of a favourable season for producers.

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The Australian cattle herd is a very large and diverse "entity", that can take a long time to turnaround – with biology and weather the key drivers. This means that those in the later stages of the supply chain may be looking at 2022 at the earliest to see any substantial benefit of the 2020 and 2021 seasons. Thus, two or three years of being on the negative financial end of tight supplies and high cattle prices can only be withstood by the strongest and best forward planned operators – which was no different for producers through drought conditions of 2018 and 2019.

Final take:

- Cattle prices, in absolute terms, are unprecedented
- The industry over the past 25 years has seen similar period of sustained rises in cattle prices
- Prices are coming down…but when and how fast are still largely unknown
- Not one sector of the supply chain can carry the negative financial burden of an industry for too long, without the industry becoming structurally weaker over the long term as a result.

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