

2021

Australian agriculture outlook



Executive summary



Cattle

Softening restocker demand and global pressures to see prices ease in 2021.



Cropping

Australia is in a good position to capitalise on increased production and strong prices.



Dairy

Lower cost of production will promote supply growth and aid profitability.



Horticulture

Key challenges are being managed. Increased supply expected to be met with strong demand.



Sheep

Improved seasonal conditions to support sheep producers despite lower lamb prices.



Wool

Conditions for increased production and a recovery in prices will support Australian wool producers.

When we celebrated the start of a new decade in January no one could have predicted the year to come. The second half of 2020 has been just as eventful as the first for agriculture, with second waves of COVID-19, escalating trade tensions between Australia and China, the United States presidential election and widespread rainfall interrupting harvest.

Rural Bank's *Australian Agriculture Outlook* looks at the driving forces affecting agricultural markets, focusing on the future of supply, demand and price. Examining what lies ahead in the next six months, the Outlook covers agriculture by commodity, providing farmers with expert analysis of the current environment and importantly, what could come next.

In our 2020 mid-year *Outlook* we highlighted three key themes which would shape agriculture in the second half of 2020 – seasonal conditions, trade relations and COVID-19. As we look to 2021, all three themes remain at the centre of this *Outlook* report.

Favourable seasonal conditions in 2020 led to an increase in supply for many commodities. We expect this increase in supply to carry into 2021, particularly for grain, dairy, horticulture and red meat. Wet conditions are expected to continue into 2021, providing mixed fortunes for agriculture. Increased rainfall over the summer poses a quality concern for southern grain growers while the wetter conditions decrease the reliance on supplementary feed for the livestock industry. Overall, a wetter start to 2021 will be a positive for most industries.

Trade relations between Australia and China have been in the spotlight for much of 2020 and we expect this to continue in 2021. From lobster to wine to barley to beef, there is an emerging pattern of scrutiny and disruption to exporters which has the potential to impact other industries. Uncertainty caused by trade disputes can be enough to decrease commodity prices suddenly and dramatically.

In addition to our relationship with China, Australia will look to further its relationships with 15 countries in the Indo-Pacific region after signing the Regional Comprehensive Economic Partnership (RCEP). China is included in RCEP, as is Japan, our second largest trading partner.

RCEP will likely provide non-tariff advances in trade relationships between the listed countries. For Australia it's an opportunity to deepen ties with alternative markets, decreasing our reliance on China.

The COVID-19 pandemic appears far from over, however there are promising signs for Australia as restrictions ease and domestic foodservice demand returns. There are broader economic concerns as a result of the pandemic, which include the level of business investment, the rate of easing restrictions, future outbreaks, the new US President, the movement of the Australian dollar, labour shortages and a reduced amount of air freight. Food security concerns driven by COVID-19 will likely continue to cause commodity price fluctuations which could provide mixed fortunes for Australian agriculture.

At the farm gate level, 2021 will largely be positive from a supply point of view aided by water availability, access to feed and restocking efforts from 2020. Highlights from the analysis include Australia's winter crop production, which is expected to be 15 per cent above average, providing a larger exportable surplus compared to 2020. Milk production is expected to reach nine billion litres for the first time in three years. While supply of wool is expected to increase in 2021, uncertainty around demand and price will likely remain.

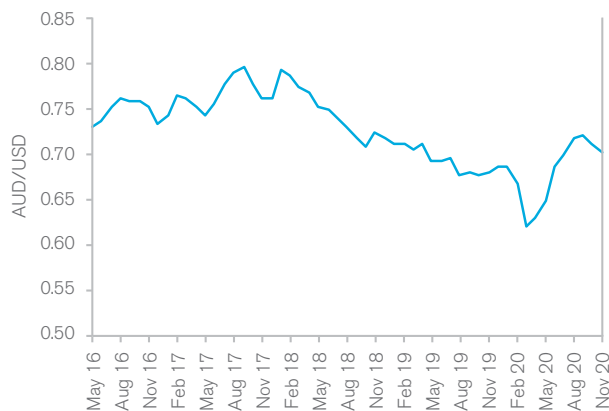
As an agricultural specialist lender, Rural Bank understands that issues impacting farm business' performance can evolve quickly and farmers are operating in a sometimes-unpredictable environment – which is why we want to support the industry with a regular expert forecast.



Economic outlook

The global recession caused by COVID-19, including the deliberate shutdown of economies to manage the pandemic has been devastating around the world, and for Australia. Our 7.25 per cent fall in gross domestic product (GDP) in the first half of 2020 was severe. The impact was most evident in the hospitality and services sector, with their dependence on tourism and mobility, but all sectors of the economy were adversely impacted to varying degrees. Despite this record fall for a six-month period, our experience was more benign than most regions around the world, with only several countries in Asia (such as China, South Korea and Taiwan) and Scandinavia (Norway and Finland) faring better.

Australian dollar exchange rate



Source: RBA

The size of the economic contraction and the rise in unemployment ultimately was less than feared six months ago. The jobless rate peaked at 7.5 per cent before a modest improvement to just below seven per cent, although recovery has been uneven throughout the third quarter of this year. Nationally the fall in payroll jobs was around nine per cent to May, but now is only around four per cent behind pre-pandemic levels. However, the 'two-speed economy' emerges when contrasting Victoria (due to their second wave of COVID-19) to other states and territories.

The level of fiscal and monetary policy support given to our economy has certainly mitigated potential impacts, as has the effectiveness of health policy in containing the pandemic locally. This has built a bridge from the pre-pandemic economy to a 'COVID-safe' economy. The October Federal Budget, with its record level of policy support via tax cuts, wage subsidies and incentives for businesses to invest, has driven an uplift in consumer sentiment and business confidence, although the COVID-safe economy will most likely continue to see elevated unemployment (perhaps around 6.5 to 7.5 per cent), and subdued growth. Fortunately, both the Federal Government and the Reserve Bank of Australia (RBA) have committed to continue to provide this policy support, until the unemployment rate is back well below six per cent. The RBA has cut the official cash rate to a record low 0.1 per cent and will not lift the rate until we approach 'full employment'.

The next stage beyond a COVID-safe economy to a 'post pandemic economy' will presumably require a vaccine that is both effective and made widely available, after which a more sustainable recovery from the recession can be expected. Until then, the unknown factors ahead include:

- The level of business investment, encouraged by policy incentives;
- How our trading relationship with China and other key partners develop in the wake of the United States (US) Presidential election;
- The rate of reopening borders, both domestically and internationally (perhaps via 'travel bubbles');
- Further COVID-19 developments, including fresh outbreaks and/or vaccine progress;
- Market dynamics, including the Australian Dollar, commodity prices and equity markets.

Government debt is forecast to rise sharply, however when considering the low cost of this debt, it appears an ideal time to leverage our sovereign AAA credit rating, which remains intact since the Federal Budget.





Cattle

“ Australian cattle prices are expected to begin to ease in the first half of 2021 from record highs once the strong restocker demand that underpinned prices in 2020 starts to soften. However, continued tight supply as herd rebuilding takes place will continue to provide a level of underlying support for prices. ”

Donna Slevin, Rural Bank, Victoria





Cattle



Supply

Australian beef production to be lower than the first half of 2020 and remain well below average.



Price

Eastern Young Cattle Indicator (EYCI) to begin to ease in 2021 from record highs.



Demand

Restocker demand expected to soften while consumer demand to improve but be subdued.



Outlook

Softening restocker demand and global pressures to see prices ease in 2021.

Supply

Australian beef production is expected to remain below average in 2021 as the effects of a 12 per cent decline in the national cattle herd over the last two years and producer intentions to retain stock keep supply tight. Beef production is expected to be slightly lower year-on-year in the first half of 2021 due to reduced slaughter rates, however this will be partially offset by heavier average carcass weights. The national cattle herd is expected to begin to recover as herd rebuilding activity from 2020 is expected to continue into the new year.

While Australian supply will remain tight, record high production in the US and Brazil are expected to drive an increase in global beef production and exports. Production growth in these countries is expected to translate to a more competitive global marketplace with Australian beef competing with cheaper Brazilian exports to China and US exports to Japan and South Korea.

Demand

The outlook for beef demand remains uncertain to a large degree due to the ongoing COVID-19 pandemic. It is likely that demand will be stronger in 2021 as Australia and most key export markets return closer to normal economic activity and foodservice trade, however lingering restrictions on foodservice outlets will keep demand somewhat subdued compared to pre-COVID levels.

China will remain a key market for Australian beef unless there are further impacts from the ongoing trade dispute between China and Australia. However, China's requirement for meat imports could begin to ease as China rebuilds its pig herd as it recovers from the impacts of African Swine Fever which may weaken demand for Australian beef. Brazil will continue to create strong competition in China, while growth in Japan and South Korea will likely be captured by expanded US beef production.

Price

Australian cattle prices are expected to begin to ease in the first half of 2021 as restocker demand slowly softens from the strong finish to 2020 which underpinned the strength of Australian cattle prices. Restocker buyers will remain active as many producers seek to continue rebuilding herds and utilise paddocks which are generally still understocked, however demand is not expected to be as strong as it was in late 2020 which could remove some support for record high prices. Seasonal conditions will be an important factor in the strength of restocker demand, particularly around the autumn break. The continuation of tight supply is expected to offer some support to high prices and protect the market from a sharp decline that a competitive global marketplace could otherwise cause as restocker demand eases.

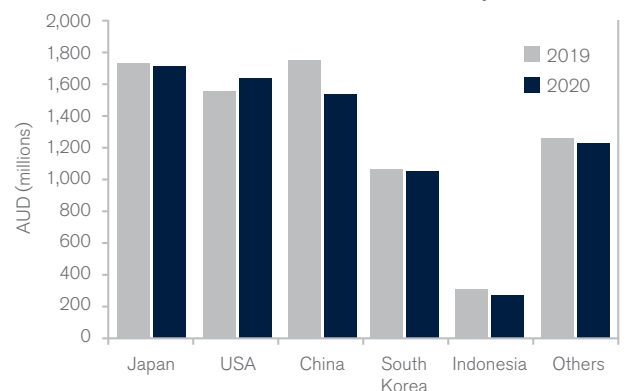
Eastern Young Cattle Indicator forecast



Monthly average EYCI values forecast at 68 per cent confidence interval.

Source: Meat and Livestock Australia (MLA), Rural Bank

Value of Australian beef exports



January to September beef exports show year-on-year declines to all major markets except the US.

Source: Global Trade Atlas, Rural Bank



Cropping

“ As harvest draws to a close, growers will direct focus towards grain prices which are expected to trend lower in the new year. Increased production will offer some the chance to store and market grain for a higher price, while others will elect to sell early to generate cashflow after a run of poor seasons. However, there are risks which will need to be managed such as quality concerns and uncertain export demand which may lead to softer grain prices. ”

Greg Kuchel, Rural Bank, Victoria



Cropping



Supply

Australian winter crop production is likely to be 15 per cent above average.



Price

Prices are expected to remain relatively flat, with some downside to cereal prices.



Demand

Wheat export demand is forecast to remain firm for the next six months. Barley is expected to find new homes outside of China.



Outlook

Australia is in a good position to capitalise on increased production and strong prices.

Cereals

Supply

Winter cereal production in Australia is above average with year-on-year production increasing in all states, though to a lesser extent in Western Australia. Aided by an increased planted area as well as improved seasonal conditions, wheat production is expected to increase 84 per cent year-on-year, and 25 per cent above five-year averages to almost 28 million tonnes. Wet springtime conditions in the eastern states has resulted in a drawn-out harvest and reduced supply of milling wheat grades. Australian barley production is estimated to have risen eight per cent year-on-year, six per cent above average despite a year-on-year reduction in planted area.

Global wheat production is forecast to record a modest one per cent increase in the coming year. Production declines in wheat producing areas such as the European Union (EU), Ukraine, Argentina and the US have been offset by increases in major producing nations of Russia, China and India. Of note is the fact that three of the top five wheat exporting regions over the past five years in the EU, United States and Ukraine are expecting production declines, which suggests the global balance sheet may be tighter than at first glance.

Demand

Improved seasonal conditions reducing demand for supplementary feeding and increased production will see domestic demand ease, but Australia is well positioned to capitalise on firm wheat export demand, particularly for high protein grades. A 10 per cent year-on-year decline in domestic feed demand is driven by improved seasonal conditions, a smaller herd size and a shift to restocking reducing supplemental feed requirements.

Being a staple product for food and stockfeed in many countries, global demand for cereals has been relatively unaffected by the impacts of COVID-19. Export demand for wheat has been strong and is expected to remain firm through to July 2021 when northern hemisphere crops are harvested. Poor production in the EU has diverted Russian wheat to destinations in Northern Africa. This has opened opportunities for Australian wheat into China and South East Asian nations where Australia has lost market share in recent years due to low production and high prices. Concerns around potential Chinese restrictions on importing Australian wheat would be significant if they came to pass, however loss in demand should be readily picked up by other demand points in South Eastern Asia and the Middle East. Reduced competition from China would potentially see increased demand from predominantly feed wheat consuming South East Asian and Middle Eastern nations which will be particularly important given increased Australian production of lower protein wheat.

While Chinese tariffs on Australian barley imports have pressured local prices, there are positive signs for Australian barley export demand in coming months. Strong Chinese demand has diverted sales of competing barley exporters such as Canada and weaker prices make Australian barley an attractive option into Middle Eastern nations, South-East Asia, Japan and South Korea. There have already been new crop barley sales into Saudi Arabia and Japan this year which are expected to be maintained in coming months. Thailand is expected to see further growth in barley demand following the trend seen in recent years, and there is also potential growth in India. While all available exportable surplus is not expected to be consumed, Australian barley exports are likely to surpass five million tonnes. This means it is likely to fall short of the five-year average of 5.9 million tonnes.

Price

Prices are expected to remain relatively flat in coming months, though current values are strong and sit in the top 70 to 80 per cent of prices seen in the past 10 years. In recent years of low production, domestic demand has driven cereal prices but improved supply this year means Australian wheat prices will more closely align with world markets.

Chicago Board of Trade (CBOT) wheat futures rallied to five-year highs in October as markets factored in a reduced EU crop, poor planting conditions in the northern hemisphere and the potential for Russian export quotas to increase, with Australian prices following the upwards trend.

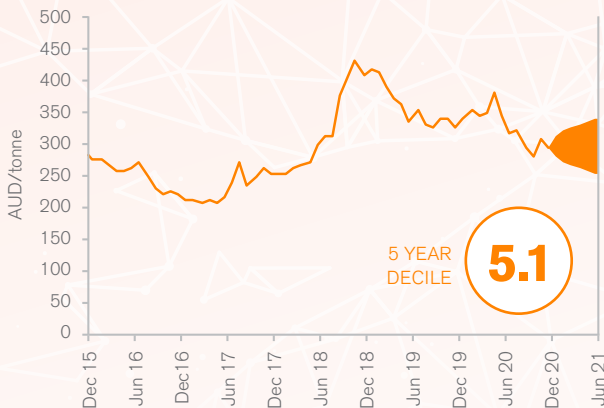
Local prices have come under pressure late in the year as growers in drought affected areas have been keen sellers. With northern hemisphere production risk and firm export demand providing a baseline, we expect prices to remain flat with potential downside of around five per cent on current values, as growers satisfy cashflow requirements and selling slows in coming months.

Barley prices lost close to 20 per cent of their value, or around \$50 per tonne to sit slightly below the 10-year price average following China's announcement of tariffs in May 2020 and have tracked sideways since. There is limited upside to barley prices in coming months with the expectation of prices remaining flat to five per cent lower, with plentiful supply and markets outside of China unwilling to pay a premium.



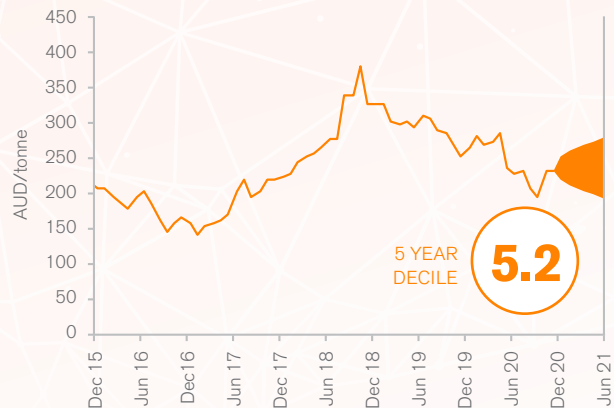
Cropping

Geelong APW1 wheat price forecast



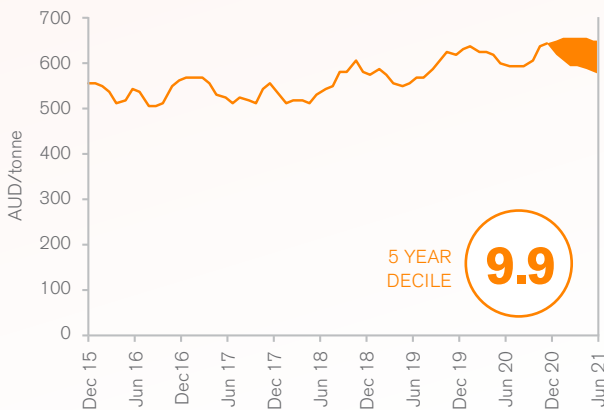
» Monthly average Geelong APW1 wheat values forecast at 68 per cent confidence interval.
 Source: Profarmer Australia, Rural Bank

Port Adelaide feed barley price forecast



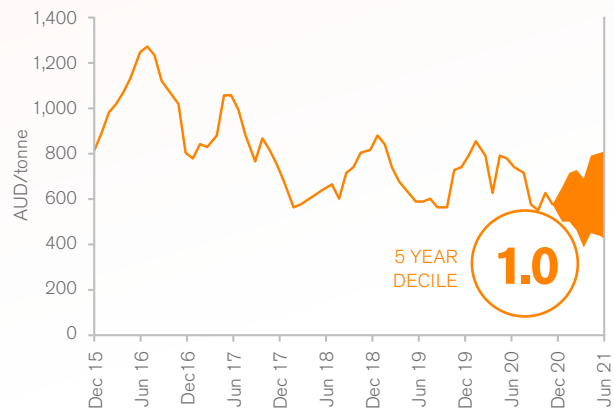
» Monthly average Port Adelaide feed barley values forecast at 68 per cent confidence interval.
 Source: Profarmer Australia, Rural Bank

Kwinana canola price forecast



» Monthly average Kwinana non-GM canola values forecast at 68 per cent confidence interval.
 Source: Profarmer Australia, Rural Bank

Brisbane chickpea price forecast



» Monthly average Brisbane chickpea values forecast at 68 per cent confidence interval.
 Source: Profarmer Australia, Rural Bank

Oilseeds

Australian canola production is 18 per cent above average following year-on-year growth of 46 per cent to 3.6 million tonnes as production improved in all states except Western Australia.

Reduced production in the EU and Ukraine has put Australia in the box seat to fill demand over Canada, Australia's biggest competitor for canola exports. More than 90 per cent of Canadian canola is genetically modified (GM) which excludes it due to strict EU policies on GM crops, with Australia forecast to export over two million tonnes of canola to European countries.

