Australian agriculture mid-year outlook 2019
The Australian Agriculture mid-year outlook looks at the driving forces impacting agricultural markets over the coming six months. While some events (such as Chinese import tariffs on Canadian canola) impact standalone commodity areas, other events like the outbreak of African Swine Fever are having broad influence across the Australian and global agricultural marketplace.

Rural Bank’s mid-year outlook focusses 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 challengers that will impact supply and demand. This depth of clarity provides farmers with a tool that can be used for scenario planning on farm.

Looking forward, Australian seasonal conditions remain a significant wild card. A varied start to the season across the country continues to drive a tale of mixed fortunes across geographies and sectors. Where dry conditions persist, a return to favourable seasonal conditions could see a dramatic change in pace for those poised to re-build once the right conditions present.

In the global marketplace, biosecurity is at the fore with an estimated 30 per cent decline in Chinese pork production expected following the outbreak of African Swine Fever (ASF) and subsequent liquidation of China’s pig herd. This is expected to create a 16 million tonne gap in China’s domestic pork production, equivalent to two-thirds the European Union’s average annual pork production and larger than the entire US average annual production. On the one hand this is resulting in a softening on Chinese domestic feed grain demand and in turn a softer outlook for global feed grain values. However, on the other hand, a short supply of animal protein is creating opportunities for meat exports to China as consumers seek to fill the gap. This development has had a significant impact on the fundamentals of China’s animal protein supply, compounding existing distortion to China’s trade flows brought on by tensions with multiple trade partners.

While trade tensions themselves do not directly impact the underlying supply and demand fundamentals of agricultural markets, the present uncertainty is serving to disrupt and re-direct trade flows. In some instances, this may enhance export opportunities for Australian products into key markets, while in others it is increasing competition into our traditional strong holds or seeing Australia’s influence in key markets diluted. These geo-political influences can change quickly and with little notice, and this space will continue to evolve as the European Union continues to negotiate a Brexit outcome, Australia seeks a resolution to China’s anti-dumping investigation into Australian barley, Canada and the US continue to explore their trade relationship with China, and the Indian political landscape settles following recent elections.

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 a forecast for their industry, more frequently.
Economic outlook

The Reserve Bank of Australia (RBA) is expected to lower the official cash rate by a further 25 basis points (to a historical low of 0.75 per cent) over the next six months. Following the decision to reduce interest rates for the second time in as many months in early July, markets are currently factoring in a 75 per cent likelihood of a third rate cut before 2020.

In cutting rates in July, the RBA has again noted that “this easing of monetary policy will support employment growth and provide greater confidence that inflation will be consistent with the medium-term target”.

Any further policy easing will be data-dependent, particularly on the performance of the Australian Consumer Price Index (CPI) and Gross Domestic Product (GDP) indicators as well as the unemployment rate.

Farmland values are expected to benefit from a softer interest rate environment and ongoing demand for good quality, well presented properties. Australian farmland values are expected to show continued resilience, despite challenging seasonal conditions, following last year’s 10.7 per cent increase in the median national price per hectare.

The Australian Dollar would typically trade lower on expectations of further RBA rate cuts however the outlook is more neutral as the impact of lower domestic interest rates on the Australian dollar will be offset, at least in part, by a global easing cycle.

Expect Australian Dollar values to average between 65 to 70 US cents over the coming six months. A softer Australian Dollar against the same time last year will support the competitiveness of Australian agricultural exports.
Cattle

**Outlook**

The positive influence of strong price and demand is negated by ongoing challenges posed by seasonal conditions on both beef production and profitability. These factors combine to provide a neutral outlook for the cattle sector. A widespread improvement in seasonal conditions would push prices higher and further reduce beef production as the industry shifts to re-stocking, however seasonal conditions remain a wild card with no indication of widespread improvement in current weather outlooks.

**Supply**

Australian beef production is expected to fall three per cent in the second half of 2019. This reflects the smaller pool of slaughter cattle as a result of ongoing de-stocking activities, and the impact of devastating floods experienced in north western Queensland in February this year.

Offshore, herd growth will see increased production and in turn export volumes from the US, Brazil and Argentina of 3.1 per cent, 6 per cent and 14 per cent respectively year-on-year. South American producers are expected to generate additional export growth on the back of productivity improvements and reduced domestic consumption, generating additional competition against Australian product into China.

**Demand**

The value of Australian beef exports is expected to increase two per cent year-on-year. The impact of declining production on full year export values will be offset by strong export performance in the first half of the year, and a weaker Australian Dollar.

Export demand will be underpinned by China as importers seek to fill the gap created by sharp reductions in local pork production brought on by the African Swine Fever outbreak. Chinese demand is expected to support Australian beef export volumes despite competition from South American producers. This will be tempered by strong competition from US product in Japan, South Korea and US domestic markets.

**Price**

The Eastern Young Cattle Indicator (EYCI) is forecast to average 535c/kg for the remainder of 2019. This is supported by tighter supply and ongoing strong export demand but challenged by a lack of re-stocker demand and competition from the US in key markets. Widespread improvements in seasonal conditions would provide a significant boost to domestic prices by bringing re-stockers into the demand picture.
Cropping

Supplies
Australian winter crop production is expected to increase 20 per cent year-on-year, but remain 15 per cent below average.

Demands
High prices and the ongoing investigation into Australian barley trade with China to drive a softer demand tone.

Prices
A tight finish is likely to support feed grain values in eastern Australia, domestic values need to ease to provide export competitiveness.

Outlooks
Larger global crops are expected to keep pressure on Australian values while the outlook for seasonal conditions remains mixed.

Outlook
Favourable seasonal conditions in the northern hemisphere are expected to support bigger global crops this coming season, this will keep the heat on export markets and drive a softer tone in offshore values. While domestic factors are expected to sustain strong premiums in Australian markets, local values will not be immune to downside pressure from export markets. Trade tensions, particularly those with China, continue to impact trade flows of barley and oilseeds.

Cereals

Supply
Australia’s wheat and barley crops are forecast to increase eight and 10 per cent respectively year-on-year as improved seasonal conditions in south eastern Australia are expected to offset a smaller crop in Western Australia. Despite a year-on-year increase, current estimates indicate combined wheat and barley production will fall nine per cent below average, reflecting challenging seasonal conditions, particularly in north eastern Australia.

Globally, wheat production is expected to rise five per cent year-on-year, resulting in another record global crop. Growth is expected across all major export competitors, with Black Sea origins particularly benefiting from improved seasonal conditions, Russian and Ukrainian wheat crops are forecast to increase 13 and 16 per cent respectively year-on-year.

Demand
The demand for Australian cereals continues to be driven by domestic factors as local markets compete with export buyers in order to keep supply within Australia.

While underlying appetite for Australian wheat in traditional markets of Japan, South Korea and South East Asia remain strong, export volumes are forecast to fall two per cent in the next six months when compared to the same time last year as domestic markets maintain Australian pricing above export competitive levels.

Further downside is anticipated for barley volumes with demand from China expected to fall 20 per cent year-on-year reflecting ongoing uncertainty around China’s anti-dumping investigation into Australian barley imports and softer domestic Chinese feed markets as a result of pig herd liquidation.

Geelong APW1 wheat price forecast

Monthly average Geelong APW1 wheat values forecast at 68 per cent confidence interval.

Source: Profarmer Australia, Rural Bank

Port Adelaide F1 feed barley price forecast

Chart caption: Monthly average Port Adelaide feed barley values forecast at 68 per cent confidence interval.

Source: Profarmer Australia, Rural Bank
**Price**

World wheat prices are expected to decline four per cent through to the end of the year as a larger northern hemisphere crop comes onto the market. While domestic factors are expected to sustain premiums in local markets, Australian values will not be immune to movements in offshore markets.

Forecast below average rainfall is likely to see new crop estimates revised lower, which would result in increased domestic competition to shore up stocks in eastern states for domestic requirements. In this scenario we would expect to see east coast new crop values rise five to 10 per cent in the coming months.

A softer tone is expected in export-oriented markets with wheat prices in western and southern Australia expected to ease five to 10 per cent from current values to the end of the year. Increased production and uncertain export demand provide warning signs of an oversupply of feed barley, with potential downside of 10 to 15 per cent as harvest supplies hit.

**Oilseeds**

A larger domestic canola crop is expected to be met with softer demand, particularly in export-oriented markets leading to a softer overall outlook for Australian canola.

European Union rapeseed crops are expected to come in 10 per cent below five-year averages. While this would typically present an export opportunity for Australian canola, trade tensions between Canada and China are expected to see Canadian canola stocks end next season 85 per cent above five-year averages. This, in turn, is expected to increase competitive tension in European Union markets.

Furthermore, weakness in soybean markets will continue as US soybean exports remain caught in the middle of the ongoing US–China trade dispute. This is expected to have spill over impact on international canola markets.

**Pulses**

The outlook for Australian pulses remains neutral pending any changes in access to Indian markets. Whilst a delayed monsoon season has raised concerns around Indian crop prospects (and may result in pressure to reduce tariff measures), current import tariffs are expected to remain in place until at least the New Year following the re-election of the Indian government in May.

Demand, and in turn pricing, for Australian faba beans is expected to ease over the coming quarter. As new season European Union and Canadian crops enter the market, values are expected to align to historical averages, resulting in a 20 to 25 per cent reduction from recent levels.
Dairy

Supply
Australian milk production is forecast to fall three to five per cent over the coming year driven by a smaller milking herd, high water prices and elevated feed costs.

The national dairy herd is expected to fall 0.5 per cent in 2019/20 to 1.473 million head, the lowest level in at least 15 years. However, the rate of decline is forecast to slow if a return to favourable conditions in parts of Victoria, Tasmania and South Australian dairy regions boosts feed availability and encourage herd rebuilding.

Offshore, modest supply growth is expected from the European Union, New Zealand and United States, resulting in a neutral outlook for global supply.

Demand
Domestic processors clamouring for the shrinking Australian milk pool has resulted in strong competition for milk at the farm gate, and seen several upward revisions to opening prices before the season opened.

Offshore, the demand outlook for Australian products is mixed. Chinese tariffs on imported US dairy products are creating opportunity for Australian milk powder and cheese products, however as US exporters re-direct trade flows it is also resulting in increased competition in South East Asian markets. New trade agreements between Japan and its trade partners is seeing Australia’s competitive advantage into this market also diminish.

Price
The outlook indicates a southern farm gate milk price between $6.80 to $7.00/kg MS. While several milk processors have opened the season around $6.80/kg MS, notwithstanding changes in offshore markets, opportunities for further step-ups from this season’s opening prices appear limited.

In international markets products like skim milk powder are expected to trade above year-ago levels in Australian dollar terms for the remainder of 2019, however the outlook indicates more downside risk than upside from current values.
Horticulture

FRUIT

Value of fruit exports to increase 10 per cent over the second half of the year against the same period last year

VEGETABLES

Value of vegetable exports to increase eight per cent over the second half of the year against the same period last year

NUTS

Value of nut exports to increase 13.8 per cent over the second half of the year against the same period last year

OUTLOOK

Growth in export demand supports a favourable outlook for horticulture. However, water security poses an ongoing challenge

Outlook

The demand side of the horticulture outlook is favourable overall, with a strong growth outlook for both export demand and values. However, recent prices for irrigation water have highlighted the importance of securing water supply, (particularly as new permanent plantings approach maturity) and reflect increased demand for Australia’s limited irrigation water supplies. The time required for new tree crops to become productive can mask market signals resulting in subsequent over-supply.

Fruit

Growth in the volume and value of Australian fruit exports to China continues to underpin growth in the export value of Australian fruit.

Dry conditions and high water prices are expected to see a three per cent reduction in Australia’s orange production over the July – September harvest period compared to the same time last year. This combined with competition between export and domestic markets is expected to result in a one to three per cent increase in values in the second half of the year compared to the same time last year.

Hass avocado prices are expected to ease by around four per cent in the second half of the year compared to the same time last year, reflecting increased supply from Queensland and Western Australia. The 2019/20 harvest is forecast to increase nine percent year-on-year as new plantings come into production.

Vegetables

Export demand for carrots and onions is expected to underpin growth in Australian vegetable export values in the second half of the year.

A hot dry summer across the European Union saw onion production fall 1.2 million tonnes, creating a short supply of onions from Holland and is expected to drive strong export demand for Australian onions in the second half of the year. Competition between export and domestic markets is supporting the price outlook, and onion values are expected to remain supported approximately 35 per cent above the same period last year until more is known about new season supply.

Nuts

Chinese tariffs on imported US almonds is underpinning growth in export volumes of Australian almonds to China. While this demand will absorb higher production levels, almonds sold to China attract a lower average price than Australia’s other major market, India. As a result, export prices for in-shell almonds are expected to average around two per cent lower for the second half of 2019 compared to the same period in 2018. Australia’s almond production is expected to increase by approximately 20 per cent in 2019 compared to 2018 as more trees come into full production.

Shelled macadamia values are expected to increase seven per cent in the second half of the year underpinned by growth in exports to US, Japan, and China. Macadamia production is expected to increase by approximately 1.2 per cent in 2019 compared to 2018, subsequently increasing volumes available for export. Further production growth is expected over the coming years as new plantings reach full production.

