Australian agricultural outlook 2025

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The Australian agricultural industry navigated a more stable operating environment in the second half of 2024. Commodity prices across a range of sectors were broadly steady on the back of reduced global volatility, with average to slightly elevated national production also aiding price stability. Fortunes at a state level were mixed in comparison as varied seasonal conditions resulted in contrasting prospects for Australian farmers. Producers located in South Australia, Tasmania and western Victoria in particular encountered significant rainfall deficits, alongside bouts of frost and in some cases hail. Farmers are expected to see a more positive first half of 2025 amidst a generally favourable rainfall outlook and improving demand prospects, though a key concern is the geopolitical environment which is becoming increasingly unpredictable.

Rural Bank's *Australian Agriculture Outlook 2025* provides an in-depth perspective on supply, demand, and price outlooks for Australia's major agricultural commodities. By analysing historical trends and considering future scenarios, the Outlook presents a detailed view on what lies ahead for Australian farmers to help them make informed business decisions. There are three key themes highlighted throughout this report that will impact Australian agriculture in the first half of 2025 – seasonal conditions, trade conditions and economic growth prospects.

Varied seasonal conditions were seen across the country in 2024 with timely rainfall across Queensland, New South Wales and Western Australia contrasted by drought conditions across South Australia, Tasmania and western Victoria. Production and quality estimates over the first half of 2025 have benefited from generally improving seasonal conditions, although heavy rainfall events seen across several states in late November have impacted quality estimates for cropping and horticultural producers. Current forecasts from the Bureau of Meteorology (BOM) indicate above average rainfall is likely for large parts of eastern Australia and regions of the west over the first quarter of 2025 with rainfall throughout December in particular forecast to be higher than usual. This will prove especially beneficial for pasture growth. Meanwhile, for South Australia, southern Western Australia and the Northern Territory, rainfall is likely to sit within the typical ranges over this period. While a La Niña watch remains in place, the El Niño–Southern Oscillation (ENSO) has been forecast by the BOM to remain neutral this summer with Sea Surface Temperatures (SSTs) to sit within the ENSO-neutral thresholds, the first time since 2019 that the ENSO has remained in a neutral phase over summer. Most of Australia also has triple the chance of being unusually warm over the summer period. From an irrigation perspective, inflows into water storages have been relatively low over spring, while water use has been comparatively high. Northern storages have seen available volumes fall in central areas as a result which has had a small impact on water allocations. However, Southern Basin storages remain relatively healthy which will prove favourable for irrigated crop production in the region.

With around two thirds of Australian agricultural products exported, the supply and demand dynamics of global markets remain key to the ongoing growth across the sector. While trade conditions are expected to remain generally favourable during the first half of 2025, volatility across markets more broadly remains a concern. A slight easing of freight rates will provide a small boost to exporters amidst a rise in new vessel capacity and lower fuel costs. Global shipping and freight rates are expected to remain elevated however, as disputes in the Red Sea and the escalating conflict between Ukraine and Russia continue to drive shipping through alternative, more expensive routes. From a market perspective, the refreshed trade relationship with China will continue to benefit a range of agricultural sectors, with the last of the punitive tariffs on Australian goods removed in October 2024. While economic challenges within China continue driving questions surrounding demand for more premium produce, the strong rebound seen in Chinese imports of Australian wine provides some confidence that demand for Australian produce within China remains resilient. Following the implementation of several high-profile free trade agreements in recent years, the potential impact a Trump presidency may have on global trade flows and market access has prompted much debate. Australian redmeat and wine sectors are the most exposed to the US market at present. The President-elect initially campaigned on a platform of placing a 10 to 20 per cent tariff on all imports while products from China would receive a tariff of 60 per cent or more. There remains no timeline set for implementation, with tariffs more likely to come into effect in the second half of 2025 which will likely stave off volatility until later in the year. Australia gaining an exemption to these tariffs will be a key focus in diplomatic and trade circles in coming months.

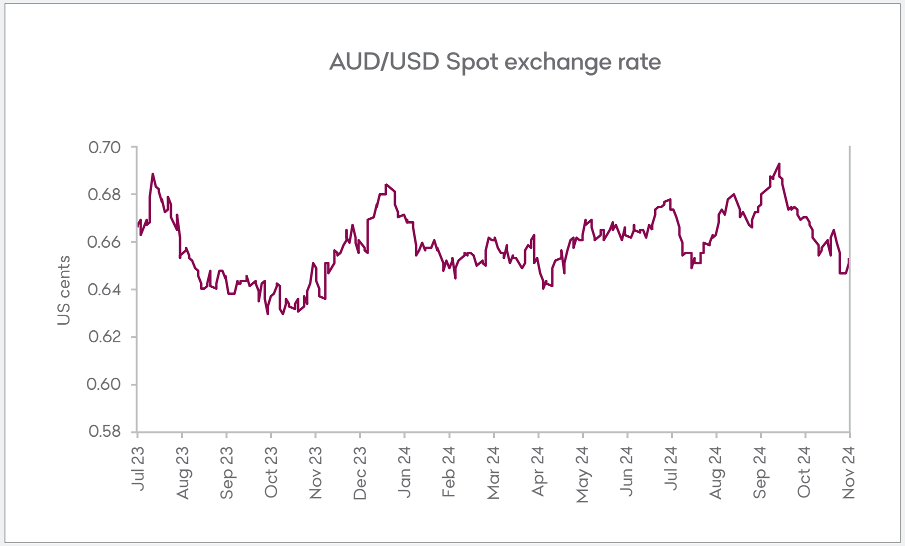
Global economic growth prospects are varied, albeit broadly positive. Improving economic data out of China, amidst the prospect of ongoing fiscal stimulus, is expected to provide support to our largest agricultural export market. Meanwhile, declining inflation and ongoing rate cuts by central banks are also expected to support international demand. Nonetheless, the likelihood of volatility across global markets has increased following the election of Donald Trump as US President – which is set to unsettle markets. The combination of strong production estimates, relatively steady commodity prices, and global economic growth are providing a more positive outlook for Australian agriculture over the next six months. The analysis included in the latest *Outlook* report gives farmers the insight to look towards the first half of 2025 and understand the key driving forces impacting agricultural markets.

Economic outlook

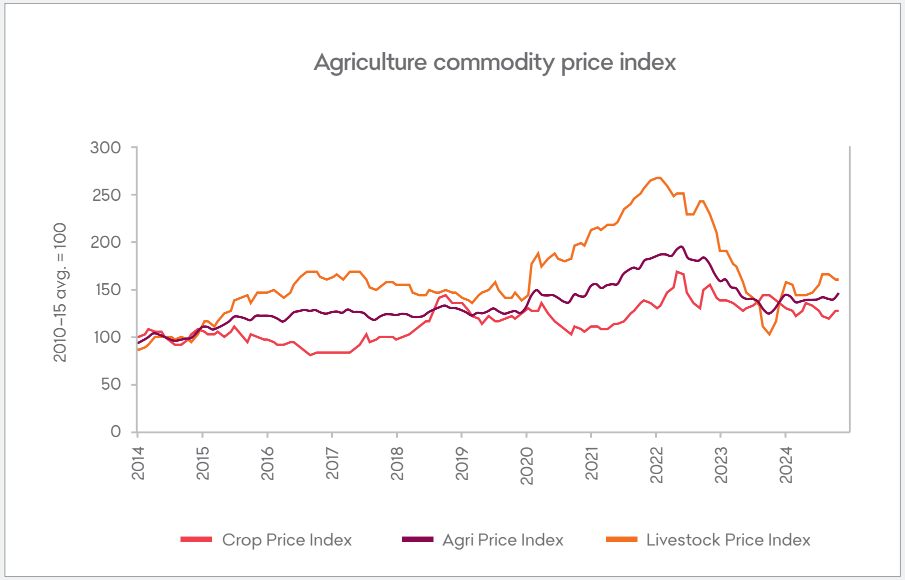
The Australian economy is expected to see continued growth in 2025 despite the more volatile geopolitical landscape and questions surrounding Chinese demand.

Growth will be driven by a rebound in disposable income in 2025 as tax cuts, moderating inflation and ultimately a reduction in interest rates drive a lift in household spending, with the recent rise in consumer sentiment and business confidence attesting to this expectation. Export markets are the main uncertainty heading into 2025 with several challenges primarily in the form of trade risks and geopolitical tensions; however, commodity prices are generally firm, and the Australian dollar has fallen to below 65 USc due to higher bond yields in the US which are both positive factors from a trade perspective.

Most advanced economies, including Australia, have continued to see moderating inflation over the back half of 2024 which has allowed central banks to ease rates a number of times. This easing of rates has notably excluded both Japan (an outlier given their long-term structural challenges) and Australia where the Reserve Bank of Australia (RBA) are yet to commence their easing cycle. A lowering of rates from the RBA is expected to commence in the first half of 2025. A mild easing cycle is forecast with the first RBA cut most likely in May, however the cycle still appears to sit around six months behind comparable economies given the RBA were later to start hiking the cash rate in 2022 and didn't increase rates as aggressively in comparison to what we saw with other advanced economies. Any cuts to the cash rate are expected to be tentative as, while there has been moderating inflation, the RBA still don't expect underlying inflation to sustainably reach their target until 2026. In addition, labour markets in Australia have held up better in comparison to other economies over the past six months and remain tight with unemployment still at only 4.1 per cent. This has left job vacancies relatively high, which hasn't added any urgency to rate cuts. Wages growth has eased to 3.5 per cent but poor productivity levels have kept unit labour costs elevated. These tight labour markets are seeing labour shortages remain a challenge for employers, despite being improved compared to 12 months prior, while the high cost of labour is also continuing to impact employer margins. This will remain a challenge over the next six months.



Source: RBA



Source: Rural Bank

Meanwhile, the geopolitical backdrop has added to inflationary risks with military conflicts including in Ukraine and the Middle East driving the oil price higher. In addition, shipping costs remain firm due to ongoing security threats affecting several key shipping lanes and in turn, longer, safer, though more expensive routes are still being utilised more often. The threat of escalating trade wars is also now suddenly front of mind for global markets. US President elect Donald Trump has foreshadowed a 60 per cent tariff on Chinese imports as well as 10 to 20 per cent tariffs on any other imports to the US, which poses stagflation risks to their economy and will be challenging for countries that rely on their exports to the US. Nevertheless, there is uncertainty around the timing of these tariffs and other proposed policies, and the 2018 experience suggests that other countries including China may not necessarily see their economies materially impacted by the implementation of these tariffs, at least in the short term.

