



GRAINS AND OILSEEDS - A GLOBAL AND DOMESTIC OVERVIEW

INTRODUCTION

The Australian grain industry proudly epitomises so much about what has made Australian agriculture successful. For over 200 years, grain production has continued to be a crucial part of Australia's farming sector, and a fundamental part of our national economy and export trade.

Importantly, the grain industry has also been a leader not just in Australian innovation, but in highlighting how an industry can continue to grow, despite challenges including a volatile climate, growing international competition, and without the aid of the major government subsidies enjoyed by almost every other competitor.

While every year the Australian grains and oilseeds sector takes stock of the challenges and opportunities which it faces, the current period, on the precipice of the 2020s, brings some unique ones. In particular, the current tension over a number of major global trade relationships, most notably the US and China, may well impact trade flows of major agricultural commodities, particularly grains, with a flow-on effect to many areas including pricing, demand specifications, and investment flows. At the same time, the full impact of the African Swine Fever outbreak in China has yet to play out, and may have ripple-on effects through global feed trade for a while to come.

WHAT CHANGED OVER THE YEARS

Australia's overall acreage and production levels continue to be volatile, in the wake of 2016/17 record high production, followed by drought decimated crops.

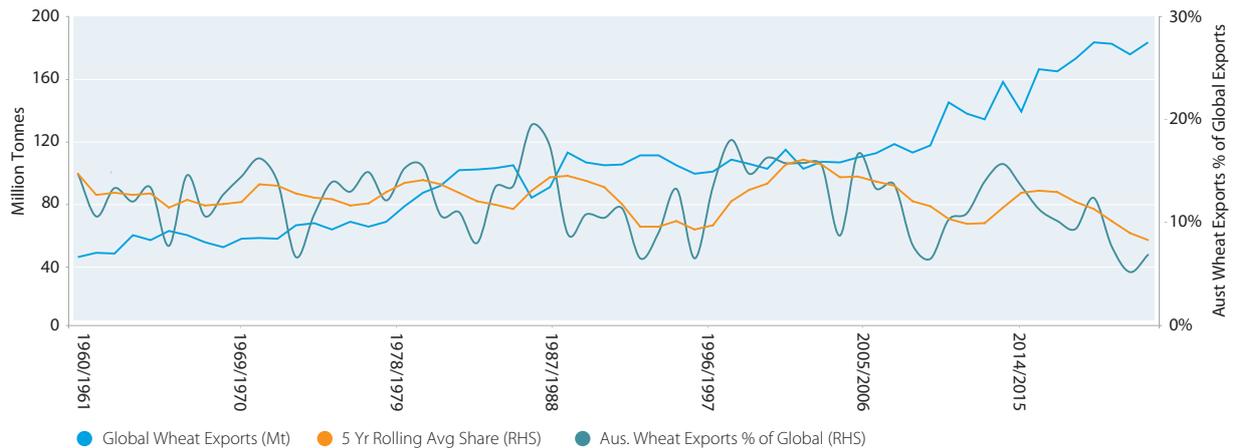
The impact of this volatility on the national sector goes well beyond individual farmgate production levels. For international markets, the need to ensure continuity of supply means that they are likely to explore trade relationships with new partners, particularly from South America and the Black Sea, with the challenge that these producers may take a greater share of Australia's traditional markets in the longer term.

Over the past sixty years, Australia's share of global wheat production has remained relatively consistent, despite the strong growth in domestic production. In volume terms, Australia's wheat crop since 1960 has almost tripled, growing 180 percent from around 7 million tonnes to 21 million tonnes. Global growth has been slightly stronger, rising from 233 million tonnes to 772 million tonnes over the same period, a rise of 230 percent.

In terms of exports, the change in Australia's share of world trade is more noticeable. For much of the past 60 years, Australia has continued to occupy a position as one of the world's major wheat exporters. While there has been reasonable volatility, Australia's share of global exports has traditionally sat between ten and fifteen percent.

Since 2000, this share has trended down noticeably. This has been driven by a number of factors, both global and domestic. Globally, the growth of new competitors, particularly Russia and the Ukraine, has undoubtedly eaten into Australia's market share.

Global Wheat Exports (Million Tonnes)



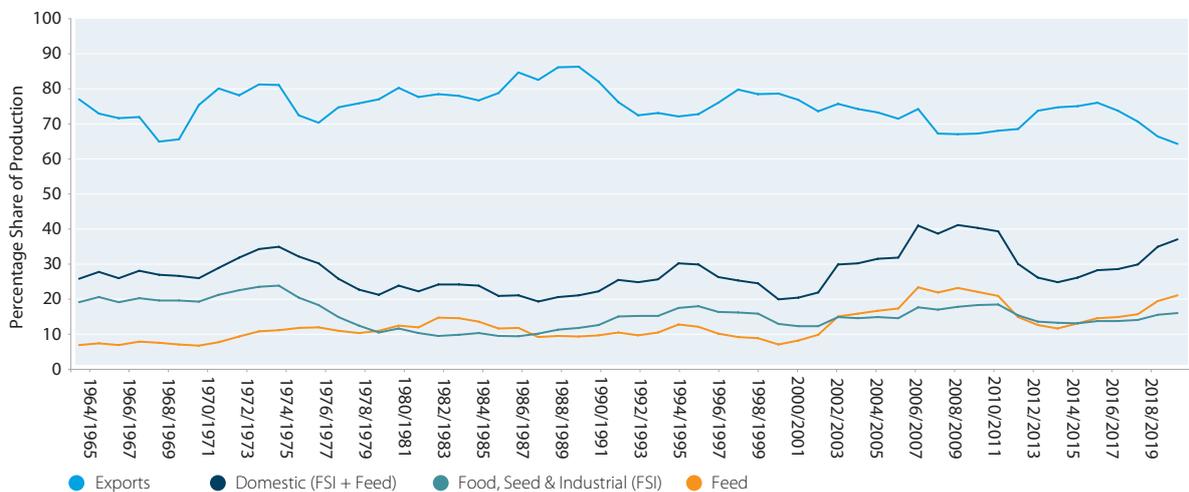
Source: USDA PSD, ANZ

FEED AS IMPORTANT AS FOOD FOR DOMESTIC GRAIN SECTOR

From a domestic angle, however, this change could be seen as a strong foundation for the industry’s future. The percentage of domestic wheat production allocated for feed has almost tripled in the last twenty years, and continues to outpace the growth in non-feed usage (primarily food and industrial).

Much of this growth in feed demand has been driven by the structural changes in the meat industry. The number of head of cattle in feedlots continues to hit record levels, driven partly by the demand from consumers, particularly in Japan and South Korea for grain-fed beef, but also by the increasing role of feedlots in the overall production system, as a means of fattening prior to slaughter. The importance of feedlots, and subsequently feed, has been emphasised during the recent period of drought.

Australian Wheat Exports vs Domestic Usage 1960- 2020f

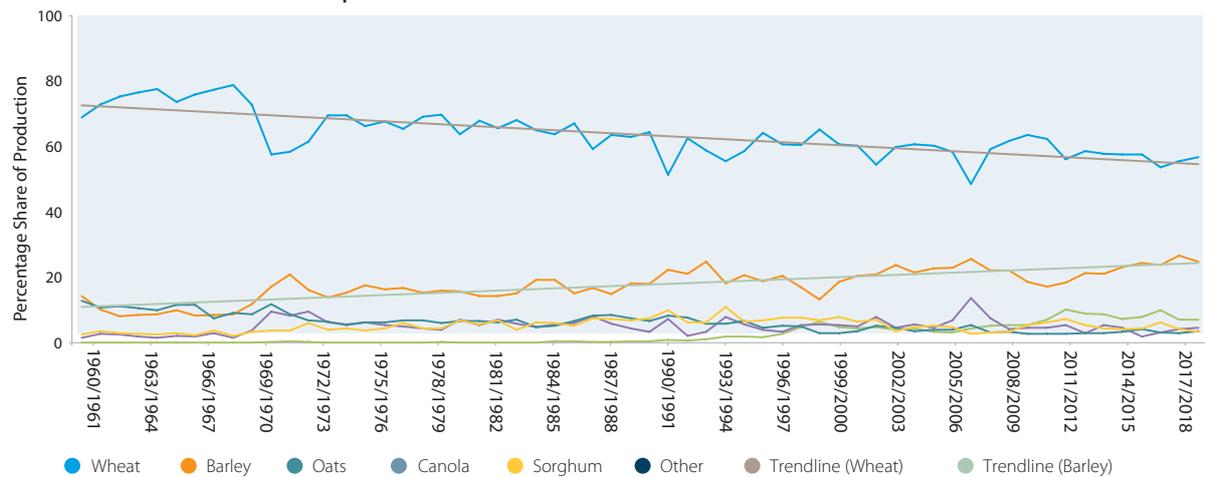


Source: USDA PSD, ANZ

While Australia’s overall grain and oilseeds production has lifted markedly over the past sixty years, the change of the overall mix of grains and oilseeds provides a strong picture of the sector’s future direction. Sixty years ago, wheat retained its historical role as Australia’s major crop. Over the decades, this percentage has continued to fall, from around 80 percent of the overall crop, to around 55 percent.

