ANZ AGRI
INFOCUS

COMMODITY INSIGHTS
SPRING 2023

ANZ

FOREWORD

When the earliest signs of spring appear in late winter, they bring a sense of anticipation – hope – apprehension? Well certainly if you put a lot of faith in the current Bureau Of Meteorology outlook. The potential of another El Nino has everyone talking. Conditions vary across the country. While some cropping and mixed farming landscapes would at least temporarily welcome some longer warmer days to dry things out, other regions are hanging in the balance and would take any amount of rain right now.

Overall though, any extended period of dry from now on will create a level of tension. This might be particularly so for sheep and cattle producers who are facing into the lowest prices seen for a while. The ability of country to carry numbers will be important in underpinning current stocking rates. In grains however, prices have benefited from the supply disruption in the Black Sea region, within a backdrop of sound demand and tight supply. For irrigators, supply levels in most systems look plentiful which sets a positive scene, noting of course that not all commodity prices are ideal.

On the financial front, the recent financial performance of the agricultural sector has been well noted and should stand things in good stead. Record volumes of production and a record Gross Value of Production breaking through $90bn. But in the race for $100bn, farm debt has the blue ribbon. Now reported by APRA (Australian Prudential Regulation authority) at just under $110bn. Clearly the last few years have been a time of high earnings and wealth creation through rising rural land values and healthy profitability. Nonetheless, $110bn in todays new interest rate environment will produce a significant bill, and will impact available income and therefore spending and investment by the sector. What's also clear however, is that Australia's farming businesses are as sophisticated and well planned as ever, and ready to take on the challenge.

Plenty to keep an eye on as Australian agriculture works its way towards the end of another calendar year.

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GRAINS INSIGHTS

OVERVIEW

- The Australian grain and oilseed crop continues to be forecast to return to average production levels
- This follows three record years, as a result of excellent growing conditions, after two drought-hit years
- With the forecast for drier conditions across much of Australia, the industry continues to monitor this, for impact on crop conditions and harvest volumes
- Global grain price volatility has somewhat calmed in the period following the invasion of Ukraine.

The forecast for much of Australia's cropping industry remains for a return to around average production levels for the 2023/24 harvest, but with an increasing level of uncertainty. In the wake of the official forecast for drier weather in many regions, many farmers are closely evaluating their current soil moisture levels, and evaluating any change in their potential harvest volumes, if the coming months are drier than ideal.

The outlook varies by different regions of Australia. At this point of 2023, rainfall has been at good levels in Southern New South Wales, as well as across most of Victoria and South Australia. In contrast Northern New South Wales and Southern Queensland have been experiencing drier conditions. In Western Australia, the conditions have been mixed, with drier conditions in the north, and more positive wet conditions in the south.

One by-product of the potential dry conditions is a likely growth in grain rationing, as exporters and others with grain in storage hold it back from market sale or export. This could be in the hope of seeing prices rise, or – for mixed farming operations - to keep grain in reserve for feed.

Despite this, export volumes remain strong. Global grain importers have less concerns about grain availability as a result of the Ukraine crisis, though are still watching the situation closely. An indication of this sentiment was reflected in the market's reaction to Russia's recent cessation of the Black Sea Grain Agreement, which stopped exports by sea of Ukrainian grain, with grain markets reacting far less than their earlier spike at the start of the conflict.

For the Australian industry, the biggest recent news has been around China's lifting of the prohibitive tariff on Australian barley imports. The 80 percent tariff, which had been imposed in 2020, had a short term reaction at the time. In terms of price and plantings, though the industry rapidly recovered, including finding new export markets.

Looking ahead from China's recent announcement, it is likely that the industry will react cautiously but openly, resuming exports to China, while seeking to avoid over-reliance on a single market. In particular, the move may be beneficial for malting barley, which has been highly sought by Chinese brewers, while also providing a boost for feed barley exporters.

FIFTY YEARS OF CROPPING GROWTH

The balance between the different sub-sectors of Australian agriculture continues to evolve. Across the mix of cropping, cattle, sheep, horticulture, dairy and others, trends have continued to play out, as some industries grow in proportion to others, in areas including overall production and acreage, as well as across exports.

IN TERMS OF AUSTRALIA'S CROPPING SECTOR, AN EXAMINATION OF A NUMBER OF THESE BALANCES HIGHLIGHTS NOT JUST THE WELL-RECOGNISED IMPORTANCE OF THE SECTOR TO THE NATION AS A WHOLE, BUT THE FACT THAT IT CONTINUES TO GROW IN RELATION TO OTHER MAJOR AGRI COMMODITIES.

One prominent indicator for the relative growth of cropping is particularly apparent when compared to two of the other major Australian agri sectors, cattle and sheep.

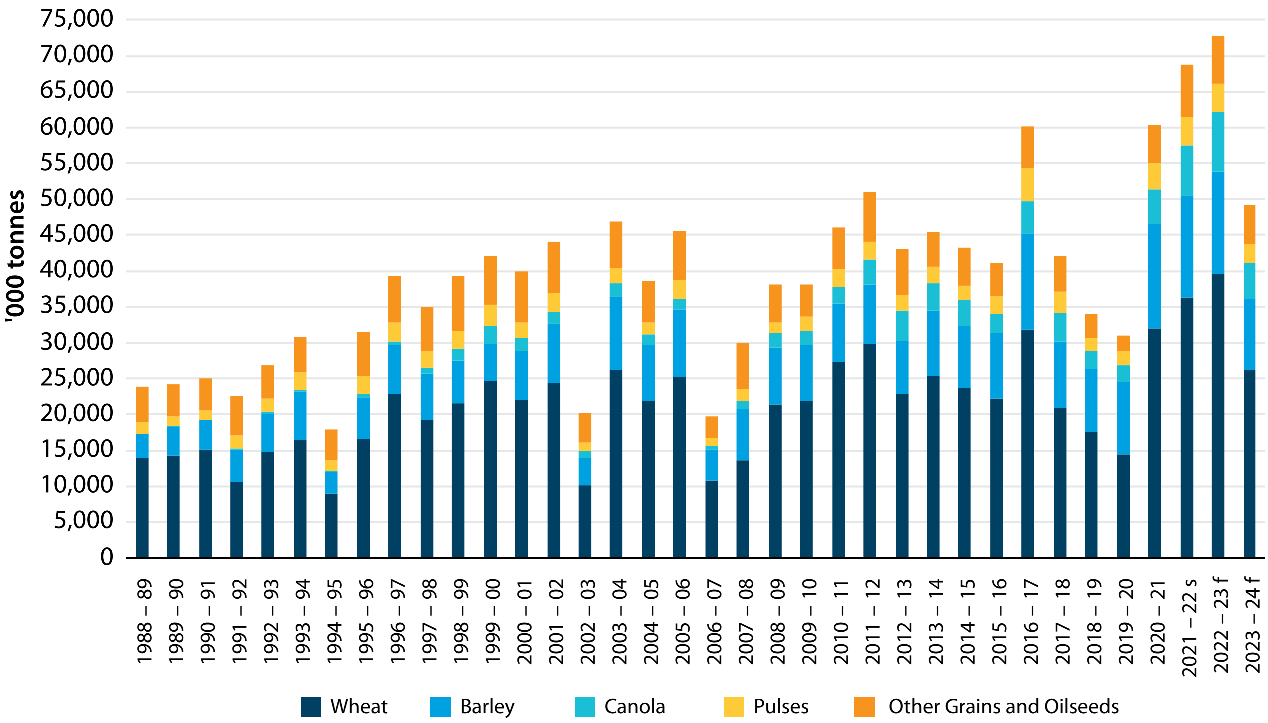
These three major commodities have evolved quite differently, particularly when viewed over the past fifty years. The sheep industry provides the starkest example, as the size of the national flock declined by almost two thirds in the twenty years from around 1990 to around 2010. To a reasonable degree, this was related to abolition of the Wool Floor Price Scheme, as the returns on wool fell considerably for some time. A series of droughts were also experienced in this time, which also coincided with structural change in Australian farming.

Some longer-term sheep farmers retired from the industry, and other farmers increasingly looked to the relatively less labour intensive sectors of cattle and cropping, which is emphasised in the growth of these two sectors around the same time as sheep numbers declined.

Interestingly, the Australian cattle industry also underwent a period of structural change with cattle numbers falling, notably in times of drought, though it would appear to have relatively stabilised over the past thirty years, with the national herd largely sitting between 25 and 30 million head.

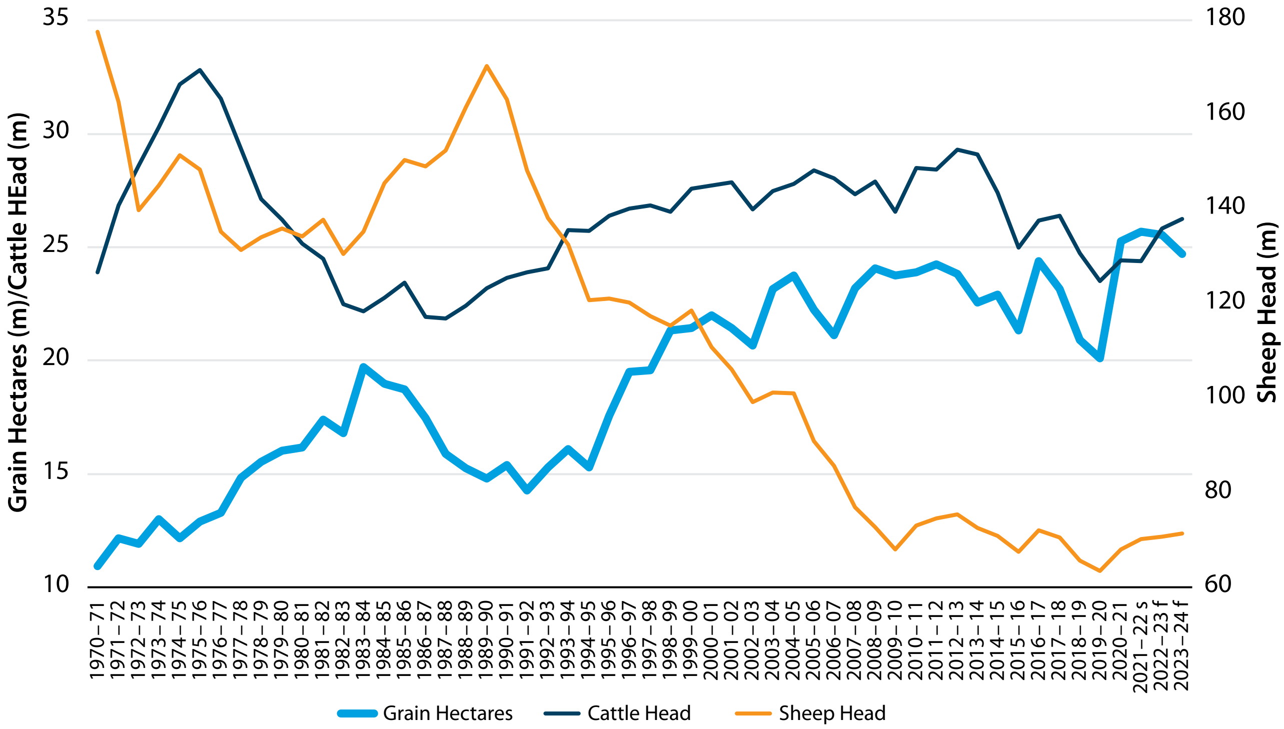
In contrast to the two livestock sectors, Australia's cropping industry has continued to see strong

AUSTRALIAN CROP PRODUCTION 1988/89 - 2023/24F



Source: ABARES, ANZ

AUSTRALIAN CROP AREA VS CATTLE AND SHEEP HEAD 1970/71 - 2023/24F



Source: ABARES, ANZ

upwards growth over the past 50 years. Since 1970, cropping area has risen around 150 percent, from just over 10 million hectares (HA) to its peak of around 25.7 million HA in 2021/22, before easing off slightly to around 24.7 million HA in the 2023/24 season.

The early period of this growth from the early 1970s to the mid-1980s, occurred at the same time as cattle numbers fell particularly strongly in NSW and Victoria, by around 5 million head, with much of this land transitioning to cropping. In contrast, the next period of strong growth in cropping acreage, from the early 1990s to around 2005 coincided with the major decline in sheep production, largely in NSW, Western Australia and Victoria. As with the earlier period when land had shifted from cattle to cropping, a similar change occurred, either through sheep producers shifting to cropping, or their farms being bought and transformed.

Over the past ten years, while Australia's cropping acreage has continued to climb, the growth rate has slowed considerably, albeit with some volatility. It is worth noting that when crop area grew by around five million hectares from 2019 to 2022, it would appear to have been particularly into cattle areas in NSW and VIC, and sheep areas in NSW and SA.

LOOKING AHEAD

With the growth of the cropping sector having been so pronounced over the past fifty years, it is interesting to consider how this may be reflected in the future direction of the industry particularly to 2030.

At a macro scale, the ongoing global demand for grain will not only continue to remain strong, and to trend upwards. There is still an enormous degree of growth potential, as literally billions of consumers across developing and middle-income markets – particularly in key Asian markets - continue to gradually improve their standards of living. As this grows, these consumers will increasingly seek more variety and volumes of food. While for many, this will see a growth in grain-based foods, including noodles and breads, in addition to strong growth in consumption of meat and dairy products. For these products, taking into account that many countries are looking to increase their domestic production to ease food certainty concerns, the demand for feed from global suppliers will continue to see growing grains demand for the medium to longer term.

At the same time, with the Covid-related disruptions to global food supply chains having raised food security concerns in a number of major importers, a number of these countries will continue to look to markedly increase their grain reserves. As such, even in a period where global crop production levels are strong, demand levels are likely to remain strong.

GIVEN THIS STRONG DEMAND OUTLOOK, GRAIN PRODUCTION OPERATIONS ARE LIKELY TO CONTINUE TO SEE UPWARD GROWTH. THIS GROWTH IS LIKELY TO BE DRIVEN BY A COMBINATION OF CORPORATE AND INSTITUTIONAL INVESTMENT INTO AGRICULTURE, AS WELL AS BY THE ONGOING CONSOLIDATION PROCESS ACROSS THE AUSTRALIAN FARMING LANDSCAPE.

For each of these, cropping operations offer a series of attractive features. For large scale properties, it is relatively easier for cropping operations to achieve economies of scale than it may be across livestock operations. This is particularly the case in terms of labour, with cropping operations requiring comparatively lower labour levels and costs, particularly outside of the peak activity periods of sowing and harvesting.

At a comparative commodity level, the steady export demand for grains is likely to mean relatively less volatility in prices, and as a result, more predictability in forward planning. Without question, the potential still exists for price volatility in grains and oilseeds, particularly driven by events such as trade disruption through conflict, or potential shortages through weather events. That said, this volatility is more likely to see prices on the upside, rather than the downside due to oversupply.

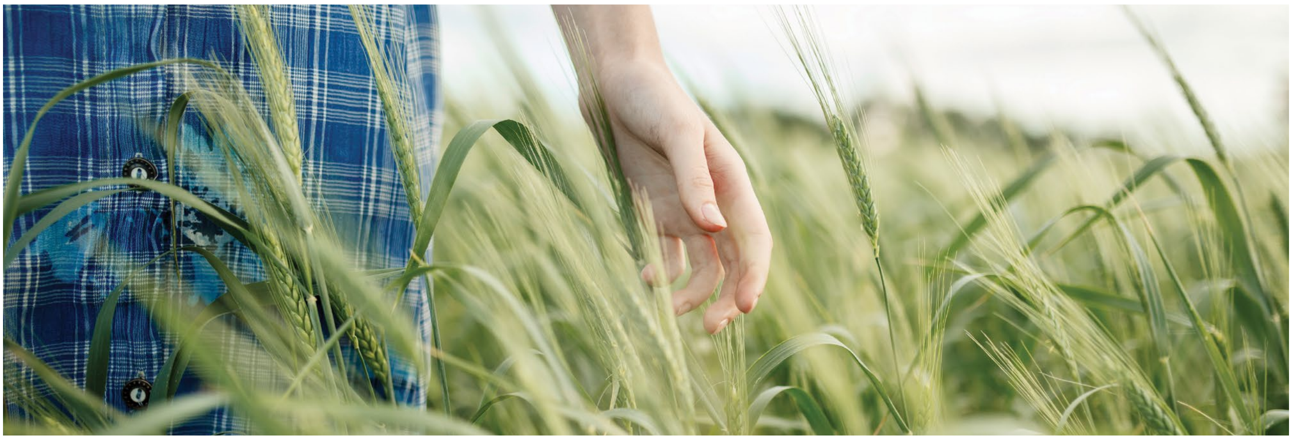
One interesting point to contemplate around cropping is that in comparison to major agri sectors, it could be argued that growth in technology to this point in time has benefited cropping efficiency to a greater degree than efficiency of livestock operations. Examples of this would include the gains through modern tractors, harvesters and other equipment, advanced developments in input and fertiliser application, as well new irrigation technologies. These features will be especially important around considerations of strategic planning, taking into account climate change and sustainability.

It could also be argued that as cropping operations, particularly large-scale ones, increasingly diversify the variety of the grains, oilseeds and pulses they plant, they have a relative flexibility to adapt to changing market demands, trading conditions, and commodity price fluctuations.

To be clear, every part of the Australian agri landscape is looking to a future of great opportunity, particularly in a global environment where the increased focus on food security, combined with long term economic growth, will continue to see strong demand for all commodities.

As a result, the supply chains of all commodities from production, through processing, distribution, retail and exports, will continue to see strong activity, particularly around innovation and investment.

For Australia's cropping sector, the fundamentals point towards a robust growth opportunity in the years ahead. This supports the possibility of increasing crop area and output, weather pending.



CATTLE INSIGHTS

OVERVIEW

- Australian cattle prices have fallen by around 40 percent over the past year, particularly as the post-drought restocking surge has finished
- Cattle producers remain cautious of the possible impacts of drier conditions over coming months
- With producers wary of having too many stock if water and feed are reduced, many producers are limiting their herd numbers and stocking rates
- Beef exports remain strong, particularly to the US, as its own domestic cattle herd sits at around the lowest levels for sixty years

For the Australian cattle industry, the question marks over the rainfall outlook for the remainder of 2023 and into the new year are now arguably having a greater impact on price than for any other major Australian agri commodity. Having risen to record highs during the post-drought restocking period, as producers rushed to rebuild their herds, and competed with processors and feed lotters for cattle, prices have now continued their ongoing freefall right throughout 2023. On a Year-On-Year basis, the benchmark Eastern Young Cattle Indicator (EYCI) has now fallen by around 40 percent.

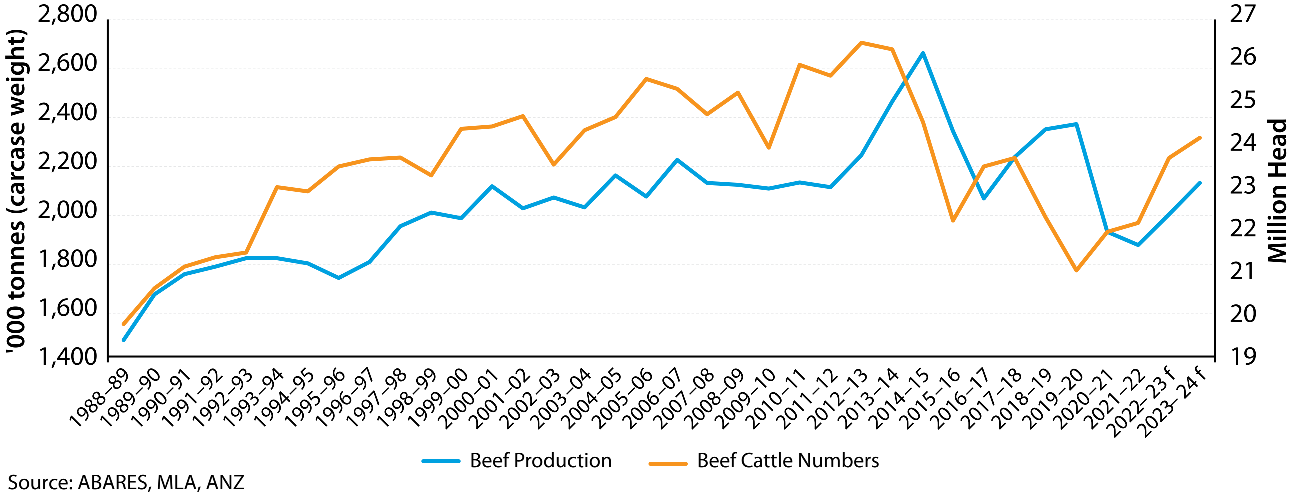
For many cattle producers, the official forecasts of the likelihood of an El Nino are being taken increasingly seriously, despite ample rains in many cattle producing regions of Australia. For these producers, memories of the previous drought from around 2017 – 2019 remain strong, and they are very keen to ensure that they don't find themselves in a position where they are short of feed or water. In addition, many producers will not want to find themselves in a position where they carry stock numbers for too long into a dry period, and are forced to sell stock for a very low price.

In particular, as Australian cattle producers continue to grow their operations strategically, innovatively and efficiently, they will be mindful of the two or three good years many of them have enjoyed as a result of high cattle prices, and will look to protect these gains by planning for a drier period.

Given this outlook, it is reasonable to think that the likelihood of any strong uplift in cattle prices for the remaining months of 2023 are limited. With national cattle slaughter rates already up around 20 percent on this time last year, there is every chance that this could stay as strong or grow even further in coming months, as producers seek to retain their prime stock, and offload any marginal stock.

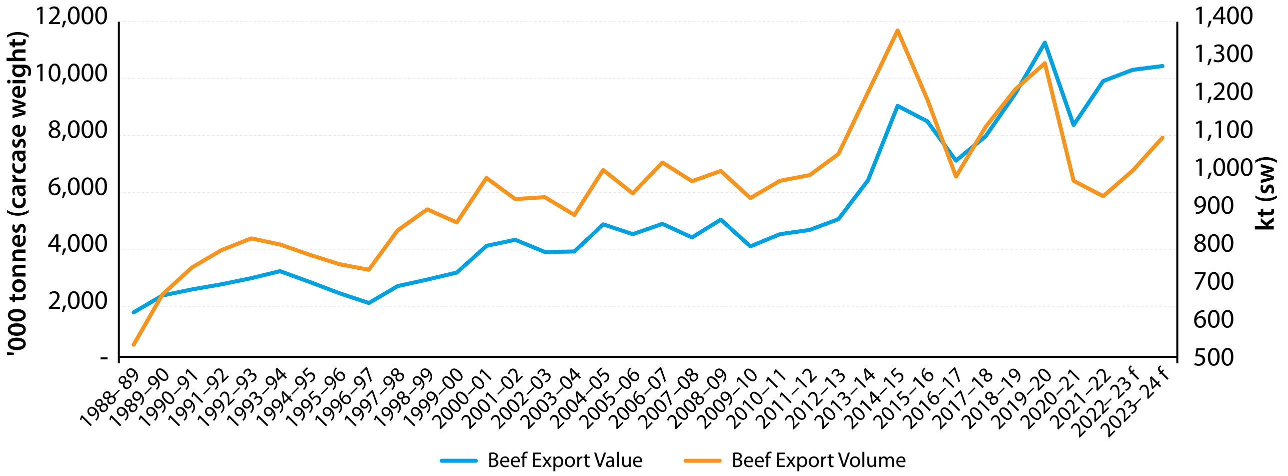
For the meat processing sector, this period could be one which brings a slight uplift in fortunes. While lower cattle prices are not welcomed by sellers, for meat processors, they bring an opportunity to increase or recover margins, after a leaner few years. At the same time, while meat processors have been severely restricted by lack of labour, particualrly in the period during and since the Covid-disruptions, many will be looking to the return of immigration flows to quickly increase their workforces, and allow them to lift operating capacity.

AUSTRALIAN BEEF PRODUCTION VS CATTLE NUMBERS



Source: ABARES, MLA, ANZ

AUSTRALIAN BEEF EXPORT VALUE VS VOLUME



Source: ABARES, MLA, ANZ

At an export level, the news for the industry remains strong. The strong decline in the US cattle herd has seen demand for Australian exports to that market remain strong. One indicator of this relative strength is that despite the 40 percent fall in the EYCI, the price of 90 CL (meat which is 90 percent lean red meat and 10 percent fat), which is mostly exported to the US has fallen just five percent over the past year.

In export volume terms, the ongoing growth in the Australian cattle herd, leading to greater availability of beef supply, has had a major positive impact. With the US cattle herd at a 60 year low, and that country requiring increased imports of not just manufacturing beef – largely for hamburgers – but for also finer cuts, exports to the US are up around 60 percent year to date . Similarly, increased supply has seen exports to China rise by around 35 percent year to date. While Japan remains Australia's largest beef export market, having imported around 120,000 tonnes to July, China and the US are not far behind, at 115,000 tonnes and 112,000 tonnes respectively – South Korea also remains close, at 104,000 tonnes.

Interestingly, while there had been some discussion around the potential for increased beef exports to the UK under the new Free Trade Agreement, this will seemingly be a long term project given the very small size of beef exports to that market at this point in time. For example, July 2023 saw the UK import only 304 tonnes of Australian beef, in comparison to around 17,000 tonnes in the same month by both China and South Korea, and even 7,000 tonnes by Indonesia.

SHEEP INSIGHTS

OVERVIEW

- Exports of Australian lamb and mutton through to July are the highest on record
- Export market dynamics are shifting based on prices and softer demand from key nations facing economic uncertainty
- Prices continue to be pressured by consistently high supply across all categories of stock
- Producers continue to find better prices with well finished stock
- The sale options available to WA producers adapt with changing market and regulatory conditions
- With 60 percent of Australia's breeding ewe flock located in NSW and VIC, the conditions experienced this Spring in these states are likely to have a major impact on supply and prices.

To start with a positive as the spring unfolds, the sheep industry may look no further than to exports. For the year to July 2023, Australia has recorded the highest volume of exports of Australian lamb and mutton on record.

In lamb markets, at the time of writing, lamb exports are up around 8 percent year on year. Growth of 36 percent in year on year in exports to China, and a 19 percent uplift in lamb destined for South Korea, have contributed significantly to this figure, whilst also partially offsetting a decline of 19 percent seen year on year in exports to the US. Notably, significant growth in exports to countries that sit outside our top 10 lamb trading partners has been experienced so far this year. Exports to all 'other' nations are tracking almost 20 percent higher year on year. In fact, as a collective, all other markets behind the top 10 have been Australia's largest lamb export partner by volume every month since October 2022. Although it was the sharp decline in demand from the high value US market that has allowed this trend to emerge, it does have significant positive outcomes for the industry.

Firstly, the dominance of any one nation in export trade represents significant risks, as has been well demonstrated by the recent toils of the barley, wine, and rock lobster industries. Building the number of export partners purchasing Australian lamb, along with the volume, builds resilience into pricing for producers.

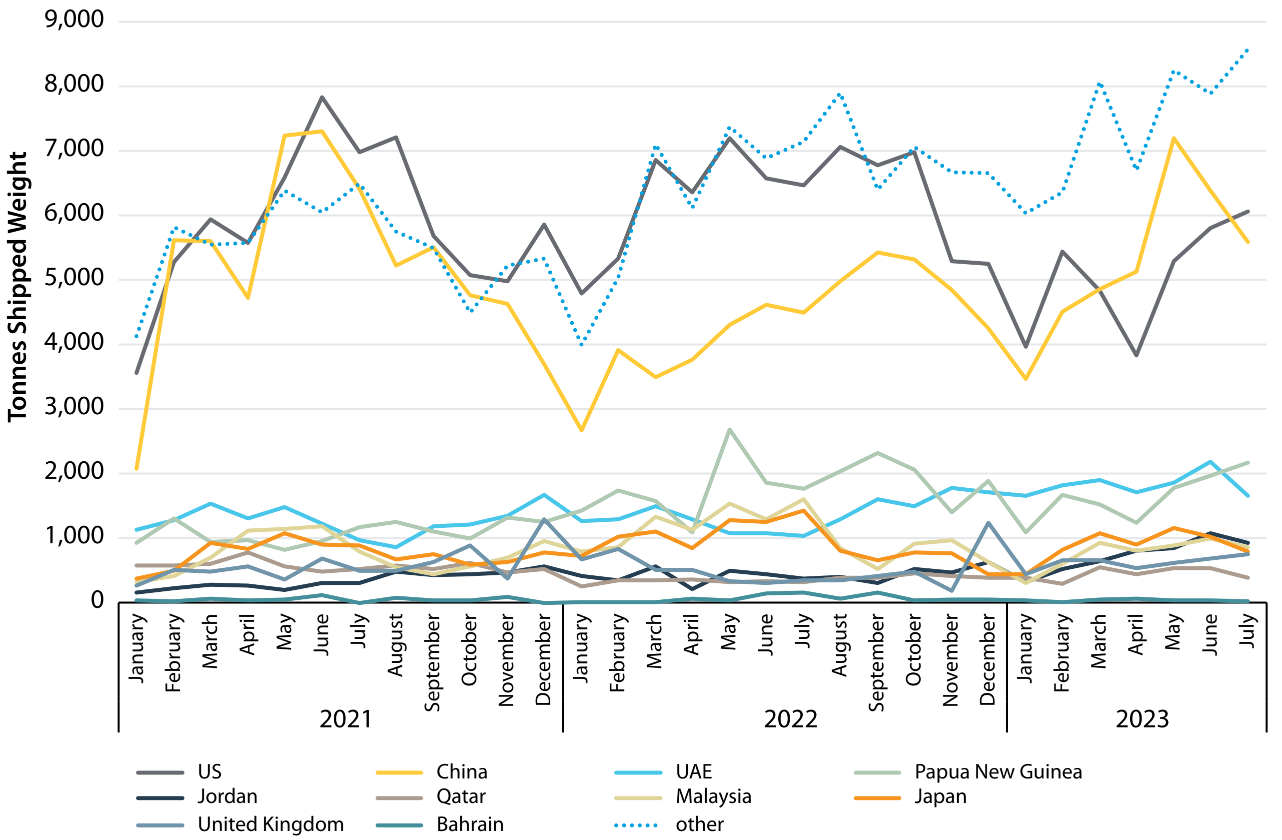
Secondly, by recognising that the growth in exports to 'other' markets has a strong correlation with the drop in lamb prices experienced since around November 2022, is not all bad news. Having lamb available at a price that encourages market breadth may generate some short-term pain for the producer, but when taking a longer view, helps to build global taste and demand for the product.

In mutton markets, growth experienced from January to July this year is even more exceptional than for lamb. In total, mutton exports are up 53 percent year to date, with China, Malaysia, and the US the leading end markets. As is the case for lamb, exceptional growth has also been experienced in the supply of mutton to 'other' nations, being those outside Australia's top 10 importers. Growth in these markets to the end of July is up 39 percent year on year, with these nations now collectively Australia's second largest mutton market behind China.

What cannot be ignored in the export data is however the overall contraction seen in exports between June and July 2023. In particular, exports to China experienced a month on month drop in both lamb and mutton, and more broad economic data on the health of the Chinese economy confirms that overall, China experienced a contraction in imports and exports of all goods throughout July, demonstrating signs of a slowing economy. This decline was most apparent in mutton exports, however it should be noted that historical export data suggests it is not uncommon to see a dip in exports at this time of year. The reduction also coincided with a significantly lower mutton slaughter figure in Australia through the same period. Moving further into spring, the strength of demand from China and other key nations, particularly as surplus ewes find their way to the market following key weaning periods, will undoubtably impact on prices paid to producers.

Regarding prices, the industry continues to see a downward trend with two particularly sharp drops in prices seen over winter, once in June, and following a slight recovery, another in July. All classes of stock were impacted however price does continue to favour quality and weight. The eastern states Heavy and Trade lamb indicators fell 33 and 34 percent respectively throughout winter, whereas the restocker lamb indicator more than halved.

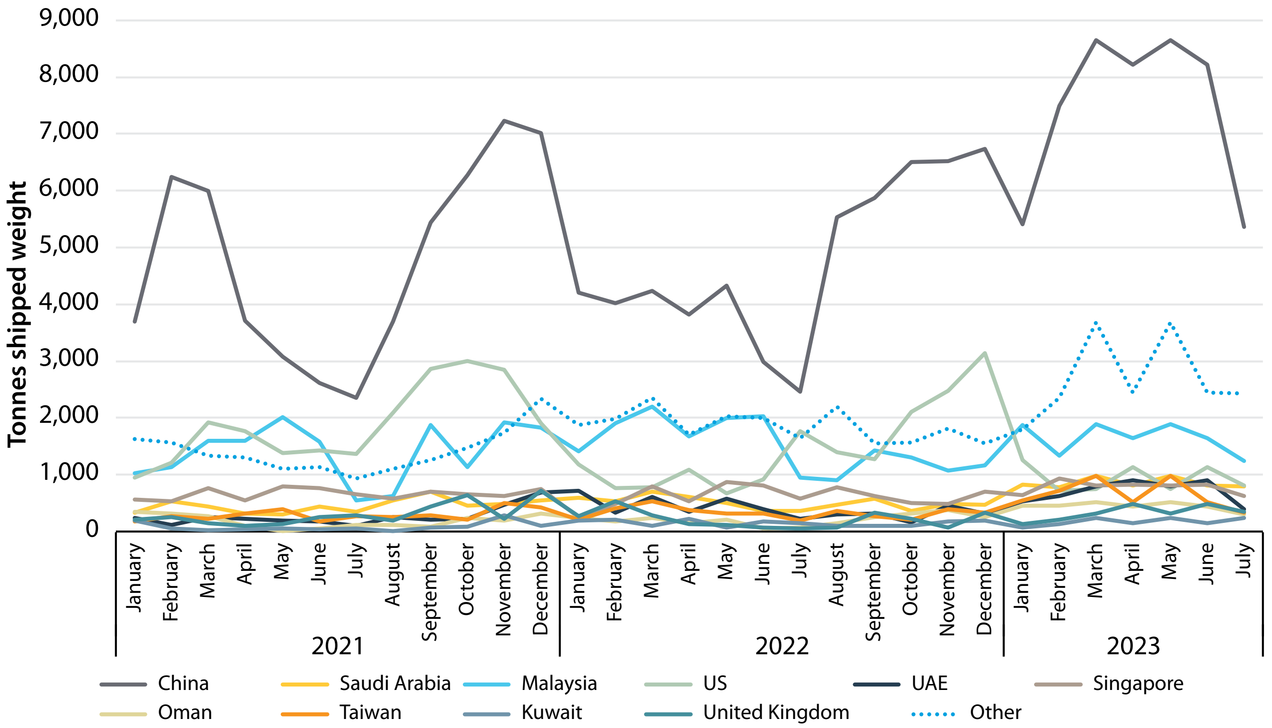
AUSTRALIAN LAMB EXPORTS BY DESTINATION



Source: DAWR, MLA, ANZ

In the west, lower prices coming into winter when compared to the eastern states made the drop seem less stark on a national scale, but significant none the less. The WA restocker indicator (WA's highest throughput lamb indicator) dropped 27 percent through the Winter and mutton 22 percent. The spread between eastern states pricing and WA pricing for lighter sheep has closed as we enter spring, taking with it any opportunities for transfer of sheep for producers on either side of the country. Indeed, interstate transfer of WA sheep remains the least favoured option of sale for WA producers, following a spike during 2019/20 and 2020/21, when eastern states restocking drove

AUSTRALIAN MUTTON EXPORTS BY DESTINATION

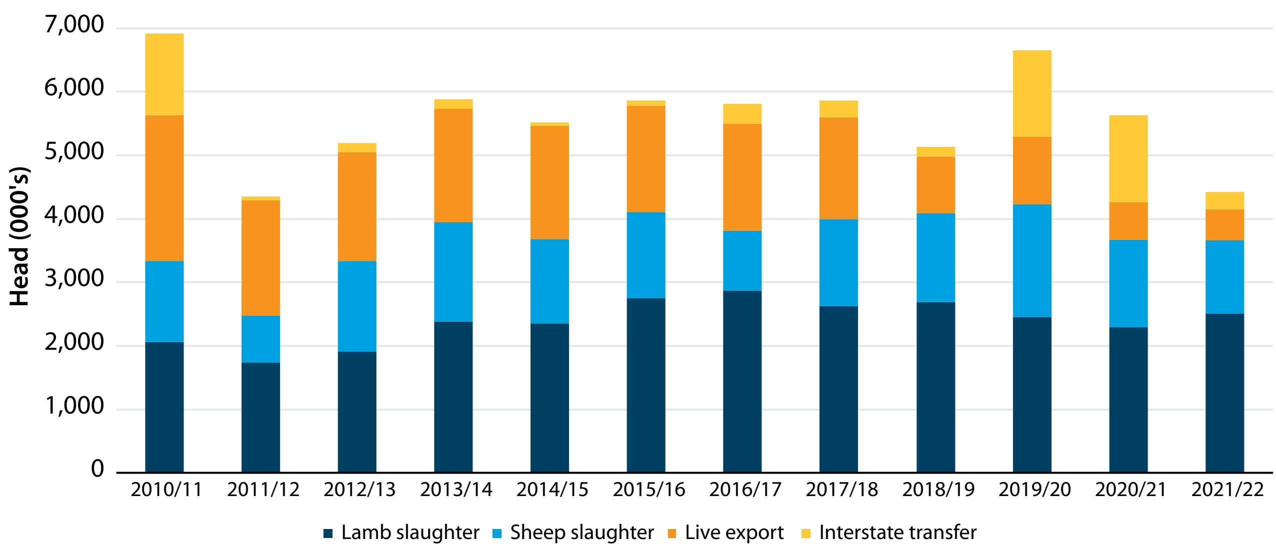


Source: DAWR, MLA, ANZ

prices higher and saw up to 2 percent of WA sheep sold via transfer 'over east'. That number has since returned to closer to longer term averages, making up less than 5 percent of all of WA's sheep off-take in 2021/22.

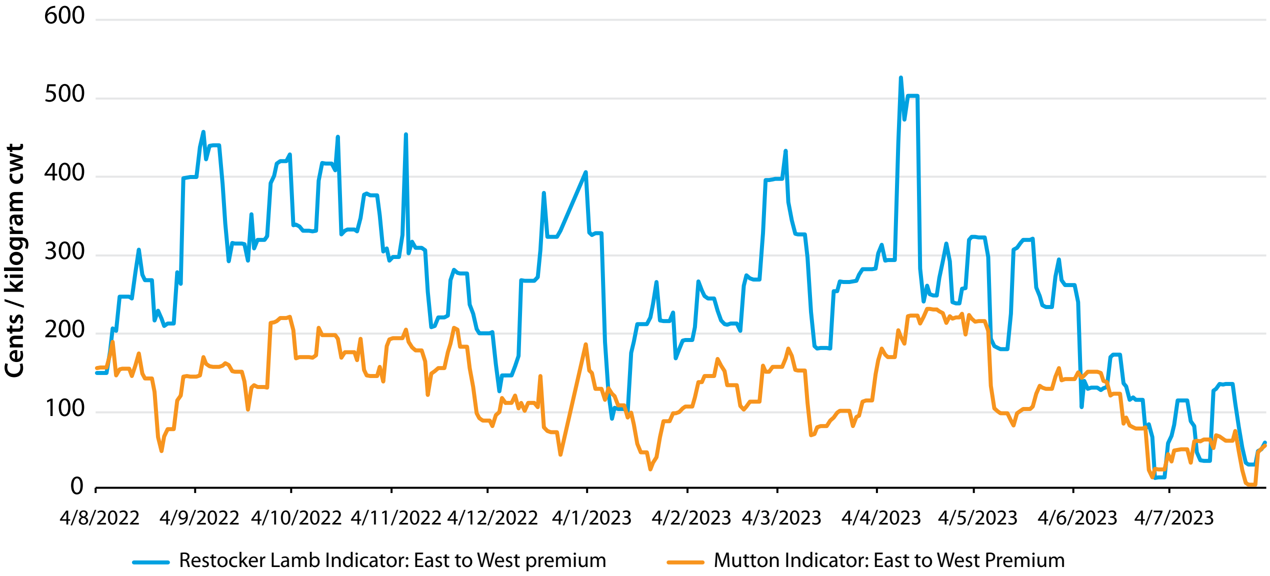
The percentage of sheep and lambs being sold to live exporters is the other major change in WA sheep offtake in recent years, dropping from around one quarter of all offtake ten years ago, to just 7 percent under current conditions presented by both the market and industry regulation.

WESTERN AUSTRALIAN SHEEP TURN OFF



Source: ABS, PIRSA, DPIRD, ANZ

EASTERN STATES TO WA PRICE PREMIUM



Source: MLA, ANZ

Going forward through spring, conditions for the current lamb drop have been positive in many sheep producing zones in the southern part of the country, suggesting a large crop of sucker lambs may soon present to market. Export demand in key high value markets such as the US over the months ahead will play an important role in price, as will the level of finish of lambs with it likely that lighter and re-stocker type animals may struggle to find price support due to high overall supply.

Producers are conscious of the BOM outlook for the remainder of the year, which when combined with global economic uncertainty, does little to support any vast improvement in prices from current levels in the short term. The risk of over-supply of Australian sheep and lamb to a sluggish global economy exists, particularly if a period of dry induced destocking was to occur. The latest MLA sheep producer intensions survey confirms that sheep production remains very focused in the southern eastern parts of the country, with 60 percent of the national breeding ewe flock situated NSW and VIC. It will therefore be a watch and wait on how producers in these parts fair in terms of the weather, and what decisions start to play out in terms of the economics of feeding, should the need arise on a large scale.

With many producers coming off a series of excellent seasons, and significant investment in containment feeding infrastructure made, along with good stocks of fodder on hand, its not unreasonable that a slower and more restrained destocking may be possible if required, which would allow time for both the supply chain and export partners to absorb the supply. The economics of drought feeding are however likely to be somewhat different to the most recent dry, meaning that forward planning, and individual business strategic decision making as to what triggers to pull and when, will no doubt be front of mind for many producers.

This begs the question of what a sustainable and price resilient Australian sheep flock may look like. At around 78 million head, some may argue that the high prices experienced through the combination of drought, global Covid recovery and exceptional pasture production, may have encouraged the flock to levels above ideal for global consumption in the current environment.

A longer-term view however encompasses a more optimistic view - the continued contraction of sheepmeat production from New Zealand, Australian sheepmeats growing market diversification, and the simple fact that the world needs food and especially protein, contradict the concept of over supply over the longer term, making the underlying Australian sheepmeat story a continued tale of strength, with hope and reason for price improvement outside of the current point in the cycle.

WOOL INSIGHTS

OVERVIEW

- Wool prices found some support leading into the recent winter recess however the trend did not continue upon the re-opening of trade
- 19-21 micron wools continue to demonstrate the most resilience to price falls
- Large percentage increases in exports to India have been recorded albeit off a low base
- Signs of a slowing Chinese economy are not welcome news for wool prices with at least 50 percent of Australian wool processed in China, remaining in that Country for the domestic consumer
- Wool prices are not out of step with other global fibre markets, which are also experiencing downward trends.

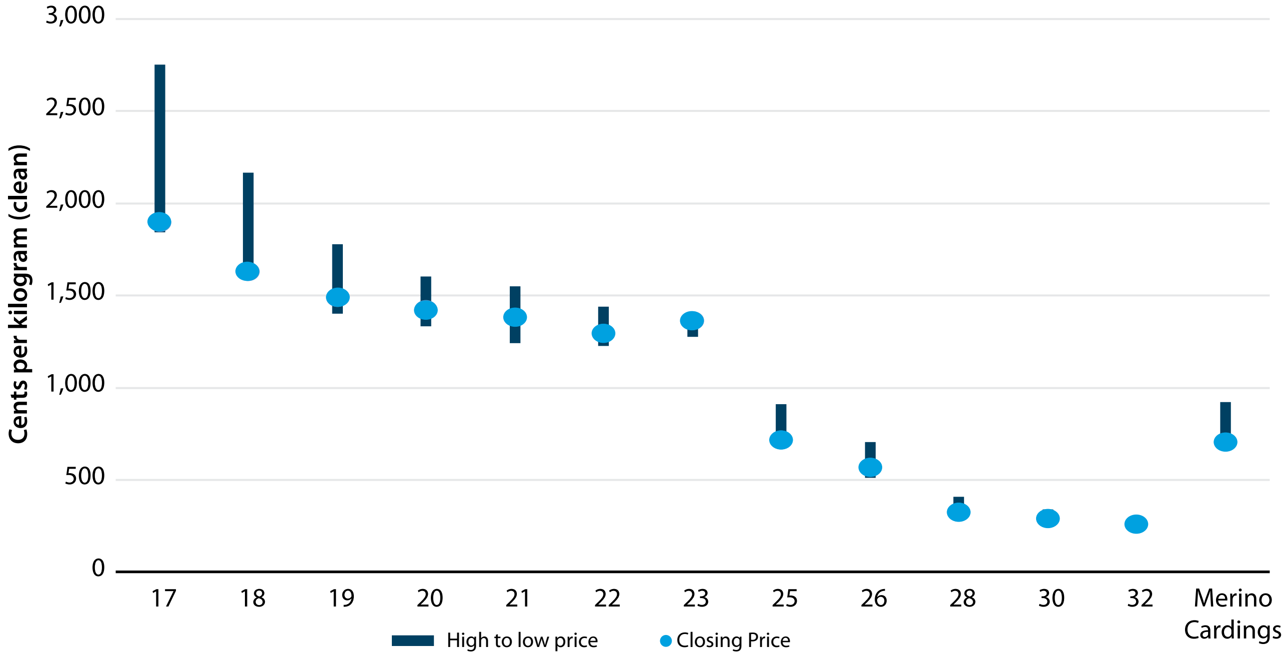
Wool markets re-commenced in early August following the three-week winter recess. On the back of a period of relative stability in pricing through autumn, the market experienced a long run of week-on-week reductions in price across all micron categories throughout the first two months of winter. Growers reacted by reducing the number of bales on offer leading into the recess, contributing to a lift in prices over the final two sales, with buyers needing to secure supply to keep plants functioning through the break. Following the recess however, the market has not been able to maintain the higher trend with the benchmark Eastern Market Indicator EMI sitting at around 1160 cents as spring unfolds. While ever decreasing Australian dollar has assisted somewhat, strong supply coupled with sluggish demand continues to pressure prices.

Notwithstanding the price drop, individual pricing results across the microns continue to demonstrate that 19-21 micron types remain the most price resilient wool categories. When examining the high, low, and closing price of 12 months of sales leading into this year's recess, it is clear that both the range of prices received, and the closing prices within that range, favoured these 19-21 micron wools.

Sluggish importer demand and buyer activity appears to be the major source of pressure on wool prices. Supply has been consistent on the back of the now fully stocked Australian sheep flock, with 1.8 million bales offered for the 2022/23 season, representing a less than one percent increase on the 2021/22 volume of bales offered. When reviewing the 2022/23 season, in terms of exports, the latest available data shows 82 percent of all Australian wool was shipped to China, with almost 7 percent going to India, and 4 percent to Italy. A significant rise in shipments to India has experienced, at 37 percent, and although starting from a low base, any market diversification is a welcome addition to the wool industry.

Demand from China's wool buyers for the Chinese domestic consumer, and their global wool customers, remains the biggest unknown going forward into spring. It is estimated that at least 50 percent of Australian wool processed in China is destined for the domestic consumer, and early signs being reported of a slowing of the Chinese economy may impact consumer spending on items such as wool. Other major end markets for Australian wool are largely spread throughout Europe and America, where cost-of-living pressures and risks of mild recessions in some nations remain

MICRON PRICE GUIDES



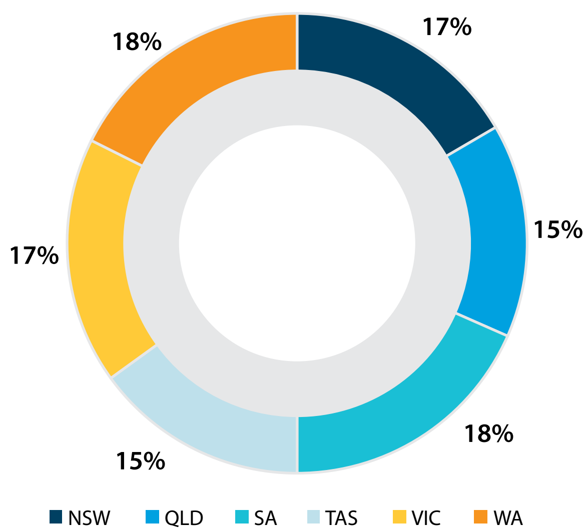
Source: AWN, ANZ

present. As clothing in many cases is a discretionary spending choice, it is feasible that the usual spike in demand that comes with the Northern hemisphere autumn and winter may not come to fruition this year, which along with consistent supply, would keep any significant upside out of prices for Australian wool.

It is important to note that wool is not alone as a fibre in its downward price trend, with all major fibre indices across cotton, polyester and acrylics following a similar pattern of slow price reductions over the period from late 2022 through to the end of winter 2023. Importantly in the current global economic settings, wool remains very competitively priced against these alternate fibres, which should assist to maintain wool as an option for consumers when price is a major factor in decision making.

Away from prices and exports, some interesting data out recently from MLA following the release of the latest sheep producer intentions survey, demonstrates that the majority of the Australian breeding ewe flock are Merinos, at an estimated 64 percent. The balance of the ewe flock is said to be around 14 percent First Cross and 12 percent Prime Lamb. The survey also reveals that NSW and VIC account for 37 and 23 percent of the national flock respectively, and that our largest producers, those with over 3,000 head, are collectively responsible for almost 65 percent of all sheep. It is therefore likely, that the decisions made by these producers along with the timing, persistence, and geographic spread of any upcoming dry period, that will greatly influence volumes and types of wool on offer in auction rooms over the coming season.

BREEDING EWE FLOCK BY STATE



Source: MLA, ANZ

DAIRY INSIGHTS

OVERVIEW

- Global dairy product prices continue to remain relatively low, as Chinese demand remains subdued
- As a result of this reduced demand, impacted by both Covid and tight economic conditions, global dairy products are currently in relative oversupply
- In Australia, as domestic milk production continues to decline, milk processors have bid near-record prices to secure supply
- While this is likely to see many retail dairy product prices rise, it will also create concerns for processors facing declined export earnings.

With the global dairy industry continuing to feel the impact on demand of both Covid disruptions and the economic headwinds, the Australian dairy industry is likely to experience the after-effects right down the domestic supply chain.

At a global level, dairy prices have continued to fall for a number of months. The Global Dairy Trade (GDT) Index has suffered from the major reduction of China's participation in the market, as Chinese consumers continue reduce their consumption of dairy products through tougher economic times. To a degree, this process highlights the greater vulnerability of a market such as China, where the consumption of dairy products is a relatively newer part of the diet than in some other major markets. As a result, where these products are somewhat discretionary to consumers, they are more likely to dip in consumption in economic downturns.

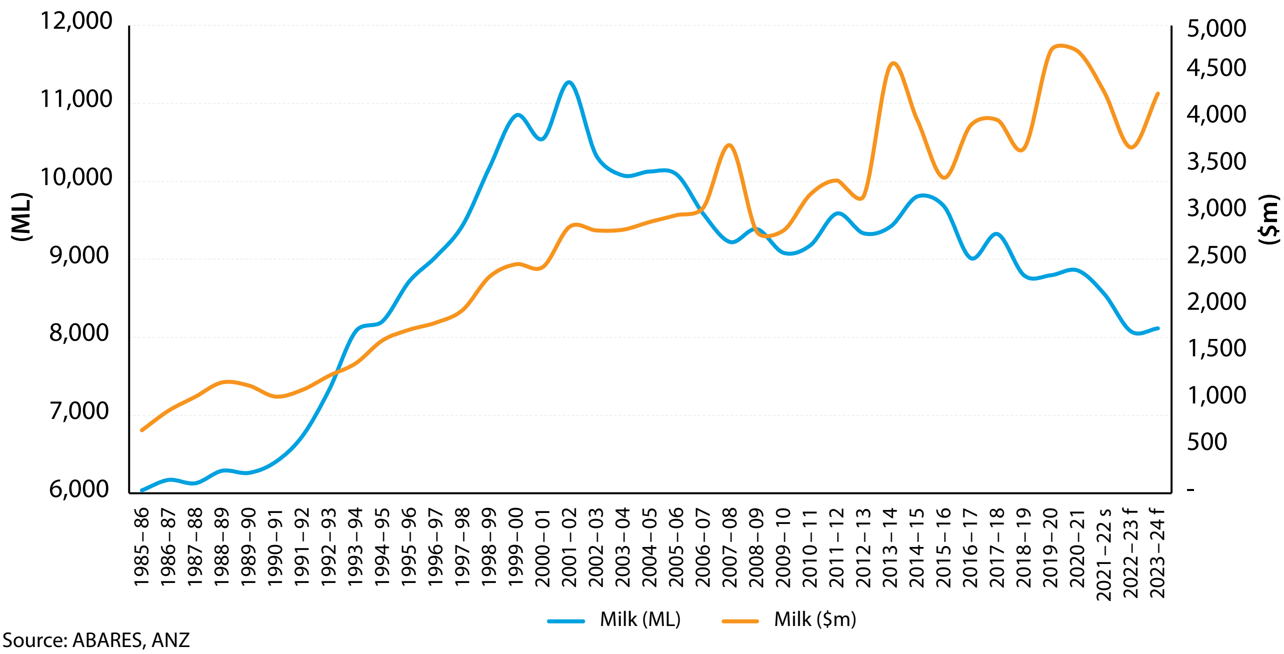
As a result of China's downturn in purchasing, the GDT has fallen to almost 20 percent below its five-year average levels. The global dairy product market is currently experiencing a period of oversupply and given the time that this may take to fall, any recovery in global dairy prices, even when consumers begin to increase their dairy purchases, is likely to be a long term one.

While the global milk dairy product levels may be in oversupply, for Australia, the opposite situation continues to be the challenge. The opening of the farmgate pricing season saw the different dairy processors competing for the dairy producers by bidding prices to around record highs, as they sought to gain access to a share of Australia's continually shrinking national milk pool. Having set these high prices with producers, a number of Australia's dairy processors now find themselves in the challenging position of having paid this for supply, while facing an outlook of reduced export prices.

At a domestic level, these high farmgate prices, combined with other drivers of food inflation, have seen strong rises in the retail price of many dairy products, such as butter, cheese and yoghurt. With the outlook that Australian consumers may reduce many of their retail purchases – including food – into 2024, it remains to be seen whether this will ripple back up the supply chain to processors.

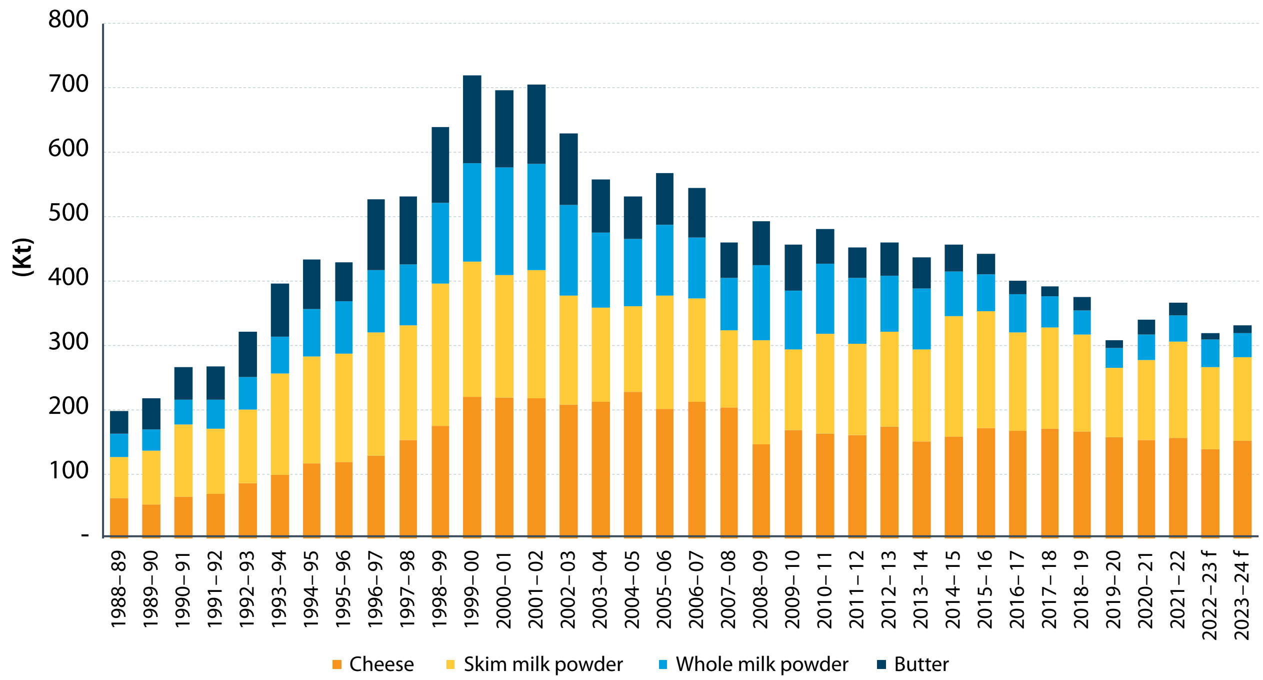
Interestingly, at the domestic production level, Australian milk production has seen a small and rare increase in production for a period this year, rising by around two percent in May, possibly as a result of some post-drought herd rebuilding and pasture improvement. Overall, however, the national milk production levels look likely to continue their ongoing fall. For 2022/23, national milk production looks set to fall to around an even eight billion litres, its lowest in 30 years, while the year ahead may potentially even fall further. For the dairy processing sector, as well as relevant retailers, this will only increase the need for them to look closely at their ongoing strategies.

AUSTRALIA MILK PRODUCTION VALUE VS VOLUME



Source: ABARES, ANZ

AUSTRALIA DAIRY EXPORT BY TYPE



Source: ABARES, ANZ

COTTON INSIGHTS

OVERVIEW

- The Australian cotton crop looks set to be around the second largest on record
- Cotton continues to grow in popularity as a crop in Australia, both in traditional regions of NSW and QLD, and now into other states
- Australia's cotton export markets have shifted, with Vietnam now replacing China as the major destination
- Global cotton prices have been challenged by tighter economic conditions and high cotton stocks.

Despite some challenging global conditions, Australia's cotton industry currently finds itself in a strong position, given the strength of this year's crop.

After some earlier hopes that the 2022/23 national cotton harvest would be the largest on record, the lingering impact of heavy rain in some growing areas saw the ultimate forecast fall slightly to 5.52 million bales, which would still be the second highest in history.

The 2022/23 cotton area of 667,000 hectares was in itself a record, up around five percent on the previous year's record, but a slight decline in overall yield levels led to a two percent reduction on the previous year's harvest.

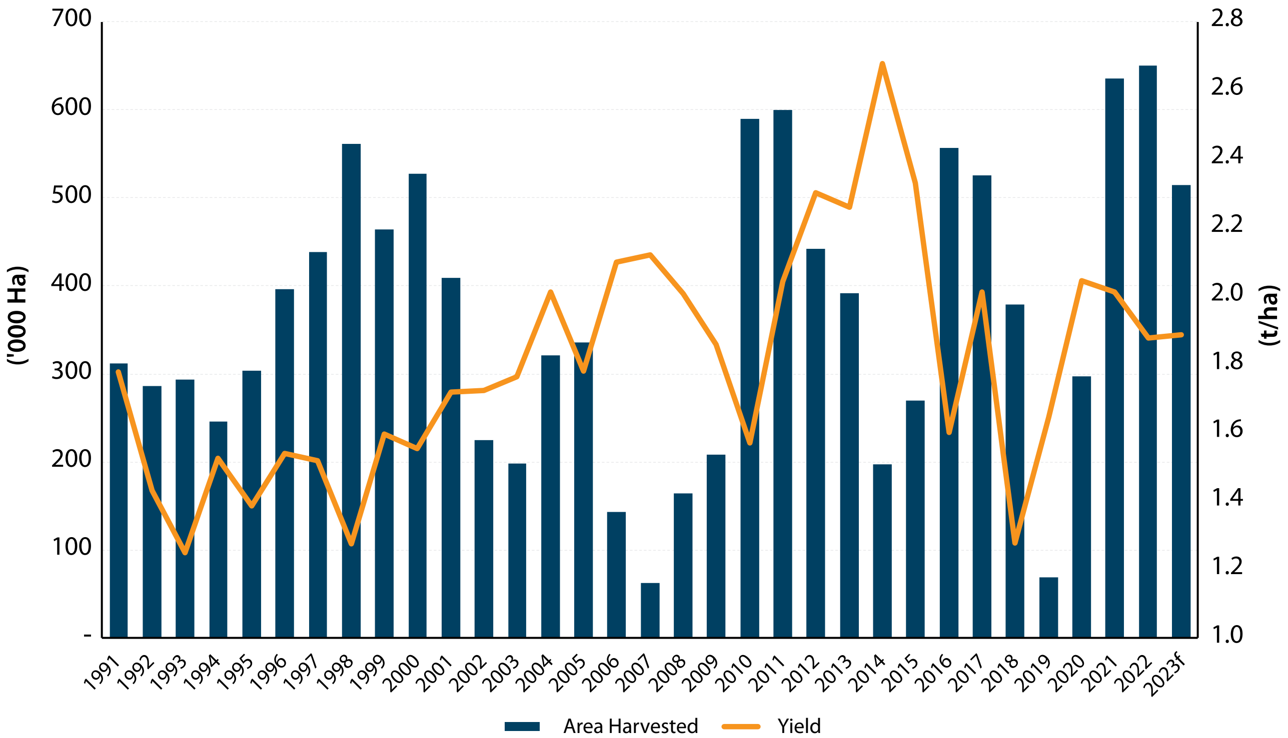
FURTHER AFIELD, COTTON PRODUCTION IS CONTINUING TO EXPAND IN WHOLE NEW REGIONS, INCLUDING IN FAR NORTH QUEENSLAND, THE NORTHERN TERRITORY, AND THE NORTHERN REGIONS OF WESTERN AUSTRALIA.

The rise in national cotton acreage arguably signalled a reflection of two important trends. Firstly, while cotton has traditionally seen higher levels of planting in its traditional strongholds across particular regions of NSW and Queensland, it is increasingly being seen as a genuine alternative crop for consideration in rotations, including in areas around those strongholds where it may not have been grown previously.

To some degree, whether this cotton expansion becomes permanent in some of these regions is yet to play out. As the long term picture becomes clearer, and if some of these areas shift to more permanent cotton plantings, it will raise the question of whether the establishment of new gins in some regions would be viable.

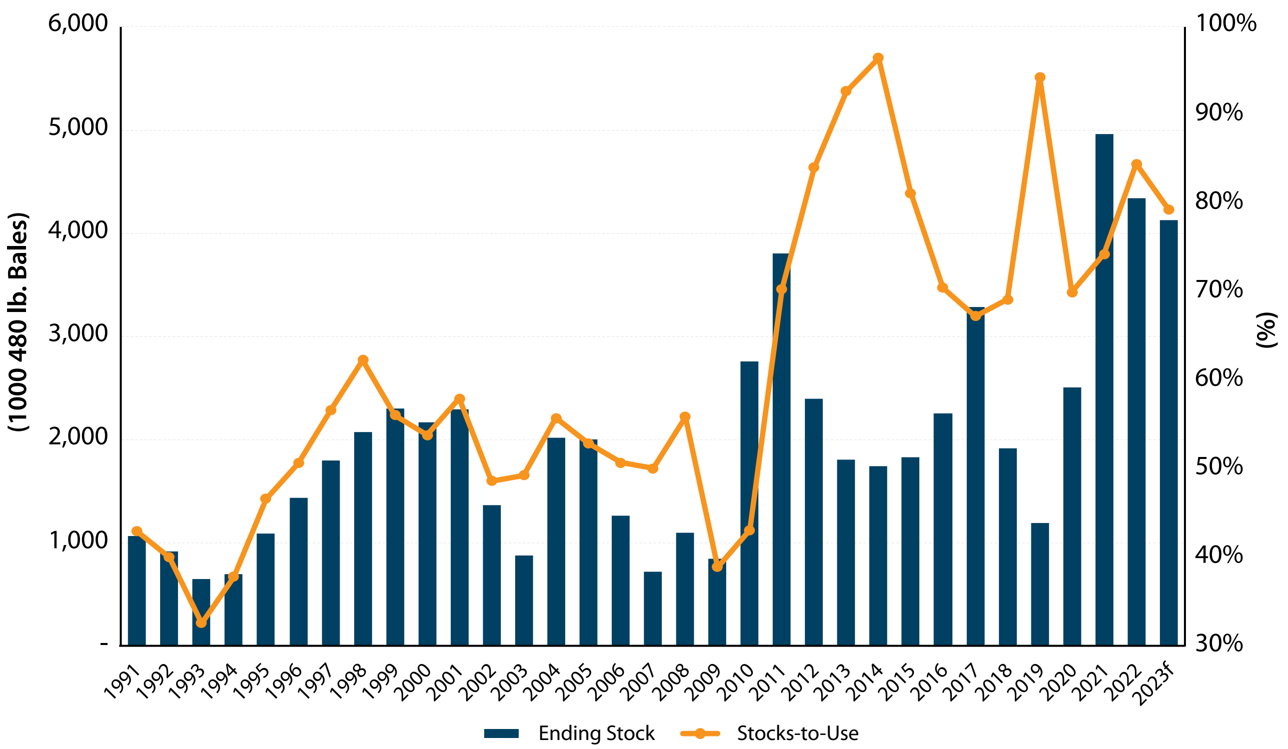
Over the past three years, the Australian cotton industry has continued to adjust to China's imposition of restrictions on imports in 2020. While China had been Australia's largest market for cotton exports, the industry was forced to look to other markets to build up relationships and increase the level of cotton shipments.

AUSTRALIAN COTTON AREA HARVESTED VS YIELD



Source: ABARES, ANZ

GLOBAL COTTON END STOCK VS STOCK -TO-USE RATIO

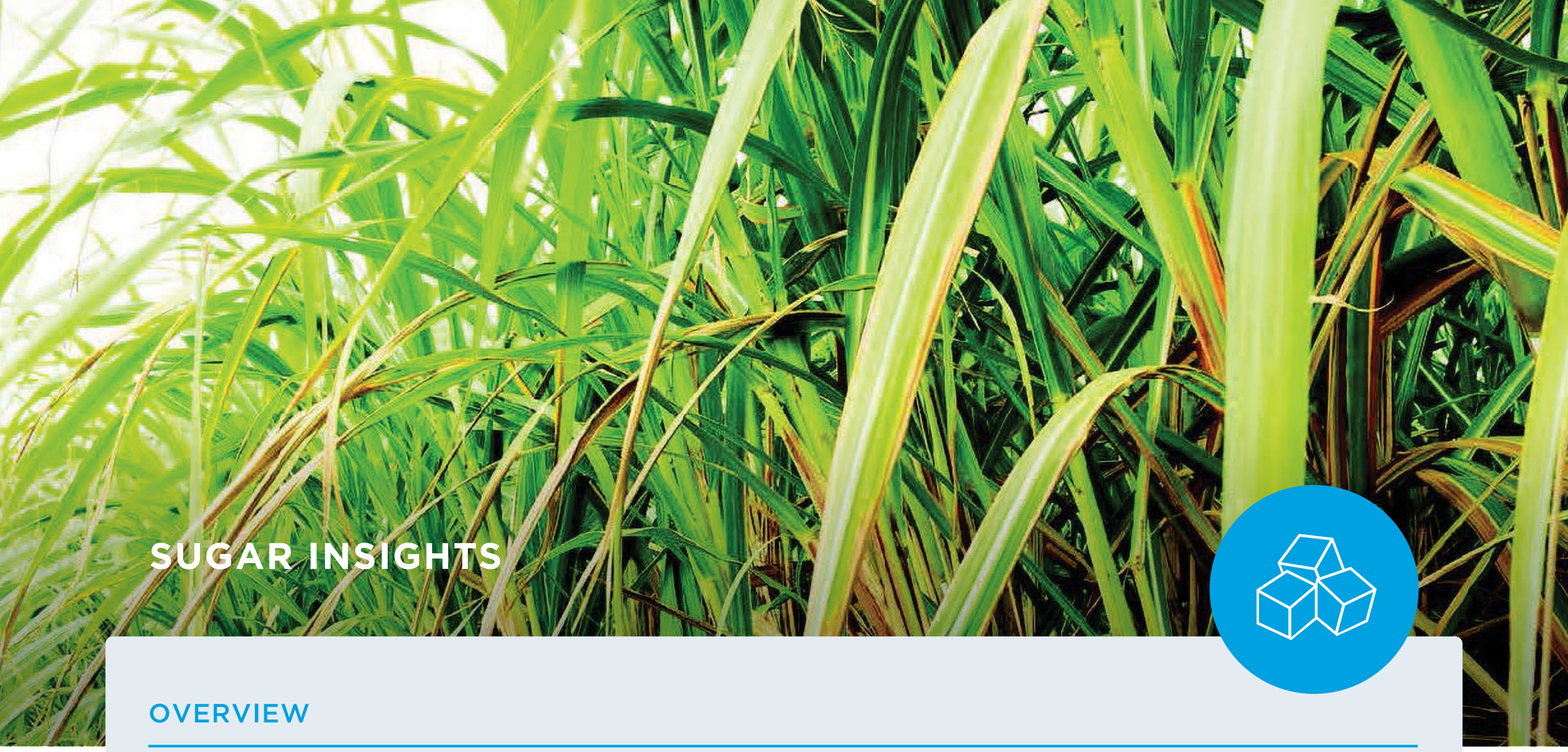


Source: USDA, ANZ

As a result of this work, Vietnam has now replaced China as the largest market for Australian cotton exports, accounting for around 40 percent of total shipments. The growth in this trading relationship was enhanced by the Australian cotton industry pro-actively marketing the benefits of Australian cotton to the Vietnamese fabric milling sector, including around the quality of Australian cotton. In addition, the existence of a number of Free Trade Agreements including both Australia and Vietnam – including the ASEAN-Australia-New Zealand FTA (AANZFTA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership (RCEP) – have meant that Australian cotton is increasingly cost effective for Vietnamese importers, compared to its competitors.

In addition, Australia has continued to enhance its trading relationships with a number of other major markets, including Indonesia, India, Thailand, Pakistan, Turkey, Bangladesh and Malaysia.

Globally, the impact of challenging economic conditions, combined with high cotton stocks, could continue to put pressure on prices for some time. According to USDA, global cotton use in 2022/23 is forecast to fall around five percent to around 110 million bales, its second lowest point in a decade. At the same time, with the global cotton stock to use ratio forecast to climb to around 82 percent, also the second highest point in ten years, the ample volumes of cotton in the world will limit the short term potential for any strong price increases. Looking a year further ahead, USDA is forecasting a recovery to some extent, as lower cotton prices see a decrease in production, and as consumers gradually increase their purchases of cotton products as the economic challenges begin to ease.



SUGAR INSIGHTS

OVERVIEW

- Australia's sugar industry is benefitting from a season of strong production levels combined with high global sugar prices
- Favourable weather in sugar regions is likely to see the cane harvest at its highest in seven years
- Global sugar prices have risen sharply due to supply issues in major producers, including India and Thailand
- Prices may stay high for some time, driven by potential export restrictions by India, as well as diversion of sugar into ethanol by Brazil

Heading into the spring and summer period of 2023, Australia's sugar industry finds itself in one of the best positions of any agri production sector – a combination of strong domestic production forecasts combined with high global prices.

In terms of production, a combination of increased plantings combined with good weather has seen forecasts for the current crop, which is harvested from around July to November, to be one of the largest in years. Overall sugar cane plantings in 2022/23 of around 382,000 hectares were the largest since 2018/19, and the fourth largest in thirteen years. In terms of the production, the 2022/23 forecast by ABARES of sugar cane production of 34.4 million tonnes and processed sugar production of 4.4 million tonnes would represent the highest levels reached since 2016/17 and 2018/19 respectively.

Globally, the current price outlook for sugar appears likely to remain strong, having lifted considerably over the past two to three years. In April 2020, the global benchmark sugar price, the Intercontinental Exchange (ICE) No. 11 Contract, had slumped below 10 USc/lb, its lowest level in over a decade, largely as a result of global oversupply. By April 2021, it had only climbed to around 14 USc/lb.

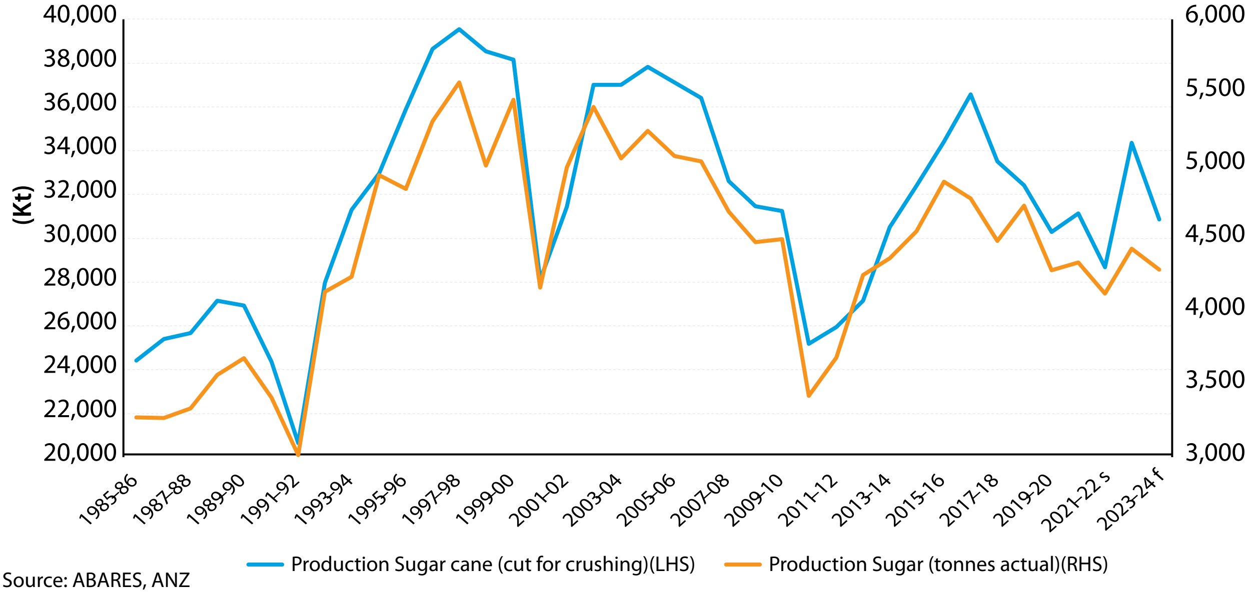
Since that point, a marked change in global production levels and global usage levels have seen sugar prices climb strongly, with the ICE No. 11 hitting a peak of over 27 USc/lb in April 2023 – or almost triple its low of 2020 - before easing marginally to around 25 USc/lb in August 2023.

The global price rise had been particularly driven by global production issues, and concerns about ongoing supply levels. Ongoing dry weather conditions in India had not only impacted the production levels from that country, but fuelled concerns that the Indian government may seek to impose restrictions or bans on sugar exports. The aim of this would be to reduce domestic food inflation, as sugar producers sought to take advantage of high global prices and pushed up domestic food prices as a result. However, given that India vies with Thailand for being the world's second largest sugar exporter, after Brazil, the ultimate impact would have seen a reduction of overall supply to world markets.

Similarly, Thailand has also seen its crop impacted by weather conditions, further reducing the supply of sugar on global markets. In terms of Brazil, the world's largest sugar producer and exporter, earlier fears about the impact of heavy rains on the sugar crop had subsided somewhat, though there are still likely to be disruptions to Brazil's always-challenging agri logistics network. At the same time, as global oil prices rose sharply from June to August based on tightening global supply, increasing volumes of Brazilian sugar cane were diverted into ethanol production and out of food production, putting further upward pressure on sugar prices.

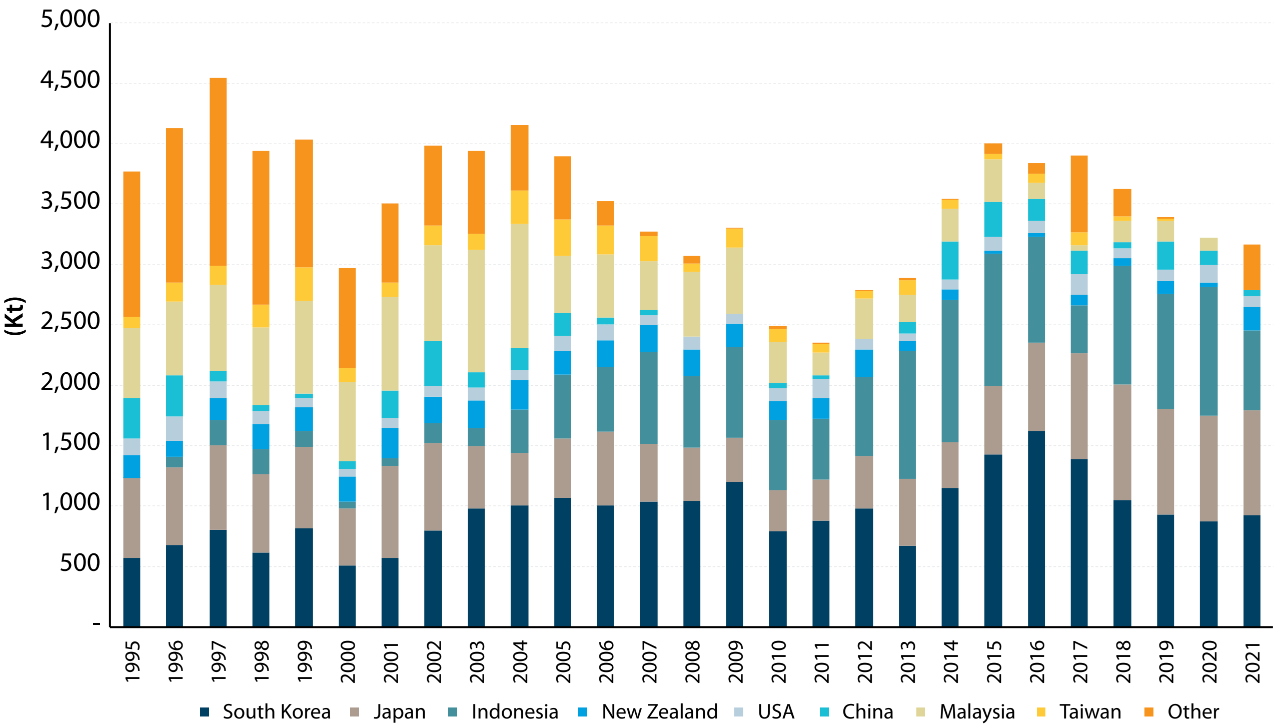
Looking ahead, Australian sugar producers may be one of the few agri sectors hoping for slightly drier weather over coming months. Given the opportunity to take advantage of current high prices, the industry will be hoping that recent interruptions to the harvest by heavy rains will subside, and that producers will be able to extract the maximum harvest possible.

AUSTRALIAN SUGAR CANE PRODUCTION VS SUGAR PRODUCTION



Source: ABARES, ANZ

AUSTRALIAN RAW SUGAR EXPORT DESTINATIONS



Source: Trademap, ANZ

AUSTRALIAN ECONOMIC INSIGHTS

THE AUSTRALIAN ECONOMY IS RESPONDING TO RESTRICTIVE INTEREST RATES

A recession or hard landing is unlikely, but per person GDP is falling

A hard landing for the Australian economy is looking increasingly unlikely. We are reluctant to call it a 'soft' landing, however, as the per capita GDP growth outlook in Australia remains very weak. We expect per capita GDP to fall by 1.5 percent this year (and grow by just 0.1 percent in 2024), meaning the average person won't be doing more or buying more over time. The bigger risk in our future is not a cliff of economic activity, but rather persistent inflation around the top of the 2-3 percent target band.

If interest rates change in the next 12 months, they'll go up not down

Interest rates may need to stay higher for longer. Our base case is that while there are no more hikes, there are also no cuts until late 2024. We remain of the view that if the RBA moves this year, or early next, an interest rate increase is much more likely than a rate cut. We certainly wouldn't rule out the prospect of higher interest rates since additional monetary tightening could be required to reassure the RBA Board that inflation will return to within the 2-3 percent target band.

Households are responding to inflation and interest rates.

ANZ-observed spending is down 8 percent year on year in the week to 5 August. The ongoing softness in ANZ-observed spending, alongside the weak ABS household spending indicator and negative retail volumes print, suggests the RBA's efforts to curb spending are working.

Many households are facing a cashflow squeeze and are adjusting by curbing spending. ANZ-Roy Morgan Consumer Confidence is very weak, inflation remains high (6 percent year on year Q2), and the RBA expects mortgage payments will hit a record high of 9.8 percent of household disposable income by the end of the year as fixed rates roll off and elevated mortgage rates continue (vs a long-term average of around 8 percent).

The labour market is loosening, but the unemployment rate will stay low

We expect the unemployment rate to peak at 4.6 percent between now and 2025. The current unemployment rate is 3.5 percent, a 50 year low. Underemployment (the ratio of people who don't have enough hours) and youth unemployment are also affecting far fewer people than usual. Ultimately, we expect weakness in GDP and softness in forward looking labour market indicators will flow through into softer demand for workers, albeit with a bit more of a lag and a little less impact than we previously expected. Strong population growth will help smooth out skills shortages, but more people means both more workers and more demand for goods and services (which in turns leads to more demand for workers).

Wage growth hasn't peaked yet

We continue to expect wages growth to lift over the coming year and reach a peak of 4.2 percent year on year in mid-2024. Similarly, we continue to expect a softer labour market in 2024 to cap wages growth and lift 'measured' productivity. That lift in measured productivity fades toward the end of the forecast horizon, which is why we see inflation stuck not much below 3 percent. Our CPI profile highlights that any coming easing cycle (which we do not expect before the end of 2024) is likely to be very shallow with the next economic upswing likely to start with little slack in the labour market.

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