

Briefing Note

Agricultural Commodities

June Quarter 2012

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Introduction

This Briefing Note is a summary of the Australian Department of Agriculture, Fisheries and Forestry (ABARES) "Agricultural commodities" March quarter report. It provides an overview of those sections relevant to irrigated agriculture.

This Briefing Note does not seek to independently verify the data contained within it. All data presented is reproduced from the ABARE publication. This Briefing Note does not in any way constitute advice, it is provided solely as a service.

The full ABARES March quarter report is available from the link:

http://adl.brs.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201206/AgCommodities2012.Vol2.No2_Ver1.0.0.pdf

Global Economic Outlook:

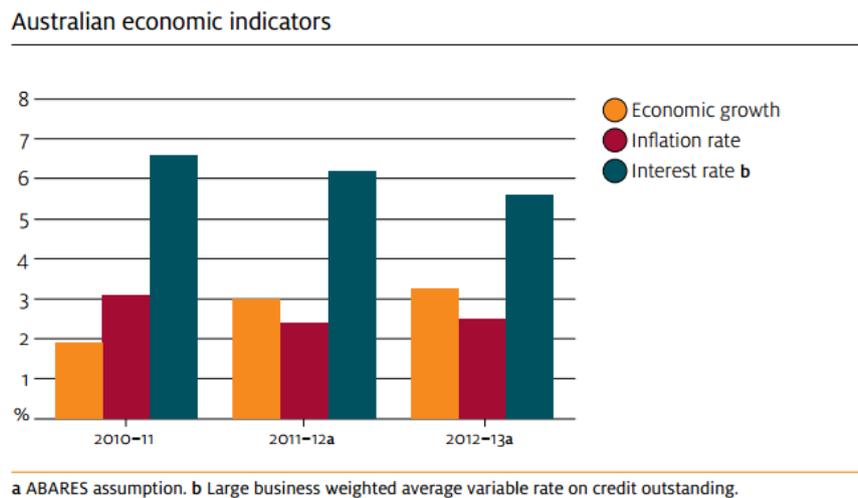
- Following growth of 3.9% in 2011, world economic growth is assumed to moderate to 3.5% in 2012, before improving to 4% in 2013.
- Emerging economies, particularly China and India, are expected to remain the main drivers of world economic growth.
- Economic growth in the OECD is expected to be subdued, largely reflecting an expected slowdown in many European economies and weak growth in consumer demand in the US and Japan.
- There remains some risk of European economies deteriorating further which could have wider global impacts.

Australia's Economic Outlook:

- Real GDP rose at a year-on-year rate of 4.3% in the March quarter 2012.
- Economic growth in Australia is assumed to average 3.25% in 2012/13, following an estimated rise of 3% in 2011/12
 - **Inflation:**
 - The consumer price index rose year-on-year by 1.6% in the March quarter 2012.
 - **Exchange rate:**
 - There has been some volatility in the movement of the AUD, especially against the USD.
 - For 2012/13, the AUD is assumed to average around parity against the USD.

- **Interest rates:**

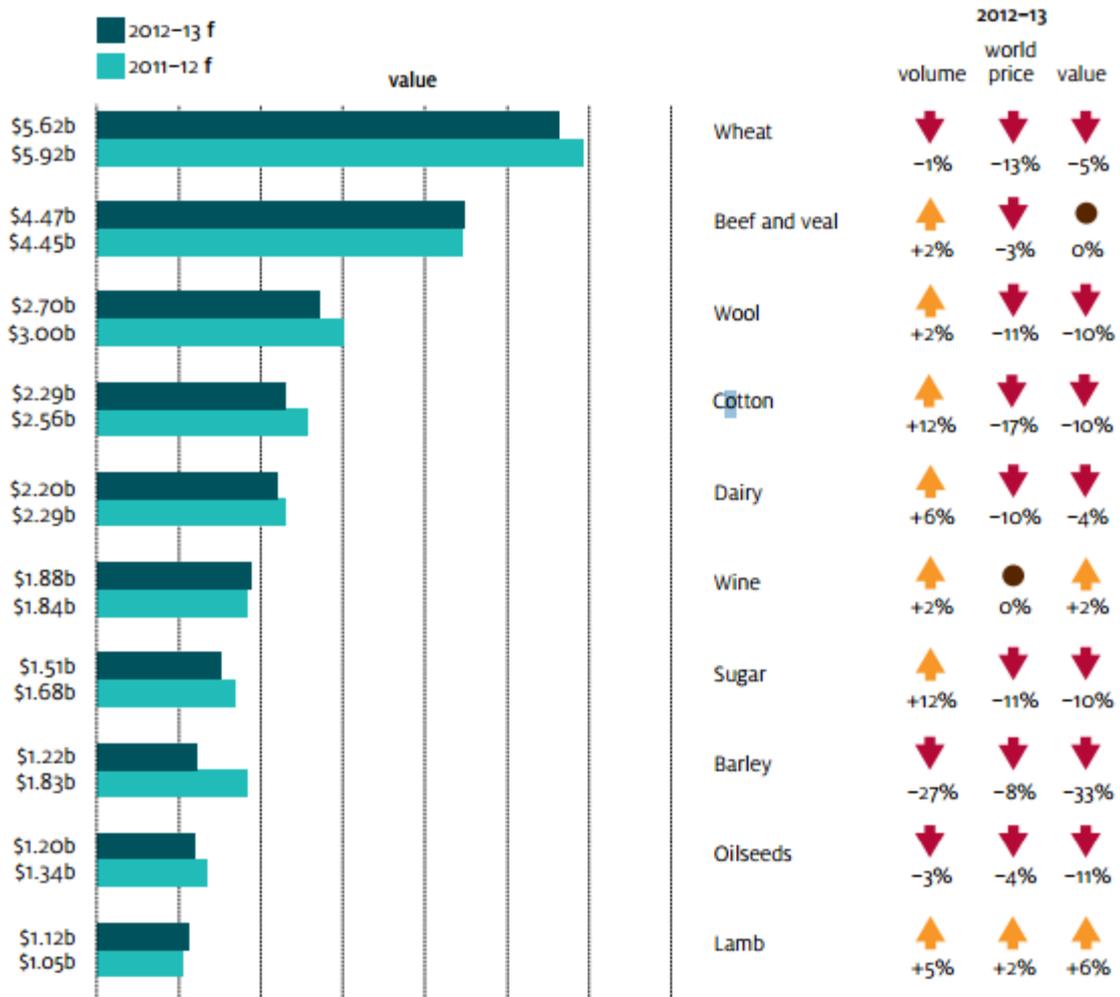
- The RBA has decided to keep the cash rate at 3.5% in June 2012.



Australian agricultural exports figures:

- Total volume of farm production is forecast to decline by around 0.7% in 2012/13.
- The index of unit returns for Australian farm exports (in aggregate) is forecast to decline by 6.9% in 2012/13. Lower world prices for wheat, rice, soybeans, wool and dairy products are expected to more than offset forecast price rises for beef and veal.
- Earnings from farm exports are forecast to be around \$34.4 billion in 2012/13. Farm commodities for which export earnings are forecast to be lower in 2012/13, wheat (5 per cent), barely (33 per cent), canola (9 per cent), rice (5 per cent), grain sorghum (14 per cent), raw cotton (10 per cent) and sugar (10 per cent). Partially offsetting these declines is a forecast increase in export earnings for wine (2 per cent), sheep meat (11 per cent) and chickpeas (13 per cent).
- Export earnings for crops are forecast to be around \$19.5 billion in 2012/13, compared with \$21 billion in 2011/12. The export value of livestock and livestock products is forecast to remain largely unchanged at around \$15 billion in 2012/13.

Major Australian Agricultural, Fisheries and Forestry Commodity exports



Grains

Global Outlook

Wheat:

- World wheat indicator price (US hard red winter, fob Gulf) is forecast to decrease by 13% in 2012/13 to average around US\$260 a tonne.
- World wheat production is forecast to fall by 3% to around 678 million tonnes. This forecast reflects a fall in production in the Black Sea exporting countries.
- World consumption of wheat is forecast to decrease by 1% to 679 million tonnes in 2012/13. Consumption of feed is forecast to fall by around 10% in 2012/13 in response to an expected fall in world supplies.

Coarse grains:

- World coarse grains indicator price (US corn, fob Gulf) is forecast to decrease by 10% in 2012/13 to US \$244 a tonne. The world indicator price for barley (French Rouen feed) is expected to fall by 8% to US \$248 a tonne.
- World coarse grain production is forecast to rise by 5% in 2012/13 to a record of almost 1.2 billion with production increases forecast for barley and corn. World barley production is forecast to increase to 139 million tonnes. World corn production is forecast to increase by 6% in 2012/13 to a record 925 million tonnes, reflecting an expected increase in harvested area.
- World consumption of coarse grains is forecast to increase by 4% in 2012/13 to 1.2 billion tonnes, reflecting lower forecast prices.

