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COMMODITY INSIGHTS

ANZ

FOREWORD

It's been a tough summer for many across the country – bushfires, drought and now the outbreak of the coronavirus in our largest trading partner, China.

And yet, there is a certain amount of optimism and enthusiasm in a large part of the agricultural sector as rains hit livestock and cropping areas of Queensland, New South Wales and, to a lesser extent, Victoria. Significant variability in rainfall across states and regions makes it hard to generalise, but here's hoping it's landed where those need it most, and where the seasonal timing is good.

While the drought hasn't broken across many regions, the renewed enthusiasm and an outlook for average rains in the coming months has translated to sharp bounces in cattle, sheep and lamb prices as producers seek to restock or keep their remaining stock on farm to fatten further following rain. But strong prices also present a serious challenge for those producers seeking to restock following the drought. In the rush to take advantage of some return to a seasonal norm, producers will also have to weigh up whether they think livestock prices will stay at this level into the future, or whether it's worth waiting for the heat to come out of the market. As the latest figures from the Reserve Bank of Australia show total rural debt increasing to $76.5 billion, but year-on-year growth falling slightly from 6.5 per cent down to 4 per cent, those producers who increased their leverage to get through the drought may be facing a difficult balancing act as they look towards the rebuild.

For grain growers, while the national harvest has been mixed across States, the global market appears set to deliver good prices for those who are selling. The national harvest, estimated at around 15.5 million tonnes for 2019/20, is some 35 per cent below the 10-year average. However global production growth is set to be low this year, with the International Grains Council even forecasting a decline in the global wheat harvest, and this has flowed through to prices. And while not everything is about the cattle and sheep industries, the low domestic harvest and strong prices are also likely to impact feedlots.

With the world on alert for the spread of the coronavirus out of China, and much of China, particularly the epicentre Wuhan, in lockdown through Chinese New Year, many producers have been concerned about Australia's largest export market. To date, rock lobster exports have been the most notable industry impact. Both global dairy prices and local wool prices have taken a hit recently as China's lockdown has created significant uncertainty and interruption to trade logistics. However, as wool prices are already seeing signs of rebounding, it is not being suggested that either industry will suffer from any more than a temporary impact.

The other issue of note in recent months has been the finalisation of the US–China trade 'deal'. Under the deal, China has committed to purchase $32 billion of agricultural commodities from the US, while also committing to increase market access for a range of US exports to China including beef, baby formula, dairy and fresh produce including potatoes, berries and avocados. The thawing of the trade war between the US and China is a significant positive, not only for the global economy in general but also for the global trade regime. What is less clear is the impact on individual Australian export industries, which will potentially face increasing competition from US producers.

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BEEF INSIGHTS

OVERVIEW

- As industry observers had forecast, cattle prices have risen sharply, driven by recent rains and strong purchaser demand
- The national cattle herd has fallen to its lowest level in two decades, slowing the outlook for a herd rebuild
- African Swine Fever will continue to be a major factor in the global beef trade, as China seeks to procure more non-pork animal protein

For some time, many people in the beef sector had been discussing the inevitability of cattle price rises in 2020. The logic was based largely on rain; if it didn't come, restocking would lead to a shortage of cattle; if it did rain, restocking by producers would have the same effect.

As it has eventuated, the recent rains in some regions have provided the impetus for cattle prices to begin climbing strongly. By early February 2020, the Eastern Young Cattle Indicator (EYCI) had climbed to 588c/kg – a point not seen since July 2017. The strength of the jump in cattle prices is further reflected in the fact that it was the highest monthly rise in c/kg, and the second-highest monthly rise by percentage over the past six years.

Further impetus for ongoing upward price pressure came from the release of figures showing that the Australian cattle herd has now fallen to the lowest level in over two decades, driven by the strong levels of destocking through 2019. On current trends, the national cattle herd is forecast to fall to 24.7 million head by June 2020. This would represent a fall in cattle numbers of almost 6 per cent on the previous year, and over 12 per cent on the previous two years.

The fall in cattle numbers will be accompanied by an even stronger fall in the slaughter rate. Taking into account the reduced supply of cattle and the large-scale restocking process, cattle slaughter in Australia is forecast to fall by around 15 per cent on an annual basis by mid-2020, to 7.2 million head.

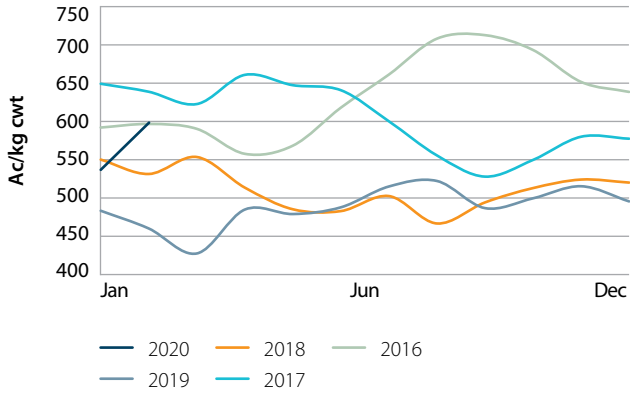
Despite the recent rains in some major cattle areas, and the start of a restocking cycle, many producers are likely to continue to offload stock for at least the next few months, before the process starts to slow. This outlook does assume a continuation of relatively average weather conditions, and will obviously be dependent upon food and water availability at a regional level.

A further impact of the drought conditions has the marked increase in the number of cattle on feed. This hit record levels in 2019, at over 1.1 million head, driven by both ongoing strong demand for grainfed beef from major markets, as well as providing the opportunity to mitigate the drought's impact for producers. Assuming the recent rains continue and the restocking process accelerates, it is likely that the numbers of cattle on feed may fall slightly, though still remaining relatively high.

Over the past few years, a combination of factors have also led to Australia's feedlot capacity continuing to grow strongly, and to the percentage of grainfed cattle in the national slaughter continuing to rise.

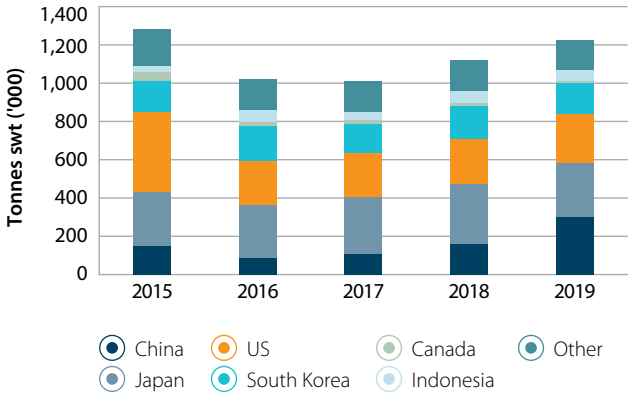
One figure which has been followed closely over the period of the herd decline has been female slaughter rates. This figure normally averages around 47 per cent, allowing the herd to naturally grow. However, given the conditions, in 2019 this climbed to an average of 55 per cent, and from June to August hit a record of 58 per cent. While the restocking process will see this rate fall, the ongoing turn-off by many producers for at least the first few months of 2020 is likely to see it remain at about average levels for the short to medium term.

AUSTRALIAN EYCI



Source: MLA, ANZ

AUSTRALIAN BEEF EXPORTS



Source: MLA, ANZ

Unsurprisingly, the fall in adult cattle slaughter is likely to be reflected in Australia's beef production level, which is forecast to fall by around 13 per cent in 2020 to 2.1 million tonnes. While the prospect of high beef and cattle prices in 2020 will provide an incentive for some producers to sell stock, the combination of the reduced herd and restocking is likely to see this figure tighten even further this year.

On the export side, 2020 is looming as an eventful year. 2019 had seen Australian beef exports rise by almost 10 per cent, driven by strong Chinese demand as a result of African Swine Fever (ASF) and the growing middle class. While this demand is likely to continue unabated, Australia's decline in herd numbers is likely to see exports fall for this year by around 13 per cent, to 1.5 million tonnes in 2020.

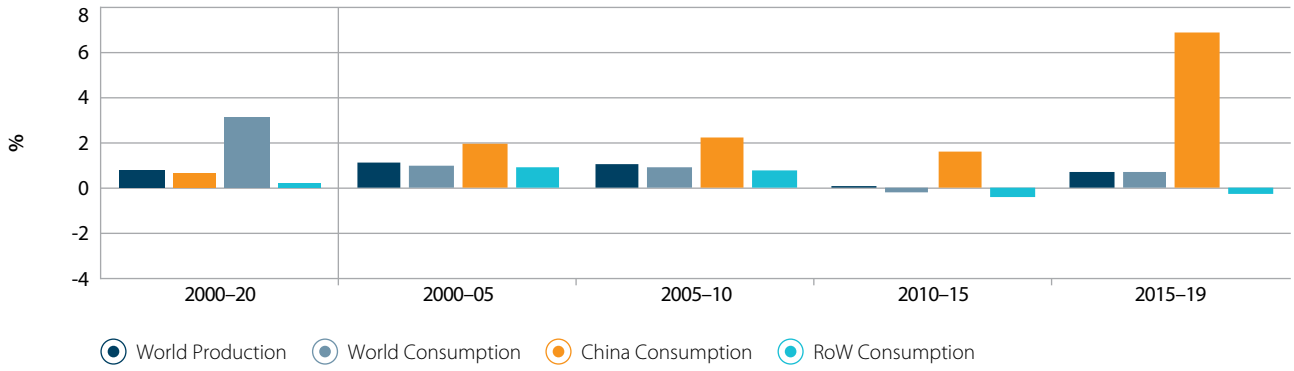
Probably the largest factor driving beef trade dynamics globally over the past six months has been ASF, which left a gaping hole in the Chinese protein market, given the reduction in pork supplies. While ASF will continue to drive import demand in the near future and will affect domestic cattle prices, to what extent is still unclear, as is any impact of the recent coronavirus outbreak.

China is likely to remain Australia's largest beef market for the foreseeable future, having grown to a 24 per cent market share in 2019, surpassing Japan on 23 per cent. Australian beef exports to Japan and South Korea also fell in 2019, with slow consumption growth in these markets.

Globally, beef production in 2020 looks likely to remain unchanged in 2020, at around 61.6 million tonnes, with small production increases in the US and Brazil offsetting the Australian herd decline. Consumption levels largely matched production trends, with slowing growth in most markets, with the exception of China and Brazil.

CHINA IS LIKELY TO REMAIN AUSTRALIA'S LARGEST BEEF MARKET FOR THE FORESEEABLE FUTURE, HAVING GROWN TO A 24 PER CENT MARKET SHARE IN 2019, SURPASSING JAPAN ON 23 PER CENT

BEEF PRODUCTION AND CONSUMPTION



Source: MLA, ANZ

WHEAT & GRAIN INSIGHTS

OVERVIEW

- Estimates of the recent harvest place the 2019/20 winter crop at around 35 per cent below average for the past 10 years
- Wheat and barley exports are constrained by low domestic production and a growing demand for feed grain
- China anti-dumping investigation continues and causes uncertainty for barley pricing
- Global grain crop forecasts for 2020/21 signal a slight increase in production
- Intensive animal industries reliant on feed grain continue to grow despite high cost of feed

With the last of the 2019/20 harvest wrapping up in the south over the month of January, we can now reflect on a season that was highly variable, marked by the challenges of a lack of growing-season rain and higher than average temperatures for many growers. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) crop estimates reflect a mixed result across the states, with Victoria and parts of south-east South Australia experiencing a strong season following timely spring rain, which resulted in a 10 per cent rise in grain production in Victoria when compared to average production over the past 10 years. Victoria was the only state to record an increase on average production, with other states varying from a 70 per cent downturn (New South Wales) to a 20 per cent reduction (South Australia and Western Australia).

National wheat production, estimated at around 15.5 million tonnes for 2019–20, is some 35 per cent below the 10-year average. This tight supply of wheat has, to date, limited exports from Australia to an estimated 8.4 million tonnes, close to 10 million tonnes less than the 10-year average, and a shadow of the exportable supply of competitors Russia and Ukraine at 34 and 20.5 million tonnes respectively.

Globally, Australia's reduced production, along with a slight downturn in Russian production, have combined to reduce the global wheat crop, causing export prices to rise during December on the back of strong demand from importers.

In other crops, barley production has remained relatively stable at around 8.5 million tonnes, however exports, which have averaged almost 70 per cent of production over the past 10 years, are estimated at just 3.8 million tonnes or approximately 40 per cent of production.

The downturn in exports versus Australian domestic use in both wheat and barley is a factor of reduced domestic supply and increased local demand, particularly driven by drought and growth in the intensive animal industries that are so heavily reliant on cereal grains.

The Australian barley industry is also experiencing some uncertainty in relation to exports as China extends its anti-dumping investigation into barley exported to the country in November 2018. In a combined statement from grain industry representative bodies late last year, growers were encouraged to be aware of the risk of possible implications on tariffs on Australian barley, despite their strong belief that the claim of dumping is unsubstantiated. The investigation will conclude on 19 May 2020.

A common theme over the past two winter cropping seasons has been large areas of crops being cut for hay due to high fodder and livestock prices combining with a failed spring. The lack of market transparency in relation to fodder production, stocks and sales is being questioned as producers struggle to forward plan drought- or, more recently, bushfire recovery feeding, due to there being no database or official records of fodder or grain availability.

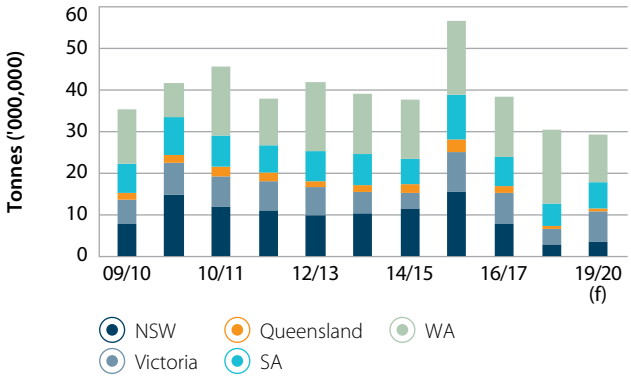
Implications for the livestock market are also possible as restocker buyers, who would be reliant on supplementary feed to make a confident purchase, may find it difficult to gauge availability of fodder and feed grain with any transparency.

Looking forward to the year ahead, many growers will now find themselves in the planning stage for sowing this year's crop. With less than average available soil moisture in many parts of the country, a timely and soaking autumn break is essential to kick starting the season. When considering global factors as an indicator of future prices, the area of wheat planted globally is forecast to increase slightly in 2020/21 by around 1 per cent, largely driven by increased planting area in India. Notwithstanding steady increases in global demand, this could result in further increases in ending stocks by the end of the season. Of course, there are many weather-, political- and indeed human-health-related events, such as the current coronavirus outbreak, that are likely to impact such forecasts as the season progresses.

Domestically, good rain throughout Queensland may start to impact supply of cattle to feedlots, and therefore have implications for the number of cattle on feed and demand for feed grain. Generally however, continuation of drought conditions and the steady growth seen in intensive animal industries across Australia are providing increased competition within the domestic market, leading to sustained higher domestic prices and an element of buffering from the global grain supply and demand equation.

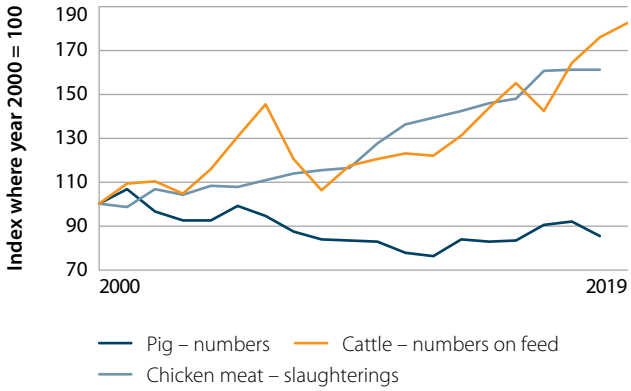
For the summer cropping regions, rain and soil moisture were severely limiting at sowing time, resulting in a forecast 49 per cent reduction in summer crop planted area to just over half a million hectares. A lower availability of grain sorghum is expected in 2020 with a 50 per cent reduction in plantings leading to a forecasted crop of just under 400,000 tonnes – the lowest on record and another factor assisting to maintain demand for cereal grains in animal feed rations.

