

ANZ Agri InFocus Commodity Insights

Summer 2026/27

Foreword

With summer on the horizon, many of the seasonal concerns we carried into spring have largely failed to materialise. Timely rainfall and improved pasture growth have supported livestock producers across many regions, while cropping producers are heading into harvest with ABARES forecasting Australia's fourth-largest crop on record. Grain prices remain broadly in line with recent years and, combined with a strong crop, should support farm incomes. The common challenge across the sector remains costs. Whether it's livestock, cropping, dairy or horticulture, the focus is on maintaining productivity while managing input expenses that show little sign of easing.

In this edition, we examine a farm machinery sector in transition. Tractor sales have fallen sharply from the highs of recent years, but the broader story is one of larger farms, more capable equipment and changing approaches to machinery ownership and utilisation. The recent lift in harvester and baler sales also shows how quickly seasonal conditions can influence investment decisions.

Across grain markets, large domestic and global harvests are weighing on wheat and barley prices, while canola is supported by stronger oilseed fundamentals. Livestock markets remain equally interesting. Cattle prices have strengthened despite historically high slaughter rates, while tight sheep numbers, strong restocker demand and favourable seasonal conditions continue to support lamb and mutton prices.

The wool market has come off its recent highs, although conditions continue to vary across wool types and micron categories. Dairy, meanwhile, is showing encouraging signs of recovery, with milk production continuing to rise despite a smaller national herd. Sugar markets have also strengthened, supported by production uncertainty in several major exporting countries.

Taken together, these themes highlight an industry that continues to adapt to changing conditions. From machinery investment and input costs through to weather, markets and global trade, Australian producers remain focused on making the most of opportunities while managing a complex operating environment.



Mark Bennett
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Farm machinery insights

More hectares, fewer machines? The changing landscape of Australian farm machinery

- Australian tractor sales fell 46 per cent between 2022 and 2025 and remained weak into 2026, although machinery demand is becoming uneven across equipment categories.
- Larger farms, increasingly capable machinery and greater use of contractors are shifting the focus from machinery ownership to machinery utilisation.
- Combine and baler sales have strengthened in 2026, as improved seasonal conditions support machinery demand while uncertainty over future conditions increases the incentive to build feed reserves.
- Higher machinery costs, rising financing expenses and more complex technology are making replacement decisions more demanding for farm businesses.

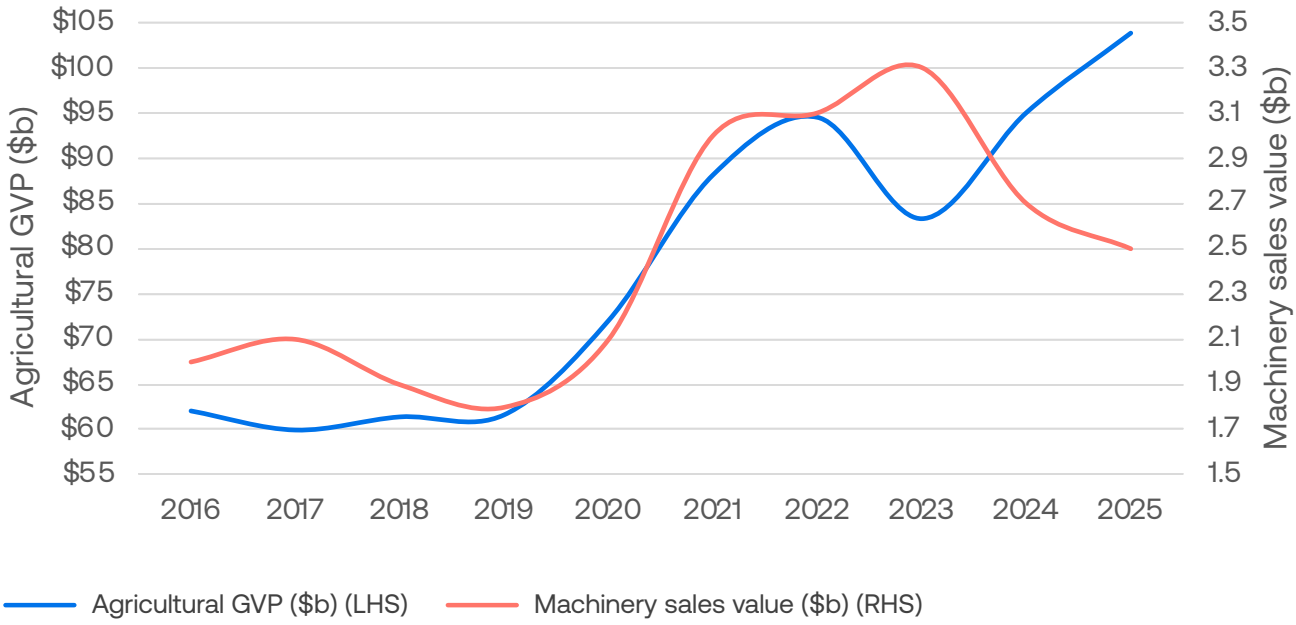
Machinery and the changing face of Australian farming

From the first mechanised tractors to the Australian-designed Sunshine Harvester, machinery has helped shape the development of Australian agriculture. It reduced the physical demands of farm work, allowed larger areas to be cultivated and harvested and gave producers greater control over the timing of critical operations. Successive advances in horsepower, spraying, harvesting and precision technology have continued that transformation, enabling Australian farms to remain internationally competitive despite high labour costs, long distances and highly variable seasons.

The structure of the sector has evolved alongside its machinery. Cropping has expanded, horticulture has become more valuable and technologically sophisticated, cattle production has moved through repeated rebuilding and liquidation cycles, and sheep numbers remain well below their historical highs. Across these industries, improvements in genetics, agronomy, animal management and technology have lifted productivity, while consolidation has resulted in generally fewer farm businesses operating at greater scale. Machinery has both enabled that change and adapted to it.

Against this backdrop, recent machinery sales trends present an interesting paradox. New tractor sales have almost halved since their 2022 peak and remained weak into 2026, but the downturn has been uneven across machinery categories. Baler sales have risen strongly, while combine harvester sales, which were still declining in the first half of 2026, have subsequently rebounded as prospects for the national winter crop improved. This suggests machinery demand is being shaped not only by the large volume of equipment purchased during the boom years, but also by changing seasonal conditions and the needs of different farming sectors. The result is a machinery market in which a broad post-boom correction is increasingly being overlaid by more immediate production and seasonal requirements.

Australian new machinery sales value vs Agricultural gross production value 2016 - 2025



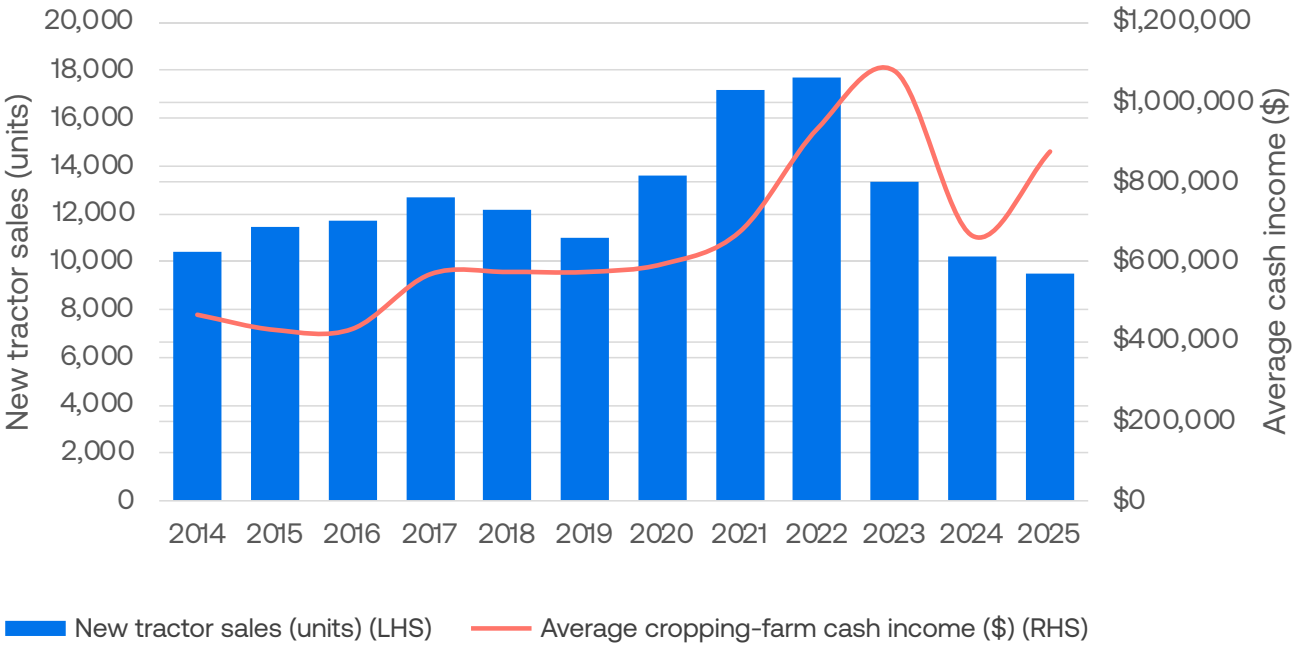
Source: ABARES, TMA 2025 Tractors and Machinery Report, ANZ

From exceptional boom to sharp correction

According to the Tractor and Machinery Association of Australia's May 2026 report, national tractor sales rose from 13,639 units in 2020 to 17,183 in 2021 and a record 17,702 in 2022. Strong commodity returns, favourable seasons in important regions, historically low borrowing costs and concerns about equipment availability all encouraged investment. Expensing, a temporary investment tax incentive, reinforced those conditions by allowing eligible businesses to deduct the business portion of qualifying assets immediately rather than progressively over their working lives. It did not make machinery free, but it improved cash flow and encouraged some purchases to occur earlier than they otherwise would have.

While Temporary Full Expensing played an important role, it was not the only reason machinery sales surged. Many grain growers entered the period with exceptionally strong cash flow following several favourable seasons and elevated commodity prices. ABARES farm survey estimates show average cropping-farm cash income increasing from around $594,000 in 2020 to $934,000 in 2022, before climbing above $1 million in 2023. For many businesses, the decision to upgrade machinery was therefore supported not only by favourable tax treatment, but also by healthy balance sheets, low borrowing costs and several years of strong financial performance.

New tractor sales vs average cropping-farm cash income 2014-2025



Source: ABARES, TMA 2025 Tractors and Machinery Report, ANZ

By 2025, tractor sales had fallen to 9,521 units, 46 per cent below their 2022 peak and almost 30 per cent below the five-year average. That correction continued into 2026, with 4,316 tractors sold in the first half of the year, 11 per cent fewer than in the same period of 2025. On a rolling 12-month basis, sales fell to 8,998 units, their lowest level in a decade.

Much of the machinery purchased during the boom years remains relatively new, reducing the immediate need for replacement. At the same time, borrowing costs are higher, and farm incomes have eased from the exceptional levels recorded during 2022 and 2023. Viewed in that context, the decline in tractor sales appears less surprising. Rather than signalling an equivalent decline in agricultural activity, it partly reflects a correction from extraordinary buying conditions and the consequences of purchases having been brought forward from future years.

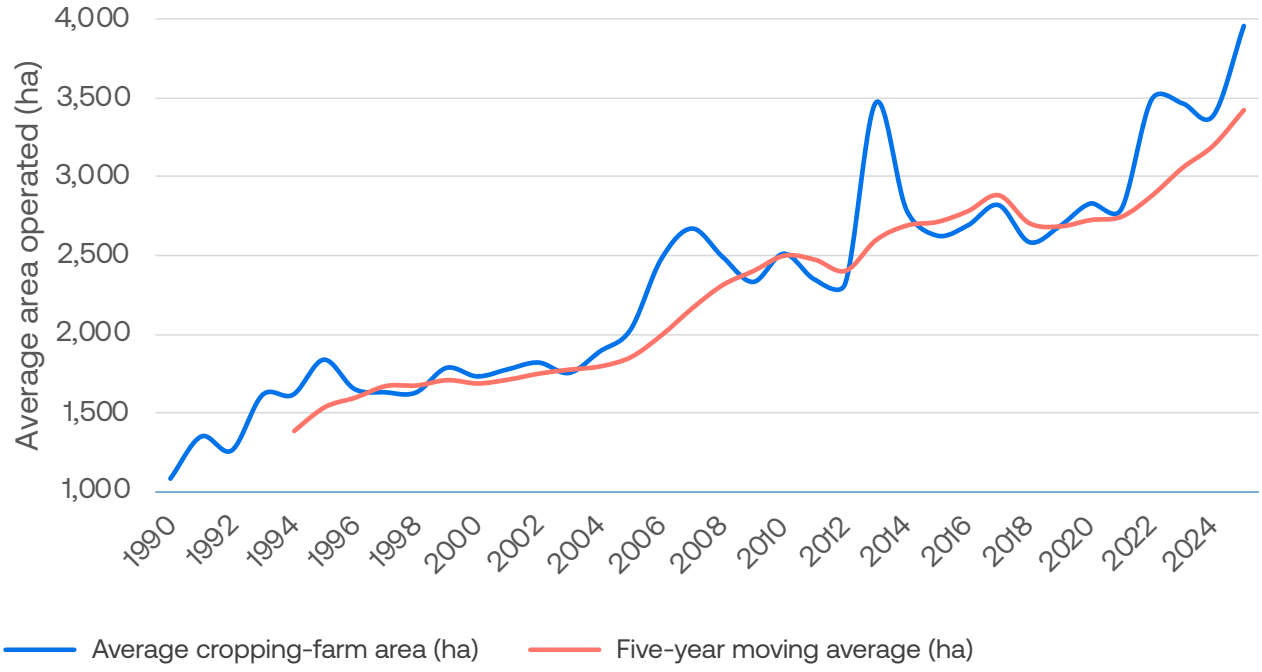
New sales tell only part of the story

The available machinery figures record new sales rather than the total stock of machinery operating on Australian farms. They do not reveal how many tractors and combines are already in use, the average age of the fleet, how frequently equipment changes hands or whether second-hand values are encouraging producers to retain machinery for longer. A decline in new sales could reflect producers delaying replacement, purchasing more second-hand equipment or relying on contractors rather than owning machinery themselves. Without data on fleet size, fleet age and second-hand transactions, it remains difficult to know exactly how much each of these factors is influencing new-machinery sales.

At the same time, the average cropping farm size has increased. ABARES farm survey estimates show the average cropping farm expanding from 1,731 hectares in 2000 to 3,956 hectares in 2025, an increase of 129 per cent. Over the same period, ABARES survey estimates indicate the population of cropping farms declined by 16 per cent and mixed farms by 47 per cent, although annual counts can vary as businesses move between enterprise classifications. Importantly, this has not been accompanied by a comparable decline in the area being cropped. Australia's cropping footprint has generally continued to expand, meaning fewer businesses are farming larger areas of land. Fewer farms therefore do not necessarily mean fewer hectares requiring sowing, spraying or harvesting, but they may mean more hectares being worked by each machine.



Average cropping farm area - 1990-2025



Source: ABARES, ANZ

The decline in machinery sales has also varied markedly across regions. In 2025, tractor sales in Victoria, New South Wales and South Australia remained around one-third below their respective five-year averages, while Queensland proved comparatively resilient and Western Australia recorded modest growth. Data for 2026 continues to show considerable variation between states, reinforcing the influence of seasonal conditions, commodity mix and farm profitability on machinery purchasing decisions. National sales figures can therefore conceal quite different machinery cycles across Australian agriculture.

From ownership towards utilisation

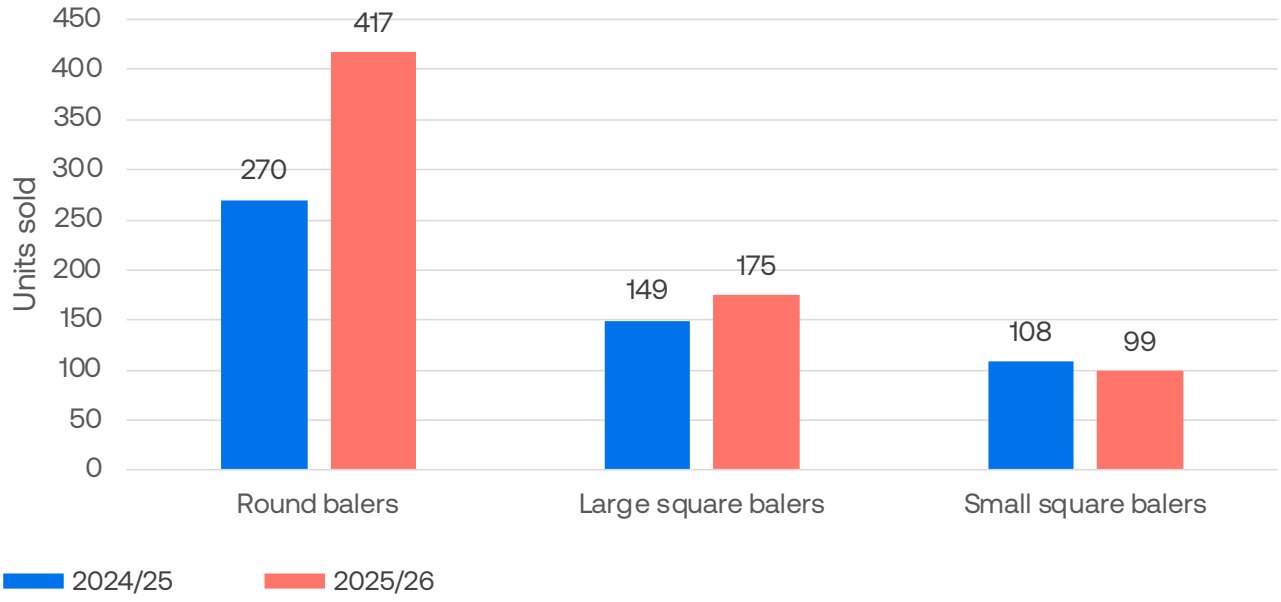
Larger farms can spread machinery costs across more hectares, while modern equipment can perform substantially more work than the machines it replaces. Combine harvesters, commonly known as headers, are the large machines used to harvest grain crops such as wheat, barley and canola. Sales fell from 1,145 units in 2022 to 693 in 2025, yet the average horsepower of combines sold increased from around 491 horsepower in 2023 to 536 horsepower in 2025. While horsepower is only one measure of capability, larger combines are generally able to harvest more hectares in a day and process greater volumes of grain during often narrow harvest windows. As a result, fewer combines sold does not necessarily mean less harvesting capacity entering Australian agriculture. In some cases, one modern machine may do the work that previously required several older machines.

Recent sales show how quickly demand can respond to the season. In the 12 months to June 2026, combine sales were still 14 per cent below the previous year. By September, however, rolling annual sales had moved four per cent higher, helped by 200 combines being sold during September alone, 80 per cent more than in September 2025. The turnaround coincided with a substantial improvement in crop prospects after a nervous start to the season, with the national winter crop subsequently forecast at around 61 million tonnes, which would make it the fourth largest on record. While machinery orders and deliveries mean the relationship is not immediate, improved harvest prospects are likely to have strengthened the case for investment in harvesting capacity.

Machinery contractors may also be contributing to the shift towards utilisation. Rather than owning every machine themselves, producers can use contractors for harvesting, spraying and haymaking, spreading the cost of expensive equipment across multiple businesses. This may help explain how agricultural production can continue to grow even when new machinery sales weaken.

Baler sales provide a different example of how machinery demand can respond to both production opportunities and seasonal risk. In the 12 months to June 2026, total baler sales rose 31 per cent to 691 units, with round-baler sales increasing from 270 to 417 and large-square baler sales from 149 to 175. By September, total rolling annual baler sales were around 41 per cent above the previous year. That strength coincided with unexpectedly favourable conditions across many livestock and cropping regions, creating more pasture, fodder and crop material available to conserve. At the same time, uncertainty over future seasonal conditions provides an incentive for livestock producers, feedlots and hay businesses to build feed reserves while conditions allow. The strength in baler sales may reflect a combination of a good season now and concern about having enough feed if conditions turn.

Australian baler sales by type, 2024/25 vs 2025/26



Source: Kynetec, TMA 2025 Tractors and Machinery Report, ANZ

A higher hurdle for replacement

The financial test for a new machine has become more demanding. ABARES farm survey data shows average cropping-farm debt increased from $2.74 million in 2022 to $3.4 million in 2025, while average interest paid rose from $74,640 to $182,620. Average interest paid was equivalent to about eight per cent of average farm cash income in 2022 and almost 21 per cent in 2025. A replacement purchase must consequently earn its place through hectares covered, labour saved, improved precision, lower operating costs, or reduced exposure to breakdowns during sowing and harvest.

That hurdle is reinforced by the high cost and increasing complexity of modern machinery. Many tractors and combines represent investments of hundreds of thousands of dollars and, in some cases, more than $1 million, while imported machinery and components also expose buyers to exchange-rate movements. Technology can strengthen the case for replacement where guidance, automation, telematics or precision application improve efficiency, but better maintenance and diagnostics can also extend a machine's useful life. For many producers, the decision is becoming less about the age of a machine and more about whether replacing it will generate sufficient additional productivity to justify the cost.

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The machinery market ahead

Changes in farm structure are also likely to influence the machinery supply chain. As farms grow larger and machinery becomes more sophisticated, dealerships require greater scale, broader geographic coverage, and stronger technical capability. They provide not just equipment but servicing, parts, finance, precision-agriculture technology, software and diagnostics. For producers, reliable support can be as important as purchase price, particularly when machinery failures during sowing or harvest can have significant financial consequences. This could also create opportunities for lower-cost Chinese manufacturers, although their ability to compete will depend as much on building reliable dealer, parts, and service networks as on the quality and price of their machines.

Machinery demand should recover as boom-era equipment ages and deferred replacement accumulates, although the recent strength in combines and balers shows that demand can move very differently between equipment categories and respond quickly to seasonal conditions. The next cycle may also look different from that of 2021 and 2022. Larger farms, higher-capacity machinery, and greater use of contractors may concentrate investment in fewer assets, even as the amount of productive work performed by the national fleet continues to grow. New machinery sales will remain an important measure of confidence, but the more revealing question may be how many hectares, tonnes and dollars of output each machine helps generate.



Grains and oilseeds insights

- Harvest price pressure is building for wheat and barley, with large volumes expected across Victoria, South Australia and Western Australia in particular.
- China continues to underpin barley demand while global coarse grain supplies tighten.
- Black Sea grain flows are likely to be a key driver of price direction over the next 12 months for global wheat markets in particular.
- Canola prices continue to be supported by global oilseed fundamentals.

Wheat

As more grain is harvested and safely stored or delivered across both Australia and Argentina, global prices have moved lower as the market gains confidence that there will be ample volume coming from the southern hemisphere this year.

Domestically, while storm and rain activity halted early progress and caused quality downgrades across parts of the east coast through late spring, yields are in part making up for quality concerns in most regions. With significantly less wheat planted in New South Wales and Queensland this year, particularly due to a late start in the north of New South Wales and patchy conditions across Queensland cropping zones, other states are expected to make a much larger contribution to total volumes this harvest.

In South Australia, highly favourable spring rain has contributed to a huge recovery in year-on-year grain production, with the SA Department of Primary Industries and Regions (PIRSA) forecasting a wheat harvest that exceeds 6 million tonnes, representing the largest wheat crop from that state since 2022/23. Western Australia is expected to deliver another bumper wheat crop, with just under 11 million tonnes forecast by the Grains Industry Association of Western Australia (GIWA), although quality is expected to be highly variable. In Victoria, similar plantings to last year are now expected to deliver some 15 per cent more grain, following a favourable growing season.

A favourable growing season in Argentina is also expected to yield one of the largest harvests on record, adding to downward pressure on global

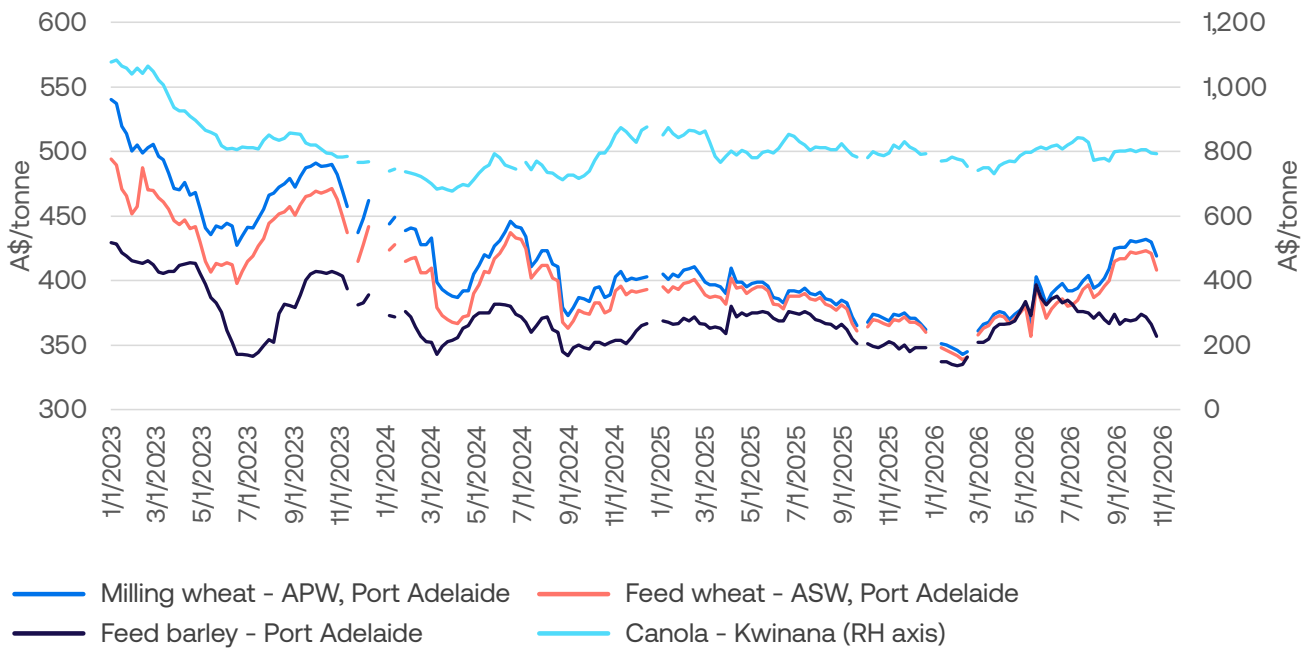
wheat price indicators since prices peaked in early August.

Australian prices have, however, shown some resilience, only beginning to slip as harvest volumes become more apparent. Domestic feed grain demand driven by the ever-expanding feedlot sector, strong demand from Asia, and grower reluctance for forward sales amid weather uncertainty have assisted to date.

