

ANZ AGRI
INFOCUS

AUGUST
2019

COMMODITY INSIGHTS

FOREWORD

There have been mixed fortunes across the country recently as rain has hit some drought-affected regions, but still eludes some of the worst impacted areas.

Rainfall across much of Victoria and southern New South Wales has put grain farmers on track for potentially one of the best crops in many years, while beef prices have improved strongly on the back of improving confidence in the south of the country and Western Australia. Lamb and wool prices have moderated slightly off historic highs as processors and buyers pull back in their buying activity. Dairy producers are benefiting from increased domestic competition for milk, however processors are increasingly feeling the brunt of lower global dairy prices. In this edition we also take a look at the avocado and egg industries which have both undergone significant growth in recent years but are now facing oversupply concerns.

While it's hard to look past the drought and its impact on farmers across much of the north of the country, the positive for all producers is that the fundamentals remain strong. Global prices across most commodities are solid and export demand continues to underpin domestic sales. For those that can get a crop off or have livestock to turn-off, there are decent prices to be had. However, that doesn't necessarily help those who are waiting for the drought to break, except to provide some solace that the market will be there when they have produce to sell.

Which isn't to say that once rain comes, there won't still be challenges to face. Looking forward, both the cattle and sheep industries are struggling with prospect of low herd and flock numbers. Drought and strong prices have seen higher than average slaughter rates and turn-off and restocker demand for both (on the back of rain) will push prices higher for those looking to rebuild. Export demand for both beef and sheepmeat continues to support those high turn-off rates, and while the US-China trade tensions have put a real dent in global economic confidence, it has also seen increased demand for Australian beef from the China market as they move away from US beef. On the flip side, wool price falls in recent month can be attributed to a fall in global confidence. Despite a declining wool clip and low global stocks, prices are struggling as buyers wait to see the impact of low global confidence in the demand for wool products.


For wheat producers, prices are feeling downward pressure off a record global harvest. And while hot and dry conditions in Russia, Ukraine and the EU have lowered harvest forecasts, the global stocks-to-use ratio continues to increase as production growth is forecast to be double the growth in consumption. Despite the cut in forecast harvest and exports from the Black Sea, the price of Black Sea wheat is opening the 2019/20 year at a very competitive rate, sitting at a significant discount to both EU and US wheat.

Dairy producers are feeling the benefit of competition for the shrinking milk pool despite the falling global dairy prices on the back of strong production in New Zealand. Processors are feeling the impact of this disparity, however, with many announcing cuts in profit margins. Despite the relatively strong opening prices for Australian producers, cost pressures from the price of feed, water and fertiliser are squeezing margins.



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WHEAT & GRAIN INSIGHTS



OVERVIEW

- Record global harvest and increasing global stocks are putting downward pressure on wheat prices
- Outlook for other grains and oilseeds are mixed
- Following large falls, particularly in the Black Sea, freight rates rebounded early in 2019
- Trade tensions continue to change the shape of global trade flows

Global wheat prices are feeling the pressure of a record global harvest despite downgrades to forecast harvest levels by international agencies. The most recent United States Department of Agriculture (USDA) update on the global grain market saw a downgrade in the global harvest to 771 million metric tons (MT), down 1.2 per cent on their previous projection but still at record levels. The downgrade in production comes as a result of smaller crops from Russia and Ukraine due to conditions and the European Union (EU) due to extreme temperatures.

Global stocks-to-use ratio are forecast to increase in 2019/20, up 4 per cent on 2018/19 and a significant increase on 2015/16 levels. The increase in ending stocks comes as 2019/20 production is forecast to increase by 6 per cent year-on-year compared with a 3 per cent increase in consumption. Across other grains, the barley stocks-to-use ratio is expected to increase markedly from 12.2 per cent in 2018/19 to 13.6 per cent in 2019/20 with a 17 per cent increase in ending stocks putting downward pressure on barley prices. Canola prices are expected to see some improvement in 2019/20 due to a reduction in global oilseed production combined with an increase in consumption.

Australian export wheat prices have regained their premium over Canadian wheat after falling to parity briefly earlier in the year on the back of tight domestic supplies, and in the month ending June was averaging \$US266/MT Free On Board (FOB), up \$2 on the previous month.

GLOBAL WHEAT PRICES ARE FEELING THE PRESSURE OF A RECORD GLOBAL HARVEST DESPITE DOWNGRADES TO FORECAST HARVEST LEVELS BY INTERNATIONAL AGENCIES

The price of wheat from the Black Sea region declined in June, while the US prices also dipped – both with the onset of winter wheat harvesting. While the total harvest and exports from the Black Sea are anticipated to be down, prices of Black Sea wheat are opening the 2019/20 year at a very competitive rate, sitting at a significant discount to both EU and US wheat.

Offsetting the competitive pricing edge of Black Sea wheat somewhat has been the recent sharp increase in freight rates – particularly from the Black Sea region and Brazil. While freight rates had experienced a strong decline (again, particularly in the Black Sea) since late 2018, the recent increase pushes prices back above average.

Australian freight rates continue to remain below other major exporting regions and notably have not shown the volatility experienced by other major exporters. Indeed, Australian wheat exports have gained an advantage over competitors as freight rates have spread since 2016, whereas shipping costs across exporters moved together prior to this.

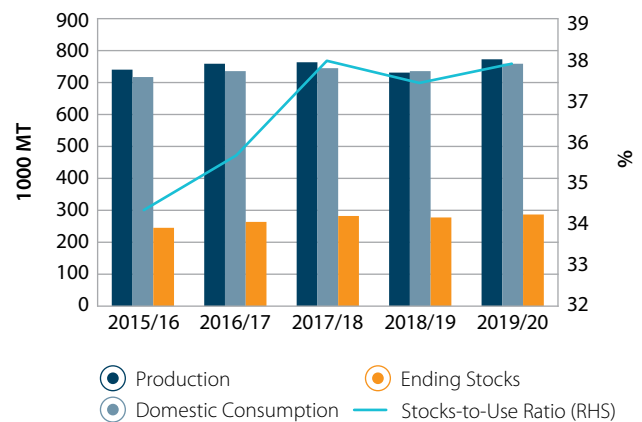
Domestically, Australian wheat production is expected to improve in 2019/20 with Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) predicting a 22 per cent increase on the 2018/19 crop as conditions return to normal. While wheat exports in 2018/19 to be around 9.7 million tonnes, as seasonal conditions return to normal, that is expected to improve. However, as noted above, high global harvests and competitive pricing from major exporting regions is making Australian wheat less competitive on world wheat markets, particularly in price-sensitive Asian markets, despite its high quality.

Feed wheat has an increasingly dominant role in Australia's domestic wheat usage, with feed accounting for 62 per cent of consumption in 2018/19, in part due to the poor season. The changing nature of the Australian cattle and livestock industry is the primary driver for this change as Australia's beef export markets increase their demand for grain-fed beef.

The ongoing trade tensions between China and the US have strengthened the need for China to diversify its grains and oilseed suppliers, reducing its reliance on America. While Brazil will be the major beneficiary of increased oilseed demand, Australian oilseeds, as well as grains, are likely to see increased attention from Chinese buyers.