Of the other major crops, the growth in barley production stands out. Fifty years ago, barley production was ten percent that of wheat production, while last year it had reached fifty percent. While the overall share of canola is less, its growth continues to be strong. From almost nothing 30 years ago, domestic canola production rose last year to almost twenty percent of that of wheat.

Australian Grains and Oilseeds Composition 1960 - 2020f



Source: USDA PSD, ANZ

In terms of overall value, the gross value of production of Australia’s grains and oilseeds is forecast to reach around \$15 billion in 2019/20. Around half of this will be made up by wheat, followed by barley (20 percent), canola (15 percent) and sorghum (4 percent).

YIELD - ONE OF THE KEY MEASURES

The scale of the challenge to Australia from major export competitors is further emphasised in a comparison of yield growth over the past few decades. On its own, yield growth could be regarded as not an exact science, as climatic and growing conditions vary markedly by country and by region. In addition, many developing countries which have more recently accessed agricultural technology and new investment are more likely to be coming off a low base.

Since 2000/01, the average global wheat yield is estimated to have increased by around 30 percent, from 2.7 tonnes per hectare (t/ha) to a forecast 3.5 t/ha in 2019/20. In comparison, wheat yields in Australia grew around 5 percent over the same period, from 1.8 to 1.9 t/ha.

At the other end of the scale, yield growth in some of Australia’s export competitors in the last twenty years has been spectacular. In Russia, Ukraine and Kazakhstan, yields have risen by 74 percent, 109 percent and 37 percent respectively. Even Argentina has seen yields grow by 30 percent over the same period.

While both the Black Sea Region and Argentina arguably benefit from mostly highly productive soils, as well as less challenging climatic conditions than Australia, a large degree of their recent yield growth can be attributed to enhanced farm management practices, boosted by new investment, as well as governments who are largely keen to stimulate their grain industries to maximise the opportunities from the ongoing strong global demand.

For producers in South America and the Black Sea Region, their lack of major domestic markets, either in scale or

demand, further indicates the likelihood of growing export volumes on world markets. In terms of global grains and oilseeds trade flows, the major South American and Black Sea producers have lifted their market share from 33 percent to 53 percent over the past fifteen years.

GLOBAL CONSUMPTION - GROWING FASTER THAN POPULATION

The growth in global grain and oilseed usage continues unabated. In particular, the upward change in the rate of growth since 2000, in comparison to the previous 50 years, has been marked. Since 2000, global grain and oilseed production and consumption increased by 36 percent and 38 percent respectively, a rate which is nearly twice that of global population growth, which rose around 19 percent over the same period. In addition, trade volumes over the same timeframe have doubled, driven not just by demand, but by the growth in trade agreements and market access.

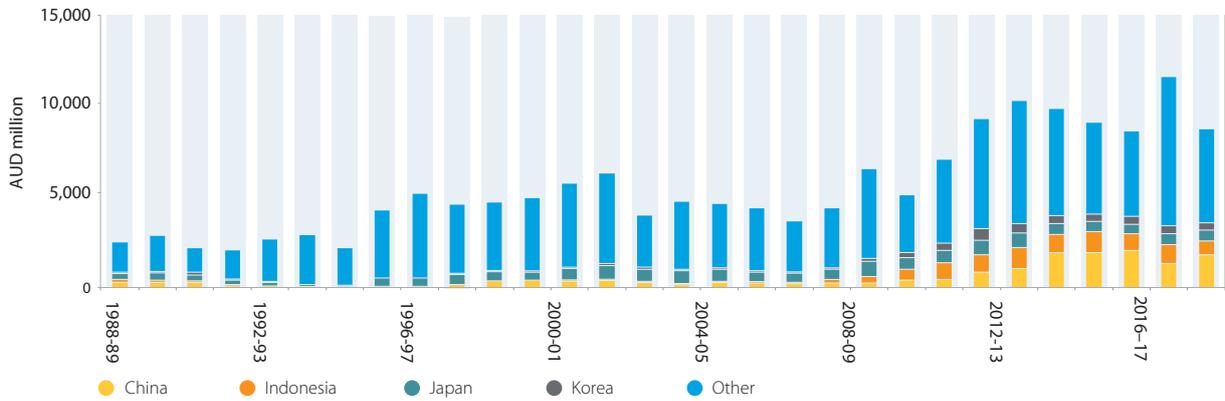
Overall, corn (1,131 million tonnes), wheat (755 million tonnes) and rice (493 million tonnes) continue to remain the most consumed grains. Interestingly, the global consumption level of soybeans (453 million tonnes) has now risen to the almost the same level as the traditional staple of rice.

Over the same period, the consumption rates for corn and soybeans have grown at around three times those of wheat and rice, reflecting rises in not just animal protein demand, but factors such as biofuel policy mandates.

THE CHINA FACTOR

As with almost every agri commodity, China’s role in grain imports going forward cannot be underestimated. China has continued to grow as a dominant importer of grains and oilseeds, with a three-fold growth in imports over the past fifteen years. While in 2004/05, China’s grain and oilseed imports were roughly equivalent to those of Japan, today they are around four times the size.

Australian Grain and Oilseed Exports (AUD m)

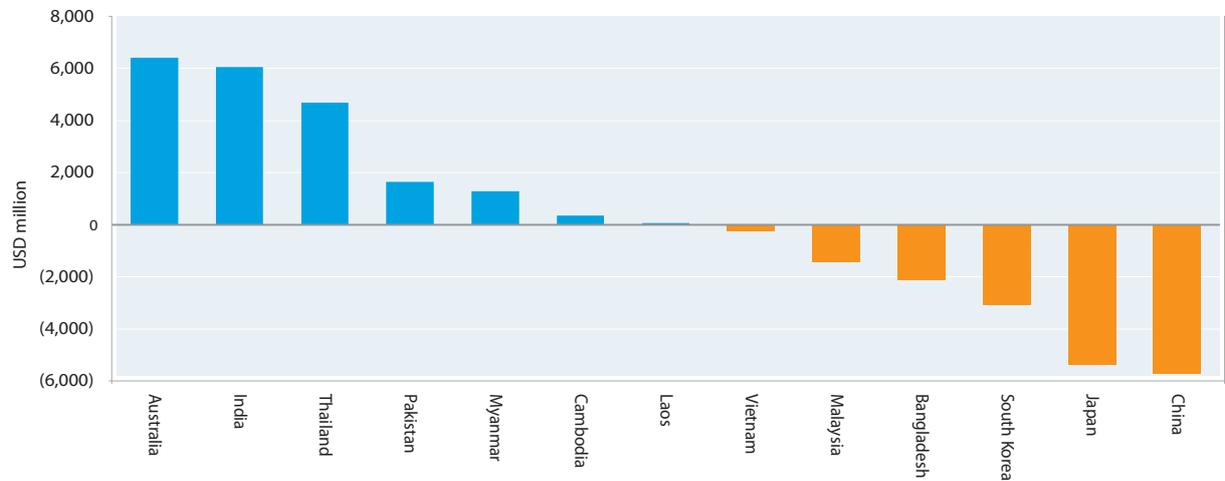


Source: ABARES, ANZ

If anything, China's significance to the global grain and oilseed sector, particularly Australia's, will only continue to grow. Given the Chinese government's plans seek to rely less on some imported dairy and meat products, China

has signalled that its need for feed to build domestic production is likely to grow strongly. At the same time, rising Chinese consumer demand for more and better food varieties shows little sign of slowing.

Cereals: Net Exports (USD m) 2017



Source: Trademap, ANZ

In more recent events, the ongoing trade tensions between China and the US have strengthened the need for China to diversify its grain 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 percent of China's pigs may need to be slaughtered, the impact on feed demand may take some time to play out. That said, a resultant increased demand for red meat imports from Australia could boost domestic feed demand even further.

LOOKING AHEAD

For the year ahead, Australian grain production is likely to see around a twenty percent increase in production levels. Despite the sharp rise, this production figure represents a return to relative normality – in volume terms, wheat production would be its closest to the five year average since 2013/14, and second closest in fifteen years. Regionally though, production outcomes are likely to be mixed – at the time of writing, ongoing poor conditions in the northern regions are likely to see crop volumes down again this year. Looking forward, this could also put upward pressure on prices, with an ongoing need for feed to be transported from southern states.

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