As Australian harvest volumes become actuals and not estimates, the influence of both domestic factors and Black Sea exports is likely to have a bigger impact on local pricing. Middle East instability and restricted Russian exports have contributed to a more complex global wheat trading environment this season. Following reasonably strong production, surplus Black Sea grain is expected to make its way onto export markets at some point, potentially causing price volatility and downside risk for Australian prices, particularly through the 2027 marketing window.

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Domestic grain and oilseed pricing – three-year view



Source: ABARES, ANZ

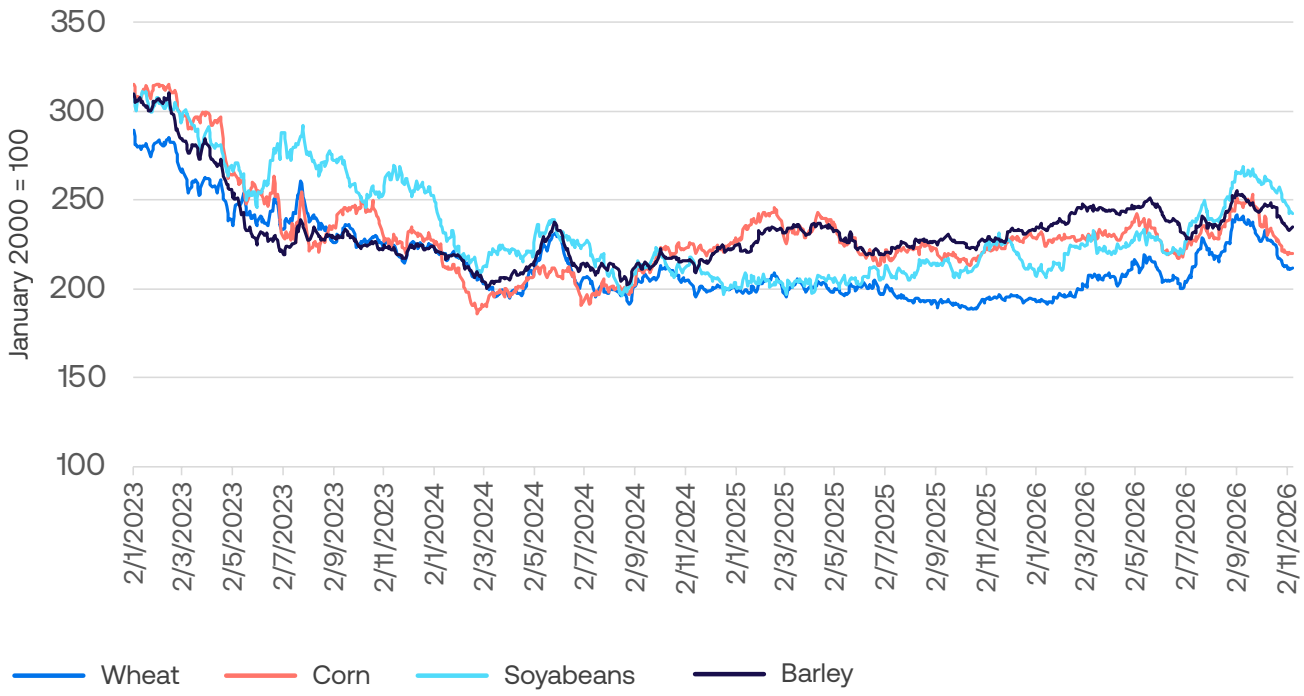
Barley

Australia is forecast to produce its second-largest barley crop on record, at between 16 and 17 million tonnes, following an excellent season for many growers. This has coincided with strong production from other key exporters including the European Union (EU), Argentina and Canada. These large global production expectations and available export volumes have contributed to downward price pressure across Australian and global barley markets over recent weeks.

In exports, increasing demand for feed barley in export markets has offset a reduction in malting barley use over recent years, as global beer consumption continues to decline. Feed barley demand has been particularly strong from China, where over 80 per cent of recent Australian barley trade (malt and feed) has occurred. China is expected to import over 14 million tonnes of barley from around the globe throughout 2025/26, with barley providing an important alternative feed grain as corn imports remain constrained by China's tariff-rate quota system.

In other coarse grains, United States (US) corn production is tracking better than anticipated earlier this season, with US Department of Agriculture (USDA) forecasts trending higher, impacting global price outlooks including those for barley. With prices already under some local pressure from harvest volumes, there is further downside price risk, as full harvest quantities become apparent. However, strong domestic and global feed grain demand and overall lower year-on-year global coarse grain ending stocks, largely driven by corn supplies, remain supportive for barley pricing.

International Grains Council wheat, corn, soy and barley price index



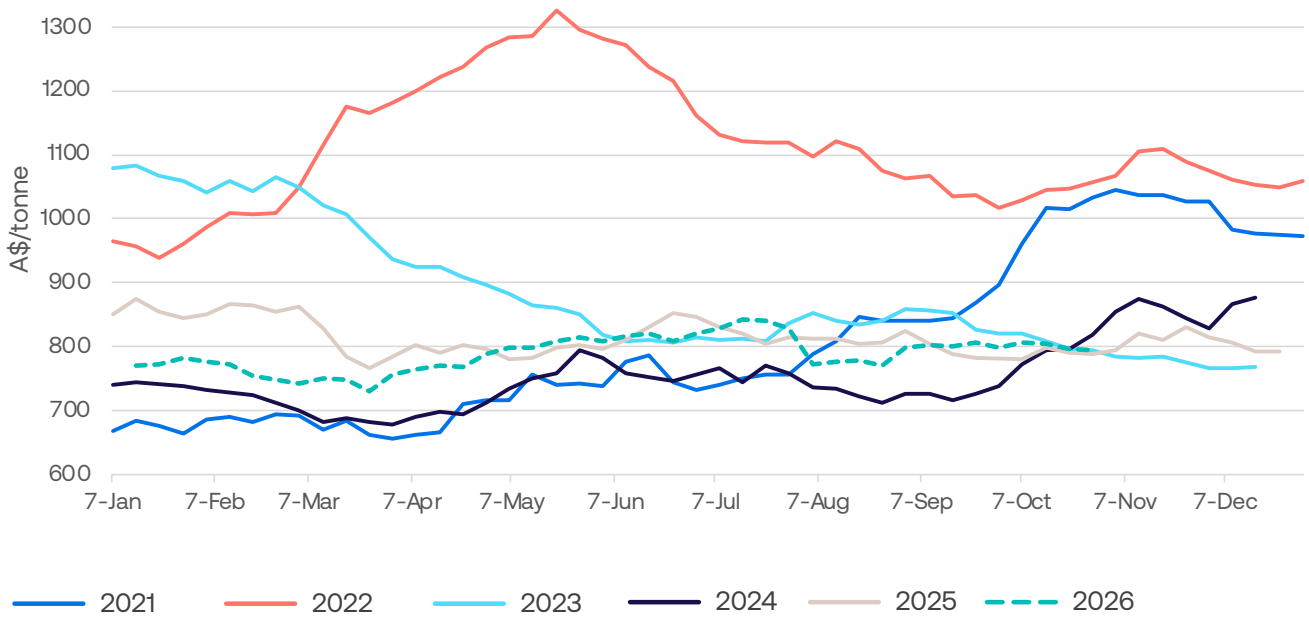
Source: International Grains Council, ANZ

Canola

As is the story for cereal production, Australian canola production looks set to benefit from excellent growing conditions across many production regions, with a national crop of well over seven million tonnes expected, well above the ten-year average of around five million tonnes. Domestic prices have performed relatively strongly this year, dipping with the northern hemisphere harvest through August, before regaining some ground on the back of restrictive Black Sea export conditions, strong biofuel demand following crude oil price rises and forecasts of lower global vegetable oil ending stocks.

With increased on-farm costs through 2026 and more complicated storage requirements, a harvest price dip is not unexpected or unusual for Australian canola pricing through the summer period. Prices are, however, expected to be supported beyond the immediate harvest period by rising export demand and lower global vegetable oil stocks through 2026/27.

Canola prices (FOB Kwinana) - 2021-2026



Source: ABARES, ANZ





Beef insights

- Cattle prices have strengthened despite historically high slaughter, with the Eastern Young Cattle Indicator (EYCI) reaching around 1,040c/kg in early November.
- Cattle availability is expected to tighten, with the national herd and annual slaughter both forecast to decline through to 2028.
- Australia is producing more beef from fewer cattle, with beef production around 13 per cent higher than in 2014/15 from almost identical slaughter numbers.
- Strong export demand could support cattle prices, although El Niño, a stronger Australian dollar and increasing competition from Brazil remain important risks.

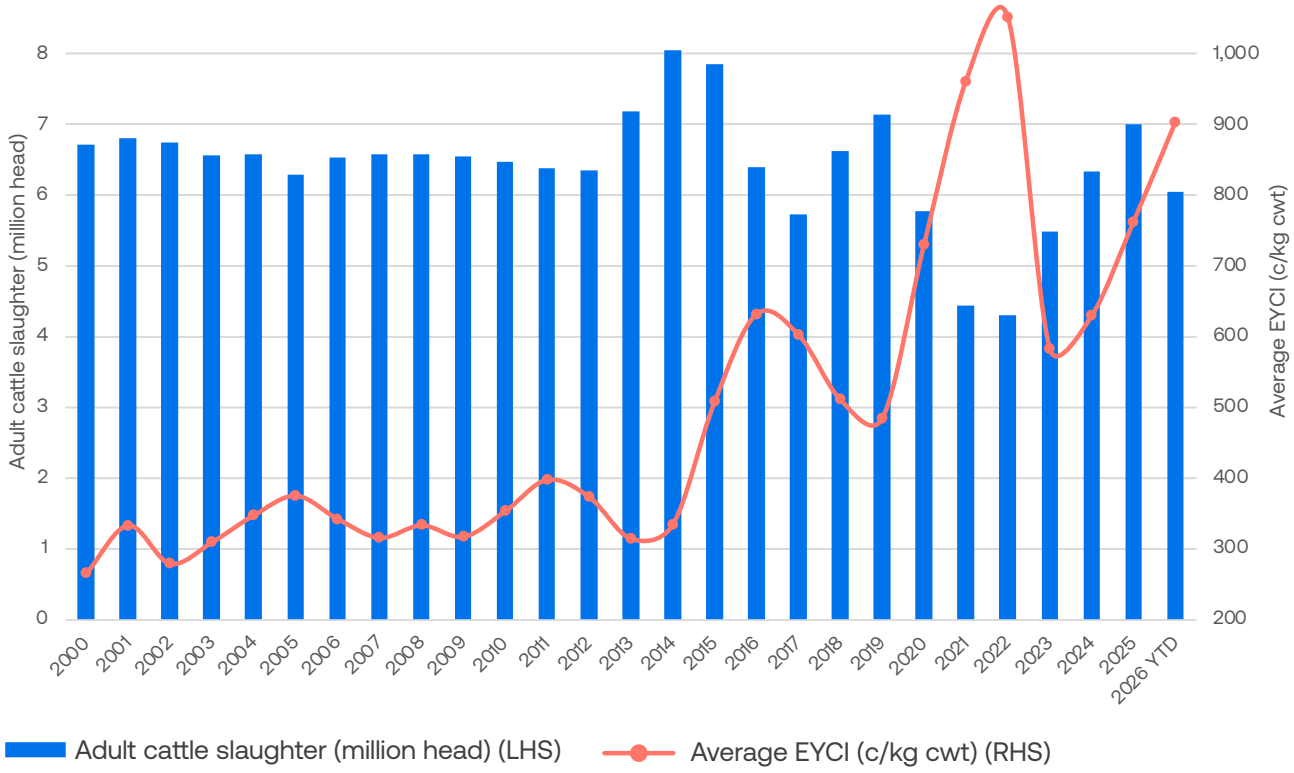
Cattle prices regain momentum

The Australian cattle industry is heading into summer with prices climbing and seasonal conditions better than many would have forecast. After dipping to a seven-month low in May, the benchmark Eastern Young Cattle Indicator (EYCI) moved above 1,000c/kg carcase weight for the third time this year, reaching around 1,040c/kg by early November, almost 200c/kg higher than a

year earlier. This combination of high prices and high cattle turn-off is unusual: from January to October, adult cattle slaughter and the average EYCI were both the third highest for that period since 2000. Historically, high slaughter has tended to put downward pressure on cattle prices.

Stronger than expected spring rainfall has been an important driver. After a dry September, substantial October rain across cattle-producing areas of Queensland and northern New South Wales improved pasture growth and reduced immediate cattle availability. If favourable conditions continue, producers could retain more stock and restocker buying could strengthen, as occurred during the herd rebuilding of 2021 and early 2022. Conversely, a return to dry conditions could increase cattle turn-off as producers seek to reduce feed and water requirements.

Australian annual cattle slaughter vs average price (EYCI) 2000 - 2026 (ytd)



Source: MLA, ANZ

Cattle numbers begin to tighten

High slaughter is also pushing Australian beef production to new records. Adult cattle slaughter is forecast to reach 9.6 million head in 2026, up from 9.3 million in 2025, while beef and veal production is forecast to exceed three million tonnes for the first time. Average carcase weights are also forecast at 313kg, close to the record levels reached in 2022.

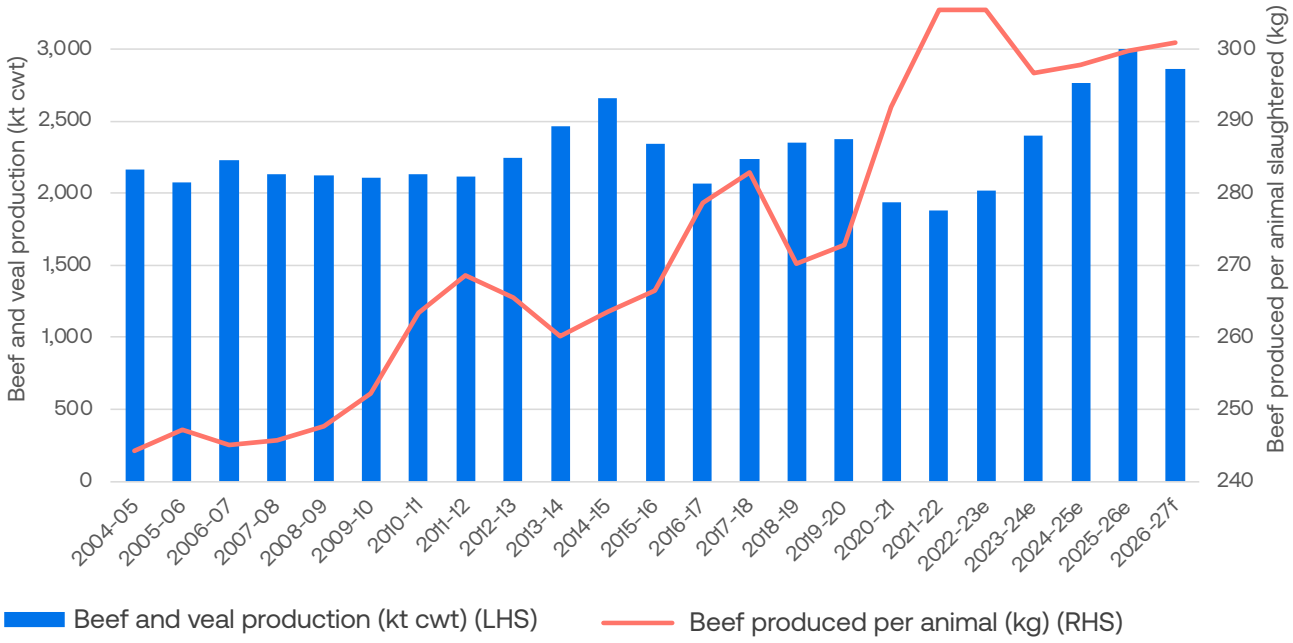
After several years of high slaughter, fewer cattle are expected to be available from 2027. MLA forecasts the national herd to decline from 30.8 million head in 2026 to 30.1 million in 2027 and 29.7 million in 2028, while slaughter falls from 9.6 million head to 9.2 million and 8.8 million, respectively. Slaughter would remain historically high, but competition for cattle could increase as supply eases.

More beef from fewer cattle

In 2014/15, Australia slaughtered 10.1 million cattle and calves and produced 2.66 million tonnes of beef and veal. In 2025/26, almost the same number of cattle are estimated to be slaughtered - 10.0 million head - but production is expected to reach a record 3.0 million tonnes. That is around 340,000 tonnes, or 13 per cent, more beef from slightly fewer slaughtered cattle.

Higher productivity should help offset some of the decline in cattle numbers. In 2026/27, the ABARES measure of the beef herd is forecast at 25 million head, its lowest since 2019/20, yet beef production is forecast at 2.86 million tonnes, the second-highest level in the series. Average carcase weights are expected to rise from 313kg in 2026 to 319kg by 2028, helped by genetics, nutrition, management and increased grain finishing.

Australian beef/veal production vs beef produced per beast 2004/05 - 2026/27f



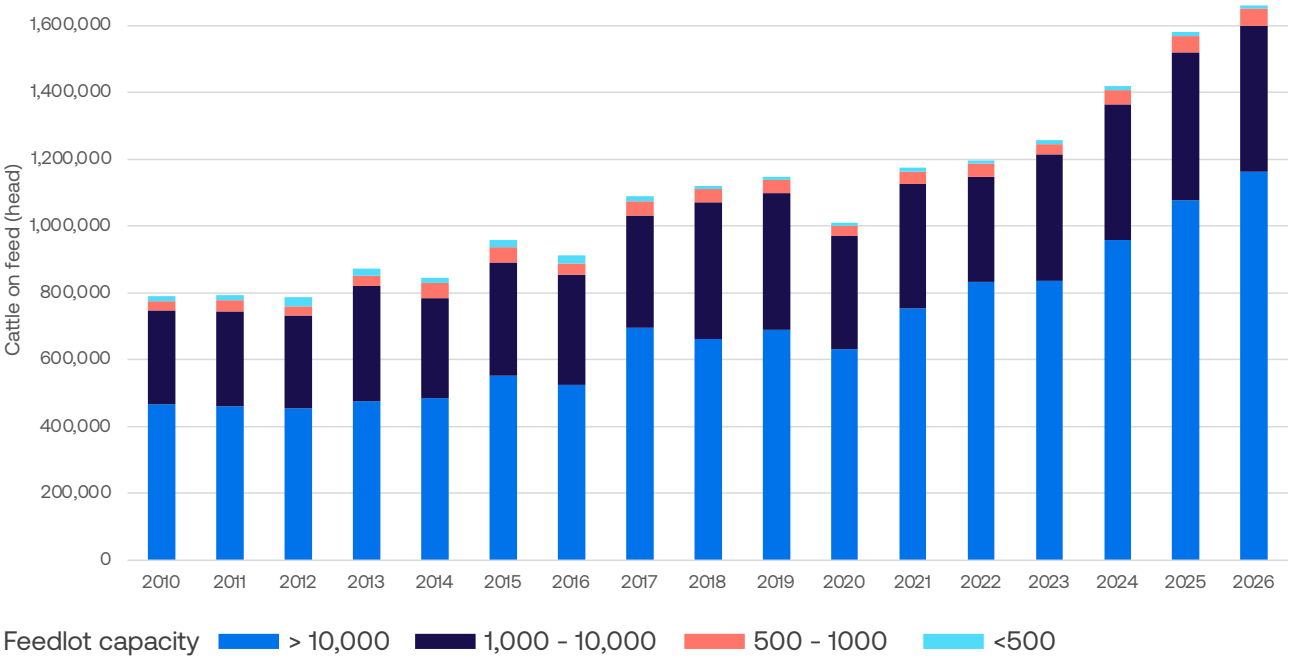
Source: ABARES, ANZ

Record numbers of cattle in feedlots

Record numbers of Australian cattle are being finished in feedlots. During 2026, cattle on feed reached 1.66 million head, against national capacity of almost 1.8 million, putting utilisation at around 93 per cent nationally and 98 per cent in Queensland. Around 70 per cent of cattle on feed are now held in feedlots with capacity above 10,000 head.

Feedlots generally buy younger cattle grown on pasture and finish them on grain to meet weight and carcase specifications. Their demand adds competition for cattle while grain finishing also supports the heavier, more consistent carcase weights behind Australia's rising beef production.

Australian cattle in feedlots, by feedlot size 2010 - 2026 (as of each June quarter)



Source: MLA, ANZ



Export demand remains strong

Australian beef exports are heading for another record year, despite trade restrictions affecting two major Asian markets. In the first nine months of 2026, exports reached 1.21 million tonnes, up seven per cent from the same period in 2025. Exports to the US reached a record 379,000 tonnes, up 15 per cent year-on-year. The longer-term change in the US market is even more striking. US beef imports have increased from around 1.38 million tonnes in 2000 to a forecast 2.63 million tonnes in 2026, increasing from around 11 per cent to almost 20 per cent of domestic beef consumption.

US demand has been boosted by its cattle herd falling to its lowest level in more than 75 years, constraining domestic beef production and increasing reliance on imports. Australia is particularly important as a supplier of lean manufacturing beef, which is blended with fattier US beef for hamburger mince. Strong US demand therefore helps lift the value processors can obtain from each Australian carcase.

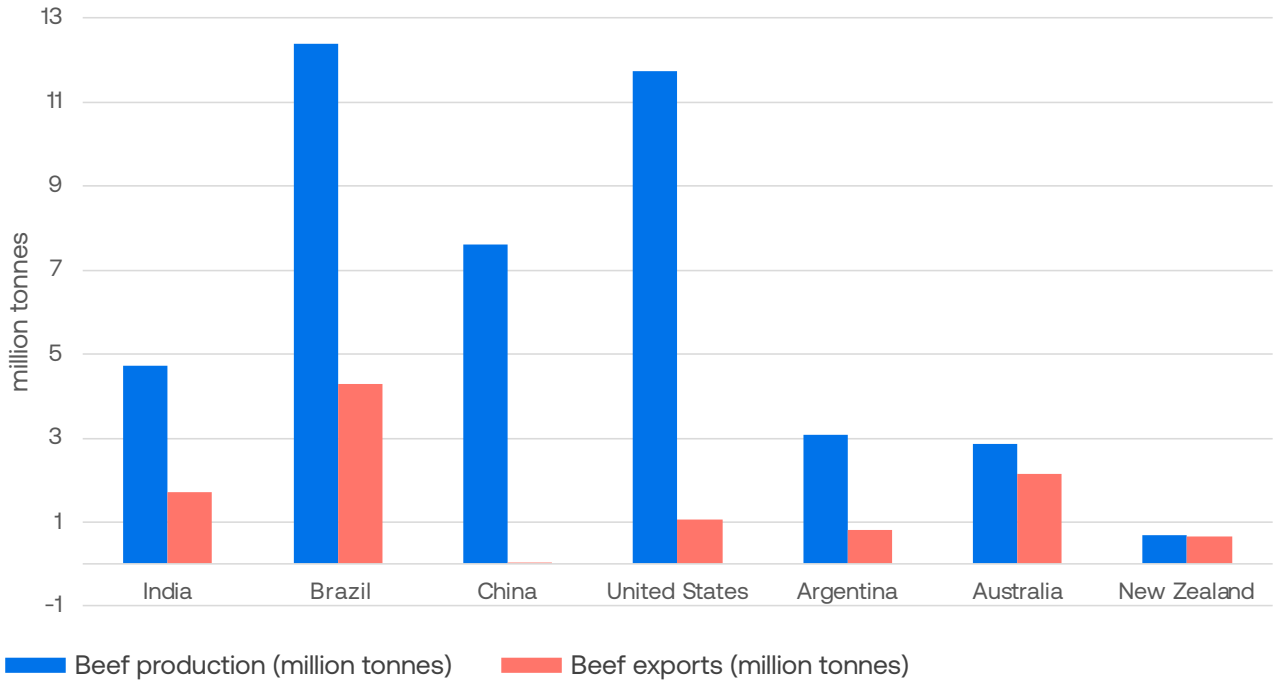
Asian markets have been more mixed. Australian exports to Japan were 18 per cent higher year-to-date by August, while strong shipments to South Korea triggered its 196,206 tonne tariff safeguard threshold in July, after which the tariff on additional Australian beef increased. China's equivalent 205,000 tonne threshold was reached in June, with subsequent shipments attracting a 55 per cent tariff. Both arrangements reset on 1 January, although China's 2027 threshold rises only modestly to 209,000 tonnes.

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Australia also faces increasing competition from Brazil. Brazilian beef production is around 11.7 million tonnes and exports around 3.5 million tonnes, giving it considerably greater scale than Australia. China has traditionally taken almost half of Brazil's exports, but its new safeguard limits are increasing the incentive for Brazilian exporters to find additional markets elsewhere, including the US, Southeast Asia and the Middle East. For Australia, the main risk is not necessarily losing premium markets to Brazil, but greater competition and price pressure in markets where buyers are more cost-sensitive.



Beef production and exports, selected countries, 2026f



Source: USDA, ANZ

What could this mean for cattle prices in 2027?

Cattle supply is forecast to ease in 2027, while feedlots remain significant buyers and processors continue to supply strong export markets. If seasonal conditions remain favourable and producers retain more cattle or rebuild herds, competition for available stock could provide further support for prices. The major uncertainty is El Niño. While it is typically associated with drier conditions across parts of eastern Australia, there is no consistent historical relationship between El Niño itself and cattle prices; what ultimately matters is its effect on rainfall, pasture and producer selling decisions.

There are also reasons not to assume that fewer cattle automatically mean higher prices. ABARES forecasts beef export volumes to fall around six per cent in 2026/27 and export value from $20.8 billion to $17.7 billion, while average saleyard cattle prices are forecast to ease from around 783c/kg to 750c/kg. A stronger Australian dollar, weaker global beef prices or greater Brazilian competition could reduce processor returns while processors and feedlots are competing for fewer cattle. For producers, that points to ongoing buyer competition for available cattle; for processors, the challenge could be securing cattle at prices that can still be recovered from the beef they sell.

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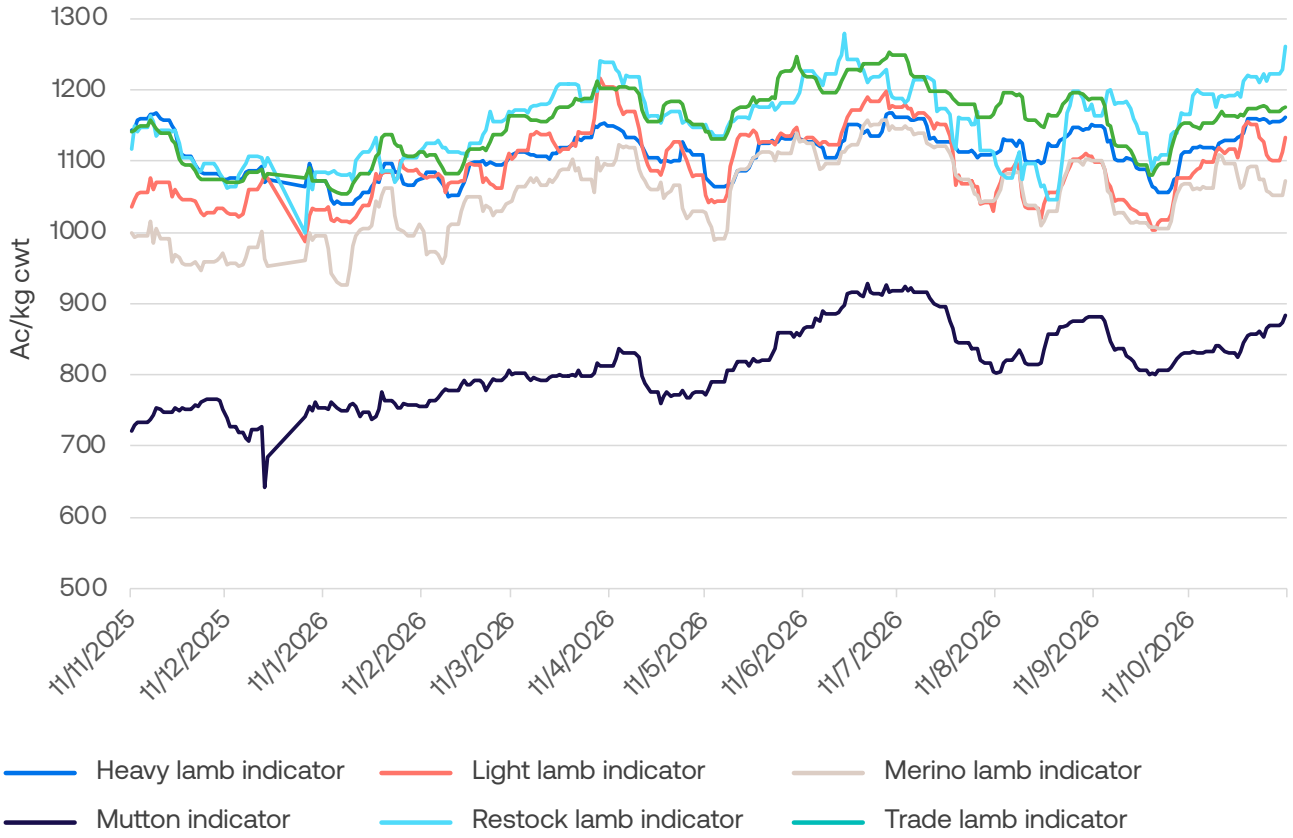
Sheep insights

- Strong seasonal conditions and a shrinking national flock are driving higher sheep and lamb prices, with the flock estimated to have fallen by around 10 million head over the past three years, creating tight supply and increasing competition for stock.
- Signs of a flock rebuild are emerging, with producers retaining more lambs and sheep on farm due to favourable pasture conditions and strong confidence in livestock returns, although high mutton prices continue to incentivise ewe turn-off.
- Restocker demand has become a key market driver, particularly in southern regions, with restocker lamb premiums rising sharply as producers seek to rebuild numbers and capitalise on strong livestock markets.
- Yardings and slaughter rates remain well below last year's levels, reflecting stock retention for weight gain and flock rebuilding, while reduced supply has helped maintain price strength even as spring numbers begin to increase.
- Longer-term fundamentals remain supportive for prices, with lower flock numbers, continued export demand, and signs that some cropping enterprises are increasing livestock exposure, suggesting lamb and mutton prices could remain elevated for several years.

Is this the start of the flock rebuild we've been waiting for? It has been a number of years now that the sheep industry has been expecting a pause in production growth while producers look to rebuild their flock numbers. Following the rebound out of 2023, prices for both lamb and mutton have remained persistently high, meaning producers have continued to clean out their flocks to take advantage of mutton prices and sell into higher lamb prices driven by export demand. With the national flock falling an estimated 10 million head in the last three years alone, a combination of a good season, a reduction in unproductive sheep on farm and a push from some croppers to diversify has seen lamb and mutton prices continue to climb.

Saleyard lamb and sheep prices have continued their run upwards since the end of August, as good seasonal rain across much of the south-east combined with constrained supply has led many producers to look for lighter stock to fatten or keep stock on farm to take advantage of pasture growth. The pressure to increase numbers, particularly considering a more difficult cropping season and a push to take advantage of the surging livestock market, is being reflected in the restocker lamb price, while the lack of early turnoff heavy lambs is pushing the heavy and trade lamb price higher.

Saleyard lamb and sheep prices

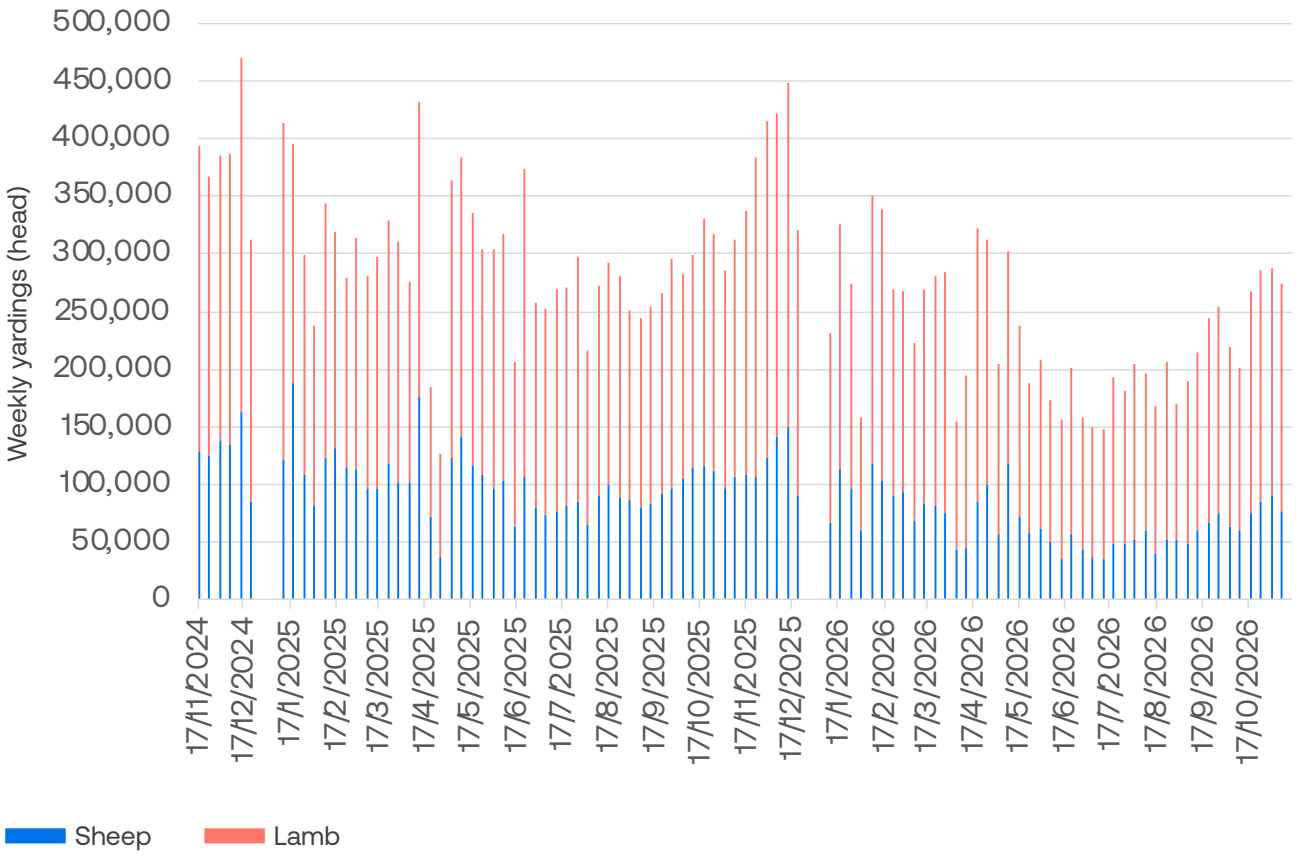


Source: MLA, ANZ

With a mild winter behind us and good pasture growth expected out of excellent spring rains in many sheep regions, the expectation is for an increase in yardings and higher-weight slaughter. The unknown factor right now remains just how many ewe lambs will be kept to rebuild flock numbers and how many will go to the saleyards – in other words, how will producers trade off between rebuild and short-term profits?

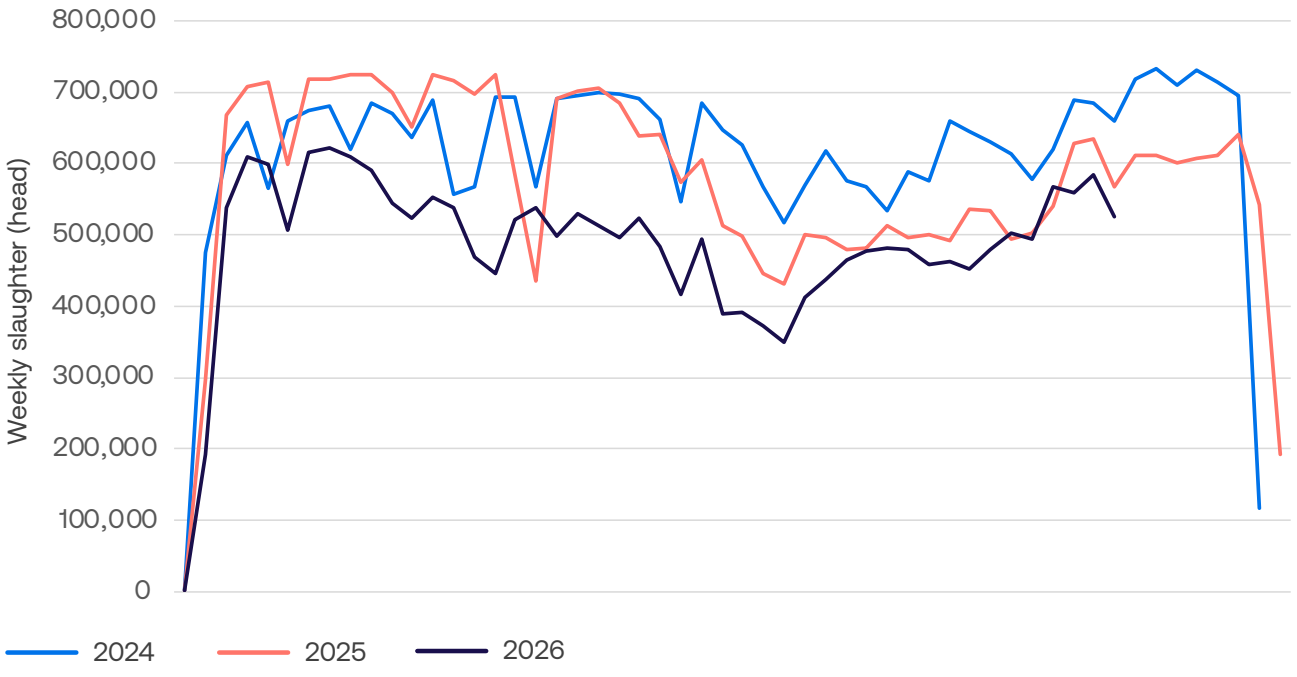
For much of October, yardings were down almost 20 per cent across the country year-on-year for both lamb and sheep, as the strong pasture growth and good seasonal conditions across the south-east saw more producers retain their stock on farm to put on as much weight as possible – compared to last year's more trying conditions. This factor saw lamb and mutton prices jump strongly, raising questions about whether prices would hold once the spring flush hit the market.

National weekly sheep and lamb yardings



Source: MLA, ANZ

Weekly national sheep and lamb slaughter



Source: MLA, ANZ

The early signs in the first weeks of November, however, are that prices are holding as yardings increase strongly but prices continue upwards. Lamb prices are higher across all categories year-on-year, with the strongest gains in mutton, up 18 per cent, and restocker lambs, up 11 per cent. Two competing factors are driving the market: restocker lamb demand in the south, following good rains and the return to a flock rebuild which is running headlong up against mutton prices, where the reduction in ewes in the saleyard is pushing prices higher and making the turn-off of older stock even more attractive. Heavy and trade lamb prices have also strengthened, rising 3.8 per cent and 2.2 per cent respectively, and 1.8 per cent and 3.1 per cent year-on-year. Heavy lamb prices have been more stable through the year, suggesting consistent demand.

The push for restocking is also coming out in the spread of prices between categories, showing an increasing divergence between categories as producers chase light stock to take advantage of pasture. The premium for restocker lambs versus light lambs has gone from a discount of 10c/kg in August 2026 to a premium of over 120c/kg, highlighting the chase for producers to rebuild flock numbers and take advantage of strong prices.

The price spread between heavy and trade lambs has also narrowed sharply, from a premium of more than 100c/kg for heavy lambs in winter to just 13c/kg in early November. The shift largely reflects seasonal factors, including strong rainfall and pasture growth, while the narrowing premium also points to increased supply as stock held back gain weight reaches the market. Historically, a narrowing premium at the saleyard often preceded a fall in heavy lamb prices.

Yarding numbers have been a mixed bag between states but remain around 20 per cent lower nationally, year-on-year. Lamb yardings are down in Victoria, New South Wales, Queensland and South Australia reflecting the good season and retention for weight and rebuild, while sheep

Yarding numbers have been a mixed bag between states but remain around 20 per cent lower nationally, year-on-year.

yardings are down in Victoria, Western Australia and Queensland perhaps showing the push to clean out more unproductive stock at higher mutton prices.

Slaughter rates have dropped below both 2024 and 2025 levels, highlighting the impact of supply on processor throughput and now sit around 7 per cent lower than this time last year. The largest drops in lamb slaughter rates have been in Victoria and South Australia, reflecting the improved season and the drive to rebuild numbers after last year's tougher conditions.

And what sits behind this all? Firstly, a continuing contraction in the national sheep flock from a recent high of just over 74 million in 2023 to an estimated figure of around 10 million fewer in June this year. Meat and Livestock Australia is forecasting this year's good season being the turning point for the national flock, with the flock rebuild starting in earnest. Looking forward, this means lower slaughter and production for the next few years, supporting the case that lamb and mutton prices will remain high into the foreseeable future.

Secondly, and perhaps signalling a longer-term shift in the structure of the industry, there is a perception that many in the cropping industry are responding to the sharp and sustained increase in input costs by increasing their diversification into livestock to take advantage of the strong sheep and cattle prices. While this is not a sector wide shift, it does start to suggest that the shift from sheep to cropping may have reached its peak, particularly in light of ongoing input costs.

Exports have been driving much of the demand story for several years, with growing protein

consumption and the perception of lamb meat as a premium product supporting demand in the US, China and parts of Europe. Those markets have dropped slightly in recent months, more due to a lack of supply rather than a lack of demand. Latest export figures for October showed that lamb exports were down by 8 per cent and mutton exports were down 36 per cent for the calendar year to October 2026, compared to the same period in 2025. The largest declines in lamb exports were to the US and Middle East, in part due to tariffs in the US. There are also concerns over the possibility of further tariffs of up to 30 per cent stemming from the US International Trade Commission (USITC) investigation into the impact of Australian sheep meat exports on the domestic industry. Offsetting this slightly were increased lamb exports to China and the rest of Asia, particularly Malaysia and Thailand. Mutton exports were down further, with higher domestic mutton prices impacting price-sensitive markets and leading to large declines in the Middle East, China, Taiwan and Hong Kong.

Global prices continue their upward trend in the major producing nations of New Zealand and Australia. However, the increase in Australian lamb prices has been more substantial than in New Zealand, with the premium for Australian lamb maintained after Australian prices jumped comparatively in May 2025. European prices have been a mixed bag, with Spanish prices having jumped on the back of a lack of supply. Prices in Great Britain, Ireland and France have all fallen in recent months. As a result, Australian lamb remains competitive, if slightly elevated compared to New Zealand lamb.

The largest declines in lamb exports were to the US and Middle East, in part due to tariffs in the US.





Wool insights

- Australian wool prices have retreated from their mid-year highs, with the Eastern Market Indicator (EMI) down nearly 14 per cent from its June peak. Medium and coarse wool categories have experienced the largest declines, while finer wools have been more resilient.
- The price correction is largely being driven by increased wool supply, with bale offerings returning to more normal levels after a period of tight supply. Seasonal factors are also weighing on demand, as northern hemisphere textile manufacturers move through a traditional ordering lull.
- Market conditions may be exaggerating the recent weakness, as October often sees increased offerings and price volatility. Early November has shown some signs of stabilisation, with lower pass-in rates and smaller weekly price declines.
- A widening premium for ultra-fine wool has emerged, with price spreads between ultra-fine and medium wool increasing significantly since autumn 2025. This reflects both strong demand for finer fibres and a correction in previously elevated medium wool prices.
- The longer-term story is mixed across wool types, with crossbred wool continuing a gradual multi-year recovery, although recent price falls in coarse wools suggest carpet manufacturers are beginning to resist further price increases.

It may seem like the most recent fall in the Eastern Market Indicator (EMI) spells the end of this particular bull run for Australian wool, but it's worth taking a step back to consider the underlying dynamics and time of year, which may be overemphasising this particular dip in prices. With the benchmark EMI trading almost 14 per cent below its early-year peak, many sellers are starting to raise concerns over whether current prices can cover the cost of production.

Eastern market indicator



Source: ABARES, ANZ

The start of spring saw the Australian wool price drop sharply, continuing a decline seen since August 2026 across all micron categories – with some harder hit than others. The EMI has fallen from a peak of 1,964c/kg in early June, and while the market has seen some ups and downs, as at early November it is trading at just under 1,700c/kg. The largest declines have been in the medium and coarse sectors of the market, with 22 micron wool sitting 17.8 per cent under its recent peak, while 17 micron wool is just 9.4 per cent under its peak. Coarse types such as 30 micron wool have fallen 21.6 per cent under their early September peak, nearly converging with 32 micron wool.

The main reason behind the drop in price has been the increase in the number of bales being offered for sale – a typical October event which has seen similar price drops in recent years as both buyers and sellers test the market. October saw an increase in offerings back to 2025 levels, and given that lack of supply has been the major factor driving price increases throughout the year, this was bound to take a bite out of the EMI. October also falls into a lull when textile producers in the northern hemisphere have filled orders for winter apparel and before activity picks up again in November and December.

Early November saw a reduction in the pass-in rate and smaller weekly reductions in prices, as buyers and sellers sought some common ground. However, the market will continue to be tested through to the end of the year as buyers are less pressed to fill orders.

Since the beginning of autumn 2025, there has also been a growing divergence between prices for different microns, with the premium for ultra-fine versus medium wool increasing by almost 270 per cent. Much of that has stemmed from particular seasonal conditions improving the availability of medium wool types – and much of this decline may sit with a market correction around medium wool prices which have been highly sought after and priced to help cut processing costs.

The story hiding behind the headlines may well be the crossbred wool price which has been going through a long, slow recovery over many years now – with the recent price falls hitting coarse wools in early November as carpet processors start to push back against rising prices.



Dairy insights

- Australian milk production is recovering, rising for three consecutive seasons and increasing a further 2.2 per cent in the first three months of 2026/27.
- Australia is producing more milk per cow, with the national dairy herd considerably smaller than 15 years ago while average milk production per cow has risen strongly.
- The dairy product mix continues to change, with cheese production up 28 per cent since 2010, alongside growing demand for cheese and high-protein dairy products.
- Global competition remains strong, as production grows in major competitors including New Zealand and the US, increasing the importance of productivity, product mix and extracting greater value from each litre.

Australia's dairy industry heads toward 2027 in stronger shape than might have been expected even a few months ago. National milk production has now risen for three consecutive seasons, production is up again so far in 2026/27, and Victorian farm profitability improved strongly in 2025/26, while lower cow sales and slaughter suggest farmers are retaining more cows.

The industry also continues to go through structural change. While Australia's dairy herd is considerably smaller than it was 15 years ago, the decline in milk production has been much smaller, reflecting the significant increase in production per cow. At the same time, the mix of dairy products being produced has shifted strongly towards cheese, while competition from the world's major dairy exporters continues to grow.

Recent figures released by Dairy Australia show that Australian milk production reached 8.65 billion litres in 2025/26, up 1.5 per cent from 2024/25 and almost 5 per cent above the recent low of 8.26 billion litres in 2022/23. Australia's milk pool has now grown for three consecutive seasons, although it remains below the levels of 15 years ago. That recovery has continued into 2026/27, with production from July to September totalling 2.14 billion litres, up 2.2 per cent on the same three months in 2025.

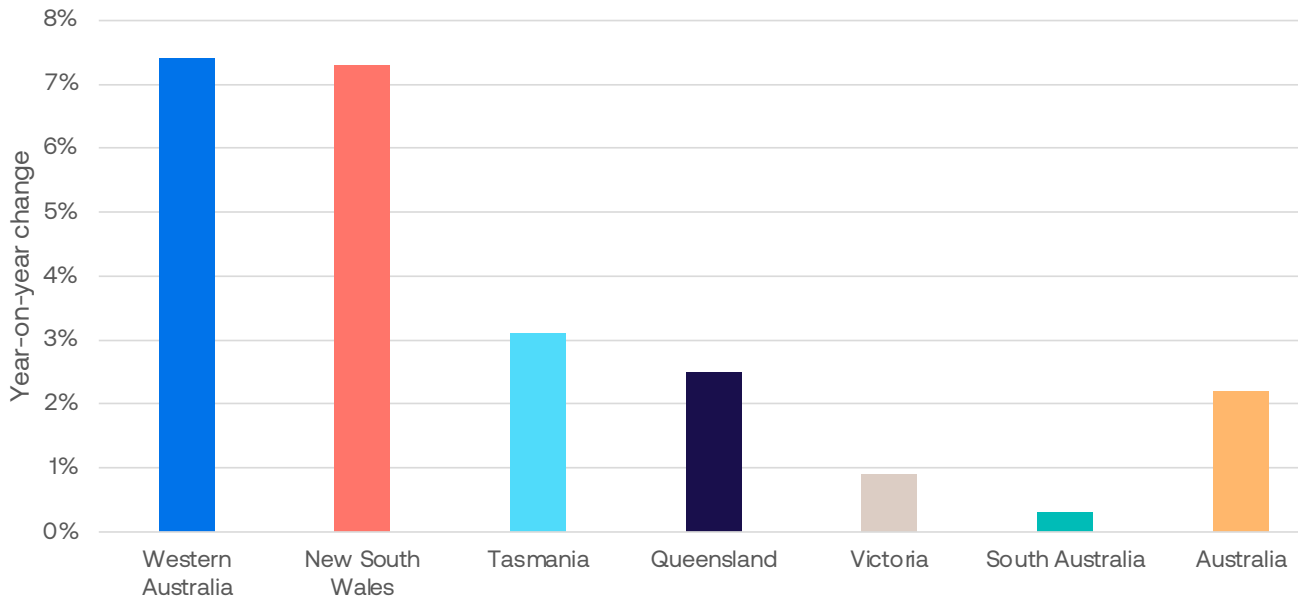
Milk production growth varies by state and region

Across Australia, recent milk production growth has varied considerably by state and region. In the first three months of 2026/27, compared with the same period a year earlier, production rose 7.4 per cent in Western Australia and 7.3 per cent in New South Wales, albeit from much smaller production bases than Victoria. Tasmania recorded growth of 3.1 per cent and Queensland 2.5 per cent, while production was broadly flat in Victoria, up 0.9 per cent, and South Australia, up 0.3 per cent.

Within Victoria, production growth varied markedly by region. Over the same period, milk production increased 3.8 per cent in Western Victoria and 1.3 per cent in Eastern Victoria, while Northern Victoria fell 3.3 per cent. The differences between states and regions reflect a range of factors, including seasonal conditions, feed and water availability, farm profitability and decisions by producers around herd size, culling and supplementary feeding.

These regional differences also matter for processors. Additional milk produced in New South Wales or Western Australia does not necessarily offset weaker supply in a Victorian processing region, given the distances involved, transport costs and the location and capacity of processing plants. This means that even as Australia produces more milk overall, processors in regions where production is flat or falling may still face strong competition for available milk.

Milk production growth by state Jul-Sep 2025 vs Jul-Sep 2026



Source: Dairy Australia, ANZ

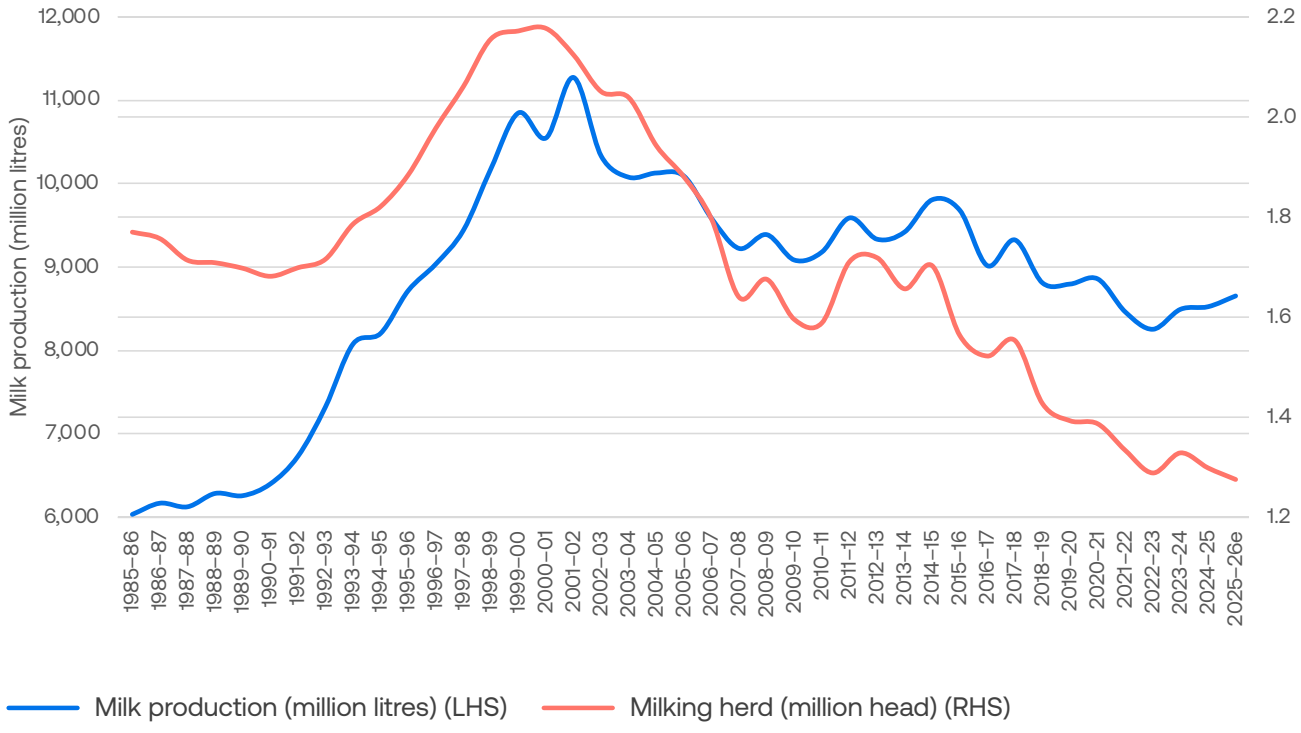
Milk production per cow continues to rise

With the national herd considerably smaller than it was 15 years ago, higher production per cow has become increasingly important to maintaining Australia's milk supply. ABARES figures show average milk production per cow increasing from around 5,780 litres in 2010/11 to an estimated 6,559 litres in 2025/26, an increase of around 14 per cent. As a result, the decline in Australia's milk production has been considerably smaller than the decline in dairy cow numbers.

