



nab

Rural Commodities Wrap

November 2015

Photo: Mai Thai

Highlights

Agricultural markets continue to react to the unfolding El Niño event, albeit in varying directions. Overall, the NAB Rural Commodities Index was stable in October - off 0.7% in AUD terms but up 0.9% in USD terms.

In Australia, we remain cautiously optimistic that the gradual recovery in the non-mining sector is gaining traction. Recent outcomes from the business survey support this contention with business conditions holding up at a high level in October. Meanwhile, recent and forecast global economic growth remains lacklustre although some of the risks hanging over global markets have abated.

The outlook for agricultural production depends in part on how El Niño develops coming into summer. The impact of any given El Niño event is highly variable but is generally associated with lower rainfall in Eastern Australia. So far, Victoria has been worst hit by El Niño this year.

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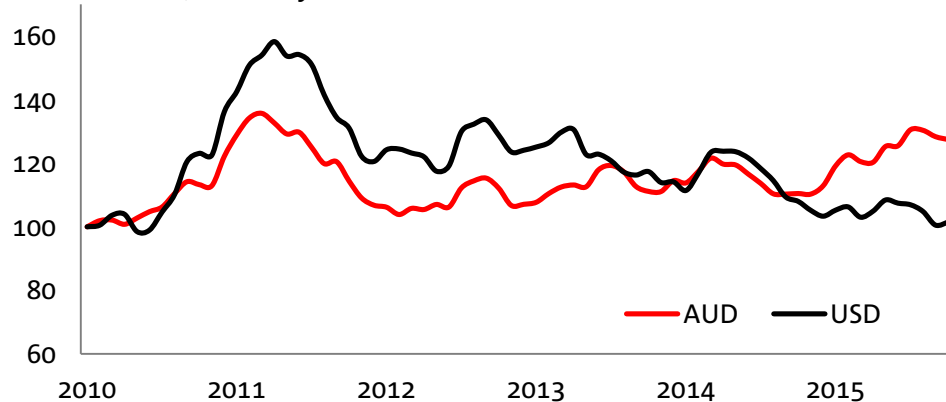
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Rural commodity prices and production



NAB Rural Commodities Index

Index value, January 2010 = 100



Monthly price changes, production and price forecasts

	Month on month price change (AUD)	2015-16 annual production change	2015-16 annual price change (AUD)
Wheat	▲ 4.5%	▼ 2.8%	▲ 10.9%
Beef	▼ 7.0%	▼ 8.8%	▲ 37.7%
Dairy	▲ 10.4%	▲ 1.6%	▲ 2.4%
Lamb	▼ 10.0%	▼ 1.0%	▲ 3.8%
Wool	▼ 3.3%	▼ 4.4%	▲ 10.6%
Sugar	▲ 22.3%	▲ 4.3%	▲ 9.3%
Cotton	▼ 1.7%	▲ 2.0%	▲ 16.8%

Agricultural markets continue to react to the unfolding El Niño event, albeit in varying directions. Cattle prices tumbled in response to dry weather but have since partially recovered. Domestic wheat was up in October although abundant global supply has limited any significant upside for prices in the short term. Dairy prices are once again mixed (with falling prices at the last two Global Dairy Trade auctions) after previously rallying in response to El Niño related supply risks in New Zealand. Overall, the NAB Rural Commodities Index was stable in October - off 0.7% in AUD terms but up 0.9% in USD terms.

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.

The outlook for production depends in part on how El Niño develops coming into summer. The impact of any given El Niño event is highly variable. The relatively late onset (outside Victoria) of the rainfall deficiency associated with this year's El Niño has spared winter crops from a serious calamity, although conditions in Victoria are very challenging. The beef industry is already experiencing a production slowdown. Despite dry conditions in Victoria, milk production this season looks to be holding up.

The outlook for prices is broadly positive, reflecting in large part the depreciation of the AUD. This has mitigated the worst effects of lower international grain and dairy prices and continues to support substantially higher beef prices.

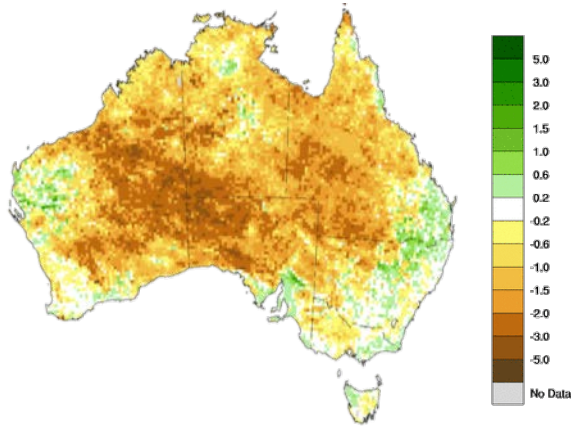
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, BNZ, Australian Bureau of Statistics, Bloomberg and Profarmer.

Climatic conditions



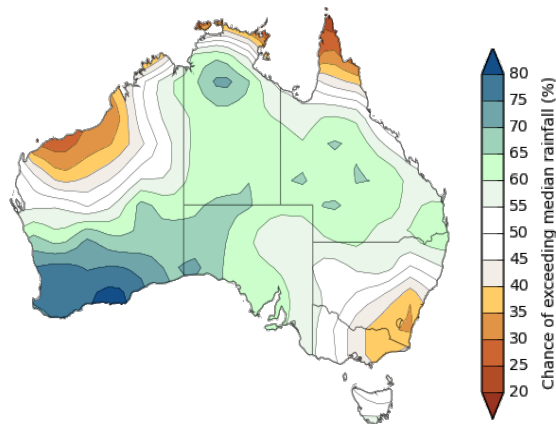
NDVI Anomaly

Six months to 30 September 2015



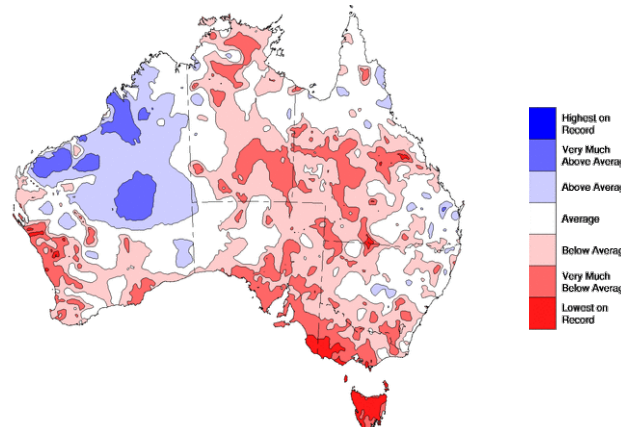
Three month rainfall outlook

Chance of exceeding median rainfall



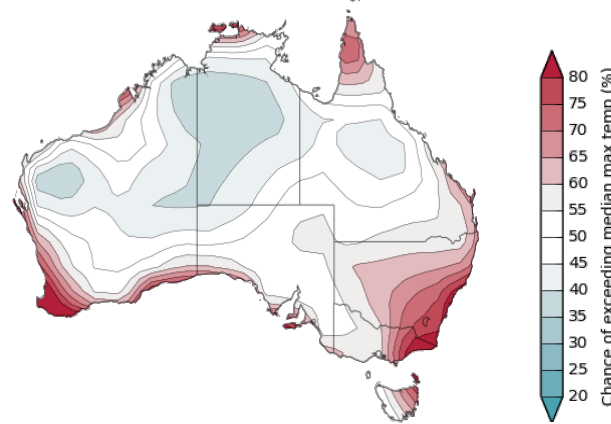
Australian rainfall deciles

October 2015



Three month temperature outlook

Chance of exceeding median temperature



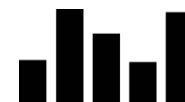
Rainfall was below to well below average across much of the continent in October, with only small parts of New South Wales and Queensland, as well as much of outback Western Australia enjoying above average falls.

The Bureau of Meteorology's Normalised Difference Vegetation Index (NDVI) anomaly for the last six months shows that throughout most of Australia, vegetation is less green than the long run average for the period.

The Bureau of Meteorology's three-month outlook to December shows hot and dry conditions for eastern Victoria southern New South Wales as well as the Pilbara and Cape York. This outlook would spare much of drought-affected Queensland from another failed wet season but would see a difficult summer for much of Victoria and southern New South Wales.

However, it is important to note that there is considerable uncertainty in the forecasts, clouding the outlook for the summer. If anything, risks are weighted to the downside.

Source: Bureau of Meteorology



NAB Australian economic forecasts

Per cent change calendar year on year

	2015	2016	2017
GDP growth	2.3	2.9	3.2
Private consumption	2.5	2.4	2.6
Unemployment rate (year end)	6.0	5.7	5.7
Consumer Price Index (core)	2.3	2.6	2.5
RBA cash rate (year end)	2.0	2.0	3.0

NAB global economic forecasts

Per cent change year on year

	2015	2016	2017
China	6.9	6.7	6.5
United States	2.4	2.5	2.4
Euro zone	1.3	1.7	1.9
Emerging East Asia	3.7	3.8	4.1
Japan	0.7	1.2	1.0
Advanced economies	1.8	2.1	2.1
Emerging economies	4.7	4.9	4.9
World GDP	3.0	3.2	3.3

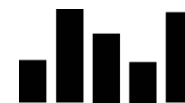
Source: NAB Group Economics

In Australia, we remain cautiously optimistic that the gradual recovery in the non-mining sector is gaining traction. Recent outcomes from the business survey support this contention with business conditions holding up at a high level in October, and the unemployment rate holding steady. In addition, partial indicators for Q3 GDP suggest a high outcome, which would retrace the temporary weakness in Q2. The RBA appears to concur with this assessment, and chose to hold off further monetary policy easing in the month despite some tightening of financial conditions.

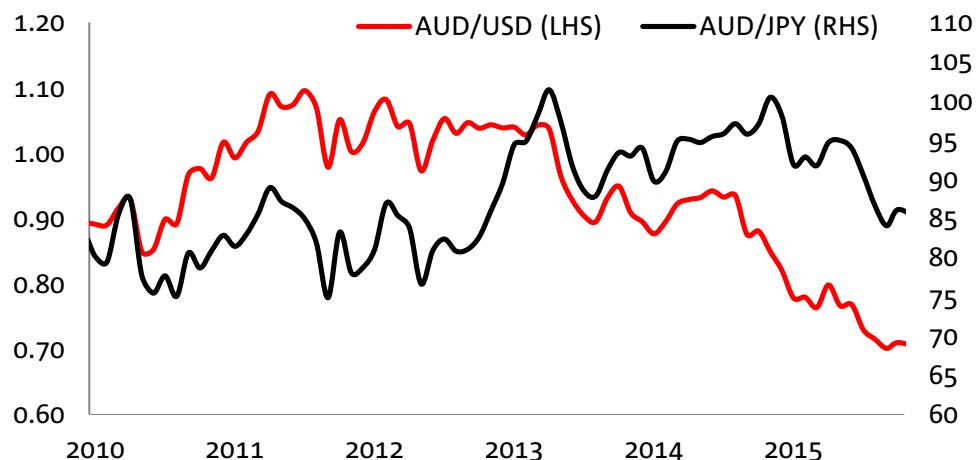
Low inflation however does provide room for the RBA to ease, although this would require evidence that local demand conditions are deteriorating again (not our or the RBA's central case scenario), and more concrete evidence that housing demand is easing. As such the RBA is expected to remain on hold for an extended period, although we have pushed out the timing of the first hike until mid-17. Real GDP is forecast to expand by 2.6% in 2015/16 and 3.0% in 2016/17, with El Niño only subtracting marginally. The unemployment rate eases gradually but remains elevated for an extended period.

Although some of the risks hanging over global markets have abated, recent and forecast global economic growth remains lacklustre. Growth remains stuck in the 3 to 3¼% range seen since mid-2012 as lower commodity prices, capital flow reversals and central banks focused on getting inflation back toward target take a toll on the pace of expansion in emerging market economies that have underpinned most global output expansion. Growth should level out in the US and UK at a moderate 2 to 2½% pace and pick up slightly in the poorly performing Euro-zone and Japanese economies. However this is not enough to fundamentally change a global outlook that remains dominated by the loss of momentum in the emerging economies.

Exchange rates



Monthly exchange rate movements



NAB FX strategy targets

	2015Q4	2016Q1	2016Q2	2016Q3
AUD/USD	0.70	0.68	0.69	0.70
NZD/USD	0.62	0.60	0.60	0.61
USD/JPY	121	122	123	124
EUR/USD	1.10	1.10	1.10	1.08
USD/CNY	6.40	6.50	6.50	6.65

After hitting a high of USD73.7c earlier in the month, the AUD has since retraced to USD71-72c at the time of writing. This largely reflects a strengthening USD as expectations of a Fed tightening in December have risen in response to Fed signalling. While the AUD did bounce temporarily following the RBA meeting, USD strength has since reasserted itself, weighing on the AUD.

The pushing out our RBA tightening forecast into 2017 has no immediate implications for our AUD forecasts. We acknowledge that RBA inaction through 2016 is likely to delay any meaningful recovery in the currency until at least 2017 and may well mean more time spent below 70 cents than above in 2016 in the context of modest US dollar appreciation that NAB's FX Strategy team continues to expect. Yet our current forecasts for the AUD of 0.70 at end-2016 and 0.73 by mid-2017 lie well within the 65-75 cent range that we contend should capture most if not all of the volatility in the AUD/USD rate in the next 18-24 months.

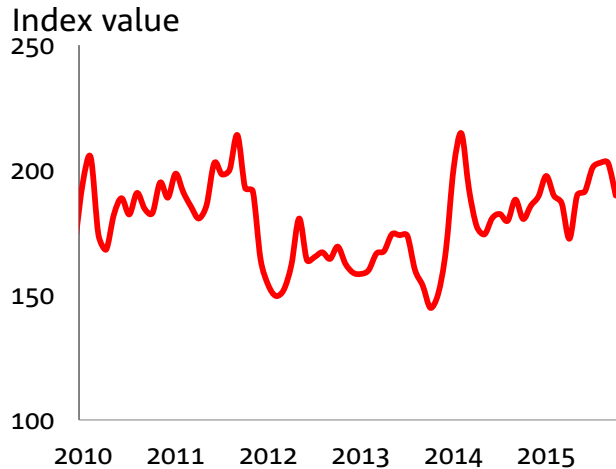
Source: NAB



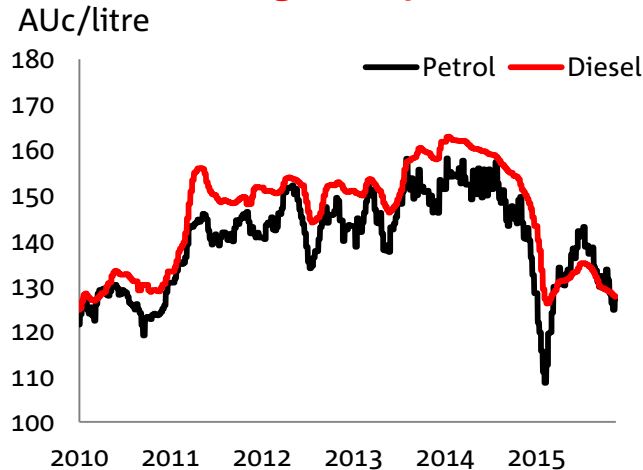
Farm input prices



NAB Fertiliser Index



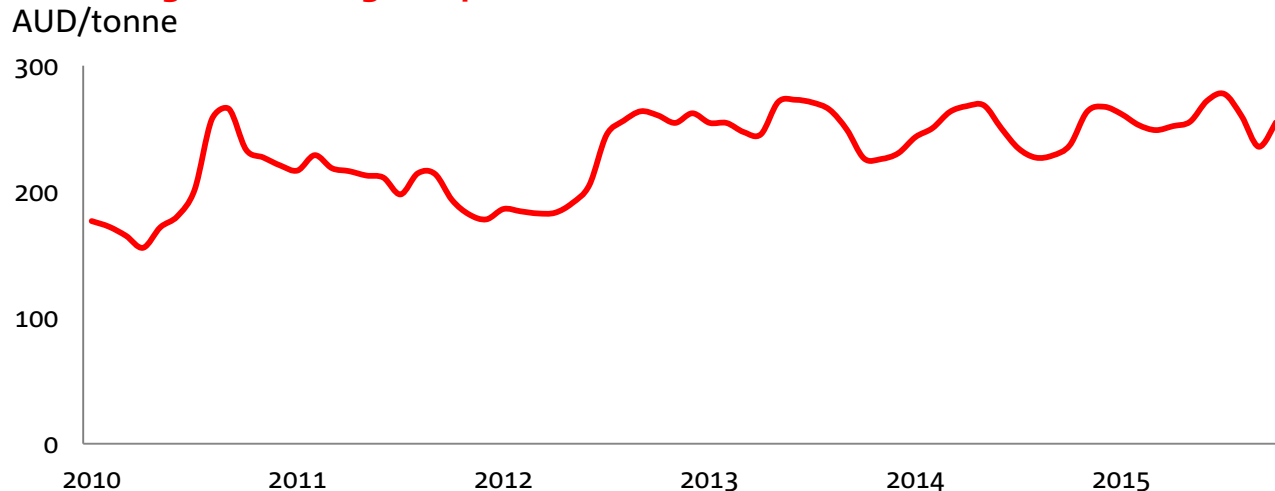
National average fuel prices



The NAB Fertiliser Index was off 6.4% in October largely in response to a fall in US national gas prices. The index is comprised of natural gas, urea and DAP.

