Rural Bank
Insights Update
August 2020

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Cattle
August 2020

Commodity Overview

- Australian cattle prices are expected to hold relatively steady as price support resulting from tight domestic supply and strong restocker interest is offset by increased competition in export markets.
- Subdued beef demand through foodservice outlets in Australia and abroad will continue to weigh on markets and easing COVID-19 restrictions will be essential to providing some upward movement in Australian cattle prices.
- Tightened restrictions on individuals and business across Victoria in response to COVID-19 will see worker numbers at meat processing facilities across the state constrained by one third.

Upside potential for Australian cattle prices remains unlikely until a sustained resumption of foodservice activity results in improved consumer demand.

However, despite heightened competition in global markets, tight domestic supply and continued strength in restocker demand should see prices remain protected against significant downward pressure.

Tightened restrictions on individuals and business across Victoria in response to COVID-19 will see worker numbers at meat processing facilities across the state constrained by one third. For the calendar year-to-date Victoria has accounted for 23 per cent of national cattle slaughter.

The impact of the restrictions on processing capacity will be largely mitigated by reduced throughput due to a smaller herd and favourable seasonal conditions which have increased the emphasis on restocking.

Cattle prices are expected to benefit from tight supply as slaughter rates contract further in coming months. Across June and July average weekly cattle slaughter in eastern states was 20 per cent lower year-on-year.

Restocker demand in eastern states is also providing support for high prices, however further rainfall will be needed to continue encouraging buyers as below average rainfall over the last quarter has deteriorated soil moisture levels. The current outlook for eastern Australia will provide some confidence to producers looking ahead to spring.

The consumer demand outlook for beef hinges on a sustained easing of restrictions on foodservice outlets across Australia and in key export markets. Demand remains subdued, but easing restrictions in most Australian states and some export markets will offer some improvements.

However, the reimposition and tightening of restrictions in parts of Australia, the United States (US) and Japan is creating uncertainty and reducing optimism.

Australian beef exports will also be challenged by the recovery of beef production in the US where supply will remain elevated for the remainder of 2020. A rising Australian dollar will also affect the competitiveness of Australian beef which is already at relatively high prices compared to international competitors.
Commodity Overview

- New season winter crop production prospects are at risk of decline in Western and South Australia following warm, dry conditions in June and July.
- Reduced domestic demand is anticipated to result in an increase to wheat stock available for export.
- Australian wheat prices are expected to decline 10 to 20 per cent in coming months, following anticipated softening in world wheat markets as northern hemisphere crops come online.

Current estimates indicate the national winter crop will increase 45 per cent year-on-year, nine per cent above the five-year average, however that assumes average production in Western and South Australia. Production potential is at risk of decline in Western Australia and South Australia following a particularly warm and dry July. Potential declines are offset to some extent by New South Wales production, where winter crop production is estimated to jump 190 per cent year-on-year, with further upside should favourable conditions continue through to harvest.

Wheat and barley stocks held in bulk storage in Western and South Australia combined are expected to drop below one million tonnes by the end of August. Despite increased supply from Victoria in the current season, a total of 1.7 million tonnes of wheat and barley have been shipped in bulk vessels out of Western and South Australian ports to Queensland and New South Wales to feed domestic demand. Combined with ongoing export demand for wheat from China, Japan and South Eastern Asia, stocks are expected to be near exhausted by the time new crops are available.

In the Northern Hemisphere, winter crop harvest is nearing completion, and as analysts form a clearer picture of harvest performance, estimates of 2020 global wheat production are being revised down. This is resulting from lower than anticipated yields in the European Union and, to a lesser extent, the United States whilst Russia and Ukraine remain largely unchanged.

The net outcome is a one per cent increase in global wheat production year-on-year, and global ending stocks (global production minus global consumption) increasing six per cent year-on-year. World wheat prices for the new season have increased on the back of adverse harvest reports, however as Northern Hemisphere grain comes on to the market global prices are expected to be steady to softer in coming months.

Domestic demand for 2020/21 feed grains is expected to decline due to reduced numbers of cattle on feed and improved seasonal conditions which is likely to see an increase to the exportable surplus for winter crops. Wheat export markets in South East Asia and North Asia that have been limited by stock availability in the current season are expected to see increased imports in the coming year. Demand for lentils in 2019/20 has benefited from tariff reductions by the Indian government, but with rates expected to be reinstated at the end of August lentil exports are expected to ease in the coming season.

With waning supplies and majority of current crop wheat, barley and canola already sold or committed, Australian 2019/20 prices have remained flat due to a lack of liquidity and are likely to remain so for the rest of the season. Increased production and reduced domestic demand in Australia suggest 2020/21 prices will be influenced by world markets in the coming season. With Northern Hemisphere crops entering the market, offshore values are expected to soften. Combined with seasonal harvest pressures, this is expected to result in a fall of 10 to 20 per cent in Australian wheat values in the coming months. Barley prices already trading at a significant discount to wheat are expected to remain relatively flat given uncertain demand.
Dairy
August 2020

Commodity Overview

- Australian milk production has the potential to outperform early forecasts for 2020/21 due to favourable seasonal conditions.
- Milk supply in the Northern hemisphere has declined month on month in response to falling demand and high inventories.
- Global dairy prices remain firm on the back of opportunistic buying, a trend that is expected to be short lived.

Australian milk production continues to increase on the back of favourable seasonal conditions which have provided incentive for farmers to continue restocking and taking advantage of reduced costs for some input.

The forecast for favourable conditions leading into spring has the potential for milk production to outperform the four to five per cent forecast growth in supply for 2020/21. Several key dairying regions in Tasmania and southern Victoria are at risk of becoming too wet which may hinder pasture growth over the next month.

Offshore, milk supply growth in the Northern hemisphere has eased month on month in response to processors requests and lower prices driven by a decline in demand due to COVID-19. Although year to date volume remains 1-3 per cent higher across the EU which has kept inventory levels high despite a curb in production in recent months.

Elevated inventory levels remain a source of uncertainty in international markets and are likely to influence prices over the coming months.

A second wave of COVID-19 in the US, Australia and parts of the EU is expected to disrupt the re-opening of foodservice outlets and cause volatility in international markets with a mix of increased purchasing of milk powder and declining demand particularly for cheese and butter.

Both milk powder and cheddar prices kicked in July on the back of opportunistic buying from South and Central America and the Middle East. The more traditional Asian markets kept in line with their usual purchasing pattern.

Food security is likely to remain a motive for opportunistic purchasing which may aid demand in the short term for milk powder.

Supply and demand fundamentals are likely to swing to the supply side in the coming months as more product becomes available in the southern hemisphere, this has the potential to put downward pressure on prices for finished products such as milk powder and cheese.

Source: Global Dairy Trade
Commodity Overview

- There is some uncertainty around labour availability and the potential impact on farmers and consumers as mango season begins.
- Following a period of high prices driven by lower supply, broccoli and cauliflower prices have returned to year-ago levels.

Mango season in the Northern Territory and Queensland is getting underway with an element of uncertainty around labour. Both states rely on overseas workers who have been blocked from entering the country due to COVID-19 travel restrictions.

In the Northern Territory a pilot program could see 200 workers from Vanuatu fly in within weeks to assist with early season fruit picking.

This is well short of the required 2,000-2,500 workers however it’s understood plans are in place to quarantine more workers after the initial pilot.

Demand for the fruit is expected to grow as consumers focus on immune boosting foods and prices will likely increase if there is a disruption to supply due to fruit being left on the tree.

Banana’s remain in high supply due to favourable growing conditions across winter after a tough start to 2020. Supply has been met with strong demand from health-conscious consumers, however price has averaged below this time last year and is expected to remain under pressure over the coming months.

Broccoli and cauliflower prices have eased back to year ago levels, supply has caught up to demand with favourable growing conditions across autumn and winter allowing the market to recover from drought and bushfires at the beginning of 2020.

In the lead up to spring it’s likely prices will continue to ease as supply peaks in late August.

Sources: Australian Bureau of Statistics (ABS), Ausmarket and Rural Bank
*Tropical price index includes bananas, mangoes, pineapples, passionfruit and paw paw.
Sheep and lamb prices have declined significantly since the beginning of June, weighed down firstly by subdued export demand and further by reduced buyer competition resulting from closures of some Victorian abattoirs due to COVID-19 outbreaks.

