agribusiness

IN FOCUS:
WINTER CROP HARVEST UPDATE

FEBRUARY 2017

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Photo Gregory Heath CSIRO

Sunset at Euroa, Victoria | Photo **Mai Thai**

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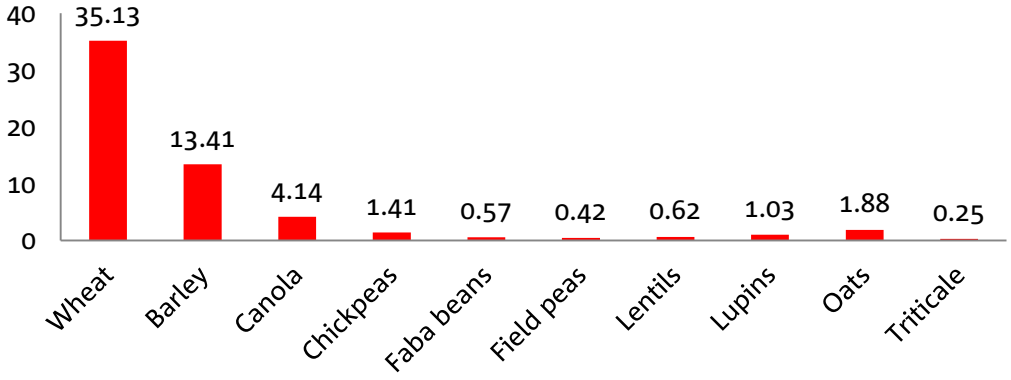
OVERVIEW

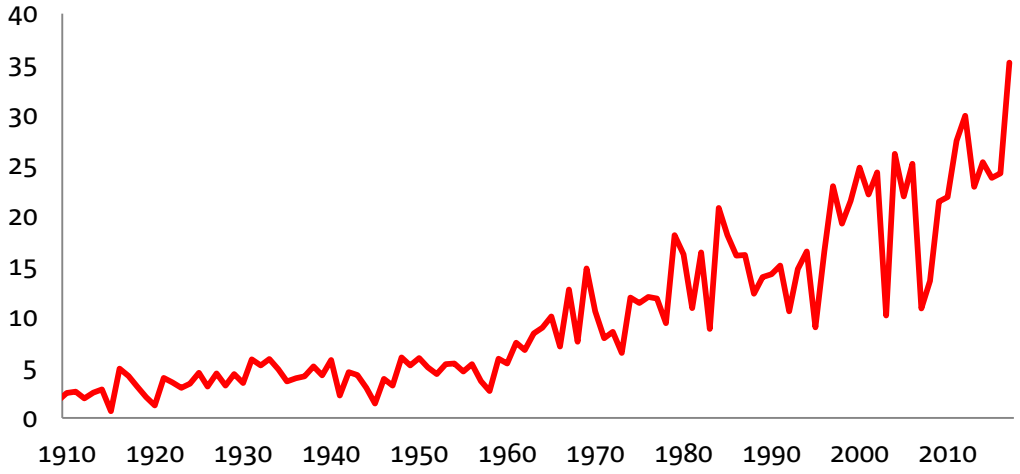
ABARES WINTER CROP FORECAST – FEBRUARY 2017

Million tonnes



AUSTRALIAN WHEAT HARVEST

Million tonnes annually



Source: ABARES, Australian Bureau of Statistics and NAB Group Economics

Harvest of the 2016-17 winter crop has now essentially drawn to a close and all signs point to an unprecedented crop. ABARES' latest estimates put the wheat crop at over 35 million tonnes, more than 5 million tonnes higher than the previous record of 29.9 million tonnes, set in 2011-12. Massive yields were driven by a much wetter than average winter and spring in eastern Australia. Western Australia saw a perfect start to the season but a much dryer winter with elevated frosts. Nonetheless the west still managed to produce an above average crop.

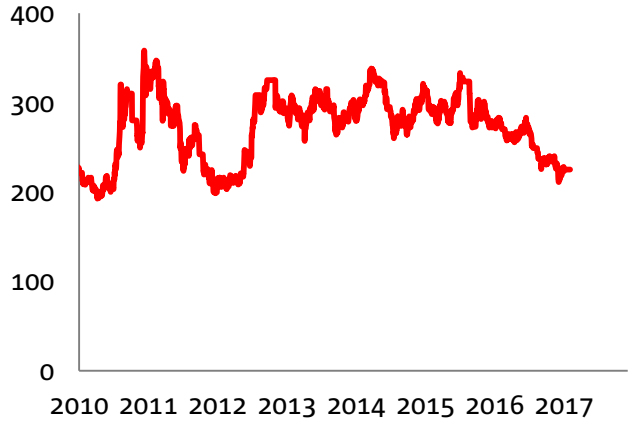
While production has been exceptional, prices remain generally moribund. The world is awash with wheat and inventories remain extensive, despite the USDA downgrading global carryover stocks by 4.7 million tonnes this month. While we note yield downgrades in parts of the Black Sea and lower US winter wheat plantings, it remains unlikely that USD prices will rise significantly this year. Our forecast is for Australian wheat prices to increase around 12% by the end of calendar year 2017, although this is based largely on our expectations of a lower AUD. If the AUD stays higher, local wheat prices are likely to remain lower.

While 2016-17 saw a bumper year, the outlook for the coming season is somewhat more concerning. While it is arguably too early to assess the coming season with any certainty, the Bureau of Meteorology's models point to the emergence of El Niño in winter this year. El Niño is associated with generally (but not always) hotter and dryer conditions in eastern and northern Australia. The impact of any El Niño event is highly variable and the impact on Australian crop yields ranges from relatively minor to extremely severe.

PRICE UPDATE

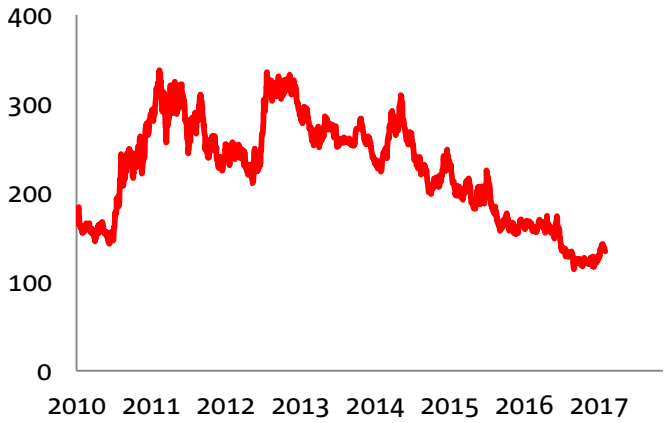
GENERIC 1ST MILLING WHEAT

Eastern Australia, AUD/tonne



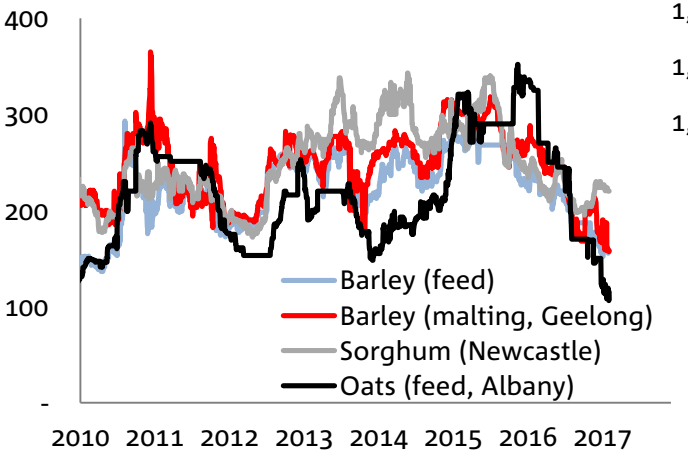
CBOT SOFT RED WINTER WHEAT

USD/tonne



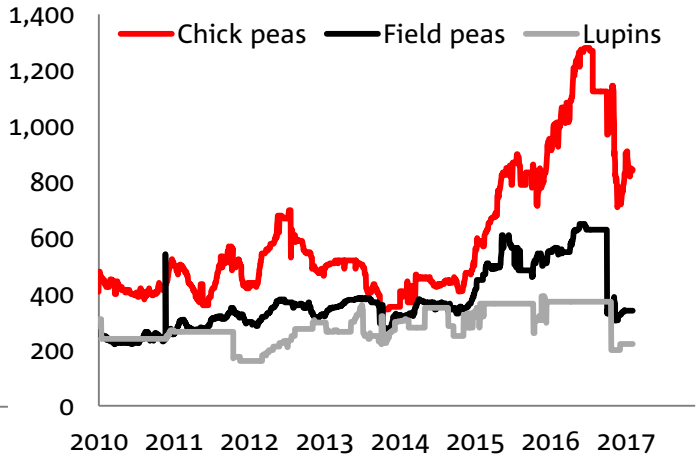
SELECTED COARSE GRAINS

AUD/tonne



SELECTED PULSES

AUD/tonne



Source: Bloomberg, Profarmer and NAB Group Economics

The sad reality is that grain prices are for the most part disappointing. Furthermore, we are not expecting much of an improvement over the coming year as global supply of major crops continues to track at record or near record levels.

The USDA's latest estimates point to stocks posing a particular issue, with ending stocks pegged at almost 250 million tonnes. Ultimately, it will be difficult for prices to rise in a global environment in which production is rising more than consumption.

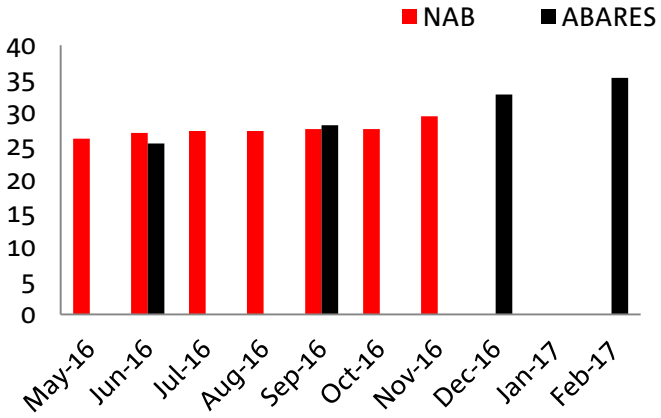
Our forecast is for Australian wheat prices to increase around 12% by the end of calendar year 2017, although this is based largely on our expectations of a lower AUD. We forecast the AUD to fall to 70 US cents by the end of year. If this does not occur there is commensurate downside for local wheat prices.

Pulses prices, particularly for chick peas, have fallen considerably since mid-2016. We expect prices to fall further on an improving global supply outlook.

HOW DID OUR 2016-17 FORECASTS PERFORM?

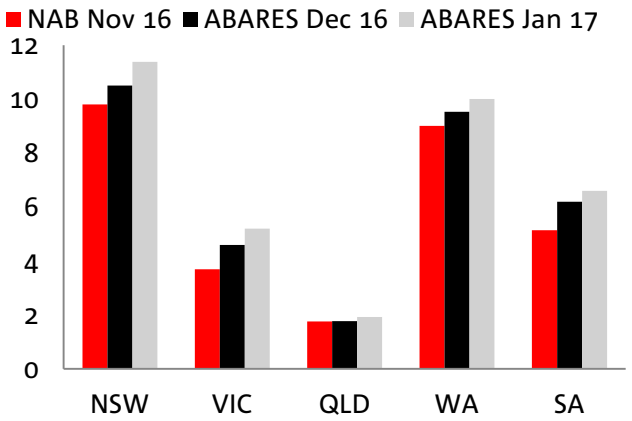
NAB AND ARARES FORECAST HISTORY

2016-17 wheat forecast, million tonnes



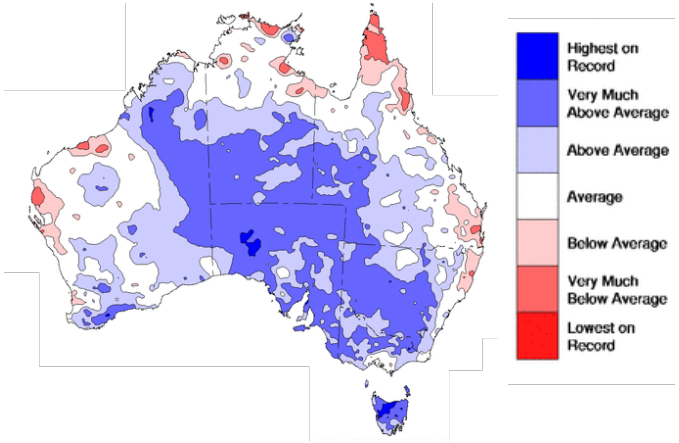
NAB AND ABARES STATE FORECASTS

Wheat production, million tonnes



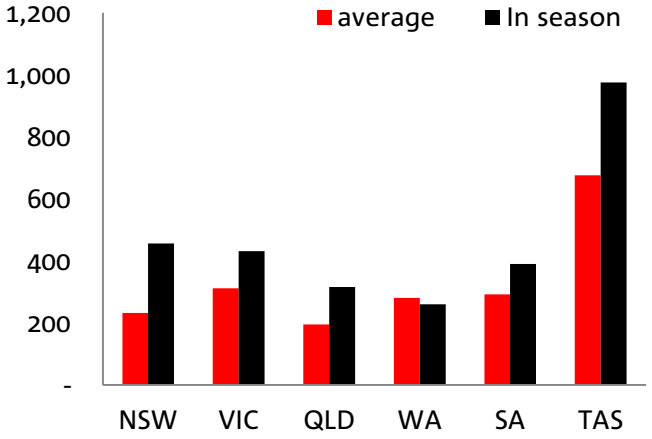
AUSTRALIAN RAINFALL DECILES

Calendar year 2016



SEASONAL RAINFALL IN WHEAT REGIONS

Total average rainfall April-September, mm



Source: Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics

For the 2016-17 season, we developed a new wheat production forecast model, based on regional rainfall and state yields going back to federation, with an allowance for technological change.

By November 2016 (our last forecast under the new model), our outlook for 2016-17 wheat production reached 29.4 million tonnes, close to record production. However, by December, the ABARES crop report forecast Australian wheat production to exceed 32.6 million tonnes and the outlook now is over 35 million tonnes.

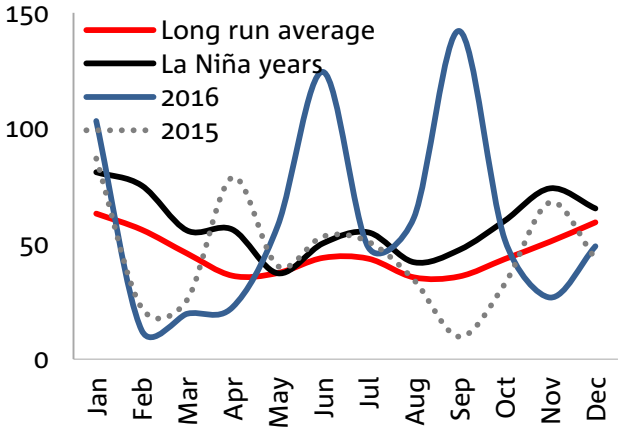
Our model forecast higher wheat production earlier in the season, which was close to ABARES' estimates in early spring but looks to have fallen short on the generally above average spring rainfall.

Our model has two major limitations. Firstly, technological change in grain growing is assumed to be linear, while we know that improvements have been often quite rapid, followed by periods of stagnation (for example the introduction of tractors, NPK fertiliser, semi-dwarf varieties etc.) Since the 1990s, Australian grain growers have become much better at managing dryer conditions. Secondly, we are unable to directly account for storm, waterlogging and frost issues.

NEW SOUTH WALES

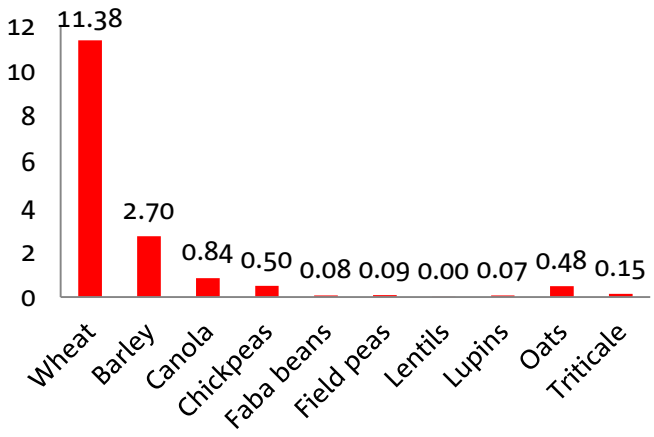
RAINFALL – NSW GRAIN REGIONS

Average of grain rainfall districts



ABARES NSW CROP FORECASTS

Million tonnes, 2016-17



New South Wales has been a standout performer this year. ABARES' latest estimate is for 11.4 million tonnes of wheat in 2016-17, up an extraordinary 52% from last season despite an only small increase in plantings.

Much of summer and autumn 2016 were considerably dryer than average, seeing a nervous start to the season. But from May most New South Wales grain regions saw very heavy rainfall. June and September were especially wet, seeing massive rainfall totals across much of the state. In season rainfall (i.e. April to September) was double the long term average in the state's grain regions this year.

While spring brought concerns around waterlogging and weather related quality downgrades, overall the above average rain was a net benefit to the state's harvest.

Generally the season has been very strong, which is a function of everything firing at the same time. While some areas were affected by waterlogging and localised flooding (such as Forbes), overall the high rainfall led to high grain yields.

Global grain supply has impacted prices, although for NSW growers the higher yields have offset lower prices.

Chick peas saw big plantings and good yields in areas that were not weather damaged.

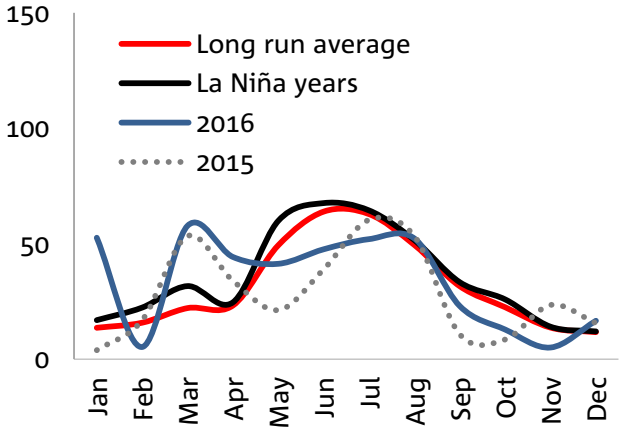
Geoff Rose
Head of Agribusiness, New South Wales

Source: Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics

WESTERN AUSTRALIA

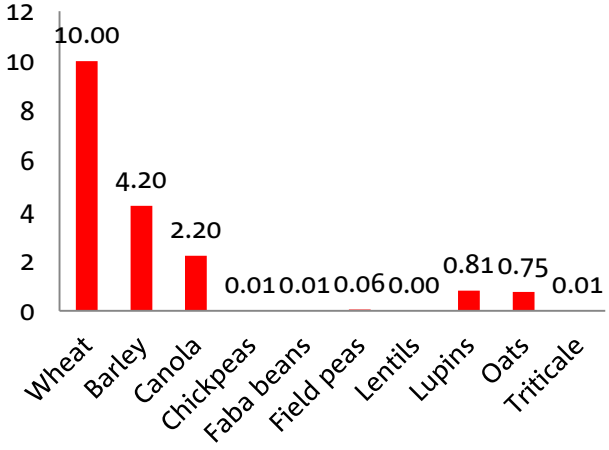
RAINFALL – WA GRAIN REGIONS

Average of grain rainfall districts



ABARES WA CROP FORECASTS

Million tonnes



Western Australia had a dream start to the 2016-17 season, with well above average rainfall across much of the wheatbelt in March and April.

However, the strong start was not matched during winter and spring, which saw generally below average rainfall (with the exception of August) and importantly higher than average frost activity.

While spring frosts caused considerable concern (and indeed caused substantial damage in some areas) overall yields were generally good and ABARES projects that the west will produce around 10 million tonnes of wheat this season.

Frost had impacted some areas to varying levels which reduced yields significantly but on the whole yields have been average to slightly above average.

Due to lower prices there is a lot of unsold grain being stored in either the bulk handlers' facilities or on farm.

Prices continue to disappoint however this is somewhat offset with higher yields.

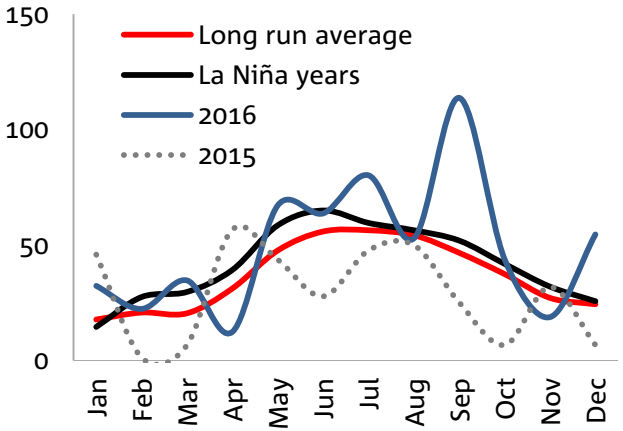
Matt O'Dea
Head of Agribusiness, South Australia and Western Australia

Source: Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics

SOUTH AUSTRALIA

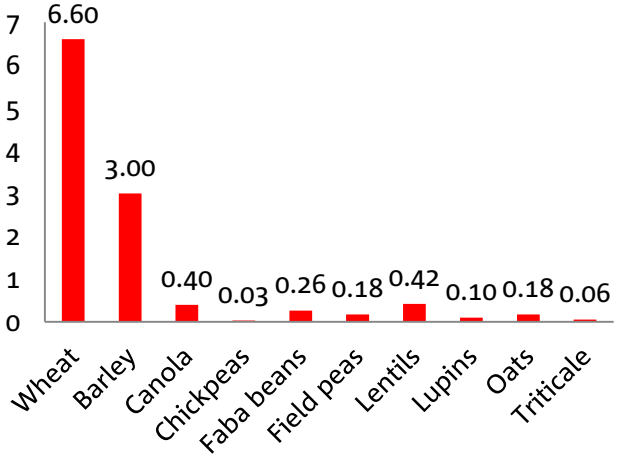
RAINFALL – SA GRAIN REGIONS

Average of grain rainfall districts



ABARES SA CROP FORECASTS

Million tonnes



Much like the rest of eastern Australia, South Australia saw a dry start to the season, followed by good winter rainfall and well above average spring rainfall. September stands out as a particularly wet month.

Yields have been generally very good to excellent, despite waterlogging and perhaps more importantly storm damage across parts of the state.

With wheat production setting a new record of 6.6 million tonnes (combined with a further 3 million tonnes of barley), we expect substantial amounts of grain to remain on farm. There has been a brisk trade in silo bags. Incentives to store grain are even stronger on account of poor grain prices.

SA has experienced a very strong season tonnage wise (ABARES pegs the wheat crop at 6.6 million tonnes). Due to lower prices there is a lot of unsold grain being stored in either the bulk handlers' facilities or on farm. Silo Bags appear to have been extremely popular this year.

Prices continue to disappoint however this is somewhat offset with higher yields.

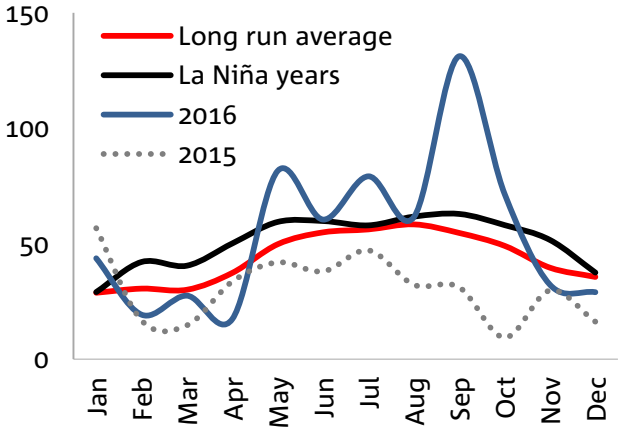
Matt O'Dea
Head of Agribusiness, South Australia

Source: Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics

VICTORIA

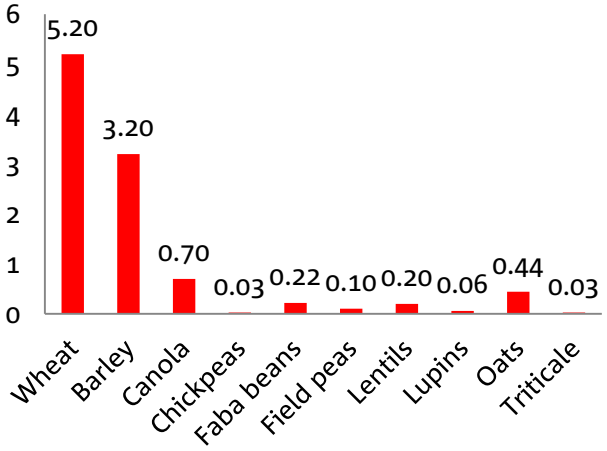
RAINFALL – VIC GRAIN REGIONS

Average of grain rainfall districts



ABARES VIC CROP FORECASTS

Million tonnes



Victorian wheat production has swung wildly over the past few seasons. After a disappointing 2 million tonnes in 2015-16, production surged nearly 150% to 5.2 million tonnes this season – a new record. Barley has likewise seen excellent production.

Victoria has seen some of the most volatile year on year grain production changes among Australian states. The huge yields this year have caused particular problems, especially when combined with V/Line's increased heat restrictions on major north-west Victorian grain lines. The Murray Basin Rail Project will see substantial investment in grain rail infrastructure, although continued heat restrictions will make moving grain via rail much harder.

The strong numbers really speak for themselves – overall we've seen average to above average yields, which is very welcome news for Victorian farmers after a much tougher 2015-16 season.

Some regions did better than others. Around Horsham saw records smashed while other areas saw some frost damage and rain just before or during harvest affecting quality.

While prices are low, the generally very good yields sees Victorian grain growers in good stead this season.

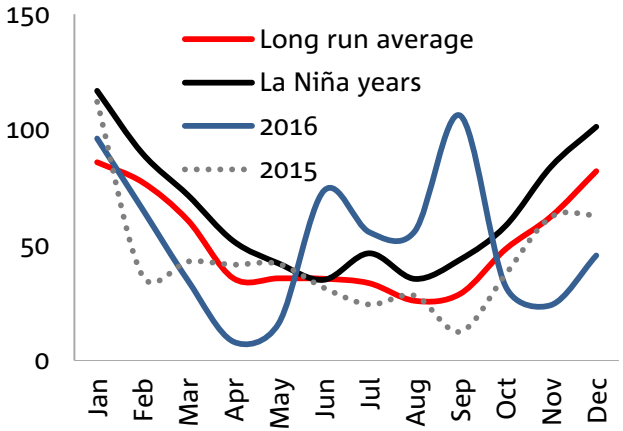
Roger Gaudion
Head of Agribusiness, New South Wales

Source: Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics

QUEENSLAND

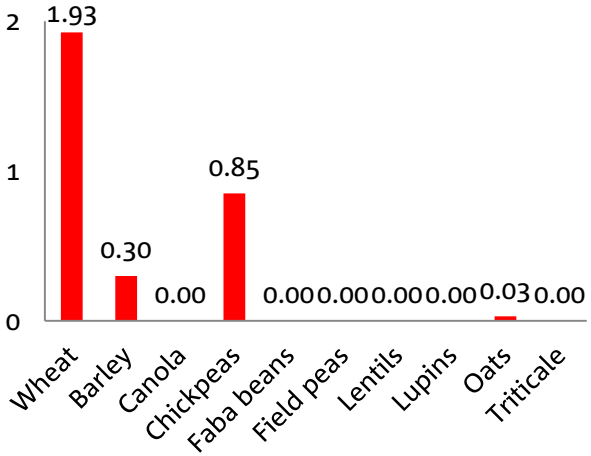
RAINFALL – QLD GRAIN REGIONS

Average of grain rainfall districts



ABARES QLD CROP FORECASTS

Million tonnes



In general, there have been record harvests occurring, but the returns have been down on previous harvests. Wheat has seen some of the strongest yields on record, but lower prices have tempered the returns. As for chick peas, average yields and prices are also down.

Overall, the returns generated from the harvest have been average or slightly above average with higher yields, but lower prices.

There has been some strong reinvestment into plant and machinery in addition to some flow of funds into off farm investments.

John Avent
Head of Agribusiness, Queensland and Northern Territory

The standout story in Queensland has been the rapid rise of chick peas, which are now the state's second largest winter crop. Chick pea plantings rose 40% this season and production increased 55%. While yields look to have improved from last year, they are down on expectations earlier in the season due to difficulties associated with above average spring rain. Wheat production is set to increase 40% despite a reduction in plantings.

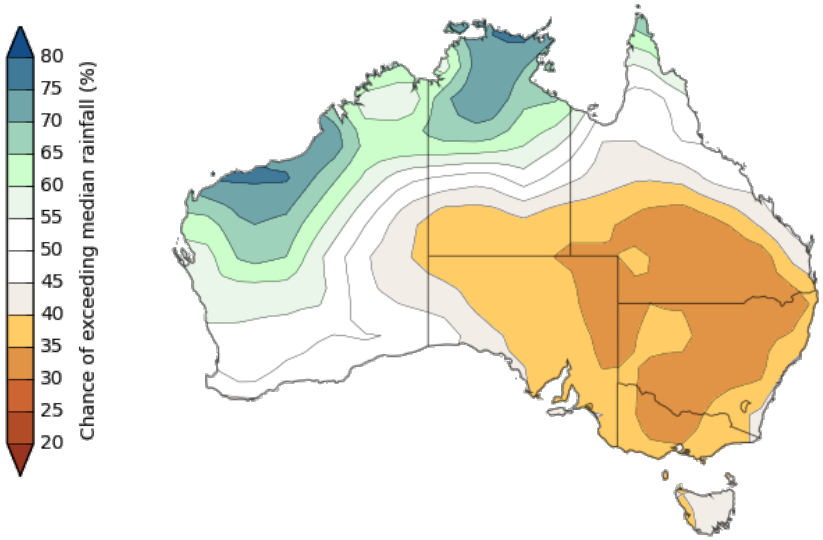
Last year we noted our concerns around the then extraordinary chick pea prices, which had exceeded AUD1,200/tonne following two poor Indian monsoon seasons. But with the return of more favourable conditions to India prices have receded to the AUD800 range. We expect further downside for chick pea prices in the coming year, although they are likely to remain more expensive than alternative crops.

Source: Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics

PROSPECTS FOR 2017-18

THREE MONTH RAINFALL OUTLOOK

February to April 2016

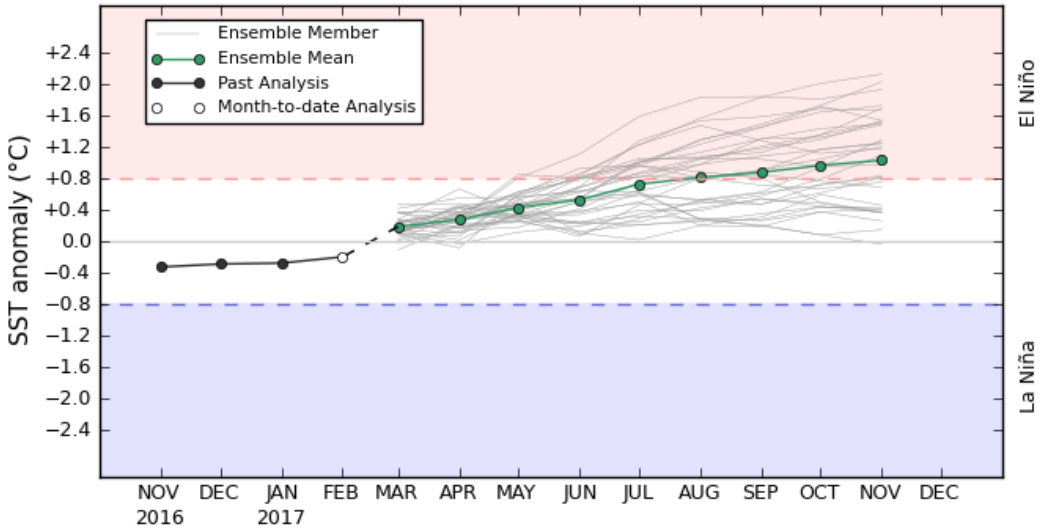


Summer has brought extremely volatile conditions to Australia's cropping districts. While much of eastern Australia has baked in an extraordinary heatwave, Western Australia has suffered substantial flooding.

The Bureau of Meteorology's three month outlook points to early autumn having a re-run of 2016, with a dry to very dry start to the wheat season in the east but prospects of a good break in the west.

BOM POAMA MODEL LONG-RANGE EL NINO OUTLOOK

Monthly mean NINO 34 – 12 February 2017



More concerning is the Bureau's long range El Niño outlook for this year. 2016 saw a late break in the east but the very wet winter and spring was consistent with the near La Niña conditions recorded throughout the year. This year, the Bureau's outlook is very different, with an El Niño event projected to hit this winter. While these projections naturally carry a degree of uncertainty, El Niño events tend to bring hotter and dryer conditions on average to eastern and northern Australia.

Source: Bureau of Meteorology