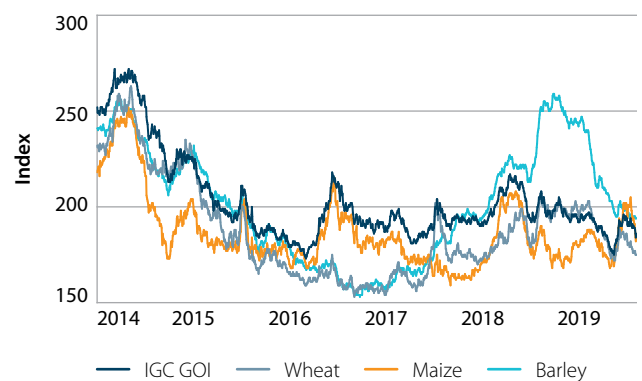
One factor which may temper this is the impact of the African Swine Fever outbreak in China on grain supply chains. With some forecasters predicting that between 30 and 70 per cent of China's pigs may need to be slaughtered, the impact on feed demand may take some time to play out. That said, the resultant increased demand for red meat imports from Australia could boost domestic feed demand even further.

GLOBAL WHEAT PRODUCTION AND CONSUMPTION



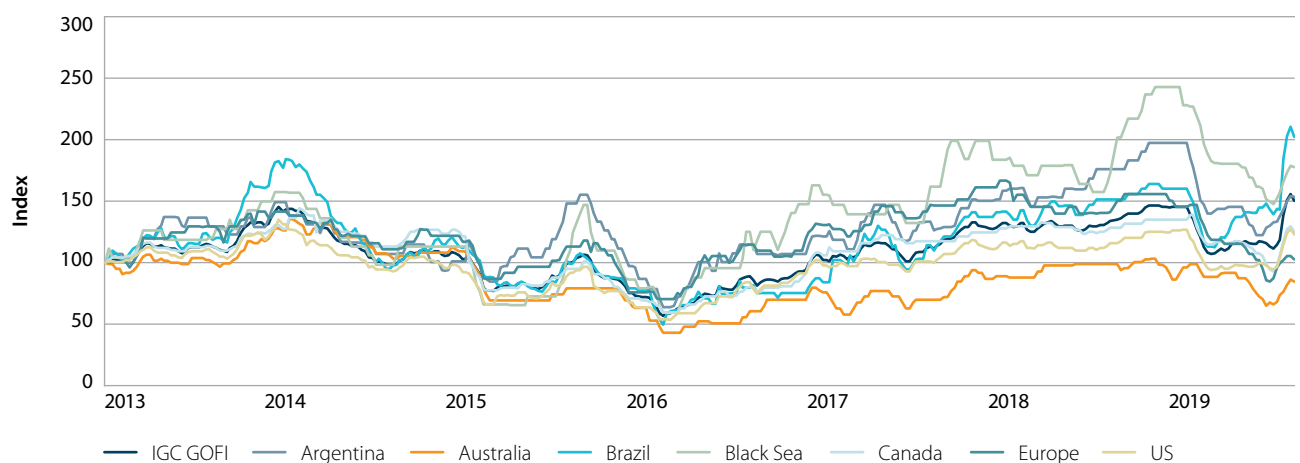
Source: USDA

GLOBAL GRAINS PRICE INDEX



Source: International Grains Council

GLOBAL GRAINS FREIGHT RATE INDEX



Source: International Grains Council



BEEF INSIGHTS

OVERVIEW

- Cattle prices across the west and east of Australia have reached annual highs, however, a large differential exists between VIC and southern NSW and QLD in particular
- Exports continue to perform exceptionally well, driven by China and underpinning the health of the feedlot sector
- China exports near safeguard and doubling of tariff
- Cattle on feed reaches another new high for the June quarter
- Overall slaughter and the proportion of female cattle slaughtered continue to have considerable impact on the national herd and the prospects of a rebuild

Some buoyancy returned to cattle markets over recent weeks as the Eastern Young Cattle Indicator (EYCI) and Western Young Cattle Indicator(WYCI) both reached annual peaks in early August and surpassed price levels of a year ago. The increased pricing has resulted from higher confidence throughout WA, VIC and southern NSW in particular, where recent rainfall has led to strong pasture growth conditions, providing welcome relief for those who carried and fed large numbers of cattle through the dry periods. The EYCI for early August has been trading at around 530 cents per kilogram carcass weight and the WYCI at around 550–570 c/kg cwt.

While advances in cattle prices have been led by VIC and NSW since March, QLD and northern NSW cattle prices continue to be impacted by drought conditions and have, in some cases, traded at a greater than 100 c/kg cwt discount to southern states. The feedlot sector, supported by strong export demand, continues to underpin the market, with a record high 1.147 million cattle on feed for the June quarter, representing the fifth straight quarter with over 1.1 million cattle on feed in Australia. Re-stocker purchasing activity remains sensitive to local conditions with producers who have received reasonable rains demonstrating their intent to restock while others await a break before re-entering the market.

Latest cattle industry projections from Meat and Livestock Australia (MLA) estimate the combined beef and dairy cattle herd in Australia at June 30 to be around 26 million head, representing a greater than 7 per cent decrease over the past 12 months.

The continued 58 per cent female slaughter rate, which, as of the data for June, represented the fourth consecutive month at this level, remains unprecedented and signals a long and slow herd rebuild ahead. Total cattle slaughter is up over 8 per cent year-on-year, however a corresponding increase in production has not been seen, with carcass weights in decline as a direct result of the poor seasons.

MLA forecasts are for a further and continuing reduction in the total herd, assuming the absence of drought breaking rains throughout QLD and northern NSW, to 25.8 million head in 2020, before commencing a steady rebuild of between 2.5–3 per cent per annum in the years following.

Along with record-high cattle on feed and record-high female slaughter rates, another record was set in July in relation to beef exports to China. China was Australia's number one beef trading partner for July, importing over 28,000 tonnes shipped weight (swt).

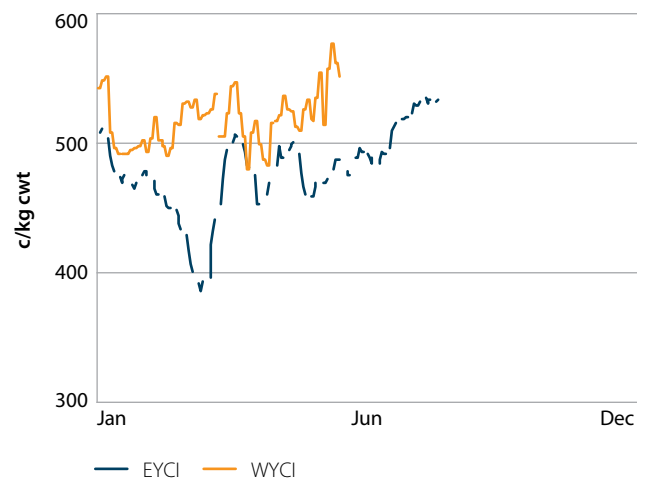
On average, monthly exports have grown by 65 per cent, compared to the corresponding months of 2018.

Year to date, China has imported over 146,000 tonnes swt, which some industry sources believe was one of the reasons behind the July export surge. Australian beef sold to China currently attracts a 6 per cent tariff until such time as total annual exports reach a safeguard of 174,454 tonnes swt. Once the safeguard is triggered, under China–Australia Free Trade Agreement (ChAFTA), a 12 per cent tariff applies to all Australian beef.

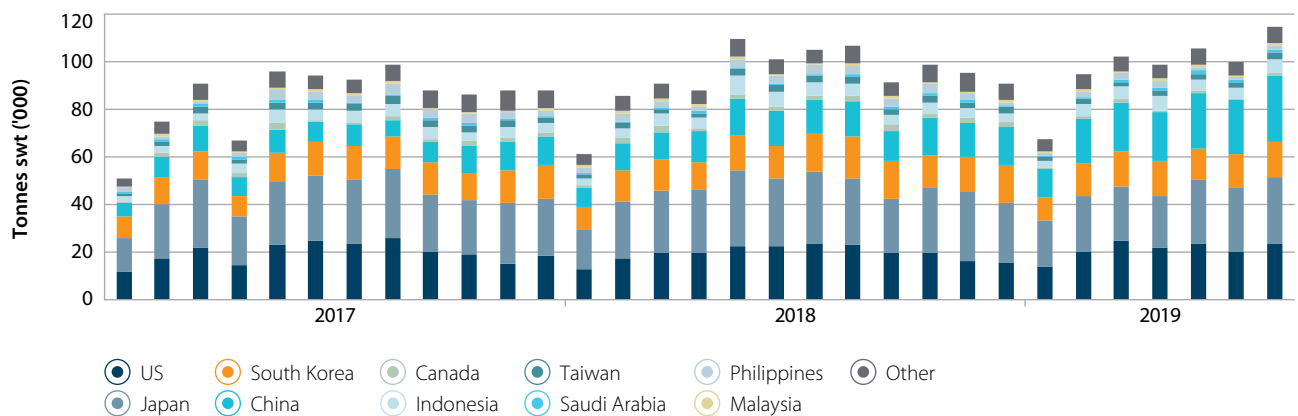
With five months of the year remaining, and average monthly exports of almost 21,000 tonnes swt this calendar year, there is perhaps only one month remaining until the new tariff is triggered. Other contributing factors, such as the continuing impact of African Swine Fever on China's protein markets and a low Australian dollar are also playing a part. With an increase in tariff may come an increase in competitive pressure from US and Southern American beef in particular, who have an increasing focus on Asian beef markets.

As improved conditions play out across southern NSW and VIC, an increase in restocker purchasing activity has been demonstrated, and which has driven premiums for a limited supply of female cattle in a good productive weight range. Premiums still exist across the board for heavy and well-finished cattle due to lack of quantity of these types in the market, driving large price differentials between light and finished cattle types.

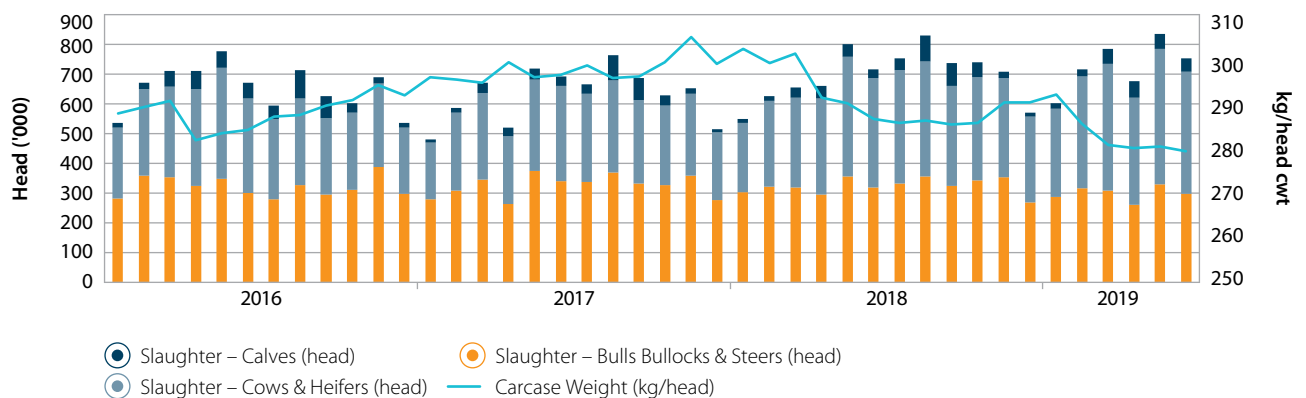
INDICATOR CATTLE PRICES - EYCI AND WYCI



AUSTRALIAN BEEF EXPORT VOLUMES BY COUNTRY



BEEF SLAUGHTER AND CARCASE WEIGHT





SHEEP INSIGHTS



OVERVIEW

- Lamb prices climbed to a peak in late July on the back of low supply before steadying slightly in early August
- Lamb slaughter is well behind 2018 levels and signals the lower number of animals available for processing this winter
- Spring forward contracts suggest processors anticipate a continuation of short supply
- Exports are impacted by the high domestic lamb price and the lower availability of product, however overall quantities remain sound
- The latter part of 2019 will provide insight into the strength of demand from China in particular
- The three-week extension to the northern hemisphere trade halt on sheep live exports to the Middle East does not appear to have negatively impacted WA prices

The incredible performance of sheep and lamb markets for 2019 has continued through early and mid-winter with new record-high prices in late July, as the Eastern States Trade Lamb Indicator (ESTLI) reached 951 cents per kilogram carcass weight (c/kg cwt). Western Australian (WA) prices followed a similar trend, however have traded at a slight discount of around 40–50 c/kg. The well-predicted winter lamb and mutton shortage has played out to see increased competition for limited supply drive prices higher. Weekly lamb slaughter was 19 per cent behind 2018 levels in late July – a strong indicator of the change in flock size and market throughput this year.

By early August, prices had started to ease slightly as new season sucker lambs entered the market in small quantities, which also combined with traditionally slower buying activity from major processors due to plant maintenance before the spring peak processing period. Signals for spring lamb prices are positive on the back of the reduced overall flock, lower lambing percentages and, therefore, lower overall supply. The timing, quantity and quality of new season lambs will largely dictate the direction of spring lamb prices. Forward contracts available to producers for Spring indicate that processors continue to anticipate tight supply, with contracts available for September between 860–880 c/kg cwt.

THE INCREDIBLE PERFORMANCE OF SHEEP AND LAMB MARKETS FOR 2019 HAS CONTINUED THROUGH EARLY AND MID-WINTER WITH NEW RECORD HIGH PRICES IN LATE JULY

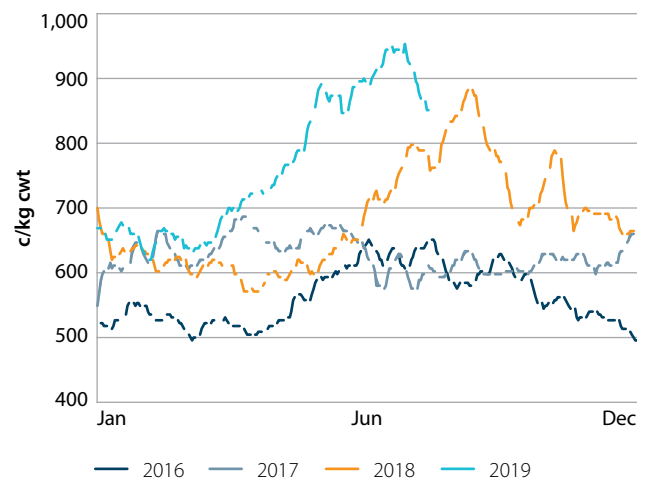
In terms of the quality of stock on offer, lamb carcass weights have continued their long-term increasing trend, averaging 23.48kg year to date for 2019 compared to 22.78 three years ago. With Australian sheep pricing mechanisms favouring weight in their current form, it is not surprising that producers have been willing to invest in lamb finishing systems to capture larger dollar-per-head returns than would have been thought possible just a few years ago.

The winter period has brought with it not just a slowdown in slaughter and processing but also a corresponding steadying in sheep and lamb export markets. Winter is traditionally a slower period for exports, however, the high domestic pricing and lower availability of processed product are having an impact this year. Overall however, exports remain strong for 2019 with year to date volumes up 6 per cent for mutton and 3 per cent for lamb when compared to the corresponding period of 2018.

