

Briefing Note

Agricultural Commodities

December 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 December 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 December quarter report is available from the link;

http://adl.brs.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201212/AgCommodities2012.Vol2.No4_Ver1.0.0.pdf

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Global Economic Outlook

- World economic growth is assumed to be 3.5 % in 2013, marginally higher than the estimated growth rate of 3.2% in 2012.
- Economic growth in OECD economies, particularly those in Western Europe, is expected to remain subdued in 2013. Emerging economies are expected to remain the main drivers of world economic growth.
- Uncertainty over the US Government's fiscal policy and financing of European sovereign debt are key downside risks to the global economic outlook.

Australia's Economic Outlook

- GDP

Real GDP rose at a year-on-year rate of 3.1% in the September quarter 2012. For 2012-13 as a whole, economic growth in Australia is assumed to average 3%.

- Inflation

The consumer price index rose at a year-on-year of 2% in the September quarter 2012. For 2012-13 as a whole, inflationary pressures are expected to remain modest, with inflation assumed to average 2.4%.

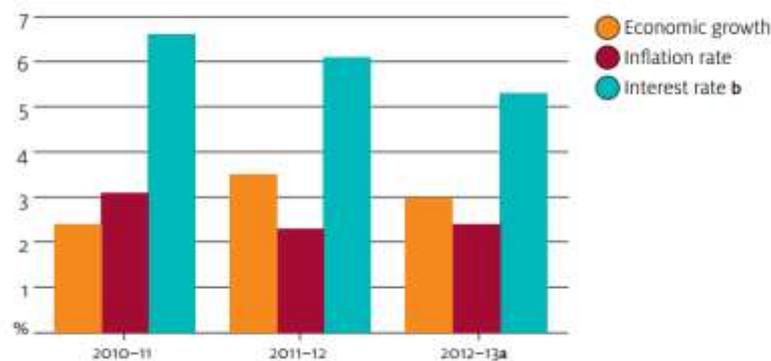
- Exchange Rate

The value of the Australian dollar remained strong over the past several months, especially against the US dollar. In the first half of 2012-13, the Australian dollar is estimated to average around US 103 cents, largely unchanged from the average of 2011-12.

- Interest Rate

Prime lending rates in Australia were around 5.4% in November 2012. For 2012-13 as a whole, prime lending rates in Australia are assumed to average around 5.3%.

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 6.3% in 2012-13, following an increase of 5.8% in 2011-12. This decline largely reflects a forecast fall in crop production, which is expected to be partially offset by higher livestock production.

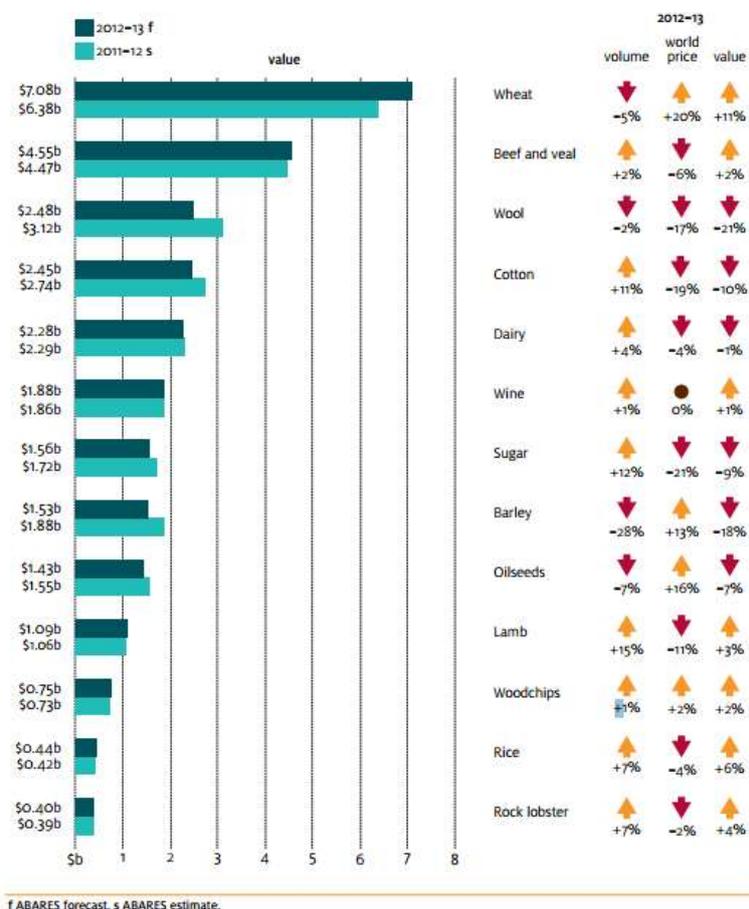
The index of crop production is forecast to fall by 12.6% in 2012-13, mainly reflecting a forecast decline in winter crop production from a record high in 2011-12.

