Executive summary

Rural Bank’s outlook focuses on the future of supply, demand and price, which informs the overall outlook for each industry. The outlook offers farmers the ability to evaluate each element of their industry separately, to better understand the key drivers and challenges that will impact supply and demand. This depth of clarity provides farmers with a tool that can be used for scenario planning on farm.

The outlook for Australian seasonal conditions remains a significant factor for 2020. A return to favourable seasonal conditions could see a dramatic change in pace for those poised to re-build once the right conditions present. However, the monsoon season in the tropics is tipped to arrive later than usual leading to a delayed break down of the Indian Ocean Dipole. This will likely mean drier than average conditions on the east coast persist into March. Most climate models are forecasting neutral conditions for the first quarter of 2020.

A lack of supply remains the key constraint for almost every sector of Australian agriculture in 2020, yet overall demand for Australian agricultural products remains strong. Materialising this demand remains a challenge due to declining livestock numbers, high input prices, and drought limiting supply. There are some exceptions with a range of horticulture commodities set to increase supply for export in 2020.

In the global marketplace, African Swine Fever continues to impact multiple industries. Depleted pork supply in China has led to protein switching as pork becomes too expensive relative to other proteins. Australian beef and mutton exports have been beneficiaries of this scenario, a trend that will continue in 2020.

Trade tensions between the US and China will continue to play a part in global agriculture in 2020. A resolution to the trade dispute between the two countries is likely to be a slow process, and in the meantime the uncertainty continues to impact world economies.

As an agricultural specialist lender, Rural Bank understands that issues impacting farm business’ performance can evolve quickly and farmers are operating in a sometimes-unpredictable environment – which is why we want to support them with an outlook for their industry, more frequently.

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Economic outlook

The Reserve Bank of Australia (RBA) have steadily cut interest rates since June down to a fresh record low of three-quarters of one per cent, with speculation mounting the RBA will make a further cut at the February meeting. RBA head, Philip Lowe, has clarified that it will not resort to ‘unconventional monetary policy’ such as Quantitative Easing until the official cash rate hits one-quarter of one per cent.

Despite the best efforts of the RBA, the domestic economy remains sluggish with low wage growth and below target inflation remaining of concern to policy makers.

Since June, the US Federal Reserve has also started cutting interest rates, with three cuts to 1.75 per cent. Prior to this, the US Federal Reserve had been steadily been raising rates, from record lows, since the start of 2016. It is now expected that US rate cuts will pause in the short term.

Recent commentary from the US Federal Reserve still gives a reasonably upbeat assessment of the US economy, with the recent rate cuts promoting ongoing growth of the US economy in the face of current trade tensions and downside risks to the global economy.

The US-China trade war remains central to these downside risks, with the purchase of US agricultural goods continuing to be used as ‘ammunition’ in negotiations. With the trade and technology disputes having been going on for around two years, it appears any meaningful resolution will be a very slow process.

With rate cuts in Australia a more immediate likelihood than in the US, the Australian Dollar is likely to remain under pressure, although may not depreciate against the US dollar much lower than 65 cents.
Dairy

**SUPPLY**

Australian milk production is set to decline four to six per cent in 2019/20, and unfavourable conditions persist across many dairy regions.

**DEMAND**

Demand is set to remain robust for the first half of 2020 as global milk supply remains flat.

**PRICE**

The outlook for farm gate milk price has increased modestly to $6.85-$7.05/kg MS; the outlook indicates little opportunity for further step ups this season.

**OUTLOOK**

Seasonal conditions continue to limit producers’ ability to maximise returns, despite the strong farm gate milk price.

**Outlook**

Demand for dairy products is set to continue to rise as global supply remains constrained by climatic conditions. This will support prices over the next six months particularly for liquid milk and milk powders. The benefit continues to be offset by challenging production conditions, Australian milk supply will continue to decrease during the first half of 2020 driven by a smaller herd, drought and high input prices.

