Global and Australian Economic Outlook

Waiting for the bounce

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Local grain prices pressured by global surplus and excellent local harvests

Australian wheat price, Aug 2015-Aug 2016


We see limited upside to crop pricing short term

CBOT wheat prices, actual and forecast
But not all commodities are struggling…

Eastern Young Cattle Indicator

ICE sugar prices

Then there is the dairy ‘events’…

Murray Goulburn, average annual farmgate price (southern)

Source: Bloomberg, Rabobank

Source: Company reports, Rabobank
A reminder price risk still resides at the farmgate

Commodity price volatility

Widespread rain has been welcomed... spring rains are critical
Seasonal conditions have buoyed Australian farmer confidence.

Rabobank Rural Confidence Survey

*Percentage expecting the agricultural economy to improve minus percentage expecting conditions to worsen over the next 12 months*

Not surprising some regions are more confident than others.

Rabobank Rural Confidence Survey, by state

Source: Rabobank
Farm margins under pressure – but croppers pushing for yield

Australian wheat farm business, profit and income

Some tailwinds on the cost front for end-users

- Crude oil prices have rebounded but remain weak
- Weak global economic conditions keep pressure on freight rates
- Room for more easing from RBA?
- Water availability and pricing has improved since the start of the season
The strength of the AUD has been a thorn in the side of the RBA

Difficult global macro environment

- Rising protectionism
- High public debt
- Sluggish demand
- Financial markets volatility
- Weak investment
China's economic slowdown deepens... and impacting ASEAN

China GDP Growth 2007-2020f

ASEAN GDP Growth, 2016 vs 10 year average

Sources: China National Bureau of Statistics, IMF

Asian region influence felt across agri-commodity markets

Asia's share of global imports

Australian agriculture exports – by region

Sources: OECD, International Centre for trade statistics, Rabobank 2016
But everyone agrees agriculture is perfectly positioned for growth

Areas of comparative advantage for Australia
(relative advantage score)

- Rising food demand in Asia
- Food security is growing issue for Asia
- Food safety concerns for consumers
- Improved market access for Australia

Source: Deloitte Access Economics

Market conditions creating pain for companies and driving consolidation

- BHP may mothball Jansen potash mine after shafts completed
- Vale expects to complete coal and fertilizer sales this year
- Fertilizer Maker Mosaic Swings to a Loss
- Canada’s Potash Corp., Agrium in Talks on Potential Merger

Vale deve vender companhia de fertilizantes
How are local companies responding?

Supply chain efficiencies

Diversify business

Improved customer service

Expand portfolio

Better advice

Digital solutions

Local fertilizer markets continue to evolve

CSBP joins with Elders in fertiliser deal

Fertiliser giant to move on WA

CBH officially opens new fertiliser sites

Landmark launches fertiliser business
The takeaways...

- Commodity woes will continue with little signs of a bounce short-term
- There will be tight budgets on-farm across many sectors through this cycle
  - Some tailwinds on cost front and improved seasonal conditions
- Global economy is sluggish, and China is adjusting – we are not expecting a bounce anytime soon
- Australia’s rural confidence is being impacted – but seasonal conditions have provided a bounce
- Australian agribusiness is a key growth sector
- The longer-term demand fundamentals remain a growth platform for the sector