ANZ AGRI

INFOCUS

COMMODITY INSIGHTS

WINTER 2024

FOREWORD

As we officially enter winter, the temperature has dropped across the country. At the same time, some areas across the south continue to struggle with a lack of rain and many commodity prices remain lower than you'd hope – or become used to. For many producers and the market in general, this winter may be the opportunity to reset. To take stock of livestock numbers, and hopefully receive some rain to refill the dams and support the winter crop.

It's been a mixed autumn across much of Australia, with lower commodity prices across many of the major commodities, and patches of significant dry across parts of southern and Western Australia. As always, we enter winter with an eye on the winter crop and weather conditions to support the harvest at the end of the year. Currently, there is some concern that the lack of a real autumn break across those drier areas of the country could impact the total Australian crop. And while demand for feed grain is likely to be higher this year due to that lack of rain in some livestock focused farming areas, that domestic demand could run head long into increasing global prices due to a poor season in Russia.

Dairy farmers are eagerly, if not with some apprehension, awaiting processors' opening prices. While most producers are expecting prices to be lower this season to realign with global dairy prices, there is still a shortfall in milk producing capacity which should see competition between the processors.

Livestock prices continue to sit lower or at a similar level to this time last year, much of which can be attributed to concern over the season and high herd and flock numbers leading to strong supply and slaughter rates. Coming into winter, that supply appears to be coming off as yardings and slaughterings slowly start to come down. For both cattle and sheep, this bodes well for the coming spring and a boost to prices as producers are likely to enter spring with a better balance between demand and supply.

Across all commodities, but particularly the textiles, concerns exist over the slowing global economy – and particularly the slowing economy in China. While global inflation is continuing to fall, slowly, global growth in GDP is expected to be slow for a number of years to come.

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GRAINS INSIGHTS

OVERVIEW

- The delay in the arrival of the "autumn break", particularly in South and Western Australia, is causing some concern among croppers in those regions
- While forecasts for the 2024/25 wheat crop are generally to be up by around 10 percent, seasonal conditions could impact this markedly
- A dry winter and spring could see domestic grain consumption rise, on increased feed needs
- Globally, adverse weather in Russia and South America could impact their crops, and put upward pressure on global prices.

Australian grain farmers, like all farmers, have long and impressive memories – particularly around the details of the seasons which have impacted their own farms. Ask any cropping operator, and they are likely to be able to remember their different cropping rotations going back years and decades.

Very importantly, they are also likely to remember the exact week each year when the break – or the first significant rains which follow the dry summer period – finally arrived.

At the time of writing, while grain producers in many regions certainly aren't panicking, there is some nervousness over the arrival of this year's autumn break. This is particularly pronounced in cropping regions of Western Australia, South Australia and western Victoria.

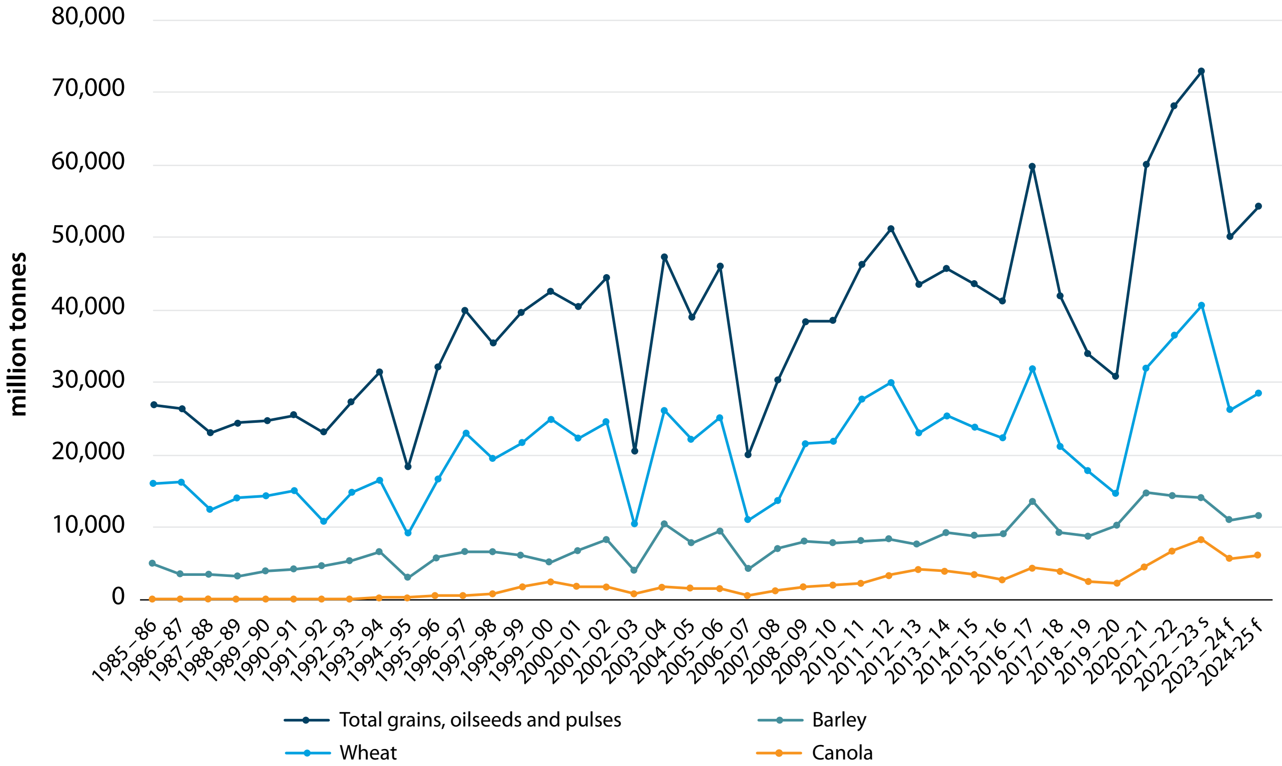
These regions are now looking optimistically for a late-May or June break, to give their crops the best possible opportunity for a reasonable yield. Fortunately, most of these areas experienced a wetter than predicted summer period, so have reasonable soil moisture levels to build on. That said, looking back over previous seasons, in the years when the break has come in June, final crop production volumes have usually been below average levels.

While forecasts will inevitably change as the season evolves, the most recent ABARES forecasts for the 2024/25 grain and oilseed crop continue to predict a rise of around 9 percent in the overall crop, including a volume percentage increase of 9, 7 and 7 for wheat, barley and canola respectively.

An interesting observation is that the United States Department of Agriculture (USDA) doesn't appear to share the optimism of ABARES. USDA is forecasting Australian wheat production to be 10 percent lower than ABARES' forecast, at 25.8 million tonnes, while their barley production forecast is also 6 percent lower than that of ABARES.

USDA have based their forecasts on the differences in rainfall and soil moisture between the different regions. Specifically, they have highlighted the differences between the Eastern States, which have largely seen good rains on top of good soil moisture levels, as compared to the opposite in South and Western Australia. Once again, there is still a long way to go, and plenty of time for good rain, before the critical parts of the growing season.

AUST CROPPING PRODUCTION 1985/86 - 2024/25E



Source: ABARES, ANZ

DOMESTIC GRAIN CONSUMPTION

Within Australia, it will also be worth watching whether a longer delay before the arrival of the rains in some regions could lead to a notable change in grain and oilseed consumption. The most obvious impact would be in feed, where a longer-term lack of pasture could see an increase in stock sent to feedlots, lifting domestic feed requirements. To a lesser extent, feed consumption could also be increased as livestock farmers increase their on-farm grain reserves, to prepare for feeding stock in paddocks.

A further factor impacting domestic grain and consumption could also be the recent population growth through strong immigration levels. In particular, this could drive up demand for flour – as an ingredient across multiple foods – and increase grain consumption to feed this growth.

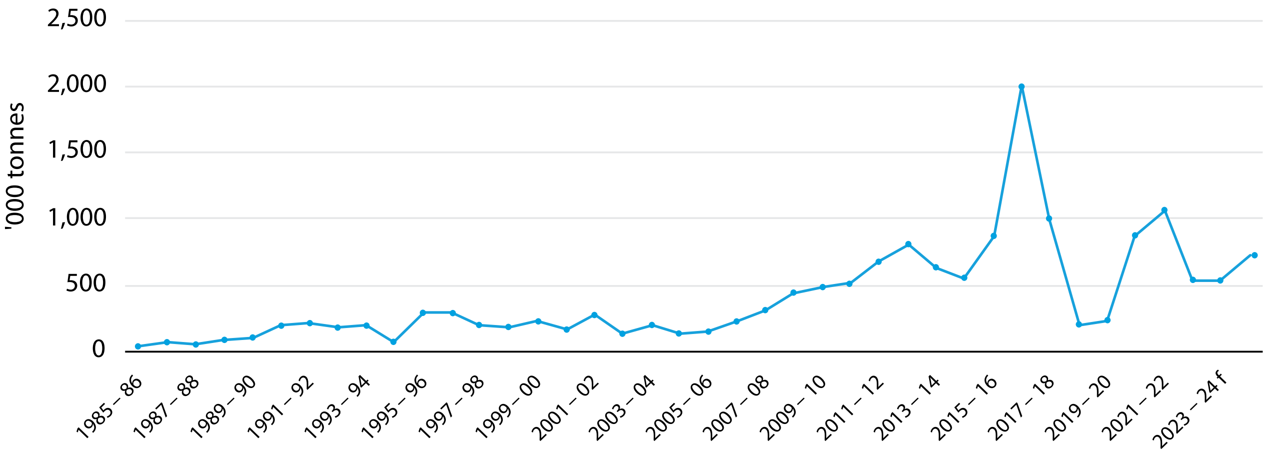
One group of Australian croppers who will benefit from offshore events will be chickpea farmers.

The Indian government has announced that it will remove all tariffs on chickpea imports until March 2025. The move revoked the prohibitive tariffs imposed on chickpea imports in 2017/18, which had effectively equated to around 66 percent of the price. While Australia grew around 2 million tonnes of chickpeas prior to the imposition of the tariffs, since that time the crop has barely exceeded 1 million tonnes.

Given that this announcement came before the planting of much of the crop, it may see an increase in chickpea planted acreage and forecast production volumes at this stage, although this may be limited by a finite availability of seed at short notice.

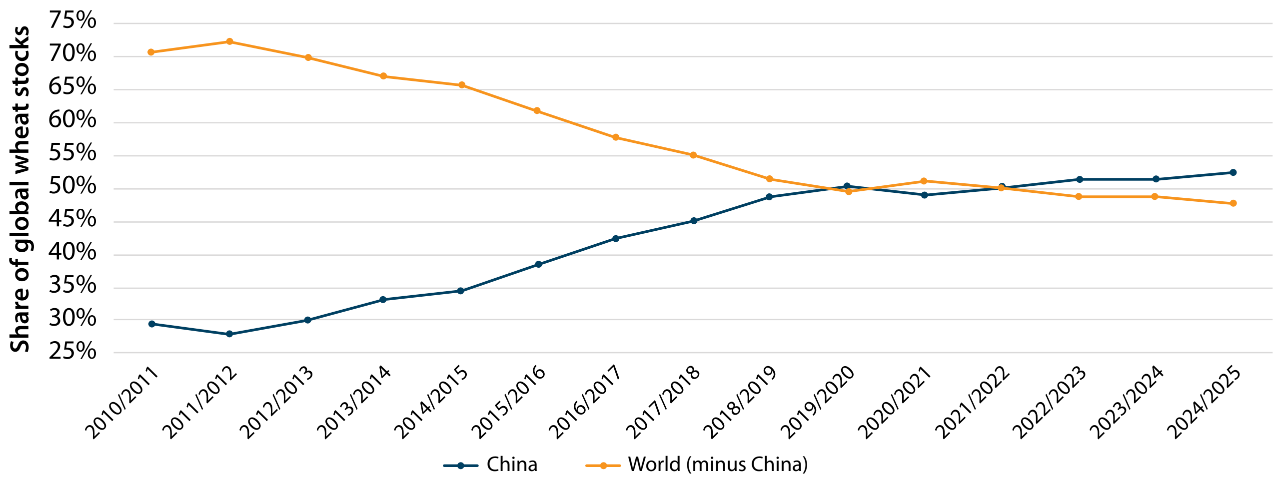
In terms of overall Australian grain exports, China remained the largest destination for wheat, with bulk wheat exports to China in March 2024 exceeding 700,000 tonnes, around double that of the next two biggest destinations of Indonesia and Yemen.

AUSTRALIAN CHICKPEA PRODUCTION 1985/86 - 2024/25F



Source: ABARES, ANZ

GLOBAL WHEAT STOCKS 2010/11 - 2024/25F



Source: USDA, ANZ

In wider global developments, as always, the weather in different regions continues to have a major impact on global prices. In particular, a combination of flooding and drought in different parts of Brazil, combined with insect damage to crops in Argentina, is likely to reduce corn and soybean production from these major producers. For Australia, this will impact grains which compete with corn in the feed markets, such as wheat and barley, while also impacting global oilseed markets, especially canola.

Adverse weather in Russia, including both frost and drought, has also seen concerns about that country's wheat harvest for 2024. After a period in which bumper Russian grain supplies and exports contributed to downward pressure on global wheat prices, the recent events have swung the situation markedly, with a state of emergency now declared in several Russian grain producing regions.

Globally, one factor to watch is the ongoing fall in global wheat reserves. With end stocks for 2024/25 forecast by USDA to be around 253 million tonnes, this will be the lowest figure for almost a decade. It is also important to factor in China's immense wheat stocks, which are forecast to outnumber those of the rest of the world combined for the third year in a row. Taking China's wheat stocks out of consideration, the amount of wheat in reserve globally is forecast to be at its lowest since 2007/08. While this is in no way a reason for major concern, it may still be a factor which puts a floor under global wheat prices, if there were to be another major production or supply disruption in future.

CATTLE INDUSTRY INSIGHTS

OVERVIEW

- Some stability is emerging in cattle prices, and while well off the highs of a few years ago, they have also bounced off the lows felt last year
- Season remains the clearest concern for many producers, primarily in the drier parts of southern and Western Australia
- While slaughter rates are high, they are returning to a long-term average after a number of years of relatively low supply
- Exports remain strong, although coming off a low base, however the impact of declining US exports is already being seen in the Australian numbers.

The Australian cattle market has found a relatively steady state for much of 2024, and while showing some volatility week-to-week, the indicators have generally stayed within a relatively limited trading band. Much of this can be attributed to the mixed seasons across cattle producing areas where northern Australia has generally had a good autumn and is well set up coming into their growing season, while southern and Western Australia have had dry autumns. As a result, some cattle are travelling north, but some continued concern over weather and price outlooks has meant this is relatively limited.

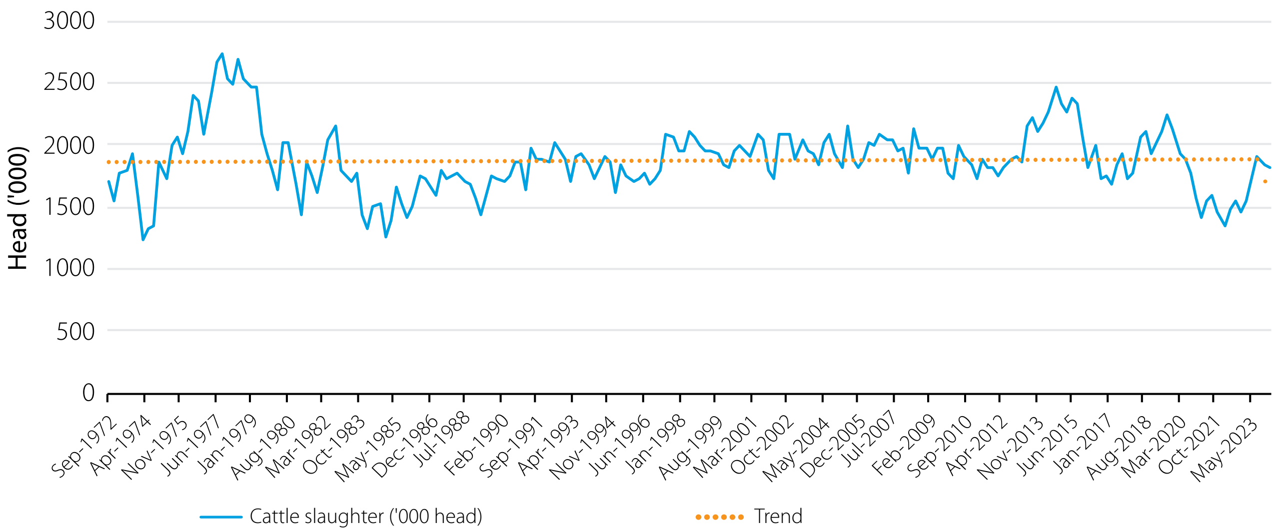
The Australian cattle market is fairly faithful to the dynamics of demand and supply – as a result, its hard to argue with forecasts for higher prices in the medium term. Lower retail prices, strong export demand, 'peak' herd numbers, and forecasts for slight declines in both herd numbers and production all point the way to higher prices to come. While season will always be the dominating factor in demand at the saleyard, the potential for a return to La Nina should provide a short-term boost for those farmers still not burnt by the recent El Nino watch. The only downside is the relatively abundant supply, particularly in the north, which may put some downward pressure on prices.

Prices across cattle categories remain below where they sat this time last year however some of the lighter categories have been showing some increases in recent weeks. With yardings easing in recent weeks, in part due to many producers' attendance at Beef Week, there has been some upward pressure on prices.

COMING INTO WINTER, AS PASTURE GROWS IN THE MAJOR CATTLE PRODUCING AREAS, CATTLE PRICES TEND TO CLIMB.

For those producers in south and west, in areas struggling for standing feed, hay or other fodder reserves, this may represent an opportunity to destock slightly until a much awaited spring break. There is very obviously residual concern over the direction of prices and weather forecasts, despite the Bureau of Meteorology announcing that a La Nina pattern was now more likely, as purchasing to feed or restocking remains relatively limited even in northern Australia.

LONG-TERM CATTLE SLAUGHTER



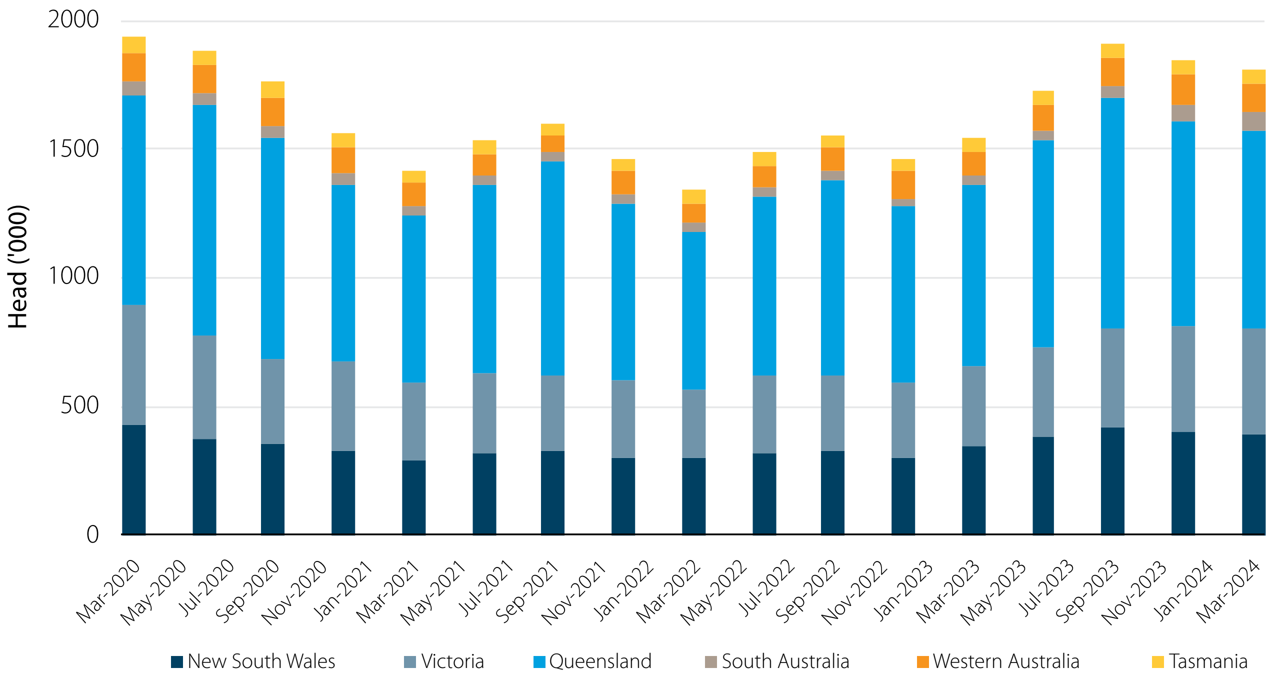
Source: ABS, ANZ

National cattle slaughter continues to climb however unlike the sheep industry where slaughter numbers are at a historic high, cattle slaughter numbers are returning to the long-term average after many years of being below average while the cattle herd rebuilt in numbers. So what does this mean for the herd size going forward? Given most estimates put the herd size at its peak this year, we may see a slight decline in numbers but also relatively high slaughter rates for the next few years. So - on the one hand, prices appear to be trending back higher, with definite room to move further should the season improve, however on the other hand, the success of the herd rebuild means supply is likely to remain plentiful keeping a lid on prices.