**Supply**

The outlook for Australian milk production has deteriorated as conditions continue to challenge many dairy regions. Current estimates indicate a four to six per cent decline in production for the 2019/20 season. Global supply on the other hand is expected to be flat to one percent higher year-on-year. In the US, steady decline in farm numbers on the East Coast is being offset by production increases in other parts of the country. Growth in Germany, France and the United Kingdom is supporting production growth from the European Union, and production in New Zealand is expected to decline year-on-year, albeit off a high base.

**Demand**

The value of dairy exports from Australia is forecast to grow by three per cent in 2019/20 driven by higher commodity prices. Demand for Australian dairy products is being supported primarily by milk powder to China while exports of cheese to Japan have declined due to lower cheese production. Global demand for dairy products will be supported in the first half of 2020 as global milk supply remains flat. This equation is likely to change later in 2020 as key dairy producing countries are well stocked and poised to take advantage of more favourable weather in comparison to 2019.

**Price**

Australian farm gate milk price is expected to average $6.85–$7.05/kg MS for the 2019/20 season. Opportunities for further step ups in the farm gate milk price remain unlikely for the remainder of the 2019/20 season, as most of the upside was priced into the opening milk price early in the season. On average global dairy prices are expected to remain steady to a touch firmer. However, there has been a notable change in global dairy price dynamics as demand for liquid milk and milk powder products have found strength relative to cheese and butter products.

**Monthly average global dairy trade (GDT) cheddar prices forecast at 68 per cent confidence interval.**

**Monthly average GDT skim milk powder prices forecast at 68 per cent confidence interval.**

Source: GDT, Rural Bank
Horticulture

FRUIT

The value of fruit exports to increase 15.5 per cent in 2019/20.

OUTLOOK

Demand for fruit, vegetables and nuts remains strong, and is expected to result in continued export growth in 2020.

VEGETABLES

The value of vegetable exports to increase 10.5 per cent in 2019/20.

NUTS

The value of nut exports to increase 13.4 per cent in 2019/20.

Outlook

Australian production of summer fruits, grapes and nuts is expected to grow, increasing the volume of product available for export markets, and in turn supporting export growth. The weight of increased supply will likely see domestic values soften in the first half of 2020. The supply of vegetables on the other hand is expected to tighten, as high water prices deter some from sowing crops. Water availability continues to pose a significant challenge for horticulture production.

Fruit

Domestic summer fruit prices are expected to soften in the first half of 2020 as supply across major categories increases as a result of favourable growing conditions despite high water costs.

The value of fruit exports is forecast to increase 15.5 per cent in 2019/20 driven by growth in stone fruit exports to China and Thailand. The value of table grape exports is forecast to increase 20.5 per cent in 2019/20 driven by supply growth, and increased demand from China, Indonesia and Japan. Supply is forecast to grow by 30,000 tonnes year-on-year, adding as much as 175,000 tonnes by volume and $114 million by value to table grape exports.

Vegetables

Domestic vegetable prices are expected to be stronger in the first half of 2020 due to smaller production year-on-year as a result prohibitive irrigation costs and dry weather.

The value of vegetable exports is forecast to increase 10.5 per cent in 2019/20, continuing the momentum of the past three years. Growth markets in 2019/20 include Thailand, Malaysia and Indonesia. Key commodities include carrots, potatoes and onions. The Indonesia-Australia comprehensive economic partnership agreement will provide a growth channel for potato and carrot exports as tariffs will be cut from 25 to 10 per cent for both commodities. This reduction would apply to 10,000 tonnes of potatoes per year and 5,000 tonnes of carrots.

Nuts

The value of nut exports is forecast to increase by 13.4 per cent for the 2019/20 marketing year, driven primarily by the momentum of almond exports.

Australian almond production is forecast to increase to 95,000 tonnes, or 3.3 per cent, in 2020. The increase in production is expected to lead to a 4.2 per cent increase in export volume in 2019/20 driven by continued demand from China, as Australia continues to benefit from trade disruptions as a result of the US-China trade dispute. The additional supply available for export has the potential to be worth more than $24 million.

