



Economic Report

Rural Commodities Wrap – May 2015

Phin Ziebell, NAB Agribusiness Economist



Key points

- April saw a renewed rise in beef and lamb prices, combined with stability across major grains, balanced against lower dairy, fruit and vegetable prices. Overall, the NAB Rural Commodities Index was essentially flat – down 0.2% in AUD terms for the month. Conversely, an unexpectedly higher AUD saw the USD index increase 2.1% over the period. This result runs counter to the overall trend since 2014, which otherwise saw AUD prices generally outperform USD prices as the AUD depreciated.
- The Bureau of Meteorology has now upgraded its ENSO tracker to El Niño status, noting that the tropical Pacific Ocean is now in the early stages of an El Niño event. This news bodes ill for winter and spring rainfall in northern and eastern Australia, although impacts of El Niño events are disparate and difficult to forecast.
- Drought assistance featured prominently in the 2015-16 federal budget, with additional funding to extend concessional loans for another year and further funding for management of pests, local council funding and expanded access to social and mental health services in drought affected areas.

Contents

| | |
|---|----|
| NAB Rural Commodities Index | 3 |
| Production and Price Outlook | 3 |
| Climatic Conditions | 4 |
| Economic Update | 5 |
| Exchange Rates | 6 |
| Farm Input Prices and Feed Grain Prices | 7 |
| Crops | 8 |
| Protein | 9 |
| Fruit and Vegetables | 10 |
| Dairy | 10 |
| Fibres | 11 |
| Industrial Crops | 11 |

Front page: Vegetables near Keilor, Victoria.
Photo: Nick Pitsas, [CSIRO](#)

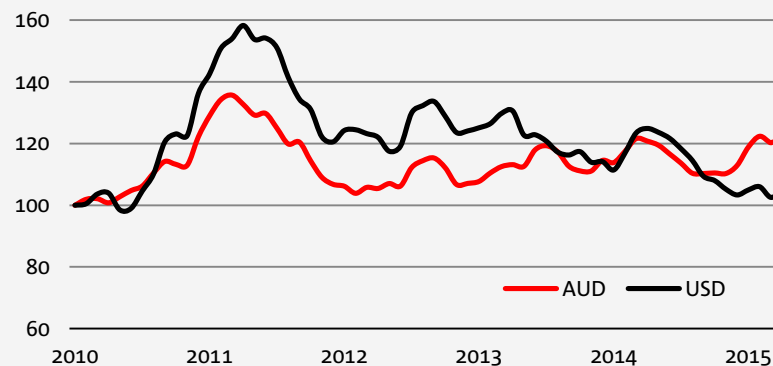


NAB Rural Commodities Index

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 was effectively flat in April – down 0.2%. As higher beef and lamb and steady major grain prices were offset by falling dairy fruit and vegetable prices. In USD terms, the index was higher, up 2.1% on the back of an unexpectedly high AUD. For more detail on exchange rates, see [page 6](#).

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 Bureau of Meteorology's recent declaration of El Niño has clouded the production outlook, particularly for winter grains. El Niño generally causes lower winter and spring rainfall in eastern Australia and previous events have been associated with lower wheat yields.

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 this year and this trend is likely to continue while US demand persists at high levels.

Dairy producers mostly enjoyed moderately higher production last season, although this has been offset by significantly lower international prices. Decent rainfall will be key to enjoying higher production in the coming season.

Table 1: April 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 | ▲ 0.5% | ▼ 12.3% | ▼ 3.1% |
| Beef | ▲ 4.1% | ▲ 0.4% | ▲ 26.6% |
| Dairy | ▼ 14.4% | ▲ 1.8% | ▼ 28.6% |
| Lamb | ▲ 4.1% | ▲ 3.0% | ▲ 7.0% |
| Wool | ▲ 3.3% | ▼ 3.3% | ▼ 1.4% |
| Sugar | ▲ 0.7% | ▲ 7.3% | ▼ 2.1% |
| Cotton | ▲ 3.2% | ▼ 46.9% | ▼ 15.4% |

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 mixed in April. Coastal New South Wales and Eastern Victoria, as well as much of South Australia and parts of the Western Australian wheatbelt and the Pilbara enjoyed above average rainfall. However, rainfall was below average in western Victoria as well as most of Queensland and the Northern Territory, with the northern wet season seeing a generally poor finish.

The Bureau of Meteorology's rainfall outlook for June to August 2015 forecasts below average rainfall for Cape York, Arnhem Land, south west Queensland, much of New South Wales, Gippsland and north west Tasmania. However, south west Western Australia is forecast to enjoy above average rainfall over the winter. The Bureau of Meteorology has now upgraded its ENSO tracker to El Niño status, noting that the tropical Pacific Ocean is now in the early stages of an El Niño event. El Niño affects temperature and rainfall in North and South America, Africa, East and Southeast Asia, the Indian subcontinent, Australia and the Pacific. Locally, the phenomenon causes generally lower winter and spring rainfall in northern and eastern Australia. However, the impacts of El Niño events are disparate and difficult to forecast.

Figure 2: Australian rainfall percentages – April 2015

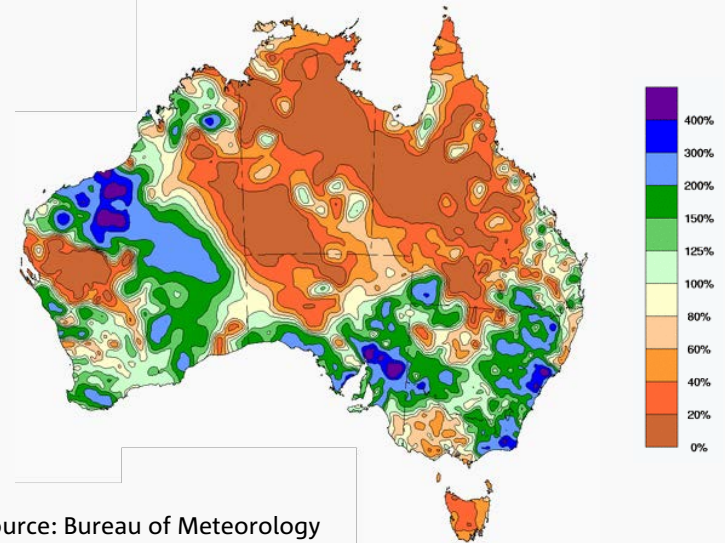
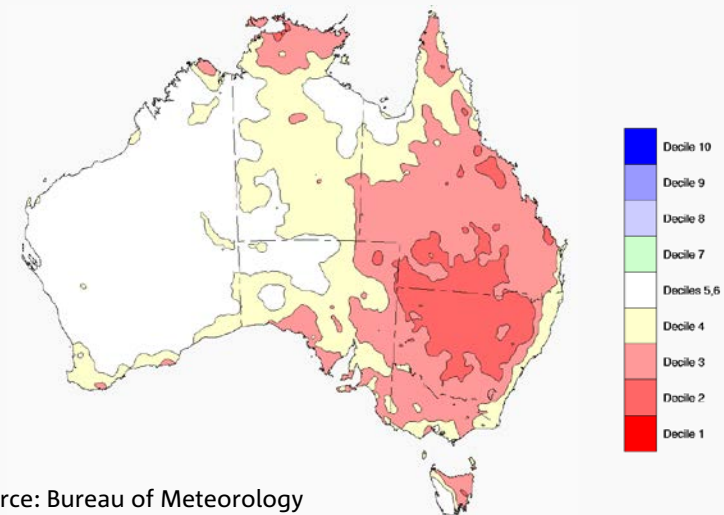


Figure 3: Winter-spring mean rainfall deciles – 12 moderate to strong classical El Niño events



Economic Update

For detailed analysis of Australian and global economic trends as well as an update on the Federal Budget see our [2015-16 Federal Budget Briefing](#). Below is a précis of this report. A special report was also completed on the [implications of the Budget for agribusiness](#).

Global Economy

Conditions remain mixed within the group of big advanced economies with signs of an upturn in the Euro-zone, a disappointing start to the year in the US and Japanese Q1 GDP surprising on the upside. Recent industrial data shows the Chinese economy continuing its trend slowing but, despite all the concerns over its unbalanced growth model, a hard landing has been averted. The pace of growth in India now exceeds that of China, following a major rebasing of the statistics.

Domestic Economy

The domestic economy continues to struggle to offset the impact of falling mining investment. While the shift to the next phase of the mining boom – as capital investments become operational and begin to export – is a key driver of this trend, additional factors are also keeping both business and consumers cautious with their spending. Partial indicators have been somewhat mixed of late, but have generally shown signs of a tentative improvement in the non-mining sector (notwithstanding recent disappointing private capital expenditure outlook numbers). Very low interest rates are having a noticeable impact on house prices, although this has been most evident in Sydney and, to a lesser extent, the Melbourne market. That in turn has via wealth effects seen better business conditions and activity levels in the big non mining states.

Interest Rates

The recent RBA cut was in our view a line ball decision – with the RBA opting to “water the green shoots” rather than delay the timing of an additional cut. While there is still the risk of further cuts, recent improvements in the economy suggest the RBA will pause for some time, with the next move likely to be up (although the timing will be very data dependent). Given our forecasts for activity and inflation, we currently expect the first hike to be very late in 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 | 2.5 | 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 | 2.1 | 2.3 |
| Emerging economies | 5.1 | 5.1 | 5.2 |
| World GDP | 3.3 | 3.2 | 3.5 |

Source: NAB Group Economics

Table 3: NAB Australian Economic Forecast

| % change year on year | 2015 | 2016 | 2017 |
|------------------------------|------|------|------|
| GDP growth | 2.3 | 3.1 | 2.8 |
| Private consumption | 2.8 | 2.8 | 2.4 |
| Unemployment rate (year end) | 6.4 | 6.1 | 5.8 |
| Consumer Price Index (core) | 2.5 | 2.7 | 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

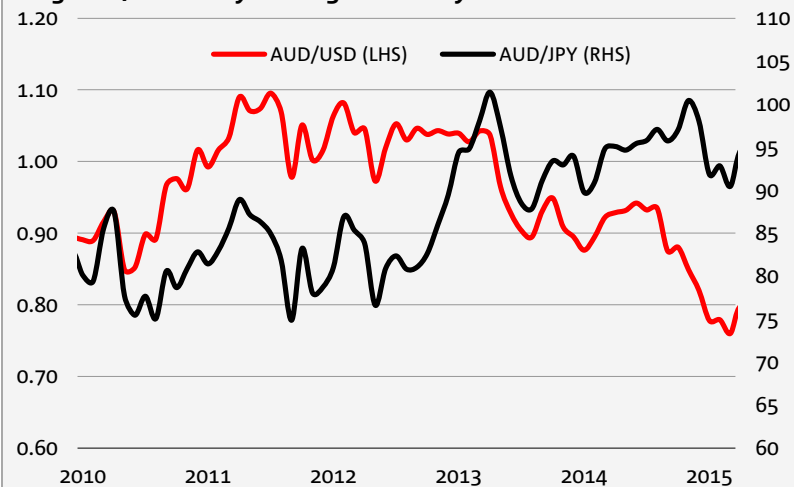
Exchange Rates

The AUD gained ground against the USD in April, in response to generally soft Q1 US economic data, to average 79.8 US cents for the month. This is up from 76.3 US cents in March and 77.9 US cents in February.

We currently expect the US Federal Reserve to start increasing the fed funds rate in September this year. The pace of subsequent increases is expected to be gradual by past standards. A natural question is whether the economy's weak start to the year pushes back this timing. The Fed has indicated that it considers the first quarter result to partly reflect transitory factors. Moreover, in a speech on 27 March 2015, the Fed Chair emphasised the importance of labour market indicators in the decision about when to start lifting rates. While the Fed has both labour market and inflation objectives, the Chair indicated that further improvement in the labour market would increase her confidence that inflation would return to more normal levels.

On balance, we expect that the AUD will resume its downward trajectory in the second half of the year. 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 | 0.78 | 0.76 | 0.74 | 0.73 |
| New Zealand Dollar | NZD/USD | 0.74 | 0.72 | 0.70 | 0.69 |
| Japanese yen | USD/JPY | 123 | 124 | 125 | 126 |
| Euro | EUR/USD | 1.08 | 1.05 | 1.03 | 1.02 |
| British Pound | GBP/USD | 1.50 | 1.46 | 1.45 | 1.44 |
| Swiss Franc | USD/CHF | 0.96 | 0.99 | 1.02 | 1.04 |
| Chinese New Yuan | USD/CNY | 6.20 | 6.25 | 6.20 | 6.20 |
| Canadian Dollar | USD/CAD | 1.25 | 1.24 | 1.22 | 1.21 |

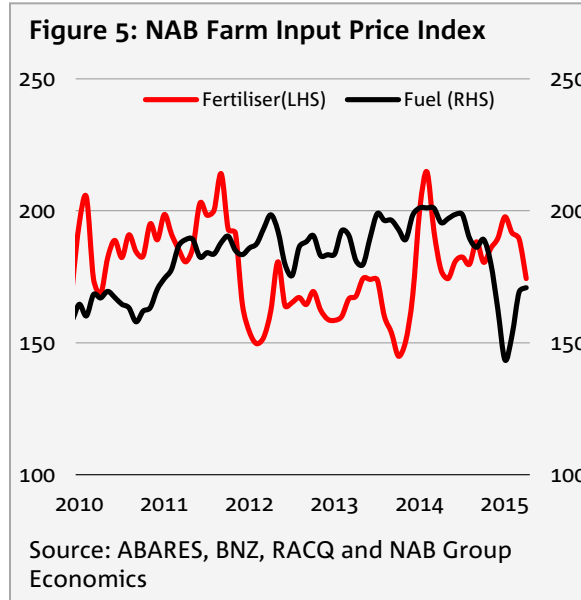
Source: NAB



NAB Farm Input Prices

Petrol prices flat-lined in April at 130.6 AUc/litre. This comes despite somewhat higher crude oil prices, with the higher AUD providing some support. With the AUD forecast to fall, we expect to see petrol prices rise further in coming months.

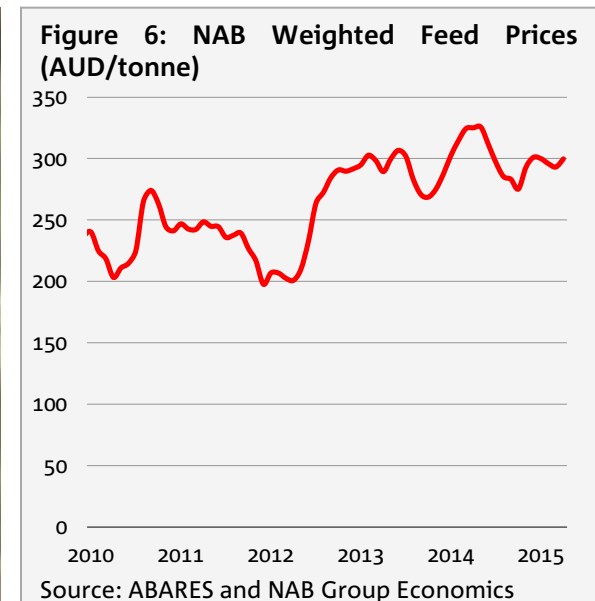
International fertiliser prices were sharply lower, led by falling international diammonium phosphate, urea and natural gas prices. This decline was amplified by exchange rate variations and the NAB Fertiliser Index was down 7.9% (AUD) in April.



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 rose April, reflecting generally higher international grain prices. The NAB Feed Grain Price Index rose 2.3% (AUD) for the month.



Crops

Wheat

Generic 1st Australian milling wheat prices were steady in April – up 0.5% to average AUD292.30/tonne for the month. Ample global wheat supply 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 April. Eastern Australia feed barley rose 1.2% (AUD) while Sorghum gained 1.2% (AUD). Meanwhile oats (feed, Albany) lost 6.8% (AUD) and rice (US rough) was off 4.9% (AUD).

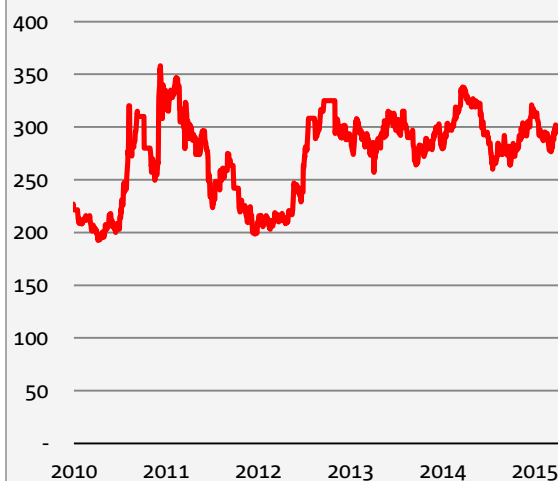
Oilseeds

Domestic canola (Newcastle NSW) was up 1.8% in April to AUD492.75/tonne. Canadian canola rose in USD terms, reflecting expectations of reduced planting and lower supply, with the USDA forecasting marginally lower global oilseed supply for 2015-16.

Pulses

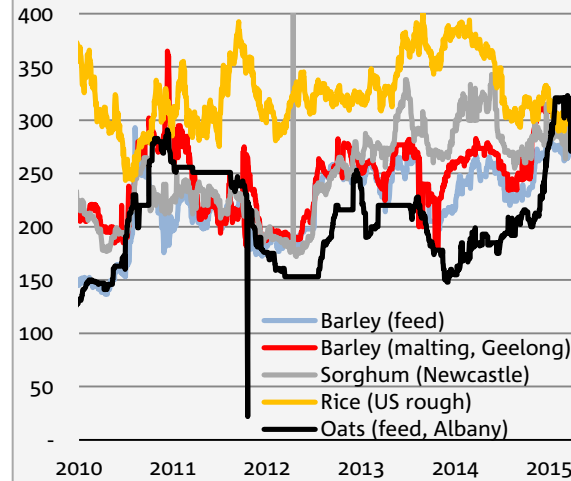
Pulses were mixed in April. Chick peas (Brisbane) gained 9.0% (AUD) to AUD723.30/tonne, while field peas (Port Adelaide) were down -0.1% (AUD) to AUD496.59/tonne while lupins (Port Adelaide) were steady.

Figure 7: Generic 1st Australian milling wheat (AUD/tonne)



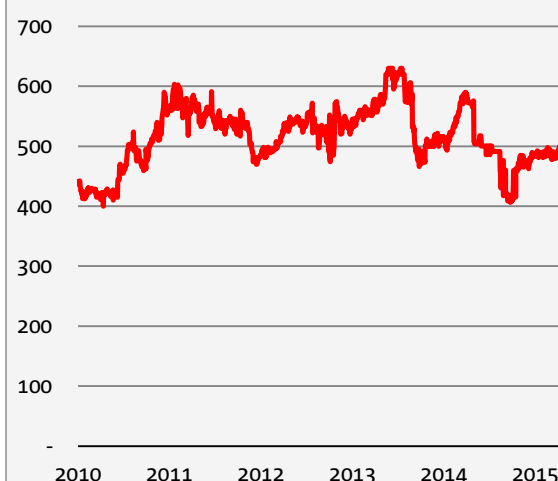
Source: Bloomberg

Figure 8: Selected coarse grains (AUD/tonne)



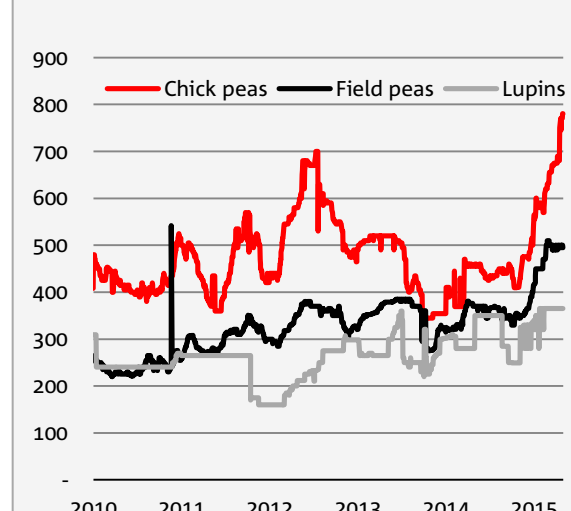
Source: Bloomberg, Profarmer

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



Source: Bloomberg, Profarmer

Figure 10: Selected pulses (AUD/tonne)



Source: Bloomberg, Profarmer

Protein

Beef

There is renewed upward momentum in cattle prices. The Eastern Young Cattle now stands at almost 490 AUc/kg, a record level. Overall, the Eastern Young Cattle Indicator rose 4.1% (AUD) in April to average 441.9 AUc/kg driven in part from very strong feedlot demand.

This comes despite a poor finish to the northern wet season in many areas tempering enthusiasm somewhat (with some parts of Queensland not seeing decent rain in three to four years).

Lamb

Lamb prices rose 4.4% (AUD) in April, with the National Trade Lamb Indicator averaging 540.6 AUc/kg. Prices have continued to rise through early May.

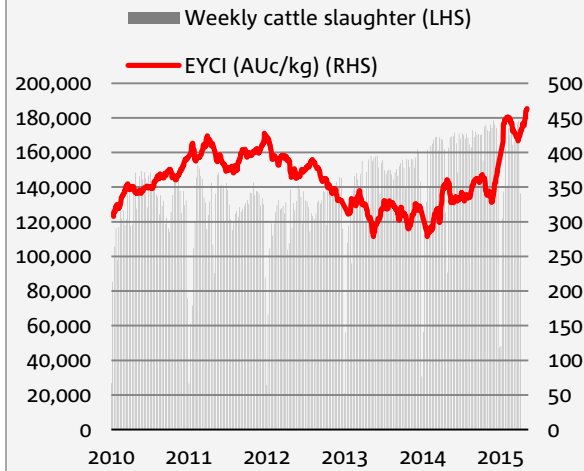
Pork

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

Poultry

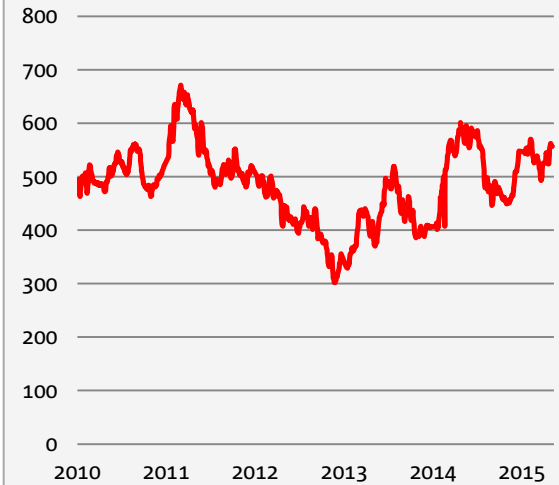
While we do not collect wholesale poultry price data, retail prices have remained stable since late 2012, gaining only 0.3% in the March quarter (the most recent data available).

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



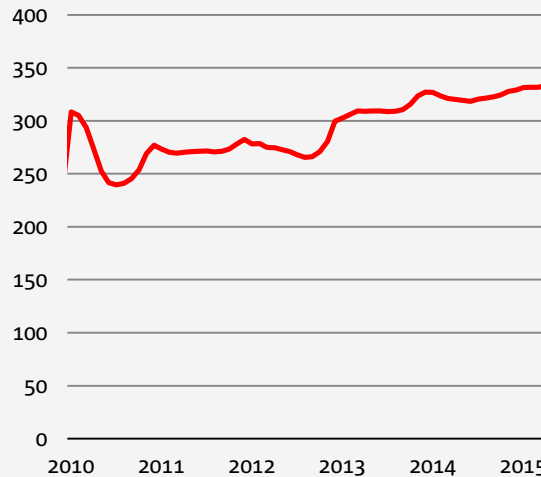
Source: Meat and Livestock Australia

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



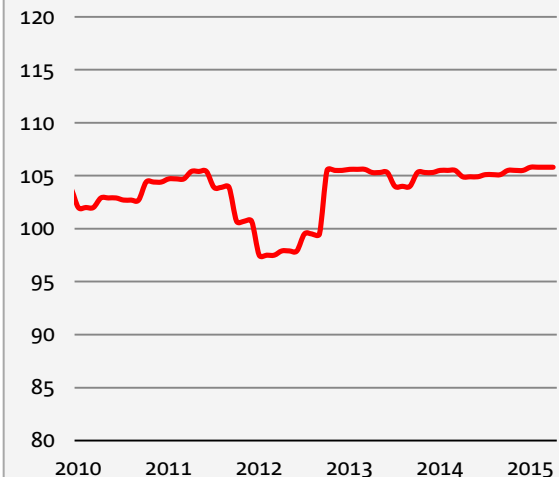
Source: Meat and Livestock Australia

Figure 13: Pork – 60.1-75kg (AUc/kg)



Source: Australian Pork. Average of buyer and seller price for the eastern seaboard.

Figure 14: Poultry – Australia (ABS index)



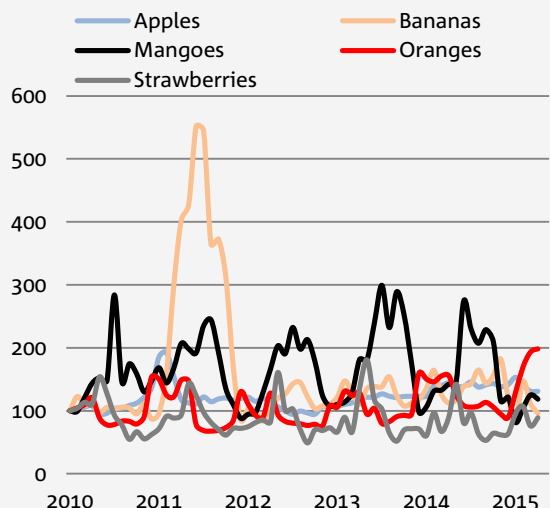
Source: Australian Bureau of Statistics

Fruit

The NAB Fruit Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell by 2.3% (AUD) in April. The decline was led lower apple, banana and mango prices, although strawberries increased and oranges were steady.

The index stands at 124.0 for April 2015 (note January 2010 = 100), lower than the same time in 2014.

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



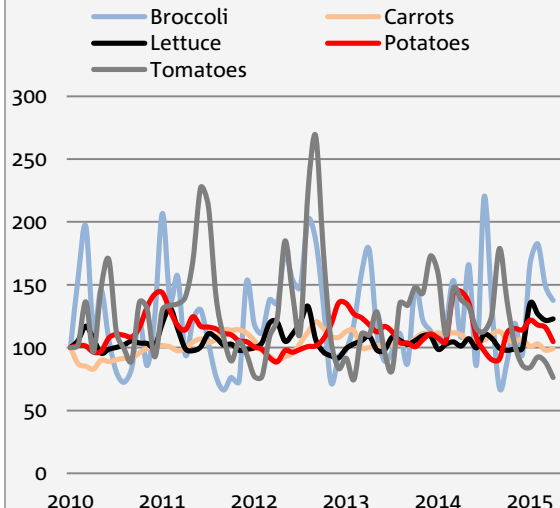
Source: Ausmarket Consultants and NAB Group Economics

Vegetables

The NAB Vegetable Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell by 5.3% (AUD) in April. Broccoli, tomato and potatoes all trended lower while lettuce and carrots were steady.

The index stands at 105.3 for April 2015 (note January 2010 = 100), 13.3% lower than the same time in 2014.

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



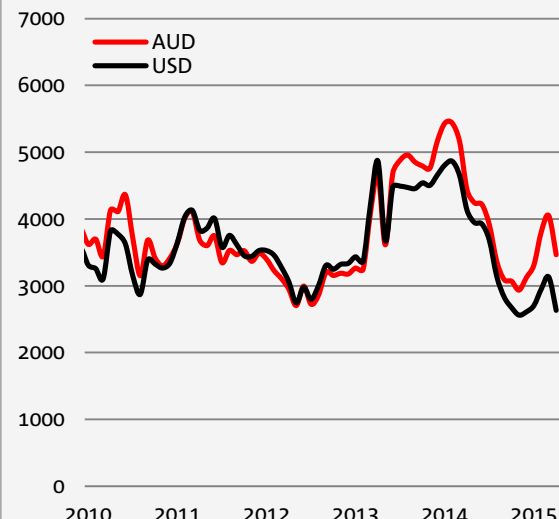
Source: Ausmarket Consultants and NAB Group Economics

Dairy

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

The NAB monthly weighted dairy price indicator fell 14.4% (AUD) in April, and the last five International Dairy Trade auctions have seen prices trend lower. This reflects improved supply and lacklustre international demand.

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



Source: BNZ

Fibres

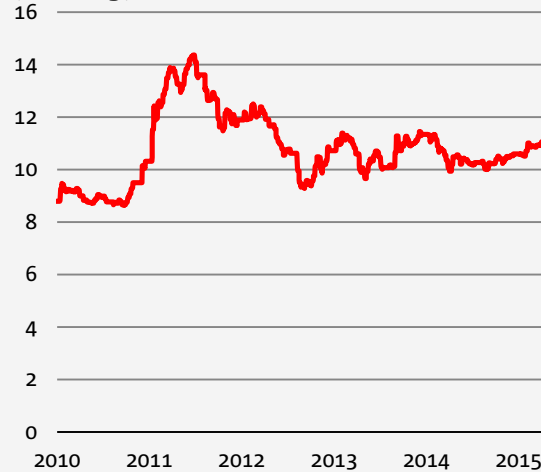
Wool

Wool gained in April, with the Eastern Market Indicator averaging AUD11.27/kg for the month, up 3.3%. The recent gains break a period of relative stability in wool prices.

Cotton

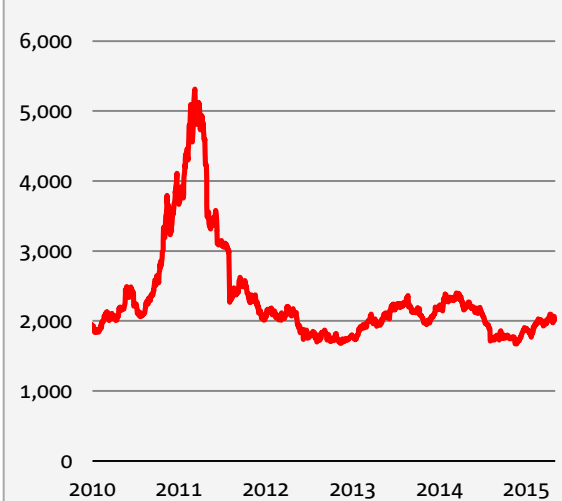
Global cotton prices gained in April, with Cotlook A up 3.2% (AUD). Although cotton is trading below the same time last year as decent supply and sluggish Chinese demand continue to weigh on sentiment, AUD prices are beginning to recover.

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



Source: Bloomberg

Figure 19: Cotlook A cotton (AUD/tonne)



Source: Bloomberg

Industrial crops

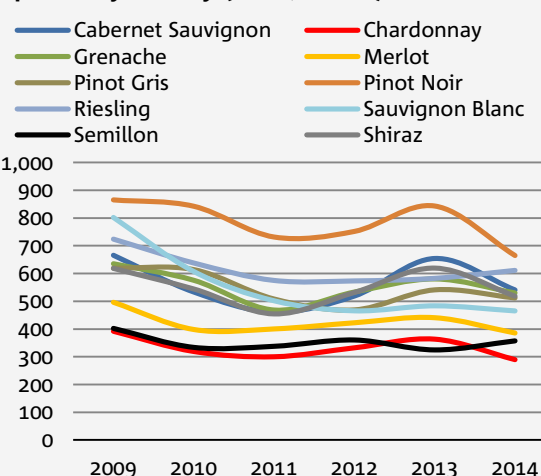
Wine grapes

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

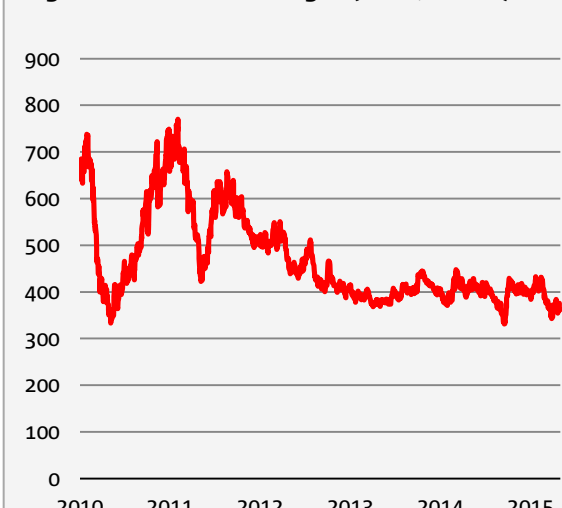
Global sugar prices rose slightly in April, with ICE no.11 sugar up 0.6% (USD) and 0.7% (AUD). This reflects a stabilisation after tumult earlier stemming from the impact of the depreciation of the Brazilian Real (Brazil being a major sugar producer).

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

Contact details

Agribusiness

Khan Horne
General Manager
Agribusiness

Kristin Kenny
Senior Consultant
Agribusiness
+61 (0) 439 255 981

Economic Research

Alan Oster
Chief Economist
+61 3 8634 2927

Phin Ziebell
Economist -
Agribusiness
+61 (0) 475 940 662

Risk Management Services

Joseph Righetti
Associate Director –
Commodities
Business Banking
Tel: +61 (2) 9237 9832

Corporate Communications

Chris Owens
Senior Manager
Corporate Communications
+61 (0) 409 945 476

Disclaimer

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Products are issued by NAB unless otherwise specified.

So far as laws and regulatory requirements permit, NAB, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (the "NAB Group") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("**Information**") is accurate, reliable, complete or current. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. The Information is not intended to be relied upon and in all cases anyone proposing to use the Information should independently verify and check its accuracy, completeness, reliability and suitability obtain appropriate professional advice. The Information is not intended to create any legal or fiduciary relationship and nothing contained in this document will be considered an invitation to engage in business, a recommendation, guidance, invitation, inducement, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest, buy, sell or deal in any securities or other financial instruments.

The Information is subject to change without notice, but the NAB Group shall not be under any duty to update or correct it. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

The NAB Group takes various positions and/or roles in relation to financial products and services, and (subject to NAB policies) may hold a position or act as a price-maker in the financial instruments of any company or issuer discussed within this document, or act and receive fees as an underwriter, placement agent, adviser, broker or lender to such company or issuer. The NAB Group may transact, for its own account or for the account of any client(s), the securities of or other financial instruments relating to any company or issuer described in the Information, including in a manner that is inconsistent with or contrary to the Information.

Subject to any terms implied by law and which cannot be excluded, the NAB Group shall not be liable for any errors, omissions, defects or misrepresentations in the Information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the NAB Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

This document is intended for clients of the NAB Group only and may not be reproduced or distributed without the consent of NAB. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

United Kingdom: If this document is distributed in the United Kingdom, such distribution is by National Australia Bank Limited, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 800 Bourke Street, Docklands, Victoria, 3008. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated by the Australian Prudential Regulation Authority. Authorised in the UK by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

US Disclaimer: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

Hong Kong: In Hong Kong this document is for distribution only to "professional investors" within the meaning of Schedule 1 to the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person. Issued by National Australia Bank Limited, a licensed bank under the Banking Ordinance (Cap. 155, Laws of Hong Kong) and a registered institution under the SFO (central entity number: AAO169).

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

Japan: National Australia Bank Ltd. has no license of securities-related business in Japan. Therefore, this document is only for your information purpose and is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action.