National average petrol prices were slightly lower in October. Petrol was off 0.5% while diesel fell 0.9%. This came as global oil prices remained relatively steady during the month, although prices have fallen again in November. The AUD is forecast to fall in the coming months, presenting something of an upside risk for fuel prices.

NAB weighted feed grain price Index



Weighted feed grain prices rebounded in October (up 8.2%%), reflecting generally higher (although not universally higher) prices among major feed grains in domestic markets.

The prospect of strong El Niño conditions coming into summer could see elevated domestic feed grain demand as graziers look for additional supplementary feed.

NAB's weighted feed grain price indicator includes feed wheat, barley, oats and sorghum. Three quarters of the indicator is made up of feed wheat and barley.

Source: Bloomberg, Australian Institute of Petroleum, Profarmer and NAB Group Economics

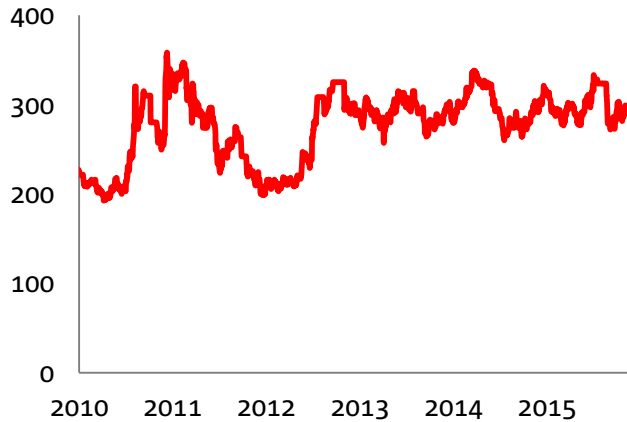


Wheat



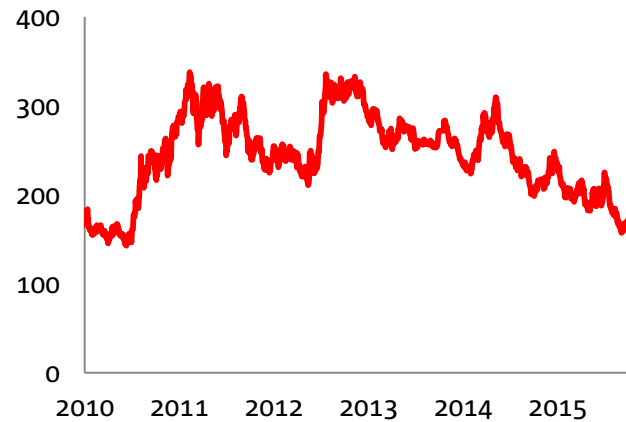
Generic 1st milling wheat

Eastern Australia, AUD/tonne



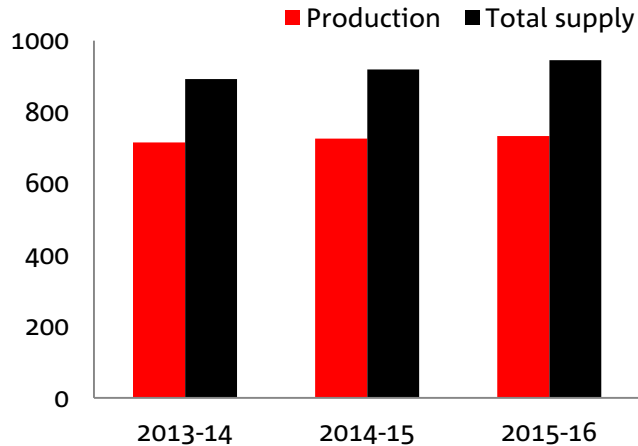
CBOT Hard Red Winter wheat

USD/tonne



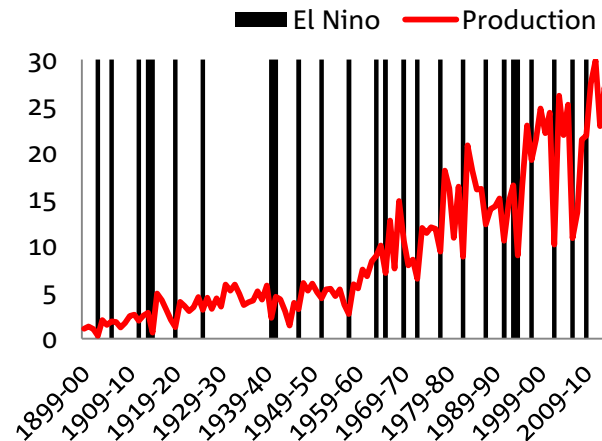
USDA forecast world wheat supply

Million tonnes



Australian wheat production

Million tonnes



Global wheat prices have tended broadly lower this year as global wheat supply remains buoyant. The USDA continues to forecast that this season will be another record year, limiting any major upside for wheat in USD terms. However, AUD priced wheat has remained in a much narrower band since 2012 as the depreciation of the AUD continues to support prices. Generic 1st Eastern Australian milling wheat was up 4.5% (AUD) in October and we expect dry conditions coming into summer to support demand for domestic feed wheat.

The relatively late onset (outside Victoria) of the rainfall deficiency associated with this year's El Niño has spared wheat from a serious calamity, although conditions in Victoria are very challenging. Overall, we forecast Australian wheat production to be 23 million tonnes this season, slightly lower than last year and a downward revision from our estimates last month. Recent heavy rainfall on parts of the east coast has raised the prospect of downgrades to the crop, although subsequent dry weather has mitigated some of this risk.

