Continuing on a Successful Path

Australia Agribusiness Outlook 2023

February 2023

Continuing 2023 on a Successful Path

Australian agriculture has enjoyed multiple fantastic seasons in a row. Still, 2022 stood out with high, often record, commodity prices and strong, in parts record, production volumes. This has put the farming sector in a healthy position to master 2023, which is likely to deliver good, not record, prices in an environment with elevated costs and a global recession.

Global hardships benefited Australian farm income in 2022, but the year also delivered its challenges with price volatility, floodings, supply chain issues and massive fertiliser costs. Still, overall, it allowed for record-high farm income across the country, well above the already very good 2021 results. 2023 will bring many opportunities, but those with overly inflated expectations of a repeat of 2022 might be disappointed as the world heads into recession.

Record-breaking Australian agricultural prices in 2022 came as a result of the war in Ukraine, supply chain issues related to Covid and a general labour shortage, favourable seasonal conditions, global agri commodity tightness, and volatile energy and fertiliser prices.

Beef, dairy, grain, oilseed and canola prices all hit excellent to record levels in Australia at a time when our farmers produced good to excellent volumes benefiting from favourable seasonal conditions. A fantastic combination which more than offset significantly elevated costs from fertilisers, energy, interest rates and farmland.

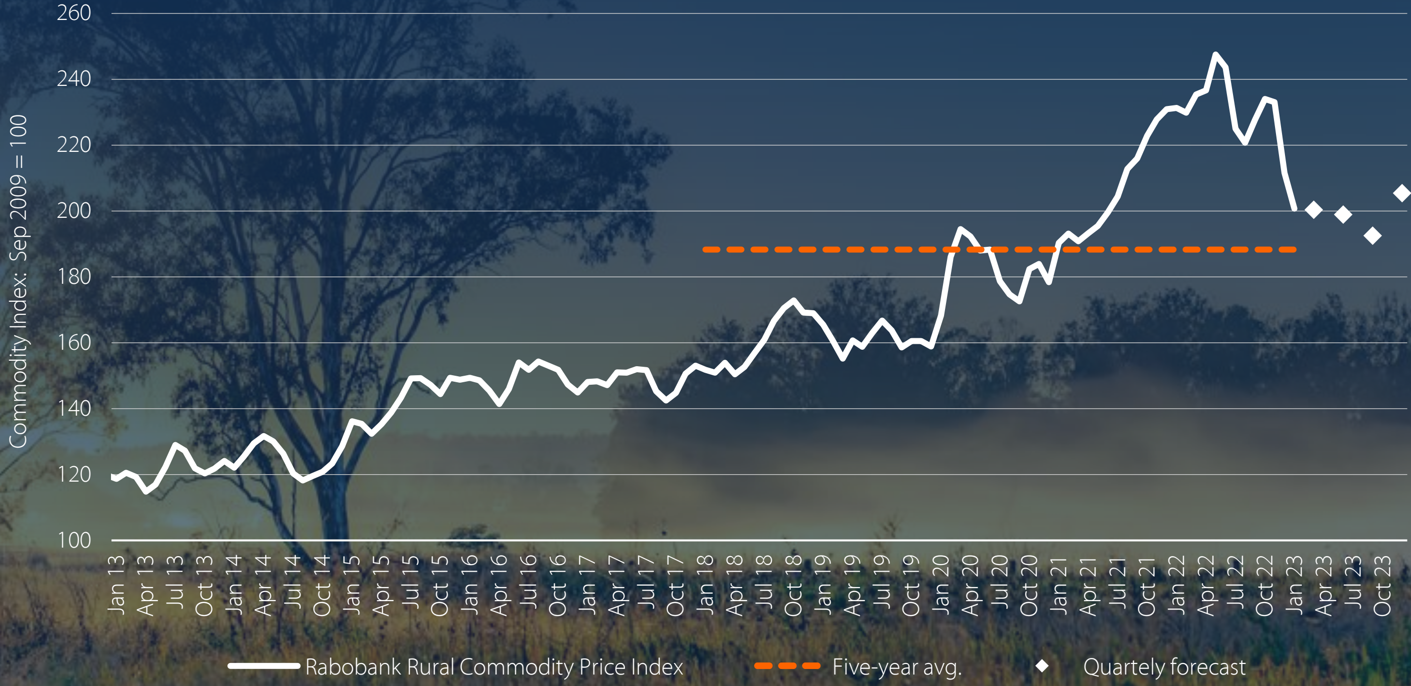
2023 will be good for farmers, but a repeat of 2022 is unlikely. Food and energy price inflation reached multi-year highs in Australia and many countries globally. Beef and G&O prices have moved notably below 2022 highs. And while 2022 pricing was an exception, the prices seen today and expected for 2023, will remain well above the five year average for most commodities which is good news for Australia's rural sectors. On the other hand, fertiliser prices, while down globally over 40% from last year's highs, remain above historic levels and add to the cost pressure on farm.

The 2023 Australian production outlook is once again positive. Favourable moisture conditions in 2022, with part of the East Coast even having received too much rain, have provided strong soil moisture levels and also filled supplies for irrigation. All this sets the scene for another positive farm production in 2023, however a repeat of 2022 abundant grain and fodder is not (yet) to be expected.

Livestock enjoys plenty of feed and watches China's next move. Beef production volumes slowly recover and while cattle prices will be softer through 2023 than 2022, they still are historically high and beneficial for farmers. Import demand from China, following removals of Covid-lockdowns, is key and so is the contraction of US beef production. Strong availability and relatively low cost of feed in Australia is also benefiting the dairy sector. Global markets have cycled lower ahead of the 2023/24 season and will heavily depend on the expected return of Chinese import growth. This is setting the scene for lower than 2022 Australian prices, but the landing zone for milk prices in 2023/24 should still remain attractive for producers.

Settling Above Average, but Below 2022 High. With Lower Global Prices and Strong Local Supply

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).

Opportunities and Challenges Come Hand in Hand. Still, 2023 Might Be Less of a Roller Coaster.

2022 saw the stars align for AU agri, and while many of the challenges are not overcome, the industry seems to have found ways to handle them better in 2023.

A war in Europe! Who would have guessed this would be the headline for 2022 rather than Covid? The war in a region which provides amongst the largest global exports of wheat, barley, sunflower seed, potash and a dominant force in the supply of other fertilisers and energy, had taken the world by surprise and was a key driver of inflation to levels not seen in decades.

The inflation spiral has changed central banks' monetary policy views and resulted in the quickest (not highest) increase of interest rates across many economies, including Australia. Higher interest rates are cutting consumers' budgets, which will impact trade.

Key factors challenging 2023 markets.

- *Geopolitics* – The war in Ukraine will likely drag on, impacting Ukraine and Russian production and exports, which have exceeded expectations in 2022 and are going strong in early 2023. Question marks remain for China and its ambitions for Taiwan. Australia will have to continue to work on keeping alternative destinations accessible to scale them in case of trade disruptions.
- *Recession* – Australia is likely to avoid a recession, but inflation remains a concern locally and globally. Heightened interest rates and inflation are tightening the belts of consumers. The consumption impact is usually felt in different product categories as consumers are trading down on quality and price. Dairy and animal protein will have to navigate this, while the price decline in grains will offset any volume reduction risks.
- *Farm inputs* – Fertiliser prices globally have fallen from their 2022 highs, but are still well above historic levels. A return to the highs is rather unlikely in 2023, but besides fertiliser supply and demand, gas prices and grain prices also need to be watched to determine the ultimate direction of fertiliser prices.
- *Labour shortages* – Labour challenges will persist, but the industry has learned to work with and through them.
- *Supply chain disruptions* – While freight rates for dry containers and bulk have fallen massively due to global economic headwinds, reliability is still below the norm. But, as with labour, we all have learned to live with them and work around them. Ag businesses need to continue to plan early and remain flexible, as 2023 will still see delays in the delivery of machinery and other farm inputs.

The good news is that some of the key challenges of 2022 have improved significantly and might only be sidenotes in 2023:

- Freight rates, for dry containers and bulk, are down substantially, as recession fears weigh on the trade outlook. Still, refrigerated containers e.g. for meat and fruit exports, are still very expensive.
- Covid: Even China has given up on its lockdown policy which hopefully helps consumer demand in this major market.

Interest rates will have some further way to go in 1H 2023 and serious cuts are only to be expected in late 2023 or 2024. The Australian dollar is expected to be more balanced, which will still support our exports, but may make imported goods just a little less expensive.

Build on 2022 Successes and Be Agile

Australia's third-consecutive year of largely exceptional production and close to record pricing puts Australia's farming sector in a strong position to navigate 2023, which will likely bring lower, but still good margins. Climate extremes, locally and globally, as well as macro factors ranging from inflation to geopolitics, will require the sector to remain agile to master the challenges and reap the opportunities they will continue to deliver in 2023 and beyond.

Margin decline

- The extraordinary prices seen in 2022 won't repeat. And delivering another strong production volume in 2023 is also not yet a given. Australian farm returns are expected to be good, but off from last year's record.
- Our competitors offshore will feel the same shrinking margins, but also won't voluntarily cut back production. This means only the weather or geopolitics can disrupt supplies and cause another price swing to the upside.
- Above average costs are seen here and elsewhere and require operators to deliver on their efficiency.

Sustainability: Are we there yet?

- No. The road is long and winding. But the commitment of countries and industries remains very strong.
- How, rather than if, is the question. Executing, delivering on the plans and delivering value is taking centre stage.
- The energy transition will continue, both globally and, of course, in Australia. Not only providing sustainable food, but also lowering emissions, and using more green energy are key heading towards 2030.

China's Covid U-turn brings hope for some, but not for all

- China's surprising U-turn on its zero-Covid policy brings hopes to revived consumption for some food products.
- Relations with Australia seem to be improving, or is it just headlines? Barley, wine and rock lobster haven't seen a real change in trade yet. Well, at least we haven't seen more product restrictions, but as we've experienced in recent years, both trade restrictions and geopolitical escalations can happen quickly and are not off the cards.

Rain: Too much? Too little? Climate just doesn't seem to get it right. Or does it?

- Plenty, or better to say, too much rain is more on our minds than drought. But farmers know we'll also get our fair share of drought in Australia sooner or later. For now, we left it to California and Argentina. La Niña is fading away and 2023 rainfall for Australia is not forecast to be above average.
- Climate has become more extreme, and while some felt the pain of floods, many reaped the benefits of plenty of moisture. And getting farms ready, with plans and execution, for both sides of the extremes remains essential for success.

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2023 Commodity Outlooks

A continuation of historically low global grain stocks and an accelerating rate of political involvement in the grain trade makes 'what to watch' just as, if not more, important than a base case price outlook. Locally, the 2023 pricing trajectory will be divided between the west and east coast.

We have entered 2023 with considerably more canola than last year, globally and locally. April to May, and October to December may see increased demand for Australian canola. However, the rest of the year appears less exciting.

Production is on the rise in 2023, as increased cattle inventory becomes productive. Consumer markets will be softer amid slower economic conditions and prices, while remaining historically high, will retreat from their record levels and stabilise.

2023 will see lamb production push further into record territory. Softer consumer demand is likely to impact lamb more as a premium-positioned product but new trade agreements and recovery in China provide possible upside.

The wool price outlook is positive for 2023, driven by increase in fine-micron values. Consumer sentiment in major retail markets is set to improve, driving greater demand. Production is set to continue its growth trajectory on national herd increases and continued favourable conditions.

Dairy farm margins remain positive heading towards the 2023/24 season. Recovery from flooding will be ongoing for affected farms. Ample availability of supplementary feed and irrigation water provides a solid footing for the sector, with favourable and less disruptive seasonal conditions welcomed.

Cotton prices are expected to stabilise in 2023. Australian production is forecast below record 2022 levels with excessive rainfall and cooler summer conditions reducing plantings and yield. Soft consumer demand may see upside from increased activity in China post their relaxation of Covid policies.

2023 Commodity Outlooks

Sugar

With Brazil cane production expected to recover and ethanol prices below sugar parity, surplus will weigh on the sweetness of prices in 2023.

Consumer Foods

Australian consumer behaviour will continue to adapt to cost of living pressures and falling real wages and will remain a key theme through 2023. Food markets will outperform most non-food discretionary categories, but food and beverage companies will need to ramp up efforts to offer affordable options.

Farm Inputs

Overall supply and demand is adjusting itself to a new, new normal, and the price soars are dissipating. In early 2022 'fear' was in the air, while 2023 kicks off with 'hope' as the balance is more favourable for supply. Still, purchasing by farmers in the northern hemisphere has been slow, and planting starts soon.

Interest Rates and FX

Australia's December inflation release solidified the RBA's decision to raise rates by 25bps this week – and more increases will follow. Boosted by the reopening of China, we expect the AUD to perform well this year relative to a basket of G10 currencies.

Energy and Freight

Australian diesel prices remain high. Europe's warm winter has caused gas prices there to plummet, and urea prices remain sensitive to gas prices. 2023 will be the downcycle in the container shipping market, with recession-induced falling demand at a time of capacity improvements.

Three Years of La Niña Expected To End in 2023, Likely Keeping Rains Below the 2022 Excess

Rabobank

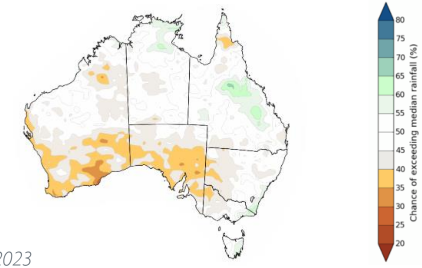
After a very wet 2022 for most of the Australian continent, the Bureau of Meteorology (BOM) expects the influence of major climate drivers to decline in the coming months.

The BOM expects that the El Niño-Southern Oscillation (ENSO) will return to neutral this year, after three consecutive years of La Niña. With none of the seven international climate models currently predicting ENSO to exceed La Niña thresholds during February, rains should keep well below 2022 levels.

The BOM expects the Indian Ocean Dipole (IOD) will remain neutral for the foreseeable future and hold little influence on local weather patterns.

Low chances of exceeding median rainfall in early 2023

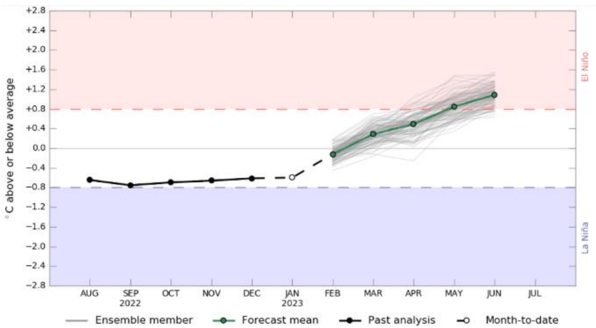
February-April rainfall outlook



Source: BOM 2023

ENSO conditions to stay neutral for 1H 2023

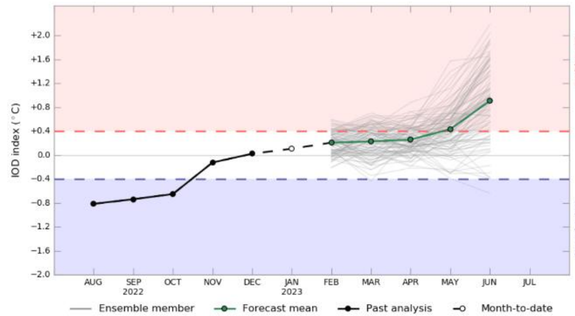
Monthly sea surface temperature anomalies for central Pacific Ocean



Source: BOM 2023

IOD is likely to remain neutral during 1H 2023

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2023

When It Rained in 2022, It Poured. High Soil Moisture a Good Base for 2023 Farming

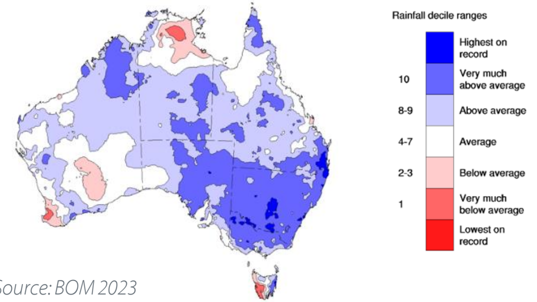
2022 marks the ninth-wettest year on record for Australia.

On both sides of the country, 2022 was a strong rainfall year, which supported farmers in achieving high yields. However, for parts of eastern Australia it was too much of a good thing, and devastating floods washed away otherwise record yields.

It's good news for farmers heading into next season, with water storage levels high in the Murray-Darling Basin and high soil moisture for large parts of Australia.

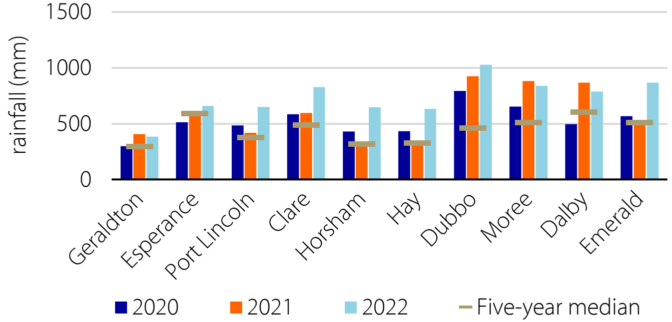
Nearly all regions received above average to very much above average rainfall in 2022

Australian rainfall deciles, 2022



Source: BOM 2023

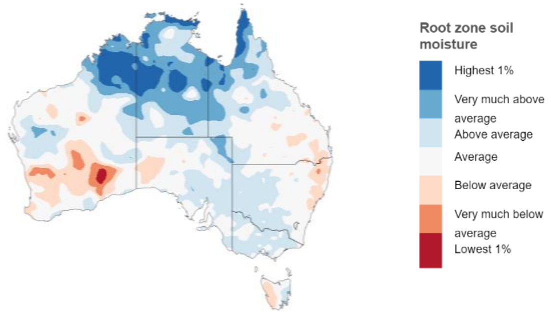
2022 brought remarkable rainfall



Source: BOM 2023

High soil moisture provides a head start for 2023

Relative soil moisture, January 2023



Source: BOM 2023

Wheat & Barley

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Price Rise Is a War or Drought Away

A continuation of historically low global grain stocks and an accelerating rate of political involvement in the grain trade makes 'what to watch' just as, if not more, important than a base case price outlook. The 2023 pricing trajectory will be divided between the west and east coast.

We expect global wheat and corn prices to ease into mid-year, as a record Brazil crop is harvested and recession reduces demand. The USDA expects a global wheat demand decline of almost 0.5% YOY, while corn demand is expected to decline 3% YOY by the end of 2022/23. From mid-year we see a divergence. Global wheat markets are expected to rise due to reduced supplies YOY out of the Black Sea. Ukraine is expected to see a 10% to 20% reduction in winter wheat planting, while dryness over Russia will make another record crop unlikely – add to that a lower YOY Australian crop. Corn prices, which are reflective of the broader feed sector, are expected to keep easing towards end of year due to large supplies out of Brazil, large US planting and demand destruction. Rabobank expects CBOT wheat to trade on average between USc 728 to USc 775/bu in 2023 (AUD 380 to AUD 410/tonne). Corn prices are forecast to trade toward USc/bu 580 (AUD 304/tonne) by the end of 2023. See next page for graphed historic context.

Our base case is for Australian production to revert to average levels given the BOM's seasonal outlook for drier weather (*see page 8 for more information*). Combined, the east coast and SA are expected to export (or use domestically) a substantial proportion of their supplies prior to next harvest. Reduced farmer selling is expected to continue through 1H 2023 for three possible reasons: firstly, a large proportion of farmers do not have an urgency to sell their entire crop due to a healthy financial position, second, they may be waiting for the next financial year before selling for tax purposes, thirdly, there's an increased amount of on-farm storage, allowing farmers to market more strategically. We expect to see these factors supporting a smaller price discount to overseas levels, continuing between now and mid year. In Q3, a larger discount is expected due to farmer selling in the new fiscal year and to free up storage space. APW1 east coast and SA track prices are expected to trade between AUD 340 to AUD 370/tonne through 2023, while feed barley prices are expected to trade AUD 300 to AUD 330/tonne, weighed down by improved global corn supplies. Due to an expected sizeable WA carryout, prices are likely be comparably more pressured through 2023.

What to Watch

Upside

1. The BOM's forecast of dry conditions through May extends through the growing season, and Australian production declines sharply.
2. Exports out of either Ukraine or Russia are reduced substantially or halted.
3. The improving North American drought worsens.

Downside

1. Australia has another record crop or issues arise to obtaining sufficient vessels to fill port shipping slots.
2. The Ukraine-Russia conflict ends with cropping and export reverting to normal conditions.
3. Russia has another record wheat crop: for now, we assume a crop in the range of 78m to 85m tonnes.

Global and Local Pricing Still at Lofty Levels Compared to Historic Average

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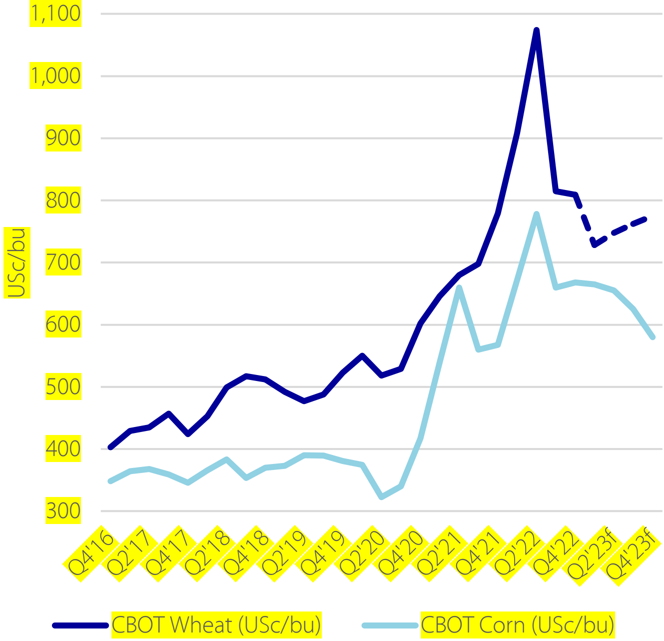
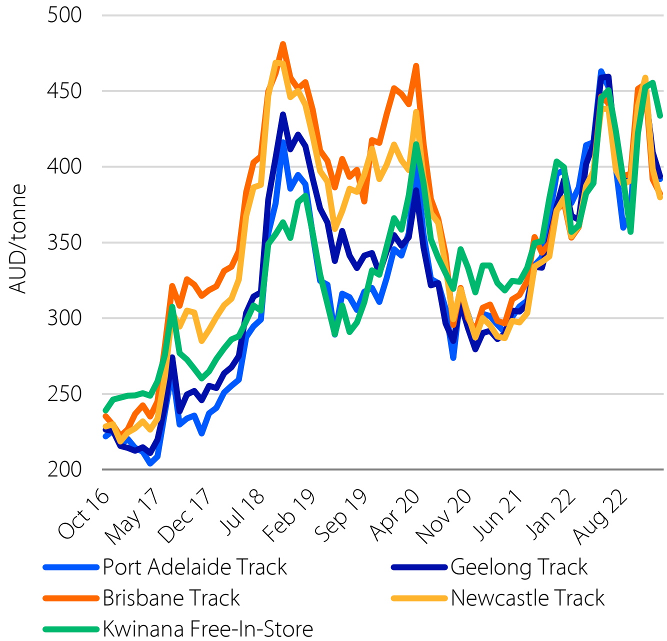
2023 global price trajectory diverges for wheat and corn (quarterly average prices below)



Local prices still substantially above those during previous plentiful runs (monthly average prices below)



Source: Rabobank 2023 ACMR forecast 27/01/23

Source: Bloomberg, Rabobank 2022

Canola

Timing Is Everything

We have entered 2023 with considerably more canola than last year, globally and locally. April to May and October to December may see increased demand for Australia canola, but the rest of the year appears less exciting.

Global availability of canola improved significantly since harvests started rolling in from June 2022. Mid-year, Europe harvested 19.5m tonnes, up 2.3m YOY. In September, Canada, the worlds largest exporter, harvested 19m tonnes, up 5.2m tonnes YOY. In September, Australia harvested a >7m tonne crop for the second year in a row. Ending stocks in these three large producers are expected to be 1.5m tonnes, or 72%, higher YOY by mid-2023, according to the USDA. Even Ukraine saw a 0.19m tonne production increase last July, with the crop planted prior to the war commencing.

April/May 2023 could be the first period of increased demand for Australian canola, given that our local harvest will have finished, while the European harvest does not start until June/July. Moving into this cropping season, reports are that EU canola planting already increased marginally – harvest starts in June. Canadian May planting (to be harvested in September) is expected to see a slight increase. Ukraine's planting is expected to be down year-on-year but likely not as much as wheat (-10% to -20% YOY), given that proportionately more of Ukraine's canola is grown in western Ukraine (compared to wheat).

In anticipation of Canada's new domestic demand, we may see a slowdown of their canola exports in late 2023 during Australia's harvest, adding more support than normal during that time period. Canada is set to finish constructing 3.6m tonnes of new canola crushing facilities in early 2024. In order to fill local demand, Canada's typical 10m tonnes of export will have to decline.

The rest of the year looks far less exciting for prices. With global supplies of canola and soybeans significantly higher year-on-year, we will see the world well supplied with oilseeds outside these windows, barring another war or significant drought in Europe or Canada. AUD 1,000 tonne price levels are unlikely.

Rabobank forecasts track non-GM canola prices for east coast and SA to trade on average between USD 660 and USD 730/tonne through 2023. WA may trade lower due to a proportionately larger expected carryover stock. GM is expected to trade on average at a AUD 30 to AUD 60 tonne discount.

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What to Watch

Upside

1. The Ukraine-Russia crop corridor expires in mid-March or Russia pushes further in Ukraine, disrupting cropping.
2. Either EU or Canada canola crops or Brazil's soybean crops head into drought.
3. BOM's dry forecast persists through the year.

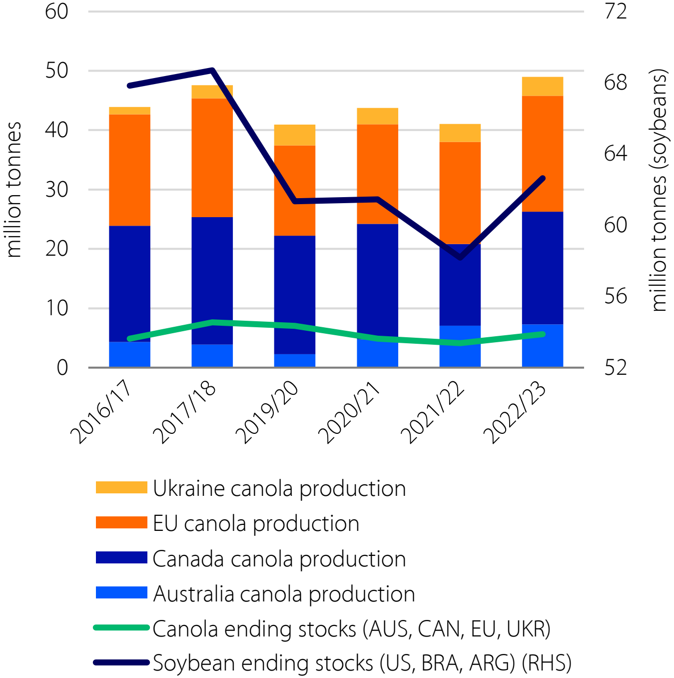
Downside

1. German cabinet converts proposal to phase out crops from biodiesel mix by 2030 into law. Germany is Australia's single largest canola export destination.
2. Canadian crush facility construction delayed.
3. The Russia-Ukraine war ends.

A World Awash With Oilseeds Means Timing Is Key To Take Advantage of Any Upside

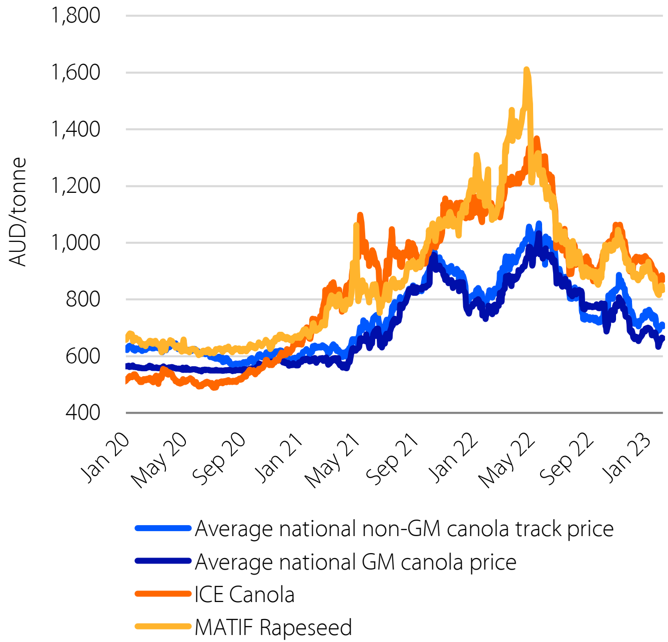
Rabobank

Oilseed production and stocks already improved



Source: USDA, Rabobank 2023

Australian canola prices continue to trail global levels due to large local supplies



Source: Bloomberg, Rabobank 2023

A Positive Margin Outlook in 2023

A period of good profitability on farm looks set to continue through the next 12 months. For flood-affected farms the immediate focus is recovery. Beyond that, record-high farmgate milk prices are providing good margins despite cost-of-production headwinds. Milk prices are unlikely to hold at the lofty heights but there is a firm landing zone for milk prices looking to 2023/24.

Australian milk production starts 2023 under pressure. Supply trails the previous season by 7.2% as of November 2022, with a turnaround not likely until the new season gets underway given the lingering impacts of flooding in affected regions. There is a solid footing for a rebound in production in 2023/24. An ample supply of supplementary feed, good soil moisture profiles, and high irrigation water allocations bode well for milk supply stability. A key 'must watch' remains for hay and fodder supply following the spring floods, which impacted harvest schedules and led to quality downgrades.

Commodity markets start the new year on softer ground and with a weak tone to linger into Australia's new season. The commodity basket has lost momentum since mid-2022. Underlying fundamentals have soured as milk supply recovers across much of the export engine – and at a time when Chinese importers are more cautious with purchases. More broadly there is demand rationing in all markets. ***A softer commodity basket (and firmer currency) to start the new season will likely trigger a soft correction in farmgate milk pricing across the southern export region in 2023/24.***

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What to Watch

Upside – A China resurgence

- China is working through milk powder inventories. At some stage in 2023 Rabobank expects dairy import activity to improve. The speed of China's re-entry will shape the next phase of the commodity price cycle.

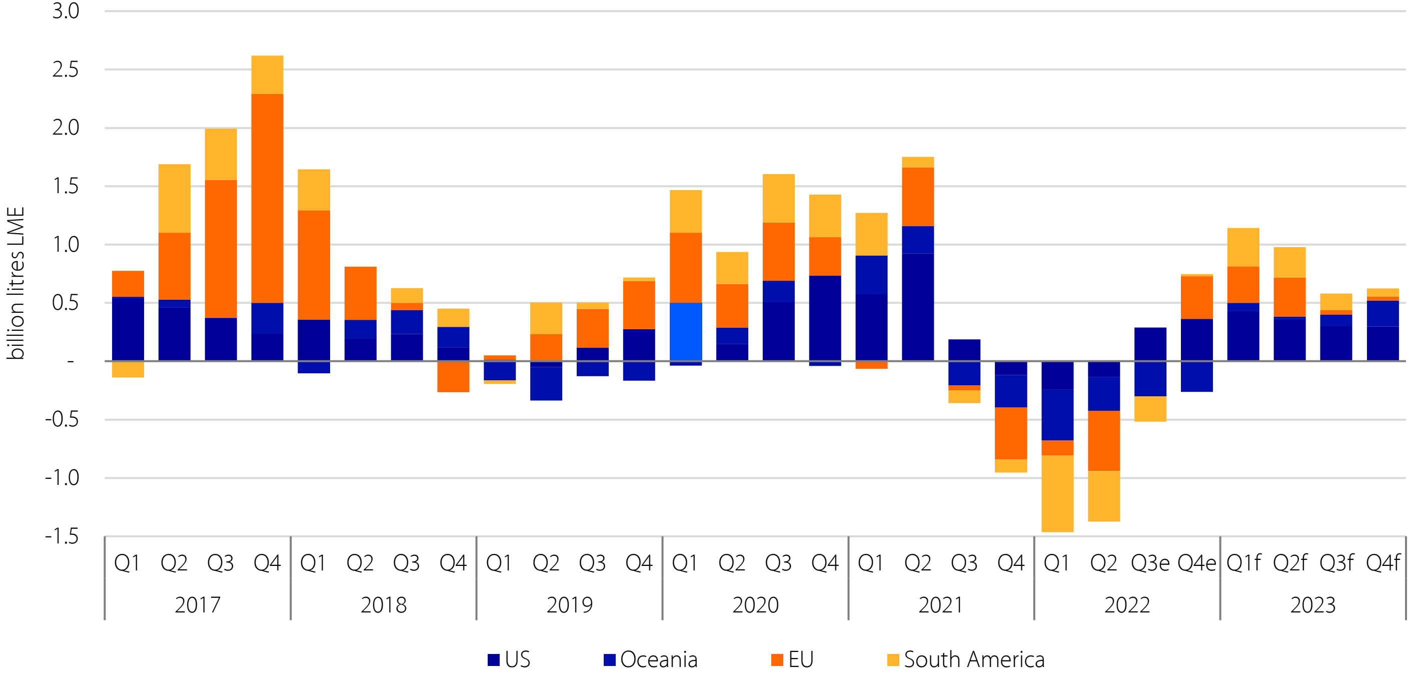
Downside – A supply surprise

- An extended hiatus in supply growth has ended in the export regions. A modest improvement is on the cards in 2023. If supply outpaces expectation, then additional milk for export will pressure global prices for longer.

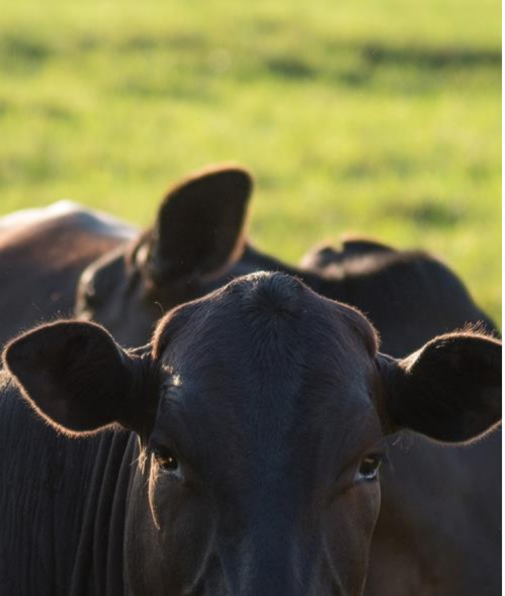
Global Milk Production Awakens From a Slumber

Rabobank

Milk production growth, Big 7 exporters (actual and Rabobank forecast), 2017-2023f



Source: Big 7 government industry agencies, Rabobank 2023



Beef

Production Starts To Recover

After 2022's record-high prices and historically low production, 2023 is set to be more 'average.'

Cattle slaughter in 2022 was lower than we had anticipated, given the successive favourable seasons experienced since 2020, suggesting a slower herd rebuild. A stronger Q4 slaughter is expected to lift slaughter numbers to 6.1m head for 2022 – a 2% increase on 2021. ***In 2023 we expect slaughter numbers to increase by 10% to 6.7m head*** as the progeny of the retained breeding stock of 2020 and 2021 flow through the system. We expect slaughter weights to ease slightly from 2022 given a lower proportion of grain-fed slaughtered cattle, but they will remain historically high. We believe this will lead to a 5% increase in production. Slaughter numbers are highly contingent on processing capacity, which has been heavily impacted by labour availability and higher costs.

Beef demand is expected to be fair. Softening economic conditions are likely to see consumers trend away from higher-priced proteins. Still, cheaper beef cuts at competitive price points compared to other cheaper proteins are still expected to perform well. Rabobank forecasts that US beef production will decline 3% in 2022 and their recent cow liquidation will subside. This will be beneficial for Australian exports into Japan, South Korea, and China, and beef exports to the US. There are also positive signals out of China that may lead to export licenses being reinstated and a pickup in Chinese demand.

Balancing the supply and demand factors and given the dramatic fall in cattle prices in late 2022, ***we believe cattle prices will level out with the EYCI trading around AUc 800/kg.***

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What to Watch

Upside

- Tightening in the US beef market.
- Recovery in Chinese demand and the re-establishment of AU export licenses.
- Strong improvement in Queensland seasonal conditions leading to strong herd rebuilding.

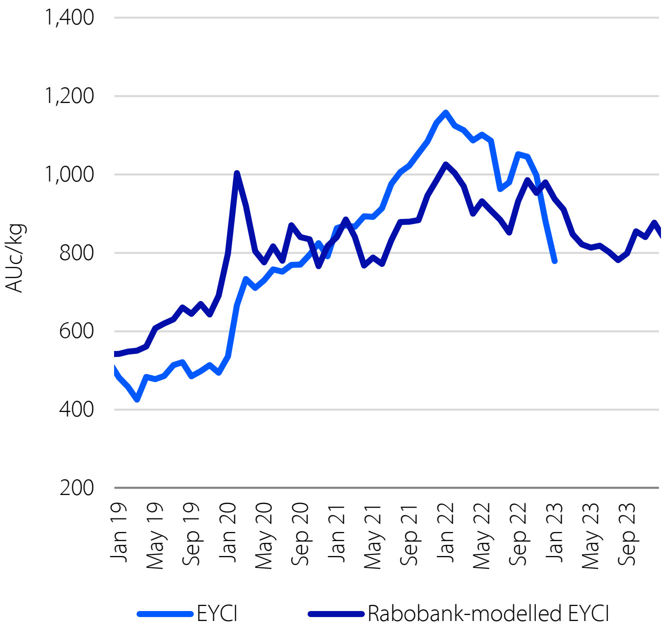
Downside

- Processor capacity limitations.
- Drought conditions setting in.

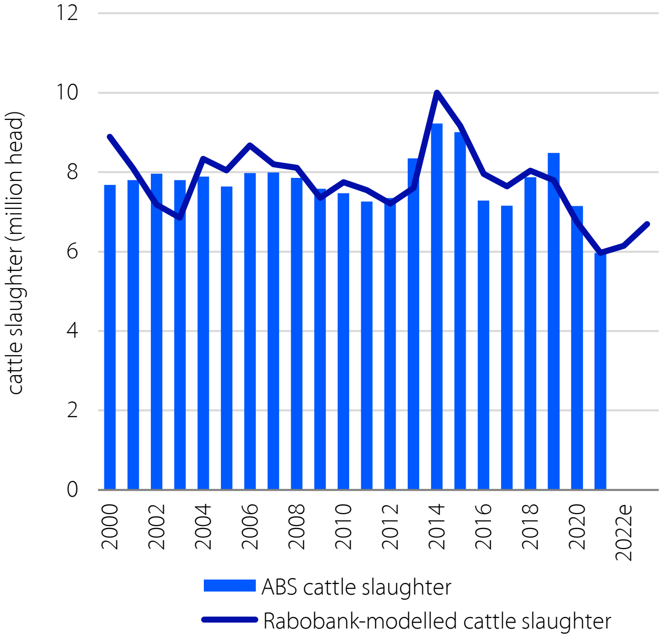
Cattle Prices Softer in 2023, but Limited Supplies Will Keep Prices Historically High

Rabobank

EYCI expected to remain around AUD 8/kg in 2023



Slaughter volumes, while increasing, continue to remain low



Source: MLA, ABS, Rabobank 2023

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Sheepmeat

Softer Markets as Supply Lifts

The lamb market came back to earth in 2022 after several years of volatile supply and demand that lead to record price peaks. ***With growing supply volumes and some softness in consumer markets we expect lamb markets, while remaining strong, to be more subdued in 2023.***

After a strong 2022, we expect lamb production to rise again in 2023 heading further into record territory. 2022 lamb slaughter volumes are expected to have risen 5% to 21.6m head while sheep slaughter volumes rose an estimated 5% to 6.1m head. This increase in lamb slaughter with the higher average carcase weights (25.4kg) likely pushed lamb production to record territory, exceeding the previous record set in 2016 by 7%. With sheep slaughter expected to be below 6.2m head for the third year In a row – the only other time in history we saw this protracted period of low volumes was 2010-2012 – we expect the breeding inventory to be increasing strongly. Our expectation of an increased focus on prime lamb production and higher lambing rates in the flock ***leads us to believe slaughter numbers will increase by 5% to 10% in 2023.***

Lamb's premium positioning and small cut selection leads us to believe that softer economic conditions will impact lamb consumption, leading to softer demand. That being said, relaxation of Covid policies in China could see an increase in volumes going to China. Also, when the FTA with the UK comes into force, and if the Indian FTA is implemented, we expect to see a slow increase in volumes to these markets.

We believe trade lamb prices will hover around AUc 700 to AUc 750/kg this year. Ongoing wetter seasonal conditions are expected to mean seasonal supply is more variable, which will have an influence on prices through the year.

What to Watch

Upside

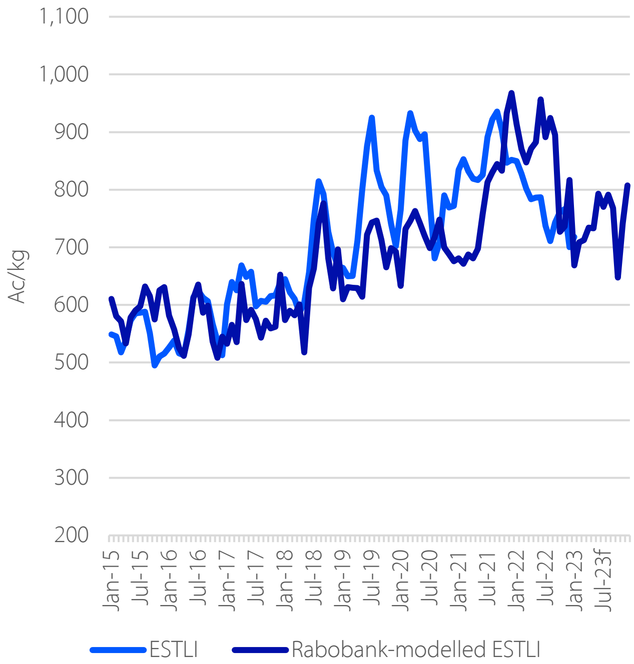
- Recovery in Chinese demand.
- Implementation of UK and Indian FTAs.

Downside

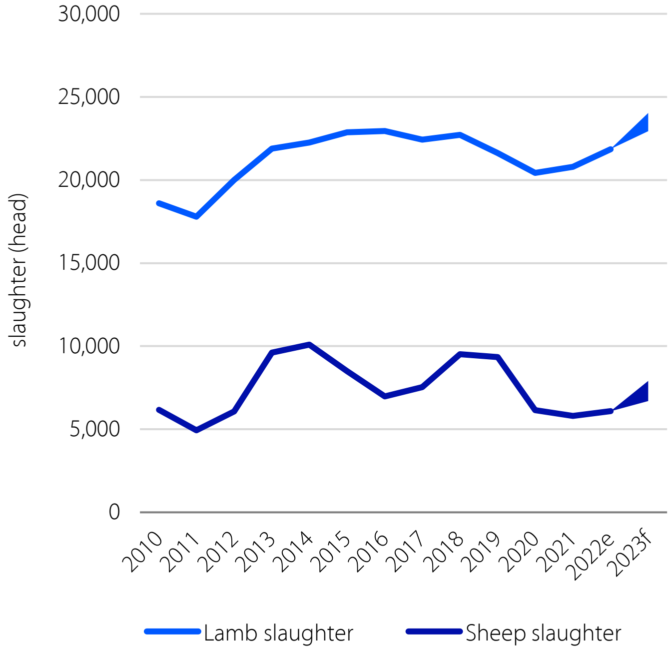
- Softer-than-expected consumer markets as a result of economic slowdown.
- Processor capacity limitations.

Lamb Prices Softer in 2023 as Increased Volumes Are Sold Into Weaker Markets

ESTLI expected to trade around AUc 700 to AUc 750/kg for the year



Lamb slaughter and production expected to continue pushing into record territory



Source: MLA, ABS, Rabobank 2023

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Other Animal Proteins

Steady Year but Costs Remain High

Poultry

Poultry – as a lower-priced protein – is expected to see volume sales fare better than other proteins amid slowing economic conditions and softer consumer demand. However, ongoing high costs and resistance to raising retail prices further will mean tight margins. Retail chicken prices rose 11.6% in the 12 months prior to Q4 2022 – the largest increase in 14 years – which will help offset the higher grain prices. Production growth is expected to continue in 2023, supported by poultry's position as a cheaper protein. However, after successive years of strong growth – production has increased 3%, 5%, and 4% in the last three years, respectively – we are cautious about the rate of growth and believe growth will need to slow in the future or risk oversupplying the market.

Pork

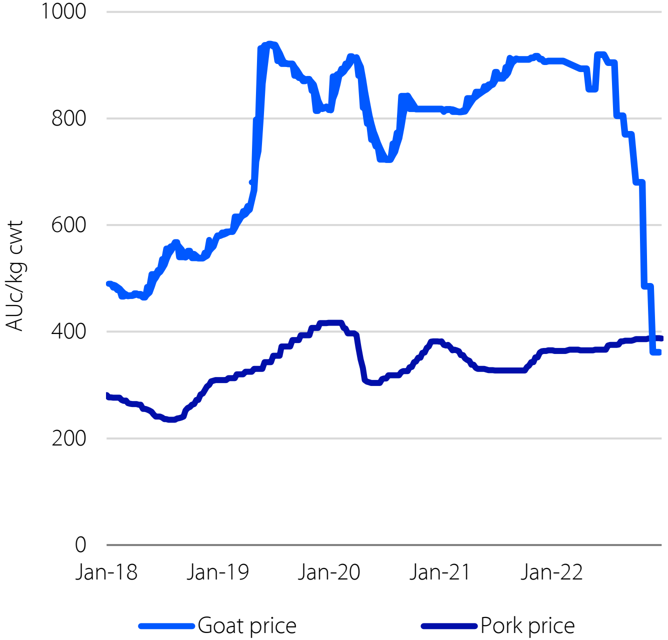
Lower production in Europe and flat production in the US will see lower volumes of pork in the global market. This, together with the potential recovery in Chinese demand, should support global pork prices. Domestically, we expect pork production to remain relatively stable in 2023 with some potential upside. However, the risk of Japanese encephalitis virus (JEV) outbreaks could see this change. Production volumes were down 1.6% YOY in Q3 2022 with suspicions that JEV was the cause. But early indications of Q4 slaughter suggest it is stable year-on-year. Pork's pricing position at the domestic retail shelf should see it weather any economic slowdown better than red meat categories, although some softness in demand should be expected. These conditions suggest Australian pig prices should remain favourable through 2023.

Goats

Goat prices collapsed in late 2022, dropping from over AUD 9/kg in mid -2022 to below AUD 4/kg in late 2022. Slowing consumer demand has had some impact, but high slaughter numbers coupled with strong lamb slaughter numbers – and therefore competition for processing space – are believed to have had a bigger impact. Goat slaughter numbers for the first three quarters of 2022 were 42% higher than the same period in 2021 and the highest volume since 2018. Prices at the end of 2022 were similar to prices back in 2018. Due to favourable seasonal conditions, rangeland goat numbers are expected to have recovered from the 2018 and 2019 drought years and slaughter volumes are expected to remain at these higher levels through 2023. This, in turn, will mean prices remain subdued, with expectations that they remain at current levels.

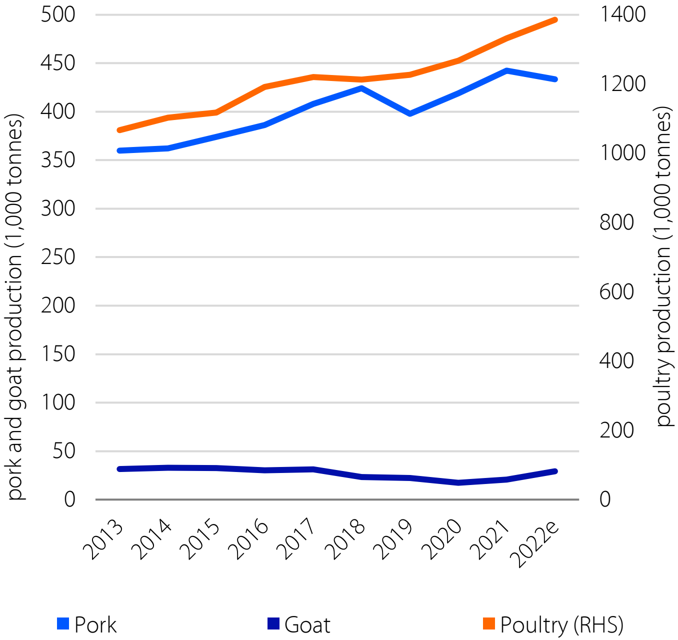
A Steadier Year for Pork and Poultry

Australian pork prices remain firm while goat prices expected to bottom and level off



Source: MLA, APL Rabobank 2023

Poultry production to grow slowly; pork and goat production to contract slightly



Source: ABS, MLA, Rabobank 2023

Cotton

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Price To Stabilise After 2022 Volatility

Australian production estimates are set for a drop in 2023, following record production in 2021/22. Coming off the back of 5.8m bales in 2022, early forecasts were for another record year pushing above 6m bales, however, excessive rainfall throughout the planting season has reduced production forecasts to 5mn bales, down 16% YOY. With storage across the Murray Darling Basin currently sitting at 98%, and strong soil moisture profiles present, it is still set to be the third-largest crop to date, behind 2011/12 and 2021/22. Even so, the sustained cooler summer conditions have led to delayed crop development, and yields are likely to be down YOY. Global production estimates have also dropped marginally, and output is now forecast at 300,000 bales below 2021/22 totals.

ICE #2 Cotton has opened 2023 amidst a relatively quiet market remaining steady at around USc 86/bl, a 3% increase MOM as of 30 January. This current price remains significantly below last year's strong start of USc +100/lb, down 35% YOY. However, promising sales flows and export volumes to start the year are indicating signs of increasing demand. We are now seeing the majority of backlogged cotton inventories, that built up within the supply chain off the back of 1H 2022 overordering, thinning and driving increased activity from spinners. China's lifting of their zero-Covid policy at the end of 2022 should also spark further demand growth from Q2 2023 onwards.

The USDA has reduced their forecast for global consumption by 800,000 bales MOM in December as economic headwinds continue to weigh on consumer sentiment. We have now seen the USDA's 2022/23 consumption estimates decline for eight consecutive months amidst a softening consumer market, with overall consumption now down 6% YOY. With growth opportunities in demand, a lowered domestic production outlook and increased efficiency in supply chain movements, ***Rabobank forecasts domestic prices to strengthen in 1H, trading between AUD 625-AUD 700/bale and remaining above AUD 600/bale in 2H.***

What to Watch:

Upside

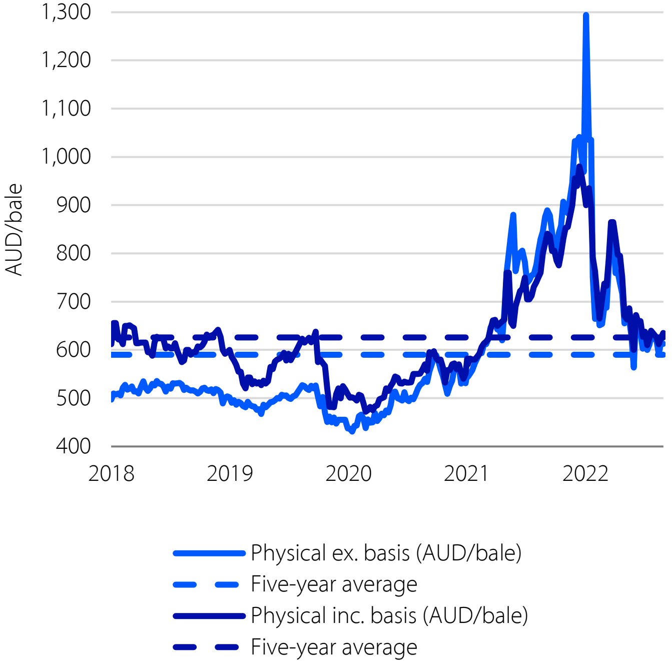
- Increased demand and consumption as a result of China lifting their zero-Covid policy.
- Reductions in Indian and US production estimates.
- Increased export volumes into China as trade relationships improve.

Downside

- Delayed opening of Northern Territory processing facility reducing demand.
- Strengthening of USD/AUD in 2H of 2023.
- Continued weakened consumer demand amidst recessionary fears in major markets.

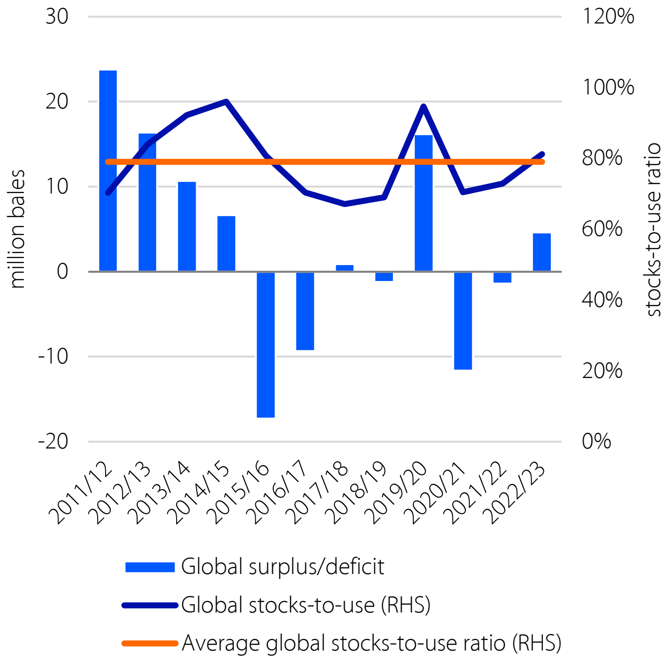
Increased Flow Through Supply Chain To Drive Export Sales Volumes in 2023

After a significant drop from May 2022 highs, ICE Cotton set to climb in H1 2023



Source: USDA, Rabobank 2023

Increased global supply coupled with declining consumption has stocks-to-use sitting above average



Source: Bloomberg, Rabobank 2023

Sales Growth Showing Support

Rabobank expects an increase in fine micron and mid-micron wool prices in 2023, as global demand recovers and consumer sentiment in major markets strengthens. We project the Eastern Market Indicator will remain at current levels for Q1 2023, before rising from Q2 onwards, trading, on average, between AUc 1,350/kg and AUc 1500/kg up. While the EMI & finer microns are set to increase, coarser microns (28+) will not see the same levels of growth throughout the year.

Despite weakened consumer confidence levels in 2H 2022 in major markets, demand looks set to bounce back and drive price increases. January US consumer sentiment, from the University of Michigan, is sitting 23% above the June 2022 low, and creeping back towards 2021 levels (down 4% YOY for January). The focus will also be on China, which remains the dominant export destination accounting for 81.6% of export totals in 2022, to drive wool price growth. Rabobank forecasts Chinese economic growth to drop 0.7% QOQ for Q1 2023 before sitting at 2.5%-3% growth for the remainder of the year, with the recent lifting of China's zero-Covid policy the driving factor. There are negative short-term impacts expected on Chinese retail spending as uncertainty over rising Covid case numbers is expected through Q1. However, it is ***ultimately set to push wool demand upwards toward the second half of 2023, as mill processing capabilities and consumer spending are expected to increase.*** This should help see retail apparel sales, down 31% YOY in November, rally in 2023.

Australian wool production is expected to increase again in 2022/23 with the Australian Wool Production Forecasting Committee estimating 340m kg greasy. This marks a 5% increase on 2021/22 levels led by continued favourable season conditions and increased national flock size with shorn numbers forecast at 74.9m head for the 2022/23 season. Wool tested volumes to start the year are following this trend, up 19% YOY for January, with QLD and Tasmania showing the biggest growth. The Shearing Contractor's Association of Australia have also seen the strongest growth in shearing demand in years, which will assist in easing availability constraints when sourcing contractors.

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Wool

What to Watch:

Upside

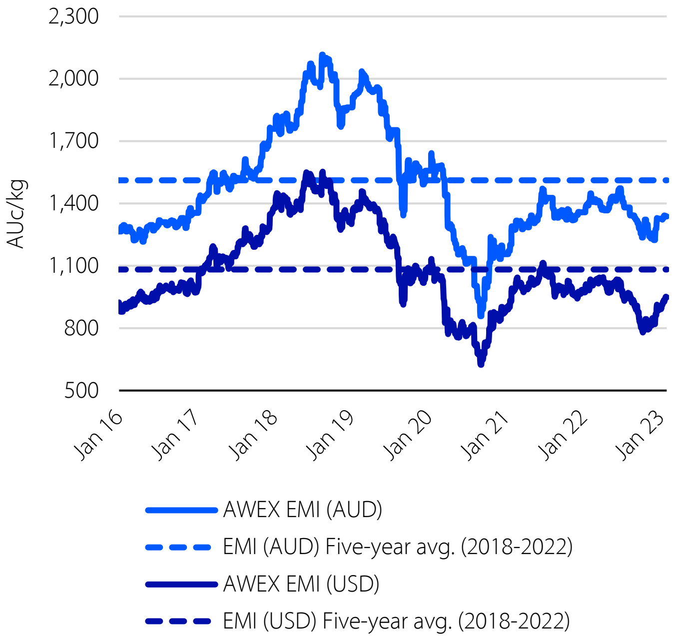
- Australia-India Economic Cooperation and Trade Agreement eliminating wool tariffs on exports.
- Stronger-than-expected rebound in sales, following removal of Chinese zero-Covid policy.
- EU/US avoid recession in 2023.

Downside

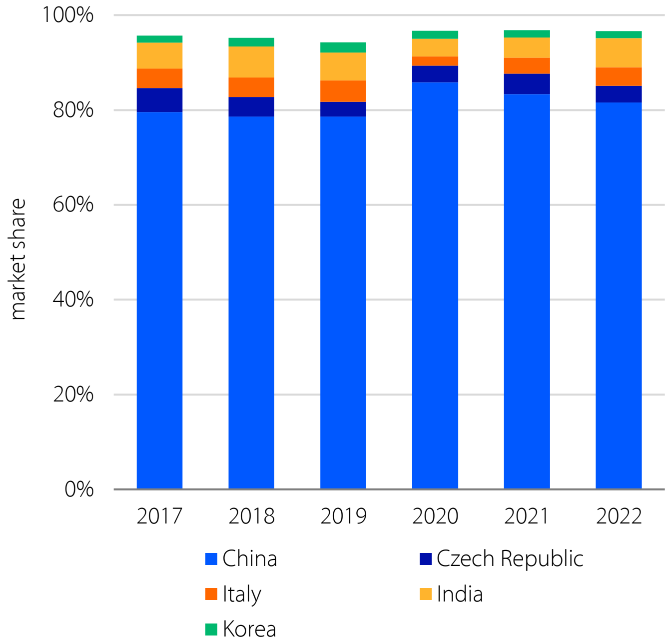
- Chinese Covid case numbers remain high, impacting supply chain movements.
- Consumer sentiment remains low amidst recessionary fears in major markets.
- Container availability declines.

Increased Export Opportunity Into India in 2H 2023 May See Wool Demand Increase

Australian EMI climbing after late 2022 price dip, driven by finer microns



While Australian exports remain reliant on Chinese market, India's market share showed growth in 2022



Source: Bloomberg, Rabobank 2023

Source: ABS, Rabobank 2023

Sugar Returns to Surplus in 2023

Rabobank expects the global sugar market to return to surplus in the 2022/23 season (0ct-Sep). A recovery in Brazilian sugar production is underpinning our weaker sugar price outlook, with ***Rabobank's forecast for ICE#11 prices to average between USc 17/lb and USc 18.4/lb in 2023.***

Given 2022 rainfall in Brazil has been significantly better than 2021, cane volumes should recover this harvest. Ethanol parity is also trading at levels well below sugar prices during the off season, cementing the expectation of a sugar max next season. Assuming this remains, and the government in Brazil does not reinstate federal taxes on gasoline, this will add to the surplus and put downward pressure on prices. Possibilities of the return to fuel taxes as well as adjustments to fuel price policy create uncertainty for ethanol pricing that may not be resolved before milling begins in late March.

In other growing regions, production gains and losses should offset each other this year. Favourable weather in Thailand will likely lead to production recovery, while competition for acreage and dry conditions in Europe are expected to result in lower production. In India, above average monsoon rainfall will be supportive for the next season crop, if not eroded by increasing ethanol production. The Indian government is also expected to review the provisional export quota for this season, dependent on harvest progress, which could improve export availability in 2023.

Late season rain in Queensland caused significant delays to the end of the Australian sugar harvest in 2022. While cane crushed was up 11%, to 33.4m tonnes, sugar content (CCS) was down 4%. Rabobank's economic outlook forecasts the Australian dollar will remain in the high USc 60s to low USc 70s range, helping keep local sugar prices favourable. ***With the global price outlook, local sugar pricing is expected to be down 6% year-on-year in 2023, but still 25% above the 2016-2021 average.*** While local prices will remain significantly above the five-year average, costs of production remain elevated, keeping pressure on margins.

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Sugar

What to Watch

Upside

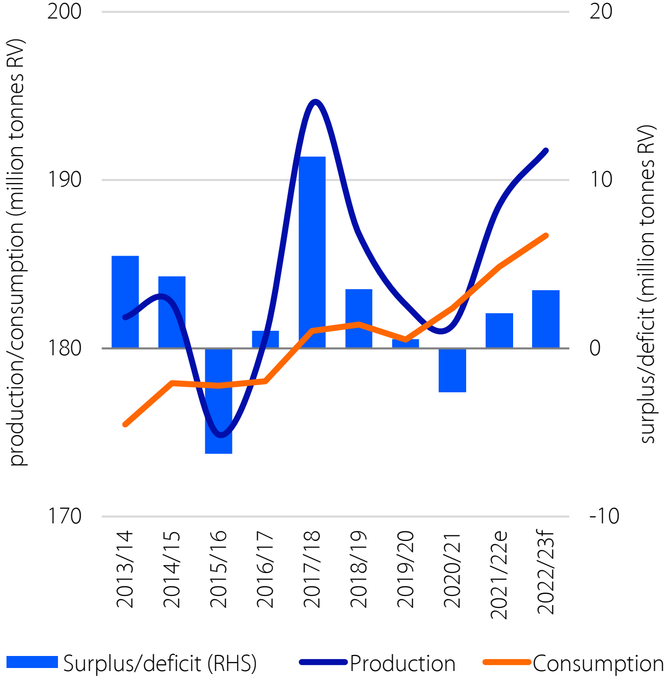
- Reductions in production estimates for Brazil, India and Thailand.
- Brazil government reinstating federal taxes on gasoline.

Downside

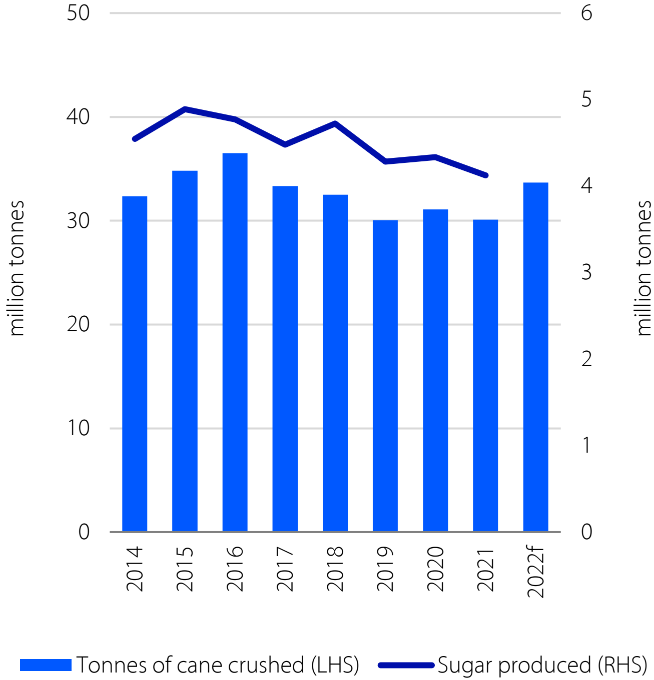
- Any announcement of an enlarged export quota out of India could put downward pressure on the market.
- The Brazilian CS harvest starts from April, but is subject to the wet season's rainfall waning.

Surplus To Weigh on Sweetness of Prices in 2023

Global balance sheet returns to surplus in 2022/23



Australian cane crush increased 11% YOY in 2022



Source: LMC, F.O. Licht, International Sugar Organization, Rabobank 2023

Source: ASMC, Rabobank 2023

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Consumer Foods

Deeper Trading Down To Come

The good news for Australian consumers is that food inflation will peak in 2023. This comes on the heels of food inflation running at its highest levels in two decades and across all food and beverage categories and channels. Better growing conditions certainly help with pricing of fresh produce. However, there is unlikely to be price deflation in many packaged food and other staples. Peak inflation does not spell the end of a real wage squeeze. Australia's economy is showing resilience and is expected to avoid recession. The outlook for recovery in China amid current Covid outbreaks is instrumental to the economic outlook.

Nonetheless, Australian consumers' willingness (confidence) and ability (savings) to spend will remain under pressure in 2023. Retail sales were holding up in 2022 but started to sour from December. Consumer confidence levels start the year in a trough, and it is hard to see what will trigger a major recovery in the short term, given the weak global settings and real wage squeeze. Household savings provided a buffer for consumers through 2022 but as we kick off the new year the latest data shows household savings are back at pre-pandemic levels.

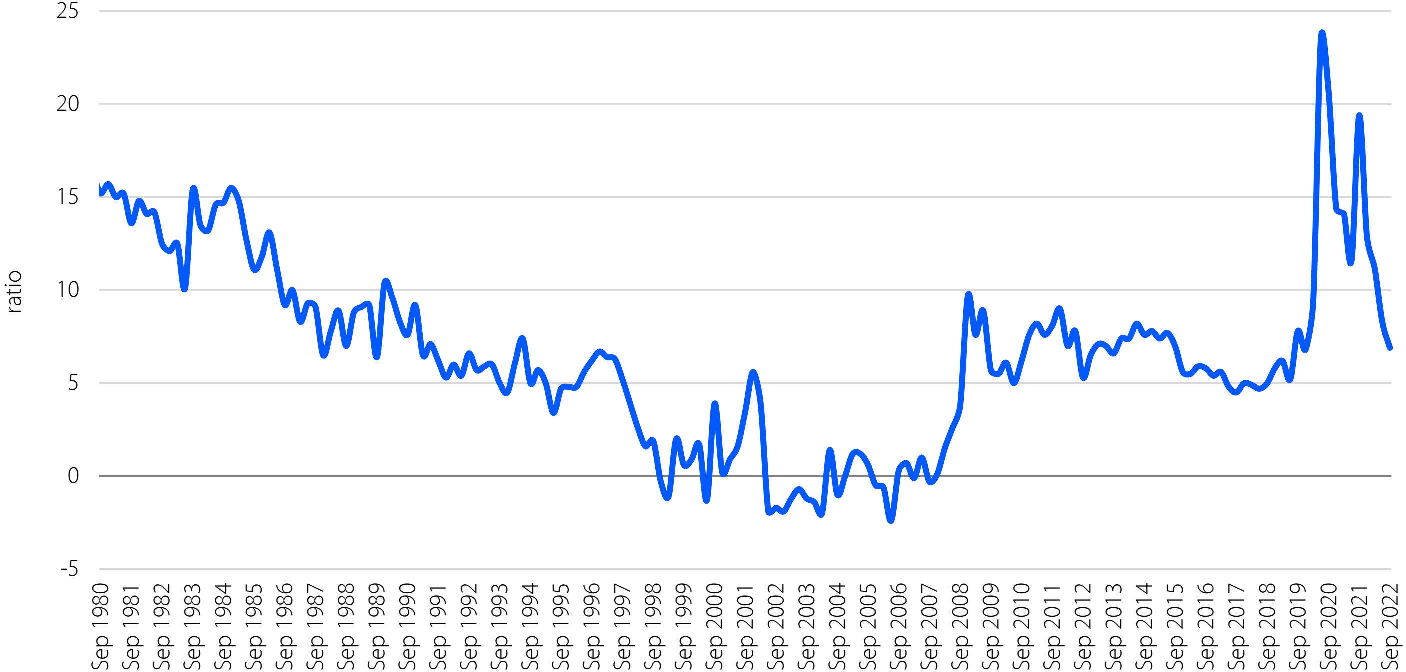
Trading down will become more prevalent in shopping baskets this year. Shopping behaviours were already adapting to inflationary pressures in 2022. However, given the costs of living pressures are still building through interest rate increases, consumers will intensify the search for value and savings. Wage growth is anticipated to pick up pace in 2023 but remain below other advanced economies. In 2023, food and beverage companies will need to continue to adapt offerings to cater to the value-conscious consumer.

What to Watch

- *Global impacts* – Rampant inflation is a global challenge. Consumers in many economies are facing much higher rates of inflation. In some economies, peak inflation has passed which would be welcome news. Nonetheless, the global economy is navigating a synchronised slowdown with the International Monetary Fund (IMF) warning of a third of the global population facing a recession in 2023. Consumer behaviour, and belt tightening will be happening everywhere in 2023.

Consumers' Ability To Spend Is Sinking

Australia household savings ratio



Sources: ABS, Rabobank 2023

Adjusting the Bearings

The farm input price roller coaster ride of 2022 was certainly full of emotions. The hike that started by late 2021 due to Covid, reached full speed just after the first explosions were heard in Ukraine. The fear of missing out on fertilisers for the coming season took its toll and now the markets are aligning the needle and price sights to a new supply and demand balance.

As the sanctions were implemented against Russia and its allies by late Q1 2022, several fertiliser companies feared the demand would not be reached as Russia was responsible – on a pre-war level – for roughly 8% of urea, 13% of phosphate fertilisers and, combined with Belarus, for 40% of potash exports. This element was later on boosted not only by a surge in natural gas price but also by stock restrictions over Europe, which vanished, as it was not economically reasonable to keep operations for nitrogen fertilisers. For phosphate, the negative feedback in the supply chain was also caused by a tightening in the Chinese quota scheme, which reduced exports from 10.5m to 6m tonnes. This reduction was equivalent to 12% of the globally traded volume.

Fertiliser supply and demand now exhibits increasing stocks, which from Q3 2022 has been leading to a gradual reduction of international prices. The 2022 peak international urea and potash prices lost about 50% and DAP 40%. Russian exports took place as food and ag exports were not sanctioned. Europe is experiencing a 'warm' winter, supporting gas storage levels, which has let prices fall back to pre-war levels and minimizing the risk of pushing fertiliser prices up. Farmers' application rate reductions did alleviate some of the demand pressure and international bulk freight also provided some relief for the cost side. Hence, farmer purchase power for farm inputs – known as affordability index, which shows how many units, kg for instance, of a specific output are necessary to buy one unit of input – changed dramatically and the outlook for 2023 is much better compared to the 2H 2022 levels. Maybe the ride is over for now and the AUD will release the safety harness.

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Farm Inputs

Market factors to Watch:

Upside

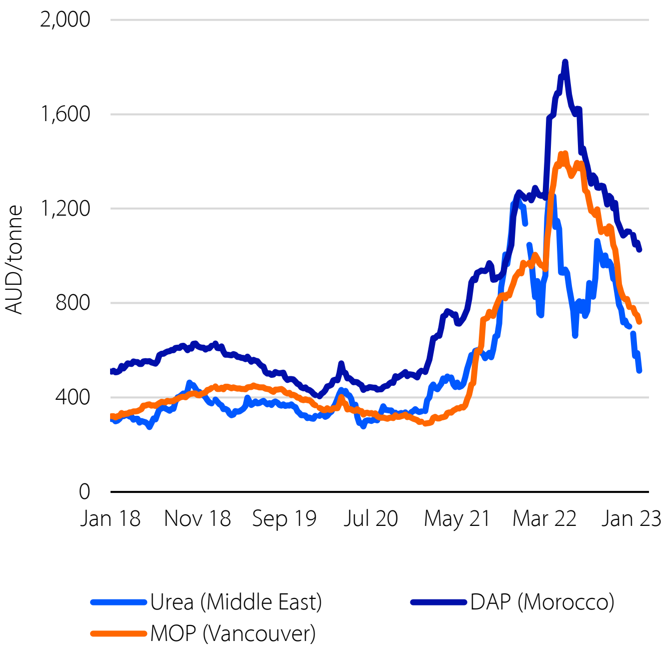
1. The war in Ukraine intensifies the energy crisis, leading to more fertiliser production cuts.
2. La Niña is replaced by El Niño, which can lead to fertiliser application rates to rebuild in South and North America.

Downside

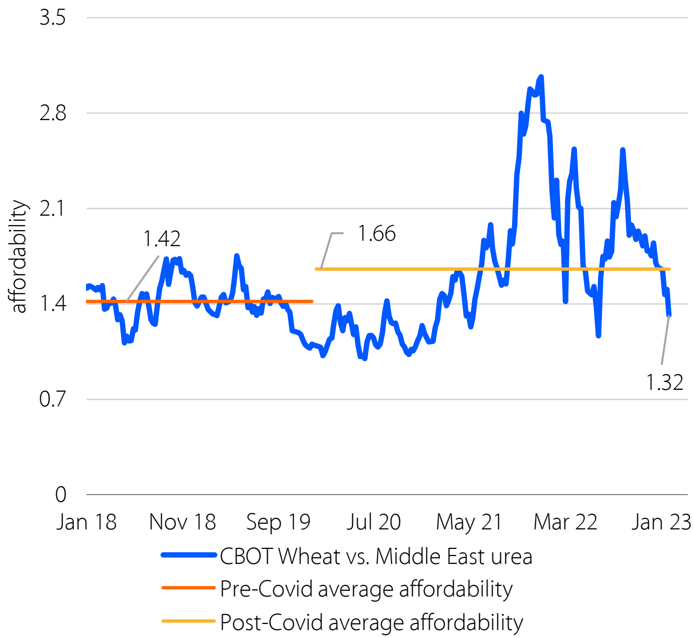
1. Energy situation in Europe remains 'under control'.
2. Global fertiliser stocks keep growing.
3. Resetting of the Chinese quota scheme to allow more exports.

Declining Gas Price May Ease Cost Pressure

AUD-adjusted monthly global fertiliser prices



International urea affordability returns below average of CBOT Wheat per Middle East urea price



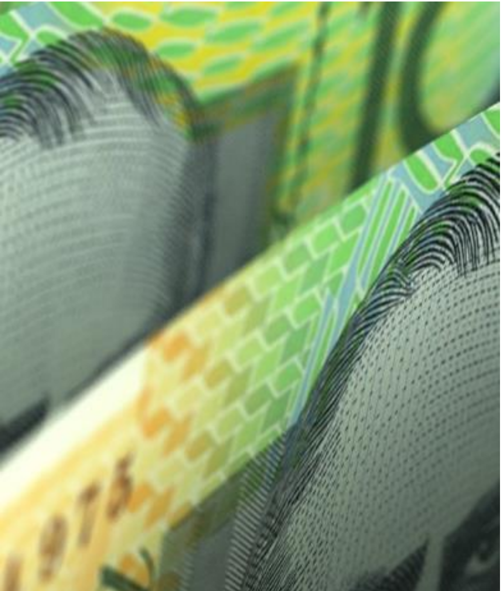
Source: CRU, Rabobank 2023

Source: CRU, Bloomberg, Rabobank 2023

Australian Dollar Comeback

The surprising strength of Australia's December inflation release solidified the decision for this weeks RBA rate hike of 25 bps. Q4 2022 total inflation was up 1.9% QOQ and 7.8% YOY. This is the highest annual movement in CPI since 1990. With this announcement, earlier confidence that inflation has peaked has been shaken and, given the 'least regrets' policy that most major central banks have been maintaining with respect to inflation, it seems likely that this will be met with continued RBA interest rate increase measures to fight inflation. Also, the RBA has again begun using more aggressive wording, saying that 'further increases in interest rates will be needed over the months ahead.' This, however, raises specific concerns over the pressures on homeowners. AUD/USD has subsequently regained the position of best-performing G10 currency in the year-to-date, just days after a softer-than-expected Australian labour report knocked it from the podium.

We continue to expect the AUD to perform well this year relative to a basket of G10 currencies. That said, we look for a dip in the value of AUD/USD around the middle of the year. This is linked with our expectation that the market will price out expectations of a Fed rate cut before the end of 2023. Hopes that activity levels in Australia will be boosted by the re-opening of the Chinese economy were a factor behind the better tone of the AUD earlier this year. The abrupt lifting of Covid restrictions in China last month has underpinned the potential for an increase in the consumption of commodities this year relative to previous expectations. We have edged up our AUD/USD forecast and have brought forward our 0.75 target to 12 months from 15 months. In the current quarter, the re-opening of China is expected to bring a significant impulse to the Australian travel sector.



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Interest Rate & FX

What to Watch

Upside

- China reopening - Better relations between Beijing and Canberra could lead to the lifting of Chinese tariffs on a range of Australian exporters in addition to coal.

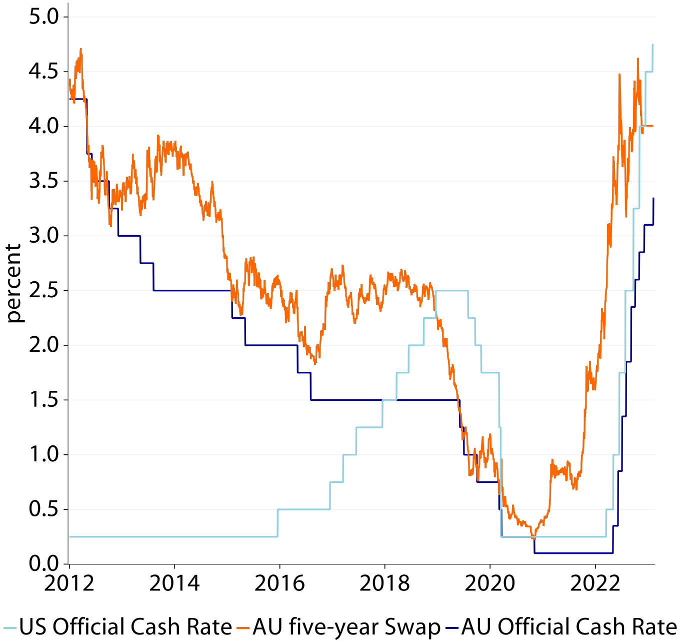
Downside

- We look for a dip in the value of AUD/USD around the middle of the year. As we expect, the market will price out expectations of a Fed rate cut before the end of 2023.

Further Hikes Needed To Put Out Inflation Flames

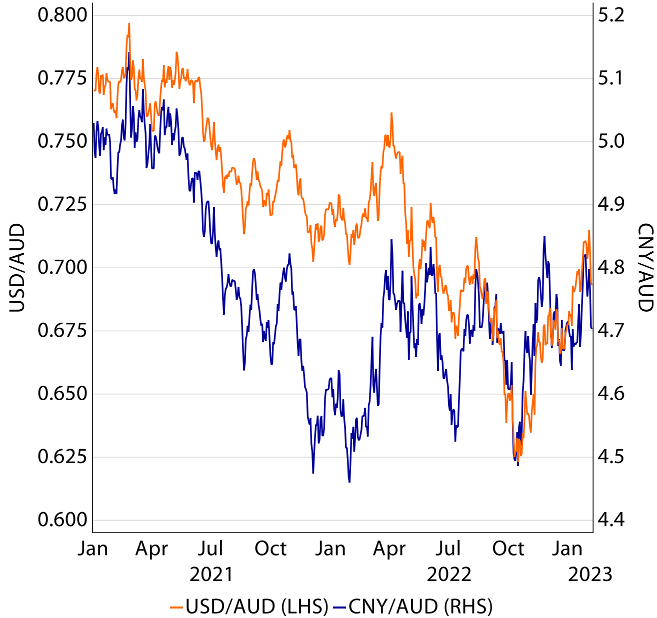
Rabobank

The release of record Q4 2022 inflation numbers solidified the RBA issuing another rate hike



Source: Macrobond, Rabobank 2023

China's reopening and increased commodity demand is bolstering the AUD



Source: Macrobond, Rabobank 2023

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Oil & Freight

2023's Container Shipping Market: the Downcycle Awaits a Rebound

Australian diesel prices remain expensive, albeit off their highs. While Europe's warm winter has caused energy prices to plummet, investment in refinery production has lagged, constraining capacity into 2023. Loss of oil refining capacity in the US, G7/EU sanctions on refined products from Russia, 30-year lows in US diesel inventories and backstop demand for crude from natural gas substitution is setting the scene for the structurally-constrained market in 2023. Rabobank expects the price of brent crude oil will average USD 88/bbl in Q1 2023, before recovering towards USD 93/bbl by Q4 2023.

2023 will be the year of downcycle in the cyclical container shipping market. The downcycle started in Q2 2022, with steep falling demand (mainly for dry container shipping due to inventory corrections by US and European shippers) and increasing carrier capacity as vessels become available from easing congestion. Whereas demand rebound in Q2-Q3 2023 will likely be not as strong as that in 2021, capacity continues to improve with an influx of new vessels scheduled to be delivered this year. However, we expect to be near the bottom of the downturn. Ocean carriers, who effectively operate in their shipping alliances, are in strong positions, working towards a new equilibrium where shipping rates would be higher than pre-pandemic levels as operating costs rise. On the other hand, even though reefer (refrigerated) container rates are starting to decline, we expect the pace to be much slower throughout 2023 due to the stable demand for global food trade and reefer container imbalances in agri-exporting regions.

The Baltic Panamax index (a proxy for grain bulk freight) continued to decline throughout the holiday season and into 2023. At its lowest point in 2.5 years, the index is negatively impacted as the overall Baltic bulk index slipped on soft Chinese demand and Brazil rainfall. Non-ag commodities, pressured by economic headwinds, were the main driver. However we expect a soft rebound into Q2, as temporary challenges resolve.

What to Watch

Upside

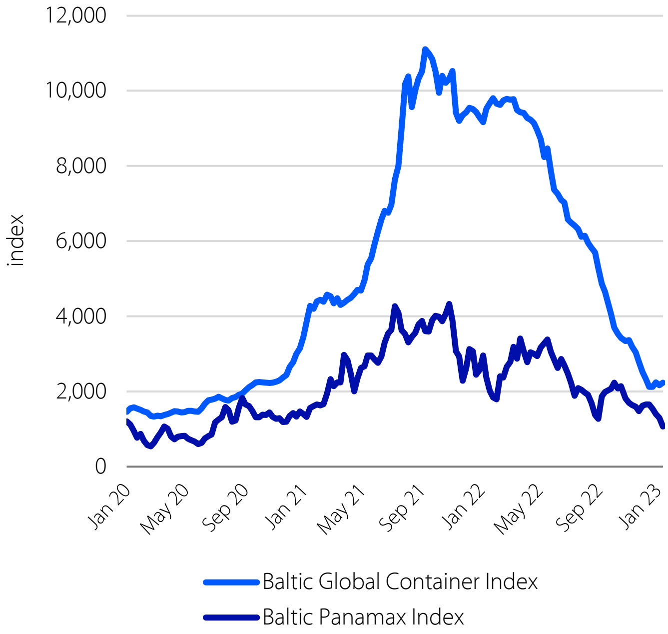
- Oil markets remain tight globally – As the west moves away from Russian supplies there remains limited room for supply disruptions.
- Relaxations of China's lockdowns elevate upside price risk.

Downside

- Looming global economic conditions to impact global trade and thus ocean container and bulk shipping conditions.

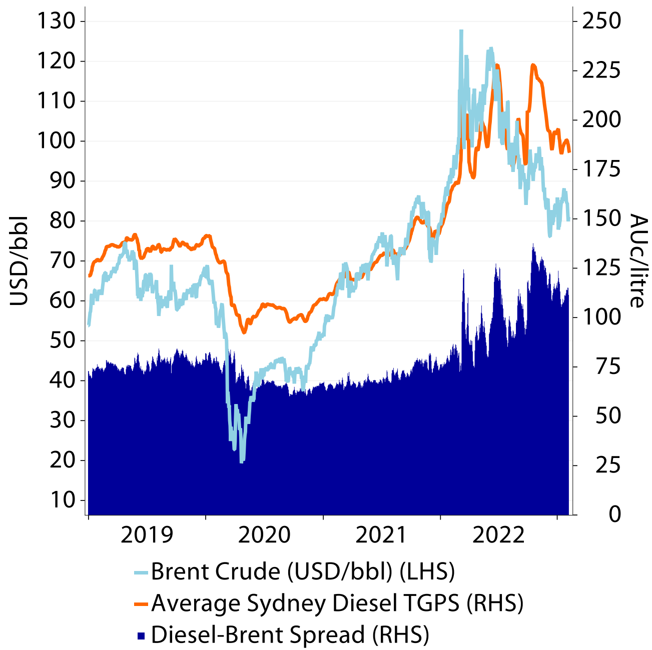
Europe's Unseasonably Warm Winter Cause of Energy Sell-off

Baltic Panamax Index and Dry Container Index, Jan 2020-Jan 2023



Source: Baltic Exchange, Bloomberg, Rabobank 2023

Brent Crude Oil and average Sydney Diesel, Jan 2019-Jan 2023



Source: Macrobond, Rabobank 2023

Agri Price Dashboard

1/02/2023	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	760	792	769
CBOT soybean	USc/bushel	▲	1,520	1,519	1,529
CBOT corn	USc/bushel	▲	681	679	635
Australian ASX EC Wheat Track	AUD/tonne	▼	376	404	360
Non-GM Canola Newcastle Track	AUD/tonne	▼	708	754	806
Feed Barley F1 Geelong Track	AUD/tonne	▼	324	334	292
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	767	901	1,117
Feeder Steer	AUc/kg lwt	▼	392	406	602
North Island Bull 300kg	NZc/kg cwt	▲	565	560	605
South Island Bull 300kg	NZc/kg cwt	▼	510	540	590
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	761	711	875
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	690	715	860
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	665	705	840
Venison markets					
North Island Stag	NZc/kg cwt	•	890	890	715
South Island Stag	NZc/kg cwt	•	900	900	715
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	4,463	4,688	6,025
Skim Milk Powder	USD/tonne FOB	▼	2,863	3,075	3,950
Whole Milk Powder	USD/tonne FOB	▼	3,175	3,300	4,050
Cheddar	USD/tonne FOB	▼	4,963	4,988	5,625

Source: Bloomberg, MLA, Rabobank 2023

Agri Price Dashboard

1/02/2023	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	101.4	99.3	141
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	85.6	83.4	127
Sugar markets					
ICE Sugar No.11	USc/lb	▲	21.4	20.0	18.5
ICE Sugar No.11 (AUD)	AUD/tonne	▲	660	650	559
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,356	1,327	1,407
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	433	480	867
DAP (US Gulf)	USD/tonne FOB	▼	650	655	810
Other					
Baltic Panamax Index	1000=1985	▼	1,029	1,535	1,811
Brent Crude Oil	USD/bbl	▼	83	86	89
Economics/currency					
AUD	vs. USD	▲	0.71	0.68	0.713
NZD	vs. USD	▲	0.65	0.63	0.664
RBA Official Cash Rate	%	•	3.10	3.10	0.10
NZRB Official Cash Rate	%	•	4.25	4.25	0.75

Source: Bloomberg, MLA, Rabobank 2023

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