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INFOCUS

COMMODITY INSIGHTS

AUTUMN 2024

ANZ

FOREWORD

The 2023 calendar year delivered patchy results throughout Australia. But overall it was another year of above average production. Most striking was the late season heavy rains that didn't do near as much damage to winter crops as one might have expected. Late cyclones and bushfires also sprang up towards the end of summer causing serious damage at local levels. Some areas missed out on everything altogether. All of this within the third wettest El Nino system on record according to the Bureau of Meteorology (BOM). As the signs pointed to a dry spring and beyond, destocking compounded the already weakening sheep and cattle markets. Thankfully we've seen these prices subsequently rebound as the rains came and competition for livestock intensified.

Goes to show you just can't be sure of the weather no matter what anyone says. And with that in mind, we find ourselves at the start of another autumn and a new season to contemplate. The official forecast points to more than a 50 percent chance of drier than average conditions across Australia as the El Nino pattern phases out. But I suspect most operators in our industry will be more inclined to keep this kind of forecast in mind, rather than adjust farm programs accordingly. For the full year I'm not sure there is any strong signal to suggest expecting anything other than average.

So what should agribusiness expect overall in calendar year 2024? Of course, it will depend on many things beyond the weather. Our commodity updates that follow in this edition point to pricing that's off the historic highs, but for livestock in particular, prices are thankfully off the recent bottoms and back into a profitable range should seasons be OK. Grain markets have softened but still trade in a historically high band. Wool is struggling with the market catching up with finer microns as global economic prosperity has been tempered and cotton prices are relatively good with a lot of current crop hedged at historic highs.

Input costs remain elevated and in particular the availability and cost of labour continues to challenge all farms but particularly those that are more labour intensive. This is equally true for the supply chain, where energy and transport costs pressure margins, noting the cost of living pressures create an additional pressure to keep food prices down. We do however, export the majority of our production and international trade is not all smooth sailing. While underlying demand appears quite sound, geopolitical tensions and war creates the potential for interruptions to trade. Diversion and delays create costs and an unwelcome level of uncertainty.

The global fight against inflation has seen increasing interest rates impact both consumer and commercial markets. Locally, our inflation numbers give some hope for interest rate relief, or at least to think the next official cash rate might be down rather than up. Our circa $120bn farm debt however, continues to attract a much more significant cost in this new rate environment, which limits the potential of farm profitability.

All said and done, this could be the normalisation of earnings in 2024 following what has been a collective stellar run. Plenty of additional challenges and opportunities to consider (sustainability, regulatory environment, global supply, etc). Only time will tell whether the upside opportunity could still be grasped another time around. Let's hope so.

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GRAINS INSIGHTS

OVERVIEW

- Last year's total crop has been estimated at just under 47 million tonnes
- Whilst this is a drop on the prior year, it is still a historically large harvest, demonstrating the favourable conditions experienced by many producers in 2023
- Looking ahead, ABARES are forecasting a slight increase in crop volumes, largely in line with long term average annual growth seen in the industry
- Globally, large export volumes of wheat from Russia are putting downward pressure on prices
- The forecasts for exports of over 51 million tonnes of wheat from Russia and a favourable growing season ahead may continue to pressure global wheat pricing.

The latest figures for the Australian crop harvest for 2023/24 may not have too many major surprises, but they do provide some interesting trends on where the cropping industry is heading, and what this may mean for the future.

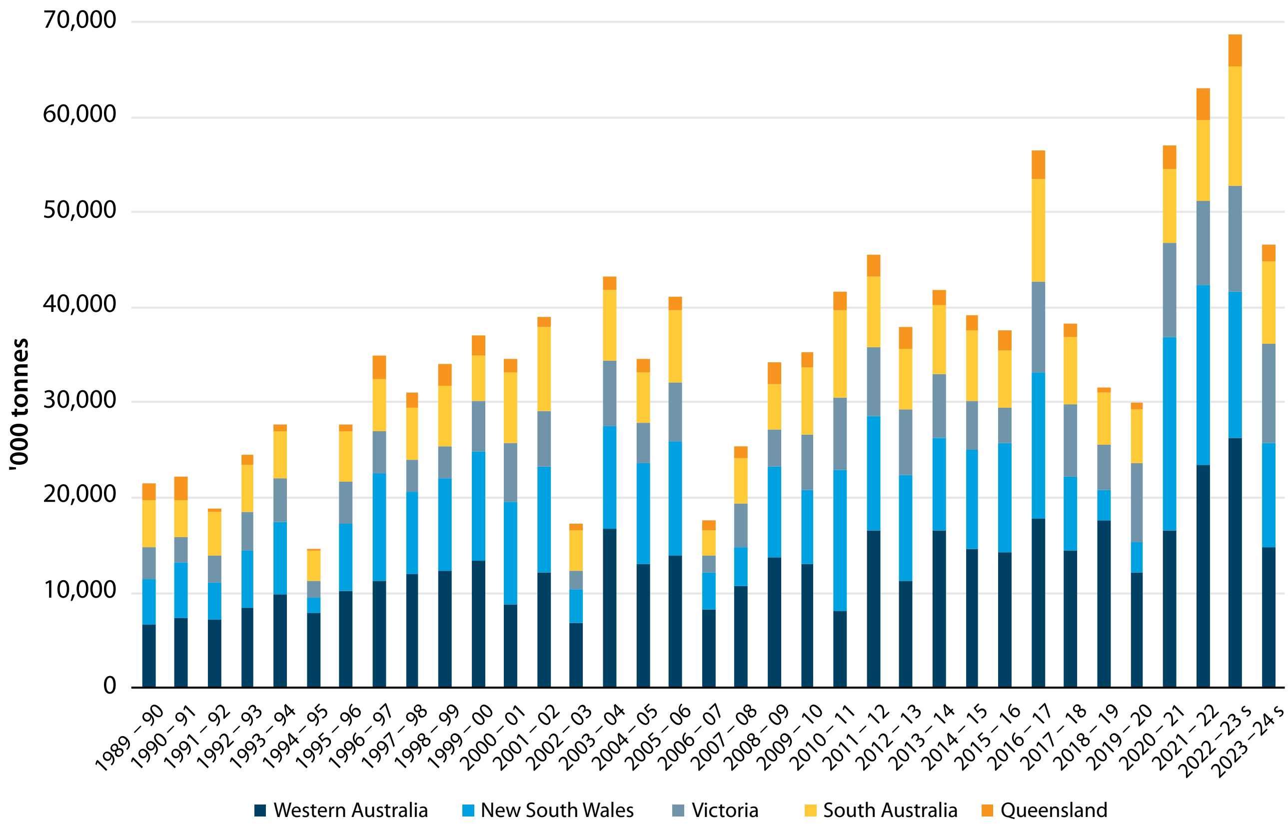
THIS WILL BE ESPECIALLY IMPORTANT FOR MANY IN THE INDUSTRY AS THEY PLAN AHEAD FOR THE COMING SEASON, AND HEADING TOWARD 2025, AT A TIME WHEN STRONG GLOBAL PRODUCTION FORECASTS ARE SEEING THE PRICES OF THE MAIN GRAINS AND OILSEEDS FALL.

The latest estimate by the Australian Bureau of Agricultural and Resource Economics (ABARES) for the overall Australian crop in 2023/24 was just under 50 million tonnes. This includes all grains, oilseeds and pulses. On one hand, this would be the fifth largest crop volume in history, and certainly, of no disappointment to most croppers or grain handlers. On the other hand, it did represent a fall of over 30 percent from the previous year, although that season had seen very good growing conditions in most regions, while the latest season had experienced drier patches in some areas.

The results state by state were quite mixed, perhaps reflecting more about how much better their previous seasons had been, rather than any major issues in the recent season. Both Western Australia and Queensland saw their crop volumes fall by around 45 percent, South Australia and New South Wales by around 30 percent, while in Victoria, volumes dipped by only around 6 percent.

Notably, all of these falls were a lot higher than any of the States' falls in cropping acreage, which ranged from over 15 percent down in Queensland, to Victoria, which saw the same acreage as the year before. While this is partly explained again by the changed seasonal conditions, in a way it also arguably sets a challenge for the industry to continue exploring ways to increase yields in average seasons.

AUSTRALIAN WINTER CROP PRODUCTION BY STATE



Source: ABARES, ANZ

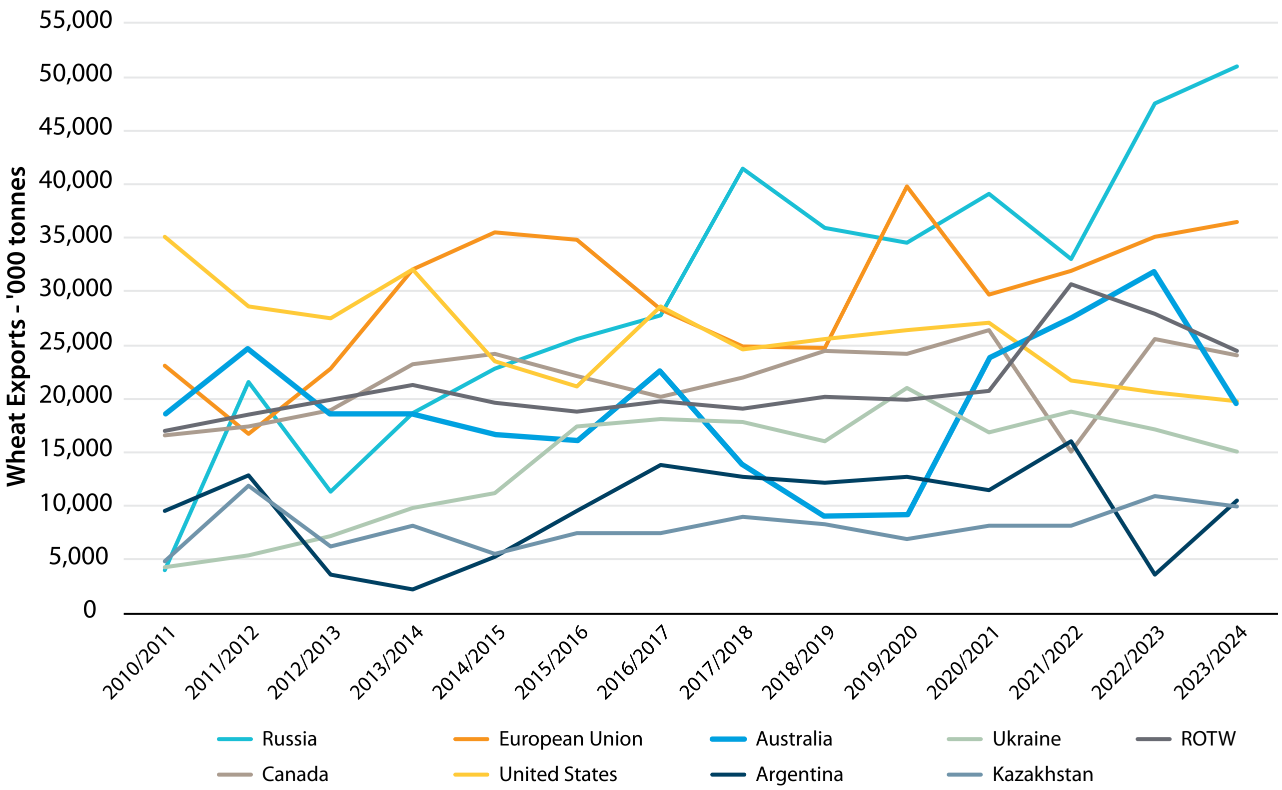
Of the major crops, both wheat and canola saw falls of over 30 percent, after their record highs of 2022/23, while barley saw less of a decline, partly due to the fact that it has had lesser growth over the past few years.

