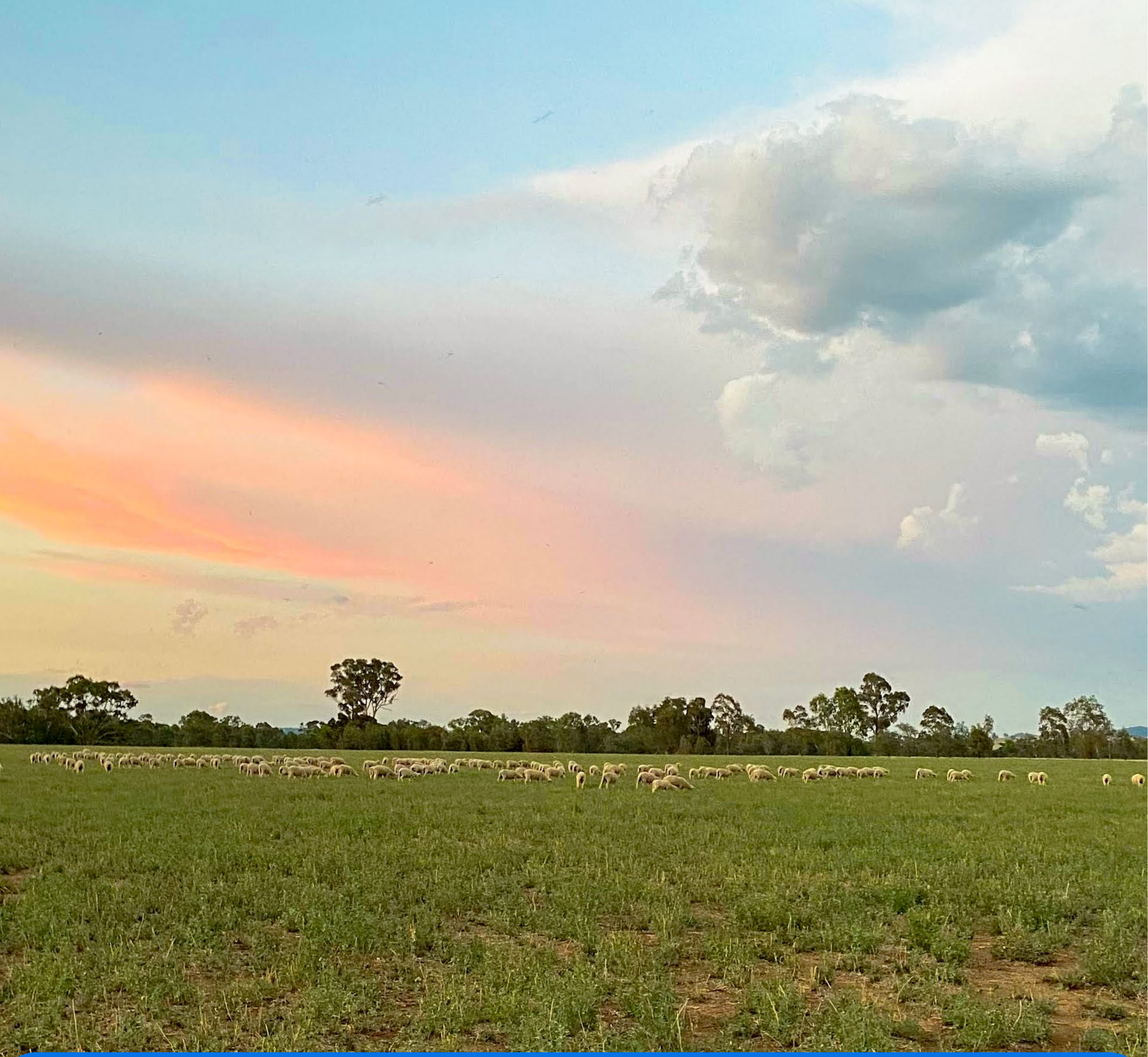


ANZ Agri InFocus Commodity Insights

Autumn 2025

Foreword

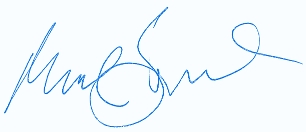
With the hint of an autumn chill entering the air in southern states, Australian farmers may be reflecting on a solid, if not spectacular, summer for most and wondering if the industry has found its new operating rhythm after a number of variable years. Harvest has wrapped up and despite significant challenges in parts of the south, we appear set for another above-average harvest, while livestock producers have seen some up and downs but are generally receiving the good prices.

The past five years in Australian agriculture has been dominated by the super-cycle which provided 3 years of stellar growth – and then by the years following where the market has sought to find its 'normal'. While last year saw livestock prices fall, some may argue further than they should, there is a feeling that this year has seen prices regain some normality.

The recent interest rate decision of the Reserve Bank of Australia will be welcome for many businesses not only for a reduction in interest costs but also some confirmation that inflation is coming under control and the peak of the inflation cycle has been reached. Despite this, the past year's up and downs have reminder all producers that margin is the key – despite which direction prices may be heading – and cost control remains core for most producers.

While domestic markets may have found some normalcy, the international landscape is anything but normal. The new Trump administration's levying of new 25 per cent tariffs on steel and aluminium imports, as well as tariffs against a range of Chinese goods has the global economy nervous of what products or countries may be next. Despite this, trade action solely for economic or protectionist purposes does not appear to be an immediate priority for the Trump administration, which is instead focusing on immigration and domestic social issues.

Geo-political tensions and conflicts remain, as does cost of living and cost of business pressures both domestically and in our key export markets. But we aren't without hope of demand holding on as the inflation and interest rate cycle could potentially be past its worst. A lot to balance, and it really is a balancing act at many levels. But there's no obvious reason why this season would collectively deliver anything worse than 'normal'. So let's be optimistic!



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Trump, tariffs and Australian AGRI

The beginning of the second Trump presidency has been dominated by a series of big ideas, announcements and the emergence of a new type of diplomacy – the use of tariffs aimed not just at protecting domestic production and raising tax revenue, but also as a coercive tool to force policy actions from foreign governments.

New 25 percent tariffs on goods imported to the United States from Mexico and Canada were postponed after concessions on increasing border security to prevent the trafficking of drugs and migrants. The announced 10 percent tariffs on Chinese imports have already been implemented resulting in new levies being imposed by China on US goods including a 15 percent tax on certain types of coal and liquefied natural gas and a 10 percent tariff on crude oil, agricultural machinery, large-displacement cars and pickup trucks. The US will also be expanding its tariffs on steel and aluminium by removing exemptions for some countries – including Australia – and increasing the aluminium levy from 10 to 25%. This is due to be implemented on 12 March.

Contrary to earlier indications that domestic issues would take precedence, recent proposals - most notably the proposed tariffs on all steel imports - signal a shift towards using protectionist trade measures as a central pillar of the administration's economic strategy.

The bulk of trade-related tariffs - referred to as 'reciprocal tariffs' by the White House - are unlikely to materialise before April 1, which is the date by which Trump has asked departments to report on the state of US global trade relationships. Trade officials in the Trump administration such as Howard Lutnick at Commerce and United States Trade Representative Jamison Greer, are likely to pursue more phased and process-oriented tariff implementation after 1 April – but tariffs may last longer.

The sudden announcement of significant tariffs on major American trading partners has left markets nervous about what goods or countries could be next. The Trump administration is unlikely to specifically target Australia with tariffs for a few major reasons: the US has a trade surplus with Australia; and Canberra is a close security partner and provides important non-economic benefits such as military basing. Therefore, any US tariff of Australian agricultural goods would probably stem from a universal tariff, and it is uncertain Trump will pursue this campaign promise. If he does, it will probably come with carve outs, such as on product categories or geographies, which could include Australian agricultural products.

The indirect impact of a volley of US tariffs is likely to be mixed – although it is clear that a prolonged return to protectionist policies will have a chilling effect on the global economy, reduce overall demand and introduce a new inflationary pressure into the global effort to lower prices.

For Australian agricultural products, much depends on the specifics. For instance, the Australian wheat industry have professed concern that a mooted US tariff on Canadian imports could see Canadian wheat flood the global market, pushing global prices lower. On the flip side, agricultural exports may also indirectly benefit from a more hawkish US trade policy. The clearest path would be if tariff targets retaliated against US agricultural exports. This would provide an opportunity for Australian producers to fill the gap, which was observed to a modest extent during Trump's first term.

Global markets are rightfully jumpy following the Trump administration's apparent willingness to jump straight to levying tariffs.

Grains Insights

Overview

- Australia's 2024/25 winter crop production has exceeded 55 million tonnes, up 16 percent on last year, making it the fifth-largest harvest on record
- New South Wales and Western Australia led production growth, with NSW up nearly 70 percent to 19.1 million tonnes and WA increasing by over 30 percent to 19.4 million tonnes
- Victoria and South Australia experienced declines of over 30 percent due to dry conditions and frost, while Queensland more than doubled its output to 3.6 million tonnes, driven by strong chickpea production
- Wheat production rose by 23 percent, making it the third-largest wheat crop on record, while canola declined by almost 8 percent due to shifting planting patterns and global price pressures
- Global grain markets remain volatile, with wheat prices fluctuating due to production concerns in Europe and Russia, and potential trade policy changes impacting oilseed demand.

> With the 2024/25 harvest behind it, the Australian cropping sector is reflecting back on a strong overall harvest, though with very mixed results by State.

According to the most recent ABARES' crop data reports, Australia's winter crop production is set to exceed 55 million tonnes, which would be a 16 percent rise on the previous year, and rank as the fifth biggest harvest on record. Despite the strong overall numbers, the differing outcomes by region have been marked.

In terms of State outcomes, New South Wales (NSW) saw the most substantial increase, with production rising by almost 70 percent to 19.1 million tonnes – the state's third-largest crop on record. In particular, northern parts of NSW benefitted from more favourable conditions, with well-timed rainfall and milder temperatures supporting higher yields. However, southern NSW faced frost damage and drier conditions which dampened yields.

Western Australia (WA) also experienced a strong recovery, increasing over 30 percent to 19.4 million tonnes. The WA grain belt saw improved rainfall patterns compared to the previous season, allowing crops to recover after a challenging year in 2023/24.

While it only produces around seven percent of the nation's harvest, Queensland saw the most dramatic increase, more than doubling its output to 3.6 million tonnes due to expanded planted area and favourable conditions. This surge has been particularly driven by increased chickpea production, spurred by strong export demand.

In contrast, Victoria and South Australia both experienced far more challenging seasons. Victoria's production declined by over 30 percent to 7.3 million tonnes, while South Australia fell even more sharply, by around 36 percent, to 5.6 million tonnes due to drier-than-average conditions and frost events. The dry conditions in these states impacted yield potential, particularly for wheat and canola, leading to overall lower production figures.

In terms of specific crops, the 2024/25 results highlighted a strong result for wheat, while canola figures were well down. National wheat production rose by around 23 percent, largely due to gains in NSW and WA, making it around the third-largest wheat crop on record. Barley grew more modestly, increasing by 8 percent to 12 million tonnes, driven by strong demand for malting barley.

Conversely, canola production declined by almost 8 percent to around 5.5 million tonnes, marking the second consecutive annual decline, a result which reflected shifting planting programs and less favourable growing conditions in traditional canola regions. With high global stock levels and strong Canadian production having placed downward pressure on prices, canola became a less attractive planting option for some farmers.

The standout performer was pulses, with overall production increasing by around 34 percent to 4.7 million tonnes. This is particularly driven by a near-tripling of chickpea output, along with gains in lentils and lupins. Strong demand from India and other export markets contributed to this growth, with favourable pricing encouraging expanded plantings.

At this point of the cropping year, most growers are actively planning their upcoming crop planting programs, with many finalising decisions on crop rotations, input purchases and paddock preparation ahead of sowing, which typically begins around April, though could be brought forward by growers in some regions if they consider that the timing is optimal.

> While some growers will have locked in their plans, others will be waiting for further clarity on seasonal conditions, particularly rainfall outlooks and soil moisture levels.

Several major factors are shaping planting decisions this year. Soil moisture availability is a major consideration, particularly in Victoria and South Australia, where dry conditions in recent months have raised concerns about autumn planting potential. Farmers in New South Wales and Western Australia, where summer rainfall has been more favourable, may have greater flexibility in their crop choices.

Input costs, including fertiliser and fuel, remain high, which could influence crop selection, favouring lower-input options such as barley or pulses over higher-cost crops like canola. Additionally, global grain and oilseed prices, which have been under pressure due to strong international supply, may encourage some growers to adjust their rotations to align with better-margin crops such as wheat, which has seen stronger relative pricing, or chickpeas, which continue to benefit from firm demand in export markets such as India. Some growers may also opt for oats or lentils, given their relatively lower input requirements and solid pricing in recent seasons.

Globally, while wheat prices have remained relatively subdued for some months due to high production from major exporters including the European Union (EU), Russia and Canada, they have started to show some signs of volatility, based on recent forecasts of lower northern hemisphere crops, geopolitical uncertainty and closer examination of global stocks. In particular, the USDA has lowered its supply outlook for

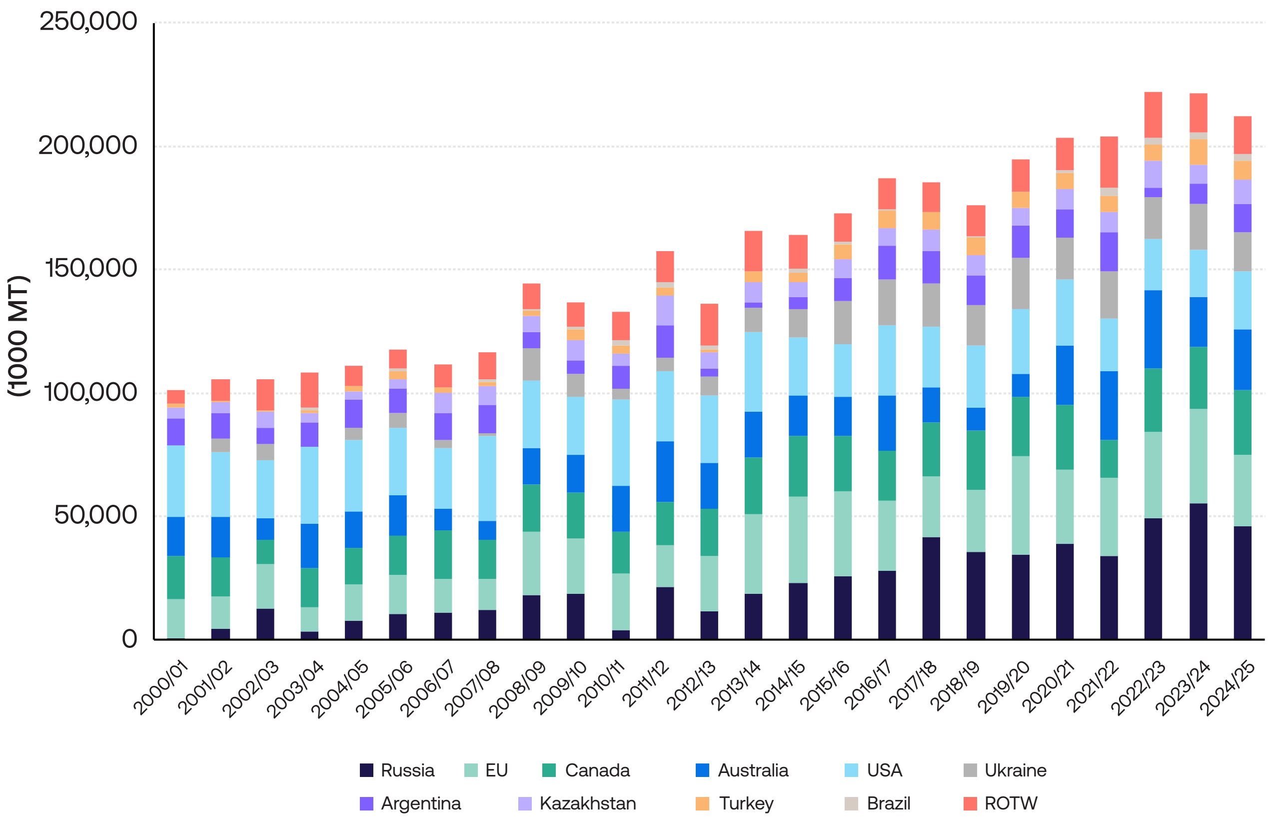
Europe and Russia, based on adverse weather forecasts. In addition, the global wheat stocks to use ratio, when removing China's share of stocks, remains at historically low levels.

Global canola markets are also experiencing uncertainty, with concerns that changing trade policies - including potential new US tariffs and any retaliatory actions by China, as occurred in 2018-20 - could shift global oilseed demand. For example, if China reduces soybean purchases from the US, it may increase imports of alternative oilseeds such as canola from Australia and Canada, potentially supporting prices.

Barley prices have remained subdued, largely due to strong global production, particularly in Europe and Australia. Additionally, high global stocks of corn and sorghum may reduce demand for feed barley, keeping prices under pressure.

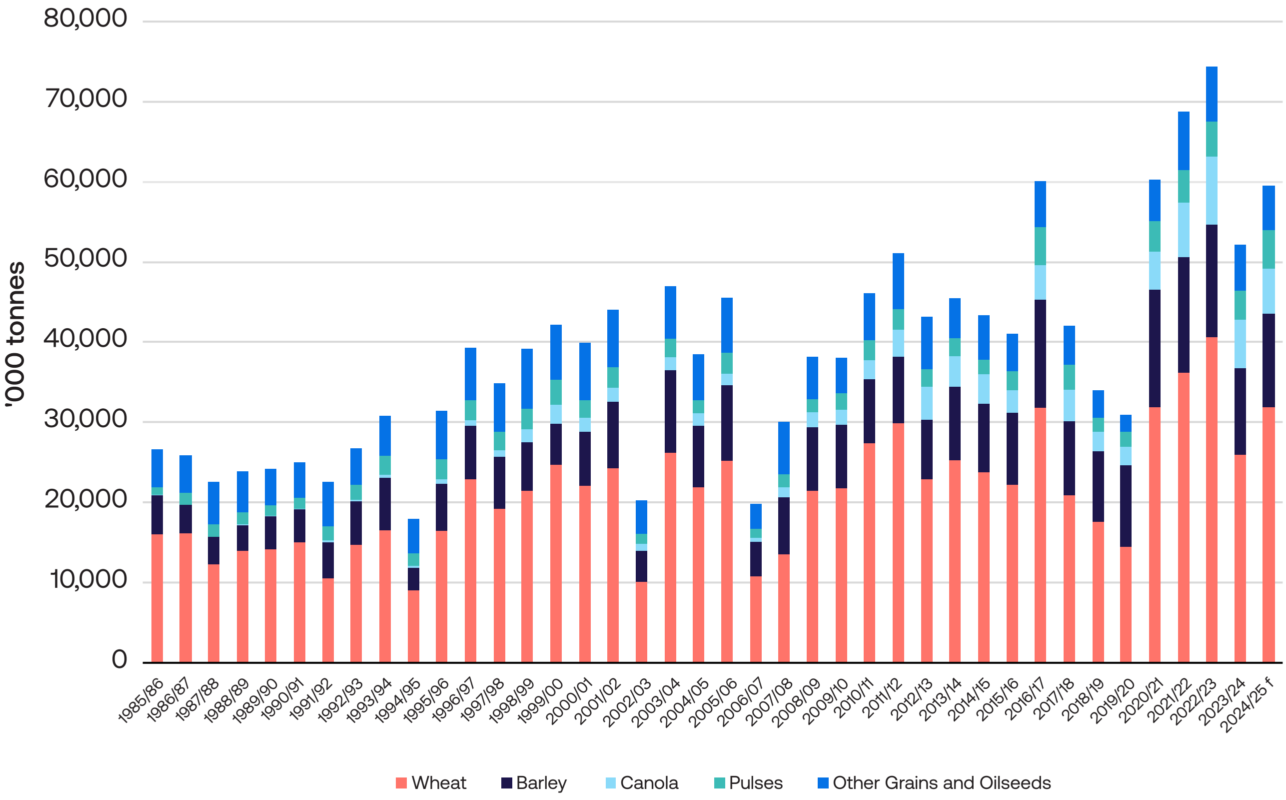
The ongoing conflict in Ukraine also continues to disrupt global grain trade flows. While Ukrainian exports have continued, logistical challenges and infrastructure damage have affected shipment reliability. This has led to increased uncertainty in global markets, with importers seeking alternative sources of supply where possible.

Major Wheat Exporters 2000/01 - 2024/25f



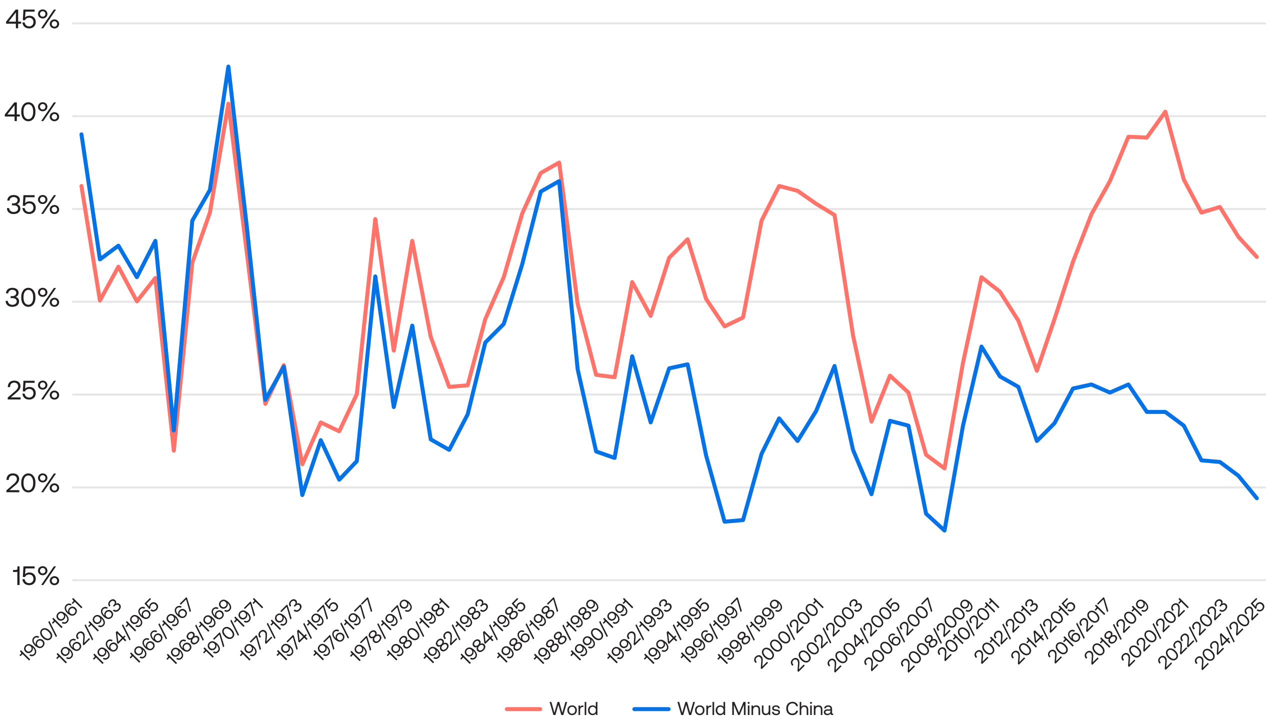
Source: USDA, ANZ

Australia Grains and Oilseeds Production 1985/86 - 2024/25f



Source: ABARES, ANZ

Global Wheat Stock To Use Ratio - World vs World Minus China - 1980/81 - 2024/25f



Source: USDA, ANZ

Beef Insights

Overview

- Though all categories have seen a fall in yardings as we move into the end of the summer, processor cows and store heifers have seen the biggest fall in numbers
- Exports are absorbing a higher portion of production with South Australia seeing the biggest growth in exports
- The United States remains in a herd rebuild phase with ongoing drought limiting their ability to produce enough beef and volatile tariff arrangements causing uncertainty.

Domestic

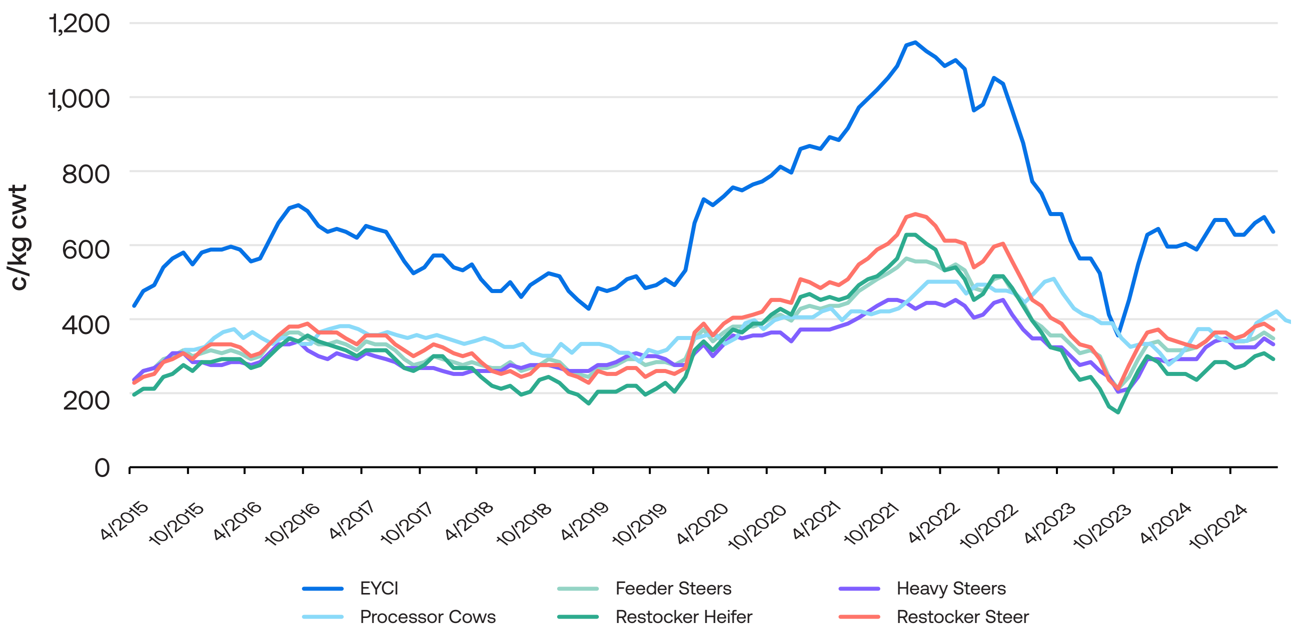
Recent rains in the north of the country have brought about some reprieve for the industry. For producers in the north, dry weather has been the main driver behind starting to consider liquidation with producers looking to the season ahead and only holding stock which they can confidently carry through if the reprieve didn't come.

Though all categories have seen a fall in yardings as the industry moves into the end of the summer, processor cows and store heifers have seen the biggest fall in numbers. Restocker activity has been off to a slow start this year but is starting to pick up with many producers offloading stock they don't feel they can comfortably carry through a prolonged drier period leading into winter. With the rain, the liquidation has halted, although restocker activity also hasn't started yet. For the time being, producers are holding stock and putting weight on them.

This uncertainty has pushed all indicators off their January highs with restocker heifers feeling it the hardest, dropping 30c per kilo off the peak January price of around 330c/kg.

> Feeder and lighter stock are expected to enter the market, though overall prices should remain steady over the coming months as the industry waits to see what Autumn brings. A surge in prices is not anticipated, given that steady national herd numbers should help maintain ample supply.

National Cattle Price Indicators 2015 - 2024

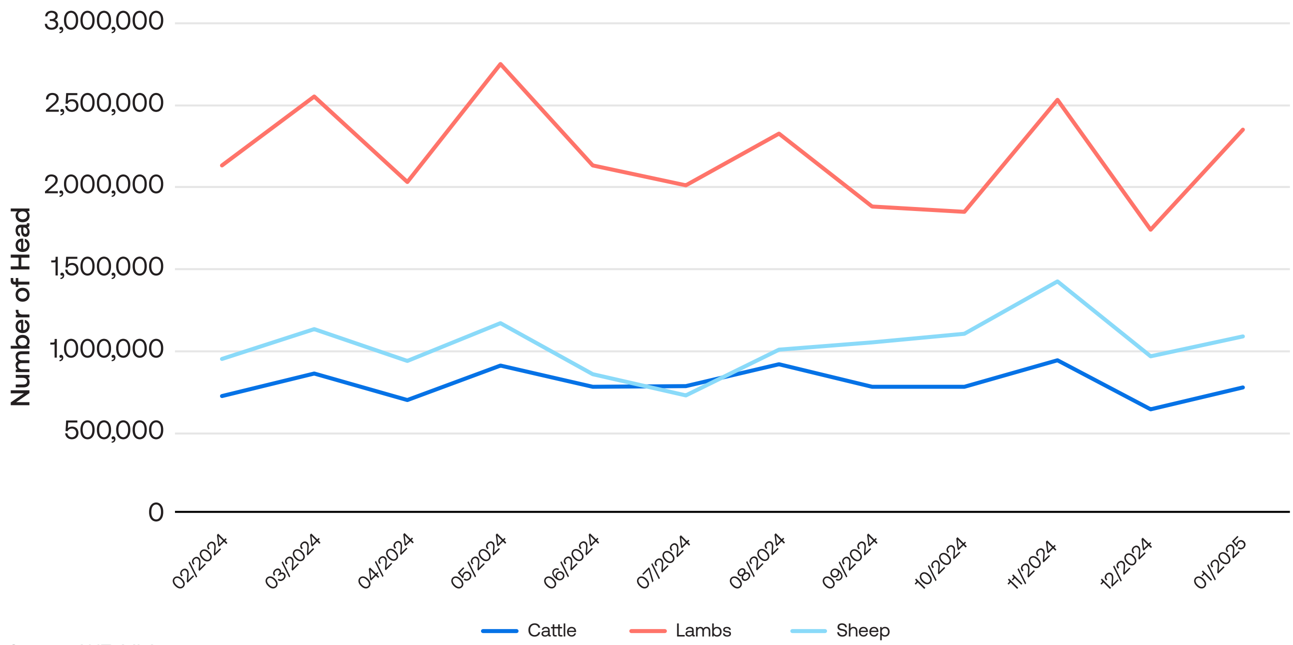


Source: ANZ, MLA

Feedlotting in Australia has been a changing environment of late with an increase in Wagyu numbers on feed. Feedlot space has been under pressure due to long fed Wagyu programs absorbing capacity. Anecdotally, this is said to be reducing in impact as feedlots increase their capacity quotas and processing gets going again after a festive season break. Indications from the market are that feedlot prices are back to reasonable levels, particularly for bos taurus types.

National beef slaughter has risen through the early part of 2025, following an easing over the Christmas period. While slaughter numbers are high and up year on year, productivity gains are also being seen through increasing average carcase weights, up 9 percent over the last 5 years.

National Livestock Slaugher Numbers 2024 - 2025

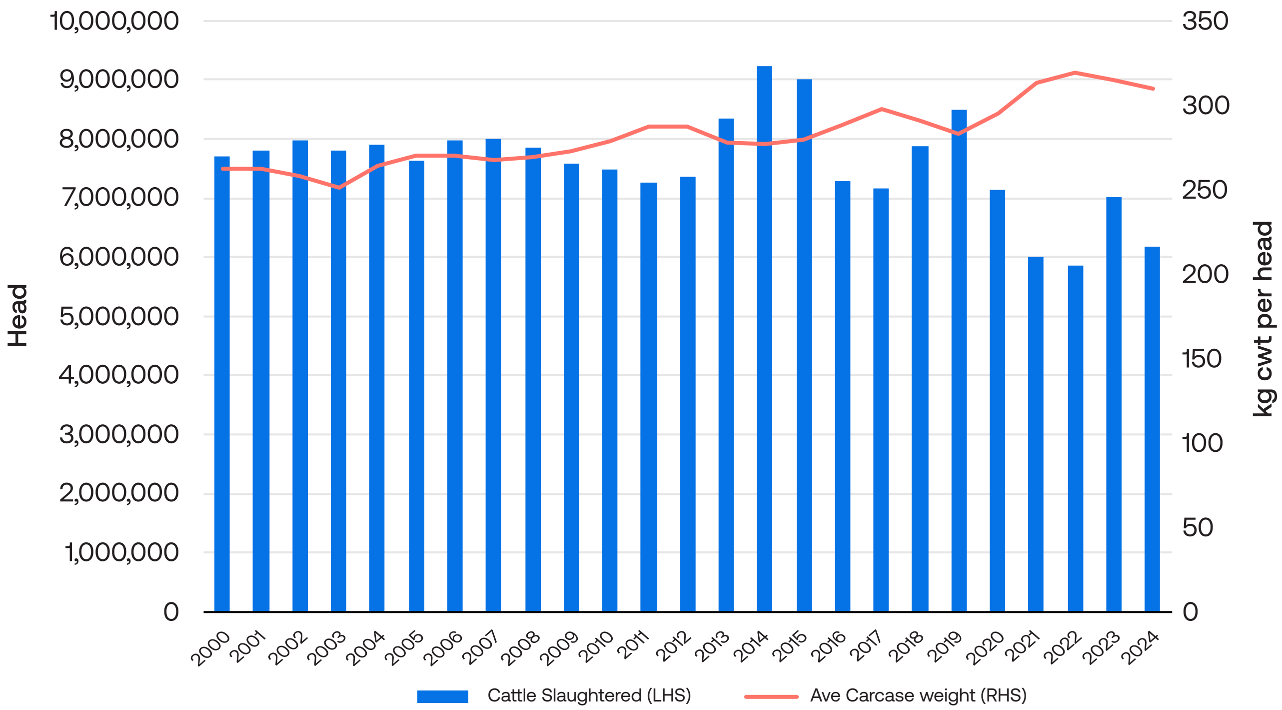


Source: ANZ, MLA

Beef slaughter data does suggest the national herd has entered liquidation with the female slaughter ratio hitting 52.2 percent for 2024. The general sentiment however is that the female slaughter rate is being inflated by a maturing herd profile, as opposed to any intentional significant destocking activity.

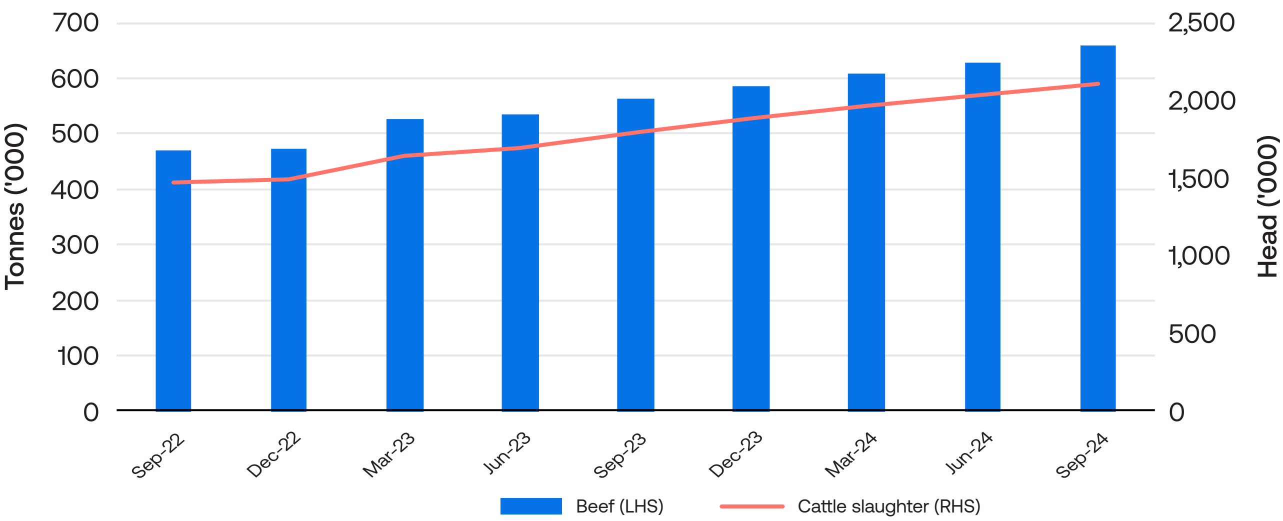
This increase in female slaughter numbers is helping boost national beef production levels with production increasing 4.6 percent last quarter and tracking 12 percent higher year on year. Exports are absorbing a higher portion of production with South Australia seeing the biggest growth in exports with the dry weather pushing producers to take advantage of the opportunities globally for Australian beef. January 2025 saw Australian beef exports reach the highest levels ever recorded at 81,000 tonnes.

Productivity Gains in Australian Beef Production 2000 - 2024



Source: ANZ, MLA

Australian Quarterly Cattle Slaughter and Beef Production 2022 - 2024

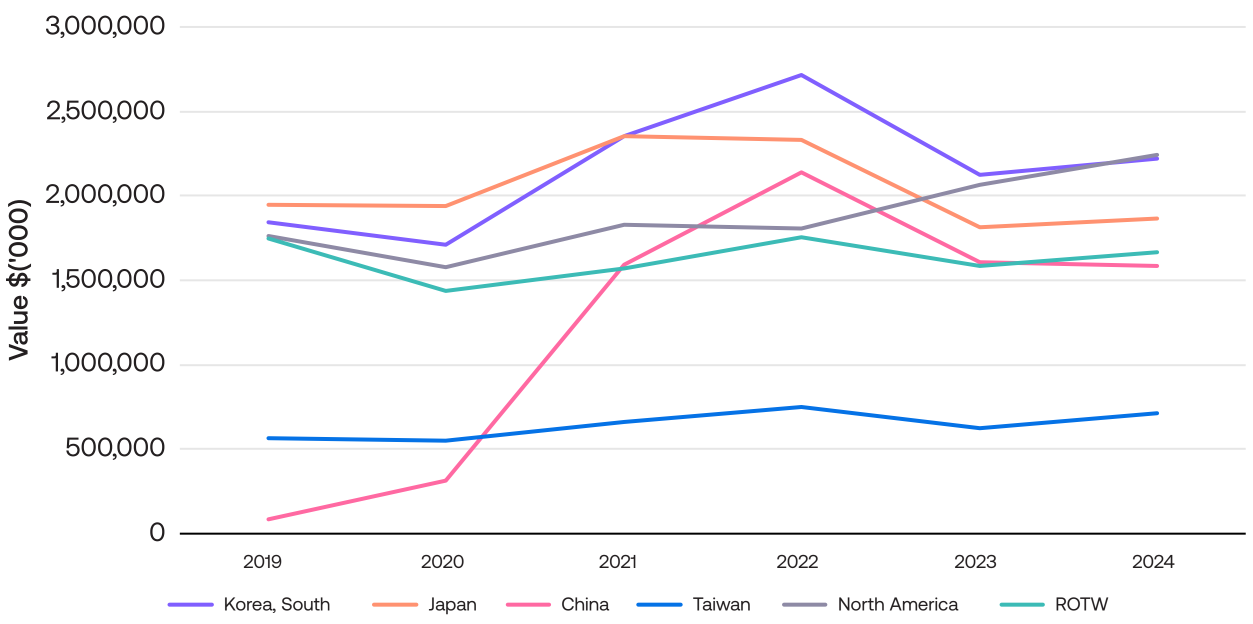


Source: ABS, ANZ

The United States remains in a herd rebuild phase with ongoing drought limiting their ability to produce enough beef, while volatile tariffs may disrupt imports from key exporters such as Brazil and Canada. At the time of writing, Australia remains tariff-free, potentially positioning it to take advantage of any opportunities which might arise amid uncertainty among other producers.

The impacts of US tariffs, combined with the country's multi-decade low herd numbers, are being felt beyond just their domestic market. Global markets opportunities left short by a lack of US supply such as China and Korea are continuing to expand for Australian beef with exports to China up 6 percent year on year in 2024. The Korean market continues to be a strong opportunity for Australian beef with 2024 being a record year increasing the market share to 45 percent.

Value of Australian Beef Exports 2019 - 2024



Source: ANZ, MLA

Sheep Insights

Overview

- Lamb and mutton prices have come off their December highs, however have found support despite high throughput
- Mutton slaughter volumes are at record highs driven by both dry conditions in some parts, and enterprise change in others
- Exports have started the year strongly across both lamb and mutton, with mutton recording a record high volume of trade for the month of January
- Demand, processing capacity and weights should support stable lamb prices for the Autumn period.

> Although lamb prices couldn't maintain the stellar run they experienced leading into Christmas, prices appear to be stabilising at solid levels throughout the end of summer and into early Autumn.

The national heavy lamb indicator rose to 994c/kg cwt in late December, but quickly settled back to the high 700 to 800 cent mark throughout January and February. The spike in pricing drove a temporary tightening of the light to heavy lamb margin, however this was also quick to correct, with light lambs now trading at around 120 cent discount behind heavy and trade categories. With prices across all major lamb indicators sitting healthily above year ago levels, producers will be hopeful for further stability as the year progresses.

A major factor in pricing stability is processor capacity. The investment into additional capacity undertaken by the Australian meat sector to meet the rapid growth in slaughter requirements of lamb and mutton throughout 2023 in particular, appears to have been well placed. Processors continue to handle large slaughter volumes with both sheep and lamb volumes above year ago levels. Lamb slaughter is tracking around 3 percent higher year on year for the year to date, with the key production states of NSW and VIC both recording increases.

In mutton, slaughter has also continued its upward trend, and volumes are around 15 percent higher than this time last year. Dry conditions in the south have contributed to an increase in mutton offtake in Victoria of 11 percent year on year, and similarly poor conditions across South Australia have been met with a 22 percent year on year increase. Western Australian processing is handling very large volumes, with mutton slaughter rates sitting around 36 percent over year ago levels.

Whilst the season will have an obvious impact on mutton turn off, enterprise shift is likely to also be playing a role. Active reduction of the WA flock continues, with the latest MLA sheep producer intentions survey results suggesting that 51 percent of WA producers are looking to decrease their lambing flock in 2025, compared to a national average of 39 percent. On the flip side, just 18 percent of the 500+ producers surveyed in WA have intentions to increase their flock, compared to a national average of 29 percent.

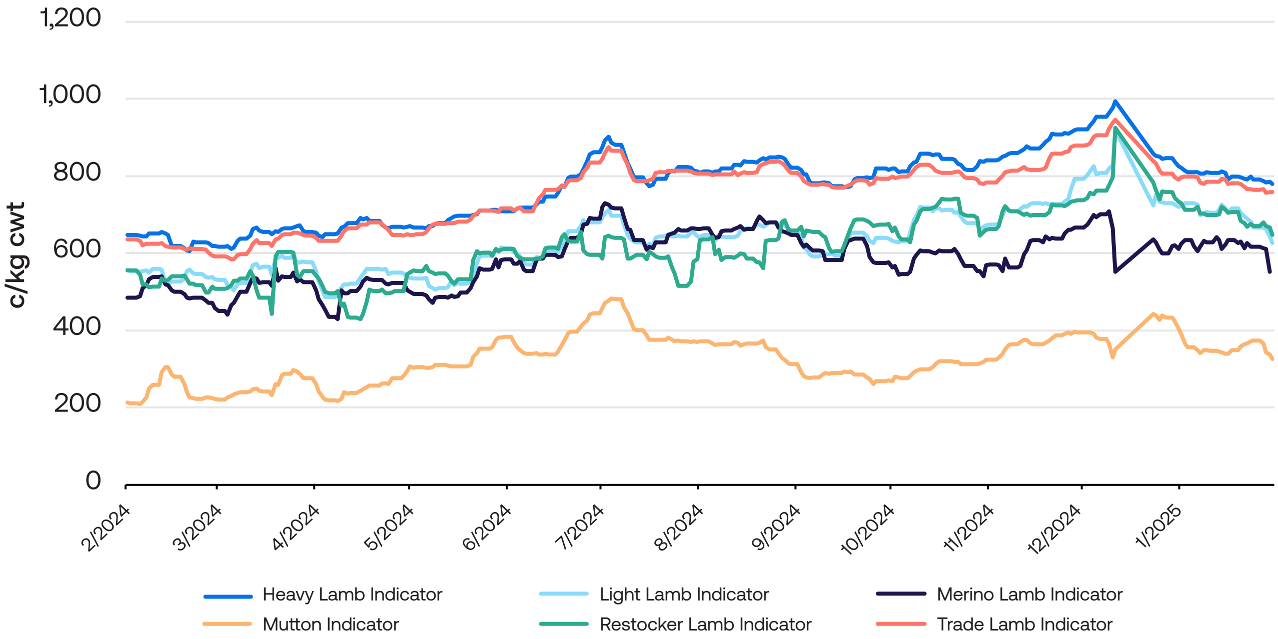
The survey also supports anecdotal commentary that a greater number of producers are turning to shedding breeds. In October 2022, survey results indicated that 40 percent of producers held Merinos in their flock. Two years on in October 2024, this had reduced slightly to 35 percent. Likewise, in October 2022, 4 percent noted they were producing shedding lambs, however by October 2024 this had doubled to 8 percent.

To exports, demand remains strong with lamb volumes for January just 4 percent shy of last year's January record volumes. The United States continues to be Australia's largest market, and January exports were up 6 percent year on year, which is a positive signal for possible further growth this year. Very strong market diversity for Australian lamb continues with markets such as UAE, the UK, Canada and Malaysia all starting the year above year ago trade levels.

In mutton trade, January export volumes recorded an all-time high of 19.8 million tonnes, almost 3 million tonnes higher year on year. China continues to be the dominant market, responsible for over 35 percent of January trade and recording a 15 percent year on year increase in volumes on 2024 levels, all on the back of very strong growth last quarter. Year on year increases in export volumes for January to the Middle East, UAE and Malaysia were also notable.

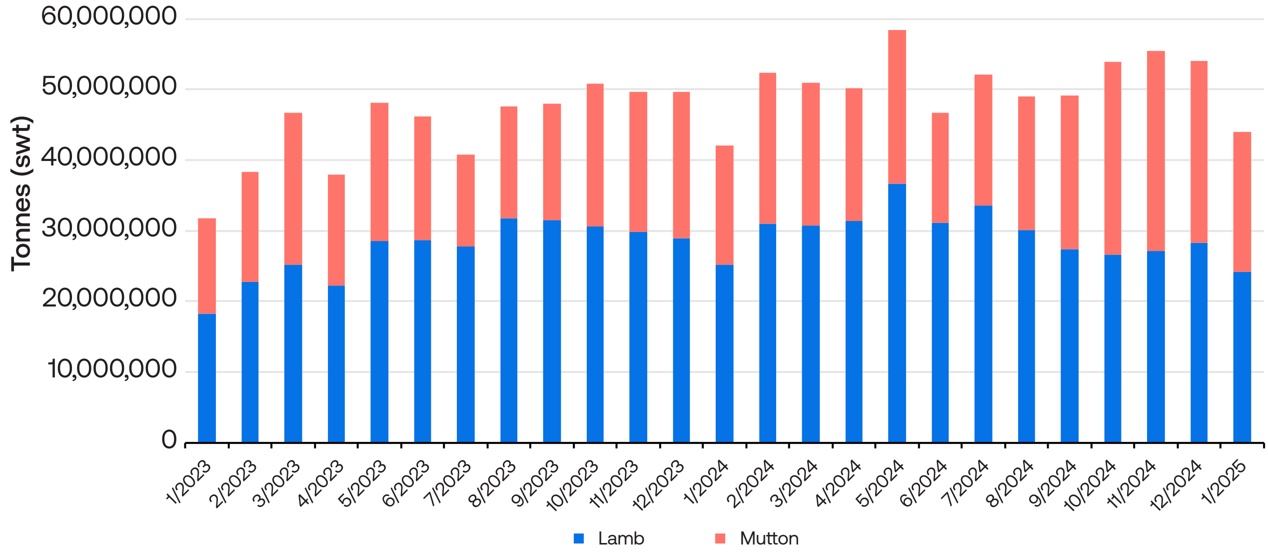
For the autumn period, pasture availability will likely dictate the majority of producer decisions around time of sale, with estimates that over 40 percent of 2024 drop lambs remain on farm. The traditional pattern of increasing export demand over the first two quarters of the year, combined with well-finished lambs and sound processor capacity, is supportive of prices. Mutton volumes will likely steady through the traditional joining and lambing period of autumn and winter, which should also support prices in a high demand environment.

National Sheep and Lamb Indicator Prices



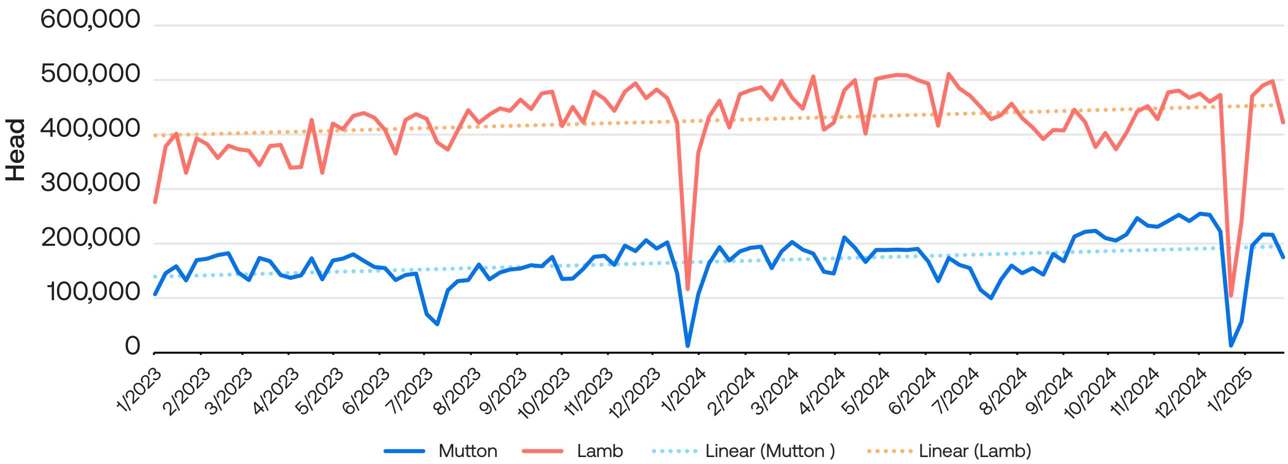
Source: MLA, ANZ

Australian Lamb and Mutton Exports - Monthly 2023 - 2025



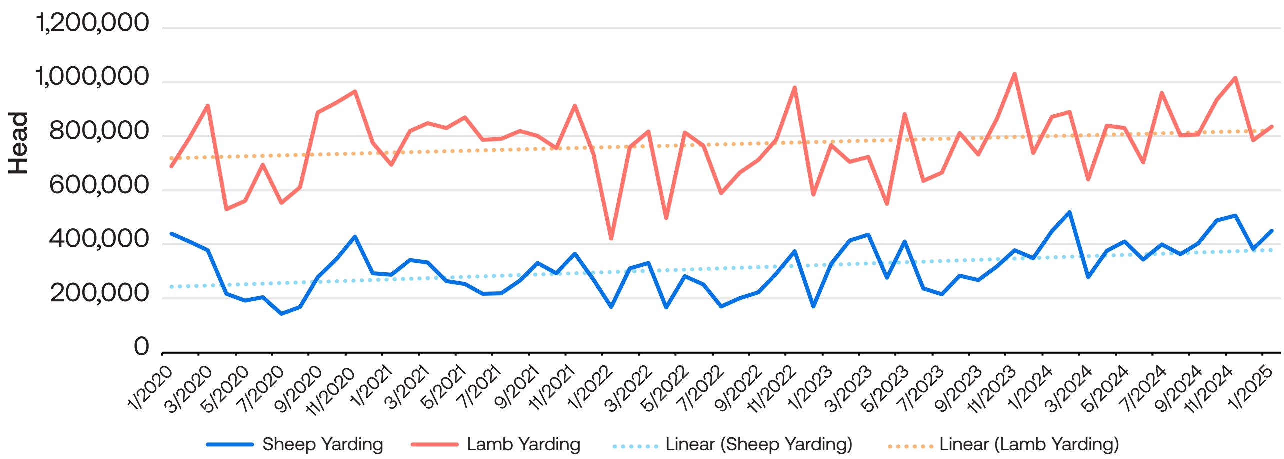
Source: MLA, ANZ

Australian Lamb and Mutton Slaughter

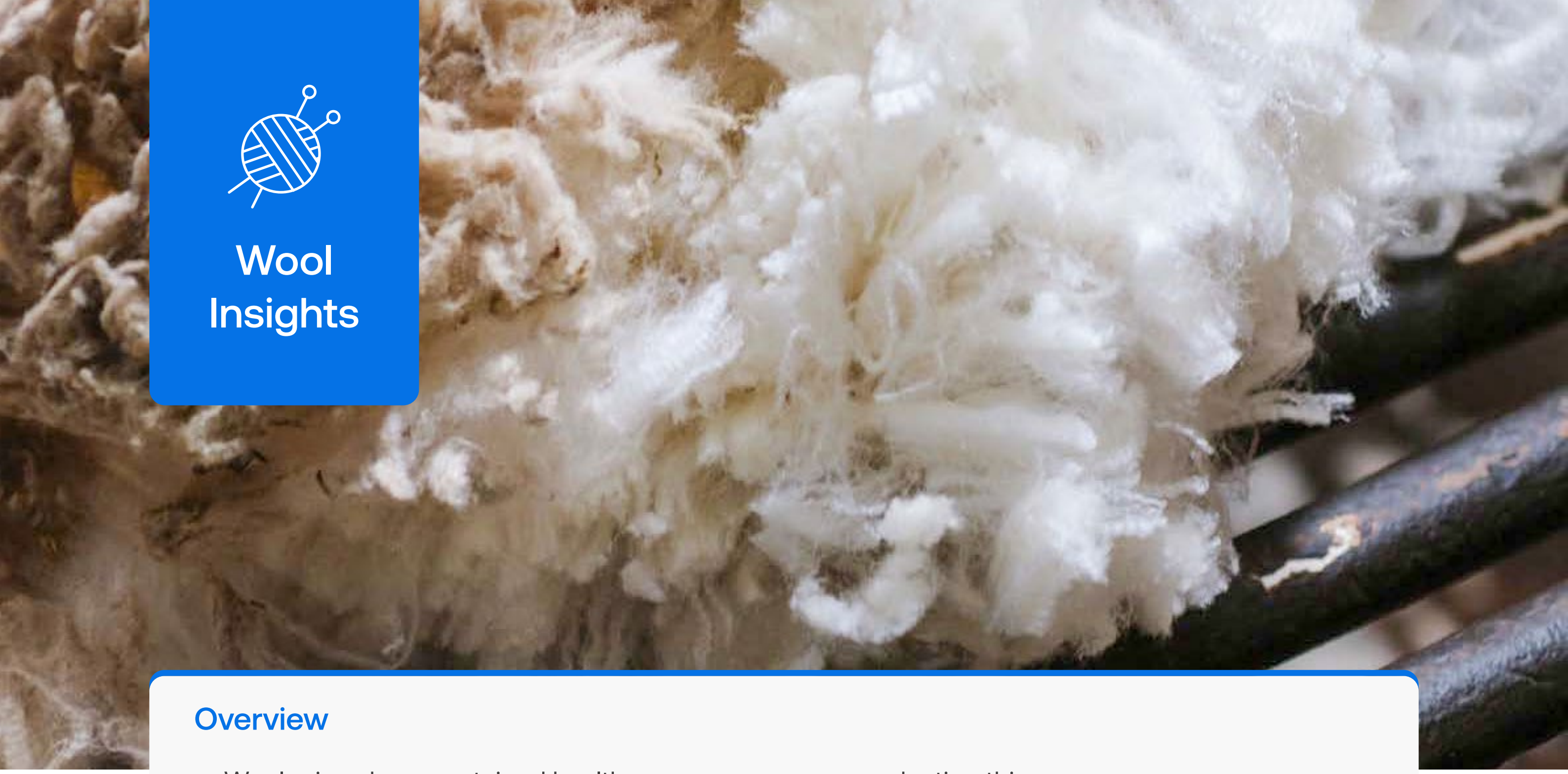


Source: MLA, ANZ

National Sheep Yardings 2020 - 2025



Source: MLA, ANZ



Wool Insights

Overview

- Wool prices have sustained healthy increases over the past quarter following many months of a downward trend
- High mutton slaughter, significant year on year reductions in the volumes of wool tested and also wool offered for auction, have resulted in a forecast for reduced wool production this season
- Western Australian producers are rapidly exiting or reducing reliance from the sheep industry
- Prices, whilst somewhat improved, do however remain volatile week to week.

Australian wool indicator prices crept steadily higher over the past quarter, reversing a long-term downward trend in pricing experienced throughout most of 2024. The benchmark Eastern Market Indicator (EMI) is currently trading at around 1200 cents, recovering to year ago levels. The Western Market Indicator (WMI) is currently trading at around 1350 cents. As usual however, there remains weekly volatility and indicator prices fail to tell the whole story.

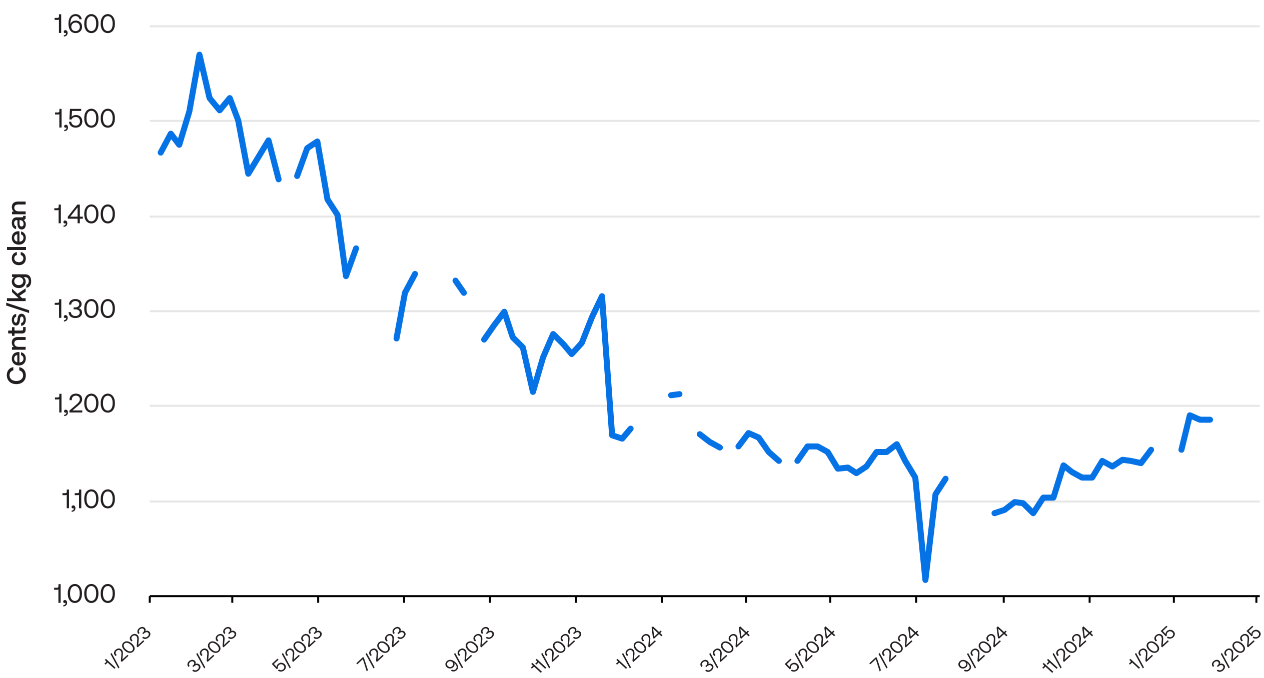
> The drivers behind the summer improvement appear to have been a combination of continued favourable exchange rates, lower volumes of wool on offer, and tentative signs of some increasing demand.

For wool production, the Australian Wool Production Forecasting Committee's forecast for greasy wool production this financial year, is for a 12 percent decrease in volumes on those of 2023/2024. Whilst it was earlier forecast that the flock would likely produce a similar volume of wool this season, a combination of seasonal conditions and signs of some structural change across the industry are having an impact.

Across the nation, the volume of wool tested was down 10 percent for the season to November, with the volume declining significantly in all states. Western Australia however recorded the biggest July to November decline of over 18 percent, followed by 16 percent reduction in Tasmania, 12 percent in South Australia, and around 5 percent for both NSW and VIC.

Particularly notable from the wool testing data is the reduction in merino wool types within the 19 to 22 micron category. These types were on average down 19 percent in volume year on year for the July to November period. These wools fit the typical profile of a WA merino flock, but also flocks across large parts of South Australia and the eastern states, suggesting a move away from merinos may be playing out not just in the west, but across the nation.

AWEX Eastern Market Indicator 2023 - 2025



Source: ABARES, ANZ

First Hand Bales offered at Auction - 2024/2025 (July-Nov)

	NSW	VIC	WA	SA	TAS	QLD	AUS
First hand bales offered (% change on 2023/24)	-14.40%	-12.70%	-27.10%	-17.80%	-20.00%	-12.30%	-17.00%
Merino first hand offered (% change on 2023/24)	-14.20%	-8.40%	-27.50%	-15.80%	-14.30%	-12.80%	-16.00%
Crossbred first hand offered (% change on 2023/24)	-15.40%	-23.50%	-22.00%	-25.70%	-33.30%	28.60%	-20.30%

Source: AWEX, AWI, ANZ

The volume of wool tested is largely mirroring the volume of wool offered for sale at auction. The quantity of wool of all micron categories offered to auction for the first 22 weeks of the season, was down by 17 percent. Again, Western Australia is leading the decline, in line with high mutton slaughter rates and a reduction in overall sheep numbers from that state, with a 27 percent year on year reduction in offering at auction from July to November. The structural shift away from sheep production in Western Australia would appear to be well advanced as producers react to a combination of market uncertainty following the live export ban, labour constraints and increasing costs.

The remaining months of the season will tell if producers are holding large stocks of wool in the hope of a price rally, however pass-in rates have remained low for the season to date, and high input costs and the need for cash flow would suggest it is unlikely that there is significant wool in private on-farm storage.

Dairy Insights

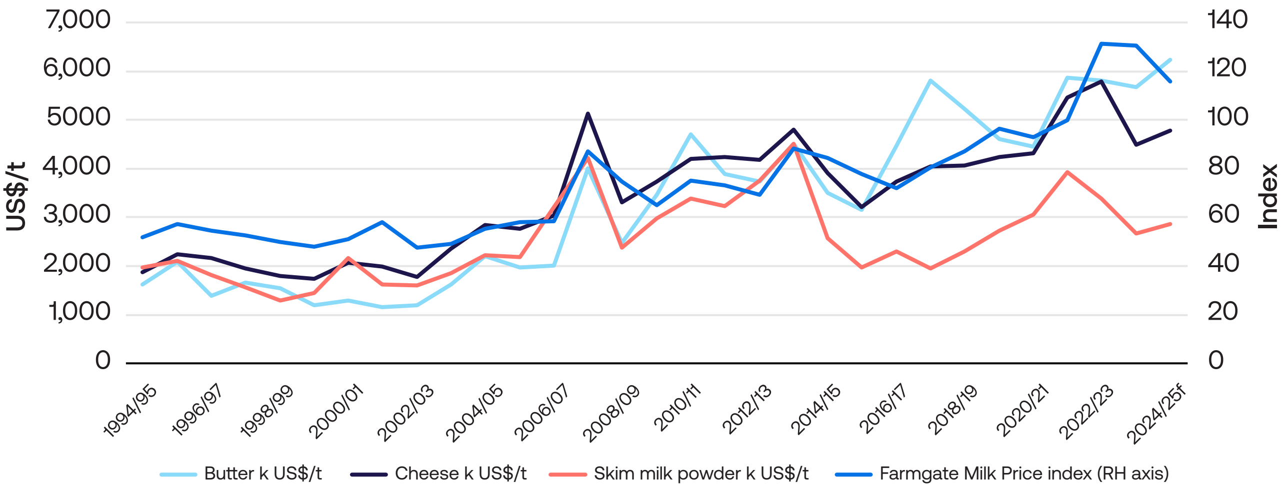
Overview

- Global dairy prices have risen strongly into 2025, further supporting the case for price increases from the major processors
- Australian dairy production expected to increase slightly despite a dry season in many major milk producing areas
- Australia's boom in cheese production for the export market pegs farmgate prices closely to the global cheese price
- Domestic Australian milk consumption is also forecast to turn around its decline in 2025 increasing slightly but lower than the peak in 2015.

The global dairy price continues to perform strongly although the latest GDT auction the most recent auction saw a very slight decline, prior to this the market saw a 3.7 percent increase in total prices and a particularly strong performance for milk powders which increased 4.7 and 41 percent for skim and whole milk powder respectively. Strong and upward trending global dairy prices combined with the falling Australian dollar have led many in the Australian dairy industry to continue their calls for increases in the farm-gate price.

Fuelling this push have been the price step-ups passed onto New Zealand farmers in recent months. In early December, Fonterra raised its New Zealand farmgate milk price forecast for the 2024/25 season, to between $9.50 and $10.50 per kgMS, following a previous price step-up in November.

Australian Farmgate Milk Prices v International 1994/95 - 2024/25f

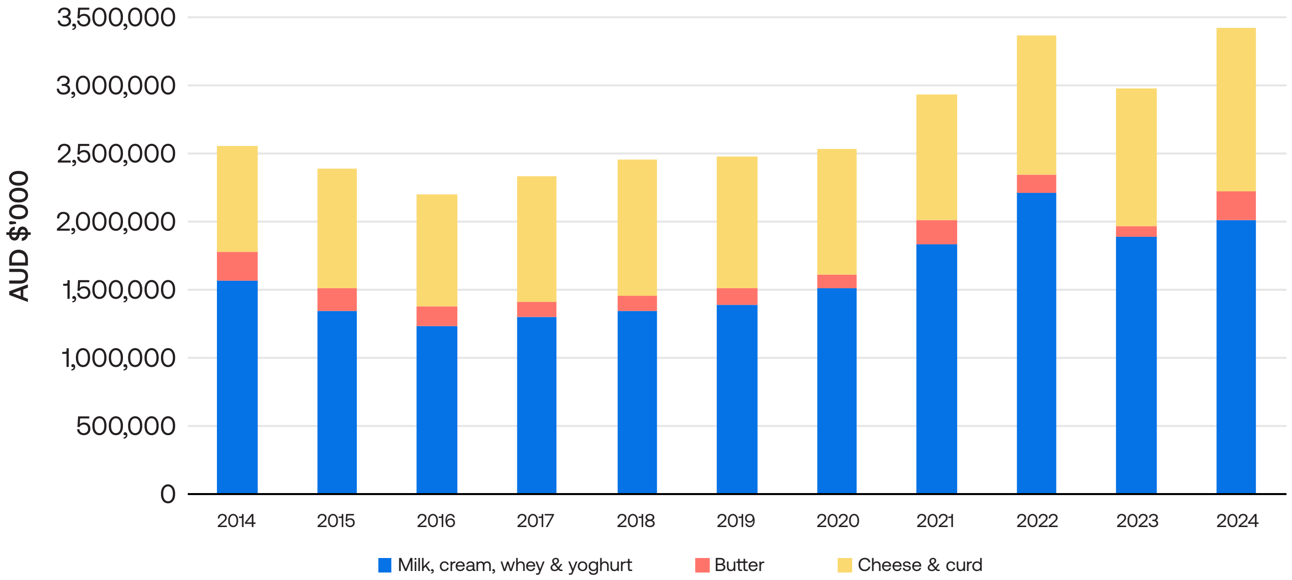


Source: GDT, ABARES, ANZ

So how does the Australian farm-gate price track the New Zealand milk price, and should we see NZ as a benchmark for Australian prices? Looking at the past 10 years of prices, Australian farmgate prices have generally tended to trade at a slight discount to New Zealand farmgate prices, with the times where Australian farmgate prices were higher occurred primarily when international prices have dropped unexpectedly. Today, Australian farm-gate prices are trading around 13 percent lower than New Zealand prices – a discount which has been as large as 30 percent in mid-2022.

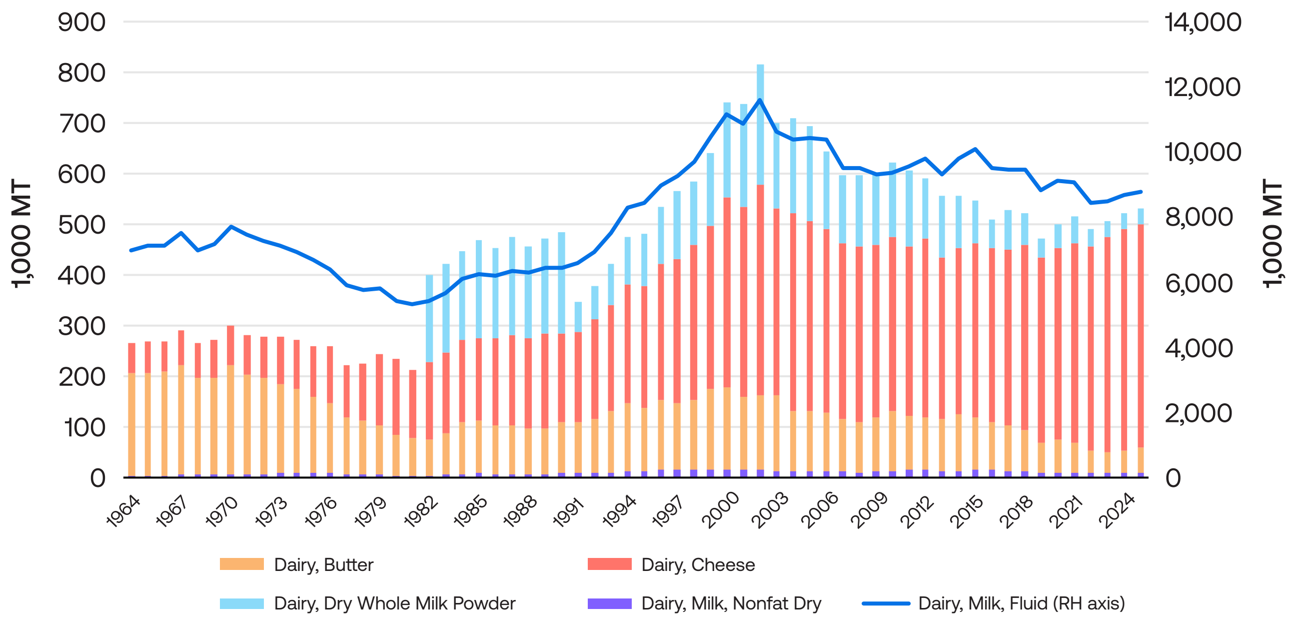
Reflecting the relatively low cost of Australian dairy on the global market, have been the increases in Australian exports, which have grown almost 15 percent from 2023 to 2024, primarily in cheese and butter exports.

Australian Dairy Exports 2014 - 2024



Source: DFAT, ANZ

Australian Dairy Production (1000MT) 1964 - 2024



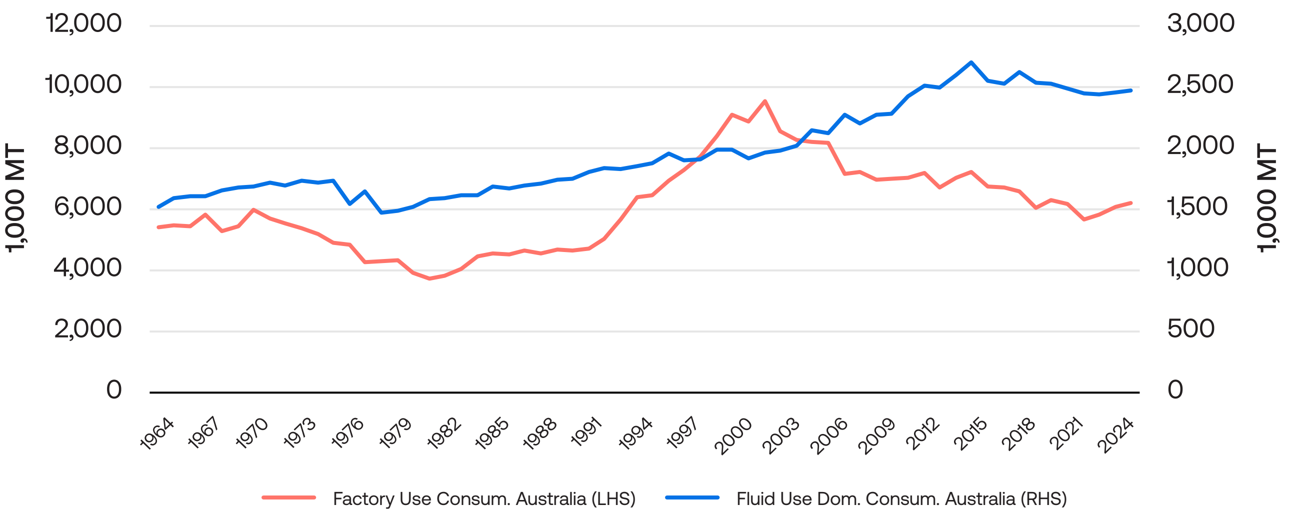
Source: USDA PSD, ANZ

The United States Department of Agriculture (USDA) is forecasting that 2025 will see Australian cheese production reaching historic highs of 440,000 tonnes – up 1.15 percent on the previous year while total milk production is also anticipated to increase to by 1.15 percent to 880,000 tonnes which is still 24 percent below Australia's production peak in 2002. However the forecast for an increasing milk pool will help processors manufacture more dairy products for the export market, as well as alleviating some of the competition between processors to secure supply. In contrast, Dairy Australia forecasts a slight drop in the national milk pool on the back of some localised seasonal difficulties and continued exits from the industry. Regardless of whether the milk pool goes up or down slightly, many dairy producer representative groups are stating that a significantly higher milk price – in line with international farmgate prices – will be needed to arrest the ongoing production decline. For Australian producers, while input costs such as fertiliser and chemicals have come off slightly, overall cost of production remains relatively high while some seasonal difficulties have led to high feed and water costs.

The most notable shift has been the continued growth in cheese production in Australia to the detriment of skim milk powder and, to a lesser extent, butter production. Cheese production has been forecast to account for 35 percent of total milk production and a total of 49 percent of milk used for dairy products. The growth in cheese production now makes it a larger end use for Australian milk than fluid milk for consumers.

Domestic Australian milk consumption is also forecast to turn around its decline in 2025, increasing slightly by 0.4 percent but still 8.5 percent lower than the peak in 2015. In contrast factory use of milk production is forecast to increase 1.8 percent, reflecting growth in the total milk pool. The forecast for domestic consumption for manufactured dairy products is also strong, despite the cost of living crisis and the continuing increase in retail milk and dairy products cost.

Domestic Milk Consumption 1964 - 2024



Source: USD PSD, ANZ

Insights for the Gold Coast – James McKeefry on the Australian Dairy Conference

Generally, the mood is pretty good and a lot of positivity looking towards next year with expectations of a good increase in farmgate prices. While its very dry across most of the dairy region, most producers have achieved average to slightly above average production. Those who were there very much echoed the fact that they think it was probably the best dairy event going around.

Sugar Insights

Overview

- Heavy rainfall and flooding in North Queensland could impact 2025 sugar yields by damaging ratoon crops and lowering sugar content
- Weather challenges in Brazil and India may reduce global sugar supply, while Thailand faces new trade restrictions from China
- Rising global oil prices are increasing demand for Brazilian sugar in ethanol production, which could tighten supply and lift sugar prices
- India's decision to partially resume sugar exports may put downward pressure on global prices, impacting Australian growers and processors.

Following the major rainfall in North Queensland in early February, the Australian sugar production sector is focussing on both clean-up operations, as well as trying to determine the extent of any long-term crop damage. While heavy rainfall and flooding in the Burdekin, Mackay, and Ingham regions arrived too late to impact the recent harvest directly, it could still affect the next season's crop.

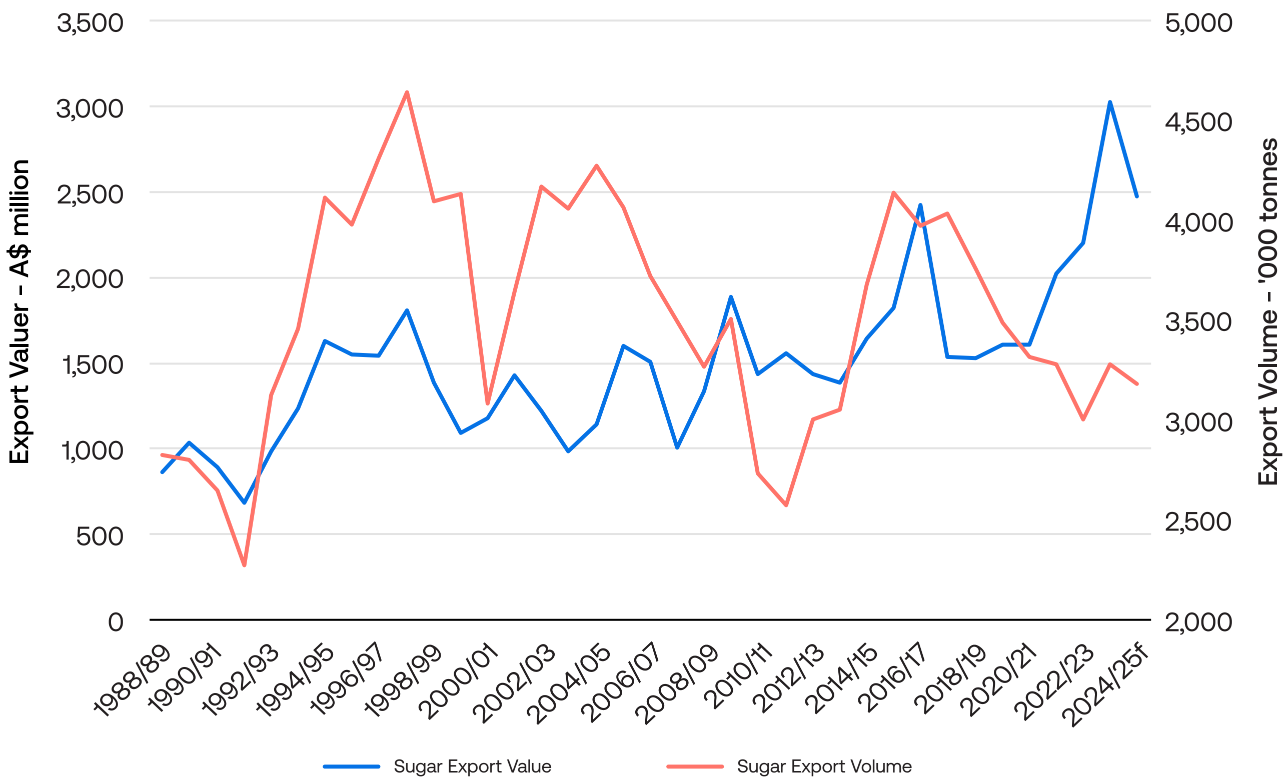
Growers and processors are evaluating whether paddocks could damage ratoon crops (i.e., the regrowth of sugarcane emerging from the stubble after the main harvest), potentially reducing sugar yields in 2025. Extended exposure to standing water could also lower sugar content in next year's harvest, impacting profitability for growers.

Beyond crop concerns, the floods have created logistical bottlenecks. Rail and road infrastructure damage is delaying the movement of raw sugar from mills to export terminals. If transport issues persist, short-term export disruptions or increased freight costs could reduce Australian sugar's competitiveness in major markets. Additionally, storage and milling operations could face challenges if wet conditions impact handling and distribution.

Weather conditions have played a major role in impacting a number of the largest global sugar producers and exporters. In Brazil, the world's largest sugar exporter, a combination of severe drought, heatwaves, and bushfires have seen the forecast for 2024/25 sugar production fall by around 5 percent from the previous year to 43 million tonnes – a figure which would still be the second largest on record. This would also see Brazil's sugar exports fall by around 2.5 million tonnes, reducing its share of global exports marginally, from 25 percent to 23 percent.

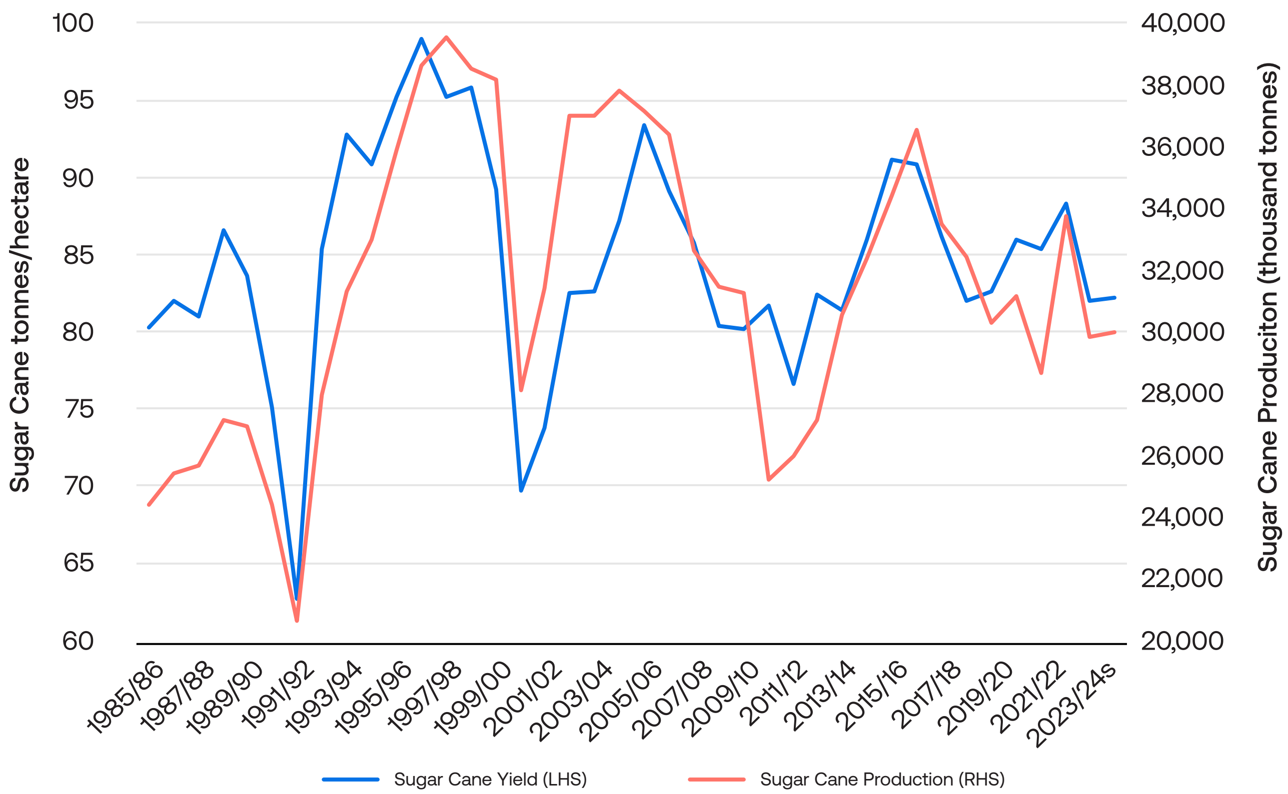
Brazilian sugar exports will also continue to be impacted by movements in the world oil price. Rises in global oil prices will normally see a proportion of Brazilian sugar production diverted into ethanol production – as an alternative to oil – which lifts sugar prices, as the competition for supply increases, and volume available for food falls. This pattern has continued in the early part of 2025 – a surge in global oil prices in the first two weeks of January saw sugar prices climb by the same percentage.

Australian Sugar Export Volume vs Value 1985/86 - 2024/25f



Source: ABARES, ANZ

Australian Sugar Cane Yield vs Sugar Cane Production 1985/86 - 2024/25f



Source: ABARES, ANZ

In India, an erratic monsoon season in different sugar growing regions could limit production levels, as the extended rainfall, combined with warm weather, has increased pest problems for the crop. While USDA had forecast Indian sugar production to rise by around four percent in 2024/25, more recent Indian industry forecasts are now predicting a fall of 12 percent.

The notable sugar news out of India was the government's decision in late January to allow the export of one million tonnes of sugar in the current season. After having been one of the world's largest sugar exporters for some years, India did not allow exports in the 2023/24 marketing year.

According to the Indian government, the decision would allow India's domestic mills to shift excess stock, in a bid to raise low domestic prices, and to reduce the chance of an oversupply of sugar ahead of future strong production. The announcement led to some concerns, including from the Australian Sugar Milling Council, that it could lead to a fall in global sugar prices, which could hurt sugar producers and processors on other exporting countries.

In Thailand, which in most years is ranked as the world's second largest sugar exporter after Brazil, the industry has been shaken by China's decision to ban imports of Thai sugar syrup (or liquid sugar). While the import ban was officially due to hygiene issues, there has been some speculation by Thai industry representatives that it may be due to China seeking to protect its domestic sugar industry. There had also been concerns that flooding in some sugar-producing regions in late 2024 could also impact production, although the impact appears to have been limited.

These various developments in the global sugar sector – from extreme weather events impacting production, to policy shifts in key producing countries, to import bans – serve as reminders of the volatility inherent in the sugar industry. For both producers and users of sugar, the ongoing uncertainty underscores the need for strategic preparation and risk management. Supply chain disruptions, price fluctuations, and policy changes can all have significant impacts, making it essential for industry participants to remain ready to adapt quickly to evolving market conditions.

Cotton Insights

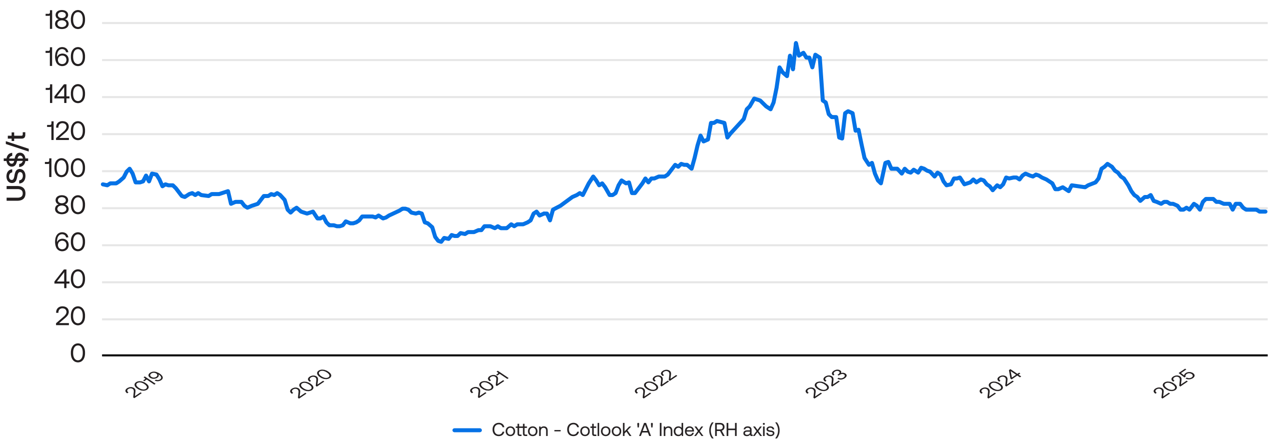
Overview

- Global cotton prices have continued their slight downward trend since the highs of 2022 to reach levels last seen in 2021
- Strong global production, and weaker consumption growth are driving those price falls
- Estimates for the Australian crop are varied, however recent rains may push that figure to the upper end of estimates
- Growth in export demand in Vietnam and India are changing the face of global cotton demand.

With cotton picking set to get underway, forecasts are for a strong, above average cotton crop, although with forecasts differing quite markedly, we will wait and see how the harvest shapes up. Globally, strong production and weaker consumption growth has been weighing on prices which now sit at levels not seen since 2021.

Global cotton prices have continued their slight downward trend since the highs of 2022 to reach levels last seen in 2021 – as strong global production and growing ending stocks push prices lower. For Australian producers, forecasts for the upcoming cotton harvest vary widely with the United States Department of Agriculture (USDA) forecasts 5.4 million bales, or 1.17 million tonnes and ABARES forecasting just over 1 million tonnes. However, factoring in the rains late in 2024 particularly across southern Queensland, it appears that the Australian crop will be on the upper end of those estimates.

Cotlook 'A' Index 2019 - 2025



Source: ABARES, ANZ

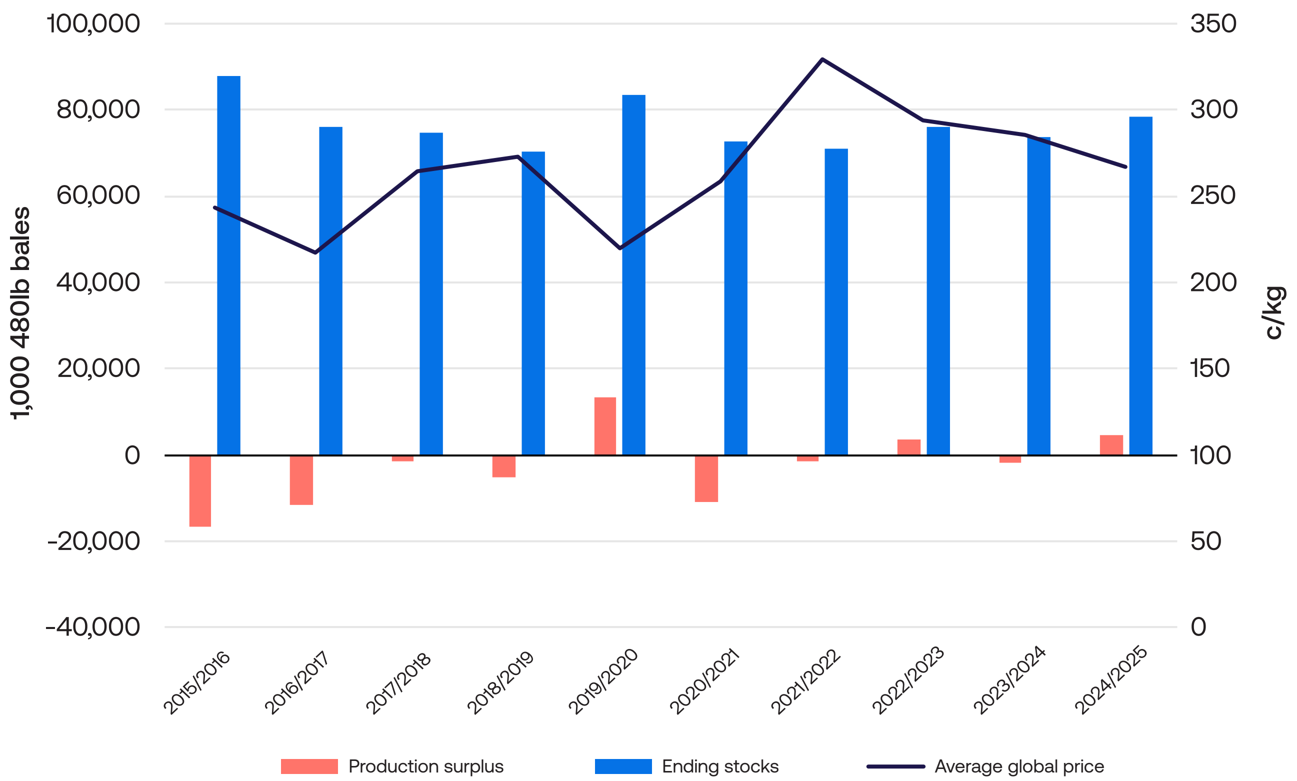
Global production is forecast to jump considerably in 2024/25 outpacing consumption growth significantly. With very strong production growth in the United States, Brazil and China more than offsetting poorer crops in Pakistan and India, global production is forecast to jump by over 6.6 percent. Global consumption is not expected to grow as strongly, however, increasing just 1 percent, and still sitting below the highs reached in 2020/21. Those consumption figures primarily stem from a poorer economic sentiment in China seeing Chinese domestic use drop by 3.6 percent. Cotton demand from the United States (US) continue to fall significantly - by a forecast 8 percent – on the back of waning demand for locally produced textiles due to declining economic growth and consumer sentiment. As this trend in US cotton mill demand continues it precipitous drop since the mid-1990s, the question facing the US textile industry is where is the bottom for the domestic manufacturing industry?

On the flip side, new and expanding markets continue to emerge in Vietnam and India, as both nations continue to build their textile manufacturing industries. Vietnam's fabric and garment exports constitute around 10 percent of Vietnam's total exports – and continue to grow with textile and garment exports up 17 percent in the second half of 2024.

As a result, import demand is expected to be particularly volatile between countries this year, as larger than anticipated production in China could see Chinese imports more than halve, while import demand to India is anticipated to almost triple on the back of their poor domestic harvest.

Global stocks are also expected to rise by over 6 percent, with the main stockpile growth being centred in the United States, Brazil and Turkey.

Global Cotton Production, Consumption and Price



Source: USDA PSD, ANZ

Wine Insights

Overview

- The 2024 Australian vintage saw a nine percent increase in grape crush to 1.43 million tonnes, although red wine production fell to its lowest level since 2007, while white varieties rose by 19 percent
- The industry is struggling with an oversupply of red wine, particularly Shiraz and Cabernet Sauvignon, putting downward pressure on prices
- Regional variation is significant, with Barossa Valley production down 24 percent and value down 28 percent, while Tasmania surged by 38 percent in production and 51 percent in value, reflecting demand for premium cool-climate wines
- Domestic wine consumption has fallen by nine percent as economic pressures and shifting consumer preferences reduce demand for both bulk and premium wines.

It has been a turbulent few years for the Australian wine industry. Shifting global trade dynamics, evolving consumer preferences, and economic pressures have all had a major impact on the sector. While the removal of the tariffs on Australian wine exports to China in March 2024 had created some optimism that the industry would rebound, there are still structural challenges, which could require a long-term approach from the industry.

Australian wine exports have shown a strong recovery since the removal of the Chinese import tariffs. Over the course of 2024, export value rose by 34 percent to $2.55 billion, while exports volumes grew by 7 percent to 649 million litres. The overall increase was due to China opening up again – in the nine months following the tariff removal, China imported 83 million litres of Australian wine, worth $902 million.

Given that much of the wine imported by China was higher-quality reds, with an average value of $10.79 per litre, this lifted the overall average value of Australian bottled wine by 24 percent, to a record $9.35 per litre. This is a promising trend for premium wine producers, particularly in regions like Barossa Valley, Coonawarra, and Margaret River, which have historically been strong in premium red exports.

The positive news around exports to China was unfortunately not reflected across all other markets. Across 2024, Australian wine exports to the rest of the world fell by 13 percent in value to $1.64 billion and seven percent in volume to 565 million litres. This was particularly due to reduced wine exports to Hong Kong, possibly because of stockpiled exports in 2023 in anticipation of the end of the tariffs, as well as to the US, also coming off the back of a surge in exports in 2023.

The Australian grape production landscape has also undergone structural change. The 2024 vintage saw a nine percent increase in the grape crush, to 1.43 million tonnes. Though still well below the ten-year average of 1.73 million tonnes.

Notably, the red wine crush fell by one percent to just over 700,000 tonnes, which was 24 percent below its ten-year average, and the smallest red crush since 2007. In contrast, the crush of white varieties was up by 19 percent to just over 720,000 tonnes, although this was still ten percent below the ten-year average and the second lowest since 2007.

It was also notable that the white winegrape share of the crush increased to 51 percent, which was the first time since 2014 that white grapes had made up the majority of the crush.

In terms of varieties, Chardonnay overtook Shiraz for the first time since 2013, becoming the largest crush at around 332,000 tonnes, while Shiraz fell by 14 percent to around 298,000 tonnes, its smallest crush since 2007.

Despite a reduction of ten percent in wine inventories, the industry is still struggling with a surplus of around 200 million litres, predominantly red wine. The glut of red wine has driven down wine grape prices, particularly for Shiraz, Cabernet Sauvignon, and Merlot, which have struggled to find markets willing to absorb excess supply.

Australia's domestic wine consumption patterns have also been changing. Between 2020 and 2022, wine consumption in Australia fell by around nine percent, or roughly 50 million litres. This decline in wine consumption is reflective of similar trends in most of the world's top 20 wine markets. In particular, it reflects a trend by younger consumers to drink less alcohol overall, while those who do are increasingly gravitating toward premium offerings, alternative beverages or lower-alcohol drinks.

The current economic pressures have also impacted the industry. With interest rates and inflation impacting discretionary spending, consumers have been cutting back on luxury goods, including premium wines. This has affected both retail sales and the cellar door trade, with Penfolds and Shingleback closing their cellar doors in the Barossa Valley and McLaren Vale respectively, due to rising increased costs and reduced consumer spending.

The latest figures from the Wine Australia National Vintage Report 2024 show significant shifts in production and value across the major wine producing regions. The Barossa Valley, arguably Australia's most iconic wine region, saw a sharp drop in production, down 24 percent, and an even steeper decline in value, down 28 percent. This suggests that despite China's renewed demand for premium reds, overall market conditions have placed downward pressure on Barossa's pricing.

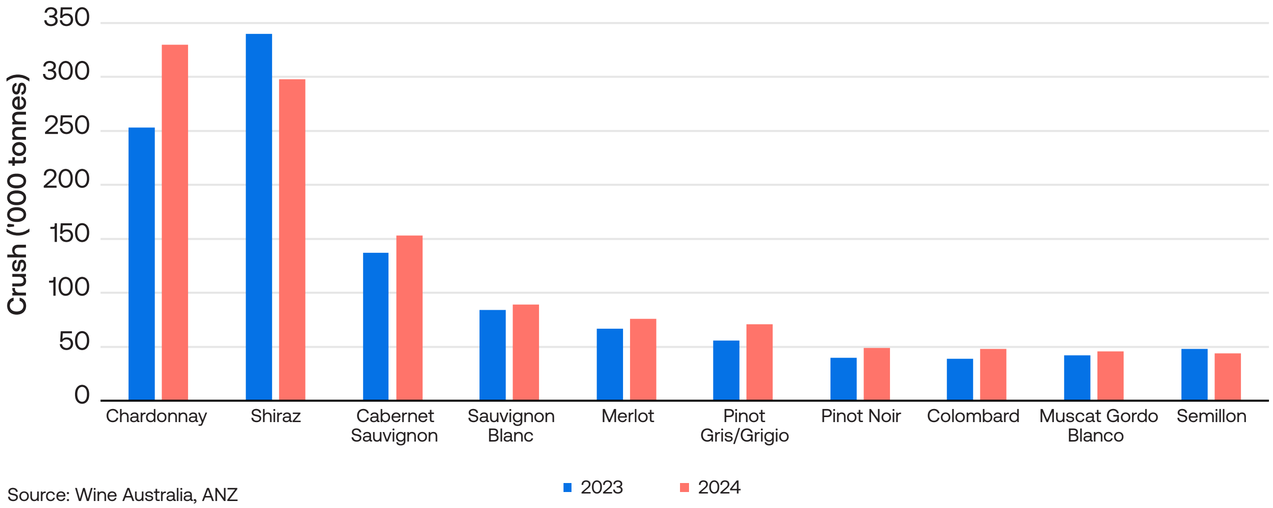
In contrast, Tasmania has continued to strengthen its position as a premium wine region, with production growing by 38 percent and its value surging by 51 percent. This aligns with the global trend towards high-quality, cool-climate wines, particularly sparkling and Pinot Noir, for which Tasmania is highly regarded.

Coonawarra's 33 percent increase in tonnage and 37 percent rise in value indicate strong demand for its premium Cabernet Sauvignon. Meanwhile, Clare Valley's 28 percent drop in production contrasts with a 20 percent rise in value per tonne, suggesting that lower yields may have driven up prices for its premium Rieslings.

Regions such as King Valley, Wrattonbully, and Padthaway also saw increases in per-tonne value, reflecting either an improvement in wine quality or stronger demand for their specific varietals. However, Barossa Valley and McLaren Vale saw per-tonne declines of 15 percent and 5 percent, respectively, reinforcing concerns about pricing pressures in the premium red wine segment.

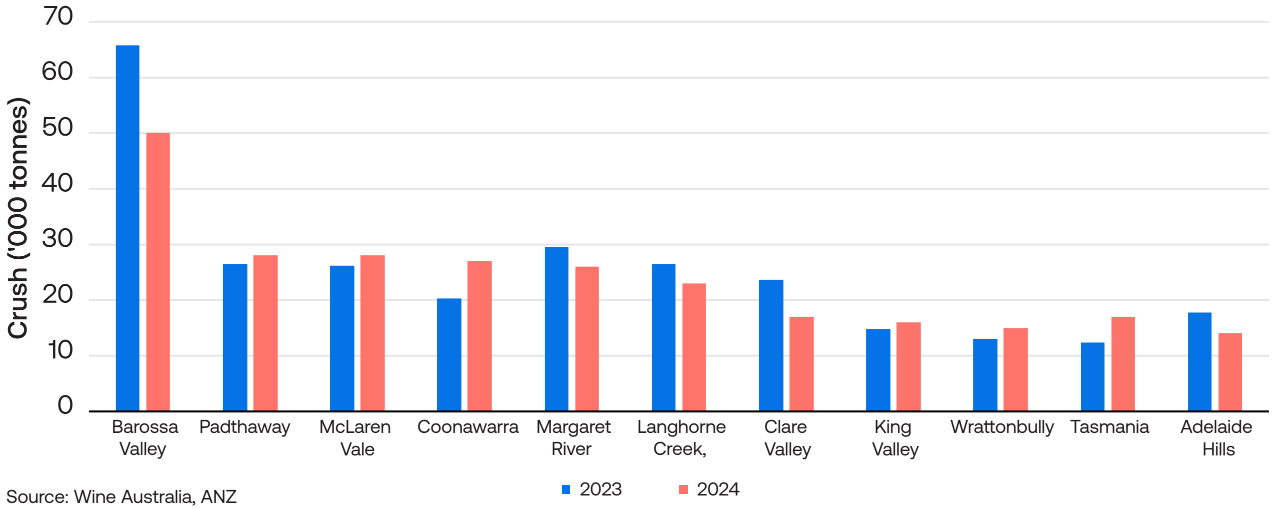
Overall, the regional shifts suggest a growing divergence between premium and bulk wine markets. While some regions are thriving on premiumisation trends, others - particularly those dependent on red wine exports - continue to face significant structural challenges. If the current trends persist, this could potentially see further consolidation in the industry, with some lower margin producers struggling to remain viable, while premium wine regions continue to attract investment and command higher prices.

Top 10 Varieties by Crush and Change in Crush Size in 2023 vs 2024



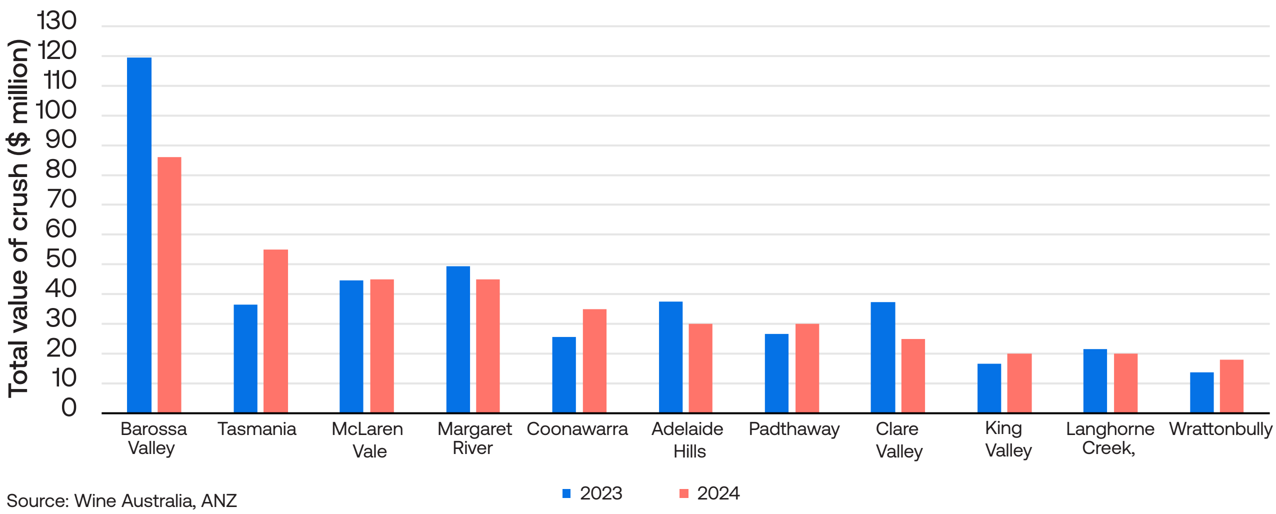
Source: Wine Australia, ANZ

Crush for Australia's Largest Cool/Temperate Regions in 2023 vs 2024

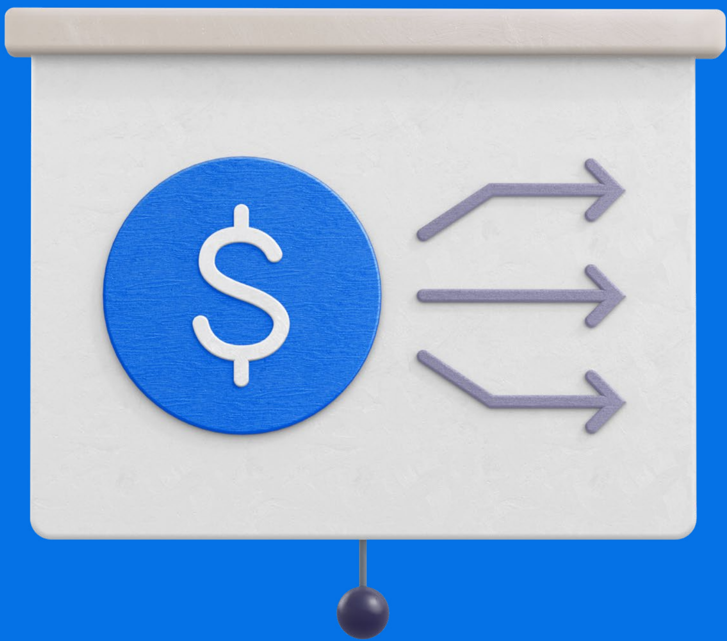


Source: Wine Australia, ANZ

Value of Crush for Australia's Largest Cool/Temperate Regions in 2023 vs 2024



Source: Wine Australia, ANZ



Economics – Agri Commodity Note

February rate cut likely one of just two

Earlier this month the RBA delivered its first rate cut in more than four years, reducing the cash rate by 25bp. Softer than expected inflation data provided the RBA with more confidence that underlying inflation will return sustainably to within the 2-3 percent target band. Indeed, ANZ Research expect trimmed mean inflation – the RBA's preferred inflation measure – to enter the RBA's target band by the middle of this year. The underlying inflation pulse (measured through six-month annualised trimmed mean inflation) fell to 2.7 percent in Q4.

While this will come as welcome news to businesses and households, ANZ Research only expect one more rate cut from the RBA, in August. This reflects the resilience in the activity side of the economy, with the labour market looking resilient, government demand buoyant and spending growth picking up.

Labour market remains resilient

While the unemployment rate has risen from 3.5 percent in 2022, it remains historically low at 4.0 percent. The unemployment rate has been hovering between 3.9 percent and 4.2 percent over the ten months to December. The participation rate was also at a record high in December at 67.1 percent, as more people are active in the labour market.

Forward indicators like ANZ-Indeed Job Ads suggest the labour market should remain resilient. Measures such as hours worked (where most of the weakness was initially showing) have picked up, possibly in response to stronger Q4 private sector employment. ANZ expects the quarterly average unemployment rate to peak at 4.2 percent in 2025.

Household spending growth is recovering

There are also signs consumer activity is picking up. Real household disposable incomes are getting a boost from tax cuts, cost of living relief and moderating inflation. Recent retail spending data has been robust, with Q4 inflation-adjusted retail sales recording its strongest result since Q1 2022, and consumer confidence also lifting.

ANZ Research expect consumption growth will improve over 2025, rising from an expected 0.8 percent y/y in 2024 to 2.4 percent y/y in 2025. Government demand also continues to support the economy. This will, in turn, support GDP growth, which is expected to pick up from 1.2 percent y/y in 2024 to 2.4 percent y/y in 2025.

AUD to remain soft

There is lots of uncertainty around the US policy outlook. At the time of writing, President Trump has announced a 10 percent tariff on imports from China. Tariffs on imports from Mexico and Canada were delayed, pending negotiations. The President has hinted at tariffs on Europe. Markets have so far focused on the potential inflationary implications of any tariffs, which had led to higher bond yields and a stronger US dollar (USD).

This USD strength has flowed through to the AUD/USD which hit a multi-year low of 0.6088 in February. We expect the AUD/USD to remain soft through the first half of the year as USD strength persists. However, moving through the year we think the USD will soften, which will support the AUD/USD. We see it ending 2025 at 0.64.

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