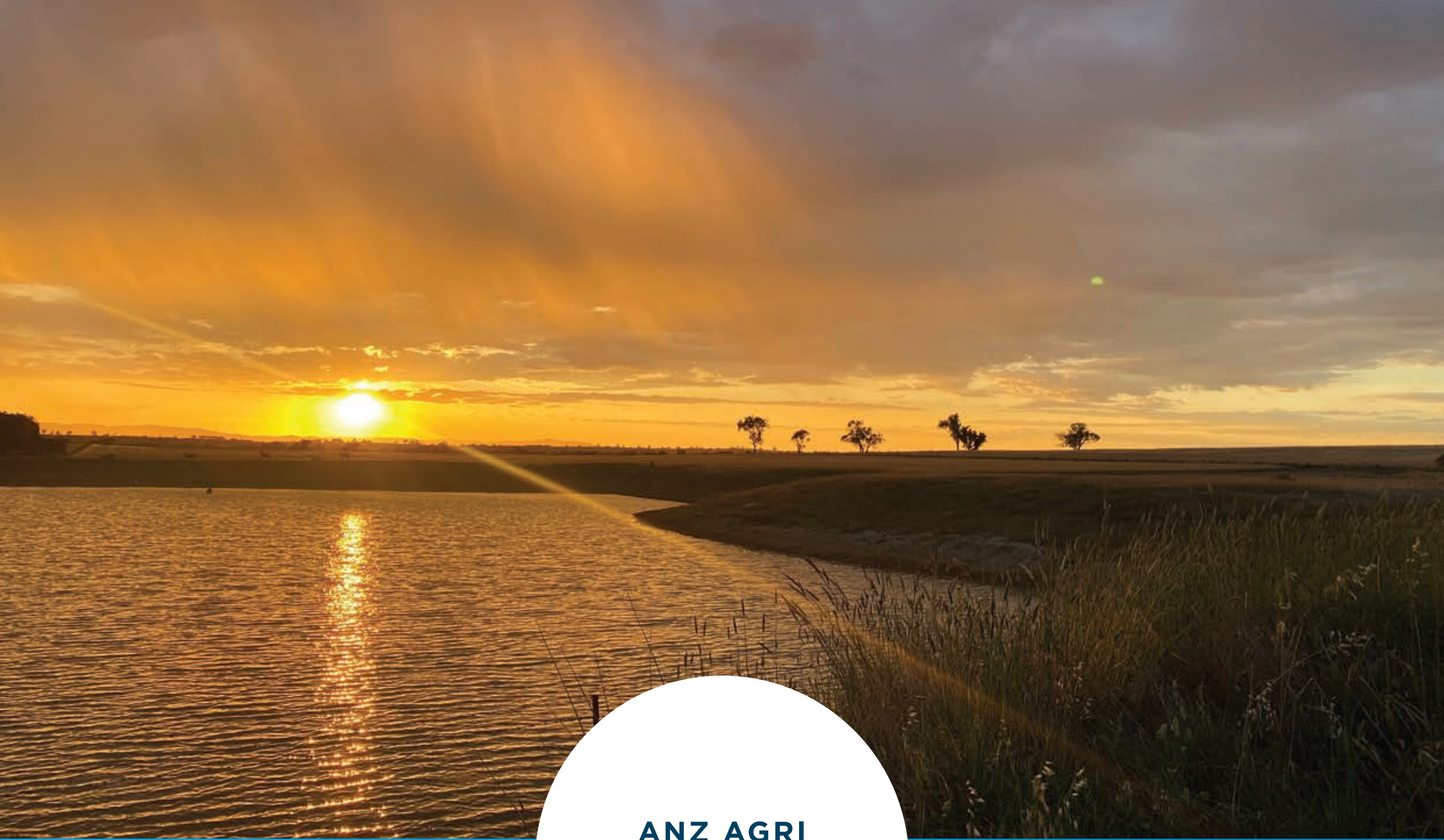

ANZ AGRI
INFOCUS

COMMODITY INSIGHTS

SUMMER 2023/24

FOREWORD

It's probably the same every year, but 2023 seems to have been something of a roller coaster in Australian agri. And for all of the ups and downs, I wonder which is in front? The answer probably depends on where you are and what you do. In an off and on season, the El Nino declaration finally came. No surprise or new impact to those landscapes that were already very dry through much of the season. Very challenging for our graziers. For all the recent lessons of destocking early to avoid expensive feeding through a drought, we've seen this strong supply play its part in the slide of sheep and cattle prices. And yet the late declaration has meant less to a lot of winter cropping regions, particularly in Victoria and southern NSW, that sees the early days of harvest producing really sound yields and quality. And grain prices continue to impress so that all things equal, strong profitability remains possible. A strong contrast between groups that spells the danger of reporting that things seem to be tracking at average.

There are commonalities for all industry subsectors in both challenges and possibilities looking forward. For those that carry debt, the cost outlook and current reality is significantly higher than recent years. The question remains as to whether there are any rate rises left, and then for how long before we see any relief. Labour availability has perhaps eased, but remains an issue both on farms and through the supply chain. And cost of living pressures has translated to wage increases that will tend to stick as inflation reduces. Timing unknown.

It's a reasonable suggestion that following some record output years and livestock rebuild, farm production and profitability normalises in the outlook period. But this doesn't spell a departure from the long-term opportunity that has been well documented. The trend of farm consolidation continues as well-placed farming enterprises invest for the future that remains underpinned by continuing strong demand for our well-regarded commodities - in a world where production is proving to be variable.

We are not underestimating some of the present risk and challenge ahead. And how difficult this can be to confront and navigate. Just as the consumer economy reaches into savings and reserves to get through tightening conditions, many farmers will also need to drawdown against reserves. In the most difficult of circumstances, banks will be much better placed to assist with an early invitation to understand the circumstances.

But on balance, it seems the farming aggregate is indeed well placed and does have solid equity and reserves and a path forward. With a decent break or two, we could still see some summer rain in the north and there is no real reason to expect anything other than average through the 2024 growing season and beyond.

Hopping everyone gets the chance at a well-deserved break over the Christmas period.

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GRAINS INSIGHTS

OVERVIEW

- Australia will be looking at a national grain and oilseed harvest of just under 50 million tonnes while this would be a decline of around 33 percent on the previous year, it more accurately represents a return to near average levels
- The forecast 2023/24 yield will be the closest to average since 2017/18, and one of the three closest to the average over the past fourteen years
- Australia exported a record volume of grain in the 2022/23 crop year ending in September, at just under 48 million tonnes. This exceeds the record set the previous year by around 10 percent
- In terms of global production, forecast strong wheat supplies out of Ukraine and Russia are putting downward pressure on prices.

Whether or not the summer of 2023/24 turns out to be drier than average, the national grain harvest looks likely to be markedly different from those of the past five years, a shift which could require stakeholders right down the grain supply chain to re-examine their strategies.

IN SOME WAYS, A RETURN TO "AVERAGE" WILL BE AN EVENT WHICH THE AUSTRALIAN CROPPING SUPPLY CHAIN HAS NOT EXPERIENCED FOR SOME TIME, AND WHICH MAY REQUIRE A CERTAIN AMOUNT OF RE-ADJUSTMENT. OVER THE PREVIOUS FIVE HARVESTS, THE INDUSTRY HAS EXPERIENCED A RUN OF GOOD SEASONS WHICH HAVE BEEN OUT OF THE ORDINARY.

Through the drought-hit harvests of 2018/19 and 2019/20, Australia's grain exports fell dramatically, while domestic consumption rose, particularly to service increased feed needs. In the three harvests following the drought, as optimal conditions on many cropping regions saw three crops of near-record levels, exports recovered strongly, while domestic usage continued to decline.

On current forecasts, Australia will be looking at a national grain and oilseed harvest of just under 50 million tonnes. While the fact that this would be a decline of around 33 percent on the previous year may sound alarming, it more accurately represents a return to near average levels.

One way of looking at this is to compare the forecast national wheat yield for 2023/24 to the ten-year average, a reasonable period to use given Australia's regular crop volatility. On this measure, the forecast 2023/24 yield will be the closest to average since 2017/18, and one of the three closest yields to the average over the past fourteen years. Similarly, in terms of the national wheat harvest, the current forecast production levels sit at almost exactly the ten-year average, one of only six times this has occurred in the past 29 years.

While yields will vary around the country, to a degree, this season has allowed supply chain stakeholders to recalibrate their strategies to a "normal" year. For many grain producers, with the recent bumper crop years coming at the same time as high global grain prices, the past three years have been amongst the best they have ever experienced. The coming "average" crop volumes, combined with lower grain prices from the past two years, will mean that producers may need to rethink some of their overall farm strategies. This could include their crop input requirements, as well as their farm equipment and infrastructure purchases.

AT A WIDER LEVEL, SOME CROP PRODUCERS MAY ALSO PUT SERIOUS CONSIDERATION INTO WHETHER THEY CHANGE THEIR CROPPING MIX IN THE COMING YEAR, OR EVEN CHOOSE TO LEAVE SOME PADDOCKS FALLOW FOR A YEAR. FOR SOME FARMERS, THIS WOULD ALLOW THEM TO SAVE ON INPUT COSTS, WHILE INCREASING THE SOIL MOISTURE RETENTION AND BREAK ANY DISEASE CYCLE IN FALLOW PADDOCKS.

Across Australia, the national harvest has begun earlier in a number of regions, due to the relatively drier conditions. As always, the harvest in Queensland is largely completed ahead of most other states, though this year has seen earlier harvest than usual in some parts of NSW, SA and WA. Interestingly, early results have been quite mixed by different regions. In line with the national forecast for a return to average volumes, many areas are seeing yields in a number of crops – including wheat, barley, canola and legumes – return to average levels.

With forecast volumes down, and the potential for domestic feed needs to rise if livestock areas experience drier conditions, a focus for grain handlers will be how to meet export demands. This is particularly pertinent given that the most recent export data has seen Australia export a record volume of grain in the 2022/23 crop year ending in September, at just under 48 million tonnes. This exceeds the record set the previous year by around 10 percent.

While on one hand this did reflect the export supplies available, given the record crop production, it was a positive sign of the increasing efficiency of Australia's export infrastructure, including rail, storage and port facilities.

Overall, the main export markets for Australian crop exports not only differed by the particular grains and oilseeds, but also by the level of market concentration for each one. China was Australia's largest buyer of wheat, accounting for almost a quarter of all wheat exports, followed by Indonesia, The Philippines and Vietnam.

While China recently dropped its prohibitive tariffs on Australian barley and resumed imports, this still came too late in the export year to usurp Saudi Arabia as the largest market for Australian barley imports, taking around a quarter of total shipments. Interestingly, barley was the one major crop which saw exports fall, given that margins for wheat and canola were more attractive to exporters. By far the majority of barley exports were for feed, at around 85 percent of total volumes. In terms of malting barley, the major market is Mexico, taking in around a third of exports.

