

Briefing Note

Agricultural Commodities

December Quarter 2013

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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 under;

http://data.daff.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201312/AgCommodities201312_1.0.0.pdf

Contents

Introduction	2
Global Economic Outlook	3
Australia's Economic Outlook	3
Australian agricultural export figures.....	4
Grains	6
Oilseeds.....	10
Cotton	12
Dairy	13

Global Economic Outlook

- World economic growth is assumed to weaken from 3.2 per cent in 2012 to 2.8 per cent in 2013, before improving to 3.4 per cent in 2014.
- The outlook for many emerging economies has weakened in recent months, but they are expected to continue to be the main drivers of world growth.
- Economic growth in OECD economies is assumed to remain slow. The recovery is expected to continue in the United States and Europe in 2014. In Japan, growth is assumed to slow in 2014, mainly because of a planned value-added tax increase.
- The Australian dollar depreciated by 16 per cent against the US dollar between mid April and early August, and has remained volatile since. It is assumed to average around US 92 cents in 2013-14.

Australia's Economic Outlook

- **GDP**

Economic growth slowed in the September quarter 2013, when real gross domestic product grew at a year-on-year rate of 2.3 per cent compared with growth of 2.6 per cent in the June quarter. Economic growth in 2013-14 is assumed to average 2.5 per cent.

- **Inflation**

Inflation in Australia remains modest. CPI rose by 2.2 per cent year-on-year in the September quarter 2013, compared with 2.4 per cent in the June quarter.

- **Exchange Rate**

The Australian dollar depreciated by 16 per cent against the US dollar between mid April and early August 2013, followed by an appreciation of 4 per cent between mid August and the beginning of November. The average for the first five months of 2013-14 was around US93 cents.

- **Interest Rate**

The current cash rate is 2.5 per cent.

Australian agricultural export figures

The total volume of farm production is forecast to increase by around 2.9 per cent in 2013-14, following a decline of 2.0 per cent in 2012-13. This increase largely reflects higher forecast crop production.

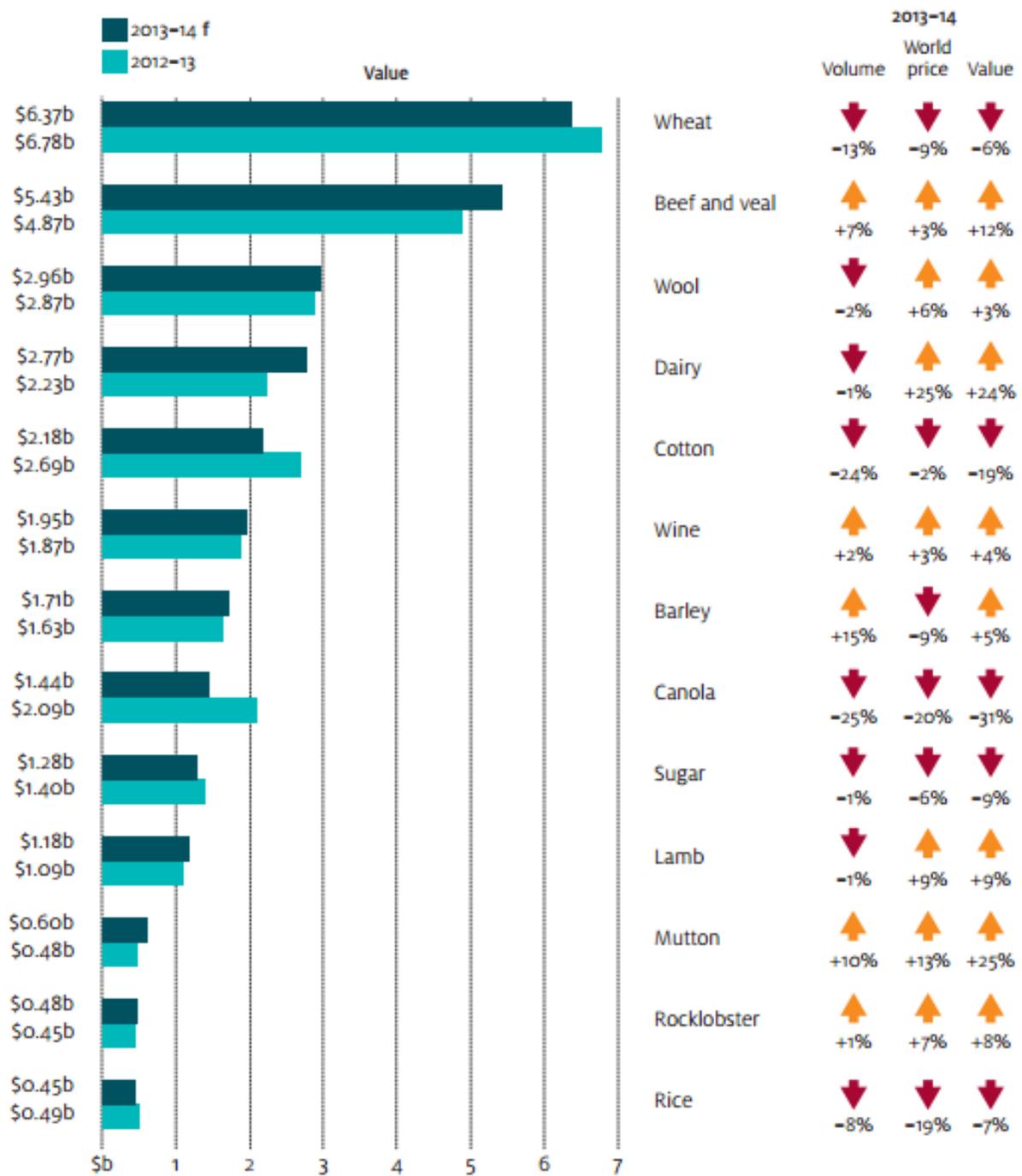
The index of crop production is forecast to increase by 3.9 per cent in 2013-14, after declining by 6.4 per cent in 2012-13. The volume of livestock production is forecast to increase by 1.6 per cent, following an increase of 4.0 per cent in the previous year.

The index of unit export returns from Australian farm commodities is forecast to increase by 4.3 per cent in 2013-14, after declining by 2.6 per cent in 2012-13. The effect on unit export returns of forecast lower world prices for most crops is expected to be offset by higher expected world prices for dairy products, wool, wine and lamb and an assumed depreciation of the Australian dollar.

Export earnings from farm commodities are forecast to be around 38.0 billion in 2013-14, largely unchanged from 2012-13. Farm commodities for which export earnings are forecast to be lower in 2013-14 include wheat (6 per cent), canola (31 per cent), cotton (19 per cent), rice (7 per cent), grain sorghum (24 per cent) and sugar (9 per cent). Offsetting these declines are forecast increases in export earnings for wine (up 4 per cent), beef and veal (12 per cent), dairy products (24 per cent) and barley (5 per cent).

Export earnings from crops are forecast to fall by 7.4 per cent in 2013-14 to \$21.3 billion, following a rise of 6.7 per cent in 2012-13.

Major Australian agricultural commodity exports



Grains

- Wheat (global)

The world wheat indicator price (US no 2. hard red winter, fod Gulf) is forecast to fall by 9 per cent in 2013-14 to average US\$315 a tonne. This largely reflects an expected increase in world wheat production, following a drought affected season for the Black Sea region in 2012-13.

World wheat production is forecast to increase by 8 per cent in 2013-14 to 705 million tonnes. This reflects an expected increase in production in the Black Sea region, following a drought affected season last year. Winter wheat planting in the northern hemisphere for the 2014-15 season has been largely completed and is expected to be similar in area to the 2013-14 season.

World consumption of wheat is forecast to increase by 3 per cent in 2013-14 to 694 million tonnes. The use of wheat for human consumption is expected to increase in line with population growth, while feed use is forecast to increase by 4 per cent to 137 million tonnes.

World wheat trade is forecast to increase by 5 per cent in 2013-14 to 148 million tonnes in response to higher world production and stronger demand, particularly from China and Egypt.

- Wheat (Australia)

Australian wheat production is forecast to increase by 17 per cent in 2013-14 to around 26.2 million tonnes. Production increases are forecast in WA, SA and VIC, while falls in production are forecast in NSW and QLD.

The largest increase in production is expected to be in WA, where production is forecast to rise by 45 per cent in 2-13-14 to around 9.6 million tonnes. Seasonal conditions during spring were favourable across most of WA's cropping zone. September rainfall was above to very much above average in many cropping regions, benefiting maturing crops in the central and southern regions of the state. If this production forecast is realised, WA wheat production this season would be the third highest on record.

In SA, wheat production is forecast to rise by 39 per cent in 2013-14 to 5.2 million tonnes, largely driven by forecast above average yields. Rainfall during spring was below average and temperatures were above average. However, favourable seasonal conditions during winter put crops in good condition at the start of spring.

Production in Victoria is forecast to increase by 3 per cent in 2013-14 to 3.6 million tonnes. The forecast increase reflects an estimated 2 per cent rise in planted area and a slightly higher average yields than last season.

By contrast, wheat production in NSW is forecast to fall by 6 per cent in 2013-14 to around 6.7 million tonnes and by 21 per cent in QLD to 1.2 million tonnes. Hot and dry conditions in both states during spring followed unfavourable seasonal

conditions during winter. Frost events also adversely affected crops in southern QLD and northern NSW in August and in central and southern NSW in October. Yields in both states are expected to be generally than last year.

The volume of Australian wheat exports is forecast to decline by 13 per cent in 2013-14 to around 18.6 million tonnes. Although wheat production is forecast to increase, the supply of wheat available for export is expected to decline because of lower carry-over stocks from the 2012-13 season. The value of wheat exports is forecast to decline by 6 per cent to \$6.4 billion.

Wheat outlook

		2011-12	2012-13 s	2013-14 f	% change
World					
Production	Mt	695	655	705	7.7
– China	Mt	117	121	121	-0.1
– European Union	Mt	137	132	143	8.3
– India	Mt	87	95	93	-2.5
– Russian Federation	Mt	56	38	51	35.2
– United States	Mt	54	62	58	-6.0
Consumption	Mt	696	673	694	3.1
– human	Mt	461	466	471	1.1
– feed	Mt	153	131	137	4.4
Closing stocks	Mt	194	175	186	6.3
Stocks-to-use ratio	%	28	26	27	
Trade	Mt	145	141	148	5.1
Exports a					
– Argentina	Mt	13	4	5	19.0
– Australia b	Mt	23	21	19	-12.6
– Canada	Mt	18	20	23	15.4
– European Union	Mt	17	24	25	7.7
– Kazakhstan	Mt	11	7	8	7.6
– Russian Federation	Mt	22	11	15	35.9
– Ukraine	Mt	5	7	9	32.9
– United States	Mt	29	27	30	9.2
Price c	US\$/t	299	348	315	-9.4
Australia					
Area	'000 ha	13 902	12 773	13 512	5.8
Production	kt	29 905	22 461	26 213	16.7
Exports b	kt	23 026	21 265	18 579	-12.6
– value	A\$m	6 378	6 776	6 372	-6.0
APW 10 net pool return	A\$/t	263	326	333	2.2

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

- Coarse Grains (global)

The world coarse grains indicator price (US corn, fob Gulf) is forecast to fall by 29 per cent in 2013-14 to US\$220 a tonne. This mostly reflects a record corn harvest in the US. The world indicator price for barley (French Rouen feed) is forecast to fall by 18 per cent to US\$243 a tonne, driven by an increase in world barley supplies.

World coarse grains production is forecast to increase by 11 per cent in 2013-14 to 1.25 billion tonnes, largely driven by an increase in corn production. World corn production is forecast to rise by 12 per cent in 2013-14 to 964 million tonnes, driven by a large rise in production in the US. World barley production is forecast to increase by 11 per cent in 2013-14 to 144 million tonnes, reflecting higher yields in most major producing countries.

World consumption of coarse grains is forecast to increase by 7 per cent in 2013-14 to 1.22 billion tonnes. This forecast rise mainly reflects an expected 9 per cent increase in the use of feed grains in livestock production (to 726 million tonnes). World use of corn for livestock feed is forecast to rise by 10 per cent in 2013-14 to 567 million tonnes and world use of barley for livestock is forecast to rise by 6 per cent in 2013-14 to 94 million tonnes.

World coarse grains trade is forecast to rise by 14 per cent in 2013-14 to 135 million tonnes, reflecting an expected increase in supplies available for export, especially corn, and forecast falls in world prices. World corn trade is forecast to rise by 15 per cent in 2013-14 to 105 million tonnes and world barley trade is forecast to increase by 7 per cent in 2013-14 to around 20 million tonnes, largely the result of increased exports from the EU, Canada, Australia, the Russian Federation and Ukraine.

- Coarse Grains (Australia)

Australia coarse grain production is forecast to rise by around 6 per cent in 2013-14 to 12.2 million tonnes, driven by a forecast increase in barley production. At this forecast level, coarse grains production in 2013-14 will be around 3 per cent above the five year average to 2012-13.

Barley production is forecast to rise by 15 per cent in 2013-14 to 8.6 million tonnes. If realised, this would be the third largest barley crop on record. Production in WA is forecast to increase by 25 per cent to around 2.8 million tonnes because seasonal conditions in spring were favourable. Spring seasonal conditions were also generally favourable in SA and VIC where barley production is forecast to increase by 28 per cent and 13 per cent, respectively. By contrast, barley production is forecast to fall in NSW and QLD, with yields expected to be lower than last year because of unfavourable seasonal conditions.

The area planted to grain sorghum is forecast to fall by 7 per cent in 2013-14 to around 552 000 hectares, reflecting dry planting conditions. The unfavourable seasonal conditions and delays in planting are expected to lower yields from last year and grain sorghum production is forecast to fall by around 20 per cent to 1.6 million tonnes.

Total Australian coarse grains exports are forecast to rise by 4 per cent in 2013-14 to 7 million tonnes. Barley exports are forecast to increase by 15 per cent to 5.9

million tonnes, reflecting increased production, particularly in the export oriented states of WA and SA. By contrast, exports of grain sorghum are forecast to fall by 33 per cent to 863 000 tonnes.

The total value of coarse grains exports is forecast to fall by 2 per cent in 2013-14 to \$2.1 billion. This mainly reflects a forecast fall in export earnings from grain sorghum, corn and oats. The value of grain sorghum exports is forecast to fall by 24 per cent to \$277 million. By contrast, the value of barley exports is forecast to rise by 5 per cent to \$1.7 billion in 2013-14.

Coarse grains outlook

	unit	2011-12	2012-13 <i>s</i>	2013-14 <i>f</i>	% change
World					
Production	Mt	1 151	1 131	1 254	10.9
– barley	Mt	134	130	144	10.8
– corn	Mt	886	863	964	11.7
Consumption	Mt	1 134	1 140	1 217	6.8
Trade	Mt	147	118	135	14.4
Closing stocks	Mt	165	165	202	22.4
Stocks-to-use ratio	%	15	14	17	
Corn price					
(fob Gulf, Jul–Jun)	US\$/t	281	312	220	-29.5
Barley price					
(fob Rouen, Jul–Jun)	US\$/t	270	296	243	-17.9
Australia					
Area	'000 ha	5 323	5 255	5 391	2.6
– barley	'000 ha	3 718	3 622	3 807	5.1
– grain sorghum	'000 ha	659	595	552	-7.2
Production	kt	12 457	11 511	12 212	6.1
– barley	kt	8 221	7 466	8 620	15.5
– grain sorghum	kt	2 239	2 005	1 608	-19.8
Exports <i>a</i>	kt	7 911	6 746	7 033	4.3
– value	A\$m	2 245	2 094	2 053	-2.0
Feed barley price <i>b</i>	A\$/t	197	244	209	-14.3
Malting barley price <i>c</i>	A\$/t	201	255	227	-11.0

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 Nations Comtrade database; United States Department of Agriculture

Oilseeds

The lower oilseeds indicator price (US soybeans, fob Gulf) is forecast to decline by 15 per cent in 2013-14 to US\$510 a tonne. The prospect of a record crop in Latin America, particularly in Brazil, and rising world stocks are expected to place downward pressure on the world oilseeds indicator price in the second half of 2013-14. The world canola indicator price (Europe rapeseed, fob Hamburg) is forecast to fall by 20 per cent in 2013-14 to US\$500 a tonne, mainly reflecting increases in production in Canada and the EU.

World oilseeds production is forecast to rise by 6 per cent in 2013-14 to a record 498 million tonnes, driven by forecast record production of soybeans and canola. World canola production is forecast to increase by 11 per cent in 2013-14 to more than 69 million tonnes, primarily reflecting estimated record production in Canada. World production of soybeans is forecast to rise by 7 per cent in 2013-14 to a record 284 million tonnes. This largely reflects forecast higher production in Latin America, assuming favourable seasonal conditions prevail, and higher production in the United States.

World consumption of oilseeds is forecast to increase by 5 per cent in 2013-14 to a record 485 million tonnes. World consumption of vegetable oils is forecast to increase by 6 per cent in 2013-14 to 165 million tonnes, with both food consumption and industrial use of vegetable oils increasing.

- Oilseeds (Australia)

Australian canola production is forecast to fall by 15 per cent in 2013-14 to 3.4 million tonnes, driven by large declines in production in NSW and VIC. Production is expected to increase in the other major producing states of WA and SA. If this forecast is realised, canola production in Australia would be the third highest on record.

Canola production is forecast to fall by 46 per cent in NSW to 715 000 tonnes and by 42 per cent in VIC to around 540 000 tonnes. In NSW, the planted area is estimated to have fallen by 41 winter and spring. Canola crops were also affected by frost in October, particularly in the southern part of the state. In VIC, the forecast fall in production reflects an estimated 36 per cent decline in planted area and the adverse effects on yields of significant frosts in early spring.

By contrast, canola production is forecast to rise by 29 per cent in WA to 1.7 million tonnes and by 5 per cent in SA to 456 000 tonnes. In WA, the forecast increase is driven by an expected 28 per cent rise in the average yield. This is largely the result of favourable conditions during spring. In SA, the forecast rise is driven by expected higher yields. The planted area in SA is estimated to have fallen by 18 per cent.

Canola exports are forecast to fall by 25 per cent in 2013-14 to 2.6 million tonnes, largely reflecting the forecast decline in domestic production. In 2013-14 the EU and China are forecast to be the primary importers of Australian canola. The value of canola exports is forecast to decline by 31 per cent to \$1.4 billion in 2013-14, reflecting expected lower shipments and weaker prices.

Oilseeds outlook

	unit	2011–12	2012–13 s	2013–14 f	% change
World					
Production	Mt	445	470	498	6.0
Consumption	Mt	465	464	485	4.5
– oilseed meal	Mt	258	263	274	4.2
– vegetable oil	Mt	153	156	165	5.8
Exports	Mt	111	115	126	9.6
Closing stocks	Mt	65	72	85	18.1
Stocks-to-use ratio	%	14	15	17	
Soybeans indicator price a	US\$/t	506	597	510	–14.6
Canola indicator price b	US\$/t	621	628	500	–20.4
Australia					
Total production	kt	5 289	5 602	4 918	–12.2
– winter	kt	3 440	4 023	3 425	–14.9
– summer	kt	1 849	1 579	1 493	–5.4
Canola					
Production	kt	3 427	4 010	3 410	–15.0
Exports c	kt	2 323	3 488	2 621	–24.9
– value	A\$m	1 344	2 094	1 437	–31.4
Price c (delivered Melbourne)	A\$/t	521	560	509	–9.1

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

The world indicator price for cotton (Cotlook 'A' index) is forecast to average US86 cents a pound in 2013-14 (August to July), compared with around US88 cents a pound in 2012-13. The forecast price decline reflects a forecast increase in the world stocks-to-use ratio to record levels as world cotton stocks increase further.

World cotton production is forecast to decline by around 3 per cent in 2013-14 to 25.7 million tonnes. This reflects a fall in world cotton plantings in response to favourable prices for alternative crops and dry seasonal conditions in the US. Lower cotton production is forecast in the US, China, Turkey and Uzbekistan in 2013-14, more than offsetting forecast production increases in India, Brazil and Pakistan.

World cotton consumption is forecast to increase by 2 per cent in 2013-14 to 23.9 million tonnes, reflecting assumed economic growth in apparel consuming countries, particularly India, Pakistan and Turkey. Chinese cotton consumption is forecast to remain largely unchanged at 7.8 million in 2013-14 as a result of relatively high domestic prices. Relatively low prices for alternative fibres, particularly polyester, are expected to provide strong competition for cotton, constraining consumption growth.

World cotton exports are forecast to be 8.6 million tonnes in 2013-14, 15 per cent lower than 2012-13. This forecast decline reflects expected lower cotton production in major exporting countries, particularly the US and Australia, and forecast lower import demand by China.

- Cotton (Australia)

Australian cotton production is forecast to be 975 000 tonnes in 2013-14, compared with 1 million tonnes in 2012-13. The forecast reflects a combination of relatively favourable cotton prices in Australia and plentiful supplies of irrigation water in almost all Australian cotton producing regions. The average storage level of public irrigation dams serving Australian cotton growing regions was 63 per cent of capacity on 19 November 2013, compared with an average of 42 per cent at the same time for the 10 years to 2011.

The return to Australian cotton growers at the gin-gate is forecast to increase by 4 per cent in 2013-14 to \$493 a bale of lint (including the value of cottonseed and net of ginning costs), with the assumed depreciation of the Australian dollar more than offsetting the forecast fall in world prices. The forecast return to cotton growers is lower than the average of the 10 years to 2011-12 of \$545 a bale (2013-14 dollars), but still favourable when compared with returns for production alternatives.

Australian cotton exports are forecast to be 987 000 tonnes in 2013-14, 24 per cent lower than the record 1.3 million tonnes of 2012-13. This forecast decline reflects lower cotton production in 2012-13 and 2013-14. Almost all Australian cotton production is exported and the typical March to June harvest period means Australian cotton production in one season is exported across two financial years. If realised, this forecast export volume would maintain Australia's position as the world's third largest exporter of cotton, behind the US and India.

Cotton outlook

	unit	2011–12	2012–13 s	2013–14 f	% change
World a					
Production	Mt	27.2	26.4	25.7	-2.7
Consumption	Mt	22.5	23.4	23.9	2.1
Exports	Mt	10.0	10.1	8.6	-14.9
Closing stocks	Mt	15.9	19.2	20.8	8.3
Stocks-to-use ratio	%	70.5	82.1	87.2	
Cotlook 'A' index	USc/lb	100.1	87.9	86.0	-2.2
Australia b					
Area harvested	'000 ha	600	442	413	-6.6
Lint production	kt	1 198	1 002	975	-2.7
Exports	kt	994	1 306	987	-24.4
– value	A\$m	2 736	2 695	2 181	-19.1

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

Dairy

- World prices for dairy products are forecast to average higher in 2013-14. This reflects limited growth in supplies from key exporting countries and continuing firm world import demand.

World dairy product prices rose strongly in March and April 2013 largely in response to strong import demand, particularly for milk powders, and lower milk production in the main dairy exporting countries. Prices have since remained high, averaging 9 per cent to 30 per cent higher year-on-year in the first quarter of 2013-14. World dairy product prices are not expected to soften until early 2014 when increased supplies are expected to enter the world market from the EU, NZ and the US.

World dairy product prices are forecast to rise by between 6 per cent and 20 per cent in 2013-14, with milk powder prices forecast to increase the most. In 2013-14 world prices for whole milk powder are forecast to rise by around 20 per cent and of skim milk powder by 15 per cent to average US\$ 4600 a tonne and US\$ 4290 a tonne respectively.

Global milk production is forecast to increase in 2013-14. This increase largely reflects forecast lower feed grain prices and a return to favourable seasonal conditions in the main dairy exporting countries.

- Dairy (Australia)

The Australian average farm-gate price for milk is forecast to increase by around 22 per cent in 2013-14 to 47.8 cents a litre, reflecting the effect of higher world dairy product prices and an assumed depreciation of the Australian dollar.

Australian milk production is forecast to decline slightly to 9.1 billion litres in 2013-14. Increased production in dairy regions in northern VIC is likely to be offset by reduced production in western VIC and northern NSW because of dry seasonal conditions. Australian milk production declined by 4 per cent year-on-year in the first quarter of 2013-14, with the largest decline in western VIC.

The national dairy cow herd is estimated to have risen slightly in 2012-13 to around 1.71 million head and is forecast to remain around this level in 2013-14. The small increase in the dairy herd in 2012-13 mostly occurred in NSW and WA.

The total value of Australian dairy exports is forecast to increase by around 24 per cent in 2013-14 to \$2.8 billion, reflecting forecast higher dairy prices on world markets and an assumed depreciation of the Australian dollar.

Dairy outlook

	unit	2011-12	2012-13 s	2013-14 f	% change
Australia					
Cow numbers a	'000	1 700	1 707	1 710	0.2
Milk yields	L/cow	5 577	5 389	5 339	-0.9
Production					
Total milk	ML	9 480	9 200	9 130	-0.8
– market sales	ML	2 389	2 450	2 432	-0.7
– manufacturing	ML	7 092	6 750	6 698	-0.8
Butter b	kt	120	118	117	-0.8
Cheese	kt	347	338	336	-0.6
Whole milk powder	kt	140	109	108	-0.9
Skim milk powder	kt	230	224	223	-0.4
Farmgate milk price	Ac/L	42.1	39.0	47.7	22.3
Value of exports	A\$m	2 292	2 229	2 766	24.1
World prices					
Butter	US\$/t	3 883	3 727	4 100	10.0
Cheese	US\$/t	4 258	4 150	4 400	6.0
Skim milk powder	US\$/t	3 233	3 731	4 290	15.0
Whole milk powder	US\$/t	3 431	3 831	4 600	20.1

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

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia