Australia continues to face an unprecedented bushfire emergency. This has devastated many farming and regional communities. Our thoughts are with everyone affected and we thank emergency services and volunteers for their tireless work in protecting and rebuilding communities.

Where possible, this report acknowledges the initial impact on Australian agriculture, but the magnitude will not be known for some time. Rural Bank will report on the ongoing ramifications in future Monthly Insights Reports.

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Cattle
January 2020

Commodity Overview

- Saleyard numbers are expected to remain under pressure as a result of bushfire disruption.
- Eastern Young Cattle Indicator remains in a holding pattern despite strong demand for global beef.

Supply is likely to remain under pressure in the coming weeks and months driven by the loss of stock and feed in grazing regions of New South Wales and Victoria following recent and widespread bushfires. This could support higher prices as restockers will need to compete for a smaller number of cattle. January sales to date have been disrupted by bushfires, which also kept several buyers away from the saleyards.

Hay prices are increasing in response to limited supply. Drought affected producers in Queensland and New South Wales are competing with southern counterparts for new season hay bringing forward a scenario of a supply shortage.

The 90CL U.S beef import price continued to trade at record levels in December, reflecting the heightened level of global beef demand driven by African Swine Fever. In normal market conditions the Eastern Young Cattle Indicator (EYCI) would track the movement of the 90CL price. However, supply of cattle in Australia is tight and is expected to remain that way for the next few months in the lead up to autumn. If seasonal conditions prove favourable in autumn the Australian market will likely see a price correction to more accurately reflect global beef demand.
Commodity Overview

- Tensions between the United States and Iran has potential to significantly impact global grain markets. Middle Eastern countries on average account for close to 20 per cent of combined global wheat and barley imports.
- Offshore markets remain optimistic despite uncertainty caused by geopolitical tensions, reduced Russian export estimates, and deteriorating US winter wheat crop conditions.

Australia’s winter crop production is forecast to fall 27 per cent below average as very warm, dry spring conditions took their toll on yields. National wheat production is forecast to decrease 17 per cent year-on-year, significantly impacted by a 49 per cent reduction in WA wheat production. Barley production is expected to increase 5 per cent year-on-year, largely due to increased planted area and improved conditions in Victoria. The summer sorghum crop is forecast to be 78 per cent below average with estimated area planted the lowest in over 20 years, reflecting the continued drought conditions in summer cropping areas.

Offshore wheat markets softened temporarily due to developing tensions between the United States and Iran. Previous geopolitical friction has indicated the impact on wider markets tends to be short term, with longer term effects confined to the local region. Should conflict escalate there is potential for a significant impact on the global grain trade. Last year, Australia exported 1,616,880 tonnes of wheat and barley to Middle Eastern destinations, representing 12.2 per cent of total export volume of these commodities. Despite this, futures markets remain relatively buoyant largely due to the anticipated signing of “Phase 1” of the United States and China trade deal, though specific details are yet to be revealed.

A decline in projected Russian wheat exports, a reversal of a ban on glyphosate in Thailand, as well as an anticipated reduction in US area planted to winter wheat have been supportive to offshore wheat values.

After lacklustre grower selling and a relatively flat period between Christmas and the new year, Australian domestic prices have followed US futures higher. Prices in New South Wales and Queensland remain at enough of a premium over other states to continue to attract feed grain supplies from elsewhere in Australia, with December transhipments 15 per cent higher year on year.

Australian cereal prices are expected to remain relatively stable in the near term given the current balance between export and domestic demands, with upside of 3-5 per cent as growers are coaxed to sell to increase liquidity. Local prices are following the lead of the global market, hence there is potential for larger swings in either direction dependent upon developments in the Middle East, Russian exportable surplus, and changes to US production estimates.
Fresh milk supply is expected to decline significantly across New South Wales and Victoria in the coming months on top of what was already a challenging season. Bushfires are expected to cause ongoing issues for dairy farmers in these regions. In addition to the loss of animals, farms have been left without power and fuel making it difficult to continue operations, stalling cashflow and impacting profitability.

Global dairy prices declined in the last auction event of December driven by increased supply relative to demand. Milk powder prices were the softest with declines in Australian dollar terms of 6.6 per cent, the largest decline since March 2018. However fundamentally, demand for milk powder remains strong and it is likely prices will correct in the new year given global supply remains relatively flat.

While supply and demand remain favourably balanced for price growth, trade terms for Australian exporters have weakened slightly.

The Australian dollar has appreciated against the US dollar, currently sitting around 70 USc, and has been trending higher since November. A higher Australian dollar makes Australian dairy exports more expensive relative to competitors which has the potential to negatively impact export volume.

Sources: Dairy Australia, Global Dairy Trade
Commodity Overview

- Smoke damage is a looming concern for wine makers in New South Wales, South Australia and Victoria.
- Bushfire damage in apple producing regions is expected to put pressure on supply.

Wine grapes in both New South Wales, South Australia and Victoria have been impacted by fire and smoke. Direct fire damage has been more prevalent in the Adelaide Hills with almost one third of the region’s wine grapes damaged. In New South Wales and Victoria, it will take longer to assess the impact of smoke taint on this year’s vintage. Both scenarios have the potential to push wine grape prices higher in the coming months with flow on effects to wine export volumes and values in the coming year.

Apple prices are expected to increase in the coming weeks amplified by the impact of bushfires on local orchards.

December prices averaged 18.7 per cent higher than year-ago levels, driven by a smaller volume of fruit, combined with bushfire damage this could mean significant increases to price in the coming months.

Leafy vegetable prices are expected to continue to move higher in the coming weeks as a result of drought and hot weather. Supply of head lettuce varieties such as iceberg will continue to come under pressure in the coming weeks pushing prices higher. The average price per kilogram in December was more than double year ago levels in both Queensland and Victorian markets.

Sources: AusMarket, ABS
Sheep
January 2020

Commodity Overview

- Chinese demand for lamb and mutton is expected to be sustained throughout the coming year.
- The benefit of high prices and strong export demand will be limited by reduced production, particularly if significant rain leads to restocking in autumn months.

Australian lamb and mutton production is expected to continue a downwards trend in 2020. Significant destocking in the past two years is expected to see a 3 per cent decline in lamb production, and up to 14 per cent decline in mutton production in the next 12 months. Should significant rainfall develop, production would tighten further if producer confidence is restored enough to retain more lambs and begin restocking.

Chinese demand for alternative protein sources due to African Swine Fever continues to sustain demand for Australian lamb, and to a greater extent mutton. At one point in 2019, mutton prices were at the lowest discount to the trade lamb indicator on record.

The Chinese pig population is likely to take at least another year to rebuild, which is expected to support both lamb and mutton demand in 2020, offsetting declining exports to Singapore, Taiwan and the United Arab Emirates.

Downward trending lamb prices in late 2019 reflected seasonal trends, however strong export demand and reduced supply are expected to see the Eastern States Trade Lamb Indicator (ESTLI) rebound up to 1,000 c/kg during the peak winter period. Similarly, mutton values declined slightly during the Christmas period, but are expected to remain above prices seen last year.

Sources: Meat & Livestock Australia
Wool
January 2020

Commodity Overview

- The magnitude of the impact of bushfires on record low flock numbers may not be known for months, keeping pressure on supply in 2020.
- The outcome of the UK elections combined with the potential signing of a US-China trade agreement has increased buyer confidence.

Australian wool supply is expected to decline 10 per cent in 2020. Shearing progress in the current season is well ahead of the typical yearly schedule, suggesting a lower volume of wool has been produced. The magnitude of the impact recent bushfires has had on record low flock numbers will not be known for weeks, or possibly months. This, however, will increase the restocking task, which is only likely to begin in earnest once significant rainfall is received.

In positive signs for demand, the AWEX Eastern Market Indicator (EMI) lifted by 55 cents/kg before the three-week Christmas and New Year recess. This was a result of the UK election providing certainty around Brexit, as well as the United States and China announcing an agreed “Phase 1” trade deal which provided a greater level of confidence in the global trade environment.

While the details of the US-China trade agreement are not yet certain, should US import tariffs on Chinese woollen clothing be reduced, there is potential the EMI could see an increase of up to 10-15 per cent.

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.