HOWEVER THE INCREASE IN SLAUGHTER NUMBERS THIS TIME AROUND IS BASED ON THE NEED TO TURN OFF STOCK, NOT THE DESIRE TO TAKE ADVANTAGE OF PRICES.

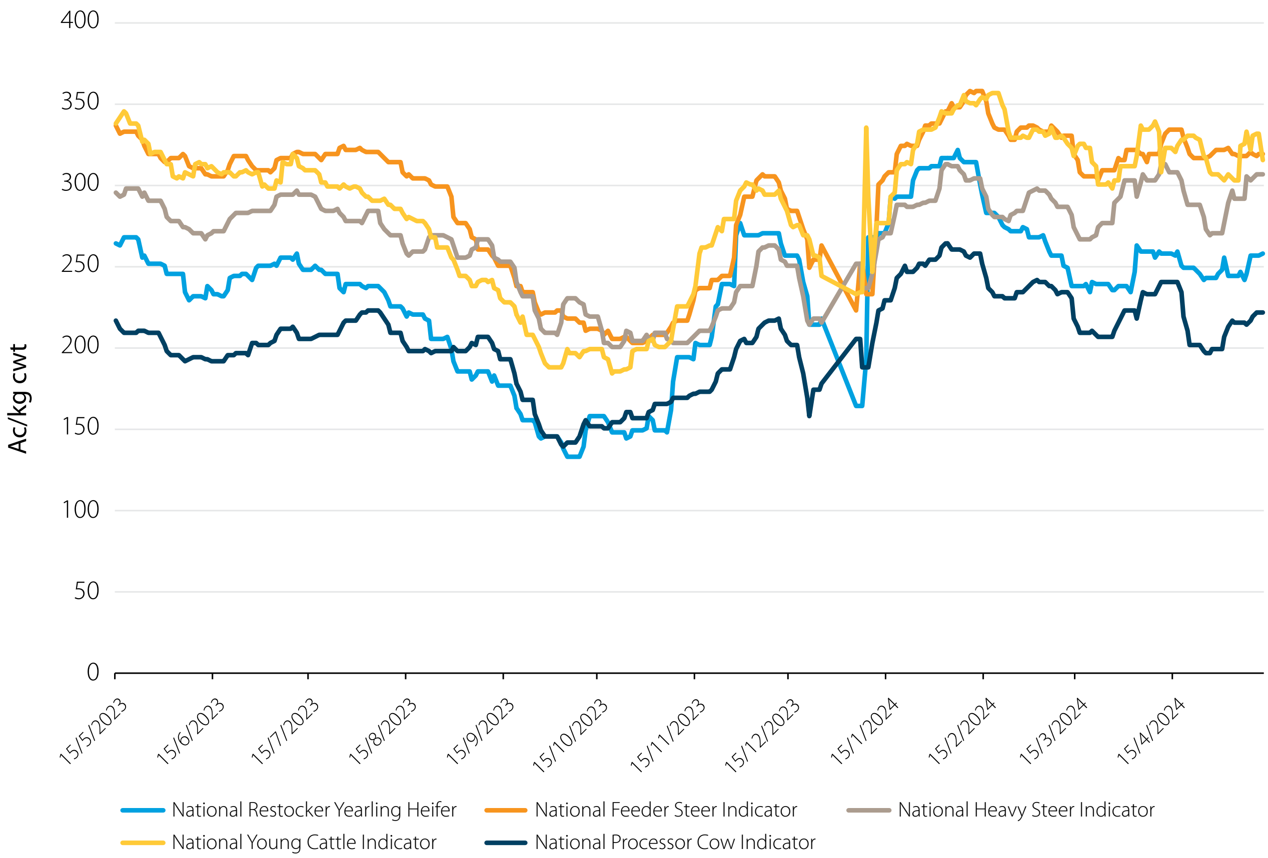
As a result, the largest increases have been seen in Western Australia, South Australia and Tasmania. Over the past year, slaughter numbers in Queensland are actually down substantially. As a result, when the break does arrive in the south and west, there is likely to some return of restocking activity.

CATTLE SLAUGHTER BY STATE



Source: ABS, ANZ

SALEYARD CATTLE PRICES BY CATEGORY



Source: MLA, ANZ

RETAIL BEEF PRICE MARGIN OVER LAMB

Source: MLA, ANZ

AUSTRALIAN BEEF EXPORTS CONTINUE TO PERFORM WELL, AND THE EARLY PREDICTIONS OF INCREASED DEMAND FOR AUSTRALIAN BEEF TO REPLACE US BEEF WHILE THEIR HERD REBUILDS - ALBEIT TENTATIVELY - IS ALREADY IMPACTING EXPORT DEMAND.

Export figures for April saw huge monthly increases for chilled and frozen beef exports of 47 and 46 percent respectively. In the 12 months to April, chilled beef exports volume has increased 36 percent, with the greatest growth being in the markets of Canada, China, US and Japan, while frozen exports have increased 28 percent in the year, with primary growth being again in the north American markets of US and Canada.

While the reduction of beef exports coming out of the United States is clearly the driving factor behind much of that stellar growth in Australian exports, it is also supported by Australia's low beef price compared to global prices. Where a number of years ago, there was considerable concern that Australian beef exports were overpriced and indeed were the highest costing beef in the world. In the intervening years, Australian beef prices have fallen to now sit below all our major competitors except Brazil. Indeed, after Australian beef prices fell below US prices early last year, the Australian export market has jumped – a trend we would expect to continue to provide support for grinding exports and the cow market for the rest of 2024, particularly as Brazil has now hit its quota for exports to the US.

On a domestic front, some concerns exist about the ongoing cost of living issues putting downward pressure on beef consumption. And despite the fact that retail beef prices have fallen slightly in recent months as the reduced saleyard prices are fed along the supply chain the margin between lamb and beef has hit a close to record level fuelling some concerns that consumers struggling to make ends meet will lean towards the other red meat.

SHEEP INSIGHTS

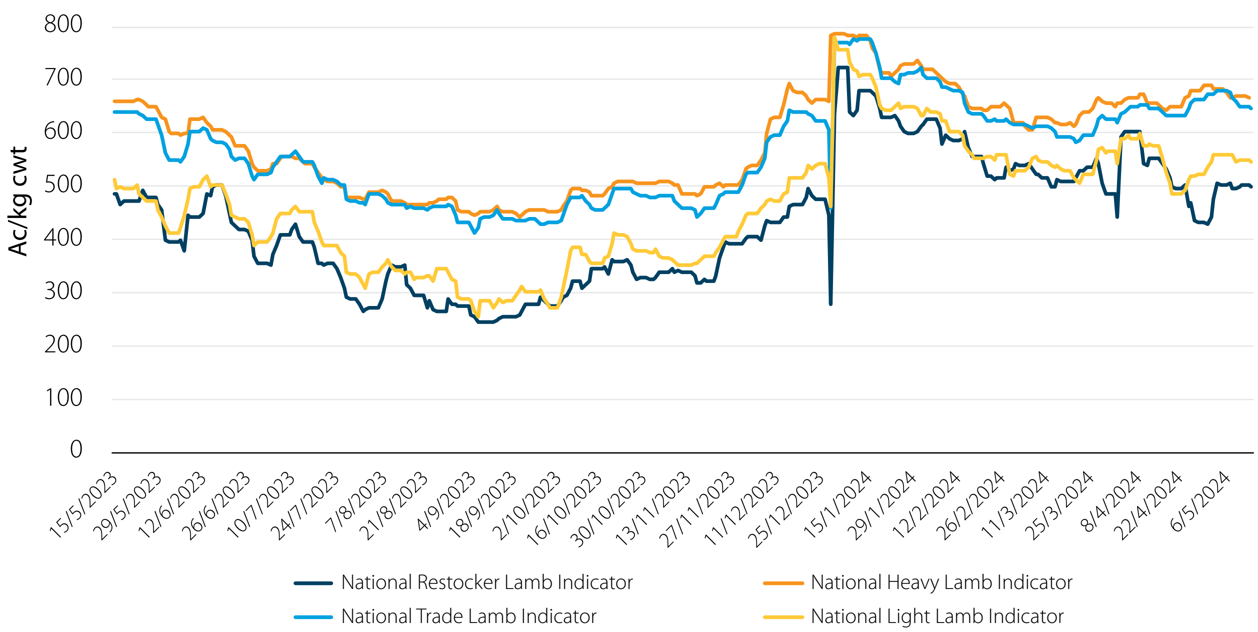
OVERVIEW

- While it's been a tough first half of the year for lamb producers, there are some silver linings
- Despite historically high slaughter and production, prices have found a stronger level than at other times with similarly high production – suggesting stronger underlying demand
- High slaughter and production rates for 2023 and 2024 are expected to flow on to some tightening of supply in the second half of the year
- After many years of divergence between sheep and cattle prices, the past year has seen them come back into line with each other

It has been a tough autumn for many sheep producers across the country as a dry autumn for many areas were combined with historic high supply – pushing prices down despite producers need to turnoff.

As we come into winter, the expectation of a drop off in slaughter and production rates also comes hand in hand with the expectation of strengthening prices coming into early spring.

SALEYARD LAMB PRICES



Source: MLA, ANZ

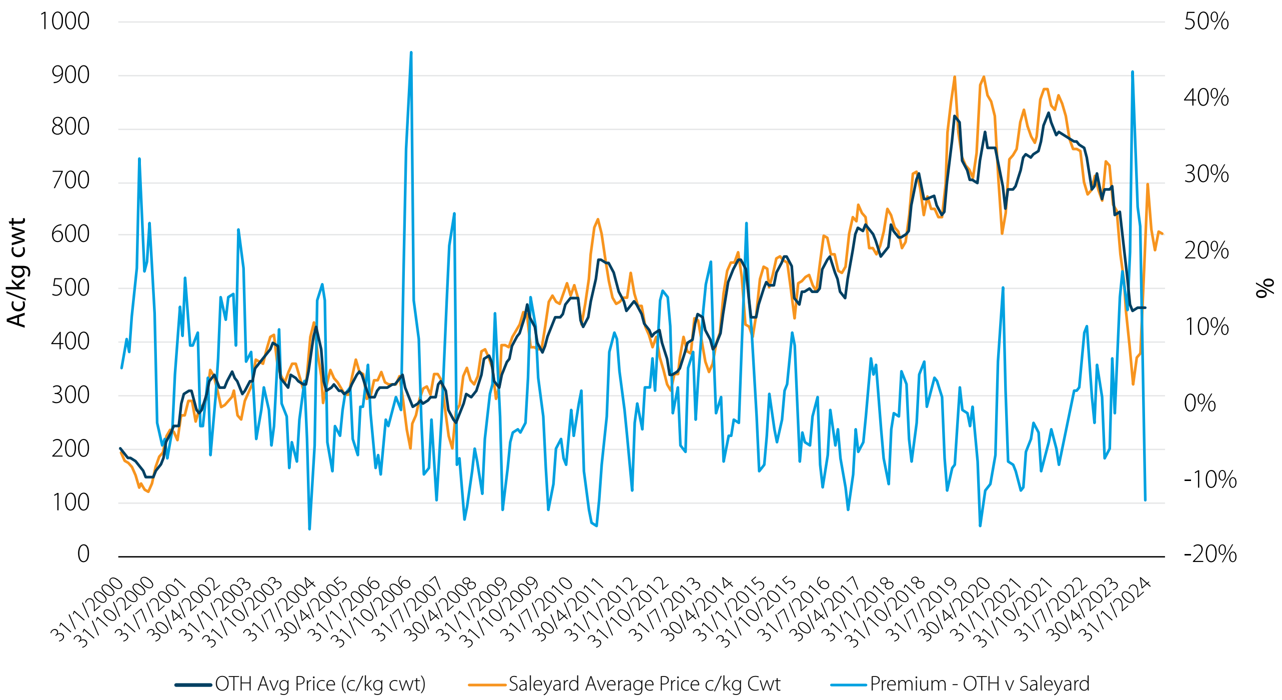
Australian lamb and mutton prices have stabilised slightly following a first half of the year which was typified by a slow decline. While the National Trade Lamb Indicator price is sitting comfortably above 600c/kg cwt and showing no signs of declining to those levels seen in winter 2023, prices between categories have been mixed. Most recently, the lighter categories of lamb have shown more strength than the heavier, processing lambs. This, in part, may be due to some sheep producers turning towards building their flock for the coming spring, either for early fattening or breeding, while processor spots for heavy lambs remain relatively difficult to get. Another factor influencing prices will be the decline in weight and quality of stock as producers look to turnoff poorer, unfattened stock so they aren't forced to feed them through winter.

The standout for all the wrong reasons is the Western Australian saleyard price, where trade lambs are trading at under 300c/kg cwt, driven by poor season and the cessation of the live export industry. As a result, many Western Australian producers are said to be destocking, with many road trains being sited coming across the Nullarbor. In the Eastern States, Tasmania prices continue to lag at around 420c/kg for Trade Lambs after a very dry spring, summer and autumn while NSW leads the pack at over 622c/kg. Much of this comes down to season, feed availability and potential for further pasture growth in northern sheep producing regions.

The latest Australian Bureau of Statistics figures on lamb production in Australia showed that lamb production was up another 5.5 percent in the first quarter of 2024, while the number of lambs slaughtered rose 5.3 percent. This means that lamb production in the first quarter of 2024 is up 24 percent from the first quarter of 2023. Similarly, the amount of mutton produced rose 5.4 percent in the first quarter, and the number of sheep slaughtered increased 10.8 percent, suggesting many producers were turning off lighter, poorer quality ewes in light of the poor season in many sheep producing areas, along with the concerns over the long-term future of sheep in Western Australia.

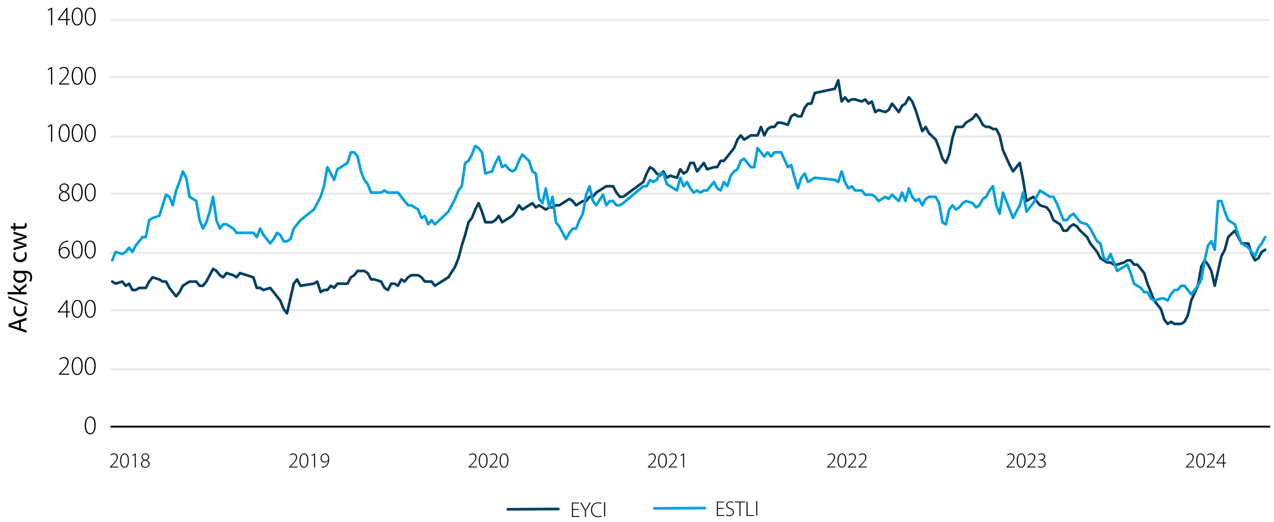
So the next question must be: How long can slaughter rates stay this high, and when might the market see some improvement in prices? And the answer is, probably not much longer. While lamb yardings are starting to slow coming into winter, most in the industry are anticipating stronger prices as fewer lamb and ewes are put on the market.

SALEYARD V OTH LAMB PRICES



Source: MLA, ANZ

EYCI V ESTLI

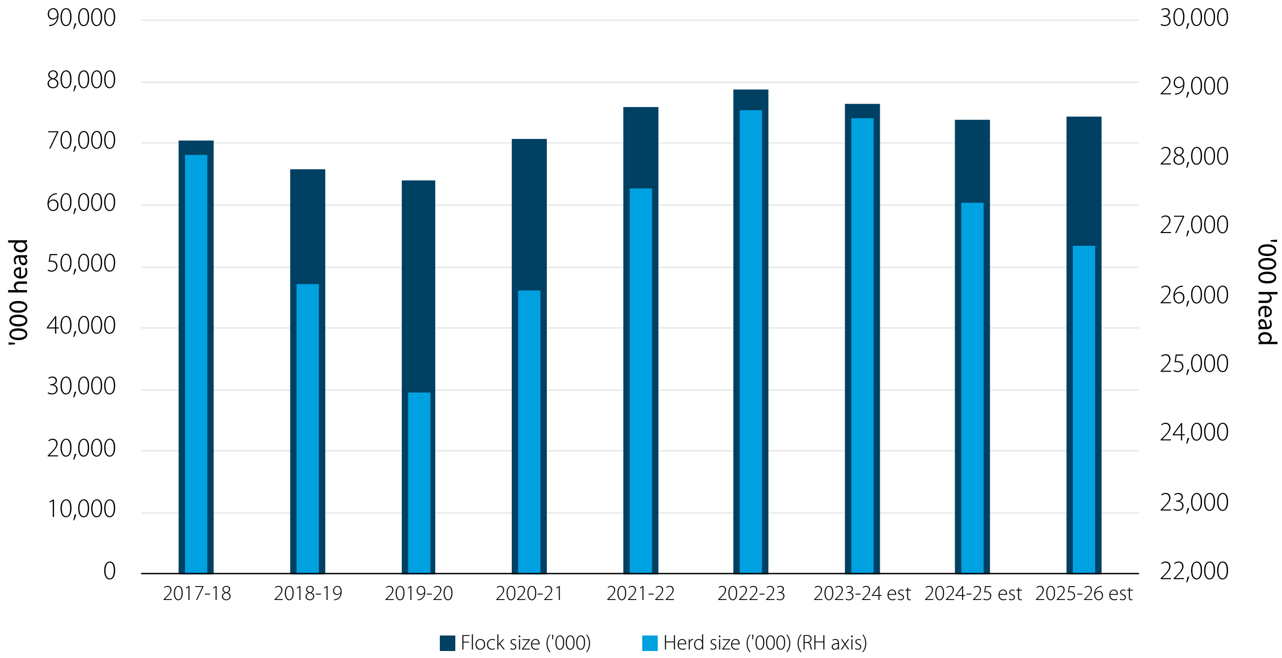


Source: MLA, ANZ

With the Bureau of Meteorology now moving into a La Nina watch phase, many regions that had a poor autumn will be looking hopefully for decent rainfall over the winter and spring to support good pasture growth. Having said that, a poor autumn across many sheep producing areas is likely to result in lower lambing percentages as feed availability was lower prior to joining.

Over the longer-term, late last decade and the early 2020s has seen an unusual period of divergence between sheep and cattle prices. Prior to this, the general rule was that cattle and sheep prices moved together as those producers in areas which supported either sheep or cattle would switch from one to other dependent on the price spread. In early 2010s, we saw lamb prices jump ahead of cattle before our emergence from drought saw many years of cattle prices showing huge growth – and premiums over sheep. Early 2023 saw the gap between cattle and sheep disappear and since that time, the two indicator prices have begun to move in tandem.

AUSTRALIAN NATIONAL HERD AND FLOCK SIZES



Source: MLA, ANZ

It's well known that much of the large jump in cattle prices was attributable to restockers after the drought years, and indeed rebuilding the national flock also sat behind much of the boost in lamb prices later in the 2010s. Now that both the national flock and herd sizes appear to have reached their peaks for the current cycle, it would follow that the restocker demand would be stripped from the market.

In terms of final demand for lamb, exports remain the key driver of growth, however the recent reduction in retail lamb prices, growing retail discount compared with beef and the slowly increasing pork price will hopefully underpin a strong and growing domestic market for lamb. However continuing concerns of the cost of living crisis may either help or hinder – as people move to lamb in preference to beef, or conversely away from red meat altogether due to its perception of being more expensive.

Lamb exports remain very strong in 2024, with year to April figures showing that lamb and mutton exports are sitting 27 percent higher than last year – while 2023 saw a 25 percent jump in sheep meat exports in that year alone. China remaining the strongest mutton and overall sheep meat market although demand for mutton has been subdued for the first months of the year, and the United States sitting as the most important lamb market.

WHILE THESE STRONG MARKETS ARE THE BACKBONE OF OUR EXPORTS, EXCEPTIONAL EXPORT GROWTH IS BEING SEEN FROM THE MIDDLE EAST AND THE UNITED KINGDOM AFTER ONE YEAR OF THE AUSTRALIAN UK FREE TRADE AGREEMENT ENTERING INTO FORCE.

WOOL INSIGHTS

OVERVIEW

- Prices across all microns have traded within a relatively narrow band over the past few months
- Supply and auction clearance rates remain steady as producers largely meet the market
- Premiums for welfare standards such as non-mulsed have reduced along with the overall reductions in fleece value
- Global economic conditions continue to hold the key to wool price recovery.

As the 2023/2024 wool selling season nears the end, producers will likely enter the winter recess with hope that prices start to improve when the new season kicks off in July.

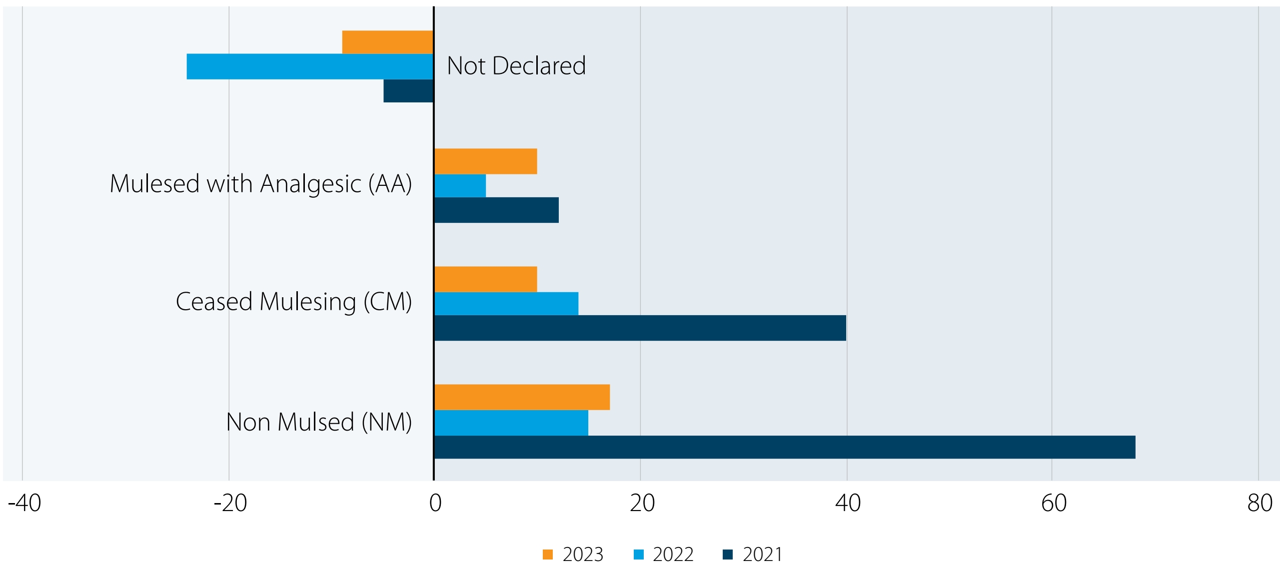
When taking a high level view over the past three months, wool prices across all micron categories have been relatively stable, albeit with weekly fluctuations brought about by a combination of foreign exchange rates, supply variance and buyer demand. Trading in the mid 1100 cents per kilogram range for most of the year, the EMI is looking likely to close the year at around where it started, at 1150-1160c/kg. The indicator price however, fails to recognise the individual micron variance, where in many cases, prices remain well back on year ago levels, with the finest microns suffering the biggest losses this season, and the medium to course wool types demonstrating the least volatility.

Along with retractions in price come retractions in premiums for clips that have originated from flocks that are declared as non-mulesed. In 2021, when wool prices for fine merino types were trading at over 2000 cents/kg, premiums of over 60 cents /kg were on offer, representing ~3.5 percent payment over market value. Current data suggests that this premium has halved to around ~1.2 percent on todays price, at around 18c/kg. Also of interest in a more pressured market, is that the margin between premiums offered for clips from completely non-mulesed flocks compared to those that continue to mules however provide pain relief, have shrunk considerably. It would appear that the high-end demand for fleece with certain welfare characteristics has not been protected by the global economic downturn that has impacted all fleece types this season.

In terms of supply, wool volumes on offer for the year are tracking around 1 percent lower than 2022/2023, in line with forecasts that the mature sheep flock would produce a similar clip to the prior year. Auction clearance rates have also remained reasonably steady over the selling season, with producers generally meeting the market and selling, keeping pass in rates below 10 percent for most of the year.

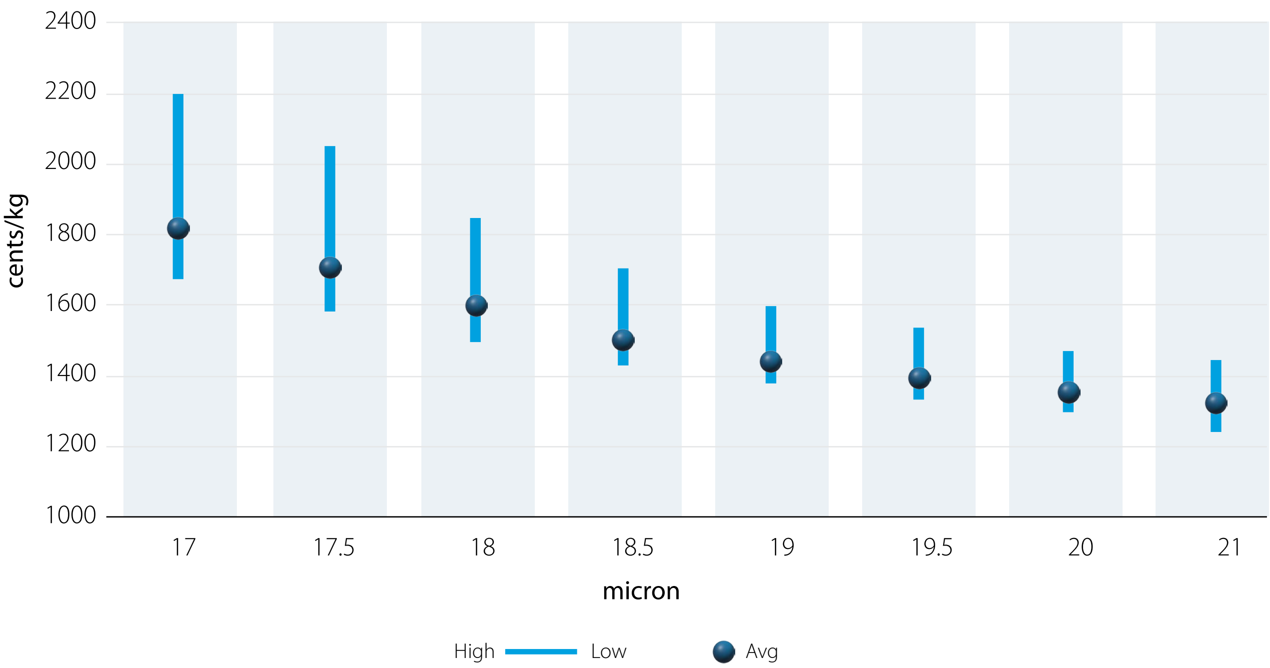
With steady supply and good quality wool on offer from Australia, the global economic landscape continues to hold the key to price improvement for Australian wool producers. Whilst some economists including ANZ recently lifted their growth forecasts for the Chinese economy, on the back of better than expected quarterly data earlier this year, the overall trajectory remains downward. A two-speed economy in China, predicted by some, whereby exports outperform expectations and domestic demand stays week, could support wool demand in part, through growth in processed wool and apparel to the world. Weak Chinese domestic demand however, is not good news for Australian wool due to the large percentage of wool that has historically been purchased by the Chinese consumer. Alternative markets are not however out of the question, particularly with the Australian industries continued focus on wool as a versatile fabric for a variety of climates.

MULESING STATUS PREMIUMS AND DISCOUNTS (18 MICRON FLEECE) IN CENTS PER KILOGRAM



Source: AWEX, ANZ

HIGH, LOW AND AVEARAGE PRICE BY MICRON, 12 MONTHS TO MAY 2024



Source: AWEX, ANZ

DAIRY INSIGHTS

OVERVIEW

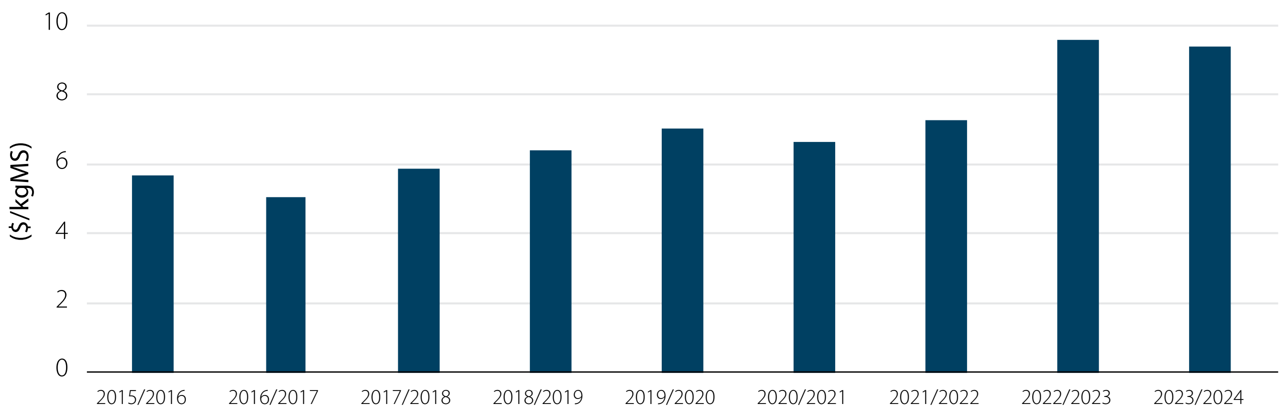
- Dairy producers are largely expecting a reduction in prices for the new season
- Stable milk production globally is not supportive of increases in dairy export prices however may support underlying price stability
- Weak global demand for milk products is expected to continue, particularly in China and South East Asia
- Australian producers are facing varying weather conditions at present, with some key milk production zones experiencing unusually dry weather for this time of year and others experiencing sound conditions
- Smaller scale producers are impacted by pricing discounts, placing pressure on returns when coupled with current high overhead costs
- Overall dairy industry confidence is at a 10 year high following good seasons, strong local pricing and sound profitability.

