



Australian Government
Department of Agriculture
ABARES

Agricultural commodities

Commodity forecasts and outlook

September quarter 2019



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Cataloguing data

This publication (and any material sourced from it) should be attributed as:

ABARES 2019, *Agricultural commodities: September quarter 2019*, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, June. CC BY 4.0.

<https://doi.org/10.25814/5d71c8b01f92e>

ISBN 978-1-74323-447-1

ISSN 1839-5627

ABARES project AB027

This publication is available at agriculture.gov.au/abares/research-topics/agricultural-commodities

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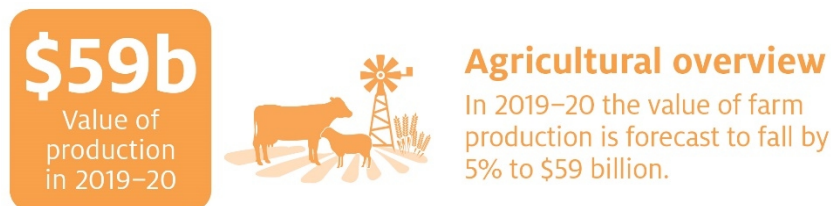
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Agricultural overview

Kirk Zammit, Matthew Howden, Rohan Nelson, Matthew Miller and commodity analysts



- The outlook for farm production is mixed. Sharp falls are forecast for livestock, livestock products and summer crops. Winter crop production is expected to increase, but remain low.
- Lower production will reduce exportable supplies and export earnings. However, high export prices for some major commodities and a lower Australian dollar are expected to support earnings.
- China-US trade tensions, strong competition in key export markets and ongoing drought cloud the outlook for export earnings.

Opportunities and challenges in uncertain times

The outlook for Australia's agricultural sector is characterised by a high degree of uncertainty, but the impact on the sector has been tempered by a regionally diversified production base. The ongoing China-US trade dispute is disrupting world markets. This presents opportunities and challenges for Australia's agriculture sector. At the same time, the sector faces challenges at home, including drought and shifting societal expectations of agricultural production.

In 2019-20 the volume of farm production and agricultural exports are expected to fall below long term averages, mainly due to ongoing drought in large areas of south-eastern Australia. However, the extent of this fall is likely to be limited by above average crop production in Victoria—where seasonal conditions have been favourable—and close to average crop production in Western Australia and South Australia—where conditions have been mixed.

The China-US trade dispute and a fall in pork production due to African swine fever have increased Chinese import demand for some Australian products. Australian graziers experiencing drought and high feed prices can sell livestock into global markets at high prices because demand for Australian meat is at unprecedented levels.

Some crop producers are also benefiting as China looks for suppliers other than the United States for products such as cotton, fruit and nuts. In contrast, other producers are now having to compete with US commodities displaced from Chinese markets, such as canola exports to Europe and beef exports to Japan and the Republic of Korea.

The recent escalation in the China-US trade dispute has increased the uncertainty of Chinese clothing sales to the United States. This is likely contributing to the decline in prices received for Australian wool and cotton. The trade war is also dampening global economic growth and economic growth in East Asia, Australia's largest export market for agricultural goods. This could have longer term ramifications for import demand of some of Australia's high-value agrifood products, particularly in emerging markets.

Some opportunities and challenges for Australian agriculture originate with consumers. Fertiliser use and soil management by sugarcane growers and graziers along the coast of Queensland are attracting

increasing attention because of their [impact on the Great Barrier Reef](#). Concern over animal welfare has led to restrictions on the export of live sheep to the Middle East. In South Australia, farmers now have an opportunity to [grow both conventional and genetically modified crops](#) for the first time since 2004.

Farm production lowest since the Millennium Drought

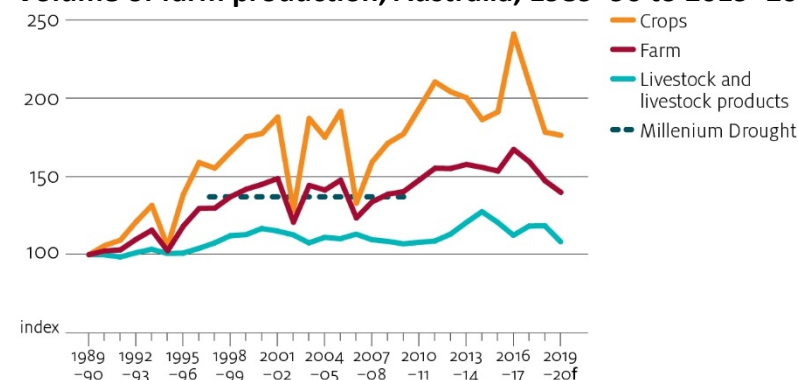
In 2019–20 the value of farm production is forecast to decline by 5% to \$59 billion. This is driven by the third consecutive decline in the volume of farm production since favourable seasonal conditions delivered the largest winter crop on record in 2016–17. Prices received by Australian farmers are forecast to decline due to prices falling for some of Australia's major commodity exports. These exports include barley, cotton, pulses, wheat and wool. However, an assumed 4% decline in the Australian dollar on a trade-weighted basis will provide some support to export prices and farm incomes.

Since reaching a peak in 2016–17, the volume of farm production is forecast to have declined by 15%, reaching its lowest level since 2009–10. Forecast volume of farm production for 2019–20 is similar to levels last recorded during the Millennium Drought. The index is forecast to be about 25 percentage points above the worst years in 2002–03 and 2006–07.

The decline in the volume of farm production in 2019–20 is forecast to be driven by a fall in slaughterings, live animal exports, wool and summer crop production. Dry conditions across much of central and northern New South Wales, and southern Queensland over consecutive years have reduced herds and flocks, which is beginning to have a noticeable effect on the productive capacity of the sector. Area planted to cotton and grain sorghum is forecast to fall in key

producing regions of New South Wales and Queensland, because of very low soil moisture and dam levels combined with a poor seasonal outlook for spring.

Volume of farm production, Australia, 1989–90 to 2019–20



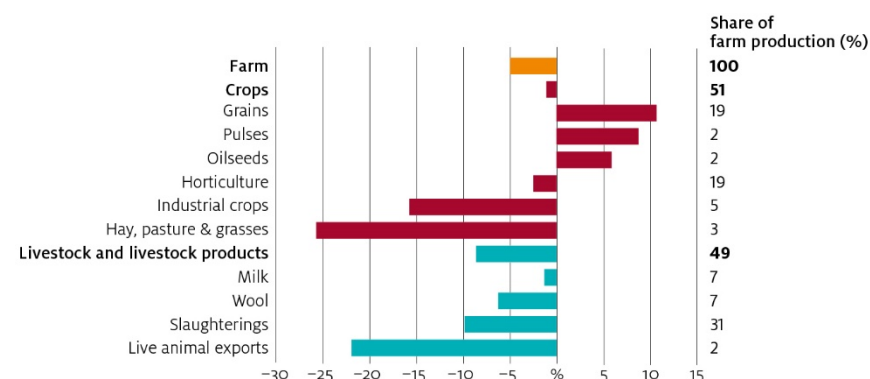
f ABARES forecast.

Note: Crops include grains, oilseeds, pulses, industrial crops and horticulture.

Source: ABARES; Australian Bureau of Statistics

The 2019–20 winter crop is forecast to increase by 11% to 33.9 million tonnes, supported by favourable seasonal conditions across Victorian cropping regions and reasonable conditions in parts of South Australia and Western Australia. However, the national winter crop is forecast to be 16% below the 10-year average to 2018–19 because of poor growing conditions across significant areas of New South Wales and Queensland. See the [Australian crop report: September quarter 2019](#) for more information and a state-by-state breakdown.

Forecast change in the volume of farm production, Australia, 2019–20



Note: Fisher chain volume measures. Changes in the volume of production of horticulture and hay, pasture & grasses are indicative only.

Sources: ABARES; Australian Bureau of Statistics

Implications of dry conditions continuing

There are a number of regions across central and northern New South Wales and southern Queensland that will have low resilience to continued dryness next year. Much of this region has not harvested a grain or fodder crop since 2017–18. Pasture production across this area has been well below average since early 2018 leading to extremely low levels of standing pasture biomass. Moreover, soil moisture levels across much of New South Wales and southern Queensland are extremely low, providing little to no buffer to ongoing dry conditions.

If drought conditions across south-eastern Australia were to extend into 2020–21, national crop production and exports are likely to continue to decline, as they have done for the past 3 years. Analysis of historical rainfall records indicates that 3 consecutive failed crops in New South Wales would be unprecedented.

Exports of grain, which comprised 16% of the value of agricultural exports over the 5 years to 2018–19, would fall even further than production as high prices divert grain to the domestic market. Grain stocks could also fall, triggering further imports of stockfeed and milling wheat, provided they meet Australia's biosecurity standards. However, a break in the drought—particularly in New South Wales, normally the second largest winter crop producer—would lead to a quick recovery in the national crop.

In the livestock sector, drought extending into next year would likely lead to continued destocking and delay herd rebuilding, due to a lack of pasture production across large areas of south-eastern and northern Australia. This would increase their reliance on supplementary feeding to maintain production, and on purchasing livestock rather than breeding. As a result, prices of young cattle and sheep would increase sharply when pasture growth improves. In unaffected areas, producers with young cattle to sell could benefit significantly.

The high prices forecast for cattle, sheep and lambs, and meat products has enabled some producers to withstand ongoing high feed grain and hay prices, which was not feasible in previous droughts. Agistment of livestock from areas of low to high pasture availability will also help to maintain herds.

Public reporting of grain stocks during drought years

The ongoing drought in parts of Australia reignited a public debate about the reporting of grain stocks. The availability of grain stocks information helps market participants to ascertain their negotiation positions and assess the benefits and costs of trading in Australia's grain market relative to other international markets. For large grain

consuming businesses, knowledge of domestic stocks helps assess the returns from securing import pathways and meeting Australia's rigorous biosecurity protocols. Forthcoming analysis by ABARES found that improved public reporting of national grain stocks in times of drought complements the commercial knowledge of businesses to better evaluate the benefits and costs of these investments.

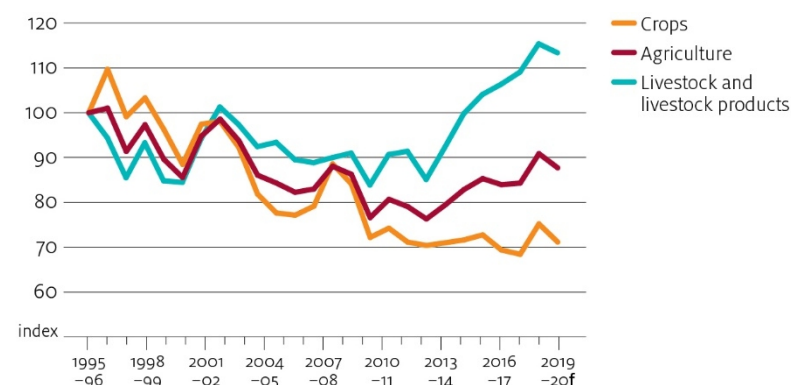
Export earnings constrained by drought

In 2019–20 agricultural export earnings are forecast to fall by 11%, to \$44 billion. This is \$1.8 billion lower than the [Agricultural commodities: June quarter 2019](#) forecast. Lower farm production is the driver of the forecast fall in export earnings, which have managed to remain relatively well supported in 2017–18 and 2018–19 because of strong export price growth and a falling Australian dollar. Despite the assumed depreciation in the exchange rate in 2019–20, average export prices for agricultural exports are forecast to decline slightly by 2%. This is driven by a return of wool prices to long term average levels, and falls in cotton and coarse grain export prices. Prices for wool and cotton are forecast to fall in part because of US import tariffs on Chinese apparel implemented on 1 September 2019 (see [Fibres](#)). Lower coarse grain prices are forecast because of ample global supplies (see [Coarse grains](#)).

Real export prices for livestock and livestock products have trended up

From 2012–13 to 2018–19 the average price for agricultural exports increased by 19% in real terms. This was due to a 36% increase in the average export price for livestock and livestock products.

Australian export unit returns, 1994–95 to 2019–20



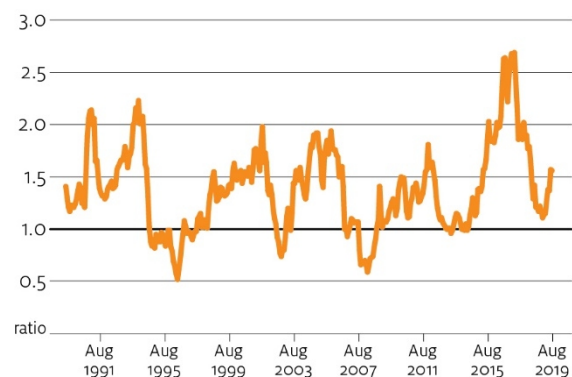
f ABARES forecast.

Note: Chained Fisher price indexes.

Source: ABARES; Australian Bureau of Statistics

Strong export demand for beef and sheep meat has supported prices for Australian cattle and lambs, enabling producers to purchase feed at high prices during the drought. The ratio of heavy steer prices to feed wheat has remained above 1.0 despite the sharp increase in feed prices during 2018–19. This suggests that it may still be profitable for some producers to continue feeding cattle. While only indicative, this ratio does reveal that the relative cost of feed wheat to the price of steers was much higher in the drought years 1995–96, 2002–03 and 2006–07, when the ratio fell well below 1.0.

Ratio of Australian steer price and feed wheat, August 1989 to August 2019



Note: Values for July and August 2019 are estimates.

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

Export earnings supported by lower Australian dollar

The Australian dollar is assumed to fall by 5% against the US dollar in 2019–20. This will support agricultural exports, particularly of grains, fibres and beef, a significant proportion of which are invoiced in US dollars. The recent depreciation in the Australian dollar against other currencies including the Japanese yen and Korean won, is also boosting Australia's competitiveness in these markets. This is at a time when Australia is facing increased competition in many traditional export markets (see [Wheat](#) for an example).

Chinese import tariffs on US products of limited benefit to Australian producers

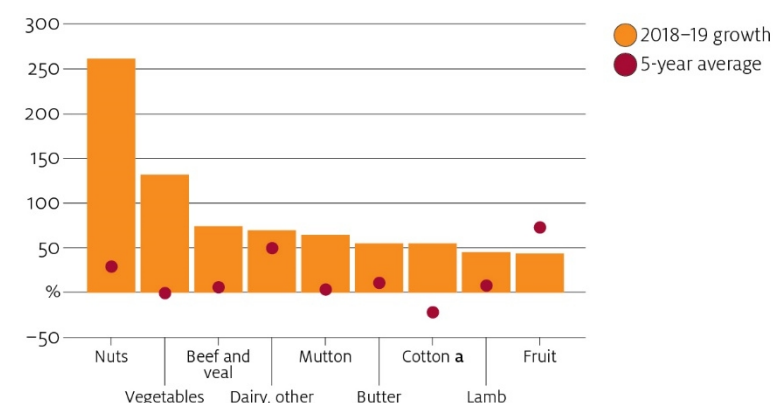
The benefits of the China–US trade dispute are expected to be limited for Australian agricultural producers. Major US agricultural exports to China differ substantially from Australia's. Where Australian goods are substitutable with US products, exports to China are relatively small,

or face significant competition from other major exporting countries (see [United States and Australian agriculture – a comparison](#)).

In 2018–19, the first full year of the trade dispute, the value of Australia's agricultural exports to China increased by 11%. This was driven primarily by an increase in beef and veal exports. Exports of nuts, mutton and cotton also increased sharply, compared with their 5-year average annual growth rate.

A sharp increase in Australia's nut and cotton exports to China is partially due to retaliatory tariffs on US agricultural products. The value of shelled and unshelled almond exports to China increased by 107% in 2018–19. Australian cotton exports to China increased by an estimated 55% as Chinese mills recommenced importing after several years of reducing stockpiles (see [Fibres](#)).

Growth in exports to China, selected commodities, 2018–19



a ABARES estimate.

Source: Australian Bureau of Statistics

However, China's import tariffs on US products are not the only cause of Australia's increased exports to China. For example, the rising value of Australia's meat exports is mainly due to lower pork production in China following the spread of African swine fever.

Long-term implications of the China–US trade dispute likely to outweigh short-term gains

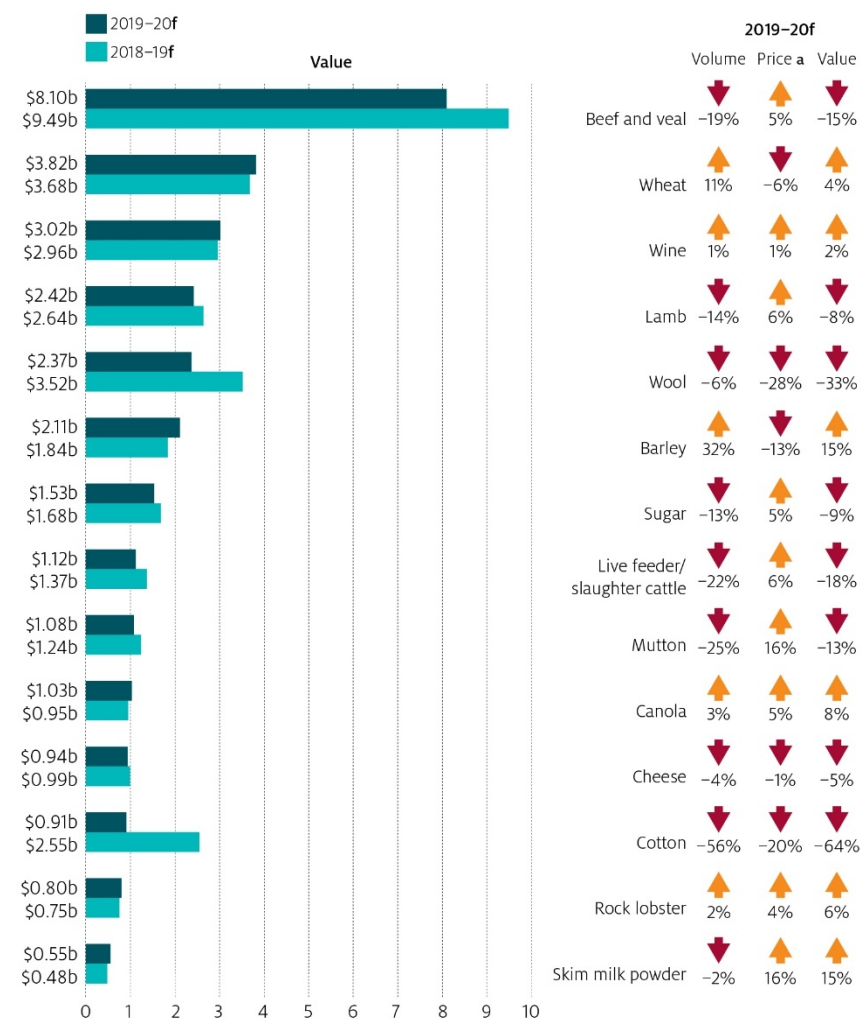
The current trade dispute is providing opportunities for some Australian producers to grow market share in China. However, the trade war is likely to have longer-term implications that will outweigh any short-term benefits.

The effective exclusion of the US agricultural exports to China has increased competition in Australia's other export markets, including countries in East Asia and the eurozone (see [Beef and veal](#) and [Oilseeds](#) for examples).

The dispute is also affecting regional and global economic growth. Australia's export dependence on emerging Asian markets means that Australian producers are potentially vulnerable to a downturn in income growth. The risk is that consumers in these markets could react by substituting away from Australia's high-value agrifood products to lower-cost alternatives.

The extent and impact of the income-related dampening of demand for Australia's exports will be revealed over the next year or so. Beyond food, US import tariffs on Chinese consumer goods, such as clothing, could disrupt global supply chains in these markets. This presents a significant risk for Australian fibre exports.

Major Australian commodity exports





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

Category		2014–15	2015–16	2016–17	2017–18	2018–19 s	2019–20 f	% change
Exchange rate	A\$/US\$	0.84	0.73	0.75	0.78	0.72	0.68	– 4.7
Australian export unit returns a								
Agriculture	index	100.0	104.4	104.5	106.9	117.2	115.2	– 1.6
Value of exports								
Agriculture	A\$m	44,200	44,774	48,941	48,983	49,226	43,636	– 11.4
crops	A\$m	21,574	22,511	27,939	25,048	23,053	21,229	– 7.9
livestock	A\$m	22,625	22,263	21,002	23,935	26,173	22,407	– 14.4
Fisheries products	A\$m	1,440	1,542	1,435	1,575	1,536	1,639	6.7
Forestry products	A\$m	2,772	3,116	3,460	3,605	3,932	3,990	1.5
Total agriculture, fisheries and forestry exports	A\$m	48,412	49,432	53,837	54,164	54,694	49,265	– 9.9
Gross value of production b								
Farm	A\$m	54,387	56,554	61,647	59,581	62,208	59,353	– 4.6
crops	A\$m	27,423	27,791	33,547	29,855	30,431	29,441	– 3.3
livestock	A\$m	26,964	28,763	28,099	29,726	31,777	29,912	– 5.9
Fisheries	A\$m	2,764	3,019	3,058	3,141	3,207	3,374	5.2
Forestry c	A\$m	2,025	2,270	2,571	2,663	2,575	2,620	1.7
Total farm, fisheries and forestry products	A\$m	59,176	61,843	67,276	65,385	67,990	65,346	– 3.9
Volume of farm production d	index	122.0	120.7	131.3	123.5	117.0	111.6	– 4.6
crops	index	125.0	129.8	164.5	138.5	123.4	123.4	– 0.0
livestock	index	117.5	111.0	103.7	109.1	109.3	99.9	– 8.6
Production area and livestock numbers								
Crop area (grains, oilseeds and pulses)	'000 ha	22,910	21,337	24,373	23,144	19,043	19,899	4.5
Sheep	million	68.0	67.5	72.1	70.6	66.4	67.5	1.7
Cattle	million	27.4	25.0	26.2	26.4	24.9	24.7	– 0.8
Costs and returns								
Farm costs	A\$m	38,441	38,516	39,629	38,893	41,707	42,136	1.0
Net farm cash income e	A\$m	21,390	23,564	27,639	26,417	26,326	23,152	– 12.1
Net value of farm production g	A\$m	15,946	18,038	22,018	20,687	20,501	17,217	– 16.0
Farmers' terms of trade h	index	103.8	109.1	110.0	109.7	111.6	111.2	– 0.4
Employment								
Agriculture, forestry and fishing	'000	317	321	304	329	333	na	na
Australia	'000	11,662	11,898	12,075	12,446	12,756	na	na

a Base: 2014–15 = 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; ABS; RBA

Economic overview

Matthew Howden and Kirk Zammit

3.2%
Global economic
growth in 2019



Economic overview

Global economic growth is assumed to be 3.2% in 2019 and 3.5% in 2020.

- Elevated uncertainty is weighing on the global economic outlook.
- The Australian dollar is assumed to depreciate by 5% to average US68 cents in 2019–20.

Global economic outlook

Global economic growth is assumed to be 3.2% in 2019 and 3.5% in 2020. Economic growth in both years has been revised down by 0.1 percentage points since [Agricultural commodities: June quarter 2019](#).

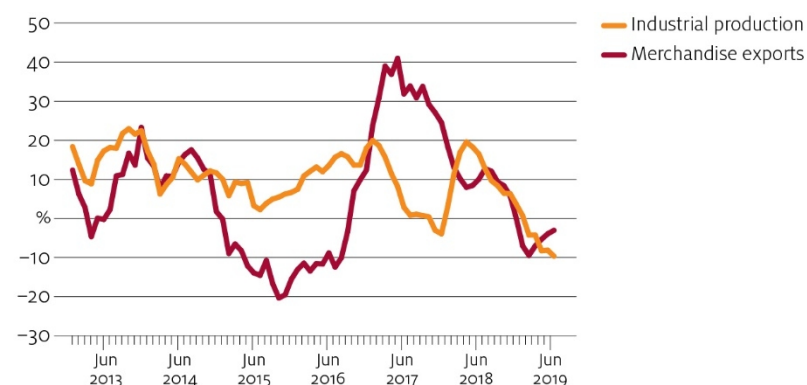
Downside risks to global economic growth have increased, largely due to growing uncertainty about global economic policy. An escalation in the trade dispute between China and the United States, political unrest in Hong Kong and rising trade and political tensions between Japan and the Republic of Korea have further weighed on the outlook for 2019 and 2020, particularly for Asia—Australia's largest export market.

The growing uncertainty about economic policy could spark a broader downturn in the real economy and ultimately affect household incomes—an important determinant of agricultural import demand in

developing economies. However, strong population growth is likely to maintain demand for Australian agricultural goods.

The transmission of increased uncertainty to the real economy is usually through lower trade and investment. Indicators of business confidence have continued to decline, and export and industrial production indicators remain subdued in many markets, including those in South-East Asia.

Value of merchandise exports and industrial production, South-East Asia, January 2013 to June 2019



Note: Indicators are 3 month moving averages. South-East Asia includes Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Sources: Asia Regional Integration Center; IMF

Despite the worsening external conditions, domestic demand in a number of Australia's major export markets has remained relatively robust. In the United States, Japan, New Zealand and the United Kingdom, employment has continued to grow strongly and unemployment rates are lower than they have been in decades. Consumption in South-East Asia, particularly in less trade exposed

countries, such as Indonesia and the Philippines, has also remained resilient.

Central banks have eased monetary policy in response to the uncertain outlook, with the US Federal Reserve lowering its federal funds rate to a midpoint of 2.125 in July. This has given developing economies, including those in Asia, room to ease monetary policy to support economic growth.

Economic developments in agricultural export markets

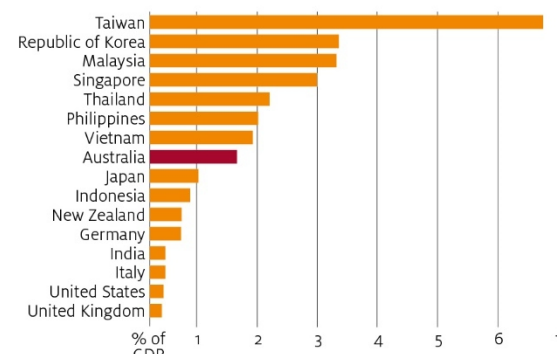
Economic growth in China is assumed to be 6.2% in 2019. This is close to the mid-point of the National People's Congress growth target. In response to the escalating China–US trade dispute, ABARES has revised growth in 2020 down by 0.2 percentage points to 6% from the [Agricultural commodities: June quarter 2019](#) assumption.

The China–US trade dispute began in 2018. Tensions escalated further in August when the United States announced it would impose tariffs of 15% on an additional US\$300 billion of Chinese exports (largely consumer goods). The tariffs were scheduled to come into effect in September and December 2019. China retaliated by instructing its state-owned enterprises not to buy agricultural goods from the United States, and is imposing further tariffs on US\$75 billion of US imports (see [Agricultural overview](#) for details).

The renminbi depreciated following the recent escalation, moving above 7 per US dollar for the first time in a decade. The renminbi has depreciated by about 9% against the US dollar since the trade dispute began in 2018. This devaluation will help Chinese export competitiveness and offset the impact of the US tariff increase.

The China–US trade dispute is affecting exports and business investment in East Asia because many countries in the region are highly integrated in global supply chains. Of concern to Australia is the deceleration in consumption growth in year-on-year terms in some of its largest agricultural export markets, including South Korea, Hong Kong, Singapore, Taiwan, Thailand and Malaysia. However, domestic economic conditions remain reasonably robust in the less trade-exposed economies of Indonesia and the Philippines, and in Vietnam, which has benefited from a diversion in trade from China.

Foreign value added in Chinese exports, 2016



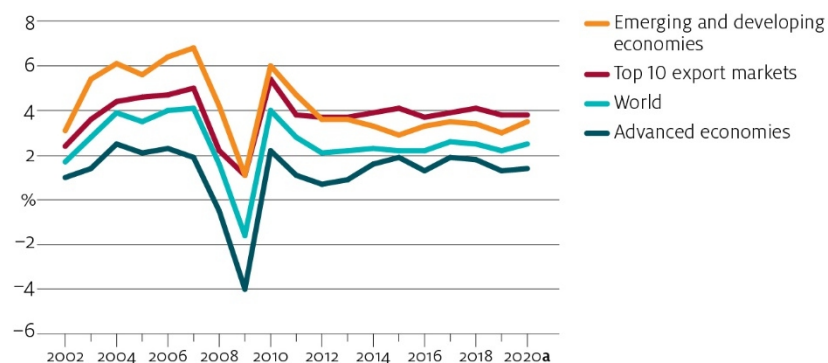
Sources: IMF; OECD

Economic growth in India has been revised down since the [Agricultural commodities: June quarter 2019](#), from 7.5% to 6.5% in 2019, and 7.8% to 7.1% in 2020. Lower investment, fiscal spending and trade tensions with the United States are weighing on growth. Agricultural exports to India remain heavily constrained by import tariffs and quotas.

Income growth, measured by GDP per person, is a driver of import demand. Income growth in emerging Asia has been revised down for

2019 and 2020. This is due to revisions to economic growth in China and India. However, income growth assumptions remain favourable for Australia's major export markets.

Income growth in Australia's top 10 export markets and selected economies, 2002 to 2020



a ABARES assumption.
Sources: ABARES; IMF

Australian economy

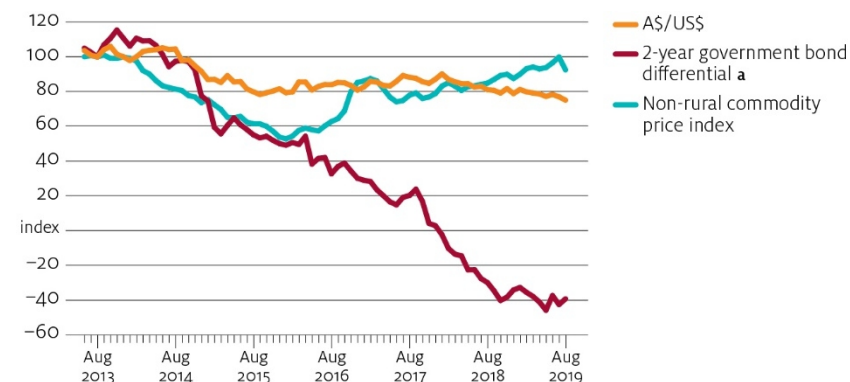
The Australian economy grew by 1.9% in 2018–19, and is assumed to grow by 2.8% in 2019–20, supported by interest rate and tax cuts. The Australian dollar is assumed to depreciate by 5% to average US68 cents in 2019–20.

As at the September quarter 2019 economic growth in Australia has been little affected by China–US trade tensions. This is because Australia is not significantly involved in affected global supply chains. Actions by Chinese authorities to stimulate the domestic economy have increased exports from Australia, providing a boost to national income.

Australian export prices increased sharply in 2018–19, mostly because of strong demand from China for iron ore and coal, and to a lesser extent agricultural produce. Australia's terms of trade increased by 6% in 2018–19. High prices for Australian exports have, until mid-2019, supported the Australian dollar.

The Reserve Bank of Australia cut interest rates by a total of 0.5 percentage points in June and July. These cuts come at a time when government bond yields have declined in other major advanced economies such as the United States. The cuts are likely to have dampened downward pressure on the Australian dollar.

Australian dollar, selected exchange rate determinants, June 2013 to August 2019



a Difference between the 2-year US Treasury and Australian Government Securities yields.
Note: All indicators are expressed as indexes.
Sources: ABARES; Reserve Bank of Australia; US Federal Reserve

Financial markets have reacted sharply in recent months to negative news about the China–US trade war. The increased uncertainty has led to increased demand for safe-haven assets such as US and Japanese government bonds, putting downward pressure on the Australian

dollar and other 'risk currencies'—including those of major agricultural exporters. Ongoing concerns over global economic growth in financial markets and potential for further flare-ups in trade disputes are likely to continue to have a strong downward influence on the Australian dollar.