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

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

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

Source: ABS, Rural Bank
Sheep

**SUPPLY**

Australia is entering the second half of the year with a record low flock of 65.8 million head

**DEMAND**

Value of Australian sheepmeat exports for the full year forecast six per cent higher than 2018

**PRICE**

ESTLI forecast 13 per cent higher than the second half of 2018

**OUTLOOK**

Strong export demand to underpin year-on-year increase in sheepmeat values in the second half

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**Outlook**

Lamb prices are expected to ease in line with traditional seasonal trends. However, prices are expected to remain 13 per cent above year ago levels as strong export demand and tightening supplies domestically, and the gap between supply and demand widens offshore.

**Supply**

Australian lamb production is expected to fall 22 per cent in the second half of 2019, reflecting poor seasonal conditions and decline in breeding stock. Mutton production is forecast to increase by a modest 1.4 per cent against the first half of 2019, but 23 per cent lower than the same period in 2018 as producers switch from destocking to flock retention.

A smaller breeding flock with fewer lambs is also expected to see a reduction in New Zealand lamb slaughter and subsequently New Zealand sheepmeat exports are expected to fall below 2018 levels in the second half of the year.

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**Demand**

The export demand outlook for sheepmeat is favourable, underpinned by continued appetite from China, US and the Middle East North Africa (MENA) group of countries where demand growth is outpacing local supply growth and creating an increased reliance on imported product.

Export volumes will be limited by contracting supply, offset by higher prices and a strong first half performance. This will result in a six cent increase in export values for full year 2019.

In domestic markets strong export demand and contracting supply has seen growth in the retail price of lamb outpace both chicken and beef, which is expected to result in some substitution away from lamb.

**Price**

Tightening supply coupled with ongoing demand is expected to see the Eastern States Trade Lamb Indicator (ESTLI) perform 13 per cent higher than 2018 with the winter peak pushing 1,000c/kg, and a spring low at 750c/kg. Similarly, tighter mutton supply year-on-year, combined with strong export demand should support mutton prices in record territory between 550-600c/kg for the remainder of 2019, 23 per cent above the Jul-Dec average in 2018.

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**Value of Australian sheepmeat exports**

January to May sheepmeat exports show year-on-year growth in lamb export value.

Source: Global Trade Atlas, Rural Bank

**Eastern States Trade Lamb Indicator forecast**

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

Source: MLA, Rural Bank
Wool

Australian wool production forecast to fall 4.4 per cent over the 2019/20 season

The value of Australian wool exports expected to decline year-on-year reflecting contracting volumes and values

Following recent downward pressure, expect to see the EMI test the 1,600c/kg barrier this year

Weak outlook for demand and prices indicate an overall neutral to softer outlook for wool

Outlook

A smaller national flock means further supply contraction is forecast for the coming year. However, any favourable influence this may have on the outlook is tempered by global economic uncertainty, which is expected to weigh on demand for luxury fine woollen products. While it is anticipated these factors will combine to result in a softer overall price for wool, variable quality as a result of difficult seasonal conditions could see the gap between quality premiums and discounts widen and increase pricing variability beneath the key market indicators.

Demand

Demand for medium micron wools should be underpinned by continued requirements for Chinese government uniforms. However, demand for fine micron wools could face some headwind from softening economic conditions in China and the European Union. The US–China trade war and Brexit continues to weigh on consumer sentiment globally, and in turn negatively impacts demand for luxury fine woollen products.

Price

Over the coming months the Eastern Market Indicator (EMI) is expected to test the 1,600c/kg level, a decline of six percent since the close of the 2018/19 season, but remaining eight percent above the five year average.

While this represents a 22 per cent retreat from last season’s opening price, downward pressure is expected to be tempered by tightening supply. Seasonal conditions may result in more variable quality across the national wool clip, which is likely to result in a widening of the gap between premiums and discounts for quality wool, particularly in the finer micron categories.

Supply

Australian greasy shorn wool production is expected to fall 4.4 per cent in the coming season as poor seasonal conditions impact wool yields across a smaller national flock.

It is expected 4.6 per cent fewer sheep will be shorn over the coming year, as low joining rates and lambing percentages cap Australian wool production in the medium term. While yields are not expected to vary considerably from the prior year the quality of the wool clip remains an ongoing challenge.

Similarly, in New Zealand a smaller flock is expected to see wool export volumes tighten over the coming year.

Eastern Market Indicator forecast

Value of Australian wool exports

January to May wool exports show year-on-year growth in export value to China.
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 mid-year outlook 2019 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 July – December 2019 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

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