The Australian Dollar has fallen sharply over the last quarter on the back of higher US bond yields, however, the movement of the Australian dollar coming into 2025 has now become a much more complicated prospect in terms of prediction following the US election. Broadly speaking, a V shape movement is anticipated with the AUD/USD exchange rate forecast to fall as low as 62 USc before gradually recovering as the US economy slows. On a trade weighted basis, (the price of the Australian dollar in terms of a basket of foreign currencies based on their share of trade with Australia) the Australian dollar is expected to maintain a much more stable footing. Input costs are also expected to remain unpredictable over the coming months given Australia's strong reliance on imports. Volatility to be driven by that initially lower Australian dollar alongside the ongoing conflict within Ukraine and regions of the Middle East. A lift in the Australian Dollar as the year progresses would however prove positive from an input price perspective.

In summary, the Australian economy is expected to find underlying support in the first half of 2025. A lift in household spending as tax cuts, moderating inflation and interest rate cuts drive increased disposable income will see improving domestic demand with global markets expected to see rising consumer spending on the back of similar factors. An initially lower Australian dollar will also maintain export competitiveness across key agricultural sectors providing a further boost for the economy.

Cattle

Supply

Australian beef production to rise in the first half of 2025 following elevated destocking rates.

Demand

Demand for Australian beef is set to remain firm, as the US reduction in supply favours Aussie producers.

Price

Australian cattle prices will marginally ease across the first half of 2025 due to high supply.

Outlook

A lift in beef production and strong export demand gives a positive outlook, even with softer pricing.

The National Herd

Australia's national cattle herd is forecast to see a modest decline throughout the first half of 2025. The decline comes on the back of a forecast for average weather conditions across key production regions in Western Australia, Northern Territory, New South Wales and Tasmania, which are enticing producers to sell. The decline is also being driven by greater numbers of breeding cows coming to market. Breeding cows were typically held throughout the cattle herd rebuild over the past few years, though they are now being sold as producers look to refine stock levels. A softening in the total herd figure for the first half of next year has been forecast as a result.

Australia's Beef Supply

Australia's beef production is forecast to lift marginally during the next six months as a result of slaughter rates and processing capacity of stock improving. The elevated number of breeding cattle on local markets should provide improved opportunities for processing centres to purchase stock. Slaughter rates are forecast to lift two per cent across the first half of 2025. The rise in cattle availability being paired with extremely strong export demand from key markets such as the United States will continue to elevate slaughter rates. Whilst slaughter rates will rise, the average carcase weight will fall due to the increasing female proportion of total cattle being processed.

Cattle

Global Beef Supply

Global beef production is forecast to soften throughout the first half of next year. Despite Australia being expected to move higher, falls across Brazil, US and the EU should offset Australia's increase. The United States production is likely to tighten even further in 2025 with a decline in cattle availability on local markets. Cattle regions throughout the country continue to be in drought which will encourage producers to sell and reduce herd numbers further. However, after two years of destocking, US cattle numbers coming to market are continuing to decline, reducing beef production estimates which is removing any prospect for year-on-year production growth. Brazil's production is also forecast to decrease by one per cent as a result of the ongoing herd contraction. A series of economic challenges, unfavourable weather conditions and uncertainty surrounding new regulations in the EU has driven this forecast decline. The EU regulations around deforestation, which were originally due to come into force from the 31st of December, means that countries who export beef to the EU must be able to prove their practices do not contribute to deforestation. These regulations have recently been delayed by 12 months. Once implemented they may lead to a decline in Brazil's export demand or change of practices to align with the policy. Australia is not the only nation expected to see an increase in beef production, with Mexico, India and Argentina all expected to see marginal growth. Amidst strong international demand for their beef products, along with new domestic policies created to reduce export taxes and incentivize shipments of beef, Argentine beef production is likely to rise. However, even if Argentina does generate a modest increase in beef supply, it's unlikely to have a negative effect on demand for Australian beef exports with the declines across other key beef producing countries.

Australia's export markets

Global beef demand is expected to be broadly stronger across Australia's major export markets. US demand for imported beef will remain strong during the first half of 2025 as the herd reduction continues, albeit at a slower pace. However, the election promise from incoming US President Donald Trump to implement tariffs across a range of global imports will have Australian beef producers watching closely given the growing volumes of Australian beef now exported to that market. Demand from Japan and South Korea is likely to see a slight rise as consumption rates continue to accelerate in front of domestic production in both of these markets. Opportunities for Australian beef should also expand into Japan and South Korea as US export volumes decline throughout the year. Export demand to China is likely to soften on the back of a renewed focus on their domestic production and increased competition with South American exports.

Price

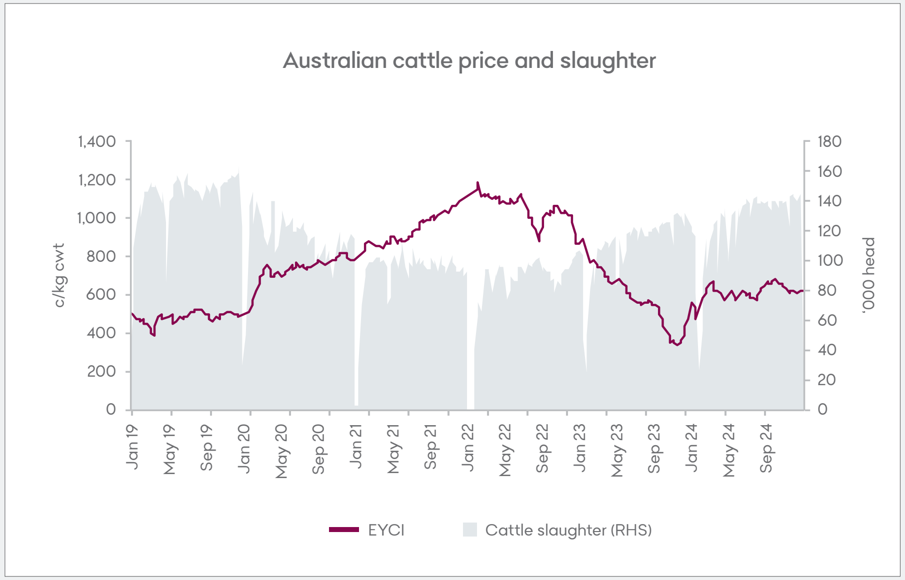
Australian cattle prices are expected to marginally decline throughout the first half of 2025. A lift in availability of supply due to the increased turn off rate of breeding cows is likely to lead to a decrease in the competitive pricing market for cattle, as higher yardings will occur from the advancing herd contraction. Seasonal conditions are forecast to be average across cattle regions. Despite the increased supply due to the culmination of the herd rebuild, it is expected that there will be some underlying restocker demand, limiting significant declines in prices. In addition to this factor, significant falls in price will be restricted by the strength in Australia's export market.

Cattle

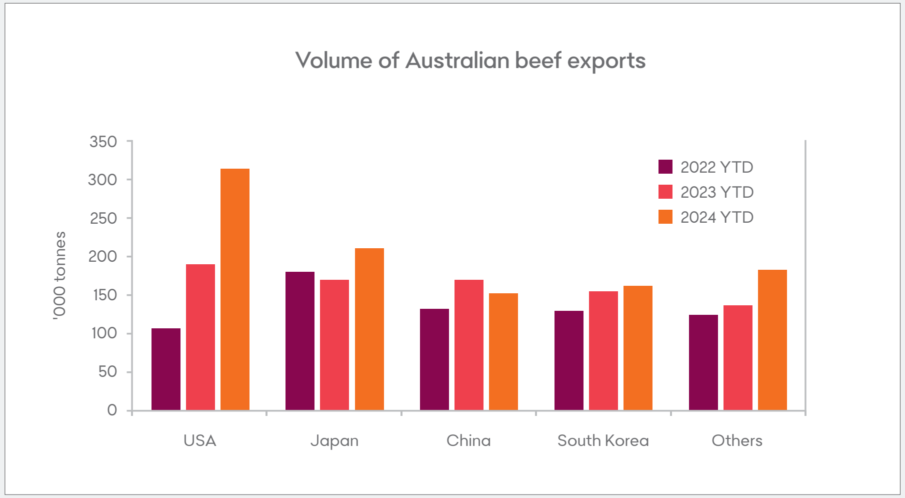
From the field...

“Australia’s cattle market is forecast to see an interesting beginning to 2025, with a marginal decline in prices due to the current forecasts of average rainfall in key producing areas of the country along with an influx of cows onto local markets. However, the ongoing strength in the export markets will limit any significant price falls heading into the next six months.”

Craig Rosenbaum,
Regional Manager Agribusiness – New South Wales



Average EYCI values with average national cattle processing rates.
Source: Meat and Livestock Australia (MLA), Rural Bank



Year-to-date Australian beef exports highlighting the significant role the US has played over the past few years in terms of total exports.
Source: Department of Agriculture Fisheries and Forestry

Cropping

Supply

Australian winter crop production to exceed last season, however there is significant regional variability across the country following a dry finish and widespread frost events and harvest rain.

Demand

Early export demand for canola, chickpeas and barley. Wheat demand to increase in early 2025 as northern hemisphere supplies start to tighten.

Price

Wheat and barley have withstood harvest pressure, supported by high canola and pulse prices. Expect prices to soften into early 2025 before finding support from tighter northern hemisphere supplies.

Outlook

Above average production combined with ongoing volatility in the global grains sector will create marketing opportunities over the next six months.

Cereals

Supply

Australia's wheat production for the 2024/25 season is forecast at 31.2 million tonnes, up 19 per cent from last season. Meanwhile barley production is set to rise five per cent to 11.1 million tonnes. While these overall production figures are positive, the distribution and quality of grain across the country vary significantly due to contrasting growing conditions between regions. Poor growing seasons in Victoria and South Australia have been compounded by substantial rainfall during harvest. On the east coast, rainfall of up to 100 millimetres was recorded in the last week of November, and wet conditions are expected to persist into early December. The weather is likely to affect the quality of the remaining crop, predominately wheat, with early reports indicating widespread sprouting. As a result, a significant portion of the unharvested wheat is at risk of being downgraded to feed grade.

