

Agriculture Investment Update

If you missed it.... here are the main points in the agriculture and investment markets over the past week..

Land

- Rural Bank's Australian Farmland Values Report details median values of farmland eased by 3.9% over the first half of 2023. Higher interest rates, lower commodity prices and tough weather conditions as a function of the El Nino are reasons behind the move. The report also noted that the number of transactions has eased by 40% for the first half of 2023. The Bank further stated, " Farmland transaction volumes are the lowest in a generation as potential vendors sit tight, and more caution is exercised by purchasers weighing up their options."
- The Australian Farmland Index (which tracks the performance of a \$2B portfolio of blue-chip properties) also reported lower annualised returns to an eight-year low of 2%.
- Conway Station southeast of Kathrine was sold for around \$20M on a WIWO basis including cattle being bought by carbon project Viridios Capital which has teamed up with Canberra based Wealthcheck. The property was owned by Chinese Australian Dajiang Li who paid around \$9M in 2017.
- The AFR reported that the Federal Government plans to create a Nature Repair Market scheme to entice private sector capital for nature restoration and preservation. Landholders will be given biodiversity certificates to protect, manage and repair nature. These certificates could then be sold to businesses, organisations, individuals and governments. It was noted that 'clearly landholders need to make money from the scheme and questions are being raised how effective the scheme will work'. A similar scheme by the NSW Government termed Biodiversity Stewardship Agreements has been in operation and it's reported that it's not being taken up as the NSW state government would like.
- The Ferrero Group has abandoned its strategy to invest and grow hazelnuts in Australia as it's listing its hazelnut orchard in the Riverina for sale. The 2665 Ha block comes with 11,361 ML of ground and surface water entitlements. It's suspected or assumed that hazelnut trees which are not native to Australia have not performed in the Riverina. This comes at a time when there is a global shortage of hazelnuts due to weather and insect issues in the northern hemisphere.
- Producer forums workshops across NSW hosted by NSW Farmers sought feedback from farmers around profitability and environmental challenges. The main issues producers raised included commodity pricing, over-regulation, labour shortages, water, farm succession and land values. Producers were advised to persist, adapt and transform as the foundations to underpin business resilience. Enterprise diversification was also a fundamental factor underpinning farm viability.

Markets

- Super funds who own around 38% of the ASX market have noted to all companies that decent work conditions, secure contracts and sexual harassment within companies will be a focus and boards will be held accountable.
- ASX shares hit a one year low with the benchmark ASX 200 hitting 6844. This is against Bond yields increasing with the Australian 10 year bond yield moving to 4.78% which is the highest since 2011.
- Quarterly inflation data released this week indicated a 1.2% increase to the end of September and now has the majority of punters expecting a rate rise on Melbourne Cup day. Some Banks are now even predicting two back-to-back rate rises in November and December...

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Companies

- The merger of two plant-based meat businesses (All G Foods and Fenn Foods) reflects falling demand and sector consolidation. Data indicates demand for plant-based meat alternatives has dropped 33% over the past 12 months.
- Bega shares have halved over two years, and the business is further focusing on value-added branded products. The company noted declines and competition in domestic milk supply against global milk prices being down around 30%. Australia's milk production has declined to about 8 billion litres from 11.5 billion litres over the past 20 years.
- AFR reports that a wave of insolvencies in horticulture, farm and packing sectors are tipped as production costs mount against higher interest rates and lower prices from reduced consumer spending power. Horticulture farmers indicated that 2022-23 was the toughest year on record after wet weather years and now dealing with higher input costs. A noted business consultant saw bank lending declining in the sector due to the limited free cash flow and balance sheets were now stretched with little fat from the increased cost pressures.

Commodities

- China will review the last major trade sanction with a 5-month review of wine tariffs that have been in place since 2020. The wine export market was worth \$1.2B before the tariff was put in place. This follows the easing of tariffs on Australian coal in February, timber in May, barley in August and hay in September 2023.
- Winter crop harvest is in progress in areas of QLD and northern NSW. Crops have been variable in reflection of planting time, fallow period, in crop rain and frosts. It's remarkable to see some western NSW areas harvest a crop that had no in-crop rainfall. Quality has been variable with early fears of lower protein volumes now being buffeted by a good supply of higher protein grades. Thankfully, rainfall has not been an issue and has kept quality high. The bulk of the harvest is expected to finish at the end of November in the north of the state.
- Wheat and grain prices are expected to remain elevated and high against international values due to the smaller national crop, particularly on the East Coast. China recently bought 800-900,000MT of Australian wheat ex the West coast at A\$380 to A\$410 PMT port. Current East Coast values are trading at approximately a \$50 premium over West Coast grain values.
- Signs now point to a moderate El Nino event. Don White from Weatherwatch indicates atmospheric variables are consistent with a moderate El Nino. It is forecast that El Nino will continue through 2023 till early autumn of 2024. Don indicates beyond next autumn, conditions should return to a more normal pattern with a 25% chance of La Nina by around July next year. Our investigations indicate the average El Nino lasts for 9-12 months.

Have a great week.

Sources include AFR, The Land, The Australian, GrainCorp, Episode 3, Clear Grain Exchange and other general market sources.....

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