more give, less take

In Focus

Wheat Market Update – July 2015

Phin Ziebell, NAB Agribusiness Economist

Photo: Gregory Heath, CSIRO

agribusiness

Key points

- Global wheat markets have been somewhat volatile of late, partly in response to varied and stormy weather conditions in the US. Nonetheless, the USDA forecasts that total global wheat supply will increase in 2015-16, suggesting little upside for USD prices for the remainder of this year. Locally, we expect that the falling AUD will provide support to local prices. Overall, our forecast is for local prices to increase 5.9% in AUD terms in 2015-16.

- Australian wheat growers endured a somewhat nervous start to the planting season, with autumn rainfall patchy and below average in many regions. Better rainfall in the past month has improved confidence in some areas but challenges remain, compounded by the presence of El Niño since May this year.

- In June we foreshadowed the risk that El Niño will cause a significantly smaller Australian wheat harvest than last year, suggesting that a national crop of 20 million tonnes or lower was possible. In this report we present an upward revision to this forecast, based on better conditions in New South Wales and South Australia. State by state yield and production forecasts are shown to the right, with a total national production forecast of 21.6 million tonnes in 2015-16. It is important to note that timely spring rains should push yields higher and could precipitate a national harvest of around 23 million tonnes. This is still somewhat more pessimistic than ABARES' forecast for a harvest of 23.6 million tonnes this season.

Photo: John Coppi, CSIRO

Contents

2015-16 production forecasts (El Niño scenario)

	Area (ha)	Yield (t/ha)	Production ('000,000t)	Production (%change)
WA	5,150,000	1.65	8.50	▼ 4.5
NSW	3,900,000	1.55	6.05	▼ 3.7
SA	2,360,000	1.70	4.01	▼ 13.7
VIC	1,625,000	1.30	2.11	▼ 23.2
QLD	750,000	1.25	0.94	▼ 10.7
TAS	8,000	4.70	0.04	▼ 8.1
AUS	13,793,000	1.57	21.64	▼8.6

2015-16 AUD price forecasts

July 2015 price change	2015-16 forecast price change	2015-16 forecast average price
▲ 6.3%	▲5.9%	AUD306.74/tonne

Source: ABARES, Australian Bureau of Statistics, Profarmer, Bloomberg and NAB Group Economics. Note: area planted forecasts as per ABARES

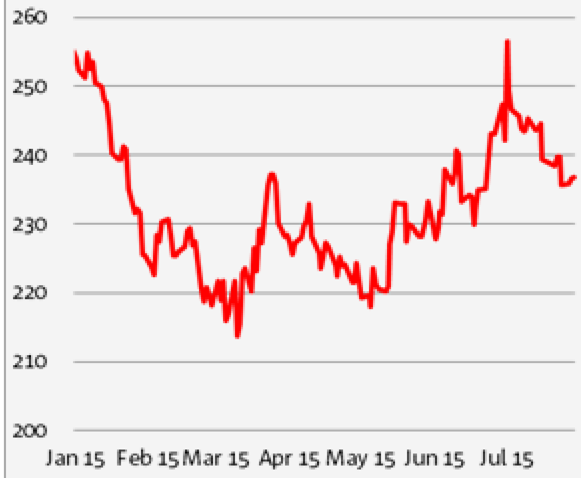
International market conditions

Global wheat markets have been somewhat volatile of late, partly in response varied and stormy weather conditions in the US. *Figure 3* shows US rainfall as a per cent of the average level over the last month, displaying considerable disparity even within major cropping areas.

After building concerns in late June, peaking at the beginning of July, prices have unwound somewhat (as shown in *Figure 1*) as concerns about weather diminished and European and Black sea crops showed promise. It is likely that some of the US crop will be downgraded due to unfavourable weather approaching harvest.

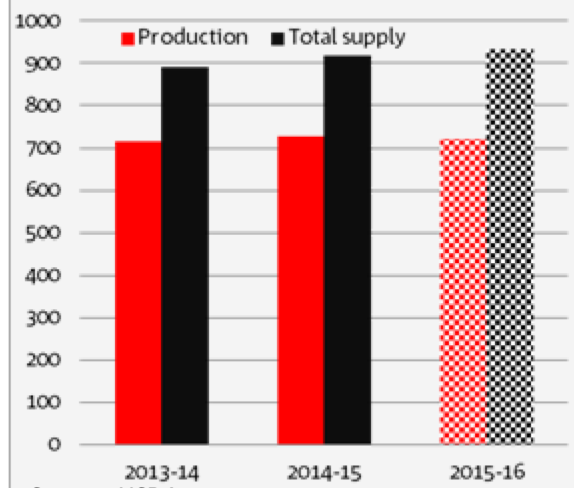
Overall, the USDA forecasts that total global wheat supply will increase in 2015-16, (as shown in *Figure 2*) suggesting little upside for USD prices for the remainder of this year. We forecast that Hard Winter Red will fall 7.0% in 2015-16 to average USD225/tonne for the year.

Figure 1: USDA No. 1 Hard Winter Red spot – Kansas City (USD/tonne)



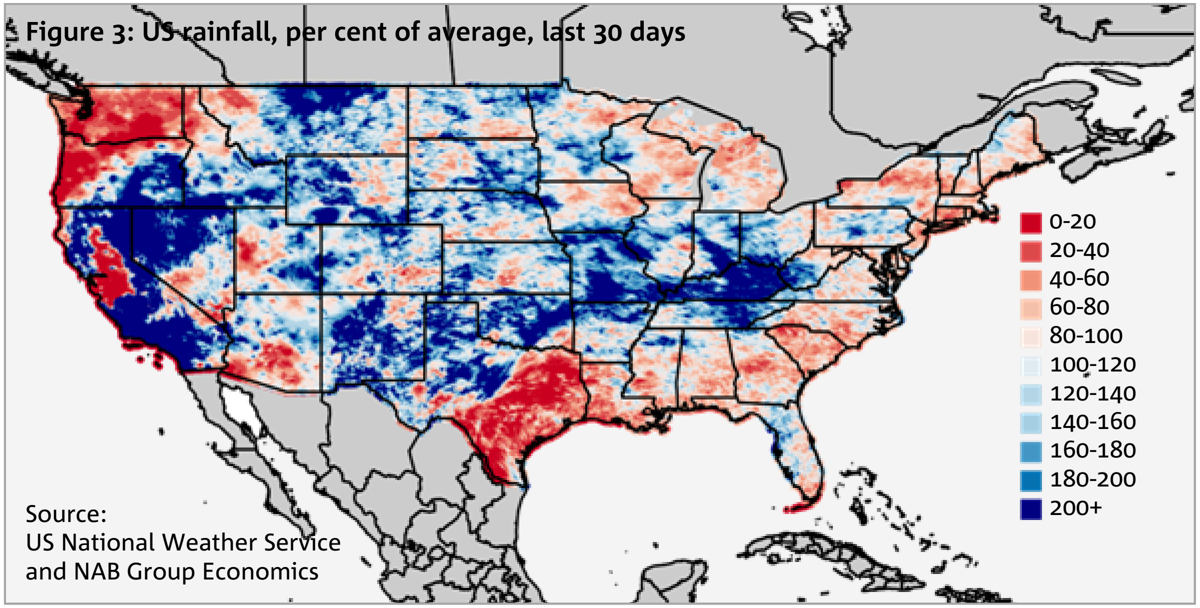
Source: Bloomberg

Figure 2: USDA global wheat output and supply forecasts (million tonnes)



Source: USDA

Figure 3: US rainfall, per cent of average, last 30 days



Source:
US National Weather Service
and NAB Group Economics

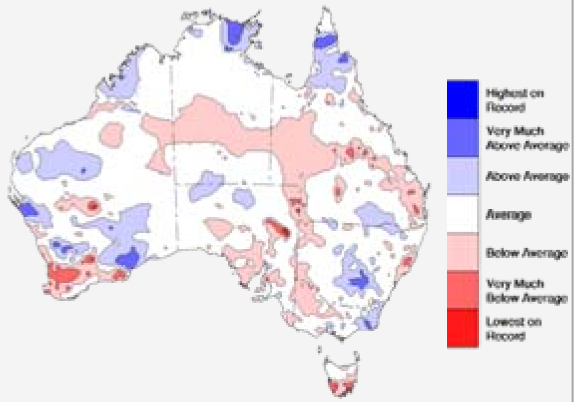
Australian market and climate update

Australian wheat growers endured a somewhat nervous start to the planting season, with autumn rainfall patchy and below average in many regions. Better rainfall in the past month has improved confidence but challenges remain, compounded by the presence of El Niño since May this year. El Niño causes generally lower winter and spring rainfall in northern and eastern Australia. The impact of “classic” El Niño patterns is shown in *Figure 5*. As wheat is a winter crop in Australia is sown in autumn and early winter and harvested in spring and summer, wheat yields are sensitive to winter and spring rainfalls. Severe El Niño events have been associated with drastically lower wheat yields in eastern Australia,

Figure 6 shows the three-month rainfall outlook to October, which forecasts below average rainfall in the top end, much of Victoria, Tasmania and northern New South Wales but above average falls in Western Australia and neutral conditions in the Riverina. While this points to a possible upside for yields in Western Australia, New South Wales and South Australia, the impacts of El Niño events are disparate and difficult to forecast, substantially clouding the outlook.

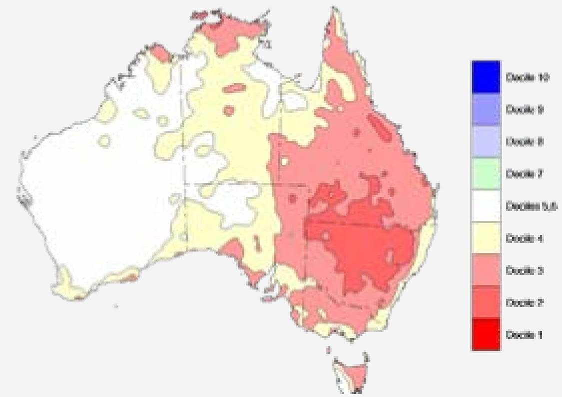
Regarding prices, we expect that the falling AUD will provide support at a time of little international upside. Overall, our forecast is for local prices to increase 5.9% in AUD terms in 2015-16.

Figure 4: Australian rainfall deciles –July 2015



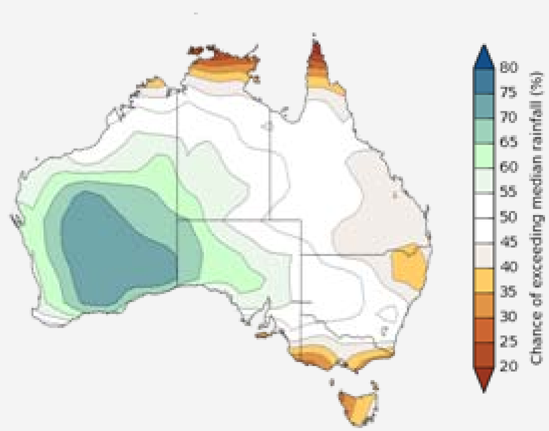
Source: BoM

Figure 5: Winter-Spring Mean Rainfall Deciles for 12 moderate-strong classical El Niño events



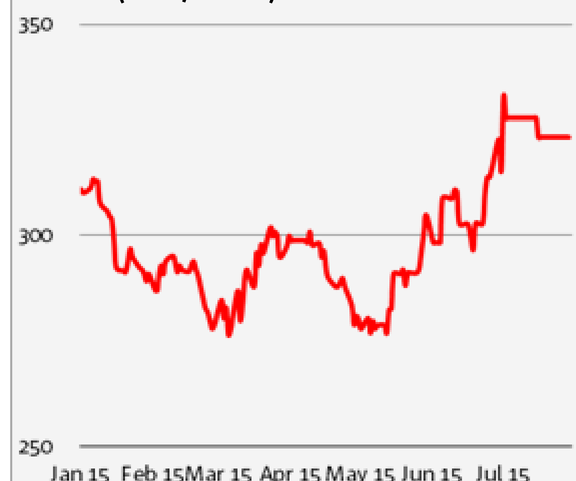
Source: BoM

Figure 6: Australian rainfall outlook – August to October 2015



Source: BoM

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



Source: Bloomberg, Profarmer

Western Australia

Western Australia is Australia's largest wheat producer, accounting for 38% of national production – some 8.9 million tonnes – in 2014-15. Most of the Western Australia's wheat is exported.

ABARES estimates that 5.1 million hectares has been planted to wheat in Western Australia this season.

As El Niño is largely an issue for eastern Australia, Western Australian wheat yields tend to be less volatile than those in the eastern States and the impact of El Niño is generally lower. However in some years, El Niño can reduce yields in the west. 1914-15, 2002-03 and 2006-07 stand out as El Niño years where Western Australian yields fell substantially.

Figure 9 shows average rainfall in Western Australian wheat regions and rainfall during El Niño periods. 2015 YTD data shows a dry summer, followed by good rains in March but a drier weather returning by May, June and July. Our El Niño scenario forecast is for a total harvest of 8.5 million tonnes off a planted area of 5,150,000 hectares, a 4.5% production decline from last year.

Conditions in the wheatbelt

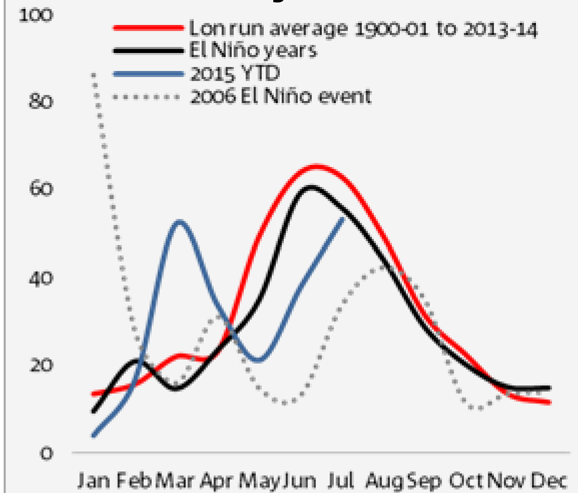
We are looking to an average year in the mid-wheatbelt. Although we haven't really had the rain we wanted, rains have arrived just in time after a few extended dry periods that have caused stress in the crops.

Strong finishing rains would be nice and could push the crop above average, but with acceptable finishing rains most people should be happy with the crop.

Daniel Dadd

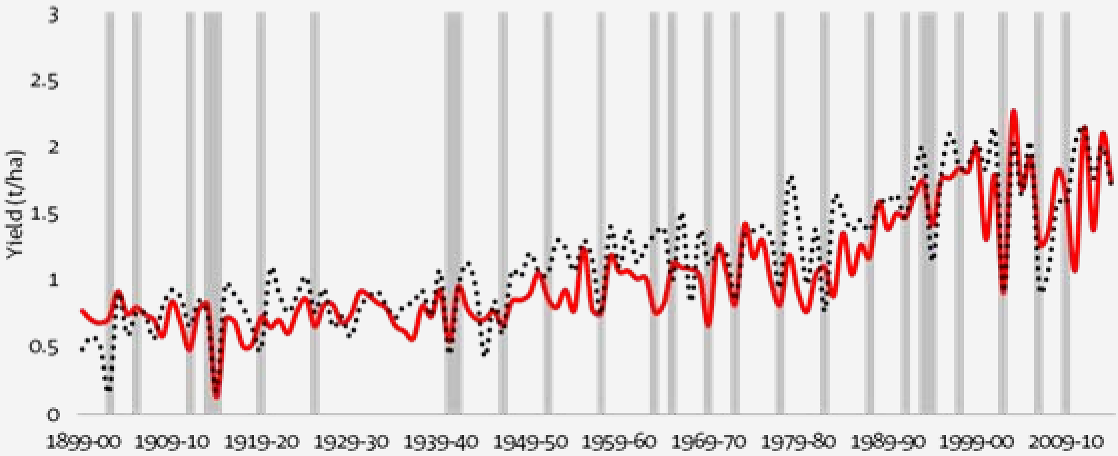
Agribusiness Manager, Northam

Figure 8: Monthly rainfall (mm) – Western Australian wheat regions



Source: BoM and NAB Group Economics

Figure 9: Impact of El Niño on Western Australian wheat yields (shaded areas indicate El Niño events, dotted line shows national yield)



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

New South Wales

New South Wales is Australia's second largest wheat producer, accounting for 27% of national production in 2014-15.

ABARES estimates that 3.9 million hectares has been planted to wheat in New South Wales this season.

Wheat yield in El Niño years is generally significantly lower than in non-El Niño years and yields mostly track below the national average during these periods. However, this trend is not uniform. For example, New South Wales recorded its third highest wheat yield on record – well above the national average – in the 1993-94 El Niño year, although yields dropped 76% when El Niño persisted into 1994-95.

Figure 11 shows average rainfall in New South Wales wheat regions and rainfall during El Niño periods. 2015 YTD data shows generally above average rainfall since April, pointing to good conditions for wheat.

Our forecast is for a total harvest of 6.05 million tonnes off a planted area of 3,900,000 hectares, a 3.7% production decline from last year. However, good spring rain will push the harvest much closer to last year's result. BoM's latest forecasts suggest that rainfall in southern New South Wales may be around average from August to October.

Conditions in the Riverina

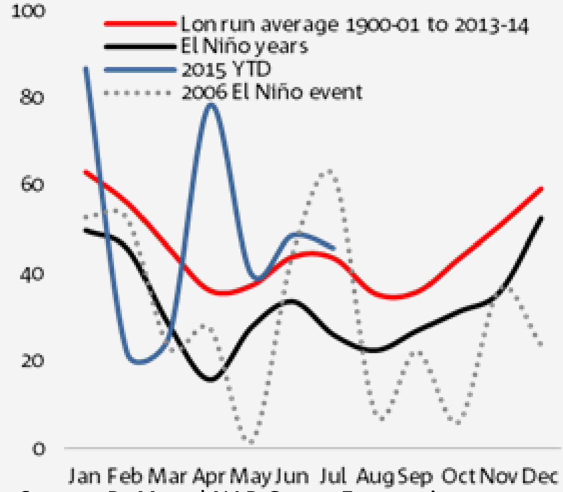
We now have a full moisture profile and dams are overflowing, much better conditions than this time last year. The tap could almost be turned off now and with just another inch or two of spring and prices holding where they are most should make budget.

The BoM's latest ENSO wrap-up is still a concern, especially if we start to see frosts into flowering.

Nicole Killen

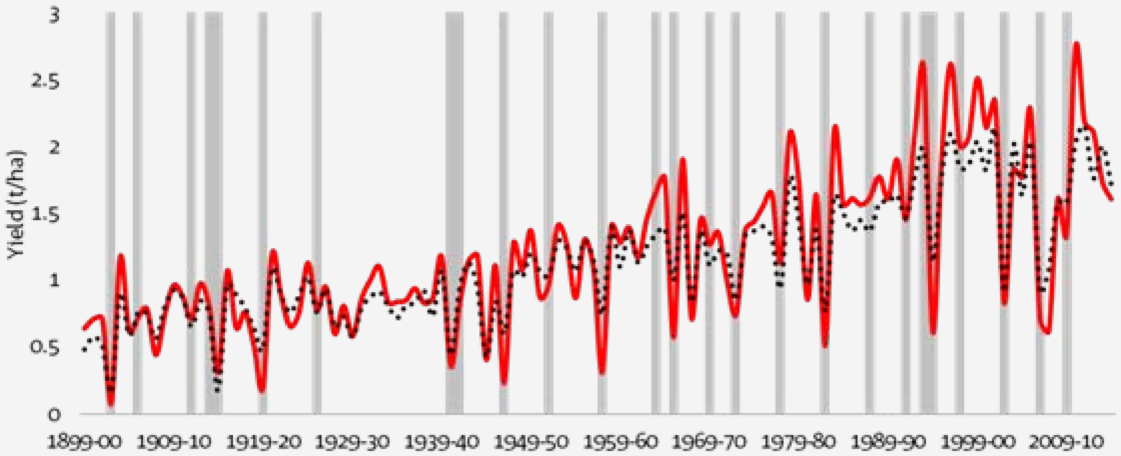
Regional Agribusiness Manager
Wagga Wagga

Figure 10: Monthly rainfall (mm) – New South Wales wheat regions



Source: BoM and NAB Group Economics

Figure 11: Impact of El Niño on New South Wales wheat yields (shaded areas indicate El Niño events, dotted line shows national yield)



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

South Australia

South Australia is Australia's third largest wheat producer, accounting for one-fifth of national production – some 4.65 million tonnes – in 2014-15.

The South Australian wheat yield is highly susceptible to El Niño. El Niño events in 1977-78, 1982-83 and 2006-07 all saw yields sink below one tonne per hectare.

Figure 13 shows average rainfall in South Australian wheat regions and rainfall during El Niño periods. 2015 YTD data shows a poor February and March followed by good rains in April and May but well below average falls in June.

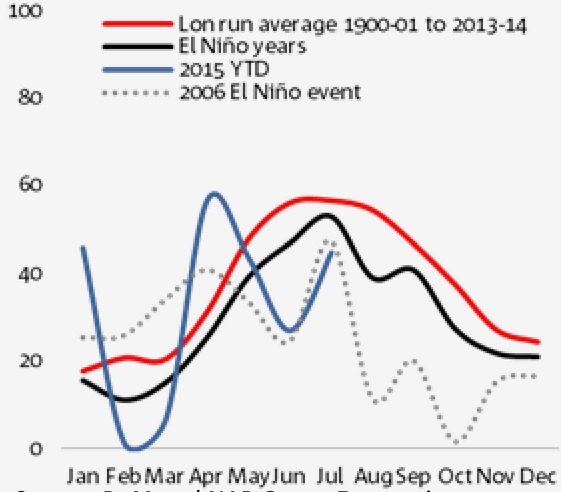
Our El Niño scenario forecast , in which spring rainfall disappoints, is for a total harvest of 4.01 million tonnes off a planted area of 2,360,000 hectares, a 13.7% production decline from last year. However, good spring rain will push the harvest closer to last year's result.

Conditions on the Eyre Peninsula

It's been a very patchy start to the season on the Eyre Peninsula this year. The mid-to-lower EP around Cleve, Lock and Cummins has had generally a really good start however further west, towards Streaky Bay, it's generally been much dryer with some farmers revising their cropping programs as a result. Upper EP around Wirrulla hasn't had the same early rainfall they received last season however still sufficient for a positive outlook. Some regions may experience frost which looks to be one of the bigger risks for remainder of the season. Finishing rains would be welcomed which hasn't occurred the past two seasons.

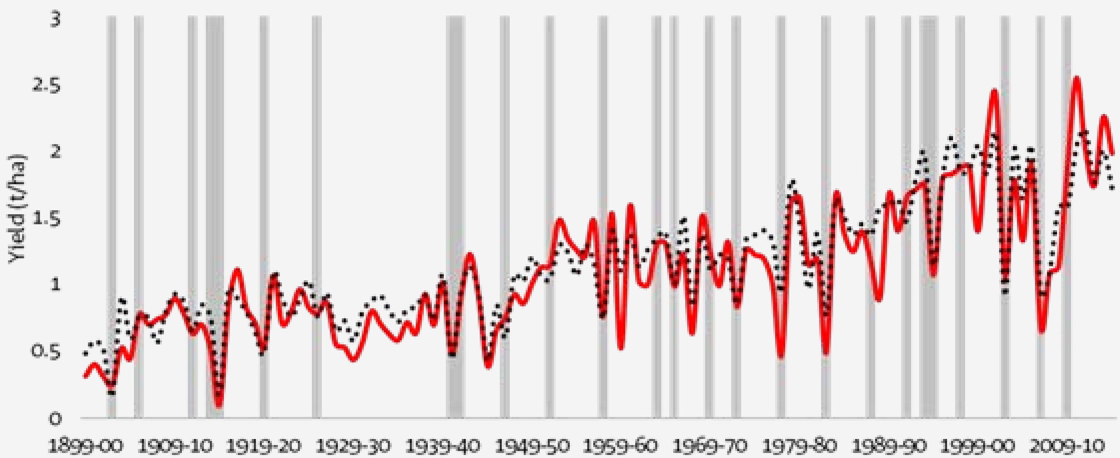
Steve McGuire Agribusiness Manager, Port Lincoln

Figure 12: Monthly rainfall (mm) – South Australian wheat regions



Source: BoM and NAB Group Economics

Figure 13: Impact of El Niño on South Australian wheat yields (shaded areas indicate El Niño events)



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

Victoria

Victoria was Australia's fourth largest wheat producer in 2013-14, accounting for 13% of national production or some 3,541kt.

Like South Australia, Victorian wheat yields are highly susceptible to El Niño. El Niño events in 1982-83, 2002-03 and 2006-07 all saw yields sink below one tonne per hectare. However, yields were above the national average in 1987-88 and 1993-94.

Figure 15 shows average rainfall in Victorian wheat regions and rainfall during El Niño periods. 2015 YTD data shows Victorian regions receiving generally below average autumn and early winter rainfall.. BoM's latest forecasts suggest that rainfall in most of Victoria may be below average from August to October.

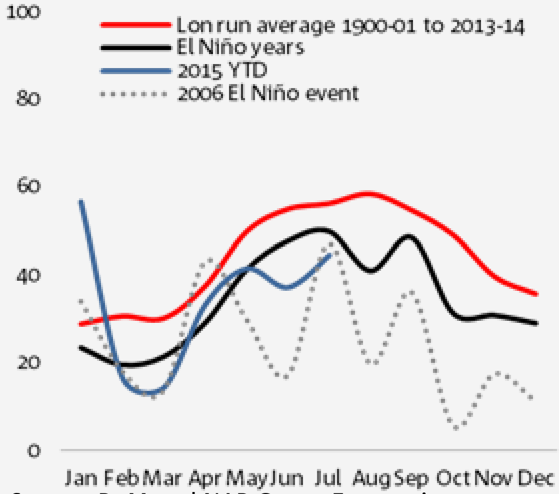
Our El Niño scenario forecast, in which spring rainfall disappoints, is for a total harvest of 2.11 million tonnes off a planted area of 1,625,000 hectares, a 23.2% production decline from last year. However, good spring rain will push the harvest much closer to last year's result.

Conditions in the Wimmera

We had a late autumn break in the Wimmera however the crops are progressing well now, but it's a crucial time and we'll be hoping for good rain in the back half of the year. Growers are positive but remain concerned of the "El Niño" effect. Good rainfall and growing conditions in August and Spetember will set us up for a strong finish.

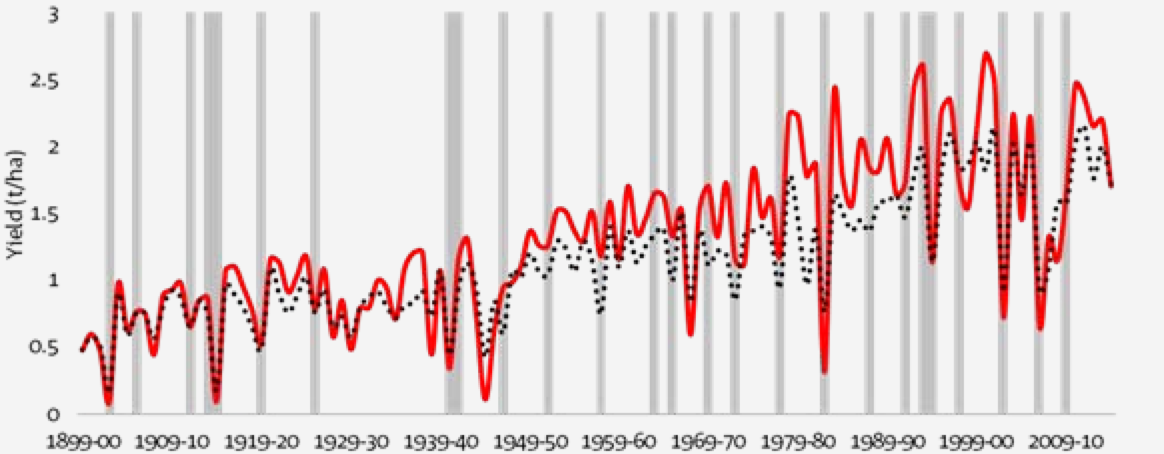
Matthew Strong
Regional Agribusiness Manager, Horsham

Figure 14: Monthly rainfall (mm) – Victorian wheat regions



Source: BoM and NAB Group Economics

Figure 15: Impact of El Niño on Western Australian wheat yields (shaded areas indicate El Niño events)



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

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

Riki Polygenis
Head of Australian
Economics
+61 3 8697 9534

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

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