Global wheat supply for the 2024/25 season is expected to remain ample, with total production forecast to reach a record 794.7 million tonnes. However, global wheat consumption is also projected to hit a record high, further tightening the balance sheet. Ending stocks are expected to fall 3.2 per cent year-on-year to 257 million tonnes, marking the lowest level in nine years. When focusing on the major wheat exporters, the supply picture becomes even tighter, with ending stocks down 11 per cent year-on-year and reaching their lowest level in 12 years.

Global coarse grain markets remain well supplied, with US corn production near record levels and improving planting conditions for Brazil's crop. However, within this grains complex, barley is showing some bullish fundamentals. Global barley production is set to decline for the second consecutive year, with ending stocks expected to fall 19 per cent to 17.5 million tonnes, the lowest level in 41 years. Russia's barley production has reached its lowest point since the 2013/14 season, and this shortfall is likely to impact global consumption and trade. As a result, supplies from the Black Sea region and the European Union will be crucial to meet demand, especially in the Middle East. This tight supply scenario is expected to keep Chinese demand for Australian barley strong, providing support for prices.

Cropping

Demand

Grain demand from the domestic end-user market continues to rise, driven by growth across most sectors of the domestic meat production industry. This upward trajectory shows no signs of slowing in the medium term. The Australian feedlot sector, which has expanded by 24 per cent over the past five years, remains robust, with cattle numbers on feed consistently exceeding 1.4 million head. The regional concentration of feedlots presents an interesting market dynamic for domestic users and exporters, as a significant portion of this year's high-quality milling wheat is also located in these areas. The proximity of premium wheat supplies to major feedlot operations could influence pricing and competition between domestic feed demand and export opportunities.

Wheat exports have been sluggish at the start of the 2024/25 marketing season, influenced by several factors. Farmers have adopted a conservative approach to marketing their grain, given the uncertainty surrounding the season's finish. Traders, likewise, have taken a "wait and see" approach before bidding up prices. Additionally, low carry-in stocks have prevented the heavy front-ended export programs seen in the past three seasons. Australia's exportable surplus for 2024/25 is estimated at 22 million tonnes, up 10 per cent from last season. While Australian markets are pricing export demand, the current price level is not yet competitive enough to capture a larger share of the global market. To establish a stronger position ahead of the northern hemisphere harvest, Australia will need to ramp up exports more aggressively in early 2025.

Barley exports are forecast to decline by 24 per cent, down to six million tonnes, despite a larger crop. This decrease is largely due to very low carry-in stocks from last season's strong export campaign. Following China's decision to drop tariffs in August 2023, the country returned to the Australian market in a big way, taking 77 per cent of last season's barley exports. While this lack of diversification in export destinations raises concerns about market stability, it is encouraging to see Chinese demand returning early in the season. Current shipping stem data indicates that nearly one million tonnes will be shipped to China in the first quarter.

Price

Wheat prices have managed to withstand typical harvest selling pressure so far. One key factor is that growers have had alternative marketing options, with canola, lentils, chickpeas and lupins all commanding historically high prices, helping generate harvest cash flow. However, once harvest is complete, growers will face some difficult marketing decisions. While nearby export demand is helping to keep the market firm, prices may soften once these demands are met. Our short to medium-term outlook suggests that wheat prices will remain range-bound, potentially coming under pressure in early 2025. The extent of any price decline will depend on how quickly significant export volumes are priced. Looking past this, we start to see a bullish picture building for wheat. Industry experts anticipate that Russia will implement an export quota from February to June, reducing exports from 29 million tonnes last year to 11 million tonnes. This substantial cut is expected to tighten global wheat supplies, potentially leading to upward pressure on prices. On top of this, low carryout stocks from key exporters could drive heightened volatility, particularly during the northern hemisphere spring. Any adverse growing conditions are likely to trigger weather-related rallies, offering further marketing opportunities for growers.

Cropping

Oilseeds

Australia's planted canola area is down six per cent year-on-year, largely due to a late autumn break across many regions and lower prices at seeding time. While an increase in yield has somewhat offset the reduction in planted area, it has not been enough to prevent an overall decrease in production, which is forecast to fall three per cent to 5.4 million tonnes. The USDA forecasts 2024/25 global canola production to decline three per cent to 87 million tonnes, primarily driven by a 13 per cent reduction in European production. Europe's crop losses are expected to drive a 23 per cent increase in its export requirements, which bodes well for local prices and provides strong support for Australian canola values. The combination of a smaller Australian crop and tighter global supply due to losses in Europe is set to strengthen demand for Australian canola in the coming months.

Shipping stem data indicates strong demand early in the season, with at least 1.2 million tonnes expected to be shipped by the end of December, marking the third-highest export volume for the first quarter of the marketing year. Recent reports confirm that export business has been booked for the European Union, with over half a million tonnes already shipped by the end of November, as reflected in the shipping data.

Canola prices have remained strong throughout the harvest, although they have been volatile, often with double-digit daily swings. Despite this, prices have stayed within the decile 8–9 range. The attractive pricing has prompted significant grower selling to generate harvest cash flow. This has eased some of the pressure on marketing wheat and barley, where prices are still below target levels for most growers. Fundamentals in the broader oilseeds complex are less supportive, as the global soybean market remains well supplied, which is likely to cap canola prices. Global soybean production is estimated to increase seven per cent year-on-year to a record 425 million tonnes, with ending stocks also at a record 131.7 million tonnes. This abundant soybean supply is expected to limit further price gains across the global oilseeds complex. As a result, we see canola as fully priced in the current market.

Pulses

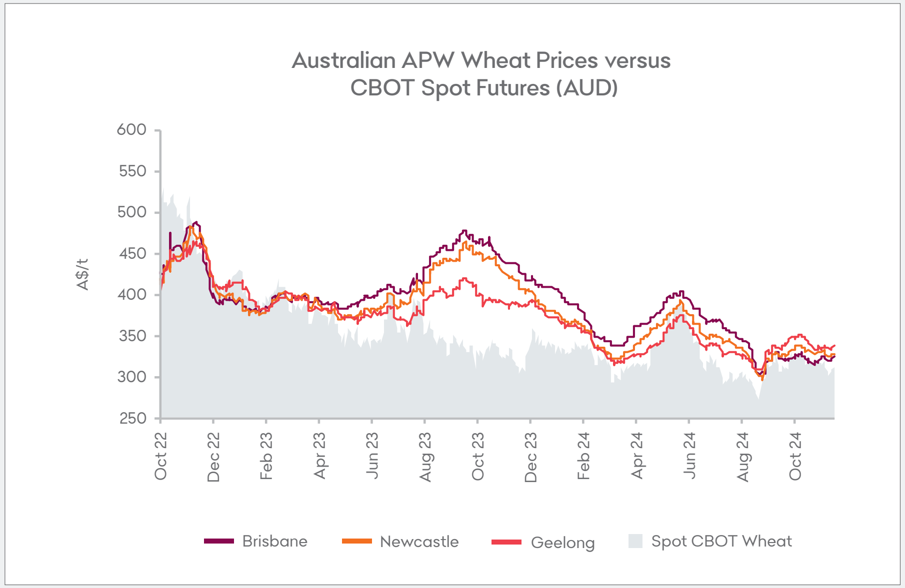
National pulse production is forecast to rise by 22 per cent year-on-year, driven largely by a 76 per cent increase in chickpea planted area and a 176 per cent surge in production. The combination of strong price signals after India lifted tariffs and favourable growing conditions have been pivotal in driving this year's strong growth in chickpea production of 1.5 million tonnes. Other pulse crops are also experiencing notable shifts. Lupin production is estimated at 670 thousand tonnes, a 22 per cent increase year-on-year. Gains in New South Wales and Western Australia have offset losses in Victoria and South Australia. Faba bean production is expected to match last season's 445 thousand tonnes, with a surprising increase in planted area in New South Wales helping to offset lower yields in Victoria and South Australia. However, lentil production is forecast to decline by 21 per cent, reaching one million tonnes, due to challenging growing conditions in the key growing states of Victoria and South Australia.

Chickpea prices succumbed to harvest selling pressure in mid-October, dropping by up to $250 per tonne after trading above $1,000 per tonne since the end of May. Brisbane port zone prices have found support at around $770 per tonne, this level is said to be attracting interest from Bangladesh and Pakistan. Shipping stem data is showing 650 thousand tonnes of chickpeas will be exported by the end of February. With a large portion of this now likely covered by exporters, price direction from here will be dependent on future Indian demand. Product needs to get to New South Wales or Queensland ports by January in order to ensure being discharged in India ahead of its slated tariff-free cut-off in March.

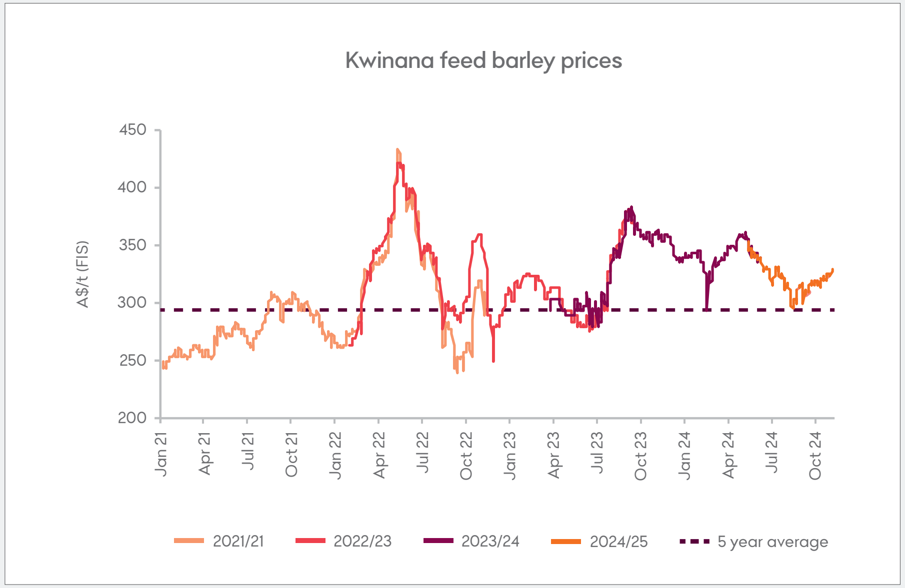
Domestic prices for faba beans have firmed over the past month due to bulk vessel accumulators paying high prices for upcoming shipments. Strong demand from Egypt is continuing from last season where they were the number one export destination. Prices for beans delivered to Melbourne are currently at a historical high of $685 per tonne, versus $490 per tonne for the same time last year. With harvest just starting we expect buyers to try and pull bids back once harvest selling kicks in. Prices will face further pressure if exporters get cover for early shipments, then it will be back to domestic buyers to support the overall bid side.

Cropping

Lentil prices have remained relatively stable in the leadup to harvest, trading at $883 per tonne in the Port Adelaide zone and absorbing some early selling pressure. The earlier fears of a very low-yielding or low-quality crop have not materialised, and estimated production is now just below the five-year average. This should limit the potential for a major harvest rally, with attention likely shifting to post harvest for any demand-driven or lack-of-selling rallies. Most exporters are optimistic about prices holding steady, with an orderly sell-off expected to help sustain values through early 2025.



Australian APW wheat compared to Spot CBOT wheat in AUD.
Source: Profarmer Australia



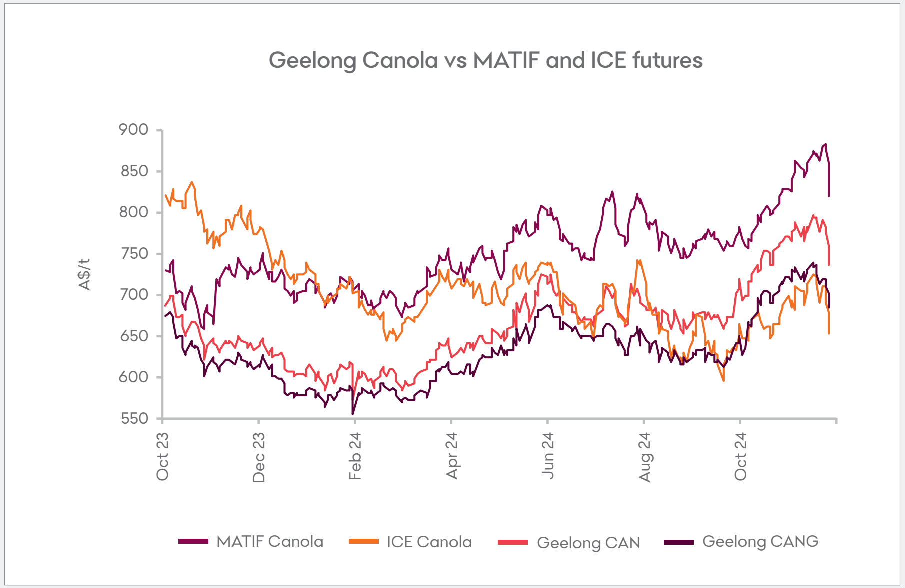
Kwinana feed barley prices compared to the five year average.
Source: Profarmer Australia

Cropping

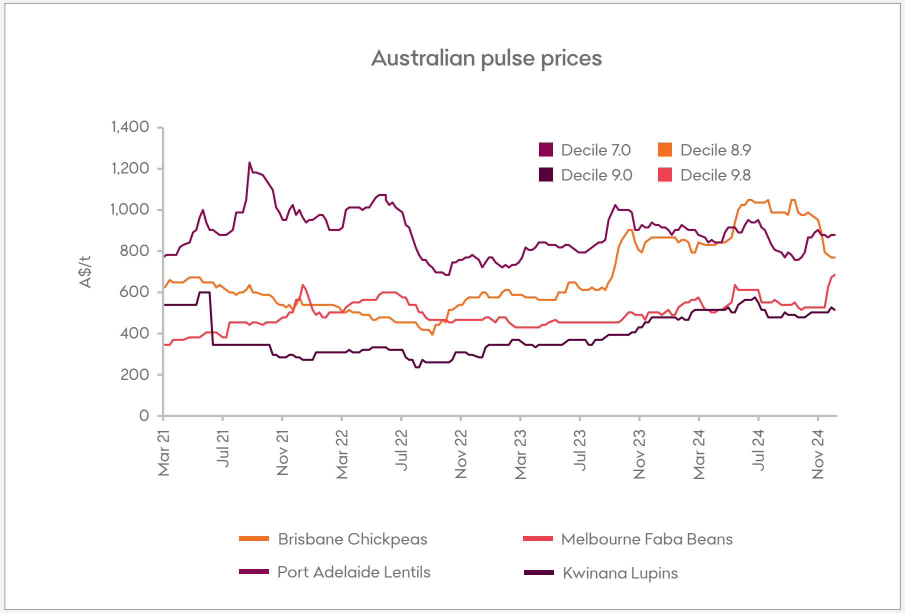
From the field…

"As harvest progresses, growers are focused on bringing in their crop amidst a tough season marked by mixed results across the country. While some regions have benefitted from favourable conditions, others continue to battle drought. On top of this, significant harvest rainfall on the east coast is exacerbating the situation, putting the remaining crop at risk of quality downgrades. For many, the primary concern remains completing harvest safely and efficiently, with uncertainty surrounding both yield and quality in certain areas. With market conditions looking increasingly volatile, growers are concentrating on finishing harvest, keeping an eye on production outcomes and any potential quality issues that may affect marketing decisions."

Allison Jager,
Senior Agribusiness Relationship Manger –
North Western Victoria



Geelong Canola compared with Matif rapeseed and ICE canola futures.
Source: Profarmer Australia



Historical pricing of Australian pulse prices and their current decile levels.
Source: Profarmer Australia

Dairy

Supply

Australian milk production to lift year-on-year to 8.5 billion litres, on par with the five-year average.

Demand

Domestic demand will remain consistent, while global demand will be volatile.

Price

Farmgate prices are unlikely to see further step-ups, but global prices are forecast to make moderate gains.

Outlook

While local prices aren't likely to lift further, improving local production and stronger global pricing provides optimism for the 2025/26 season.

Australian milk production is forecast to reach around 8.5 billion litres at the end of the 2024/25 season in June next year. This represents a 1.0 to 1.5 per cent year-on-year increase and would put production close to the five-year average of 8.54 billion litres. Monthly production this season so far has been on average two per cent higher than last year. This is year-on-year lift is expected to moderate in the first half of 2025 as dry conditions in key milk producing regions limits available pasture, which will be offset to some degree by positive production in northern states. Nonetheless, milk production in the first half of 2025 is still expected to be higher than last year.

Global milk supply is expected to remain largely stagnant in the coming six months with milk production projections mixed amongst the major producing nations. The European Union (EU) herd continues to decline as slim margins, restrictive environmental regulations and ongoing effects of bluetongue disease see farmers reducing their herds or exiting the industry. This is somewhat offset by consistent growth in cow productivity, but milk output is still forecast to decline marginally from 2024 to 149.6 million tonnes in 2025. US production is expected to see year-on-year production increases in the first half of 2025 as herd numbers are recovering, but annual production is still anticipated to remain relatively flat, and growth remains a longer-term prospect. New Zealand's milk output continues to bounce back from a couple of years of below average production in what has been described as a buoyant season. Season to date production sits five per cent higher than last year, with forecasts indicating output into 2025 will maintain year-on-year growth. Flat to lower production in the northern hemisphere is offset by increased production in Oceania, leading to expectations total global production will remain largely steady in the first half of 2025.

Both global and domestic demand for dairy products is picking up as Christmas, end of year holidays and Chinese New Year celebrations tend to be a period of heavy consumer demand. Although, global demand is expected to temper post the holiday period and return to an uneasy equilibrium. The global market is still adjusting to reduced Chinese demand, in particular for milk powders. Milk powder typically accounts for around 40 per cent of Australia's dairy exports, with around half of that going to China. Chinese milk production has slowed, and stockpiles are being worked through, but increased domestic production capacity means Chinese demand won't return to levels seen in previous years. Reduced demand for milk powders is also seeing a shift in global dairy product mixes. With a lower domestic pool and ongoing processor 'right sizing', processors are reconsidering product mixes. A reduction of milk powders and butter is expected with more of a focus on cheese and other refined

Dairy

fats to capture export demand in South-East Asia which is a key long-term growth market. More broadly, global economies are recovering from inflationary pressures and consumer sentiment is gradually improving. But this is a slow emergence and won't result in a significant lift in the next six months, rather we're likely to see some volatility as buyers jump into the market to secure supply and sit back if prices heat up.

Global dairy prices are forecast to continue to appreciate over the first half of 2025, while experiencing some minor volatility along the way. With the exception of skim milk powder, the average price of all other major product groups sold in Global Dairy Trade (GDT) events now sit above average after recovering from multi-year lows in 2023. Low global prices have had the effect of reducing production which in turn supports prices as supply thins. We're now starting to see global prices lift as a result which is expected to continue in 2025, though somewhat flexible demand will limit significant price jumps and will see gradual lifts characterised by dips or flattening of prices as buyers jump in and out of markets.

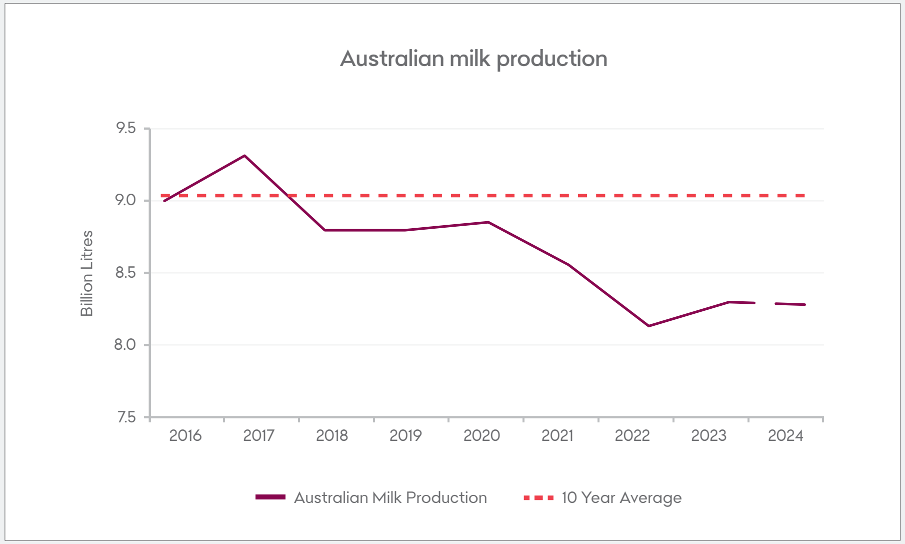
After minor step ups were announced in early December, we don't anticipate any further lifts for the rest of the season. Following the peak production period into 2025, it is unlikely there will be significant motivation for processors to lift offers as supply begins to trail off. But the fact processors have made step ups mid-season in response to improved global pricing provides positive signals for a potential increase to farmgate prices in the 2025/26 season. In June 2023, the GDT index was nine per cent below average when local southern farmgate prices reached a record high average around $9.50/Kg MS. This season despite the GDT index lifting to sit around four per cent above average, average southern farmgate prices fell 15 per cent to around $8.10/Kg MS as processors attempted to recoup losses from the prior year. The GDT index currently sits around 10 per cent above average, and modest increases expected in 2025 will provide support for a potential lift in farmgate prices next year. Adding to a cautiously positive outlook is the fact New Zealand farmgate prices continue to lift. Last season Australian farmgate prices were around 33 per cent higher than New Zealand. Currently they are close to parity, but forecasts suggest New Zealand will finish the season around 10 per cent higher than Australian southern farmgate prices. Stronger global prices and a higher New Zealand farmgate price improve Australia's ability to capture export demand, bolster margins for processors and will potentially incentivise them to lift farmgate price offerings come June next year.

Dairy

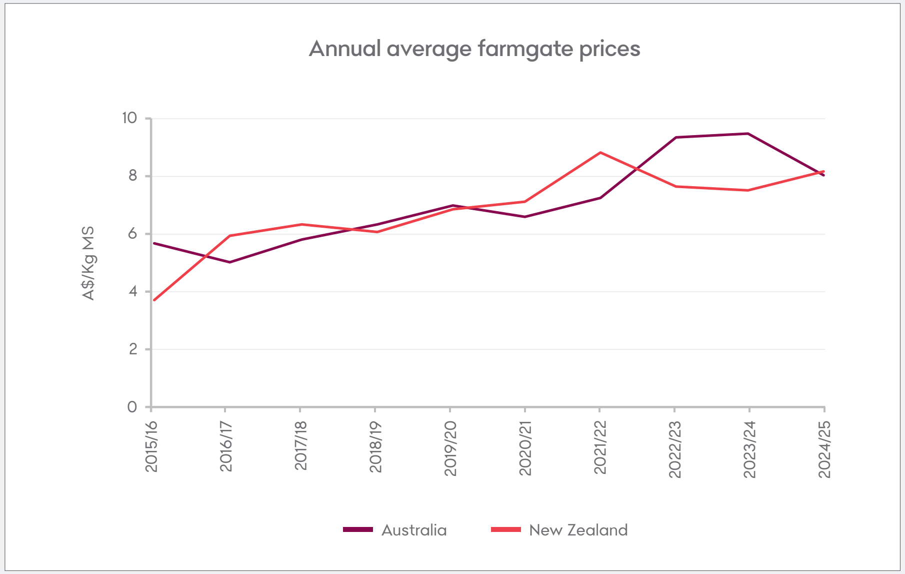
From the field...

"After a couple of favourable and in many cases profitable seasons, producers are facing much tighter margins this year with lower farmgate prices, which is even more challenging for those in regions suffering a lack of rainfall. Higher global dairy prices are a positive and provide some promise of potentially higher farmgate prices in the next season, but farmers aren't the immediate beneficiaries of better trade conditions and will rely on processors to lift offers next year."

Craig Rosenbaum,
Regional Manager Agribusiness – New South Wales



Australian milk production for the dairy season (Jul-Jun).
Source: Dairy Australia



Annual average Australian and New Zealand farmgate prices converted to Australian dollars per Kg Milk Solids.
Source: Fonterra NZ, NZX, Rural Bank

Horticulture

Supply

Improving conditions and still favourable water availability will drive a lift in horticultural production in the first half of 2025 compared to the first half of 2024.

Demand

A low Australian dollar combined with decent quality expectations and moderating inflationary pressure will lift both domestic and export demand.

Price

Fruit and vegetable prices are expected to ease slightly on the back of strong supply while almond and macadamia prices will sit steady to slightly higher.

Outlook

Above average production and positive demand will offset lower domestic prices. High production costs continue to weigh on margins across the sector.

Outlook

The outlook for the first half of 2025 remains broadly positive for horticultural producers. Irrigation remains a key driver of horticultural production across the country. While water storages have declined on last season, entitlements remain mostly favourable, particularly across the Southern Basin where water has been declared no spillage for the season. This will ensure growers receive access to the carryover water from last season, which will prove favourable from a water cost and availability standpoint. Labour supply is improved, with backpacker numbers at record levels, though sourcing workers is still a concern with 34 per cent of employers struggling to recruit labour according to the National Farmers Federation Horticultural Council. Elevated post pandemic seasonal wages are helping to attract workers, though when combined with high fertiliser and equipment costs are also keeping grower margins under pressure. The federal governments review of the Working Holiday Maker visa program remains a point of concern for the industry with greater reliance upon the Pacific Australia Labour Mobility scheme expected to keep labour costs elevated. Volumes across key fruit, vegetable, and nut varieties over the first half of the year are expected to sit above average with almost all key horticultural production regions in line for average to above average rainfall over the first three months of 2025. Domestic consumer demand will find support from a lift in disposable income and lower prices across key fruit and vegetable sectors. The value of exports should also continue to lift thanks to the greater volumes of export quality produce available to export, although recent rainfall events across both the east and west coast at the end of November are driving quality concerns. Strong market access is also continuing to support exports, though demand from China could stagnate amidst challenging economic conditions in the country. Prices across most key fruit and vegetable varieties are expected to sit steady to slightly lower amidst the higher volumes coming to market while almonds are expected to lift on the back of reduced US stocks. The significance of biosecurity within the horticultural industry has also been recently highlighted with the outbreak of the tomato brown rugose fruit virus in the Adelaide Plains and ongoing incursions of Queensland Fruit Fly into South Australia placing exports at risk.

Horticulture

Fruit production and export demand to lift in 2025

A generally dry start to spring across key production regions followed by wetter, though still warm conditions throughout October and November will drive strong fruit production volumes in the first half of 2025. Quality across key varieties remains high, though will remain reliant upon how the seasonal conditions evolve across the summer months. A substantial rainfall event across southeast Australia at the end of November has had an impact on harvested volumes, and quality to a degree, though this is very region dependant. The warmer conditions so far are driving expectations of an earlier start to harvest of key varieties on the east coast. Fruit prices are widely forecast to ease from recent highs, having broadly risen over most of 2024, on the back of the higher available volumes. Both domestic consumer and export demand are also expected to lift on the back of higher available volumes and accompanying lower pricing. While costs remain elevated, the prospect of rising demand and higher volumes will provide a more positive operating environment for Australian producers over the first half of 2025.

The USDA's latest Fresh Deciduous Fruit report has forecast Australian table grape production will rise to 230,000 tonnes for the 2024/25 season. This would be the second highest production on record and a significant increase from the 195,000 tonnes produced last season. Elevated production estimates are driven by strong bud burst following high cold chill accumulation and warmer maximum temperatures in recent months, however the prospect of a wet December across key production regions is driving some concern amongst producers. Elevated production will prove favourable from an export perspective with the boost in volumes of quality table grapes available to export markets expected to see exports volumes reach 135,000 tonnes, the third highest level on record with global table grape markets currently undersupplied. Table grape producers received greater access to the Japanese market earlier this year and can now export more than 130 varieties into Japan. Exporters have previously only had clearance to export three varieties of table grapes. Ample production will also drive a lift in domestic consumption according to the latest report which is expected to rise to the second highest level on record. The primary risk at present is likelihood of production areas receiving above median rainfall totals over the first three months of the year and the impact this would have on quality.

The USDA have also forecast stone fruit production will increase on the back of strong winter chill hours earlier this year. Unfortunately, this early season forecast is likely to have been overly optimistic with various weather challenges over the last quarter to impact production. Cherry production was forecast to increase to 20,000 tonnes, an increase of 1,500 tonnes on last season, though frost damage to crops in Orange

earlier this year, combined with hot and dry weather following a warm winter across Western Australian growing regions will likely see total output come in below this figure. Meanwhile, peach and nectarines output was forecast to lift by 5,000 tonnes on last season to 90,000 tonnes. A heavy rainfall event in late November which passed through South Australia, Victoria and parts of New South Wales at a critical time during the season has reduced harvest totals by around 10 per cent in certain regions according to growers. Humid conditions following the rainfall event has also reduced quality which may impact overall volumes available for export. Export demand across all stone fruit varieties is still forecast to lift amidst improving demand from key markets including China due to a lift in consumer spending. However, the export picture is now more unpredictable due to the greater variance in quality following the rainfall event. Domestic peach and nectarine pricing may come under pressure across summer months as greater volumes of fruit initially bound for export hit the domestic market instead due to potential quality downgrades.

Avocados Australia are forecasting Australian production will decline in 2024/25 to just under 131,000 tonnes. This is down from the record production of slightly below 151,000 tonnes in 2023/24, driven by record Western Australian output. The forecast decline is led by the Hass variety which will drop from 128,000 tonnes to just over 108,000 tonnes amidst a biennial down year in production. Shepard production is expected to sit steady at just under 23,000 tonnes in 2024/25. Shepard avocado season is due to kick off in February and run through May with harvest first starting in Northern Queensland before moving south. Recent efforts within the industry to expand market access have continued to pay dividends for growers, especially those out West. Year-to-date avocado exports are currently tracking 26.7 per cent ahead of last year with exports to India, United Arab Emirates, Thailand and Malaysia all recording a substantial jump in export value. The rise in export demand combined with lower national production in 2024/25 will see avocado prices closer to longer term averages, however this will vary across the season. Strong Queensland output will keep supply elevated and prices constrained on the east coast in the first half of the year while a drop in Western Australian output will see the opposite occur in the second half of 2025 as their season picks up. Consumer demand will fluctuate across the season as a result. While grower margins remain tight, they are at a slightly improved level compared to prior seasons.

Rising domestic consumption to absorb a rise in vegetable supply

A relatively dry spring planting period combined with generally favourable water entitlements has ensured vegetable producers have gone ahead with full planting programs across most key growing regions. In a further boost for producers, the Bureau of Meteorology are currently forecasting above average rainfall is likely for large parts of eastern Australia and scattered parts of the west. An increased chance of warm days and nights across most regions is also forecast. The combination of these favourable seasonal conditions and low irrigation costs will drive elevated yields across key staple varieties including onions, carrots and potatoes. Nightshade vegetables, brassicas and leafy veg production will also benefit from the improving seasonal conditions on the east coast. South Australian key production regions including the Adelaide Plains and Southeast are currently forecast to see typical rainfall levels. Despite this full water entitlements are driving strong vegetable production expectations across the region with the dry weather reducing risk of disease.

These favourable production and quality expectations should ensure strong volumes are available for the domestic market throughout the first half of the year. Vegetable prices, which have been falling since spring thanks to warm and dry conditions, are expected to sit steady to slightly lower over the first half of the year. An uptick in local consumer demand is anticipated as a result. Exports volumes should see a slight lift on the back of the increased availability of most key export varieties (potatoes, carrots, onions). Potential for a more substantial lift in export demand remains should we see a shifting of export flows resulting from a damaging weather events or trade restrictions. Our largest competitors into our key vegetable export markets include China, the US and India.

Strong production prospects and improved prices to benefit nut sector

The outlook for almonds remains favourable following a stellar 2024 with sales volumes for the 2024/25 season still on record pace, with exports up 33 per cent. Pollination for the 2025 crop progressed well earlier this year with the spread of varroa mite having relatively little impact this season while low irrigation costs will continue to benefit producers. We would expect to see production again move towards 150 to 160,000 tonnes. Unfortunately, producers continue to be impacted by significantly higher costs of production. This has resulted in a leveling out of new plantings over recent seasons with the expansion of the industry beginning to slow. A rebound in almond prices has been observed across 2024 which has improved the viability of the industry for producers, with margins now more sustainable. The average export unit price of almonds has lifted by 10.3 per cent in 2024. A dry finish to the current season will see quality remain high for the 2025 crop. Ensuring nut quality meets market expectations, including India and China, remains the key to the 2025 marketing year which kicks off in March. China have accounted for 54.6 per cent of Australian almond exports by value year-to-date while India now accounts for 16.8 per cent. The importance of the Indian market for Australian almonds has continued to expand since the implementation of the Australia-India Economic Cooperation and Trade Agreement, with import tariffs on the first 34,000 tonnes of Australian almonds now less than those placed on Californian imports. This has given our almonds a competitive edge in the growing Indian market. A tight carry out in the US will ensure demand for Australian almonds remains higher with yields across California coming in below expectations following a heatwave in August. A falling Australian dollar has also aided almonds with the Australian product now more competitive. We expect these market dynamics will prove supportive of almond prices over the first half of 2025.

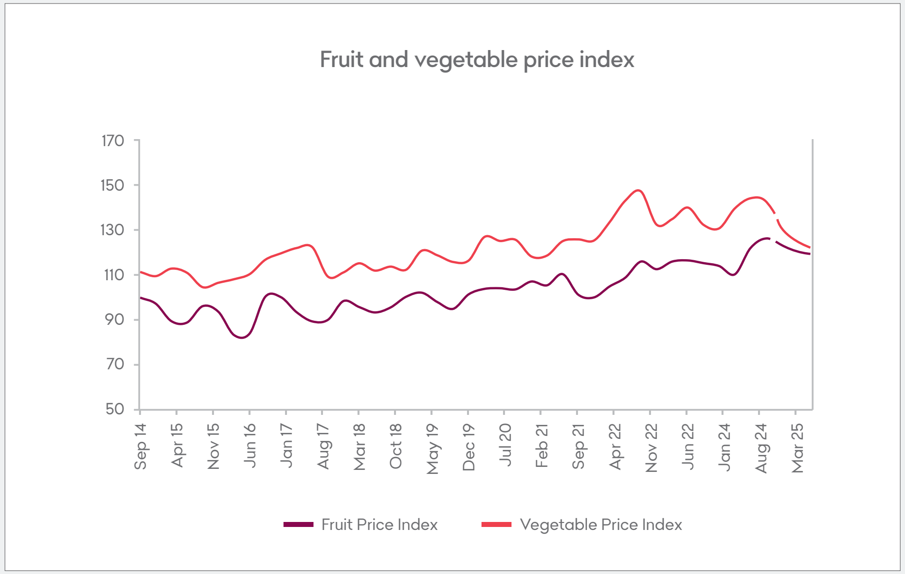
While still early, the macadamia season is developing well following wet conditions in late winter and early spring. Last season's macadamia production totalled 50,830 tonnes in-shell at 3.5 per cent moisture according to the Australian Macadamia society. A lift in pricing of upwards of 40 per cent assisted growers following several challenging years. Global production will continue to trend higher over the next six months with total output lifting by 7.5 per cent in 2024 and a similar lift expected to be observed in 2025. This ongoing expansion in global volumes has placed increasing importance in driving higher consumption growth at both a local and export level to ensure price stability for producers.

Horticulture

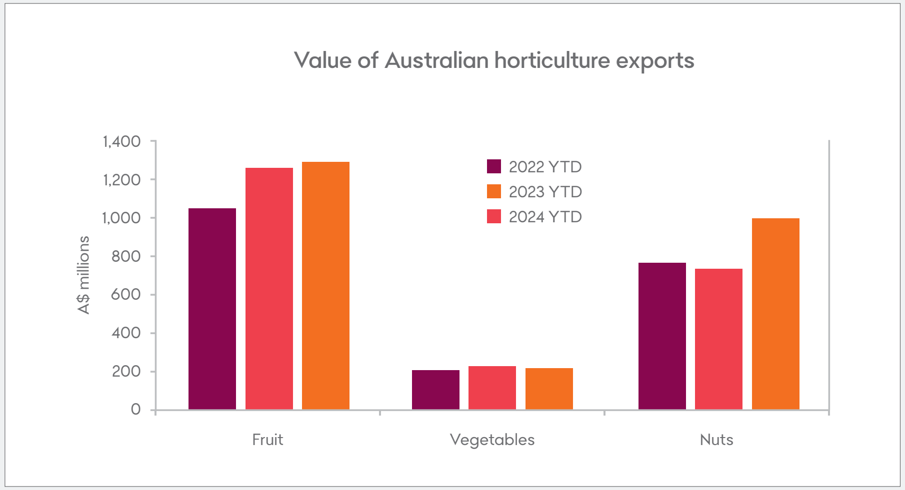
From the field…

“Broadly favourable seasonal conditions through key production regions during spring have set up horticultural producers for a strong first half of 2025. Elevated production across key varieties is forecast with growing domestic and export demand to assist in absorbing these additional volumes. Fruit and vegetable sectors are expected to see a slight easing of prices amidst higher supply while almond growers should benefit from a lift in global markets. Grower margins remain under some pressure on the back of high production costs which remain a key issue across the horticultural sector.”

Bruce Berruti,
Agribusiness Relationship Manager – Far North Queensland



Fruit and vegetable price index.
Source: Australian Bureau of Statistics (ABS), Rural Bank



Year to date comparisons of Australian horticultural exports.
Source: Global Trade Atlas

Sheep

Supply

Australian lamb supply to be lower than the first half of 2024 but above the levels seen over the past 6 months.

Demand

Improved economic conditions domestically and from Australia's trade partners will support demand.

Price

Australian lamb prices to be steady to marginally lower but should remain above five-year average levels.

Outlook

Firm prices and more favourable seasonal conditions should support the industry into 2025.

Supply

Australian lamb supply is expected to marginally increase in the first half of 2025, as the supply of finished lambs ramps up after Christmas. However, the influx of supply is forecast to trend below the record slaughter levels seen through the same period in 2024, as dry conditions in key producing areas in southeast Australia have impacted production.

Processing rates have been heightened over the past 18 months, as dry conditions in eastern Australia throughout 2023 followed by southeast Australia in 2024 drove increased turn off in order to manage feed availability. This also came at the culmination of the national flock rebuild that took place between 2020 and 2023, where sheep numbers increased by 23 per cent to almost 79 million head. The national flock is now forecast to decline from this peak into 2025, which will reduce the number of lambs available going forward. The deterioration in the national flock and prolonged period of increased processing rates will also limit mutton supply. There are reports that the national flock is now quite young, with the older stock that were held over during the rebuild now mostly sold off.

The supply forecasts are supported by the seasonal outlook, with the Bureau of Meteorology forecasting most sheep producing regions to be a 50 per cent chance or better of achieving median rainfall through to February. This should assist with maintaining feed availability and limit destocking throughout summer.

Sheep

Demand

Demand for lamb is expected to be firm through the first half of 2025. A tighter supply picture, as well as improved economic conditions both domestically and from some of Australia's major markets is expected to support demand. Domestic consumer sentiment has been improving recently, and the prospect of rate cuts in the first half of 2025 is likely to continue to improve demand for premium meats and the food service industry. Global beef production is also expected to tighten, with two of the major producers in the US and Brazil expected to go into a restocking phase when conditions allow. Tighter global beef supply will be supportive for red meat markets more generally and provide opportunities to increase supply into some of Australia's major lamb markets including the US, South Korea, and China.

Export demand for sheepmeat is also expected to benefit from a weaker forecast for the Australian Dollar. Prior to the US election, the AUD was forecast to strengthen up to 74 USc by the end of Q1 2025, but this has since been pulled back following Donald Trump's US election victory. Australia exports approximately 65 per cent of the lamb produced, as well as over 95 per cent of the mutton, meaning that a weaker AUD makes Australian sheepmeat more affordable to overseas markets.

From a restocker and trader perspective, a more favourable seasonal outlook through summer and relatively cheap grain prices are expected to support light lamb prices through the first half of 2025. There remains a sizeable spread between restocker and heavy lambs, although this should tighten as harvest nears completion and growers shift their focus to summer trading.

Price

Australian lamb prices are expected to remain steady to marginally lower through the first half of 2025 but should still sit above five-year average levels. The increase in supply of finished lambs will apply downwards pressure on prices, although supply pressure is not expected to be as high as previous seasons due to the dry conditions in key growing areas in southeast Australia over the last six months. Improving seasonal conditions in 2025 are likely to be supportive, keeping restockers and traders interested as well as limiting turn off rates to manage feed availability.

Processor capacity has improved significantly over the past two years, with combined sheep and lamb slaughter up 13 per cent year-to-date and 33 per cent above 2022. This increased capacity will offer significant underlying support to both lamb and mutton markets through the first half of 2025. The reduced supply of mutton will also support lamb prices as processors look to fill processing space.

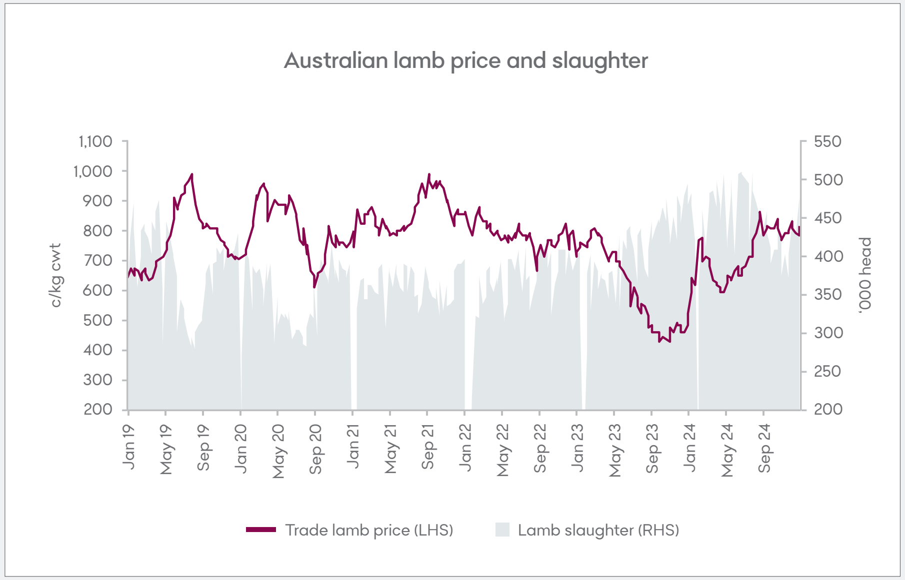
Mutton prices are expected to improve through the first half of 2025 and should reach back up to around five-year average levels. Sheep slaughter has ramped up throughout 2023 and 2024 after a quieter three years due to the flock rebuild. These high processing rates are forecast to ease into 2025 as the supply of stock available tightens.

Sheep

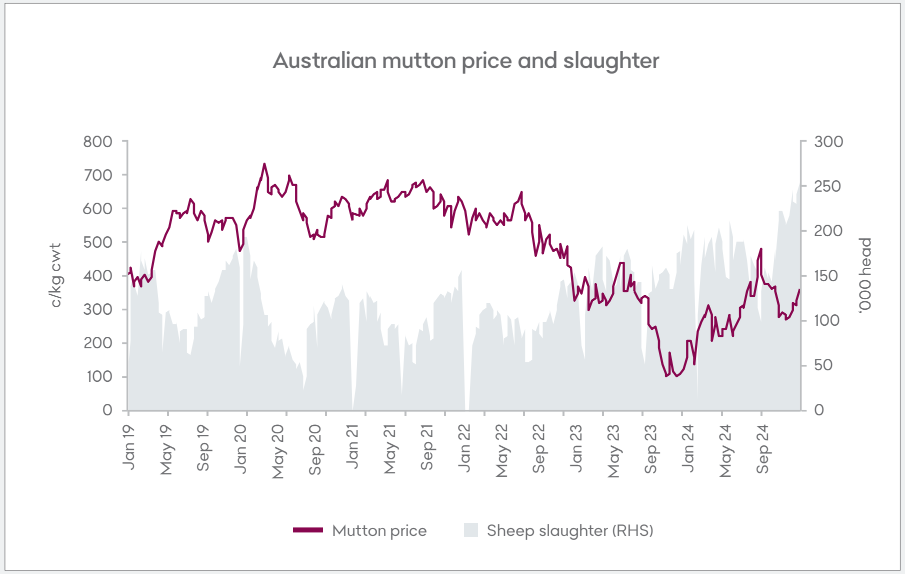
From the field…

"Australian lamb markets should remain firm into 2025, benefitting from improved seasonal conditions and a tighter supply picture following dry conditions in key areas over the past two years. The outlook for export demand is also positive, with improved economic conditions in the US expected to be supportive, although concerns remain regarding the volatile trade environment."

Matt Gill,
Senior Agribusiness Relationship Manager – Victoria



The NTLI and lamb slaughter from January 2019 to November 2024.
Source: MLA



The NMI and sheep slaughter from January 2019 to November 2024.
Source: MLA

Wool

Supply

Australian wool supply to remain below last season's levels due to the decline in the national flock.

Demand

Demand to continue to be weak until economic conditions improve in China and Europe.

Price

Wool prices to be relatively stable as the market waits for an uptick in consumer demand.

Outlook

Australian wool industry is to remain in a holding pattern until consumer spending increases.

Supply

Australian wool supply in the first half of 2025 is expected to be greater than the previous six months in following the usual seasonal trend, although will not reach the same levels seen last season. Supply is expected to be generally lower in 2024/25, with the Australian Wool Production Forecasting Committee estimating this season's production at 285 Mkg greasy, marking a 10 per cent reduction year-on-year and being eight per cent below the five-year average. This season supply has trended significantly lower, with the year-to-date offering down over 18 per cent. This is well below the overall forecast in decline, indicating that some of the supply is being retained rather than offered at the current market level. Supply generally increases through the first few months of the calendar year, which is expected to be the case in 2025. However, the overall forecast decline in production and the current market conditions mean that supply is not expected to be as high as last season through this period.

Wool supply has also been impacted by the declining flock, which is expected to continue to deteriorate from the recent peak in 2023. Supply has also reduced due to the shift away from merino sheep, with the MLA Sheep Producer Intentions survey showing the percentage of shedding breeds in the national flock increasing from almost two per cent in 2021 to seven per cent in May 2024. Over this period the merino portion of the flock has declined from 74.1 per cent to 61.3 per cent, with the overall quantity of merino breeders declining by almost 1.5 million head (-4.8 per cent). This comes despite the overall breeding flock increasing by 6.3 million head (+15.1 per cent) over the same period. There has also been lift in prime lamb operations between 2021 and 2024. The shift away from merino sheep has been driven by comparatively stronger lamb prices, as well as labour challenges and shearing availability.

Demand

Demand for Australian wool has remained subdued, facing pressure from challenging economic conditions in the key markets of China and Europe. The wool industry has borne the brunt of reduced consumer spending as interest rates and cost of living pressures have risen around the world.

There are indications that China's economy is improving, with increased retail spending, while there are also signs that their government will look to increase spending to stimulate their economy. Should their economic recovery eventuate, this would give the wool market some confidence and see prices move higher. China is the major destination for Australian wool, importing approximately 80 per cent of the total produced wool.

Wool

Price

Australian wool prices are expected to be relatively stable into 2025 as the market awaits an increase in consumer demand in China and Europe. Prices have been in a holding pattern of late with relatively small weekly movements. The market did see some uplift following the announcement of Chinese stimulus measures, although the improvement was not able to be sustained. Should economic conditions improve over the next six months this should flow through to the wool market, although it is a long way back to five-year average levels from here.

The tightening of supply has so far offered little support to the languishing market, with prices continuing to ease despite the significant decline in the national offering. Prices are expected to face further downwards pressure as supply increases following the Christmas recess, although some growers may continue to hold onto stock if their cashflow allows.

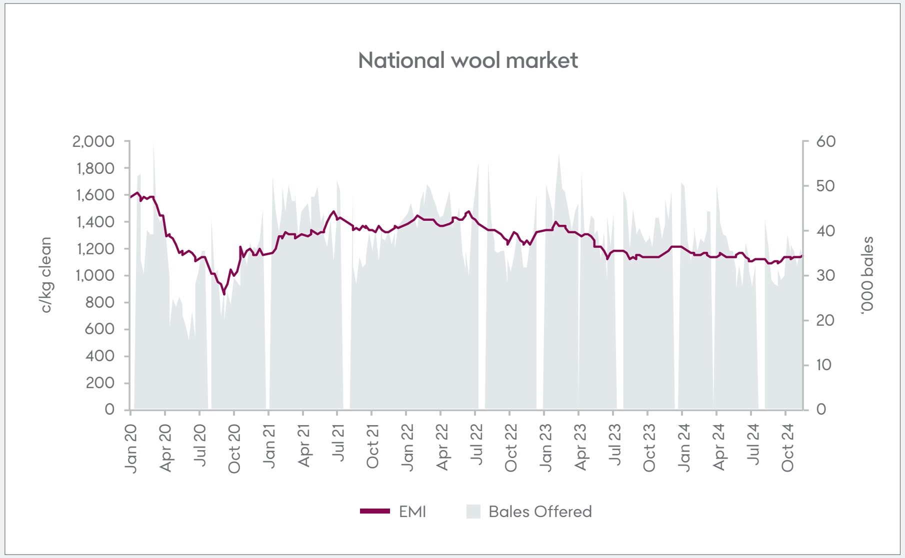
The recent weakness in the Australian Dollar has been supportive, as the vast majority of Australia's wool is exported. The Australian Dollar is forecast to strengthen into 2025, but the election victory of Donald Trump has made currency movements less predictable. The Australian Dollar has declined since the start of October, falling from the recent peak of 69.32 USc, and will likely decline early in the year before picking back up later in 2025 should the US economy begin to stagnate.

Wool

From the field...

“It’s been another tough 12 months for the Australian wool industry, with all prices remaining sticky. Wool prices have crept backwards in nominal terms over the past five years despite the post-pandemic surge in inflation. Wool production for the season could reach record lows over the next six months. Unfortunately, the low supply shows no signs of having the same positive effect on prices as the last shortage of supply in 2018–20. Demand from China and Europe will be pivotal to a market recovery in 2025.”