In looking ahead to 2024/25, many in the industry have raised the possibility that the better than expected rain over the past summer, combined with a possible La Nina for 2024, which would bring further favourable precipitation to many regions, could set the scene for a very good winter crop. Interestingly, in its first forecast for the 2024/25 crop, ABARES has predicted a rise of nine percent in total crop volume (inclusive of all grains, oilseeds and pulses) to just over 54 million tonnes, as volumes trend back up to the average. This forecast would appear to be in line with the average growth in crop volumes over the past forty years, despite the fact that annual levels have at times changed markedly, based on that year's weather.

For the three major crops, ABARES is predicting a rise of around seven to nine percent, though on other crops, its predictions appear far bolder – for example, it has forecast that production of oats, lupins and triticale will climb by 24, 58 and 59 percent respectively.

THAT SAID, IT WOULD APPEAR THAT THESE FORECASTS BRING THOSE CROPS BACK INTO LINE WITH AVERAGE LONG-TERM GROWTH, AFTER A FALL THE PREVIOUS YEAR.

MAJOR GLOBAL WHEAT EXPORTERS



Source: USDA, ANZ

In terms of grain prices, global factors are playing a major role in the current downturn in wheat price, which as of early March 2024, had fallen to their lowest point since 2020. The main factor behind this is the impact of Russian wheat exports on global markets. In an interesting contrast, while global wheat exports are forecast to fall by around ten million tonnes in 2023/24, Russian wheat exports are forecast to rise by around four million tonnes, which lifts Russia's share of the total export pool markedly. To put it in context, Russia's forecast wheat exports of around 51 million tonnes not only makes up around one quarter of world exports, but is over two and half times that of Australia.

The impact of this is made even stronger by the fact that Russia appears to be pricing its wheat lower than its competitors, in a bid to bring in much needed hard currency, but which also results in lower world prices. Given that the forecast for Russia's next production season is for optimal weather, this could mean that the downward pressure on price continues for some time.

This movement in global price also needs to be looked at in context, given that over the long term, wheat prices move in a cycle, albeit for different reasons. A look back at global wheat prices over the past twenty years shows that prices spiked in 2008, 2011, 2012 and 2022, whether due to factors such as global supply concerns or geopolitical issues. Each time, prices retracted to a band of around 450 – 650 US cents/bushel.

FOR STAKEHOLDERS RIGHT THROUGH THE SUPPLY CHAIN, IT WILL BE IMPORTANT TO PLAN FOR THE FACT THAT THE MARKET WILL ALWAYS BE SOMEWHERE IN THIS CYCLE.

BEEF INSIGHTS

OVERVIEW

- Conditions in many parts of the country allowed for cattle to be held through the summer months, with the volumes of cattle flowing through saleyards and processing plants increasing toward the end of summer and in to early autumn
- Whilst year on year increases in turn off were recorded over the summer, this can be attributed to increased production from the larger herd, as opposed to any destocking activity
- Australian beef production has continued to rise despite labour challenges for the processing sector, with production up 3.3 percent year on year through December
- Domestic consumption of beef through 2023/24 is forecast to decline to 20.8kg/ person, in comparison, other meat product consumption such as sheep and chicken are forecast to continue rising.

Stronger cattle prices can be attributed to improving confidence over the weather outlook. Underlying the improving strength in the market is the fact that these price improvements come despite increasing yardings as last year's progeny are released onto the market. Looking forward, as domestic consumption is forecast to decline slightly, the export market continues to grow in importance to the national industry. With Australian exports filling the gap left by the US herd rebuild, the national market's strength is also being supported by exceptionally strong exports.

With summer now behind us and a forecast change to weather patterns across the country, the hope and optimism that was shared by beef producers at the start of summer is coming to fruition. As the beef industry in Australia relies so heavily on pasture based production systems, the potential for a La Nina declaration brings a strong outlook for 2024.

As a result of some scepticism around the dry period throughout spring and summer not lasting as long as forecast, many producers have held onto their stock through summer, with increased numbers starting to flow through processing plants and saleyards only toward the end of the season and in to early autumn. Year on year increases in turnoff over the summer period have been driven by the large national herd, rather than an intentional destocking.

It is forecast that processing will reach record levels into 2025 as the national herd (currently at 28.6 million head) reaches a maintenance phase following a slight dip into herd liquidation through 2023. It is expected that the industry will look to hold the herd at the current level, with young stock reaching a processor-ready stage and starting to enter the market as opposed to being retained on farm. The Female Slaughter Rate (FSR) is therefore expected to rise to 48 percent in 2024. The FSR sat at 46.6 percent in 2023 with 47 percent being the threshold to tip the herd into a liquidation phase.

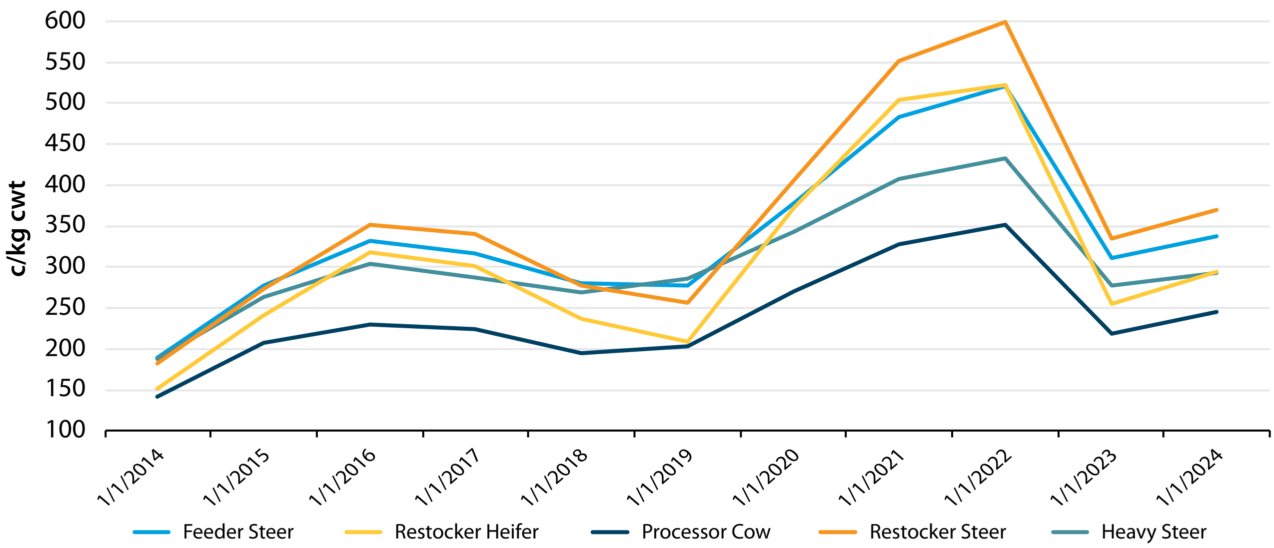
The slight increase forecast for the FSR for 2024 is driven by young stock coming through increasing supply levels rather than destocking activity due to weather related impacts which has previously been seen in liquidation phases.

Carcase weights in 2024 are expected to remain well above 10-year averages, despite a drop from 320kg in 2022 to 315kg in 2023. This elevated carcase weight is driven by an increase in on-farm productivity which could be attributed to an improvement in genetics and on farm feed management as well as a rise in lot-feeding. As the industry heads into autumn, these productivity improvements could allow producers to make the most of a market where cattle prices are rallying despite higher yardings and decreasing competition for Australian beef in international markets.

While the summer period saw national yardings down slightly (0.08 percent) on the September quarter, yarding's are still up 20 percent year on year, indicating a strong start to beef sales for the year. It is not uncommon to see an increase in yardings leading into the autumn/winter period particularly with improved indicator prices across the board.

Restocker yearling heifer stocks have continued to hold strong with yardings up 117 percent year on year, indicating the market's growing confidence in the current herd size with producers holding on to their replacement heifers through the bottom of the market. Heavy steers have seen a 174 percent increase in yardings year on year, a sign of the impact of low prices through the end of last season pivoting producers to carry their steers through to heavier weights with plenty of feed on the ground to support higher stock numbers in many regions.

NATIONAL BEEF CATTLE INDICATOR PRICES



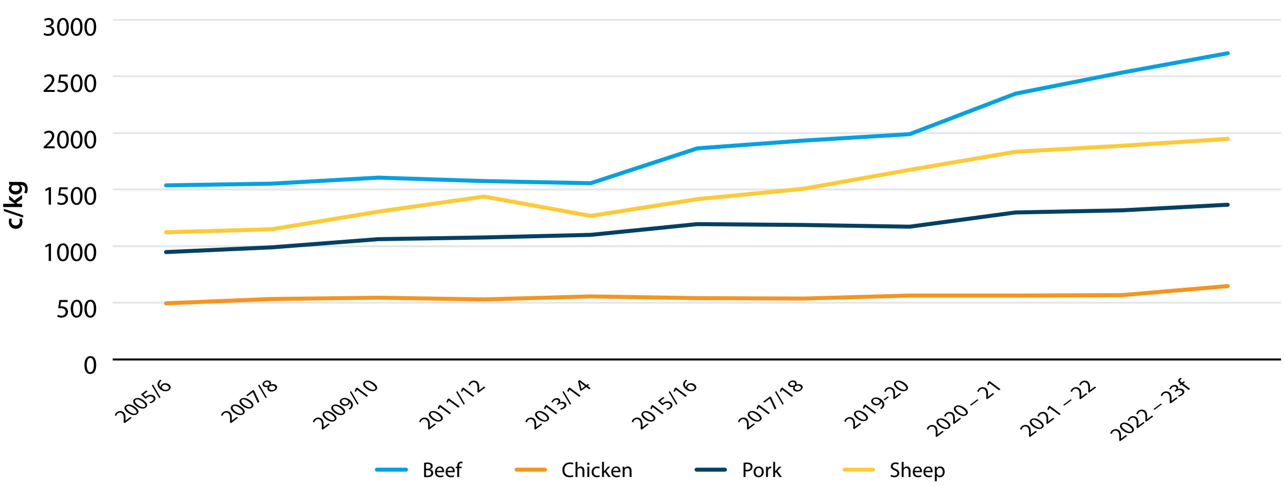
Source MLA, ANZ

Cattle prices rallied across the summer following strong November rainfall with the benchmark Eastern Young Cattle Indicator (EYCI) climbing to over 600c/kg across the summer period. With the rise in yardings across the board, prices could have come under pressure, however, all indicators continue to rally with Yearling Restocker heifers continuing to hold a premium over heavy steers for 12 weeks straight at the time of writing. This is again an indicator that producers are holding onto young female stock for breeding purposes, driving stronger prices for those that do find their way to market. Prices have been somewhat volatile through the first two months of 2024 and look to continue to do so as the industry heads into autumn and settles following some overreactions to the initial El Nino declaration and subsequent spike in prices through late spring. This volatility may continue into autumn as the industry settles into a new normal state.

Australian beef production has continued to rise despite processing challenges such as labour with production up 3.3 percent through December (YOY). The sharp decline in cattle prices through 2023 leading into summer increased margins for processors however high labour costs continue to impact the bottom line for many operators. It is expected that 2024 will continue to see slaughter rates rise provided processors are able to access ongoing labour.

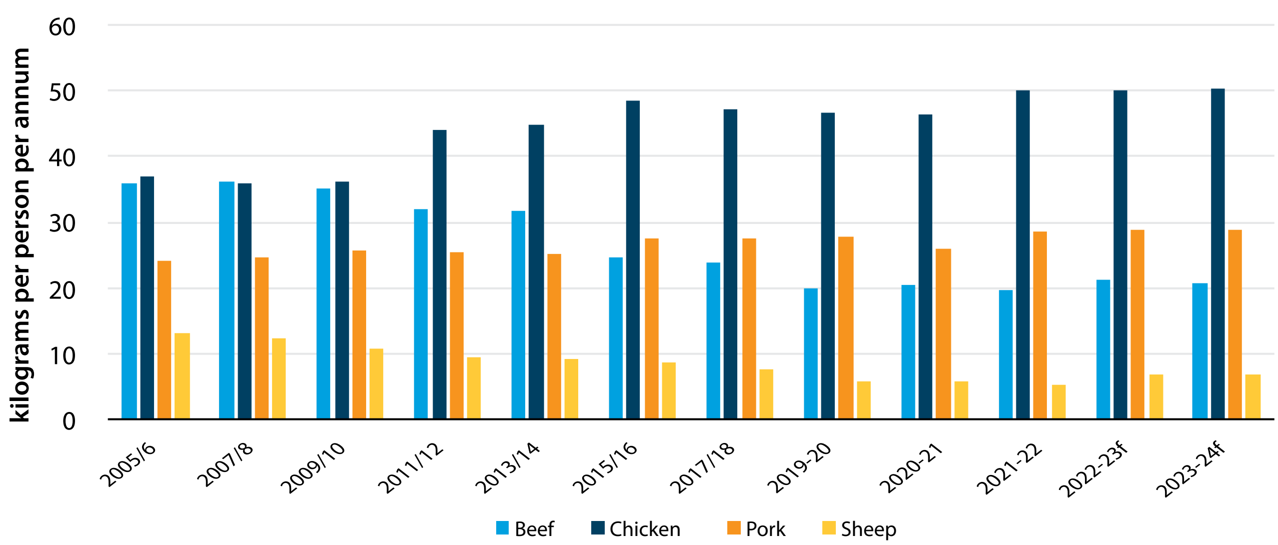
Australian consumers have seen relatively steady retail prices for beef with a less than 10 percent variance in pricing dating back over 14 years where in the EYCI alone, up to 50 percent variance has been seen in the last 5 years. Inflationary pressures are easing month on month for beef, down 0.4 percent. Despite this, MLA forecast domestic consumption of beef through 2023/24 to decline to 20.8kg/person (down from 21.4kg/person in 2022/23) with consumption forecast to continue to decline over the next 5 years. In comparison, other meat product consumption such as sheep and chicken are forecast to continue rising through 2023/24 with sheep meat gaining more popularity following a slight decline with relatively stable retail prices. Despite the price of chicken meat continuing to be impacted by rising inflation, consumers continue to consume more year on year.

AUSTRALIAN RETAIL MEAT PRICES



Source: MLA, ABARES, ABS, ANZ

AUSTRALIAN MEAT CONSUMPTION

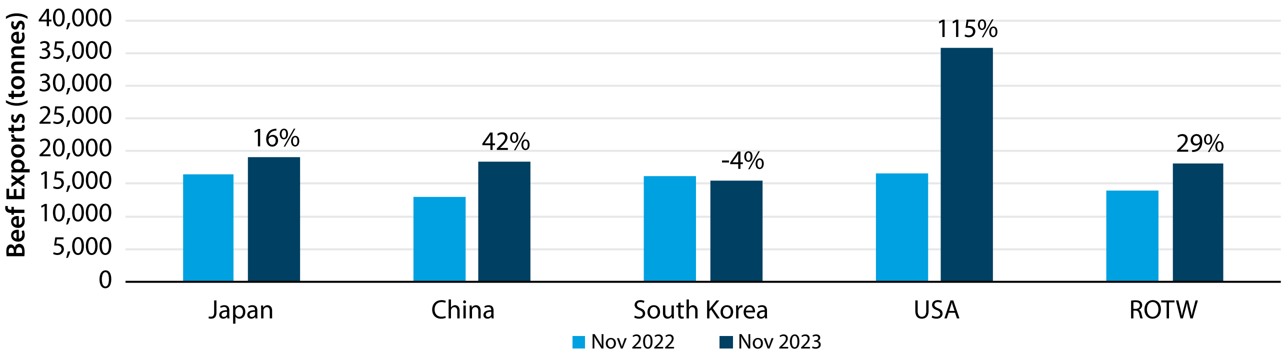


Source: MLA, ABARES, ABS, ANZ

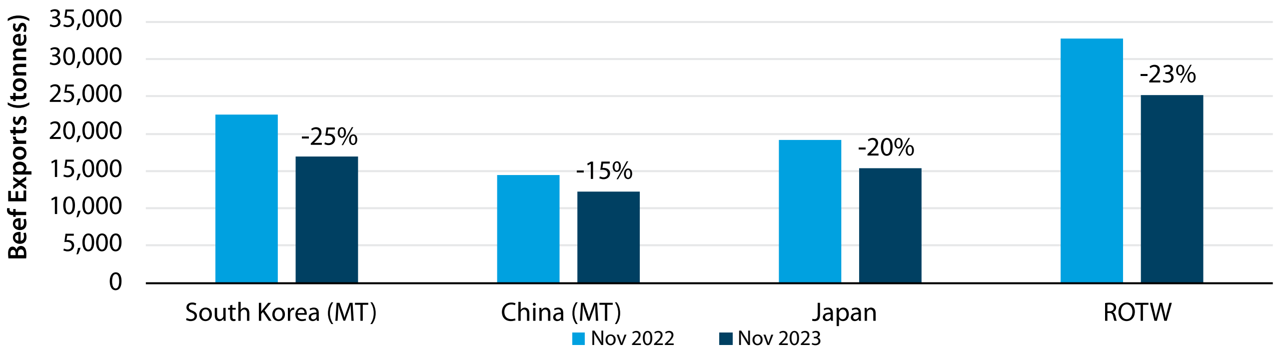
Whilst domestic consumption of beef may be trending downward, exports continue to be strong. With exports up 2 percent year on year, the Australian Beef industry is starting to return to pre-Covid levels of export with strong market opportunities continuing to present. The United States are firmly in a herd rebuild phase with Australian exports into the US rising 115 percent year on year in 2023. January 2024 saw Australia export over 20 thousand tonnes of beef, the highest volume exported in January in almost 10 years. This sharp increase in exports to the US is contributing to total Australian exports being up 47 percent on the end of summer 2023.

The declining US cattle herd is continuing to open up opportunities in the international market with US exports into China and South Korea down 15 percent and 20 percent year on year respectively. Brazil remains a strong competitor for Australian beef into these markets with exports into China up 18 percent year on year however the opening in the market has seen Australian exports into China up 42 percent and exports into Japan up 16 percent. With over 50 percent of beef produced in Australia exported and a slight downturn in domestic consumption, demand from these markets will continue to be the primary offtake for the increasing beef production levels as the maturing herd increases supply into the market.

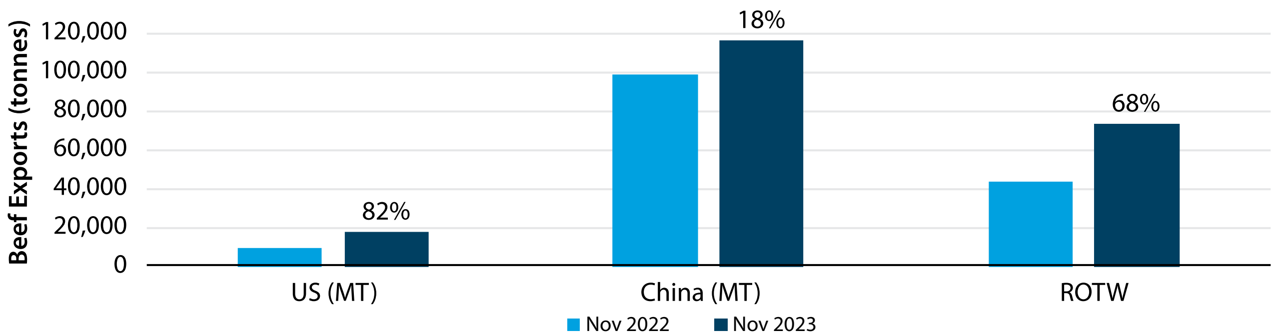
AUSTRALIAN BEEF EXPORT MARKETS NOV 2022 VS NOV 2023



US BEEF EXPORT MARKETS NOV 2022 VS NOV 2023



BRAZIL BEEF EXPORT MARKETS NOV 2022 VS NOV 2023



Source: MLA, USDA, ANZ

SHEEP INSIGHTS

OVERVIEW

- Prices throughout late spring and summer have been volatile on the back of both weather patterns and supply fluctuations
- Fortunatley, prices remain above the lows of early spring, and are sitting at around year ago levels across most indicators
- The total number of lambs processed in Australia was almost 25 million head in 2023, representing the largest year of lamb processing on record
- Questions remain over the number of old season lambs on farm and possible winter supply shortages however to date, supply has remained high
- Exports are continuing to perform exceptionally well across both lamb and mutton products.

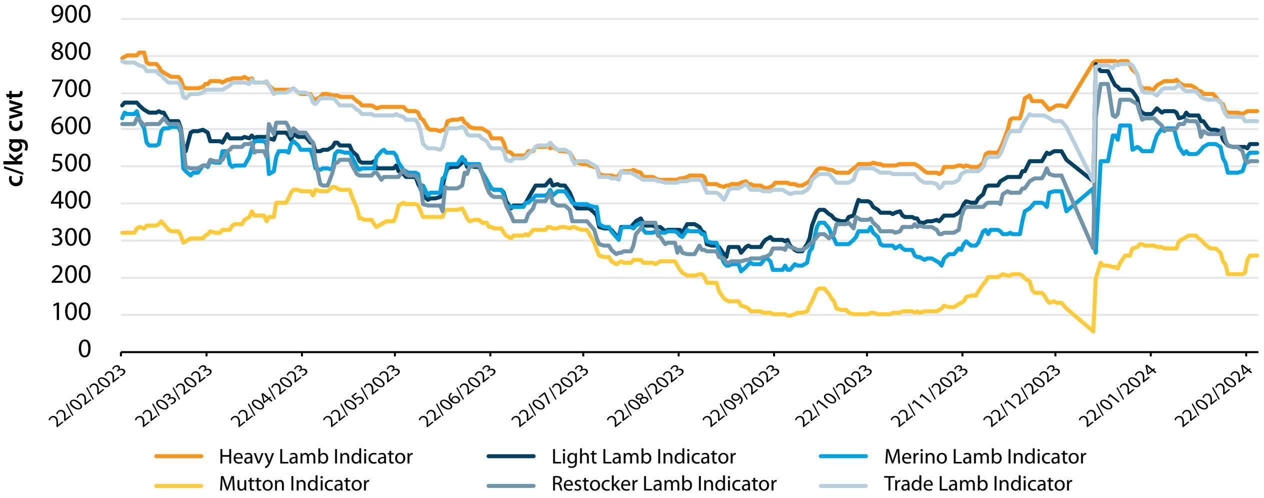
Those looking to the new year to find some stability in sheep and lamb markets, unfortunately, have been disappointed. A very welcome and significant rally in prices through December and January, on the back of widespread rainfall events in the east, saw national indicator prices jump by as much as 92 percent for merino lamb, 52 percent for re-stocker lamb and 46 percent for mutton. Restocker demand immediately following the rain events was strong enough to erode most of the restocker to heavy lamb margin for a period of time, before opening up again through the last days of summer.

The good fortune of prices across all categories was unfortunately reasonably short lived, as heavy supply through February pressured the market, with all lamb indicators back around 15 percent from the early January peak, and mutton some 25 percent back on what was already a more modest recovery.

Recently released data from ABS demonstrates just how much sheep and lamb supply surged in 2023. Total sheep slaughter for 2023 was around 49 percent or some 3 million head higher year on year. The total number of lambs processed in Australia last year was just shy of 25 million head, up around 16 percent of the prior year, and setting a new record for the Australian processing sector. Whilst the dry spring and threat of El Nino accelerated the sale of many light lambs last year, 2024 slaughter data suggests the trend of higher supply continues, with January slaughter up 33 percent year on year for lamb, and 16 percent for mutton. This leads many in the industry to the all-important query over winter supply this year, and whether there will be a tightening and corresponding price peak prior to new season lamb hitting the market.

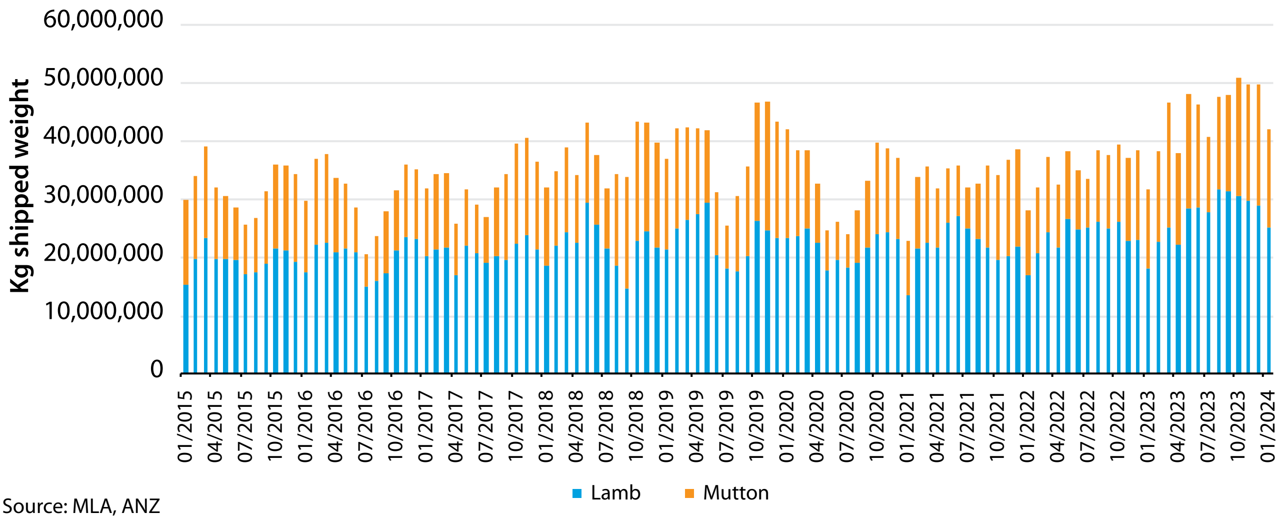
The supply impact on price is perhaps clearest in the mutton market, with the indicator price moving inversely to supply for much of the past two 'post flock re-build' years, noting a six-month period from January to June last year where the two found some sort of equilibrium, as slaughter and price both settled somewhat in a flat pattern for that time. At that time, for many producers, seasonal conditions were sound, and ewe flocks were stable either with lambs at foot or approaching spring lambing. This year, should the pattern repeat, and assuming at least an average season, the market could expect that the majority of surplus or cull ewes have now been sold, with some steadying in mutton supply and perhaps price, to come.

NATIONAL SHEEP AND LAMB INDICATOR PRICES



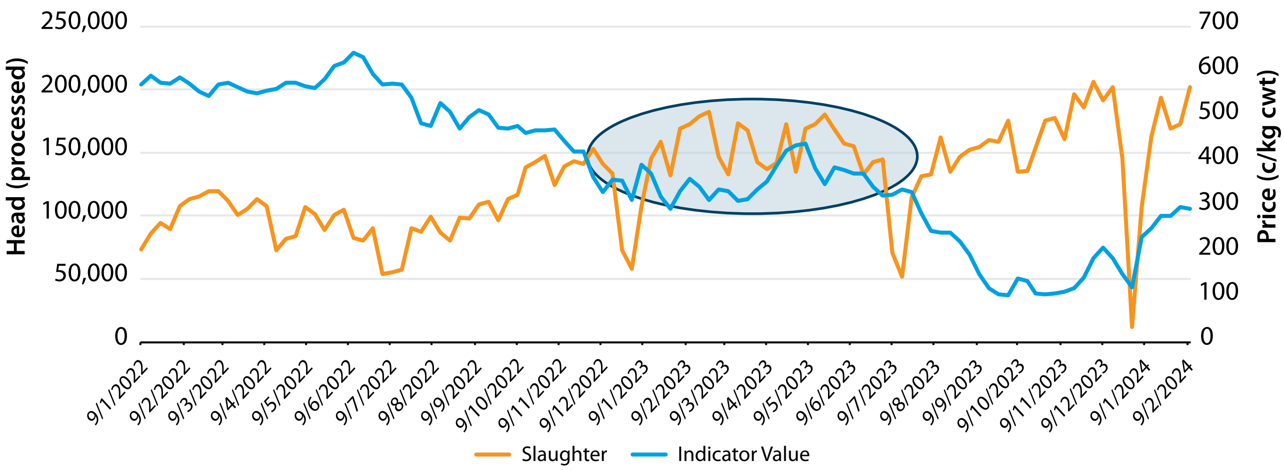
Source: MLA, ANZ

AUSTRALIAN LAMB AND MUTTON EXPORTS - MONTHLY



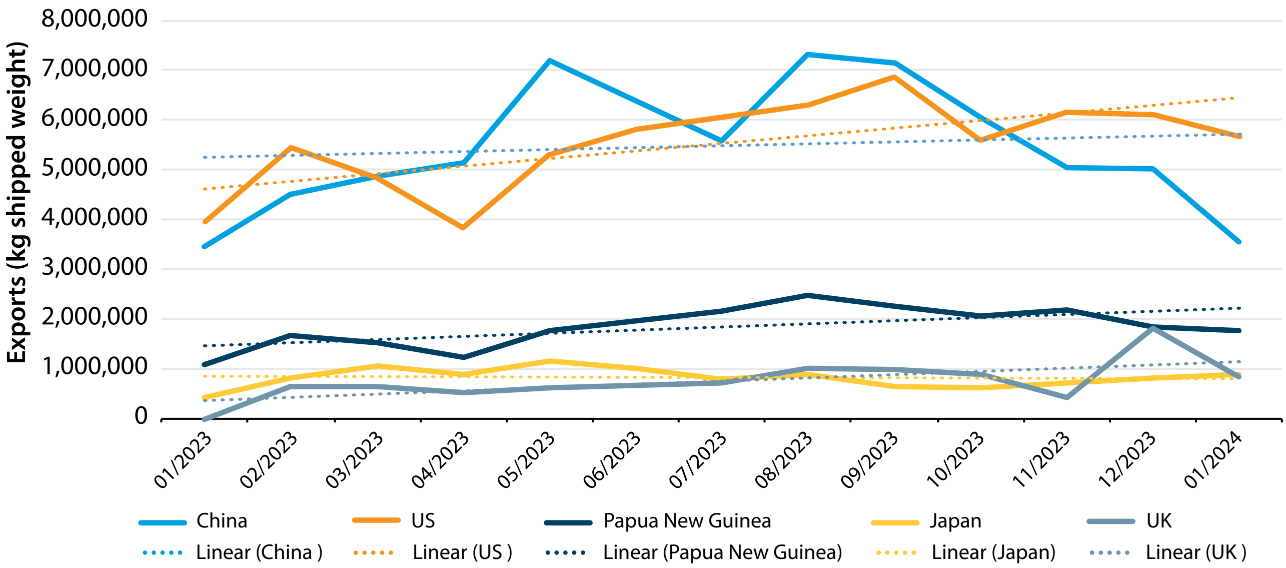
Source: MLA, ANZ

NATIONAL MUTTON INDICATOR V NATIONAL MUTTON SLAUGHTER



Source: MLA, ANZ

LAMB EXPORTS - KEY TRADING PARTNERS



Source: MLA, ANZ

On the lamb side, the autumn conditions and economics of grain feeding will determine how long the remainder of lambs on farm are held, to finish at what weights. Fortunately, Australia's processors continue to handle the supply being offered, and export markets continue to demand the product, at record levels.

Total lamb exports for January were up 48 percent year on year, with notable increases to key markets such as the US (up 42 percent year-on-year to over 5000 tonnes), Japan (up 106 percent), PNG and UK, with stable volumes year-on-year to China. Continual growth to the high value US market will be important in underpinning prices for Australian producers in 2024. Volumes to the UK are steadily increasing since the Australia-United Kingdom (A-UK FTA) entered into force in May last year, taking a monthly record of lamb in December of over 1800 tonnes shipped weight.

Mutton tells a similar story with total exports up significantly in January by 52 percent year-on-year, however most notably this market continues to be driven by China, with volumes up 17.5 percent year-on-year, notwithstanding solid gains to smaller yet still significant markets such as Saudi Arabia (recording a 44 percent year-on-year increase). Pleasing volumes are also heading to the US, where exports are again tracking higher than this time last year, and as for lamb, there are positive signs for recovery in volume to the US market throughout the year ahead.

In the west, uncertainly surrounding the future of live-exports continues to burden the industry throughout the entire supply chain at a time when there are also difficult seasonal conditions playing out. With the west responsible for around 20 percent of the national flock, including a large number of very large-scale producers, the continued prosperity of the industry is important to all facets of the sheep supply chain across the nation. Calls for transparency and consultation throughout the proposed phase out period to smooth any required transition to alternative markets are continuing with support from producers and processors alike.

As for what's ahead in 2024, some stability in supply and pricing would be welcome news for all, however with a large Australian flock, markets are demonstrating large swings in supply and price, sometimes in response to localised weather events, and sometimes larger market influences.

THE INDUSTRY CAN TAKE GREAT COMFORT IN THE GROWING EXPORT DEMAND FOR AUSTRALIAN LAMB AND SHEEPMEAT. CONTINUED FOCUS BY PRODUCERS ON MEETING WEIGHT AND QUALITY SPECS TO MEET KEY MARKETS HAVE FOR A LONG TIME PROVEN TO REWARD THEM WELL.

WOOL INSIGHTS

OVERVIEW

- An overall slide in indicator prices continues to play out with sluggish demand for raw wool across the globe
- Previously strong and resilient premiums for fine wools are starting to fade as fine apparel wools are impacted by lower discretionary spending in importing nations
- Wool production is forecast to be steady year on year with the stabilising national flock
- A steady recovery of economic conditions across Europe, as predicted for 2024 and beyond, would be welcome news for wool prices.

Despite the headline of easing overall prices to start the year, the more interesting story which has emerged throughout the 23/24 wool selling season to date is one of eroding premiums for fine micron wools.

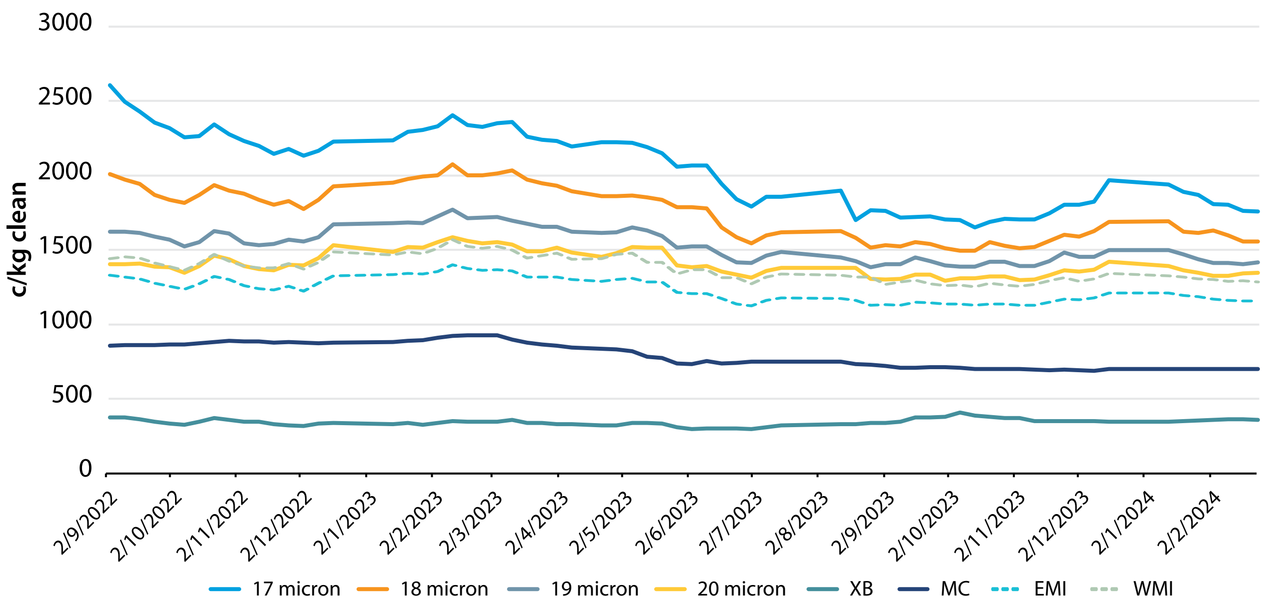
Producers of 17-micron wools can at present expect a little over a 300c/kg premium over 21-micron types, a stark drop to the ~800c/kg premium they were receiving this time last year. Slightly broader categories of 19-micron wool, for the past six months, have enjoyed little to no premium compared to 21-micron counterparts, back from around a 200c/kg margin this time last year. The cause for this erosion of premium, is also the cause of the continual erosion of all indicator prices, and that is sluggish consumer demand for finished quality wool products across the northern hemisphere. ABS export statistics for the first quarter of the season, demonstrate that premium fine wools usually bound for the European market are instead making their way into China, where the same premiums usually expected, do not exist. The Chinese economies own slow down also continues to place pressure on overall wool pricing.

In terms of the impact of the reduction in micron premiums, AWEX data for the 22/23 selling season suggests almost 52 percent of Australian wool marketed is under 19.5 microns, and therefore the price correction will be noticed by many in the industry. When considering other possible impacts, according to MLA's latest sheep producer intentions survey, some 49 percent of producers are concerned that access to skilled labour such as shearing will get more difficult over the year ahead. This leads to queries over the direction of the ewe base in Australia when combined with lack of price incentive. The survey results estimate that at present, around 64 percent of the Australian ewe flock are Merinos, back from around 75 percent two years ago. With labour concerns and a flat outlook for the EMI, which is currently sitting at around 1150 cents, some may argue the trend toward non-merino breeds may continue.

In more positive news, the expectation of reducing inflation across Europe and the US into 2024 is welcome, although many economic forecasts suggest real economic growth in Europe will be slow, signalling no short-term benefit to Australian wool prices, but may support a stabilising of prices. Australian wool volumes are expected to be steady year on year, with latest forecasts from the Australian Wool Forecasting Committee predicting a 328 million kg wool clip, equivalent to the 22/23 season.

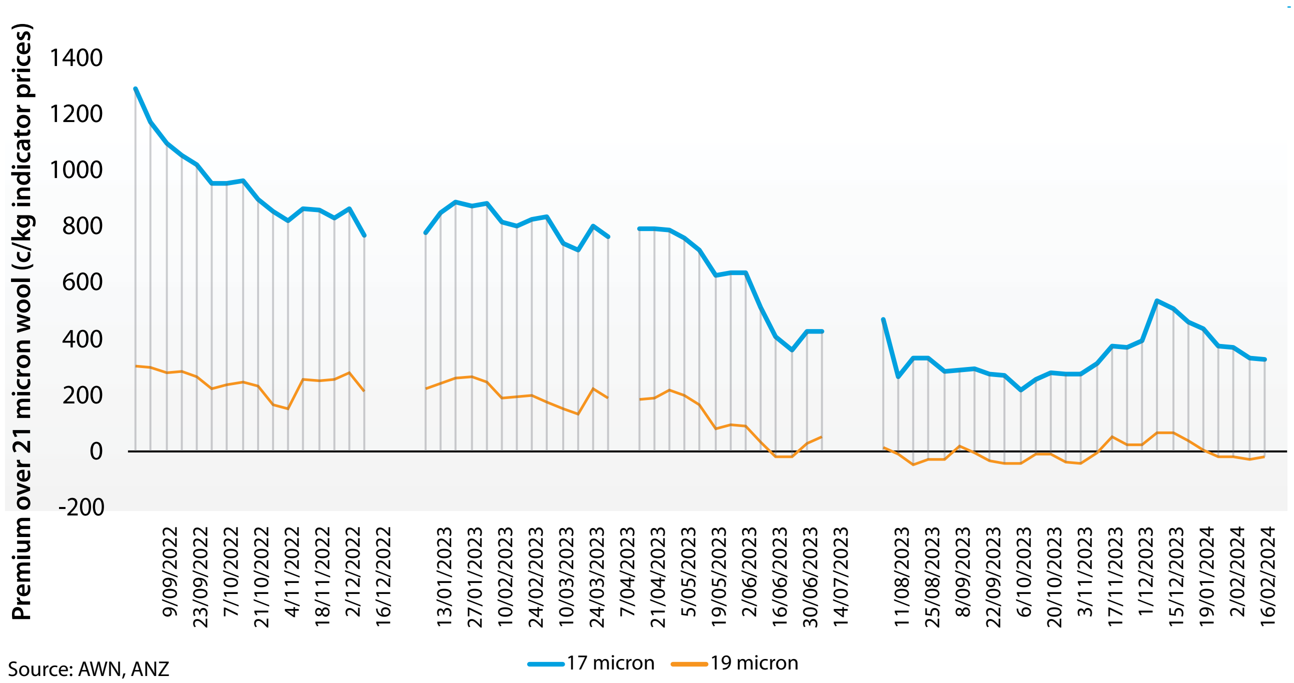
In addition, in terms of supply, wool auction volumes tend take a seasonal dip in May/June and also August in Australia in most years, likely due in part to many mixed farmers focusing on the peak demands of cropping programs at this time, and avoiding shearing or wool sales as a result. Both lower supply periods align well with the pre-purchasing needs of northern hemisphere customers who are approaching the winter apparel season. If there is any demand spike to come, perhaps this could be it, however the counter argument would be that the supply chain is in a good position to purchase fine wools at present for little to no premium, and may be stocking up for the season ahead.

AUSTRALIAN MERINO WOOL MICRON PRICE GUIDES



Source: AWN, ANZ

FINE WOOL PREMIUMS OVER 21 MICRON TYPES



Source: AWN, ANZ

DAIRY INSIGHTS

OVERVIEW

- Australian milk production volumes are forecast to continue to decline and could be below 8 billion litres in around two years
- The dairy processing supply chain is adjusting to this lower level of domestic production
- There is a widely held view that farmgate prices may decline in 2024 as processors balance supply shortfalls with relatively low global dairy product pricing
- Softer demand globally is evidenced by lower imports to China, where consumer behaviour is shifting toward liquid milk over milk powders.

The discussion in the Australian dairy sector continues to be dominated by the issues of the outlook for industry scale and prices, and the relationship between the two. In addition, industry observers continue to watch the fortunes of Australia's global dairy competitors, in a bid to their competitiveness over the longer term.

In terms of Australian milk production, after a year in which domestic production levels briefly plateaued, on the back of an excellent pasture season, volumes are again forecast to continue declining. The latest ABARES forecasts predict milk production falling to around 8.2 billion litres in 2024/25. At that rate of decline, the industry would drop below the psychological 8 billion litre mark in around two years. Given that the industry has not produced less than 8 billion litres annually since 1992/93 and has been as high as 11.3 billion litres in 2001/02, this would be an indication of the level of the change, as well as how much those further down the supply chain – particularly processors and retailers – have needed to adjust.

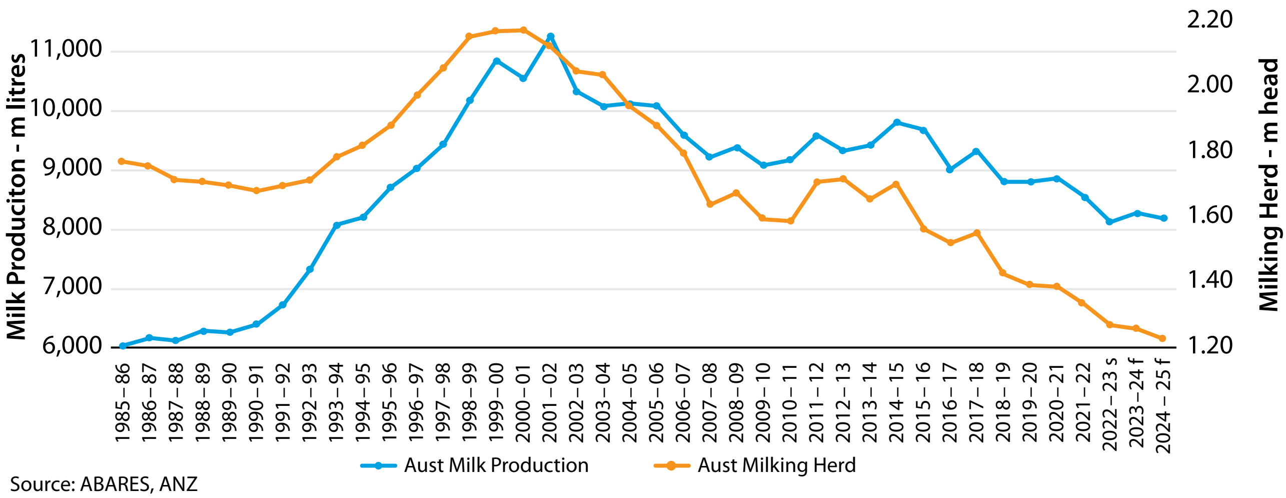
At the same time, the domestic milking herd is also forecast to continue its gradual decline, falling by around three percent to 1.3 million head. If the current rate of decline in the milking herd continues, then by the end of the decade it could fall below the one million mark. This would be almost one third the size it was in 1970/71.

The reasons for the industry contraction remain the same as they have over the past few years – dairy farms being bought out by beef farmers, labour shortages, lack of generational change in dairy farms, and uncertainty over long term returns required to justify updating on-farm dairy infrastructure.

In terms of the outlook for farmgate prices, paid by the processors to the farmers, the widely held industry view is that these are likely to decline in 2024, as processors seek to balance these prices with the returns they are receiving from both domestic and export markets. If this price reduction eventuates, it may be that even more dairy farmers choose to leave the industry, potentially increasing the rate of production decline.

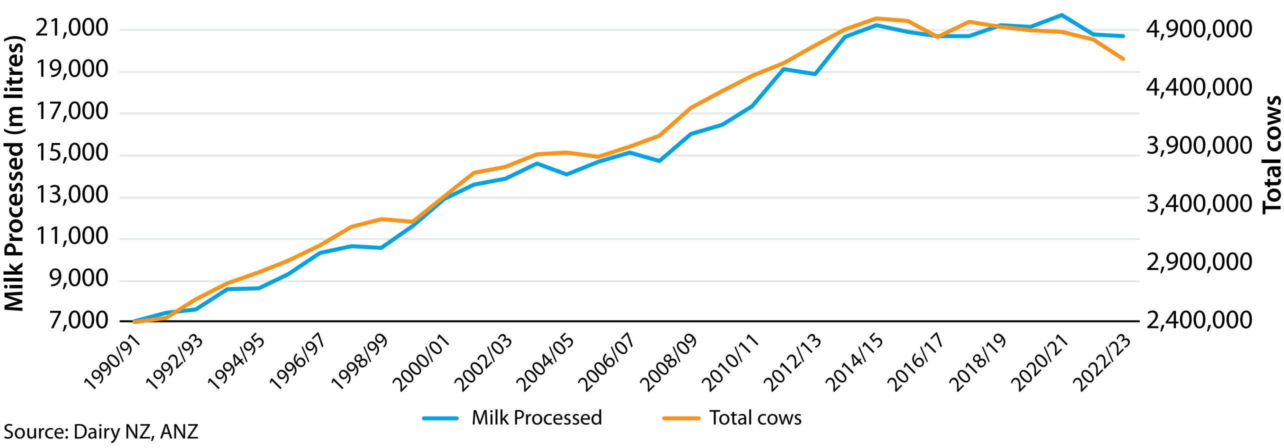
Processor decisions will also be impacted to some degree by the level of dairy imports into Australia, which have continued to grow strongly, particularly for butter and skim milk powder. In a global trading environment, where Australia has pushed hard to gain further market access for its agri commodities, the dairy industry provides an interesting example

AUST MILK PRODUCTION VS MILKING HERD



Source: ABARES, ANZ

NZ MILK PROD VS TOTAL COWS



Source: Dairy NZ, ANZ

of one in which competitors with quality products, greater efficiencies of scale, and geographic proximity – i.e. New Zealand – can provide a very competitive product.

One factor which remains to be seen is the impact on the domestic dairy supply chain of the announced closure by the Canadian processor Saputo of five of their 11 operations in Australia. Once again, depending on the locations of these closures, they could possibly see some regions reduce their dairy production. Alternatively, given the reduction of competing processing operations in the market, this could reduce the pressure on processor revenues, and reduce the level of any farmgate price reduction.

On a global basis, world milk prices currently remain relatively low, largely driven by softer demand as a result of tighter economic times. This is particularly seen by lower imports to China. Interestingly, China is also working hard to continue to lift its own domestic production, to reduce its reliance on dairy imports. At the same time, China has also succeeded in getting its population to notably lift their consumption of liquid milk, rather than milk powders. This shift in Chinese consumer behaviour has been a long terms process, since the major consumer reaction to the 2008 issues around melamine in some milk.

In terms of Australia's dairy export competitors, both the European Union and NZ will be interesting to watch over the longer term, particularly as their dairy industries react to regulatory change.

In the EU, the recent highly publicised protests by farms could see some slowing in the short term of the imposition of further changes in areas such as subsidies and input usage, but it remains to be seen whether this will be the case in the longer term.

Similarly, in NZ, regulations around nitrogen usage and emission reporting may continue to see some level of contraction in the dairy herd size and overall milk production. While this fall is only marginal at the moment, the fact that NZ appears to have now passed "peak milk" raises interesting questions about how the industry will look as it heads into the future.

COTTON INSIGHTS

OVERVIEW

- As picking commences, it is expected the Australian crop could be somewhere between 4.5 and 4.8 million bales this year
- This crop volume would represent a 25 percent fall on last year, however prices are favourable for producers with global prices currently at their highest level since 2022
- Prices are being assisted by a forecast lower global crop along with increasing global demand
- Improved economic conditions through 2024 could see further demand spikes for cotton products.

Australia's cotton industry currently finds itself in a relatively good position, balancing the two factors any agri sector loves to combine – high production at the same time as high prices.

As the industry heads into the picking season, forecasts vary on the size of the upcoming harvest. ABARES has forecast around 4.5 million bales, while USDA is forecasting a relatively higher figure of 4.8 million bales. Working on ABARES' forecast, while this would represent a 25 percent fall on the previous year's production, it must be remembered that this is coming off the back of two record years. Indeed, the current forecast would still be the sixth largest Australian cotton crop in history, and if it reached the USDA forecast, the fourth highest.

Interestingly, ABARES has also released their first forecasts for the cotton crop in 2024, and have predicted a slight decline, to around 4.15 million bales. This forecast is presumably based on the trend growth for cotton production in Australia over the past thirty years, in a period where the volatility of harvest levels has been arguably greater than any other major Australian agri commodity, through the downside impacts of drought and the upside impacts of optimal growing conditions. If the forecast La Nina does take place over 2024, then it is foreseeable that cotton production could actually rise back to around record levels.

In a fortuitous set of circumstances for Australia's cotton producers, global cotton prices are currently at their highest level since 2022, driven by a combination of both supply and demand factors.

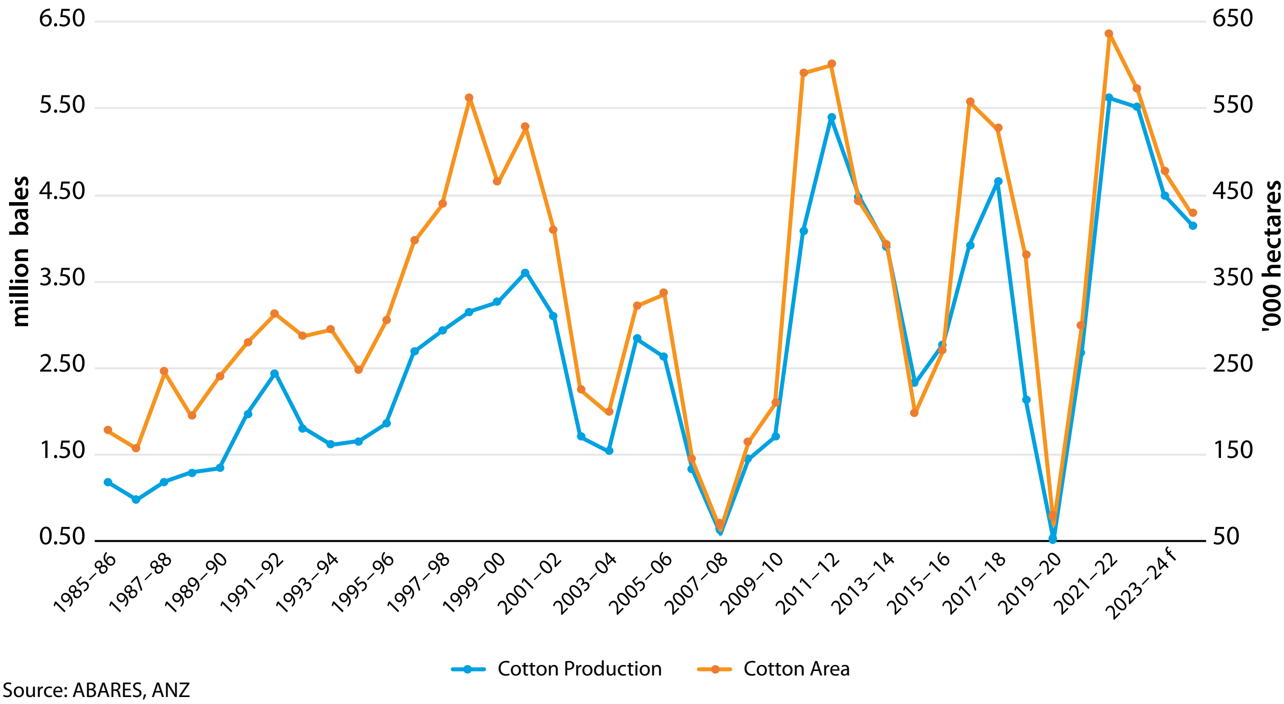
Global cotton production is forecast to fall to its lowest level since 2016/17, and one of its lowest levels in decades, with sizeable production falls in China, India, the US and Pakistan.

In contrast, global cotton consumption levels are forecast to rise, particularly as cotton processors look to increase their output of goods in advance of a forecast easing of economic tightening in many countries by later in 2024, an event which would see consumers increase their purchase of clothing and other cotton goods.

With the tightening supply, major cotton users will pay higher to ensure they have cotton reserves to fill their processing needs. For example, in 2023/24, China is forecast to double the level of its cotton imports from the previous year.

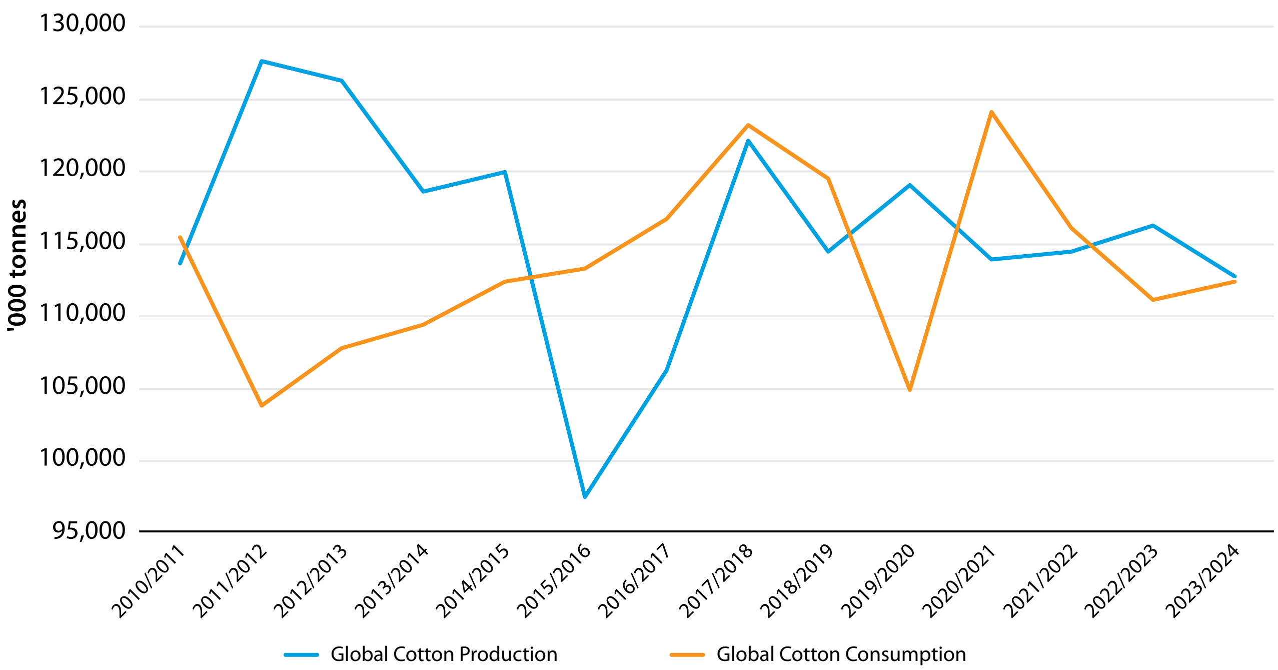
With importers continuing to compete for limited supplies, and for forecasts of sub-optimal weather in a number of major cotton producing regions, it is foreseeable that high cotton prices could continue for some time.

AUST COTTON PRODUCTION VS AREA



Source: ABARES, ANZ

GLOBAL COTTON PRODUCTION VS CONSUMPTION



Source: USDA, ANZ

WINE/GRAPES INSIGHTS

OVERVIEW

- Challenges remain for the wine industry as the long term impact of China's wine tariffs continue to be felt
- Other challenges for the industry include changing consumer buying and drinking habits and oversupply stemming from increased plantings at a time when export demand has fallen away
- The export value of Australian wine may fall to lows not seen since post the GFC
- While there are cautiously positive signals for changes in China's tariff levels (at the time of writing), however the likelihood of a rapid recovery of export volume and value is subject to many variables.

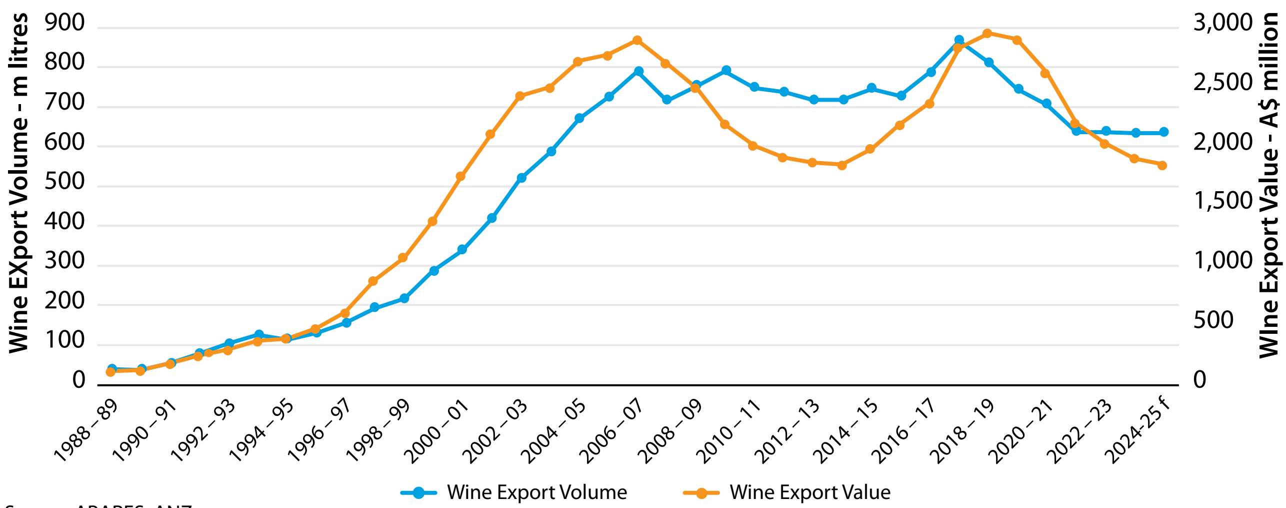
The Australian wine industry, particularly including wine grape producers, is undeniably in the midst of a very challenging period. While the lingering impacts of China's prohibitive tariffs on Australian wine imports are the most high-profile factor, the industry is dealing with a range of issues, some stemming from historic growth to others based around changing consumer buying and drinking habits.

Undoubtedly one of the major challenges remains the downturn in both the volume and the value of Australian wine exports, and the impact this is having on lingering over-supply in China. Looking back, Australian wine exports enjoyed a meteoric rise in the two decades leading up to around 2006/07, a point at which they reached almost three billion dollars. As a result of the Global Financial Crisis (GFC), as well as other factors including growing competition, export values declined markedly, falling to around $1.8 billion by 2013/14. From that point, through a rapid increase of Australian wine exports to China, combined with beneficial Free Trade Agreement access to other markets, wine exports again rose rapidly, hitting a peak of $3 billion in 2018/19. Since that period, particularly as a result of the Chinese tariffs which were imposed in 2020, wine exports have returned to around their 2013/14 low, with ABARES forecasting they will fall even further in 2024/25.

With export values and volumes having fallen away, the level of wine which had been produced and remained in inventory has meant that demand and prices for wine grapes has fallen substantially. On average, wine grape values have fallen by around 20 percent since 2020/21, though the reduction has been far greater for grapes going into wines with the largest levels of oversupply, which has been estimated at around two million litres.

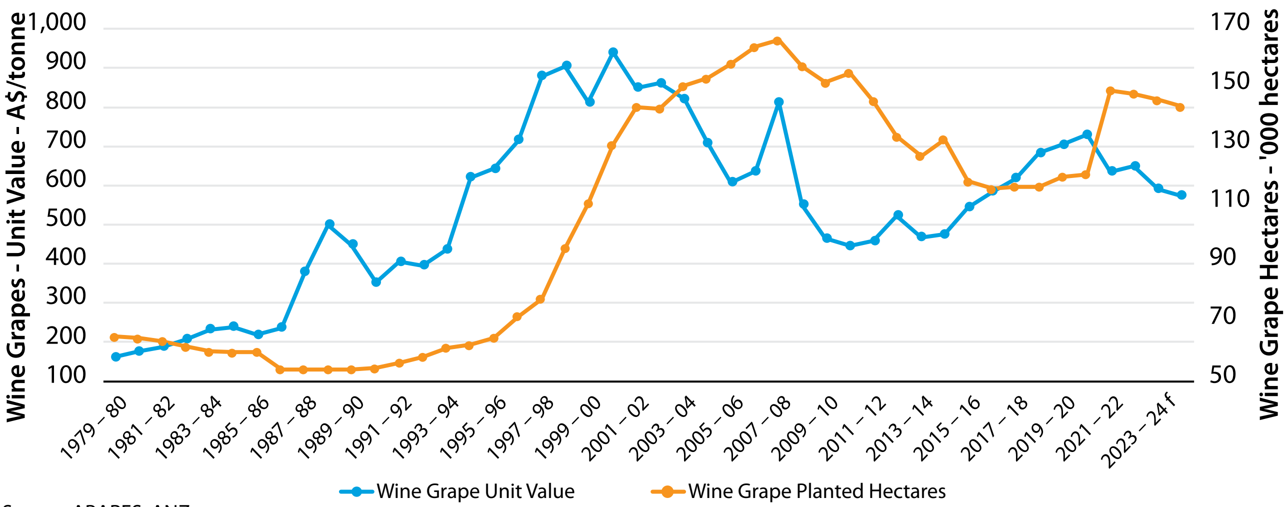
Similarly, the level of wine grape growing acreage could well fall dramatically, if there is no strong increase in industry fortunes. In the period following the peak of wine export values in 2018/19, acreage planted for wine grapes shot up by almost 30 percent, to around 150,000 hectares in 2021/22. Given the investment required to

AUST WINE EXPORTS BY VOLUME VS VALUE



Source: ABARES, ANZ

WINE GRAPES - GROSS UNIT VALUE ($/T) VS PLANTED HECTARES



Source: ABARES, ANZ

prepare, plant and maintain these operations, most of this area is still growing wine grapes, with only a marginal reduction in acreage since that peak, despite the slump in exports.

Given that these plantings may continue producing wine for some time, it may take several years before any structural change flows through, and whether a reasonable level of this acreage could be converted to other agricultural uses.

At the same time, the current period of higher cost of living costs has meant that many consumers have reduced their wine spending, both in Australia, as well as some major export markets. In addition, the trend by many consumers to drink less alcohol has also eaten onto market share.

Those most affected by the current structural adjustments run down the supply chain. Different grape growers will be impacted in different ways, including those who may have had contracts with larger wine companies, who are now discontinuing some wines. At the same time, smaller wineries, which often have a boutique and higher priced product, may also be feeling the combined impacts of both the export reductions, as well as lower domestic sales.

Looking ahead, there has been speculation that an announcement by China on the future of its wine tariffs may be in the offing. That said, even if these were to change, concerns continue as to whether Chinese consumers would return to the same consumption level of Australian wine, or whether the industry has a long period of change ahead.

AQUACULTURE INSIGHTS

OVERVIEW

- The gap between imports and exports of fish products into Australia continues to widen, with Australia being a net importer of fish
- Australian exports are around the same level as they were in 1997/98
- The most imported product is prawns, followed by tuna and salmon
- Most industry growth since around the year 2000 has been in the salmon industry, with a current value of around $1.3 billion
- A re-opening of Australian exports of rock lobster to China would be a significant boost to overall aquaculture fortunes.

The Australian fisheries and aquaculture sector is looking positive overall, though with a mixed outlook for different industries. Salmonid and prawn product values remain strong, with most other categories remaining consistent. The rock lobster industry, in particular, continues to work on a resumption of official trade with China.

The most recent figures from ABARES shed some interesting light on the aquaculture sector, some of which may be of surprise to those outside the industry.

Perhaps most notable is that not only is Australia a net importer of fish products, but that the gap between imports and exports continues to widen. In 2022/23, the most recent figures available, Australia exported around $1.5 billion worth of fish products, but imported around $2.7 billion worth. It's also notable that fish exports are around the same value as they were in 1997/98.

In terms of imports, the largest individual category is prawns, at around $530 million, followed by tuna and salmon.

Interestingly, Australia's largest fish export is also salmon, at around $450 million, followed by rock lobster, abalone and tuna. While they may both appear in the import and export category, Australia's salmon and tuna imports are more likely to be tinned, while the respective exports are more likely to be smoked, or fresh and bound for restaurants in Japan. One major change in the export sectors has been that pearl oysters, climbed above $400 million in exports between 1998 and 2002, but are now around ten percent of that.

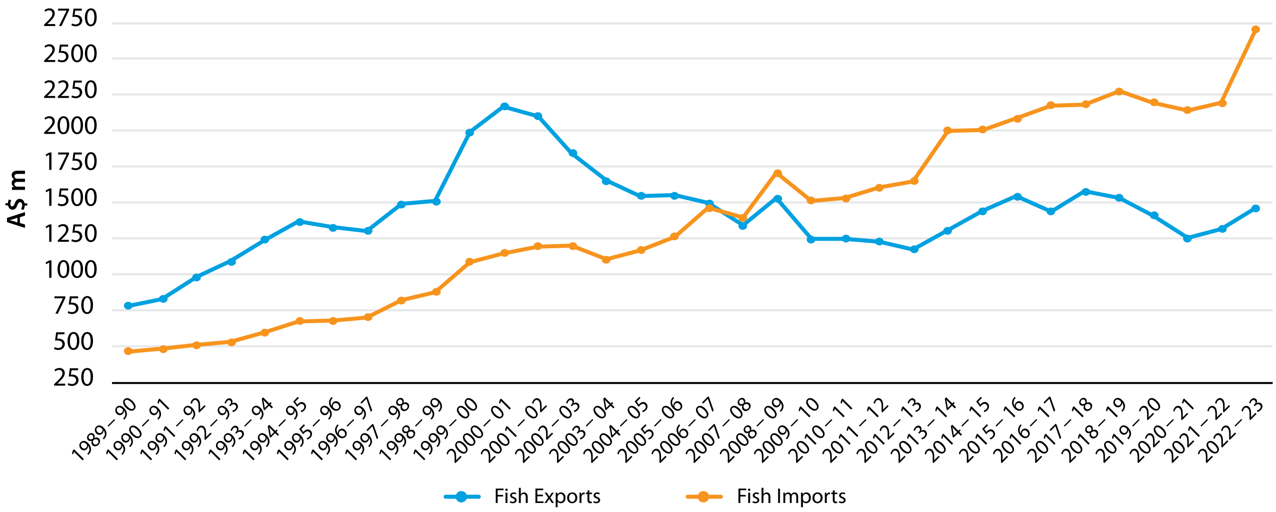
In terms of overall value, the domestic fisheries industry continues to grow. In 2024/25, the industry is forecast to be worth $3.6 billion, making it worth more than the sugar, cotton or barley industries. That said, it is important to note that most of the industry growth has been due to the growth in the salmon industry. Taking away salmon, the industry is worth around $2.3 billion, roughly the same as it was worth in1999/2000.

The salmon industry has stood out from other fisheries industries in terms of growth in both volume and value. At an estimate value of $1.3 billion, it is now worth roughly ten times what it was twenty years ago, before the industry began undertaking rapid investment growth. The next biggest individual sector is worth around a third of that of salmon.

Interestingly, over the same period, salmon production levels have grown by five times, a comparison which emphasizes the growth in value of the fish.

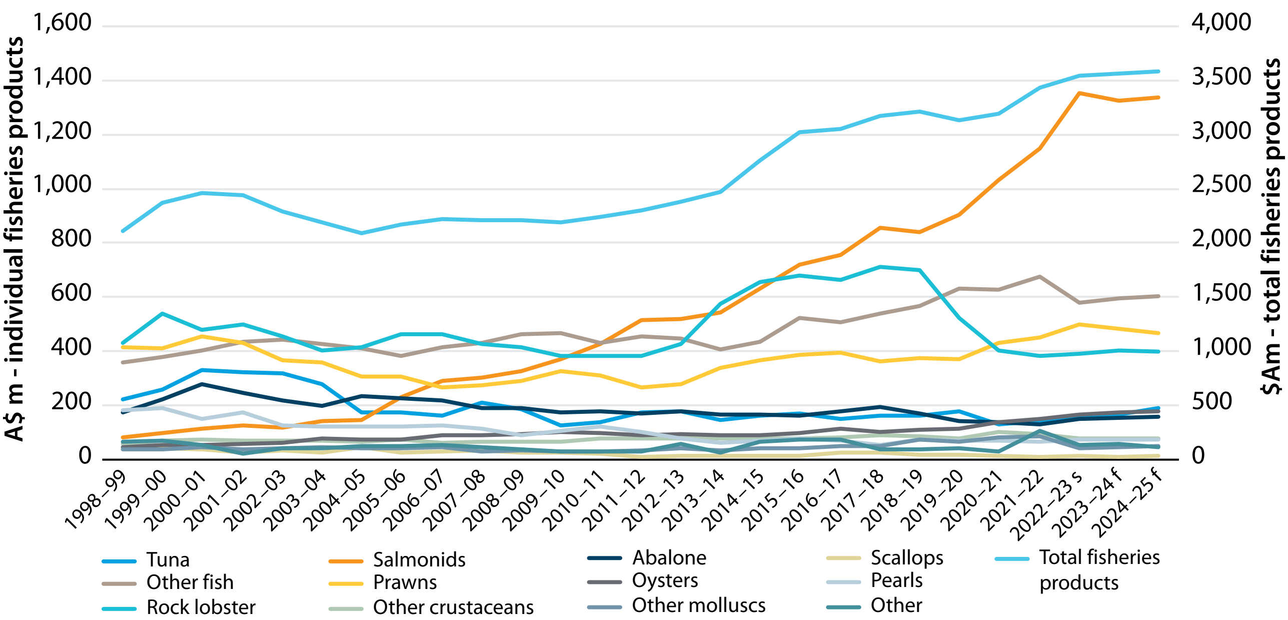
Looking ahead, the one industry looking the most for a regulatory change is that of rock lobsters, which is hoping that it will soon be officially allowed to export to China again. Despite reports of large quantities of Australian rock lobsters making their way into China through the "grey trade" (i.e. unofficially across borders), the rock lobster industry will be optimistically hoping that an official entry into the market could possibly see it resume its position as the highest value Australian fishery product, a position it last held in 2014/15.

AUST FISH EXPORTS VS IMPORTS



Source: ABARES, ANZ

AUST FISHERIES PRODUCTION VALUE



Source: ABARES, ANZ

AUSTRALIAN ECONOMIC INSIGHTS

EMPLOYMENT, WAGE AND INFLATION TO SLOW IN 2024

The unemployment rate will rise – modestly – in 2024

The labour market weakened through 2023 and is likely to continue slowing over 2024. While job ads and vacancies are still elevated, these metrics are easing. We expect the unemployment rate to rise from 3.9% at the end of 2023 to around 4.3% at the end of 2024. This is still lower than at any point during 2010-2020, but suggests some shortages will ease.

Wages will slow but so will the ability to pass on prices to consumers

ANZ Research expects wage growth to slow from 4.1% y/y to Q4 2023 to 3.5% y/y to Q4 2024. As the unemployment rate and underemployment rate rise, businesses are likely to see some modest easing in shortages of labour.

In the RBA's latest discussions with the business sector through the RBA liaison program, they found that businesses had weaker hiring intentions through 2024 and expected to provide less wage growth than last year. But businesses also said that they are finding it more difficult to pass on rising costs to their customers.

Inflation will fall through 2024

ANZ Research forecasts inflation will fall from 4.1% y/y to Q4 2023, to 3.0% to Q4 2024. The fall in inflation will clear the path for the RBA to start cutting the cash rate, though the RBA Board will be slow to change its rhetoric through the year, as they will be cautious about the risk of inflation reaccelerating or not falling far enough.

Falling inflation along with wage growth, tax cuts and an interest rate cut in November will all help household finances.

The USD will stay strong in Q1

Recent USA economic data implies the economy is in solid shape, with signs that the labour market is loosening to a lesser degree than before.

This will keep the USD stronger than it would be otherwise, as the US Fed looks likely to pause on rate changes in the near term. We think the US Fed will likely begin easing in Q3 but conditions for this may emerge from Q2 depending on incoming data.

Looking through to the rest of the year, geopolitical concerns may serve to boost the USD, as could the US election, although we will be less certain of the impact of the election until the candidate field is settled.

All of this USD strength will limit how much the AUD appreciates against the USD.

India's strong growth will continue as China's growth settles at a slower rate

India was the fastest growing major economy in 2022 and 2023 and the data suggests India's current growth phase is likely to last some time yet. Tax and other federal policies as well as human development indicators are all improving. This is helping sustain India's strong economic growth. China's reversion to the economic mean has also prompted capital and attention to look further afield – which has helped India accelerate its growth.

India does have a legacy of disappointing in its ability to sustain growth. But disappointment is much less likely now: capital investment is stronger, the economy more open and household consumption strong.

The most pressing macro challenge is to slow credit growth. Structurally, India is still quick to turn to restrictions on trade, the agriculture sector remains protected and women's labour force participation is unenviably low.


4.45
90.95
20.3
65.65

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