Australian Government
Department of Agriculture and Water Resources
ABARES

Agricultural commodities

Commodity forecasts and outlook

December quarter 2018

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Contents

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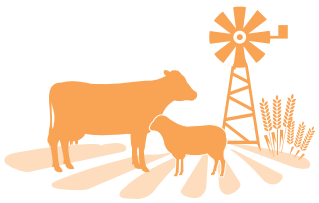
Agricultural commodities

December quarter 2018

$58b
Value of production



Agricultural overview

The value of farm production remains above the 10-year average despite drought conditions.

3.7%
World economic growth

Economic overview

Economic growth in Australia's main export markets remains strong, but downside risks have increased.

Seasonal conditions

A return to average rainfall provides mixed benefits. Unfavourable summer rainfall outlook for northern Australia.

↑5%
to **US$240/t**[a]
in 2018–19

Wheat

Lower global production to drive wheat prices higher.

↑12%
to **US$215/t**[b]
in 2018–19

Coarse grains

Barley prices to increase due to falling world coarse grain stocks.

a US no. 2 hard red winter, fob Gulf. **b** France feed barley, fob Rouen.

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Agricultural commodities

December quarter 2018

↑3% to **US$435/t**[c] in 2018–19

Oilseeds

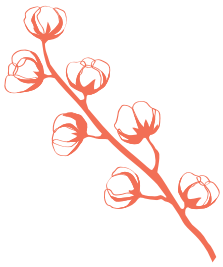
Canola prices to rise, reflecting an increase in Chinese imports and a fall in exportable supplies.

↓5% to **USc 12/lb**[d] in 2018–19

Sugar

Sugar prices to fall to a 10-year low, driven by record world supplies.

↑2% to **USc 90/lb**[e] in 2018–19



Cotton

Record world cotton demand to increase prices and lower stocks.

c Europe rapeseed, fob Hamburg. **d** Intercontinental Exchange, nearby futures, no. 11 contract (October to September). **e** Cotlook 'A' index.

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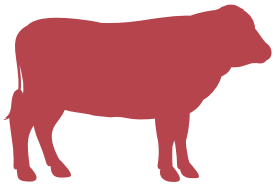
Agricultural commodities

December quarter 2018

Beef and veal

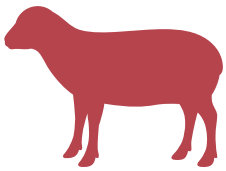
↓4% to **435 Ac/kg**[a] in 2018–19



Australian cattle prices to fall due to higher production and export market competition.

Sheep meat

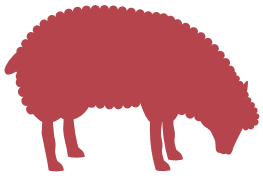
↑18% to **725 Ac/kg**[b] in 2018–19



Lamb prices to rise due to strong export demand and falling supplies in major exporting countries.

Wool

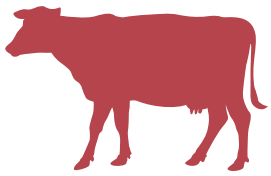
↑12% to **1,925 Ac/kg**[c] in 2018–19



A decline in Australian wool production is expected to support prices.

Dairy

↑1% to **47 Ac/L**[d] in 2018–19

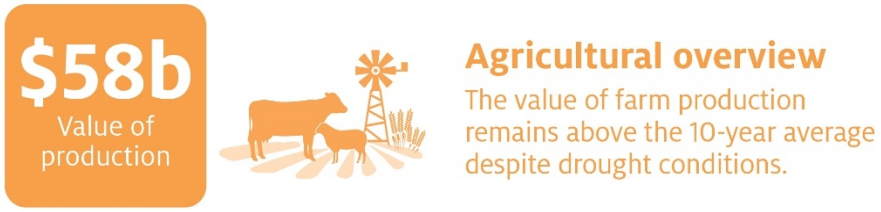


Milk prices to rise due to a falling Australian dollar and increased competition for milk.

a Australian weighted average saleyard price of beef cattle. **b** Australian weighted average saleyard price of lamb. **c** Eastern Market Indicator price, clean equivalent. **d** Australian average farmgate milk price.

Agricultural overview

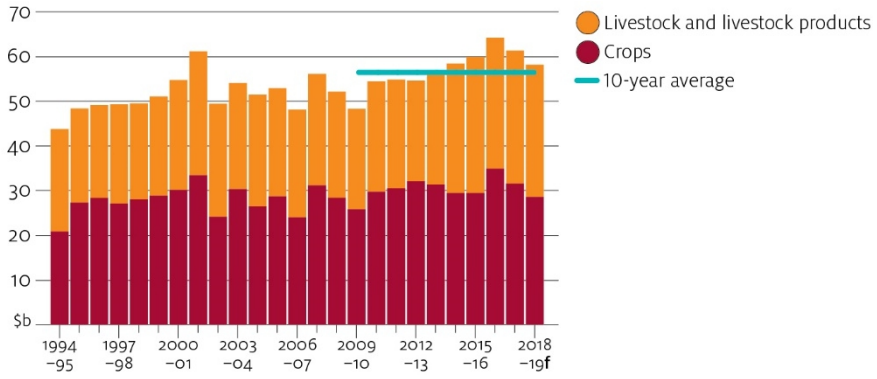
Matthew Howden, Kirk Zammit



Value of farm production to be lower in 2018–19

In 2018–19 the value of farm production is forecast to decline by 3% to $58 billion, 6% lower than the record achieved in 2016–17. If realised, this would still be above the 10-year average of $56 billion (in 2018–19 dollars).

Real value of farm production, 1994–95 to 2018–19

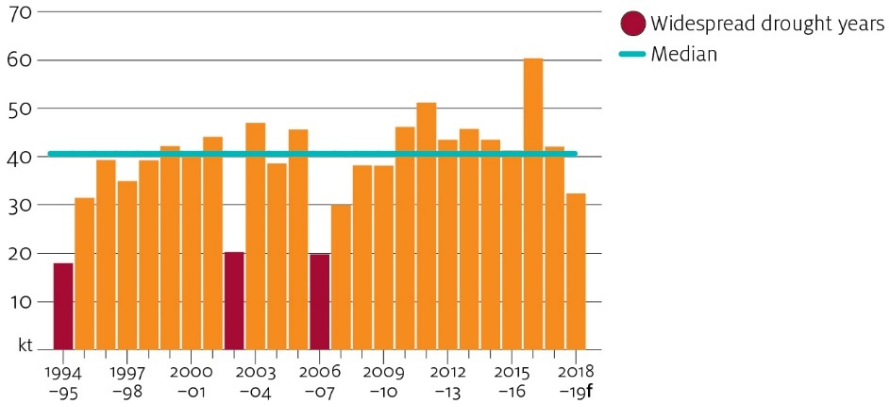


f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics

Production of crops and livestock products affected by drought

The value of crop production is forecast to decline by 7% to $29 billion in 2018–19. The fall is driven by substantially lower production of crops including cotton (down $1.1 billion), wheat (down $870 million), canola (down $800 million) and chickpeas (down $680 million) compared with last year. The most significant reductions in crop prospects are in New South Wales and Victoria, where frosts and lack of rain damaged crops prior to harvest. Production in New South Wales is expected to be the lowest in 24 years. Nationally, production of grains, oilseeds and pulses in 2018–19 is forecast to be 32 million tonnes. This is substantially higher than during the more widespread droughts of 1994–95, 2002–03 and 2006–07. For more detail on crop conditions and prospects for major field crops see the December Crop Report.

Grain, oilseed and pulse production, 1994–95 to 2018–19



f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics

The value of livestock and livestock products is forecast to increase by 2% to $30 billion in 2018–19. Higher cattle and sheep turn-off and strong prices for lamb and wool are forecast to support the value of production. Droughts tend to increase meat production. However, dry conditions in eastern Australia have reduced milk and wool production, with yields for both forecast to decline.

Farmgate price rises provide buffer to national outlook

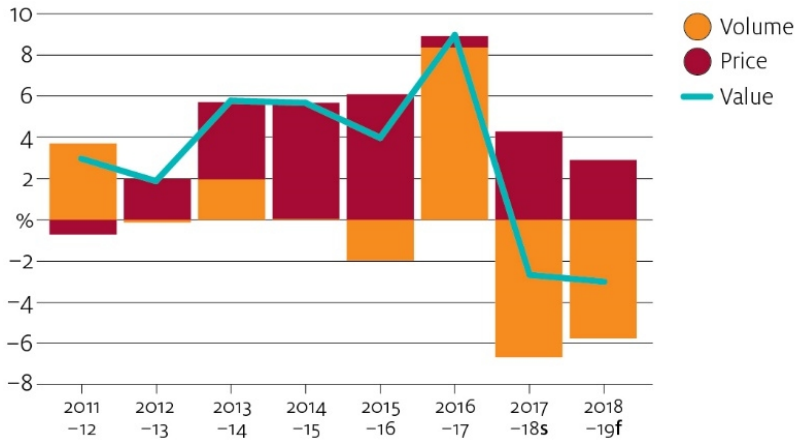
Farmgate prices are forecast to increase for canola, coarse grains and wheat in 2018–19. These crops are mostly destined for export, with prices set in world markets. World indicator prices for these grains are forecast to increase in 2018–19 because of lower production in key exporting countries, including Australia, the Russian Federation and in parts of the European Union.

At the same time, domestic prices for grains suitable for feed are expected to be high because of poor pasture growth and low availability of feed grains and fodder. Domestic feed grain prices rise above world prices in times of drought because of the high cost of meeting Australia's biosecurity protocols on imported feed.

Saleyard prices for sheep are forecast to rise because of enduring high demand from Asia and constrained production due to poor seasonal conditions. High world prices are supporting farm incomes and providing an incentive to purchase feed despite its high cost.

The aggregate index of prices received by Australian farms is forecast to increase by 3% in 2018–19, after increasing by 4% in 2017–18. Relatively strong growth in prices in 2017–18 mitigated the decline in the value of production and this is expected to continue with a forecast rise in prices in 2018–19.

Annual growth in the value of farm production, by price and volume, 2011–12 to 2018–19



f ABARES forecast. **s** ABARES estimate.
Note: Chained Fisher volume and price indexes, reference year 2018–19 = 100.
Sources: ABARES; Australian Bureau of Statistics

Rising input costs putting pressure on farm incomes

At the national level, farm profitability is expected to be lower in 2018–19 compared with the previous two years. This is due to the effects of drought in eastern Australia on production and costs. However, farm incomes are expected to remain comparatively high. This is because generally favourable prices received for most commodities and a lower Australian dollar are boosting export returns. Average to above average production outside drought-affected regions is also supporting national income. Some drought-affected broadacre farms have managed to maintain earnings by selling drought-affected crops as hay into the domestic feed market.

Farm profitability in 2018–19 is expected to be much worse in parts of Queensland, New South Wales and Victoria, where the drought is most severe. Lower production from winter crops and higher input costs—particularly for fodder and feed-grains— are putting substantial downward pressure on farm incomes in these regions. High prices for irrigation water in the Murray–Darling Basin are also affecting farm profitability in the irrigation sector. This is particularly the case for dairy producers, who are reliant on fodder and in some regions irrigation water for production.

The final picture for farm incomes in 2018–19 will depend on the success of summer crops in northern New South Wales and southern Queensland. Good outcomes for summer cropping are likely to improve cropping farm incomes in these regions. The improved availability of fodder and feed grains may also benefit livestock producers. Detailed projections of farm costs and net farm cash income for 2018–19 will be available at the Outlook 2019 conference in March.

Select input prices, July 2008 to November 2018

Note: Pasture hay prices in Wagga Wagga; Feed Barley delivered to Sydney; Water allocation prices in the southern Murray-Darling Basin.
Sources: ABARES; Bureau of Meteorology; The Land; The Weekly Times

Lower exportable supplies reduce export earnings

In 2018–19 export earnings for agricultural commodities are forecast to decline by 7% to $45 billion.

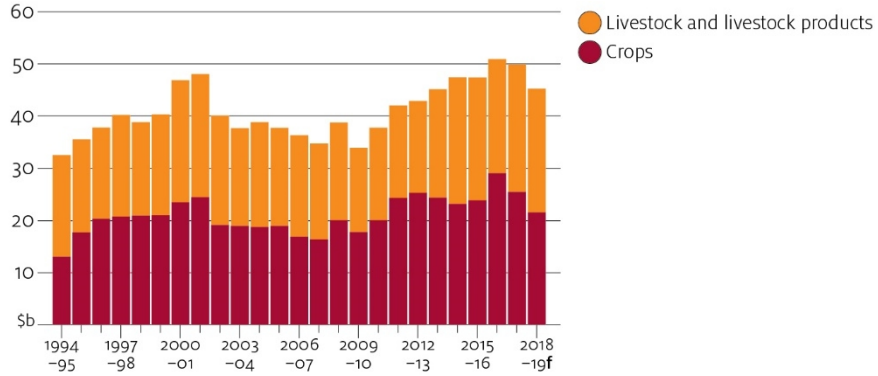
The value of crop exports is forecast to be $22 billion in 2018–19, 14% lower than in 2017–18. The main driver of the decline is lower production due to poor seasonal conditions and increased domestic consumption of coarse grains and wheat for feed.

The value of livestock and livestock product exports is forecast to remain relatively unchanged from 2017–18 at $24 billion. Higher prices for lamb, mutton and wool are offsetting falling export volumes. Volumes of exported beef and mutton are forecast to increase by 5%. The number of live sheep exported is forecast to fall by 44% in 2018–

19 because shipments were constrained during the northern summer. However, this will only have a small impact on total exports.

Increasing competition in Asia poses a risk to Australian export earnings. Australian wheat exports are facing increased competition from lower-cost producers who are improving the quality of their grain. Beef exports are also facing increased competition from the United States and Brazil.

Real agricultural export earnings, 1994–95 to 2018–19



f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics

Trade conflict weighing on consumer confidence

The continuing trade conflict between the United States and China is a key source of uncertainty in the outlook for Australian agricultural exports. The dispute may advantage some Australian exporters, but it is likely that the long-term implications will be negative. This is because Asia accounts for around two-thirds of Australia's agricultural exports annually. A prolonged dispute could have significant consequences for regional income growth and import demand. The trade war appears to be weighing on Chinese consumer confidence, which could result in lower demand for some agricultural products such as wool.

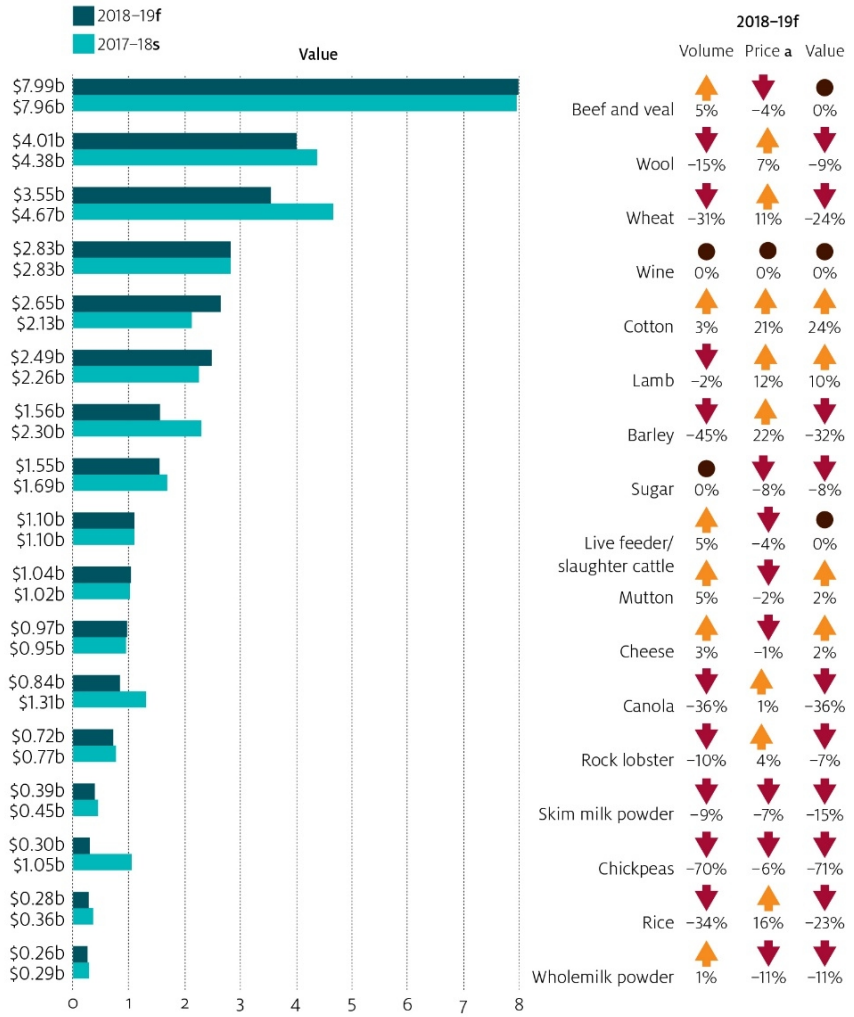
Trans-Pacific Partnership to come into effect in late 2018

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) will enter into force on 30 December 2018 for Australia, Canada, Japan, Mexico, New Zealand and Singapore. Brunei, Chile, Malaysia, Peru and Vietnam will join once each has ratified the agreement. In 2017 the United States withdrew from the original agreement, signed in 2016. Agricultural outcomes of the TPP-11 are otherwise identical.

The first round of tariff cuts will take effect on 30 December 2018 and the second round on 1 January 2019. These two cuts will provide exporters in those countries that have ratified the agreement with a competitive advantage over those that have not yet ratified or are not part of the agreement.

Because Australia is among the first group of countries to ratify the agreement, exporters will be able to take advantage of their improved access to some markets. For example, on 1 January 2019 Australian beef exports to Japan will be subject to a tariff of 27.5%. This is 11 percentage points lower than the World Trade Organization's most-favoured-nation rate of 38.5% and just slightly below the current Japan–Australia Economic Partnership Agreement tariff rates of 29.3% for chilled beef and 26.9% for frozen beef. This gives Australian beef exporters a competitive advantage over their US counterparts, who do not benefit from a preferential agreement in this high-value market.

Major Australian agricultural commodity exports



a All commodity prices are expressed as export unit returns in A$. Export unit returns are obtained by dividing the value and quantity of the commodity exported.
f ABARES forecast. **s** ABARES estimate.

Major indicators of Australia's agriculture, fisheries and forestry sectors

Category		2013–14	2014–15	2015–16	2016–17	2017–18 s	2018–19 f	*% change*
Exchange rate	A$/US$	0.92	0.84	0.73	0.75	0.78	0.72	– 6.8
Australian export unit returns a								
Agriculture	index	100.0	106.2	110.5	110.4	113.5	117.7	3.7
Value of exports								
Agriculture	A$m	41,364	44,200	44,776	48,944	48,881	45,269	– 7.4
crops	A$m	22,318	21,574	22,511	27,939	24,944	21,544	– 13.6
livestock	A$m	19,046	22,625	22,265	21,004	23,936	23,725	– 0.9
Fisheries products	A$m	1,304	1,440	1,542	1,435	1,575	1,542	– 2.1
Forestry products	A$m	2,529	2,772	3,116	3,460	3,605	3,481	– 3.5
Total agriculture, fisheries and forestry exports	A$m	45,196	48,412	49,434	53,839	54,061	50,292	– 7.0
Gross value of production b								
Farm	A$m	51,464	54,387	56,554	61,629	59,978	58,171	– 3.0
crops	A$m	28,699	27,423	27,791	33,515	30,854	28,588	– 7.3
livestock	A$m	22,766	26,964	28,763	28,114	29,124	29,582	1.6
Fisheries	A$m	2,473	2,764	3,020	3,058	3,175	3,281	3.3
Forestry **c**	A$m	1,840	2,025	2,270	2,571	2,553	2,571	0.7
Total farm, fisheries and forestry products	A$m	55,778	59,176	61,844	67,258	65,707	64,023	– 2.6
Volume of farm production **d**	index	121.9	121.9	120.8	131.6	123.4	115.8	– 6.2
crops	index	131.9	125.0	130.2	165.2	138.8	122.8	– 11.6
livestock	index	110.7	117.3	111.0	103.6	109.0	108.1	– 0.8
Production area and livestock numbers								
Crop area (grains, oilseeds and pulses)	’000 ha	22,558	22,910	21,337	24,373	23,436	18,832	– 19.6
Sheep	million	69.4	68.0	67.5	72.1	69.6	68.5	– 1.6
Cattle	million	29.1	27.4	25.0	26.2	25.8	25.5	– 1.2
Costs and returns								
Farm costs	A$m	37,957	38,441	38,516	39,828	39,269	41,779	6.4
Net farm cash income **e**	A$m	18,852	21,390	23,564	27,422	26,439	22,242	– 15.9
Net value of farm production **g**	A$m	13,507	15,946	18,038	21,801	20,709	16,392	– 20.8
Farmers’ terms of trade **h**	index	98.2	103.8	109.2	109.5	109.9	106.8	– 2.8
Employment								
Agriculture, forestry and fishing	’000	312	318	321	304	329	na	na
Australia	’000	11,467	11,682	11,918	12,088	12,458	na	na

a Base: 2013–14 = 100. **b** For a definition of the gross value of farm production see Table 13. **c** Estimated gross value of logs delivered to mill door (or wharf gate)**. d** Chain-weighted basis using Fisher’s ideal index with a reference year of 1997–98 = 100. **e** Gross value of farm cash income less total cash costs. f ABARES forecast. **g** Gross value of farm production less total farm costs. **h** Ratio of index of prices received by farmers and index of prices paid by farmers; base: 1997–98 = 100. **s** ABARES estimate (excluding the exchange rate and employment figures).
Sources: ABARES; Australian Bureau of Statistics; Reserve Bank of Australia

Economic overview

Kirk Zammit

- Global economic growth has been revised down by 0.2 percentage points from 3.9% to 3.7% in 2018 and 2019.
- The Australian dollar is assumed to average US72 cents in 2018–19, 7% lower than in 2017–18.

Global economic outlook

Global growth assumptions have been revised down from Agricultural commodities: September quarter 2018 to be 3.7% in 2018 and 2019. This is largely due to lower economic growth prospects in emerging and developing economies.

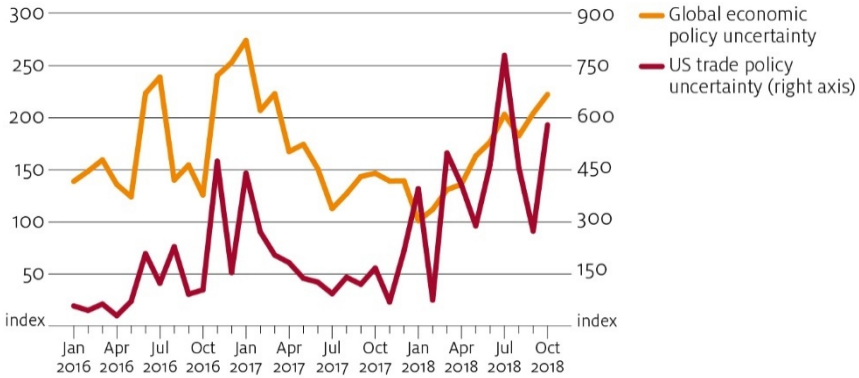
Downward revisions to growth assumptions in Eastern Europe, Latin America and the Middle East are due to factors such as armed conflict, drought, political unrest and tightening financial conditions. Economic growth in South-East Asia has also been lowered for 2019 because of tighter financial market conditions and the dampening effect this is likely to have on demand in the region.

Economic growth assumptions for China remain unchanged. The Chinese economy slowed slightly over the first 3 quarters of 2018 but remains in line with the Chinese Government's growth target of 6.5% for the year. However, balancing growth and maintaining financial stability in China will be more difficult following the US Government's decision in September to increase US tariffs on imports of Chinese goods.

Growth assumptions for advanced economies are largely unchanged. The US economy continued to accelerate in the September quarter 2018, and monetary policy normalisation is expected to continue in 2019. However, economic growth in the euro area has been revised down, in line with weaker than expected trade and investment growth in the June and September quarters.

The prospect of stronger than expected global growth has largely diminished because of the increase in downside risks throughout the year. These include escalating trade tensions between the United States and China, and increasing volatility in global financial markets because of increased trade, political and policy uncertainty.

Economic policy uncertainty, January 2016 to October 2018



Note: Mean of indexes are January 1997 to October 2018=100.
Sources: www.policyuncertainty.com; International Monetary Fund

Trade tensions and emerging market vulnerability

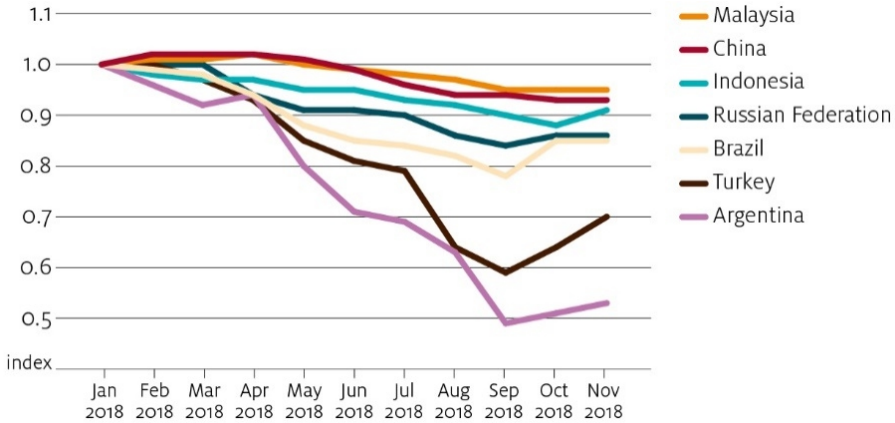
In September 2018 trade tensions between the United States and China increased further when the United States levied 10% tariffs on US$200 billion of imports from China. These tariffs could be raised to 25% in early 2019 if China and the United States cannot reach agreement on issues such as technology transfer and intellectual property protection. China retaliated to the latest round of US tariffs by imposing 10% tariffs on US$60 billion of imports from the United States. The US President has previously threatened to impose tariffs on all US imports of Chinese goods, equivalent to an additional US$267 billion of trade.

Increasing trade barriers and associated policy uncertainty are likely to dampen global growth in 2018 and 2019 by increasing the cost of trade, disrupting regional production networks and deferring investment. In its October World economic outlook, the International Monetary Fund (IMF) projected that tariffs imposed since the beginning of 2018 would reduce global growth by 0.1 percentage points from the IMF's baseline. The IMF estimates that this would roughly double if the US Government went ahead with additional tariffs in 2019.

The escalation in the trade dispute between China and the United States, and more broadly the build-up in policy and trade uncertainty, have led to increased risk aversion in global financial markets. As a result capital outflow from emerging markets has increased, further weakening those currencies relative to the US dollar. This is expected to dampen investment and household income growth in some countries. Economic growth in Eastern Europe and Latin America has been revised down. This is partly due to the challenging financial conditions in Turkey and Argentina.

Countries in South-East Asia continue to fare better than other emerging and developing economies because of generally stronger institutions and economic fundamentals, and lower exposure to US dollar denominated debt. However, the possibility of worsening trade relationships, or a sharp increase in interest rates and oil prices, could abruptly change the outlook for emerging Asia.

Change in emerging market currencies against the US dollar, January 2018 to November 2018



Sources: Bank for International Settlements; Federal Reserve Bank of St Louis

Strong growth in Australian agricultural export markets

The downward revisions to economic growth are principally for countries and regions that are not major markets for Australian agriculture. However, the more volatile and uncertain trade and financial conditions have increased the downside risks to economic growth for many Asian countries important to Australian agricultural exporters. For example, a decline in consumer confidence in China, Japan and Korea in recent months may be a precursor of weakening demand.