Ryley Verley,
Agribusiness Relationship Manager – South Australia



The Eastern Market Indicator and National Bales offered from January 2020 to November 2024.
Source: Australian Wool Exchange (AWEX)

Prices for 18-micron, 20-micron and 28-micron wool in Melbourne selling centre from January 2018 to November 2024.
Source: AWEX

Climate and carbon

Climate Physical Risk

El Niño–Southern Oscillation

Global sea surface temperatures (SSTs) remain at near record levels. Sea surface temperatures since July are just short of the record high temperatures observed during 2023. They are also above all other years since observations began in 1854. The sustained nature of this significant global ocean heat suggests that climate indicators such as ENSO and IOD may not behave or evolve as they have in the past.

The El Niño–Southern Oscillation (ENSO) index remains neutral with SSTs in the central equatorial Pacific Ocean and the patterns of surface pressure, cloud and trade winds are broadly consistent with an ENSO-neutral state. While some atmospheric indices have displayed La Niña-like signals over recent months, a consistent/sustained shift has not been observed. The Bureau's model suggests SSTs are likely to remain within the ENSO-neutral thresholds throughout the forecast period to February 2025.

Indian Ocean Dipole

The latest Indian Ocean Dipole (IOD) index value is in its fifth week close to or below the negative IOD threshold (-0.40 °C). The IOD is defined by the difference in sea surface temperatures between the eastern and western tropical Indian Ocean.

All models indicate that the IOD index will meet or pass negative IOD thresholds in November which may result in above average rain. Or it may not, because the reliability or 'forecast skill' of the IOD has historically been moderate for forecasts out to two months ahead.

A negative phase typically sees above average winter-spring rainfall in Australia, while a positive phase brings drier than average seasons. Ocean waters surrounding northern WA have recently been up to +2 °C warmer than average. This should result in more moisture in the atmosphere.

Southern Annular Mode

The Southern Annular Mode (SAM) refers to the north/south movement of the strong westerly winds that dominate the middle to higher (polar) latitudes of the Southern Hemisphere. This belt of strong westerly winds in the Southern Hemisphere is also associated with the storm systems and cold fronts that move from west to east. These sometimes bring rain to southern Australia.

The SAM is currently neutral. The months of November and December 2024 are tending towards positive SAM.

During the summer and autumn months (December through to May) the SAM has started to show an increasing trend to remain in a positive phase, with westerly winds contracted towards the south pole, reducing the likelihood of rain in southern regions.

The Bureau of Meteorology and CSIRO Talk about Climate Change in Australia

The Bureau of Meteorology in partnership with CSIRO released the State of the Climate 2024 report in late October. Below are the key points extracted from the document, closing with some reflections.

The Change so Far

1. Australia's climate has warmed by an average of 1.51 ± 0.23 °C since national records began in 1910.
2. The very high monthly maximum temperatures that were recorded less than 2% of the time in 1960–1989, occurred 11% of the time in the years 2009–2023.
3. Sea surface temperatures have increased by an average of 1.08°C since 1900.
4. The warming has led to an increase in the frequency of extreme heat events over land and in the oceans.

What the Future looks like

In the coming decades, Australia will experience ongoing changes to its weather and climate. The changes are projected to include:

1. Continued increase in air temperatures, with more heat extremes and fewer cold extremes.
2. Continued decrease, on average, in cool season rainfall across many regions of southern and eastern Australia, which will likely lead to more time in drought.
3. More intense short-duration heavy rainfall events even in regions where the average rainfall decreases or stays the same.

What Does This Mean for Me?

There will be ongoing changes in weather factors that are key determinants of operational decisions (e.g. planting dates) and are resources on which agricultural businesses rely (e.g. water, appropriate temperatures in key seasons).

It is prudent to understand the likely impacts of climate change in your region and include them in strategic planning. It is worth observing and recording to the actual numbers and their trend.

There is evidence that the greenhouse gas emissions that started climate change will continue to rise above current levels, possibly significantly[1]. The predicted impacts have become much more likely.

In addition, there is concern among financial auditors that there is not enough attention is being paid to changes to natural systems such as ocean currents changing course, melting in permafrost areas, ice sheets and others. These system changes, called tipping points, can change a system to a significant source of additional emissions, worsening the problem and increasing the likelihood of higher temperatures. At the current CoP29[2] meeting, evidence has been presented of such a potential tipping point – a massive increase in methane releases from wetlands in the tropical zone[3]. The result could be more pressure on methane emissions from human managed sources.

Taken together, the nations of the world are currently not meeting even modest targets to minimise the economic impact of higher temperatures. Oddly, countries like host Azerbaijan are generating a lot of wealth from the sale of fossil fuels, notably oil and gas. Yet they are asking to be treated as emerging countries and to be eligible for loans and grants from countries which are reducing their emissions.

There are likely to be more days of heat stress which reduces productivity in commodities and is a risk to human health. As the Bureau notes: 'Extreme heat has caused more deaths in Australia than any other natural hazard and has major impacts on ecosystems and infrastructure.' In the future, there may be more regulation and accountability for employers and employees working outside during days of extreme heat stress.

Climate Transition/Business Issues

Mandatory Reporting of Emissions Data Starts on 1 January

A bill of huge significance was given assent into law in mid-September 2024.

It has the memory-testing name Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024. Let's call it the TLA24 for convenience.

The TLA24 makes changes to two other laws: the Australian Securities and Investments Commission Act 2001 and the Corporations Act 2001 to phase-in new climate-related financial reporting requirements for entities.

That reporting starts for the very largest commercial entities on 1 January 2025. Entities that meet two of the following three criteria will need to report sustainability accounts to ASIC:

1. Consolidated revenue of $500 million or more
2. EOFY consolidated gross assets of $1 billion or more
3. EOFY employees/FTE count of 500 or more

Does this affect me?

For two reasons, it does affect you:

1. The entities that are required to report at the end of the first year need to include the emissions embedded in the inputs they purchase from suppliers plus the emissions of their customers. These are referred to as Scope 3. The Scope 3 reporting cascades down the supply chain.
2. By 1 January 2027, the TLA24 criteria extend to require sustainability reporting from smaller entities:
   a. Consolidated revenue of $50 million or more
   b. EOFY consolidated gross assets of $25 million or more
   c. EOFY employees/FTE count of 100 or more

By the end of 2027 nearly all businesses will be annually reporting at least the emissions intensity of their products and their plan to reduce emissions. Financial institutions are certainly among those required to report directly to ASIC in a comprehensive sustainability document. They will be assessing their scope 3 emissions and reporting them.

Not long after the emissions reporting starts, there will be decisions made about the emissions profile and emissions reductions plans of individual suppliers. The intent of this initiative is to reward those who reduce emissions, and disadvantage those who do not.

Disadvantages could include loss of market opportunity as preferred suppliers, lower prices for products, and higher interest rates for producers whose emissions intensity is too high, are among some of the options on the table for discussion.

In the formal language of the Task Force on Climate-related Financial Disclosure, the highest-level bank in the world (the Bank for International Settlements) wants to see the risk from climate change priced appropriately. There is global agreement among financial institutions and auditors that climate change is negatively impacting the global economy. One only has to look at the four-fold increase in the total cost of insurance claims in Australia over the past four years. Right now, households who take sound advice on how to reduce their risks and implement the recommended changes are getting up to 20 per cent off their insurance. This opportunity is one that agricultural industries could explore.

Reducing the risk that your business partners share with you can make good business sense. It looks like the way of the future.

The Future of International Climate Agreements is not a Straight Line

The international agreements on climate and nature have always been difficult compromises between the countries of the world.

This is emerging clearly in the current Conference of the Parties to the UN Framework Convention on Climate Change (COP29) in Azerbaijan.

Such events are supposed to review progress by individual countries on their national targets for greenhouse gas emissions reduction, and to review global progress. This year it looks very different.

Around the world, countries like the United States and economic groupings like the European Union are setting up tariff barriers so that their economies are not damaged by an unequal playing field when trying to achieve emissions reductions. National level climate and nature legislation currently places various obligations on domestic producers. These are not always matched in other countries that export products and so the playing field is not a level one.

Major exporters led by China are using the COP29 forum to oppose the trade barriers. It is shaping up to be a divisive debate. It also underscores that some economies are losing domestic business to countries which do not have similar environmental aspirations and may be exploiting the gap quite consciously. This is referred to as carbon leakage in government discussions. The Australian government is reviewing the risks of carbon leakage at the moment.

The results of COP29 could see a shift in debates and policies around climate change. A recent meeting around the biodiversity convention did not support a proposal to set aside about 30 per cent of the surface of countries and oceans for biodiversity. The unbalanced ambition of the proposal may have been the event that galvanised broader opposition to international conventions that are exploited for narrow economic aims by some countries.

There seems to be agreement that climate change is going to have an increasing impact on the global economy, and on nature. Alongside this there is also agreement to participate in global efforts to minimise the impacts of climate change, these two bits of consensus are fragile.

Such efforts cannot become mechanisms for some nations to advance their economic aims without risking the global consensus and significant pushback from nations which are successfully reducing emissions and transitioning their own economies to a low emissions future.

The next decade or so will be turbulent due to the inflationary nature of climate change and climate adaptation and the pushback where some groups of countries seek to push excessive ambitions upon the global community.

[1] China's 70.2GW of new construction that got underway in 2023 represents 19-times more new coal capacity than the rest of the world together in that year. https://www.carbonbrief.org/china-responsible-for-95-of-new-coal-power-construction-in-2023-report-says/

[2] Conference of the Parties to the UN Framework Convention on Climate Change (COP29) being held in Azerbaijan.

[3] https://www.reuters.com/business/environment/tropical-wetlands-are-releasing-methane-bomb-threatening-climate-plans-2024-11-17/

About the research

The *Australian Agriculture Outlook 2025* 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.

All prices represent Australian Dollars unless otherwise noted.

Glossary

ABS	Australian Bureau of Statistics
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
AWEX	Australian Wool Exchange
AWPFC	Australian Wool Production Forecasting Committee
AWTA	Australian Wool Testing Authority
AUD	Australian Dollar
CPI	Consumer Price Index
EMI	Eastern Market Indicator
EU	European Union
EYCI	Eastern Young Cattle Indicator
GDP	Gross Domestic Product
GDT	Global Dairy Trade
MLA	Meat and Livestock Australia
MS	Milk solids
NMI	National Mutton Indicator
NTLI	National Trade Lamb Indicator
RBA	Reserve Bank of Australia
US	United States
USDA	United States Department of Agriculture

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