



Australian Agricultural Export Update

March 2016



Photo: Mai Thai

Highlights

This report presents an update to our Australian agricultural export forecasts released in December 2015. Overall, 2015-16 has been a broadly promising export year for most major Australian agricultural exports, supported in no small part by a lower Australian dollar. We recently updated our exchange rate forecasts, which sees revises up Australian dollar forecasts for the first half of calendar year 2016 but lowers them for the second half of the year.

This update includes an in focus section on beef, sheep meat and wool. We have downgraded our forecasts for the value of beef exports amid slowing export volumes and a disconnect between domestic saleyard and US export prices as domestic restocking becomes the dominant driver of saleyard prices in 2016. Nonetheless, we still expect domestic prices to remain at or near record levels in the coming months and for the value of beef exports to be 3.7% higher in 2015-16.

Lamb prices are currently at similar levels to last year and overall we see prices 3.9% higher in 2015-16. However, with slaughter declining after two years of elevated production, we forecast that the value of lamb and mutton exports to fall 7.6% will fall in 2015-16.

Wool is the beneficiary of improved prices and we forecast the value of exports to increase 8.6% in 2015-16.

Group Economics

Phin Ziebell
Economist – Agribusiness
+61 (0) 475 940 662

Riki Polygenis
Head of Australian Economics
+61 3 8697 9534

Alan Oster
Chief Economist
+61 3 8634 2927

Agribusiness

Khan Horne
General Manager
NAB Agribusiness

Kristin Kenny
Senior Consultant
+61 (0) 439 255 981

Highlights

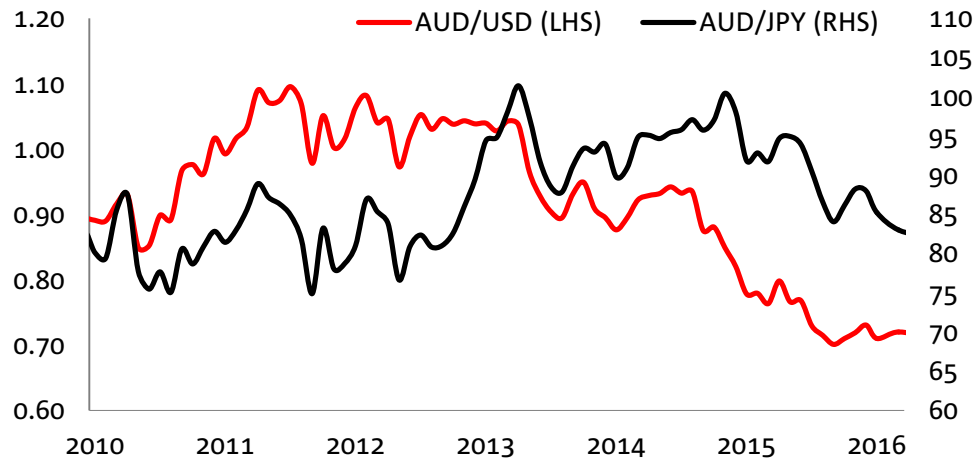
Summary	2
Exchange rates and interest rates	3
Headline agricultural forecasts	4

In Focus

Beef	6
Sheep meat	8
Wool	9

Exchange rates and interest rates

Monthly exchange rate movements



The Australian dollar has been hovering at the low 70s US cents level since mid-late last year. The US Federal Reserve now looks to be on hold at least for the first half of 2016, which, along with other factors, is likely to delay sending the Australian dollar below 70 US cents for an extended period in the first half of the year.

We have revised our forecasts and now see the Australian dollar falling below 70 US cents in the second half of the year, reaching a low of 67 US cents at year end before trending slowly upward over 2017.

Despite the global economic risks, we anticipate further recovery across the Australian non-mining economy and expect the RBA to keep the cash rate on hold throughout 2016.

NAB FX strategy targets

	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
AUD/USD	0.72	0.71	0.69	0.67	0.69	0.70	0.72	0.73
NZD/USD	0.65	0.64	0.62	0.60	0.61	0.62	0.63	0.65
USD/JPY	115	116	117	118	119	119	121	121
EUR/USD	1.09	1.10	1.09	1.08	1.08	1.09	1.10	1.10
USD/CNY	6.60	6.70	6.75	6.80	6.80	6.75	6.75	6.70

Source: NAB

Headline agricultural commodity price, production and export forecasts

Our forecasts point to Australian agricultural prices trending higher in AUD terms this year, despite challenging international conditions.

The outlook for production depends in part on how much rain we see coming into autumn. El Niño made conditions difficult in parts of Australia last year but the latest rainfall outlook points to a decent autumn outside of northern Australia where rainfall is forecast to remain below average. This points to a potential upside in production for grains and dairy, although we continue to forecast a contraction in cattle slaughter for herd rebuilding as well as lower lamb slaughter levels as farmers rebuild flocks.

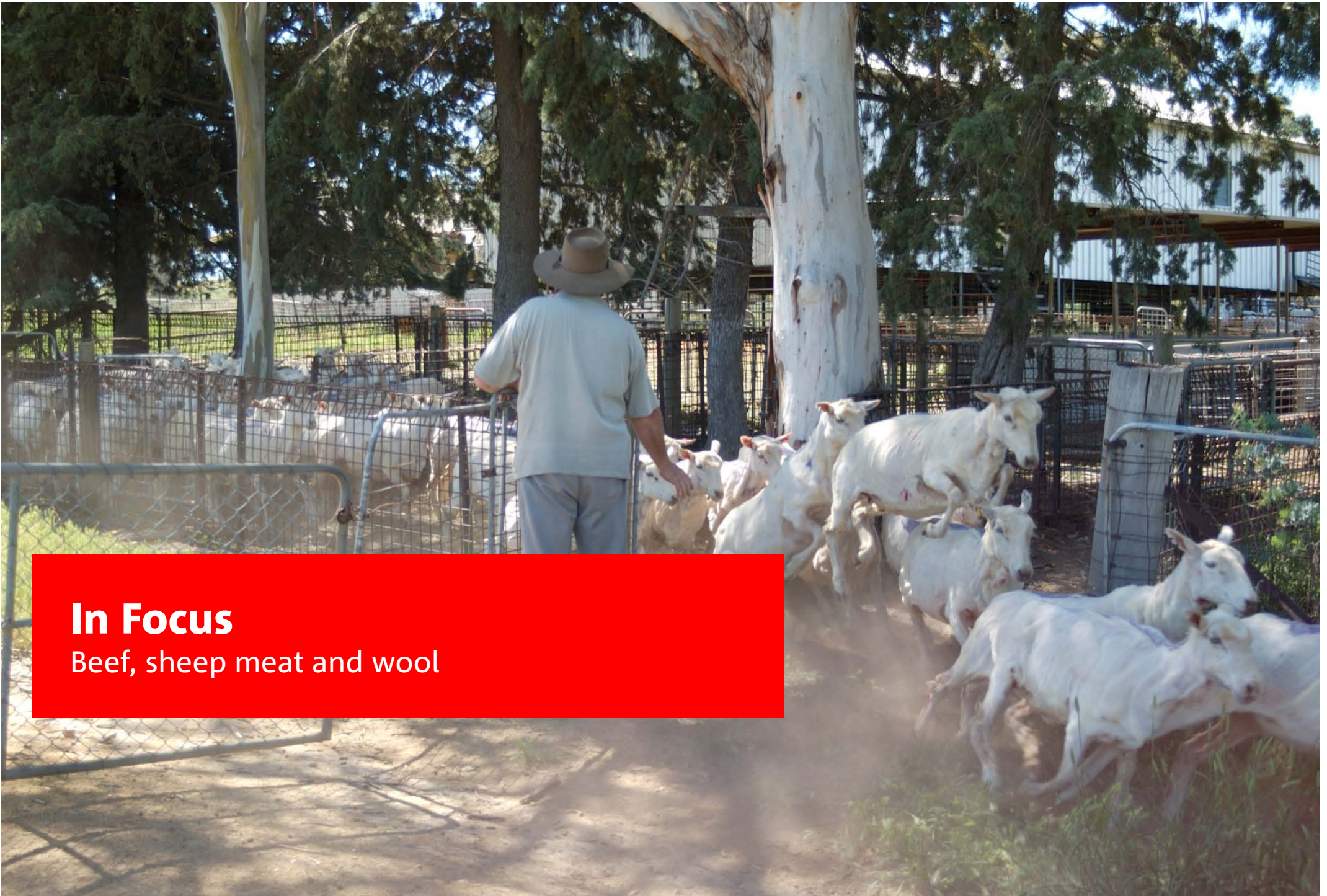
The table below outlines our latest outlook for production, prices and the value of exports for 2015-16 and 2016-17. 2016-17 production values are currently based on data in ABARES' March 2016 outlook.

These estimates are contingent on estimates for production and export volumes, prevailing global prices and NAB's foreign exchange outlook. This early in the season, the estimates are a guide for the trajectory of exports, but are liable to change (potentially significantly) in keeping with developments in the variables listed above. We will provide updates to these forecasts periodically throughout the year.

2015-16 production, price and export forecasts

	Production change		Price change		Export value change	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Wheat	▲ 5.0%	▲ 1.2%	▼ 0.3%	▲ 5.4%	▲ 1.9%	▲ 7.5%
Beef	▼ 9.1%	▼ 6.6%	▲ 45.4%	▼ 1.7%	▲ 3.7%	▼ 10.4%
Dairy	▼ 1.0%	▲ 2.0%	▼ 1.0%	▲ 4.0%	▲ 3.1%	▼ 2.0%
Lamb and mutton	▼ 7.5%	▼ 6.1%	▲ 3.9%	▲ 0.8%	▼ 7.6%	▼ 8.2%
Wool	▼ 7.0%	▲ 1.5%	▲ 13.7%	▲ 7.5%	▲ 8.6%	▲ 8.6%
Sugar	▲ 5.0%	▲ 5.9%	▲ 5.6%	▲ 7.4%	▲ 10.5%	▲ 11.9%
Cotton	▲ 5.7%	▲ 49.5%	▲ 12.8%	▲ 5.0%	▼ 15.8%	▲ 28.9%

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



In Focus

Beef, sheep meat and wool

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.

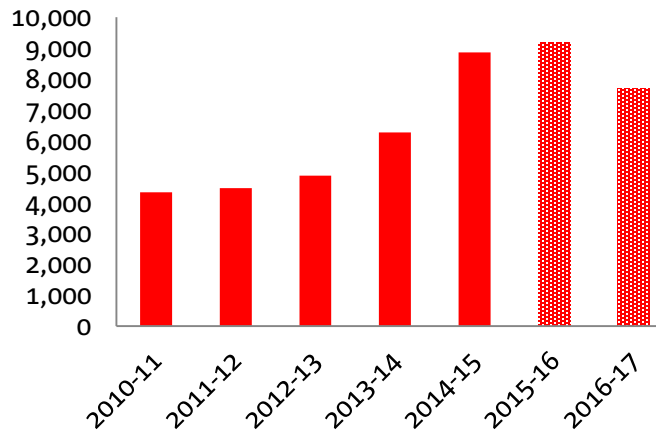
Opportunities continue to open up for beef in South-East Asia, especially Vietnam, Indonesia and Philippines. Direct flights to the Darling Downs have improved access for the Queensland market.

John Avent
 Head of Agribusiness
 Queensland and Northern Territory

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

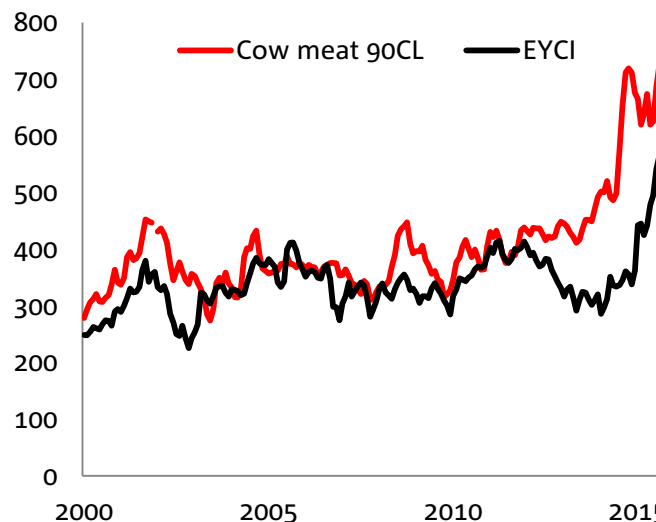
NAB beef export value forecasts

AUD millions



90CL US export prices and EYCI

AUc/kg



We have downgraded our forecasts for the value of beef exports amid slowing export volumes and a disconnect between domestic saleyard and US export prices as domestic restocking becomes the dominant driver of saleyard prices in 2016. The US beef market has been volatile, reflected in lower 90cl beef prices even in AUD terms since late last year. US producers continue to rebuild their herds following the drought. Nonetheless, we still expect domestic prices to remain at or near record levels in the coming months as producers look to rebuild herds. Beyond 2016, higher exports from Brazil and Argentina are likely to increase competition in the US market.

In export volume terms, the second half of 2015 saw a pull-back from exports to the US (Australia's biggest beef export market), as cattle slaughter slowed from very elevated levels as stock became scarcer. This followed a significant expansion in exports to the US that began in early 2014 in response to the drought in the US. We forecast the value of Australian beef exports to be 3.7% higher in 2015-16 but to fall 10.4% in 2016-17.

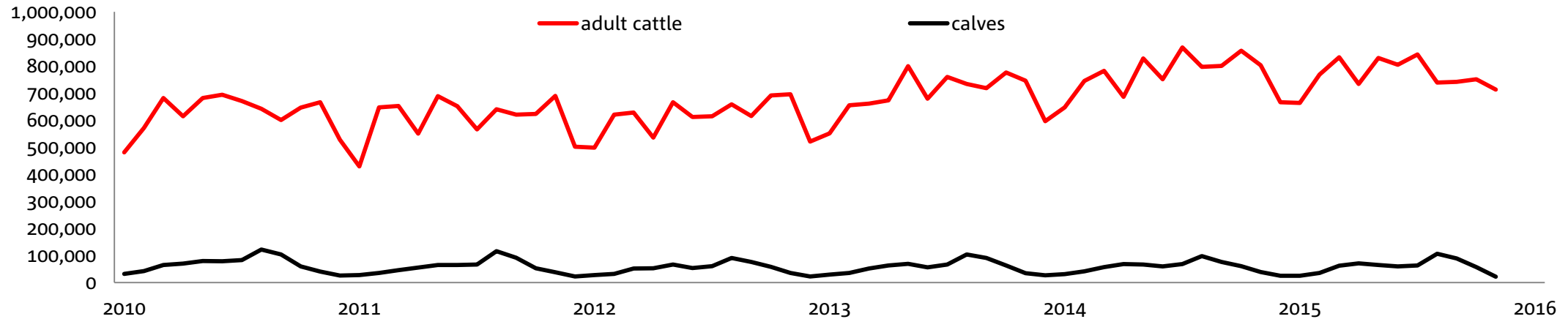


Beef: background data



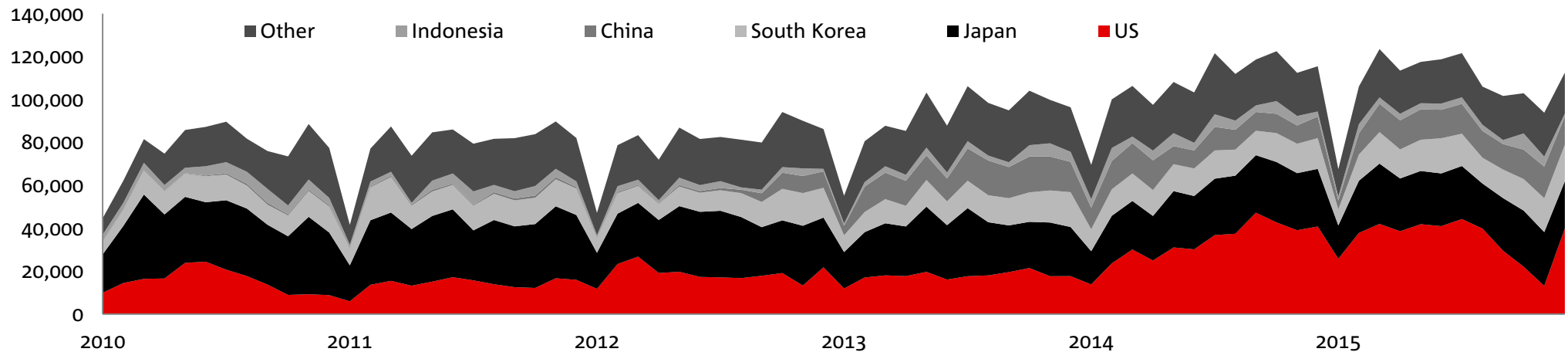
Monthly cattle slaughter

Head, Australia



Monthly Australian beef exports

Tonnes

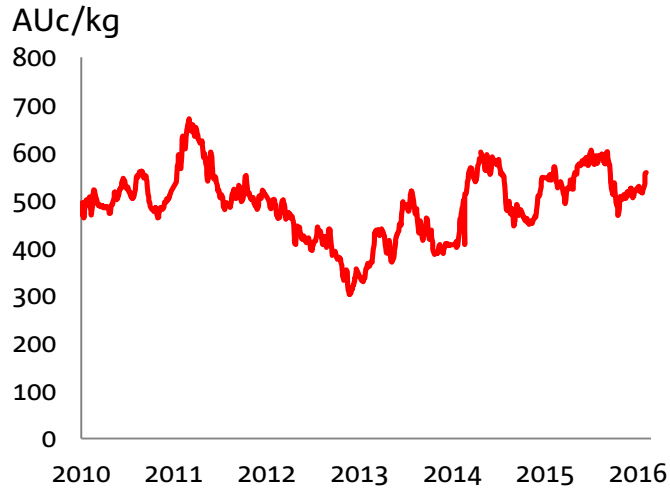


Source: Meat and Livestock Australia and NAB Group Economics





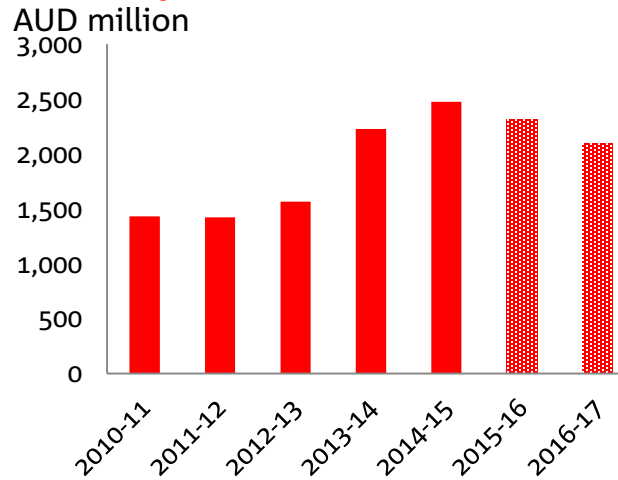
Eastern States Trade Lamb Indicator



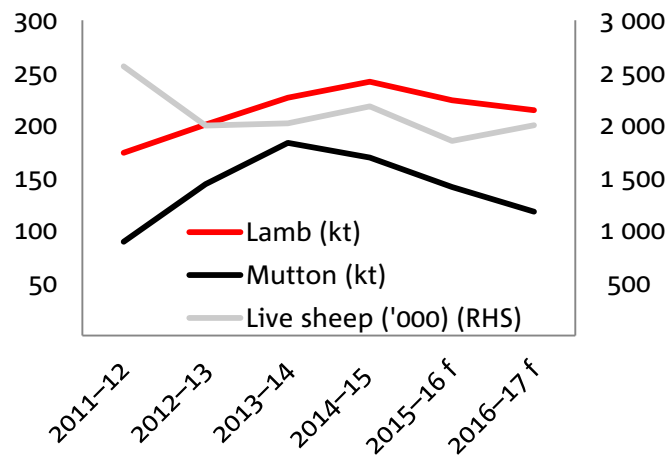
Australia has so many success stories. Clients should look at what others are doing well; and how they are building the right relationships. Importantly Australia has a reputation for clean, green and quality to market.

Garry Gale
Head of Asia Desk
NAB Agribusiness

Lamb export value forecasts*



ABARES forecasts for lamb, mutton and live sheep exports



Our forecasts for lamb reflect moderately higher prices this year. Indeed, the Eastern States Trade Lamb Indicator has been trending upwards since 2013, albeit with strong seasonal variation reflecting the usual spring lamb flush.

Production and exports have been elevated amid dry conditions over the past two years, but these levels were not sustainable and we see lamb and mutton production falling 7.5% in 2015-16 and 6.1% in 2016-17.

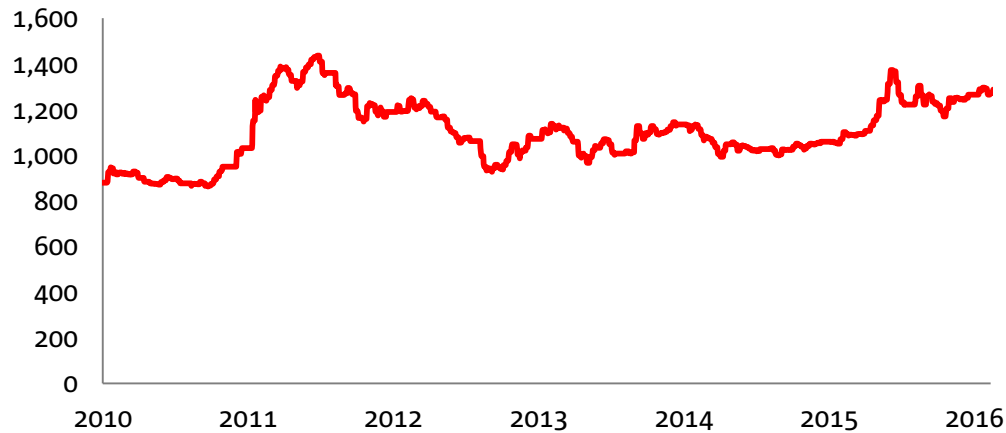
Overall we forecast the value of exports to fall 7.6% in 2015-16 and a further 8.2% in 2016-17 amid lower export volumes.

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



Wool Eastern Market Indicator

AUc/kg



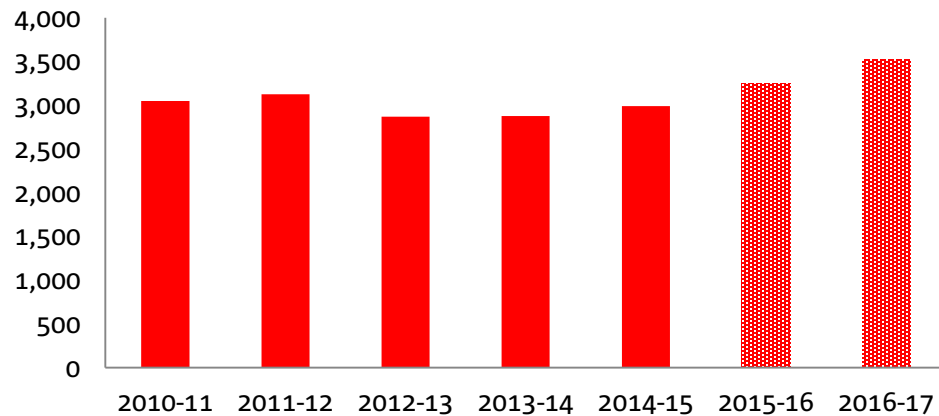
After several years of unfavourable prices, wool producers have enjoyed a run-up in the Eastern Market Indicator since the second quarter of 2015. Overall, we forecast that prices will increase 13.7% in 2015-16 and 7.5% in 2016-17.

The higher prices are forecast offset lower production in 2015-16 spur an increase in production in 2016-17. We forecast the value of Australian wool exports to increase 8.6% in 2015-16 and 2016-17.

In the longer term, textile manufacturing is likely to continue to move away from China towards parts of South-East and South Asia in search of lower wages. The Trans-Pacific Partnership will remove tariffs for Australian wool producers upfront.

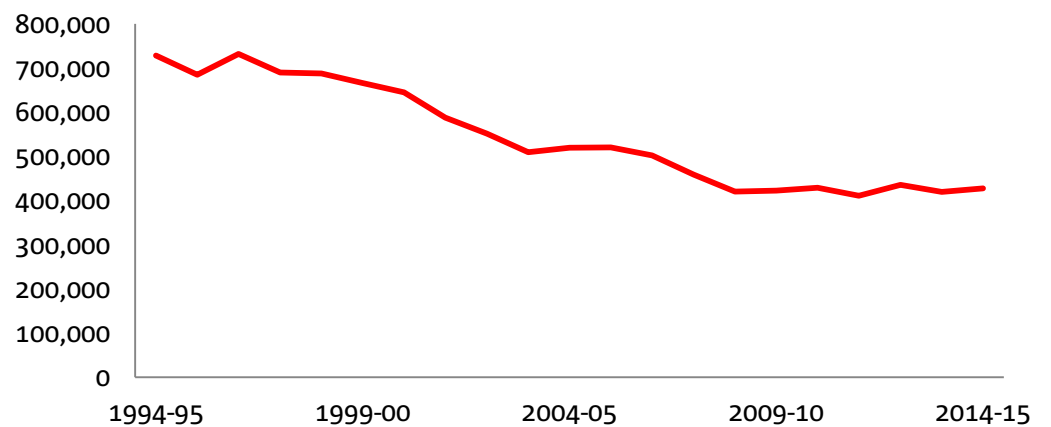
Wool export value forecasts

AUD million



Australian wool production

Tonnes, annual



Source: Bloomberg, ABARES and NAB Group Economics

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61) 475 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+656632 8055

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

