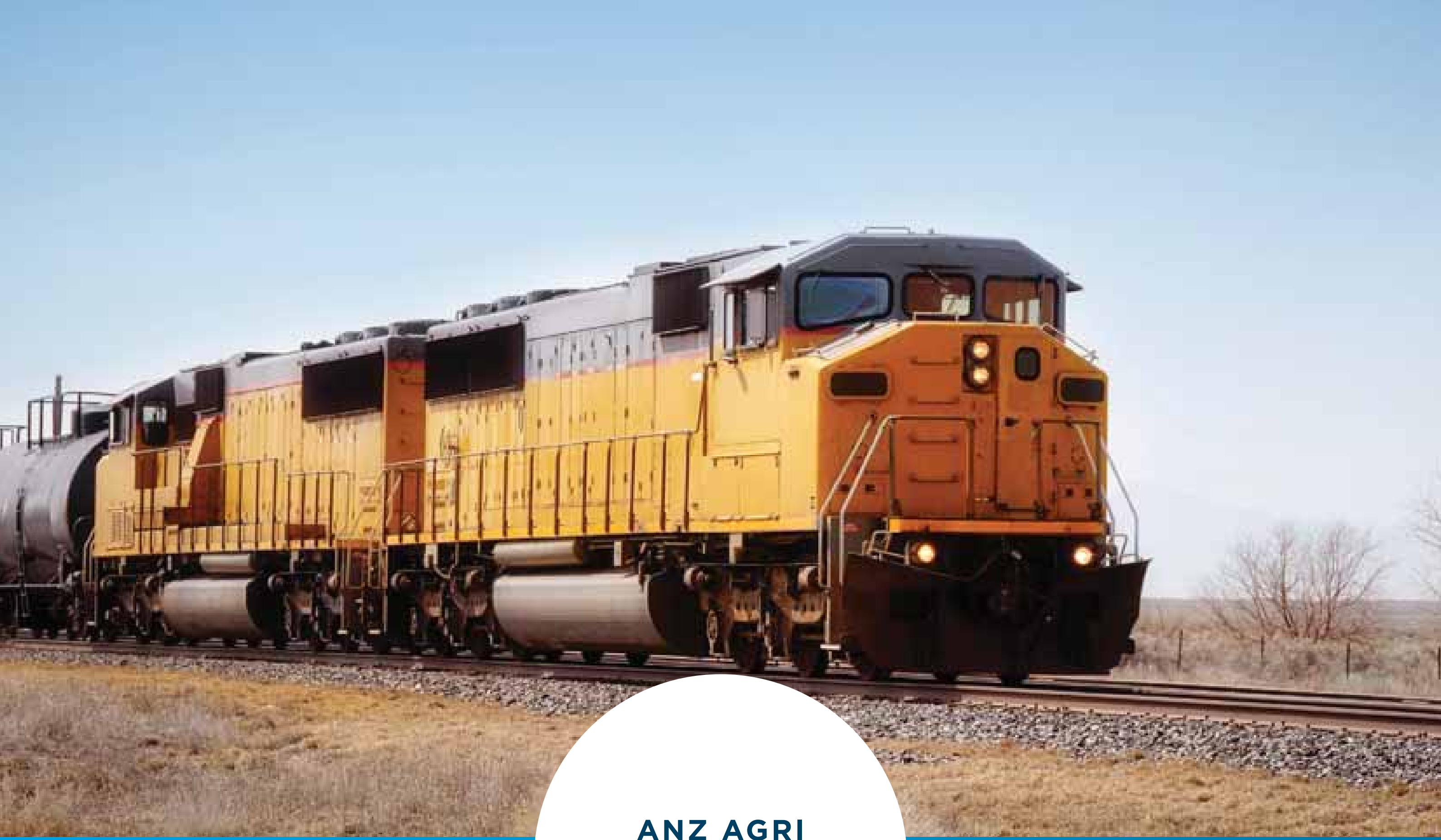

ANZ AGRI
INFOCUS

COMMODITY INSIGHTS

SUMMER 2022/23

ANZ

FOREWORD

Welcome to the Summer Edition of ANZ Agri InFocus. As farms up and down the eastern seaboard count the costs of recent floods, and we enter the winter crop harvest season in the north and west, all eyes are on the speed and quality of the national harvest. In what is shaping up as a patchy but ultimately high volume harvest, forecasts continue for rain events across cropping areas. Livestock prices continue to perform well although still being impacted by backlogs from Covid shutdowns and labour shortages while wool and dairy remain historically solid, but off their highs.

In short, on the domestic season and production front, while there have been some pitfalls emerge over spring, we are looking forward to summer with plenty of water in the dams and rivers and a very solid winter crop harvest.

Global trends and concerns are starting to weigh on domestic prices slightly. Inflation worries, rising interest rates and falling consumer confidence and spending in many of Australia's major trading partners are starting to lower global prices in commodities such as wool and dairy. While domestic fundamentals are strong, we can say its most likely that we've moved past the time of strong and sustained increases in commodity prices driven by global demand.

Which is not to say that global food demand won't remain strong – just to say that the boom in prices across commodities such as wheat and canola are unlikely to occur again. There is always, however, the potential for spikes and change due to supply chain instability and tight supply of quality product.

In 2012, ANZ released Greener Pastures which sought to put a number on the key questions facing Australian agriculture – including how much funding would be required for the industry to meet our productive capacity. 10 years later, we have just released Greener Pastures 2, looking back on how the industry has performed in the face of those challenges. A combination of strong season, commodity prices and increasing productivity in the industry saw Australian agriculture outperform most expectations.

Within the Greener Pasture 2 publication consideration is given to five key paths for the continuation of the industry's stellar recent growth, being sustainability, green technology, capital, trade and advocacy. As always, a complex industry that offers so much opportunity but with so much to navigate.

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GREENER PASTURES II INSIGHTS

OVERVIEW

- ANZ's new publication, Greener Pastures 2, looks back over Australian agri through the 201s, to discuss what can be learned, while also looking ahead to 2030
- The report found that despite a cautious outlook for agricultural production revenue and exports a decade ago, the industry far exceeded expectations
- Australian agriculture's relative lack of government price support provided a major boost to growing innovation
- Looking ahead, while the process for facilitating agricultural investment has improved, a number of areas still require enhancement
- Other areas for industry focus will include agtech, sustainability, trade, and industry advocacy

As Australian agriculture progresses into the 2020s, the industry is arguably in the strongest globally competitive position it has ever been. This position has come about through a combination of factors – in particular, a convergence of extended high prices for most agricultural commodities at a time when Australia had enjoyed a string of good production seasons, combined with the evolution of the overall sector to reach increasing levels of structural efficiency, resilience and innovation.

The industry is fundamentally aware this period is likely to be a window of opportunity in a much longer cycle, given that Australia's agricultural trade competitors will inevitably see growth in their supply and exports before too long, while Australia's agricultural production volumes will also come off their current highs at some point in this cycle.

In looking at the factors which have contributed to Australian agriculture reaching this position of strength, ANZ has recently published a major report, entitled "Green Pastures 2 - Critical Pathways To Capture Global Agricultural Opportunities" (GP2).

The report comes ten years after the publication of the initial "Greener Pastures" (GP1) report in 2012. At that time, a major point of discussion in Australian agriculture centred around the likely boom in demand for Australia's agricultural products, particularly to the rapidly growing middle classes in China and other parts of Asia, and whether Australia would be able to lift productivity to meet that demand. The initial report modelled the level of investment which would be required not only to lift agricultural productivity, but for the turnover of Australian farms as they went through the process of generational change. Importantly, it also discussed a topic which was in the headlines at that time – what level of investment both could and should be sourced from outside Australia.

GP2 began by looking back over the previous decade of Australian agriculture, particularly looking at the predictions made at the start of that period, how these compared to the actual outcomes, and what lessons could be learned from this.

One of the most notable findings was the difference in the initial forecasts of Australian agriculture's gross value of production over the 2010s – and how much better it actually turned out to be. In 2010/11, Australian agriculture's GVP was $49 billion. At that time, GP1 forecast that the sector would grow by a base case rate of 2 per cent over the decade, rising to $58 billion by 2019/20. This would have meant an overall cumulative gain of $45.5 billion in extra production value over the decade. In actuality, over that decade, GVP grew stronger than the base case. With an average growth rate of 3.2 per cent, the Australian agriculture sector produced $61 billion by 2019/20. The surge in global demand for meat highlighted a clear trend across the last decade as the percentage of Australian agriculture's GVP for meat overtook that of grain.

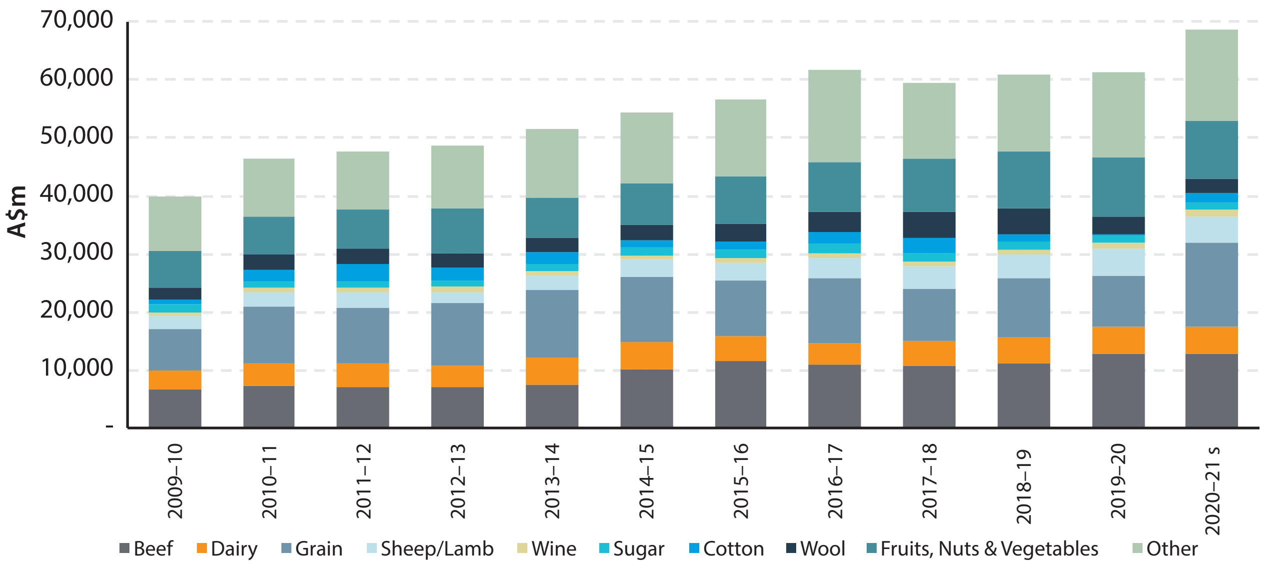
Similarly, agricultural exports also surged beyond expectations. While GP1 had forecast that, in an optimistic high case scenario, Australia may export an extra $80 billion worth of agricultural goods above the point at the start of the decade, the ultimate figure was much higher, at $111.5 billion. Again, this particularly reflected the surge in beef exports, especially to China.

