

RURAL COMMODITIES WRAP

JULY 2017

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Cover photo | a frosty start to July at Euroa Victoria

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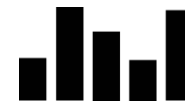
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PRICE UPDATE: NAB'S RURAL COMMODITIES INDEX



The NAB Rural Commodities Index is an index of 28 agricultural commodities weighted by the relative size of each commodity in the Australian agricultural sector.

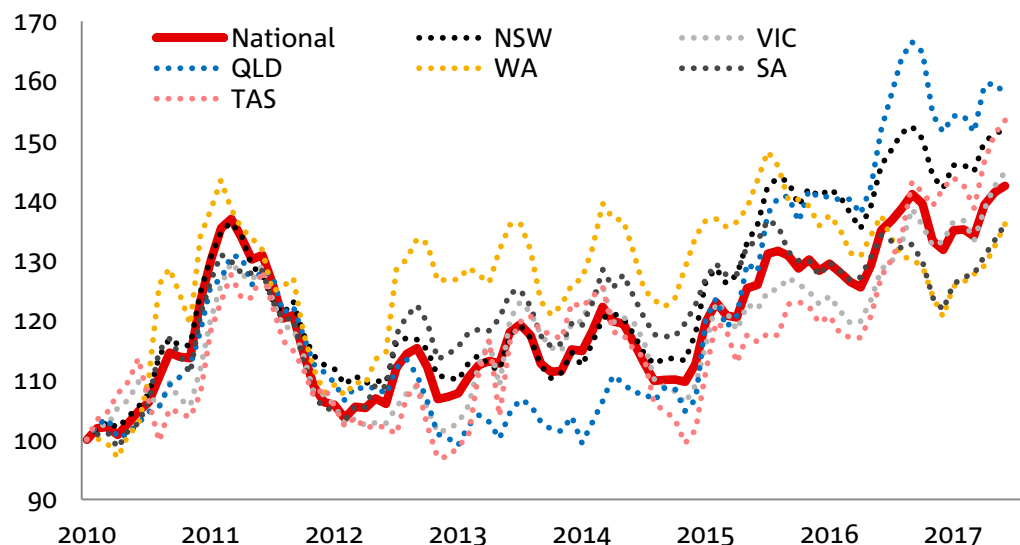
Overall, the index was unchanged in June, reflecting much better grain prices (as a result of dry US weather and concerns around Australian supplies amid a very dry start to winter) and decent dairy auction results, offset by generally poorer livestock prices and weakness in sugar and cotton. Dry conditions are starting to affect young cattle prices, with the Eastern Young Cattle Indicator now lower than the same time last year.

In addition to the national indicator, we publish state-level indicators, reflecting the particular composition for each state. We now also release detailed regional price indicators (see page 4). We will further build on and improve these regional indicators as the year progresses.

At the state level, New South Wales was up 0.2% while dairy-heavy Victoria rose 0.6%. Queensland with its large cattle industry was off 2.1%. Grain-dependent Western Australia was the best performer – up 2.5% while South Australia rose 1.2%. Tasmania saw prices rise 0.4%.

NAB RURAL COMMODITIES INDEX

Agricultural price index, 2010 = 100



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AUD PRICE CHANGES – SELECTED COMMODITIES

Monthly average price change

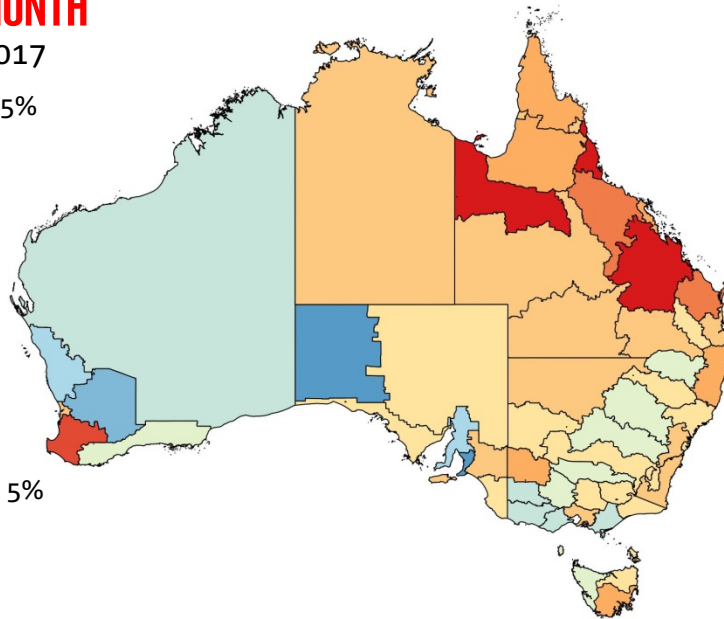
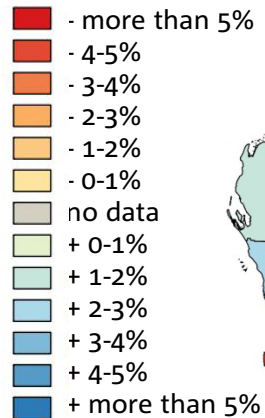
	April 2017	May 2017	June 2017
Wheat	▼ 1.3%	▲ 2.6%	▲ 8.2%
Beef	▲ 6.4%	▼ 2.0%	▼ 0.9%
Dairy	▲ 2.0%	▲ 9.1%	▲ 5.5%
Lamb	▲ 6.5%	▼ 2.4%	▲ 2.5%
Wool	▼ 1.8%	▲ 1.6%	▼ 1.5%
Sugar	▼ 8.6%	▼ 2.8%	▼ 15.0%
Cotton	▲ 1.3%	▲ 3.2%	▼ 5.8%

REGIONAL PRICE INDICATORS



MONTH ON MONTH

May to June 2017

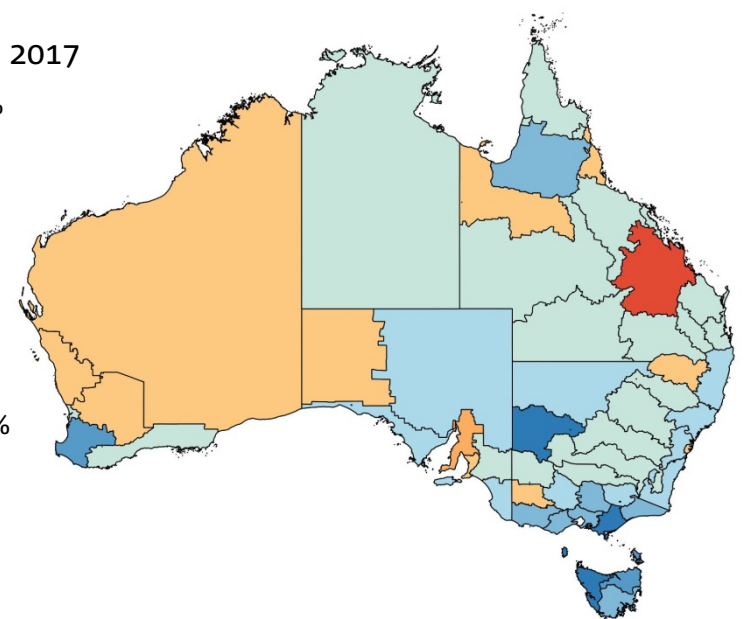
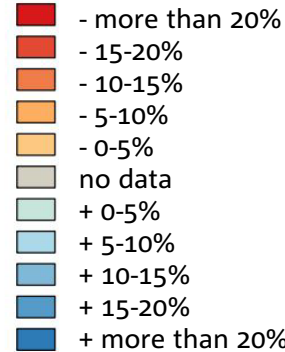


This month shows improved prices in grain growing regions, especially across the WA wheatbelt, SA's Yorke Peninsula and Northern agricultural districts and Central Western NSW, as well as good results dairy country in South West Victoria and South Gippsland. On the other hand there is an emerging weakness in livestock-heavy regions (especially cattle) and sharp falls across sugar-heavy areas of Queensland.

Better dairy data should be read with some caution as these maps reflect dairy export prices. Farmgate opening prices have now been released but differ depending on processor. For more information on dairy see page 13.

YEAR ON YEAR

June 2016 to June 2017



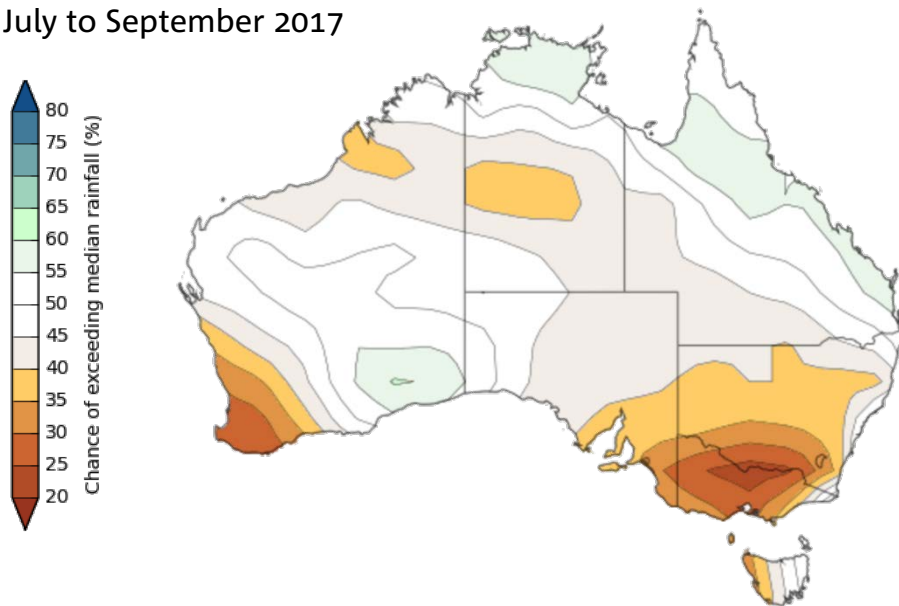
This is the third month of NAB's new regional price indicators, in effect a separate NAB Rural Commodities Index for every region in Australia. The data is based on state natural resource management regions (rather than ABS SA4 regions) to match agricultural regions as well as possible. Our maps are based on 2011 region boundaries. When the ABS releases production data based on updated boundaries, these boundaries will change.

Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

CLIMATE OUTLOOK

THREE MONTH RAINFALL OUTLOOK

July to September 2017



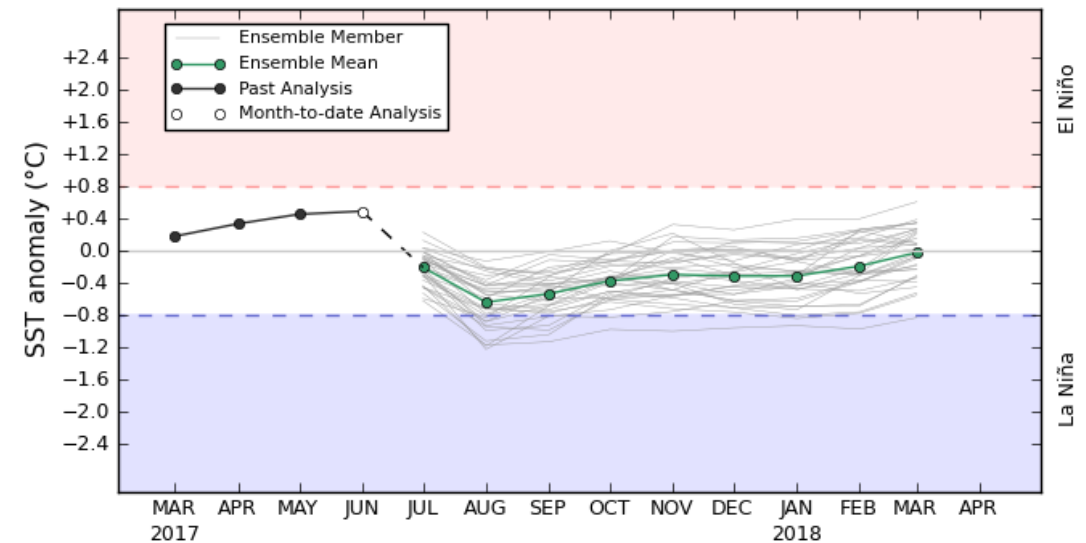
The Bureau of Meteorology's three month outlooks have been forecasting well below average rainfall for most of southern Australia for most of 2017. While the actuals outperformed the forecasts in many areas across autumn, winter is looking much drier so far.

The Bureau of Meteorology's latest three month climate outlook for July to September shows below average rainfall in the Western Australian wheatbelt and south west, most of Victoria and New South Wales, and parts of South Australia. If these rainfall levels transpire, there is a potential downside for grain yields and spring pasture for livestock.

Source: Bureau of Meteorology

BOM POAMA MODEL LONG-RANGE EL NINO OUTLOOK

Monthly mean NINO 34 – 18 June 2017



While the prospect of El Niño loomed large earlier this year, the forecasts have now waned to the extent that the Bureau of Meteorology has now cancelled its El Niño watch, expecting neutral conditions for the rest of the year. Indeed the latest POAMA forecast track is trending closer to La Niña over the winter.

El Niño events tend to bring hotter and drier conditions on average to eastern and northern Australia. The impact of any given event is difficult to predict, but the 2006-07 El Niño saw Australian wheat production fall below 11 million tonnes. On the other hand Australia managed over 24 million tonnes in 2015-16 despite El Niño.

OUTLOOK FOR PRICES AND PRODUCTION



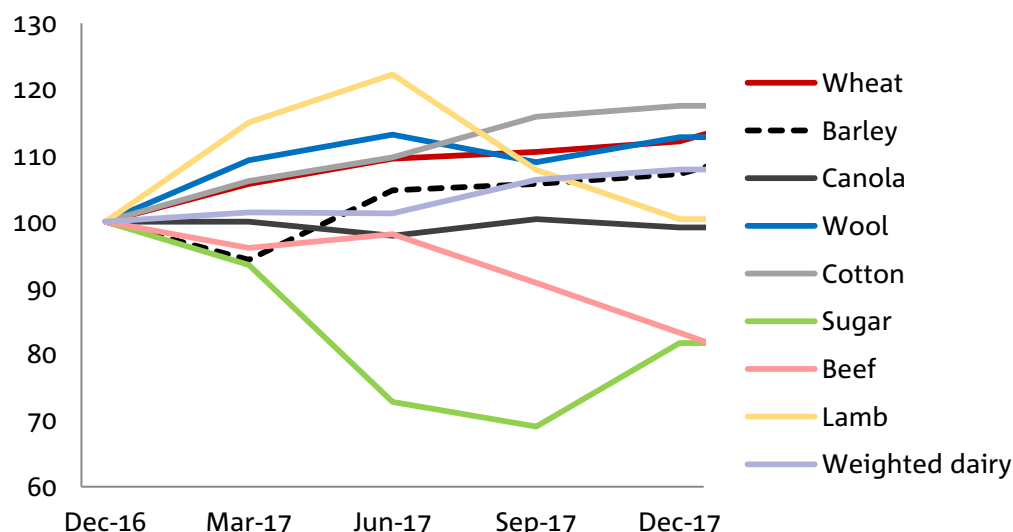
Prices

The outlook for the coming year is highly dependent on the course of the Australian dollar, although we still expect the AUD to fall to 70 US cents at the end of 2017, providing some upside towards the end of the year. We see the 70 cent mark as a low point for the AUD, with the currency to remain around that level well into 2018.

Weather will continue to be a key driver of livestock prices. Drier weather is already denting cattle and lamb prices. If these conditions continue we expect to see further downside, especially for cattle. The Bureau of Meteorology forecasts dry conditions to continue in south eastern and south western Australia.

INDEX OF PRICE FORECASTS FOR RURAL COMMODITIES

AUD index value, December quarter 2016 = 100



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer

Production

Rainfall (or more accurately the lack of it) is the major issue for production this year. This month we have released our initial wheat production forecast at 23.3 million tonnes. If it stays dry we expect further downside risks to this outlook. Dairy production could come under pressure if pasture growth is below average.

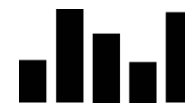
Conversely, dry conditions have already seen an uptick in cattle slaughter. If it remains dry, production is likely to be higher for some months before declining again.

PRODUCTION OUTLOOK (ABARES JUNE 2017 EXCEPT WHEAT)

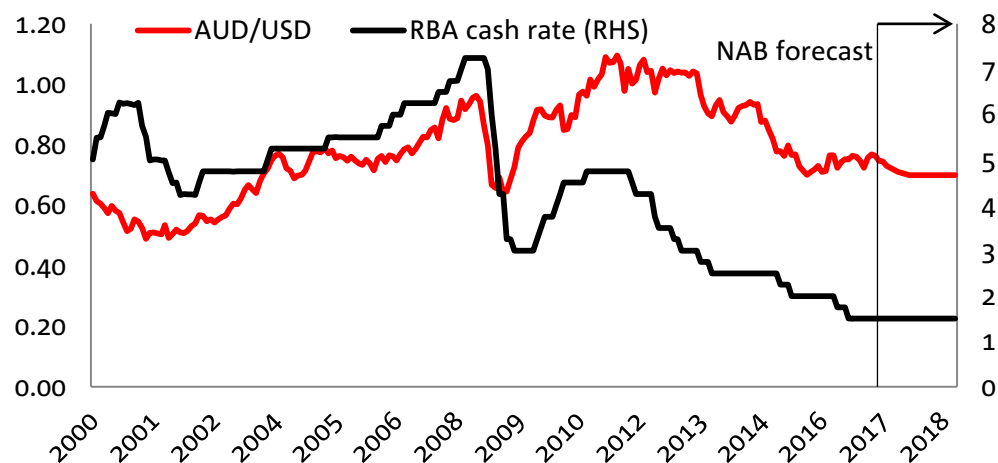
Financial year production estimates, Australia

	2016-17	2017-18	% change
Wheat (million tonnes)	35.1	23.3	▼ 33.8%
Beef (kt)	2,035	2,114	▲ 3.9%
Dairy (milk, ML)	8,910	9,250	▲ 3.8%
Lamb and mutton (kt)	669	668	▼ 0.1%
Wool	431	442	▲ 2.6%
Sugar (kt)	4,804	4,821	▲ 0.4%
Cotton (lint, kt)	960	1,083	▲ 12.8%

EXCHANGE RATES AND INTEREST RATES



EXCHANGE AND INTEREST RATES INC. QUARTERLY FORECASTS



NAB FX STRATEGY TARGETS

AUD/USD	0.73	0.70	0.70	0.70
NZD/USD	0.71	0.68	0.68	0.68
USD/JPY	114	118	120	120
EUR/USD	1.12	1.13	1.15	1.15
USD/CNY	6.96	6.97	7.00	7.05
AUD TWI	63.4	61.4	61.5	61.7

Source: NAB

There is very little probability of a rate change priced into markets at present. The RBA has indicated that it will look through the volatility in GDP in coming quarters and remains surprisingly confident that growth will pick up “to a little above 3%”. Bolstering that view is its assessment that “the transition to lower levels of mining investment following the mining investment boom is almost complete”.

While our forecasts are only a little softer near term, we continue to believe that the RBA’s forecasts into 2018 and 2019 for growth of 2¾ - 3¾% will be revised downwards over time. In addition, mixed labour market outcomes (with the RBA particularly concerned about underemployment) and weak wages and inflation data will prevent any hike. Meanwhile, there is tentative evidence that macroprudential and policy changes are leading to a softening in dwelling price growth, which may help mitigate economic risks associated with rising household debt levels. The bottom line is the RBA is on hold for a long period, with our forecasts only suggesting a hike by mid-2019.

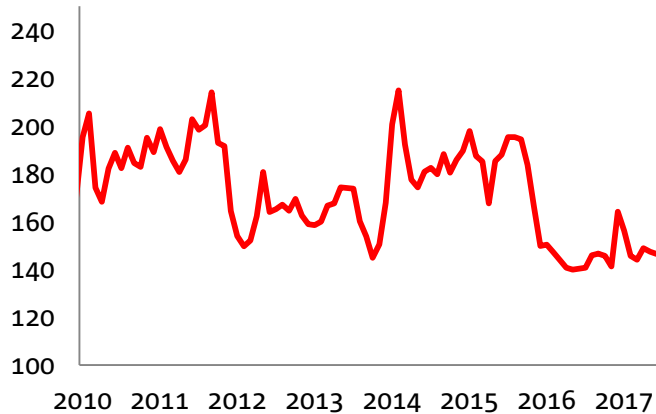
We continue to seriously doubt that the strength in the AUD can survive any meaningful recovery in the US dollar, which remains our base case. We still see a very realistic prospect of cross-over between U.S. and Australian rates next year and together with our expectation for further weakening in Australia’s terms of trade, see the risks to our 0.70 end 2017 and 2018 point forecasts as skewed to the downside.

FARM INPUT PRICES



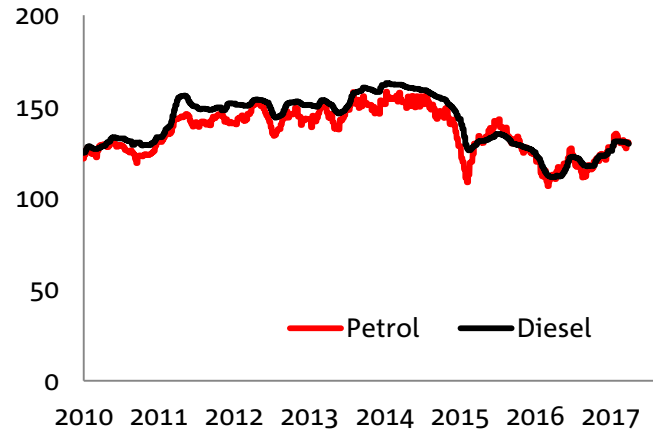
NAB FERTILISER INDEX

AUD index



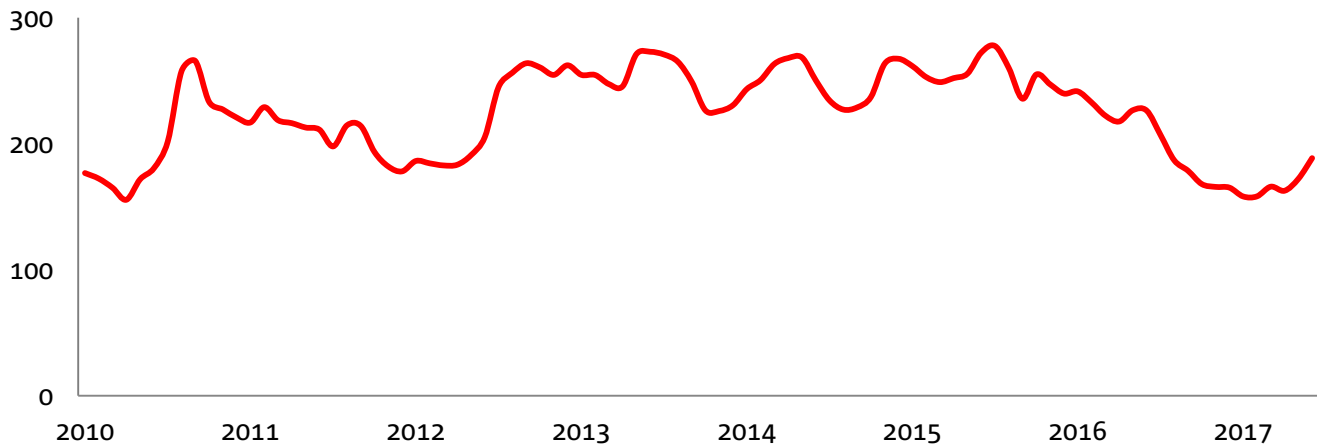
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



Source: Bloomberg, Profarmer and NAB Group Economics

Feed prices remain low but look to have turned a corner, reflecting across the board strength in local prices. While there has been plenty of grain across Australia following a bumper grain and hay season, if it remains dry over winter and spring these supplies could come under some pressure and there are already concerns in the market around availability.

NAB's weighted feed grain price index jumped 9.6% in June to \$189/tonne on higher feed wheat, barley, oat and sorghum prices. Feed quality and mouse plagues are emerging issues for old season crop in storage.

Fertiliser prices down again in June, reflecting lower urea and US natural gas prices, but some signs of life for DAP. The NAB index was down 0.7% in June. The most recent national fuel price data shows an average of 123.5c/litre for petrol and 127.4c/litre for diesel.

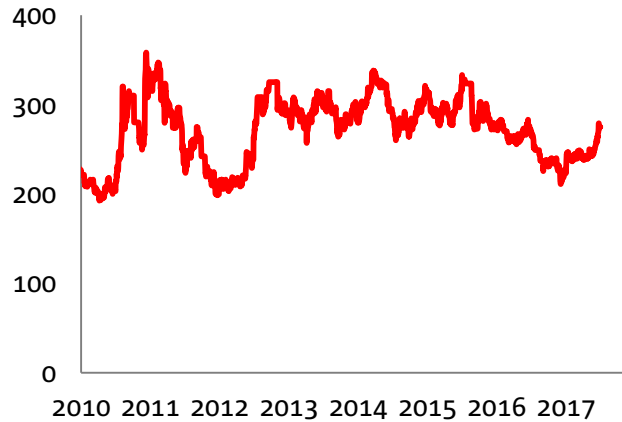
The trajectory of oil prices will be a key factor in both fuel and fertiliser prices this year. Oil markets have been middling for some time, reflecting rising US production and a lack of confidence that the OPEC deal will have its desired effect.

WHEAT



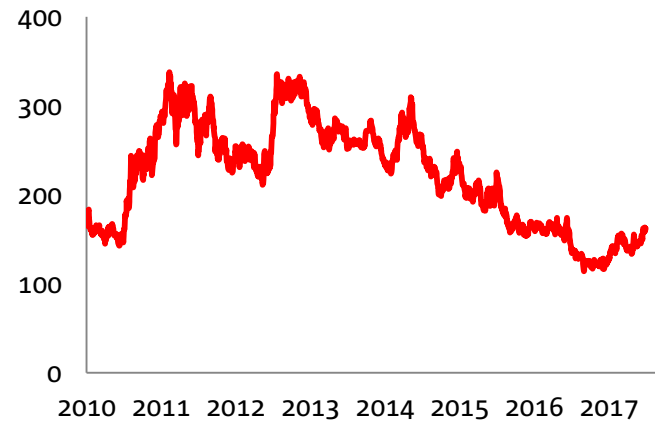
ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



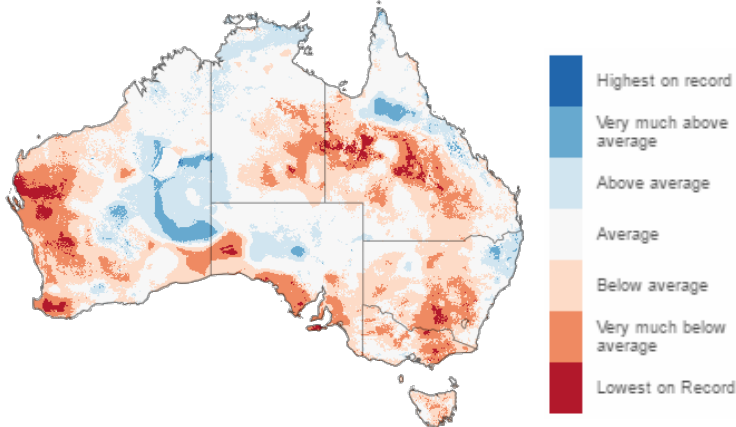
CBOT SOFT RED WINTER WHEAT

USD/tonne



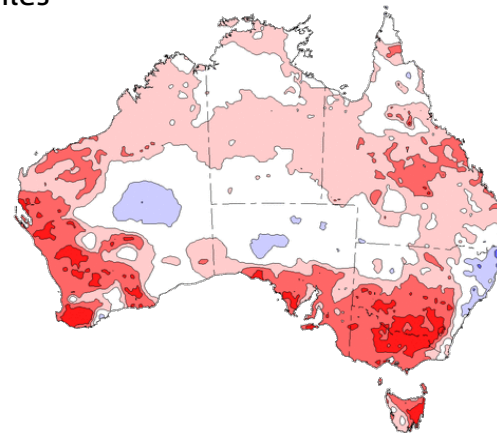
ROOT ZONE SOIL MOISTURE

Relative to average, 3 July 2017



RAINFALL – JUNE 2017

Deciles



Prices

Latest global data suggest that wheat prices continue to strengthen amid concerns around US and European conditions after bottoming out in the second half of last year. Local prices have strengthened greatly, reflecting global conditions as well as concerns around availability due to a dry winter. Nonetheless, global wheat stockpiles remain high, putting something of a brake on upside for global wheat prices.

Production

While last season smashed records, this season our model points to a much closer to average crop with risks weighted closer to the downside amid an extremely dry start to winter following a mixed autumn break.

Our central case estimate for the 2016-17 Australian wheat crop is 23.3 million tonnes, based on rainfall to date and assumed average rainfall in major cropping areas for the rest of the season. This would represent a 33.8% drop in production on last season. Forecasts currently point to a drier than average finish to winter.

For more information see our in focus report on grain production.

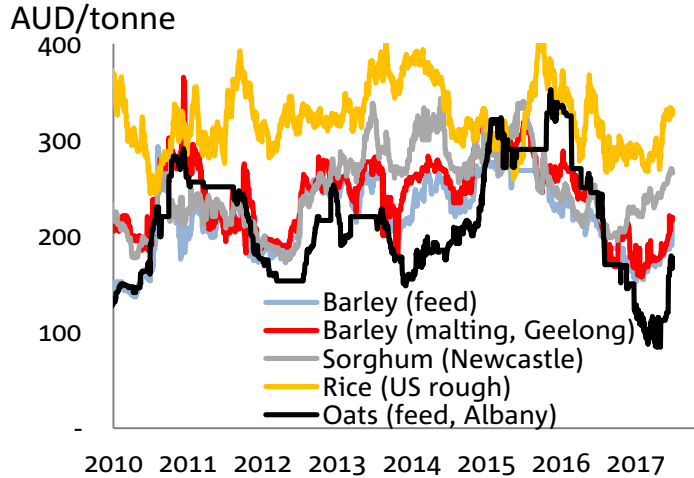
Source: Bloomberg, Profarmer, USDA, Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics



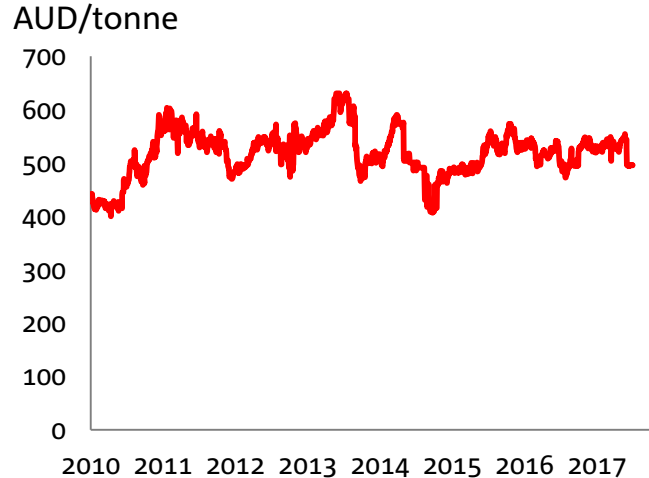
OTHER BROADACRE CROPS



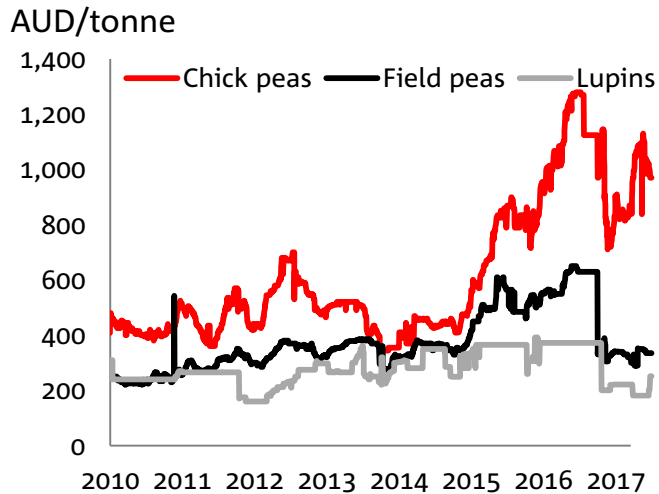
SELECTED COARSE GRAINS



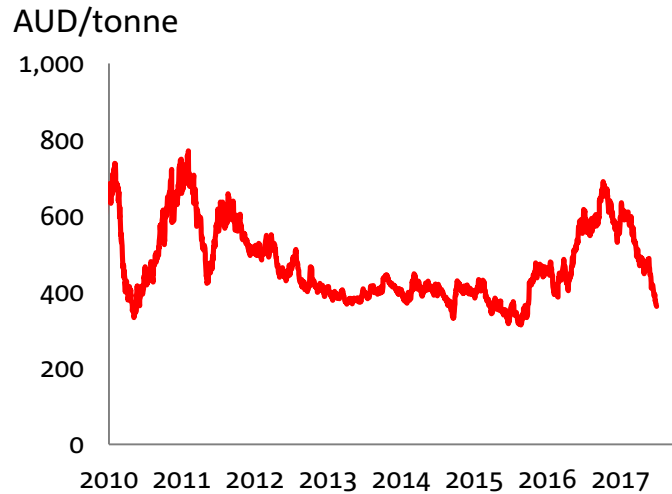
CANOLA, NEWCASTLE NSW



SELECTED PULSES



ICE NO.11 SUGAR



Prices for most coarse grains have enjoyed something of a recovery of late, despite strong global supply, which has kept prices low. Our outlook is broadly similar to wheat for the coming year, with the AUD (and global growing conditions) to be key. Canola remains a stand-out, with prices holding up much better, although obtaining seed was a major challenge for planting,

We have been cautious around the trajectory of chick pea prices for some time, so the ongoing roller-coaster is something of a surprise. Prices exceeded AUD1,200/tonne last year following two poor Indian monsoon seasons, before falling into the 700s late last year and then recovering to around AUD900-1,000/tonne of late. While we continue to see these prices as unsustainable, it appears that prices will stay elevated for longer. If the Indian monsoon is stronger this year prices are likely to see sharp falls. Nonetheless, chick peas are likely to remain more expensive than alternative crops this season.

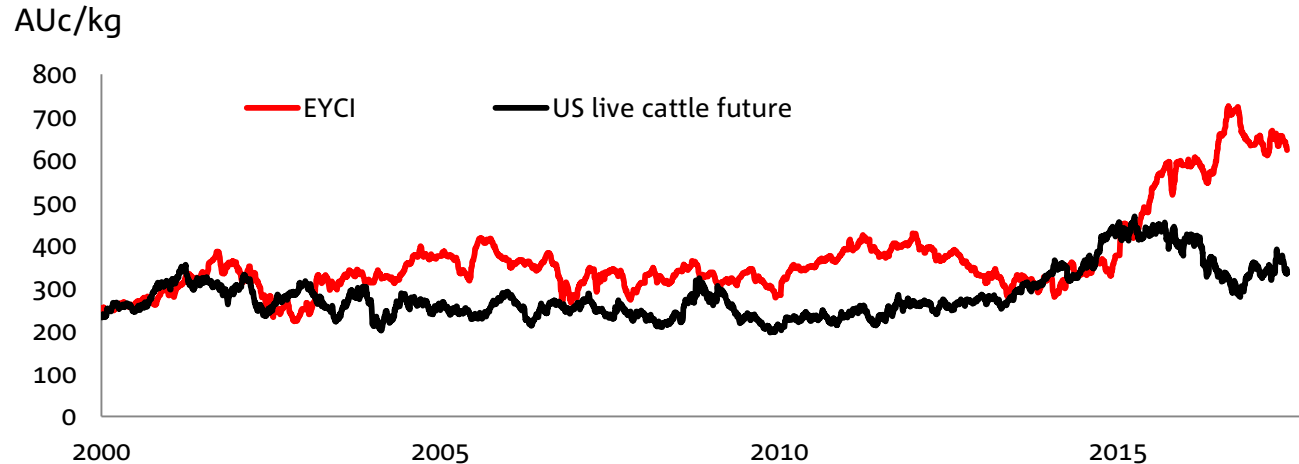
Sugar prices continue to tumble, wiping off all of the previous rally and reaching close to 2015 lows in AUD terms, reflecting stronger global supply, sentiment and subdued crude oil denting ethanol prices.

Source: Bloomberg, Profarmer and NAB Group Economics





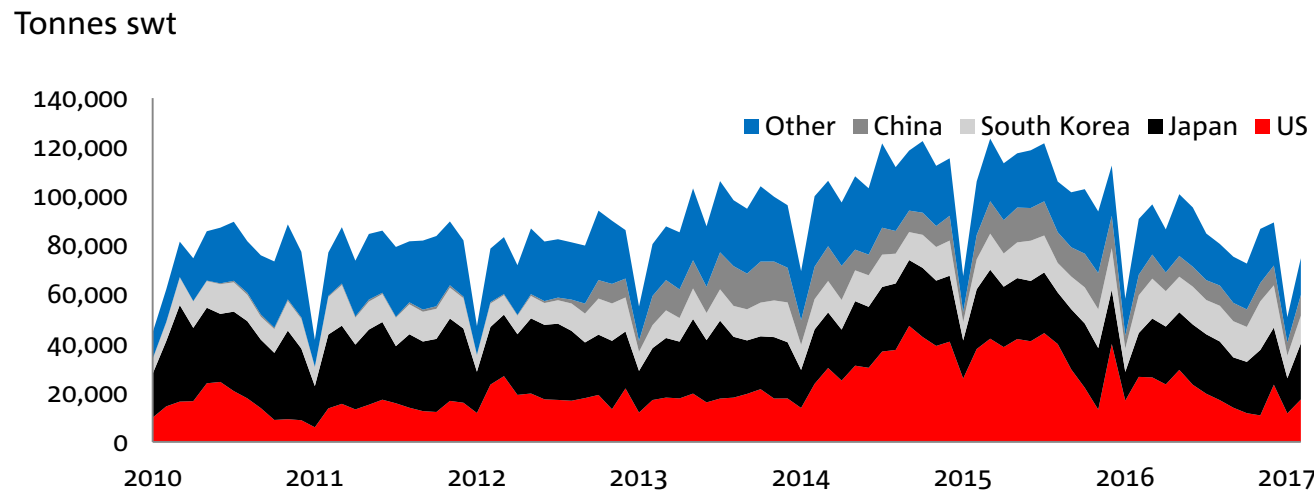
EASTERN YOUNG CATTLE INDICATOR AND US CATTLE FUTURES



Young cattle prices have trended downwards this month amid dry weather and mixed export market prices. The EYCI is now below its level at the same time in 2016, the first time this has occurred since 2014.

Dry conditions have seen slaughter increase to a 28 week high according to data from Meat and Livestock Australia. MLA reports that this follows slaughter levels below 2016 figures for most of 2017. If winter dryness persists into spring it is likely that there will be further turnoff and increased pressure on saleyard prices.

MONTHLY AUSTRALIAN BEEF EXPORTS



It has been our view for some time that the extraordinary cattle boom we have seen in Australia for the past two years largely reflects several one-off factors which are unlikely to be repeated.

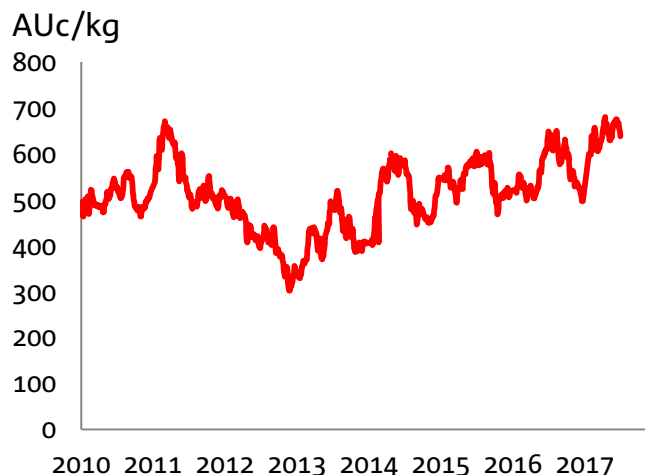
International markets continue to paint a mixed picture. Earlier US gains look to have been tempered and remain well below the levels needed to sustain Australian prices at this high level. Slim margins for Australian processors remain a concern, with high saleyard and over the hooks prices meeting muted export markets.

Source: Meat and Livestock Australia and NAB Group Economics

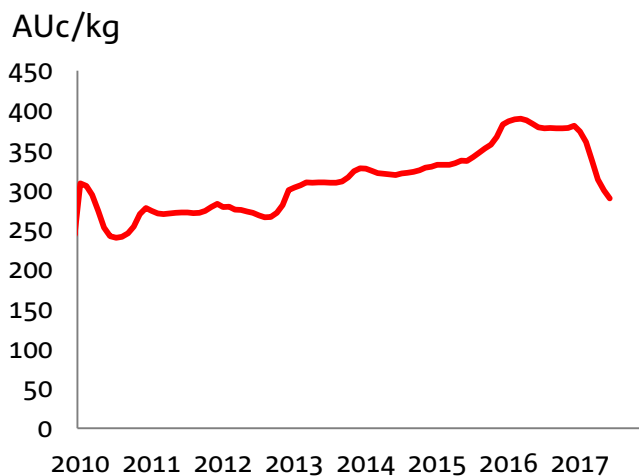
LAMB, PORK AND POULTRY



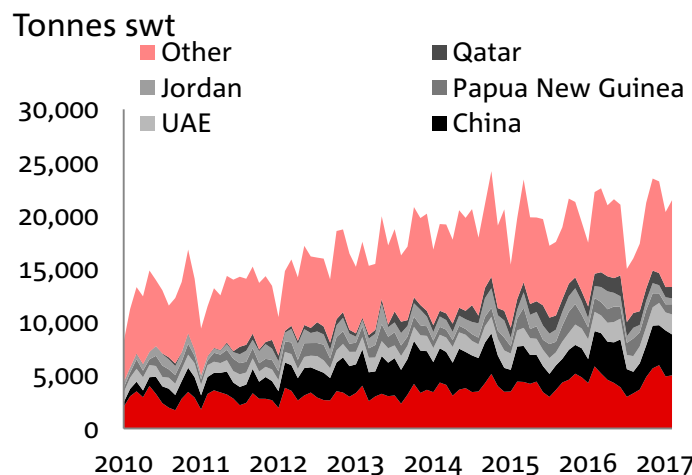
NATIONAL TRADE LAMB INDICATOR



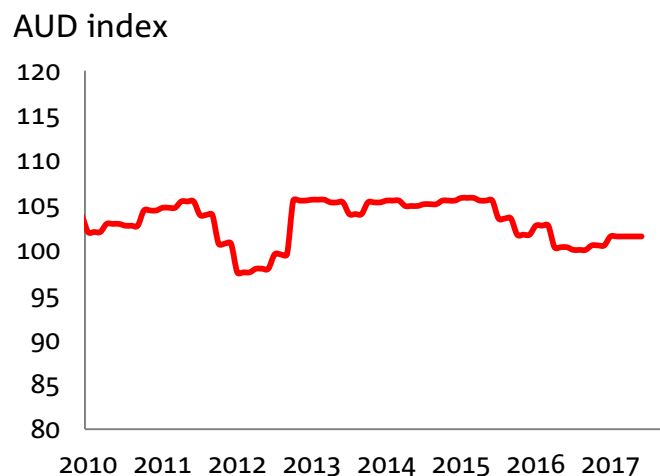
AUSTRALIAN PORK PRICE INDICATOR



MONTHLY LAMB EXPORTS BY DESTINATION



ABS POULTRY PRICE INDEX



Lamb prices have likewise felt the pressure of drier conditions across the country and while the National Trade Lamb Indicator was up on a monthly average basis, recent trends show prices sinking back to the same level as last year. Continued dry conditions may see further pressure, although producers now tend to use more supplementary feed than in the past and will be assisted somewhat by low grain and hay prices (although supply is increasingly a worry).

Export markets for lamb are reasonably diversified, with the US and China accounting for a substantial volume. However, the Middle East remains a very important market, particularly for mutton and live sheep.

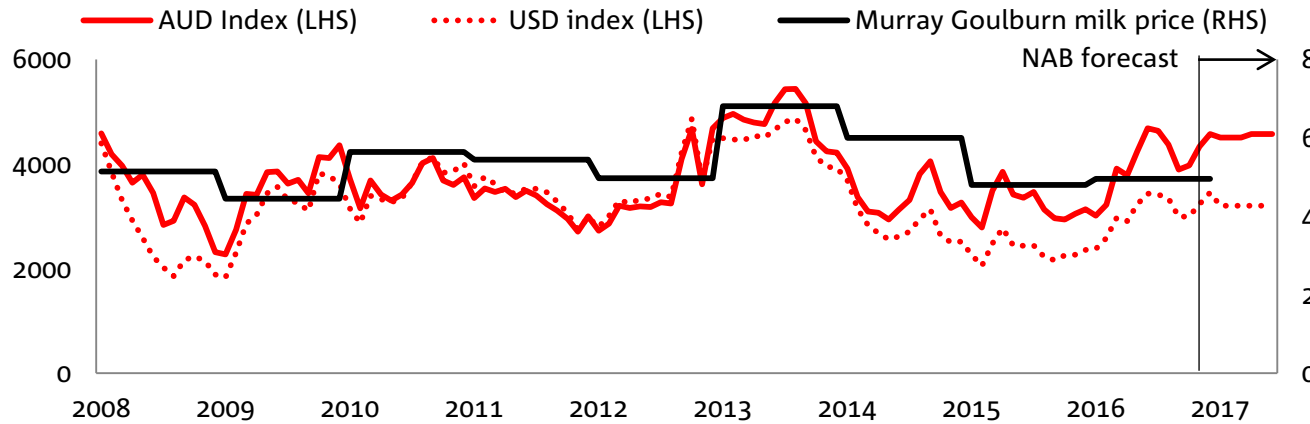
The quagmire in the Australian pork industry continues unabated. Wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) continue their poor run that began late in 2016. Prices were off another 3.5% in June (to date) and are now approaching 24% lower than the same time last year. While a number of factors have been suggested for the poor run of prices (oversupply, difficulty accessing slaughter, imports, lack of demand), weak sentiment appears to be a strong driver for now.

Source: Meat and Livestock Australia, Australian Pork, Australian Bureau of Statistics and NAB Group Economics



NAB WEIGHTED DAIRY EXPORT PRICE INDICATOR

\$/tonne (export price, LHS), AUD/kg milk solids (farm gate price RHS)

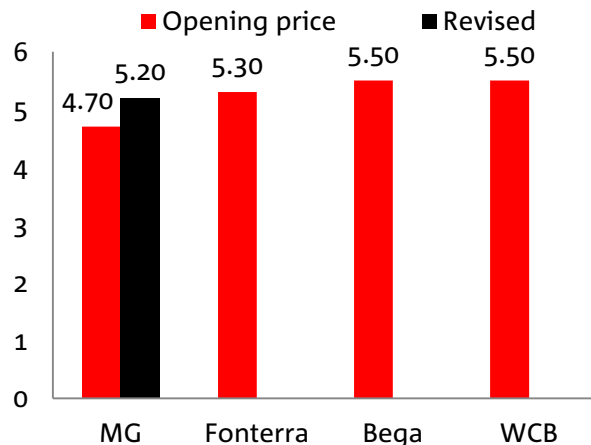


Global Dairy Trade auction results in June were mixed but higher overall for the month. The NAB weighted dairy export price indicator gained 5.5% for the month in AUD terms after rising 9.1% in May.

While the export markets look better than this time last year, most domestic interest of late has been around opening prices for the 2017-18 season. Australia's largest dairy processor Murray Goulburn opened at \$4.70/kgms, well below Bega and Warrnambool Cheese and Butter (both on \$5.50/kgms) and Fonterra (\$5.30/kgms). Seeking to maintain milk flow, Murray Goulburn has now revised its opening price substantially higher to \$5.20/kgms.

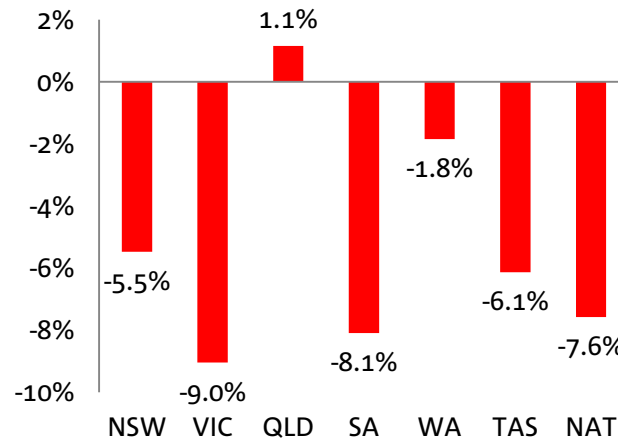
OPENING PRICES

2017-18 season



SEASONAL MILK PRODUCTION CHANGE

2016-17, YTD to May



Milk flow remains well down on last season. Season to date production to May is down 7.6% nationally. Much of this decline comes from the major exporting regions of Victoria (down 9.0%), South Australia (down 8.1% and Tasmania (down 6.1%). Forecast dry conditions in Victoria and South Australia are increasingly concerning for spring production.

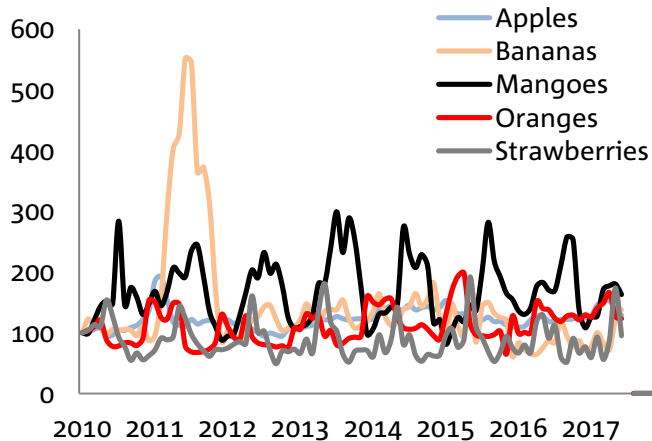
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, processors, ABC and NAB Group Economics

Note: chart shows Murray Goulburn farmgate prices (upper range for revised 2015-16 price) except 2008-09 which shows Dairy Australia's reported Victorian average value



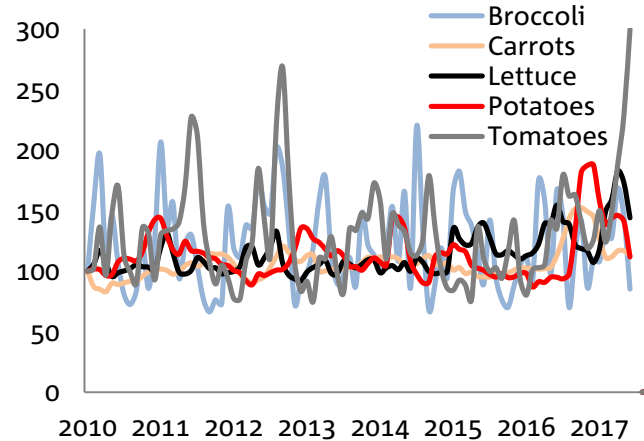
WHOLESALE FRUIT PRICES

AUD index, Sydney and Melbourne



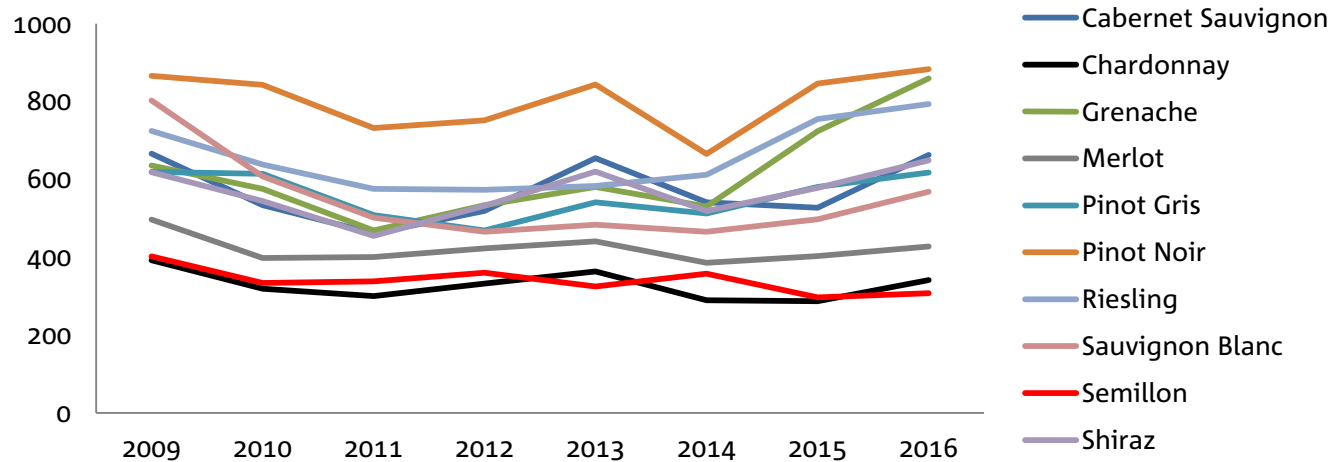
WHOLESALE VEGETABLE PRICES

AUD index, Sydney and Melbourne



NAB WEIGHTED WINE GRAPE PRICES

AUD/tonne



Source: Ausmarket Consultants, Wine Australia and NAB Group Economics

We produce wholesale price indices for fruit and vegetables, based on data from the Melbourne and Sydney wholesale markets.

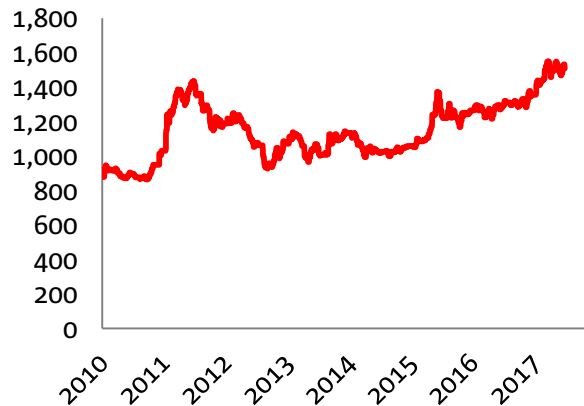
Wholesale fruit and vegetable prices were down in June, despite another extraordinary month for tomatoes. Fruit prices fell 8.3% to an index value of 132.4 (January 2010 =100). Vegetables fell more modestly, down 2.6% to an index value of 161.2 (January 2010 =100). While fruit and vegetable prices show strong seasonal volatility, the trend since the beginning of the index in 2010 shows somewhat limited growth in wholesale prices for many of the products we track, a concerning trend for producers.

Wine Australia's 2016 Price Dispersion Report, shows further strengthening in wine grape prices in the 2016 vintage, reflecting the rewards of a lower AUD. Overall, wine grape prices for major varieties were higher to much higher. Cabernet Sauvignon was a standout performer, up 26% from last season. Chardonnay and Grenache also grew strongly, both up 19% in volume weighted terms.



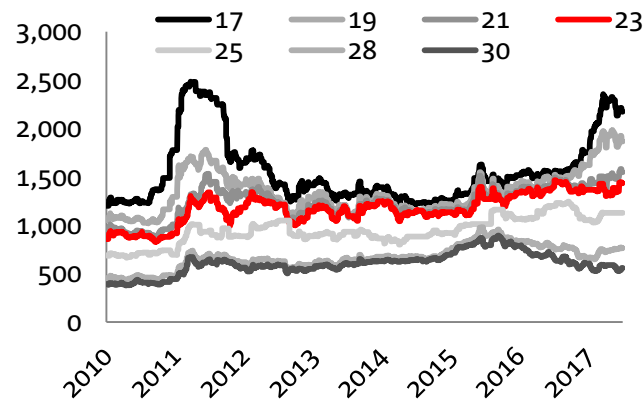
WOOL – EASTERN MARKET INDICATOR

AUc/kg



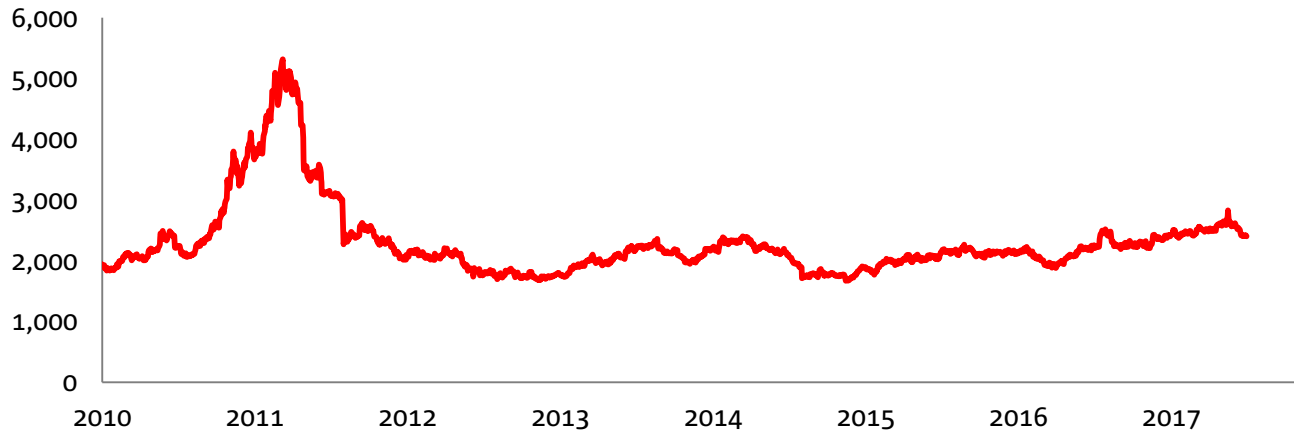
WOOL PRICES BY MICRON

Southern Region



COTLOOK A INDEX

AUD/tonne



Source: Bloomberg and NAB Group Economics

The wool market continues its run, seeing some of the best conditions in three decades. This follows a return of confidence to the industry last year after several years of unfavourable prices. The price upturn enjoyed by wool producers has continued despite limited movement in the AUD (wool is quite sensitive to movements in the dollar), and our expectations of a lower AUD this year point to further upside. Interestingly, the best performance has been in fine and super-fine wool – below 20 microns. Coarser wools at the 28 and 30 micron level have actually seen lower prices. However, there are some emerging signs that prices for super-fine wool have peaked..

The Eastern Market Indicator fell 1.5% in June. With prices at these levels, ABARES projects that wool production will increase in the coming year, arresting (at least temporarily) a long decline in production.

Cotton prices fell 5.8% in AUD terms in June. However, the major story for Australian cotton is the rapid expansion in cotton production this season, as plantings stretch as far south as the Victorian border on decent irrigation water availability. ABARES forecasts cotton lint production to increase 12.8% in 2017-18.