Moving confidently into 2024

Australia agribusiness outlook 2024

RaboResearch Food and Agribusiness

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Rabobank

2024 commodity outlooks

Climate

While the El Niño event continues into 2024, sea surface temperatures in the Pacific ocean are declining and several key global weather agencies are predicting El Niño to end in Q2 2024.

Sustainability

Continued adoption of Science Based Targets (SBTs) by food and agricultural corporates are expected to accelerate farm-level emissions measurement and disclosure expectations.

Wheat

Despite recent geopolitics and weather impacts, global cereals supply volatility and uncertainties are easing. Cheap feed coming from the Atlantic will also pressure markets.

Canola

The global vegetable oil market and its products are pointing to increasing stocks. Thus, prices do not have much room to grow with the current supply and demand.

Beef

Cattle inventory continues to rise, generating higher slaughter numbers. Soft demand in export markets limits beef price upside but improved seasonal outlooks support young cattle prices.

Sheep

Slaughter numbers expected to remain elevated in 1H, however the improved seasonal outlook should support greater price stability. Demand into key export markets show promise.

Other animal proteins

High production volumes are expected to continue into 2024 with a further small increase in volumes. Weaker grain prices should help producer margins given more stable retail prices.

Wool

Demand is expected to remain subdued as consumer confidence in key markets remains soft. With production to remain at current levels, retail performance growth is needed for price improvement.

Dairy

All signs point to healthy margins for dairy farmers through 2024. There are income headwinds with weaker livestock markets, slow heifer exports and a likely peak in the milk price for now.

Cotton

Cotton markets look to continue to receive price support for lower global output. Expected consumption levels, while remaining stable, will be looking to 2H for improvement.

Sugar

Rabobank expects the global sugar market will experience another year of surplus in the 2023/24 season, although El Niño could ease production prospects.

Consumer foods

2024 will likely be another difficult year for Australian households. Moderating inflation and potential rate relief will help. In the near-term, expect reduced volume spending on discretionary and staples.

Farm inputs

After a few seasons of persistent rising prices, the coming year will see a reversal in the trend, and lower costs from fertilisers and agrochemicals are expected.

FX

2024 is poised to be the year of the rate cut. We think the RBA will begin lowering rates in November, and the AUD will find a bid in the back half of the year to test the 70-cent level.

Oil and freight

The escalation of military activities around the Red Sea is leading to soaring shipping prices of affected routes and a tightening of global shipping capacity.

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Outlook themes and summary: Moving confidently into 2024

2024 will once again be an interesting year for Australia's agriculture and food industry. El Niño didn't turn out as bad as feared, with significant rain received across the eastern half of the country in January. Agri commodity prices are well down from the highs seen over the past two years, but Rabobank's Commodity Price Index forecast is more positive for 2024 and farm input costs, like fertilisers and plant protection chemicals, should be more pleasant for the farming sector.

Interest rate cuts are on the cards in Australia for late 2024, but global economic headwinds are likely to continue. The global economic outlook for 2024, while better than 2023, is still subdued. China's economy is likely to remain slow, which isn't the best setup for our exports to the region, as Chinese consumer demand will need more time to gear up into full swing. The Australian dollar is seen as strengthening modestly against the US dollar towards USc 70 towards late 2024, which would be close to the top end of the USc 63-USc 72 range seen last year. The good news for those with loans and mortgages is that interest rates are expected to plateau for most of the next six months, before rate cuts come in towards the last quarter of the year. **The tight labour market will continue and require an ongoing focus to invest in labour efficiency technologies.**

El Niño is still with us, but several models increase the chances of the event potentially ending in Australia's autumn or winter. For now, we have to plan with a rain outlook that might be weaker than the strong seasons of 2021 and 2022. And if the 2023 season is any indicator for 2024, the outlook is also far from given. January rains were problematic for some, causing flooding and problems for sectors like fresh produce. Still, they improved the confidence in major sectors.

Major agricultural sectors move confidently into 2024. Recent rains in a declared El Niño period have established more confidence. Grain farmers are likely to plan more optimistically for the purchase of farm inputs and the upcoming planting period of winter crops like wheat, barley, and canola. Especially in the growing areas outside WA, which was the only region that hasn't received much rain. Also, for beef and sheep producers the outlook for farm-grown feed in the first half of 2024 overall looks more promising, allowing them to hold on to more of their livestock and changing the feeding pattern and the marketing period e.g. by going for heavier lambs for slaughter.

Farm input prices globally, both for fertilisers and for plant protection products, are forecast below last season. As Australia imports most of those products and continues to work through local inventories, we remain confident that costs on farm will look better than last year. However, geopolitics and the escalation of conflicts can result in big energy price swings which would also impact the costs of those products. In addition, we see an upside risk for shipping costs to bring those inputs onshore in Australia. Our global crude oil price outlook also remains rather modest and well below USD 100/bbl, at least as long as the conflicts in the Middle East don't spread wider.

Geopolitics and shipping to remain areas of concern. 2023 brought more wars, with the conflict in Israel likely leading to another year of shipping delays and high ocean freight costs as more and more shippers take the long route around Africa. The good news for now is that shipping costs are still not as high as in the record 2021 Covid-related shipping crisis. If the Red Sea piracy attacks escalate further, Australia may once again struggle to easily find containers for export later in the year. Australia's trade relations in 2023 improved with the beneficial removal of Chinese import duties on Australian barley and the tariff on wine now subject to review. But this relationship will remain fragile, and with US elections in November and a potential change of presidential powers, the world will have to brace for more geopolitical fragmentation between China and the US. This will likely also be felt in Australia's trade relationships with China. The war in Ukraine has been going on for almost two years and we don't see a quick end to it. Global markets, especially for grains, have found ways to price it in without too much volatility in most of 2023 and this is likely to continue in 2024.

Sustainability, and especially emissions reductions, will remain a key theme for the year(s) ahead. Australia and the world will continue to work on reducing greenhouse gas emissions. Supply chains are working on solutions, trials, and testing consumers' willingness to pay. On-farm, most of the transitions are still to come, and more and more farmers seek to understand the emissions footprint of their operations and which changes to put in place.

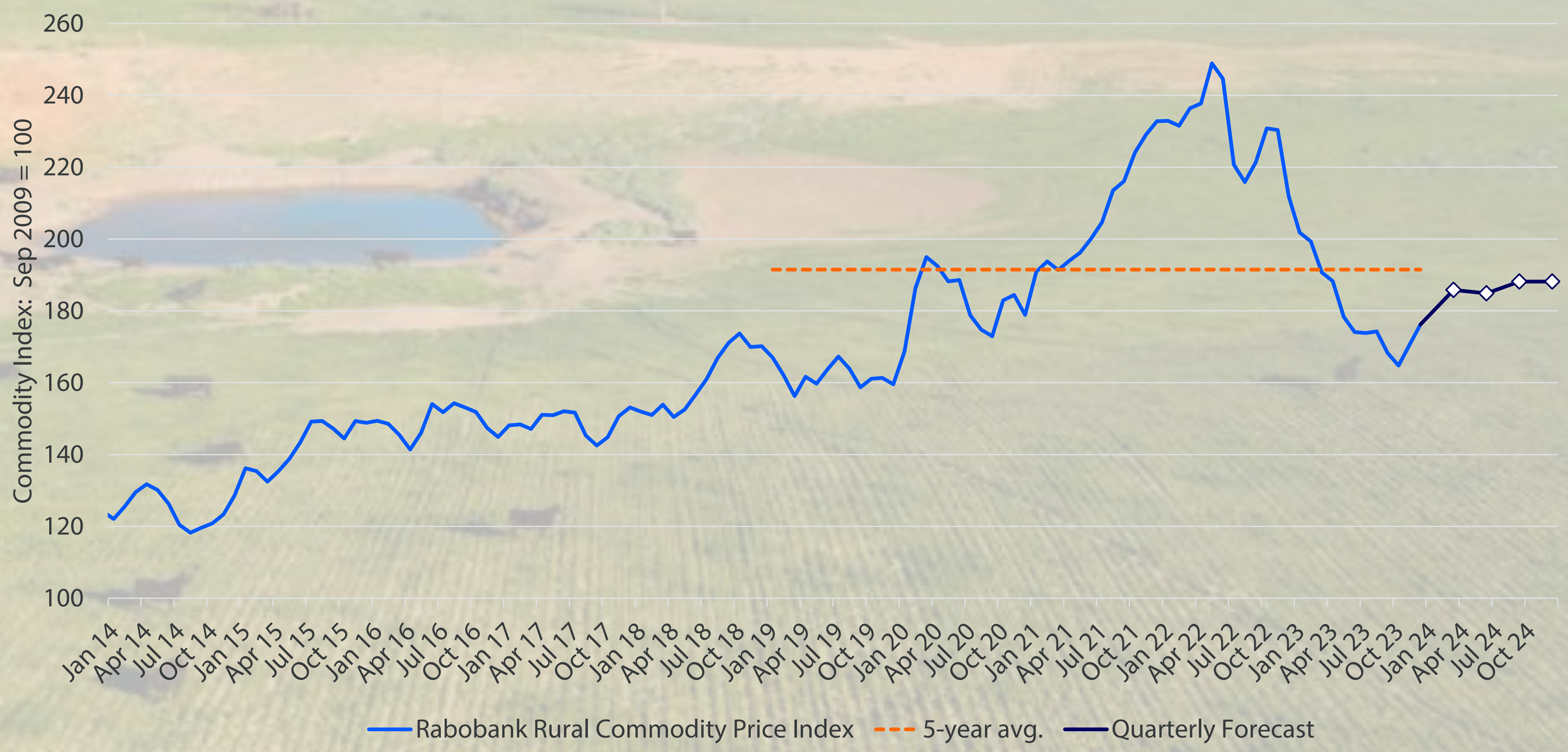
Rabobank Rural Commodity Price Index back to five-year average

Rabobank's Rural Commodity Price Index points to continued positive farm margins in 2024 in key sectors.

Price developments will vary per sector in 2024:

- **Grain prices are likely to remain under pressure** – Grain markets globally and in Australia battle with a supply outlook for 2024 that is more plentiful than in past years. Early season wheat, canola, and other major grains supply outlooks for 2024 are calling for a year-on-year increase in global volumes. This has already added downward price pressure. For a significant 2024 price upside the world would need to see (weather-related) supply shortages.
- **The beef and sheep price outlook is more optimistic and above the 2023 lows** – Prices in late 2023 moved up from the lows, but the animal protein sector will continue to work through large Australian production volumes that need to move into rather congested global demand markets, and the global economic headwinds that are expected to continue in 2024 won't help demand much. Still, we expect 2024, especially the 2nd half of the year, to see higher beef and sheep prices.
- **Dairy commodity markets have bottomed and will likely improve in 2024.** However, there will likely be some downward pressure on some parts of the southern region for new season milk from July 1 – Domestic markets will provide ongoing support for farmgate prices and the margin outlook for dairy farmers remains positive.

Rabobank Rural Commodity Price Index (Australian dollar-based)



Source: *Bloomberg, MLA, Rabobank 2023*

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).*

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Climate

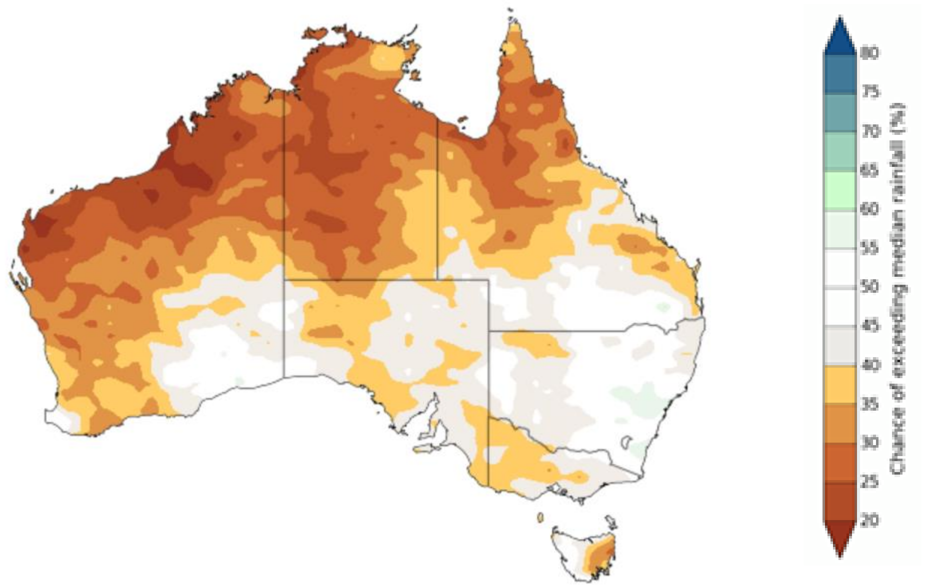
Summer rain

While the El Niño event continues into 2024, it is likely to fade and to turn neutral in autumn, as key indicators are changing, for example the declining sea surface temperatures in the Pacific ocean. This outlook is also supported by similar predictions by key US and EU agencies.

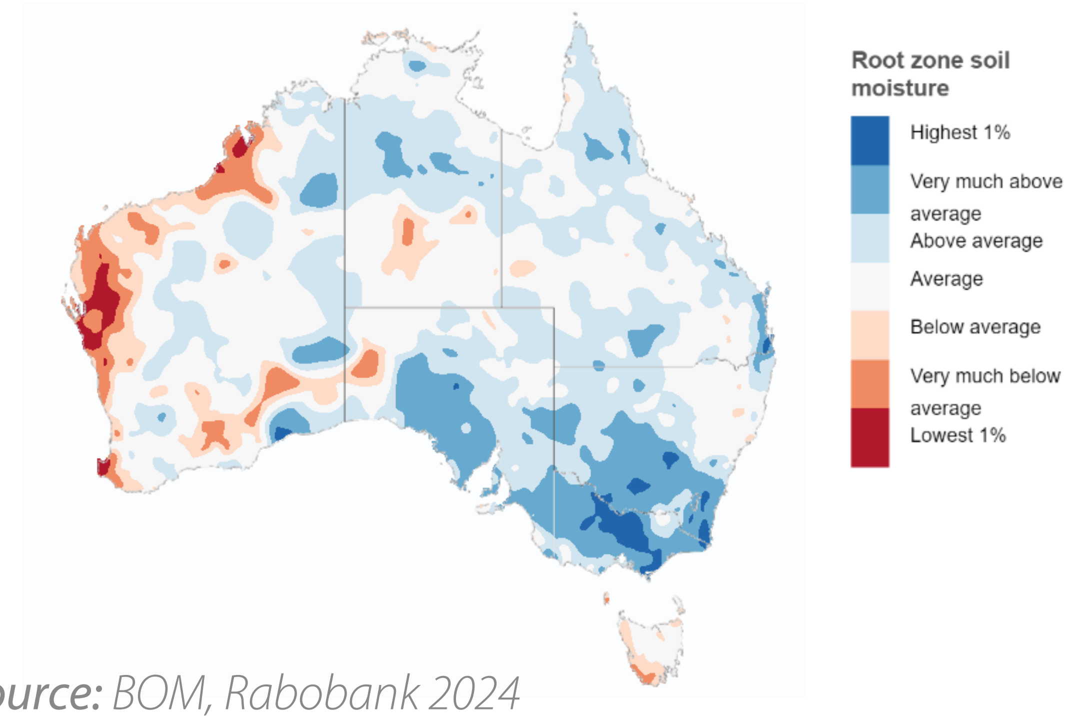
The positive Indian Ocean Dipole is also weakening and is expected to return to neutral in the coming weeks. Despite both events, it was a wet summer for much of the east coast of Australia with tropical cyclones and thunderstorms. Soil moisture levels for the east coast range from average to highest 1% for the month of January.

For the majority of Australia, the chance of exceeding median rainfall during the February-April period is moderate to very low (50% or less). Water storage levels remain high at 86% for the Murray-Darling Basin.

February – April rainfall outlook



Relative soil moisture, January 2024



Source: *BOM, Rabobank 2024*

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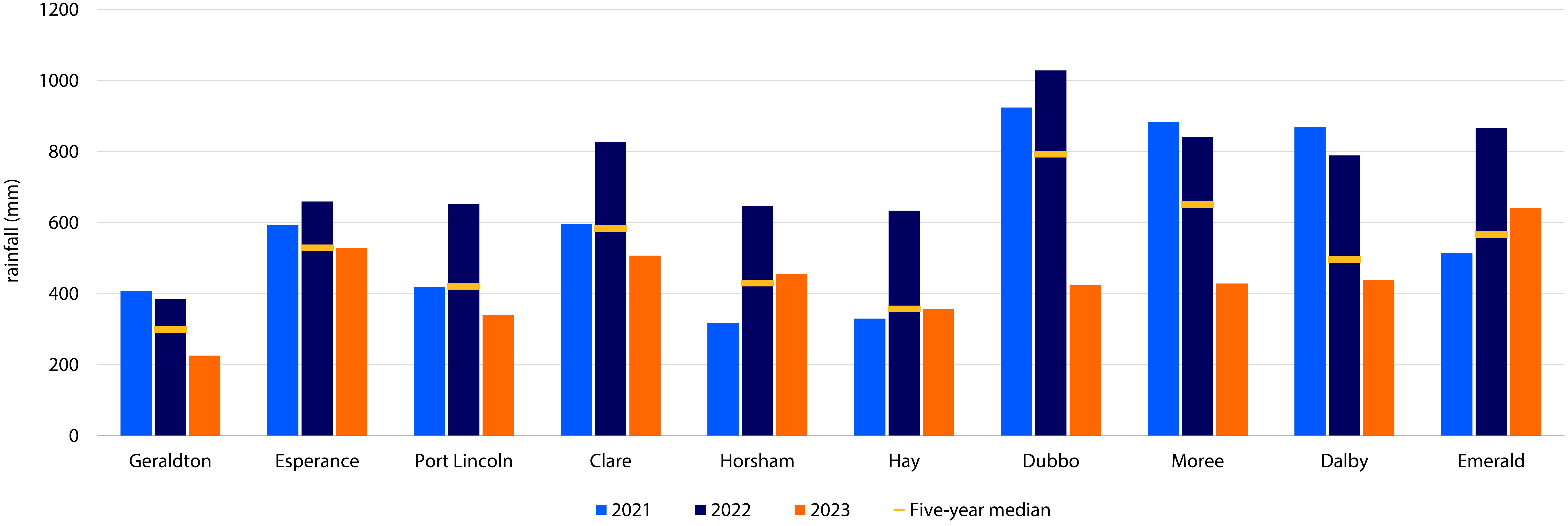
Climate

Agriculture regions rainfall

2023 rainfall mostly at or below five-year median



Source: BOM, Rabobank 2024

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Sustainability

Credible corporate emissions reduction targets bring farm-level emissions into focus

Adoption of emissions reduction targets under the **Science-Based Targets initiative (SBTi)** is increasing rapidly, both domestically and in key export markets. Record uptake was seen in 2023 and is expected to continue in 2024.

For companies operating in food and agriculture value chains, setting and meeting SBTi FLAG (Forest, Land and Agriculture) targets requires them to address their scope 3 emissions, which includes farm-level emissions.

Adoption of SBTs is driven by companies looking to demonstrate they are aligning their business activities with the emissions reduction pathways required to meet the goals of the Paris Agreement. Although European companies have historically been the main adopter of SBTs, rapid growth is also occurring in Asia. Australia makes up a small share of international F&A targets by number, however both major local supermarkets have either set SBTs or committed to set them.

Reporting on progress towards these targets requires emissions data from across the supply chain – not just their direct operations. As companies develop their emissions reporting in line with this initiative, **new emissions data needs can be expected to filter back up the supply chain from downstream stakeholders with SBTs**. Under this initiative, supply chains may ultimately be driven to demonstrate alignment to the FLAG emissions reduction pathways set out by the SBTi.

As a growing share of Australian agricultural output becomes covered by these targets, measuring on-farm emissions and communicating this footprint with trading partners is set to become an increasingly normal part of commercial interactions.

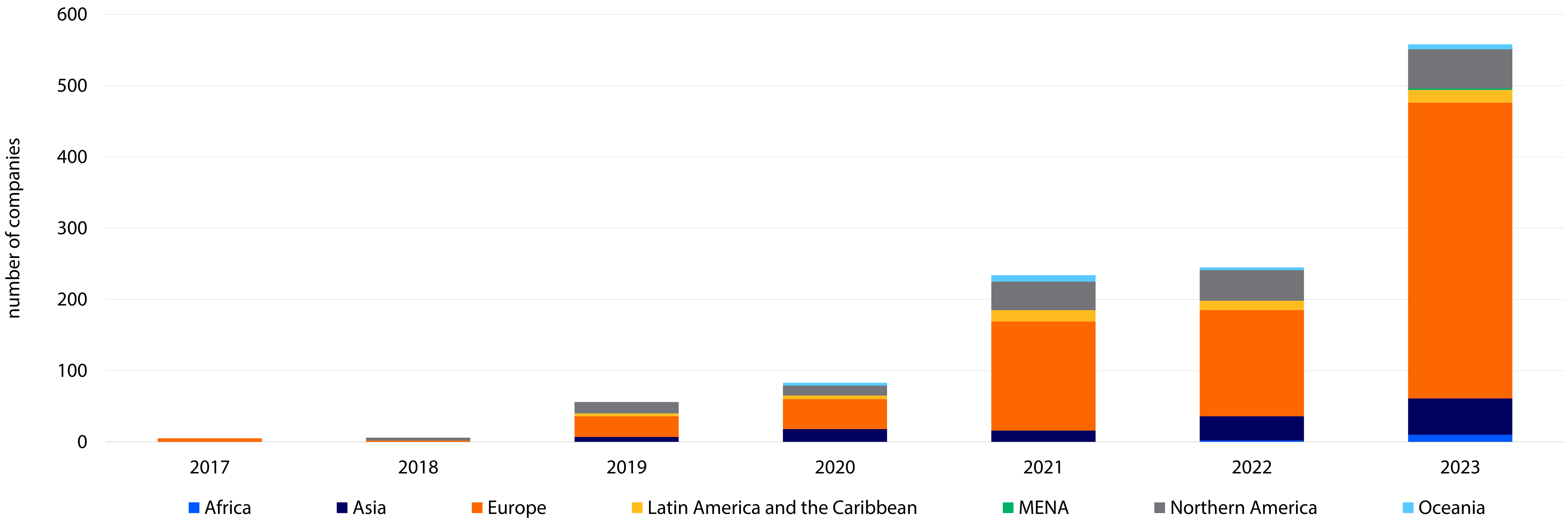
What to watch:

- The finalised GHG Protocol Land Sector and Removals guidance is expected to be released in mid-2024. It specifies how companies should measure their emissions and is the accounting guidance SBTi follows. This will provide greater clarity around technical requirements and inform company approaches to measurement and reporting.

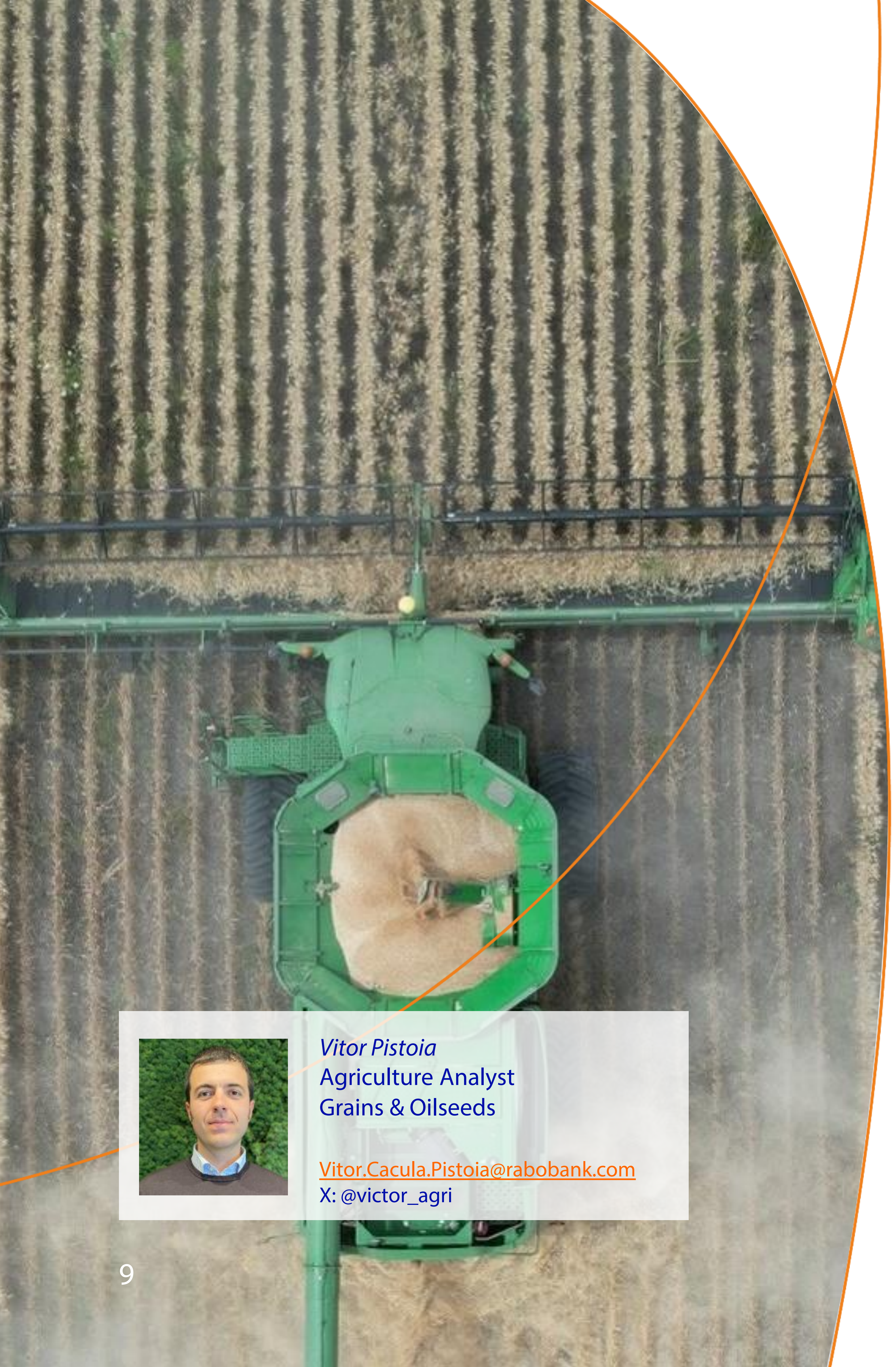
Sustainability

The targets keep coming and they don’t stop coming

The growing number of global F&A companies with targets and commitments to set targets under the Science Based Targets initiative



Source: SBTi Target Dashboard, Rabobank 2024



Wheat and barley

Robust supply despite geopolitical roller coaster

The global picture points to a 2024 of improving cereals availability, both from increasing supply and modest demand. Record-high Russian wheat supplies from two big crops in a row are inundating markets and curbing prices, which easily offset the smaller Ukraine cereal crop. The wave of cheap wheat is due to last until mid-2024, and that's when the northern hemisphere starts harvesting and adding fresh supplies.

The feed market is also experiencing rock solid exports. Brazil's logistics have been clogged during many months of 2023 due to the amount of corn coming out on the back of La Niña, putting pressure on feed grain prices. Improved Argentine weather and crop prospects for the soon to start harvest will keep South America's output of cheap feed high, setting the tone for the coming months.

In Australia, the last season was a mixed bag of feelings. The northern parts of the wheatbelt endured a lack of soil moisture, which has placed yields at record lows in some areas. The southern parts, however, had average to good conditions, resulting in **a national harvest near the long-term average: 25m-26m metric tons of wheat and almost 11m metric tons of barley.**

Factoring in the new configuration of grain prices, farm inputs costs and the likely impacts of geopolitics on trade, **we forecast a further downward price correction for 2024 , though quite small compared to 2023.** National average for APW might be in the AUD 350-370/mt range and feed barley AUD 320-340/mt. The global beverage market is also experiencing adjustments for demand and beer growth has stalled. Hence, Australian malting barley trades at a discount, despite the 2023 removal of import duties into China. The malting barley premium versus feed is unlikely to break above AUD 30/mt.

What to watch:

- **Cloudy market**– Current weather forecasts point to El Niño-La Niña neutrality conditions in 2024, which means intense rainfalls and dryness should not influence markets heavily. However, the Northern Hemisphere is far from the yield-determining months, and Australia's seeding has not even started yet. Hence, any skewed movements of the clouds have the potential to flip the table. Hedge funds do not have big positions in the soft commodities realm and may look at it differently after they have more visibility of the weather and if interest rate will be slashed by 1H 2024.

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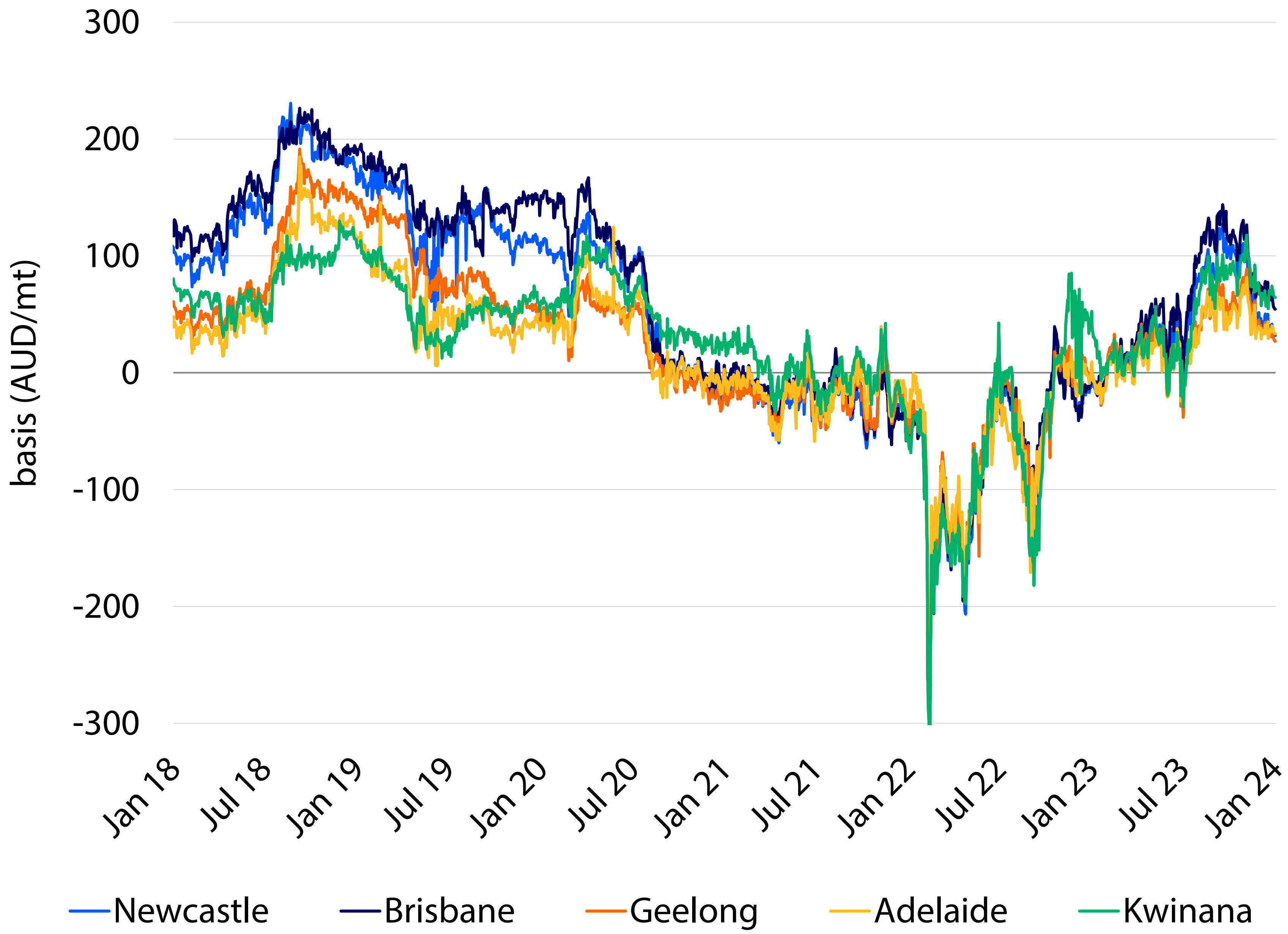
Wheat and barley

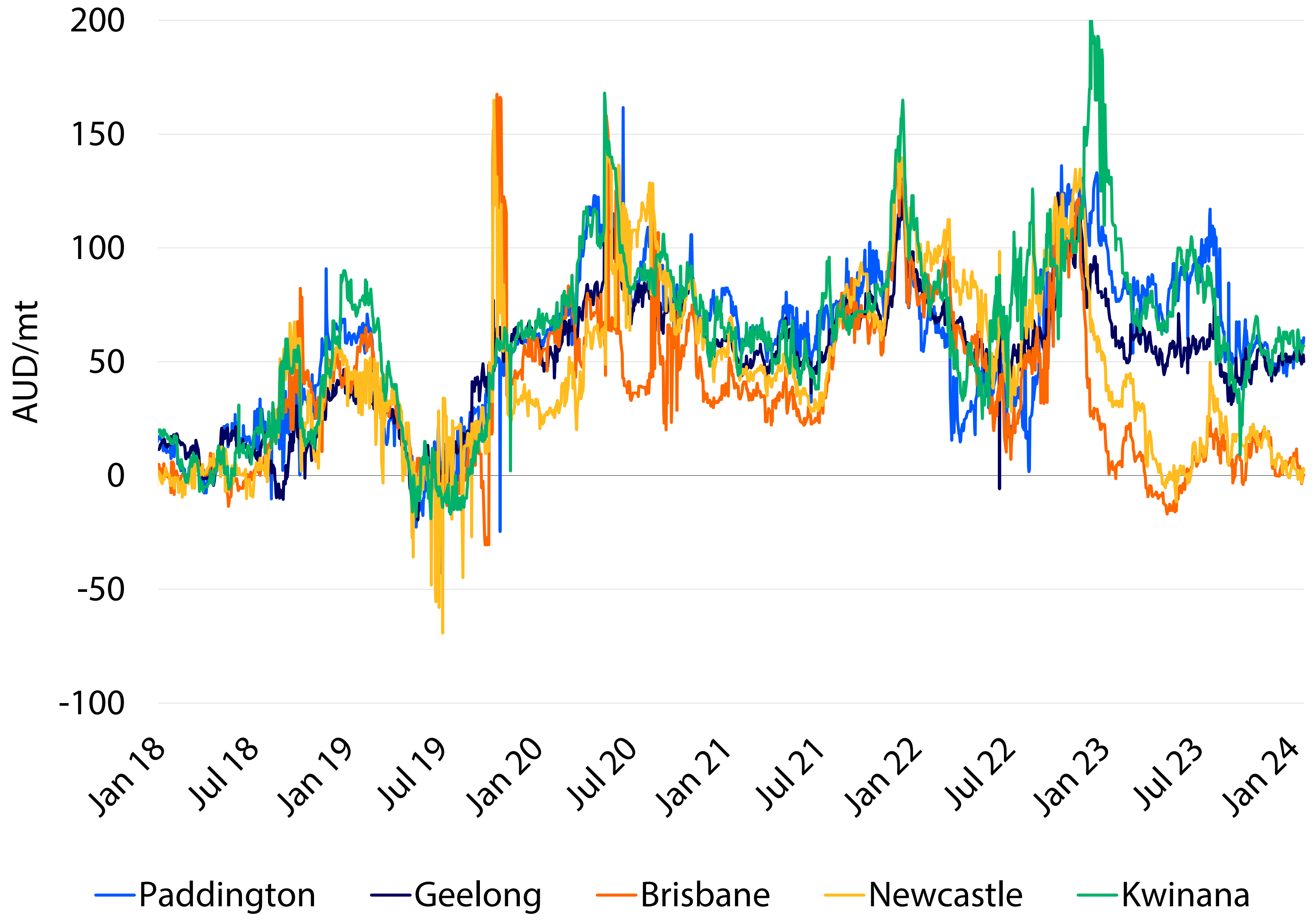
Everything going as planned; global milling wheat and feed grain supply will likely be key factors

The La Niña APW discount versus CBOT is gone and might remain, with a modest positive basis during 2024



Source: Bloomberg, Rabobank 2024

Feed barley is poised to continue with a fair discount compared to APW, except for north NSW and QLD



Source: Bloomberg, Rabobank 2024

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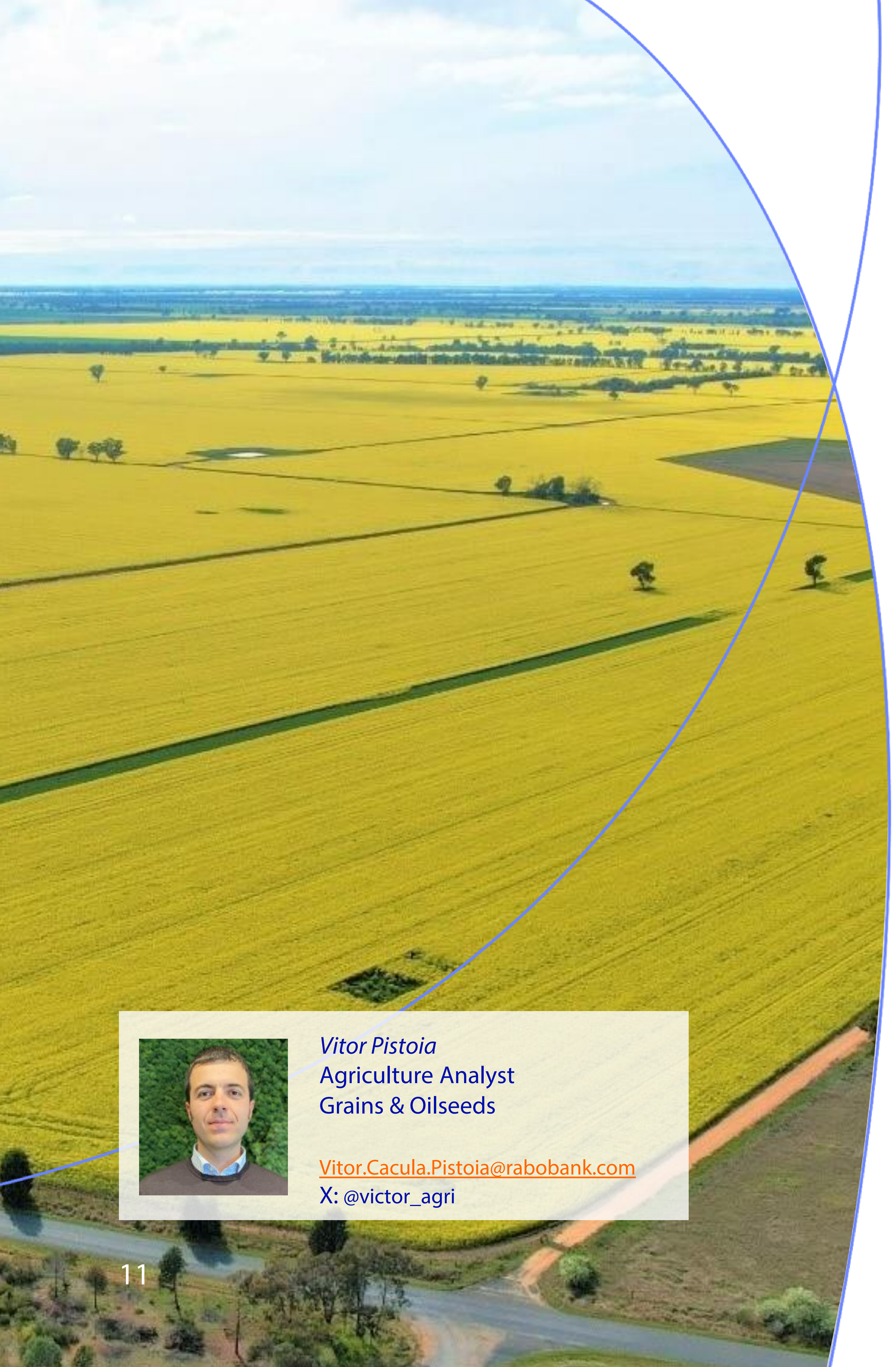

Canola

Rising stocks of oil and meal are pressuring prices

The year is starting with far more vegetable oil supply than was expected a few months ago. 2023/24 soybean production will end with another rock-solid supply season, especially from Argentina, and palm oil will show a soft increase for the current crop. **On the canola front, the 2023 drought impact in Canada was not as bad as initially projected and the local crushing expansions faced delays.** More Canadian canola is available for export.

The European market, Australia's number one client by far, saw a 2023 of intense crushing and steady supply of products from Ukraine, including raw materials, vegetable oil, and meal. In combination with oscillating crude oil prices, this led to a significant price correction of – 25% for MATIF rapeseed in 2023. The downward trajectory was also exacerbated by increasing stocks of both canola oil and meal, and a gradual reduction in the Chinese appetite for oilseeds.

The global 2024 supply and demand outlook calls for robust global availability of vegetable oils and meals, at least for the first half of the year. Therefore, any upward price correction must come from either rising crude oil prices or adverse weather in a key production region. **Everything considered, the national average for non-GM canola might be at the AUD 600-630 range by the end of 2024, with a minus 3% to 6% for GM reference.**

The price difference between west and east coast should be relevant on the back of the Red Sea/Suez logistics bottlenecks. To reach Europe, a vessel has a six-day shorter journey from Kwinana compared to Geelong. On a skyrocketing maritime fee and possible low vessel availability, this does make a difference. Since early November 2023, the spread between the coasts has been on the rise, and by late January 2024 it is on the AUD 75/mt mark for the previously mentioned ports.

What to watch:

- **Circumnavigating problems** – The recent Houthi attacks on vessels crossing the Red Sea have put the maritime freight sector in havoc. Australian canola typically uses this route to supply the EU, and to go around Africa increases the voyage by five days. It may not look like a big deal to us, though to French grain exports to reach Saudi Arabia for instance, the voyage increase from 11 to 31 days. Considering all maritime trade, this has the potential to alter not only the freight costs but also the vessel availability at the ports. Geography might be against farmgate prices on this matter.

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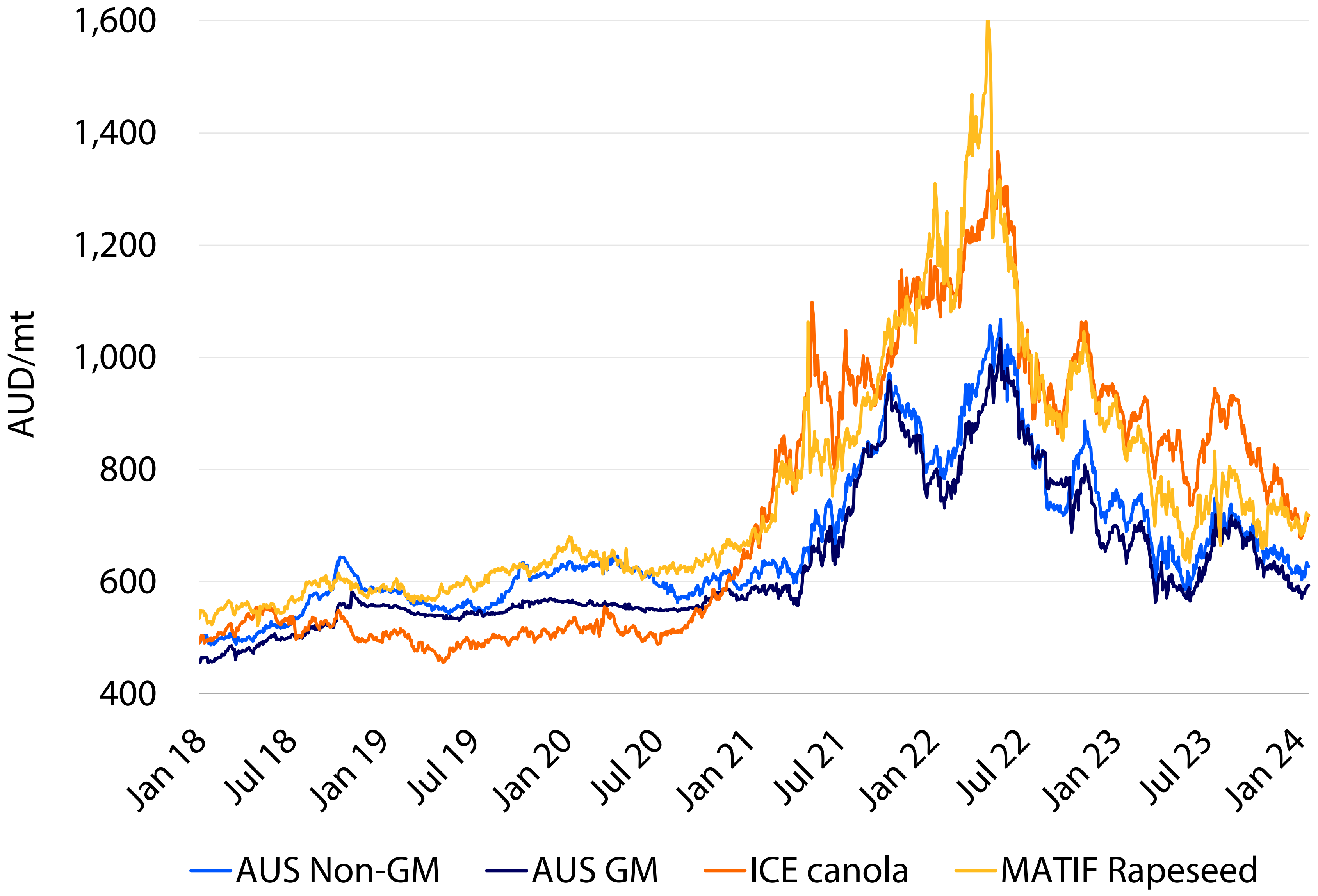
Canola

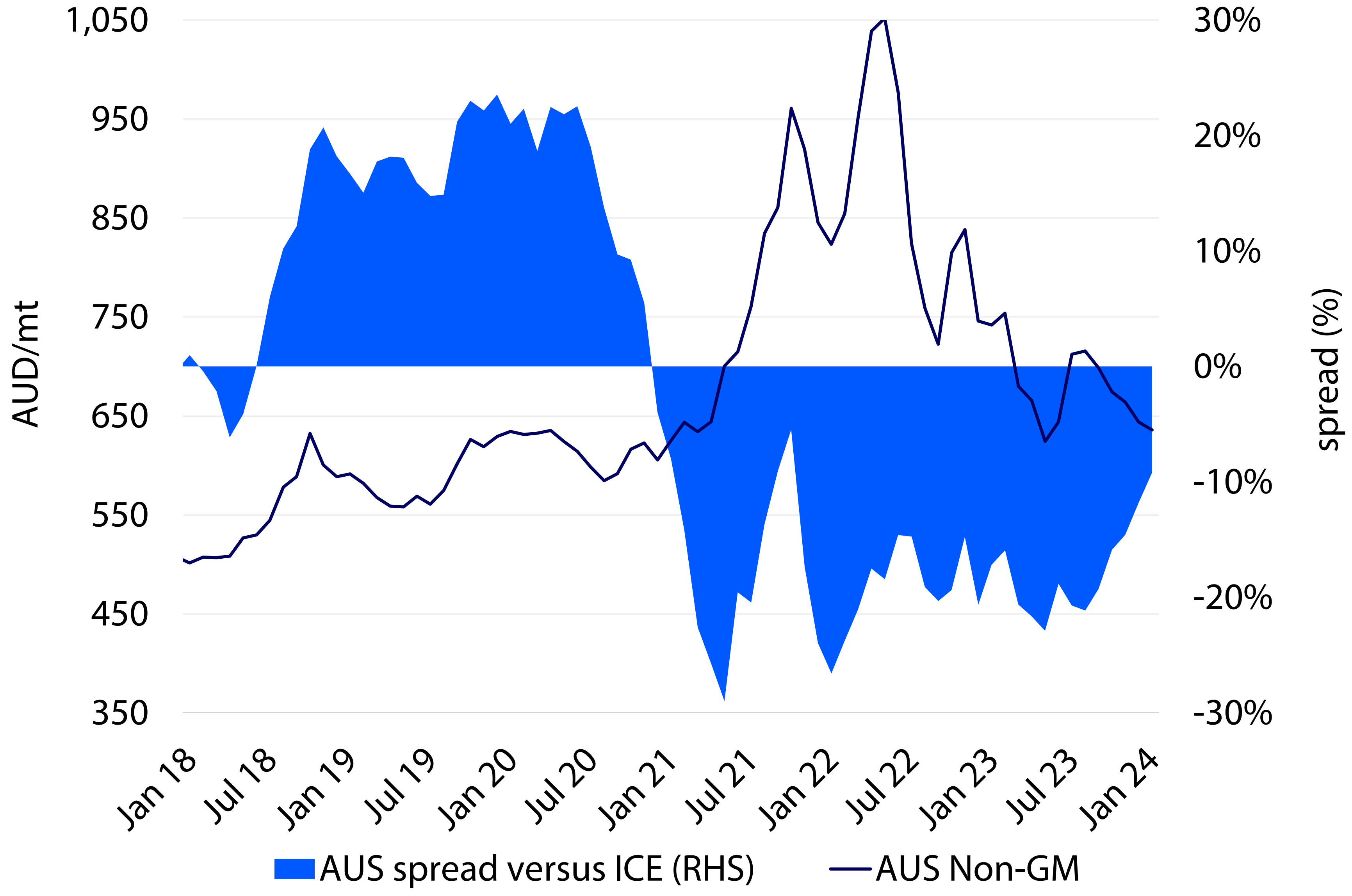
As local stocks ease, the prices should mirror global levels more closely

Because of the recent good seasons, Australian prices missed some global market spikes



Source: Bloomberg, Rabobank 2024

Australia's hefty canola discount compared to Canada is fading due to an "on average" national harvest



Source: Bloomberg, Rabobank 2024

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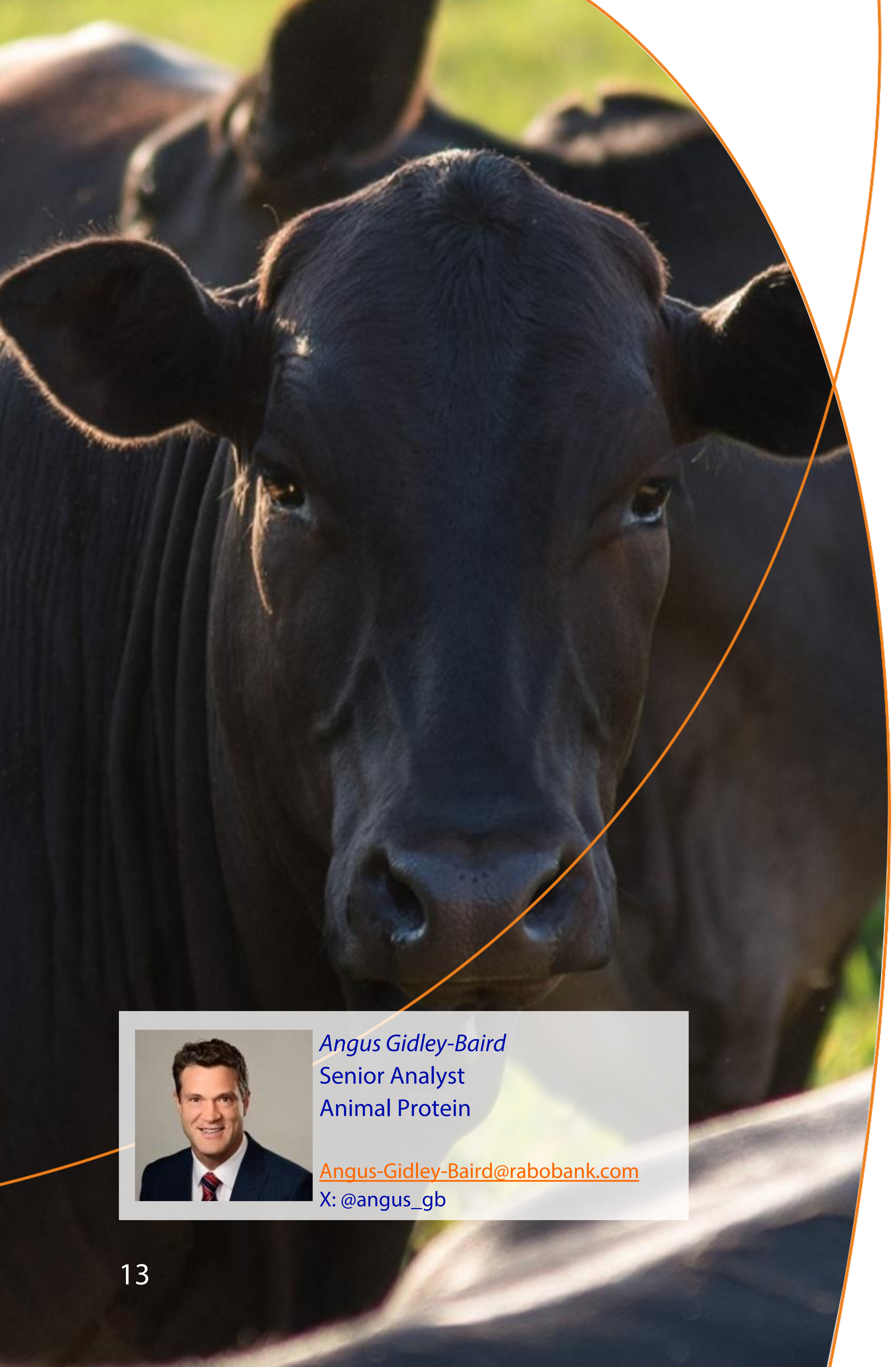

Beef

Recovery and stabilisation as we wait for the US market to lift

We expect cattle slaughter to lift in 2024 for two reasons. We believe cattle slaughter will lift in the order of 10%-15% in 2024 after an estimated 18% increase in 2023. Increasing cattle inventory and an increase in processing capacity will be the two reasons for the rise. We expect the breeding inventory to continue increasing in 2024, albeit at a much smaller rate than seen in the last three years. Areas in the northern half of Australia still have capacity to increase stock numbers, while southern areas will be more stable.

Export markets are looking more positive in 2024 – with the US being the shining light – but consumer spending remains under pressure. Asian markets are expected to continue to experience soft demand, although a clearing of supply chains will help improve the currency of product and support prices. With contracting production levels, the US is expected to see an increase in imports which should support Australian exports.

Improving export demand should support cattle prices in 2024. Despite the projected increase in cattle inventory and cattle slaughter, with average (or potentially wetter) seasonal conditions, we believe young cattle prices should be well-supported through 2024. After readjusting up from the 2023 low prices, prices will stabilise into the middle of the year before lifting slightly towards the end of the year on the back of rising US demand for imports and Chinese import demand recovery. At this stage of the season we believe the EYCI will trade around AUc 700/kg this year. Finished cattle prices, while following a similar trend, are not expected to see as large a rise given the ongoing soft import demand in many key Asian export markets. The large price rise associated with the US herd rebuild and strong US prices is not expected until 2025.

What to watch:

- **US cattle market** – US beef production fell an estimated 5% in 2023 and we expect it to fall 4.5% in 2024. We do not believe seasonal conditions have improved enough to initiate the restocking process yet and with high heifer placements in feedlots in late 2023 we do not believe there are many cattle available for restocking. While these factors suggest US beef prices will remain strong, we still await the restocking activity that will drive cattle prices higher, supporting Australian exports with potentially even stronger upside.

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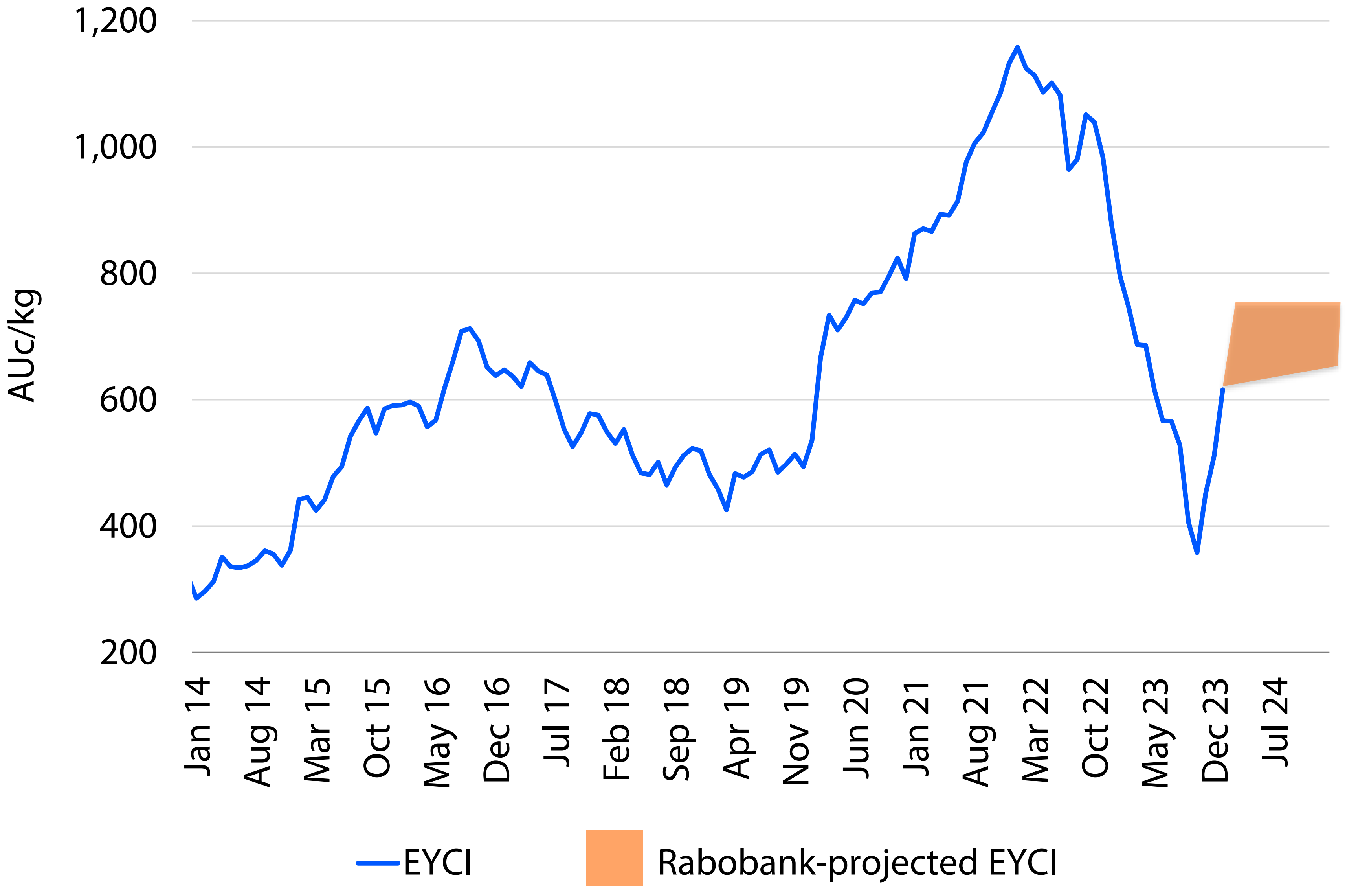
Beef

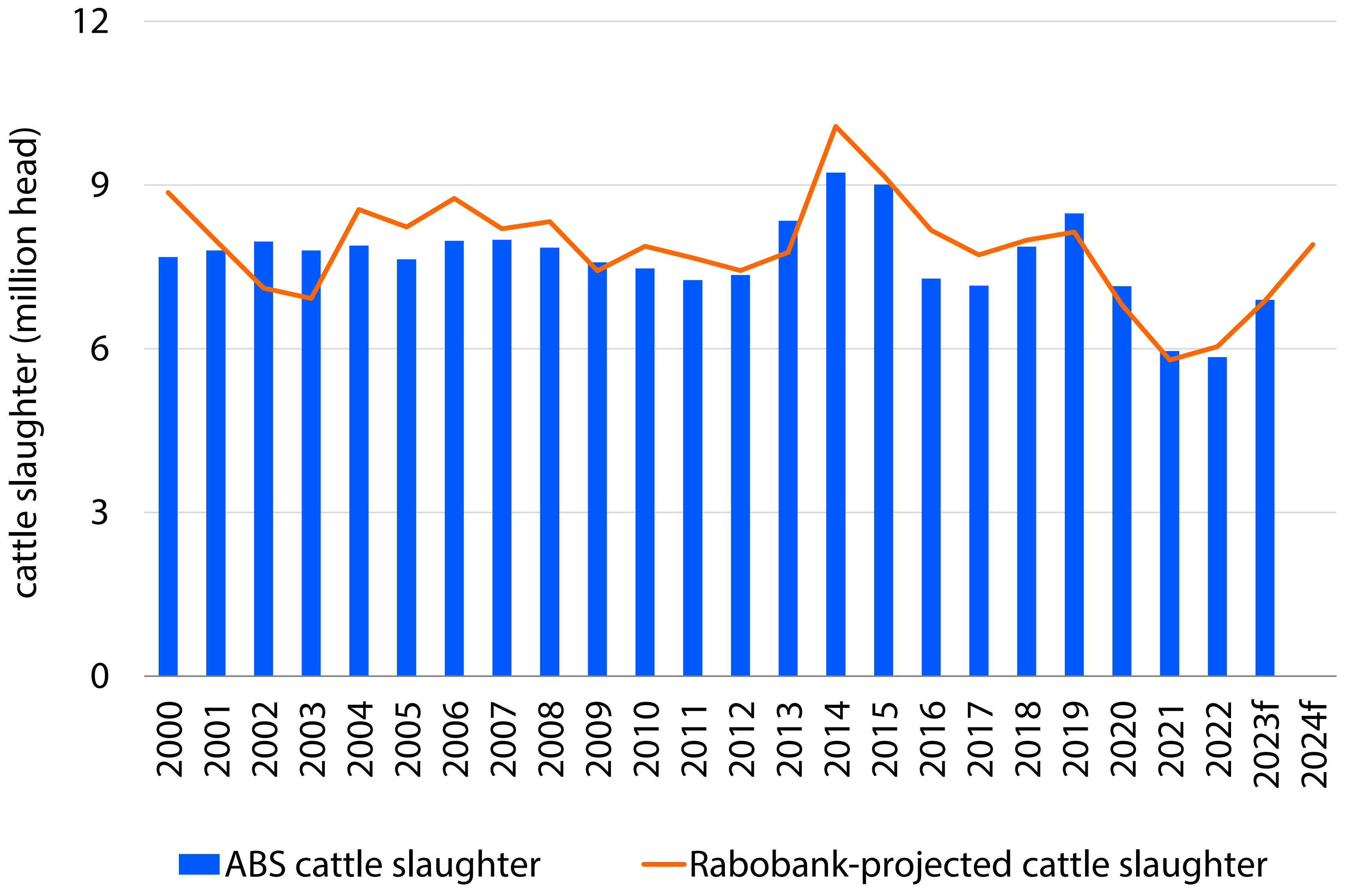
Improved seasonal conditions return some confidence that stabilises prices and increases production

EYCI to lift then stabilise in 2024 between AUc 650 and AUc 750/kg



Source: MLA, Rabobank 2024

Cattle slaughter to increase, albeit at a smaller rate than in 2023



Source: ABS, Rabobank 2024

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Sheepmeat

Producer sentiment improves but supply remains steady

Producers will be looking to 2024 in hope that the market will hold more promise than 2023. The oversupply of livestock that hit the market last year, coupled with the dry outlook led to steady falls in prices. 2024 showed price gains off the back of strong rainfalls and restocker demand returning. However, strong production volumes and a subdued demand will remain and likely only improve towards the end of the year.

After record lamb production in 2023, we expect lamb production to climb marginally this year. This will be driven by strong Jan-June slaughter volumes as a large number of unsold spring lambs hit the market. Production growth will also be limited by lighter carcass weights hitting processors. Slaughter volumes will fall in 2H as the elevated sheep slaughter numbers for 2023, up 46% YOY, impact breeding flock size and new season lamb drop. 2024 lamb slaughter numbers are estimated to climb 6% to 22.4m head, with sheep slaughter to remain on par YOY.

Demand is showing signs of improvement within both domestic and international markets. Local retail prices for lamb began to fall in late 2023, with the improvements in price competitiveness vs cheaper protein alternatives stimulating consumption. 2023 lamb export rose 15% YOY and mutton jumped 46% YOY. The Middle East and China saw growth for lamb volumes of 81% and 30%, respectively, with the Middle East benefitting from the large volumes of lighter carcasses. Concern does remain on the Chinese economic slowdown and consumer demand. Exports to the US lifted in Nov-Dec and are expected to stay improved, after they dropped 16% YOY in Jan-Oct 2023

With improving Australian seasonal conditions and US demand, we expect lamb markets to improve year-on-year, although price increases will likely be held in check by continually strong supply volumes in 1H 2024. We expect trade lamb prices will remain between AUc 600 to AUc 650/kg for 1H 2024 and exceed AUc 650/kg in 2H.

What to watch:

- **Producer confidence** – 2023 saw sheepmeat prices fall sharply as increased volatility was present in the market. With supply levels elevated, producer purchasing decisions carried significant weight in price direction as the dry conditions and dry outlook saw producers push stock into the market without confidence of retaining on farm. With the possibility of above-average rainfall totals in 2024, producers will have more opportunity to hold stock on farm which, given supply is expected to remain elevated through 1H 2024, would assist in supporting prices so that we do not expect a significant dip in the market as we did last year.

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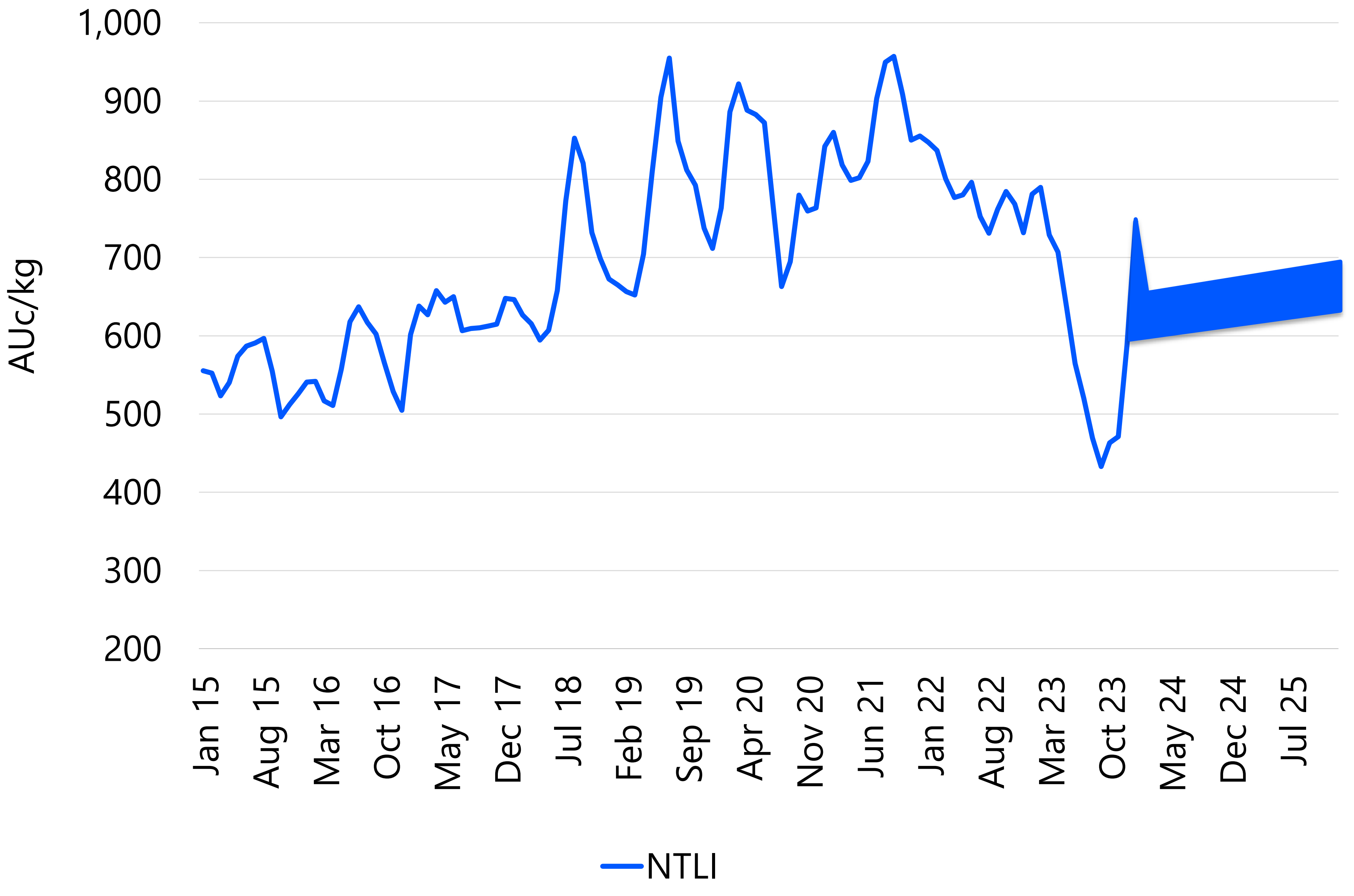
Sheepmeat

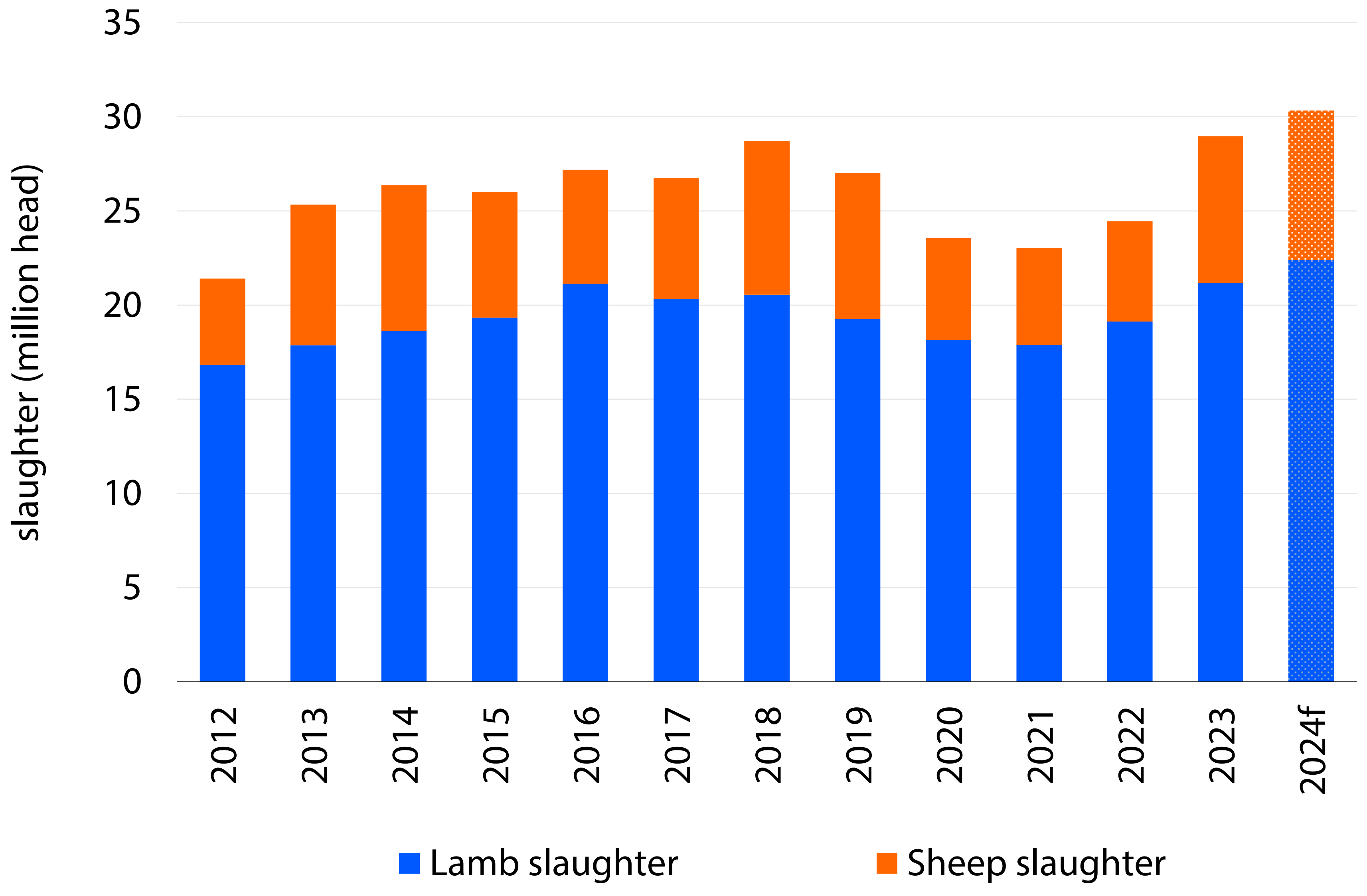
Lamb prices are forecast to improve in late 2024 as supply volumes begin to soften

National Trade Lamb Indicator (NTLI) expected to trade around AUc 600 to AUc 700/kg for the year



Source: *MLA, Rabobank 2024*

Lamb and sheep supply volumes are expected to increase further, driven by influx in first six months



Source: *MLA, ABS, Rabobank 2024*

Other animal proteins

Poultry

We expect the ongoing tighter economic conditions will support domestic consumption of poultry and see production levels continue the 2% growth rate in 2024. 2023 poultry production is expected to grow 2% to 1.4m metric tons – a new record and a continuation of the five years of growth. We expect production to grow by another 2% in 2024 in line with the general growth in population.

Grow-out margins are expected to be flat through 2024. In the two years to Q3 2023, poultry retail prices have risen 14.7%. We believe this would have assisted in covering the increased costs – including feedgrain – but now with retail prices of other proteins declining, there will be less room to increase retail prices. Together with slower domestic meat sales due to economic conditions, we do not believe there will be much room for upward movement in grow-out prices.

Pork

2023 was a good year for pork producers, with high volumes and relatively good prices. 2024 looks like it will follow suit although we are cautious about the impact of record production volumes. If Q4 2023 continued the trend from earlier in the year, we expect Australian pork production to increase by 7.5% in 2023, to a new record of 469,000 mt. But a reduction in imports (estimated 22%) and increase in exports (estimated 37%) has meant that, despite the increase in production, Australia's per capita consumption of pork has declined to an estimated 23.8kg from 26kg. We expect production to plateau in 2024.

A reduction in feed costs should support producer margins in 2024. National pig prices held up well through 2023, despite the record production volumes. With production plateauing, we expect prices to remain at current levels although there is some downside risk.

What to watch:

- **Feedgrain costs expected to ease** – Weaker global markets and better seasonal outlooks are expected to see Australian grain prices ease in 2024. The possibility that it may be a wetter-than-average season through grain growing regions up to June, could lead to a larger-than-expected harvest and see grain prices fall further.

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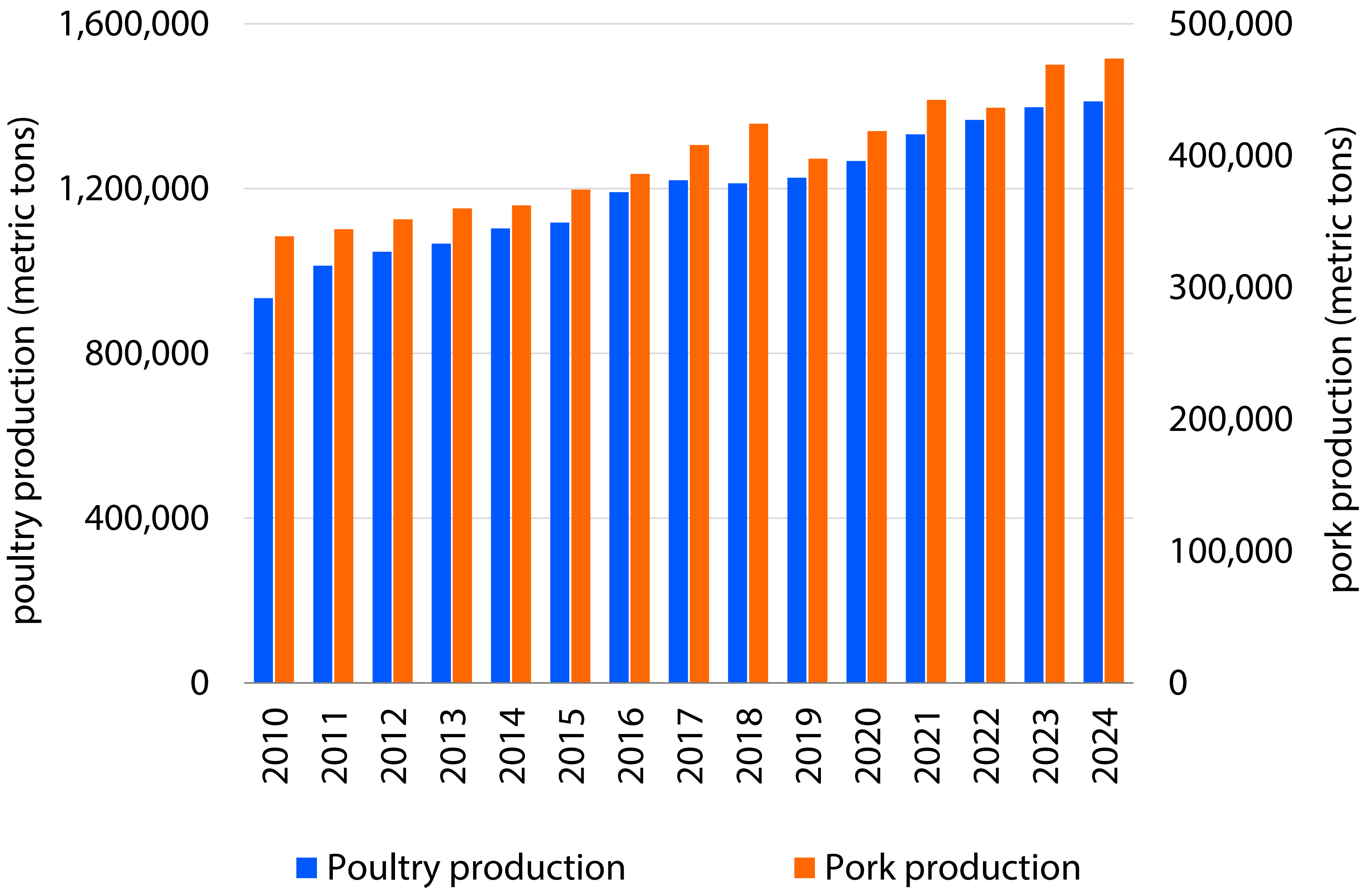
Other animal proteins

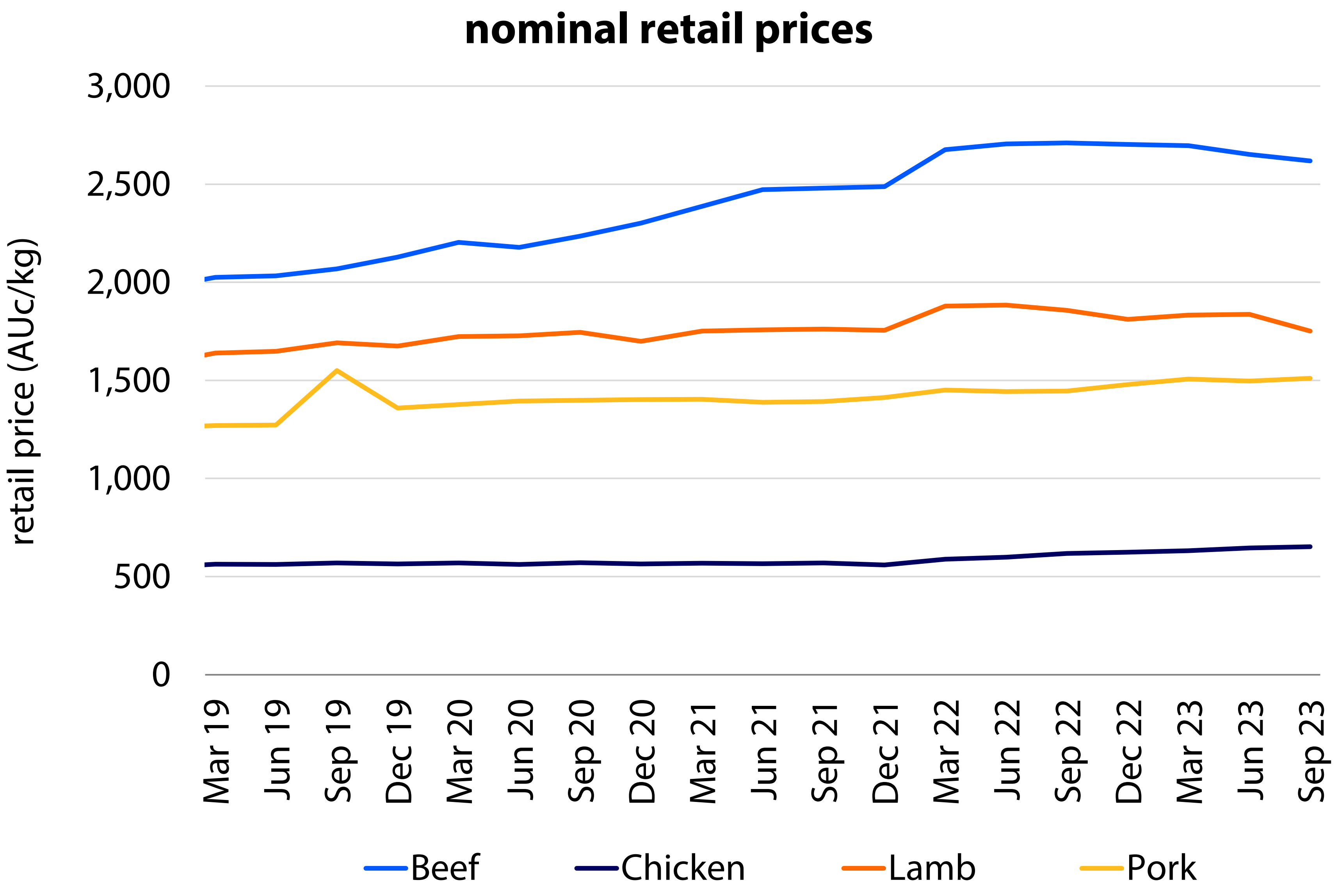
Poultry and pork production growing but at a more subdued rate as retail prices level out

Poultry and pork production growth at a slower pace



Source: ABS, Rabobank 2024

Poultry retail prices rose 5.7% and pork rose 4.7% in 2023



Source: ABS, Rabobank 2024

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Wool

Subdued global markets to continue influencing prices

The wool market remained reserved during 2023, as tightening economic conditions pressured global demand improvements. Looking to 2024, while market conditions have improved, there is still a way to go before considerable price upside may be realised, with prevailing global demand weakness constraining price growth. Fine microns suffered the greatest falls during 2023, while medium micron ranges showed more resilience. Coarse microns remained at their historically low prices.

The expectation is that fine microns will show greater stability while the 20–23-micron range will continue to receive healthy demand support. Rabobank does expect a stabilization or marginal dip in 1H 2024 before seeing prices improve towards the end of the year. With the Eastern Market Indicator opening the year just below AUc 1,200/kg, we project prices will trade, on average, between AUc 1,175-1,350/kg which is 2%-14% below the five-year average.

Demand looks set to remain subdued in 2024 with global GDP growth slowing. Given continued consumer spending pressure, positive signals might begin to present themselves in 2H 2024. We saw steady falls in retail sales growth in the US, UK, Japan, and China through 2023, however, consumer confidence indicators are improving as inflation retreats. Given that China accounts for 83% of Australian exports, this market remains a key barometer for our wool market.

Australia's production outlook for the remainder of the 2023/24 season is not expected to see any movement from last year. Volumes, as per the Australian Wool Production Forecast Committee, are estimated at 328 Mkg greasy. While we did see elevated slaughter numbers in 2023, shorn numbers will remain high at 72.2m head. Given the strong numbers of stock on hand and improved seasonal weather conditions, we will still see strong volumes of wool coming onto the market.

What to watch:

- **Chinese economic activity**– With Australia's wool export's remaining focused on Chinese demand, the current position of the Chinese economy continues to have a significant bearing on wool prices. With GDP growth forecasts falling YOY in 2024, to below 5%, and consumer confidence remaining subdued, we expect demand upside to remain restrained.

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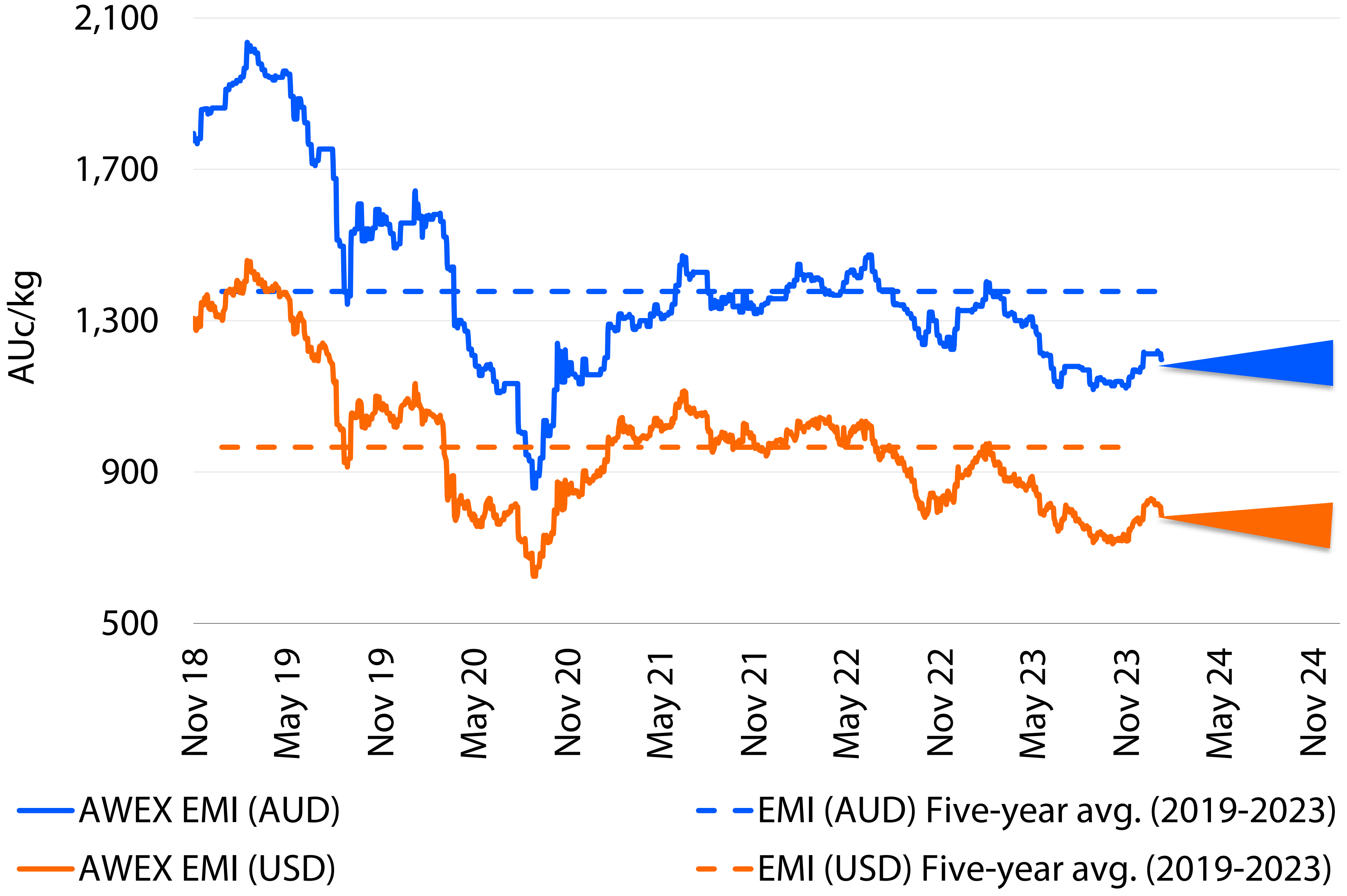
Wool

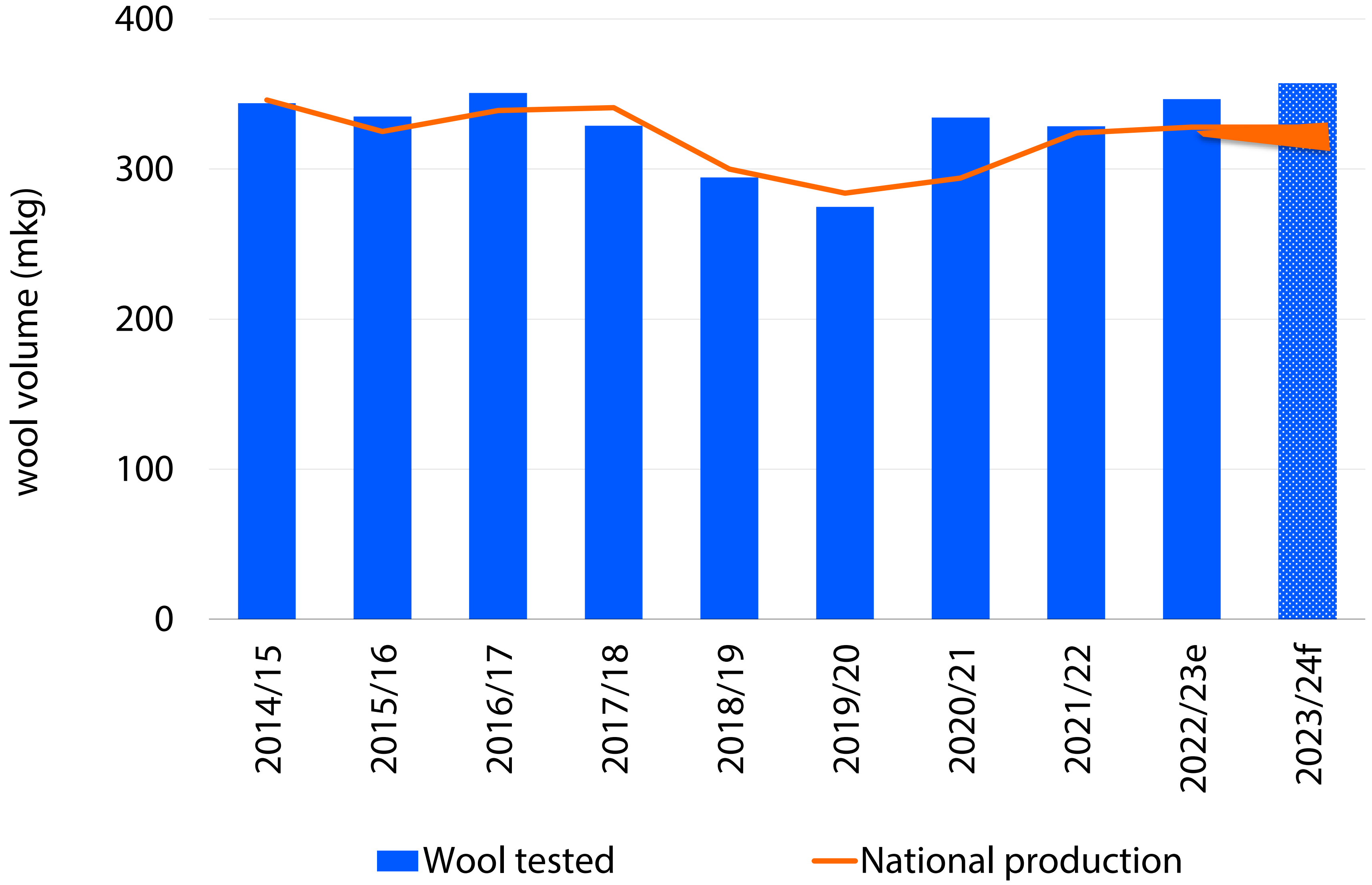
Soft demand landscape keeping price upside movements in check during 2024

Australian EMI expected to hold in 2024 as economic headwinds continue to hamper markets

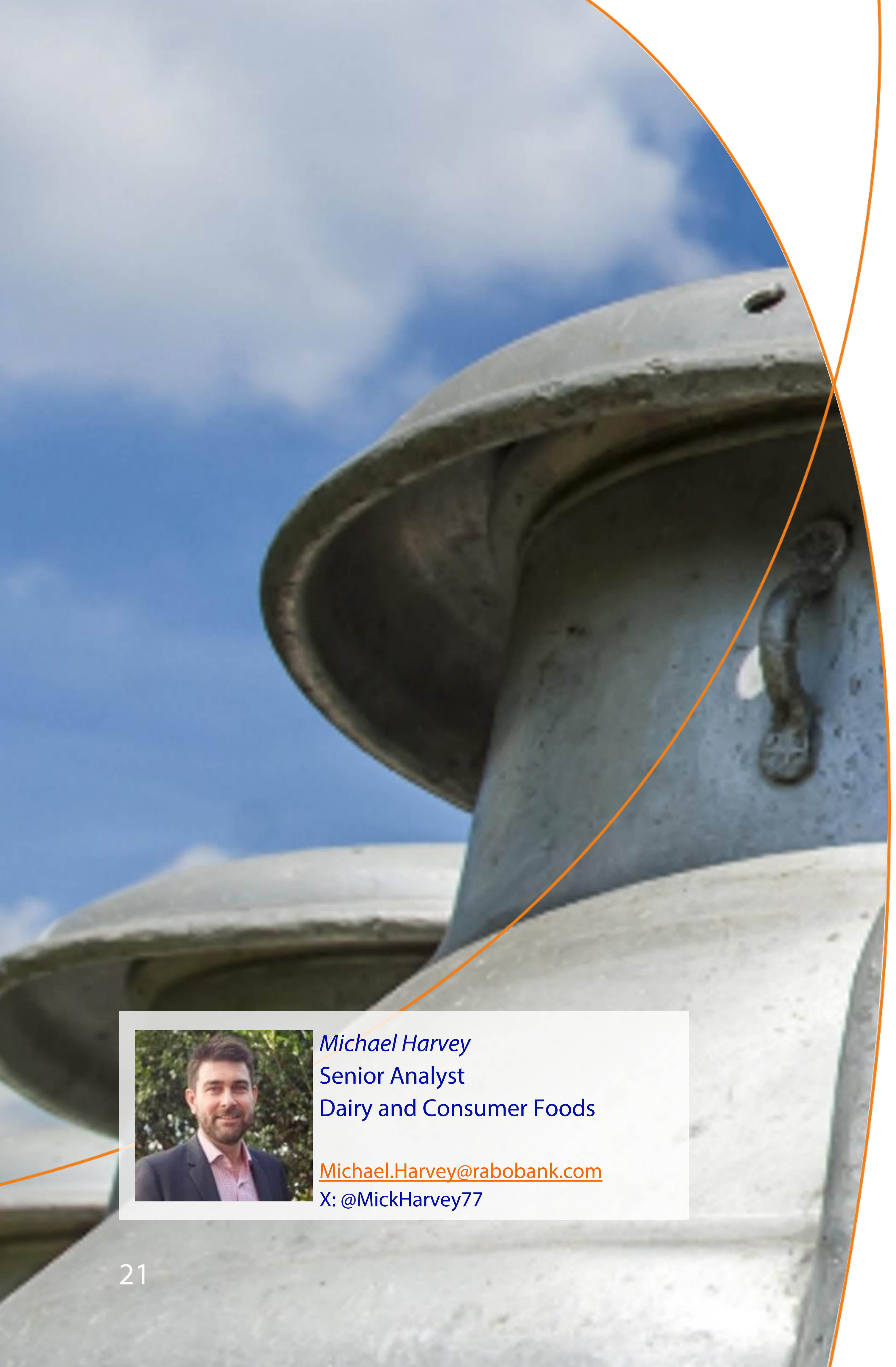


Source: Bloomberg, Rabobank 2024

Australian wool volumes expected to remain high as inventory levels remain elevated



Source: AWI, AWTA, Rabobank 2024



Dairy

Cost outlook to support farmgate margins

The waiting game begins for the 1 June deadline for new season milk pricing. There is time for market conditions to reshape expectations, but dairy farmers can plan and budget for a margin-supportive milk price again. Can Southern Australia milk prices move higher next season? Most likely not, given the export commodity basket is still recovering from a downturn and we have passed the peak in domestic market returns, with cheaper imports now rising while consumers trade down to lower-value products in certain categories. Competition for milk supply ensures good support for new season milk.

A cautious outlook for non-milk income. A sustained recovery in cull cow prices is unlikely and Rabobank maintains a cautious watch on the live export market. The pipeline for farm development in China remains slow given prevailing farm margins in China.

The outlook for Australian dairy farm margins remains favourable through 2024 with feed costs in check. There are no alarm bells on the horizon for fertiliser prices. Feed shortage risks are minimal with adequate feed reserves and a healthy supply of feed grain. As the focus shifts to the new season, soil moisture and availability of irrigation water provide a solid footing.

Looking to 2024 and global market is transitioning to the next phase of the cycle. The general trend is for dairy commodity prices to move higher through 2024 but supply and demand signals are not clear yet. Milk supply will be sluggish in 2024 across most global export regions. The next phase of the demand story remains a key watch.

A complex story of high dairy inflation, broader cost of living, and weak consumer confidence remains. Rabobank expects China's import volume to flatline in 2024, which would be a positive result given the previous two years of withdrawal from the global markets.

What to watch:

Upside – A China import revival

- Any deviation from China's forecast import volumes in 2024 will impact the commodity price direction. The China rebalance is closer to complete and local milk supply will expand at its slowest rate in six years in 2024.

Downside – Dairy demand

- Discretionary spending is sluggish around the world. Dairy demand can be a staple but is also sluggish in most economies, leading to volume declines across various categories. The outlook is for improvement in demand but this hinges on a recovery in real incomes and a reprieve in cost-of-living pressures.

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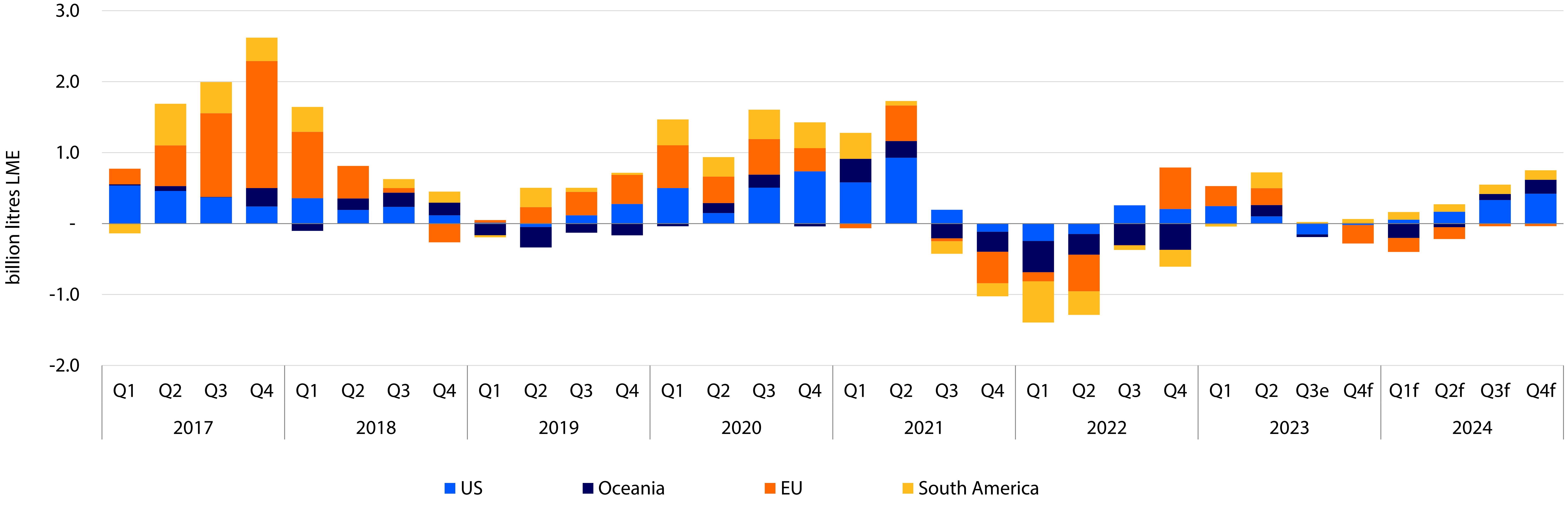
Dairy

A margin squeeze puts the brakes on the global production outlook

Milk production growth, Big 7 exporters (actual and Rabobank forecast), 2017-2024f



Source: Big 7 government industry agencies, Rabobank 2024

Rabobank

Cotton

Market poised to remain range-bound in 2024

The cotton market is expected to continue in a similar fashion in 2024. A weak global economic outlook should hold significant price movements in check. ICE #2 cotton prices opened the year at USc 81/lb, a 2.8% decrease YOY, before increasing to USc 83.95/lb as of January 22. With prices remaining range-bound for the majority of 2023, around USc 75-90/lb, and global economic performance remaining similar, the expectation for 1H 2024 is for prices to remain steady before improvements in key markets in 2H 2024 provide upside.

Australian production is forecast to drop in 2024 to the 4.5m bale mark, down 11% YOY from the 5.1m bale estimates for the 2022/23 season. The dry conditions experienced across the Northern NSW and Southern QLD growing regions before planting last year led to these falls, with the dryland cotton area taking a significant hit. Positive summer rainfall totals have provided upside potential, although given this lift in dryland planted area came primarily during the late planting window, yields are likely to be down YOY.

Globally, the USDA's production estimates have fallen over 3m bales, with output now forecast at 113.2m bales for 2023/24. The main movers are China, with cotton ground making way for food crops amidst their push towards improving food security, and the US who are looking at their lowest planted area in eight years. While consumption is showing a slight increase of 1.2m bales for the 2023/24 season, estimates have steadily fallen in recent months after a bullish outlook to open the season in August 2023. With consumption remaining below supply, ending stocks are expected to once again increase but inventory levels are diminishing across global retail companies, providing a promising demand floor. With improving economic outlooks in key markets and lower supply, **Rabobank forecasts domestic prices to trade between AUD 620 and AUD 680/bale.**

What to watch:

- **US cotton production**– Australia's cotton price rallied to AUD 700/bale in September/October 2023, amid declining US production forecasts. After US output fell an estimated 14% YOY in 2023, early forecasts for the US crop this year have planted area to remain steady around the 10.5m acre mark. Once firmer estimates are released in February we will have a clearer idea, however, a falling US production total could assist in supporting Australian prices given that global demand is expected to remain stable.

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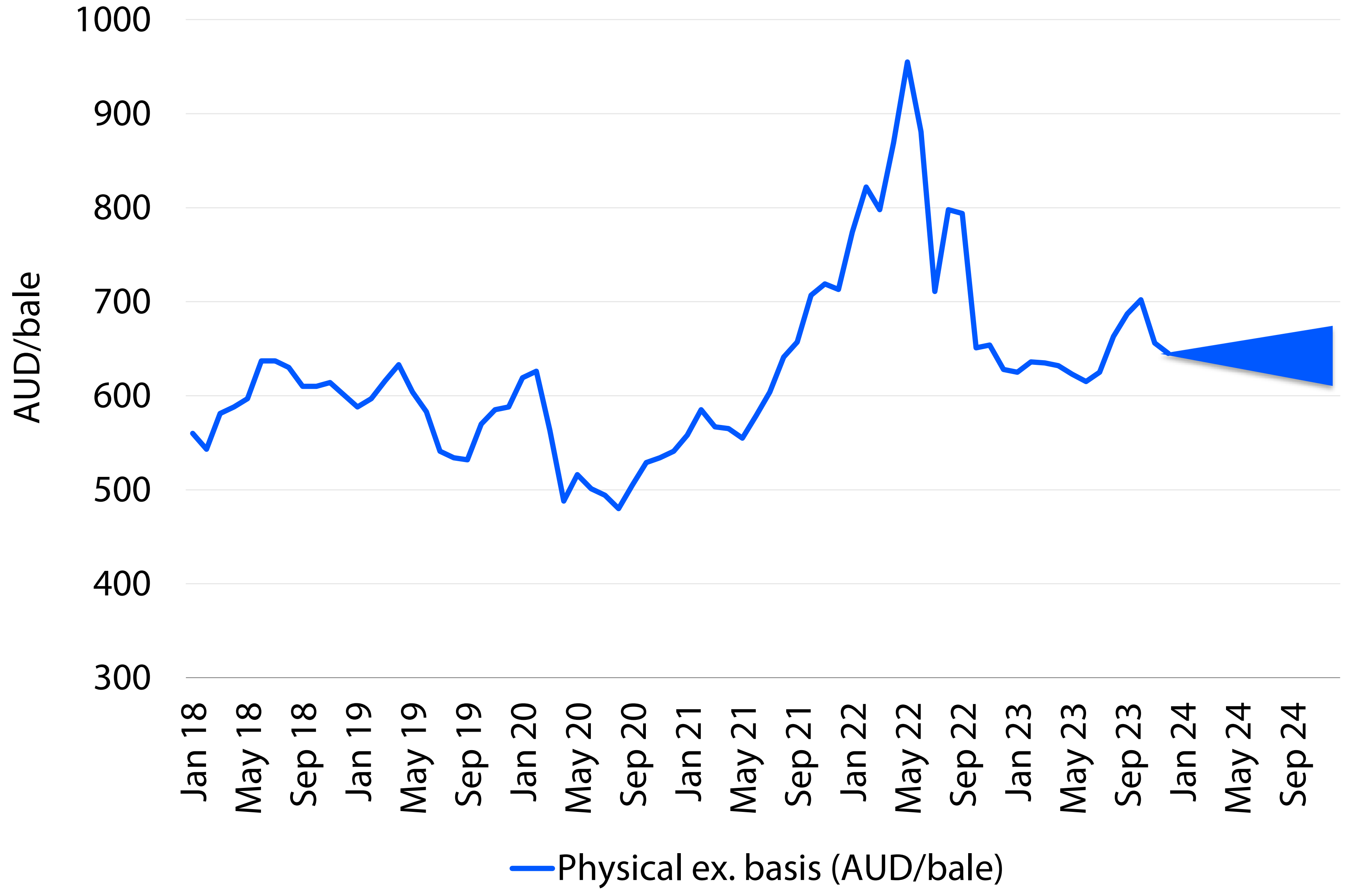
Cotton

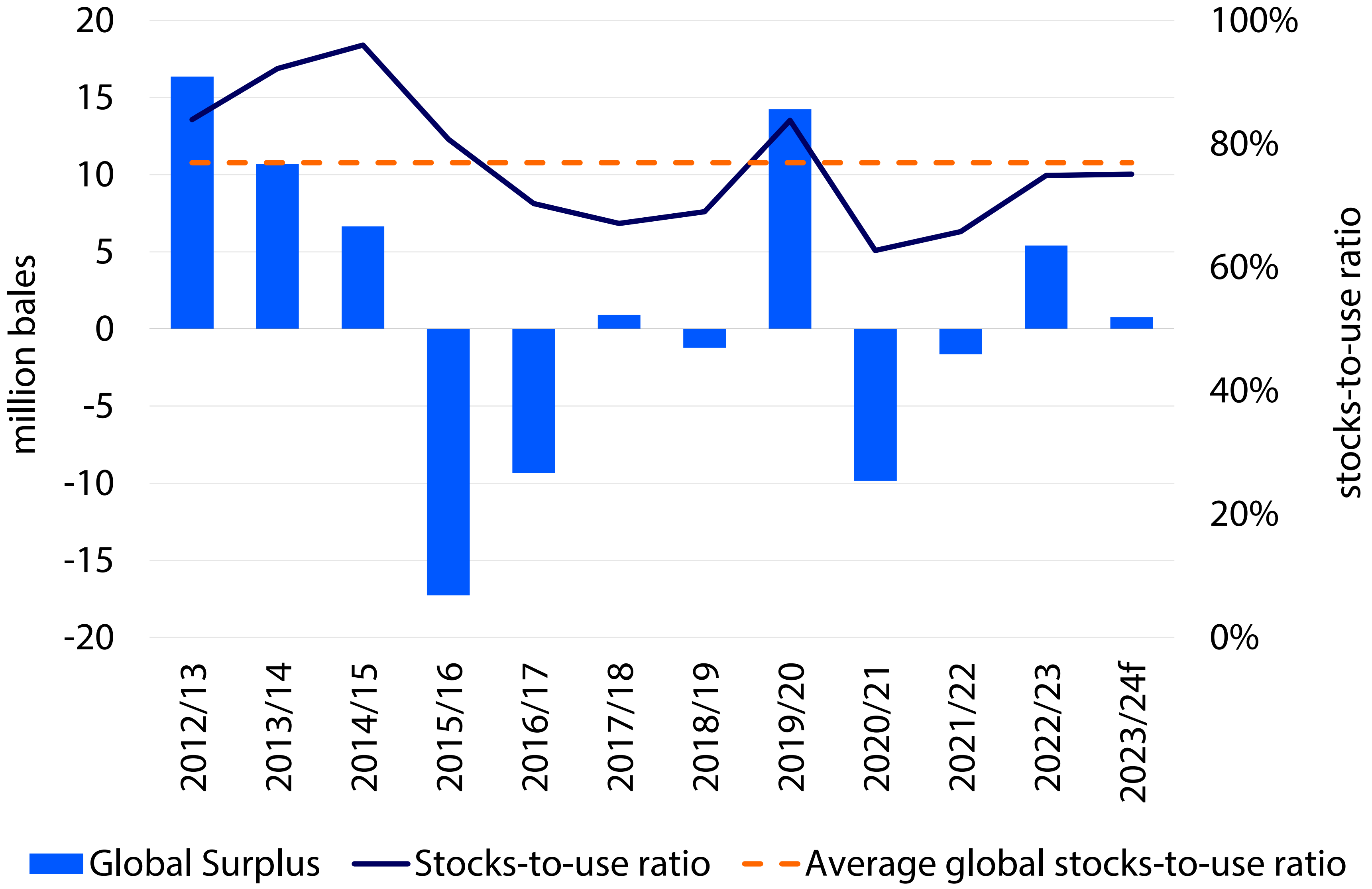
Improving demand factors providing price support alongside US production outlook

Cotton prices expected to climb towards AUD 700/bale in 1H and remain above AUD 600/bale towards the end of the year



Source: *Bloomberg, Rabobank 2024*

Global cotton balance sheet remains in surplus despite falls in the production outlook



Source: *USDA, Rabobank 2024*

Rabobank

Sugar

El Niño could ease production prospects

Rabobank expects the global sugar market will experience another year of surplus in the 2023/24 season (October to September). Another year of a strong cane crop is expected from Brazil, alongside investments in additional crystallization capacity mean that the sugar mix is likely to exceed 50%.

However, there are some concerns for crop reductions in Brazil after January rainfall in the sugarcane regions has been below average, in what should be the peak of the wet season. And while the preliminary outlook is for lower yields than the previous season, another 600m+ metric ton harvest still looks probable. New crystallization capacity is likely to cause another max sugar year, and this may help bring the ethanol market back into balance in 2024/25.

The ongoing El Niño event coincides with dry weather across much of southeast Asia, with YOY downgrades in cane crop expectations for Thailand and India. In Thailand we may see a recovery in harvest area and yield from 2024/25, leading to a lower white premium from Q4 2024. In India, no decision on export quotas has been announced. While we could also see an improvement in cane production in 2024/25, it is possible this could all be diverted to ethanol production, which will continue to limit the export surplus available in the coming years.

The Australian sugar cane harvest in 2023 finished just shy of 30m metric tons. While cane crushed was down 9%, sugar content (CCS) was up 7%, leaving sugar production relatively unchanged YOY. Tropical cyclones and floods over the summer have left some regions in far north Queensland with damaged cane, although the extent to which this damage affects production will likely be limited.

What to watch:

- **Red Sea conflict** – With Ethiopian coffee exports suffering from the situation in the Red Sea we don't expect sugar exports to be safely transport to and through the area. Escalation of military activities around the Red Sea is leading to soaring shipping prices of affected routes and tightening of global shipping capacity.

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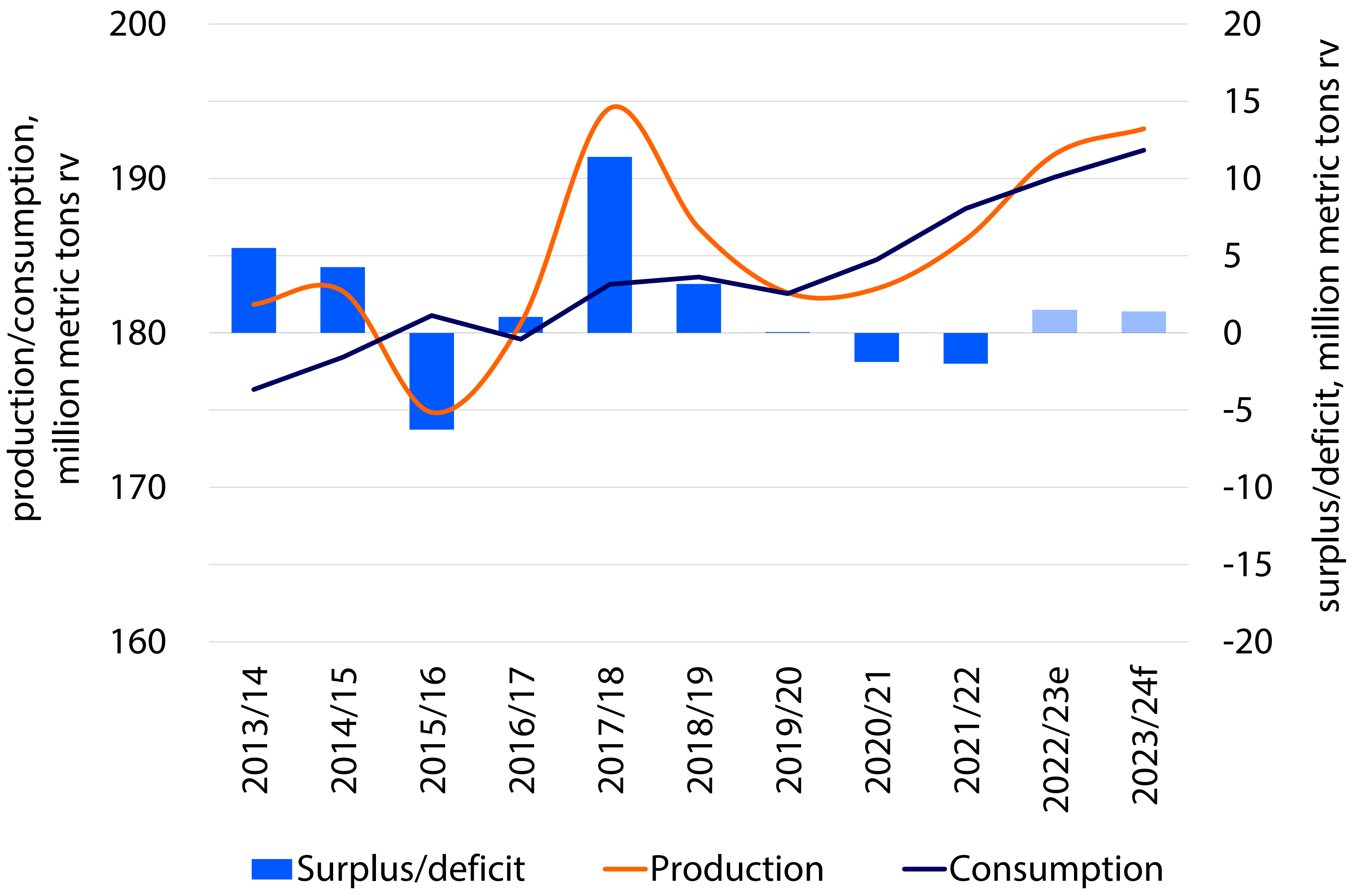
Sugar

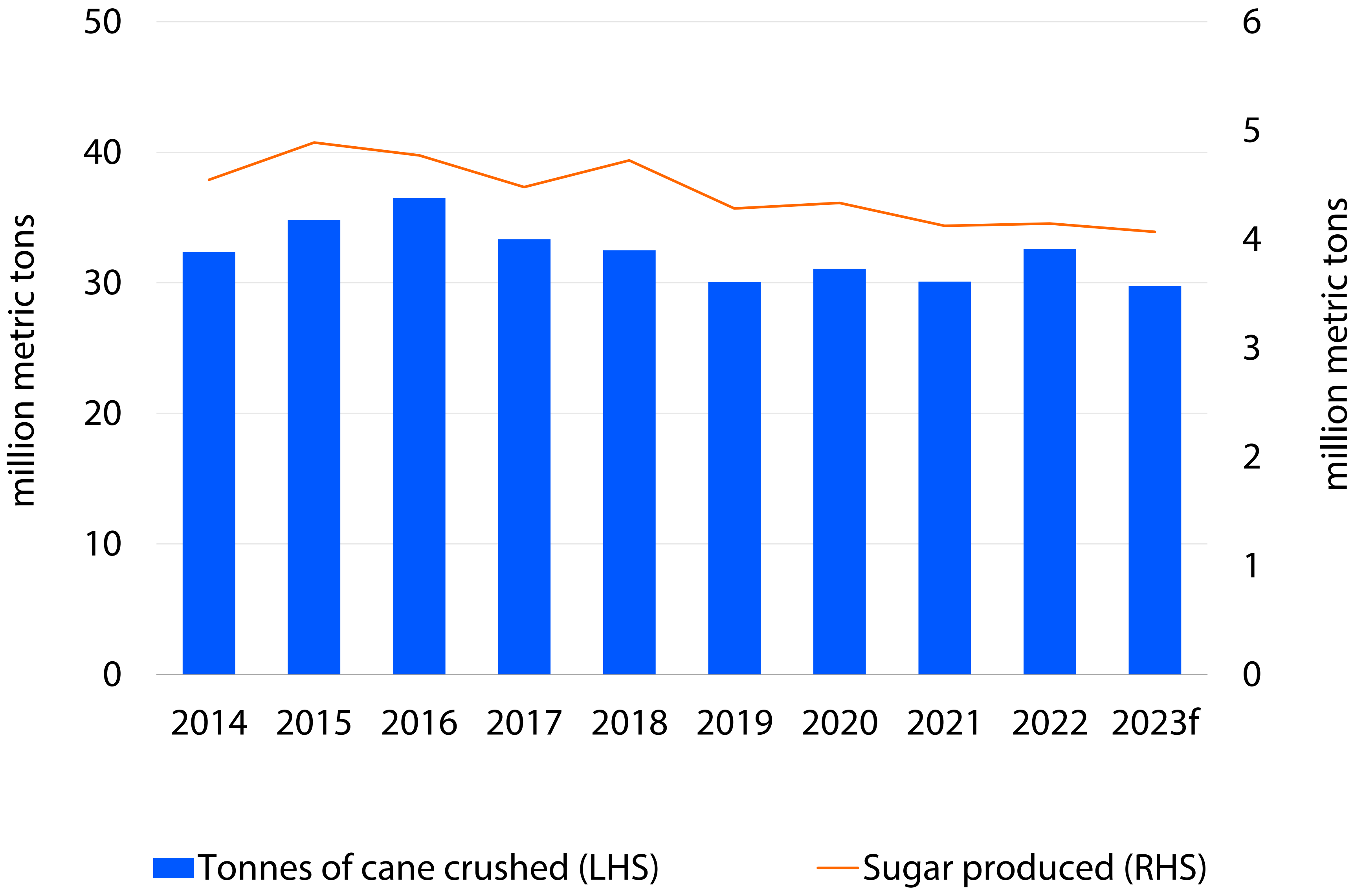
Large Brazil crop improves global production outlook

Surplus expected on the global balance sheet in 2023/24



Source: LMC, F.O. Licht, International Sugar Organization, Rabobank 2024

Australian cane crush decreased 9% YOY in 2023



Source: ASMC, Rabobank 2024

Rabobank

Consumer foods

Year of the value-conscious consumer

Australian consumers start 2024 being weighed down by cost-of-living pressures, which is impacting discretionary purchasing decisions. For context, household savings are running at the lowest levels since the 2007/08 global financial crisis. Consumer confidence levels start 2024 at pessimistic levels not seen since the 1990s. There are some silver linings for consumers.

Wages are rising and inflation is moderating, and this trend is expected to continue through 2024. Some interest rate relief may come in 2H 2024.

However, unemployment is also expected to rise and the outlook for the housing market has deteriorated and will hurt household wealth. All this means that consumers will continue to tighten their belts and trade down across the food basket and when eating out through much of 2024.

The outlook for Australian food and beverage company margins is favourable. Agricultural commodity prices are expected to broadly remain range-bound at lower levels through 2024, which will support margins downstream. But outliers exist, with cocoa, sugar and milk prices still high.

A sharpened focus from food and beverage companies to tailor products to a value-conscious consumer will be a key theme through 2024, as cost-of-living pressures stay.

Global risks will linger through 2024 for the Australian food supply chain. There are risk to the global economy, which will have a dampening effect on food demand in our export markets. Meanwhile, China's food market recovery continues to underperform in some segments. Geopolitical conflicts persist, energy prices are volatile and supply chain disruptions are ever present, creating a complex operating environment for companies.

What to watch:

- **Strategic sourcing** – This will continue to be a key focus for the food system in 2024. Coles is in the process of closing a transaction to acquire milk processing assets in 1H 2024. Once this occurs, it will be a first for a local retailer to own downstream dairy assets, and is partly in response to supply risk. Meanwhile, after a high degree of disruption to fresh produce supply due to weather events in recent seasons, retailers are sharpening their focus on expanding growing regions and supporting advanced production to reduce production risks.

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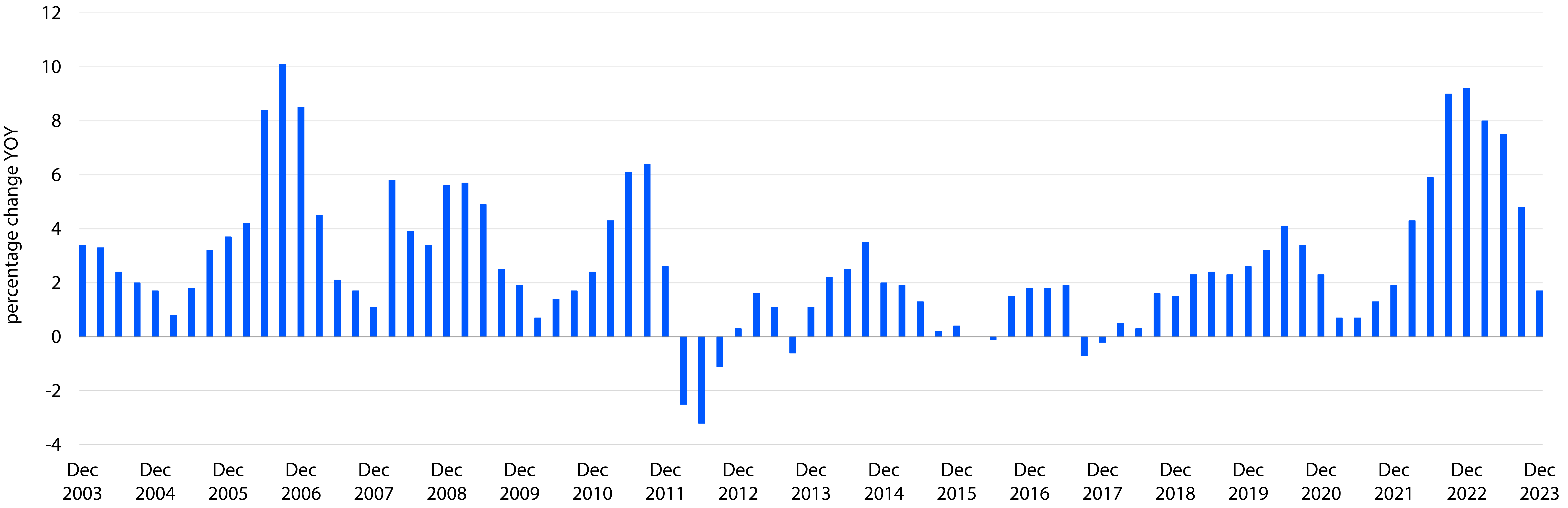
Rabobank

Consumer foods

Less food price indigestion for consumers ahead

Australia Consumer Price Index, food and non-alcoholic beverages



Source: ABS, Rabobank 2024

Farm inputs

2024 will be the year for softer farmgate prices, hopefully

If 2023 was a year of adjustments for global prices, 2024 is poised to be the one for corrections at the farmgate level. A good part of the farm inputs available for the last season was still carrying Covid and Black Sea war price shocks, and, as demand reduced following bad affordability, the price of new stocks followed suit. But now things are different. The main reason is a new supply and demand configuration, in which the energy price shocks are subdued, and many regions have seen smaller farming margins, thus, lower demand.

Compared to last year, the prices for the season about to start should show improvements in the order of 10%-20% for nitrogen sources and 10%-15% on the phosphate side. Potash has a much higher potential to ease farming budget, in the order of 30%. As any product deeply connected to global trade, currency and the Red Sea maritime situation are the current wildcards and may dump this price improvement.

On the agrochemicals front, the situation is similar but for different reasons. **The Chinese production capacity has increased massively in the last three years and 2024 is starting with a supply glut.** Hence, prices are moving in the opposite direction. Another difference of agrochemicals to other farm inputs is the lead time from the reactor chamber to the boom sprayer. Not only the production and export process is slow – through containers – but also the shelf life is long. Therefore, the **price signal from the origin takes a long time to reach the end user,** especially when intermediary stock exists, such as at local retailers and farmers sheds. **It is a question of using the old stocks with higher prices to procure new ones with better affordability.**

The general reduction in some soft commodities, such as corn, may help to sustain the poor global demand for agrochemicals. Some regions, such as Brazil's Cerrado and US Midwest, are finding it hard to make the farming budget work.

What to watch:

- **Food inflation at key markets** – Two pivotal farm input export and import regions have seen governmental intervention on farm inputs to hold their prices to slow food price inflation. China has set several export quotas and revised them up and down to cap fertiliser prices in the country, both for nitrogen and phosphate. In turn, India faced a significant drought last year and has decided to interfere in the market rules for specific grains, such as wheat and rice. Nonetheless, it also has reduced its subsidy towards fertiliser acquisition by farmers. The end game is that these two farming behemoths can alter their behaviours in global trade in the blink of an eye.

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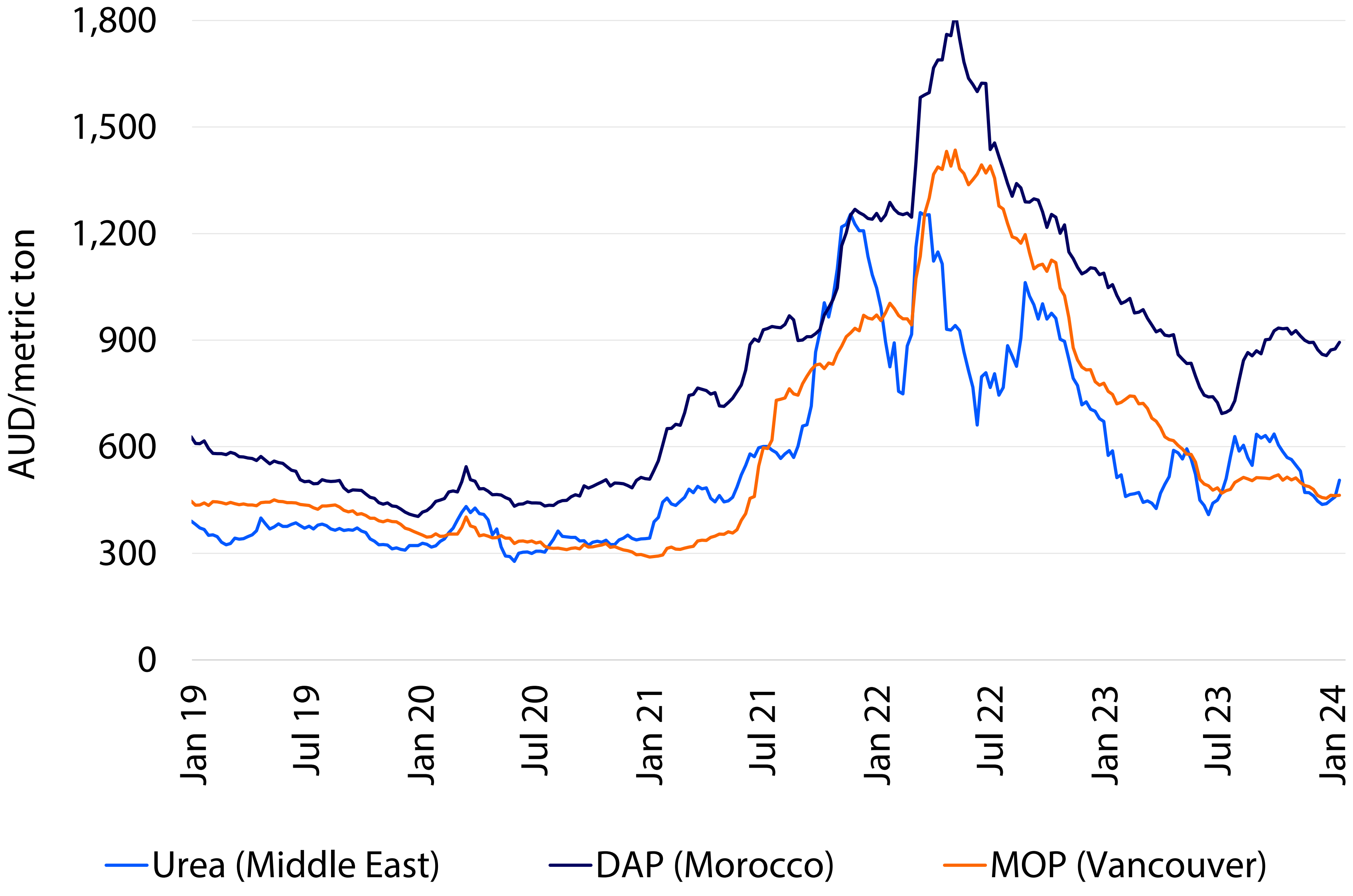
Farm inputs

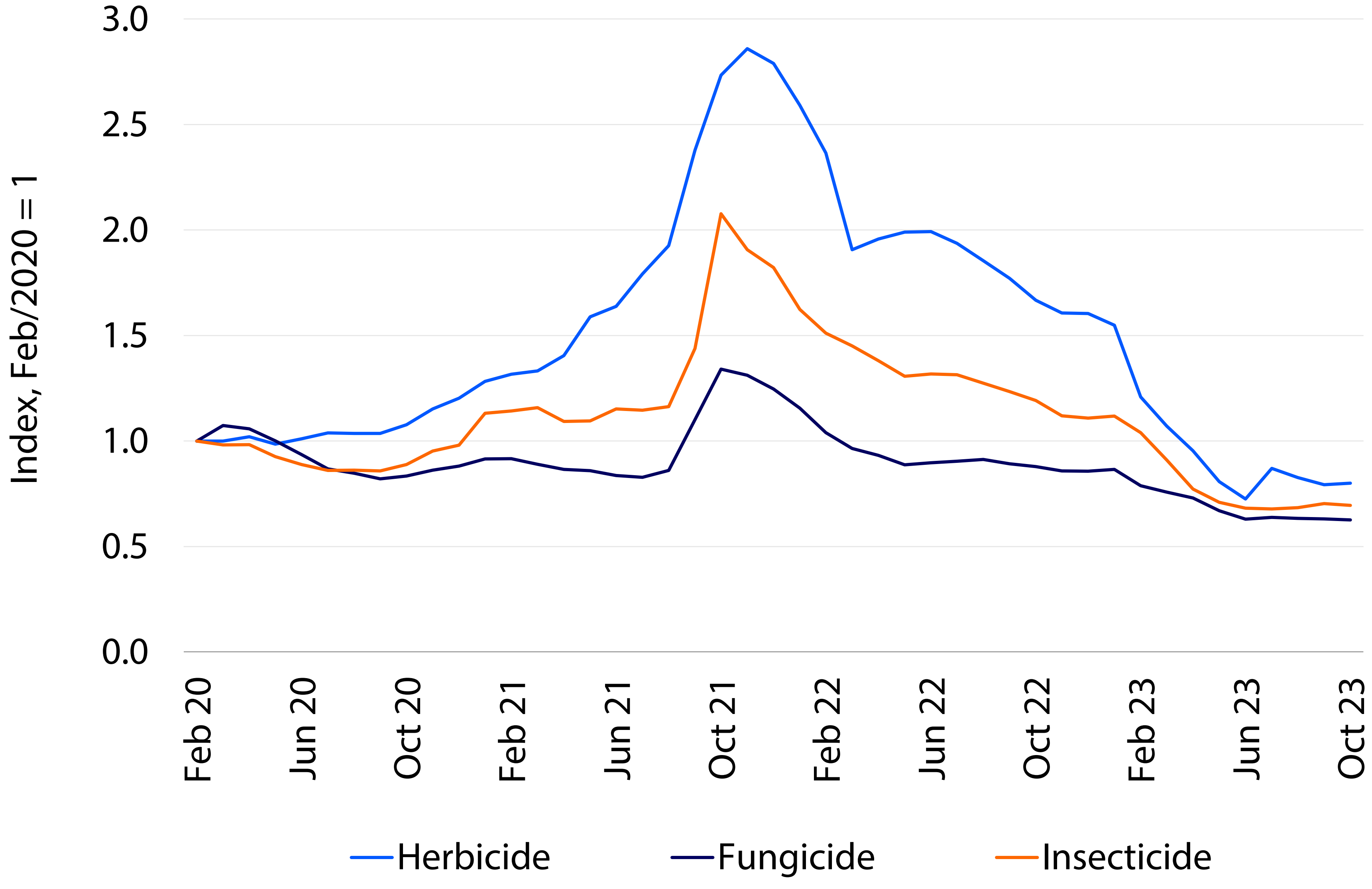
Tailwinds ahead for farming budgets

Fertiliser prices at key exporters have reduced substantially during 2023 following curbed demand



Source: CRU, Rabobank 2024

Agrochemical prices at Chinese factories are now under pre-Covid levels, though it will take time to reach the farmgate



Source: AgribusinessGlobal, Rabobank 2024
Index is for an averaged price of four active ingredients for each category

Rabobank

Interest rate and FX

Ups and downs

2022 was the year of rapid monetary tightening to fight the inflation fire. 2023 was the year of fine-tuning. And **2024 is poised to become the year where we start to see interest rate cuts. But don't get too excited**, here at Rabobank we only forecast one rate cut in 2024, and we don't think that will arrive until November. That's the bad news. The good news is that we don't think there are any more rate hikes to come.

The RBA has been raising interest rates to slow the speed of the economy, to bring consumer demand back into alignment with the economy's ability to supply that demand. The demand side of the economy is turning over more slowly, but risks to inflation remain on the supply side from ongoing labour disputes at Australia's ports, disruptions to shipping through the Red Sea and the possibility of extreme weather events closer to home.

I often get asked what the government could do to help with the inflation fight. There are two answers: cut spending or raise taxes. Taxes have already risen substantially due to the effects of bracket creep, higher commodity prices, and the trimming of superannuation tax breaks. However, government spending has also risen and looks set to rise further as politicians prioritise cost of living support ahead of the Dunkley byelection in March and a federal election due in 2025. The third and final stage of income tax cuts has been redesigned to put extra money in the pockets of everyone earning less than AUD 150,000. Those cuts come into effect on 1 July.

The Australian dollar has fallen substantially since the end of December as financial markets have tempered bets on US rate cuts in 2024. **We see the AUD bottoming out at 0.6500 before rallying up toward 0.7000 on a 12-month view.**

What to watch:

- The Federal Budget in May will be worth watching for any further cost of living measures from the federal government
- The RBA will be doing things a little differently this year by holding only eight meetings (instead of the regular 11) and scheduling a press conference by Governor Bullock after each decision.
- We expect inflation to fall to 3.3% by the end of this year, but there is a real risk that it could push higher if the labour disputes at Australia's ports or the shipping disruptions in the Red Sea prove to be persistent.

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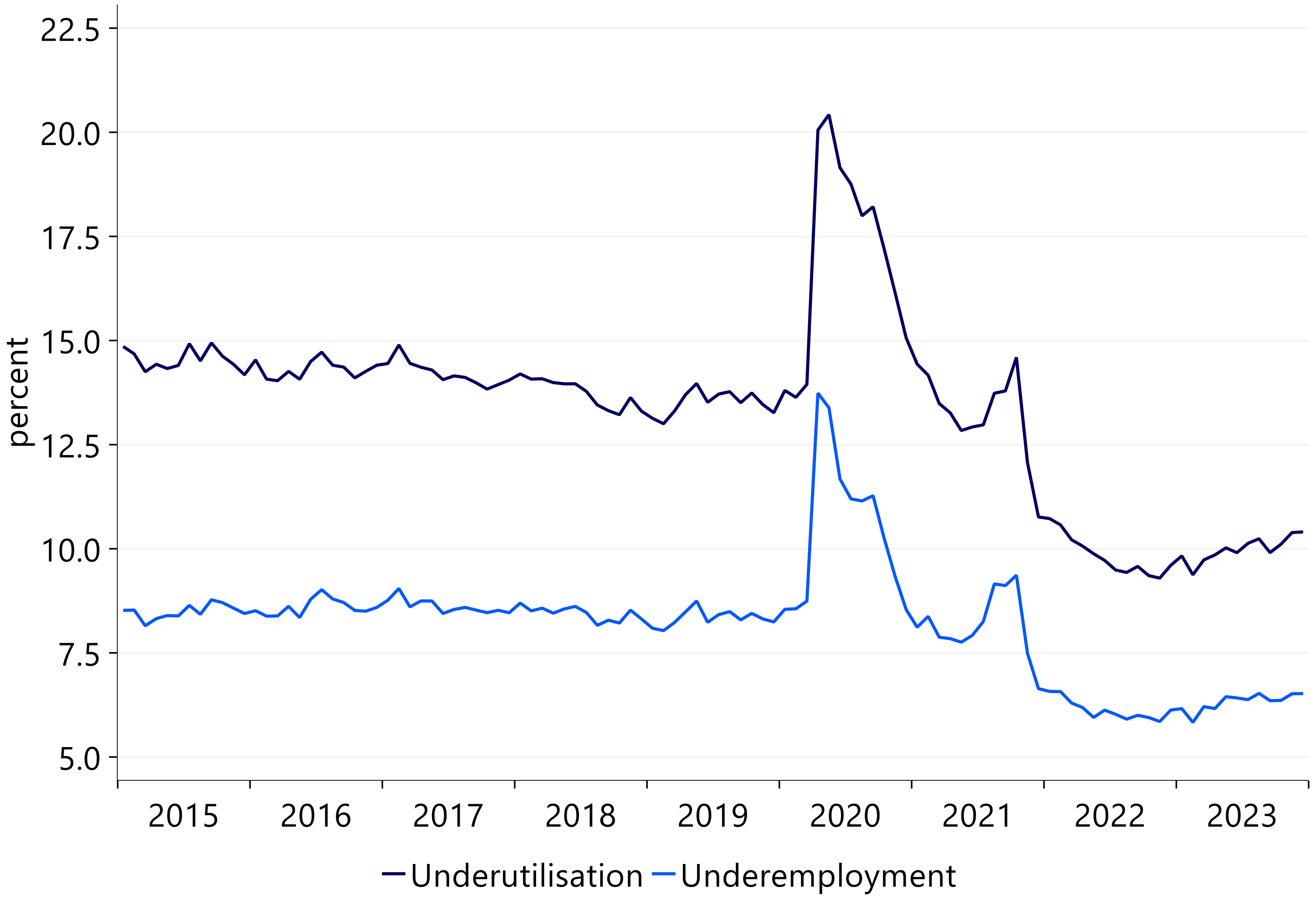
Interest rate and FX

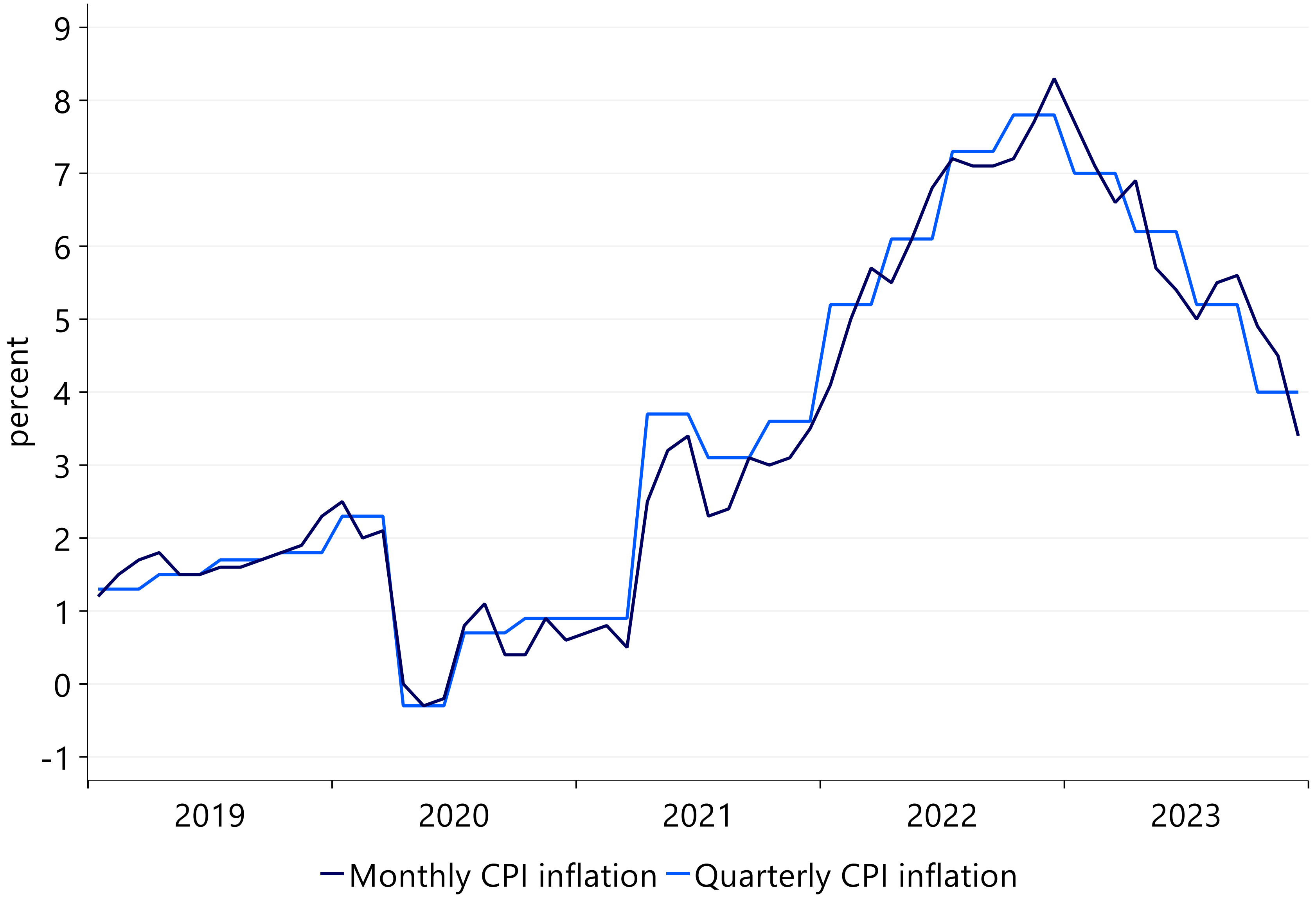
Heading in the right direction

Australian labour force indicators

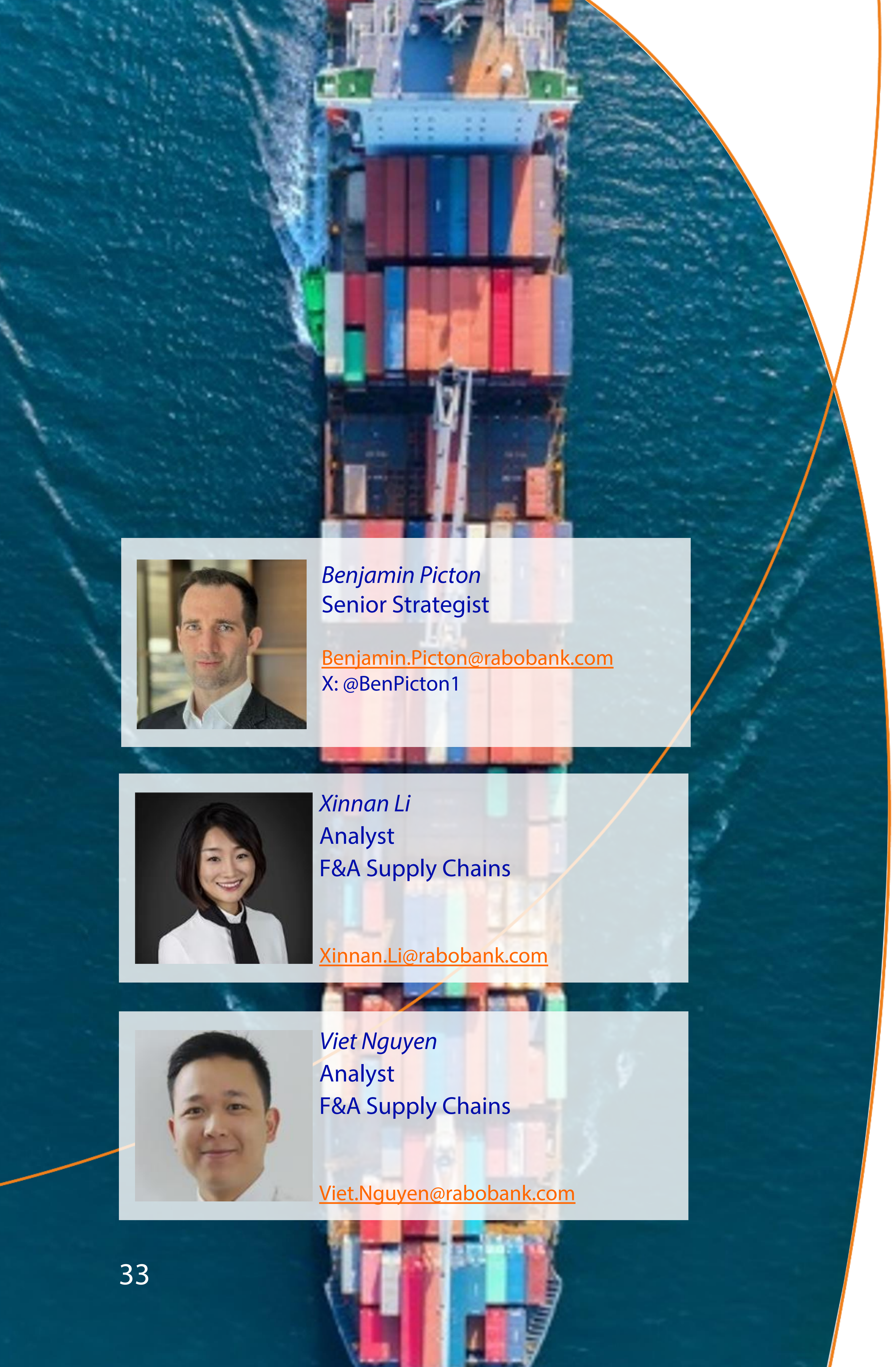


Source: *Macrobond, Rabobank 2024*

Australian inflation indicators



Source: *Macrobond, Rabobank 2024*



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Oil and freight

Upheaval

Crude oil prices have remained surprisingly subdued, despite heightened Middle East tensions. Brent crude oil prices fell in October, November AND December, but have risen for three out of four weeks so far in January. Markets are now contending with competing influences of very strong supply out of the US, where recent data shows a large build in product inventories, and higher risk premia following instability near the Persian Gulf.

Perceptions of slow global economic growth in 2024 are also weighing on prices. Consequently, Brent crude continues to hug the USD 80/bbl level for now, but any expansion of the Red Sea disruptions into the Strait of Hormuz could see prices move sharply higher.

The escalation of military activities around the Red Sea is leading to soaring shipping prices of affected routes and tightening of global shipping capacity.

Several commercial ships have been targeted while passing through the Suez Canal and, as a result, carriers have started avoiding the region and adding emergency risk surcharges in addition to hiking rates. Re-routing around the Cape of Good Hope would take an additional 10 to 14 days, cost AUD 2,600 more per FEU (forty-foot-equivalent unit) and tie up the global shipping capacity. Routes between China-Europe and China-Mediterranean are most impacted – up three to four times from one month ago. Prices of some other routes have also increased by 10% to 20% as a result. If the situation further escalates and the Suez Canal gets completely blocked, shipping prices could climb further.

The Baltic Panamax index (a proxy for grain and fertiliser bulk freight) was less impacted by the Red Sea situation and continued to fluctuate around the lower end of the spectrum due to soft demand.

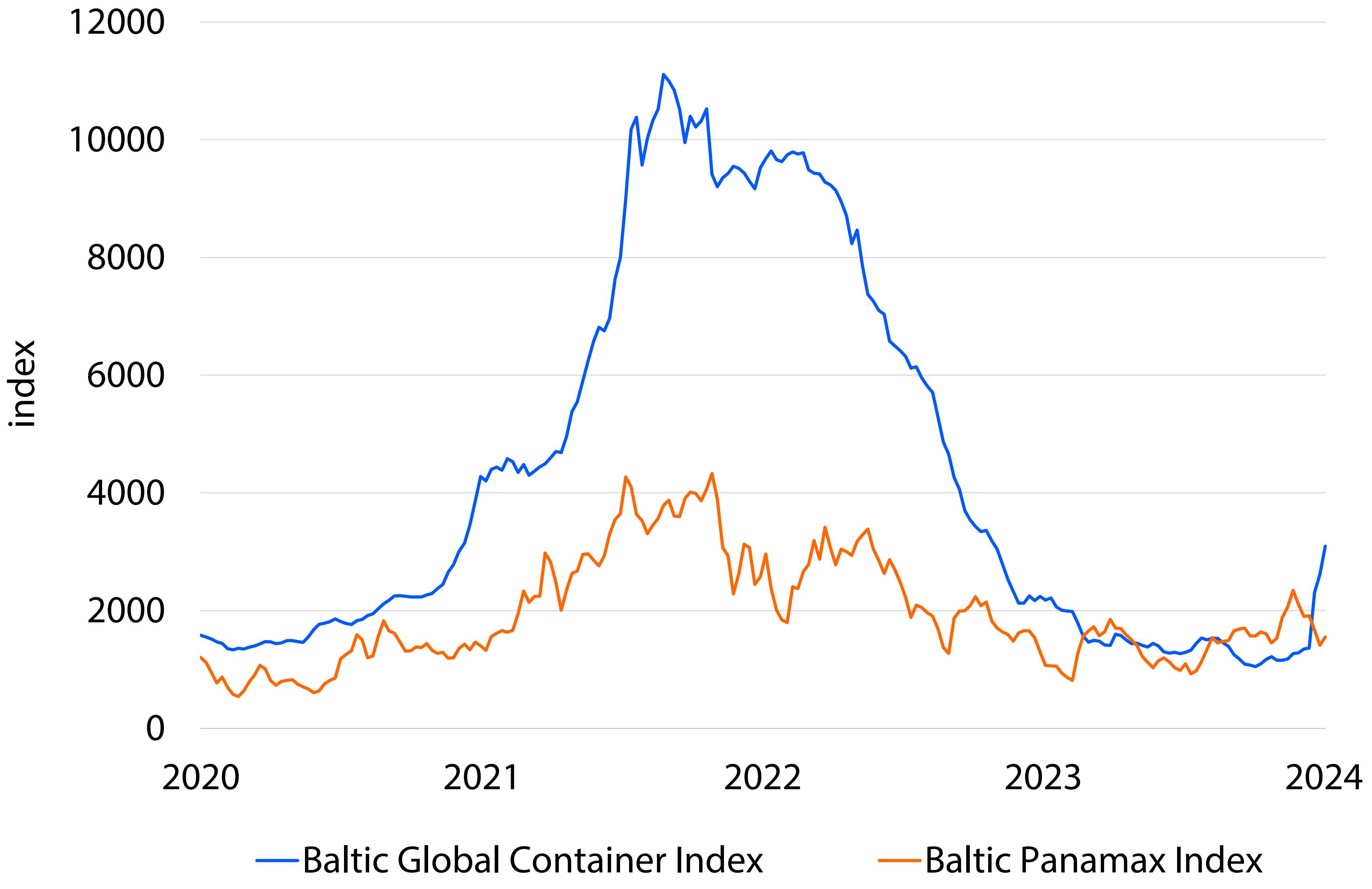
What to watch:

- Tensions in the Red Sea and the wider Middle East. This will drive price action in freight and energy for the foreseeable future

Oil and freight

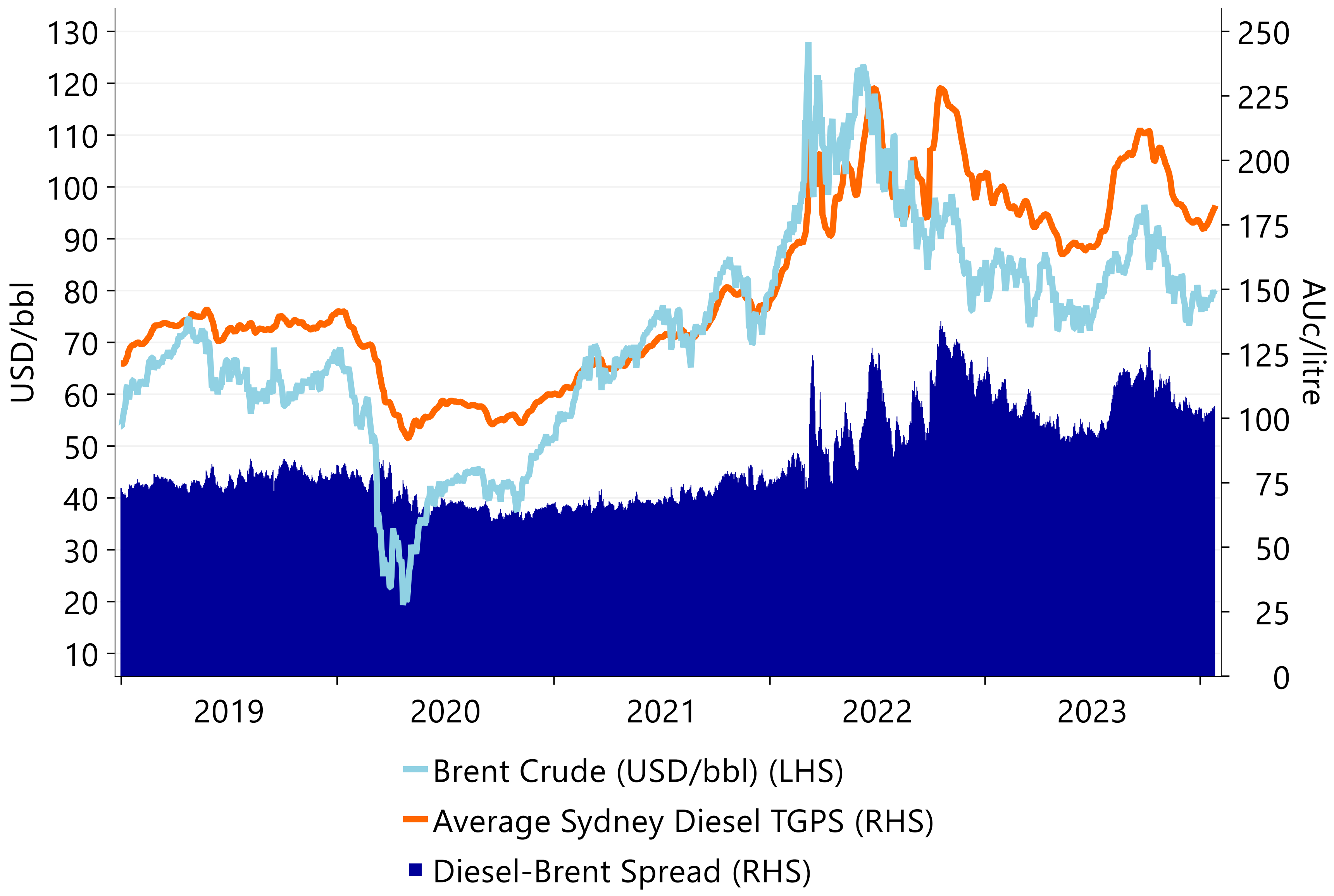
Freight prices tilting higher, but energy remains range-bound

Baltic Panamax Index and Dry Container Index, Jan 2020-Jan 2024



Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

Brent Crude vs Sydney Diesel Prices



Source: *Macrobond, Rabobank 2024*

Rabobank

Agri price dashboard

29/01/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	600	628	753
CBOT soybean	USc/bushel	▼	1,209	1,294	1,535
CBOT corn	USc/bushel	▼	446	471	684
Australian ASX EC Wheat Track	AUD/mt	▼	372	381	374
Non-GM Canola Newcastle Track	AUD/mt	▲	615	608	686
Feed Barley F1 Geelong Track	AUD/mt	▼	309	321	323
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	645	457	792
Feeder Steer	AUc/kg lwt	▲	334	282	396
North Island Bull 300kg	NZc/kg cwt	▲	570	565	565
South Island Bull 300kg	NZc/kg cwt	▼	530	535	510
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	707	638	794
Oceanic Dairy Markets					
Butter	USD/mt FOB	▲	5,738	5,188	4,463
Skim Milk Powder	USD/mt FOB	•	2,638	2,638	2,863
Whole Milk Powder	USD/mt FOB	▲	3,300	3,138	3,175
Cheddar	USD/mt FOB	▼	4,188	4,200	4,963

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

29/01/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	94.9	91.4	102
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	84.4	81.0	85
Sugar markets					
ICE Sugar No.11	USc/lb	▲	23.8	20.6	21.2
ICE Sugar No.11 (AUD)	AUD/mt	▲	797	666	591
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,186	1,212	1,338
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	358	323	433
DAP (US Gulf)	USD/tonne FOB	•	570	570	650
Other					
Baltic Panamax Index	1000=1985	▼	1,696	1,909	1,060
Brent Crude Oil	USD/bbl	▲	85	77	85
Economics/currency					
AUD	vs. USD	▼	0.657	0.681	0.706
NZD	vs. USD	▼	0.609	0.632	0.647
RBA Official Cash Rate	%	•	4.35	4.35	3.10
NZRB Official Cash Rate	%	•	5.50	5.50	4.25

Source: Baltic Exchange, Bloomberg, Rabobank 2024

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