AUSTRALIAN WINTER CROP PRODUCTION



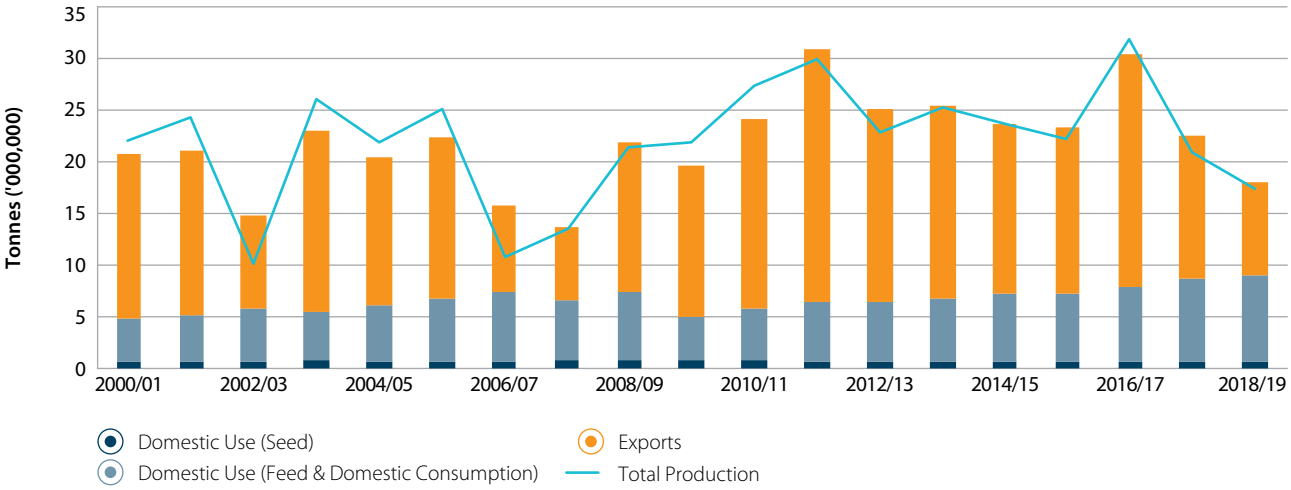
Source: ABARES

INDEX OF GROWTH IN INTENSIVE ANIMAL INDUSTRIES

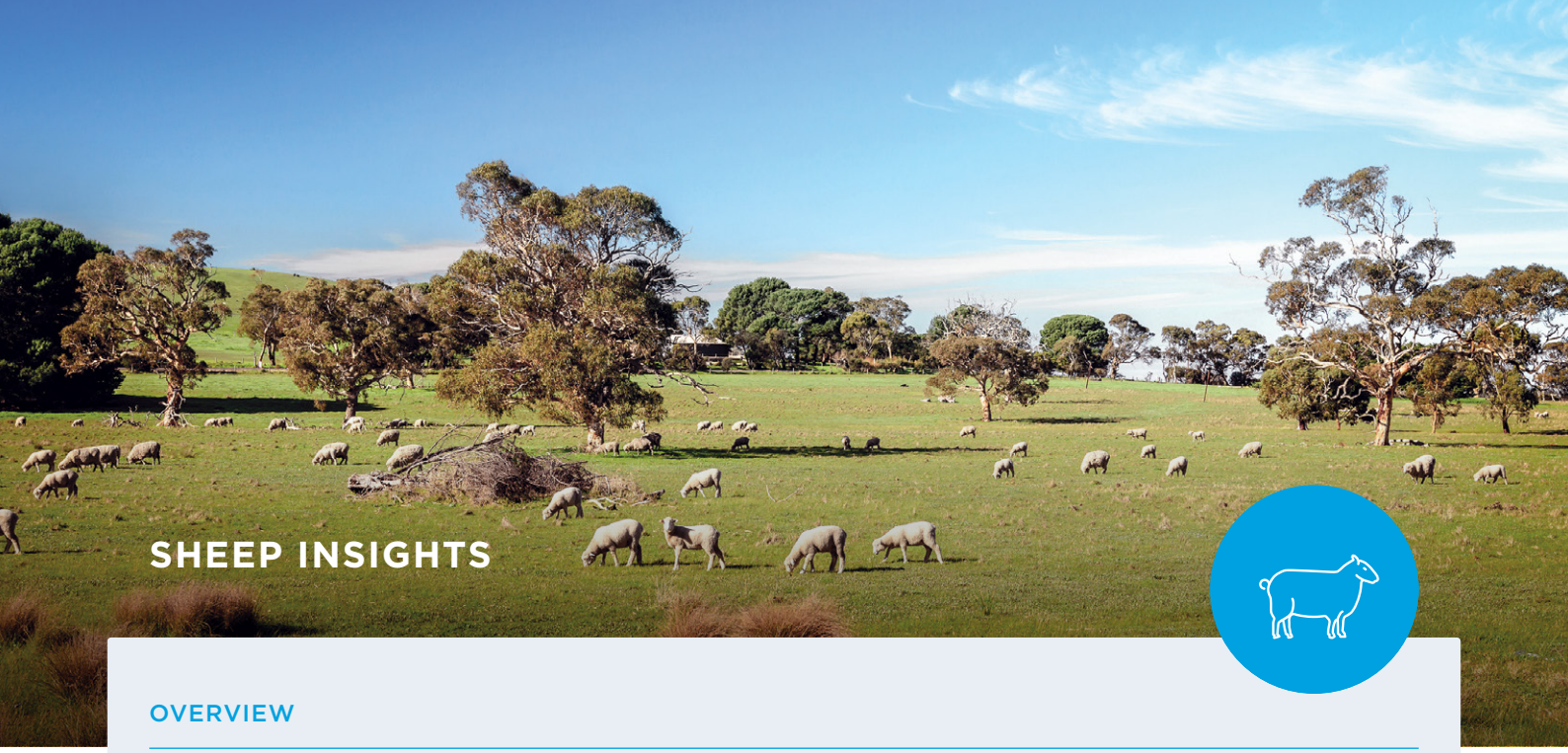


Source: MLA, ABARES, ANZ

AUSTRALIAN WHEAT PRODUCTION, EXPORT AND DOMESTIC USE



Source: ABARES



SHEEP INSIGHTS

OVERVIEW

- Welcome rains in major sheep producing areas has resulted in many farmers keeping lambs on farm
- Saleyard lamb prices have responded and are now sitting over 800c/kg compared with an average of 640c/kg for the three previous years
- The drive for producers to rebuild following the prolonged drought is being reflected in restocker lamb prices which are now sitting almost 70c/kg higher than heavy lambs
- Concerns over the impact of the coronavirus outbreak on prime lamb exports do not appear to have eventuated as yet
- Over-the-hook prices continue to lag behind saleyard prices, with the gap between the two becoming more pronounced over the last year
- Following the implementation of Brexit, further market access gains are on the cards in separate trade negotiations with both the EU and UK

Recent rainfall across major sheep producing regions in Victoria and New South Wales have seen the National Trade Lamb Indicator (NTLI) jump strongly, reflecting not only producers' attempts to rebuild their flocks, but also a reduction in supply at the saleyard as producers hold back lambs either to add further weight with new feed or wait for stronger prices. While the outlook for lamb prices remains strong, it's not clear where the top of the market will be once the impact of the drought, bushfires and recent coronavirus outbreak is taken into account.

The NTLI has surged over 100c/kg since early January to now sit over 800c/kg, compared with a three-year average of 640c/kg at this time of the year. Much of this surge (which has also been mirrored in the cattle industry) is down to increased confidence and enthusiasm from producers either to rebuild flock numbers or hold and fatten their existing stock. Prices have reacted strongly to yarding numbers which are sitting almost 10 per cent down on last year and almost 30 per cent down on 2018 levels. As a result, lamb slaughter numbers have also fallen around 10 per cent.

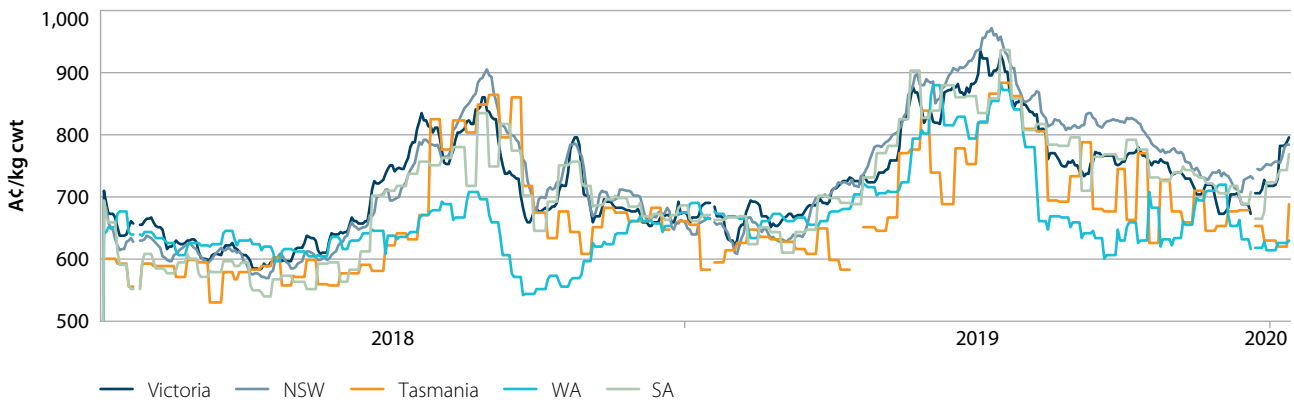
The clearest example of producers' positive outlook for the industry lies in the significant premium being paid for restocker lambs over heavy lambs, which is now almost 70c/kg after jumping away in late January. Price gains across all categories have been exceptionally strong, with mutton prices sitting 47 per cent higher than this time last year and light, trade and heavy lamb sitting 25, 24 and 26 per cent higher respectively.

Solid increases in trade lamb prices have been felt in all states except Western Australia where producers are expecting to see price increases in coming weeks as demand increases from South Australia and Victoria. New South Wales, Victoria, South Australia and Tasmania all experienced strong increases in prices, although Tasmanian supply is expected to drop off in the coming weeks and months due to the large numbers being slaughtered in recent months to make up for deficiencies on the mainland.

Over-the-hook prices continue to lag saleyard prices, and while the saleyard generally receives a premium on over-the-hook prices, it appears that the gap between the two is becoming greater and more entrenched. The concern is that processors are pushing back against high lamb prices, which can also be seen by a reported unwillingness for processors to offer forward contracts. How the anticipated 'red hot' lamb market is likely to impact processor margins, behaviour or even retail prices is yet to be seen, but it is clear that processors will need to maintain some level of throughput despite increasing saleyard prices.