There are also signs that the decline in cow numbers may be slowing. Dairy cow saleyard transactions were 21 per cent lower in September 2026 than a year earlier, while dairy cow slaughter over the first three months of 2026/27 was down 17.3 per cent. While this does not mean the national herd is expanding, fewer cows leaving the industry could help support milk production if the trend continues.

Farm returns also appear to have improved, with the Victorian Dairy Farm Monitor Project reporting a substantial lift in profitability among its sample of 90 farms. Average earnings before interest and tax (EBIT) increased 93 per cent, from $1.46 per kilogram of milk solids (kg MS) in 2024/25 to $2.81/kg MS in 2025/26. Although the average farmgate milk price rose by a smaller 11 per cent to $9.80/kg MS, relatively stable costs meant higher milk and other farm income produced a much larger percentage increase in profit margins. More favourable seasonal conditions also helped participating farms rebuild feed reserves, with closing inventories rising around 75 per cent to 1.7 tonnes of dry matter per cow.

Australian milk production vs milking herd 1985/86 - 2025/26e



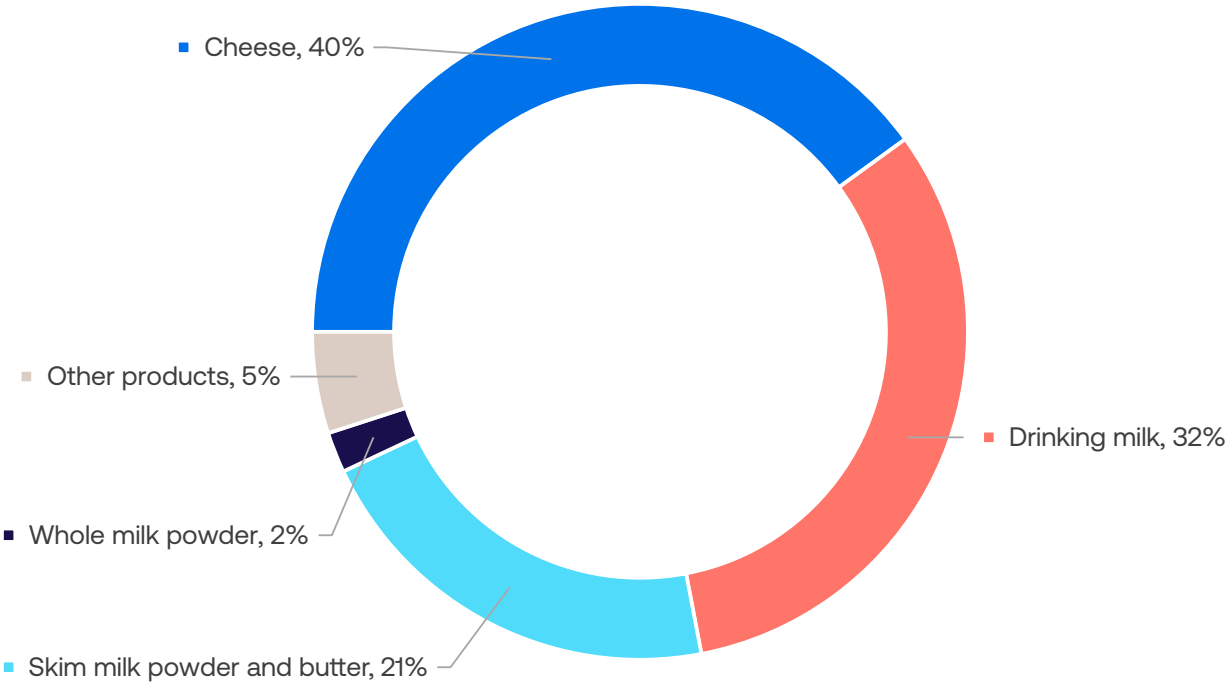
Source: ABARES, Dairy Australia, ANZ

Australia's dairy product mix continues to shift

The products made from Australia's milk have changed substantially over the past 15 years, with cheese becoming increasingly important while production of some traditional dairy commodities has declined. Cheese is now the largest user of Australia's milk pool, accounting for around 40 per cent in 2024/25, compared with 32 per cent used for drinking milk, 21 per cent used in the manufacture of skim milk powder and butter, and just two per cent for whole milk powder. Australian cheese production has risen from around 343,000 tonnes in 2010 to an estimated 440,000 tonnes in 2026, while whole milk powder production has fallen from 147,000 tonnes to around 30,000 tonnes and butter production has roughly halved.

Demand has also changed, with Australian cheese consumption increasing almost 60 per cent since 2010 to around 365,000 tonnes, while drinking milk consumption has declined despite strong population growth. More recently, growing demand for high-protein yoghurts, drinks and powders is encouraging further investment in higher-value dairy proteins, adding another dimension to how processors can extract greater value from Australia's milk pool.

Share of the Australian national milk pool, 2024/25



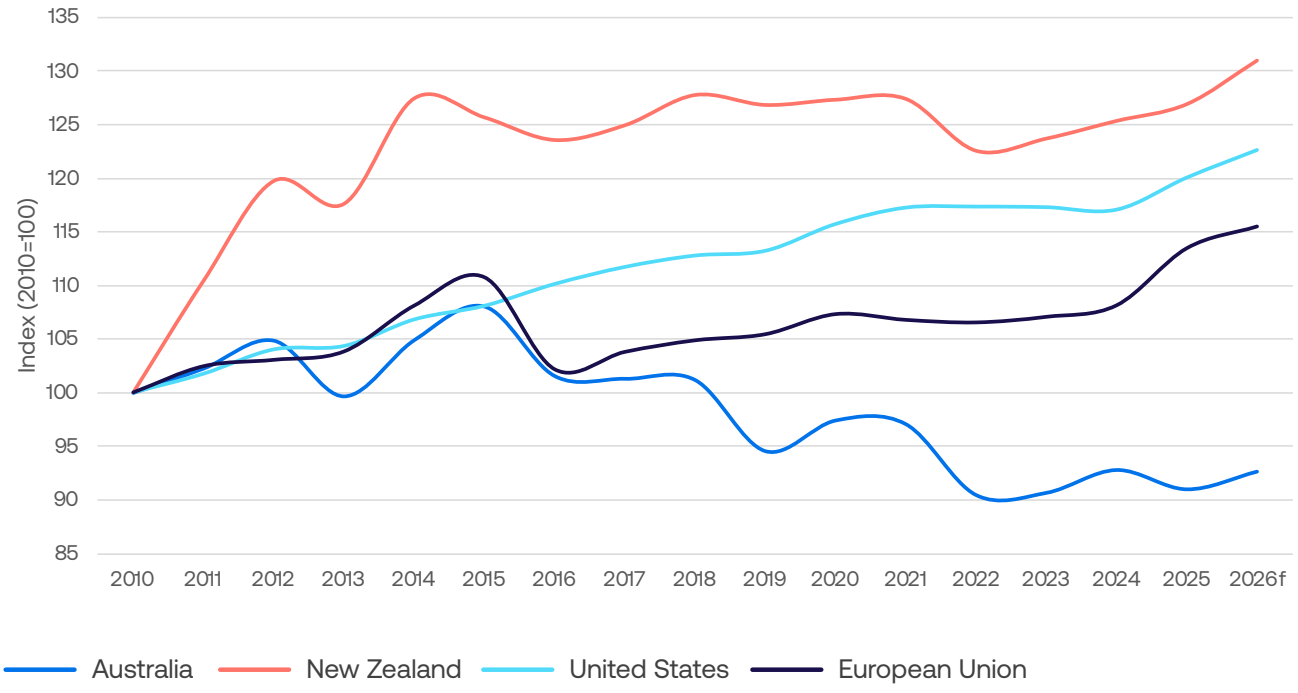
Source: Dairy Australia, ANZ

Milk production is also increasing among major global competitors

Australia's production recovery is occurring alongside stronger production among several major competitors. New Zealand produced 21.8 billion litres of milk in 2025/26, up 3.5 per cent, while milk solids reached a record 2.02 billion kilograms, up 4.5 per cent. Cow numbers increased by only one per cent to 4.72 million, highlighting the role of higher productivity in lifting output. In the US, a larger dairy herd is supporting further production growth, continuing a longer-term rise from about 87 million tonnes in 2010 to more than 107 million tonnes in 2026. The EU is also producing more milk despite its dairy herd continuing to shrink, with 2026 production forecast to rise around 1.8 per cent as higher milk yields more than offset an almost one per cent decline in cow numbers.

New Zealand, the US and the EU compete directly with Australian dairy products in key export markets, particularly across Asia, while imported cheese and other dairy products from these markets also compete for Australian consumers. Increased global supply can therefore influence international dairy prices, processor returns and ultimately the farmgate milk prices received by Australian farmers.

Milk production growth trend in Australia vs NZ, EU and US 2010 - 2026



Source: USDA, ANZ

Global dairy prices are diverging by product

As milk production increases across the major dairy-exporting countries, more product is competing for buyers in global markets, although price movements continue to vary considerably between dairy products. At the November 2026 Global Dairy Trade (GDT) auction, a twice-monthly international auction that provides an important benchmark for traded dairy prices, the overall index rose 3.0 per cent, with whole milk powder up 6.7 per cent, skim milk powder up 4.1 per cent and New Zealand cheddar up 12 per cent, while butter fell 6.3 per cent.

China remains an important influence on these markets, but its demand is increasingly different across dairy products. During the first eight months of 2026, Chinese cheese imports rose around 18 per cent and butter imports 16 per cent, supported partly by growing foodservice and bakery demand, while imports of bulk milk powders were lower overall as abundant domestic milk supply reduced demand for imported product.

Australia's dairy recovery faces its next test

Australia's dairy industry enters 2027 with more positive momentum than it has had for some time, although regional differences, seasonal conditions and input costs will help determine whether that recovery can be sustained. For processors, the challenge will be securing milk where it is needed while responding to stronger global production and changing demand at home and overseas. Australia's relatively small milk pool makes competing on volume increasingly difficult, putting greater emphasis on productivity and directing milk towards products that deliver stronger returns. Extracting more value from each litre will remain central to the industry's competitiveness.





Sugar insights

- Global sugar prices have risen to their highest levels since late 2024, driven by strong demand growth and concerns about weather-related production disruptions in major producing countries.
- Heavy rainfall in Brazil has delayed harvesting and crushing operations, temporarily reducing supply and contributing to recent price increases, although these impacts are expected to ease as harvesting resumes.
- India's dry growing season has raised expectations of a weaker crop, with analysts forecasting a six per cent production decline, though early harvest results and large carry-over stocks have helped moderate prices in recent weeks.
- Global supply outlooks remain mixed, with the USDA still forecasting a production surplus, while the International Sugar Organisation (ISO) expects a small deficit in 2026/27 due to declining global production.
- For Australian growers, higher global prices have provided welcome support after a disappointing harvest, with the national sugarcane crop estimated at around 26.5 million tonnes, one of the smallest in many years despite strong sucrose content.

Spring has seen global sugar prices surge to levels not seen since late 2024, driven by a combination of growing demand and concerns over production disruptions due to weather events in some of the world's major sugar producing nations. With consumption growth keeping pace with production, and even growing slightly faster than production growth over the long term, the outlook for global sugar prices continues to hold firm. Australia's cane harvesting season is wrapping up early, and improving sugar prices are providing welcome relief in the face of a poorer than anticipated harvest.

Surging sugar prices through October, which have moderated slightly in early November, stemmed from weather events across major sugar producing countries. Heavy rainfall in Brazil's key Centre-South producing region has disrupted harvesting and crushing operations, leading to many mills delaying their harvest schedules until mid-December or early 2027 rather than wrapping up in October as they usually do. As a result,

price rises due to a lack of supply stemming from Brazil's weather events are likely to be temporary in nature.

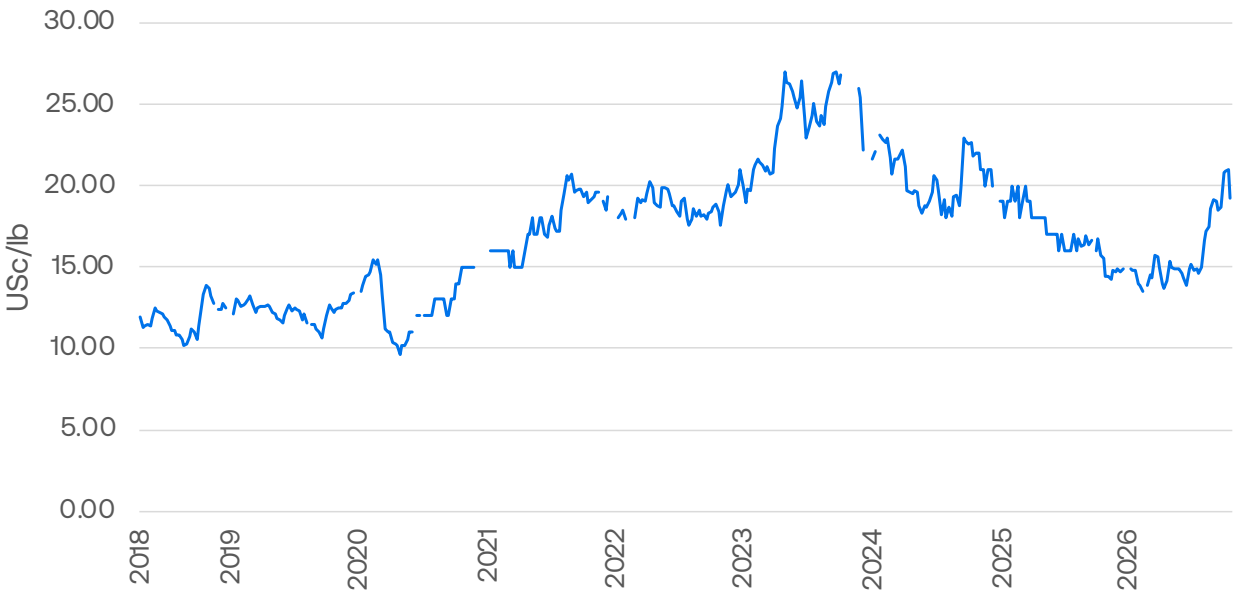
A dry growing season across India has also raised concerns among the industry that output from the region will be weaker this year, with analyst forecasts already predicting a six per cent drop in production. With a drop in production of this magnitude yet to be picked up by the US Department of Agriculture (USDA) and the International Sugar Organisation (ISO), this may flag further price rises to come, as this information feeds through to the major forecasting organisations. However, information from India's early harvest indicates plentiful supplies of sugar both from harvest and carry-over stocks, which has caused much of the dip in global prices in early November. The most recent market outlook update from the USDA saw a reduction in forecast US production being offset by an increase in forecast for carry-over stocks.

So where does that leave the global supply and demand dynamic for the rest of the year? To date, the USDA continues to forecast a sizeable global production surplus. However, with updates done relatively sporadically, many industry observers expect the next update to be less upbeat. The ISO, however, is forecasting a small production deficit for the 2026/27 season based on a one per cent fall in global production.

Ongoing high diesel and fuel prices have also seen the Brazilian Government raise its mandatory ethanol blend in petrol from 30 per cent to 32 per cent in mid-July this year through to January 2027, reducing supply further. India, meanwhile, banned new sugar exports in May 2026, reducing supply to the global market. In October, India moved to restrict the use of sugarcane for ethanol during 2026/27, a measure intended to protect domestic sugar supplies.

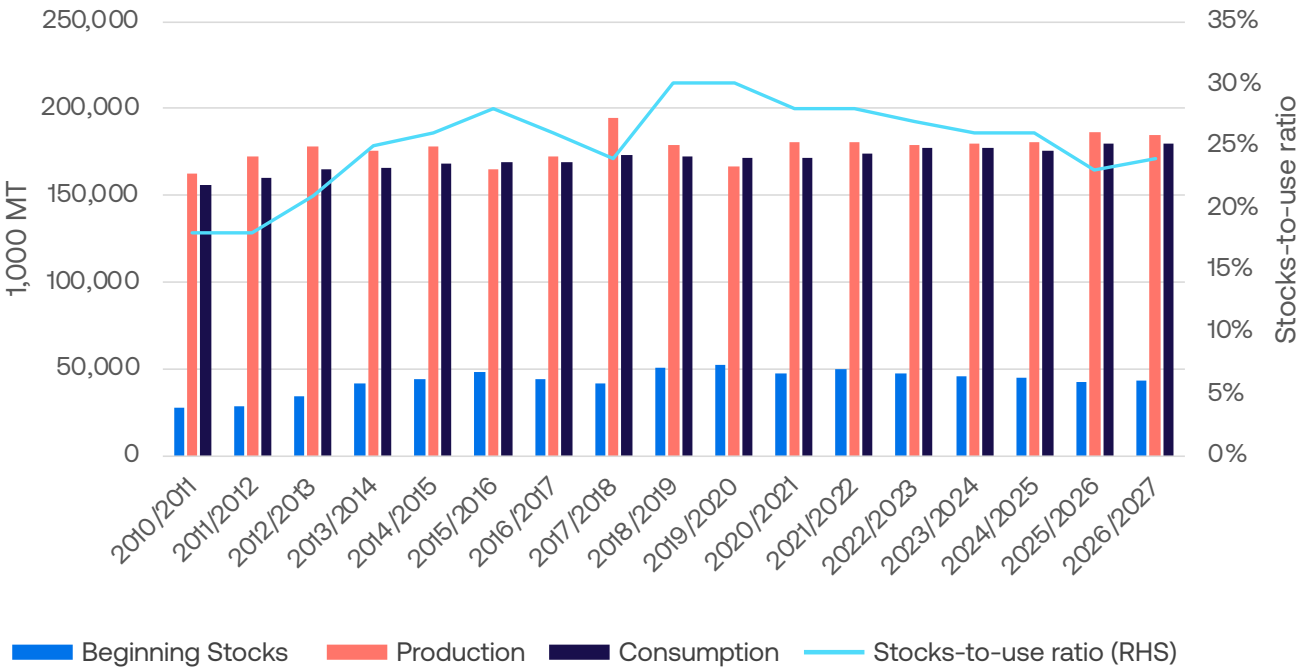
Considering all these factors, as harvest winds to a close, the Australian season is not sizing up quite as anticipated. Early this year, the industry expected Australian sugar producers to be facing poor prices but a strong crop and harvest. Instead, global prices have returned to multi-year highs, but a relatively dry growing season has seen reports of one of the smallest crops in many years, coming in at around 26.5 million tonnes according to the industry body CaneGrowers. While sucrose content appears to be strong, the increase in the global price will be a welcome relief for many producers following a below-average harvest.

Global raw sugar benchmark price - ICE no. 11 contract



Source: ABARES, ANZ

Global sugar supply and consumption



Source: USDA PSD, ANZ



Cotton insights

- Australian cotton production prospects for the 2026/27 season have improved after heavy October rainfall across southeast Queensland and northern New South Wales.
- Global market fundamentals are supportive, with world cotton production expected to decline to 117 million bales, consumption remaining stable, and global ending stocks falling by around five million bales.
- China could emerge as a stronger importer this season, after selling around two million bales from state reserves and facing lower domestic production.

The 2026/27 cotton season is underway and earlier industry forecasts for a significant reduction in planted area and cotton production this season are being revised up, following heavy October rainfall in some key production zones.

September ABARES forecasts predicted a 301,000 hectare planting, some 150,000 hectares below the prior season estimate. Cotton Australia had noted 265,000 hectares of plantings to produce a 2.7 million bale crop – however heavy spring rainfall across much of southeast Queensland and northern New South Wales have bolstered irrigation storages and sub soil moisture for planting – with potential to see greater irrigated and dryland plantings as a result. While official Australian forecasts are not yet updated, USDA has increased its forecast for Australian production for 2026/27 to 3.5 million bales.

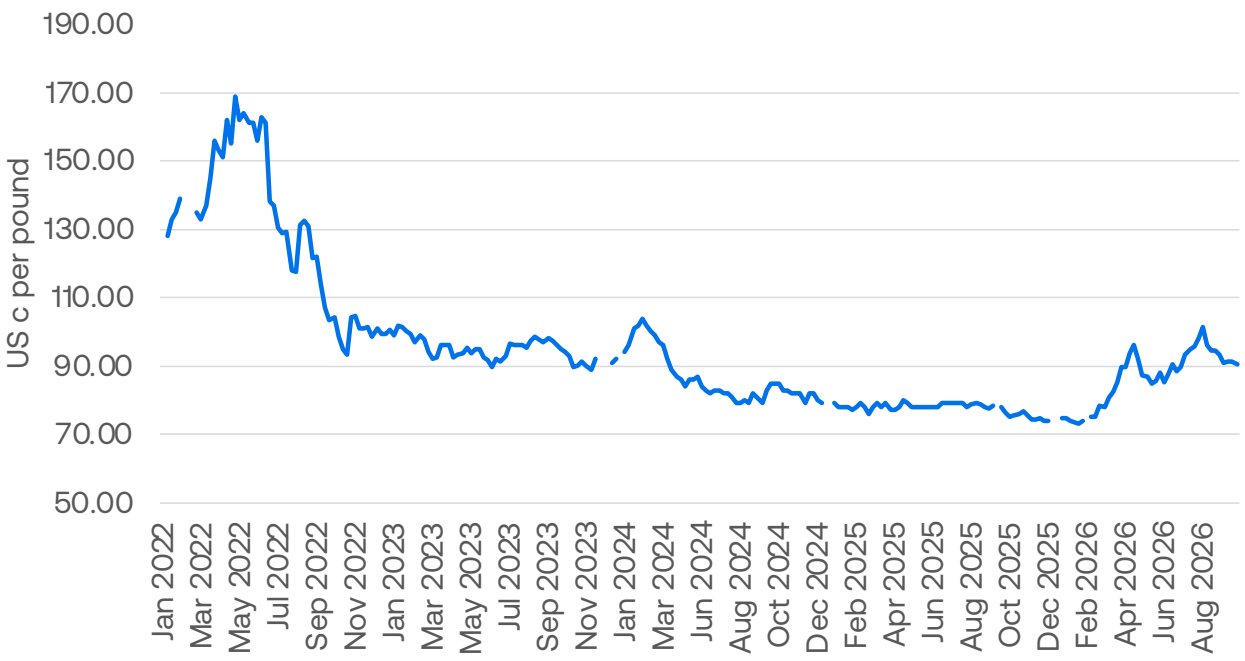
Prices and global production outlooks may have also encouraged increased plantings across Australia where moisture and timing allowed. In the final week of October, the Cotlook 'A' indicator price was the highest seen for that time in the season since 2023, at around 91 cents per pound. Global production for 2026/27 is forecast down year-on-year to 117 million bales, from 122 million bales in 2025/26. Global cotton consumption is forecast to remain largely stable, increasing by

just 1.6 per cent to 122.7 million bales. A small rise in global trade and a drop in world ending stocks of around five million bales (6.7 per cent) to just over 70 million bales, of which 35 million are held in China, is also supportive of prices this season and a welcome change from the oversupplied nature of global markets over the previous two seasons.

Of particular interest to global export markets is that at the end of September, China concluded three months of auctions selling stored cotton from its state reserve scheme, with estimates of around two million bales of mostly imported cotton sold off. USDA reports high domestic cotton prices combined with low local production prompted the sale, which was the first of its kind since 2023. China's cotton imports doubled in 2023/24 following the last state reserve sale, replenishing stocks at a time when import prices were highly favourable.

At present, imported cotton prices remain comfortably below China's domestic prices, and China's domestic production is forecast down to 34 million bales (from 35,8000 bales in 2025/26). There are some expectations that China will therefore increase imports this year to replenish reserves and keep mills well supplied, however in the record import year of 2023/24 domestic production was significantly below current year forecasts.

Global cotton benchmark price - Cotlook 'A' Index



Source: Cotton Outlook, ANZ

Australian economic insights

Underlying inflation in Australia remains elevated and broadly based. The recent re-escalation of the Middle East conflict has pushed oil prices higher, raising the risk of second-round inflation effects. This is of concern to the Reserve Bank of Australia (RBA), with consumer inflation expectations in the ANZ-Roy Morgan Consumer Confidence survey and business input price growth remaining elevated. The RBA is also worried about domestic capacity pressures, with market services (ex-volatiles and holiday travel), which is an indicator of domestically driven inflation, amongst the strongest contributors to inflation in Q3.

Demand has also remained relatively resilient despite higher rates and inflation. Household spending volumes rose 3.2 per cent year-on-year in Q3, the strongest annual growth since early 2023. This suggests that domestic demand continues to add to inflation pressures.

Persistent inflation has prompted the RBA to increase the cash rate by 125bp this year to 4.85 per cent. We think this marks the peak in the cash rate, as there are growing signs the economy is slowing. Labour market conditions are easing, with the unemployment rate rising to 4.9 per cent in October, its highest since 2021. We expect the unemployment rate to rise gradually as economic activity slows further. The housing market is also slowing. Capital city housing prices have eased 8.1 per cent from their March peak, auction clearance rates remain weak, total listings are rising, and sales volumes are down.

That said, given the inflation backdrop, we are not ruling out the possibility that the RBA may need to hike again if inflation expectations rise further or upside risks to inflation materialise.

By late 2027, we expect growth to be below 'potential' and for the unemployment rate to be trending higher. This will help return inflation to its 2-3 per cent target band. However, the persistence of inflation and its rapid re-emergence in 2025 is likely to make the RBA cautious about easing.

We expect a modest recovery to 0.72 by year-end, although further upside is likely to be constrained from interest rate differentials.

We therefore expect only 50bp of rate cuts from late 2027.

The AUD/USD has recently fallen below 0.70 as concerns around data centre investment weighed on global risk sentiment. We expect a modest recovery to 0.72 by year-end, although further upside is likely to be constrained from interest rate differentials. We expect 50bp of rate hikes from the US Fed, compared with no further hikes from the RBA. Recent US data have also pointed to stronger activity and renewed labour market momentum, which should lead to a higher USD.



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