



# Australian Agricultural Export Forecasts

December 2015

Photo: Mai Thai

# Highlights

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This report presents our forecasts for Australian agricultural exports for 2015-16 as well as estimates for 2016-17. Overall, 2015-16 looks to be a promising export year for most major Australian agricultural exports in value terms, supported by a lower Australian dollar.

Beef continues to surge on record prices and elevated demand in the key US govt market. We forecast the value of Australian beef exports to increase 25.0% in 2015-16. Beyond 2015-16, we expect lower slaughter rates to pare back export volumes.

Wheat will find support from a lower Australian dollar despite plentiful global supply and a mixed season in Australia with slightly lower production. We forecast the value of Australian wheat exports to increase 6.5% in 2015-16.

Dairy will likewise benefit from a lower Australian dollar and a moderate increase in production this season. This has shielded Australia from the worst of this year's global dairy price tumult and sees our forecasts for the value of Australian dairy exports rise 3.1% in 2015-16.

Lamb and wool exports are likely to see lower export values, as higher prices are counteracted by lower volumes. We forecast the value of lamb exports to decline 6.0% and the value of wool exports to decline 2.7% in 2015-16.

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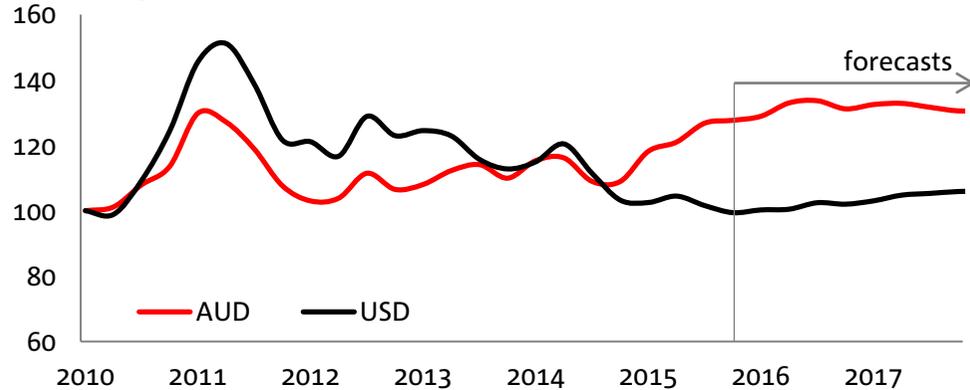
## Commodities

Beef	9
Wheat	11
Dairy	13
Lamb	14
Wool	14
Sugar	15
Cotton	15

# Headline agricultural commodity price, production and export forecasts

## NAB Rural Commodities Index

Quarterly index value, Q1 2010 = 100



## 2015-16 production, price and export forecasts

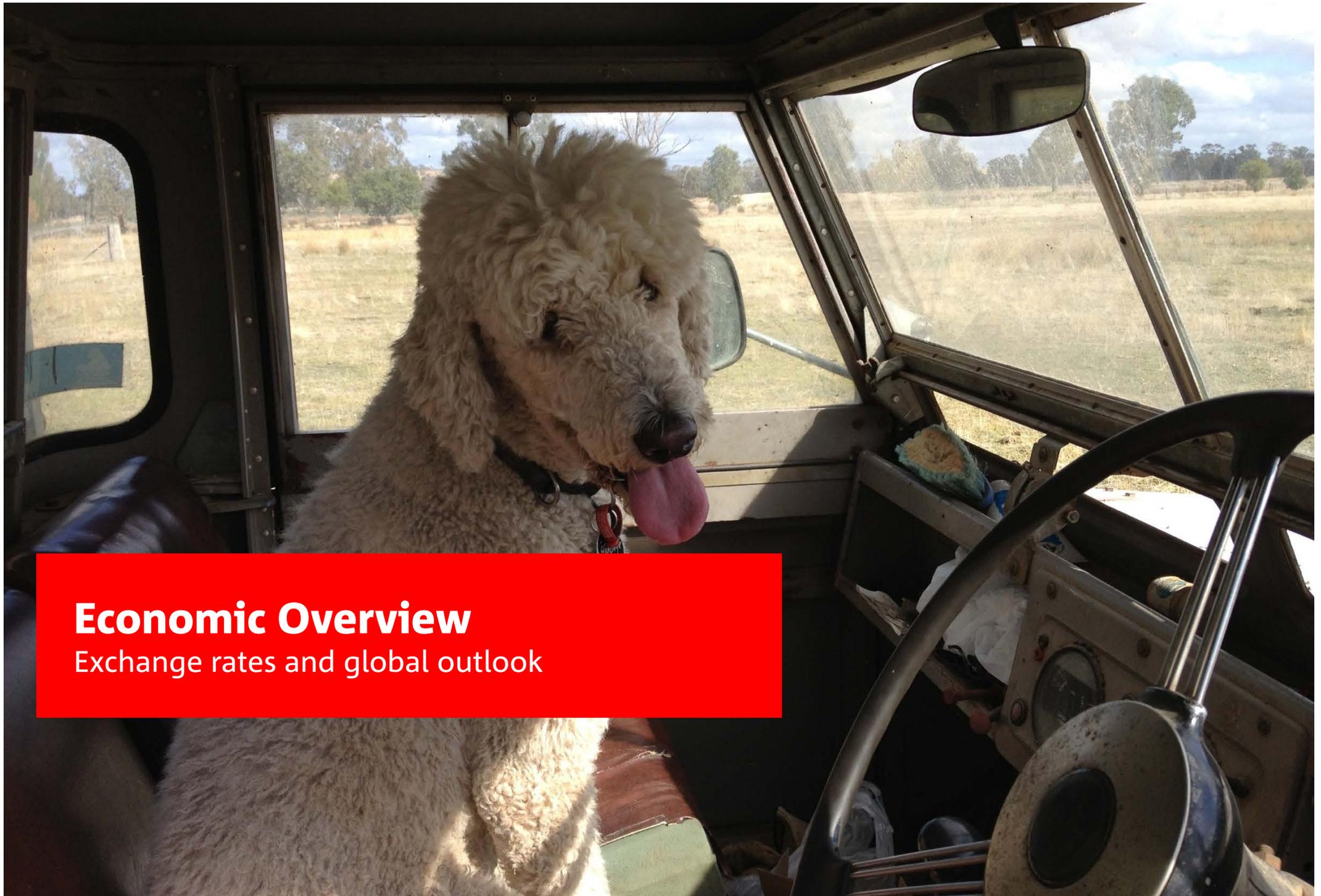
	Production change	Price change	Export value change
Wheat	▼ 2.8%	▲ 10.9%	▲ 6.5%
Beef	▼ 8.8%	▲ 37.7%	▲ 25.0%
Dairy	▲ 1.6%	▲ 2.4%	▲ 3.1%
Lamb	▼ 1.0%	▲ 3.8%	▲ 1.0%
Wool	▼ 4.4%	▲ 10.6%	▼ 2.7%
Sugar	▲ 4.3%	▲ 9.3%	▲ 18.9%
Cotton	▲ 2.0%	▲ 16.8%	▼ 25.1%

