



ANZ AGRI
INFOCUS
JUNE
2021

COMMODITY INSIGHTS

FOREWORD

Agriculture confronts a large volume of uncontrollable factors – more than in any other industry – but almost always finds a solution to deal with them

As Australian agriculture hits the midpoint of 2021, two factors outside the control of every farmer have currently put the industry in one of the best positions it has been in for some time – the very same two factors which can be the root cause of some of farming's biggest problems.

For a moment, put aside COVID-19, which could hopefully be described as a once in a generation Black Swan event (fingers crossed...and arms vaccinated). To be clear, the most important factor in agri is running a good business (primary or secondary), good risk management, planning, and innovation.

Outside of that, the two most influential and positive non-controllable factors in agri right now are the 'R' words – rain and ROTW (Rest Of The World).

With the experience of the 2019/20 drought still raw in the memories of most farmers, the ongoing rain this year in most parts of Australia has continued to be welcomed. Certainly, some areas are drier than ideal, while recent storms brought some flooding in other areas, but generally, the rain has been very beneficial.

For sheep and cattle producers, the rain has meant excellent pastures, a big factor behind the ongoing restocking push, and the likelihood that lambing and calving percentages this year could be the best in some years.

For croppers, this season's good rain has not only seen a record planting for winter crops, but now sees them looking ahead optimistically to another very good harvest with strong prices in play.

The second major external factor benefitting the Australian agri landscape are a number of major events happening outside Australia.

The recent decision by Argentina to stop exporting beef for a month sent trembles through the global beef trade. While the move was ostensibly to keep the domestic price of beef down, it further reduced the volume of beef available for world trade, with supplies already relatively tight. It also reminded global beef importers of the benefits dealing with a reliable exporter – such as Australia – and the need for diversity in relationships and supply.


For Australia's grain industry, the continuation of the Russian export tax also sent a message to global importers that to guarantee supply, a predictable exporter like Australia may be a preferable partner, even at a premium. At the same time, China's ongoing buying spree of grains and oilseeds has put further upward pressure on world prices – just at a time that Australia has more grain than ever to export.

With both the rain and the rest of the world's activities putting Australian agri in such a good position, the next six months are looking very promising indeed.



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SPECIAL ARTICLE: MID-YEAR REPORT CARD

Agriculture remained resilient amid COVID-19 disruptions within and outside Australia, with sub-sectors positioned well to take advantage of both short-term events and emerging trends

Around Australia, millions of school students are looking at the next few weeks with a mixture of enthusiasm and trepidation. Certainly, the holidays are about to arrive, though it's uncertain how many will be escaping the winter cold to head to the sun this year. With the shortest day of the year (June 21) having passed, so begins the start of a gradual return to warmer days and longer evenings.

Most importantly, this time of year brings the release of the Mid-Year Report Card. What a good report card should bring is an honest, measured appraisal of overall progress to that part of the year. It should be candid about which areas have gone well, those which will need some work, any factors which could be impacting the progress, and what are some of the events which lie ahead.

As nervous a process as the report card can be, it should also serve as a time for reflection and contemplation over what has been learned in the past six months, then rolling up the sleeves to make things even better in the months ahead.

So, just as the time is right for students to get their mid-year report cards, it could also be a good time for the main agri sectors to reflect and look forward as well. For the agri sector, the Report Card would look not only at how the major agri sectors are tracking, but what have emerged as the biggest themes at this point of the year, and where they may be heading.



THE CYCLE

Like a pre-prepared obituary, many industry commentators have had their thoughts on the change in the agri cycle ready for a while. This scenario would see major commodity prices start to decline markedly, particularly livestock and grain, as well as a fall in land prices. At the same time, low interest rates would start to rise, tightening not just repayments for many businesses, but the speed of their business growth.

The fact that things haven't turned in the opposite direction by mid-2021 can be put down to a combination of factors. Ongoing good rain in Australia has meant restockers are continuing to pay high prices to put cattle and sheep on their grass, while global feed demand and food security issues have kept grain prices strong. At the same time, while the economic recovery from COVID-19 has undoubtedly continued, it hasn't quite reached the point in many countries where interest rises are needed to temper it – but it will.

Going forward, for as long as conditions stay ideal, producers will continue to maximise their opportunities. But as with any cycle, they should continue to have their alternative strategy ready.

AS WORLD ECONOMIES CONTINUE TO RECOVER FROM COVID-19, INTEREST RATES MAY BOTTOM OUT – A SCENARIO TO BE CONSIDERED IN SHORT-TO-MEDIUM TERM STRATEGIC PLANNING



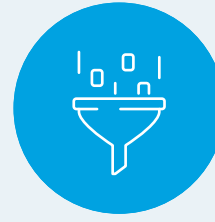
INVESTMENT FLOWS

At the start of the COVID-19 period in 2020, with the restrictions on inbound international travel, many observers felt that the impact on previously strong investments into agri would be major. Without the ability for offshore investment managers to see their potential assets firsthand and conduct due diligence, capital from places such as North America and Europe was far more likely to be redirected back to home markets.

But sophisticated capital is spurred by innovation and, in the months from that period until now, it has arguably not only managed to overcome these issues, particularly with the engagement of local partners, but, if anything, has grown even stronger in the domestic agri investment space than before. Driven partly by the prospect of longer term high commodity prices, investors from Australia and ROTW continue to pursue new opportunities across the entire agri supply chain.

Looking ahead, there is little reason to think this will change markedly. Australian agri continues to tick all the right boxes in terms of quality output for a strong global market, with very low political risk.

DOMESTIC AND INTERNATIONAL INVESTORS CONTINUE TO PURSUE NEW OPPORTUNITIES ACROSS THE ENTIRE AGRI SUPPLY CHAIN



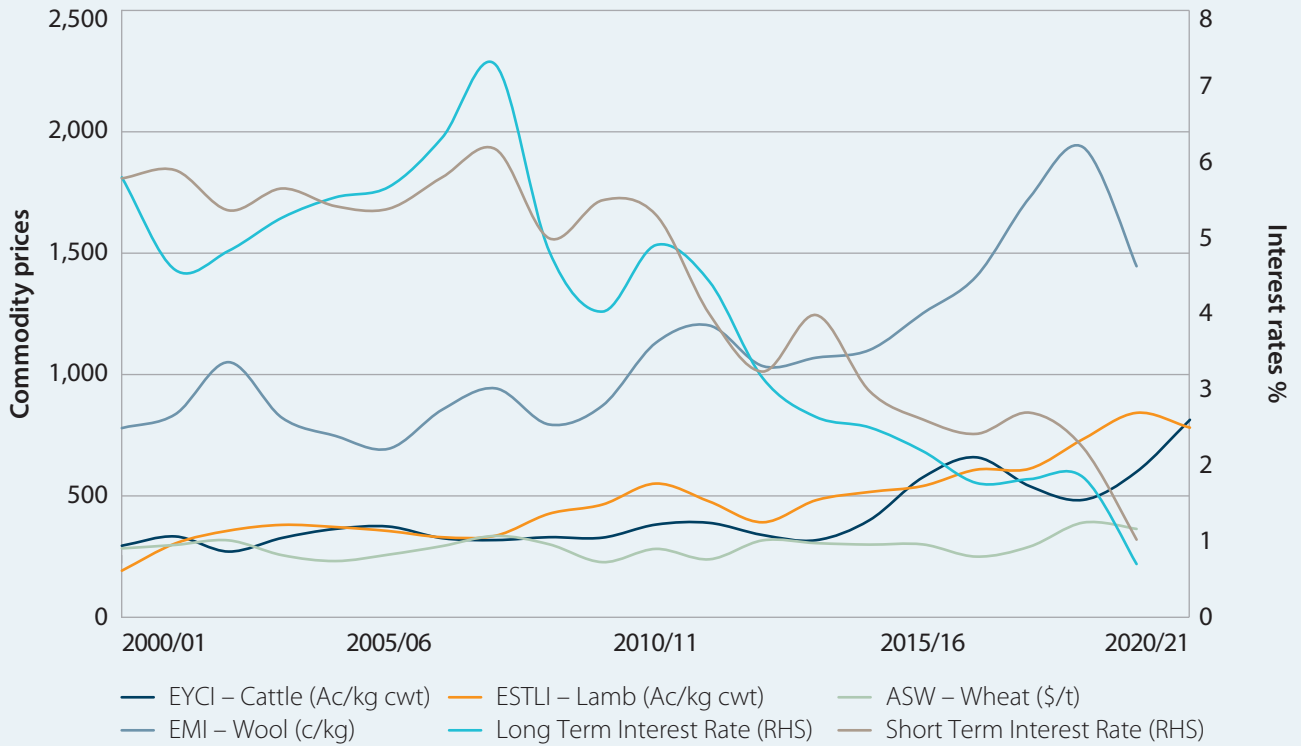
DATA

Tying in with the previous topic, the initial flow of investors into agri has, arguably, now been followed by the next stage of investors, many of whom stood back at the start to learn more about this agri asset class, which was new to them.

In mid-2021, while the new wave of investors are enthusiastic to enter the agri space they will increasingly need to be provided with new levels of data or metrics from agri operations, to satisfy them, and their stakeholders, of the possible risks and returns. Whether from agtech developments, enhanced financial analysis or other means, going forward, the onus on entities seeking to attract this new capital will be to keep refining their data offerings.

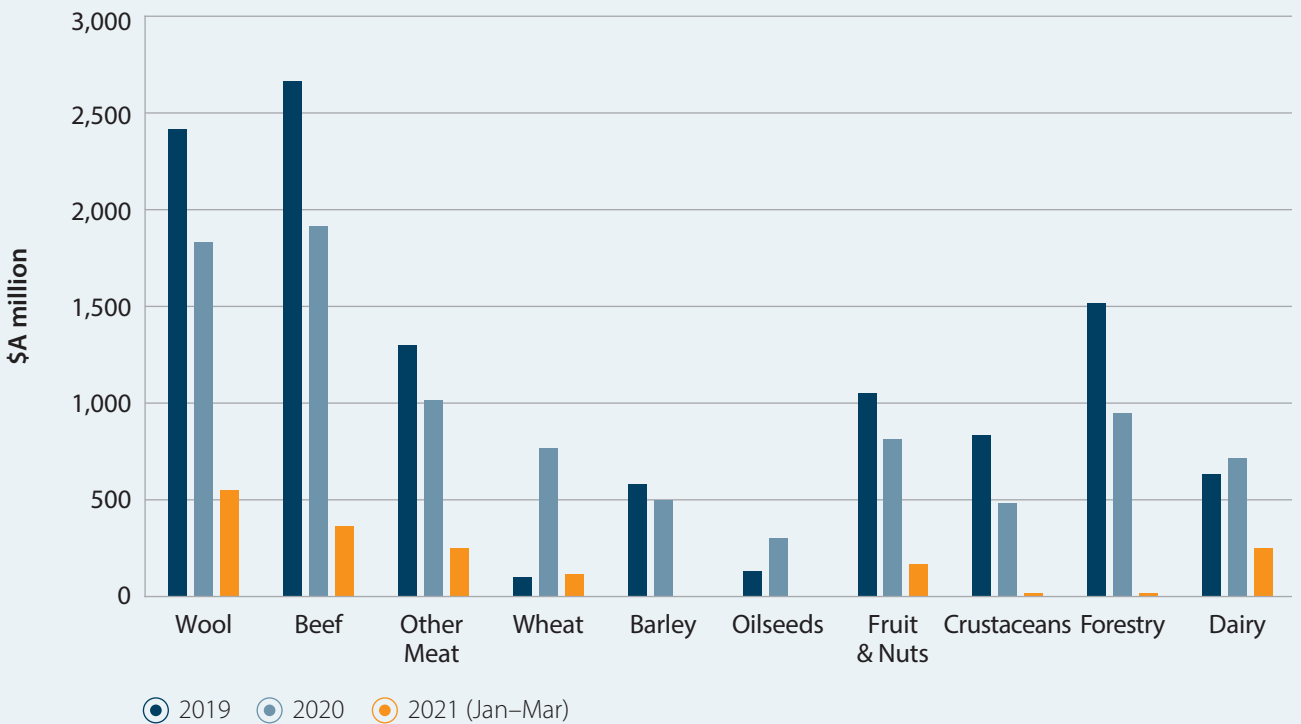
GRANULAR DATA OR METRICS FROM AGRI OPERATIONS COULD BE INCREASINGLY CONSIDERED IN RISK-RETURN ASSESSMENTS

INVERSE RELATION BETWEEN COMMODITY PRICES AND INTEREST RATES



Source: ABARES, Bloomberg, ANZ

OVERALL AGRI EXPORTS TO CHINA FALL ~20% YOY IN 2020



Source: DFATS, ANZ

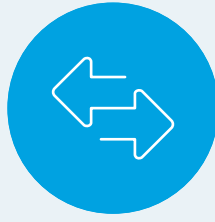


SUSTAINABILITY

Clearly, the centre of attention in the agri Class of 2021 is sustainability, and justifiably so. Ostensibly an issue that was, not long ago, broadly accepted by farmers as being a part of doing business, sustainability has quickly morphed into both an increased trigger for new regulation, as well as a vital tool for new business opportunities across the agri chain.

At mid-2021, while the activity in the space has never been higher, this also means that the need is strong for rational and reasoned analysis and discussion on all sides, from those generating the new products and regulations, and most importantly, from those in the agri space who may be looking at committing to enter new projects in the space.

INCREASED FOCUS ON SUSTAINABILITY COULD TRIGGER NEW WAVE OF REGULATIONS WHILE FACILITATING OPPORTUNITIES ACROSS SUPPLY CHAINS

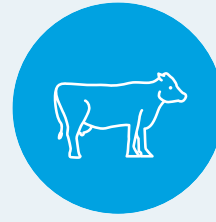


TRADE

After a tumultuous period of trade drama over the last six to 12 months, the relative quiet on agri trade issues in mid-2021 is welcome and encouraging for most commodities.

Strong challenges may well continue for some time to find scale markets – certainly for wine and lobsters – if the trade to China remains effectively closed. However, across almost all other agri products, the combination of importers enthusiastic to feed their recovering economies, and to secure supplies against a backdrop of trade uncertainty (stoked by Argentine export bans and Russian export taxes), provides a strong sign for the remainder of the year for Australian agri exports.

RECOVERY IN GLOBAL IMPORTER DEMAND WILL PROVIDE STRONG SUPPORT FOR AUSTRALIAN AGRI EXPORTS



CATTLE

Certainly mid-2021 continues to be a good year for anyone selling cattle, given the ongoing record prices. With the ongoing rain, and tight global beef supply there is every chance these prices could continue for some time – although not guaranteed. As such, the midpoint of 2021 also presents a tougher time for many of those buying – whether producers, feedlotters or processors – and should the high prices continue, then the entire supply chain may have to see some structural changes, such as consolidation. It could be an eventful next six months.

CATTLE PRICES LIKELY TO CONTINUE ON RECORD RUN, WITH ONGOING FAVOURABLE WEATHER CONDITIONS AND TIGHT GLOBAL SUPPLIES



SHEEP

After decades of declining numbers, mid-2021 finds the sheep industry continuing to enjoy the good fortunes of at least the past 12 months. With meat demand remaining strong, particularly for exports, wool demand continuing to rise on the expectations of returning global demand, the national flock in little danger of oversupply, and the outlook for ample grass, the sheep industry would be very happy with where they find themselves at this time.

STRONG DEMAND FOR SHEEPMET AND WOOL WILL POSITION AUSTRALIAN SHEEP SECTOR FOR A STRONG 2021



GRAIN

At the risk of tempting fate, it's hard to find negatives in most of the grain sector at this point in time. After last year's record crops, most grain prices held up strongly, driven by global demand, as well as supply uncertainty. By this point in 2021, most winter crops have already been sown, with a record acreage plated, and outlook for good rains going forward. The global outlook for ongoing demand, particularly from China, is likely to see grains remaining strong for some time.

AUSTRALIAN GRAIN FARMERS RESPOND WITH RECORD ACREAGE TO HIGH GLOBAL GRAIN PRICES AS DEMAND RECOVERS



DAIRY

Finally, for a sector which has undoubtedly faced its share of challenges, mid-2021 brings with it some very positive signs. Recent good farmgate price announcements have reflected the benefits of a relatively tighter supply than in the past. At the same time, the local dairy industry's competition in export markets could well be lessened over the rest of 2021 and into 2022, if the new regulations by the New Zealand Government sees production and exports from that country fall. Looking ahead, the signs remain cautiously optimistic for this sector, and may even see a return of strong investor attention.

FARMGATE PRICES INDICATE TIGHT DOMESTIC SUPPLIES AND EXPORT COMPETITION COULD BE EASED WITH NZ GOVERNMENT REGULATIONS



BEEF INSIGHTS

OVERVIEW

- + Domestic saleyard prices remain stable across the board showing no indication of decline
- + Processor margins are improving on the back of an increase in global beef prices
- + Global beef supplies have tightened bringing global prices up to Australian prices, rather than Australian prices being forced down
- + Global export demand is expected to increase solidly, possibly providing further upside for Australian prices
- Exports still remain solidly below this time last year, although this is being driven primarily by lower Australian production
- Recent cyber-attack on global processor, JBS, has exposed some potential risks for automated supply chains

For the past year, the stellar performance of the Australian cattle industry has been dogged by the expectation that Australian beef prices will need to come down in order to align with global cattle prices, which just goes to show what a difference a few months can make. Instead of both domestic and global prices falling on the back of solid production, global cattle supply is now tightening and global cattle prices are on the rise.

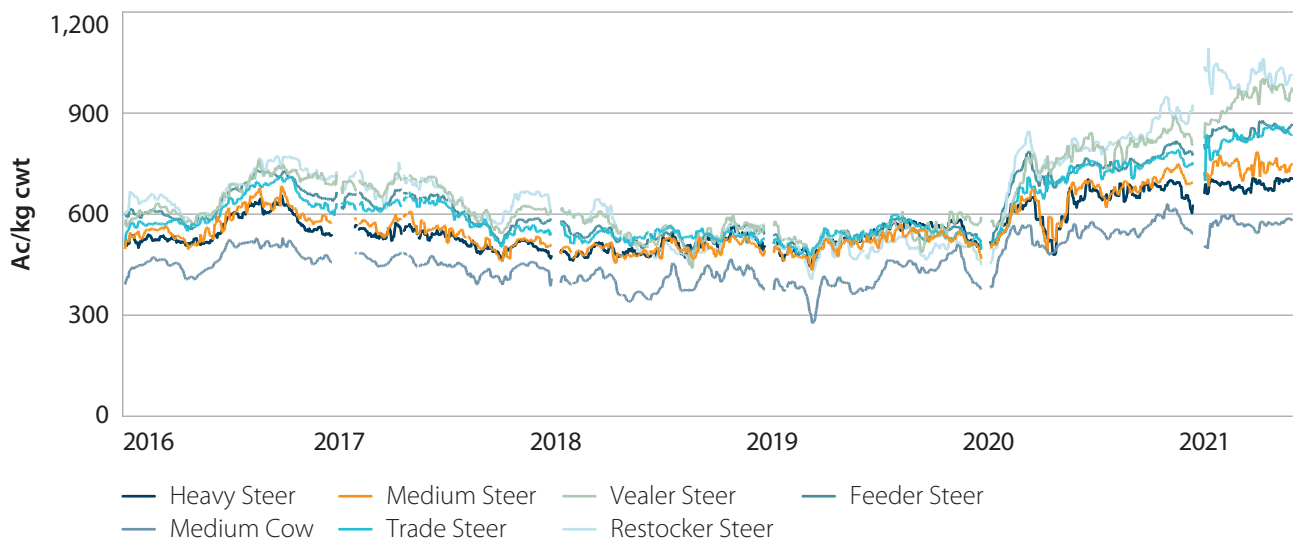
Argentina has temporarily halted exports, China is suffering a second wave of African Swine Fever and cyber-attacks on meat processor, JBS, have seen global cattle prices rallying up towards Australian prices. In good news for domestic processors, margins have improved with reports of a return to positive margins as a result of the global market surge. Domestically, seasonal conditions are good in most areas, although some regions are in want of some further rain and have had pasture growth restricted by cold start to winter.

DOMESTIC PRICES STABLE, PROCESSOR MARGINS IMPROVING

Domestic prices remain strong with little indication of any downward trend. Restocker prices remain high but have levelled off since the beginning of the year. National restocker steer prices now sit slightly lower than they did at the beginning of 2021, while the lighter categories of vealer and trade steers, as well as cow prices have grown between 15 and 18 per cent in the same time, as producers take advantage of recent rains and pasture growth. While carcass weights are being kept high as a result of the good season, slaughter rates have declined significantly as producers look to rebuild. As a result, while production is down significantly on this time last year (-23 per cent), it has not fallen as hard as slaughter rates have, which has fallen over 28 per cent.

In good news for the processing sector, it appears processor margins are on the improve with some claiming they are now back in positive territory as a result of the jump in global beef prices.

NATIONAL CATTLE SALEYARD PRICES



Source: MLA, ANZ

GLOBAL PRICE RISES

A string of global events has recently resulted in a substantial tightening in global supplies at a time when all analysts expected production to grow strongly. The recent cyber-attack on JBS's global facilities produced some nervousness in markets as facilities across the United States, Australia and Canada were closed for days. As a result, the global futures market dropped sharply, only to rebound as abattoirs came back on line. While the impact on global supply has been only temporary, it has exposed a certain weakness in global agricultural supply chains.

The recent decision by Argentina's President to suspend beef exports for at least 30 days from mid-May to control local supply and inflation has been met with significant concern by Argentine farmers as well as a jump in prices on the global market. Argentine farmers have reacted to the ban and halted domestic livestock sales in protest. While the Argentine Government and farmers are in discussions to end the dispute, the suspension of exports from the fifth-largest global exporter has led to a lack of supply across the board – but particularly in China to where more than 70 per cent of Argentine exports are directed. Add to this the recent discovery of a new strain of African Swine Fever in the Chinese market reducing domestic pork supply, the increased Chinese activity in the global market is the major cause of recent global price increases.

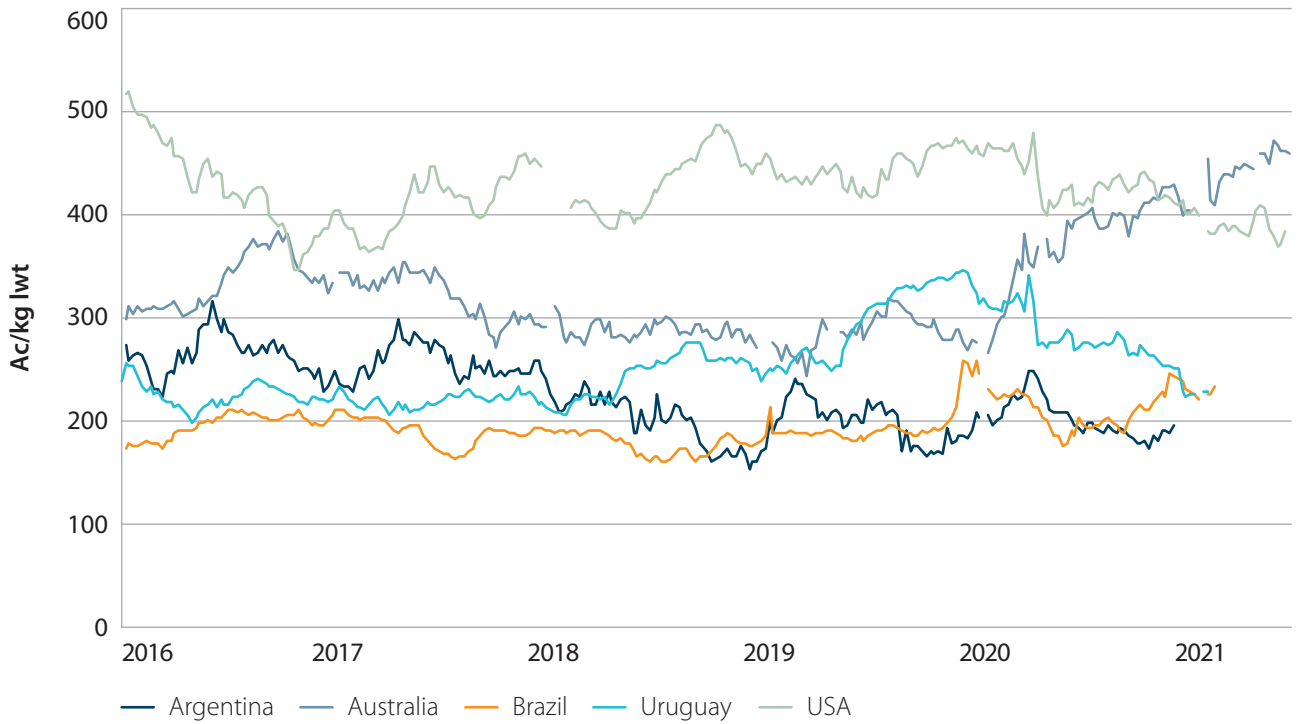
Australian beef exports are rebuilding after a large drop earlier in the year. Total beef exports in May were 22.4 per cent below the same period last year. Exports to all our major markets have suffered from large declines – however most of this has come through lack of supply out of the Australian market rather than lack of export demand. Exports to the United States were 40 per cent lower in May 2021 than in the previous year, while exports to Japan had fallen 7 per cent in the same period.

Exports to China have also dropped by over 40 per cent in this calendar year-to-date on last year, however despite those substantial falls, May also saw a solid 27 per cent increase on April exports. However, the past few weeks has seen a strong increase in US prices for grinding beef, reaching the highest level seen since this time last year on the back of a number of factors including the Argentine export ban and rebound out of COVID-19 in the US.

The recent spike in US beef prices comes as a result of increasing wholesale beef demand and a decline in the amount of beef in US cold storage, despite high slaughter rates.

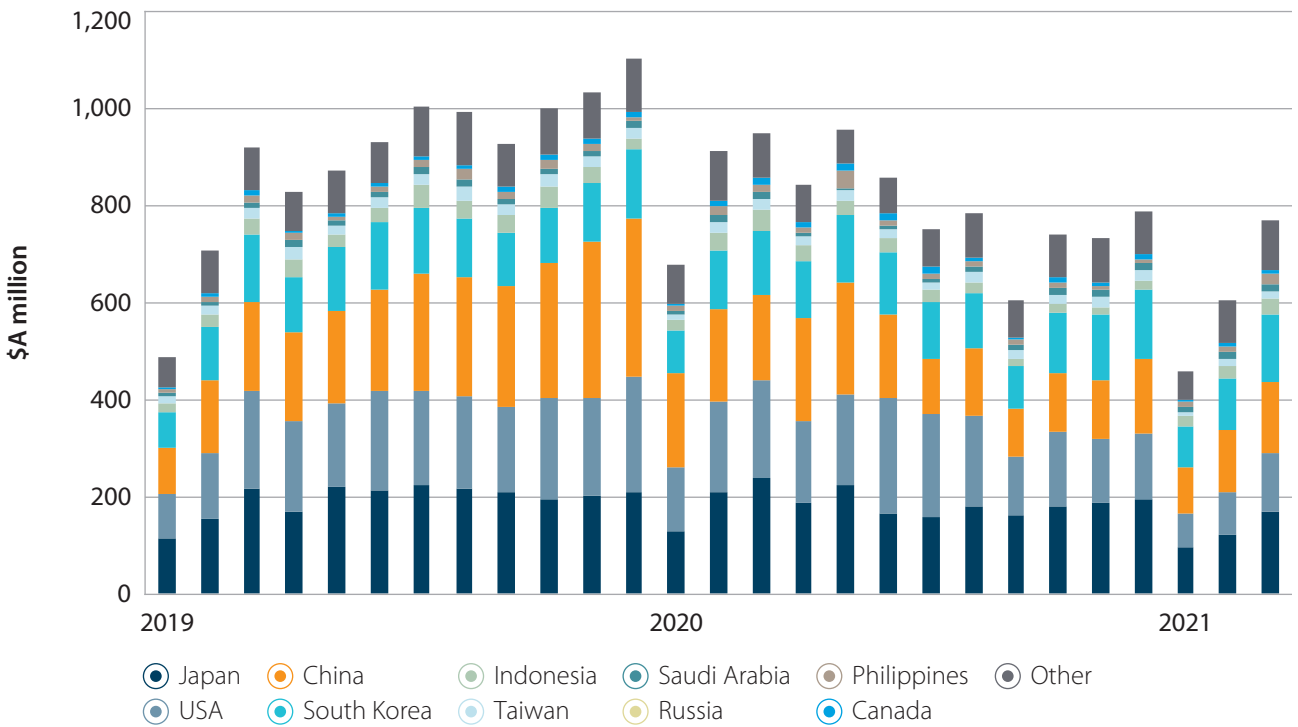
While such large drops in Australia's beef exports would usually be met with significant concern, the current drop in exports is not a factor of lack of demand – it is a symptom of the lack of production stemming from Australia's herd rebuild. While carcass weights are being kept high as a result of the good season, slaughter rates have declined significantly as producers look to rebuild.

GLOBAL BEEF PRICES



Source: MLA, ANZ

AUSTRALIAN MONTHLY BEEF EXPORTS



Source: MLA, Global Trade Atlas



WHEAT & GRAIN INSIGHTS



OVERVIEW

- + Record acreage of 23.2 million hectares estimated for 2021/22 crop, up 2 per cent on last year
- + High global canola prices drive increased plantation in Australia
- + Chinese wheat imports could create opportunities for Australia, as global supply tightens with uncertain outlook
- Domestic feed demand to fall with improved pasture conditions
- Australian barley sector affected due to Chinese tariffs

With China's current ravenous appetite for grain imports potentially bigger than previously forecast, Australia's grain producers could be facing an even more promising outlook for at least the rest of the year. With some global grain observers suggesting that Chinese stocks may not be as high as what is being officially announced, the likelihood is that the market for grain exports will remain strong for at least the rest of the year, not just to China, but globally.

For Australia, given the record crop of the previous season, combined with the production uncertainty of some of the major Northern Hemisphere competitors, the outlook is excellent news. Importantly, given the varying feed and food requirements of China, the demand is likely to continue well beyond wheat, to almost all major varieties of grains and oilseeds.

This good news on the demand side comes at the same time as the Australian Bureau of Agricultural Resource Economics (ABARES) has lifted its forecast for the nation's 2021/22 grain production dramatically from the previous forecasts three months ago.

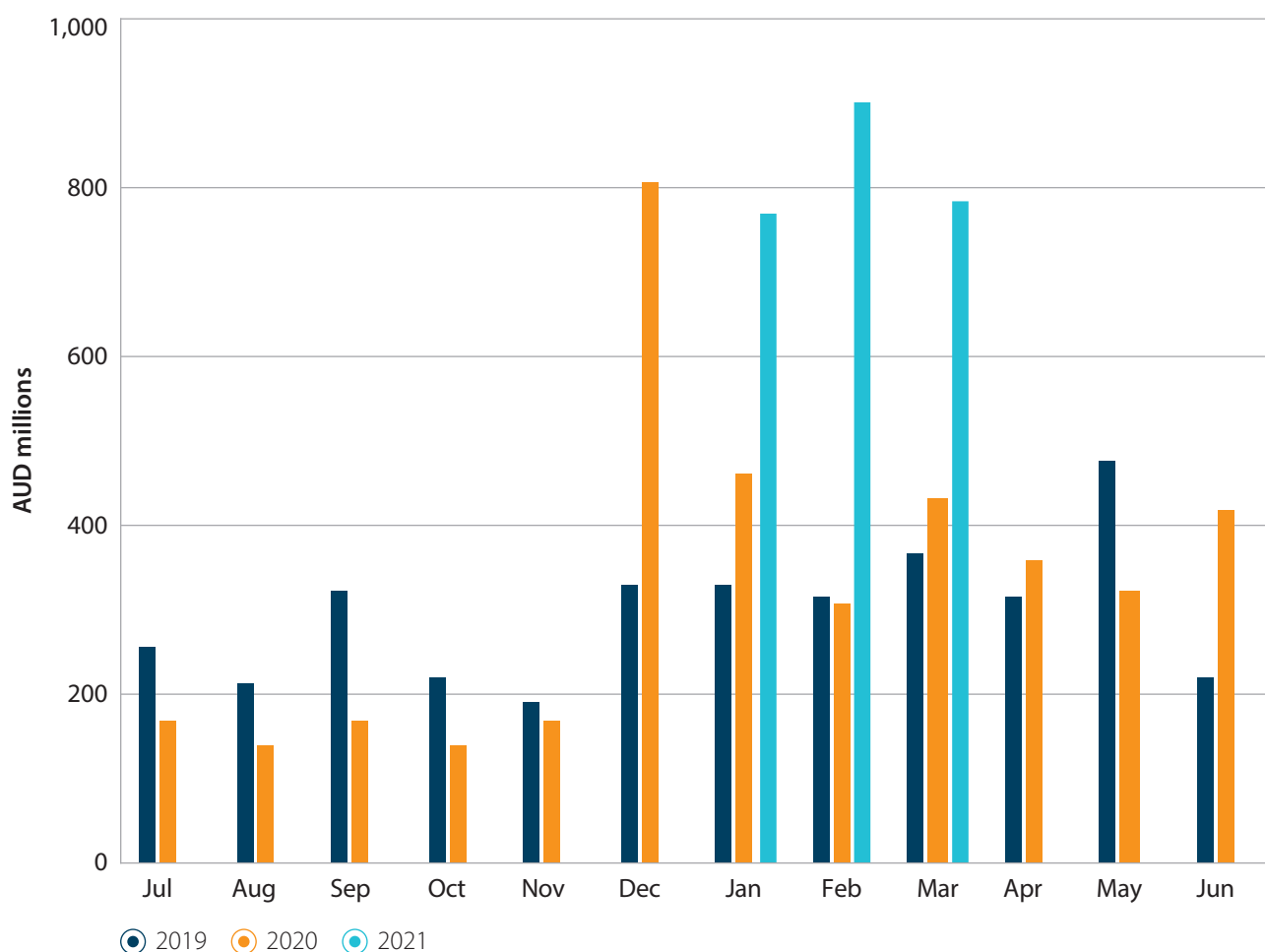
This was driven by better than expected rain over a number of the major cropping regions, which has lifted yield expectations.

ABARE's June crop report is now forecasting next year's total winter crop production to hit 46.8 million tonnes. While this figure would be 15 per cent below last year's near record production, it would still be an impressive 13 per cent above the 10-year average.

By this time of year, almost all of Australia's wheat will already have been sown, with perhaps some mid-season varieties yet to go into the ground. Similarly, most barley will also have been planted – in many areas, barley planted after mid-June can result in smaller grain and higher protein, which can reduce the likelihood of the grain being accepted for malting.

Interestingly, while the 2021/22 crop production levels are forecast to be below last year's, the actual acreage sown to winter crops is forecast to be a new record of 23.2 million hectares, up 2 per cent on last year.

AUSTRALIAN WHEAT EXPORTS (MONTHLY)



Source: DFATS, ANZ

The record sown acreage is likely driven by two major factors: confidence over the levels of soil moisture, given the relatively good season, as well as the lure of high grain prices across the board, and the outlook for them to remain strong.

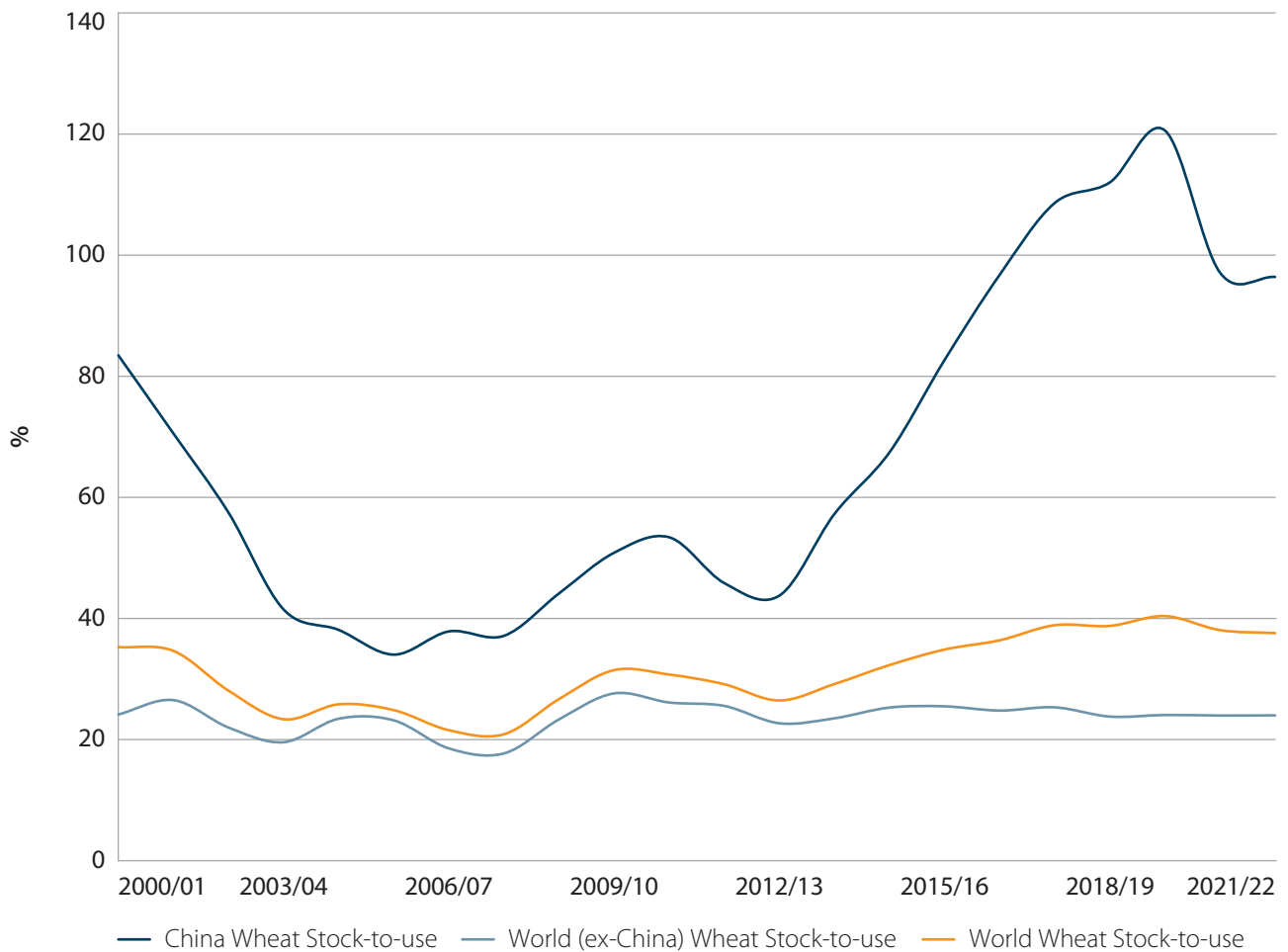
The differing acreage outlook for Australia's other two major crops could potentially be linked to geopolitics. The area planted to canola is forecast to rise by around 25 per cent to 3 million hectares, possibly boosted by high world prices. In contrast, barley acreage is forecast to fall by 4 per cent to 4.2 million hectares, which could be partially attributable to some grower nervousness after last year's Chinese import tariffs, though this could also be due to normal crop rotation.

The combination of last season's record crop and this year's good rains will see some other interesting shifts for the local grain landscape.

Domestic wheat consumption is estimated to have actually decreased by 5 per cent over the past season, largely due to a fall in feed wheat usage, as good pasture conditions displaced the need for supplementary feeding. In addition, the record production levels served to replenish Australia's domestic stock levels, which tripled over a year, to reach 6 million tonnes in 2020/21.

Over the course of 2021, Australia's wheat exports have continued to remain strong each month, hitting over 6.7 million tonnes over the three months to April. Indonesia made up almost one quarter of all exports, at 1.5 million tonnes over that period, around double the next largest market in Vietnam. China, the Philippines, South Africa and Thailand all remained consistently strong markets.

CHINA'S WHEAT STOCKS SUFFICIENT TO MEET ITS ONE YEAR CONSUMPTION



Source: USDA PSD, ANZ

Looking ahead, the focus of the world's major grain exporters remains on predicting China's import strategy over the coming months. Officially, China's National Food and Strategic Reserves Administration had earlier announced that it had a 650-million-tonne stockpile of grain reserves, enough to meet the country's needs for over a year. In contrast, the US Department of Agriculture (USDA) is currently forecasting that China will have 464 million tonnes of wheat, coarse grains and rice ending stocks for the 2020/21 period. While part of the large discrepancy could be due to the fact that it is unclear which crops China includes in its government's estimates, industry observers believe this still means that China is likely to import a major volume of grains and oilseeds over the remainder of the year.

While the majority of this is likely to be made up of corn and soybeans, USDA still predicts that China will also import a further 10.5 million tonnes of wheat. While Australian exporters will likely be able to gain a reasonable percentage of this market, the fact that China's imports will be so large could well open up even more opportunities for Australia if competitors' volumes for other markets are diverted to China.

At the same time, wheat imports into Southeast Asia are also forecast to rise by around 6 per cent in 2021/22 as the region recovers from the initial COVID-19 economic impacts.

With wheat production from Russia, one of Australia's largest competitors, forecast to fall, and US production forecast to plateau, Australia remains seemingly very well positioned for some time to come.



SHEEP INSIGHTS

OVERVIEW

- + Favourable weather conditions and feed availability supporting good multi birth survival
- + Strong lambing results from last Spring set to bring a bumper Spring flush this year
- + Global lamb consumption expected to grow as demand for safe, quality red meat continues
- Divergence between East coast and West coast sheep sectors continues
- Australian lamb consumption in decline in favour of chicken
- Mouse plague causing some concerns over feed stock levels and quality

The good seasonal conditions have continued through autumn leading to encouraging lambing results with strong multi birth survival rates. This sets producers up well for this spring. While seasonal conditions may not be as good as this time last year, the increased number of ewes and lower mortality rates are likely to support stronger lambing this season.

The focus on rebuilding is leading to some farmers looking to join ewe lambs earlier. This can be a tricky balance with last year's spring flush reaching 12 months producers have to decide whether to join early or hold off. An error here potentially impacts a ewes' productivity in the years to come.

Australia's sheep producers are heading into winter in a strong position. While the seasonal conditions return to neutral, good soil moisture in many parts will support the ongoing flock rebuild. Yardings remain strong compared to last year, however, they are averaging around 10 per cent below levels seen this time in 2019.

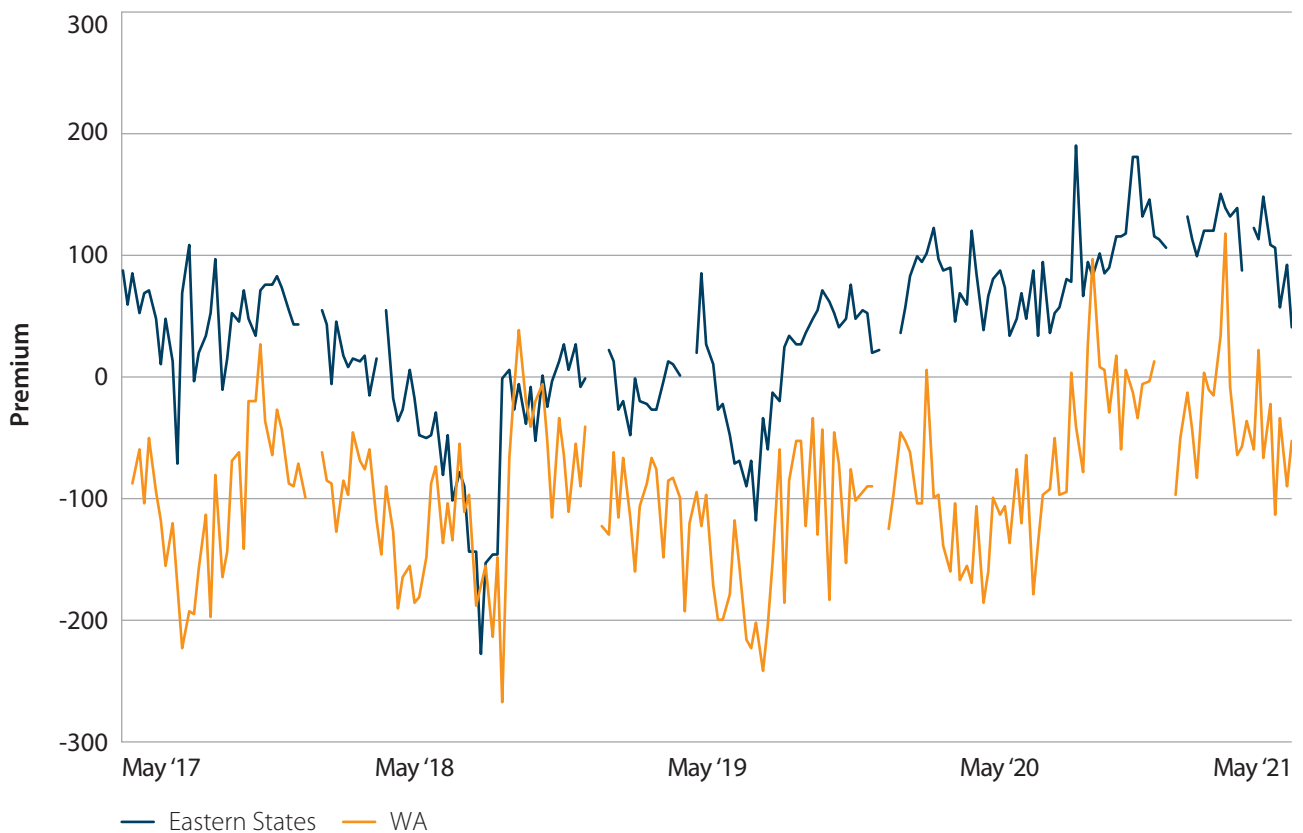
Trade lamb prices remain comfortably over the 800c/kg range, while May saw the average weekly sale price of restocker lambs dropped below 900c/kg for the first time this year. This may be the first sign that producers are getting to a point where they are comfortable with flock levels.

While May was relatively dry, the Bureau of Meteorology outlook is for a wetter winter through much of central and eastern Australia. The mouse plague throughout parts of NSW, depleting additional seed stock levels could have some farmers concerned about feed quality.

SHEEP STILL BEING SHIPPED ACROSS THE NULLARBOR

Meanwhile the outlook for south-west Western Australia is still for dryer conditions, which will only increase the gap between the East and West. Given the demand for restockers in the eastern states, it's not surprising sheep are still being shipped across from WA. This does appear to have eased off somewhat in recent months with an average of 107,000 per month this year compared to an average of 159,000 per month in 2020.

RESTOCKER LAMB PREMIUM OVER TRADE LAMB PRICE



Source: MLA, ANZ

Although Australian lamb consumption has steadily declined in favour of chicken, global consumption continues to grow. The rise of chicken is discussed further in the poultry section of this report. Interestingly, per capita, Australia still consumes more sheepmeat than most other countries at 8kg per capita, reflecting the long connection to lamb as a premium cut, particularly when eating at restaurants.

The OECD forecasts GDP growth of 1.4 per cent per annum to 2024 as a result of income growth in key Asian markets. With these highly populated markets coming off a relatively low base in meat consumption per capita, any increase will have a significant impact. Although sheepmeat holds a comparably smaller market share in many countries, those with high Muslim populations continue to have high demand, with parts of the Middle East consuming well over 10kg per capita.

Lamb exports of 26,000 tonnes in May were up to their highest level since October 2019, with China the largest importer. This is most likely due to a second wave of African Swine Fever, which has led to ongoing demand for alternative meat proteins. Sheepmeat imported from Australia is also considered both a safe and high quality alternative, making it popular with wealthier Chinese consumers.

Although mutton exports appeared to be recovering earlier in the year following extremely low export volumes through mid-2020, volumes dropped off in May leading to an overall 15 per cent decline compared to this time last year. This is likely a result of tight supply with demand pushing the price consistently higher over the past five months, with the over-the-hook price of mutton 15 per cent higher in May compared to January 2021.



WOOL INSIGHTS

OVERVIEW

- + Price premiums in the superfine micron offerings increasing to over 1000c/kg
- + Wool prices stabilised with consistent offerings and improved consumer confidence increasing demand from buyers
- + Favourable conditions fleece weight despite fall in number of sheep shorn
- Short to medium term wool demand to be dependent on ongoing economic recovery particularly heading toward the Northern Hemisphere winter
- Improved traceability key to acquiring high end sustainability focused buyers
- Demand for mid to low micron wool plateauing in favour of superfine merino offerings

Winter feels like it's hit earlier in many parts of Australia, or maybe it's just that this time last year we were all wrapped up in our blankets at home with the heating on. Either way the strengthening consumer confidence, snow on the mountains and Australians moving around more is good for the wool and apparel industry.

While the snap lockdowns in major cities are likely to continue through to the end of the year, they have limited impact on overall consumer confidence. Wealthy consumers having saved during lock-down are more likely to spend on high quality items, such as wool, as they get out and about again.

INCREASED CONSUMER CONFIDENCE IN NORTHERN HEMISPHERE

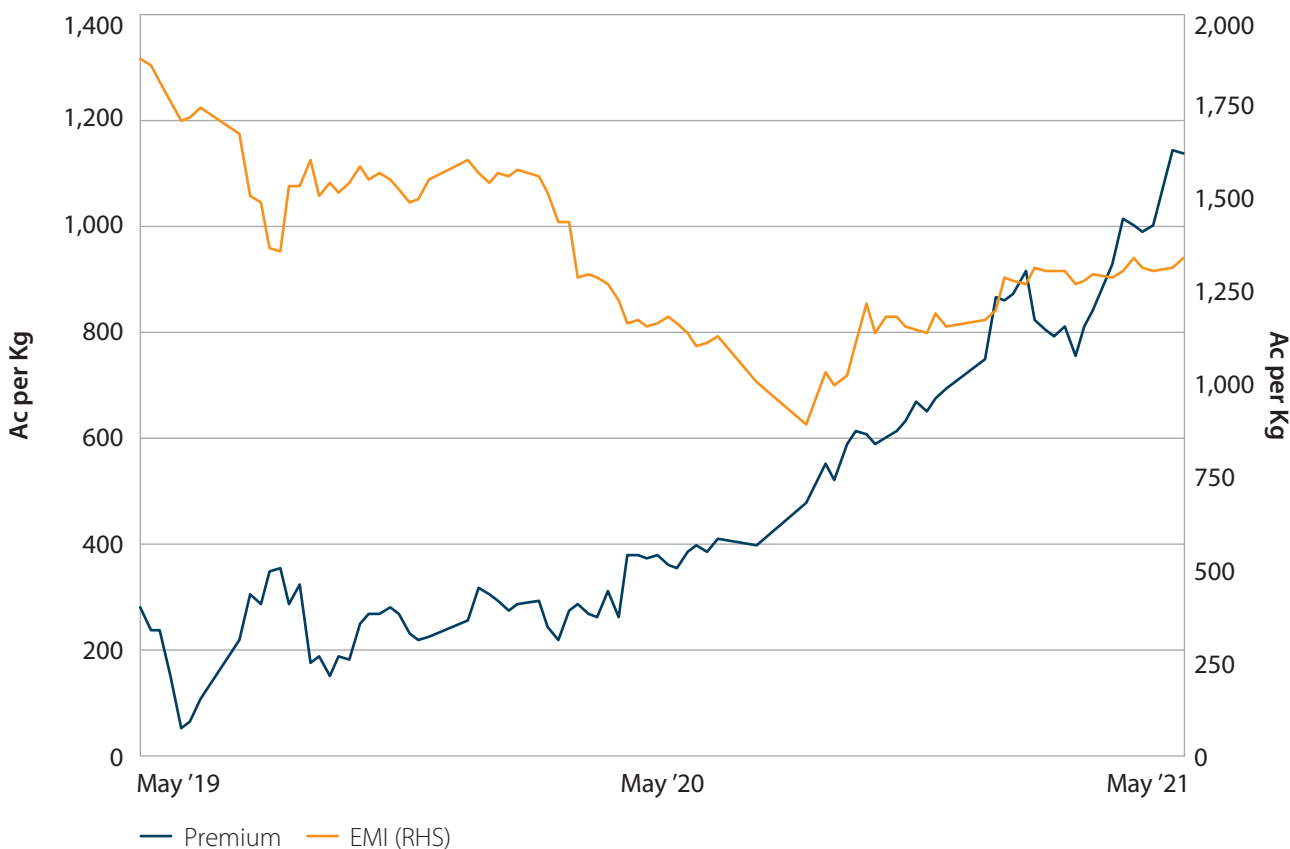
With Australia heading into the depths of winter, the industry looks to planning for the Northern Hemisphere winter, encouraging signs that the vaccine rollout is allowing many countries to return to normal. This is leading to brands looking at relaunching strategies put on ice last year.

Consumers are still, and in some cases even more interested in understanding the sustainability of their purchases, which puts wool in a prime position.

Increasing interest from major US brands as well as Europe and Japan for superfine merino wool is pushing up prices. This has been compounded by limited availability of cashmere leading to more demand from high end markets for the finer micron wool which is not only comparable but many would argue a superior yarn.

Traceability will be a big factor for the high end market, with companies looking to transact direct with the producers to ensure sustainability and quality. More and more international fashion labels have made sustainability commitments which can include using non-mulesed wool, making improved tracing extremely important. While the price premium at the auction houses reflects the superfine merino and to a lesser extent the value placed on non-mulesed wool, when producers sell direct to buyers much of this premium is not identified through the auction houses.

PREMIUM FOR SUPERFINE MICRON WOOL HAS INCREASED SIGNIFICANTLY OVER THE LAST 12 MONTHS



Source: AWI

The increased demand for super fine merino has seen the price for 17 micron wool steadily increase over the past year. While the gap between 17 and 21 micron 12 months ago was minimal it now sits at over 1100 Ac/kg. Meanwhile for the mid micron market demand appears to be aligning with supply, leading to little movement in price and an increase in discounting from the superfine microns sellers.

However, producers do appear to be slowly responding. According to the Australian Wool Testing Authority, over the last 20 years Australian wool fibre decreased from an average of 22 microns to 20.5 microns in 2020. This is being led by Western Australia reducing by an average of 2.4 microns over the same term.

The first half of 2021 has seen wool prices largely return to pre-pandemic levels. With the benchmark EMI having hit a low of around 850 cents last September, prices remain comfortably around the 1,300 Ac/kg for the last few months.

The lead up to the winter pause saw a slow and steady increase in value. However, with many growers still holding onto excess wool it's unclear how much longer they can sit on these stockpiles.

With improved yields as a result of good conditions expected, overall supply of Australian wool onto the market is forecast to grow over the next five years. In a further sign of the positive impacts of the ongoing relatively good season, the Australian wool clip is forecast to climb by a marginal 1.7 per cent in 2020/21 to 288,000 tonnes, despite a 5 per cent fall in the number of sheep shorn.

As the overall levels of wool production grow, with a forecast rise in overall production of over 20 per cent by 2025/26, concerns may arise that this could lead to a build-up of supply in the system, However, the current forecasts also indicate that wool exports are likely to continue to grow at the same strong rate as production, limiting the levels of end stocks.

DAIRY INSIGHTS



OVERVIEW

- + Opening milk prices are some of the strongest seen in years
- + Global dairy prices have eased slightly from the highs earlier this year, they still remain very strong
- + The recent decision in New Zealand to ban live exports by 2023 may benefit Australian farmers to meet Chinese demand to grow the domestic dairy herd
- Coming into the northern hemisphere's peak production season may change global supply dynamics
- A few difficult years prior to this year have seen many domestic dairy farmers leave the industry, constraining the future outlook for domestic production
- Labour shortages and high global fertiliser prices are providing notes of caution for the optimistic industry

The strong start to 2021 has continued for the Australian dairy industry, with the announcement of opening farmgate prices highlighting the strong competition between processors. The back-and-forth between processors to increase their opening prices within days of announcement highlights both the strength of the processors' positions as well as the fierce competition to retain producers. The global position is looking good for domestic prices as well, as production growth remains relatively constrained despite increasing demand as the global economy recovers.

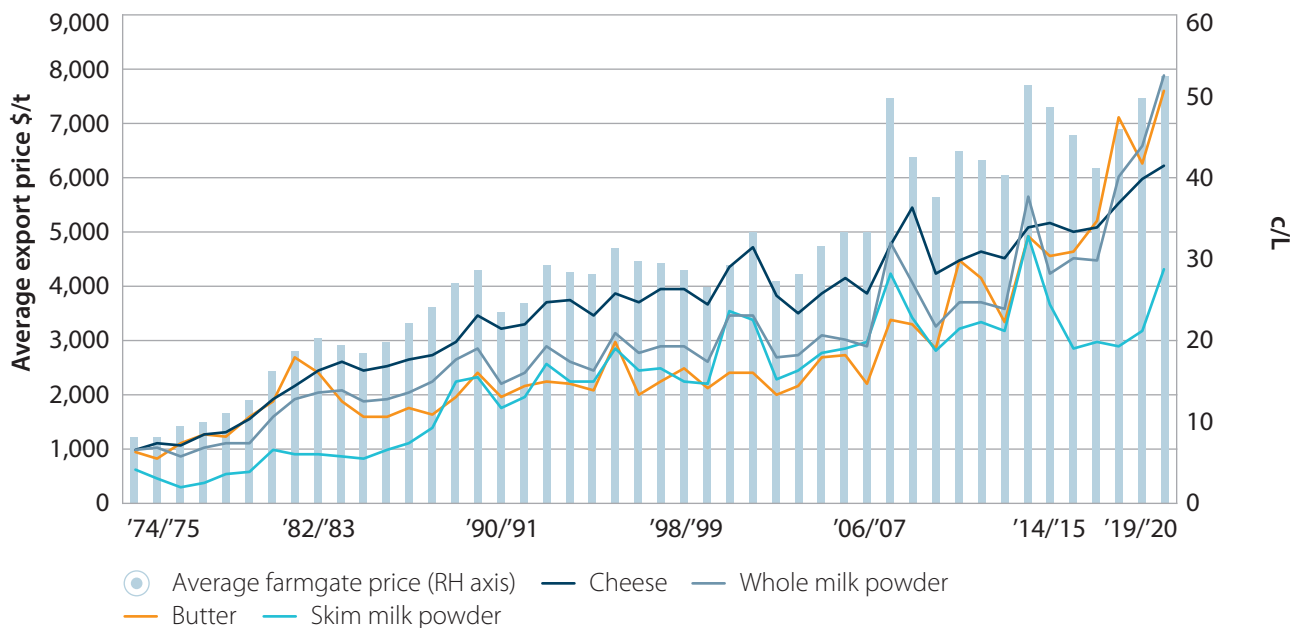
DOMESTIC INDUSTRY EXPERIENCING STRONG PRICES, OUTLOOK

The domestic industry is feeling buoyant with the announcement of opening prices, as well as the obvious competition between processors leading to upwards price revisions. After a few difficult years, the stars appear to be aligning with good seasonal conditions for the major dairy producing areas and good rainfall leading to lower water and feed prices.

Opening prices were announced by Saputo of \$6.65/kg milk solids and Bega of \$6.80/kg milk solids in southern Victoria and \$7/kg milk solids in the state's north and Riverina. While Saputo and Bega haven't revised their opening prices, Bulla has upped their prices to a price range of from \$6.70/kg–\$7.20/kg milk solids, up from \$6.50–\$7.00 in May. Fonterra also lifted its average farmgate milk price to \$6.85/kg milk solids, up from the opening offer of \$6.55/kg milk solids.

Strong opening prices come in addition to slight increases in national production, which sat 0.7 per cent higher in the year to March 2021 than the same period the previous year. Unexpected gains have been made in South Australia and New South Wales as good seasonal conditions have flowed through to milk production. However there remain concerns in the industry that a series of difficult years has led to many dairy farmers leaving the industry and taking advantage of strong land prices and commodity prices to convert dairy land into other usages.

AUSTRALIAN FARMGATE MILK PRICES V EXPORT PRICES



Source: ABARES, ANZ

According to ABARES survey data, while the number of dairy businesses operating is at an all time low, the amount of land under dairy has not quite reached the lows of 2011 – indicating that consolidation is also a significant factor in the industry exits.

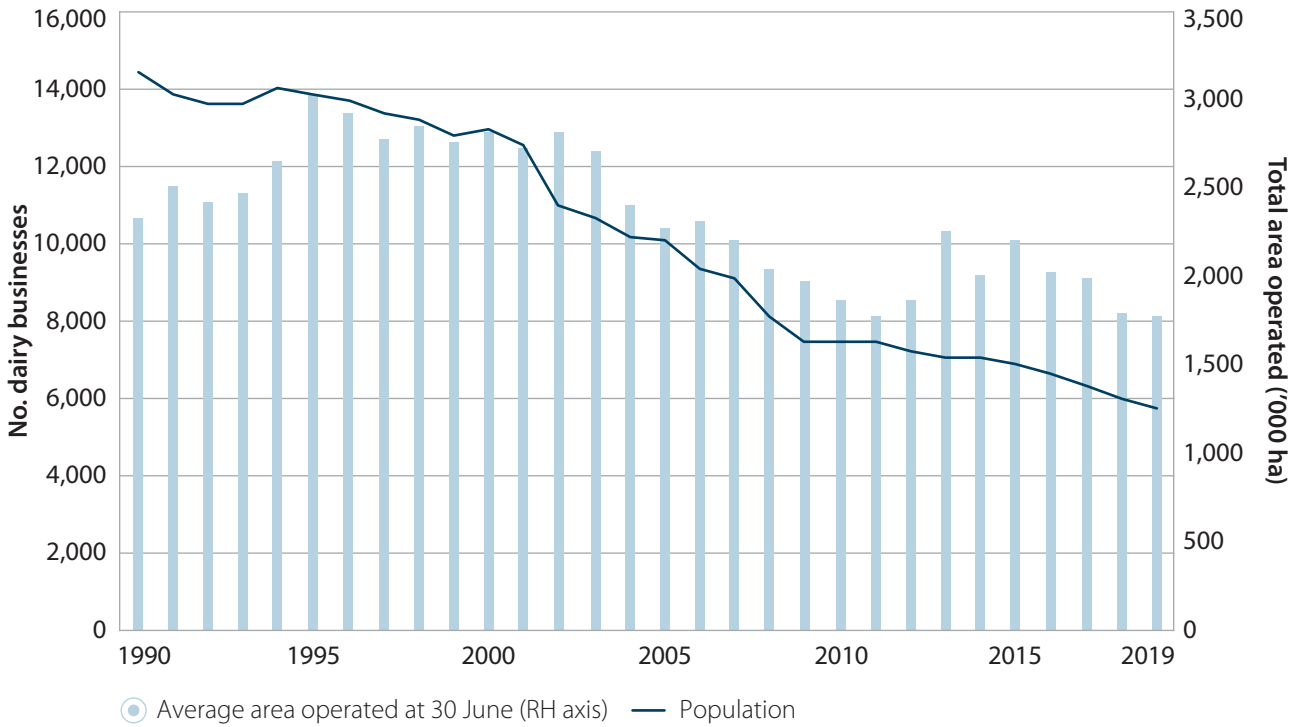
GLOBAL DAIRY SITUATION

Global dairy prices have had a relatively subdued April and May after a very strong start to the year, recording slight falls in recent Global Dairy Trade (GDT) auction events. This has, however, seen the solid gains from earlier in the year cemented at historically strong levels. The most recent GDT auction saw an overall fall in the average price of 0.9 per cent to \$US4,128. While the average price remains strong, it has masked some solid drops in particular product sectors, particularly butter prices which have fallen 5.4 per cent to be almost 20 per cent lower than in late March this year. This correction has not been unexpected, however, as the rise of butter prices since September last year has been precipitous, coinciding with more supply entering the market. Skim milk powder and cheese prices continue to perform solidly, while the shine has come off whole milk powder prices slightly, as a result in the moderation in demand for butter.

Looking forward, as we approach the northern hemisphere's peak production season, all eyes are turning towards forecast output and the impact on global supply. To date, northern hemisphere production is expected to increase only slightly, with the only significant increases coming from the United States (1.6 per cent) and European Union (0.3 per cent). Production in New Zealand is also expected to increase 1.2 per cent, according to the latest USDA estimate as a result of the declining national herd. There are some concerns that high feed costs in the European Union will curb production into the second half of the year and high levels of herd culling will also keep a lid on supply. Ending stocks are expected to fall globally for all dairy product sectors except cheese. According to the USDA, Australian exports are expected to remain solid, with some good growth in cheese and fresh milk exports.

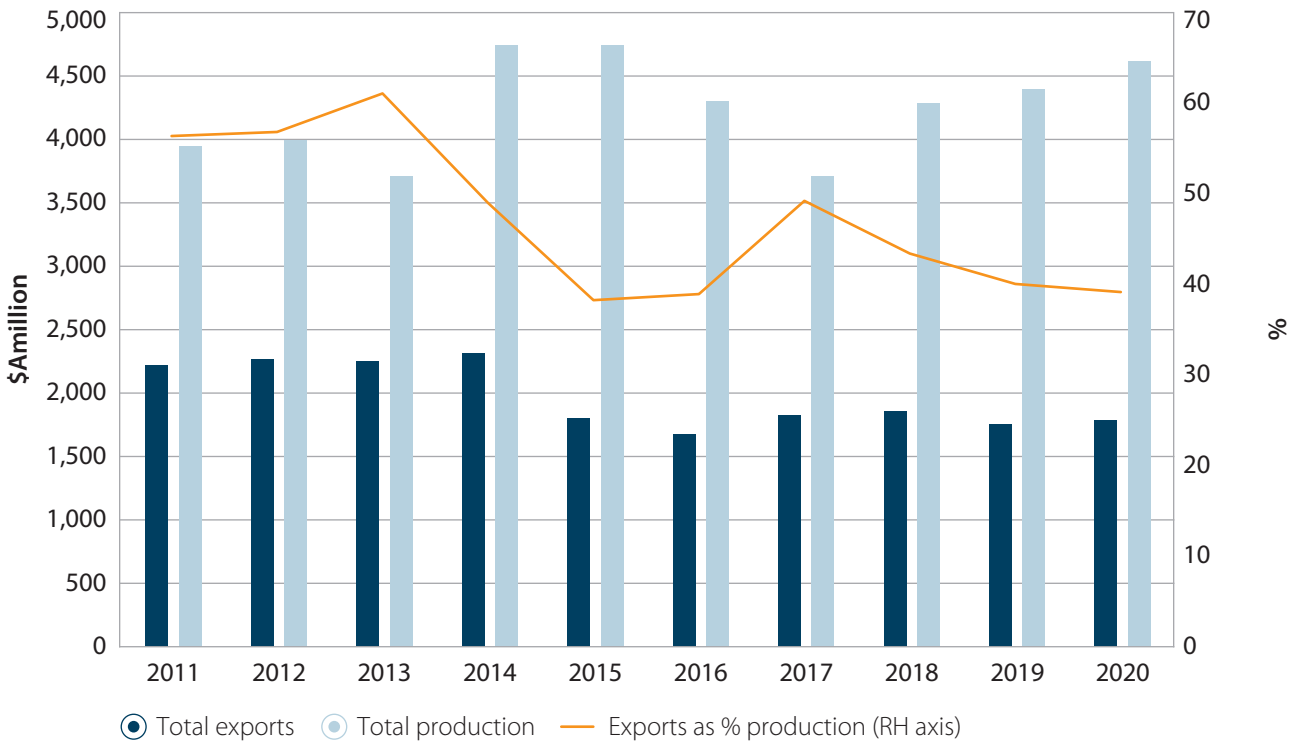
Chinese demand continues to be the driving factor for global demand, as Chinese taste for dairy consumption outpaces domestic production. China has expressed a desire to build their self-sufficiency in dairy, with significant new investment and demand for dairy breeders. A recent decision by the New Zealand Government to ban live export by 2023 may see Chinese demand for breeding stock shift towards Australia and its depleted national dairy herd.

DAIRY BUSINESS NUMBERS VERSUS TOTAL AREA



Source: AgSurf, ANZ

TOTAL AUSTRALIAN EXPORTS AND PRODUCTION - DAIRY PRODUCTS



Source: TradeMap, ABARES, ANZ



POULTRY INSIGHTS

OVERVIEW

- + Chicken has been by far the most popular meat eaten by Australians, and its popularity is likely to continue to widen the gap between chicken and other meats in future
- + Chicken meat production more than doubled, from just under 600,000 tonnes in 2000/01 to 1.24 million tonnes in 2019/20, with increase in demand
- + Feed Conversion Ratio (FCR) has increased by an impressive 36.5 per cent since 1980, from an estimated 2.51 kg feed/live weight to 1.6 kg feed/live weight in 2020
- Australians are already amongst the highest consumers of chicken meat in the world, which may limit further scope of consumption growth

While the cattle and sheep industries might continue to dominate the agri headlines, the meat which continues to dominate the dining tables and stomachs of consumers is chicken.

For a number of years, chicken has been by far the most popular meat eaten by Australians, and looking ahead over the coming decade, the gap between chicken and other meats looks set to widen even further.

Importantly, the popularity of chicken as a meat is being recognised not just by hungry consumers, food retailers and restaurants, but by the global investment community, keen to capitalise on the industry's growth outlook, as well other attractive investment factors.

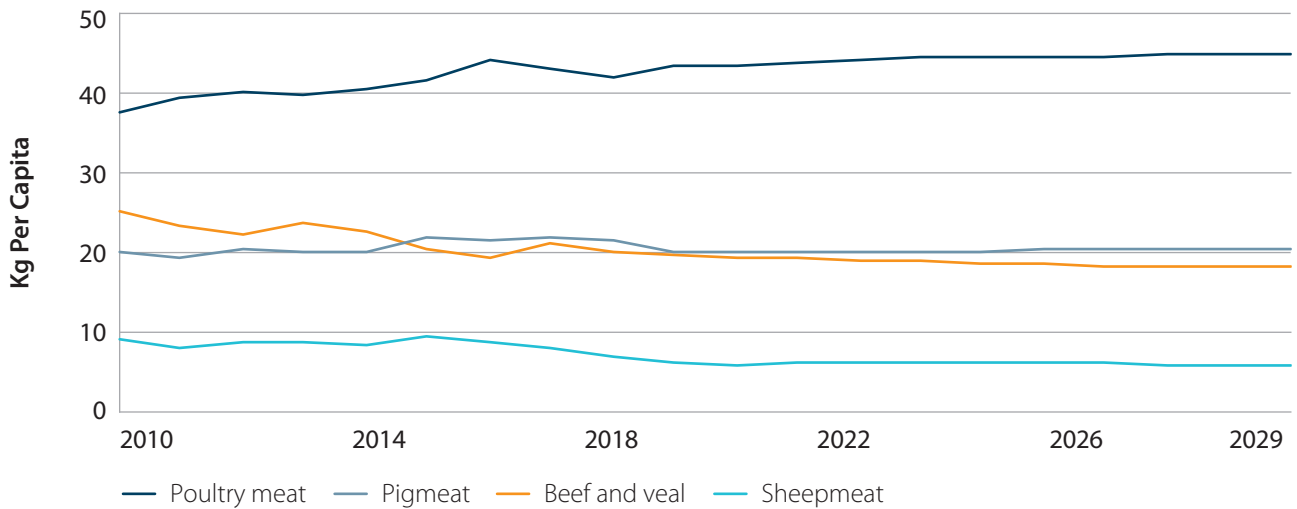
On a production growth basis, Australian chicken meat production continues to grow rapidly. Between 2000/01 and 2019/20, chicken meat production more than doubled, from just under 600,000 tonnes to 1.24 million tonnes. This represented a compound annual growth rate of 3.9 per cent, which is nearly three times higher than overall Australian meat production.

Notably, this growth in production has been achieved particularly through an impressive growth over that period in the yield per bird. From 2000/01 to 2019/20, the yield per chicken increased from 1.52 kg cw to 1.89 kg cw, or an impressive increase of over 24 per cent.

For any meat supply chain, one of the most important measures of efficiency, and ultimately profitably, will be the comparative level of inputs required for different meat categories to produce the same volume. Essentially, this boils down to the feed conversion ratio (FCR), or the feed required to produce one kilogram of live weight of chicken. For chickens produced in Australia, this measure of efficiency has increased by an impressive 36.5 per cent since 1980, from an estimated 2.51 kg feed/live weight to 1.6 kg feed/live weight in 2020.

In terms of per capita consumption, chicken meat has continued its upward trend past the more traditional meats. It passed sheepmeat consumption in 1988/89, beef consumption in 2001/02, and now accounts for around 50 per cent of per capita meat consumption.

AUSTRALIAN MEATS PER CAPITA CONSUMPTION



Source: OECD FAO, ANZ

On a relative basis, Australian per capita chicken meat consumption is more than two times that of beef or pork and nearly eight times that of sheepmeat.

With per capita consumption having increased from around 31 kg in 2000/01 to around 45 kg in 2020/21, Australian consumers are now amongst the highest consumers of chicken meat in the world. In terms of global comparisons, Australia sits below Malaysia (57kg per capita), United States (51kg per capita) and Brazil (48kg per capita). In contrast, Australians eat considerably more chicken than consumers in New Zealand (40kg per capita), the European Union (26kg per capita), South Korea (19kg per capita) and Japan (18kg per capita).

Undoubtedly, the comparative retail price of chicken also plays a role in its popularity. For example, from 2011/2012, as CPI rose by 16 per cent, the retail prices of Australia's other major meat categories rose even faster, for beef (41 per cent), sheep/goat (26 per cent) and pork (19 per cent). In contrast, the retail price of chicken rose at less than CPI, climbing only 7 per cent over that period. Whether for consumers balancing their household food budgets, restaurants planning their menus, Quick Service Restaurant chains strategising their offerings, or manufacturers looking at their meat-related products, this price difference is of huge importance in choosing between meats.

Unlike other meat sectors, Australian poultry sector is almost entirely focused towards domestic consumers, with only 5 per cent of domestic production exported. Of this, exports largely consist of low-value cuts and offal.

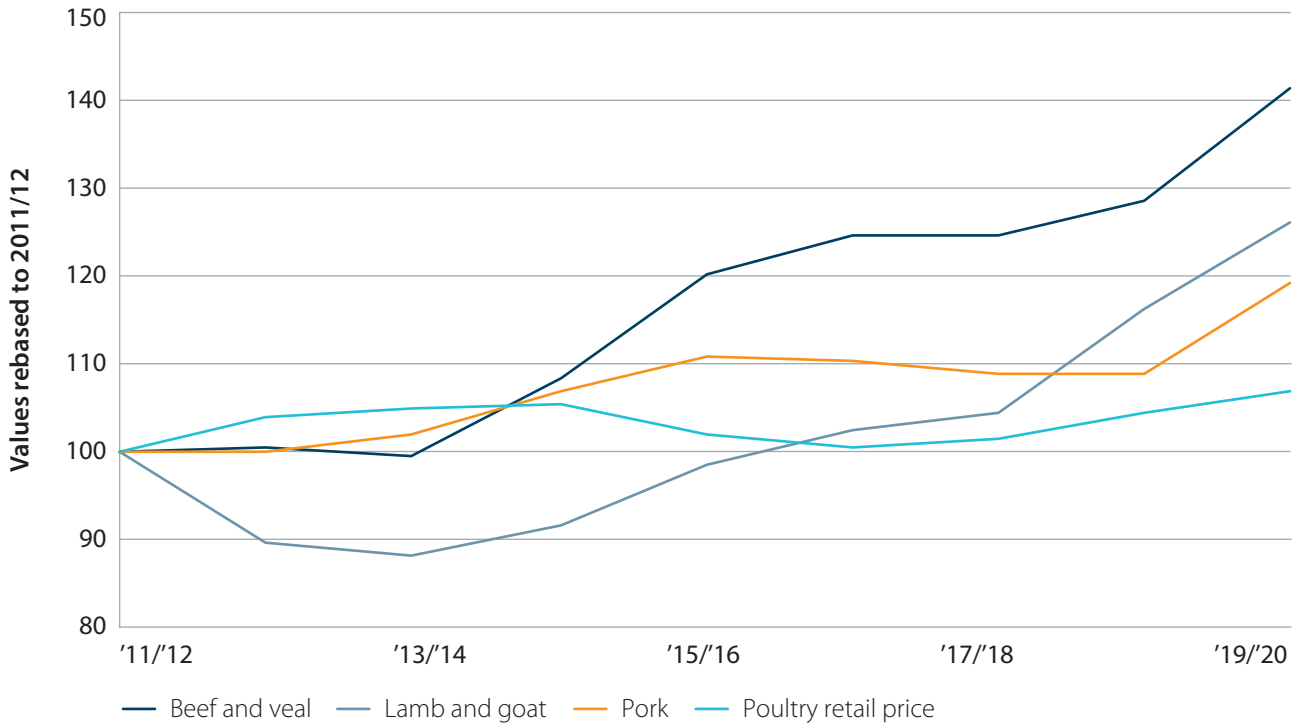
From an industry structural perspective, these attributes are some of the major reasons why the poultry supply chain will increasingly be on the radar of investors, be they outside the wider sector, or those already experienced in the meat industry.

The outlook for production and consumption shows no signs of slowing, particularly as tight sheep and cattle supply combined with export demand means that the prices of those alternatives are likely to remain high. At the same time, developments in everything from chicken feeds to genetics means that the efficiency comparisons are likely to become even more impressive. In addition, the ability to integrate operations, from feed manufacturing right through to the processed product, is far easier with chicken than any other meat.

Very importantly, the stakeholders in the poultry supply chain will not only continue to work to ensure that sustainability measures, including animal welfare, remain a primary focus, but will work to incorporate this ethos even further. This will be driven by a number of factors, including developing regulations, consumer and retailer demand, and fundamentally, the importance of all those in the animal-related sector to ensure that this is the top priority.

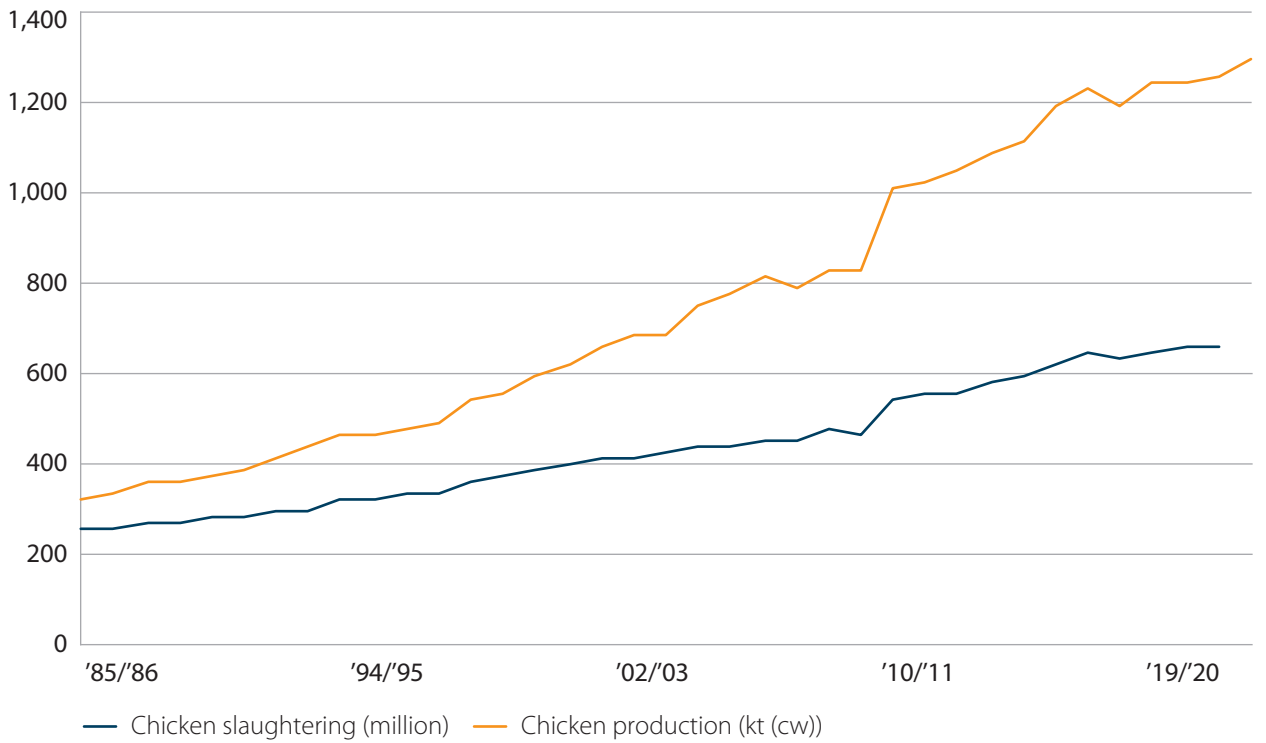
While the Australian industry is in a very strong position, evidenced not just by the healthy appetite of both consumers and investors, the future looks even stronger.

AUSTRALIAN MEATS RETAIL PRICE COMPARISON (2011/12 =100)



Source: ABARES, ANZ

AUSTRALIAN CHICKEN NUMBERS VS WEIGHT



Source: ABARES, ANZ



INTEREST RATES SET TO RISE SOONER THAN EXPECTED

Consumer confidence remains above the long-term average despite snap lockdowns

THE ECONOMY IS GROWING QUICKLY AND THE CASH RATE MAY RISE TO 0.5% DURING 2023

GDP rose a strong 1.8 per cent quarter over quarter (q/q) in March and is now 0.8 per cent above pre-pandemic levels. We expect very strong GDP growth of 5 per cent through 2021 and 3.5 per cent through 2022.

The strength is consistent with the ongoing improvement in the labour market, while leading indicators point to further strength over the coming year. We think there will be sufficient wage growth and inflation by the second half of 2023 for two increases in the cash rate, bringing it to 0.5% by the end of 2023.

WE HAVE WEATHERED THE WITHDRAWAL OF EMERGENCY FISCAL STIMULUS UNEXPECTEDLY WELL

While policy support is still very high, the end of key emergency measures, including JobKeeper payments, the JobSeeker supplements, and other stimuli such as HomeBuilder are now over. Even without these measures, business conditions point to ongoing solid expansion; high levels of capacity utilisation will support hiring and investment, and consumers still have a very large savings buffer.

BUSINESSES AND HOUSEHOLDS ARE FEELING CONFIDENT

Non-mining businesses upgraded their 2021–22 plans for capital expenditure by 11.3 per cent to \$77 billion, a much larger upgrade than we'd usually see at this time of the cycle. The average upgrade in the March quarter was 6.9 per cent in the five years pre-pandemic.

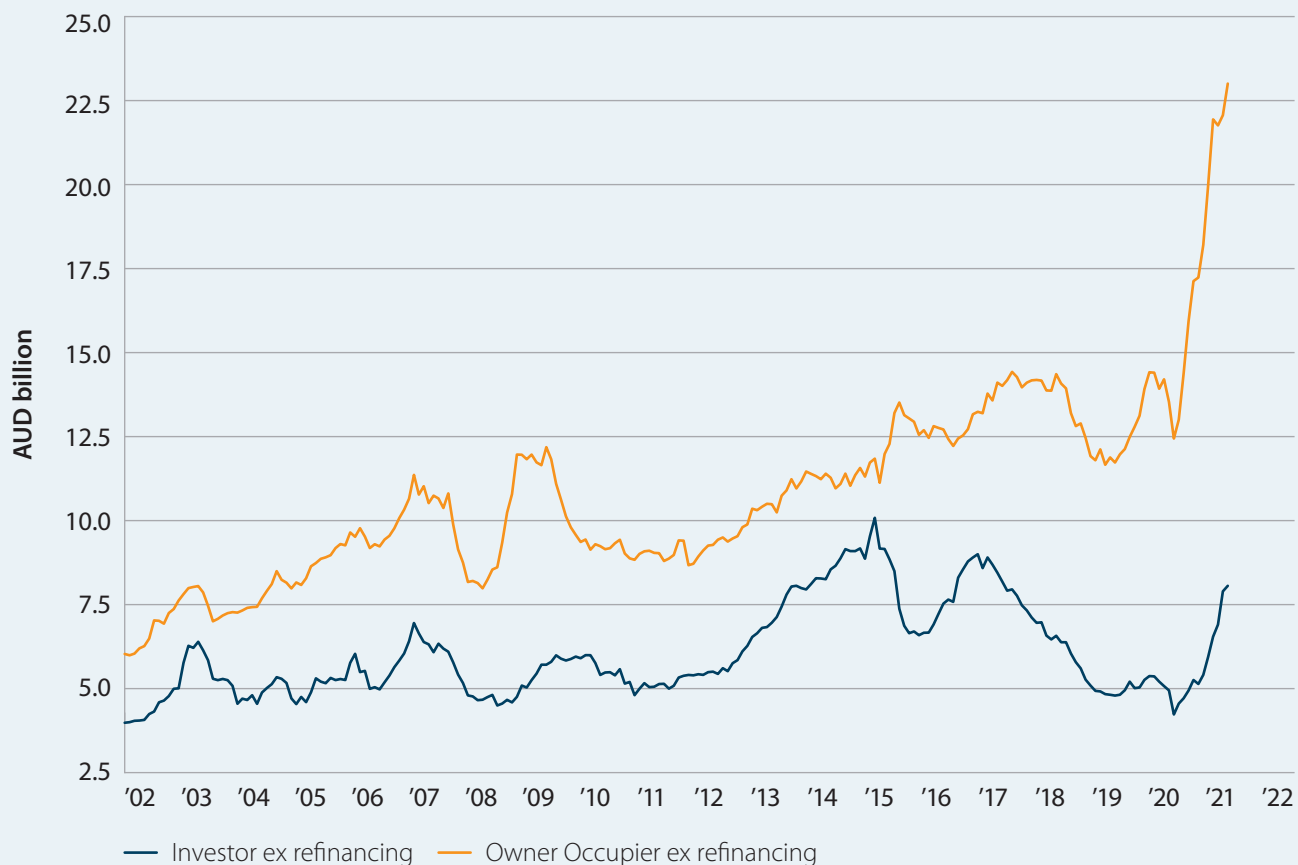
Households are also borrowing more, with owner-occupier housing lending up 55 per cent compared to the five-year pre-pandemic average. Consumer confidence is a little above its long-term average and the index for expectations of bad times ahead among household has been trending lower, despite snap lockdowns through 2021.

EMPLOYMENT IS BACK AND WAGE GROWTH IS PICKING UP

Unemployment has fallen to 5.1 per cent, matching its immediate pre-pandemic level. Underemployment is at its lowest since 2014 and the labour market is poised for further gains, as job ads runs nearly 39 per cent above pre-pandemic levels. The index of difficulty to find labour is also at a 12-year high.

The wage price index is picking up a bit quicker than previously expected, with growth of 0.6 per cent q/q in Q1 2021. This annualises at 2.4 per cent y/y, slightly above where it was pre-pandemic. Average salary deposits rose in April after a weak March, signalling some strength in Q2 wages despite the end of JobKeeper. And the larger-than-expected minimum wage increase of 2.5 per cent, which will be effective for most industries from July, will also contribute to strengthening wage growth. We expect wage growth to start growing 3 per cent y/y from late 2022.

STRONG HOUSING LENDING SUGGESTS HOUSEHOLDS ARE CONFIDENT ENOUGH ABOUT THE ECONOMY TO TAKE ON FINANCIAL RISKS



Sources: ABS, Bloomberg, Macrobond, ANZ Research

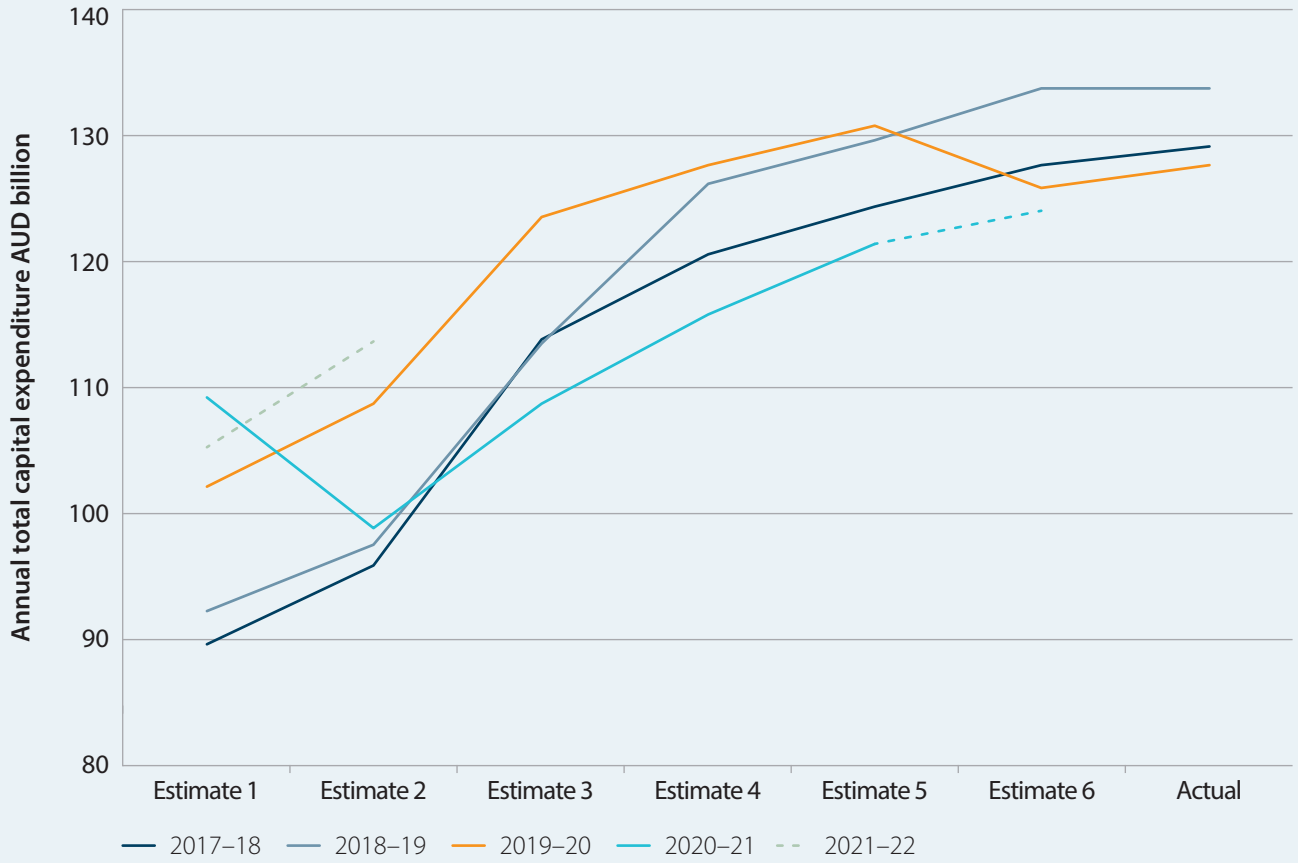
TRADE IS BOOMING BUT UPWARD PRESSURE ON THE AUD REMAINS

Australia's exports have been a key aspect of the recovery and are continuing to grow. Good growing conditions have been key to the increase in agricultural exports and we expect this to continue. But ANZ forecasts still show that there is upward pressure on the AUD, which we expect to average USD 0.82 over 2022.

THE BIGGEST RISK TO THE OUTLOOK IS STILL COVID

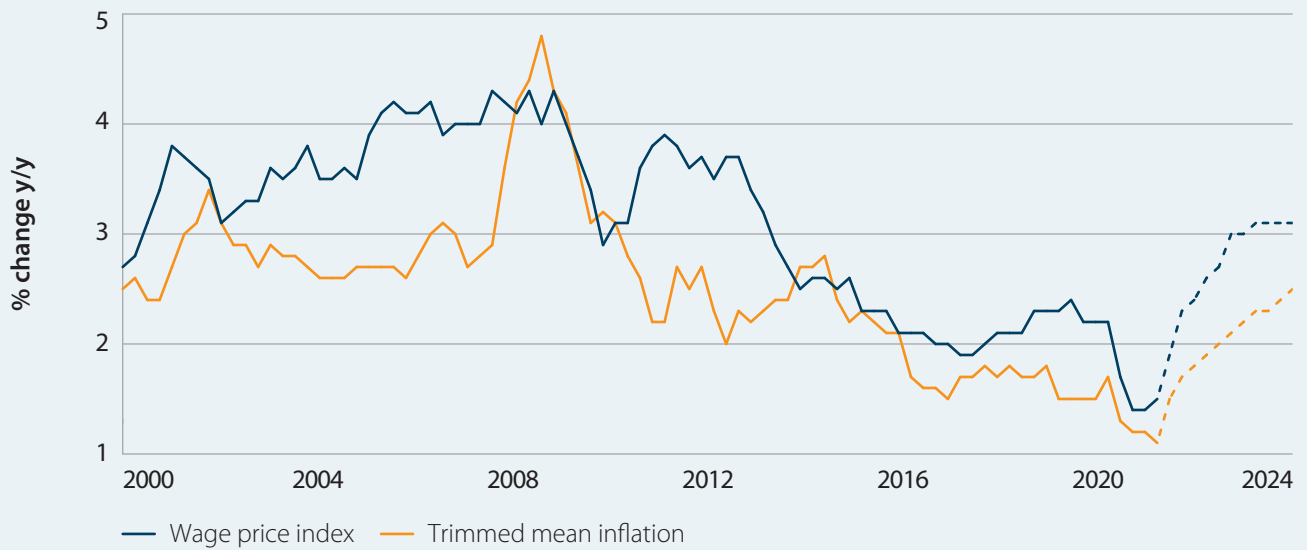
Uncertainties around the outlook remain, but must be seen in the context of the much better-than-expected position the economy is now in. The biggest risk to the outlook comes from the pandemic itself, as recent lockdowns in Victoria and community cases in NSW show. While the last year has shown that confidence and spending tend to bounce back quickly after short lockdowns, the current lockdown may have a larger impact given the absence of JobKeeper.

TOTAL CAPITAL EXPENDITURE PLANS FOR 2021-22 ARE TRENDING MUCH HIGHER THAN RECENT YEARS



Source: ABS, ANZ Research

WE EXPECT WAGES GROWTH AND INFLATION TO BE SUFFICIENT FOR AN INCREASE IN THE CASH RATE IN H2 2023



Source: ABS, Macrobond, ANZ Research

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