

Briefing Note

Agricultural Commodities

September Quarter 2012

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Introduction

This Briefing Note is a summary of Australian Department of Agriculture, Fisheries and Forestry (ABARES) "Agricultural Commodities" September 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 ABARES publication. This Briefing Note does not in any way constitute advice, it is provided solely as a service.

The full ABARES September quarter report is available from the link;

http://adl.brs.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201209/AgCommodities2012.Vol2.No3_Ver1.1.0.pdf

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Global Economic Outlook

- Following growth of 3.9% in 2011, world economic growth is assumed to slow to 3.3% in 2012, before improving modestly to 3.7% in 2013.
- Emerging economies, particularly China and India, are expected to remain the main drivers of world economic growth, although growth rates in these economies are assumed to moderate over the outlook period.
- Economic growth in OECD economies is expected to weaken in 2012, reflecting recession in a number of Western European economies and subdued growth in the United States.

Australia's Economic Outlook

- GDP

Real GDP rose at a year-on-year rate of 3.7% in the June quarter 2012, following growth of 4.4% in the March quarter. For 2011-12 as a whole, the Australian economy expanded by 3.4%.

- Inflation

Inflationary pressures in Australia moderated over the first six months of 2012. CPI rose year-on-year by 1.2% in the June quarter 2012. Australia's inflation rate is assumed to average around 2.5% for 2012-13 as a whole.

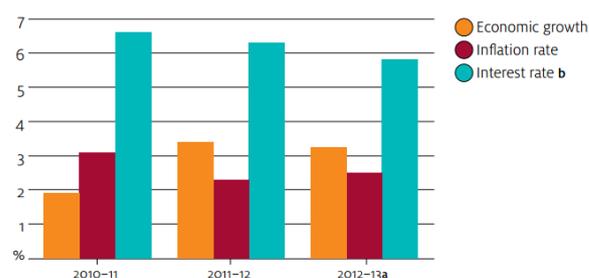
- Exchange Rate

The value of the AUD remained strong over the past several months, especially against the USD. The Australian dollar is estimated to average around US 103 of 2012-13, unchanged from the average for 2011-12.

- Interest Rates

The Cash Rate in Australia is currently 3.25%.

Australian economic indicators



a ABARES assumption. b Large business weighted average variable rate on credit outstanding.

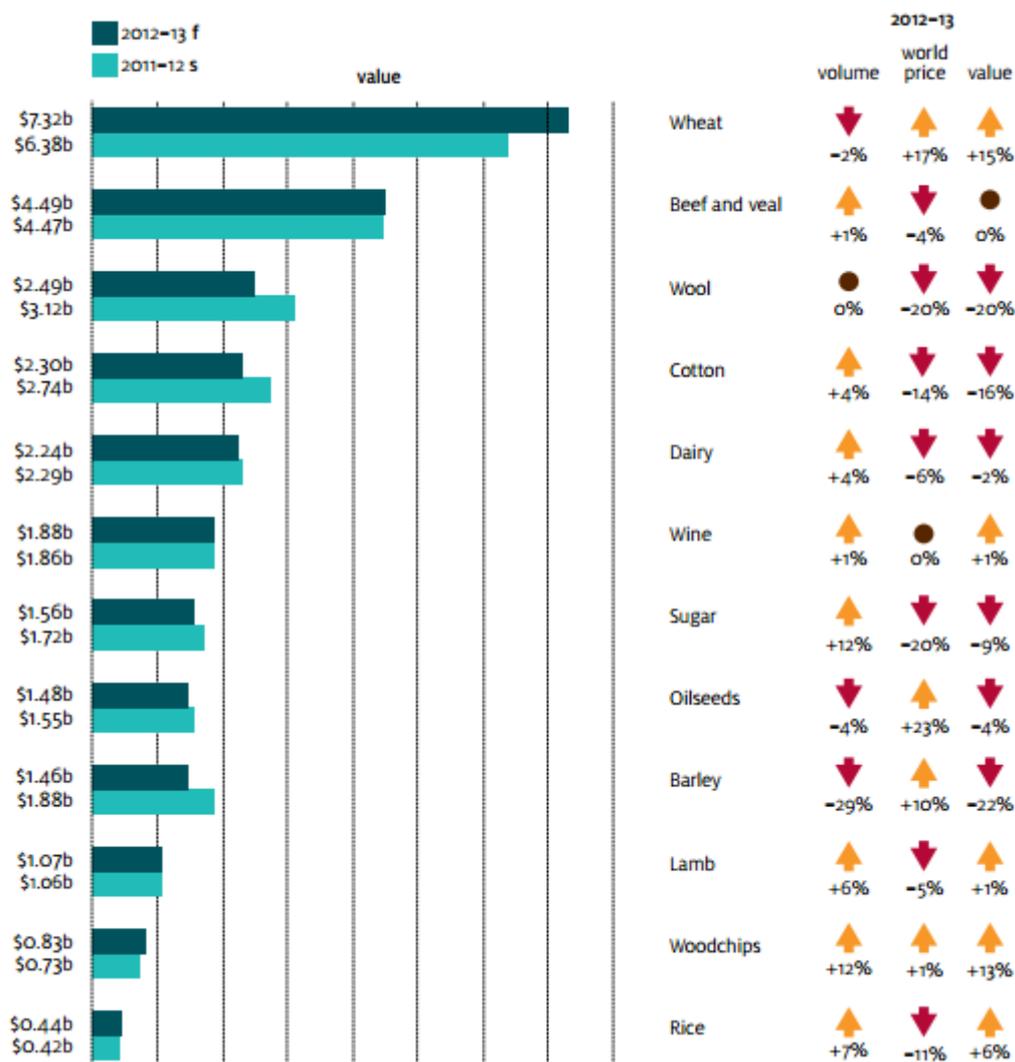
Australian agricultural export figures

The total volume of farm production is forecast to decline by around 3% in 2012-13 following an increase of 3.8% in 2011-12. The decline largely reflects a forecast fall in crop production, which is expected to be partially offset by higher livestock production.

The index of crop production is forecast to fall by 7.2% in 2012-13, mainly reflecting a forecast decline in winter crop production from a record high in 2011-12.

Export earnings from farm commodities are forecast to be around \$35.2 billion in 2012-13, marginally lower than the value of \$35.9 billion achieved in 2011-12. Nevertheless, exports are forecast to be 24% higher than the 5 year average to 2010-11 reflecting the recovery that has occurred from the drought conditions of the last decade. Farm commodities for which export earnings are forecast to be lower in 2012-13 include barley (22%), canola (4%), raw cotton (16%), sugar (9%) and wool (20%). Partially offsetting these declines are forecast increases in export earnings for wheat (15%), rice (6%), grain sorghum (19%), wine (1%) and sheep meat (3%).

Export earnings for crops are forecast to remain largely unchanged at \$21 billion in 2012-13. Reflecting expected lower prices on world markets, the export value of livestock and livestock products is forecast to decline by 3.6% to \$14.2 billion in 2012-13.



Grains

Global Outlook

Wheat

The world wheat indicator price (US no. 2 hard red winter, fob Gulf) is forecast to rise by 17% in 2012-13 to average around US \$350 a tonne. This forecast rise in price reflects an expected fall in the supply of wheat in major exporting countries, particularly in the Black Sea region, and expected strong demand for feed wheat in the United States and China.

World wheat production is forecast to fall by around 4% in 2012-13 to around 665 million tonnes, mainly because of an expected decrease in production in the Black Sea exporting countries of the Russian Federation, Ukraine and Kazakhstan.

World wheat consumption is forecast to remain largely unchanged in 2012-13 at around 693 million tonnes. World feed use of wheat is forecast to increase in 2012-13. This reflects an expected increase in demand as a result of forecast higher prices of substitute feed grains such as corn.

Coarse Grains

The world coarse grains indicator price (US corn, fob Gulf) is forecast to rise by 13% to US \$318 a tonne in 2012-13. The world indicator price for barley (French Rouen feed) is forecast to rise by 8% to US \$292 a tonne. These forecast price increases are driven mainly by severe drought conditions in the United States and dry seasonal conditions in the Black Sea region, leading to a reduction in coarse grains supply in 2012-13.

World coarse grains production is forecast to fall by 3% in 2012-13 to 1.1 billion tonnes, driven mainly by a 4% fall in world corn production. Barley production is forecast to fall by 2% in 2012-13 to 132 million tonnes with a production fall forecast for the Black Sea region. The production decline in the Black Sea region is expected to more than offset forecast production increases in the EU, Canada and Argentina. World corn production is forecast to fall by 4% in 2012-13 to 834 million tonnes, with an expected large decline in the US more than offsetting forecast increase in Latin America.

World consumption of coarse grains is forecast to decrease by 1% in 2012-13 to 1.14 billion tonnes in response to high coarse grain prices. World consumption of corn is forecast to decrease by 1% to 856 million tonnes mainly as a result of forecast lower consumption in the US. World consumption of barley is forecast to decrease by 1% to 135 million tonnes, mainly reflecting forecast lower consumption in Ukraine and the Russian Federation.

World trade in coarse grains is forecast to decrease by 12% in 2012-13 to 108 million tonnes, largely as a result of the forecast fall in coarse grain production in the US. World corn trade is forecast to fall by 14% in 2012-13 to 82 million tonnes, driven by significantly lower supplies of corn available for export from the US. World trade in barley is forecast to decrease by 10% in 2012-13 to 17.5 million

tonnes, reflecting a decrease in supplies available for export from the Black Sea region.

Oilseeds

The world oilseed indicator price (soybeans, cif, Rotterdam) is forecast to increase by 23% in the 2012-13 to US \$655 a tonne. This forecast increase reflects an expected decline in US soybean production and considerably lower carryover stocks caused by a fall in soybean production in 2011-12.

Based on the forecast that production in Latin America will increase significantly, world oilseeds production for 2012-13 is forecast to increase by 4% to almost 453 million tonnes.

World oilseeds consumption is forecast to remain largely unchanged in 2012-13 at around 453 million tonnes.

World trade in oilseeds is forecast to rise by 2% in 2012-13 to 110 million tonnes, driven primarily by increased trade in soybeans.

Canola

The world canola indicator price (cif, Hamburg) is forecast to decline by 1.5% in 2012-13 to US \$610 a tonne. The canola price has risen since the beginning of August in response to the increasing soybean price.

World production of canola is forecast to increase by 1% in 2012-13 to 61 million tonnes, driven by increased canola production in Canada.

World trade in canola is forecast to rise by 1% to 12.6 million tonnes, reflecting an expected increase in imports by the EU and China.

Australian Outlook

Wheat

Australian wheat production is forecast to fall by 24% in 2012-13 to around 23 million tonnes. This reflects an estimated decline in planted area and a forecast fall in average yields from the highs of last season. Rainfall over winter in major growing regions was mixed; sufficient and timely rainfall will still be needed over the important spring growing period to achieve prospective yields.

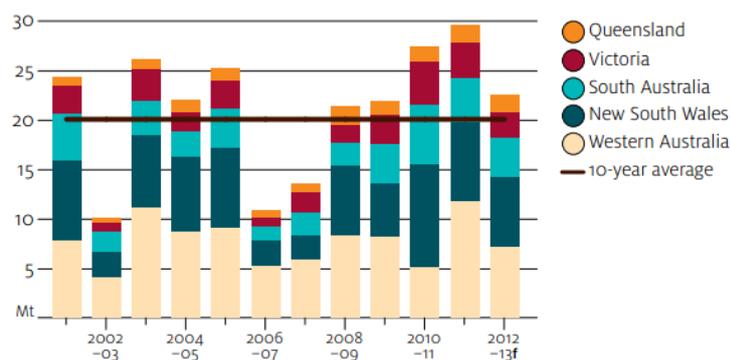
In Western Australia, conditions for crop planting and establishment were generally poor and winter rainfall was below average in most regions in the grains belt, which hindered crop development and reduced prospective wheat yields to below average.

In the wheat growing regions of Victoria, SA and southern NSW, crops in most regions are in reasonable condition ahead of the critical spring period. Although rainfall over winter was generally average to below average, lower level soil moisture was above average in most regions, which aided crop development except in some parts of western Victoria and the mid-north of SA.

In northern NSW and Queensland, conditions were favourable for wheat crop development and there are good prospects for above average yields. Crops were planted into good soil moisture and rainfall over June and July was average to above average.

The Bureau of Meteorology's seasonal outlook, issued on 22 August 2012 points to an increase in the probability of a dry spring across south eastern Australia. In contrast, a wetter than average season is likely to occur in Western Australia but even if this eventuates, is unlikely to help crops in many areas achieve average yields. In cropping regions of northern NSW and Queensland, there is approximately a 50% chance of exceeding average rainfall.

Australian wheat production by state



f ABARES forecast.

Australian wheat exports are forecast to be largely unchanged in 2012-13 at around 23 million tonnes, reflecting high opening stocks compared with the recent average.

The value of Australian wheat exports is forecast to rise by 15% in 2012-13 to be around \$7.3 billion, reflecting a forecast rise in world wheat prices. If achieved, this would be the highest value of wheat exports since 1985-86 in real terms.

Outlook for wheat

		2010	2011	2012	%
		-11	-12 s	-13 f	change
World					
Production	Mt	653	696	665	-4.4
- China	Mt	115	118	118	0.1
- European Union 27	Mt	137	138	136	-1.7
- India	Mt	81	87	94	8.1
- Russian Federation	Mt	42	56	42	-25.3
- United States	Mt	60	54	62	13.9
Consumption	Mt	659	691	693	0.2
- human	Mt	457	461	464	0.5
- feed	Mt	120	144	145	0.7
Closing stocks	Mt	193	197	169	-14.0
Stocks-to-use ratio	%	29	28	24	-14.2
Trade	Mt	126	145	132	-8.9
Exports					
- Argentina	Mt	9	11	7	-40.7
- Australia a	Mt	18	23	23	-2.3
- Canada	Mt	16	18	19	6.9
- European Union 27	Mt	24	18	16	-11.6
- Kazakhstan	Mt	6	10	7	-25.4
- Russian Federation	Mt	4	21	10	-53.1
- Ukraine	Mt	4	5	4	-17.4
- United States	Mt	35	29	34	19.0
Price b	US\$/t	317	299	350	17.0
Australia					
Area	'000 ha	13 502	14 058	13 323	-5.2
Production	kt	27 410	29 515	22 542	-23.6
Exports a	kt	18 431	23 036	22 500	-2.3
- value	A\$/m	5 516	6 380	7 323	14.8
APW 10 net pool return	A\$/t	346	260	343	31.8

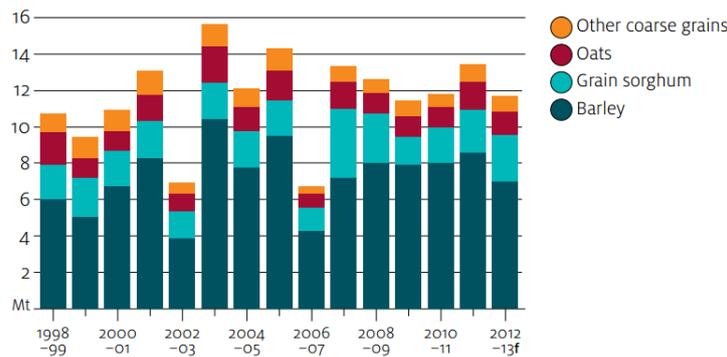
a July–June years. b US no. 2 hard red winter wheat fob Gulf, July–June. f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council

Coarse Grains

In Australia, total coarse grains production is forecast to decline by 13% to 11.7 million tonnes from a recent high of 13.4 million tonnes recorded in 2011-12. The forecast lower coarse grains production in 2012-13 mainly reflects the effects on production of a lower planted area and a decline in average yields as a result of mixed seasonal conditions experienced in major growing regions.

Australian coarse grains production



f ABARES forecast.

Barley production is forecast to decrease by 19% in 2012-13 to 7.0 million tonnes. In Western Australia, Australia's largest barley producing state, production is forecast to fall by nearly 27% because dry seasonal conditions have markedly reduced yield potential for this year's crop.

In contrast, favourable soil moisture levels in the key growing regions of southern Queensland and northern NSW, together with high grain sorghum prices, are expected to lead to an increase of 24% in the area planted to grain sorghum in 2012-13. Assuming a return to more average yields from the highs of 2011-12, grain sorghum production is forecast to increase by 10% in 2012-13 to 2.6 million tonnes.

Coarse grains shipment in 2012-13 are forecast to decrease by 21% from the record in 2011-12 to 6.2 million tonnes. At this forecast level, export shipments will remain above the annual average of 5.3 million tonnes over the past decade. The value of coarse grains exports in 2012-13 is forecast to decrease by 15% to \$1.9 billion, as the effect of lower shipment more than offsets the effect on earnings of forecast higher export prices. For barley, export shipment in 2012-13 are forecast to decrease by 29% to 4.6 million tonnes. Reflecting the effect of lower export volumes, the value of barley exports is forecast to decline by 22% to \$1.5 billion. In contrast, grain sorghum exports are forecast to increase by 13% in 2012-13 to 1.3 million tonnes.

Outlook for coarse grains

		2010 -11	2011 -12 s	2012 -13 f	% change
World					
Production	Mt	1 098	1 144	1 111	-2.9
– barley	Mt	123	134	132	-1.5
– corn	Mt	831	871	834	-4.2
Consumption	Mt	1 130	1 144	1 135	-0.8
Trade	Mt	116	122	108	-11.5
Closing stocks	Mt	165	165	142	-13.9
Stocks-to-use ratio	%	15	14	13	-7.1
Corn price					
(fob Gulf, Jul–Jun)	US\$/t	255	281	318	13.2
Barley price					
(fob Rouen, Jul–Jun)	US\$/t	265	270	292	8.1
Australia					
Area	'000 ha	5 389	5 972	5 849	-2.1
– barley	'000 ha	3 681	4 038	3 875	-4.0
– grain sorghum	'000 ha	633	632	782	23.7
Production	kt	11 769	13 428	11 653	-13.2
– barley	kt	7 995	8 572	6 960	-18.8
– grain sorghum	kt	1 935	2 343	2 578	10.0
Exports a	kt	5 264	7 853	6 170	-21.4
– value	A\$m	1 493	2 250	1 914	-14.9
Feed barley price	A\$/t	217	197	240	21.8
Malting barley price	A\$/t	257	201	256	27.4

a July–June years. f ABARES forecast.

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

Canola

Australian canola production is forecast to decline by 2% in 2012-13 to 2.76 million tonnes, because of lower production in Western Australia and Victoria. At the beginning of the 2012-13 winter cropping season, the relatively strong price outlook for canola resulted in an increase in the area planted to canola in all states. However, lower yields are forecast for all states compared with 2011-12. In Western Australia, poor planting conditions and below average winter rainfall adversely affected yields, leading to a forecast 15% decline in production. Similarly, canola production in Victoria is forecast to decline by 9%. In contrast, canola production is forecast to increase in NSW and SA by 23% and 3% respectively, as the increase in area planted to canola is expected to more than offset the effect of lower yields.

Australian canola seed exports are forecast to decline by 3% in 2012-13 to 2.3 million tonnes, reflecting the fall in Australian canola production and lower stocks coming into the season as a result of record shipments in 2011-12. At this forecast volume, Australia will be the second largest exporter of canola seed in the world, behind Canada, and will account for around 18% of world canola trade in 2012-13. The value of Australian canola seed exports is forecast to decline by less than 4% in 2012-13 to \$1.3 billion, mainly reflecting lower export volumes.

Outlook for oilseeds

		2010 -11	2011 -12 s	2012 -13 f	% change
World					
Production	Mt	454	437	453	3.7
Consumption	Mt	443	454	453	-0.2
– oilseed meal	Mt	249	256	260	1.6
– vegetable oil	Mt	145	152	156	2.6
Exports	Mt	109	108	110	1.9
Closing stocks	Mt	79	61	62	1.6
Stocks-to-use ratio	%	18	13	14	7.7
Soybeans indicator price	US\$/t	524	533	655	22.9
Canola indicator price	US\$/t	606	619	610	-1.5
Australia					
Total production	kt	3 734	4 494	4 371	-2.7
– winter	kt	2 374	2 828	2 775	-1.9
– summer	kt	1 360	1 667	1 596	-4.3
Canola					
Production	kt	2 359	2 815	2 761	-1.9
Exports	kt	1 453	2 324	2 261	-2.7
– value	\$m	855	1 344	1 295	-3.6
Price (delivered Melbourne)	A\$/t	539	521	519	-0.4

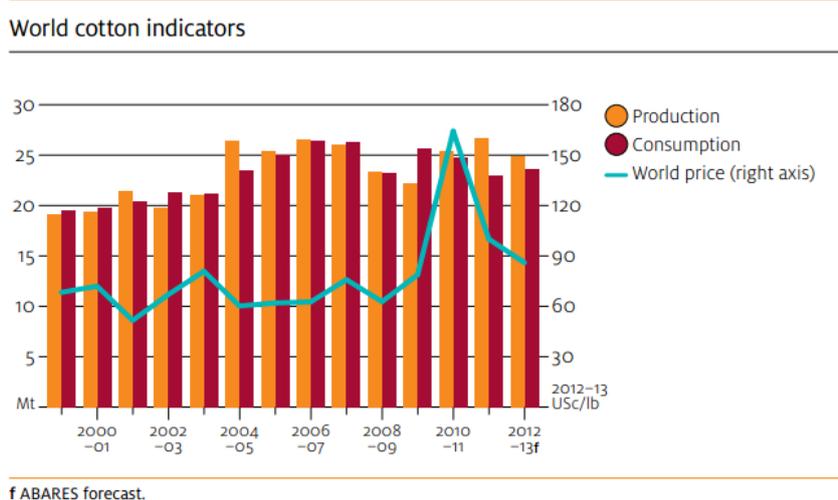
f ABARES forecast.

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 is forecast to fall by 14% in 2012-13 to average US 86 cents a pound. This forecast decline reflects the effects on world prices of large world cotton stocks carried over from 2011-12 and world cotton production being forecast to exceed consumption for the third consecutive year in 2012-13.



World cotton production is forecast to decline to 24.9 million tonnes in 2012-13, 6.7% down from the record harvest in 2011-12. This reflects an expected 7% fall in the area planted to cotton in response to falling cotton prices and increases in the price of alternatives crops, in particularly corn, soybeans and grain sorghum.

World cotton consumption is forecast to increase by 3% in 2012-13 to 23.6 million tonnes. This forecast increase mainly reflects an expected increase in demand in the second half of 2012-13 in response to forecast lower cotton prices and an assumed recovery of world income growth.

