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Briefing Note

Agricultural Commodities

December Quarter 2011

4 January 2012

Introduction

This Briefing Note is a summary of the Australian Department of Agriculture, Fisheries and Forestry (ABARES) "Agricultural commodities" December quarter report. It provides an overview of those sections relevant to irrigated agriculture.

This Briefing Note does not seek to independently verify the data contained within it. All data presented is reproduced from the ABARE publication. This Briefing Note does not in any way constitute advice, it is provided solely as a service.

The full ABARE December quarter report is available from the link:

http://adl.brs.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201112/AC2011.V1.2_AgCommodities1.1.0.pdf

Additional data relevant for ABARES December quarter report is available at:

http://daff.gov.au/abares/publications_remote_content/publication_details?fid=pe_agcomd9abcc004201112_11b.xml

Global Economic Outlook:

- World economic growth is assumed to be 3.6% in 2012, marginally lower than an estimated growth rate of 3.7% in 2011.
- Emerging economies, particular China and India, are expected to remain the main drivers of world economic activity, although growth rates in these economies are assumed to moderate.
- Continued concerns over the European sovereign debt crisis and the US budget deficit are expected to slow OECD economic growth.

Australia's Economic Outlook:

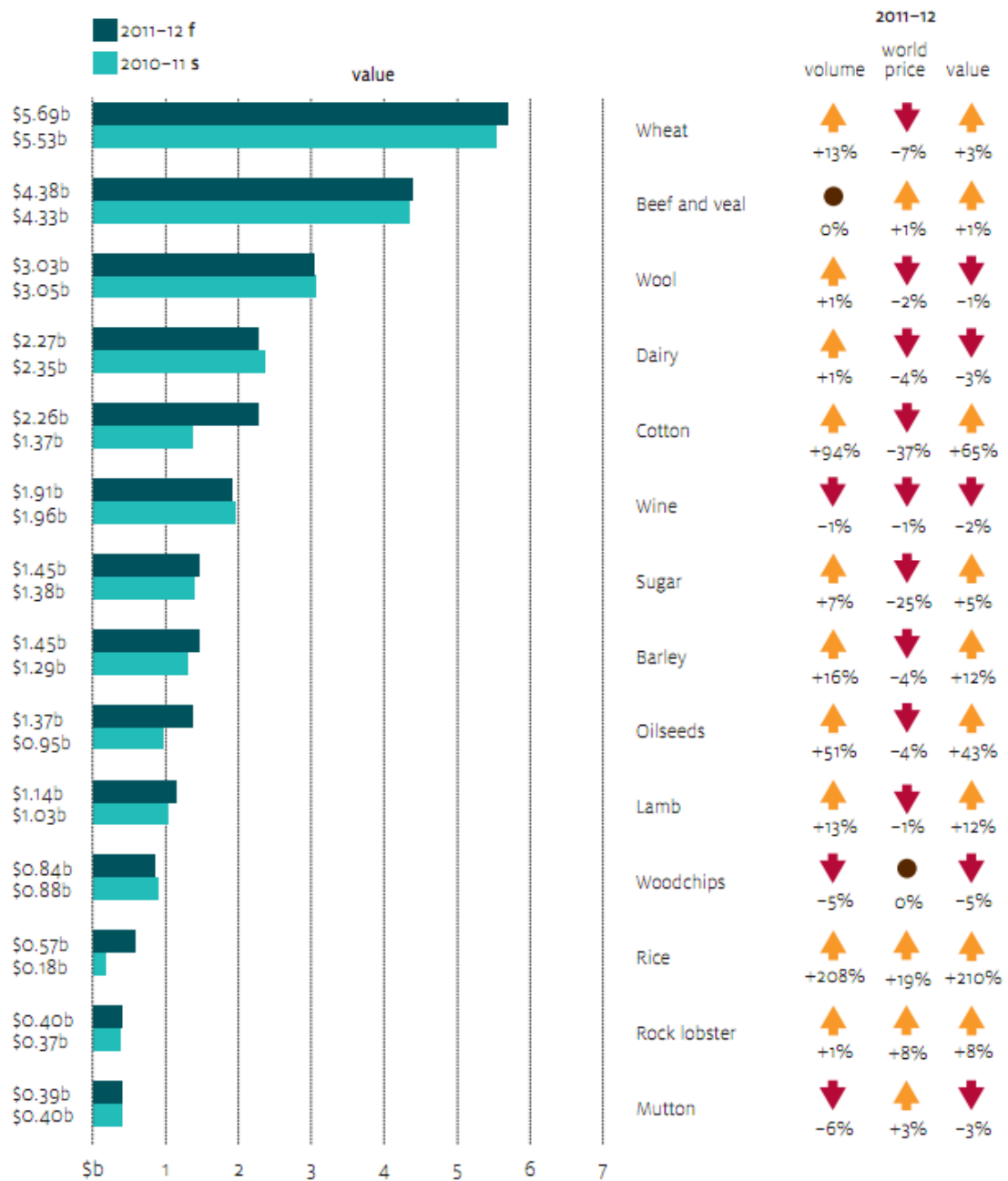
- Overall economic growth for 2011-12 is estimated to average 3.25%.
 - **Inflation:**
 - Between the September quarter 2011 and 2012, the Consumer Price Index rose by 3.5%. Significant price rises in the September quarter occurred in electricity, water and property rates and charges.
 - **Exchange rate:**
 - The Australian dollar has experienced significant volatility as a result of continuing concerns over the European debt crisis and the possible implications for global economic activity and demand for Australian commodities.

- The value of the Australian dollar is expected to remain relatively high due to continued high commodity demand from China, India and other Asian economies.
- **Interest rates:**
 - Australia's key reference rate (cash rate) was reduced to 4.25% on 6th December 2011.
 - The average prime business lending rate in Australia is assumed to decline by another 0.25% in the remainder of 2011/12 to average around 6.1% for 2011/12 as a whole.

Australian agricultural exports figures:

- Total index farm production is forecast to increase by 4% for 2011/12.
- Index crop production is forecast to rise by 6.1% in 2011/12 due to higher production forecast in winter and summer crops.
- The index of unit export returns for Australian farm commodities (in aggregate) is forecast to decline by 3.8% in 2011/12. Lower world prices for wheat, soybeans, cotton, wool and dairy products are expected to offset forecast price rises for beef, veal and rice.
- Export earnings from farm commodities are forecasted to lie at \$34.5b in 2011/12. Farm commodities for which export earnings are forecast to be higher in 2011/12 include wheat (3%), barley (12%), canola (21%), raw cotton (65%), rice (210%), sugar (5%), beef (1%), sheep meat (7%).
- Export earnings for crops are forecast to be around \$19.7b in 2011/12. Export value of livestock and livestock products is forecast to remain largely unchanged in 2011/12 at \$14.8b.

Major Australian Agricultural, fisheries and forestry commodity exports



f ABARES forecast. s ABARES estimate.

Wheat

Global outlook

- World wheat production is forecast to increase by 5% in 2011/12 to around 685 million tonnes as a result of improved seasonal conditions in the Black Sea region.
- Yields in many wheat producing countries in the northern hemisphere were generally higher than previously forecast, resulting in an upward revision of world production in 2011/12.
- The world wheat indicator price is forecast to fall by \$22 US dollar a tonne in 2011/12 to average around \$295 US dollar a tonne. This forecast is relatively high compared to historical averages and a reflection of a reduction in total production of high protein wheat varieties. Prices for low protein wheat varieties were around 40 US dollar a tonne less than the world wheat indicator price in early December 2011.
- World wheat consumption is forecast to increase by 3% in 2011/12 to around 676 million tonnes.
- World trade in wheat is forecast to increase by 6% in 2011/12 to around 133 million tonnes driven by recovery in production and the relaxation of export bans and taxes in the Black Sea region.

Australian outlook

- Australian wheat production is forecast to be the highest on record at 28.3 million tonnes in 2011/12. This forecast is a result of the recent recovery in wheat production in Western Australia and generally favourable seasonal conditions in Eastern Australia, despite recent heavy rain which has delayed harvest and affected crop quality in some regions in Northern NSW.
- Australian wheat export is forecast to increase by 13% in 2011/12 to around 21 million tonnes (13 million tonnes from eastern states including SA).
- Value of Australian wheat export is forecast to rise by 3% in 2011/12 to \$5.7 billion as a result of higher export shipments and an expected increase in the proportion of exports of milling grade wheat. However, export unit returns are forecast to fall, reflecting lower world prices, expected lower average protein content of Australian wheat exports and an increase in the proportion of feed wheat exported from Western Australia.

Wheat outlook

		2009 -10	2010 -11 s	2011 -12 f	% change
World					
Production	Mt	679	653	685	5.0
– China	Mt	115	115	116	0.7
– European Union 27	Mt	138	137	138	1.2
– India	Mt	81	81	86	6.3
– Russian Federation	Mt	62	42	58	39.7
– United States	Mt	60	60	54	-9.4
Consumption	Mt	652	656	676	3.1
– human	Mt	452	456	461	1.0
– feed	Mt	114	115	126	9.9
Closing stocks	Mt	199	196	205	4.7
Stocks-to-use ratio	%	30	30	30	1.6
Trade	Mt	128	126	133	5.7
Exports					
– Argentina	Mt	5	9	8	-16.7
– Australia	Mt	14	18	21	13.3
– Canada	Mt	19	16	17	7.3
– European Union 27	Mt	22	24	17	-28.3
– Kazakhstan	Mt	8	6	9	52.3
– Russian Federation	Mt	19	4	18	350.0
– Ukraine	Mt	9	4	9	113.1
– United States	Mt	24	35	27	-24.4
Price a	US\$/t	209	317	295	-6.8
Australia					
Area	'000 ha	13 881	13 645	14 108	3.4
Production	kt	21 834	27 891	28 286	1.4
Exports b	kt	13 725	18 448	20 900	13.3
– value	A\$m	3 692	5 526	5 686	2.9
APW 10 net pool return	A\$/t	249	346	272	-21.3

a US hard red winter wheat fob Gulf, July–June. b July–June years. f ABARES forecast. s ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council

Coarse Grain

Global outlook

- World coarse grain production is forecast to rise by 4% in 2011/12 to reach a record of 1.14 billion tonnes. Higher production is expected in most major producing areas, including China, the EU, Latin America and the Black Sea region.
- World corn production is forecast to increase by 4% in 2011/12 to 859 million tonnes reflecting higher production in China, EU and the Ukraine.
- World barley production is forecast to increase by 10% in 2011/12 to 136 million tonnes reflecting a rebound in production from Canada and the Black Sea region.
- The world coarse grains indicator price is forecast to increase by 2% in 2011/12 to \$282 US dollar a tonne. This forecast price rise mainly reflects a greater increase in consumption than in production.
- World indicator price for barley (French Rouen feed) is forecast to fall by 4% to \$267 US dollar a tonne as a result of a significant increase in global production.
- Global consumption of coarse grain is forecast to rise by 2% in 2011/12 to 1.15 billion tonnes driven by an increase in world feed and industrial use, particular in China.
- World trade in coarse grains is forecast to rise by 5% in 2011/12 to 121 million tonnes.
- World trade in corn is forecast to increase by 6% in 2011/12 to 94 million tonnes due to increased exports from Argentina, Ukraine and Brazil.
- World barley trade is expected to increase by 22% in 2011/12 to 19 million tonnes reflected by a recovery in production in the Black Sea region.

Australian outlook

- Australian barley production is estimated to increase by 4% in 2011/12 to 8.5 million tonnes, with a recovery in Western Australian production more than offsetting forecast lower production in the eastern states. Production in NSW is expected to decline by 24% to 1.7 million tonnes, reflecting a smaller area planted and a reduction in yields.
- For 2011/12 the area planted to grain sorghum is forecast to remain largely unchanged at 667 000 hectares, with a 6% decrease in NSW offsetting a marginal increase in Queensland. The area planted to grain sorghum is being affected by the relatively higher returns from alternative crops, such as cotton and softening feed grain prices.
- Australian coarse grains exports are forecast to increase by 15% in 2011/12 to 6.2 million tonnes, with earnings forecast to increase by 12% to \$1.7 billion. The increase in exports reflects higher domestic production and favourable world prices.
- Export shipments of barley are forecast to rise by 15% in 2011/12 to 5.4 million tonnes. The value of barley exports is forecast to increase by 13% to \$1.4 billion.

Coarse grains outlook

		2009 -10	2010 -11 s	2011 -12 f	% change
World					
Production	Mt	1 107	1 091	1 138	4.3
– barley	Mt	150	124	136	9.7
– corn	Mt	820	829	859	3.6
Consumption	Mt	1 107	1 127	1 147	1.8
Trade	Mt	123	115	121	5.2
Closing stocks	Mt	196	159	147	-7.5
Stocks-to-use ratio	%	18	14	13	-7.1
US corn price (fob Gulf, Sep–Aug)	US\$/t	163	277	282	1.8
Australia					
Area	'000 ha	6 179	5 638	6 092	8.1
– barley	'000 ha	4 422	3 740	4 038	8.0
– grain sorghum	'000 ha	498	674	667	-1.0
Production	kt	11 408	12 390	13 438	8.5
– barley	kt	7 865	8 145	8 491	4.2
– grain sorghum	kt	1 508	2 068	2 415	16.8
Exports a	kt	4 974	5 337	6 160	15.4
– value	A\$m	1 280	1 493	1 665	11.5
Feed barley price	A\$/t	155	217	190	-12.4
Malting barley price	A\$/t	202	259	256	-1.2

a July to June years. f ABARES forecast. s ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; United States Department of Agriculture.

Oilseed

Global outlook

- World oilseed production is forecast to increase by 1% in 2011/12 to 455 million tonnes. Higher soybean and sunflower production in Latin America and the Black Sea region offset falls in soybean and canola production in the US and EU.
- World canola production is forecast to decrease by 1% in 2011/12 to 59 million tonnes, reflecting lower production in the EU as a result of adverse seasonal conditions.
- The world canola indicator price (cif Hamburg) is forecast to decrease by 3% in 2011/12 to \$630 US dollar a tonne. This forecast decline is mainly driven by continued high world canola production.
- World oilseed consumption is forecast to rise by 3% in 2011/12 to 455 million tonnes driven largely by increased population numbers and rising per capita incomes in developing countries.
- World trade in oilseeds is forecast to increase by 6% in 2011/12 to 113 million tonnes reflecting increased trade of all three major oilseeds (soybeans, canola and sunflower seed).

Australian outlook

- Australian canola production is forecast to increase by 5% in 2011/12 to around 2.5 million tonnes, the second largest crop on record. Production in Victoria and SA is expected to increase by 9% and 2% to 520,000 tonnes and 375,000 tonnes, respectively. In contrast, canola production in NSW is expected to fall by 24% to 625,000 tonnes following last year's record production.
- The volume of Australian canola seed exports is forecast to increase by 19% in 2011/12 to 1.7 million tonnes, the highest on record. At this forecast level, Australian canola seed exports will account for around 16% of world trade in 2011/12, which will make Australia the second largest exporter of canola after Canada.
- In the 2011/12 marketing year, Australian canola oil exports are forecast to increase by 4% to 110,800 tonnes.

Oilseeds outlook

		2009 -10	2010 -11 s	2011 -12 f	% change
World					
Production	Mt	442	452	455	0.7
Consumption	Mt	423	442	455	2.9
– oilseed meal	Mt	236	249	256	2.8
– vegetable oil	Mt	138	151	152	0.7
Closing stocks	Mt	72	78	76	-2.6
Stocks-to-use ratio	%	17	18	17	-5.6
Soybeans indicator price	US\$/t	429	560	535	-4.5
Australia					
Total production	kt	2 609	3 782	4 222	11.6
– winter	kt	1 933	2 397	2 508	4.6
– summer	kt	676	1 385	1 714	23.8
Canola					
Production	kt	1 920	2 382	2 495	4.7
Exports	kt	1 238	1 453	1 730	19.1
– value	\$m	583	855	1 031	20.6
Price (Nov–Oct) (delivered Melbourne)	A\$/t	440	557	529	-5.0

f ABARES forecast. s ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; ISTA Mielke GmbH, *Oil World*, Hamburg; United States Department of Agriculture

Cotton

Global outlook

- World cotton production is forecast to increase by more than 8% in 2011/12 to a record of 27.1 million tonnes, reflecting an increase in world cotton harvested area in 2010/11 in response to higher potential returns from cotton compared with production of alternative crops.
- The world indicator price for cotton (Cotlook 'A' index) is forecast to average 103 US cents a pound in 2011/12. The forecast world production in 2011/12 is expected to bring cotton prices down.
- Despite the forecast decrease in cotton prices, world cotton consumption is expected to remain unchanged at 24.9 million tonnes in 2011/12.
- World cotton exports are forecast to increase by 3% in 2011/12 to around 7.8 million tonnes driven by strong growth in import demand in China, Indonesia and Pakistan.

Australian outlook

- Returns to Australian cotton growers at the gin gate are forecast to decrease by \$128 a bale of lint in 2011/12 to \$545 a bale.
- Forward cash prices on offer to Australian cotton growers on 6 December 2011 were around \$470 a bale for 2012 delivery (2011/12 crop) and \$452 a bale for 2012 delivery.
- Australian cotton production is forecast to increase by around 27.4% in 2011/12 to a record 1.14 million tonnes.
- As at 6 December 2011, the average storage level of the public irrigation dams serving the cotton regions was at 95.4% of capacity, compared with an average of 79% at the same time in 2010.
- Favourable soil moisture profiles in most NSW and Queensland summer cropping regions are expected to lead to dryland cotton plantings of around 151,100 hectares, accounting for around 25% of forecast total plantings.
- Australian cotton exports are forecast to increase by around 94% in 2011/12 to a record of 979,000 tonnes. Higher exports in 2011/12 are expected to move Australia into the third highest ranking of world cotton exporters, behind the US and India. The value of Australian cotton exports is forecast to increase by around 63% in 2011/12 to \$2.3 billion.

Cotton outlook

		2009 –10	2010 –11 <i>s</i>	2011 –12 <i>f</i>	% <i>change</i>
World <i>a</i>					
Production	Mt	22.1	25.1	27.1	8.0
Consumption	Mt	25.9	24.9	24.9	0.0
Closing stocks	Mt	9.6	9.8	12.0	22.4
Stocks-to-use ratio	%	37.2	39.4	48.2	22.3
Cotlook 'A' index	USc/lb	77.5	164.3	103.0	– 37.3
Australia <i>b</i>					
Area harvested	'000 ha	208	590	600	1.7
Lint production	kt	387	898	1 144	27.4
Exports	kt	395	505	979	93.9
– value	A\$m	755	1 367	2 257	65.1

a August–July years. *c* July–June years. *f* ABARES forecast. *s* ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; United States Department of Agriculture

Dairy

Global outlook

- Despite an expected slowdown in milk production in the second half of 2011/12, the supply of dairy products is forecast to remain high in the major producing and exporting countries.
- World prices for most dairy products are forecast to average lower in 2011/12.
 - Butter is forecast to decline by 10%
 - Whole milk powder is forecast to decline by 5%
 - Cheese and skim milk powder is forecast to decline by 1%
- Slower economic growth in developing countries in 2011/12 is not expected to significantly affect global trade in dairy products.

Australian outlook

- Australian average farmgate milk prices are forecast to decline by 4% in 2011/12 to 41.5 cents a litre, reflecting the lower world dairy prices and an assumed strong Australian dollar.
- Australian milk production increased by 6.4 % in September 2011 as a result of improved pasture growth in the dairy regions of South-Eastern Australia.
- Assuming average seasonal conditions over the remainder of 2011/12, Australian milk production is forecast to increase by 3% to 9.35 billion litres. Nearly all the increase in production is expected to occur in Victoria, Southern New South Wales and Tasmania.
- Australian production of cheese and whole milk powder is forecast to rise by around 3% in 2011–12 to 350,000 tonnes and 156,000 tonnes, respectively.
- Australian consumption of market milk is forecast to rise by around 2% in 2011/12 to around 2.4 million litres. The price discounting of home brand milk by major supermarkets since late January 2011 continued to affect market milk sales. Between February and September 2011, the share of home brand milk sold through supermarkets increased by 5 percentage points to 54% while branded milk sales declined by 5 percentage points to 46%.
- The value of Australian dairy exports is forecast to fall by around 3% in 2011/12 to around \$2.27 billion. The forecast decline mainly reflects lower world prices and a strong Australian dollar.

Dairy outlook

		2009	2010	2011	% change
		-10	-11 <i>s</i>	-12 <i>f</i>	
Cow numbers <i>a</i>	'000	1 596	1 604	1 620	1.0
Milk yields	L/cow	5 653	5 675	5 772	1.7
Production					
Total milk	ML	9 023	9 102	9 350	2.7
– market sales	ML	2 269	2 316	2 357	1.8
– manufacturing	ML	6 754	6 787	6 993	3.0
Butter <i>b</i>	kt	128	122	121	-0.8
Cheese	kt	349	338	350	3.6
Whole milk powder	kt	126	151	156	3.3
Skim milk powder	kt	190	222	215	-3.2
Farmgate milk price	Ac/L	37.3	43.2	41.5	-3.9
Value of exports	A\$m	2 088	2 346	2 270	-3.2
World prices					
Butter	US\$/t	3 477	4 683	4 200	-10.3
Cheese	US\$/t	3 748	4 221	4 190	-0.7
Skim milk powder	US\$/t	2 948	3 392	3 350	-1.2
Whole milk powder	US\$/t	3 221	3 771	3 600	-4.5

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

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia