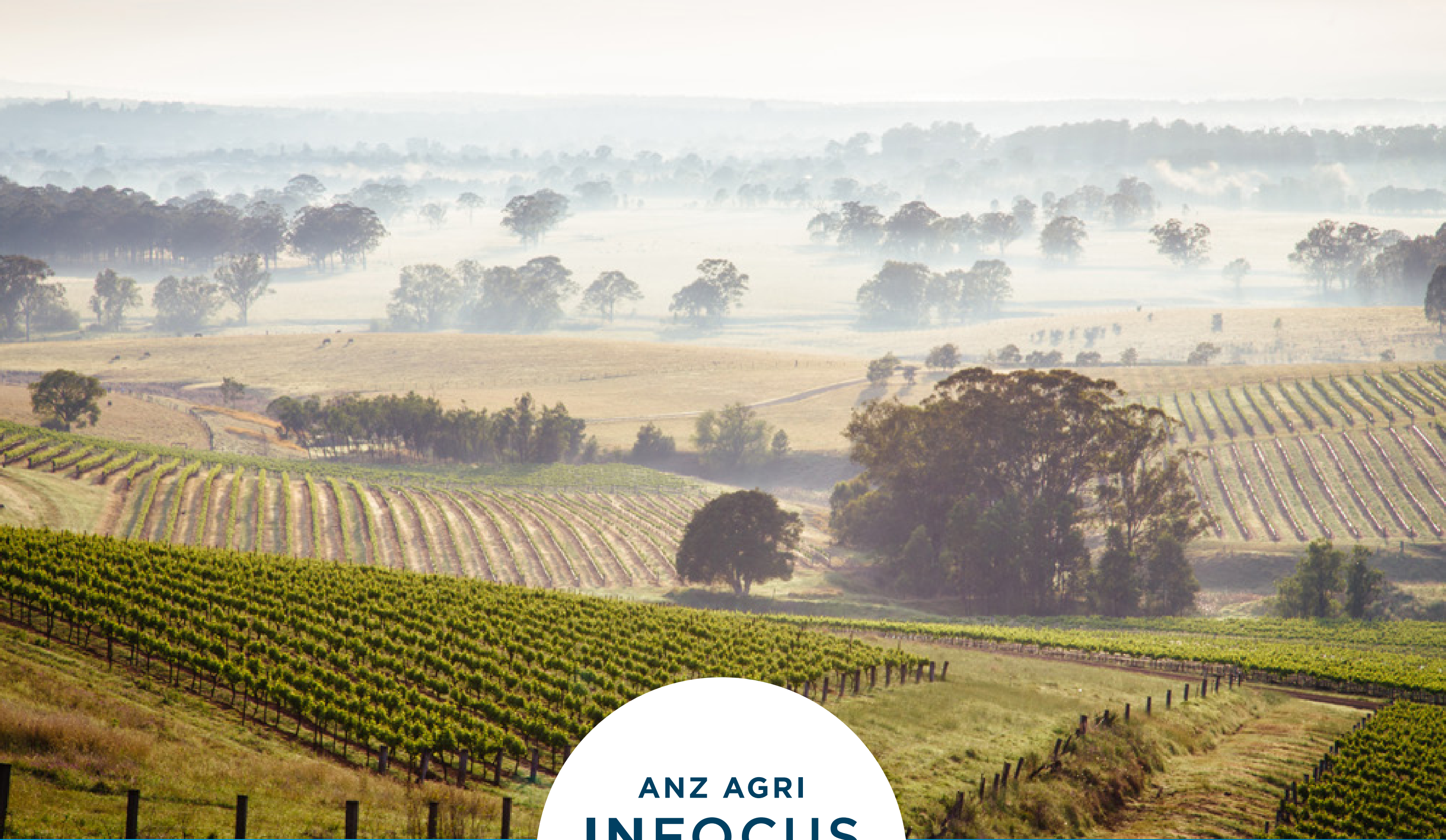

ANZ AGRI
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AUGUST
2020

COMMODITY INSIGHTS

ANZ

FOREWORD

The Australian agriculture industry has been bearing up well in the face of the COVID-19 pandemic with strong livestock prices, solid seasonal conditions and continuing export demand.

And while the industry is continuing to perform very well on an historical basis, the continuing pandemic in Victoria and across many export partners is taking the gloss off a number of sectors – in particular the sheep industry. That said, cattle prices continue to be extremely strong, global wheat prices are relatively stable despite forecasts of a bumper global crop. While some sectors are feeling new bumps in the road as a result of Stage 4 lockdowns in Victoria, and in particular the reduction in meat processing throughput, the industry as a whole continues to hold up well.

It wasn't that long ago that many Australians believed we may have avoided the worst of the impact of the COVID-19 pandemic. Unfortunately, a new wave of infections in Victoria and New South Wales has resulted in strong lockdowns across Victoria. The Victorian meat processing sector has been in the spotlight for a number of weeks due to a high number of COVID-19 cases in some processing plants. Under the new directives, meat processors will be required to reduce their on-site workforce by 33 per cent from midnight on 7 August 2020.

The flow-on effects to the livestock sector have been mixed. The beef sector continues to perform exceptionally well with the indicator price, at times, trading over 50 per cent higher than the same time last year, driven in greatest part by continued restocker demand and low supply which has covered declining export demand. On the contrary, lamb prices have fallen solidly as the winter decline in restocker activity in the south has coincided with the reduction in processing demand in Victoria, the first flush of sucker lambs as well as the increase in export weight lambs diverted to the domestic market. Despite this, restocker demand is likely to increase again in spring and will likely support a return to prices seen earlier in the year, assuming the supply chain regulatory environment allows it.

Global grain prices remain relatively robust in light of a forecast record global harvest and stocks, which are likely to dampen prices. However, Australian producers are cautiously optimistic about the domestic outlook. While most grain-growing regions of Australia experienced a good start to the season, a number of them saw little or no rain throughout June and July this year. Good rains in August appear to have consolidation the crop, as we come into spring. Rains in the second week of August may have consolidated their position coming into spring. The dairy industry is seeing some volatility as price gains from July have been clawed back in recent weeks as buyers grapple with the changing global environment around supply chains and consumer demand.

The outlook is less upbeat for the Australian wool industry which continues to register significant falls – and at the time of writing had suffered the largest percentage decline in the Eastern Market Indicator since the abolition of the wool price floor. From a very profitable peak price, falling prices are now challenging an acceptable level of profitability.

This edition also looks at how foreign investment in Australian agriculture is faring in light of the pandemic, as well as looking at the Australian aquaculture industry, how exports have responded to the large drops seen earlier this year and how Australian consumers have reacted to an increase in produce on their shelves previously destined for export markets.

Mark Bennett
Head of Agribusiness & Specialised Commercial,
Commercial Bank

@bennett2_mark

WHEAT & GRAIN INSIGHTS

OVERVIEW

+ After two drought-hit years, the upcoming harvest is forecast to be one of the largest on record
+ After a good, wet start to the season and a dry-ish June/July, there is cautious optimism for rain in coming months
+ Global grain demand remains relatively strong during the COVID-19 period, particularly for staple foods.

– Uncertainty remains over the timeframe of China's barley import tariffs
– Strong global grain production means limited outlook for high grain price increases
– Volatile meat export dynamics mean feed grain demand may be impacted, though low prices will work in its favour

Arguably, the biggest driver facing the grains industry right now is too much of what should be a positive development for grain farmers around the world – the relatively good growing season for all of the major grain-producing countries. As a result, the outlook is for a record global crop overall, with a number of individual grain-producing countries forecasting record production levels. While some of the major producers and exporters are forecast to see slight falls from last year, most notably from Europe, the likely combination of high grain production and stocks points to minimal signs of strong price rises in the months to come.

For Australia, the industry is cautiously optimistic that 2020–21 will see the best wheat crop in four (since 2016–17) years. While forecasts will vary, the current projection is that Australia could see a wheat harvest of 26 million tonnes in 2020/21, which would be up 71 per cent on last year's drought-hit low of 15.2 million tonnes.

This forecast remains a cautious one; while most grain-growing regions of Australia experienced a good start to the season, a number of them saw little or no rain throughout June and July this year. However early rains in August have supported moisture profiles and the outlook for a strong crop. With a few months to go until the harvest starts, these regions will need a return of good moisture to see their crops reach their potential.

On the back of the production outlook, grain exports are also forecast to see a major turnaround from last year, predicted to jump 90 per cent to 17.5 million tonnes.

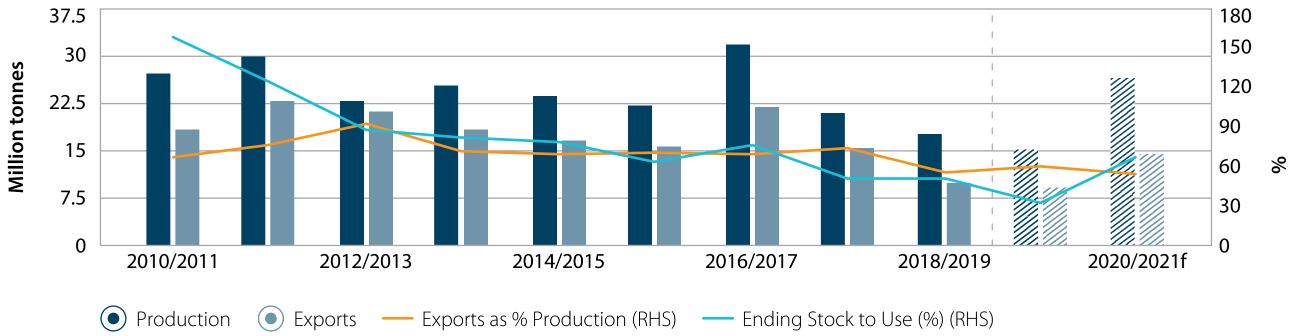
On its own, a strong recovery in production is definitely good news for the sector. That said, swings of these proportions in both production and exports also come with impacts which need to be factored into industry planning.

At a farm level, where a lot of growers would have seen their wheat production levels fall for around six of the past seven years, a rise of this volume will require a number of important strategic operational decisions. Growers will need to evaluate what proportion of grain they store on farms, and whether they have adequate storage facilities.

Operationally, with prices for cattle and sheep at strong levels, mixed producers will also be evaluating the balance of stock versus crop acreage in their operations. As part of this they will, amongst a number of other considerations, be balancing the level of feed grain they will store on-farm, and how this will tie in with their own budgeting forecasts on possibly either buying feed or selling grain.

For grain traders and receival site operators, the build up to this year's harvest will similarly need to focus on ensuring that logistical capabilities and storage capacity are prepared for the scale of the crop that could eventuate. In the record wheat crop of 2016–17, some were caught unprepared by the scale of the crop, leading to logistical challenges along the supply chain.

AUSTRALIAN WHEAT PRODUCTION AND EXPORTS



Source: ABARES

In terms of the Australian wheat stocks-to-use ratio, an indicator of the end stocks compared to the total usage, and one which is regarded as having reasonable impact on price, current forecasts have Australian wheat as heading for 20 per cent, which is consistent with the average figure for the past decade. On this outlook, Australian wheat prices would seem unlikely to be headed for strong upward pressure.

Similarly, the forecast percentage rise in wheat export volumes is also the fourth highest in the last 50 years.

To this end, it will be important for the industry to ensure that any potential issues, such as port access and capacity or possible COVID-19-related bureaucratic issues at the receiver end, anticipated. In addition, for companies utilising containerised grain, any issues arising out of the reduced availability of containers due to COVID-19-related shipping interruptions will also need to be factored into planning.

GLOBAL WHEAT OUTLOOK

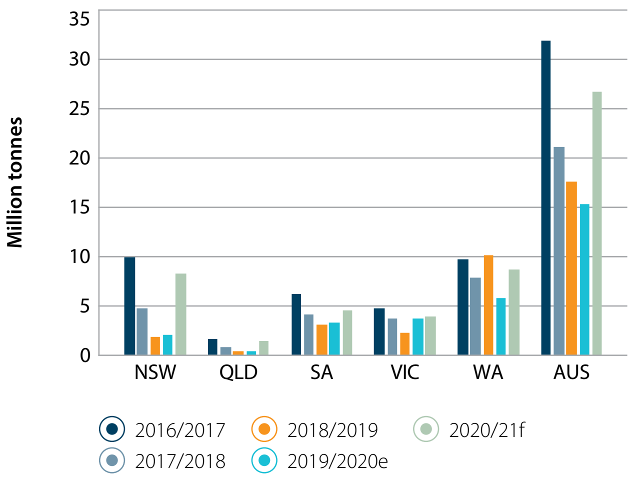
In terms of the current global outlook, the world continues to be on track for the biggest wheat crop ever, despite recent weather concerns in some of the major production regions. The global wheat crop is currently forecast to be up around 5 million tonnes on last year's figure, rising to just under 770 million tonnes.

For the big wheat producers, Canada and India are both forecast to grow their largest-ever wheat crop, while Russia, China and Pakistan are forecast to grow their second-largest crops.

Apart from the weather, the forces of geopolitics are likely to impact the industry, though to what degree remains unclear. The effects of China's tariff hikes on Australian barley remain to be seen, the tariff timeframe.

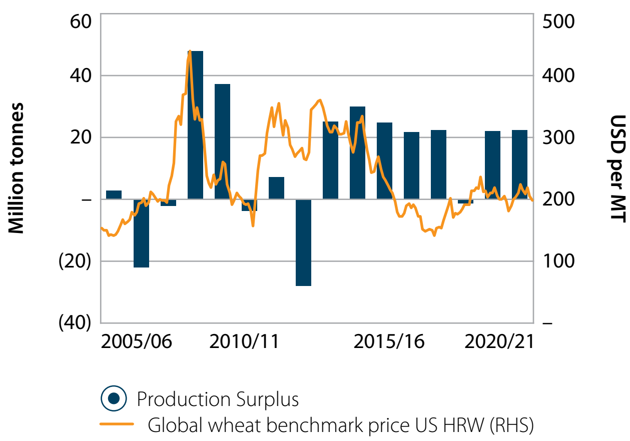
It has been noted that one beneficiary of the tariffs has been Canada, which has picked up some of Australia's China barley market share. This is at the same time as China's restrictions on Canada's canola exports have provided opportunities for Australian producers. As a result, some Canadian barley exporters are treating their new export opportunities with some degree of caution.

AUSTRALIAN WHEAT PRODUCTION BY STATE



Source: ABARES

WORLD WHEAT PRODUCTION SURPLUS AND PRICE



Source: USDA, Worldbank

BEEF INSIGHTS

OVERVIEW

+ Australian cattle continue to perform very strongly, primarily on the back of continued restocker activity
+ Lower supply is also supporting prices as yardings have fallen across all states
+ Over-the-hook prices have also increased strongly despite a slight dip recently in Queensland

– Herd rebuilding is challenged by the high female slaughter rate producers take advantage of strong prices
– The closure of JBS Australia processing facilities in Queensland and Victoria is likely to temporarily reduce demand as processors struggle to secure supply
– Beef exports continue to fall due to a range of factors

The Eastern Young Cattle Indicator (EYCI) continues to perform strongly, supported by the continued demand for restockers being driven by good seasonal conditions, while a lower number of yardings across the country have also provided upwards pressure on prices. Looming pressure on exports from increasing global competition is likely to continue to reduce turn-off. The much-anticipated Australian herd rebuild currently appears to be on hold, with female slaughter rates remaining stubbornly high, and Meat and Livestock Australia (MLA) only forecasting a slight increase in herd numbers by the end of the financial year.

The EYCI ended July at around 750Ac/kg, up almost 180Ac/kg from the same time the previous year. Despite some slight volatility, the EYCI has held relatively steady since reporting re-opened, if slightly down on the June peak. Since the beginning of June, the greatest support has been seen for heavy steers which have increased around 5 per cent in value and medium cows which have increased around 2 per cent, while restocker, feeder and trade steers have all held firm. Vealer steers have been the only category to see a decline. Over-the-hook prices have performed strongly since the beginning of June across the country, despite a slight downturn in late June and early August in Queensland. As a result of strong prices and competition for stock, the number of cattle on feed declined by 12 per cent in the March 2020 quarter, the lowest level seen since March 2018.

THE PROSPECT OF A CONCERTED NATIONAL HERD REBUILD IS A LONG WAY AWAY, AS FEMALE SLAUGHTER RATES REMAIN STUBBORNLY HIGH AT OVER 55 PER CENT OF TOTAL SLAUGHTER

Across the country, supply is constrained with falling yardings in all states. New South Wales, in particular, saw falls of around 39 per cent on the same time last year while Victorian yardings fell 22 per cent. Queensland yardings fell 13 per cent in the same time. Similarly, slaughter figures have declined in May with total cattle slaughter down 18 per cent from the previous year. The slaughter of cows and calves has fallen 22 and 24 per cent respectively. However, the prospect of a concerted national herd rebuild is a long way away, as female slaughter rates remain stubbornly high at over 55 per cent of total slaughter – the highest since December last year. While MLA finds that a female slaughter of 47 per cent of below is the indicator of a herd rebuild, the rate has previously fallen to just above 40 per cent in early 2017 in the middle of the latest herd rebuild. On this basis, MLA is predicting an increase of 1.9 per cent by the end of 2020–21.

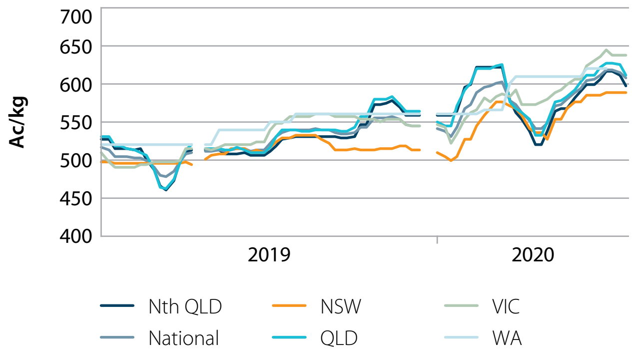
Beef exports, however, have continued to fall. In large part, this is due to the COVID-19 pandemic, but also an increase in the tariffs on Australian beef exports to China as Australian exports exceed to safeguard quota limit, as well as an expected lull following the marked increased demand this time last year stemming from African Swine Fever. Australia's beef exports in July fell 8 per cent on the previous month – which is down almost 23 per cent on the same time last year.

It must be remembered, however, that this time last year was in the midst of the drought, where producers were continuing to turnoff significant numbers of cattle. This year, the reduction in slaughter is clearly impacting exports, however, a range of other factors are also in play. China has now fallen from its position as Australia's largest export market, with a reduction of over 25 per cent in July alone. This fall has come about in part due to a lack of price competitiveness as China raises tariffs on Australian beef from 4.8 to 12 per cent as part of its safeguard protection mechanism, while South American beef continues to present as a significant competitor for cheaper beef. China has also implemented a range of testing measures for COVID-19 on imported beef.

The United States took 9 per cent less beef in July, but this comes off the back of a particularly strong June. For the year to date, exports to the US are up over 25 per cent. This run of strong exports to the US may not last, however, as US meat processing capacity is coming back on line, and South American beef has started to compete with Australian beef in the US market.

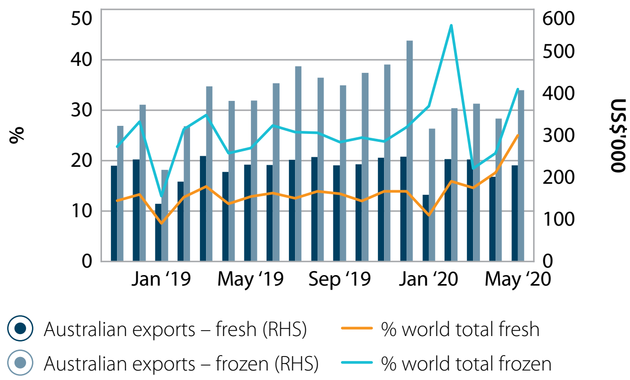
The looming threat of the US's increased kill is starting to play out in Japan and South Korea, however, as the increased US supply has taken some market share in both markets. Exports to Japan have fallen 23 per cent on the same time last year, while exports to South Korea fell 13 per cent in the same time.

OVER-THE-HOOK PRICES BY STATE (MEDIUM STEER)



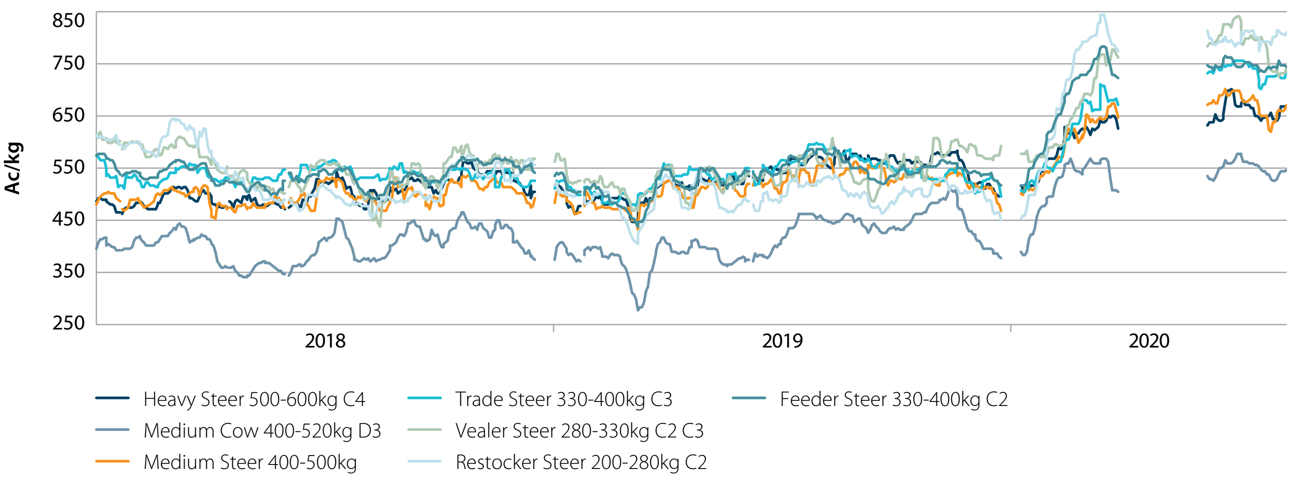
Source: MLA

AUSTRALIAN EXPORTS OF FRESH AND FROZEN BEEF



Source: TradeMap

NATIONAL SALEYARD CATTLE PRICES



Source: MLA

SHEEP INSIGHTS

OVERVIEW

+ Despite a sharp drop in saleyard prices, the fundamentals of the industry suggest a return to stronger prices in spring is possible
+ The earlier arrival of sucker lambs to saleyards has received stronger prices than last year's drop, despite lower saleyard prices overall
+ The Chinese export market continues to hold firm despite sharp drops in other export markets

– In sharp contrast to the cattle industry, lamb prices have dropped significantly as a result of COVID-19, a drop in exports and strong supply of sucker lambs
– The closure of meat processing plants in Victoria has impacted processor demand across southern states
– The decline in export demand, particularly to the US and Middle East, has seen an influx of export-weight lambs on the local market

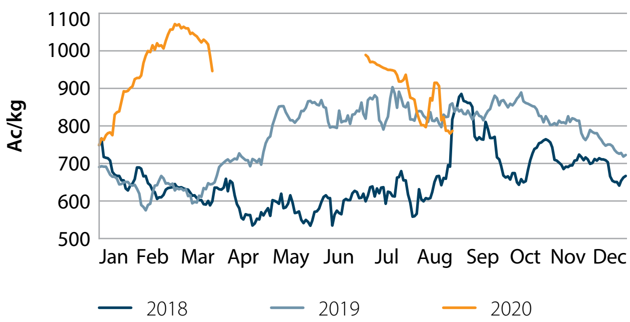
The Australian sheep market has suffered from a sustained drop in prices as a result of meat processing plant shutdowns, lower export demand and the winter decline in restocker demand. Unlike the cattle industry which continues to be maintained by restocker demand in northern Australia, the winter feed gap in southern Australia has seen restocker demand fall away, while at the same time an increased number of heavy lambs have hit the market. While some nervousness around the drop in prices and demand have seen producers keen to sell stock at lower prices – leaving many with the difficult question of whether it is worth adding additional weight before sale – the fundamentals of the industry remain, suggesting a return to stronger prices.

The National Trade Lamb Indicator (NTLI) dropped to under 750Ac/kg in late July before rebounding slightly to 780c and then falling sharply again in August to under 640Ac/kg. These movements clearly displaying the primary characteristic of today's sheep market – volatility. The NTLI now sits below both 2019 levels and 2018 levels. Late July saw the greatest falls in restocker lambs of around 14 per cent, followed by heavy lambs, while mutton only lost 3 per cent. These falls reflect the seasonal drop in demand for restocker lambs but also an increase in the number of heavy lambs coming to market. In large part this is due to the downturn in Australia's major export markets in the US and Middle East and the influx of heavier, export weight lambs onto the domestic market.

With the heavier lambs struggling in the saleyards, it is leaving many producers with the difficult decision of whether to retain lambs on farm and add on additional weight without knowing whether that extra weight will make enough additional money in the saleyard.

Trade lamb prices have fallen in all states with Victoria performing the worst, declining from one of the highest prices of 938c when saleyard price reporting resumed to under 700c at the end of July. Prices in New South Wales also suffered a decline but a less dramatic one, while Western Australian trade lamb prices remain relatively unchanged.

SALEYARD RESTOCKER LAMB PRICES



Source: MLA

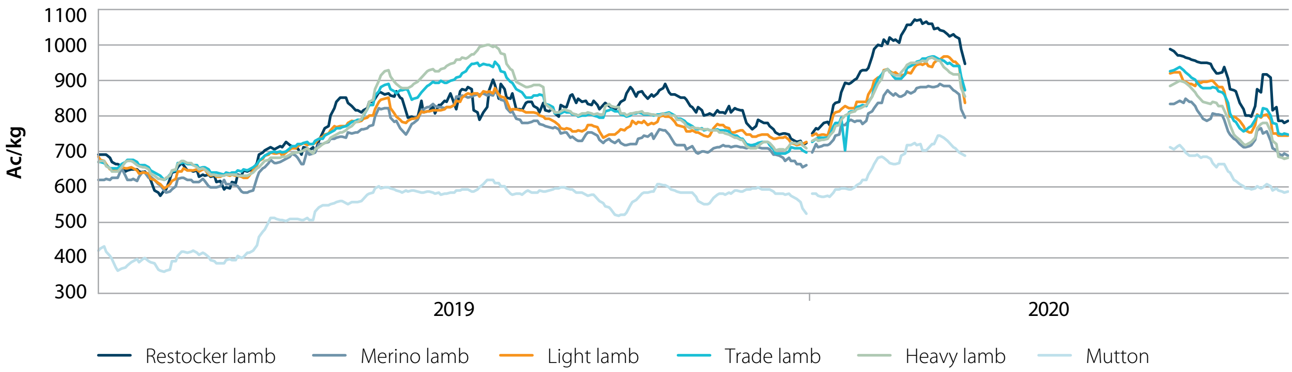
Saleyard and over-the-hook prices across the country have also been impacted by the closure of meat processing plants, particularly across southern Australia where lamb and sheep meat processing is concentrated. In early August, the Victorian State Government also announced that Victorian meat processing plants would have to scale back their workforce by one third. This is likely to put continued downward pressure on prices in Victoria, but may boost processing demand from surrounding States. Across the country however, processor demand has dropped on the back of meat processing plant shut downs, as well as lack of export demand. As a result, over-the-hook prices for medium and heavy lambs has fallen in recent weeks while light lamb prices have held relatively firm.

While yardings have been down throughout much of June and July, as producers hold stock in the midst of the COVID-19 crisis, late July and early August saw a marked increase in the number of sucker lambs being offered for sale, showing a significant rise on last year's numbers of sucker lambs. However, these suckers have been receiving strong prices despite the drop in the NTLI due to increased numbers in the yard.

NATIONAL OVER-THE-HOOK LAMB PRICES

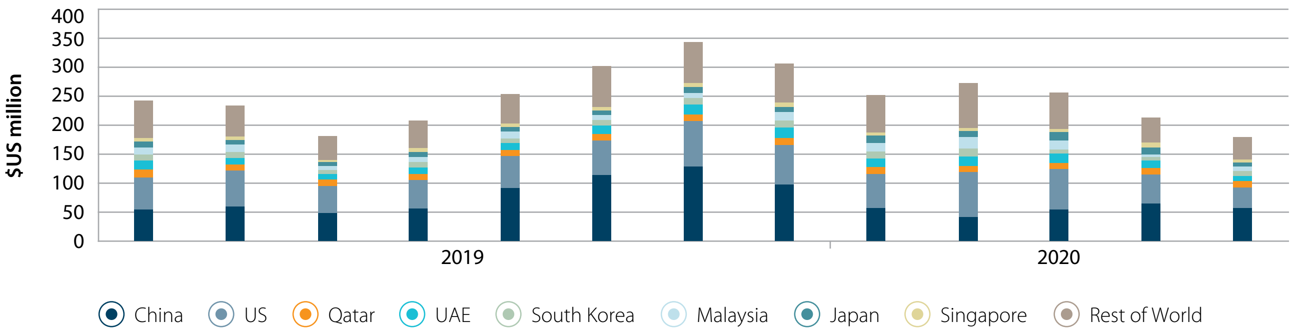
Source: MLA

NATIONAL SALEYARD INDICATORS



Source: MLA

AUSTRALIAN SHEEPMEAT EXPORTS



Source: ABS

WOOL INSIGHTS

OVERVIEW

+ Positives right now are hard to come by for the wool industry, however, lower prices as providing incentive for an increase in local processing
+ In the longer term, wool supply is likely to remain restricted as lower prices see producers moving towards meat breeds

– The Eastern Market Indicator plummeted as the market opened following the winter recess to just under 1,000Ac/kg
– The COVID-19 pandemic continues to disrupt global supply chains, reduce processor demand and impact retail demand through lower global growth
– Low prices have also led many producers to withhold bales from auction – building up a national stockpile and adding to uncertainty over future prices

The Australian wool market went into the winter recess after finding some stability, but emerged from the three-week break to see the Eastern Market Indicator (EMI) plummet 128Ac/kg clean to just over 1,000c. Industry hopes that the firming of prices prior to the winter recess were the sign of some stability returning to market were dashed when the market reopened, indicating that concern over global growth and the demand for textiles continues to dominate. Price increases before the winter recess were based on a limited amount of stockpiling, combined with a low number of bales being presented for auction. COVID-19 continues to disrupt the highly trade-focused wool supply chain as well as undermine global confidence in demand for wool products in a low growth environment. The outlook remains uncertain.

Hopes were high in late June and early July that the Australian wool market may have found a floor; those were shown to be unfounded when the market reopened in early August with the EMI falling to 1,006Ac/kg clean, which is 670c cheaper than this time last year. An 11.3 per cent price drop was the largest percentage fall since 1991 when floor price was abolished. The market drop impacted all micron guides ranging from between 54–160Ac/kg. The steepest by percentage terms was in the 19–21 micron category. Price declines were impacted by an increase in offerings by 7502 bales to 42,734 after the three-week annual recess, and also led to a strong increase in the pass-in rates across Sydney, Melbourne and Fremantle.

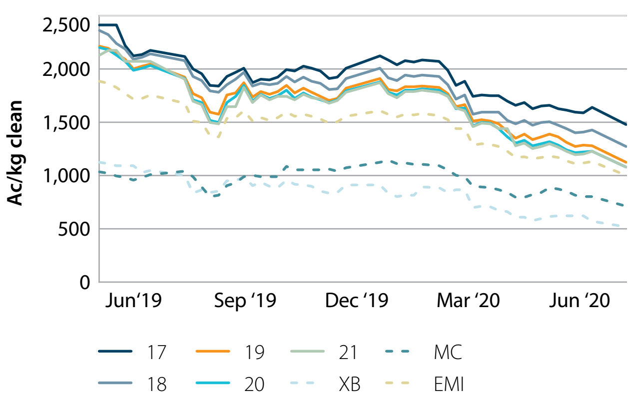
The impact of COVID-19 on wool's global supply chains cannot be underestimated, with industry experts stating that the only reason any wool is being sold is due to China; every other market remains closed to wool imports as a result of the pandemic. As a result, Chinese buyers continued to push the price lower, despite resistance from sellers. With lingering concerns also over the stockpile of wool in China, which was reported late last year to have doubled, even interest from Chinese buyers is muted.

The global shutdown and economic downturn have also put a stop to selling at the retail end, meaning that product along the supply chain, from clothing, to fabric and raw wool, are backing up in the system – and are unlikely to shift until retail spending starts again.

The low wool prices and high pass-in rate are leading many experts to forecast that lower wool prices are here to stay until the on-farm stockpile – which has been estimated by some to be over 300,000 bales – is diminished. As many producers start shearing for the year, they are being left with the uncomfortable decision of whether to take what they can, or hold on in hope of some improvement to come.

As those in the industry continue to look for a positive from this year's wool prices, some are raising the possibility of a return to local processing as well as attracting a new generation of wool wearers, as lower prices could make wool attractive to a new set of retail buyers.

WOOL PRICES BY MICRON



Source: AWN, ANZ

AQUACULTURE INSIGHTS

OVERVIEW

+ The Australian seafood industry was one of the first and more significantly impacted industries by the COVID-19 pandemic. The strong rebound in exports in recent months shows the resilience of the Australian export market
+ The COVID-19 pandemic has seen an increase in both fresh seafood retail purchases, and seafood prices as consumers prepare food at home.

– While exports have rebounded strongly, export increases have been primarily for salmon, rather than rock lobster or abalone

– Major barriers still exist to the export of higher quality and value seafood, particularly in the reduction of air travel availability

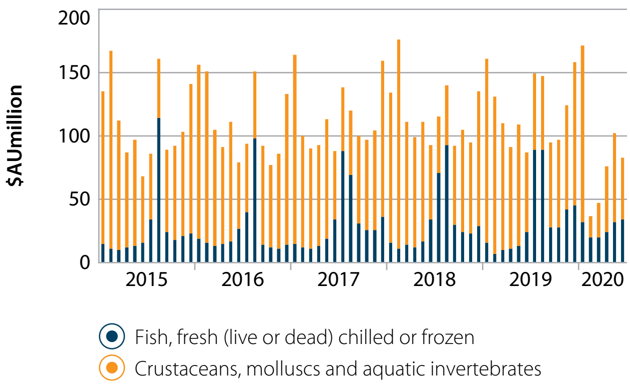
The seafood industry was one of the first and most significantly hit by the COVID-19 pandemic, as lockdowns in China aligned with the rock lobster season as well as the demand spike from Chinese New Year. As some parts of the world start to emerge from lockdown, it is interesting to revisit how the Australian seafood industry has been impacted, and how it may have bounced back following the initial shock of the COVID-19 pandemic. It is also interesting to look at how some major barriers to exports continue to affect the industry, particularly the reduced availability of international airfreight carriers given the reduction in air travel.

Rock lobster exports were one of the first Australian commodities to feel the impact of reduced demand as a result of the pandemic. Since COVID-19 was identified in China in January this year, and the Chinese Government implemented lockdowns in Wuhan and advice to people across China to stay indoors, demand for premium seafood almost disappeared overnight. Chinese New Year at the end of January is usually peak season for Australian exporters – this year, Australian seafood exports in February were just 30 per cent compared to exports in February 2019.

How have those exports recovered, and what is the outlook for the Australian seafood industry going forward? The seafood industry was both struck with misfortune and luck, as China accounted for almost 60 per cent of exports in 2019, meaning that while exports were hit hard at the beginning of the year, they have recovered strongly as China has reopened faster than other parts of the world. While export levels certainly haven't fully recovered, they have rebounded very strongly in recent months. In May and June this year, seafood exports totalled around 90 per cent of the exports in same months last year.

However while exports are increasing again - it is not in the same products, as exports of fish (salmon and tuna in June 2020) to Asia is up 37 per cent compared to the same time in 2019. In contrast, exports of crustaceans (primarily rock lobster) to Asia is down 23 per cent in the same period, while molluscs (primarily abalone) is down 77 per cent on 2019. And while Asia continues to be the overwhelming destination for Australian seafood exports, some growth has been seen from the American market for both fish and crustaceans.

MONTHLY AUSTRALIAN SEAFOOD EXPORTS



Source: ABS, ANZ

The outlook for Australian seafood exports is strongly linked with global economic growth - with the current outlook favouring a strong return to positive growth in 2020-21. The outlook is also mixed between commodities with those with a higher export dependency such as rock lobster expected to be harder hit by the COVID-19 pandemic than salmon which has a relatively lower export dependency.

A key element in the recovery of the Australian aquaculture industry is the domestic consumption rate. While per capita consumption of seafood has fallen from 14.7 kilograms per person in 2007–08 to 13.7 kilograms per person in 2017–18, the industry is seeking to position Australian seafood to take advantage of the rise in demand for Australian grown produce as a result of COVID-19. In the longer-term, Australian consumers are also displaying less willingness to spend on seafood products – often supplemented by cheaper imports – than other types of meat. However, recent data from the ABS shows that fresh seafood purchases have increased 25.5 per cent in the past year, and the Consumer Price Index for seafood products rose 4 per cent in the June quarter alone as more people prepare food at home.

DAIRY INSIGHTS

OVERVIEW

+ Improving seasonal conditions have seen milk production improve
+ Falling fodder costs will enhance farm returns
+ Overall, Australian dairy exports continue to grow

- The Global Dairy Trade price has fallen again, reflecting uncertainty over Chinese demand
- Overall domestic demand may be limited by café and food service shutdowns, although retail demand remains strong
- Whole Milk Powder exports to China are within sight of triggering a tariff increase

As the period of COVID-19's impacts on agricultural sectors in Australia has stretched on, the domestic dairy sector has arguably been one of the less impacted. This is partly due to not being the subject of variables such as the trade issues which have hit the beef and barley sectors, or the state cross-border labour issues have hit industries such as forestry and horticulture.

For the local dairy industry, the flow-on effects of COVID-19 have undeniably had some impacts, including consumer purchases and freight issues. Arguably, however, bigger issues for the sector at the moment are factors including structural change, as well as ongoing global competition.

In terms of production, the overall dairy sector remains on track to see a marginal decline in 2019/20 figures, based on the previous year. Australian milk production improved in the second half of 2019/20, with the latest figures (YTD May 2020) indicating production of 8,144 million litres, which is 0.6 per cent below the 8,195 million litres at the same time in 2019. The recovery in the second half was due to improved conditions and was largely led by Victoria and Tasmania. While favourable weather in the first half of 2020 increased production growth, current forecasts still have the industry on track to see a year-on-year decline of 1 to 3 per cent.

For a number of reasons, this figure is arguably neither surprising nor concerning. Given the tough seasonal conditions, particularly in 2019, a production decline this mild is better than that for any other sectors, in addition, it does also reflect the overall trend in Australian dairy production, in terms of changing land use resulting in reduced production.

The relatively improved rainfall conditions in many regions in the first part of 2020 have not only improved production levels, but contributed to a reduction on fodder costs. While fodder costs are volatile over time, it is interesting to note that fodder now represents more than a third of total overall cash costs. Broadly, while in 1990 fodder costs for the average dairy farm were around 14 per cent, by 2019 this had increased to 34 per cent. This increase in costs can partly be attributed to seasonal conditions in 2019 resulting in reduced pasture levels.

However, on an overall trend level, increased spending on fodder also saw a dramatic increase in milk yields over the same period, with the national average rising from around 3,400 litres per cow in 1990 to around 6,400 litres per cow in 2019.

TRADE

As the trade dynamics between Australia and China have played out this year in a number of agri sectors, most prominently barley and beef, concerns have arisen that the dairy industry could also be impacted. Coincidentally, we have also recently seen the fifth anniversary of the signing of the China Australia Free trade Agreement (ChAFTA).

Under the conditions of ChAFTA, a number of Australian dairy products receive preferential treatment and preferential tariff rates for a volume of imports up to a certain level. After this level or quota is reached, China may choose to trigger a safeguard tariff, which imposes a higher tariff on all subsequent imports.

While this latter tariff is a 'most favoured nation' one, meaning that the new rate of Australian imports would be equal to a number of other competitors, it would still mean that Australian products would prefer their earlier tariff discount premium.

For the beef sector, this has already become an issue in 2020, with Australia's beef exports to China having hit this level by the end of June, far earlier than in prior years. As a result, aside from the widely publicised export issues around beef labelling, the imposition of higher tariffs on beef through the trigger has had a major impact in slowing beef exports.

For Australian dairy exports to China, the safeguard trigger currently only applies to whole milk powder (WMP). The safeguard volume for WMP exports to China is currently 22,335 tonnes in 2020, with the limit scheduled to gradually increase until 2029, peaking at 34,649 tonnes.

On current exports numbers, WMP exports to China in the first five months of this year reached 48 per cent of the safeguard level. Should exports continue at the same rate then the tariff mechanism could potentially kick in at the end of October, limiting the competitiveness of Australian WMP exports to China for at least the last two months of this year.

In terms of the Global Dairy Trade (GDT), the most recent figures in early August saw a reasonable fall, in contrast to the previous month. The August GDT decline of 5.1 per cent, in contrast to the strong growth of 8.3 per cent, reflected a tapering off in demand from China.

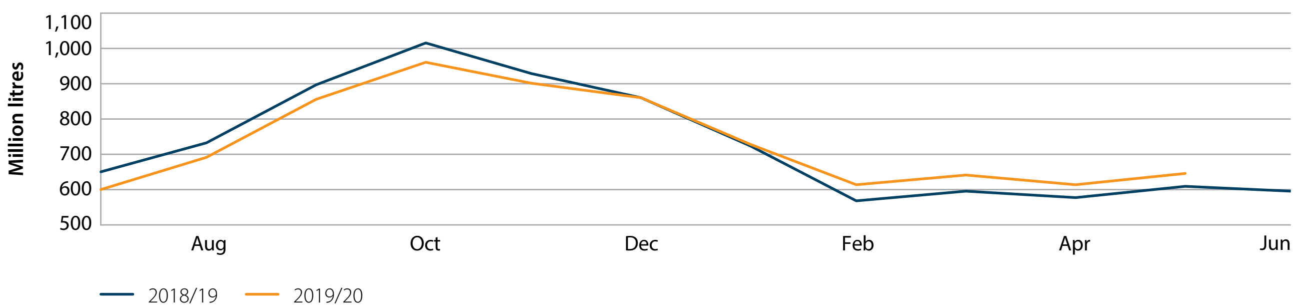
Externally, the ongoing relative strength of the Australian dollar, particularly in comparison to a weakening US dollar, made the challenge for Australian dairy exports even stronger.

Despite this, in the most recent year to date figure, (May 2020) Australian dairy exports had increased by 4.8 per cent to $3.06b, strongly supported by growth in mixtures and other dairy products (casein, lactose, ice cream, yogurt, buttermilk powder and milk protein concentrates). Overall, full year exports are currently forecast to reach $3.308b, which would be a 3.8 per cent increase year-on-year.

GLOBAL DAIRY OUTLOOK

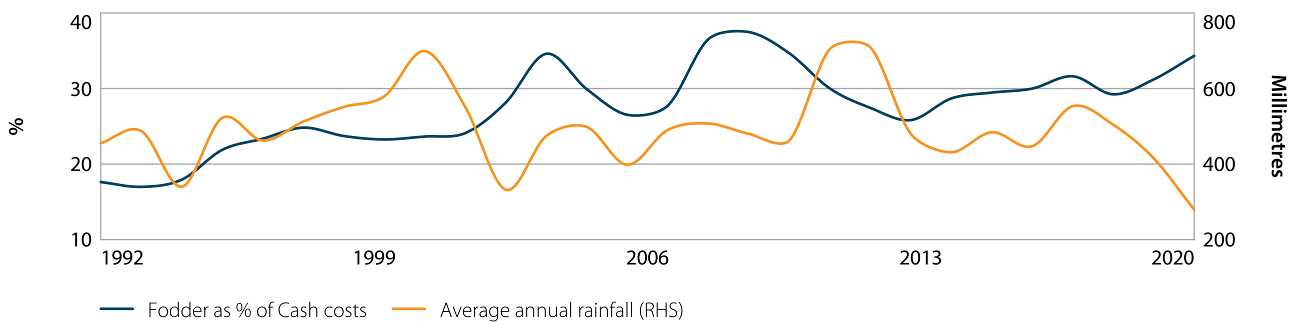
Globally, milk production is forecast to rise marginally in 2020 by 1.5 per cent to 532 billion litres. New Zealand's milk production is forecast to remain at 21.9 billion litres, with a small 0.2 per cent growth from 2019, as conditions improved in recent months from the dry weather seen in early 2020. Structurally, the NZ dairy industry continues to navigate its way through a number of new government environmental regulations.

AUSTRALIAN MILK PRODUCTION



Source: Dairy Australia

DAIRY FARM COSTS



Source: Agsurf, BOM
Note: 2020 (July) data point refer to 12-month rolling average monthly rainfall

FOREIGN INVESTMENT INSIGHTS

OVERVIEW

+ The focus of international investors on Australian agriculture remains strong
+ Agricultural investment offers relative stability compared to traditional equities
+ The domestic agri sector is rapidly developing solutions to overcome new logistical investment hurdles

– Restrictions on international travel are making it difficult for investors to inspect Australian agri assets first-hand
– This could potentially see Australia lose investment opportunities to our competitors
– Reduced foreign investment could also slow growth in agri efficiency and innovation

While the flow-on effects from COVID-19 have arguably impacted Australian agriculture less than many other industries, they have still been felt in a number of ways. These include the shutdown of some meat processing operations, cross-border and international freight and logistics, and the repercussions of panic buying and changed consumer demand.

One area which is fundamental to the sector, where the impacts may be felt longer term, is foreign investment into agriculture. The topic of foreign investment in Australian agriculture has been widely covered for years, but essentially comes in two different forms. These are predominantly either the direct purchase of an agri asset by an offshore individual or entity, or an investment by an offshore capital provider such as a pension fund or family office into a specific fund which owns and operates the agri asset.

For many Australians, one of the starkest impacts of COVID-19 has been the almost complete cessation of international travel, whether for Australians to travel overseas, or for people from the rest of the world to come here.

For foreign investment into agriculture, this restriction is a game changer, and while it is possible this will disrupt the process of investment, it will also present new opportunities.

As basic as it sounds, the human factor is a fundamental element of most investment into Australian agriculture. For example, once a North American pension fund has made the decision to invest in an Australian agricultural fund, it will clearly undertake a great deal of due diligence to evaluate the risks and returns of the investment, until it is comfortable with the numbers.

However, before the final investment decision is finalised, almost every investing entity will require their representative, such as a Chief Investment Officer, to travel to the asset in person.

Through this process, they are able to satisfy themselves that they are not only happy with the nature of the asset, but with other factors such as the management team. In addition, they may see it as important to meet personally with the key regulators in Australia.

Not only is this first-hand inspection and interaction important for the investor and its management team, but depending on their location and structure, it may also be compulsory from a regulatory perspective.

As the economic impacts of COVID-19 continue to be felt, many forecasters are seeing this as a period which will impact global economies and markets for some years. Right now, and looking ahead, it is foreseeable that investment in agriculture will, if anything, be an even more attractive proposition to many investors than it was before.

This is partly due to the strengthening of the fundamental demand base – in times of crisis, global consumers governments will purchase, pay more, and stockpile food and agri products, particularly to improve their levels of food security.

AS THE ECONOMIC IMPACTS OF COVID-19 CONTINUE TO BE FELT, MANY FORECASTERS ARE SEEING THIS AS A PERIOD WHICH WILL IMPACT GLOBAL ECONOMIES AND MARKETS FOR SOME YEARS. RIGHT NOW, AND LOOKING AHEAD, IT IS FORESEEABLE THAT INVESTMENT IN AGRICULTURE WILL, IF ANYTHING, BE AN EVEN MORE ATTRACTIVE PROPOSITION TO MANY INVESTORS THAN IT WAS BEFORE.

From a market perspective, investors may look to reduce their level of exposure to traditional equities, and increase it in the relative certainty of agricultural demand.

Given these factors, the restrictions on business travel, combined with a possible increased focus on agri investment, could potentially create a concerning issue for Australian agriculture. Investors, particularly from the northern hemisphere, may look away from Australian opportunities, and possibly focus on areas they are able to visit first hand, such as South America.

If this were to occur, there could be a range of negative impacts for the Australian sector. These would potentially include missed opportunities for the investment to be used for agri production and productivity growth, a reduction in selling opportunities for current asset owners keen to take advantage of opportunities, and a slowing on the development of innovation by some of the larger players in the agri sector.

But at the same time, crisis creates opportunity, and while the travel restrictions create these issues, it is vital for the agri sector, as well as government, to not only plan for this, but look at ways of overcoming it.

In terms of marketing the opportunity to investors, it will become more important for relevant Australian entities to utilise their offshore networks or create new partnerships to take the message directly to the investors in their own countries.

Most importantly, when offshore investors are unable to travel to Australia to 'seal the deal'; it creates the opportunity for specialist Australian individuals and entities to structure themselves to be able to fill this role as well as possible. This includes areas such as ensuring not just that all risk and return modelling and documentation is well within the capability of the Australian entity, but that all regulatory questions are covered before they are asked. For government, it will be important to look at the current regulatory structure around the process and decide whether any amendments are required to avoid missing valuable opportunities.

It's clear that in the Australian market, a number of players are already moving quickly and professionally to fill this space, to work with offshore investors who are keen to continue moving on Australian agri investment opportunities despite the COVID-19 disruptions, and to build their own businesses.

Looking ahead, as with so many parts of our current society, it will be vital to see that if Australian entities can make this work, whether the playing field of foreign investment into Australian agriculture is changed for the long term.

ANZ ECONOMIC UPDATE

RATES

Globally, yields have remained suppressed and range-bound as central banks continue to indicate clearly they will buy as many bonds as necessary to keep rates low to support the economic recovery. With uncertainty in the US economic outlook given the resurgence of the virus there, we think the US Federal Reserve (the Fed) will strengthen its forward guidance which will see United States Treasury (UST) yields fall further into the end of this year before gradually picking up as the economic outlook improves. Locally, with the economic recovery still fragile we expect the Reserve Bank of Australia (RBA) to maintain its current accommodative policy package with the cash rate unlikely to rise for a few years. This is consistent with market pricing where the cash rate is expected to average just 0.29% over the next 5 years. With the Australian Commonwealth Government Bonds (ACGB) curve still relatively steep compared to other developed nation bond curves, we expect it to narrow over the coming 12 months. This narrowing in our view will be led by long-end UST yields going lower and the RBA implementing an additional bond buying program which was recently flagged as a possibility by the RBA Governor. We currently expect such a policy to be implemented next year but given the RBA has now raised it in public discussion, there is a risk it could come sooner.

FOREIGN EXCHANGE

The AUD has broken through a number of key levels in search of new highs as an emerging fiscal pipeline and abundant global liquidity support risk assets. A steady stream of vaccine headlines have acted as a modest tailwind for the currency.

On a domestic front, virus outbreaks across Victoria and New South Wales will challenge the prior view that Australia emerged from COVID-19 in a stronger position relative to peers. Instead, a sustained period of slowdown is now likely. The RBA has remained a bystander in its view of policy, especially relative to peers, recognising that although unhelpful to the domestic economy, currency appreciation above USD0.70 at this stage is consistent with global fundamentals. We expect a sustained period above fair value to draw a more pronounced policy response from the central bank.

We maintain our forecast track for AUD/USD near current levels, with a balanced outlook reflecting a range-bound view of the currency and the at times patchy growth environment that should be expected for the remainder of 2020.

FX AND CENTRAL BANK POLICY RATE FORECASTS

FX Forecasts	Current	Sep '20	Dec '20	Mar '21	Jun '21
AUD/USD	0.71	0.70	0.70	0.70	0.70
NZD/USD	0.65	0.65	0.65	0.65	0.65
AUD/NZD	1.09	1.08	1.08	1.08	1.08
USD/JPY	107.00	107.00	107.00	107.00	107.00
EUR/USD	1.18	1.16	1.14	1.14	1.11
USD/CNY	6.95	7.05	7.00	6.95	6.90
AUD/EUR	0.61	0.60	0.61	0.61	0.63

Rate Forecast	Current	Sep '20	Dec '20	Mar '21	Jun '21
RBA cash rate	0.25	0.25	0.25	0.25	0.25
Feds fund rate	0.25	0.25	0.25	0.25	0.25
RBNZ OCR	0.25	0.25	0.25	0.25	0.25

CONTACTS

MARK BENNETT
Head of Agribusiness & Specialised Commercial, Commercial Banking
T: +61 3 8655 4097
E: mark.bennett@anz.com

IAN HANRAHAN
Head of Food, Beverage & Agribusiness, Australia – Institutional Banking
T: +61 7 3947 5299
E: ian.hanrahan@anz.com

AUTHORS

MICHAEL WHITEHEAD
Head of Agribusiness Insights, Institutional
T: +61 3 8655 6687
E: michael.whitehead@anz.com

MADELEINE SWAN
Associate Director Agribusiness Research, Commercial Banking
T: +61 419 897 483
E: madeleine.swan@anz.com

VIVEKA MANIKONDA
Senior Analyst, Institutional Client Insights & Solutions
T: +91 8067 953 036
E: vivekasri.manikonda@anz.com

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