

Briefing Note

Agricultural Commodities

September Quarter 2013

Stefanie Schulte
Economic Policy Analyst

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://data.daff.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201309/AgCommodities201309_1.1.0.pdf

Contents

Introduction.....	2
Global Economic Outlook	3
Australia's Economic Outlook	3
Australian agricultural export figures	4
Grains	6
Cotton	12
Dairy	14

Global Economic Outlook

- Following growth of 3.2 per cent in 2012, world economic growth is assumed to remain subdued at 3 per cent in 2013, improving to 3.9 per cent in 2014.
- Emerging economies are expected to continue to be the main drivers of growth, despite slower growth in China and India.
- Economic growth in OECD economies is assumed to remain slow, while private demand is assumed to strengthen in the United States.
- The Australian dollar depreciated by 12 per cent against the US dollar between mid April and the end of June 2013, and is assumed to average around US92 cents in 2014.

Australia's Economic Outlook

- GPD

Real gross domestic product expanded at a year-on-year rate of 2.5 per cent in the March quarter, followed by 2.6 per cent in the June quarter, down from 3.1 per cent in the December quarter 2012.

- Inflation

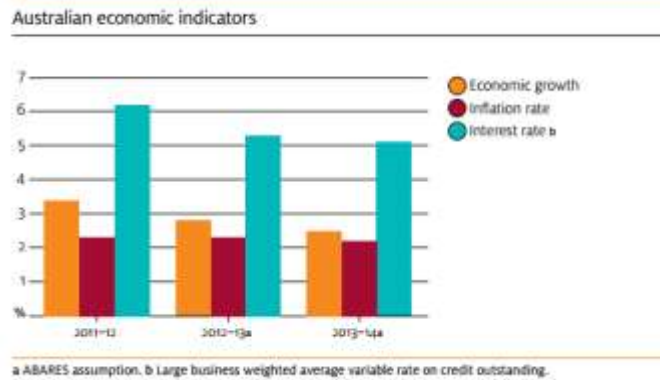
Inflation in Australia remains modest. The consumer price index rose by 2.4 per cent year-on-year in the June quarter 2013, compared with 2.5 per cent in the March quarter.

- Exchange Rate

The Australian dollar depreciated by 12 per cent against the US dollar between mid April and the end of June 2013 and subsequently averaged US91 cents in the first six weeks of 2013-14.

- Interest Rates

The Cash Rate in Australia is currently at 2.50%.



Australian agricultural export figures

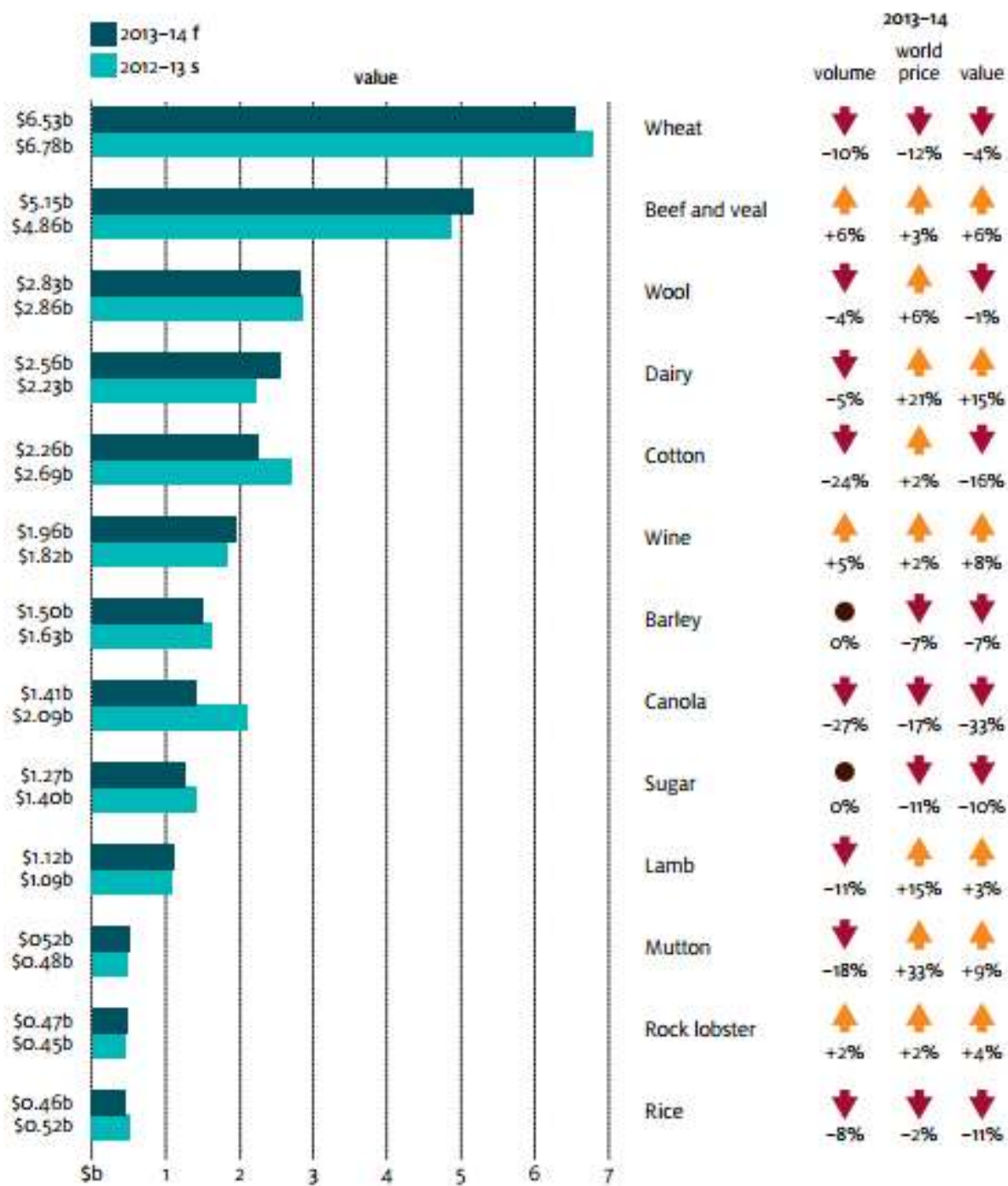
The total volume of farm production is forecast to increase by around 1.7% in 2013-14, following a decline of 2.9 % in 2012-13. This largely reflect higher forecast crop production.

The index of crop production is forecast to increase by 2.7 % in 2013-14, after declining an estimated 7.7% in 2012-13. This mainly reflects a forecast increase in wheat (10.8%), barley (13.5%) and grain sorghum production (17.3%).

The index of unit export returns for Australian farm commodities si forecast to increase by 3.3% in 2013-14, after declining by 2.6% in 2012-13. In 2013-14 higher expected world prices for dairy products, wool and lam and an assumed depreciation of the Australian dollar are expected to more than offset the effect on unit export returns of forecast lower world prices for most grains and oilseeds.

Export earnings from farm commodities are forecast to be around \$37.2 billion in 2013-14, slightly lower than in 2012-13 (\$38 billion). In 2013-14 export earnings are forecast to fall for wheat (by 4%), barley (7%), canola (33%), rice (11%), grain sorghum (41%), cotton (16%) and sugar (10%). Partially offsetting these declines are forecast increases in export earnings for wine (8%) and dairy products (15%).

Export earnings for crops are forecast to fall by 8.1% in 2013-14 to \$21.2 billion, following a rise of 6.6% in 2012-13. This largely reflects the effect of a smaller crop production in 2012-13 being exported in 2013-14.



f ABARES forecast. s ABARES estimate.

Grains

Global Outlook

Wheat

The world indicator price (US hard red winter, fob Gulf) is forecast to fall by 12% in 2013-14 to US\$305 a tonne. While the world indicator price for wheat is forecast to decline, the extent of the decline is less than the expected falls in prices of other varieties of wheat on world markets.

World total wheat production is forecast to increase by 6% in 2013-14 to around 695 million tonnes. Wheat production is forecast to increase in most of the major growing regions in the northern hemisphere, particularly the Black Sea region and the EU.

World consumption of wheat is forecast to increase by 3% in 2013-14 to 694 million tonnes. An expected increase in the availability of low quality wheat is forecast to result in a 6% increase in the use of wheat for livestock feed, particularly in China where there is a large and growing livestock sector.

Wheat outlook

		2011-12	2012-13 s	2013-14 f	% change
World					
Production	Mt	695	653	695	6.4
– China	Mt	117	121	121	0.3
– European Union 27	Mt	137	130	141	8.2
– India	Mt	87	95	93	-2.5
– Russian Federation	Mt	56	38	52	37.9
– United States	Mt	54	62	58	-6.8
Consumption	Mt	696	673	694	3.1
– human	Mt	459	464	471	1.6
– feed	Mt	151	130	137	5.5
Closing stocks	Mt	194	174	175	0.6
Stocks-to-use ratio	%	28	26	25	-2.5
Trade	Mt	145	140	147	5.3
Exports a					
– Argentina	Mt	13	4	7	62.5
– Australia b	Mt	23	21	19	-9.8
– Canada	Mt	18	19	20	4.8
– European Union 27	Mt	17	24	24	1.5
– Kazakhstan	Mt	11	6	9	45.2
– Russian Federation	Mt	22	11	17	47.3
– Ukraine	Mt	5	7	8	11.1
– United States	Mt	29	27	30	9.2
Price c	US\$/t	299	348	305	-12.4
Australia					
Area	'000 ha	13 902	13 243	13 712	3.5
Production	kt	29 905	22 079	24 467	10.8
Exports b	kt	23 026	21 270	19 179	-9.8
– value	A\$/m	6 378	6 776	6 533	-3.6
APW 10 net pool return	A\$/t	263	326	324	-0.7

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

Sources: ABARES; Australian Bureau of Statistics

Australian Wheat Outlook

Australian wheat production is forecast to increase by 11% in 2013-14 to around 24.5 million tonnes. This reflects an estimated 4% rise in planted area and a forecast increase in average yield.

Rainfall during winter varied in major growing regions, with below average rainfall in parts of NSW, Queensland and northern growing areas of Western Australia. By contrast, winter temperatures and rainfall were generally favourable in SA, VIC and southern growing areas of Western Australia, where crops are in generally good condition.

The Bureau of Meteorology's seasonal outlook issued on 28 August 2013, suggests an above average chance of exceeding median rainfall in most cropping regions in eastern Australia and an average chance of exceeding median rainfall in Western Australia.

While the rainfall outlook is positive, timeliness of falls during spring will be critical to achieving the forecast increase in wheat production. With soil moisture presently at low levels, yields could be lower than expected if crops do not receive timely spring rainfall.

Australian wheat export are forecast to fall by 10% in 2013-14 to around 19.2 million tonnes. Although wheat production is forecast to increase, the supply of wheat available for export is expected to decline, reflecting significant reductions in production and stocks in 2012-13. The average export price for Australian wheat is forecast to decline modestly in 2013-14 as an assumed depreciation of the Australian dollar largely offsets the effect of expected falls in world wheat prices. The value of wheat exports is forecast to decline by 4% in 2013-14 to \$6.5 billion. This compares with the average of \$4.8 billion in the 10 years to 2012-13 in real terms.

Coarse Grains

The world coarse grains indicator price (US corn, fob Gulf) is forecast to decrease by 25% in 2013-14 to US\$235 a tonne. This mostly reflects a forecast large increase in US corn production, leading to a recovery in world coarse grains supplies.

World coarse grains production is forecast to rise by 10% in 2013-14 to 1.25 billion tonnes. This is mainly due to a forecast increase in corn production in the United States.

World consumption of coarse grains is forecast to increase by 6% in 2013-14 to 1.22 billion tonnes, driven by an expected increase in the feed use of coarse grains.

Coarse grains outlook

	unit	2011-12	2012-13 s	2013-14 f	% change
World					
Production	Mt	1 155	1 134	1 247	10.0
– barley	Mt	134	130	143	10.0
– corn	Mt	883	863	957	10.9
Consumption	Mt	1 155	1 146	1 216	6.1
Trade	Mt	149	119	147	23.5
Closing stocks	Mt	166	152	182	19.7
Stocks-to-use ratio	%	14	13	15	15.4
Corn price (fob Gulf, Jul–Jun)	US\$/t	281	312	235	–24.7
Barley price (fob Rouen, Jul–Jun)	US\$/t	270	296	235	–20.6
Australia					
Area	'000 ha	5 323	5 252	5 469	4.1
– barley	'000 ha	3 718	3 680	3 747	1.8
– grain sorghum	'000 ha	659	565	634	12.2
Production	kt	12 457	10 455	11 725	12.1
– barley	kt	8 221	6 761	7 673	13.5
– grain sorghum	kt	2 239	1 721	2 020	17.4
Exports a	kt	7 911	6 649	6 180	–7.1
– value	A\$m	2 245	2 060	1 800	–12.6
Feed barley price b	A\$/t	197	244	202	–17.2
Malting barley price c	A\$/t	201	255	222	–12.9

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

f ABARES forecast. s ABARE estimate.

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

Australian Coarse Grain Outlook

Australian coarse grains production is forecast to rise by 12% in 2013-14 to 11.7 million tonnes. Production increases are forecast for barley, grain sorghum and oats, while maize and triticale production is forecast to fall.

Barley production is forecast to rise by 13% in 2013-14 to 7.7 million tonnes, slightly below the five year average to 2011-12. Favourable seasonal conditions in SA and VIC have led to a forecast significant increase in barley production in those states. In WA, barley production in 2013-14 is forecast to increase by 8% from the drought-affected production of last year. By contrast, barley production is forecast to fall in NSW and QLD with yields expected to decline as a result of less than favourable seasonal conditions.

Summer cropping regions are presently dry. Sufficient and timely rainfall is needed before and during the planting window for summer crops. If this occurs, the area planted to grain sorghum is forecast to rise by 12% in 2013-14 to around 634 000 hectares. This forecast rise is driven by relatively high domestic grains prices and the availability of fallow land in NSW. Production of grain sorghum is forecast to increase by 17% to around 2 million tonnes, assuming average yields.

Australia coarse grains exports are forecast to fall by 7% in 2013-14 to 6.2 million tonnes, reflecting a forecast 41% fall in grain sorghum exports to 766 000 tonnes. The forecast fall in grain sorghum exports reflects below average production in 2012-13. Barley exports are forecast to remain largely unchanged at 5.2 million tonnes in 2013-14.

The total value of coarse grain exports is forecast to fall by 13% in 2013-14 to 1.8 billion, reflecting forecast falls in coarse grains export shipments and world coarse grains prices. However, an assumed depreciation of the Australian dollar is expected to partially offset the adverse impact of these reduction on export earnings. The values of barley and grain sorghum exports in 2013-14 are forecast to fall by 7% to \$1.5 billion and by 41% to \$316 million, respectively.

Oilseeds

The world oilseeds indicator price (soybeans, cif Rotterdam) is forecast to fall by 15% in 2013-14 to US\$510 a tonne. The primary drivers of this expected decline are forecast higher production and rising stocks in the major soybean producing countries.

World oilseed production is forecast to increase by 4% in 2013-14 to 487 million tonnes. World production of soybeans and canola are forecast to be record highs, while sunflower seed production is forecast to be the second largest on record.

World oilseed consumption is forecast to increase by 3% in 2013-14 to 477 million tonnes, largely driven by rising demand for vegetable oils and protein meals.

Canola

The world canola indicator price (cif Hamburg) is forecast to decline by 17% in 2013-14 to US\$520 a tonne. Between mid June and late July 2013 the world canola indicator price fell from more than US\$620 a tonne to around US\$460 a tonne. This decline was largely driven by higher than expected production of canola and sunflower seed in the northern hemisphere, particularly in the EU and the Black Sea region.

World canola production is forecast to increase by 5% in 2013-14 to 64 million tonnes.

Oilseeds outlook

	unit	2011-12	2012-13 s	2013-14 f	% change
World					
Production	Mt	445	469	487	3.8
Consumption	Mt	464	464	477	2.8
– oilseed meal	Mt	258	265	271	2.3
– vegetable oil	Mt	152	157	164	4.5
Exports	Mt	111	112	119	6.3
Closing stocks	Mt	66	70	81	15.7
Stocks-to-use ratio	%	14	15	17	13.3
Soybeans indicator price a	US\$/t	506	597	510	-14.6
Canola indicator price b	US\$/t	621	628	520	-17.2
Australia					
Total production	kt	5 289	5 634	4 862	-13.7
– winter	kt	3 440	4 069	3 325	-18.3
– summer	kt	1 849	1 565	1 537	-1.8
Canola					
Production	kt	3 427	4 056	3 310	-18.4
Exports c	kt	2 323	3 488	2 562	-26.5
– value	\$m	1 344	2 094	1 412	-32.6
Price c (delivered Melbourne)	A\$/t	521	560	525	-6.3

a Soybeans, US fob Gulf, July–June. **b** Rapeseed, Europe, fob Hamburg, July–June.

c July–June years. **f** ABARES forecast.

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

Australia Canola Outlook

Australian canola production is forecast to decline by 18% in 2013-14 to around 3.3 million tonnes. Production in NSW is forecast to fall by 39% to 900 000 tonnes and in VIC by 33% to 521 000 tonnes. In both states, forecast falls in production are largely due to estimated falls in the areas planted to canola in response to dry conditions during the planting window. By contrast, canola production is forecast to rise by 4% in WA to around 1.46 million tonnes and by 5% in SA to a record 429 000 tonnes.

In WA, the area planted to canola is estimated to have risen by 3% and the average yield is expected to remain largely unchanged from the previous season. In SA, the area planted to canola is estimated to have fallen by the average yield is expected to rise significantly due to favourable seasonal conditions.

The forecast fall in domestic production of canola is expected to result in exports falling by 27% in 2013-14 to around 2.6 million tonnes. The value of canola exports is forecast to fall by 33% to around \$1.4 million, reflecting the expected fall in the volume of canola exports and a forecast fall in canola export prices.

In 2012-13 soybean production in Australia was around 92 000 tonnes, around 7% higher than the previous year. Most soybean production in Australia is consumed domestically. In 2013-14 Australian soybean production is forecast to fall to around 70 000 tonnes.

Australian demand for soybean meal is greater than domestic supply; imports increased from 374 000 tonnes in 2002-03 to a record 637 000 tonnes in 2012-13. Soybean meal is primarily imported for use as livestock feed and is mostly sourced from Argentina and the US. Imports of soybean meal are expected to increase further in 2013-14, given the forecast decline in domestic soybean production.

Cotton

Global Outlook

The world indicator price for cotton (Cotlock 'A' index) is forecast to average US90 cents a pound in 2013-14, marginally higher than the average of around US88 cents a pound in 2012-13. This forecast is made under the assumption that China will continue increasing its national cotton reserve during the remainder of 2013-14.

World cotton production is forecast to decline by around 25.3 million tonnes in 2013-14 and will, as a result, be 4% lower than in 2012-13. This reflects an estimated 2% fall in world cotton plantings in response to more favourable process for alternative crops in most major producing countries and unusually dry seasonal conditions in the United States.

World cotton consumption is forecast to be 23.9 million tonnes in 2013-14, 2% larger than in 2012-13. The forecast increase is based on assumed strong economic growth in developing countries, in particular India, Pakistan and Bangladesh.

Cotton outlook

	unit	2011–12	2012–13 s	2013–14 f	% change
World a					
Production	Mt	27.2	26.4	25.3	-4.2
Consumption	Mt	22.5	23.4	23.9	2.1
Exports	Mt	10.0	10.2	8.4	-17.6
Closing stocks	Mt	15.6	18.8	20.4	8.5
Stocks-to-use ratio	%	69.4	80.4	85.4	6.2
Cotlook 'A' index	USc/lb	100.1	87.9	90.0	2.4
Australia b					
Area harvested	'000 ha	600	442	434	-1.8
Lint production	kt	1 198	1 002	990	-1.2
Exports	kt	994	1 306	992	-24.0
- value	A\$m	2 736	2 693	2 263	-16.0

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

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

Australian Outlook

Australian cotton production is forecast to be 990 000 tonnes in 2013-14; only 1.2% lower than the 1 million tonnes harvested in 2012-13. The forecast reflects favourable cotton process in Australia dollars and plentiful supplies of irrigation water in almost all Australian cotton growing regions. At 12 September 2013 the public irrigation dams were around 72% of capacity compared with an average of 40% at the same time over the 10 years to 2011.

Forecast gross margins for dryland crop production alternatives in the summer rainfall regions of Australia in 2013-14 favour increased dryland cotton production at the expense of grain sorghum production. Based on existing soil moisture conditions in the cotton growing regions, dryland cotton plantings are forecast to recover to 40 000 hectares in 2013-14 compared with 23 000 hectares in 2012-13.

The average return to Australian cotton growers at the gin-gate is forecast to be \$523 a bale of lint in 2013-14 compared with \$474 a bale received in 2012-13. The forecast higher return reflects the forecast higher world cotton prices and an assumed depreciation of the Australian dollar. The forecast return is only slightly lower than the average of the 10 years to 2011-12 of \$545 a bale in real terms.

Australian cotton exports are forecast to be 992 000 tonnes in 2013-14 compared with last year's record of 1.3 million tonnes. This forecast decrease reflects a reduction in cotton supplies available for export due to lower production in 2013-14. Almost all Australian cotton production is exported and the typical March to June harvest means Australian cotton production in one financial year is exported over two financial years. Based on production forecasts for major world cotton exporting countries in 2013-14 Australia would maintain its position as the world's third largest cotton exporter, behind the US and India.

Dairy

Global Outlook

World dairy product prices rose in March and April 2013 largely in response to lower milk production in key dairy exporting countries and continuing firm import demand. World dairy prices eased again the period May to July 2013 but remained well above prices prevailing in mid 2012.

Despite forecast higher global mil production, world dairy product prices are forecast to average slightly higher in 2013-14 driven by continuing firm growth in import demand, particularly from the developing countries of Asia. World trade was strong in the first half of 2013 driven by higher imports by China, the Russian Federation and the developing countries of Asia, the Middle East and North Africa.

Overall, world dairy product prices are forecast to rise by around 3% in 2013-14. World prices for whole milk powder, skim milk powder, butter and cheese are forecast to average US\$3950 a tonne, US\$3850 a tonne, US\$3850 a tonne and US\$4269 a tonne, respectively in 2013-14.

Dairy outlook

	unit	2011-12	2012-13 s	2013-14 f	% change
Australia					
Cow numbers a	'000	1 700	1 690	1 695	0.3
Milk yields	L/cow	5 577	5 444	5 546	1.9
Production					
Total milk	ML	9 480	9 200	9 400	2.2
– market sales	ML	2 389	2 450	2 500	2.0
– manufacturing	ML	7 092	6 750	6 900	2.2
Butter b	kt	120	118	120	1.7
Cheese	kt	340	331	342	3.3
Whole milk powder	kt	140	109	112	2.8
Skim milk powder	kt	230	224	230	2.7
Farmgate milk price	Ac/L	42.1	39.0	46.0	17.9
Value of exports	A\$m	2 292	2 229	2 562	14.9
World prices					
Butter	US\$/t	3 883	3 727	3 850	3.3
Cheese	US\$/t	4 258	4 150	4 260	2.7
Skim milk powder	US\$/t	3 233	3 731	3 850	3.2
Whole milk powder	US\$/t	3 431	3 831	3 950	3.1

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

Australian Outlook

The Australian farmgate milk price is forecast to increase by 18% in 2013-14 to average around 46 cents a litre, reflecting higher world dairy product prices and an assumed depreciation of the Australian dollar. Such a price outcome would be 6% higher than the average real price of 43.3 cents a litre for the three years to 2012-13.

Opening prices for manufacturing milk in 2013-14 were set around 24% higher by dairy processors in VIC at around 42 cents a litre.

Australian milk production is forecast to increase by 2% in 2013-14 to 9.4 billion litres. With only a marginal increase in the dairy herd forecast, the growth in production reflects expected higher yields following a return to favourable seasonal conditions. Grain and fodder accounts for around 25% of dairy farmers' cash costs so forecast lower supplementary feed prices are also expected to result in increased feeding of supplements and higher average milk yields in 2013-14.

Milk production in VIC, which accounts for around 2/3 of Australia's production, is forecast to increase in 2013-14 largely reflecting improved season conditions, continuing availability of irrigation water and forecast lower grain prices. VIC production declined by 3% to 6 billion litres in 2012-13, with lower production in the eastern and western dairying regions of the state because of dry seasonal conditions. In northern VIC, where production is most reliant on irrigation water, production increased by 3% in 2012-13.

The total value of Australian dairy exports is forecast to increase by 15% to \$2.6 billion in 2013-14. This largely reflects the effect of forecast higher average dairy product prices on world markets and an assumed depreciation of the Australian dollar.

The volume of cheese exports is forecast to increase by close to 1% to 176 000 tonnes in 2013-14. Skim milk and whole milk powder exports are also forecast to increase by 3% and 2% to 152 000 tonnes and 89 000 tonnes, respectively. Australian exporters are likely to face increased competition in key Asian markets, particularly in the second half of 2013-14, as a result of forecast higher export availability of dairy products from NZ, the EU and the US.