

Economic Report

Rural Commodities Wrap – March 2015

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Key points

- The NAB Rural Commodities Index, which covers 28 agricultural commodities, gained 2.1% (AUD) and 0.5% (USD) in February on the back of higher fruit, dairy, fibre and pulses prices, which offset mixed performance across grains and protein.
- We have made minor adjustments to our 2014-15 price forecasts this month. Wheat prices have been revised down on ongoing ample supply, while beef, lamb and dairy have been moderately revised upwards. We continue to expect a falling AUD to provide a partial offset to falling international grain prices.
- Rainfall was below average in many parts of Australia in February, although the Bureau of Meteorology's latest medium term forecast shows a return to more neutral conditions in the coming three months, with average rainfall forecast across much of the east coast and above average rainfall forecast in South Australia and Western Australia. If the forecast rainfall eventuates, many areas could enjoy a decent autumn break.

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Front page: Grain augers at the Wimmera Field Days, March 2015. Photo: Phin Ziebell

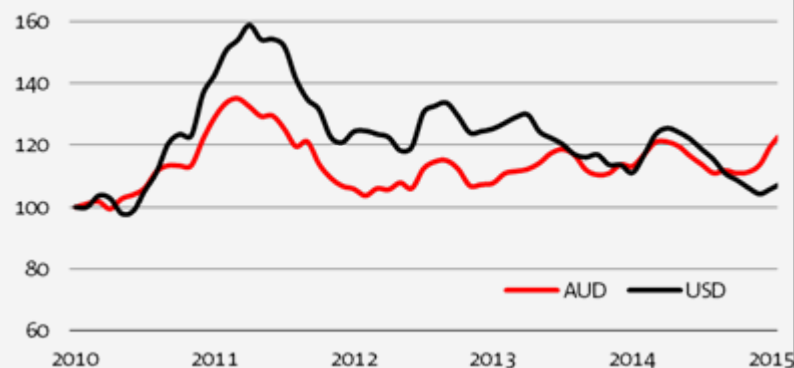


NAB Rural Commodities Index

NAB's Rural Commodities Index includes 28 commodities (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 2.1% in February, as higher fruit, dairy, fibre and pulses prices offset mixed performance across grains and protein. The index was up 0.5% in USD terms for the month.

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

Production and Price Outlook

The outlook for winter grains for the coming season will be contingent on the receipt of decent rainfall coming into autumn, allowing adequate sub-soil moisture. While global grain prices have fallen of late, a lower forecast AUD is expected to partly cushion 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 rates 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 last 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.

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	▼ 3.8%	▼ 12.3%	▼ 0.8%
Beef	▲ 0.7%	▲ 0.4%	▲ 22.8%
Dairy	▲ 6.4%	▲ 1.8%	▼ 21.2%
Lamb	▼ 1.5%	▲ 3.0%	▲ 2.6%
Wool	▲ 3.1%	▼ 3.3%	▼ 1.1%
Sugar	▲ 0.1%	▲ 7.3%	▼ 3.1%
Cotton	▲ 7.3%	▼ 46.9%	▼ 14.8%

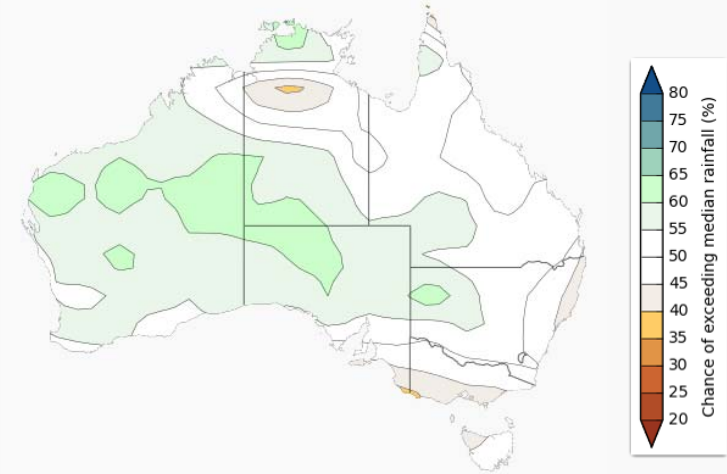
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Bloomberg, BNZ and Profarmer. Forecasts represent year-on-year average changes.

Climatic Conditions

Rainfall across Australia was generally average to below average in February. Queensland experienced generally below average falls for the month, aside from some coastal areas in the south east. New South Wales saw below average rain in the north and south west, but average falls in the south east. Victoria generally enjoyed around average falls while South Australia saw mostly below average rain. Rainfall was mixed in the Western Australian wheatbelt but below average in the Kimberley.

The Bureau of Meteorology's rainfall outlook for March to May 2015 forecasts a return to more neutral conditions on the east coast, with average rainfall forecast for the period. The New South Wales north coast as well as south west Victoria may receive below average rain however. South Australia and Western Australia are forecast to receive above average rainfall. If this materialises, wheat growers in these areas will enjoy a decent autumn break.

Figure 2: Australian rainfall outlook – March to May 2015



Source: Bureau of Meteorology



Economic Update

For detailed analysis of Australian and global economic trends see our [Global and Australian forecasts](#). Below is a précis of this report.

Global Economy

Global growth remains around 3% and, although the business surveys show a lift in sentiment in key advanced economies, there is still no clear evidence that the expected upturn in global growth to 3½% by the end of the year has commenced. Weaker prices for oil and other commodities will benefit spending power in most big advanced economies as well as in China, but that same weakness is weighing on demand across a range of primary exporting nations. World trade remains sluggish, holding down growth in export-oriented areas like East Asia but the lower Euro should help towards its predicted recovery in growth.

Domestic Economy

Locally, we have not changed our near term forecasts – 2014-15 at 2.3% – and have marginally lowered 2015-16 forecasts to 3% (was 3.2%). That largely reflects weaker business investment and a touch higher unemployment rate (6.7%) at end 2015 and hence a touch weaker consumption. On going weak global trade has lowered our expectations of much better non commodity exports. The domestic economy, in early 2015, has not gained momentum and indeed business confidence is lower. Inflation will continue to slow. We still see another rate cut in coming months – most likely May but the April meeting is live and data dependent. We are not forecasting a second cut to below 2% but the chances of that happening are rising (35-40% chance). We see rate rises starting again in H2 2016.

Interest Rates

We still see another rate cut in coming months – most likely May but the April meeting is live and data dependent. We are not forecasting a second cut to below 2% in 2015 but the chances of that happening are rising (35-40% chance). We see rate rises starting again in H2 2016.

Table 2: NAB Global Economic Forecasts

% change year on year	2014	2015	2016
China	7.4	7.1	6.9
US	2.4	3.1	2.7
Euro zone	0.8	1.3	1.7
Emerging Asia	4.0	4.4	4.6
Japan	0.2	0.8	1.2
Middle East	2.8	3.3	3.3
Advanced economies	1.8	2.2	2.3
Emerging economies	5.0	5.2	5.5
World GDP	3.2	3.5	3.6

Source: NAB Group Economics

Table 3: NAB Australian Economic Forecast

% change year on year	2014	2015	2016
GDP growth	2.4	2.5	3.2
Private consumption	2.4	2.8	2.9
Unemployment rate (year end)	6.2	6.7	6.2
Consumer Price Index (core)	2.2	2.1	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

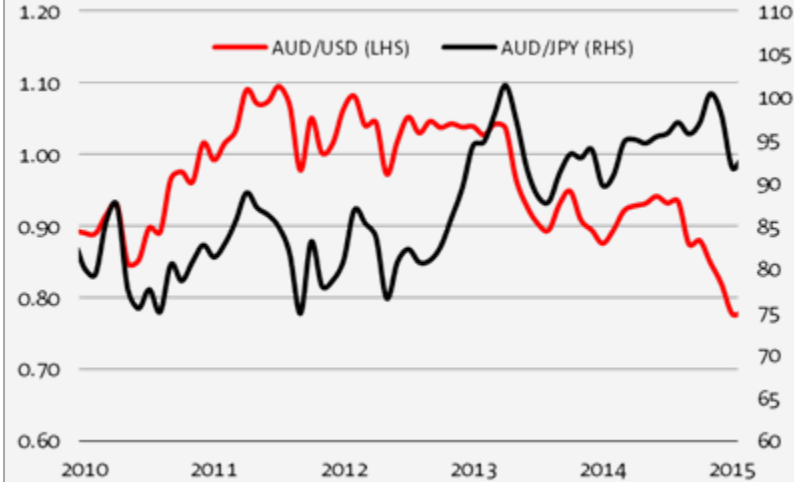
Source: NAB

Exchange Rates

The AUD has tracked within a fairly narrow range in the last few weeks, although this has been broken by further falls in the iron ore price combined with encouraging US labour market data, seeing the AUD fall.

We still expect that the US Federal Reserve will begin to raise interest rates in June, although there is a risk that it may come later. Coupled with the likelihood of at least one additional RBA rate cut and expected further falls in Australia's terms of trade, this suggests that the AUD will continue to fall. Our AUD/USD forecast shows the AUD 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

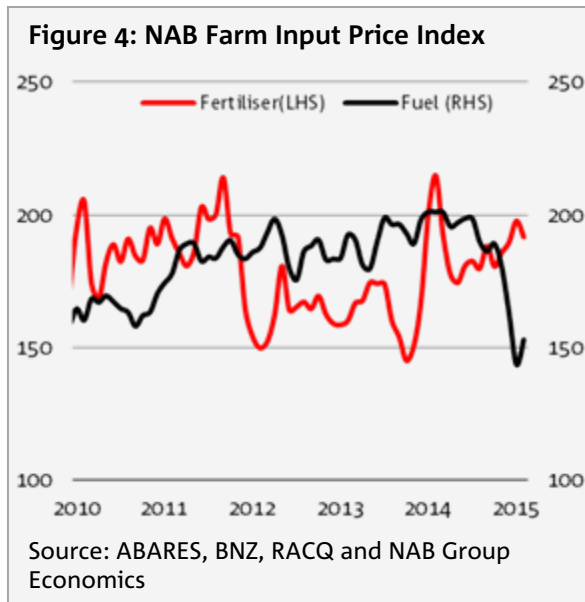
Source: NAB



NAB Farm Input Prices

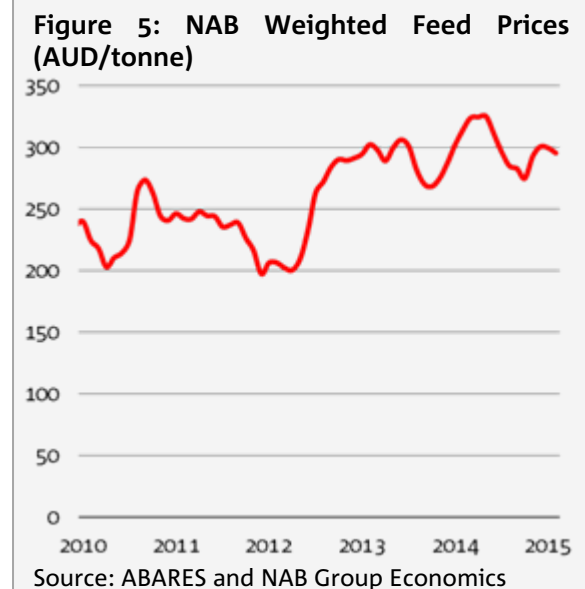
Petrol prices rebounded in February, up 6.5% for the month despite subdued crude oil prices, which have fallen significantly since mid-2014. With the AUD forecast to fall further, we expect to see petrol prices rise further in coming months.

Fertiliser prices were lower however, led by falling international natural gas and urea prices and steady diammonium phosphate prices. Overall, the NAB Fertiliser Index was down 3.1% (AUD) in January.



Weighted Feed Grain Prices

Weighted feed grain prices declined further in February, with international prices continuing to fall. The NAB Feed Grain Price Index fell 1.4% (AUD) for the month, with barley, sorghum, triticale and feed wheat lower, while maize was steady and oats registered a higher price.



Crops

Wheat

Generic 1st Australian milling wheat fell 3.8% (AUD) in February to average AUD289.20/tonne for the month, generally following lower international prices. Ample global wheat supply (despite small downward revisions by the USDA this month) 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 seen world wheat prices continue to fall.

Coarse grains

Coarse grains were again mixed in February, although mostly lower. Eastern Australia feed barley fell 1.9% (AUD) and sorghum (Newcastle NSW) was off 2.1%. Rice was down 3.3% (AUD). Oats (feed, Albany) gained 5.7% (AUD).

Oilseeds

Domestic canola (Newcastle NSW) was up 0.7% in February to AUD490.05/tonne. Canadian canola fell slightly month on month in USD terms, reflecting abundant global supply, with the USDA forecasting record global oilseed supply for 2014-15.

Pulses

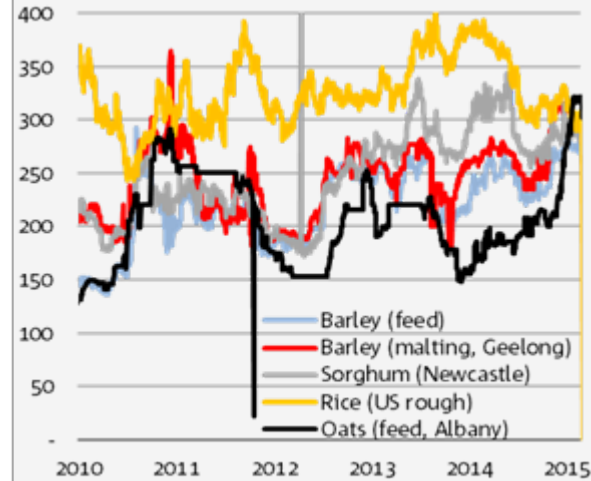
Pulses continued to climb steadily in February. Chick peas (Brisbane) gained 3.6% (AUD) to AUD602.53/tonne, field peas (Port Adelaide) were up 7.8% (AUD) to AUD479.75/tonne while lupins (Port Adelaide) gained 7.2% (AUD).

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



Source: Bloomberg

Figure 7: Selected coarse grains (AUD/tonne)



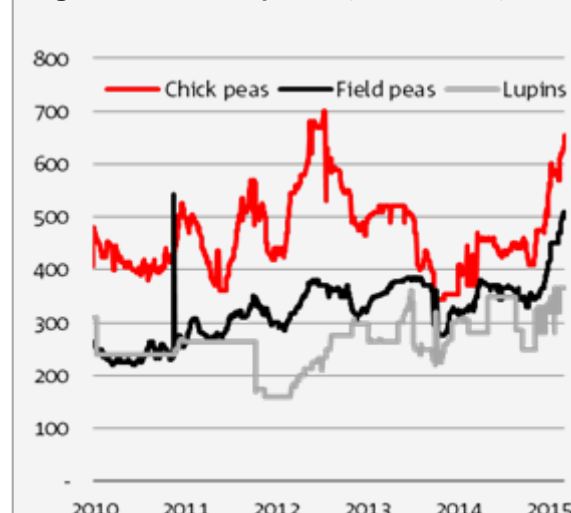
Source: Bloomberg, Profarmer

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



Source: Bloomberg, Profarmer

Figure 9: Selected pulses (AUD/tonne)



Source: Bloomberg, Profarmer

Protein

Beef

Cattle prices began to ease in February, although the Eastern Young Cattle Indicator still gained 0.7% (AUD) month on month to 445.34 AUc/kg. While prices remain at elevated levels, there has been pressure from lower demand from processors in cyclone damaged Rockhampton and generally below average rainfall across major northern beef regions in February. Our headline 2014-15 price forecast has been revised up slightly to +22.8% year on year (from +21.3 last month), although this solely reflects an upward revision for Q1 2015. The return of drought conditions remains an ongoing risk in Q2 and beyond.

Lamb

Heavy lamb prices fell 1.5% (AUD) in January to 550AUc/kg, following three straight months of higher prices.

Pork

Australian wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) were unchanged in February, with lower feed grain prices limiting inflationary pressures.

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 (the most recent data available).

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

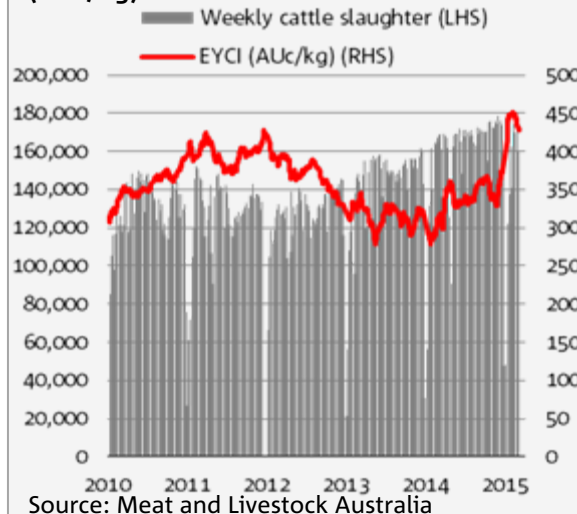


Figure 11: Heavy lamb (AUc/kg)

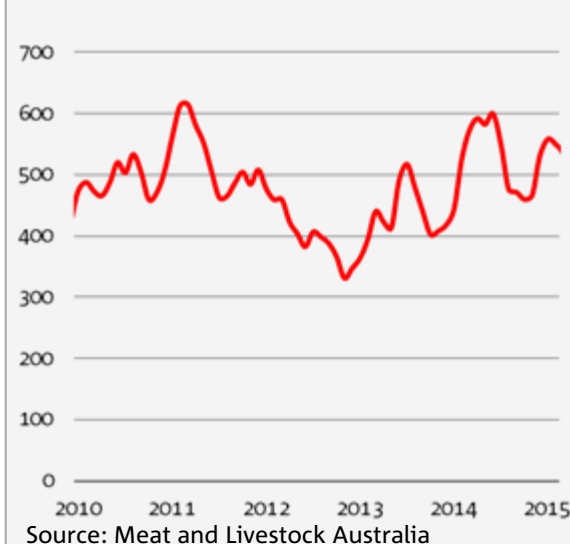


Figure 12: Pork – 60.1-75kg (AUc/kg)

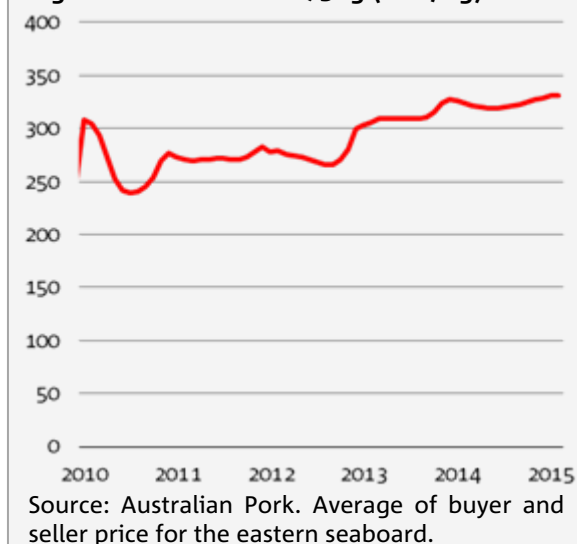


Figure 13: Poultry – Australia (ABS index)

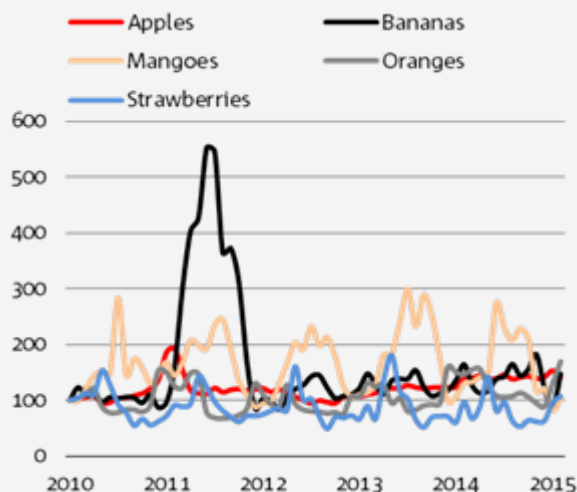


Fruit

The NAB Fruit Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, increased 22.7% (AUD) in February. The increase was led rebounding tropical and citrus prices, offsetting moderately lower apple prices.

The index stands at 135.7 for February 2015 (note January 2010 = 100), 3.1% lower than the same time in 2014.

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



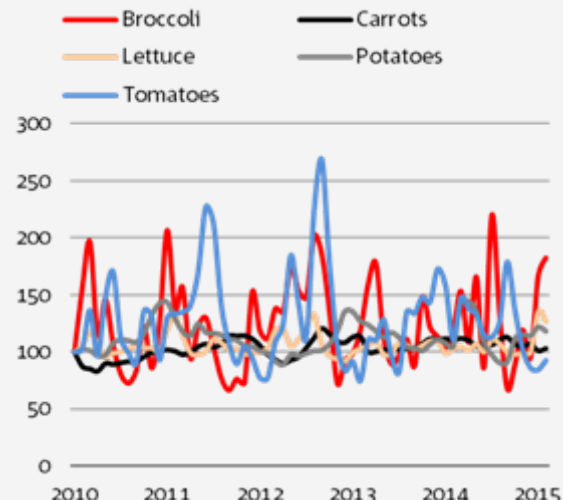
Source: Ausmarket Consultants and NAB Group Economics

Vegetables

The NAB Vegetable Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, was essentially steady in February, up 0.9% (AUD). Higher broccoli, carrot and tomato prices were offset by cheaper lettuce and potatoes.

The index stands at 118.4 for February 2015 (note January 2010 = 100), 9.7% higher than the same time in 2014.

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



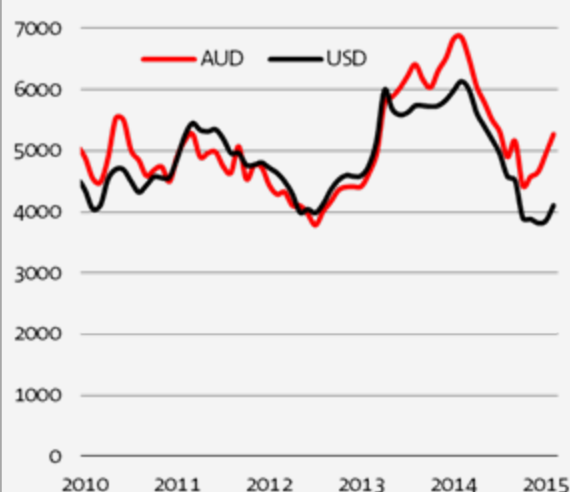
Source: Ausmarket Consultants and NAB Group Economics

Dairy

BNZ weighted dairy prices increased in USD terms in February (up 6.6%), as concerns about the supply impact of the ongoing drought in New Zealand continued to affect sentiment. In AUD terms, prices increased 6.4% for the month.

Should the New Zealand drought continue unabated, it is likely that international prices will continue to rise in the coming months. However, a return to more favourable climatic conditions may see prices ease further.

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



Source: BNZ

Fibres

Wool

Wool strengthened in February, with the Eastern Market Indicator averaging AUD10.90/kg for the month, up 3.1%. Prices remain relatively stable in historical terms, with little month on month movement.

Cotton

Global cotton prices rose in February, with Cotlook A up 3.5% (USD). Nonetheless, cotton is trading well below the same time last year as decent supply and sluggish Chinese demand continues to weight on sentiment.

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



Source: Bloomberg

Figure 18: Cotlook A cotton (AUD/tonne)



Source: Bloomberg

Industrial crops

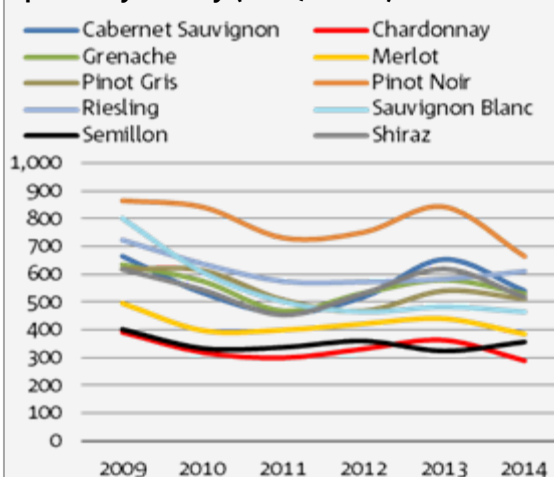
Wine grapes

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 declined in February, with ICE no.11 sugar down 3.4% (USD). Strong supply from Mexico and elsewhere has been compounded by rains in Brazil and sluggish global demand.

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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