



Rural Commodities Wrap

April 2016



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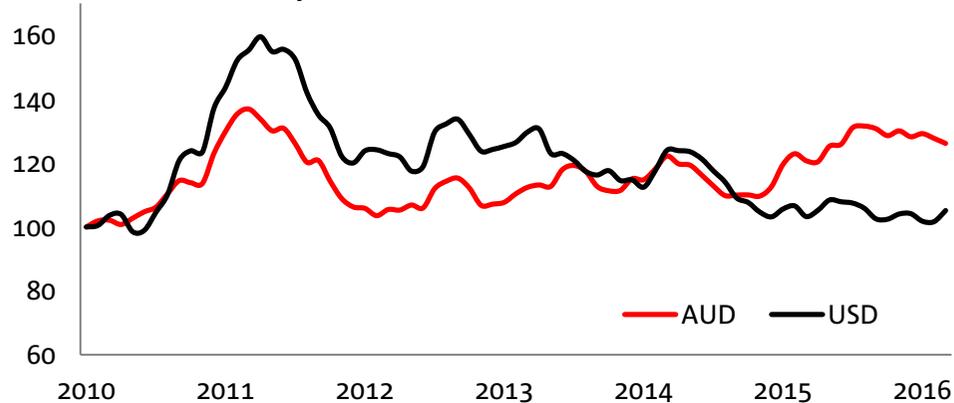
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Recent rural commodity price movements

NAB Rural Commodities Index

Index value, January 2010 = 100



Monthly price changes for selected commodities

	January 2016	February 2016	March 2016
Wheat	▼ 3.2%	▼ 3.1%	▼ 1.0%
Beef	▲ 0.1%	▲ 0.8%	▼ 1.2%
Dairy	▲ 3.3%	▼ 9.7%	▼ 5.3%
Lamb	▲ 1.8%	▲ 2.3%	▼ 4.4%
Wool	▲ 1.9%	▼ 0.5%	▼ 2.8%
Sugar	▼ 1.0%	▼ 8.9%	▲ 10.5%
Cotton	▲ 1.2%	▼ 4.9%	▼ 6.3%
NAB RCI	▲ 0.8%	▼ 1.1%	▼ 1.2%

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

Australian agricultural commodity prices have taken a hit since February, with the appreciating AUD (up over 5 cents since January) putting further pressure on local prices in an already subdued global environment. While the NAB Rural Commodities Index rose slightly in January, it subsequently fell 1.1% in February and 1.2% in March. In USD terms, the index was up 3.4% in March.

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.

Cattle prices have been under some pressure recently, with slumping US export prices and a higher AUD set against increased restocker interest after very high slaughter rates over the last three years. We forecast domestic saleyard prices to stay high this year (although less so for finished cattle), reflecting largely domestic restocker demand. However, export prices are likely to remain under pressure given growing US beef supply and increasing competitiveness from South America and the outlook beyond 2016 presents increasing downside risks to prices.

Global wheat prices continue to trend lower in response to very strong global wheat supply. For 2016, we do not see a significant upside for wheat prices in USD terms. The latest three month rainfall outlook points to a generally dryer than average April for Australia. With sowing getting into full swing after Anzac Day, a lack of forecast rainfall presents a risk to the outlook for planting.

Looking to the coming year, we see little upside for global dairy prices, with moderately higher Chinese import demand but continued strength in global supply.



Headline agricultural commodity price, production and export forecasts

Our forecasts point to Australian agricultural prices trending generally somewhat higher in AUD terms this year, despite challenging international conditions. However, the stronger AUD presents a risk to local prices.

El Niño made conditions difficult in parts of Australia last year and the latest rainfall outlook points to below average rainfall in April before wetter conditions in May. This points to a potential risk in production for grains and dairy in the eastern states, although we continue to forecast a contraction in cattle slaughter for herd rebuilding as well as lower lamb slaughter levels as farmers rebuild flocks.

Production, price and export forecasts

The table below outlines our latest outlook for production, prices and the value of exports for 2015-16 and 2016-17. 2016-17 production values are currently based on data in ABARES' March 2016 outlook.

These estimates are contingent on estimates for production and export volumes, prevailing global prices and NAB's foreign exchange outlook. With the AUD having appreciated significantly this year, a further appreciation (or indeed the currency remaining above our forecast track) represents a downside risk to agricultural prices and is a key risk for the coming year.

We will provide updates to these forecasts periodically throughout the year.

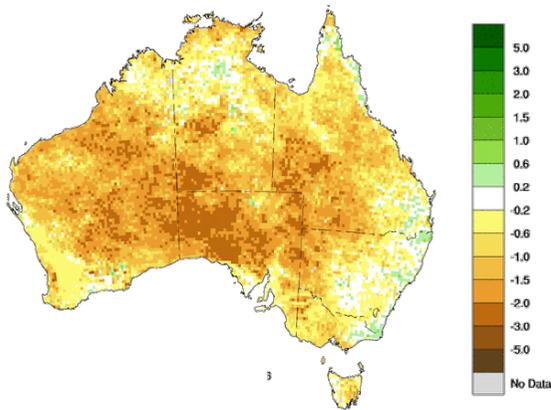
	Production change		Price change		Export value change	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Wheat	▲ 5.0%	▲ 1.2%	▼ 1.5%	▲ 4.1%	▲ 0.6%	▲ 6.2%
Beef	▼ 9.1%	▼ 6.6%	▲ 44.9%	▼ 1.3%	▲ 3.7%	▼ 10.1%
Dairy	▼ 1.0%	▲ 2.0%	▼ 3.7%	▲ 4.3%	▼ 4.7%	▲ 6.4%
Lamb and mutton	▼ 7.5%	▼ 6.1%	▲ 4.2%	▲ 0.6%	▼ 7.4%	▼ 8.5%
Wool	▼ 7.0%	▲ 1.5%	▲ 14.0%	▲ 7.2%	▲ 9.0%	▲ 8.3%
Sugar	▲ 5.0%	▲ 5.9%	▲ 6.4%	▲ 4.0%	▲ 11.3%	▲ 8.3%
Cotton	▲ 5.7%	▲ 49.5%	▲ 9.5%	▲ 0.7%	▼ 18.2%	▲ 23.6%

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

Climate outlook

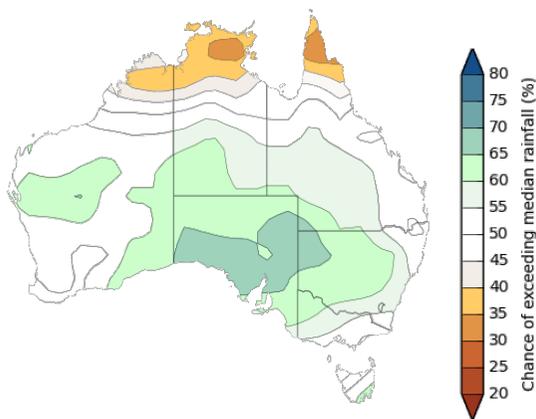
NDVI Anomaly

Six months to 29 February 2016



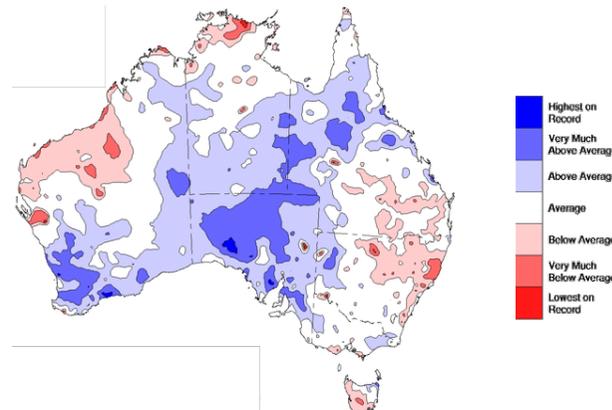
Three month rainfall outlook

April to June 2016



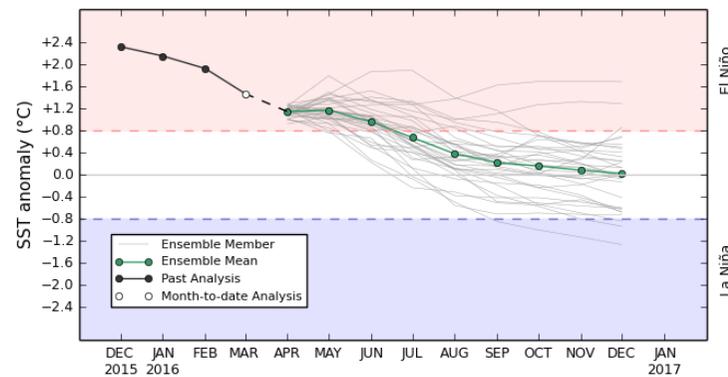
Australian rainfall deciles

March 2016



BoM POAMA El Niño outlook model

Monthly mean NINO34



2015 was very patchy overall – much of New South Wales, parts of the Northern Territory and northern Western Australia enjoyed a good season, but conditions were very dry in most of Queensland, Victoria, Tasmania and parts of the Western Australian wheatbelt. While January 2016 brought welcome rains to many areas, recent conditions have been patchier, especially on the east coast.

Looking ahead into autumn, the Bureau of Meteorology forecasts neutral to above average for most of the country (outside the top end) from April to June, but April is likely to remain dryer than average. This presents a risk for winter crop planting after two patchy months in February and March.

The outlook beyond autumn is partly contingent on the pace of El Niño's retreat. Bureau of Meteorology modelling shows a return to more neutral conditions in winter, tending more closely to La Niña in spring. La Niña tends to bring wetter conditions to northern and eastern Australia.

Source: Bureau of Meteorology

Economic update

NAB Australian economic forecasts

Per cent change calendar year on year

	2015	2016	2017	2018
GDP growth	2.5	2.7	3.0	2.5
Private consumption	2.8	2.7	2.3	2.5
Unemployment rate (year end)	5.9	5.6	5.5	5.6
Consumer Price Index (core)	2.0	2.5	2.5	2.3
RBA cash rate (year end)	2.0	2.0	3.0	3.5

NAB global economic forecasts

Per cent change calendar year on year

	2015	2016	2017
China	6.9	6.7	6.5
United States	2.4	2.2	2.3
Euro zone	1.5	1.6	1.7
Emerging East Asia	3.5	3.5	3.7
Japan	0.5	0.5	0.8
Advanced economies	1.9	1.9	2.0
Big emerging economies	4.4	4.3	4.7
World GDP	2.9	2.9	3.2

Source: NAB Group Economics

For more detail, see our [Global and Australian Forecasts](#).

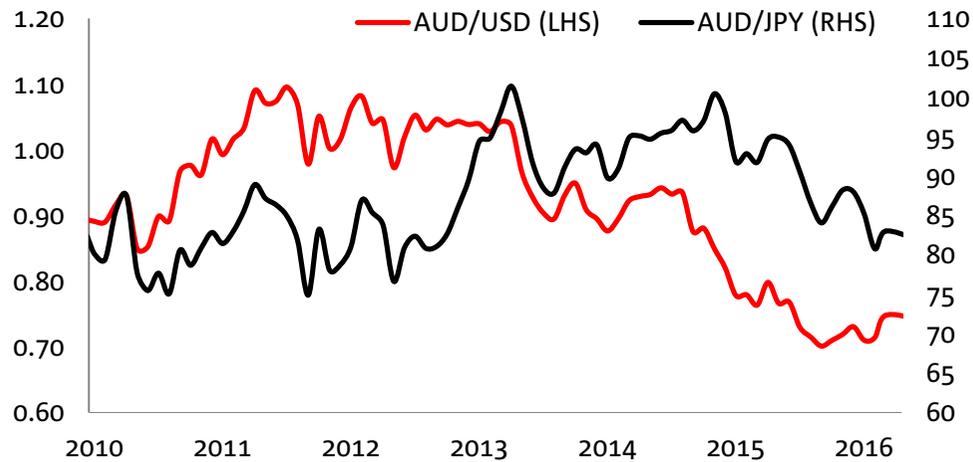
Global share markets have regained much of their early 2016 losses, financial market volatility has subsided and both commodity prices and the Chinese currency have stabilised – helping to reduce the risk of a renewed downturn in global economic activity. However the backdrop to these market movements remains one of very sluggish sub-trend growth, inflation that is below target in major economies, difficulty in increasing revenue as margins are sacrificed to win modest volume gains, slow wage growth cramping spending increases, high levels of debt and central banks that have used up much of their policy ammunition. Despite the many risks, we still think global growth will muddle through 2016 at around the 3% rate seen last year but it could be a bumpy ride with plenty of further scope for volatility.

In Australia, recent business survey outcomes suggest the recovery across the non-mining economy is on track or indeed gathering speed. While the downturn in mining regions (especially WA) is becoming more pronounced and the global backdrop remains challenging, activity appears to be broadening across non-mining sectors and states. While recent AUD appreciation presents a downside risk to economic activity, we doubt whether this move higher will be sustained and expect the downward trend to resume as the year progresses.

We retain our view that the RBA will remain on hold through 2016, although this will depend on the path of the currency, inflation and whether the labour market continues to improve as anticipated. Lower than target inflation in conjunction with an AUD above 80 US cents and any evidence of a faltering non-mining recovery would quickly see further rate cut(s).

Exchange rates and interest rates

Monthly exchange rate movements



While an 80 cent AUD appeared highly unlikely in January 2016 when AUD/USD was trading below 0.70 and falling, it is now within range with greatly improved market risk appetite a strong driver of the recent appreciation. We recently adjusted our AUD forecasts based on the view that the US dollar will struggle to recapture the early-year cycle highs, but still see AUD back to and slightly below 0.70 later in the year.

We forecast two Fed rate rises this year. In the absence of further rises beyond the two we forecast the US dollar will struggle to recapture the early-2016 highs. This in turn makes it more likely than not that we have seen the cycle lows for AUD/USD in January at around 0.6825. We now peg AUD/USD at 0.74 at end Q2 (was 0.71), 0.71 at end Q3 (0.69) and 0.69 at year end (0.67).

NAB FX strategy targets

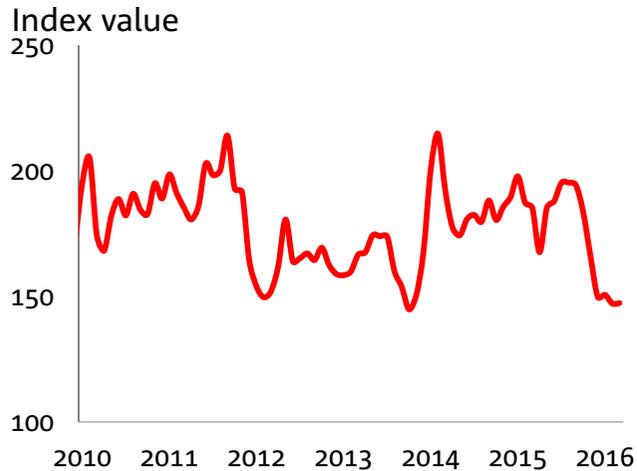
	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1
AUD/USD	0.74	0.71	0.69	0.69	0.70	0.72	0.73	0.74
NZD/USD	0.65	0.63	0.61	0.61	0.62	0.63	0.65	0.66
USD/JPY	115	115	117	118	120	120	119	119
EUR/USD	1.12	1.11	1.09	1.09	1.09	1.10	1.10	1.12
USD/CNY	6.55	6.60	6.65	6.60	6.55	6.55	6.50	6.50

Source: NAB

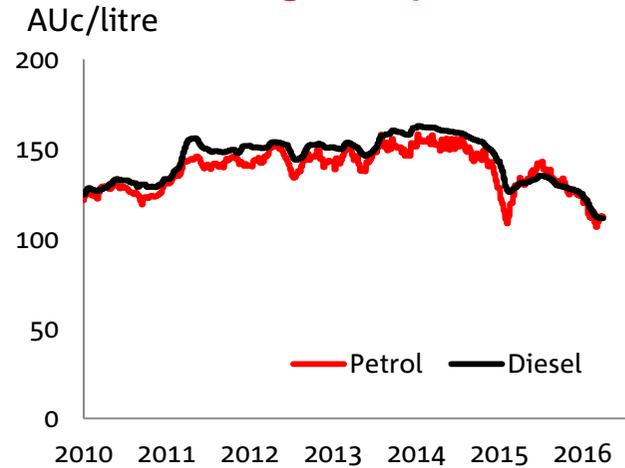


Farm input prices

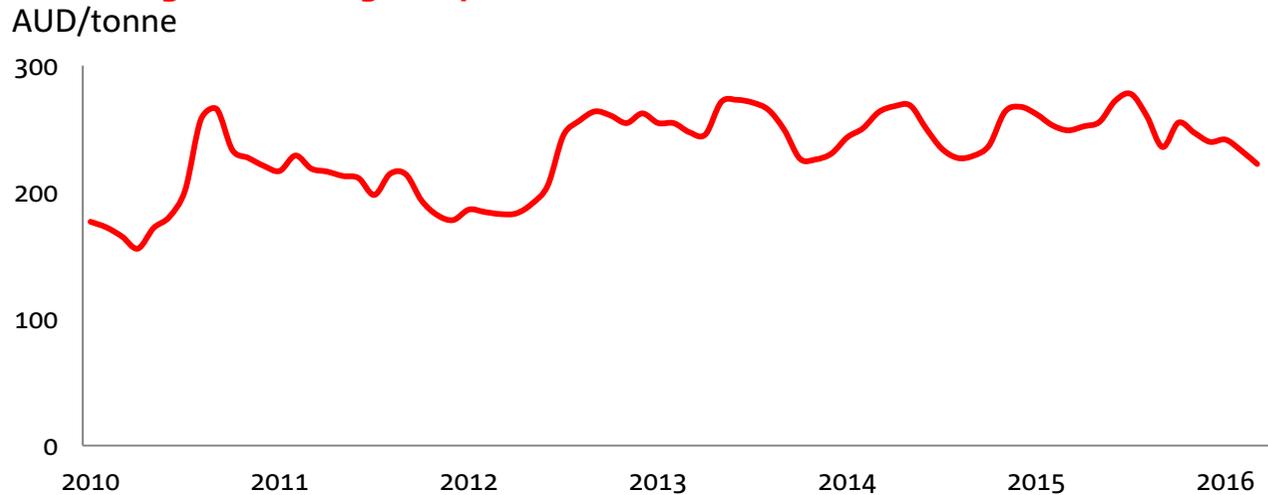
NAB Fertiliser Index



National average fuel prices



NAB weighted feed grain price Index



Global fertiliser prices have continued to trend lower this year, albeit at a much lower rate than Q4 2015. Overall, the NAB Fertiliser Index was up 0.1% (AUD) in March. The index is comprised of natural gas, urea and DAP.

National average petrol prices have also fallen, in response to a downturn in global crude oil prices in the new year and since then on account of a higher AUD. In March, national petrol prices averaged 110.7AUc/litre while diesel averaged 111.6AUc/litre.

Weighted feed grain prices were again lower in March, down 4.5% after falling 3.6% in February. While major feed grains have continued to trade at subdued prices on global markets, the recent AUD appreciation since the start of the year has put further downward pressure on prices.

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.

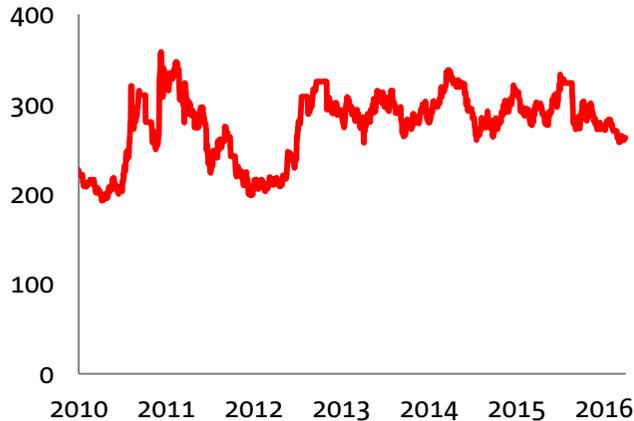
Source: Bloomberg, Australian Institute of Petroleum, Profarmer and NAB Group Economics

Wheat



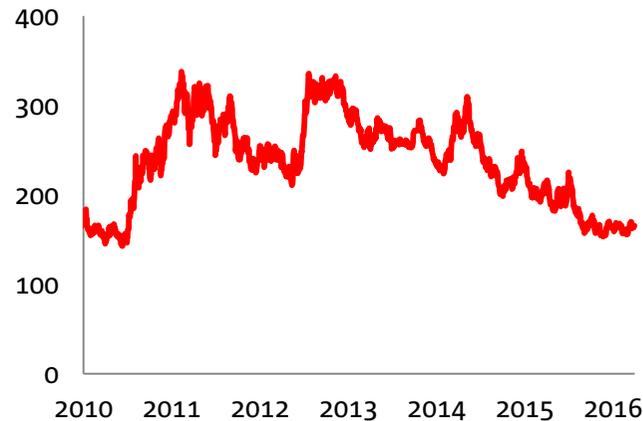
Generic 1st milling wheat

Eastern Australia, AUD/tonne



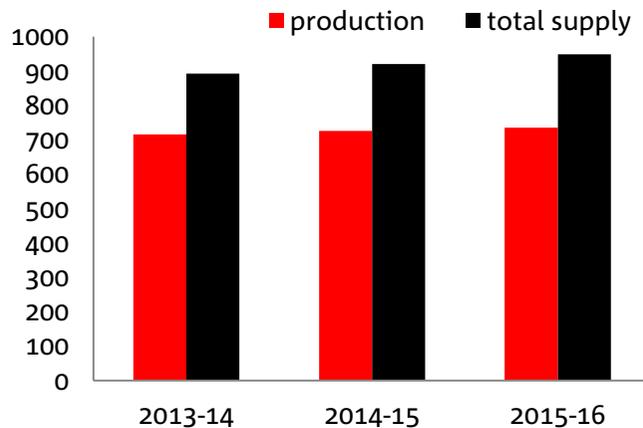
CBOT Hard Red Winter wheat

USD/tonne



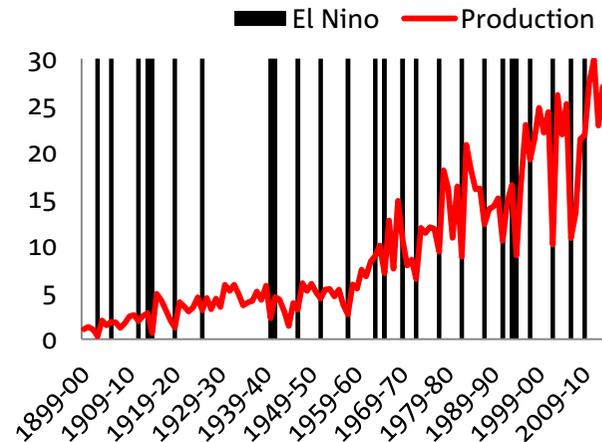
USDA forecast world wheat supply

Million tonnes



Australian wheat production

Million tonnes



Prices

Global wheat prices continue to trend lower in response to very strong global wheat supply. For 2016, we do not see a significant upside for wheat prices in USD terms noting that the USDA continues to forecast record supply this season.

However, AUD priced wheat has remained in a much narrower band since 2012 as the depreciation of the AUD supported prices. While prices are not exceptionally high by historic standards, the lower AUD has provided a buffer against a patchy Australian wheat season in 2015-16. With the AUD rising this year, local prices are under renewed pressure. Generic 1st Eastern Australian milling wheat was down % (AUD) in March.

Production

After a good January, rainfall in February and March was generally disappointing in the east but above average in Western Australia and South Australia. This has caused some nervousness given how dry conditions are in New South Wales and Victoria ahead of sowing. The latest three month rainfall outlook points to a generally dryer than average April. With sowing getting into full swing after Anzac Day, a lack of forecast rainfall presents a risk to the outlook for planting.

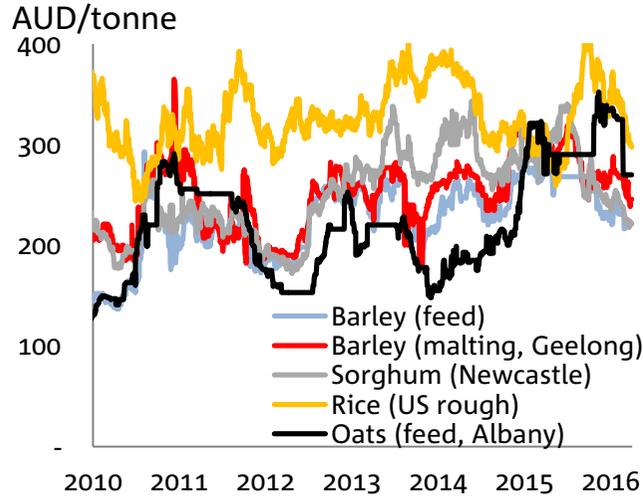
Source: Bloomberg, Profarmer, USDA, Australian Bureau of Statistics, ABARES and NAB Group Economics



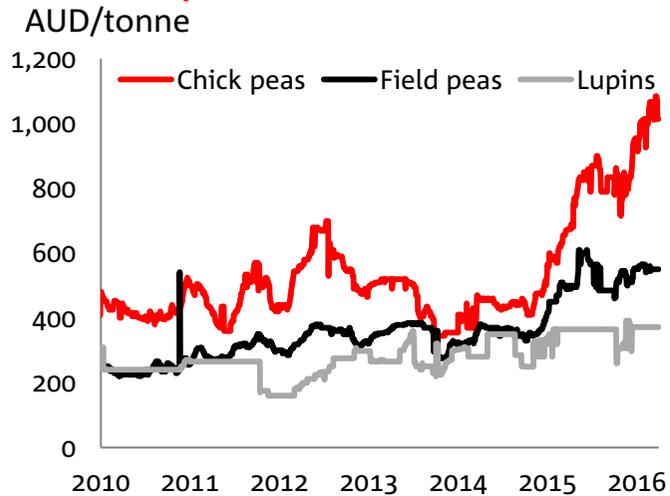
Other broadacre crops



Selected coarse grains

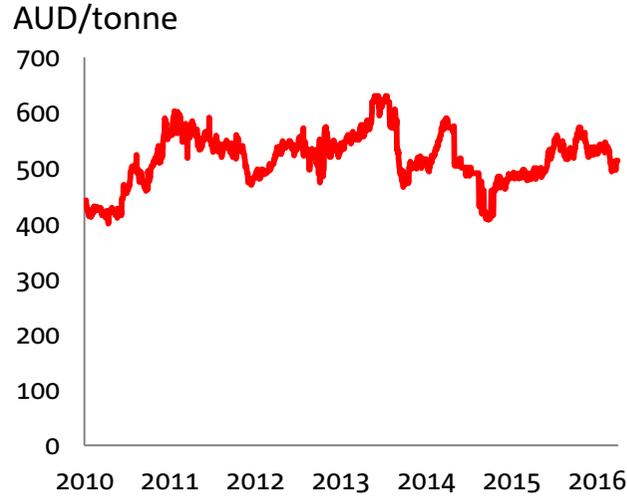


Selected pulses

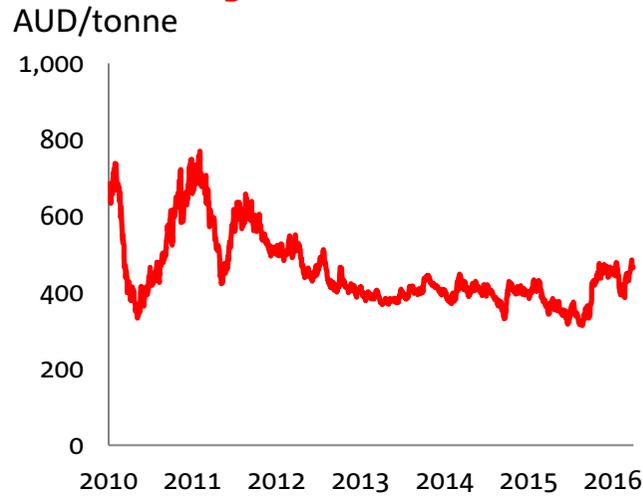


Source: Bloomberg, Profarmer and NAB Group Economics

Canola, Newcastle NSW



ICE no.11 sugar



AUD coarse grain prices have mostly followed wheat lower this year, reflecting favourable supply and a higher AUD since January. Sorghum (Newcastle) was down 6.9% in March while barley (feed, generic) was off 3.8%. Rice fell 9.0%. Meanwhile oats were 12.7% lower.

Domestic canola was also lower (off 4.9% in AUD terms) in March.

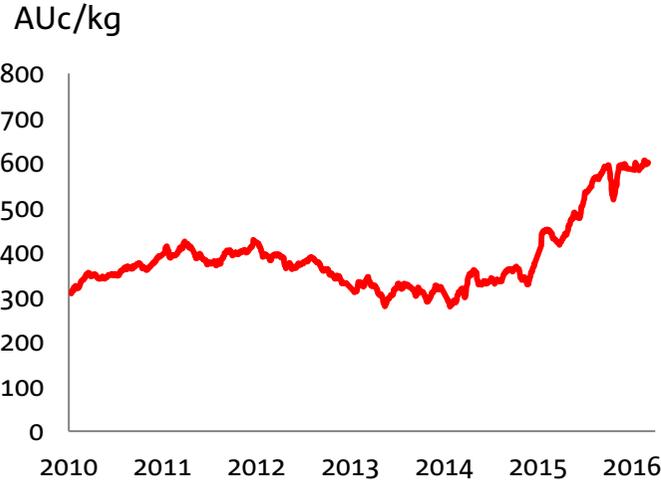
Chick peas' stellar run, which saw prices surge from less than AUD500/tonne at the end of 2014 to over AUD1,000/tonne this year, continues seemingly unabated amid difficult growing conditions in India. Chick pea prices rose 3.3% in March.

Global sugar prices fell in January and February before rebounding in March (ICE no.11 sugar was up 10.5% (AUD) in March). Prices have since retreated somewhat on favourable conditions in Brazil, a major sugar producer.

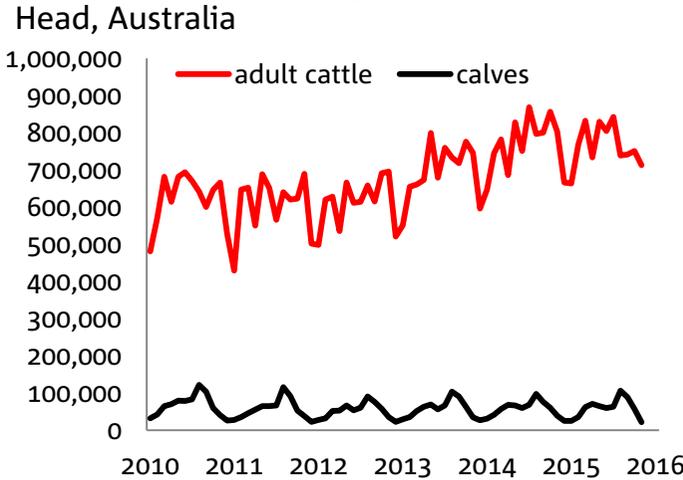




Eastern Young Cattle Indicator



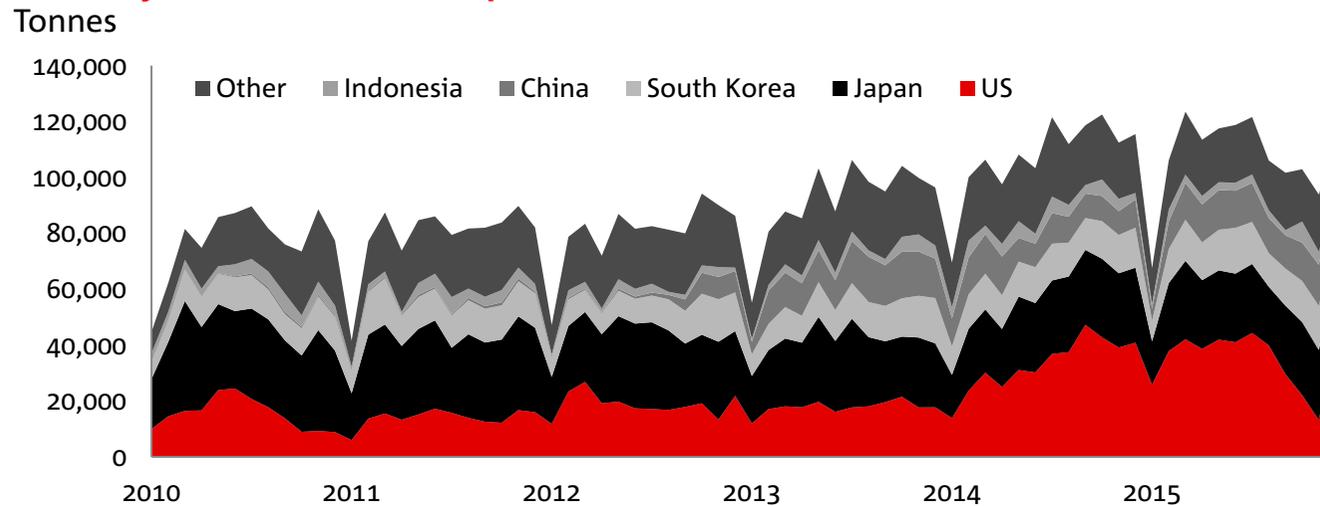
Monthly cattle slaughter



For more information see our [March in focus report on beef](#)

Cattle slaughter rates began to rise in 2013 as drought conditions started to bite in Queensland and elsewhere, forcing some producers to reduce stock levels. By 2014, US demand ramped up as the US cattle herd waned following a major drought in US cattle ranching states. This pushed US 90cl export prices, and later domestic saleyard prices, much higher. The depreciation of the Australian dollar over the period provided further support to prices.

Monthly Australian beef exports



Source: Meat and Livestock Australia and NAB Group Economics

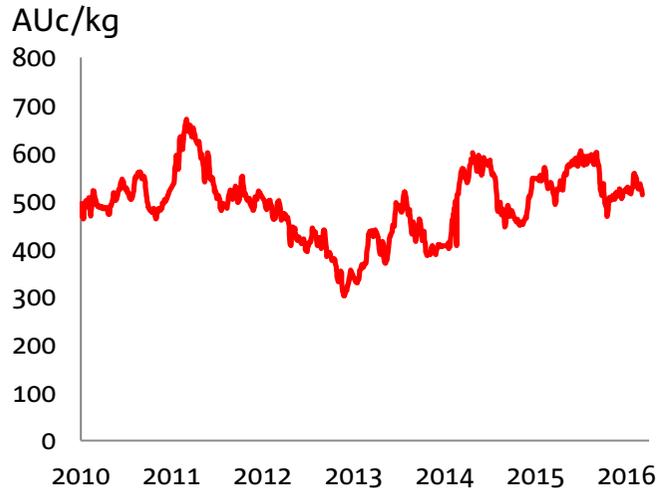
However, this confluence of factors largely reflects one off events. Since mid-2015, Australian slaughter rates have retreated owing to a shortage of stock, the key US 90cl beef export benchmark has retreated from its highs of September last year and while we forecast the Australian dollar to fall to around 69 US cents by the end of the year, the majority of the adjustment in the currency has already occurred.

Saleyard prices have come off around 7.5% since their peak. We forecast domestic saleyard prices to stay high this year, reflecting domestic restocker interest. Export prices are likely to remain under pressure given growing US beef supply and increasing competitiveness from South America.

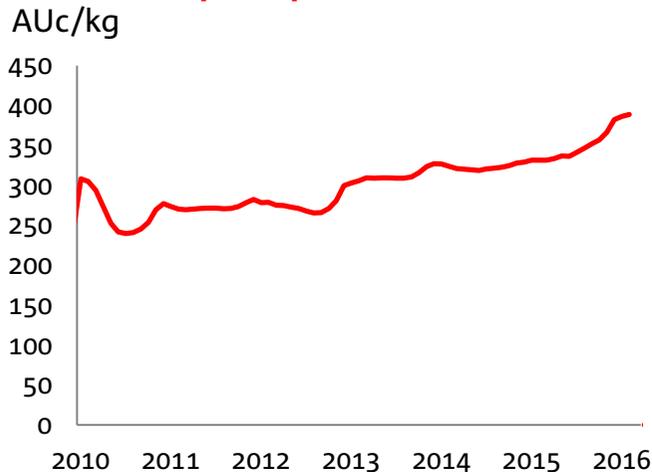
Lamb, pork and poultry



Eastern States Trade Lamb Indicator

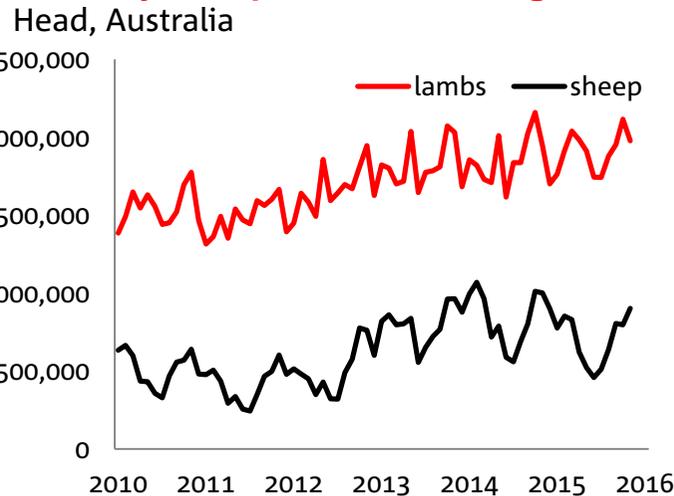


Australian pork price indicator

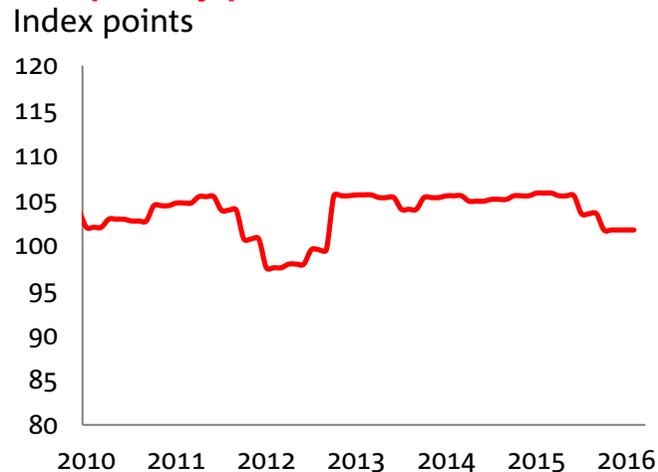


Source: Meat and Livestock Australia, Australian Pork, Australian Bureau of Statistics and NAB Group Economics

Monthly sheep and lamb slaughter



ABS poultry price index



Our forecasts for lamb reflect moderately higher prices this year. Indeed, the Eastern States Trade Lamb Indicator has been trending upwards since 2013, albeit with strong seasonal variation reflecting the usual spring lamb flush.

Production and exports have been elevated amid dry conditions over the past two years, but these levels were not sustainable and we see lamb and mutton production falling 7.5% in 2015-16 and 6.1% in 2016-17.

Overall we forecast the value of exports to fall 7.4% in 2015-16 and a further 8.5% in 2016-17 amid lower export volumes.

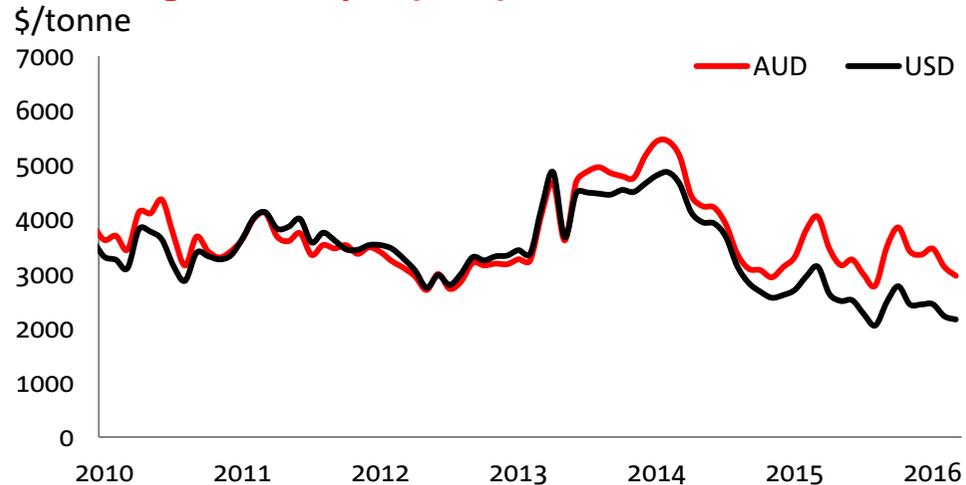
Australian wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) continue to slowly strengthen, up 0.2% in March to 389.25AUc/kg. While the industry generally sees relatively little volatility in prices, there has been a sustained upward trend which has strengthened since mid-2015.

While we do not collect wholesale poultry price data, retail prices have remained reasonably stable since late 2012. However, national retail prices fell 1.7% in the December quarter 2015 (the most recent data available).





NAB weighted dairy export price indicator

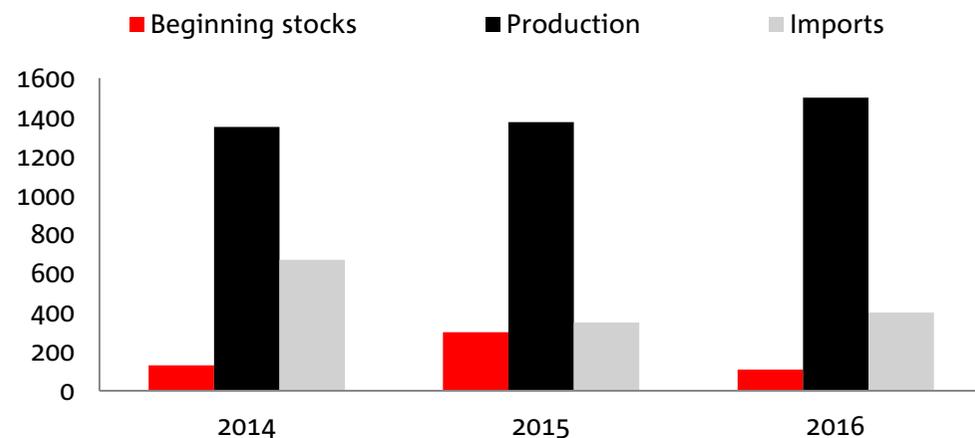


International dairy markets saw a tumultuous 2015, with lacklustre demand, particularly from China, combined with adequate supply of most dairy products sending prices on a rollercoaster. However, Australian producers were shielded from much of this tumult by a lower Australian dollar and a large and relatively stable domestic market.

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. The indicator has fallen sharply again since February this year. In AUD terms, the indicator was off 9.7% in February and 5.3% in March after gaining 3.3% in January.

USDA forecast WMP sources – China

'000 tonnes, calendar year



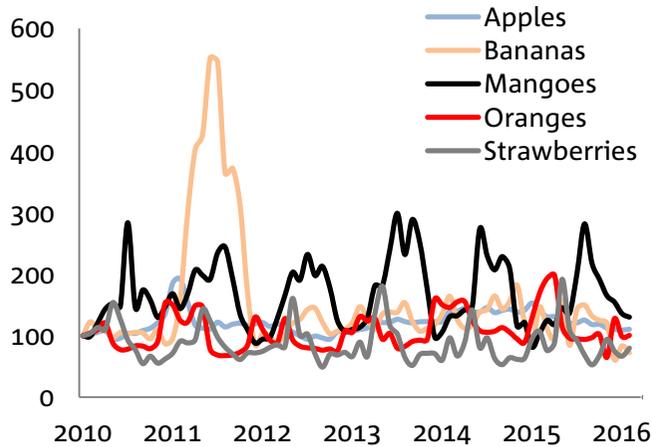
Looking to the coming year, we see little upside for global prices, with moderately higher Chinese import demand but continued strength in global supply. Weather was a challenge in many dairy regions in 2015 (especially Victoria, parts of South Australia and Tasmania). Producers are looking to a decent autumn break this year, but this is yet to arrive and is not expected until very late autumn.

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



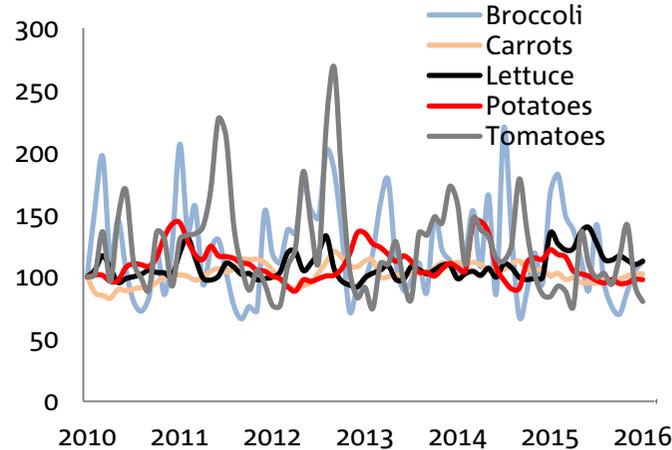
Wholesale fruit prices

Index value, Sydney and Melbourne



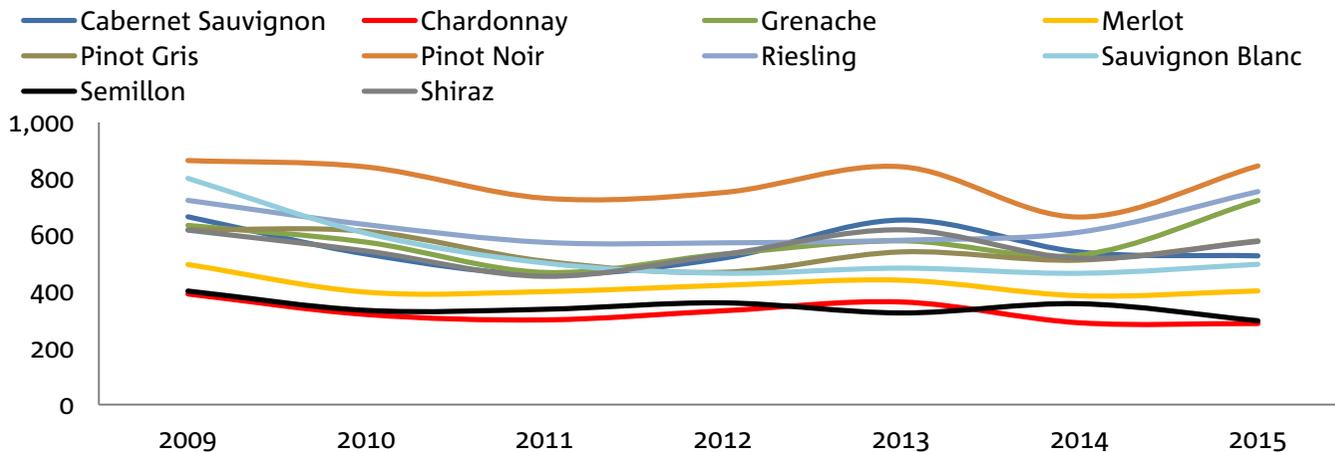
Wholesale vegetable prices

Index value, 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 have been characteristically volatile of late. Fruit prices were off 1.8% in February but rebounded 1.1% in March to an index value of 99.3 (January 2010 =100). Vegetables were up 0.8% in February before surging 12.1% in March to an index value of 113.0 (January 2010 =100).

Wine Australia's 2015 Price Dispersion Report, released in July 2015, 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

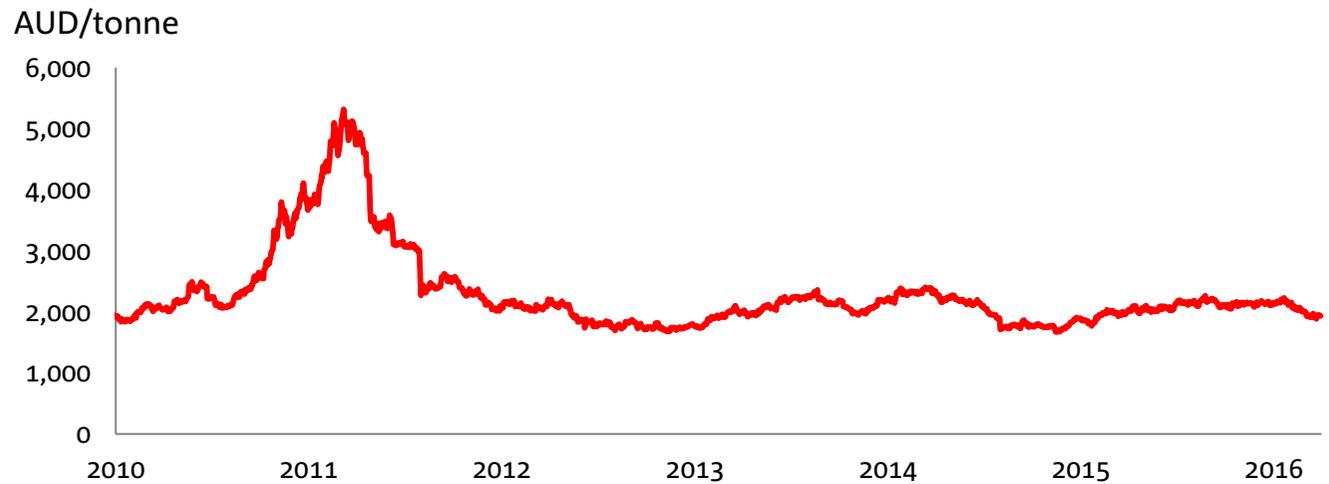


After several years of unfavourable prices, wool producers have enjoyed a run-up in the Eastern Market Indicator since the second quarter of 2015. Overall, we forecast that prices will increase 13.7% in 2015-16 and 7.5% in 2016-17.

The higher prices are forecast to offset lower production in 2015-16 and spur an increase in production in 2016-17. We forecast the value of Australian wool exports to increase 8.6% in 2015-16 and 2016-17.

Global cotton prices have fallen since the start of the year, with the AUD appreciation magnifying the impact domestically. Cotlook A was up 1.2% (AUD) in January, but fell 4.9% in February and 6.3% in March.

Cotlook A index



Source: Bloomberg and NAB Group Economics

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