Commodity Overview

- At the current export pace China could replace Japan as the highest value destination for Australian beef for the first time since records began.
- A deficit of animal protein in China, due to the African Swine Fever induced liquidation of the local pig herd continues to provide opportunity for Australian beef exports, and animal protein more broadly.
- Rain across Eastern Australia may see a temporary rally in prices, but substantial follow up rains required to shift the supply and demand fundamentals in the Australian cattle market.

Australian cattle prices are expected to remain relatively steady for the remainder of 2019 as elevated slaughter rates continued to be counterbalanced by strong export demand. Prices could experience a brief rally following rainfall across large parts of eastern Australia at the beginning of November which is expected to slow the rate of cattle turnover. However, without substantial follow up rains any such rally will be short lived.

Eastern states cattle slaughter is expected to remain higher year-on-year as producers continue destocking. Current forecasts are not providing much optimism for Northern producers who are looking towards the wet season to allow restocking to commence or at least offer relief from current conditions.

Chinese appetite continues to underpin strong export demand. At the current pace we could see China replace Japan as the largest export market for Australian beef, by both volume and value.

Japan has held the number one position in 21 of the last 24 years, and if it eventuates this would be the first time since the early 1970s that a country other than Japan or the United States has been the largest export market for Australain beef. Ongoing attempts to fill the protein deficit created by the impacts of African Swine Fever in China and neighbouring Asian markets continues to create opportunity to Australian beef.

Year to date export values to China have already exceeded the annual record set in 2018. The continued strength of Chinese demand will also see more beef diverted away from the United States which will contribute to the lean beef import price in the United States pushing further into record territory.

The strength in global beef prices and lower feed grain prices year-on-year supports the outlook for relatively high finished cattle prices and offer some strength to young cattle prices despite a lack of restocker demand.
Commodity Overview

- The recent agreement by the Thailand government to ban three chemicals, including glyphosate, could unsettle Australian grain trade to this destination.
- Reduced requirement for Western Australian grain in East Coast feed rations presents downside price pressure to Australian grain values.
- Australia’s wheat crop down six per cent year-on-year and 31 per cent below five-year averages.

In October, the Thailand government agreed to ban the use of three chemicals, including glyphosate, effective 1 December 2019. If implemented the ban would see the minimum residual limit for these chemicals in imported grain default to zero. Last financial year Australia exported 668,727 tonnes of wheat and barley combined to Thailand, representing 4.9 per cent of total export volume of these commodities.

China and the United States are making headway on trade negotiations with the November tariff increase being put on hold and a ‘phase one agreement’ due to be signed. The deal was expected to be signed at the Asia Pacific Economic Cooperation meeting in Chile during November, but political unrest in Chile has caused the meeting to be cancelled which will likely delay the signing.

Stronger prices in offshore wheat markets are expected to offset, in part, a softer tone in domestic markets. Russia typically provides a floor value to global export values, however rising Russian wheat prices has been supportive for offshore values. Meanwhile, northern hemisphere harvest of corn and soybeans is well behind average. Canadian canola harvest has been delayed by snow and wet weather, which is likely to damage the large number of crops that remain in the ground.

These factors combined have been supportive to offshore wheat and canola values.

Domestically however, drought stress has resulted in an earlier harvest, as dry weather has brought forward crop maturity. The Australian wheat crop is expected to come in at 16.5 million tonnes for the current season, six per cent lower year on year, and 31 per cent below the five-year average.

Despite the smaller crop, local grain values are expected to experience some harvest weakness. While key areas of feed grain demand in northern New South Wales and Queensland will need to draw grain from other parts of the country, the deficit in these parts is expected to fall 22 per cent year-on-year, due to improved conditions in southern New South Wales.

Further, improved conditions in parts of Victoria and South Australia year-on-year will see these states better positioned to fill the supply gap in East Coast markets, reducing the requirement for grain to be brought around from Western Australia by as much as 70 per cent, and in turn reducing the pricing premiums seen in local values.

Sources: Profarmer Australia
Dairy
November 2019

Commodity Overview

- Political and economic uncertainty, combined with global weather conditions is seeing global production growth fall short of expectations and has provided some unexpected support to local and offshore dairy values, however the outlook is again flat.
- Australian milk supply remains under pressure, and year to date falls in milk production have outpaced initial estimates.

Dry conditions, poor availability of irrigation water and high input costs continue to weigh on confidence across the dairy sector.

For the year to date Australian milk production is down six per cent versus last year, outpacing initial estimates of a three to five per cent decline for the full season.

Feed grain values and availability are expected to ease as the new season crop becomes available over the coming quarter, however this will be offset in part by increased dependency on bought in feed for many dairy operations continuing to experience drought or dry conditions.

Availability is expected to contract again following the winter crop harvest and combined with low availability of fodder will continue to weigh on the dairy industry in the new calendar year.

The initial outlook this season suggested there would be few opportunities for step-ups, owing to the strong competition between suppliers built into opening prices.

Saputo announced a step up to $6.95/kg MS in October on the back of better than expected conditions in offshore markets and a weaker Australian dollar, however it is worth noting the outlook for global supply and demand is again flat for the remainder of the season.

Global dairy markets haven’t been immune to global economic and political volatility. These factors, combined with challenging seasonal conditions in parts of the northern hemisphere, have seen production fall short of expectations across the European Union, United States, and New Zealand.

Ongoing sluggish supply growth is expected to coincide with strong demand from North Asia, as this region approaches its traditional import peak. This is supportive to the outlook for skim milk powder which in October traded on Global Dairy Trade at values 47 per cent higher than year ago levels. However, competitive export markets, and softer global economic conditions are expected to limit further upside potential.

Sources: Dairy Australia, Global Dairy Trade
**Horticulture**  
**November 2019**

**Commodity Overview**
- Stone fruit production and exports are forecast to increase this season, driven by higher yielding varieties and rising demand from China.
- Supply growth is keeping pressure on Australian avocado prices.

Australian stone fruit harvest will ramp up this month and forecasts indicate a third straight year of production growth reaching 96,000 tonnes of nectarines and peaches, 2.1 per cent higher than 2018/19. New high yielding varieties that are now reaching maturity are expected to contribute to supply growth. Exports for 2019/20 are forecast to grow to 17,000 tonnes, 9.7 per cent higher than 2018/19, driven by strong demand from China and increased supply for export.

Avocado supply is up on last year, pushing prices lower. The average price for October was 37.1 per cent below this time last year. Further price declines are expected for November as Queensland and Western Australian production overlaps, leading to a surge in supply. Avocado production is forecast to grow by 35 per cent over the next 6 years.

This will keep downward pressure on prices at least in the short term until export markets can become a more significant driver of demand. Exports only make up approximately four per cent of total production, however export volumes increased 86.1 per cent in 2018/19.

Supply of Northern Territory mangoes peaked in October, however production for the season is expected to fall 15 per cent to 31,500 tonnes as a result of unfavourable weather conditions and strong wind which resulted in lost fruit. Prices reflected a smaller harvest, up 33.5 per cent compared to October 2018. The July to November seasonal average price is forecast to increase by 8.2 per cent compared to 2018.

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* tropical fruit includes mangoes, bananas, paw paw, passionfruit and pineapples.

Sources: Rural Bank, AusMarket
Sheep
November 2019

Commodity Overview

- Australian lamb prices are expected to follow typical seasonality and ease for the remainder of the year; however supply and demand fundamentals should support values at least 7 per cent above last season’s low.
- Export demand to remain robust and support lamb and mutton prices above 2018 levels.

Lamb prices are expected to ease during November as a result of the seasonality of lamb supply. Weekly slaughter volumes are anticipated to be as much as 10 per cent higher year-on-year in November, except in New South Wales where available supply will see slaughter decrease.

However stronger fundamentals are expected to sustain lamb prices 7.2 per cent above year ago levels. The national mutton price is expected to steady in November after a 2.7 per cent decline in October, the result of a 50.7 per cent increase in sheep slaughter in New South Wales.

Recent rainfall in parts of drought affected New South Wales will allow producers to retain stock for the time being and reduce the turn-off of sheep in the region, and ease the downwards pressure placed on prices.

Strong export demand will continue to support higher year-on-year prices for both lamb and mutton. Lamb exports for the year to date have increased in value to all major markets, with China and the United States recording the strongest growth. Lower mutton production has constrained export growth, however China continues to take a larger share of Australian mutton exports while exports to the Middle East have declined significantly.

Sources: Meat & Livestock Australia
Wool
November 2019

Commodity Overview

- Despite some steadying in the wool market, Australian values remain at the mercy of global economic and political uncertainty.
- Volatility is expected to continue as long as Brexit and US/China trade negotiations remain unresolved.
- The longer-term global supply and demand fundamentals remain favourable as drought in Australia and Argentina combine with systemic reduction on global sheep numbers.

Global and domestic wool supply is expected to be tighter this season which should provide a level of support for the Australian wool market; however, the lower supply needs to continue to be met with equal, or greater, demand for prices to strengthen further.

Demand for wool from China for uniform production has been providing a steady level of demand recently, but Chinese buyers have been reluctant to significantly re-enter after the recent and severe devaluation of wool.

Whilst buying activity appears to be slowly rebuilding, a signed deal between the United States and China will provide confidence to Chinese buyers and strength to the Australian wool market. In the interim, local wool values are likely to track sideways unless trade talks breakdown between China and the United States.

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.

Glossary

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<th>Abbreviation</th>
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>ASF</td>
<td>African Swine Fever</td>
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<td>AWEX</td>
<td>Australian Wool Exchange</td>
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<td>AUD</td>
<td>Australian Dollar</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>EMI</td>
<td>Eastern Market Indicator</td>
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<td>Eastern States Trade Lamb Indicator</td>
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<td>EYCI</td>
<td>Eastern Young Cattle Indicator</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GDT</td>
<td>Global Dairy Trade</td>
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<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>MLA</td>
<td>Meat and Livestock Australia</td>
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<td>MS</td>
<td>Milk solids</td>
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<td>RBA</td>
<td>Reserve Bank of Australia</td>
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