Key macroeconomic assumptions

	unit	2017	2018	2019 a	2020 a
Economic growth					
World b	%	3.8	3.6	3.2	3.5
Advanced economies	%	2.4	2.2	1.9	1.8
United States	%	2.2	2.9	2.5	2.0
Japan	%	1.9	0.8	1.0	0.8
Eurozone	%	2.4	1.8	1.3	1.6
Germany	%	2.5	1.5	0.7	1.7
France	%	2.2	1.5	1.3	1.4
Italy	%	1.6	0.9	0.1	0.8
United Kingdom	%	1.8	1.4	1.3	1.4
Korea, Rep. of	%	3.1	2.7	2.6	2.8
New Zealand	%	2.6	3.0	2.5	2.9
Singapore	%	3.9	3.2	2.3	2.4
Taiwan	%	3.1	2.6	2.5	2.5
Emerging and developing economies	%	4.8	4.5	4.1	4.6
Emerging Asia	%	6.6	6.4	6.0	6.0
South-East Asia c	%	5.4	5.2	5.1	5.1
China d	%	6.8	6.6	6.2	6.0
India	%	6.9	7.4	6.5	7.1
Latin America	%	1.2	1.0	1.4	2.4
Middle East and North Africa	%	1.8	1.4	1.3	3.2
Eastern Europe	%	6.0	3.6	0.8	2.8
Russian Federation	%	1.6	2.3	1.2	1.9
Ukraine	%	2.5	3.3	2.7	3.0
GDP per person e					
Advanced economies	%	1.9	1.8	1.3	1.4
Emerging and developing economies	%	3.5	3.4	3.0	3.5
Emerging Asia	%	5.5	5.5	5.1	5.2
South-East Asia c	%	4.2	4.1	4.1	4.1
United States					
Inflation	%	2.1	2.5	2.2	2.3
US prime rate g	%	4.1	4.9	5.4	5.4
Australia	unit	2016–17	2017–18	2018–19 a	2019–20 a
Economic growth	%	2.3	2.9	1.9	2.8
Inflation	%	1.7	1.9	1.6	1.9
Interest rates h	%	3.7	3.7	3.8	3.3
Australian exchange rates					
A\$/US\$	US\$	0.75	0.78	0.72	0.68
TWI for A\$ i	index	64.8	64.5	61.5	59.1

a ABARES assumption. b Weighted using 2018 purchasing-power-parity valuation of country gross domestic product by the IMF. 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; ABS; Indian Ministry of Statistics and Programme Implementation; IMF; RBA; US Bureau of Labor Statistics; US Federal Reserve

Seasonal conditions

Emma Pearce and Matthew Miller



Seasonal conditions

Australian conditions mixed with drought in the east and good rainfall in the south and west. Global conditions generally favourable.

Climatic conditions in major crop-producing countries

At 28 August 2019 global production conditions were generally favourable.

Grains

Conditions for wheat development are generally favourable in Argentina. Conditions in Australia are mixed due to severe rainfall deficiencies across New South Wales and Queensland. In the northern hemisphere, winter and spring wheat harvesting is continuing under generally favourable conditions.

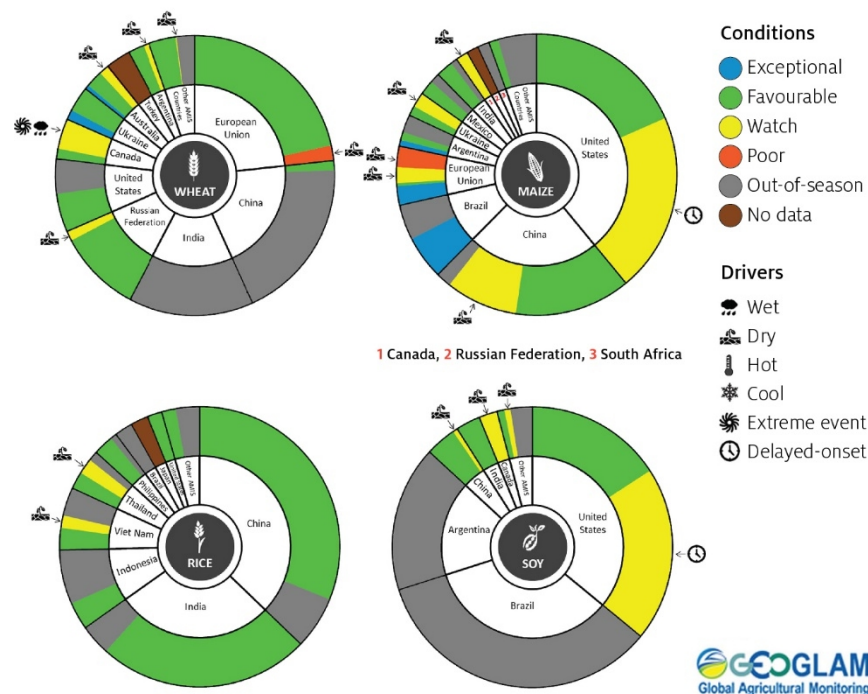
Growing conditions for maize are generally favourable in Brazil, Argentina, Mexico, China and India. Conditions are mixed in the United States, Canada, the European Union and Ukraine.

Growing conditions for rice are favourable in China, India, Indonesia, the Philippines, Japan and the United States. Wet-season rice conditions in Vietnam and Thailand are mixed due to below average rainfall.

Oilseeds

Growing conditions for soybeans are generally favourable in China, India and Ukraine. Conditions in the United States and Canada are under watch due to delayed sowing. Final yields will depend on conditions during the remainder of the growing season.

Crop conditions, AMIS countries, 28 August 2019



AMIS Agricultural Market Information System.
Source: AMIS

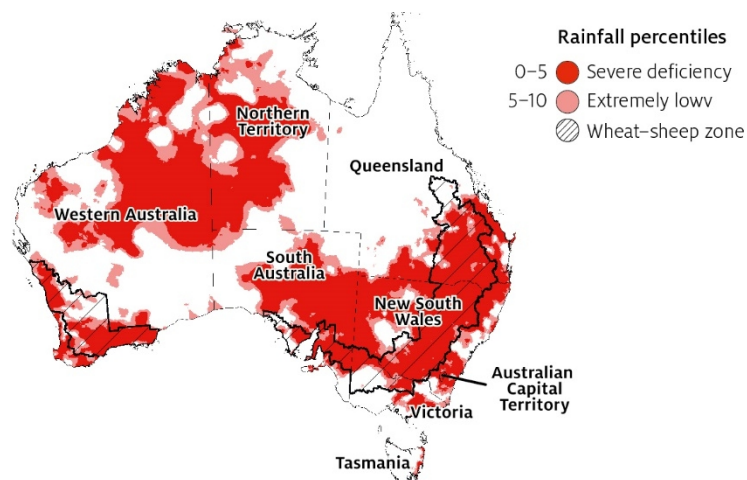
Climate outlook for Australia

Dryness persists across much of Australia

From March 2018 to August 2019, much of south-eastern, and large areas of western and northern Australia recorded rainfall totals in the lowest 5 to 10 per cent of the historical record (severe deficient to extremely low rainfall). Much of northern inland New South Wales has been particularly dry with large areas having record low rainfall.

While large areas of south-western Western Australia recorded aggregate 18-month rainfall totals in the lowest 10 per cent of the historical record, timely rainfall during the peak growing season (April to October) has been sufficient to support average to above average crop production during 2018-19 and 2019-20.

Rainfall deficiencies, Australia, 1 March 2018 to 31 August 2019



Note: Rainfall for March 2018 to August 2019 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

Below average rainfall reduces crop prospects

The NSW wheat-sheep zone is on track to record decile 1 growing season (April to October) rainfall for 2 consecutive years for the first time since 1940 and 1941, and for only the second time in the last 118 years.

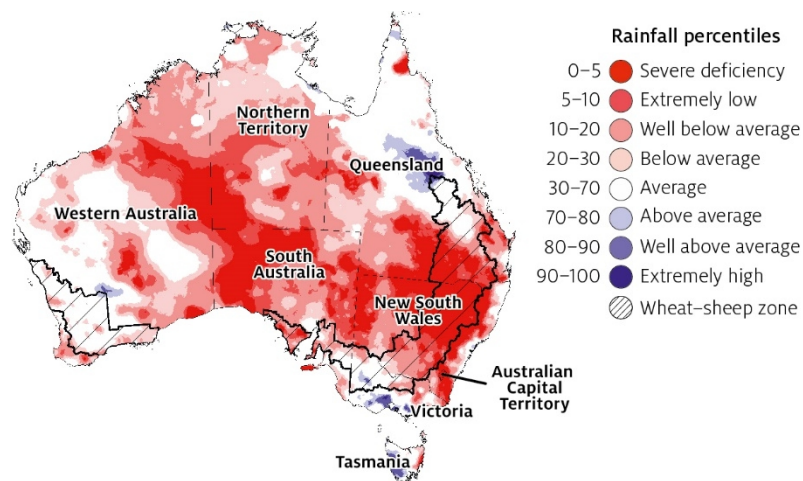
Winter rainfall was below average across large areas of Australia. Rainfall in June 2019 was variable across the country. Rainfall was particularly low across parts of south-eastern and central Australia. Cropping regions in Western Australia, South Australia and northern Queensland had an improved start to winter compared with 2018. Rainfall in these regions was average to well above average in June 2019. These falls enabled farmers to complete planting programs, supported crop and pasture growth and improved soil moisture levels.

In contrast, July 2019 was dry across much of Australia. Below average rainfall was recorded across cropping regions in New South Wales, southern Queensland, Western Australia and South Australia. Average July 2019 rainfall was recorded across cropping regions in southern New South Wales, Victoria and northern Queensland. This average rainfall and above average temperatures benefited crop and pasture growth in these regions. Elsewhere, stored soil moisture from June rainfall was sufficient to support continued crop development across much of Western Australia and South Australia.

Conditions in August 2019 were dry across much of south-eastern and central Australia. Severely deficient to well below average rainfall was recorded across New South Wales, southern Queensland, parts of the west of Western Australia, much of South Australia, northern Tasmania and the south of the Northern Territory.

Rainfall for August 2019 in winter cropping regions was average in parts of Victoria, northern Queensland and southern Western Australia. Rainfall was below average or lower across cropping regions in New South Wales, northern and eastern Victoria, southern Queensland, much of South Australia and northern Western Australia.

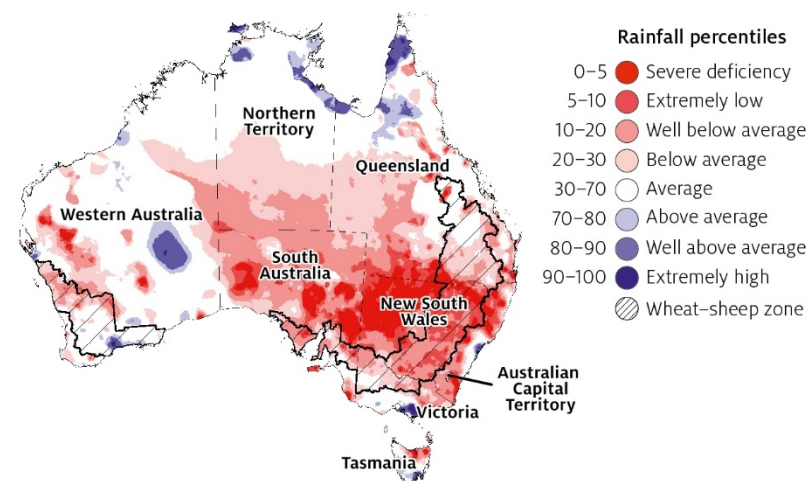
Rainfall percentiles, Australia, 1 June 2019 to 31 August 2019



Note: Rainfall for June to August 2019 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

Rainfall percentiles, Australia, August 2019



Note: Rainfall for August 2019 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

Soil moisture declined significantly through winter

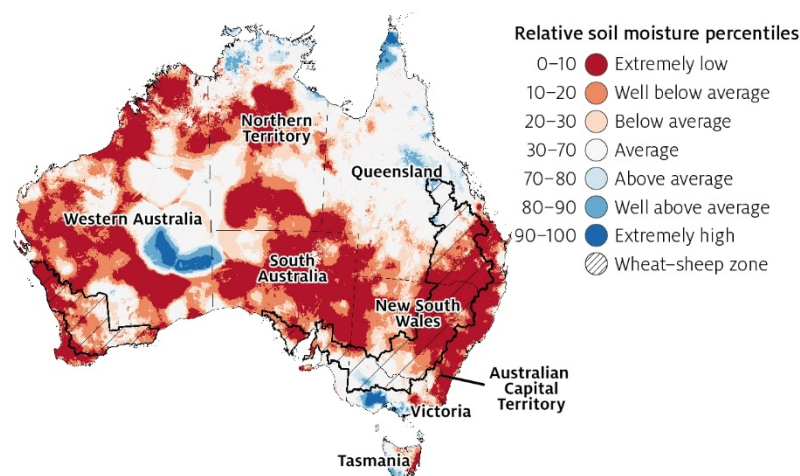
Variable rainfall and above average temperatures during winter resulted in decreased soil moisture levels across Australia. Root zone soil moisture was below average to average across Australia during June, followed by well below average soil moisture in July and August.

In August 2019 soil moisture in cropping regions was extremely low to well below average in much of New South Wales, southern Queensland, western South Australia and northern Western Australia. For cropping regions in Victoria, northern Queensland and parts of eastern South Australia soil moisture was average to above average.

The low levels of soil moisture mean early spring rainfall will be critical for grain development in regions that had viable crops at the

start of spring. Similarly, the planting of summer crops in these regions will require spring rainfall for crop germination and establishment.

Modelled root zone soil moisture, Australia, August 2019



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 August 2019 and ranked by percentiles for each August in the 1911–2015 historical reference period. Root zone soil moisture is defined as, 0 to 1 metre in depth.

Source: Bureau of Meteorology

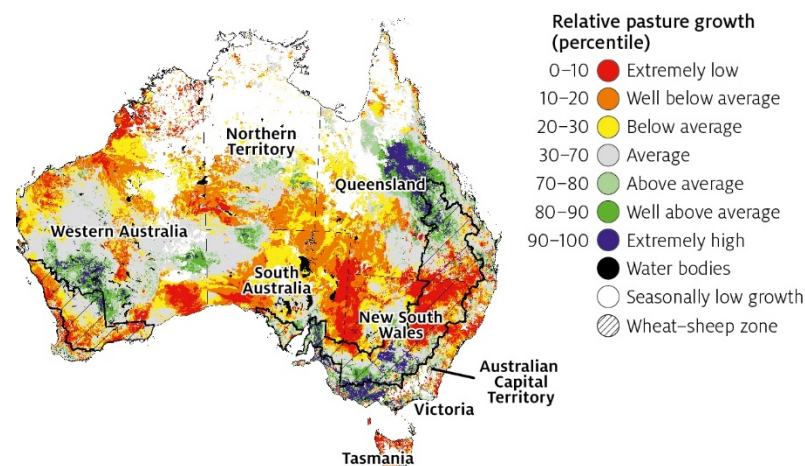
Pasture growth below average for some livestock production regions

Below average winter rainfall and low soil moisture limited pasture production across large areas of southern, western and central Australia. For the 3 months to August 2019, modelled pasture growth was extremely low to well below average across large areas of New South Wales and South Australia, parts of southern Queensland, the south of the Northern Territory and parts of Western Australia. In contrast, modelled pasture growth was well above average to

extremely high across parts of south-western Victoria, southern New South Wales, north-eastern Queensland, inland southern Western Australia and south-eastern South Australia.

Modelled pasture growth and soil moisture levels were extremely low over winter across much of New South Wales, southern Queensland and South Australia. As a result, livestock producers in these regions will be heavily reliant on spring rainfall and supplementary feed to maintain current stock numbers. In contrast, above average pasture production across much of Victoria, southern South Australia and north-eastern Queensland is likely to enable farmers to rebuild stock numbers and provide opportunities to replenish fodder supplies.

Relative pasture growth, Australia, 1 June 2019 to 31 August 2019



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 5km² grid cells.

Source: Queensland Department of Science, Information Technology and Innovation

Sufficient rainfall likely for some winter cropping regions

The El Niño-Southern Oscillation is expected to remain neutral for the remainder of 2019. A positive Indian Ocean Dipole (IOD) is underway. Most climate models suggest it will remain the dominant driver of climatic conditions in Australia during spring. A positive IOD typically brings below average spring rainfall to southern and central Australia, and warmer days for southern Australia.

A prolonged negative Southern Annular Mode (SAM) event is also forecast to develop in spring due to a predicted sudden stratospheric warming event. This negative SAM is likely to intensify dry and warm conditions across eastern Australia during spring.

The Bureau of Meteorology's climate outlook for October to December 2019 (released 5 September 2019) indicates that a drier than average spring is likely across most of the country. Across parts of the north and west of Western Australia and Tasmania, there is no strong shift towards a wetter or drier than average 3 months.

The Bureau of Meteorology's climate outlook suggests drier than average rainfall across large areas of Australia. In areas where soil moisture is close to average to above average for this time of year, there is still a significant chance of recording rainfall totals sufficient to sustain crop and pasture production through spring.

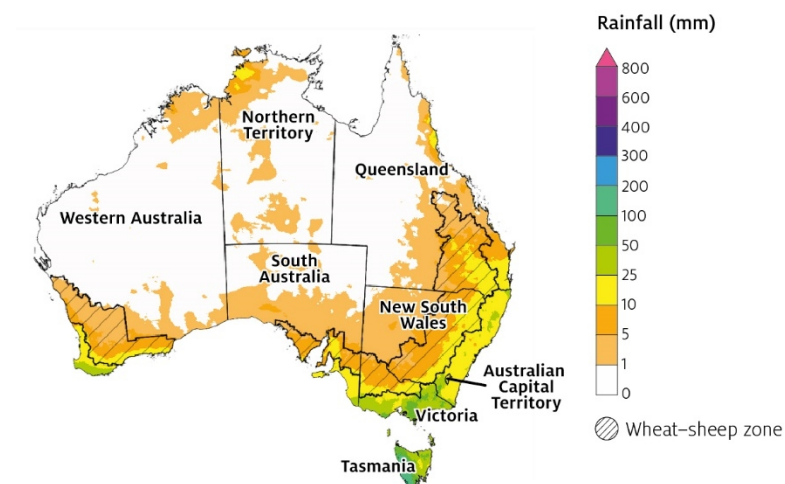
In October 2019 cropping regions in eastern New South Wales, southern Victoria, south-eastern Queensland, far southern Western Australia and central South Australia have a 75% chance of receiving rainfall of between 10 and 25mm.

Between October and December 2019 cropping regions in eastern New South Wales and much of Queensland have a 75% chance of

receiving rainfall of between 50 and 100mm. Smaller areas may receive up to 200mm. Cropping regions in western New South Wales, much of Victoria, far northern and south-western Queensland, southern Western Australia and eastern South Australia are also likely to receive rainfall of between 25 and 50mm. Cropping regions in northern Western Australia and western South Australia also have a 75% chance of receiving between 10 and 25mm.

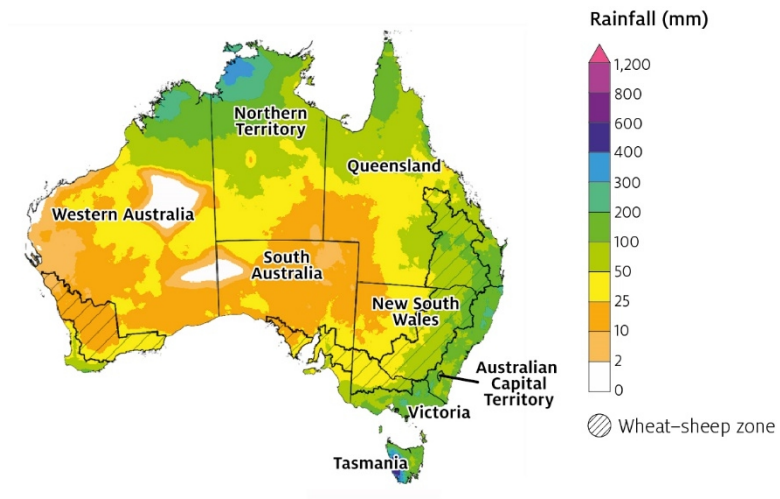
Prospects are poor for areas with low soil moisture for this time of year. For these regions, the forecast low 3-month rainfall totals are unlikely to be sufficient to sustain current levels of crop and pasture production, particularly as temperatures and evapotranspiration begin to increase in spring.

Rainfall totals with a 75% chance of occurring, Australia, October 2019



Source: Bureau of Meteorology

Rainfall totals with a 75% chance of occurring, Australia, October to December 2019



Source: Bureau of Meteorology

Wheat

Amelia Brown



Wheat

Wheat prices to average lower due to increased global production.

World wheat prices forecast to be lower on average

The world wheat indicator price (US no. 2 hard red winter, fob Gulf) is forecast to average 6% lower in 2019-20 at US\$218 per tonne. Forecast higher production in major exporting and importing countries will increase the supply of wheat on world markets.

World production to reach record high

World wheat production is forecast to reach a record 766 million tonnes. This is despite hot and dry June conditions lowering yield potential for some major northern hemisphere producers. Increased production is forecast in Argentina, Australia, Canada, northern Europe, the Black Sea region and the United States.

Australian wheat production mixed in 2019-20

Despite mixed seasonal conditions, Australian wheat production is forecast to increase by 10% (to 19 million tonnes) from the drought-affected levels in 2018-19. Drought conditions have persisted in central and northern New South Wales and southern Queensland. In contrast, conditions in central Queensland, southern New South Wales, Victoria and parts of South Australia have improved from those in 2018-19. However, the outlook for below average spring rainfall may

reduce yield potential in these regions. The spring outlook for Western Australia is more positive, and although not expected to match 2018-19, yields are forecast to be close to the 10 year average.

Forecast change in world wheat production, 2019-20



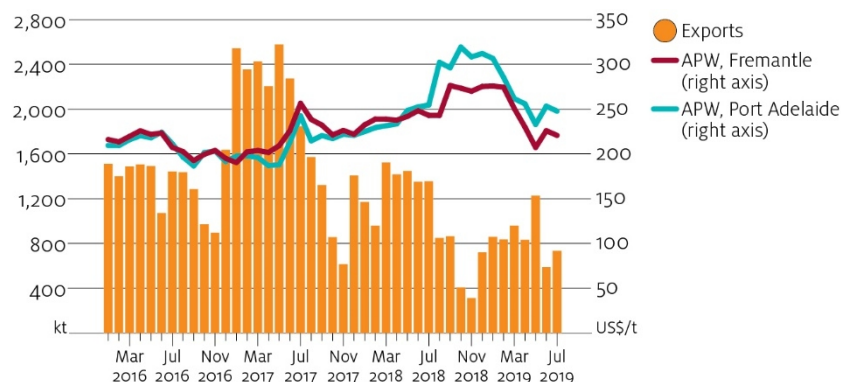
Australian export value and volume to increase

Australian wheat exports in 2018-19 were 46% below the 10-year average, at around 9.8 million tonnes. Wheat exports have been diverted from the world market as increased domestic feed demand and lower supply resulted in high domestic prices. In 2019-20 wheat exports are forecast to increase as a result of increased production and lower domestic demand following an easing in drought conditions in some regions.

Continued growth in world food, feed and industrial consumption is expected to support demand for Australia's exports. However,

increased supply from all major exporters will add to downward pressure on prices.

Australian wheat exports and prices, January 2016 to July 2019



Sources: ABARES; Australian Bureau of Statistics

Opportunities and challenges

Lower production limiting Australian feed grain supplies

Domestic feed grain prices have been high due to poor seasonal conditions in Australia's eastern states. Dry conditions have limited grain production and pasture availability since 2017–18 and increased demand for livestock feed. As a result, wheat usually exported to global markets has been shipped from Western Australia and South Australia to Australia's eastern states.

These shipments are likely to continue in 2019–20 as drought conditions persist in northern New South Wales and Southern Queensland, where the majority of intensive livestock industries are located. Shipments are likely to be less than 2018–19 as conditions have improved in central Queensland, southern New South Wales and Victoria.

Feeding grain to livestock has remained profitable despite high grain prices due to high prices for beef cattle, sheep and wool. The number of animals in feedlots and fed on-farm has increased to record levels since the second half of 2017–18, when poor seasonal conditions started to affect pasture availability.

Australian wheat imports

For the first time since the 2006–07 drought, Australia has issued [bulk grain import permits](#). At 30 August 2019, 6 permits to import around 360,000 tonnes of high-protein Canadian milling wheat have been issued. In a normal season, importing grain from Canada would not be economically viable. These imports reflect a significant fall in supplies of high-protein milling wheat following consecutive years of low production in eastern Australia. Most of this wheat is expected to be re-exported as value-added products such as starch, gluten and syrups.

Australia is assessing 14 other applications for the importation of canola, corn, wheat and grain sorghum from the USA and Canada. Permits will only be issued if rigorous biosecurity protocols can be met.

Australian exports facing intense competition

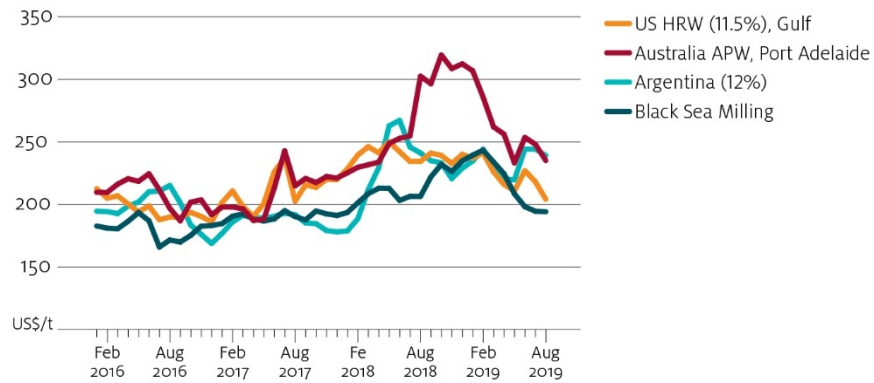
Black Sea wheat has displaced Australian wheat in price-conscious Asian markets, but Australia is likely to regain market share when production and exports return to more average levels. Reports of a 10% increase in the availability of high-protein grain from the Russian Federation will add to the short-term pressure on Australia's exports.

Argentina is forecast to produce a second consecutive record wheat crop in 2019–20 of around 21 million tonnes. A depreciation of the

Argentine peso will add to the competitiveness of Argentina's exports, but this may be undermined by an increase in wheat export taxes.

An increase in Australian production is expected to lead to a fall in domestic prices. This combined with a forecast depreciation of the Australian dollar will boost Australia's competitiveness.

Wheat monthly export prices, January 2016 to August 2019



Source: International Grains Council



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Outlook for wheat

Category	unit	2017–18	2018–19 s	2019-20 f	% change
World					
Production	Mt	761	732	766	4.7
Black Sea region a	Mt	127	111	115	4.0
China	Mt	134	131	132	0.4
European Union	Mt	151	138	150	8.8
India	Mt	98.5	99.8	101	1.4
United States	Mt	47.4	51.3	53.9	5.1
Consumption	Mt	738	738	753	2.0
human	Mt	513	518	526	1.5
feed	Mt	143	140	150	7.4
Closing stocks	Mt	269	264	274	3.7
Stocks-to-use ratio	%	36.4	35.8	36.3	1.6
Trade	Mt	179	167	178	6.7
Exports b					
Argentina	Mt	12.8	13.2	14.5	9.9
Australia c	Mt	15.5	9.8	10.9	10.8
Black Sea region a	Mt	67.8	60.5	59.9	-1.0
Kazakhstan	Mt	8.7	8.6	7.2	-15.5
Russian Federation	Mt	41.6	35.7	33.6	-6.0
Ukraine	Mt	17.4	16.3	19.1	17.6
Canada	Mt	22.1	22.8	23.1	1.3
European Union	Mt	23.4	24.6	26.0	5.9
United States	Mt	24.5	25.5	26.5	4.2
Price d	US\$/t	229	233	218	-6.3
Australia					
Area	'000 ha	10,919	10,159	10,770	6.0
Production	kt	20,941	17,298	19,102	10.4
Domestic Use	kt	8,685	9,153	8,845	-3.4
Exports c	kt	15,492	9,807	10,871	10.8
value	A\$m	4,672	3,676	3,819	3.9
Closing stocks	kt	4,448	3,881	2,984	-23.1
Price e	A\$/t	297	395	340	-13.9

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. **e** Australian premium white no. 1 wheat, fob Adelaide, July–June. **f** ABARES forecast. **s** ABARES estimate.

Sources: ABARES; ABS; IGC; USDA

Coarse grains

Benjamin K Agbenyegah



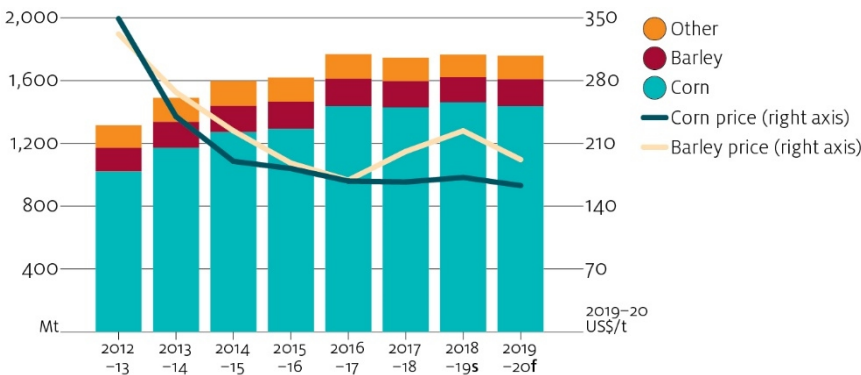
Coarse grains

Barley prices to fall due to rising global production.

Supply to reduce world coarse grain prices in 2019–20

World coarse grain prices are forecast to average lower in 2019–20. This is because of a large carry-over of corn stocks and an expected increase in barley production in Australia, Canada and the European Union. Despite a significant fall in US corn production, world supply of coarse grain is expected to remain high. Substitution between corn and wheat is also expected to put downward pressure on corn prices.

World coarse grain supply and prices, 2012–13 to 2019–20



f ABARES forecast. s ABARES estimate.

Note: Other includes oats, grain sorghum, triticale, rye and mixed grain.

Barley to drive world production growth in 2019–20

World coarse grain production is forecast to rise, as increases in barley production more than offset falls in corn production. Following dry conditions in 2018–19, a forecast return to average seasonal conditions in Canada and the European Union is expected to increase barley area and improve yields.

World corn production is forecast to fall due to declines in China and the United States. This is a significant downward revision of the [Agricultural commodities: June quarter 2019](#) forecast. The decline in China reflects a fall in support payments for corn planting in favour of soybeans, and lower yields. Outbreaks of the fall armyworm in China may also affect crops, posing a downside risk to the production forecast. The decline in corn production in the United States is a result of lower yields, following wet and cool weather in some of the major corn-growing regions.

Fall in corn feed to constrain world consumption growth

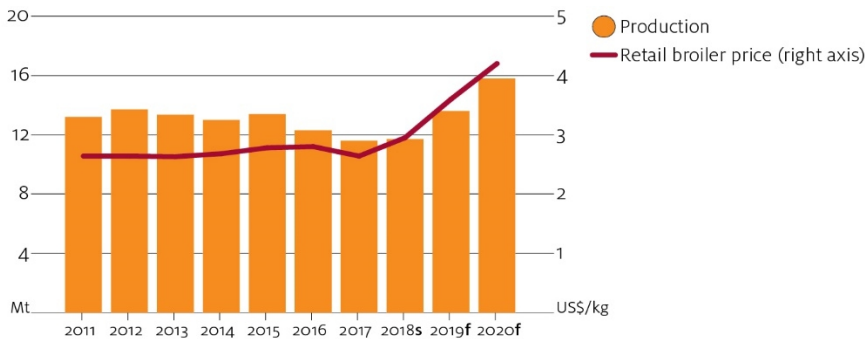
World coarse grain consumption is forecast to rise marginally in 2019–20. Growth in world coarse grain consumption is expected to be constrained by falling demand for corn in China and the European Union. The industrial use of corn is likely to rise in Argentina, Brazil, China and the United States. However, this is forecast to be largely offset by a fall in use of corn for feed. EU barley consumption is expected to return to the long term average as prices ease with increased barley production.

Chinese demand for livestock feed is forecast to fall. This is due to a significant reduction in pig numbers following the [outbreaks of African](#)

[swine fever](#). This will reduce Chinese import demand and put downward pressure on world grain prices.

The fall in livestock feed demand is likely to be partially offset by rising demand for poultry feed due to increased poultry production. Since the start of the outbreak in August 2018 pork prices have risen significantly, encouraging consumers to shift to alternatives such as poultry and beef. Chinese poultry producers have responded to rising domestic prices by increasing production.

Chicken meat production and prices, China, 2011 to 2020



^f ABARES forecast. ^s ABARES estimate.
Sources: ABARES; USDA-FAS

In Argentina, Brazil and the United States, increases in the industrial use of corn have been driven by growing demand for high fructose corn syrup and by ethanol blending mandates.

A forecast increase in EU barley production is expected to result in lower prices and lead to a rise in barley feed use in 2019–20. This followed a fall in 2018–19 when relatively cheaper corn was substituted for barley.

Australian production to increase in 2019–20

Australian coarse grain production is forecast to rise in 2019–20 and be around 5% above the 10-year average to 2018–19. This relatively high level of forecast production is driven by an increase in the area planted to barley nationally and good yield prospects in New South Wales, Victoria and South Australia. Relatively high prices and barley's ability to perform better in dry conditions encouraged an increase in area planted.

Grain sorghum production is forecast to fall to 992,000 tonnes in 2019–20, 41% lower than the 10-year average to 2018–19. Hot and dry winter weather in major grain sorghum-growing regions of New South Wales and Queensland reduced soil moisture to below average levels. According to the Bureau of Meteorology's August 2019 forecast, this weather pattern is expected to continue during spring. This will limit any recovery in soil moisture levels and reduce grain sorghum planting.

Despite strong domestic demand for feed grain, Australian coarse grain exports are forecast to rise to 7 million tonnes in 2019–20. A forecast increase in grain production is expected to reduce the feed grain deficit in the eastern states and allow an increase in exports.

Opportunities and challenges

Seasonal conditions in the United States and world corn exports

The United States accounted for around 37% of annual global corn exports in the 10 years to 2018–19. A continuation of wet and cool weather will negatively affect US crop development and reduce yields, providing an upside risk to the price forecast. Poor seasonal conditions in 2012–13 resulted in a reduction in US exports of around 53% and world prices rose by 11%.

Fall armyworm outbreaks in China threaten corn production

Recent outbreaks of the invasive fall armyworm in Africa and southern Asia have devastated crops and reduced corn yields by up to 50%. In China, the pest has been detected in 19 of the country's 34 provinces and is continuing to spread north. This poses a further downside risk to the corn production forecast and would put upward pressure on prices.

Biofuel policies in China

The forecast rise in industrial use of corn in China depends on the implementation of biofuel policies in 2020. These policies require a significant rise in the domestic use of ethanol, which will increase world corn prices. However, increased ethanol production in China requires investment in additional ethanol production plants. The government recently commissioned the construction of several production plants but it is unclear how quickly domestic ethanol production can increase. This is likely to limit further growth in Chinese corn consumption in the short-term.



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Outlook for coarse grains

Category	unit	2017–18	2018–19 s	2019–20 f	% change
World					
Production	Mt	1,356	1,396	1,402	0.4
barley	Mt	142	140	153	9.7
corn	Mt	1,078	1,123	1,109	-1.3
Consumption	Mt	1,374	1,397	1,415	1.3
Trade	Mt	186	208	205	-1.4
Closing stocks	Mt	370	355	339	-4.3
Stocks-to-use ratio	%	26.9	25.4	24.0	-
Corn price a	US\$/t	160	168	163	-3.3
Barley price b	US\$/t	192	220	192	-12.7
Australia					
Area	'000 ha	5,569	5,017	5,377	7.2
barley	'000 ha	4,124	3,719	4,125	10.9
grain sorghum	'000 ha	462	496	391	-21.2
Production	kt	12,210	10,957	12,138	10.8
barley	kt	9,254	8,310	9,479	14.1
grain sorghum	kt	1,255	1,278	992	-22.4
Exports	kt	8,824	5,234	7,017	34.1
value	A\$m	2,577	2,070	2,387	15.3
closing stocks	kt	1,500	406	305	-24.9
Feed barley price c	A\$/t	253	382	349	-8.7
Malting barley price d	A\$/t	262	383	364	-5.0

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

Sources: ABARES; ABS; IGC; ITC Trade Map; UN Comtrade; USDA

Oilseeds

Nathan Pitts



© Canada canola, fob Vancouver

Oilseeds

Oilseed prices to fall, reflecting constrained Chinese demand and high North American stocks.

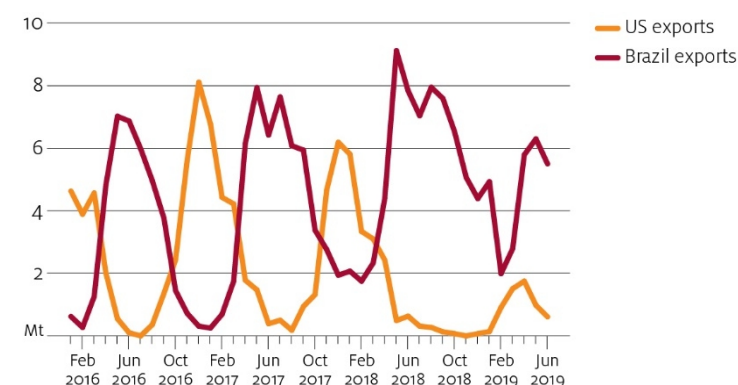
African swine fever to constrain oilseed prices

World oilseed prices are forecast to remain low in 2019–20. This is because feed consumption in the Chinese pig industry will be constrained following the outbreak of African swine fever in China. Chinese soybean imports generally account for over half of the global oilseed trade. This is largely due to feed demand in domestic pig and poultry industries.

There is considerable uncertainty surrounding Chinese tariffs on US soybeans, and ABARES has assumed these will continue throughout 2019–20. However, the price premium on South American soybeans relative to US soybeans is expected to be much lower than it was in 2018–19. This is primarily because Chinese demand has fallen significantly following the domestic outbreak of African swine fever.

Prices for South American and US soybeans were comparable between July 2019 and early September 2019, when South American exports are typically highest. South American prices may again rise above US prices when South American exports decline seasonally later in 2019. When this occurs, Chinese importers will have fewer alternatives to tariff-affected US soybeans.

Exports to China, January 2016 to June 2019



Sources: International Grains Council; ITC Trademap

World canola prices in 2019–20 are expected to fall due to substitution effects arising from trade restrictions on soybean imports in China and a subsequent fall in soybean prices. This has led to substitution away from canola to soybeans in major importing markets such as the European Union.

Canadian canola prices (including ABARES indicator price) have fallen as a result of the Chinese Government's decision in March 2019 to impose restrictions on imports of Canadian canola. There is significant uncertainty surrounding the duration of China's restrictions on Canadian canola, and ABARES has assumed these will continue throughout 2019–20. As a result, Canadian canola prices are forecast to fall by more than Australian canola prices.

Poor US planting conditions to reduce global production

In 2019–20 lower US soybean production is forecast to drive down global oilseed production from record highs. In the United States, area planted to soybeans is forecast to fall due to low expected returns and

unfavourably wet planting conditions across the Midwest. Conversely, South American production is forecast to remain historically high as producers respond to strong Chinese demand.

World canola production is forecast to fall due to lower production in Canada and the European Union. In Canada, area planted to canola is [forecast to fall](#) in response to lower expected returns. EU production is forecast to fall due to unfavourable planting conditions.

Canadian and US oilseed stocks are estimated to have increased significantly in 2018–19 due to low exports to China. Stocks are unlikely to return to more average levels in 2019–20 despite forecast reductions in North American production. This is likely to keep oilseed prices low.

Australian production to remain low

In 2019–20 Australian canola production is forecast to increase by 6% from low production volumes in 2018–19. Despite the increase, this production forecast is the second lowest since 2010–11.

Canola exports are forecast to increase marginally. Some shipments are likely to be diverted from the European Union to China due to Chinese trade restrictions on Canadian canola.

Opportunities and challenges

African swine fever driving uncertainty in global oilseed demand

Feed consumption in the Chinese pig industry is a major determinant of global oilseed demand. The effect of African swine fever on the global oilseeds sector was evident in 2018–19, when lower Chinese feed demand significantly reduced global oilseed prices. The implications of African swine fever for oilseeds markets is potentially significant but uncertain, making the outlook for the global oilseeds

sector difficult to predict. For comprehensive ABARES analysis on how African swine fever could affect Australian agriculture, see the article on [African swine fever](#).

Australian GM-free exports to face stronger competition

Between 2015–16 and 2017–18, 88% of Australia's mostly GM-free canola exports were sent to the European Union. These exports have attracted a slight price premium because EU consumers have historically preferred GM-free canola. However, in 2018–19 the European Union began substituting towards low-cost, predominantly GM soybeans from the United States.

In 2019–20 Australian canola is likely to face strong price competition in the EU market from GM oilseeds, particularly US soybeans and Canadian canola. This is likely to reduce Australian canola exports to the European Union and erode the premium for GM-free canola that Australia has previously received.

South Australian canola to become more competitive

In August 2019 the SA Government [removed restrictions on the cultivation and transport of GM crops](#). A review by Professor Kym Anderson found the price premium received for GM-free canola arose from careful crop segregation rather than from the moratorium. From 2020 farmers in South Australia will have the opportunity to use GM crops to increase their international competitiveness. This leaves Tasmania as the only state with restrictions on the cultivation of all GM crops.

US production down

In 2017–18 US soybean production accounted for 20% of global oilseed production and 32% of global oilseed exports. This means

US production can significantly influence the price of all oilseeds in world markets.

In 2019–20 US soybean production is forecast to fall due to unfavourable planting conditions across large areas of the Midwest. In August 2019 the [US Department of Agriculture announced](#) that producers were not able to plant a record 19.4 million acres during 2019. This primarily affected corn, soybean and wheat plantings. Further downward revisions to US production or yields present upside risks to global oilseed prices.



Australian Government
Department of Agriculture
ABARES

Outlook for oilseeds

Category	unit	2017–18	2018–19 <i>s</i>	2019-20 <i>f</i>	% <i>change</i>
World					
Production	Mt	575	588	573	– 2.5
Consumption	Mt	565	578	585	1.1
oilseed meal	Mt	333	332	336	1.0
vegetable oil	Mt	189	197	202	2.7
Exports	Mt	180	170	170	– 0.2
Closing stocks	Mt	117	109	105	– 3.6
Stocks-to-use ratio	%	20.7	18.8	17.9	–
Soybean indicator price <i>a</i>	US\$/t	385	337	325	– 3.5
Canola indicator price <i>b</i>	US\$/t	433	389	360	– 7.4
Australia					
Total production	kt	5,488	2,950	2,811	– 4.7
winter	kt	3,898	2,182	2,308	5.8
summer	kt	1,590	769	503	– 34.6
Canola					
Production	kt	3,893	2,180	2,304	5.7
Exports	kt	2,336	1,570	1,611	2.6
value	A\$m	1,532	953	1,028	7.9
Price <i>c</i>	A\$/t	524	591	580	– 1.9

a US no. 2 soybeans, fob Gulf. *b* Canola, Canada, fob Vancouver. *c* Delivered Melbourne. *f* ABARES forecast.

s ABARES estimate.

Sources: ABARES; ABS; IGC; USDA

Natural fibres

Chris Mornement

↓16%
to USc 71/lb^e
in 2019–20



^e Cotlook 'A' index.

Cotton

Cotton prices to fall due to increased global production and high stock levels.

↓26%
to 1,435 Ac/kg^f
in 2019–20



^f Eastern Market Indicator price, clean equivalent.

Wool

Wool prices to fall due to uncertain global demand and increased superfine wool production.

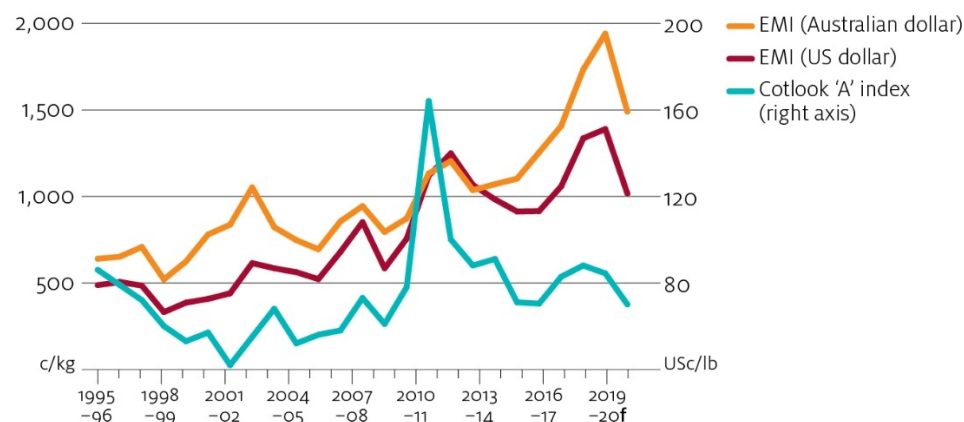
Uncertain textile market to pull fibre prices down

Price forecasts for cotton and wool have been revised down since the [Agricultural commodities: June quarter](#) as a result of competition with substitute fibres and elevated uncertainty in textile demand. China-US trade tensions have negatively affected the prices of all textile fibres, driven by new tariffs on China's garment and textile exports. Textiles are primarily traded in US dollars, so devaluation of the yuan against the US dollar is expected to put downward pressure on prices.

The Cotlook 'A' index averaged US84.4 cents per pound in 2018–19. Increased world production is forecast to exceed growth in global consumption of raw cotton in 2019–20. This will increase stocks and put downward pressure on world cotton prices.

The Eastern Market Indicator (EMI) price for wool is a weighted average price across different wool types. In 2018–19 the EMI averaged 1,939 cents per kilogram. In 2019–20 the EMI is forecast to average 1,435 cents per kilogram, mainly due to reduced and uncertain demand in world markets.

Eastern Market Indicator, Cotlook 'A' index, 1995–96 to 2019–20



^f ABARES forecast.

Wool prices to fall in 2019–20

Wool auctions throughout August 2019 saw the EMI decline by 22%, bringing it down 35% from record highs seen 12 months prior. Additionally, high pass-in rates came at a time in the season when demand is typically strong following a 4-week hiatus. Micron price premiums for superfine wool have fallen since late 2018. This is due to an increased supply of superfine wool following the prolonged drought in Australia's eastern states. While wool production is down as a result of lower sheep numbers, demand-side factors are driving falling wool prices across the whole micron range.

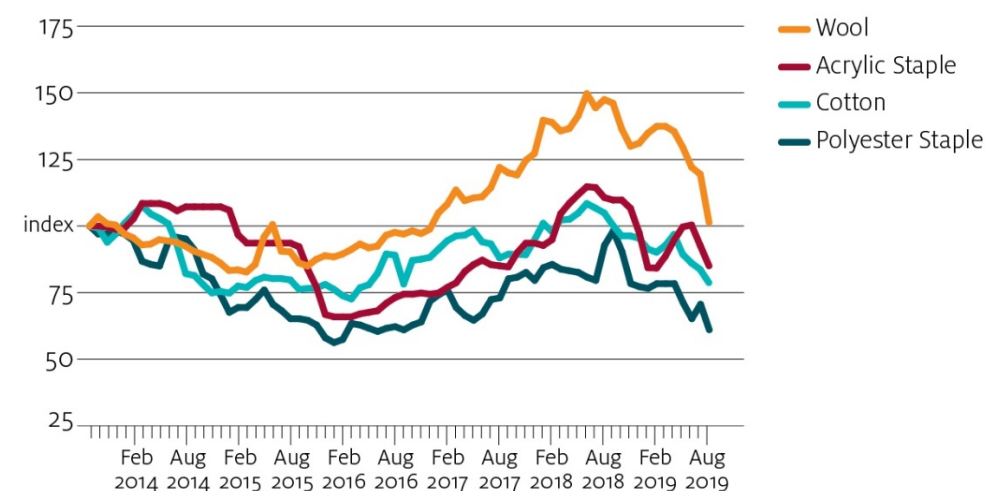
The China–US trade tensions provide an incentive for Chinese textile manufacturers to delay wool purchases. A prolonged run of historically high prices may encourage textile manufacturers to substitute towards lower-cost fibres. In real terms, the EMI is still above the long term average. However, ongoing trade uncertainty and competition from alternative fibres is expected to force wool closer to parity with other fibres in US dollar terms.

Eastern Market Indicator, Cotlook 'A' index, monthly average in real terms, August 1995 to August 2019



Sources: Australian Wool Exchange; Cotton Outlook

Price indexes of substitute fibres, September 2013 to August 2019



Note: September 2013 = 100. Eastern Market Indicator (wool), Cotlook 'A' Index (cotton), Acrylic Staple (North Asian acrylic staple fibre, 1.5 denier) and Polyester Staple (China polyester staple fibre, 1.4 denier, 38mm).

Sources: Australian Wool Exchange; Cotton Outlook; Fibre2Fashion

Australian wool production to continue to fall

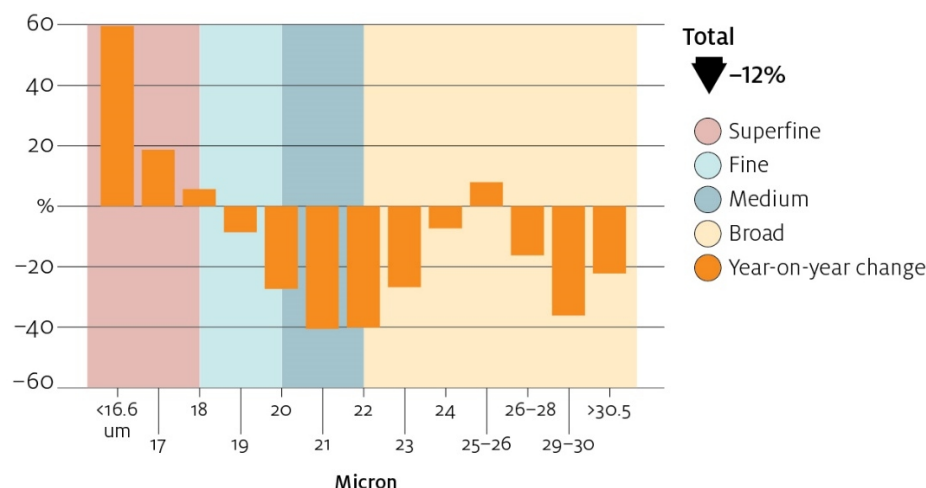
Australian wool production and exports are estimated to have fallen in 2018–19. Continuing dry seasonal conditions across most wool-growing regions have reduced the number of sheep shorn nationally and the average wool cut per head. In 2019–20 total wool production and the number of sheep shorn are forecast to decrease further due to a [sharp decline in the sheep flock](#). Shorn wool production is forecast to decline by 5% to 286 million kilograms greasy, consistent with the estimates of the Australian Wool Production Forecasting Committee.

Dry conditions increase superfine wool supply

The fall in total wool production in 2018–19 is not expected to continue across all wool types in 2019–20. Of the wool tested in 2018–

19, the supply of fine and medium wools (18.6 to 22.5 microns) fell by 24.5% year-on-year. Dry seasonal conditions have pushed the average micron of the Australian wool clip lower. This has resulted in greater supplies of lower-quality superfine wools (18.5 microns or less) coming onto the market. This combination of higher quantity and lower quality has put downward pressure on premiums for finer-grade wool.

Change in AWTA testing volume, Australia, July 2018 to June 2019



Note: Percentage change in volumes tested by Australian Wool Testing Authority are relative to 2017–18.

Sources: Australian Wool Production Forecasting Committee; Australian Wool Testing Authority

World cotton production to exceed consumption

In 2019–20 world cotton production is expected to rise due to increases in planted area in the United States, India and Pakistan. This

follows falling production in 2018–19, mainly due to declines in China, India, Pakistan and the United States.

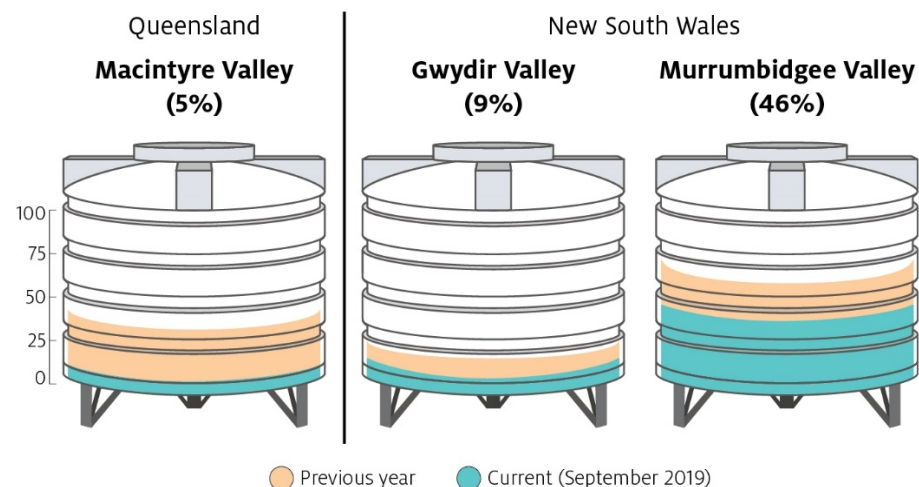
World cotton consumption is expected to fall short of production in 2019–20. China's cotton reserves are expected to reduce to support domestic consumption, but world (excluding China) stocks are expected to grow as a result of increased production and reduced import demand from China for US cotton.

Australian cotton production to fall

Australian cotton production is forecast to fall further in 2019–20 after a significant decline in 2018–19. Irrigated planting prospects are unfavourable in several of the major cotton-growing regions due to low dam storage and soil moisture levels. These factors are expected to limit Australian cotton planting this season.

Dam storage is down on average by 21% in NSW cotton-growing regions and by 25% in Queensland cotton-growing regions. According to the Bureau of Meteorology outlook, spring rainfall is unlikely to be sufficient to recharge dam levels or restore soil moisture. Unless significant rainfall arrives before the planting window, Australian cotton production may barely reach 1.1 million bales—the lowest level in over a decade.

Storage levels for key cotton-growing regions, New South Wales and Queensland, September 2018 to September 2019



Note: Percentages are current storage levels for the [rural systems](#) as found on the Bureau of Meteorology Water Information Dashboard on 8th September 2019. The axis to the left of the chart provides a storage level guide from 0 to 100% storage capacity for each region.

Source: Bureau of Meteorology

Opportunities and challenges

Uncertainty in global textile trade

The United States is a major importer of textiles and clothing processed in China. The China–US trade tensions have negatively affected world textile fibre prices and trade outcomes. Uncertainty surrounds the implications of any escalation in trade tensions.

New tariffs proposed but not yet implemented by the United States on textile or garment imports from China present a downside risk to demand for Australian natural fibre exports. A decline in Chinese demand for natural fibres has significant implications for the

Australian wool industry, which primarily depends on China for exports of unprocessed wool. The depreciation of the Australian dollar is expected to support the competitiveness of Australian natural fibre exports and farmgate returns.

The ongoing China–US tensions provide an opportunity for Australian cotton exports. Tariff retaliation by China is forecast to reduce the volume of cotton imported from the United States. In a season where the United States is on track to produce a large crop, lower export demand is expected to dampen prices for US cotton. Other cotton exporters such as Brazil, India and Australia will have the opportunity to gain a share of the Chinese market at a premium compared with other importing nations that may opportunistically buy lower-priced US cotton.

The effect of trade tensions on Chinese consumers, who represent a substantial and rapidly growing final market for apparel, is unclear. Consumer confidence and to a lesser degree garment sales declined in China between February and August 2018 but have since recovered and strengthened. Given the assumed [growth in global incomes](#) and consumption of textiles in the medium term, Chinese demand for textiles and clothing may not weaken if trade tensions continue.



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Outlook for natural fibres

Category	unit	2017–18	2018–19 s	2019–20 f	% change
Cotton					
World a					
Production	Mt	27.0	25.8	27.2	5.0
Consumption	Mt	26.7	26.7	26.8	0
Exports	Mt	8.9	9.2	9.4	3.0
Closing stocks	Mt	17.7	16.6	17.1	3.0
Cotlook 'A' index	USc/lb	88.0	84.4	71.0	-16.0
Australia b					
Area harvested	'000 ha	526	343	145	-58.0
Production	kt	1,058	485	294	-39.0
Exports	kt	872	894	397	-56.0
value	A\$m	2,132	2,550	906	-64.0
Gin-gate returns c	A\$/bale	600	642	572	-11.0
Wool					
Australia b					
Sheep shorn	million	76.8	72.5	68.2	-6.0
Wool production d	kt	422	379	355	-6.0
Exports					
Volume	kt (gr. eq.)	452	394	369	-6.0
value	A\$m	4,380	4,159	2,882	-31.0
Eastern Market Indicator e	Ac/kg	1,732	1,939	1,435	-26.0

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 Clean equivalent.

f ABARES forecast. s ABARES estimate.

Sources: ABARES; ABS; AWEX; Cotton Australia; Cotton Outlook; USDA

Sugar

Charley Xia



^d Intercontinental Exchange, nearby futures, no. 11 contract (October to September).

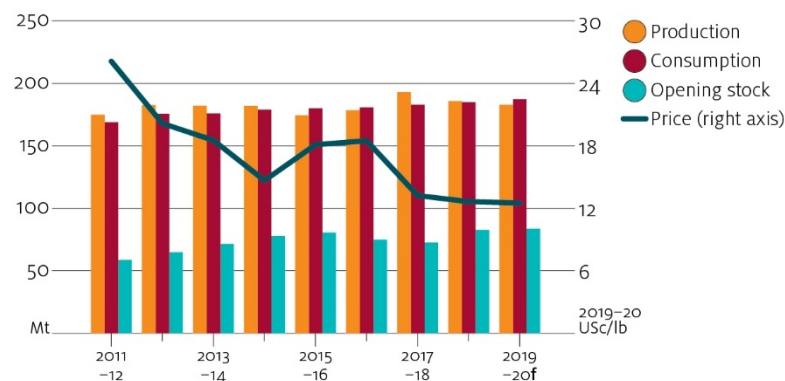
Sugar

Sugar prices to remain low due to record carryover stocks.

World sugar prices to rise marginally in 2019–20

The world indicator price for raw sugar (Intercontinental Exchange, nearby futures, no. 11 contract) is forecast to rise by 1% to US\$12.5 cents per pound in 2019–20. World consumption is forecast to exceed production for the first time in 2 years, placing some upward pressure on prices. However, high carry-over stocks will provide a substantial buffer against any substantial rise in prices.

World sugar balances, 2011–12 to 2019–20



^f ABARES forecast.

Note: October to September year. Volumes are in raw equivalent.

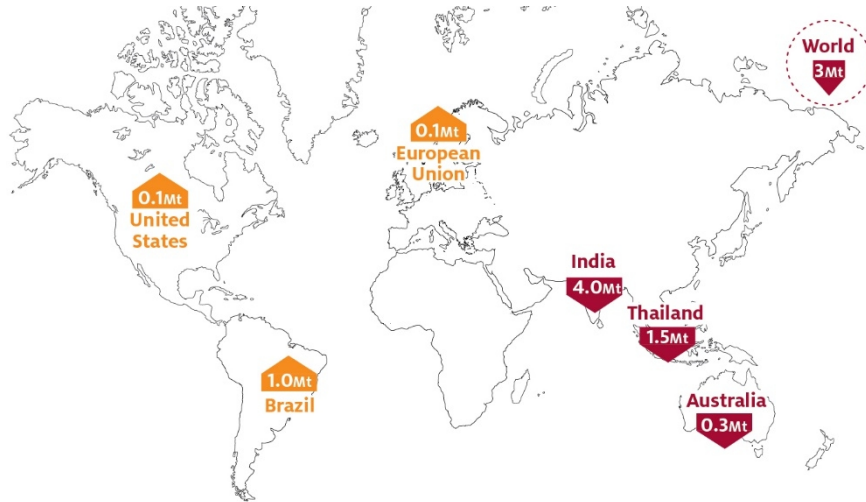
World production is forecast to fall in 2019–20 because production decreases in Australia, India and Thailand are expected to more than offset increases in Brazil. Mills in India and Thailand are under significant pressure to export record carry-over stocks to accommodate forthcoming production and pay farmers. This is expected to cause strong price competition in import markets.

In 2019–20 Brazil's sugar production is forecast to increase from 5-year lows. Brazilian mills have focused on ethanol production in 2019 but are expected to reduce their allocation of cane to ethanol production in 2020. Returns to ethanol are forecast to fall because a depreciating Brazilian real will improve returns to sugar exports and falling oil prices will reduce demand for ethanol. The introduction of a carbon market in Brazil in 2020 is expected to limit falls in demand for ethanol.

India's sugar production is expected to fall significantly in 2019–20. This follows a fall in the area planted to cane in 2018 as a result of below average seasonal conditions during last year's planting season. The current monsoon season has also caused significant flooding to growing regions in Maharashtra, the second largest cane-producing state in India.

In Thailand, the rising prices of corn, cassava and rice relative to sugar cane are estimated to have reduced the area planted. EU beet production is forecast to rise marginally from the low drought-affected levels in 2018. In Australia, below average seasonal conditions are estimated to have reduced cane yields for the 2019 crushing season.

Forecast changes in sugar production, major producing countries, 2019–20



Note: October to September year. Volumes are in raw equivalent.

Lower Australian dollar to support export returns

In 2019–20 the Australian dollar is forecast to depreciate more against the US dollar relative to the currencies of competitors including Brazil, India and Thailand. This is expected to improve Australia's competitiveness in Asian import markets.

A greater proportion of Australia's reduced 2019 crush of raw sugar is expected to be stored and sold later through futures contracts. The price of March 2020 contracts traded at a \$30 per tonne premium compared to October 2019 contracts in early September 2019.

Opportunities and challenges

Record carry-over stocks in India and Thailand

Less than expected falls in production in India and Thailand in 2019–20 risks increasing the pressure on sugar mills to offload record carry-over stocks. Carry-over stocks in both countries are estimated at 22 million tonnes. This represents around 35% of annual world trade and is equivalent to Brazil's average annual exports over the last 3 years. The export of carry-over stocks presents a significant downside risk to forecasts of moderate price rises.

WTO investigation into Indian Government subsidies

Australia's sugar industry has been concerned about India's long-running sugar subsidies for many years, and considers that these subsidies have contributed to a glut in the global sugar market and driven prices lower, negatively affecting Australia's sugar industry.

Australia considers India is in breach of its World Trade Organization (WTO) obligations in providing these subsidies. At Australia's request, the WTO Dispute Settlement Body established a panel on 15 August 2019 to hear the dispute. Disputes against India's sugar subsidies have also been taken by Brazil and Guatemala and dispute panels were established at the same time.

In India, millers are under pressure to reduce inventories and pay the agreed share of their government subsidies to cane farmers. The total mill arrears payable to farmers remains at record levels. However, a range of further Indian Government bailouts has resulted in some millers holding out strategically to minimise losses. Bailouts include increases to domestic sugar prices, ethanol mandates, government purchases, export subsidies and provision of soft loans.

Government subsidies supporting the Indian sugar industry reduce market competition and incentives to innovate. Impediments to resource reallocation and entrepreneurship are expected to constrain long-term productivity growth in the Indian sugar industry.

Consumption growth constrained by health awareness and sugar taxes

World sugar consumption is forecast to increase by 1% in 2019–20. However, world demand growth is being constrained by health concerns, sugar taxes and a substitution towards alternative sweeteners.

In the past 2 years, sugar taxes have been legislated in India, Ireland, the Philippines, Portugal, Saudi Arabia, South Africa, Sri Lanka, Thailand, the United Arab Emirates and the United Kingdom. Malaysia is the latest country to introduce a tax on sugar-sweetened beverages. The introduction of sugar taxes globally is expected to further constrain demand growth and provide an incentive for food and beverage industries to reduce sugar content and diversify products.

Investments in the Brazilian sugar industry

The RenovaBio program is attracting global investments in the Brazilian sugar industry. Brazil already has 339 sugar mills capable of processing 763 million tonnes of cane per year. These investments are expected to further increase the productivity and capacity of sugar milling for sugar and ethanol production in Brazil over the next decade. This will place further downward pressure on prices in the medium term.



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Outlook for sugar ^a

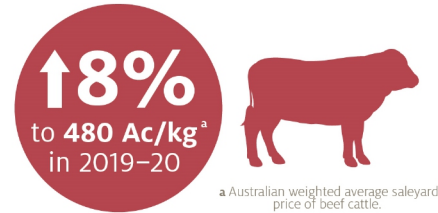
Category	unit	2017–18	2018–19 ^s	2019-20 ^f	% change
World ^b					
Production	Mt	193	186	183	– 1.5
Brazil	Mt	31.2	30.0	31.0	3.3
Consumption	Mt	183	185	187	1.3
Exports	Mt	63.0	65.3	66.7	2.1
Closing stocks	Mt	82.5	83.5	79.1	– 5.3
Stocks-to-use ratio	%	45.1	45.2	42.3	–
Price	USc/lb	12.7	12.4	12.5	1.2
Australia ^c					
Area	'000 ha	389	380	375	– 1.3
Production	kt	4,481	4,725	4,450	– 5.8
Exports	kt	4,032	4,217	3,654	– 13.3
value	A\$m	1,536	1,680	1,533	– 8.8
Returns to canegrowers	A\$/t	39.4	35.1	36.9	4.9

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

Sources: ABARES; ABS; ASMC; F.O. Licht; International Sugar Organization; USDA

Beef and veal

Tim Whitnall



Beef and veal

Australian cattle prices to rise due to higher global demand for beef and reduced supply of cattle in saleyards.

Saleyard prices to rise, slaughter to fall

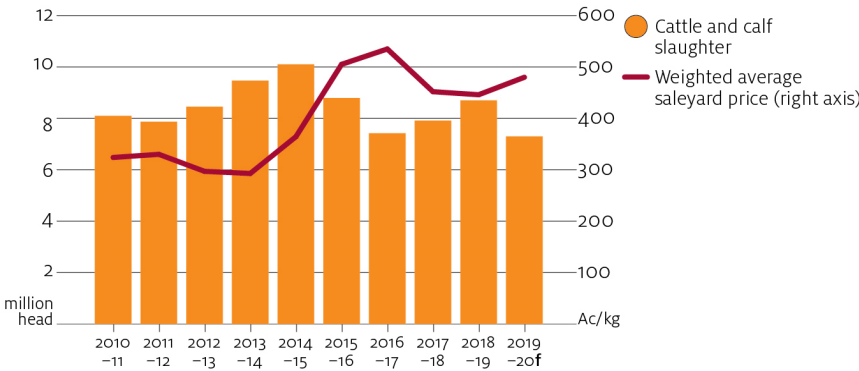
The weighted average saleyard price for cattle is forecast to rise by 8% in 2019–20, reflecting strong demand for beef in global markets and lower supply of cattle in saleyards. This is an upward revision of the [Agricultural commodities: June quarter](#) forecast. It reflects an expected rise in Chinese demand for beef following the outbreak of African swine fever (ASF).

Assuming average seasonal conditions over the northern wet season, slaughter rates are expected to fall because producers are likely to reduce turn-off and commence herd rebuilding. Forecast lower slaughter in 2019–20 will result in lower production and exports of beef. Australian exports of beef to Japan, Korea and the United States are all forecast to fall. Australian beef in these markets faces increasing competition from higher US beef production and resulting exports. Australian exports to China are forecast to rise due to increasing demand.

In 2019–20 the percentage of adult slaughter originating from feedlots is forecast to continue to grow. Feed grain prices are forecast to fall

with an [improved winter crop](#) and an [assumed lower Australian dollar](#) improving the competitiveness of Australian beef exports.

Slaughter and saleyard prices, Australia, 2010–11 to 2019–20



^f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics

Global demand to rise due to African swine fever

Global demand for beef imports is expected to increase in 2019–20 due to [outbreaks of ASF in China and South-East Asia](#). Recent industry reports estimate that China's pig herd may decline by up to 50% by the end of 2019. This will substantially reduce the supply of meat in China, and imports of all proteins are expected to increase as a result. In the 6 months to June 2019, China became Australia's second-largest market for beef exports in value and volume terms, overtaking traditional markets such as the Republic of Korea and the United States.

Opportunities and challenges

High female slaughter to slow herd rebuilding

Dry conditions over the 2018–19 northern wet season caused producers to increase turn-off of female cattle. Between March and June 2019, the proportion of female slaughter was 58%—the highest on record. The high rate of female turn-off suggests that the breeding herd is likely to be reduced. This will slow the rate of herd rebuilding and limit beef production in coming years.

Seasonal conditions

The Bureau of Meteorology's (BOM) [northern rainfall outlook](#) indicates that the onset of northern rainfall is likely to occur later than usual—especially in parts of key producing regions such as the Barkly Tableland, Fitzroy Basin and North Queensland Dry Tropics. The BOM's 3 month rainfall outlook also indicates that drier than average conditions are likely across eastern Australia, the Northern Territory and southern Western Australia from October to December.

Poor or later than expected rainfall will delay pasture growth and may lead to a continuation of increased turn-off of cattle and delay herd rebuilding. This would increase the reliance of producers on purchasing cattle rather than breeding, and result in sharper increases in prices of young cattle when pasture growth improves.

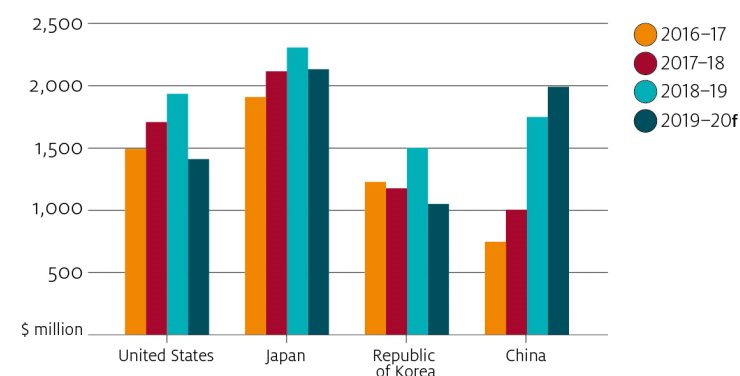
Higher reliance on an uncertain Chinese market

The share of Australian beef exports to China is expected to increase markedly in 2019–20 as a result of ASF-induced demand. Higher exposure to the Chinese market increases the risk of disruption. In the past, China has opened market access in an effort to keep prices low and then closed access when domestic production is restored. If the ASF situation worsens, China may grant market access to other low-

cost producers, such as India, to control meat price inflation. This will increase competition in the Chinese market and put downward pressure on prices.

Another risk is the loss of market share in traditional markets. ASF presents an opportunity for exporters to take advantage of growing demand. However, the outbreak is likely to be a temporary shock that will eventually be contained and result in demand growth returning to past levels. When this happens, Australia is likely to have ceded market share in traditional markets—including Japan and Korea—to competitors such as the United States.

Beef export value, 4 top markets, Australia, 2016–17 to 2019–20



f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics

US–Japan trade agreement nearing completion

The United States and Japan agreed in principle to a trade agreement in August 2019 and are expected to sign the agreement in September. The details of the deal are not yet known, but Japan is expected to reduce tariff rates on imports of US beef to a similar level as those

Australia accesses under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) agreement.

This is a downside risk to beef export forecasts because Australia currently has a significant tariff advantage over the United States in Japan. In 2019 Australian beef exports to Japan face a tariff rate of 26.6% under the TPP-11 compared with 38.5% for US exports without a trade deal. The deal would put downward pressure on finished cattle prices in Australia because Japan is Australia's largest beef export market.

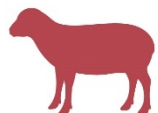


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Outlook for beef and veal

Category	unit	2017–18	2018–19 s	2019–20 f	% change
Australia					
Cattle ab	million	26.4	24.9	24.7	-0.8
beef cattle a	million	23.8	22.4	22.2	-0.8
Slaughterings	'000	7,913	8,703	7,300	-16.1
Production	kt (cw)	2,238	2,352	2,052	-12.7
Exports					
Japan	kt (sw)	309	303	270	- 10.9
United States	kt (sw)	235	241	170	- 29.5
China	kt (sw)	140	228	240	5.1
Korea, Rep. of	kt (sw)	169	189	125	- 33.8
World	kt (sw)	1,122	1,223	995	- 18.7
value	A\$m	7,963	9,485	8,099	- 14.6
Live feeder/slaughter cattle exports c	'000	885	1,128	875	- 22.4
value	A\$m	1,101	1,371	1,122	- 18.1
Prices					
Saleyard cattle	Ac/kg (cw)	452	446	480	7.6
United States import d	USc/kg	452	439	465	5.9
Japan import e	USc/kg	635	640	645	0.9

Sheep meat



^b Australian weighted average saleyard price of lamb.

Sheep meat

Lamb prices to rise to historical highs due to strong saleyard competition and lower Australian supplies.

Nathan Pitts

Prices to reach historic highs

In 2019-20 saleyard lamb prices are expected to increase due to strong export demand and lower supplies in eastern Australia. Prices throughout 2018-19 rose strongly because sustained high sheep turn-off reduced the number of lambs going through saleyards. In 2019-20 supplies are expected to fall further and this will increase prices from already high levels. Prices will also face upward pressure from strong export demand for sheep meat.

Saleyard sheep prices are also forecast to increase from historical highs. This significant increase is due to a combination of falling Australian mutton production and strong export demand.

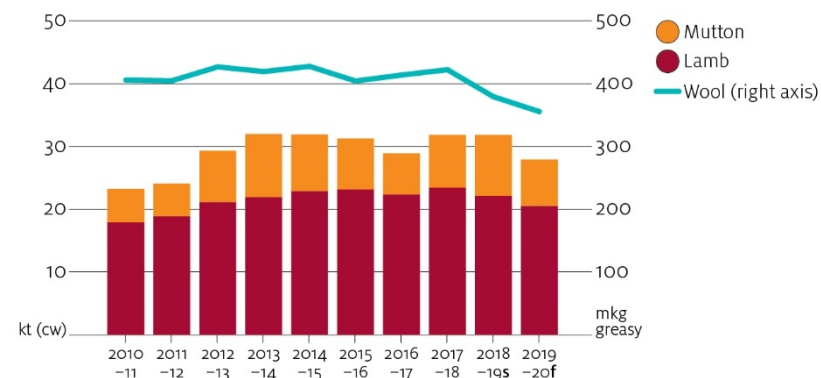
Sheep flock to slowly rebuild from 100-year lows

In 2018-19 the sheep flock is estimated to have fallen to its lowest level since 1904-05 due to prolonged drought conditions and a longer-term trend in land use towards cropping. The flock has declined sharply despite high sheep meat and wool prices providing a strong incentive to build flocks. High prices are likely to continue in 2019-20. However, any expansion of the flock will be constrained by a small

breeding flock, the high cost of restocker animals and forecast dry conditions in spring.

In 2019-20 sheep meat production is forecast to decrease as production of both lamb and mutton fall. Lamb slaughter is forecast to fall due to fewer lambs being available for slaughter and, if seasonal conditions are favourable across eastern Australia, flock rebuilding. Sheep slaughter is also forecast to fall from drought-elevated levels as seasonal conditions improve.

Australian sheep meat and wool production, 2010-11 to 2019-20^f



^f ABARES forecast. ^s ABARES estimate.

Sources: Australian Bureau of Statistics; Australian Wool Exchange

Export demand to remain strong

Australian sheep meat exports are forecast to fall due to lower production. However, the proportion of sheep meat that is exported is expected to continue to increase. This is because demand is likely to remain high in all of Australia's major export markets and domestic consumers switch to alternative protein sources as prices increase.

New Zealand sheep meat production is [forecast to continue to fall](#). With Australia and New Zealand accounting for the majority of global sheep meat exports, falling production in these 2 countries will place upward pressure on global prices. As a result, Australian export values are forecast to fall by much less than export volumes.

Live sheep exports are forecast to fall from 2018–19. This assumes that seaborne live sheep exports will be restricted between 1 June 2019 and 22 September 2019. In July 2019 the Australian Government extended an existing [prohibition on live sheep exports to the Middle East](#) to include the period 1 September 2019 to 22 September 2019. In March 2019 live sheep exports were prohibited between June and August 2019.

There is little seasonality in Australia's live sheep exports. This did not change in 2018 as a result of restrictions on live sheep exports. Restrictions on seaborne exports ended in October 2018, and exports in November and December were comparable to other months unaffected by trade restrictions.

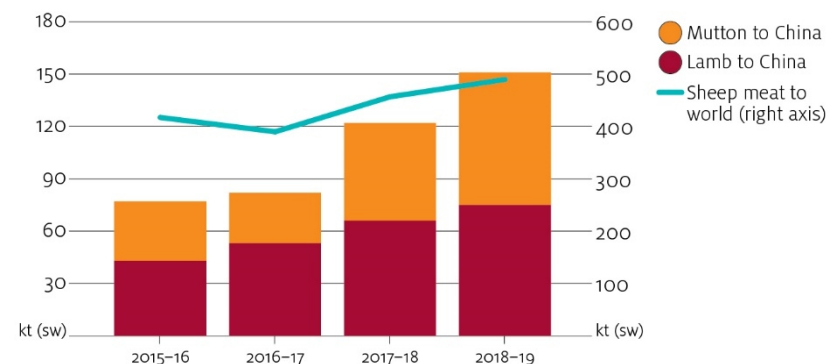
Opportunities and challenges

Chinese preferences for mutton

China is the world's largest consumer, importer and producer of sheep meat. Recently, Chinese consumption has grown faster than production. Chinese import demand has significantly increased Australian saleyard prices. However, exports to China have increased mostly due to a growth in exports of mutton rather than lamb. This trend is forecast to end sometime during 2019–20 as falling mutton production makes Australia's sheep meat exports to China more expensive.

Uncertainty surrounds China's willingness to pay for increasingly expensive mutton or to substitute towards higher-priced Australian lamb. [Risks to](#) Australian export values and saleyard prices include China's domestic sheep meat production, competition with New Zealand and the evolving preferences of affluent Chinese consumers for Australian sheep meat. [African swine fever](#) is likely to offer only minimal upside to Australian sheep meat exports to China. This is due to the high price of Australian sheep meat compared to lower cost fish and poultry meat.

Australian exports to China and the world, 2015–16 to 2018–19



Source: Australian Bureau of Statistics

Costliness of flock rebuilding

Australian producers are expected to expand flocks in 2019–20 to take advantage of ongoing favourable sheep meat and wool prices. However, seasonal conditions are expected to remain mixed across eastern Australia [in spring](#). This will limit the capacity of many farmers to rebuild flocks.

Grain prices are coming down, but the costs of flock rebuilding are likely to be elevated by high prices for restocker sheep and lambs. ABARES farm survey data showed that feed purchases accounted for 9% of the total costs for sheep specialists in south-eastern Australia in 2017–18. This was almost double the 5-year average to 2016–17. Between January 2019 and July 2019, Victorian restocker lamb prices increased by 17%. With high prices for restocker animals already constraining flock expansion, higher than expected prices present further downside risks to the sheep flock.



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Outlook for sheep meat

Category	unit	2017–18	2018–19 <i>s</i>	2019–20 <i>f</i>	% <i>change</i>
Australia					
Sheep <i>a</i>	million	70.6	66.4	67.5	2.0
Slaughterings					
Lambs	'000	23,432	22,086	20,500	– 7.0
Sheep	'000	8,396	9,730	7,400	– 24.0
Production					
Sheep meat	kt (cw)	735	732	644	– 12.0
Exports					
Sheep meat	kt (sw)	457	490	401	– 18.0
value	\$m	3,282	3,873	3,497	– 10.0
Live sheep	'000	1,975	925	875	– 5.0
value	\$m	259	121	123	1.0
Prices <i>b</i>					
Lambs	c/kg (cw)	614	723	810	12.0
Sheep	c/kg (cw)	419	452	550	22.0

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

Sources: ABARES; ABS; MLA

Dairy

Andrew Duver



Competition for milk supports farmgate prices

The 2019–20 farmgate milk price forecast is 51 cents per litre. This is a 3 cents per litre upwards revision from [Agricultural commodities: June quarter](#). The 2019–20 season opened with comparatively high Australian farmgate milk prices compared with recent years.

A forecast fall in global prices is expected to put pressure on processor margins. This is mitigated by export price premiums for some commodities and higher skim milk powder prices. A lower exchange rate also makes Australian dairy products more competitive in export and domestic markets. Competition among major processors for fresh milk provides an incentive to offer dairy farmers higher prices.

Australian dairy imports, 2017–18 to 2018–19



Source: Australian Bureau of Statistics

Growth in demand to slow

Demand for dairy products is forecast to grow at a slower rate in 2019–20. An assumed slowdown in global economic growth is expected to put downward pressure on demand. This will be partially offset by the continuing shift in consumer preferences toward dairy products in emerging Asian economies.

The European Commission reported in June that public stocks of skim milk powder are empty. Lower global stocks of manufactured dairy products will support demand from buyers seeking to maintain inventory.

Global production growth expected

Growth in the global production of dairy products is expected to continue in 2019–20. Combined milk production across New Zealand, the European Union and the United States is forecast to grow around 1% in 2019–20.

New Zealand milk production grew around 2% in 2018–19 and high opening milk prices in 2019–20 are encouraging production to increase further. Recent falls in the New Zealand dollar against the United States dollar have improved the competitiveness of New Zealand's export-oriented industry.

In the European Union, dry conditions in some regions will limit production growth and constrain pasture productivity. Uncertainty surrounds production in the United States as seasonal conditions and global trade issues increase volatility of domestic prices.

Australian milk production is forecast to fall in 2019–20, reflecting less favourable seasonal conditions. The latest seasonal outlook from the Bureau of Meteorology suggests dry conditions will continue during

spring 2019. This will put continued pressure on production in some regions. The forecast for south-western Victoria, Gippsland, Tasmania and Western Australian dairy-producing regions is more optimistic.

The exportable surplus of manufactured dairy products in Australia will be constrained by the shrinking domestic fresh milk pool and a reduction in imports.

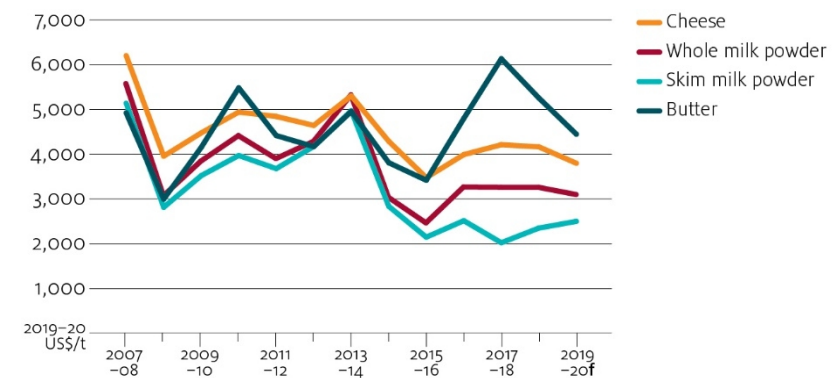
Mixed outlook for world prices

Butter, cheese and whole milk powder prices are forecast to average lower in 2019–20 than in 2018–19 on the back of higher global production and weakening global demand.

The butter price continues to fall from a high in 2017–18. The forecast price for 2019–20 has been revised down since the *Agricultural commodities: June quarter 2019* to US\$4,450 per tonne.

The forecast price for skim milk powder in 2019–20 has been lifted since the *Agricultural commodities: June quarter 2019* and continues to climb from low levels. Strong import demand from Asia is providing support for prices.

World dairy prices, 2007–08 to 2019–20



f ABARES forecast. s ABARES estimate.

Sources: ABARES; Dairy Australia

Opportunities and challenges

Australian drought conditions

Australia's milk production in 2018–19 was around 5.7% lower than in 2017–18. Dry conditions drove up the price of water and fodder in 2018–19 and constrained profitability in some dairy-producing regions. The fall in production was less than estimated in *Agricultural commodities: June quarter 2019*.

The latest [ABARES water market outlook](#) showed that surface water allocation prices in the southern Murray–Darling Basin are likely to remain elevated under the dry conditions that have been forecast.

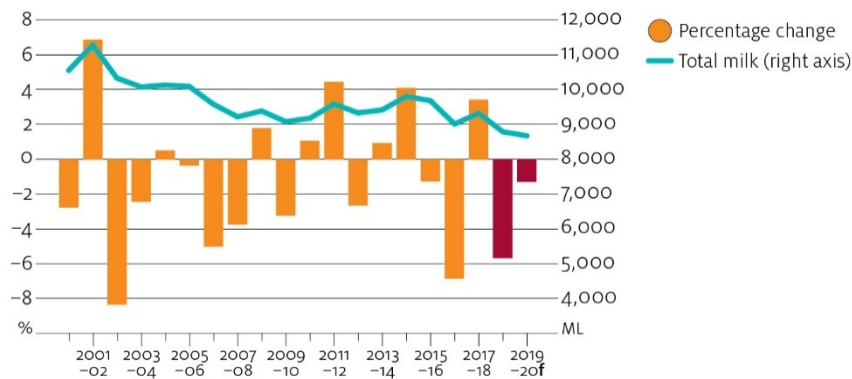
Feed prices remain high but have declined in recent months. A high opening milk price will encourage milk production in businesses with a lower reliance on purchasing inputs such as feed and water. If seasonal conditions improve, farms with sufficient feed will look to

restock. A movement of dairy cattle from the northern irrigation regions to southern regions could limit a fall in milk production.

End of season (April to June 2019) cow-culling rates were 31% higher year-on-year in Victoria. [High domestic beef prices](#) are forecast to continue into 2019–20. Farms facing cash-flow pressures are expected to continue to sell cows to reduce feed costs and support cash flow.

that the United States will establish a presence in alternative markets, disrupting the diversification efforts of Australian exporters.

Year-on-year change and total milk production, 2000–01 to 2019–20



^f ABARES forecast. ^s ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

Import demand from China could increase rapidly

The outbreak of African swine fever (ASF) in China is expected to contribute to an improvement in beef prices. Continued demand for protein in China could increase the Chinese domestic beef price and lead to culling of their dairy herd. This would reduce milk production in China and could increase demand for dairy imports.

China–US trade tensions could create short-term opportunities for Australian dairy products in China. In the medium term, there is a risk



Australian Government
Department of Agriculture
ABARES

Outlook for dairy

Category	unit	2017–18	2018–19 s	2019-20 f	% change
Australia					
Cows a	'000	1,547	1,470	1,460	– 0.7
Milk yields	L/cow	6,029	5,983	5,946	– 0.6
Production					
Total milk	ML	9,325	8,795	8,681	– 1.3
market sales	ML	2,491	2,507	2,522	0.6
manufacturing	ML	6,834	6,288	6,158	– 2.1
Butter b	kt	92.7	62.0	60.0	– 3.2
Cheese c	kt	378	381	379	– 0.5
Whole milk powder	kt	82.5	51.0	48.9	– 4.1
Skim milk powder	kt	191	190	189	– 0.5
Farmgate milk price	Ac/L	45.8	48.5	51.0	5.2
Value of exports	A\$m	3,422	3,513	3,518	0.1
World prices					
Butter	US\$/t	5,879	5,144	4,450	– 13.5
Cheese	US\$/t	4,038	4,075	3,800	– 6.7
Skim milk powder	US\$/t	1,938	2,298	2,500	8.8
Whole milk powder	US\$/t	3,125	3,190	3,100	– 2.8

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; ABS; DA

Impact of African swine fever on global markets

Nathan Pitts and Tim Whitnall

African swine fever (ASF) has spread to every province in China since the first official report in August 2018. Outbreaks of the disease have also been reported in neighbouring Asian countries and in wild pig herds in Europe. The impact of ASF on the global pig meat industry is only gradually becoming clear.

Chinese Government statistics indicate a 26% year-on-year decline in the national pig herd at 30 June 2019, but some industry estimates are as high as 40%. ASF in China will have a significant impact on global agricultural markets. This is because China has around 50% of the global pig herd and accounts for around 50% of global pig meat consumption. This article examines how ASF is likely to affect global and Australian agricultural markets.

Global impacts

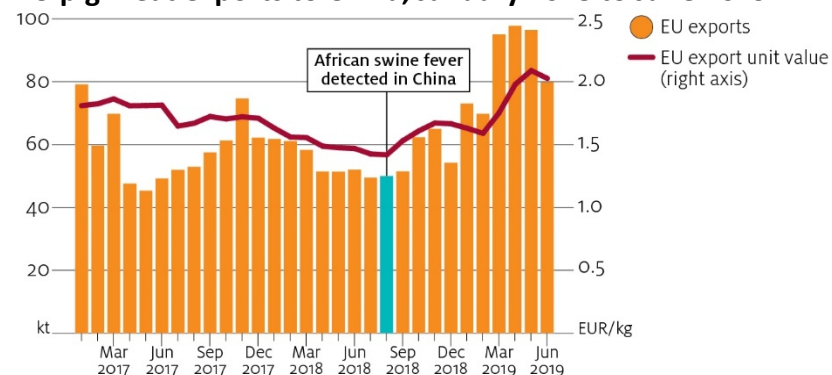
Pig industry

ASF has had a significant effect on the Chinese pig industry and the Chinese economy. Changes in pig meat prices and domestic production can affect the Chinese economy because pig meat is the [most consumed meat in China](#). In the year to August 2019, retail pork prices rose by 47%, contributing to a 10% increase in the food price index.

Between January and June 2019, according to official Chinese production statistics, Chinese pig production fell by 6% year-on-year. Lower Chinese production has resulted in an increase in Chinese pig meat imports—mostly from the European Union and the United

States. In 2019–20 Chinese import demand is forecast to increase further, driving up global pig meat prices. The risks to global prices are amplified by Chinese trade tensions with Canada and the United States, both major pork exporting countries.

EU pig meat exports to China, January 2018 to June 2019



Source: Eurostat

Industry reports estimate the Chinese pig herd could contract by 50% from pre-outbreak levels by the end of 2019. This will have an ongoing impact on Chinese pork production for several years and is likely to hasten structural adjustment in the pig industry. The disease has reportedly had a much larger impact on small-holder and family farms because they have less stringent biosecurity measures and make greater use of swill and other feeds that are more likely to transmit the disease.

Less vertical integration also necessitates more frequent transport between different stages of the supply chain, increasing the likelihood of transmission. It is likely that the current outbreak will lead to an

expansion in the near future of larger commercial operations that are better able to adopt disease control measures.

Other meat markets

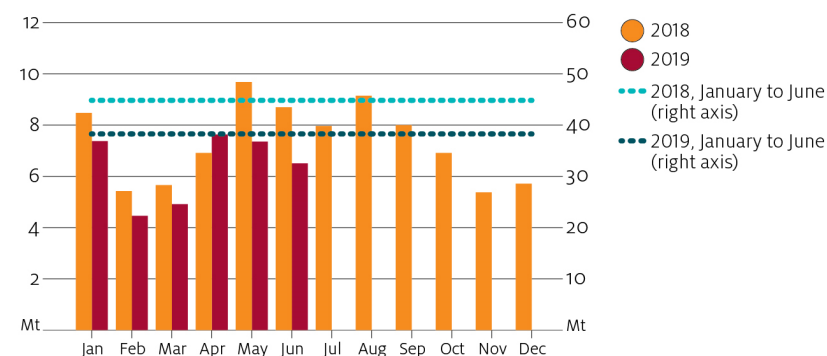
Higher pig meat prices are expected to encourage Chinese consumers to substitute towards alternative protein sources. Consumption of poultry and fish are forecast to increase strongly due to affordability and producers' capacity to respond quickly to rising demand. Beef and sheep meat consumption are also forecast to increase, but at a slower rate due to their higher relative cost. Nonetheless, global demand for beef and sheep meat is likely to increase due to the size of the Chinese market. Prices for all meats in China are likely to increase.

Grains and oilseeds

Chinese pig rations are estimated to [consist of around 20% corn and 75% soybeans](#). In 2017–18 Chinese consumption accounted for around 25% of global corn consumption but only 2% of imports. Lower Chinese corn demand is unlikely to result in China becoming a major exporter of corn. This is because recent Chinese Government policies have sought to reduce high corn stocks by increasing domestic consumption and decreasing production rather than releasing stocks onto the global market. The [Chinese Government's commitment](#) to market price setting for corn is expected to reduce domestic production and volumes available for export. In September 2017 the Chinese Government announced a program to increase [domestic ethanol consumption and production](#). The program is designed to reduce high government stocks of corn. If ASF leads to higher than previously expected corn stocks, previous Chinese Government decisions and high domestic prices suggest it is unlikely these supplies would be exported.

ASF will have a significant effect on world oilseed markets. China accounts for 30% of global oilseed consumption and 50% of imports. ASF has drastically reduced Chinese import demand. At June 2019 Chinese soybean imports were much lower than previous years, and were particularly low in May and June. Chinese imports are typically just-in-time, so import demand is likely to suddenly decrease if the ASF situation worsens. ASF is likely to keep world oilseed prices low until there is a supply response from major exporters.

Chinese soybean imports, January 2018 to June 2019



Source: UN Comtrade

Impact of African swine fever on Australian exports Pig industry

The Australian pig industry is largely focused on the domestic market. Exports account for only 10% of production. Australian production is insufficient to meet domestic consumption. Around 50% of pig meat consumed in Australia is sourced from imported processed products, mostly from the European Union and the United States—China's largest sources of pig meat.

ASF will increase Chinese import demand and global import prices. This will drive up prices for imported processed product in the Australian market and place upward pressure on Australian over-the-hook pig prices. However, the forecast increase in global prices is unlikely to make Australian pig meat competitive on world markets.

Other meat sectors

The Australian beef industry is expected to benefit from increased Chinese import demand for protein. In the 6 months to June 2019, exports of beef to China grew by 68% year-on-year. Lower-priced frozen beef exports accounted for much of the increase because it is generally a more affordable substitute for pork than fresh beef or sheep meat. Exports to China are [forecast to continue to grow in 2019–20](#) and China is expected to become Australia's second-largest market for beef after Japan.

Australian sheep meat exports to China are also expected to continue to increase. This growth is due to long-term Chinese sheep meat supply and demand trends rather than ASF. China is the largest global producer of sheep meat. However, strong consumption growth in recent years has increased sheep meat imports from Australia and New Zealand. ASF is expected to offer only a minimal increase in Australian sheep meat exports. This is because fish, relatively low-priced beef cuts and poultry meat are more price competitive than Australian sheep meat.

In 2019–20 Australian poultry prices are unlikely to be affected by ASF. The Australian poultry sector is focused on the domestic market, and exports or imports minimal volumes. China is not a major export market for Australian poultry. This has not changed following the ASF outbreak.

Grains and oilseeds

China is one of Australia's largest barley export markets, but feed barley exports are highly variable. This is because feed grain demand from Chinese livestock industries is extremely price sensitive. In 2015–16 the cost-effectiveness of corn reduced Chinese import demand for feed barley and feed wheat. Future Australian barley exports to China will depend on Australia's competitiveness against alternative feed grains.

In 2019–20 Australian canola exports are likely to be diverted from the European Union to China at lower prices. This is because Chinese trade restrictions will reduce the prices of Canadian canola and US soybeans. As a result, EU consumers are expected to substitute towards these cost-effective products and away from Australian canola. Despite lower feed consumption, Chinese import demand is still expected to absorb displaced shipments of Australian canola. However, returns to Australian canola are expected to fall due to lower global oilseed prices and an erosion of the GM-free premium that Australia has traditionally received in the EU market.

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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