Winter signals the start of a new milk pricing period for Australian dairy producers, and it is widely expected that a reduction from current pricing arrangements will occur, in response to both local industry trends and global dairy product markets.

Locally, Australian milk production continues to track higher year on year, with March quarter production bringing the year to date total up 3.1 percent, to around 6.5 billion litres. Continued production growth is expected into the 2024/2025 season, with current growth forecasts of between 2-3 percent, representing around 8.3 billion litres of output.

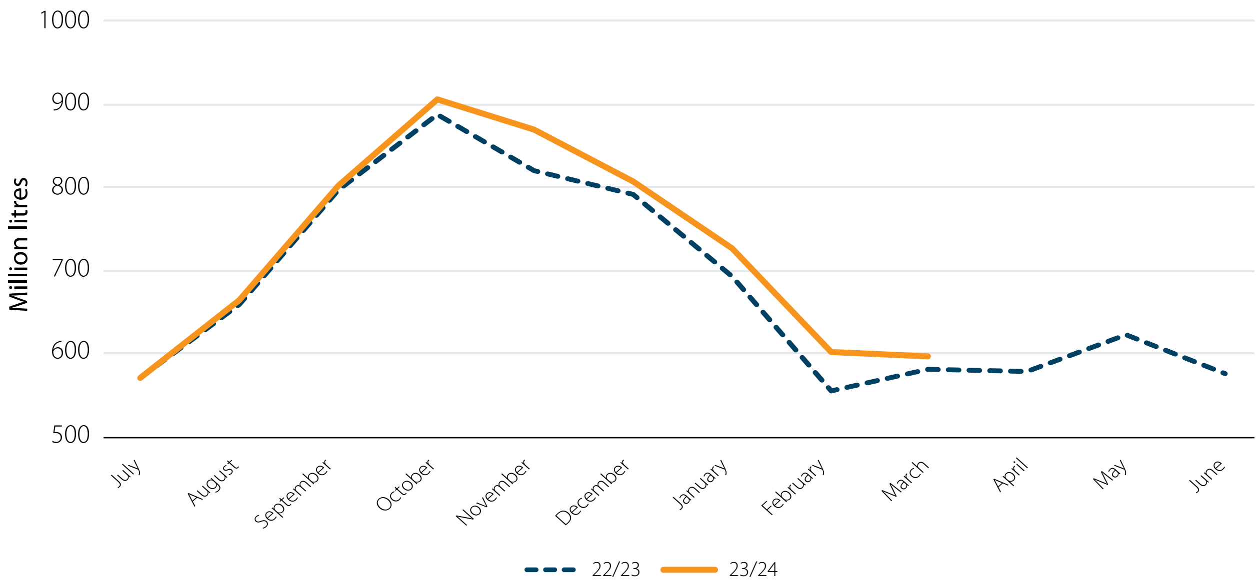
With Victoria and Tasmania now responsible for almost 75 percent of Australian milk production, it

FARMGATE AVERAGE SEASON MILK PRICES



Source: Milk Value Portal, ANZ

AUSTRALIAN MILK PRODUCTION 2022/23 V 2023/24



Source: Dairy Australia, ANZ

has and will continue to be growth in these states contributing the most heavily to growth in the national figure. Weather conditions in many dairy production zones within these states however continue to be challenging at present, with a lack of autumn rain and drier than average soil moisture impacting some producers heading into winter. Pleasingly, for producers reliant on purchased fodder, input price reductions on cereal hay, protein hay and grain were trading 15, 20 and 13 percent lower year on year respectively according to April price data. Labour and interest costs on the flip side, remain steady, contributing to the highest overhead costs dairy farms have seen in over 15 years, to almost $3/kgMS, according to Victorian data from the Australian dairy farm monitor project.

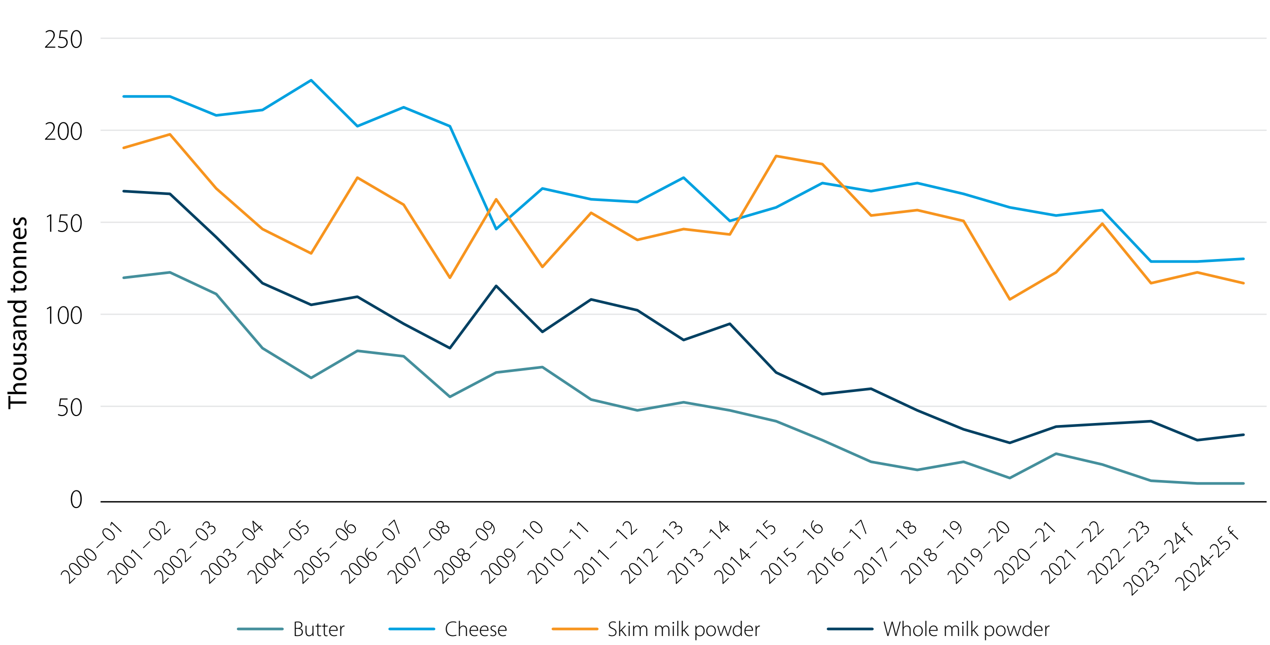
Globally, milk production forecasts for the remainder of this year are now flat, after some earlier concern of higher production from Europe, and also New Zealand. These growth forecasts have been replaced by forecasts for stable production, which is on the whole, is good news for Australian dairy. Prices for milk powders, one of Australia's major dairy exports by volume, are expected to remain under pressure this year. Across the range of global dairy products Australian milk contributes to, there are no strong signals for global price improvements at present, which again contributes to a forecast reduction in opening price this season. The reality remains however that historically speaking, Australian milk production remains low, and processors will need to balance security of supply with these global pricing pressures.

With a pending reduction in milk prices, producers will be looking to production efficiencies and managing the cost of inputs to maintain margins. Analysis of weighted average milk supply agreements over the past 3 seasons from Australia's major milk production zones, demonstrates that smaller scale dairy producers consistently receive lower prices for milk when compared to larger producers in the same region. This is a challenge unique to the dairy industry when compared to other livestock industries such as lamb and beef production, where smaller consignments are not commonly penalised by a lower price. On average, a difference of between 26 and 27c/kgMS has been seen between the largest and smallest volume producers in Gippsland and Tasmania over the past three seasons.

WHEN COUPLED WITH HIGHER INPUT PRICES PER UNIT FOR SMALLER PRODUCERS WHO LACK SCALE BARGAINING POWER, IT IS UNSURPRISING THAT THE DEMOGRAPHIC OF AUSTRALIAN DAIRY FARMS IS TRANSITIONING TOWARD FEWER, LARGER OPERATORS IN KEY PRODUCTION ZONES.

