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# AUSTRALIAN CROPS ANNUAL REVIEW

## 2017



## About the research

The Australian Crop Review includes data and forecasts on grain production, predicted wheat yields, growing season rainfall, grain prices, financial performance for an average farm, as well as export performance for crops.

Significant effort has been taken to secure the most recent data available. Wheat yield forecasts are based on data recorded at 16 October 2016, and any impact on actual yields due to seasonal conditions in some regions, such as frost and extreme rainfall, may not be known at the time of publishing.

Other harvest forecasts in the report are based on data current to 13 September, 28 September 2016 and 18 October 2016, depending on the source.

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## About Ag Answers

Ag Answers is a specialist insights division of Rural Bank. Recognising that good information is the key to making good business decisions, Ag Answers provides research and analysis into commodities, farmland values, farm business performance and topical agricultural issues to enable farmers to make informed decisions.

## About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010 and is the only Australian-owned and operated dedicated agribusiness bank in the country. From 1 July 2014, Victorian agribusiness lender, Rural Finance joined Rural Bank as a division of Bendigo and Adelaide Bank Limited. As a specialist rural lender, Rural Finance has been fostering the sustainable economic growth of rural and regional Victoria for 70 years.

Rural Bank is supporting farmers and farming communities by providing them with specialist financial tools, industry insights and investment into the future of the Australian agribusiness sector.

## The future for agriculture is bright

We provide exceptional financial services, knowledge and leadership for Australian farmers to grow.



# SUMMARY

After a record crop in 2016/17, total Australian crop production in 2017/18 is forecast to be around 30% lower than last season and to dip 10% below the 5 year average. Total winter crop production is forecast to be between 36 and 39 million tonnes in 2017/18.

Most of Australia's cropping regions experienced a drier than normal winter, particularly in New South Wales. Similarly, in much of the Western Australian wheatbelt dry conditions through to July have limited the yield potential of crops. Further south in Western Australia, May & June rainfall was below average but adequate to sustain the potential for average production.

The world's major crop growing regions are experiencing another good season and world production remains historically high. World wheat ending stocks are

expected to reach 264 million tonnes in 2017/18.

The small reduction in world production in 2017/18 is unlikely to cause a large rally in crop prices. Production is still historically high and stocks remain very high creating a buffer against any significant price rises.

Increased production in 2016/17 was reflected in wheat and coarse grain export volumes increasing by 6.3 million tonnes (+40 per cent) and 3.8 million tonnes (+63 per cent), respectively. Australian crop exports were valued at \$13.9 billion in 2016/17.

In a mark of the financial health of Australian cropping farms, Farm Management Deposit (FMD) balances increased again in 2016/17, now exceeding \$2.6 billion.



# PRODUCTION – AUSTRALIA

## Australian crop production is expected to drop to 10 per cent below the five year average in 2017/18.

After a record crop in 2016/17, total Australian crop production in 2017/18 is forecast to be around 30% lower than last season and to dip 10% below the 5 year average.

Australian farmers planted a larger area to canola, lentils and sorghum (15, 16 and 5 per cent, respectively), but reduced the area planted to faba beans, oats, triticale and maize. The area planted to other crops remained similar to the previous season (ABARES & ACF, 2017).

Poor seasonal conditions early in the season mean that national wheat and canola production is expected to be 15 to 8 per cent below average, respectively. On the other hand, rice and most legumes are expected to record higher than average production in 2017/18, especially lentils and chickpeas. Barley production will be close to average.

Rainfall in July and August came just in time to restore confidence in the 2017/18 season. Although the dry start to the season has all but written off winter crops in some areas, rainfall in July and August has restored the prospect of average yields for others particularly in Victoria.

At a state level, above average production is expected in Victoria, while average to below average production is expected in other states.

