

Briefing Note

Agricultural Commodities

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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/agcomd9abcc004201306/AgCommodities2013.No2_Ver1.0.0.pdf

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Global Economic Outlook

- Following growth of 3.2% in 2012, world economic growth is assumed to remain subdued at 3.2% in 2013, improving to 3.9% in 2013.
- Despite moderating recently, emerging economies, particularly China and India, are expected to continue driving world economic growth.
- Economic growth in OECD economies is assumed to remain slow, reflecting weakness in many European economies and reduced public spending in the United States.
- European economies remain at risk of further weakening, with negative consequences for growth in other economies.

Australia's Economic Outlook

- GDP

Real GDP rose at a year-on-year rate of 2.5 % in the March quarter 2013, after expanding by 3.1% in the December quarter 2012. Economic growth is assumed to average 2.75% in 2013-14 following estimated growth of 3% in 2012-13.

- Inflation

Inflationary pressures in Australia have been modest in recent quarters. CPI rose year-on-year by 2.5% in the March quarter 2013, compared with 2.2% in the December quarter and 2% in the September quarter. In 2013-14 inflation is assumed to average 2.5%, compared with an estimated 2.4% in 2012-13.

- Exchange Rate

For 2012-13 as a whole the Australian dollar is estimated to average US103 cents, unchanged from the average of 2011-12. The ABARES report assumes that the AUD will average US98 for 2013-14 as a whole.

- Interest Rates

The Cash Rate in Australia is currently at 2.75%.

Australian economic indicators



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

Australian agricultural export figures

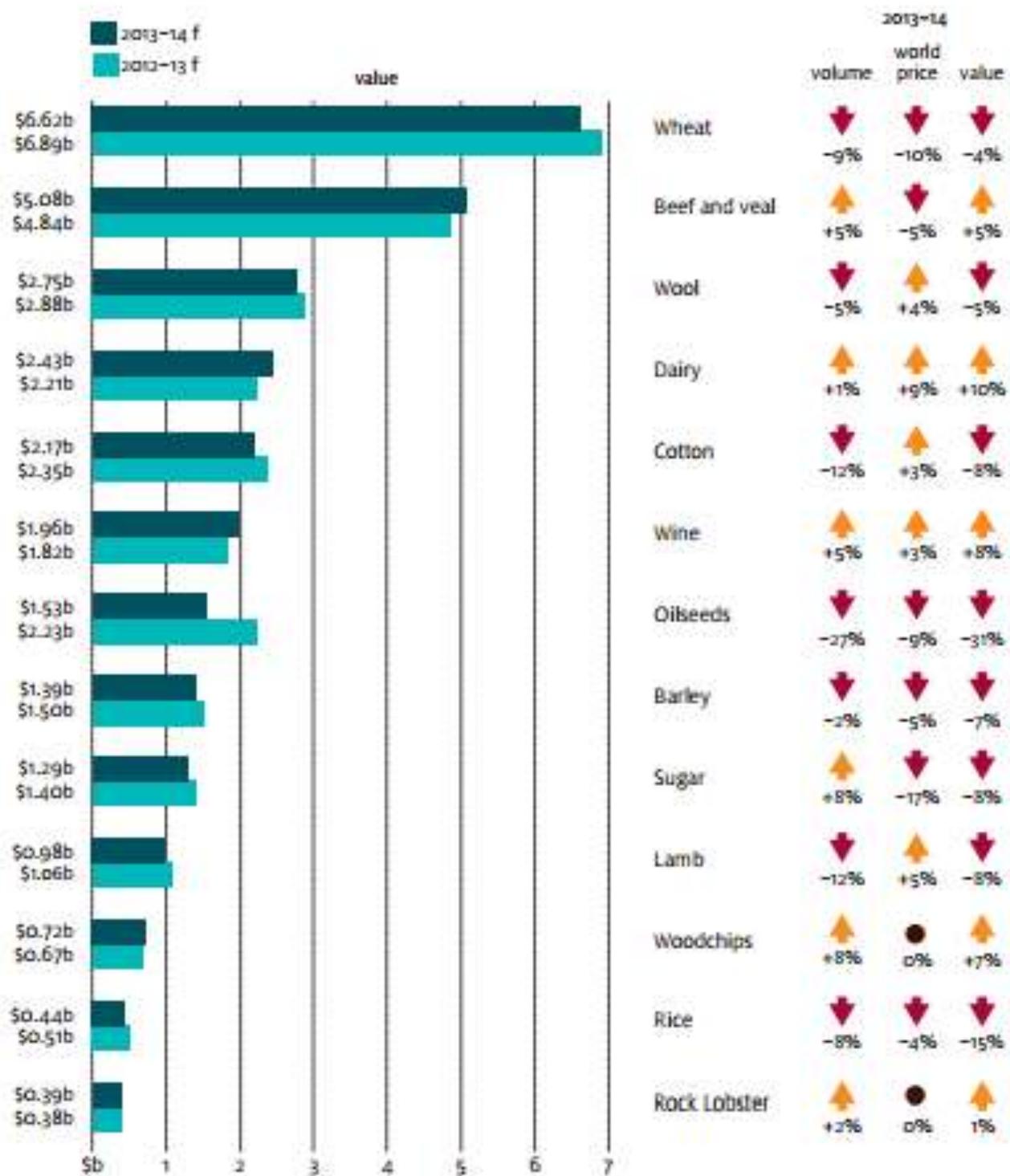
The total volume of farm production is forecast to increase by around 2.9% in 2013-14, following an estimated decline of 4.3% in 2012-13. This increase largely reflects higher forecast crop production.

The index of crop production is forecast to increase by 4.7% in 2013-14, after declining an estimated 9.8% in 2012-13. The increase mainly reflects a forecast increase in wheat, barley and grain sorghum production.

The index of unit export for Australian farm commodities is forecast to increase by 2.1% in 2013-14, after declining by an estimated 2.4% in 2012-13. In 2013-14, forecast lower world prices for wheat, barley, oilseeds, sugar and beef are expected to be more than offset by higher prices for wool, dairy productions, wine, lamb and an assumed depreciation of the Australian dollar.

Export earnings from farm commodities are forecast to be around \$35.8 billion in 2013-14, 3.2% lower than the 37.0 billion estimated for 2012-13. Farm commodities for which export earnings are forecast to be lower in 2013-14 include barley (down 7%), canola (34%), wheat (4%), rice (15%), grain sorghum (13%), cotton (8%), sugar (8%). Partially offsetting these declines are forecast increases in export earnings for wine (up to 8%) and dairy products (10%)

Export earnings from crops are forecast to fall by 6.5% in 2013-14 to \$20.7 billion, following an estimated rise of 2.7% in 2012-13. This reflects exports from the reduced 2012-13 crop being traded in 2013-14.



FABARES forecast.

Grains

Global Outlook

Wheat

The world indicator price (US hard red winter, fod Golf) is forecast to fall by 10% in 2013-14 to US\$315 a tonne, reflecting the combined effect of an expected increase in world wheat production and higher world corn production.

World wheat production is forecast to increase by 5% in 2013-14 to almost 690 million tonnes, which largely reflects higher production in the Black Sea region and the EU. Forecast declines in the US and India are expected to partly offset these forecast increases.

World wheat consumption is forecast to increase by 2% in 2013-14 to 687 million tonnes, driven by small increases in both wheat for human consumption and feed wheat for consumption.

Wheat outlook

		2011-12	2012-13 f	2013-14 f	% change
World					
Production	Mt	696	655	690	5.3
– China	Mt	118	121	121	0.3
– European Union 27	Mt	137	130	138	6.0
– India	Mt	87	95	90	-5.1
– Russian Federation	Mt	56	38	53	40.5
– United States	Mt	54	62	55	-10.3
Consumption	Mt	692	676	687	1.6
– human	Mt	461	464	471	1.6
– feed	Mt	146	130	132	1.7
Closing stocks	Mt	197	177	180	1.7
Stocks-to-use ratio	%	29	26	26	0.1
Trade	Mt	145	130	142	9.2
Exports a					
– Argentina	Mt	13	6	8	45.5
– Australia b	Mt	23	21	19	-9.4
– Canada	Mt	18	18	19	2.8
– European Union 27	Mt	17	22	23	5.5
– Kazakhstan	Mt	11	7	7	2.9
– Russian Federation	Mt	22	11	17	61.7
– Ukraine	Mt	5	7	8	14.3
– United States	Mt	29	28	27	-5.4
Price c	US\$/t	299	348	315	-9.6
Australia					
Area	'000 ha	13 902	13 243	13 677	3.3
Production	kt	29 905	22 079	25 399	15.0
Exports b	kt	23 026	21 461	19 450	-9.4
– value	A\$m	6 378	6 891	6 617	-4.0
APW 10 net pool return	A\$/t	260	345	308	-10.9

a Local marketing years. b July-June years. c US no. 2 hard red winter wheat fob Gulf, July-June. f ABARES forecast.

Australian Wheat Outlook

Australian wheat production is forecast to rise by 15% in 2013-14 to around 25.4 million tonnes. This increase reflects a forecast 3% rise in the area planted to wheat in 2013-14 and an assumption of favourable seasonal conditions. Sowing of wheat is largely complete across most states with some growers in drier regions, especially in southern Victoria and western NSW, yet to complete planting.

The seasonal outlook issued by the Bureau of Meteorology for the winter period points to an increase in the probability of a wetter than average winter across most of the major cropping areas in the eastern states. For Western Australia, average rainfall is expected over the same period. While the outlook is positive, the timeliness of in-crop rainfall will be essential for crop development as soil moisture levels across the cropping zone are generally low.

Wheat production in Western Australia is forecast to rise by 29% in 2013-14 to around 8.8 million tonnes, following dry seasonal conditions in 2012-13. The forecast increase reflects a 3% increase in the area planted to wheat and expected higher yields.

For eastern states, recent rainfall across most of the major growing regions has improved crop prospects. This improvement in seasonal conditions, combined with a 3% increase in the area sown to wheat, is forecast to result in wheat production in eastern states rising by 9% in 2013-14 to 16.6 million tonnes.

Australian wheat exports are forecast to decline by 9% in 2013-14 to around 19.5 million tonnes. This reflects lower production of wheat in 2012-13 and an expected reduction in stock draw downs, which have supported 2012-13 exports. The value of exports is forecast to decline by 4% in 2013-14 to \$6.6 billion, reflecting forecast lower world prices and export volumes.

Coarse Grains

The world coarse grains indicator price (US corn, fob Gulf) is forecast to decrease by 13.5% in 2013-14 to US\$270 a tonne. The world indicator price for barley is forecast to fall by 13.5% to US\$256 a tonne. These forecast prices are principally driven by an expected increase in world coarse grains supplies.

World coarse grains production is forecast to rise by 10% in 2013-14 to 1.24 billion tonnes, largely driven by a forecast increase in world corn production.

World consumption of coarse grains is forecast to increase by 6% in 2013-14 to 1.22 billion tonnes, which mainly reflects higher feed demand from livestock producers in China and the US.

Coarse grains outlook

	unit	2011–12	2012–13 f	2013–14 f	% change
World					
Production	Mt	1 155	1 130	1 243	10.0
– barley	Mt	134	130	134	3.1
– corn	Mt	884	859	960	11.8
Consumption	Mt	1 155	1 144	1 215	6.2
Trade	Mt	148	115	138	20.0
Closing stocks	Mt	165	151	180	19.2
Stocks-to-use ratio	%	14	13	15	15.4
Corn price (fob Gulf, Jul–Jun)	US\$/t	281	312	270	–13.5
Barley price (fob Rouen, Jul–Jun)	US\$/t	270	296	256	–13.5
Australia					
Area	'000 ha	5 323	5 252	5 408	3.0
– barley	'000 ha	3 718	3 680	3 752	2.0
– grain sorghum	'000 ha	659	565	627	11.0
Production	kt	12 457	10 455	11 431	9.3
– barley	kt	8 221	6 761	7 417	9.7
– grain sorghum	kt	2 239	1 721	2 108	22.5
Exports a	kt	7 911	5 955	5 719	–4.0
– value	A\$m	2 245	1 825	1 690	–7.4
Feed barley price b	A\$/t	197	244	206	–15.6
Malting barley price c	A\$/t	203	254	219	–13.8

a July–June years. b Feed 1, delivered Geelong. c Gairdner Malt 1, delivered Geelong.

f ABARES forecast.

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

Australian Coarse Grain Outlook

Australian coarse grains production is forecast to increase by 9% in 2013-14 to 11.4 million tonnes. Large increases in production are forecast for Australia's major coarse grains – barley and grain sorghum.

Barley production is forecast to increase by 10% in 2013-14 to 7.4 million tonnes, reflecting an increase in barley plantings and a generally favourable rainfall outlook for the growing season. For the eastern states, producers have increased area planted to barley because of dry seasonal conditions at the early stages of the planting window, leading to more barley plantings instead of canola. Although barley area is forecast to increase marginally in Western Australia, a forecast in yields from 2012-13 is expected to lead to a rise of 12% in barley production to 2.2 million tonnes.

The area planted to grain sorghum, Australia's major summer coarse grain, is forecast to rise by 11% in 2013-14 to 627 000 hectares. This reflects assumed favourable planting conditions in 2013-14 from the hot and dry conditions experienced in 2012-13. Production is forecast to increase by 22% to 2.1 million tonnes.

Grain sorghum production in 2012-13 is estimated to have decreased by 23% to 1.7 million tonnes, which largely reflects a 14% decrease in planted area. In addition, yields are estimated to have fallen by 10% from the previous season to around 3 tonnes a hectare.

Oilseeds

The world oilseeds indicator price (soybeans, cif Rotterdam) is forecast to fall by 13% in 2013-14 to US\$520 a tonne. The prospect of record high soybean production and a significant rise in closing stocks are the primary drivers of this expected decline.

World oilseed production is forecast to increase by 5% in 2013-14 to 487 million tonnes as a result of expected production growth in all three major oilseeds – canola, soybeans and sunflower seeds.

World oilseed consumption is forecast to increase by 4% in 2013-14 to 478 million tonnes.

Canola

The world canola indicator price (cif Hamburg) is forecast to decline by 4% in 2013-14 to US\$605 a tonne, reflecting higher world production and closing stocks.

World canola production is forecast to increase by 4% in 2013-14 to 62 million tonnes, reflecting expected higher production in Canada and the EU.

	unit	2011-12	2012-13 f	2013-14 f	% change
World					
Production	Mt	438	463	487	5.2
Consumption	Mt	455	459	478	4.1
– oilseed meal	Mt	257	262	274	4.6
– vegetable oil	Mt	150	155	162	4.5
Exports	Mt	109	111	122	9.9
Closing stocks	Mt	65	70	79	12.9
Stocks-to-use ratio	%	14	15	17	13.3
Soybeans indicator price	US\$/t	506	596	520	-12.8
Canola indicator price b	US\$/t	621	629	605	-3.8
Australia					
Total production	kt	5 289	5 487	4 835	-11.9
– winter	kt	3 440	3 912	3 244	-17.1
– summer	kt	1 849	1 576	1 590	0.9
Canola					
Production	kt	3 427	3 898	3 230	-17.1
Exports c	kt	2 323	3 413	2 352	-31.1
– value	\$m	1 344	2 011	1 331	-33.8
Price c (delivered Melbourne)	A\$/t	521	560	545	-2.7

a Soybeans, US fob Gulf, July–June. **b** Rapeseed, Europe, fob Hamburg, July–June. **c** July–June years. **f** ABARES forecast.

Australia Canola Outlook

The area sown to canola is forecast to fall by 17% in 2013-14 to 2.5 million hectares. This reflects a forecast fall in area planted in south-eastern Australia, largely the result of low levels of soil moisture and insufficient rainfall during the planting window. The area planted to canola is forecast to decline by 34% in NSW, 33% in Victoria and 18% in SA. In contrast, the area planted to canola in WA is forecast to increase by 6%, reflecting favourable seasonal conditions during the planting window.

Australia's canola production is forecast to decline by 17% in 2013-14 to 3.2 million tonnes, as the fall in area planted is expected to more than offset a forecast marginally higher average yield. Although the current outlook for seasonal conditions favours above average yields in major cropping regions across Australia, low soil moisture in many regions means that timely and sufficient rainfall during the rest of the season will be critical.

Cotton

Global Outlook

The world indicator price for cotton (Cotlock 'A' index) is forecast to rise by 3.4% in 2013-14 to average US\$90 cents per pound. The forecast increase reflects expected lower world cotton production and growth in world cotton consumption in 2013-14, combined with an assumed continuing build-up of China's strategic cotton reserves.

World cotton production is forecast to decline by around 3% in 2013-14 to 25.7 million tonnes, based on an estimated 3% fall in world cotton plantings in response to lower cotton prices. Lower cotton production is forecast for China, the US and Turkey in 2013-14, more than offsetting forecast production increases in India, Pakistan and Brazil.

World cotton consumption is forecast to increase by 2.1% in 2013-14 to 23.9 million tonnes. This modest increase largely reflects forecast economic growth in developing countries, particularly China and India. However, world cotton consumption growth is being constrained by strong consumption from alternative fibres, particularly polyester, partly the result of cotton prices remaining above polyester prices.

Australian Outlook

Australian cotton production is forecast to remain largely unchanged at 995 000 tonnes, compared with an estimated 992 000 tonnes in 2012-13 which was Australia's second largest cotton harvest. The forecast cotton production in 2013-14 is expected to be supported by plentiful supplies of irrigation water and favourable gross margins compared with alternative irrigated crops. An assumed return to more normal soil profile in southern Queensland and northern NSW should enable dryland cotton plantings to recover to 51 000 hectares in 2013-14, up from the small plantings of 23 000 hectares in 2012-13.

The average storage level of public irrigation dams servicing the Australian cotton-growing regions was 72% of capacity on 14 June 2013, down from around 90% at the same time in 2012. Under the assumption of favourable seasonal conditions, normal seasonal inflows into the main cotton irrigation dams are expected between now and the end of the planting window that will extend from September to mid-November 2013.

The return to Australian cotton growers at the gin-gate is forecast to increase by 3% in 2013 to \$472 of lint, reflecting the forecast modest rise in world cotton prices and an assumed depreciation of the AUD. The forecast return to cotton growers is lower than the average of the 10 years to 2011-12 of \$560 a bale, but still favourable when compared with returns for production alternatives.

Forward cash prices for lint on offer to Australian cotton growers at 17 May 2013 were around \$450 a bale for 2013 deliveries and \$449 for 2014 delivery.

Australian cotton exports are forecast to be 998 000 tonnes in 2013-14, 12% lower than the record 1.1 million tonnes of 2012-13. This forecast decrease reflects lower cotton production in 2012-13 and 2013-14. Based on current forecast for cotton production around the world, Australia would maintain its position as the world's third largest exporter of cotton, behind the US and India.

Cotton outlook

	unit	2011-12	2012-13 f	2013-14 f	% change
World a					
Production	Mt	27.2	26.4	25.7	- 2.7
Consumption	Mt	22.3	23.4	23.9	2.1
Exports	Mt	10.0	9.8	8.6	- 12.2
Closing stocks	Mt	15.5	18.5	20.2	9.2
Stocks-to-use ratio	%	69.4	78.8	84.4	7.1
Cotlook 'A' index	USc/lb	100.1	87.0	90.0	3.4
Australia b					
Area harvested	'000 ha	600	442	445	0.7
Lint production	kt	1 198	992	995	0.3
Exports	kt	994	1 123	988	- 12.0
- value	A\$m	2 736	2 352	2 174	- 7.6

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

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

Dairy

Global Outlook

In 2013-14 world dairy product prices are forecast to rise, driven by continuing firm demand in the developing countries of Asia, the Middle East and North Africa and limited growth in supplies from key exporting countries. World dairy product prices are forecast to rise by 3% in 2013-14. World prices for whole milk powder, skim milk powder, butter and cheese are forecasted to average US\$3900 a tonne, US\$3790 a tonne and US\$4260 a tonne respectively, in 2013-14.

Global milk production is forecast to increase slightly in 2013-14, as a result of forecast lower feed grain prices. Milk production in most of the main producing and exporting countries fell in 2012-13, as farmers reduced output in response to relatively low farmgate prices, high feed costs and adverse seasonal conditions.

Consumption of dairy products in the EU is expected to remain subdued through the remainder of 2013, reflecting the continuing weak economic activities in most of the member states. Import demand for dairy products in 2013-14 is expected to be supported by firm economic growth in the developing countries of Asia, the Middle East and North Africa.

Australian Outlook

The Australian farmgate price for milk is forecast to increase by 10.1% in 2013-14 to average 43.5 cents a litre, reflecting the effect of higher world dairy product prices and an assumed depreciation of the Australian dollar. The farmgate price for milk is estimated to have fallen by around 6% to 39.5 cents a litre in 2012-13.

Overall, Australian milk production is estimated to fall by 2.5% in 2012-13. Dry seasonal conditions during the second half of 2012-13 across much of south-eastern Australia adversely affected milk production.

Assuming average seasonal conditions in Australia's major dairying regions, milk production is forecast to increase by 2.3% to 9.45 billion litres in 2013-14. Most of the increase in production is expected to occur in those dairying regions that experienced dry seasonal conditions in the second half of 2012-13. Furthermore, continuing availability of irrigation water in northern Victoria and southern NSW is expected to lead to a further increase in milk production in these regions in 2013-14.

The total value of Australian dairy exports is forecast to increase by 10% in 2013-14 to \$2.4 billion, primarily reflecting the effect of forecast lower average dairy product prices on world markets and an assumed depreciation of the AUD. The volume of cheese exports is forecast to increase by 3% to 165 000 tonnes and account for around 1/3 of the value of Australian dairy exports.

Dairy outlook

	unit	2011–12	2012–13 f	2013–14 f	% change
Australia					
Cow numbers ^a	'000	1 700	1 690	1 695	0.3
Milk yields	L/cow	5 577	5 467	5 575	2.0
Production					
Total milk	ML	9 480	9 240	9 450	2.3
– market sales	ML	2 389	2 435	2 475	1.6
– manufacturing	ML	7 092	6 805	6 975	2.5
Butter ^b	kt	120	118	120	1.7
Cheese	kt	340	336	346	3.0
Whole milk powder	kt	140	116	118	1.7
Skim milk powder	kt	230	225	230	2.2
Farmgate milk price	A¢/L	42.1	39.5	43.5	10.1
Value of exports	A\$m	2 292	2 208	2 428	10.0
World prices					
Butter	US\$/t	3 883	3 650	3 750	2.7
Cheese	US\$/t	4 258	4 150	4 260	2.7
Skim milk powder	US\$/t	3 233	3 670	3 790	3.3
Whole milk powder	US\$/t	3 431	3 780	3 900	3.2

^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