World cotton exports are forecast to decrease by 13.5% in 2012-13 to 8.3 million tonnes. This forecast reflects expected lower import demand by China and increases in domestic demand in some producing countries reducing the supplies available for exports.

Australian Outlook

Australian cotton production is forecast to be 7% lower in 2012-13 than the record harvest of 1.07 million tonnes in 2011-12.

The average storage level of public irrigation dams serving the Australian cotton growing regions was at 95% of capacity on 12 September 2012; much higher than the 52% at the same time in 2010.

The area planted to cotton in Australia is forecast to decline by 14% in 2012-13. While irrigated plantings are forecast to decline by only 4%, dryland plantings are forecast to be down 44%. Gross margins in 2012-13 remain favourable for production of irrigated cotton,

but not for dryland cotton. Average yields are forecast to be 8% higher in 2012-13, due to a higher proportion of higher yielding irrigated cotton in total plantings.

The return to Australian cotton growers at the gin-gate is forecast to decrease by 11.7% in 2012-13 to \$477 a bale of lint, in line with the forecast decline in world cotton prices. This is the lowest return to Australian cotton growers since 2006-07 when growers received \$481 a bale and lower than the 10-year average to 2010-11 of around \$545 a bale. The forward cash price for lint on offer to Australian cotton growers at 11 September 2012 was around \$397 a bale for 2013 delivery and \$376 a bale for 2014 delivery.

Storage levels of main irrigation dams, at 12 September 2012



Australian cotton exports are forecast to increase by 4% in 2012-13 to a record 1.04 million tonnes. This forecast increase is driven by record cotton production in 2011-12 and a relatively high production forecast for 2012-13. If realised, Australia would surpass India to become the second largest exporter of cotton in the world; second to the US.

Outlook for cotton

		2010	2011	2012	%
		-11	-12 s	-13 f	change
World a					
Production	Mt	25.3	26.7	24.9	-6.7
Consumption	Mt	24.8	22.9	23.6	3.1
Exports	Mt	7.9	9.6	8.3	-13.5
Closing stocks	Mt	10.8	14.8	16.1	8.8
Stocks-to-use ratio	%	43.5	64.3	68.2	6.1
Cotlook 'A' index	USc/lb	164.3	100.1	86.0	-14.1
Australia b					
Area harvested	'000 ha	590	600	515	-14.2
Lint production	kt	898	1 067	991	-7.1
Exports	kt	505	994	1 036	4.2
- value	A\$m	1 367	2 736	2 295	-16.1

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

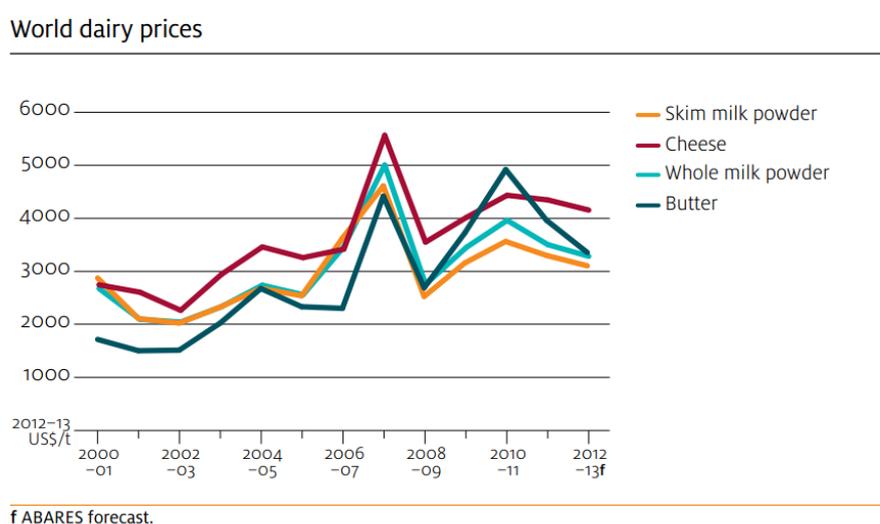
Sources: ABARES; Australian Bureau of Statistics; United States Department of Agriculture

Dairy

Global Outlook

Despite a forecast slowing in the growth of global milk production in 2012-13, an assumed economic slowdown in the EU and weaker demand growth in Asia is expected to result in world dairy process averaging lower in 2012-13.

The world price of butter is forecast to fall by 14% to an average of US \$3350 a tonne in 2012-13. For both skim milk powder and whole milk powder, world prices are forecast to decline by around 4% and average around US \$3100 a tonne and US \$3280 a tonne, respectively. The world price of cheese in 2012-13 is forecast to fall by around 3% to an average of US\$ 4150 a tonne.



Forecast lower farmgate milk prices and higher world feed grain prices in 2012-13 are likely to constrain growth in milk production in many major dairy producing countries over the remainder of 2012-13.

While global economic growth is assumed to remain subdued in 2012-13, relatively robust economic activity in the developing countries of Asia, North Africa and Central America is expected to continue to support an increase in world dairy trade, especially milk powders.

Australian Outlook

The Australian farmgate price for milk is forecast to fall by 7% in 2012-13 to average around 39 cents a litre. Such a price outcome would be 9% below the average milk price, in real terms, for the past three years and the lowest milk price, in real terms, since 2006-07.

Opening prices for manufacturing milk in 2012-13 were set around 9% lower by dairy processors in Victoria at around 34 cents a litre. Contract milk prices are expected to be lower for many farmers in Queensland and northern NSW in 2012-13 as a result of lower prices for manufacturing milk.

Assuming favourable seasonal conditions in the dairying regions, national milk production is forecast to increase by 1.3% in 2012-13 to 9.6 billion litres, following a 4% rise in 2011-12.

The national dairy herd is estimated to have risen by around 1% in 2011-12 and is forecast to rise by a further 2% in 2012-13 to around 1.64 million cows. Nearly all the increase in dairy cows is expected to occur in southern NSW, Victoria and Tasmania where farmers are expected to increase retention of heifers and reduce culling of older cows.

Following significant improvement in availability of irrigation water in northern Victoria and southern NSW, milk production increased strongly in these regions in 2011-12. As at early September 2012, water storage levels in the Murray-Darling Basin were at about 97% capacity. Milk production in northern Victoria and southern NSW is forecast to rise in 2012-13.

The total value of Australian dairy exports is forecast to decline by 2.5% in 2012-13 to \$2.2 billion, primarily reflecting the effect of forecast lower average dairy product prices on world markets. The assumed strong Australian dollar in the year is also expected to adversely affect export returns.

Export volumes of cheese and skim milk powder are forecast to increase by 4% and 3% in 2012-13 to 168 000 tonnes and 146 000 tonnes, respectively.

Outlook for dairy

		2010 -11	2011 -12 s	2012 -13 f	% change
Australia					
Cow numbers a	'000	1 589	1 612	1 640	1.7
Milk yields	L/cow	5 727	5 880	5 854	-0.4
Production					
Total milk	ML	9 101	9 479	9 600	1.3
- market sales	ML	2 316	2 389	2 435	1.9
- manufacturing	ML	6 785	7 090	7 165	1.1
Butter b	kt	122	120	120	0.0
Cheese	kt	339	350	358	2.3
Whole milk powder	kt	151	140	145	3.6
Skim milk powder	kt	222	230	232	0.9
Farmgate milk price	A¢/L	43.2	41.8	39.0	-6.7
Value of exports	A\$m	2 345	2 293	2 236	-2.5
World prices					
Butter	US\$/t	4 683	3 883	3 350	-13.7
Cheese	US\$/t	4 221	4 258	4 150	-2.5
Skim milk powder	US\$/t	3 392	3 233	3 100	-4.1
Whole milk powder	US\$/t	3 771	3 431	3 280	-4.4

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