Australian wheat production will be 35 per cent lower than last season. Slightly less area allocated to wheat production and lower yield in some large production areas, especially New

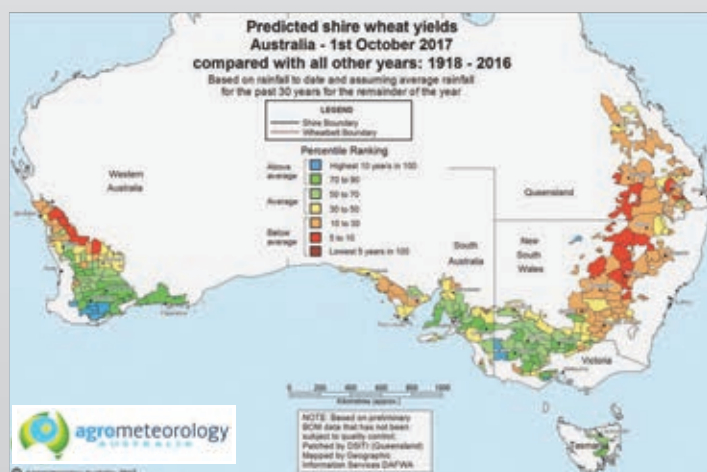
South Wales and Western Australia, will see wheat production drop to 22 million tonnes, which is 14 per cent below the 5 year average. Victorian wheat crops are expected to record yields slightly above average, while wheat crops in New South Wales may have sustained some frost damage in addition to the dry start creating uncertainty about production in New South Wales.

Similar to wheat, national barley production is forecast to be 37 per cent lower than last year at 8.3 million tonnes, driven by lower yield in Western Australia as well as the combination of lower yield and smaller area sown in New South Wales.

A large year-on-year drop in Australian canola production is expected despite an increase in the area planted. Expected below average yield in New South Wales and Western Australia owing to dry conditions early in the season and potential frost damage in early spring will see canola production drop to 3.1 million tonnes, which is 16 per cent below the 5 year average.

Australian production of chickpeas in 2017/18 will be lower than last season's production high due to lower yield. Even so, production will remain historically high due to the trend of increasing area sown to chickpeas. The drop in production this season is largely due to lower yield in Queensland and New South Wales.

Favourable weather conditions over the next two months will be essential to delivering production close to the average. This forecast production will only be achieved if spring rainfall is sufficient and timely, especially in central west New South Wales and the Eyre and Yorke peninsulas in South Australia.



Supplied by: Agrometeorology Australia, 2017



Data: ABARES & Australian Crop Forecasters, 2017

# PRODUCTION – WORLD

The world's major crop growing regions are experiencing another good season and world production remains historically high. Even so, a reduction in the area planted in North America, South America and Australia as well as some seasonal concerns will see world production in 2017/18 fall short of last years' annual production highs for wheat, maize and rice.

Improving yields have been driving global production higher. Although the world area allocated to soybean and maize has grown significantly over the past decade the area allocated to the other major crops has remained largely consistent. Therefore, world production of most crops is largely a function of yield. For the most part, consecutive years of favourable seasonal conditions in all of the world's major crop production regions and improvement in agricultural practice, particularly in the Black Sea region, has led to good yields and increasing world production of major crops. That said, world production of most crops is expected to record a year-on-year decline in 2017/18.

**The 2017/18 season will be the first time in four years that world wheat production will not set a new record.**

World wheat production will be lower in 2017/18 as less area has been allocated to wheat this year and yield is expected to be lower by 1 per cent. North American production is expected to be lower although this will be partly offset by higher production in Europe and Russia where growing conditions have been excellent. Despite the drop in wheat production, wheat stocks are expected to remain at record levels.

Barley production is expected to be 4 per cent lower in 2017/18 reflecting similar conditions to world wheat production.

A 9 per cent increase in world canola area harvested will be partly offset by a 4 per cent decline in expected canola yield. Nevertheless, a 5 per cent drop in world canola production and a 5 per cent drop in world stocks in expected in 2017/18. World canola stocks are now at the lowest level for 5 years.

The 2017/18 season marks a juncture for canola production in Canada where for the first time the area sown to canola has eclipsed the area sown to wheat as Canadian farmers respond to the profitability of canola outcompeting wheat.

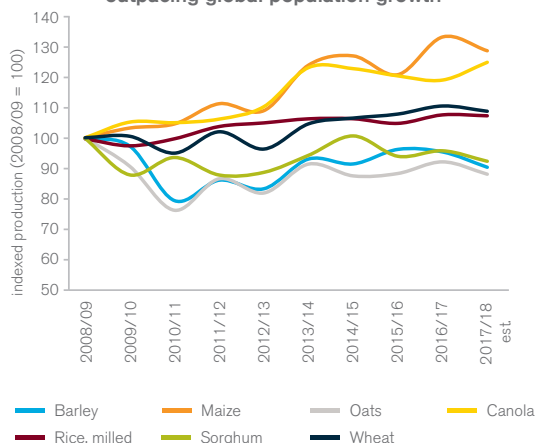
Similar to canola, the area of soybean harvested will be higher in 2017/18 however a 5 per cent drop in world yield will see world soybean production drop in 2017/18. Nevertheless, world soybean stocks are expected to increase by 2 per cent.

World maize yield is expected to be 3 per cent lower in 2017/18 contributing to a drop in production and a 10 per cent decrease in world stocks.

World sorghum production is expected to be 3 per cent lower largely due to lower yield in 2017/18, particularly in North American sorghum crops. This drop in production will take world sorghum production and stocks to a 4 year low.

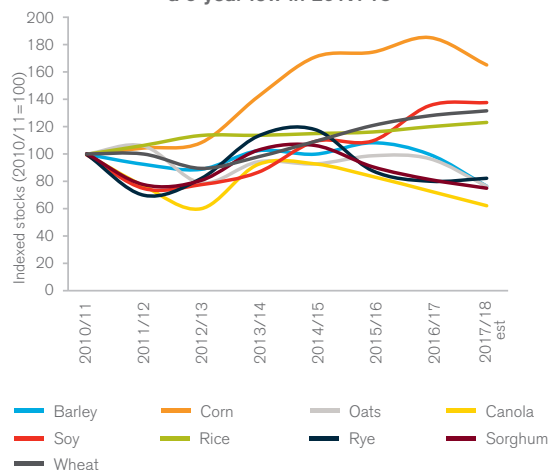
World rice area harvested, yield and production are expected to be similar to last year. World rice production is expected to be 483 million tonnes in 2017/18.

**World production of major crops is trending higher.  
Growth in canola and maize production is  
outpacing global population growth**



Data: USDA, 2017

**World stocks of major food crops continue  
to build although canola stocks expected to reach  
a 5 year low in 2017/18**



Data: USDA, 2016



# SEASONAL CONDITIONS

Most of Australia's cropping regions experienced a drier than normal winter, particularly in New South Wales. To an extent this is reflected in the normalized difference vegetation index (NDVI) which shows some cropping regions as 'less green' than normal although cropping areas in Victoria and near Esperance in Western Australia are 'greener than normal' assisted by existing soil moisture.

Of immediate concern at the time of writing has been frost particularly in New South Wales where minimum temperatures for August and September have been very much below average.

Looking out over the spring and harvest period, cropping regions in Victoria, South Australia and Queensland have a 50-60% chance of exceeding the median rainfall for the September to November period. In Western Australia, cropping regions have a 35-40% chance of exceeding median rainfall for spring. This may mean crop production forecasts for

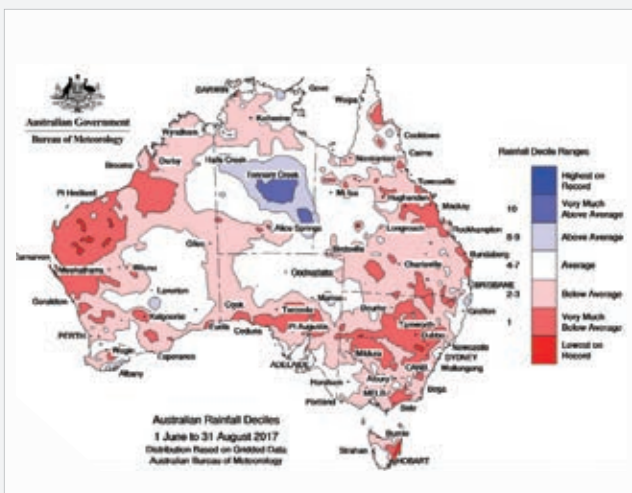
Western Australia are somewhat optimistic as the forecasts assume average rainfall for the remainder of the season.

The El Nino Southern Oscillation (ENSO) and the Indian Ocean Dipole are starting to shift after nearly 12 months at a neutral setting.

**In the Pacific, the Southern Oscillation Index (SOI) is moving higher and some models are now indicating that a La Nina by this summer is a possibility.**

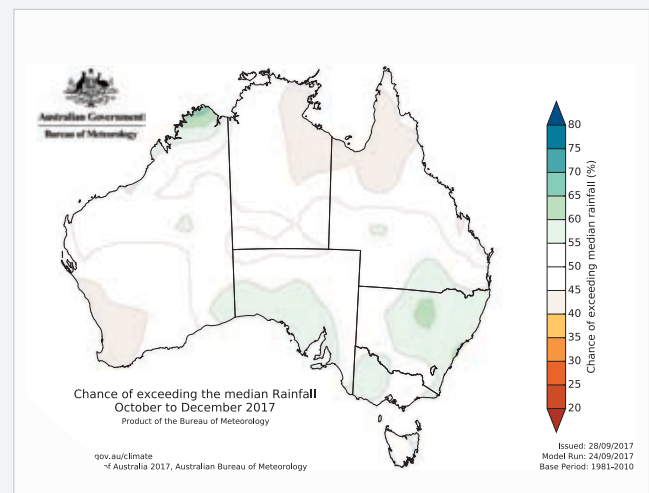
This increases the chance of rainfall in Queensland and New South Wales in particular. The shift in the Indian Ocean is less apparent. Last year the indicator was negative, which encouraged rain over southern Australia and this year has been borderline positive, turning off the tap. The index is now dropping again, which points to increasing likelihood of rainfall in the west later in the year.

Most cropping regions experienced a drier than normal winter



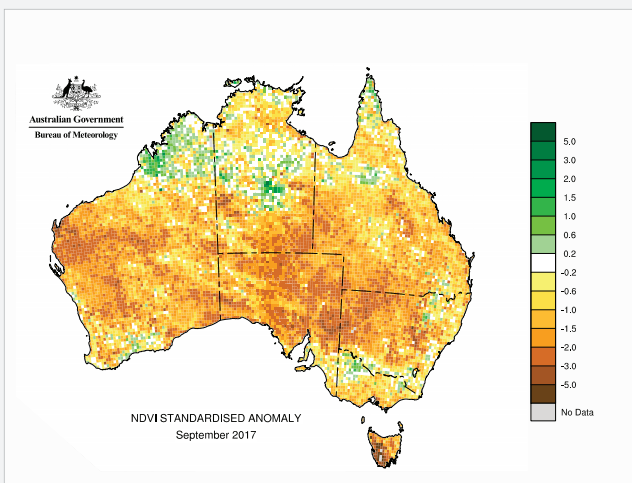
Source: Bureau of Meteorology, 2017

The chance of exceeding the median rainfall over the spring and harvest period is close to 60 per cent in most cropping regions



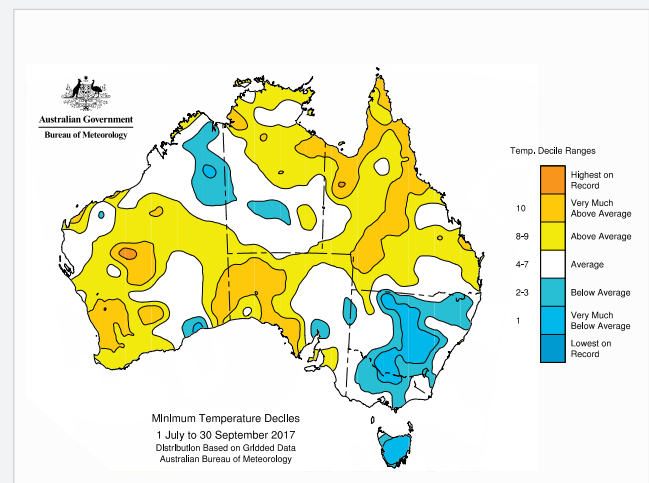
Source: Bureau of Meteorology, 2017

Vegetation 'greenness' has been impacted by the drier winter period in most regions except Victoria



Source: Bureau of Meteorology, 2017

Colder than normal minimum temperatures have impacted crops in New South Wales



Source: Bureau of Meteorology, 2017

# PRICES

The small reduction in world production in 2017/18 is unlikely to cause a large rally in crop prices. Production is still historically high and stocks remain very high creating a buffer against any significant price rises. Oilseeds may be an exception as the market balances falling stocks of canola over recent years with higher production in 2017/18.

World cereal grain prices have been trending lower since 2011 as the production of most crops has outpaced demand over that period. This trend has seen stockpiles increase. Overseas, wheat and canola futures markets are tracking sideways.

There may be 'light at the end of the tunnel' for those hoping to see an increase in cereal grain prices. With world wheat production forecast to be lower in 2017/18, this will be the first time in four consecutive years that production has not increased to a new annual record, thereby partly unwinding a key macro driver of downward pressure on wheat prices.

Nevertheless, wheat stocks remain high so a price rally, barring any supply shocks seems unlikely. The June 2017 spike in wheat prices was a reaction to lower area planted and untimely rainfall close to harvest in Europe as well as drought conditions in the USA impacting some areas. However, since then the wheat price has 'given back' that gain with the US spring and Black Sea wheat harvest nearing completion and in better condition than many thought and this has driven cereal grain prices lower.

## Domestic wheat prices have decoupled from overseas markets in recent weeks moving higher on local demand and expectations of below average production in Australia in 2017/18.

Nevertheless, the upside for domestic wheat prices remains limited as Australian production will certainly meet domestic demand.

Although a production to usage gap has not opened up for barley as it has for wheat and rice, the barley price has nevertheless tracked wheat prices lower.

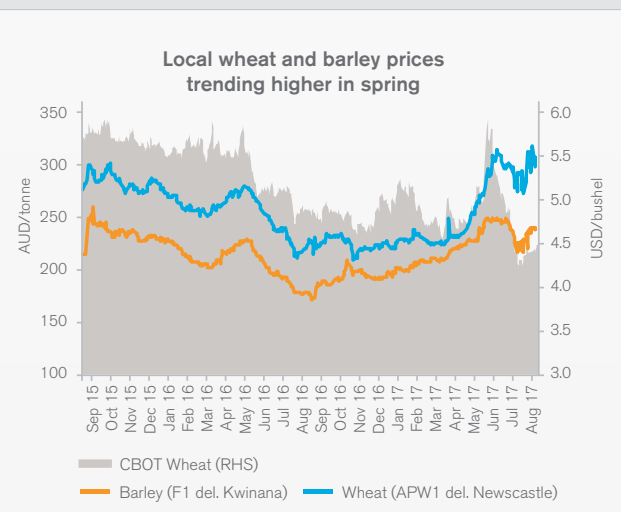
Canola prices continue to track close to their 5 year average, striking a balance between increasing area harvested and production with growing consumption. World canola stocks will drop to their lowest level in 5 years over the year ahead making canola prices more susceptible to any

production surprises that may emerge. Local canola prices can be expected to trade near to current values over the months ahead with upside limited by the northern hemisphere crop entering the market and yield in Canada exceeding expectations.

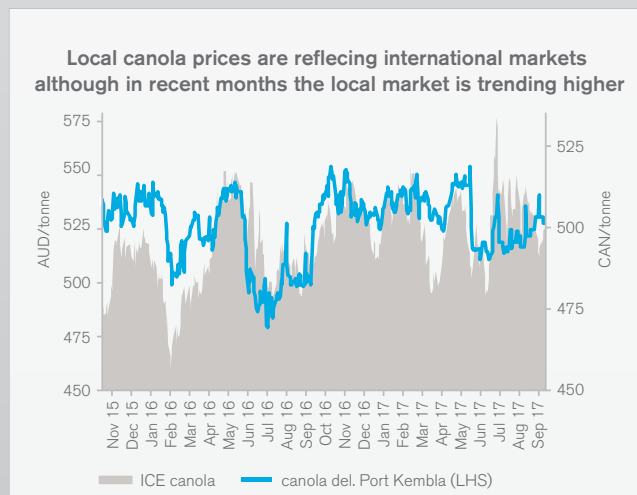
World sorghum production and consumption remain well balanced and ending stocks have been stable since the mid-1990s. Nevertheless, most Australian sorghum is used domestically as stock feed and therefore the price depends on domestic factors more so than other grains. This year the sorghum price may get support from lower production of most crops, particularly in New South Wales.

Pulse prices are tracking close to recent averages as confirmation of the performance of northern hemisphere crop is awaited. Expectations of a strong crop overseas combined with expectations of above average production in Australia (except field peas) suggest that there is limited upside for prices. Even so, local chickpea prices are historically high being close to the 80th percentile. On the other hand, the price for lentils is currently below average.

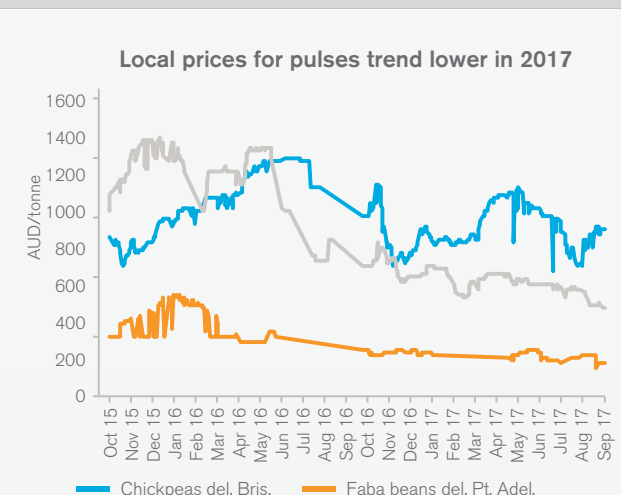
Expectations for crop prices at the time of writing assume reasonable weather conditions for the remainder of the season. Markets remain exposed to adverse weather events locally and abroad.



Data: Profarmer & Barchart, 2017



Data: Profarmer & Barchart, 2017



Data: Thompson Reuters, 2016

	State	AUD/tonne delivered to port				
		Current (4th Oct 2017)	October 2016	5 year average	80th percentile	20th percentile
<b>Wheat – APW1</b>	NSW	328	229	285	310	257
	QLD	335	237	293	324	255
	SA	260	223	267	285	249
	TAS (SFW1)	268	240	264	283	247
	VIC	280	230	272	295	251
	WA (APW2)	278	234	288	315	260
<b>Barley – F1</b>	NSW (GA1)		189	263	308	213
	QLD	315	186	271	313	288
	SA	261	207	211	242	179
	TAS	260	225	259	280	242
	VIC (GA1)		203	250	278	213
	WA (BA1)*	292	239	269	298	239
<b>Canola</b>	NSW	570	532	525	549	494
	SA	530	529	512	537	481
	TAS	485	500	512	550	485
	VIC	539	534	519	548	487
	WA	547	555	538	572	508
<b>Sorghum</b>	NSW	275	203	270	308	238
	QLD	308	207	274	306	242
<b>Lentils NUG1</b>	SA*	500	708	903	1260	620
<b>Faba beans FIE1</b>	SA*	230	245	321	420	235
<b>Oats MOAT</b>	WA	204	200	244	360	150
<b>Chickpea</b>	QLD	845	1010	977	1100	825
	NSW		975	951	1095	794
<b>Lupins</b>	WA	286	272	282	245	322

Data: Profarmer & ABARES, 2017



	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 (ABARES forecast)
<b>Soybeans</b>	468	538	588	560	561	553
<b>Maize</b>	238	297	330	366	331	353
<b>Field peas</b>	406	419	413	460	344	346
<b>Triticale</b>	249	258	256	237	190	204
<b>Rice</b>	260	340	395	410	350	354



# DEMAND AND TRADE

Domestic consumption is growing slowly, mirroring population growth. Export markets are therefore essential to the performance of most of Australia's cropping industries which produce an exportable surplus in most years.

World consumption of the major staple crops wheat and rice is trending steadily higher. Higher consumption growth is apparent for canola and maize which have seen world consumption increase by 30 per cent over the past decade as demand for canola and maize in food, stock feed and biofuel has accelerated demand beyond population growth.

Australian crop exports benefitted from exceptional seasonal conditions in 2016/17, which led to a 49 per cent year-on-year increase in winter crop production.

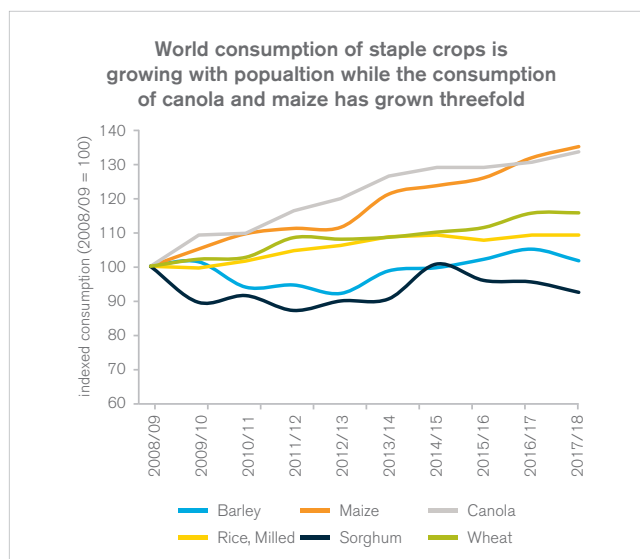
**Increased production was reflected in wheat and coarse grain export volumes increasing by 6.3 million tonnes (+40 per cent) and 3.8 million tonnes (+63 per cent), respectively.**

Increased production also benefited canola and legume exports with volumes for both commodities up 85 per cent.

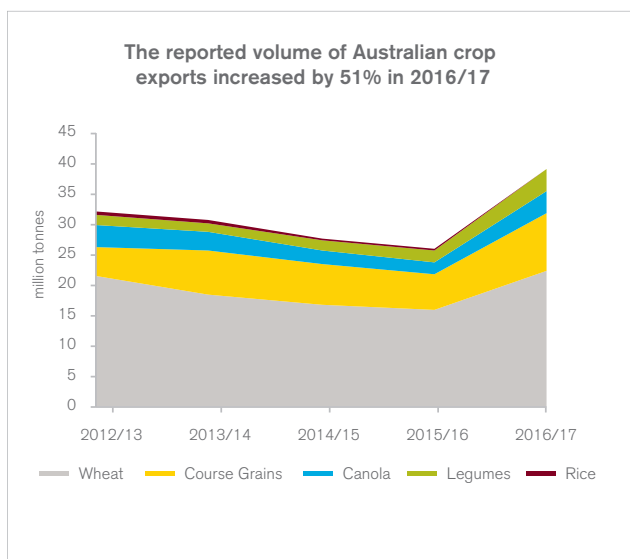
Wheat exports to India grew by 2.4 million tonnes assisted by the Indian government's decision to reduce a 25 per cent tariff to 10 per cent in September 2016 before eliminating it completely in December 2016. This measure was in response to concerns about domestic wheat price for Indian consumers. Growth in the reported volume of wheat exports was also seen in Indonesia (+33 per cent), Philippines (+154 per cent) and Vietnam (+53 per cent).

The value of exports increased to a lesser extent due to decreased average export prices of wheat and coarse grains.

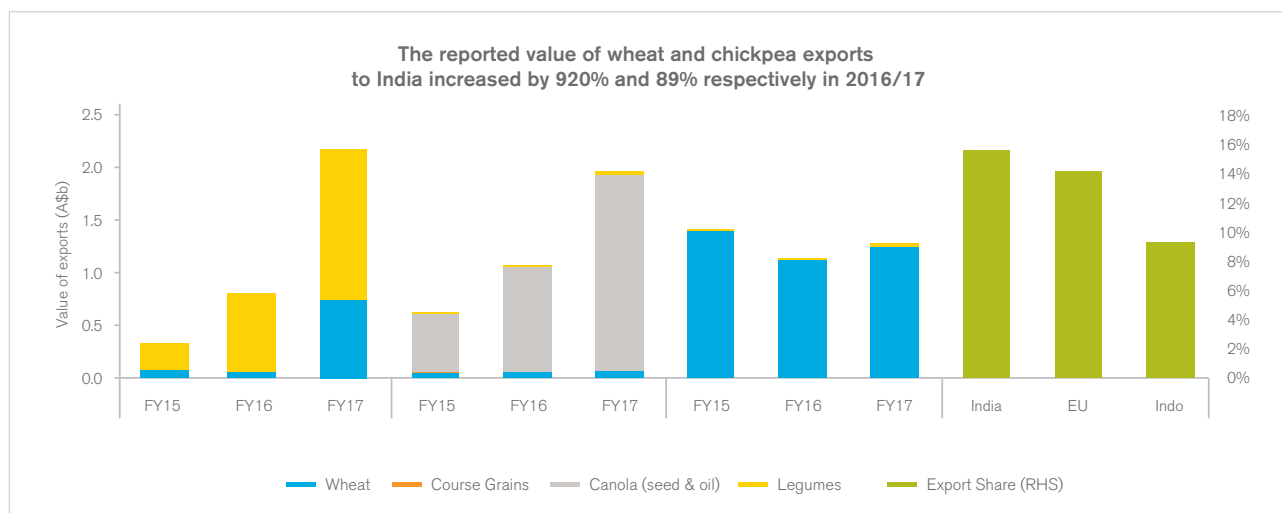
Record crop production in 2016/17 will not be repeated in 2017/18 and export volumes will be lower. Combined with lower prices for major crops the value of exports is expected to be lower in 2017/18.



Data: USDA, 2017



Data: GTIS, 2017



Data: GTIS, 2017

# FINANCIAL PERFORMANCE

The recent Financial Performance of Grain Farms report from ABARES reported an increase in farm cash income and the rate of return for Australian grain farms.

Farm cash income (difference between total cash receipts and total cash costs) for specialist grain farms rose by 25 per cent in 2016/17, driven by particularly strong results in northern and southern cropping regions.

The average Australian grain farm recorded an average rate of return of 3.5 per cent in 2016/17. For specialist grain farms (those farms obtaining >50% of total cash receipts from crop receipts) the rate was 5.8% (ABARES, 2017).

From a regional perspective, Western Australia has outperformed the northern and southern regions in recent years although specialist grain growers in New South Wales and Queensland also recorded a rate of return above 5 per cent for 2016/17 according to the ABARES data.

## **In a mark of the financial health of Australian cropping farms, Farm Management Deposit (FMD) balances increased again in 2016/17.**

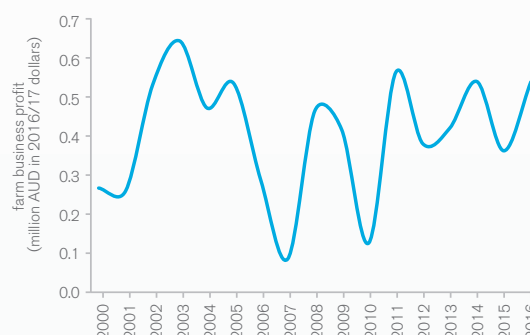
The national balance for broadacre and mixing farming business was over \$2.6 billion at the end of June 2017 (Department of Agriculture and Water Resources, 2017).

Favourable seasonal conditions last season also contributed to pushing the median farmland price higher in 2016. The national median farmland price increased by 9 per cent in 2016, which follows a 5 per cent increase in 2015 and a 6 per cent increase in 2014.

Farm business profit combined with capital appreciation of farmland, indicates that specialist grain growers are generating returns well ahead of inflation.

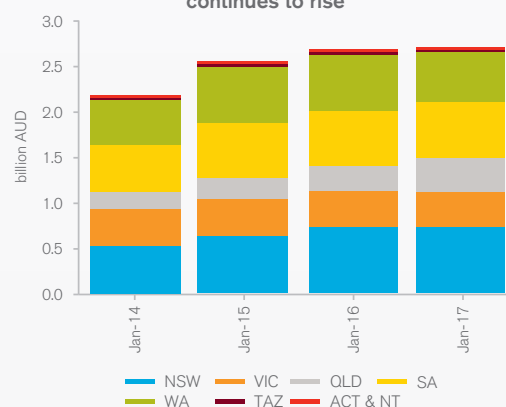
Looking ahead through 2017/18, grain farm cash income is expected to decline across Australia due to weaker grain prices and below average yield in most cropping regions. Cropping farms in the Wimmera and Mallee can expect to fare best this season due to the expectation of above average yields in those regions. Median farmland prices are expected to continue trending higher.

### **Specialist cropping enterprises are returning a farm business profit that is trending ahead of inflation**



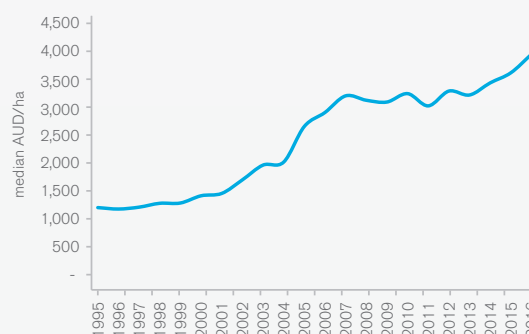
Data: ABARES, 2017

### **The national cropping FMD balance continues to rise**



Data: Department of Agriculture and Water Resources, 2017

### **Australian farmland values continue to trend higher**



Data: Rural Bank, 2017

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