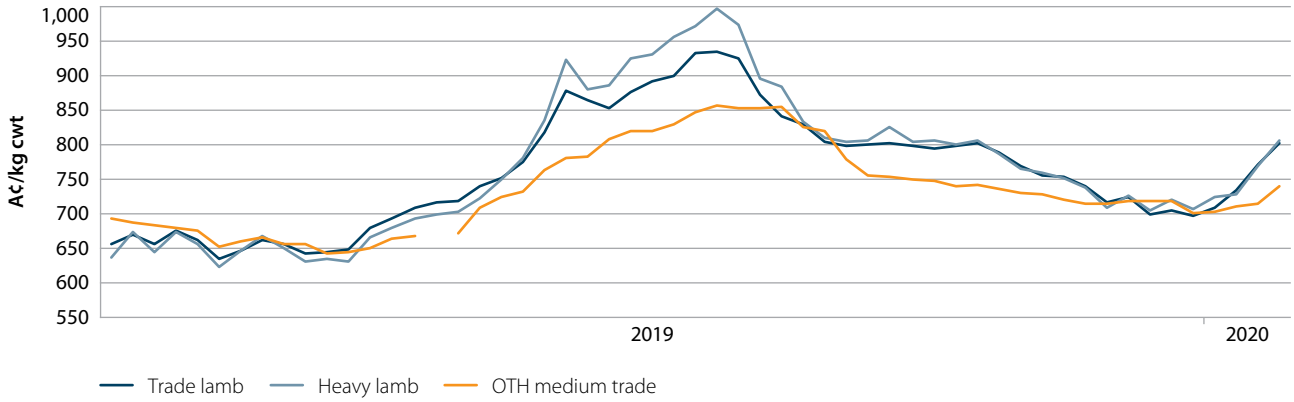
Fears over the impact of the coronavirus outbreak in China as yet appear to be unfounded as prices stay strong despite fears of a sudden, short-term drop as sales of lamb during the Chinese New Year and to the China market in general, drop off. As yet, the greater impact appears to be on those companies experiencing delays with products on the docks or in storage awaiting export to China.

SALEYARD TRADE LAMB PRICES BY STATE



Source: MLA

SALEYARD VS OTHER TRADE LAMB PRICES



Source: MLA

In other international news, the finalisation of Brexit means that Australian trade negotiations with the European Union can continue, and a new trade deal with the United Kingdom becomes likely, despite the UK staying under the EU trade regime until the end of 2020. Both markets have significant potential for increased quotas and access for Australian lamb, which had previously suffered under relatively restrictive trade access to the EU.

SOLID INCREASES IN TRADE LAMB PRICES HAVE BEEN FELT IN ALL STATES EXCEPT WESTERN AUSTRALIA WHERE PRODUCERS ARE EXPECTING TO SEE PRICE INCREASES IN COMING WEEKS

NATIONAL SALEYARD TRADE LAMB PRICES

Source: MLA

WOOL INSIGHTS

OVERVIEW

- Volatility in wool prices continues, which is consistent with the previous 12 months but historically unusual for wool markets
- Uncertain trade and world health conditions have contributed to the volatility, however some improvement in the trade environment between the US and China is positive for wool
- Coronavirus is having direct impacts on the wool supply chain
- Grower use of forward contracts is historically low and contributing to further uncertainty in the market
- The number of Australian wool bales declared as 'non-mulesed' or 'mulesed with pain relief' is growing rapidly

Wool markets have experienced a relatively volatile few months, with the Eastern Market Indicator (EMI) dipping into the high 1400c/kg range in early December, prior to making a recovery in the new year to 1609c/kg in the opening week following the Christmas break. The higher prices were not sustained however, with the EMI finishing the month of January at 1548c/kg. This volatility, as noted by industry commentators, makes fair value difficult for both buyers and sellers to determine, driving somewhat inconsistent buyer and seller behaviour. As an example, a 56c/kg fall in the EMI during the last week of January resulted in a national pass-in rate of almost 49 per cent, with sellers preferring to hold bales until pricing firmed. This act in itself was sufficient to tighten supply to a point that prices rallied, recovering by 28 cents by the end of the week.

With uncertain economic, trade and world health conditions, volatility is perhaps unsurprising, particularly for a luxury and, in most cases, non-essential product like wool. The direct impacts of the coronavirus outbreak on wool markets appear to be twofold; Firstly, causing logistical impacts, as mill staff within China are affected by travel restrictions, thus leading to a reduction in processing capacity, but also having an impact on export buyer- and importer confidence. With increasing proportions of Australian wool now consumed in China's domestic market, the impact of any disruption within the country is likely to have greater consequences for wool prices than may have occurred over recent history.

Another factor adding to market volatility is a lack of growers willing to enter into forward contracts, resulting in buyers and processors being unable to secure forward supply. History suggests that forward contracts share risk through the supply chain and contribute to a steadier and more confident pricing pattern. With forward offers available in the low to mid-1700c/kg range through to Autumn (19 micron), some market commentary suggests that current offers may represent an opportunity for growers, as they may underestimate the risks currently within the market.

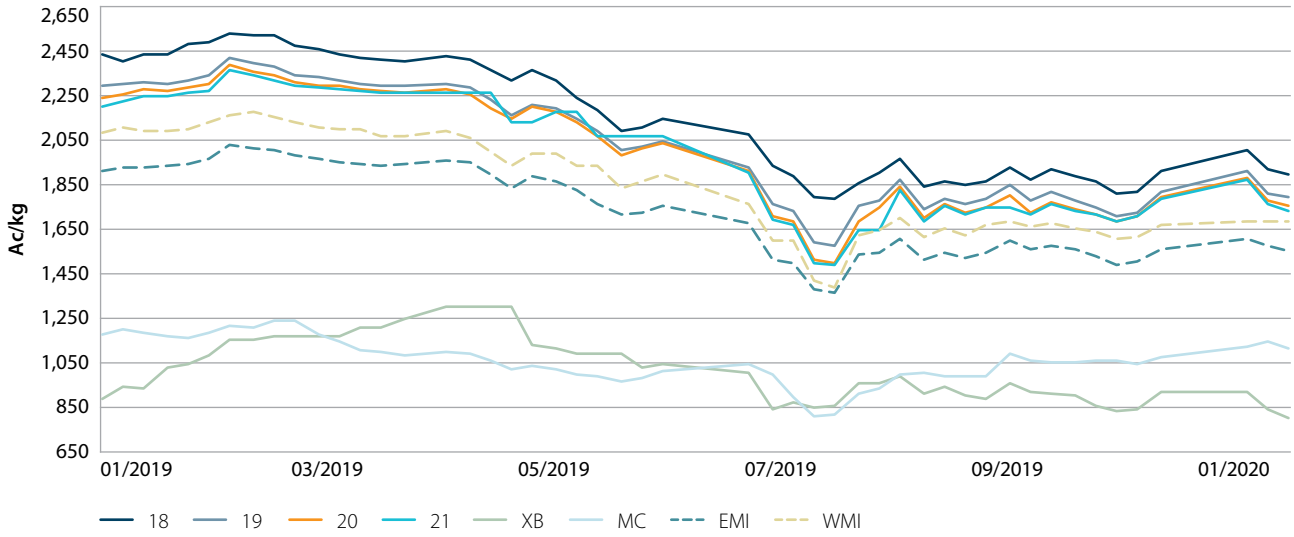
In positive news for wool and other global markets, the signing of Phase 1 of the US–China tariff trade deal in mid-January signals a smoother trade environment for the year ahead. A halt to the December rises in the Australian dollar is also positive for exporters. These factors, combined with the forecast continued low supply of wool on the back of the significantly reduced Australian flock, suggest that prices around current levels should be supported around current levels. And while not at the highs of 2018, a mid-1500c/kg EMI still sits around 60c/kg higher than the five-year average, and continues to generate positive margins for producers.

As a niche and luxury product, provenance, animal welfare and sustainability are becoming increasingly important to the wool supply chain. At present, a Mulesing Status Declaration (an optional declaration for producers) accompanies nearly half of all wool bales offered at auction.

This figure has almost doubled in the past five years, driven predominantly by producers providing pain relief choosing to declare this strategy. The percentage of bales declared as non-mulesed has grown by around 40 per cent over the past five years, however it is heavily weighted towards the super fine (sub or equal to 18 micron) and broader wool types (greater than or equal to 25 micron). With the majority of the Australian flock testing between 19 and 24 micron, there is a challenge ahead for the majority of producers who remain reliant on mulesing.

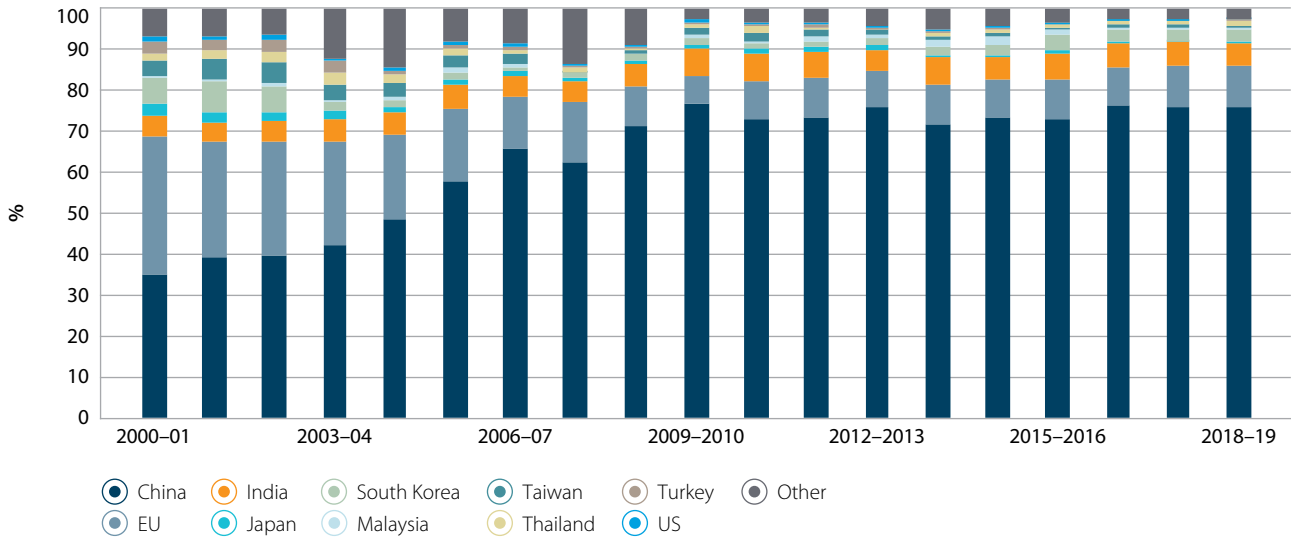
IN POSITIVE NEWS FOR WOOL AND OTHER GLOBAL MARKETS, THE SIGNING OF PHASE ONE OF THE US-CHINA TARIFF TRADE DEAL IN MID-JANUARY SIGNALS A SMOOTHER TRADE ENVIRONMENT FOR THE YEAR AHEAD.

AUSTRALIAN WOOL EXCHANGE MICRON PRICE GUIDES



Source: Australian Wool Network – Northern Region

AUSTRALIAN WOOL EXPORT DESTINATION BY VALUE



Source: Australian Wool Network – Northern Region

DAIRY INSIGHTS

OVERVIEW

- Dairy prices dropped sharply at the first auction event following the spread of the coronavirus
- The impact is expected to be short-term and is not expected to flow through to Australian farm gate milk prices
- Globally, production growth is expected to continue to be low which will put upward pressure on prices
- Domestically, Australian production growth is also anticipated to be slow, putting pressure on processors to maintain their supply base
- The US–China trade deal may result in easier access to the China market for US exports of dairy products

The coronavirus outbreak in China hit the global dairy markets strongly at the Global Dairy Trade (GDT) auction in early February. The first GDT auction following the imposition of travel bans to and from China and lockdowns across the epicentre in Wuhan saw the index price fall sharply by 4.7 per cent. But is this drop in prices a sign of further things to come, or simply a temporary hitch which is unlikely to impact farm gate milk prices?

To date, most attention around the impact of the coronavirus outbreak has centred on Chinese New Year and the fall in sales of rock lobster, wine and premium beef and sheep meat, as well as temporary shutdowns in wool processing plants in China. It has been less clear, however, how more highly commoditised markets such as grains and dairy would react to the outbreak. The most recent GDT auction, which reflects New Zealand's dairy market more closely than Australia's, saw whole milk powder prices – New Zealand's largest export to China – drop by 6.2 per cent to US$3039 a tonne, the lowest level since August last year. Skim milk powder prices dropped by 4.2 per cent to US$2907 a tonne, while buttermilk powder fell by 5.2 per cent to US$2886/tonne and butter prices stayed almost stable, registering a 0.2 per cent gain to US$4258 a tonne and cheddar prices posted a strong increase of 6 per cent to US$4302/tonne.

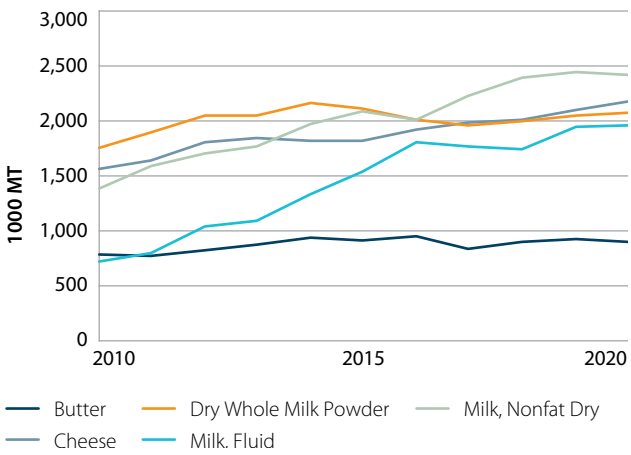
These sharp responses to the coronavirus outbreak were not unexpected, however, and are unlikely to have a long-term impact on either global dairy prices or, more particularly, Australian farmgate milk prices. In the short term, most analysts anticipated a drop in prices as the market struggles to come to grips with the extent and longevity of the coronavirus outbreak in China. In the longer term, however, we would expect that in such a highly commoditised market as dairy, global consumption and production patterns – in particular, the relatively low growth in global production seen recently, will reassert themselves. Most particularly for Australian dairy farmers, it is unlikely to have any impact on farmgate milk prices, which will continue to primarily reflect the decline in domestic milk production.

Also of concern for dairy markets is the impact of bushfires across eastern Australia. The bushfires have been locally destructive for many areas and will take affected producers a long time to recover from stock and infrastructure losses. While there will be logistical disruptions in the short term for some produce coming out of impacted regions, the longer term impacts on Australian agriculture and, in particular, the dairy industry, are likely to be limited.

Globally, a poorer than anticipated production season across the US and EU, as well as Australia's decline in production, has meant that supply has tightened and is expected grow at a lower than forecast rate for the foreseeable future. While slow production growth should bode well for prices, low global economic growth has, to date, kept a lid on those prices and may continue to do so going forward.

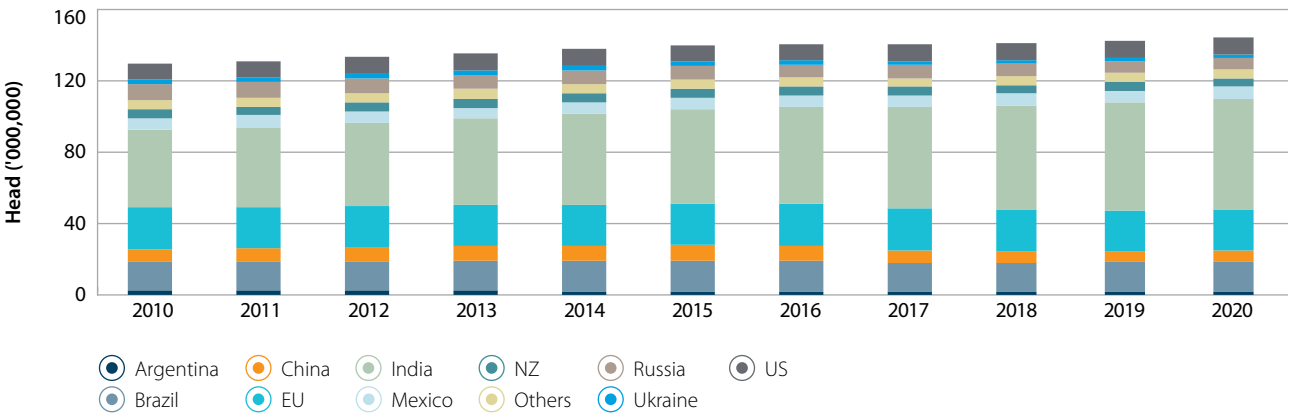
The other factor impacting global dairy demand is the recent US–China trade deal which may improve US dairy exports access to China. Under the terms of the deal, the Chinese Government has committed to removing a series of health standards that have been used to block a variety of American agricultural imports, as well as licensing, inspection and registration rules that the US has viewed as barriers to trade across products including dairy, baby formula, meat, poultry, pet food, seafood, animal feed and biotech. It is yet to be seen whether Australian trade officials can secure a similar deal, particularly in relation to border trade restrictions, for Australian agricultural exports as a result of the US–China trade deal.

GLOBAL DAIRY EXPORTS



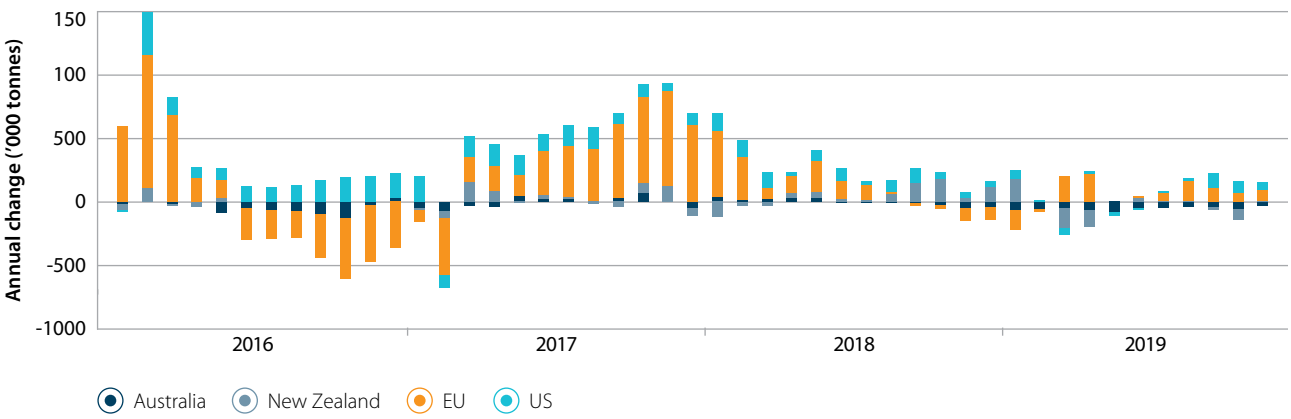
Source: USDA PSD

GLOBAL DAIRY COWS IN MILK



Source: USDEC

GLOBAL MILK PRODUCTION



Source: USDEC

COTTON INSIGHTS

OVERVIEW

- Australia's drought-hot 2019–20 cotton crop fell to the lowest planted acreage since 2007–08
- Cotton exports in 2019–20 are forecast to shrink by two-thirds to $890 million
- With China being the largest importer of Australian cotton, the local sector will closely watch any potential impacts of the US–China trade discussions

With a large amount of Australia's cotton crop still about two months off picking, many in the industry are already looking a year or two ahead, to look for signs of recovery. In the meantime, the impacts of the drought remain stark.

Australia's planted cotton acreage fell to an historic low of 82,000 hectares in 2019–20, the lowest level since 2007–08, hampered by the poor seasonal conditions in many growing areas. On current outlook, 2019–20 cotton lint production is forecast to be down 63 per cent on the previous year to 177,000 tonnes, while raw cotton exports are estimated be down around 60 per cent to 354,000 tonnes. In value terms, Australian cotton exports are forecast to shrink from $2.6 billion in 2018–19 to $890m in 2019–20.

In terms of exports, China remains the major destination for Australian cotton exports, having accounted for 34 per cent of exports in 2018–19 – a year which marked the return of strong Chinese imports after minimal imports the previous year due to stock liquidation. In contrast, Australia's exports to the next two biggest markets, Vietnam and Bangladesh, fell last year by 28 per cent and 51 per cent respectively due to increased exports from competitors. In addition, the domestic textile and garment sectors in these countries have also been experiencing a slow growth phase due to a fall in ready-made garments (RMG) exports.

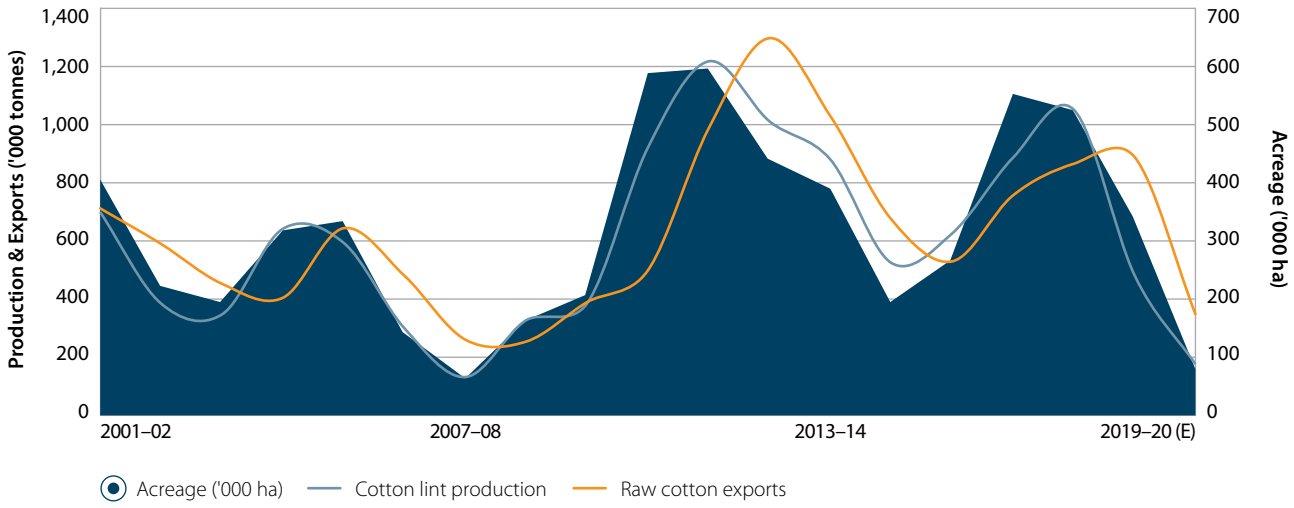
Assuming that domestic weather conditions improve, Australian cotton production is likely to gradually recover in the medium term. This would also be aided by an improvement in global economic conditions, which would likely stimulate garment demand and put upward pressure on cotton prices.

One variable creating uncertainty remains the global trade environment. The recent Phase 1 trade deal between China and the US, which included a clause to increase Chinese agri purchases from the US, will continue to create some uncertainty on Australia cotton exports to China.

Globally, cotton production in 2019–20 is forecast to grow marginally to 26.2 million tonnes, up 2 per cent on the previous year. The drivers of this have been a rise in cotton production in India and the US, which have offset declines in Australia, Pakistan, China and Turkey. While overall global cotton consumption levels look likely to remain largely unchanged from the previous year, this is a balance between consumption falls in China and Pakistan, against rises in India, Uzbekistan, Turkey and Vietnam.

In a good sign for prices, global cotton ending stocks continue to fall. From a peak of 22.2 million tonnes, ending stocks in 2019–20 are forecast to be around 17.3 million tonnes.

AUSTRALIAN COTTON ACREAGE, PRODUCTION AND EXPORTS



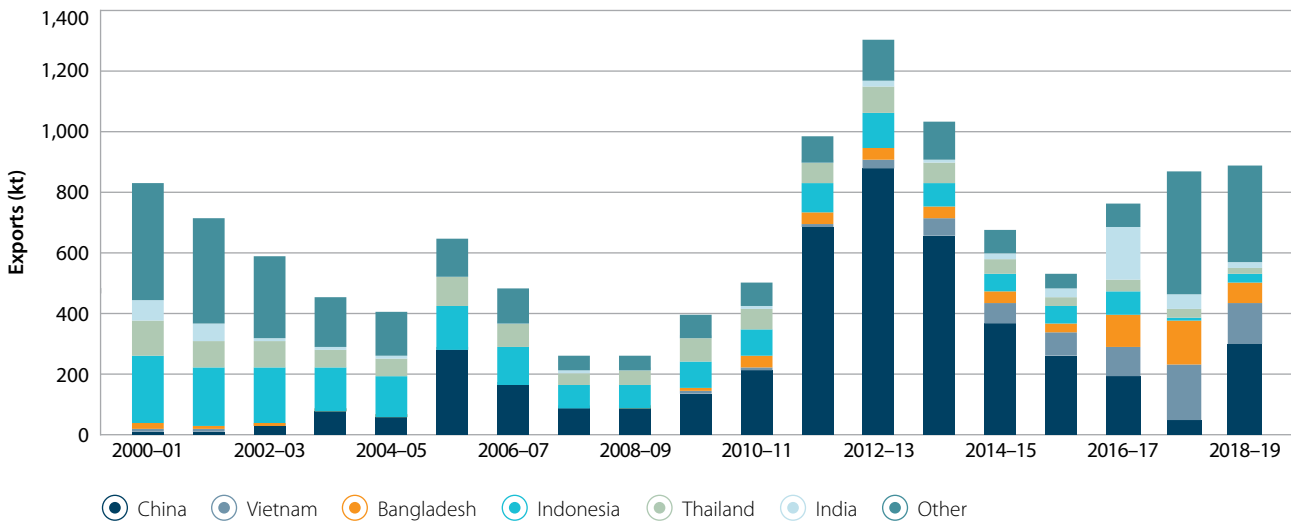
Source: ABARES

Notably, this decline has almost entirely been due to a reduction in China, where ending stocks have roughly halved to 7.1 million tonnes in 2019–20 from 14.5 million tonnes in 2014–15. Outside China, both India and Brazil have seen an increase in stock levels, especially in the past couple of years, while stock levels in the US are also forecast to rise with a production surplus in 2019–20.

Despite the Australian export decline, overall global exports are forecast to rise 6 per cent in 2019–20, with a sharp rise in exports from Brazil and the US. Chinese imports in 2019–20 are forecast to fall from the previous year, amid sluggish demand, trade uncertainties and continued liquidation of inventory.

GLOBALLY, COTTON PRODUCTION IN 2019–20 IS FORECAST TO GROW MARGINALLY TO 26.2 MILLION TONNES, UP 2 PER CENT ON THE PREVIOUS YEAR.

AUSTRALIAN COTTON EXPORTS BY DESTINATION



Source: ABARES

BERRIES INSIGHTS

OVERVIEW

- Berry production in Australia is growing rapidly, with each contributing berry variety playing a role
- The industry is heavily domestically focused, but with aspirations for rapid growth in exports should technical market access be granted
- Growing regions have expanded over recent years to even out annual supply, assisting consumer purchasing patterns and pricing
- The industry is at risk of oversupply, impacting domestic prices should export markets not eventuate

Berry production represents a small but growing sector of Australian horticulture, with a production value nearing AUD1 billion dollars from just over 100,000 tonnes of fruit in 2018. The industry, represented by strawberries, blueberries and rubus berries (blackberries and raspberries) has, in some parts, experienced a challenging season climatically, however opportunities for further growth, both domestically and internationally, are very positive.

Australian berries are predominantly grown for the domestic market with around 84 per cent of production sold as fresh produce during 2018. A very small proportion of berries, usually those that do not meet quality criteria, are used for processing, and around 4 per cent are exported.

Strawberries are the dominant berry produced in Australia, by both volume and value, with around 93,000 tonnes grown in 2018 for an estimated value of $445 million. Strawberry production occurs in most states however, Queensland and Victoria are responsible for almost 80 per cent of national production. Domestic trends in strawberry consumption have plateaued in recent years, at around 2.6 kilograms per capita per annum. Part of the Australian strawberry industry's strategic plan is to increase domestic per capita consumption by 10 per cent by 2021, along with increasing the share of produce exported.

Per capita strawberry consumption in Australia is assisted by current health trends, however studies suggest that a small proportion of high volume strawberry consumers are responsible for almost 75 per cent of sales.

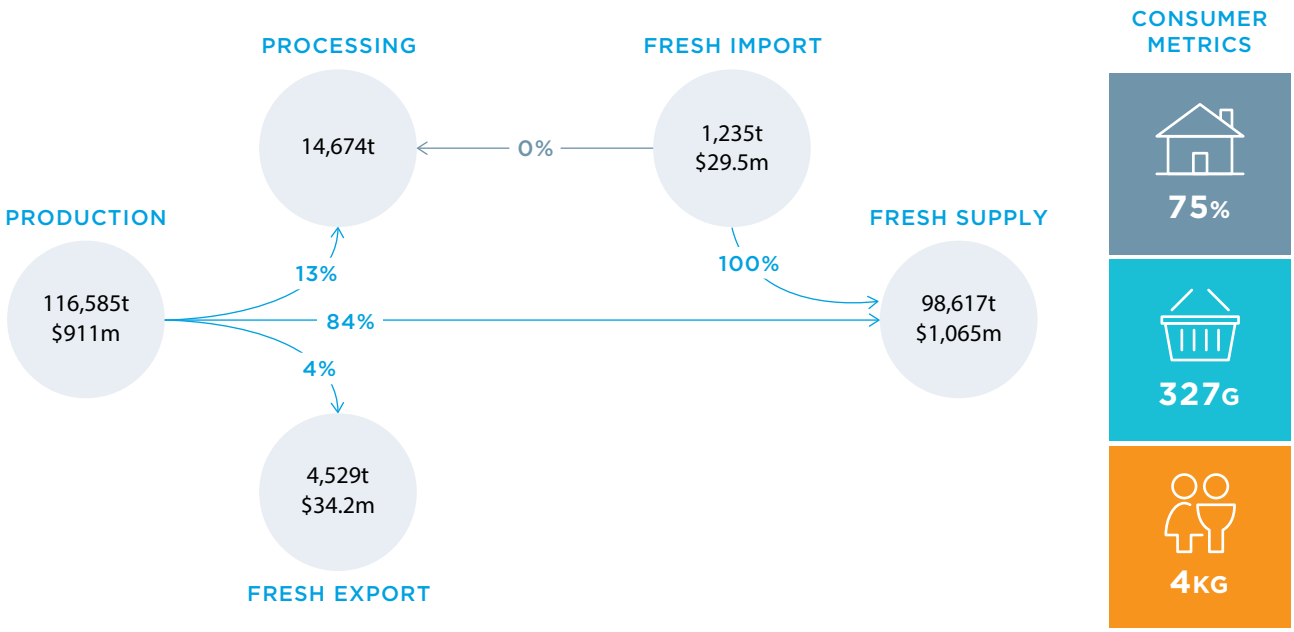
This represents both opportunity and risk – the opportunity relating the large proportion of the population that are not currently large strawberry consumers and the risk being the possibility of the high strawberry consumers spreading their purchasing behaviour to other berry and fruit types.

Strawberry exports are largely shipped from Western Australia and are concentrated on Asian and Middle Eastern markets. Singapore, Thailand and the United Arab Emirates are Australia's three largest markets by both volume and value, and each have grown substantially over the past 10 years. Challenges for both domestic and export sales are product perishability, packaging and highly variable retail prices which have direct impacts on consumer purchasing behaviour.

Internationally, Spain, the US and Mexico dominate strawberry export markets, responsible for over 60 per cent of world exports in 2018. With a total export market of around 900,000 tonnes, Australia's current exports of around 5000 tonnes indicates the scale of the opportunity for further increases. Major importing markets of the US, Canada and Germany are mature in volume, however, substantial growth is expected throughout Asia where technical market access allows.

The story for other Australian-grown berries such as blueberries, raspberries and blackberries is similar, in that the market is largely a domestic one. Blueberry production is heavily centred around the north coast of New South Wales, with smaller production zones around the country playing an important role in year-round supply.

FRESH BERRIES SUPPLY CHAIN — YEAR ENDING JUNE 2018



Source: Horticulture Innovation Australia

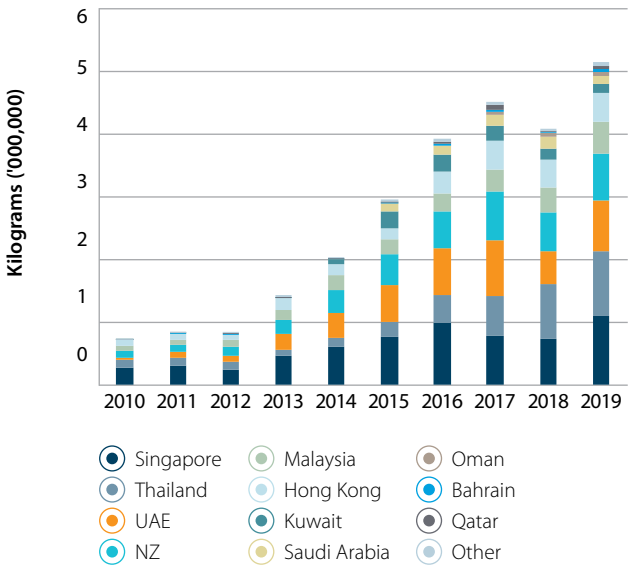
A very small proportion of blueberries reach export markets (less than 1.5 per cent of production in 2018), with Australia actually a net importer of blueberries, importing around 1200 tonnes, equating to around 10 per cent of supply to the Australian fresh blueberry market in 2018.

The blueberry industry has set an aggressive target to grow exports to 20 per cent of production by 2022. However, with claims that blueberries are the fastest growing fresh produce category globally, access to key markets such as Japan and China could make the target a reality. Significant gains in production, from around 5500 tonnes in 2014 to an estimated 20,000 tonnes in 2018–19 have been achieved, predominantly a result of large corporate plantings, together with improved varieties and growing techniques. The large increase in production has positive outcomes for consistent supply and consumer purchasing behaviour, however, negative impacts on price for growers. Access to export markets and rapid increases in per capita domestic consumption are vitally important for the long-term sustainability of current and forecast production.

Rubus berries, being raspberries and blackberries, are the smallest contributor to total berry production volume and value, with around 6000 tonnes produced in 2018 for approximately $160 million in production value. Exports are virtually non-existent however like other berry varieties, the industry is seeking rapid export growth over coming years. The highly perishable nature of raspberries and blackberries is however a major challenge, and likely to limit most exports to frozen product.

Rapid and consistent increases in rubus berry production (largely driven by raspberries) has occurred over recent years, with production doubling in 2015–18. Rubus berries are only purchased by around 16 per cent of Australian households, signalling the opportunity for growth that is now possible due to increased supply, year-round production, and more consistent retail pricing.

AUSTRALIAN STRAWBERRY EXPORTS



Source: TradeMap

FERTILISER INSIGHTS

OVERVIEW

- Sluggish global fertiliser demand, particularly in the US and China, has helped push most fertiliser prices down
- Within Australia, reduced crop plantings and last year's small harvest may potentially see fertiliser demand fall, although some farmers could seek to take advantage of current low prices and stock up
- The domestic corporate landscape for both fertiliser production and distribution is going through a period of change, which may further impact fertiliser marketing and pricing this year

GLOBAL DEMAND AND SUPPLY

When Australian farmers come to consider the cost of their fertiliser purchases, they may not realise that their farming compatriots in China and the US are a major influence on the price.

With Australia being dependent on fertiliser imports, domestic fertiliser prices largely track global prices. Of the major fertilisers, around one-third of phosphate consumption, over 60 per cent nitrogen consumption and all of potash consumption come from imports.[1] Some key products imported include urea, Monoammonium phosphate (MAP) and diammonium phosphate (DAP) fertilisers, ammonium fertilisers, potassic fertiliser and superphosphates.

Urea makes up around half of all imports by volume, followed by MAP and DAP fertilisers. China remains an important trading partner and it accounts for around 29 per cent of fertiliser imports (by value) in 2018–19.[2] Other major import source include Saudi Arabia, USA, Qatar and Malaysia. Australia also exports certain fertilisers, largely to Pakistan, India, Vietnam and New Zealand.

Global fertiliser demand in 2019 was sluggish, impacted by a fall in US crop plantings due to wet weather, as well as slowing demand in the Chinese market. Overall, China accounts for around 30 per cent of global fertiliser demand.

Within China, fertiliser application rates continue to decrease, due to a mix of new environmental protection measurements, as well as the growth of farm sizes leading to improved efficiencies.

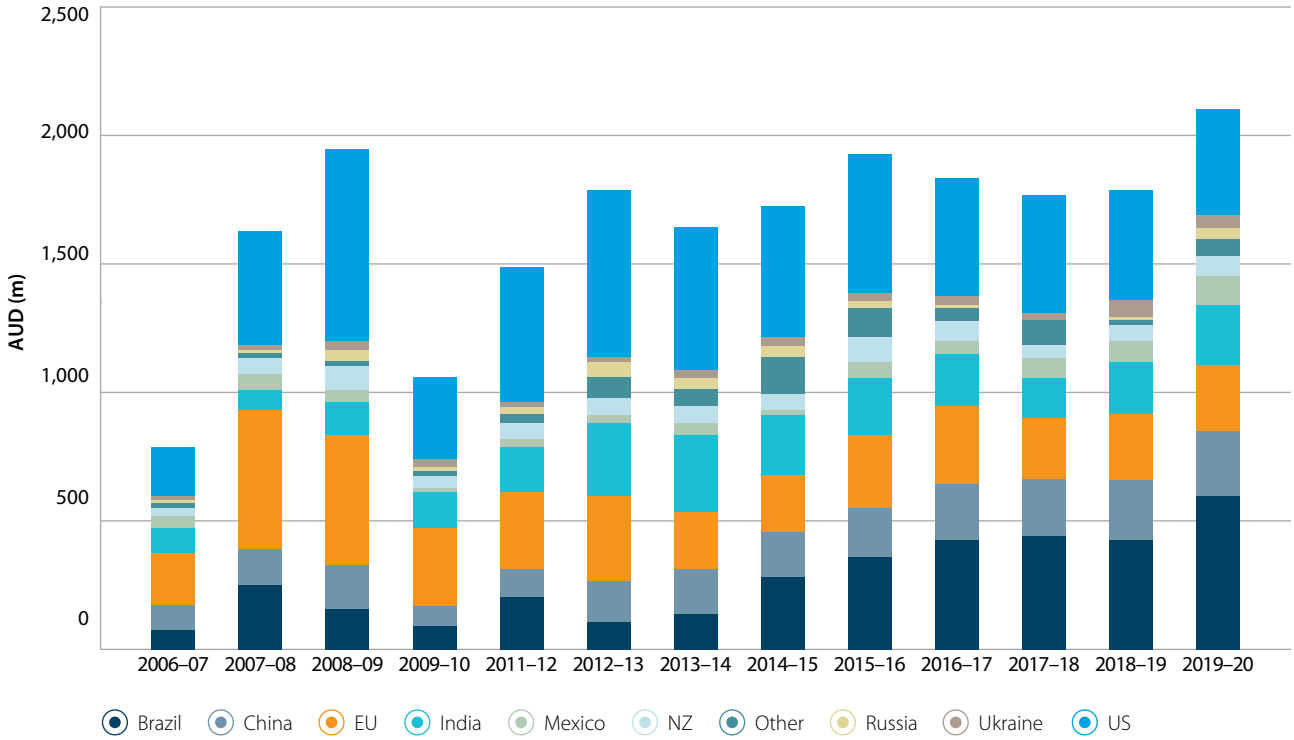
Within Australia, annual fertiliser sales are estimated at around 5-6 million tonnes. Fluctuations in demand are particularly impacted by weather conditions. For example, while poor rainfall conditions may increase demand for fertiliser in the short term, prolonged drought conditions may reduce a farmer's fertiliser purchases.

With the Australian 2019–20 crop production forecast to fall to its lowest level since 2007–08, demand for fertiliser may fall, based on reduced planting plans, as well as the impact of lower grain cheques. That said, the current low-price environment could also potentially incentivise some farmers to increase application rates.

Wheat farming accounts for around 30 per cent of Australia's fertiliser usage, with livestock farming making up about 20 per cent. Pastoral sectors generally use phosphate fertiliser, while cereal and grain crops use more nitrogen fertilisers.

1. IBIS research, Fertiliser Manufacturing in Australia, Aug 2019
2. DFAT

AUSTRALIA FERTILISER IMPORTS



Source: DFAT, ANZ

WHEAT FARMING ACCOUNTS FOR AROUND 30 PER CENT OF AUSTRALIA'S FERTILISER USAGE, WITH LIVESTOCK FARMING MAKING UP ABOUT 20 PER CENT. PASTORAL SECTORS GENERALLY USE PHOSPHATE FERTILISER, WHILE CEREAL AND GRAIN CROPS USE MORE NITROGEN FERTILISERS

In terms of Australia's fertiliser manufacturing and distribution landscape, 2020 is likely to see the continuation of structural changes. The acquisition by Landmark (owned by Canadian-based Nutrien) of Ruralco, as well as Elders' acquisition of Australian Independent Rural Retailers, could possibly see changes in fertiliser marketing or pricing. Similarly, the recent strategic review announced by Incitec Pivot in September 2019 of its fertiliser business could also potentially see further changes.

Global fertiliser production continues to remain strong, with increases in urea production capacity in India, Eastern Europe, Central Asia and Nigeria offsetting a fall in China's capacity. Phosphate rock production is forecast to remain stable, while after two consecutive years of growth in potash production, little production growth is forecast.

Overall, the short-term outlook for fertiliser prices remain sluggish due to ample global capacities and slowdown in demand. However, with a return to normal weather conditions and a reduction in global stocks, recovery in fertiliser demand is imminent.

ANZ ECONOMIC UPDATE

RATES

Although we initially expected rates to markets to move higher through 2020 as global growth stabilised following the Phase 1 deal, the novel coronavirus has altered that view somewhat. Although the duration and economic impact of the virus remains uncertain, we think given what we have seen so far, rates are likely to remain depressed through the first half of this year. In particular, US long-end rates are likely to stay at around 1.5 per cent through until June 2020, before rising as the virus is contained and the recovery from the demand shock gains momentum. This should also see AUD rates remain at low levels as global moves drive it. However, as the virus is contained we think AUD rates will outperform US rates for two reasons. The first is the Australian economy is more exposed to the US and divergence in domestic conditions continue to emerge with the Australian economy remaining relatively weak compared to the US. This weakness, we think, will see the RBA end up cutting the cash rate down to its effective lower bound of 0.25 per cent by the end of Q3 this year.

FOREIGN EXCHANGE

Competing themes vie for control of the AUD through Q1 2020. On one side, the prospects of improved global growth are rising. The AUD has benefited from synchronised easing and evidence of greater stability in trade policy. More recently, tail risks have emerged as coronavirus has taken hold of risk sentiment. The big question will be the impact on Chinese growth with risks of knock-on effects throughout the region likely to pressure the AUD.

Domestically, the RBA's easing bias through 2019 is starting to waiver as business conditions and house prices show stabilisation. While this is likely to keep the RBA at bay, in the near term we remain cautious given weak private sector demand and slowing labour market momentum.

On balance, both global and domestic conditions are providing modest support to the AUD. However, we remain wary of the elevated tail risks to global growth that could hamper risk sentiment in the coming months.

FX AND CENTRAL BANK POLICY RATE FORECASTS

FX Forecasts	Current	Mar '20	Jun '20	Sep '20	Dec '20
AUD/USD	0.67	0.69	0.68	0.68	0.67
NZD/USD	0.65	0.67	0.66	0.66	0.65
AUD/NZD	1.04	1.03	1.03	1.03	1.03
USD/JPY	110	111	112	112	112
EUR/USD	1.10	1.08	1.10	1.10	1.12
USD/CNY	6.98	7.07	7.1	7.12	7.15

Rate Forecast	Current	Mar '20	Jun '20	Sep '20	Dec '20
RBA cash rate	0.75	0.75	0.5	0.25	0.25
Feds fund rate	1.75	1.75	1.75	1.75	1.75
RBNZ OCR	1.00	1.00	1.00	1.00	1.00

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