Strong demand through harvest provided support for canola prices in the top 80 to 90 per cent of values over the past ten years and encouraged early selling. Prices have already come back from highs at the beginning of harvest, and prices are expected to hover between flat to 10 per cent lower with much of the crop already sold.

In terms of global oilseed markets more broadly, dry conditions in major soybean producing nations Argentina and Brazil combined with strong Chinese demand for US stocks has supported soybean prices. A reduction in Chinese demand would ease prices but reduced carry out in the US should provide price support for soybeans, and flow on to other oilseed markets until the 2021 South American harvest in March.

Pulses

Year-on-year production of chickpeas is up 139 per cent, field peas nine per cent, lentils six per cent and faba beans six per cent. Lupins are predominantly grown in Western Australia and production has declined eight per cent after a relatively dry growing season.

Demand for lentils in particular has been strong in the past six months as India reduced import tariffs from 30 to 10 per cent which was originally slated to revert back in August but have been extended to all product arriving by 31 December, 2020. Further, there is speculation India may reduce a 60 per cent tariff on chickpea imports.

The impacts of COVID-19 on the Indian population and economic downturn has seen increased demand for staple foods such as chickpeas and lentils, which has reduced supply and increased prices. Increased Indian demand created competition with Bangladesh and Pakistan, Australia's largest consumers of pulses, and supported prices towards the end of the year. However, prices for chickpeas and lentils are expected to decline in coming months as harvest selling satiates export demand and the approach of the Indian harvest around March is likely to see tariffs reimposed.



Dairy

“Milk supply will continue to climb higher relative to 2019/20 in most states led by Tasmania and Victoria. Supply will be driven by solid feed stocks heading into summer along with cheaper input costs for water and grain which will help to improve profitability in 2020/21. Global dairy prices are likely to face downward pressure from increased milk supply however this will be partially offset by importers prioritising food security. Domestic demand is expected to shift from supermarket to foodservices in Victoria, increasing demand for premium products such as soft cheese and butter.”

Josie Zilm, Rural Bank, Victoria



Dairy



Supply

Milk supply to increase by 3–4 per cent.



Price

Global milk production is expected to increase keeping prices balanced.



Demand

Food security concerns will continue to support demand for milk powder in the short term.



Outlook

A lower cost of production will promote supply growth and aid profitability.

Supply

Australian milk production is forecast to increase three to four per cent in 2020/21, pushing production above nine billion litres for the first time in three years. Tasmania is on track to achieve record milk production in 2020/21 exceeding 950 million litres, eclipsing the record set in 2019/20.

Large feed stocks combined with wet conditions over summer are expected to be conducive to increased summer milk supply across southern states. In Northern Victoria, lower water prices will assist farmers to grow fodder over summer, increasing supply relative to 2019/20. Gippsland, South West Victoria and Tasmania are expected to make the most of their pasture-based systems decreasing the need for supplementary feed and boosting supply and profitability.

Offshore, milk supply is expected to increase in the EU, New Zealand and the US. Overall global milk supply is expected to be slightly higher driven by improved season conditions and the removal of voluntary supply reductions in response to COVID-19. Governments are expected to manage the flow of stored supply of milk powder and cheese to protect price in 2021.

Demand

Domestic demand appears set to change slightly in 2021 as COVID-19 restrictions ease, particularly in Victoria. This is expected to divert some demand away from supermarkets, where consumers have become accustomed to buying larger quantities of products like butter and

yoghurt as opposed to single serve consumption through foodservice channels. As consumption via foodservice channels increases, demand for premium dairy products such as soft cheeses and butter is likely to follow.

Increasing milk supply in Australia will provide a higher exportable surplus, which is likely to lead to growth in export value of four to five per cent for 2020/21.

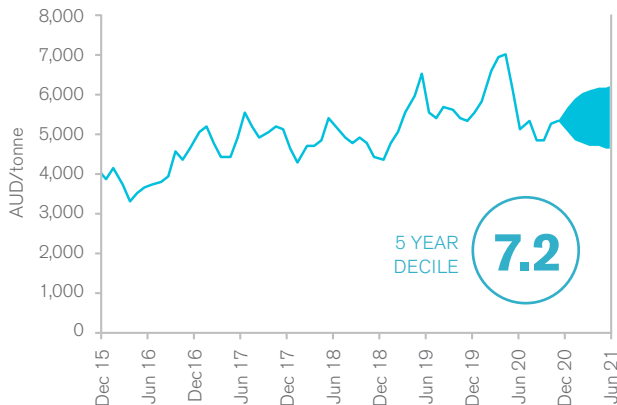
Demand for milk powder is expected to peak in early 2021 before tapering off, as China looks to increase its stockpile. Demand for cheese from Japan, Australia's largest export market, remains sluggish, a combination of increased local milk production and a lack of foodservice demand. As a result, cheese imports are expected to be flat in 2020/21.

Price

Australian milk processors appear unlikely to offer step ups in the first half of 2021 due to improved seasonal conditions, increased milk production and a balanced global market.

In international markets prices are likely to remain supported until early 2021, primarily driven by demand from Asia. Increased supply from both the southern and northern hemisphere will put downward pressure on prices for the remainder of the financial year.

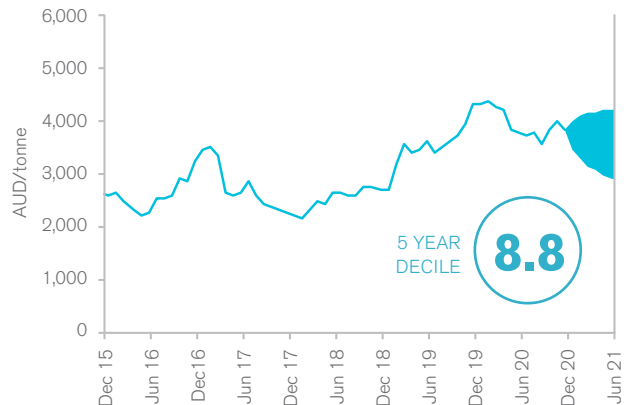
Cheddar price forecast



» Monthly average global dairy trade (GDT) cheddar prices forecast at 68 per cent confidence interval.

Source: Global Dairy Trade, Rural Bank and USDA

Skim milk powder price forecast



» Monthly average GDT skim milk powder prices forecast at 68 per cent confidence interval.



Horticulture

“ Favourable seasonal conditions over the past six months will ensure strong supply for both fruit and vegetables across most of Australia, with domestic demand continuing to recover from COVID-19. The lack of seasonal workers remains a worry for many growers coming into harvest, though the recently announced Seasonal Worker Programme has helped to ease some of these concerns. Export demand remains more difficult to predict due to various logistical challenges, though government assistance should see high value exports remain viable for producers. ”

John Reilly, Rural Bank, Western Australia



Horticulture



Supply

Favourable seasonal conditions are likely to lead to increased production in the first half of 2021.



