ANZ Agri InFocus Commodity Insights

Spring 2026

Foreword

In the winter edition, we contemplated a dry seasonal outlook and wondered in what condition crops and pastures would be in at the beginning of spring. Well, spring is here, and the winter for many probably couldn't have panned out much better given the circumstances. Mild conditions coupled with timely rainfall mean that as we head into the longer, warmer days, there is every chance of at least volumes being achieved and we are really only a rain or two away from guaranteeing average crop results.

Commodity prices across our key subsectors are in pretty good shape, particularly the livestock industries, and as we look around the world, the production landscape has been challenged by dry conditions across America and Europe, which is now flowing though to global prices. Recent rains have also delivered soil saturation and inflows into our storage systems to help build confidence in the upcoming summer crops in the south.

Of course, global trading instabilities continue. But given the potential supply shocks that were contemplated but didn't eventuate, it has really been a story of costs and the continuing roller coaster that has come with the on/off nature of the conflict in Iran. The ongoing management of margins puts pressure not only on decision making on farm around costs, but also the constant need for productivity gain at the farm level.

Speaking of productivity, we all know this has been a big defence against the declining terms of trade, but how has farming been going compared to other industries? As it turns out, pretty well, and when we consider the drivers for this performance, it highlights some interesting comparisons across subsectors and between states. In summary, productivity has been a lot about farm consolidation but more about the variety of other adaptations and adoptions across various industries that keep the farming collective ahead of the curve. Noting at the same time that increasing volatility still plays a critical role in farm business performance and ongoing viability. It's clear that continued focus should very much be around cost control and margin management to ensure a farming business is robust and sustainable.

So our industry is poised well for the spring of 2026. The official forecast for rainfall remains bleak. Appreciating it could go either way, it wouldn't actually take much to achieve a decent output and financial result for farming this year. And we probably don't need reminding that we are in a global market that continues to be challenged by climate in all jurisdictions. This helps support the outlook for commodity and food prices - providing optimism at the producer level, but of course building continual pressure at the consumer level where cost of living pressures are real.

Let's hope for a good spring, and that if our rainfall is low as predicted, it falls at the right time, and that we don't confront high temperatures too soon in the piece.

Mark Bennett
Head of Agribusiness,
Business and Private Bank

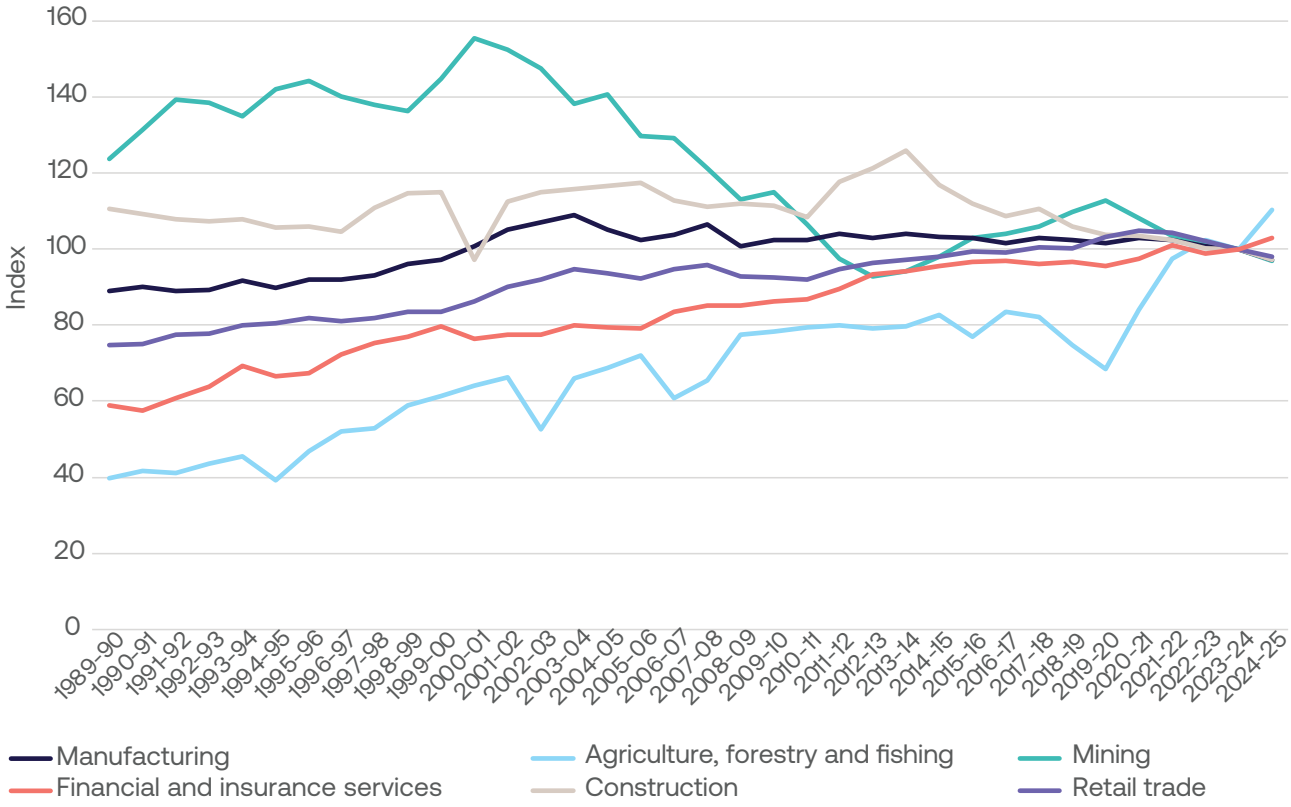
Productivity insights

- Australian agricultural productivity has been one of the stars of the Australian economy in productivity terms for many years;
- The cropping sector has seen the greatest productivity growth through improvements in machinery, fertiliser application and seed technologies;
- Increasing output is not the only means to grow productivity, with much of agriculture's productivity growth stemming from reducing inputs;
- Farm business profit more closely tracks productivity growth than it does commodity price;
- Consolidation appears to be a significant driving factor in productivity growth in some states – but notably, not all.

We all know the adage that Australia rode on the sheep's back for much of the 20th century. Changes in mechanisation, irrigation, and a myriad of other technological gains have changed both the face of Australian agriculture and the broader Australian economy. And while it isn't the sheep that is carrying the economy, Australian agriculture has been the major source of productivity growth across the economy at a time when lacklustre productivity numbers remain a key policy issue. While we've moved on from the economy riding on the sheep's back, perhaps the question is whether we can now say that Australian productivity rides on the back of the harvester?

Productivity across Australia

Selected industries multi-factor productivity



Source: ABS, ANZ

In recent years, productivity has emerged as a defining issue facing the Australian economy. While recent focus has been on cost of living, the Reserve Bank of Australia has identified declining productivity as one of the key factors constraining the economy's output, wages and growth.

Over the longer term, growth in productivity – particularly labour productivity - has slowed since the early 2000s, with growth particularly weak in the past few years. This is not, however, an issue limited to Australia, with most developed nations showing similar declines in productivity growth.

The decline in productivity has been led by the mining and construction sectors, but productivity growth has been weaker across almost all sectors in the past decade than in the decade before (the exceptions being real estate, professional and administrative services).

Of the major sectors in the economy, a few have stood out as stronger in recent decades, with the most recent decade showing multi-factor productivity growth in Australia as the strongest of any sector. Indeed, in the long-term since 1990, the growth in productivity in Australian agriculture has outstripped every other sector by multiples – with multi-factor productivity growing 177 per cent in agriculture since 1990 (on a gross-value added basis), compared with 90 per cent in media, the next best-performing sector, and 75 per cent in the financial services sector.

Why productivity?

Headlines often focus on prices as the key metric determining business profitability, which looks at only one side of the ledger. Growth in productivity provides a far closer correlation with average farm business profit, perhaps unsurprisingly showing that doing more with less is the key mantra to deliver profit for an average farm business.

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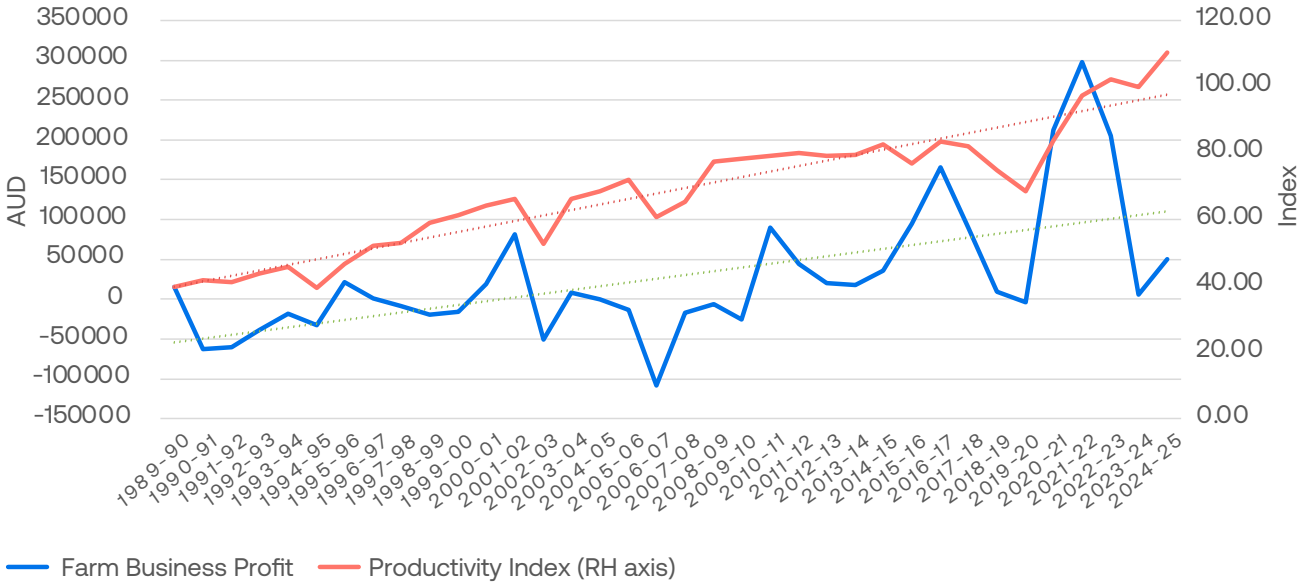
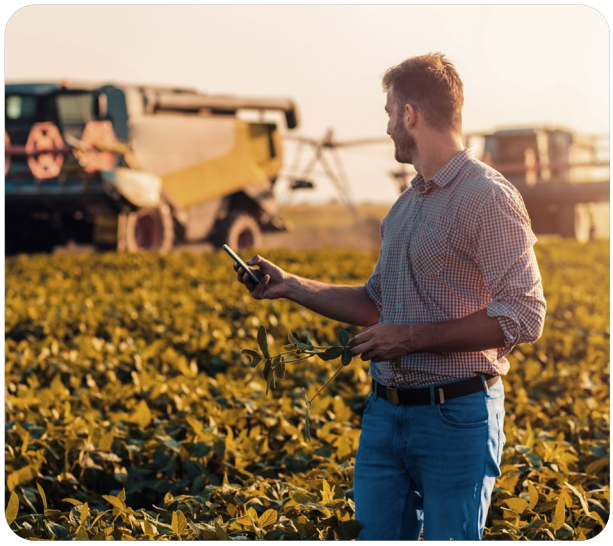
Average broadacre farm profit v broadacre farm productivity



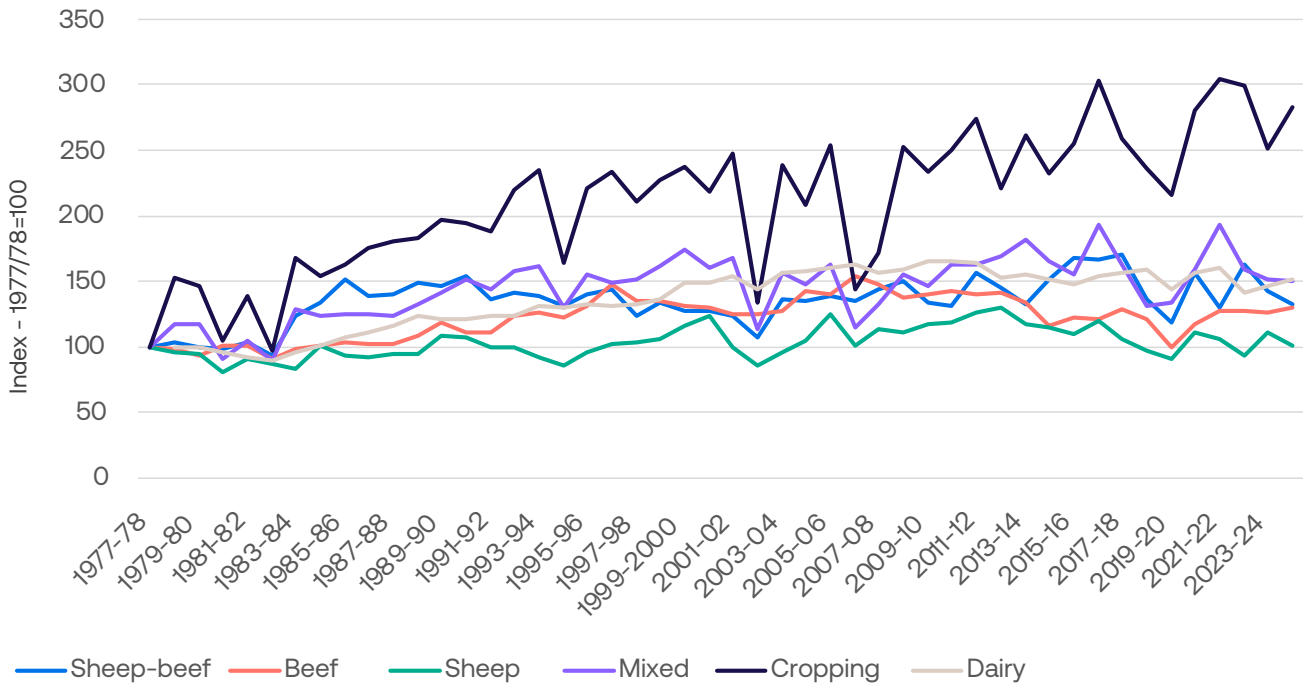
Source: ABS, ABARES, ANZ

Productivity within the Agriculture sector

Not all sectors within the agriculture sector are the same when it comes to productivity growth, with recent data released by ABARES showing that productivity growth in the cropping sector has led the way. Since the late 1970s, productivity growth in cropping has almost doubled productivity growth in any other commodity, due to the significant gains in technology, machinery and seed genetics. This isn't to say that there hasn't been considerable productivity growth in other commodities, particularly the dairy sector.



Broadacre and dairy productivity by commodity, 1977-78 to 2024-25 (index)



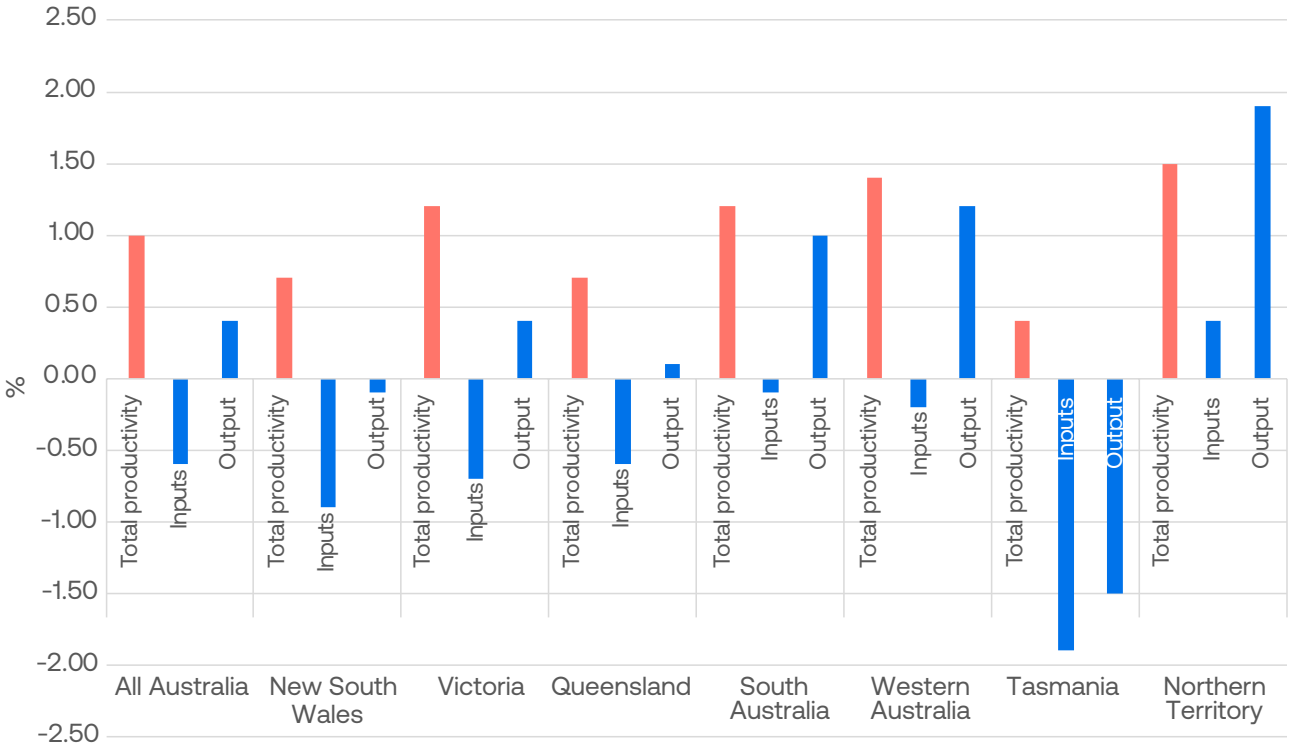
Source: ABARES, ANZ

And while we think of productivity growth, we might generally think of producing more or higher value goods – when in fact productivity growth can just as easily be gained through producing the same with less. Indeed, while cropping has been all about greater output, particularly across Western Australia and Victoria, productivity growth is also just as much about reducing inputs – whether through variable rate fertiliser, better agronomy or better breeding to lower stock handling costs.

In Queensland, New South Wales and Victoria, for instance, productivity growth is more attributable to reducing inputs than growing outputs.

The dairy industry, which is not captured in the broadacre data, shows the strongest productivity growth in Tasmania, compared to the lowest productivity growth in the powerhouse dairy state of Victoria. This may reflect Victoria's already high productivity base, limiting further gains.

Broadacre productivity growth rates, by state, 1977-78 to 2024-25 (%)



Source: ABARES, ANZ

Correlation between productivity and farm size and population, by state, 1990-2025

Source: ABARES, ANZ

On to the key question – what's driving that productivity growth? Why does it differ so markedly from state to state? And is there anything policymakers can do to keep driving agricultural productivity? Common wisdom in the agricultural sector has long been that the consolidation of farms – meaning the purchase of underperforming farms by more productive farms with greater access to machinery, genetics and agronomy has been a key productivity driver. A look at productivity figures by state between 1990 and 2025 shows that consolidation, farm size, and farm numbers mean more in some states than in others.

Across Australia, the number of farms and the average farm size appear to account for 36 per cent – or just over one-third – of the gains (or losses) in on-farm productivity. This means that around two-thirds are more likely to be explained by general advances in machinery, breeding, seed technology, agronomy, and other technological advances.

For all states, there is a negative correlation between the number of farms and farm productivity – showing that as the number of farms declines, productivity improves. While this could well be a case of correlation doesn't necessarily mean causation, on the face of it, the correlation is stronger in Victoria and Western Australia than in the other states. If we continue to look at correlation alone, we can also see that this doesn't necessarily flow through to the correlation between productivity and farm size – perhaps suggesting that the benefits for productivity associated with consolidation lie in both gains in on-farm productivity, and gains through the number of buyers and sellers in the commodity markets.

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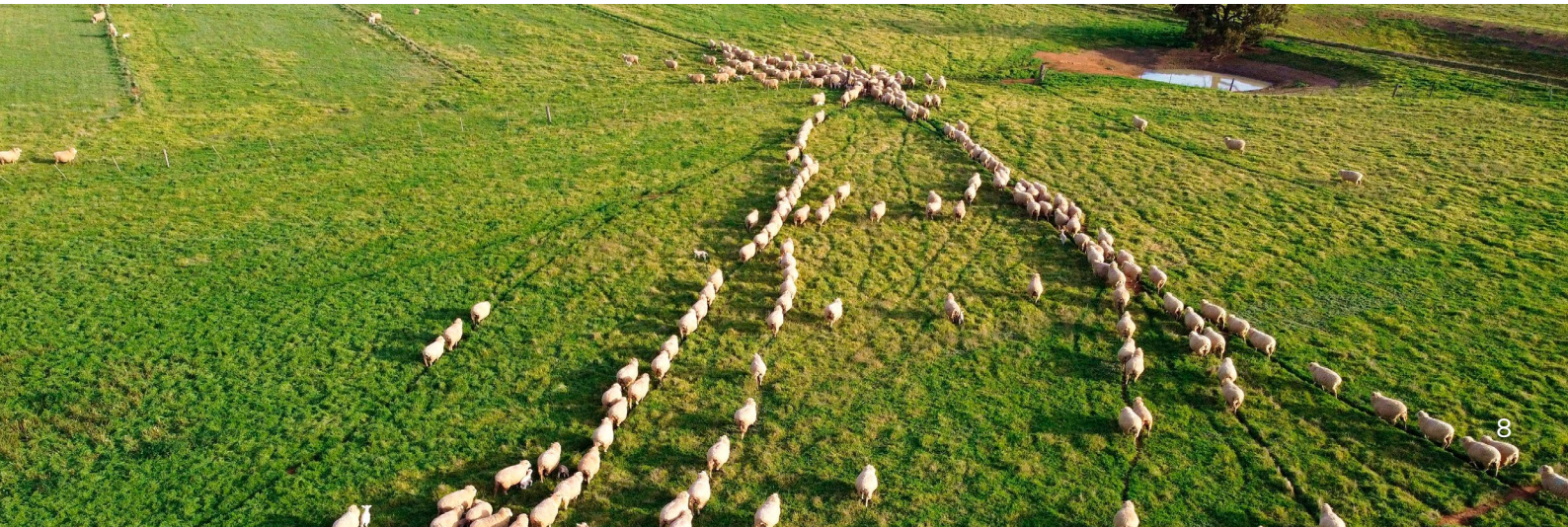
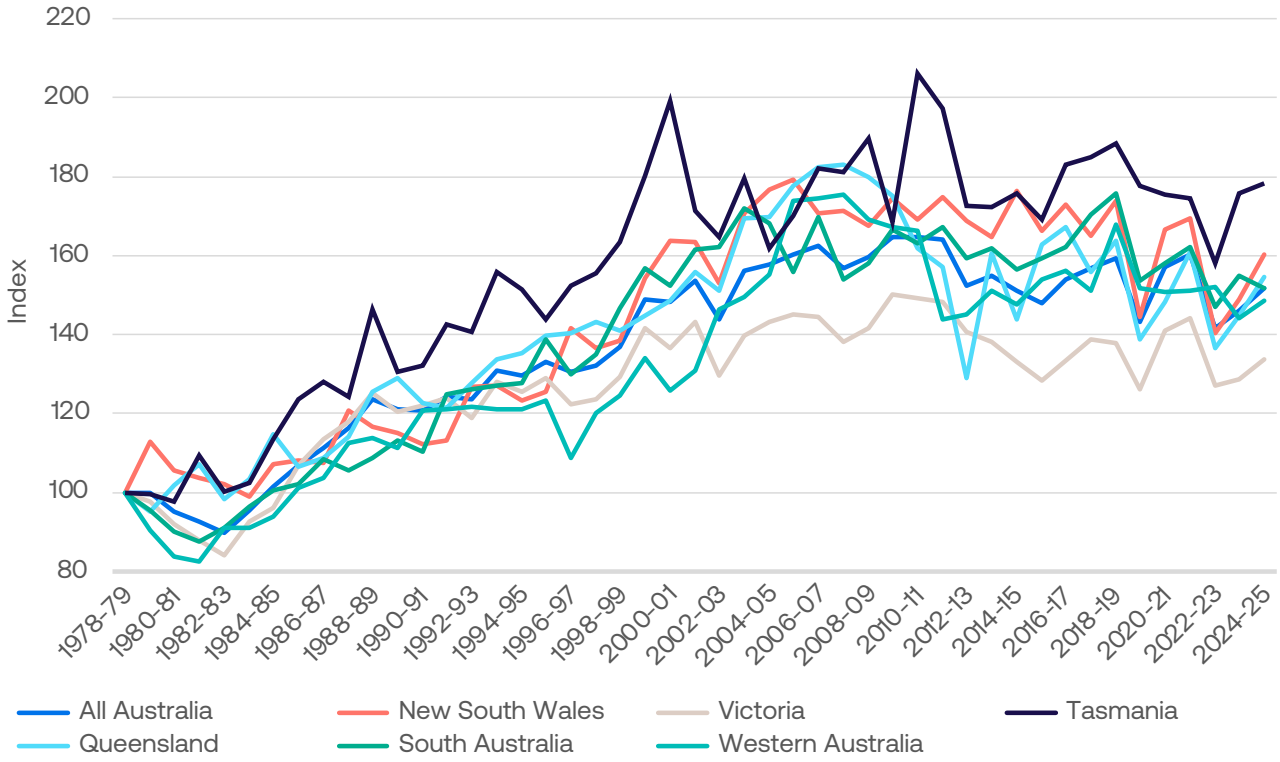
Again, if we look by state, the impact of larger farms has the strongest correlation with improvements in productivity in Victoria and Western Australia, and a negligible correlation in South Australia, New South Wales and Tasmania. The most interesting results appear in Queensland and the Northern Territory, where a decrease in average farm size is correlated with an improvement in productivity. This may well be due to improvements in irrigation, pasture and machinery, and grazing and water systems, meaning that smaller farms are becoming viable in areas which were previously borderline, or required larger areas to be financially sustainable; however, it is not necessarily the result we would expect to see if larger farms were the driving factor behind productivity.



Dairy productivity, by state



Source: ABARES, ANZ

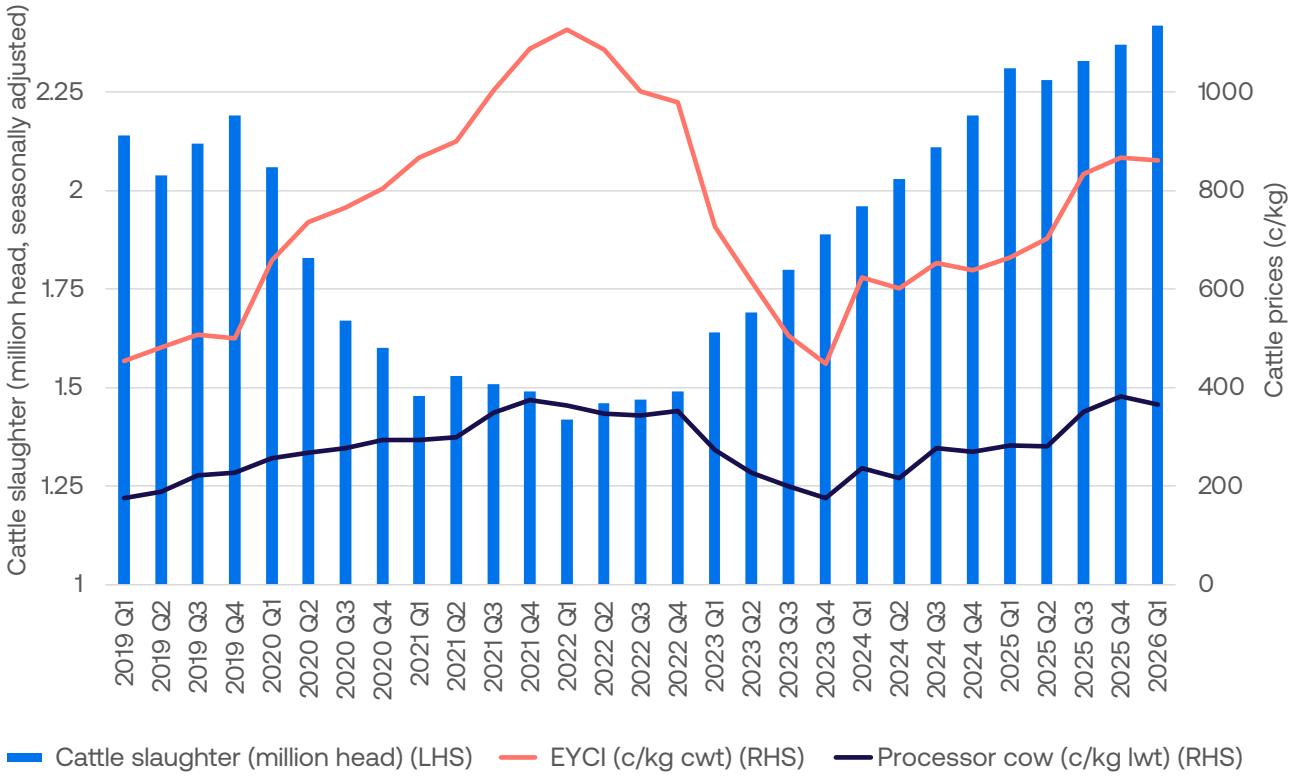
At a time when policymakers are desperately seeking to boost productivity, it is perhaps worth noting the outsized gains to be made across the agriculture sector – which, despite being relatively small, is clearly mighty in terms of productivity growth. And while the conditions behind that productivity growth are not always clear, with some growth being linked to the consolidation trend, but not all, there are lessons to be learnt and gains to be made by looking to agriculture to rebuild productivity growth.

Beef insights

- The EYCI approached 1,000c/kg during winter before easing in August, although prices remain above year-earlier levels;
- Record slaughter, record beef production, and record feedlot numbers continue despite a shrinking national herd;
- Feedlots reached a record 1.66 million cattle on feed in the June quarter of 2026;
- China and South Korea quota constraints are reshaping Australian beef export flows;
- Seasonal conditions are likely to be the key driver of cattle prices through spring.

The Australian cattle market enters spring 2026 with prices easing, supply remaining high and export demand being redirected across a changing set of global markets. After rallying strongly through autumn and early winter, cattle prices have softened as larger northern yardings and increased weaner availability placed greater supply into the market. The benchmark Eastern Young Cattle Indicator (EYCI) reached almost 1,000 cents/kg carcase weight during winter before easing to around 910 cents/kg in August. While this represents a meaningful correction from recent highs, the indicator remains around six per cent above year-earlier levels and well above the lows experienced during 2023.

Australian quarterly cattle slaughter and prices 2019 - 2026



Source: MLA, ANZ

The correction has been concentrated in young cattle rather than occurring uniformly across the market. Restocker categories have experienced the greatest pressure, while feeder and slaughter cattle have remained comparatively resilient. This suggests the market is responding less to weakening processor or export demand and more to changing expectations around cattle availability and seasonal conditions. Earlier in 2026, processors, feedlots and restockers were all competing strongly for cattle. More recently, feedlot and processor demand have continued to provide support, while restocker activity has become more cautious.

The north-south divide is also widening. Better feed availability in parts of Victoria and southern New South Wales continues to support buying activity, while tighter conditions in Queensland and northern New South Wales are encouraging weaners and other young cattle onto the market. The recent decline therefore reflects changing seasonal expectations and regional supply, rather than a broad collapse in beef demand.

Cattle supply remains historically high. Seasonally adjusted cattle slaughter reached 2.41 million head in the March quarter of 2026, the highest quarterly slaughter result on record and more than 20 per cent above the cycle lows recorded during 2021. Beef production reached 749,010 tonnes, also a record March-quarter result. Despite these elevated production levels, cattle prices remain well above the lows experienced during 2023, highlighting the strength of processor, feedlot and export demand.

ABARES expects cattle slaughter to reach 9.96 million head in 2025-26, one of the highest annual slaughter results in decades, before easing 4.8 per cent to 9.48 million head in 2026-27. Beef production is similarly forecast to remain near record levels, with ABARES predicting it to be just under three million tonnes for 2025/26 before declining to 2.86 million tonnes in 2026/27. Despite this elevated production outlook, the national cattle herd is forecast to contract from 29.7 million head in 2024-25 to 26.9 million head by 2026-27, highlighting the extent to which

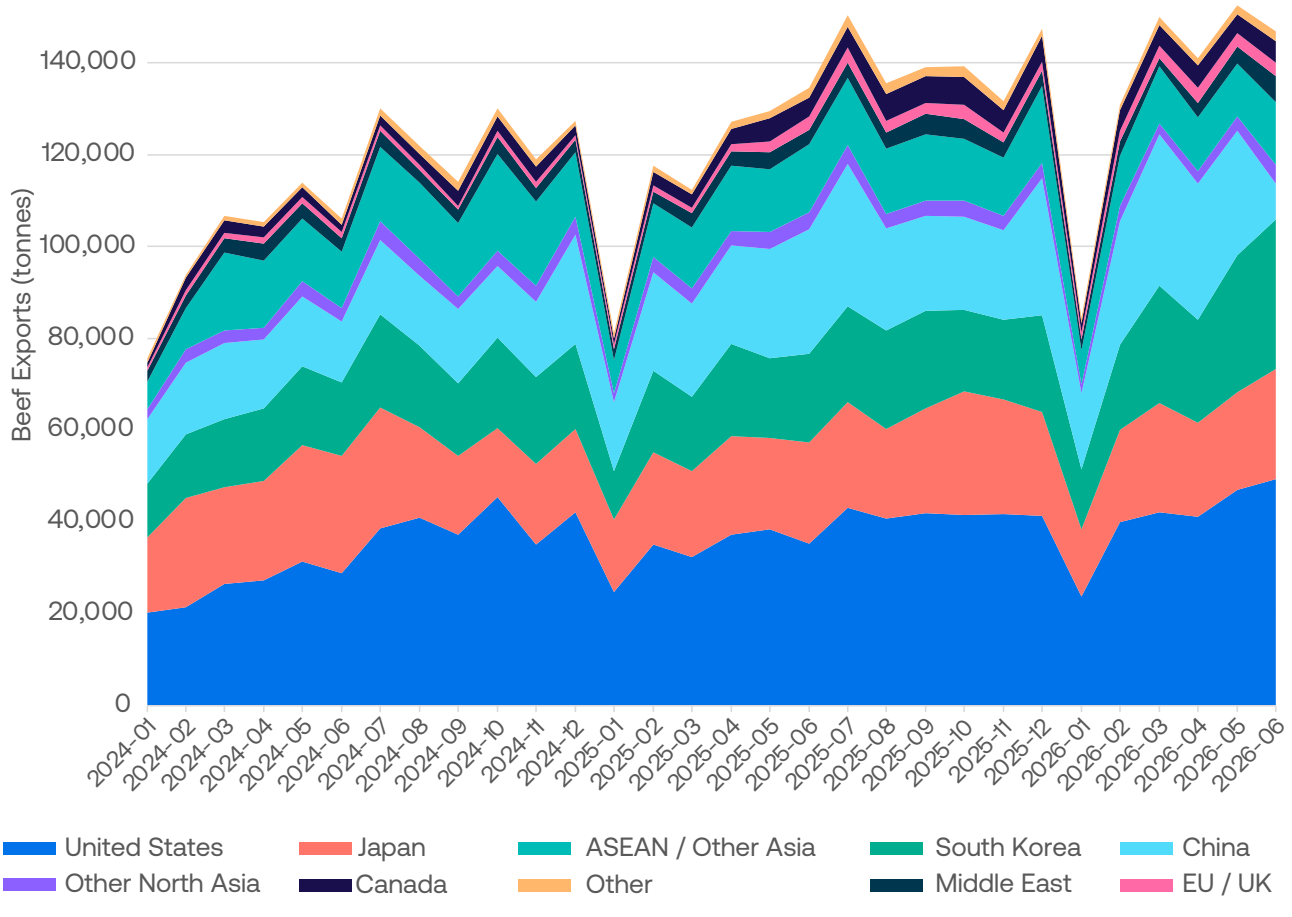
current production is being supported by high turn-off rather than herd expansion.

Feedlots are playing an increasingly important role in shaping the cattle market. The Australian Lot Feeders Association – Meat and Livestock Australia (ALFA-MLA) June 2026 survey reported a record 1.66 million cattle on feed nationally, while quarterly grainfed turn-off reached a record 1.05 million head. Feedlot utilisation increased to 93 per cent, highlighting the sector's continued expansion despite elevated cattle prices and ongoing herd contraction. Much of this growth continues to be concentrated in Queensland and in larger operations, with feedlots holding more than 10,000 head accounting for the majority of cattle on feed. Unlike restockers, feedlots are less dependent on short-term rainfall conditions and buy cattle to meet grainfed production programs and customer demand. As a result, strong feedlot demand has helped support feeder cattle prices even as restocker confidence has softened.

While some producers are retaining females where seasonal conditions permit, the industry appears to be experiencing an uneven transition, with retention occurring in some regions and continued turn-off in others. This reflects the differing seasonal outlooks across the country, with stronger conditions encouraging rebuilding in some areas while tighter feed availability continues to support cattle sales in others.

Export demand remains strong, but the destination mix is changing rapidly. Growth in the first half of 2026 was concentrated in the United States (US) and South Korea, which each absorbed around 40,000 tonnes of additional Australian beef compared with a year earlier. In contrast, exports to Association of Southeast Asian Nations (ASEAN) and other Asian markets declined, highlighting the increasingly uneven nature of global demand.

Australian beef exports by destination Jan 2024 - Jun 2026



Source: MLA, ANZ

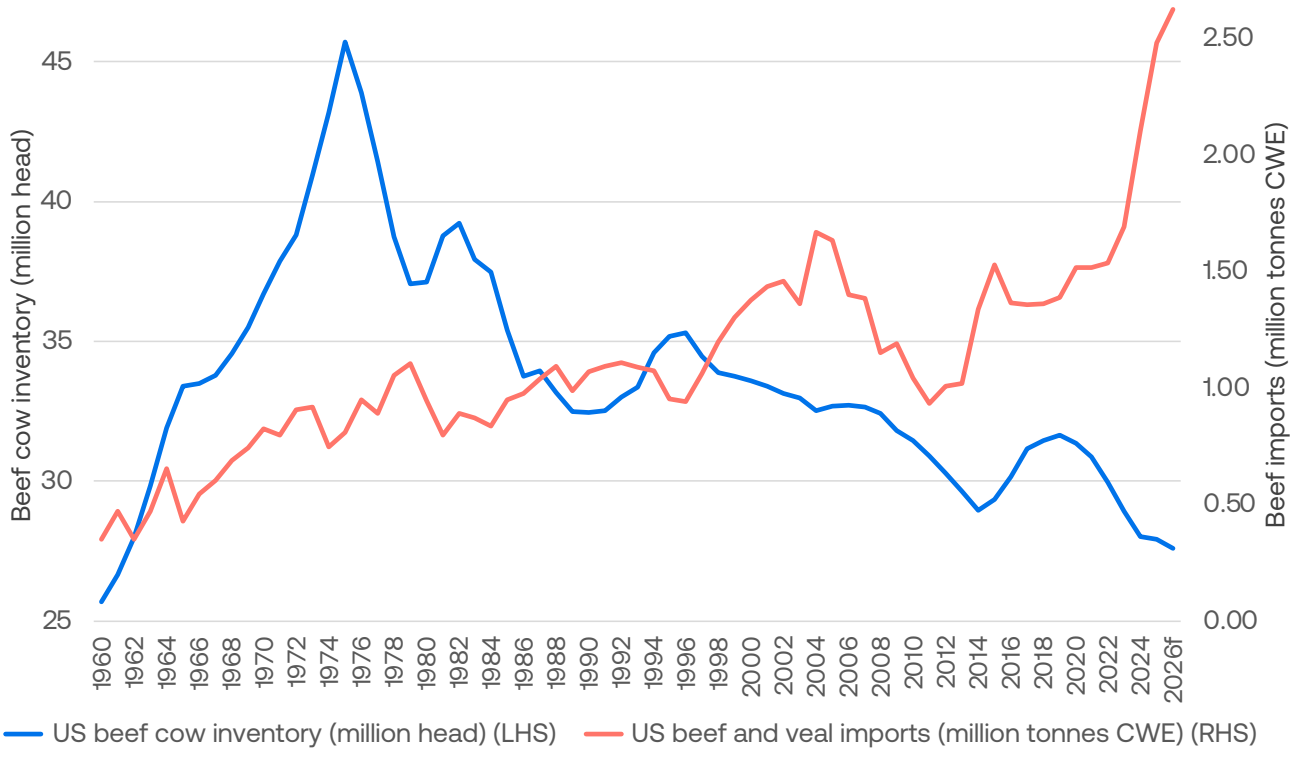
China's role changed markedly during the first half of 2026. Monthly exports rose from 16,636 tonnes in January to almost 33,000 tonnes in March before falling to just 7,814 tonnes in June as Australia's country allocation was exhausted. Australia became the first major supplier to fill its quota, while Brazil had utilised 79 per cent of its allocation.

Much of that displaced product initially moved into South Korea. June exports exceeded 32,000 tonnes, up 41 per cent on a year earlier and 113 per cent above the five-year average. However, Australia's Korean allocation was also filled unusually early, meaning subsequent shipments face a 24 per cent tariff rather than the 5.3 per cent in-quota rate.

Australian exporters have responded by broadening their market exposure. First-half exports to the United Kingdom increased 84 per cent, Saudi Arabia recorded its highest monthly volume since 2015, and shipments to Canada had already exceeded full-year totals for eight of the previous ten years. Markets outside Australia's ten largest export destinations accounted for nine per cent of exports and recorded volumes almost 90 per cent above their five-year average in June.

The US has become an increasingly important destination for Australian beef during 2026. Australian shipments reached 49,207 tonnes in June, up 39 per cent from a year earlier, with the US accounting for more than one-third of monthly exports. The latest USDA cattle report suggests supplies are unlikely to loosen quickly. While total cattle numbers edged slightly higher to 94.2 million head in July 2026, the beef cow herd declined by a further one per cent to 28.5 million head. Replacement heifer numbers increased three per cent, suggesting some early retention, but the 2026 calf crop is still expected to decline by two per cent.

US beef cow inventory and beef imports 1960 - 2026f



Source: USDA, ANZ

Even if the US herd begins rebuilding, import demand may remain strong in the near term. Retaining breeding females generally reduces slaughter before additional calves eventually flow into production, tightening beef supplies during the early stages of a rebuild. Imports now account for almost one-fifth of US beef consumption, compared with less than five per cent in 1960.

For now, the cattle market appears to be driven more by seasonal uncertainty than weakening fundamentals. Prices have retreated from winter highs, but export demand remains strong, feedlot activity remains near record levels, and US cattle supplies remain historically tight. The key question is whether seasonal conditions improve enough to encourage further retention or deteriorate sufficiently to trigger increased turn-off. The answer is likely to vary between regions, but it will play a major role in determining whether the recent correction proves temporary or develops into a more sustained decline through the remainder of 2026.

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Grains and oilseeds insights

- Global grains prices have jumped higher due to drought in the US and Europe, and the effective cessation of exports from the Black Sea region;
- Oilseed prices remain highly reactive to global crude oil prices and shipping through the Strait of Hormuz;
- Latest USDA forecasts bucked the trend slightly, forecasting lower wheat production and lower exports but higher carry-over stocks, easing price pressures slightly;
- High protein wheat supplies remain the hardest hit in the US, raising the possibility of a growing premium for Australian hard wheat;
- The Australian southern crop is defying predictions of an El Niño-impacted season, while the northern crop is more patchy.

The phrase “the more things change, the more they stay the same” is starting to have some real relevance to the global grains market as some of the same global factors which pushed grains prices to stratospheric levels in 2022 re-emerge – namely the Russia-Ukraine war restricting exports and a drought-ravaged season in North America. This has seen global wheat prices jump strongly in recent weeks, and while it remains unclear whether prices will reflect the same strength of gains we saw in 2022, wheat futures are certainly pointing to more gains to come. As these global disruptions align with a strong start to the winter cropping season in Australia, the echoes of the 2022 season are difficult to ignore – albeit with weaker demand growth this year being a key differentiator.

Global conditions

Global supply of wheat remains the key watch point for most in the industry, as USDA estimates showed a significant drop in US wheat output due to drought across the winter and spring wheat-producing areas of the US. However, concerns extend beyond the US wheat harvest, with dry conditions across the EU and increased missile strikes in the Black Sea region threatening exports

from Russia and Ukraine, further impacting global supply and exports.

The drought across the central and southern Great Plains of the US has been reported as 'decimating' US production of high protein, hard red winter wheat (HRW) in particular, with reports that almost one third of crops were abandoned over the spring. The spring wheat harvest is in the early stages in the northern US states; however, to date, it appears to have better starting moisture and is of better quality. Severe heat stress across the winter wheat-producing area, such as Kansas, is expected to drive the HRW crop to its lowest level since 1958.

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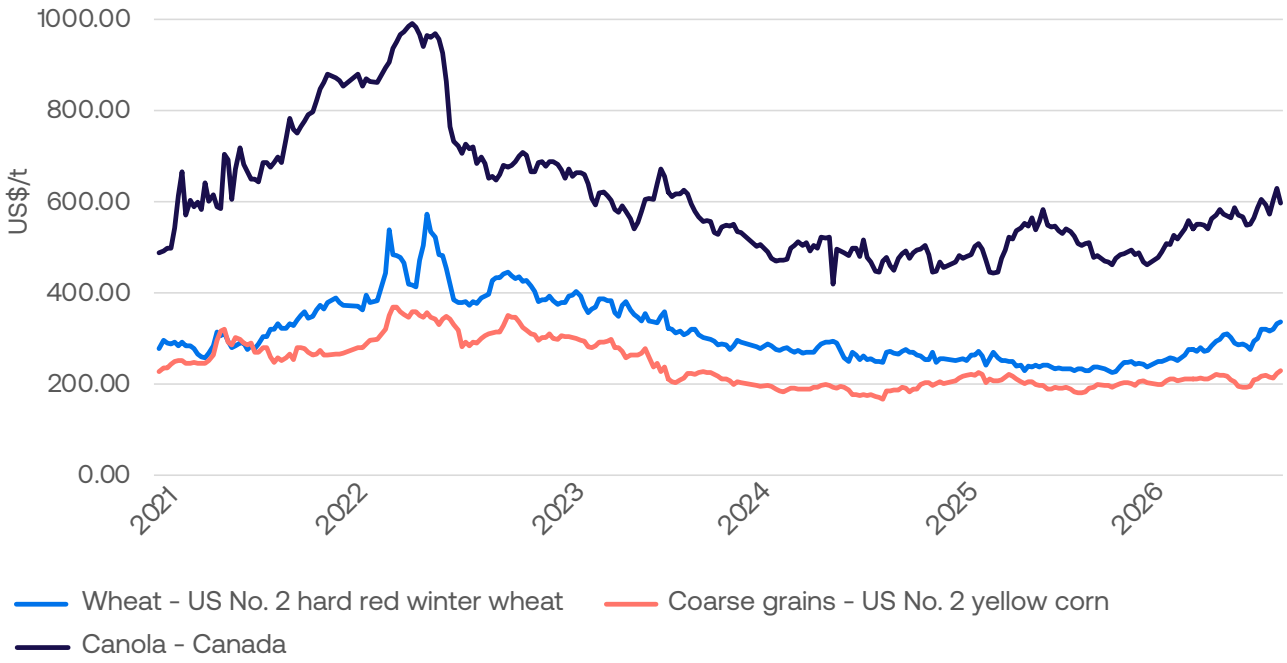
And while wheat will generally take the headlines when it comes to global production, the drought in the US and heavy rain in Canada do not appear to be impacting canola production in the same way, with production forecast up. The latest USDA updates show an increase in vegetable oil production across canola, soybean and sunflower oilseeds, based on increases in yield and area harvested globally. Despite this, global canola prices have rallied strongly back to levels last seen in 2022, based on strong demand from China, oil prices as a result of the Iran conflict, and perhaps increasingly, concerns over sunflower oil exports from Ukraine." Barley production is also up strongly globally, and while consumption is also up, production continues to outstrip consumption, so end stocks are expected to grow.