Tightened restrictions on individuals and business across Victoria in response to COVID-19 will see worker numbers at meat processing facilities across the state constrained by one third. For the calendar year-to-date Victoria has accounted for 47 per cent of national sheep and lamb slaughter. The impact of the restrictions on processing capacity will be largely mitigated by reduced throughput due to a smaller flock and favourable seasonal conditions which have increased the emphasis on restocking, however there could be a lasting impact on market sentiment in the lead up to spring. Since the start of the June, the eastern states trade lamb indicator has declined by 20.2 per cent and the national mutton indicator by 15.4 per cent, both indicators currently lower year-on-year.

Consumer demand for sheepmeat will remain subdued while restrictions remain on foodservice outlets and economic conditions weigh on consumer expenditure, however there are some signs of improvement. With approximately 40 per cent of Australia lamb production consumed domestically, demand is expected to improve as restrictions ease in most states. Domestic demand will remain tightly linked to foodservice recovery and the risks of restrictions being re-imposed as has add uncertainty to the outlook.

Likewise, export demand will also hinge on recovery in foodservice demand in key export markets. China is the standout market with lamb exports increasing by 10.4 per cent month-on-month in June. Export demand from the Middle East is expected to remain weak due to reduced travel and low oil prices, while rising cases of COVID-19 in the United States is expected to weaken demand for lamb as many states return to restrictions on foodservice. Weakness in both these markets will continue to weigh on lamb prices as they have accounted for 43 per cent of year to date lamb exports.

Lamb prices are expected to come under further pressure as supply trends towards seasonal highs as the spring flush of new season lambs have begun appearing in markets. On average, eastern states weekly lamb slaughter increases by 30 per cent from a seasonal low at the end of July to a peak in December. The rise in lamb slaughter could be greater this year, and could exceed weekly rates from 2019, due to an expected increase in lambing rates resulting from improved seasonal conditions in eastern states.
Wool

August 2020

Commodity Overview

- The Australian wool market suffered significant losses during the first week of auctions post the three-week recess.
- While apparel sales in China have recovered to be level with year ago levels, the European Union and the United Kingdom are lagging well behind sales at the same point last year.
- Consumer confidence will need to see a marked increase, globally, before a significant bounce is seen in Australian wool values.

Despite the Australian Wool Production Forecasting Committee predicting that the 2020/21 season will see production decline by 1.7 per cent, a total two million bales of wool are expected to come online for the next season which includes the stocks held over from the 2019/20 season.

Low wool prices in comparison to lamb prices continue to incentivise a greater swing to meat producing sheep away from merino sheep and could see a continued decline in the national flock despite the improving seasonal conditions.

Demand for Australian wool over the coming year, however, remains to be the key question for the market in the near future as COVID-19 continues to weigh on economic sentiment, apparel sales and in turn the wool market.

Apparel sales in the Northern Hemisphere have begun to see a recovery following the significant falls during the COVID-19 pandemic, with improvements across China, the United States (US) and European Union (EU).

While United Kingdom (UK) retail apparel sales remain 33 per cent lower than this time last year, as the country reopens after pandemic imposed shut downs, sales in the US have recovered to be 24 per cent lower than June last year after being 86 per cent down year-on-year in April. Online sales have also helped pick up some of the slack.

China has fared better than some countries in recovery from the virus, with apparel sales improving to be on par with year ago levels. Half of the wool that is exported to this market is sold in China, this will aid in reviving some demand for Australian wool.

However, demand for apparel in key markets including the UK and US continues to contribute to softer overall sentiment. Further declining Chinese consumer confidence following a second wave of COVID-19 in Beijing and geopolitical tension with the US, may slow the recovery in Chinese demand for Australian wool.

Whilst an overall recovery in apparel sales in some parts of the world is encouraging, it includes the sales of clothing made from other fibres. It is expected that cheaper synthetic fibre clothing items may be accounting for a larger amount of the sales in this depressed economic environment.

Consumer confidence will need to see a sustained increase from current levels in the major markets in order to support a significant recovery in wool values.

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.
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