

more give, less take



Economic Report

Rural Commodities Wrap – February 2015

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agribusiness

Key points

- 2015 brings an expanded NAB Rural Commodities Wrap with the inclusion of new data for coarse grains, oilseeds, pulses, pork, poultry, fruit, vegetables and wine grapes. We have also broadened our coverage with a separate monthly *In Focus* report.
- The NAB Rural Commodities Index increased 5.6% in January in AUD terms, as sharply higher beef prices, and to a lesser extent higher lamb, dairy and vegetable prices offset mixed performance across grains. The falling AUD has provided further support to the index, which was up only 1.7% in USD terms as falling global grain, cotton and sugar prices offset most of the impact of higher prices in other sectors.
- In response to the RBA's February decision to cut the cash rate by 25 basis points to 2.25%, as well as other factors, we have revised down our AUD/USD forecasts to 0.74 by the end of Q3 this year and 0.73 in 2016 before recovery commencing in later in 2016 and into 2017. We expect another cut to the cash rate in May this year – with a 30% probability of another cut thereafter.

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Front page: The author's 1962 Land Rover Series Ila at Castle Creek, summer 2011.



NAB Rural Commodities Index

2015 brings an expanded Rural Commodities Index, which now includes 28 commodities, up from eight in our previous index. The index now includes wheat, barley, sorghum, rice, oats, canola, chick peas, field peas, lupins, wool, cotton, sugar, wine grapes, beef, lamb, pork, poultry, dairy, apples, bananas, oranges, mangoes, strawberries, broccoli, carrots, lettuce, potatoes and tomatoes. The index is weighted annually according to the gross value of production of each industry in Australia.

In AUD terms, the index was up 5.6% in January, as sharply higher beef prices, and to a lesser extent higher lamb, dairy and vegetable prices, offset mixed performance across grains. The falling AUD has provided further support to the index, which was up only 1.7% in USD terms as falling grain global, fibre and sugar prices offset most of the impact of higher prices in other sectors.

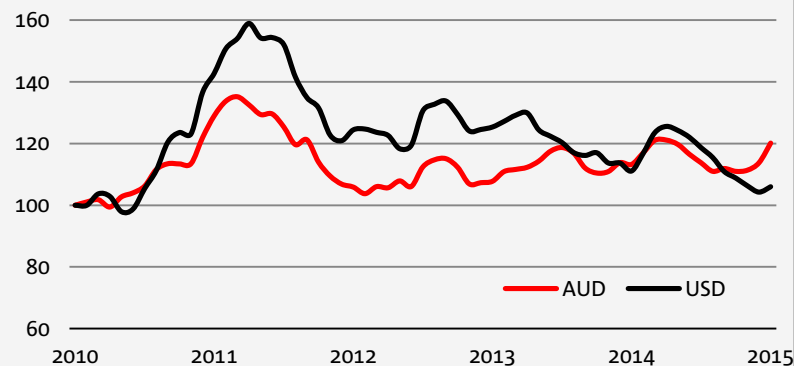
Production and Price Outlook

While it is still too early to assess the outlook for winter grains for the coming season, the receipt of decent rainfall coming into autumn will be key to ensuring adequate sub-soil moisture. While global grain prices have fallen of late, a lower AUD has cushioned the impact domestically.

For protein, we expect to see slaughter rates beginning to contract for beef and lamb as producers rebuild herds and flocks following elevated slaughter in 2014 (owing to dry weather). Cattle prices have already jumped significantly in response to improved Queensland rainfall as producers look to restock.

Dairy producers mostly enjoyed moderately higher production this season, although this has been offset by significantly lower international prices. A good autumn break will be key to enjoying strong production in the coming season.

Figure 1: NAB Rural Commodities Index



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, BNZ, Australian Bureau of Statistics, Bloomberg and Profarmer. January 2010 = 100

Table 1: January 2015 price movements, production and price forecasts for major agricultural sectors

	Month on month price change (AUD)	2014-15 annual production change	2014-15 annual price change (AUD)
Wheat	▼ 3.0%	▼ 14.0%	▲ 1.3%
Beef	▲ 22.3%	▼ 0.6%	▲ 21.3%
Dairy	▲ 6.4%	▲ 1.5%	▼ 22.5%
Lamb	▲ 4.9%	▲ 3.2%	↔ no change
Wool	↔ no change	▼ 3.5%	▼ 1.1%
Sugar	▲ 2.6%	▲ 5.0%	▼ 0.5%
Cotton	▲ 0.6%	▼ 46.9%	▼ 13.8%

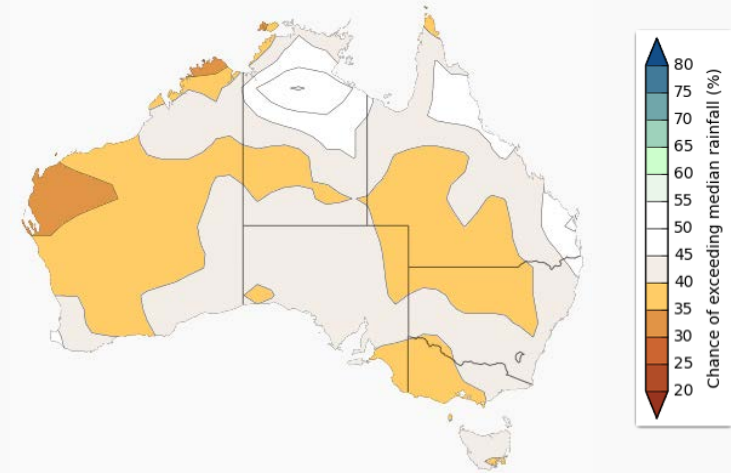
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Bloomberg, BNZ and Profarmer. Forecasts represent year-on-year average changes.

Climatic Conditions

Having endured drought conditions for much of 2014, large parts of Queensland enjoyed good rains in December 2014 and January 2015. Elsewhere, rainfall for the past three months has generally been average to above average, with the exception of parts of the Western Australian wheatbelt, the Nullarbor and northern Tasmania.

The Bureau of Meteorology's rainfall outlook for February to April 2015 forecasts below average rainfall for most of the continent, with the exception of parts of coastal Queensland and northern parts of the Northern Territory. Rainfall deficiencies are forecast to be greatest in Western Australia, western Queensland and northern New South Wales as well as western Victoria and south eastern South Australia. These areas are forecast to receive less than 40% of median rainfall over the next three months.

Figure 2: Australian rainfall outlook – February to April 2015



Source: Bureau of Meteorology



Economic Update

For a detailed analysis of Australian and global economic trends see our [Global and Australian forecasts](#) and [Monthly Business Survey](#).

Global Economy

Globally moderate sub-trend global growth continues with a diversity of economic conditions (solid expansion in US, UK, India and China, weakness in Euro-zone, Japan, Latin America). Falling oil prices should boost global activity, although the impact varies between oil exporting and importing countries. Our estimates are conservative but lower oil prices still boost our forecasts for the US, Japan, Euro-zone, India, China and non-Japan Asia while Russia and other big energy suppliers are revised down. Adding in the other (mainly negative) recent changes in the environment gives growth going from 3% last year to 3½% in 2015 and 2016.

Domestic Economy

We have now incorporated both the large falls in oil prices and other commodities (especially iron ore) into our domestic forecasts. These shocks in the near term largely hit prices and incomes – with a resultant fall in Australian terms of trade of 15% in the year to March. A lower AUD will broadly cushion AUD commodity prices in the coming year. The lagged impact of lower oil prices combined with interest rate cuts are expected to help a faster recovery pattern for Australian GDP, which is expected to run around 3% through 2015 and 3½% into 2016.

Interest Rates

The RBA cut the cash rate by 25 basis points to 2.25% in February. The decision came one month sooner than we expected, in an attempt to boost a soft economy with rising unemployment. Our view is that the RBA will sit back and watch for a few months to see if more needs to be done. Fundamentally we still see the need for another cut to counter lower commodity prices and other domestic headwinds. We have brought forward our August cut to May – with a 30% probability of another cut thereafter. The timing and extent of the cuts will be heavily data dependent while a resurgent housing market would work in the opposite direction.

Table 2: NAB Global Economic Forecasts

% change year on year	2014	2015	2016
China	7.4	7.1	6.9
US	2.4	3.3	2.7
Euro zone	0.8	1.2	1.4
Emerging Asia	4.0	4.6	4.9
Japan	0.2	0.8	1.2
Middle East	2.8	3.3	3.9
Advanced economies	1.8	2.3	2.2
Emerging economies	4.7	5.1	5.3
World GDP	3.1	3.4	3.6

Source: NAB Group Economics

Table 3: NAB Australian Economic Forecast

% change year on year	2014	2015	2016
GDP growth	2.4	3.1	3.6
Private consumption	2.4	3.1	3.0
Unemployment rate (year end)	6.2	6.5	6.0
Consumer Price Index (core)	2.2	2.2	2.6

Source: NAB Group Economics

Table 4: NAB Interest Rate Forecast (end of quarter)

	2015 Q1	2015 Q2	2015 Q3	2015 Q4
RBA Cash Rate	2.25	2.0	2.0	2.0

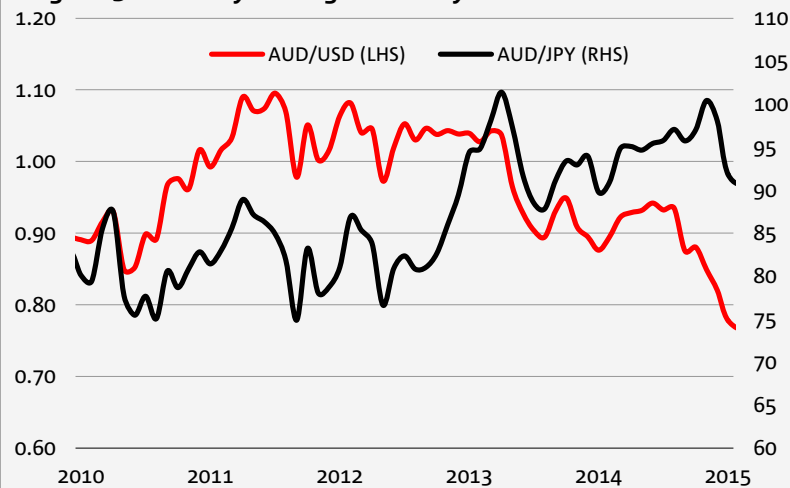
Source: NAB

Exchange Rates

The AUD continued to fall in January and into February in response initially to the Swiss National Bank's decision to lift the cap on the Swiss Franc and later in response to the RBA's February decision to cut the cash rate 25 basis points to 2.25%.

There is increased confidence in a mid-year start to increases in US interest rates, which combined with the likelihood of at least another RBA rate cut in the coming months and expected further falls in Australia's terms of trade, sees lower forecast levels. In response, we have revised down our AUD/USD forecast, which now shows AUD/USD falling to a low of 0.74 this year and 0.73 in 2016 before recovery commencing in later in 2016 and into 2017.

Figure 3: Monthly average currency movements



Source: DXdata, NAB

Table 5: NAB FX Strategy Targets

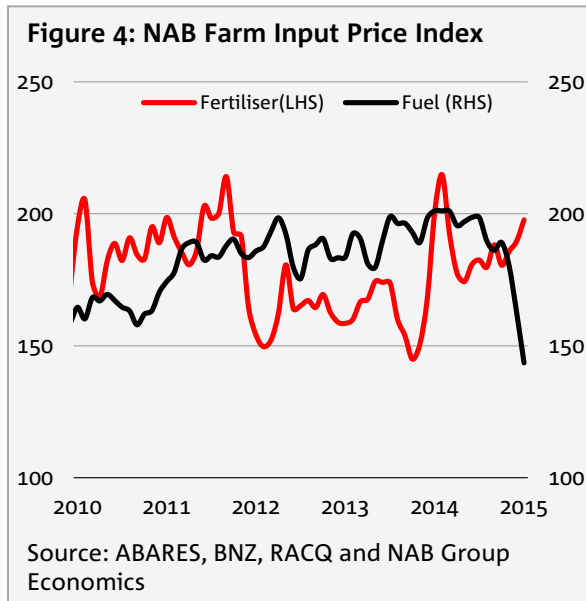
		2015 Q1	2015 Q2	2015 Q3	2015 Q4
Australian Dollar	AUD/USD	0.76	0.75	0.74	0.74
New Zealand Dollar	NZD/USD	0.73	0.72	0.71	0.70
Japanese yen	USD/JPY	119	121	122	123
Euro	EUR/USD	1.13	1.12	1.10	1.08
British Pound	GBP/USD	1.50	1.47	1.45	1.43
Swiss Franc	USD/CHF	0.88	0.89	0.91	0.93
Chinese New Yuan	USD/CNY	6.30	6.28	6.25	6.20
Canadian Dollar	USD/CAD	1.26	1.25	1.24	1.22

Source: NAB

NAB Farm Input Prices

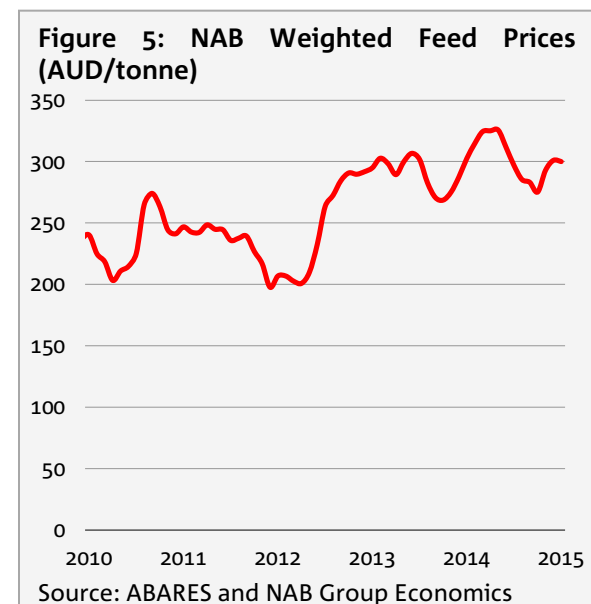
Petrol prices were significantly lower in January, falling 11.8% (AUD) for the month. This sharp decline comes in response to lower crude oil prices, which have fallen significantly since mid-2014. However, petrol prices have begun to rise in February.

Fertiliser prices were higher however, as the falling AUD, combined with higher international diammonium phosphate prices and urea prices, offset the impact of cheaper natural gas. Overall, the NAB Fertiliser Index was up 4.3% (AUD) in January.



Weighted Feed Grain Prices

Weighted feed grain prices declined slightly in January, as lower international prices were not fully offset by a falling AUD. The NAB Feed Grain Price Index fell 0.3% (AUD) for the month, with barley, sorghum, maize, triticale and feed wheat lower, and only oats registering a higher price.



Crops

Wheat

Generic 1st Australian milling wheat fell 3.0% (AUD) in January to average AUD300.54/tonne for the month, as a lower AUD was unable to offset lower international prices. Ample global wheat supply (which the USDA estimates at 912.5 million tonnes for 2014-15) combined with the impact of sharply lower oil prices (which has seen lower corn ethanol prices and a flow-through to other major feed grains) has led to falling world wheat prices.

Coarse grains

Coarse grains were mixed in January. Eastern Australia feed barley was up 0.9% (AUD) and sorghum (Newcastle NSW) gained 1.9%. Rice was down 5.0% (AUD), with a lower AUD masking steeper falls in the US.

Oilseeds

Domestic canola (Newcastle NSW) was up 1.7% in January to AUD486.82/tonne. International markets show lower oilseed prices in USD terms, reflecting abundant global supply, with the USDA forecasting record global oilseed supply (532.1 million tonnes) for 2014-15.

Pulses

Pulses continued to climb steadily in January. Chick peas (Brisbane) gained 17.0% (AUD) to AUD581.61/tonne, field peas (Port Adelaide) were up 15.7% (AUD) to AUD444.86/tonne while lupins (Port Adelaide) gained 4.0% (AUD).

Figure 6: Generic 1st Australian milling wheat (AUD/tonne)

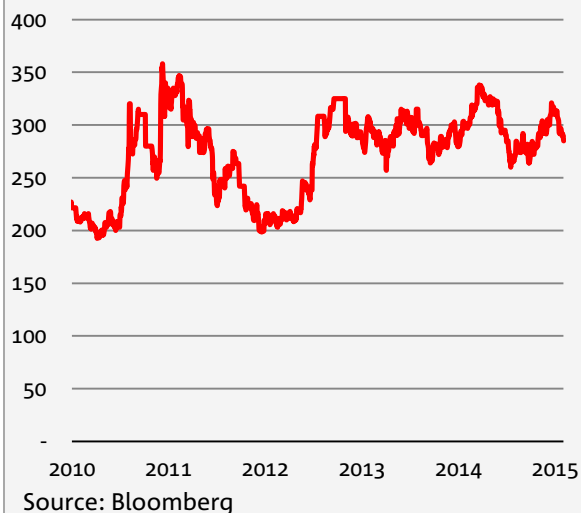


Figure 7: Selected coarse grains (AUD/tonne)

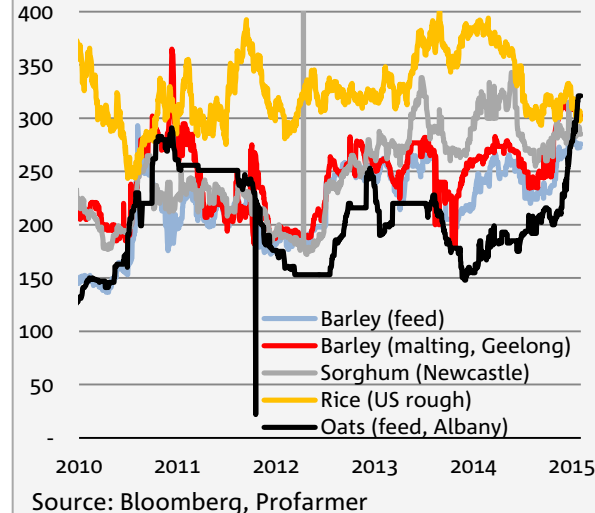


Figure 8: Canola, Newcastle NSW (AUD/tonne)

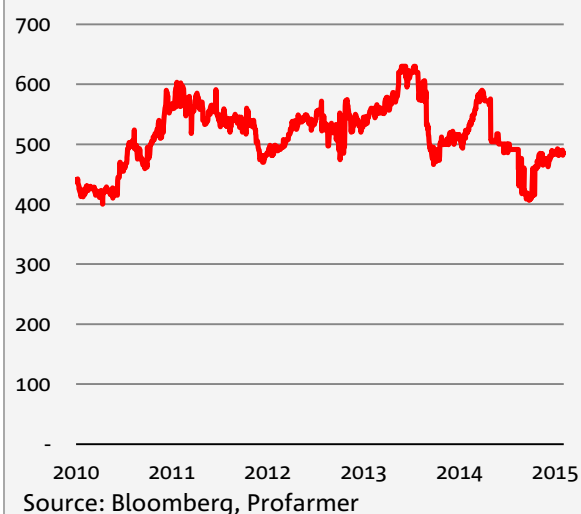
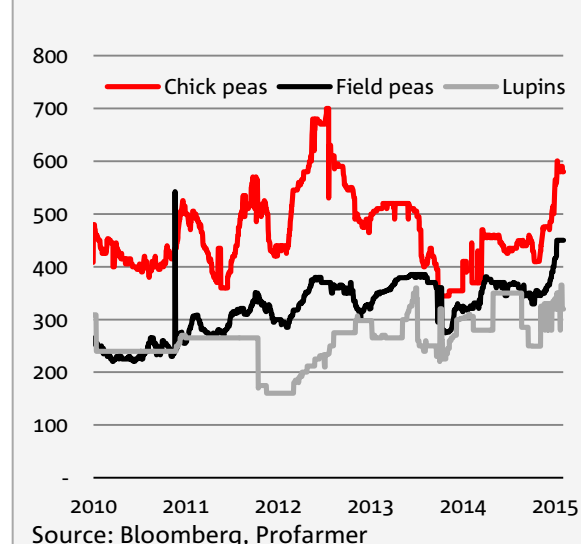


Figure 9: Selected pulses (AUD/tonne)



Protein

Beef

Cattle prices have risen substantially as Queensland producers look to restock in response to significant rainfall throughout much of Queensland in December 2014 and January 2015. The Eastern Young Cattle Indicator (EYCI) has broken through 400 AUc/kg for the first time since early 2012 and averaged 442.4 AUc/kg in January. For more detail see our [In Focus](#) report on the Queensland beef industry.

Lamb

Heavy lamb prices rose 4.9% (AUD) in January to 558.3AUc/kg, gaining pace for the third straight month, responding to contracting sheep and lamb slaughter as producers are encouraged by recent rains to rebuild flocks.

Pork

Australian wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) have been reasonably stable over the last several months, with lower feed grain prices limiting inflationary pressures. Animals in this category averaged 331.4 AUc/kg in January, up 0.8%.

Poultry

While we do not collect wholesale poultry price data, retail prices have remained stable for much of 2014, gaining only 0.4% in the December quarter 2014.

Figure 10: Eastern Young Cattle Indicator (AUc/kg)

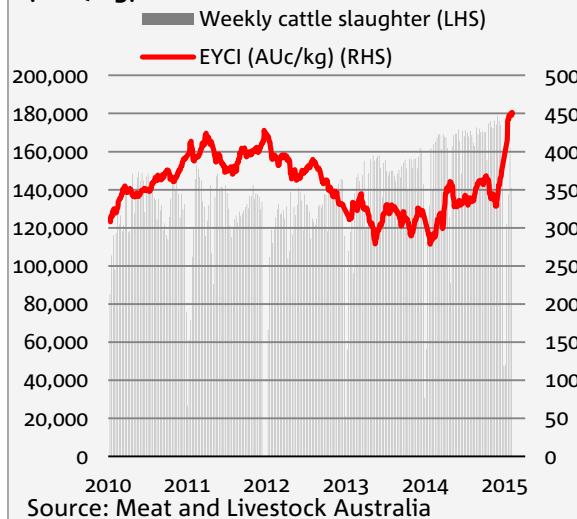


Figure 11: Heavy lamb (AUc/kg)

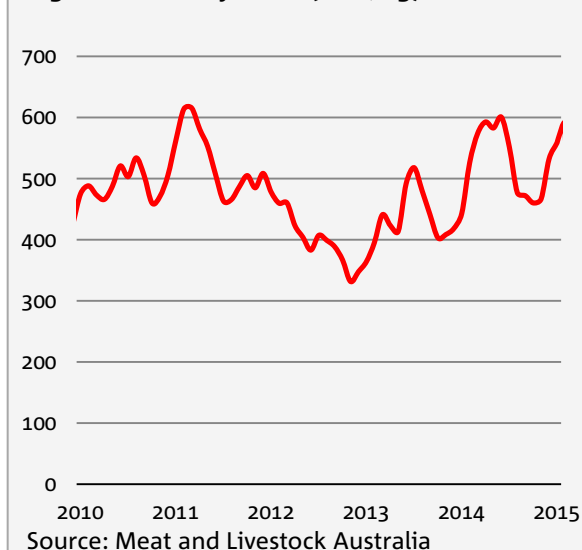


Figure 12: Pork – 60.1-75kg (AUc/kg)

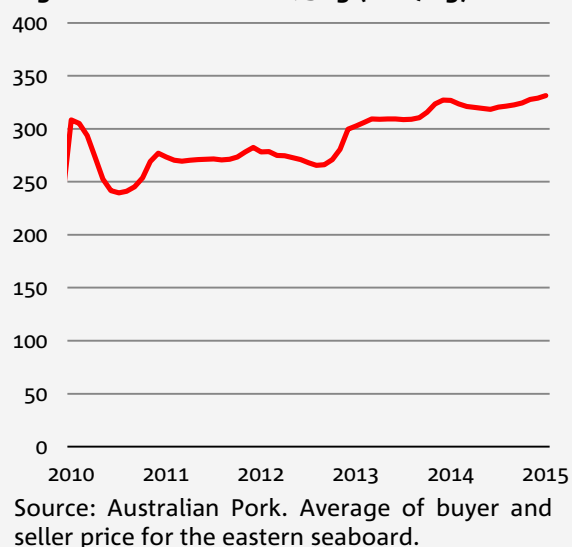
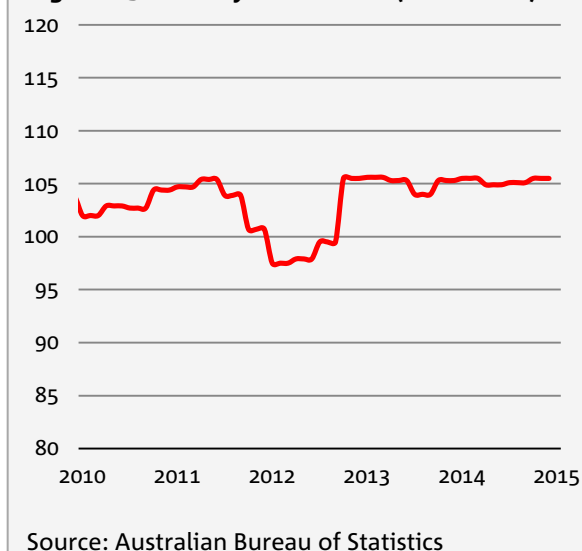


Figure 13: Poultry – Australia (ABS index)

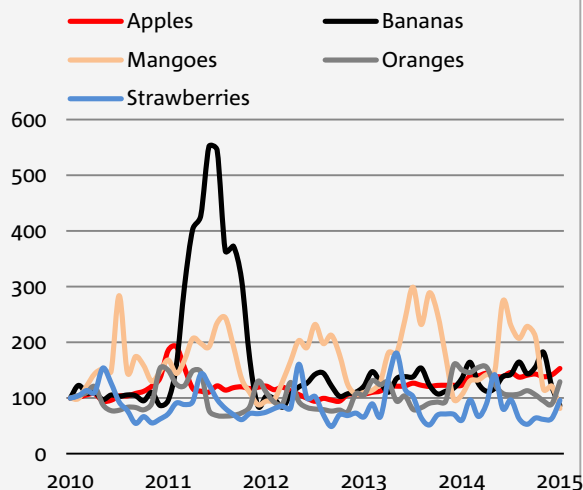


Fruit

The NAB Fruit Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell 3.0% (AUD) in January. The decline was led by cheaper bananas and seasonal falls for mangoes, offsetting moderately higher apple prices and sharply higher citrus prices.

The index stands at 110.6 for January 2015 (note January 2010 = 100), 7.4% lower than the same time in 2014.

Figure 14: Wholesale market price index, selected fruit – Sydney and Melbourne



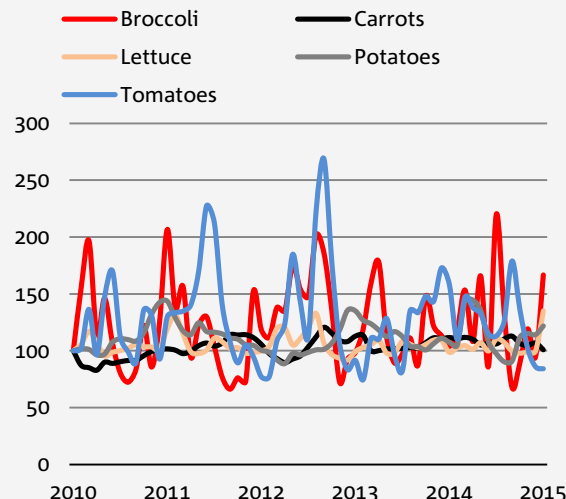
Source: Ausmarket Consultants and NAB Group Economics

Vegetables

The NAB Vegetable Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, increased 17% (AUD) in January as sharply higher broccoli and lettuce, and moderately higher potato prices offset lower prices for tomatoes and carrots.

The index stands at 117.4 for January 2015 (note January 2010 = 100), virtually unchanged compared to the same time in 2014.

Figure 15: Wholesale price index, selected vegetables – Sydney and Melbourne



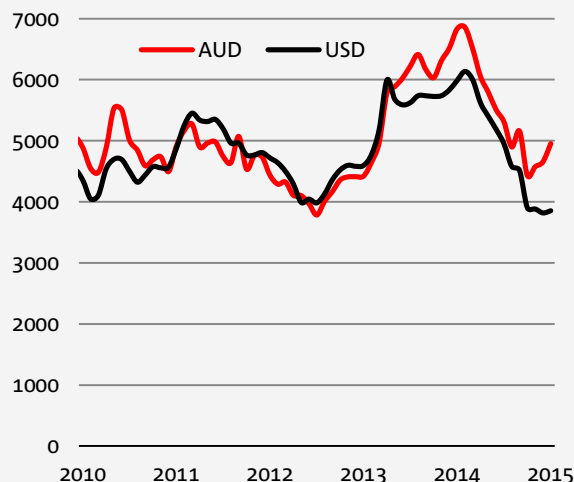
Source: Ausmarket Consultants and NAB Group Economics

Dairy

BNZ weighted dairy prices increased slightly in USD terms in January (up 1.0%), while the falling AUD continued to provide comfort to local producers. In AUD terms, prices increased 6.4% for the month.

Weighted USD prices have now been reasonably steady for four months, suggesting that the price falls that occurred for much of 2014 may have abated. With the AUD forecast to fall further in 2015, international price stability points to an upturn in domestic prices.

Figure 16: BNZ weighted global dairy price (\$/tonne)



Source: BNZ

Fibres

Wool

Wool was unchanged in January, with the Eastern Market Indicator averaging AUD10.57/kg for the month. Prices were stable for some time until January, with only a small uptick (2.7%) since mid-2014, although February has seen a jump in price as the AUD falls.

Cotton

Global cotton prices declined in January, with Cotlook A down 1.4% (USD), although the lower AUD saw prices up 0.6% in local terms. Cotton is trading well below the same time last year as decent supply and sluggish Chinese demand continues to weight on sentiment.

Industrial crops

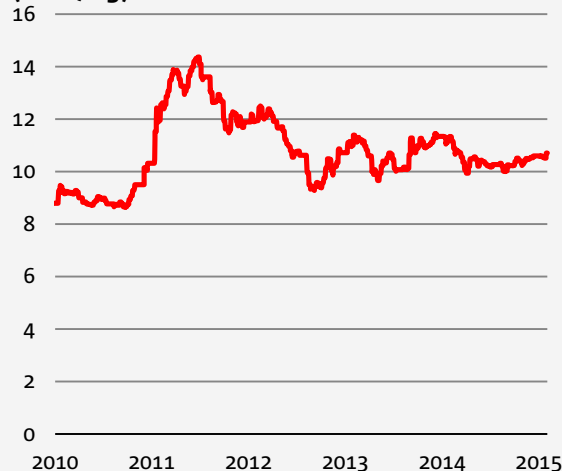
Wine grapes

Wine Australia's 2014 Price Dispersion Report shows lower prices across most major varieties (with the exceptions of Riesling and Semillon), reflecting a continuing ongoing global wine glut. Hardest hit were Chardonnay, Cabernet Sauvignon and Shiraz, down 20%, 17% and 16% respectively year on year in volume weighted terms.

Sugar

Global sugar prices steadied in January, with ICE no.11 sugar up 0.5% (USD) and 2.6% (AUD). Strong supply from Mexico and elsewhere has for the moment mitigated fears that dry conditions in Brazil could affect global supply.

Figure 17: Wool - Eastern Market Indicator (AUD/kg)



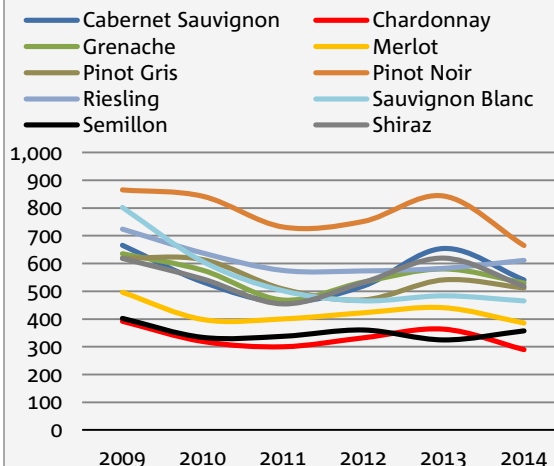
Source: Bloomberg

Figure 18: Cotlook A cotton (AUD/tonne)



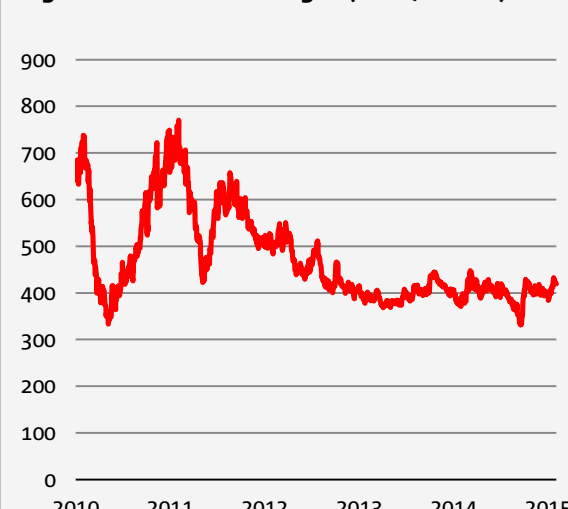
Source: Bloomberg

Figure 19: Volume weighted wine grape prices by variety (AUD/tonne)



Source: Wine Australia, NAB Group Economics

Figure 20: ICE no.11 sugar (AUD/tonne)



Source: Bloomberg

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