Despite increased downside risks, growth prospects for Australia's 10 largest agricultural export markets are assumed to remain favourable in the short term, with an average growth of 4.5% in 2018 and 4.3% in 2019. This is virtually unchanged from the September quarter 2018 and is in contrast to the downward revision to global economic growth.

Australian economy

The Australian economy increased by 2.8% year-on-year in the September quarter 2018. Economic growth was driven by strong growth in household consumption, elevated public sector investment and strong growth in the volume of exports, which increased by 4.1% year-on-year in the September quarter 2018. Australian exports have been supported by strong demand, particularly in Asia.

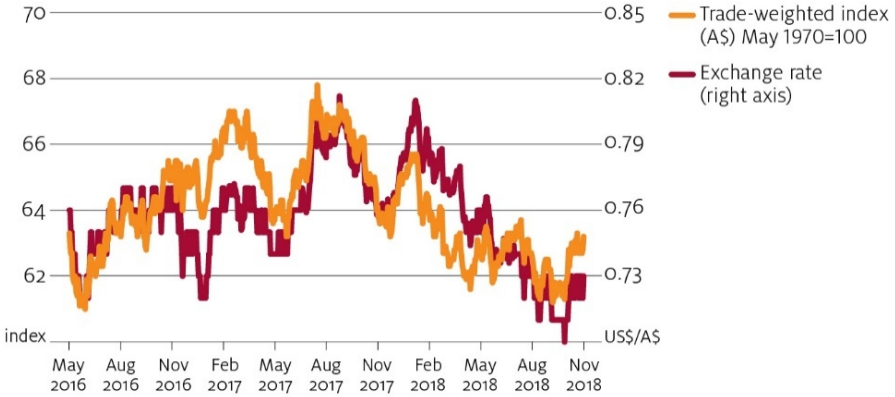
The outlook for nominal economic growth has also improved over 2018. Australian export prices remain favourable, particularly because of strong demand in China for iron ore and coal. Prices received for Australian agricultural exports have supported returns to the rural sector due to strong demand from Asia and lower global supplies of grain. The depreciation of the Australian dollar over recent months has provided an additional boost to exporter returns. These developments have helped keep Australia's terms of trade elevated and have provided a boost to national income.

Uncertainties to the outlook for Australia's economic growth are unchanged since the September quarter 2018.

Australian dollar assumed to decline by 7% in 2018–19

In 2018–19 the Australian dollar is assumed to average US72 cents and have a trade-weighted value of 62.5. This is a downward revision from the September quarter 2018. The Australian dollar has been further weakened by greater risk aversion in financial markets and increased interest rates in the United States and other advanced economies. However, the relatively positive outlook for Australian income growth is likely to provide some upside for the Australian dollar in 2018–19.

Australian dollar trade-weighted index and exchange rate, daily, May 2016 to November 2018



Source: Reserve Bank of Australia

Key macroeconomic assumptions, 2016 to 2019

	unit	2016	2017	2018 a	2019 a
Economic growth					
World b	%	3.3	3.7	3.7	3.7
Advanced economies	%	1.7	2.4	2.4	2.1
United States	%	1.6	2.2	2.8	2.5
Japan	%	1.0	1.7	1.2	0.9
Eurozone	%	1.9	2.4	2.0	1.9
Germany	%	2.2	2.5	2.0	2.0
France	%	1.1	2.3	1.7	1.7
Italy	%	0.9	1.5	1.2	1.0
United Kingdom	%	1.8	1.7	1.4	1.5
Korea, Rep. of	%	2.9	3.1	3.0	2.9
New Zealand	%	4.1	3.0	2.8	3.3
Emerging and developing economies	%	4.4	4.6	4.6	4.7
Emerging Asia	%	6.5	6.3	6.4	6.4
South-East Asia **c**	%	4.9	5.3	5.3	5.2
China **d**	%	6.7	6.9	6.6	6.4
Taiwan	%	1.4	2.9	2.7	2.4
Singapore	%	2.4	3.6	2.9	2.5
India	%	7.9	6.2	7.5	7.8
Latin America	%	– 0.6	1.3	1.2	2.2
Russian Federation	%	– 0.2	1.5	1.7	1.8
Ukraine	%	2.4	2.5	3.5	2.7
Eastern Europe	%	3.3	6.0	3.8	2.0
GDP per person e					
Advanced economies	%	1.3	1.9	1.9	1.7
Emerging and developing economies	%	3.1	3.4	3.5	3.5
Emerging Asia	%	5.3	5.5	5.5	5.5
South-East Asia	%	3.8	4.2	4.2	4.1
Inflation					
United States	%	1.3	2.1	2.4	2.2
Interest rates					
US prime rate **g**	%	3.5	4.1	4.9	5.8
Australia	**unit**	**2015–16**	**2016–17**	**2017–18**	**2018–19 a**
Economic growth	%	2.8	2.3	2.8	3.0
Inflation	%	1.4	1.7	1.9	2.1
Interest rates **h**	% pa	4.0	3.7	3.7	3.8
Australian exchange rates					
A$/US$	US$	0.73	0.75	0.78	0.72
TWI for A$ **i**	index	61.9	64.8	64.5	62.6

a ABARES assumption. **b** Weighted using 2018 purchasing-power-parity valuation of country gross domestic product by the International Monetary Fund. **c** Indonesia, Malaysia, the Philippines, Thailand and Vietnam. **d** Excludes Hong Kong. **e** Expressed in purchasing power parity**. g** Commercial bank prime lending rates in the United States. **h** Large business weighted-average variable rate on credit outstanding. **i** Base: May 1970 = 100.

Sources: ABARES; Australian Bureau of Statistics; Indian Ministry of Statistics and Programme Implementation; International Monetary Fund; Reserve Bank of Australia; US Bureau of Labor Statistics; US Federal Reserve

Seasonal conditions

Matthew Miller

Seasonal conditions

A return to average rainfall provides mixed benefits. Unfavourable summer rainfall outlook for northern Australia.

Climatic conditions in major crop-producing countries

As at 28 October 2018, global production conditions were generally favourable.

Grains

Conditions for winter wheat production are generally favourable for southern hemisphere countries except Australia. Sowing of winter wheat in the northern hemisphere is continuing under favourable conditions.

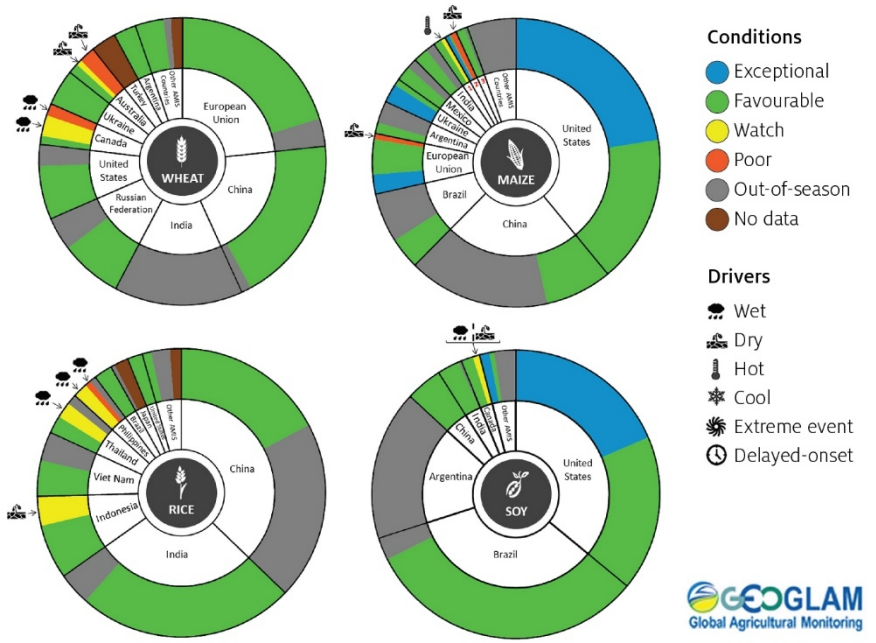
Growing conditions for maize in the northern hemisphere are exceptional in parts of the United States, southern Europe and Ukraine. Sowing in the southern hemisphere is beginning under favourable conditions.

Growing conditions are mostly favourable for major rice-producing countries but are mixed for Indonesia, Thailand and the Philippines.

Oilseeds

Soybean growing conditions are exceptional across most of the United States and generally favourable throughout the rest of the northern hemisphere.

Crop conditions, AMIS countries, 28 October 2018



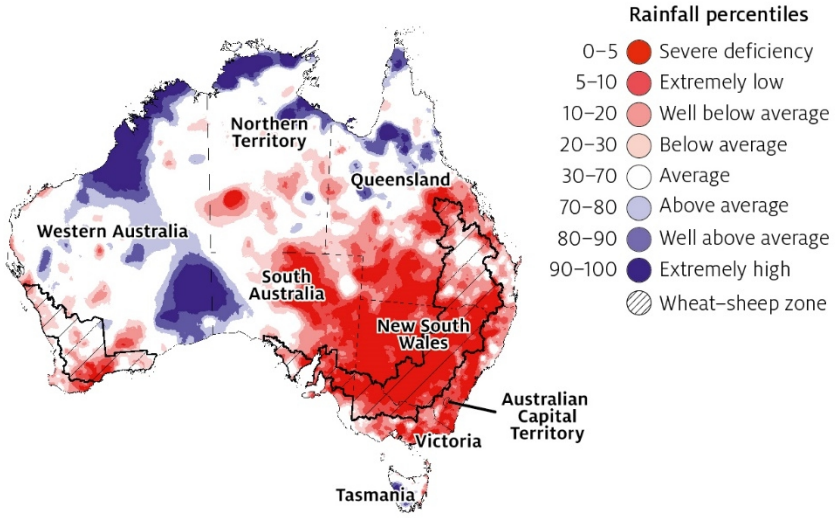
AMIS Agricultural Market Information System.
Source: AMIS

Climate outlook for Australia

Return to average rainfall provides mixed benefits

The first 9 months of 2018 were marked by particularly dry weather for much of south-eastern Australia (Map 1). Rainfall for the first 9 months of 2018 was the 2nd lowest for the Murray–Darling Basin, 3rd lowest for New South Wales and 8th lowest for Victoria since 1900.

Map 1 Rainfall percentiles, Australia, 1 January to 30 September 2018

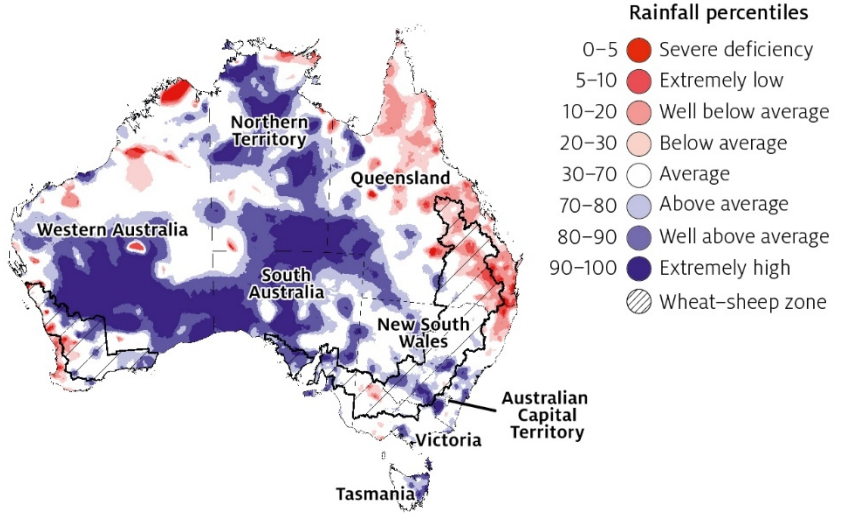


Note: Rainfall for January to September 2018 relative to the long-term record and ranked in percentiles. This analysis ranks rainfall for the selected period compared with the historical average (1900 to present) recorded for that period.
Source: Bureau of Meteorology

September 2018 was an exceptionally dry month, especially across southern Australia. September rainfall was the lowest on record nationally and for southern Australia (south of 26°S). It was the 2nd driest September on record for Victoria, 3rd driest for Western Australia and 4th driest for South Australia.

Rainfall during October and November 2018 was generally average to above average across much of Australia. Rainfall for November was slightly above average for Australia as a whole (Map 2).

Map 2 Rainfall percentiles, Australia, 1 to 30 November 2018



Note: Rainfall for November 2018 relative to the long-term record and ranked in percentiles. This analysis ranks rainfall for the selected period compared with the historical average (1900 to present) recorded for that period.
Source: Bureau of Meteorology

November 2018 rainfall was generally average for most cropping regions. However, parts of eastern and northern Queensland recorded below average rainfall.

The return to average rainfall levels during mid to late spring benefited winter crop prospects in southern New South Wales, the southern Wimmera in Victoria, southern South Australia and Western Australia. However, it arrived too late in other regions to benefit winter crops. October rainfall came too late to compensate for the damage resulting from unfavourable seasonal conditions during September.

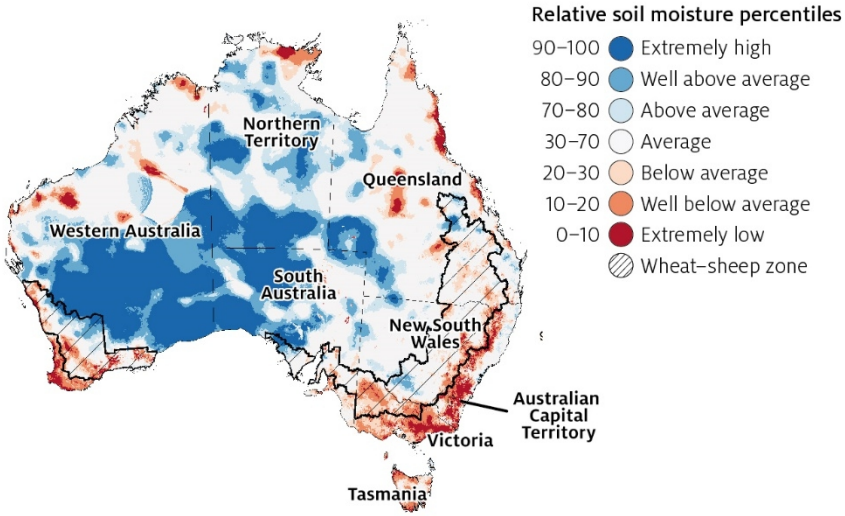
Summer crop planting in Queensland and northern New South Wales has increased following favourable late spring rainfall.

Increased rainfall leads to improvements in soil moisture

A return to average rainfall totals during October and November 2018 has resulted in an increase in soil moisture levels. This has led to improvements in pasture growth and benefited winter and summer crop prospects.

In November 2018 relative root zone soil moisture was average to well above average across most of Australia for this time of year. However, it was well below average to extremely low across parts of eastern New South Wales, large areas of Victoria and south-western Australia (Map 3).

Map 3 Modelled root zone soil moisture, Australia, 1 to 30 November 2018

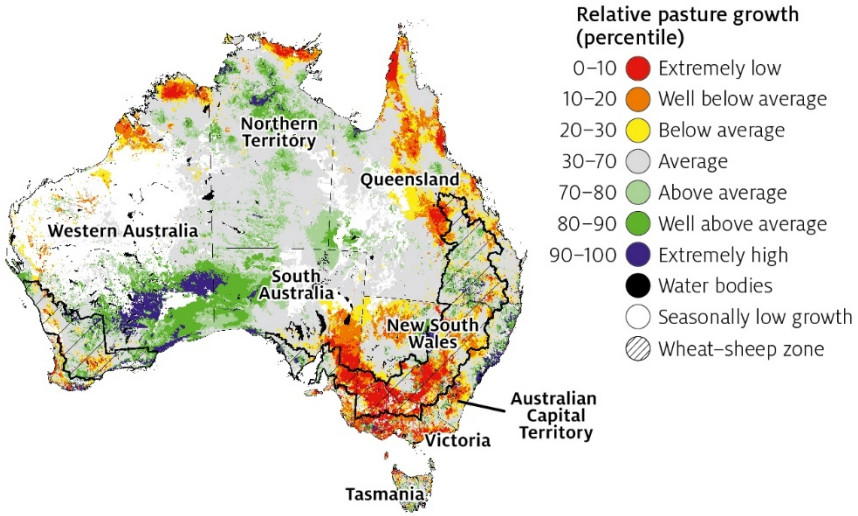


Note: Soil moisture estimates are relative to the long-term record and ranked in percentiles. Estimates are used to compare root zone soil moisture during November 2018 and ranked by percentiles for each November in the 1911–2015 historical reference period. Root zone soil moisture is defined as the soil surface to 1 metres in depth.
Source: Bureau of Meteorology

Pasture growth remains below average in eastern Australia

For the 3 months to November 2018, modelled pasture growth was well below average to extremely low across large areas of central and western New South Wales, Victoria, parts of central and northern Queensland, and eastern South Australia. (Map 4).

Map 4 Relative pasture growth, Australia, 1 September to 30 November 2018



Note: AussieGRASS pasture growth estimates are relative to the long-term record and shown in percentiles. Percentiles rank data on a scale of zero to 100. This analysis ranks pasture growth for the selected period against average pasture growth for the long-term record (1957 to 2016). Pasture growth is modelled at 5km^2 grid cells.
Source: Queensland Department of Science, Information Technology and Innovation

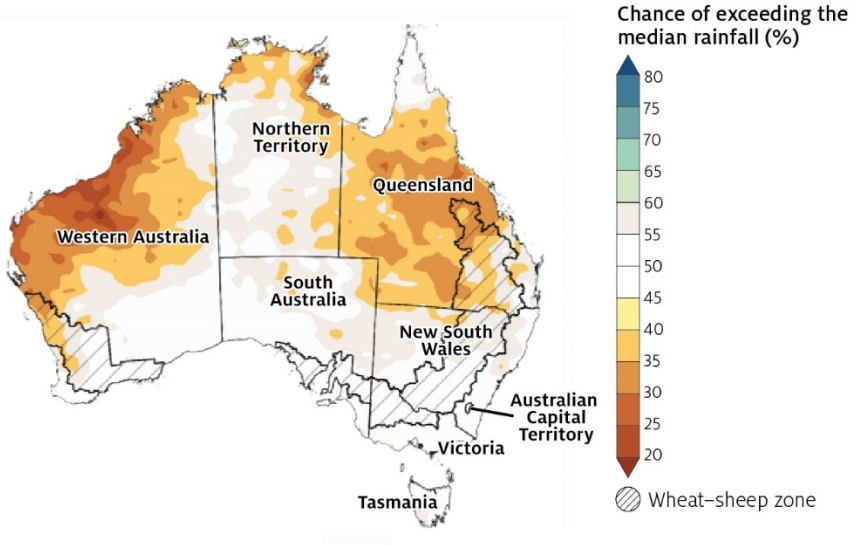
A return to average rainfall levels during mid to late spring benefited pasture production in parts of northern, central and eastern New South Wales, southern Queensland, northern South Australia, Western Australia and the Northern Territory.

However, it arrived too late to benefit pasture production across large areas of south-eastern Australia, where the temperate pasture species tend to have lower growth rates at this time of year.

Improved outlook for the south, but mixed for northern Australia

The Bureau of Meteorology's climate outlook for December 2018 to February 2019 indicates that a drier than average summer is more likely for much of Queensland, the northern half of Western Australia and parts of the Northern Territory. Conditions for much of the remainder of the country are not expected to be wetter or drier than average (Map 5).

Map 5 Rainfall outlook, Australia, December 2018 to February 2018



Note: Shows the likelihood, as a percentage, of exceeding the 1990–2012 median rainfall for the upcoming 3 months. Median rainfall is defined as the 50th percentile calculated from the 1990–2012 reference period.
Source: Bureau of Meteorology

Development towards El Niño in the tropical Pacific Ocean continues, with outlooks suggesting El Niño is likely to form during the summer

months. This would typically bring drier conditions to parts of northern Australia and reduce the chance of rainfall in drought-affected areas in south-east Australia. An El Niño is also likely to bring warmer than average days to large parts of the continent.

A positive Indian Ocean Dipole (IOD) event is dominating Australia's weather and climate patterns, but it is likely to decay by early summer. From December to April, the IOD typically has little effect on Australian climate.

Summer crop planting in Queensland and northern New South Wales increased following favourable late spring rainfall. However, plantings are likely to be constrained in most regions if current low levels of soil moisture persist and rainfall is absent during the summer crop planting period.

Insufficient summer rainfall could affect pasture growth rates across northern Australia. If realised, this would result in reductions in herd and flock numbers and continuing high fodder prices across eastern Australia.

Wheat

Amelia Brown

World wheat prices to average higher

The world indicator price for wheat (US no. 2 hard red winter, fob Gulf) is forecast to average higher in 2018–19. Forecast lower production in major exporting and importing countries will reduce the supply of wheat on world markets. Wheat stocks in major exporting countries are forecast to fall by 24%.

Adverse seasonal conditions affecting world harvests

Dry conditions in major wheat-exporting countries have resulted in a fall in production—most notably in Australia, northern Europe and parts of the Russian Federation.

Lower production in China is likely to increase domestic demand for high-quality milling wheat imports. As a result of China's 25% tariff on US wheat imports, the demand is likely to be met by Canada and Australia.

Australian wheat production lowest since 2007–08

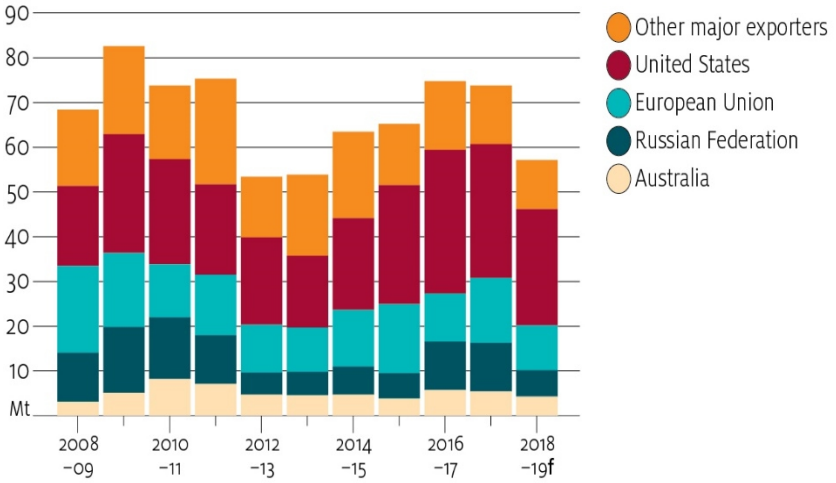
Australian wheat production is forecast to be the lowest since drought affected the 2007–08 crop. This reflects poor seasonal conditions in the eastern states. Production in New South Wales and Queensland is forecast to be the lowest since 1994–95.

In contrast, more favourable seasonal conditions in Western Australia are expected to result in an above average crop.

Australian export value and volume to fall

Australian wheat exports are forecast to fall in value and volume. Forecast lower crop production and increased domestic demand due to drought will reduce exportable supplies of wheat. This will more than offset the benefit of rising world prices.

Wheat stocks, major exporters, 2008–09 to 2018–19f



f ABARES forecast.

Wheat production, forecast year-on-year change, million tonnes, selected countries, 2018–19

Opportunities and challenges

Lower production limiting Australian feed grain supplies

Exceptionally warm and dry conditions throughout the growing season have significantly reduced grain production in Australia's eastern states. This has affected prices for domestic feed grains, the largest end use in these states. Feed grain prices have risen rapidly in the eastern states due to increased demand, lower expected production and biosecurity-related restrictions on imports. As a result, milling wheat usually destined for export markets is being shipped from Western Australia and South Australia to New South Wales and Queensland for use as feed. Significantly higher grain prices will mitigate declines in production and boost farm income for grain growers who are able to achieve reasonable yields.

Argentina's record wheat crop to compete with Australian exports

Despite dry conditions in some regions, Argentina is expected to produce a record wheat crop that will surpass Australian production for the first time since 2007–08. Argentina's exportable supplies will be competitively priced due to the depreciation of the Argentine peso. The increase in supply will likely lead to increased competition with Australian wheat exports, particularly in price-conscious Asian markets.

Black Sea wheat exports gaining acceptance in Asian markets

Recent export trends indicate that Black Sea wheat is gaining acceptance in more price-conscious Asian markets such as Indonesia. However, it is unlikely to be considered fully substitutable in markets that value quality milling wheats, such as Japan and the Republic of Korea.

For production of noodles and high-end bakery products, Asian processors generally see Black Sea wheat as inferior to hard, high-protein milling wheat from countries such as Australia, Canada and the United States. Concerns about reliability of supplies may also affect demand for Black Sea wheat because the Russian Federation has a history of abruptly restricting exports in times of drought. Future improvements in the quality and stability of Black Sea wheat exports could displace exports of more costly but higher-quality wheat from countries such as Australia.

Wheat port access code review

The review of the Port Terminal Access (Bulk Wheat) Code of Conduct was released in October 2018. The review made 12 recommendations to clarify and strengthen parts of the code, including extending it to cover other grains. The code is designed to ensure that wheat exporters continue to pay a competitive price for port services. This enables exporters to pay farmers the best possible price for wheat. The authors recommended the code be reviewed again in 2022.

Ratification of the Trans-Pacific Partnership Agreement

On 31 October 2018 Australia formally ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11). Australia, Canada, Japan, Mexico, New Zealand and Singapore are the first group of signatories to ratify the agreement, which will enter into force on 30 December 2018. A key outcome for wheat is that Japan has agreed to reduce its mark-up on imports under quotas by 45% over 8 years. This will lower the maximum mark-up to 9.4 yen per kilogram or about $109 a tonne (based on the average 2017–18 exchange rate). Japan has also agreed to create country-specific quotas for wheat imported from Australia and Canada. Australian wheat and flour exports to Japan were valued at $316 million in 2017–18.

Outlook for wheat

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
World					
Production	Mt	753	763	731	*– 4.2*
Black Sea region **a**	Mt	114	127	110	*– 13.2*
China	Mt	129	134	132	*– 1.7*
European Union	Mt	144	151	138	*– 9.0*
India	Mt	86.0	98.5	97.6	*– 0.9*
United States	Mt	62.8	47.4	51.3	*8.3*
Consumption	Mt	735	738	742	*0.4*
human	Mt	505	513	521	*1.4*
feed	Mt	145	143	139	*– 3.3*
Closing stocks	Mt	244	269	258	*– 3.9*
Stocks-to-use ratio	%	33.2	36.4	34.8	–
Trade	Mt	177	179	175	*– 1.9*
Exports **b**					
Argentina	Mt	12.0	12.3	14.1	*14.6*
Australia **c**	Mt	22.1	15.5	10.6	*– 31.5*
Black Sea region **a**	Mt	53.2	67.3	58.5	*– 13.1*
Kazakhstan	Mt	7.4	8.4	8.5	*1.2*
Russian Federation	Mt	27.8	41.6	33.6	*– 19.3*
Ukraine	Mt	18.0	17.3	16.4	*– 5.1*
Canada	Mt	20.3	22.1	22.3	*0.9*
European Union	Mt	27.8	23.5	23.6	*0.7*
United States	Mt	28.7	24.5	30.0	*22.3*
Price **d**	US$/t	197	229	240	*4.8*
Australia					
Area	’000 ha	12,191	12,237	9,964	*– 18.6*
Production	kt	31,819	21,244	16,956	*– 20.2*
Exports **c**	kt	22,057	15,492	10,618	*– 31.5*
value	A$m	6,094	4,672	3,547	*– 24.1*
APW pool return	A$/t	268	308	348	*13.0*

a Kazakhstan, Russian Federation and Ukraine. **b** Local marketing years. **c** July–June years. **d** US no. 2 hard red winter wheat, fob Gulf, July–June. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council; US Department of Agriculture

Coarse grains

Benjamin K Agbenyegah

Growing demand to support coarse grain prices

World coarse grain prices are forecast to rise in 2018–19 as a result of world demand exceeding supply. Growing world demand for coarse grains for feed and industrial use, particularly in China and the United States, is expected to result in a significant reduction in world stocks.

World consumption to reach record level

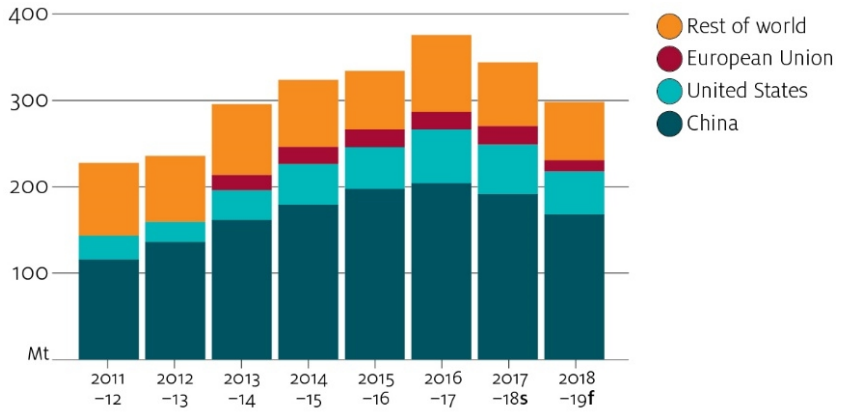
World coarse grain consumption is forecast to increase to a record high. This is due to increased livestock production and corn consumption. Corn is increasingly being used in livestock feed as a cheaper substitute for feed wheat and barley. Higher world prices for wheat and barley are a result of reduced production following hot and dry weather in Australia and Europe.

To boost industrial demand for its excess corn stocks, the Chinese Government has initiated policies to promote the use of corn-based ethanol. This includes a minimum 10% blending mandate for ethanol (to come into effect in 2020) and the construction of 15 new ethanol-producing plants. Until 2016 Chinese corn producers received more than twice the international price, leaving China with substantial corn stocks.

World stocks expected to fall

Coarse grain production is forecast to grow slightly in 2018–19, largely because of a forecast increase in corn production. Larger corn crops in Argentina, Brazil, Ukraine and the United States are forecast. Hot and dry conditions have adversely affected barley production in Australia, the European Union and the Russian Federation. As a result, world closing stocks of barley are forecast to fall to their lowest level in 34 years.

World coarse grain stocks, 2011–12 to 2018–19



f ABARES forecast. **s** ABARES estimate.
Source: International Grains Council

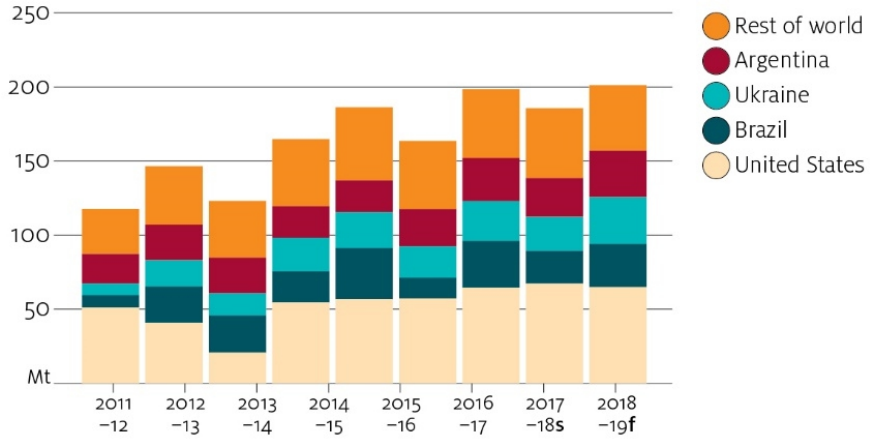
The drought affecting eastern Australia has reduced coarse grain production substantially and increased livestock feed use. In 2018–19 Australian production and exports of coarse grains are forecast to fall by around 15% and 44% respectively.

Challenges and opportunities

Trade dispute creating opportunities for non-US exporters

The ongoing US–China trade dispute presents opportunities for coarse grain exporters outside the United States. China has imposed an additional 25% tariff on corn and grain sorghum and a 15% tariff on ethanol imported from the United States.

Coarse grain exports, by country, 2010–11 to 2018–19



f ABARES forecast. **s** ABARES estimate.
Source: International Grains Council

China is expected to import a higher volume of Australian barley while it looks for alternative grain suppliers. Chinese monthly grain sorghum imports from the United States fell by 77% in September 2018 compared with the same period in 2017. If this trend continues, it may present an opportunity for Australian barley producers.

However, this could be compromised if China's Ministry of Commerce finds against Australia following its investigation into claims by China's barley industry that Australian barley imported between 1 October 2017 and 30 September 2018 was sold below the cost of production (known as dumping). If this occurs, Australian barley could be subject to anti-dumping duties, which would compromise the competitiveness of Australia's barley in the Chinese market.

China is Australia's largest export market for barley, accounting for an average of 68% of exports in the 5 years to 2017–18.

China's proposed ethanol blending mandate is expected to increase demand for industrial-use corn by 40 million tonnes per year. However, additional tariffs have made US import prices relatively high compared with other suppliers, limiting imports of US corn and ethanol. China will need to look for alternative suppliers to meet its ethanol target. This move is likely to support corn prices outside the United States.

Feed and food costs

Australia's rising domestic grain costs are the result of lower supply due to drought conditions and increased demand for feed, milling and malting. Constraints resulting from restrictions on whole-grain imports are also contributing to increasing costs.

Australia's biosecurity requirements are designed to minimise threats to agricultural production and farm incomes by guarding against the introduction of exotic pests, diseases and weeds. Regulation mandates the processing of imported grain and fodder and restricts its movement. This adds to the cost of imported feed. Given current technologies, the development of more responsive and cost-competitive biosecure import pathways remains a significant challenge.

Outlook for coarse grains

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
World					
Production	Mt	1,414	1,357	1,373	*1.2*
barley	Mt	147	144	141	*– 1.9*
corn	Mt	1,122	1,076	1,099	*2.1*
Consumption	Mt	1,328	1,374	1,400	*1.9*
Trade	Mt	199	186	201	*8.3*
Closing stocks	Mt	262	370	343	*– 7.2*
Stocks-to-use ratio	%	19.7	26.9	24.5	–
Corn price **a**	US$/t	157	160	171	*6.7*
Barley price **b**	US$/t	158	192	215	*12.0*
Australia					
Area	’000 ha	6,359	5,285	5,041	*– 4.6*
barley	’000 ha	4,834	3,878	3,719	*– 4.1*
grain sorghum	’000 ha	368	531	572	*7.7*
Production	kt	17,352	11,991	10,196	*– 15.0*
barley	kt	13,506	8,928	7,312	*– 18.1*
grain sorghum	kt	994	1,439	1,524	*5.9*
Exports	kt	10,760	8,824	4,990	*– 43.4*
value	A$m	2,821	2,577	1,795	*– 30.4*
Feed barley price **c**	A$/t	174	253	359	*42.1*
Malting barley price **d**	A$/t	188	262	362	*38.0*

a US no. 2 yellow corn, fob Gulf, July–June. **b** France feed barley, fob Rouen, July–June. **c** Feed 1, delivered Geelong. **d** Gairdner Malt 1, delivered Geelong. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council; ITC Trade Map; UN Commodity Trade Statistics Database (UN Comtrade); US Department of Agriculture

Oilseeds

Benjamin K Agbenyegah

Oilseed prices to diverge

Soybean and canola prices are expected to diverge in 2018–19. Reduced supplies of canola in Australia and the European Union are expected to result in increased world canola prices. World demand for canola is forecast to outpace supply, leading to reductions in stocks and upward pressure on prices.

Soybean prices are forecast to fall due to faster growth in supply than demand, leading to a significant increase in stocks. US export volumes are expected to fall due to a significant decrease in Chinese import demand. Higher tariffs provide an incentive for China to substitute away from US soybeans towards alternative sources. This is expected to put downward pressure on US prices but to support South American soybean prices.

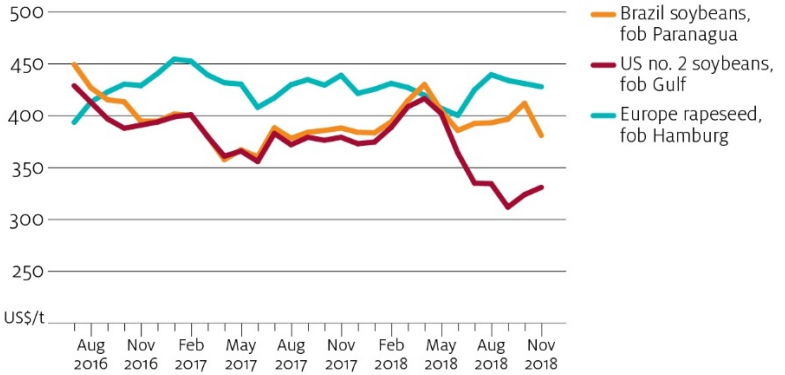
China to lead world demand

World oilseed consumption is forecast to increase, largely because of rising incomes in China. Higher soybean consumption in China is forecast to come from a drawdown in stocks rather than higher imports. China is expected to reduce imports from the US and increase imports from South America, leaving overall imports largely unchanged year-on-year.

Falling US soybean prices will encourage imports in other countries. World trade in soybeans is forecast to increase in 2018–19.

Global imports of canola and rapeseed are expected to rise slightly in 2018–19, mainly in response to a shift in Chinese demand from US soybeans to canola from Australia and Canada. Chinese canola import growth is being partially offset by declining demand in the European Union, where demand is being displaced by imports of relatively cheap US soybeans.

Soybean and canola export prices, July 2017 to November 2018



Source: International Grains Council

Soybeans to increase global oilseed supplies

Global oilseed production is forecast to reach record volumes, largely due to Argentine, Brazilian and US soybean production. Global rapeseed and canola production is forecast to decrease by around 5% from the record of 2017–18. Lower Australian, Canadian and EU production will more than offset increases in India and Ukraine.

Challenges and opportunities

US–China trade dispute and oilseed markets

The additional import duties that China has imposed on US soybeans have affected world oilseed markets. A fall in Chinese import demand for US soybeans has been accompanied by well above average demand for South American soybeans. According to the Brazilian Ministry of Agriculture, from January to August 2018 Brazilian soybean exports to China increased by around 15% compared with the same period in 2017. Chinese food and meal processors have also been substituting for soybeans with other protein sources, including canola meal and dried distillers grains with solubles.

Due to counter-seasonal production the United States has started to account for an increased share of Chinese imports since the beginning of the US marketing season in September.

Argentine export taxes a potential upside for prices

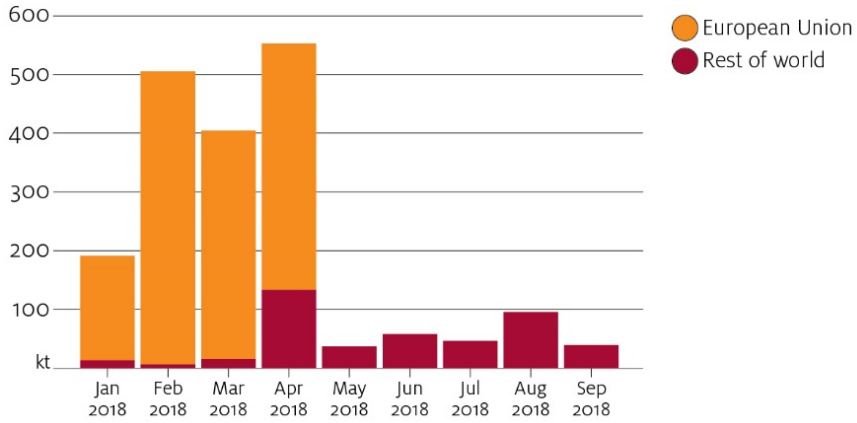
In June 2018 Argentina received a US$50 billion loan from the International Monetary Fund. This loan came with stringent conditions, including a commitment to maintain government revenue sources. As a result, in August 2018 the Argentine Government temporarily suspended the scheduled reductions in export taxes on soybean products. Additional export taxes are being considered for corn, soybeans and wheat. If these taxes are enacted, the profitability of producing soybeans and other alternative crops will fall. This may discourage soybean production in Argentina, presenting an upside for world oilseed prices.

Global policy change reducing demand for Australian canola

The European Union is a significant importer of Australian canola for industrial use. Industrial consumption of canola and rapeseed oil is expected to face increased competition from Argentine soybean oil following the removal of EU anti-dumping tariffs. Competition from used cooking oil is also expected to continue. Used cooking oil is a waste product that EU member states can count twice towards renewable fuel targets, on the basis that its use reduces greenhouse gas emissions without diverting land from food production. Any increase in substitution is likely to reduce EU import demand and Australian canola exports.

State-based moratoriums on growing GM products within Australia have been justified on higher returns for exporting GM-free canola to the European Union. In 2018 EU livestock producers are taking advantage of relatively cheap US soybeans for protein feed by substituting towards GM soybean meal, showing there is a relative price threshold beyond which EU consumers will substitute away from GM-free canola. If these trends in EU imports continue, Australian GM-free canola is likely to lose market share to low-priced GM soybeans.

Canola exports, Australia, January to September 2018



Source: Australian Bureau of Statistics

Outlook for oilseeds

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
World					
Production	Mt	568	574	596	*3.8*
Consumption	Mt	549	568	585	*3.0*
oilseed meal	Mt	311	333	340	*2.0*
vegetable oil	Mt	185	192	199	*3.6*
Exports	Mt	170	177	180	*1.5*
Closing stocks	Mt	111	116	124	*7.5*
Stocks-to-use ratio	%	20.3	20.3	21.2	–
Soybean indicator price **a**	US$/t	389	385	355	*– 7.8*
Canola indicator price **b**	US$/t	427	424	435	*2.7*
Australia					
Total production	kt	5,648	5,205	3,162	*– 39.2*
winter	kt	4,324	3,675	2,243	*– 39.0*
summer	kt	1,325	1,530	920	*– 39.9*
Canola					
Production	kt	4,313	3,669	2,241	*– 38.9*
Exports **c**	kt	3,599	2,252	1,438	*– 36.2*
value	A$m	2,128	1,306	838	*– 35.8*
Price **d**	A$/t	530	512	553	*8.1*

a US no. 2 soybeans, fob Gulf, July-June. **b** Rapeseed, Europe, fob Hamburg, July–June. **c** July–June years. **d** Delivered Melbourne, July-June**. f** ABARES forecast. **s** ABARES estime.