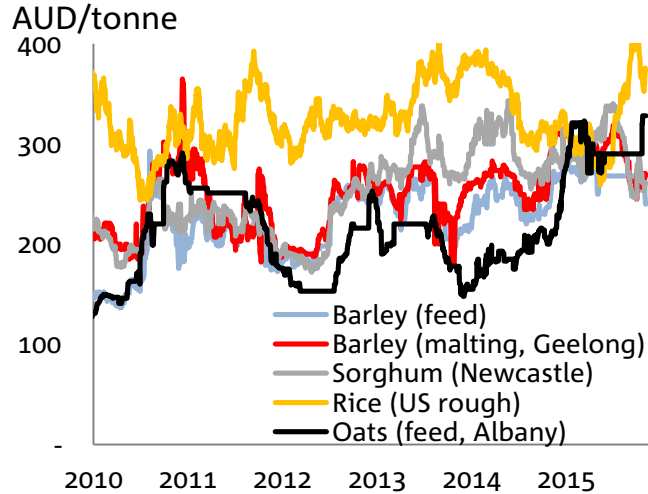
Source: Bloomberg, Profarmer, USDA, Australian Bureau of Statistics, ABARES and NAB Group Economics



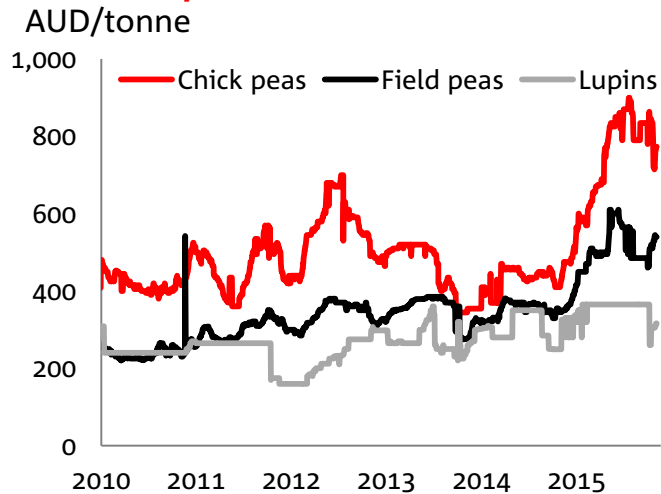
Other broadacre crops



Selected coarse grains

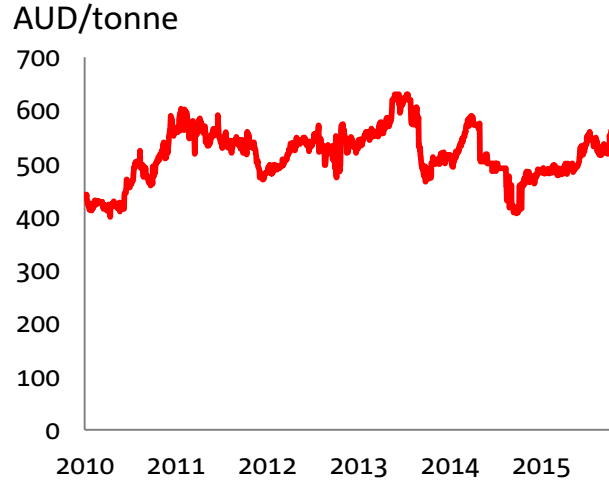


Selected pulses

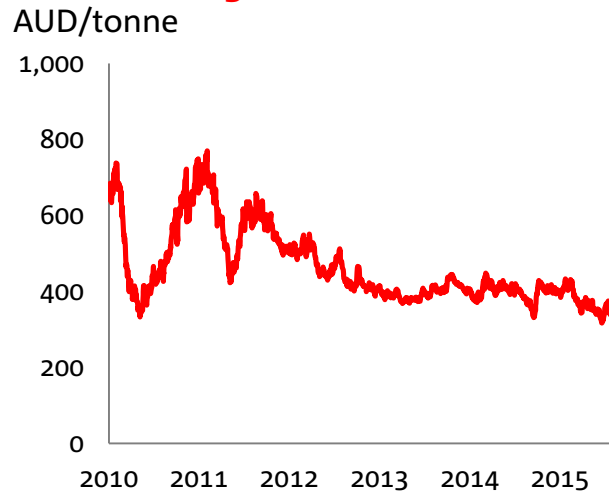


Source: Bloomberg, Profarmer and NAB Group Economics

Canola, Newcastle NSW



ICE no.11 sugar



AUD coarse grain prices diverged in October. Sorghum (Newcastle) was up 7.4% while barley (feed, generic) was off 5.0%. Rice gave up some of its recent gains on the back of El Niño concerns to be off 4.4%. Meanwhile oats were up 4.5%.

Domestic canola was higher (up 6.5% in AUD terms) in October. The Australian canola crop is likely to be lower this season based on lower plantings. ABARES estimates the area planted to canola to have fallen 13.5% this season.

Chick peas' stellar run, which saw prices surge from less than AUD500/tonne at the end of 2014 to almost AUD900/tonne in late July this year, looks to have peaked. Chick pea prices declined 4.3% in October while field peas were higher but lupins lower.

Global sugar prices continued to surge in October, with ICE no.11 sugar up 22.3% (AUD) in October after gaining 9.6% in September. Lower production is the major driver of higher prices, combined with domestic policy factors in Brazil, a major sugar producer.

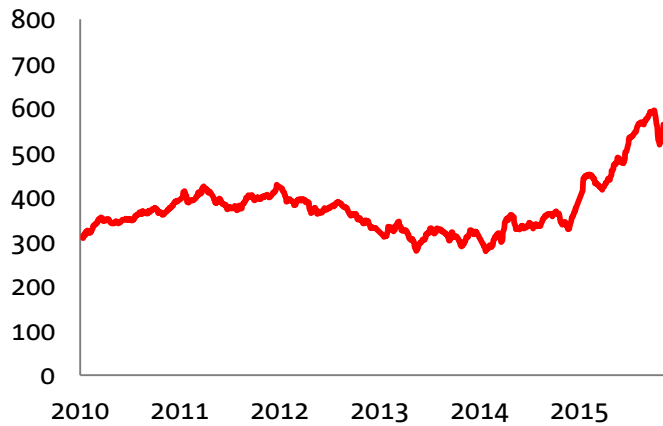


Beef



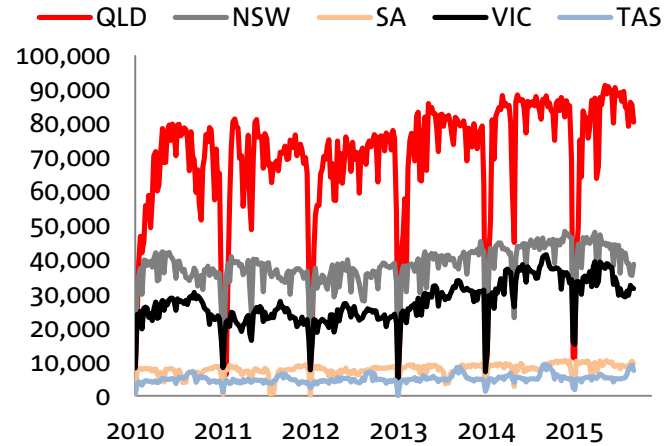
Eastern Young Cattle Indicator

AUc/kg



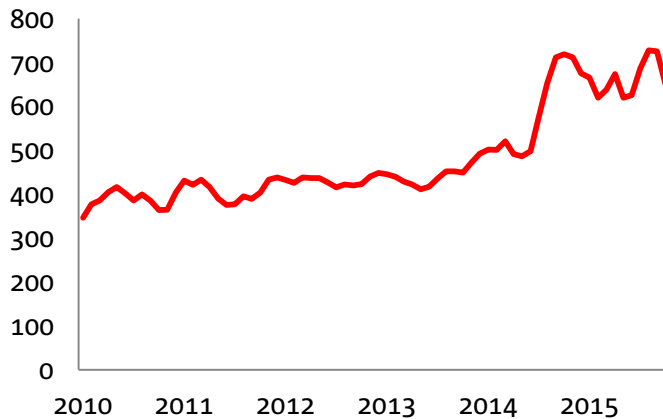
Weekly Eastern States slaughter

Head



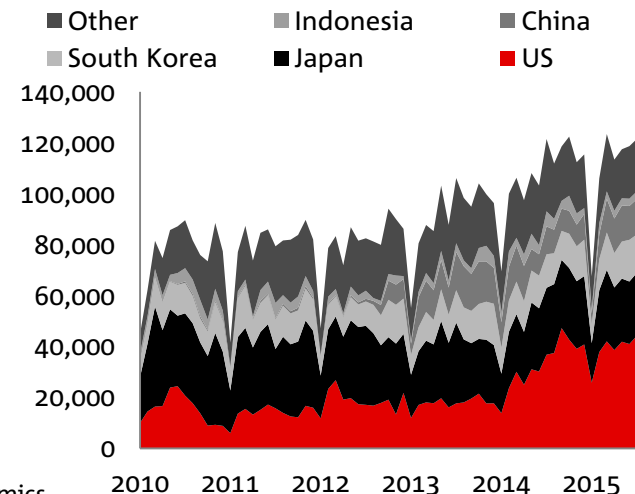
US imported 90cl beef price

AUc/kg monthly average



Monthly beef exports

Tonnes



Cattle prices have been volatile of late, reflecting dry conditions and uncertainty in the US beef market.

The Eastern Young Cattle Indicator (EYCI) was down 7.0% (AUD) in October, the first monthly price fall since March. However, the market has since rebounded and is now over 590AUc/kg, less than 10 cents shy of its late September record.

The US beef market has been somewhat volatile, with the key benchmark for imported 90cl manufacturing beef falling 10.6% in October. Meanwhile, Australian beef exports to the US have slowed since July as slaughter rates in Eastern Australia have slowed as stock becomes scarcer.

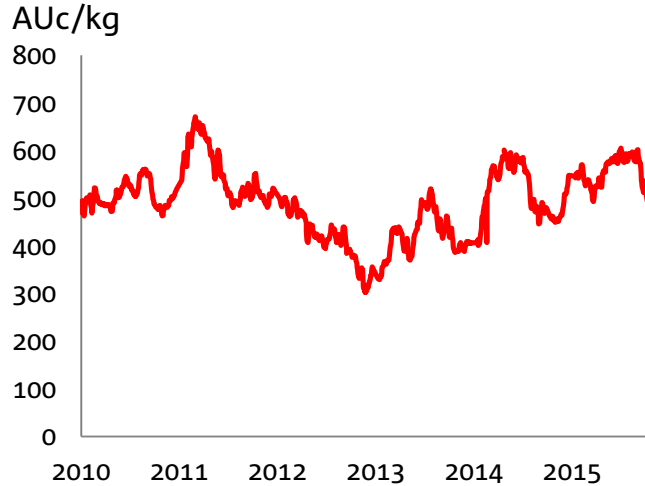
We have slightly downgraded our beef price forecast to reflect developments in the last month, particularly in the US. However, a decent northern Australian wet season will likely increase restocker interest and hasten herd rebuilding. These factors should push prices higher.

Source: Meat and Livestock Australia and NAB Group Economics

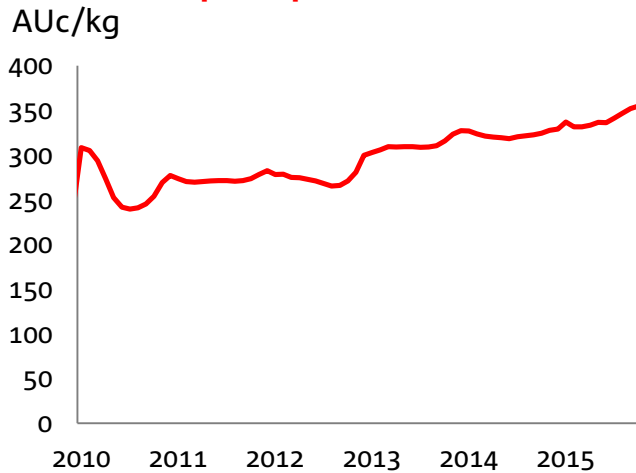
Lamb, pork and poultry



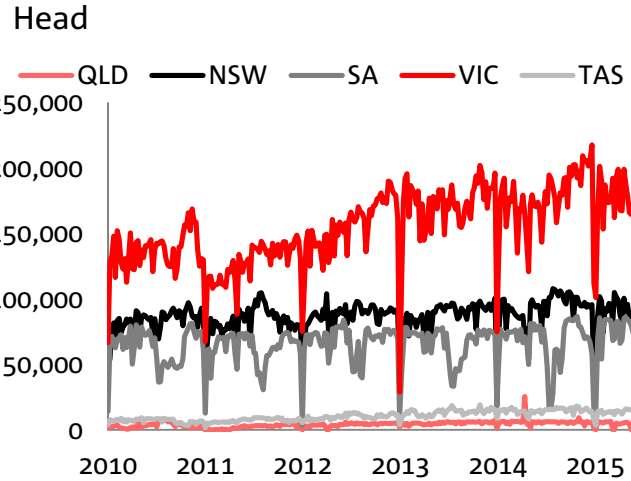
Eastern States Trade Lamb Indicator



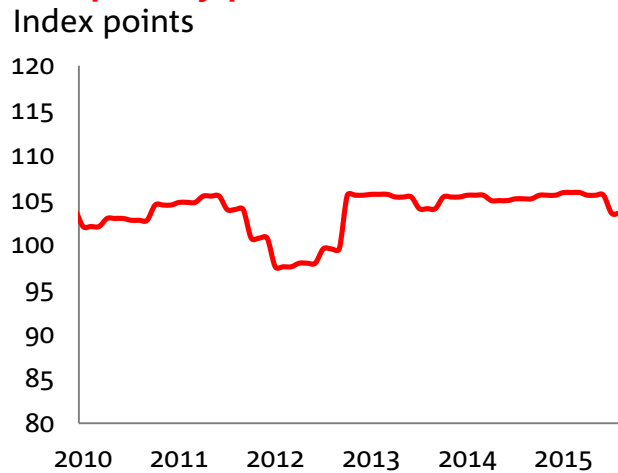
Australian pork price indicator



Weekly eastern States lamb slaughter



ABS poultry price index



Lamb prices fell in October (the Eastern States Trade Lamb Indicator was down 10.0% in AUD terms), however this reflects normal seasonal variation and prices remain higher than the same time last year.

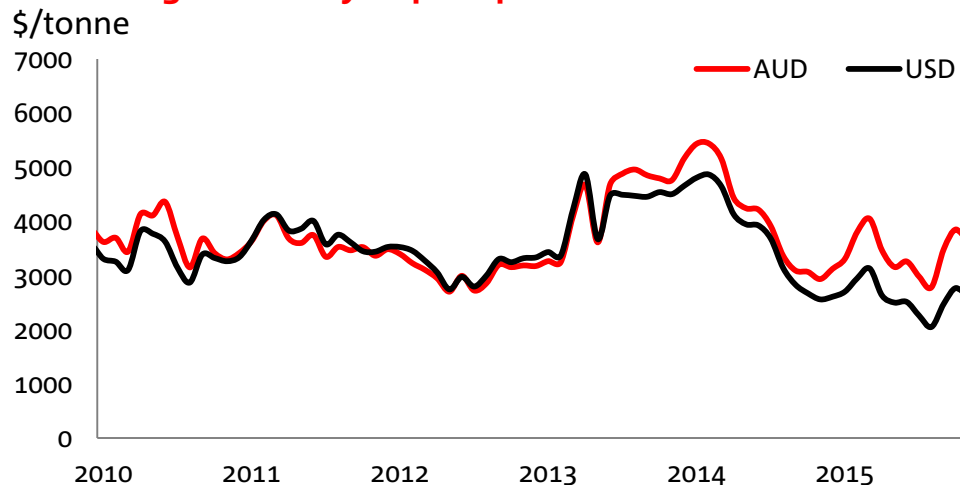
Australian wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) strengthened slightly in October, up 0.8%. While the industry generally sees relatively little volatility in prices, there has been a sustained upward trend this year. Prices are up 5.4% since January.

While we do not collect wholesale poultry price data, retail prices have remained reasonably stable since late 2012. However, national retail prices fell 1.9% in the September quarter (the most recent data available).

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



NAB weighted dairy export price indicator

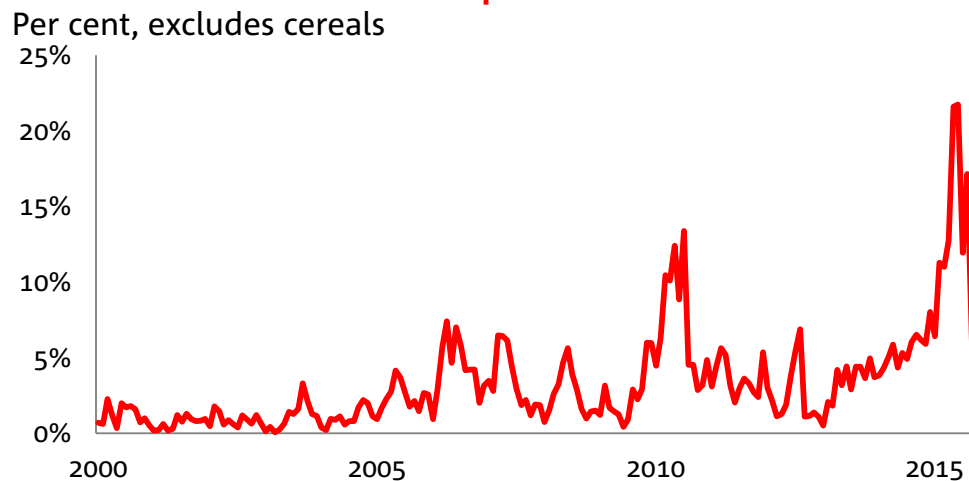


NAB's measure of dairy export prices, based on Global Dairy Trade (GDT) auction results, is weighted by the quantity of Australian exports for whole milk powder, skim milk powder, butter and cheese.

There were sharply higher prices at the four GDT auctions from late August to early October, reflecting supply concerns in New Zealand and elsewhere due to El Niño. However, the last two auctions have turned negative. Overall, the NAB indicator was up 10.4% in October in AUD terms.

We have downgraded our dairy price forecast in response to a renewed downturn in GDT auction prices. However, we still expect prices to average slightly higher this financial year in AUD terms, largely reflecting currency depreciation. Overall, we forecast the NAB weighted dairy export price indicator to be 2.4% higher on average in 2015-16. On the production side, we continue to forecast moderately higher production this season, notwithstanding dry conditions in Victoria.

Share of Australian feed exports destined for China

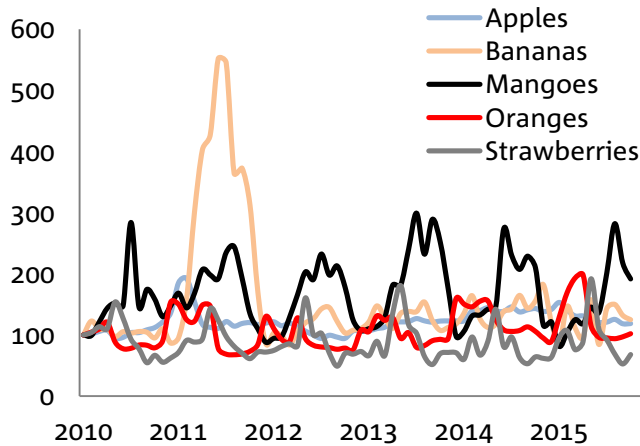


Source: Australian Bureau of Statistics, Global Dairy Trade and NAB Group Economics



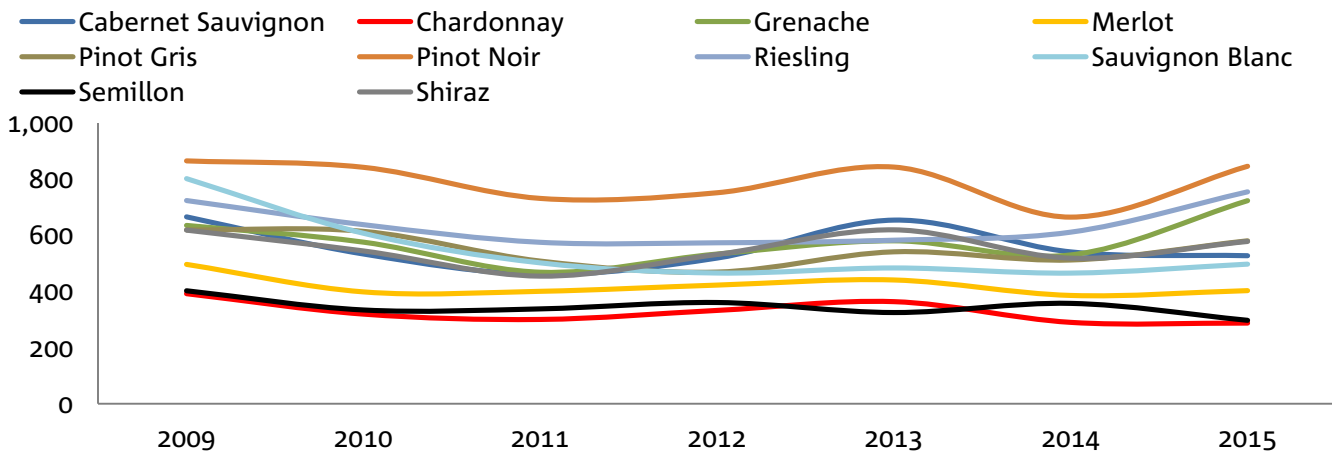
Wholesale fruit prices

Index value, Sydney and Melbourne



NAB weighted wine grape prices

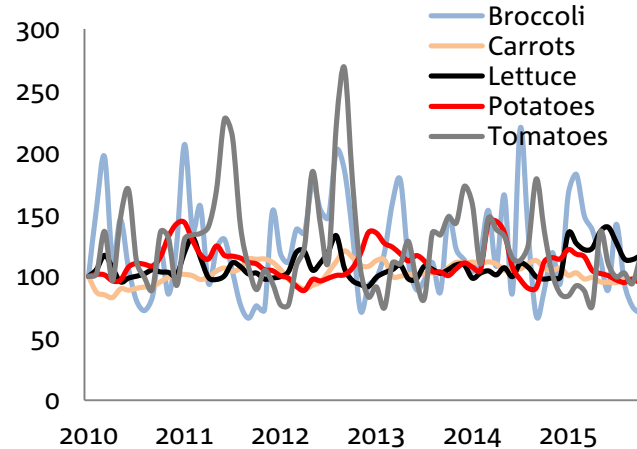
AUD/tonne



Source: Ausmarket Consultants, Wine Australia and NAB Group Economics

Wholesale vegetable prices

Index value, Sydney and Melbourne



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

Fruit prices fell 3.0% in October, led by lower mango and banana prices, although oranges and strawberries recovered and apples were steady. The index stands at 124.7 for October 2015 (note January 2010 = 100), 12.7% lower than the same time in 2014.

Meanwhile, vegetables gained 4.8% in October, led by higher lettuce and tomato prices. The index stands at 103.4 for October 2015 (note January 2010 = 100), 6.4% lower than the same time in 2014.

Wine Australia's 2015 Price Dispersion Report, released in July, shows a rebound in prices for several more expensive varieties. Grenache, Pinot Noir and Riesling all gained (36%, 13% and 24% respectively). However, lower priced varieties such as Chardonnay, Semillon and Merlot fared generally worse.



Wool – Eastern Market Indicator

AUc/kg



Wool's rally peaked in mid-June with the Eastern Market Indicator approaching 1400 AUc/kg. Since then, there has been some pressure but prices remain somewhat elevated. The index was down 3.3% (AUD) in October.

Global cotton prices were moderately lower in AUD terms in October, with Cotlook A down 1.7% (AUD). Cotton is trading above the same time last year and AUD prices have recovered from late 2014 lows.

Cotlook A index

AUD/tonne



Source: Bloomberg and NAB Group Economics . Photo: [CSIRO](#)

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