The driving force keeping exports above year to date levels from 2018 has been Asia, in particular mutton exports to China, which are up 59 per cent for the Jan–July period year-on-year. The flow on effects of African Swine Fever later into the year will be of particular interest to watch for sheep producers, as any increase in appetite for Australian red meat protein could combine with a tight supply of spring lamb to underpin further price growth throughout China's peak sheepmeat importing period of September through December.

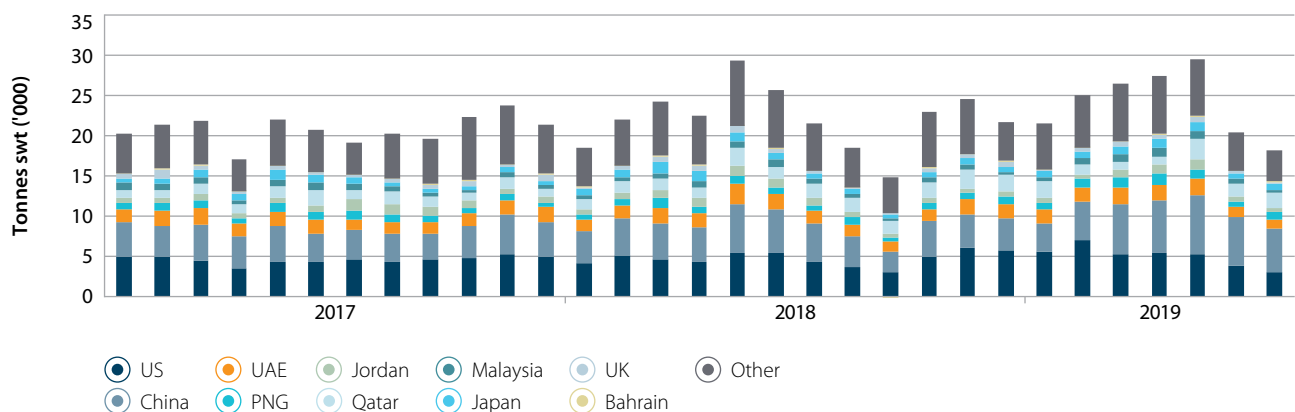
In live exports, a three-week extension of the northern hemisphere summer trade halt has been imposed, which will now be in place until 22 September. Around 704,000 head of sheep were exported from January to June 2019, down almost 100,000 head and representing a 12 per cent reduction year-on-year. WA saleyard indicator prices did not appear to be negatively impacted, with short supply in the eastern states playing an important role in maintaining pricing in the west.

EASTERN STATES TRADE LAMB INDICATOR



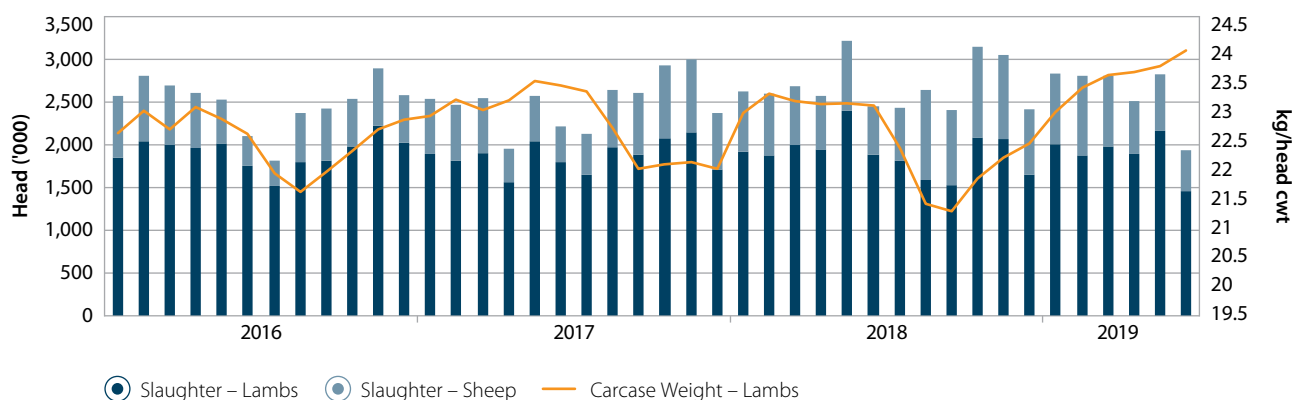
Source: MLA

AUSTRALIAN LAMB EXPORTS



Source: DAFF, MLA

LAMB AND MUTTON SLAUGHTER AND LAMB CARCASS WEIGHTS



Source: MLA

WOOL INSIGHTS



OVERVIEW

- Wool prices are struggling slightly amid buyers' concerns over global economic conditions
- The market has come down from the highs of 2018, however they remain historically high
- While buyers are currently not bidding, global stocks are running at very low levels and those buyers who are placing orders are wanting fast deliveries
- Factors outside of the wool market are currently dictating prices, however the underlying fundamentals of the market are strong

The Australian wool market closed for its mid-year recess up slightly on previous weeks, however it finished off a less than positive month that saw lower demand and price. For much of 2019, the Australian wool market has been trending down from the peaks of 2018; while still trading at strong levels, the downward trend has led many to ask whether there are structural drivers for the trend or whether this is simply a moderation on last year's highs.

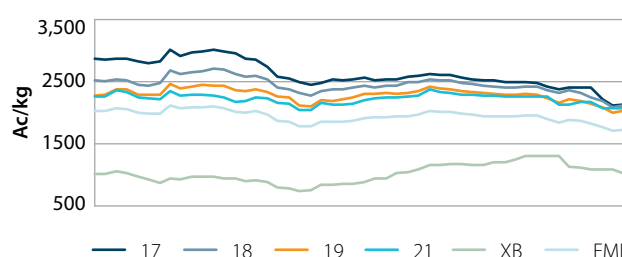
Since August 2018, when the Eastern Market Indicator (EMI) reached highs of 2,116c/kg, prices have shown a general downward trend except for a rally in February 2019. When the market closed in July, the EMI was sitting at 1,754c/kg after a late improvement in the last week before the recess. When the market reopened in August, the EMI was down 78c/kg with large falls being felt in the fine wool microns.

Given the wool industry's complete reliance on export markets, the Australian dollar price may not be the best indicator of buyers' demand. While in AUD the drop in the EMI was 17 per cent, in USD terms the EMI dropped from 1,539c/kg to 1,223c/kg – a drop of 20.5 per cent. This shows that the Australian producers were somewhat sheltered from the drop in buyers' demand and willingness to pay by movements in the exchange rate.

Perhaps of greater concern is that while this significant drop in demand from overseas was occurring, there was also a sharp reduction in supply from Australian wool producers. The number of bales offered at auction dropped almost 17 per cent in the last trading year. While the Australian Wool Production Forecasting Committee predicts a 12.8 per cent drop in production in 2017/18 and a further fall of 4.5 per cent in 2018/19.

Drought conditions have played a significant role not only in the drop in production, but also in the reduction in high quality wool on offer, with much of the clip suffering from breaks and low yields impacting demand.

WOOL PRICES BY MICRON



Source: Wool Network

Most concern sits around global trading conditions and economic growth in both China and Europe – from where demand for most fine wool products comes – while processors remain concerned that they will be unable to pass on prices to the consumers. Uncertainty also surrounds the supply side with South African wool exports to China still suffering under the ban imposed after foot-and-mouth disease was found.

While this may seem to spell a pessimistic outlook for this trading year, there are a number of signs that should at least level off, or improve, for the rest of the year. While prices have been in decline as buyers either sit out auctions or refuse to purchase, there are strong indicators that global wool supply has reached exceptional lows, with auction-observers commenting that all purchases are for immediate delivery, in part due to the three-week recess, but also as stocks have been run low.

While we do not anticipate a return to the heights of 2018 in the short-term, there are strong signals that the market won't continue to deteriorate further for the rest of 2019 as continuing tightening in Australian supply, as well as buyers returning to the market in response to low stocks and lower prices, bodes well for the next few months.





COTTON INSIGHTS



OVERVIEW

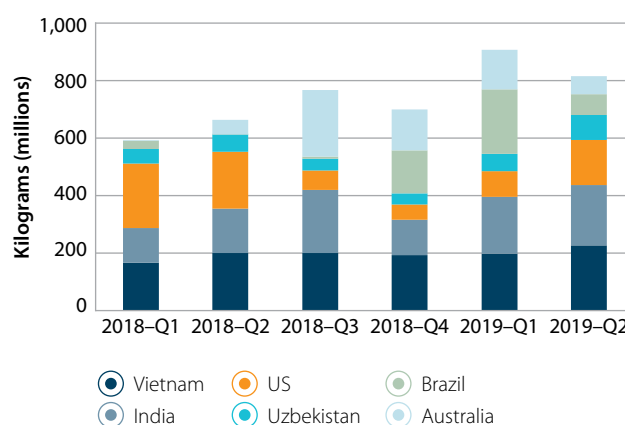
- Conditions continue to be challenging for most producers as lack of soil moisture combines with lack of available storage water or irrigation allocation
- Evidence of the China–US trade war is demonstrated in cotton trade between the two nations
- Longer-term trade tensions have the potential to impact textile and apparel trades, which could affect demand for Australian cotton
- Local pricing continues its downward trend despite a favourable exchange rate for exporters

Australian cotton growers continue to face a challenging season. With a lack of widespread rain to recharge surface water storages or increase irrigation allocations, the outlook for the 2019/20 planting remains very subdued. ABARES estimates for a 50 per cent year-on-year reduction in cotton plantings across Australia remain current, from around 340,000 hectares in 2018/19 to around 170,000 hectares for the season ahead. Given the 2018/19 season was already subdued from dry conditions, the forecast planting is particularly bleak and represents a 67 per cent decrease in plantings when compared to the 2017/18 season. With yields also likely to be under pressure from limited moisture, the 2019/20 Australian crop has been forecast by some industry sources at less than 1 million bales.

While Australian production has been and is forecast to remain low, prices are not likely to respond to decreased local production and are becoming increasingly certain to continue their downward trend. The world cotton crop remains forecast as the second largest crop on record, at around 126 million bales. US harvest estimates of a 22-million-bale crop are becoming closer to reality as the season plays out, with over 60 per cent of the crop rated as being either 'good' or 'excellent' as it develops. High-yielding crops throughout major production zones of India and Brazil are also expected.

While the US crop will continue to have a major impact on world cotton pricing, the result of trade tensions between the US and China may be visible through recent China import data. Following the imposition of a 25 per cent tariff on US cotton into China in July last year, a clear increase in exports to China from Australia, Brazil and India can be seen when comparing the first two quarters of 2019 to the same period last year. While this could be seen a positive outcome for the Australian industry, the flip side of reduced textile trade between China and the US remains a possibility, which could be negative for Australian cotton demand.

CHINA COTTON IMPORTS



Source: ITC Trade Map, ANZ

At present, industry sources suggest that US apparel demand remains stable, however China's share of both value and volume in the market has started to dip slightly. Australia has more diversity in cotton export markets when compared to the nation's other major natural fibre of wool, however China is the home of over two-thirds of cotton exports from Australia, and therefore any change in either the US–China apparel trade will have an impact on demand for Australian cotton and, consequently, prices.

Locally, despite a favourable Australia–US dollar exchange rate for exports, cash prices for 2018/19 crop were trading at around \$530 per bale in early August, which represents a continuing decline over recent months. Domestic price forecasts for the 2019 crop are between \$510 and \$545 per bale, influenced heavily by the global crop outlook, high stock levels and competition from synthetic fibres.

DAIRY INSIGHTS



OVERVIEW

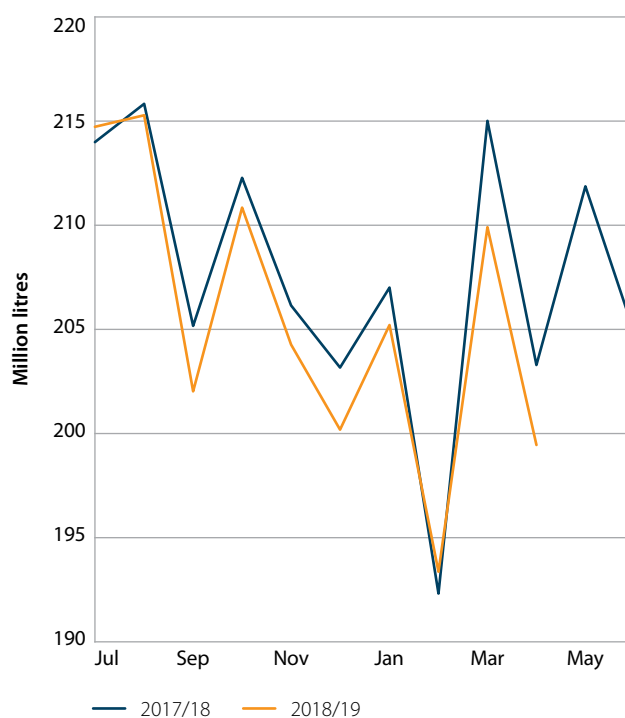
- National production continues to decline on last year with production now sitting 7.7 per cent lower, year-to-date
- The bidding war for a share of Australia's decreasing production is putting pressure on processor margins
- Ongoing dry conditions continue to put pressure on water allocations, prices and feed prices. Combined with increasing fertiliser prices, producers are seeking to minimise input costs to ensure profitability
- Significant challenges exist to rebuild the dairy herd and supply following large increases in culls
- Australian exports to China continue to grow strongly as China looks to countries other than the US for dairy

Global dairy prices have fallen for the sixth time in seven auctions in early August, losing most of the gains delivered in the previous event. Strong production figures and output in New Zealand have driven much of the fall in prices, despite weaker than anticipated production seasons in the European Union and United States. Prices fell across all categories, particularly butter which fell 5.5 per cent as the amount of product on offer was up to 34,969 tonnes from 25,000 tonnes. This result was not unexpected, however, after Fonterra announced that its New Zealand milk intake had increased almost 14 per cent in June.

In the main, however, global dairy prices have remained relatively steady over the past three years – with the Global Dairy Trade (GDT) auctions trading within a fairly limited trading range of 833 to 1,096 since August 2016. In contrast, between April 2013 and August 2015 the GDT ranged from 1,573 to 514 on the GDT index.

Globally, much of this stability is a result of the reduction in the EU skim-milk powder surplus, which has only dissipated in recent months. USDA forecasts that in just two years to 2019 the global stocks of skim milk/non-fat milk powder will have dropped by over 46 per cent. However, it also appears that many of the larger producing nations in the EU are reaching their growth capacity following the surge in production in 2013. The USDA predicts that production growth in the EU will slow to 0.9 per cent in 2019 while production growth in the US will fall just short of 0.3 per cent.

AUSTRALIAN FLUID MILK CONSUMPTION



Source: Dairy Australia

Australian production continues to decline, however, with the most recent figures showing a 13.6 per cent year-on-year decline in May and a 7.7 per cent decline year to date. This decline in production in May came across all states with falls of over 10 per cent across the board, except Western Australia. As a result, processors' competition for a cut of the depleting supply is continuing with opening prices returning significantly stronger returns to producers than global prices would indicate. Fonterra recently raised its opening milk price for the new season by 20c to 6.80/kg of milk solids (MS). Bega Cheese increased its new season's opening price by 15c to \$6.75/kg MS.

The competition for milk supply has also put pressure on the processors' bottom line with Bega announcing it has cut its forecast profit by 10 per cent as a result of drought conditions and reduced supply.

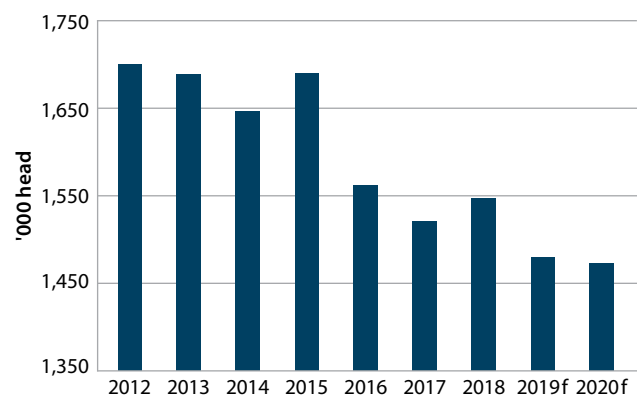
The domestic retail market continues to contract slightly throughout the year although the removal of \$1 milk has increased the value of domestic milk sales despite the fall in volumes. Falls in drinking milk consumption have occurred primarily in the low-fat and non-fat drinking milk categories with full cream milk consumption remaining relatively stable for the year.

Stronger farm gate milk prices are not only welcome but necessary for many producers as they continue to struggle with drought conditions, high water prices and low water allocations, high feed prices and increasing fertiliser prices. New seasons' water allocations reflected low catchments levels with high reliability water shares in the Murray, Goulburn and Loddon systems all opening at 2 per cent while Bullarook Creek and Campaspe are 19 per cent and 26 per cent respectively. Water prices remain significantly higher than this time last year with northern Victoria trading at 212 per cent higher and southern NSW trading at an average of 174 per cent higher than this time last year. Similarly, feed wheat, hay, urea and DAP prices are all showing upward trends and all except DAP are asking higher prices than this time last year.

As a result of drought conditions and high input costs many producers have been relying on cull cows as a source of income with cull rates in June up 3 per cent on last year albeit down on May levels. Year-to-date cull numbers are sitting at 82,798 head – up 19 per cent on 2018. The high cull rate poses issues for the dairy herd rebuild and milk supply in the future, with predictions of a reduction in cull rates and income through the second half of the year as farmers seek to rebuild.

Export markets continue to increase, with Australian exports up 2.5 per cent in 2018 despite reducing production. As the trade war between the US and China continues, China is increasingly looking to suppliers other than the US for milk. While New Zealand remains the major supplier to China by far, Australian exports continue to increase at a strong rate, up 7.3 per cent while Australian exports to Japan also increased a very strong 8.8 per cent. This came at the expense of exports to Australia's smaller export markets including Singapore, Malaysia and Indonesia.

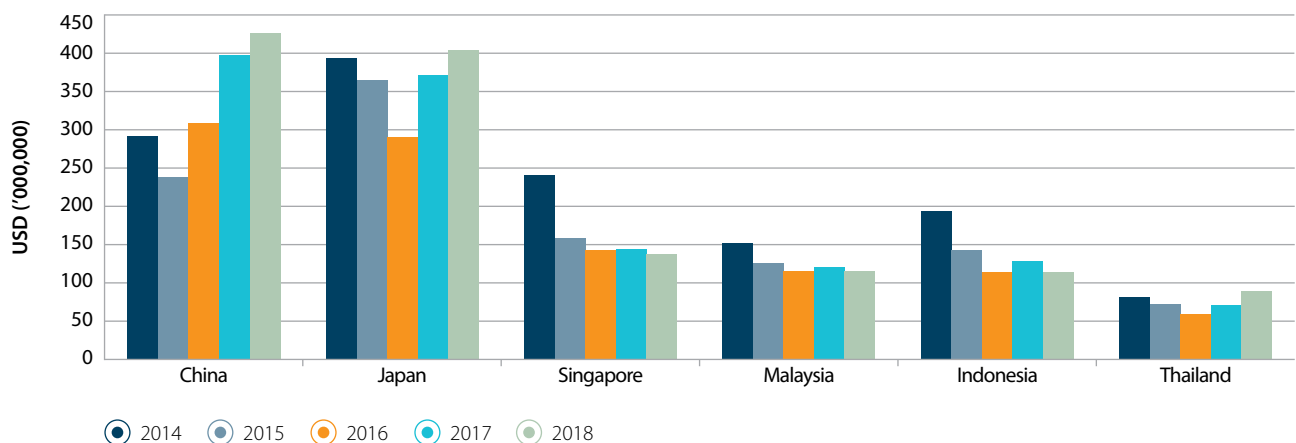
AUSTRALIAN DAIRY HERD



Source: MLA, ABARES

* Note: Change in definitions in ABS survey is responsible for the large drop in dairy cows between 2015 and 2016

AUSTRALIAN DAIRY EXPORTS



Source: TradeMap



AVOCADO INSIGHTS

OVERVIEW

- Australian avocado production has grown rapidly in output and value in recent years and is on trend to continue this growth
- New and diverse export markets are an opportunity for the industry and could provide a significant buffer to local supply and demand equations
- New production zones are assisting to even out seasonality in supply and domestic prices
- As production increases, possibly faster than domestic consumption, growers will need to focus on efficiencies and costs of production to maintain profitability

The Australian avocado industry has undergone rapid expansion in recent years, and as at 2017/18 produced over 63,000 tonnes of fruit for a gross value of production of over \$400 million. In the years from 2013/14 to 2017/18, avocado production in Australia grew by over 44 per cent in volume and 88 per cent in value. Queensland (QLD), which produces around 60 per cent of Australia's avocados, is responsible for much of production and value growth, however, Western Australia (WA) has in recent years become a major contributor, now producing around 25 per cent of the national figure.

Avocado production in Australia is largely domestically focused, with around 97 per cent of production destined for local markets and a small 3 per cent exported to three main markets of Malaysia, Singapore and Hong Kong. Further development of existing export markets and entry to new and potentially higher value and high growth export markets such as China and Japan, are both an opportunity and priority for the industry, as forecasts for a steady increase in avocado supply are currently tracking higher than trend for domestic consumption, which is an important signal for domestic prices.

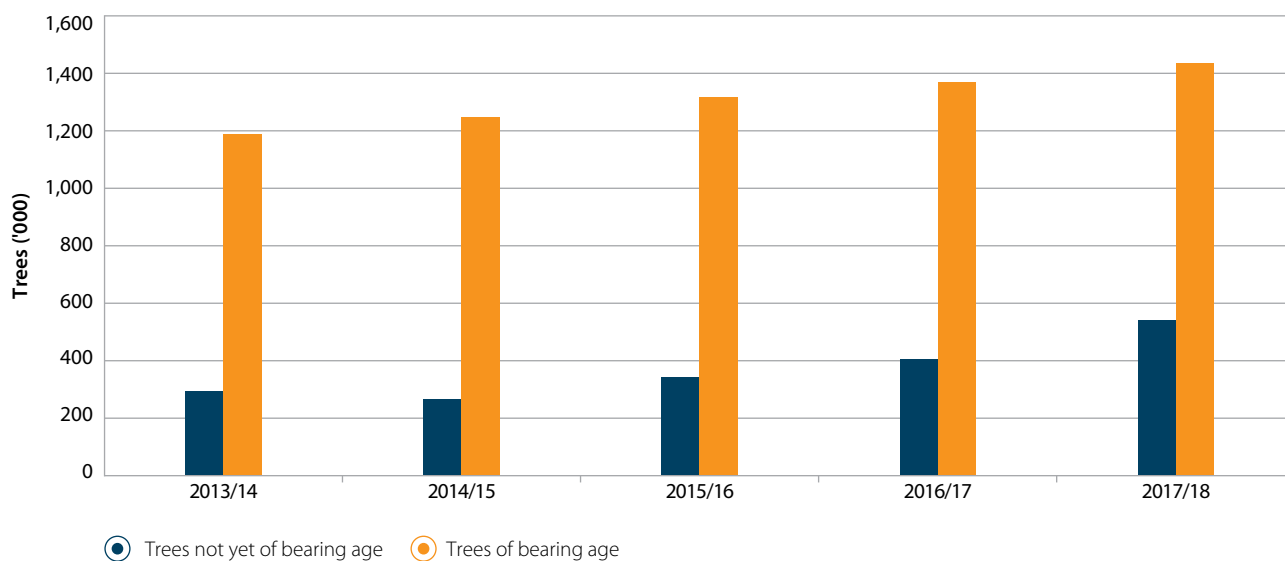
Increased investment into avocado plantings across the country has occurred in recent years, including significant growth in the established production region of north QLD and also the relatively new production zones of WA, central NSW and the area known as 'tristate' on the border between SA, VIC and NSW.

According to 2017/18 ABS data, almost 30 per cent of Australian avocado plantations are immature trees, yet to reach fruit bearing age. Just four years ago, this figure was only 20 per cent, indicating the potential for future production growth in the next three to five years. When this increase in plantings is coupled with increased productivity per tree, Avocados Australia forecast the industry could be producing over 110,000 tonnes of fruit by 2025.

In terms of domestic avocado consumption, Australians currently consume around 3.5 kilograms of avocados per capita per annum, which has grown steadily from around two kilograms in the mid 2000s. This increasing trend has supported the growth in Australian production and has also sustained an average 8 per cent per annum growth in avocado imports from New Zealand over recent years.

Australia's new plantings and relatively recent ability to produce large quantities of avocados year round due to geographic spread in production zones – particularly WA who provide spring and summer Hass avocados similar to New Zealand – are expected to even out domestic pricing throughout the year. The current lack of access to diverse or high volume export markets and increased domestic supply, is leading market sources to suggest that pricing for avocados will plateau as the fruit becomes more readily available on supermarket shelves. For growers, this means gains in efficiency, capping or reducing cost of production and increasing output are going to be pivotal to ongoing success.

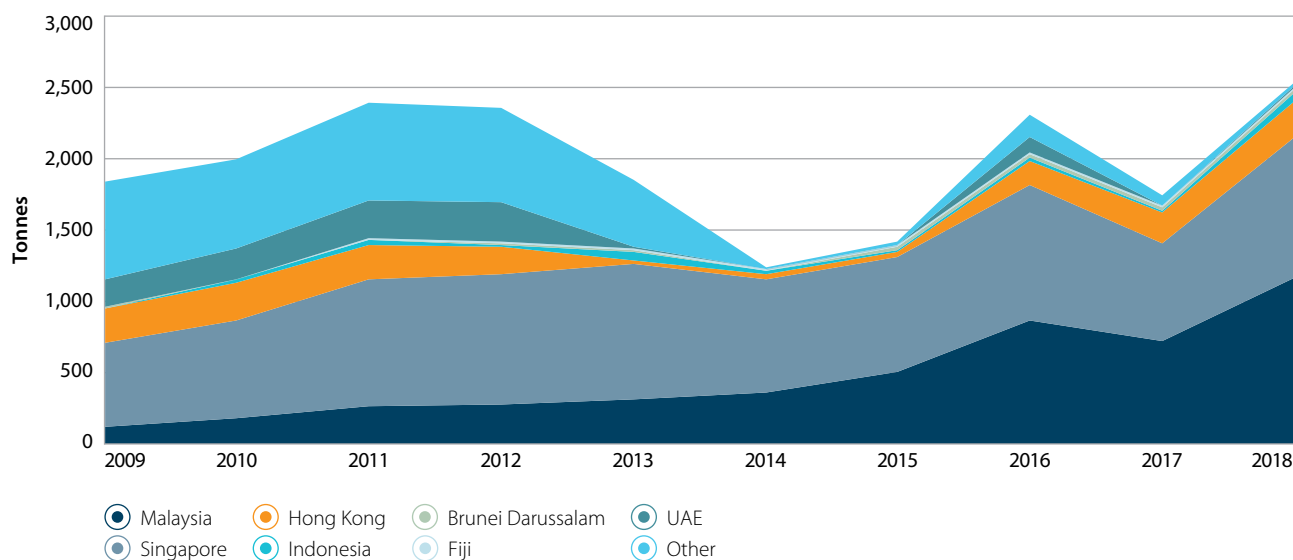
AUSTRALIAN AVOCADO PLANTATIONS



Source: ABS

IN TERMS OF DOMESTIC AVOCADO CONSUMPTION, AUSTRALIANS CURRENTLY CONSUME AROUND 3.5 KILOGRAMS OF AVOCADOS PER CAPITA PER ANNUM, WHICH HAS GROWN STEADILY FROM AROUND TWO KILOGRAMS IN THE MID 2000S

AUSTRALIAN AVOCADO EXPORTS



Source: ITC Trade Map



EGG INSIGHTS



OVERVIEW

- Significant consolidation has occurred in the industry in recent years
- Changes in consumer demand have forced egg-producing enterprises into higher cost models
- An oversupply of eggs on the domestic market has pushed retail prices lower
- While the industry is currently primarily domestically focused, strong opportunities exist in the export market, particularly to Asia

The Australian layer hen industry is worth \$828 million per annum with over 400 businesses producing 360 million dozen eggs each year. The Australian egg industry has displayed strong growth in recent years, increasing from 572-million dollars of production in 2010 and a 26 per cent increase in egg output in the same time – despite only increasing from 13 million to 16 million layer hens. Of those 16 million layer hens, around 58 per cent are caged hens, 31 per cent are free-range and the remaining 11 per cent are barn hens.

The Australian egg industry has gone through a significant amount of change in recent years with changing consumer demand and cost of production. The number of egg-producing businesses has undergone significant consolidation in recent years with the number of agricultural enterprises involved in egg production reducing by over 31 per cent in just one year to 2017/18.

The retail price of Australian eggs has stagnated and even declined in recent years as an oversupply of eggs, as caged production continues while new, free-range and barn eggs have entered into the market. As a result, retail egg prices are now lower than at the end of 2014.

Australian egg consumption declined markedly in the early 1990s, in line with an increase in nutritional advice to avoid eggs due to cholesterol. While per capita egg consumption in Australia hit a low point in 2004 it has staged a very strong comeback in recent years – again on the back of changes in advice on the nutritional benefit of eggs.

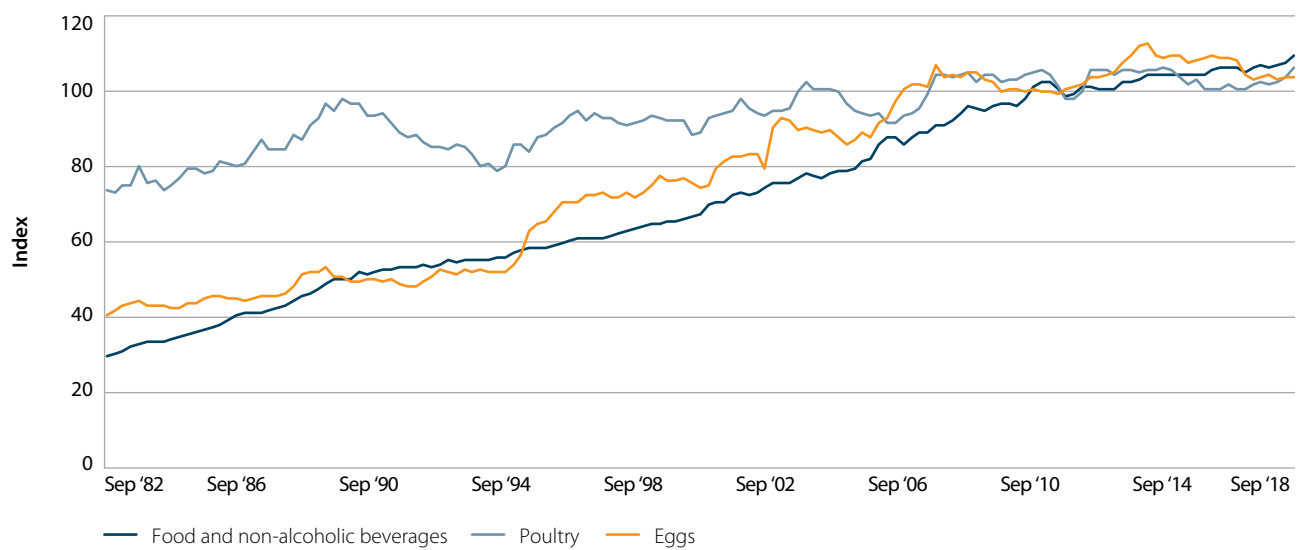
While Australians currently eat fewer eggs than the UK, US or China, the growth in Australia's domestic market present exciting prospects for the future.

While the Australian egg industry only exports \$US12 million worth of produce, that has grown from just \$US2.7 million two years ago. The primary export market for Australian eggs is currently the Philippines, however growing demand across Asia is likely to result in an increasing export market for Australian producers.

The industry outlook for egg producers is mixed as the industry faces a number of cost pressures going forward. This include increasing pressure from input costs as well as stable retail prices combined with increasing consumer demand for more cost-intensive production systems. While egg consumption is expected to increase, increasing feed costs are reducing margins for many producers. Furthermore, as higher cost production systems including free-range and barn eggs become embedded as a consumer norm, there is no guarantee that they will continue to return the premium they currently attract. Continued consolidation is expected as larger operators take over smaller, niche producers.

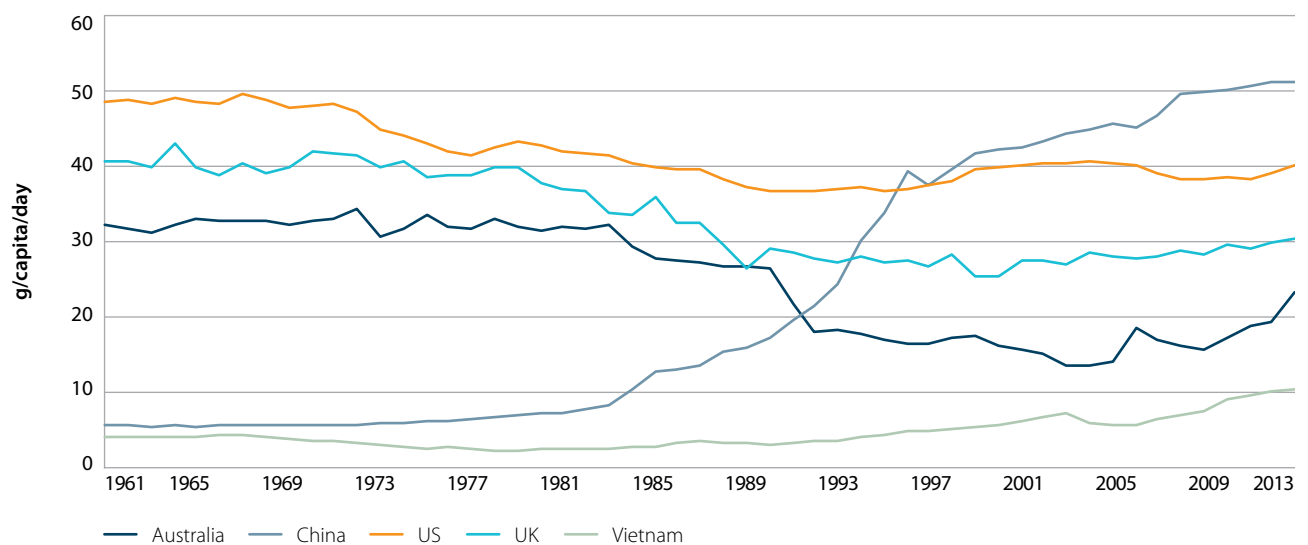
THE INDUSTRY OUTLOOK FOR EGG PRODUCERS IS MIXED AS THE INDUSTRY FACES A NUMBER OF COST PRESSURES GOING FORWARD, INCLUDING INCREASING PRESSURE FROM INPUT COSTS AS WELL AS STABLE RETAIL PRICES COMBINED WITH INCREASING CONSUMER DEMAND FOR MORE COST INTENSIVE PRODUCTION SYSTEMS

RETAIL PRICE INDEX



Source: ABS

GLOBAL EGG CONSUMPTION (G/CAPITA/DAY)



Source: FAO



ANZ ECONOMIC UPDATE

FOREIGN EXCHANGE

Rates domestically and globally have continued to rally over the last quarter and we expect rates will continue to remain at these current lows for a while yet. The lows in AUD rates markets have been driven by the RBA easing twice this quarter and maintaining an explicit easing bias as well as the deteriorating global backdrop. We think concerns around the increased escalation in trade tensions will continue for some time yet and that the RBA will need to cut rates again in October by 25bp to support the domestic economy. This will keep further downward pressure on AUD rates which we expect will outperform US rates in a sell-off but underperform on further rallies from here.

RATES DOMESTICALLY AND GLOBALLY HAVE CONTINUED TO RALLY OVER THE LAST QUARTER AND WE EXPECT RATES WILL CONTINUE TO REMAIN AT THESE CURRENT LOWS FOR A WHILE YET

FX AND CENTRAL BANK POLICY RATE FORECASTS

FX Forecasts	Current	Sep '19	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20
AUD/USD	0.68	0.67	0.65	0.66	0.68	0.69	0.70
NZD/USD	0.64	0.63	0.61	0.61	0.63	0.65	0.65
AUD/NZD	1.05	1.06	1.07	1.08	1.07	1.06	1.08
USD/JPY	106	108	108	105	105	105	105
EUR/USD	1.11	1.09	1.10	1.15	1.20	1.20	1.25
USD/CNY	7.04	6.93	6.92	6.90	6.85	6.80	6.75

Rate Forecast	Current	Sep '19	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20
RBA cash rate	1.00	0.75	0.75	0.75	0.75	0.75	0.75
Feds fund rate	2.25	2.25	2.00	2.00	2.00	2.00	2.00
RBNZ OCR	1.00	1.00	0.75	0.75	0.75	0.75	0.75

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