Price

Higher supply will likely lead to softer prices in the first half of 2021.



Demand

Export and domestic demand remains robust.



Outlook

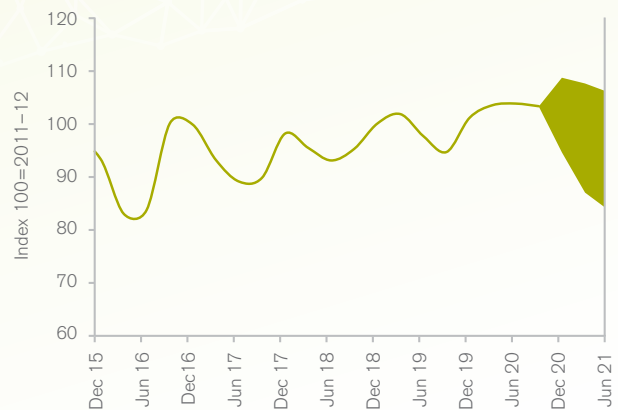
Key challenges are being managed. Increased supply expected to be met with strong demand.

The impact of COVID-19 on the fruit and vegetable industry has been significant. Many perishable horticultural products which normally rely heavily upon air freight were unable to be exported due to prohibitive costs. Australian airfreight capacity is currently down 80 per cent on pre-COVID levels. The Australian government has set up the International Freight Assistance Mechanism (IFAM) in order to keep international supply chains open. However, exports are still facing an uphill battle with airfreight prices remaining high in addition to an overall decrease in availability and capacity, along with a lack of connecting services to key markets.

Summer fruit exports such as cherries and avocados that rely almost exclusively on airfreight for exports are vulnerable to the shortage of airfreight with exporters admitting they would be in a more precarious position without IFAM. The funding is expected to conclude by June 2021 despite airfreight prices unlikely to return to pre-COVID levels in the near future. Fruit and vegetable exporters will need to prepare for this, with the potential for reduced export profitability and an increase of produce going through the domestic market, which will impact domestic supply and prices.

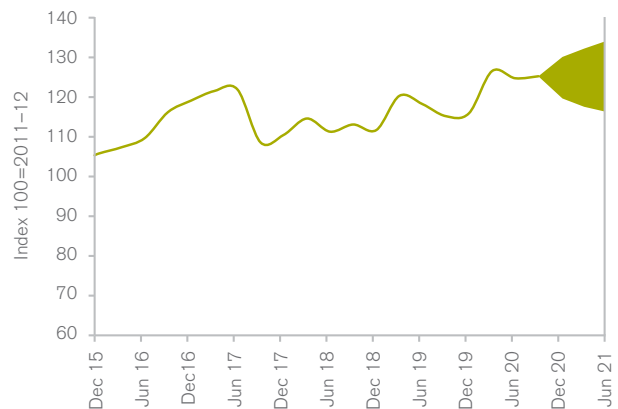
Across the horticulture industry, producers are expected to require at least an additional 26,000 workers to harvest their crops this summer according to a report from Ernst and Young. The Australian government has recently restarted the Seasonal Worker Programme which should help fill employment gaps with workers from nine approved Pacific Island countries. While this programme will provide some relief, it is highly unlikely that this will solve the forecast worker shortage in its entirety. The labour shortage could potentially result in more expensive, lower quality domestic fruit and vegetables with growers unable to prepare crops properly and less produce harvested in a timely and efficient manner.

Fruit price index forecast



» Monthly average fruit price index forecast at 68 per cent confidence interval.

Vegetable price index forecast



» Monthly average vegetable price index forecast at 68 per cent confidence interval.

Source: Australian Bureau of Statistics (ABS), Rural Bank and Ausmarket Consultants.



Horticulture

Fruit

Supply

Australian fruit production is expected to increase following improved growing conditions across much of Australia. The forecast La Niña weather pattern is characterised by above average rainfall and more volatile weather conditions, particularly in the northern states, which may lead to quality and yield issues if heavy rainfall occurs in summer months.

The Australian mango season is expected to see strong production numbers despite some challenging weather events including high winds and fire which has seen production forecasts downgraded slightly in some regions.

Table grape production is expected to reach a record 240,000 MT this season, an increase of 15,000 MT in comparison to 2019/20. High production has been driven by excellent growing conditions and additional plantings over the last five years. Lower water prices are expected to aid both supply and profitability in 2021. The only challenge will be the industry's capacity to harvest the entire crop with estimates that almost 15,000 seasonal workers will be required to complete harvest.

Bananas will continue to increase in yield and volume due to warmer weather and favourable growing conditions, though if there is a dry period towards the end of 2020 and beginning of 2021 then supply may reduce. Avocados and limes are among fruit categories also expected to see increased production over the warmer months.

Demand

Demand for fruit, particularly immune boosting fruit has increased, as consumers look to prioritise their health during the uncertainty of COVID-19. This is a trend that has been seen both domestically and internationally in the short term, though it remains to be seen if it will continue over the long term.

Mango producers are seeing high demand both domestically and from various export markets. Producers are expected to focus on specific markets this year with China, Japan, New Zealand and South Korea expected to receive the majority of exports.

Table grapes are forecast to be in strong demand with most of the increased supply expected to be exported. A total of 168,000 MT of produce (70 per cent of production) is anticipated to be exported throughout the 2020/21 season, primarily to China, Japan and South East Asia.

Prices

Following strong domestic demand, early season mango prices were up 50 per cent, we are likely to see prices begin to soften over the coming months due to increased supply, though given the higher starting point, price will likely remain above last year's average price for the corresponding period.

Australian table grape prices have remained resilient throughout COVID-19 with a 5.7 per cent increase in sales by value during this period. Strong export demand has helped to support prices with over \$270 million worth of table grapes exported to China in 2019/20, a 24.8 per cent increase over the previous year.

China receives over 43 per cent of all Australian table grape exports which opens the table grape industry to an elevated level of concentration risk given the recent political uncertainty surrounding Australian agricultural exports to China. Overall table grape prices should begin to ease from November and December. As harvest begins in earnest, prices are expected to remain higher than last season due to growing export demand throughout Asia and continued impact from the lack of seasonal workers.

Banana prices are anticipated to fall in coming months with prices likely to remain below the seasonal average due to the forecast stronger than usual production.





Horticulture

Vegetables

Supply

Vegetable production over the next six months is anticipated to increase throughout Australia following improved seasonal conditions and partially reduced input costs. Water prices are significantly lower in comparison to last year as areas that were impacted by drought have seen solid rainfall over the previous six months. Water prices within the River Murray allocation have reduced from almost \$950 per ML in June 2019 to as little as \$250 per ML in October 2020 with prices expected to remain low given strong water storage across the country. The reduction in water cost has been partially offset by rising DAP fertiliser prices with costs expected to trend upwards until March 2021, though they should remain well below the October 2018 when prices hit record levels.

Victoria, South Australia, and New South Wales all benefited from good rainfall and mild temperatures with carrots, potatoes, asparagus, broccoli, and cauliflower all expecting improved crops in comparison to last year.

Demand

Domestic demand for Australian vegetables is anticipated to return to normal in coming months as consumers continue to balance consumption between home and foodservices in line with easing restrictions, particularly in Victoria.

In export markets, the Indonesia-Australia Comprehensive Economic Partnership (IA-ECP) led to a strong increase in export demand from Indonesia, especially for potatoes. This trend has continued into 2020/21 with year-to-date export value trending 11.6 per cent higher compared to 2019/20. The value of Australian potato exports is expected to increase by around five per cent in the first half of 2021, driven by demand from Indonesia, Malaysia, and Hong Kong. Carrot producers are also expected to begin exporting to Indonesia in 2021 with the import quota increasing to 5,000 tonnes per year and tariffs reducing to 10 per cent (from 25 per cent) making the market increasingly viable.

Carrots continue to remain one of Australia's largest vegetable exports by volume with the United Arab Emirates (UAE) the largest overall importer of Australian carrots. Exports of carrots to the UAE totalled \$23 million for the 2019/20 season, a 10.5 per cent decline on the previous year, with total carrot exports declining by over 5.4 per cent. This decline was primarily caused by supply chain disruptions and reduced production. UAE export demand remains high given their low level of domestic production and increasing consumer demand for fresh vegetables.

Australian onion exports fell by more than 22 per cent in the 2019/20 season. Export demand over the summer is expected to rebound though not to the record levels seen in 2018/19 season thanks to the strong production coming out of the Netherlands, one of the world's largest onion exporters. Australian onion prices are currently 17 cents p/kg lower than the corresponding period last year and should remain slightly below the season average.

Prices

Vegetable prices will likely continue to soften over the next few months as supply remains strong following favourable conditions over the growing season. Carrot prices are sitting slightly above last season and should remain steady over the coming summer months, though increased supply may see prices fall towards the back end of summer.

Broccoli prices are expected to increase through to March in line with seasonal price trends. However, prices are expected to remain lower than the corresponding period last year due to the strong supply coming out of Victoria.

Nuts

Supply

Australia is heading towards a record production year in 2020/21 for almonds, macadamias and walnuts. Almond production is expected to reach 120,000 tonnes as a result of expanding plantations reaching maturity and coming into full production. Macadamia production is expected to reach 50,000 tonnes due favourable seasonal conditions in 2020 in contrast to a very dry 2019. Walnut production is likely to reach 13,800 tonnes in 2020/21, due entirely to new trees coming into full production. Favourable seasonal conditions across Eastern Australia in 2020 has helped lower water prices which will improve profitability relative to 2019/20.

Global supply of almonds is expected to be higher in 2020/21 due to a 17.6 per cent increase in production in California, the world's largest producer of almonds. The expected rise is largely due to increased plantings reaching majority, something that has aided production growth since 2014/15.

Demand

Domestic and international demand for nuts is likely to remain strong in 2021 as consumer behaviour, driven by COVID-19, moves towards healthy foods. Demand for almonds is expected to receive a boost from softening prices driven by increased supply. This will potentially be opening up almonds to price sensitive consumers at a time where consumer spending is heavily analysed. Freightling nuts around the world will likely remain an ongoing issue for exporters due to COVID-19 slowing down distribution networks.

Competition on the export market particularly for almonds will likely be a key factor in 2021 as record supply from California and Australia floods markets in China, India and Europe. Australia is likely to lose market share to the US in China as prices decrease. However, as demonstrated late in 2020, Australian almond exports have managed to diversify away from China, expanding exports to India, Germany, the Netherlands, Vietnam and New Zealand. It's likely that demand from these alternative markets will increase in 2021 as exportable surplus increases.

Macadamia export demand is likely to increase further in 2021 driven by a relatively tight supply in relation to demand from countries such as China and Vietnam. Australian macadamia exports to China were up 21.1 per cent by volume as of September 2020. Most of the increased production in 2020/21 will likely be exported to China to satisfy growing demand.

Prices

Almond prices are likely to come under downward pressure in 2021 as a result of record global supply. In 2020 Australia's average export price declined by approximately 17.8 per cent however compared to the five-year average prices were only 5.9 per cent lower. Export price could potentially fall a further five to 10 per cent in 2021 in response to increased production, tempered by strong underlying demand.

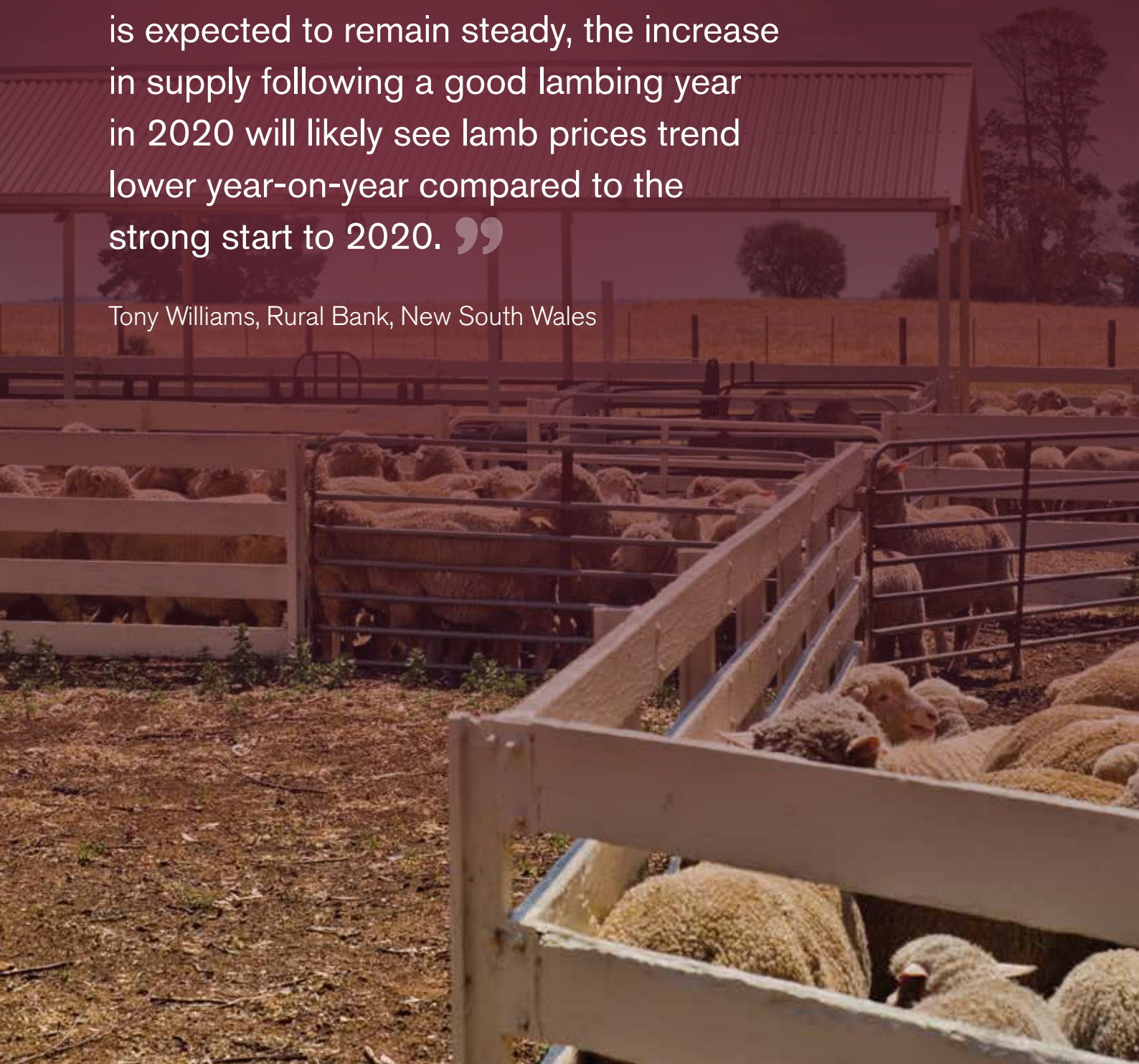
Macadamia prices are likely to be well supported in 2021 despite increasing production. Strong demand from export markets is likely to be the major factor that could see the average export price rise by up to five per cent in 2021.



Sheep

“ Australian sheep producers are well placed heading into 2021 with improved seasonal conditions allowing for flock rebuilding to occur. While export demand is expected to remain steady, the increase in supply following a good lambing year in 2020 will likely see lamb prices trend lower year-on-year compared to the strong start to 2020. ”

Tony Williams, Rural Bank, New South Wales





Sheep



Supply

Australian lamb production to increase year-on-year but mutton production to remain tight.



Demand

Sheepmeat demand to remain steady and subdued compared to pre-COVID levels.



Price

Lamb prices to trend lower year-on-year, while mutton prices to be well supported at high levels.



Outlook

Improved seasonal conditions to support sheep producers despite lower lamb prices.

Supply

Australian lamb production in the first half of 2021 is likely to return to above average after being well below average in 2020, driven by an improved supply of lambs and expected heavier carcass weights. Some of those lambs will be retained for breeding as producers seek to rebuild depleted flocks. Retention of breeding stock for flock rebuilding will keep Australian mutton production tight well into 2021. Rebuilding efforts that begun in 2020 are expected to see the national sheep flock recover by almost four per cent by the middle of 2021 after falling to the lowest level in more than a century.

New Zealand sheepmeat production and exports are expected to decline in the first half of 2021 as drought and a long-term decline in the sheep flock has led to a lower lamb supply in 2020. A decline in New Zealand supply would support increased export opportunities for the anticipated increase in Australian sheepmeat export volumes in 2021.

Demand

Demand for Australian sheepmeat is expected to remain steady into the first half of 2021 as most major markets, including the domestic market, have progressed into recovery from COVID-19. Export demand has remained relatively resilient to the impacts of COVID-19 after the initial shock of outbreaks in early 2020, however lingering restrictions on foodservice outlets, weaker economic sentiment and uncertainty of further outbreaks will keep demand subdued compared to pre-COVID levels.

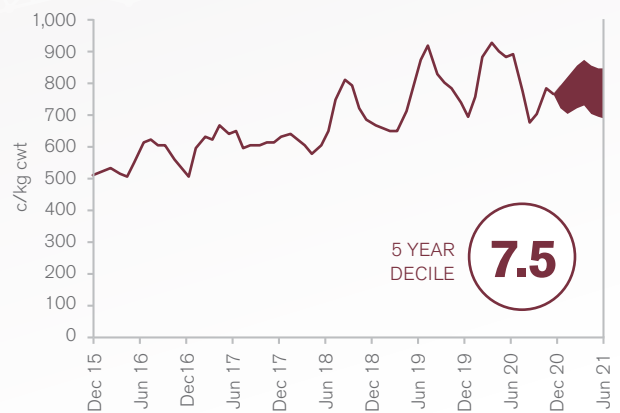
The US has been the strongest growth market in 2020 but could be affected by longer and more severe impacts of COVID-19. Chinese demand is expected to remain firm as the impacts of African Swine Fever continue to drive meat imports, although a recovery in Chinese pork production could see this requirement decline. Exports to the Middle East have shown signs of recovery but will remain subdued by reduced air freight capacity and tourism to the region until significant international air travel resumes.

Price

The Eastern States Trade Lamb Indicator (ESTLI) is forecast to spend the first half of 2021 lower than the record highs of the same period in 2020 due to an expected increase in supply and steady export demand. These market conditions are likely to see the ESTLI trend along the lower forecast range towards 700c/kg. Improved lamb supply also means the upwards trend in prices towards a winter peak is unlikely to be as extreme as 2018 and 2019.

Mutton prices should remain well supported by tight supply and firm demand with little indication that either of these factors will soften in the first half of 2021. This could see the national mutton indicator price continue to trend around the 600c/kg range.

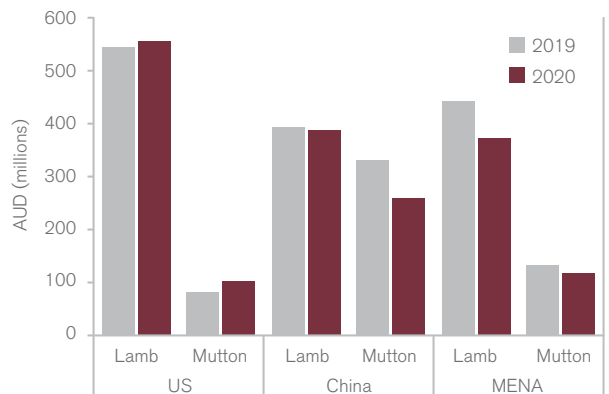
Eastern States
Trade Lamb Indicator forecast



Monthly average ESTLI values forecast at 68 per cent confidence interval

Source: MLA, Rural Bank

Value of Australian sheepmeat exports



January to September sheepmeat exports show year-on-year growth in export value to the US.

Source: Global Trade Atlas, Rural Bank



Wool

“ The first half of 2021 is expected to see the Australian wool market slowly recover from a challenging year in 2020. Improved seasonal conditions will aid flock rebuilding and drive increased supply which will place some pressure on wool prices. This is expected to be offset by slow improvements in demand which could lead to a steady recovery in prices in the first half of 2021. ”

Mark Pain, Rural Bank, QLD and Northern Rivers NSW



Wool



Supply

Australian wool supply is expected to increase in 2021 but remain below average.



Demand

Demand is expected to remain subdued by the impacts of COVID-19 but should slowly recover.



Price

Wool prices to remain below average but should steadily recover from 2020 lows as demand improves.



Outlook

Conditions for increased production and a recovery in prices will support Australian wool producers.

Supply

Australian wool production in the first half of 2021 is expected to increase year-on-year but remain below average. Increased production is likely to be driven by favourable seasonal conditions in Eastern Australia in late 2020 which are expected to lead to an increase in average wool cuts. In addition to increased production, the supply of wool to auctions will be higher year-on-year as producers offload stocks held on-farm from 2020. Improved seasonal conditions will also aid rebuilding of the national flock. However the relative strength of sheepmeat prices compared to wool is expected to continue seeing some producers favour meat breeds as they rebuild flocks. This may result in fine wool production remaining relatively tight over the longer-term.

Demand

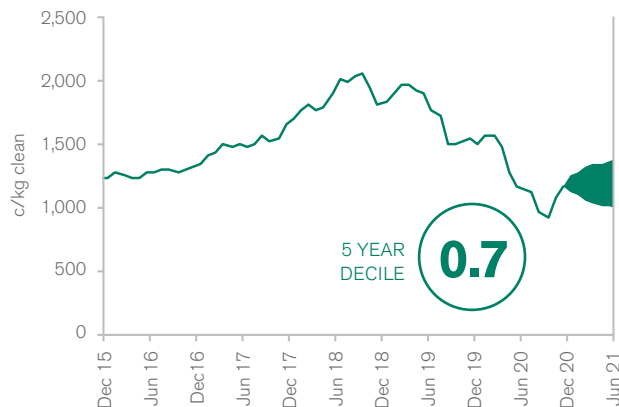
The Australian wool market is expected to receive support by strengthening consumer demand in China where its more advanced recovery from COVID-19 has led to more favourable economic sentiment. The economic impacts of resurgent COVID-19 outbreaks in the US and Europe are expected to weaken demand for woollen apparel in the short-term. However, demand should slowly recover in the new year if these outbreaks are managed and these economies can reopen, although the timing of a recovery towards the end of the northern hemisphere winter may subdue any gains for demand. Greater confidence from wool buyers will largely depend on economic recovery from the impacts of COVID-19 and a clearer timeline on a COVID-19 vaccine being widely distributed to instil confidence in consumer retail spending.

Disruptions to trade access to China would pose a severe risk to Australian wool growers as China has accounted for 82 per cent of the value of wool exports in 2020. However, action from China to limit Australian wool imports is unlikely due to China's reliance on Australia as a supplier of raw wool for milling.

Price

Australian wool prices are expected to steadily recover in the first half of 2021, continuing the trend from September 2020. The increased demand for finer wool seen towards the end of 2020 is likely to continue and the premium over medium and broader wool is expected to widen. An upward trend in prices will likely include some volatility as offerings could fluctuate as producers respond to price movements. The extent and speed of a recovery in wool prices will largely depend on how quickly retail demand recovers in the US and Europe, adding to already improved demand in China. A recovery in these markets in early 2021 could allow the Eastern Market Indicator to trend along the upper forecast range and return above 1,300c/kg by June 2021.

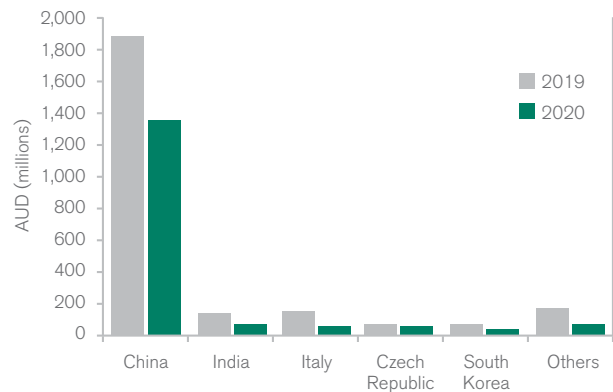
Eastern Market Indicator forecast



Monthly average EMI values forecast at 68 per cent confidence interval

Source: Australian Wool Exchange (AWEX), Rural Bank

Value of Australian wool exports



January to September wool exports show year-on-year declines in export value to all markets.

Source: Global Trade Atlas, Rural Bank

About the research

The *Australian Agriculture Outlook 2021* provides a forecast for domestic and international supply, demand, and price dynamics for agricultural products. Significant effort has been taken to secure the most recent data available.

The price forecasts presented in this report have been calculated using an Auto-Regressive Integrated Moving Average model. The model projects a range of values based on trend, volatility, cyclical and seasonal patterns in the historic data. The forward estimates relate to the December 2020–June 2021 period, future market conditions may cause actual prices to move across and outside of the forecast range.

All prices represent Australian Dollars unless otherwise noted.

Glossary

ABS	Australian Bureau of Statistics
ASF	African Swine Fever
AWEX	Australian Wool Exchange
AUD	Australian Dollar
CPI	Consumer Price Index
EMI	Eastern Market Indicator
ESTLI	Eastern States Trade Lamb Indicator
EYCI	Eastern Young Cattle Indicator
GDP	Gross Domestic Product
GDT	Global Dairy Trade
MENA	Middle East and North Africa
MLA	Meat and Livestock Australia
MS	Milk solids
RBA	Reserve Bank of Australia
US	United States

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