



# GRAINS AND OILSEEDS

AUSTRALIA 2021

# A CHANGING LANDSCAPE

- Australia's cropping sector, as well as the cattle and sheep sectors, may well have reached their "peak" level of acreage and stock numbers
- Despite a flat acreage outlook, Australia's crop production levels looks likely to rise strongly, even accounting for droughts
- The share of wheat in overall cropping output has fallen markedly, and may have reached its long term level, compared to other crops

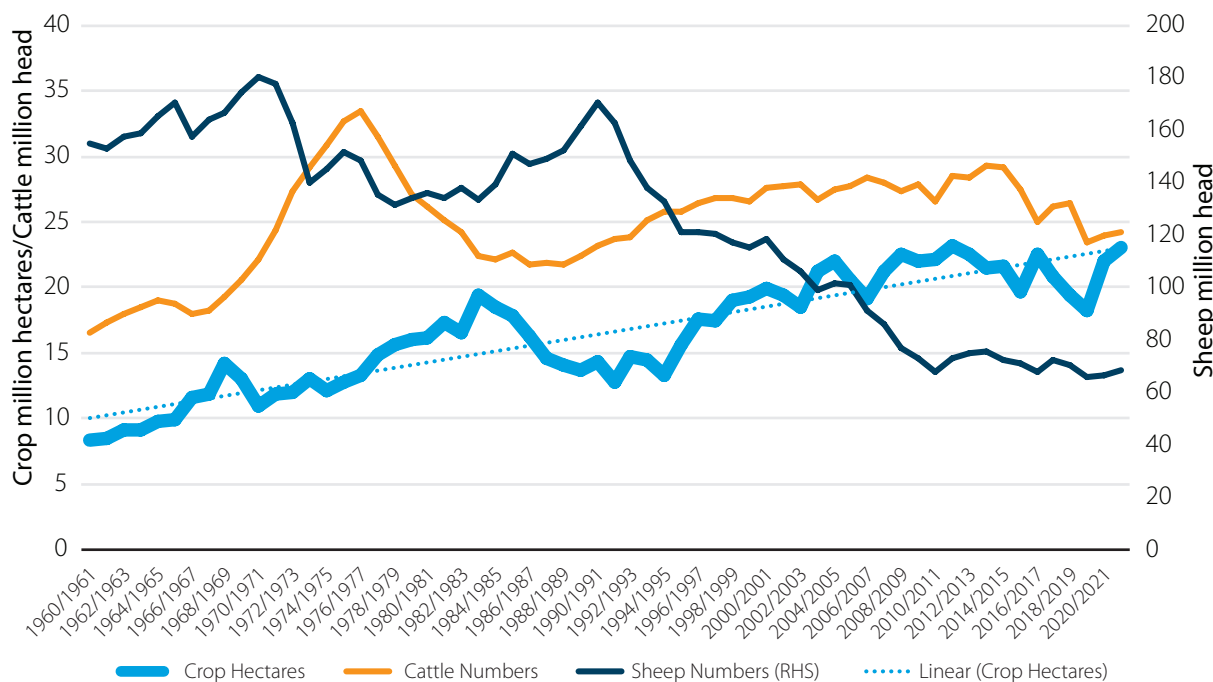
For an industry accustomed to volatility, Australia's grain sector is having two of its best years ever. While the main harvest is still a month or two away in most cropping regions, based on current forecasts the prospect of two excellent years in a row will continue to be great encouragement to growers after three tough seasons from 2017 to 2019.

Many in the industry will be looking to the coming months as beneficial, but not without its challenges. The forecast volume of grains and oilseeds to be harvested will require a major concentration of both machinery and labour, and the uncertainty over the degree of Covid-related restrictions over the harvest period will mean that grain growers, as well as receival sites will need to strategize well ahead.

Yet while the industry looks ahead over the coming months, the outlook for the Australian grain landscape further out over the coming decade is also a very interesting one. One issue which industry stakeholders need to contemplate is whether the industry has reached a point of "peak acreage", and whether Australia's current cropping area is unlikely to rise much further in future.

In doing so, it's important to separate the discussions of "peak acreage" from "peak grain production", given the relatively different growth patterns of each one.

## AUSTRALIAN CROP AREA VS CATTLE AND SHEEP NUMBERS



Source: MLA, USDA, ANZ

### CROPS VS CATTLE VS SHEEP

To some degree, the growth rates of Australia's three largest agri sectors – cropping, cattle and sheep - impact each other. The crossover between cattle and cropping is perhaps the least of the three, given that much of the cattle country in the north is not well suited to cropping. For the wetter southern cattle country, producers are more likely to maintain pasture, rather than cropping it, to ensure its heavier carrying capacity.

The two sectors with the greater impact on each other are cropping and sheep, given that they are far more likely to be produced on the same type of country. Looking back over the last 60 years, the level of cropping acreage versus sheep numbers usually move in opposite directions to each other.

From the late 1960s until the early 1980s, Australia's crop acreage roughly doubled, from around ten million hectares to just under 20 million hectares. Over the same period, sheep numbers slid by around 30 percent from 180 million to 130 million. Interestingly, over the next decade until 1990, the trend was reversed, as crop acreage fell while sheep numbers climbed almost to their previous peak. The next 20 years saw the cycle turn again, as cropping acreage doubled to around 24 million hectares, while sheep numbers plummeted by around 60 percent.

Arguably, over the past decade, Australia's cropping acreage has plateaued to a degree not seen before. While there was certainly some volatility caused by the droughts during that period, cropping acreage would appear to have peaked in a band between 20 to 23 million hectares.

Over the same period, Australia's sheep numbers have also seen their steadiest period, sitting within a narrow band of 68 to 75 million head.

Looking ahead, particularly over the coming decade, the trends of the past decade would suggest that Australia's main agri sectors are now at a level at which they are likely to stay for the medium and possibly long term. Sheep numbers are likely to rise marginally, largely on the rising global demand for sheep meat. Cattle numbers will also rise slowly, with strong demand likely to dampen the herd growth rate.

Importantly, this would suggest that Australia has reached a peak level of cropping acreage, which is likely to sit in the 20 to 25 million hectare band for some time.

Looking ahead, while cropping will continue to compete with sheep for acreage, it remains to be seen what impact other factors may have, including the growth of nut and horticultural operations, as well as the growth of carbon and environmental farming.

The impact of peak grain acreage would have a number of flow on effects for the industry. Unsurprisingly, assuming global grain demand maintains its strong levels, this will maintain upward pressure on land prices, particularly with the ongoing competition between growing farms and new investors. The push will intensify to enhance the development of new biotechnology to increase cropping yields, as well as new farm infrastructure, particularly around water.



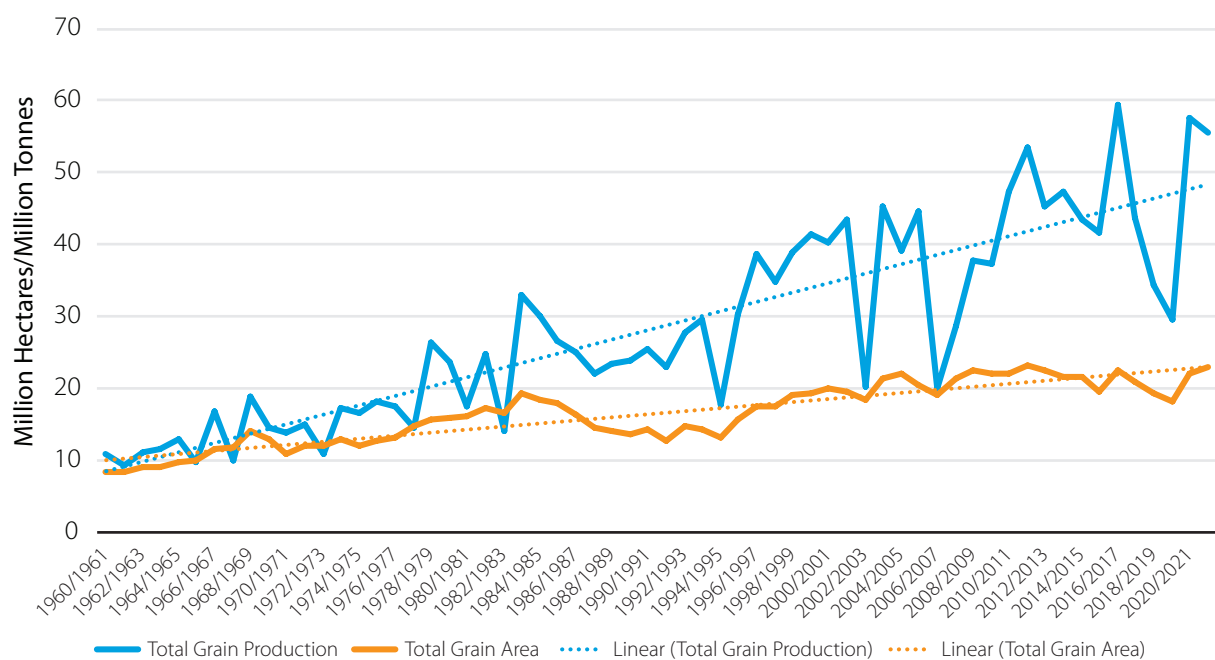
### PRODUCTION VS ACREAGE GROWTH

In contrast to the plateauing of Australian crop acreage, crop production levels show little sign of slowing in their overall growth rate. While year to year production levels can vary widely based on drought, the increasing gap in the overall trend line between Australia's cropping area and production volumes is testament to the level of research and development dedicated to Australian grains and oilseeds, as well as the increasing management sophistication of grain producers.

Assuming that peak cropping acreage has been roughly reached, the importance of yield growth will be fundamental to Australian agriculture being able to continue to grow its overall gross value of production (GVP), particularly if Australian agri is to reach the aspirational \$100billion GVP mark.

Obviously there will be a ceiling for yields at some point, but on current trends, and assuming good growing conditions, the outlook for production increases is strong. Over the coming decade, it would seem quite feasible that overall cropping production could lift by at least a further 20 percent.

### TOTAL GRAIN PRODUCTION VS AREA



Source: USDA, ANZ

## CROP BREAKDOWN

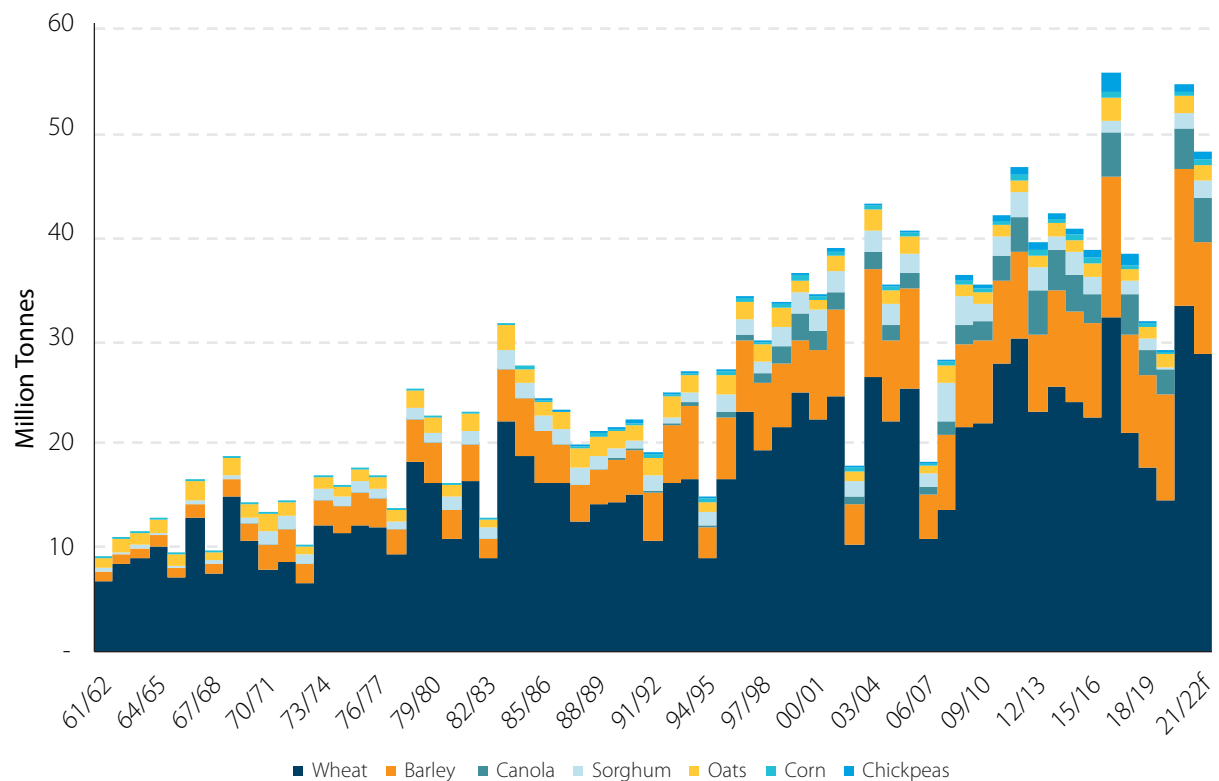
While acreage may be steady, a notable aspect of the Australian cropping landscape is the continuing decline in the share of wheat as part of the overall cropping mix, and where this is likely to head going forward.

In the 1960s, wheat made up almost 80 percent of Australia's total crop production – it now makes up around 50 percent. In particular, the share of barley of overall crop production has continued to grow strongly, at times making up around a third of overall production. In addition,

the growth of canola as an option for producers has risen from almost nothing in the late 1960s to around ten percent of production today.

The change in crop breakdown has been driven by a range of factors. To reduce their concentration risk, grain growers have increasingly opted for a range of crops each year. Continuing agronomic awareness has highlighted the importance of regular crop rotation, which can particularly play a role in the cycle of national barley production levels.

## MAJOR AUSTRALIAN CROP TYPES

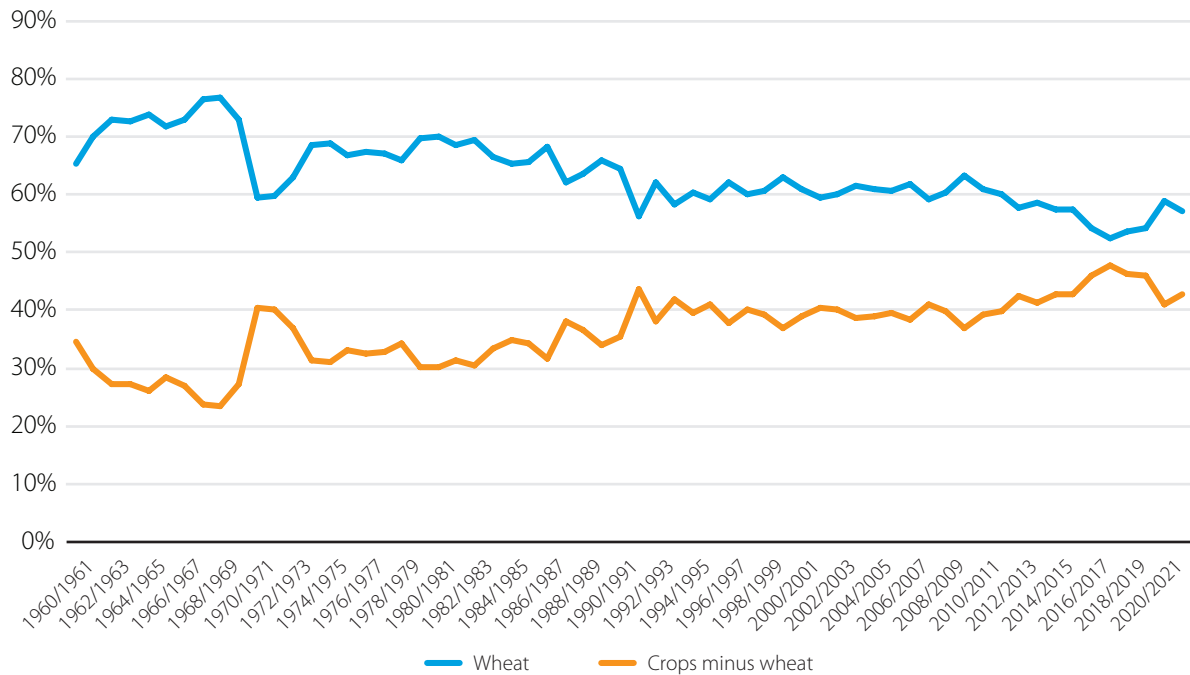


Source: ABARES, ANZ

Looking ahead, it could be suggested that wheat is unlikely to fall much further in terms of cropping production share, and will likely remain around a minimum of 50 percent. In terms of export demand, both for food and animal feed purposes, wheat will continue to remain the staple grain for major regional markets. While it will compete with major global producers, the recent poor weather forecasts and conditions in a number of Northern hemisphere production regions will further serve to enhance Australia's position as a wheat supplier which will be relatively unaffected by the weather impacting its major competitors.

The ongoing trend of consolidated, larger farms, as well as increasing corporate farming operations is also likely to see the continuation of a broader mix of grains and oilseeds grown in Australia. This will be driven by the scale of these operations allowing a broader range of crops, as well as the ability to have a larger range of plant and equipment, further improving the efficiency gains.

## WHEAT VS NON-WHEAT AREA OF AUSTRALIAN CROP ACREAGE



Source: USDA, ANZ

While wheat, barley and canola have been the dominant crops, other varieties such as oats and sorghum may see an increase in production share, driven by demand for animal feed, or for inputs into growing consumer products such as pet food.

Looking ahead, it is also likely that an increasing number of larger farms will choose to produce a growing level of pulses, including chickpeas, lentils and beans. Domestically, this will be driven by the growth of the plant-based protein market, while the export demand for these is also likely to see strong growth, particularly as the Covid disruptions fade.

Further down the supply chain, this evolving crop mix may also see a degree of change across the grain handling landscape. The growth of larger farming operations, combined with a declining cost in storage and silos through more efficient manufacturing processes, will continue to see an increase in on-farm grain storage, including the ability to adequately store a range of grains.

Grain handling operators will also need to plan whether to handle more varieties than their core grains, or to leave these opportunities to others.

A further factor may be the greater role in the sector played by some of the major grain users. As animal protein demand continues to grow, and entities such as poultry operations, feedlots and piggeries grow in scale, guaranteeing their supplies of feed will become paramount. As such, it is foreseeable that these companies will choose to greatly enhance their grain storage capabilities, further changing the supply chain. In addition, as more of these companies are established, being strategically located closer to grain production zones will be an increasingly important consideration.

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