



ANZ AGRI
INFOCUS
APRIL
2022

COMMODITY INSIGHTS

FOREWORD

Agriculture is a unique industry. There is real satisfaction that comes with producing and delivering essential and premium food and fibre for domestic and global consumers. This is hard to match in many other industries. But while farming can provide such gratifying reward, it is also arguably an industry where so many of the results of a farmer's work, particularly their production levels and the prices they receive, will be impacted by factors way beyond their control.

Some of these will be global factors – whether this the barley production in Canada, the biosecurity of cattle in Brazil or the trade policies of China – so many variables from across the world will indirectly, but potentially strongly, impact the fortunes of Australian farmers.

Most importantly, however, the biggest impact will almost always come from the weather. As Australian agriculture heads into the last of autumn, and looks toward winter and spring, it enters arguably the least predictable time of year for the season. As we sit currently, in April 2022, weather conditions across most of Australia's farming regions have continued to be some of the best in years. Especially with pre-ANZAC Day rains falling on soem of the key southern cropping regions. While some regions, particularly in Eastern Australia, would suggest that they have had less than ideal rainfall this year, the contrast between the current situation and that of the 2018/19 drought, is stark. For most livestock producers, the pastures remain good, while grain producers have been able to take advantage of good soil moisture levels for planting the winter crop.

Given the unpredictability of the outlook, different scenarios should be considered, in terms of how each farm's strategic plan could play out over the remainder of 2022. While the current forecasts for rain across most of Australia remain good, it is still not a given whether winter will instead stay dry, and could lead the nervousness which comes with the wait for the spring break. For livestock and grain producers, this could have a major impact on both the costs of their inputs – whether supplementary

feed or increased fertilizer – as well as the quality of their eventual production.

Similarly, the potential variations in winter temperatures could also see quite different results, with overly cold weather especially likely to impact crop production and lambing. On the heels of this, as they do every year, grain producers and grape growers will be at their most vigilant in spring, as the potential for frost plays a major role in their ultimate harvest levels.

While some of this may come across as pessimistic to non-farmers, those in the industry are used to living with this level of uncertainty, and preparing for a range of eventualities. Many livestock producers will already have ample supplementary feed levels ready – whether grain, hay, or silage – in case these are needed through the colder months.


Similarly, most grain producers will already be well prepared for different scenarios, and while the current cost and availability of fertilizer and other inputs has added an extra challenge this year, producers will continue to watch closely for seasonal impacts which may require specific input applications.

For almost all Australian agri commodities, prices continue to sit at relatively strong levels, buoyed by strong global demand, production, and export challenges to some of Australia's major competitors and strong local production levels following two years of good seasonal conditions. There are positive signs for our immediate seasonal outlook, but it's never over until it's in the bank. Regardless, the success of our producers will often stem from vigilant preparation.



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AUSTRALIA-INDIA ECONOMIC COOPERATION AND TRADE AGREEMENT

OVERVIEW

- The new Australia-India Economic Cooperation and Trade Agreement will open up new opportunities for a number of Australian agri sectors
- In particular, the sheep meat, wool, horticulture, grain and wine sectors will see tariffs cut over a range of periods, from immediately to ten years
- The Indian market offers huge potential, not just in terms of population size, but for the rapidly growing middle class, with evolving consumer preferences
- Not all Australian agri sectors were happy with the agreement, with chickpeas receiving no reductions in tariffs

The announcement of the signing of the Australia-India Economic Cooperation and Trade Agreement (ECTA) between Australia and India at the start of April 2022 brings with it a range of new opportunities for Australian agri exporters, although they won't come without some follow-up hard work. As with all Free Trade Agreements (FTA) as well, the many finer details will need much examination, and the final FTA won't necessarily provide great news for all agri sectors.

As with all FTAs, the Aust/India ECTA seeks to make certain exports between two countries more attractive, by reducing or eliminating some of the barriers on trade, as well as to investment. Most commonly, the major outcome of an FTA will be in reducing the tariffs on specific products being traded between the countries, with the intended effect of making them ultimately cheaper to the buyer in the importing country, and thus both increasing their sales, as well as making them more competitive, particularly against similar products from other countries which may still have high tariffs.

Importantly for the agricultural sector, while FTAs come with export benefits, they are not a one-way street. Both countries will negotiate hard for new opportunities for their exports, and the trade-offs for new market access are not always universally

popular with a home market. In addition, the negotiations will often be impacted to some degree by the domestic political considerations of each country, which can result in some products not receiving increased access if this would cause political sensitivities.

The ECTA with India is the latest that Australia has signed over the past two decades, often after years of negotiations. While the FTA with New Zealand was signed in 1983, since 2003 Australia has ratified around sixteen FTAs, including with US, China, Japan, and South Korea, each of which has subsequently seen important benefits for certain agri exports, particularly beef.

For Australian agriculture, India provides a massive, evolving, and unique marketplace. With a population of 1.4 billion, an eclectic mix of cultures and religions, and an increasingly affluent middle class, the Indian market provides opportunities for a range of products. Clearly, the market is also not without its challenges. The country's infrastructure, particularly reaching internal metropolitan markets, is different from what many Australian exporters may have experienced before, while the country's bureaucratic process could also potentially be more elongated than Australia's.

IMPORTANTLY, THE PROSPECT OF INDIA AS MAJOR EXPORT DESTINATION FOR AUSTRALIA'S AGRI PRODUCTS WOULD BE AN IMPORTANT STEP IN DIVERSIFYING THE NUMBER OF MARKETS AND REDUCING CONCENTRATION RISK. WITH A NUMBER OF AGRI COMMODITIES HAVING ONLY A SMALL NUMBER OF MAJOR EXPORT DESTINATIONS, THIS WOULD REDUCE THE POTENTIAL FOR AGRI EXPORTS TO BE HIT HARD, IF AN ISSUE IMPACTED ANY ONE MARKET.

COMMODITIES

In terms of individual commodities, the exports which could initially feel the greatest benefits include sheep meat, wool, lentils, horticulture, and wine.

For wool the current tariff of five percent will be slashed to zero by the end of this year. At the moment, India buys around seven percent of Australia's wool production, ranging from the superfine to the coarser wools. While China has long been the largest market for Australian wool, the potential for processing to increase in markets such as India and across the sub-continent will continue to grow.

For sheep meat producers, the Indian market has proved largely impossible to penetrate until now, due to a 30 percent import tariff. As a result, Australia has exported only 111 tonnes of sheep meat to India over the past five years. With this tariff now forecast to be cut to zero, Australian exporters will be able to explore new opportunities in the Indian market, particularly for the Muslim population.

At the same time, given the growth of the Indian middle class, Australia will also be able to seek to market the premium qualities of Australian lamb and mutton, similar to the trend which has seen exports grow to the US.

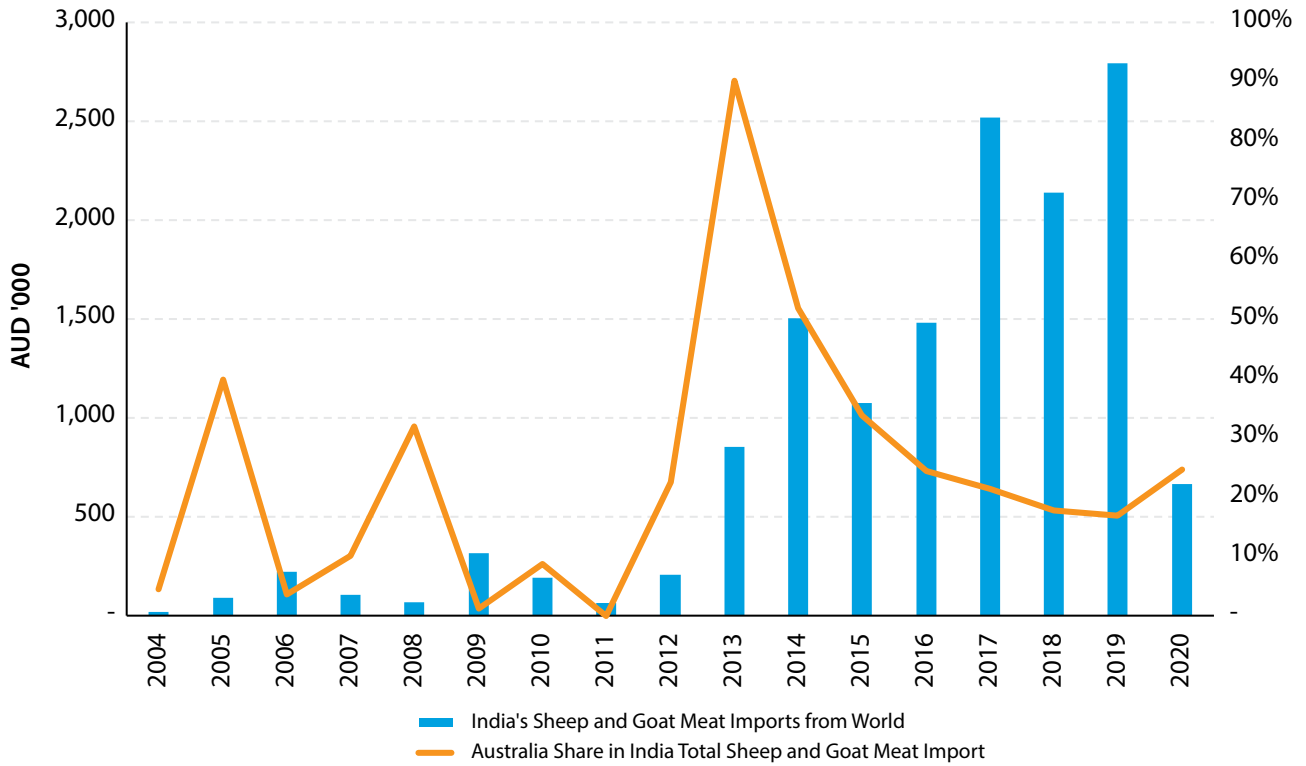
For grain producers, the announcement brought mixed reactions. While pulse producers had hoped that the hefty 30 percent tariff on chickpeas would be reduced, it remains in place. This move could be seen partly to protect India's domestic production sector, both in terms of farmer incomes and domestic prices.

For other pulses, the tariff on lentils will be cut from 30 per cent to 15 per cent, while the tariff on faba beans will be cut to zero over the next seven years.

The news was better for Australian horticulture producers, who will see tariffs cut to zero over the next seven years on a range of products including blueberries, avocados, onion, cherries, asparagus, lettuce, and celery. In addition, tariffs will also be reduced on apricots and strawberries, while quotas will be reduced for almonds, oranges, mandarins, and pears.

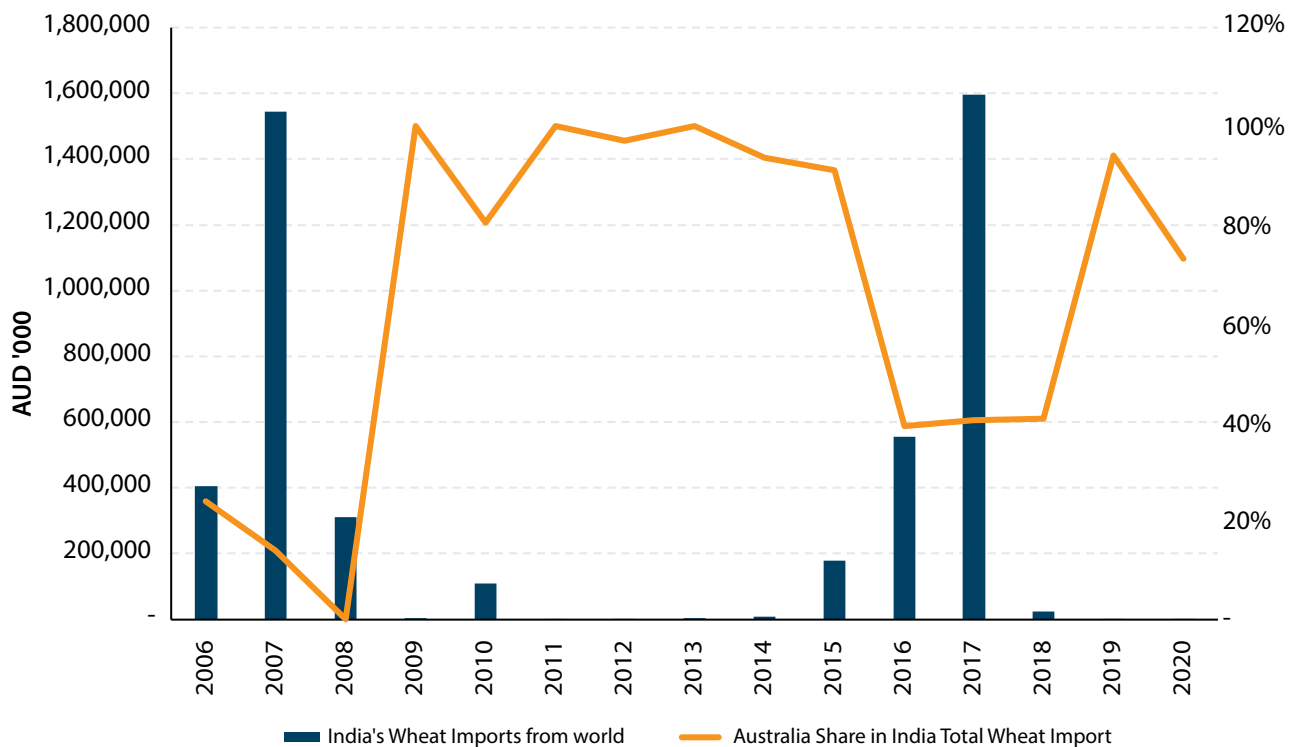
The Australian wine industry will also be looking to take advantage of the agreement, particularly as it continues to seek additional markets following the imposition of prohibitive import tariffs by China. Australian wine imports to India are currently subject to a high 150 percent tariff. Under the agreement, the tariff for wine valued at over US\$5 per bottle will be reduced to 100 percent, with a further reduction of five percent per year over the next ten years, ultimately to 50 percent. For wine valued at over US\$15 per bottle, the tariff will be cut further, falling to 75 percent immediately, then gradually down to 25 percent after ten years.

AUSTRALIA SHARE IN TOTAL SHEEP AND GOAT MEAT IMPORT BY INDIA



Source: TradeMap, ANZ

AUSTRALIA SHARE IN TOTAL WHEAT IMPORT BY INDIA



Source: DFAT, ANZ

GRAINS INSIGHTS



OVERVIEW

- Autumn is the planting window for Australian grains, with the next crop not forecast to match record levels of the past two years
- Domestic acreage may fall slightly, especially for wheat, though should see increases for planting of canola and pulses
- Global grain and oilseed prices may remain high for some time, amidst the uncertainty of the impact of the Ukraine conflict on that region's grain production and exports
- The impact of the Ukraine conflict will be felt by Australian producers not just in terms of high prices, but in the high cost and tight availability of fertiliser and other inputs in addition to market volatility

It has been a while since the grain industry, and particularly wheat, has featured so prominently in global headlines, not just in agricultural publications but across the mainstream media. As a result of the conflict in Ukraine, a major exporter of wheat, not only has the fact that wheat prices have reached all-time highs globally been widely discussed, but the ramifications for food prices and food security across much of the globe continue to be watched closely.

For Australian grain producers, the impacts of the Ukraine conflict will undoubtedly have flow-on effects, though it is debatable just how much of that impact will be felt now, or whether it will be months away.

Over the April/May period, many Australian grain producers are in one of their busiest periods of the year, with winter crops being planted across the country. With the past two years having seen the two largest crops on record, a lot of attention is currently being paid to this year's planting intentions, and how this might impact the final harvest of the winter crops over the 2022/23 summer.

In looking at the current crop forecasts, it would seem unlikely that Australia is on-track for the third record crop in a row. According to the latest forecasts from the Australian Bureau of Agricultural and Resource Economics (ABARES), overall Australian cropping acreage is forecast to be down by around 600,000 hectares in 2022/23, or two per cent. Notably, the fall is mostly due to a forecast reduction in wheat acreage, which is forecast to decline by around 700,000 hectares, to 12.3 million hectares.

In contrast, some crops are forecast to see a reasonable climb in acreage in the 2022/23 season. Of the major crops, canola in particular is forecast to rise by 100,000 hectares or three per cent. Of course the significance of the autumn break will help shape ultimate plantings, as will the climate outlook through winter into spring.

Notably, the largest percentage rises are forecast to be in field peas and lupins, which are forecast to rise by 30 per cent to almost 900 thousand hectares. Interestingly, while this is a reasonable rise on the previous year, it is still only around half of the acreage of those crops which were grown in the mid to late 1990s. The trend for the major

pulse crops – field peas, lupins, and chickpeas – will be an interesting one for industry stakeholders to watch in coming years. Traditionally, the major export market for pulses has been India, although this can be volatile, depending on the state of India's annual domestic crop, and any tariffs which are added or cut as a result. The Australian pulse sector currently grows around half the acreage it did through the 1990s, with much of this land presumably having switched across to the larger crops of wheat, barley, and canola, due to factors including more predictable pricing and sale mechanisms, as well as the ongoing consolidation of smaller farms into larger holdings.

Looking ahead, some factors would point to the potential for growth in the pulse sector in Australia. The growing domestic and global consumer demand for plant-based proteins is likely to see the demand for these crops grow strongly. In addition, new investors in the market, as well as existing producers seeking to diversify their crops, may look away from just planting the major grains and oilseeds. That said, with the impact of the Ukraine conflict resulting in forecast long term high prices for wheat, canola, barley and other major crops, the attraction will also be for grain producers to stick with these.

UKRAINE CONFLICT IMPACT

With the conflict in the Ukraine continuing, the impact on global wheat and wider grain and oilseed markets continues to play out. With Russia and the Ukraine accounting for around 30 per cent of the world's wheat exports, as well as being major exporters of corn and barley, any conflict in the region would inevitably impact the world's grain trade flows and supply chains.

With the current conflict now a protracted one, and one that impacts a far wider region of Ukraine than the relatively brief 2014 conflict, the impact on grain prices has already been considerable. Global wheat prices have now reached record highs, while barley prices have reached record highs on European markets and corn prices have surged. The impact of the conflict on grain trade flows could potentially be both short and long term.

In the short term, Ukraine's major export customers, such as Egypt, Turkey, and Bangladesh, will urgently need to seek their grain requirements from elsewhere, a task made more difficult by the fact that world available grain supplies are

currently limited, with the southern hemisphere harvest largely allocated, and the northern hemisphere crops mostly still in the ground.

At the same time, the increasing sanctions on Russia, combined with Russia's recent export tariffs and quotas on its own wheat, could increasingly also tighten the availability of Russian grains to world markets.

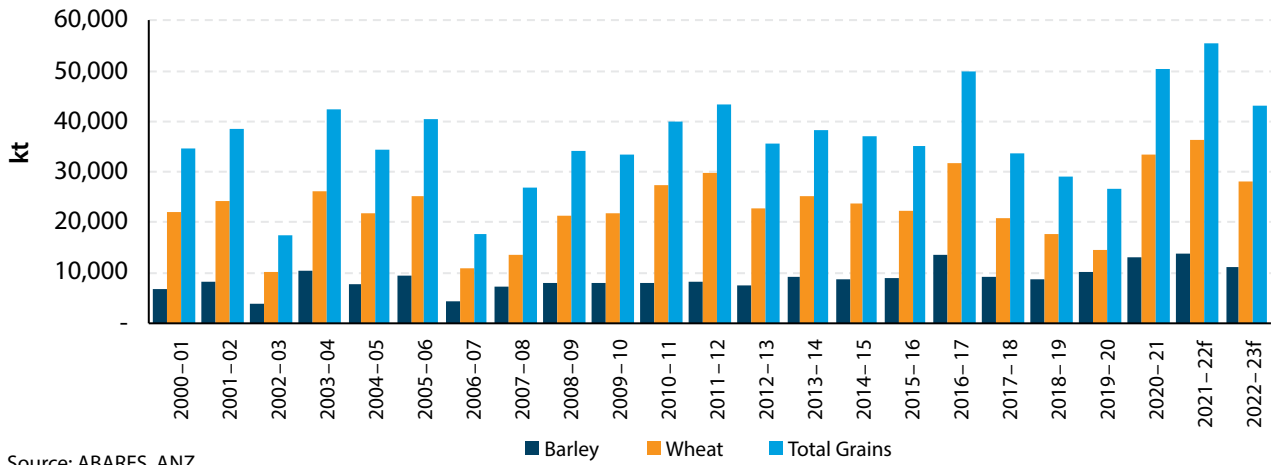
In the longer term, damage to Ukrainian infrastructure, particularly ports, may impact the supply of Ukrainian grain to world markets for some time to come. China's actions around grain during the conflict could also reshape global grain trade flows, with China having recently dropped its phytosanitary ban on Russian wheat exports, and with the potential to repeat this for Ukraine.

For Australian grain producers, the sharp rise in wheat and other grain prices will be of benefit for those who currently still have grain to sell. It may also have an impact on producers' crop planting intentions for 2022, although many of these decisions will already be well advanced. The risk for producers is that they may see a decrease in demand from China, though this would likely be more than made up for from other markets.

For grain traders, the situation could potentially open up new markets, while increasing prices. The challenge may be around supply chain logistics, including port access and shipping availability. A further impact for both producers, as well as Australian rural supply companies and fertiliser distributors, may be in the cost and availability of fertiliser. This would be as a result of likely export restrictions from both Russia and Belarus, as well as from increased fertiliser production costs as a result of higher gas prices.

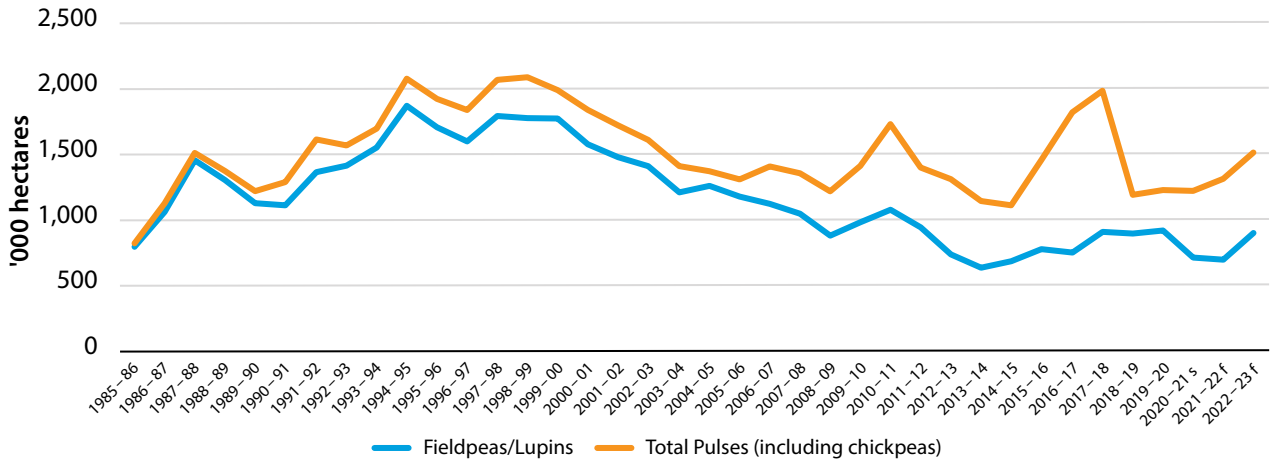
High grain prices would have indirect impacts on other Australian agri sectors. With a record number of Australian cattle currently in feedlots, record feed grain prices would impact the viability of these operations, which could result in reduced profitability, a reduction in cattle numbers, or costs being passed down the supply chain, potentially to beef consumers. High feed grain prices could also impact the profitability of other major feed users, including poultry, pig, and aquaculture operations, as well as dairy producers. As a food input, high grain prices could also impact companies such as flour manufacturers, as well as beer producers. In these cases, it is likely that some degree of this would be reflected in increased retail prices.

WHEAT, BARLEY AND TOTAL GRAIN PRODUCTION, AUSTRALIA



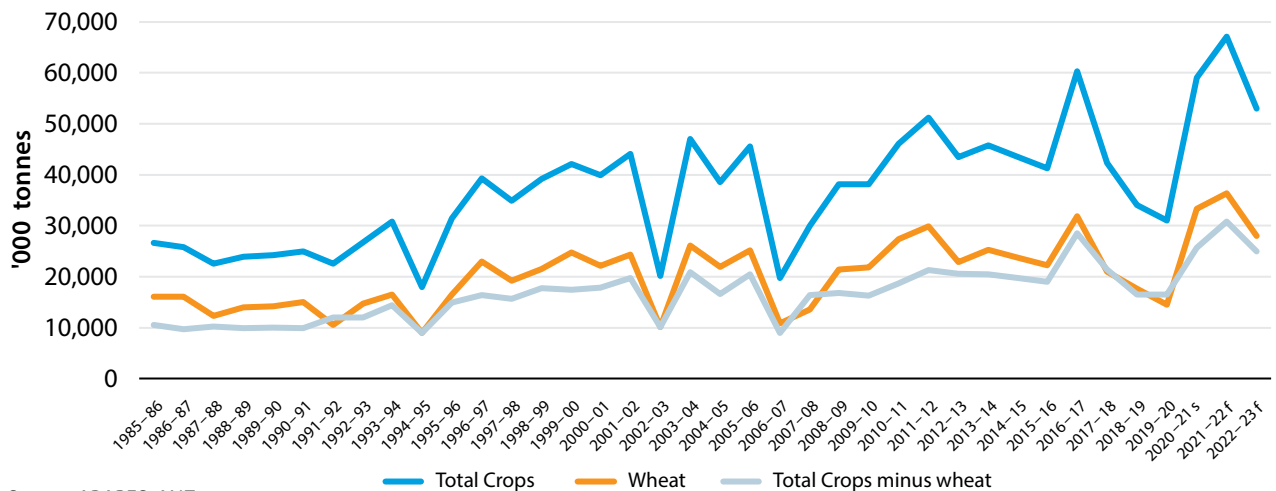
Source: ABARES, ANZ

AUSTRALIAN PULSE AREA



Source: ABARES, ANZ

AUSTRALIAN WHEAT VS TOTAL CROP PRODUCTION



Source: ABARES, ANZ



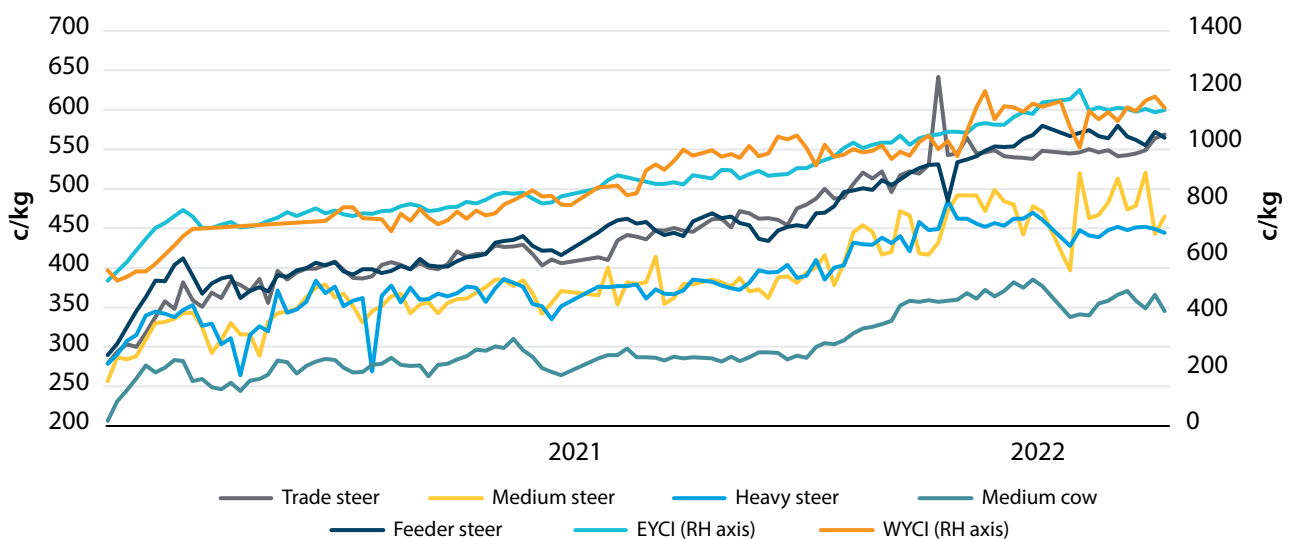
BEEF INSIGHTS

OVERVIEW

- Is the latest cooling in cattle prices a new chapter in buyer sentiment - or is it a result of logistics and flood-related delays?
- Fewer cattle in the saleyards as a result of flood disruptions have seen interest soften. Combined with drier weather in the south and poor wet-season in the north, the industry has seen the EYCI drop to a 5 month low
- Exports have started the year poorly – not so much due to demand, but more to do with shipping delays, floods and processor shutdowns due to COVID
- For months, we have been speculating that Australian prices may have to come back at some stage as local prices had exceeded global prices. Instead, tight supply in Brazil, high oil prices and lower disposable income have resulted in increased demand for Australian beef.

For almost two years, the Australian agriculture industry has all been asking – how high can cattle prices go - and how long can they stay there? Now, as the industry sees the first signs of some moderation in the inexorable climb in prices, a new question is being asked – is this the start of a new period of low or negative growth, or is this a 'false dusk' caused more by floods and war than by a real change in buyer sentiment?

AUSTRALIAN SALEYARD CATTLE PRICES



Source: MLA, ANZ

The Eastern Young Cattle Indicator (EYCI) has fallen off its highs of almost 1,200c/kg in recent weeks, falling almost 6 per cent since late January. Movements between categories of cattle has been mixed, however, providing a fuller picture of the state of the industry. The greatest falls have been felt in the medium steer category which have fallen over 10 per cent since January while heavy and feeder steers have also fallen slightly in that time. Trade steer prices have actually risen over 4 per cent in the same time. Concurrently, the Western Young Cattle Indicator (WYCI) has risen strongly to now sit at a slight premium to the EYCI. This is due to the strong and unbroken demand for young breeding stock in the west.

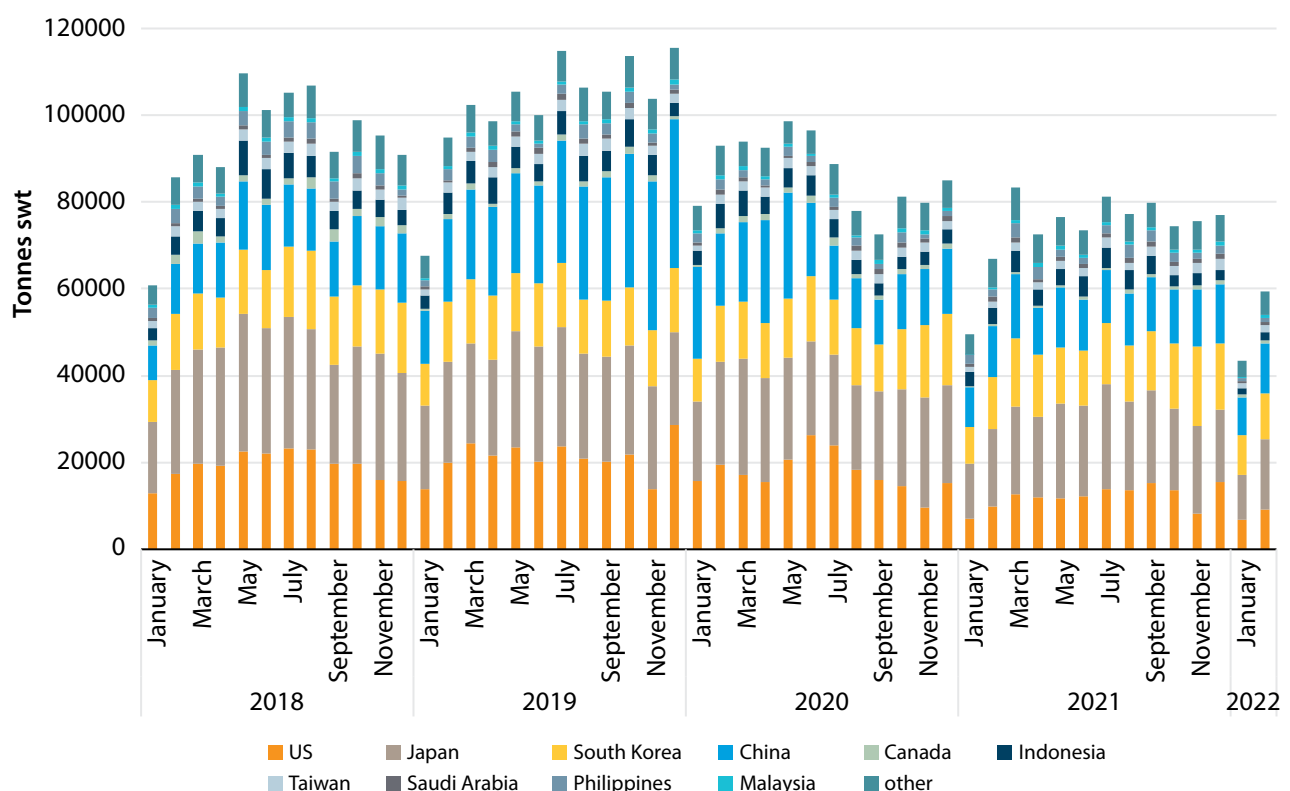
The strong rise in the WYCI may also indicate something else – that the moderation in the EYCI is more closely linked to particular circumstances in the east - most particularly flood, but also dry conditions in both the south and far north - than it is to do with a change in restocker and buyer sentiment. One factor driving lower prices in the east has been dryer than usual weather in both the south and poor wet season in the north increasing

the number of lighter and medium-weight steers in the saleyards. In southern Queensland and New South Wales, multiple flooding events resulting in some stock losses and, more particularly, blocking access to saleyards. As a result, yardings and processor activity in the saleyards have been down.

Another factor putting downward pressure on prices has been the significant increase in processor costs in recent months. Shipping rates have risen steeply as a result of the Russia/Ukraine war and lack of shipping availability has flowed back to processors who are putting on pressure in the saleyards to maintain their margin. Also impacting processor margins have been increasing fuel and domestic freight costs as a result of the rising oil price.

The feeder steer market remains stable, despite feed wheat prices rising over 80 per cent on the same time last year – although the premium being received for feeder steers over trade steers has now disappeared with trade steers now attracting the premium, primarily due to feeders making up the majority of yardings.

AUSTRALIAN BEEF EXPORTS

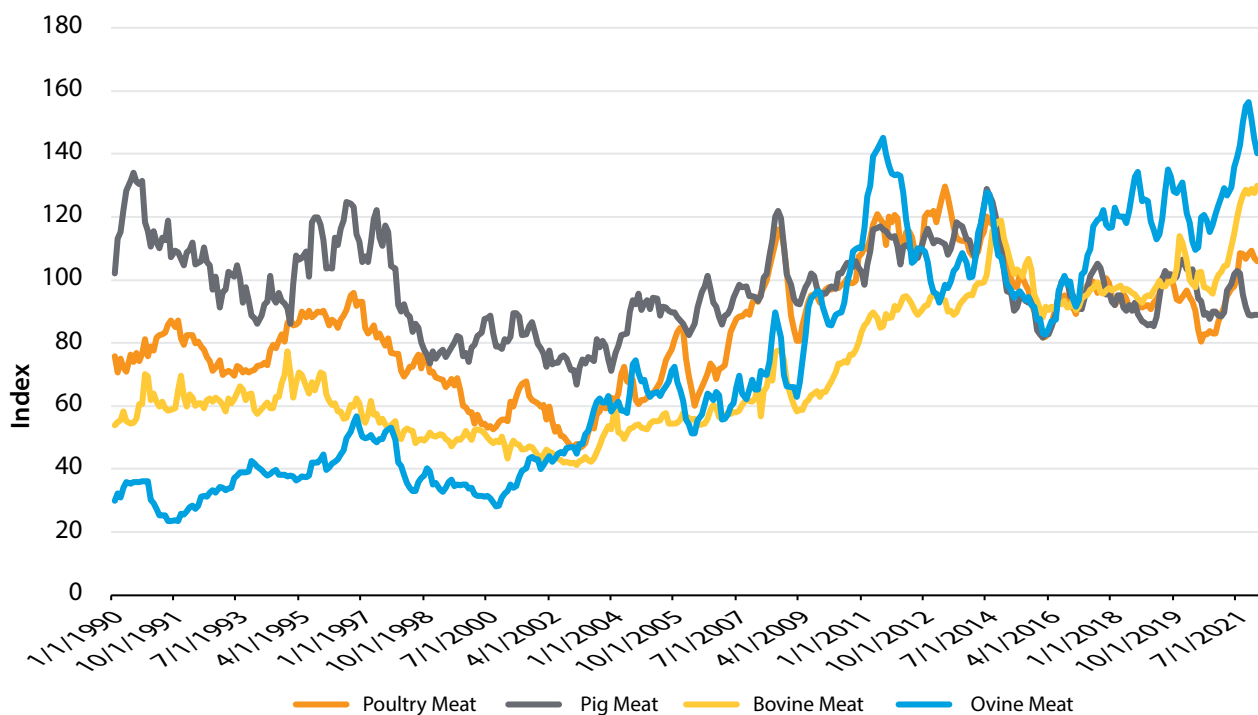


Source: DFAT, ANZ

Australian beef exports started the year down significantly on the previous year down 13 per cent, 11 per cent and 11 per cent year-on-year in the first three months of the year respectively. Figures for March show all major export markets have suffered declines except Japan. Exports to the United States continue on their downward path, as the drought-led cull across the national herd pushes out demand for Australian imports. Somewhat counter-intuitively however, there are some indications that this trend should turn around shortly as a global decline in disposable incomes is pushing consumer buying in the US to wards ground beef – of which, Australian beef is a major ingredient.

For some time now, we have been discussing the looming downward pressure on Australian cattle prices resulting from Australian prices outstripping global cattle prices. In a major upside for Australian prices, instead of domestic prices coming down to meet global prices, global prices are rapidly rising to meet ours. According to the United Nations Food and Agriculture Organisation (FAO), global beef prices are now at record highs. Global freight costs, oil prices and tight global supply, particularly in Brazil, have pushed global beef prices up. In the medium-term however, the outlook remains uncertain with the war and subsequent impact of global economic growth and income likely to hit demand for high-quality Australian cuts.

GLOBAL MEAT PRICES



Source: FAO, ANZ

In the longer-term however, questions are being asked over how much higher can global (and domestic) beef prices go before consumers start to turn to alternative products. On the upside, there are only a limited number of alternatives to beef, with sheep meat supply relatively limited and already

highly priced. However as the global economy braces for a conflict-led downturn in growth and the erosion in disposable income from higher oil, freight and energy prices, many consumers may be forced to seek alternatives that might include the white meats and plant based proteins.



SHEEP INSIGHTS

OVERVIEW

- A flattening in lamb prices may signal the post-drought restocking process has finally calmed
- While processors continue to be challenged by a shortage of labour, they appear unlikely to experience the shock Covid-related disruptions of 2020 and 2021?
- The cycle in sheep prices may well turn upwards in mid to late winter, as lamb supplies tighten ahead of the spring lamb flush
- While sheep meat exports remain strong, they have seen some easing in the US and Chinese markets

In looking for a comparison to the current position of the Australian sheep industry, one example could be that of driving into a reasonable rain shower. It's no great cause for concern, you've been there before, but it could be temporarily challenging, so its best to stay focused and aware of everything around you until you come out the other side.

A third of the way through 2022, the Australian sheep sector remains in a strong position, but continues to be volatile. The industry, and particularly sheep prices, continue to be impacted by a range of factors including volatile yarding numbers, disruptions to the processing sector, and fluctuating export demand. In addition, the regular seasonal impacts, as the industry heads toward a winter of lambing before spring lambs hit the market, also needs to be considered.

The fact the industry benchmark Eastern States Trade Lamb Indicator (ESTLI) dropped just below 800 cents in March would, in most years, still be seen as a very positive sign. That figure is not only 25 percent higher than the same point in 2019, but almost 40 percent higher than the average for the same time over the period of 2015-2019.

However, not only has the ESTLI dropped below the same point in time for the previous two years, but it is also now 20 percent down on the record high recorded in February 2020, when the industry was arguably at the start of the sustained restocking period, in the wake of the end of drought.

Looking at this in terms of an annual cycle, a slight decline in lamb prices from January to the end of March is not unusual, having occurred for at least six of the past eight years. Reasons for this could include an easing in consumer demand for lamb after the summer holidays, as well as processors and retailers having reasonable supplies in storage. In addition, it could also be as a result of producers having sold off older lambs in that period, in anticipation of having leaner grass availability heading into autumn, with the annual uncertainty of the timing of the break, and subsequent growing conditions, balanced off against the need to buy feed in a market of tighter grain and hay supplies.

LOOKING LONGER TERM, ONE SIGNAL FROM THIS PRICE DROP MAY WELL BE THAT WHILE LAMB PRICES ARE LIKELY TO REMAIN STRONG, THE VOLATILITY OF THE PAST TWO YEARS MAY FINALLY BE FLATTENING OUT, WITH PRICES POTENTIALLY RETURNING TO A MORE EVEN TREND, ALBEIT WITH THE REGULAR FLUCTUATIONS THE MARKET WILL ALWAYS HAVE.

A look back over the previous two years shows three major factors which have impacted prices. Firstly, the first three months of 2020 saw the post-drought restocking period, as producers clambered to rebuild their flocks in the wake of the rain, and the start of the green flush, finally arriving. The rise in sheep prices at that time was mirrored by cattle prices through the Eastern Young Cattle Indicator (EYCI), as the national herd also rebuilt, with both staying strong for the first few months of that year.

However, while the national cattle prices continued to be pushed upwards by restocking activity, lamb prices saw a major fall of over 30 percent that year from mid-May until late July, down to 640 c/kg, driven by the Covid disruptions to the lamb processing sector, particularly in Victoria. With temporary government restrictions on labour levels and operational capacity, the impact of the slump in processor buying was stark. Fortunately, the price slump was short-lived, with the loosening of these changes seeing prices climbing back to 824 c/kg by October.

The third major factor impacting prices has been the volatility in sheep meat exports, and the signal this sends to the market. While both lamb and mutton exports have remained relatively strong in historical terms, they have seen some decline on average export figures over the past two years. Over that period, export demand had been driven partly by the strength of demand from China, with its need for red meat to replace the loss of domestic pork supplies from African Swine Fever. In addition, the US market had also seen strong growth, as Australian sheep meat grew in popularity, though the market is now seeing a leveling in demand.

Promisingly, Australia's near neighbour of Papua New Guinea continues to seek more Australian lamb, having now become the third largest market for lamb exports.

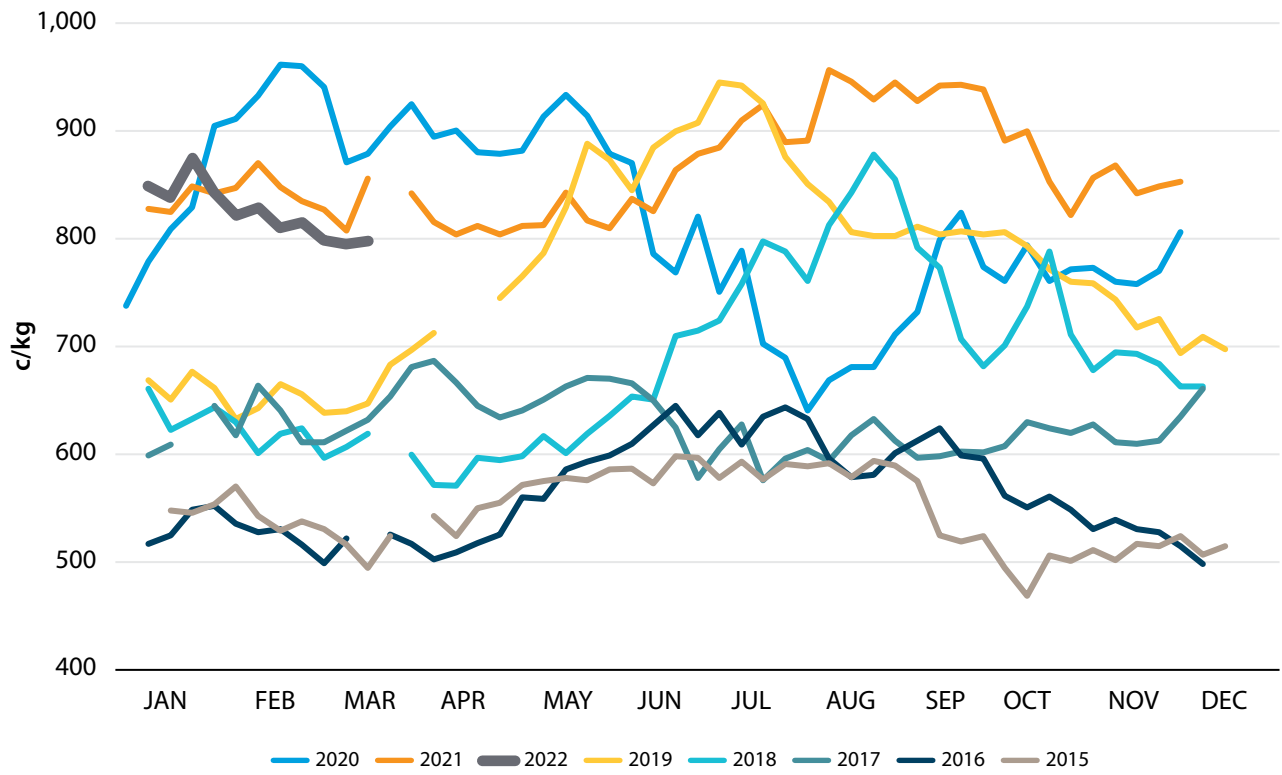
Looking ahead, and taking these factors into account, the signs remain strong for the sector. While the restocking process may have unsurprisingly slowed, the outlook remains for the national flock to continue climbing steadily.

In terms of processor activity, while the industry is unlikely to see the sudden major disruptions caused by Covid in 2020, the lack of availability of labour to achieve full operational capacity may continue to restrict the activity of some processors, dampening prices from what they could otherwise be.

On the export front, while the ebbs and flows of different markets will continue, the overall outlook remains strong. Looking further ahead, the recent Australia-India Free Trade Agreement may see further growth in that major market, while ongoing changes in Saudi Arabia and other Middle Eastern markets is also likely to see their potential for an increase in sheep meat imports grow.

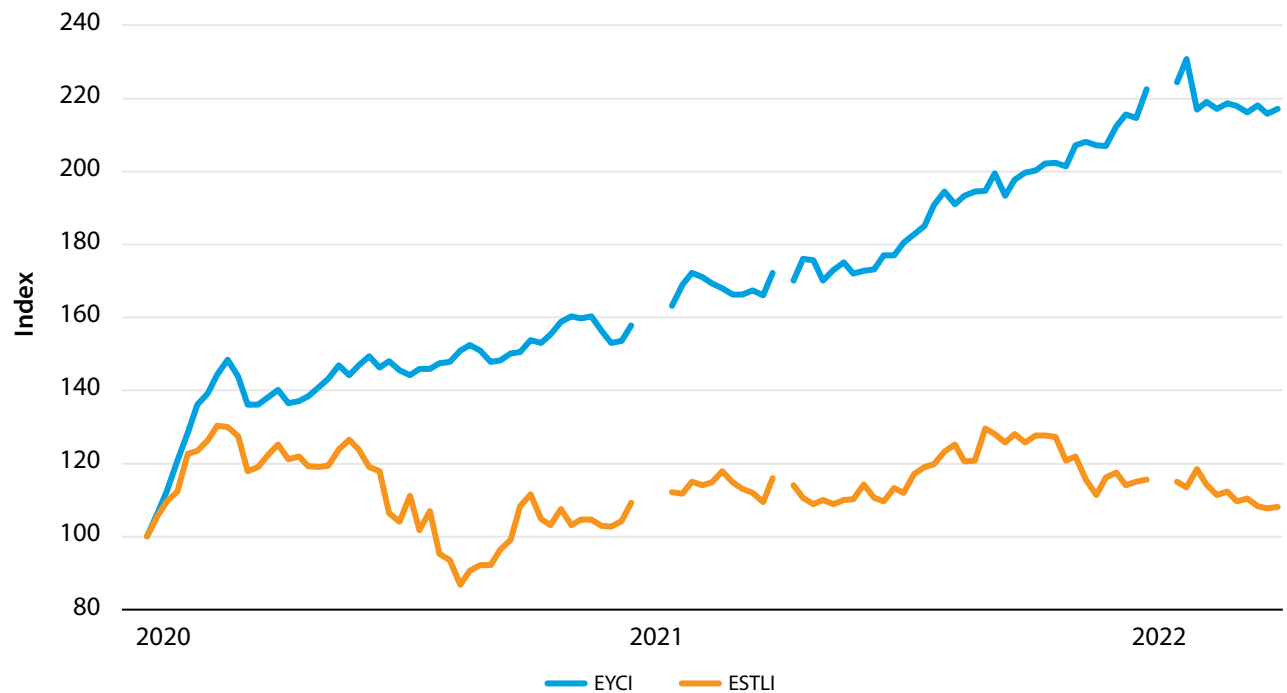


EASTERN STATES TRADE LAMB INDICATOR - 2015 - 2022



Source: MLA, ANZ

EASTERN STATES TRADE LAMB INDICATOR (ESTLI) VS EASTERN YOUNG CATTLE INDICATOR (EYCI) (JAN 2020=100)



Source: MLA, ANZ



WOOL INSIGHTS



OVERVIEW

- Australian wool prices experienced an instant jump as a Foot and Mouth Disease in South Africa saw that country's wool exports banned by China
- Wool buying at auction may be hindered by the supply chain disruptions being experienced by Chinese companies
- Wool prices will continue to remain susceptible to changes in AUD/USD strength, with buyers baulking at higher relative prices
- With sheep growing conditions forecast to stay optimal, and sheep meat prices slowing, domestic wool production may possibly see reasonable growth

The announcement at the start of April that South African sheep industry had been hit by an outbreak of Foot and Mouth Disease (FMD) provided an immediate reminder of how vital strong biosecurity measures can be, and how savagely an event such as this can impact all aspects of a country's livestock sector. For Australia's wool industry, the flow-on effects were immediate, resulting in local prices rising, a positive change in the wake of the recent impacts on the market of a range of factors including currency fluctuations and disruptions to China's wool processing sector.

The announcement of an outbreak of FMD in South Africa drew a swift response from China, which imposed a ban on imports of South African wool. China had undertaken the same action in 2019, when an earlier FMD outbreak saw China ban South African wool imports for eight months.

The action caused a quick response in Australian wool prices with the market lifting by four per cent. While this made a difference at that point, it is likely that this slight surge may have come from Chinese processors needing to quickly fill orders. Given that South Africa is a far smaller exporter of wool than Australia, the longer-term impact of the export cessation on Australian wool prices is unlikely to be a major one.

In the past, the wool industry may have been looking at prices rising at this time of year, as supply normally becomes tighter globally, not just from Australia, but South Africa and South America. Similarly, Chinese mills would ordinarily be starting to increase their buying, planning to process the wool which would be manufactured into garments for the Northern Hemisphere winter.

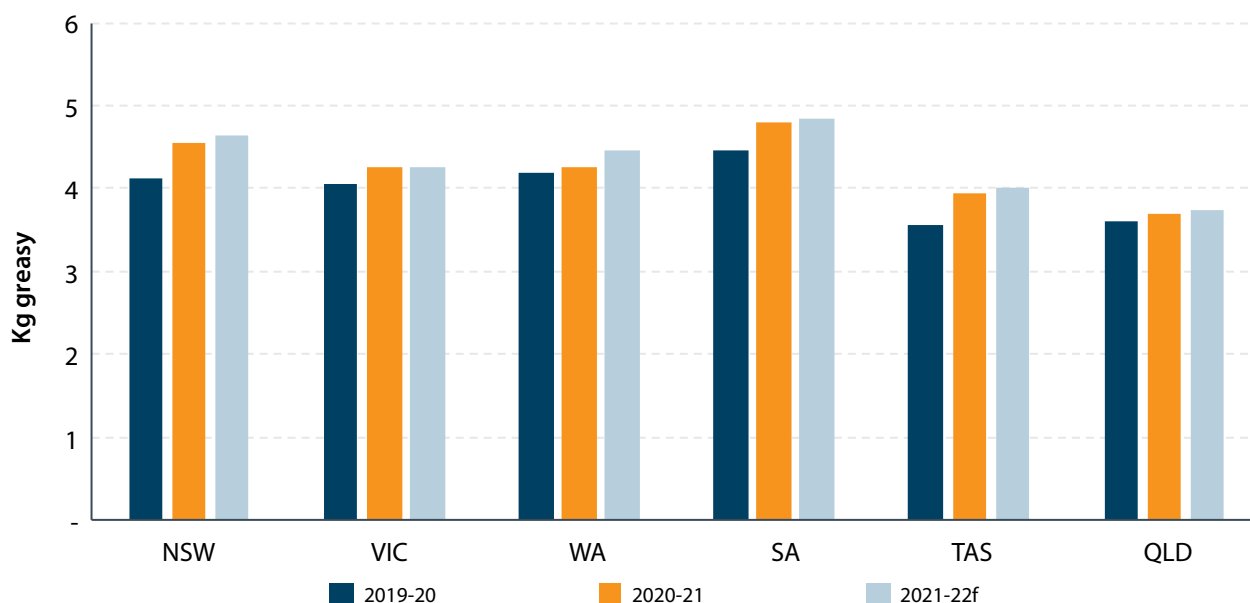
However, given that parts of China are currently locked down, in a bid to control the spread of Covid-19, as well as the wider disruptions across the wool supply chain in China, that demand is likely to be reasonably muted this year. While processing and manufacturing will continue, the delays and disruptions will likely impact both ends of the supply chain – less upward price pressure for Australian wool, and less fine woollen clothing on European and other Northern Hemisphere shelves later this year.

On top of this, wool sales may also see impacts from the ongoing disruptions to shipping, with delays and difficulties in obtaining containers deterring some wool buyers, in addition, wool remains quite susceptible to shifts in currency, and any substantial strengthening of the Australian Dollar may see further buyer hesitation and local wool auction prices.

In terms of domestic production, the ongoing positive seasonal outlook should see excellent conditions for wool production to increase, both on a yield basis, as well as overall. One pattern to watch will be the decisions by sheep farmers on whether to opt further down the meat or wool path each year. As detailed in the chapter on sheep,

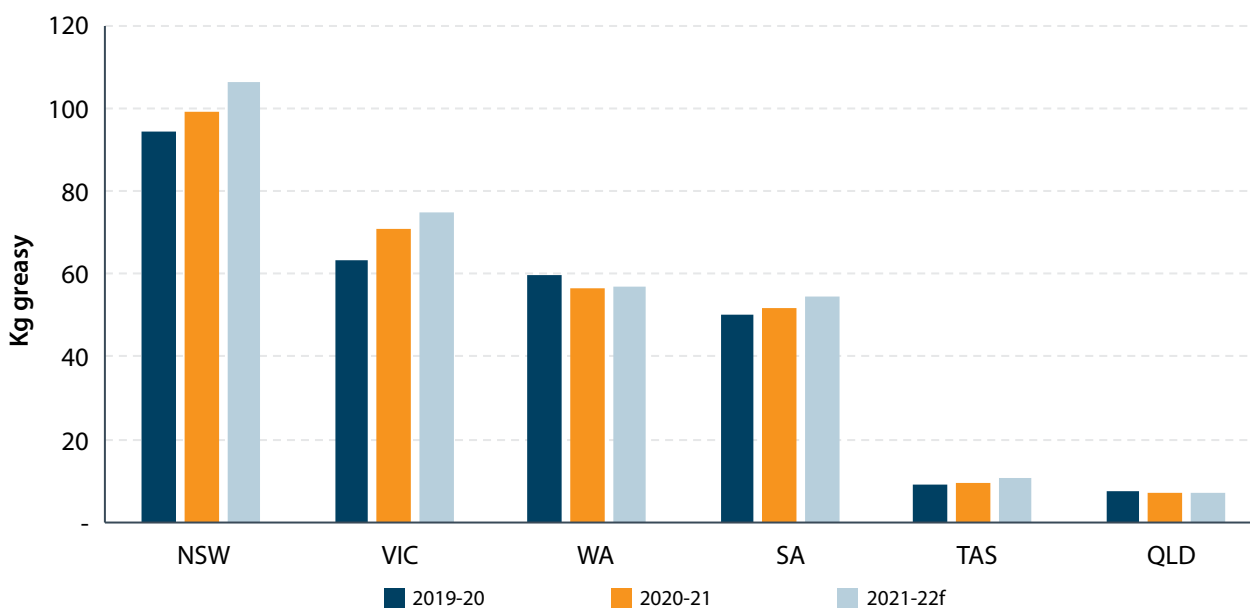
given that lamb prices may be showing some signs of plateauing, it is possible that the coming year could see some change to the trend of wool increasingly accounting for less of the value of overall sheep production, and play more of a role again on Australia's sheep farms.

AVERAGE WOOL CUT PER HEAD BY STATE



Source: AWI, ANZ

WOOL PRODUCTION BY STATE



Source: AWI, ANZ



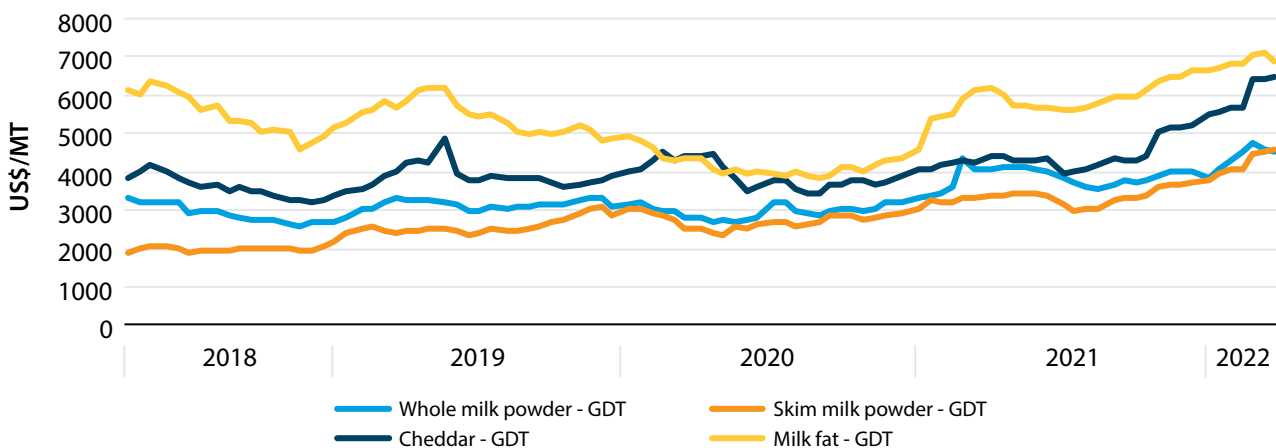
DAIRY INSIGHTS

OVERVIEW

- The strong start to 2022 has come back slightly as global dairy prices have fallen in recent auctions
- New Covid outbreaks across China, combined with China's zero-Covid strategy, has resulted in a temporary dropoff in demand
- Globally, the story is still one of strong demand and limited supply, as production in New Zealand, United States and European Union drops
- Domestic production is also expected to be down this year as a result of seasonal conditions
- Despite rising input prices, the picture looks good for domestic dairy prices, particularly given recent stepups

After a spectacular start to 2022, the latest Global Dairy Trade (GDT) auctions have seen slight falls in the dairy price index. After reaching highs of \$US1,593/MT in early March, the GDT has fallen by 0.9 per cent and 1 per cent in the last two auctions respectively. Falls in prices have been mixed across commodity classes, with the greatest falls in whole milk powder (WMP) prices, butter and milk fat prices – however all of these slight falls have come after periods of stellar growth with WMP prices now sitting 17 per cent higher than at the beginning of the year. Skim milk powder (SMP) and cheese prices continue to perform strongly, with SMP powder prices now sitting on par or slightly above WMP prices.

GLOBAL DAIRY TRADE PRICES



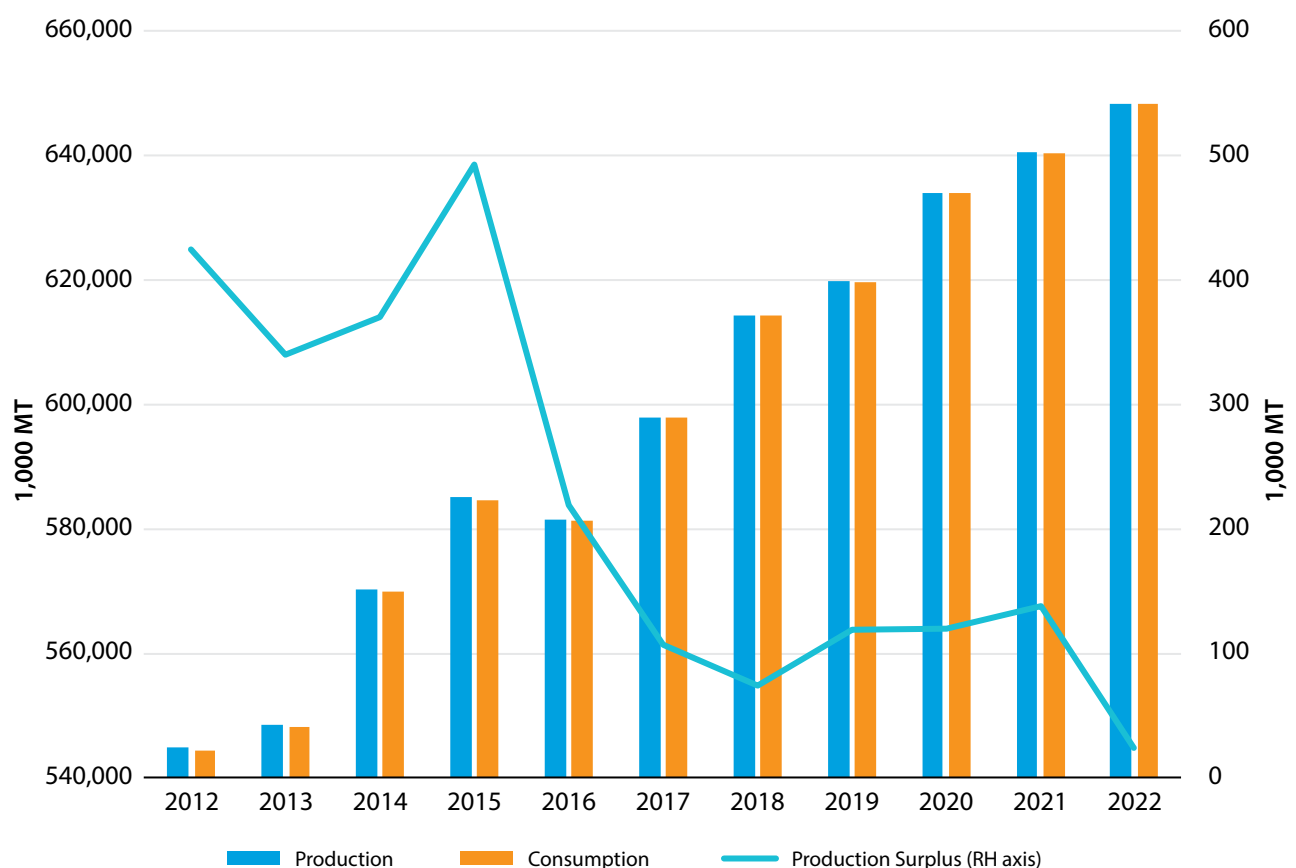
Source: GDT, ANZ

What's driving this slight dip in prices? Chinese demand dropping off has been the major factor influencing prices, as new Covid outbreaks and the resulting lockdowns across China have resulted in supply chain delays and lower demand. This isn't expected to be a long-term drop in demand, however, as the overriding demand and supply factors are supporting strong prices. In particular, the Russian war on Ukraine which has led to large jumps in fuel, feed and fertiliser prices has also led to skyrocketing prices, and without any sign of a conclusion being reached, that upward pressure on prices is expected to continue.

With Russian bans on western milk imports, high oil prices, high feed and fertiliser prices and very strong milk prices – you would be feeling a certain sense of déjà vu. Are the current circumstances a

foreshadowing for a price crash similar to the one last seen in 2015? In short – no. In 2014, high prices were combined with a lifting of production quotas in the European Union causing a massive increase in global supply at the same time as Russian banned western imports. This time, however, there isn't the massive amount of new supply in the global market. In fact, in Australia, and in most major dairy producing countries around the world, supply is still tight. In 2015, the surplus of milk production over consumption reached almost half a million tonnes – this year, the United States Department of Agriculture is forecasting for the production surplus to fall to just 24,000 tonnes. Production in New Zealand has been hampered by the weather, while high input costs have resulted in lower production in the United States and European Union.

GLOBAL MILK PRODUCTION AND CONSUMPTION



Source: USDA, ANZ

In Australia, production is anticipated to be down again this season with a wet spring, hot and humid weather in January, and dry start to autumn in the south. The smaller national dairy herd and seasonal conditions combined are expected to result in a 1% to 3% reduction in Australia's national milk production.

All farmers, dairy farmers in particular, will be aware and concerned about the skyrocketing cost of inputs – namely fertiliser, feed and fuel – which will certainly erode margins for the foreseeable future. Although there is plenty of feed grain available, and good water storages in most systems – any supplementary feeding is likely to come at a high cost. Added to this, the cost of transport is likely to increase the cost of production for processors which may have some impact on their margins.

On a retail and consumer front, with significant food inflation become the major issue for countries around the world, there are concerns about

a change in consumer buying habits. To date, this doesn't seem to have eventuated, with global and domestic demand continuing to perform strongly. Domestically, Australian milk and dairy produce prices have historically been relatively flat and the dairy food price index still remains below the Australian food price index and consumer price index, despite recent upticks in the price in supermarket shelves. For this reason, domestic consumption is expected to remain relatively resilient.

Given all this, the domestic and global supply shortage bodes well for good prices for the remainder of the season and good opening prices going into 2022/23. All indications are that prices will remain strong, particularly following recent stepups from processors including a retrospective price increase of 20 cents, to \$7.25 a kilogram/Milk Solids from Saputo in early April.



COTTON INSIGHTS



OVERVIEW

- Global cotton prices have hit eleven-year highs, as a result of poor crops in the US and India
- The Australian cotton crop is forecast to be close to record levels, due to high rainfall and water capture in key storage systems
- Strong demand for cotton products globally, following the reopening of economies after Covid disruptions, will also drive high prices, although this may be temporary

With the US cotton crop continuing to be impacted by a drought in the major US planting regions, global prices have continued their strong climb over the two years, hitting an eleven year high in April. In a sign of just how much the cotton market has changed, global prices in April 2022 are up over 160 percent on the price in April 2020. For the Australian cotton industry, this development has come at a very good time, with the local industry forecasting the 2022 harvest to be one of the largest on record.

The turnaround in the fortunes for the Australian cotton industry after the drought continues to be spectacular, with both planted area and production forecast to remain at near record levels. As with a number of other cropping sectors, the industry benefited from optimum rainfall levels as a result of the La Nina Event in 2021/22, which allowed growers to plant a large amount of dryland area. Assuming the favourable conditions continue this would see not only above average yields, but an increase in production of over 90 percent on the previous year for 2021/22, with the Australian Bureau of Agriculture and Resource Economics (ABARES) forecasting a crop of just under 1.2 million tonnes.

The change in fortunes would reflect a period of stark volatility in the Australian cotton sector, which has largely been the ongoing dynamic for the past 40 years, and which is arguably starker than that of any other major Australian agri sector. From its beginnings in the early 1960s, the Australian cotton sector experienced relatively steady growth in acreage and production for 40 years. Since 2000, however, the industry has experienced a series of stark cycles, largely impacted by drought – it is a testament to the Australian cotton industry that it has remained in a position to bounce back each time.

Looking ahead, ABARES is basing its forecast on the coming years on rainfall returning to average levels, rather than optimum, with the potential for drought. As a result, both production and acreage are forecast to fall from current highs.

Globally, cotton prices are currently being boosted to record highs as the drought in major US cotton regions impacts the outlook for both production and export levels. In particular, the north west area of Texas, which accounts for around 40 percent of US cotton production, has seen far less rain than average since January. At the same time, US cotton

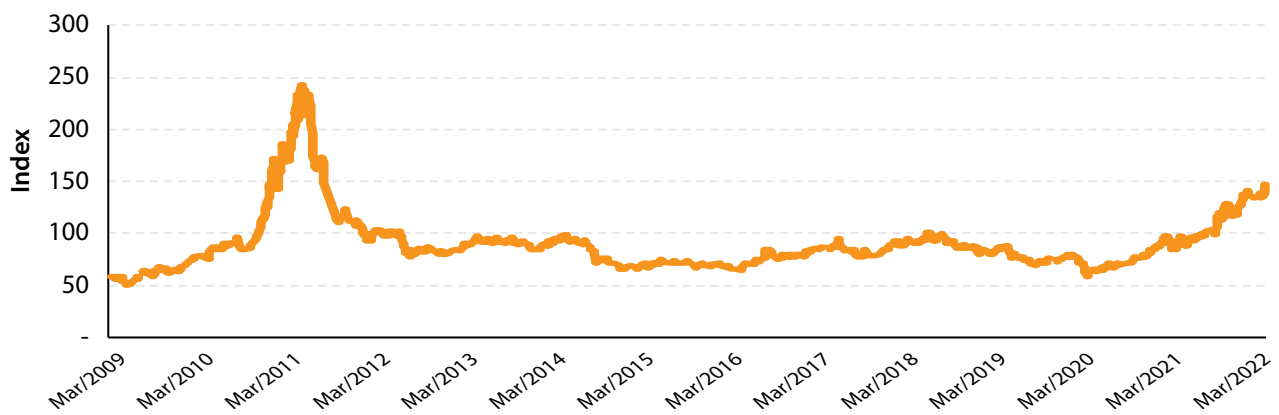
producers are also being impacted by the rising costs of inputs, with the high cost of pesticides particularly predicted to limit the growth in US acreage, as well as high fertiliser prices. In addition, the Indian cotton crop has also been impacted by weather, including below average rainfall at the start of monsoon season, followed by cyclones later in the growing period, with these events forecast to reduce India's cotton ending stocks by around 33 per cent.

At the same time, as global economies continue to largely move forward from the Covid disruptions of the past two years, cotton demand for textile manufacturing is forecast to increase, particularly from China. While China's processing sector may be impacted to some degree by the current

lockdowns in a bid to curb the spread of Covid in cities such as Shanghai.

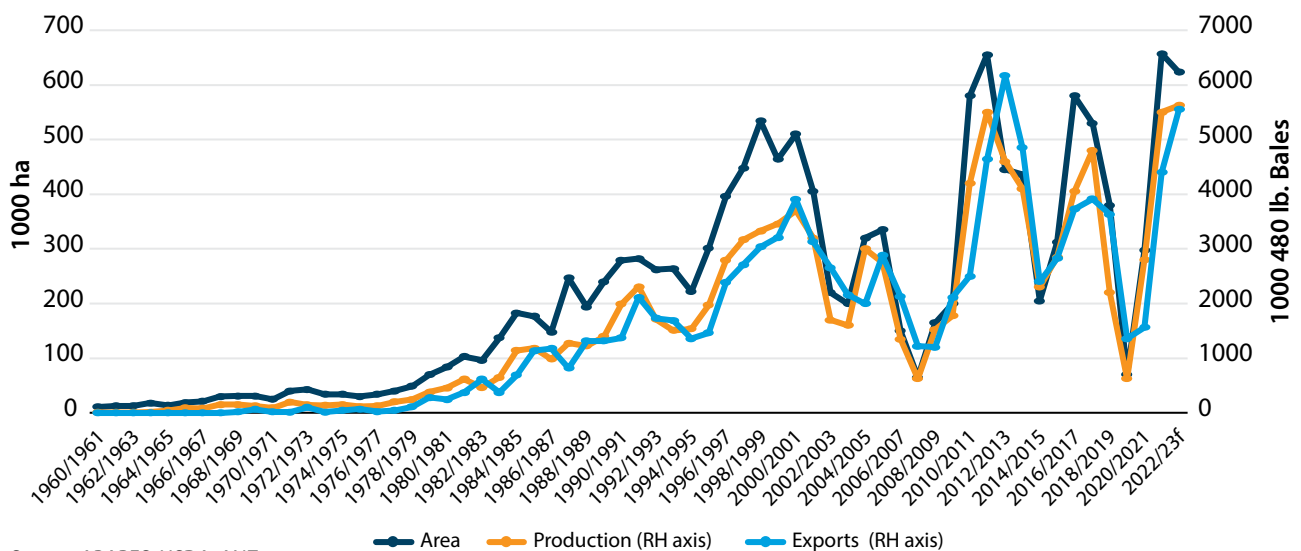
One challenge the market may face over the coming one to two years is just how much the high price of cotton will flow through to textile and garment costs globally, and whether this will see a buying downturn by consumers, which would likely see a slowing in imports and place downward pressure on prices. Similarly, the global industry will also be closely watching for any cyclical changes by consumers after the current "post-Covid disruption" surge in demand for cotton goods, if consumers then pull back on their spending, because of subsequently needing less cotton products, not just around clothing, but household and furnishing products too.

COTLOOK A INDEX



Source: Cotlook, ANZ (the Cotlook A index is a global industry price benchmark, taken from an average of the five cheapest quotations from a selection of global cotton trades).

AUSTRALIAN COTTON AREA VS PRODUCTION VS EXPORTS



Source: ABARES, USDA, ANZ

BERRY INSIGHTS

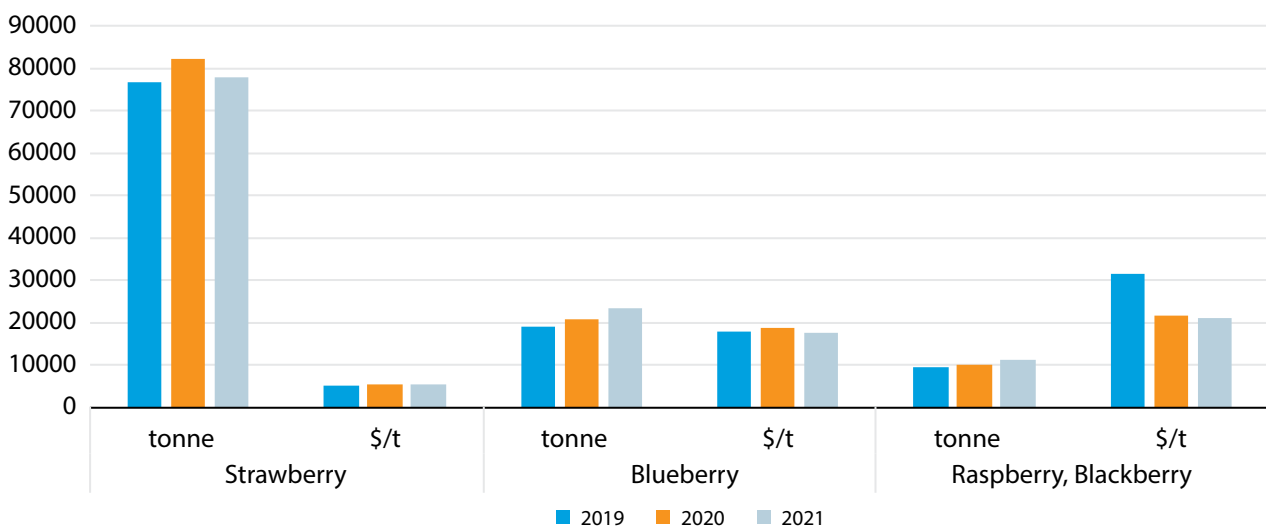


OVERVIEW

- A significant increase in productive capacity for many berry category is expected to keep downward pressure on retail prices until export markets expand
- The price of berries on the supermarket shelves has risen strongly in recent weeks as the impact of floods has limited supply, while shipping and supply chain issues has also boosted domestic demand
- Australian berry production is a highly concentrated industry with just over 600 growers across the country
- Worker shortages continue to be a major challenge for the industry while the transition away from piece rates will also impact margins and pricing.

The Australian berry industry has gone through a period of significant growth in recent years, with production growing strongly to over a billion dollars in farmgate value in 2019/20. While exports have shown solid growth, domestic consumption remains the primary market at over 95 per cent. Growth in production has seen berries become more readily available on supermarket shelves, however it has also had the longer-term impact of pushing prices lower as supply catches up with demand. Looking forward, with new production capacity of around 12 per cent of total current production expected to bear fruit in coming years, the development of new market access opportunities remains crucial to the berry industry's value proposition.

AUSTRALIAN BERRY PRODUCTION AND VALUE



Source: Horticulture Innovation, ANZ

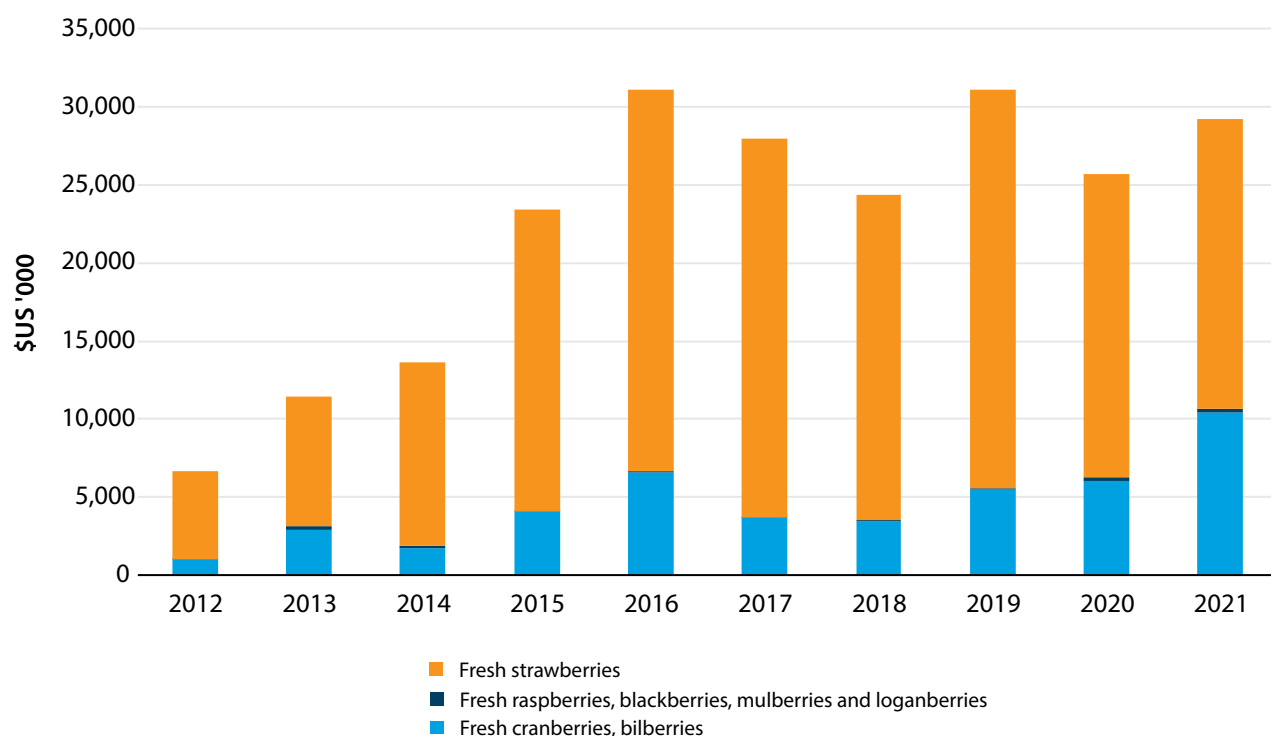
Growth of an average of 9 per cent per year over the past 10 years has seen Australian berry production almost double in that time – and making it one of the highest value horticulture sectors in the country. With production spread up and down the eastern seaboard with raspberries focussed down south and strawberries and blueberries up north, it is a large and diverse market. There are however, a number of challenges and trends that are common to all berry species.

Supermarket shelves are notably full of an increased supply of Australian berries in recent years, with around 75 per cent of Australian consumers buying fresh berries – and most buying multiple varieties. On average, the Australian consumer buys almost 4kg of berries each year. As a result of this increased domestic demand, and a production push to year

round supply, prices have begun to moderate slightly with both strawberry and blueberry prices showing slightly less seasonal volatility.

Having said that, recent flood and international supply chain delays have both contributed to an increase in food prices across the board – including berries. With the recent floods in Queensland and New South Wales impacting blueberry production and forcing prices higher. Labour shortage issues throughout Covid lockdowns has also put upward pressure on the cost of production as growers struggle to attract and retain skilled labour. However the clear macro-trend in the Australian berry industry is one of increasing supply and increasing investment in production capacity putting downward pressure on prices.

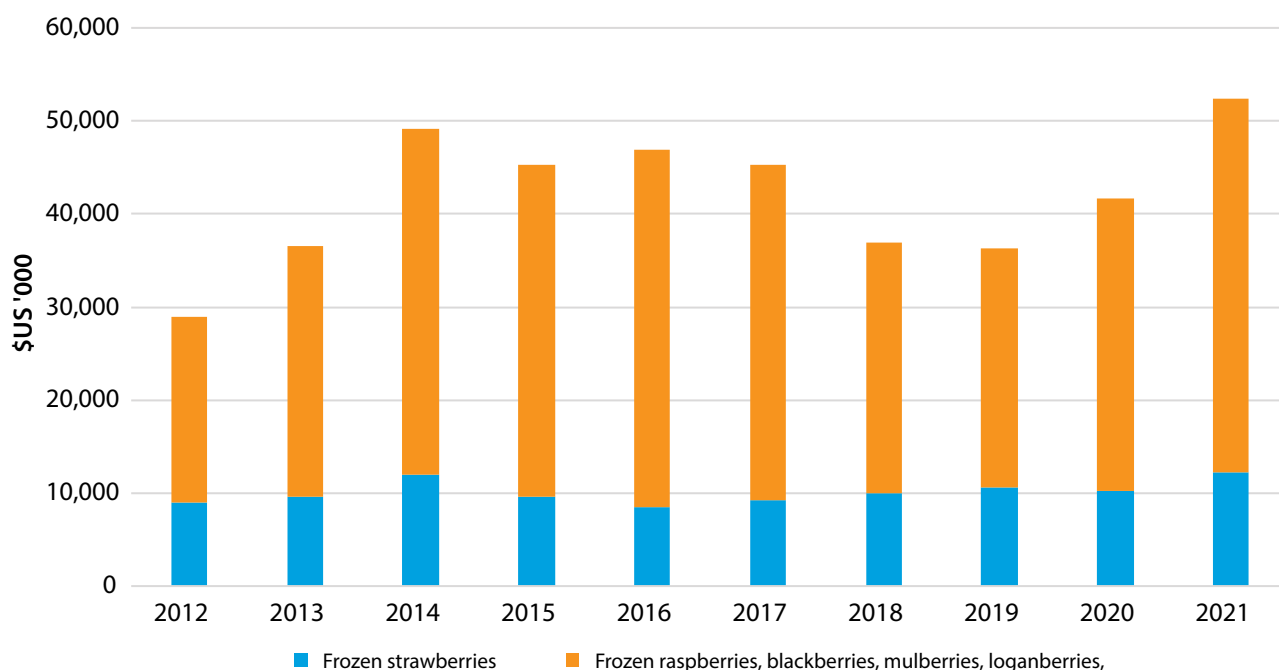
AUSTRALIAN FRESH BERRY EXPORTS



Source: TradeMap, ANZ

THE AUSTRALIAN BERRY INDUSTRY IS A HIGHLY CONCENTRATED INDUSTRY WITH MOST GROWERS OPERATING UNDER FEW MAJOR BRANDS, RESULTING IN A NUMBER OF IMPACTS INCLUDING BETTER BARGAINING POWER FOR SUPPLIERS, BUT ALSO A CONCENTRATION OF REPUTATION OF THE PRODUCTS UNDER A LIMITED NUMBER OF BRANDS.

AUSTRALIAN FROZEN BERRY IMPORTS



Source: TradeMap, ANZ

One of the major hurdles facing the Australian berry industry is the inability for Australian frozen berries to compete with the prices of frozen imports. Australian frozen strawberry exports receive \$US4,074 per tonne compared with imports into Australia which enter the country valued \$US2,066 per tonne. Similarly, with frozen raspberry and blackberry trade, Australian exports are valued at \$US5,818 per tonne, compared with cheaper imports into Australia which are valued on average \$US3,253 per tonne.

The cost of production for berries in Australia necessitates that produce is sold at a premium, either fresh or for value-add products including syrups, jams and to food service.

With a significant amount of new production capacity to come into production in the coming years, gaining market access to new export markets – particularly in Asia – is crucial to ensuring that Australian producers receive prices commensurate with the relatively high cost of production compared to competing exporters. The export case for Australian berries relies on Australia's solid image for clean, green and safe produce as well as developing reliable storage and export procedures to ensure reliability of quality and avoid spoilage.

While export markets are a clear opportunity to develop new high demand, high return markets, an opportunity also exists locally to take advantage of growing domestic consumer concern over the safety and reliability of frozen berry imports. While frozen berries are a lower price point, many domestic consumers may be willing to pay a higher price for non-imported product.

While the future of the berry industry is clearly a bright one, with significant investment, better shelf presence in local supermarkets, and a more highly diversified production base which sees fewer production gaps – there still remain a number of challenges to the industry. Most notably, the lack of available labour remains the standout challenge for both the industry and government. However, producers continue to face a broader challenge to align the relatively high cost of production and increasing supply with maintaining year-round high value demand.



AUSTRALIAN ECONOMICS INSIGHTS

U-turn from emergency stimulus begins as Australia's economy heats up

INFLATION AND WAGES ARE HEATING UP IN AUSTRALIA

Australia's unemployment rate fell to 4.0% in February and should drop into the 3s shortly, with labour demand and vacancies still high and rising; ANZ Job Ads jumped 11.4% m/m across February and March to a new pandemic peak. We are forecasting the unemployment rate to fall to the low 3s by the end of 2022 which would be the lowest in almost 50 years.

Even more positive is participation reached a record high of 66.4% in February, so unemployment has mainly been driven lower by strong employment growth, not people leaving the workforce entirely. While the lack of international migration has accelerated the labour market tightening, we think the demand side has been the key driver. The reopening of international borders will improve the matching of workers to jobs, but we do not think it will prevent further tightening. New arrivals will not only add to the supply of workers, they will also add to the already very strong demand side.

As a result we expect wage growth to accelerate this year, but stay below inflation (which means we'll see falling real wages). Then next year we'll see wages continue to accelerate, even as the RBA raises rates to slow down growth and inflation across the economy.

MONETARY U-TURN: RBA TO INCREASE RATES FROM "EMERGENCY LEVEL" OF 0.1% IN JUNE

We look for the RBA to tighten by 15bp in June with follow-up 25bp rate hikes in July and August. This is a little earlier than the previous call, of the RBA starting in September. We think the cash rate will rise to 1% by the end of 2022. From there we expect one

0.25% rate hike in each quarter of 2023, taking the cash rate to 2% at the end of 2023. At that point we think the RBA will pause for an extended period, not least because by then the Fed will have tightened materially, with the US and global economies expected to be showing signs of slowing. We still see the cash rate as eventually rising to 3% or more, but not until some time after 2023.

FISCAL U-TURN: GRADUAL REDUCTION IN THE DEFICIT

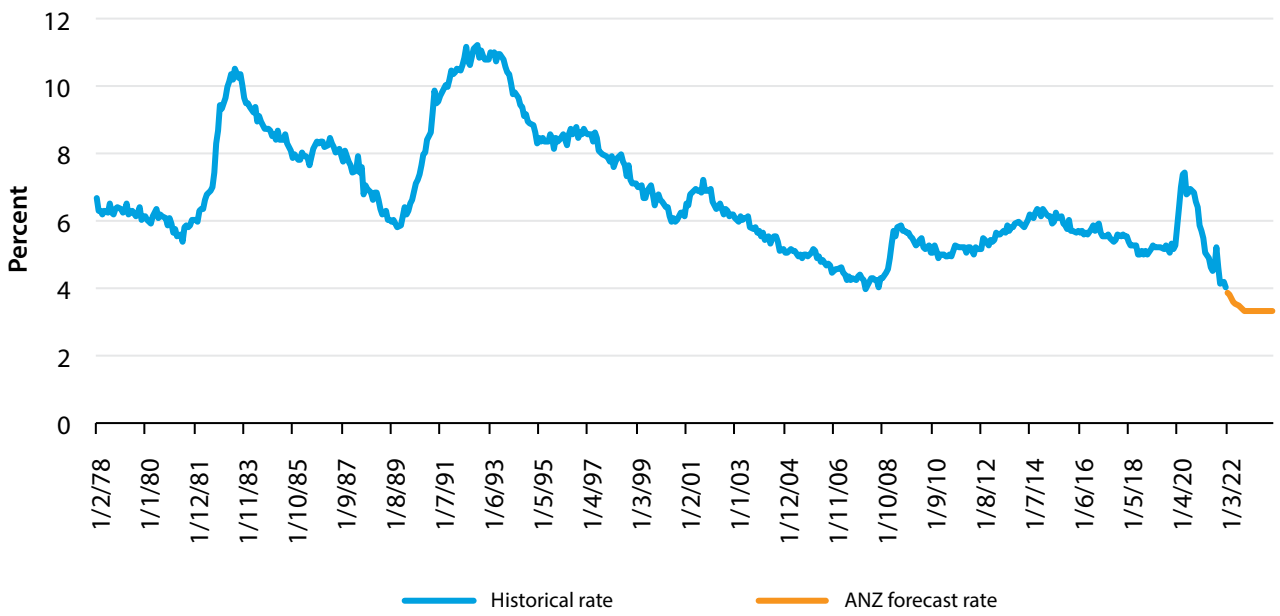
The Government has announced almost \$40bn of new spending (or revenue reductions) across the five years from 2021-22. This is quite a bit more than we expected, and more than half is set to occur in the current financial year and 2022-23. This adds to demand at a time when the economy is already strong.

The Budget shows a material reduction in the deficits, as we move from emergency spending and stimulus to a more "normal" government spending pattern in the coming years. Strong commodity prices, more people in jobs and rising wages also all help, since they all create more tax revenue.

U-TURN DOESN'T MEAN BACK TO NORMAL

Though the narrowing of the deficits can be interpreted as a tightening of policy, it is hard to argue that fiscal policy is especially tight when a deficit of 3.5% of GDP is set against unemployment of 4% and falling. And it's the same when it comes to the RBA. If our forecasts are correct and they tighten rates up to 1% by the end of the year, the cash rate would still be considered "stimulatory" to economic growth, since it would be well the "neutral rate", which is the cash rate that neither heats up or cools down economic growth.

ANZ FORECAST RATE



Source: ANZ





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