As is often the case, drought across the US has also coincided with drought and high temperatures across much of the Europe. The biggest impact this year appears to be in France, where the French corn crop is anticipated to be the lowest since the 1970s. Combined with concerns over conditions in the US corn belt, global corn prices have jumped sharply. Again, the latest USDA forecasts have eased that somewhat: while production is anticipated to be down year-on-year, the latest forecast is for a much smaller reduction than previously forecast. Despite this, feed prices are expected to rise as global corn stocks fall to their lowest level since 2014/15.

Increased missile activity in the Black Sea has seen ports and grain terminals in Greater Odesa reduce Ukraine's exporting capacity by about one-third, while drone activity has increased risk and lowered shipping activity through the Sea of Azov, and Russia's control of the Kerch Strait and the Azov-Don Canal has severely restricted wheat exports from the region. Russian analysts at SovEcon have stated that Russia will only export between three million and 3.4 million metric tons of wheat in August – significantly under the five million five-year August average. With many signs pointing to the escalation of strikes in Ukraine and Russia, the disruption to shipping and, as a result, wheat and sunflower exports from the Black Sea region, in particular, may last for a number of months at least.

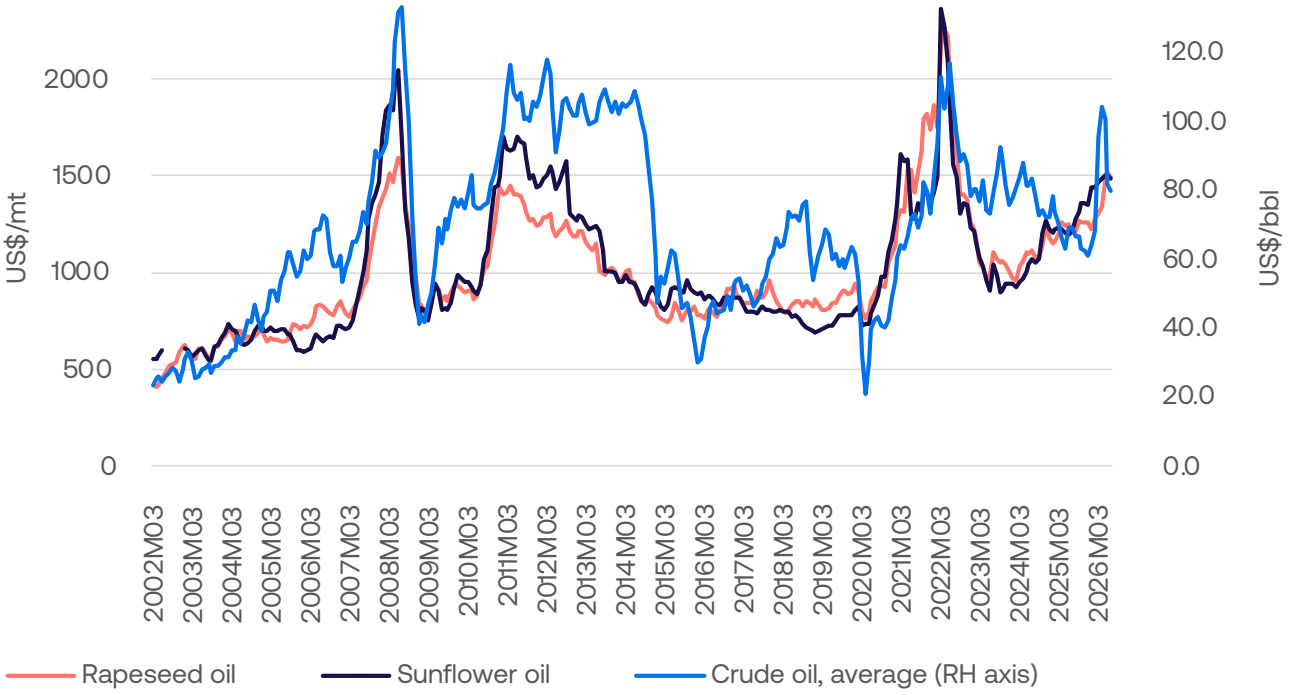
Global grain prices



Source: ABARES, ANZ

While looking at oilseed prices, we can't ignore the ongoing conflict in Iran and the Strait of Hormuz as global canola and vegetable oils bounce around in line with oil prices. Global canola prices have increased strongly in late August; however, they continue to react strongly to movements in global oil prices. July saw the collapse of the Memorandum of Understanding between the US and Iran and the return of strikes in southern Iran, driving global oil and canola prices higher, which then lowered and stabilised in early August. August has seen another rise in oil prices as hopes of a quick reopening of the Strait have faded.

Global crude oil v vegetable oil prices

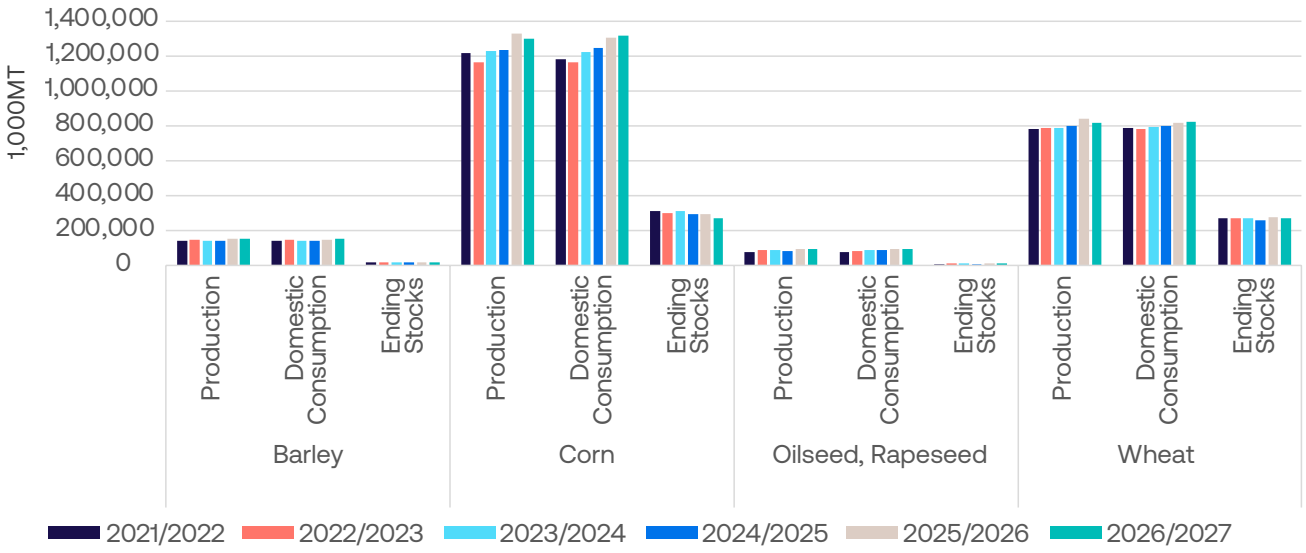


Source: World Bank, ANZ

All these factors have started to show up in global food prices, with the FAO Food Price Index up 0.7 points in July, with increases in the price of cereals, sugar and vegetable oils. And while global food prices are on the rise, they are still well below the 2022 peak.

So what does this mean for global supply dynamics and the prospects for prices coming into Australia's harvest season? In short, upward pressure on wheat and feed prices as production is impacted by drought, while barley and canola prices may stay more muted as production for both increases and continues to outpace consumption growth, resulting in larger ending stocks. The caveat on all of this remains the impact of global conflict on shipping routes, oil prices, and national decisions on stocks.

Global grains and oilseeds production, consumption and ending stocks



Source: USDA PSD, ANZ

Domestic conditions

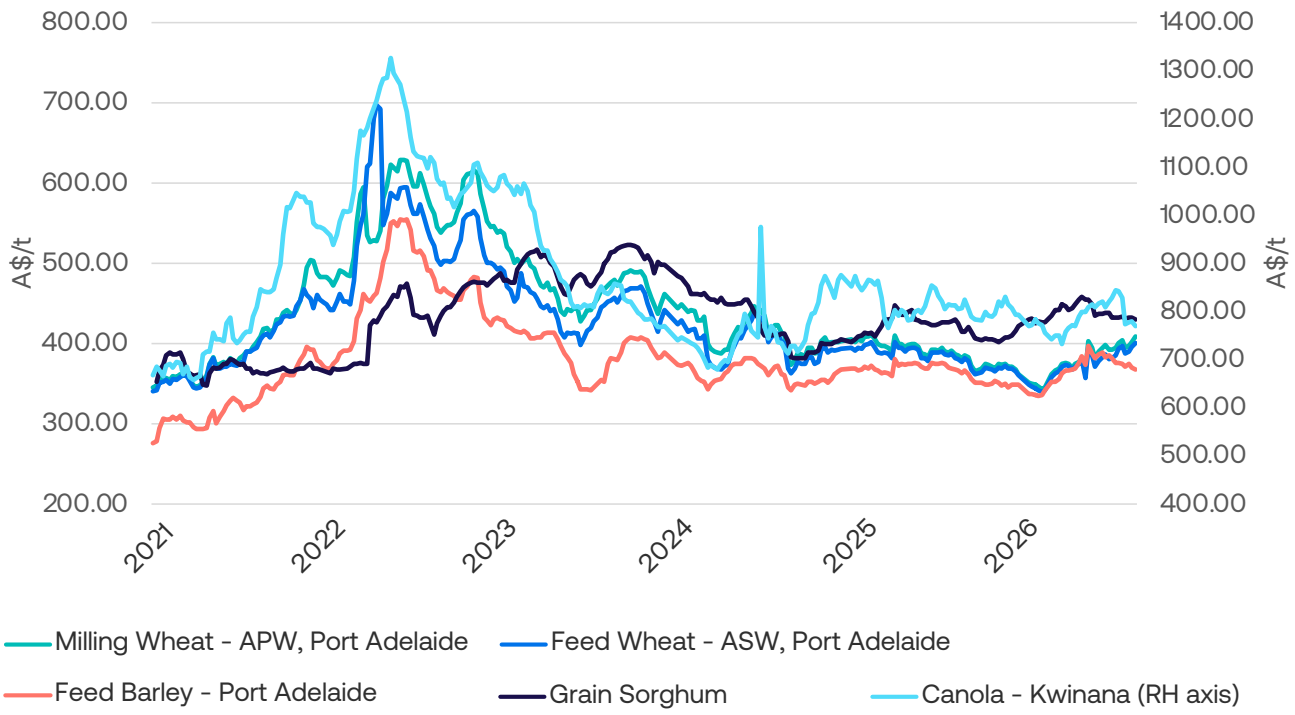
While the start of an El Niño season captivated the headlines when talking about the Australian winter crop, the current situation in the paddock is a very different one. Absent significant frost events, the southern wheat and barley crops are shaping up for another bumper year, with crops in some areas looking as good as they have in recent memory. The northern season is setting up slightly differently, however, with crops in New South Wales looking mixed, and some Queensland croppers looking to minimise losses by cutting crops for silage. Having said that, the amount of grain still sitting in silos across the country after several strong seasons may provide a buffer for those northern producers as global wheat prices look to be going nowhere but up.

Domestic prices have been a slightly mixed bag – with milling and feed wheat jumping strongly in recent weeks based on those global factors. Meanwhile, Australian barley prices have come down slightly since May, although now sit very much on a par with the previous two years. This is despite the jump in global corn prices, and perhaps sits more as a 'holding point' before the impact of some frost events, and the size of the barley harvest, is realised. Canola prices continue to jump around on the back of global crude oil prices; however, they are also trending upwards due to the prospect of blockages on Ukraine's sunflower exports, which typically start to peak in November, as well as flooding fears in Canada.

On the horizon, we could see a widening of the premium for milling wheat above feed wheat prices, as the reality of a poor HRW harvest in the US and lack of high protein Black Sea wheat on the global market becomes clearer. Having said that, the coarse grains crop has also been impacted – with the French corn crop hit hardest – which may push feed grain prices up at the same time.

As prices appear to have more upside than anything else, attention will turn to controlling costs, which remain significantly higher coming into harvest. With fuel prices remaining one of the major costs of the harvest season, managing price volatility associated with ongoing tensions in Iran will remain a key watch point.

Australian grains and oilseed prices



Source: ABARES, ANZ

Sheep insights

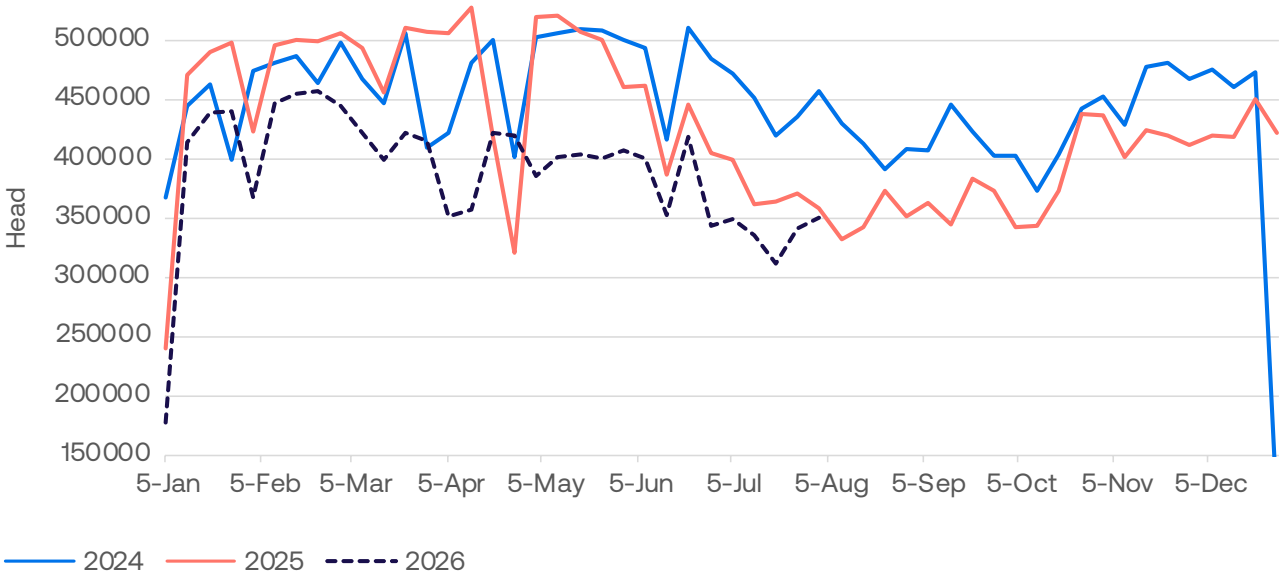
- **Supply squeeze intensifies:** Lamb slaughter is down more than 13% year-on-year and mutton throughput has fallen 38%, highlighting just how tight sheep supply has become;
- **Rain could reshape flock dynamics:** Widespread winter rainfall may encourage producers to retain more breeding ewes or add weight to lambs, potentially challenging forecasts for further flock decline and delaying peaks in new season lamb supply;
- **Middle East export volumes slump:** Ongoing instability in the region has driven a sharp contraction in sheepmeat exports, making it the biggest contributor to Australia's export slowdown;
- **China and North Asia provide a bright spot for lamb:** Strong demand from China, South Korea and other Asian markets is helping offset reductions elsewhere in lamb exports;
- **US demand remains remarkably resilient:** Despite global volatility and limited supply, the US continues to underpin lamb exports, supported by tight domestic beef supplies and growing consumer exposure to lamb;
- **Trade uncertainty looms:** A new US investigation into lamb imports could have significant implications for Australia's largest export market at a time when global sheepmeat prices remain at or near record highs.

Sheep and lamb supply continue to be the talk of the sheep industry as spring rolls around for another year. The stark reduction in numbers seen in both lamb and sheep slaughter figures is the most telling sign of a limited-supply environment. Lamb throughput for the period January to July was back over 13 per cent year-on-year, with a smaller breeding ewe base the main driver of lamb availability. Mutton throughput has experienced a far more significant drop, down year-on-year for the same period, as the combined impact of fewer breeding ewes and the need for ewe retention on farm limits producers' ability to capitalise on high mutton prices.

The quantity of spring lambs finding their way to markets is always uncertain, and good conditions could see some producers have sucker lambs ready earlier than usual. However, widespread and drenching August rain across large parts of southern New South Wales, Victoria, and South Australia could tempt producers to hold for heavier

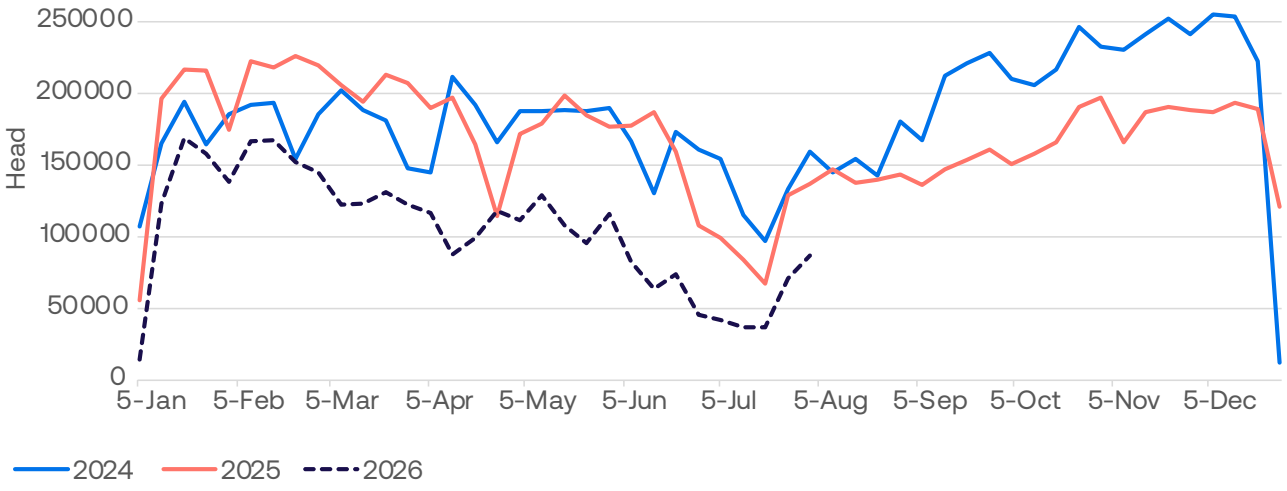
weights and greater returns, particularly if they are not carrying a full complement of ewes. This rainfall is likely to also support further breeding ewe retention, perhaps pointing to a stabilising or rebuilding of flock numbers, as opposed to the current MLA forecast of a continual retraction in ewe numbers through to 2028. With ewe numbers currently estimated at a five-year low of around 69 million head, producer decisions as to peak flock numbers will have a significant impact on spring mutton supply and joining numbers.

Australian lamb slaughter - weekly



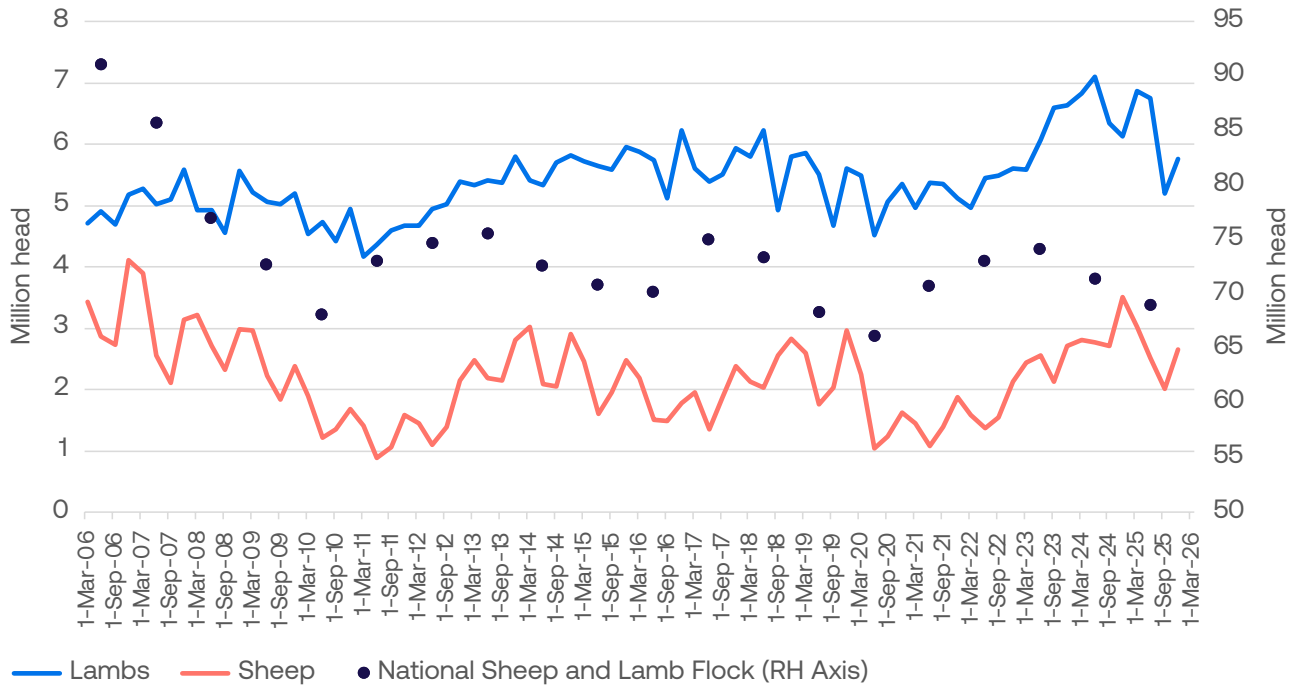
Source: MLA, ANZ

Australian mutton slaughter - weekly



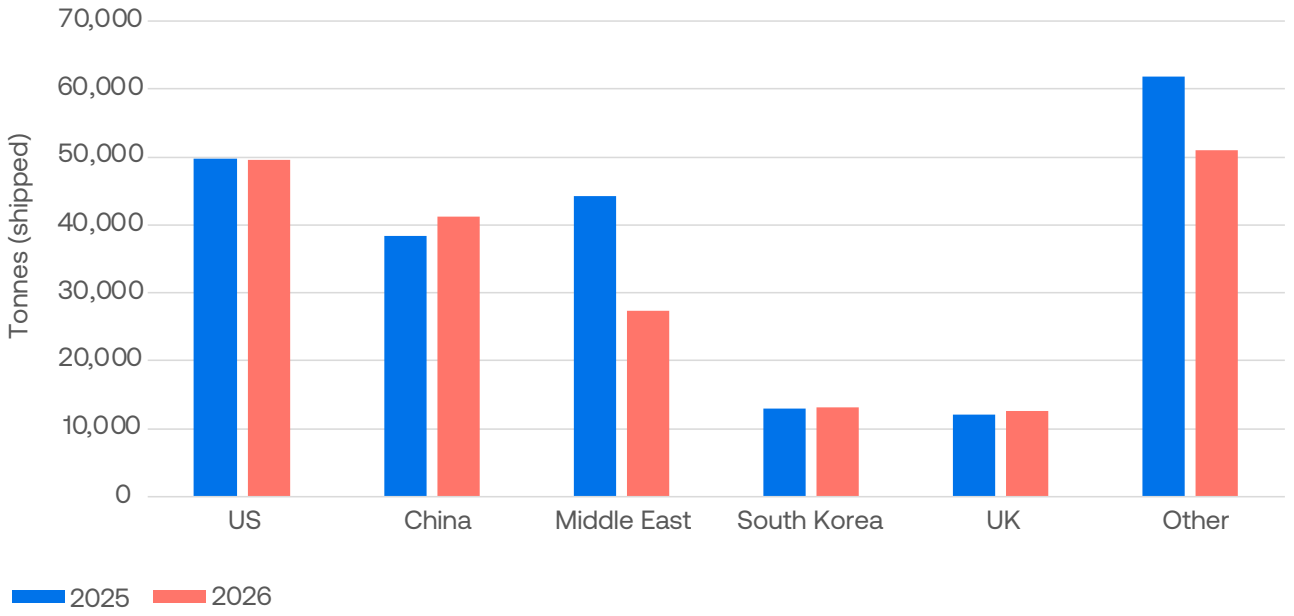
Source: MLA, ANZ

Quarterly sheep and lamb slaughter and the national sheep flock



Source: ABS, MLA, ANZ

Australian lamb exports - January to July



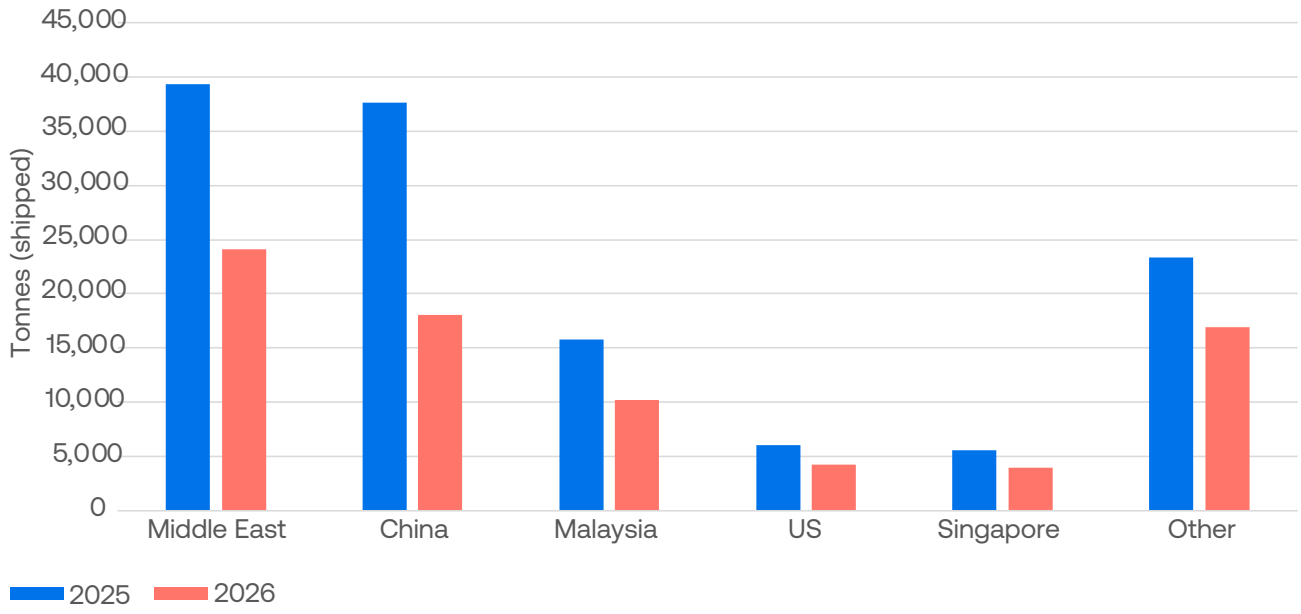
Source: DAFF, ANZ

A direct impact of lower supply and throughput is, of course, less lamb and mutton available for global markets. Lamb exports for the year to July are running around 11 per cent behind 2025 volumes, with growth in China and North Asia partially offsetting a sharp contraction in Middle East shipments.

The largest contributor to the overall decline in exports was the Middle East, where exports have fallen by 16.8kt (a drop of 38 per cent) for the year to date, largely because of ongoing conflict and instability in the region, along with lower availability. This single region accounts for around 69 per cent of the total national decline in lamb exports year-on-year.

The US remained Australia's largest lamb export destination, and despite volatility in many other regions, US demand is essentially unchanged year-on-year. A shortage of domestically produced beef continues to be the main driver, which is fortuitous for lamb consumption, allowing a passive growth in consumer awareness of the product. Exports to China and South Korea have performed well, and UK shipments continue to build in volume, currently representing over six per cent of export market share.

Australian mutton exports - January to July



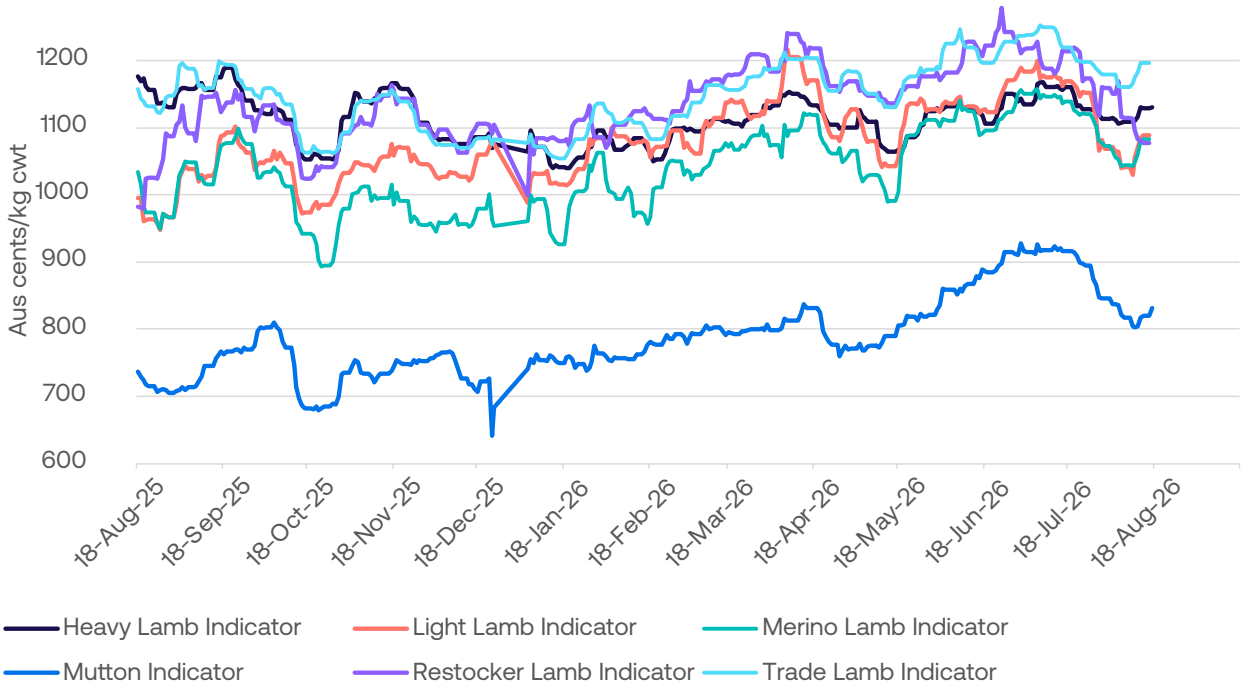
Source: MLA, ANZ

In mutton exports, the Middle East region is running around 38 per cent behind 2025 levels for the January to July period; however, it is China with the largest percentage contraction, with exports currently over 50 per cent lower year-on-year. While higher value lamb exports are performing well in China, particularly in the food service chain and higher-end consumer environments, mutton at its current high price point is attracting less attention from Chinese consumers.

Overall, global demand for mutton remains sound, keeping in mind that exports are coming off some record years and prices are at historical highs.

As the year progresses, prices are likely to see some volatility and sensitivity to short-term supply of new season lambs, particularly with some processors not running at full capacity to manage the high-cost, low-supply environment. While prices have come off their June and July peaks, the sheer lack of numbers in the system along with recent widespread rain is supportive of favourable pricing through the spring period.

Australian sheep and lamb indicator prices



Source: MLA, ANZ

In other topical news, an investigation is now underway by the International Trade Commission (ITC) into US lamb imports, following lobbying by domestic producers who argue imports from Australia and New Zealand are unfairly impacting the local industry. The Australian sheep industry is proactively responding to the investigation, from which a response is anticipated by mid-November this year. The ITC is expected to make recommendations to the US president by January, for any remediation or protections going forward. With tariffs on Australian lamb already sitting at 12.5 per cent, and prices at historical highs, any further tariff or non-tariff barriers could represent a significant blow to the Australian industry. The Australian response is likely to centre around the role of imported lamb in supporting growing lamb consumption in the US, rather than outcompeting the domestic industry.

Wool insights

- **Tighter supply continues to underpin the market:** Australian wool production is forecast to decline further in 2026/27, reinforcing the supportive supply conditions that helped drive stronger prices last season;
- **A smaller flock is reshaping the outlook:** With the national sheep flock at a five-year low, any meaningful increase in wool production is likely to be gradual and influenced by producer rebuilding decisions;
- **Natural fibre demand remains a key opportunity:** Growing consumer interest in sustainable and natural products continues to support wool's long-term outlook, particularly in premium markets;
- **Supply and demand may be moving into balance:** As global economic growth slows, Australia's lower wool production could help maintain healthy buyer competition and support market resilience in the year ahead.

Following the winter recess, Australia's wool producers will be hoping to build on the positive momentum established during the 2025/26 season. Wool markets delivered a welcome improvement over the past year, with the Eastern Market Indicator (EMI) averaging significantly higher than the previous season and providing renewed confidence across the supply chain.

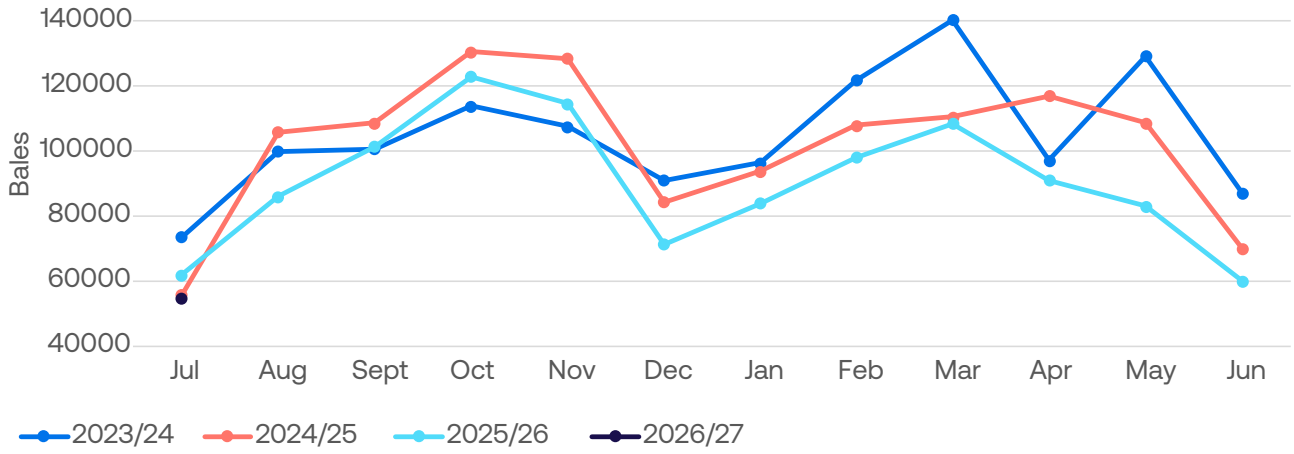
The recovery in wool prices seen throughout 2025/26, underpinned largely by tightening supply, is expected to remain supported in the year ahead. The Australian Wool Production Forecasting Committee (AWPFC) is currently forecasting shorn wool production to decline by a further 4.5 per cent in 2026/27 to approximately 244 million kilograms (Mkg) greasy. With production forecast to remain historically low, the market continues to benefit from a favourable supply backdrop.

A national flock estimated at around 69 million head, the lowest level in five years, contributed to just over one million bales being tested through the Australian Wool Testing Authority (AWTA) during 2025/26, around 11 per cent fewer than the previous season. While seasonal conditions and market signals will influence producer decisions around flock rebuilding, any meaningful lift in wool production is likely to be quite gradual. Changes in flock composition and breeding objectives across many sheep enterprises may also limit the long-term prospect of increased supply of merino wool types, reinforcing the prospect of a relatively tight supply environment over the medium term.

Looking ahead, the combination of constrained supply and growing consumer interest in natural and sustainable fibres provides a constructive foundation for the wool market. While broader economic conditions will continue to influence discretionary consumer spending, wool remains well positioned to benefit from long-term trends favouring renewable and natural products.

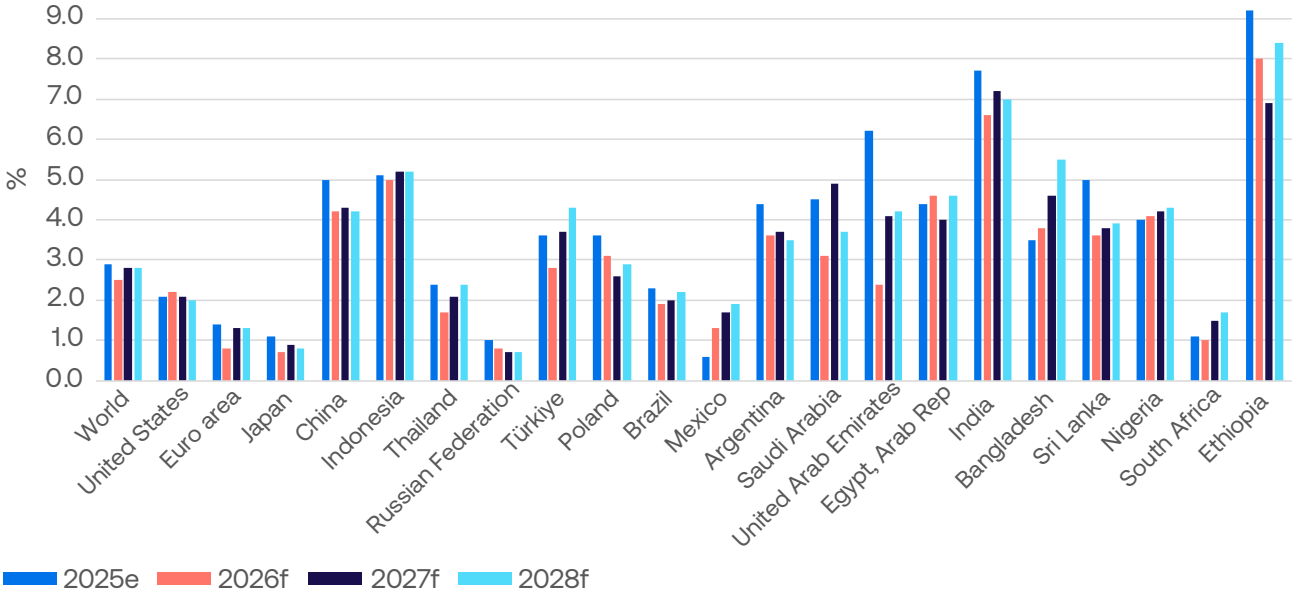
Global economic growth is expected to be slow over the next two years, with the World Bank forecasting growth of 2.5 per cent in 2026, down from 2.9 per cent in 2025. Growth across key wool-consuming regions, including China, the US and Europe, is expected to remain subdued. However, Australia's lower production profile may help preserve healthy competition among buyers seeking high-quality Australian wool. In this sense, the current supply cycle provides an important degree of market support, helping balance softer demand conditions and underpinning price resilience into 2026/27.

Australian wool (fleece) bales tested



Source: AWTA, ANZ

Real GDP growth forecasts - World Bank



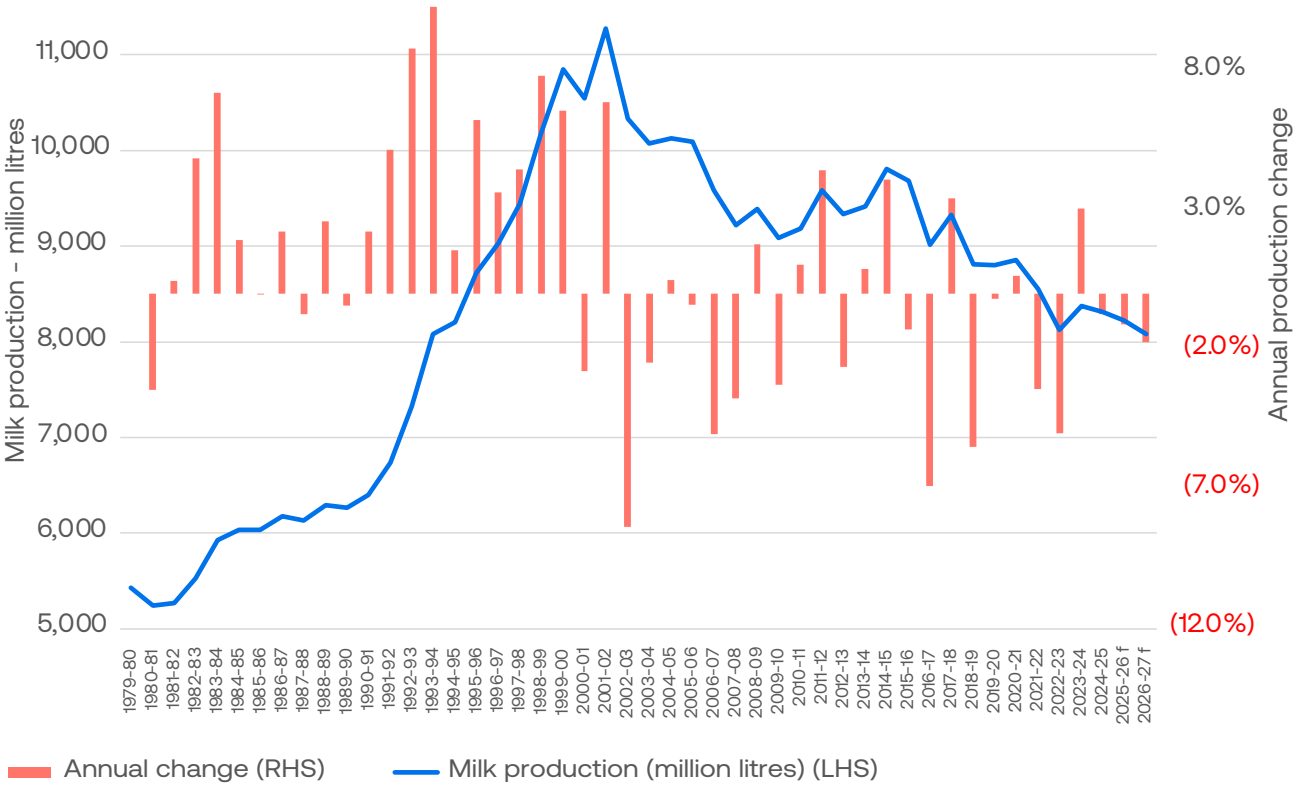
Source: World Bank, ANZ

Dairy insights

- Australian milk production is recovering from the drought-affected conditions of 2025, but the outlook for 2026-27 has weakened as input and seasonal risks rise;
- Production conditions vary across regions, with gains outside Victoria offsetting rather than overcoming constraints in the national milk pool;
- Milk production has expanded in New Zealand, the European Union and the US, increasing competition in global export markets;
- South-East Asian import demand has improved, while the decline in Greater China's imports has moderated considerably from a year earlier;
- Australian processors are allocating more manufacturing milk to cheese and other higher-value products as overall milk supply remains limited.

Australian dairy enters spring 2026 confronting a familiar challenge: despite improved seasonal conditions, national milk production remains on a long-term downward trend. ABARES forecasts production to fall from 8.3 billion litres in 2024-25 to 8.2 billion litres in 2025-26 and approximately 8.1 billion litres in 2026-27, reflecting a smaller national milking herd despite ongoing improvements in milk yield per cow. Some indicators have been more positive, with USDA forecasting calendar-year production to increase 1.4 per cent in 2026 and first-quarter production running 1.6 per cent above the same period a year earlier. However, the broader picture remains one of an industry struggling to generate sustained growth in milk supply.

Australian milk production and annual change 1979/80 - 2026/27f



Source: ABARES, ANZ

Production conditions have varied considerably between regions. New South Wales, Queensland and Tasmania have generally reported better seasonal conditions over the past year, while parts of Victoria and South Australia have continued to recover from drought and elevated feed costs. Given Victoria's dominant share of the national milk pool, gains elsewhere have helped stabilise production but have not been sufficient to reverse the broader decline in Australian milk output.

The outlook for 2026-27 has become more cautious. Fuel and fertiliser prices rose sharply following disruption to global energy and input markets, while a strengthening El Niño and forecasts of below-average rainfall across much of eastern and southern Australia present additional risks to pasture growth and fodder production. Dairy Australia forecasts milk production to decline by around 2 per cent during 2026-27 as higher costs and seasonal uncertainty continue to weigh on margins and production decisions.

Improved conditions have been reflected in farmer sentiment. Dairy Australia's National Dairy Farmer Survey found 80 per cent of respondents were positive about the outlook for their own business, while 26 per cent reported being in an expansion phase and 38 per cent had increased herd size over the previous year. Most survey responses were collected before the escalation of the Middle East conflict, meaning sentiment may now be more cautious than these results imply.

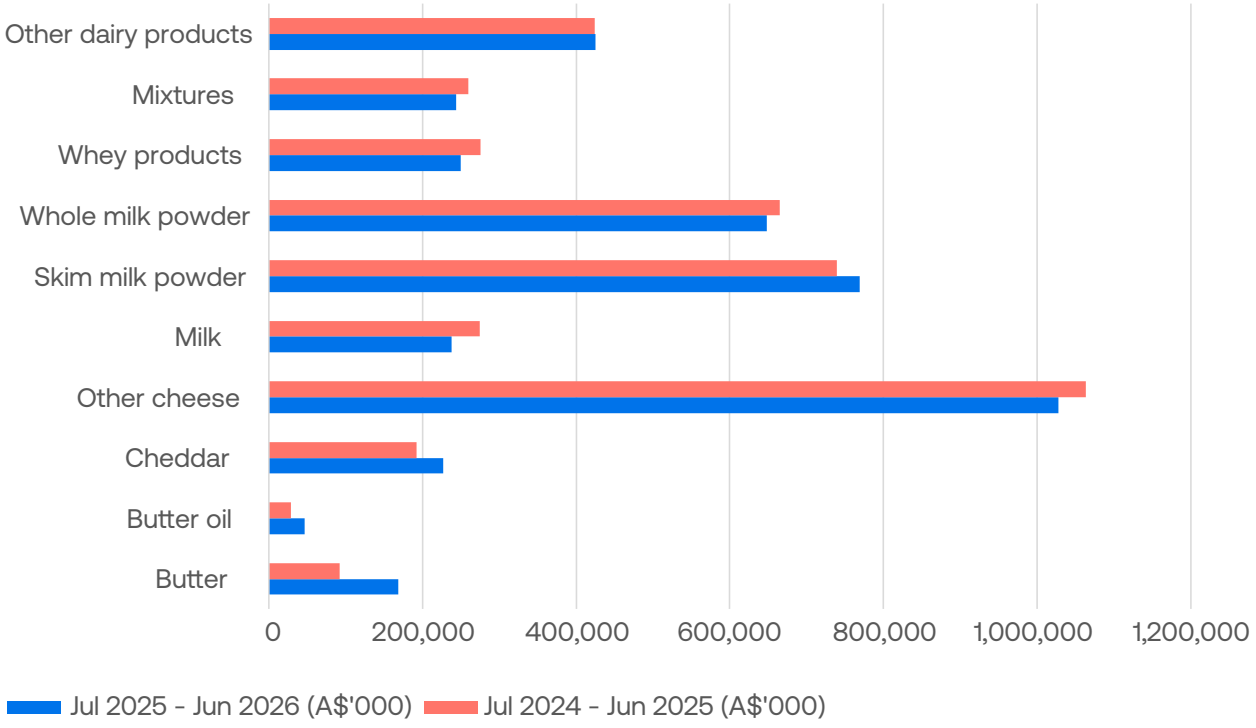
Global milk supply continues to expand. In New Zealand, favourable seasonal conditions and improved milk flows have supported production growth, reinforcing the country's position as the world's largest dairy exporter. Across the European Union, production has also increased, although lower farmgate milk prices and continuing cost pressures are expected to moderate further expansion. In the US, milk production has grown, but weaker milk prices and elevated beef prices may encourage culling and slow future herd growth.

Together, these developments are increasing competition in export markets for Australian dairy products.

Despite stronger global supply, dairy product prices have remained mixed rather than moving uniformly lower. At the 4 August Global Dairy Trade auction, the overall index increased 0.1 per cent, with cheddar and skim milk powder recording gains while butter prices declined, highlighting the mixed nature of current dairy markets. Dairy Australia notes that skim milk powder prices have remained comparatively firm because increased production of whey protein concentrate has reduced the availability of skim milk powder.

Demand conditions have improved compared with a year ago. Dairy imports into South-East Asia increased by approximately two per cent over the twelve months to January 2026, while the decline in Greater China slowed to around one per cent, compared with a six per cent contraction a year earlier. Demand across a broad range of markets continues to receive support from consumer interest in naturally protein-rich foods. Even so, Australia's share of global dairy export volume slipped from 3.6 per cent to 3.4 per cent as stronger production growth in New Zealand and the US increased their share of world trade.

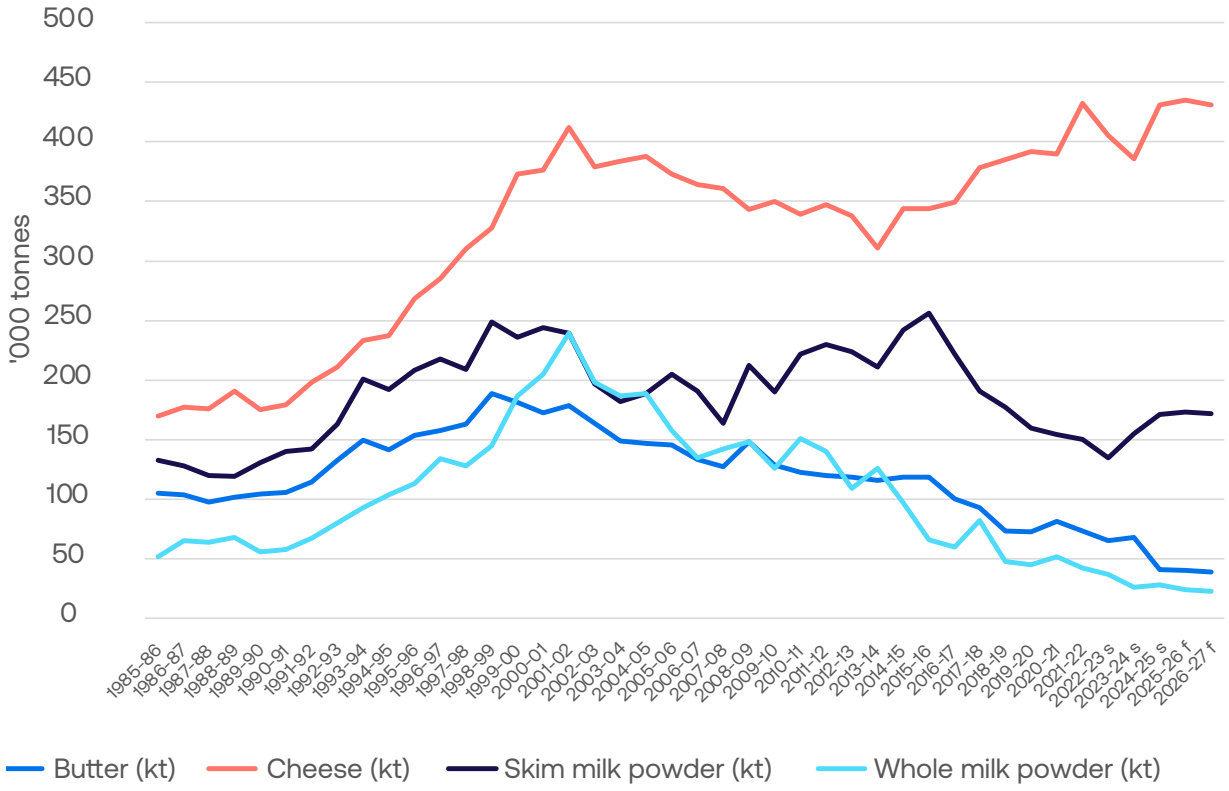
Australian dairy export values by product 2024/25 vs 2025/26



Source: Dairy Australia, ANZ

A significant structural shift within Australian dairy continues to be the increasing focus on cheese production. USDA forecasts cheese production to increase 1.8 per cent to 455,000 tonnes in 2026, with cheese now utilising approximately 61 per cent of manufacturing milk, compared with 39 per cent in 2015. As milk availability remains constrained, processors are allocating more milk to cheese and other higher value uses. As a result, butter and whole milk powder production remain near historical lows, while whole milk powder exports are forecast to decline by 20 per cent during 2026.

Australian dairy goods production 1985/86 - 2026/27f



Source: ABARES, ANZ

Consumer demand is also evolving. Dairy Australia reports stronger demand for products such as Greek yoghurt, cooking cheese, and butter, while demand for protein-rich dairy products continues to support specialised ingredients and value-added dairy categories. These trends suggest the industry is focused on extracting greater value from a constrained milk supply rather than pursuing volume growth alone.

The processing sector is also entering a new phase following the completion of Lactalis' acquisition of Fonterra's consumer and associated Oceania businesses on 31 March 2026. While it remains too early to assess the full implications of the transaction, competition for milk supply remains a central issue in a sector where additional milk supply remains limited.

Over the next quarter, spring rainfall, pasture and fodder production, fertiliser and fuel costs, producer expansion decisions and global price competition will be critical indicators for the sector. Improved seasonal conditions have created a platform for growth, but spring rainfall and input costs are likely to determine whether the recent production recovery can be sustained.

Sugar insights

- Global sugar markets have spiked to over two year highs, following key announcements from India to open up a duty free import period;
- Brazil continues to shape market sentiment, as traders monitor the progress of the current crush and end use decisions;
- Weather and production risks remain in focus, creating uncertainty across several major sugar-producing regions;
- Australia's current crush is gathering pace, with export prospects improving.

With the 2026 Australian sugarcane crush now well underway, producers will be looking for signals of continued improvement in global production and trading conditions to support a recovery in sugar prices.

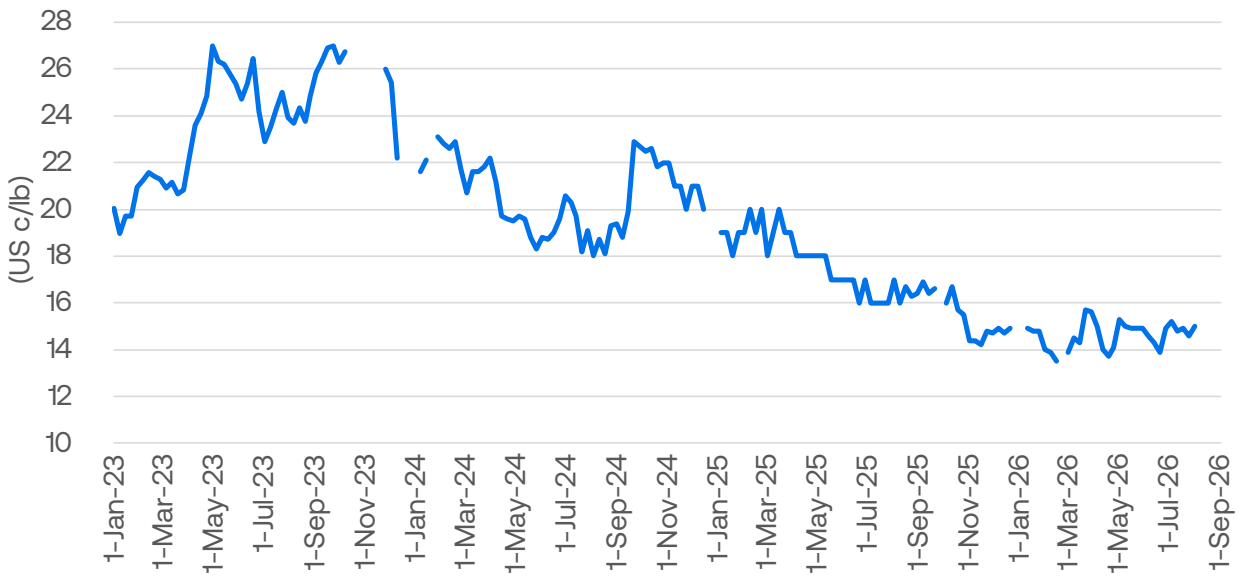
Global sugar prices traded within a relatively narrow range over the majority of winter, fluctuating between high-14 and low-15 US cents per pound. More recently, more positive price movements have allowed global prices to spike to as high as 18 US cents per pound, with the benchmark ICE 11 futures contract reaching a two year high. The most significant recent price spike was following the Indian Governments announcement of duty free imports through until 30th October this year.

Rising sugar demand in India, largely as a result of population growth, has seen the government move to limit price spikes leading up to the Indian sugar crush, and will also likely dampen future exports from the country.

Forward pricing for Australian producers has now strengthened to above $530 per tonne, which is above the estimated cost of production, and should provide some relief to growers who continue to face margin pressure due to record input costs.

The global sugar price will also remain heavily influenced by developments in Brazil, the world's largest sugar producer and exporter. Market participants are closely monitoring the progress of the current Brazilian crush, particularly the allocation of sugarcane between ethanol and sugar production.

Global sugar prices – ICE no 11 contract



Source: ABARES, ANZ

Current forecasts indicate that up to 52 per cent of Brazil's cane crop will be directed towards ethanol production, limiting sugar exports compared with the record volumes seen over the previous two seasons. However, recent price developments are favoring sugar over ethanol, which could prompt an adjustment and possible increase in export volumes from Brazil.

Elsewhere, some attention remains focused on production prospects in the European Union, which accounts for around 10 per cent of global sugar output. Persistent hot and dry conditions across large parts of the region have reduced yield expectations, creating some uncertainty around total production levels for the season. Production in Thailand is also under some pressure from poor local weather conditions.

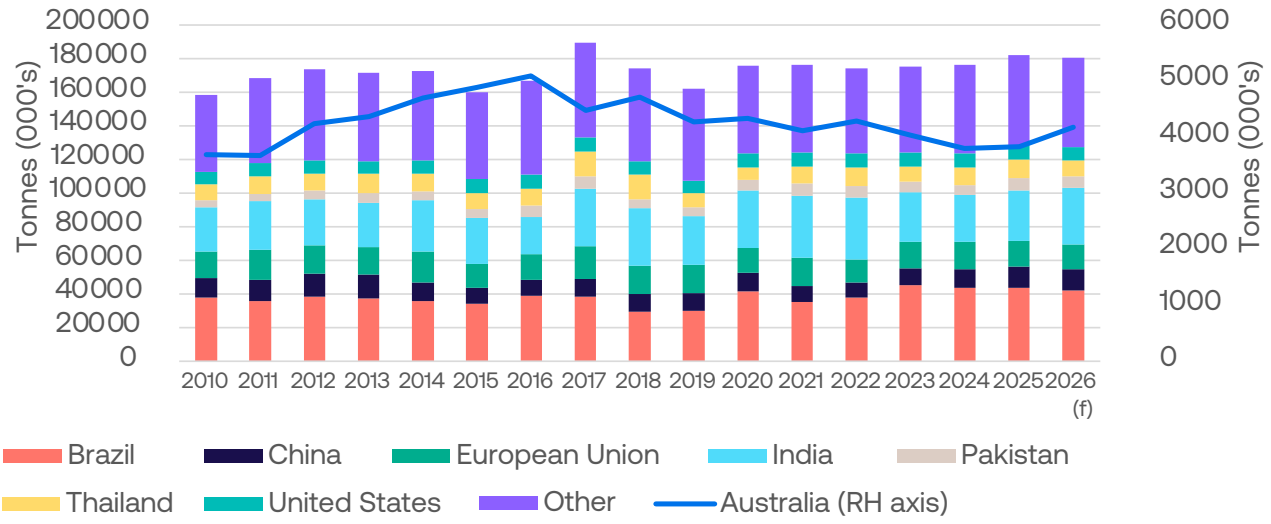
In India, sugar production is forecast to increase; however, as noted, export volumes are expected to remain broadly unchanged from 2025 as higher domestic consumption offsets the increase in output. This has supported higher domestic prices in India, and prompted the current action taken by the Indian Government.

Domestically, Australia's 2026 sugarcane crush is currently estimated at around 29 million tonnes, slightly below pre-crush forecasts of 30 million tonnes. While seasonal growing conditions have generally been favourable, production levels remain historically low following several challenging years for the Australian sugar industry.

Regarding exports, Australia is expected to increase sugar exports to 3.6 million tonnes in 2026, an increase of 33 per cent over 2025.

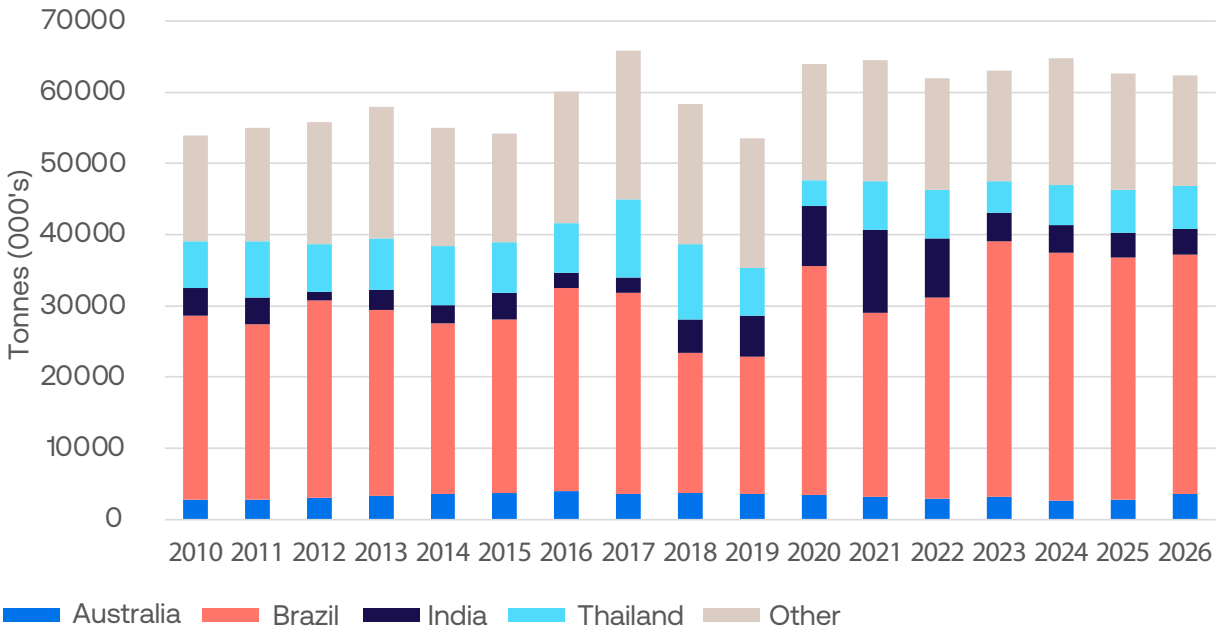
While seasonal growing conditions have generally been favourable, production levels remain historically low following several challenging years for the Australian sugar industry.

Global sugar production



Source: ABARES, ANZ

Global sugar exports



Source: USDA, ANZ

Cotton insights

- Global cotton prices continue to perform strongly on the back of lower production and strong consumption growth, reaching levels not seen since early 2024;
- The latest USDA forecasts have revised production slightly higher, but this is more than offset by increases in consumption;
- Stocks are now forecast to be the lowest in 15 years – supporting the case for price increases into the next season;
- Moves by the Indian Government to temporarily lift tariffs on cotton imports to help support their domestic textile industry have helped boost consumption.

Global market update

The global cotton price rally continues, with the indicator price now sitting almost 40 per cent higher than it was in February, driven primarily by a combination of supply shortages and, to a lesser extent, rising oil prices. The emerging story for recent forecasts is the large increase in cotton mill use across Asia, as India temporarily removes tariffs on cotton imports, boosting demand for the fibre across the region.

The most recent United States Department of Agriculture Cotton Outlook sends a message that cotton prices are on the way up – and while on the face of it an increase in forecast production of 400,000 bales suggests that this message has become weaker, this has been more than offset by an increase in consumption of one million bales due to higher consumption in China, India, Indonesia, and Vietnam. As a result, the headline is that ending stocks are forecast to be the lowest in 15 years – compared to the last forecast of the lowest stocks in eight years. Stocks in China, India, and Australia are expected to fall the most, but declines are expected across almost every major cotton-producing nation.

While prices have softened slightly from the spike seen in May, they remain at stronger levels than we

have seen in the past few years. A decline in global stocks stems from both lower supply and stronger demand, with higher forecasted mill use further tightening supplies.

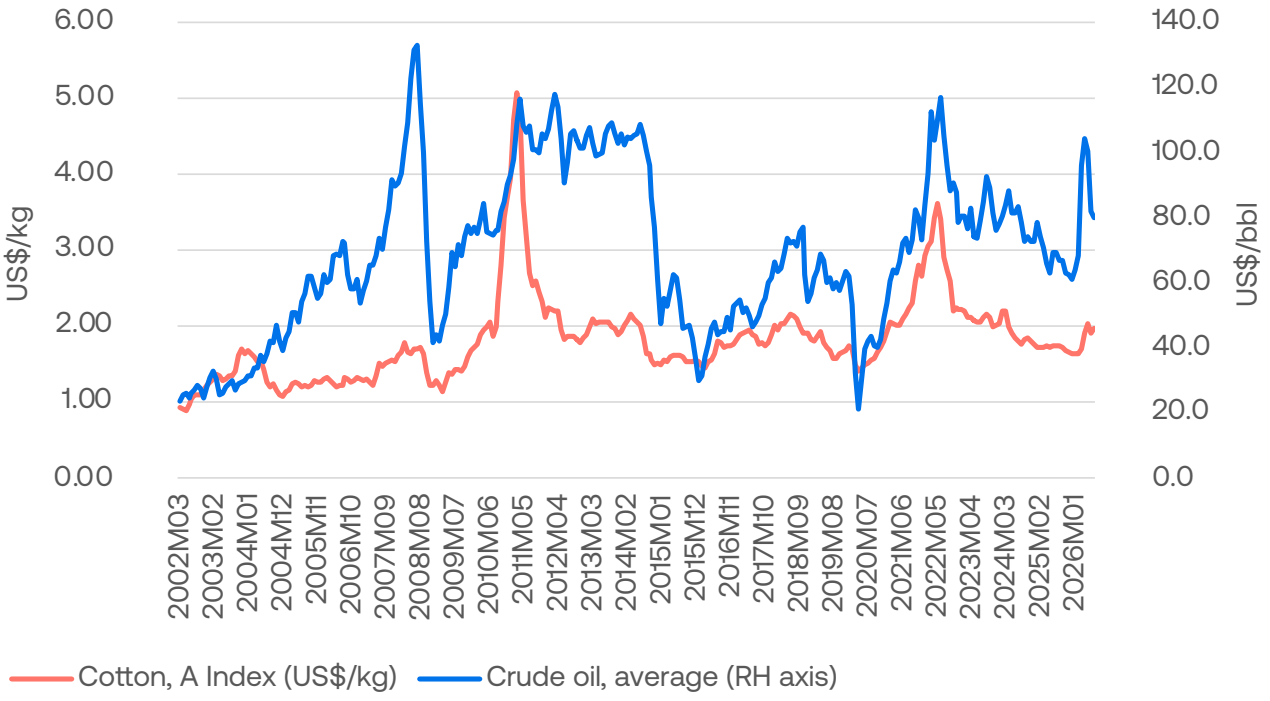
Many major cotton-producing nations are expected to see a fall in production this year, with China and Brazil forecast to produce 6.4 and 2.7 per cent less cotton respectively. The world's other major producer, India, is expected to deliver only a marginal increase in total production at this year's harvest.

The major change on the production side of the equation in the recent USDA forecasts has been a shift from a reduction in total areas harvested to a slight increase. And while still not at the highest levels we have seen in cotton plantings, it reverses the decline we've seen over recent years.

Cotton mill use is also expected to hit a six-year high as a return of global economic growth is anticipated to drive demand for cotton apparel. A possible contradiction to this, however, would be a fall in global oil prices, as this is expected to increase the attractiveness of synthetics. The continued drive of India to build their textile and manufacturing sectors is also expected to see continued growth in demand for cotton, back to record levels seen in 2020/21. The removal of tariffs on imports in the first half of 2026/27 is expected to lift Indian demand for cotton, particularly from Australia.

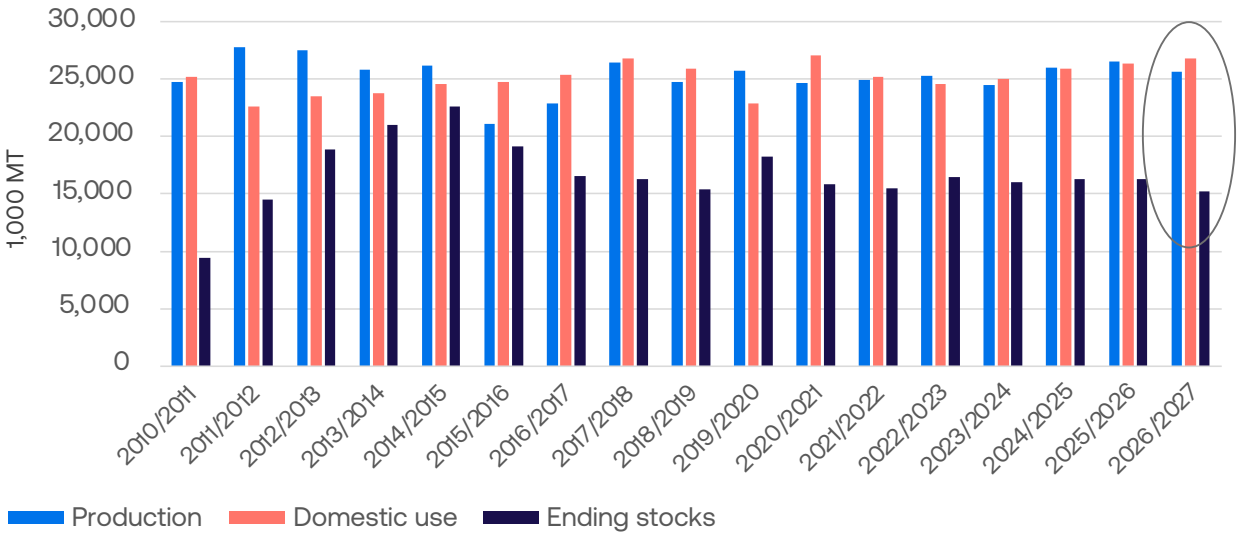
In contrast, the International Cotton Advisory Committee (ICAC) forecasts a 2.2 per cent drop in global cotton production and a just-over-one per cent increase in consumption, leaving a far smaller production surplus for the year than in 2025/26. The ICAC forecasts that ending stocks will increase slightly and the stocks-to-mill-use ratio will rise to 0.73, which would typically indicate downward pressure on prices.

Global oil v cotton prices



Source: Worldbank, ANZ

Global cotton production and consumption



Source: USDA PSD, ANZ

Australian market update

When it comes to the Australian cotton crop, the USDA continues to forecast a 145,000 hectare reduction in area harvested, 327,000 MT (or 1.5 million bales) reduction in production – almost a one-third reduction in total crop – and a 75 kg/hectare reduction in yield. This aligns closely with the sentiment at the recent Australian Cotton Conference, where many growers and industry participants expected production to come in below the three million bale mark.

As part of the Australian Cotton Conference, ANZ released its report "Looking Beyond the Cycles", which investigated the financial performance of Australian irrigated cotton producers during the price slumps from 2022 onwards. This report found that despite lower prices and production challenges since 2022, irrigated cotton businesses continue to demonstrate strong financial performance. Cost management and operational efficiency have helped growers protect profitability through difficult market conditions. Following a significant downturn in 2023/24, the industry experienced a strong rebound in sales and EBITDA during 2025. This highlights the industry's ability to recover quickly when seasonal and market conditions improve, albeit against a backdrop of increasing industry investment and therefore debt.

Australian economic update

The global economy is proving resilient, despite an uncertain geopolitical backdrop. Core inflation in Australia has picked up recently, and three month annualised trimmed mean inflation (which provides a sense of the underlying inflation pulse) is now at its highest level on record.

Economists have been watching to see if there is any second round pass through from higher input costs appearing across the inflation basket, particularly in areas like food and construction. But so far, the signs of second round flow through have been relatively contained.

Instead, many of the drivers of inflation have been domestically driven. The recent monthly inflation data showed a sharper than expected rise in a number of discretionary spending categories, such as fashion, furnishings, and restaurants. Moreover, recent household spending data has been robust, with annual growth in discretionary spending at its highest rate since 2023.

So far this year, the RBA has increased the cash rate by 75bp to 4.35 per cent. Given the recent trend in inflation and signs of resilience in demand, we expect the RBA will hike rates once more in November, taking the cash rate to 4.60 per cent.

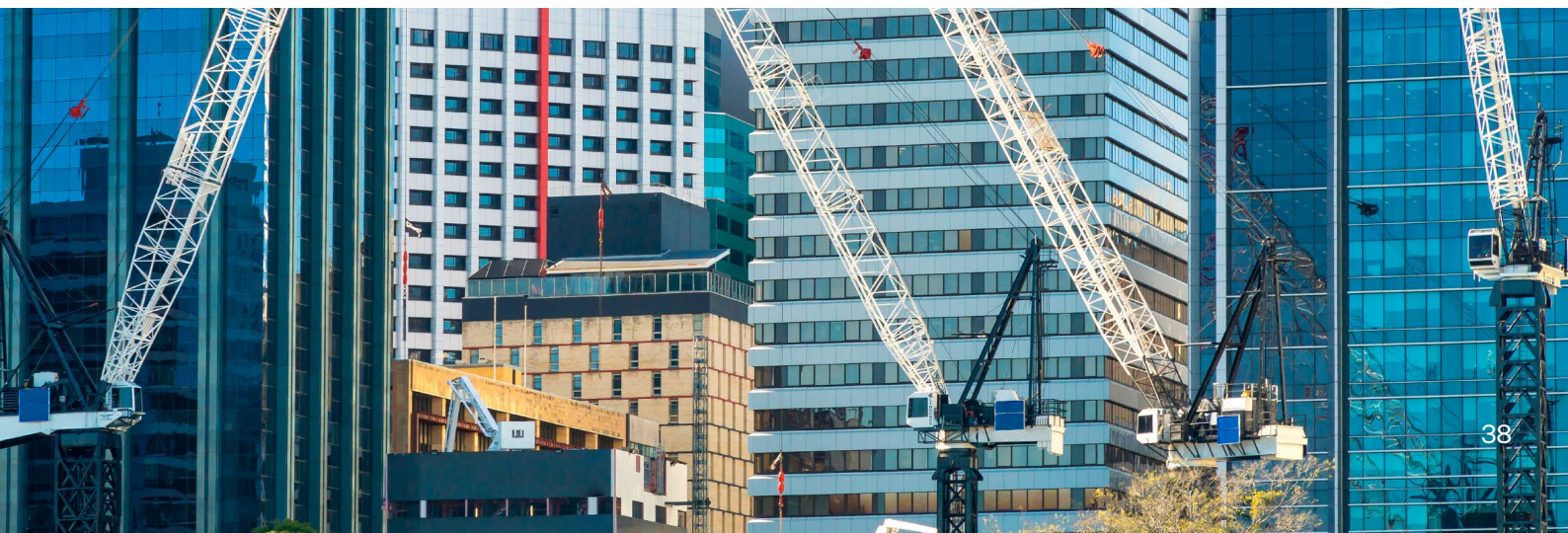
This would be higher than the peak cash rate in the last hiking cycle. We think 4.60 per cent is a 'restrictive' cash rate.

As a result, we expect the economy to slow below potential over the coming 18 months. Real household incomes per person should end the year lower than they began, which will dampen household spending growth. The unemployment rate remains at low levels by historical standards at 4.5 per cent. Given the slowdown in the economy, the unemployment rate should move higher – but critically, we expect it to peak at a lower level than it was averaging before the pandemic.

By late 2027, we think the weakness in the economy will provide the RBA with confidence that inflation will return sustainably to its 2-3 per cent target band. This should allow the RBA to start cutting interest rates.

We expect the AUD/USD to strengthen by the end of the year. This is due to the divergence in communication from the RBA and the US Fed, and the impact this will have on interest rate differentials. The RBA will continue to talk about the risks of too-high inflation, and we expect the RBA to hike in November. While in the US, slower growth should ease inflation concerns and drive a weaker US dollar.

This anticipated slowdown in the economy should give the RBA comfort that inflation will ultimately ease back toward its 2-3% target.



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