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COMMODITY UPDATE

QUARTER 4 - 2025

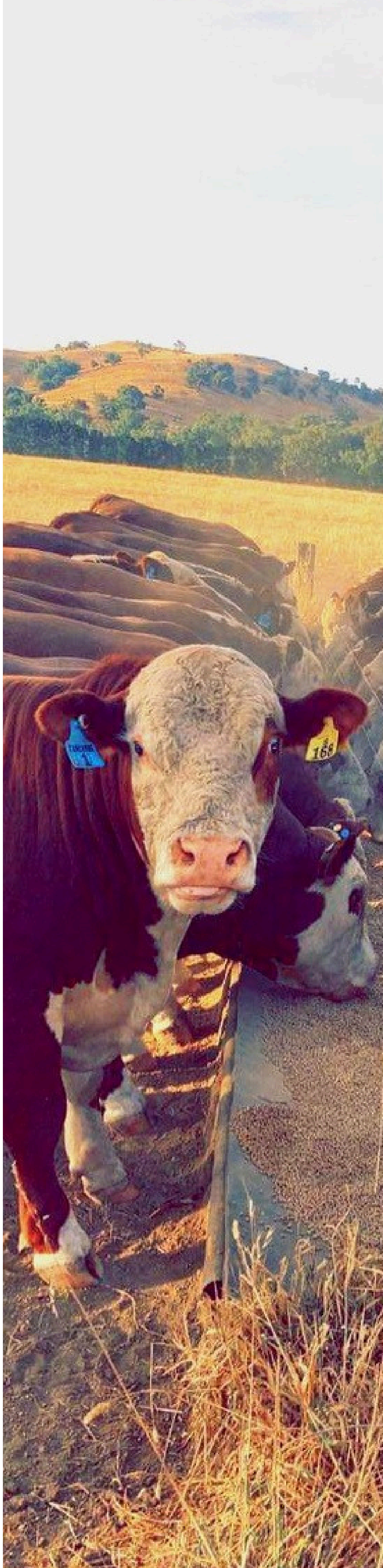
CATTLE

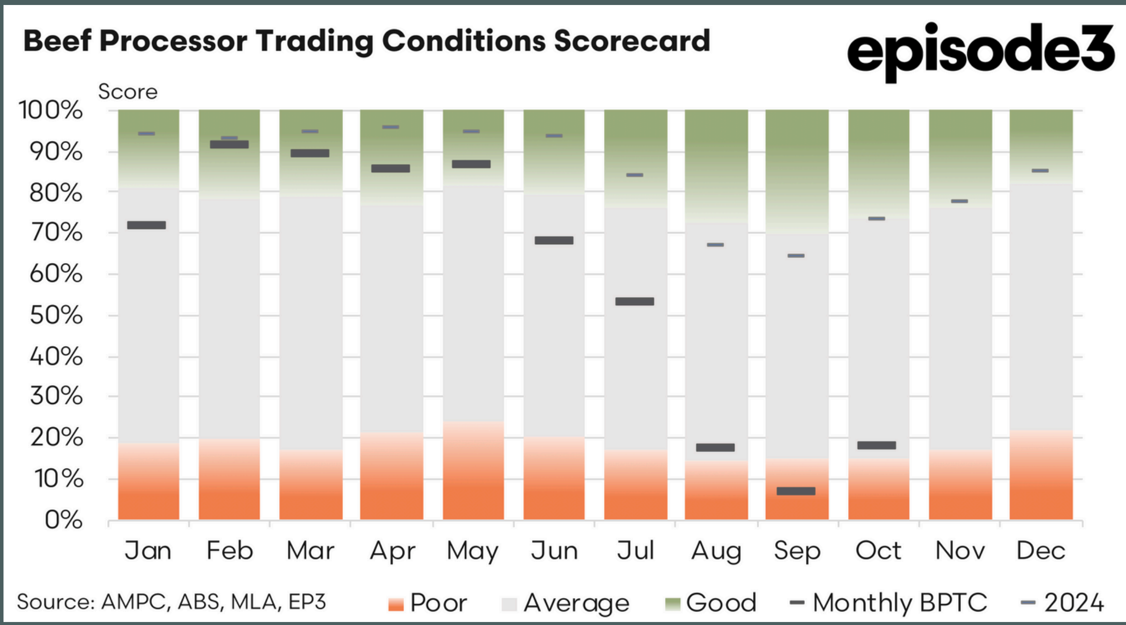
The December quarter brought a clearer definition to the beef market story that emerged through late winter and early spring. While 2025 finished as a record year for export volumes, Q4 highlighted a growing disconnect between headline demand strength and underlying profitability across the processing sector. Export flows remained exceptionally large, yet margins across much of the supply chain stayed under pressure as higher cattle prices continued to outrun gains in boxed beef and domestic retail returns.

Processor trading conditions stabilised modestly through October, following the sharp deterioration seen in August and September. September marked the low point for the year, with the Beef Processor Trading Conditions index falling to single-digit levels as livestock procurement costs rose again across all major categories. Heavy steer and processor cow prices lifted by around five percent during the month, while young cattle prices increased by more than two percent, compounding the sharp cost escalation seen in August. Export markets offered little immediate relief at that point, with gains in the United States and China offset by weaker values into South Korea and flat pricing into Japan. Domestic retail beef prices edged higher, but not by enough to materially improve processor margins.

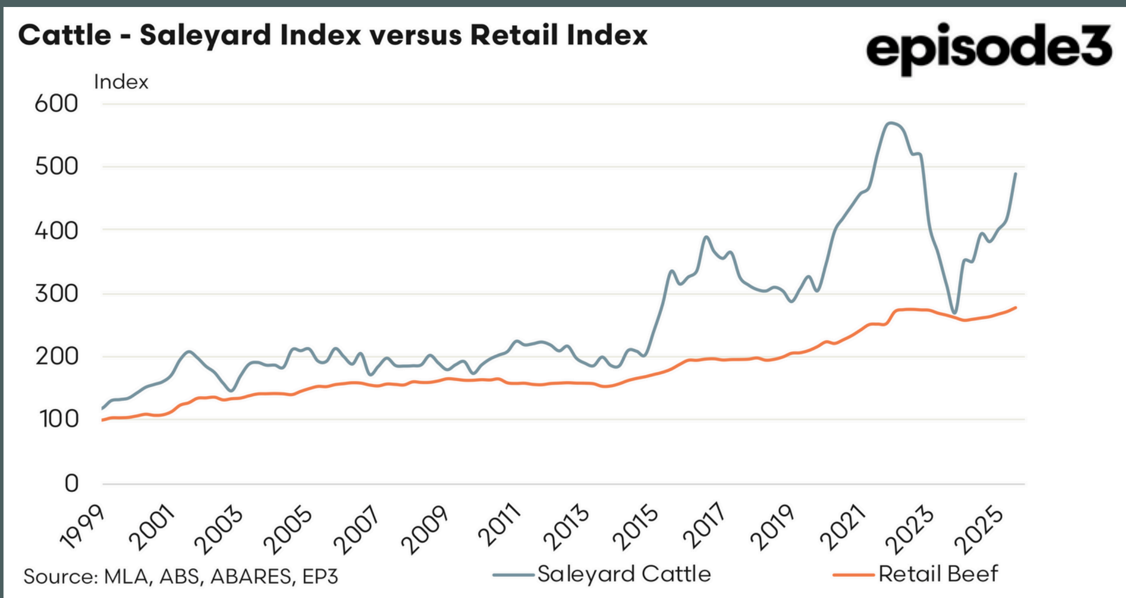
October delivered some easing in pressure, though conditions remained historically weak. Livestock prices softened modestly across key slaughter categories, reducing procurement pressure for processors for the first time since mid-winter. Export market performance also improved on balance, with stronger values into China and South Korea outweighing softness in Japan. Domestic retail prices rose again, providing incremental support to margins. These combined movements lifted the BPTC index into the high-teens, signalling that the extreme margin compression seen in September was not sustained, even if trading conditions remained fragile. Importantly, the annual average BPTC for 2025 still sat just under 60 percent by October, reflecting how strong conditions in the first half of the year helped buffer the later downturn.

Domestically, the September quarter producer share data helps explain why processor conditions were under pressure heading into Q4. Average cattle prices rose to 857c/kg cwt in the September quarter (from 734c in June), while retail beef prices only edged higher, resulting in cattle producer share lifting to 45.6% (from 39.9% in June). The saleyard index jumped to 490 in the quarter, while the retail beef index moved only modestly to 278. That widening gap indicates value shifting back toward producers, but it also implies a tougher trading environment for processors unless export values rise enough to keep pace.





After a difficult September 2025 the Beef Processor Trading Conditions model has begun to improve.



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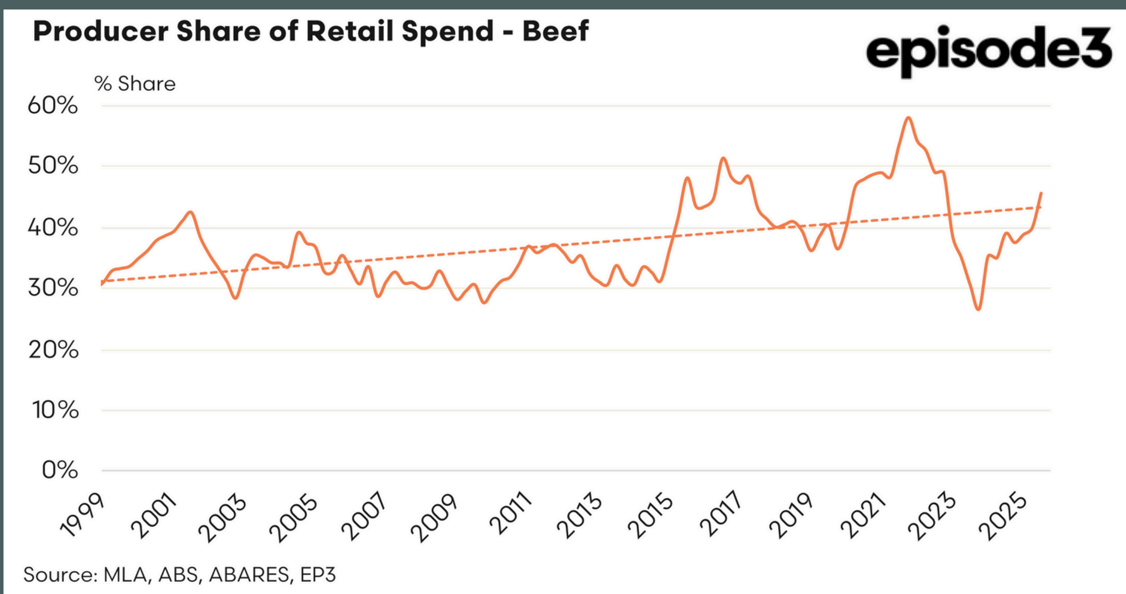

Average cattle prices rose during the September quarter, while retail beef prices only edged higher, resulting in cattle producer share lifting to 45.6%.

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CATTLE

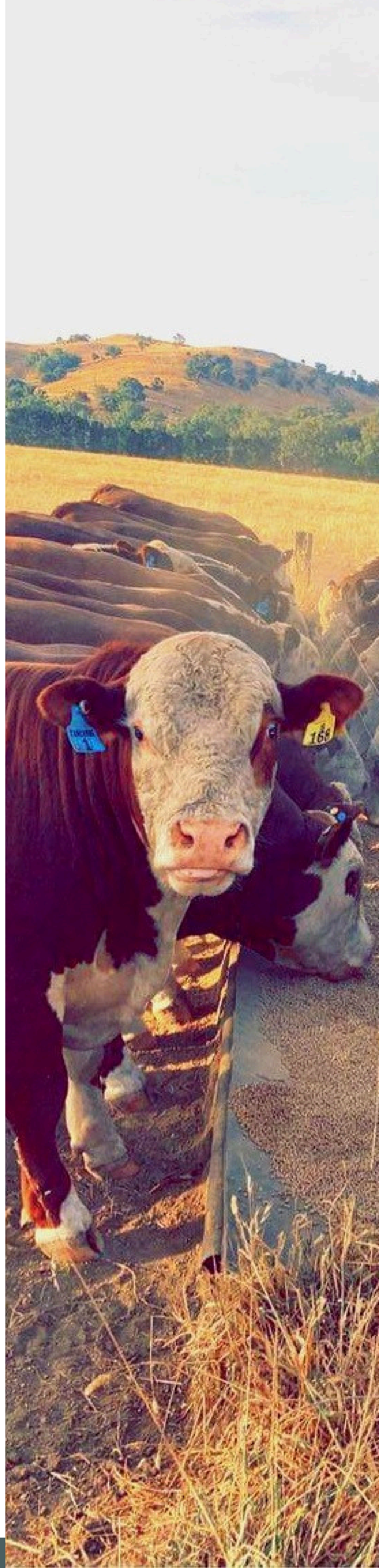
Total Australian beef exports for 2025 reached 1,545,759 tonnes swt, 15% higher than 2024, with Q4 playing a critical role in locking in the outcome. The United States retained its position as the anchor market, accounting for 29.3% of annual exports, but volumes eased marginally into year end. Q4 shipments to the US slipped by around 1% from Q3 to 124,446 tonnes, yet still finished 2% above Q4 2024 and 94% above the five-year average for the quarter.

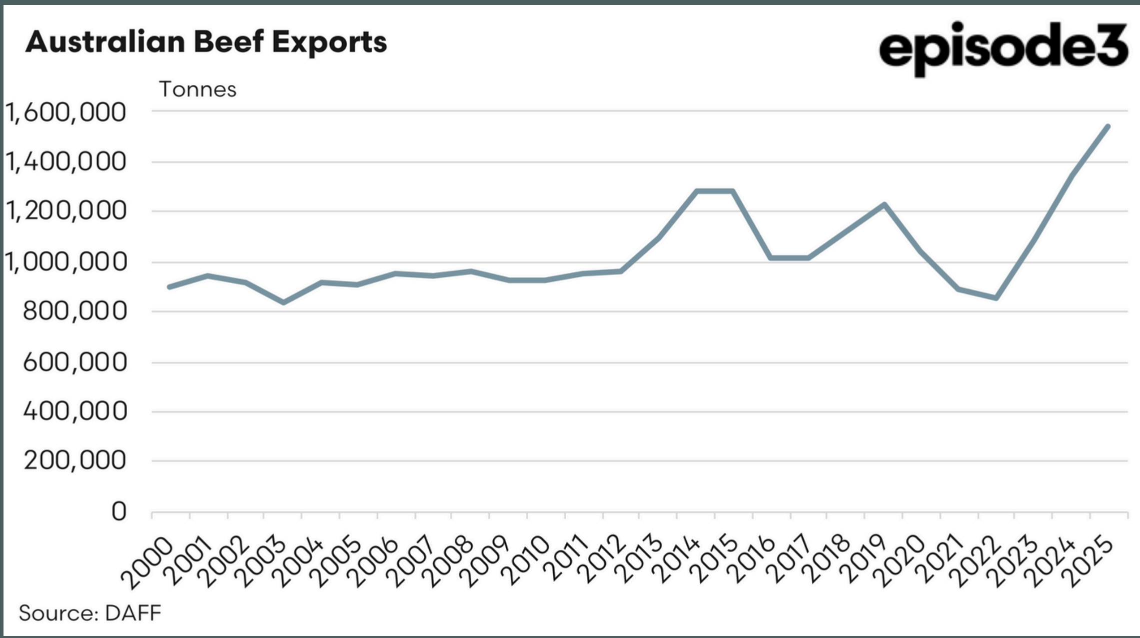
China remained the second-largest destination on a 17.7% share, with Q4 volumes easing around 6% from Q3 to 69,691 tonnes. Even with that moderation, exports to China in Q4 were still 25% higher than Q4 2024 and 51% above the five-year average. Japan was the standout improver into year end. Q4 volumes lifted roughly 14% from Q3 to 74,392 tonnes, finishing 47% above Q4 2024 and 33% above the five-year average. South Korea, by contrast, softened into Q4, with volumes down around 12% from Q3 to 56,212 tonnes, and 2% lower than Q4 2024, though still 14% above the five-year average.

While export volumes remained supportive at an aggregate level, the announcement of China's beef safeguard tariff introduced a new layer of risk into the outlook, particularly for 2026. The tariff will only apply once the safeguard volume threshold is breached, which is likely to occur around the middle of 2026 rather than immediately. Nonetheless, the announcement has sharpened attention on where exposure sits within Australia's beef sector and how future trade flows may need to adjust.

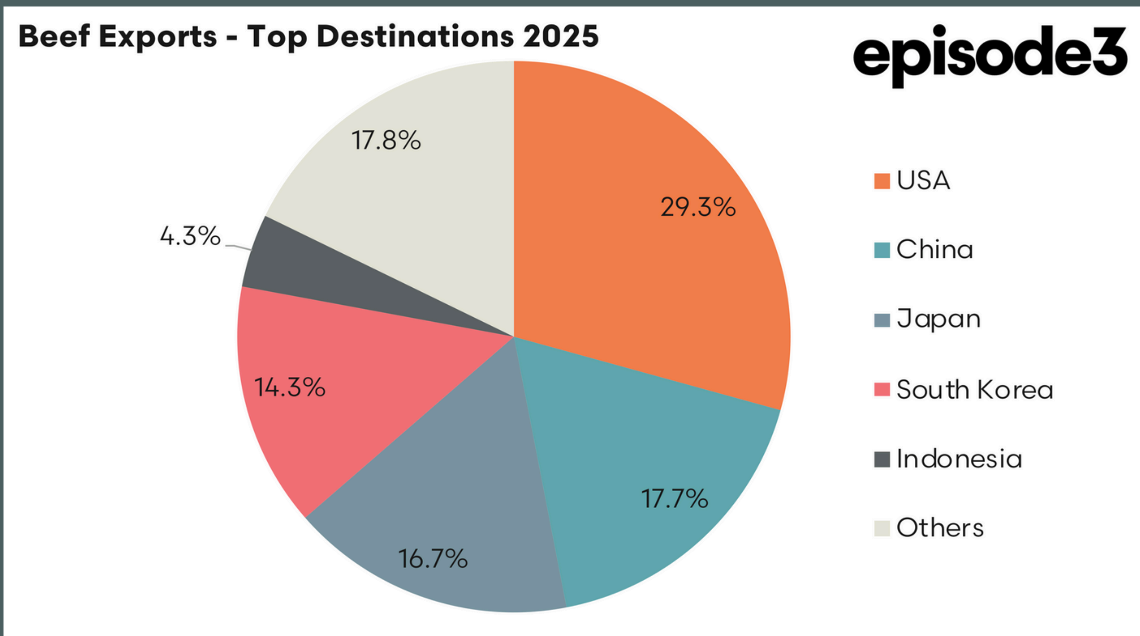
That exposure is highly uneven by state. New South Wales and Western Australia stand out as the most vulnerable on a proportional basis, with roughly one-third of their beef export value historically flowing to China. Victoria sits in the middle of the spectrum, with a more diversified destination mix that provides some insulation, though its large processing footprint means any disruption to China trade still matters operationally. Queensland, despite being Australia's largest beef exporter by value, is comparatively insulated, with a much smaller share of exports destined for China and stronger reliance on the United States, Japan and South Korea.

Crucially, the China tariff is unlikely to translate into a broad-based cattle price shock. Global beef supply remains tight, and demand from alternative markets, particularly the United States and Japan, remains strong. Any adjustment triggered by the safeguard is therefore more likely to be felt at the exporter and processor level through margin compression and product reallocation rather than through sustained downward pressure on cattle prices.

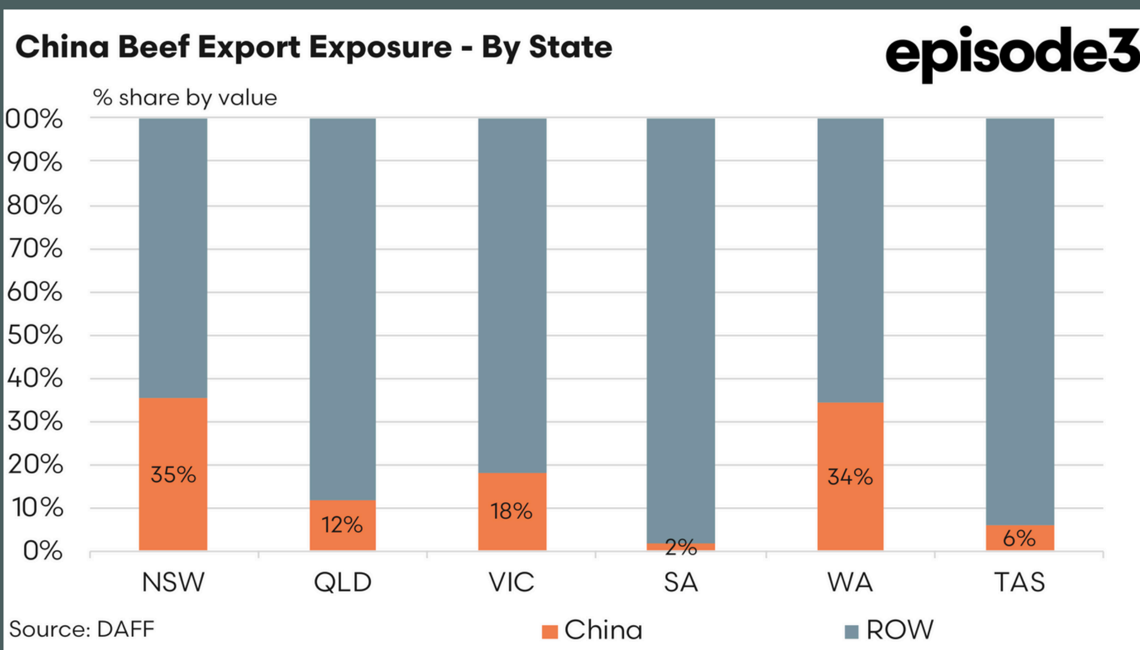




Total Australian beef exports for 2025 reached 1,545,759 tonnes swt, 15% higher than 2024 and registering a new annual volume record.



The USA dominates the market share of Australian beef exports sitting in number one place with 29.3% of the trade in 2025.



New South Wales and Western Australia stand out as the most vulnerable states, on a proportional basis to the Chinese safe-guard tariff announced at the start of 2026.

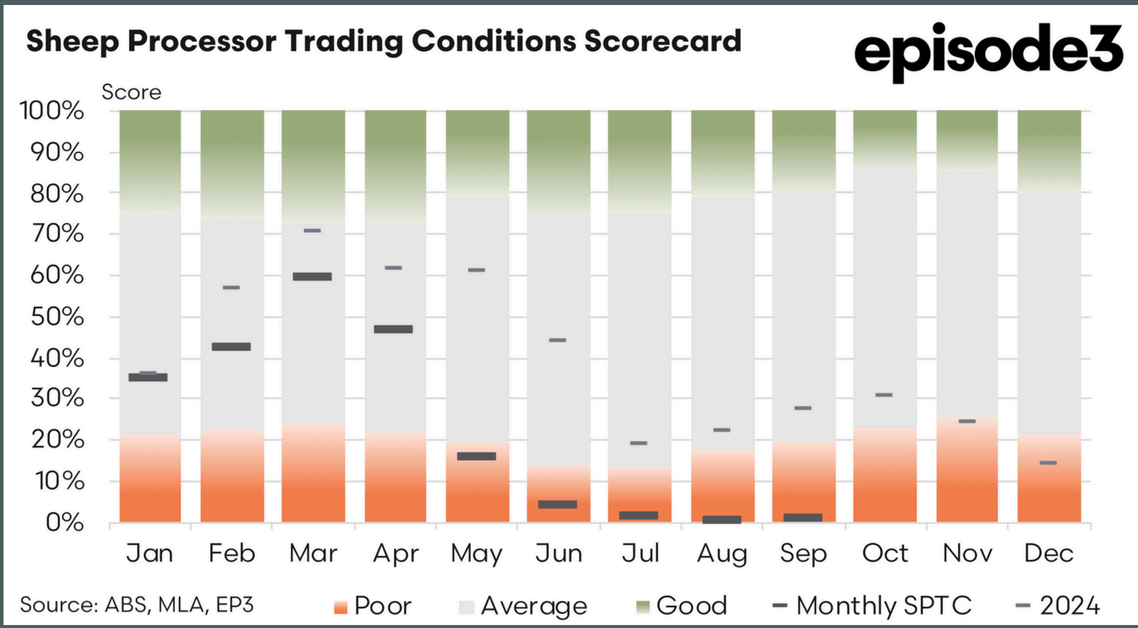
SHEEP

Earlier in the year the sheep meat supply chain was operating under extreme processor pressure, with the Sheep Processing Trading Conditions (SPTC) index collapsing from 2.8% in June to just 0.4% in July, marking the weakest monthly reading on record and confirming margin conditions had reached crisis levels. That pressure did not disappear into Q4, but as spring progressed the balance of indicators began to shift marginally with the SPTC increasing back toward 1% by September 2025.

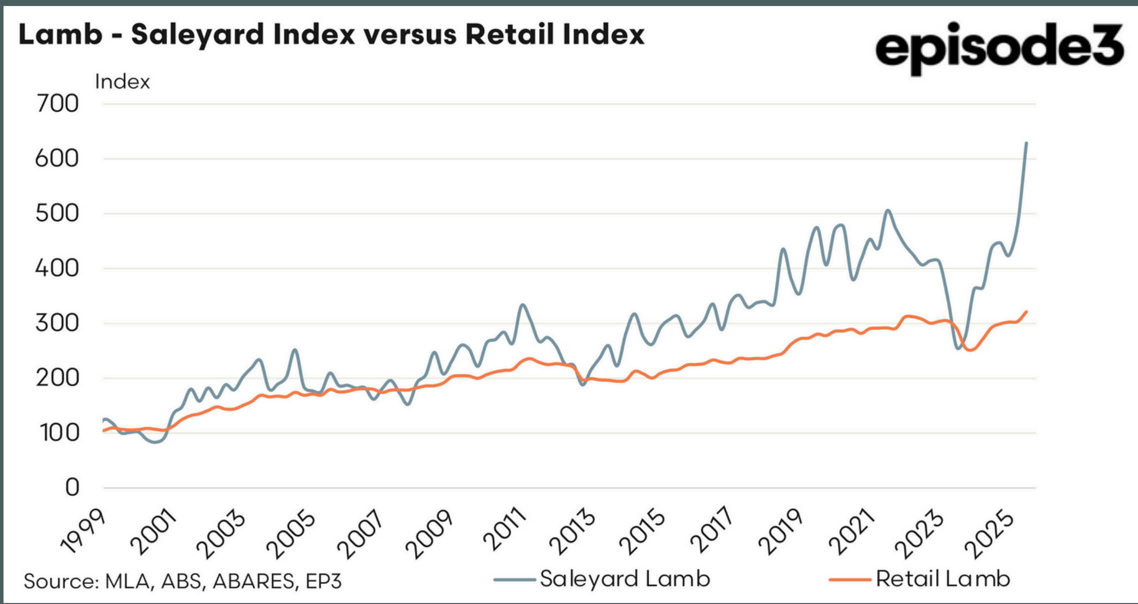
From a price transmission perspective, the September quarter producer share data highlighted just how unusual the lamb market had become heading into summer. Lamb saleyard values surged to an average 1,163c/kg cwt in the September quarter, while retail lamb prices rose far more gradually to 2,047c/kg, lifting lamb producer share to a record 81.2%. The speed and scale of that divergence signalled a market defined by constrained finished supply, intense competition for available lambs and lagging retail price response. It also helps explain why processors remained highly exposed to small movements in either livestock costs or export returns, even as seasonal supply began to improve.

Supply conditions through late spring did begin to move toward a more typical flush pattern, but the lift was uneven by state and arrived in stages rather than as a sharp wave. The November yarding and throughput indicators showed South Australia and Victoria turning into the strongest flush conditions, with South Australia's lamb yarding index jumping to 92 and Victoria lifting to 74, alongside a rapid physical rise in Victorian lamb throughput from around 40,000 head early in November to just over 100,000 head by month end. In contrast, sheep yardings were more subdued across the major producing states, which helped support mutton pricing even as lamb supply built. The result was a market that softened in an orderly manner rather than breaking sharply, because the supply increase was concentrated in specific regions and not yet at full-peak levels.

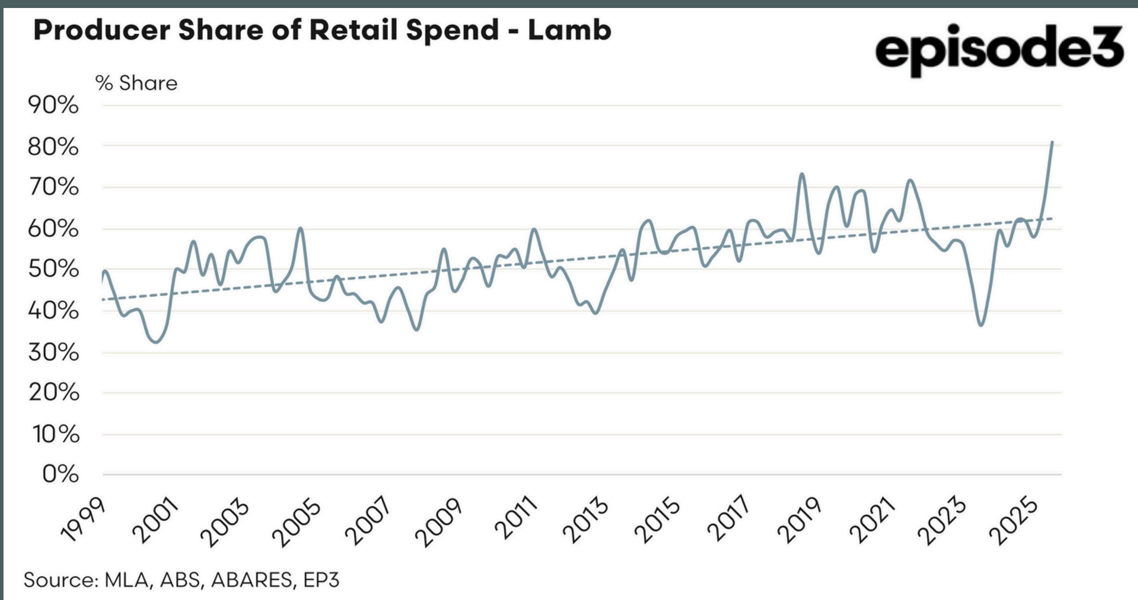
On the processing side, conditions remained difficult, but there were early signs of stabilisation as spring unfolded. The September SPTC reading improved marginally from 0.4% to 0.9%, a lift that was described as fragile and still heavily reliant on stronger co-product values rather than any meaningful improvement in the relationship between farm gate prices and export returns. Export prices were modestly higher in aggregate during September, but the detail reinforced the volatility processors were dealing with, including weaker China returns and mixed performance across other destinations. In other words, the late-2025 improvement was best interpreted as the pressure not worsening further, rather than a genuine recovery in margins.



Sheep Processor Trading Conditions reach their worst result in five years during Q3, 2025.



Tight lamb supplies at the saleyard force a strong surge in livestock pricing, but retail lamb prices cannot match the saleyard gains.



The producer share of the retail spend for lamb reaches a record level of 81.2% during Q3, 2025.

SHEEP

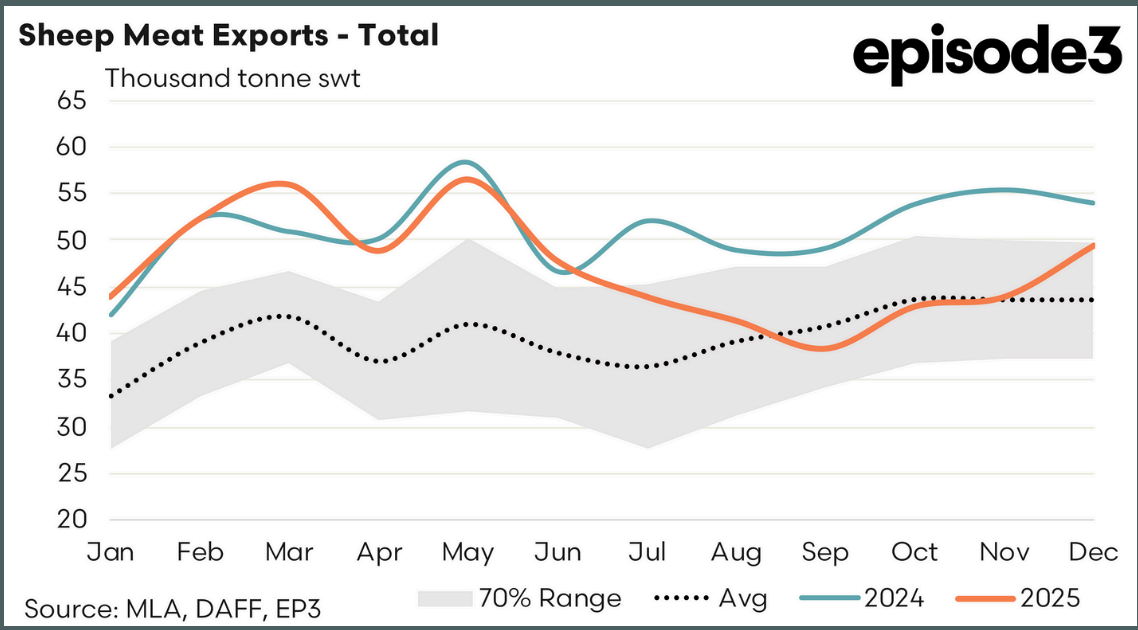
Export performance through Q4 2025 was in many ways defined by the breadth of Australia's sheep meat customer base, even as China's late-year slowdown grabbed headlines. For the year as a whole, lamb exports totalled 434,305 tonnes, a modest 4% decline on 2024 but still 15% above the five-year average, while mutton exports came in at 222,275 tonnes, down 13% yet a substantial 25% above the longer-run norm.

China finished 2025 as the largest individual destination, accounting for 21.9% of total trade, but fourth-quarter volumes of 29,436 tonnes were 48% below Q4 2024 and 30% under the five-year seasonal average, sharply illustrating the volatility in end-of-year buying patterns rather than a structural demand collapse. The United States remained the most consistent outlet, taking 23,357 tonnes in Q4, about 6% lower than the same quarter last year yet broadly in line with its long-term average. Crucially, secondary markets - notably the Middle East and North Africa (20.4% share), other Asian markets (19.9%) and the rest of the world (20.8%) – collectively moved 83,526 tonnes in Q4, effectively flat year-on-year and 28% above the five-year average, underscoring the growing insulation that diversified demand provides against volatility in any single destination.

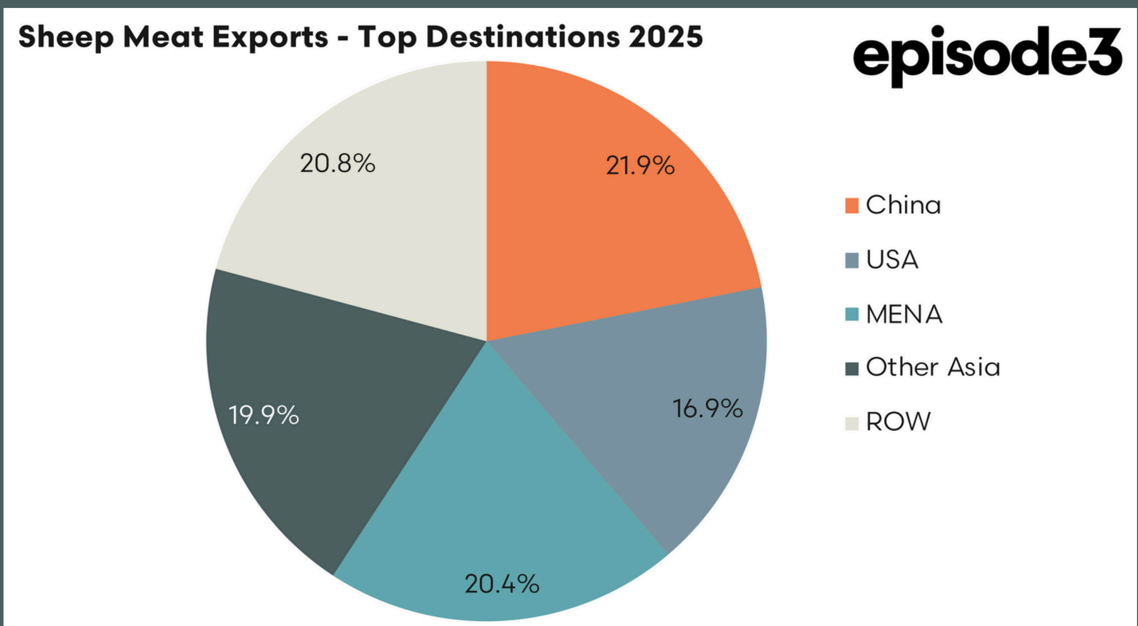
National sheep turnoff indicators suggest the sheep sector is approaching a cyclical turning point rather than facing a prolonged downturn. The easing in the Sheep Turnoff Rate through the second half of 2025 points to liquidation pressure beginning to abate, even though the industry remains above traditional rebuild thresholds. The Sheep Turnoff Ratio eased from 15.9% in Q2 to 15.1% in Q3, still above typical rebuild thresholds, but showing a directional shift consistent with reduced liquidation pressure. Continued favourable seasonal conditions, particularly a well-timed autumn break in 2026, could encourage higher ewe and ewe-lamb retention, tightening supply through the new year and reinforcing the likelihood of a move toward flock expansion during the 2026 season.

This potential shift is occurring alongside a structurally smaller New Zealand flock, which continues to reduce competitive pressure in key export markets. While demand risks remain, particularly around discretionary consumption in the United States and parts of Asia, the broader setup suggests that the next phase of the cycle will be characterised by constrained supply rather than excess production.

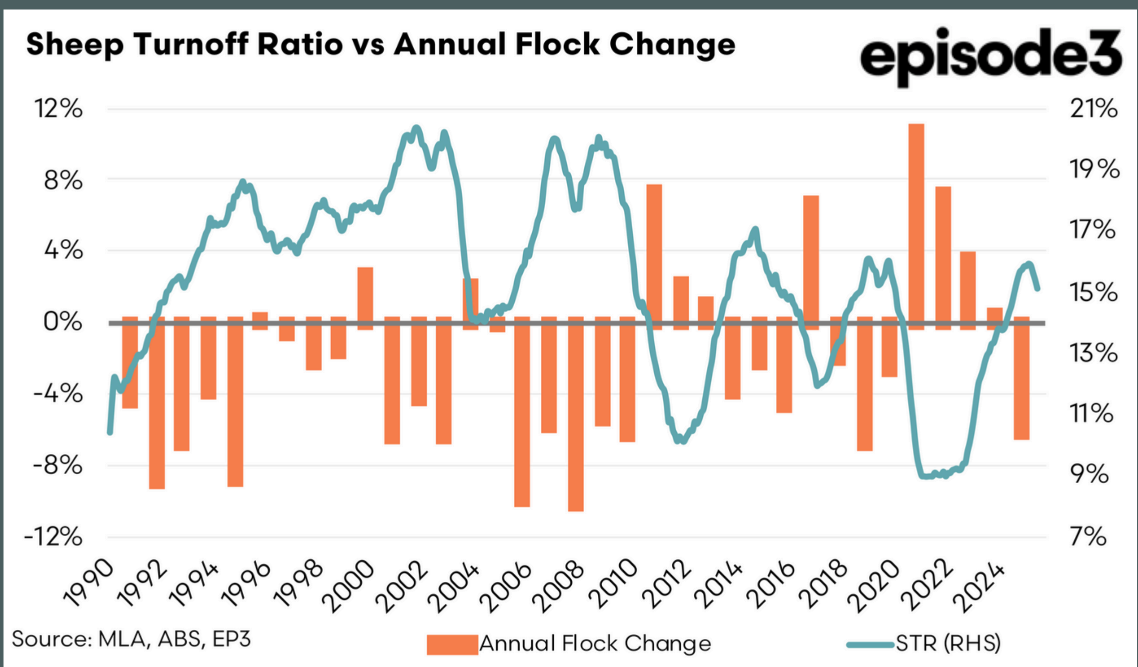
In that environment, producer pricing power is likely to remain relatively firm, while processors face an ongoing challenge in restoring sustainable margins as the industry moves deeper into a rebuild phase.



Australian sheep meat export volumes displayed steady improvement over the final quarter of 2025, despite Chinese demand remaining subdued.



China was the largest market for Australian sheep meat exports in 2025 with nearly 22% of the trade share.



Key supply ratios point to the Australian sheep flock beginning to move towards a rebuild phase into 2026.

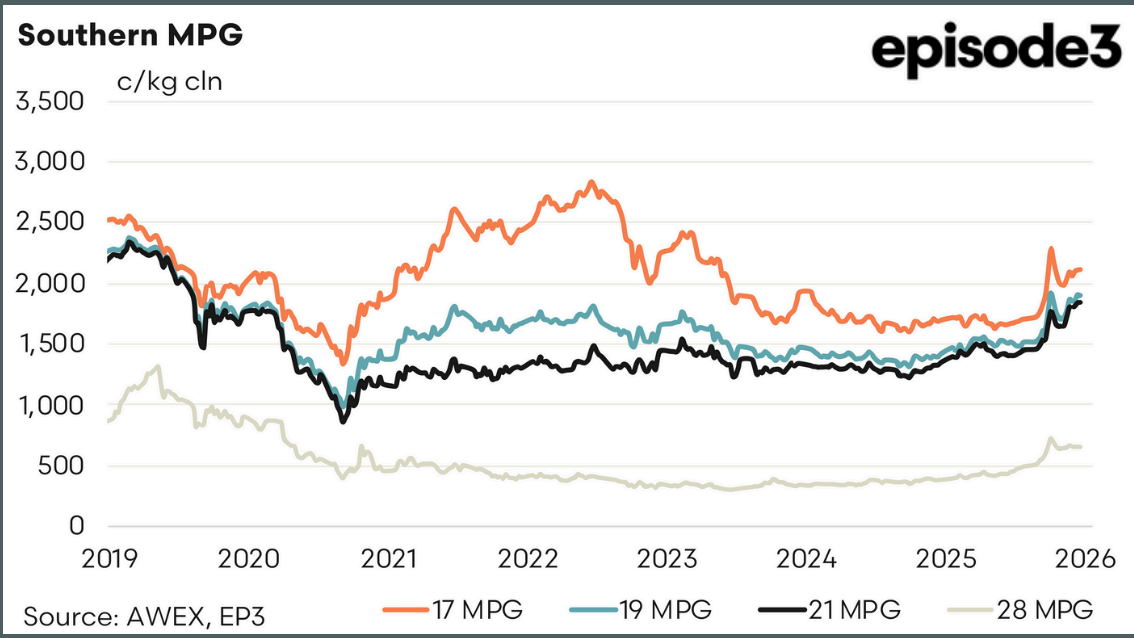
WOOL

The quarter opened with a sharp rally in early October, extending the momentum built through late winter. The Eastern Market Indicator surged to around 1,565 cents per kilogram clean, its strongest level since 2021, before easing back as buyers paused following an extended run-up. By the end of October, the EMI had settled near 1,413 cents, still around 25 percent higher than the same time last year. National offerings were modestly lower year on year, reinforcing the view that the correction reflected buyer caution rather than weakening fundamentals.

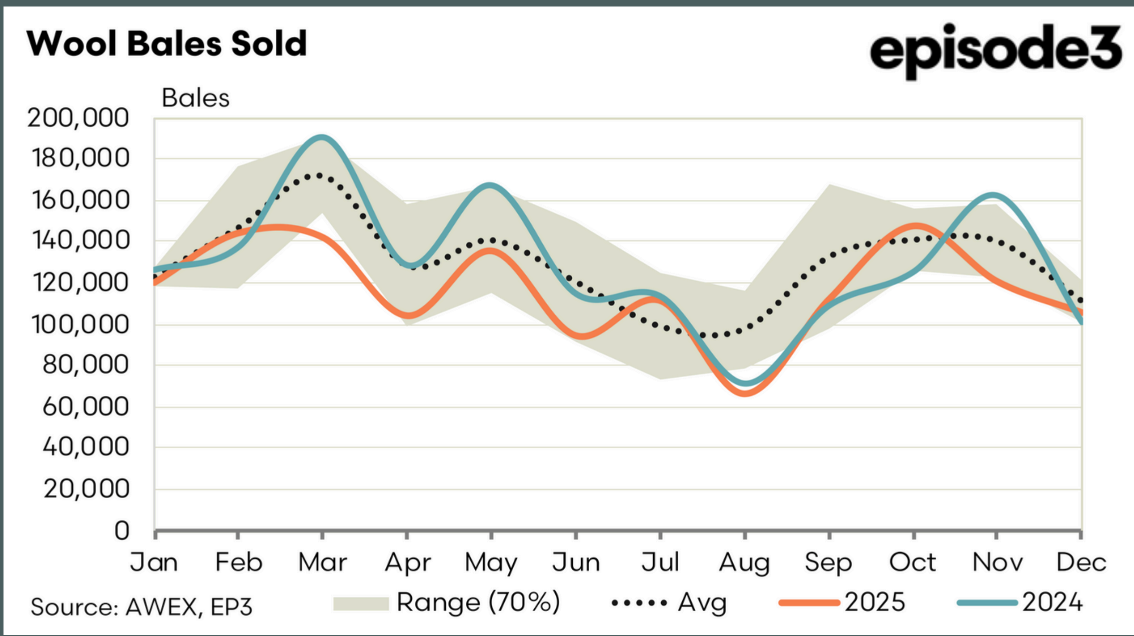
Through November, the market demonstrated greater resilience. The EMI held in the 1400s, retaining much of its earlier gains and signalling that the price reset had established a firmer trading range rather than a temporary spike. Demand patterns remained uneven. Mid-micron Merino wools, particularly in the 18.5 to 22-micron range, continued to lead the market higher due to their versatility and steady processing demand. In contrast, finer microns faced more resistance, reflecting subdued luxury apparel demand in Europe and cautious buying from Chinese end users. Low wool supply remained the dominant driver throughout the quarter. National wool availability stayed constrained, with AWTA key test data from July to November down more than 10 percent, even as auction volumes declined by a smaller margin. This gap reflected wool returning to market as prices improved rather than any lift in production. Regionally, conditions remained mixed. Western Australia recorded improved seasonal conditions and higher fleece weights, but overall production remained below year-earlier levels. Victoria and South Australia continued to face poorer seasons, elevated ewe mortality and cashflow-driven selling, limiting any meaningful recovery in supply.

By December, confidence had firmed as the market moved into the traditional Christmas recess. At the final sale of the calendar year, the EMI closed around 1,541 cents per kilogram clean, reinforcing the strength that had returned to the market heading into 2026. Clearance rates remained high, indicating that the reduced volumes were being absorbed without disruption.

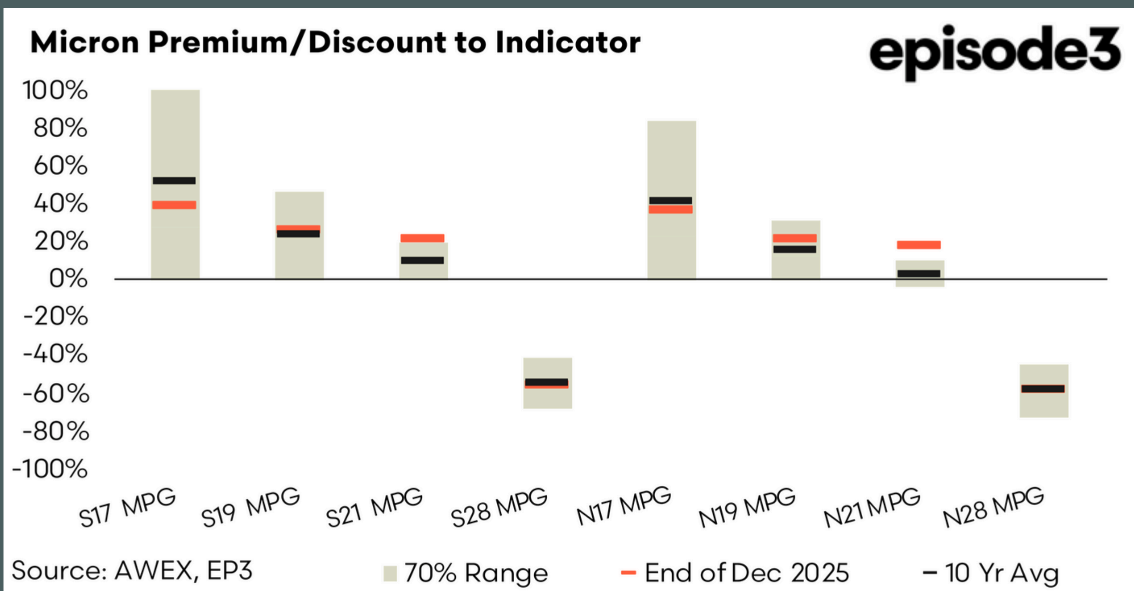
Despite firmer prices, demand conditions remained cautious rather than buoyant. There was little evidence of a renewed surge in consumer demand, particularly for fine and superfine wool, with restocking activity reflecting a return to baseline throughput rather than new consumption growth. The reality remains that Australia's smaller flock, lighter clip and reduced exportable surplus are doing most of the work in supporting prices. Production for 2025–26 is still expected to decline further, leaving the market sensitive to any additional disruption. As a result, the wool market enters 2026 on stronger footing than a year earlier, but still reliant on tight supply rather than demand growth to sustain price gains.



The Australian wool market finished the 2025 season on an improved note. However market strength appears to be driven more from tighter supply than firmer offshore demand.



Total bales sold during 2025 were 9% below the levels seen in 2024 and nearly 10% under the five-year average selling volumes.



Demand for superfine & ultra fine wools remains weak. The current price strength is in the broader Merino categories around 21 microns.

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WHEAT

The Australian wheat harvest is complete at the time of writing this report. The forecast are for a 37mmt wheat crop, which would place it as the second highest on record despite the poor rainfall in South Australia and Victoria.

We now have certainty for the Australian crop, and considerable time until the weather will have a significant impact on setting the direction for the local crop, the global picture is the one of most concern (at least for producers).

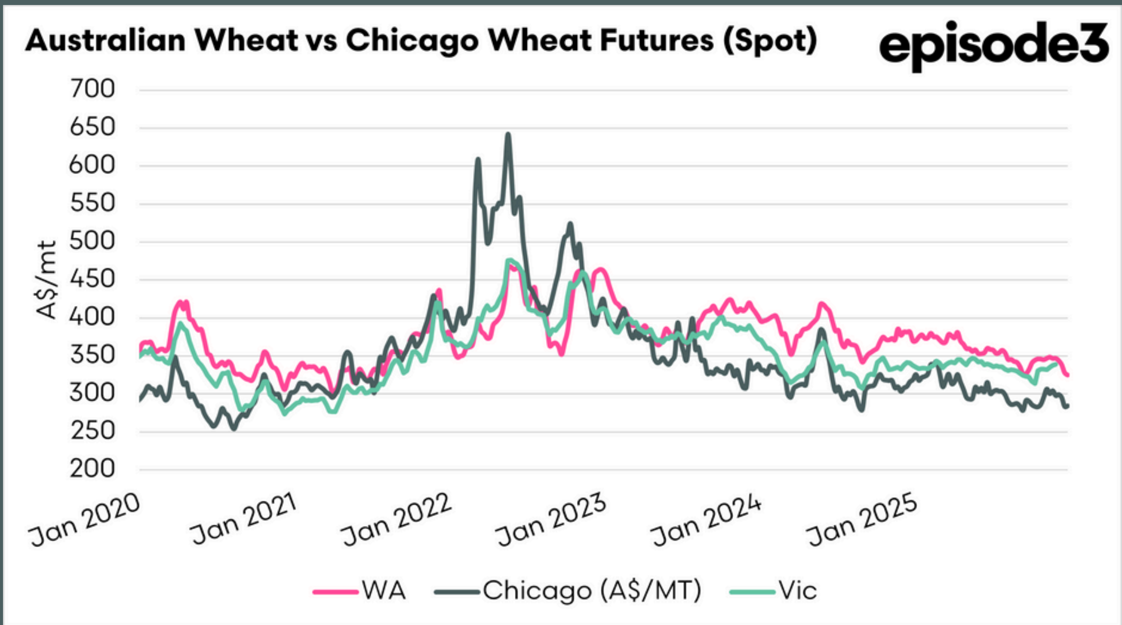
Global wheat markets are increasingly defined by surplus, with fresh production revisions reinforcing the view that supply is running well ahead of demand. Updated estimates show wheat output lifted by 2 million tonnes in Russia and 3.5 million tonnes in Argentina, more than offsetting modest declines elsewhere, including Ukraine. When combined with strong harvest outcomes in Australia and other exporting regions, these changes have added materially to global exportable supply.

Total global wheat production has reached a record 842 million tonnes, around 42 million tonnes above the previous peak. This expansion has been driven largely by yield gains rather than a sharp increase in planted area, with average global yields rising to approximately 3.83 tonnes per hectare, compared with 3.6 t/ha in the prior season. These gains reflect improved agronomy, favourable weather across key regions, and incremental advances in production efficiency.

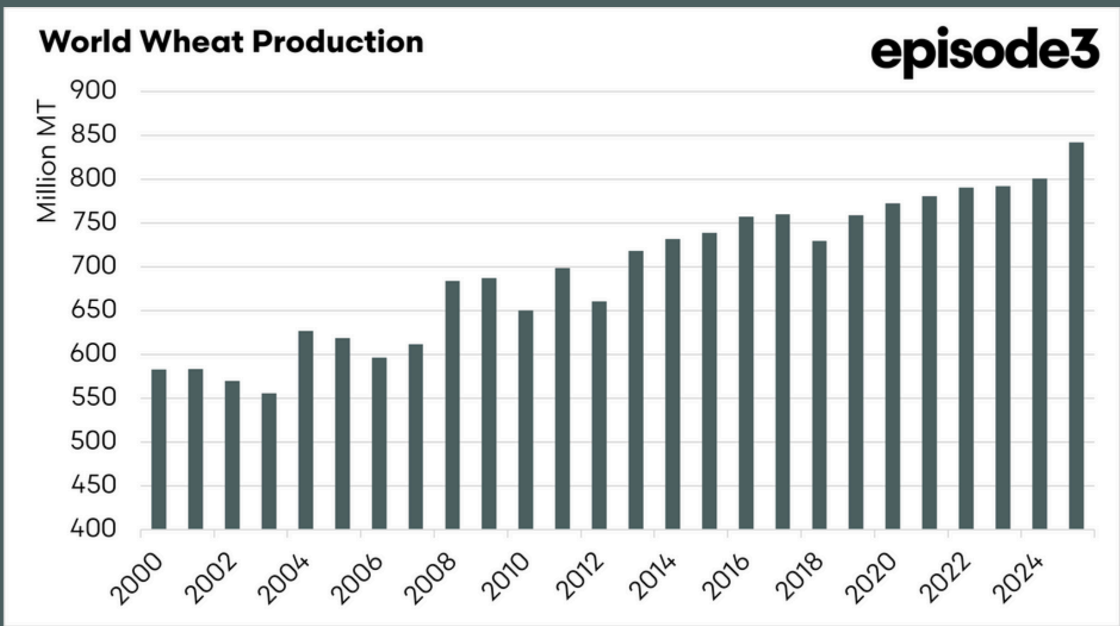
As a result, global wheat inventories have rebuilt, lifting the stocks-to-use ratio and reducing near-term supply risk. For markets, this signals a more comfortable balance sheet and limits upside price potential. Importantly, much of the supply growth has occurred in the major exporting nations, which set global price levels. While the 2026 harvest remains some distance away and weather or geopolitical risks cannot be ruled out, the prevailing outlook is one of abundant supply. In the absence of a significant disruption, global wheat markets are likely to remain constrained by surplus conditions and ongoing price pressures.

Without a major intervention in markets, or a significant production issue with some of major producers, then grain prices are liable to be in the lower end of the range in 2026.

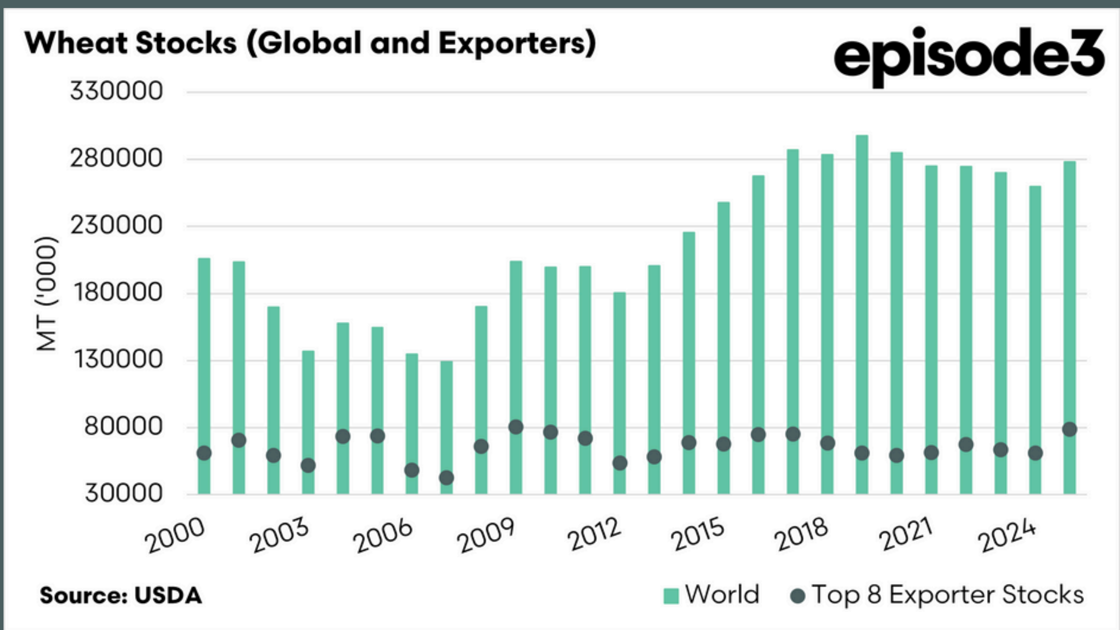
Whilst this will be a negative towards grain producers, this will assist those in the livestock and food industries.



Australian wheat pricing levels have fallen in the last quarter of 2025 in line with overseas values.



World wheat production in 2025 hit record levels. 42mmt higher than the previous record in 2024.



World wheat stocks have hit the highest level since 2019. The stocks in the major exporters are at the highest level since 2008.

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