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, BNZ, Australian Bureau of Statistics, Bloomberg and Profarmer.

The longer term global trend has been one of broadly lower agricultural prices since a peak in 2011. However, the lower AUD has seen the trend in local terms reversed, with prices trending broadly higher since 2012. Our forecasts for the NAB Rural Commodities Index point to prices stabilising in USD terms before beginning to increase in mid-2016. In AUD terms, the forecasts reflect a falling AUD coming into 2016 and show an increase in prices until the September quarter 2016. Overall, we forecast the NAB Rural Commodities Index to increase 6.7% in AUD terms in calendar year 2016 but to decline 0.7% in USD terms over the same period.

The outlook for production depends in part on how El Niño develops coming into summer. The impact of any given El Niño event is highly variable. The relatively late onset (outside Victoria) of the rainfall deficiency associated with this year's El Niño has spared winter crops from a serious calamity, although conditions in Victoria are very challenging. The beef industry is already experiencing a production slowdown. Despite dry conditions in Victoria, milk production this season looks to be holding up.

Our forecasts for the value of exports are based on a combination of these factors, adjusted for domestic consumption and inventory changes.



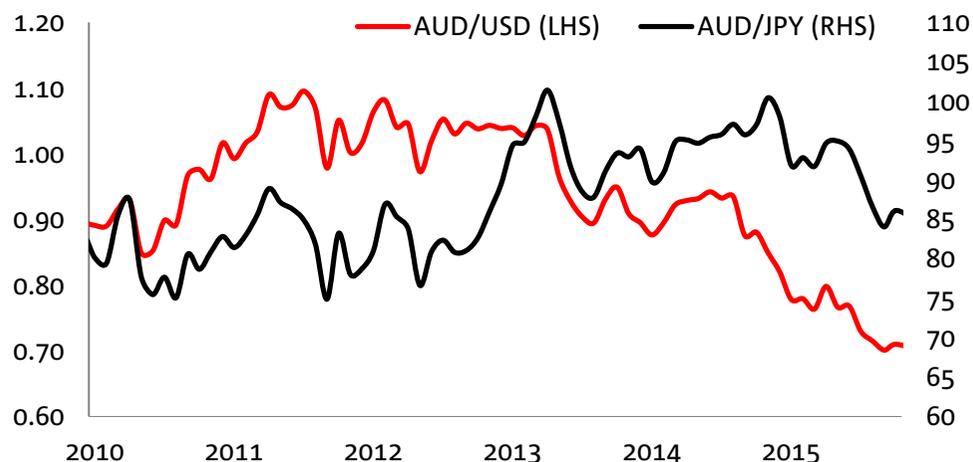
## **Economic Overview**

Exchange rates and global outlook

# Exchange rates



## Monthly exchange rate movements



## NAB FX strategy targets

	2015Q4	2016Q1	2016Q2	2016Q3
AUD/USD	0.70	0.68	0.69	0.70
NZD/USD	0.62	0.60	0.60	0.61
USD/JPY	121	122	123	124
EUR/USD	1.10	1.10	1.10	1.08
USD/CNY	6.40	6.50	6.50	6.65

The AUD has appreciated of late despite increasing confidence that the US Federal Reserve will raise interest rates in December combined with further falls in key Australian commodity prices including iron-ore dropping to its lowest levels in over nine years. Much of the downside for the AUD looks to be already priced in and lower market volatility (compared to highs in August this year) is offsetting falling commodity prices and the recent rise in US market interest rates. At the same time, rising US interest rates are being countered to an extent by diminishing expectations for further RBA easing.

Notwithstanding these trends over the short term, we continue to expect the AUD/USD to drop below 70 US cents next year in the context of modest additional US dollar strength and the feedback loop from weaker Asia Emerging market currencies if China allows the renminbi to weaken in 2016. Overall, we forecast the AUD to bottom out at 68 US cents at the end of Q1 2016 and to rise to 73 US cents by the end of Q3 2017.

Source: NAB

# Free trade agreements – highlights



Australia has a reputational advantage - offering the highest quality produce. There is rising growing demand for Australian grown food.

The way we are transporting produce has changed over the last 5 years and the conversations with our clients have changed, for example discussions around country credit risk and counterparty risk. With increasing globalisation and digitisation we need to be adaptable. And it's not just about Asia.

For both clients and bankers it is important to continually keep in touch with offshore markets; to learn about the local cultures; and confidently develop deep relationships.

At NAB we are employing bankers with a second language to help our export clients at both ends.

Khan Horne  
General Manager  
NAB Agribusiness

The last year has seen significant progress towards new free trade agreements (FTAs) across the Pacific rim.

The Australia-China Free Trade Agreement (ChAFTA) includes significant reductions Chinese tariffs applied to a number of Australian agricultural imports. Dairy and beef are winners under the agreement, but wool and cotton, which make up more than 40% of Australian agricultural exports to China, are not likely to see any great benefits from the deal.

The Trans-Pacific Partnership (TPP) is a multilateral agreement including twelve Asia-Pacific countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam). The TPP delivers tariff reductions and improved market access for Australian agricultural products. With TPP countries representing a third of Australian agricultural exports, these benefits are potentially significant. However, as a multilateral agreement, the TPP will likewise reduce tariffs and improve market access for other agricultural exporters within the TPP region. In certain circumstances this could see Australia's competitive position left steady or even eroded by the agreement, although lower tariff rates overall remain advantageous.

These agreements build on the Japan-Australia Economic Partnership Agreement and Korea-Australia Free Trade Agreement, announced earlier in 2014. However, we do not expect these agreements to have a major impact in the short term due the often long tariff reduction schedules. Rather, these agreements offer a long term opportunity to develop new markets.



## NAB global economic forecasts

Per cent change year on year

	2015	2016	2017
China	6.9	6.7	6.5
United States	2.4	2.5	2.4
Euro zone	1.3	1.7	1.9
Emerging East Asia	3.7	3.8	4.1
Japan	0.7	1.2	1.0
Advanced economies	1.8	2.1	2.1
Emerging economies	4.7	4.9	4.9
World GDP	3.0	3.2	3.3

Global growth remains sub-trend and there is little sign of an imminent acceleration in the pace of expansion – which should stay around 3%. Some factors hanging over global markets have eased for now and this has helped share prices to rise. However, the combination of higher US interest rates and lower commodity prices has caused problems in the past for emerging market economies, which have been driving the bulk of global growth since 2009. The modest upturn forecast for Japan and the Euro-zone is not enough to markedly change the lacklustre economic outlook.

Growth in the big advanced economies has improved and unemployment in the G7 biggest economies has also declined from a peak of 9% in the wake of the global financial crisis to 7% currently – only around 1 percentage point above its pre-recession level. The amount of idle capacity is well below its peak but it has stopped falling in the last year. The US, Canada and UK have made the strongest recoveries, while both Japan and the Euro-zone are still marginally below early 2008 levels.

Growth rates in the emerging market economies have eased and the slowdown in the biggest economies has also been quite marked, largely because of China's trend slowing and the much sharper move by Brazil into severe recession. Monthly trade and industrial output trends across the emerging market economies show at best only a slight improvement in the pace of industrial growth in the September quarter along with still surprisingly weak exports. Export deliveries and fixed investment spending in China continue to slow sharply, industrial output growth continues to trend down more gradually. However, retail trade and services activity remains solid, an encouraging sign of economic rebalancing.

Source: NAB Group Economics



# Commodities Outlook

Major agricultural commodities in focus

# Beef – highlights for trade



Entering new export markets is a long term proposition. My advice to clients is don't be afraid of the opportunities. Focus on demystifying the markets. And don't sell without the right connections.

When thinking Asia – clients need to understand they won't necessarily see Australian produce in big Asian supermarkets – but rather gourmet delis. Building a strong brand is important. Local knowledge is critical. With rising prices and fluctuating markets - FX strategies are important.

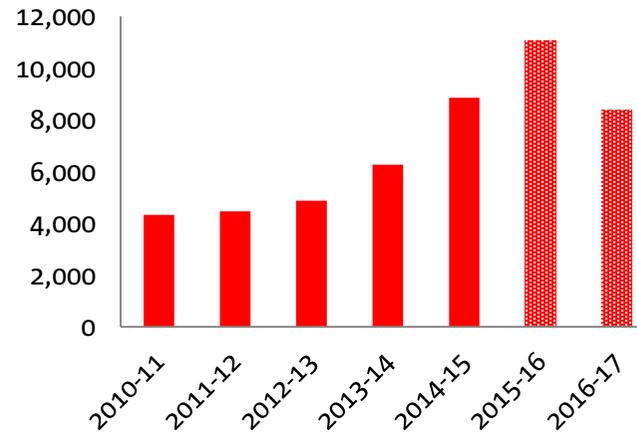
Opportunities continue to open up for beef in South-East Asia, especially Vietnam, Indonesia and Philippines. Direct flights to the Darling Downs have improved access for the Queensland market.

**John Avent**  
 Head of Agribusiness  
 Queensland and Northern Territory

Source: Meat and Livestock Australia, ABARES, USDA, US Drought Monitor and NAB Group Economics

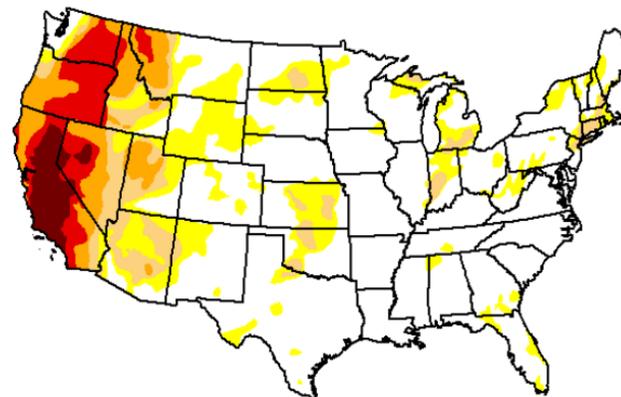
## Beef export value forecasts

AUD millions



## US Drought Monitor

24 November 2015



*Intensity:*



Our forecasts indicate that the value of beef exports will continue to surge on record prices and elevated demand in the key US 90cl market. We forecast the value of Australian beef exports to increase 25.0% to over AUD 11 billion in 2015-16.

However, there are likely to be some challenges beyond 2015-16. The US, the biggest destination Australian beef, has seen better rainfall in major cattle producing states and the drought is now largely confined to the west coast. This points to additional US domestic beef supply in the coming years as herd rebuilding reaches fruition. This is already becoming an issue in domestic US beef markets, which have been somewhat volatile.

Meanwhile, Australian beef export volumes already have begun to slow as slaughter rates decline and stock becomes scarcer. We expect slaughter to continue to contract for some time.

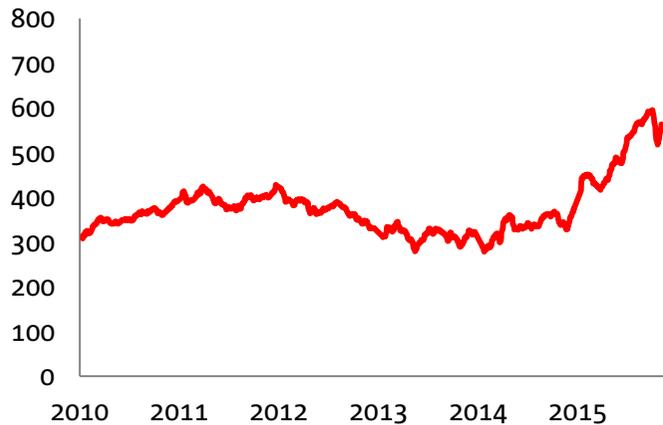
We forecast cattle prices to remain at elevated levels, but the key driver will become domestic demand for herd rebuilding rather than the US 90cl manufacturing beef market. This points to potentially falling export volumes in 2016-17, although these estimates are subject to considerable uncertainty.



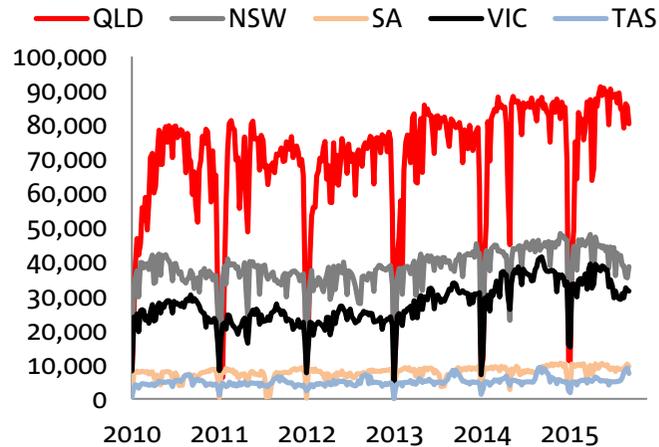
# Beef – price and production background



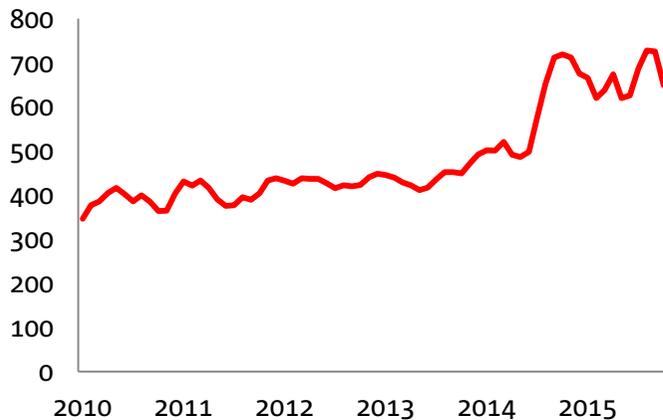
**Eastern Young Cattle Indicator**  
AUc/kg



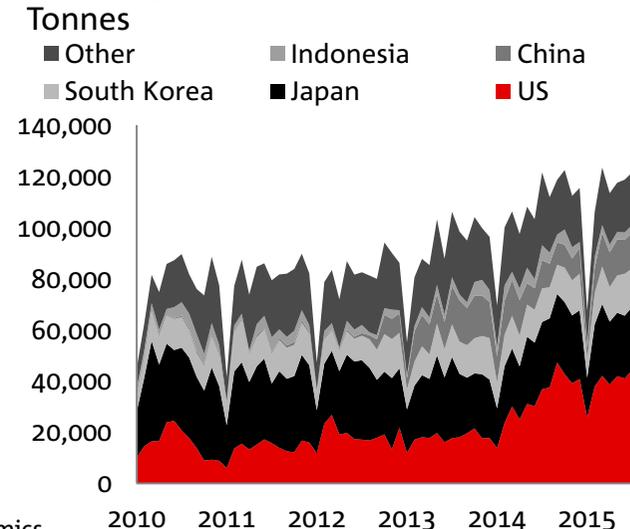
**Weekly Eastern States slaughter**  
Head



**US imported govt beef price**  
AUc/kg monthly average



**Monthly beef exports**  
Tonnes



Cattle prices have been volatile of late, reflecting dry conditions and uncertainty in the US beef market.

The Eastern Young Cattle Indicator (EYCI) was down 7.0% (AUD) in October, the first monthly price fall since March. However, the market has since rebounded and is now approaching 600AUc/kg, around its late September record.

A decent northern Australian wet season will likely increase restocker interest in the domestic market and hasten herd rebuilding. These factors should see elevated prices continue or even go higher. However, volume is likely to continue to decline.

Source: Meat and Livestock Australia and NAB Group Economics

# Wheat – highlights for trade



It's important to work with the right people to keep you away from the wrong people. Joint Ventures with experts are a good place to start.

Traceability and food safety is a top issue for export markets and Australian exports need to build on Australian advantage. It is important to understand local market demands.

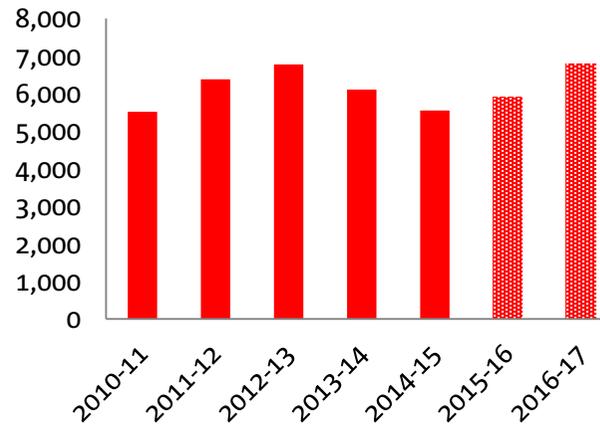
In South Australia and Western Australia we have a strong focus on grain: WA is Australia's largest wheat producer and SA is third largest. Wine and seafood are also major exports.

**Matt O'Dea**  
 Head of Agribusiness  
 South Australia and Western Australia

Source: ABARES, Australian Bureau of Statistics, USDA and NAB Group Economics

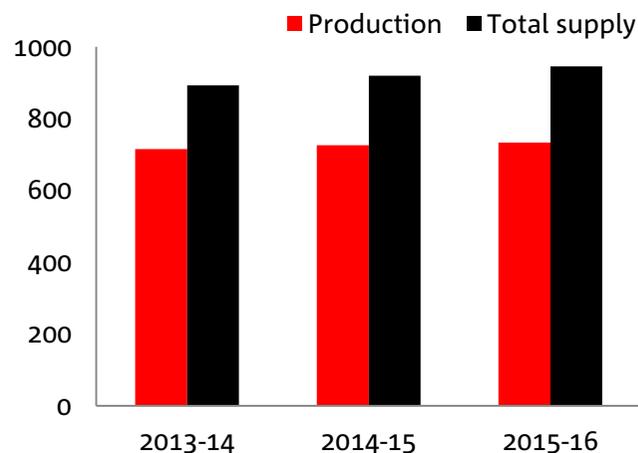
## Wheat export value forecasts

AUD millions



## USDA forecast global wheat supply

Million tonnes



Australian wheat (and winter crops more broadly) has faced a challenging season in parts of Australia this year, although the relatively late onset (outside Victoria) of the rainfall deficiency associated with this year's El Niño has spared wheat from a serious calamity outside Victoria.

Furthermore, the global wheat market is well supplied. The USDA continues to forecast that this season will be another record year, limiting any major upside for wheat in USD terms.

Despite these challenges, wheat finds strong support from a lower Australian dollar. We forecast the value of Australian wheat exports to increase 6.5% in 2015-16. Looking beyond this season, the value of Australian wheat exports is highly dependent on the 2016-17 crop. Should next season's crop be closer to the long term trend (i.e. higher than 2015-16) we expect the value of exports to rise again.



# Wheat – price and production background



## Generic 1<sup>st</sup> milling wheat

Eastern Australia, AUD/tonne



## CBOT Hard Red Winter wheat

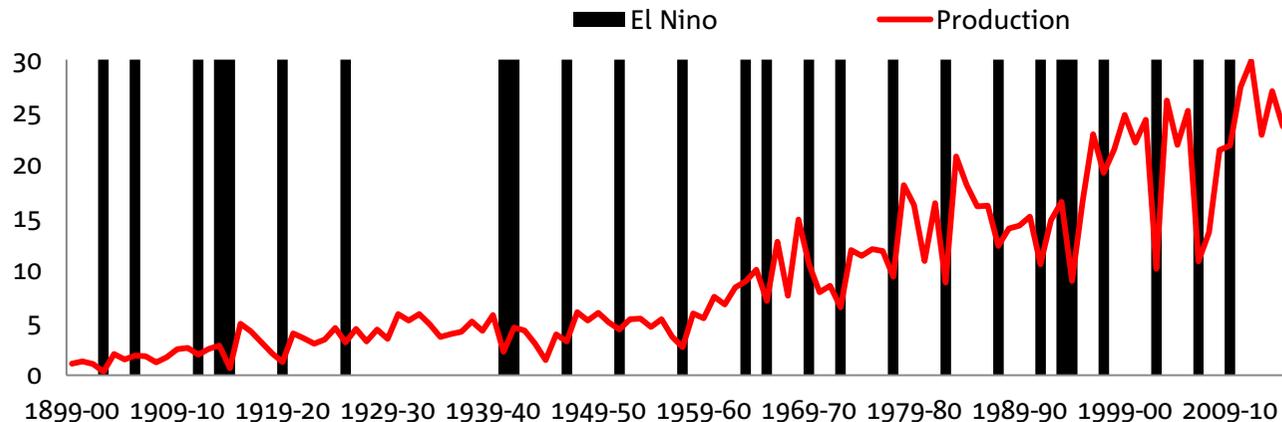
USD/tonne



Global wheat prices have tended broadly lower this year as global wheat supply remains buoyant. However, AUD priced wheat has remained in a much narrower band since 2012 as the depreciation of the AUD continues to support prices. We expect dry conditions coming into summer to support demand for domestic feed wheat. Overall, we forecast Australian wheat production to be 23 million tonnes this season, slightly lower than last year.

## Australian wheat production

Million tonnes



Emerging export businesses need to face into markets – by identifying risks and understanding opportunities. Scalability is important to supply needs and meet demands.

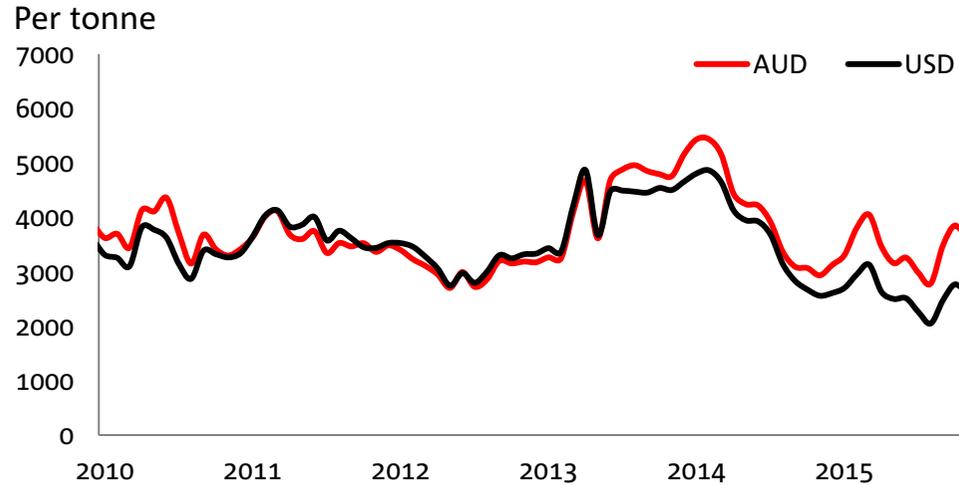
Geoff Rose  
Head of Agribusiness  
New South Wales and Australian Capital Territory

Source: Bloomberg, Profarmer, USDA, Australian Bureau of Statistics, ABARES and NAB Group Economics