In terms of investment into agriculture, perhaps the most contentious topic, the initial forecasts were once again substantially outstripped. GP1 had forecast that between 2010 and 2050, the industry would require an additional $600 billion in investment for capital improvement and $400 billion for farm turnover.

For the decade of the 2010s, this translated as Australia requiring $83 billion to continue to grow production, as well as $68 billion for farm turnover.

As it eventuated, Australian agriculture ultimately saw an investment of $212 billion in agricultural production over the decade, well above the original forecast. This figure reflected the eventual major inflow of both domestic and global investment into the sector.

AUSTRALIAN AGRICULTURE - GROSS VALUE OF PRODUCTION (A$M)

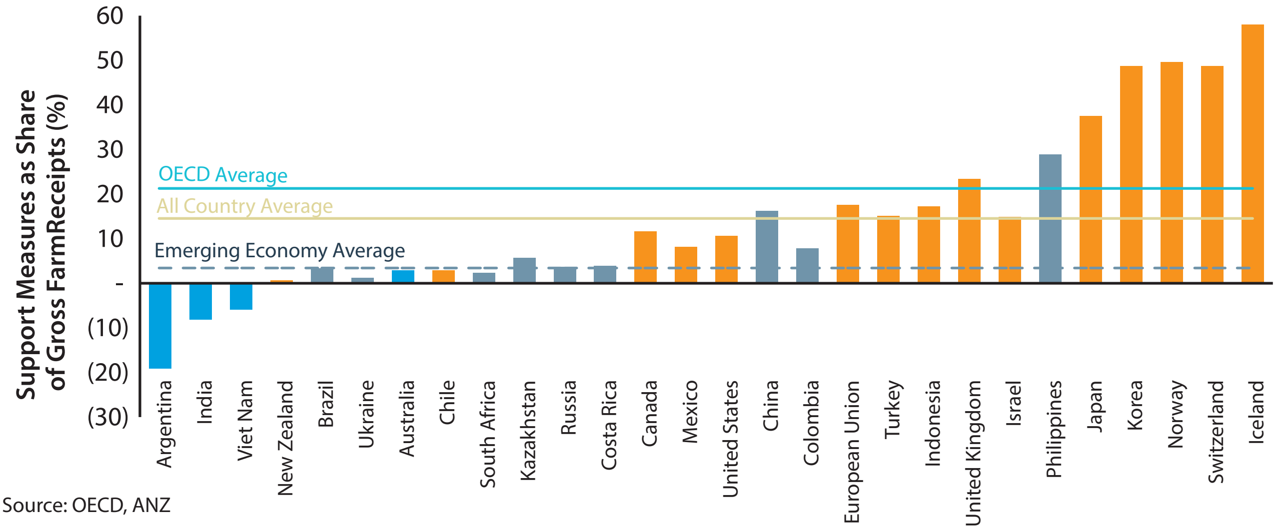


Source: ABARES, ANZ

The new report also highlights the fact that while labour remains an issue for some parts of agriculture – exacerbated by Covid related disruptions - efficiency gains in the sector meant that it did not become the major challenge which was earlier precited.

In addition, the report also notes that Australia's pro-active program of industry deregulation across a number of agricultural sectors had played a major role in developing innovation across the industry. This is particularly apparent in the very low of agricultural price support levels in Australia compared to most other countries.

COMPARATIVE AGRICULTURAL SUBSIDIES BY COUNTRY



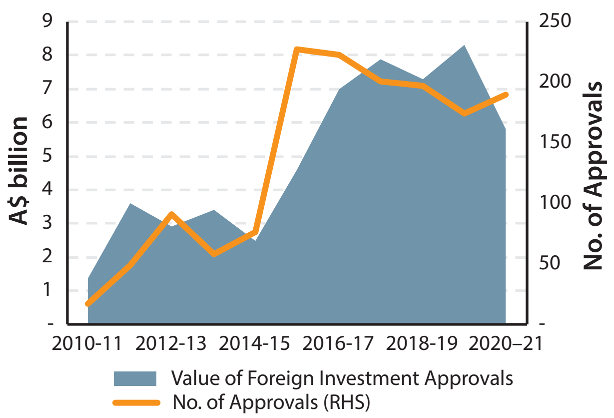
Source: OECD, ANZ

The second half of GP2 discusses in detail some of the major areas on which the industry needs to focus as it heads toward 2030, to ensure it is best placed to meet its full potential, particularly in the face of strong global competition, and against an ongoing backdrop of geopolitical instability and food insecurity.

A major focus will be improving the process of capital flows into agriculture – while the process has been enhanced over the previous decade, there is still much room for improvement.

This includes capitalising on the growth of domestic super funds, enhancing farmer education to be 'investment ready', improving the marketing of Australian agriculture investment opportunities globally, and building agricultural investment education across regional services such as legal and real estate firms.

TOTAL # AND VALUE OF FOREIGN INVESTMENT APPROVALS IN AGRI



Source: FIRB

The report highlights that while the adoption of agtech, in its many forms, is now widespread, there are still immense opportunities for many agribusinesses to increase their efficiency through further utilisation. This is true right down the supply chain, especially in the growth of robotics for secondary production areas such as processing and distribution.

Unsurprisingly, the report has a strong focus on agriculture utilising sustainability for economic advancement, across a range of areas from reduced inputs and water usage, to the possible gains from carbon capture and credits. Very importantly, the report highlights the need for the wider agri sector to utilise its expertise in being at the forefront of all relevant aspects of the sustainability discussion, rather than being reactionary.

In terms of continuing to build Australian agricultures export returns, the report highlights the need to streamline trade flows, ensure that Australia provides niche offerings to major markets (such as specialised grain), and enhance established trading relationships, while at the same time continuing to seek new markets.

Finally, the report emphasises the importance of all stakeholders across the wider agri landscape balancing a mixture of ongoing robust debate with a commitment to advocacy and industry cohesion.

THE AREAS OF FOCUS IN GREENER PASTURES 2, COMBINED WITH DETAILED INDUSTRY MODELLING AND FORECASTS, WILL FORM A MAJOR PART OF WIDER INDUSTRY DISCUSSION HEADING INTO 2023 AND FURTHER INTO THE COMING DECADE.

GRAINS INSIGHTS

OVERVIEW

- While the full impact of the heavy rains in Eastern Australia could take some time to play out, they may well see a reasonable reduction in national harvest volumes and quality
- Many impacted growers faced a dilemma of whether to apply post-rain fungicide, on top of major input costs already incurred through the season
- The rains could impact grain prices in different ways, with a potential widening spread between a shortage of protein grains and a larger than forecast supply of feed grains
- Western Australia and South Australia remain on track for very good harvest volumes
- The Ukraine conflict continues to impact global grain prices, and may well continue to resurface for some time to come

While 2022 had already been an eventful year for the Australian grain industry, largely driven by events in Ukraine, the heavy rains across much of Eastern Australia's cropping country in October were the last thing many growers needed. Even now the full impact of the rains on the volumes and quality of grains and oilseeds across the impacted regions remains to be seen. Looking further ahead, the impact will be felt not just on the coming harvest, but potentially on the national crop for the next few years.

Prior to the rain, the Australian grain and oilseed crop had been forecast to be on target for near record levels for the third year in a row. Overall, harvest volume had been forecast at around 59 million tonnes, only slightly down on the previous year's record. Of this, wheat production had been forecast to reach around 34.5 million tonnes, again a minor drop from the recent record harvest.

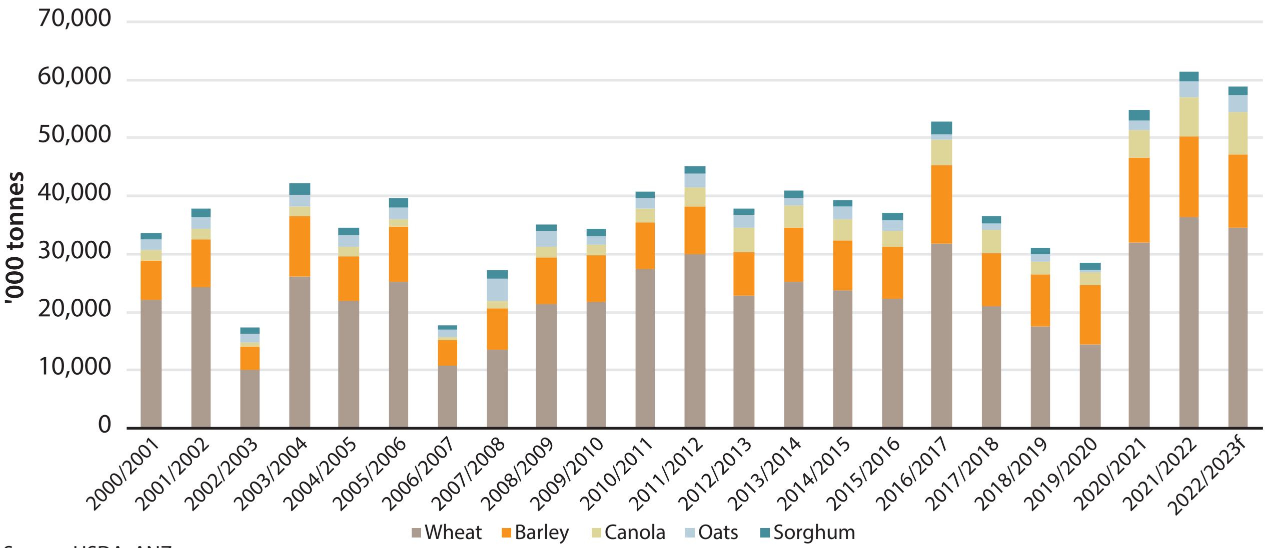
While estimates of the impact varied, some industry bodies speculated that around one third of the overall forecast volume production was in affected areas.

The rains in later 2022 were particularly heavy on cropping country in NSW and Victoria – with the exception of some parts of Queensland, cropping area in other States were largely unimpacted.

With many paddocks remaining waterlogged, many farmers were faced with a number of major decisions. Could damaged crops be windrowed, or were paddocks simply too wet for machinery? Should farmers apply fungicide, to combat potential conditions such as stripe and head rust, or would the already high cost of inputs to the crop make this economically unviable?

Working on the basis that the industry is spared further major rains this season, a number of other impacts are likely to play out, right across both the harvest and the delivery period. While in a normal year, the harvest begins around November in Queensland and gradually works its way south, this harvest is likely to be delayed in many regions. This could have the effect of harvesting contractors being more difficult to arrange than normal, as their work is far more widely spread.

AUST GRAIN AND OILSEED PRODUCTION 2000/01 - 2022/23F



Source: USDA, ANZ

In addition, the late harvest could also result in bottlenecks at the nation's grain ports, and indeed through the whole supply chains, as the late harvest comes off in a far more compact time than normal.

A quality downgrade of much of the harvest could also be felt through other parts of the supply chain. If the rain causes in the number or volume of different grades arriving at receival centres, it may cause logistical issues for the grain handlers. This could prove particularly cumbersome, given that receival centres would already be gearing up for the extra challenges of handling a much larger than average crop. This would include the extra pressure of clearing old crop from facilities.

The potential impact on grain prices is worth consideration. The likely downgrade in quality of a reasonable amount of grain, coming at the same time when protein was already in short supply, may well see an increasing spread in prices open up between feed and hard wheat. This will be a scenario which all grain users – including millers, feedlotters and others - will be watching closely. That said, given the potential for bottlenecks at major export points, and any impact this may have on offshore buyers, it could eventuate that domestic prices feel downward pressure against global prices.

It's also important to remain aware that the negative impacts of the rain have not been felt to the same extent in WA or SA, who are both continuing to forecast excellent harvests. As such, many grain users in Eastern Australia will need to model the economics of bringing grain in from these states, against local purchases.

Additionally, it is also important to remember that the rain has not impacted all parts of NSW and Victoria, and that many croppers in these states will still deliver major crops of excellent quality – although they will arguably be watching the skies even more closely between now and harvest, for any signs of big rains or frosts.

In terms of possible export bottlenecks, the forecast production this year has once again highlighted the volatility of the Australian crop. Statistically, the coming harvest is likely to the twelfth year in the past fifteen years that the crop has been above the ten-year average for production. Assuming a total 2022/23 crop of just under 60 million tonnes (mt), compared to a 10-year average of 44 million tonnes, this would put it at around 33 percent up over the average.

Across the board, aside from the rain, overall production estimates remain strong. While wheat (34,500 mt), barley (12,700 mt) and oats (1,400 mt) are all forecast to fall slightly in production year on year, this is only due to a forecast return to very good growing conditions, from the excellent conditions of last year. In contrast, canola (7,300 mt) and sorghum (2,900 mt) are both forecast to see reasonable increases in production this harvest, driven by a combination of high prices and crop rotation.

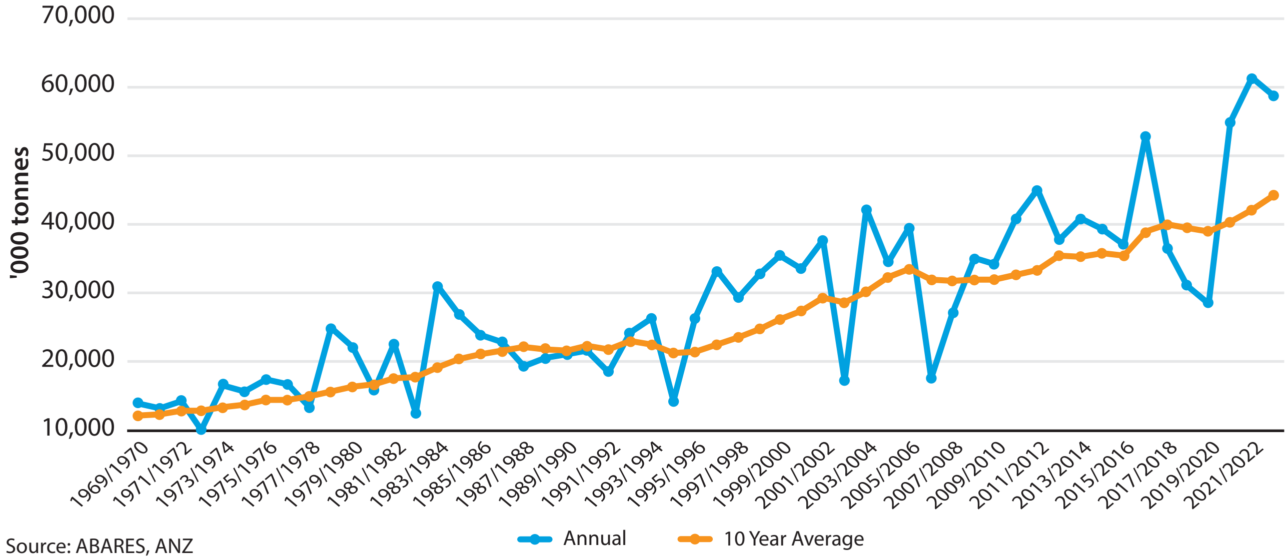
Across the global grain trade landscape, the major factor remains machinations around exports from Ukraine and Russia. As the past few months have shown, when export hurdles appear to be easing, prices fall, but when the hurdles arise again, prices shoot up – although to a lesser extent than at the beginning of the conflict.

Looking ahead – albeit cautiously - it is likely that grain will continue to move slowly from the region, although there are likely to continue to be stoppages of different kinds.

Farther afield, North American grain plantings are forecast to be the highest since 2018, especially for wheat and corn, with overall plantings up around four percent on the previous year. In theory, this should mean a softening in global prices in the early to mid-stages of 2023, after the Australian crop has hit global markets and the world prepares for a reasonably good Northern Hemisphere crop.

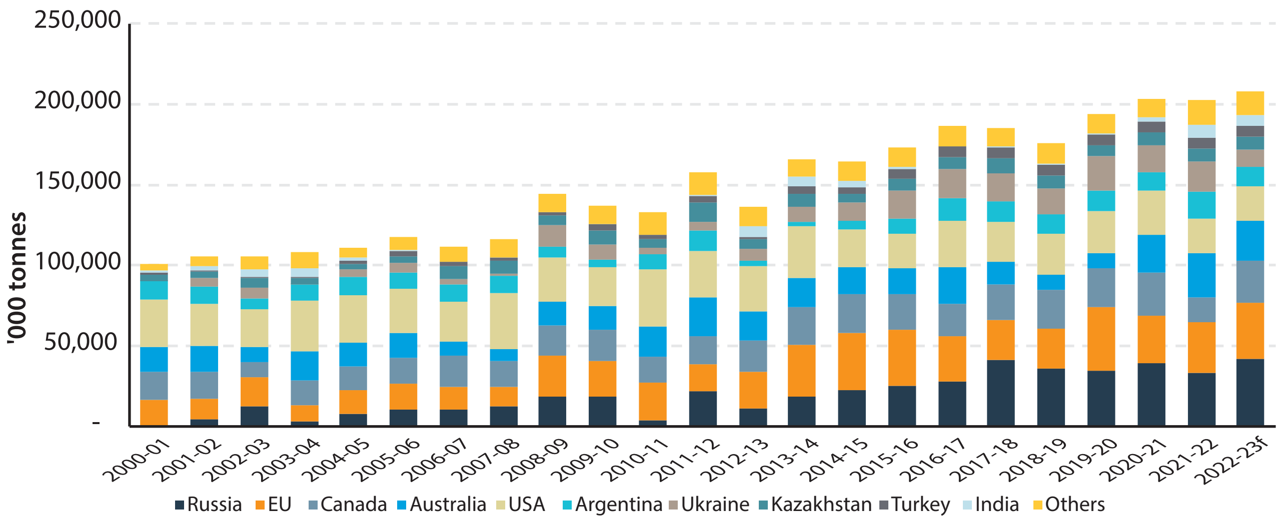
That said, this optimism will be very cautious – a caution likely to keep most prices high. With the US and Canadian crops in particular remaining quite dry, the chance of the Ukraine conflict suddenly impacting trade at any moment, and major buyers continuing to build their grain stockpiles – especially China, global grain markets will continue to remain volatile.

GRAIN PRODUCTION IN AUSTRALIA – AUSTRALIA V 10 YEAR AVERAGE



Source: ABARES, ANZ

MAJOR GLOBAL WHEAT EXPORTERS



Source: USDA, ANZ

CATTLE INSIGHTS

OVERVIEW

- The recent heavy rains in Eastern Australia pushed cattle prices slightly up in the short term
- The medium-term impacts are yet to be seen, but may revolve around the degree to which both pasture and supplementary feed have been affected
- The impact of the rain on cropping country, combined with high input prices, could see some croppers shifting to cattle next year
- Beef exports remain noticeably down in 2022, largely based on ongoing tightness of supply
- The US herd will continue to liquidate well into 2023, providing strong competition to Australian beef exports in several major markets

As they head toward the end of 2022, many cattle producers would normally be preparing for the regular summer events – ensuring adequate supplies of supplementary feed, evaluating potential to offload some stock as pastures dry out, and looking ahead to weaner sales early in 2023. For a reasonable number of producers in Eastern Australia, the recent rains may have an impact on their plans for coming months, which may in turn impact the outlook for the sector well into next year.

In comparison to the grain sector, the cattle industry was far less impacted by the recent heavy rain and flooding. Little to no major stock losses were reported, and while in some areas cattle were reported to be stranded for a period, most producers worked diligently to ensure their stock were safe.

In the short term, the biggest impact of the floods was seen in the upswing in buying by processors, who were seemingly cautious that the wet weather may reduce the ability of stock to make it to saleyards and leave processors unable to fill their requirements. Strong bidding at the time by processors saw the benchmark Eastern Young Cattle Indicator (EYCI) rise by 10c/kg, as they squeezed out feedlotters and restockers. Unsurprisingly, demand was particularly strong for heavier cattle.

However, as it eventuated, despite the rain, yardings remained reasonably strong through the period during and after the rain.

Looking further ahead, the wet weather could potentially provide upward pressure on cattle prices going forward.

Clearly, it will take some time for the wet paddocks on many farms to start to dry, and for the extent of any impact on feed to become clearer. For some producers, it may mean that they will need to rest paddocks, which could see their operations either stocking up on supplementary feed to cover for higher stocking rates on the rest of their farm or choosing to sell some cattle.

For other producers, however, the soil moisture as a result of the rain may mean that they see far better green feed than normal further into summer. These producers may well seek to take advantage of this by buying lighter stock, even if just to fatten for a few months.

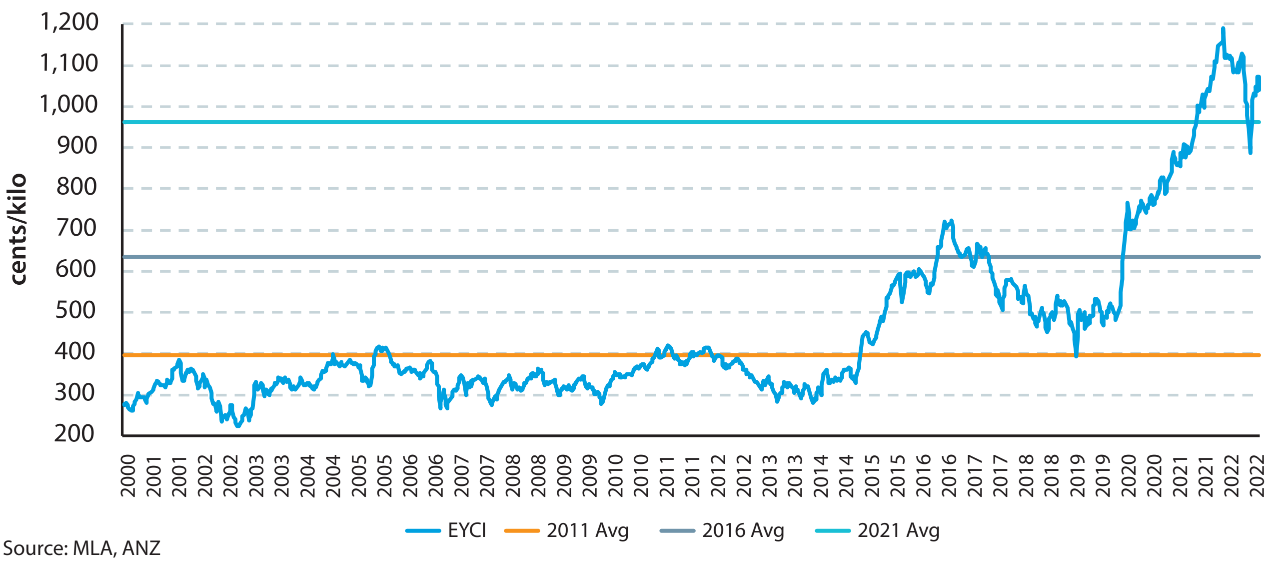
In addition, with weaner sales scheduled for many cattle regions in January and February 2023, the greener pastures could well see a noticeable increase in the sale weights of weaners, bringing higher prices and increased returns for sellers.

While the impact of recent rains on Australia's crops is also yet to become clear, it too could have an impact on the cattle industry. While overall crop volumes are likely to be down, the fact that a reasonable amount of grain could be downgraded to feed quality may possibly see a larger level of feed available than in normal years. In addition, given that a lot of harvesting across the country may start later, the potential for a bottleneck of grain at ports means that many grain producers may choose to sell domestically instead. This could have a dampening effect of feed grain prices, further benefitting cattle producers.

Looking into 2023, it is foreseeable that many grain producers may decide to reduce their plantings, and instead, increase their livestock numbers. While the majority of these livestock would probably be sheep, given their suitability to a lot of cropping country, there would also be a reasonable number of cattle.

Taking all this into account, it seems reasonable to predict that cattle prices are unlikely to see much downside pressure for at least the medium term and could well remain around the 1,000 c/kg mark, with a particular focus on lighter cattle for restockers.

EASTERN YOUNG CATTLE INDICATOR 2000 - 2022



Source: MLA, ANZ

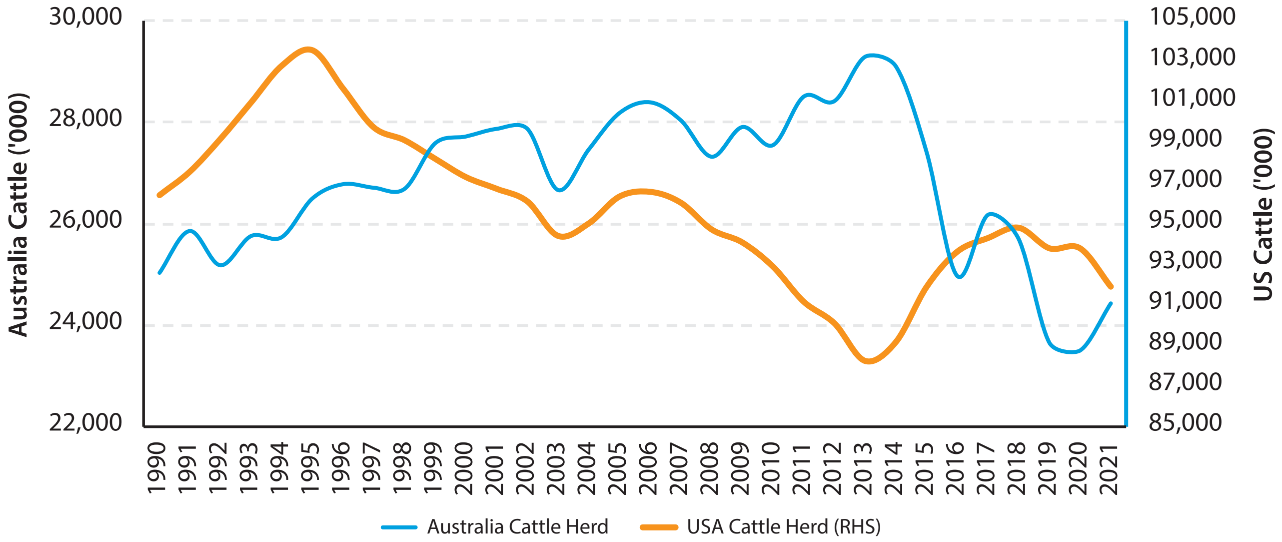
In terms of beef exports, overall figures remain down compared to previous years. Beef exports for October were their lowest since 2016, and down around five percent on the same month in 2021. Export volumes to South Korea and China were particularly down on the previous year, and while exports to the US were up sharply, this was partly a carryover of delayed exports from the previous month.

The decline in exports could potentially be attributed to several factors. Within Australia, while yardings are larger than they were during the peak of the restocking process, with the national herd continuing to grow, many cattle producers are still rebuilding their own operations. This puts export volumes in strong contrast to those of 2018 and 2019, when farmers were offloading cattle as the drought continued.

Offshore, South Korean demand has been dampened by the end of a temporary move by the country's government to suspend tariffs on beef imports in a move aimed at lowering food prices in the country.

Across all markets, Australian beef exports continue to face increasing competition from larger than normal volumes of US beef, as that country continues to liquidate its herd due to drought.

AUSTRALIA V US CATTLE HERD

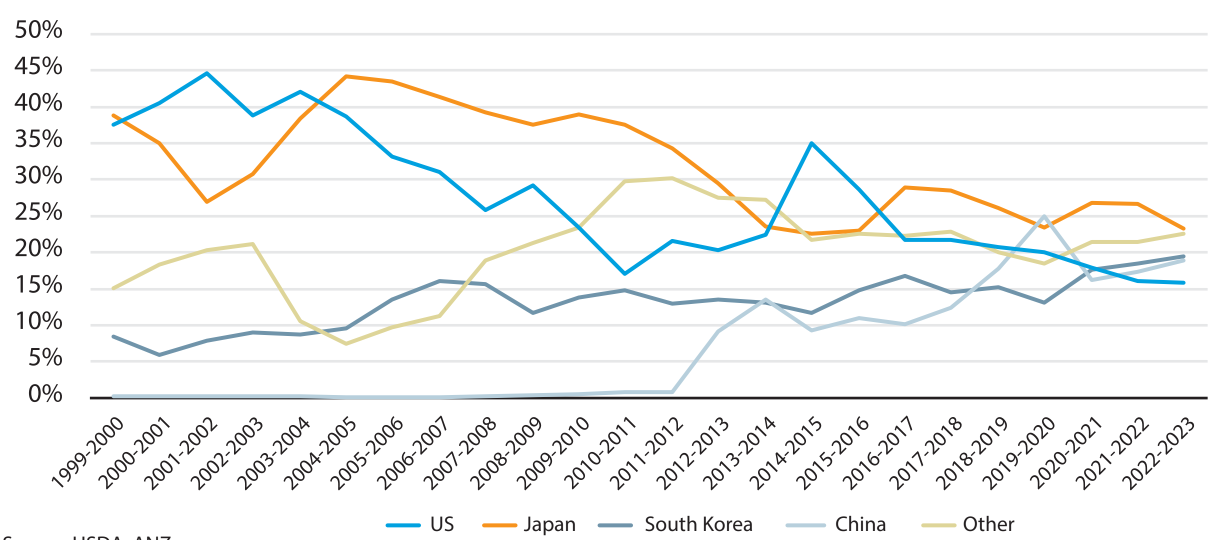


Source: USDA, ANZ

Looking further ahead, the US herd slaughter is forecast to remain strong until late 2023, when the cycle should change as producers start to restock. In the time leading up to that point, while a relatively low Australian dollar may help Australian exports, US competition will remain strong.

Finally, despite the fall in overall volumes, this year has seen an interesting trend, with the narrowest gap in market share by Australia's major beef export markets on record. Year to date, Japan remains the largest market, with a 23 percent share, while despite the US currently being the smallest of the major markets, still accounts for 16 percent. China, South Korea and "Other" account for 19 percent, 19 percent and 23 percent respectively. Arguably, this is a positive position for Australia, as it means the level of concentration risk on any one market is lower than ever.

PERCENTAGE SHARE OF AUSTRALIA'S MAJOR BEEF EXPORT MARKETS



Source: USDA, ANZ

SHEEP INSIGHTS

OVERVIEW

- A wet spring and forecast for continued wet conditions over summer are causing management concerns for many sheep producers
- National lamb and mutton slaughter has reached peaks not seen for up to 2 years following consecutive seasons of flock rebuilding allowing for plentiful supply
- Strong lamb exports are assisting to maintain lamb prices at profitable levels, however returns are well back on 2021 prices
- Mutton prices struggled to keep pace with the lamb price recovery seen throughout late spring, with very high supply in the market
- High lamb and mutton supply is expected to continue, subject to weather interruptions, into the summer months, keeping pressure on prices

Continued wet weather has made for a challenging spring for many sheep producers, with logistical as well as animal health challenges arising from the ongoing rain events. From disruptions to shearing programs, heavy worm and fly burdens, increases in foot issues, wool damage and flooding impacting pasture availability in some areas, there is no shortage of work for eastern states producers.

Overall, Australian sheep markets represent a story of two consecutive years of strong production and flock recovery, following good seasonal conditions across much of the nation's sheep production zones. National lamb slaughter data supports this sentiment, with over 400,000 lambs processed each week in October, up almost 18 per cent on average on year ago levels. Mutton throughput is also tracking considerably higher than previous years, with close to 150,000 head processed in the last week of October, representing an over two and half year high and demonstrating the strong position of the national flock, as surplus females find their way onto meat markets in numbers not seen since the drought induced destocking period throughout 2018/2019.

Fortunately for lamb markets, the consistently high supply in the market throughout Spring has been matched with continuing strong export demand. Although trading well below 2021 levels, and fluctuating regularly based on weekly supply, prices remain at a profitable level for producers, with the National Trade Lamb Indicator sitting in the mid 700 c/kg carcase weight (cwt) in late November. This represents an approximate 150 c/kg cwt recovery since the large market drop seen in late July, early August, when prices found their way down to the low 600c/kg mark.

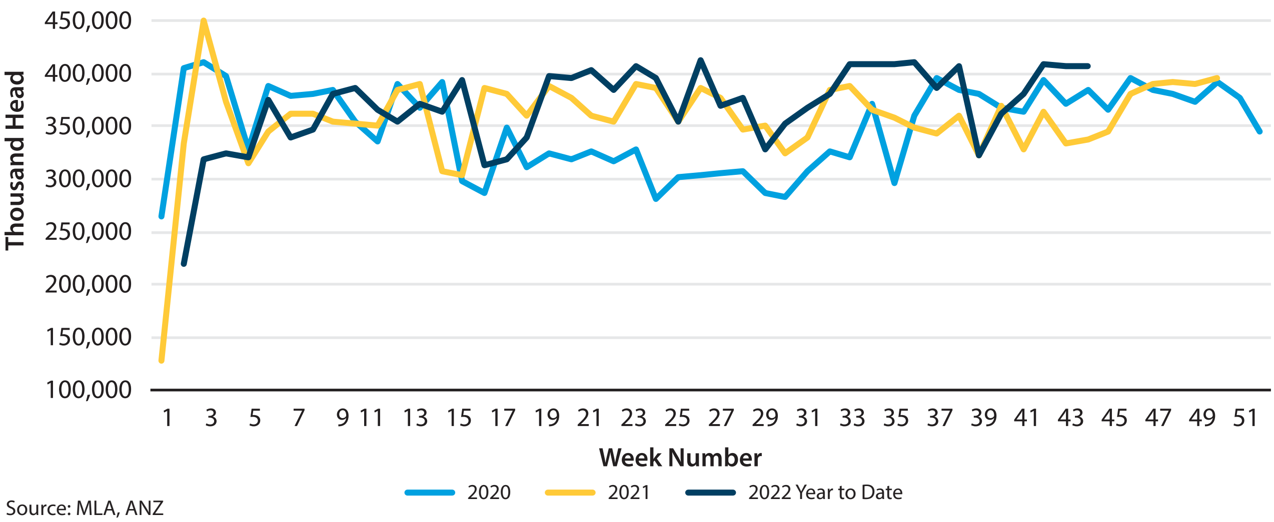
Producers able to finish lambs throughout late winter and the first two months of Spring were rewarded by prices, with the spread between light and heavy lambs opening up to nearly 140 cents / kg cwt, with an average 81 c/kg cwt premium for heavy lamb for the Spring to date. This is a direct contrast to the first six months of the year when heavy lambs were struggling to find price support as processing delays impacted through the supply chain.

For lamb exports, year to September data exceeded both 2021 and 2020 levels by 5 and 10 per cent respectively. The industry continues to enjoy consistent growth in the US market, along with a steady trade with China. The benefit of rapid growth markets such as PNG, to which exports have surpassed 16,000 tonnes shipped weight (swt) year to date, compared to a yearly total of just over 9000 tonnes swt in 2021, are also supporting prices in a high supply environment.

For mutton, stable year to date export demand has struggled to underpin the same level of price recovery seen for lamb throughout October, with Mutton indicator prices of between 500-535 c/kg cwt over recent weeks. With such high supply in the market, prices fortunately remain at a profitable level, as heavy mutton returning $130 to $170 per head generates a valuable contribution to cash flow and overall enterprise gross margins.

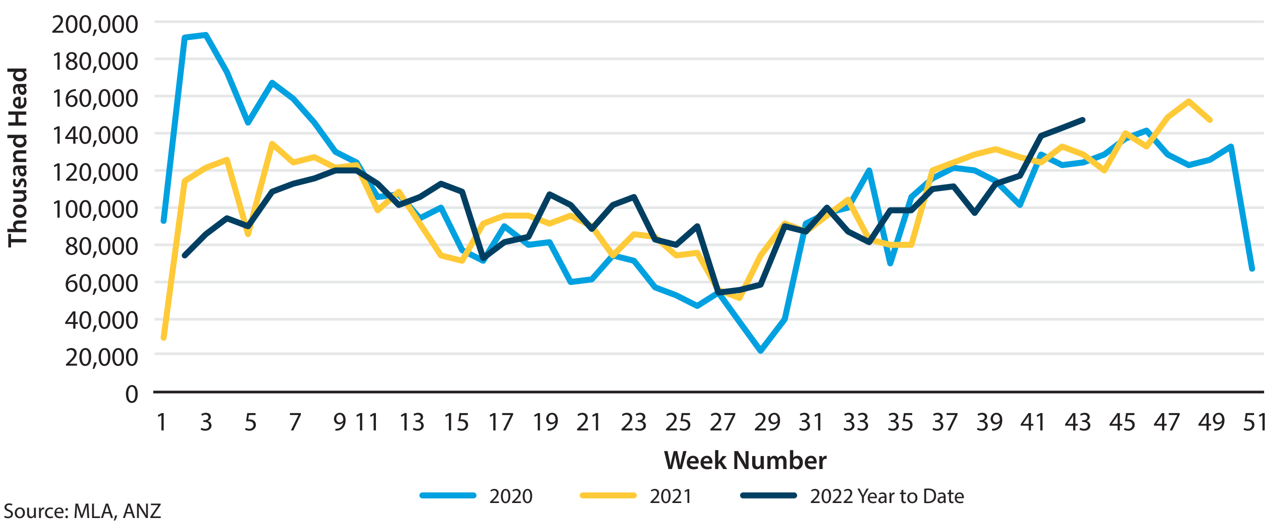
Going forward into the summer months and in to 2023, the plentiful yet volatile supply is forecast to continue across both lamb and mutton categories, which is likely to keep fluctuating prices the norm from week to week. With added logistical and management pressures caused by current weather patterns, large yarding fluctuations within regions may continue, which is likely to also maintain reasonable weekly volatility in prices.

AUSTRALIAN WEEKLY LAMB SLAUGHTER



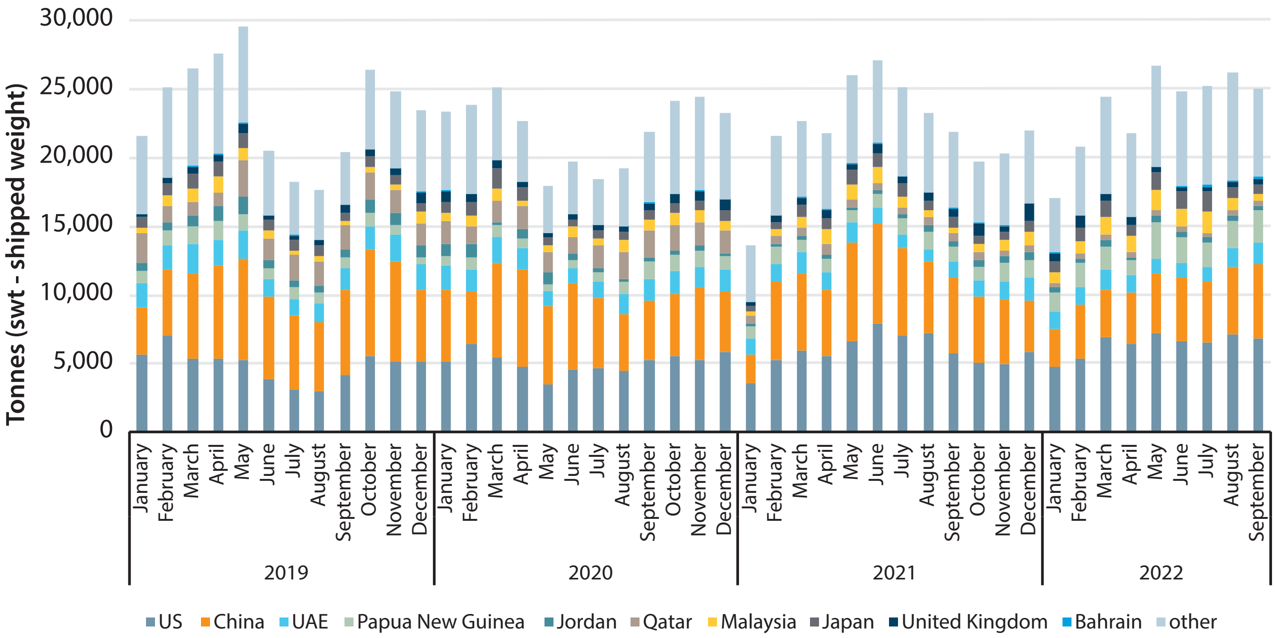
Source: MLA, ANZ

AUSTRALIAN WEEKLY MUTTON SLAUGHTER



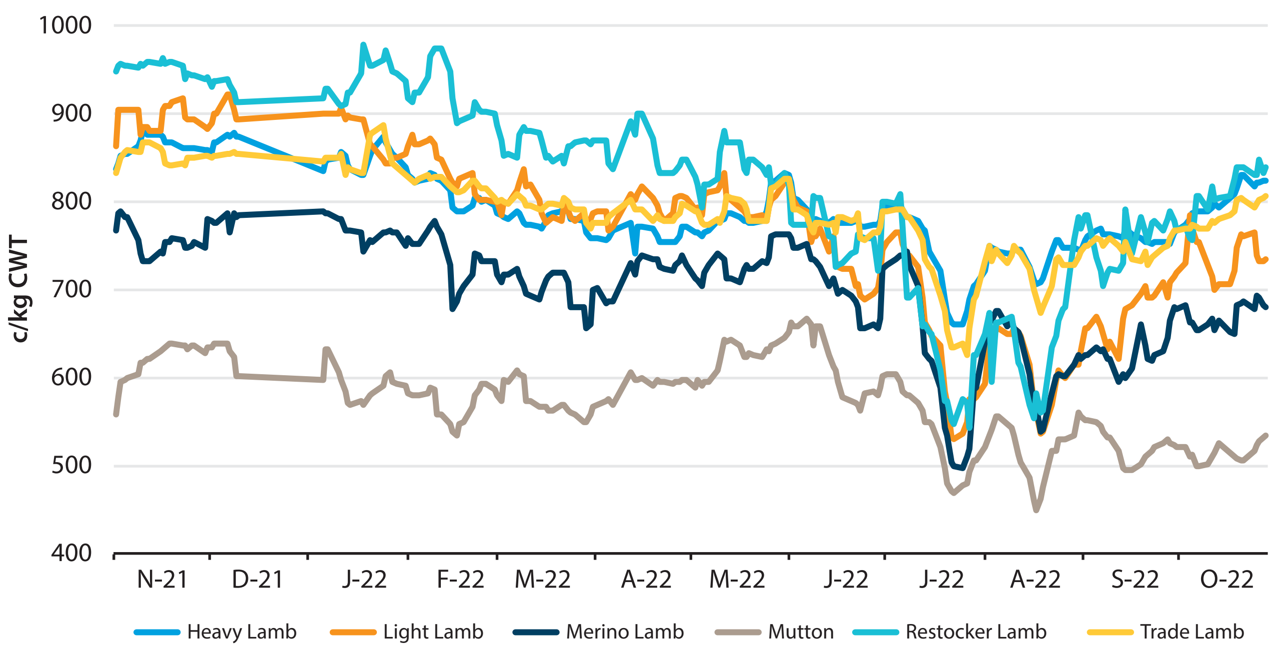
Source: MLA, ANZ

AUSTRALIAN LAMB EXPORTS



Source: DAFF, MLA, ANZ

EASTERN STATES SHEEP AND LAMB INDICATOR PRICES



Source: MLA, ANZ

WOOL INSIGHTS

OVERVIEW

- Global economic uncertainty is putting pressure on demand for discretionary items such as wool
- The EMI has averaged around 1300c/kg clean for the year to date, slightly back on 2021/22 but in front of the 2020/21 heavily Covid-impacted year
- Significant price spread remains across micron categories
- Volumes of wool through early spring were up on the prior year, as forecast, in line with the growing Australian sheep flock
- Mulesing declaration data represents steady gains in the volume of wool offered under non-mulesed , ceased mulesing and mulesed with pain relief categories

Wool markets continue to be impacted by volatile economic conditions globally. Demand for discretionary items such as wool across key importing nations is under pressure, as the cost of living rises and economic uncertainly looms. This is particularly prevalent across the European nations, where, traditionally, winter would see a peak in demand for woollen garments. This year, it is possible that the cost of energy and other inflationary pressures could considerably dampen winter demand, keeping pressure on Australian wool prices over the coming months. China's domestic retail sales are also struggling to keep pace, and continued interruption to first stage processing in the country is also impacting demand from major buyers.

To date for the 2022/23 season, the Eastern Market Indicator (EMI) is trading at an average of just over 1300 c/kg clean. This is slightly back on the 2021/22 average of 1385 c/kg, however, remains in a better position than 2020/2021, where the average EMI failed to reach 1200 c/kg. There was some excitement about the industry in early October as a price rally saw the EMI bounce by almost 100 c/kg over a two-week period, to a peak of 1323 c/kg, representing the first price increase seen in over three months. Increased domestic returns on the back of a drop in the Australian Dollar was partly attributable, in addition to increased competition due to a short term variance in offering of wool at auction. Wool offerings were down around 8% year on year over the month of October, however in total for the year to date, wool offerings are steady year on year. The market corrected at the end of October and into early November, with the EMI quickly returning south to the mid 1200 cent mark as volumes recovered and slower buyer demand played out.

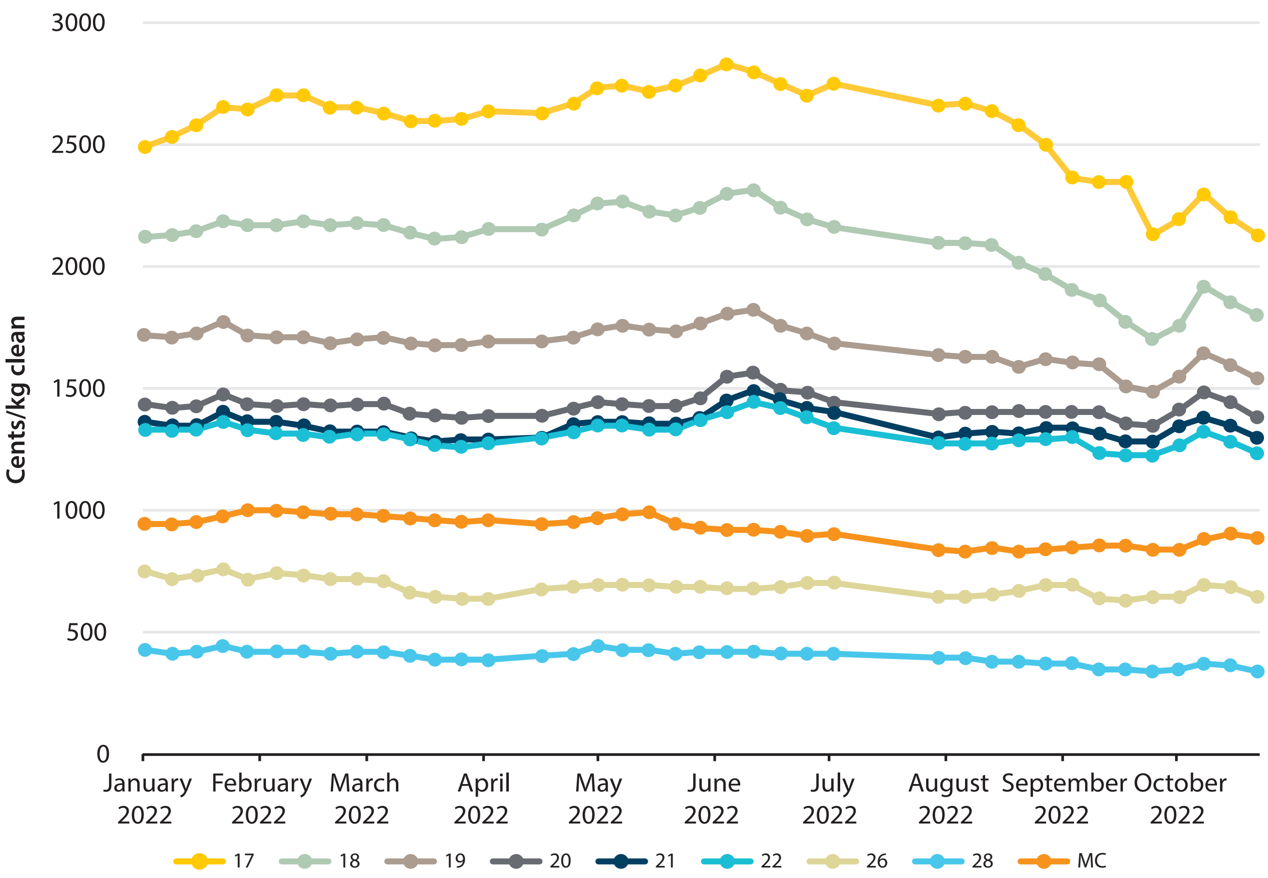
Significant micron spread remains in wool pricing and this is forecast to continue, with 17-micron fleeces still fetching over 2200 c/kg compared to around 1200 c/kg for 22 micron wool. Prices for non-merino types of 26 micron and above start at around 600c/kg and drop dramatically as the fibre broadens.

In export markets, China remain the dominant buyer of raw wool and the industry continues its reliance on the nation for first stage processing. At the close of the 2021/22 season, China accounted for 81% of raw wool exports (by weight), with a further 5% going to India, 4% to Italy, 3.9% to the Czech Republic and 1.6% to Korea.

Data at the close of the 2021/22 season tells an interesting story about industry demographics, with the percentage of bales offered as non-mulsed (all microns) at an all-time high of 17.6%. Non-mulesed wools under 24.5 micron made up 13.7% of bales offered, representing progressive changes being made to fine wool merino production enterprises across the country. Wool declared as 'Ceased mulesing (all micron)' made up an additional 3% of bales offered. "Mulesed with pain relief" also continues to climb with over 40% of wools now reporting under this category.

As the industry moves further into the 2022/23 season, wool production is forecast to continue to grow along with the national flock, which will not aid in the likelihood of any price recovery over coming months.

SOUTHERN REGION AUSTRALIAN WOOL EXCHANGE (AWEX) MICRON PRICE GUIDES



Source: Australian Wool Network, ANZ

DAIRY INSIGHTS

OVERVIEW

- Domestic dairy prices remain strong on the back of declining milk supply and competition between processors
- The reduction in Australian milk production is starting to flow through to processors, operational and capacity decisions with announcements of closures of some plants
- International dairy prices are exhibiting weakness as a result of China's covid lockdowns and forecasts of flagging global economic growth
- While the disconnect between domestic and international prices may raise some concerns about future opening prices, to date, the global market remains relatively tight on the supply side
- While floods have impeded domestic production, the prospects are good for a strong increase in production coming into summer

With domestic dairy prices continuing to support a strong season and profitability for Australian dairy farmers, the flow on impact of falling milk production is to be now evident as processors flag changes to processing capacity to match lower supply. The large fall in domestic milk production in 2021-22, and forecast for only limited growth in 2022-23 has forced processors to look to their infrastructure and operations to find productivity, as they are being squeezed by strong domestic prices on one side, and some moderation in the global price on the other. It may also provide a signal to producers, that processors have possibly reached the peak in domestic prices offered.

On the global front, Global Dairy Trade auction prices have continued a downward trend since early in 2022, except for some positive results in September, based primarily weak global consumer sentiment and demand.

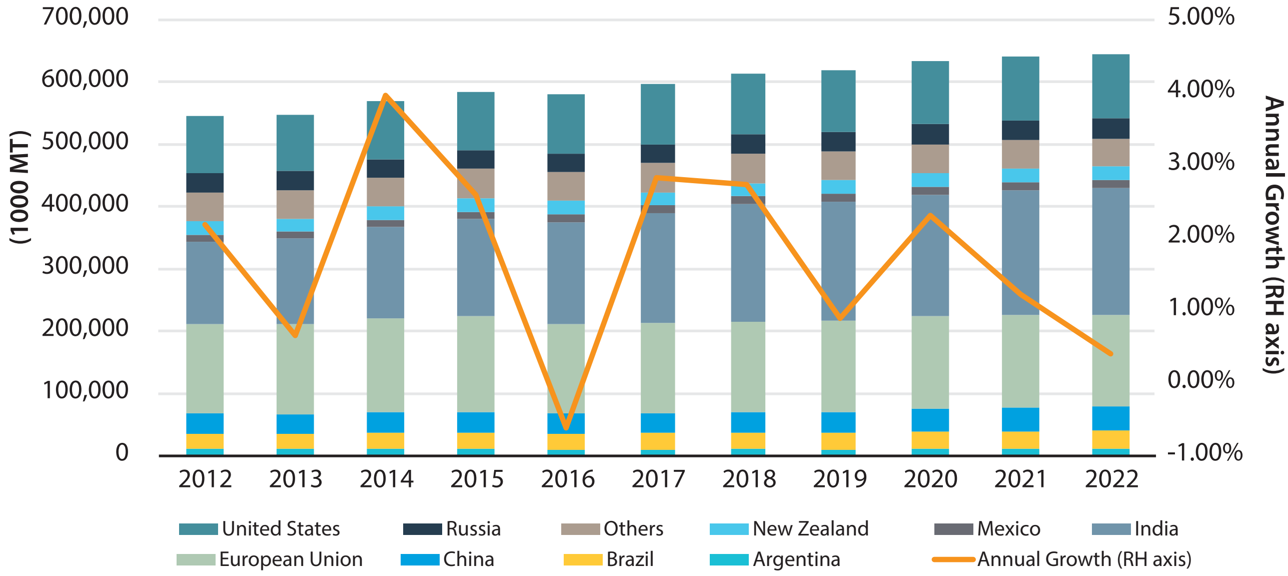
Good opening prices, favourable weather conditions and the prospect of La Nina bring a wetter than usual spring and summer are also posing strong outlooks for profitability in the Australian dairy industry. Combined with the slight moderation in fertiliser prices, the outlook for producers is positive. However this is not without its caveats. Continuing high feed prices, as well as an uncertain outlook for demand from China and a downward trend in global prices has given the industry some cause to pause.

Most recently, an announcement by major processor Saputo confirming rumours that they would review and shutdown some of their processing capacity as a response to the long-term decline in the Australian milk pool, is perhaps an indication of the squeeze between high farmgate prices, competition between processors to secure milk supply and a weaker than anticipated global market.

GLOBAL DAIRY PRICES AND PRODUCTION

November has seen an end to the brief positive run on Global Dairy Trade Auctions which followed after a run of declines stretching back to March. The GDT index price remains around 33 per cent lower than their March peaks, now sitting at the lowest level since January 2021. Whole milk powder prices have fallen heavily despite a large reduction in the amount of WMP being produced in New Zealand, primarily due to relatively low demand and high stocks in China. The declines in GDT prices which have persisted since March have been put down to a number of factors, most notably Covid lockdowns in China. While some areas in China have emerged from their lockdowns, the tentative forecasts of increasing demand have been tempered by concerns over inflationary pressures across the globe, particularly as Europe enters winter.

GLOBAL MILK PRODUCTION



Source: USDA PSD, ANZ

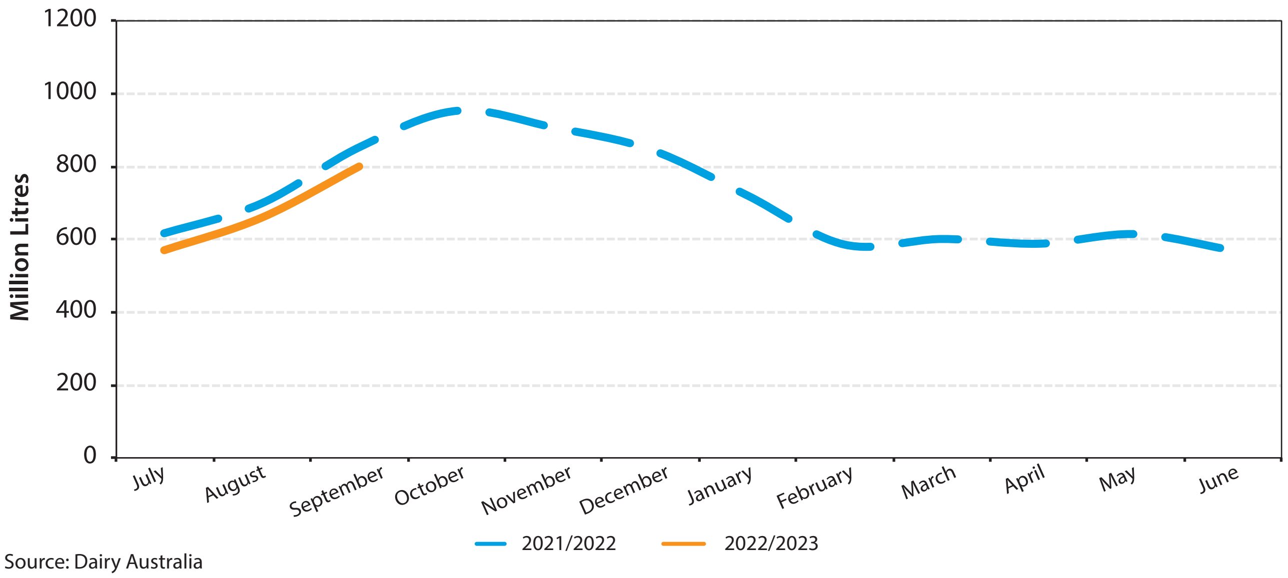
In good news for those producers who may be fearing the worst following the sustained falls in the GDT auction prices, recent falls in the GDT auction prices appear to be primarily driven by the change in demand from China, rather than a change in the global demand/supply situation, as prices of key dairy commodities in the European Union and United States are behaving very differently from dairy exports from Oceania, with large price differentials emerging between dairy prices across regions. Indeed across all major dairy subsectors – butter, cheese, WMP and SMP – prices in the EU are significantly higher than those in the US and Oceania. Cheese prices, for instance, continue to climb in the EU, despite falling in both the US and Oceania; while butter prices had grown strongly in both US and EU until early November.

On the flip side, the current decline in prices has come even despite a long run of year-on-year declines in global milk production with increasing pressure on production in New Zealand and seasonal issues in the United States and European Union. Indeed, global production on a monthly basis has been in the negative since September 2021. The spring flush across Australia and New Zealand, as well as some growth out of the US is likely to see some growth in global milk production, however a poor season in the EU is likely to keep a lid on it. As the EU enters winter with inflationary pressures and economic growth concerns, domestic demand is likely to be subdued with any additional production likely to come onto the international market.

DOMESTIC MARKET

Domestic milk production continues its downward trend and currently sits over 6 per cent down year on year in 2022/23, with the northern states of Queensland and New South Wales suffering the most significant declines. Floods down the eastern seaboard have impacted production, with lack of farm gate access for milk tankers, as well as difficulty accessing milking herds. As the industry emerges out of spring with full dams and water allocations, the prospects are for a strong increase in production, particularly from yield.

AUSTRALIAN MILK PRODUCTION - NATIONAL TOTAL 2021/22 & 2022/23



Source: Dairy Australia

Input costs have been front and centre for most of 2022 with dairy farmers feeling the brunt of feed, electricity and fertiliser prices hikes. While these cost issues will remain, it is likely that feed grain may become more readily available as crops are downgraded following flooding. Fertiliser prices remain high, and while they have come off peaks suffered earlier in the year, they remain stubbornly high.

ROCK LOBSTER INSIGHTS

OVERVIEW

- The Australian rock lobster industry has found stability in prices following more than two years of realignment
- While prices haven't returned to pre-Covid levels, they are stable with far more upside potential than risks
- The emergence of Covid in early 2020 followed by China trade bans saw the industry seeking alternative markets in both domestic and international markets
- While export prices have fallen significantly, these prices are not unprecedented, and were commonly experienced prior to the China-led boom
- Alternative export markets, whilst in their infancy, are showing good potential for growth into the future

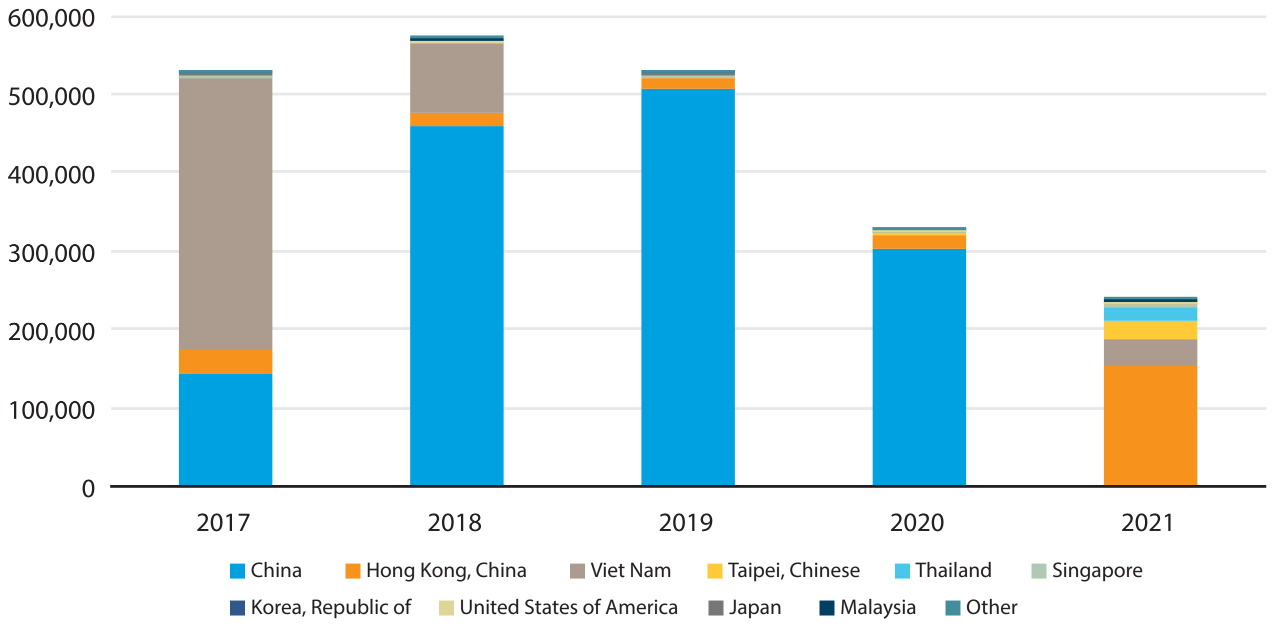
After the implementation of trade bans by China on a range of Australian goods in 2020, the Australian rock lobster industry has been in a position of flux. A drop in the live and chilled exports to the China market hit in early 2020 as a result of the emergence of Covid, followed by the China trade ban, resulting in the bottom falling out of both the Western and Southern Rock Lobster industries. Since that time, while export prices haven't returned to 2019 peaks, they have recovered slowly as the industry has diversified into new markets. While its unlikely to see prices skyrocket again without China resuming imports, the industry appears to have found stable prices with far more upside potential than down.

For all the wrong reasons, the rock lobster industry was the poster child for the downturn associated with both Covid lockdowns and China trade bans. When Covid hit, just prior to Chinese New Year, Australia's supply of fresh lobster suffered a significant decline in export orders. This was compounded later in the year as China implemented trade barriers against Australian lobster. As a result, 2021 and 2022 have seen the Australian rock lobster industry searching for alternate markets, with many in the industry recognising an over-exposure to the market.

In its stead, Australian rock lobster has found support, if at a lower price, in the domestic market with Australian consumers now benefitting from a greater availability of rock lobster on local shelves. While this has been welcome, Australian consumers' price point is lower than some producers' cost of production and has not provided a direct replacement for the lucrative China market. With China taking over 90 per cent of Australian rock lobster exports in 2019, at almost $US60,000/tonne, Australian rock lobster's average export price in 2021 fell to under $US40,000/tonne. While there was some increase in exports to Hong Kong, as occurred prior to the China-Australia Free Trade Agreement, the price being offered in Hong Kong fell from a peak of $US68,200/tonne to just over $US38,000/tonne.

The beneficiaries of the ban of Australian rock lobster imports have been an increased demand for New Zealand rock lobster, which while limited in its production, achieved over $US100,000, while lobster exports from Canada also increased strongly.

EXPORTS OF AUSTRALIAN ROCK LOBSTER BY DESTINATION



Source: TradeMap, ANZ

In looking for alternative markets, Australian exports to Hong Kong have increased strongly, most likely as an alternative route into the China market, however are receiving far lower prices than direct to China. Exports to Vietnam have increased again, while newer but still very low volume markets are emerging in the United States, Singapore, Korea and Malaysia are showing some signs of growth potential. In short, the export boom of 2019 is unlikely to return without a return of high value, fresh exports to China. However, in the interim, the industry is developing alternative markets both at home and internationally – and with solid growth potential on the horizon, the outlook for the industry is one of growth from a lower base.

The growth potential is also aided by an anticipated fall in global lobster supply, as supplies of Pacific lobster out of the United States and Canada – the largest lobster exporters globally – are expected to be impacted by warming oceans. It must also be recognised that Australian rock lobster doesn't just compete with other lobster species. It also competes closely with other luxury crustaceans including crab – with Russia providing one of the primary sources of high quality king and snow crab. While sanctions on Russia over its war on Ukraine will likely result in new opportunities in markets across Europe, Japan and northern America, Russian crab is also likely to seek new export markets across China, Korea and other high value markets in Asia, putting pressure on the growth potential for Australian rock lobster.

It must also be noted that in the longer-term, the prices being received up until 2019 could be considered 'boom time' prices in comparison to the market in between 2000 and 2010. At that time, landed prices sat in and around the $A30/kg mark – which more than doubled in the years leading up to 2019. While the sharp fall in exports to China has clearly impacted those stellar prices, it should also be noted that the prices currently being received are far from unprecedented.

ON THE PRODUCTION SIDE, BOTH WESTERN AND SOUTHERN ROCK LOBSTER INDUSTRIES ARE CONTROLLED BY PRODUCTION QUOTAS, WITH ABARES FORECASTING FUTURE PRODUCTION ARE RELATIVELY STABLE GOING FORWARD.

AUSTRALIAN ECONOMIC INSIGHTS

SLOWDOWN IN 2023

RBA could hike the cash rate to 3.85 per cent in order to rein in inflation

Inflation is arguably the most important policy issue in the Australian economy right now, and the extent of the economic slowdown in 2023 depends on how quickly inflation is resolved.

We've upgraded our CPI forecasts, with headline inflation to peak at 8.0 per cent y/y and trimmed mean at 6.6 per cent y/y in Q4. In the near term, flooding effects, higher fuel and electricity prices, the lower AUD and strong domestic demand will all add to inflation. From 2023 we expect inflation to slow, though we expect inflation to be above the target band of 2-3 per cent all through 2023.

We think the cash rate will peak at 3.85 per cent in mid 2023 as the RBA responds to very high inflation in Australia. While monetary policy is generally not effective against supply-side inflation, there is evidence within Australia that some of our inflation is coming from excess demand. For example, the very large demand for jobs in Australia, which has led to 470,000 vacant jobs as at August, is not due to a lack of workers, but rather a rapid increase in the demand for output.

Modest budget won't exacerbate our inflation problem

The new Government delivered a modest first budget, which reduces the risk of fiscal policy exacerbating inflation. Short term revenue "windfalls" reduced the budget deficit in 2022-23 and 2023-24, but structural expense pressures including health, aged care and interest payments will widen the deficit thereafter.

Spending is solid in early November, but will slow in 2023

Given these cost-of-living pressures, consumer confidence is very low and inflation expectations are at a record high. But ANZ-observed spending showed a pickup in November, which is encouraging ahead of the holiday trading period. We expect spending to slow in 2023, but consumption is still likely to outpace GDP growth.

The labour shortage will take a long time to resolve

The unemployment rate dropped to 3.4 per cent in October and the underemployment rate dropped to 5.9 per cent. This is a record low for total underutilisation, the joint share of underemployed and unemployed people in the workforce. This strong result combined with elevated levels of job ads and 470,000 vacant jobs (as at August) suggests there's room for the unemployment rate to fall further.

Wage growth in the September Quarter accelerated to a decade- high of 1.0 per cent q/q, an early sign that the increased competition for workers is driving average wages up. Q3's NAB Business Survey showed that 91 per cent of businesses reported labour as a constraint on output.

While we expect the re-emergence of immigration to assist in better matching the skills of the workforce to the skills demanded by employers, we do not expect the current labour shortage or sub-4 per cent unemployment rate to change anytime soon.

Slowing global economy may hit our exports

The US economy is likely to be sluggish in 2023. Chair Powell said further hikes are necessary but signaled a potential slowdown in the pace of tightening soon. The fed funds rate is currently at 4.0 per cent and we think it will hit 5.0 per cent early next year.

We expect GDP in China to grow 3.0 per cent y/y in 2022, despite some upside risk from the stronger than expected Q3 report. Key risks to the Chinese economy include its zero-COVID policy, weaker global growth, its property sector and sliding population.

We forecast that the AUD will generally stay under 0.70 USD through 2023.

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