



**ANZ AGRI
INFOCUS**
APRIL
2020

COMMODITY INSIGHTS

FOREWORD

As we travel the uncharted waters of COVID-19, it's hard enough to understand what is happening, let alone what might happen. One thing that seems apparent is that farming is standing up particularly well. At least comparatively.

We all know food is essential to everyone every day; the empty supermarket shelves send a stark reminder of that to our population. This in itself, of course, doesn't mean that the business of agribusiness is plain sailing. In wine and seafood in particular, we've seen a dramatic impact as our significant and promising export markets have been interrupted at a critical time. The overseas supply chain has developed bottlenecks at port, and air freight has been severely restricted as passenger flights are all but grounded.

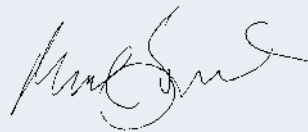
We have the continuing possibility of domestic supply chain disruptions as the regulatory environment twists and turns with the priority need of restricting the spread of COVID-19. The nature of food consumption is changing through the effective ban on eating out, as well as the drive for consumers to build home reserves as protection against a potential lockdown. And those agribusiness and farming operations that are labour intensive are forced to give enormous attention to engineering their workplace around physical distancing and outbreak contingencies.

All of this comes at some cost. The local and, indeed, global economic downturn, inevitably brought about by a shutting down of so many facets of everyday life, will impact demand for our major agri commodities to varying degrees. But for most, it seems the element of uncertainty (on both the human health and economic fronts), as opposed to immediate impact, is top of mind. We otherwise continue to see a strong and profitable farm gate commodity price environment, albeit down from recent highs.

Our mainstay commodities continue to be well supported by a strong balance of domestic and international demand, in those situations where trade can freely occur. A low Australian dollar and record low borrowing costs tend to support Australian farmers and exporters. Recent rains in eastern Australia, improving conditions in Western Australia and the Bureau of Meteorology (BOM) short-term outlook are very encouraging for the upcoming season.


While the full impact of the pandemic is not yet known in relation to red meat markets, slightly softer prices would still make for profitable selling and more affordable buying for restockers. Grain markets are hard to pick, with oilseeds perhaps particularly vulnerable, but the seasonal outlook at least is good. After a long run of record cattle on feed, it will be interesting to see how domestic feed need intersects with a new crop and international feed and milling demand.

But of course we are a long way from December and anything can happen any time in an environment like this. I hope you enjoy stepping through our key commodities in more detail. Markets and economics are a daily proposition, and it's hard to see every possible challenge – so we watch with interest knowing, at least, that our industry is well supported as essential to 'getting through' as well as for the longer term.



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WHEAT & GRAIN INSIGHTS



OVERVIEW

- Grains and oilseeds have all benefited from panic buying, boosting prices in the short term
- Overall, however, the trend in grains and oilseeds prices remains downwards
- The introduction of trade restrictions on wheat in the Black Sea Region (BSR) may also impact supply for this year
- Underlying this, the 2019/20 year is expected to see end stocks increase for wheat and barley
- US wheat plantings expected to fall in 2020/21, but soyabean plantings are expected to increase
- Concerns over oilseed prices as demand from the restaurant and biofuels sector take a hit from COVID-19

Arguably, trade restrictions would normally see prices rise. And while nothing is clear in the current environment, wheat and coarse grains – despite recent price drops which clearly show the unpredictable nature of prices going forward – have garnered support as a result of COVID-19's 'toilet roll' stockpiling effect of pantry staples. However, moves by Black Sea nations to shore up domestic supply either through limiting exports or selling stocks has injected some uneasiness into the market.

Global wheat, barley and soyabean prices have all fallen solidly since the beginning of year – that is, until panic buying kicked in and all three commodities received a strong boost in prices. Stockpiling by consumers and processors for milling and noodle wheat has seen a sharp increase in demand in recent weeks, while Australia has been aided by the relatively weak Australian dollar which has made Australian grains more attractive.

Moves by major grain exporting nations in the BSR are also likely to see processors keen to secure supply and for nations to build stockpiles. Ukraine has announced that it is limiting wheat exports to 20.2 million tonnes in 2019/20, while Russia has announced it will sell 1 million tonnes of grain from its domestic reserves. While 1 million tonnes is not an overly large amount on a global scale, it does amount to more than half of Russia's current stocks. The Russian Agriculture Ministry has also proposed limiting grain exports to 7 million tonnes from April to June, although this has not yet received government support.

The figure of 7 million tonnes, however, is largely in line with expected exports for the season, so such a move is unlikely to greatly impact supply.

Underlying this, however, is relatively strong wheat production for the 2019/20 season with United States Department of Agriculture (USDA) forecasts seeing production increasing by 4.5 per cent and consumption increasing 2.4 per cent, primarily off the back of an increase in demand for feed grain. As a result, ending stocks are expected to increase 3.5 per cent. For barley producers, there is a similar story in 2019/20 with production increasing by over 12 per cent, consumption by 9.6 per cent (the majority of which is going to feed barley) and end stocks up 17 per cent. As a result, despite the so-called 'toilet roll' effect, the United Nations (UN) Food and Agriculture Organisation (FAO) Cereal Price Index fell 1.9 per cent in March and stood at nearly its level of March 2019.

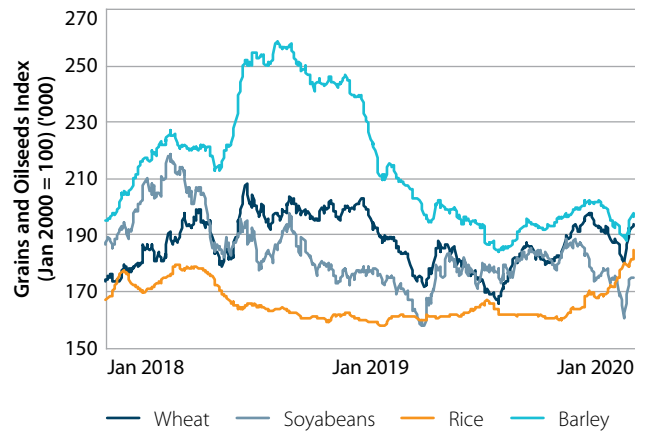
Looking forward to 2020/21, the most recent prospective plantings data from the USDA forecasts that the area planted to wheat is estimated at 44.7 million acres, down 1 per cent from 2019. This represents the lowest wheat planted area since records began in 1919. At the same time, soyabean acreage is expected to increase by 10 per cent.

