

17th March 2020



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2020 Outlook for Australian Ag Markets

Prices to ease, growth to remain elusive

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Key points of our presentation today



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- 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



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Aust Farm Revenue - 30 years

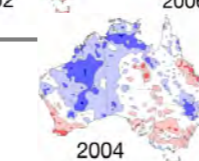
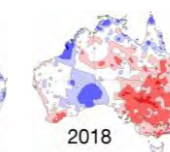
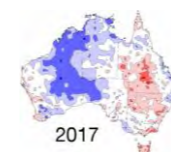
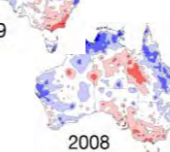
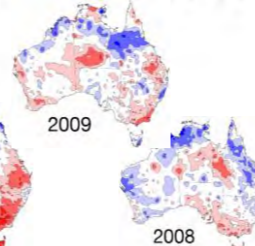
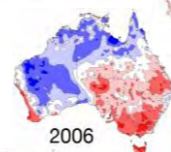
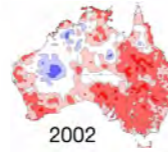
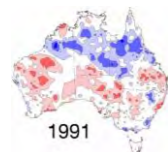


30 year history

- CAGR of 3.1%
- Contracted 1 in 4 years

Strongest growth period in 30 years

■ YOY change ■ Revenue



Biggest contractions are associated with drought

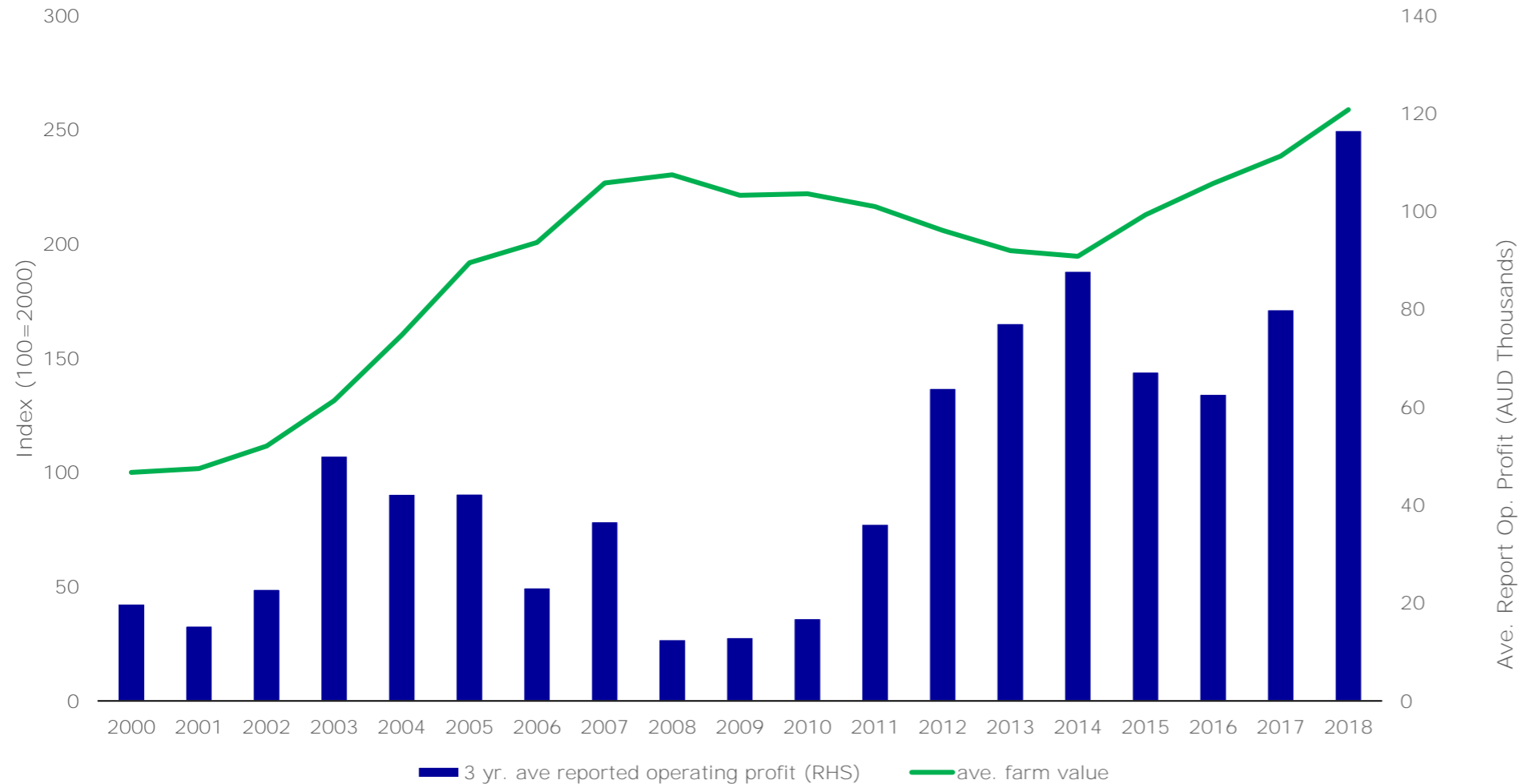
Source: ABARES, Rabobank

Revenue growth contributed to a strong run of profitable seasons, and to rising land prices



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Australian Ag – operating profits and 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

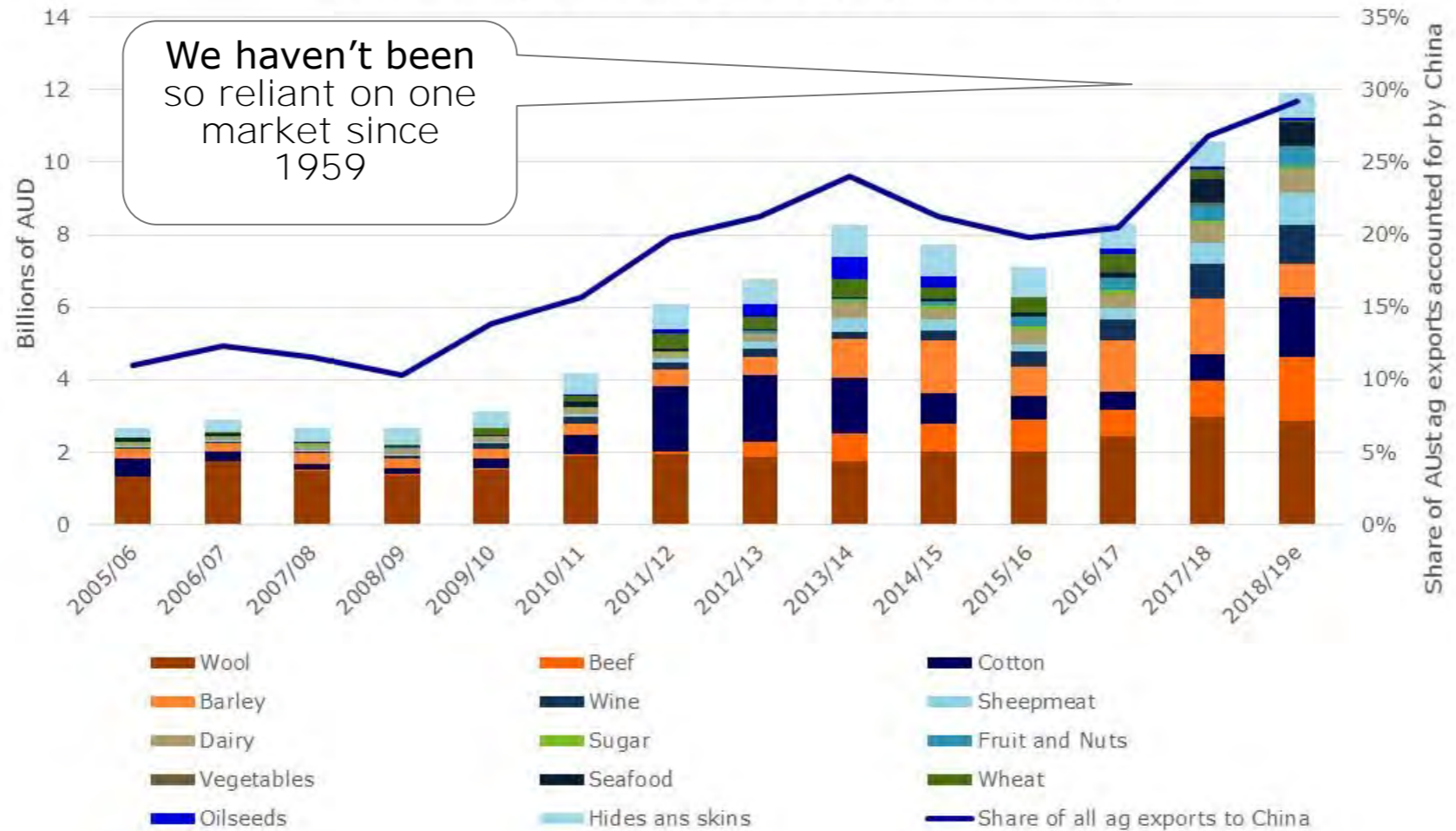


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Australia Signs FTA with China
17th June 2015

Australian ag exports to China (key commodities)



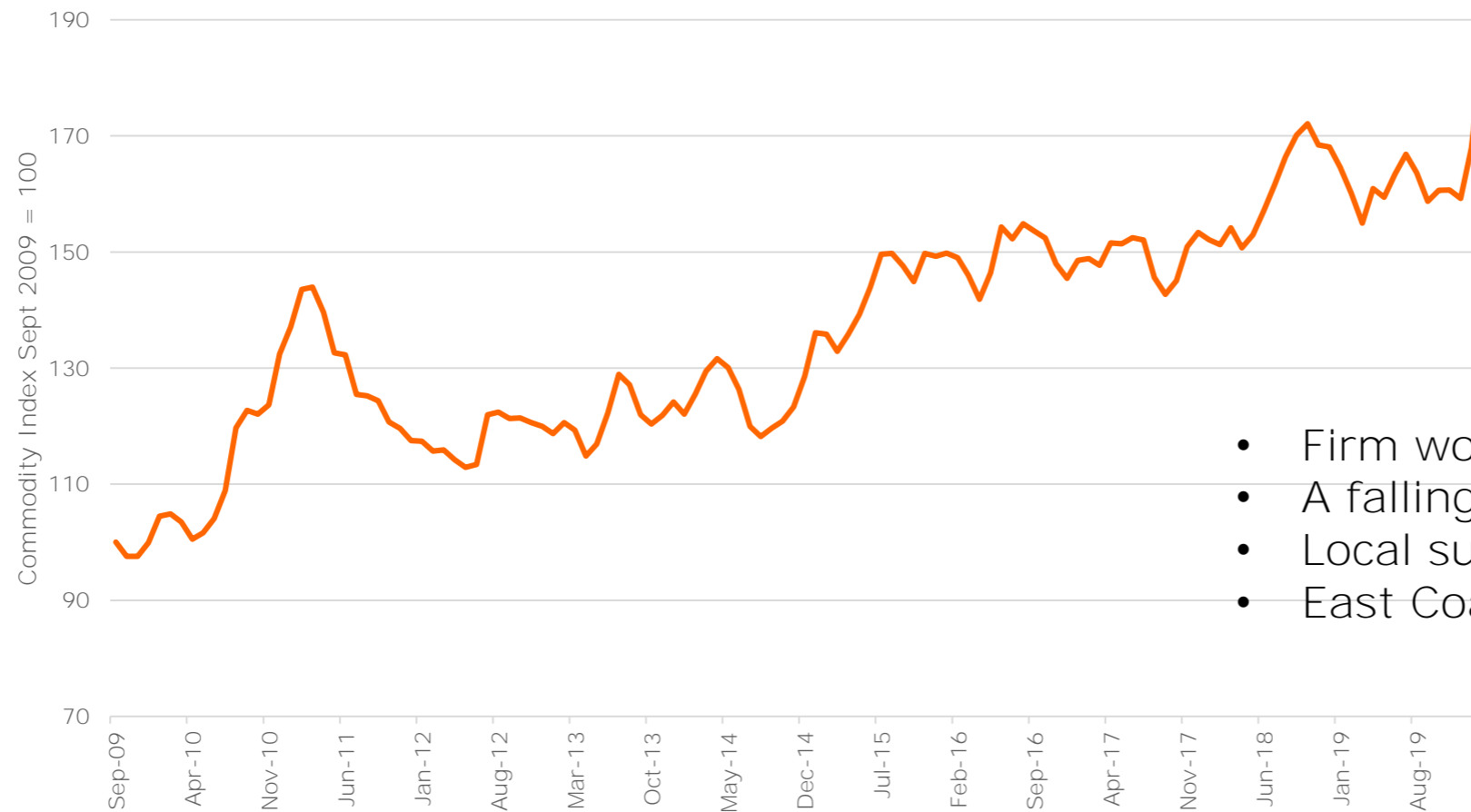
Source: ABS

Australian Rural Commodity prices were exceptionally high through February



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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.

