ANZ AGRI
INFOCUS

COMMODITY INSIGHTS

SUMMER 2024/25

FOREWORD

As summer begins, we have evidence of a patchy spring across the country, which is not unusual. Storms, rain and frost events have impacted certain areas, while other areas have had very strong seasons to date, or indeed pretty much no rain all year. Commodity prices are mixed across the country and across the board, prices are down from their highs. As a result, cost control and productivity gains are the watch words for most in the agriculture industry as they seek to stay on top of higher costs and variable seasons.

The lead up to summer is almost always a reflection on the up and downs of the spring – and looking to the harvest and livestock turnoff which rules the beginning and end of the summer season. This year, as with most years, the story is a mixed one across the country.

Concerns over pasture growth throughout spring have ruled the southern livestock markets, while a good supply of heavy cattle from the good northern season has put processors almost at capacity in the north. Meanwhile, with the early northern harvest producing some very strong yields, harvest is just getting under way further south, where the season and variable frost impact is likely to reflect output. Notwithstanding, NSW and to a lesser extend Queensland, are set for a big crop.

With all of this in mind, producers are looking to their own costs and spending to seek to maintain margins. With costs for feed, fertiliser and fuel all trending downwards, they remain stubbornly high in the face of the solid drop in commodity prices, meaning that producers are looking to use less and reduce that cash outflow. And a season or yield makes all the difference noting that parts of South Australia and Western Victoria especially, have experienced difficult conditions all year. Looking forward, water availability and supply is set to mark much of the Australian summer with total water resources starting to show some stress from the dry spring in the south.

All in all, the Australian agriculture industry is going into summer and the new year in a solid position – not at the highs of previous years, but also seeing some decent growth, good harvests and solid livestock prices as the industry adjusts to what appears a new normal. Here's hoping for a smooth run into the busy summer and holiday period. I do hope everyone can take an opportunity to relax, reflect and plan well for what we hope is a great 2025.

Mark Bennett
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INDIA RECAP

OVERVIEW

India, the global economic powerhouse of the post-Covid era, is a market that combines the world's largest population with increasing urbanisation and sophistication. Recently, ANZ introduced over 25 Australian grain and pulse producers, along with members of the Australian grain supply chain, to the market that is India, via a week long delegation to key destinations throughout the country, before crossing to the contrasting market of Singapore for their final days abroad.

ANZ's Opportunity Asia Delegation to India and Singapore explored many of the themes raised in the India – The Next Frontier for Australian Agriculture report. Population demographics, changing food habits, and the balancing act between supporting local production and maintaining food security are just some of those themes. But just how tangible the India export opportunity is both now, and in the future, was the underlying question that delegates sought to answer, largely with a focus towards grains and pulses, but also with an eye to other sources of protein such as meat and dairy, and fibres such as wool and cotton.

With so much to learn, and such a diverse and rapidly changing culture to be immersed in, there are many key takeaways from the delegation that provide context to the trade relationship between Australia and India, both now and into the future.

THE PEOPLE

As India surpasses China as the world's most populous country, and powers ahead as the rising powerhouse of the global economy – there is an obvious need to feed the estimated 28 million of people transitioning out of poverty, or into the middle-classes each year. There is also a critical need to assist the approximate 13 percent of the population that are considered undernourished.

The contrast between rich and poor is obvious and unhidden, and whilst rectifying this is a key priority of the Indian government, it is also considerable challenge, dependent in many ways on changing the way of life for many, particularly those relying on farming as their major source of subsistence.

THE PRODUCTION

Along with India's huge demand for food, comes huge local agricultural production. India is the world's largest producer of milk, pulses, and spices, and has the world's largest bovine herd, as well as the largest area under wheat, rice and cotton. In stepping foot onto some of this production, made up of an average farm size of under 2 hectares, it is difficult to come to terms with the countries overall production figures. With a huge reliance on manual labour, and small handling volumes for freight and logistics, the industry manages to get by in a sort of organised chaos from an outsiders point of view, following practices that are by Australian standards a thing of the past, and comparatively inefficient.

THE CHALLENGES

There are significant challenges. With 18 percent of the world's population but only 3.7 percent of world's arable land, 4 percent of global fresh water, supported by the use of 14 percent of the world's fertiliser – India's production base faces the challenges of water stress and high reliance on the global fertiliser market. Maintaining growth and expansion of production to meet growing demand, will require significant advances in productivity and efficiency on-farm. Despite best efforts of industry and government, this seems like a daunting task.

SELF SUFFICIENCY

With production challenges and a growing urban population, there are some key choices to be made as to how to direct precious land and water resources to specific commodity supply outcomes. What to supply locally, and which gaps to fill through imports? Sometimes that choice is taken away, for example the poor rains of last season are what have allowed the export door to open for Australian chickpeas this summer. Despite these intricacies, India is now, and is likely to remain, a relatively protectionist nation, with their policy of self-sufficiency in key foods such as cereals and pulses and in food in general, central to government policy making.

THE OPPORTUNITY

With self-sufficiency the key mandate, the opportunity for Australian exporters may take a number of forms. Exports to India may continue as they have for many years – where exports occur on an opportunistic basis to supplement and support domestic Indian production in poorer seasons. However, the growing middle-class are creating opportunities for more luxury, clean, green and sustainable products to enter the country – an area where Australia has a good reputation, but is notably not the only global competitor in the mix.

It may be that a structural change in India's employment profile, away from agriculture and into second stage processing and manufacturing, is the trigger required to result in more produce to be consistently exported. This could be particularly relevant to commodities like wool and cotton. For red meat, lamb and mutton holds the obvious opportunity, as the younger and less culturally traditional generation explore new proteins, especially through e-commerce platforms and food service outlets.

Already, exports to India are growing, and if they continue on trend, by 2040, Australia's agricultural exports to India could reach $3.5 - $4 billion. Across some commodities like grains and pulses, our delegates learnt that this is likely to be volatile. For other commodities, there may be a more linear path ahead.

GRAINS INSIGHTS

OVERVIEW

- Australia's 2024/25 winter crop forecast is set for over 55 million tonnes, up 17 percent on last year, with NSW leading the growth at 50 percent higher production;
- Western Australia's crop is expected to rise by 25 percent, while South Australia and Victoria anticipate declines of 9 percent and nearly 20 percent respectively;
- Wheat output is forecast to grow by 23 percent, while canola is set to decline by almost 10 percent for the second year;
- Pulses are a bright spot, with production expected to increase 30 percent, led by a surge in chickpea output;
- Globally, wheat and canola prices face pressure from high stocks and strong production in major exporters like Russia and Canada, though trade tensions could impact oilseed markets.

Across Australian cropping regions, while the busiest part of the year is well underway, the irregular nature of this year's season has meant that the progress of the harvest is varying considerably across different regions. From scarce early season rains in many areas to later season frosts, harvest times and final production results could potentially differ strongly not just between regions, but also between neighbours.

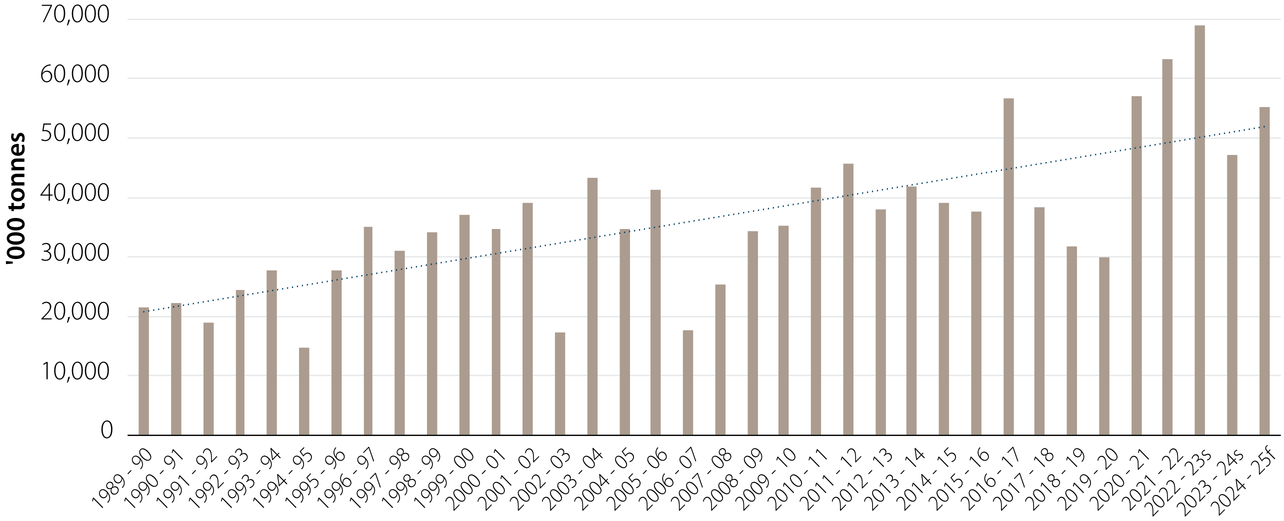
OVERALL, ON A NATIONAL BASIS, THE 2024/25 IS CURRENTLY FORECAST TO BE A RELATIVELY STRONG ONE.

According to ABARES' most recent forecasts, the winter crop (encompassing barley, canola, chickpeas, faba beans, field peas, lentils, linseed, lupins, oats, safflower, triticale and wheat) is projected to reach just over 55 million tonnes, up around seventeen percent on the previous year. This would not only make it around the fourth or fifth largest national crop on record but would put it at above the growth trendline of the past 35 years.

That said, the forecast strength of this season does differ markedly by state and by region. The bulk of the increase this year will come from New South Wales (NSW), which is forecast to see production up by 50 percent to almost 17 million tonnes, which would be the state's third largest crop on record. The majority of this increase is likely to come from northern NSW, given that crops in the southern part of the state have been far more impacted by the earlier dry conditions, plus more recent frost and hail.

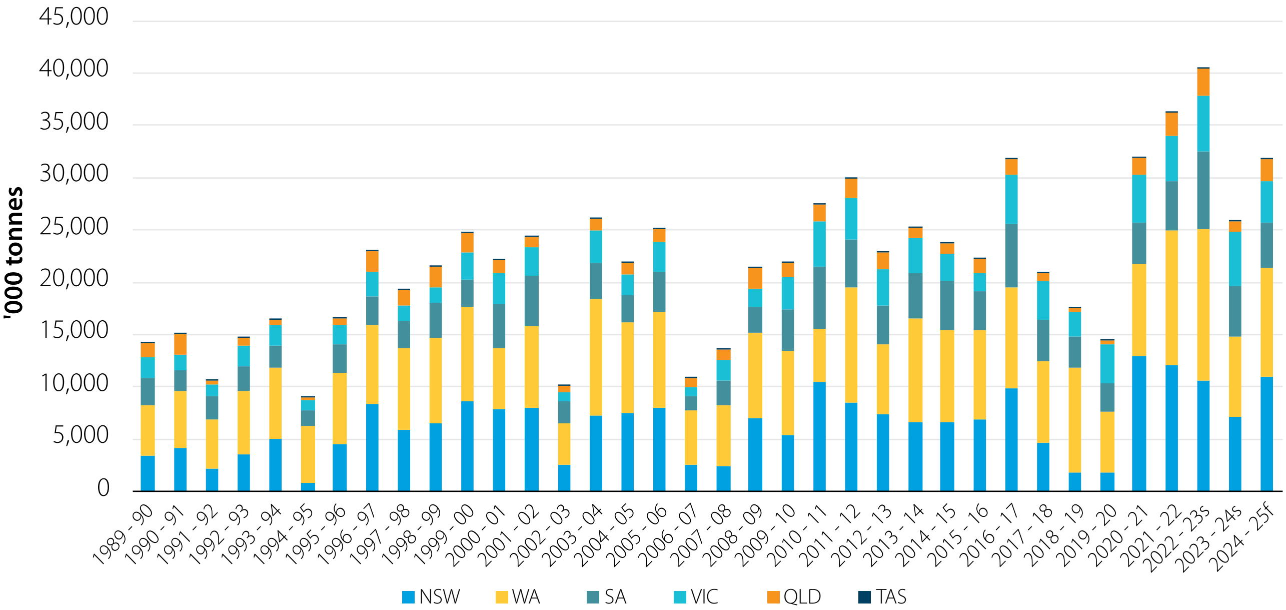
The outlook for Western Australian (WA) crop production is also positive, with a forecast increase of just under 25 percent on the previous year to over 18 million tonnes. In contrast South Australian (SA) crop production is forecast to fall by around 9 percent, while Victorian production levels are projected to be down almost 20 percent.

AUSTRALIAN WINTER CROP PRODUCTION 1989/90 - 2024/25F



Source: ABARES, ANZ
Note: Includes barley, canola, chickpeas, faba beans, field peas, lentils, linseed, lupins, oats, safflower, triticale and wheat.
s=ABARES estimate, f=ABARES forecast

AUSTRALIAN WHEAT PRODUCTION BY STATE 1989/90 - 2024/25F



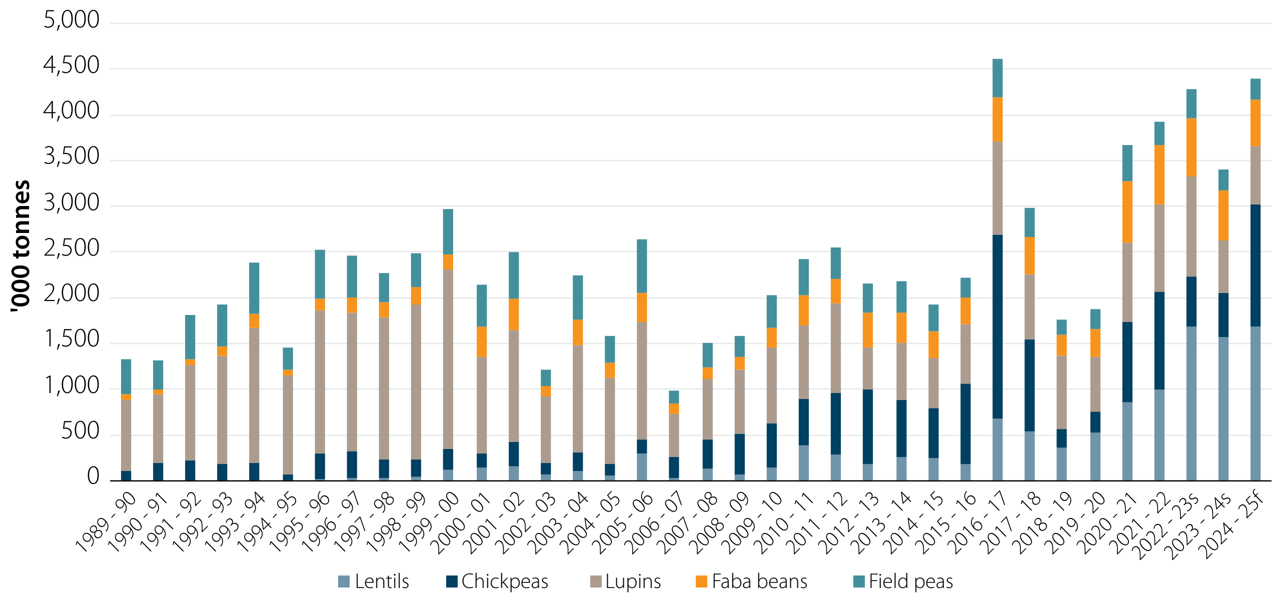
Source: ABARES, ANZ
s=ABARES estimate, f=ABARES forecast

Forecasts are also mixed across different crop types. The national wheat crop is forecast to see a strong rise by around 23 percent, again driven by WA and NSW, and could potentially be the third largest crop on record. National barley production is forecast to see a more modest increase, by around thirteen percent to just over 12 million tonnes, while canola is forecast to see its second successive decline, down by almost 10 percent to around 5.5 million tonnes.

The big climber in cropping is pulses, which are forecast to rise by around 30 percent to the second largest crop on record of 4.5 million tonnes. This is particularly driven by chickpeas, which have almost tripled in production over the past year, while lentils and lupins are also up.

While it is early days, many in the industry will be starting to think ahead to the 2025 season, and particularly their planting options. If rainfall returns

AUSTRALIAN PULSE PRODUCTION 1989/90 - 2024/25F



Source: ABARES, ANZ
s=ABARES estimate, f=ABARES forecast

to average levels across drier regions, these areas could see increased planting, particularly for crops like barley and wheat. That said, geopolitics could bring uncertainty. With the potential reintroduction of US import tariffs under President-elect Trump, particularly on Chinese goods, Chinese companies may experience decreased access to the US market, which could affect Australian exports indirectly. In such a scenario, China may retaliate by reducing soybean purchases from the US, potentially leading it to increase canola imports from alternative suppliers like Australia, thereby boosting demand for Australian canola.

Additionally, the Australian dollar's (AUD) strength or weakness could impact export competitiveness. If the AUD remains stable or weak, Australian grains and oilseeds may retain strong appeal in international markets, while a stronger AUD could limit growth. Rising costs of fuel and inputs may also affect planting choices, with farmers possibly focusing on crops which offer higher margins to offset increased expenses.

On the global stage, wheat prices remain relatively stagnant, particularly due to high production forecasts from major exporting countries, including the European Union (EU), Russia, and Canada. In contrast, drought in parts of the US and heavy rains in Europe could see production down in those areas. Global stock-to-use ratios for wheat are elevated, primarily due to abundant Russian supplies, which continue to exert downward pressure on global prices. Major importers like Egypt and Indonesia are watching prices closely as they seek to secure sufficient supplies at attractive points in the price cycle, especially in a weaker global economic environment.

Similarly to Australia, global canola prices and production could possibly be impacted by proposed tariffs by the US on Chinese exports, and any retaliatory trade actions by China, potentially against US soybean exports. This shift could increase global demand for other oilseeds like canola, as China turns to countries such as Canada and Australia for replacement oils and protein meals. With canola being a close substitute for soy, given that both oilseeds are widely used for similar purposes, including cooking oils, animal feed, and biodiesel production, this heightened demand could drive global canola prices up, especially given China's large role in the oilseed market. Additionally, tighter supplies could develop if China's increased buying reduces canola availability for other importers, creating upward price pressure across global oilseed markets.

The outlook for global barley prices remains more subdued, given strong production forecasts in much of the EU, as well as in Australia, which are predicted to more than offset barley production declines in Russia, Ukraine and Canada. In addition, strong global production forecasts for other coarse grains, particularly corn and sorghum, are likely to dilute demand for feed barley, and further impact prices.

CATTLE INDUSTRY INSIGHTS

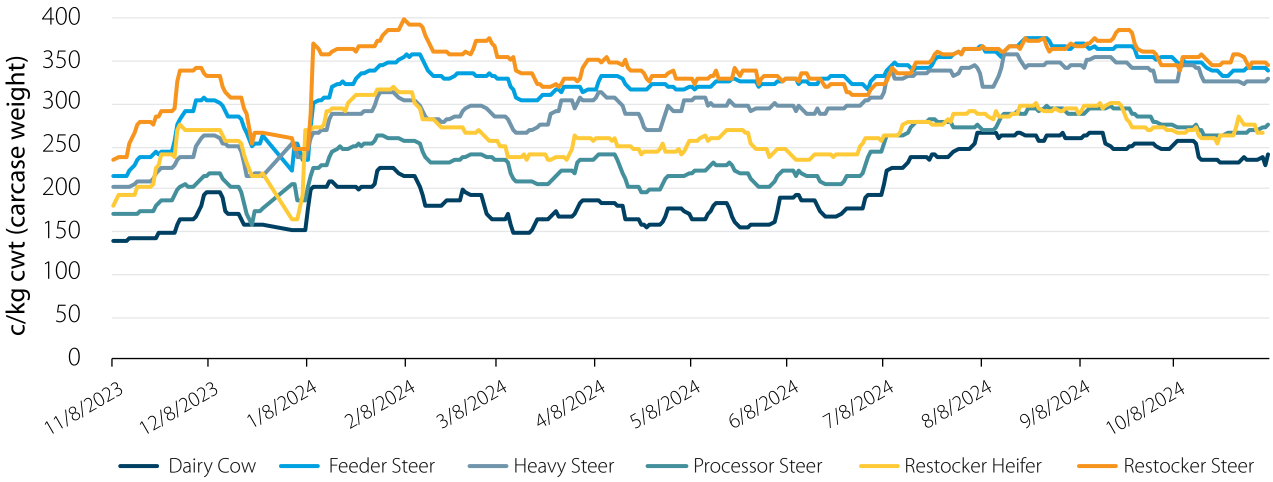
OVERVIEW

- Cattle prices are have been fairly stable throughout the year, although that stability has come as a balance between strong supply from the north and concerns over season in the south;
- Producers continue to be focussed on the shorter-term rather than building herd numbers, as restocker steers continue to trade at a premium to heifers;
- National yardings and slaughter numbers have surged after a subdued few years, putting many processors close to - or at - capacity;
- Exports are on track for a record year as the US herd liquidation continues and Australian beef grows its competitiveness on the global market.

It's steady as she goes for the cattle industry, as the Eastern Young Cattle Indicator continues to trade within a 120c trading band since the beginning of 2024. Underneath that relatively steady trading has been some shifting in prices between the saleyard categories of cattle, most particularly as a strong supply of heavy steers has come from the strong season in northern Australia, as well as concerns over a dry spring leading to high turnoff levels.

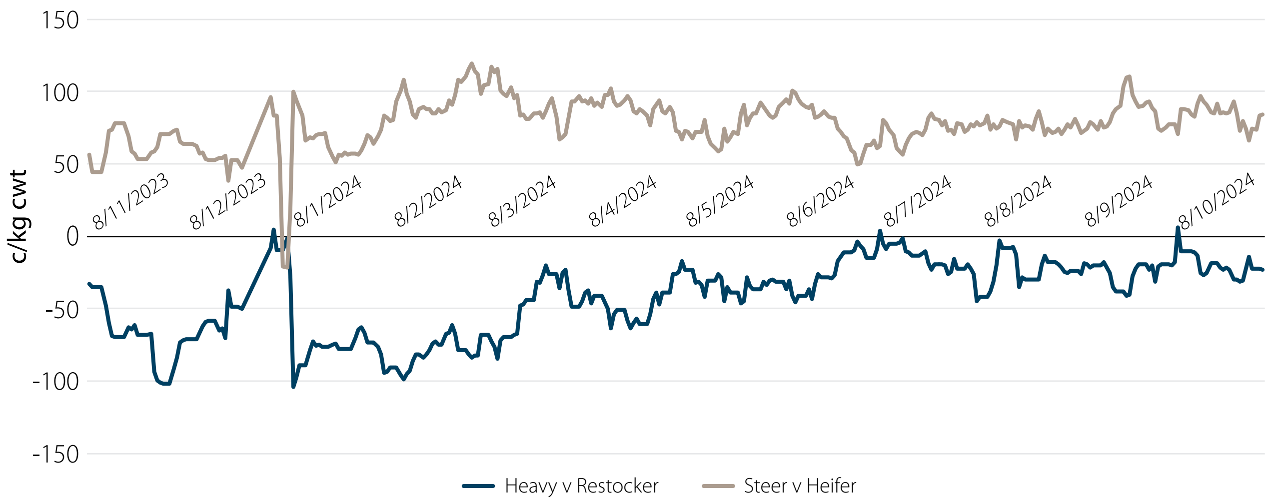
There has also been some divergence in prices between states as the poorer seasons in southern Australia have pushed heavy cattle prices slightly higher. In short, the cattle industry appears to be lacking in some confidence about future seasons as high national herd numbers and some uncertainty around season has seen producers moving away from restocker heifers in favour of short-term fattening.

SALEYARD PRICES BY CATEGORY



Source: ANZ, MLA

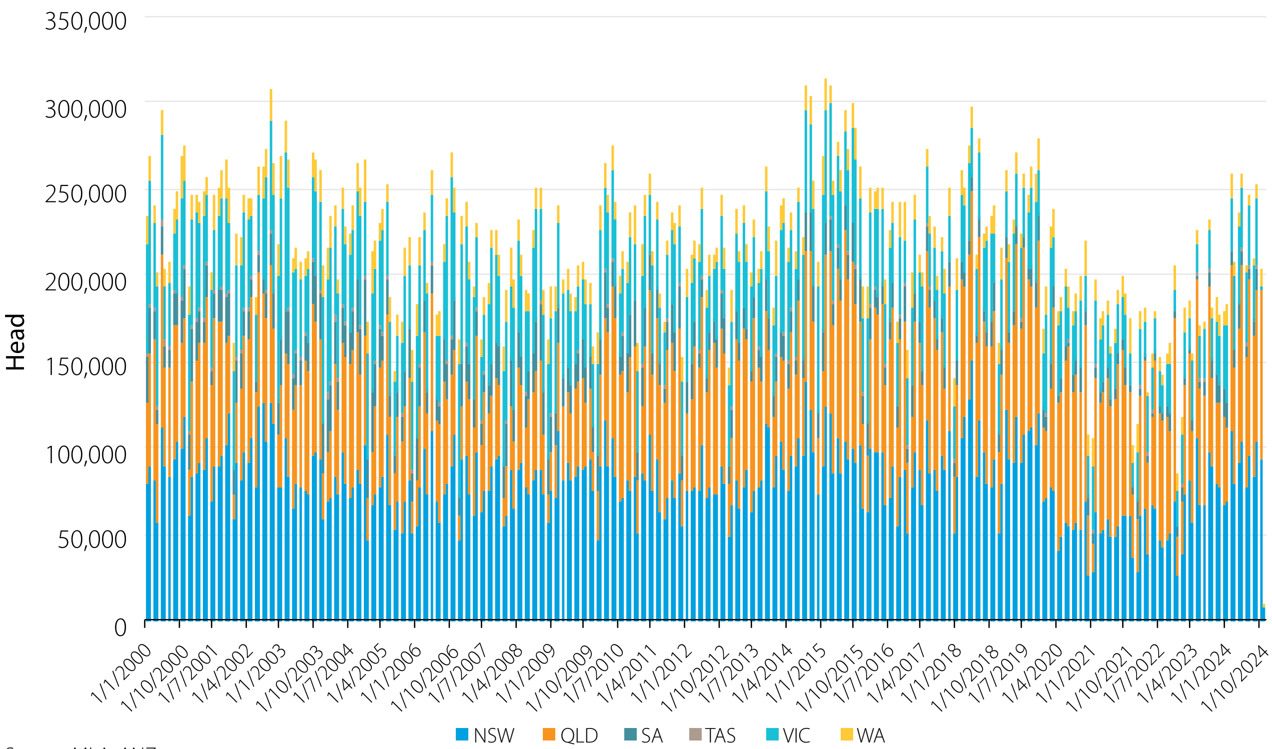
PRICE PREMIUMS BY CATEGORY



Source: ANZ, MLA

National cattle yardings have surged since the start of spring, with the first two months delivering an increase of over 44 percent on the first two months of spring in 2023. The surge in yardings stems not only from very high national herd numbers, but also concern over the ability to fatten stock particularly in the southern states. Similarly, slaughter numbers are staging a strong recovery, as saleyard yardings increase. Slaughter levels are returning to levels not seen since 2020, and significantly above the 5-year average.

YARDINGS BY STATE



Source: MLA, ANZ

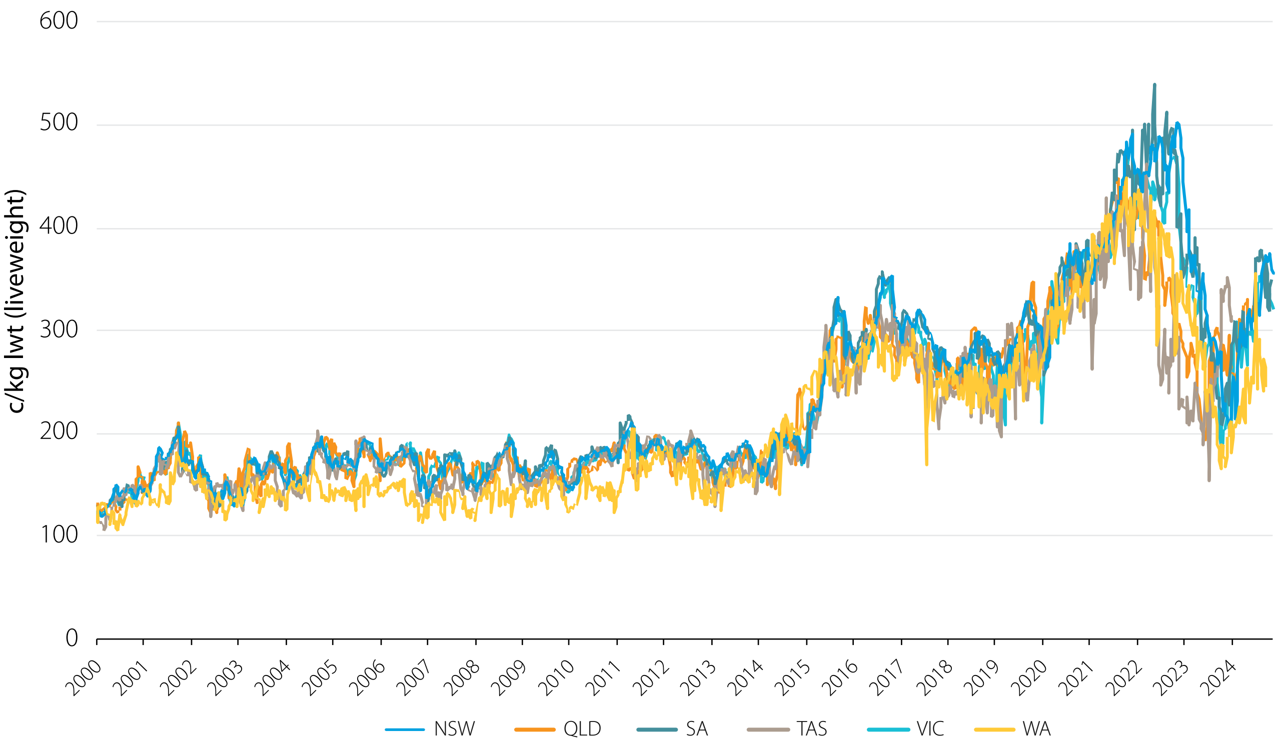
Heavy steer prices have held up despite the increase in supply, while the gap between restocker and heavy steer prices have maintained a relatively consistent price gap of around 20c/kg, as strong supply of heavy steers is starting to run up against processor capacity. The good season in New South Wales and Queensland has meant that there is a good supply of heavy steers ready for processing. As the season starts to swing south, and supply dries up out of the north, we would expect the poorer season in southern Australia to drive the price of heavy steers higher.

The gap between restocker steers and restocker heifers remains – indicating that production is focused on growing out and turning off, rather than growing herd numbers. What does that mean for sentiment within the industry? In a word, cautious. While the strong season in northern Australia has given rise to the strong and steady supply of heavy cattle, concerns over the season in the south as well as already high herd numbers means that there is no long-term building of herd numbers boosting the market in general – and there doesn't appear to significant herd building on the short-term horizon.

It has been reported that the high levels of yardings is pushing up against processor capacity, and without the impetus to fill capacity, processors are less keen to purchase in the saleyards. The growth of processing capacity in the southern states, combined with the return of some capacity in Dinmore early next year should help ease any blockages. Having said that, there are early signs that the large run of yardings is now starting to run out of steam as the winter grain harvest looms.

ALL OF THIS SHOULD SEE SOME FURTHER COMPETITIVE PRESSURE FOR GOOD QUALITY CATTLE IN THE SALEYARD TO ROUND OUT THE YEAR AND INTO EARLY NEXT YEAR.

HEAVY STEER SALEYARD PRICES BY STATE

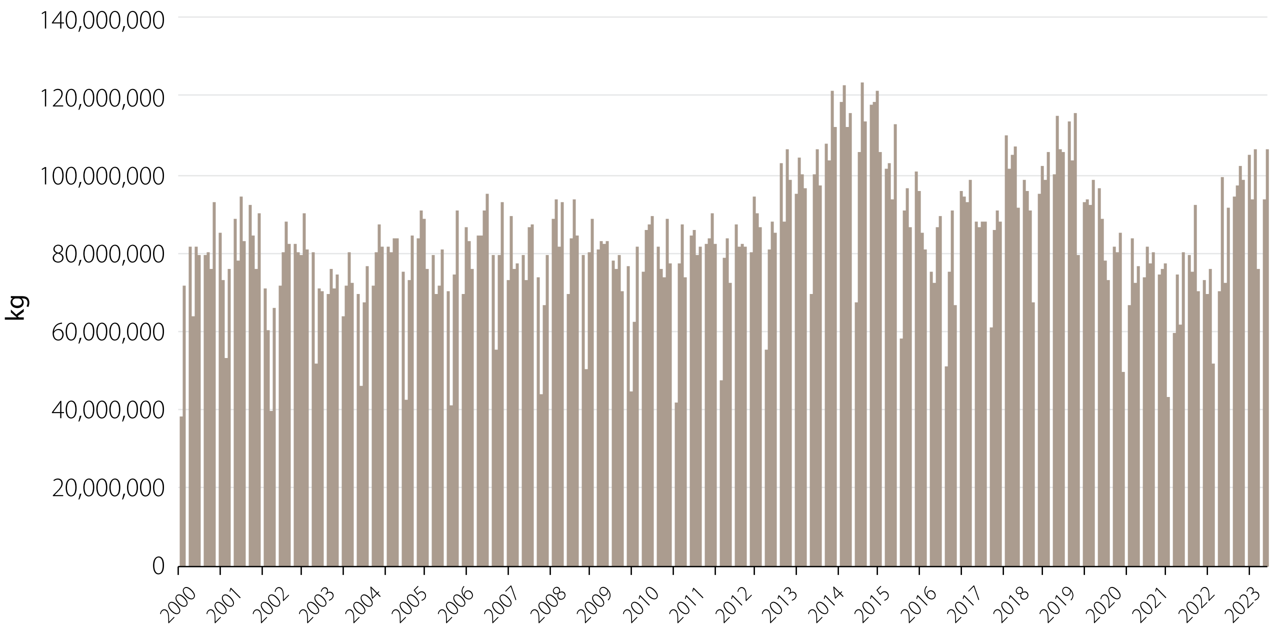


Source: ANZ, MLA

The export market continues to perform strongly – and remains on track to post the most successful export year in history. The most recent export data from October shows that year-on-year, total beef exports were up 24 percent – making it a record month for beef exports, slightly edging out the previous record high earlier in the year. In recent weeks, an out-of-cycle increase in US beef prices has also boosted Australian export prices, however despite the increased demand for heavy export quality cattle, the large supply of heavy cattle in the saleyards meant that processors didn't need to compete very hard to sure up supply to take advantage of the export price increase.

While the United States remains our biggest market, and has shown a huge jump in exports of 66 percent on the year to date compared to 2023, the real growth has come out of the United Kingdom where beef exports are up a huge 165 percent in that same time period. Exports to Canada are up 35 percent while exports to Japan are up 25 percent. While it seems on the face of it that exports to China have taken a hit and are sitting 10 percent below this same time last year, this has primarily come as a result of Australian exports meeting our tariff quota in mid-September, meaning all remaining exports for the year will be met with a higher tariff rate.

TOTAL AUSTRALIAN BEEF EXPORTS



Source: MLA, ANZ

WHILE THE STORY OF THE WOES OF THE UNITED STATES CATTLE INDUSTRY HAVE BEEN WELL TOLD, THE IMPACT OF THEIR PROLONGED HERD LIQUIDATION ON AUSTRALIAN BEEF EXPORTS IS NOW CLEARLY SHOWING UP IN THE FIGURES.

The US is now in its 5th consecutive year of herd liquidation with the Female Slaughter Rate still sitting over 50 percent – showing there is still some way to go before the national cattle herd even hits bottom. As a result, US cattle numbers continue to decline, production is already 8 percent below the recent peak of a few years ago, and the price of US beef on the global market has jumped over 16 percent for the 90CL price – substantially above the Australian export price, giving Australia a strong competitive advantage.

SHEEP INSIGHTS

OVERVIEW

- Lamb prices have grown strongly over the past year, based primarily on a variable season in the south leading to a shorter supply of heavy lambs;
- The premium for heavy lambs over light lambs has gone from a discount earlier in the year to now sit over 200c/kg premium for heavy lambs;
- Slaughter numbers are high, but very mixed between States – with slaughter highest in New South Wales and Queensland while numbers have dropped in the southern States;
- Export figures remain very strong, particularly to the United States and United Kingdom;
- Retail lamb prices have begun to climb again after being discounted heavily late in 2023, although retail prices still remain under their peak in 2023, making the lamb roast very competitive for the Christmas table.

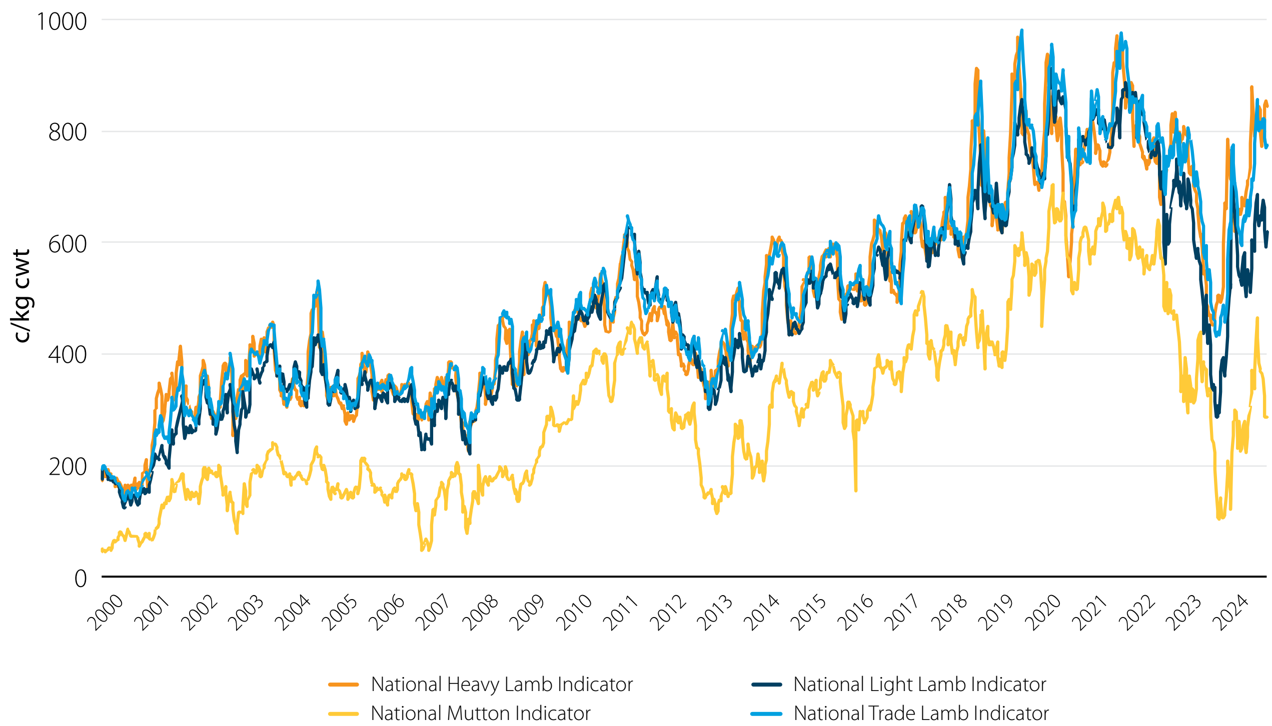
While the sheep industry has started spring with a boom, with prices pushing up strongly, particularly for heavy lambs, they have moderated slightly coming into summer. An influx of numbers into the saleyard and a mixed quality offering has put a dampener on prices. For many producers, the sheep (and cattle) industry is a 'weighting' game this year – as the premium for heavy or finished stock means producers are keen to put as much weight on the stock in the paddock as possible.

The start of spring saw a solid rise in the National Trade Lamb Indicator to push over 830c/kg. While the heat has slightly come out of the market in following weeks as it dipped under 800c/kg, prices are starkly higher than this time last year – by almost 340c/kg – putting a spring in the step of producers. Since late 2022, a persistent if volatile gap has emerged between lighter and heavy lambs, as dry conditions and concerns over feed availability in the major southern sheep producing areas has limited the number of heavy lambs on offer. While that premium for heavy lambs peaked earlier this year, it is has increased throughout spring to now sit at around 200c/kg premium for heavy lambs compared to light lambs.

By state, prices in Victoria and South Australia are the highest, again pushed up by poorer seasonal conditions, lack of pasture and a lack of finished lambs. The impact of the turmoil in the Western Australian sheep industry is also being felt with trade lambs in the saleyards in the west selling at as much as a 200c/kg discount to those in the east.

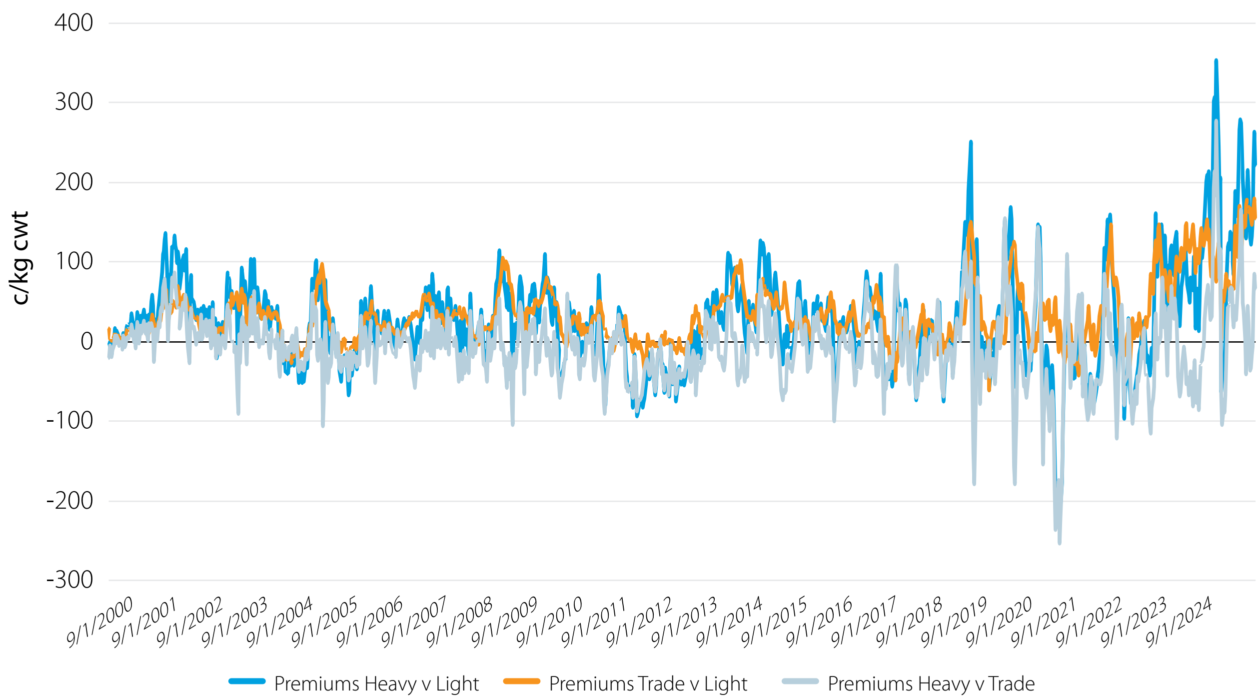
An increase in new season lambs coming into the saleyards has offset a decline in ewe numbers over recent weeks, contributing to total yardings remaining steady leading into Summer. Yardings for the third quarter were however up 16 percent on the same period last year. In October alone yardings were up 28 percent on October 2023. As a result, we may not see the spike in yardings which we saw in December 2023 – although much still depends on the weather and pasture growth. Demand for restocker and light lambs exists, but it is fairly limited to those areas with a strong season and good spring growth. As a result, restocker prices have shown some volatility week to week, but have seen solid growth since the beginning of the year.

SALEYARD PRICES BY CATEGORY



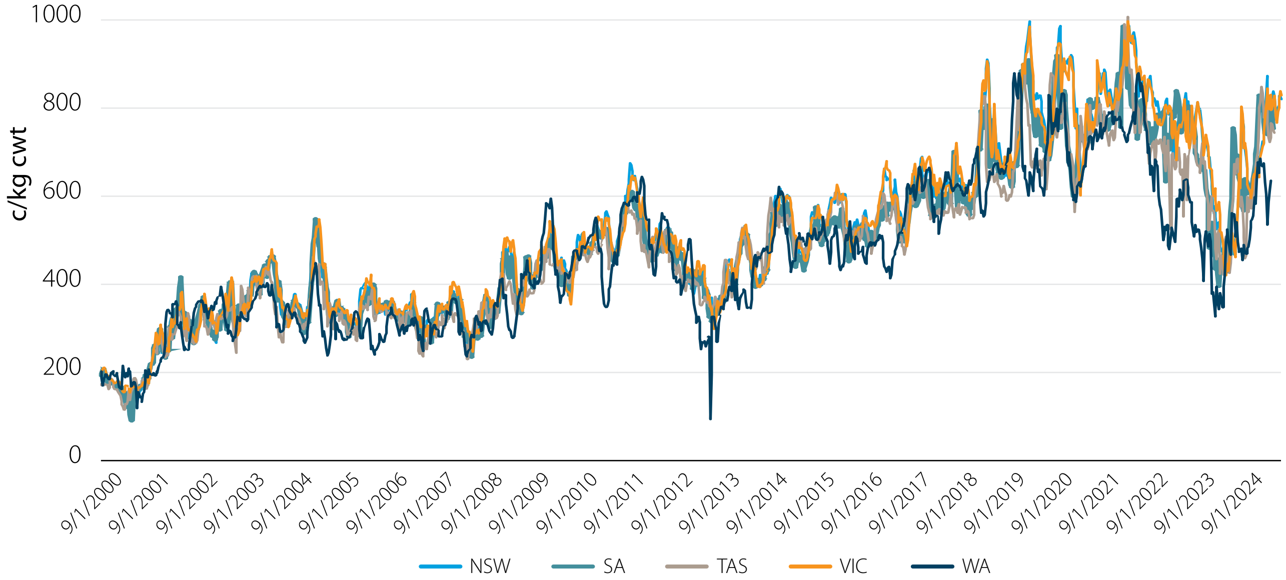
Source: ANZ, MLA

SALEYARD LAMB PRICE PREMIUMS



Source: ANZ, MLA

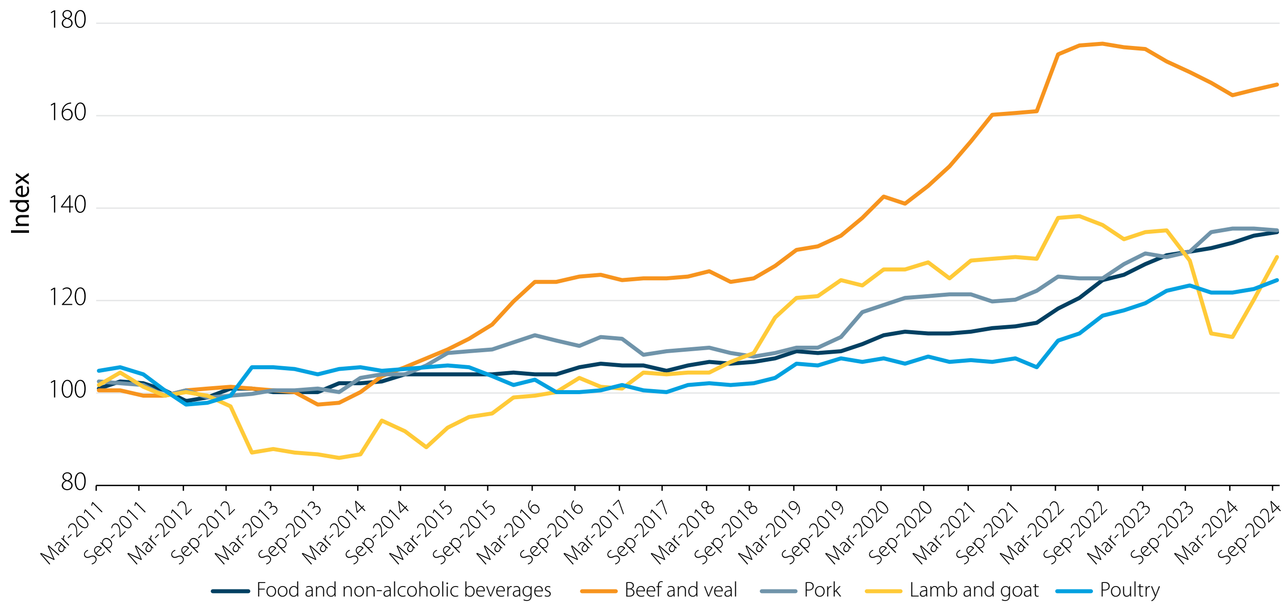
SALEYARD TRADE LAMB PRICES BY STATE



Source: ANZ, MLA

High slaughter rates have persisted across the year with year-to-date slaughter sitting 6.5 percent higher than the same time in 2023. This figure hides the very strong increase of over 20 percent in New South Wales, and of lesser impact, in Queensland which has more than offset the not unexpected decline of around 20 percent in slaughter rates in Western Australia and South Australia and over 4 percent in Victoria. Unsurprisingly, the issues around dry conditions in southern Australia which have persisted since 2023 have led to lower turnover in the southern states, while the strong season in New South Wales and Queensland have led to higher slaughter rates. Looking forward, it is anticipated that slaughter rates will start to decline slightly as supply from the north declines and southern, weather impacted supply becomes the primary source.

RETAIL MEAT PRICES



Source: ANZ, ABS

Solid saleyard prices for lamb have translated, quite quickly, into higher prices at a retail level. The second half of 2023 saw a very solid drop in lamb prices, which peaked in June 2022. From their peak, retail lamb prices fell over 19 percent to hit their recent low in March this year. Since then, lamb prices have risen almost 16 percent in the past six months to now sit just over 6 percent below their peak. In comparison, while beef prices have also dropped, it has been less precipitous and retail beef prices now sit 4.8 percent below their peak, and falling to just 6 percent below their peak in March 2024.

THIS MAKES LAMB PRICES VERY COMPETITIVE COMPARED TO BOTH PORK AND POULTRY SUCH THAT GROWTH IN LAMB PRICES IS ON PAR WITH POULTRY AND LESS THAN GROWTH IN PORK PRICES.

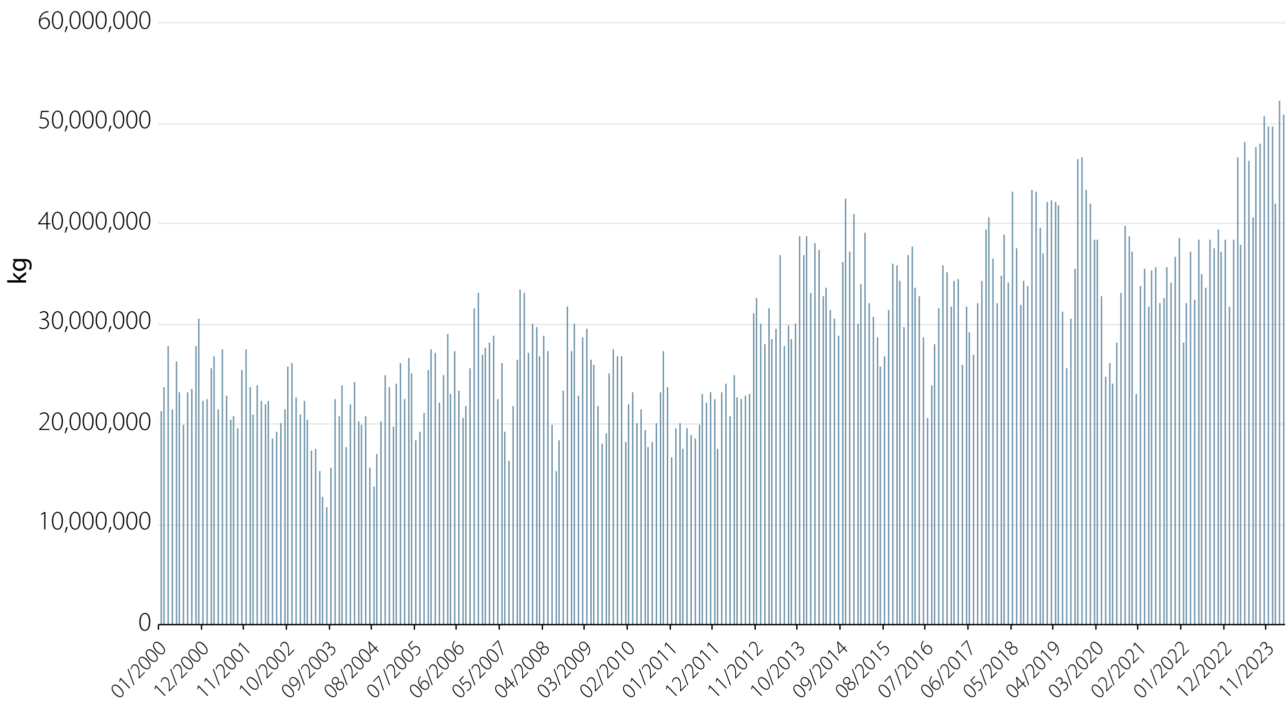
This increase in retail lamb prices should reduce some pressure on processor margins, which have been under some pressure as saleyard prices for lamb increased and processors have shifted to mutton processing to recover margin.

Growth in Australian export markets for lamb are still continuing to underpin much of that demand for heavy lambs, although the heat has come out of total exports in recent months. The latest figures from October saw lamb exports fall 13 percent from October 2023, as a result in a large decline in exports to China. Mutton exports rose 35 percent since October 2023 with exports to China rising 43 percent in that same time.

Despite the fall in month on month exports in October, the year to October recorded strong growth with total lamb exports up by 14 percent and mutton exports up by 19 percent. Lamb exports to China were down 23 percent for the year to October, and volumes were down 25 percent to South Korea. Exports to the United States grew 33 percent in that time to now be the largest destination for lamb exports, while exports to the United Kingdom grew 56 percent and exports to the Middle East were up 62 percent in the year to October.

In that same time, mutton exports to the Middle East almost doubled while exports to the United State grew 62 percent. While mutton exports to China fell 13 percent, China remains the largest export market for mutton.

LAMB AND MUTTON EXPORTS



Source: ANZ, MLA

WOOL INSIGHTS

OVERVIEW

- Wool prices remain subdued, down about 25 percent from their peak in mid-2022, with limited signs of short-term recovery as demand continues to struggle;
- Rising competition among exporters and wool processors ahead of the Christmas and New Year break could provide modest upward price pressure, particularly as pass-in rates fall;
- A recent mild strengthening of the Australian dollar has made wool more costly for international buyers, potentially limiting export demand;
- Global economic factors, including inflation and potential US-China trade tensions, may impact wool demand as luxury spending slows and trade shifts occur;
- Wool production remains stable despite declining sheep numbers, indicating a shift toward specialised wool breeds and reflecting ongoing confidence in premium wool markets.

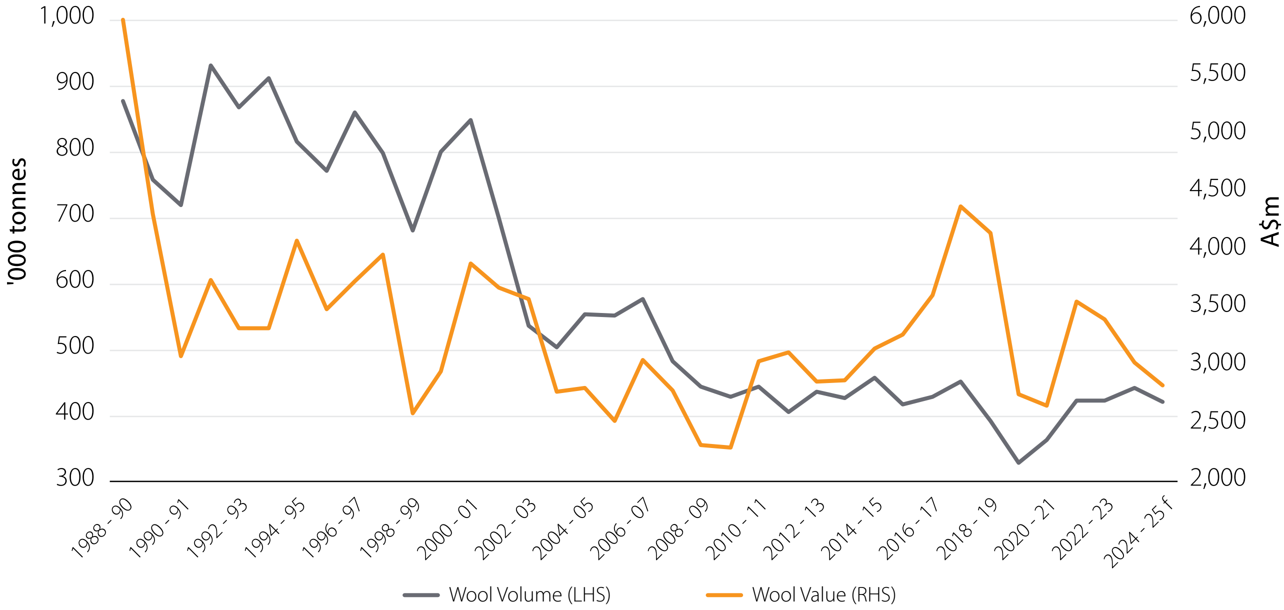
As the Australian wool auction houses approach their Christmas and New Year break, the ongoing downward price trend in wool prices has continued. While there have been some weekly fluctuations, wool prices in early November 2024 are down around 25 percent on their peak in mid-2022, and hovering around levels not seen since late 2020, as they recovered from their slump in that year.

That said, there is some cautious optimism that period leading up to Christmas, as well as when the auctions reopen in mid-January, could potentially see upward pressure on prices, through increased bidding competition from wool processors. With the supply of wool onto the market being managed, there have been reports that strong bidding by local export traders has squeezed first stage processors. As a result, processors have recently been unable to procure the volumes needed to comfortably maintain their mills, a factor which has been further illustrated by pass-in rates falling to below five percent.

The mild strengthening of the Australian dollar (AUD) in early November also slightly reduced wool buying activity, as it became more expensive for offshore buyers. If the AUD rises further, this could limit how high exporters are willing to push prices, although if currency volatility continues, it may lead to intermittent price spikes as traders try to buy during favourable currency movements.

Other factors likely to impact Australian wool prices going forward include both domestic and international economic conditions, as well as geopolitical changes. Persistent global inflation and high interest rates could reduce consumer spending on luxury items, such as wool-based clothing, especially in important markets like Europe and North America. In the wake of the US election result, a proposed tariff by US President-elect Donald Trump on Chinese goods into the US could reduce Chinese apparel exports to the US, potentially disrupting demand for Australian wool processed in China, and impacting the entire wool supply chain. Such a move could also see some clothing manufacturers consider moving their operations from China to other countries, such as Vietnam or India, to avoid the higher tariffs into the US market, a move which could alter wool buying patterns.

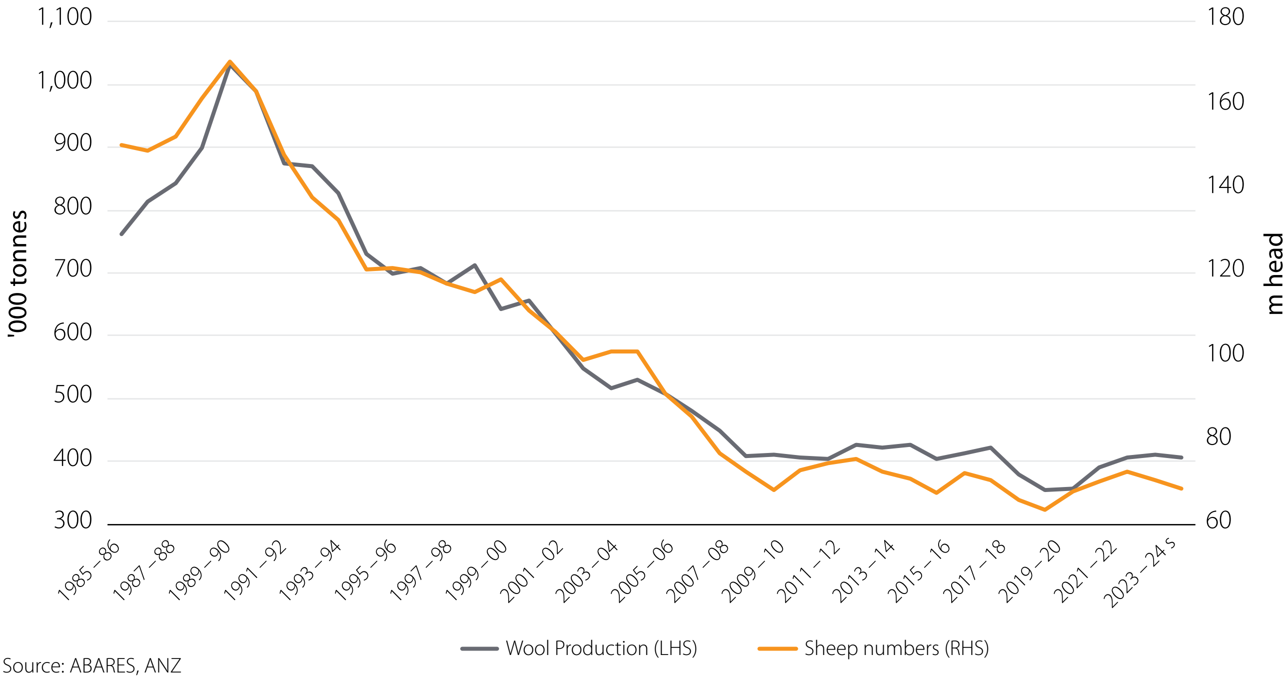
AUSTRALIAN WOOL EXPORT VOLUME VS VALUE 1988/89 - 2024/25F



Source: ABARES, ANZ

A longer-term view of Australian wool export volumes and values highlights the industry's sensitivity to global economic cycles and shifting demand trends. While export volumes have seen relatively steady trends since the early 2000s, export values have experienced marked price volatility. Notably, high-value periods like 2017–18 saw export values rise despite only modest increases in volume, suggesting strong international demand and high unit prices for quality wool. While export values are forecast to decline in 2024/25, largely in line with reduced volumes, any strong economic recovery later in 2025, particularly in Europe and Asia, could see export prices diverge again from volumes.

AUSTRALIAN SHEEP NUMBERS VS WOOL PRODUCTION 1985/86 - 2024/25F

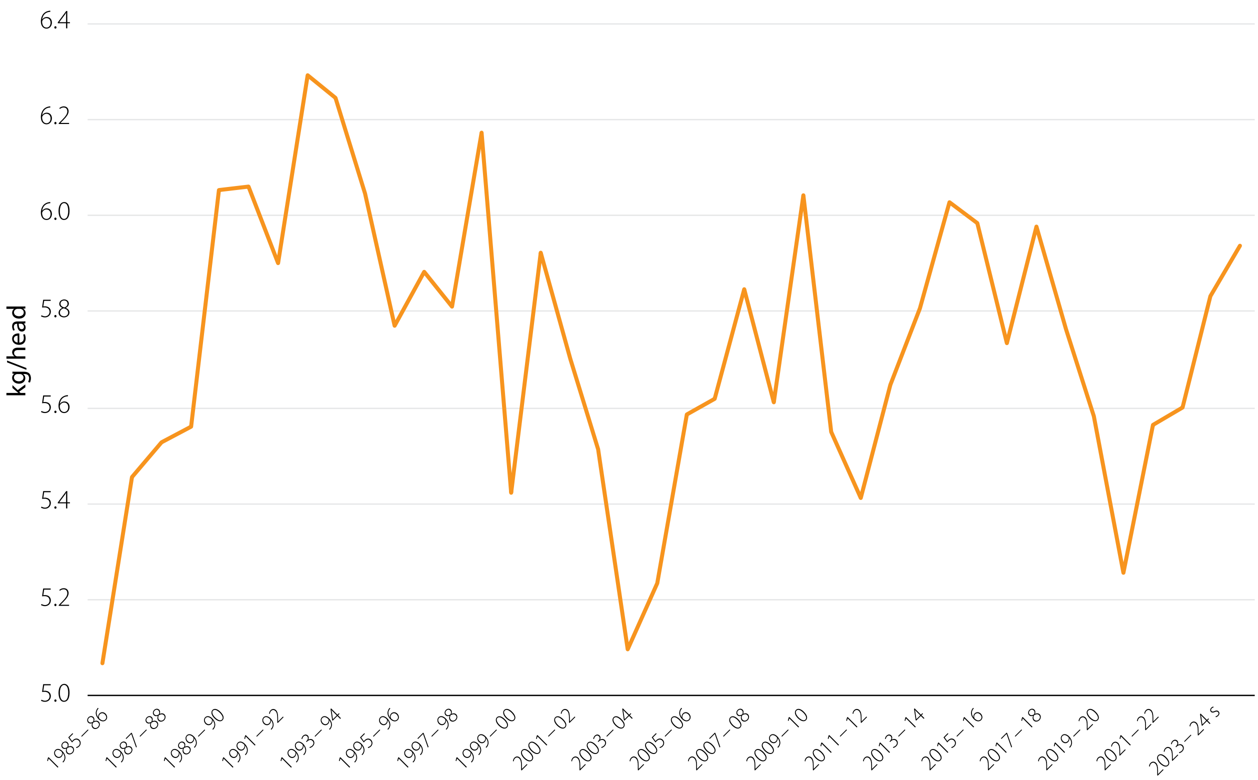


Source: ABARES, ANZ

According to latest ABARES reports, Australian sheep numbers in 2024/25 are forecast to decline faster than wool production. This trend may indicate a slight change by sheep producers back toward a higher proportion of wool-focused breeds within their flocks, suggesting resilience and renewed confidence in wool's market value.

This relative stability in wool production, even amid declining sheep numbers, suggests a strategic shift by many producers to maintain output while balancing meat and wool priorities. This emphasis on efficient wool production reflects the ongoing global appetite for high-quality, sustainable fibres. Moving forward, this approach could support Australia's position in premium wool markets, especially if demand for premium natural fibres (i.e. the finer wools) remains strong.

AVERAGE WOOL PRODUCTION PER AUSTRALIAN SHEEP 1985/86 - 2024/25F



Source: ABARES, ANZ

Interestingly, analysis of wool production per sheep in Australia highlights both ongoing volatility, as well as the absence of an upward trend. Admittedly, this data averages all Australian sheep, balancing both meat and wool breeds. Clearly, average wool production generally aligns with weather patterns, dropping during drought years like 2002–03 and 2019–20 due to poor pasture and sheep conditions, while peaks in years such as 1989–90 and 1998–99 follow favourable weather. Looking ahead, these fluctuations will also continue to be influenced by breeding, management, and the proportion of wool versus meat sheep in the national flock.

WHILE AUSTRALIAN WOOL HAS OPPORTUNITIES IN NICHE AND SUSTAINABLE MARKETS, GLOBAL ECONOMIC PRESSURES, CURRENCY VOLATILITY, AND GEOPOLITICAL TENSIONS WILL REMAIN CRITICAL FACTORS AFFECTING PRICE DYNAMICS IN THE COMING YEARS.

DAIRY INSIGHTS

OVERVIEW

- The gross value of annual milk production is expected to fall by around 10 percent in 2024/25 driven by lower farm gate prices and lower production levels;
- For the first time in over 10 years, the Australian dairy industry has seen supermarkets lower the retail price of milk;
- There is some thought across the industry that we may see price step ups later in the season if the improving sentiment around global markets flows through;
- Smaller herd numbers will outweigh any increase in average yields for the coming season.

The gross value of annual milk production is expected to fall by around 10 percent in 2024/25 driven by lower farm gate prices and lower production levels.

Declining competition between processors to secure supply brought about a decrease in opening milk prices this season. The 2023/24 season saw larger than forecast milk production and when coupled with the decline in the number of onshore milk processing facilities, capacity to process milk has declined meaning processors are not as competitive on pricing for this season.

For the first time in over 10 years, the Australian dairy industry has seen supermarkets lower the retail price of milk. While the drop is small ($1.60 to $1.55 per litre), there are concerns in across the industry over what this will lead to with the $1/L price wars still lingering in a lot of producers' memories.

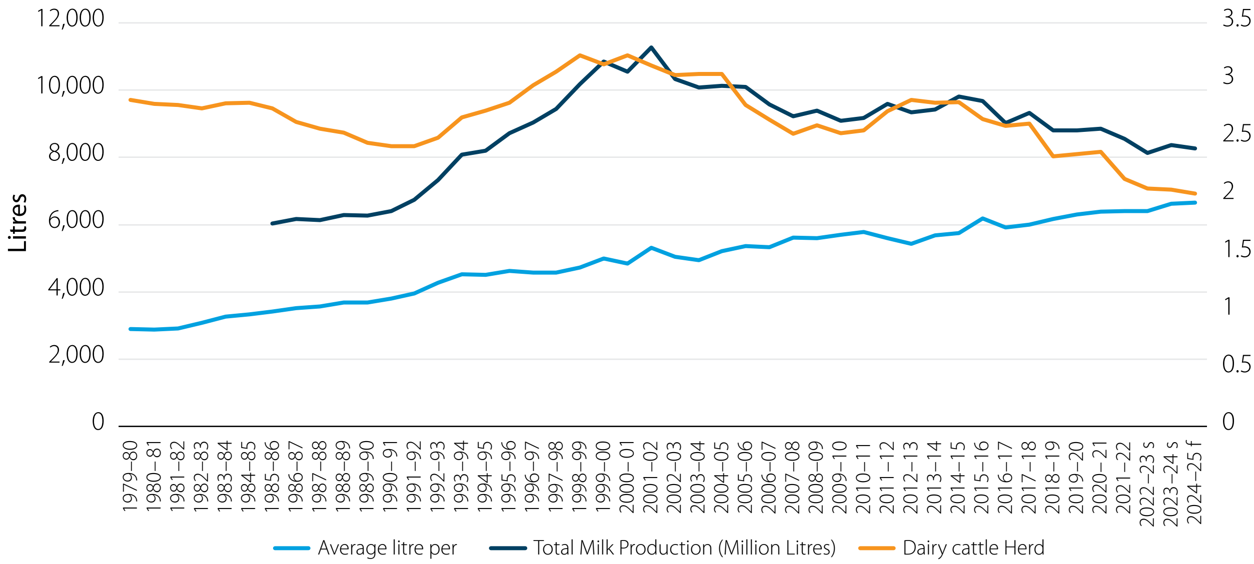
As noted, opening farm gate milk prices fell slightly this season with prices on average around 11 percent lower than in 2023/24. Whilst Global Dairy Trade (GTD) auction results have been trending up before an expected plateauing into 2025, this turn around in global pricing sentiment has led to some talk of price step ups later in the season.

In terms of local production, it is forecast that smaller herd numbers will outweigh any increase in average yields for the coming season, reducing milk production by a forecast 1percent to 8.3 billion litres in 2024/25.

The Australian dairy herd is forecast to fall by 1.6 percent as we continue into the 2024/25 season. Higher land values and competing, more stable commodities such as mixed farming and broadacre cropping have continued to decrease the number of dairy farms and with it the number of dairy cattle. There may be some upside to the Australian dairy herd with China's reducing need for live dairy breeders as their herd's production capacity reaches maturitys. This reduction in live dairy breeder exports may slightly offset the reducing numbers of dairy cattle in Australia.

Improved seasonal conditions across most of the dairying country in Australia is forecast to generate a slight increase in average milk yields of 0.3 percent this season. While a positive for the industry, this is not enough of an increase in yields to combat declining herd numbers and increase overall milk production. South Australian seasonal conditions may impact on hay quality where frosts and dry conditions hit which may in turn increase price as supplies dry up through summer and into the autumn months.

AUSTRALIAN MILK PRODUCTION VS DAIRY HERD



Source: ABARES, ANZ

Whilst falling Australian herd numbers will outweigh any increase in average yields, the same can't be said globally. New Zealand expect to see an increase in their production as higher yields are more than offsetting falling herd numbers and the United States will see an increase in both herd numbers and yields due to declining dairy cow slaughter numbers and increased feed availability driving up productivity.

The largest influencer on the global dairy market, being the EU, is forecasting a very slight decline in milk production, down to 149.4 million metric tonnes from a previous 149.8 million metric tonnes. With the same issues as most other producers (declining herd numbers, impacts on profitability and regulatory issues), the EU will look to pour the majority of their milk production into cheese products with this remaining their primary output and focus for exports. Off the back of this, the Global Cheddar Trade price has been steadily climbing throughout 2024, up 16.3 percent year on year.

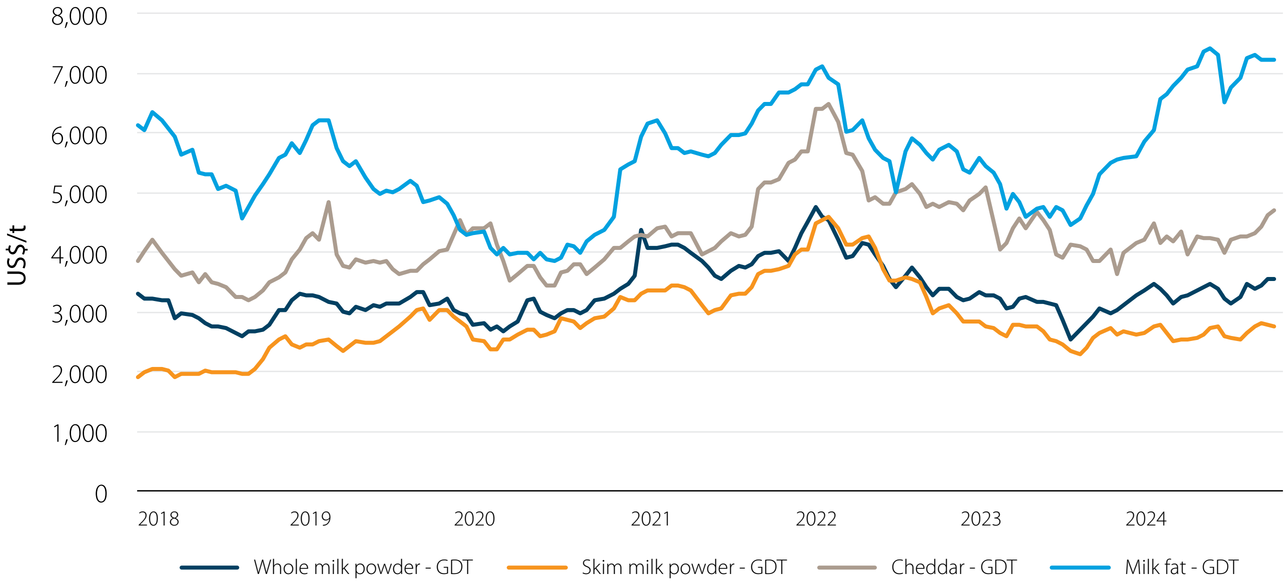
Australian dairy exports are forecast to fall by 7 percent in 2024/25 (reducing from $3.4 billion in 2023/24 to $3.1 billion in 2024/25). Despite increases in global prices, most dairy products are seeing reductions in export volumes due to declining milk pool and increased share of volume going to domestic market.

Global export prices are forecast to rise in 2024/25 with Skim Milk Powder tipped to see the biggest increase of 9 percent due to production constraints in early 2024/25 with pressures easing towards the back end of the year.

On the demand side, improving consumption in China through 2024/25 is forecast to see a reduction in global stocks, driving prices upwards. China will see production slow into this season as consumption rises. This brings China back into the global market for dairy products following a lack of imports over the past few years when domestic production provided sufficient supply to meet consumption needs. If the forecasts are correct, this would see global milk prices rise, especially for whole milk powder and skim milk powder.

This is a positive outlook for skim milk powder following the spike in global butter prices pushing a glut of skim milk powder into the market reducing the skim milk powder price. While not showing recovery yet, stronger demand for the commodity is a positive for the industry.

GLOBAL DAIRY TRADE PRICES



Source: ABARES, ANZ

For Australian dairy exports, the premium attracted in the global market has now all but disappeared with Australian dairy products aligning with world prices for 2024/25. This would mean an improvement in the competitiveness of our products on the global market in time to meet the increasing demand out of China. While lower farm gate prices aren't ideal, they do help lift the attractiveness of Australian milk products on the global stage and allow an increase in demand for Australian products at a time when global supplies are starting to diminish, and large markets such as China are opening back up at a time major players may not have the capacity to meet demand.

COTTON INSIGHTS

OVERVIEW

- Australian cotton are stable with production forecast at between 4.5 and 5 million bales for the 2024/2025 season;
- Global production is also stable with increases in Brazil and the US offsetting declines in India and Pakistan;
- Consumption of cotton globally has lacked growth in recent years and is increasingly making up a smaller share of total fibre consumption than synthetic or manmade fibres;
- Global pricing has traded within a very narrow band over the 6 months leading into the Australian summer;
- Contracts at around AUD$600 per bale have been achievable at the start of this season, with no strong signals for any significant upside at this point.

The 2024/2025 cotton season is well underway with well-established crops progressing in the north and later sown crops now planted and actively growing to the south. Crop forecasts for Australian cotton this season range from 400,000 hectares (Cotton Australia) to 450,000 hectares (ABARES), producing a little over 1 million tonnes of cotton, or between 4.5 and 4.75 million bales. The USDA is slightly more optimistic, forecasting Australian production at 5 million bales. Any of these forecasts would see production slightly decrease in volume from what was produced in 2023/2024, and follows a trend toward lower cotton plantings over recent years since the peak in 2021/2022 of over 600,000 hectares. Since that time, an uptick in alternative summer crops, particularly grain sorghum in the northern growing regions, has been notable.

Across the major growing regions, conditions at the time of planting varied, from good soil moisture profiles, through to some drier conditions seeing the need for significant pre watering. A forecast for a hot summer, combined with full water allocations, represents good growing conditions for the season in general terms.

Globally, the most recent USDA cotton production forecast is for a 25 million tonne crop, or 116 million bales, up 3 percent on last season, driven largely by increased production in Brazil (up 15 percent), the United States (up 18 percent) and Turkey (up 25 percent). Production in India is tipped to fall by 6 percent to around 24 million bales, and Pakistan down 21 percent to 5.5 million bales. Global cotton production has seen little change over the past 5 years, ranging from 113 to 116 million bales.

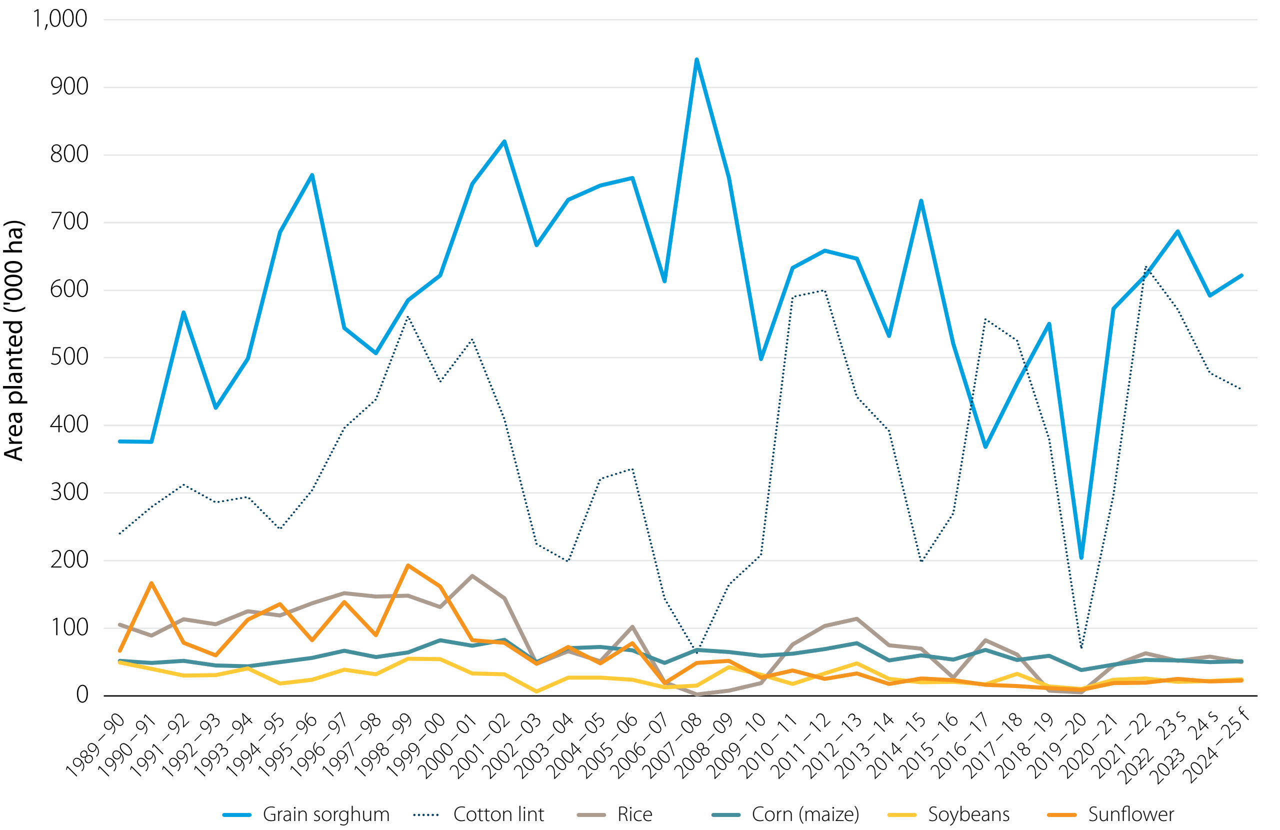
Consumption of cotton globally is forecast to grow slightly, however it is important to note that it continues to fall behind production. Consumption is forecast at 115 million bales in 2024/25, with increases in consumption expected in Indonesia (up 11 percent), Turkey (up 8 percent) and Vietnam (up 5 percent). A lack of growth in consumption in the biggest global markets of China and India, who combined consume over 55 percent of global production, is a driving force behind the global consumption trends. Also notable is cotton's shrinking share of global fibre consumption (of all types) as synthetic or man-made fibres increase their share of the market. The ability for man-made fibres to compete extremely well on price with natural fibres has won over many consumers during the recent tighter economic conditions experienced around the globe.

Trade of cotton is forecast at around 9 million tonnes, or 42 million bales for this season, down around 4 percent globally. Lower production in India should see greater imports flow to that nation, with an expected 2.3 million bales required compared to just 800,000 last season. Growth is also expected to Turkey and Pakistan (up 21 and 25 percent respectively). China is expected to import around 9 million bales, well back on 15 million bales imported last season. Ending stocks globally are stable on the whole, with slight decreases seen in both China and India from last year.

For prices, this relative global production and consumption stability equates to relative stability in prices, as has been experienced over recent months. The Cotlook 'A' Indicator has traded within a very narrow band over the past six months, fluctuating between 79-83 cents/bushel since June 2024. Locally, this translates to current cash pricing of around $570-$580 per bale, for what is left of last season's crop.

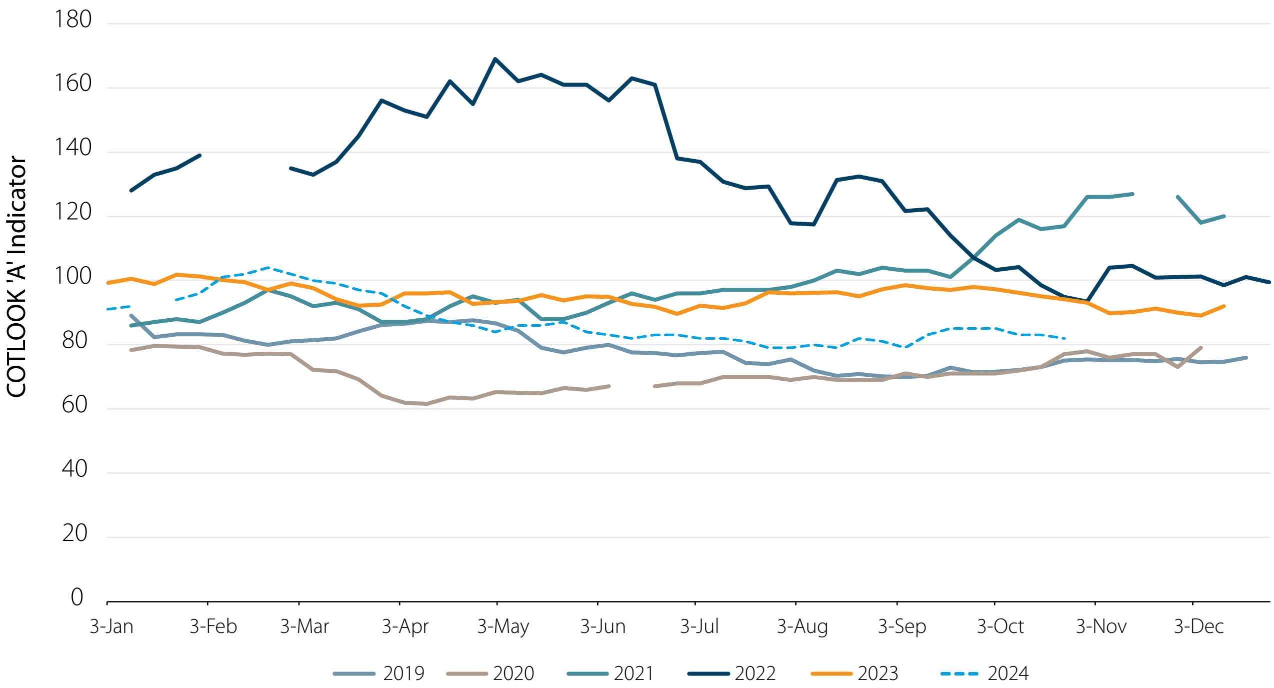
Looking forward, for the 2024/2025 crop, futures contracts at around $600 per bale were achievable at the end of spring, made possible by a slightly positive trend in futures markets out to July 2025, combined with a favourable Australian dollar in the mid 60 cent mark, and moderate basis of around 500 points on (5USc/bushel). Growers will be hoping for further upside in prices as crop growth progresses, however with consumption stable and unlikely to see any significant rise in the short term, it would appear that it would take a drop in supply from a major producer, combined with continuing favourable exchange rates, to spike any significant pricing benefit for Australian growers.

AUSTRALIAN SUMMER CROPS BY AREA PLANTED



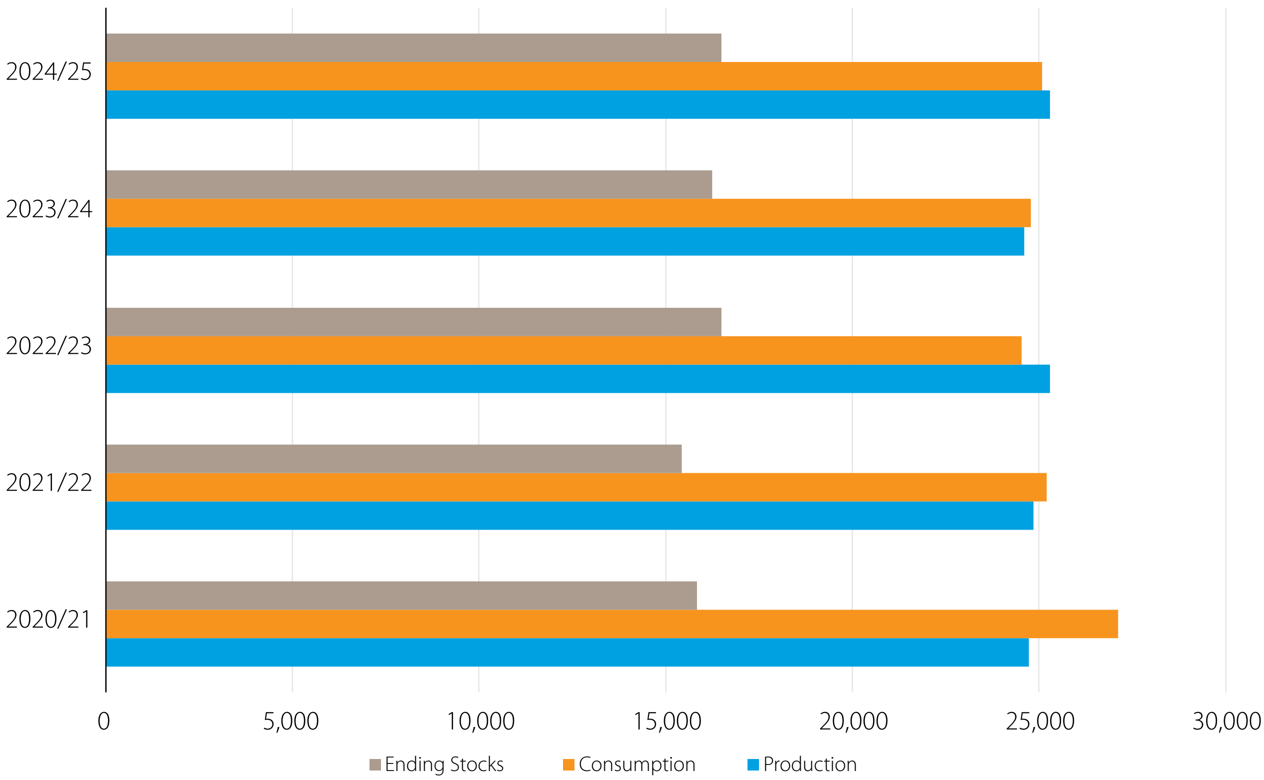
Sources: ABARES, ANZ

COTLOOK 'A' INDICATOR PRICES



Sources: ABARES, ANZ

GLOBAL COTTON PRODUCTION, CONSUMPTION AND ENDING STOCKS (1000 METRIC TONNES)



Sources: USDA, ANZ

SUGAR INSIGHTS

OVERVIEW

- Global sugar prices have been up and down throughout the year as seasonal conditions in Brazil fluctuate;
- Historically, the global sugar price is still sitting at strong levels, 8 percent above the 3-year average;
- Bushfires, drought and heatwaves throughout Brazil's major sugar producing area has led to downgrades in forecasts for the global harvest, although recent rain has seen forecasts rebound recently;
- The Indian Government's moves to direct domestic mills to produce ethanol for biofuel is likely to extend the export ban further again still.

Global sugar prices have surged in late September off the back of concerns over global production, before flattening out in October and early November. While sugar prices haven't returned to the same heights as 2023, the price remains very strong and around 8 percent above the 3-year average. Driving the marked fluctuations in the second half of 2024 have been concerns over drought and bushfire impacting production in Brazil, which moderated somewhat with recent rainfall.

The USDA has forecast solid growth in sugar harvest for 2024/25, with growth of 1.4 percent to an historic high of 186.024 million tonnes (MMT), while global consumption is forecast to increase by only 0.8 percent as a result of subdued economic growth. This notionally would result in a larger sugar surplus in 2024/25 that the previous year. However the USDA has also forecast a fall in global sugar ending stocks of 4.7 percent to a 13-year low of 38.339 MMT. Much of this decline in global sugar stocks comes as a result of trade and other government policies in major sugar producing regions – namely the large reduction in ending stocks in Thailand which is forecast to more than offset the rise in India.

The reduction in stocks in Thailand comes as a result of a forecast of strong export demand to replace India's removal of exports from the global market.

This USDA forecast, along with other forecasts of a global sugar surplus have pushed the global sugar price lower for much of 2024. However more recent forecasts of either a declining surplus, or even a global sugar deficit which is being forecast by the International Sugar Organisation has led sugar prices to jump strongly in Q3.

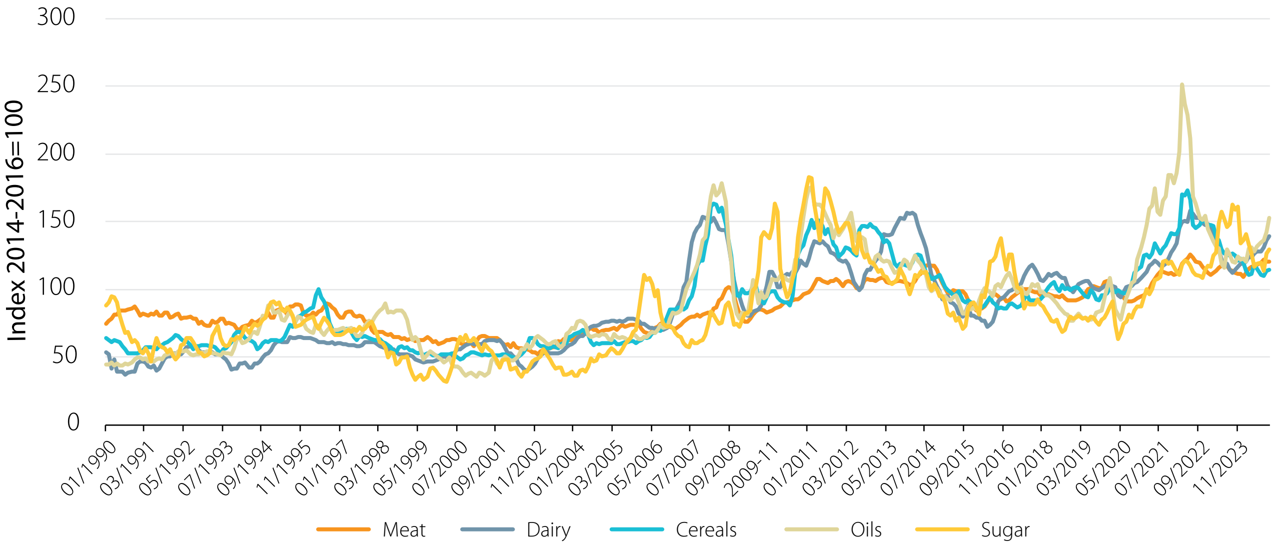
Drought, fire and heatwaves in Brazil have been a major driving in pushing prices higher as forecasts particularly out of Sao Paulo continue to be downgraded. Forecasters have estimated a reduction in Brazilian production ranging from 0.7 to 5 MMT as a result of season. Adding further confusion to the outlook, good rain across Sao Paulo in early November has resulted in some hope that the Brazilian harvest may not be as badly damaged as first thought.

Also supporting prices has been the continued export ban by the Indian Government, and the additional action to support ethanol production. India's Food Ministry has lifted restrictions on sugar mills producing ethanol for the 2024/25 year that starts November, after ordering the cessation of sugarcane for ethanol in order to boost domestic sugar reserves. This move has been read as an indication that the Indian Government will not lift export restrictions in the near future, despite a forecast bumper production season on the back of a good monsoon season.

Recently, Thailand's Office of the Cane and Sugar Board forecast an 18 percent increase in production to 10.35 MMT. Thailand produced 8.8 MMT of sugar in the 2023/24 season which was a very badly seasonally impacted season for one of the world's largest exporters of sugar, and while this season is forecast to be an improvement on the last, it has not yet forecast a return to the highs of previous years as Thai farmers remain wary about sugar harvesting.

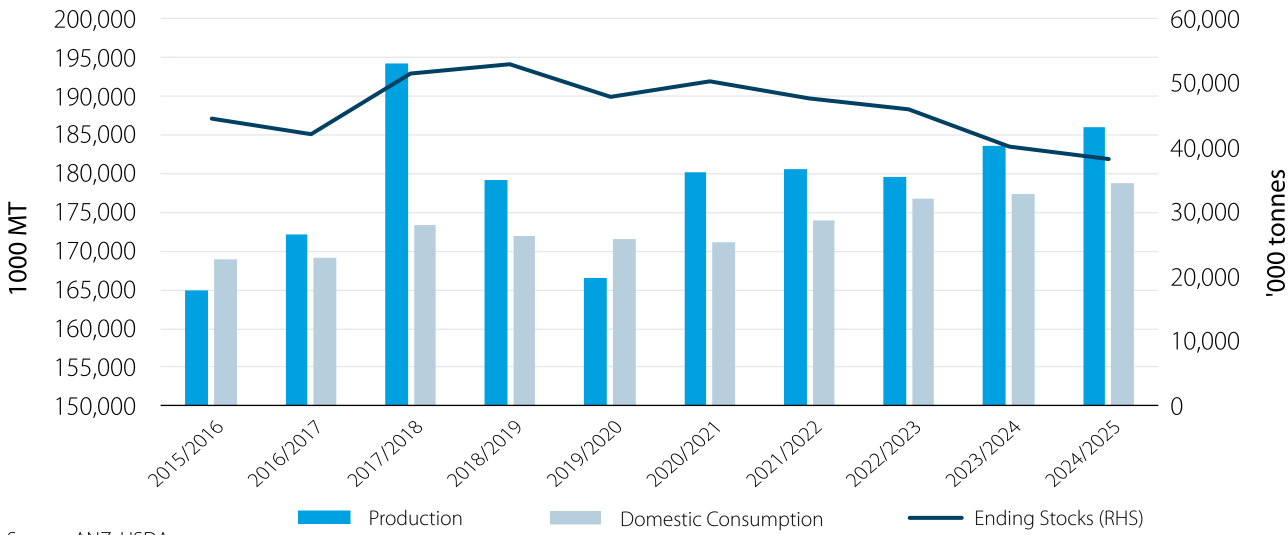
The Australian sugar harvest, which had seem some delays due to industrial action and heavy rains. Mid-September saw an agreement met between Wilmar and its employees, as well as an earlier agreement at Tully Sugar which saw a cessation in industrial activity and delays at the mills. This has seen the domestic season significantly behind pace – with latest figures from early-November showing 74 percent of the crush had been completed compared with 84 percent in 2023.

UNITED NATIONS FOOD AND AGRICULTURAL ORGANISATION (FAO) FOOD PRICE INDEX



Source: FAO

GLOBAL SUGAR PRODUCTION, CONSUMPTION AND ENDING STOCKS



Source: ANZ, USDA

AUSTRALIAN ECONOMIC INSIGHTS

While most major central banks have started cutting rates, ANZ Research does not expect the RBA to begin cutting the cash rate until February 2025. We expect just 75bp of rate cuts from the RBA, taking the cash rate to 3.6% by the end of 2025.

RBA TO START CUTTING RATES IN FEBRUARY 2025

The global easing cycle is underway, but Australia is lagging

The global tide has shifted with most central banks now cutting rates. Australia isn't expected to join the trend until February 2025, and ANZ Research thinks there is a risk rate cuts could commence later if inflation doesn't fall quickly enough and the labour market continues to show resilience.

While headline inflation fell back within the RBA's 2-3% target band in Q3 2024, the fall was driven by a sharp decline in electricity prices due to federal and state government rebates. When these policies conclude, we expect headline inflation will rise back above the band in H2 2025. But the RBA's focus is on trimmed mean inflation, a measure of underlying inflation. ANZ Research expects six-month annualised trimmed mean inflation (ie the underlying inflation pulse) to fall to the top of the RBA's target band in Q4 2024, setting the scene for the RBA to start easing rates next year.

ANZ Research expects a shallow easing cycle, with just three 25bp rate cuts, taking the cash rate to 3.6% by the end of 2025. ANZ Research estimates this is roughly the 'neutral rate' that neither stimulates the economy nor causes it to contract.

Past the worst for households and businesses

The private sector has clearly felt the impact of restrictive rates, but there are signs things should improve for households and businesses. Tax cuts, cost of living relief and moderating inflation are boosting business and consumer confidence. Retail volumes also recorded their strongest result since early 2022 in Q3 2024. We expect a modest improvement in spending growth from here.

Meanwhile, federal and state governments have been supporting growth in the Australian economy. In the Q2 2024 national accounts data, public demand (government spending + investment) added to GDP, while private demand (household spending + dwelling investment + business investment) subtracted from GDP.

This is not a new story. Over the last decade, growth in public demand has generally outpaced private demand. But the implications are different in a post-pandemic world where capacity is constrained, and aggregate demand still outpaces supply. The ongoing strength in public demand growth is one reason we don't expect many rate cuts in Australia.

The labour market remains resilient

Australia's labour market remains relatively tight. The unemployment rate is low at 4.1% (albeit up from the low of 3.5% in 2022), participation is at a record high, and employment growth has been very strong, averaging 45k over the past six months. Much of this strength has been driven by the care sector, with the 'carers and aides' occupation group seeing the largest increase in employment over the year to August.

Forward indicators like ANZ-Indeed Australian Job Ads have stabilised, suggesting only a modest easing in the labour market from here. ANZ Research expect the unemployment rate to peak at 4.4% in 2025, which is historically very low.

What can we expect from a Trump Presidency?

There's been much discussion about the implications of Trump 2.0. Trump's campaign promises have focused on immigration, tax cuts and tariffs. Our base scenario is that the new administration will lift the average tariff on Chinese goods in 2025 to 22% from 13%, rather than 60%. For Australia, our commodity exports tend to be easily diverted so the greater risk for the local economy would be a broader trade war that disrupts supply chains and trading patterns in a way that makes imports to Australia more expensive. This type of disruption would also likely impact global growth, lowering the price of Australia's exports.

Trump's proposed policies should support a stronger US Dollar. A lot of this is already priced in, and given the seasonal boost the AUD tends to benefit from in December, we expect the AUD/USD to end 2024 at 0.69.

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