Sources: ABARES; Australian Bureau of Statistics; US Department of Agriculture

Sugar

Charley Xia

World sugar prices to remain low and volatile

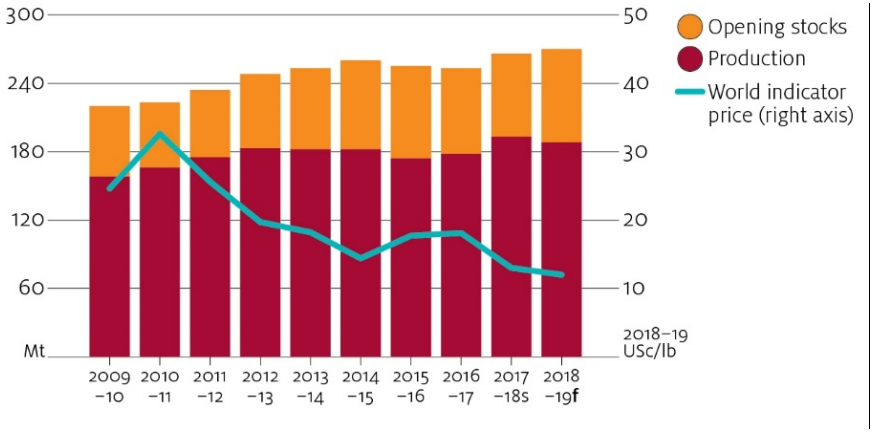
In 2018–19 world sugar prices are expected to fall to a 10-year low due to elevated world production and record carry-over stocks. World production is expected to exceed consumption for the second year in a row, sustaining high export availability. World import demand is expected to fall due to plentiful supplies in major consuming countries, including China, the European Union, India and the United States.

Support policies affecting export decisions in India and Thailand are expected to increase price volatility in 2018–19. Returns to Australian canegrowers are expected to be lower as a result of falling world prices.

High world sugar production

World production in 2018–19 is forecast to be lower than the record level reached in 2017–18. Sugar production in Brazil is expected to fall as the volume of sugarcane allocated to ethanol production increases. EU production is expected to fall more substantially because dry conditions have affected beet yields. Sugarcane yields in India and Thailand have also been affected by less favourable growing conditions.

World sugar supply and price, 2009–10 to 2018–19



f ABARES forecast. **s** ABARES estimate.

Despite these declines, world production is forecast to be the second-highest on record. This is a result of previous area expansions in countries with distortionary support policies, including the European Union, India and Thailand.

Opportunities and challenges

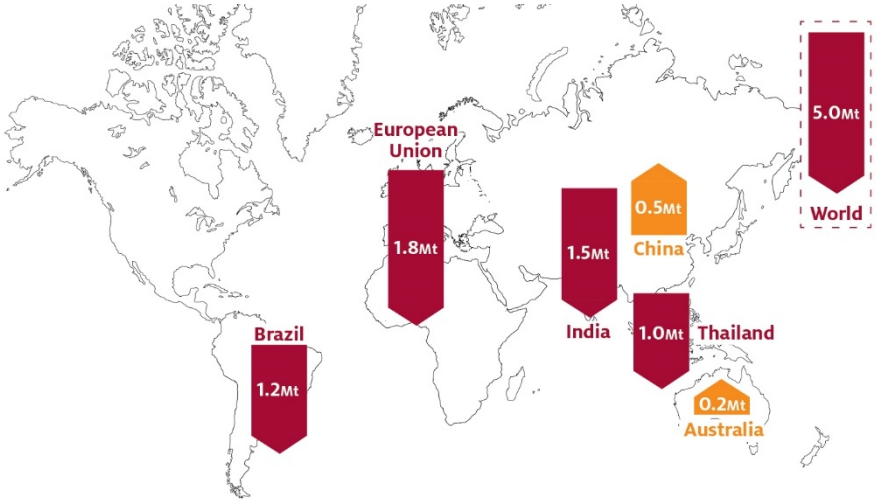
Interventionist policies impeding market adjustment

Biofuel and sugar support policies in Brazil, India and Thailand have been revised due to low world sugar prices, uncertainty in global crude oil markets and the rising cost of oil imports resulting from the high US dollar.

Changes in the domestic support policies of these major exporting countries will lead to greater price volatility. The potential for greater

biofuel production to lift world sugar prices over the remainder of 2018–19 will be muted by record world sugar stocks.

World sugar production, forecast year on year change, 2018–19



Trade uncertainty and distortions creating volatility

The Indian Government has mandated domestic sugar mills to export 5 million tonnes of sugar in 2018–19. This volume exceeds Australia's total annual production. However, Indian mills are holding out because of low world prices and in anticipation of greater industry assistance due to looming state elections in 2019. Uncertainty surrounding the timing and volume of Indian exports is creating market volatility.

China's import tariffs on sugar, designed to safeguard its domestic industry, are expected to direct world exports to other Asian and Middle Eastern markets. The redirection of exports to markets such as Indonesia, Japan and the Republic of Korea is expected to put pressure on returns to Australian canegrowers.

Australia's Sugar Code of Conduct Review

The final report of the review of the Sugar Code of Conduct will be presented to the Australian Government at the end of 2018. The review has examined the appropriateness of the code to regulate unconscionable conduct in the sugar supply chain and guarantee the grower choice of marketing entity for on-supply of sugar. It has also assessed the impact of the code on industry competitiveness and its net benefit to the Australian community.

In their reviews of the sugar industry, the Australian Government Productivity Commission and the Queensland Productivity Commission found no evidence of market failure that could warrant legislative intervention. Both reviews questioned the legitimacy of providing growers an entitlement to the sugar produced by millers.

Health awareness constraining growth in demand

Falling world prices are expected to lead to some growth in world sugar consumption in 2018–19. However, world demand growth is being constrained by health concerns, slow population growth in advanced economies and a substitution towards alternative sweeteners.

Future growth in world sugar demand will depend on income growth in developing countries and whether increasing health-consciousness in these countries limits per person consumption. Expected health policy changes in emerging and developing economies are likely to reduce longer-term growth in demand and place downward pressure on prices.

Outlook for sugar a

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
World b					
Production	Mt	178	193	188	*– 2.6*
Brazil	Mt	41.1	31.2	30.0	*– 3.8*
Consumption	Mt	181	183	186	*1.6*
Exports	Mt	68.8	63.0	62.0	*– 1.6*
Closing stocks	Mt	72.5	82.5	84.5	*2.4*
Stocks-to-use ratio	%	40.2	45.1	45.4	–
Price	USc/lb	17.3	12.7	12.0	*– 5.2*
Australia c					
Area	’000 ha	402	377	380	*0.8*
Production	kt	4,772	4,500	4,700	*4.4*
Exports	kt	3,970	3,607	3,600	*– 0.2*
value	A$m	2,424	1,687	1,550	*– 8.1*
Returns to canegrowers	A$/t	44.4	36.2	31.2	*– 13.7*

a Volumes are raw equivalent. **b** October–September years. **c** July–June years. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; Australian Sugar Milling Council, Annual Review, Brisbane; F.O. Licht, International Sugar and Sweetener Report, World Sugar Balances, Ratzeburg, Germany; International Sugar Organization, London; US Department of Agriculture, Washington

Natural fibres

Conrad Rees

World textile demand remains positive

Growth in global incomes and populations continues to underpin textile demand.

Increased purchases of cotton-based textiles and clothing are expected to be driven by an expansion in the number of middle-class consumers in emerging economies. Concerns about the environmental impact of synthetics is also encouraging cotton use in textiles.

Demand for raw wool is derived from consumer demand for high-value woollen textiles and apparel. Assumed income growth in major markets—such as China, the United States and the European Union—is expected to underpin global demand for fine wool. However, increased uncertainty about future economic growth stemming from trade tensions, especially between the United States and China, could weaken this outlook.

World cotton supply to fall and prices to rise

World cotton production is expected to fall in 2018–19 due to dry weather in Pakistan and the United States. Area planted to cotton and average lint yields are expected to fall. The forecast fall in production in these regions is expected to offset rises in Brazil and Turkey. World cotton consumption is expected to exceed production in 2018–19, leading to reductions in world stocks and the stocks-to-use ratio.

Australian cotton production is expected to fall in 2018–19. This is largely due to a decline in area planted as a result of significantly reduced water levels in irrigation dams and low levels of stored soil moisture.

Increased world prices and an assumed depreciation of the Australian dollar are expected to lead to a modest price increase on top of already high prices.

Wool production to fall and prices to remain high

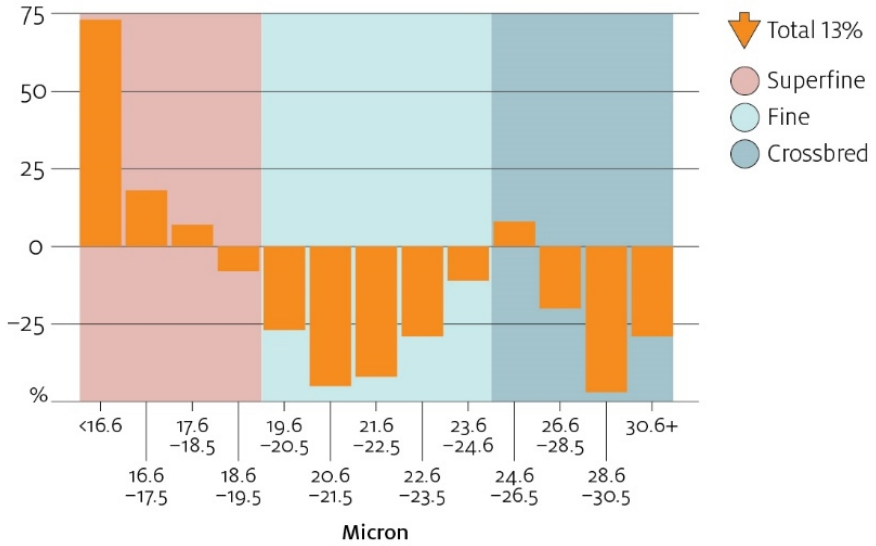
Australian total wool production is forecast fall in 2018–19. This reflects an expected decline in the number of sheep shorn and the average cut per head. The fine wool supply from other markets is expected to decline, primarily driven by unfavourable conditions in South Africa.

The Eastern Market Indicator wool price is expected to increase year-on-year in 2018–19. A reduction in buyer demand has resulted in a sharp price decline of 12% since August 2018. However, the expected fall in aggregate wool production is anticipated to support prices for the remainder of 2018–19.

Poor conditions increase superfine wool supply

Dry seasonal conditions in eastern Australia have pushed the average micron lower. This has resulted in an increased but lower-quality supply of superfine wool and has contributed to the decline of premiums and high pass-in rates. Increased offerings of lower-quality and finer micron wool are assumed to continue alongside poor seasonal conditions.

Change in AWTA testing volume, Australia, July to November 2018



Note: Percentage change relative to same period in 2017.
Source: Australian Wool Testing Authority

Opportunities and challenges

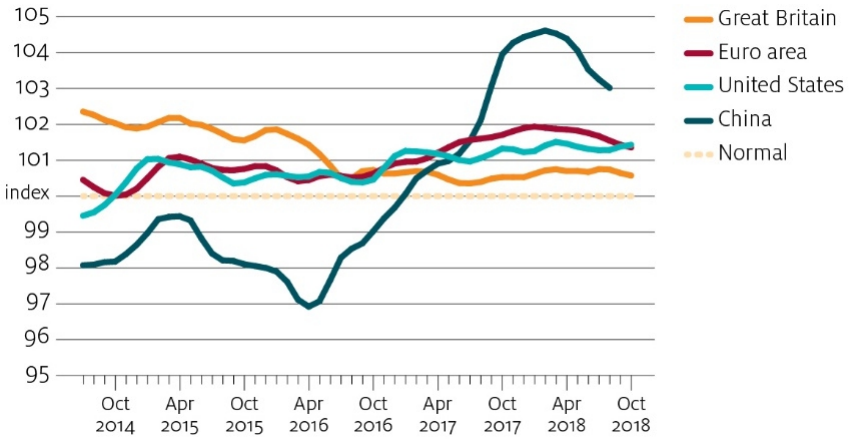
Uncertainty in global textile demand

Ongoing US–China trade tensions remain a risk factor to global economic activity and the outlook for textile markets. A significant proportion of Australian natural fibre is processed in China and exported to the United States as textiles and apparel.

The overall impact of the US–China trade dispute on world textile trade and derived demand for Australian natural fibres remains uncertain. Semi-processed products, such as yarn and fabrics, were included in the latest round of tariffs announced by the United States. No trade restrictions have been imposed on finished apparel. However, they could be included in future escalations of the dispute.

Chinese consumer confidence and garment sales have been in decline since the escalation of the trade tensions. This could signal weakening textile demand in China, especially for high-value woollen apparel. The dispute could lead to further declines in consumer confidence in China and globally.

Consumer confidence index, July 2014 to October 2018



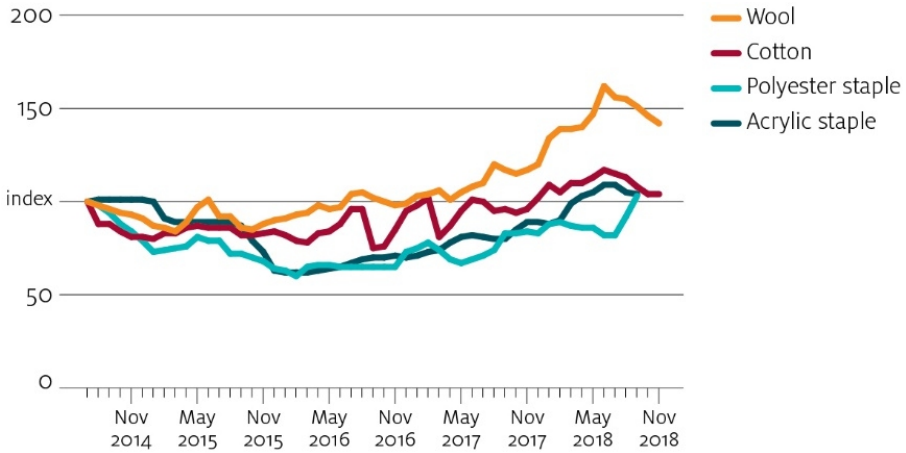
Note: Normal (long-term average) = 100. Euro area: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovak Republic, Slovenia and Spain.
Source: Organisation for Economic Co-operation and Development

Substitute fibres remain competitive

The current high prices for cotton are expected to result in sustained competition from polyester and other synthetic fibres. Relatively low oil prices over the last few years have increased the price competitiveness of synthetic fibres against cotton.

Fine wool is less substitutable with synthetic fibres. However, high wool prices are an incentive for textile manufacturers to substitute lower-cost fibres. The effect on wool demand is difficult to predict, but high prices for wool pose a downside risk to the current forecast.

Price indices of substitute fibres, July 2014 to November 2018



Note: July 2014 = 100. 21 micron wool, Cotlook 'A' Index, Chinese polyester staple fibre (1.5 denier) and North Asian acrylic staple fibre (1.5 denier).
Source: Australian Wool Exchange; Cotton Outlook; Fibre2Fashion

Chinese cotton stockpile remains significant

Changes to Chinese Government support policies for their domestic cotton industry could significantly affect global prices. If stocks are of adequate quality, the Chinese Government could choose to partly replace falling imports from the United States by releasing national reserves at a faster rate. This would reduce the expected increase in China's demand for cotton from alternative suppliers such as Australia and reduce the expected increase in world prices.

Outlook for natural fibres

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
Cotton					
World a					
Production	Mt	23.2	26.9	26.0	-3.0
Consumption	Mt	25.2	26.6	27.7	4.0
Exports	Mt	8.3	8.9	9.0	1.0
Closing stocks	Mt	18.4	19.2	18.2	-5.0
Cotlook 'A' index	USc/lb	82.8	88.0	90.0	2.0
Australia b					
Area harvested	'000 ha	557	500	280	-44.0
Lint production	kt	891	1,000	581	-42.0
Exports	kt	763	872	895	3.0
value	A$m	1,788	2,130	2,649	24.0
Gin-gate returns **c**	A$/bale	492	639	656	3.0
Wool					
Australia b					
Sheep shorn	million	74.3	76.8	71.7	-7.0
Wool production **d**	kt	414	422	385	-9.0
Exports					
Volume	kt (gr. eq.)	429	451	385	-15.0
value **e**	A$m	3,617	4,382	4,009	-9.0
Eastern Market Indicator **g**	Ac/kg	1,415	1,723	1,925	12.0

a August–July years. **b** July–June years. **c** Value of lint and cottonseed less ginning costs.
d Greasy, includes shorn wool and wool on sheepskins, fellmongered and slipe wool. **e** Balance of payments basis. **g** Clean equivalent. ABARES forecast. **s** ABARES estimate.
Sources: ABARES; Australian Bureau of Statistics; Australian Wool Exchange; Cotton Australia Statistics; Cotton Outlook, Merseyside, United Kingdom; US Department of Agriculture, Washington

Beef and veal

Tim Whitnall

Export market competition to drive prices lower

The weighted average saleyard price for cattle is forecast to fall in 2018–19, driven by falling export prices for beef and higher cattle turn-off. Increased competition from the United States in export markets is expected to more than offset increasing demand for beef in China.

US beef production is forecast to rise in 2018–19 following 4 years of national herd expansion. Higher production will decrease US demand for imported manufacturing beef from Australia and increase US exportable supplies. US exports of beef in the calendar year to August 2018 were 15% higher year-on-year. Most of this increase went to Australia's major Asian export markets—Japan and the Republic of Korea.

Chinese demand for beef to grow

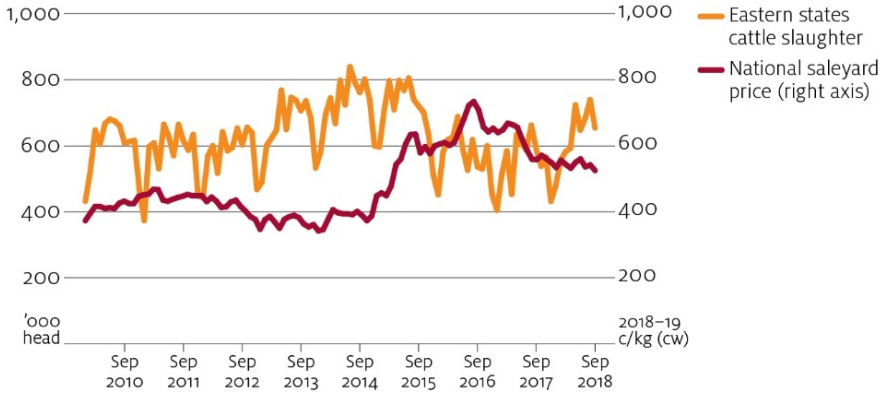
Chinese demand for beef has been growing strongly because of rising household incomes and increasing urbanisation. China is now the world's second-largest importer of beef behind the United States. Chinese imports of beef are forecast to continue to rise in 2018–19 because economic growth in China is assumed to remain strong.

Australian exports of beef to China are also forecast to grow strongly and China is expected to rival the Republic of Korea as Australia's third-largest export market for beef.

Cattle slaughter to remain high

Ongoing dry conditions are driving higher than average cattle turn-off across eastern Australia. Cattle slaughter in the eastern states over August and September 2018 was at similar levels to those experienced during the 2013 to 2015 Queensland drought. The Bureau of Meteorology's 3-month outlook for December to February suggests below average rainfall and above average temperatures are likely in most major cattle-producing regions of Queensland and the Northern Territory. This is expected to continue the elevated supply of cattle at saleyards and contribute to falling saleyard prices.

Cattle slaughter and national saleyard prices, eastern states, January 2010 to September 2018



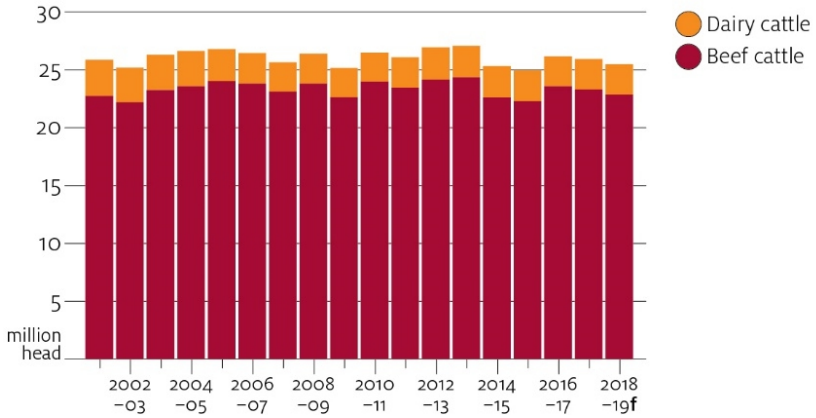
Note: Eastern states includes New South Wales, Queensland and Victoria.
Sources ABARES; Australian Bureau of Statistics; Meat & Livestock Australia

Opportunities and challenges

High turn-off rates will prolong herd rebuilding

Higher female slaughter rates are expected to cause a contraction in the Australian national herd in 2018–19. This follows a period of significant herd contraction between 2013–14 and 2015–16. If conditions improve, the herd is expected to enter a rebuilding phase. However, the smaller breeding cow inventory will limit the number of births. This will slow herd rebuilding efforts and restrict the rate at which beef production can grow in coming years.

Cattle herd, Australia, 2000–01 to 2018–19



f ABARES forecast.
Source: ABARES (based on Australian Bureau of Statistics data)

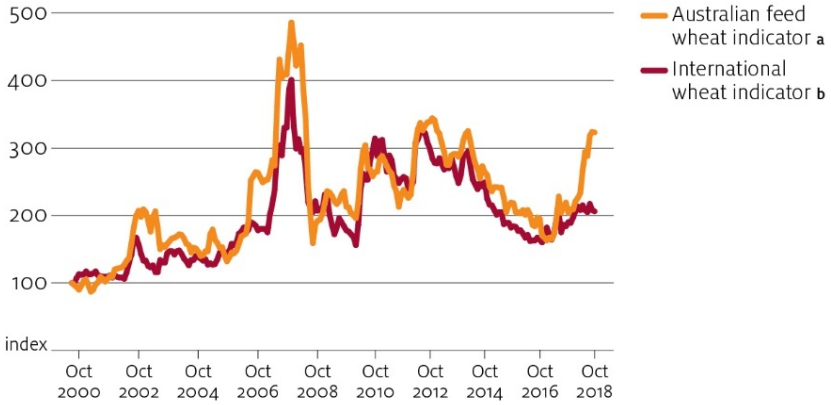
African swine fever in China likely to disrupt global protein markets

An outbreak of swine fever in China is likely to cause disruption in global protein markets because China is the world's largest producer and consumer of pig meat. Since August 2018, more than 50 cases of African swine fever have been reported in China. The Chinese Government has imposed restrictions on the slaughter and transportation of live pigs in affected provinces. This is expected to cause a reduction in the Chinese pig herd and limit pig meat production. The extent of disruption will depend on Chinese disease containment efforts. However, China's demand for imports of pig meat is likely to increase and this is also expected to flow through to increased global demand for alternative proteins such as beef.

Poor conditions leading to higher feed costs

In Australia, prices for feed grains and fodder rose rapidly during winter. This resulted from dry conditions, lower winter crop prospects and biosecurity-related restrictions on imports. Higher domestic prices for feed limit Australia's ability to manage poor pasture growth with supplementary feed. As a result, slaughter weights are expected to average lower in 2018–19.

Index of Australian feed wheat and international wheat prices, July 2000 to October 2018



a Feed wheat, delivered Sydney (expressed in US dollar terms). **b** US no. 2 hard red winter, fob Gulf.
Sources: ABARES; International Grains Council

Outlook for beef and veal

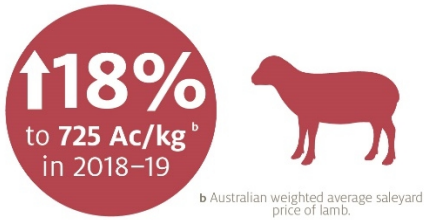
Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
Cattle numbers **ab**	million	26.2	25.8	25.5	– 1.2
beef cattle **a**	million	23.6	23.2	23.0	– 1.0
Slaughterings	’000	7,423	7,913	8,415	6.3
Production	kt (cw)	2,069	2,238	2,317	3.6
Exports					
Japan	kt (sw)	274	309	314	1.7
United States	kt (sw)	204	235	225	– 4.3
China	kt (sw)	104	140	172	22.8
Korea, Rep. of	kt (sw)	179	169	171	0.9
World	kt (sw)	991	1,123	1,175	4.7
value	A$m	7,115	7,963	7,990	0.3
Live feeder/slaughter cattle exports **c**	’000	817	885	925	4.6
value	A$m	1,031	1,098	1,100	0.2
Prices					
Saleyard cattle	Ac/kg (cw)	535	452	435	– 3.8
United States import **d**	USc/kg	447	452	415	– 8.3
Japan import **e**	USc/kg	661	633	610	– 3.6

a At 30 June. **b** Includes dairy cattle. **c** Includes buffalo. **d** Cow 90CL US cif price. **e** Chilled grassfed fullset Japan cif price. **f** ABARES forecast. **s** ABARES estimate

Sources: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia

Sheep meat

Nathan Pitts



Saleyard lamb prices to rise

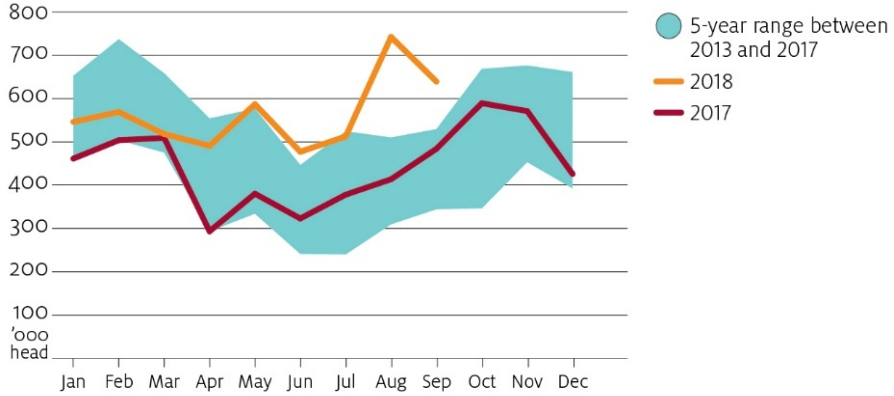
Australian lamb saleyard prices are forecast to increase due to tightening Australian supply and strong export demand. Poor seasonal conditions are expected to reduce the numbers of lambs available for slaughter in autumn 2019. This will further support saleyard prices late in 2018–19. Strong export demand and high global prices will provide processors with incentives to maintain throughput. Saleyard sheep prices are forecast to be constrained due to increased sheep slaughter.

Dry conditions to reduce Australian production

Australian lamb production is forecast to decline slightly due to poor seasonal conditions. Spring lambings are expected to fall due to limited pasture availability and high supplementary feed costs. However, high lamb prices will provide an incentive to maintain lamb production where possible.

The national sheep flock is forecast to fall due to higher sheep turn-off. If seasonal conditions improve, high lamb prices will provide producers with an incentive to accelerate herd rebuilding.

Sheep slaughter, eastern states, 2013 to 2018



Note: Includes New South Wales, Queensland, Tasmania and Victoria.
Source: Australian Bureau of Statistics

Strong global demand to support exports

Export prices are expected to increase because of strong global demand for lamb and tightening exportable supplies in Australia and New Zealand. The value of lamb exports is expected to increase due to rising incomes and consumer preferences, especially in China. Australian export volumes are forecast to increase slightly, driven by higher exports to China.

The future of Australian live sheep exports remains uncertain but is forecast to fall due to limited exports over the northern summer months (May to October). Over the 2018 northern summer, live sheep exports were minimal and largely constrained to airfreight. This trend is expected to continue during the 2019 northern summer. Exports are also expected to be constrained from June 2019 due to a voluntarily agreement by livestock exporters for a three month moratorium on live sheep exports to the Middle East.

Opportunities and challenges

High supplementary feed costs to constrain production

Lack of pasture across Australian livestock-producing regions has increased demand for feed grains. With prices high for most livestock products, producers have an economic incentive to use supplementary feed to maintain production. In 2018–19 feed prices are expected to remain high due to strong feed demand and low forecast Australian winter crop production. Imports are unlikely to put downward pressure on prices, because strict biosecurity requirements are likely to limit grain import volumes. High feed costs have affected sheep herd rebuilding and present further downside risks to lamb production and farm profitability.

Macroeconomic uncertainty

Escalating trade tensions between China and the United States represent a downside risk to Australia's two largest export markets for lamb. Global income growth is likely to be affected if trade tensions continue to escalate. This could reduce demand for high-value lamb cuts, particularly in China where consumption is generally more sensitive to changes in incomes. If this occurred, a lower Australian dollar could cushion the impact on the value of Australian lamb exports.

Uncertainty about live sheep exports to the Middle East

The Australian Government has supported the recommendations from two independent reviews into live exports. The ongoing review of the Australian Standards for the Export of Livestock and the ongoing heat stress risk assessment will inform potential changes to live export regulations. This will influence the profitability of live sheep exports.

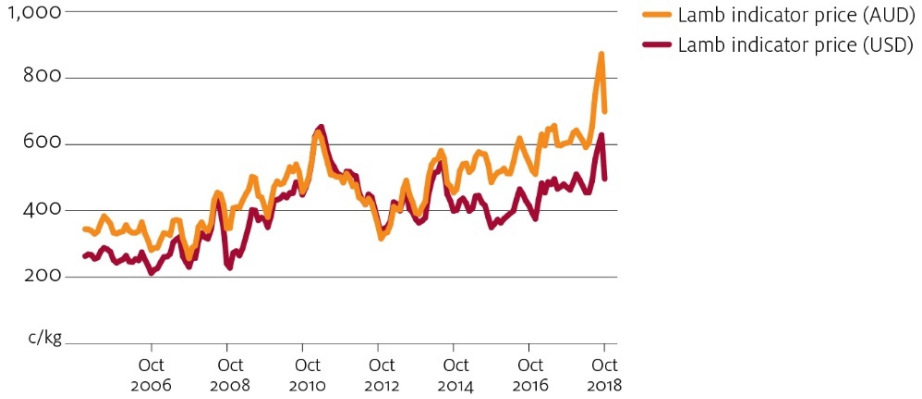
Between June and August 2019, livestock exporters have voluntarily agreed to a three month moratorium on live sheep exports to the Middle East. Reduced demand from livestock exporters during these months is expected to exert downward pressure on WA saleyard prices. Between 2013–14 and 2017–18, 23% of live sheep export volumes to the Middle East were sent between June and August.

The potential for further regulatory restrictions is a downside risk for saleyard prices in Western Australia. Restrictions on live exports are likely to lead to structural adjustment in the WA sheep and sheep meat processing industries. This is likely to include the retention of sheep for wool production, and an increase in lamb production for domestic processing.

Competition from other meats

The price of lamb relative to other meats has risen significantly, providing cost-conscious consumers with an incentive to substitute away from lamb. Global lamb prices are forecast to remain high, but prices of alternative meats such as beef and pork are expected to fall. This strong price competition presents downside risks to global lamb prices.

Lamb saleyard prices, January 2006 to October 2018



Source: Australian Bureau of Statistics, Meat & Livestock Australia

Outlook for sheep meat

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
Sheep numbers **a**	million	72.1	69.6	68.5	– 2.0
Slaughterings					
Lambs	’000	22,344	23,432	23,100	– 1.0
Sheep	’000	6,553	8,396	9,100	8.0
Production					
Sheep meat	kt (cw)	670	735	740	1.0
Exports					
Sheep meat	kt (sw)	390	457	460	1.0
value	$m	2,653	3,283	3,532	8.0
Live sheep	’000	1,851	1,975	1,100	– 44.0
value	$m	233	259	138	– 47.0
Prices					
Lambs **b**	c/kg (cw)	592	614	725	18.0
Sheep **b**	c/kg (cw)	415	419	430	3.0

a At 30 June. **b** Saleyard prices. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia

Dairy

Andrew Cameron

Domestic dairy herd and milk production forecast to fall

Poor seasonal conditions and rising input costs are forecast to lead to the Australian dairy herd shrinking and milk production falling in 2018–19. As a result of the drought in eastern Australia, prices for dairy feed inputs have increased considerably. Dairy Australia reports that hay and feed grain prices are well above average levels in most dairy regions.

For many producers, the increased costs will not be offset by higher forecast milk prices. Cow culling has increased and is likely to remain high as producers look to turn off less productive animals. The Australian herd is forecast to fall by 3% and milk production by 4% in 2018–19. If realised, this would be the lowest level of production in over 20 years.

The Australian farmgate milk price is forecast to rise slightly to 47 cents a litre in 2018–19. An assumed fall in the Australian dollar and strong competition among processors for milk supply are expected to support milk prices.

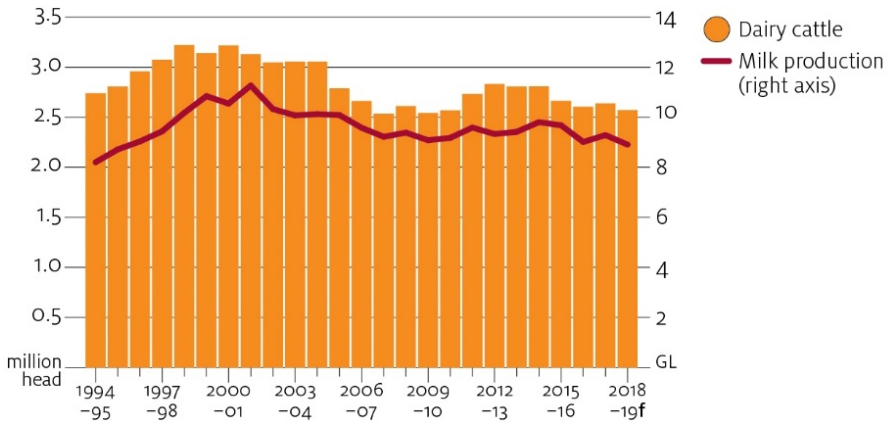
Production forecast to rise for competing exporters

Milk production in New Zealand and the United States is forecast to be higher in 2018–19, placing downward pressure on dairy commodity prices. New Zealand has experienced a better start to the 2018–19 season than last year. US milk production has grown virtually uninterrupted for over 5 years due to productivity improvements and is expected to continue to do so. Global prices for cheese, whole milk powder and butter are forecast to fall as a result.

Income growth to support dairy demand

Global dairy product demand is expected to be supported by broad-based economic growth. In 2018–19 lower milk production in China is likely as the dairy farm sector continues to consolidate. This will contribute to increased import demand.

Australian dairy herd and milk production, 1994–95 to 2018–19f



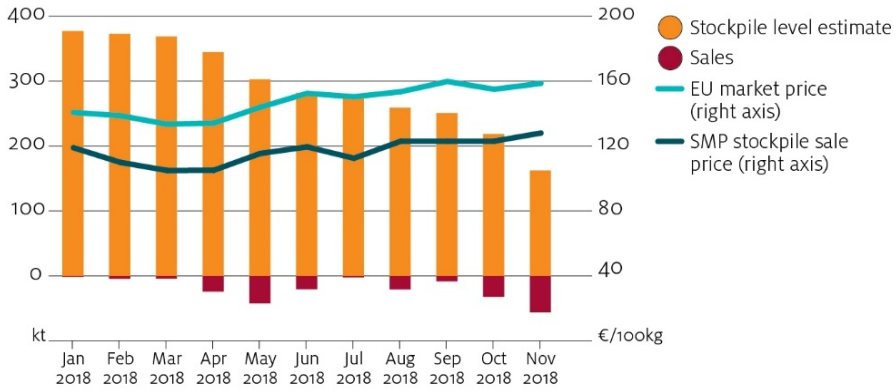
f ABARES forecast. **s** ABARES estimate.

Opportunities and challenges

EU intervention stocks limit upside for skim milk powder prices

The skim milk powder stockpile in the European Union stood at an estimated 160,000 tonnes in early December. Monthly sales volumes indicate that demand for the discounted powder has been variable. Sales are now occurring twice monthly, but it is likely to take at least another 12 months to eliminate the stockpile. A faster than expected reduction in the stockpile would place greater short-term downward pressure on skim milk powder prices.

EU skim milk powder intervention stockpile estimate, 2018

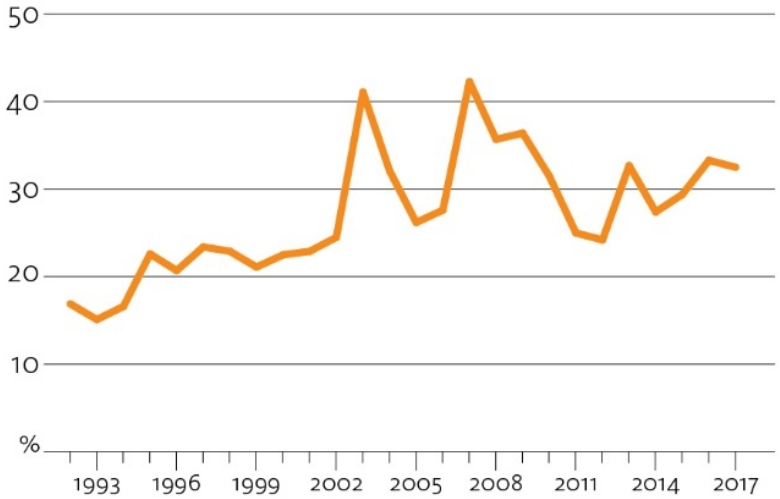


Source: EU Milk Market Observatory

Industry intensification increases drought risk exposure

The Australian dairy industry has increased its use of material inputs like fodder. This increases the risk of farmers being exposed to large input price rises in times of drought, when these inputs are in high demand. Farms that do not have sufficient buffer stocks will have their profitability severely impacted because these costs can account for a large share of revenue. In the short term this will result in a fall in Australian milk production in 2018–19. Prices for cull cows are also forecast to fall as US beef production expands, putting further pressure on Australian dairy farm incomes.

Fodder and water charges as share of milk receipts, Australia, 1990 to 2017



Source: ABARES AGSURF Database

Outlook for dairy

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
Australia					
Cow numbers **a**	’000	1,520	1,561	1,480	*– 5.2*
Milk yields	L/cow	5,930	5,951	6,020	*1.2*
Production					
Total milk	ML	9,016	9,289	8,910	*– 4.1*
market sales	ML	2,508	2,548	2,636	*3.5*
manufacturing	ML	6,508	6,741	6,274	*– 6.9*
Butter **b**	kt	100	92.7	66.0	*– 28.8*
Cheese **c**	kt	337	378	374	*– 1.2*
Whole milk powder	kt	60.0	82.5	72.0	*– 12.7*
Skim milk powder	kt	222	191	170	*– 11.0*
Farmgate milk price	Ac/L	40.9	46.0	46.6	*1.3*
Value of exports	A$m	3,028	3,422	3,340	*– 2.4*
World prices					
Butter	US$/t	4,500	5,879	4,820	*– 18.0*
Cheese	US$/t	3,742	4,038	3,860	*– 4.4*
Skim milk powder	US$/t	2,356	1,938	1,970	*1.7*
Whole milk powder	US$/t	3,063	3,125	2,922	*– 6.5*

a At 30 June. **b** Includes the butter equivalent of butter oil, butter concentrate, dry butterfat and ghee. **c** Excludes processed cheese. **f** ABARES forecast. **s** ABARES estimate

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

Abbreviations

All values and prices are in nominal terms unless stated otherwise.

Small discrepancies in totals are generally caused by rounding. Zero is used to denote nil or a negligible amount.

$m	million dollars (Australian)
€	euro
£	pound sterling
¥	yen
A$	dollar (Australian)
ABARE	Australian Bureau of Agricultural and Resource Economics
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
BAE	Bureau of Agricultural Economics (now ABARES)
BRS	Bureau of Rural Sciences (now ABARES)
c	cent (Australian)
CIS	Commonwealth of Independent States
cif	cost, insurance and freight
cw	carcase weight
DM	deutschmark
ECU	European currency unit
EVAO	estimated value of agricultural operations
FAO	Food and Agriculture Organization of the United Nations
fas	free alongside ship
fob	free on board
fot	free on truck
GL	gigalitres (1,000,000,000 litres)
ha	hectare (2.471 acres)
kg	kilogram (2.20462 pounds)
kL	kilolitre (1,000 litres)
kt	kilotonne (1,000 tonnes)
L	litre (1.761 pints)
lb	pound (454 grams)
na	not available
nec	not elsewhere classified
nei	not elsewhere included
nfd	not further defined
m3	cubic metre (1.307 cubic yards)
ML	megalitre (1,000,000 litres)
Mt	megatonne (1,000,000 tonnes)
sw	shipped weight
t	tonne (1,000 kilograms)
USc	cent (United States)
US$	dollar (United States)
USDA	United States Department of Agriculture

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