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COMMODITY UPDATE

QUARTER 2 - 2025

episode3

CATTLE

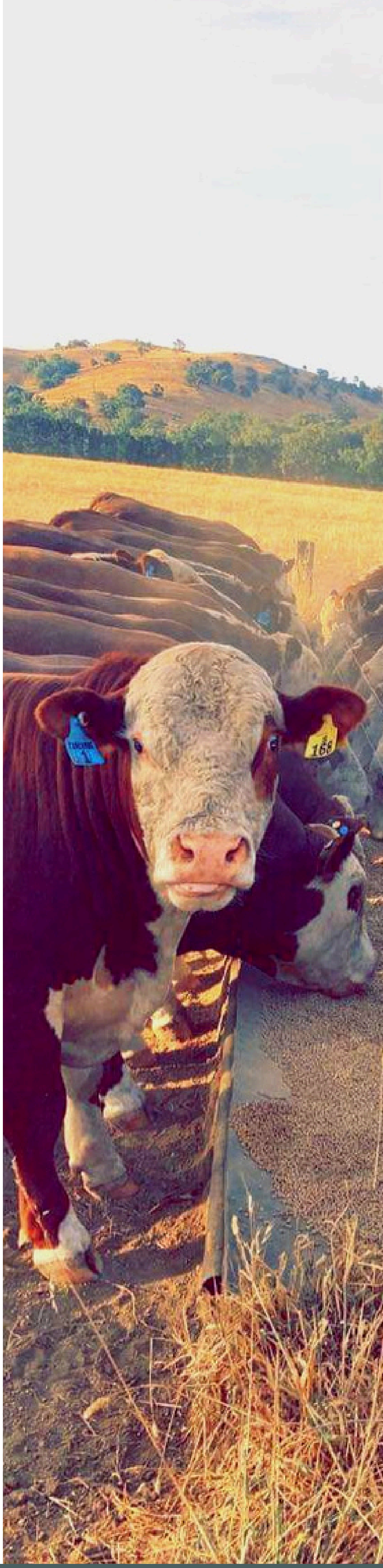
In the second quarter of 2025, the Australian beef industry saw notable developments driven by a tightening in supply, booming export demand particularly from the United States and China, and improvements to beef processor margins. Seasonal variability and global trade dynamics continued to shape outcomes, highlighting both opportunities and challenges across the sector.

Cattle availability remained tight throughout the quarter, with reduced yardings and herd rebuilding efforts limiting slaughter numbers. April and early May saw a seasonal dip in throughput, consistent with autumn conditions and producer intent to restock where possible. However, by late May, slaughter capacity began to recover, with indications that processors were increasing kill volumes in anticipation of robust export demand and to offset thinning profit margins.

Despite this uptick, average weekly slaughter volumes were still lower than typical for this time of year. The constrained supply supported price stability and in some categories, firm increases. The Feeder Steer Indicator rose by 31 cents in May alone to reach 397 cents per kilogram live weight. Similarly, yearling heifers and restocker steers held firm, buoyed by regional rainfall in parts of northern Australia that helped sustain confidence among backgrounders and feedlots. Nationally, there were still concerns about cattle numbers into the second half of the year. Dry seasonal conditions in southern Australia limited pasture growth, delaying some restocking plans. Producer sentiment surveys conducted during the quarter showed a shift toward cautious herd management, with many preferring to maintain rather than expand their breeding programs in the short term.

Australian beef exports were remarkably strong throughout the second quarter of 2025. In April, exports rose sharply, setting the stage for what would become one of the most active export quarters on record. That month saw more than 127,000 tonnes shipped globally, a volume well above historical averages and part of a consistent upward trend from earlier in the year. May followed with 129,477 tonnes, driven by exceptional demand from the United States and China. By June, a new monthly record was hit for total beef export flows nearing 135,000 tonnes, ensuring that the April to June quarter ranked among the highest beef export quarters in Australian history.

This sustained strength was underpinned by robust demand across several key markets. The United States remained the top buyer, importing a total of over 110,000 tonnes for the quarter, despite the 10 percent tariff introduced in April. Australian product remained competitive in the US due to domestic supply shortages there and strong demand for lean manufacturing beef.



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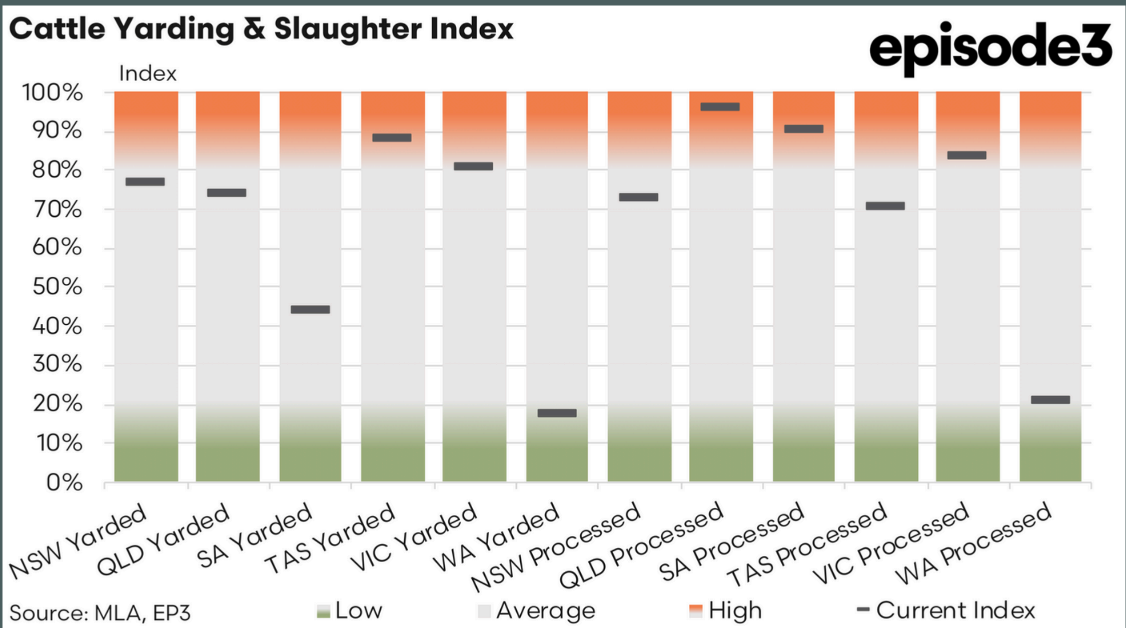

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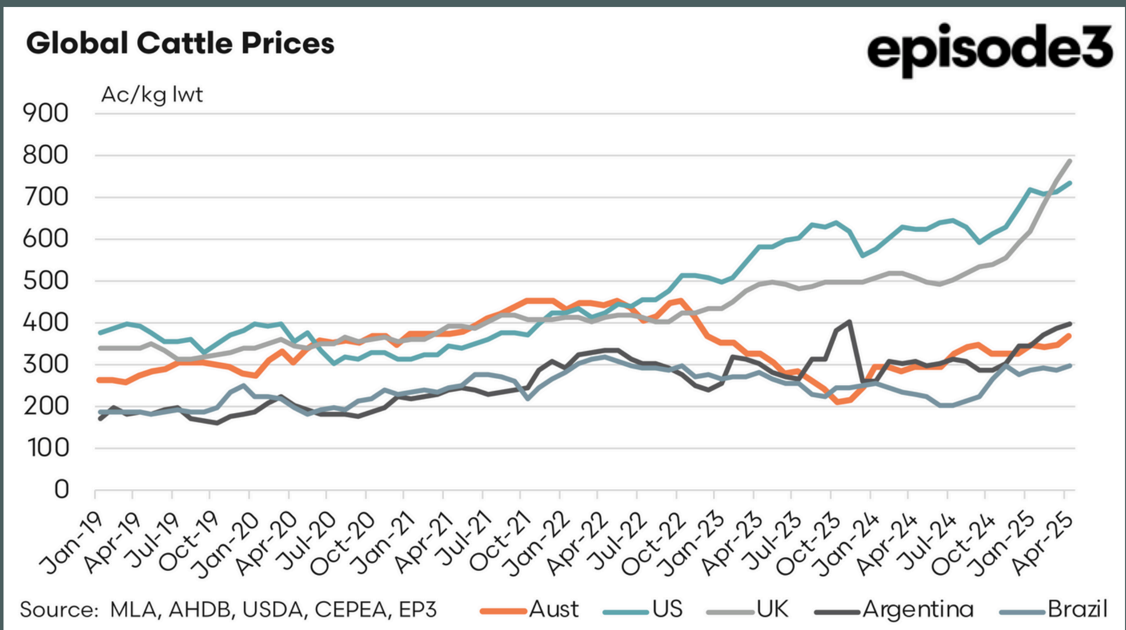
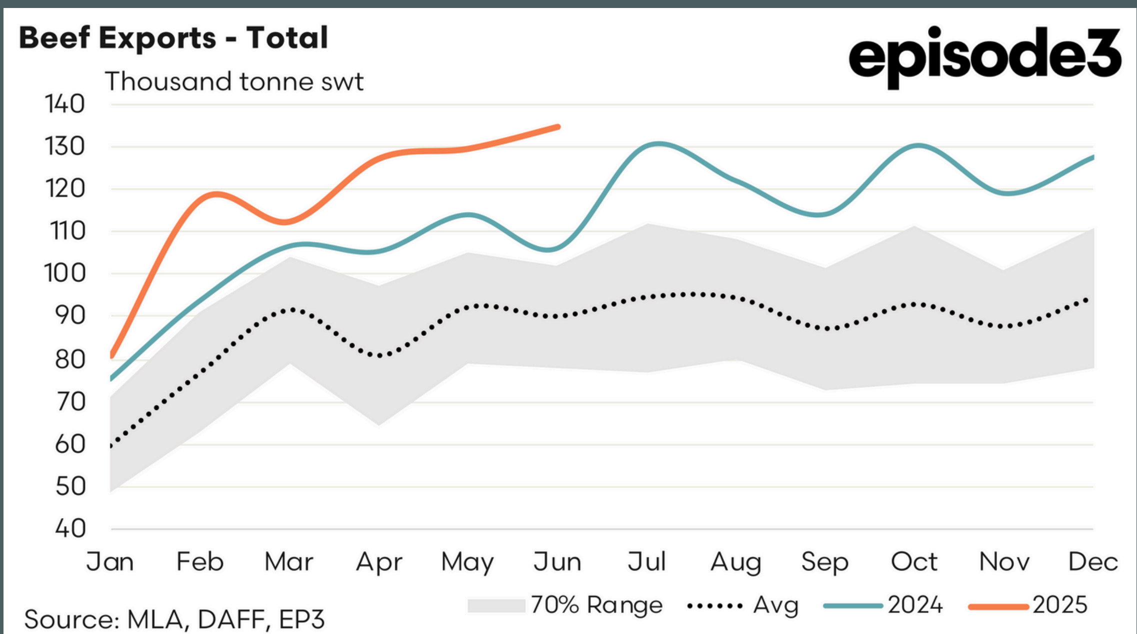


In global price terms Australian cattle remain competitive, particularly when referencing very strong historical pricing in the USA.



Australian beef exports were remarkably strong throughout the second quarter of 2025. June saw the strongest month on record for total beef export flows.

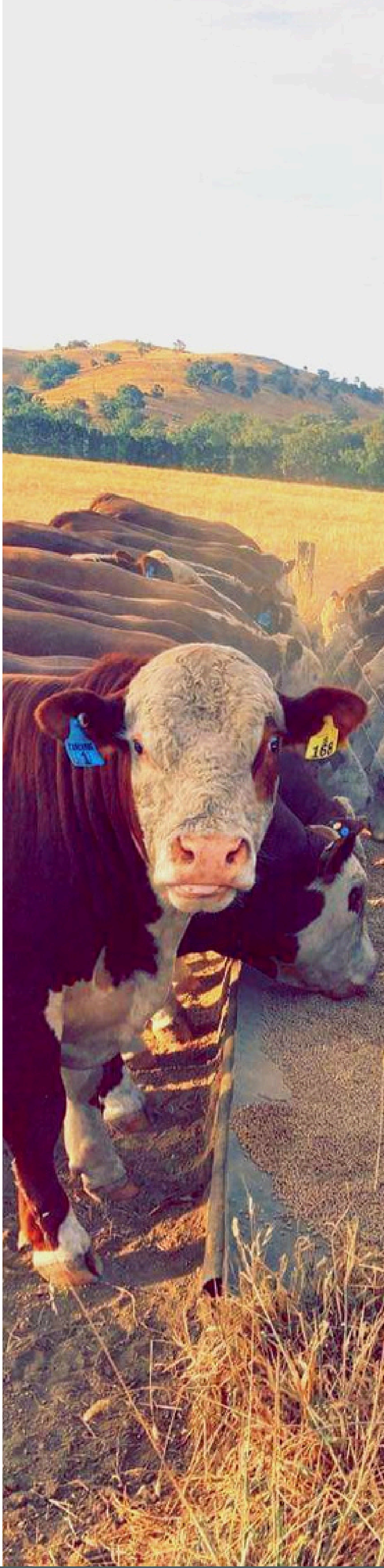
CATTLE

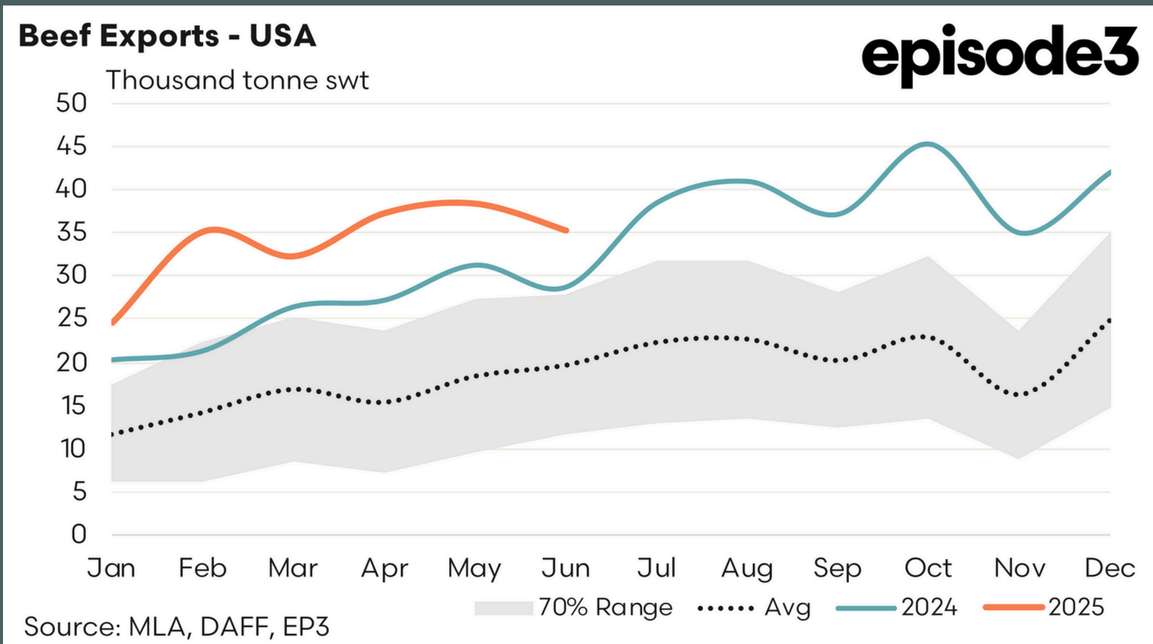
China's appetite also grew over the period, with improved diplomatic relations and a trade pivot away from US supply allowing Australian exporters to gain market share. In June, volumes to China remained strong, maintaining momentum seen earlier in the quarter. Even though Japan and South Korea posted more subdued figures due to weaker domestic demand and currency fluctuations, they still contributed solid volumes. By quarter's end, total exports for Q2 had surged well above the five-year quarterly average, reinforcing Australia's position as a major global beef supplier during a period of heightened demand.

Domestic consumption of beef remained steady during the quarter, with retail beef prices showing only modest increases. Consumer resistance to further price hikes meant processors had limited ability to pass through higher cattle costs. Supermarket beef prices edged up just 1.5 percent over the quarter, below the rise in livestock input costs and trailing inflation in other protein categories such as pork and chicken. However, this did little to offset subdued household consumption trends, as higher living costs continued to weigh on discretionary spending. The balance between export and domestic channels shifted further toward offshore markets, particularly for higher-value chilled cuts and manufacturing beef.

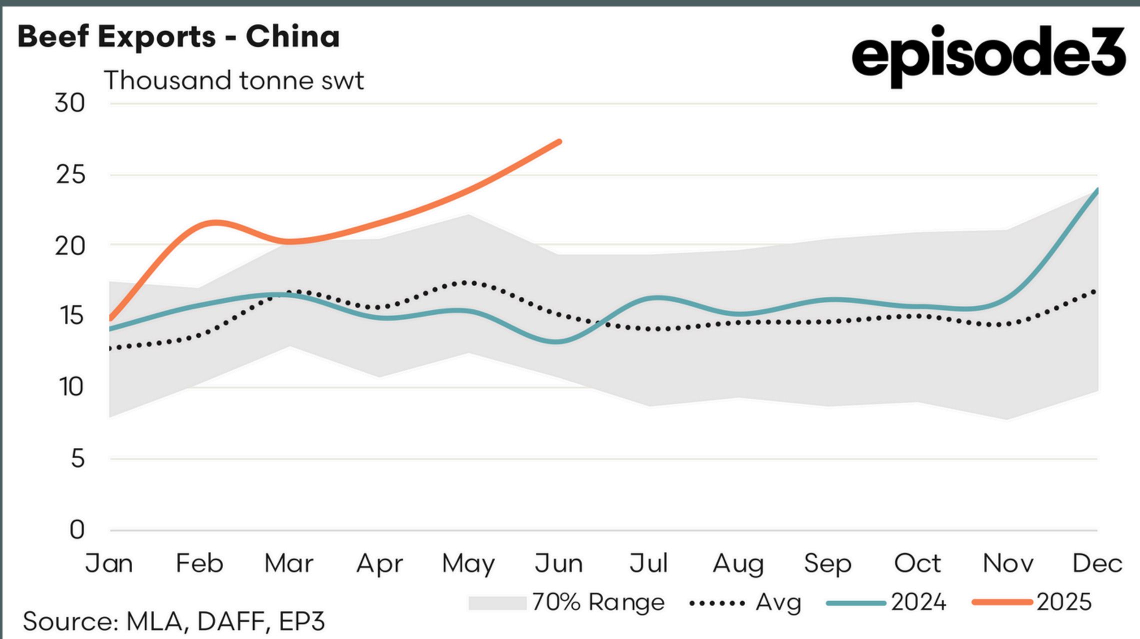
One of the most important themes of the quarter was the increasing squeeze on beef processor margins. The Beef Processor Trading Conditions Index fell to 51 percent in April, indicating profitability had slipped to the lower half of the decile range. Input costs, especially for livestock, rose significantly. Since the beginning of 2025, feeder cattle prices have climbed 6 percent, while export returns have not kept pace. Average beef prices into Australia's four largest markets rose just 1.6 percent over the quarter. Even with stronger trade volumes, value growth was constrained by global market competition and limited pricing power.

Export returns into South Korea and China rose 4.1 percent and 2.8 percent respectively, but weaker demand and pricing from Japan and Southeast Asia moderated the overall price effect. Compounding the issue were higher operating expenses. Labour shortages persisted in many regional processing facilities, and electricity and gas prices edged up again during the cooler months. These pressures further eroded processor profitability, despite historically strong export volumes.





The United States remained the top buyer of Aussie beef, importing a total of over 110,000 tonnes for the quarter, despite the 10 percent tariff introduced in April.



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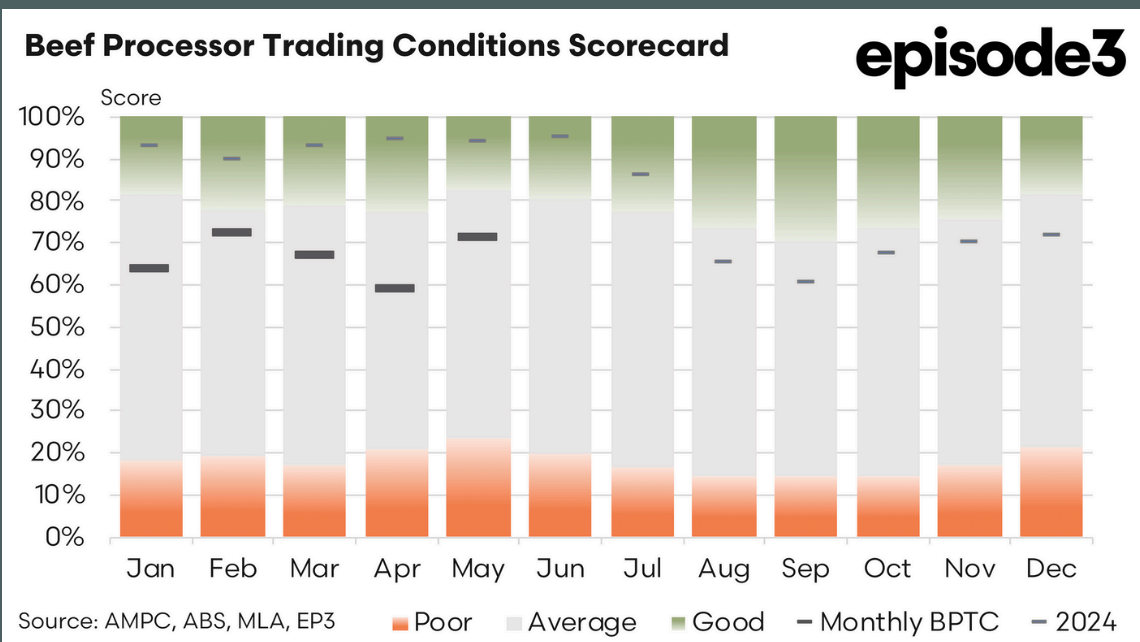

The Beef Processor Trading Conditions Index fell to 51 percent in April, indicating profitability had slipped to the lower half of the decile range. Input costs, especially for livestock, rose significantly.

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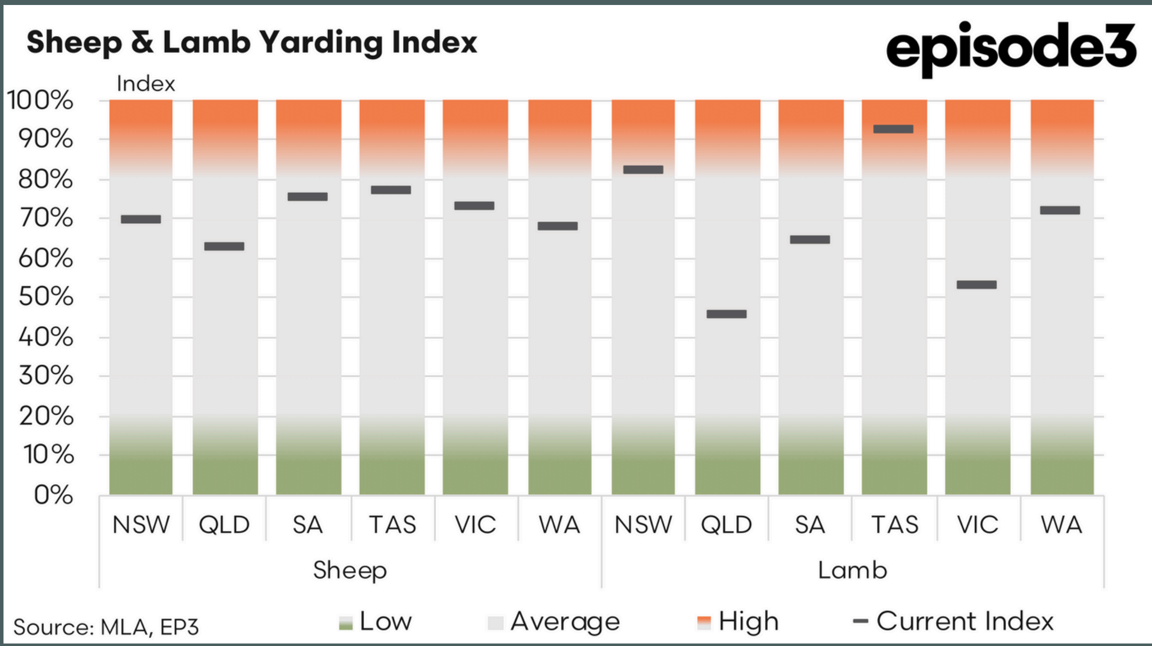
SHEEP

In the second quarter of 2025, Australia's lamb and mutton industries navigated a complex set of dynamics shaped by tightening supply, a strong export market, and mounting pressure on processor profitability. As the season shifted from autumn into winter, supply fundamentals changed markedly, with yardings falling and slaughter rates adjusting accordingly. Meanwhile, global demand for both lamb and mutton remained strong, reinforcing Australia's position as a leading exporter despite growing operational pressures across the domestic processing sector.

April began with relatively high saleyard activity, but from May onwards, lamb and sheep yardings dropped sharply. In New South Wales and Victoria, which collectively account for around two-thirds of national sheep turnoff, lamb yardings fell by 21 percent while sheep yardings were down 25 percent. This decline reflected a seasonal tightening, but also pointed to a more cautious approach from producers in response to falling confidence and uncertainty around forward pricing. Despite the reduced yardings, slaughter volumes continued to rise in some weeks, particularly in Victoria, indicating that processors were keen to secure stock even at higher input costs. By mid-June, weekly lamb slaughter had reached 420,000 head nationally, and sheep slaughter approached 160,000 head, highlighting the persistent processor demand and their willingness to compete for limited supply.

Lamb prices were volatile but held relatively firm given the supply tightening. Heavier lambs were particularly well supported in the saleyards as processor competed aggressively for dwindling stock to fill export orders. Lighter lamb prices in southern markets softened marginally over the quarter, reflecting cautious restocker demand and occasional congestion at plant level. Mutton prices, however, saw stronger gains. By early June, national mutton indicators had lifted by more than 25 percent from their April lows, driven by renewed buying from export-oriented processors and tightening availability of older ewes for slaughter.
Export performance was a bright spot across the board. Australian lamb exports for April, May, and June remained well above five-year seasonal averages.

Australian lamb and mutton exports were consistently strong throughout the second quarter of 2025, setting new benchmarks across multiple markets. In April, lamb exports were already elevated at 31,143 tonnes, well above the five-year average for that month. This was followed by a record-setting May result of 36,754 tonnes. While June saw a slight seasonal dip, exports remained robust at over 32,000 tonnes, bringing total Q2 lamb exports to more than 100,000 tonnes. This quarterly total represents one of the highest on record and reflects the strength of international demand even in the face of tighter domestic supply and higher input costs.



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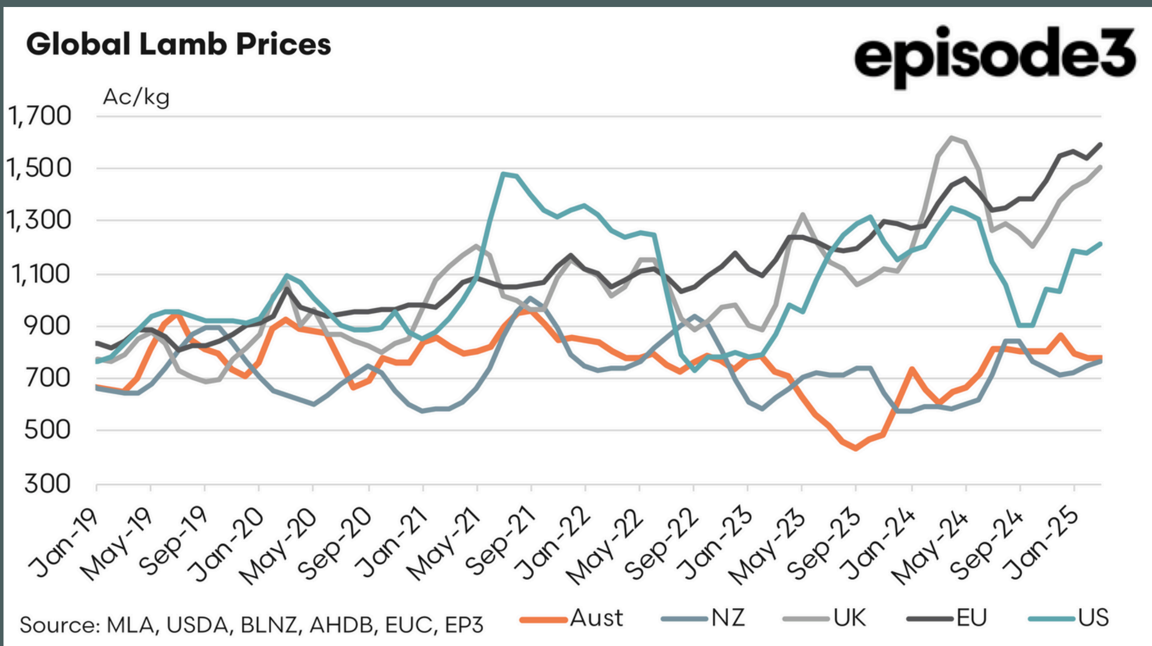
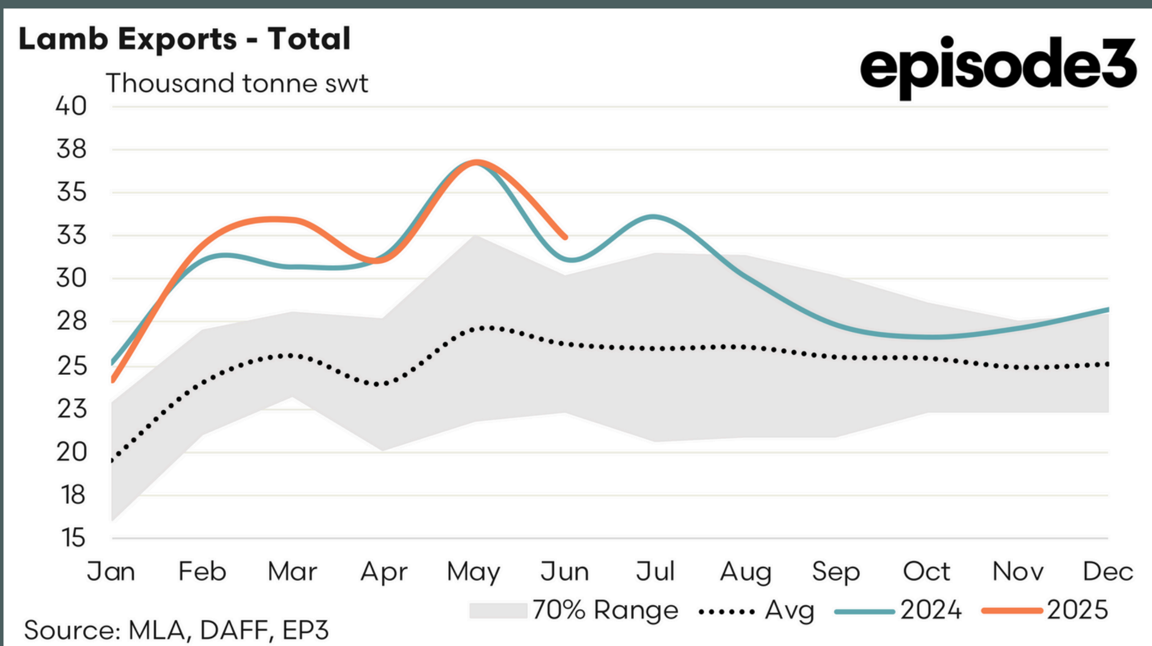


As a global comparison Australian lamb prices remain very competitive. Northern hemisphere lamb prices continue to trade above Southern hemisphere levels.



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SHEEP

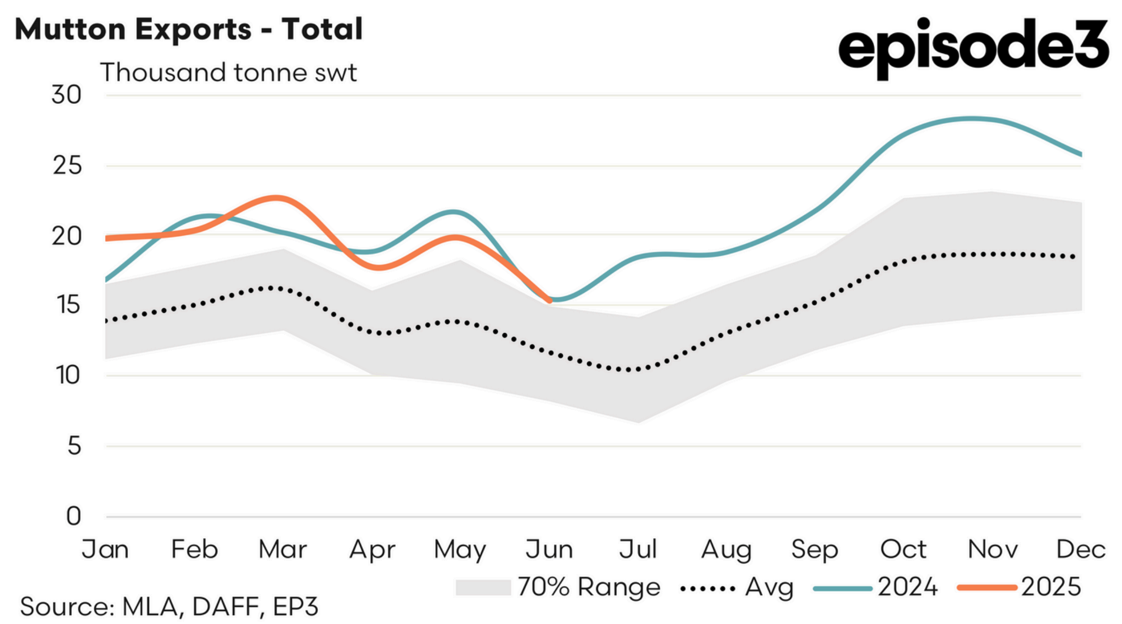
Mutton exports also posted a strong quarter, with April volumes sitting at 17,748 tonnes, followed by 19,808 tonnes in May and a solid 15,374 tonnes in June. That brought Q2 mutton exports to nearly 53,000 tonnes, 37 percent above the five-year quarterly average. The Saudi Arabia and Malaysia were the standout destinations for mutton across the quarter, while volumes to China softened slightly after peaking in March. Australian exporters demonstrated flexibility in redirecting mutton supplies to a wide range of secondary markets, including Singapore, helping to maintain throughput and pricing stability.

Domestically, demand for lamb remained steady in retail but showed signs of pressure in foodservice. Consumers continued to show resistance to price increases, particularly for premium cuts such as lamb cutlets and racks. Retail pricing data suggested that lamb prices rose modestly in April and May, then flattened in June. Promotional activity helped maintain volume throughput, particularly for forequarter cuts and mince, but margins for domestic processors remained tight.

The most significant challenge in Q2 2025 was profitability across the processing sector. The Sheep Processor Trading Conditions Index fell sharply during May to just 16 percent, one of the lowest readings since the index began. This reflected a severe squeeze on processor margins, with rising livestock procurement costs and limited pricing power in both export and domestic markets. Mutton procurement costs rose by 25 percent between March and April, while export prices lagged. Lamb prices into the United States lifted slightly, but export prices into China and the Middle East remained flat through much of the quarter. Energy, freight, and labour costs also increased, putting further strain on processors already running at near-capacity in some southern regions.

Some operators responded by reducing shifts or scaling back kill days to control costs. Others pushed harder for throughput, hoping that strong export volumes would offset weak per-unit margins. Anecdotal reports suggested that cold storage space was becoming tight in parts of Victoria by early June, as processors managed inventory while awaiting firmer forward orders from key export markets. Seasonal maintenance closures were also timed earlier than usual to manage costs and recalibrate operations.

Looking ahead, the outlook for lamb and mutton remains positive on the demand side but mixed in terms of profitability and supply chain resilience. The continued contraction of New Zealand's sheep flock, with projected lamb exports down 17 percent year-on-year, presents a significant opportunity for Australian exporters.



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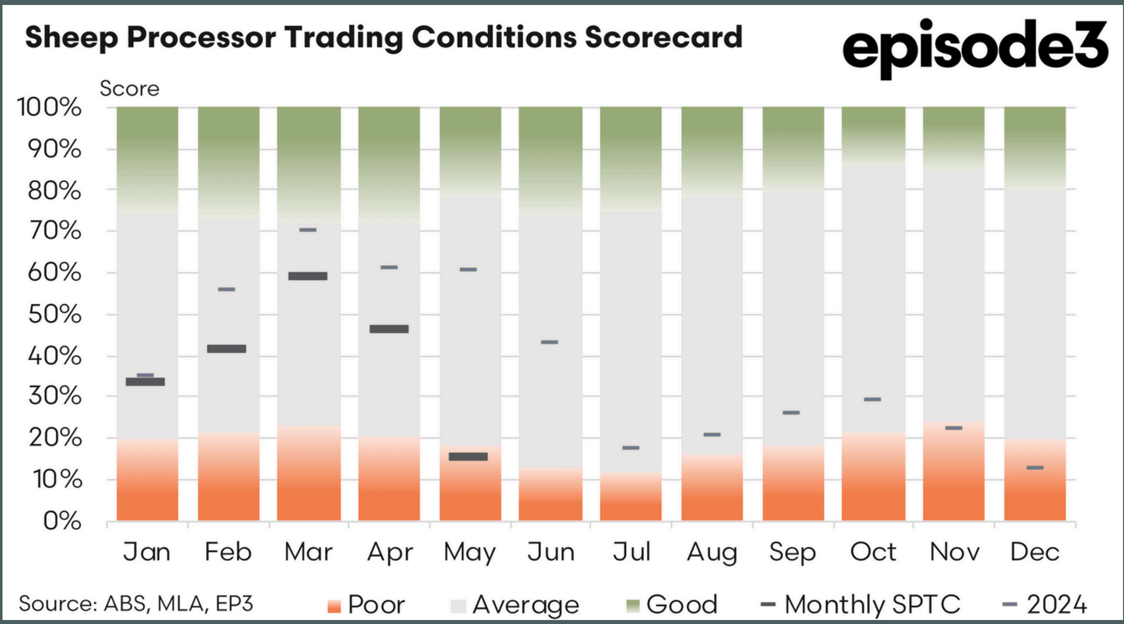

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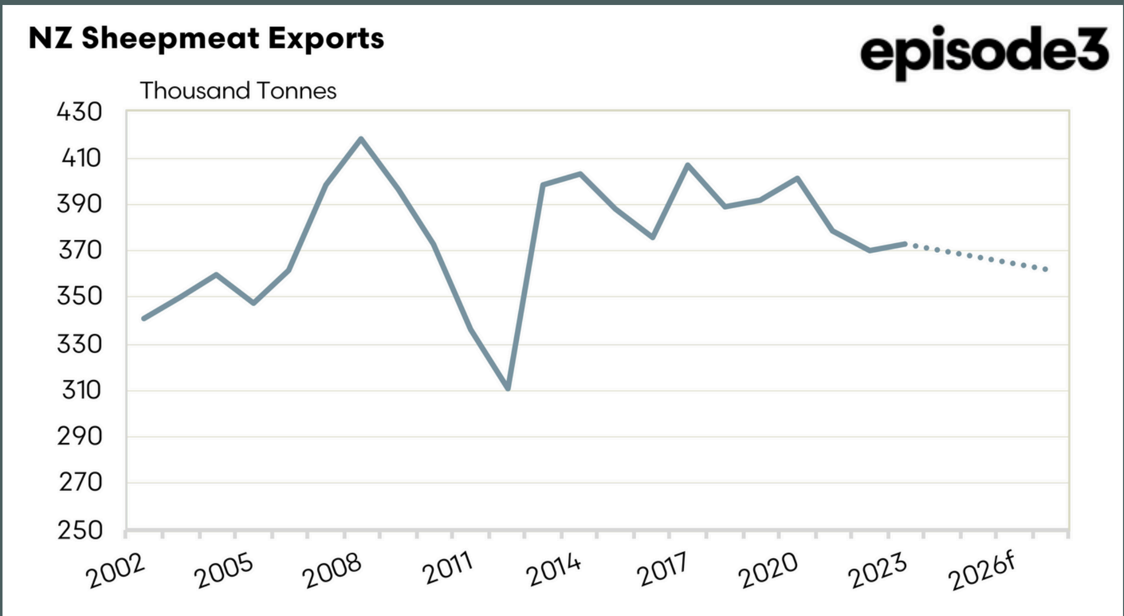

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WHEAT

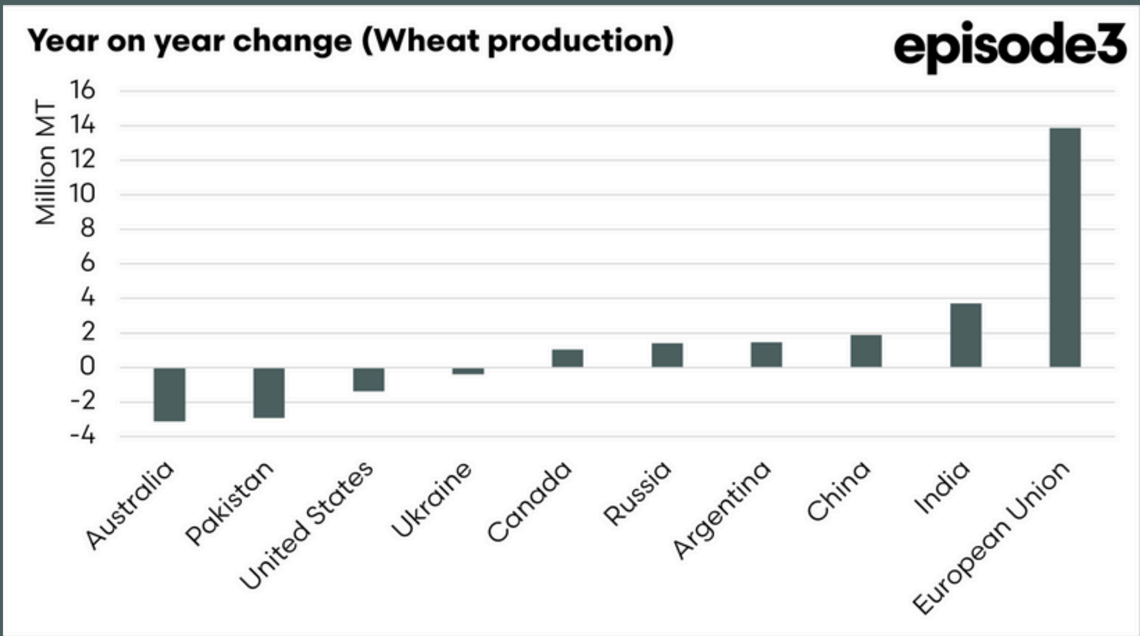
As the 2025 season progresses, global wheat markets are being shaped by a complex mix of supply dynamics, geopolitical uncertainty, and shifting weather patterns. For Australian growers, understanding these factors is critical, both to price risk appropriately and to position competitively in global export markets. Despite record global production, the market remains sensitive to regional setbacks, trade disruptions, and currency shifts.

The latest USDA forecasts point to global wheat production of 808.5 million metric tonnes, with consumption nearly matching that figure. While this suggests ample supply, around 53 percent of global ending stocks are concentrated in China and India, meaning a large portion of wheat is effectively locked away from the world market. When focusing on the top eight exporting nations, the stocks-to-use ratio has increased to 16.6 percent. While higher than recent years, this still leaves room for volatility if even one major exporter experiences production issues.

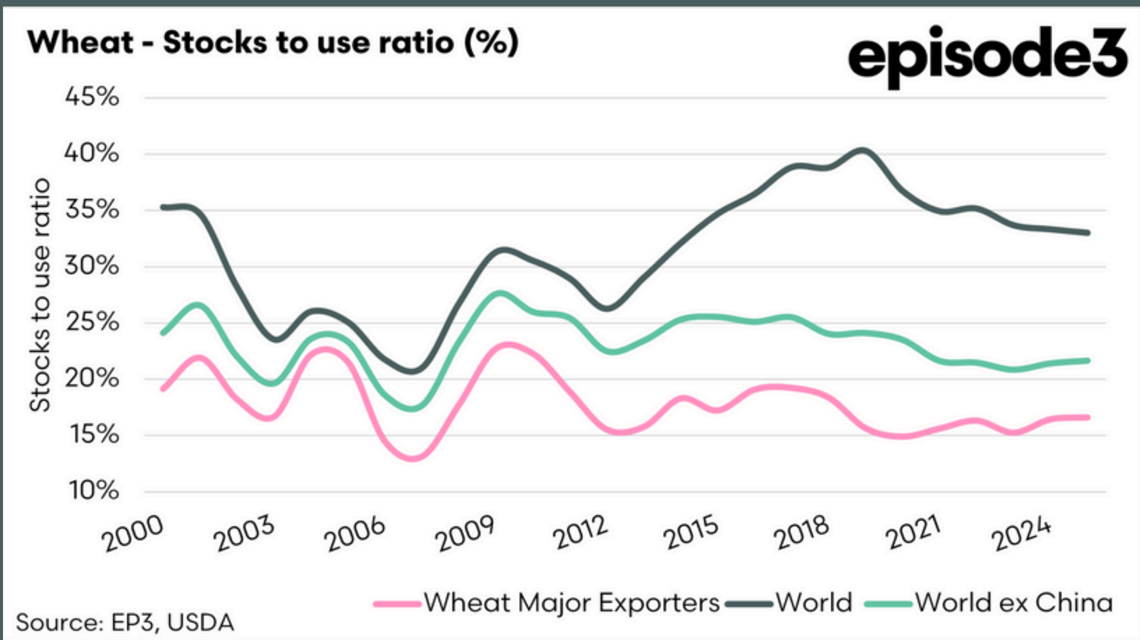
A July revision lifted Russia's 2025-26 export forecast to 42.9 million tonnes following improved crop conditions and strong price competitiveness. Russian wheat is now being offered at prices lower than those from other Black Sea origins, exerting downward pressure on the global market. Elsewhere in the Northern Hemisphere, France has seen its crop condition ratings fall to 68 percent due to heatwaves and dry patches, well below its five-year average. Ukraine has also begun its harvest under challenging weather conditions, and forecasts suggest total output could fall by around 10 percent this year. These developments are crucial because reduced volumes from the Black Sea region can quickly shift global demand toward exporters like Australia, particularly in Southeast Asian markets.

While the broader European Union is expecting a solid harvest, including strong crops in Spain and Romania, Ukrainian exports remain below last year's levels. Export competitiveness is also shifting in the region, with Russian wheat remaining cheaper than European origins. This is dampening French and German export potential even as their harvests pick up pace.

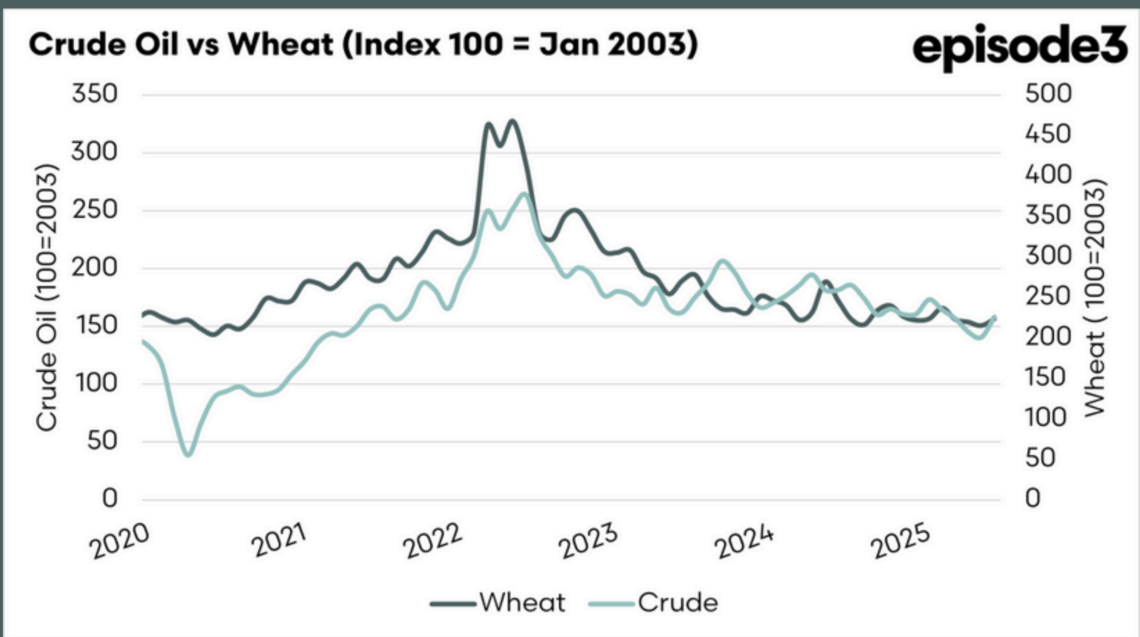
In the United States, market sentiment has swung back and forth based on crop ratings and futures activity. Winter wheat crop ratings have hovered around 52 percent good to excellent, while spring wheat ratings in North Dakota have dropped below 40 percent. Earlier in the season, concerns about drought lifted prices, but recent improvements in weather, along with weaker export sales, have capped gains.



Wheat production across key global areas suggests ample supply is available.



The stocks-to-use ratio for major exporters has increased to 16.6 percent. While higher than recent years, this still leaves room for volatility if even one major exporter experiences production issues.



Geopolitical developments have also been a key driver of wheat volatility. Wheat pricing trend mirror the broader trend in energy pricing such as crude oil so tensions in the Middle East can have an impact.

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WHEAT

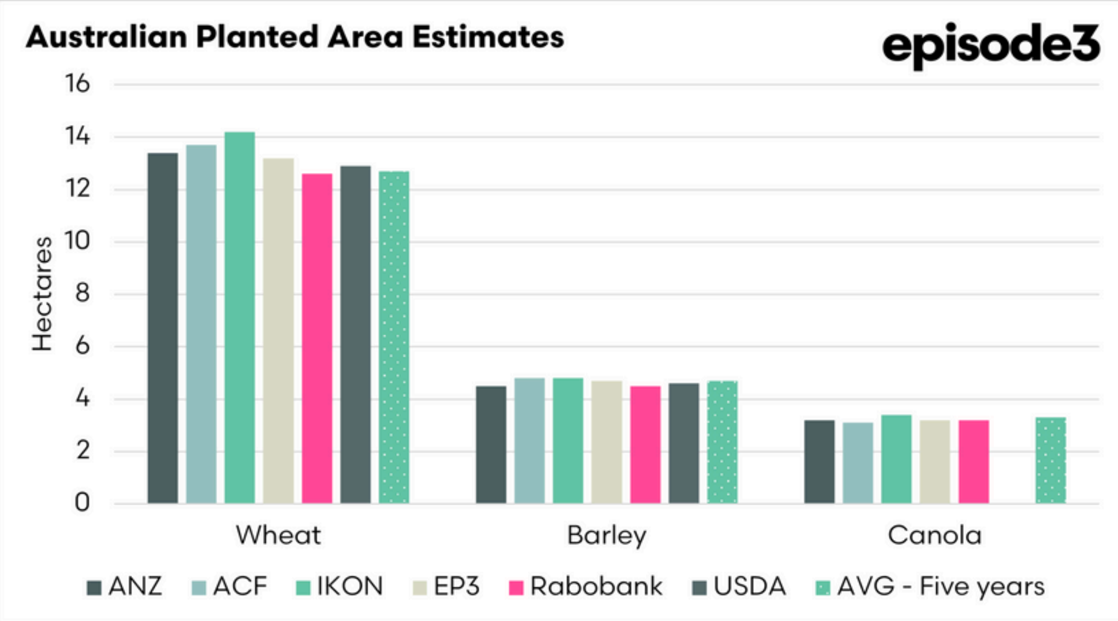
Geopolitical developments have also been a key driver of volatility. The Israel-Iran conflict caused a sharp midweek rally in wheat prices during June as traders moved quickly to cover large short positions. These gains were quickly reversed following news of a ceasefire and upgraded Russian production estimates. Similarly, in early July, wheat markets reacted negatively to new US tariff threats against China and other Asian economies. While this initially dampened market sentiment, it could end up benefiting Australian exports if Asian buyers seek to diversify away from US-origin wheat.

For Australian growers, the domestic outlook remains mixed. This season's national wheat crop is forecast at 31 million tonnes, down around 3 million tonnes from last year. South Australia and Victoria have had a dry start to the season, although recent rainfall has brought some improvement. In Western Australia, rainfall has been patchy and many areas still need further precipitation to reach average yield potential.

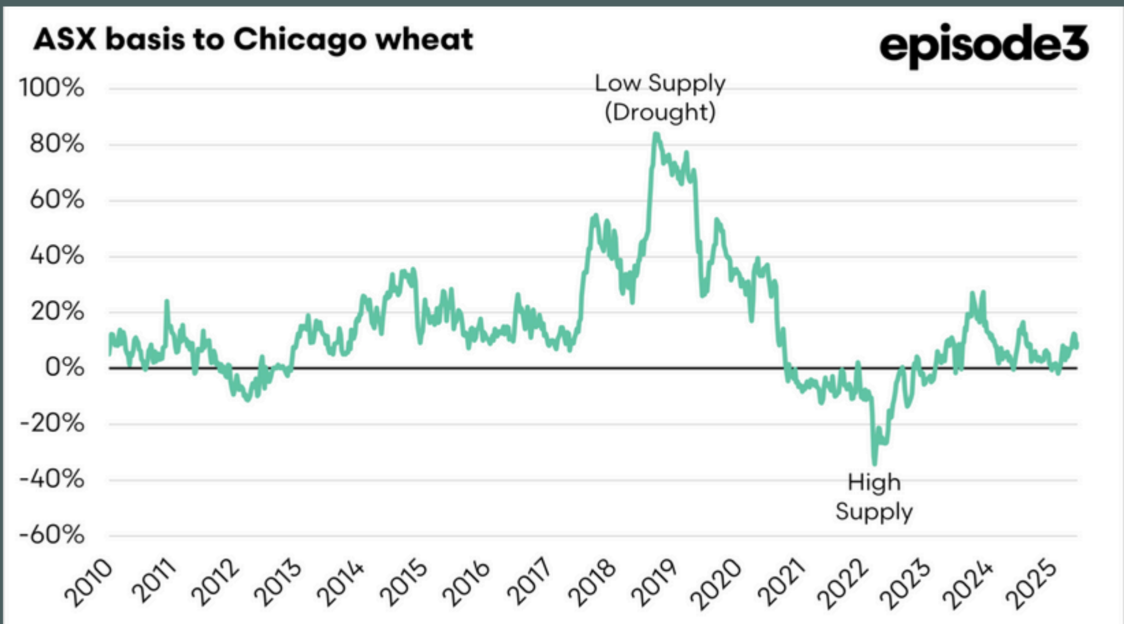
Interestingly, despite dry conditions in parts of the country, local prices do not yet reflect a strong drought premium. As of late May, the ASX to CBOT basis sat at about 9 percent, which is below the long-term average of 15 percent. This suggests the market is still pricing in an average national crop and has not yet reacted to tightening domestic conditions. Historically, drought premiums only emerge when local supplies become so limited that domestic users have to outbid exporters to secure volume, typically later in the season. If conditions worsen into spring, there remains potential for a late-year price lift.

The takeaway for Australian farmers is that while global supply looks strong on paper, it remains vulnerable to shocks. Reduced Black Sea output, erratic weather in North America or the EU, or renewed geopolitical tensions could all push prices higher. Currency movements also matter. A weaker Australian dollar can lift competitiveness in export markets, but any softening in the US dollar can counteract that advantage. Trade policies and tariffs are another watchpoint, particularly in Asia where any shift in buying patterns could directly impact Australian shipments.

As the season unfolds, growers should keep a close eye on Black Sea harvest progress, US crop ratings, and domestic rainfall patterns. Futures markets remain volatile, and while pricing currently feels subdued, the risk of upward movement is real. Strategy, timing, and staying informed will be critical for capitalising on any late-season strength in the market.



Current planted area estimates for the Australian crop from several industry participants.



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WOOL

The Australian wool market in Q2 2025 experienced a complex interplay of stabilising prices, declining production, and evolving producer sentiment, all set against a backdrop of challenging environmental and policy conditions.

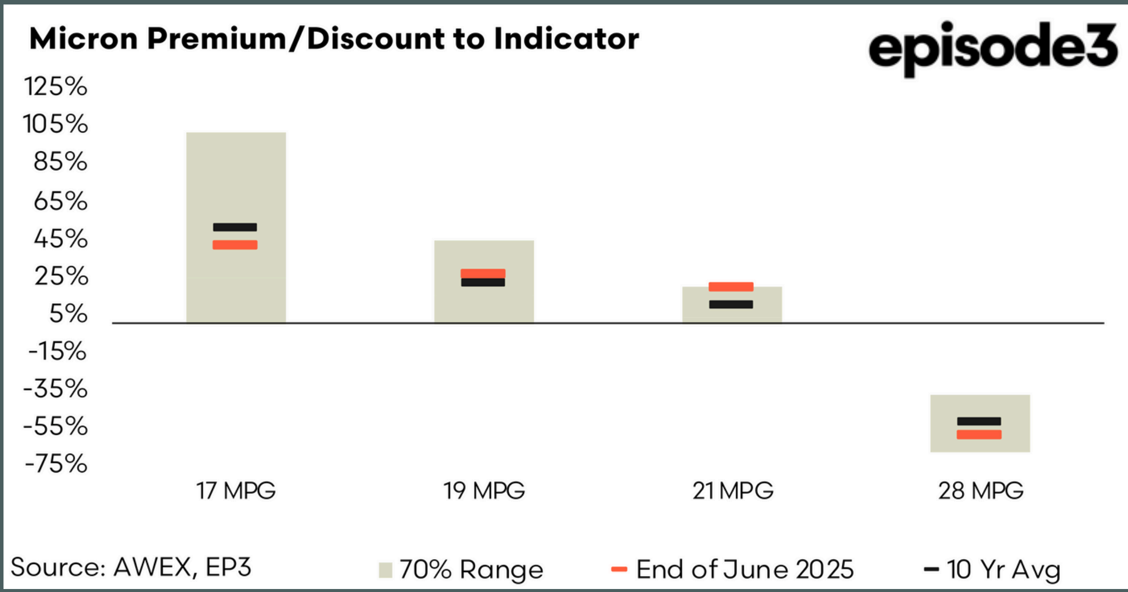
The Eastern Market Indicator (EMI) demonstrated modest growth over the quarter, rising from approximately 1,200 cents per kilogram clean in April to 1,207 cents by the end of June. This stability was underpinned by tight supply, with the 2024/25 season concluding with 1,565,809 bales offered, 14% fewer than the previous year. Notably, medium and crossbred wool types outperformed finer microns; for instance, the 28-micron category increased by 18.1%, and the 21-micron Merino fleece rose by just over 8% .

Wool production faced significant hurdles due to adverse weather conditions. Droughts in South Australia, Victoria, and southern New South Wales led to reduced pasture availability and increased feed costs. Consequently, the number of sheep shorn in 2024/25 was forecasted to drop by 12% to 63 million, with national wool production expected to decrease by 8.4% in the 2025/26 season.

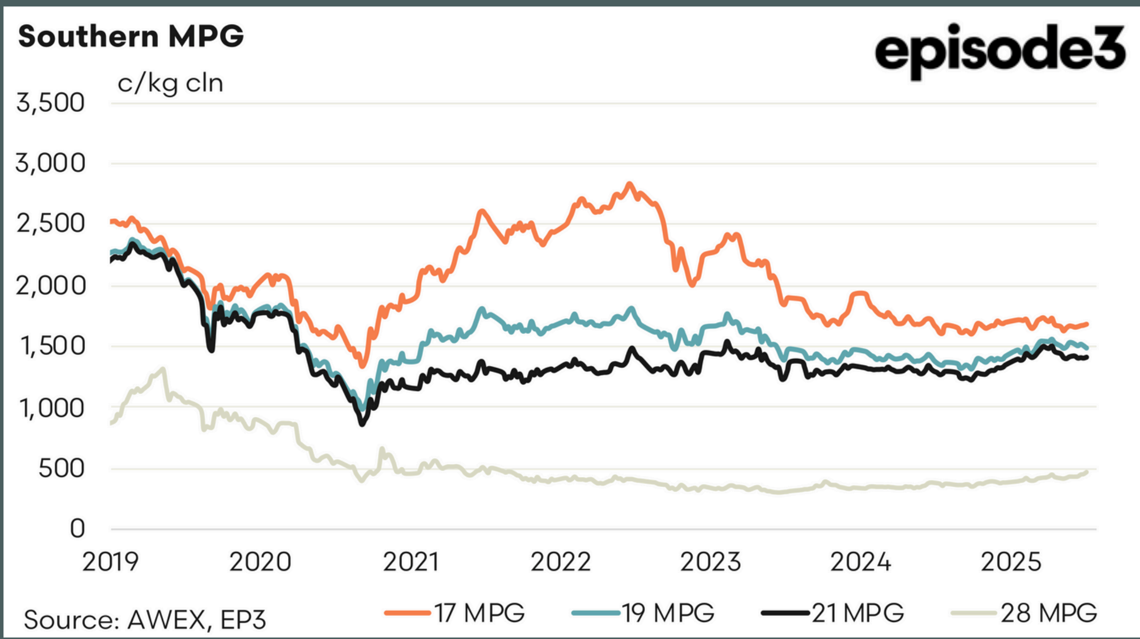
The Sheep Producers Intentions Survey conducted by Meat and Livestock Australia and Australian Wool Innovation revealed a significant shift in producer sentiment. While overall sentiment ranged from neutral to positive, many producers planned to decrease flock sizes over the coming year. The survey forecasted a 9% reduction in the national breeding ewe flock and an 11% decline in the wether flock, driven by volatile market conditions, extreme weather events, and regulatory changes, notably the planned phase-out of live sheep exports.

Global demand for wool showed mixed signals. In China, April retail sales grew by 5.1% year-on-year but fell short of March's 5.9% growth, indicating a slowdown. European sentiment improved slightly, with economic concerns dropping in the first quarter of 2025. However, economic challenges in China, including rising unemployment, continued to affect consumer demand .

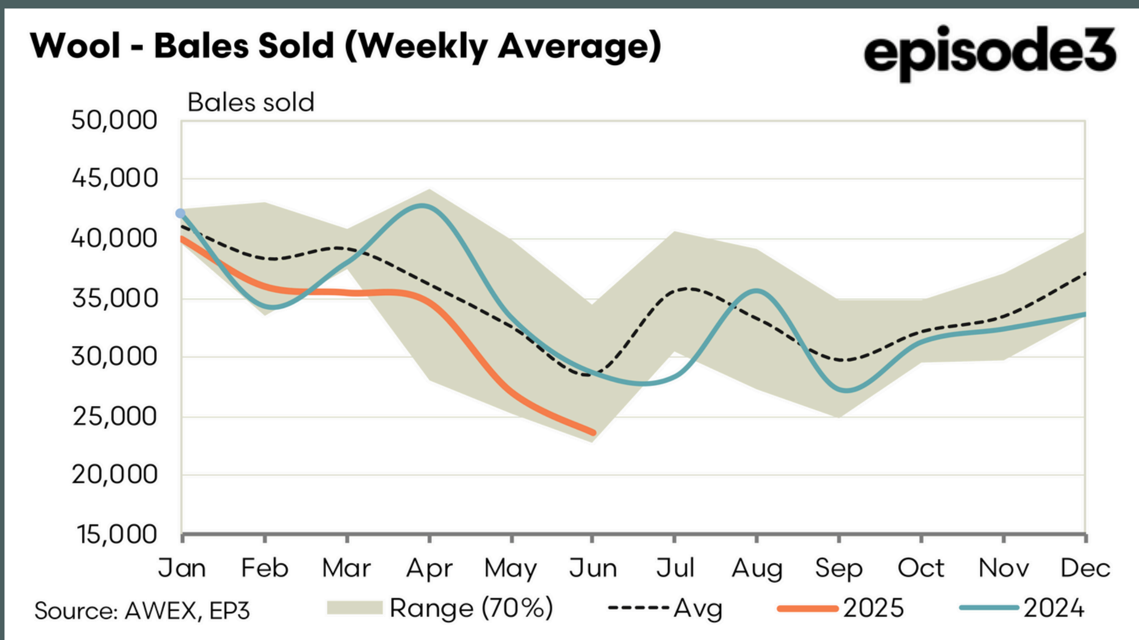
Looking ahead, the wool market faces ongoing challenges. While tight supply may support prices, factors such as declining flock sizes, environmental conditions, and regulatory changes will continue to influence the industry's trajectory. Long-term recovery will depend on improvements in global demand, particularly in key markets like China and Europe, and the industry's ability to adapt to evolving conditions.



19 and 21 micron wools continue to sit at a slight premium to the EMI, based on the historic average levels for this time oin the season.



Some upward support for wool prices continued into the second quarter of 2025, but trade uncertainty persisted and the looming threat of a weakening Chinese economy remained a key concern.



Wool sales volumes in 2025 have consistently tracked below both the long-term average and 2024 levels, reflecting a clear tightening in supply across the first half of the year.

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