

Agribusiness Outlook 2021

Australia

January 2021

RaboResearch
Food & Agribusiness



In a Turbulent Environment, Mother Nature Deals Australian Farmers a Winning Hand for Now

The world is a turbulent place as 2021 gets underway

- The Covid-19 pandemic continues to rage, with national and regional lockdowns still very much part of the landscape.
- Market intervention is back in vogue, with grain exporting countries considering export quotas and taxes as they fret over food security, while port strikes impeded trade flows elsewhere.
- Britain and the EU have divorced.
- Political tensions in the US are riding high as a tumultuous presidency ends.
- Meanwhile, trade wars and political payback are distorting the direction and price of traded goods.

Despite the turbulence, demand for F&A products in most cases remains surprisingly firm

- Several major importing countries (China especially) appear to be stockpiling to mitigate any risk of shortages.
- Unprecedented ongoing support from governments is helping to offset the impact of the pandemic on employment and incomes (and hence spending on food) in many countries.
- Foodservice markets, however, remain compromised.

Weather has finally turned in favour of Australian farmers

- Locally, above-average rainfall in 2020 set up a very good winter crop and higher-than-usual soil moisture to open 2021, and significantly increased storages across the Murray-Darling Basin – improving broad acre farm incomes, boosting locally grown feed, and underpinning better water allocations for irrigators.

- At the same time, the weather has crimped the production prospects of competitors offshore, with large parts of the US, Latin America, and eastern Europe unusually dry, helping to significantly tighten global markets and drive up global commodity prices.

While Mother Nature is supporting Australian farmers at the moment, the Chinese government is in a less generous mood

- Tensions between the two countries show no sign of easing.
- Australian barley, wine, and timber remain effectively blocked as we enter 2021, while informal impediments appear to be crimping shipments of cotton, lobsters, and wheat.
- The loss of trade is evident in data now available, with the value of shipments to China falling 33% below last year's (unusually large) exports in November (though the 10% MOM fall is probably more representative of the political damage).
- While the spectre of further loss of access hangs heavily over the Australian industry, the data to date suggests that many products are still flowing through. In November, AUD 800m of F&A products were still shipped to China.

Despite the punitive actions of China, high prices, low interest rates, and seasonal conditions are underpinning a profitable season for most farmers in 2020/21.

The Australian government and industry can rightfully also take some credit for keeping supply chains open.

Although, labour shortages loom as a significant challenge for horticulture in particular in the coming months.

Solid Demand, Adverse Weather Offshore, and Political Disruption Keep Local Commodity Prices High

Rabobank Rural Commodity Price Index (Australian dollar based)



Source: Bloomberg, MLA, Rabobank 2021

Note: Index is comprised of local prices for wheat, barley, canola, sorghum, beef, lamb, dairy, wool, sugar, and cotton, expressed in Australian currency and weighted according to their share of the value of production of Australian farmers (using the sum of the value of these products as the denominator).

Bumps Ahead, but Still a Good Chance of a Soft Landing on Solid Ground in early 2021/22

Keep your seatbelts fastened; there are still bumps ahead

- The 2021 outlook is still bristling with risk, bringing even more uncertainty than prior years.
- The pandemic in the US and EU will probably not start to look materially better late Q2 2021, as winter passes and the vaccine rollout makes serious ground.
- Having avoided a major second wave in early northern hemisphere winter, infections rose strongly early in the new year in Japan, South Korea, and parts of Southeast Asia – with even China having its worst outbreak in five months.
- There are commodity-specific risks to navigate (particularly potential Chinese dairy destocking, and local labour shortages in horticulture).

And some headwinds are picking up

- Australian exporters will face a much stronger AUD in 2021.
- We expect that global production of animal protein will rise in 2021 after two years of contraction that helped support prices across the complex. While China's recovery from African swine fever will be central to this, we see production growth in most regions for most terrestrial species – bringing both a more balanced world market and greater competition for Australian exporters.

But Australian ag looks to be heading for a soft landing on solid ground as 2021/22 gets underway

- The global economy will likely improve as we move beyond Q1, as infection rates ease and activity levels improve.
- Governments appear set to continue supporting consumers for as long as it takes for the real economy to improve, with the tab for that pushed well beyond this year. That should underpin incomes and employment at a higher level than otherwise possible, helping to sustain food and beverage sales.
- While daily Covid-19 infections are at record levels globally, it has been controlled far better at home and in most of Australia's key export markets in Asia – ensuring the country's ag industry is well oriented to benefit from faster-recovering markets.
- While global animal protein is on the rise, it will not regain the ground lost in the last two years in 2021 alone, helping to avoid a sharper correction in export pricing for beef and sheep markets.
- Grain and oilseed markets should remain well supported from rising feed demand, importers' desire to stay well stocked in an uncertain year, and a poor coming season for northern hemisphere production.

Three Major Transitions Are in Train in 2021

A generally profitable 2020/21 season is timely for Australian agriculture. Not only will it help start the recovery process from the recent east coast drought, but it will also put farmers in a stronger position as they navigate three major transitions.

The pandemic recovery:

- End demand for food and fibre was propped up through most of 2020 in many key markets by government assistance programs for consumers.
- 2021 will see a delicate transition to more sustainable footing for this demand, as governments look to withdraw support and pass on to improving employment and incomes.
- If they mess that up, we could easily see demand soften during this transition.

Reducing reliance on China:

- Whether China continues to reduce its purchases of Australian F&A products in the coming years (as we think likely) or not, the risks of supplying this market have definitely increased.
- 2021 will likely mark a watershed year, in which Australia starts to reduce its reliance on China, voluntarily or otherwise.
- Current global market settings make that seem less daunting. But reorientation is a multiyear challenge that will still be ongoing when the market cycle inevitably turns again.

Increasing (and recording) sustainability:

- Covid-19 took a lot of attention from climate in 2020, but it didn't alter the commitment of key players throughout the F&A supply chain to mitigate climate change, prepare for its risks, and find mechanisms to reduce and or/recoup the costs of adjustment.
- In 2021, we envisage many farmers beginning to see opportunities and challenges appear within the farmgate. This may include new market options, but also increased regulation and reporting of production practices.
- The stronger industry balance sheets are, the better placed the industry will be to manage through what may prove to be the greatest of all transitions.

Tim Hunt

Head of Food & Agribusiness Research, Australia & New Zealand

2021 Commodity Outlook

 Wheat	We expect strong global demand to keep wheat prices firm through 2021.
 Feed grains	Rabobank expects rising global feed grain demand and supply constraints to support feed grain prices in 2021.
 Beef	2021 will be a rebuild year, with favourable conditions triggering increased breeding numbers and reduced slaughter keeping cattle prices firm.
 Sheepmeat	Lamb prices will remain strong but fall short of recent record levels given weaker demand and increasing lamb numbers.
 Wool	Rabobank expects recovery in global consumer demand to lift wool prices in 2021.
 Dairy	There is strong cause for optimism that profitable market settings will extend into the 2021/22 season.
 Sugar	A balanced global 2021 supply outlook is met with significant risks – namely La Niña, trade flows, and Covid-19.
 Cotton	Production is set for a sharp recovery in 2021, as demand recovers post Covid-19.

2021 Commodity Outlook



Wine

In 2021, Covid-19 disruptions to foodservice will continue to underpin retail demand for wine, but the challenge presented by Australia's geopolitical tensions with China will put pressure on average export prices.



Horticulture

Rabobank expects demand for quality and safe horticultural produce in key markets to remain strong. But, Covid-19-disruptions at home and geopolitical tensions will likely take the shine off.



Land

A big 2020/21 season for Australian ag will accelerate demand for properties and push up prices further in 2021.



Fertiliser

Rabobank expects that the new-found price strength across the global fertiliser complex will tail off during Q2 2021, leaving the market again exposed to heavy supplies and growing production capacity.



FX

We expect the Australian dollar to largely hold the gains it made through late 2020, bringing the highest average AUD/USD exchange in seven years in 2021.



A Wetter-Than-Average First Half of 2021 Likely



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La Niña conditions are likely to bring wetter-than-average conditions to much of Australia for the first half of 2021.

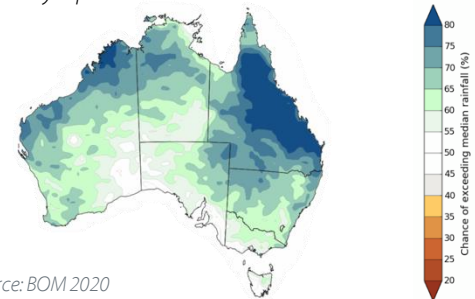
The latest outlook from the Bureau of Metrology (BOM) suggests that parts of central and northern QLD have the greatest chance (>80%) of exceeding median rainfall, while BOM rates the rest of the country between 55% and 80%.

BOM expects La Niña has now reached its peak, although that does not necessarily mean its influence on rainfall has also peaked. On the east coast, the wet La Niña signal is being amplified by a strongly positive Southern Annual Mode (SAM), which is likely to continue for the remainder of January.

A majority of international models expect El Niño–Southern Oscillation (ENSO) and Indian Ocean Dipole (IOD) will be neutral for most of the first half of 2021. Seven of eight models expect La Niña will have concluded by March.

The three-month outlook favours wetter-than-average conditions

February–April rainfall outlook

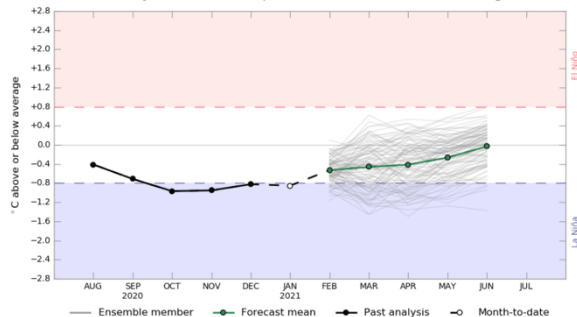


Source: BOM 2020

ENSO is weakening and trending toward neutral

Monthly sea surface temperature anomalies for Central Pacific Ocean

Monthly sea surface temperature anomalies for NINO3.4 region

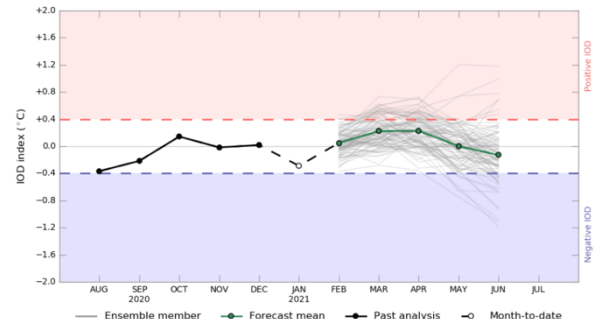


Source: BOM 2020

IOD is likely to remain neutral during 1H 2021

Monthly sea surface temperature anomalies for Indian Ocean

Monthly sea surface temperature anomalies for IOD region



Source: BOM 2020

2020: Drought Despair to Downpour Delight



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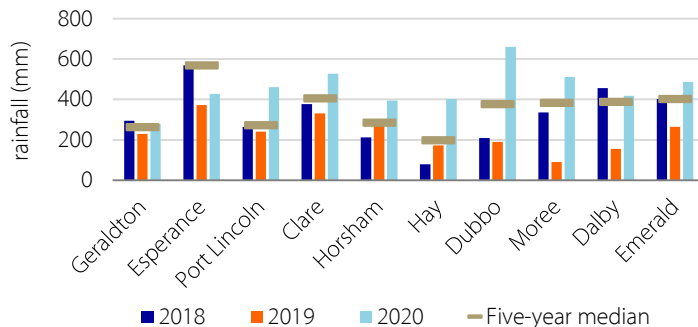
Australia went from drought despair to downpour delight during 2020, aiding to protect the revenue of Australian farmers from the Covid-19 economic crisis.

Following what was Australia's driest year on record, much of the east coast of Australia started 2020 in a state of drought. Drought conditions began to ease when cyclonic activity delivered very much above-average rainfall from February to April.

The major climate drivers were neutral for most of the year. A La Niña was declared in September, before reaching moderate strength by the end of the year.

Rainfall finished 4% above average nationwide, while 2020 was the fourth warmest year on record. Annual rainfall across QLD was 7% below average, where some regions remain drought-declared. Parts of WA are also rainfall deficient.

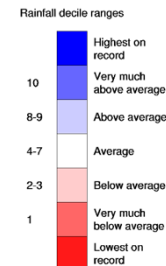
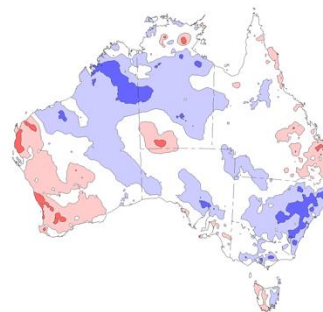
2020 recorded rainfall



Source: BOM 2020

Rainfall in NSW was 14% above average

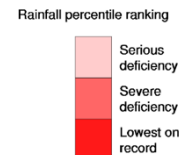
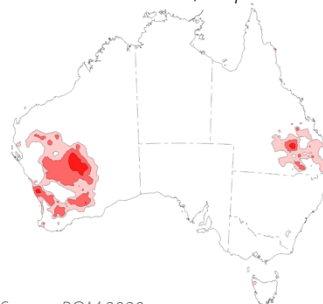
Australian rainfall deciles, 2020



Source: BOM 2020

Parts of QLD & WA remain affected by dry conditions

Rainfall deficiencies, 1 April to 31 December 2020



Source: BOM 2020

Global Demand to Keep Prices Firm

Strong demand and supply uncertainty will support already firm global wheat prices in 2021. Rabobank forecasts CBOT wheat to trade between USc 640/bu and USc 665/bu through 2021, up 19% on the 2020 average. For Australia, a return to favourable seasonal conditions and replenished stocks will expose domestic prices to global movements. We forecast track NWC to trade between AUD 300/tonne and AUD 330/tonne in 2021.

Global production in 2020/21 is currently forecast by the USDA at 772m tonnes, +1.1% YOY. But production estimates are likely to decline in the coming months due to poor weather in the northern hemisphere. In the central and western US, drought conditions are worsening, particularly in hard red winter growing regions. The Black Sea, southern, and North Caucasus regions of Russia, where ~58% of the nation's wheat is grown, are also dry. Furthermore, due to domestic inflation concerns, the Russian government has imposed export taxes of USD 61/tonne on wheat to keep more in the domestic market from March 1 to June 30, and possibly longer.

On the demand side, key importers are reducing trade barriers to shore up supplies and avoid inflation. Morocco removed import taxes on soft wheat until the end of May. China, typically a small importer, is expected to import 9m tonnes in 2020/21, 121% above its five-year average.

We expect strong demand and supply constraints to spell good news for Australian prices.

Local wheat prices are holding up nicely despite the near-record crop. As of January 15, APW NWC was trading at AUD 297/tonne. Although 28% below the drought-impacted price of January 2020, it was 33% higher than the last time we had such a big harvest (January 15, 2017). The 2020/21 Australian wheat crop is forecast by ABARES at 31.17m tonnes, up 106% YOY and only 2% below the record 2016/17.



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Wheat

What to Watch

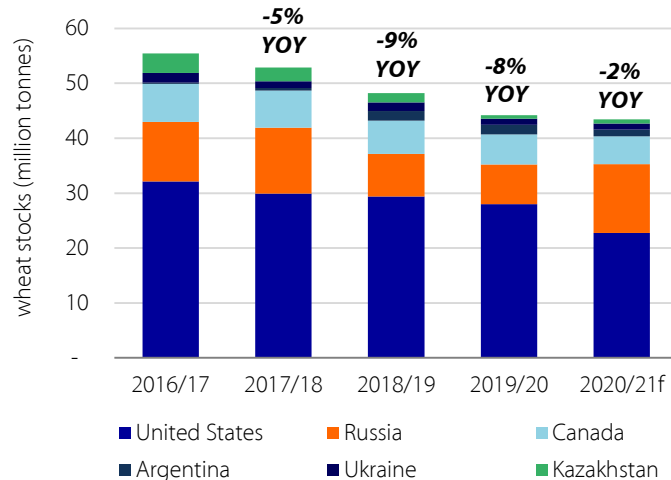
- ***La Niña peaking, but rainfall may continue*** – In its mid-January outlook, the Australia Bureau of Meteorology stated that La Niña has likely already peaked but that its influence on rainfall may not have peaked yet. The BOM outlook predicts increased chances of above-average rainfall through April and May on the east coast, which would boost soil moisture and support planting efforts. While continued La Niña activity is good news for the Australian east coast, the opposite is true for parts of the northern hemisphere and South America, where dryness is common during this weather system.

Stocks Fall in Key Export Regions, Wheat Prices Rise



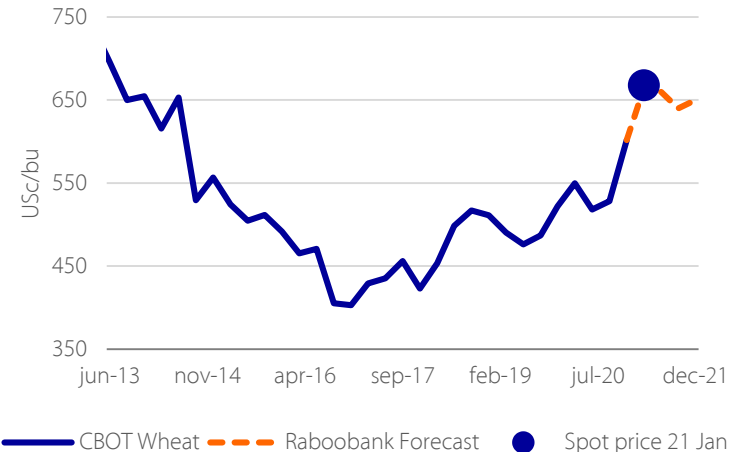
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Stocks in key export regions (excl. Australia) continue to decline



Source: USDA, Rabobank 2021

CBOT Wheat to stay firm as demand increases and concerns over supply disruptions rise



Source: Bloomberg, Rabobank 2021
Forecast date – 01/2021

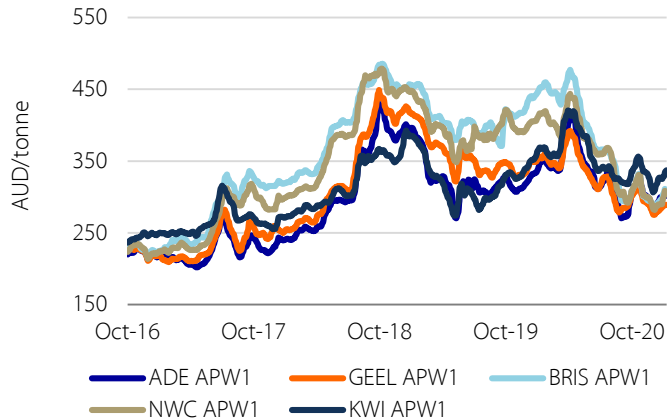
Strong demand for wheat from importers has led to another forecast reduction in stocks in key export markets by the USDA. Uncertainty over production in the US, due to drought conditions, and uncertainties over export availability from Russia, due to increasingly anti-export policies by the government, kept prices firm in 2020. Rabobank expects these forces to keep prices firm in 2021.

Local Prices Hold up Well Despite Near-Record Crop



Rabobank

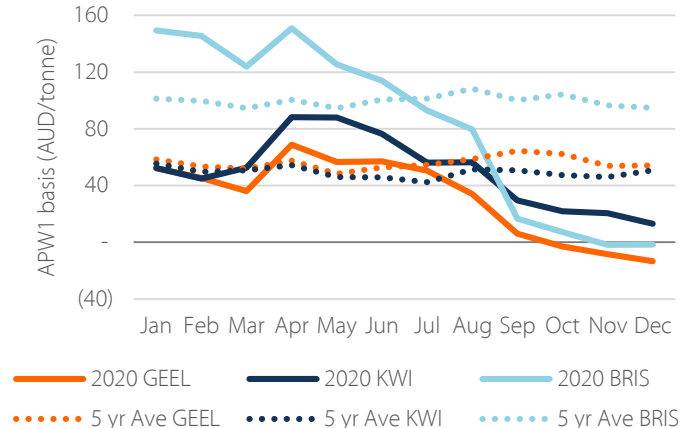
Global and local factors will keep east coast APW1 above 2016/17 levels in 2021



Source: Bloomberg, Rabobank 2021

* All track prices, except for Kwinana, which is FIS

East coast basis temporarily turns subzero as domestic supplies replenish local stocks and head to export markets



Source: Bloomberg, Rabobank 2021

An average of east coast track prices shows APW1 prices down 26% YOY. However, when compared to the last crop of similar magnitude, the record 2016/17 year, prices are actually up a staggering 34% YOY. While a lower and now negative basis on all east coast ports implies increased export opportunities, it also means that Australian prices will be at the mercy of global supply and demand.

China Pushes Feed Prices Higher

Strong feed grain demand and supply constraints have boosted global feed prices. We forecast CBOT corn to trade between USc 480/bu and USc 540/bu in 2021, below current levels but still 41% higher YOY. With the drought mainly over, global forces will be key in determining Australian prices this year. We expect feed barley, a common substitute for corn in feed rations, to trade between AUD 245/tonne and AUD 275/tonne BRIS track in 2021.

Global feed demand has risen notably, as China rebuilds its hog herd. Rabobank expects Chinese feed demand to increase by 8% YOY in 2021, and total imports of corn, sorghum, and barley in 2020/21 could more than double. The USDA expects global corn demand to rise by 20m tonnes and barley demand by 1m tonne in 2020/21.

Global stocks of corn (excl. China) are expected to close 2020/21 down 10% YOY, with production up only 2% YOY. Severely depleted US corn stocks, a delayed harvest in Brazil due to dryness, and temporary unavailability of corn from Argentina pushed CBOT corn prices up 37% YOY as of mid-January 2021. Global barley production (156m tonnes) and ending stocks (20.4m tonnes) are only marginally higher YOY. However, prices are expected to be supported by depleting corn stocks in many key exporting nations.

If rains are timely and herds start to be rebuilt, feed demand, particularly in northern NSW and QLD, will decline. The decline in cattle on feed is likely to be marginally less than in previous years where conditions improved. With increasing consistency in grain-fed beef export demand, the feedlot system is slowly becoming more consistent too. Feed demand in the poultry, pork, and aquaculture sectors is not typically influenced by drought, and hence, we do not expect any notable changes in demand. At this point, **Rabobank expects national feed grain demand (excl. on-farm drought feeding) to decline 4% in 2020/21.**



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Feed Grains

What to Watch

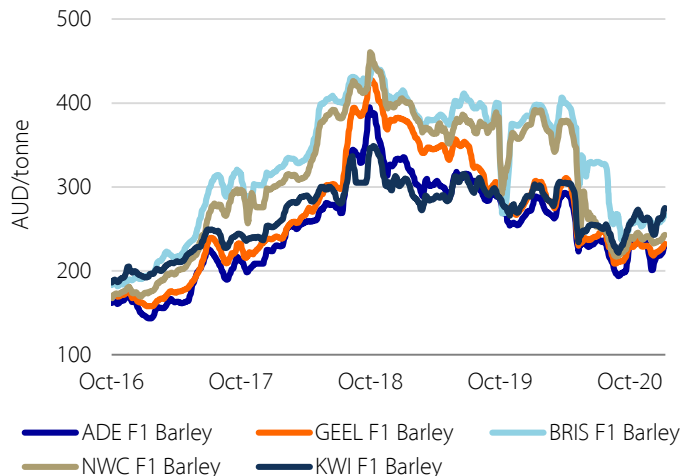
- **Australian cattle on feed** – Latest industry data has not shown a notable reduction in cattle on feed across Australia. But with an above-average rainfall expected by the Bureau of Meteorology between January and April, there is a strong probability of reduced cattle on feed data in the next Australian Lot Feeders' Association report.
- **2021 US corn crop planting in April** – With much of the central US in drought and corn planting coming up in April, sowing conditions are worth keeping an eye on. Reduced planting due to poor soil moisture, and hence reduced production, will mean further support for feed prices in 2021.

Barley Prices Hold up Well on Strong Global Feed Demand and Supply Constraints



Rabobank

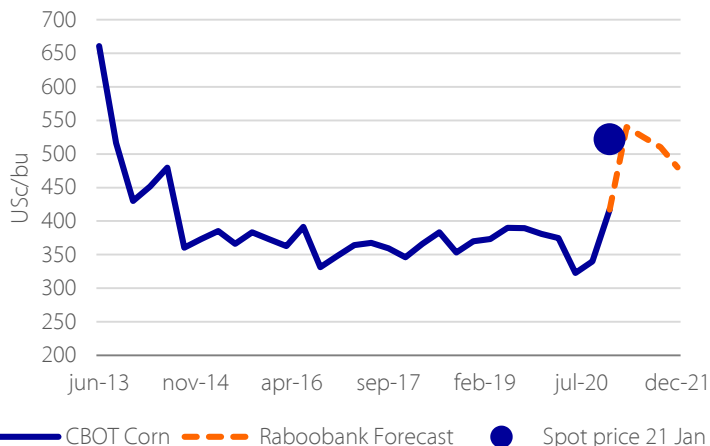
Barley prices hold up well despite renewed supply and China's import tariffs



Source: USDA, Rabobank 2021

* All track prices, except for Kwinana, which is FIS

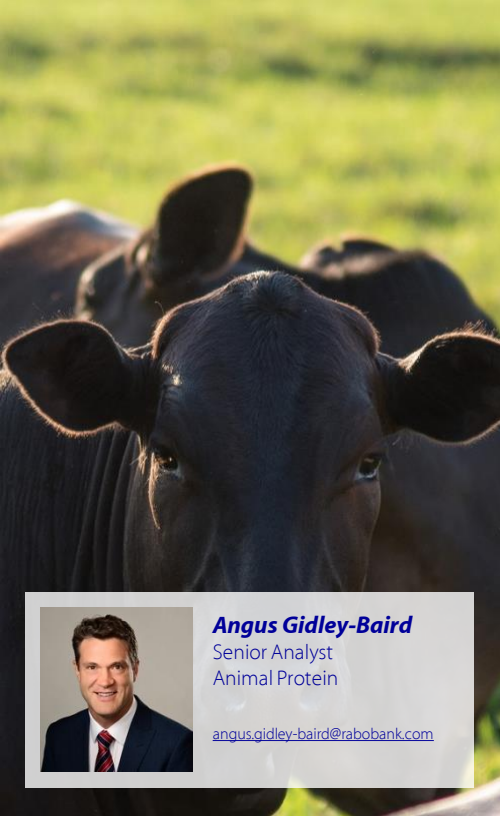
CBOT Corn firm but expected to move lower as new supplies come on line in 2H 2021



Source: Bloomberg, Rabobank 2021

Forecast date – 01/2021

An average of east coast track prices shows Feed1 Barley prices down 31% YOY. However, when compared to the last crop of similar magnitude, the record 2016/17 year, prices are actually up a staggering 41% YOY despite China's anti-dumping tariffs on Australian exports. Recovering global feed demand on the back of the Chinese hog herd rebuild and further potential for supply disruption is forecast by Rabobank to keep prices firm.



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Beef

Time to Beef up the Herd

Favourable seasons allow strong herd rebuilding. After a slow start to herd rebuilding through 2020 – high female slaughter rates up to September suggested a more trading-dominated system rather than herd rebuilding – with favourable weather conditions across many cattle-producing areas, we expect 2021 will be the year of the rebuild. Our modelling indicates an increase in the breeding herd of about 9% for 2021.

Low inventory and rebuilding will keep slaughter numbers low. Although stock numbers will build through 2021, we believe the overall reduced number of cattle – cattle inventory remains at 25+ year lows – plus the competitive buying by producers will keep slaughter numbers low. We estimate that slaughter numbers in 2021 will be similar to, or slightly lower than, 2020 levels. Feedlot numbers are expected to fall but recover as the year progresses.

Limited stock numbers and producer restocking demand to keep cattle prices strong.

Australian cattle prices are being driven by demand from local producers. NZ cattle producers – who share similar export markets – have seen their cattle prices track at or below their five-year average for most of 2020, whereas Australian cattle prices (feeder steer price) are tracking 20% to 30% higher than the five-year average. We believe this domestic producer demand will keep prices strong through 2021, but we will see them ease – particularly in 2H – as numbers rebuild. We expect the EYCI to average just over AUD 6/kg.

Increased global exports and easing global demand will challenge Australian high prices. We expect both the US and Brazil to increase their export volumes in 2021, which will add competition in the key markets of China, Japan, and South Korea, testing margins of those in the Australian beef supply chain faced with high cattle prices. The recovery of Chinese pork production will take some heat off the global protein market, although we expect beef to feel less impact than other proteins.

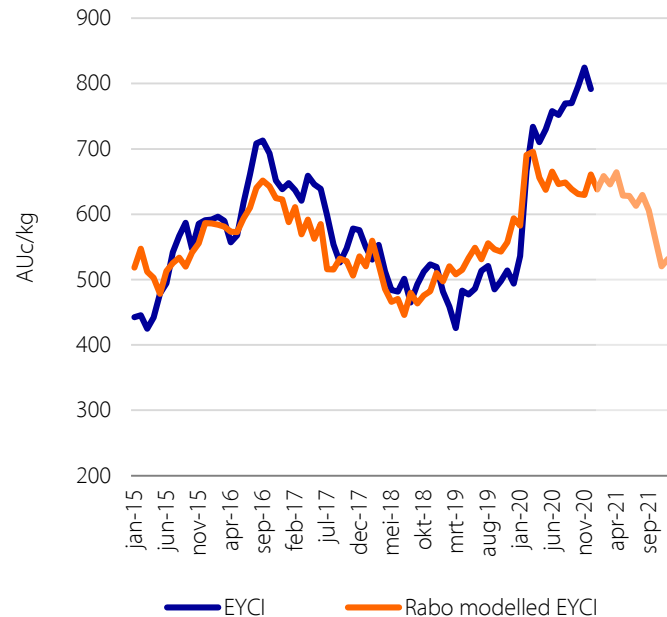
What to watch

- **US exports to China** – US beef exports to China started to show stronger growth in 2H 2020. Weekly export data show the US finishing the year with 43,681 tonnes, a 333% increase on 2019 volumes. (Australia exported 196,696 tonnes in 2020.) With US beef production remaining strong – particularly in 1H 2021 – we expect increased export volumes, and volumes to China could pass 100,000 tonnes by year end. US beef will be a strong competitor for Australian beef in the Chinese market, particularly grain-fed beef, and we may see pressure on grain-fed cattle prices as a result.

Cattle Prices to Stay Strong on Low Supplies and Producer Demand Before Easing in 2H

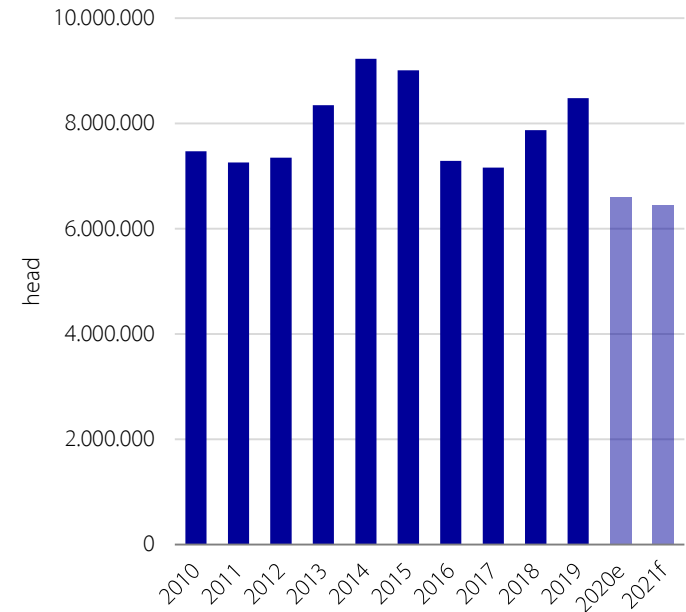


Eastern Young Cattle Indicator to remain strong for 1H before easing in 2H



Source: MLA, Rabobank 2021

Cattle slaughter to remain low as domestic herd rebuilds



Source: ABS, Rabobank 2021

A Steadier Year for Lamb

Sheep flock rebuilding continues. After a much lower sheep slaughter volume through 2020 – we estimate sheep slaughter to be down 35% on 2019 levels – we believe producers have taken advantage of better seasonal conditions and increased their flock numbers. Increased sheep numbers, together with better seasons to support joining and lambing rates, will lead to ***an increase in lamb slaughter and production volumes in 2021.***

Lamb prices will remain strong but not see the record peaks of previous years. With weaker markets on the demand side and increasing lamb numbers, we believe we will not see the same pressure in the markets as 2020, and therefore, we will not experience dramatic highs through 2021. Rather, we expect prices to follow a more average line through the year, with the ESTLI moving between AUD 6/kg and AUD 7/kg. The ongoing restocking activity and the lower grain prices are expected to continue supporting the feeder and restocker lamb market. Meanwhile, higher sheep numbers will see mutton prices ease.

Global demand weaker and contingent on recovery from Covid-19. 2020 was a mixed bag for export markets. The Chinese market was strong on the back of reduced protein supplies, given African swine fever. The US foodservice industry suffered with Covid-19-restrictions, and we saw US-imported Australian rack prices drop 20% through the year. And, the Middle East region shrunk 21% in volume terms. 2021 will still see weak global demand. The recovery in Chinese pork production will take some of the heat out of global protein markets, although sheepmeat exports to China are not expected to be as heavily affected as other proteins. The strength of the US market will rely on recovery from Covid-19, and the Middle East is expected to remain soft. A stronger Australian dollar will also work against exports. This softer global demand will keep lamb prices lower than in 2020.



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Sheepmeat

What to watch

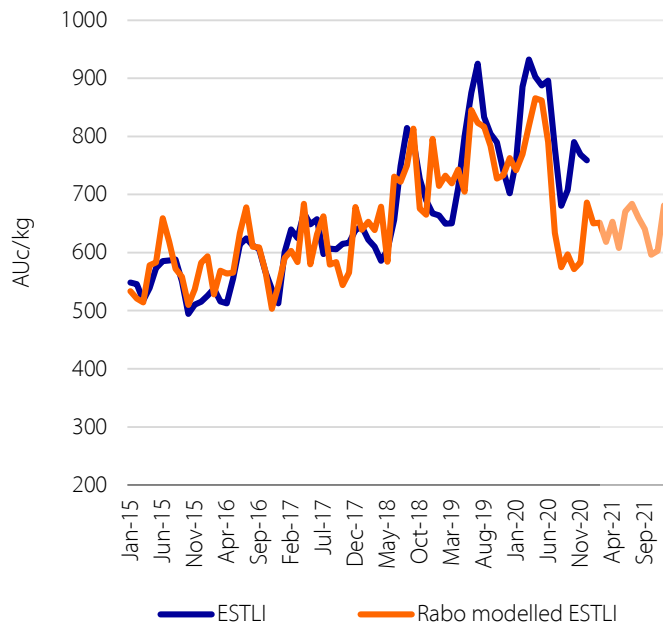
- ***EU-27 and UK trade opportunities*** – While the UK divorce from the EU on 1 January 2021 simply split Australia's existing tariff quotas between the two areas, resolution of the ongoing trade negotiations between Australia and the EU and the UK may yet lead to greater access for Australian sheepmeat. As high-value markets, increased access would be beneficial. However, given their preference for smaller lambs, it may also lead to changes in the supply chain to meet these demands.

As Lamb Production Recovers, Prices Are Expected to Be More Stable



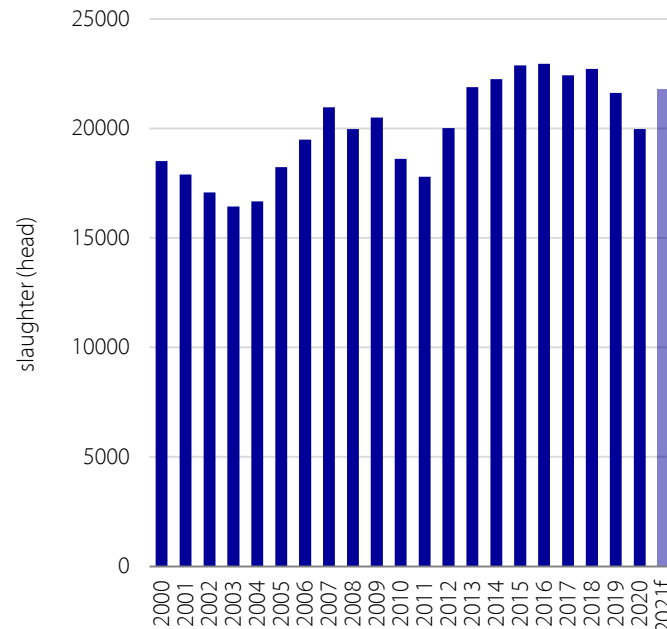
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Eastern States Trade Lamb Indicator easing from the records seen in 2020



Source: MLA, Rabobank 2021

Australian lamb slaughter to rise in 2021



Source: ABS, MLA, Rabobank 2021

Price Recovery to Continue for Wool

Rabobank expects recovery in global consumer demand to lift wool prices in 2021. We expect the Eastern Market Indicator to trade between AUc 1300 and AUc 1500c/kg in 2021. Following a 29% and 5% YOY fall in Jan-Nov US and Chinese retail apparel sales (in USD), respectively, in 2020, we expect sales to rebound in 2021. Cotton prices have lifted 15% above January 2020 levels, and we expect it to rise a further 2% in 1H 2021, providing further support to wool prices. Rabobank forecasts Chinese economic growth to rise 7% in 2021, giving support to Chinese jobs and strengthening consumer confidence. US and Japanese suit imports fell in 2020 as Covid-19 cases rose. We expect sales of suits in 2021 to be low, and any recovery will be heavily dependent on economic activity, Covid-19 recovery, and the speed of vaccinations. Importantly, while US woollen sportswear imports declined in early 2020, they showed strong recovery and by October were up 10% YOY. **We see the sportswear category supporting recovery of wool demand in 2021.**

China remains the primary wool export destination for Australia, accounting for 85% of wool exports between January and October 2020. China's export share rose in 2020 as other markets remained closed due to Covid-19. 2021 will see China's export share move lower, to 80%, as other markets, including India, Czech Republic, and Bulgaria, take back their typical share of imports. In 2020, China imported 64% of Japanese-exported woollen spinning machinery, 10% above its five-year average. Hence, we do not see any near-term notable shifts away from the Chinese market.

Due to an improved season, we estimate the Australian sheep flock increased in 2020 and will continue to grow in 2021. The Australian Wool Production Forecasting Committee has forecast **Australian wool production will rise by 1.1%, to 287m kg greasy, in 2020/21.**



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What to watch

- **Financial stimulus in the Biden era** – The Biden administration's decision on financial assistance to Americans will have a big influence on how quickly US apparel sales recover and consequently how keen Chinese wool buyers will be at auctions in 2021.
- **Chinese economy recovers... at home** – Rabobank data shows that the internet and software development sector has seen the strongest recovery in China. Since this sector, even pre-pandemic, had more flexibility of working from home than other professions, we are not likely to see a 1:1 recovery in suit sales, unless other 'in office' sectors also recover.

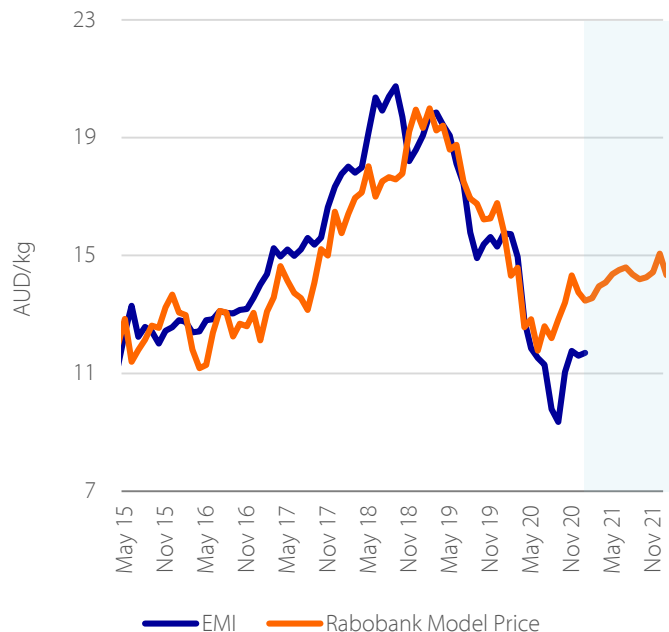
Wool

Wool Prices Expected to Rise in 2021, Sportswear Drives the Recovery



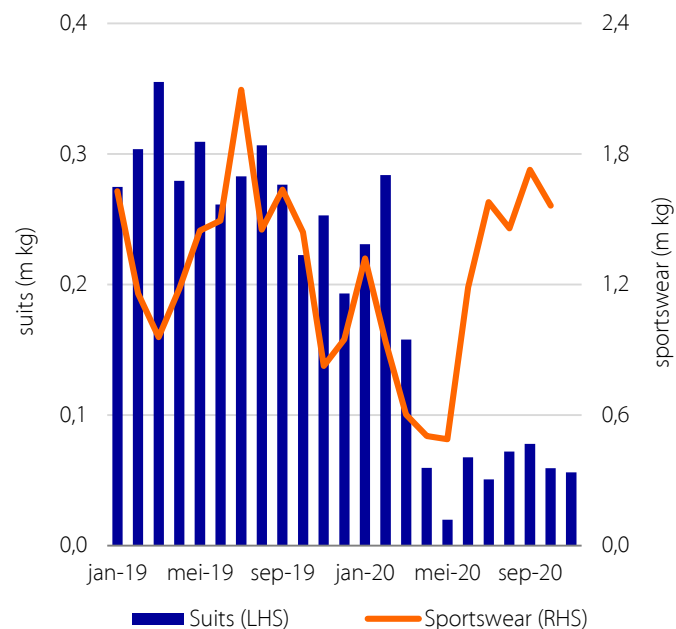
Rabobank

Australian EMI expected to trade between AUc 1300/kg and AUc 1500/kg in 2021



Source: Bloomberg, Rabobank 2020

US wool suit slow to recover, sportswear leads the demand recovery



Source: US census Bureau 2020

Prolonged Profitability to Bear Fruit

2020/21 looks set to mark a second consecutive season of healthy profitability for many Australian dairy farm businesses. A cocktail of much improved seasonal conditions, affordable cost of feed and inputs, strong livestock trading conditions, and mostly stable milk pricing has been underpinning widespread profitability for the sector.

There is also strong cause for optimism that good profitability will continue into 2021/22, beginning July 1. Commodity prices, range-bound at current levels, will underpin farmgate prices for the southern export region – notwithstanding the impacts of a stronger currency. Despite some risk of upside in feed and inputs, the milk-price-to-feed-cost margin will remain positive. Upbeat livestock trading conditions will further support farm incomes, driven by good demand for live exports and elevated cull prices. Importantly, the latest Bureau of Meteorology seasonal outlook favours above-average rainfall across key dairying regions in the months ahead. As always, the timeliness of the autumn break will be key to setting up the 2021/22 season and dictate the on-farm feed wedge for 2021/22. For irrigators in Southern Murray-Darling Basin, the early outlook for water availability and pricing ahead of the 2021/22 irrigation season are vastly improved compared to a year ago, with storage levels much improved. Average or better seasonal inflows in 2021 will be welcome news for irrigators.

We forecast national milk production to finish the 2020/21 season with 2% growth.

There have been obstacles that have prevented this current period of on-farm profitability from translating into stronger growth and investment in the sector.

What to watch

- **More milk price transparency** – June 1 will again be an eventful day as all the Milk Supply Agreements (MSAs) drop by 2pm for the 2021/22 season. This time around, farm businesses will have the benefit of being able to access the Milk Value Portal as an informational tool to digest the plethora of MSAs. Rabobank will provide its initial assessment of milk pricing for 2021/22 with the release of its annual seasonal outlook paper in Q2 2021.



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The number of farm exits has remained elevated through into 2021. Confidence is recovering, and the national herd is small following a period of destocking.

Rabobank expects the prolonged period of profitability to bear fruit in terms of further milk production growth (albeit at a modest rate) in 2021/22.

Growth will be led by the southern export regions. A period of increased investment activity is on the cards in 2021 as farm businesses with the necessary capital and confidence begin to pull the trigger on larger capital expenditure projects, which will increase production capacity.

Export returns from Australia's commodity basket will remain favourable in the year ahead.

Global market fundamentals are expected to remain mostly balanced through 2021. Risks are centred on the strength of supply growth across the export engine and the recovery in foodservice demand. Australia's export markets remain in relatively good shape to start 2021. Exporters will be confident for what lays ahead in these export markets, which have mostly performed well in regards to virus containment. They are witnessing an economic rebound, and vaccines are on the horizon.

However, there are downside risks for dairy demand in these economies in 2021.

The fight against Covid-19 will endure for a while longer, and the threat of new outbreaks and lockdowns lingers. Meanwhile, currency appreciation will impact purchasing power (on the back of US dollar weakness). The northern hemisphere milk production peak will be the first test for underlying global market fundamentals in 2021. The potential for sizeable market imbalances in Europe and the United States through the peak leading to a jump in exportable surpluses, which ultimately puts downward pressure on Oceania commodity pricing, is a key risk.

What to watch

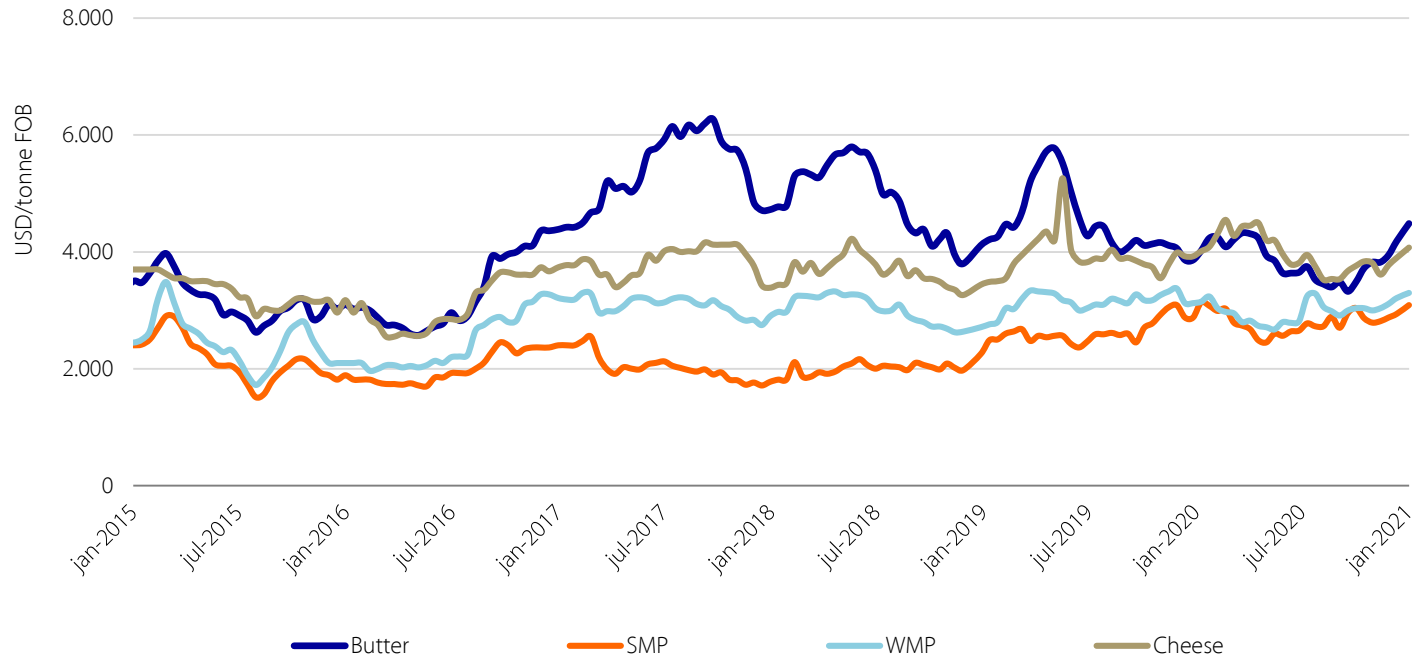
- ***Recovery in the infant formula markets*** – The infant formula category is a value generator for many Australian dairy processors. Disruption to the Daigou channel has negatively impacted sales for a number of customers/brand owners. The recovery in Daigou channel sales in 2021 will be contingent on international borders opening up (if at all).

Enduring Resilience for Oceania Commodities



Rabobank

Global dairy prices, Jan 2015-Jan 2021



Big Risks Amid a Balanced Supply

Rabobank anticipates a small 0.3m tonne global deficit in 2020/21, suggesting a fairly balanced world supply and demand outlook. Still, there are considerable seasonal risks associated with this outlook. First and foremost, the current La Niña event has potential capacity to threaten 2021 cane output – particularly in Brazil, the world’s largest exporter, where dry conditions prevail. Secondly, the extent to which India’s 2021 exports will flow – albeit with lower government subsidies – will influence world prices. Finally, Rabobank expects a 1.7% YOY increase in global sugar consumption this season, as the world economy grows a projected 4.5% YOY. However, with vaccine programs being rolled out, a faster recovery in food and fuel usage could translate into stronger sugar demand.

In short, our small projected deficit heralds a largely neutral 2021 outlook, with domestic prices forecast between AUD 390 and AUD 430/tonne. This assumes the ICE #11 price averages between USc 13.5 and USc 14.6/lb on a quarterly basis, while the AUD maintains strength against the USD. That said, Rabobank expects volatility to persist in 1H 2021 amid significant weather and supply risks.

The conclusion of Australia’s 2020 crush on December 13 saw cane volumes reach just over 31m tonnes, up 4% YOY. According to the ASMC, CCS ended the season marginally lower YOY, at 13.8 points, resulting in seasonal sugar output totalling +4.3m tonnes. With minimal late-season rain disruption to the crush, a 2020/21 La Niña now turns from a risk to an advantage. The Bureau of Meteorology (BOM) forecasts above-average rainfall from February to April for eastern Queensland. Consistent rainfall through Q1 2021 will assist cane development and 2021 yields, assuming ‘normal’ weather conditions and the absence of floods and cyclones.

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What to watch

- **Very dry conditions in Brazil’s Centre/South since March threaten 2021 cane production** – The next two months are seen as critical for Brazil’s new crop prospects, which will undoubtedly influence world prices.
- **Mid-2021 could bring a ruling on Indian export subsidies from the WTO** – The ongoing dispute, led by Australia and Brazil, may not result in any immediate action but would help to determine Australia’s sugar export competitiveness – particularly in the long term.

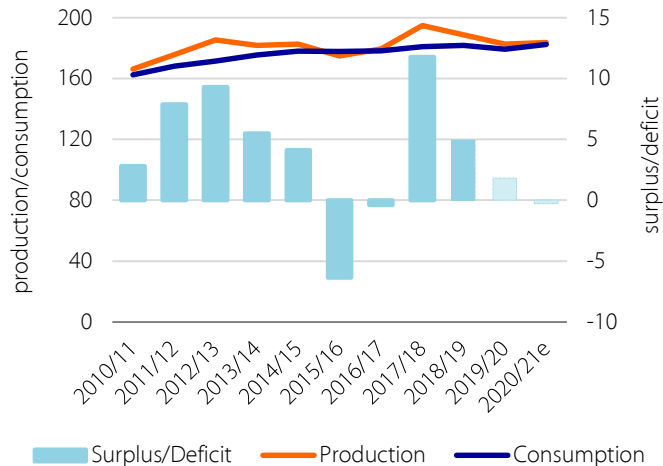
Sugar

A Balanced Supply Outlook Heralds a Neutral Price Outlook, but With Potential for Volatility



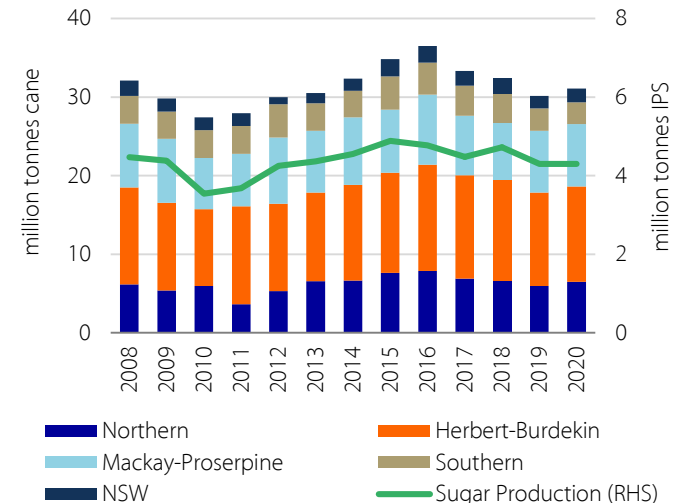
Rabobank

Rabobank forecasts a 0.3m tonne global supply deficit in 2020/21 – a balanced fundamental outlook



Source: F.O Licht, Rabobank 2021

Australian 2020 cane at +31m tonnes, with sugar output estimated at 4.3m tonnes



Source: ASMC, Canegrowers, Rabobank 2021

Rabobank expects price volatility to persist in 1H 2021 amid significant weather and supply risks. This includes La Niña-related dryness in Brazil, the upcoming flow of Indian exports, and a future recovery in global food and fuel demand.

Road to Production Recovery

Australian production is set for a sharp recovery in 2021, amid better seasonal rainfall and improved water allocations – particularly across NSW. Storage across the Murray-Darling Basin currently sits at 56% full, vs. 33% at the same time last year. That said, persistent dryness across southern Queensland will limit national production potential. ***Rabobank forecasts domestic production at 2.2m to 2.3m bales – up from 600,000 bales in 2020.***

ICE #2 Cotton has begun 2021 in a sensational way – rising to USc +80/lb on old crop contracts. The rally is US centric, with USD weakness, speculation, and a five-year low in US 2020/21 production all contributing factors. However, Rabobank notes heavy 2021 fundamentals – world (excl. China) stocks at 62m bales, 52% above the ten-year average – which should limit further upside. Large inventories are present in both Brazil and India. Furthermore, after a 14% YOY fall in 2019/20, global demand is not expected to recover fully in 2020/21 – Rabobank forecasts an 11% YOY rise, stemmed by ongoing virus infections worldwide.

Rabobank forecasts domestic price strength in the coming year, with 2021 cash prices set to trade between AUD 530 and AUD 580/bale. Rabobank's 12-month forecast accounts for ongoing, albeit limited, ICE #2 support, coupled with AUD/USD strength and subdued basis levels. Subdued basis stems primarily from ongoing trade tension with China. In our view, there are two key upside risk factors. Firstly, the impact of La Niña, particularly dryness in the southern US and across Brazil, could cut world production. Secondly, the role of on-call unfixed mill sales could also support prices – particularly in 1H 2021 – having done so in recent seasons. In contrast, Rabobank notes uncertainty in the rate of demand recovery, particularly in the Western world, while virus restrictions persist.



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Cotton

What to watch

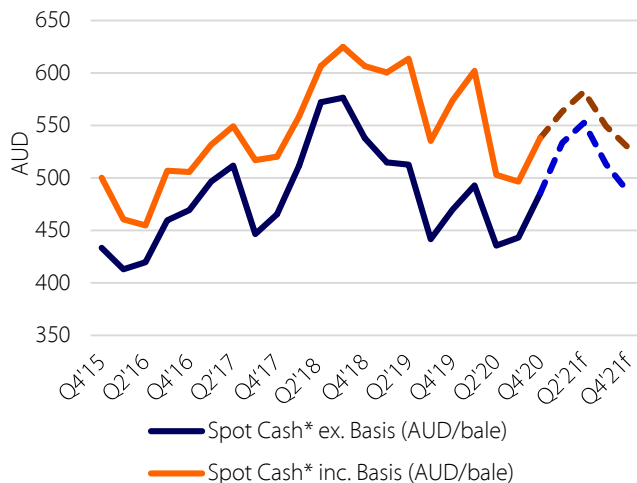
- ***Measures by the US to restrict cotton apparel imports from the Xinjiang region of China shine a light on global fibre provenance*** – This is a major intervention by a government into their nation's textile imports. Increasing awareness by both governments and consumers should benefit the trade of traceable, sustainable fibre – including Australian exports.
- ***The Top End warrants increasing attention, with plans for ginning capacity and expanding cotton acres in the region*** – Rabobank sees WA and NT contributing more heavily to the domestic balance sheet in future.

Production Is Set for Recovery, Amid Better Seasonal Rainfall and Improved Allocations



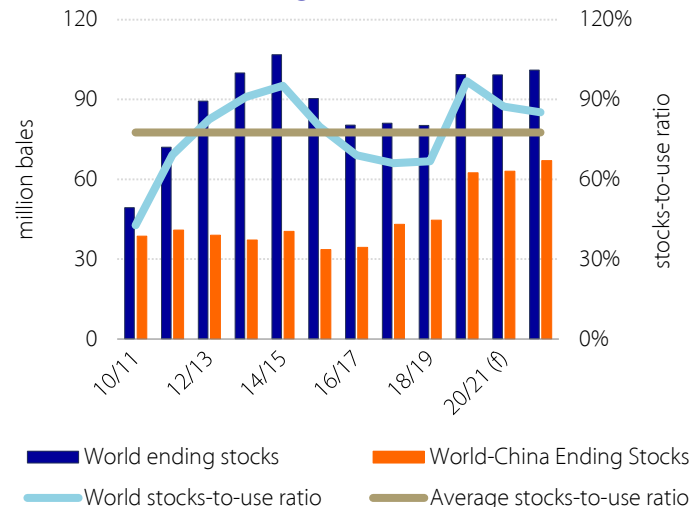
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Cotton prices set to be supported to AUD 530 to AUD 580/bale, amid strength in world markets



Source: Bloomberg, Rabobank 2021

The world remains well supplied in 2020/21, with an above-average stocks-to-use ratio



Source: USDA, Rabobank 2021

Measures by the US to restrict Chinese Xinjiang cotton apparel imports shine a light on global fibre provenance.



Wine

A Difficult Marketplace

The global and domestic wine markets are beset by uncertainty as we push into 2021. Trade tensions will likely take the shine off the opportunity presented to some by Covid-19 at retail level.

In our 2020 outlook report, we had Australia continuing to cement gains in the US and China and push competitive advantages in other markets. The arrival of Covid-19 presented a juxtaposition for the wine sector. It has been a significant challenge for those skewed to foodservice and on-premise sales. But for those with good access to retail and e-commerce channels, Covid-19 has boosted sales. While Covid-19 remains a threat across export markets, these factors are likely to remain in play in 2021.

The bigger hurdle to cross for 2021 reared its head in a material way in late 2020 for Australia – geopolitical tensions spilling into the export sector. While some Australian exporters cemented gains and increased sales to the US in 2020, Covid-19 and trade issues with China have the sector questioning if the glass is half full or half empty. Market concentration is exposed when looking at where else to sell wine (see chart).

Some wine previously destined for China will likely look to find a home in the Australian market. This will place pressure on prices as consumption in Australia has largely been flat in recent years. That said, this perhaps presents an opportunity to eke out market share held by import competitors in the Australian market by playing the patriotic game, glass by glass and bottle by bottle.

Recovery in US foodservice is expected to remain lumpy across 2021 – sales recovery in the US foodservice and on-premise channels slowed in late 2020, with Covid-19 being far from under control. Until Covid-19 becomes controlled, demand will likely remain positive for retail sales in the US.

What to watch

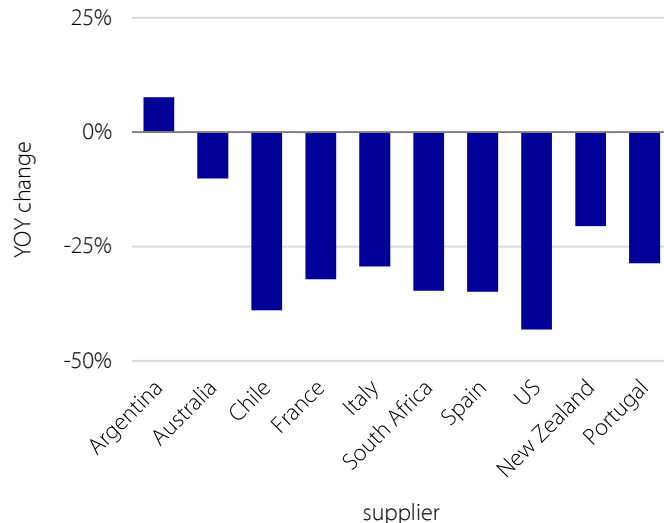
- ***Selling outside of China*** – The Australian wine industry needs to further develop other markets quickly. While drought ensured a much reduced 2019/20 harvest, easing the immediate risk of a glut, the 2020/21 harvest will likely be much bigger. The industry has proved adept at winning market share in the past: its ability to do so without too much sacrifice of pricing will be a major determinant of profitability in the next few years.

Ability to Pivot From China Will Be Challenging

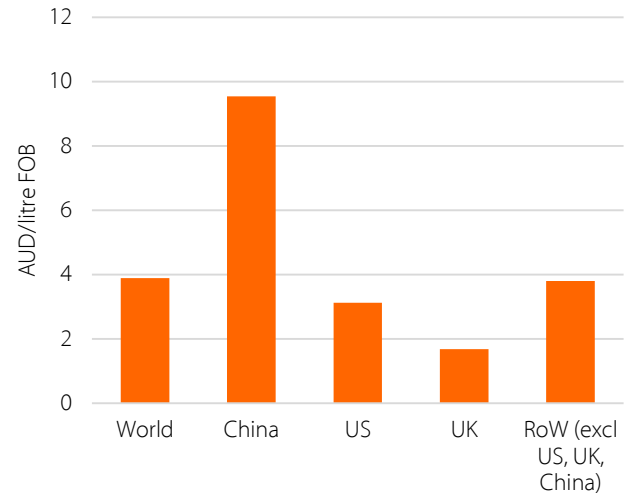


Rabobank

Chinese wine imports (USD) by key supplier, January to October 2020



Australian wine export values by key market, average January to September 2020



Source:: China Customs, Wine Australia, Rabobank 2021

China's imports slowed dramatically across 2020 – but Australia was less affected than others prior to November. Rabobank expects average export prices will lower across the balance of 2020-21, as wine previously destined for China will not achieve similar FOB sales value in other markets.

Wind Running Against the Tide

The 2021 outlook will be characterised by rising demand for quality produce (underpinned by Covid-19), geopolitical tensions and labour shortages. The road ahead will be bumpy.

As we entered 2020, we expected demand for quality and safe fresh produce to continue to rise, notably across Southeast Asia and in China. The impact of Covid-19 on this has been twofold. For some categories, Covid-19 has boosted demand, due to consumers seeking food products that are high in nutrients and good for you, which we expect will continue into 2021. But taking the shine off the demand-related opportunity presented by Covid-19 in 2021 is the impact on labour, due to closed borders and the ability to harvest enough product to satisfy.

Australia's exports of horticultural produce have slowed by value over the 2020-21 export year to date (refer to chart), due to Covid-19 disruptions (largely logistics) and competition. Geopolitical tensions currently in play across some of our key markets present somewhat of an uncertain opening to 2021. We expect that, alongside any Covid-19-related market disruptions, trade tensions will have more influence in 2021 than in 2020. Australia will be very reliant upon trade tensions easing across 2021, given the exposure to China and also in-market competition that may arise from other suppliers seeking to take advantage should trade for horticultural produce get disrupted in 2021.

Water prices eased across 2020, as seasonal weather patterns recharged key parts of the sMDB – but future permanent crop water demand will likely underpin permanent entitlement values.

China's economy is showing signs of recovery, which is important for Australia's exporters in 2021, but a recovery in the consumption side of the economy is **required**.

What to watch

- **E-commerce** – We expect Covid-19 to accelerate investment into e-commerce platforms for retailers and those seeking third-party platforms to sell their produce. We discuss [here](#) how we expect this to play out in China over the next five years. But, this is not just a China story – across the world, retailers will likely continue to invest in this channel. Aligning offtake for horticultural produce with parties that are investing in e-commerce should be a part of future strategic planning considerations.

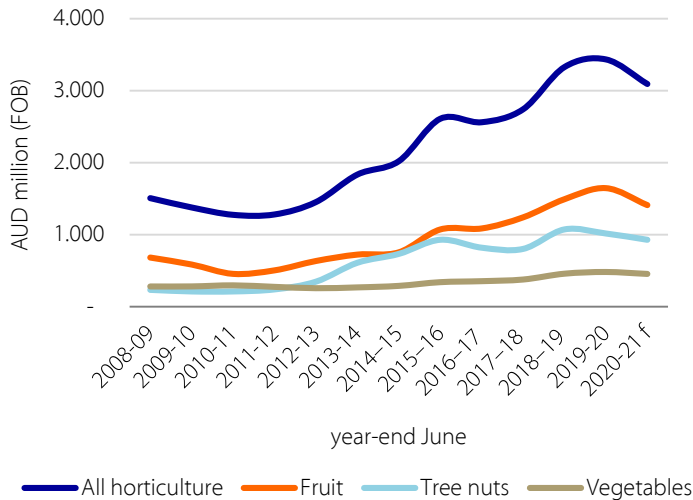
Horticulture

Export Growth Constrained

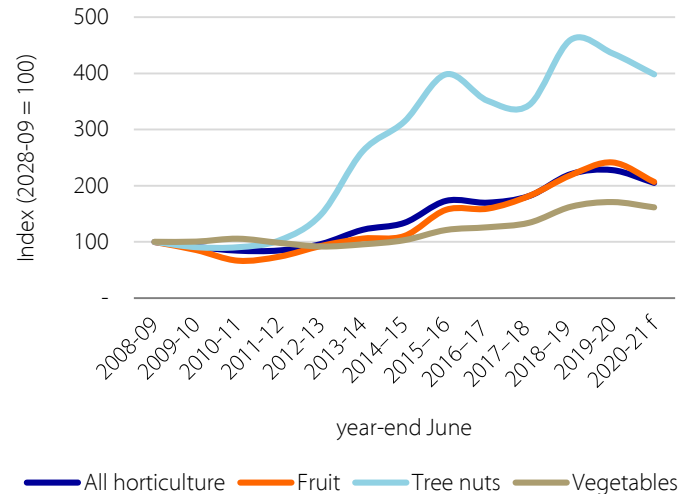


Rabobank

Australian horticulture exports by value



Australian horticulture exports index by value



Source: Abares, Rabobank 2021

After a period of consistent growth, Australian horticultural exports have entered a period of decline across 2020-21 – largely led by tree nuts and citrus. For almonds, the largest nut category for Australia, the major factor bearing down on export values has been heightened competition in key markets due to the large 2020 US crop depressing global prices.

Big Season Will Accelerate Demand

Rabobank expects that the golden run of land price growth will continue for at least another 12 months in most regions across the country, primarily supported by accelerating demand following a monster production year.

Our expectations for land price growth in 2021 have increased in recent months for two major reasons. Firstly, few market analysts anticipated the size of the Australian winter crop, which has led ABARES to increase their gross farm revenue forecast to AUD 65.1bn for FY20/21, up from AUD 61.2bn previously. This is an increase of 6.9% YOY and 5.6% above the previous record in 2016/17. This will deliver a timely boost in operating profits, which will ensure farmers have the purchasing power to expand and, on the supply side, will support farmers to service existing debts. In drought-affected regions, it will speed up the recovery process, mitigating the lingering impacts of drought. According to the Rabobank Rural Confidence survey (RCS), the percentage of farmers with intentions to buy land increased nationally by 1.2% during 2020.

Secondly, the Covid-19 crisis has had a much smaller impact on farm revenues and confidence than we initially expected. In line with the production outlook, rural confidence skyrocketed during the fourth quarter to the highest point nationally since March 2008, according to the RCS, while investment intentions are at the highest point since Q2 2011.

While in the short term, foreign purchases are more logistically difficult than usual, due to border restrictions and a tighter approval process, we expect foreign buying activity will continue to increase in the medium term. The Covid-19 crisis has reaffirmed the attractiveness of ag land as an asset class, which we expect will continue to support inflows into Australian ag land.

The Foreign Investment Review Board (FIRB) recently released the register of foreign ownership of agricultural land to June 30, 2020 – the first set of data impacted by Covid-19 and the tighter investment rules by the FIRB – which revealed the area of ag land with a foreign interest increased by 1.7%. Despite geopolitical tensions and, more broadly, a concerted effort by the Chinese government to restrict investment outflows, the area of land with a Chinese interest increased by 0.5%.



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Agricultural Land

What to Watch

- **Number of properties on the market** – On a regional basis, we expect that the number of properties on the market will be the most influential factor on median price growth during 2021. Historically high prices, along with a big improvement in seasonal conditions, can actually have two, opposite impacts on supply. In the first instance, it may prompt some vendors to the market who are looking to make the most of favourable conditions. In contrast, favourable conditions will also enable some would-be sellers, who may have been planning to sell due to financial or lifestyle reasons, to continue farming.

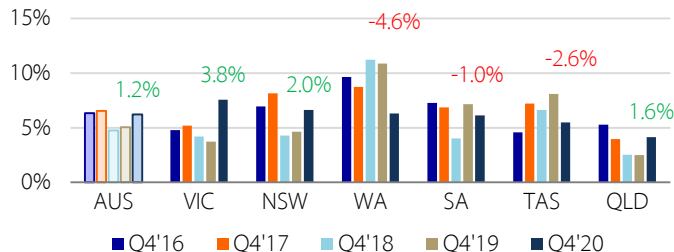
Local and Foreign Demand Will Remain



Rabobank

Drought rebound has boosted demand

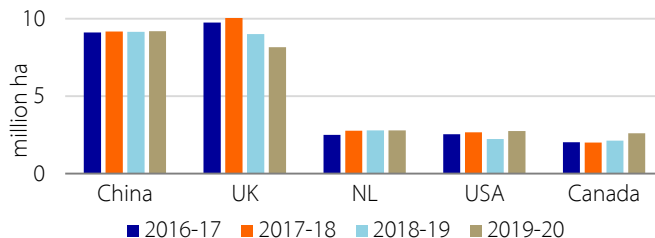
Percentage of farmers with intentions to buy land within 12 months, by state (12-month rolling average), with Q4'19-Q4'20 YOY change +/-



Source: Rabobank Confidence Survey 2020

So far, Chinese ag land interests have held firm despite geopolitical tensions

Top-five share of foreign-held ag land, freehold and leasehold



Source: Foreign Investment Review Board (FIRB), 2020

Macroeconomic fundamentals will hold mixed influence

		Previous five-year performance	12-month outlook
Commodity prices	Prices sit above their five-year averages in almost all commodities in January 2021, with only a modest softening expected through the year.	●	●
Climate	BOM expects a greater-than-50% chance of exceeding median rainfall for much of Australia.	●	●
Willingness and openness of global trade	Australia's trade with China is of foremost concern. We expect some limitations will remain, although it is unlikely we will see access completely lost this year.	●	●
Foreign exchange	Rabobank forecasts an average AUD/USD of USc 77 in 2021.	●	●
Cost of funds	Rabobank expects the cost of bank funding will remain low during 2021.	●	●
Global GDP	We expect global growth of 4.5% (falling short of full recovery from 2020)	●	●

Key:



Supportive



Mixed influence



Unsupportive

New-Found Price Strength to Tail Off

Rabobank expects that the new-found price strength across the global fertiliser complex will tail off during Q2 2021, leaving the market again exposed to heavy supplies and growing production capacity.

Through the second half of 2020, demand revived the global fertiliser market. This played out most significantly in Brazil and India, two of the top three largest global importers for the last five years. In Brazil, improved commodity prices continued to fuel a strong run in farmer margins, which boosted imports (Jan-Oct) by 8% YOY. In India, a strong Kharif season and government reforms contributed to a surge in local sales, up 15% YOY during 1H 2020. As a result, urea ex. Middle East increased 16% over 2H 2020, while DAP ex. US Gulf increased by 20% over the same period, in USD terms.

Demand from the US and EU will be a key price determinant of nitrogen prices during 1H 2021. This year, the International Fertiliser Association (IFA) has forecast an additional 9m tonnes of urea capacity, a 4.5% YOY increase. This exceeds current demand growth, which has been below 1% for the last five years and is forecast by the IFA to be 1% in 2021. Subsequently, we expect prices will again be under pressure come Q2, as demand from the EU and US subsides.

Similarly, we expect potash prices to be supported at least until the beginning of Q2 2021, when purchases from the northern hemisphere decline. The US government has approved new tariffs on processed phosphates imported from Russia and Morocco, which will impact FOB prices in other exporting regions. For a complete global analysis, you can read our most recent [global fertiliser outlook here](#).

Locally, the focus early in 2021 is on imports, following a bin-busting winter crop. Despite the risks and difficulties posed by Covid-19, urea imports are streaks ahead of recent seasons. According to the latest data, at the end of October 2020, YTD Australian urea imports were 280,000 tonnes (15%) ahead of 2017, which was the biggest import year on record. ***If imports continue unimpeded, along with a slightly stronger AUD, we expect local fertiliser prices will remain favourable for farmers this season.***

What to Watch

- **Currency** – The AUD has found some strength in recent months against the USD, despite Australia's trade tensions with China. Looking forward, Rabobank expects the AUD to remain near current levels for the remainder of the year, sitting at USc 0.78 heading into Q1 2022. At current prices, a USc 1 rise in the AUD represents an AUD 5 to AUD 6/tonne saving on local prices.



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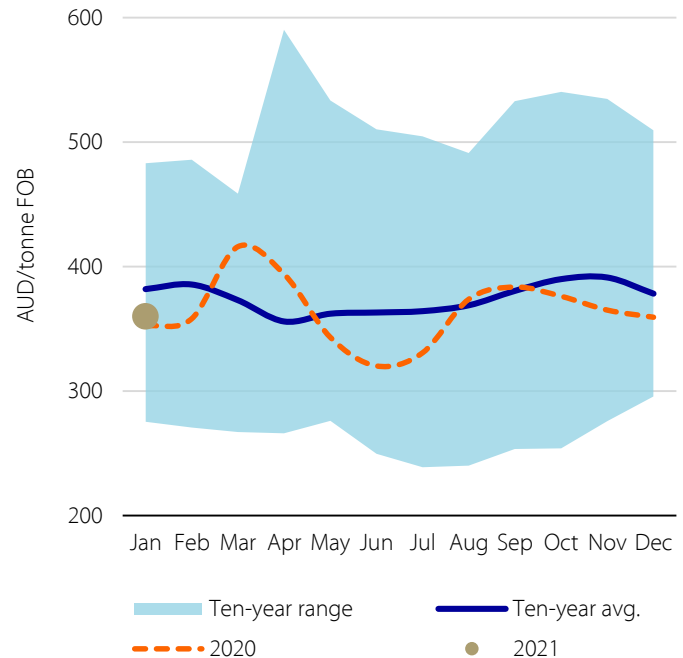
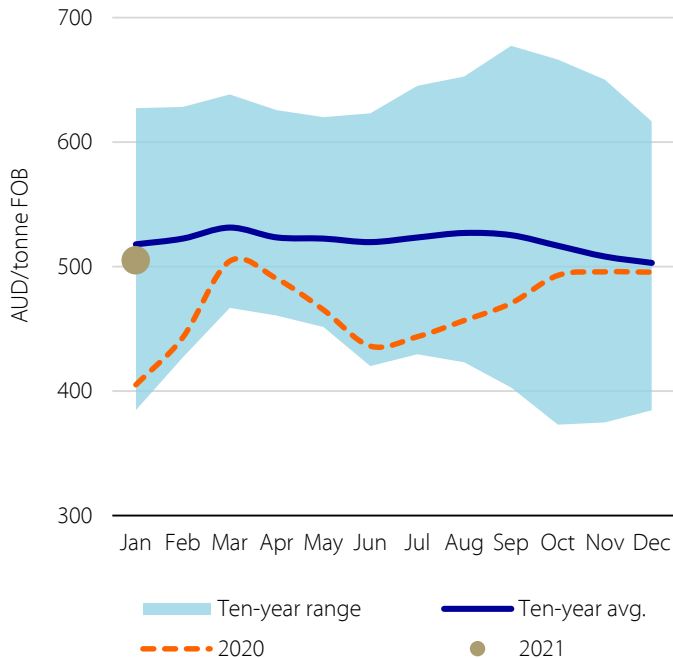
Fertiliser

An Historically Weak AUD Is Supporting Local Prices



Rabobank

AUD-adjusted global prices (monthly avg.), DAP ex. US Gulf (left) and Urea ex. Middle East (right)



A close-up, artistic photograph of Australian dollar banknotes. The focus is on the texture and patterns of the currency, with a green 50-dollar note and a yellow 10-dollar note visible. The word 'Australia' is partially legible on the yellow note. The lighting creates a sense of depth and highlights the intricate details of the banknotes.

AUD to Hold Recent Gains in 2021

We expect the Australian dollar to largely hold the gains it made through late 2020, bringing the highest average AUD/USD exchange for seven years in 2021. At 11% above 2020 levels, this will act as a significant deflationary force to commodity prices in local currency terms in 2021.

The AUD/USD has been benefitting from the improvement in risk appetite among investors.

This appears to have been underpinned by a run of positive vaccine news (more approved, initial rollouts have begun), the commencement of a new US administration, and the economic benefits expected to flow from a significant stimulus package under a Biden-led government.

These factors are improving the prospects for global economic growth and commodity prices (positive for the AUD) and reducing the prospect that we would see investors scrambling for safe haven assets in 2021 (which typically buoys the USD against other currencies).

Locally, the ongoing outperformance of Australia in constraining the virus, recovery in economic data, and rising bond yields have also provided currency support.

There are risks of near-term pullbacks as the world continues to battle the pandemic. The first quarter is likely to bring some further economic shocks as the northern hemisphere battles another huge surge in cases ahead of the vaccine's full rollout. Even beyond these waves, progress will not be linear. And the RBA's QE policy and trade tensions with China will likely keep a lid on upside potential.

But the AUD's sensitivity to commodity prices, combined with the lessened impact of the pandemic in the Asia-Pacific region, remains supportive for the currency.

We forecast the AUD to hold its ground in 2021, with some near-term slippage offset by appreciation as the year progresses. We look for an average AUD/USD of USc 77 for the calendar year.

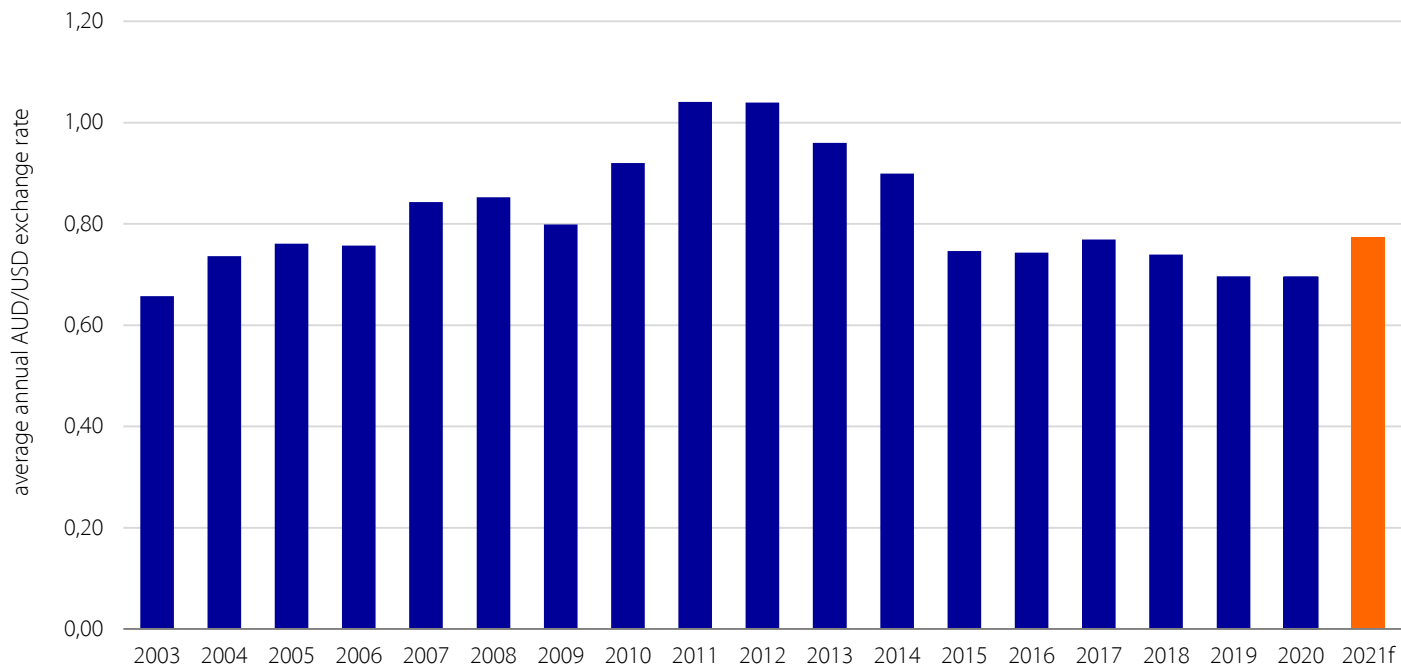
What to watch

- **Asian infection rates** – As of January, the virus is on the rise again in Japan, South Korea, and several Southeast Asian countries, while China sees its strongest wave in five months. A stronger viral wave would bring regional and even national shutdowns in these countries, endangering the Australian economic recovery and weighing down on the AUD, given the country's heavy trade orientation to these markets.

Australian Exporters to Face the Strongest AUD Since 2014



Australian currency against the US dollar



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