Fruit price index forecast

Monthly average fruit price index forecast at 68 per cent confidence interval.

Source: Australian Bureau of Statistics (ABS), Rural Bank

Vegetable price index forecast

Monthly average vegetable price index forecast at 68 per cent confidence interval.

Source: ABS, Rural Bank
Cattle

**Outlook**

Exports of Australian beef to China have increased 81 per cent year-on-year to see China displace Japan as the number one destination for Australian beef. China’s demand for red meat is expected to remain strong as the market seeks alternative meat following the depletion of the local pig herd as a result of African Swine Fever.

Strong global demand and reduced domestic supply in the next six months is expected to see values hold relatively steady, with significant upside to prices should seasonal conditions improve.

**Supply**

Australian beef production is expected to decrease 10 per cent in the coming year due to low herd size and declining carcase weights. The national herd is forecast to decline two per cent in 2020. Record slaughter rates observed through 2019 are not sustainable, and with reduced herd size, slaughter rates are expected to fall sharply in Autumn, particularly if a return to average seasonal conditions occurs. Ongoing challenges around availability and cost of feed is expected to see carcase weights decrease a further four per cent from 2019 averages.

**Demand**

Global demand is expected to increase four per cent on 2019 totals as the shortage of meat available globally created by African Swine Fever induced liquidation of Asia’s pig herd continues to drive demand for alternative protein. Demand for Australian beef is expected to be tempered by tightening supply and elevated cost of Australian beef. Australia faces stiff competition in major import markets due to increased supply from the US, Brazil and Argentina, as well as the potential for China to open market access to lower cost producers such as India to control meat prices.

**Price**

In the face of ongoing drought, the Eastern Young Cattle Indicator (EYCI) is forecast to remain relatively stable averaging around 500c/kg in the next three months.

Downside risk to prices in the coming year is tempered due to low stock availability and increased global demand. There is upside potential of an estimated 20 per cent from current levels should widespread rainfall occur, and producers turn to restocking.

**Outlook**

Sustained favourable cattle price has potential upside but is offset by low stock availability.

Offshore, global beef production is expected to increase by one percent in the coming year. Strong production in Brazil has led to expectations of a 16 per cent increase in exports. A three percent increase to US production is expected to see US exports improve six per cent, supported by the US–Japan trade agreement easing tariffs on US Beef which comes into effect January 2020.

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Cropping

SUPPLY
Australian winter crop production is forecast to be one per cent higher year-on-year but 24 per cent below historical averages.

DEMAND
Domestic demand is expected to remain stable at the high levels seen last year, whilst export opportunities are forecast to fall with further potential downside.

PRICE
A reduced requirement to bring grain into the East Coast will drive softer values in South Australia and Western Australia as these markets re-align to meet export appetite.

OUTLOOK
Strong global supply is expected to keep export markets highly competitive, and keep pressure on domestic values, despite local production pressures.

Outlook
Challenging conditions across many parts of Australia continue to be the main driver of domestic cereal markets. The dynamic this season will differ from last, with greater ability for the East Coast to draw on crops in Victoria and South Australia, reducing requirement to draw grain in from Western Australia. Record global production is likely to lead to stiff competition and uncertain export demand for exporting states. Trade tensions, predominately with China, remain present and continue to impact trade flows of barley and canola.

Cereals

Supply
Australia's wheat and barley production is forecast to fall 20 per cent below average. The most notable year-on-year reduction, a 37 per cent decrease in Western Australia, combined with persistent poor conditions in New South Wales and Queensland.

Year-on-year, Australia's barley production is forecast to increase 11 per cent following increased planted area and improved conditions in parts of Victoria. Whilst wheat production is forecast to decrease five per cent year-on-year, reflecting the challenging seasonal conditions.

Globally, wheat production is forecast to rise five per cent to a record global crop. The European Union is forecast to increase 10 per cent year-on-year whilst crops in Russia and Ukraine are forecast to increase three per cent and 13 per cent respectively.

Demand
Australian domestic wheat demand is forecast to increase one per cent year-on-year, 10 per cent above historical averages. Competitive export markets and the smaller domestic crop will combine to see wheat exports fall eight per cent year-on-year, 43 per cent below average.

Australian barley exports are forecast to increase five per cent year-on-year, yet remain 32 per cent below average as a result of ongoing uncertainty surrounding Chinese and Middle Eastern demand.

Chinese demand for Australian barley is forecast to 20–25 per cent lower year-on-year, reflecting a softer domestic feed market due to the African Swine Fever induced liquidation of the domestic pig herd, and the continuing uncertainty of China's anti-dumping investigation into Australian barley.

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Domestic feed markets will need to compete with export buyers in order to keep grain stocks within Australia. However improved production in Victoria year-on-year will reduce the requirement to draw grain in from South Australia and Western Australia, allowing these markets to re-focus on export opportunities.

**Price**

World wheat prices are expected to increase one to five per cent in the coming months, as a result of weather-related uncertainty for northern hemisphere winter cereal production.

Australian cereal prices are expected to move 10–15 per cent lower as harvest supplies enter the market, domestic markets reduce their dependency on South Australian and Western Australian supply, and export oriented markets re-align to offshore values.

**Oilseeds**

Australian canola production is estimated 15 per cent higher year-on-year, yet remain 25–30 per cent below five-year averages. This increase in domestic supply year-on-year, especially in south-eastern Australia, is expected to see interstate movement of canola fall as much as 60 per cent in 2020, compared to 2019.

Domestic demand is expected to absorb the lion’s share of eastern states production, leaving majority of Western Australian crops available for export. A larger exportable surplus will see domestic pricing more closely track movements offshore, particularly in European Union markets which typically accounts for around 70 per cent of Australian canola exports. Demand for imported canola in the European Union is expected to be supported by weakening rapeseed stocks in this market which are forecast to reach their lowest levels in 40 years. Although large Canadian stockpiles will ensure Australia faces some competition into this market.

Oilseed markets more broadly continue to reflect volatility in soybean values driven by the ongoing US–China trade dispute, and the impact of African Swine Fever on China’s demand for soybean feed products.

**Pulses**

Australian pulse production is forecast 10 per cent lower year-on-year and 30 per cent below the five-year average.

Indian import tariffs remain prohibitive, and subsequently India remains notably absent from the Australian pulse trade. Whilst the most recent Indian monsoon season is believed to have been poor, unless this manifests in a reduction in import tariffs demand for Australian pulses in this market is expected to remain subdued.

These factors combined are driving a flat price outlook for Australian chickpeas and lentils for the 2019/20 season.

Faba bean prices reached record highs in 2019 as a result of strong Egyptian demand and a shortfall in global supply. Increased production in the northern hemisphere will see prices ease in 2020.
Sheep

Supply
Australian lamb production is expected to be lower in 2020. Poor seasonal conditions have resulted in lower lambing rates, this has combined with sustained high slaughter rates will see the national flock come in at an estimated 3.1 per cent below the five-year average.

Mutton production is also expected to be tighter in 2020, dropping by 14.4 per cent, as farmers seek to maintain already depleted breeding flocks after two-years of destocking. Production is expected to slow further in the event of any significant break in seasonal conditions, if enough confidence can return for farmers to retain more lambs and begin restocking.

Globally, New Zealand lamb exports are expected to remain steady during the 2019/20 season. An ageing national flock in New Zealand will lead to higher retention of younger breeding ewes which is expected to see a higher proportion of older breeding ewes slaughtered, resulting in an 8.7 per cent increase to mutton exports.

Demand
Demand is expected to continue to grow for lamb in 2020, underpinned by growing consumption in the US and Chinese markets which are outcompeting the Middle East. Australian lamb exports have increased in value by 28.2 per cent in 2019. Tight supply will limit growth in 2020.

Mutton demand is also expected to strengthen in 2020, largely driven by Chinese demand for alternative protein sources to pork. Demand from China has displaced exports to US, Singapore, Taiwan and UAE which have all declined significantly in 2019. While demand is expected to grow in 2020, export value growth will be limited by domestic supply.