While the Australian canola crop had a tough year in 2019/20 and is expected to come in around 30 per cent below the five-year average, it is expected to recover in 2020/21. As the trade dispute between China and Canada continues, Australian oilseeds will continue to demand a premium over Canadian canola.

Globally, oilseed production is expected to continue to fall over the medium term as soyabean oil production remains below historical levels. According to the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), global canola oil production is projected to fall by 3 per cent in 2019/20 on the previous year.

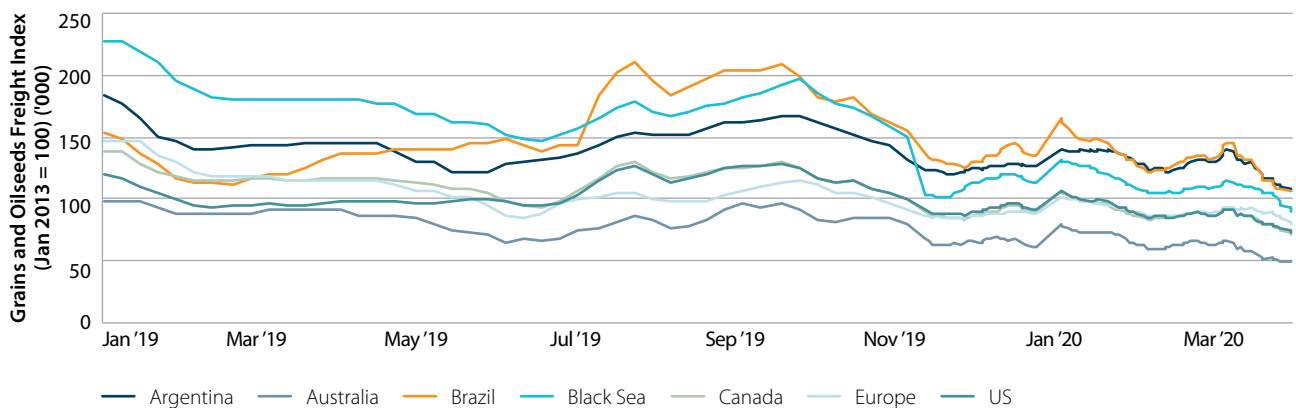
In the longer-term, however, there are concerns over future prices for oilseeds as a significant amount of demand is from the restaurant sector – which is now essentially shut down. Furthermore, vegetable oil prices are reliant on demand for biofuels which has also dramatically reduced due to the COVID-19 pandemic. This was reflected by the recent UN FAO Vegetable Oil Price Index, which slumped 12 per cent in March as a result of both crude oil prices and uncertainties over the global supply chain as a result of the pandemic. Having said that, further uncertainty is added to the mix with projections that China's demand for oilseed and oilseeds meal will increase in 2020/21 as the nation's pig industry recovers from African Swine Fever.

GLOBAL GRAINS AND OILSEEDS PRICE INDEX



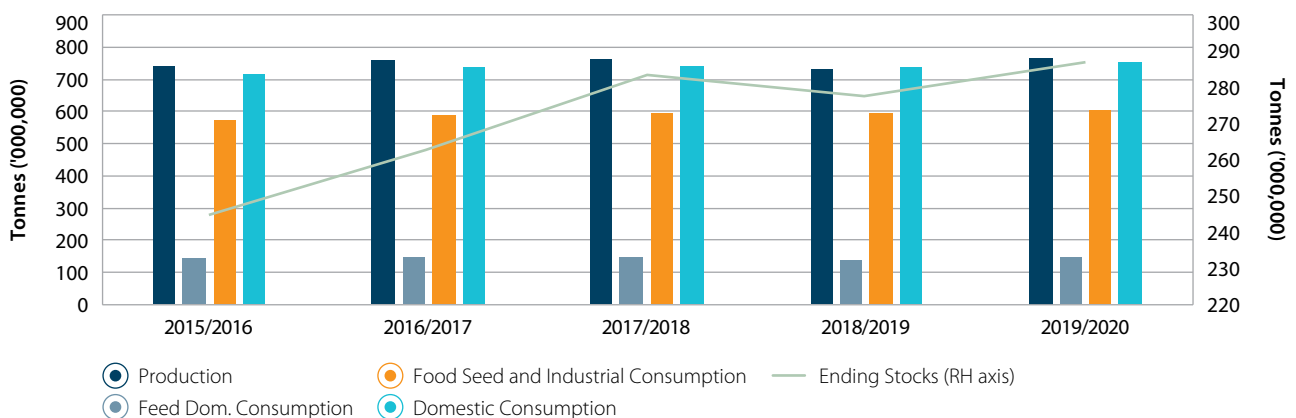
Source: International Grains Council

GRAINS AND OILSEEDS FREIGHT INDEX



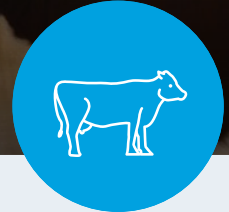
Source: International Grains Council

GLOBAL WHEAT PRODUCTION AND CONSUMPTION



Source: USDA, ANZ

BEEF INSIGHTS



OVERVIEW

- After cattle prices hit record levels due to Chinese demand and restocker activity, the inevitable correction was tempered by COVID-19-induced beef panic buying
- The impact of last year's high female slaughter rate will see the herd rebuild slower than originally forecast, which will limit supply
- While feedlot utilisation remains at record levels, there are question marks over the potential impact on demand for grain-fed beef or premium cuts from economic slowdowns
- The ongoing impact of African Swine Fever will mean China's demand for red meat imports likely to remain strong

Of all the consumer food products which created headlines during the recent period of panic-buying in Australia, arguably the most prominent has been beef – particularly mince. For weeks, newspapers showed photos of supermarket meat sections with bare shelves, though notably often with little shortage of plant-based meat products. Throughout the current period of disruption, the impact on the beef supply chain has been felt far more downstream, at the distribution and retail end, rather than in production and processing.

The majority of factors impacting the current state of the cattle and beef sector are well outside those of COVID-19. While the issue itself could potentially have major impacts going forward, both in terms of domestic consumers and export markets, the current market is itself still reacting to factors, including the autumn restocking process and the pushback by processors to the record high cattle prices.

Since starting 2020 at 487 c/kg, the Eastern Young Cattle Indicator (EYCI) continued its steady but unsurprising growth upwards. By mid-March, the EYCI had hit a record level of 767 c/kg, driven by a number of factors. At the same time, the arrival of rain in many drought areas inevitably saw a spike in restocker activity, as growers sought to rebuild their own herds, after having offloaded so many stock due to lack of feed.

Prices rising into record territory are always going to hit a tipping point, where it simply becomes uneconomical for enough participants in the market to continue paying, and starts to see prices fall again.

For cattle prices in March, the reversal in price trend, falling almost 10 per cent by late March, was driven by a number of factors. On one hand, buyers withdrew as processors were able to utilise their inventories while restockers shied away in anticipation of a price correction. At the same time, yardings also began increasing, partly due to sellers chasing good prices and partly due to increased demand uncertainty.

While the rain has come to many areas, the industry still has some way to go to move on from the structural changes caused by the drought. The high rate of female slaughter continued into the first quarter of 2020, averaging 53 per cent, still above 51 per cent over the same period in 2019. Cattle turn-off rates also remained high through the first quarter of 2020, further stretching out the fall in the national herd. On current estimates, herd numbers will fall to 24.7 million head in June 2020, 6 per cent down on the same time in 2019, and a two-decade low.

While the national herd will continue to recover, it appears that this could now take longer than expected. Meat and Livestock Australia (MLA) estimates that the cattle herd will take until June 2023 to return to the 2019 level of 26 million head.

After the record slaughter levels of 2019, as a result of the massive offloading of stock, beef production levels in 2020 are expected to fall noticeably, by around 13 per cent to 2.1 million tonnes. Provided weather conditions return to normal, beef production is forecast to remain at the same level in 2021, as the increase in herd numbers is offset by restocking.

As 2019 stayed dry, the capacity utilisation of feedlots had continued to climb to record levels. At this point, cattle on feed remains at over 1 million head, with the demand for grain-fed product ordinarily expected to remain high. But ...

Accompanying the fall in production were beef exports which had also been forecast to fall in 2020 and 2021, down to around 1.5 million tonnes. Assuming normal conditions, the tightness of supply of export volumes would have been expected to have caused upward pressure on prices.

Initially, Australia's beef exports had remained strong in the early months of 2020. The start of the year had memorably seen January's exports up 17 per cent on the previous year, pushed up by a record 73 per cent increase in shipments to China. As COVID-19 began to increasingly impact China, exports quickly fell below 2019 levels. While exports to Indonesia and Saudi Arabia rose, this was not enough to make up for a sharp fall in exports to China.

While the impact of COVID-19 on each of Australia's major beef markets continues to be closely watched, this is more so the case for China than any of the other markets. The early reports from China that the COVID-19 situation is becoming more under control is encouraging news for meat exporters to the country.

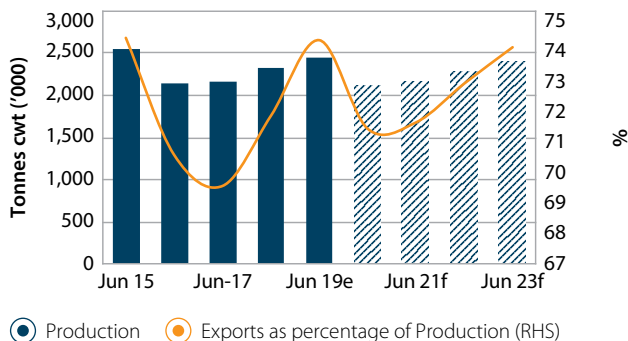
Notably, China's meat demand has continued to remain high, even during the lockdown. Overall import volumes reached record levels in the first part of the year, with pork imports up around 100 per cent, while overall beef imports rose over 40 per cent.

If China is gradually returning to a more normal situation, then the points of disruption along the meat supply chain are likely to ease up. In terms of trade, this is likely to see a return of availability of containers, as well as a reduction on port congestion. That said, there are still likely to be delays along the supply chain.

While it has fallen out of the headlines, African Swine Fever has continued to be a major factor in the global meat trade. In particular, the disease continues to decimate China's pig numbers and spread to new regions of China, resulting in China continuing to see strong red meat import numbers.

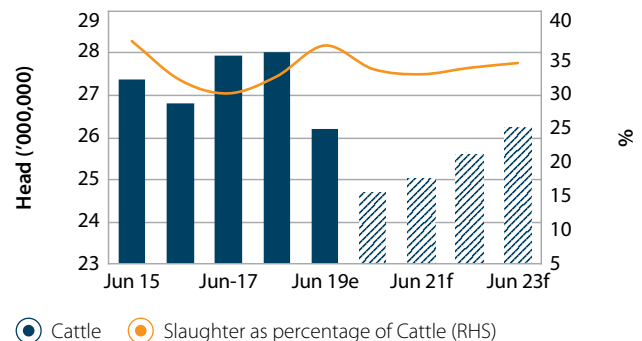
Globally, most major cattle price indicators have remained relatively steady over the past few months. If anything, the greater impact on prices and the global price competitiveness of each country's beef exports have come about through changes in the strengths of different currencies. In particular, the sharp depreciation of most of the South American currencies relative to the US dollar has increased the volume of lower cost beef volumes on the market.

AUSTRALIAN BEEF PRODUCTION & EXPORTS



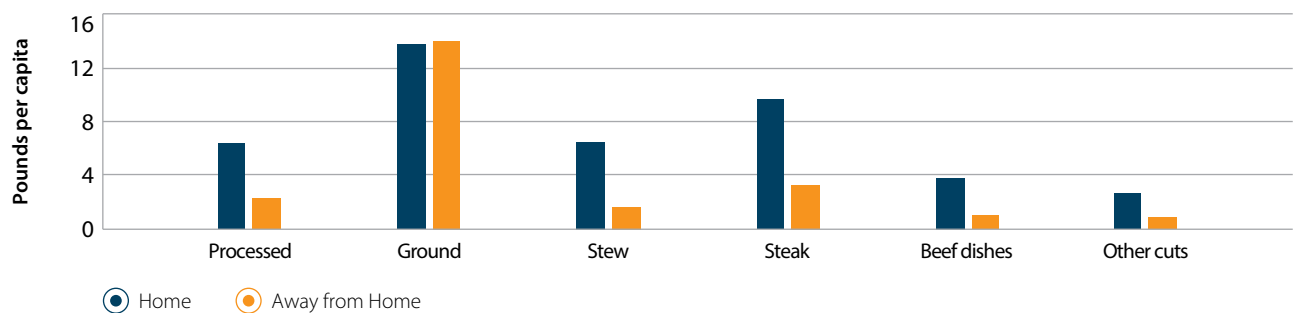
Source: MLA, ANZ

AUSTRALIAN CATTLE AND SLAUGHTER



Source: MLA, ANZ

USA BEEF CONSUMPTION - AT HOME AND AWAY FROM HOME (POUNDS PER CAPITA)



Source: USDA



SHEEP INSIGHTS



OVERVIEW

- Following record prices early in the year, a price correction has occurred in all price categories of sheep across both saleyards and direct contracts
- Unseasonably high yardings over recent weeks contributed to the price retraction
- Processer demand is currently driven by strong domestic markets and appears to remain strong in the face of the global pandemic
- Breeding stock remain at a premium, signalling producers intentions to restock and a level of confidence going forward
- African Swine Fever continues to plague world protein supplies and this is a positive sign for ongoing red meat demand
- China exports of lamb and mutton experience some recovery throughout the month of March

Following an impressive run through the opening months of 2020, sheep prices across the country peaked in early March with restocker-feeder lambs reaching a staggering 1004 cents per kilogram carcase weight (c/kg cwt). The peak and subsequent downturn across all price categories has largely been driven by plentiful supply, with high yardings recorded across the country throughout March as producers looked to make the most of the record prices.

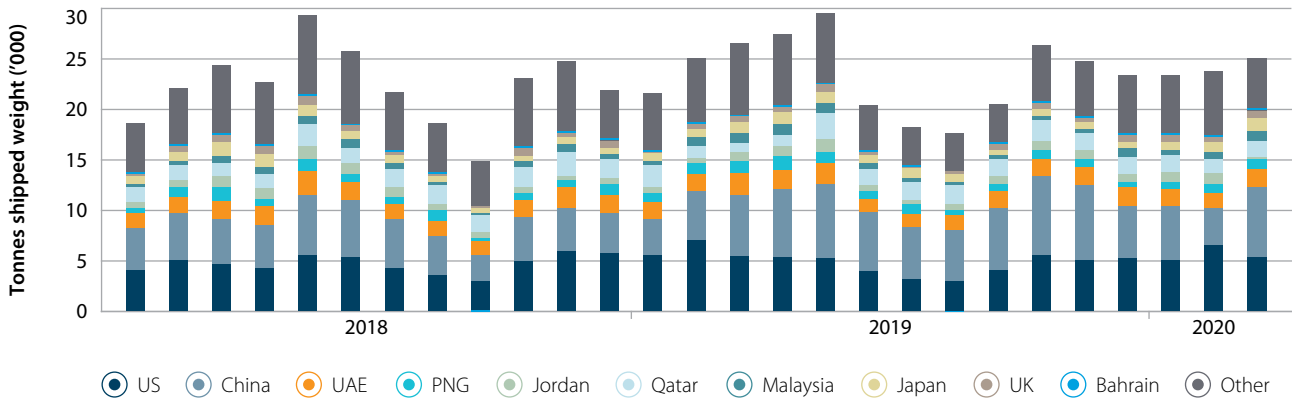
Prices across all categories were impacted by the downturn, however, restocker/feeder lambs experienced the most stark decrease. After trading at a premium to other weight classes this year, they soon retracted to be on par with trade and heavy lamb prices. A widening gap between saleyard trade lamb and over the hook trade lamb prices has also occurred over recent weeks, as processors navigate the complex and unprecedented global situation at hand. As the COVID-19 situation has continued to evolve, processor demand appears to remain strong at present, underpinned by a strong domestic market on the back of increased red meat purchasing activity from local consumers.

With sheep numbers remaining at record lows following the drought, and producers looking to restock breeding flocks after recent widespread rains, breeding stock remains at a premium. Across the eastern states, record prices have been achieved of well over \$400 per head for scanned in-lamb, first-cross and Merino breeding ewes. Merino breeder prices have, however, seen some correction in early April in response to the large decreases in wool prices experienced over recent weeks.

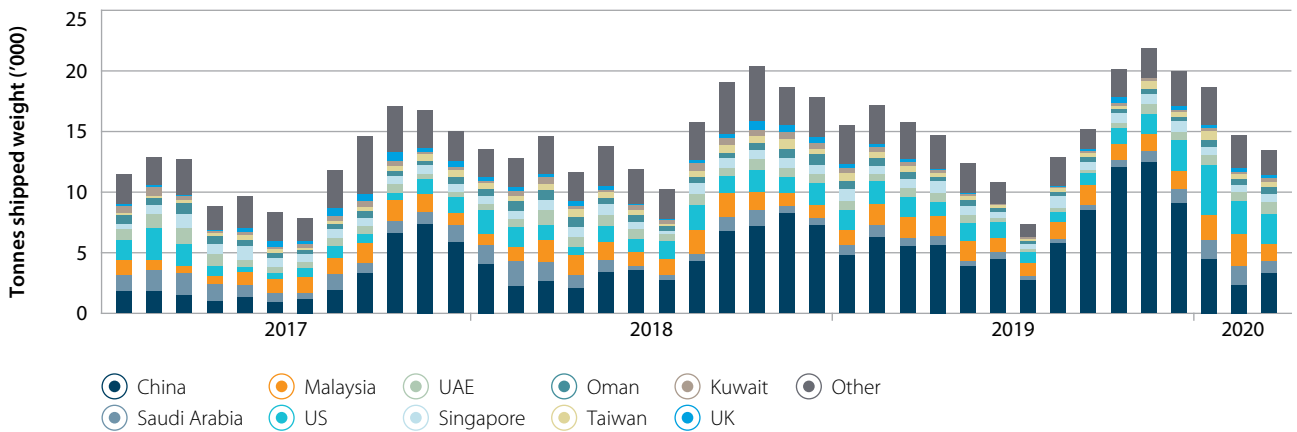
Largely, there is a limited supply of breeding stock on the market, and forecasted limited supply of finished stock coming into the winter months, which if separated from the current COVID-19 situation, signals that there could be room for prices to rebound through the cooler months. The reality of the global shutdowns are, however, difficult to separate from sheepmeat markets in terms of possible impacts from both physical trade disruptions and economic downturn in the domestic market and that of key export partners.

A continuing and important contributor to recent record sheepmeat prices that should not be overlooked is the continuing global protein shortage on the back of African Swine Fever. The apparent reopening of many aspects of trade with China over late March and early April is a positive sign for sheepmeat markets. Lamb exports to China for the month of March were the highest reported since November last year, and a significant increase on the prior month of February, which represented Australia's lowest level of lamb exports to China for over 12 months. Mutton exports also showed some signs of recovery into the China market, however they remain only a fraction of the record highs recorded through the Spring of 2019. Mutton supply has, however, been tight, with slaughter numbers for February at a seven-month low. Recent rain and the value of ewes as breeding stock are contributing factors.

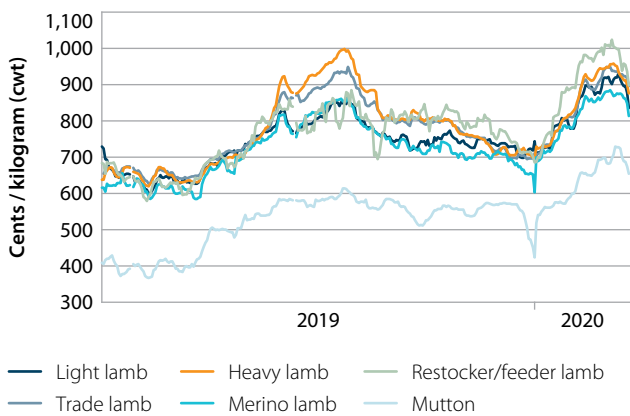
AUSTRALIAN LAMB EXPORTS



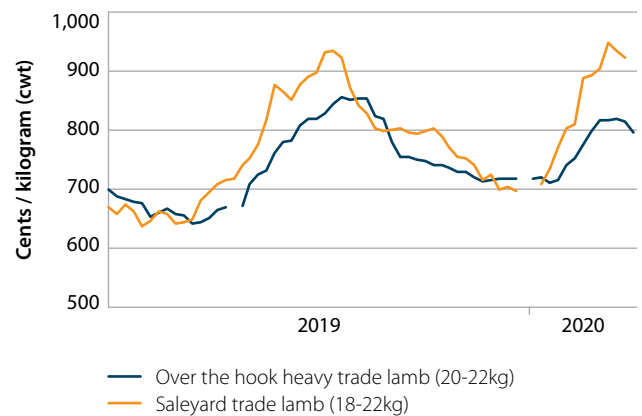
AUSTRALIAN MUTTON EXPORTS



NATIONAL SALEYARD INDICATOR PRICES



SALEYARD VS OVER THE HOOK TRADE LAMB PRICES



WOOL INSIGHTS



OVERVIEW

- Australian wool market has taken a substantial hit, dropping over 10 per cent in one week
- All micron categories have been impacted
- While China's processing has returned to full capacity, demand from the rest of the world has all but disappeared
- While wool production and shearing are currently classified as essential services by the Federal Government, there are concerns over how 'social distancing' may impact production
- In the longer term, significant concerns exist over demand for wool products under a low or falling global economic growth scenario

The Australian wool market has seen some significant volatility in recent weeks. This was despite a brief steadying in the market in late March before plunging over 10 per cent again early April. As one of the first industries to feel the early impacts of the virus's effects in China, the steadying of prices in late March came as China's mills reached close to full capacity. The plunge which followed came as buyers across all textiles moved into a highly cautious mode over concerns for future demand and global growth.

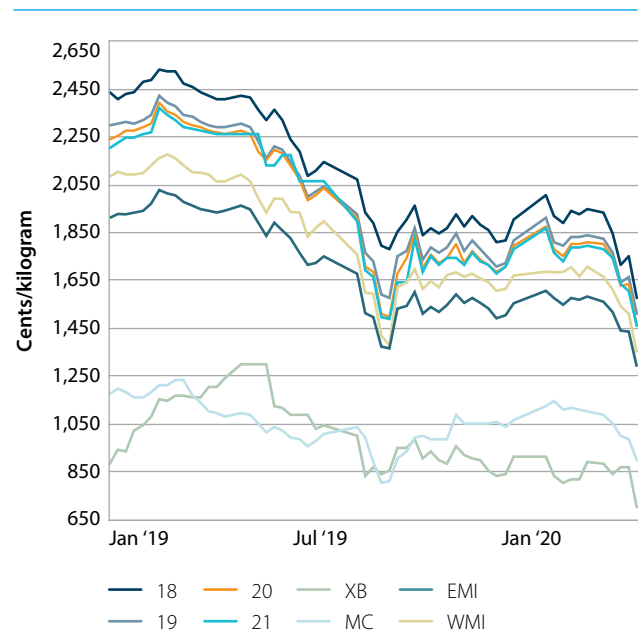
It will not come as any surprise that there is still significant uncertainty around the next few months. For the wool industry that comes in the form of a lack of clarity around wool auctions and transport in the face of further domestic lockdowns, and in the longer term, the impact of poor global economic growth on demand for luxury wool products.

The Eastern Market Indicator (EMI) took a hit in March, falling 9 per cent from late February before steadying in the last week of March, registering a 4 cent increase. This was, however, not a return to stability in the market, as the EMI plummeted across micron ranges the following week – registering a 10.8 per cent drop. The falls were somewhat exacerbated by the Australian dollar, but in US dollars the EMI still fell 7.8 per cent.

The temporary improvement comes as buyer sentiment is reported to have turned around and with the Chinese mills returning to close to full capacity. However, interest from other parts of the world was understandably low, with almost all production in Italy closed.

Steep falls have been felt across micron categories, although crossbred wool experienced a notable 20 per cent loss in one week alone. In the calendar year to date, all micron categories have suffered similar falls, with around 21 per cent off value in the finer micron categories, creeping up to 23 per cent for cross-bred wool.

AUSTRALIAN WOOL PRICES



Source: Australian Wool Network

Uncertainty continues around the future of wool auctions despite the assurances of the federal Minister for Agriculture, Drought and Emergency Management, the Hon David Littleproud MP, that the wool industry was considered "an essential part of the broader agriculture supply chain". While welcome, the industry is concerned that not all state governments have made similar declarations, meaning that worker movements, gatherings for wool auctions and even the movement of wool between states remains uncertain into the future. Given the animal welfare issues and the role of shearing and wool sales in lamb turnoff, it is expected that it will be treated as an essential industry.

COTTON INSIGHTS



OVERVIEW

- Global cotton prices continue their downward trend as supply exceeds demand for the current 2019/20 season
- Concerns growing over the impact on global economic growth of COVID-19 have cooled business sentiment, particularly in China
- The International Cotton Advisory Committee has stated that COVID-19 is “crippling the cotton supply chain”
- Lower oil prices are increasing the price competitiveness of synthetics
- Consumption looks to overtake production in 2020/21, while Australian production is expected to rebound

The world's cotton prices continue their downward trend and reached a 10-year low on the back of weak demand and increasing production in the 2019/20 year. But, there is some good news on the horizon – consumption is expected to outstrip production in the year ahead (2020/21). Australia's cotton exports to China, however are likely to be impacted by the thawing of US–China trade tensions which have seen US cotton exports to China jump as China implements Phase 1 of the US–China trade deal.

Global cotton prices have continued to trend downwards with prices sitting at just over 50USc per pound in late March. Since the beginning of the year, cotton prices have dropped by around 23 per cent, one of the largest decreases since 2000. The uncertainty over future demand for cotton garments, and the shutdown in processing capacity across the world as a result of COVID-19, has resulted in significant nervousness, particularly at a time when closing stocks are increasing as supply exceeds demand.

Looking forward, the International Cotton Advisory Committee (ICAC) has revised the Cotlook A Index down to 73.5 cents per pound for April, which the price projection for the year-end 2020/21 is for an average of 64 cents per pound. Highlighting the uncertainty around cotton prices going forward, the USDA's projection is for the Cotlook A Index to average 79USc/pound for 2020/21.

The latest USDA figures for the current 2019/20 year sees global production hitting 26.5 million tonnes, an increase of 2.5 per cent on the previous year, while global consumption is expected to fall 1.7 per cent to 25.7 million tonnes. As a result, closing stocks will increase some 4 per cent to 18.1 million tonnes and the stocks-to-use ratio will increase to 70.6 per cent – the highest since 2015/16. Falls in consumption come primarily from China where use is expected to fall 7.6 per cent.

A further risk to natural fibres is the continuing decrease in the price of synthetics, coming off the back of low crude oil prices.

On the brighter side however, the fundamentals of the cotton industry are expected to improve markedly in 2020/21, with the first USDA forecast for the year anticipating that consumption will overtake production and global stocks will decline markedly again.

Domestically, conditions have improved strongly off the back of the historically low 2019/20 harvest. Rains across major cotton producing areas are expected to spark a resurgence in cotton plantings with ABARES modelling cotton production in 2022/23 to vary from 1.2 million bales in a dry scenario to 4.5 million bales in the wet scenario, and 3.8 million bales under the baseline scenario – all markedly stronger than the 600,000 bales expected in 2019/20.

GLOBAL COTTON PRICES



Source: macrotrends.net, ANZ

DAIRY INSIGHTS



OVERVIEW

- The general impact of COVID-19 on dairy prices globally has been limited, largely due to the health perceptions of many dairy products
- The impact has been most strongly felt in the US, where the closure of restaurants and the National School Lunch Program (NSLP) has seen dairy consumption and prices plummet
- In Australia, milk production has fallen across most states, largely in line with either water shortages or higher water prices
- Australian consumers' demand for milk and dairy products is likely to remain strong, even when they reduce discretionary spending

Despite early fears that dairy consumption and prices would be hard hit by COVID-19 in China and globally, the impact on the sector overall has so far turn out to be limited. That said, as the virus impacts different countries at different times and to different degrees of severity, the impact on some national sectors has been quite marked from others.

A strong indication of the muted impact of the virus was seen in the Global Dairy Trade auction prices of early April, where overall prices actually rose for the first time since January 2020. This result was in contrast to many analyst predictions that prices would continue to fall, based on market nervousness over the global situation.

Even over the course of the past few months, as the number of impacted countries has grown, global dairy price falls have largely been less than may have been expected, and compared favourably to falls in other major commodities at the same time, including wheat and sugar.

For many, this highlighted a fundamental strength of dairy products in an uncertain time for consumers. For many, dairy products are seen not only as a healthy product, but perceived as one likely to boost immunity. In terms of household budgets which may be trimmed back, whether in China, Australia, or many other countries, milk and dairy purchases are likely to remain a core product rather than a discretionary one.

AUSTRALIA DAIRY PRODUCTION

Domestically, Australia's current milk production output continued to closely track that of 2018/19, albeit with a modest recovery seen over summer months. For the full year, milk production is currently forecast to be around 8.35–8.5 billion litres, around a 3–5 per cent decline on the previous year.

Regionally, most states have continued to see a fall in dairy production on the previous year, contributing to a national decline year-to-date of 3.7 per cent, which largely reflects the differing degrees of drought impact and water availability/cost in different areas. This includes Queensland (–14.2%), South Australia (–9.9%), New South Wales (–6.7%), Western Australia (–4.1%) and Victoria (–2.8%). In contrast, Tasmania continued to see a growth in milk production, up 1.7 per cent on last year.

Outside of Australia, milk production is largely forecast to grow in 2020 as it recovers from different impacts from 2019. This is keeping in mind a reasonable degree of uncertainty, with the full implications of COVID-19 still to be seen. Like Australian farmers over the past year, dairy farmers in New Zealand will be looking for a return to favourable weather conditions to boost production after being hit by drought.

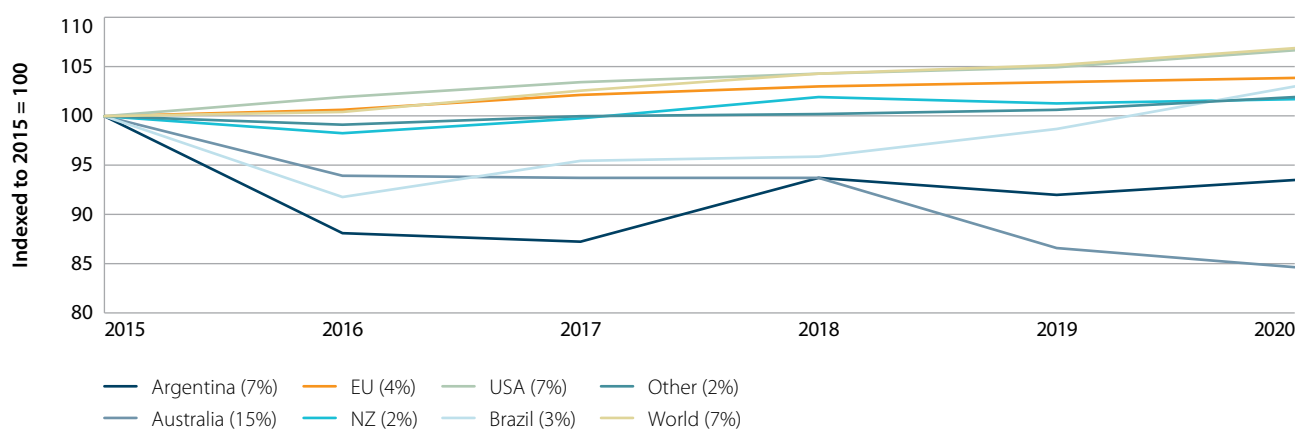
The outlook is similar in Argentina, where last year's unseasonably hot weather cut production by around 2 per cent. Given that the decline in Argentina's dairy herd may lead to tight supplies and strong prices, production recovery is likely.

Of the major global dairy producers, the US industry has perhaps been hardest hit by the current COVID-19 situation. Prior to the outbreak, the US was forecast to see strong production growth of around 2 per cent in 2020, largely driven by strong Skim Milk Powder (SMP) demand. However, the impacts of a lockdown across the US, particularly hitting schools, restaurants and food service outlets, has hit that country harder than almost any other, reflecting the volume of dairy products distributed or sold either through school programs, or through products such as pizza cheese.

With orders for these products cancelled across the country, many US dairy farmers are now being forced to dump milk. Despite the increased sales in supermarkets, this has not been able to absorb the surplus volume, a trend also reflected in the US milk benchmark, the Chicago Mercantile Exchange (CME) milk futures contract price.

For dairy industries in many other countries, the current predicament of the US sector will provide food for thought on how they may look to position their sectors for maximum resilience after this crisis has past.

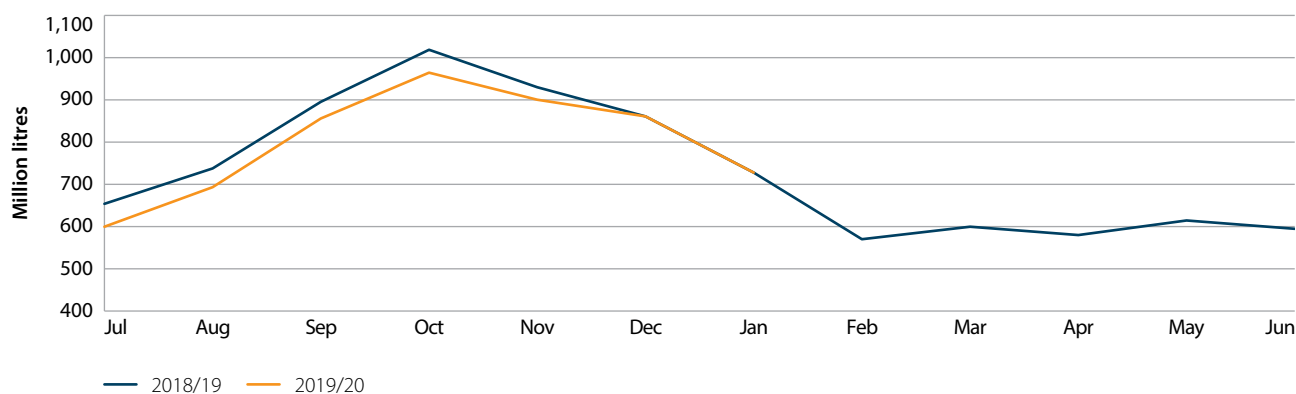
GLOBAL MILK PRODUCTION



Source: USDEC

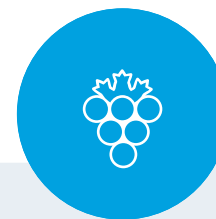
IN TERMS OF HOUSEHOLD BUDGETS WHICH MAY BE TRIMMED BACK, WHETHER IN CHINA, AUSTRALIA, OR MANY OTHER COUNTRIES, MILK AND DAIRY PURCHASES ARE LIKELY TO REMAIN A CORE PRODUCT RATHER THAN A DISCRETIONARY ONE

AUSTRALIAN MILK PRODUCTION



Source: USDEC

WINE INSIGHTS



OVERVIEW

- Following the drought, domestic wine production forecasts have risen
- A rise in wine sales value and fall in sales volume highlights the premiumisation of the industry
- Red wine is increasingly outpacing white wine in domestic sales
- While the impact on domestic wine sales and exports is yet to be seen, early signs are that the impact could be minimal, with domestic sales actually rising

As COVID-19 grew in strength in China and other countries, one of the first Australian agri products in the spotlight for potential impacts was wine. As a discretionary product with a major exposure to the Chinese market, Australian wine exports are particularly susceptible to fluctuations in the Chinese market.

Like almost every other agri sector, Australia's wine industry entered 2020 looking towards a production recovery after being hit by the drought. Wine production in 2019 had been down by around 6 per cent to 1.2 billion litres, a major cause of which was the impact of lower water availability for vineyards in dryer regions.

Wine sales were also down, a consequence of a 4 per cent decline in consumption, to 1.3 billion litres. While this figure on its own was not great news for the industry, it did mark the second year in a row that wine consumption exceeded production. As a result, inventory levels were also reduced, falling to 1.8 billion litres. While overall volume consumption fell, the wine industry had seen a rise in overall sales value, which had climbed by around 2 per cent to \$6.4 billion, as the ongoing premiumisation of Australian wines continued to see greater margins, both domestically and in exports, particularly in the Chinese market.

For exports, this was reflected in a similar volume/value differential, with last year's export volumes falling 6 per cent to 801 million litres, while export values rose by 4 per cent to \$2.9 billion. Overall, just under two-thirds of total wine sales were made up of exports. In terms of export volumes, Europe continued to make up the majority at 43 per cent, while the Americas and Asia accounted for 27 and 25 per cent respectively.

One interesting trend has been the ongoing growth in red wine as a share of both overall production and sales. Over the past year, red wine has grown to 57 per cent of overall production. While this is partly due to seasonal variations, it also reflects an ongoing evolution in consumer preferences, both domestically, where red wine sales outstripped white wine sales for the first time, and in export markets, where red wine accounted for 60 per cent of volumes.

This is also reflected in the overall wine inventory, where white wine has fallen by 12 per cent, while red wine has remained roughly stable.

Globally, a combination of factors is likely to see exports slow for the next year at least. Strong supply in Europe, South America and the US is likely to see overall production outstrip demand in the short to medium term at least. This is in addition to the global impacts of COVID-19, where dampened economic growth and reduced consumer purchasing power will inevitably reduce total sales.

For Australian exporters, China will remain a major question mark for 2020. China's import demand had remained relatively strong, with ongoing demand in the higher price segments. Should China's apparent recovery continue, and any reduction in economic growth be minimal, then it is reasonable to assume that Chinese consumer demand for Australian wine will continue, providing a window of optimism for the sector.

RED WINE VS WHITE WINE SALES - DOMESTIC AND EXPORT SHARE



Source: Wine Australia

SUGAR INSIGHTS



OVERVIEW

- The recent oil price plunge has hit sugar prices, as major Brazilian sugar volumes are diverted from domestic ethanol production onto world markets
- While Australian sugar production has been declining recently as part of a cycle, post-drought rains mean it may increase in the coming year
- The low Australian dollar has benefited Australian sugar on world markets, though the falling Brazilian currency value has dampened this impact

Australia's sugar industry finds itself at an interesting point. Production has been falling but remains relatively strong, its major regional competitor is still recovering from drought conditions, and product demand remains strong. In contrast, low oil prices present a major challenge, putting prices to a level which is arguably below the cost of production for many growers. As with every agri sector, Australian sugar industry stakeholders are evaluating the impact that COVID-19 may have on its current- and longer-term fortunes. For sugar, in contrast to many other commodities, the impact may be quite different, with sugar largely an input to processed products, meaning that there will be a lag in any impact from current events.

In terms of its production cycle, the Australian sugar sector is at an interesting crossroads. Harvested area has been declining for the past four years since peaking in 2016/17 at around 400,000 hectares. Historically, Australian sugar acreage grew continually until around 2000 to around 420,000 hectares, declined for a decade to around 300,000 hectares, before climbing again for six years. A major question now for the industry is whether the current decline will be ongoing, or whether it is likely to plateau at some point, providing a level of certainty, not just for producers but for processors and exporters.

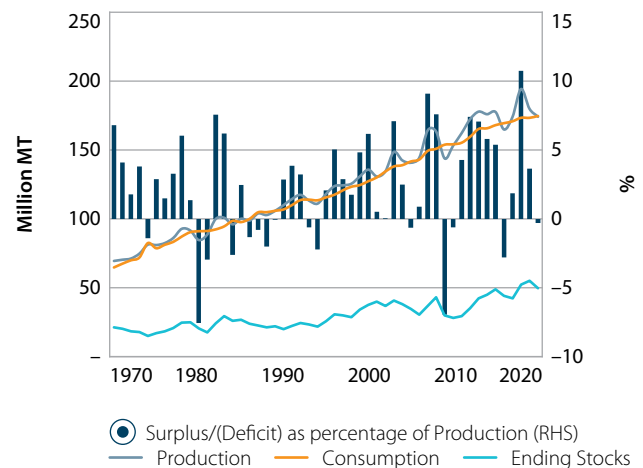
After also seeing an ongoing yield decline over the past four years, recent rains in sugar regions have improved the chances of this turning upwards. That said, the ongoing risk of cyclone impact on the sector remains.

A far bigger factor in the fortunes of sugar has been the fall in oil prices this year, driven by the ongoing dispute between Russia and Saudi Arabia. As lower oil prices reduce petrol and diesel prices in most parts of the world, the attractiveness of ethanol as an alternative fuel in many markets is reduced. As such, sugar in Brazil, the world's largest producer, is being diverted from ethanol production back into overall sugar volumes, a move which has recently pushed global sugar prices back down sharply, to below 11 USc a pound.

Globally, while end stocks have declined over the previous year, they still remain high enough to limit strong upward growth potential.

The recent fall in the Australian dollar has also improved the competitiveness of Australian sugar on global markets, although a marked decline in the value of the Brazilian real has reduced the impact of this. One market to watch will be Indonesia, where the impact of COVID-19 is still playing out. Indonesia is on track to become Australia's largest sugar export market, overtaking South Korea. However, even the outlook for the Indonesian market remains reasonably strong for Australia, with not only competition from Thailand reduced, but sugar likely to be one of the last products consumers would reduce from their purchases.

GLOBAL SUGAR PRODUCTION VS CONSUMPTION



Source: USDA



ANZ ECONOMIC UPDATE

RATES

Markets have been dominated by the spread of COVID-19, a health pandemic which has also developed into an economic crisis, with economies shut down to try to slow the spread of the disease. The potential economic impact has seen central banks and governments around the world ease policy to try and support their economies, including the Reserve Bank of Australia, which has cut the cash rate to its lower bound of 0.25 per cent, provided explicit forward guidance and are buying government bonds to ensure the 3Y bond yields is brought down to 0.25 per cent. With this worrying economic backdrop, as well as the current RBA policy stance, AUD rates are likely to remain at these low levels for an extended period of time. The main risk to higher AUD rates over the coming 12 months will be from the large amount of debt issuance by the federal government to fund their stimulus package. This could put pressure on longer term rates to rise, and, to date, the Australian Commonwealth Government Bond (ACGB) curve has steepened up considerably since the introduction of the Yield Curve Control policy. However, with domestic banks' regulatory capital requirements and the RBA buying bonds across the curve, this should, in the near term, keep any material upward pressure on yields in check.

FOREIGN EXCHANGE

The spread of COVID-19 pushed markets into uncharted territory. Many economies around the globe appear headed for recession, and are likely to see sustained weakness to demand and supply chain dislocations. While the AUD and NZD have generally underperformed due to their status as global growth proxies, outcomes against the USD have been more nuanced.

Globally, as nations emerge on the other side of this health crisis, markets are likely to remain in a state of flux as depressed demand is offset by significant monetary accommodation and fiscal stimulus. The duration of lockdowns and how efficiently fiscal and monetary authorities are able to plug cash shortfalls will dictate whether this unprecedented health crisis turns into an issue of solvency. Further to this, we expect emerging markets to remain challenged as they are yet to face the peak of the virus.

On balance, we expect the AUD and NZD to remain volatile, with risks tilted to the downside as the probability of a sustained global slowdown mounts. Our outlook itself remains subject a high degree of uncertainty with the evolution of the virus, health policy and activity resumption key.

FX AND CENTRAL BANK POLICY RATE FORECASTS

FX Forecasts	Current	Jun '20	Sep '20	Dec '20	Mar '21
AUD/USD	0.64	0.52	0.54	0.56	0.60
NZD/USD	0.61	0.52	0.53	0.55	0.57
AUD/NZD	1.05	1.00	1.02	1.02	1.05
USD/JPY	108.00	112.00	112.00	112.00	112.00
EUR/USD	1.09	1.04	1.00	0.99	0.98
USD/CNY	7.04	7.10	7.12	7.15	7.16

Rate Forecast	Current	Mar '20	Jun '20	Sep '20	Dec '20
RBA cash rate	0.25	0.25	0.25	0.25	0.25
Feds fund rate	0.25	0.25	0.25	0.25	0.25
RBNZ OCR	0.25	0.25	0.25	0.25	0.25

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