Oilseeds:

- World oilseeds indicator price (soybeans, cif Rotterdam) is forecast to decrease by 4% in 2012/13 to US \$515 a tonne. This decline reflects a forecast increase in soybean production in the three main producing countries, US, Brazil and Argentina.
- World oilseed production is forecast to increase by 9% in 2012/13 to a record 473 million tonnes.
- World oilseed consumption is forecast to rise by 3% in 2012/13 to 466 million tonnes. The forecast increase in world oilseeds consumption reflects the effects of consumption growth in developing countries and continued strong demand for biodiesel.

Canola:

- World canola indicator price (cif Hamburg) is forecast to decrease by 7% in 2012/13 to US \$580 a tonne. The prospect of a record Canadian crop for 2012/13 is a primary factor driving this forecast price decline.
- World canola production is forecast to increase by 3% in 2012/13 to 62 million tonnes.

Australian Outlook

Wheat

- Wheat production is forecast to fall by 18% in 2012/13 to around 24 million tonnes. The area planted to wheat is forecast to fall by 5% in 2012/13, reflecting the effect on growers of an expected fall in farmgate wheat prices and a dry start of the season.
- The seasonal outlook points to an increase in the probability of a dry winter across southern Australia, in contrast, a wetter than average season is likely to occur in Queensland and northern NSW. Temperatures are likely to exceed average across almost all major cropping areas.
- Australian wheat exports are forecast to be largely unchanged in 2012/13 at around 21 million tonnes.

Coarse grains:

- Area planted to coarse grains is forecast to decrease by 5% in 2012/13 to 5.8 million hectares as producers respond to expected lower prices.
- Area planted for barley is expected to fall by 4% in 2012/13 to 3.9 million hectares as producers switch to alternative crops such as canola.
- Assuming a return to more average yields in 2012/13, grain sorghum production is estimated to decrease by 13% to 2 million.

Canola:

- Total area sown to canola is forecast to increase by 23% in 2012/13 to a record 2.1 million hectares, as producers respond to relatively favourable canola prices compared with alternative crops, such as wheat and barley.
- Assuming a return to average yields, Australian canola production is forecast to increase by 4% in 2012/13 to 2.9 million tonnes. At this forecast level, canola production in 2012/13 will be the largest on record.

Wheat

Outlook for wheat

		2010 -11	2011 -12 f	2012 -13 f	% change
World					
Production	Mt	653	695	678	-2.5
- China	Mt	115	118	116	-1.6
- European Union 27	Mt	137	138	135	-2.6
- India	Mt	81	87	90	3.9
- Russian Federation	Mt	42	56	57	1.4
- United States	Mt	60	54	61	12.7
Consumption	Mt	657	688	679	-1.3
- human	Mt	456	460	464	0.8
- feed	Mt	118	142	127	-10.4
Closing stocks	Mt	195	202	201	-0.5
Stocks-to-use ratio	%	30	29	30	0.8
Trade	Mt	126	143	136	-5.2
Exports					
- Argentina	Mt	9	10	9	-17.3
- Australia a	Mt	18	21	21	-0.9
- Canada	Mt	16	17	19	8.1
- European Union 27	Mt	24	19	16	-14.0
- Kazakhstan	Mt	6	9	9	4.4
- Russian Federation	Mt	4	22	18	-14.4
- Ukraine	Mt	4	5	4	-26.4
- United States	Mt	35	28	32	15.1
Price b	US\$/t	317	298	260	-12.8
Australia					
Area	'000 ha	13 645	14 058	13 353	-5.0
Production	kt	27 891	29 515	24 124	-18.3
Exports a	kt	18 431	21 200	21 000	-0.9
- value	A\$/m	5 516	5 922	5 621	-5.1
APW 10 net pool return	A\$/t	346	259	250	-3.5

a July-June years. b US no. 2 hard red winter wheat fob Gulf, July-June. f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics; International Grains Council

Coarse grains

Outlook for coarse grains

		2010 -11	2011 -12 f	2012 -13 f	% change
World					
Production	Mt	1 091	1 141	1 202	5.3
- barley	Mt	124	134	139	3.7
- corn	Mt	825	870	925	6.3
Consumption	Mt	1 131	1 144	1 184	3.5
Trade	Mt	114	116	128	10.3
Closing stocks	Mt	169	166	184	10.8
Stocks-to-use ratio	%	15	15	16	6.7
Corn price (fob Gulf, Sep-Aug)	US\$/t	277	271	244	-10.0
Barley price (fob Rouen, Jul-Jun)	US\$/t	265	270	248	-8.1
Australia					
Area	'000 ha	5 637	6 080	5 799	-4.6
- barley	'000 ha	3 740	4 038	3 875	-4.0
- grain sorghum	'000 ha	674	632	600	-5.1
Production	kt	12 391	13 651	11 753	-13.9
- barley	kt	8 145	8 572	7 302	-14.8
- grain sorghum	kt	2 068	2 343	2 035	-13.1
Exports a	kt	5 337	7 709	5 780	-25.0
- value	A\$/m	1 493	2 095	1 545	-26.3
Feed barley price	A\$/t	217	195	178	-8.7
Malting barley price	A\$/t	257	200	195	-2.5

a July-June years. f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics; United States Department of Agriculture.

