

Economic Report

Rural Commodities Wrap – July 2015

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Key points

- The NAB Rural Commodities Index was steady in June – up 0.2% in AUD terms but down 0.9% in USD terms. The neutral result in AUD terms largely reflects higher grain and protein prices offset by sharply lower fruit, vegetable and to a lesser degree sugar prices.
- The AUD has resumed its downward trajectory, providing support to local prices. We have revised down our AUD/USD forecast to a low of 71 US cents in early 2016 (previously 73 US cents). This downward revision has led us adjust to our 2015-16 price forecasts, specifically with upward revisions to forecast wheat, sugar and cotton prices.
- Weather remains a concern, with rainfall very patchy overall in June and parts of the country still very dry. The Bureau of Meteorology's latest three month ahead rainfall outlook forecasts drier than average conditions in northern and eastern Australia through late winter and early spring are consistent with a 'classical' El Niño event. Last month we highlighted the risk of El Niño to Australia's wheat crop. The Bureau's rainfall outlook keeps this risk very much live.

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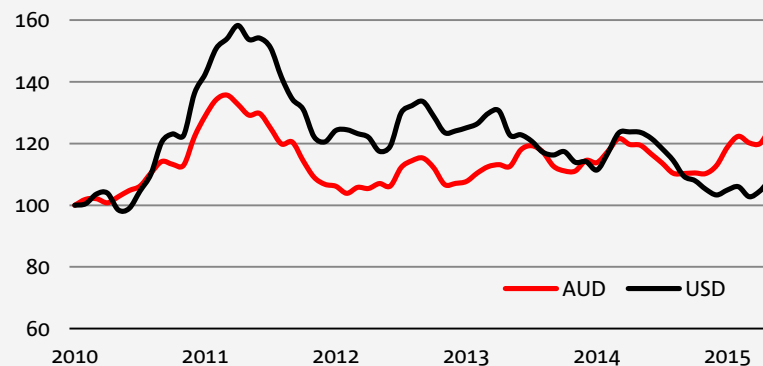


NAB Rural Commodities Index

The NAB Rural Commodities Index was steady in June – up 0.2% in AUD terms but down 0.9% in USD terms. The neutral result in AUD terms largely reflects higher grain and protein prices offset by sharply lower fruit, vegetable and to a lesser degree sugar prices.

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.

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 declaration of El Niño earlier this year clouds the production outlook, particularly for winter grains. Last month we highlighted the risk of El Niño to Australia's wheat crop. The Bureau of Meteorology's latest rainfall outlook keeps this risk very much live.

For protein, we expect to see slaughter rates beginning to contract for beef and lamb following (partly drought induced) destocking in 2014 and 2015 although with cattle prices significantly higher this year in response to ongoing elevated US demand, the pressure to continue elevated production levels may continue. Dairy producers will be looking to decent rainfall if they are to enjoy higher production in the coming season.

The downward revision in our AUD/USD forecast has led us adjust to our 2015-16 price forecasts, specifically with upward revisions to forecast wheat, sugar and cotton prices.

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

	Month on month price change (AUD)	2015-16 annual production change	2015-16 annual price change (AUD)
Wheat	▲ 6.9%	▼ 15.5%	▲ 5.9%
Beef	▲ 3.4%	▼ 8.8%	▲ 25.9%
Dairy	▲ 3.2%	▲ 1.6%	▼ 3.1%
Lamb	▲ 2.2%	▼ 1.0%	▲ 1.2%
Wool	▲ 7.3%	▼ 4.4%	▲ 11.9%
Sugar	▼ 5.2%	▲ 4.3%	▼ 1.4%
Cotton	▲ 1.5%	▲ 2.0%	▲ 12.0%

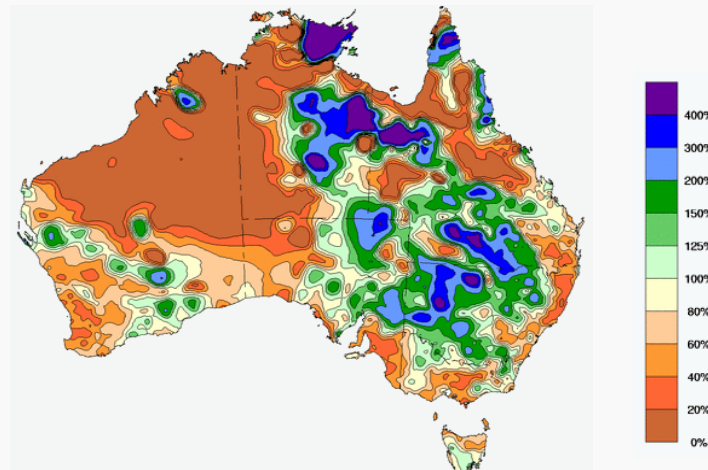
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Bloomberg, BNZ and Profarmer. Forecasts represent year-on-year average changes.

Climatic Conditions

Rainfall was very patchy overall in June. While much of inland New South Wales and parts of Queensland enjoyed above average rainfall, conditions along the coast were generally dryer. Rainfall was likewise below average in much of Victoria, south east South Australia and the Western Australian wheatbelt.

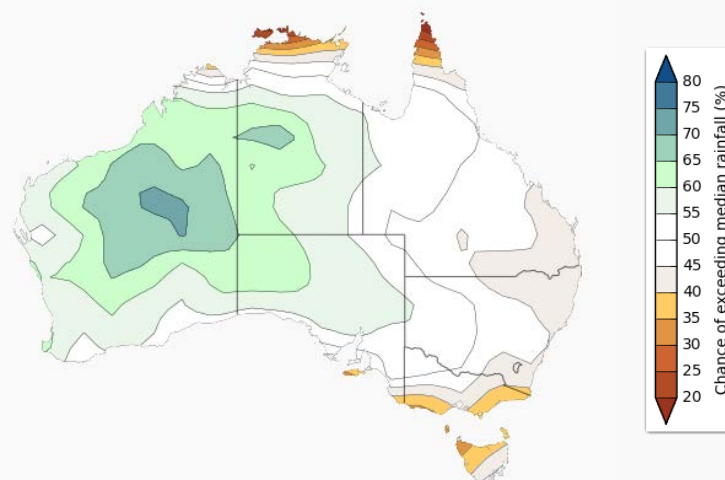
The Bureau of Meteorology's rainfall outlook for July to September 2015 forecasts below average rainfall for Cape York, Arnhem Land, south east Queensland, north east and coastal New South Wales, much of Victoria and Tasmania. However, almost all of Western Australia as well as outback South Australia and the Northern Territory is forecast to enjoy above average rainfall over the winter. Drier conditions in northern and eastern Australia through late winter and early spring are consistent with a 'classical' El Niño event.

Figure 2: Australian rainfall percentages – June 2015



Source: Bureau of Meteorology

Figure 3: Rainfall outlook – July to September 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

The Chinese share market correction and concerns that Greece could exit from the Euro-zone have raised both financial market volatility and the downside risks to (already sub-trend) global growth. Unlike the IMF, we are not expecting much of an acceleration in the pace of global growth through the next few years and recent partials do not provide any evidence of this either. Soft economic outcomes across much of East Asia and Latin America, the trend slowing in China and the lack of growth momentum seen in recent Indian data are weighing on global growth, as these economies have been the main drivers of output increases in recent years.

Domestic Economy

The big picture is still one where the domestic economy is struggling to offset the impact of sharply lower mining investment. However near term data has continued to strengthen. Lower interest rates and the AUD (which we have lowered marginally), strong housing prices (especially in NSW and Victoria) and a post Budget kick in confidence appears to have driven better business outcomes. Against that, consumers remain cautious and business remain reluctant to hire. It also appears they are demanding high rates of return – above 13% – before investing. It is difficult to assess the impact of recent international events such as Greece and more importantly China – especially equity market volatility and further falls in commodity prices. Given its better start point we now expect a lower peak in unemployment of 6% - but remaining high for a considerable period.

Interest Rates

We still see the RBA as having finished cutting – the market priced cut depends on downside surprises to our forecasts. We see the next move in rates as up – but not until late 2016 (and with a lower end point for the Official Cash rate of 3.5%). It is worth noting that while the international volatility create risks to the downside on the forecasts, local data is pointing to upside risks.

