2020 Outlook for Australian Ag Markets

Prices to ease, growth to remain elusive

Tim Hunt
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Key points of our presentation today

• Australian ag had a strong run leading up to the current drought

• State of play: a tough start for Australian F&A, somewhat eased by recent rains

• 2020 outlook
  - Production will remain suppressed
  - Pricing to ease from current highs
  - Revenue growth will be elusive

• Most likely we are looking at a multi-year rebuild to full production

• COVID-19 poses a significant industry risk
Australian agriculture: a history of growth – and a recent record run

30 year history
• CAGR of 3.1%
• Contracted 1 in 4 years

Biggest contractions are associated with drought

Source: ABARES, Rabobank
Revenue growth contributed to a strong run of profitable seasons, and to rising land prices.

Land price surge post 2014:
- Strong profits
- Low IRs
- Foreign investment
- (2018) liquidity squeeze

Source: ABARES, Rabobank
China has underpinned much of Australia’s recent growth.

We haven’t been so reliant on one market since 1959.

Australia Signs FTA with China
17th June 2015

Source: ABS
Australian Rural Commodity prices were exceptionally high through February

Rabobank Australian Rural Commodity Price Index

- Firm world markets
- A falling AUD
- Local supply shortfalls (drought)
- East Coast Rain (Feb 2020)

Note:
- Includes Wheat, Barley, Canola, Sorghum, Beef, Lamb, Milk, Cotton, Wool, Sugar
- To calculate the index, prices are weighted according to the value share of the commodity in Australian production in any year.
2020: a difficult starting position

Australia received the lowest rainfall on record during 2019...
Australian Rainfall Deciles, 2019

Fires have caused disruption in some regions

- Localised devastation of property, livestock, crops
- Regional disruption of supply chains and lives
- Nationally limited impact on assets, supply and pricing
  - Livestock – less than 1% loss of national herd
  - Dairy – less than 0.5% loss of national milk supply in 2019/20
  - Away from major cropping regions

Source: BOM, 2020
Irrigation water is in short supply

Source: BOM data, Rabobank indication of likely 2020 trough
Despite high prices, farm revenue will decline for 3rd year in 2019/20

Australian Farm Revenue

Source: ABARE historical, Rabobank forecast
For 2020/21 season: recent rains have improved soil moisture, while the 3 month rainfall outlook is encouraging

**Soil moisture now above average**
Relative root-zone soil moisture, 26 February 2020

**BOM season rainfall forecast is positive for key cropping regions**
Chances of exceeding average rainfall Mar to May

Source: BOM, 2020
Source: BOM, 12th March 2020
How long does the Southern Murray Darling Basin Take to refill?

In the last 21 years
- 4 yrs of 40%+ capacity refill
- 15 yrs of under 20% capacity refill

Most likely several years to refill

Source: BOM data, Rabobank indication of likely 2020 trough
Other factors will likely mean a slow recovery to production

- Physical - our beef herd and sheep flock will take time to rebuild
- Financial – need to rebuild equity before investing in expansion

Most likely Aust faces a multi-year rebuild to reach full production

Source: MLA data and forecast
Pricing - COVID-19 Presents a Significant Risk for Australian F&A

- We have a huge exposure to China:
  - 28% of export value (2018/19)
  - o.w. 33% shipped by reefer
  46% destined for Chinese food service industry

- Current problems related to COVID-19
  - Disruption to logistics
  - Chinese are not eating out

- Manifestations at home
  - Corporate earnings downgrades
  - Slowing shipment of product
  - Rock-lobster trade heavily impacted
  - Falling dairy commodity prices (GDT)
COVID-19 in China is impacting Australian F&A beyond direct exports

- Domestic sales in Australia
  - Tourism (1.2m tourists a year from China)
  - Education
  - Exports (ag and other)

- Sales to other regions
  - Shortages of containers for export
  - Disruption of global supply chains

- Imports from China
  - 90% of our agrichems are sourced from China
  - 40% of all APIs are produced in China
  - 13% of urea imports, 20% DAP, 45% MAP
Outside of CHINA: COVID-19 now has pandemic status
There are several credible scenarios from here

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Virus spread China</th>
<th>Virus spread ROW</th>
<th>China GDP growth 2020</th>
<th>Global GDP growth 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before virus*</td>
<td>-</td>
<td>-</td>
<td>6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>The Bad</td>
<td>3 months</td>
<td>Little</td>
<td>5% approx</td>
<td>2.7% approx.</td>
</tr>
<tr>
<td>The Worse</td>
<td>6-9 months</td>
<td>Significant</td>
<td>&lt;4%</td>
<td>1.9% approx.</td>
</tr>
<tr>
<td>The Ugly</td>
<td>9 month+</td>
<td>Pandemic</td>
<td></td>
<td>GFC like</td>
</tr>
</tbody>
</table>

*Rabobank forecasts as at December 2019

Source: Rabobank 13th February 2020

This is our current base case
2020: We expect a Global ‘Recession’

Source: Rabobank March 10 2020
Australian Commodity Prices don’t always track Global GDP

Aust Ag Commodity Price Index (AUD terms) v Global GDP

Note:
- Includes Wheat, Barley, Canola, Sorgum, Beef, Lamb, Milk, Cotton, Wool, Sugar, Winegrapes.
- Prices are farmgate, so include local market basis.
- To calculate the index, prices are weighted according to the value share of the commodity in Aus production in any year.
Ag market factors will support global commodity prices

China remains short of animal protein

2019 US floods left a hole in global grain balance sheets

SLO and reg. pressures make it hard to expand dairy in the EU
Australian dollar prices will also benefit from currency depreciation

Source: RBA, Rabobank 2020

**Australian currency against the US dollar - Historic and Rabobank forecast**

Source: RBA, Rabobank 2020
Market settings may still remain generally positive

• Local farmgate prices will likely remain above break even
• Fertiliser prices will remain low
• Interest rates will remain low
• [Though water and feed costs will be high]
Other things to watch for Australian ag in 2020

The New York Times
Jan 23, 2020

Potential Benefits of an Australia-EU Free Trade Agreement: Key Issues and Options

China Poised to Buy More from US, at expense of US allies
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Thank you!

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