## Commodity updates

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Commodity Overview

- Beef prices are likely to remain supported, particularly if re-stocker activity is encouraged by further rainfall.
- The outbreak of Coronavirus has the potential to place downwards pressure on prices if it remains out of control for an extended period of time.

The global outbreak of novel Coronavirus has weakened global beef market sentiment. If the outbreak drags on for an extended period of time, the negative effects on the Chinese economy and the restriction of supply chains could result in downwards pressure being placed on Australian and global beef prices.

However, the negative impacts of Coronavirus on Chinese demand for Australian beef is expected to be mitigated by the significant requirement for red meat to offset reduced pork availability as a result of African Swine Fever on the Chinese pig herd.

Local cattle prices are expected to be driven predominantly by local conditions; any further rainfall is likely to support Australian cattle prices.

Without rainfall, the weaker Australian dollar will provide a level of support, coupled with lower year-on-year production and demand in export markets. Cattle prices on the east coast surged over January with the eastern young cattle indicator (EYCI) rising 23.3 per cent.

Rainfall in parts of the east coast prompted increased re-stocker activity and led many producers to hold stock back from sale yards. The western young cattle indicator (WYCI) was subdued in comparison as dry conditions persisted.

Over the next six months the Australian cattle herd is expected to fall to the lowest levels in almost 30 years. Supply of cattle at saleyards could fall further if meaningful rainfall is able to lift re-stocker confidence.
Cropping
February 2020

Commodity Overview

- China’s purchase of 1 million tonnes of wheat took the global grain market by surprise, with an estimated 300-500 thousand tonnes coming from Australia.
- Sorghum production forecast to be 85 per cent below average despite some planting after January rainfall, increasing pressure on wheat and barley to satisfy domestic demand.

Offshore wheat values are expected to remain flat for the coming quarter. United States winter wheat plantings are estimated to be close to the lowest on record, and suggestions Russia may restrict wheat export volumes. Despite this uncertainty, global wheat production is forecast to increase 4-5 per cent year-on-year.

Australian cereal prices are expected to hold at current levels, maintaining premiums to international markets. There is potential upside to prices should export pace remain at current levels and domestic users increase bids to lock in supply. Given Australian grain values are already close to the highest globally, increases are expected to be limited to 3-5 per cent.

Dry conditions saw Australia’s winter crop harvest wrapped up nearly a month earlier than usual. National wheat production was 39 per cent below average, in part due to Western Australian wheat production declining 48 per cent year-on-year.

Improved growing conditions in Victoria resulted in a 17 per cent increase in national canola production year-on-year. Despite the increase, canola production was 26 per cent below average.

January rainfall provided enough optimism for some to plant a very late sorghum crop, however production estimates continue to decline. Current estimates suggest the national sorghum crop will be 85 per cent below average, the lowest production total in over twenty years.

Despite elevated local prices, demand from international buyers of Australian grain remains strong. Whilst ‘inelastic’ demand (grain that is normally sourced from Australia and can’t be easily substituted by grain from another origin) has provided a steady base of exports, there have been some surprises.

China purchased 1 million tonnes of wheat from various origins, with estimates 300 to 500 thousand tonnes will be supplied by Australia from March to April. China imported a total of less than 200 thousand tonnes of Australian wheat last season.

Similar tonnage was anticipated for the current season, however the recent purchase has forced a rethink of estimated total of 8 million tonnes Australian wheat exports. Given low production, Australia has limited ability to take advantage of Chinese wheat demand unless it is sustained through to the new crop early next year.
Commodity Overview

- Uncertainty regarding the impact of Coronavirus on the Chinese economy is driving some volatility in global dairy markets.
- Global dairy supply is forecast to increase, as increases in the United States, European Union and New Zealand offset reductions to Australian milk production.

The outbreak of Coronavirus has created some uncertainty in the Global Dairy Trade (GDT) market, reflecting concerns around the economic impact of the virus on Chinese and global markets. Fortunately, however, underlying Chinese demand for dairy products appears to have remained steady.

Global dairy supply is forecast to be one per cent higher this season, led by growth in United States and European Union supply.

New Zealand production is also forecast to increase, albeit only 0.4 per cent year-on-year. Australian production continues to trend lower year-on-year and is forecast to finish the season 3-5 per cent lower, largely due to a reduction in herd size.

Saputo have announced a step up to their farmgate milk price, lifting their farmgate milk price in southern milk region to $7.05/kg milk solids up 10c/kg. The declining Australian milk pool continues to drive heightened competition between processors to secure supply.

The weaker Australian dollar is favourable for local values, improving the relative competitiveness of Australian dairy exports in global markets.

The winter grain harvest has alleviated some pressure from local feed markets, and feed prices are expected to remain flat for the coming months. Increased rainfall may lead to a slightly softer tone if significant and widespread rains were to eventuate.
Ongoing impacts from bushfires continue to present new challenges for horticulture. The loss of millions of bees is expected to impact the pollination of tree crops such as almonds, apples and pears in 2020.

Drought was already a problem for the country’s apiarists, the addition of bushfires wiped out the bees’ food source which leads apiarists to substitute flowers with sugar syrup, a temporary solution which isn’t conducive to hive expansion. Supply of fruit has the potential to be lower as a result which will likely lead to higher prices later this year.

Berry prices were softer in January as favourable ripening conditions led to an increase in supply of strawberries from Victoria and raspberries from Tasmania. Supply of strawberries is expected to peak in coming months, this will likely lead to further price declines in February. Tasmanian raspberry prices were down $4.64/kg on the same time last year.

Growing season conditions improved significantly in December and January with a run of mild weather leading to increases in yield and quality. This is expected to prolong the season and keep pressure on prices.

Strong export demand and a smaller onion harvest will continue to support onion values during the coming months, despite seasonal influx of supply.

Bulb vegetable prices have remained elevated driven by drought conditions in key onion growing areas of South Australia and Victoria.

Export markets continue to compete for supply, seeing prices rise in January to 50.5 per cent higher compared to the same period in 2019.

Sources: AusMarket, ABS.

*Berry price index includes raspberries, strawberries, blackberries and blueberries.

**Bulb vegetable price index includes onion, leek, spring onion, fennel, garlic and shallots.
Sheep
February 2020

Commodity Overview

- Lamb and sheep supply to tighten as rainfall allows producers to retain stock.
- Demand strengthening as re-stockers add to already competitive markets.
- Prices for lamb and mutton to be well supported by tighter supply and stronger demand.

Lamb and sheep supply are expected to tighten as recent rainfall and a more optimistic outlook will give many producers in eastern states confidence to retain more stock.

While producer intentions to begin flock rebuilding are growing, follow up rainfall is still required to fully restore feed and water supplies. Higher prices may draw more lambs onto the market, but low flock numbers will temper any attempts to lift supply in response.

Demand for lambs and sheep in saleyards could strengthen if follow up rain in February encourages more re-stocker activity in markets. This would add to the already strong competition amongst processors seeking to meet strong export demand, particularly from China.

The combination of tightening supply and strengthening demand will support high prices in eastern states, continuing the upwards trend which characterised both lamb and mutton markets in January.

National indicators increased for all lamb categories in January, with re-stocker lambs recording a significant lift of 22.5 per cent. Prices in Western Australia are likely to remain subdued after a lack of decent rainfall kept prices lower year-on-year in January.

The longer-term outlook for Australian lamb and sheep markets remains positive with lower supply compared to 2019 and robust export demand supporting higher prices.

Sources: Meat & Livestock Australia
Wool
February 2020

Commodity Overview

- The Australian wool market will remain sensitive to the further spread of Coronavirus.
- The AWEX EMI is likely to have a softer tone over the next month as the market watches for developments on the Coronavirus outbreak.

Australian wool markets remained volatile over January with day-on-day declines in the eastern market indicator (EMI) which fell 20 per cent below year ago levels, with further downside potential.

Wool markets have been reactive to Coronavirus and speculation as to the impact on the Chinese economy.

Market estimates indicate, if the impact of Coronavirus on the economy was to mirror that of SARs, China’s economic growth outlook could fall from 5.8 per cent in 2020 to 4.3-5.3 per cent.

Approximately 75 per cent of Australian wool is exported to China, hence this market will be susceptible to a prolonged slowdown in the Chinese economy.

Until there is some stability around the outbreak of the virus the market is likely to track sideways to slightly lower, taking a “wait and see” approach.

Summer shearing has caused a relative over supply of high micron wool to enter the market, which is expected to cause some weakness in coarse wool prices.

Recent rainfall over parts of New South Wales and Queensland could bode well for wool production.

Production is still expected to fall year-on-year, however there are signs that conditions are beginning to improve. If further rainfall eventuates, wool production is unlikely to fall by as much as the 9 per cent year-on-year that was forecast for 2019/20 before conditions began to improve.

Sources: Australian Wool Exchange, Australian Wool Testing Authority
About Rural Bank

Rural Bank is a division of Bendigo and Adelaide Bank Limited and provides exceptional financial services, knowledge and leadership for Australian farmers to grow.

About the research

Rural Bank provides a monthly analysis of production and pricing trends for Australian agriculture. Focusing on cattle, cropping, dairy, horticulture, sheep and wool, the Update provides producers with a timely overview of current trends and an outlook for the coming months.