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ABARES

# Agricultural commodities

Commodity forecasts and outlook

**June quarter 2019**

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# Agricultural overview

Kirk Zammit and Matthew Howden


- Lower forecast prices for major cereal crops and a decline in meat and wool production are expected to weigh on the value of production.
- The value of production is contingent on seasonal conditions. This uncertainty is compounded by volatile external conditions.
- In 2019–20 export earnings are forecast to be $45 billion, constrained by limited exportable supplies and a decline in international prices.

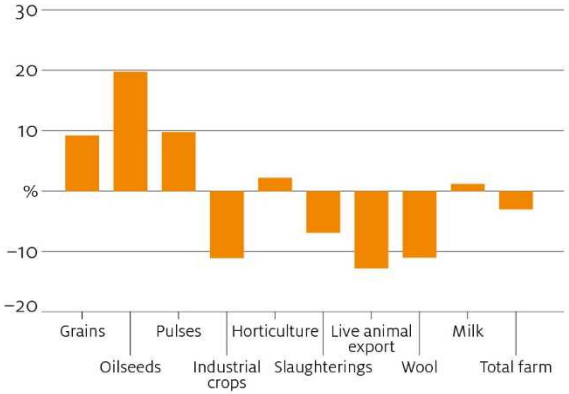
## Farm production contingent on seasonal conditions

In 2019–20 the value of farm production is forecast to be $59 billion.

The value of crop production is forecast to remain unchanged from 2018–19 at $30 billion, weighed down by forecast lower prices received, especially compared to the high prices that prevailed in domestic grain markets in 2018–19. Average to above average rainfall and an improvement in soil moisture levels across large areas of south-eastern Australia and the cropping region of central Queensland have provided a better start to this season's winter crop compared with the same period last year. Assuming adequate rainfall throughout the remainder of the growing season, grain, oilseed and pulse production are expected to increase by 20% to 36.4 million tonnes—driven by higher yields and area planted when compared to the drought affected 2018–19 season. However, production is nevertheless expected to be 10% below the 10 year average to 2018–19. Production of irrigated crops (particularly cotton and rice) is forecast to remain low because of low water availability and high temporary water prices.

The value of livestock and livestock products is forecast to decline by 6% to $29 billion. The improvement in seasonal conditions since March has also motivated herd and flock rebuilding. As a result, declines are forecast in 2019–20 for live animal exports (down by 11%), slaughter (9%) and wool production (7%). Milk production is forecast to be relatively unchanged from the low level in 2018–19, as dry conditions over the past 2 years take their toll on production capacity.

**Forecast change in value of production by commodity group, 2019–20**




Source: ABARES

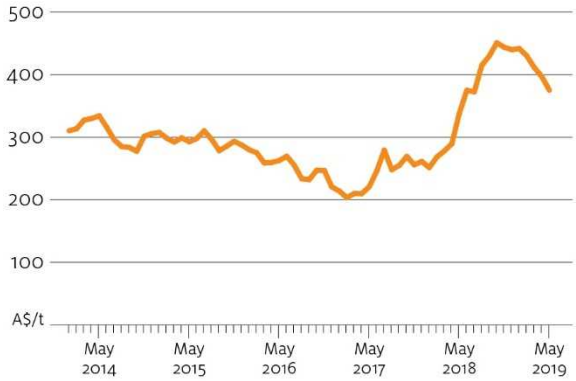
## Domestic production and prices uncertain

These production forecasts are highly dependent on seasonal conditions during 2019–20. A continuation of the poor seasonal conditions experienced in 2018–19 is possible but unlikely (see Seasonal conditions). However, if dry conditions do continue across eastern Australia, crop yields could again be low while increased turn-off (and meat production) could reduce livestock inventories. The national cattle herd is at its lowest level since 1992–93. While early indications are that rainfall will be sufficient for crop and pasture growth during winter, much depends on conditions during the spring of 2019 which are beyond the window of reliable seasonal forecasts.

Poor grazing conditions and concerns over the cost and availability of grain during 2019–20 have resulted in a rise in applications to the Department of Agriculture to import processed stockfeed. Inquiries about importing bulk grains for milling have also increased. The department has strict requirements which must be complied with in order to manage the biosecurity risks with processed stockfeed and imported grain. Imports of hay have never been approved because of an unacceptably high risk of introducing pests, weeds and diseases. In May 2019, the department issued several bulk grain import permits for high-protein Canadian milling wheat, the first since 2007. More permits are expected to be issued for wheat and other grains.

Imports help provide certainty and reduce the cost of grain for manufacturers and consumers. The total volume of imports permitted so far is about 2% of the 8 to 9 million tonnes consumed in Australia each year, and during previous droughts grain imports have not exceeded 0.5 million tonnes. However, their effect on grain and food prices is disproportionate to their volume. The potential to import increases competition in Australian grain markets, and has contributed to a mostly downward trend in feed and milling wheat prices since March 2019.

**Wheat, general purpose, May 2014 to May 2019**




Source: The Land

Domestic livestock and feed prices in 2019–20 are contingent on seasonal conditions. If average seasonal conditions are realised saleyard prices for cattle and lamb are expected to be supported as producers rebuild herds and flocks. However, prices could fall if a lack of rainfall reduces feed availability and high livestock turn-off continues (see Beef and veal).

Improved seasonal conditions will lead to a decline in feed prices by reducing the need for supplementary feeding of livestock and increasing the production of fodder, grain and pasture.

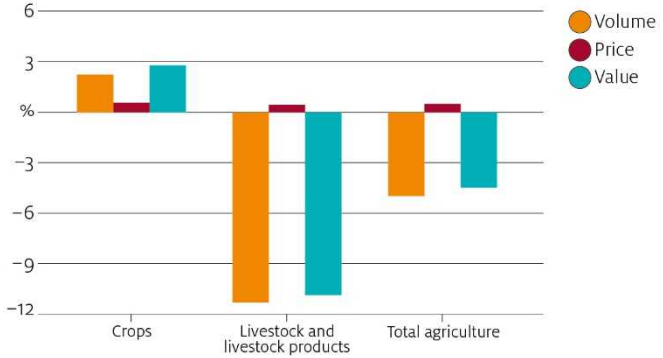
## Forecast mixed growth in export earnings

Agricultural export earnings are forecast to decline by 5% in 2019–20, driven by a forecast fall in exports of livestock and livestock products. The average agricultural export price is forecast to remain unchanged in 2019–20, following an estimated 8% increase in 2018–19.

Crop export earnings are forecast to increase by 3%, driven by increased grain, oilseed and pulse exports. However, world prices are forecast to decline for most major crops, including wheat and barley. Favourable conditions for northern hemisphere crop production are driving international prices lower.

Export earnings for livestock and livestock products are forecast to decline by 11%. This is driven by a reduction in volumes, assuming seasonal conditions improve and enable farmers to rebuild herds and flocks. The average export price for livestock and livestock products is forecast to be unchanged, and remain above average because of strong demand rising faster than the supply for red meat and wool, as has been the case for several years.

**Growth in export earnings, by price and volume, 2019–20**




Source: ABARES

## Uncertain outlook for exports in 2019–20

A number of uncertainties affect the outlook for Australia's agricultural exports in 2019–20. Global economic growth has been revised down, and downside risks have increased, particularly in China—Australia's largest export market.

### China–US trade dispute clouds the outlook

The China–US trade dispute is a key downside risk to 2019–20 export forecasts. High import tariffs introduced by China on US agricultural goods are providing some Australian exporters with a competitive advantage over the United States. Beyond 2019–20, these benefits are likely to be offset by reduced export demand as incomes of affected consumers grow more slowly over the long term.

The trade dispute could reduce import demand for agricultural goods in China and other markets important to Australia. Tariffs can reduce demand for imports by increasing the cost of food and reducing the spending power of consumers. Emerging and developing countries in Asia are especially vulnerable, and represented about 65% of Australia's agricultural exports in 2017–18.

Lower growth expectations in emerging and developing countries could also weaken their currencies. This would further reduce the purchasing power of income-sensitive consumers and lower their demand for imports, including Australian agricultural goods. Increases in interest rates by central banks designed to stabilise these currencies could reduce investment and further dampen economic growth and consumer confidence.

**Chinese import tariffs, Australia and the United States, June 2019**

| Category | Australia | | United States | |
|---|---|---|---|---|
| | Tariff rate (%) | Exports ($m) **a** | Tariff rate (%) | Exports ($m) **a** |
| **Under ChAFTA** | | | | |
| Barley | 0 | $934 | 27 | $0 |
| Beef and veal | 6–12.5 | $836 | 37–50 | $40 |
| Dairy | 0–10 | $495 | 31–45 | $532 |
| Fresh or dried fruit | 0–13.3 | $304 | 37–70 | $350 |
| Grain sorghum | 0 | $72 | 26 | $1,096 |
| Pork and pork products | 0 | $0 | 37–70 | $309 |
| Tree nuts | 0 | $86 | 25–65 | $287 |
| Vegetables and legumes | 0 | $23 | 25–38 | $62 |
| Wine | 0 | $829 | 45–90 | $100 |
| **Not included in ChAFTA b** | | | | |
| Cotton **c** | 1 | $648 | 26 | $1,269 |
| Durum wheat | 1 | $442 | 26 | $460 |
| Soybeans | 3 | $0 | 28 | $15,983 |

**a** Value of exports in 2017. For comparative purposes, Australian and US figures are from UN Comtrade International Statistics Database. **b** Most favoured nation in quota tariff rates. **c** Value of Australian cotton imported by China**. ChAFTA** China-Australia Free Trade Agreement.
Sources: Department of Foreign Affairs and Trade; UN Comtrade; US Department of Agriculture

## China–US trade dispute increases competition in other markets

The China–US trade dispute has had a major impact on the global oilseed market. Low-cost soybeans from the United States and Canadian canola have been diverted to the European Union, increasing the competition faced by Australian exporters who have historically received a price premium for non-GM canola (see Oilseeds).

On 23 May 2019 the United States announced a support package valued at up to US$16 billion for farmers affected by the ongoing trade dispute. This is in addition to support measures of US$12 billion announced last year. This latest package is not tied to production of specific commodities. Payments will be made based on the damage suffered by a particular county as a consequence of the trade dispute.

Overall, the support package is not likely to affect the decisions US producers make about which crop to produce. However, the support package is likely to sustain a larger aggregate crop area than US producers would have planted without government support.

## Full impact of African swine fever remains uncertain

Outbreaks of African swine fever have been reported in every province of China since August 2018. The spread of the disease is expected to have a significant impact on global protein and oilseed markets.

Increased Chinese import demand for protein is forecast to support prices received for Australian beef and sheep meat. However, the overall effect on prices remains uncertain, and depends on the total loss of domestic pork supply. In 2019, China's pork production is estimated to fall by between 10% and 35%, with herd losses of 20% to 30%. Any increases in Chinese import demand will depend on consumer's willingness to substitute towards alternative proteins and the ability of local industry to increase domestic supply of poultry, beef and seafood.

A reduction in the pig herd is also expected to reduce Chinese and therefore global demand for oilseeds, particularly soybeans and corn.

This will weigh on international prices for oilseeds (including canola) in 2019–20.

## Export earnings supported by a lower Australian dollar

The depreciating dollar contributed to a broad-based increase in export prices for crops and livestock products. Over the year to March 2019, the Australian dollar depreciated by 8% against the US dollar, and by 3% against a basket of currencies weighted by agricultural export shares. Agricultural export prices increased by 13% over the same period.

A weaker Australian dollar will help to maintain global consumption of Australian agricultural exports, by making beef, dairy products, horticultural products and sheep meat cheaper for importing countries. It will also help maintain profit margins for grain producers if global prices fall as forecast in 2019–20.

On the downside, the demand side benefits of a fall in the Australian dollar are likely to be partially offset by the rising cost of imported inputs such as fuel and chemicals.

### Competitor exchange rates

The exchange rates of Australia's major exporting competitors have also declined against the US dollar, eroding some of Australia's advantage of a lower exchange rate. From January 2018 (when the China–US trade dispute began) to May 2019, the Australian dollar depreciated by 12% against the US dollar, the Brazilian real fell by 19%, the Russian ruble by 12%, the NZ dollar by 9% and the euro and Canadian dollar each fell by 8%.

**Agricultural export prices and the Australian dollar, March 2011 to March 2019**


**a** Australian exchange rate is the weighted average of the currencies of Australia's 10 largest agricultural export markets.
Note: Chained Fisher price indexes.
Source: ABARES; Australian Bureau of Statistics; Reserve Bank of Australia

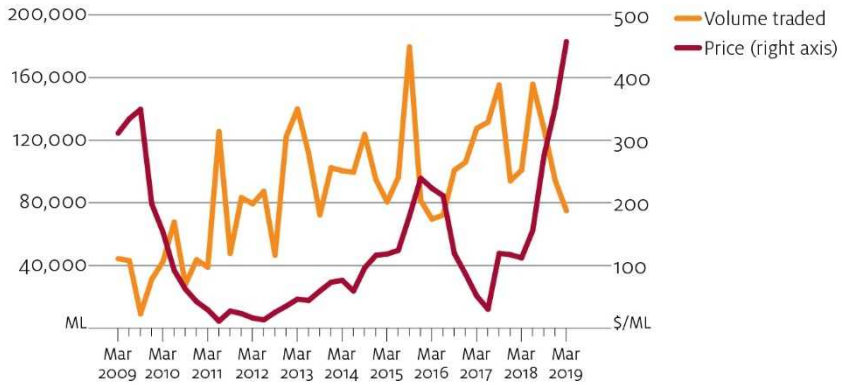
## Implications for farm incomes

In general, in areas affected by drought in 2018-19, farm incomes are likely to rise as seasonal conditions and production improve. Higher forecast crop yields and production are expected to more than offset a forecast fall in prices for some commodities.

However, input prices—especially water and fodder—are forecast to remain elevated, limiting growth in farm incomes. High input costs have significantly affected dairy producers. Australia's milk production in 2018–19 is expected to be the lowest since 1994–95. In 2019–20 dairy farm incomes are expected to improve as improved seasonal conditions and lower input prices alleviate cost pressures on producers.

Surface water allocation prices in the southern Murray-Darling Basin have more than doubled since July 2018. Prices in the 2019–20 season are expected to remain elevated until water inflows improve storage levels. The next ABARES Water Market Outlook is expected to be released in July.

**Surface water allocation markets, southern Murray Darling Basin, March 2009 to March 2019**



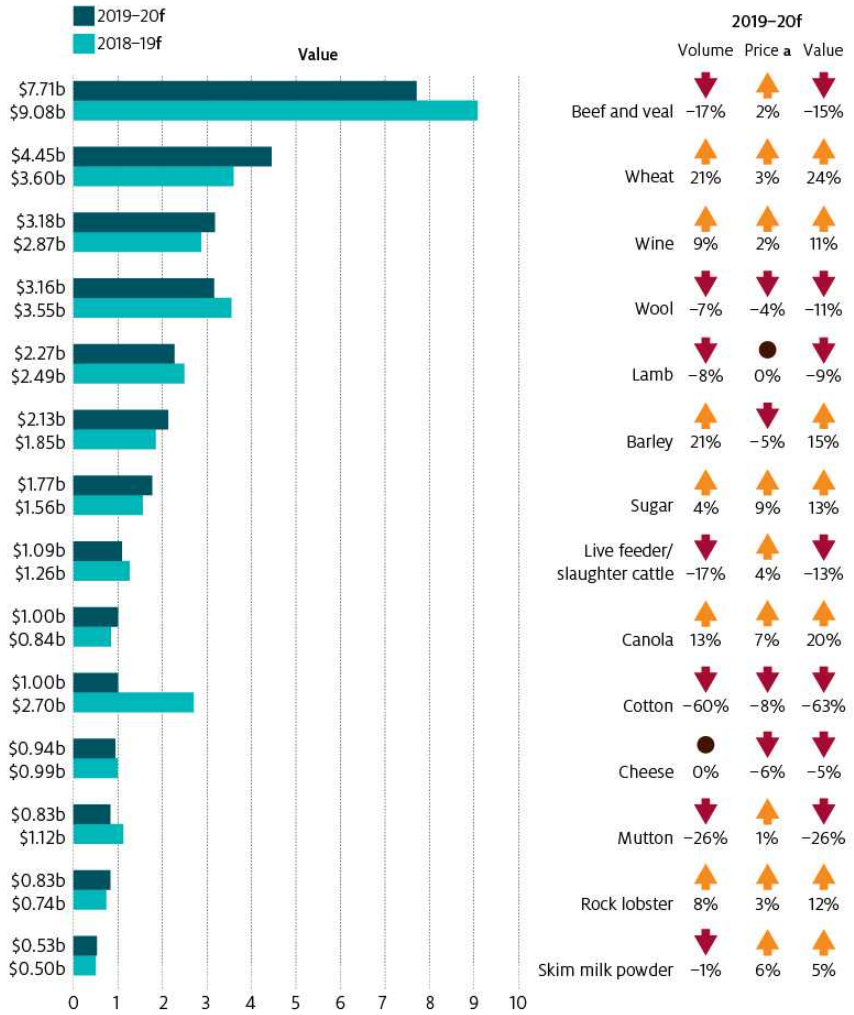

Source: ABARES

Fodder prices increased sharply in 2018–19. An expected return to average seasonal conditions should cause prices to fall by increasing fodder supply and the number of livestock on pasture. Barley and wheat prices are expected to be lower in 2019–20 after increasing in 2018–19.

The assumed lower Australian dollar is expected to increase the cost of imported inputs in 2019–20. Crude oil prices increased in the second half of 2018–19 in response to uncertainty regarding global supply. In 2019–20 fuel prices are forecast to increase due to higher crude oil prices and a lower exchange rate. Fertiliser prices are also expected to increase in 2019–20.

Capital inputs, such as tractors and other farm machinery could also become more expensive in 2019–20. The ongoing China–US trade dispute is contributing to rising costs for US manufacturers of farm equipment. The degree to which the trade dispute will increase costs on imported farm equipment is unclear.

## Major Australian agricultural commodity exports



## Major indicators of Australia's agriculture, fisheries and forestry sectors

| Category | | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19s | 2019–20 f | *% change* |
|---|---|---|---|---|---|---|---|---|
| **Exchange rate** | A$/US$ | 0.84 | 0.73 | 0.75 | 0.78 | 0.72 | 0.70 | – 2.2 |
| **Australian export unit returns a** | | | | | | | | |
| Agriculture | index | 100.0 | 104.4 | 104.5 | 106.9 | 115.9 | 116.5 | 0.5 |
| **Value of exports** | | | | | | | | |
| Agriculture | A$m | 44,200 | 44,774 | 48,941 | 48,981 | 47,596 | 45,453 | – 4.5 |
| crops | A$m | 21,574 | 22,511 | 27,939 | 25,045 | 22,256 | 22,881 | 2.8 |
| livestock | A$m | 22,625 | 22,263 | 21,002 | 23,935 | 25,339 | 22,572 | – 10.9 |
| Fisheries products | A$m | 1,440 | 1,542 | 1,435 | 1,575 | 1,519 | 1,669 | 9.9 |
| Forestry products | A$m | 2,772 | 3,116 | 3,460 | 3,605 | 3,995 | 3,990 | – 0.1 |
| **Total agriculture, fisheries and forestry exports** | A$m | 48,412 | 49,432 | 53,837 | 54,161 | 53,109 | 51,112 | – 3.8 |
| **Gross value of production b** | | | | | | | | |
| Farm | A$m | 54,387 | 56,554 | 61,647 | 59,581 | 61,244 | 59,387 | – 3.0 |
| crops | A$m | 27,423 | 27,791 | 33,547 | 29,855 | 30,221 | 30,370 | 0.5 |
| livestock | A$m | 26,964 | 28,763 | 28,099 | 29,726 | 31,024 | 29,018 | – 6.5 |
| Fisheries | A$m | 2,764 | 3,020 | 3,058 | 3,141 | 3,207 | 3,356 | 4.6 |
| Forestry **c** | A$m | 2,025 | 2,270 | 2,571 | 2,663 | 2,575 | 2,620 | 1.7 |
| **Total farm, fisheries and forestry products** | A$m | 59,176 | 61,844 | 67,276 | 65,385 | 67,026 | 65,362 | – 2.5 |
| Volume of farm production **d** | index | 122.0 | 120.7 | 131.3 | 123.5 | 115.9 | 112.6 | – 2.8 |
| crops | index | 125.0 | 129.8 | 164.5 | 138.5 | 122.3 | 126.1 | 3.1 |
| livestock | index | 117.5 | 111.0 | 103.7 | 109.1 | 108.3 | 99.5 | – 8.1 |
| **Production area and livestock numbers** | | | | | | | | |
| Crop area (grains, oilseeds and pulses) | ’000 ha | 22,910 | 21,337 | 24,373 | 23,144 | 19,044 | 20,581 | 8.1 |
| Sheep | million | 68.0 | 67.5 | 72.1 | 70.6 | 66.9 | 69.3 | 3.6 |
| Cattle | million | 27.4 | 25.0 | 26.2 | 26.4 | 25.0 | 24.9 | – 0.3 |
| **Costs and returns** | | | | | | | | |
| Farm costs | A$m | 38,441 | 38,516 | 39,758 | 39,403 | 42,236 | 42,620 | 0.9 |
| Net farm cash income **e** | A$m | 21,390 | 23,564 | 27,510 | 25,908 | 24,834 | 22,711 | – 8.6 |
| Net value of farm production **g** | A$m | 15,946 | 18,038 | 21,889 | 20,178 | 19,009 | 16,768 | – 11.8 |
| Farmers’ terms of trade **h** | index | 103.8 | 109.1 | 109.6 | 109.1 | 110.3 | 110.2 | – 0.1 |
| **Employment** | | | | | | | | |
| Agriculture, forestry and fishing | ’000 | 317 | 321 | 304 | 329 | na | na | na |
| Australia | ’000 | 11,662 | 11,898 | 12,075 | 12,446 | na | na | na |

**a** Base: 2014–15 = 100. **b** For a definition of the gross value of farm production see Table 13. **c** Estimated gross value of logs delivered to mill door (or wharf gate)**. d** Chain-weighted basis using Fisher’s ideal index with a reference year of 1997–98 = 100. **e** Gross value of farm cash income less total cash costs. f ABARES forecast. **g** Gross value of farm production less total farm costs. **h** Ratio of index of prices received by farmers and index of prices paid by farmers; base: 1997–98 = 100. **s** ABARES estimate (excluding the exchange rate and employment figures).

Sources: ABARES; Australian Bureau of Statistics; Reserve Bank of Australia

# Economic overview

Matthew Howden and Kirk Zammit


- Prospects for economic growth in some of Australia's key agricultural export markets have been lowered but remain firm overall.
- The Australian dollar is assumed to be US70 cents in 2019–20.

## Global economic outlook

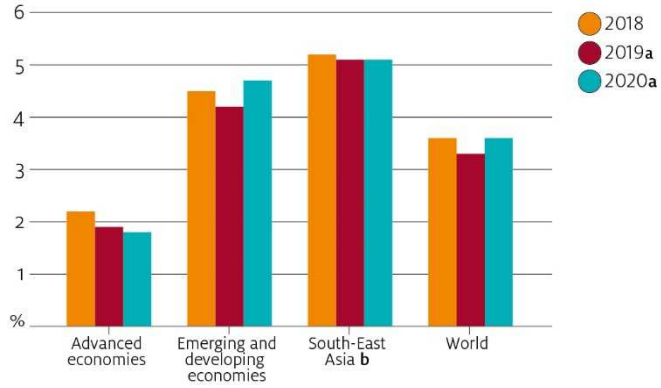
Global economic growth is assumed to be 3.3% in 2019 and 3.6% in 2020. Economic growth in 2019 has been revised down by 0.2 percentage points since Agricultural commodities: March quarter 2019. The downward revision reflects lower growth expectations across both advanced economies and emerging and developing economies.

The slowdown in global economic growth began in the second half of 2018, partly in response to economic policy uncertainty and trade disputes. Prolonged trade negotiations between China and the United States and between the European Union and the United Kingdom continue to affect business and consumer confidence and the real economy. Increasing trade tensions between China and the United States could slow global economic growth further.

Localised factors, such as budget problems in Italy, industrial weakness in Germany and civil unrest in a number of countries, are also expected to reduce growth in 2019. Economic crises in South America and conflicts in the Middle East and North Africa have resulted in significant revisions to growth assumptions for these regions.

There are some upside risks to the global growth outlook. Major advanced economies have tempered interest rate rises in response to weakening economic conditions. This has eased the tightening in financial conditions over 2018 and could lead to an increase in investment and consumption. Also, indicators of economic activity in China suggest that growth is stabilising as new fiscal measures begin to stimulate demand in the industrial and services sectors.

**Regional economic growth, 2018 to 2020**




**a** ABARES assumption. **b** Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
Sources: ABARES; International Monetary Fund

## Economic developments in agricultural export markets

The downward revision to global economic growth in 2019 reflects a reassessment of growth and the balance of risks in several of Australia's major export markets.

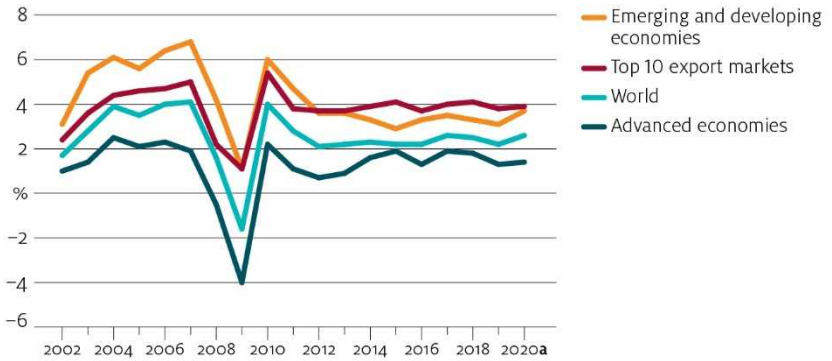
China is Australia's largest export market. In 2017–18, 25% of total agricultural exports (valued at $13 billion) were exported to China. Downside risks to income growth in China appear to have increased, following an escalation in trade tensions in May 2019. Lower growth could result in lower demand for Australian agricultural exports (see Agricultural overview). However, various fiscal measures implemented by Chinese authorities are providing support to the economy. In March 2019 the National People's Congress set a new economic growth target of between 6% and 6.5% for 2019.

Economic growth in South-East Asia was adjusted downwards by 0.2 percentage points in 2019 to reflect weaker exports, particularly to China. In 2017–18 Australian agricultural exports to this rapidly expanding region were valued at $7 billion. Economic growth in this region is vulnerable to a weakening in exports stemming from the US–China trade war and trade policy uncertainty. An increase in risk aversion in global financial markets could lead to rising capital outflow and declining exchange rates. This would reduce demand for imports such as agricultural goods. However, strong domestic economic growth and a postponement of monetary policy tightening in the United States should support growth in the region.

Economic growth in the eurozone has been revised down by 0.3 percentage points (to 1.3%) in 2019 and 0.2 percentage points (to 1.5%) in 2020. This follows weak growth in the March quarter 2019, when eurozone GDP growth slowed to 1.2% year-on-year. A combination of deteriorating business and consumer confidence, disruptions in the car manufacturing sector in Germany and civil unrest in some countries including France are weighing on economic growth. Uncertainty about the United Kingdom's departure from the European Union will continue to affect business confidence and deter investment, following an agreement in April to further postpone the departure until 31 October 2019.

Income growth, measured by GDP per person, is a driver of import demand. Income growth has been revised down for 2019 in both advanced economies and emerging and developing economies. However, income growth assumptions for Australia's main trading partners, such as those in South-East Asia, remain favourable and growth is expected to continue at a faster rate than in other regions.

**Income growth in Australia's top 10 export markets and selected economies, 2002 to 2020**




**a** ABARES assumption.
Source: ABARES; International Monetary Fund

## Australian economy

The Australian economy is assumed to grow by 2.3% in 2018–19 and 2.8% in 2019–20. This has been revised down since Agricultural commodities: March quarter 2019. Growth in 2018–19 has been constrained by slower than expected household consumption growth, and seasonal factors such as drought and flooding in eastern states disrupting both agricultural and mineral exports. Despite subdued economic growth, labour market activity has been stronger. Continued growth in employment and a gradual rise in wages will help to support a gradual increase in household incomes. Assumed strong population growth is expected to continue to drive domestic food consumption and demand for Australian agricultural products. About 30% of agricultural goods are consumed domestically.

The softer expectations for economic growth and weak growth in inflation have contributed to a downward revision to inflation assumptions. In 2018–19 inflation is assumed to be 1.7% and accelerate to 2% in 2019–20. Since March 2015 headline inflation has remained below the Reserve Bank of Australia's target band of between 2% and 3%.

Persistent low inflation has raised market expectations of a further reduction in the official interest rate to a record low. But similarly lowered expectations for monetary policy tightening in other major advanced economies has dampened the effect that this has had on the Australian dollar. The Australian dollar is estimated to have averaged US72 cents in 2018–19 and is assumed to depreciate to average US70 cents in 2019–20.

Ongoing high prices for Australian exports have maintained upward pressure on the Australian dollar. The RBA non-rural commodity price index for bulk commodities (iron ore, metallurgical and thermal coal) has continued to increase strongly, and was 20% higher year-on-year in May 2019. However, prices are assumed to fall during 2019–20, lowering Australia's terms of trade, and weakening the Australian dollar. Furthermore, ongoing concerns over global economic growth in financial markets and potential flare-ups in trade disputes are likely to continue to have a strong downward influence on the Australian dollar.

**Australian dollar, selected exchange rate determinants, May 2013 to May 2019**


Note: All indicators are expressed as indexes.
**a** Difference between the 2-year US Treasury and Australian Government Securities yields.
Source: ABARES; Reserve Bank of Australia; US Federal Reserve

## Key macroeconomic assumptions

| | unit | 2017 | 2018 | 2019 a | 2020 a |
|---|---|---|---|---|---|
| **Economic growth** | | | | | |
| **World b** | % | 3.8 | 3.6 | 3.3 | 3.6 |
| **Advanced economies** | % | 2.4 | 2.2 | 1.9 | 1.8 |
| United States | % | 2.2 | 2.9 | 2.5 | 2.0 |
| Japan | % | 1.9 | 0.8 | 1.0 | 0.8 |
| Eurozone | % | 2.4 | 1.8 | 1.3 | 1.5 |
| Germany | % | 2.5 | 1.5 | 0.8 | 1.4 |
| France | % | 2.2 | 1.5 | 1.3 | 1.4 |
| Italy | % | 1.6 | 0.9 | 0.1 | 0.9 |
| United Kingdom | % | 1.8 | 1.4 | 1.2 | 1.4 |
| Korea, Rep. of | % | 3.1 | 2.7 | 2.6 | 2.8 |
| New Zealand | % | 2.6 | 3.0 | 2.5 | 2.9 |
| Singapore | % | 3.9 | 3.2 | 2.3 | 2.4 |
| Taiwan | % | 3.1 | 2.6 | 2.5 | 2.5 |
| **Emerging and developing economies** | % | 4.8 | 4.5 | 4.2 | 4.7 |
| Emerging Asia | % | 6.6 | 6.3 | 6.1 | 6.2 |
| South-East Asia c | % | 5.4 | 5.2 | 5.1 | 5.1 |
| China d | % | 6.8 | 6.6 | 6.2 | 6.2 |
| India | % | 6.9 | 7.3 | 7.3 | 7.5 |
| Latin America | % | 1.2 | 1.0 | 1.4 | 2.4 |
| Middle East and North Africa | % | 1.8 | 1.4 | 1.3 | 3.2 |
| Eastern Europe | % | 6.0 | 3.6 | 0.8 | 2.8 |
| Russian Federation | % | 1.5 | 2.3 | 1.6 | 1.7 |
| Ukraine | % | 2.5 | 3.3 | 2.7 | 3.0 |
| **GDP per person e** | | | | | |
| Advanced economies | % | 1.9 | 1.9 | 1.7 | 1.3 |
| Emerging and developing economies | % | 3.4 | 3.5 | 3.5 | 3.7 |
| Emerging Asia | % | 5.5 | 5.5 | 5.5 | 5.4 |
| South-East Asia c | % | 4.2 | 4.2 | 4.1 | 4.1 |
| **Inflation** | | | | | |
| United States | % | 2.1 | 2.5 | 2.2 | 2.3 |
| **Interest rates** | | | | | |
| US prime rate g | % | 4.1 | 4.9 | 5.2 | 5.2 |
| **Australia** | **unit** | **2016–17** | **2017–18** | **2018–19 a** | **2019–20 a** |
| Economic growth | % | 2.3 | 2.9 | 2.3 | 2.8 |
| Inflation | % | 1.7 | 1.9 | 1.7 | 2.0 |
| Interest rates h | % pa | 3.7 | 3.7 | 3.8 | 3.6 |
| **Australian exchange rates** | | | | | |
| A$/US$ | US$ | 0.75 | 0.78 | 0.72 | 0.70 |
| TWI for A$ i | index | 64.8 | 64.5 | 61.5 | 60.0 |

**a** ABARES assumption. **b** Weighted using 2018 purchasing-power-parity valuation of country gross domestic product by the International Monetary Fund. **c** Indonesia, Malaysia, the Philippines, Thailand and Vietnam. **d** Excludes Hong Kong. **e** Expressed in purchasing power parity. **g** Commercial bank prime lending rates in the United States. **h** Large business weighted-average variable rate on credit outstanding. **i** Base: May 1970 = 100.

Sources: ABARES; Australian Bureau of Statistics; Indian Ministry of Statistics and Programme Implementation; International Monetary Fund; Reserve Bank of Australia; US Bureau of Labor Statistics; US Federal Reserve

# Seasonal conditions

Emma Pearce and Matthew Miller


## Climatic conditions in major crop-producing countries

As at 28 May 2019 global production conditions are generally favourable.

### Grains

In the southern hemisphere, conditions for wheat sowing are generally favourable. In the northern hemisphere, wheat crop development is continuing under generally favourable conditions.

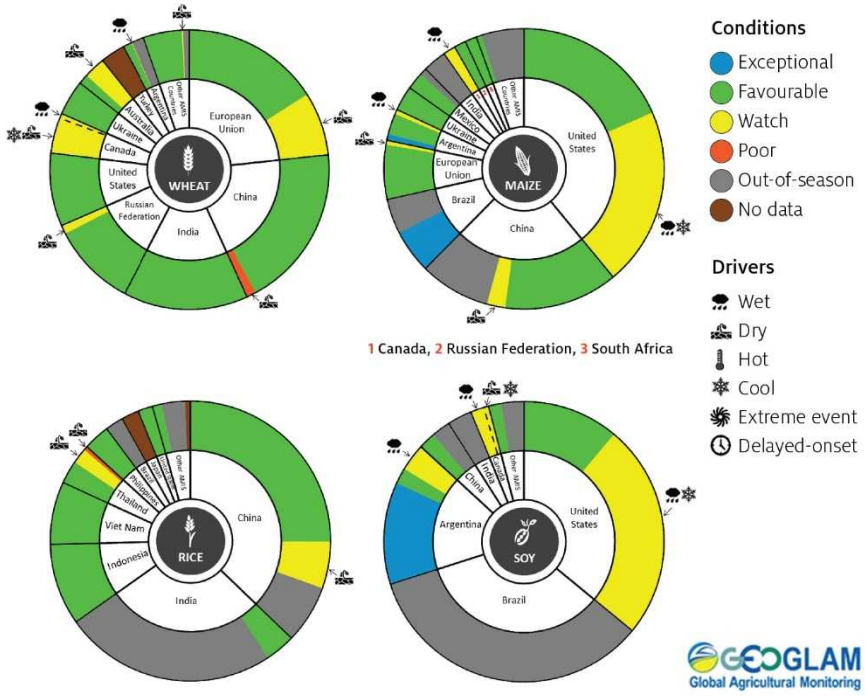
Growing conditions for maize are generally favourable in Brazil, Argentina, Mexico and the European Union, but conditions are mixed in the United States.

Growing conditions are favourable for rice in India, Vietnam, the Philippines and the United States. Indonesian dry-season rice sowing conditions are favourable and wet-season rice yields are expected to be average. Dry-season rice conditions in Thailand are generally favourable but dry conditions are negatively impacting crops in north-east Thailand.

### Oilseeds

Growing conditions for soybeans are generally favourable in the Ukraine but are mixed in the United States and Canada due to wet conditions delaying sowing. Conditions in Argentina are favourable to exceptional, although flooding is affecting conditions in the north-east of the country.

**Crop conditions, AMIS countries, 28 May 2019**




**AMIS** Agricultural Market Information System.
Source: AMIS

## Climate outlook for Australia

### Crop production concerns for 2019–20

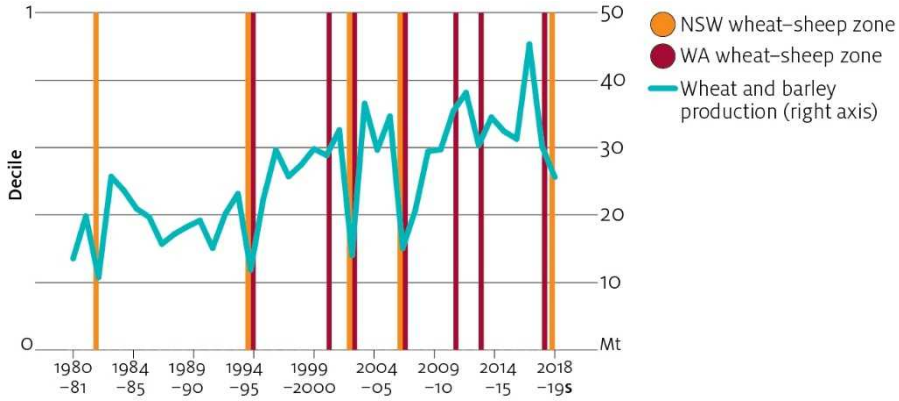
Low winter crop production across Australia's eastern states in 2018–19 has reduced the availability of grain for domestic consumption and led to increased prices. This has raised concerns over the availability of grains in 2019–20 if seasonal conditions remain unfavourable for crop production.

The 2019–20 winter cropping season has had a mixed start and the chance of a positive Indian Ocean Dipole (IOD) event developing has increased. A positive IOD often results in below average winter–spring rainfall particularly in central and south-eastern Australia. This represents a significant downside risk to final winter crop production levels in 2019–20.

Over the past 25 years Australia's lowest winter crop production years were in 1994, 2002 and 2006. The years in which growing season (April to October) rainfall totals were in the lowest 10% (decile 1) of the historical record are shown in Figure 2. In 1994, 2002 and 2006 growing season rainfall was decile 1 or below for both New South Wales and Western Australia—Australia’s two largest grain-producing states.

This is extremely rare and has only occurred five times since 1900. It has never occurred for two consecutive years over the 118 years of historical climate records. In New South Wales decile 1 rainfall was recorded for two consecutive years only once in the last 118 years, in 1940 and 1941.

**Decile 1 rainfall (April to October) and annual grain production, 1980–81 to 2018–19**




s ABARES estimate.

### Mixed autumn break to start the winter cropping season

Autumn started with variable rainfall across Australia's cropping regions, followed by a dry April. The autumn break—the first significant rainfall of the winter growing season—occurred in May for most eastern winter cropping regions. Generally this occurs when at least 25 millimetres of rainfall is recorded within a 7-day period.

At the end of March, two severe tropical cyclones (*Trevor* and *Veronica*) crossed the coast of tropical northern Australia, bringing extremely high rainfall to parts of northern and eastern Australia. This provided an early start to the season for cropping regions in northern and eastern Queensland and parts of eastern New South Wales. After a dry April for most cropping regions, further tropical intrusions of moisture during May provided follow up rain for early sown winter

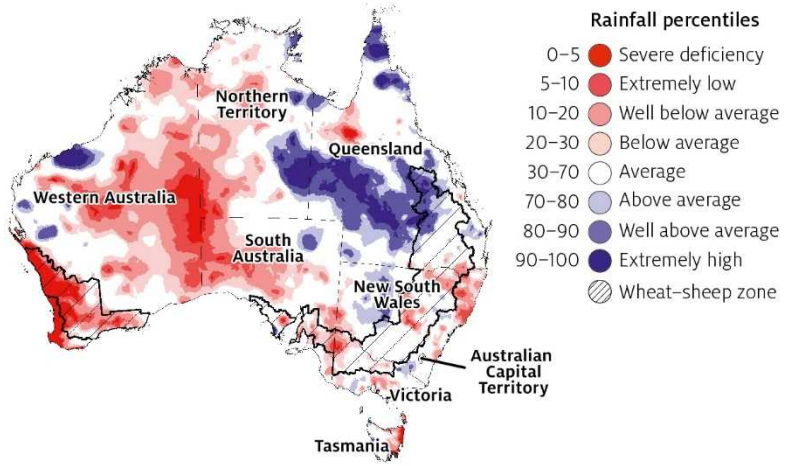
crops and initiated the start of the growing season for many areas in New South Wales, Victoria, Queensland and South Australia.

In contrast, variable rainfall was recorded across Western Australia's cropping regions in March, followed by average rainfall in April and below to very much below average conditions in May. The far south cropping region of Western Australia received sufficient rains to start the season but most of the state has not experienced a traditional autumn break.

Rainfall in May 2019 was mixed across Australia. Average to above average rainfall was recorded across much of New South Wales, Victoria, northern and western Queensland, South Australia and the Northern Territory. In contrast, below average rainfall was recorded across eastern New South Wales, south-eastern Queensland and most of Western Australia.

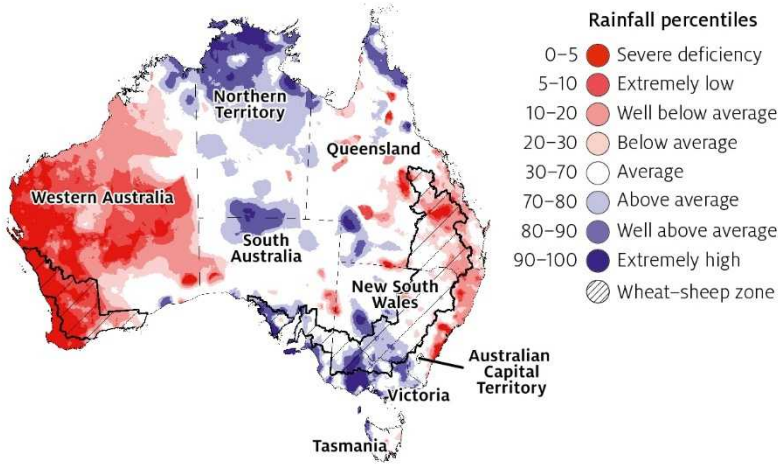
Rainfall for May 2019 in winter cropping regions was generally average to above average in New South Wales, Victoria and South Australia, and below average in Queensland and Western Australia.

**Rainfall percentiles, Australia, 1 March 2019 to 31 May 2019**




Note: Rainfall for March to May 2019 relative to the long-term record and ranked in deciles. This analysis ranks rainfall for the selected period compared with the historical average (1900 to present) recorded for that period.
Source: Bureau of Meteorology

**Rainfall percentiles, Australia, May 2019**



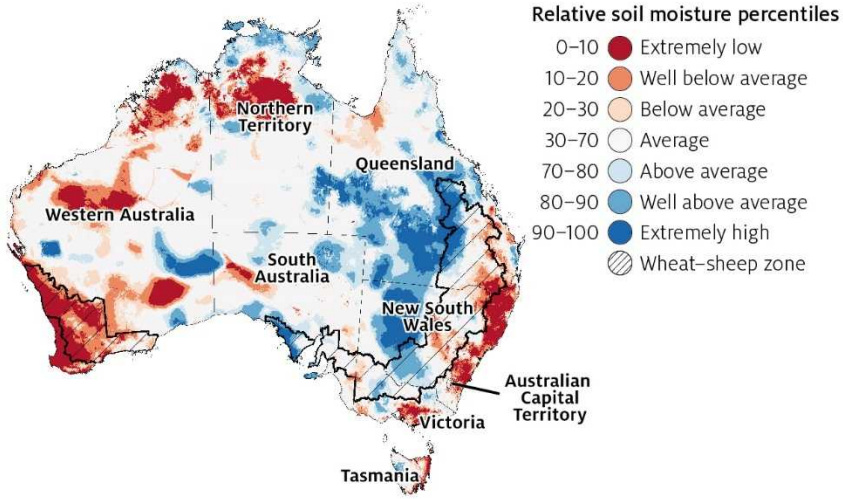

Note: Rainfall for May 2019 relative to the long-term record and ranked in deciles. This analysis ranks rainfall for the selected period compared with the historical average (1900 to present) recorded for that period.
Source: Bureau of Meteorology

## Autumn rainfall leads to increased soil moisture

Autumn rainfall improved soil moisture across Australia following a summer of below average rainfall and well above average temperatures. Root zone moisture was below average across much of Australia during March and variable in April and May.

In May 2019 soil moisture in cropping regions was below average in Western Australia and variable across the eastern regions. There was average to above average soil moisture in parts of southern and northern New South Wales, eastern Victoria, western Queensland and South Australia. The low May rainfall and low soil moisture in Western Australia is likely to limit crop germination, consequently growth of these crops will rely on timely and sufficient rainfall during winter, rather than stored soil moisture.

**Modelled root zone soil moisture, Australia, May 2019**

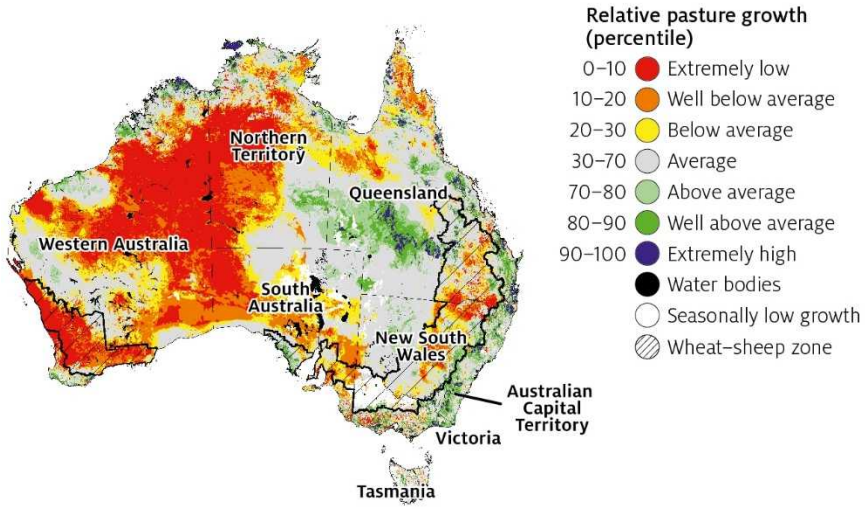



Note: Soil moisture estimates are relative to the long-term record and ranked in percentiles. Estimates are used to compare root zone soil moisture during May 2019 and ranked by percentiles for each May in the 1911–2015 historical reference period. Root zone soil moisture is defined as the soil surface to 1 metres in depth.
Source: Bureau of Meteorology

## Pasture growth below average for some key livestock production regions

Below average northern wet season and autumn rainfall has limited pasture production across large areas of western, central and northern Australia. For the 3 months to May 2019 modelled pasture growth was well below average to extremely low across large areas of the Northern Territory, eastern Western Australia, eastern and southern South Australia and parts of south-eastern Queensland, central and southern New South Wales and southern Victoria.

**Relative pasture growth, Australia, 1 March 2019 to 31 May 2019**




Note: AussieGRASS pasture growth estimates are relative to the long-term record and shown in percentiles. Percentiles rank data on a scale of zero to 100. This analysis ranks pasture growth for the selected period against average pasture growth for the long-term record (1957 to 2016). Pasture growth is modelled at 5km$^2$ grid cells.
Source: Queensland Department of Science, Information Technology and Innovation

A return to average rainfall levels in late summer and autumn has benefited pasture production in parts of western and eastern New South Wales, central Queensland and southern Victoria.

## Sufficient rainfall likely for most winter cropping regions

The current El Niño-like warmth in the central tropical Pacific Ocean is expected to cool to neutral ENSO levels during winter. In contrast, the Indian Ocean Dipole (IOD) is forecast to become positive from early winter. A positive IOD typically brings drier conditions to much of southern and central Australia during winter and spring.

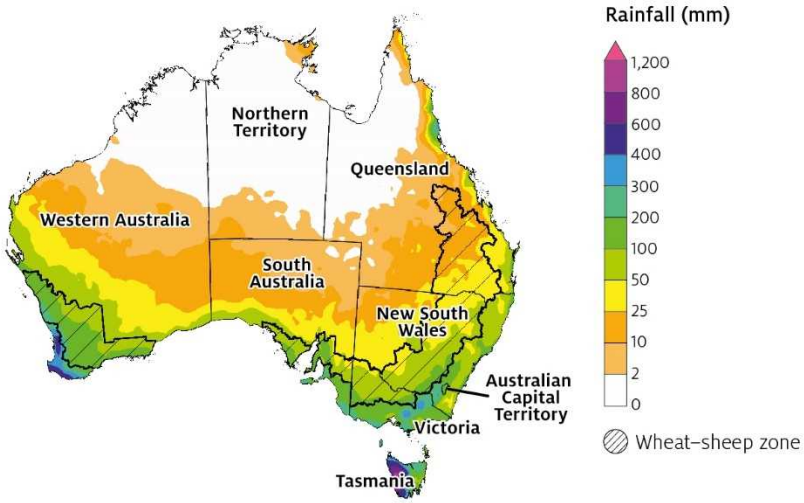
The Bureau of Meteorology's climate outlook for June to August 2019 (released 30 May 2019) indicates that a drier than average winter is likely across large areas of eastern Australia and parts of southern Australia. Much of northern Australia also has a dry outlook but low rainfall is typical in this region during winter. Conditions for much of the remainder of the country are not expected to be wetter or drier than average during winter 2019.

The Bureau of Meteorology's climate outlook suggests drier than average rainfall across large areas of eastern Australia and parts of southern Australia. However, areas unlikely to exceed median rainfall are still likely to receive rainfall sufficient to sustain crop and pasture production except in parts of Queensland.

Between June and August 2019 cropping regions in New South Wales and Victoria have a 75% chance of receiving between 25 and 100 millimetres. Cropping regions in South Australia and Western Australia have a similar probability of receiving between 50 and 200 millimetres.

Across Queensland there is a 75% chance of receiving between 10 and 50 millimetres. In areas with low soil moisture these probable low three-month rainfall totals are unlikely to be sufficient to sustain crop production.

**Rainfall totals that have a 75% chance of occurring, June to August 2019**




Note: Shows the amount of rainfall (mm) that has a 75% chance of occurring during June-August 2019.
Source: Bureau of Meteorology

# Wheat

Amelia Brown


## World wheat prices to average lower

The world wheat indicator price (US no. 2 hard red winter, fob Gulf) is forecast to average 4% lower in 2019–20 at US$225 per tonne. Forecast higher production in major exporting and importing countries will increase the supply of wheat on world markets. Wheat stocks in major exporting countries are forecast to increase by 7%.

## World production to reach record high

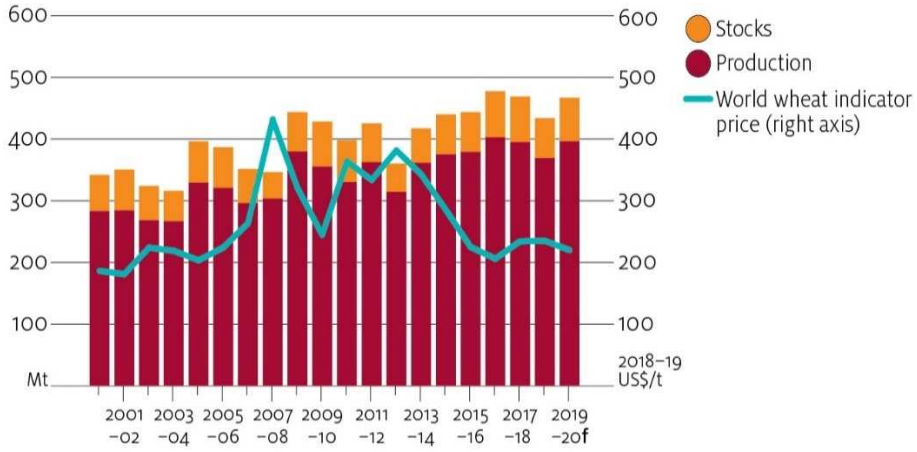
Mostly favourable seasonal conditions in major wheat-producing countries are forecast to result in record world wheat production of around 770 million tonnes, a 5% increase from 2018–19. Increased production is forecast in Australia, Canada, northern Europe, the Russian Federation and Ukraine.

Lower production in North Africa is expected to result in increased demand for wheat imports.

## Australian wheat production to recover in 2019–20

Australian wheat production is forecast to increase by 22% from the drought affected 2018–19 crop. Although planting conditions have been below average in parts of New South Wales, southern Queensland and Western Australia production is expected to increase to around 21 million tonnes.

**World supply, major exporters, 2000–01 to 2019–20f**

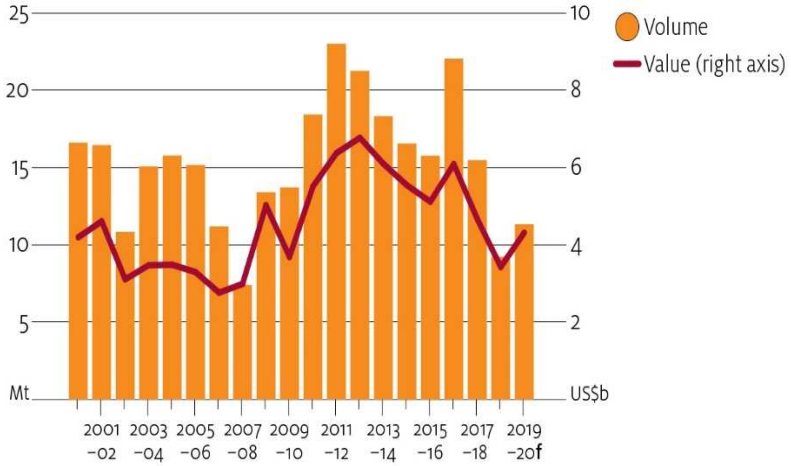



**f** ABARES forecast.

## Australian export value and volume to increase

Australian wheat exports in 2018–19 are estimated to be 45% below the 5-year average, at around 9.7 million tonnes. Australian wheat has been less competitive on world wheat markets due to high domestic prices. In 2019–20 wheat exports are forecast to increase in value and volume due to increased production and lower domestic demand as drought conditions ease. Continued growth in world food, feed and industrial consumption is expected to support demand for Australia's exports. However, increased supply from all major exporters will make global trade very competitive.

**Australian wheat exports, volume and value 2000–01 to 2019–20f**




**f** ABARES forecast.

## Opportunities and challenges

### Lower production limiting Australian feed grain supplies

Domestic feed grain prices in Australia's eastern states have been high due to low grain production in 2017–18 and 2018–19 and increased demand for livestock feed. As a result, wheat usually exported to global markets is being shipped from Western Australia and South Australia to Australia's eastern states.

The probability of the 2019–20 winter cropping season being affected by equally adverse seasonal conditions is low. However if this did occur, grain stocks would be expected to fall to record low levels, already high domestic grain prices would increase as would the demand for bulk grain imports.

### Australia to import wheat in 2019

For the first time since 2006, a number of bulk grain import permits for high-protein Canadian milling wheat were issued in May 2019. The applications for the permits reflect a significant fall in supplies of high-protein milling wheat following consecutive years of low production in the eastern states. In a normal season, importing grain from Canada would not be economically viable.

### Indonesia–Australia Comprehensive Economic Partnership Agreement

Australia and Indonesia signed the agreement (IA-CEPA) in March 2019. In the first year of the agreement, Indonesia will issue automatic import permits granting duty-free access for 500,000 tonnes of Australian feed grain, including wheat. The tariff quota volume will increase by 5% annually. IA-CEPA is expected to come into effect in 2020, pending ratification. This agreement will boost Australia's competitiveness in our biggest export market.

### Argentina to produce consecutive record wheat crops

Argentina is forecast to produce a second consecutive record wheat crop in 2019–20 of around 20 million tonnes. Last season's record crop surpassed Australia's drought-affected production. Argentina's exportable supplies will be competitively priced due to the depreciation of the Argentine peso. The increase in supply will likely lead to increased competition with Australian wheat exports, particularly in price-conscious Asian markets.

### Black Sea wheat exports gaining acceptance in Asian markets

Recent export trends indicate that Black Sea wheat is gaining acceptance in more price-conscious Asian markets such as Indonesia's instant noodle market. Australian wheat is preferred because of its

unique quality attributes, but it is has become uncompetitive. Australia is likely to retain its market share when seasonal conditions improve and Australian production and prices return to more normal levels.

**Change in Australian indicator price**

ABARES is now using the price of APW1 Port Adelaide fob as the Australian indicator price of wheat because it more accurately reflects movements in domestic grain prices. The APW pool return that ABARES used historically was a legacy of single-desk marketing. Post-deregulation, this price series was an average of fob pool returns across each state. Over time, it has become less indicative of domestic grain prices.

ABARES has also amended its methodology for calculating the gross value of crop production to better reflect the influence of current domestic market conditions. The revised estimates for 2018–19 and 2019–20 are higher than previous estimates. Lower production and increased domestic use has resulted in low wheat stocks and high domestic prices, increasing their influence on GVP.

## Outlook for wheat

| Category | unit | 2017–18 | 2018–19s | 2019-20f | *% change* |
|---|---|---|---|---|---|
| **World** | | | | | |
| Production | Mt | 763 | 733 | 770 | *4.9* |
| Black Sea region **a** | Mt | 127 | 111 | 120 | *7.8* |
| China | Mt | 134 | 131 | 131 | *– 0.3* |
| European Union | Mt | 151 | 138 | 150 | *8.5* |
| India | Mt | 98.5 | 99.7 | 99.6 | *– 0.2* |
| United States | Mt | 47.4 | 51.3 | 51.0 | *– 0.6* |
| Consumption | Mt | 738 | 738 | 753 | *2.0* |
| human | Mt | 513 | 519 | 526 | *1.4* |
| feed | Mt | 143 | 140 | 146 | *4.6* |
| Closing stocks | Mt | 269 | 264 | 281 | *6.2* |
| Stocks-to-use ratio | % | 36.4 | 35.8 | 37.3 | – |
| Trade | Mt | 179 | 174 | 178 | *2.3* |
| Exports **b** | | | | | |
| Argentina | Mt | 12.8 | 13.8 | 13.9 | *0.3* |
| Australia **c** | Mt | 15.5 | 9.7 | 11.7 | *20.6* |
| Black Sea region **a** | Mt | 67.7 | 61.0 | 61.2 | *0.4* |
| Kazakhstan | Mt | 8.7 | 8.4 | 7.7 | *– 8.2* |
| Russian Federation | Mt | 41.6 | 36.1 | 35.6 | *– 1.4* |
| Ukraine | Mt | 17.4 | 16.5 | 17.9 | *8.6* |
| Canada | Mt | 22.1 | 22.8 | 23.1 | *1.3* |
| European Union | Mt | 23.4 | 24.4 | 26.2 | *7.1* |
| United States | Mt | 24.5 | 25.2 | 24.5 | *– 2.7* |
| Price **d** | US$/t | 229 | 235 | 225 | *– 4.3* |
| **Australia** | | | | | |
| Area | ’000 ha | 10,919 | 10,159 | 10,970 | 8.0 |
| Production | kt | 20,941 | 17,298 | 21,191 | 22.5 |
| Domestic Use | kt | 8,686 | 9,068 | 8,845 | 0 |
| Exports **c** | kt | 15,492 | 9,688 | 11,688 | 20.6 |
| value | A$m | 4,672 | 3,601 | 4,454 | 23.7 |
| Closing stocks | kt | 4,448 | 4,164 | 4,042 | 0 |
| Price **e** | A$/t | 297 | 404 | 345 | -14.6 |

**a** Kazakhstan, Russian Federation and Ukraine. **b** Local marketing years. **c** July–June years. **d** US no. 2 hard red winter wheat, fob Gulf, July–June. **e** Australian premium white no. 1 wheat, fob Adelaide, July–June. This price superceded the previous indicator, the APW pool return. ABARES ceased collection of the APW pool return in 2018-19 as it is no longer a good indicator of returns for Australian wheat. **f** ABARES forecast. **s** ABARES estimate.
Sources: ABARES; Australian Bureau of Statistics; International Grains Council; US Department of Agriculture

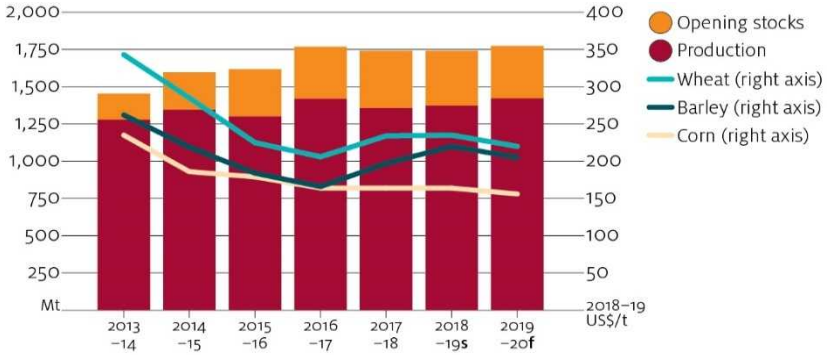
# Coarse grains

Benjamin K Agbenyegah


## Growing supply to reduce world prices

World coarse grain prices are forecast to average lower in 2019–20. Rising world coarse grain production and substitution of wheat for feed, particularly in China, are forecast to put downward pressure on world prices.

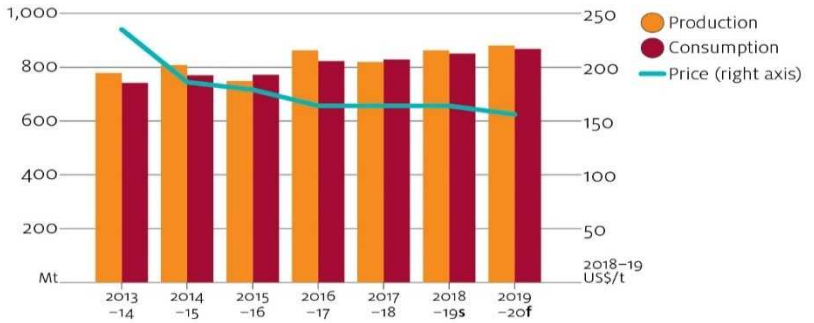
**World coarse grain supply and prices, 2013–14 to 2019–20**




**s** ABARES estimate. **f** ABARES forecast.
Note: Wheat is US no.2 hard red winter, fob Gulf; barley is France feed barley, fob Rouen; corn is US no. 2 yellow corn, fob Gulf.

Increases in world corn production (excluding China) are forecast to reduce world prices. World corn consumption is expected to increase, mostly due to industrial use in China. This consumption will be drawn mostly from domestic stocks due to the Chinese Government's biofuel policies that aim to reduce national corn stocks levels.

**World (excluding China) corn production, consumption and prices, 2013–14 to 2019–20**




**s** ABARES estimate. **f** ABARES forecast.

## Corn to drive increasing world coarse grain production

Higher corn production in Brazil, the European Union and the United States is forecast to more than offset declines in China. Production is expected to grow as area planted expands. Lower production in China reflects a fall in area as a result of farmers shifting to soybean production. The Chinese Government's subsidy for planting soybeans is US$670 per hectare compared with US$223 per hectare for planting corn. China has been subsidising soybeans since 2018 to reduce its reliance on US imports, made more expensive by tariffs.

World barley production is also forecast to rise in 2019–20 because of yield improvements in Canada, the European Union, Ukraine and the

Russian Federation. A return to average seasonal conditions is expected in these countries following dry seasons in 2018–19. Despite higher production, world trade is expected to rise at a slower pace in 2019–20. This is because high domestic demand in major exporting countries is expected to reduce supplies available for export.

## China to lead world demand for coarse grains

Chinese demand for corn as livestock feed is expected to fall in 2019–20 because of a significant reduction in Chinese pig numbers due to the spread of African swine fever. However, this is expected to be more than offset by growth in demand for corn for industrial use as Chinese biofuel policies encourage substitution of corn ethanol for fossil fuels. This is forecast to drive an increase in world coarse grain consumption in 2019–20.

**Coarse grain consumption, by use and per capita GDP, China 2009–10 to 2019–20**


**f** ABARES forecast.
Note: Per capita GDP are in annual years.
Sources: International Grains Council; USDA; World Bank.

## Australian production to increase in 2019–20

Area planted to Australian coarse grains is forecast to increase by 14% in 2019–20 to 5.7 million hectares, due to an expansion in plantings of barley, oats and grain sorghum. The forecast reflects average to above average autumn rains in Victoria, South Australia and southern New South Wales, and relatively high prices for barley and oats compared with alternatives. Barley production is forecast to rise to around 9.2 million tonnes, 3% higher than the ten year average to 2018–19. Oats production is forecast to rise to 1.3 million tonnes, slightly above the ten year average.

Assuming average seasonal conditions during spring and summer in New South Wales and Queensland, the area planted to grain sorghum is forecast to rise by 15% in 2019–20 to 604,000 hectares. Growing demand for grain sorghum for feed and ethanol use and forecast lower cotton prices are expected to encourage a shift from cultivation of dryland cotton to grain sorghum. Despite strong domestic demand for feed grain, Australian coarse grain exports are expected to increase to 6.8 million tonnes in 2019–20.

## Challenges and opportunities

### African swine fever poses further downside risks to consumption

African swine fever continues to spread in China. Since August 2018, 129 outbreaks have been reported, resulting in China's pig population decreasing by more than 40 million. This decline has significantly reduced the consumption of corn for feed and is likely to reduce it further. The extent to which livestock numbers will fall in China is uncertain and poses a high risk to feed demand in 2019–20.

### Biofuel policies in China

The forecast rise in industrial use of corn in China depends on the implementation of biofuel policies in 2020. These policies require a significant rise in domestic use of ethanol. However, increased ethanol production in China requires investment in additional production plants. While a number of production plants have been commissioned recently, there is still substantial uncertainty about how quickly domestic ethanol production can increase.

### Climate variability and production

The forecast growth in world barley production is based on yield improvements, assuming a return to average seasonal conditions in Australia, Canada, the European Union, Ukraine and the Russian Federation. Early season indications are that soil moisture profiles have improved and seasonal conditions have been favourable in the Russian Federation and Ukraine. However, it has been unusually wet and cold in Canada and dry in some parts of Australia and the European Union. Any further worsening of seasonal conditions in these countries present downward risks to the barley production forecast.

### US–China trade dispute

The US–China trade dispute continues to increase competition for land among grain crops and distort grain markets. See the Economic overview for a summary of the current state of the US–China trade dispute.

## Outlook for coarse grains

| Category | unit | 2017–18 | 2018–19s | 2019-20f | *% change* |
|---|---|---|---|---|---|
| **World** | | | | | |
| Production | Mt | 1,356 | 1,372 | 1,425 | *3.9* |
| barley | Mt | 142 | 140 | 152 | *8.7* |
| corn | Mt | 1,076 | 1,099 | 1,135 | *3.3* |
| Consumption | Mt | 1,374 | 1,397 | 1,454 | *4.0* |
| Trade | Mt | 185 | 200 | 201 | *0.6* |
| Closing stocks | Mt | 369 | 352 | 323 | *– 8.2* |
| Stocks-to-use ratio | % | 26.9 | 25.2 | 22.2 | – |
| Corn price **a** | US$/t | 160 | 164 | 160 | *– 2.7* |
| Barley price **b** | US$/t | 192 | 220 | 209 | *– 5.0* |
| **Australia** | | | | | |
| Area | ’000 ha | 5,569 | 5,017 | 5,710 | *13.8* |
| barley | ’000 ha | 4,124 | 3,719 | 4,175 | *12.3* |
| grain sorghum | ’000 ha | 462 | 496 | 604 | *21.8* |
| Production | kt | 12,210 | 10,957 | 12,581 | *14.8* |
| barley | kt | 9,254 | 8,310 | 9,191 | *10.6* |
| grain sorghum | kt | 1,255 | 1,278 | 1,555 | *21.6* |
| Exports | kt | 8,824 | 5,552 | 6,905 | *24.4* |
| value | A$m | 2,577 | 2,103 | 2,455 | *16.7* |
| Feed barley price **c** | A$/t | 253 | 382 | 369 | *– 3.3* |
| Malting barley price **d** | A$/t | 262 | 375 | 348 | *– 7.3* |

**a** Us no. 2 yellow corn, fob gulf, July-June, derived from average daily price quote. **b** France feed barley, fob Rouen, July–June. **c** Feed 1, delivered Geelong. **d** Gairdner Malt 1, delivered Geelong. **f** ABARES forecast. **s** ABARES estimate.
Sources: ABARES; Australian Bureau of Statistics; International Grains Council; ITC Trade Map; UN Commodity Trade Statistics Database (UN Comtrade); US Department of Agriculture

# Oilseeds

Nathan Pitts


## Prices to diverge due to Chinese trade disputes

In 2019–20 oilseed prices are forecast to fall. This follows the outbreak of African swine fever in China and a resulting fall in domestic consumption of oilseeds for pig feed. US soybean prices (including the ABARES indicator price) will also be affected by ongoing Chinese tariffs on US products. As a result, US soybean prices are expected to be lower than South American prices during the South American marketing season—as was the case for much of 2018–19.

Global canola prices are forecast to fall due to higher production in major exporting countries and lower global import demand. Canadian canola prices (including the new ABARES indicator price) have fallen following the Chinese Government's decision in March 2019 to impose restrictions on several Canadian canola exporters. These restrictions are assumed to continue throughout 2019–20. Canadian canola prices are expected to be significantly lower than Australian and Ukrainian canola prices. This is because China is the largest global canola importer and Canada's largest export market.

**Oilseed price premiums, April 2018 to June 2019**


Source: International Grains Council

## Plentiful South American harvests to continue

Global oilseed production is forecast to remain historically high in 2019–20. Near-record South American soybean harvests are expected as producers respond to strong Chinese demand. This strong demand is due to tariffs on US product. Production in major canola exporting countries is also forecast to remain high, with increased production in Australia and Ukraine—assuming average seasonal conditions—more than offsetting lower Canadian production.

## Global oilseed imports to fall

Global oilseed imports are forecast to fall significantly due to lower Chinese demand.

Global oilseed consumption is forecast to increase, with reductions in China being more than offset by increased consumption in major exporting countries. In China, the impact of African swine fever will determine the extent of a forecast fall in consumption of canola and soybeans for feed. Reduced Chinese demand is expected to result in

major exporters consuming more oilseeds domestically at lower prices.

## Australian canola production to remain below average

Australian canola production is forecast to rise in 2019–20. This is due to better forecast growing conditions than last year, when significant abandonment occurred. However, production is still expected to remain well below the 5-year average to 2017–18. This is due to below average planted area, reflecting lower expected returns for canola relative to wheat and barley. Export volumes are forecast to increase in line with production.

## Challenges and opportunities

### African swine fever presenting risks to global import demand

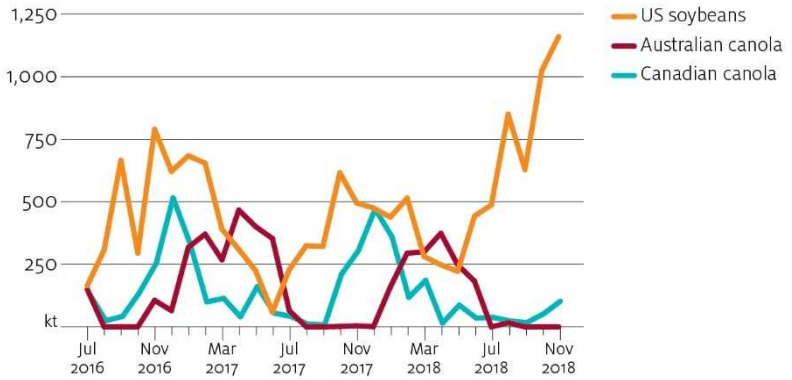
Feed consumption in the Chinese pig sector is a major determinant of global oilseed demand. The uncertain impact of African swine fever in China risks sudden reductions in global demand. Greater than expected impacts from the disease could decrease oilseed prices and increase global stocks at a time when production is historically high.

### Australian exports to face stronger competition

Between 2015–16 and 2017–18, 88% of largely GM-free Australian exports were sent to the European Union. These exports have attracted a slight price premium because consumers have shown a preference for GM-free oilseeds. However, in 2018–19 the European Union began substituting towards low-cost US soybeans, which are mostly genetically modified.

In 2019–20 Australian canola is likely to face strong price competition in the EU market from GM oilseeds, particularly US soybeans and Canadian canola. This will likely reduce Australian canola exports to the European Union and erode the premium for GM-free product that Australia has previously received.

**EU oilseed imports, July 2016 to November 2018**




Source: UN Comtrade

### North American support policies

In 2017–18 Canada was the world's largest canola exporter, and the United States was the second-largest soybean exporter. Current Chinese restrictions have significantly reduced demand for Canadian and US oilseeds because China is usually the largest export market for both countries. To help producers affected by trade restrictions, the Canadian and US governments recently announced support packages. In May 2019 the Canadian Government increased the maximum support for canola producers under the Advance Payments Program, a low-interest cash advance program. This won't have an impact on 2018–19 Canadian canola production because harvest was already complete when the program was announced. The program may influence future canola plantings, as financing is relatively cheaper for canola than other crops.

In May 2019 the US Government announced it will allocate up to $14.5 billion for direct payments to support farmers affected by trade disruptions. These payments are based on each farm's total cropping area, independent of which crop is planted. This will provide additional incentives to plant a crop, and may lead to more soybeans sown in the areas affected by heavy flooding during the planting window. Higher volumes of US soybeans will likely increase competition faced by other oilseed exporting countries, including Australia.

**Change in canola indicator price**

ABARES has previously used a Hamburg fob rapeseed price as the global canola indicator price. However, the European Union relies on canola imports and only exports small volumes. To more accurately reflect global export prices, ABARES is switching to a Vancouver fob canola price because Canada accounts for over half of global canola exports. Prices for Canadian canola are currently lower than those of other exporters. This is due to Chinese restrictions on Canadian imports.

## Outlook for oilseeds

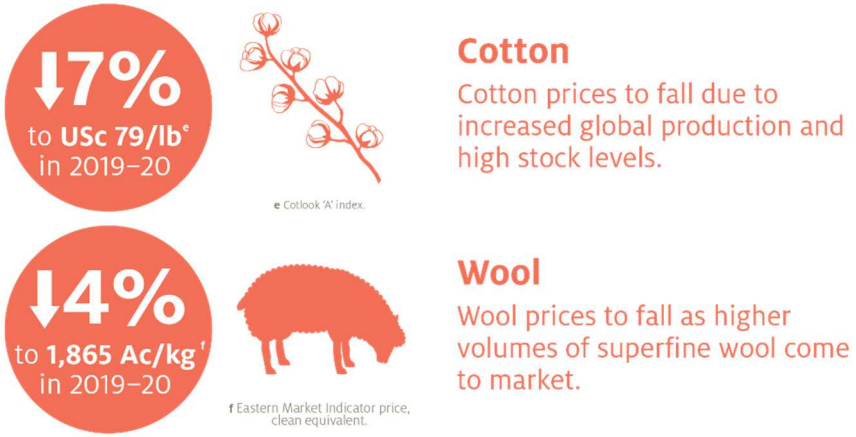
| Category | unit | 2017–18 | 2018–19s | 2019-20f | *% change* |
|---|---|---|---|---|---|
| **World** | | | | | |
| Production | Mt | 575 | 589 | 586 | *– 0.6* |
| Consumption | Mt | 565 | 580 | 587 | *1.1* |
| oilseed meal | Mt | 333 | 332 | 337 | *1.2* |
| vegetable oil | Mt | 189 | 197 | 202 | *2.8* |
| Exports | Mt | 168 | 171 | 171 | *– 0.1* |
| Closing stocks | Mt | 117 | 109 | 105 | *– 3.6* |
| Stocks-to-use ratio | % | 20.7 | 18.7 | 17.8 | – |
| Soybean indicator price **a** | US$/t | 385 | 335 | 320 | *– 4.5* |
| Canola indicator price **b** | US$/t | 433 | 388 | 365 | *– 5.9* |
| **Australia** | | | | | |
| Total production | kt | 5,487 | 2,950 | 3,096 | *5.0* |
| winter | kt | 3,898 | 2,182 | 2,576 | *18.1* |
| summer | kt | 1,589 | 768 | 520 | *– 32.3* |
| Canola | | | | | |
| Production | kt | 3,893 | 2,180 | 2,571 | *18.0* |
| Exports **c** | kt | 2,336 | 1,471 | 1,659 | *12.8* |
| value | A$m | 1,532 | 835 | 1,004 | *20.2* |
| Price **d** | A$/t | 524 | 591 | 603 | *2.0* |

**a** US no. 2 soybeans, fob Gulf, July-June. **b** Canola, Canada, fob Vancouver, July–June. **c** July–June years. **d** Delivered Melbourne, July-June**. f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; US Department of Agriculture

# Natural fibres

Chris Mornement



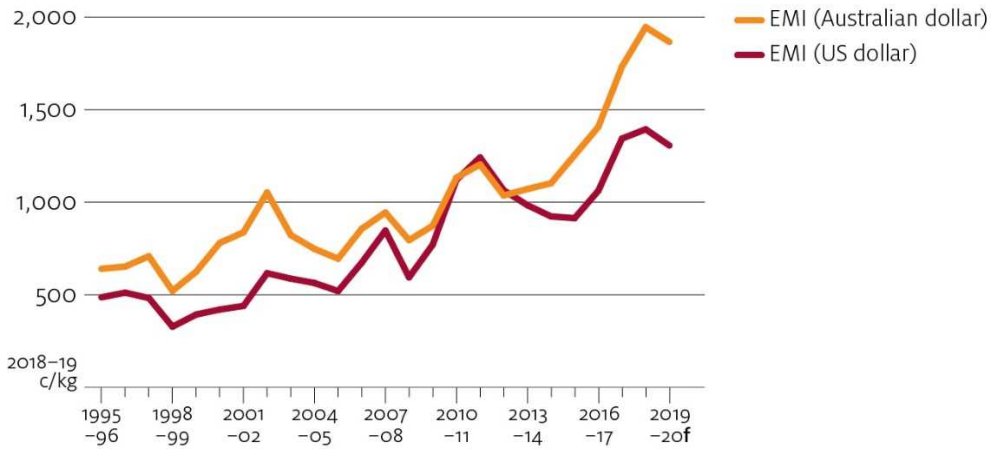

## Australian wool production to fall as prices remain high

Total Australian wool production and exports are estimated to have fallen in 2018–19. Continuing dry seasonal conditions across most wool-growing regions have reduced the number of sheep shorn nationally and the average wool cut per head. In 2019–20 total wool production and the number of sheep shorn are forecast to decline further with the reduced sheep flock. Shorn wool production is forecast to decline by 5.3%. This is consistent with the estimates of the Australian Wool Production Forecasting Committee.

The Eastern Market Indicator (EMI) price for wool is a weighted average price across different wool types. In 2018–19 the EMI averaged an estimated 1,945 cents per kilogram. This is an upwards revision from the ABARES forecast in Agricultural commodities: March quarter 2019 due to stronger than anticipated demand. Wool prices are high compared with recent years, especially in US dollar terms—the currency most used to purchase Australian wool. The EMI declined slightly in late 2018 but was supported over the remainder of 2018–19 by falling wool supply and depreciation of the Australian dollar.

In 2019–20 the EMI is forecast to fall as higher volumes of superfine wool come onto the market and historically high prices cause some processors to substitute towards lower-cost fibres. The high EMI is creating an incentive for processors to substitute wool with cheaper synthetic fibres that can be blended with lower-cost medium micron wools (20.6 to 22.5 microns).

**Eastern Market Indicator, 1995–96 to 2019–20**



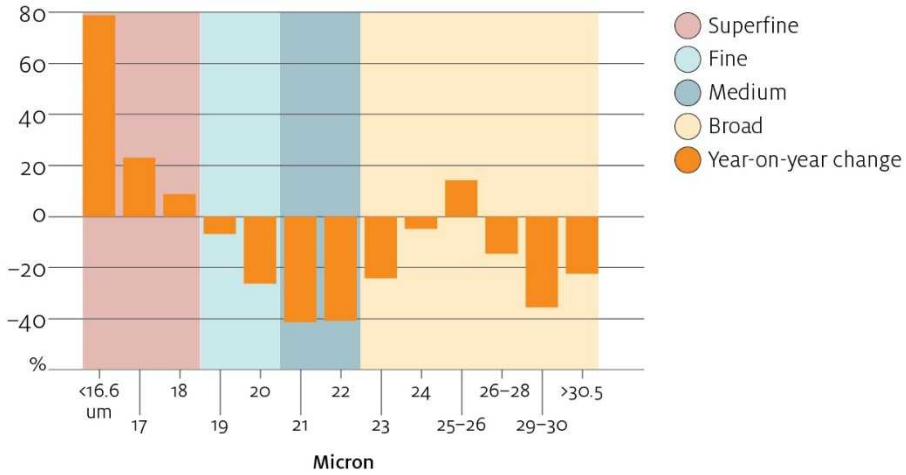

**f** ABARES forecast.

## Dry conditions increase superfine wool supply

The estimated fall in total wool production in 2018–19 is not expected to continue across all wool types in 2019–20. Of the wool tested at the end of March 2019, the supply of fine and medium wools (18.6 to

22.5 microns) fell by 24% year-on-year. Dry seasonal conditions have pushed the average micron of these wools lower. This has resulted in a higher supply of lower-quality superfine wools (18.5 microns or less) coming onto the market. This combination of higher quantity and lower quality is likely to put downward pressure on premiums for finer grade wool.

**Change in testing volume, Australia, July 2018 to March 2019**




Note: Percentage change in volumes tested by Australian Wool Testing Authority are relative to same period in 2017–18.
Source: Australian Wool Production Forecasting Committee; Australian Wool Testing Authority

## Increased world cotton production to decrease prices

World cotton prices are expected to fall in 2019–20 as a result of increased world production, high prevailing stock levels, and competition from synthetic fibres. This fall comes from high price levels in 2018–19 supported by strong demand and lower than expected production.

In 2019–20 world cotton production is expected to rise due to improved seasonal conditions in the United States, and increases in area planted in India and Pakistan. This follows falling production in 2018–19 mainly due to declines in China, India, Pakistan and the United States. Abandonment rates in 2019–20 are forecast to decrease in the United States due to favourable soil moisture and rainfall in the south-west.

World cotton consumption is expected to exceed production in 2019–20, leading to an overall reduction in world stocks. China's cotton reserves are expected to reduce to support domestic consumption, while World (excluding China) stocks are expected to grow as a result of increased production.

## World textile demand to remain strong

Growth in global incomes and population is continuing to support textile demand.

Increased consumption of cotton-based textiles and clothing is expected as the number of middle-class consumers in emerging economies grows. Decreasing prices are expected to make cotton more competitive, providing manufacturers with an incentive to maintain the cotton content of textiles.

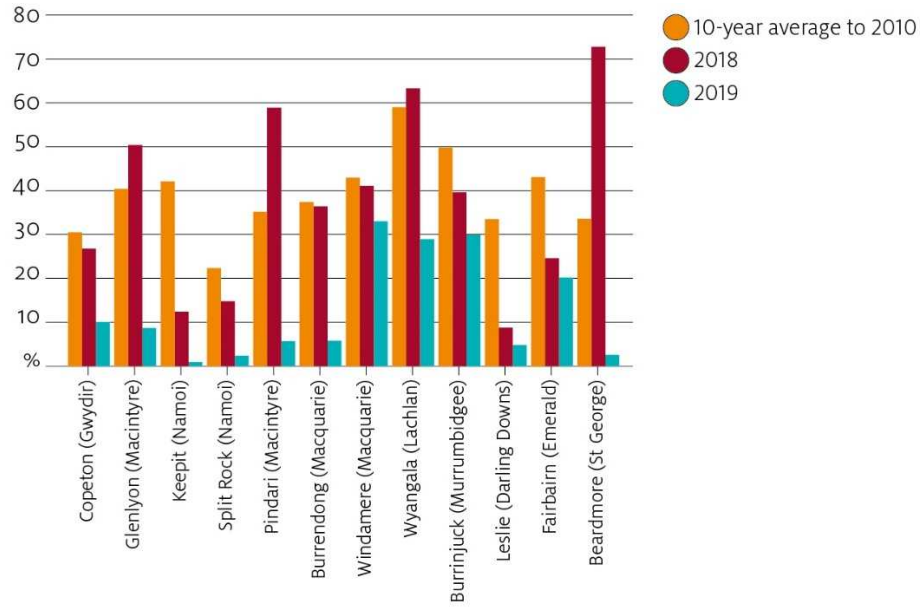
Demand for raw wool is driven by consumer demand for high-value woollen textiles and apparel. Forecast income growth in major wool-consuming markets—including China, the United States and the European Union—is expected to underpin global demand for fine wool.

An assumed depreciation of the Australian dollar is expected to support the competitiveness of Australian natural fibre exports.

## Australian cotton production to fall

Australian cotton production is forecast to decline further in 2019–20 after a significant decline in 2018–19. Low dam storage and soil moisture levels have resulted in a decline in Australian cotton planting. Any recovery in production levels from 2019–20 is likely to be constrained by the availability of irrigation water following 2 years of dry seasonal conditions in eastern Australia. The last 3 recharge events for irrigation dams in the main cotton-producing regions occurred during a La Niña. La Niña conditions are not expected for the coming winter when significant dam recharge usually occurs.

**Storage levels for key cotton-feeding dams in New South Wales and Queensland**




Note: Numbers included here are percentages of storage capacity.
Source: Bureau of Meteorology

## Opportunities and challenges

### Uncertainty in global textile trade

The United States is a major importer of textiles and clothing processed in China. The impact of trade tensions between the United States and China on world textile demand and trade remains uncertain and depends on many factors. These include the extent of any future retaliatory import tariffs imposed by these countries and whether global trade tensions broaden to include other nations. Any new tariffs imposed by the United States on textile or garment imports from China present a downside risk to demand for Australian natural fibre exports. A decline in Chinese demand for natural fibres would likely affect Australia's wool industry more severely because Australia has fewer export markets for wool than for cotton.

The effect of the trade tensions on Chinese consumers, who represent a substantial and rapidly growing final market for apparel, has been unclear. Consumer confidence and to a lesser degree garment sales declined in China between February and August 2018 but has recovered and strengthened since September 2018. These data indicate that Chinese demand for textiles and clothing may not necessarily weaken if trade tensions continue.

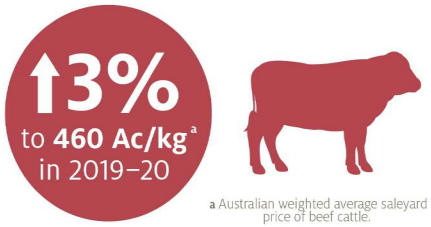
## Outlook for natural fibres

| Category | unit | 2017–18 | 2018–19s | 2019-20f | *% change* |
|---|---|---|---|---|---|
| **Cotton** | | | | | |
| **World a** | | | | | |
| Production | Mt | 27.0 | 25.8 | 27.1 | 5.0 |
| Consumption | Mt | 26.7 | 26.7 | 27.4 | 2.0 |
| Exports | Mt | 8.9 | 9.2 | 9.8 | 7.0 |
| Closing stocks | Mt | 17.7 | 16.6 | 16.4 | -2.0 |
| Cotlook 'A' index | USc/lb | 88.0 | 85.2 | 79.2 | -7.0 |
| **Australia b** | | | | | |
| Area harvested | '000 ha | 526 | 343 | 172 | -50.0 |
| Lint production | kt | 1,058 | 485 | 290 | -40.0 |
| Exports | kt | 872 | 981 | 395 | -60.0 |
| value | A$m | 2,132 | 2,704 | 1,001 | -63.0 |
| Gin-gate returns **c** | A$/bale | 600 | 642 | 622 | -3.0 |
| **Wool** | | | | | |
| **Australia b** | | | | | |
| Sheep shorn | million | 76.8 | 71.2 | 67.5 | -5.0 |
| Wool production **d** | kt | 422 | 379 | 352 | -7.0 |
| **Exports** | | | | | |
| Volume | kt (gr. eq.) | 452 | 398 | 369 | -7.0 |
| value | A$m | 4,380 | 4,251 | 3,778 | -11.0 |
| Eastern Market Indicator **e** | Ac/kg | 1,732 | 1,945 | 1,865 | -4.0 |

**a** August–July years. **b** July–June years. **c** Value of lint and cottonseed less ginning costs.
**d** Greasy, includes shorn wool and wool on sheepskins, fellmongered and slipe wool. **e** Clean equivalent.
**f** ABARES forecast. **s** ABARES estimate.
Sources: ABARES; Australian Bureau of Statistics; Australian Wool Exchange; Cotton Australia Statistics; Cotton Outlook, Merseyside, United Kingdom; US Department of Agriculture, Washington

# Beef and veal

Tim Whitnall



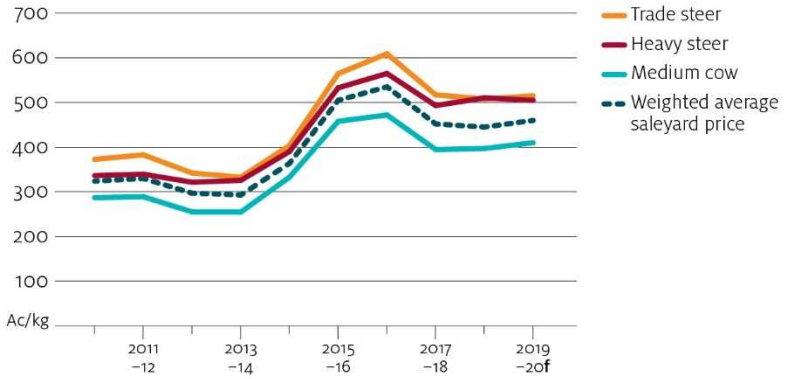

## Saleyard prices to rise marginally in 2019–20

The weighted average saleyard price of cattle is forecast to rise by 3% to 460 cents per kilogram in 2019–20. This reflects increased demand for frozen beef exports and a reduced supply of cows in saleyards.