Table 2: NAB Global Economic Forecasts

% change year on year	2015	2016	2017
China	7.1	6.9	6.5
United States	2.4	2.7	2.5
Euro zone	1.4	1.8	2.1
Emerging East Asia	3.9	4.1	4.2
Japan	0.9	1.2	1.1
Advanced economies	2.0	2.2	2.2
Emerging economies	4.9	5.0	5.0
World GDP	3.2	3.3	3.4

Source: NAB Group Economics

Table 3: NAB Australian Economic Forecast

% change year on year	2015	2016	2017
GDP growth	2.5	2.7	3.2
Private consumption	2.4	2.6	2.5
Unemployment rate (year end)	6.2	6.0	5.7
Consumer Price Index (core)	2.4	2.7	2.4

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

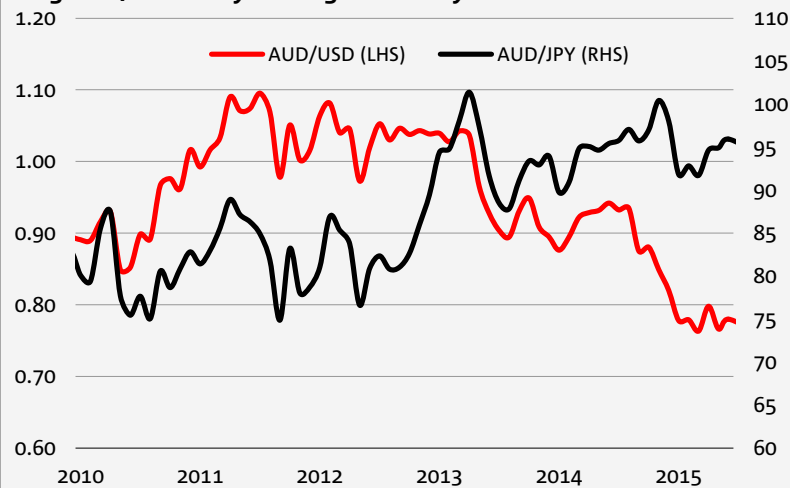
Exchange Rates

The AUD has resumed its downward trajectory, following tumult in Greece and more importantly Chinese equity markets of late. We have revised down our AUD/USD forecast to 72 US cents at the end of 2015 (previously 74 US cents) and a low of 71 US cents in early 2016 (previously 73 US cents).

It is important to note that considerable risk is associated with these forecasts. If the US Federal Reserve does not begin to raise rates as forecast, the USD could experience some weakness. However, should there be further ructions in the global economy, the heightened level of risk could put further downward pressure on the AUD.

Overall however, we still expect the AUD to continue to fall for the remainder of this year and into next before bottoming out in Q1 2016. This remains good news for Australian agricultural producers.

Figure 4: Monthly average currency movements



Source: DXdata, NAB

Table 5: NAB FX Strategy Targets

		2015 Q3	2015 Q4	2016 Q1	2016 Q2
Australian Dollar	AUD/USD	0.74	0.72	0.71	0.71
New Zealand Dollar	NZD/USD	0.67	0.65	0.64	0.63
Japanese yen	USD/JPY	124	125	126	126
Euro	EUR/USD	1.07	1.05	1.03	1.03
British Pound	GBP/USD	1.53	1.52	1.51	1.51
Swiss Franc	USD/CHF	0.98	1.01	1.04	1.04
Chinese New Yuan	USD/CNY	6.22	6.22	6.25	6.28
Canadian Dollar	USD/CAD	1.28	1.28	1.25	1.25

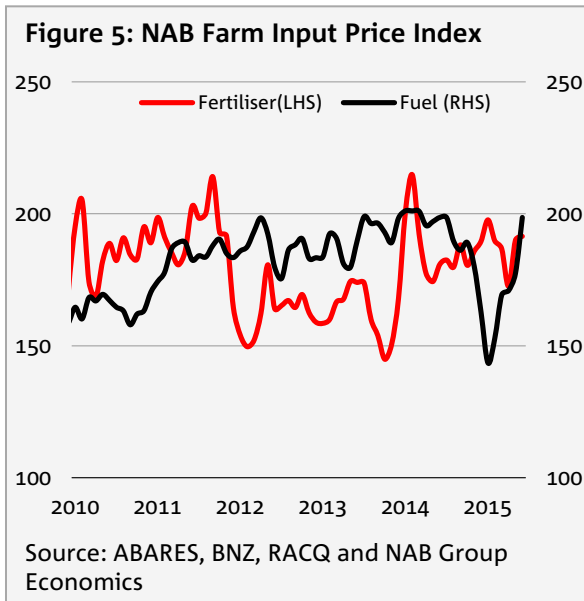
Source: NAB



NAB Farm Input Prices

Petrol prices jumped 12.0% in June to average 151.8 AUc/litre for the month. This price increase was in excess of expectations based on fundamentals (i.e. crude oil prices and exchange rate variations). The AUD is forecast to fall further in the coming months, presenting a moderate upside risk for petrol prices.

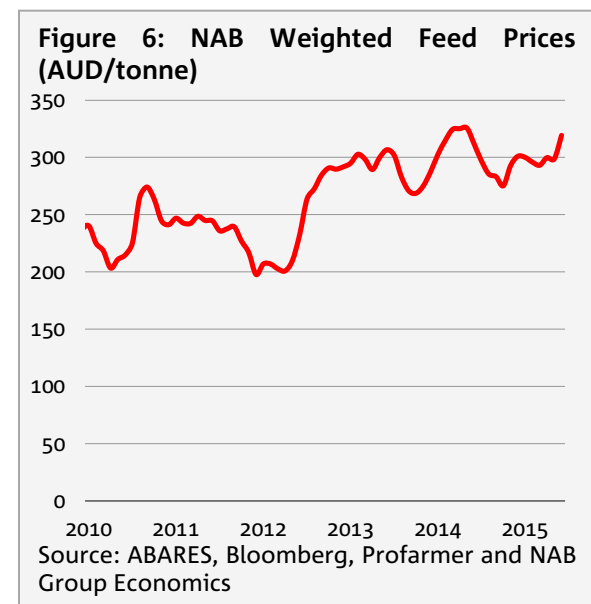
The NAB Fertiliser Index was steady in June, up 0.8% in AUD terms after a sharp jump in May. The index consists of natural gas, diammonium phosphate and urea.



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.

Due to a data issue this month, weighted feed grain prices are based on estimates. These estimates show that weighted feed grain prices jumped in June, reflecting generally higher prices among major feed grains in domestic markets. The index rose 6.9% (AUD) for the month (estimated).



Crops

Wheat

Generic 1st Australian milling wheat prices gained in June – up 6.9% to average AUD306.63/tonne for the month. While global wheat supply remains broadly favourable, stormy and wet weather conditions in parts of the US have lent support to prices.

Coarse grains

Coarse grains also gained in June. Eastern Australia feed barley was up 0.3% (AUD) while sorghum gained 6.4% (AUD). Meanwhile oats (feed, Albany) was up 1.1% (AUD) and rice (US rough) gained 4.6% (AUD).

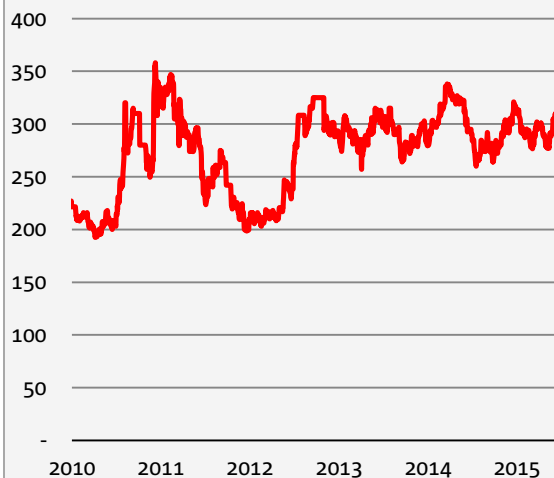
Oilseeds

Domestic canola (Newcastle NSW) was followed wheat and coarse grains in June, rallying 6.6% to average AUD525.68/tonne. The USDA forecasts that Canadian canola production will decline, with increased planting area being offset by lower yields.

Pulses

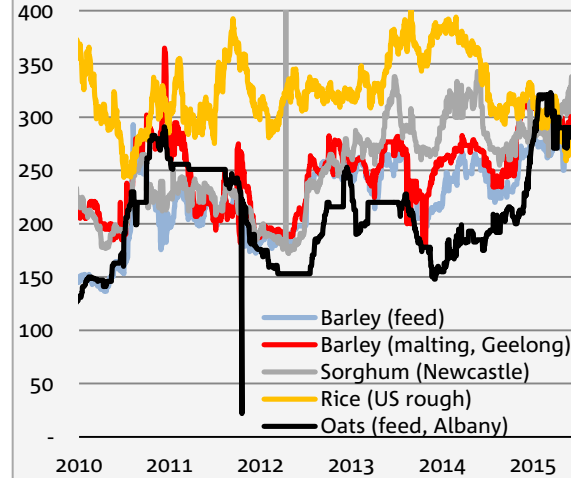
Pulses were slightly higher in June. Chick peas (Brisbane) continued their very strong run, up this year, gaining 1.4% (AUD) to AUD836.55/tonne. Chick peas were trading at just AUD432.86/tonne in June 2014. Field peas (Port Adelaide) were volatile but unchanged on average for the month and lupins (Port Adelaide) recorded no change.

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



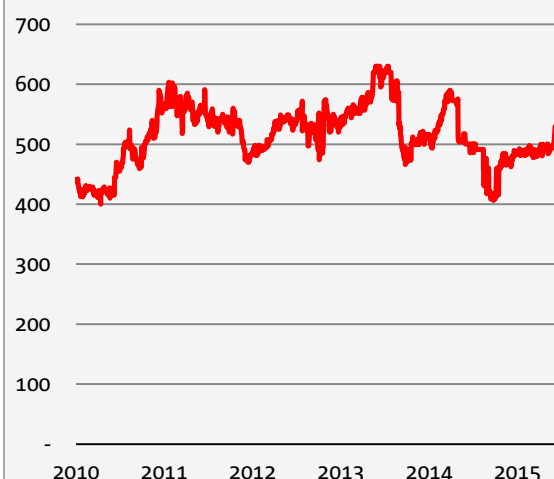
Source: Bloomberg

Figure 8: Selected coarse grains (AUD/tonne)



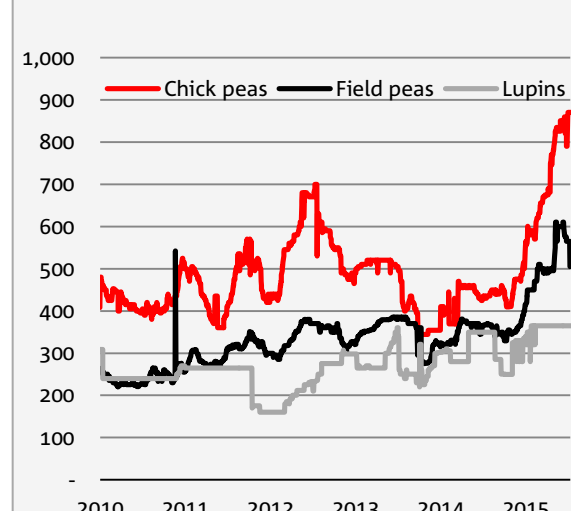
Source: Bloomberg, Profarmer

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



Source: Bloomberg, Profarmer

Figure 10: Selected pulses (AUD/tonne)



Source: Bloomberg, Profarmer

Protein

Beef

Upward momentum in Australian cattle markets continues virtually unabated. The Eastern Young Cattle Indicator is well into record territory and now stands at approaching 540AUc/kg, boosted by strong feedlot demand as the US continues to sate its appetite for beef through higher imports from Australia. Overall, the index was up 3.4% in June. While Indonesia's surprise quota cut for Australian live cattle will cause some disruption, the industry fundamentals remain strong with unfavourable weather remaining the biggest risk to the outlook.

Lamb

Lamb prices rose 2.2% (AUD) in June, with the Eastern States Trade Lamb Indicator averaging 586 AUc/kg. Prices have begun to fall in early July, reflecting the seasonal nature of the industry.

Pork

Australian wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) were down 0.1% (AUD) in June, reflecting continued stability in prices in the industry.

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)

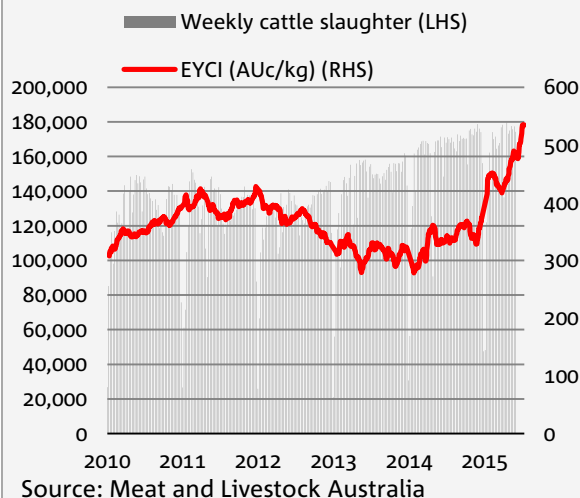


Figure 12: Eastern States Trade Lamb Indicator (AUc/kg)

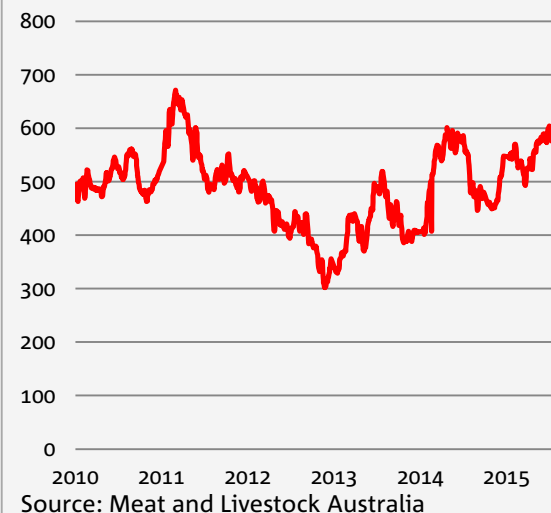


Figure 13: Pork – 60.1-75kg (AUc/kg)

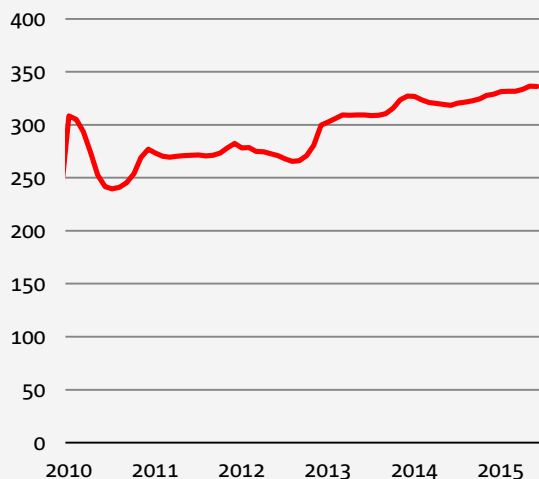
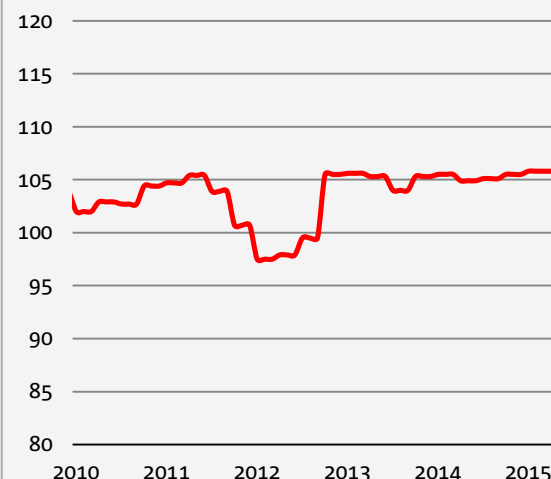


Figure 14: Poultry – Australia (ABS index)

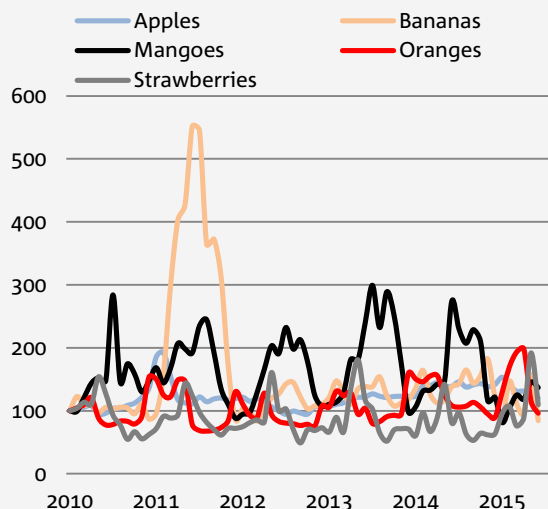


Fruit

The NAB Fruit Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell 24.8% in June after rising 16.3% (AUD) in May. The fall was led by lower banana and mango and strawberry prices.

The index stands at 108.5 for June 2015 (note January 2010 = 100), 26.7% lower than the same time in 2014.

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



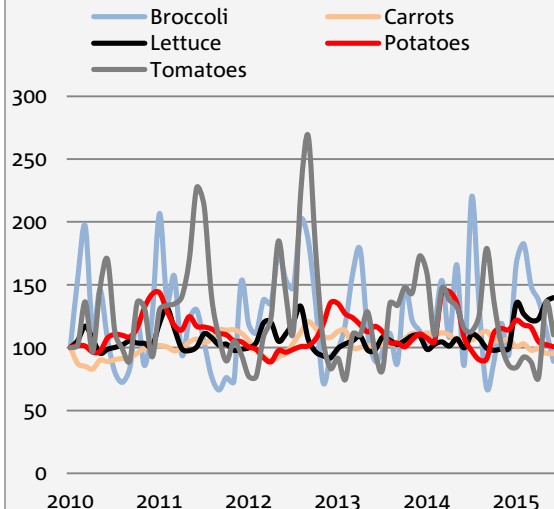
Source: Ausmarket Consultants and NAB Group Economics

Vegetables

The NAB Vegetable Price Index, based on data from the Melbourne and Sydney wholesale markets provided by Ausmarket Consultants, fell by 7.0% (AUD) in June. Broccoli, tomatoes, carrots and potatoes all trended lower while lettuce increased in price.

The index stands at 110.7 for June 2015 (note January 2010 = 100), 7.2% lower than the same time in 2014.

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



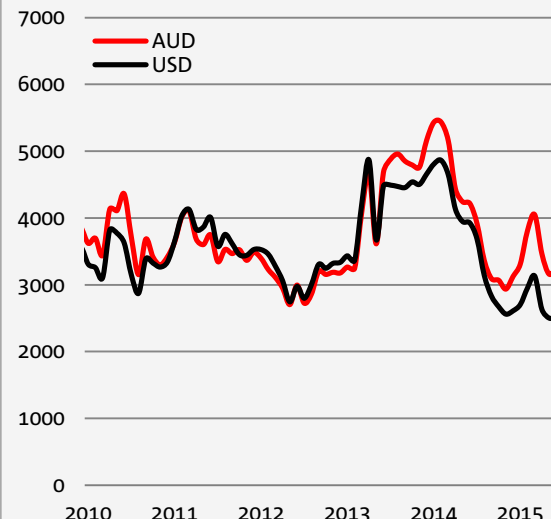
Source: Ausmarket Consultants and NAB Group Economics

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 gained somewhat in AUD terms in June, up 3.2%, reflecting a lower AUD. Nonetheless, the last eight International Dairy Trade auctions have trended lower in USD terms, reflecting improved supply and lacklustre demand.

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



Source: Global Dairy Trade and NAB Group Economics

Fibres

Wool

Wool's rally peaked in mid-June with the Eastern Market Indicator approaching 1400 AUc/kg. Since then, a downturn in demand and more supply coming to market has put renewed pressure on prices. Nonetheless, the index was up 7.3% (AUD) in June.

Cotton

Global cotton prices were broadly steady in June, with Cotlook A up 1.5% (AUD). Although cotton is trading below the same time last year as decent supply and mixed Chinese demand continue to weigh on sentiment, AUD and USD prices have recovered from lows late in 2014.

Industrial crops

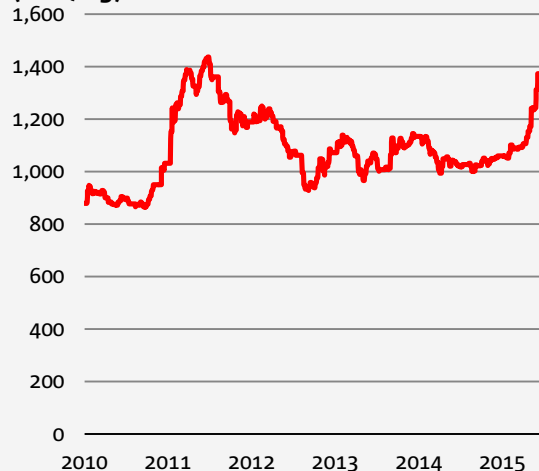
Wine grapes

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

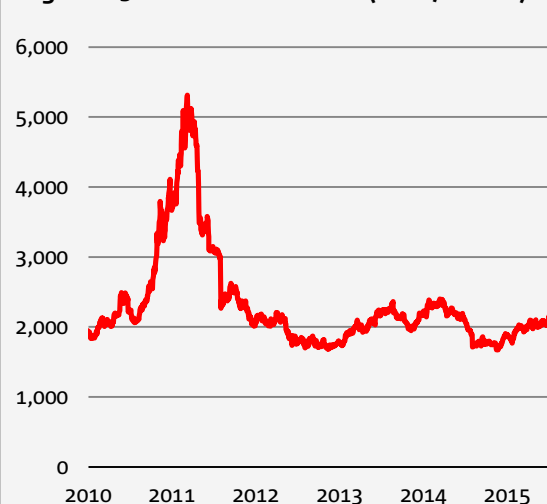
Global sugar prices fell in June, with ICE no.11 sugar down 5.2% (AUD). This reflects a renewed instability after tumult earlier in the year stemming from the impact of the depreciation of the Brazilian Real (Brazil being a major sugar producer).

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



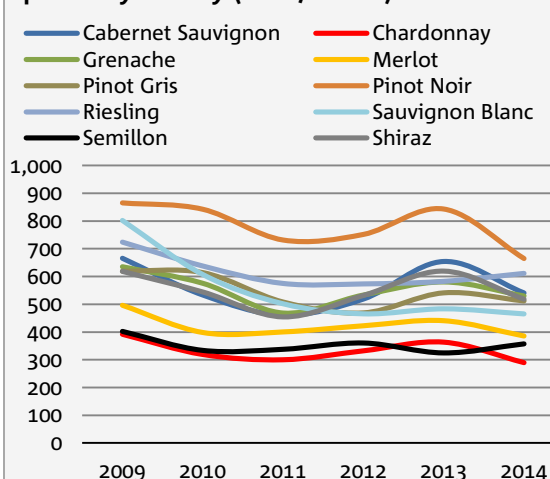
Source: Bloomberg

Figure 19: Cotlook A cotton (AUD/tonne)



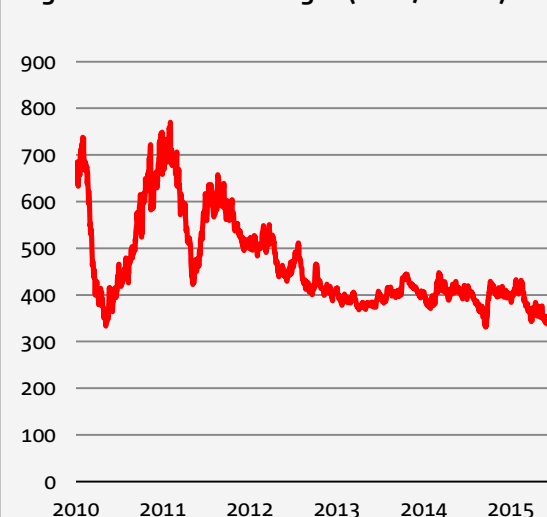
Source: Bloomberg

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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