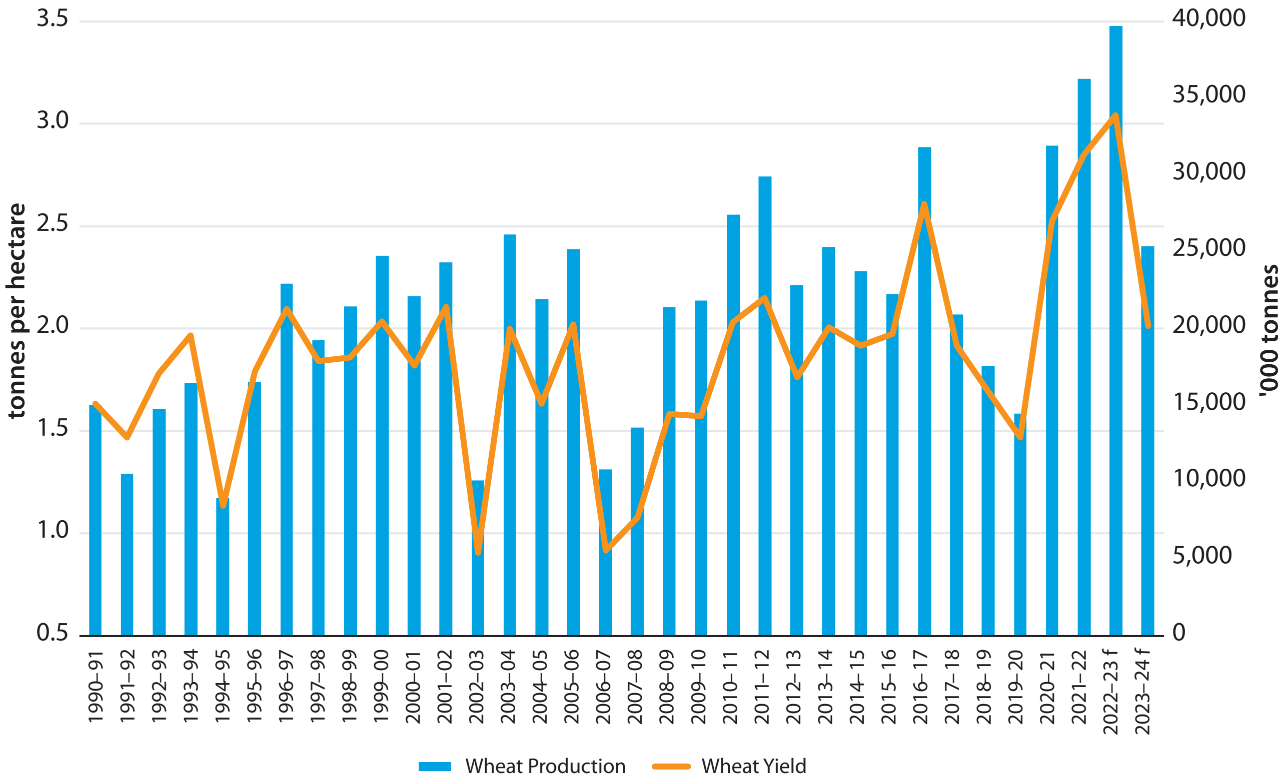
For canola exports, the EU continued to be the major export destination, taking in around half of Australia's exports. Whether this market slows over coming years, if EU discussions around reducing oilseed usage in biofuels comes to fruition, remains to be seen.

In terms of global production, forecast strong wheat supplies out of Ukraine and Russia are putting downward pressure on prices – a trend which seems ironic given the earlier surge in prices sparked by the conflict. This growth more than balanced forecast production falls in major exporters Canada and Argentina, where their crops were impacted by dry weather.

In China, where heavier rains have battered some of the country's grain crops, imports are expected to stay strong, with forecasts of the country buying record volumes of wheat in the coming year.

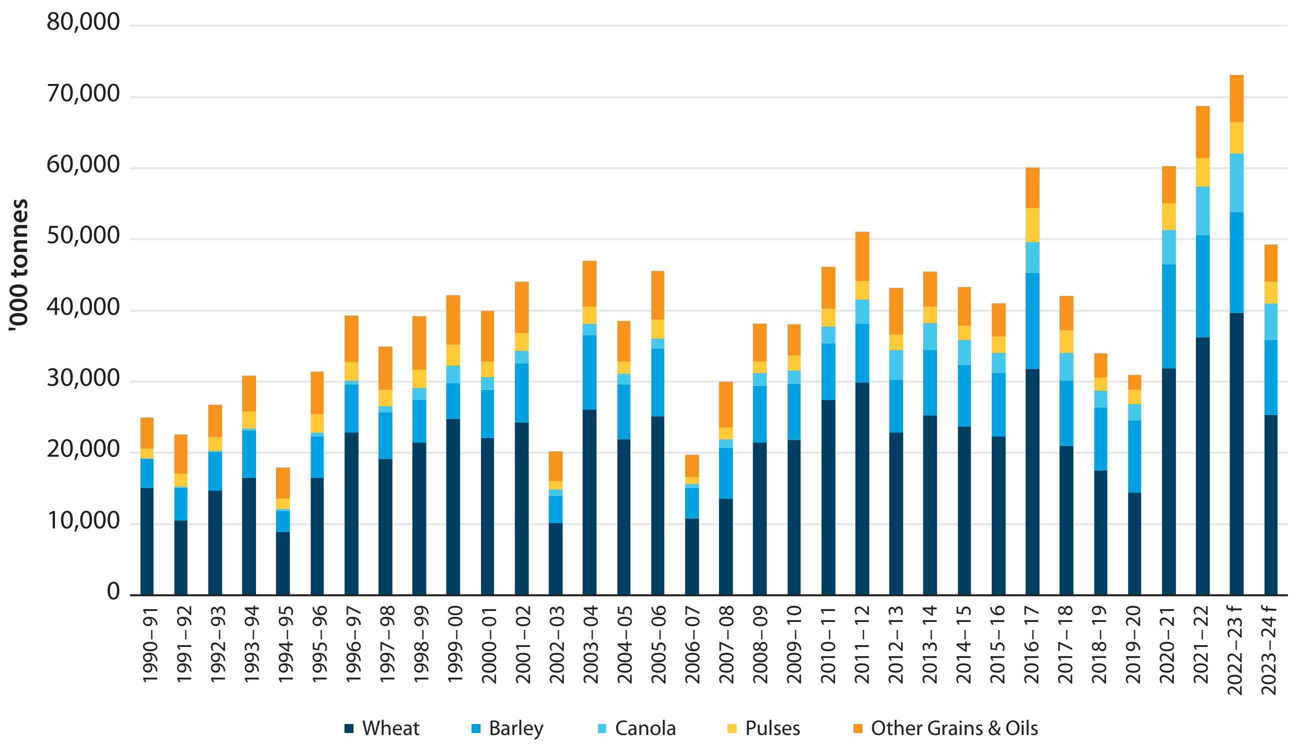
Notably, this comes at a time when the world is currently experiencing an eight year low in wheat stocks. Given the nervousness this often brings to the market, combined with an increasing number of countries reducing their production forecasts, it could potentially increase the chance of upward pressure on wheat and grain prices over the coming months.

AUSTRALIAN WHEAT PRODUCTION VS YIELD 1990/91 - 2023/24F



Source: ABARES, ANZ

AUSTRALIAN CROPPING PRODUCTION 1990/91 - 2023/24



Source: ABARES, ANZ

CATTLE INSIGHTS

OVERVIEW

- Due to the destocking, the gap between indicator prices for the three main indices (National Feeder Steer, National Heavy Steer and National Restocker Yearling Steer) has moved the closest it has in 4 years
- Destocking is driving a premium for finished stock (coupled with higher input costs) meaning processors are paying a higher premium for stock that requires no further inputs
- Market sentiment is showing some confidence in the forecast shorter dry period with producers holding onto their lighter stock with a view to hold them through the season and be well placed once rebuild starts
- Labour shortages still remain an issue for processors although this is not expected to impact numbers through processing facilities, with beef production forecast to be up 14 percent for 2023/24
- US slaughter numbers for 2024 are forecast to be down 7.4 percent due to a declining herd. As they move into rebuild phase, opportunity will open for Australian beef into their markets
- With higher Australian production numbers, exports are forecast to increase by 15 percent with the increased volume well placed to fill emerging opportunities internationally.

SUPPLY

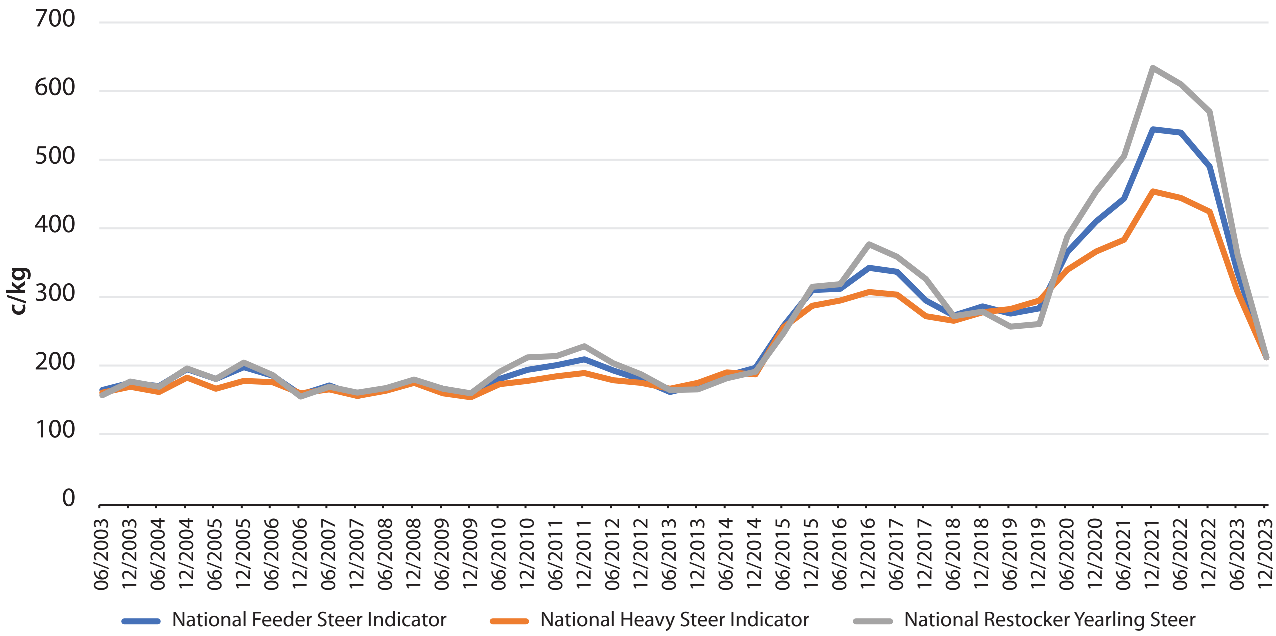
With El Nino officially declared, cattle prices in Australia have continued to fall into the last quarter of 2023 until an uptick in November. With the official declaration, most indicators have increased yardings with processor cows seeing the biggest increase since September 2022 (up 94 percent), primarily driven by a large Australian herd (28.7 million head) and growing concern about the impacts of the potential dry on prices.

Due to the destocking, the gap between indicator prices for the three main indices (National Feeder Steer, National Heavy Steer and National Restocker Yearling Steer) has moved the closest it has in 4 years to being within 8 cents of each other. This is showing a shift from the demand for yearlings in the rebuild phase which pushed a premium to a destocker phase where producers are offloading the stock they have built up over the last 3 years.

This destocking is driving a premium for finished stock (coupled with higher input costs) meaning processors are paying a higher premium for stock that requires no further inputs.

With the Bureau of Meteorology's forecast of El Nino extending only until autumn 2024 and a potential neutral forecast thereafter, a shorter dry period may provide reprieve for producers who are not able to sell stock due to risk of loss on investment. Market sentiment is showing some confidence in the forecast shorter dry period with producers holding onto their lighter stock with a view to hold them through the season and be well placed once rebuild starts, with restocker yearling heifers yarding's up only 14 percent and restocker yearling steers down 6 percent. Given this holding pattern, it is reasonable to think that should the dry period extend for the forecast seasons, there will not be a quick recovery to the restocker market until more confidence can be had in the market.

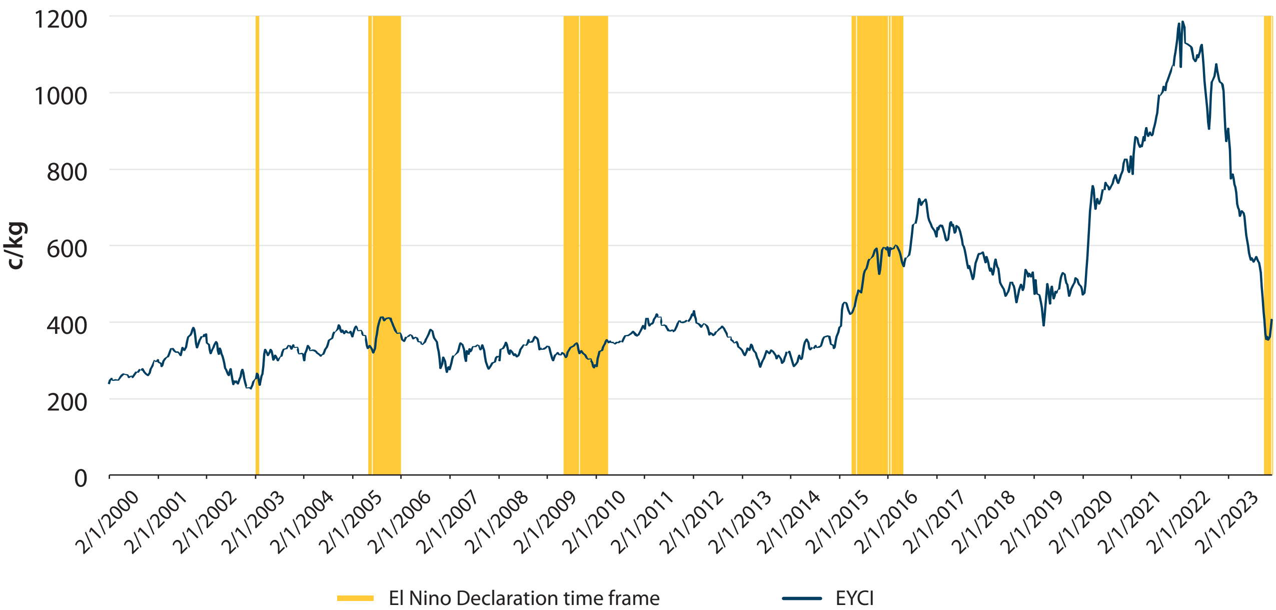
CONVERGENCE OF MAJOR BEEF INDICES 2003-23



Source: MLA, National Livestock Reporting Service, ANZ

The Eastern Young Cattle Indicator (EYCI) has shown signs of recovering despite nearing close to 10 year lows. Recent rainfall through Queensland has increased yardings and given confidence to restockers driving the rally in the EYCI since September. When looking at trends following previous EL Nino periods, the EYCI has rallied following the end of the destocking phases. The recent rallying in the EYCI may signal that producers are confident for the neutral outlook post-autumn and are looking forward to the restocking phase.

IMPACT OF EL NINO ON EASTERN YOUNG CATTLE INDICATOR 2000-23



Source: MLA, ANZ

DOMESTIC PRODUCTION

Domestically, slaughter numbers have been steadily increasing however this has been due to overtime and Saturday shifts rather than improvement in previous labour issues. Most processors have finalised contracts for the remainder of the year with quoting paused now until the new year. Labour shortages still remain an issue for processors however this is not expected to impact numbers through facilities with beef production forecast to be up 14 percent for 2023/24 due to the growing herd size and drier conditions across the country.

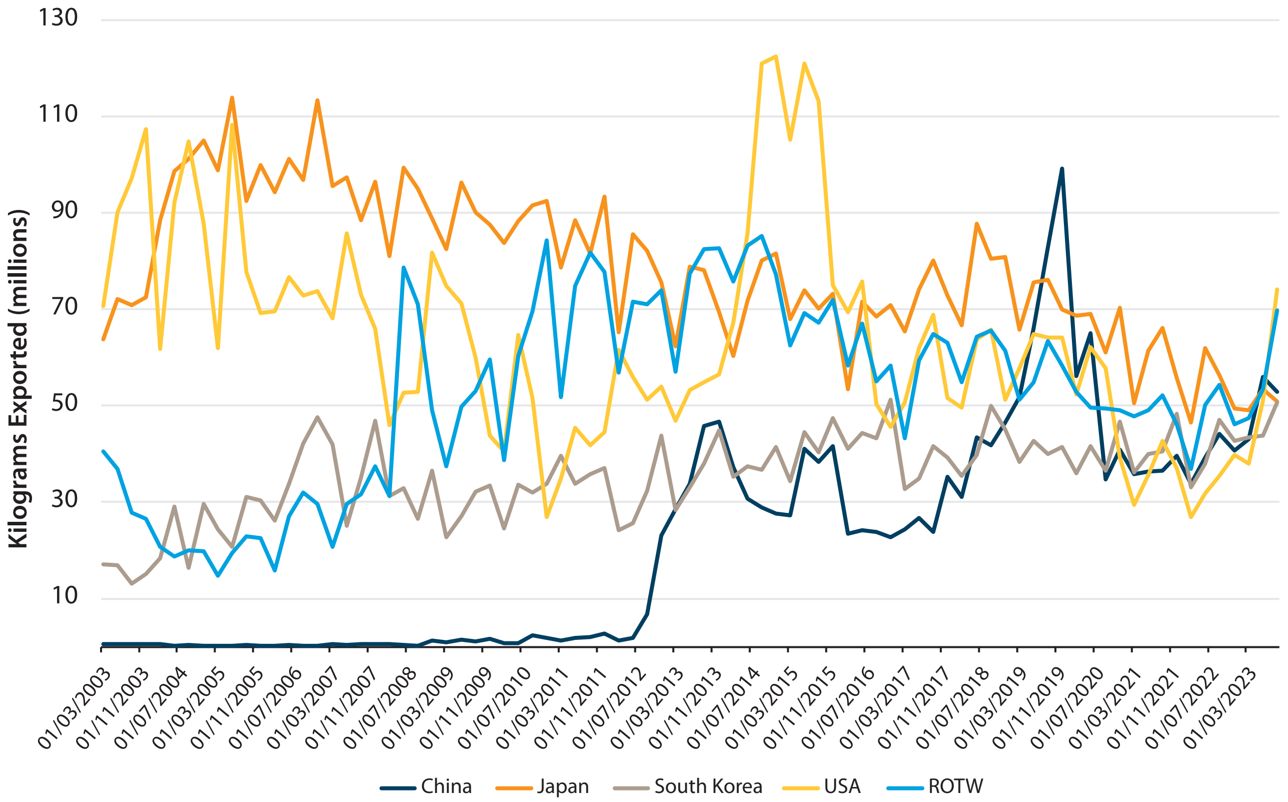
EXPORTS

Looking at global markets, US slaughter numbers for 2024 are forecast to be down 7.4 percent due to their declining herd numbers. As they move into rebuild phase, opportunities will open for Australian beef into their markets. Imports into China have continued to rebound, up 24 percent year on year with demand forecast to rise another 4.5 percent following further recovery from COVID lockdowns. As China's market continues to reopen, Argentina may surpass the US in beef exports to China, with Argentina accounting for 24 percent of China's imports. With higher Australian production numbers, exports are forecast to increase by 15 percent with the increased volume well placed to fill lower production numbers out of the US.

EU trade negotiations are still underway, strict regulations requested by the EU have make the current proposal unpalatable for the Australian cattle industry. Australian trade officials will continue to work with the EU to seek a reasonable trade agreement which will open up export opportunities for Australian beef producers.

While drier season conditions are forecast and prices not likely to return to 2021/22 prices, the outlook for Australian producers is still favourable. With new markets emerging from the downturn in livestock slaughter in the US and opportunities with the EU there, there are positives around the corner for Australian beef producers.

AUSTRALIAN BEEF EXPORTS BY VOLUME 2003-23



Source: MLA, ANZ

SHEEP INSIGHTS

OVERVIEW

- High supply of lamb and mutton continues with yardings up 6 and 32 percent year on year respectively, and mutton slaughter up by almost 50 percent on last year
- Export volumes remain very strong for both lamb and mutton, with China playing a large role in consuming the plentiful supply
- US lamb and mutton import figures remain subdued, with opportunity for uplift to that market significant based on historical volumes
- Heavy and trade lambs prices stabilised throughout late Spring with processors seeking heavier, better finished animals
- Mutton indicator pricing has struggled to stay above 100 cents per kilogram (carcase weight) throughout spring however a small rebound is evident as the season draws to a close
- As at the end of September, saleyard to retail price spreads were at a 10 year high, although December data is expected to show some softening in retail margins.

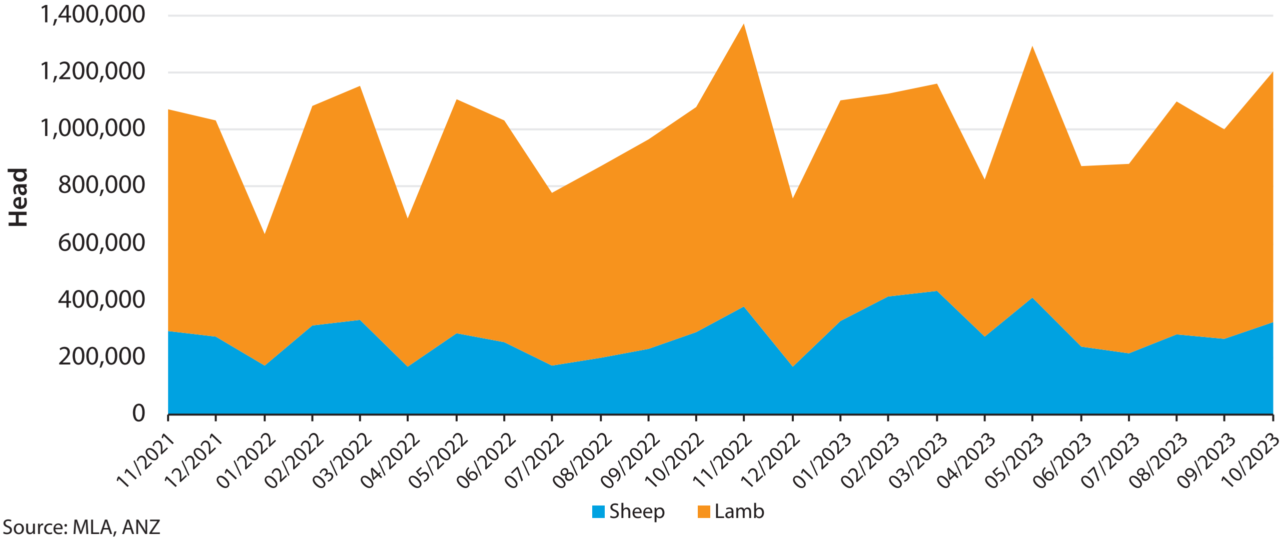
SUPPLY

The forecast of continued high throughput of sheep and lambs throughout spring and into summer is certainly coming to fruition at both saleyards and processing plants across the country. Yardings of both lamb and mutton continue to trend higher month on month as producers respond to varied conditions across the major sheep production zones, with some reducing breeding ewe numbers as they manage the challenge of a dry spring and summer, and others offloading lambs earlier and at lighter weights than planned.

Mutton yardings across the country through to the end of October are up 32 percent on 2022 levels, with lamb yardings so far just 6 percent up, although this number is forecast to rise as a large Victorian lamb drop comes to market over the summer months.

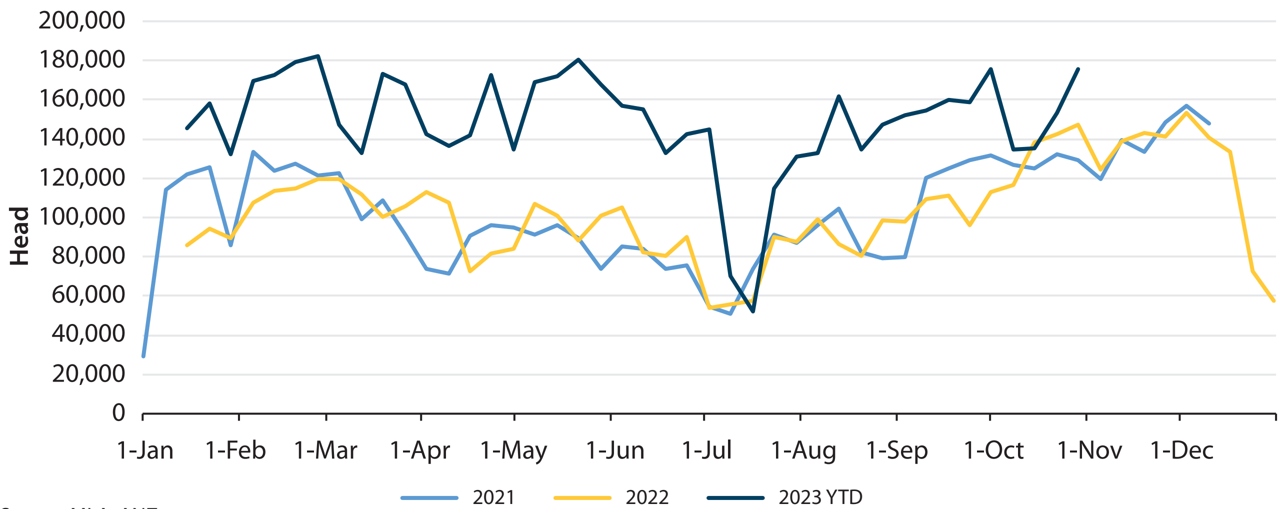
IN THE ABATTOIRS, PROCESSORS HAVE INCREASED SHEEP THROUGHPUT THIS YEAR BY 50 PERCENT FOR THE YEAR TO DATE. LAMB SLAUGHTER IS UP 9 PERCENT YEAR ON YEAR AT THE TIME OF WRITING, HOWEVER AS IS THE CASE FOR YARDINGS, THIS FIGURE IS TIPPED TO INCREASE AS CONTRACTED LAMBS AND SALEYARD SUPPLY FLOW THROUGH THE SYSTEM THROUGH MID TO LATE SUMMER.

AUSTRALIAN LAMB AND SHEEP YARDINGS - NATIONAL 2021-23



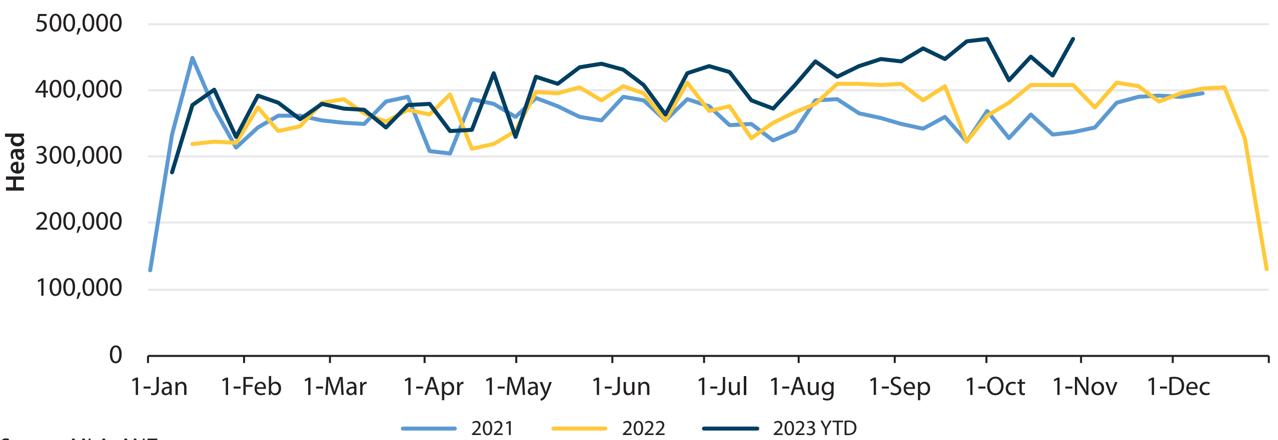
Source: MLA, ANZ

AUSTRALIAN MUTTON SLAUGHTER - WEEKLY



Source: MLA, ANZ

AUSTRALIAN LAMB SLAUGHTER - WEEKLY



Source: MLA, ANZ

EXPORTS

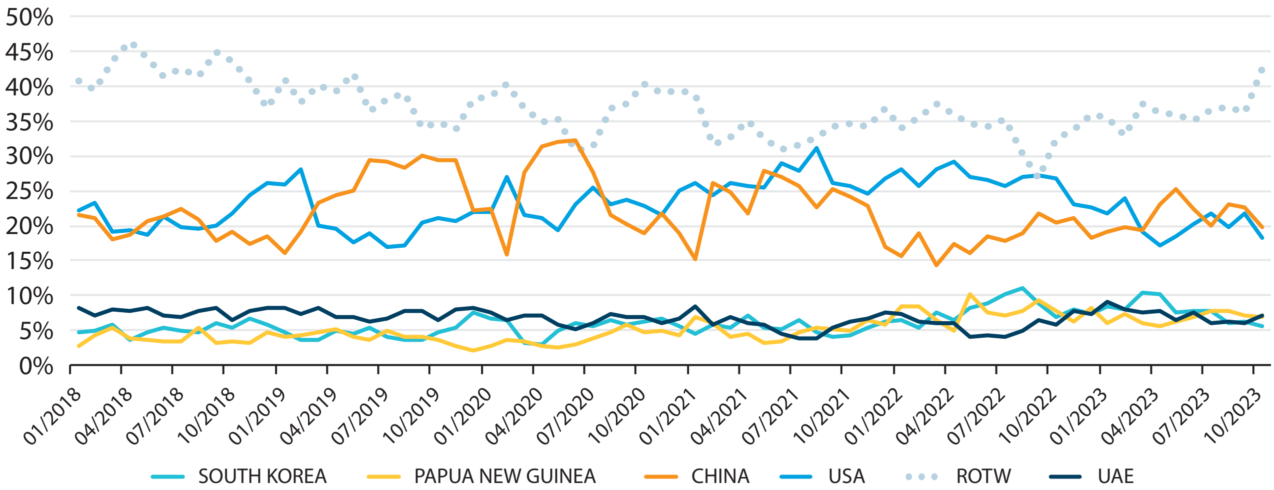
Thankfully, throughout a time of high supply, export markets remain robust with record volumes continuing to leave Australian shores.

Lamb exports are tracking 12 percent higher year on year, with over 30,000 tonnes exported each month throughout August, September and October. Lamb exports for October were down just 3 percent on the all-time record posted in August this year, of almost 32,000 tonnes.

China continues to capture the largest share of lamb exports, taking 21 percent of Australian product for the year to date, followed closely by the US at 20 percent market share. The opportunity for significant recovery of volume to the US market remains, with exports to the US averaging around 5,500 tonnes per month so far in 2023, compared to over 6,200 tonnes per month throughout 2022, when the US held market share of around 26 percent. Rapid growth also continues to markets outside of Australia's top 10 lamb trading partners, supported by the current low price environment.

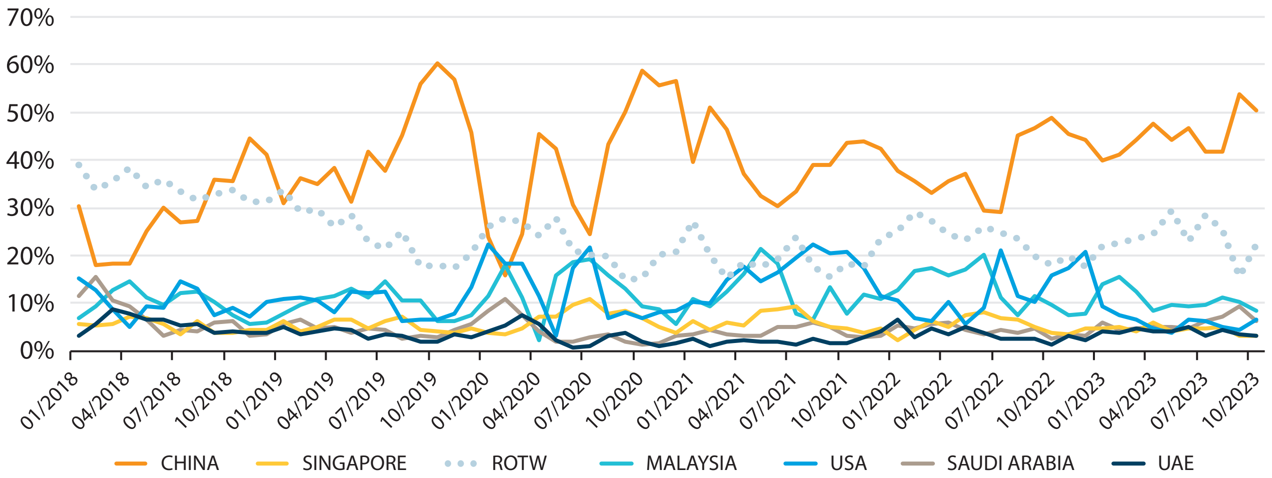
In mutton exports, the huge increase in slaughter numbers is flowing through to export growth of 48 percent year on year. China has now reached over 50 percent market share, a level not seen since February 2021. For the year to date, exports to China are up 74 percent year on year, posting exports of over 10,000 tonnes in October. Similar to lamb, mutton exports to US however remain subdued, however October volumes showed

MARKET SHARE OF AUSTRALIAN LAMB EXPORTS BY DESTINATION 2018-23



Source: MLA, ANZ

MARKET SHARE OF AUSTRALIAN MUTTON EXPORTS BY DESTINATION 2018-23

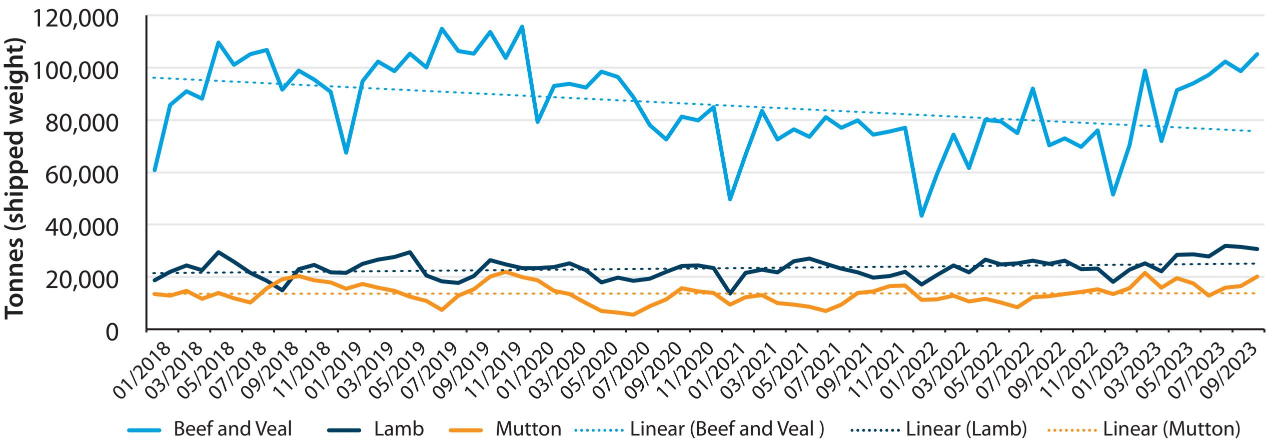


Source: MLA, ANZ

significant 90 percent increase on the prior month of September, albeit off a low base relative to historical volumes. A backdrop of continuing high inflation in the US and the "higher for longer" mantra relating to US interest rates, could mean there is some pressure on US consumers remaining, which would not support a rapid recovery sheep and lamb export volumes.

An interesting comparison of red meat exports is the long-term pattern of total beef export volumes, compared to that of lamb and mutton. The beef production cycle, being much longer than the production cycle of sheep, causes beef production to be far slower to recover in volume from periods of de-stocking, which drives far more fluctuation in export volumes over time. Arguably, the absence of volumes of Australian beef from some markets provides opportunity for global competitors to capture market share. The relative stability of Australian sheep meat supply to global markets is considered a positive for the industry and its future, and current high supply and low pricing patterns continues to encourage market diversity and build long term consumer preference for Australian product.

AUSTRALIAN RED MEAT EXPORTS 2018-23



Source: MLA, ANZ

PRICES

For producers, the significant correction in sheep pricing across all major indicators is causing considerable challenge in what remains a high-cost operating environment.

The most resilient pricing continues to be seen in heavy and trade weight lambs where high quality stock with a good level of finish are sought after by processors. As at mid-November, heavy lamb indicator prices were down around 39 percent on year ago levels, with trade lambs 42 percent down. Heavy and trade lamb prices have, however, found some pricing stability since around early August, where fluctuation in daily indicator prices has averaged just 35 cents per kilogram and largely maintained a small recovery in prices seen in early October.

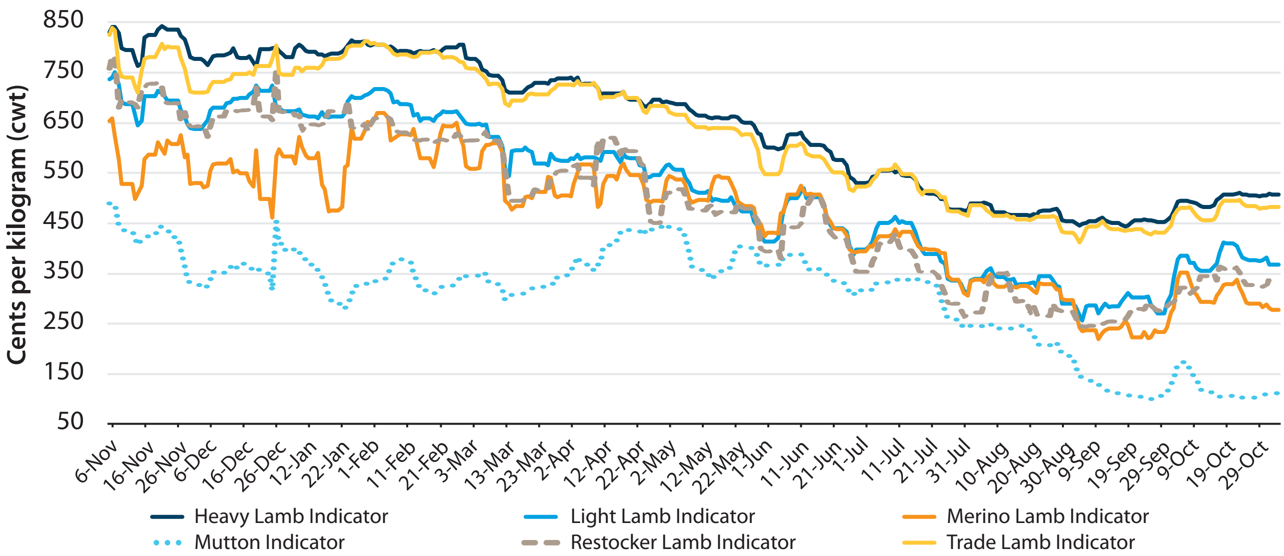
The light lamb, merino lamb, and restocker lamb indicators all suffered a more significant drop over the past 12 months, trading at 50 percent, 57 percent and 55 percent below prices last November respectively. A surplus of these types of animals with a limited number of producers willing to take on trade stock are impacting the market.

A rebound in lighter lamb prices through the last weeks of Spring was very welcome, and over the hook pricing for the summer months also indicates some stronger pricing in the market may be achievable over the months ahead.

For mutton, despite the huge export volumes, a small recovery in early October was unable to be sustained for any length of time as high supply and varied quality continue to impact the market. Mutton has resumed its place as a secondary or by-product to lamb production, and producers will be looking to maximise profit from their ewe base through increased lamb production and wool cut where applicable, to produce a reasonable return.

In the final two weeks of spring however, as per lighter lamb prices, there is some hope emerging for a correction it the downward price trend of Mutton.

AUSTRALIAN LAMB AND MUTTON INDICATOR PRICES 2022-23



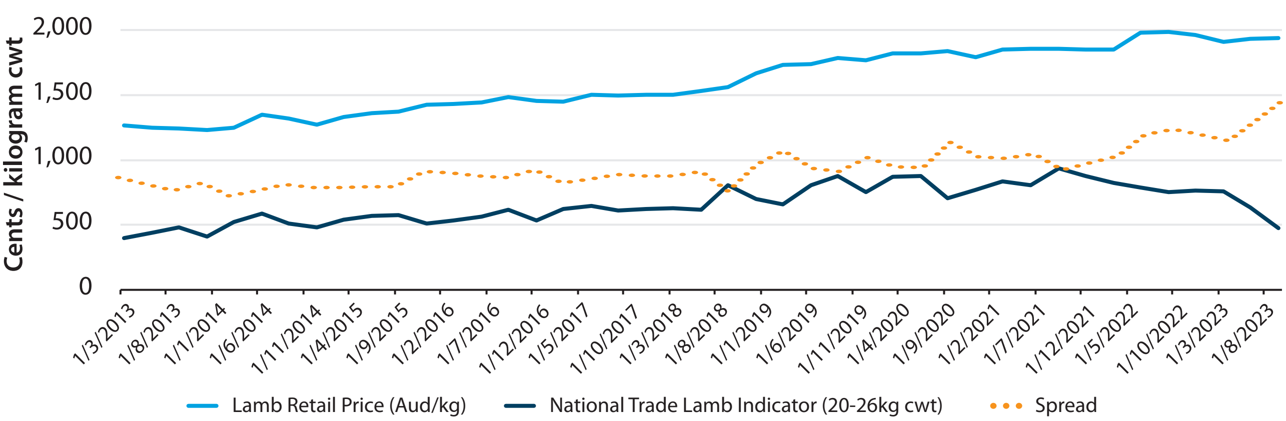
Source: MLA, ANZ

RETAIL PRICES

A recurring topic of conversation in the sheep industry is the saleyard to retail price spread for lamb. Recent data available from MLA demonstrates the spread between the retail price of lamb, and the National Trade Lamb Indicator (NTLI), is at historically high levels of over 1450 cents per kilogram (carcase weight). This simplistic view of price spread can be a cause of frustration for producers at a time when returns are down, and costs are high.

The margin between the NTLI and the retail price of lamb has grown steadily over the past 10 years, with only minor short corrections, with retail prices as at the end of September not showing any significant correction corresponding to saleyard price declines. It is however expected that December retail price data will demonstrate some discounting, as lower priced meat works its way through the supply chain. Concerns over saleyard to retail price spreads are not new, with a 2007 Australian Competition and Consumer Commision review concluding that there "will not necessarily be a direct and immediate relationship between the price of raw product (livestock) and the final good (packaged meat) due to the supply of red meat to consumers being part of a long and complex supply chain." The ACCC review also concluded that at that time, albeit now 16 years ago, that there appeared to be a reasonable degree of competition, at both ends of the supply chain. How this competitive environment may have evolved over the past 16 years is topic of conversation likely to continue in the current environment.

AUSTRALIAN RETAIL LAMB TO TRADE LAMB INDICATOR SPREAD 2013-23



Source: MLA, ANZ

WOOL INSIGHTS

OVERVIEW

- The EMI and WMI have experienced gradual downturn, reaching lows not seen since 2020
- Supply of Australian wool continues be strong, with an estimated 71 million head to be shorn over the season ahead
- Wool prices are being impacted by continued subdued demand from China
- Cotton is likely to pose increasing competition to wool globally due to record high cotton production and stock levels
- The Australian wool industry shows progress in it's mulesing status and declaration rates with premiums on offer for those who declare.

Australian wool prices have experienced a gradual downturn as the industry enters the summer months, with both the Eastern Meat Indicator and Western Meat Indicator trading at levels not seen since the initial Covid shock impact on the wool market in early 2020.

There are three major factors impacting wool prices at present, being consistent and stable global supply, sluggish demand, and strong competition from competing fibres.

On the supply side, Australian wool production is forecast to remain steady throughout 2023/24 at 324 thousand tonnes, just shy of the 2022/23 figure of 328 thousand tonnes. This has been driven largely by the high sheep flock with an estimated 72 million sheep to be shorn this year. Surplus supplies of wool on hand from prior years, along with current season supply, are contributing to the ABARES forecast for wool exports of 443 thousand tonnes for the year, which would represent a slight 4 percent decrease on 2022/2023 export volumes.

With plenty of wool available, strong consumer demand would be required to sustain any major price recovery, and unfortunately for wool producers, Australia's number one wool customer, China, is expected to decrease demand for woollen garments, particularly apparel made from finer microns that attracts higher retail prices, due to ongoing economic pressures.

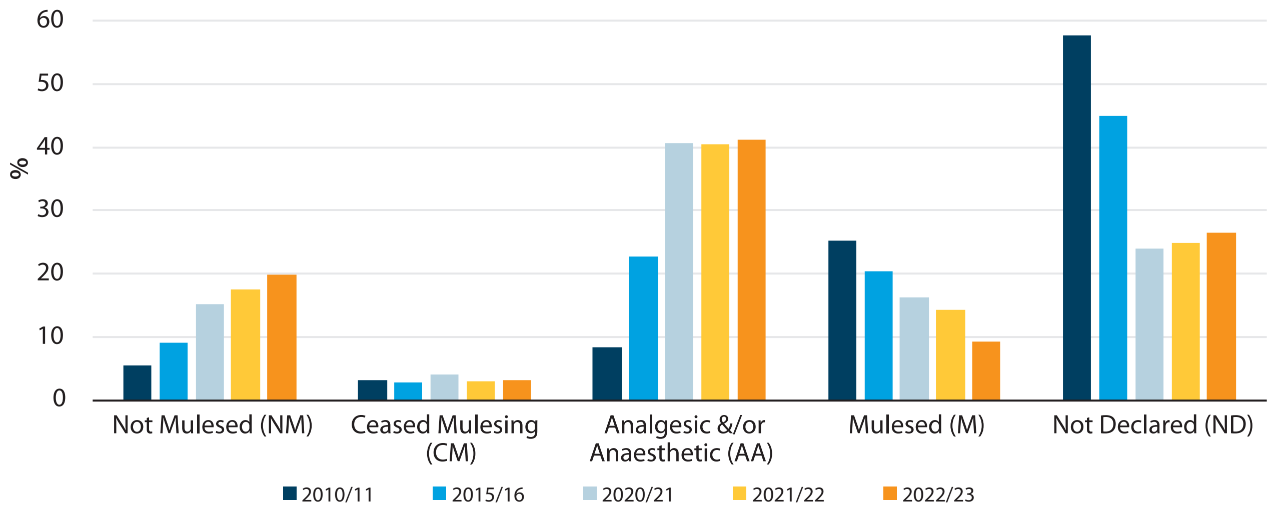
Wool is also likely to come up against increasing competition from cotton in global fibre markets over the year ahead, with global cotton production tipped to be the highest on record at over 25 million tonnes, and global cotton stocks forecast to increase by 10 percent, which would represent the highest level of cotton stocks on record. The combination of these factors is expected to keep pressure on global cotton prices, which will impact the price competitiveness of wool as compared to cotton in some markets.

For many years now, however, the Australian wool industry has been working toward creating a point of difference in global apparel markets, with focus on its many wearability and sustainability credentials. One such credential showing significant progress is the percentage of wool now declared to have come from sheep that have either never been mulesed, or derived from a farm where mulesing has since been ceased. For the 2022/23 season, 23 percent of wool declared under the National Wool Declaration (NWD) scheme (which captures around

75 percent of the national clip) fits this description, an increase of 2.4 percent on the prior year, and more than double that of 2015/16.

The importance of the NWD declaration to buyers of Australian wool, regardless of a clip's actual mulesing status, is demonstrated through pricing during the 2022/23 season. By example, 16-micron wool that was not declared under the NWD system attracted a 39 cents/kg clean discount compared to merino wool declared as mulesed. For crossbred wools, of 27-29 microns, a discount for non-declaration was also demonstrated last season, of between 4 and 15 cents / kg clean. For 17-to-21-micron wool, an average premium of 19 cents and 4 cents / kg clean respectively was achieved on wools declared as mulesed with analgesic/anaesthetic.

MULESING STATUS OF AUSTRALIAN WOOL CLIP 2010/11-2022/23



Source: AWEX, ANZ

Key Australian Wool Industry Statistics	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
AWEX EMI (Average)	1944	1459	1206	1385	1301
AWEX EMI (USD Average)	1390	975	909	1004	876
AUD ($US) Exchange Rate	0.714	0.666	0.725	0.752	0.6729
Sheep Shorn (million head)	72.5	68.6	66.9	71.6	71.5
Wool Produced (million kilograms)	300	284	294	324	328
Auction Offered (Million kilograms)	295.2	259.4	316.3	329.4	330.7
Auction Sold (Million kilograms)	264.2	215.3	279.8	287.7	287.3
Auction Sold (Bales)	1,484,744	1,206,493	1,558,820	1,608,032	1,607,799
Auction Sold ($ Billion)	3.17 bn	1.95 bn	2.22 bn	2.59 bn	2.42 bn
19 micron price guide (MPG) premium over 21 MPG (c/kg clean)	63	0.61	245	380	237
Exports 19 micron and finer (China market share)	83.7%	84.4%	90.9%	87%	84.4%
Top 3 export destinations (% Market Share)	China 74.6% India 5.7% Italy 4.8%	China 77.5% India 5.2% Italy 4.5%	China 84.4% Czech Rep. 4.0% India 3.7%	China 79% India 4.9% Italy 4.8%	China 80% India 6.3% Italy 4.0%

Source: AWEX, ANZ

DAIRY INSIGHTS

OVERVIEW

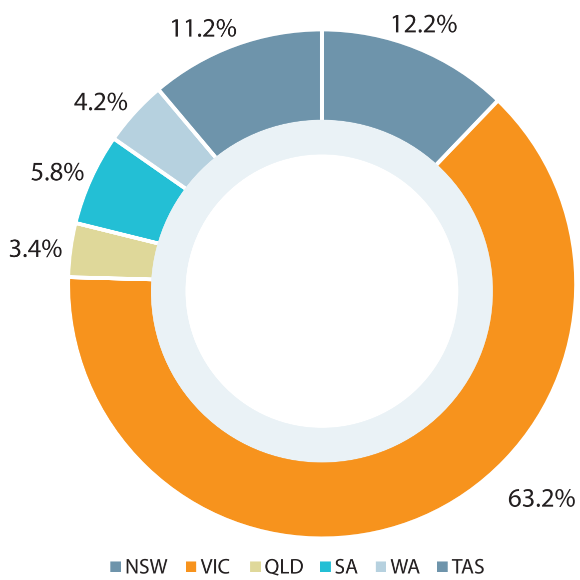
- The national milk production level is forecast to fall to 8.1 billion litres in 2022/23, the lowest level in 30 years
- ABARES does forecast milk production to actually rise in 2023/24, albeit by under one percent
- As the supply of raw milk continued its long term decline, industry observers will be watching how other major processors react, heading into 2024
- For many dairy farmers heading into summer and the new year, the issue of tight labour availability remains a major challenge
- Globally, milk prices have been largely impacted by the impacts of tighter economic conditions on consumer demand, particularly in China.

For Australian dairy farmers, the summer period is a time when milk production is coming off its peak and gradually contracting through the drier months. After the annual "spring flush" high in October, when the pasture in dairy regions is at its most plentiful, the monthly milk production levels usually hit their lowest point in February, then stay relatively flat through the cooler months until they start to rise from July.

In terms of overall production, the dairy industry has continued the trend of declining each year. According to ABARES, the national milk production level is forecast to fall to 8.1 billion litres in 2022/23, the lowest level in 30 years. Interestingly, in a cautiously optimistic sign, ABARES does forecast milk production to actually rise in 2023/24, albeit by under one percent. Notably, ABARES also predicts that the national dairy herd will continue to decline in 2023/24, falling around five percent to 2 million head. As such, the rise itself is based on the average national milk yield per cow climbing to a record level of around 6,800 litres/cow, after a slight lull in 2022/23.

Domestically, the main focus of industry discussion has been around the potential rationalisation of dairy processors. This is particularly in Victoria, which continues to account for around two thirds of Australia's milk production. In recent weeks, the large milk processor Saputo has announced its

AUSTRALIAN MILK PRODUCTION BY STATE 2022/2023



Source: Dairy Australia, ANZ

decision to reduce the number of its processing operations in Australia from eleven to five, although it remains unclear exactly which facilities these will be. Given that the discussion around processing rationalisation has been bubbling for some time, as the supply of raw milk continues its long term decline, industry observers will be watching how other major processors react, heading into 2024.

Another focus around the industry restructure will be whether current players look to acquire any processing assets which may come onto the market, or whether any new investors, including from outside the dairy sector, look to enter the space. In many ways, the events in the processing sector over the coming year will be a barometer for the overall confidence in the industry.

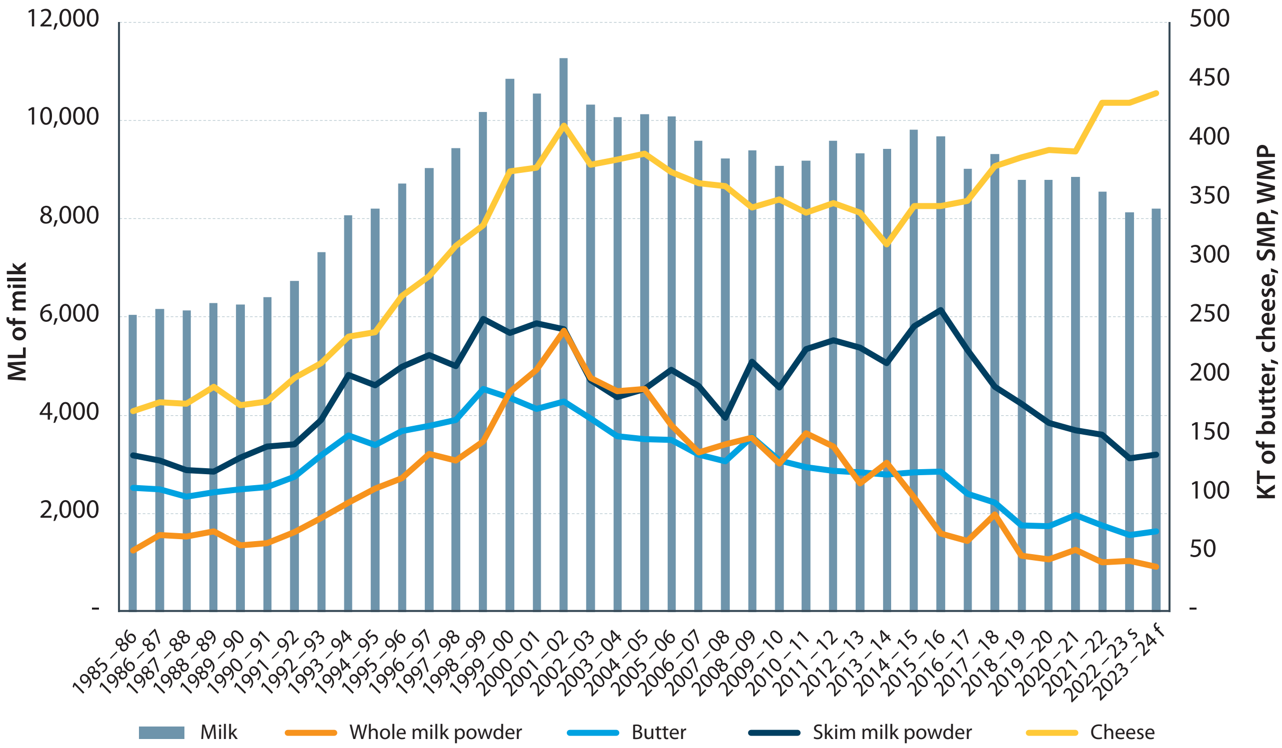
For many dairy farmers heading into summer and the new year, the issue of tight labour availability remains a major challenge – along with other agri industries, this is exacerbated by a shortage of housing availability in many regional centres for new temporary or full-time workers. While input costs have been high, they are showing signs of easing.

The issue of high farmland prices remains a double-edged sword in dairy regions – it does make it tougher for dairy farms to expand the size of their operations, especially when they are competing with beef cattle producers, although it does also present an attractive exit operation for dairy producers who may be looking to retire.

While the potential impacts of El Nino have been discussed around other agri sectors, the dairy industry is often less directly impacted, as the production regions usually receive average rain through the drier months. That said, there is the potential that if other parts of Australia require greater levels of feed, and with the national crop harvest forecast to decline, that there may be a rise in feed prices.

Globally, milk prices have been largely impacted by the impacts of tighter economic conditions on consumer demand, particularly in China. After falling for a number of months, the Global Dairy Trade had seen a recent recovery, although the latest figures have seen it fall once again. The latest fall is based largely on strong global supply, including a recent peak in New Zealand's dairy production levels. Looking ahead, a forecast recovery in consumer consumption levels in a number of markets, combined with an easing in global supply, could well see prices head upwards again during 2024.

AUSTRALIAN DAIRY PRODUCTS PRODUCTION BY CATEGORY 1985/6 - 2023/24F



Source: ABARES, ANZ

COTTON INSIGHTS

OVERVIEW

- With the 2023/24 cotton crop now in the ground, the overall areas planted is forecast to be around 560,000 hectares
- Total cotton production for 2023/24 is also forecast to decline from the previous year, though by only eight percent, to 1.2 million tonnes.

Despite the potential of drier conditions in some regions, the Australian cotton industry is in a very good position to approach the current growing season. With the 2023/24 cotton crop now in the ground, the overall areas planted is forecast to be around 560,000 hectares, 16 percent down on the previous year, with the possibility of drier conditions likely influencing some growers to try other crops, or leave some areas fallow this season.

Despite the fall, the area would still be the sixth largest planted on record, and over 50 percent higher than the average annual cotton area over the past twenty years.

At the same time, total cotton production for 2023/24 is also forecast to decline from the previous year, though by only eight percent, to 1.2 million tonnes. The difference in the falls in acreage vs production is explained by a forecast rise in cotton yields, up from 1.9 tonnes per hectare in 2022/23 to 2.1 tonnes per hectare in 2023/24. This is particularly as a result of the growth in irrigation infrastructure across many cotton farms, with irrigated cotton now making up around 80 percent of all production. Those areas without irrigation may be more susceptible to any lingering drier conditions and could well make up a reasonable proportion of the acreage reduction.

The fall in production is also likely to see a slight fall of around three percent in cotton exports, although it is still likely to be the second highest on record. The relatively small decline in exports is explained by the high carryover of cotton stocks.

CONSUMER DEMAND FOR COTTON IS PARTICULARLY IMPACTED BY TIGHTER ECONOMIC CONDITIONS, AND MARKET NERVOUSNESS ABOUT CURRENT CONSUMPTION LEVELS HAS SEEN GLOBAL COTTON PRICES FALL TO ALMOST TWO-YEAR LOWS.

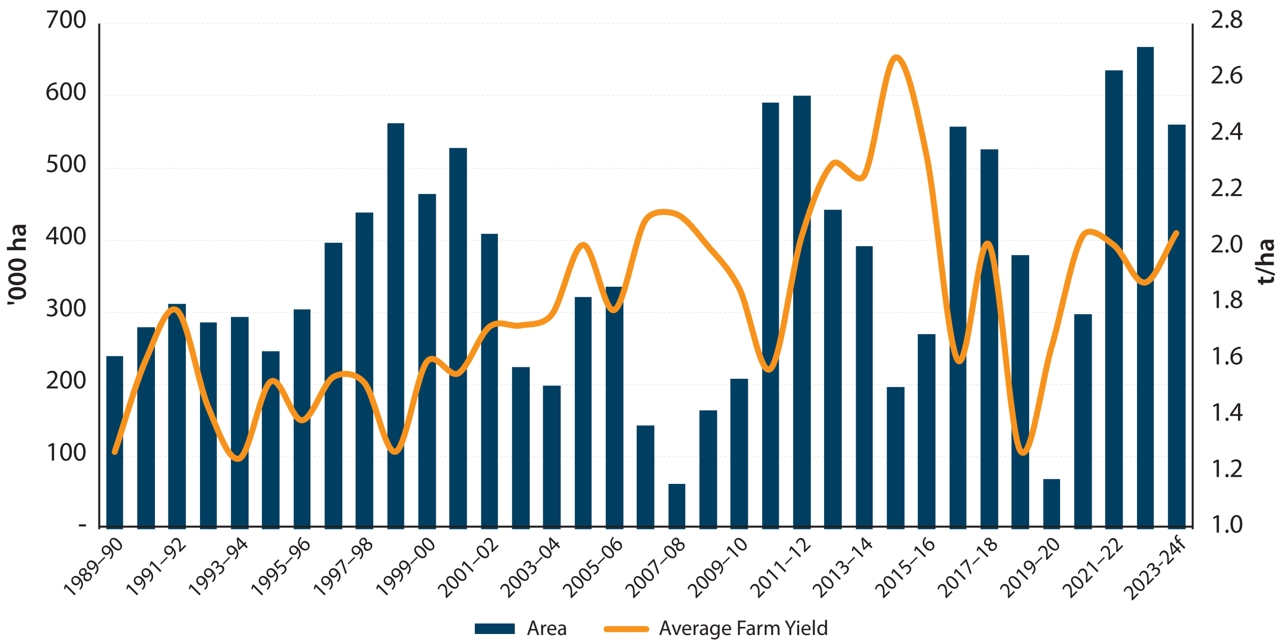
Given that cotton processors normally seek to begin manufacturing in advance of economic conditions easing, to have products ready for consumer uptick, it is reasonable to expect that major importing countries including Vietnam, Indonesia and India will increase their demand for Australian cotton in 2024.

Globally, overall cotton production is forecast to fall marginally in the coming year, with production forecast to decline in most producing countries, including China, India, Brazil and the US.

With production falling, global cotton stocks may also fall slightly, though will still remain relatively high, reducing the chances of a strong rise in prices.

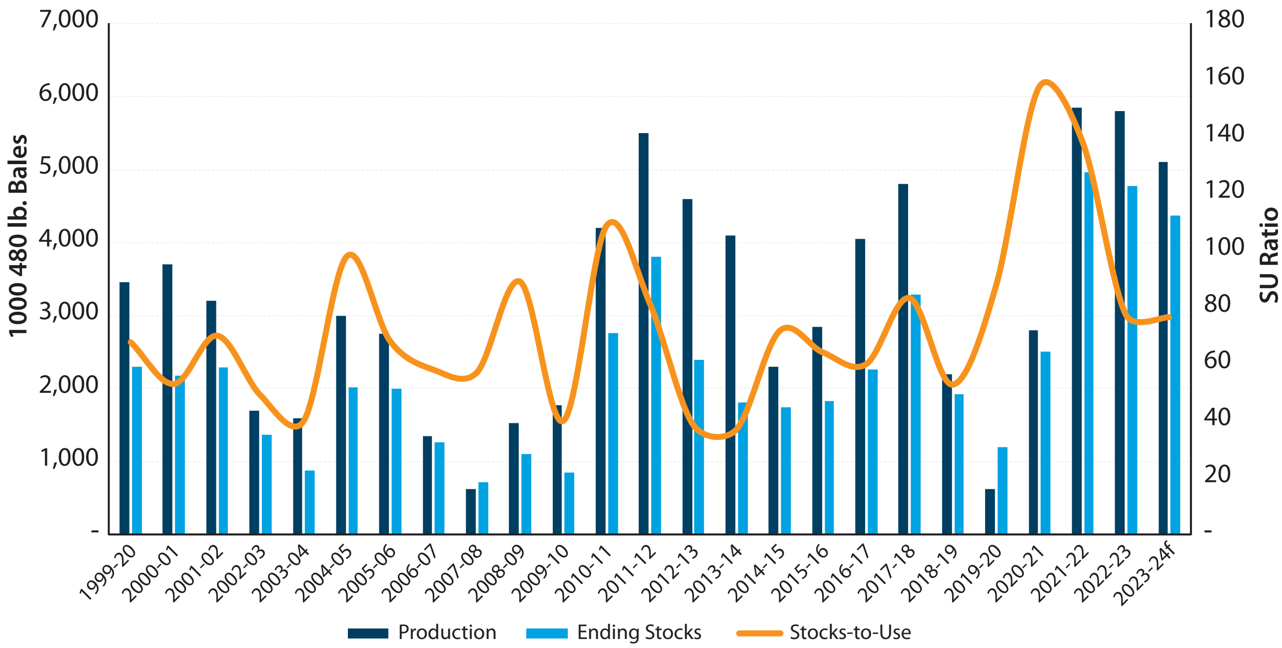
One trend which may play out in a number of ways is a shift to cotton products from other fibres. In the more developed economies, consumers seeking "sustainable" and "natural" products are increasingly likely to move to cotton, and away from artificial fibres. For consumers in less developed countries, where disposable incomes are currently lower, it may be that cotton takes market share from more expensive natural fibres, particularly wool.

AUSTRALIAN COTTON AREA HARVESTED VS YIELD 1989/90 -2023/24F

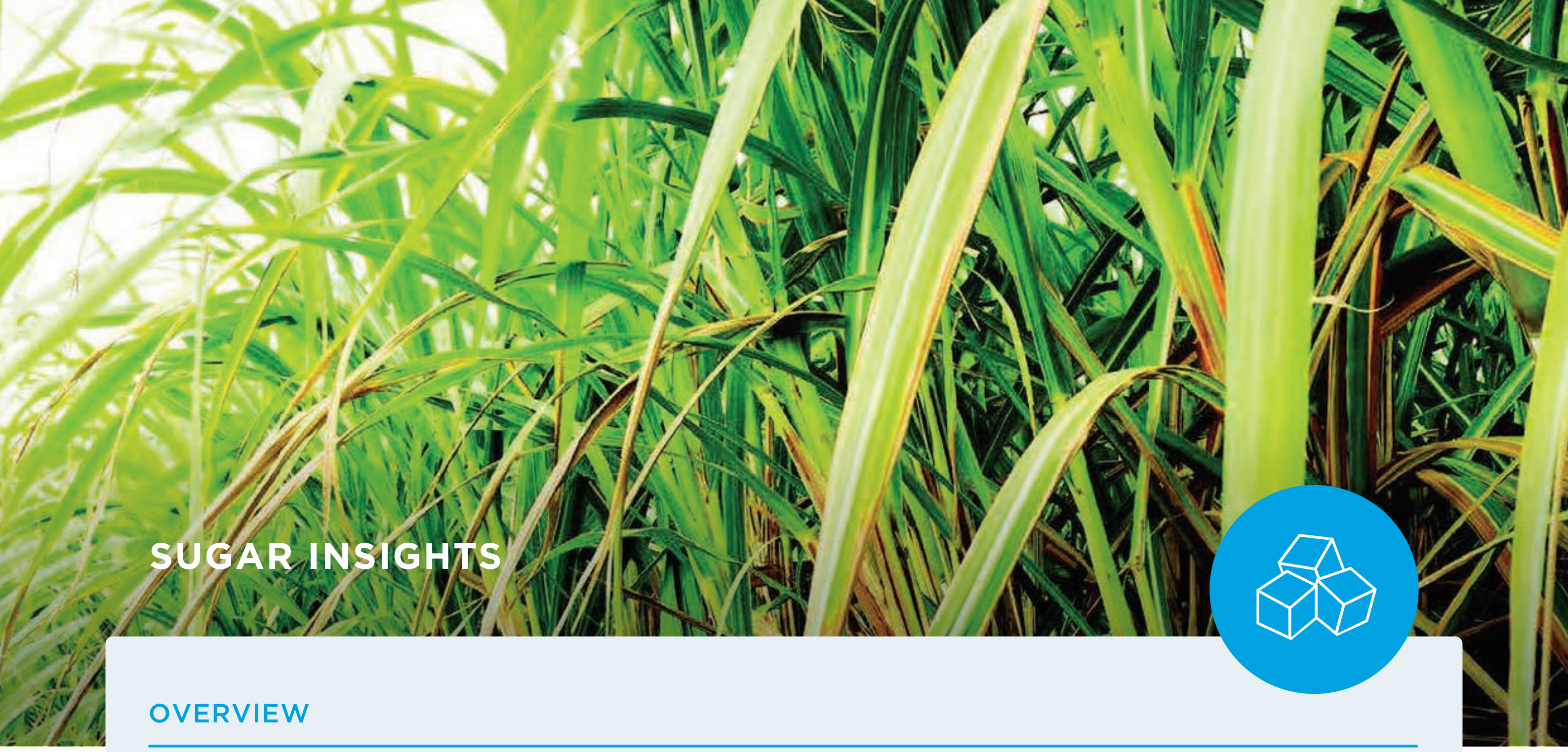


Source: ABARES, ANZ

GLOBAL COTTON END STOCK VS STOCK-TO-USE RATIO 1999/2000 - 2023/24F



Source: USDA, ANZ



SUGAR INSIGHTS

OVERVIEW

- Current price outlook for sugar appears likely to remain strong for the next marketing season, having lifted considerably over the past two to three years
- The global supply surplus is projected to fall by an estimated 0.6 million tonnes by 2027-28 marketing season, putting further upward pressure on global prices
- Dry conditions have seen the Indian Government impose temporary tighter restrictions, with a complete export ban in place to shore up domestic supply
- In Brazil, increased rainfall has halted the predicted level of raw sugar production and with prices for ethanol prices increasing, there are ongoing concerns for supply levels coming out of that country
- The high price of sugar globally could well become a factor in food inflation pressures.

As the summer period of 2023 brings the end of the harvest, Australia's sugar industry finds itself in one of the best positions of any agri production sector. A strong finish to the season with 81 percent completed and approximately 6 million tonne left to harvest by end of November, combined with high global prices, have Australian producers and processers in a position to take advantage of challenges faced by their global counterparts.

In terms of Australian sugar production, at the time of writing, around 80 percent of the current crop had been harvested. Looking forward, dry conditions mean that most sugar producers should be finished harvesting by late November, which had recently been delayed by rainfall. The most recent forecast for the final crop, which ABARES estimates at around 34 million tonnes, is slightly below early season predictions, due to early season rain.

Globally, the current price outlook for sugar appears likely to remain strong for the next marketing season, having lifted considerably over the past two to three years. A marked change in global production levels and a change in global usage have seen sugar prices climb strongly, with the benchmark ICE No. 11 hitting a peak of over 27 USc/lb in April 2023 before easing marginally to around 25 USc/lb in August 2023. On top of these factors, while currently holding, the global supply surplus is projected to fall by an estimated 0.6 million tonne by 2027-28 marketing season putting further upward pressure on global prices. This will be primarily driven by impacts on global production and changing usages.

The global price rise had been particularly driven by global production issues, and concerns about ongoing supply levels. Ongoing dry weather conditions in India had not only impacted the production levels from that country, but has seen the Indian Government impose temporary tighter restrictions on mills which have gone from being able to export up to 6.2 million metric tonnes up to 30 September to a complete export ban imposed from start of season (October 1). This has halted exports for the first time in seven years with the aim of this being to reduce domestic food inflation, as sugar producers sought to take advantage of high global prices and pushed up domestic food prices as a result. However, given that India vies with Thailand for being the world's second largest sugar exporter, after Brazil, the ultimate impact would have seen a reduction of overall supply to world markets.

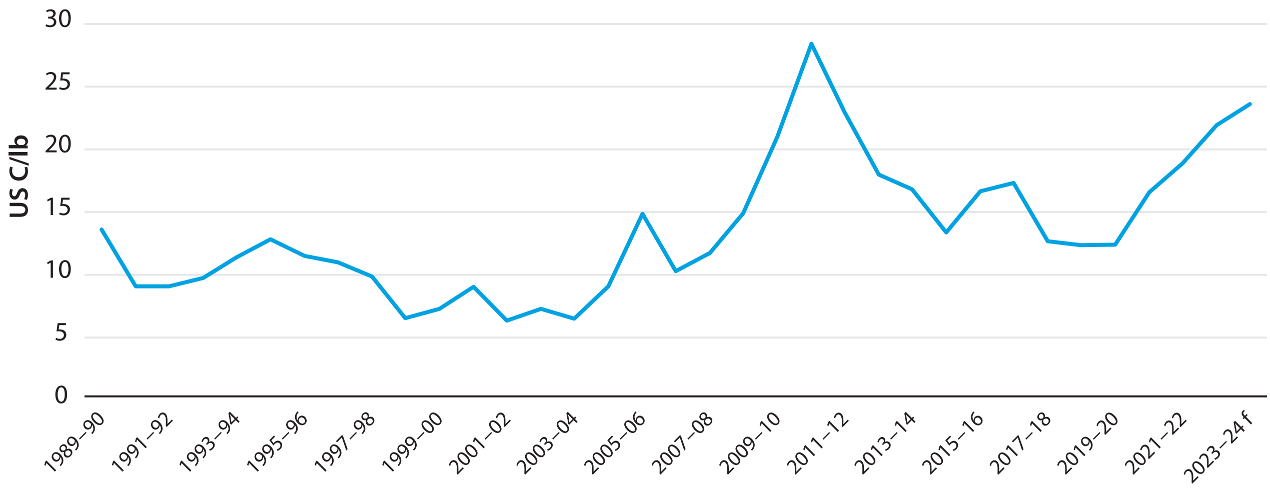
Similarly, Thailand has also seen its crop impacted by weather conditions, further reducing the supply of sugar on global markets.

In terms of Brazil, the world's largest sugar producer and exporter, earlier fears about the impact of heavy rains on the sugar crop had subsided somewhat, however increased rainfall has halted the predicted level of raw sugar production and with prices for ethanol back to July 2022 levels, there are ongoing concerns for supply levels coming out of Brazil.

For Australian sugar producers and sugar mills, this could mean the industry is excellently placed to take advantage of a strong year ahead, both in terms of prices and export demand with strong season results putting them in a strong position.

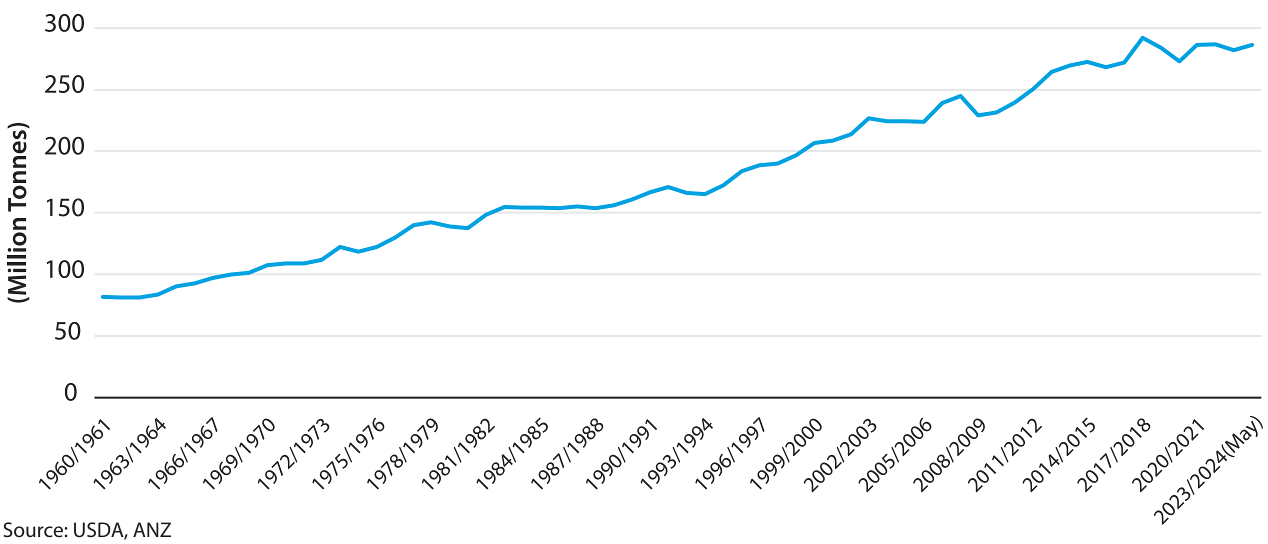
For food manufacturing companies, the high price of sugar could well become a factor in food inflation pressures, given that it is a base ingredient in so many products. Interestingly, for chocolate manufacturers, the pressures may be even stronger, given that cocoa prices have recently been around 45-year highs, due to global supply issues.

GLOBAL SUGAR PRICE INTERCONTINENTAL EXCHANGE (ICE) 1989/90 - 2023/24F



Source: ABARES, ANZ

GLOBAL SUGAR SURPLUS 1960/61 - 2023/24F



Source: USDA, ANZ

AUSTRALIAN ECONOMIC INSIGHTS

INFLATION A BIGGER RISK TO AUSTRALIA THAN A SLOWDOWN IN ACTIVITY

Sticky inflation brought on another rate hike

Stronger than expected September quarter inflation data resulted in headline inflation of 5.4% y/y. Many of the key measures in the release, including services inflation, reaccelerated on a quarterly basis.

The RBA increased the cash rate to 4.35% at the November meeting and now expects inflation to fall to 2.9% (just within its target band) by the end of 2025. While we think 4.35% could mark the peak in rates, there is an increased risk the RBA need to tighten further, particularly if inflation is stickier than expected in future.

Food inflation is disparate across categories

Food and non-alcoholic beverage inflation, at 4.8% y/y, was lower than average inflation across all products. An annual drop in fruit and vegetable prices (-6.4% y/y), as well as a modest increase in meat and seafood prices (+2.2% y/y), offset strong price increases in dairy (+10.2% y/y) and bread/cereals (+9.7% y/y).

Rate cuts are still a long way off

The RBA upgraded its outlook in its latest forecasts, and now expects less of a rise in unemployment and less of a fall in economic activity through 2024.

It's unlikely that the RBA will have reason to cut rates before late 2024. Some reasons for reducing the cash rate ahead of inflation returning to near the target band include the risk of a sharp slowdown in economic activity that results in a concerning rise in unemployment, or a widespread financial stability issue that arises from the higher cost of debt. We don't see either of these as likely outcomes, and based on the latest commentary, neither does the RBA.

Infrastructure activity will support economic growth

Australia's major project pipeline is expected to grow rapidly in the coming years. In the short term, road and rail projects from the public sector are a key part of the pipeline. The feasibility of government projects which are not yet underway may be challenged by capacity constraints, high construction/funding costs, and weaker government finances after strong COVID-related spending. Though much of the public sector pipeline is already underway, making it difficult to reduce future expenditure.

In the longer term, energy-related investment will be the biggest driver of growth for infrastructure spending in Australia. This includes projects backed by government and private sector projects, with a considerable skew towards the renewable energy transition and energy storage capacity.

Labour market to stay strong

Most indicators suggest the labour market began weakening in late 2022 or early 2023, but the pace of this weakening has been very modest. The unemployment rate has lifted from a low of 3.4% in October 2022 to 3.6% in September 2023. This unemployment rate is still lower than anytime between the mid 1970s and 2021. Meanwhile, 'ANZ Indeed' Australian Job Ads have been declining since September 2022, but still remain stronger than pre-pandemic.

Household budgets are being squeezed but most can pay their way

Household consumption has been weakening since 2022, but from a very strong starting point. Households are being squeezed by higher prices of essential goods and services, including utilities, rent/mortgage payments, groceries and petrol.

However household financial stability is still mostly solid. According to RBA analysis, 95% of households with debt on their home can pay their mortgages and other essential expenses without dipping into savings. And capital gains in the housing market provide refinancing opportunities for those under stress. Housing prices are up 7.6% since January and are being supported by low levels of new supply.

AUD to rise – modestly - in 2024

We expect the AUD to appreciate against the USD and the weighted index of Australia's trading partners through 2024. However this is likely to be a slow rise, from the current rate of 0.64 USD, to around 0.72 USD at the end of 2024. The expected slowdown in China's economic growth has been a key reason for the depreciation of the AUD through this year.

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