

RURAL COMMODITIES WRAP

JUNE 2016

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Important Notice

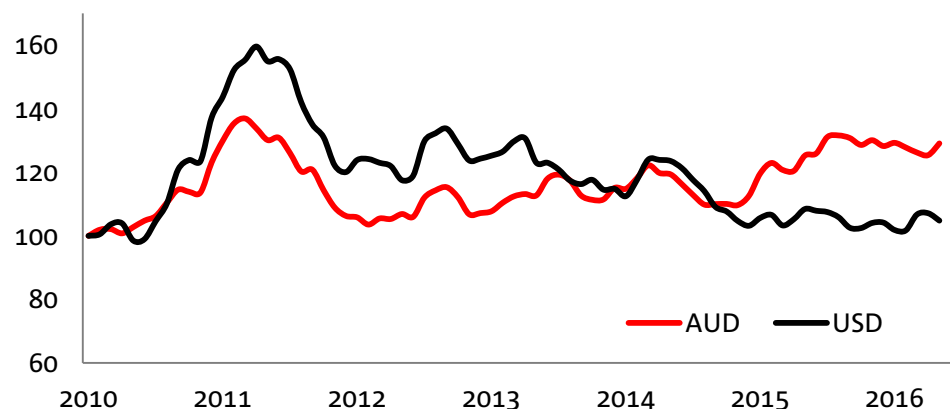
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RECENT RURAL COMMODITY PRICE MOVEMENTS

NAB RURAL COMMODITIES INDEX

Index value, January 2010 = 100



MONTHLY AUD PRICE CHANGES – SELECTED COMMODITIES

	March 2016	April 2016	May 2016
Wheat	▼ 3.1%	▼ 0.4%	▲ 2.9%
Beef	▼ 1.2%	▼ 5.5%	▲ 2.0%
Dairy	▼ 5.3%	▼ 0.9%	▲ 3.7%
Lamb	▼ 4.4%	▼ 0.6%	▲ 8.8%
Wool	▼ 2.8%	▲ 0.3%	▲ 3.1%
Sugar	▲ 10.5%	▼ 5.1%	▲ 16.9%
Cotton	▼ 6.3%	▲ 3.3%	▲ 6.6%
Index	▼ 1.2%	▼ 0.7%	▲ 3.0%

The outlook for agriculture has been boosted by good rain across much of eastern Australia and the Bureau of Meteorology's forecast for a wetter than average winter with the chance of La Nina developing around 50%. Our initial outlook for the 2016-17 Australian wheat season places the crop at 26.1 million tonnes, with further upside possible if rainfall is above average.

The lower Australian Dollar pushed most agricultural commodity prices higher in May, with the NAB Rural Commodities Index up 3.0% in AUD terms but off 2.2% in USD terms. The rain flowed through to cattle prices, with higher restocker demand pushing up the Eastern Young Cattle Indicator. Although prices of major agricultural commodities remain mixed on global markets, we continue to expect a downward drift in the AUD to provide support locally.

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.

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

PRICE, PRODUCTION AND EXPORT FORECASTS

Our expectations for prices in the coming year are underpinned by our forecasts for a generally lower AUD, tracking in the high 60s range in late 2016 and 2017. This is likely to support local prices somewhat through challenging international conditions.

Cattle prices are likely to come under some pressure in 2017 in response to higher US supply and improved South American access, although we note that favourable weather in Australia is pushing restocker demand high (and prices with it). Dairy is likely to continue to feel the pressure on farmgate milk prices. Global wheat prices are likely to remain subdued due to ample global supply.

Our outlook for agricultural production is highly reliant on the climate outlook. The Bureau of Meteorology forecasts an around 50% chance of La Niña developing in the coming months, which is associated with higher rainfall in eastern Australia. We note that the wheat season has seen a good to very good start and that livestock producers have generally benefitted from recent rain (although flooding has been an issue in some areas).

The table below outlines our latest outlook for production, prices and the value of exports. These estimates are contingent on estimates for production and export volumes, prevailing global prices and NAB's foreign exchange outlook.

PRODUCTION, PRICE AND EXPORT FORECASTS (AUD)

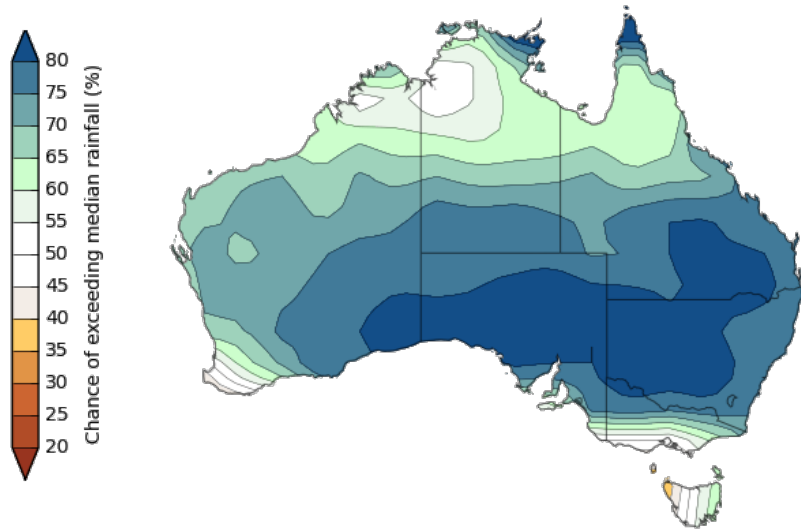
	Production change		Price change		Export value change	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Wheat	▲ 4.8%	▲ 8.0%	▼ 3.2%	▲ 5.1%	▼ 3.1%	▲ 14.0%
Beef	▼ 11.4%	▼ 3.9%	▲ 43.3%	▼ 2.4%	▲ 3.7%	▼ 8.0%
Dairy	▼ 1.0%	▼ 0.9%	▼ 6.2%	▲ 3.1%	▼ 7.2%	▲ 2.1%
Lamb and mutton	▼ 3.1%	▼ 5.2%	▲ 4.2%	▲ 0.6%	▼ 1.4%	▼ 7.2%
Wool	▼ 6.2%	▲ 0.5%	▲ 14.0%	▲ 7.2%	▲ 6.9%	▲ 8.9%
Sugar	▲ 5.0%	▲ 5.9%	▲ 9.2%	▲ 18.6%	▲ 14.3%	▲ 23.5%
Cotton	▲ 12.1%	▲ 41.0%	▲ 8.9%	▲ 1.6%	▼ 15.4%	▲ 24.1%

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

CLIMATE OUTLOOK

THREE MONTH RAINFALL OUTLOOK

June to August 2016



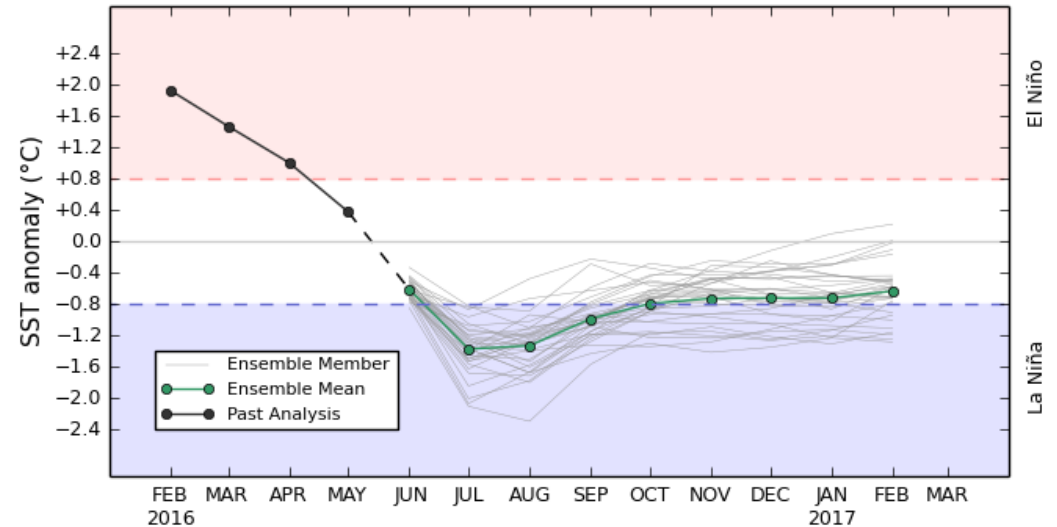
The Bureau of Meteorology (BoM) three month rainfall outlook to August forecasts generally above average to well above average rainfall over winter, although parts of Tasmania could see below average falls.

This outlook points to good grain growing conditions over winter, although the very strong rainfall outlook across New South Wales, southern Queensland and the upper Eyre Peninsula in South Australia presents the risk of waterlogging. Recent rainfall has also boosted sentiment in livestock industries, with cattle and lamb prices ticking higher.

Source: Bureau of Meteorology

BOM POAMA MODEL LONG-RANGE EL NINO OUTLOOK

Monthly mean NINO 3.4 – 5 June 2016



The winter outlook is underpinned by BoM's long range outlook for El Niño. With the 2015-16 El Niño event now over, six of BoM's eight international climate models point to La Niña forming over winter.

The BoM ENSO Outlook is on La Niña watch, placing the odds of La Niña developing at around 50%. However, the BoM notes that the outlook accuracy for this time of year is relatively low. Nonetheless, the return of neutral conditions is very welcome news for wheat growers.

ECONOMIC UPDATE

NAB AUSTRALIAN ECONOMIC FORECASTS

Per cent change financial year on year

	2015 -16	2016 -17	2017- 18
Real GDP	3.0	2.9	2.9
Private consumption	2.9	2.5	2.6
Unemployment rate (year end)	5.7	5.5	5.7
Consumer Price Index (core)	1.6	2.0	2.0
RBA cash rate (year end)	1.75	1.75	2.0

NAB GLOBAL ECONOMIC FORECASTS

Per cent change calendar year on year

	2016	2017	2018
United States	1.8	2.1	1.9
Euro-zone	1.5	1.5	1.6
Japan	0.5	0.7	0.5
China	6.7	6.5	6.3
India	7.7	7.7	7.5
Emerging East Asia	3.5	3.6	3.4
World GDP	2.9	3.2	3.1

Source: NAB Group Economics

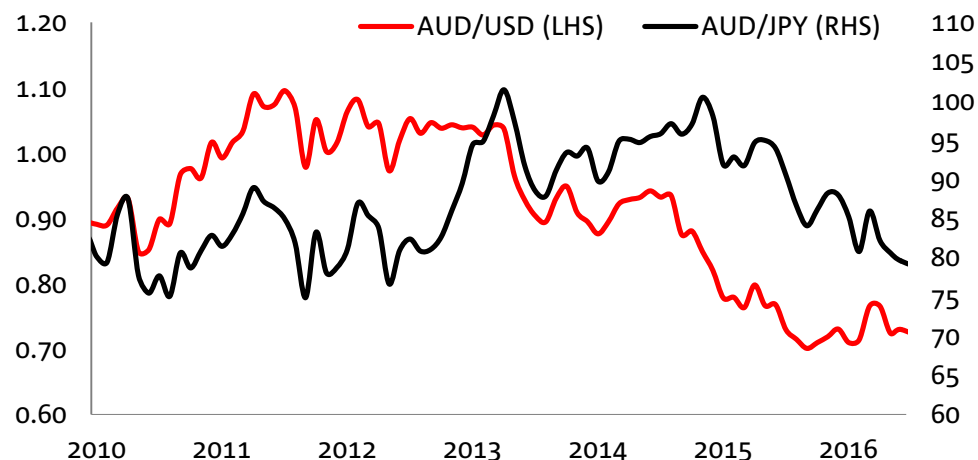
For more detail, see our [Global and Australian Forecasts](#)

The direct effects of Brexit on the Australian economy are likely be minimal, and will largely flow through trade relationships, which are relatively small between the UK and Australia. Indirect effects through financial market channels (including equity markets and currency markets) are not quantifiable as yet, but do suggest some downside risks to confidence, household consumption and business investment and therefore GDP, and upside risk to unemployment. But unless financial markets deteriorate significantly from here, implications for the Australian real economy will be limited.

In Australia, real GDP growth picked up to 3.1% y/y in Q1 and is expected to remain at around the 3% mark for the remainder of 2016 and 2017 before easing back to 2½% in 2018. While net exports are providing the largest contribution to growth (1.1ppt in Q1 alone) in real terms, our estimates also suggest non-mining activity is outperforming the aggregate economy. The ongoing above-average level of business conditions is also consistent with the rotation towards non-mining industries and states (with non mining GDP now growing at a rate around 3¾%). The unemployment rate is forecast to fall to around 5½% by late 2016 before ticking up to around 5¾% in 2018. Meanwhile, the weaker terms of trade and low wages growth will continue to challenge national income and government revenue.

EXCHANGE RATES AND INTEREST RATES

MONTHLY EXCHANGE RATE MOVEMENTS



The AUD has fallen in the wake of Brexit and now trading just below 0.74. NAB's FX strategy team is reviewing our forecasts in the wake of significant volatility in global FX markets induced by Brexit.

In terms of Australian monetary policy, our core view remains for the Reserve Bank to remain on hold although heightened global risks suggest a higher probability of a rate cut in coming months. A cut at the July meeting appears unlikely given the relatively orderly financial market movements to date and a desire to see how the dust settles. In addition, the RBA would prefer to have an up-to-date reading on inflation pressures, which suggests any upcoming cut would be more likely in August after the release of the Q2 CPI.

NAB FX STRATEGY TARGETS

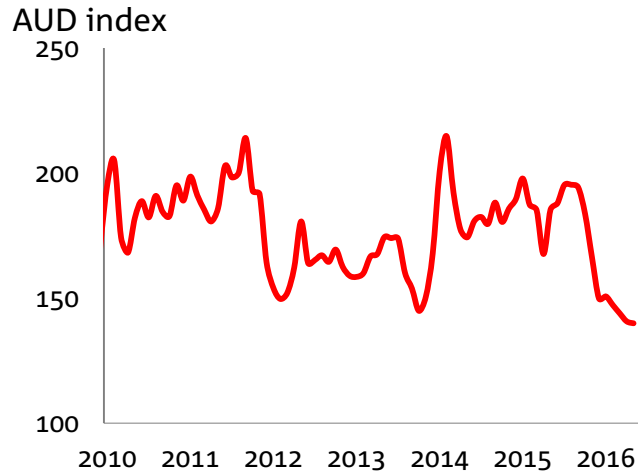
	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1
AUD/USD	0.73	0.71	0.69	0.69	0.68	0.67	0.68	0.69
NZD/USD	0.67	0.65	0.63	0.62	0.62	0.62	0.64	0.65
USD/JPY	109	110	111	111	112	113	112	112
EUR/USD	1.14	1.12	1.11	1.10	1.10	1.10	1.10	1.12
USD/CNY	6.55	6.60	6.65	6.60	6.55	6.55	6.50	6.50

Source: NAB

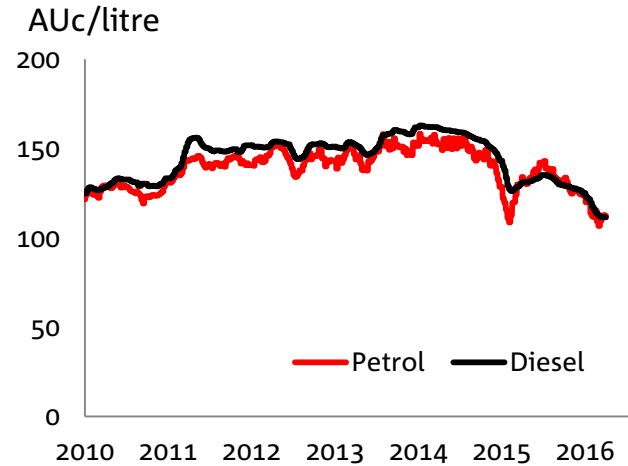
FARM INPUT PRICES



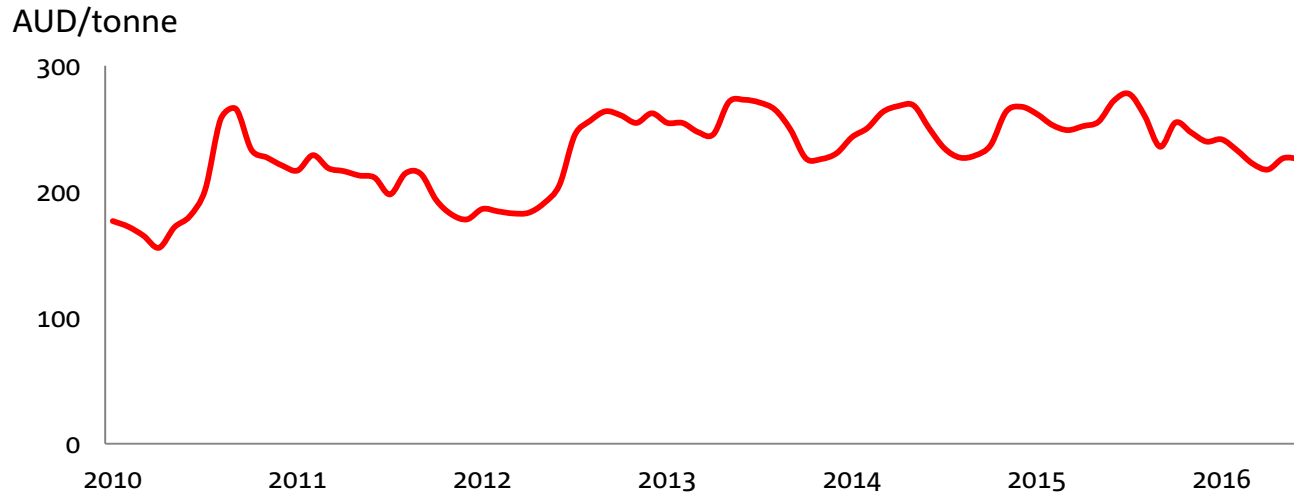
NAB FERTILISER INDEX



NATIONAL AVERAGE FUEL PRICES



NAB WEIGHTED FEED GRAIN PRICE INDEX



Global fertiliser prices continue to trend lower, with the NAB Fertiliser Index was 0.6% lower in (AUD) in May on lower urea prices. However, our forecasts for a lower AUD presents an upside risk for fertiliser prices for the second half of 2016 and into 2017. The index is comprised of natural gas, urea and DAP.

National average petrol prices were somewhat higher again in May, with petrol up 2.6% and diesel 1.9% higher.

Weighted feed grain prices rebounded in May, up 4.1%. While major feed grains have continue to trade at subdued prices on global markets, our forecasts for the AUD may see some price upside later this year.

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

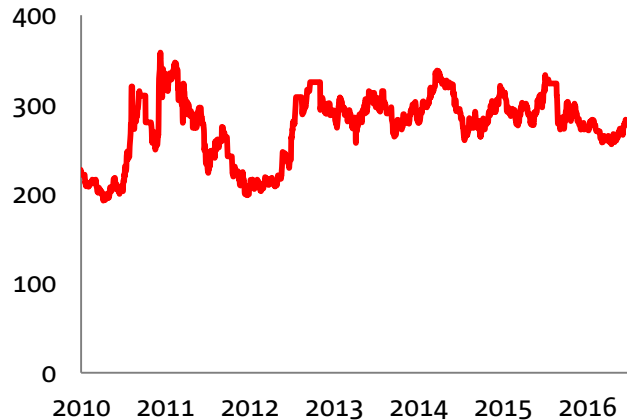


WHEAT



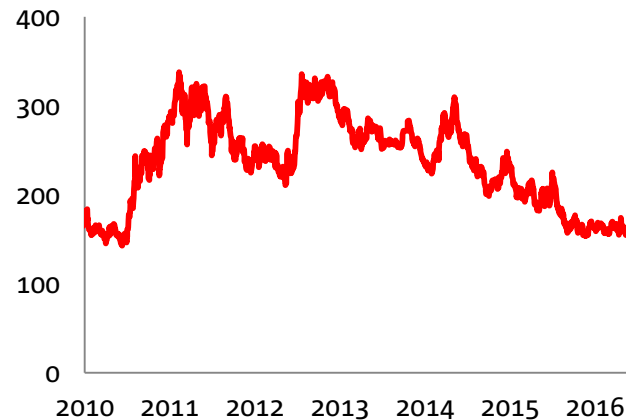
GENERIC 1ST MILLING WHEAT

Eastern Australia, AUD/tonne



CBOT HARD RED WINTER WHEAT

USD/tonne



NAB CENTRAL CASE AUSTRALIAN WHEAT PRODUCTION OUTLOOK

Million tonnes (production), tonnes/hectare (yield)

	NSW	VIC	QLD	WA	SA	TAS	AUS
Production	7.4	3.1	1.3	9.5	4.6	<0.1	26.1
Yield	2.3	2.1	1.9	1.9	2.3	4.4	2.1

Prices

The recent supply concerns around soybeans have somewhat spilled over into corn markets, however we expect global wheat prices remain muted 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 strong global supply. Generic 1st Eastern Australian milling wheat was up 2.9% (AUD) in May, largely reflecting a lower AUD.

Production

Our central case estimate for the 2016-17 Australian wheat crop is 26.1 million tonnes, based on rainfall to date and average rainfall in major cropping areas for the rest of the season. Our high case estimate, based on 20% above average winter rainfall, points to a national harvest of 27.1 million tonnes.

For more information our wheat outlook see NAB's June 2016 [Australian Wheat Production Outlook](#).

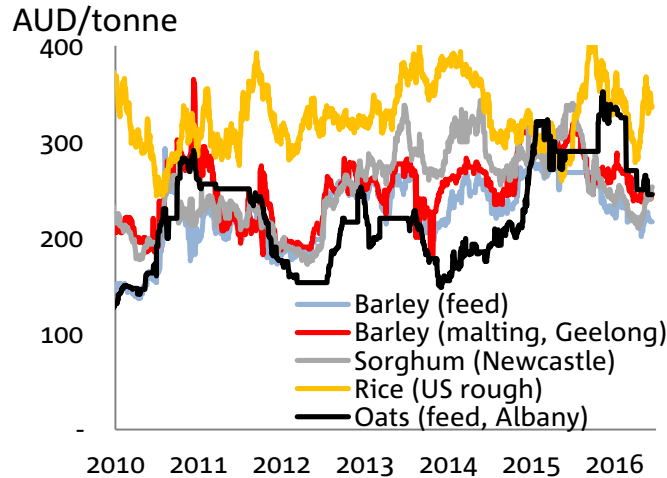
Source: Bloomberg, Profarmer, USDA, Bureau of Meteorology, ABARES, Australian Bureau of Statistics and NAB Group Economics



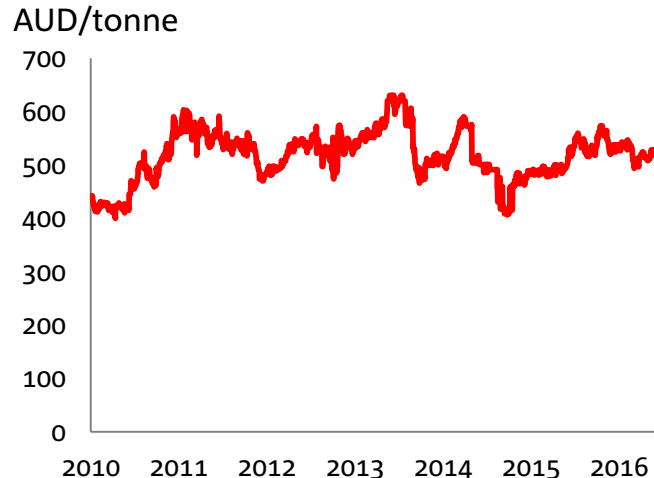
OTHER BROADACRE CROPS



SELECTED COARSE GRAINS



CANOLA, NEWCASTLE NSW



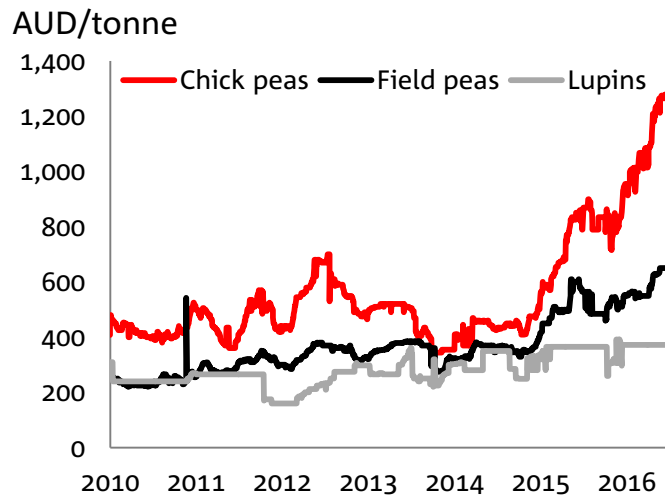
Australian coarse grain prices have mostly followed broad trends set by wheat this year, reflecting a dependence on movements in the AUD. Sorghum (Newcastle) was up 9.2% in May while barley (feed, generic) was up 2.0%. Rice rallied in May, up 17.1% in AUD terms. Meanwhile oats were steady.

Domestic canola was up 0.8% in AUD terms in May.

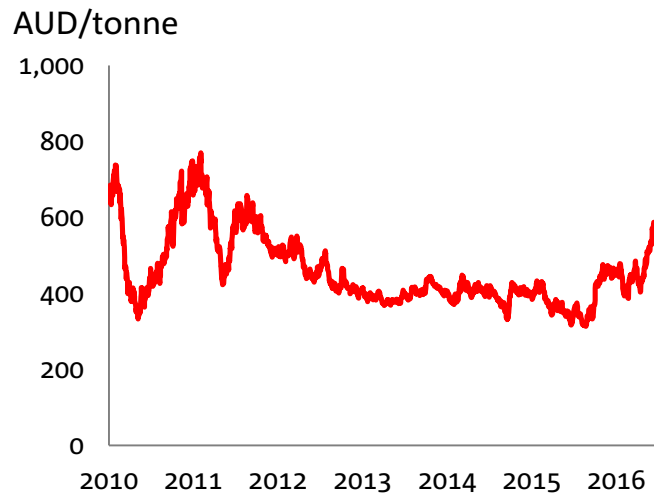
Chick peas' stellar run, which saw prices surge from less than AUD500/tonne at the end of 2014 to over AUD1,200/tonne this year, continues seemingly unabated amid continued difficult growing conditions in India after two poor monsoon seasons. Chick pea prices rose 9.0% in April. Chick pea plantings, especially in Queensland, have jumped substantially this season. We note that an average Indian monsoon season this year would likely put Australian chick pea prices under some considerable pressure.

Global sugar prices are surging amid global supply concerns. ICE no.11 sugar was up 16.9% (AUD) in May. While prices have been volatile this year, we continue to expect higher prices, noting supply issues and improving global demand.

SELECTED PULSES



ICE NO.11 SUGAR

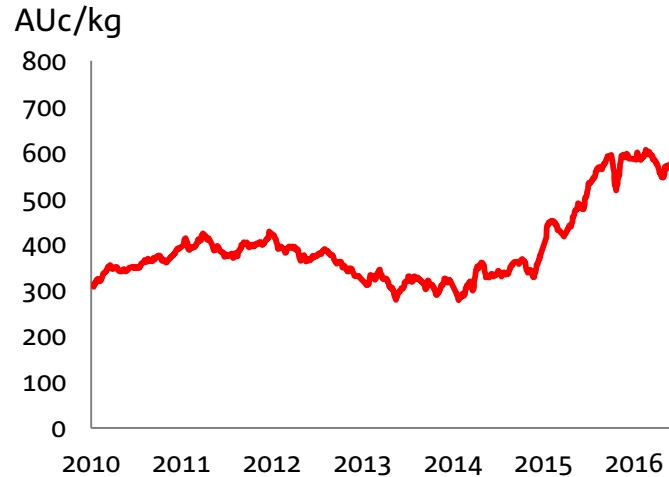


Source: Bloomberg, Profarmer and NAB Group Economics

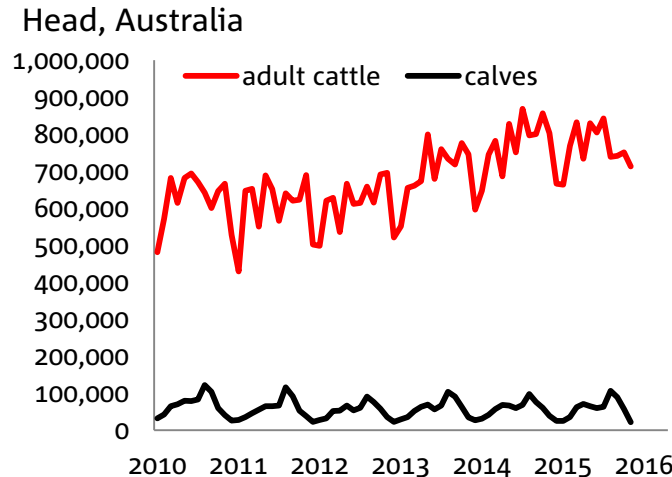




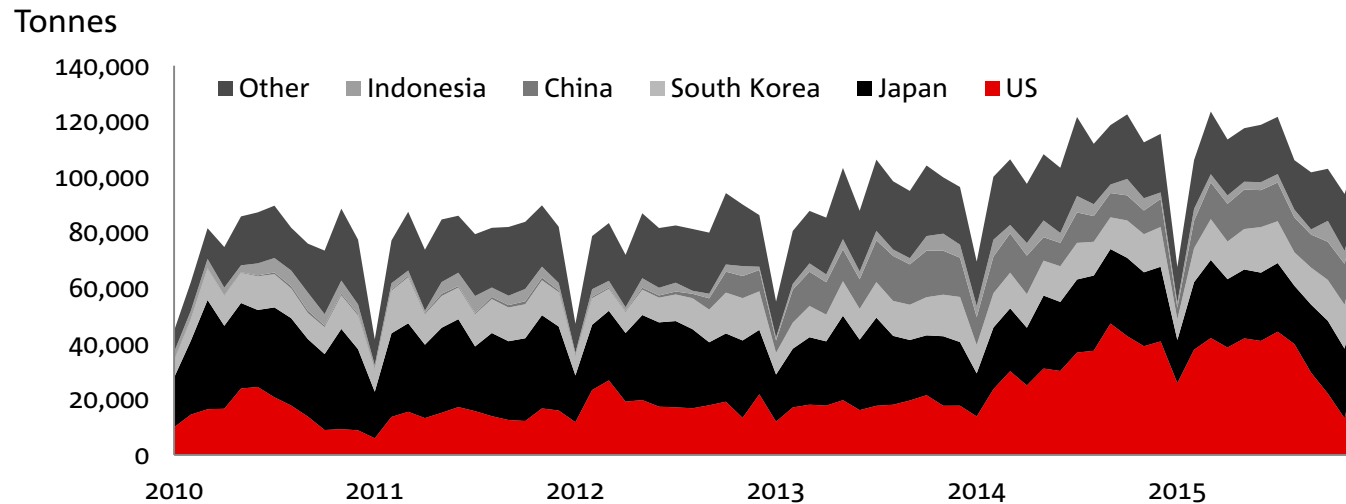
EASTERN YOUNG CATTLE INDICATOR



MONTHLY CATTLE SLAUGHTER



MONTHLY AUSTRALIAN BEEF EXPORTS



Source: Meat and Livestock Australia and NAB Group Economics

Last month, we wrote that cattle prices were likely to have peaked but the Eastern Young Cattle Indicator has since roared back to a fresh high – at the time of writing the indicator stood at over 655AUc/kg.

This rally reflects generally very good rains, boosting restocker interest after a long period of destocking in many areas. While there have been signs of life in the US market, 90CL Australian beef into the US is still significantly cheaper than its 2015 peak.

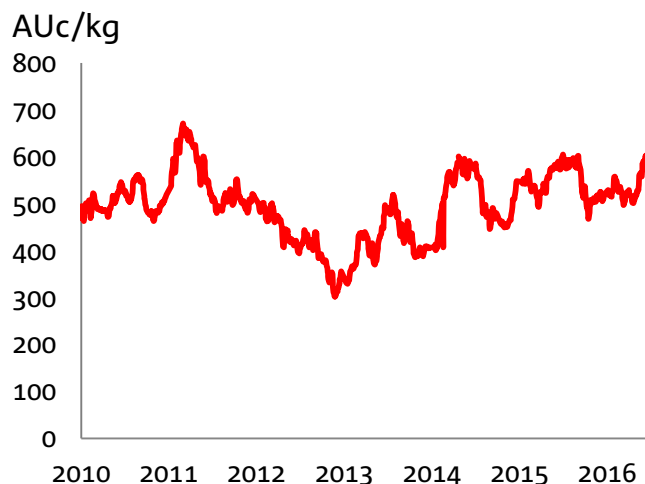
The US market is now enjoying increased domestic supply with the drought well and truly over outside the west coast and feed grains generally inexpensive (except soy meal and to some extent corn more recently). Export prices are likely to remain under pressure given the pressures in the US market combined with increasing competitiveness from South America.

Overall, low export prices represent a downside risk to saleyard prices beyond this year, although we expect restocker interest to keep prices high over the coming months.

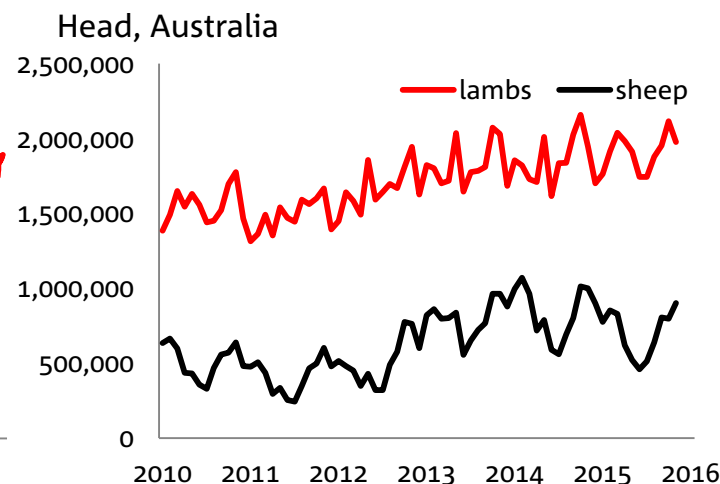
LAMB, PORK AND POULTRY



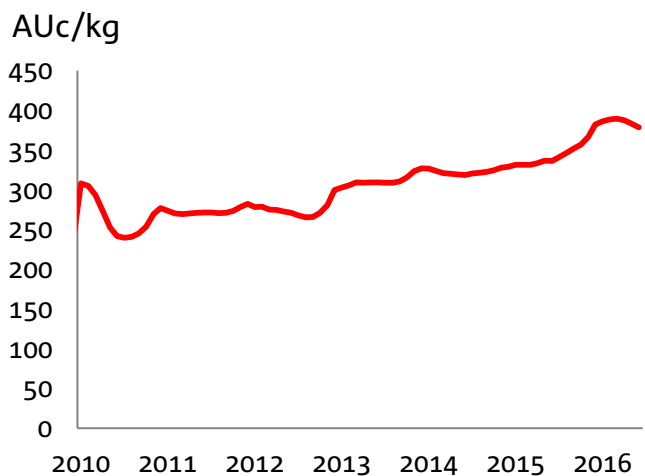
NATIONAL TRADE LAMB INDICATOR



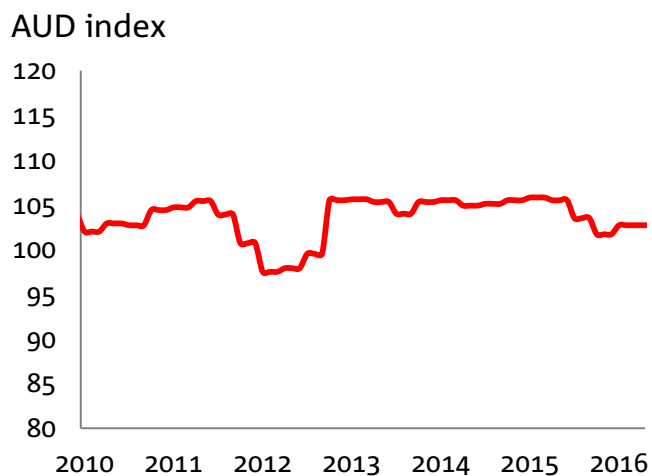
MONTHLY SHEEP AND LAMB SLAUGHTER



AUSTRALIAN PORK PRICE INDICATOR



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. The National Trade Lamb Indicator was up 8.8% in May.

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 1.4% in 2015-16 and a further 7.2% 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) fell again in May, down 1.1% to 383AUc/kg. While the industry generally sees relatively little volatility in prices, the sustained upward trend since mid-2015 has come under some pressure recently, confirmed in early results in June.

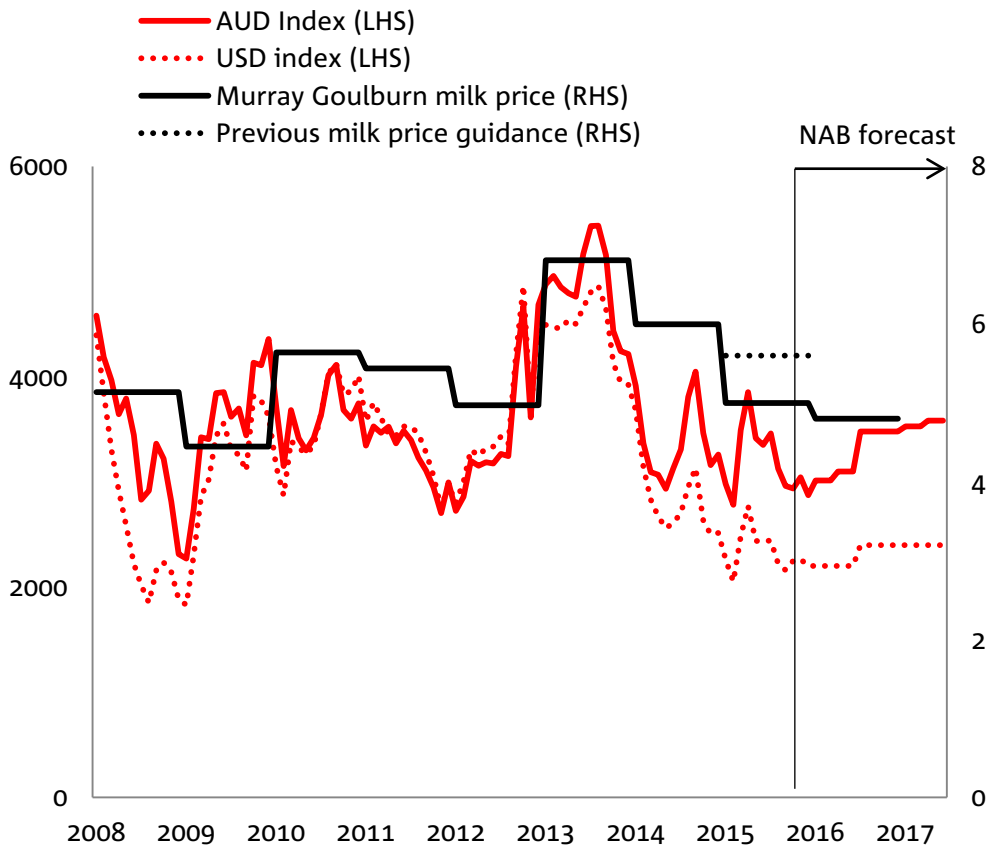
While we do not collect wholesale poultry price data, retail prices have remained reasonably stable since late 2012. However, national retail prices rose 1.0% in the March quarter 2016.

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)



Murray Goulburn this week released its opening price update for the 2016-17 season. The headline opening price is \$4.80/kg milk solids, although with Milk Supply Support Package repayments the price could be as low as \$4.31/kg milk solids for some producers. This follows Murray Goulburn and Fonterra's downgrades their 2015-16 farmgate prices from \$5.60/kg milk solids to \$4.75-5.00 (Murray Goulburn) and \$5.00 (Fonterra).

The underlying cause of these lower returns at farm gate is the decline in international dairy prices since 2014. The chart to the left shows NAB's weighted dairy export price indicator and Murray Goulburn's farm gate milk price since 2008. Australian export prices averaged AUD3,044.98/tonne in May 2016, up 3.7% on April but well below the February 2014 high of AUD5,436/tonne. The depreciation of the AUD has provided a buffer against more precipitous declines, but AUD export returns remain well below their peak.

The price fall reflects a number of factors, notably lower Chinese milk powder demand, the removal of EU dairy quotas, the ongoing impact of the Russian dairy embargo and buoyant US domestic supply. We do not expect a substantial increase in Chinese demand in the coming year and as a result expect international prices to remain low for the foreseeable future. However, the low prices may see lower European supply, limiting further downside pressure. The lower AUD should boost Australian export prices in AUD terms, as shown to the left.

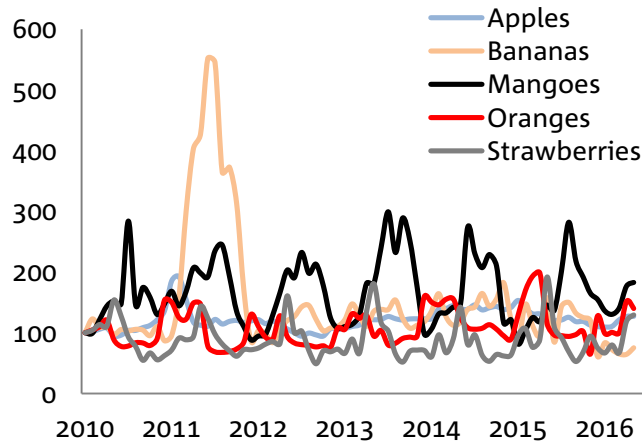
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, Fonterra, Murray Goulburn and NAB Group Economics

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



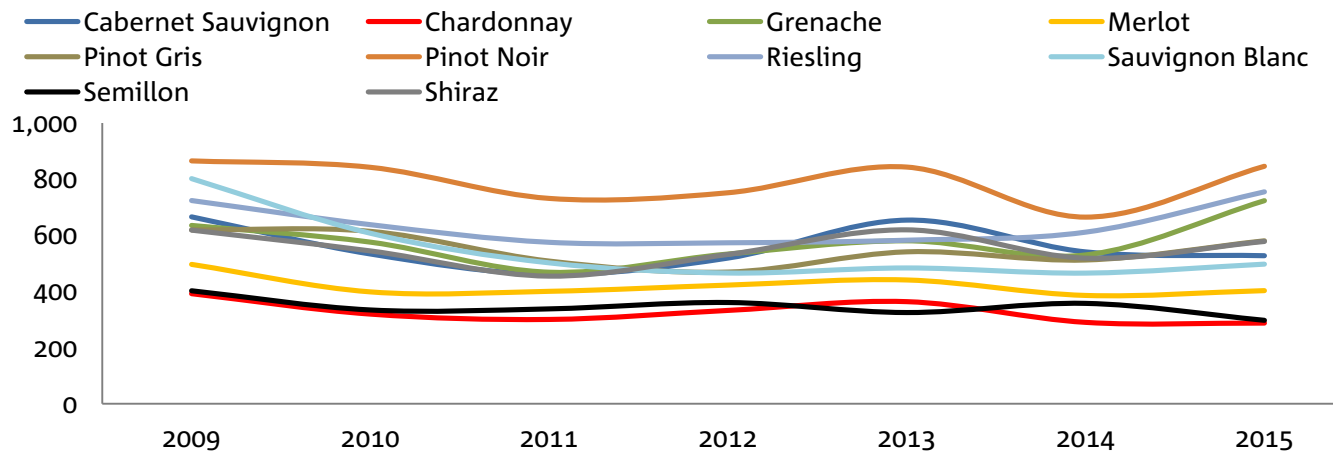
WHOLESALE FRUIT PRICES

AUD index, Sydney and Melbourne



NAB WEIGHTED WINE GRAPE PRICES

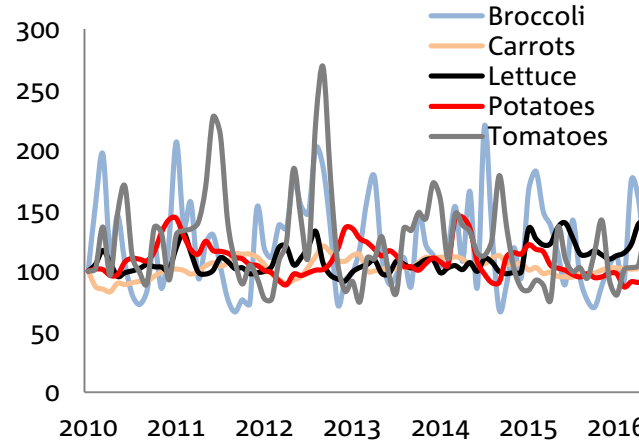
AUD/tonne



Source: Ausmarket Consultants, Wine Australia and NAB Group Economics

WHOLESALE VEGETABLE PRICES

AUD index, Sydney and Melbourne



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 continued to strengthen in May, largely reflecting their highly seasonal nature. Fruit prices were up 3.0% in May to an index value of 125.6 (January 2010 =100). Vegetables were up 2.6% to an index value of 116.5 (January 2010 =100).

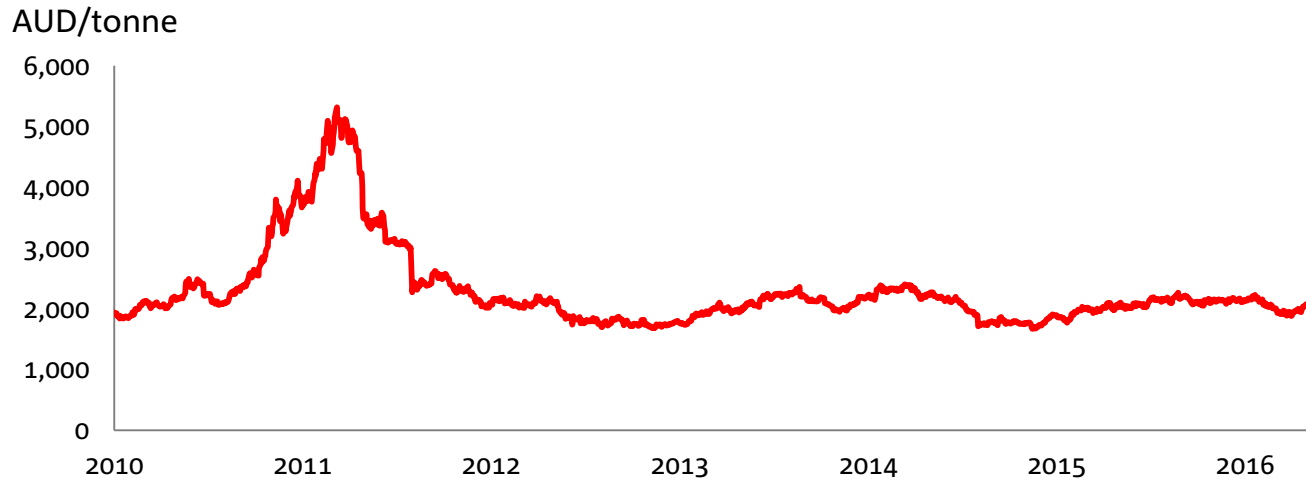
Wine Australia's 2015 Price Dispersion Report, released in July 2015, shows a rebound in prices for several more expensive varieties. Grenache, Pinot Noir and Riesling all gained (36%, 13% and 24% respectively). However, lower priced varieties such as Chardonnay, Semillon and Merlot fared generally worse.



WOOL – EASTERN MARKET INDICATOR



COTLOOK A INDEX



Source: Bloomberg and NAB Group Economics

After several years of unfavourable prices, wool producers have enjoyed a run-up in the Eastern Market Indicator since the second quarter of 2015. While the AUD strength earlier this year limited price upside (wool is quite sensitive to movements in the dollar) the lower AUD of late has provided additional upside. Overall, we forecast that prices will increase 14.0% in 2015-16 and 7.2% 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 6.9% in 2015-16 and 8.9% 2016-17.

Global cotton prices were higher in AUD terms in May, responding to the lower AUD as well as a moderate uptick in USD terms. Cotlook A was up 6.6% (AUD) for the month.