ABARES uses a weighted average saleyard price as its cattle indicator price. This average includes saleyard prices for heavy steers, trade steers and medium cows purchased by processors and weighted by slaughter volume in Australian Bureau of Statistics data.

In 2018–19 the weighted average saleyard price was pulled down closer to the medium cow price due to a near record proportion of female cattle in total slaughter numbers. In 2019–20 this trend is expected to reverse because female slaughter is forecast to fall by more than male slaughter. Assuming a return to average seasonal conditions, producers are expected to hold back breeding stock to rebuild herds.

**Average saleyard prices, 2010–11 to 2019–20f**




**f** ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics; Meat and Livestock Australia

Prices for finished steers are expected to remain relatively unchanged in 2019–20. Increased competition from the United States in chilled beef export markets is expected to be largely offset by increased competitiveness from a lower Australian dollar. Prices for cows are expected to rise slightly as producers reduce supply at saleyards and Chinese demand for frozen beef exports rises. These factors are expected to more than offset lower demand for manufacturing beef from the United States.

## Slaughter, production and exports to fall in 2019–20

In 2018–19 drought conditions across many beef cattle producing regions of Australia led to elevated levels of cattle turnoff. ABARES estimates of 2018–19 slaughter and production have been revised up from Agricultural commodities: March quarter due to higher than expected slaughter since the beginning of the 2019 calendar year. In the 3 months to March 2019, the number of cattle slaughtered was the

fourth highest level in 30 years despite the opening herd being among the lowest over that period.

In 2019–20 slaughter is forecast to fall markedly, reflecting a smaller opening herd and producer intentions to rebuild herds. Production is forecast to fall as a result, but the impact is expected to be partially offset by higher slaughter weights. Pasture growth is expected to improve, assuming a return to average seasonal conditions in 2019–20. The number of cattle on feed is also expected to remain high, reflecting falling feed costs and high export unit values for beef resulting from strong global demand and an assumed lower Australian dollar.

The value of Australian beef exports is forecast to fall due to lower production. This will reduce the volume available for export. Australia's fresh beef exports to Japan and the United States are expected to account for the largest fall in export volume. Increased production in the United States is expected to reduce US demand for beef imports and lead to increased competition in Japan. Exports of frozen beef to China are expected to rise due to rising incomes and lower domestic pork production following the outbreak of African swine fever.

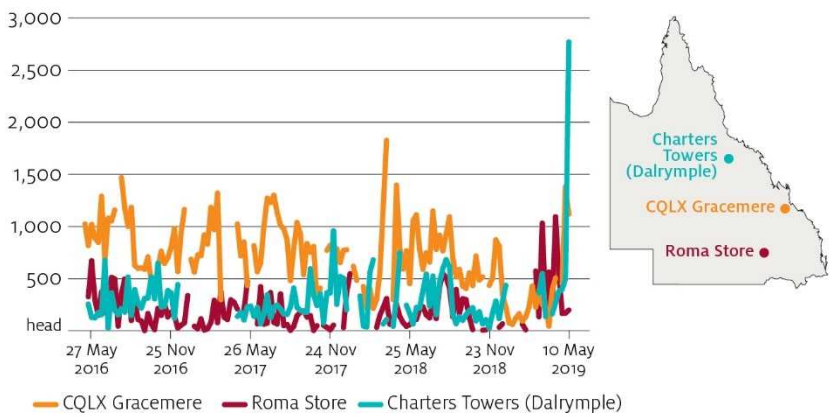
## Northern Queensland restocking has commenced

Based on industry estimates, ABARES has assumed that producers lost 600,000 head of cattle as a result of severe flood events in northern Queensland in late January and early February 2019.

Recent saleyard data suggests demand for young cattle for restocking is high in northern Queensland. In the week ending 10 May 2019, purchases of cattle under 12 months old at Charters Towers saleyard—the closest to the flood-affected regions—were around 10 times the weekly average. Other large saleyards in Queensland, including Central Queensland Livestock Exchange at Gracemere and Roma Store, also had higher than average purchases of young cattle in the months following the floods.

Saleyard purchases represent only a portion of total cattle sales in Australia because most transactions occur privately between seller and purchaser. However, data from saleyards indicate it is likely that substantial restocking is underway in flood-affected areas. Demand for young cattle is expected to remain high due to the $3.3 billion committed by the North Queensland Livestock Industry Recovery Agency for assistance measures, such as restocking grants, freight subsidies for restocking and low interest loans.

**Weekly restocker saleyard purchases, young cattle, 13 May 2016 to 10 May 2019**




**CQLX** Central Queensland Livestock Exchange.
Note: Includes calves, vealer steers and vealer heifers.
Source: Meat and Livestock Australia

## Opportunities and challenges

### US—Japan trade negotiations

In April 2019 Japan and the United States began negotiating a trade agreement. Tariff reductions on agricultural exports such as beef to Japan are expected to be a priority for the United States. This is a risk to the competitiveness of Australia's beef exports because Australia currently has significant tariff advantages through both the Japan–Australia Economic Partnership Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11).

In February 2019 Japan granted the European Union similar beef import tariff reductions to those of the TPP-11 in the EU–Japan Economic Partnership Agreement. If Japan grants similar rates to the United States, this would be expected to displace some Australian chilled beef exports. It would also put downward pressure on finished cattle prices in Australia because Japan is Australia's largest beef export market.

### Impact of African swine fever remains uncertain

Since the first official report in August 2018, African swine fever has spread to every province in China. This is expected to have a significant impact on global protein markets because China is estimated to hold over half of the global pig herd. Production losses in China are estimated by industry at between 10% and 35% and herd losses at between 20% and 30%.

Global pork markets were largely unaffected until 2019, when China rapidly increased imports of pork and other proteins. In the 3 months to March 2019, EU exports of frozen pork to China rose by 32% year-on-year and US exports of all pork cuts to China exceeded their total 2018 volume. Australian beef exports have also benefited from increased demand. In the 3 months to March 2019, Australian exports of beef to China rose by 76% year-on-year. Relatively lower-priced frozen cuts of beef account for most of this rise.

The extent to which Chinese demand for imported pork rises will depend on the total loss of domestic pork supply, the ability of China's poultry, beef and seafood industries to respond promptly to increased demand, and Chinese consumer willingness to substitute alternative proteins. This therefore represents a risk to the global demand forecast and to prices received by producers supplying frozen beef cuts for export.

### Herd numbers to fall further if dry conditions continue

ABARES forecasts assume a return to average seasonal conditions in 2019–20. If realised, this will facilitate herd rebuilding and lead to lower female slaughter. However, if dry conditions continue, above average levels of female slaughter are expected to continue. Global demand growth for lower-priced frozen beef is forecast to support prices for cows. This would give producers an incentive to maintain a high rate of slaughter and await the return of rain before trading or agisting cattle.

If seasonal conditions do not improve, herd rebuilding will be delayed. This would increase the reliance of producers on purchasing cattle rather than breeding and result in sharper increases in prices of young cattle when rain returns.

## Outlook for beef and veal

| Category | unit | 2017–18 | 2018–19s | 2019-20f | *% change* |
|---|---|---|---|---|---|
| Cattle numbers **ab** | million | 26.4 | 25.0 | 24.9 | – 0.3 |
| beef cattle **a** | million | 23.8 | 22.5 | 22.4 | – 0.2 |
| Slaughterings | ’000 | 7,913 | 8,645 | 7,300 | – 15.6 |
| Production | kt (cw) | 2,238 | 2,343 | 2,052 | – 12.4 |
| **Exports** | | | | | |
| Japan | kt (sw) | 309 | 310 | 260 | – 16.1 |
| United States | kt (sw) | 235 | 240 | 190 | – 20.8 |
| China | kt (sw) | 140 | 210 | 180 | – 14.3 |
| Korea, Rep. of | kt (sw) | 169 | 180 | 145 | – 19.4 |
| World | kt (sw) | 1,122 | 1,200 | 995 | – 17.1 |
| value | A$m | 7,963 | 9,084 | 7,705 | – 15.2 |
| Live feeder/slaughter cattle exports **c** | ’000 | 885 | 1,050 | 875 | – 16.7 |
| value | A$m | 1,101 | 1,260 | 1,091 | – 13.4 |
| **Prices** | | | | | |
| Saleyard cattle | Ac/kg (cw) | 452 | 445 | 460 | 3.4 |
| United States import **d** | USc/kg | 452 | 420 | 420 | 0 |
| Japan import **e** | USc/kg | 635 | 610 | 575 | – 5.7 |

**a** At 30 June. **b** Includes dairy cattle. **c** Includes buffalo. **d** Cow 90CL US cif price. **e** Chilled grassfed fullset Japan cif price. **f** ABARES forecast. **s** ABARES estimate

Sources: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia

# Sheep meat

Nathan Pitts


## Prices to rise to historical highs

Saleyard lamb prices in 2019–20 are forecast to rise due to increased competition between processors and restockers. Ongoing strong export demand for sheep meat will encourage processors to offer high prices in saleyards. In eastern Australia, restocker demand is expected to increase as flocks rebuilding begins. If this forecast is realised, it will be the highest price in real terms since 1973–74.

In 2019–20 sheep prices are forecast to increase due to strong Chinese demand for mutton. Prices will also face upward pressure as a result of reduced sheep numbers at Australian saleyards.

## Flock rebuilding to reduce production

In 2019–20 sheep meat production is forecast to fall due to lower turn-off in the areas of eastern Australia that were affected by drought conditions during 2018–19. This reduction in national production is largely due to lower lamb turn-off, as a result of flock rebuilding and a smaller breeding flock. Mutton production is also forecast to fall because sheep slaughter in the eastern states is assumed to return to more normal levels.

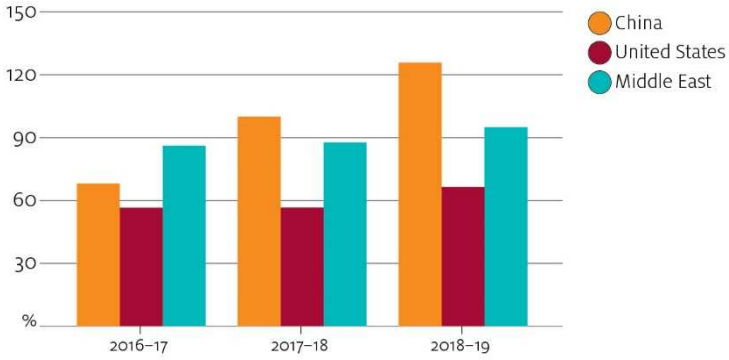
The national sheep flock is expected to increase as producers respond to the expectation of sustained high sheep meat and wool prices. However, flock rebuilding requires favourable seasonal conditions that will allow lambs to be promoted into the breeding flock.

## Strong export demand to drive up export prices

Strong global demand and falling production in major sheep meat exporting countries is forecast to result in higher export prices. Demand is forecast to be very strong in China, the Middle East and the United States—Australia's largest export markets. In 2019–20 sheep meat export volumes are expected to decrease due to lower Australian production.

Live sheep exports are forecast to fall due to restrictions on exports during the northern summer. Export volumes will be determined by the Australian Government's ongoing reviews.

**Australian sheep meat exports, by destination, July to April for 2016–17 to 2018–19**




Notes: Middle East includes Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates and Yemen.
Source: Australian Bureau of Statistics

## Opportunities and challenges

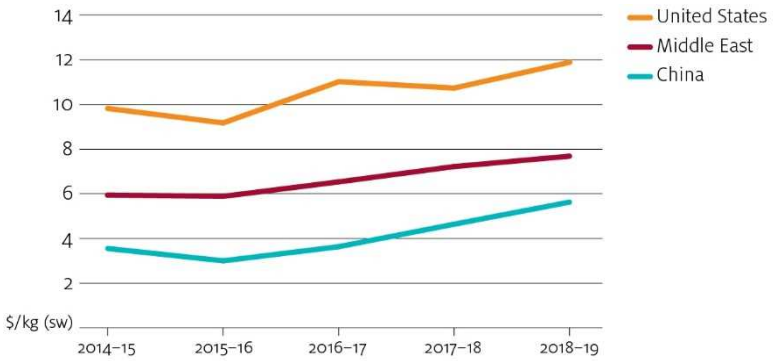
### Uncertainty for exports to China

The outbreak of African swine fever in China is expected to have significant impacts on global protein markets. Although the magnitude is still uncertain, African swine fever will significantly reduce Chinese pig meat production and increase pig meat prices.

China is a major export market for Australian beef and sheep meat. However, any increases in Chinese imports of Australian sheep meat are expected to be modest. This is because most Australian sheep meat production is already exported at high prices to other markets. Chinese import prices would need to significantly increase to displace other high-value Australian export markets. Chinese consumers are more likely to replace pig meat with cheaper alternatives such as chicken and fish meat.

Food price inflation in China could erode consumer food purchasing power. The importance of pork in Chinese diets means that pig meat prices significantly influence inflation. In April 2019 pig meat prices showed a 12% year-on-year rise. This had a significant impact on overall food price inflation. If falling pig meat production continues to drive meat expenditure higher, consumers may substitute away from high-cost protein sources, including Australian sheep meat.

**Export unit values for Australian sheep meat, major markets, 2014–15 to 2018–19a**




**a** July 2018 to April 2019.
Note: Middle East includes Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates and Yemen.
Source: Australian Bureau of Statistics

### Prices in major importing countries

Several major sheep meat importers have large flocks and use imports to supplement domestic production. This includes China, the European Union and the Middle East, who together consumed a third of Australian sheep meat production between 2015–16 and 2017–18. Ongoing high global sheep meat prices will provide producers incentives to increase sheep flocks, in both exporting and importing nations. Flock expansion in Australia's major export markets will increase the competition faced by Australian sheep meat. This presents downside risks to Australian saleyard prices.

### Flock rebuilding costs influencing producer decisions

Australian producers are expected to expand flocks in 2019–20 to take advantage of ongoing favourable sheep meat and wool prices. However, seasonal conditions remained mixed across eastern

Australia to late May 2019, which will limit the ability to rebuild flocks. The costs of flock rebuilding are likely to be elevated by high prices for restocker sheep and lambs and supplementary feed. According to 2017–18 ABARES farm survey data, feed purchases accounted for 9% of the total costs for sheep specialists in south-eastern Australia. This is almost double the 5-year average to 2016–17. Higher than expected restocker or feed prices could result in sheep flock forecasts being revised downwards.

## Outlook for sheep meat

| Category | unit | 2017–18 | 2018–19 s | 2019–20 f | *% change* |
|---|---|---|---|---|---|
| Sheep numbers **a** | million | 70.6 | 66.9 | 69.3 | 4.0 |
| **Slaughterings** | | | | | |
| Lambs | ’000 | 23,432 | 22,300 | 20,300 | – 9.0 |
| Sheep | ’000 | 8,396 | 9,800 | 7,100 | – 28.0 |
| **Production** | | | | | |
| Sheep meat | kt (cw) | 735 | 739 | 634 | – 14.0 |
| **Exports** | | | | | |
| Sheep meat | kt (sw) | 457 | 470 | 395 | – 16.0 |
| value | $m | 3,282 | 3,610 | 3,100 | – 14.0 |
| Live sheep | ’000 | 1,975 | 900 | 875 | – 3.0 |
| value | $m | 259 | 113 | 114 | 1.0 |
| **Prices** | | | | | |
| Lambs **b** | c/kg (cw) | 614 | 735 | 770 | 5.0 |
| Sheep **b** | c/kg (cw) | 419 | 430 | 455 | 6.0 |

**a** At 30 June. **b** Saleyard prices. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia

# Dairy

Andrew Duver


## Domestic price supported by a lower Australian dollar

The 2019–20 farmgate milk price is expected to be 47.6 cents per litre, revised upwards since Agricultural commodities: March quarter 2019. This is driven by a weaker Australian dollar and strong demand in dairy commodity export markets. The 2018–19 price has also been revised higher to 47.5 cents per litre.

## Domestic production falls

Australia's milk production in 2018–19 is expected to be around 8% lower year-on-year. Dry conditions and high input costs have contributed to a reduction in cow numbers and a decline in production. If realised, this will be the lowest level of whole milk production since 1994–95.

Cull cow prices remain at 3-year lows in Victoria. Cull cow prices are expected to rise if there is a return to average seasonal conditions. A further reduction in the national dairy herd is expected as farms continue to sell cows to reduce feed costs and support cash flow. In 2019-20 this leads to a forecast improvement in milk yield per cow as less productive animals are culled first, and an overall decline in the number of milking cows.

## Inputs costs to remain high

High water and fodder costs in 2018–19 have constrained profitability and milk production. This trend could continue into 2019–20 if there is no improvement to seasonal conditions.

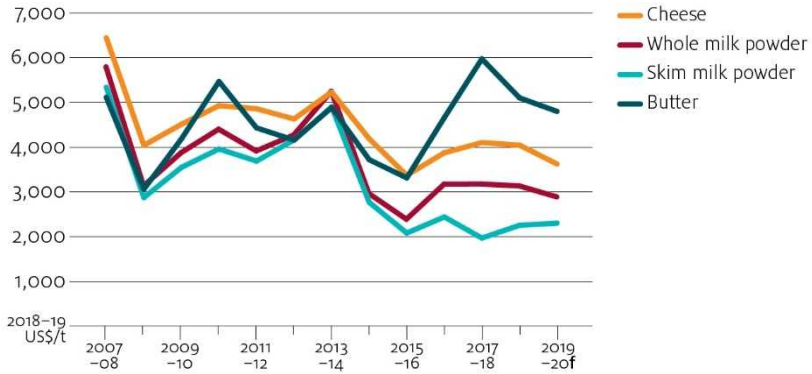
Surface water allocation prices in the southern Murray-Darling Basin have more than doubled since July 2018. Prices in the 2019–20 season are expected to remain elevated until water inflows improve storage levels. The long-term implications of structural shifts in water demand towards higher-value uses, such as almond growing, may result in fewer years of water prices in the range of $150 to $200 per megalitre. This will be an important consideration for farms reliant on purchasing surface water allocations as they are more exposed to water price volatility than farms that own permanent water entitlements.

Feed costs are likely to remain high until winter crops are harvested later in 2019. Fodder demand is expected to remain high over 2019–20 as herds and on-farm feed inventories are rebuilt.

## Global markets expected to fall

Forecast prices for butter, cheese and whole milk powder in 2019–20 have been revised up since Agricultural commodities: March quarter 2019 but remain below 2018–19 levels. The forecast price for skim milk powder in 2019–20 is low but will remain higher year-on-year, driven by demand from developing countries.

**World dairy prices, 2007–08 to 2019–20**

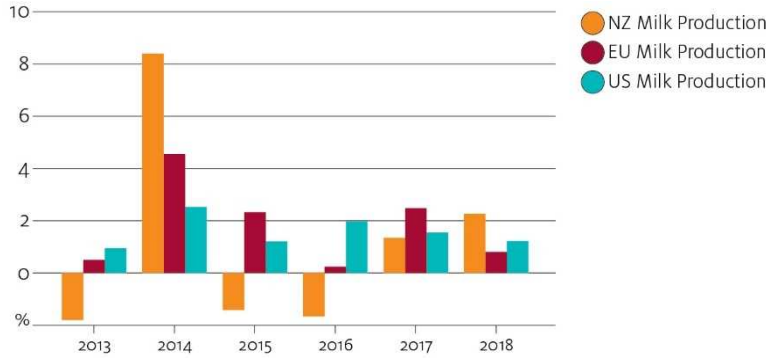



**f** ABARES forecast.

A falling Australian dollar and higher skim milk prices are expected to offset the domestic impact of lower world butter, cheese and whole milk powder prices. The Australian dollar is assumed to average US70 cents in 2019–20, revised down from the US73 cents forecast in Agricultural commodities: March quarter 2019.

Milk production in New Zealand, the European Union and the United States has continued to grow since a spike in 2014, but at a slower rate. If seasonal conditions improve, a lift in global production could put downward pressure on prices in 2019–20 and into the medium term.

**Selected year-on-year change in total milk production, 2013 to 2018**




Sources: Dairy Companies Association of New Zealand; Eurostat; US Department of Agriculture

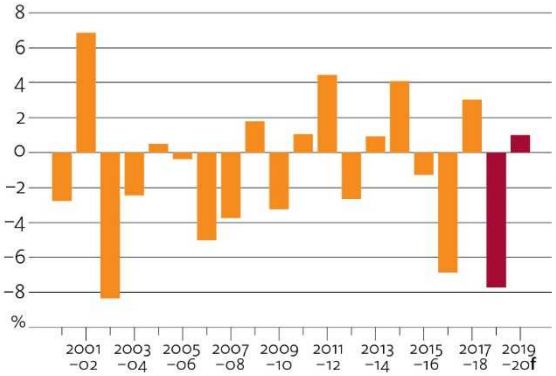
Global demand for dairy products is expected to grow steadily into the medium term. Slowing global economic growth in 2018–19 is expected to put some downward pressure on dairy demand. This will be partly offset by a growing preference for dairy products among an expanding population of middle-class Asian consumers.

## Opportunities and challenges

### Domestic supply unlikely to rebound quickly

In 2019–20 domestic milk production is expected to increase slightly, assuming a return to average seasonal conditions. The number of cows that have been culled in Victoria is likely to limit a recovery in production.

**Year-on-year change in total milk production, 2000–01 to 2019–20**




**f** ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

## Manufacturing decisions

Low milk production in 2018–19 is likely to increase competition between processors into the 2019–20 season as they seek to maintain throughput. However, sustained lower milk production could lead to further rationalisation of processing facilities.

## Outlook for dairy

| Category | unit | 2017–18 | 2018–19s | 2019-20f | *% change* |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Cow numbers **a** | ’000 | 1,547 | 1,480 | 1,473 | *– 0.5* |
| Milk yields | L/cow | 6,007 | 5,791 | 5,878 | *1.5* |
| Production | | | | | |
| Total milk | ML | 9,289 | 8,570 | 8,656 | *1.0* |
| market sales | ML | 2,548 | 2,575 | 2,609 | *1.3* |
| manufacturing | ML | 6,741 | 5,995 | 6,047 | *0.9* |
| Butter **b** | kt | 92.7 | 52.0 | 58.0 | *11.5* |
| Cheese **c** | kt | 378 | 381 | 384 | *0.7* |
| Whole milk powder | kt | 82.5 | 48.0 | 46.5 | *– 3.1* |
| Skim milk powder | kt | 191 | 190 | 193 | *1.6* |
| Farmgate milk price | Ac/L | 46.0 | 47.5 | 47.6 | *0.2* |
| Value of exports | A$m | 3,422 | 3,513 | 3,518 | *0.1* |
| **World prices** | | | | | |
| Butter | US$/t | 5,879 | 5,107 | 4,900 | *– 4.1* |
| Cheese | US$/t | 4,038 | 4,049 | 3,750 | *– 7.4* |
| Skim milk powder | US$/t | 1,938 | 2,255 | 2,350 | *4.2* |
| Whole milk powder | US$/t | 3,125 | 3,137 | 2,950 | *– 6.0* |

**a** At 30 June. **b** Includes the butter equivalent of butter oil, butter concentrate, dry butterfat and ghee. **c** Excludes processed cheese. **f** ABARES forecast. **s** ABARES estimate

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

# Abbreviations

All values and prices are in nominal terms unless stated otherwise.

Small discrepancies in totals are generally caused by rounding. Zero is used to denote nil or a negligible amount.

| | |
|---|---|
| $m | million dollars (Australian) |
| € | euro |
| £ | pound sterling |
| ¥ | yen |
| A$ | dollar (Australian) |
| ABARE | Australian Bureau of Agricultural and Resource Economics |
| ABARES | Australian Bureau of Agricultural and Resource Economics and Sciences |
| ABS | Australian Bureau of Statistics |
| ANZSIC | Australian and New Zealand Standard Industrial Classification |
| BAE | Bureau of Agricultural Economics (now ABARES) |
| BRS | Bureau of Rural Sciences (now ABARES) |
| c | cent (Australian) |
| CIS | Commonwealth of Independent States |
| cif | cost, insurance and freight |
| cw | carcase weight |
| DM | deutschmark |
| ECU | European currency unit |
| EVAO | estimated value of agricultural operations |
| FAO | Food and Agriculture Organization of the United Nations |
| fas | free alongside ship |
| fob | free on board |
| fot | free on truck |
| GL | gigalitres (1,000,000,000 litres) |
| ha | hectare (2.471 acres) |
| kg | kilogram (2.20462 pounds) |
| kL | kilolitre (1,000 litres) |
| kt | kilotonne (1,000 tonnes) |
| L | litre (1.761 pints) |
| lb | pound (454 grams) |
| na | not available |
| nec | not elsewhere classified |
| nei | not elsewhere included |
| nfd | not further defined |
| m3 | cubic metre (1.307 cubic yards) |
| ML | megalitre (1,000,000 litres) |
| Mt | megatonne (1,000,000 tonnes) |
| sw | shipped weight |
| t | tonne (1,000 kilograms) |
| USc | cent (United States) |
| US$ | dollar (United States) |
| USDA | United States Department of Agriculture |

Australian Government
Department of Agriculture
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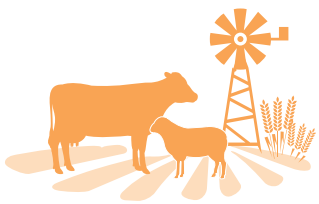
# Agricultural commodities
June quarter 2019

**$59b**
Value of production in 2019–20



## Agricultural overview

In 2019–20 the national value of farm production is forecast to be $59 billion.

**3.3%**
Global economic growth in 2019

## Economic overview

Global economic growth has been revised down by 0.2 percentage points from 3.5% to 3.3% in 2019.

## Seasonal conditions

Global production conditions generally favourable. Promising start to winter growing season across south-eastern Australia.

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# Agricultural commodities

June quarter 2019

**↓4%**
to **US$225/t** [a]
in 2019–20

## Wheat

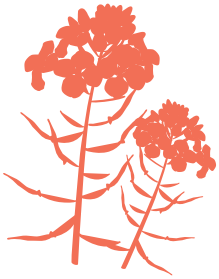
Wheat prices to average lower due to increased global production.

**↓5%**
to **US$209/t** [b]
in 2019–20

## Coarse grains

Barley prices to fall due to rising world coarse grain production and substitution of wheat for feed.

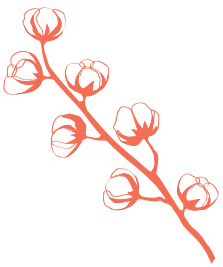
**↓6%**
to **US$365/t** [c]
in 2019–20



## Oilseeds

Canola prices to fall, reflecting constrained Chinese demand and higher production in Australia and Ukraine.

**↓7%**
to **USc 79/lb** [e]
in 2019–20



## Cotton

Cotton prices to fall due to increased global production and high stock levels.

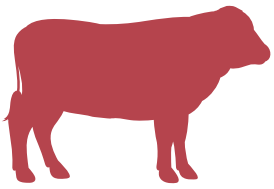
**a** US no. 2 hard red winter, fob Gulf. **b** France feed barley, fob Rouen. **c** Canada canola, fob Vancouver. **e** Cotlook 'A' index.

# Agricultural commodities

June quarter 2019

## Beef and veal

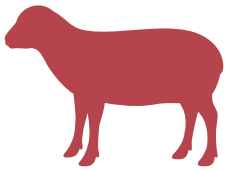
↑3% to **460 Ac/kg**[a] in 2019–20



Australian cattle prices to rise due to increased demand for frozen beef exports and a reduced supply of cows in saleyards.

## Sheep meat

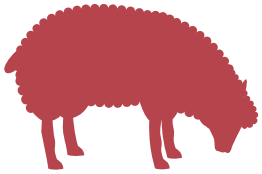
↑5% to **770 Ac/kg**[b] in 2019–20



Lamb prices to rise to historical highs due to strong saleyard competition.

## Wool

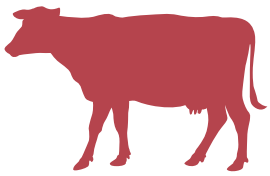
↓4% to **1,865 Ac/kg**[c] in 2019–20



Wool prices to fall as higher volumes of superfine wool come to market.

## Dairy

**47.6 Ac/L**[d] in 2019–20



Farmgate milk price to remain steady, supported by a falling Australian dollar.

**a** Australian weighted average saleyard price of beef cattle. **b** Australian weighted average saleyard price of lamb. **c** Eastern Market Indicator price, clean equivalent. **d** Australian average farmgate milk price.

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