Price
Tighter domestic supply coupled with stronger export demand is expected to see the Eastern States Trade Lamb Indicator (ESTLI) average 6.1 per cent higher in 2020 and test the 1,000 c/kg mark during the winter peak. Similarly, tighter mutton supply and increased demand from China is likely to support mutton prices above 2019 levels throughout the year.

Outlook
Lamb prices are expected to increase over the coming year as a result of tightening supply domestically and increased demand in export markets. Chinese demand is likely to push mutton prices higher, as the Chinese market seeks alternative protein sources to pork.

Outlook

Demand for lamb and mutton will continue to grow in 2020 driven by increasing global consumption and the ongoing impact of African Swine Fever.

Price
Fewer sheep, coupled with strong export demand will support prices in 2020.

Outlook
Lower supply will be offset by higher prices and strong demand in 2020 with further upside potential should seasonal conditions become favourable.

Supply of lamb and mutton will be lower in 2020 due to poor seasonal conditions and a smaller flock.

Demand for protein has seen year-on-year growth, for both lamb and mutton, to China.

Value of Australian sheepmeat exports

Monthly average ESTLI values forecast at 68 per cent confidence interval.

Source: MLA, Rural Bank

Source: Global Trade Atlas, Rural Bank
Persistent drought and low flock numbers will keep pressure on supply in 2020.

Trade tensions will continue to fuel uncertainty, impacting economic confidence and reducing buying appetite for wool in 2020.

Prices are expected to remain in a holding pattern for the first half of 2020, unless an agreement can be reached between the US and China.

Reduced supply and uncertainty around demand for the first half of 2020 lead to a soft outlook for Australian wool.

**Outlook**

The impact of economic uncertainty continues to underpin volatility in the Australian wool market. The ongoing US–China trade dispute will continue to have a significant influence on the confidence of Chinese wool buyers. Australian wool prices are expected to remain range bound around the five-year average, unless some certainty can be restored in global economic markets.

**Supply**

Australian wool production is forecast to decline nine per cent in 2020. Ongoing drought conditions in many wool growing regions has led to high slaughter and low lambing rates, with total flock numbers to remain relatively unchanged at 66 million head, the lowest flock on record.

Looking offshore, global supply is expected to be slightly lower in comparison to the last six months as a result of declining sheep flocks and dry conditions in New Zealand and South Africa.

**Demand**

Demand for Australian wool is expected to be softer over the next six months, export volumes declined in 2019 and are expected to contract again in 2020.

Continued global economic uncertainty, as a result of Brexit and US–China trade disputes, has seen changes in buying patterns. Wool buyers have reverted to purchasing on a hand-to-mouth basis, as a protective measure following declines to Australian wool values during 2019.

Imports to Australia’s largest wool importer, China, are down 26 per cent versus year ago levels, and this trend is expected to continue unless some confidence can be restored.

**Price**

The Eastern Market Indicator (EMI) is expected to remain range bound around the five-year average at 1,500–1,550c/kg over the coming months.

However, if the US and China were to reach an agreement, the certainty this would provide global wool buyers could see wool values increase as much as 10 per cent. The negotiation of any agreement is expected to be a drawn-out process.
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

The Australian agriculture outlook provides a forecast for domestic and international supply, demand, and price dynamics for agricultural products. Significant effort has been taken to secure the most recent data available.

The price forecasts presented in this report have been calculated using an Auto-Regressive Integrated Moving Average model. The model projects a range of values based on trend, volatility, cyclical and seasonal patterns in the historic data. The forward estimates relate to the January–June 2020 period, future market conditions may cause actual prices to move across and outside of the forecast range.

All prices represent Australian Dollars unless otherwise noted.

Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<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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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<td>EMI</td>
<td>Eastern Market Indicator</td>
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<tr>
<td>ESTLI</td>
<td>Eastern States Trade Lamb Indicator</td>
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<td>EYCI</td>
<td>Eastern Young Cattle Indicator</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<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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<td>US</td>
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