The index of unit export returns for Australian farm commodities is forecast to decline by 1.2% in 2012-13. Lower world prices for rice, cotton, sugar, wool and dairy products are expected to more than offset forecast price rises for grains and oilseeds.

Export earnings from farm commodities are forecast to be around \$36 billion in 2012-13, marginally lower than the \$36.4 billion achieved in 2011-12. Farm commodities for which export earnings are forecast to be lower in 2012-13 include barley (down 18%), canola (9%), raw cotton (10%), sugar (9%) and wool (21%). Largely offsetting these declines are forecast increases in export earnings for wheat (11%), rice (6%), grain sorghum (30%), wine (1%), beef and veal (2%) and sheep meat (6%).

Export earnings for crops are forecast to remain largely unchanged at around \$21.7 billion in 2012-13. Reflecting expected lower prices on world markets, the export value of livestock and livestock products is forecast to decline by 2.9% to \$14.3 billion in 2012-13.

In total, the value of Australian agricultural, fisheries and forestry exports is forecast to be around \$39.5 billion in 2012-13, compared with \$39.9 billion in 2011-12.



Grains

Global Outlook

Wheat

The world wheat indicator price (US no. 2 hard red winter, fob Gulf) is forecast to rise by 20% in 2012-13 to average around US \$360 a tonne. This forecast price increase reflects an expected 4% fall in world wheat supplies and the effect on world wheat prices of a forecast shortfall in world coarse grains supplies and a sharp rise in world coarse grains prices.

World wheat production is forecast to fall by 5% in 2012-13 to 656 million tonnes, driven mainly by estimated falls in the European Union, the Black Sea region and expected lower production in Argentina and Australia.

World consumption of wheat is forecast to fall by 2% in 2012-13 to 679 million tonnes. In 2011-12, an increase in world wheat supplies and a fall in the feed wheat-to-corn price ratio caused wheat to become an attractive substitute for other feed grains and as a consequence feed wheat consumption rose by around 22% to 146 million tonnes.

World trade in wheat is forecast to fall by 10% in 2012-13 to 131 million tonnes. This forecast reduction is the result of production decreases in some major exporting countries, particularly in the Black Sea region.

Australian Outlook:

Australian wheat production is forecast to fall by 26% in 2012-13, from the record production in 2011-12, to around 22 million tonnes. This forecast fall in production reflects the adverse effect of generally dry seasonal conditions on average yields and a decline in the area planted to wheat due to higher expected returns from other crops at the time of planting. However, in many cropping regions in eastern Australia, crop yields benefited from favourable levels of lower layer soil moisture.

Wheat production is forecast to decrease in all major producing states in 2012-13, from the highs achieved in 2011-12. The largest fall in production is expected in Western Australia, where wheat production is forecast to fall by 38% to around 6.9 million tonnes, which reflects the combined effects of an expected 33% fall in yields and an 8% decrease in planted area.

In NSW, wheat production is forecast to fall by 17% in 2012-13 to around 7.1 million tonnes. Below to very much below average rainfall throughout both winter and spring adversely affected yield potential, but an abundance of lower layer soil moisture supported crops able to grow roots down into this moisture.

Despite the forecast 26% fall in wheat production in 2012-13, Australian wheat exports are forecast to fall by just 5% in 2012-13 to 21.9 million tonnes. With favourable world prices, this forecast reflects an expectation of exporters drawing down stocks to fill export demand. The total value of Australian wheat exports is forecast to rise by 11% in 2012-13 to \$7.1 billion.

In 2011-12, Australian wheat exports increased by 25% to reach a record 23 million tonnes, reflecting two consecutive years of higher than average production in 2010-11 and 2011-12. A decline in world wheat prices in 2011-12 resulted in the total value of wheat exports increasing by only 16% to \$6.4 billion.

Outlook for wheat

		2010 -11	2011 -12 s	2012 -13 f	% change
World					
Production	Mt	653	694	656	-5.5
- China	Mt	115	118	118	0.1
- European Union 27	Mt	137	137	131	-4.9
- India	Mt	81	87	94	8.1
- Russian Federation	Mt	42	56	39	-30.6
- United States	Mt	60	54	62	13.5
Consumption	Mt	659	692	679	-1.9
- human	Mt	457	461	464	0.6
- feed	Mt	120	146	131	-10.1
Closing stocks	Mt	194	196	174	-11.5
Stocks-to-use ratio	%	29	28	26	-9.8
Trade	Mt	126	145	131	-10.0
Exports					
- Argentina	Mt	8	11	6	-51.8
- Australia a	Mt	18	23	22	-5.2
- Canada	Mt	16	18	19	4.4
- European Union 27	Mt	24	17	19	6.9
- Kazakhstan	Mt	6	11	7	-39.3
- Russian Federation	Mt	4	22	10	-53.7
- Ukraine	Mt	4	5	6	1.9
- United States	Mt	35	29	30	3.3
Price b	US\$/t	317	299	360	20.3
Australia					
Area	'000 ha	13 502	13 963	13 323	-4.6
Production	kt	27 410	29 923	22 035	-26.4
Exports a	kt	18 431	23 038	21 850	-5.2
- value	A\$m	5 516	6 381	7 083	11.0
APW 10 net pool return	A\$/t	346	260	345	32.6

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

Global Outlook

Coarse grains

The world coarse grains indicator price (US no.2 yellow corn, fob Gulf) is forecast to rise by 16% in 2012-13 to average around US\$325 a tonne. This forecast rise in price reflects an expected fall in the supply of coarse grains, particularly corn in major exporting countries.

The world barley indicator price (France feed barley, fob Rouen) is forecast to rise by 15% in 2012-13 to around US\$310 a tonne, largely reflecting lower barley production in the Black Sea exporting countries and a rise in price of substitute coarse grains, such as corn.

World coarse grains production is forecast to fall by around 4% in 2012-13 to around 1.1 billion tonnes, mainly because of expected fall in corn production in the United States. World barley production is forecast to fall by 2% in 2012-13 to around 131 million tonnes. World production of corn is forecast to fall by 6% in 2012-13 to around 831 million tonnes.

World consumption of coarse grains is forecast to fall by 2% in 2012-13 to around 1.1 billion tonnes, mainly in response to a forecast rise in coarse grains prices. World corn consumption is forecast to fall by 1% to around 853 million tonnes, driven by a forecast fall in consumption in the US. World barley consumption is forecast to fall by 3% in 2012-13 to around 132 million tonnes, mainly reflecting higher prices that are expected to result from lower global supplies available for exports, particularly from the Black Sea region.

World exports of coarse grains are forecast to fall by 17% in 2012-13 to around 115 million tonnes. World export of corn are forecast to fall by 21% in 2012-13 to around 88 million tonnes. World export of barley is forecast to fall by 9% to around 19 million tonnes.

Australian Outlook:

In Australia, total coarse grains production is forecast to fall by 13% in 2012-13 to around 11.1 million tonnes. This forecast decline in production largely reflects an estimated fall in average yields due to dry seasonal conditions in south-eastern Australian and Western Australia.

Barley production is forecast to fall by 18% in 2012-13 to around 6.9 million tonnes. In Western Australia, Australia's largest barley producing state, production is forecast to fall by nearly 36% because of relatively low rainfall in the state's major producing regions during the growing season.

Grain sorghum production is forecast to rise by 6% in 2012-13 to around 2.4 million tonnes, reflecting a forecast increase in the area planted to grain sorghum reflects the expected response of producers to favourable grain sorghum prices and falling cotton process at the time of planting. The start to the season was relatively dry and further rainfall will be needed for producers to largely realise planting intentions.

Following the record achieved in 2011-12, the volume of Australian exports of coarse grains is forecast to fall by 21% in 2012-13 to around 6.3 million tonnes, which largely reflects a fall in barley exports. The value of coarse grains export is forecast to fall by 11% in 2012-13 to around \$2.0 billion. The forecast lower volume of exports is expected to more than offset the effect of a forecast increase in export prices.

Barley shipments are forecast to fall by 28% in 2012-13 to around 4.7 million tonnes. Reflecting the effect of lower export volumes, the value of barley exports is forecast to fall by 18% to around \$1.5 billion.

In contrast, grain sorghum exports are forecast to rise by 17% in 2012-13 to around 1.3 million tonnes, reflecting high opening stocks of the season and the forecast increase in production. The forecast rise in export shipments and higher export prices are expected to increase the value of grain sorghum exports by 30% in 2012-13 to around \$388 million.

Outlook for coarse grains

		2010 -11	2011 -12 s	2012 -13 f	% change
World					
Production	Mt	1 098	1 151	1 106	-3.9
- barley	Mt	123	134	131	-2.2
- corn	Mt	831	880	831	-5.6
Consumption	Mt	1 130	1 150	1 125	-2.2
Trade	Mt	116	139	115	-17.3
Closing stocks	Mt	164	166	148	-10.8
Stocks-to-use ratio	%	15	14	13	-7.1
Corn price (fob Gulf, Jul-Jun)	US\$/t	255	281	325	15.7
Barley price (fob Rouen, Jul-Jun)	US\$/t	265	270	310	14.8
Australia					
Area	'000 ha	5 389	5 564	5 681	2.1
- barley	'000 ha	3 681	3 774	3 875	2.7
- grain sorghum	'000 ha	633	657	762	16.0
Production	kt	11 769	12 848	11 146	-13.2
- barley	kt	7 995	8 349	6 866	-17.8
- grain sorghum	kt	1 935	2 223	2 364	6.3
Exports a	kt	5 317	7 911	6 272	-20.7
- value	A\$m	1 483	2 245	2 004	-10.7
Feed barley price b	A\$/t	218	197	236	19.8
Malting barley price c	A\$/t	256	203	242	19.2

a July-June years. b Feed 1, delivered Geelong. c Gairdner Malt 1, delivered Geelong.
f ABARES forecast. s ABARES estimate.

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

Global Outlook

Oilseeds

The world oilseeds indicator price (soybeans, cif, Rotterdam) is forecast to increase by 16% in 2012-13 to average US\$618 a tonne. This forecast increase for 2012-13 is primarily driven by a sharp rise in prices in the early part of the year. The world canola indicator price (cif, Hamburg) is forecast to increase by only 2% in 2012-13 to average US\$630 a tonne.

World oilseed production is forecast to increase by 5% in 2012-13 to around 459 million tonnes, driven by the prospect of a record soybean crop in Latin America. Production of canola and sunflower seed is forecast to decline as a result of adverse seasonal conditions in the major producing areas of Canada, the European Union and the Black Sea region.

World production of canola is forecast to decline by 2% in 2012-13 to 59 million tonnes. World production of soybeans is forecast to rise by 11% in 2012-13 to 265 million tonnes.

World oilseeds consumption is forecast to rise by 1% in 2012-13 to around 458 million tonnes, largely driven by the increase in world oilseeds crush.

World trade in oilseeds is forecast to rise by 5% in 2012-13 to 113 million tonnes, driven by a forecast 8% increase in soybean trade to 97 million tonnes.

Australian Outlook:

Australian canola production is forecast to decline by 16% in 2012-13 to 2.64 million tonnes, driven by an estimated fall in production in all states, except NSW, from last season's highs. This largely reflects relatively dry seasonal conditions that have adversely affected yields. Partially offsetting the fall in yields, the areas planted to canola is estimated to have increased significantly this season in response to the favourable outlook for canola prices at the time of planting. If realised, this forecast production would be the second largest on record.

Canola production in NSW is forecast to increase by 17% to 842000 tonnes, driven by an estimated 52% rise in the area planted to canola.

Following record shipments in 2011-12, Australian exports of canola seed are forecast to decline by 10% in 2012-13 to 2.1 million tonnes. This forecast decline primarily reflects lower domestic production, which is expected to reduce supplies available for export. Reflecting the forecast fall in the volume of exports, the value of Australian canola seed exports is forecast to decline by 9% in 2012-13 to just over \$1.2 billion.

Australian exports of canola meal have grown from just over 2000 tonnes in 2007-08 to around 22,000 tonnes in 2011-12.

Outlook for oilseeds

		2010 -11	2011 -12 <i>s</i>	2012 -13 <i>f</i>	% change
World					
Production	Mt	457	438	459	4.8
Consumption	Mt	443	455	458	0.7
– oilseed meal	Mt	246	258	261	1.2
– vegetable oil	Mt	144	149	155	4.0
Exports	Mt	109	108	113	4.6
Closing stocks	Mt	82	65	67	3.1
Stocks-to-use ratio	%	19	14	15	7.1
Soybeans indicator price <i>a</i>	US\$/t	524	533	618	15.9
Canola indicator price <i>b</i>	US\$/t	606	619	630	1.8
Australia					
Total production	kt	3 734	4 988	4 183	- 16.1
– winter	kt	2 374	3 137	2 649	- 15.6
– summer	kt	1 360	1 851	1 534	- 17.1
Canola					
Production	kt	2 359	3 124	2 636	- 15.6
Exports <i>c</i>	kt	1 471	2 323	2 093	- 9.9
– value	\$m	866	1 344	1 227	- 8.7
Price <i>c</i> (delivered Melbourne)	A\$/t	539	521	541	3.8

a Soybeans, U.S. cif Rotterdam, July–June. *b* Rapeseed, Europe, 00, cif Hamburg, July–June. *c* July–June years. *f* ABARES forecast. *s* ABARES estimate.

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 average US81 cents a pound in 2012-13, down from US100 cents a pound in 2011-12. The forecast price fall reflects sluggish demand growth and large carryover stocks from 2011-12, despite forecast lower world cotton production in 2012-13.

World cotton production is forecast to decline by 6.3% in 2012-13 to 25.3 million tonnes. This reflects a 7% fall in the area planted to cotton in response to falling world cotton prices and more favourable returns to alternative crops, particularly corn, soybeans and grain sorghum.

Forecast lower cotton prices and an assumed recovery in the world economy in 2013 are expected to lead to a 4% increase in world mill consumption of cotton in 2012-13, the first growth in three years.

World cotton exports are forecast to decrease by 16.2% in 2012-13 to 8.3 million tonnes.

Australian Outlook:

Cotton lint production in Australia is forecast to decline by 21% in 2012-13 to 945000 tonnes. Irrigated cotton production is expected to remain profitable compared with production alternatives, but dryland cotton production is forecast to be down sharply. In 2011-12, Australia produced a record 1.2 million tonnes of lint cotton in response to high cotton prices, favourable seasonal conditions and abundant irrigation water.

In 2012-13, cotton plantings are estimated to be 442000 hectares, made up of irrigated plantings of 419 000 hectares (down 7% from last season) and dryland plantings of 23 000 hectares (down 85%).

Average return to Australian cotton growers at the gin-gate is forecast to decrease by 15% in 2012-13 to \$460 a bale of lint, reflecting the forecast decline in world cotton prices. If realised, this will be the second lowest return per bale Australian cotton growers received in the past decade, compared with an average of around \$544 a bale over the 10 years to 2010-11.

Cotton exports in Australia are forecast to increase by 11% in 2012-13 to a record 1.1 million tonnes. This forecast reflects record cotton production in 2011-12 and the forecast of another large cotton harvest in 2012-13. Under this export forecast, Australia would become the world's second largest exporter of raw cotton in 2012-13, next only to the US.

Outlook for cotton

		2010	2011	2012	%
		-11	-12 s	-13 f	change
World a					
Production	Mt	25.3	27.0	25.3	-6.3
Consumption	Mt	24.8	22.4	23.3	4.0
Exports	Mt	8.0	9.9	8.3	-16.2
Closing stocks	Mt	10.6	15.1	17.2	13.9
Stocks-to-use ratio	%	42.7	67.6	74.1	9.6
Cotlook 'A' index	USc/lb	164.3	100.1	81.0	-19.1
Australia b					
Area harvested	'000 ha	590	600	442	-26.3
Lint production	kt	898	1 198	945	-21.1
Exports	kt	505	994	1 106	11.3
- value	A\$m	1 367	2 736	2 451	-10.4

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:

World prices for most dairy products are forecast to average slightly lower in 2012-13, reflecting relatively weak consumer demand in the European Union and continuing, but slower, growth in global milk production.

The world price of butter is forecast to fall by 13% to average US\$3370 a tonne in 2012-13. For both cheese and whole milk powder, world prices are forecast to decline by around 2.5% and average US\$4150 a tonne and US\$3350 a tonne, respectively. In contrast, the world price of skim milk powder in 2012-13 is forecast to increase by 1.1% to average US\$3270 a tonne, reflecting firm import demand from Asia.

Relatively high feed grain prices are expected to continue to restrict expansion in milk production in many of the major dairy producing and exporting countries over the remainder of 2012-13.

With economic activity in the developing countries of Asia assumed to remain relatively strong over the remainder of 2012-13, import demand for dairy products in China and South-East Asia is expected to remain firm.

Australian Outlook:

The Australian farmgate price for milk is forecast to fall by 7% in 2012-13 to average 39 cents a litre, reflecting the effect of forecast lower world dairy prices.

Australian milk production increased 2% year-on-year in the first quarter of 2012-13. Most of the increase occurred in northern Victoria and southern NSW where production was 8% and 6% higher year-on-year, respectively. In these two regions, milk production in 2011-12 increased by 17% and 6% respectively, reflecting the effects of improved seasonal conditions and increased availability of irrigation water. As at early December 2012, water storage levels in the Murray-Darling Basin were at about 90% capacity.

Overall, assuming average seasonal conditions for the remainder of 2012-13, Australian milk production is forecast to increase by 1.3% in 2012-13 to 9.6 billion litres.

The total value of Australian dairy exports is forecast to decline by 0.6% in 2012-13 to \$2.3 billion, primarily reflecting the effect of forecast lower average dairy product prices on world markets.

Outlook for dairy

		2010	2011	2012	%
		-11	-12 s	-13 f	change
Australia					
Cow numbers a	'000	1 589	1 630	1 655	1.5
Milk yields	L/cow	5 727	5 816	5 801	-0.3
Production					
Total milk	ML	9 101	9 480	9 600	1.3
– market sales	ML	2 316	2 389	2 435	1.9
– manufacturing	ML	6 785	7 092	7 165	1.0
Butter b	kt	122	120	122	1.7
Cheese	kt	339	340	360	5.9
Whole milk powder	kt	151	140	138	-1.4
Skim milk powder	kt	222	230	234	1.7
Farmgate milk price	Ac/L	43.2	42.1	39.0	-7.4
Value of exports	A\$m	2 345	2 293	2 279	-0.6
World prices					
Butter	US\$/t	4 683	3 883	3 370	-13.2
Cheese	US\$/t	4 221	4 258	4 150	-2.5
Skim milk powder	US\$/t	3 392	3 233	3 270	1.1
Whole milk powder	US\$/t	3 771	3 431	3 350	-2.4

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

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia