

# GRAINS NOTE 08.2017

## WHEAT

While global concerns over the wheat harvest in the United States have led to a sharp increase in global wheat prices in June and July, questions remain over the sustainability of the price increases. In particular, this is due to the expected increase in global stocks as global production remains slightly higher than consumption. That said, the reduction in the oversupply gap in global markets suggests a rosier outlook for prices for Australia's harvest.

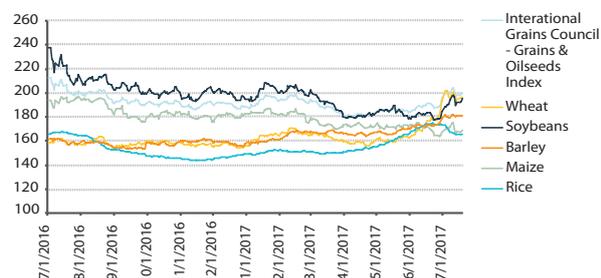
While global grain prices have been in decline since mid-2012, recent volatility suggests that the floor in global prices was reached earlier in the year, and there is greater upside risk to prices than downside. Globally, wheat production is expected to drop by 2.2% this year, declining in all major producing regions except China and the European Union. In the United States, the poor weather

conditions are expected to result in a drop in production of 24%, and a further 1% in Canada. Global consumption is expected to remain stable on the back of reductions in the larger markets of Brazil, China and the EU, which are offset by increases in consumption in Russia and Pakistan.

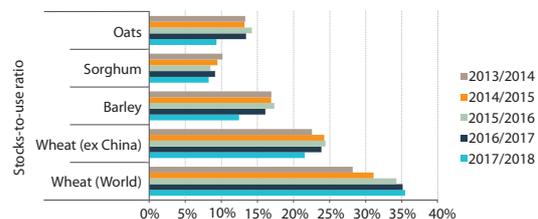
While global stocks are expected to increase slightly, almost 50% of total stocks are held by China, which has set an artificially high wheat price for domestic farmers. Without including China-held stocks, total global stocks are expected to decline by almost 10% in the year.

Global wheat for feed use is expected to decline 5% in 2017-18, (primarily in China and Canada), although there may be some upside for wheat producers as corn stocks are lower than originally anticipated, and increasing the cost-competitiveness of wheat.

Global grain prices index



Global grain and oilseeds stocks-to-use



## Australia

Production in Australia is expected to fall from 2016-17 levels due to lower than average rainfall across most cropping regions; although the harvest is still expected to be high by historical levels. Current USDA estimates put the Australian harvest at 23.5 million tonnes, a forecast predicated on receiving decent rainfall later in the season. Without the right conditions, some estimates have the harvest falling to 19-20 million tonnes. The area planted to wheat locally is expected to fall slightly in favour of higher return crops including canola and chickpeas.

Recent volatility in the Australian dollar on the back of expectations of interest rate increases and strong employment data domestically are also likely to influence

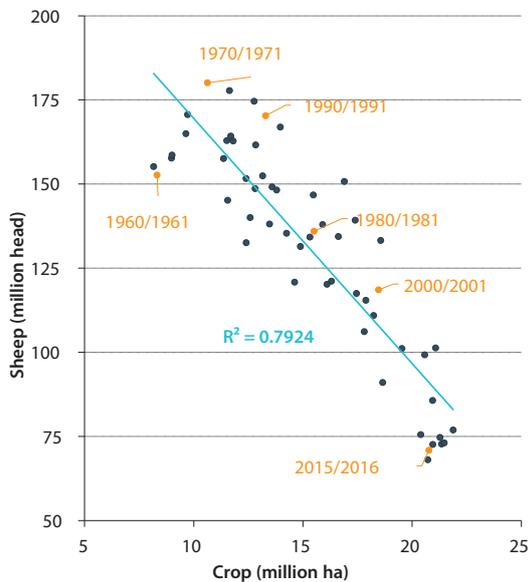
Australian farmers' returns in a lower yield season than last year's bumper harvest. In addition, while widespread uncertainty over the direction of oil prices may have a small impact on the viability of exporters from the Black Sea to major Asian export markets, oil prices are unlikely to return to the high levels of a number of years ago.

Globally, import opportunities for wheat exports are growing most strongly in developing the Asian markets of Indonesia, Bangladesh and the Philippines, as well as the Middle East. For exporters, growth continues to be strong, particularly from the Black Sea region and Argentina. In contrast, the more developed exporters of European Union, Canada and the United States have showed little or no growth in the past five years.

## FALL IN SHEEP HERD CORRELATES WITH INCREASE IN CROP ACREAGE...

### Sheep herd vs crop acreage

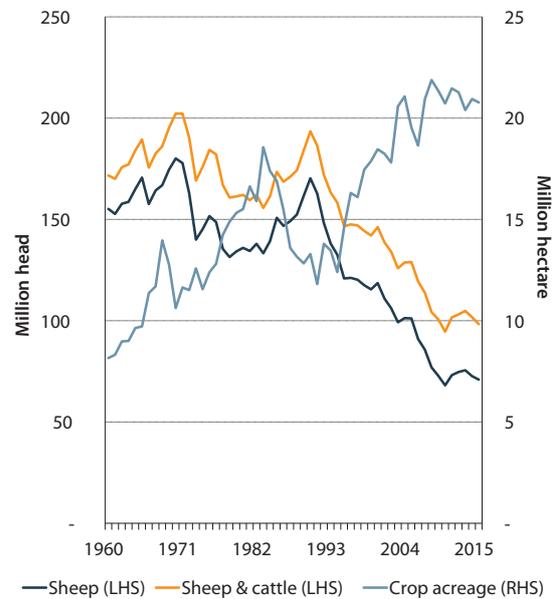
Data between 1960/61 to 2015/16



Source: Meat and Livestock Australia, ANZ Analysis

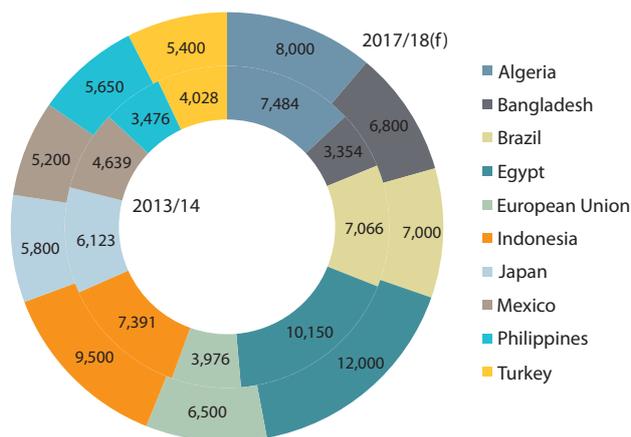
### Sheep & cattle vs crop acreage

Data between 1960/61 to 2015/16



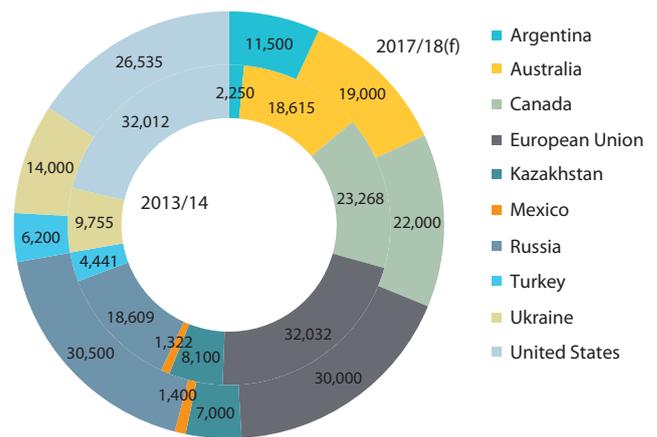
## GLOBAL WHEAT IMPORT AND EXPORT

### 10 major wheat importers ('000 Mt)



Source: USDA

### 10 major wheat exporters ('000 Mt)



Source: USDA

## COARSE GRAINS

The 2017/18 season is likely to see a fall in Australian barley plantings, as growers shift to more attractively priced pulses and oilseeds. In terms of production, barley is forecast to fall by around 40% to 8.5 million tonnes, as yields return to normal levels, from the previous bumper year. After the record production levels of 2016/17 saw Australia take the mantle as the world's largest barely exporter, 2017/18 is likely to see a fall of around 30% in exports, although this marks a return to relatively normal levels.

Within the region, demand for Australian barley remains strong - in particular, barley exports to China may well hit record numbers. Demand will be driven not just by feed and malting requirements, but by barley's attractive pricing in comparison to China's domestically grown corn. Outside of China, Vietnam will also remain a major market, driven by strong beer production growth.

Global production of barley is expected to fall as much as 7% in 2017-18, primarily as a result of lower production in Australia, the United States and the Black Sea region. For both 2016-17 and 2017-18, global consumption will outstrip supply. As a result, stocks to use are expected to fall significantly, although global use of barley for feed is also expected to fall marginally.

While global prices for both barley and oats have been languishing, prices are expected to firm as both domestic and global production reduces to be more in line with global consumption. While prices have started a slow climb from a six year low in September 2016, the global barley price is still almost unchanged since the same time last year. In the short term, prices are likely to fall as the harvested northern hemisphere crops enter the supply chain. However, looking ahead to the medium term, the smaller 2017/18 global harvest will probably have the cyclical effect of once again placing upward pressure on prices.

Oats should also seem some upside as total global stocks are expected to end at their lowest since 2014 and the stocks-to-use ratio drops 3%.

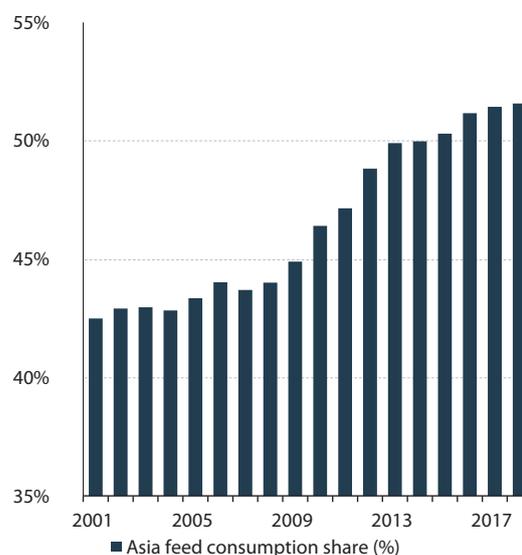
In terms of the Australian canola crop, strong prices are likely to lift canola plantings in 2017/18, though ongoing rainfall levels will also have a major impact on acreage. As with other major Australian crops, yield levels are likely to return to normal after the record levels of the previous year, a change which is likely to see a fall in overall production. In addition, the recent dry weather in Western Australia and South Australia could well see initial production falls exacerbated, with some forecasts of up to a 25% fall, to three million tonnes.

The fall in canola production will see exports decline marginally, although the ongoing strength of global demand is likely to see these levels stabilise. Strong domestic feed demand is likely to see Australia continuing to require imports of oilseed meal.

Outside of Australia, the North American weather concerns which have impacted wheat are likely to flow on to other crops, and should see strengthening in canola prices.

## FEED CONSUMPTION IN ASIA PROVIDES SIGNIFICANT OPPORTUNITIES...

### Asia feed consumption share – grains & oilseeds

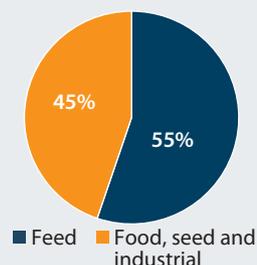


Note: Year noted 2001 represent marketing year 2000/2001

Source: USDA PSD, ANZ Analysis.

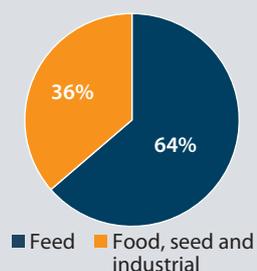
#### East Asia

- Consumption is dominated by China
- Rising per capita income levels driving animal protein demand
- Intensifying competition for exports especially from South America
- Increasing integration through supply chain investments in Australia



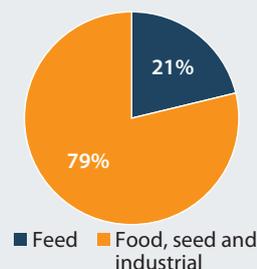
#### Southeast Asia

- Home to some of fast growing economies
- Changing consumption patterns driven by rising income levels
- Increasing import dependency to cater to rising domestic demand



#### South Asia

- Regional consumption is dominated by India – characterised by low meat consumption (but dairy industry provide opportunity)
- Major destination of Australia's pulses export



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