



ANZ AGRI
INFOCUS
AUGUST
2022

COMMODITY INSIGHTS

FOREWORD

After 2 years of strong prices, record seasons and profitable farming, key commodities such as wheat, canola, beef and sheep meat, are down from the highest levels. Are we settling at a level that's off the top, or is this the inevitable turn in the cycle? Hard to say. There's a lot of evidence pointing towards key markets that remain undersupplied, and this in conjunction with global trade instability, strong underpinning demand, and the focus on food security and domestic price management post-Covid, points to a decent case that the commodity price outlook will remain in upper quartile territory.

In Australia today, our season remains full of promise on the cusp of the critical spring period, which presents the chance through yield growth, to produce another very strong financial performance. But against this positive backdrop, we have rising input and operating costs that are now joined by increasing interest rates, and therefore borrowing costs. With farm debt at its highest ever aggregate level, this adds a cost impost, specifically on the fewer, but larger farmers, who carry the majority of farm debt. All of these factors combined point to a potential check in the system. If you plug in normal pricing to average yield and current costs, the industry is still likely to see a positive margin, albeit not as high as those of the previous two years. The weather will need to play its part though – as is always the case.

Another negativity as a backdrop to the otherwise solid outlook for industry is the heightened threat of a Foot-and-Mouth Disease (FMD) outbreak in Australia. This is driven by the FMD outbreak in Indonesia, and particularly the nearby island of Bali. This has the industry on high alert and is making many producers wary and focussed around their

own biosecurity protocols, in addition to the risk mitigation strategies that can be considered at the enterprise level.

On the latest figures, it still remains much more likely that Australia will avoid an FMD outbreak than not. Federal and State Governments are either implementing a range of measures to prevent transmission or preparing to apply a series of measures to contain any outbreak that may occur. A repeat of the 2001 United Kingdom rampant and initially unchecked outbreak which cost the industry over £14 billion, delayed national elections and took the UK years to recover from, is highly unlikely. Importantly, Australia's national biosecurity measures and processes are holding up and are being enhanced. In combination with traveller and consumer awareness programs, Australia remains well placed to maintain its ongoing FMD-free status. 'Be alert, not alarmed' seems the right tone, with an understanding that while a worst case scenario would be extremely damaging, it is a low odds possibility, as opposed to an inevitability.

As usual with farming, the ups and downs will continue. Still glass half full, but perhaps the difference now, more than any time in the past two years, is that Australian producers have a weather eye on the risk, more than the reward.



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AUSTRALIAN BIOSECURITY UPDATE

The presence of Foot-and-Mouth Disease (FMD) and Lumpy Skin Disease (LSD) in Indonesia has raised significant concerns across Australia at the prospect of transmission into the country. With the heightened risk of Australia losing its FMD disease-free status in particular, it is worth looking at a few facts surrounding FMD, the history of FMD and outbreaks in other countries, as well as the numbers behind the potential \$80 billion impact being quoted in the media.

FOOT-AND-MOUTH DISEASE

FMD is a highly-transmissible, viral disease impacting cloven hooved animals – namely cattle, sheep, goats, pigs, camels and deer. The disease causes painful blisters and lameness and lesions which can prevent animals from normal eating and drinking. FMD generally does not cause mortality in adult animals however it can lead to death in young animals. It can also render adult animals unproductive as they are restricted from moving to eat and drink.

While the primary method of transmission is from animal to animal, the disease is also easily transmitted between animals, through farm machinery, boots or other surfaces and can remain capable of being transmitted from contact with contaminated surfaces for a number of weeks, depending on the environment.

According to Agriculture Victoria (AV) “under suitable conditions, and dependent upon the strain and concentration of virus, windborne spread could be involved in the transmission of FMD over several kilometres.”

Also according to AV, the primary risk of cross-border transmission into Australia is “through illegal entry of meat and dairy products infected with the FMD virus and subsequent illegal feeding of these products (swill) to pigs.”

2001 UNITED KINGDOM FMD OUTBREAK

The most recent major FMD outbreak was in the United Kingdom in 2001. The total economic impact of the UK outbreak was estimated at £14 billion – from a country that produced just under £3 billion in beef in 2020. 6 million cattle and sheep were culled in order to manage the spread of the disease.

During the 2001 UK FMD outbreak, the cost to tourist revenue surpassed the overall response costs — including compensation payments, government and contractor costs, and support for affected businesses. The impact on tourism is unlikely to be so extensive in Australia.

Many lessons were learnt from the UK outbreak – most notably the need for immediate identification and notification of the disease followed by movement restrictions. Once the disease’s spread had started, the UK Government implemented a policy of “contiguous cull” meaning that all sheep within 3 kilometres of known cases would be slaughtered.

The UK outbreak had significant economic and social impacts for rural areas of the country, leading to delays in the national election as well as effective ‘lockdowns’ across many infected areas. In total, the disease took 11 months to bring under control, with the UK Government declaring themselves disease free at the beginning of 2002.

POTENTIAL IMPACT OF AN AUSTRALIAN OUTBREAK

In May 2022, an FMD outbreak was reported in Indonesia. While the Indonesian Government and Australian officials are working hard to contain the spread in Indonesia as well as vaccinate Indonesian livestock, the World Reference Laboratory for Foot-and-Mouth Disease (WRLFMD) noted in mid-July that “there were 336,887 livestock sick due to infection with FMD, 116,717 animals have recovered, 2936 animals were conditionally slaughtered, and the number of dead animals increased to 2128. The spread extends to 239 districts/cities in 21 infected provinces. It is recorded that the vaccination has reached 421,787 livestock”.

As a result, the Australian Government has strengthened our border protection measures and new measures imposed to help prevent transmission into Australia. A [Biosecurity \(Foot and Mouth Disease Biosecurity Response Zone\) Determination 2022](#) has also been established to enforce the use of foot mats at relevant points of entry. State Governments are also implementing a range of biosecurity and preparedness measures in case of an incursion.

The Australian Bureau of Resource Economics and Statistics released a report in 2013 modelling the impact of any potential FMD outbreak in Australia. As a worst case scenario, Australian GDP was forecast to fall 0.16 per cent, with regional areas, particularly regional Victoria (-0.92 per cent), most impacted. In comparison, a small, controlled outbreak was modelled to cost national GDP 0.03 per cent.

The total cost of the worst-case scenario, large-scale, unhindered FMD outbreak in the current market was forecast to be \$80 billion over 10 years. Most of this cost comes from loss of export markets. Smaller, best-case scenario cases were also modelled of small-scale, controlled outbreaks in Victoria (\$9.2 billion) and Queensland (\$8.6 billion).

According to 2013 ABARES research, the loss of export markets for major FMD-exposed commodities will be the major long-term factor impacting Australian agriculture. The least impacted sector is likely to be the wool sector,

which was modelled to return to ‘normal’ within 3 years. All other sectors were expected to still be trying to reclaim lost markets 10 years after a major, unhindered outbreak of FMD. The most impacted were forecast to be the beef and pork sectors which were predicted to achieve just under 80 per cent and 85 per cent of ‘normal’ market share after 10 years.

MANAGEMENT OF AN OUTBREAK

Should an outbreak occur, the response management has been outlined in the Australian Veterinary Emergency Plan (AUSVETPLAN) which sets out the nationally agreed approach, including compensation.

The **AUSVETPLAN** outlines key policy responses, including:

- Livestock movement standstills and controls
- Livestock and livestock product disposal
- Management of contaminated/infected premises
- Biosecurity measures for personnel

It must be noted that while vaccinations exist for FMD, and could be rolled out if the disease was identified in Australia, a vaccination strategy represents an important and effective part of the control strategy – not a solution. This is primarily because of the nature of FMD which has a number of different strains and the disease itself mutates regularly – making it difficult to ensure a vaccine necessarily matches the transmitted disease. Vaccines have been proven, however, to slow the spread and transmissibility of the disease as well as protecting livestock from infection.

Some countries, most particularly Brazil, have now been recognised as FMD free with vaccination. This means that although vaccination involves the release of the live disease into livestock populations which had previously meant the loss of FMD status, the World Organization for Animal Health (OIE) has now recognised Brazil as FMD-free based on its vaccination regime resulting in 12 years without a recorded case of FMD.

OILSEED INSIGHTS



OVERVIEW

- Skyrocketing canola prices are expected to moderate into 2022/23 as the Canadian crop returns to normal;
- Indonesian government actions to reduce the cost of domestic cooking oil has resulted in a surplus of palm oil to be exported;
- Global vegetable oil prices have come off their historic highs, primarily due to the drop in palm oil prices;
- While global vegetable oil demand and supply is anticipated to trend back towards 'normal' for 2022/23, continuing high crude oil prices will keep upward pressure on vegetable oil prices as a biofuel.

The story of skyrocketing global and Australian canola prices has been well told over recent months – primarily focussing on the shortage of canola oil stemming from drought in northern America, as well as the impact of the war in Ukraine on sunflower oil exports. As a result, global vegetable oil prices have seen an exceptionally volatile year – exacerbated by the Indonesian Government's export ban on palm oil. With some of the heat coming out of canola prices in recent weeks, many producers will be looking to the global position and whether prices will continue to be supported into next year.

Australian canola prices have been one of the standout fairy-tales of the past year. With prices out of Western Australia peaking at around \$1,300/tonne, Australian canola producers have clearly had a stellar year. This has been the result of both a strong domestic crop combined with falling global production and resulting export bans.

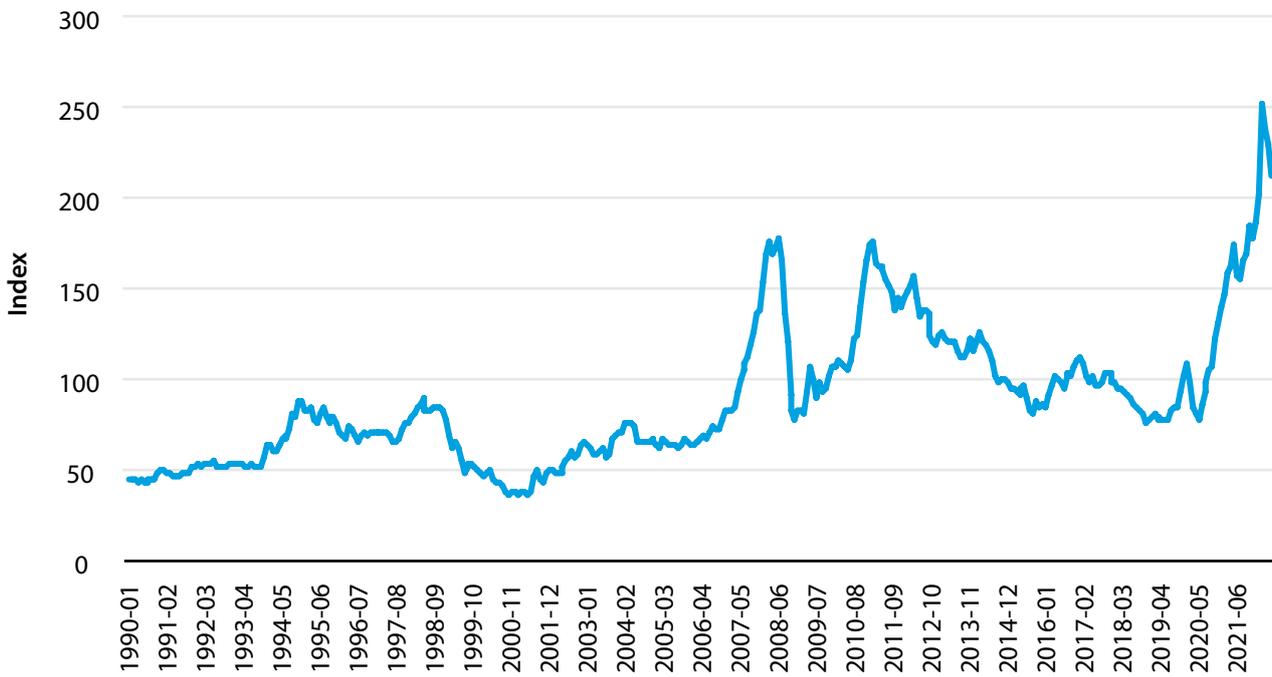
2021/22 saw the drought in Canada reduce global canola production strongly, while the Russian war in Ukraine saw Ukraine's exports of sunflower oil almost

cease. The resulting tight supply of global vegetable oils saw prices spike and purchasers look to alternative sources. Many consumers shifted to purchasing palm oil out of Indonesia and Malaysia. As the largest global source of vegetable oil and the largest export source of vegetable oil by many multiples, palm oil is heavily used in manufactured foodstuffs and other goods, but a less used source of biofuel.

Following the significant increase in global vegetable oil prices, the Indonesian Government announced a three week export ban on palm oil up until May 23rd to keep control of domestic cooking oil prices. Even following the cessation of the export ban, the Indonesian Government has continued to mandate set amounts of local sales, called the Domestic Market Obligation. At the same time, the Government has sought to boost exports to run down inventories by lowering the export levy until August 31st, before implementing a new levy of between \$55 and \$240 per tonne for crude palm oil.

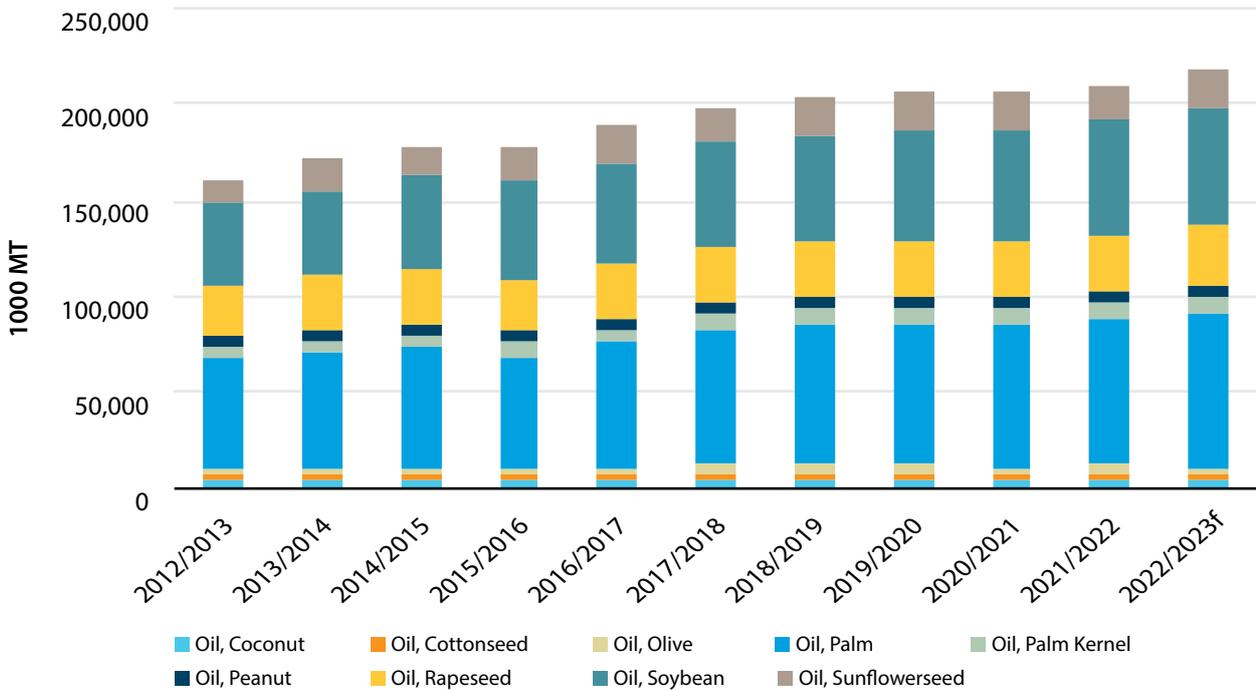
As a result, the price of palm oil has fallen by 42 per cent since early May. Indonesian palm oil producers are reporting a surplus of stock, prior to harvest season.

FAO VEGETABLE OIL PRICES



Source: FAO, ANZ

GLOBAL VEGETABLE OIL PRODUCTION

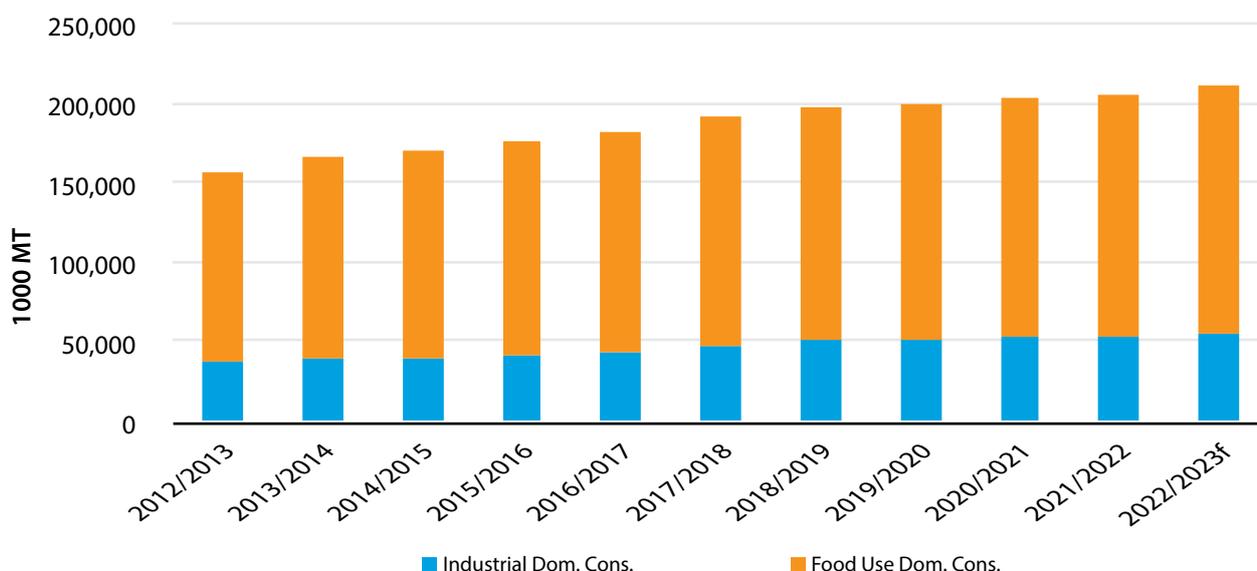


Source: USDA, ANZ

While the global supply of oilseeds has been tight over the past year with global production falling in 2021/22, the United States Department of Agriculture is forecasting global production to jump over 7 per cent in 2022/23 despite a significant fall in sunflower oil production out of Ukraine. Canola or rapeseed production is expected to bounce back in northern America with production increasing 59 per cent and 31 per cent in Canada and the United States respectively. Brazilian soybean production is also expected to increase markedly by 23 million tonnes. To offset this, Ukrainian sunflower oilseed production is forecast to fall by 46 per cent to 8 million tonnes.

On the consumption side, strong growth is expected to continue for both food and biofuel use with total global vegetable oil consumption rising 3.2 per cent for the year. While still constituting the smaller part of global consumption of vegetable oil, biofuel usage is expected to increase strongly in 2022/23 by 4.8 per cent, while food consumption is forecast to increase by 2.7 per cent for the year. This comes after 2021/22 showed relatively flat consumption of vegetable oil primarily due to skyrocketing prices, but also as a result of soft soybean oil consumption in China as a result of ongoing lockdowns and slow economic growth.

GLOBAL VEGETABLE OIL CONSUMPTION



Source: USDA, ANZ

Much of this might seem to suggest that domestic canola prices will return to 'normal' in 2022/23 as production improves in northern America and a surplus of palm oil is exported from Indonesia. There is one main factor, however, that influences the global oilseeds market unlike other cropping produce – namely the global oil price. With vegetable oil widely used as a biofuel and substitute for oil, the price of vegetable oil closely mirrors the crude oil price. With the US Energy Information Administration forecasting that the Brent Crude Oil price "will average \$101/b in 2H22 and then fall to \$94/b in 2023" compared to the 2021 average of \$71/b – the global price for vegetable oil is likely to remain elevated for the 2022/23 year.

The Australian Oilseeds Federation (AOF) has forecast that the total area sown to canola in 2022/23 has increased 12 per cent to 3.3 million hectares with increases in all major canola producing states. However it has also forecast that total production will actually fall 17 per cent on the back of a return to normal season. The AOF is still forecasting the second most valuable crop on record, while seasonal conditions across most canola growing areas have been favourable.



BEEF INSIGHTS



OVERVIEW

- The sharp drop in the Eastern Young Cattle Indicator (EYCI) since June has seen the market drop to just under its 5-year trend price;
- While concerns over the risk of Foot-and-Mouth entering Australia have been a factor, other underlying factors have also made the market vulnerable to shifts in sentiment;
- The historically low number of cattle being processed and in the saleyards has meant that FMD concerns have resulted in greater volatility in the EYCI;
- The drought in the United States has seen an influx of US beef on the international market, competing heavily with Australian beef;
- Australian beef exports continue to struggle with no signs of recovery in major markets.

Is the fall and bounce-back in Australian saleyard prices only a result of fear of Foot-and-Mouth Disease (FMD) and Lumpy Skin Disease (LSD), or are there other factors at play?

IN SHORT, WHILE THE FEAR OF A BREACH IN AUSTRALIAN BIOSECURITY HAS BEEN A FACTOR IN TAKING THE STEAM OUT OF DEMAND IN THE SALEYARD, THERE ARE A NUMBER OF OTHER FACTORS WHICH HAVE MEANT THAT VOLATILITY HAS BEEN MORE PRONOUNCED THAN WE MIGHT HAVE EXPECTED.

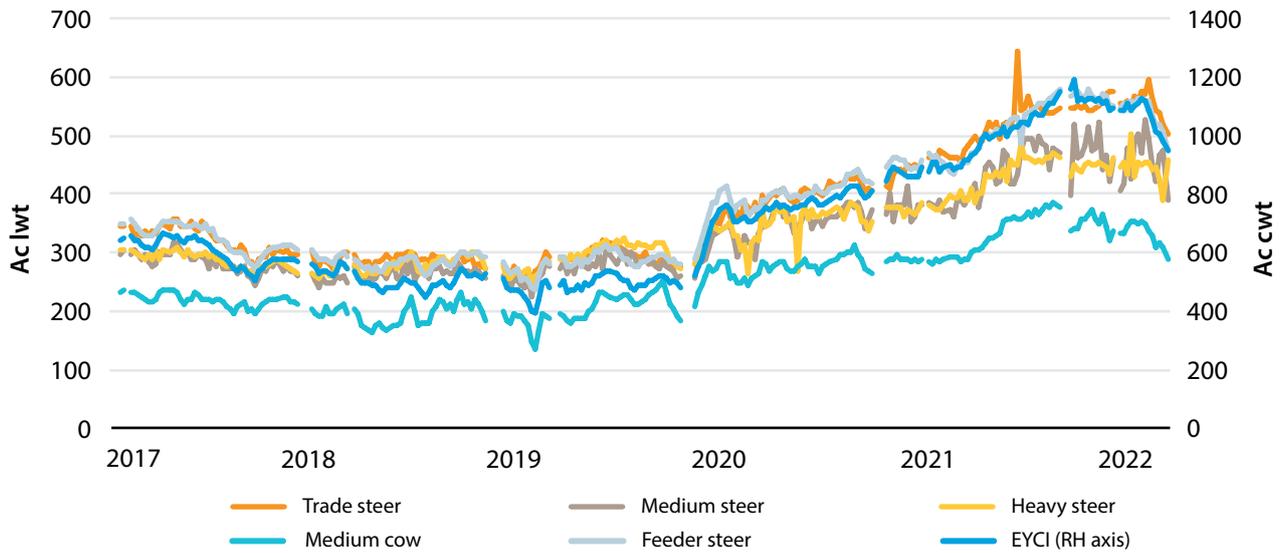
The fall in the Eastern Young Cattle Indicator (EYCI) in mid-year has been one of the largest drops felt in recent times. By early August, the fall had amounted to around a 20 per cent drop from early June, although it has since recovered strongly to around 1,000c. While a 20 per cent fall in any commodity price might have many producers

break into a sweat, in the context of the market cattle producers having been living with since 2020, a 20 per cent drop in cattle prices is less drastic.

Many in the industry are rightly pointing to the value of the current EYCI in comparison to 5 or 10-year averages. Despite the quantum of the drop, cattle prices across saleyard categories remain up to 27 per cent above the 5-year average and up to 58 per cent above the 10-year average. Having said that, the drop in prices has been enough to push the EYCI just under the 5-year trend figure before it recovered.

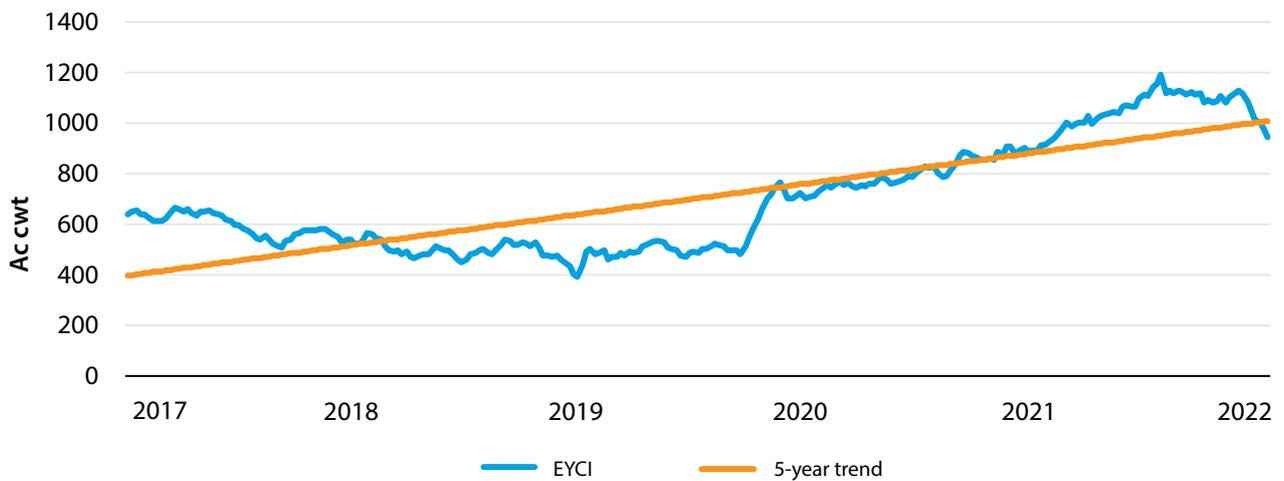


EASTERN STATES SALEYARD INDICATORS



Source: MLA, ANZ

5-YEAR EYCI - TREND



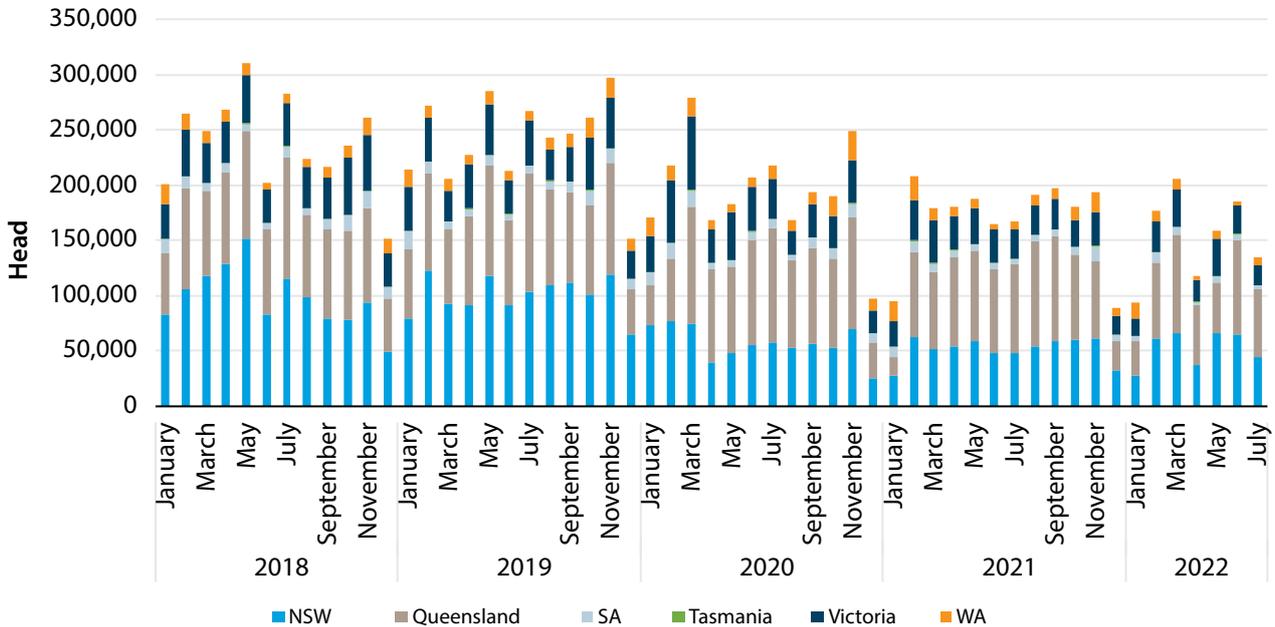
Source: MLA, ANZ

While it's clear that subdued buying activity around the fear of FMD entering the country has played a role in the drop in the EYCI, there are other factors in play which have exacerbated the impact.

Firstly, the number of cattle entering saleyards and being slaughtered is one of the lowest in recent history. To put this in perspective, for the first three months of 2022, the total cattle and calf slaughter numbers were the lowest on record since 1974.

Slaughter numbers in the first three months of 2021 were the 4th lowest on record. Perhaps as a flow on effect from the lack of processor demand, yardings for the calendar year to date are down 7.5 per cent on 2021, which in itself was 17 per cent down on 2020. So what does this mean in practice? Essentially, it means that both demand and supply are thin – and in this setting, small movements in either factor result in noticeable changes to price.

NATIONAL CATTLE YARDINGS



Source: MLA, ANZ

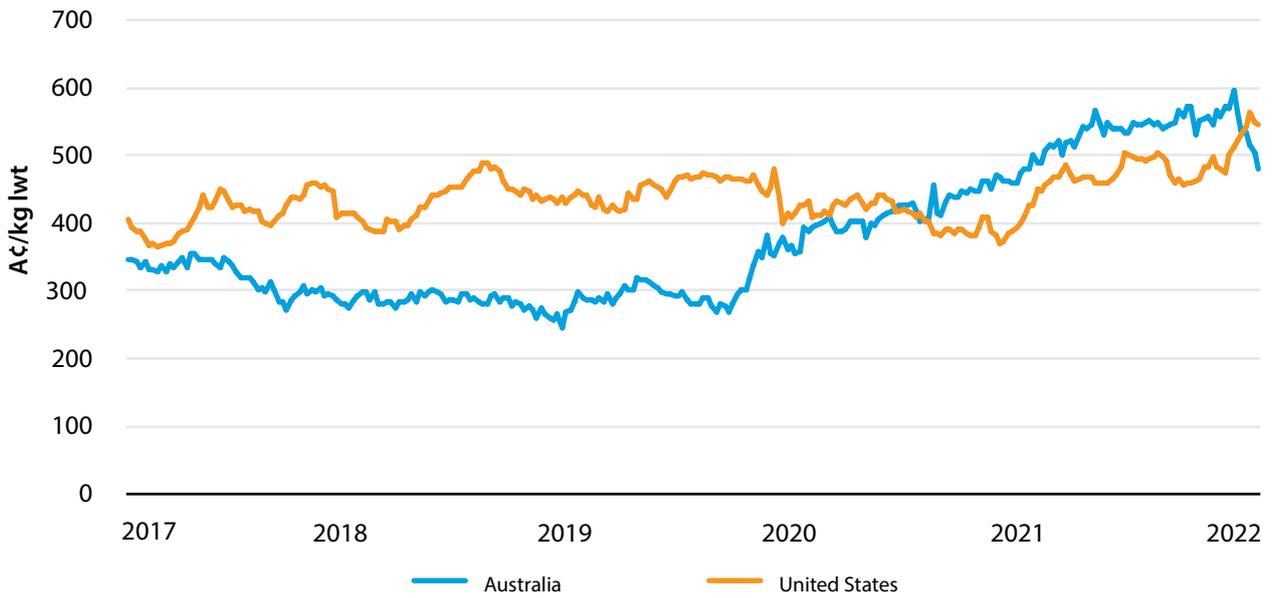
Lack of processor demand at the sale yards, driven by a lack of labour in processing plants and the previously high saleyard prices, has meant that winter stock presenting for sale are having a hard time mustering high prices. Restocking activity is still continuing to a certain extent, albeit after being impacted by both winter conditions and producer concerns over FMD.

Also impacting the total number of cattle in the country is the almost complete cessation of the live-export trade to Indonesia. Meat and Livestock Australia are forecasting that for 2022, live exports will fall by 33 per cent. So where are those cattle going? With the number of cattle on feed also increasing nationally to a new record in the first three months of 2022, as well as the continuing high feed grain prices, it will be interesting to see how many are redirected to feedlots, how many stay on farm and how many can be processed by the growing processing sector in the Northern Territory. The continuing growth of the feedlot sector is something to take note of, as the first

quarter of 2022 saw both the number of cattle on feed, and feedlot capacity, reach new record levels, despite not being in drought conditions, which is usually when feedlots expand.

Outside of the local market, the Australian industry is heavily reliant on export markets. One of the issues facing the industry on a global stage had been the relative cost of Australian beef compared to other nations' exports. The recent fall in Australian prices and an increase in US cattle prices in light of an increasing cost base has seen US cattle become more expensive for the first time since mid-2020. That's clearly not the end of the story when it comes to the US – the severe drought across much of the south and east of the United States has seen an influx of US beef hitting the international market. It's also clear that this won't last however, as the US position is verging on herd liquidation – with huge numbers of female cattle being sent to market, the US herd will likely take many years to recover which may restrict their export position in coming years.

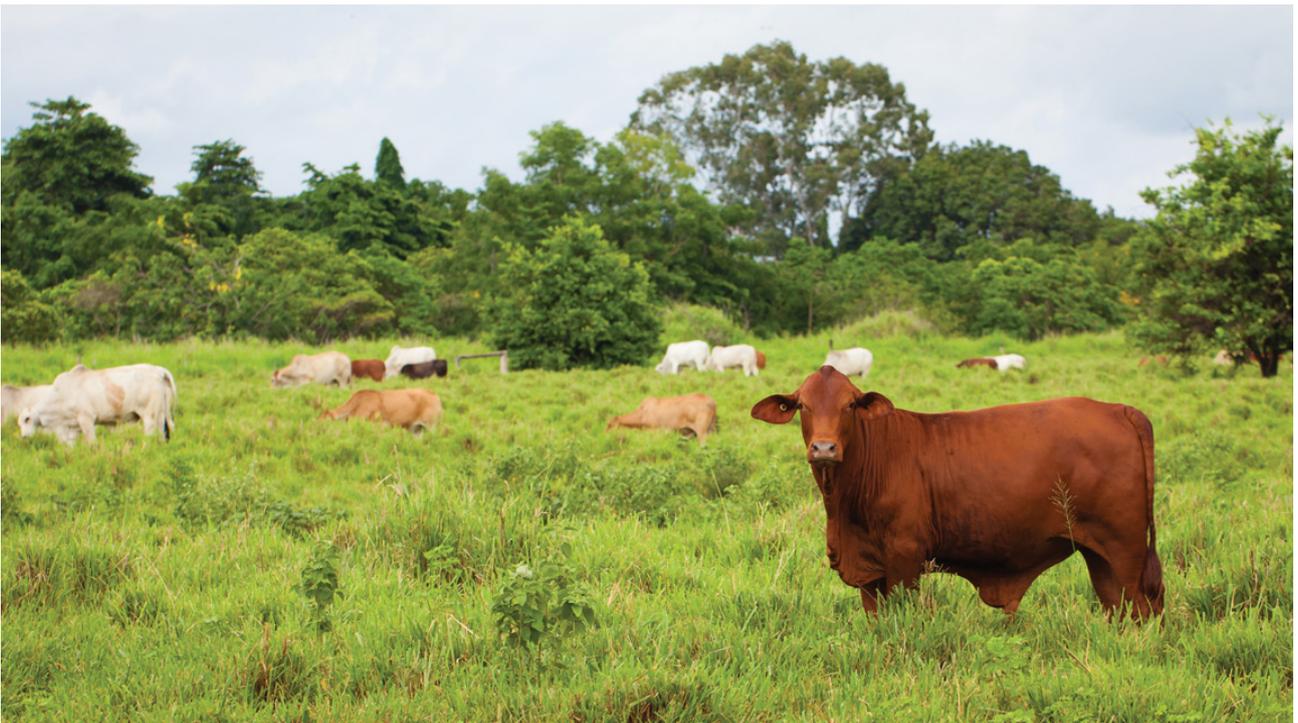
AUSTRALIAN AND UNITED STATES CATTLE PRICES



Source: MLA, ANZ

In general, Australia's beef exports continued to struggle in June, now sitting around 30 per cent lower than at the same time two years ago. Declines have been felt in almost all export markets including Japan, South Korea, China, the United States and Europe. Given that Australia's

beef exports have been depressed for almost two years, combined with the influx of US beef on the international market, and subdued global economic growth, there are no real signs of dramatic rebound in export numbers in the near future.



GRAINS INSIGHTS



OVERVIEW

- While the first ship of grain has now left Ukraine, ongoing uncertainty will keep upward pressure on prices
- Forecasts of poor crop conditions in the Northern Hemisphere will mean continuing strong demand for Australian grain exports
- Australia's share of overall barley and canola exports continues to rise, emphasising the global importance of the local crop
- While there are still some months until harvest, forecasts continue for Australia to produce a near-record for the third year running

AUSTRALIA'S IMPORTANCE AS A GLOBAL GRAIN AND OILSEED EXPORTER

The conflict in Ukraine has permanently impacted the global landscape for the grain and oilseed sector. Most notably, the massive disruption to global grain availability to the world market saw a rapid change around the certainty of food security, with the short-term impact of prices reaching record levels. However, longer term, the entire grain supply chain, from production, to domestic consumption, to exports, and particularly storage will continue to see much faster and more profound change than before. Importantly, these changes are also likely to impact the Australian grain industry at every point of the chain.

One aspect of the global trade landscape which has been emphasised as a result of the Ukraine conflict has been to highlight Australia's share of the major global grain and oilseed exports – particularly wheat, barley and canola – and just how fundamental Australia's production is in keeping a lid on even stronger surges in world grain prices than might otherwise have been.

Taking this a step further, the fact that Australia not only delivers major volumes of quality grain onto the world market but does this at the opposite end

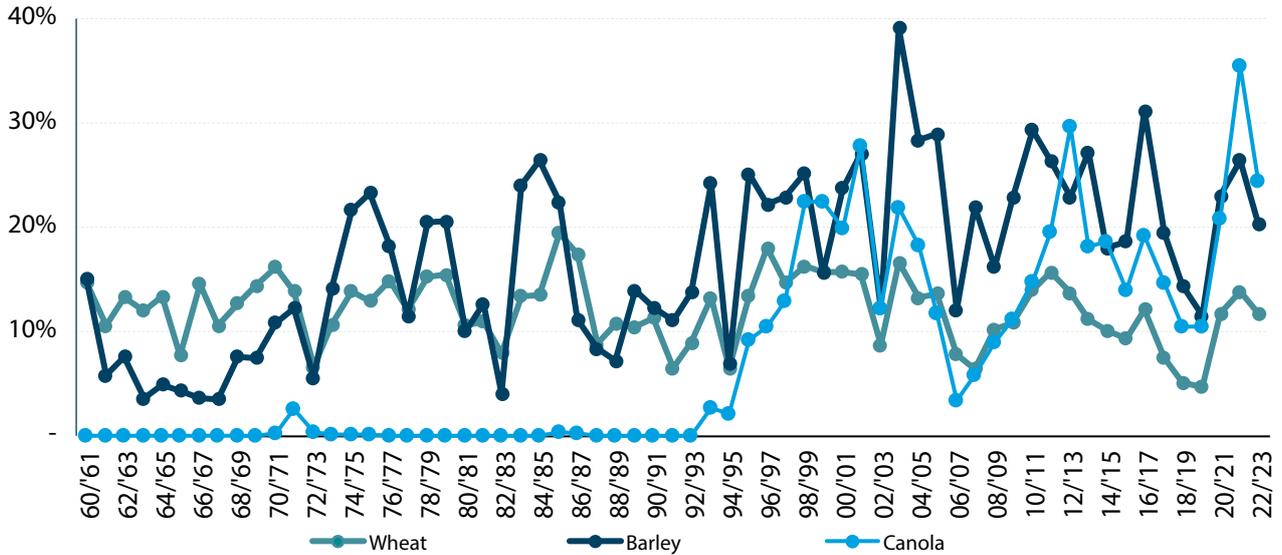
of the season from the major Northern Hemisphere exporters, highlights the role of Australian exports in contributing to a degree of food certainty and security across the global food complex.

This situation has seen domestic industry policy and supply chain discussions highlighted. These have included whether Australia's unique position should be seeing a greater price premium for Australian producers, as well as well ongoing grain supply chain infrastructure debates should be re-examined in light of the global importance of Australia's exports.

In addition, it is also likely to mean that global investors will look at opportunities in grain production and supply chains in a new light.

IN LOOKING AT THIS ISSUE, IT IS NECESSARY TO BREAK DOWN THE WHEAT, BARLEY AND CANOLA TRADE LANDSCAPES, AND BRIEFLY EXAMINE AUSTRALIA'S GLOBAL EXPORT SHARE IN EACH ONE.

AUSTRALIA SHARE OF GLOBAL EXPORTS - WHEAT, BARLEY & CANOLA



Source: USDA, ANZ

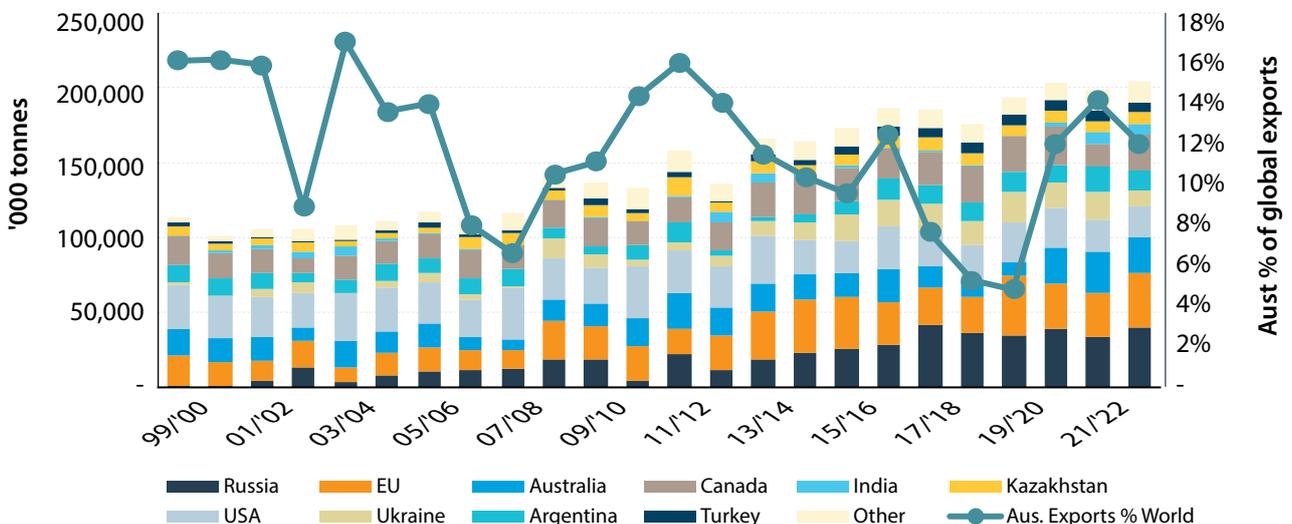
The impact of the loss of grain exports from Ukraine and Russia onto the global trade landscape has drawn closer attention to Australia's position amongst the major global grain exporters. In terms of wheat exports, Australia's share of global exports has remained within a relatively narrow band, even looking back over the past sixty year. As the chart illustrates, despite fluctuations in production levels in Australia, as well as by other major exporters, Australia's share of global wheat exports has not moved too far from the sixty-year annual average of twelve percent, or an average over the past decade of ten percent. Importantly, this has also meant that after Russia and the

EU, who have each averaged around seventeen percent of global wheat exports over the past decade, Australia has sat roughly even with the US and Canada as the world's third largest exporter.

The forecast strength of the upcoming crop, accompanied by the bumper crops of the previous two seasons, have seen Australia recover from the drought-induced slump, to return to this strong position.

One other point to note is that the second largest wheat exporter in the Southern Hemisphere, Argentina, averaged around only six percent of global exports.

KEY GLOBAL WHEAT EXPORTERS



Source: USDA, ANZ

Given that Australia is not only a major global wheat exporter, but that it is also by far the largest exporter in the half of the year when only Southern Hemisphere crops are harvested, it feeds into the ongoing industry discussion of whether Australian wheat exports are achieving the price premium they should be, given their strategic importance in terms of scale and timing. The discussion has been particularly animated in 2022, with some in the industry arguing that given the spike in concerns around global wheat shortages as a result of the Ukraine crisis, Australian growers should have received higher prices for their wheat. The contrasting point of view has highlighted the fact that most wheat had been pre-sold before the market saw its peak levels, and as a result, few growers were positioned to take advantage of peak prices.

Looking ahead over coming years, regardless of the outcome of the conflict, and the timing of any changes to the rate of wheat exports from the Black Sea Region, it seems almost inevitable that the growth in food insecurity will see a number of major grain imports lift their wheat storage levels. One result of this could be a faster rate of exports following the Northern Hemisphere harvests, as importing countries seek to procure supplies faster than before. This run-down in stocks for export could well see a new period of demand for Australian exports and put a level of upward price pressure on Australian crops, more intense than that seen over previous decades.

AUSTRALIA'S SHARE OF BARLEY AND CANOLA EXPORTS

While the potential benefits for Australian wheat prices over the longer term are good, they appear even more promising for Australian barley and canola prices.

In 2022/23, Australia is forecast to account for around 20 percent of all global barley exports. This is only marginally below the ten-year average of 21 percent and given that this puts Australia behind only the EU in terms of share of global exports over the past decade, highlights Australia's fundamental importance as a barley exporter. Given that the recent growth in global food insecurity is likely to see a surge in demand for meat and dairy products, as well as grain, global feed demand is likely to see strong growth rates, with barley a major focus.

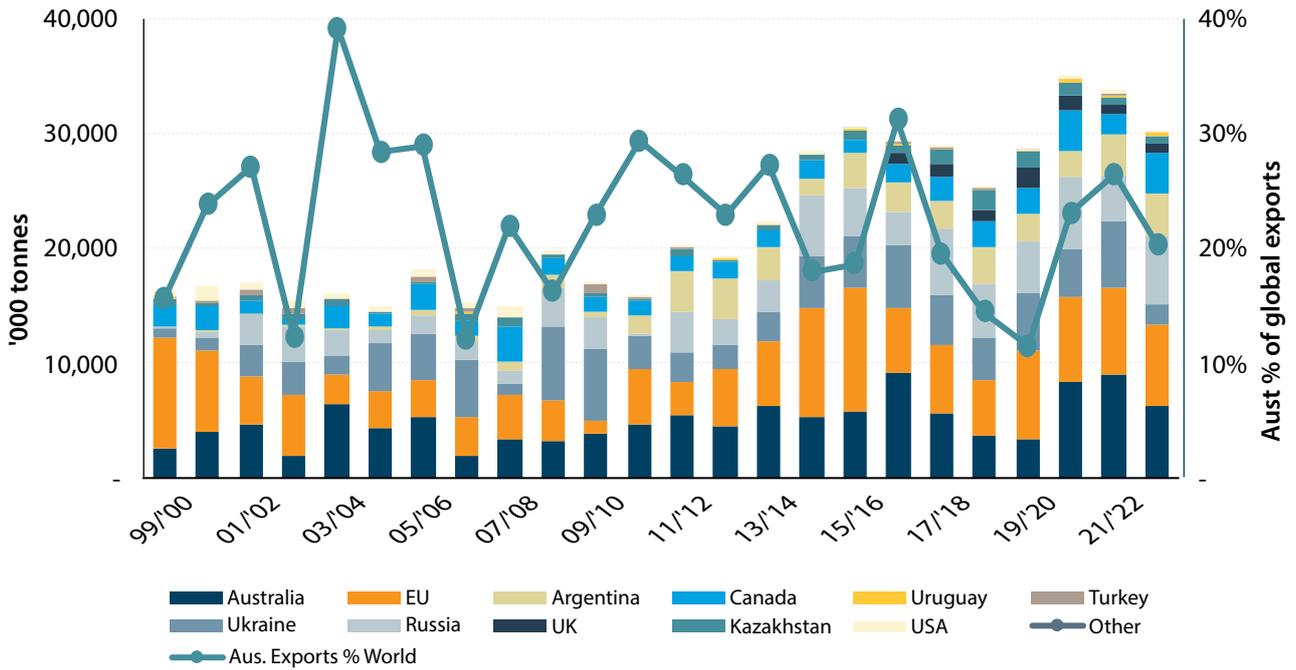
Once again, given that Australia's only major competitor for barley exports at the time of southern hemisphere harvest, Argentina, accounts for only around ten percent of global barley exports, it is likely that many importers will increasingly seek to retain higher barley storage levels. In particular, a growth in demand from China for increased storage levels of barley for both feed and malting requirements, albeit from other exporters, should still indirectly push up Australian barley export price and benefit producers.

Finally, of Australia's three largest crops by volume, it is canola which stands out the most in terms of Australia's importance in terms of global export share. Canada continues to account for the lion's share of global canola exports, averaging 60 percent of the global trade over the past decade. When taking into account that this figure has been significantly reduced in 2021/22 due to poor crop conditions and is still forecast to be in recovery mode for 2022/23, it emphasises not only Canada's strength across canola exports, but the vulnerability of global canola supplies to any disruption to the Canadian crop.

The second striking feature of the global canola export landscape is the market concentration across the three major exporters. Given that over the past ten years, Canada has averaged 60 percent of exports, Australia 19 percent and Ukraine 14 percent – covering 93 percent of total canola exports - this has emphasised both the concentration risk and the resultant vulnerability of any impacts on these exporters.

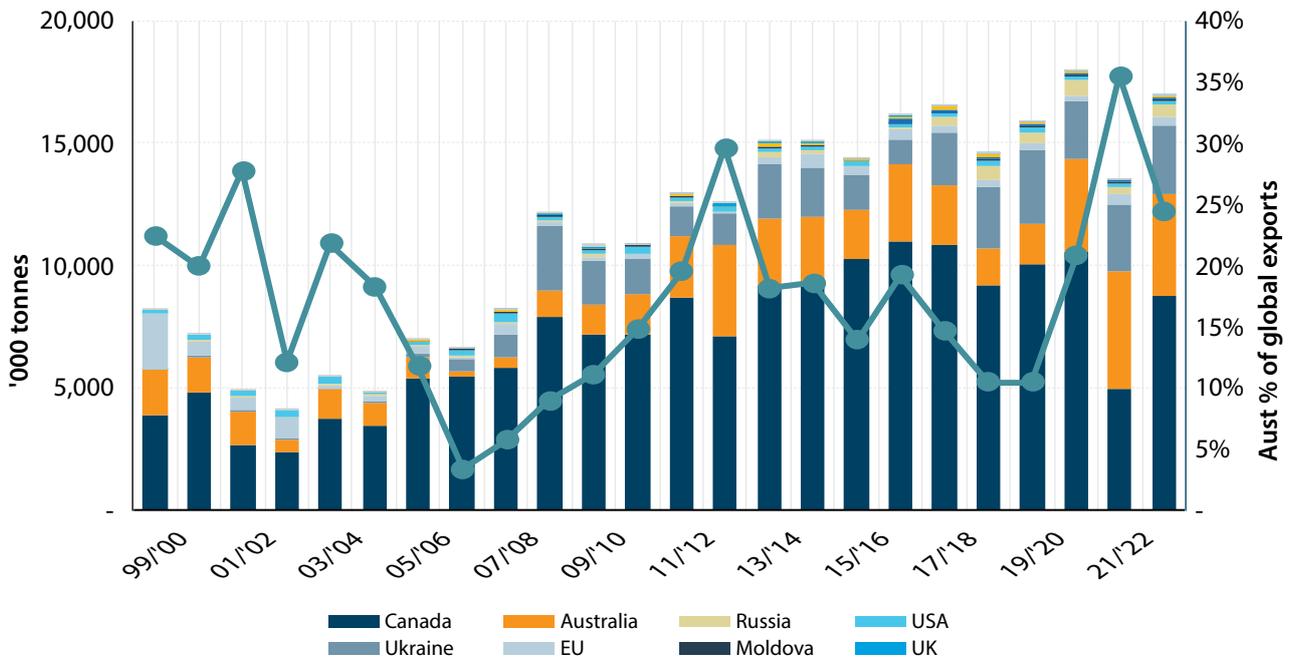
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KEY GLOBAL BARLEY EXPORTERS



Source: USDA, ANZ

KEY GLOBAL CANOLA EXPORTERS



Source: USDA, ANZ

SHEEP AND WOOL INSIGHTS



OVERVIEW

- Lamb prices have continued to decline over the past two months with the benchmark Eastern States Trade lamb Indicator (ESTLI) down 20 per cent through the month of July, before bouncing back strongly in early August.
- Prices hit their lowest since 2020, when post drought restocking and strong exports fueled demand.
- Exports to China remain subdued however total lamb exports are up 5 per cent on 2021, supported by strong growth in the US market.
- Ongoing export demand is predicted to remain strong, supporting the likelihood of price recovery through the second half of the year.
- Wool prices remain down on 2021 levels and large volumes hit the market prior to the annual recess, dampening any potential price rises.
- Australian wool production is tipped to grow to its highest level in five years in 2022/2023.

SHEEP

Sheep and lamb prices have continued to decline over the past two months. Notably, the benchmark Eastern States Trade Lamb Indicator (ESTLI) fell 20 per cent in July alone, hitting 634 c/kg by the start of August before climbing back to sit over 700c and higher than 2020 levels at this time of year. Even more stark was the fact that this was over 30 per cent down on the same point in 2021. After the surge in prices on the back of post-drought restocking, combined with strong export demand, lamb prices have recently fallen to their lowest levels since that time. Although the rebound seen in early August suggests that the large price drop was an anomaly, rather than proof of weak fundamentals.

When comparing the 2022 ESTLI price with the past five years, a slide in prices around this time of year is not unusual. Producers will often be selling their older lambs before the spring flush arrives, as well as reducing their stock numbers as pastures are depleted through the colder winter weather. In addition, with many producers having experienced

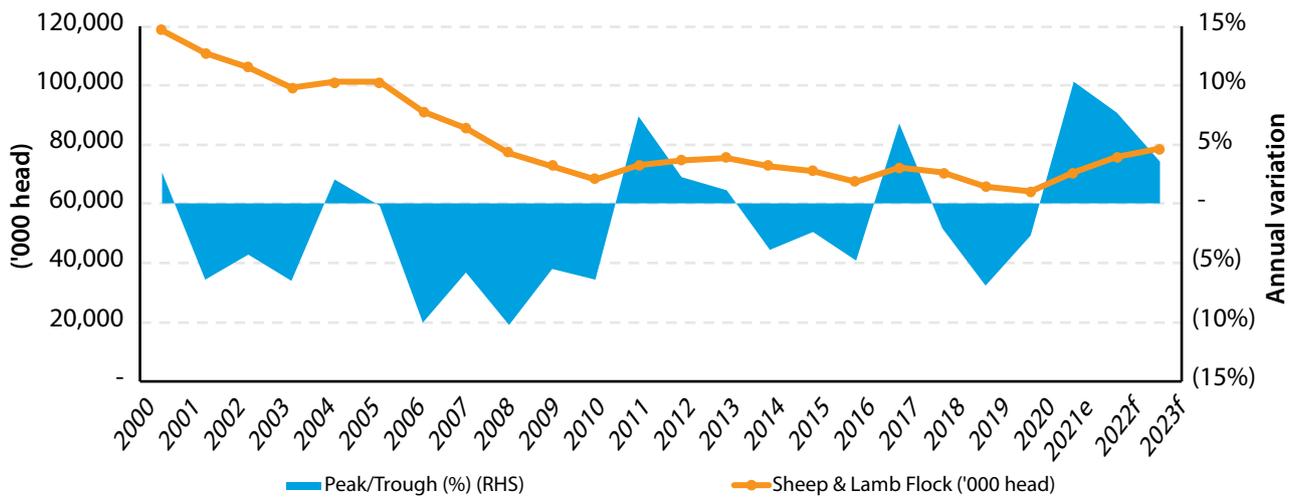
better than average lambing percentages in last year's good season, a reasonable number of lambs were held back, with many of these hitting the market only now.

It has also been suggested by industry observers that ongoing disruptions in the processing sector are resulting in reduced capacity, which in turn has resulted in reduced buying for slaughter. Indeed, it has been the return of the processors to the saleyards seeking to secure supply, as well as the return of restockers which has seen the price rebound in the first half of August.

While this price fall was notable, it is also important to remember that spring is imminent, and the arrival of new season lambs onto the market, as well as the upturn in consumer demand with the warmer weather, is likely to see a reasonable price recovery. Early August has seen this recovery come, perhaps a little earlier than anticipated.

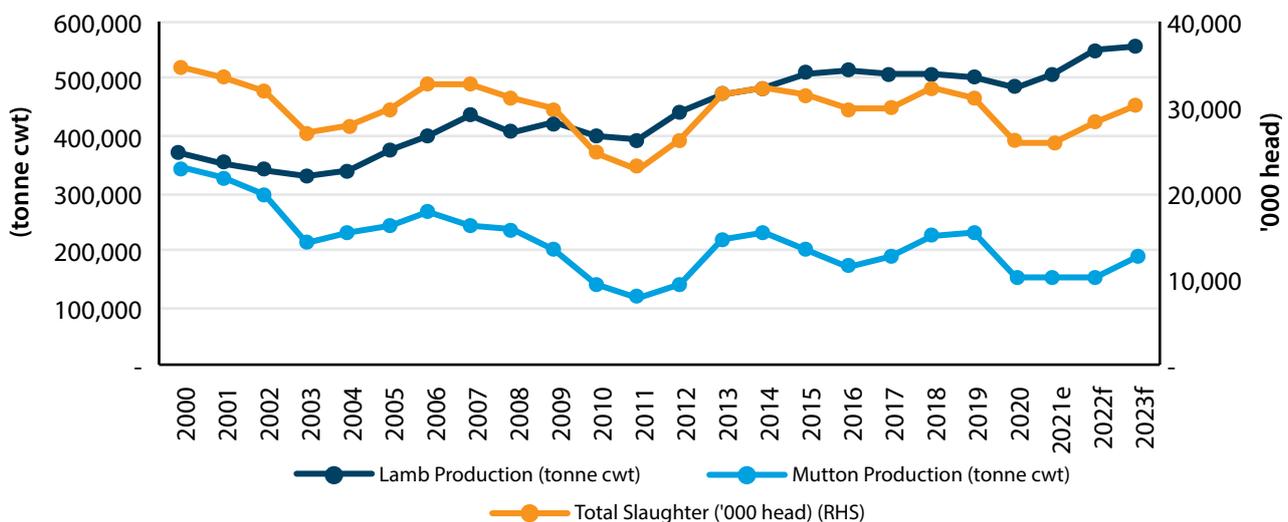
While the Australian sheep industry endured its fair share of challenges through the drought, and current prices have taken a downward turn,

AUSTRALIAN SHEEP & LAMB FLOCK



Source: MLA, ANZ

SHEEP SLAUGHTER VS. TOTAL SHEEP MEAT PRODUCTION



Source: MLA, ANZ

2022 has continued to see the industry growing in strength, with the domestic sheep and lamb flock continuing to grow, particularly driven by favourable weather conditions.

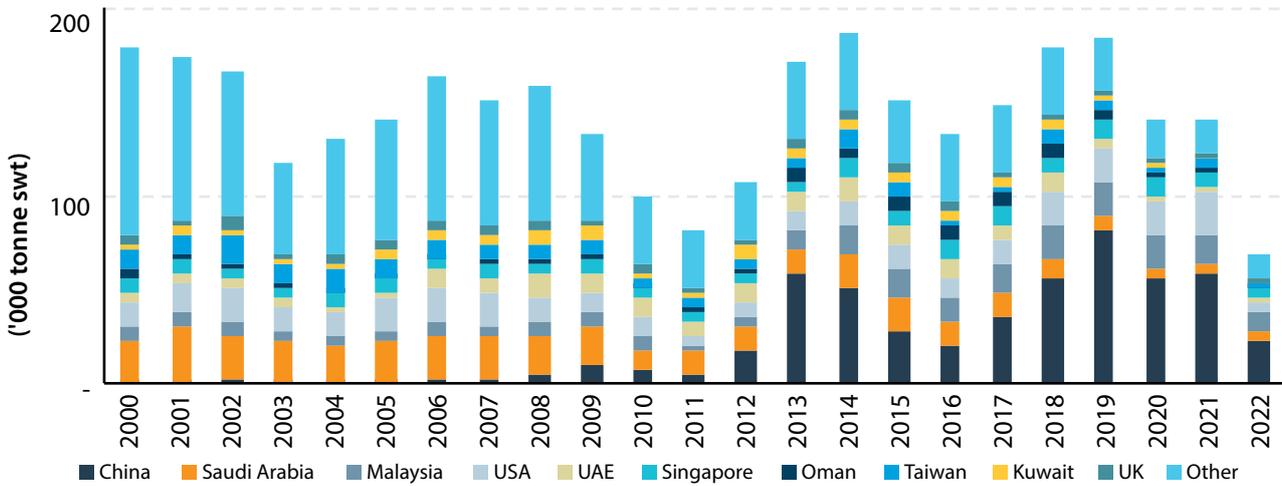
After a long-term period in decline, 2022 is forecast to see Australia's sheep flock climb to 76 million head. Impressively, this would represent a decadal high and an 8 per cent increase from the previous year. Notably, the national flock continues its strong recovery from the drought-driven low of 63.5 million head in 2020. At the time, this was the lowest the national sheep flock had been since 1903, at the peak of the devastating Federation Drought. Looking further ahead, the outlook continues to be positive, with forecasts out to 2023 anticipating even further growth to around 79 million head, a figure which would represent the

highest point since 2007.

On the back of this strong outlook, lamb production is forecast to reach record levels in 2022 and 2023, climbing to 549,000 tonnes and 557,000 tonnes respectively. This trend continues an ongoing climb in Australian lamb production which, while it has been climbing for decades, has seen heightened growth since around 2000. For a sector which traditionally was seen as being dominated by mutton production, this change has been driven by a startling increase in lambs as a percentage of the overall national flock, as producers not only produce more lambs, but retain them and grow them out to heavier weights prior to sale.

This structural change can be attributed to two major factors. Firstly, the volatility and disruption

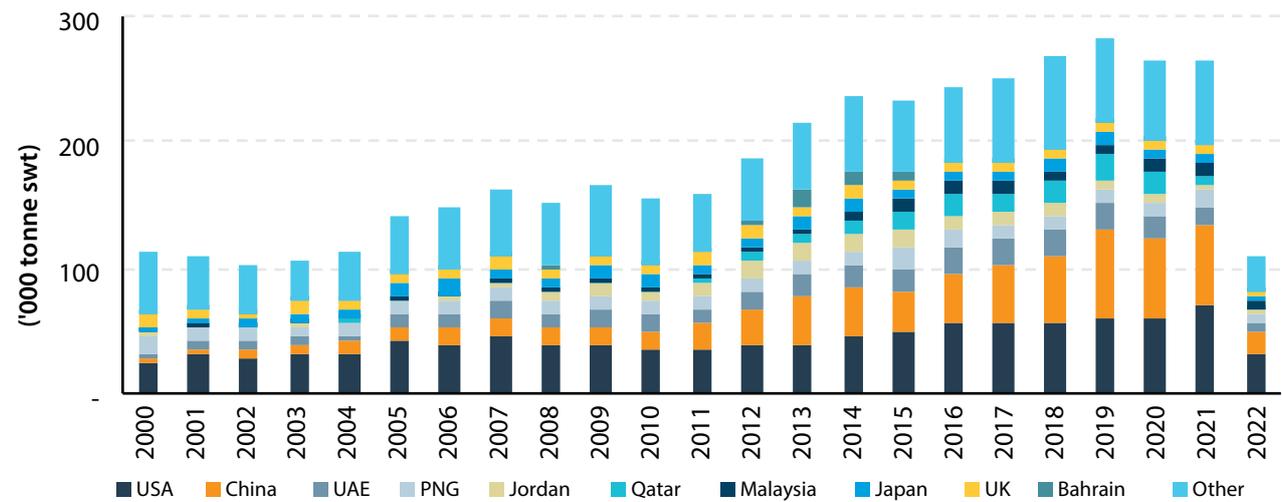
AUSTRALIA MUTTON EXPORTS BY DESTINATION ('000 TONNE SWT)



Source: MLA, ANZ

Note: 2022 data is available only till June 2022

AUSTRALIA LAMB EXPORTS BY DESTINATION ('000 TONNE SWT)



Source: MLA, ANZ

Note: 2022 data is available only till May 2022

in the wool industry, particularly through the abolition of the Wool Reserve Price Scheme and the gradual sale of the wool stockpile caused many sheep farmers to strongly re-evaluate their farm strategies, and increasingly move more toward meat production. At the same time, the increasing demand for lamb from both domestic and export markets, as well as the relatively lower price volatility for sheep meat compared to wool, provided further impetus for farmers to focus increasingly on lamb production.

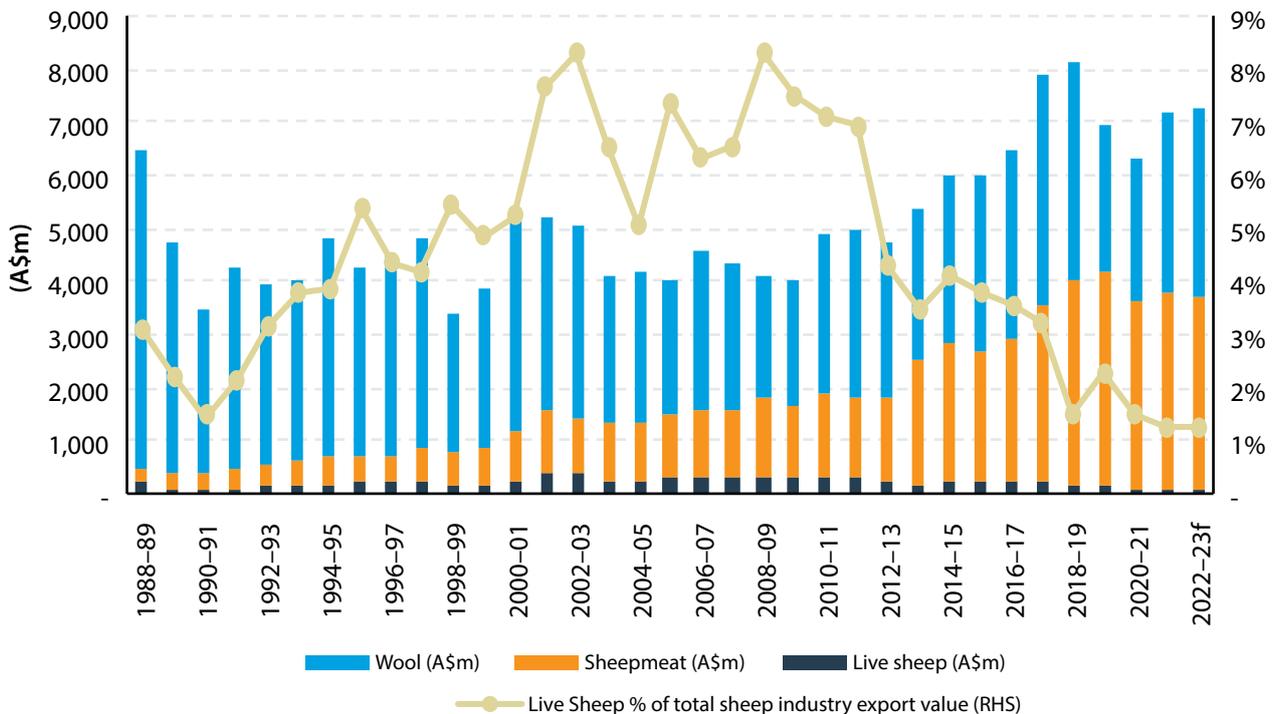
In addition, over the past two years, overall lamb meat production figures have been further boosted

by increased slaughter volumes and higher carcass weights which were aided by the availability of abundant feed in most areas.

While there has been some degree of flattening growth, the sheep meat industry continues to experience strong export demand levels. On the supply side, this has partly been driven by higher flock numbers allowing for increased exports. At the same time, demand remains strong from the major export markets, driven by a varying range of factors.

For the US market, Australian sheep meat has continued to grow as a niche product over recent

AUSTRALIAN SHEEP SECTOR EXPORTS



Source: ABARES, ANZ

years, with an encouraging focus on mutton imports. For China, the increase in Australian sheep meat imports over the past two years was partly to make up for the shortfall in red meat supplies caused by the decimation of the country's pig herd due to African Swine Fever. For a number of Middle Eastern countries, where sheep meat has long been the most commonly consumed meat, exports also remain strong.

In the current year from Jan-May, Australia exported around 111 thousand tonnes (shipped weight - swt) of lamb, an increase of five per cent from the same time in 2021. Exports to USA, the biggest market by volume, increased by 13 per cent. Other key markets such as Papua New Guinea, Malaysia, Japan, the UK, and Jordan recorded double digit lamb export growth in comparison to the same period previous year. Exports to China saw a 28 per cent decline, as the country's pork production continued to gradually recover.

Between Jan-Jun 2022, 68 thousand tonnes (swt) of mutton were exported, an 8 per cent increase from 2021 levels over the same period. China remained the biggest export partner at 24 thousand tonnes (swt), although this was 7 per cent fall in export volumes compared to the same period in

the previous year. The USA, Australia's other major mutton export market, also recorded a slump in the first half of the year, down by 38 per cent to 5.4 thousand tonnes (swt). However, Asian and Middle Eastern markets such as Malaysia, Taiwan, UAE, Saudi Arabia, and Kuwait recorded stronger growth. This range of export trends further highlighted the importance of diverse export markets, to balance out differing demand trends for Australian sheep meat.

Aside from sheep meat exports, live sheep exports currently account for one per cent of the overall Australian sheep exports (including meat and wool), down from an average of three per cent over the past decade.

The Middle East and North African region account for most of this demand, with Kuwait alone accounting for 65 per cent of the total exports for the calendar year to May 2022. During the same period, Israel, UAE and Oman accounted for fourteen per cent, twelve per cent and seven per cent respectively.

Looking toward future markets, the Free Trade Agreement (FTA) between Australia and the UK which is scheduled to come into effect towards the latter part of 2022 will provide a further opportunity for growth of sheep meat exports. As of 2021, the UK accounted for around three per cent of Australia's

lamb and mutton exports respectively, importing modest volumes of 31,000 tonnes of lamb and 17,000 tonnes of mutton in the past five years.

Once in effect, this FTA will provide Australia with immediate access to a duty-free quota of 25,000 tonnes of sheep meat, rising in equal instalments to 75,000 tonnes by year ten.

WOOL

Similar to sheep meat prices, wool prices have also been down on last year, but to a far lesser degree, and with very mixed results by micron. As the wool auctions headed into their annual recess, a large end-of-season offering dampened any potential for strong price rises, although finer wools, up to 17 micron, bucked the trend and rose at season's end.

While so much of the focus of the industry is increasingly on the sheep meat side, and its growth as the major component of the industry, it is also important to follow the trends for national wool production volumes and value, particularly in comparison to the sheep meat sector over the same period.

Looking toward the bigger picture, Australian wool production is forecast to grow in 2022/23, back to its highest level in 5 years of around 400,000 tonnes. This is roughly the same level of production

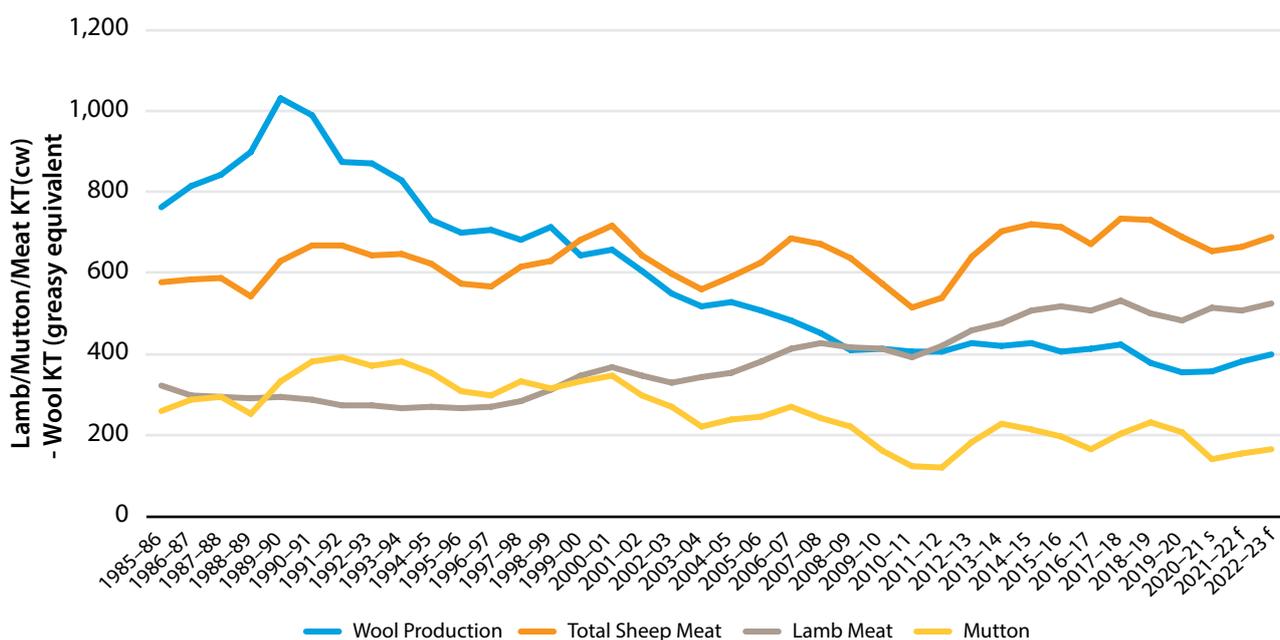
as the industry hit in 2008/09 when it finally arrested a 20-year decline, having fallen over 60 percent in that time from its 1988/89 peak of over one million tonnes.

This slight forecast growth is encouraging, but it remains to be seen whether national wool production will show substantial growth in coming years, or whether it has stabilised in its position as a secondary product to sheep meat, albeit a vitally important one.

Importantly, wool's value as an export has shown more impressive growth, forecast to rise to the same level as sheep meat. After the value of wool exports fell to a ten year low in 2020/21 of A\$2.6 billion, they are forecast to see impressive growth in 2022/23 to A\$3.5 billion. This is on the back of not only increasing supply, but general global consumer recovery in the wake of Covid. Clearly, wool's value figures as an export are partly explained by its minimal domestic sales figures, in comparison to the large domestic market for sheep meat production.

Despite this, and while the current global economic uncertainties may take some time to play out, it is clear that despite its challenges and challengers, Australian wool remains a sought-after global premium product, with a long and strong future ahead.

AUST WOOL VS SHEEP MEAT PRODUCTION



Source: ABARES, ANZ



DAIRY INSIGHTS



OVERVIEW

- Australian farmgate prices continue to hit record levels, pushed by strong processor demand against tightening supply levels
- Despite this, the national dairy herd, and dairy acreage continue their decline, impacted by factors including scarce labour, high input costs, and attractive land price offers from beef producers
- The Australian industry has launched a new advertising campaign in Asia, to re-emphasise the premium characteristics of Australian dairy products
- The market continues to watch whether economic uncertainty will result in reduced consumer demand for dairy exports, particularly in Asian markets

The Australian dairy industry continues to evolve in quite a different way to the other major livestock sectors in Australian agriculture. On one hand, prices received by farmers for milk continue to rise, buoyed by strong demand and tight global supply. On the other hand, the dairy farming sector itself continues to shrink, having done so now for two decades.

On their own, farmgate prices have never been better. In July 2022, farmgate prices broke through the milestone \$10 per kilogram milk solids figure, as processors competed to attract supply in a tight domestic production market. With each increase in farmgate prices, different processors continued to highlight not only their ability to further increase their offers if required, but also to tailor their pricing structure to best suit individual producers.

At the other end of the supply chain, the biggest retailers of milk in Australia, Coles and Woolworths, lifted the price of their generic milk brands. Given the discussion and debate which had been focussed in the past on the supermarkets' "\$1 per litre" milk strategy, the latest price rise reflects the impact of inflation, as well as a quiet move away from highlighting cheap milk prices as a marketing strategy. In the two major supermarkets, milk prices

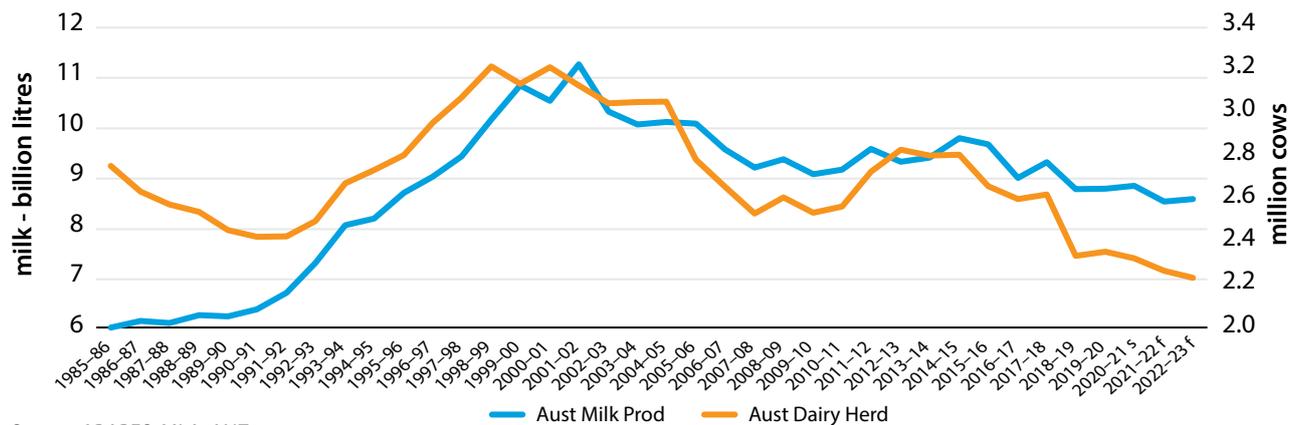
rose by over ten percent, from \$1.35 to \$1.60 a litre for the generic supermarkets' brands.

As the dairy industry sought to recover some of the export ground lost through the two years of Covid disruptions, a new advertising campaign has recently been launched, seeking to boost the profile of Australian dairy products in China, Japan and Southeast Asia. These markets are particularly important, given that almost 90 per cent of Australia's dairy exports are destined for Asian markets, including China, Japan, Vietnam, Thailand, Indonesia, Singapore and Malaysia.

The advertising campaign will seek to reinforce the Australian dairy industry's renowned clean and green reputation and emphasise the premium quality of Australian dairy products.

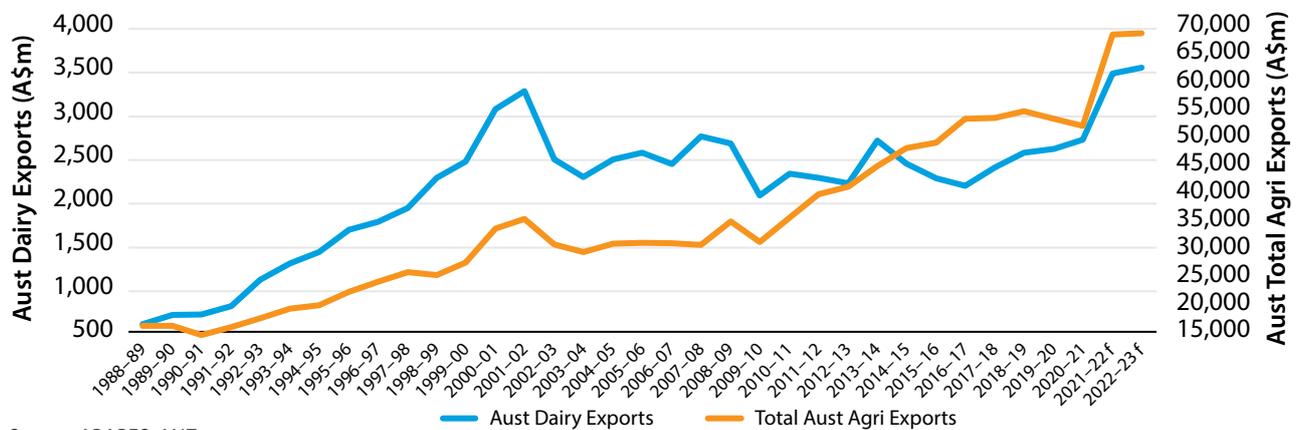
At a global level, while Global Dairy Trade prices eased downwards from their June peaks, they still remained relatively high historically. Across the market, a degree of nervousness is starting to grow that the ongoing tighter economic conditions could impact consumer demand for dairy products, across both developing and developed markets.

AUST DAIRY HERD AND MILK PRODUCTION



Source: ABARES, MLA, ANZ

AUST DAIRY EXPORTS VS TOTAL AGRI EXPORTS



Source: ABARES, ANZ

Unsurprisingly, dairy prices are impacted by different supply and demand variables. In terms of global milk export supply, some of the pressure of the previous year has eased, as the US and New Zealand lift their production above last year's levels, although production in the EU and Australia is still below last year. Notably, at the demand level, the shift in China's imports is having a marked impact on the market. On a three-month rolling basis, China's dairy imports are down 24 percent. In fact, China's reduction in imports is larger than the global decline in milk production. This fall in China's imports has been attributed to a mix of slowing consumer demand, a build-up of inventory, and the ongoing impact of Covid lockdowns.

Within Australia, the dairy farming landscape continues to decline. The Australian dairy herd is forecast to continue its long-term contraction, falling to a multi-decade low of 2.2 million head in 2022/23. This would mean that the herd is around a third down on where it was twenty years ago, and half of what it was fifty years ago. The fall in milk production has not been quite as stark, buoyed by

the ongoing increase in milk yields. Looking ahead, domestic production is forecast to remain flat over the next year, at around 8.5 billion litres. Despite the flattening, this figure would still be down 25 percent on the record high 20 years ago of 11.3 billion litres and would be roughly the same as Australia was producing thirty years ago.

The question will remain as to whether the dairy production industry has yet hit its "structural floor", where numbers are unlikely to fall much further, as those remaining in the industry are keen to develop and build their operations – a similar trend as has been seen in the sheep industry over the past decade.

Alternatively, given the pressures of high input costs and tight labour availability, combined with the attractive land prices being offered by beef cattle growers to dairy operators, there may well be further falls in dairy farmer numbers and the dairy herd. Should this happen, an even tighter milk supply should at least be likely to put upward pressure on prices for the medium term.



COTTON INSIGHTS



OVERVIEW

- The challenging economic period will likely impact consumer demand for cotton products, as has occurred in the past, which may push down cotton prices
- However, the market is also aware that this will likely mean both a resurgence in demand in the medium term, as well as a temporary cotton shortage if near-term lower prices reduce global plantings
- Forecasts for the next Australian cotton crop continues remain close to record levels, based on favourable conditions
- Locally, logistics along the supply chain remain a major issue, including harvesting, storage, trucking and shipping

With the Australian cotton industry in the final stages of preparation for the 2022/23 crop, a great deal of the industry’s attention continues to be on the ongoing developments of the industry globally. While a lot of this attention is focussed on the fortunes of cotton crops in other major producers and exporters, the industry is also keeping a close eye on geopolitical and economic developments which could have major impacts on trade, as well as consumer behaviour globally.

The current uncertain economic outlook across many countries is very likely to have some impact on demand for cotton products. As has been seen in the past, this dampening of consumer activity is likely to work its way back up the supply chain from store shelves and racks, and likely to put downward pressure on cotton prices. If rising interest rates and tighter economic times cause consumers to purchase fewer cotton products, then this could also potentially lead to areas of oversupply in the supply chain, including larger inventories of cotton products unsold, more cotton bales in storage with processors and reduced demand from major buyers looking ahead to the next season.

While the economic uncertainty on its own would normally be enough to reduce consumer demand, these events are also occurring at a time when global cotton prices are still historically very high, a factor which has a flow-on effect to prices of cotton products.

At the start of April, global cotton prices peaked at 156 USc/lb, their highest levels since they had briefly broken through the 200 USc/lb barrier in March 2011. At that time, cotton prices had surged to record levels based on a combination of demand and supply factors. As the global financial crisis around the time eased, demand for textiles surged. At the same time, the world was coming off two years of its lowest cotton stock to use ratios in fifteen years. Following this, in reaction to low stock levels and high prices, the world saw a surge in cotton production for the following two years, with the result that global stock to use ratios climbed from 39 percent in 2009/10 to 92 percent by 2013/14.



The current situation for the global cotton market clearly has some similarities, and is likely to see a level of cyclicity over the coming years. In the short to medium term, global cotton prices have fallen by 50 per cent from April to early August 2022, down to 100 USc/lb. This fall had been largely driven by fears of the looming slump in consumer demand, particularly for non-essential clothing, as well as for fabric products. However, given that the market gains more experience with every cycle, prices had already begun to stabilise, as buyers realised that this slowing of production in mills would lead to shortages at some point, and that demand for cotton would inevitably rebound strongly, potentially in the not-too-distant future.

In terms of raw product availability, cotton prices have also been cushioned to some extent by increasing concerns about crops in some of the world's major production areas. In the US, there are worries that drier than normal weather in Texas could see a fall in production, which would flow on to tighter exports and ending stocks.

At the same time, there are also concerns around the Indian cotton crop, where low rainfall early in the sowing season saw a rise in crop infestation from pink bollworms in several major cotton regions. With the potential that this parasite could reduce crop yields by between 30 and 90 percent, there are fears not only that India's cotton crop could be well down, but that India could potentially react by limiting cotton exports to protect its domestic market, just as it did in 2011.

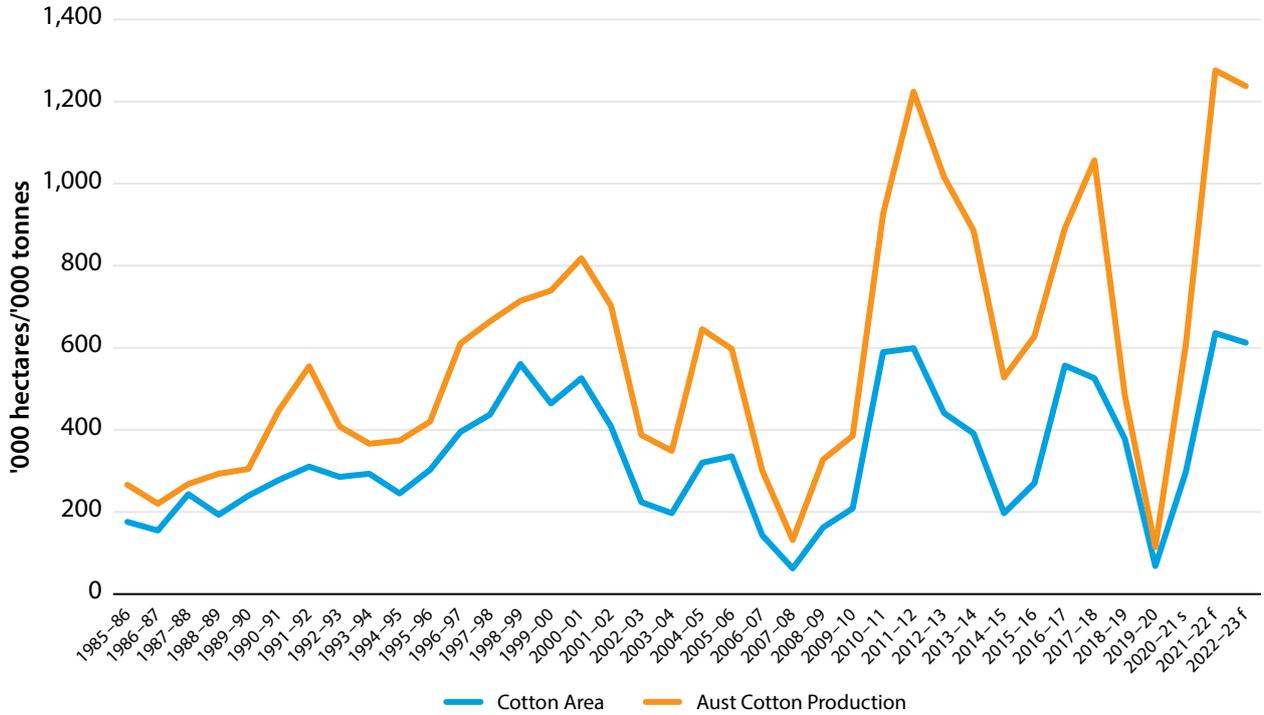
The fact that global supply chains continue to experience logistical disruptions, including around container availability and port access, could also play out both ways – reduced demand from buyers in the knowledge that trade access will be less than normal, but also stronger than expected demand from consumers, as product availability remains relatively tight.

In terms of the global crop outlook, USDA is currently forecasting the 2021/22 cotton crop to rise by around 5 percent to 116 million bales or around 25 million tonnes, with a similar forecast again for the following year, as a forecast economic recovery lifts global demand.

In terms of the Australian crop, in what can be a very volatile crop, ABARES is currently forecasting Australia's cotton acreage and production to be relatively unchanged, particularly based on the outlook for favourable seasonal conditions. The current forecast is for the 2022/23 crop area to fall marginally by around four per cent, to 612,000 hectares, the second highest area on record, while 2022/23 cotton production is also forecast to fall even more marginally, dropping three percent to 1.2 million tonnes, which would also be the second highest crop on record.

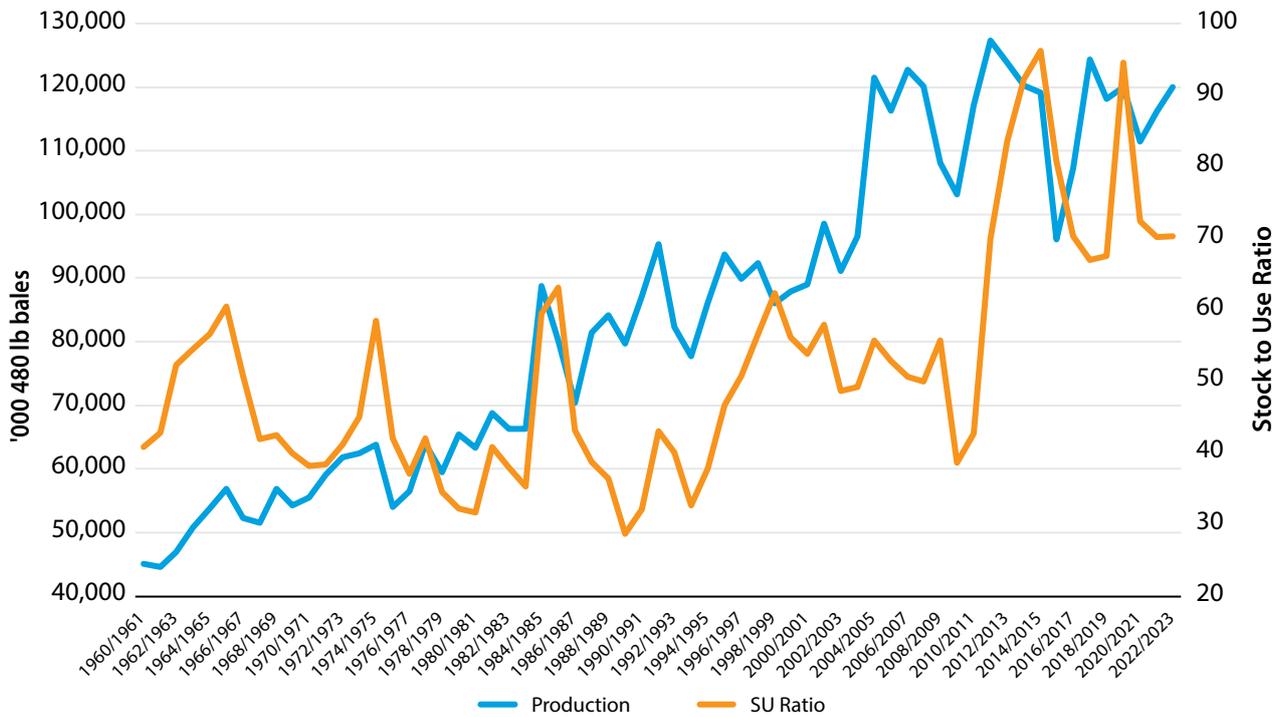
Looking ahead, the Australian cotton industry's outlook will inevitably be impacted to some degree by both a slowdown in global demand, followed by the forecast recovery. However, given the Australian industry's reputation for quality, as well as the outlook for a good season and subsequent reliability of supply, there is every expectation of a good couple of years ahead.

AUSTRALIAN COTTON AREA AND PRODUCTION



Source: ABARES, ANZ

GLOBAL COTTON PRODUCTION VS STOCKS TO USE RATIO



Source: USDA, ANZ

AUSTRALIAN ECONOMICS INSIGHTS

Interest rates will slow the economy. Eventually.

The cash rate is going up quickly. The RBA has increased the cash rate from 0.1 per cent in April to 1.85 per cent in August, and we expect it to reach 3.35 per cent by the end of the year. The current high inflation and this response by the RBA will be the main changes that impact Australia's economic growth over the next two years.

Inflation will slow from here, but 2-3 per cent is a long way off. We expect quarterly inflation to slow in the second half of 2022, reflecting easing global drivers, lower commodity prices including crude oil and slower momentum in domestic pressures. But sharp increases in electricity and gas prices, as well as the end of the fuel excise (the discount on government charges for petrol) are some key factors keeping inflation from falling closer to the 2-3 per cent range. We see annual headline inflation falling into the 2s by late-2023. But trimmed mean inflation, an underlying measure which the RBA focusses on, will be slower to come down.

The labour market imbalance is not going away. The job vacancy rate is at a record high (3.4 per cent of jobs were vacant in Q2) and unemployment is very low (3.5 per cent in June). We now expect the unemployment rate will fall below 3 per cent by early next year. The latest data suggests that there are 480,000 job vacancies across the economy, which represents a substantial gap between labour supply and demand across many industries and geographies in Australia. As higher inflation and rising rates curtail demand growth, it will take time for this gap to close enough to put upward pressure on unemployment.

New residents add to both supply and demand. Newly arrived skilled migrants, temporary visa holders, students and backpackers are adding

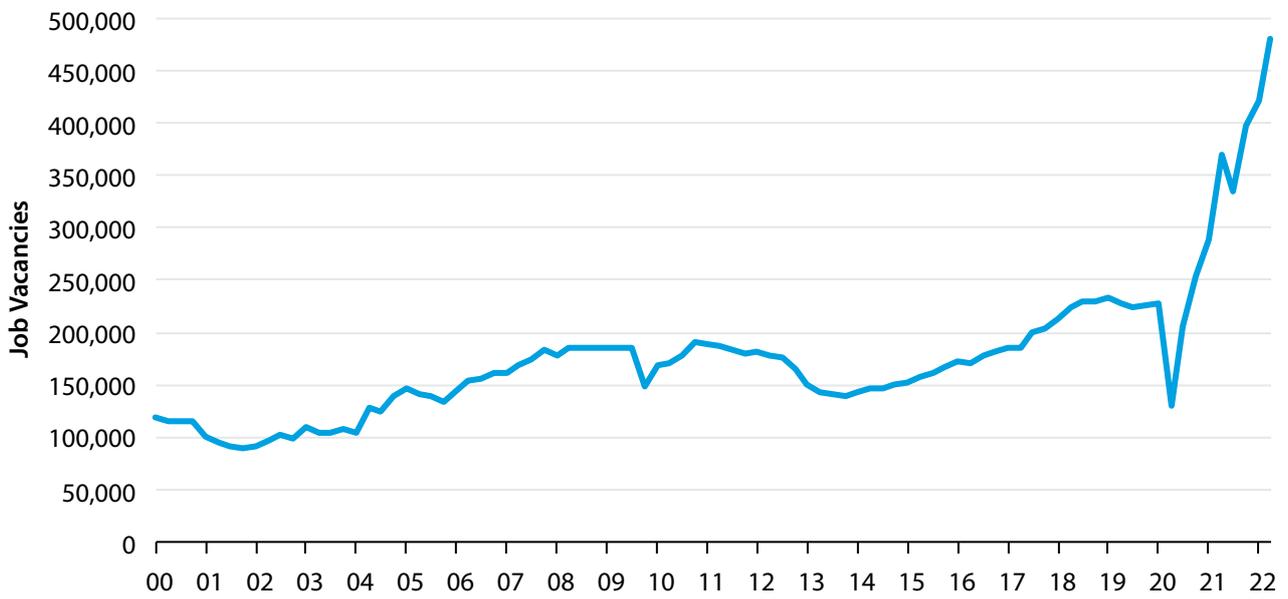
to the supply of workers, but also add to already strong demand. So, while the return of migration improves labour mobility and matching, it doesn't mean the gap between demand and supply is going to close quickly.

Wage growth will accelerate. We expect an increase in the wage price index (the hourly rate for the same job over time) of 3.3 per cent y/y by the end of the year. Minimum and award wages have increased by 5.2 per cent and 4.6 per cent respectively, and labour underutilisation is at a 40-year low. Job mobility has risen sharply, inflation expectations are up and businesses are reporting passing on larger wage increases. Household income is expected to increase by much more than the wage price index, partly reflecting job switching and promotions.

GDP growth in Australia will slow, but we don't expect a recession. Given the steeper trajectory for the RBA cash rate, we have lowered our forecasts for growth over coming years, and now expect GDP growth of 3.0 per cent (prev 3.2 per cent) in 2022, 1.8 per cent (2.4 per cent) in 2023, and 1.2 per cent (1.8 per cent) in 2024. But we do not expect a recession. New Zealand, which has had higher inflation for longer and is 7 months ahead in the rate hike cycle compared with Australia, is showing resilient spending and business indicators. This is an encouraging sign for Australia's ability to avoid a sharp slowdown in the near term, under higher inflation and rising interest rates.

AUD appreciation may be limited by global growth concerns. As global growth concerns continue to mount, we are less confident that recent strength can continue. So, we have downgraded our year-end target to USD0.72.

JOB VACANCY



Source: ABS, Macrobond, ANZ Research

AUSTRALIA, FX SPOT RATES



Source: Macrobond, RBA, ANZ Research

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