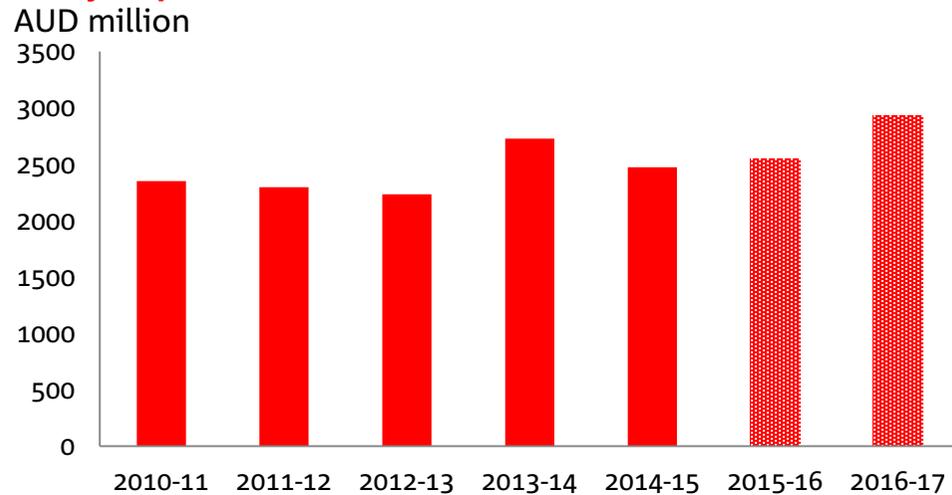
## NAB weighted dairy export price indicator



Dairy will benefit from a lower Australian dollar and a moderate increase in production this season. This has shielded Australia from the worst of this year's global dairy price tumult. We forecast that the value of Australian dairy exports will increase by 3.1% in 2015-16.

Our forecasts are underpinned by our NAB weighted dairy export price indicator. This measure of dairy export prices is based on Global Dairy Trade (GDT) auction results, and is weighted by the quantity of Australian exports for whole milk powder, skim milk powder, butter and cheese.

## Dairy export value forecasts



Source: Australian Bureau of Statistics, ABARES, Global Dairy Trade and NAB Group Economics

FTAs are coming into play and producers are starting to see new opportunities. The Australian dairy industry stands to gain from improved market access under ChAFTA.

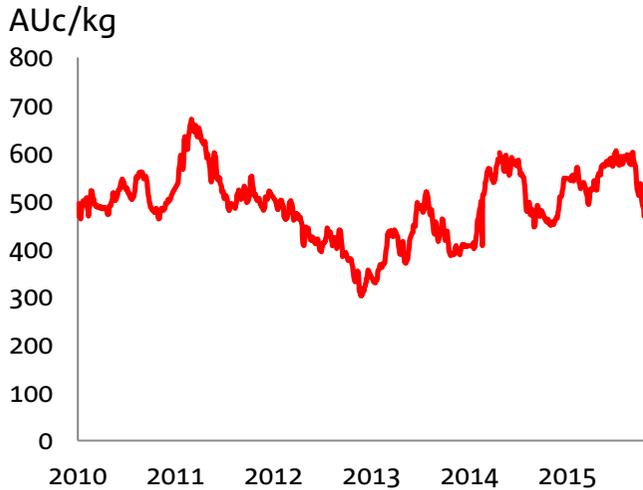
Export businesses need to know how to fund into new markets, and how to effectively distribute. They need to know the protocols.

Roger Gaudion  
Head of Agribusiness  
Victoria and Tasmania

# Lamb and wool



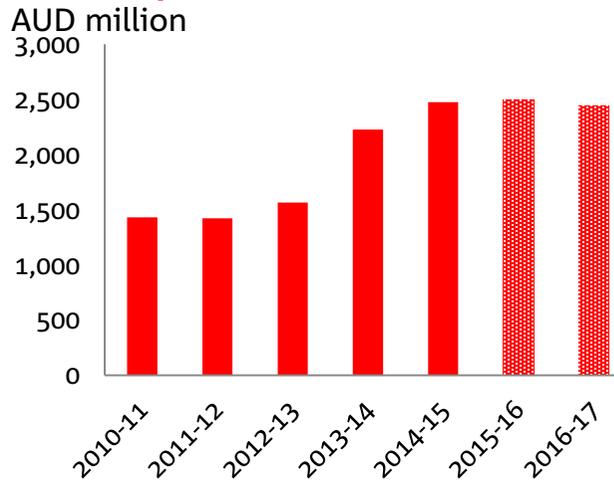
## Eastern States Trade Lamb Indicator



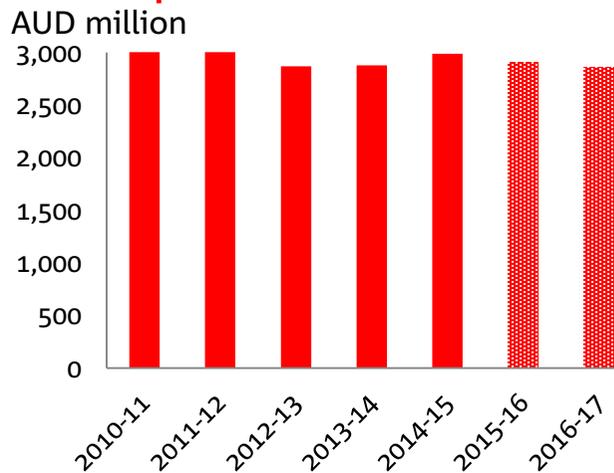
## Wool Eastern Market Indicator



## Lamb export value forecasts\*



## Wool export value forecasts



Our forecasts for lamb reflect moderately higher prices this year against somewhat lower production. Overall we forecast the value of exports to increase 1.0% in 2015-16.

For wool, the run-up in prices this year is not likely to offset forecast lower production. We forecast the value of Australian wool exports to fall 2.7% against a 10.6% improvement in prices.

Australia has so many success stories. Clients should look at what others are doing well; and how they are building the right relationships. Importantly Australia has a reputation of clean, green and quality to market.

Garry Gale  
Head of Asia Desk  
NAB Agribusiness

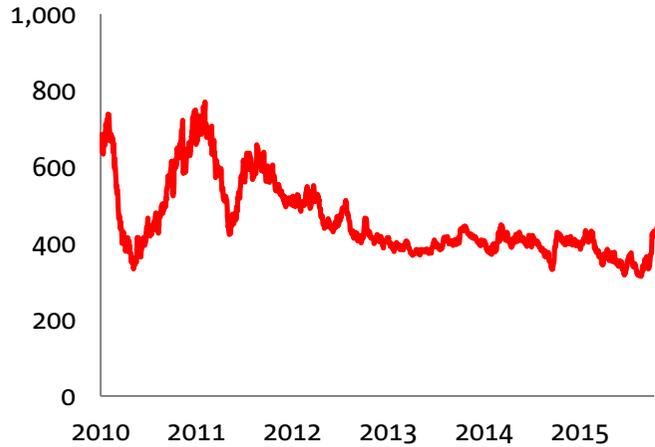
Source: Meat and Livestock Australia, Bloomberg, Australian Bureau of Statistics and NAB Group Economics \* includes mutton



# Sugar and cotton

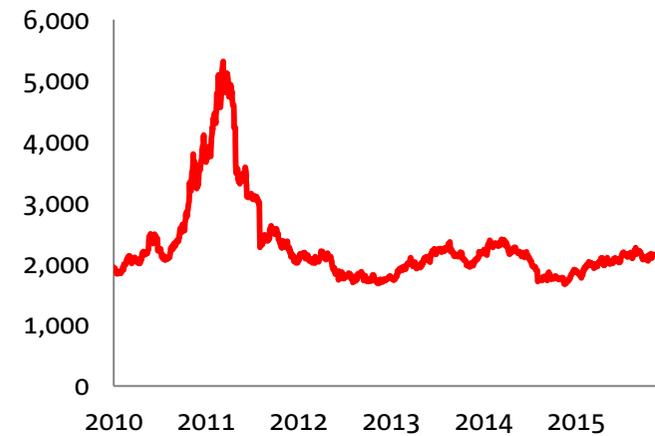
## ICE No.11 sugar

AUD/tonne



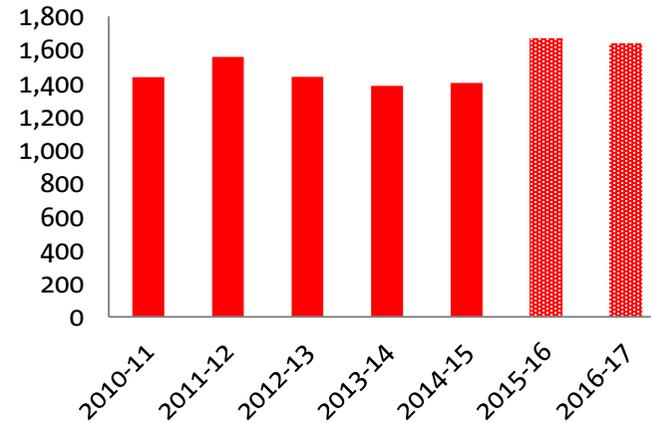
## Cotlook A

AUD/tonne



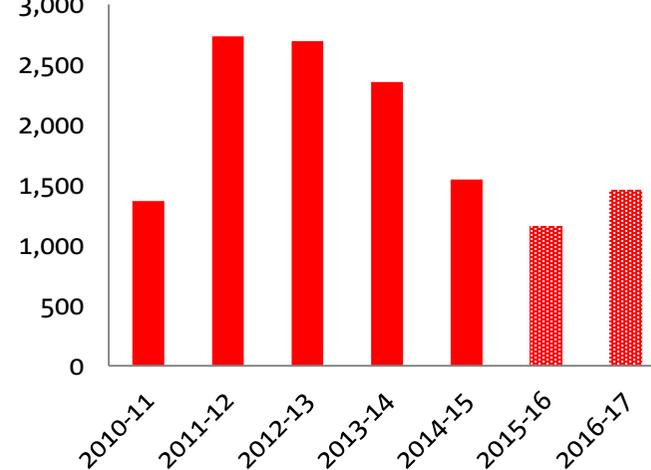
## Sugar export value forecasts

AUD million



## Cotton export value forecasts

AUD million



We forecast the value of Australian sugar exports in 2015-16 to rise 18.9% on improved production and a partial recovery in prices underpinned by a lower Australian dollar.

Cotton exports are forecast to fall further in 2015-16 reflecting an export hangover from last season's much smaller crop (owing to much reduced irrigation water availability in parts of the Murray-Darling basin). We forecast this season's cotton crop to be slightly higher than last year and for prices to rebound, but this is not sufficient to avoid a negative export growth forecast. Overall, we forecast the value of Australian cotton exports to fall 25.1% in 2015-16.

Source: Bloomberg, Australian Bureau of Statistics, ABARES and NAB Group Economics



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