Oilseeds

Outlook for oilseeds

		2010 -11	2011 -12 f	2012 -13 f	% change
World					
Production	Mt	454	434	473	9.0
Consumption	Mt	443	451	466	3.3
– oilseed meal	Mt	250	254	263	3.5
– vegetable oil	Mt	147	153	157	2.6
Exports	Mt	107	105	113	7.6
Closing stocks	Mt	79	66	72	9.1
Stocks-to-use ratio	%	18	15	15	0.0
Soybeans indicator price	US\$/t	549	535	515	-3.7
Canola indicator price	US\$/t	432	625	580	-7.2
Australia					
Total production	kt	3 782	4 513	4 597	1.9
– winter	kt	2 397	2 828	2 949	4.3
– summer	kt	1 385	1 685	1 648	-2.2
Canola					
Production	kt	2 382	2 815	2 935	4.3
Exports	kt	1 453	2 044	2 077	1.6
– value	\$m	855	1 156	1 051	-9.1
Price (Nov–Oct) (delivered Melbourne)	A\$/t	557	520	474	-8.8

f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; ISTA Mielke GmbH, *Oil World*, Hamburg; United States Department of Agriculture

Cotton

Global Outlook

- The world indicator price for cotton (Cotlook 'A' index) is forecast to fall by 16.5% in 2012/13 to average US 86 cents a pound. This forecast price decline reflects expected large world cotton harvest in 2011/12 and 2012/13 and a modest recovery in world demand for cotton.
- World cotton production is forecast to decrease by 5% in 2012/13 to 25.5 million tonnes. A decline in cotton production is forecast for all major producing countries, except the United States.
- World cotton consumption is expected to increase by 3% in 2012/13 to 23.9 million tonnes, the first increase in two years. This forecast increase inflects an expected fall in the world cotton-to-polyester price ratio, an assumed gradual recovery in apparel demand in the US and Europe and expected strong economic growth in China and India.

Australian Outlook

- Australian cotton production is forecast to be 1.05 million tonnes in 2012/13. This forecast reflects another year in which irrigation dams are expected to hold plentiful supply of water and gross margins that still favour production of irrigated cotton compared with alternative crops, despite the forecast decline in world prices.
- The average storage level of public irrigation dams serving the Australian cotton growing regions, at 13 June, 2012, was 97% which is far higher than the 31% at the same time in 2010.
- Returns at the gin gate to Australian cotton growers are forecast to decrease by 9% in 2012/13 to \$502 a bale of lint. This is the lowest return to Australian cotton growers since 2007-08 when growers received \$485 a bale, and lower than the 10 year average to 2009/10 of around \$554 a bale. Forward cash prices of lint on offer to Australian cotton growers at 6th June 2012 were around \$355 a bale for 2012 delivery and \$360 a bale for 2013 delivery.
- Australian cotton exports are forecast to increase by 11.5% in 2012/13 to a record 1.1 million tonnes. This forecast increase is driven by record cotton production in 2011/12 and the forecast of another large harvest in 2012/13. If realised, Australia would surpass India to become the second largest exporter of cotton in the world; be to the United States.

Outlook for cotton

		2010 -11 <i>s</i>	2011 -12 <i>f</i>	2012 -13 <i>f</i>	% <i>change</i>
World <i>a</i>					
Production	Mt	25.3	26.8	25.5	-4.9
Consumption	Mt	24.6	23.2	23.9	3.0
Exports	Mt	8.1	8.5	8.1	-4.7
Closing stocks	Mt	9.3	14.6	16.3	11.6
Stocks-to-use ratio	%	37.7	62.9	68.2	8.4
Cotlook 'A' index	USc/lb	164.3	103.0	86.0	-16.5
Australia <i>b</i>					
Area harvested	'000 ha	590	600	525	-12.5
Lint production	kt	898	1 080	1 050	-2.8
Exports	kt	505	956	1 066	11.5
- value	A\$m	1 367	2 555	2 293	-10.3

a August–July years. *c* July–June years. *f* ABARES forecast. *s* ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; United States Department of Agriculture

Wine and wine grapes

Outlook

- In 2012/13, the weighted average wine grape price is estimated to increase by 4.5% to \$470 a tonne. Factors expected to support this forecast price increase are lower expected wine production in 2011/12 which will enter the market in 2012/13; a further reduction in wine stocks and a strong competition for wine grapes in the warm inland areas.
- Wine grape production is forecast to increase by 5% to around 1.61 million tonnes. Seasonal conditions in eastern Australia are assumed to be drier than in the past two years, resulting in fewer disease pressures and a return to average yields.
- The Australian wine industry has been adversely affected by an abundant supply of wine on the world market, the global economic slowdown and a strong Australian dollar relative to the currencies of Australia's major export destinations. As a result, the volume of Australian wine export is expected to decline by almost 3% in 2011/12.
- Total wine sales in Australia are estimated to increase by almost 1% in 2011/12 to 534 million litre, driven by a significant increase in sales of imported wine.

Outlook for wine and wine grapes

		2010 -11	2011 -12 ^f	2012 -13 ^f	% <i>change</i>
Bearing area	'000 ha	154	156	158	1.1
Wine grape production ^s					
Red wine	kt	na ^b	817	853	4.5
White wine	kt	na ^b	716	760	6.2
Total ^a	kt	1 563	1 532	1 613	5.3
Wine exports					
Volume	ML	727	707	720	1.9
Value	A\$m	1 957	1 840	1 884	2.4
Australian wine grape price	A\$/t	413	450	470	4.4

^a Total production excludes multipurpose grapes. ^b For 2010–11, the Australian Bureau of Statistics did not publish Australian wine grape production by colour. They only published total wine grape production. ^f ABARES forecast. ^{na} Not available.

Sources: ABARES; Wine Australia, *Price Dispersion Report*, Adelaide; Australian Bureau of Statistics, *Australian Wine and Grape Industry*, cat. no. 1329.0

Dairy

Global Outlook

- Forecasted prices of dairy products in 2012/13 are as follows;

	Forecast prices
Butter	US\$3250 a tonne
Skim milk powder	US\$2840
Whole milk powder	US\$3050
Cheese	US\$3900

- Milk production in most major producing and exporting countries is forecast to increase in 2012/13, albeit at a slower rate than the previous year, leading to an increase in world supplies of dairy products.
- World trade in dairy products is expected to increase in 2012/13, underpinned by raising demand in Asia, the Middle East and North Africa. China, the Russian Federation and Japan are expected to remain significant importers of dairy products in 2012/13.

Australian Outlook

- The Australian farm-gate price for milk is forecast to fall by 10% in 2012/13 to average around 37 cents a litre.
- Assuming favourable seasonal conditions in the main dairying regions, national milk production is forecast to increase by 1.5% in 2012/13 to 9.6 billion litres, following an estimated 4% rise in 2011/12. Such an outcome would be the highest production since 2005/06
- Fresh milk sales increased 3.8% compared to the same period 2011. Assuming this pricing strategy remains in place, fresh milk sales are forecast to rise a further 2% in 2012/13.
- The total value of Australian dairy exports is forecast to decline by 4% in 2012/13 to \$2.2 billion, reflecting lower average world dairy product prices. However, the volume of cheese exports is forecast to increase by 4% and account for around 35% of the value of Australian dairy exports.

Outlook for dairy

		2010 -11	2011 -12 f	2012 -13 f	% change
Australia					
Cow numbers a	'000	1 604	1 623	1 650	1.7
Milk yields	L/cow	5 675	5 829	5 818	-0.2
Production					
Total milk	ML	9 102	9 460	9 600	1.5
– market sales	ML	2 316	2 385	2 430	1.9
– manufacturing	ML	6 787	7 075	7 170	1.3
Butter b	kt	122	120	120	0.0
Cheese	kt	339	352	364	3.4
Whole milk powder	kt	151	144	150	4.2
Skim milk powder	kt	222	226	220	-2.7
Farmgate milk price	Ac/L	43.2	41.0	37.0	-9.8
Value of exports	A\$m	2 344	2 291	2 195	-4.2
World prices					
Butter	US\$/t	4 683	3 885	3 250	-16.3
Cheese	US\$/t	4 221	4 237	3 900	-8.0
Skim milk powder	US\$/t	3 392	3 200	2 840	-11.3
Whole milk powder	US\$/t	3 771	3 441	3 050	-11.4

a At 30 June. b Includes the butter equivalent of butteroil, butter concentrate, ghee and dry butterfat. f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia