

# Economic Report

## Rural Commodities Wrap – April 2015

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## Key points

- The NAB Rural Commodities Index, which covers 28 agricultural commodities, fell 1.7% (AUD) and 3.3% (USD) in March, led by lower beef, lamb, fruit, vegetable and sugar prices. Partial data for April to date points to a recovery in beef and lamb prices, but conversely a decline in weighted dairy prices. These developments will not be reflected in the index until next month's Rural Commodities Wrap.
- Rainfall across Australia was generally well below average in March, with the exception of Western Australia, Tasmania and parts of the Darling Downs and northern New South Wales. However, the Bureau of Meteorology's rainfall outlook for April to June 2015 forecasts above average rainfall for almost all the continent, with the exception of Cape York, Arnhem Land and Tasmania.
- The April 2015 Rural Commodities Wrap introduces a new measure of dairy export prices – the NAB monthly weighted dairy price indicator – based on Global Dairy Trade auction results, weighted by the quantity of Australian exports for whole milk powder, skim milk powder, butter and cheese.

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Front page: Sunset at Euroa, Victoria. Photo: Mai Thai



## 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 NAB Rural Commodities Index fell 1.7% in March, led by lower beef, lamb, fruit, vegetable and sugar prices. In USD terms, the index was down 3.3%. Partial data for April to date points to a recovery in beef and lamb prices, but conversely a decline in weighted dairy prices. These developments will not be reflected in the index until next month's Rural Commodities Wrap.

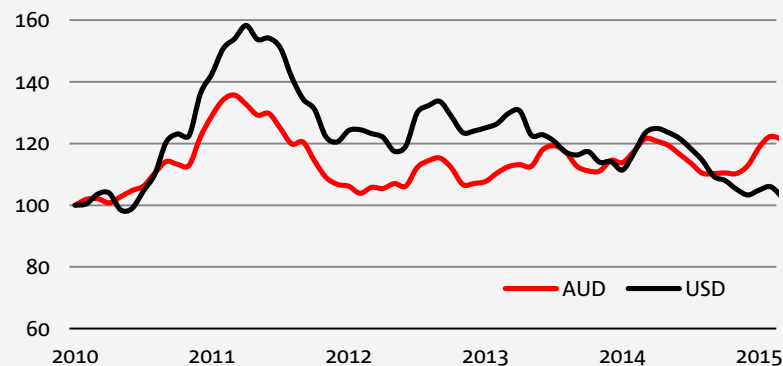
## Production and Price Outlook

The outlook for winter grains for the coming season will be contingent on the receipt of decent rainfall through autumn, although the lack of sub-soil moisture in some areas will affect planting. 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 jumped significantly and subsequently partly retreated in response to Queensland rainfall conditions.

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 higher 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	▲ 0.6%	▼ 12.3%	▼ 3.0%
Beef	▼ 4.6%	▲ 0.4%	▲ 22.6%
Dairy	▲ 6.3%	▲ 1.8%	▼ 28.5%
Lamb	▼ 4.9%	▲ 3.0%	▲ 3.1%
Wool	▲ 0.1%	▼ 3.3%	▼ 1.4%
Sugar	▼ 11.0%	▲ 7.3%	▼ 2.0%
Cotton	▲ 0.1%	▼ 46.9%	▼ 15.3%

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

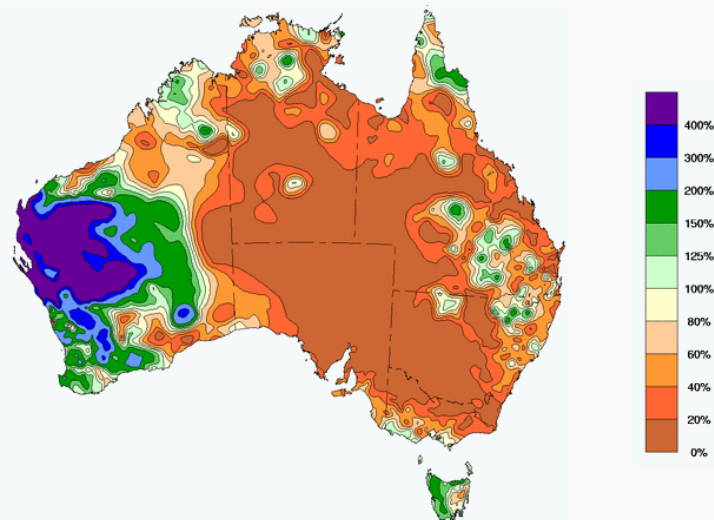


## Climatic Conditions

Rainfall across Australia was generally well below average in March, with the exception of Western Australia, Tasmania and parts of the Darling Downs and northern New South Wales. Parts of Western Australia, excluding the Pilbara and the state's easternmost areas, enjoyed above average rainfall. The dryer conditions, especially in Queensland, precipitated a less optimistic mood than earlier in the year, when parts of Queensland enjoyed decent rainfall.

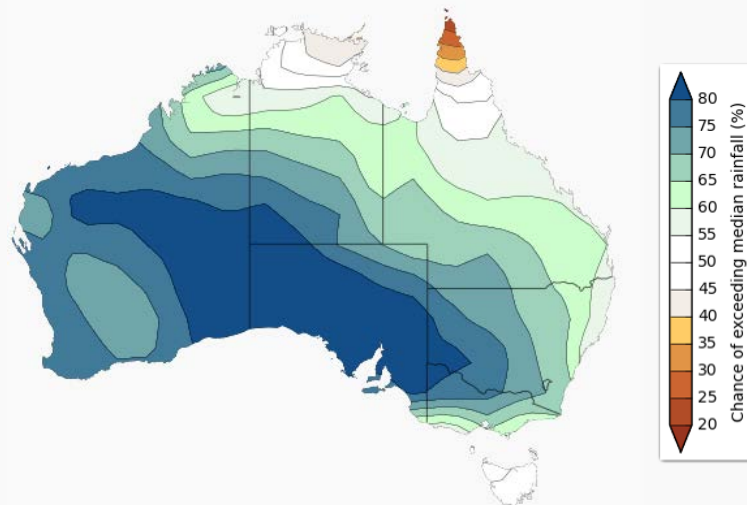
The Bureau of Meteorology's rainfall outlook for April to June 2015 forecasts above average rainfall for almost all the continent, with the exception of Cape York, Arnhem Land and Tasmania. A belt from the northern Mallee, through almost all of South Australia and stretching almost to the Pilbara is forecast to have a more than 80% chance of receiving above average rainfall. If the forecast rainfall materialises, grain growers should enjoy a reasonable break.

Figure 2: Australian rainfall percentages – March 2015



Source: Bureau of Meteorology

Figure 3: Australian rainfall outlook – April to June 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 stuck at a sub-trend pace. After 3.3% in 2014 we now expect only 3.4% in 2015. While the Euro-zone and Japan are experiencing upturns, recent US data has disappointed. We have delayed the Fed starting till September (or later) and reduced US GDP in 2015 to 2.7%. March quarter business surveys do not suggest any acceleration in advanced economy growth – which we require to achieve the 2015 forecast. With Chinese growth slowing and weak outcomes across the rest of East Asia and Latin America, there is no evidence of an upturn in emerging market economy growth either. Emerging market economies make only a minimal contribution to the 2015 forecasts with the Chinese slowdown offsetting faster Indian growth.

### Domestic Economy

The big picture in Australia is still one where the non mining sector is struggling to offset the impact on domestic demand of sharply lower mining investment. Further falls in commodity prices are lowering income flows. A particular concern is the weak medium term outlook for non mining investment, while the consumer remains cautious. As a result we still see unemployment rising to 6.7% by end 2015. While the March business survey was encouraging, business confidence remains weak and business conditions in Q1 were still sub trend – we will need more readings to be sure that tentative signs of better non mining activity are becoming entrenched.

### Interest Rates

We still see another rate cut – most likely May but it is possible that if the economy continues to improve, the cut could be further delayed. We are not forecasting a second cut to below 2% – we see that possibility at 35-40% – significantly below the market's current view (fully priced). We see rate rises starting again by late 2016.

**Table 2: NAB Global Economic Forecasts**

% change year on year	2014	2015	2016
China	7.4	7.1	6.9
United States	2.4	2.7	2.7
Euro zone	0.9	1.4	1.8
Emerging East Asia	4.0	4.0	4.2
Japan	-0.1	0.8	1.3
Advanced economies	1.8	2.2	2.3
Emerging economies	5.1	5.1	5.2
World GDP	3.3	3.4	3.5

Source: NAB Group Economics

**Table 3: NAB Australian Economic Forecast**

% change year on year	2015	2016	2017
GDP growth	2.4	3.2	3.0
Private consumption	2.8	2.9	2.4
Unemployment rate (year end)	6.7	6.3	6.1
Consumer Price Index (core)	2.1	2.5	2.7

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 Group Economics

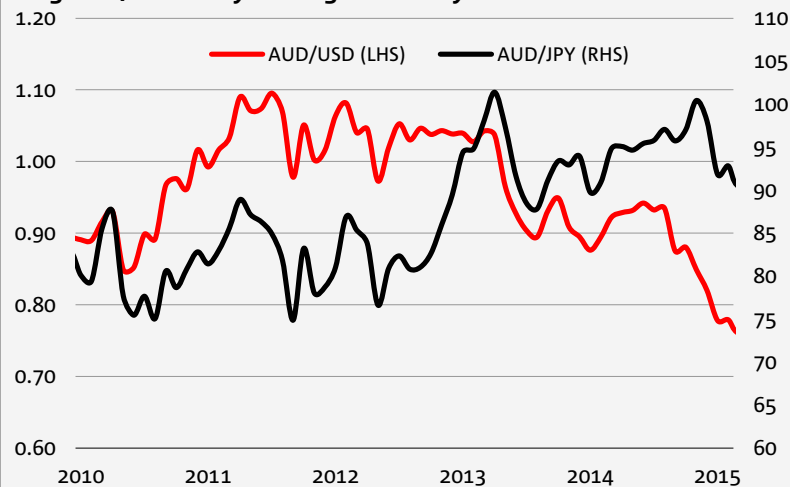
## Exchange Rates

The AUD continued to fall in March, averaging USD 0.760 for the month, down from USD 0.779 in February.

The Fed is still preparing the ground for a gradual rise in US policy interest rates but recent soft activity data and an absence of inflation pressures give the Fed discretion over when to start raising rates. We think the first 25 bps rise will come in September with another by the end of 2015. The Fed is still saying that it could keep its target rate below its long-run average for some time even if inflation and employment are around target.

Coupled with the likelihood of an additional RBA rate cut and expected further falls in Australia's terms of trade, we expect 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 4: Monthly average currency movements**



Source: DXdata, NAB

**Table 5: NAB FX Strategy Targets**

		2015 Q2	2015 Q3	2015 Q4	2016 Q1
Australian Dollar	AUD/USD	0.75	0.74	0.74	0.73
New Zealand Dollar	NZD/USD	0.72	0.71	0.70	0.69
Japanese yen	USD/JPY	123	124	125	126
Euro	EUR/USD	1.03	1.02	1.00	1.00
British Pound	GBP/USD	1.41	1.38	1.33	1.33
Swiss Franc	USD/CHF	1.01	1.02	1.05	1.06
Chinese New Yuan	USD/CNY	6.28	6.25	6.20	6.20
Canadian Dollar	USD/CAD	1.25	1.24	1.22	1.21

Source: NAB

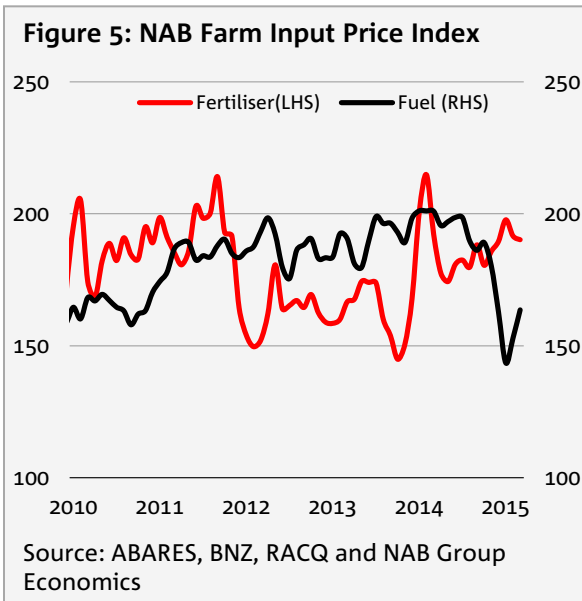




## NAB Farm Input Prices

Petrol prices continued to rise in March, up 7.0% for the month to 125 AUc/litre – the highest since December 2014. This comes 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.

International fertiliser prices were lower, led by falling international urea and diammonium phosphate and steady natural gas prices. However, much of this decline was lost through exchange rate variations and the NAB Fertiliser Index was down only 0.7% (AUD) in March.



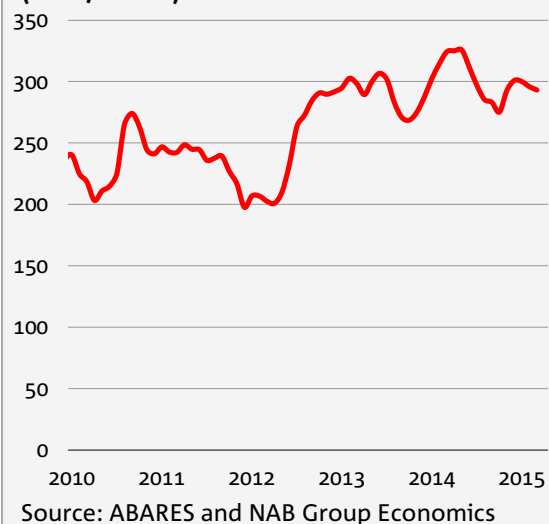
## Weighted Feed Grain Prices

NAB's weighted feed grain price indicator includes feed wheat, barley, oats, sorghum, maize and triticale and is based on data provided by ABARES. Two thirds of the indicator is made up of feed wheat and barley.

Weighted feed grain prices declined slightly in March, reflecting generally lower international grain prices. The NAB Feed Grain Price Index fell 0.9% (AUD) for the month.



**Figure 6: NAB Weighted Feed Prices (AUD/tonne)**



## Crops

### Wheat

Generic 1<sup>st</sup> Australian milling wheat prices stabilised in March – up 0.6% to average AUD291.00/tonne for the month. Ample global wheat supply (revised up marginally in the latest USDA forecasts) combined with the impact of lower oil prices (which has seen lower corn ethanol prices and a flow-through to other major feed grains) has seen world wheat prices fall since mid-2014, although this has been partly offset by a lower AUD.

### Coarse grains

Coarse grains were again mixed in March. Eastern Australia feed barley fell 0.8% (AUD) and oats (feed, Albany) lost 2.9% (AUD). Sorghum (Newcastle NSW) was up 3.1% (AUD) and rice (US rough) was up 3.6% (AUD).

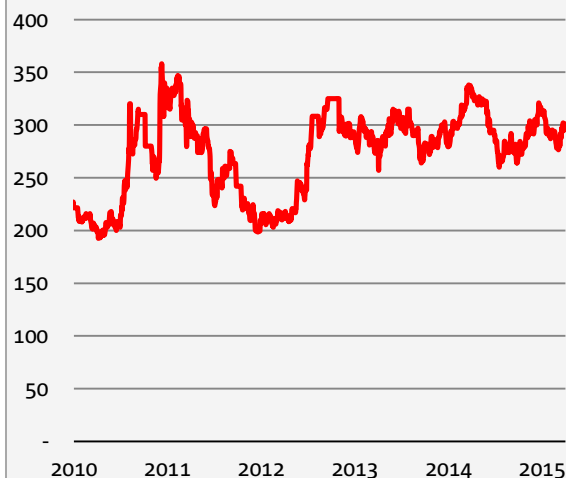
### Oilseeds

Domestic canola (Newcastle NSW) was down 1.2% in March to AUD483.98/tonne. Canadian canola fell month on month in USD terms, reflecting abundant global supply, with the USDA forecasting record global oilseed supply for 2014-15.

### Pulses

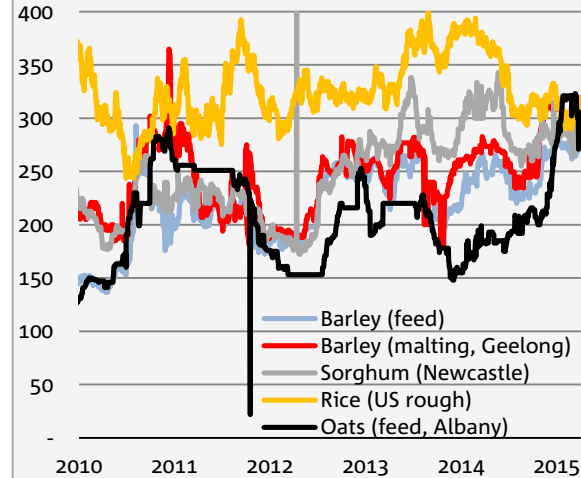
Pulses continued to climb steadily in March. Chick peas (Brisbane) gained 10.1% (AUD) to AUD663.36/tonne, field peas (Port Adelaide) were up 3.7% (AUD) to AUD497.27/tonne while lupins (Port Adelaide) gained 2.5% (AUD).

**Figure 7: Generic 1<sup>st</sup> Australian milling wheat (AUD/tonne)**



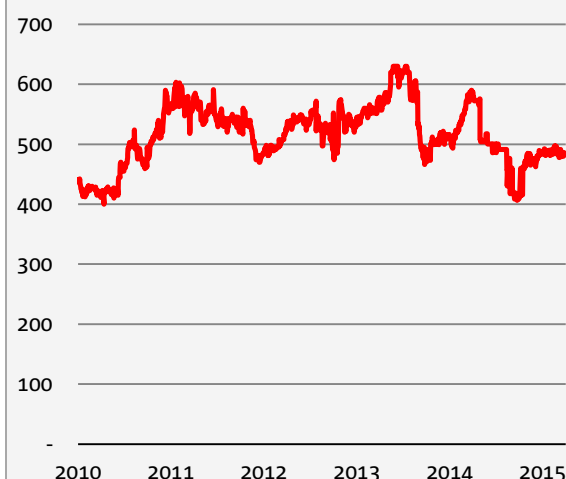
Source: Bloomberg

**Figure 8: Selected coarse grains (AUD/tonne)**



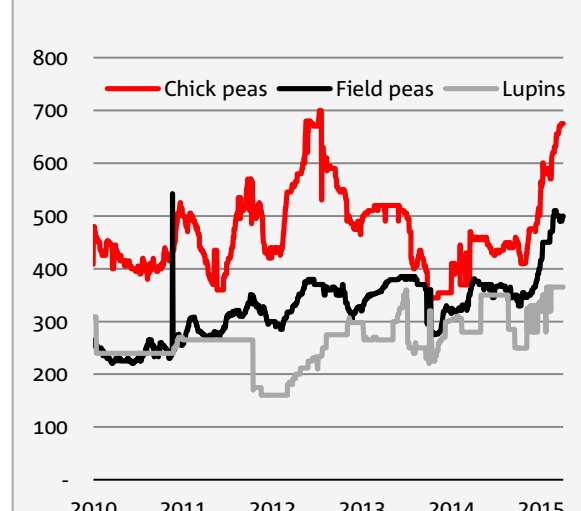
Source: Bloomberg, Profarmer

**Figure 9: Canola, Newcastle NSW (AUD/tonne)**



Source: Bloomberg, Profarmer

**Figure 10: Selected pulses (AUD/tonne)**



Source: Bloomberg, Profarmer



## Protein

### Beef

Cattle prices began to ease in February and continued to fall until late March, before trending upward in early April in line with higher 90CL export prices to the US. Overall, the Eastern Young Cattle Indicator fell 4.6% (AUD) month on month to 424.7 AUc/kg. While prices remain much higher than the same time last year, generally below average rainfall across major Queensland beef regions in March has tempered restocker enthusiasm. The return of drought conditions remains an ongoing risk in Q2 and beyond.

### Lamb

Lamb prices fell 4.9% (AUD) in January, with the National Trade Lamb Indicator averaging 518.9 AUc/kg. Prices have trended up in early April however.

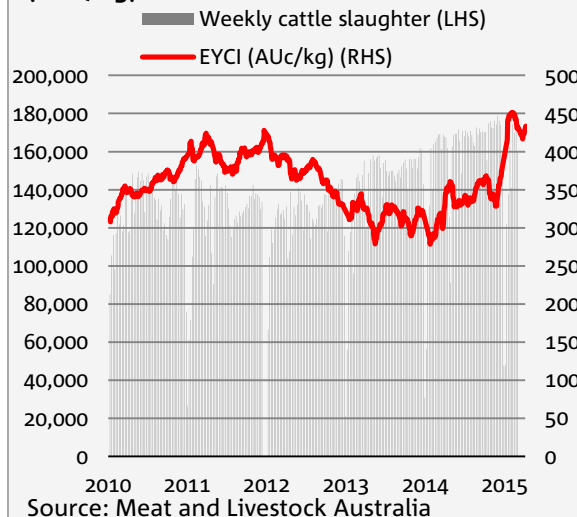
### Pork

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

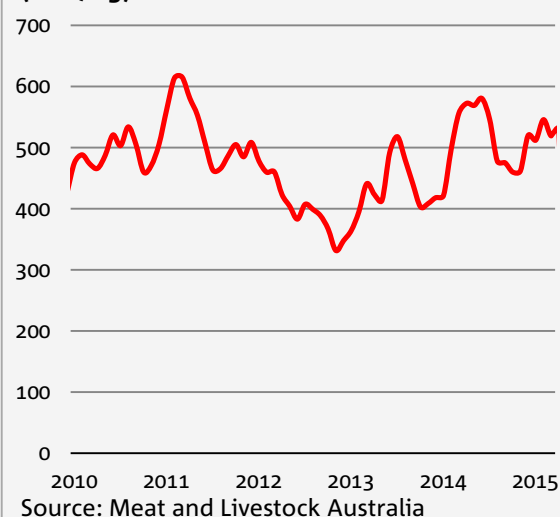
### Poultry

While we do not collect wholesale poultry price data, retail prices have remained stable since late 2012, gaining only 0.4% in the December quarter 2014 (the most recent data available).

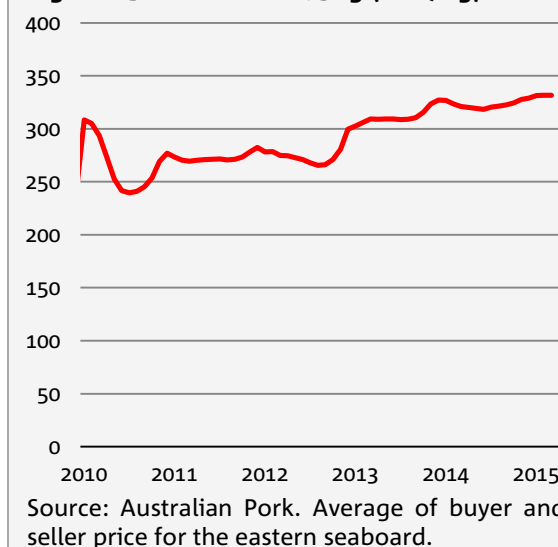
**Figure 11: Eastern Young Cattle Indicator (AUc/kg)**



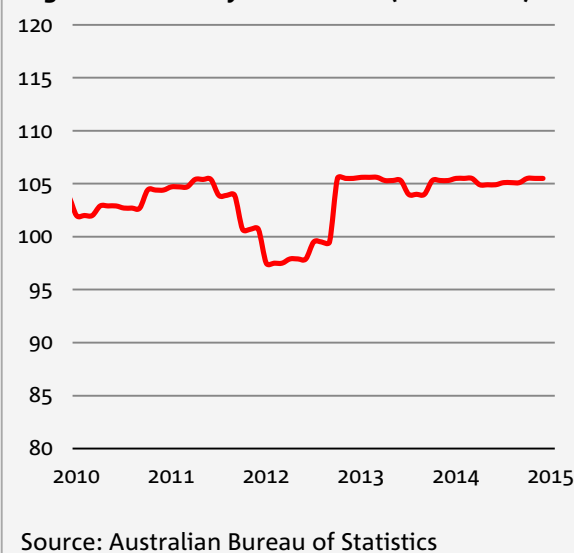
**Figure 12: National Trade Lamb Indicator (AUc/kg)**



**Figure 13: Pork – 60.1-75kg (AUc/kg)**



**Figure 14: Poultry – Australia (ABS index)**

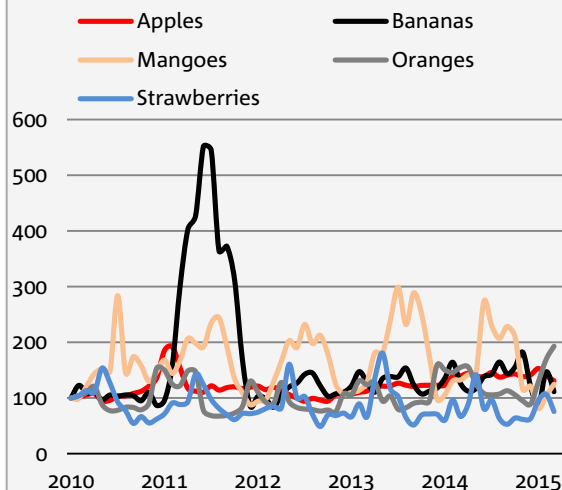


## Fruit

The NAB Fruit Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell by 6.5% (AUD) in March. The decline was led lower apple, banana and strawberry prices, although citrus and mango prices continued to increase.

The index stands at 126.9 for February 2015 (note January 2010 = 100), slightly lower than the same time in 2014.

**Figure 15: Wholesale market price index, selected fruit – Sydney and Melbourne**



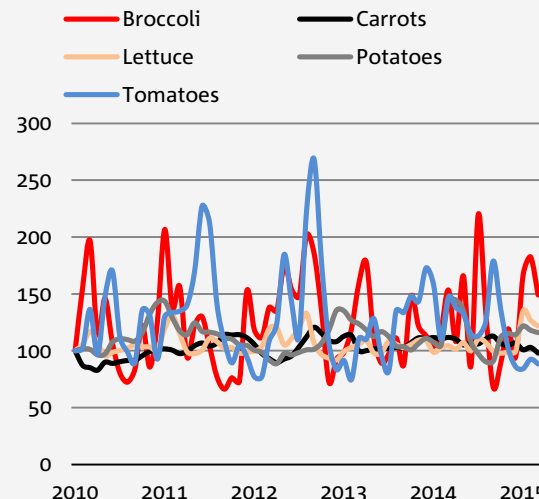
Source: Ausmarket Consultants and NAB Group Economics

## Vegetables

The NAB Vegetable Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell by 6.1% (AUD) in March. Broccoli, carrot, tomato, lettuce and potatoes all trended lower.

The index stands at 111.2 for February 2015 (note January 2010 = 100), 14.1% lower than the same time in 2014.

**Figure 16: Wholesale price index, selected vegetables – Sydney and Melbourne**



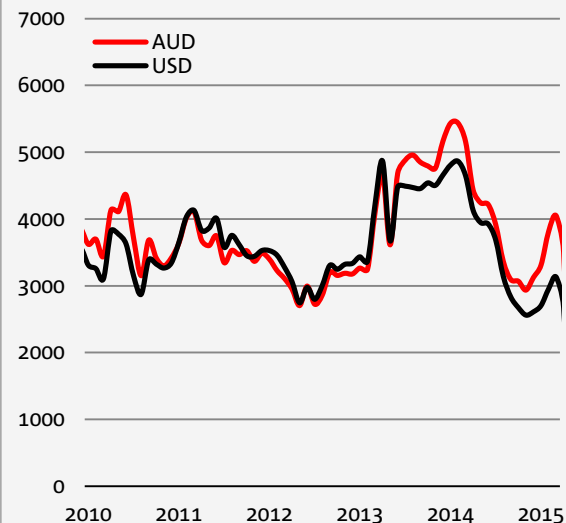
Source: Ausmarket Consultants and NAB Group Economics

## Dairy

NAB has developed a new measure of dairy export prices, based on Global Dairy Trade auction results, weighted by the quantity of Australian exports for whole milk powder, skim milk powder, butter and cheese.

While the NAB monthly weighted dairy price indicator gained 6.3% (AUD) in March, the last two International Dairy Trade auctions have seen prices trend lower. This reflects improved weather in New Zealand and uncertainty around the supply impact of the removal of EU milk quotas.

**Figure 17: NAB monthly weighted dairy price indicator (\$/tonne)**



Source: BNZ

## Fibres

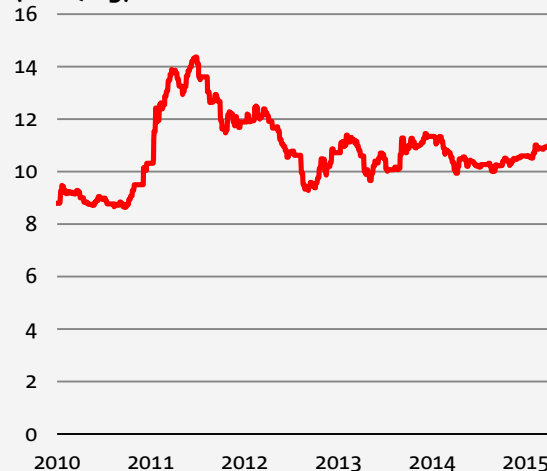
### Wool

Wool was steady in March, with the Eastern Market Indicator averaging AUD10.91/kg for the month, up 0.1%. Prices remain relatively stable in historical terms, with little month on month movement.

### Cotton

Global cotton prices were steady in March, with Cotlook A up 0.1% (AUD). Nonetheless, cotton is trading below the same time last year as decent supply and sluggish Chinese demand continues to weigh on sentiment.

**Figure 18: Wool - Eastern Market Indicator (AUD/kg)**



Source: Bloomberg

**Figure 19: Cotlook A cotton (AUD/tonne)**



Source: Bloomberg

## Industrial crops

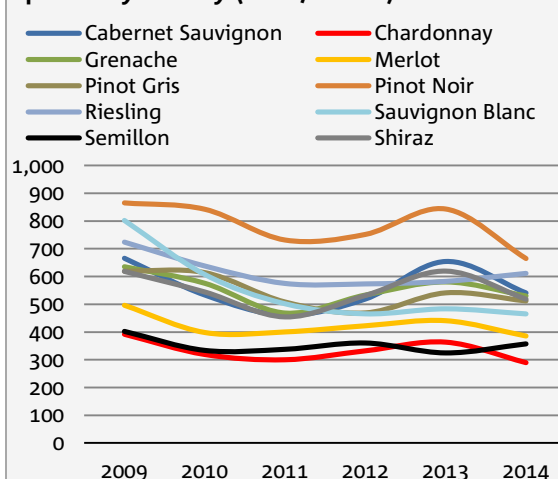
### Wine grapes

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 further declined in March, with ICE no.11 sugar down 11.6% (USD) and 11.0% (AUD). This reflects the depreciation of the Brazilian Real, allowing Brazilian farmers (who are major producers) to receive elevated local prices and continue to plant sugar.

**Figure 20: Volume weighted wine grape prices by variety (AUD/tonne)**



Source: Wine Australia, NAB Group Economics

**Figure 21: ICE no.11 sugar (AUD/tonne)**



Source: Bloomberg

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