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COMMODITY INSIGHTS

SPRING 2024

ANZ

FOREWORD

Spring is springing – and as usual it's a critical time of year for all our producers. With a weather eye on the rain outlook, but also on the temperature, producers are looking forward to harvest, or watching the grass grow for the new season's stock. As always, the question of when will the spring break arrive is key, with many hoping for an early and long spring period to offset a poorer autumn. Some areas of the country are still in desperate need of rain to fill the dams and kick start their pasture growth, but in general it's a looking to be a solid start. Which is not to say that we're set for another halcyon year, but rather that conditions and prices, in general, have normalised somewhat as livestock prices come up, input costs decline slightly but this runs up against increasing interest costs, and lower grains prices.

It is always a tentative time of year, coming into spring. With crops out of the ground and the spring drop on the ground, the weather becomes the guiding force for a whole range of business decisions – with most of those decisions being driven by less cash on hand, and a smaller buffer in the wallet. At the risk of repeating the obvious, less cash on hand means producers are focussing on keeping costs low, and maintaining margins by focussing on growing productivity as the primary aims for this year's budget.

But behind all of this, the fundamentals remain the same. A reputation of producing a high quality, reliable product alongside the continued growth in consumer demand and a growing population across the world, points to the long-term positive outlook for the industry. And while not every season can be a bumper one, in our increasingly trade-exposed environment, it's often the case that another region's production concerns become our domestic benefit.

On the positive sign, forecasts for the national winter crop harvest continue to increase despite concerns over the total area planted and soil moisture at planting time. Again, those forecasts are mixed across areas with New South Wales and Queensland looking forward to very strong seasons. Cattle and lamb prices continue to gain in strength and return to trading levels which most in the industry consider closer to the 'right' price than those being seen earlier in the year.

While the volume story looks relatively strong coming into spring. As always, there is another side to the story however. Global wheat and grains prices are subdued and likely to remain so for the foreseeable future, as global supply looks plentiful. Having said that, canola prices remain stubbornly high despite forecasts for a decline through the year, as strong consumption keeps prices high.

So with spring in our producers' steps, and grass starting to grow in almost every corner of the country, the general outlook is for another strong year, good crop volume offsetting lower prices and an improving livestock market helping farmers rebound from last year. And for those areas continuing to struggle with a lack of autumn and winter rains, fingers remain crossed for a solid spring break.

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MIXED FARMING

OVERVIEW

- Mixed farming offers strong opportunities to manage commodity price risk on farm
- The growth in volume, price and profits of Australian cropping enterprises has dominated the mixed farming landscape for many decades
- However it is not always solely about profit, for many producers, the mix of commodities produced is also about managing variability and risk
- One of the key benefits of mixed farming to emerge was the relatively low volatility in the cost base compared to cropping and livestock
- For those producers looking to mixed farming to reduce their commodity price risk on farm, looking to chickpeas, wheat, barley, sheep and wool historically provide the greatest chance of offsetting price falls in one commodity.

It is perhaps one of the central questions for any farming operation – to specialise or diversify? Is it better to focus on one production system alone, and work towards perfecting the production of one or two commodities? Or is it better to hedge your bets, and rely on a poor season for one commodity being balanced out by a stronger season in another? While there are clearly agronomic reasons for each farms' production systems, it is worth looking at how the prices and volume of production of some of our major commodities change in relation to each other – and whether farmers can really effectively manage price risk on farm.

In the world of increasingly volatile commodity prices, a question facing many farmers is do they embrace the volatility – accepting that the profit from good years will necessarily need to be applied in poorer years, or do they structure their production systems around a number of commodities in the hope that a poor season in one may be balanced by another?

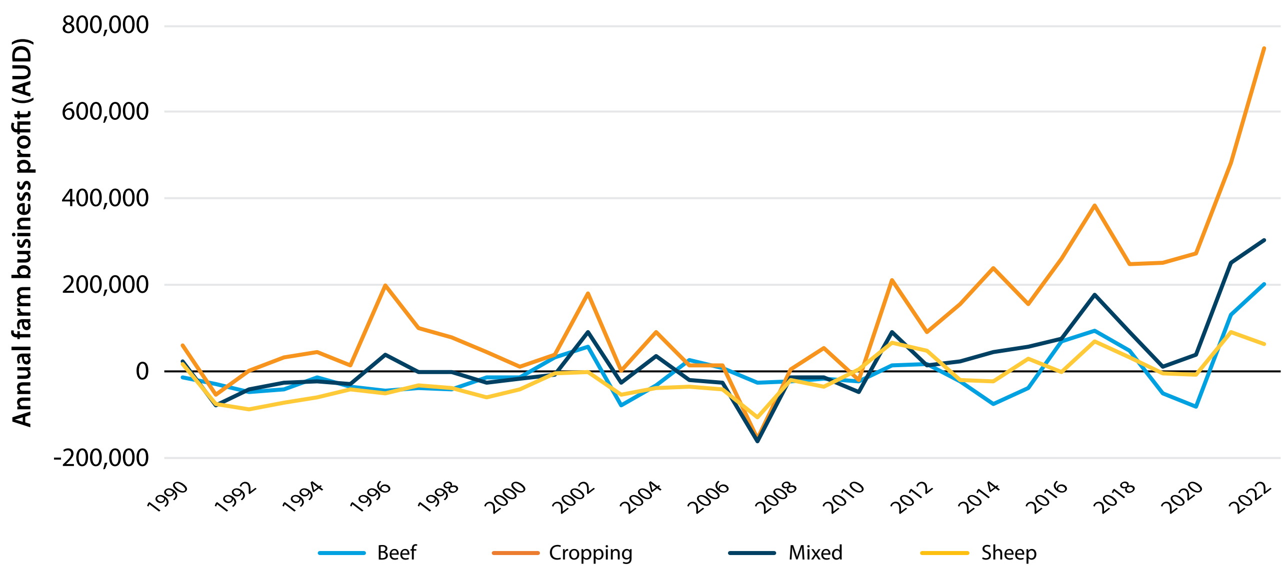
The headline story when it comes to mixed farming versus cropping and livestock enterprises is over the past 30 years it has been all about the growth in profit, volume and productivity in cropping. Cropping enterprises have dominated broadacre agriculture, commanding the highest profits, income and costs while also being the primary category of broadacre farming to increase area operated. In short, the cropping side of broadacre farming has been the engine room for industry growth and profit for a number of years. Sitting in behind the cropping category, mixed farming is clearly sharing in the benefits from the growth in cropping and strong crop prices and harvest, to sit between the cropping sector and livestock sector.

According to ABARES, cropping has the highest quantum of profit, costs and income – but also has the highest variance in profitability. Sheep farmers, on average, have the lowest costs and lowest return, with beef producers with only slightly higher costs and income – while mixed farming, unsurprisingly, sits in between livestock and cropping on all these metrics.

Perhaps the most surprising thing when looking at the headline figures for financial performance by type of farming – and perhaps a clue to the continued growth of mixed farming – is the relatively low variability in costs in mixed farming. While sheep farming has had the lowest variability in costs over the past 30 years, mixed farming comes has the second lowest variability in costs, perhaps indicating that a diversification in production also creates more scope for cost control.

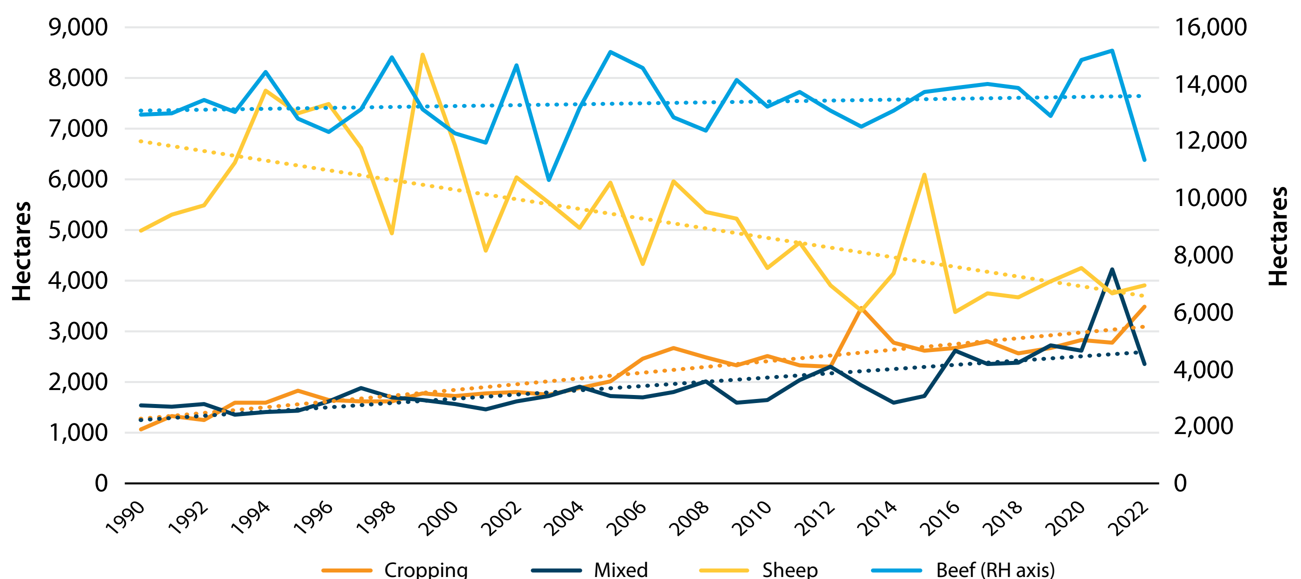
One of those key benefits of mixed farming comes from some reduction in price risk – that the decline in the price of one commodity would be offset by a better price for another. Which raises the questions – do any commodity prices really move counter to others, or are they all relatively highly correlated to move higher, and lower, together?

FARM BUSINESS PROFIT ($)



Source: ANZ, ABARES

TOTAL AREA OPERATED (HA)



Source: ANZ, ABARES

It will come at no surprise that there is a high correlation in prices between major Australian commodities. Indeed, for almost all commodities there is a relatively high correlation, primarily because prices are generally trending in the same direction – up. But within that, and accepting that the same general demand and supply levers which are generally pushing commodity prices higher are operating on all commodities, there are some commodities where both price and production are going up – and down – more closely.

Prices received for most Australian crops moves quite closely together, with the strongest correlations between wheat and barley which have almost perfect correlation, while the relationships between wheat-sorghum, canola-sorghum and canola-wheat are also very strong. On the other hand, chickpeas have the lowest correlation with other major cropping products – suggesting they have the lowest likelihood of moving in tandem with wheat, barley, canola or sorghum.

At the core of the mixed farming proposition, is the question of how strongly linked are livestock and crop prices? And the answer to that provides some solid support for the mixed farming, price risk management proposition. Livestock prices are less closely aligned than grains prices are with each other – but two grains stand out as being least correlated with cattle, lamb and sheep prices, namely wheat and barley. Lamb is slightly less connected to grains prices than cattle, with sheep prices being even less correlated. In addition to this, wool prices, generally led by the fine wool sector of the market, sees one of the lowest correlations with the grains sector.

So, what's the moral of the story? For those producers looking to mixed farming to reduce their commodity price risk on farm, looking to chickpeas, wheat, barley, sheep and wool historically provide the greatest chance of offsetting price falls in one commodity. On the other hand, for those producers content to take the very good years and self-insure against the poorer years, a different model might be in order.

GRAINS AND OILSEEDS INSIGHTS

OVERVIEW

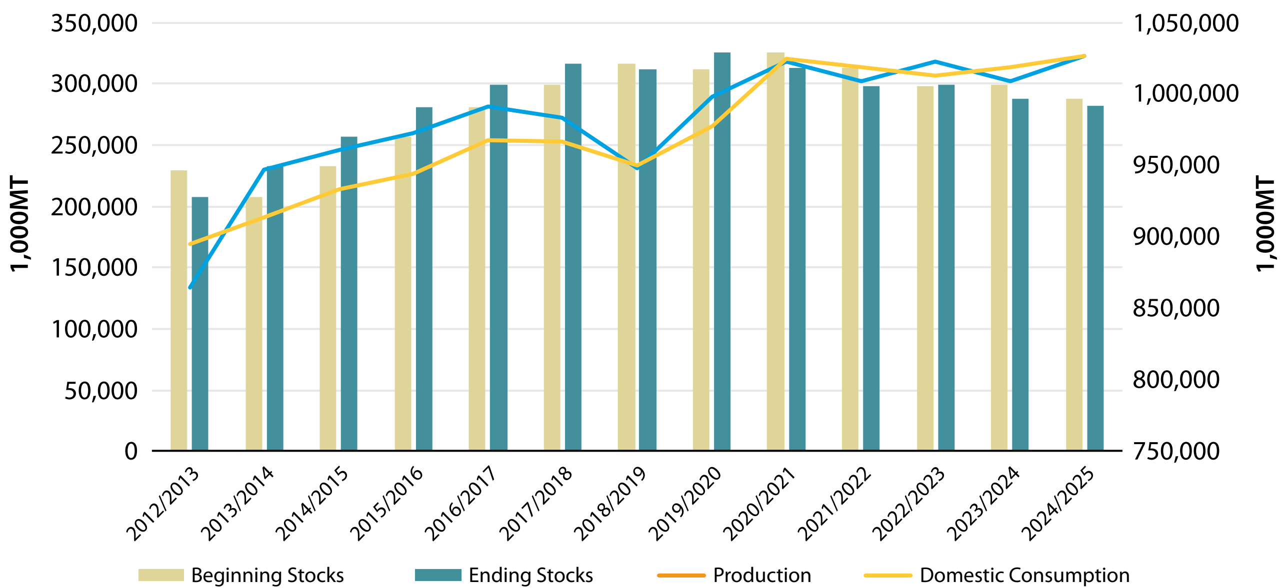
- Solid late winter rains and an the early blush of spring have increased hopes of a stronger than first-anticipated winter crop
- All forecasts are for a national crop around 10 percent higher than the national average, primarily off the back of strong growing conditions in Queensland and New South Wales
- While volume outlook is strong, price is more subdued as global grains and oilseeds production is strong and supply is plentiful
- On the other hand, global wheat and grains stocks are expected to decline slightly on the back of feed grain demand as a result of lower global corn production
- Canola prices remain higher than anticipated as consumption in China and the US helps push global consumption growth higher than production.

As spring blooms across much of the country, albeit earlier than many expected, grain producers across much of the country are looking to the skies for rain to finish crops – with some already in receipt of good finishing rains. Despite a patchy season around planting time as the persistent dry led to some fields going unsown, the forecast is for a solid national crop which is easily above the 10-year average. However, while volume is forecast to be good, prices are expected to remain relatively subdued as good global production out weighs global grains prices.

On the domestic front, spring is always a crucial time for the success of the national harvest. Recent rainfalls across many cropping areas have already signalled a strong harvest may be on the horizon, with forecasts for further rainfalls and the apparent arrival of an early spring also bode well. While the forecasts for the winter crop were subdued as planting started as some croppers either planted dry or made the call not to sow at all, forecasts are increasing by the week with ABARES now predicting an increase in the Australian crop of 9 percent to around 51.3 million tonnes – which is also 9 percent above the 10-year average.

Most of this growth is forecast to occur in Queensland and New South Wales, particularly Wheat production which is forecast to increase by 12 percent to 29.1 million tonnes in 2024-25, 10 percent above the 10-year average to 2023-24 and barley production is forecast to increase by 7 percent, 2 percent above the 10-year average to 2023-24. On the flip side, canola production is forecast to fall by 5 percent, substantially below the 10-year average which reflects some failed crops and dry starts in the primary canola planting areas in Australia. For those who have managed to get their canola crops out of the ground, timely rains after planting and coming into spring bode well for a strong harvest. Good prices for chickpeas has driven a solid boost to pulse production which is anticipated to increase by almost 20 percent.

GLOBAL GRAINS SUPPLY AND DEMAND (WHEAT, BARLEY, OATS, SORGHUM)

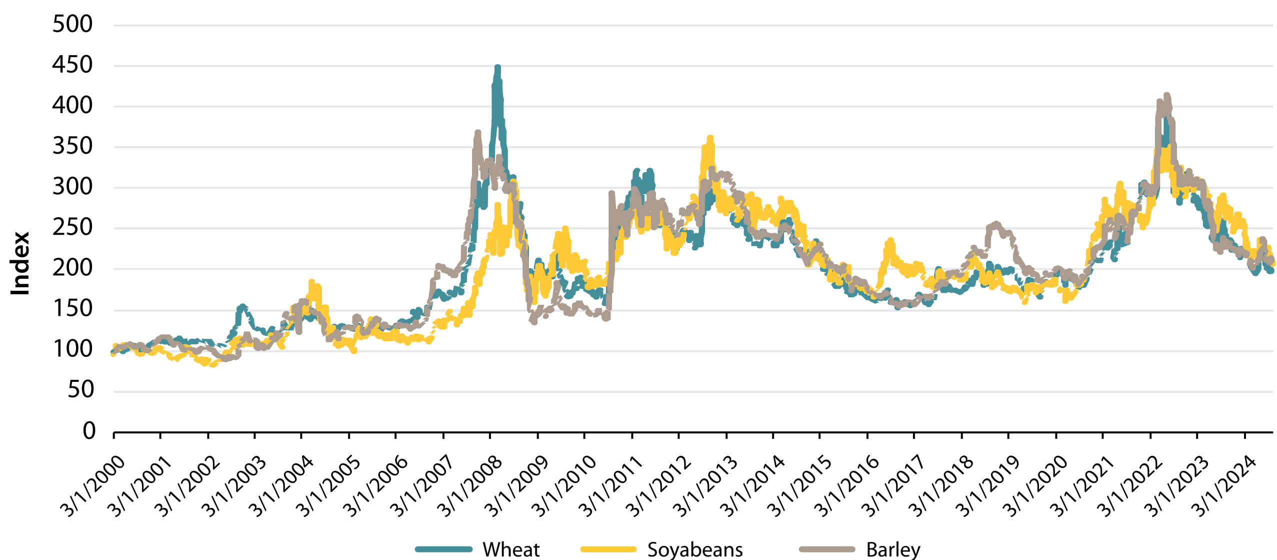


Source: ANZ, USDA PSD

As with all agricultural commodities, there are two parts to the income story – crop volume and price. Unlike in the three years up to 2022-23, it is unlikely that croppers will benefit from both strong volumes and prices. This is solely due to the fact that global grains and oilseed production this year looks to be strong. Internationally, grains prices have continued their trend downwards for much of the year as forecasts continue to increase their predicted volumes and prices have stayed subdued in response.

The most recent USDA forecasts for global grains and oilseeds supply and consumption has continued that trend, with total global wheat production projected to increase by 3.5 million tonnes based on larger production out of Ukraine, Kazakhstan, and Australia but smaller crops out of EU and the United States. EU production is expected to be the lowest since 2020/21 after heavy rainfall events in France.

INTERNATIONAL GRAINS PRICE INDEX (JANUARY 2000 = 100)



Source: ANZ, IGC

To offset this, global consumption is forecast to increase by 4.1 million tonnes to a record 804.0 million, however the increase in consumption is primarily the result of higher feed use out of the EU, Kazakhstan, and Ukraine. This increase in feed demand comes as the global coarse grain forecasts have been downgraded slightly by 8.1 million tonnes, meaning that alternative feed grain sources will need to be found. All in all, forecasts are for a continuing decline in global wheat stocks to levels not seen since 2016/17. While Chinese wheat stocks are by far the largest of any country, the major decline in stocks are forecast to be in Russia and the European Union. As a result, the global wheat price is in a rather contradictory position where prices are down and expected to continue to be subdued for the rest of the year, while global consumption is up and stocks are down.

AUSTRALIAN WHEAT PRODUCTION AND EXPORT

Source: ANZ, USDA PSD

While the global oilseeds market has been through a difficult few years as a result of both the war in Ukraine and drought in northern America, the global canola price was forecast to fall to just over $A600/tonne on average for the year. Instead, the current price remains stubbornly above $A700/tonne ex-Melbourne. This is despite USDA forecasting higher global 2024/25 oilseed production as a result of higher soybean and rapeseed output but lower sunflower seed production. Having said that, total rapeseed oil production is forecast to be very slightly lower than last year, while consumption is up strongly due to jumps in Chinese and US demand, which does go a long way to explaining the higher than anticipated prices.

CATTLE INDUSTRY INSIGHTS

OVERVIEW

- The outlook for Australian cattle industry remains cautiously optimistic, both domestically and globally
- This is particularly driven by forecasts of good rainfall in most regions, as well as by the ongoing strong US beef import demand
- For the first time since 2019, Australian cattle prices have relatively plateaued, following an extended period of drought and El Nino related sell offs, and the subsequent restocking price surges
- After falling to its lowest level in decades, the long process of a US cattle herd rebuild should see import demand for Australian beef remain strong for several years
- In Australia, retail beef prices have actually fallen slightly, but remain higher than the other major meat categories.

As the Australian cattle industry approaches the end of 2024 and looks ahead to 2025, the outlook remains cautiously optimistic, both domestically and globally. The industry is currently navigating through a phase marked by reasonably favourable seasonal conditions and gradually rising cattle prices.

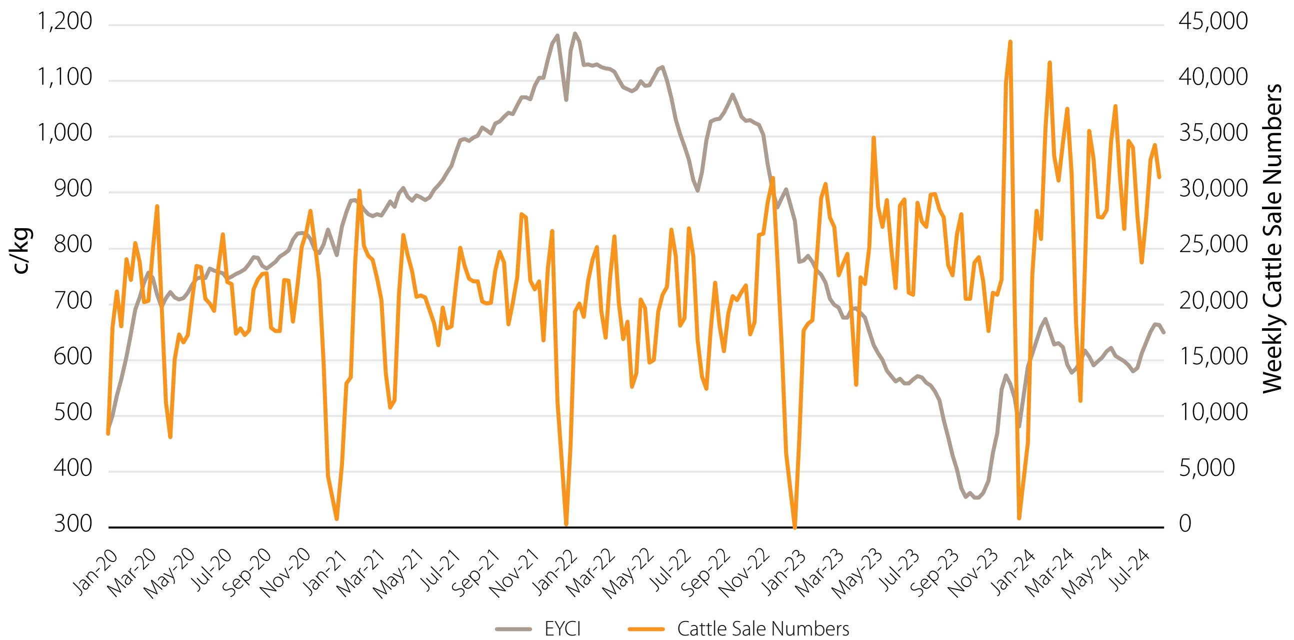
HOWEVER, THIS OPTIMISM IS TEMPERED BY CHALLENGES FACED BY MEAT PROCESSORS, FLUCTUATIONS IN RETAIL PRICES, AND SHIFTING DYNAMICS IN GLOBAL BEEF TRADE.

Over recent months, most Australian cattle producing regions have enjoyed relatively good seasonal conditions, with sufficient rainfall for good pasture growth, reducing the need for supplementary feeding. This has provided encouragement to many producers to continue rebuilding their herds, a trend that began in earnest after the significant sell-off in late 2023, prompted by fears of an El Niño event.

While cattle prices have risen between June and August, they have also arguably plateaued throughout 2024, for the first time in a number of years. As of late August, the EYCI stood at around 666 c/kg cwt, up over 10 percent in two months. This rise, while moderate, signals a recovery from the lows experienced late in 2023, when the EYCI dipped to 358 c/kg cwt in October 2023 due to increased cattle supply as farmers rushed to offload excess stock amid concerns of a possible El Nino, and feed and water shortages.

Despite the recent upward trend in cattle prices, the market has also remained relatively stable compared to the volatility seen between 2020 and 2022. This stability is reflective of a more balanced supply-demand situation, with farmers cautiously optimistic about future conditions. Many are adopting a dual approach: continuing to rebuild herds while also selling enough stock to maintain cash flow, capitalising on the favourable prices.

AUSTRALIAN CATTLE PRICE VS SALE NUMBERS 2020 - AUG 2024



Source: MLA, ANZ

The cattle industry has experienced a varied year, with regional differences playing a significant role in shaping outcomes. Overall, the sector has benefited from relatively favourable weather conditions, particularly in Queensland and New South Wales where above-average rainfall has supported pasture growth and water availability.

As the largest cattle-producing state, Queensland has seen a significant rebound in herd numbers. The southern and central regions, in particular, have enjoyed good pasture conditions, allowing for restocking at a pace faster than initially anticipated. According to the latest data from Meat and Livestock Australia (MLA), Queensland's cattle herd is expected to increase by around four percent by the end of 2024, following five percent decline in 2023.

NSW has also seen positive developments, especially in the northern and western regions, where rainfall has been consistent. However, the coastal areas have faced some challenges due to flooding earlier in the year, which temporarily disrupted cattle movements and sales. Despite this, NSW is on track for positive herd growth.

Conditions in other states have been mixed. Victoria's western and eastern regions have faced drier conditions, leading to a slower pace of herd rebuilding, while South Australia, while generally stable, has seen some pockets of drought stress in the northern areas.

In Western Australia, the situation remains challenging. The state has experienced below-average rainfall in many major cattle regions, leading to increased reliance on supplementary feeding and water. This has slowed herd rebuilding efforts, with the overall cattle population expected to remain flat through 2024.

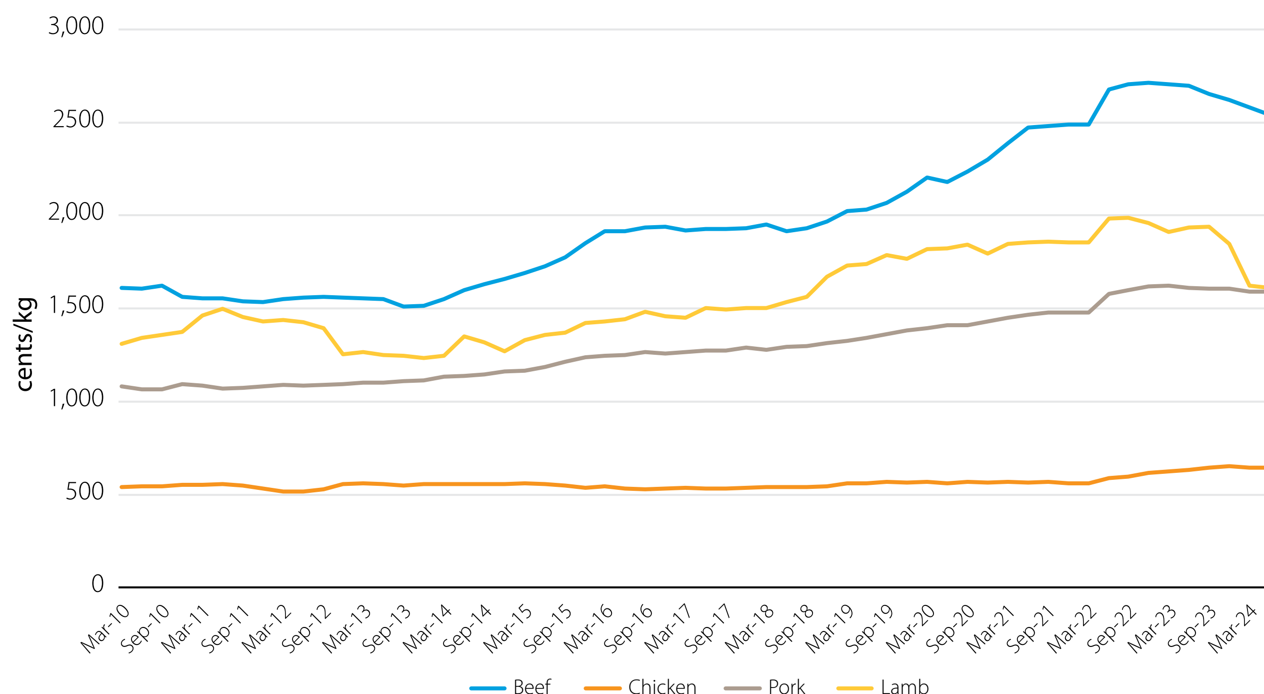
While cattle farmers have generally benefited from the current conditions, **meat processors** continue to grapple with significant challenges. Labour shortages remains a pressing issue, exacerbated by the challenge of finding accommodation for workers in regional towns. Many processing plants are operating below capacity, leading to bottlenecks in the supply chain. Additionally, the rising cost of inputs, including energy and transportation, has squeezed processor margins.

These challenges can have broader implications for cattle producers. Delays in processing can lead to backlogs in cattle sales, which in turn can put downward pressure on prices. Moreover, any significant increase in processing costs could potentially be reflected in retail prices, increasing the risk of straining domestic consumer budgets and potentially leading to a reduction in consumption of some of the more premium cuts of beef.

According to MLA, **retail beef prices** in Australia have seen a marginal decline in 2024, down from their highs of the previous two years. Despite this, beef prices remain relatively high compared to other meats, driven by higher cattle prices, labour and processing costs, and inflationary pressures across the economy.

This price increase has led to changes in consumer behaviour. There has been a noticeable shift towards cheaper cuts – or to mince and sausages - and to alternative animal proteins, such as chicken and pork, as consumers look to stretch their budgets. Despite this, demand for premium beef cuts remains strong, particularly in higher-income households, where the price sensitivity is lower.

AUSTRALIAN RETAIL PRICES OF BEEF, LAMB, CHICKEN AND PORK 2010 - 2024



Source: MLA, ANZ

Exports remain the cornerstone of the Australian beef industry, and as of August 2024, the sector has shown resilience in the face of global challenges. **Total beef exports** are projected to reach approximately 1.1 million tonnes for the year, a slight increase from 1.08 million tonnes in 2023. This growth is being driven by strong demand in the largest markets, although the competitive landscape remains challenging.

China continues to be the largest market for Australian beef, with exports expected to reach around 290,000 tonnes in 2024, up from 280,000 tonnes in 2023. However, ongoing trade tensions and increased competition from Brazil, which offers lower-cost beef, have put pressure on Australian exporters. Despite these challenges, the demand for premium Australian beef cuts remains robust, particularly in the high-end restaurant sector.

The US market has been a significant bright spot for Australian beef exports in 2024. Australian beef exports to the US are expected to total around 260,000 tonnes, an increase from 240,000 tonnes in 2023. The ongoing drought in the US has reduced the domestic cattle herd, leading to increased reliance on imported beef, particularly lean grinding beef for hamburgers. However, this dynamic may shift in 2025 as the US herd begins to rebuild.

Japan and South Korea remain stable markets for Australian beef, with exports expected to total 210,000 tonnes and 170,000 tonnes respectively in 2024. Both markets have seen steady demand for high quality beef, supported by economic recovery and consumer preference for safe, premium products. However, competition from the US and New Zealand continues to pose a challenge.

The **global beef trade** is influenced by a complex array of factors, with significant implications for Australian exports.

The US cattle herd has been in decline, with the latest USDA reports indicating a herd size of approximately 89.5 million head as of mid-2024, down from 93 million in 2022. This reduction has led to increased US beef imports, with total imports expected to reach 1.5 million tonnes in 2024, up from 1.4 million tonnes in 2023. Australian beef accounts for a significant portion of these imports, particularly lean beef used in processed products.

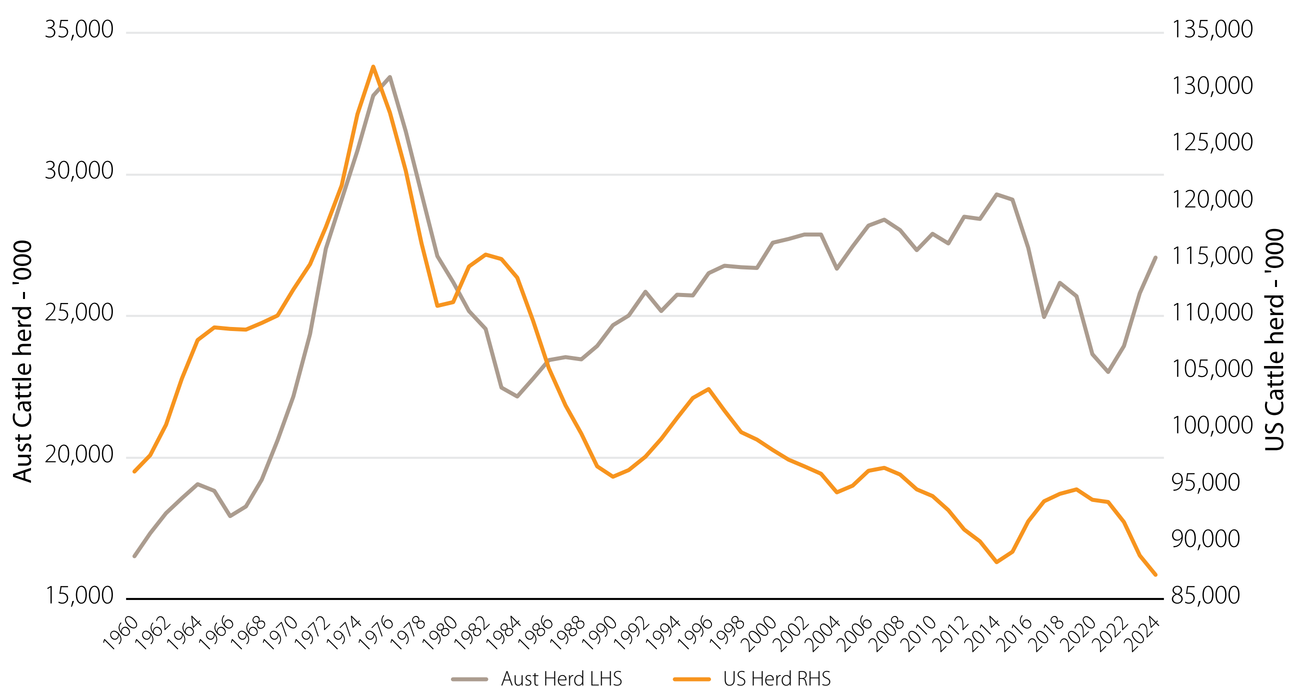
Despite this, Brazil remains a strong competitor, with its exports to the US also on the rise. Brazilian beef is often cheaper due to lower production costs, which can undercut Australian products, particularly in price-sensitive segments of the market. Moreover, trade and regulatory issues, such as import quotas and sanitary standards, continue to play a critical role in shaping market access. The US has been stringent in its enforcement of these standards, particularly in light of recent health concerns in Brazilian meat processing plants.

The value of the Australian dollar (AUD) has also impacted export competitiveness. In 2024, the AUD has remained relatively weak against the US dollar, averaging around USD 0.67. This has provided a boost to Australian exports, making them more competitive in global markets. However, any appreciation of the AUD could dampen this advantage, particularly if coupled with tightening trade policies or increased competition from other beef-exporting nations.

As the Australian cattle and beef industry navigates the remainder of 2024 and looks ahead to 2025, the outlook is shaped by a mix of positive and challenging factors. Favourable seasonal conditions and strong export demand have provided a solid foundation for the industry. However, challenges in processing, rising retail prices, and global competition, particularly from Brazil, present significant hurdles.

The coming months will be critical in determining the trajectory of the industry. Producers, processors, and exporters will need to stay agile, balancing domestic supply with export opportunities while keeping a close eye on global market dynamics and regulatory developments. The ability to adapt to these challenges will be vital to maintaining the industry's momentum and ensuring its long-term success.

AUSTRALIAN VS US CATTLE HERD



Source: USDA, ANZ

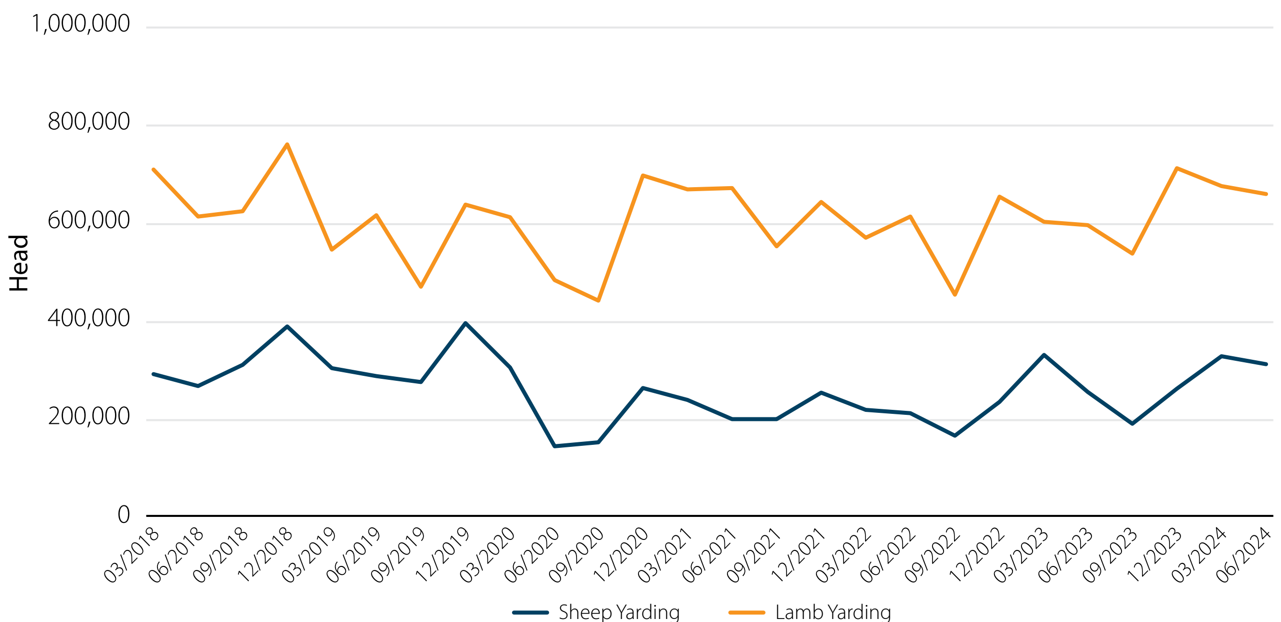
SHEEP INSIGHTS

OVERVIEW

- All indicators have seen a rise as expected with low numbers heading into spring
- Continuing dry conditions on the West Coast, coupled with the trade ban announcement has continued to push stock east
- Production has risen to 10 year record highs. This may come back through spring but expected to remain above 3 year records
- US imports driven by lower imported lamb prices are abosorbing much of the increase in production.

A dry winter has seen producers offloading their older stock and in lamb ewes where feed has been scarce in an effort to hold their young stock through the winter and into the spring. Where winter saw an increase in yardings and slaughter numbers, it is expected that spring will see a drop in these numbers as producers hold their young stock, waiting for that early spring break before selling.

LAMB AND SHEEP YARDINGS

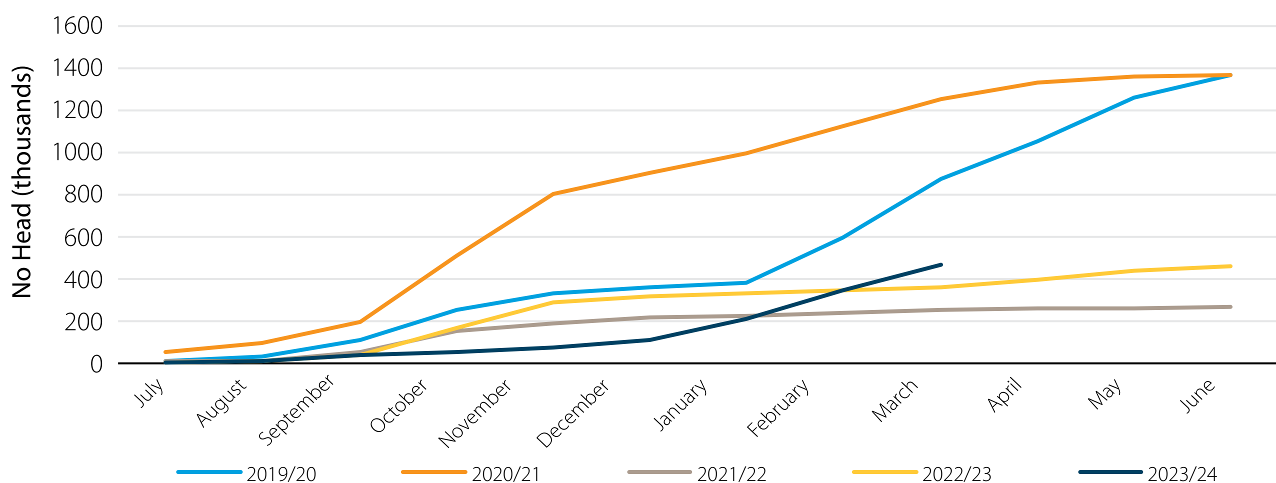


Source: MLA, ANZ

With yardings dropping, all indicators have seen a rise as expected with low numbers heading into spring. Producers will be looking for prices to hold steady as we head into spring with the cost of feeding older stock outweighing prices currently. Continuing dry conditions on the west coast, coupled with the live trade ban announcement have continued to push more sheep and lambs east with producers looking for any market to offload stock. East coast indicators continue to hold a premium over WA with around 100c/kg difference making the WA lambs more attractive to processors and restockers.

Industry data demonstrates that live export numbers from WA have shown a steady decline from around 1 million head down to 0.67 million, noting that 2021 and 2022 years were both around the 0.5 million head level. ANZ's own data demonstrates that where mixed farming operations in the west had historically carried a 60/40 split of cropping to sheep operations, these producers have already begun the process over the last couple of years, of changing their operations to closer to an 80/20 split with focus being more on grain production. While Eastern states transfers continue increasing into spring, they are currently following a trend similar to 2021 and 2019.

SHEEP TRANSFERS WA TO EASTERN STATES



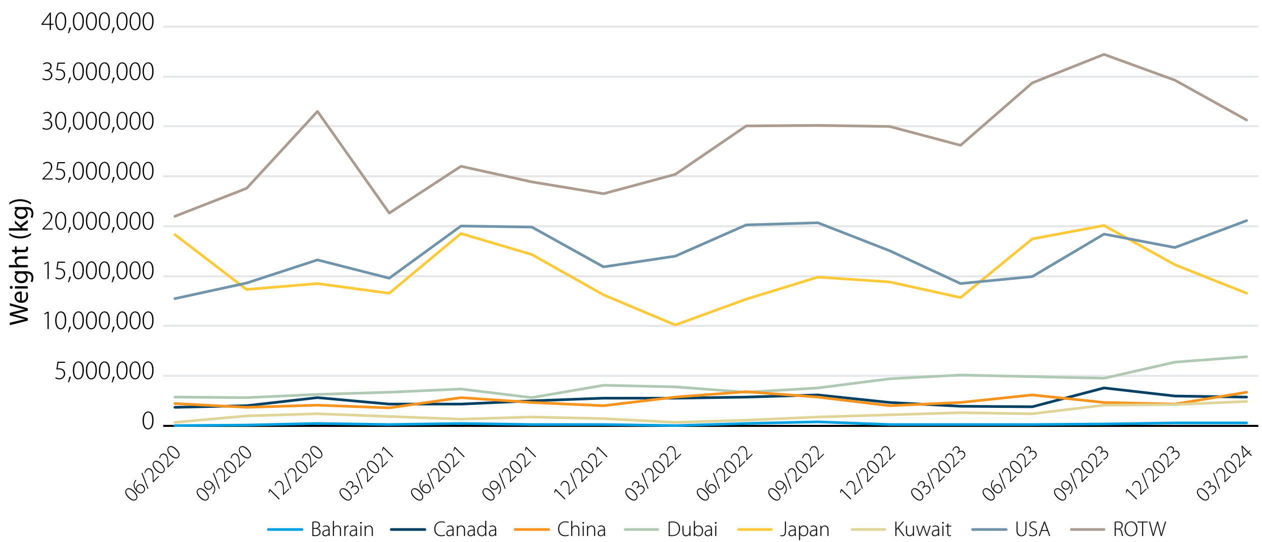
Source: ANZ, MLA

Production over the winter months has risen to record high levels not seen in over 10 years with processors absorbing the offloading of older stock as the dry winter restricted feed availability. Spring will see this come back with slaughter numbers falling however still sitting above 3 year records with total numbers still up more than 6% year to date. Anecdotally, producers are seeing more availability for bookings with processors and grid prices holding steady. Processors have been less active at saleyards with some NSW processors noticeably absent at southern markets, leaving Victorian processors dominating the market, however available stock on offer was lighter and of lower quality.

With the Live Export ban impacts starting to flow through, processed international markets have been the primary offtake for the increase in production through Autumn and into winter and continue to increase in importance for primary market. Demand out of China has drifted down 23% year on year (due to economic uncertainty for Chinese consumers with around two thirds of lamb consumed outside the home) with USA and Dubai picking up the surplus with the US lifting imports 31% year on year, covering the fall in China imports. Imported lamb prices in the US are down on average 3.4% year on year, increasing demand for Aussie lamb meat with prime cuts driving the price decreases on last year. US and China historically fluctuate and absorb the ups and downs in the economy.

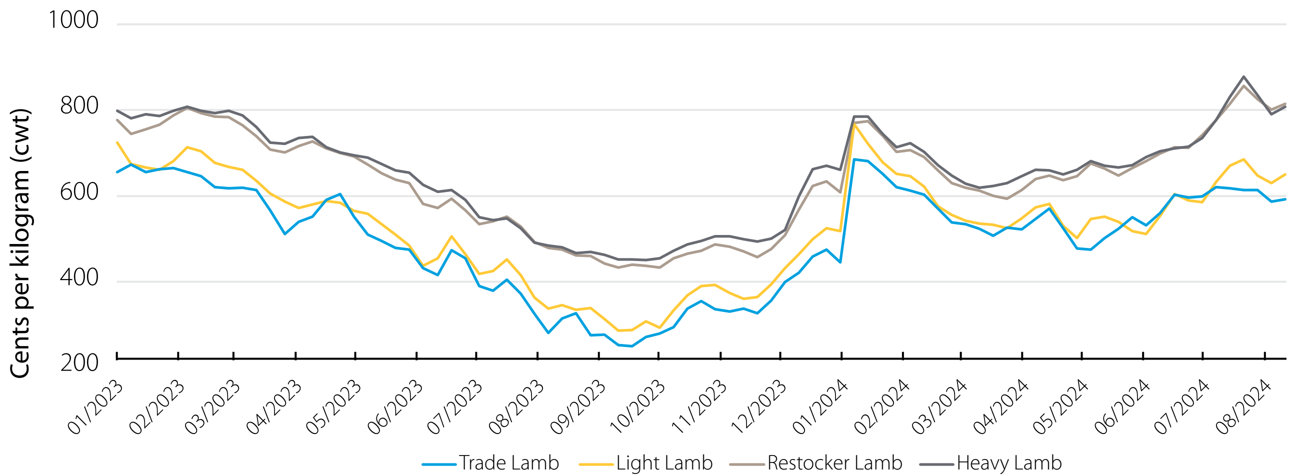
With all eyes on what the season will do as we head into spring, whether it will be a late, dry start, an early but short spring, producers will look to hold off their light stock with prices holding steady and outlook optimistic for the coming season, with continuing strong international markets to take the increase in production and options for WA producers to fill the hole the live trade ban has created.

AUSTRALIAN EXPORT DESTINATIONS



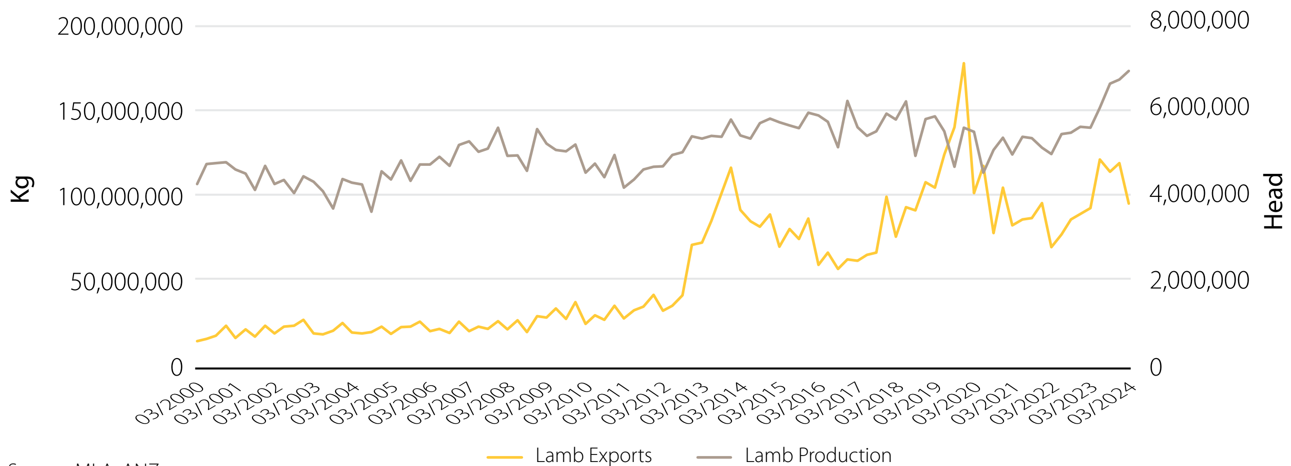
Source: MLA, ANZ

LAMB INDICATOR PRICES 2023-2024



Source: MLA, ANZ

LAMB EXPORTS VS PRODUCTION



Source: MLA, ANZ

WOOL INSIGHTS

OVERVIEW

- Following the recess, prices have not shown any improvement
- Prices leading into the winter recess were flat to down on closing prices last season
- Currency movements continue to be a major driver of week to week fluctuations in price
- Sluggish global demand for woollen apparel continues
- Upside for prices is likely, and could be significant, however timing is highly uncertain.

With just four weeks of trading at auction prior to a late winter recess, wool markets have unfortunately done little to demonstrate that there might be any significant change on the horizon for prices in the short term.

The Eastern Market Indicator closed the last week of trading at 1,124 cents and the Western Market Indicator 1,254 cents. There were some positive price movements for finer microns in the week before the market closed, with buyers looking to secure supply before the break. Currency movements in the short trading period this selling season have masked what were otherwise flat or slight decreases in value in US dollar terms.

It continues to be the sluggish demand for new woollen garments and apparel products generally, that remains the number one factor impacting wool prices. According to data from China customs, 2023 apparel exports for the nation were down 7.8 percent year on year, with significant decreases experienced to high value markets such as the European Union (down 19.5 percent YoY), the United States (-12 percent YoY) and Japan (-13 percent YoY). These are large and important end use markets for Australian wool and this significant reduction in activity has had a prolonged negative impact on local wool prices.

The question of when demand may start to increase and by how much, comes with a lot uncertainty. Survey results from the latest available International Textile Manufacturers Federation undertaken in May this year, indicate business conditions at that time were deemed stagnant by global executives. On the positive however, expectations for improved order intake over the second half of 2024 are trending upwards. Outside of weak order demand, geopolitics, high energy process and labour constraints were noted as continuing concerns for the global textile industry.

With prices steady, awaiting potential upside, producers are likely to continue to focus on cost and margin control, to ride out this period of low returns.

China's Apparel Exports by Destination in 2023

Destination	Year on Year Growth (%)
United States	-12
European Union	-19.5
Japan	-13.2
ASEAN	-4.2
Africa	15
Canada	-20.5
United Kingdom	-15.7
Oceania	-5.7

Source: China Textile Leader, China customs.

DAIRY INSIGHTS

OVERVIEW

- The announcement of opening prices at the start of winter have left many in the dairy industry questioning whether prices are high enough to sustain producers;
- Dairy processors are looking to reach a balance between encouraging a growth in the national milk supply and ensuring their own competitiveness on the export market;
- Global dairy trade auction results are slower to improve than originally thought, quelling hopes that an improvement in the global market may lead to domestic step ups;
- Global consumer demand remains subdued, particularly in China, on the back of concerns over economic growth, inflation and wage growth;
- The influx of cheaper dairy imports on Australian shelves eased in the second quarter of 2023, however may increase again as the global butter price decreases.

Early June saw the release of processor's opening prices for the Australian dairy industry – with the expected fall in prices to follow the international market leading head long into increasing costs and falling margins for dairy farmers.

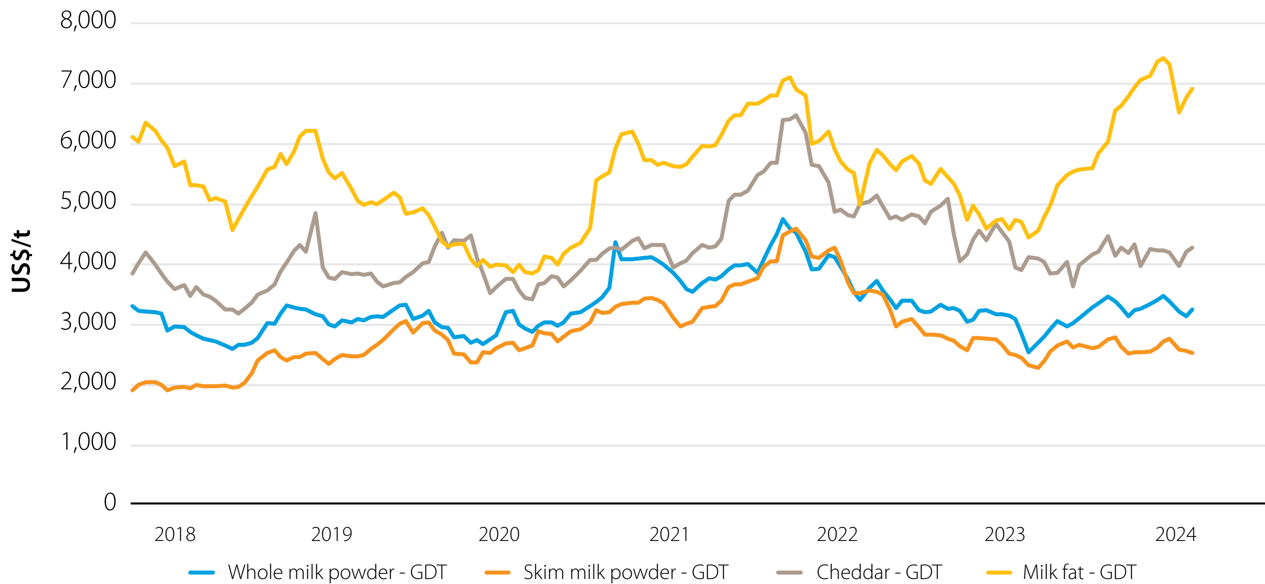
AS A RESULT, THE INTERPLAY BETWEEN PROCESSORS AND FARMERS' FINANCIAL VIABILITY CONTINUES IN THE MIDST OF A STAGNANT INTERNATIONAL DAIRY MARKET.

However as Australian milk production recovers from the lows of the previous year, and the domestic market becomes more and more exposed to international competition on the home front, there are questions around the perspective that this year's opening prices are a low, and coming seasons will see farmgate prices bounce higher.

With the announcement of opening prices in mid-June, dairy farmers saw farmgate prices for the upcoming season fall in the range $7.80kgMS to $8.50kgMS. Across the board processors offered lower opening prices with Fonterra Australia opening with a price of $8kgMS, down from $9.20kgMS in 2023/24 while Saputo's opening price is in the range $8.00—$8.15kgMS. Similarly, Bega Group's opening farmgate milk price is in the range of $7.90-$8.20kgMS. Beston's opening price was $7.80kgMS—$8.10kgMS.

For many producers facing stubbornly high costs, difficulties in season in some areas and an increasingly price sensitive domestic market, it raises the question of where is the price point which helps grow the domestic milk supply, but also keeps Australian dairy products competitive on an international stage. With dairy farmer representative groups estimating that current opening prices will only cover the cost of production, much of the year's success will lie with the potential for step-ups later in the season on the back of a hoped-for improvement in the international market.

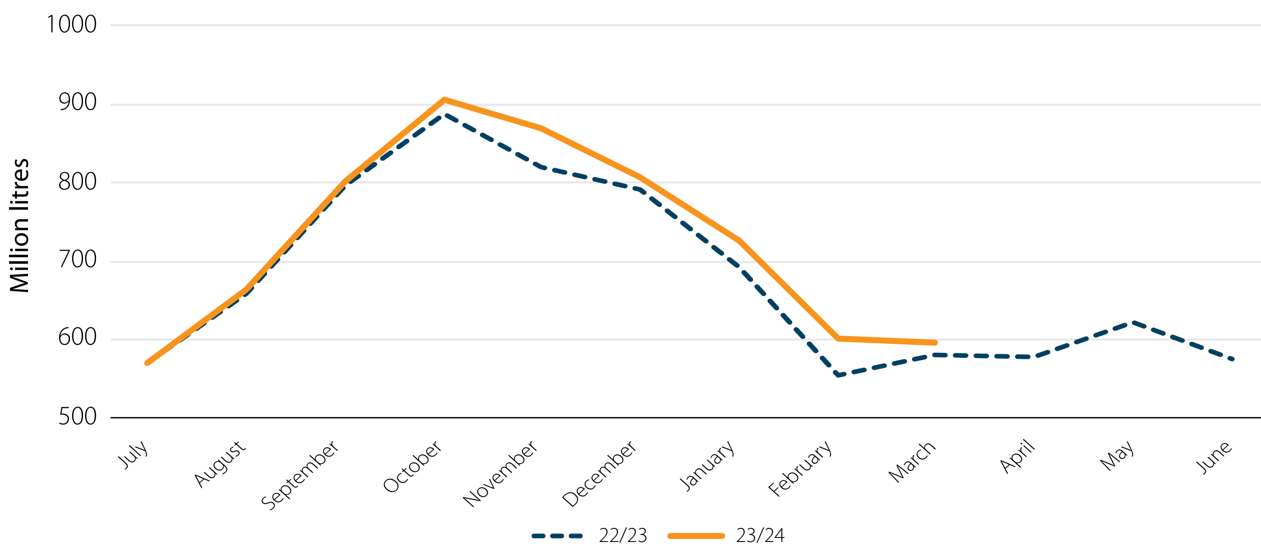
GLOBAL DAIRY TRADE PRICES



Source: ANZ, ABARES, GDT

The latest Global Dairy Trade auction results have failed to see any meaningful recovery in global dairy prices, particularly following the start to the financial year which saw an almost 7 percent decline in the indicator price as the butter price plunged. In the more recent auction events, prices have stayed basically stagnant, however there has been some improvement in the whole milk powder price which does provide some good signs for an imminent recovery. The stagnant international market is primarily linked to subdued consumer demand, particularly in China, which is forecast to see Chinese imports drop 8 percent in the year. Also adding to China's reduction in demand for imports is their increasing focus on self-sufficiency and increasing domestic production which has gone up 7.8 percent in just two years, significantly outpacing their growth in consumption. According to the USDA, global imports are continuing their decline, and in 2024 are anticipated to be below the levels seen 5 years ago.

AUSTRALIAN MILK PRODUCTION



Source: Dairy Australia, ANZ

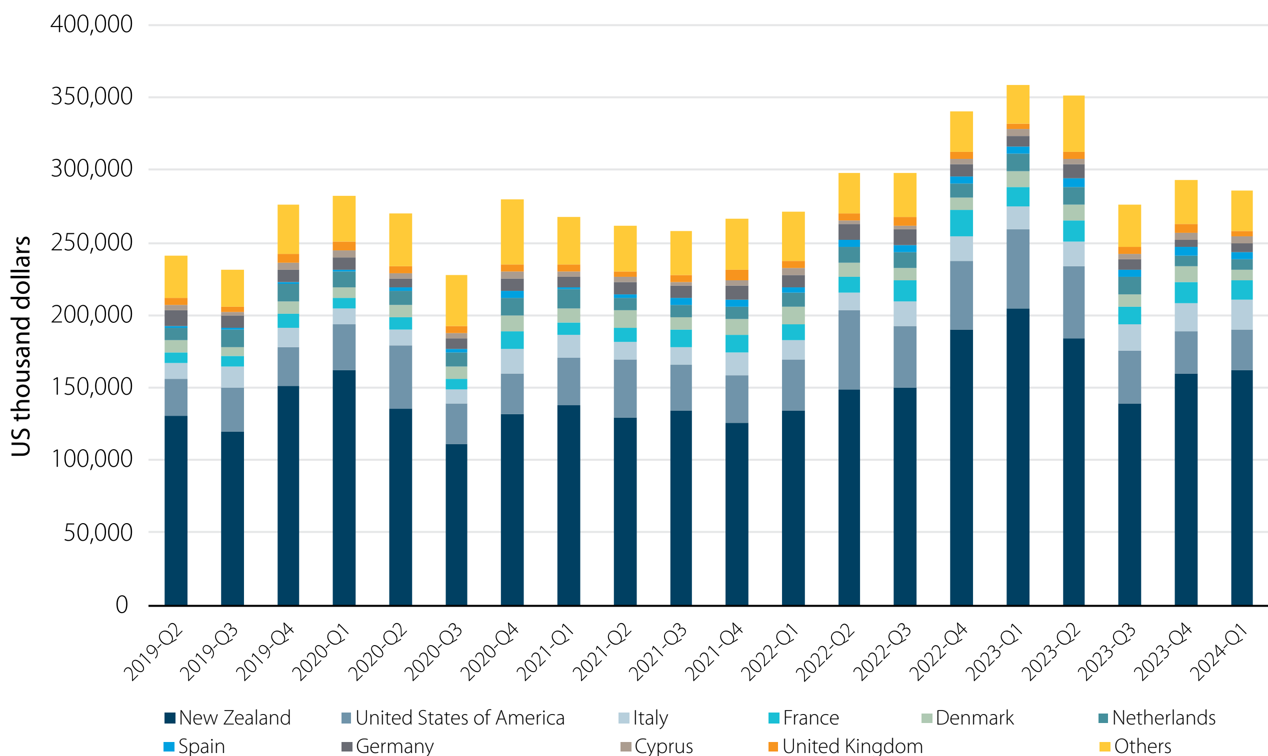
Globally production will increase as the southern hemisphere comes into spring, while production in the northern hemisphere started the year strongly. Despite this, the USDA is forecasting that global production will only grow by 0.6 percent in 2024 – significantly lower than the 10-year average of 2 percent.

On the domestic front, the continued uncertainty around the future of Fonterra's Australian assets combined with the drop in farmgate prices have left many producers uncertain around the future viability of the industry. On the up-side, production for the year is up from the lows of 2023 and latest figures put it 3.5 percent higher than this time last year, with strongest growth coming out of Victoria. Costs have also started to moderate somewhat, particularly as rain have arrived across the winter in many dairying areas which had a poor autumn. While feed costs remain stubbornly high for many, the looming arrival of spring has most holding out for strong pasture growth, while the drop in fertiliser prices earlier in the year have remained stable so far.

Domestic consumption remains subdued, as food inflation and stubbornly high growth in the cost of living means consumers are searching for lower cost products and are increasingly switching to cheaper imports. Having said that, the second half of 2023 saw a rather marked return to more normal levels of dairy imports which coincided with a very marked increase in the price of butter at the Global Dairy Trade, perhaps indicating that an increase in butter fat prices would divert imports away from Australia to Europe where prices are higher.

AS A RESULT, IT MIGHT BE ARGUED THAT THE CURRENT DECLINE IN GLOBAL BUTTER PRICES MAY ALSO RESULT IN AN INCREASE IN IMPORTS ON AUSTRALIAN SHELVES.

AUSTRALIAN DAIRY IMPORTS BY COUNTRY, QUARTERLY



Source: ANZ, TradeMap

COTTON INSIGHTS

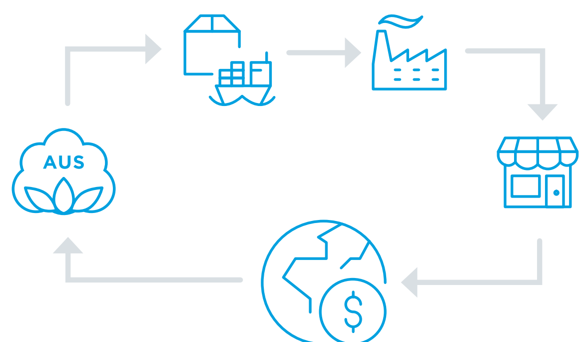
OVERVIEW

- The Australian cotton industry remains cautiously optimistic, with production forecasts showing a slight decline but overall performance staying above historical averages
- The cotton production area in Australia is projected to decrease slightly to 445,000 hectares, though also slightly above average
- Above-average rainfall in early 2024 has improved soil moisture and yield prospects for Australian cotton, though some planting delays in Queensland could affect final harvest outcomes
- Global economic uncertainties and reduced consumer spending on cotton products are expected to put downward pressure on prices and increase inventory levels
- Cotton prices have been volatile in 2024, reaching a 17-month high early in the year due to supply concerns, but falling to a four-year low by late July due to high supply and reduced demand
- Global cotton production is forecast to grow by five percent for the 2024/25 season, with increased output in the US offsetting declines in other regions like India and stable production in China.

Imagine a shopper in Beijing browsing Wangfujing Street for new curtains, or a consumer in New York exploring Fifth Avenue for summer clothing. While they're thousands of kilometres away, their choices indirectly impact cotton producers in Australia. As global consumer behaviour fluctuates and evolves – whether through changes in trends or economic conditions - their decisions ripple through the cotton supply chain, including to Australia, affecting everything from planting decisions to export strategies. Importantly, the Australian cotton industry is long accustomed to these fluctuations in global cotton demand and has always approached and ridden these cycles in a positive way.

With the Australian cotton industry in the midst of preparing to plant the 2024/25 crop, in addition to Australian rainfall conditions, much of the local industry's attention remains on ongoing developments in the global cotton landscape.

THIS FOCUS IS PARTICULARLY ON THE FORTUNES OF COTTON CROPS IN OTHER MAJOR PRODUCERS AND EXPORTERS, AS WELL AS GEOPOLITICAL AND ECONOMIC DEVELOPMENTS THAT COULD SIGNIFICANTLY IMPACT TRADE AND CONSUMER BEHAVIOUR GLOBALLY.



The current uncertain economic outlook across many countries has inevitably affected demand for cotton products. As has been seen in the past, a dampening of consumer activity is expected to work its way back up the supply chain from store shelves, potentially putting downward pressure on cotton prices. Rising interest rates and tighter economic conditions are causing consumers to purchase fewer cotton products – not just clothing, but other products, including furnishings, bedroom and bathroom accessories. A slowing down of global consumer purchasing can lead to oversupply in the supply chain, including larger inventories of unsold cotton products, more cotton bales in storage with processors, and reduced demand from major buyers looking ahead to the next season.

The impact on the supply chain is felt most through a consumer slowdown in the larger and more developed major economies. In China, slower economic growth and the ongoing impacts of Covid polices have led to cautious consumer spending, a slowdown which impacted domestic consumption of cotton products. In the United States, high inflation and increased interest rates have squeezed household budgets, reducing expenditure on non-essential items such as new clothing and home textiles, which has resulted in a five percent decline in demand for cotton products. Similarly, economic uncertainties and high energy costs in Europe have led to reductions in consumer spending, further impacting the demand for cotton products.

Almost two thirds of the way through 2024, global cotton prices continue to be volatile. In February, prices reached a seventeen-month high of around 100 USc/lb, based on concerns about a drought in US cotton producing regions, as well as intensified purchasing by China to replenish its strategic reserves. In the months since then, up to late July 2024, cotton prices sank to a four-year low of around 60 USc/lb, pushed down by a combination of ample global supply, as well as reduced demand and increased inventories. This volatility reflects broader economic uncertainties and shifts in global consumer behaviour.

A strong global production forecast has contributed to the lower global cotton price. According to the United States Department of Agriculture (USDA), the global cotton crop for 2024/25 will grow 5 percent to just over 120 million US bales (approximately 26.2 million tonnes), reflecting a balance between increased production in the US and decreases in other regions like India. For Australia, Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) projects 2024/25 cotton acreage to fall slightly to 445,000 hectares, the lowest in five years, In terms of production, ABARES is currently forecasting a crop of 0.97 million tonnes. While this would represent a fall of just over ten percent on the previous year, the ABARES forecast essentially represents a return to an average annual production figure, based on the growth of Australia's cotton production since 1986/87.

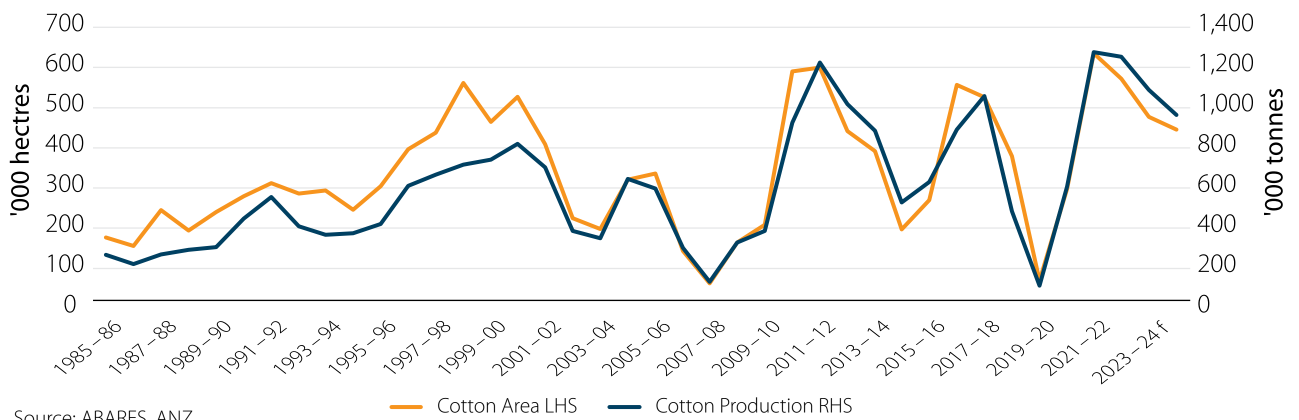
In the United States, , the world's largest cotton exporter, production is forecast to increase by three percent, largely as a result of improved weather conditions in Texas, bringing the total to around 3.7 million tonnes. In India, the world's second largest producer, production is expected to fall by five percent, to around 5.4 million tonnes, due to challenges from pest infestations and irregular rainfall. In contrast, in China, the world's biggest cotton producer, production is forecast to remain stable at around six million tonnes, assisted by government policies supporting domestic cotton farming.

The first half of 2024 saw above-average rainfall in major Australian cotton-growing regions across New South Wales and Queensland, which positively impacted soil moisture levels and improved yield prospects. In contrast, some areas, particularly in central Queensland, experienced planting delays due to excessive rain, which could affect the final harvest. Despite these delays, the overall outlook for the 2024/25 season remains positive.

While Australia's cotton exports as a proportion of production fluctuates, it averages at over 90 percent, maintaining Australia's position as one of the world's largest cotton exporters. The primary markets for Australian cotton include China, Vietnam, and Bangladesh. In China, the slowdown in the economy has led to a four percent reduction in imports of Australian cotton. Additionally, relatively higher global cotton prices have impacted Australian cotton's competitiveness compared to synthetic fibres such as polyester. The relative strength of the Australian dollar in comparison to the currency of export competitors has further complicated export dynamics by making Australian cotton more expensive on the global market.

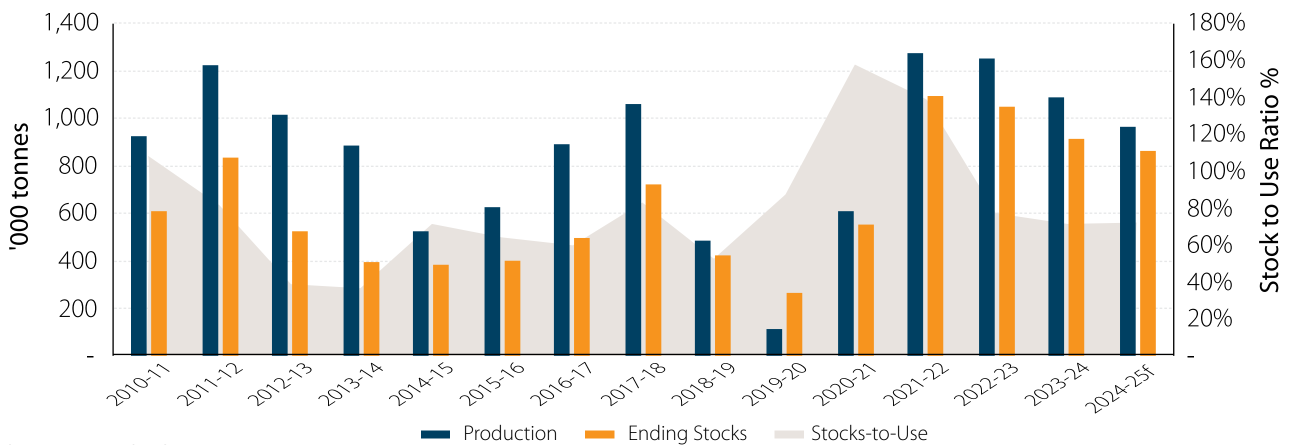
The current global economic conditions are impacting various fibres differently. Polyester, a key competitor to cotton, is influenced by oil prices, which have been volatile due to geopolitical tensions. Currently, polyester remains cheaper than cotton, but rising oil prices could narrow this gap. Wool, as a premium fibre, has seen reduced demand due to high prices and economic uncertainties, further impacted by shifting consumer preferences towards cheaper alternatives. Additionally, fibres such as rayon and lyocell are gaining market share, adding competitive pressure on cotton.

AUSTRALIAN COTTON AREA VS PRODUCTION



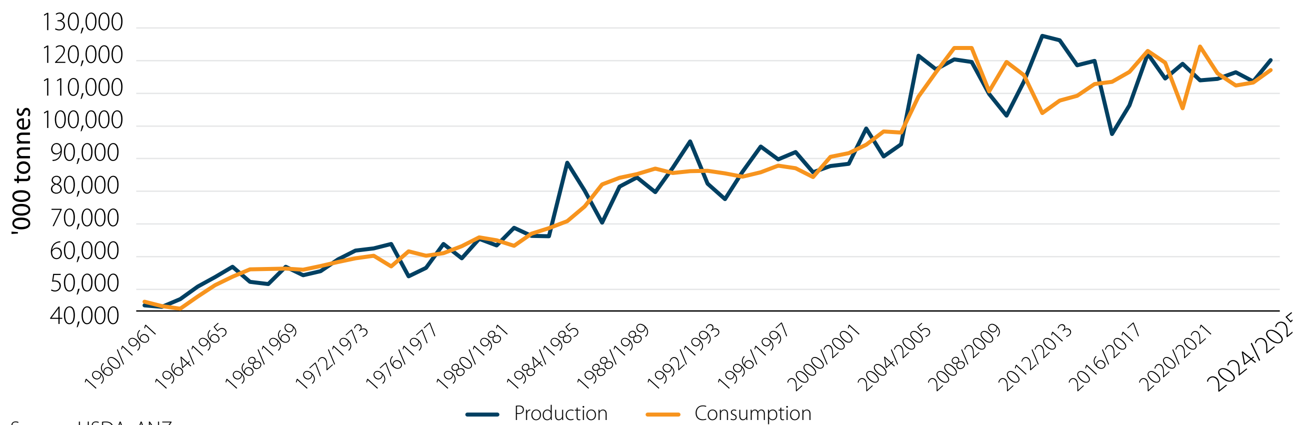
Source: ABARES, ANZ

AUST COTTON PRODUCTION AND STOCK TO USE



Source: ABARES, USDA, ANZ

GLOBAL COTTON PRODUCTION VS CONSUMPTION



Source: USDA, ANZ

SUGAR INSIGHTS

OVERVIEW

- The global sugar price has come off its historic highs from late last year
- A bumper harvest in Brazil and a return to season for Thailand has increased supply significantly
- Despite the decline, prices are expected to stay above the long-term average
- China continues to run down it's sugar stocks, while India's export ban are also influencing the market
- So far, the crushing season is seeing a good improvement on last year's figures.

The global sugar price continues to moderate following a number of years of very strong prices. With sugar production up strongly off the back of a bumper harvest in Brazil and supported by India's export ban. The counter stories, supporting the case for higher prices into the year are that consumption growth is almost as strong as production growth, and global stocks are forecast to fall to a 13-year low.

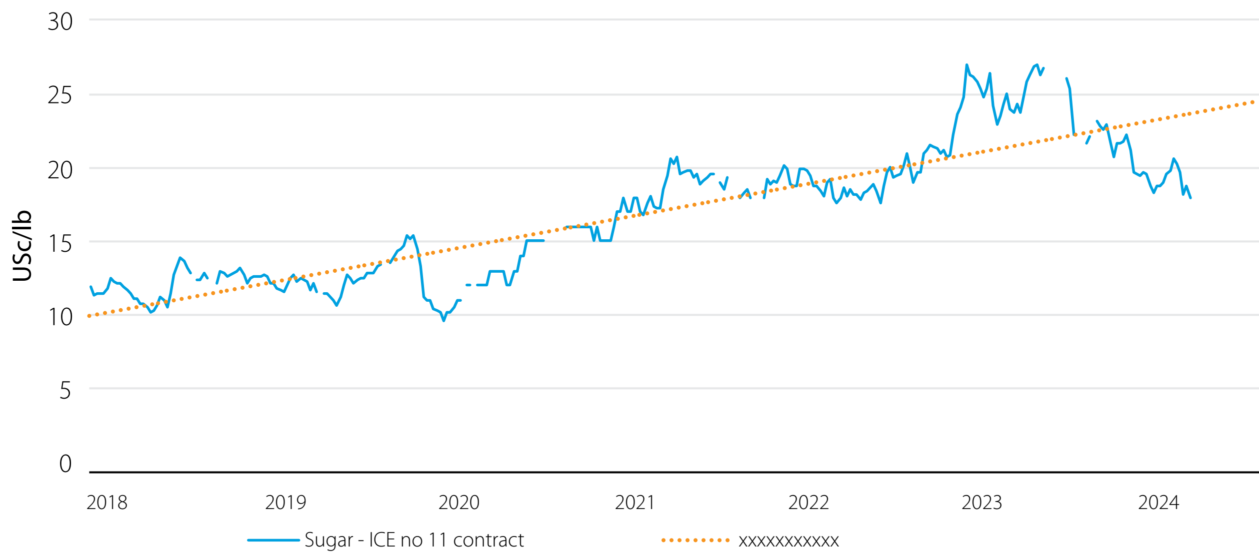
The old adage of 'what goes up, must come down - at least slightly' seems to be at play in the global sugar market as better weather conditions and increasing global production have brought global prices down from their 11-year high. While prices have declined by around one third since their peaks in late 2023, they have fallen to levels that were relatively normal and stable prices prior to the sugar shortage of 2023.

Across the globe, sugar production is set to grow around 1.4 percent compared with growth in global consumption sitting at under 1 percent. Production growth is being pushed by a solid season in Brazil in both 2023/24 and 25, which has led to forecasts of a continual decline in the global sugar price. Production in Thailand continues to rebound from its slump due to a return to season and stronger yields. Despite this, sugar prices are anticipated to stay above the long-term average as a result of higher than anticipated consumption, supported in part by ethanol demand.

So – with global production up, more than consumption shouldn't we be seeing an increase in global stocks, and if not, why not? In short – China. China has seen many consecutive years of decline in their sugar stocks, which has been built up to very significant levels in 2015/16 which are now projected to fall to almost non-existent. Indeed, Chinese ending stocks of sugar have been forecast by the USDA to fall to just 271,000 MT down from heights of 10,390,000 MT. Thailand's sugar stocks are also anticipated to fall as falls in production are resulting in the shortfall being made up from stocks.

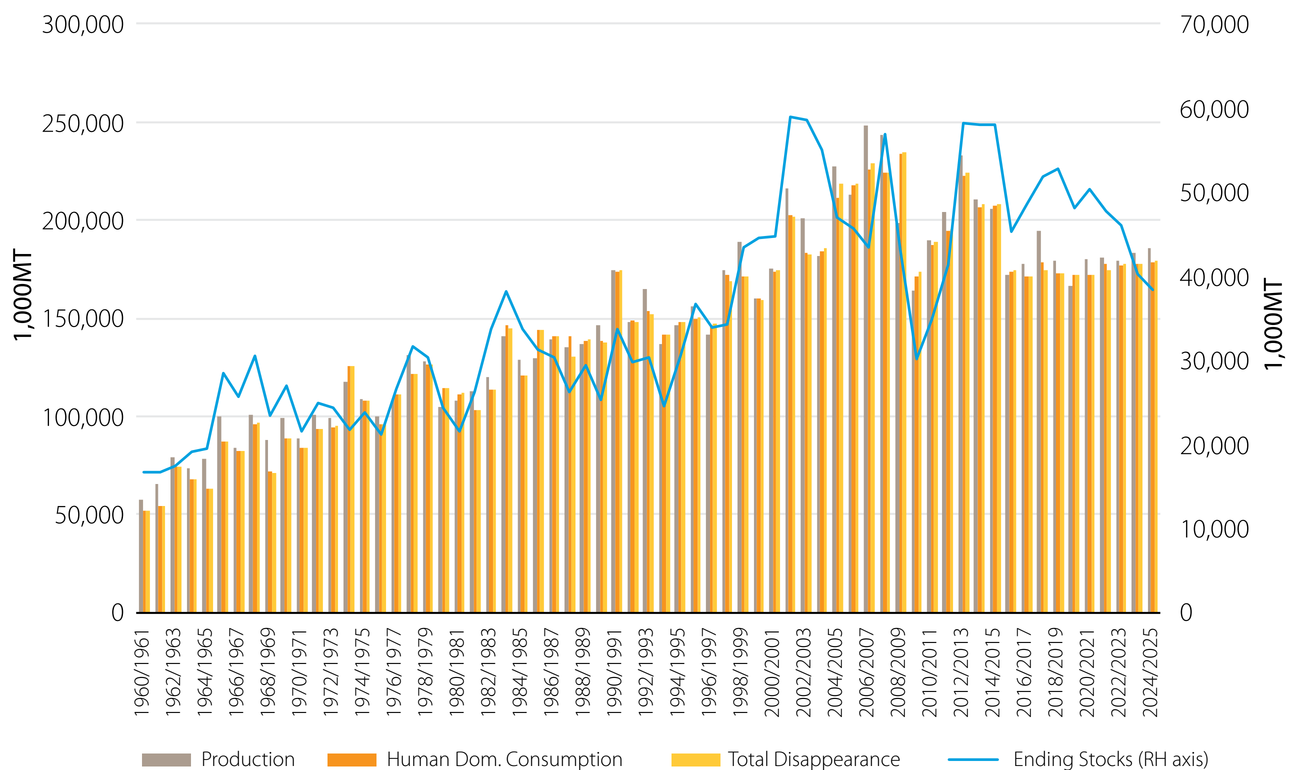
On the flip side, Indian sugar stocks are forecast to increase strongly in response to a sharp decline in exports as a result of the indefinite sugar export ban but is also going hand in hand with continual growth in sugar consumption as India remains by far the largest sugar consumer in the world. Having said that, a poor economic recovery and the Indian sugar tax have put a dampener on consumption growth, which also provides support for the growth in stocks.

GLOBAL SUGAR PRICES



Source: ANZ, ABARES

GLOBAL SUGAR PRODUCTION, CONSUMPTION AND STOCKS



Source: ANZ, USDA PSD

Domestically, production is forecast to increase to 4.2 million tonnes due a strong season, while consumption is forecast to increase slightly. Exports are also forecast up with the higher available supplies.

As the annual crush started in May, production estimates have stayed relatively stable at almost 30.8 million tonnes of raw sugar cane. This compares to last year's outcome of 29.8 million tonnes.

AUSTRALIAN
ECONOMIC
INSIGHTS

We expect a modest pickup in economic growth over the coming year, as tax cuts and cost-of-living relief measures lift household income and spending growth. We think the next move in rates will be down with the RBA to start cutting rates in February 2025. It will likely, however, be a shallow easing cycle with just three 25bp cuts.

ECONOMIC ACTIVITY TO PICK UP

RBA to begin easing rates in February 2025

While the RBA is not ruling out a future increase in the cash rate, ANZ Research thinks the next move in rates will be down. We expect the RBA to keep the cash rate on hold at 4.35% until the first 25bp cut in February 2025. We anticipate just three 25bp rate cuts, taking the cash rate to 3.6% by the end of next year.

The decline in inflation has slowed in 2024, with trimmed mean inflation (the Bank's preferred inflation measure) only falling by 0.2ppt to 3.9% y/y over the past two quarters. But other economies, such as the US, have also had a similar experience with inflation progress stalling, before then resuming.

ANZ Research and the RBA expect inflation to slow more sharply in the second half of 2024. As inflation is a lagging indicator, the RBA does not need to wait until the annual rate is back in the 2-3% target band to start cutting. We are forecasting the six-month annualised rate of trimmed mean inflation to fall just within the RBA's 2-3% target band in Q4 this year, opening the door for the RBA to start easing early next year.

Economic activity past its low point

We think GDP growth will pick up gradually in the second half of the year, supported by a mild lift in household spending growth. Household budgets have been under pressure from higher mortgage rates, steep rent increases, higher income tax and persistent inflation. The Stage 3 tax cuts and other cost-of-living relief measures will boost incomes, and this should flow through to an increase in spending. We've already seen a pickup in ANZ-Roy Morgan Consumer Confidence since mid-July, with households feeling more confident about their current financial conditions. We'll be watching to see how much of the extra money in people's pockets is spent and how much is saved.

Ongoing government spending and investment will also support economic activity as we move through the cycle. This is not a new theme – since 2015, public demand has grown at three times the rate of private demand. We are forecasting business investment growth to remain solid, given that capacity use is still above its long-run average, which will also support GDP growth.

Unemployment rate to peak at 4.4%

The labour market continues to slow, with the unemployment rate lifting to 4.2% in July. Average hours worked have fallen below the long-run trend, as some employers reduce the hours worked by their current employees rather than laying them off. Leading indicators such as ANZ-Indeed Job Ads suggest we will see more cooling the labour market. We think the unemployment rate will peak at 4.4% next year, which is very low by historical standards. But there is a risk the labour market deteriorates more sharply than we expect, a risk the RBA has acknowledged.

Higher unemployment and underemployment should flow through into softer wages growth. We think the Wage Price Index will ease to 3.6% y/y by the end of 2024 after peaking at 4.2% y/y late last year. The good news for households is that wages growth should continue to outpace inflation over the next twelve months – in other words, real wages will be rising.

US recession fears overstated

The recent US data flow has been softer, sparking concerns about a possible recession. We think this risk is overstated. Despite the US labour market easing, it remains healthy. The US Federal Reserve is more concerned around progress on inflation rather than the risk of a sharper slowdown in the labour market. We expect the Fed to start the easing cycle with a 25bp rate cut at its September meeting, with a total of 200bp of cuts by Q3 2025. The AUD/USD should benefit from the later start date and lower quantum of easing coming from the RBA relative to the Fed, with the AUD/USD to end 2024 at 0.69.

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