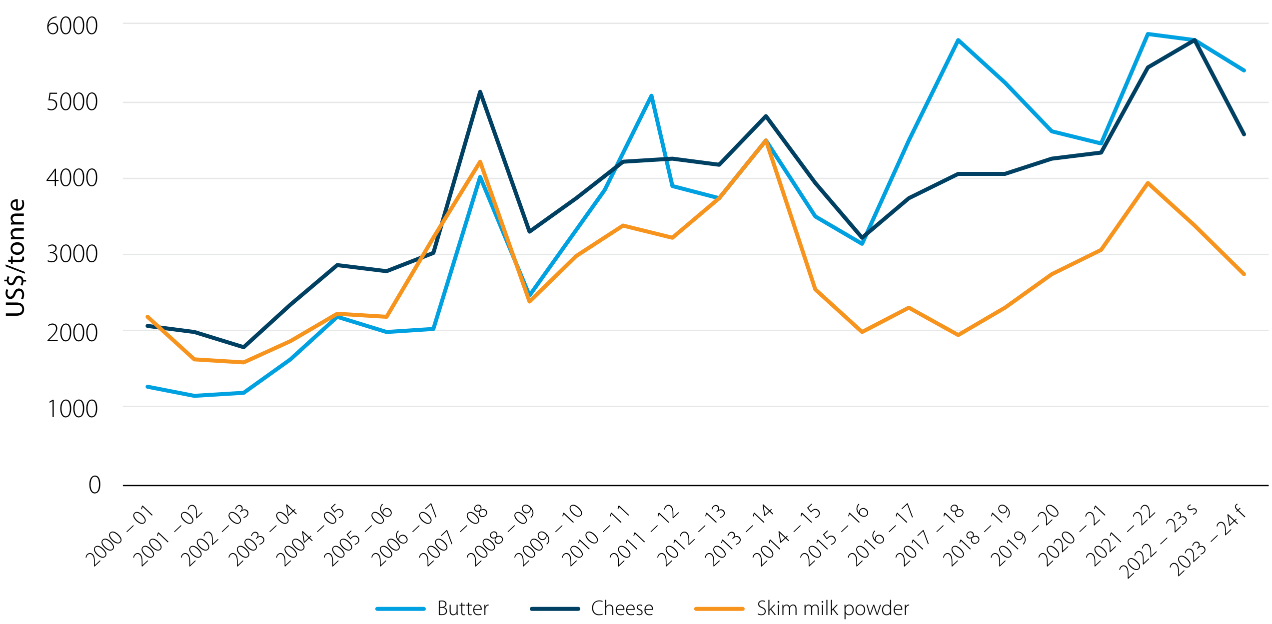
On the whole however, the combination over resent years of good seasons, price and productivity, have contributed to the confidence of Australian dairy producers remaining steady, with 68 percent of producers feeling positive about the industry's future according to the 2024 National Dairy Farmer Survey. In addition, 23 percent of the 600 producers surveyed noted they were in 'expansion' phase, while less than 10 percent stated they were in a winding down stage, the lowest reported in many years.

AUSTRALIAN DAIRY PRODUCT EXPORTS



Source: ABARES, ANZ

WORLD INDICATOR PRICES - DAIRY PRODUCTS



Source: ABARES, ANZ

COTTON INSIGHTS

OVERVIEW

- With picking well underway, yields across the country are coming in better than anticipated
- 2024/25 season will again see reduced production due to similar seasonal impacts however production is forecast to fall only a further 8 percent while still remaining well above the 10 year average
- Declining production volumes, the nominal value of cotton production in Australia is also forecast to decline by up to 18 percent for the 2023/24 marketing season
- The industry is seeing a more optimistic economic outlook for the biggest importer which is expected to drive an increase in demand at a faster rate than supply.

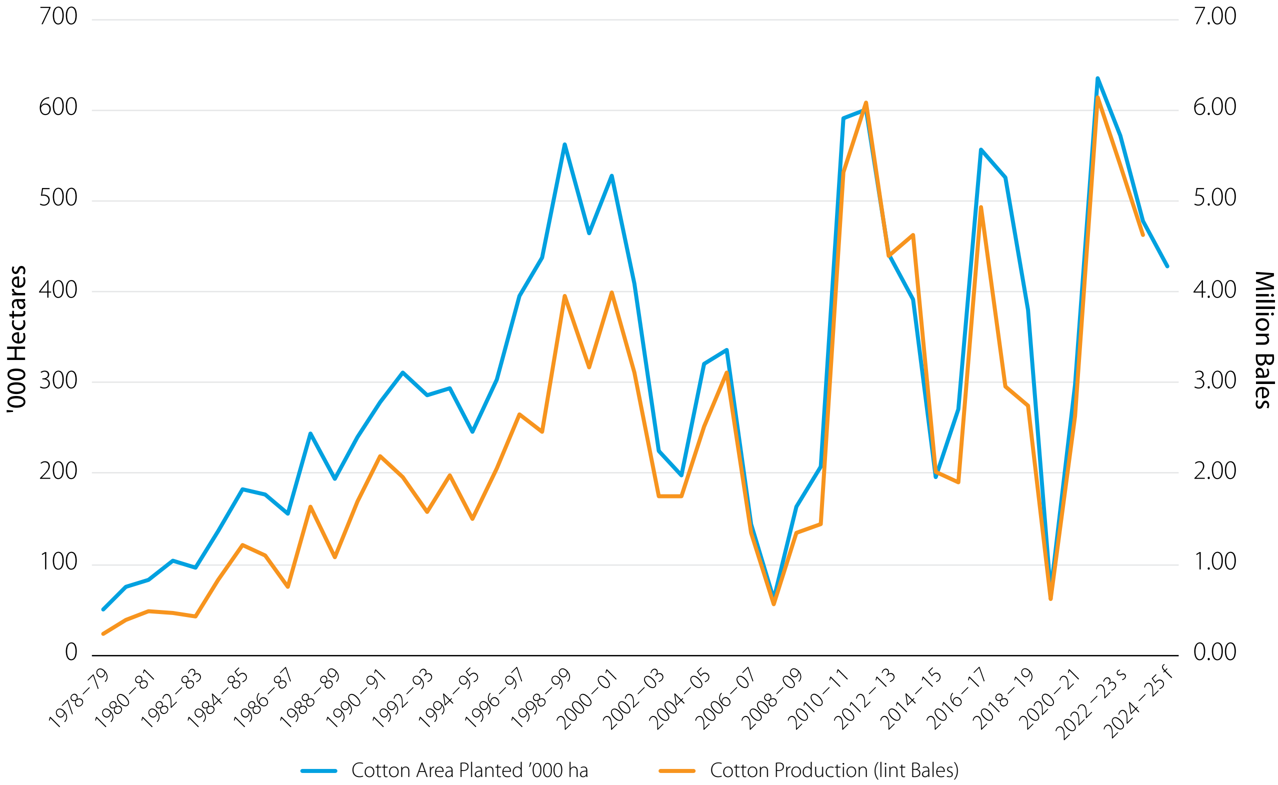
With picking underway in the south of the country and harvest finished in the north, and with this season being the first with an operational gin in the far north (Katherine), the Australian Cotton industry is well placed to ride out volatile global prices and take advantage of improving consumer demand. Anecdotally, the industry is seeing a growing season as good as could be hoped for with better than anticipated yields coming in across the country.

ABARES has forecast a fall in Australian cotton production by 18 percent in 2023/24 with less favourable seasonal conditions reducing area planted across the country. A dry start to the season pushed out planting before wet season impacts across Western Australia and impacts from cyclones in Queensland saw portions of the planned crop not able to be planted. Cloudy weather in the north across the middle of the growing season has seen fruit shedding, impacting on production volumes.

Overall, Cotton Australia estimates around 480,000 green hectares of cotton has been planted for this growing season with a forecast production of 2.1t/ha, producing forecast 1 million tonne. From early reports on the ground, due to earlier than normal starts to the picking season, Australian producers are well on track to deliver a crop that is in line with expectations following optimal growing season despite reduced plantings from a less favourable planting window for some. It is forecast that the 2024/25 season will again see reduced production due to similar seasonal impacts however production is forecast to fall only a further 8 percent while still remaining well above the 10 year average. Water storage levels and low water prices across the Murray Darling Basin (MDB) are helping keep production levels above the 10 year average of 2.1 million bales of cotton grown in the MDB and around 75 percent of the Australian crop grown under irrigation.

In line with declining production volumes, the nominal value of cotton production in Australia is also forecast to decline by up to 18 percent for the 2023/24 marketing season. This is being driven by not only the decrease in area planted and productivity but by current falling global Cotton prices. The current dip in the global price (96c/lb) is forecast to recover across the next 3 to 4 seasons, due to a forecast decline in production (seasonal cycle) and global consumption demand increasing.

COTTON PRODUCTION VS AREA PLANTED



Source: ABARES, ANZ

So if production is falling globally due to seasonal impacts and smaller plantings, where is the upside for the industry? Looking ahead to 2028/29 world nominal cotton prices are expected to stablise and improve. The industry is seeing a more optimistic economic outlook for the biggest importer (United States) which is expected to drive an increase in demand at a faster rate than supply. With stronger income and growth in key consumption areas and stablising world GDP growth the global industry should see stronger demand for cotton products. Reduced purchasing activity over the 2022/23-2023/24 seasons to work through inventories that had accumulated through the pandemic period and consumers feeling more confidence in the economy to increase their discretionary spend on quality garments and home textiles, is seeing demand for the product and supports the ABARES forecast for global prices to stage a recovery.

On top of the stablising of prices, global usage is forecast to increase by 3.5 million bales. Global apparel consumption is projected to rise by 63 percent on 2020 consumption levels by 2030. Natural fibres market share has declined over recent years to around 44 percent of global fibre usage with cotton leading this segment at 38 percent of overall revenue share in 2023. Synthetic fibres have led the market in recent years due to their ease of use and lower cost production however there is a fast growing consumer preference towards sustainable textile products.

With this increasing demand in mind, Australia, being one of the largest exporter of cotton in the world, will export more than 90 percent of our cotton. With a strong sustainability lens, being recognised as the most water-use efficient producers in the world, the Australian Cotton industry is well placed to cater to the changing demand from consumers for more sustainable, natural fibres in the textile markets.

SUGAR INSIGHTS

OVERVIEW

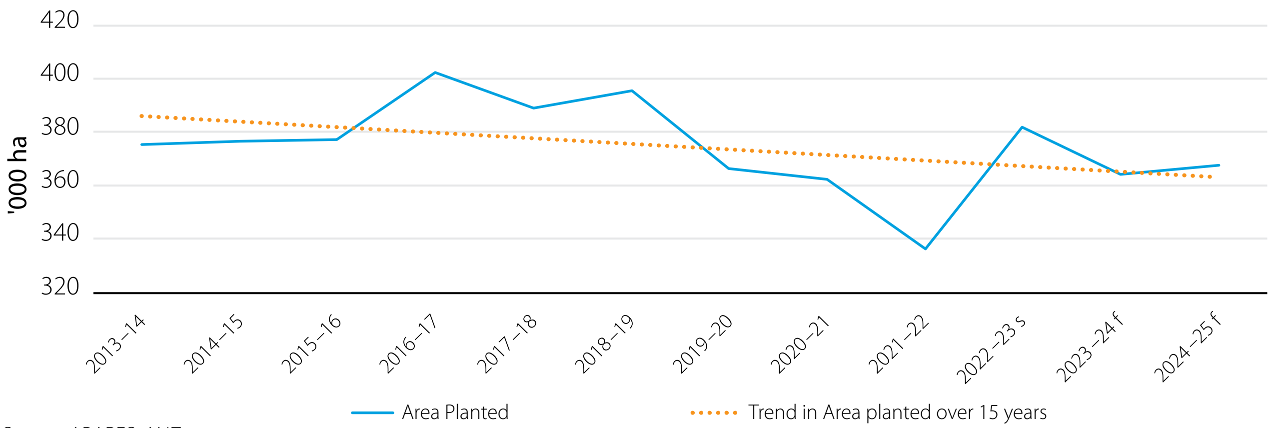
- The Australian sugar industry is looking at an increase to production despite seasonal impacts to planting windows and growing season.

With crushing season just around the corner, the Australian sugar industry is looking at an increase to production despite seasonal impacts to planting windows and growing season. Globally, production is up, causing global prices to fall slightly into the 2024/25 marketing year.

Volatile pricing over the last few years saw a decline in area planted to sugar cane. Where cane fields became other horticultural crops over these years, the reverse is starting to happen off the back of strengthening global prices and tightening supply. This season has seen a slight increase in area planted, driven by increased prices over recent years encouraging producers to increase production area. This, coupled with a slightly higher yield across the country, has increased Australian production of raw sugar up 0.1 million metric tonne on the previous season. Australia has seen overall good growing conditions across the regions bar the far north where cyclones, prolonged rain events and cloudy weather has hindered important growing months however Far North Queensland accounts for 35 percent of total Australian production and has not significantly impacted overall production. It is expected that despite the seasonal impacts, sugar content is expected to be in line with 10 year averages.

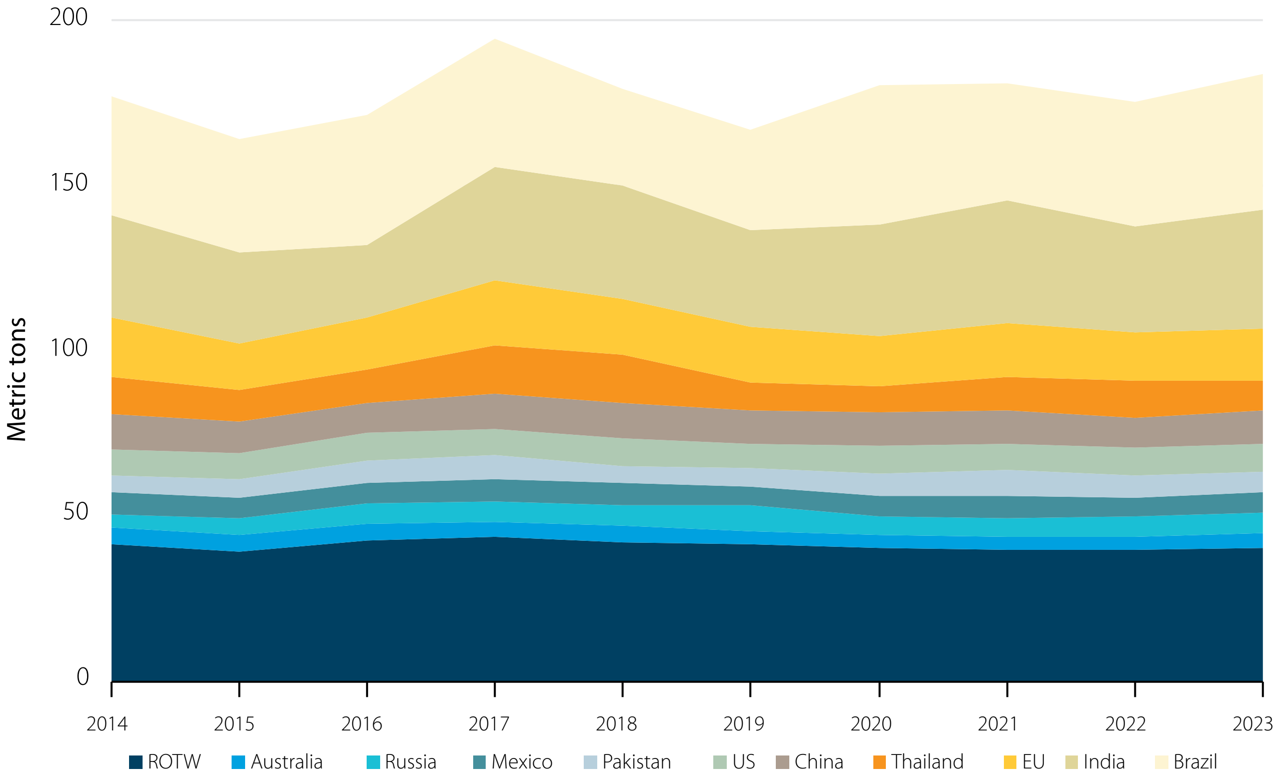
Australia's growing population and stabilising economy is driving a growth in domestic consumption to up to 20 percent of production this season with the remaining 80 percent exported. Globally, world consumption demand is expected to steadily increase at 1 percent per year. With Australia only supplying 2 percent of global sugar exports, the key production countries remain Brazil, India, China and Thailand.

AREA PLANTED TO SUGAR CANE 2012 - 2025F



Source: ABARES, ANZ

GLOBAL SUGAR PRODUCTION 2014-2023



Source: USDA, ANZ

Brazilian producers, like Australian, have taken advantage of a prolonged period of higher global prices and have increased area planted (however total area has only increased by 1 percent) as well as seeing improved yields through productivity improvements. Despite this, the 2024/25 crop is forecast to reduce by 8.5 percent on the 2023/24 marketing year due to lack of rainfall across the growing regions. Processing wise, mills are working to boost capacity where they can (with some starting processing earlier than normal) with sugar prices currently 60 percent higher than Brazilian ethanol prices.

Rain and Red Rot across parts of growing regions in India are expected to lower the production estimates for Indian sugar. Exports out of India are expected to remain lower due to the indefinite Indian Government cap imposed in October 2023. This cap is likely to continue into the 2024/25 marketing year to ensure supply for domestic demand as well as meeting ethanol requirements for their 2025 targets.

As a major player in sugar production, Thailand has seemily filled some of the gap left by India's export caps. Production in Thailand is forecast to increase 16 percent on 2023/24 with adverse weather having hindered production 2023/24. Thai producers are well incentivised to continue growing sugar can with strong farmgate prices (28 percent increase on previous years prices). Domestic consumption has been hindered slightly by slow economic recovery and sugar taxes on non-alcoholic beverages pushing processors towards artificial sweetners however consumption is still forecast to increase by 4 percent annually across 2023/24 and 2024/25. Exports out of Thailand are expected to be up significantly in 2023/24 however will level out into 2024/25 if Indian caps are lifted, however the market will remain cautious of the volatility of Indian exports.

Despite volatility in recent prices and a declining trend in plantings for Australian sugar, the industry remains relatively stable with global consumption forecast to incline albeit at a low stable rate.

AUSTRALIAN ECONOMIC INSIGHTS

Inflation is looking sticky, but the next move in rates is likely to be down, rather than up. Government support coming from the recent Budget and the Stage 3 tax cuts will support households in the second half of the year. The RBA is likely to start cutting the cash rate in November, although there is a risk that cuts don't begin until 2025.

RATES TO STAY HIGHER FOR LONGER

Inflation is looking sticky.

Inflation came in stronger than expected in the first quarter, raising concerns about the last mile challenge. Domestic inflation pressures are too strong, and there is a risk they remain persistent, particularly given the very tight housing market and high labour cost growth. The RBA is now expecting inflation to end the year higher (at 3.8% y/y) than it was in Q1 (3.6% y/y), although this does not reflect cost-of-living relief measures in the Budget that will mechanically lower inflation temporarily. ANZ Research thinks inflation will end the year just above the RBA's target band at 3.2% y/y.

Budget to support households facing cost of living pressures.

The 2024-25 Federal Budget included a range of measures designed to help households with cost-of-living pressures. All households will receive a $300 electricity rebate, Commonwealth Rent Assistance will be increased by 10%, and medicines will be cheaper. These measures, along with the Stage 3 tax cuts (which come into effect on July 1), will boost household disposable incomes. The consumer has been under pressure for some time, with consumer confidence very low and household spending growth sluggish. Given this backdrop, there is a lot of uncertainty about what will households do with the additional money from the Government – will they spend or save it? We'll be watching ANZ-Roy Morgan Consumer Confidence closely; if there is a material improvement in the second half of the year, this may indicate we'll see a pickup in spending.

Rate cuts unlikely until at least November.

The hotter than expected Q1 inflation data sparked talk about the possibility of the RBA increasing rates again this year. Indeed, Governor Bullock confirmed a May rate hike was considered at the press conference following the meeting. We think the RBA would prefer to avoid hiking rates if it can. The more likely outcome is that the cash rate stays at its current 4.35% for longer. We don't expect the RBA to start easing rates until November and there is a risk that the beginning of the easing cycle gets pushed out to 2025 if household spending picks up materially and/or inflation remains stubborn.

ANZ Research expects a relatively shallow easing cycle and see the cash rate stabilising at 3.6% by the middle of next year. We think the RBA will be looking to take interest rates towards the neutral level – in other words, taking rates to a place where they are neither acting as a handbrake nor accelerator on the economy.

The labour market is easing, but most people will keep their jobs.

The labour market remains tight, but there are signs things are slowing. Recent employment growth has been driven by part-time rather than full-time employment, the unemployment rate has slowly drifted up to 4.1% from a low of 3.5%, job vacancies have been falling, and yearly growth in hours worked is negative. We expect most of the adjustment in the labour market to occur through people working fewer hours, rather than widespread job losses. ANZ Research expects the unemployment rate to peak at 4.4% in 2025. This is still very low by historical standards.

Wages growth appears to have peaked.

Australia's Wage Price Index rose 4.1% y/y in Q1, a touch below Q4's 4.2% y/y growth. This suggests that annual wage growth in Australia has peaked, and that Australia is unlikely to record the elongated peaks in wages seen in other economies like the US and New Zealand. That said, the RBA is watching wage growth closely, and the Board noted it is at a level that cannot be sustained given the recent weakness in productivity growth. ANZ Research expects wages growth to continue moderating from here, and see it ending the year at 3.8% y/y.

The USD to stay stronger for longer.

The US economy has surprised everyone with its resilience, and markets expectations around rate cuts have been scaled back significantly since early this year. ANZ Research sees the Fed cutting rates by 50bp this year, compared to previous expectations of 100bp of cuts in 2024. We expect 200bp of cuts over the entire easing cycle. As a result of this later start to Fed easing, as well as the USD benefiting from safe-haven flows, we expect the USD to stay stronger for longer. This will flow through to the AUD/USD, which we now see ending the year at 0.69.

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