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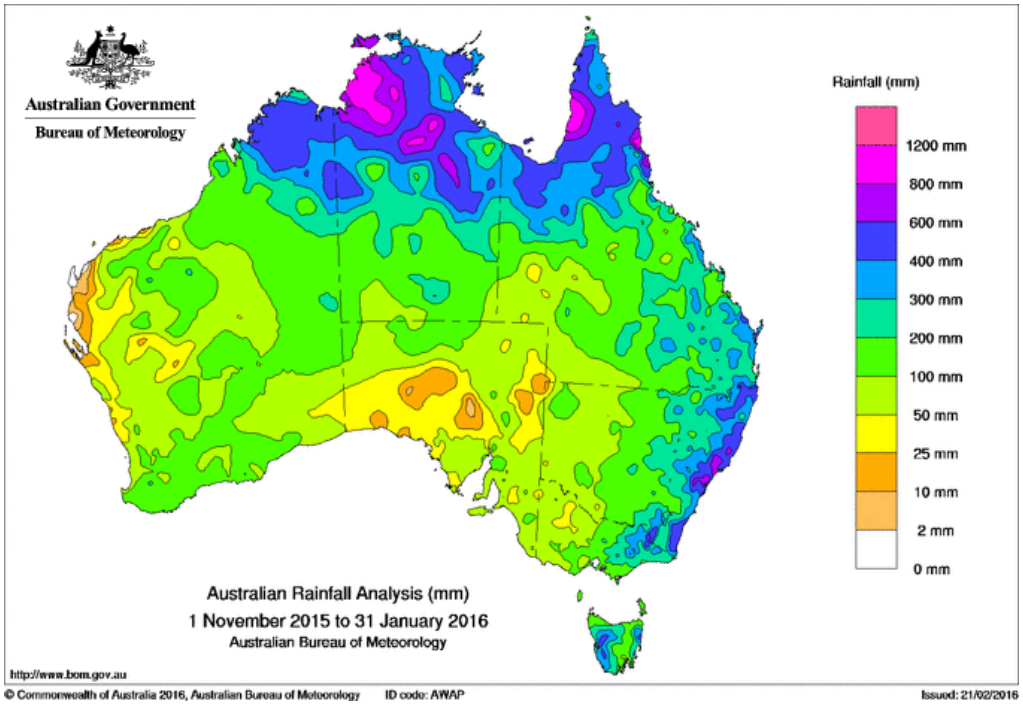
Report Highlights:
Over 2016, the Australian beef cattle herd is expected to decline to 25.6 million head after several years of record turn-off. However, a lower slaughter rate will contribute to herd rebuilding, especially given the improved seasonal outlook in Queensland and NSW. Beef and veal production is expected to fall to 2.3 million MT. Australian exports of beef and veal are forecast to decline to 1.6 million MT despite strong international demand. Live cattle exports are expected to fall to 1.1 million head due to supply constraints. The pig and pork meat sector is slowly expanding, with the domestic industry focused mainly on fresh pork products. Imports supply most of the market for processed pork products. Post has sought to expand market access, with U.S. microwave bacon exports likely to be approved in 2016.

Executive Summary:

In Australia, cattle are predominantly grass-fed and the availability of pasture is critical to carrying capacity. Over the three years to 2015, drought conditions affected a third of beef cattle farms across Australia. This contributed to high cattle turn-off (slaughter and live cattle exports) as farmers faced feed shortages while export markets offered high prices. The number of grain-fed cattle in feedlots has increased due to adverse seasonal conditions and the need to finish cattle before market. In the December quarter of 2015, cattle in feedlots reached almost one million head but are expected to decline by around ten percent over the year.

In 2016, better seasonal and pasture conditions have encouraged greater stock retention towards herd rebuilding. Improved rainfall has contributed to pasture recovery and growth in both Queensland and NSW, the States previously most affected by drought. As a result, slaughter numbers have begun to fall significantly in these areas. Nevertheless, it will take time for the Australian herd size to recover given the high rates of female slaughter in preceding years and the continuing shortage of stock and feed in some regions.

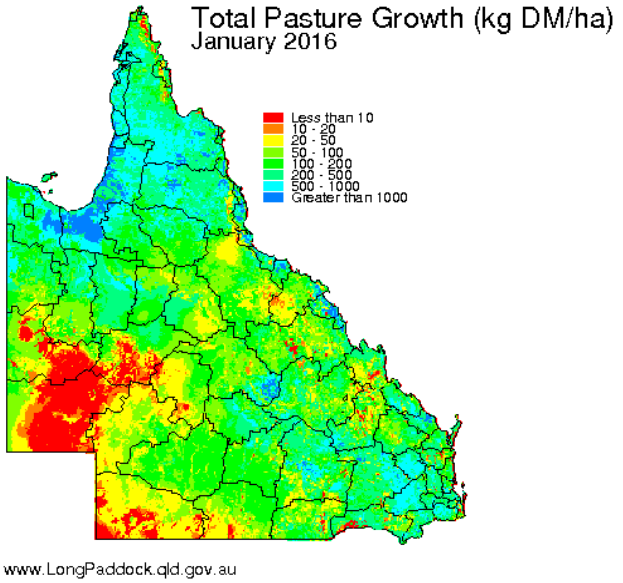
Chart 1: Recent rainfall, November 2015 to end-January 2016

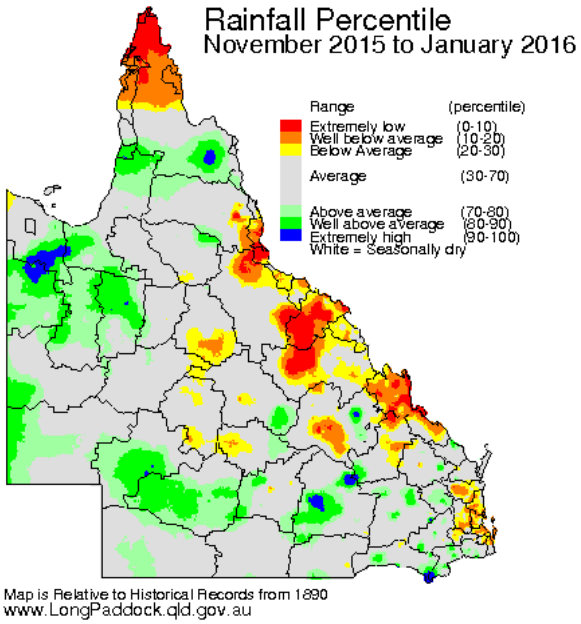


Source: Australian Bureau of Meteorology

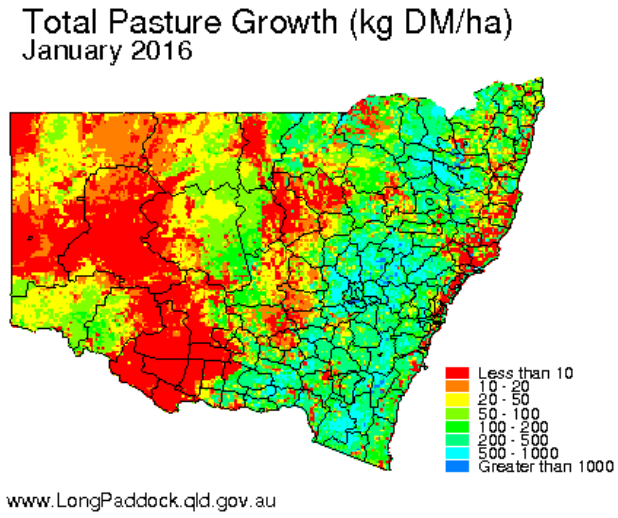
The extent of improved pasture growth and rainfall in Queensland and NSW is shown in the following four charts given below sourced from the Queensland and NSW State governments. Improved seasonal conditions and grass cover in most beef producing regions from November 2015 has underwritten lower turn-off, herd rebuilding and higher saleyard prices because of the reduced availability of cattle. There has also been greater competition between processors, feedlots, restockers and live cattle exporters for more limited available supplies of beef cattle.

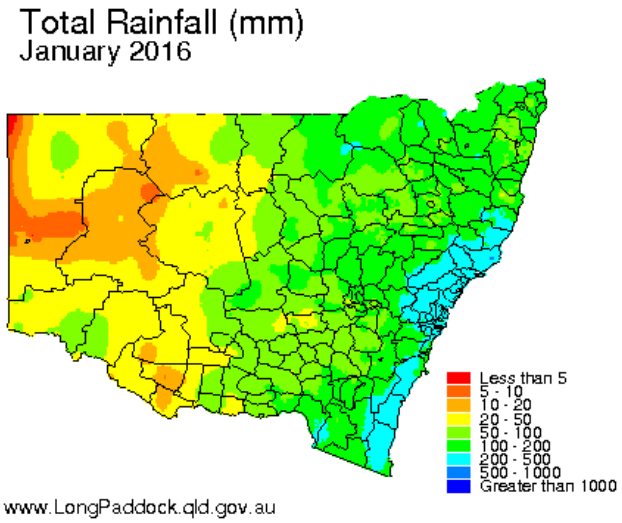
Charts 2-5: Pasture growth and recent rainfall in Queensland to end-January 2016





Source: Queensland Government.





Source: Queensland and NSW governments

Commodities:
Animal Numbers, Cattle
Animal Numbers, Swine
Meat, Beef and Veal
Meat, Swine

CATTLE

Cattle Numbers

In 2016, the size of the Australian cattle herd is expected to be 26 million head down over five percent on the previous year. The decline in the national herd is occurring despite lower cattle and calf slaughter numbers and an improvement in seasonal conditions and pasture. One reason is the high rate of female slaughter which has lowered the share of cows and heifers in the national herd. This decline will slow over 2016 as the herd falls to a low of 25.6 million head.

Increasing cattle and beef prices and a feed shortage in northern Australia contributed to the high slaughter rate over the three years to 2015. Mixed beef and grain farms in Queensland and northern NSW were especially affected by the drought and accounted for over 40 percent of total cattle turn-off in northern Australia (ABARES, 2015). More recently, this region has benefited especially from improved rainfall and significant pasture growth, providing an opportunity for stock retention. High stock prices still provide an incentive to some producers for turn-off, but also encourage others to retain livestock for weight gain and breeding purposes. Over the year, a continuing improvement in seasonal conditions is needed for herd rebuilding to gain momentum.

Currently, cattle supplies to processing facilities have tightened due to the smaller national herd and the trend towards stock retention. Competition between beef processors and live exporters for stock has increased significantly. In mid-February 2016, the Eastern Young Cattle Indicator (EYCI) reached a new record of over A$6.06 cents per kilogram after ranging between A$5.90 to A$6.00 over the previous ten weeks. Industry experts have pointed to this price signal as firm evidence of herd rebuilding becoming a greater priority for the Australian industry.

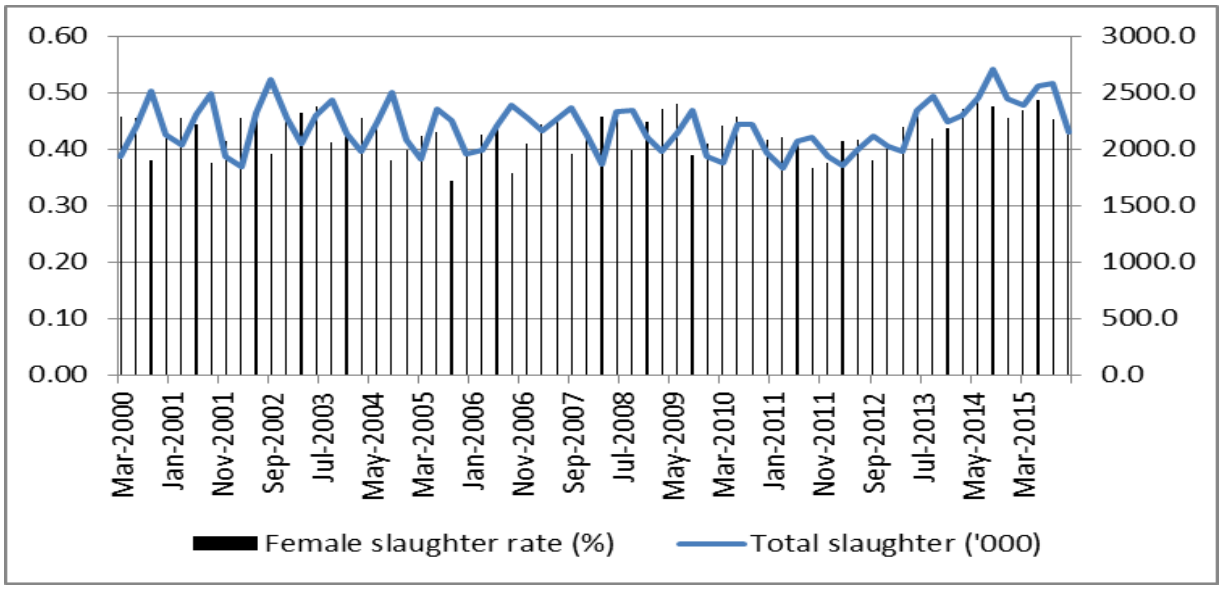
Across Australia, the total number of cattle in feedlots increased to an historic high of 998,000 in the December quarter of 2015 because of pasture deficiencies for grass-fed cattle as well as in creased demand for grain-fed cattle. However, there was a significant fall in the number of cattle in feedlots in Queensland to 514,000 head, down from 575,000 head in the previous quarter – reflecting better pasture conditions and the increased viability of grass-fed finishing of stock. There was a 27 percent increase in the number of cattle in NSW feedlots to 358,000 head compared to the previous quarter. This was due partly to a shift of cattle from northern cattle producers due to poor pasture conditions in some areas. However, improved pasture growth is

expected in many regions in 2016 and the number of cattle in feedlots is expected to decline by around ten percent over the year, assuming continued better seasonal conditions.

Cattle Slaughter

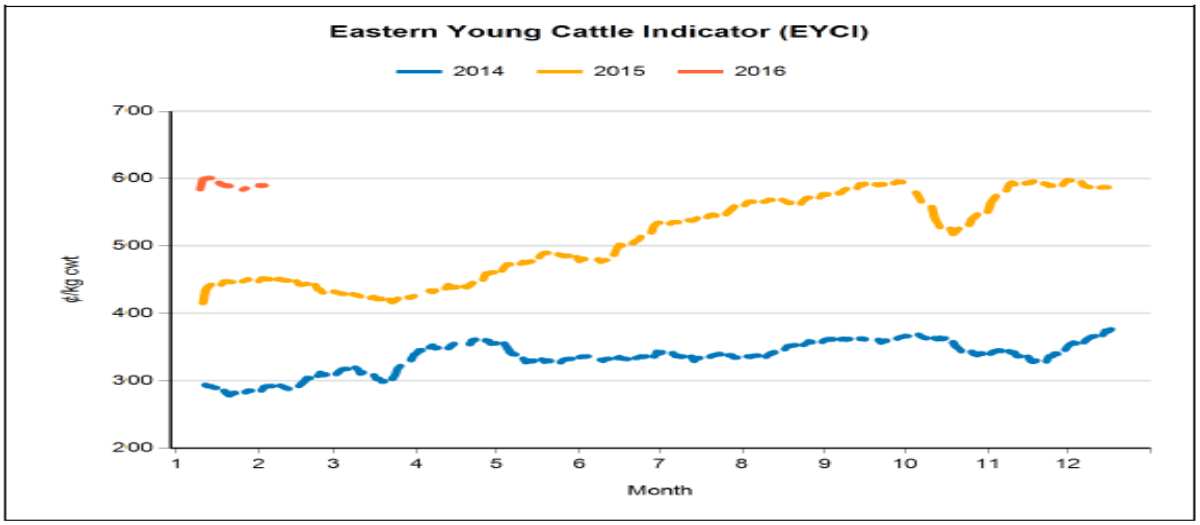
In 2016, Australian cattle slaughter is expected to decline from historic highs in previous years to be 8.75 million head, down ten percent from the new Post estimate of 9.7 million head for 2015. This forecast which matches the USDA official estimate, assumes the continuation of more positive seasonal conditions over the year. Post expects cow slaughter to slow to 3.9 million head (44 percent of total slaughter) as female stock is retained.

Chart 6: Total slaughter and the female slaughter rate, 2006-15 ('000 head and %)



Source: Australian Bureau of Statistics (2016), *Livestock Slaughter*, Catalogue 7215.0.

Chart 7: Eastern Cattle Indicator, 2014-2015 (Australian cents/kilogram cwt)



Note: The Eastern Young Cattle Indicator (EYCI) is the general benchmark of Australian cattle prices. The indicator is a seven-day rolling average produced daily by MLA's National Livestock Reporting Service (NLRS). The EYCI includes vealer and yearling heifers and steers, grade score C2 or C3, 200kg+ liveweight from saleyards in NSW, QLD and VIC. The results include cattle purchased for slaughter, restocking or lotfeeding and are expressed in cents per kilogram carcass (dressed) weight (c/kg cwt).
Source: Meat and Livestock Australia (2015).

This Post forecast is a 12 percent decline on the Post estimate for 2015 (46 percent of total slaughter). Calf slaughter is expected to decline by ten percent compared to the Post estimate for 2015 and is in line with official estimates. Other slaughter (mostly steers) is expected become more significant at 4.25 million head, down less than seven percent compared to the Post estimate for 2015.

Beef Production

Beef and veal production is forecast to decline by ten percent in 2016 to 2.3 million MT as a result of the fall in slaughter numbers and size of the national herd. This represents a ten percent decrease on the Post estimate for 2015 of 2.56 million MT. This change corresponds with USDA estimates and is proportional to the fall in slaughter numbers. An increase in average carcass weights of around five percent is possible due to the improvement in pasture conditions and a decline in female cattle being processed.

Consumption

In 2016, beef consumption is expected to fall below 30 kilograms per capita due to supply shortages and higher retail prices in Australia. Retail beef prices rose ten percent during 2015 due to higher global beef prices, leading to a significant fall in domestic beef consumption. In 2016, higher red meat prices mean that domestic per capita consumption of alternative meats such as chicken and pork is likely to increase further.

Trade

In 2016, beef exports are expected to fall sharply to 1.63 million MT, compared to the previous Post estimate for 2015 of 1.86 million MT (cwt) due to the falling size of the cattle herd and expected decline in the slaughter rate rather than falling international demand. In recent years, Australian exports have been focused on markets in the United States, Japan and Korea, but exports to China are expected to increase in 2016.

Table 1: Australian beef exports by country, 2009-2015 ('000 MT)

	2009	2010	2011	2012	2013	2014	2015
United States	253	186	170	227	212	396	420
Japan	366	366	352	313	294	289	283
South Korea	129	141	162	142	155	157	182
China	7	10	14	35	153	128	152
Indonesia	53	50	43	27	40	58	40
Other	167	224	266	261	284	294	249
World	975	977	1,007	1,005	1,138	1,322	1,326

Source: World Trade Atlas.

Table 2: Australian beef exports by country, 2009-2015 (US$ million)

	2009	2010	2011	2012	2013	2014	2015
United States	755	705	776	1,061	990	2,183	2,331
Japan	1,464	1,611	1,724	1,578	1,392	1,499	1,435
South Korea	429	583	798	670	754	847	932
China	22	38	61	155	691	591	753
Indonesia	143	166	178	123	185	253	183
Other	633	972	1,351	1,381	1,499	1,646	1,403
World	3,446	4,075	4,888	4,968	5,511	7,019	7,037

Source: World Trade Atlas.

The US Beef Market

Australia is the largest supplier of imported beef into the United States, which became the major beef export market for Australia in 2014. Around 70 percent of Australian beef exports to the US market are manufacturing beef, which is used in ground beef products or for further processing. In 2016, US demand for Australian beef exports is expected to decline as import competition increases.

The Japanese Beef Market

Australia is a major supplier to the Japanese beef market; with a 58 percent share in 2015 compared to a U.S. exporter share of 33 percent. Japan accounted for one fifth of Australian beef exports in 2015. It was also Australia's major market for grain-fed beef. In 2015, Post expects Australian exporters to face more competition from US exporters although their competitiveness has been improved by the lower Australian dollar. Further, under the Japan-Australia Economic Partnership Agreement, tariffs on exports of fresh beef from Australia to Japan have already fallen from 38.5 per cent to 31.5 per cent. They will fall again on 1 April this year, to 30.5 per cent. Exports of Australian fresh beef to Japan grew by 22 percent in 2015.

The Korean Beef Market

Australia's beef exports to Korea grew by 30 percent in 2015. This year, Australian exporters will face greater competition from U.S. beef exporters which retain a five percentage point advantage over Australian exporters into the Korean beef market due to the earlier implementation of the US-Korea FTA.

The Chinese Beef Market

Post expects Australian beef and veal exports to China to increase by around ten percent in 2016 as market access is expanded under the bilateral FTA. From January 1 2016, the tariff on beef fell from 10.8% to 9.6% and will fall to 8.4% next year, phasing down to zero in 2024. The Chinese tariff on beef offal fell from 10.5% to 9% at the beginning of this year and will be reduced to 7.5% in January 2017 before phasing down to zero in 2022. Australia's beef exports into the Chinese market have focused on supplying high-value restaurants and the food services industry.

Exports of Live Cattle

In 2016, Australian live cattle exports are expected to decline by over 15 percent to 1.1 million head due to ongoing supply constraints because of the smaller Australian cattle herd. However, live cattle from Australia will remain competitive as under ChAFTA, the Chinese tariff on live cattle from Australia fell from 8% to 6% at the beginning of 2016 and will by 4% at the beginning of 2017, phasing to zero in 2019.

In recent years, live cattle exports have become more significant, accounting for 12 percent of total turn-off of cattle in 2015, significantly above the 10-year average of 9 percent. Live cattle exports were over 1.3 million head in 2015 because of strong demand from a range of markets such as Indonesia, Vietnam and China. Indonesia has always been the major market for live cattle exporters because of its proximity and its preference for lower weight feeder cattle which can be finished in that country. The closure of a number of processing facilities in northern Australia has contributed to the increase in live cattle exports from these areas, although the exact impact is not yet known.

Table 3: Australian live cattle exports by country, 2009-2015 ('000)

	2009	2010	2011	2012	2013	2014	2015
Indonesia	773	521	414	279	452	728	619
Vietnam	0	1	1	3	67	185	313
China	33	57	54	56	67	118	82
Israel	37	43	54	50	98	78	79
Malaysia	14	17	12	33	48	53	55
Russia	2	13	31	39	35	48	42
Other	95	223	129	160	84	87	146
World	954	875	695	620	851	1,297	1,336

Source: World Trade Atlas.

Table 4: Australian live cattle exports by country, 2009-2015 (US$ million)

	2009	2010	2011	2012	2013	2014	2015
Indonesia	387	293	284	195	288	504	413
Vietnam	..	2	1	3	51	168	265
China	59	106	122	128	130	221	135
Israel	18	27	42	40	69	54	65
Malaysia	8	11	11	24	28	42	44
Russia	7	27	58	90	53	55	45
Other							139
World	539	633	650	627	715	1,111	1,106

Source: World Trade Atlas.

Production, Supply and Distribution Statistics

Animal Numbers, Cattle	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	29290	29290	27600	27600	26150	26039
Dairy Cows Beg. Stocks	1700	1700	1710	1710	1710	1710
Beef Cows Beg. Stocks	13900	13900	13200	13000	13000	13000
Production (Calf Crop)	9564	9564	9500	9500	9500	9500
Total Imports	0	0	0	0	0	0
Total Supply	38854	38854	37100	37100	35650	35539
Total Exports	1298	1298	1200	1336	1100	1100
Cow Slaughter	4671	4671	4525	4450	4000	3900
Calf Slaughter	688	688	675	668	600	600
Other Slaughter	4555	4555	4500	4557	4150	4250
Total Slaughter	9914	9914	9700	9675	8750	8750
Loss	42	42	50	50	50	50
Ending Inventories	27600	27600	26150	26039	25750	25639
Total Distribution	38854	38854	37100	37100	35650	35539
(1000 HEAD)						

Meat, Beef and Veal	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	9914	9914	9700	9675	8750	8750
Beginning Stocks	90	90	55	55	53	28
Production	2595	2595	2550	2550	2300	2328
Total Imports	11	11	8	13	12	12
Total Supply	2696	2696	2613	2618	2365	2368
Total Exports	1851	1851	1815	1855	1625	1625
Human Dom. Consumption	790	790	745	735	715	715
Other Use, Losses	0	0	0	0	0	0

Total Dom. Consumption	790	790	745	735	715	715
Ending Stocks	55	55	53	28	25	28
Total Distribution	2696	2696	2613	2618	2365	2368
(1000 HEAD) ,(1000 MT CWE)						

SWINE AND PORK

Pig Numbers

In 2016, Post expects the size of the Australian pig herd to fall slightly to 2.16 million due to higher slaughter rates in the previous year. This is about 5 percent below the Post estimate for 2015. There has been a significant official revision in the size of the sow herd from 255,000 head in 2015 to 300,000 head in 2016. This suggests that around 17 pigs are produced per sow in Australia annually. This can be compared to around 24 in North America and 26 in Europe. The productivity gap may be due to the smaller scale of the industry as well as biosecurity rules which limit the importation of both live swine and genetic material. So far, it is unclear if there will be a backwards revision of pig numbers in Australia.

Post expects the size of the Australian pig crop to increase to five million in 2016, up three percent on the Post estimate for 2015. In recent years there has been an increase in pig numbers in Queensland and South Australia, which account for about half the national herd. This increase has occurred in response to both higher domestic demand and lower feed prices. It is unclear if the revised number of sows in the national herd has contributed to the expected rise in overall production in Australia.

Slaughter

In 2016, Post expects pig slaughter to reach 5.1 million head, slightly above the Post estimate of 5 million for 2015. Contributing factors are the revised size of the Australian sow herd and the lower Australian dollar. The Post figure for pig slaughter corresponds with the industry's production figure of 4.93 million for the financial year 2014/15 based on the industry levy of A$3.125 per carcass.

Production

In 2016, Post expects pork production to increase by three percent compared to the Post estimate for 2015 due to higher sow numbers and increased domestic demand. Currently, the pork processing sector reportedly consists of 45 abattoirs, of which the largest seven accounts for over 80 percent of pigs processed in Australia. Recently, a number of large pig farms in Australia have expanded capacity due to higher prices for beef and a switch to other meats including pork.

In 2016, a major Queensland processor plans to add a new slaughter floor to the facility to increase capacity by 50 percent to 30,000 head per week. The expansion will include increased chiller capacity and an upgraded distribution area. Larger pig farms tend to be vertically integrated, with their own stock feed production and pork processing facilities. Increasingly such pig farms are also contracting out pig production in order to specialize in processing activities. The impact of this change is likely to be to increase the efficiency of the industry, especially as pig farms become larger in scale. In late 2014 JBS acquired the largest domestic producer of ham, bacon and other processed pork products for US$1.25 billion.

Overall, there are 1,500 pork farmers in Australia producing from a revised sow herd of 300,000. The domestic pork industry has increasingly focused on growing sales of fresh meat, which faces less competition from imports than frozen meat because of SPS barriers on the importation of fresh pork from the United States and other countries. Post has actively sought a review of Australian biosecurity barriers on fresh pork products.

The competitiveness of the Australian pork industry is affected by the relatively high cost of feed grain compared to producers in countries such as the United States and Canada. Post notes that there are a number of SPS regulatory barriers which impede imports of feed grain into Australia from countries such as the United States. It is likely that US feed grains would be competitive into the Australian market if deliverable at below $A300/MT but changes in exchange rates and transport costs could affect significantly competiveness.

The purchase of feed grains is a major cost for the Australian pork industry. The feed component in use currently consists mainly of wheat, barley and sorghum and accounts for 60 percent of the total cost of producing pork in Australia. Pig farm and processor profitability therefore depends critically on the cost of feed grain.

Consumption

Australians consume around 25 kg of pork per person annually, made up of ten kg of fresh pork and 15 kg of processed ham products such as bacon and small goods, which are typically frozen. Pork products account for ten percent of total fresh meat retail consumption. Fresh pork sold in Australia is domestically produced while around two thirds of processed pork products (ham, bacon and small goods products) are made from frozen boneless pork imported from Denmark, Canada and the United States. Consumption generally peaks during Christmas but is stable over the rest of the year.

Consumption of pork has benefitted from higher meat prices generally and in particular high beef prices. Prices to pork producers in Australia have increased from around US$2.00 a kilogram carcass weight in 2011 to US$2.70 in 2015 while feed grain prices have been stable. The domestic pork industry has heavily promoted pork consumption through marketing campaigns such as ‘bacon week’and the ‘get some pork on your fork’.

Trade

In 2016, exports of pork products are expected to increase slightly to 40,000 MT. Australia typically exports pork to a range of countries including Singapore, Japan and New Zealand. At least half of these exports are made on an intra-company basis; from subsidiary to parent company. The largest Australian pig farm exports around one third of its production, mainly to Singapore and Japan.

Under the Japan-Australia Economic Partnership Agreement (JAEPA), Australia will gain preferential access for a large volume of pork (more than ten times current trade) via an Australia-only quota. Australian pork exports to Japan are expected to increase due to the FTA measures and in response to the lower value of the Australian dollar against the yen. This could impact on

the relative competitiveness of Australian pork exporters against US exporters into the Japanese market, although Australia is not a large exporter.

Australian pork exports to Japan previously faced significant general tariffs (up to ¥482 (A$5.07) per kilogram), or variable duties that raised import prices to a standard level. In addition, a global safeguard mechanism, known as the price safeguard, operated to allow Japan to increase costs for exporters if global imports increased significantly. Under JAEPA, Australia gained preferential access for a large volume of pork (more than ten times current trade) via an Australia-only quota. Within the quota, the ad-valorem portion of the high tariff was halved immediately on entry into force (not the specific tariff), and Australian product became exempt from Japan's global price safeguard.

Table 5: Australian pork exports by country, 2009-2015 ('000 MT)

	2009	2010	2011	2012	2013	2014	2015
Singapore	31	14	12	9	9	11	13
New Zealand	7	7	5	5	5	5	4
PNG	2	3	5	4	4	4	4
Philippines	1	2	1	3	3	2	1
Other							
World	31	32	32	27	27	28	28

Source: World Trade Atlas.

Table 6: Australian pork imports by country, 2009-2015 ('000 MT)

	2009	2010	2011	2012	2013	2014	2015
United States	45	49	59	62	53	51	55
Denmark	42	49	42	40	43	51	58
Canada	48	41	28	29	30	24	28
Netherlands	0	0	4	17	12	14	16
Other	1	2	2	1	3	7	12
World	136	141	135	149	141	147	169

Source: World Trade Atlas.

Pork imports into Australia in 2016 are forecast at 240,000 MT, nine percent above the Post estimate for 2015, which was below the official USDA forecast. This represents a slowdown in the rate of growth of imports partly due to the weaker Australian dollar.

The Australian market is not currently open to imports of fresh, chilled or bone-in pork products on biosecurity grounds. However, over 70 percent of ham, bacon and other processed pork products consumed in Australia are made from imported frozen pork. Imported pig meat is heat-treated in government accredited facilities and used to make ham and bacon products. Post has

actively sought a review of Australian biosecurity barriers on pork which currently prevent the importation of U.S. fresh, chilled and bone-in pork products.

Market Access for US Microwave Bacon

In 2015, the U.S. Department of Agriculture successfully concluded negotiations with the Australian government to allow for U.S. exports of cooked pork and pork meat products and pre-cooked microwave bacon. The Australian Department of Agriculture released biosecurity advice in September 2015 for precooked microwave bacon. This states that imports of precooked (microwave) bacon from countries approved to export cooked pig meat to Australia will be able to commence under specific import conditions.

Precooked (microwave) bacon will need to comply with requirements that have been assessed as equivalent to the applicable import conditions for cooked pig meat from approved countries, with variations to the required cooking process parameters. The main beneficiary is expected to be U.S. exports of microwave bacon to fast food chains. One U.S. food company recently announced that it has reached an agreement with an Australian hamburger chain to bring in this product for breakfast sandwiches and burgers. The final step remaining before trade can commence is the authorization of final export certificates.

Note on Statistics

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) are currently cooperating with the Australian Bureau of Statistics and the industry body Australian Pork to provide a more comprehensive database for the industry. One result of this collaboration has been an increase in the number of sows from 255,000 to 300,000 although there has not been a proportional increase in either the pig crop or in pork production. Currently, Post is assuming that production of pork in Australia will increase gradually in 2016.

Production, Supply and Distribution Statistics

Animal Numbers, Swine	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	2098	2098	2308	2271	2300	2164
Sow Beginning Stocks	266	266	255	255	255	300
Production (Pig Crop)	4985	4985	4850	4850	4850	5000
Total Imports	0	0	0	0	0	0
Total Supply	7083	7083	7158	7121	7150	7164
Total Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	4775	4812	4858	4957	4850	5100
Total Slaughter	4775	4812	4858	4957	4850	5100
Loss	0	0	0	0	0	0
Ending Inventories	2308	2271	2300	2164	2300	2064
Total Distribution	7083	7083	7158	7121	7150	7164
(1000 HEAD)						

Meat, Swine	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	4775	4812	4858	4957	4850	5000
Beginning Stocks	20	20	25	25	25	21
Production	362	362	370	374	370	385
Total Imports	191	191	230	220	250	240
Total Supply	573	573	625	619	645	646
Total Exports	37	37	38	36	40	40
Human Dom. Consumption	511	511	562	562	580	580
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	511	511	562	562	580	580
Ending Stocks	25	25	25	21	25	26
Total Distribution	573	573	625	619	645	646

(1000 HEAD) ,(1000 MT CWE)						