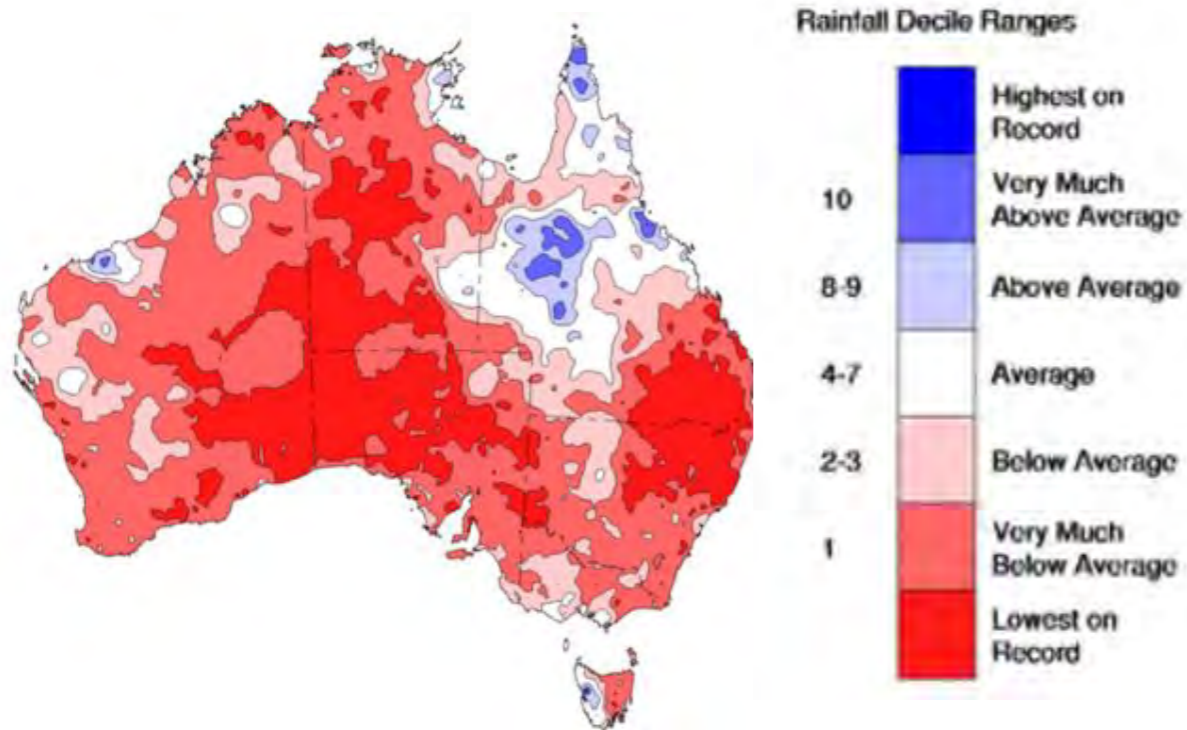
2020: a difficult starting position



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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

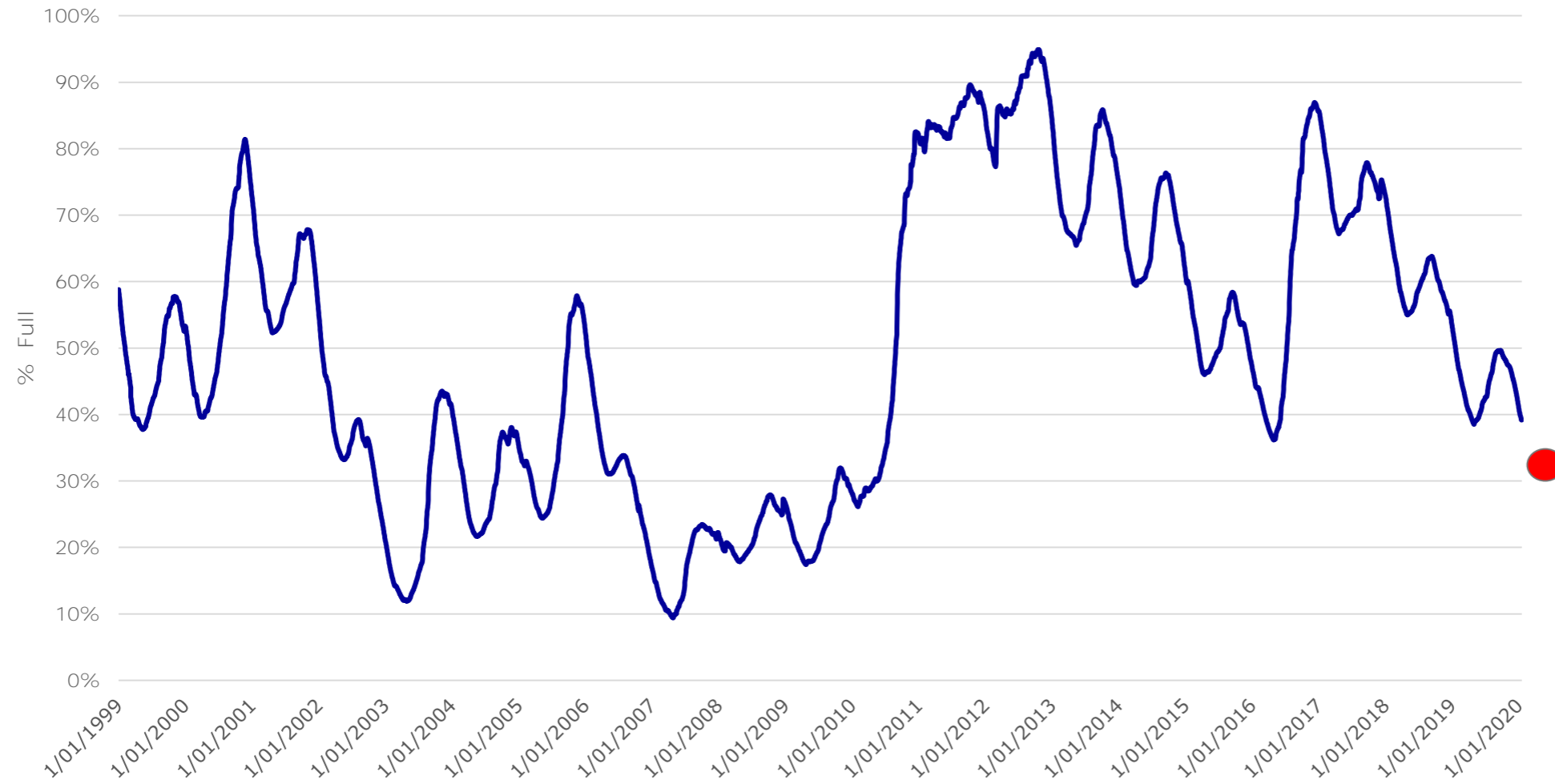
Source: BOM, 2020

Irrigation water is in short supply



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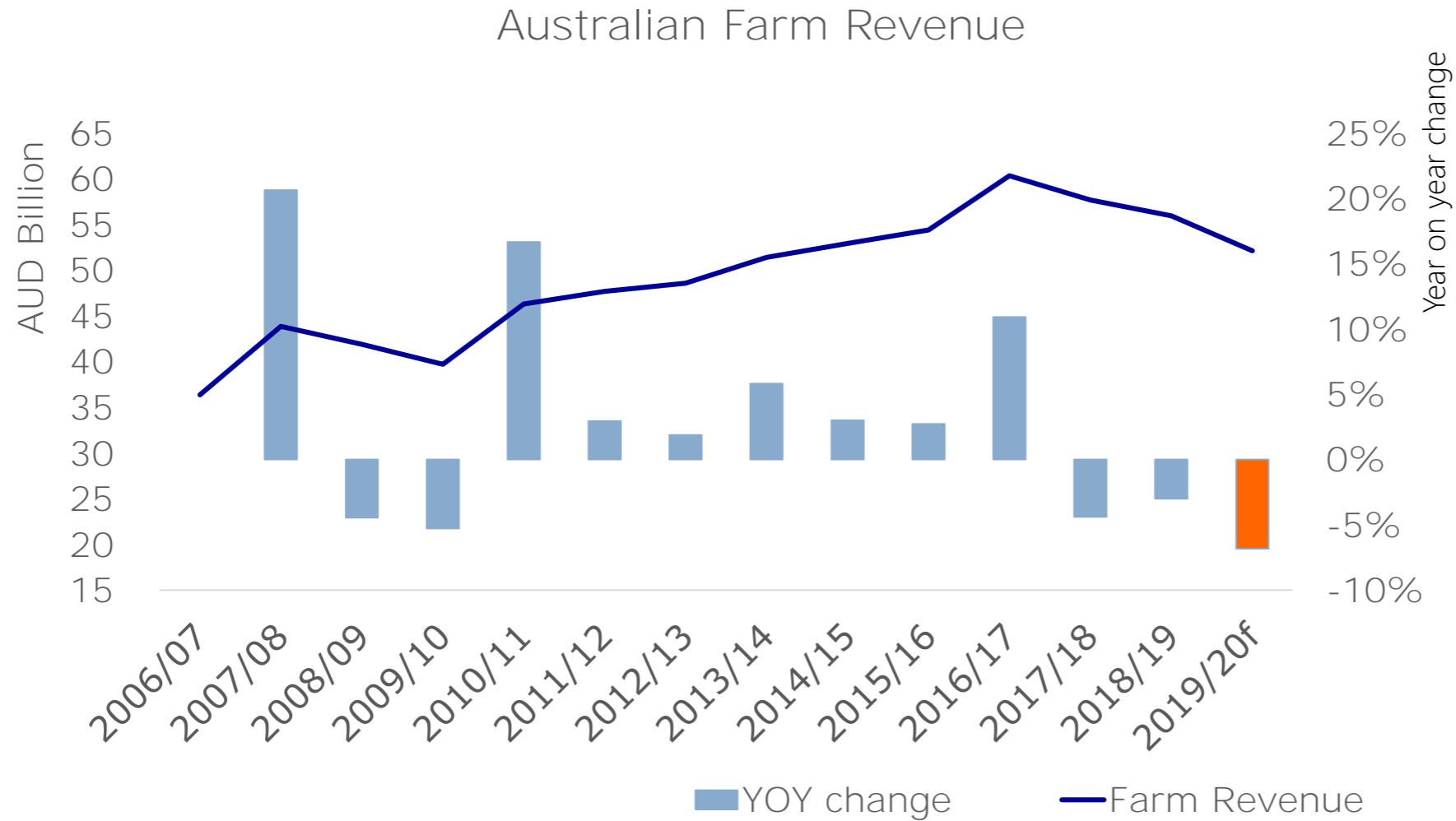
Southern Murray Darling Basin Storages



Despite high prices, farm revenue will decline for 3rd year in 2019/20



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Source: ABARE historical, Rabobank forecast

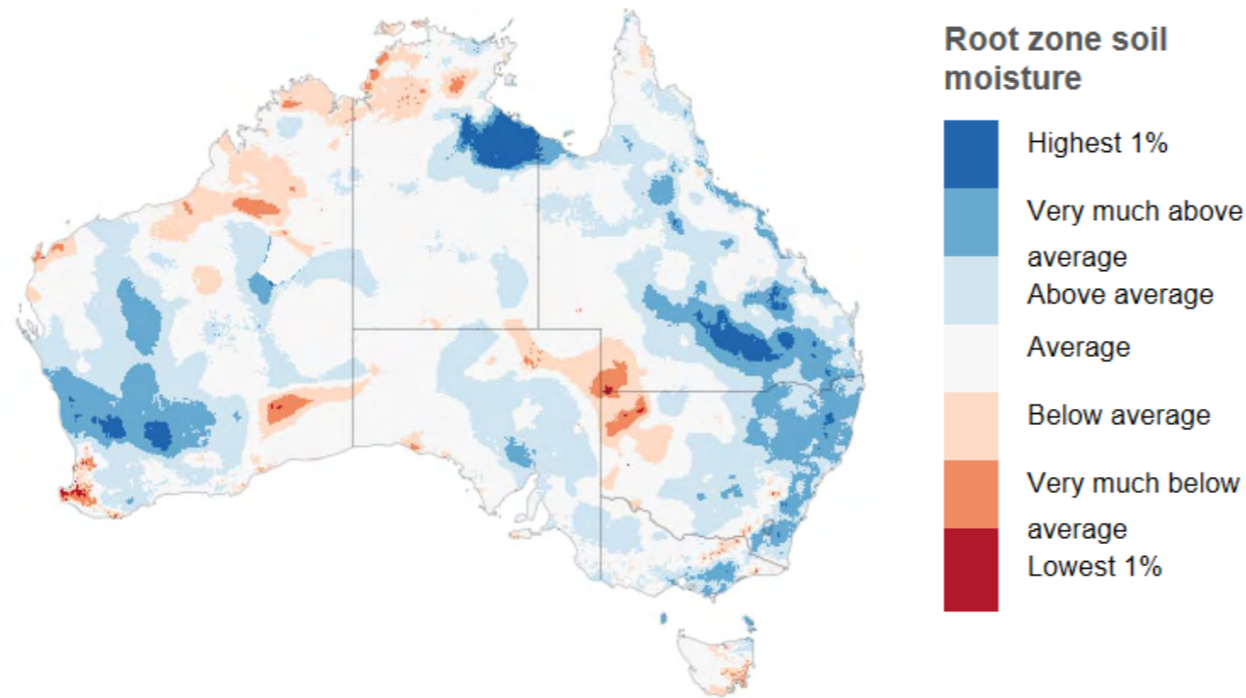
For 2020/21 season: recent rains have improved soil moisture, while the 3 month rainfall outlook is encouraging



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Soil moisture now above average

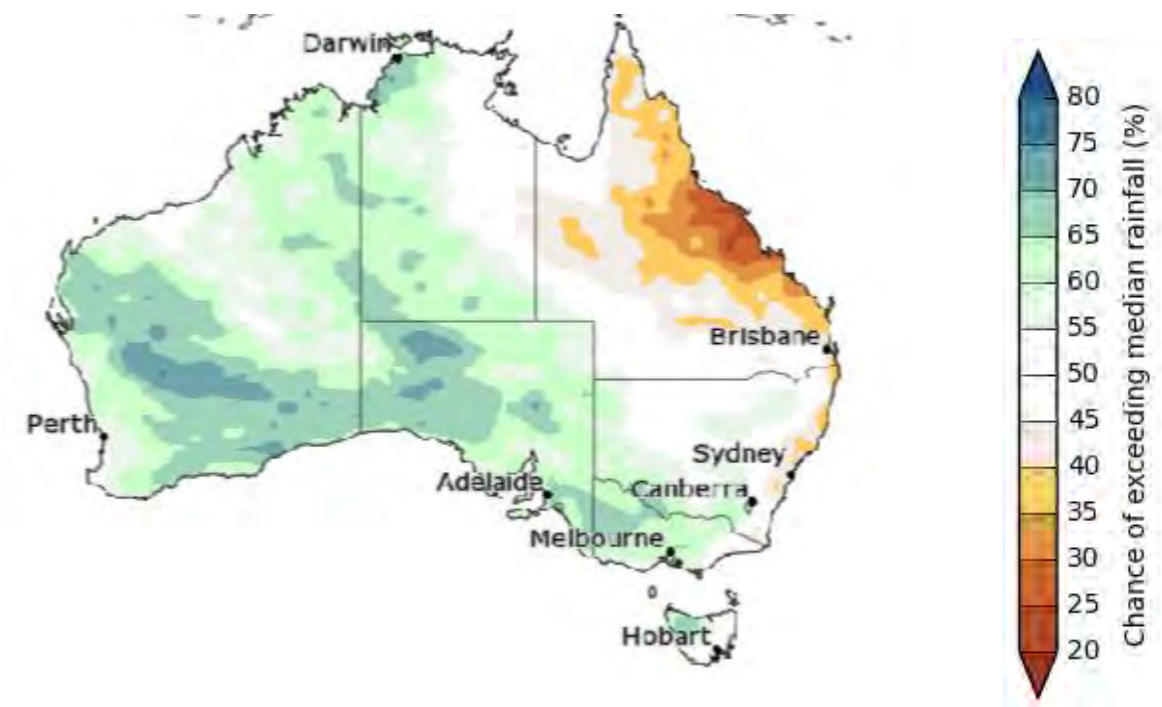
Relative root-zone soil moisture, 26 February 2020



Source: BOM, 2020

BOM season rainfall forecast is positive for key cropping regions

Chances of exceeding average rainfall Mar to May



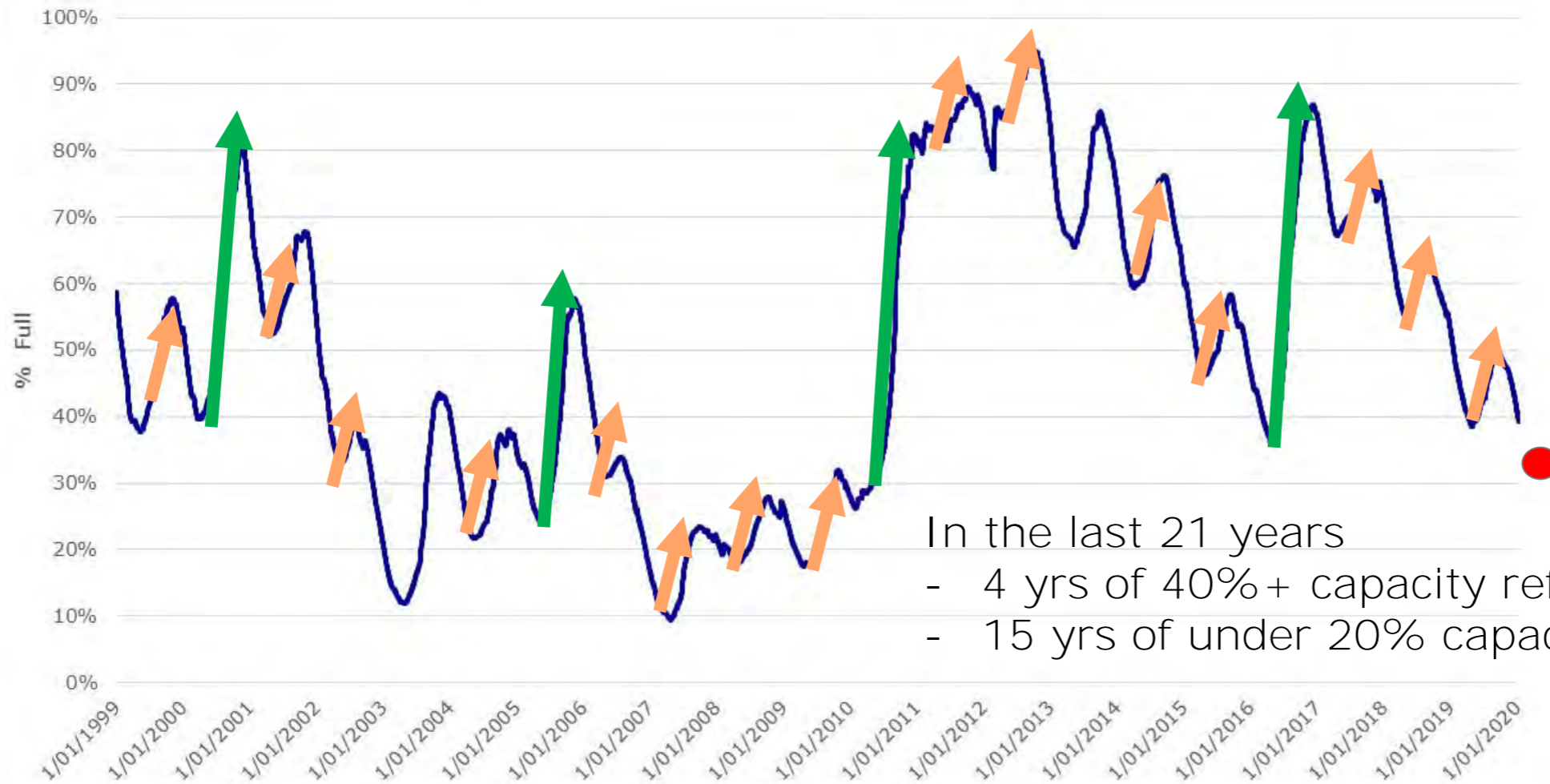
Source: BOM, 12th March 2020

How long does the Southern Murray Darling Basin Take to refill?



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Southern Murray Darling Basin Storages



In the last 21 years

- 4 yrs of 40%+ capacity refill
- 15 yrs of under 20% capacity refill

Most likely several years to refill

Other factors will likely mean a slow recovery to production



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

Australian livestock population



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

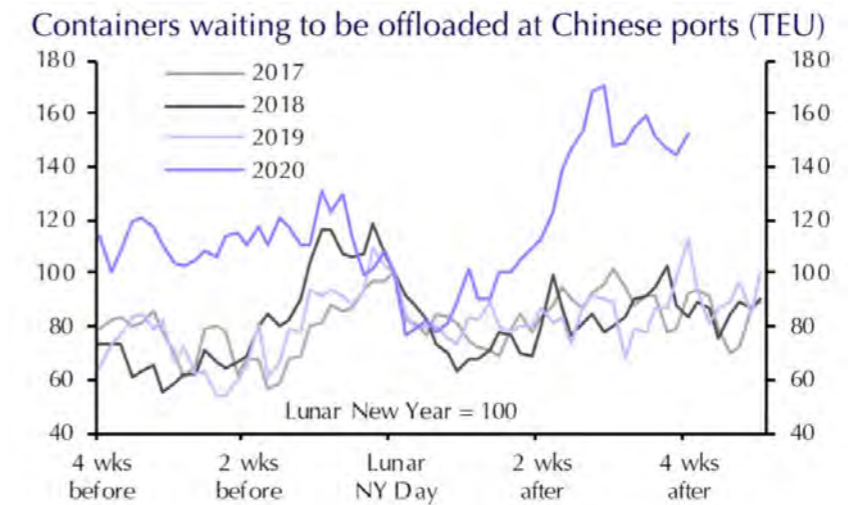
Source: MLA data and forecast

Pricing - COVID-19 Presents a Significant Risk for Australian F&A



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- 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)



Sources: Refinitiv, Capital Economics

COVID-19 in China is impacting Australian F&A beyond direct exports



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- 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

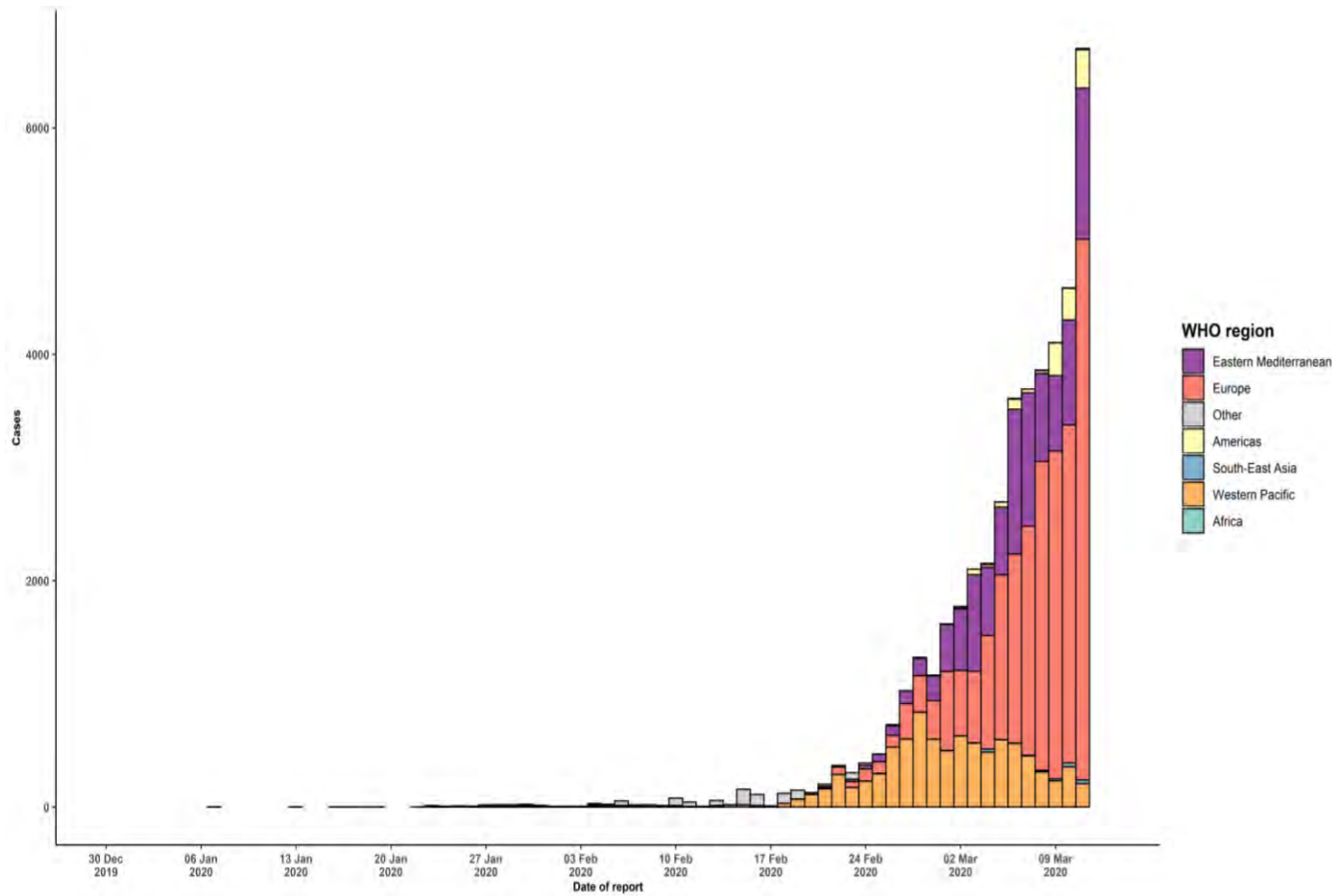
- Imports from China
 - 90% of our agrichems are sourced from China
 - 40% of all APIs are produced in China
 - 13% of urea imports, 20% DAP, 45% MAP



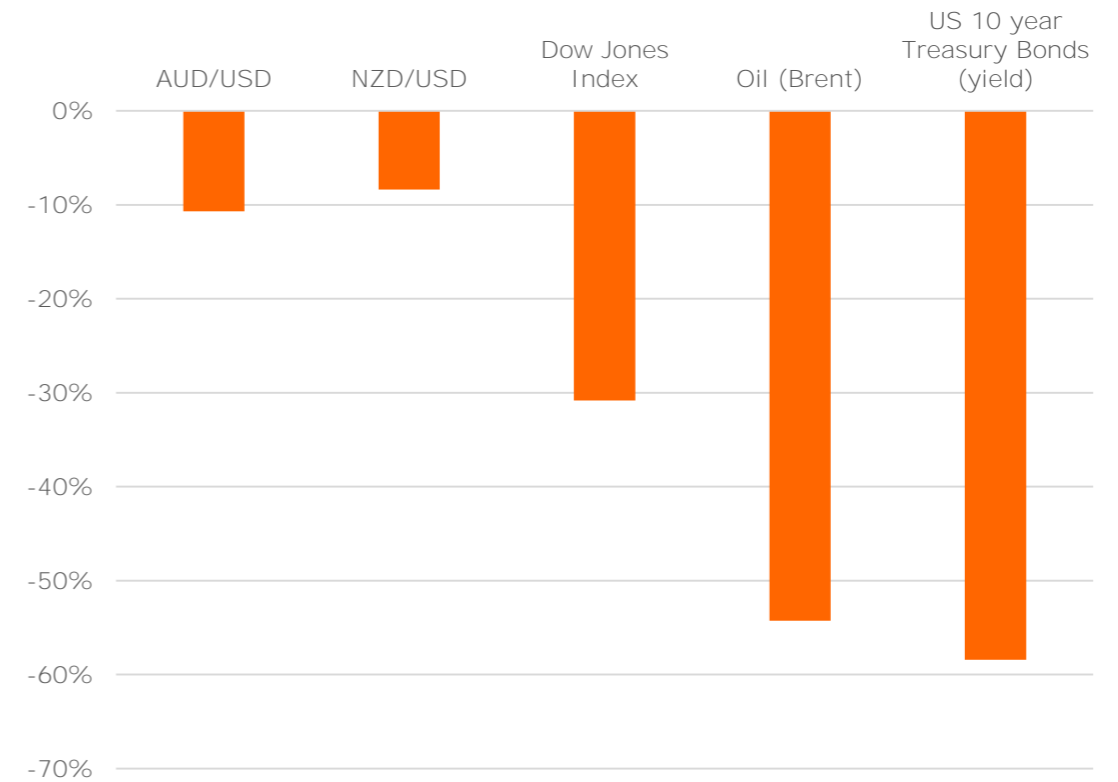
Outside of CHINA: COVID-19 now has pandemic status



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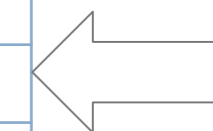
Market Change: 21st Jan to 16th Mar 2020



There are several credible scenarios from here



Scenario	Virus spread China	Virus spread ROW	China GDP growth 2020	Global GDP growth 2020
Before virus*	-	-	6%	2.9%
The Bad	3 months	Little	5% approx	2.7% approx.
The Worse	6-9 months	Significant	< 4%	1.9% approx.
The Ugly	9 month+	Pandemic		GFC like



This is our current base case

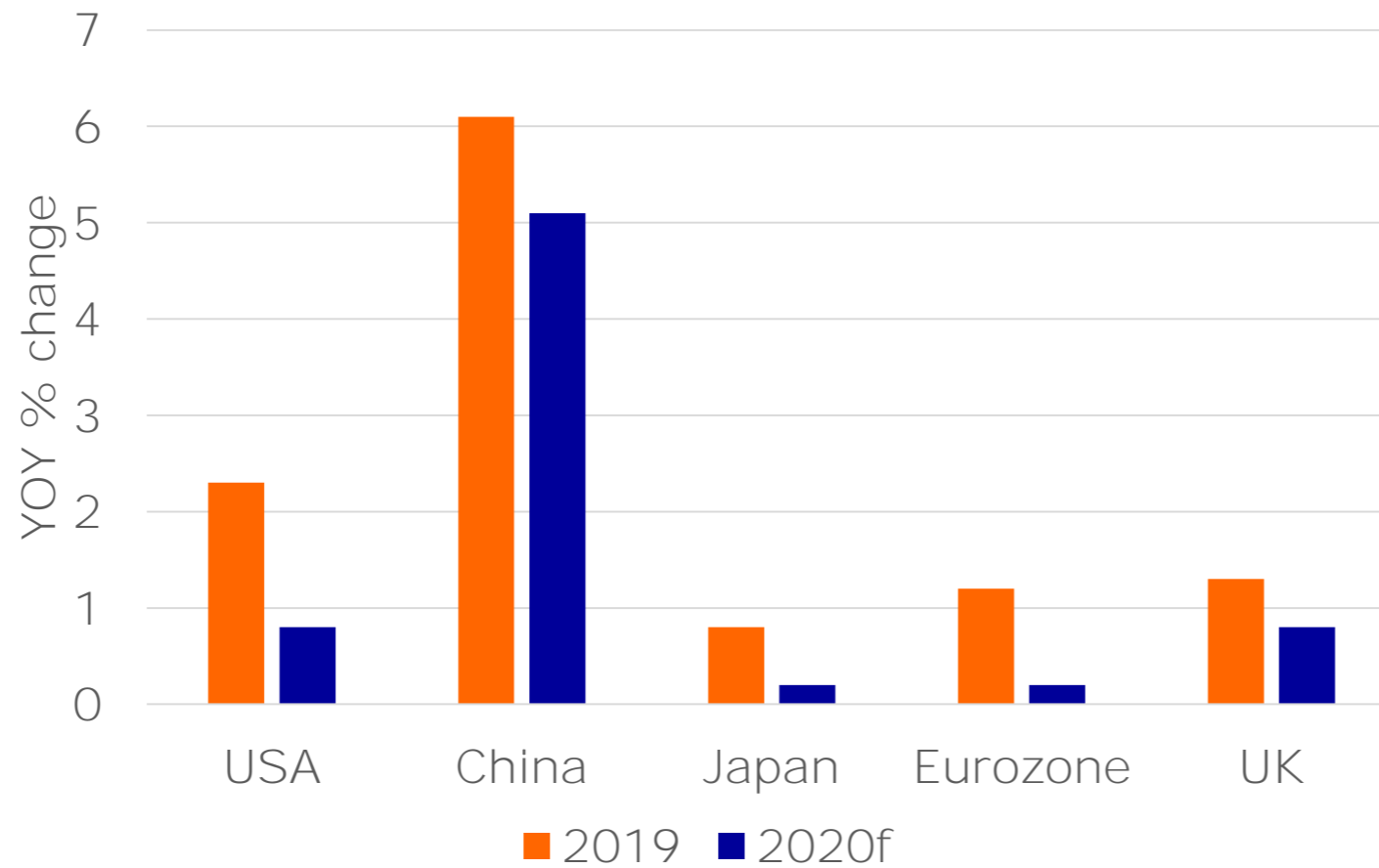
*Rabobank forecasts as at December 2019

Source: Rabobank 13th February 2020

2020: We expect a Global 'Recession'



Key Economies - GDP Growth

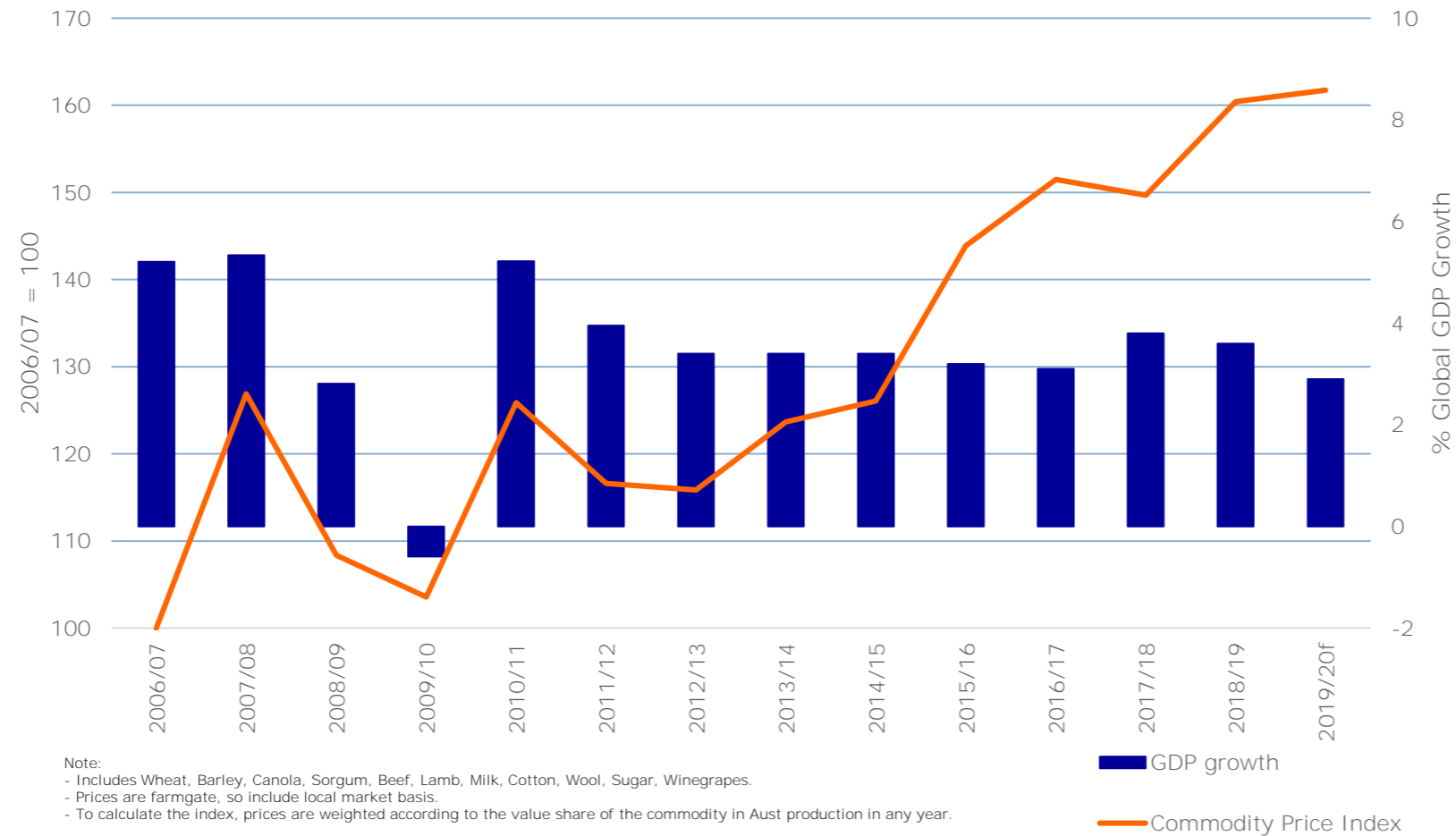


Australian Commodity Prices don't always track Global GDP



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



Ag market factors will support global commodity prices



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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

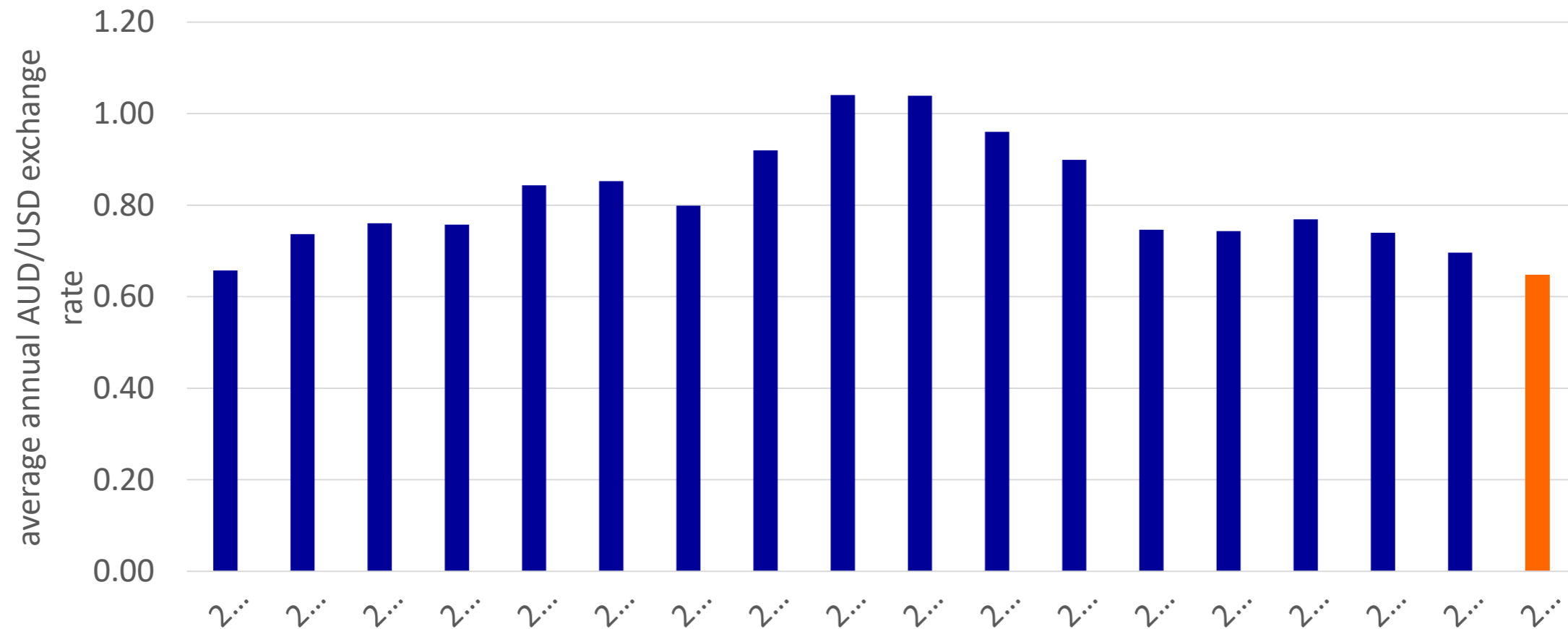


Australian dollar prices will also benefit from currency depreciation



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Australian currency against the US dollar - Historic and Rabobank forecast



Source: RBA, Rabobank 2020

Market settings may still remain generally positive



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- 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



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The New York Times

Jan 23, 2020



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



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Thank you !

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