

# RURAL COMMODITIES WRAP

NOVEMBER 2016

Author Phin Ziebell, Agribusiness Economist  
Photo [CSIRO](#)



# CONTENTS

- 3 | Rural commodity prices
- 4 | Price, production and export forecasts
- 5 | Climatic conditions
- 6 | Economic update
- 7 | Exchange rates and Interest Rates
- 8 | Farm input prices
- 9 | Wheat
- 10 | Other broadacre crops
- 11 | Beef
- 12 | Lamb, pork and poultry
- 13 | Dairy
- 14 | Horticulture
- 15 | Fibres

# CONTACTS

**Phin Ziebell**  
Agribusiness Economist  
+61 (0) 475 940 662

**Alan Oster**  
Chief Economist  
+61 3 8634 2927

**Riki Polygenis**  
H-O Australian Economics  
+61 3 8697 9534

**Khan Horne**  
General Manager  
NAB Agribusiness

**Kristin Kenny**  
Senior Consultant  
+61 (0) 439 255 981

## Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

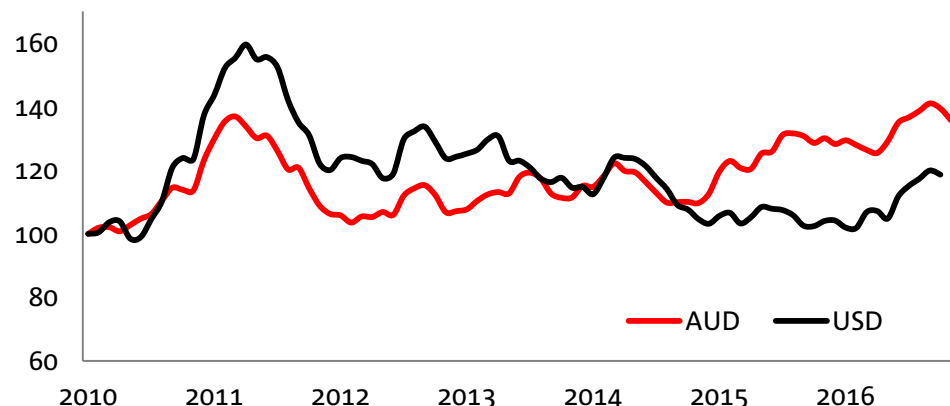
NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.



# RECENT RURAL COMMODITY PRICE MOVEMENTS

## NAB RURAL COMMODITIES INDEX

Index value, January 2010 = 100



## MONTHLY AUD PRICE CHANGES – SELECTED COMMODITIES

	September 2016	October 2016	November 2016
Wheat	▼ 3.5%	▲ 1.1%	▼ 1.6%
Beef	▲ 0.7%	▼ 2.8%	▼ 6.0%
Dairy	▲ 21.5%	▼ 3.2%	▲ 12.2%
Lamb	▼ 0.7%	▼ 6.5%	▼ 4.9%
Wool	▼ 0.2%	▲ 1.0%	▼ 0.2%
Sugar	▲ 7.0%	▲ 7.2%	▼ 7.9%
Cotton	▼ 2.3%	▲ 0.5%	▲ 1.4%
Index	▲ 1.7%	▼ 1.1%	▼ 4.4%

After rising for much of the year, the NAB Rural Commodities Index looks to have peaked in September. The index has since fallen 1.1% in October and 4.4% in November in Australian dollar terms. These falls reflect generally lower grain, pulses, beef, lamb and mango prices and volatile sugar prices which have not been fully offset by a continuing resurgence in dairy. While some of these falls, such as for lamb, mangos and to some extent beef are seasonal, there is ongoing weakness in grains and we have some concern for beef in 2017.

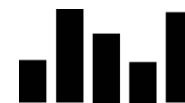
Spring has continued to be wetter than average in the south-east, although parts of Queensland and Western Australia have been dryer than average. The Bureau of Meteorology's latest three month outlook points to a hot and dry December for the entire continent and a dryer than average January in the east.

We have increased our wheat production forecast to 29.4 million tonnes for the 2016-17 season, just shy of the 2011-12 record and 21.7% higher than last season. Much of the increase will come from New South Wales, South Australia and Victoria, with the Western Australian harvest likely to be flat. While the headline figure will be large, prices remain at 10 year lows on global markets. This has been further compounded by quality downgrades due to the wetter than average spring.

With the weather drying out, we continue to highlight risks to cattle prices. High prices this year have been driven almost exclusively by domestic restocker interest rather than global fundamentals. Should restocker interest slow in response to dryer conditions, it is likely that prices will come under further pressure. Although live cattle futures in the US have climbed over the past month, they remain well below their late 2014 peak.

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



We have made changes to our wheat production and dairy and beef price forecasts this month. Cattle prices are likely to come under pressure in 2017 in response to higher US supply and improved South American access, with this pressure likely to intensify as it dries out in the event of a hot and dry start to summer. While our 2016-17 price forecast for beef remains in positive territory, there is likely to be more pressure in 2017-18.

Dairy prices strengthened in November, and we have adjusted our price forecasts accordingly. While our forecasts do not present much in the way of further upside in USD terms, the recent gains have been large enough to support prices at a farmgate level.

Our outlook for agricultural production is highly reliant on the climate outlook. Last month we noted uncertainty around winter crop production given heavy spring rains across eastern Australia but more recent information points to the harvest so far bringing in very high yields. This month we have raised our wheat production forecast to 29.4 million tonnes, close to record production. There is potential for further upside, above 30 million tonnes, although there are reports that quality has taken a hit.

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

## PRODUCTION, PRICE AND EXPORT FORECASTS (AUD)

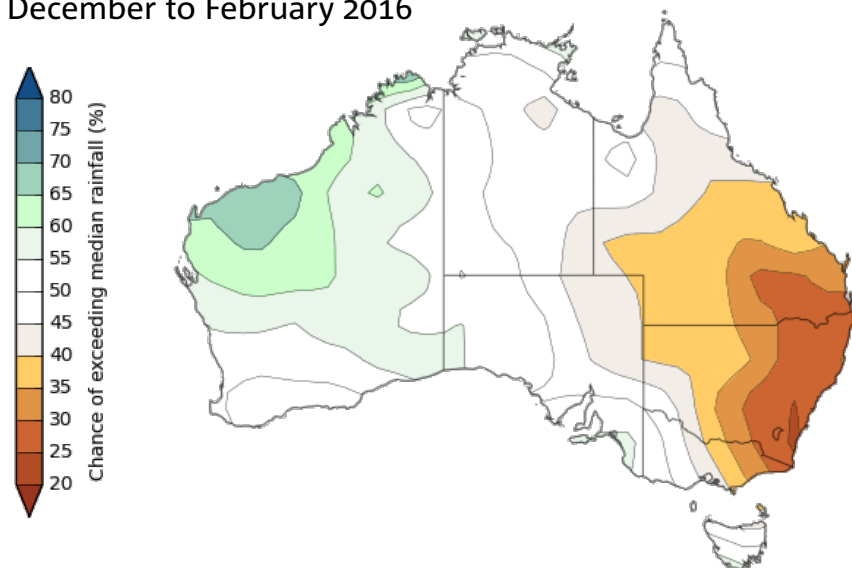
	Production change		Price change		Export value change	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Wheat	▲ 1.9%	▲ 21.7%	▼ 2.7%	▼ 15.4%	▼ 7.8%	▼ 1.4%
Beef	▼ 12.0%	▼ 9.5%	▲ 43.7%*	▲ 7.8%*	▼ 6.5%	▼ 9.5%
Dairy	▼ 2.0%	▼ 2.3%	▼ 5.0%	▲ 26.3%	▲ 4.5%	▲ 23.4%
Lamb and mutton	▼ 1.2%	▼ 6.4%	▲ 4.7%*	▲ 2.1%*	▼ 6.9%	▼ 5.8%
Wool	▼ 5.4%	▼ 1.0%	▲ 14.4%	▲ 6.9%	▲ 4.1%	▲ 5.9%
Sugar	▲ 7.6%	▲ 3.7%	▲ 13.1%	▲ 26.4%	▲ 15.2%	▲ 29.8%
Cotton	▲ 12.1%	▲ 51.2%	▲ 11.2%	▲ 11.1%	▼ 18.7%	▲ 44.7%

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



## THREE MONTH RAINFALL OUTLOOK

December to February 2016



The Bureau of Meteorology (BoM) three month rainfall outlook for the summer points to hot and dry conditions Australia-wide in December, persisting into January and February in the east while the west may see average to above average rainfall later in the summer.

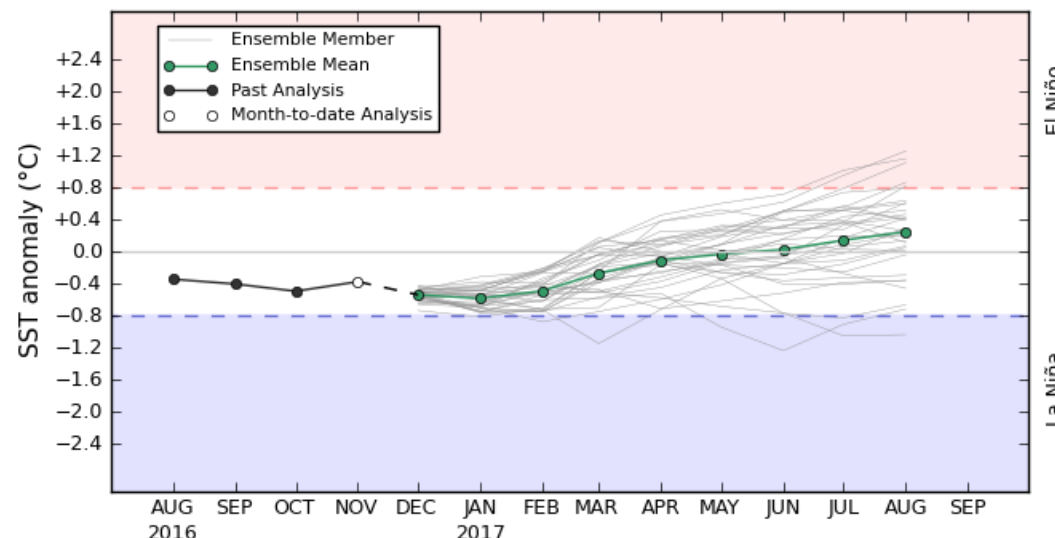
A wet spring across much of south-eastern Australia has seen plentiful pasture growth, which should persist into early summer in some areas where root-zone soil moisture is above average. Queensland, however, looks set to suffer, with soil moisture below average and hot conditions expected.

High fuel loads across much of Victoria, New South Wales, south-east South Australia and Tasmania raises the prospect of a bad fire season.

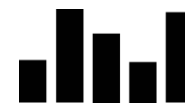
Source: Bureau of Meteorology

## BOM POAMA MODEL LONG-RANGE EL NINO OUTLOOK

Monthly mean NINO 3.4 – 20 November 2016



The Bureau of Meteorology's long range outlook for El Niño points to a return to neutral conditions, moving somewhat closer to El Niño by late winter 2017. Although the BoM ENSO tracker remains on La Niña watch (theoretically placing the chance of a La Niña event at around 50%), BoM notes that it is unlikely for a La Niña to develop this late in the season.



## NAB AUSTRALIAN ECONOMIC FORECASTS

Per cent change calendar year on year

	2016	2017	2018
Real GDP	2.8	2.7	2.6
Terms of trade	-1.6	3.0	-5.5
Unemployment rate (year end)	5.6	5.6	5.6
Consumer Price Index (core)	1.5	1.9	2.0
RBA cash rate (year end)	1.5	1.0	1.0

## NAB GLOBAL ECONOMIC FORECASTS

Per cent change calendar year on year

	2016	2017	2018
United States	1.5	2.1	1.9
Euro-zone	1.6	1.5	1.6
Japan	0.5	0.6	0.6
China	6.6	6.5	6.3
Emerging East Asia	3.7	3.6	3.5
World GDP	2.9	3.2	1.9

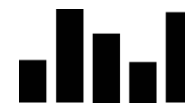
For more detail, see our [Global](#) and [Australian](#) Forecasts

Financial markets had not priced-in a Trump victory in the US Presidential election and are now working through what it means for likely US fiscal, tax, monetary and trade policy. We are still assessing the quantum and timing of such aspects of Mr Trump's pre-election policy as business and personal tax cuts as well as increased infrastructure spending. We are reviewing how suggested trade measures such as moves against "unfair" Chinese trade and the re-negotiation of existing free trade deals will proceed. The next few weeks should hopefully deliver more clarity on these measures, enabling us to include their effects in our forecasts of output and inflation.

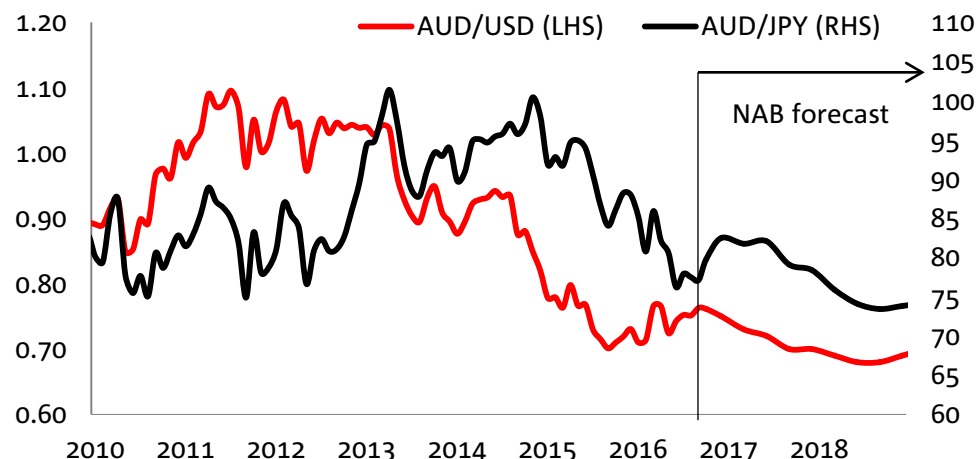
In Australia, there has been a loss of momentum in some key high frequency indicators, but at this stage, the deterioration is not yet enough to warrant a significant change in the outlook. Our real GDP forecasts have been revised slightly, mainly due to lower starting point for Q3 2016 with partial data suggesting a large subtraction from net exports. We now expect real GDP growth of 2.8% in 2016, 2.7% in 2017 and 2.6% in 2018. The unemployment rate is expected to hover between 5.5% and 5¾% through the forecast horizon. These forecasts are somewhat more cautious than the RBA, especially in 2018. Further growth in coking coal prices has raised our 2016-17 forecasts for the terms of trade and nominal income in recent months. These forecasts were finalised prior to the US election, and do not incorporate the impact on financial markets, the global economy or Australian economy from the result.

Source: NAB Group Economics

# EXCHANGE RATES AND INTEREST RATES



## MONTHLY EXCHANGE RATES AND QUARTERLY FORECASTS



Recent USD strength has overwhelmed support from improved risk sentiment and higher bulk commodity prices to drive a downside range-break in AUD/USD. We maintain our AUD/USD forecasts but flag downside risks. Looking into 2017, our forecasts show the AUD falling to 0.72 by mid-year and 0.70 by end-2017. We see the AUD falling into the high 60s in 2018.

We expect two 25bp cuts to the cash rate in May and August 2017 (to a new low of 1%). Monetary policy deliberations may then turn to the possible use of nonconventional policy measures if the outlook deteriorates further, although that is not in our forecast.

## NAB FX STRATEGY TARGETS

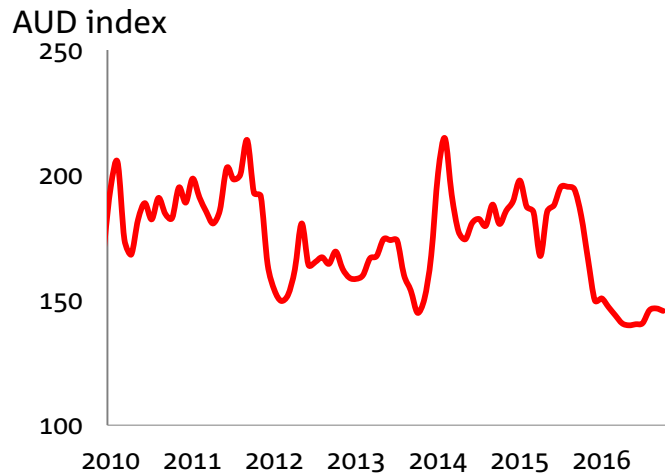
	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3
AUD/USD	0.75	0.73	0.72	0.70	0.70	0.69	0.68	0.68
NZD/USD	0.72	0.70	0.68	0.67	0.67	0.68	0.68	0.69
USD/JPY	110	112	114	113	112	110	109	108
EUR/USD	1.02	0.98	1.00	1.02	1.04	1.05	1.06	1.08
USD/CNY	6.95	7.20	7.24	7.18	7.17	7.18	7.16	7.15
AUD TWI	66.1	66.3	65.9	63.8	63.5	62.4	61.1	60.6

Source: NAB

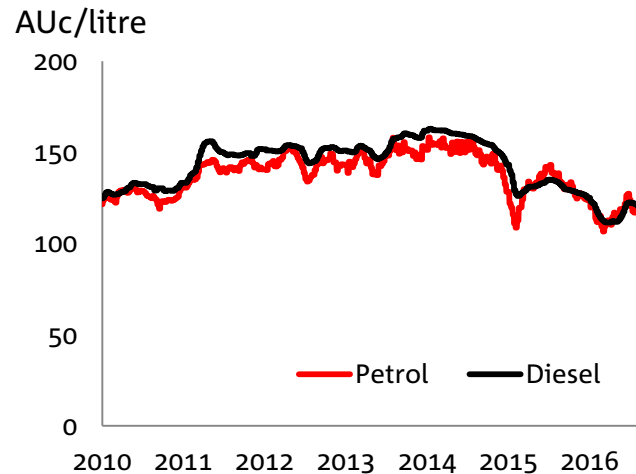
# FARM INPUT PRICES



## NAB FERTILISER INDEX

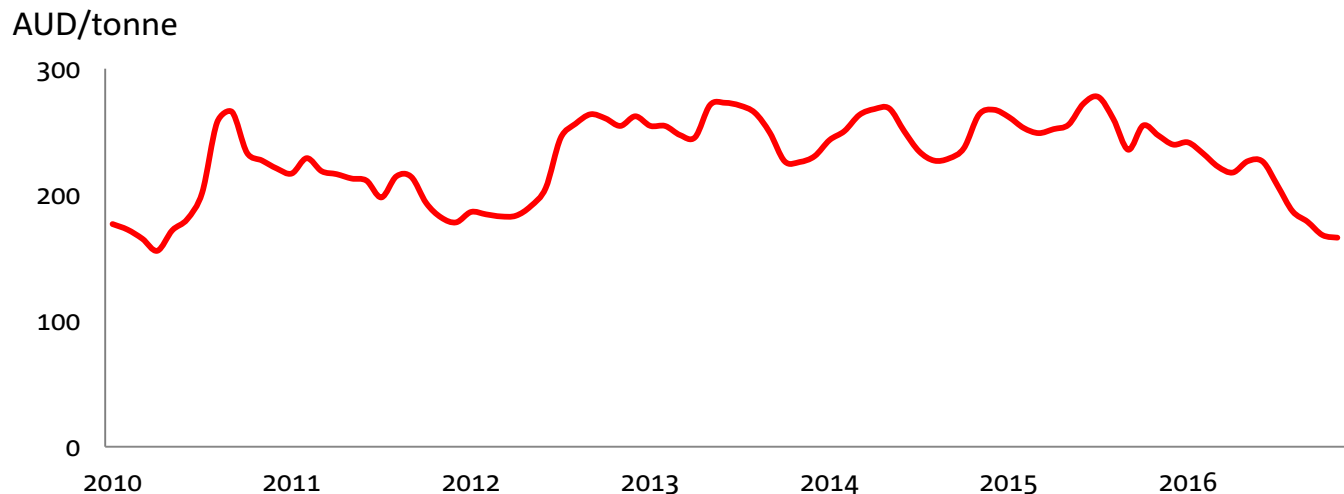


## NATIONAL AVERAGE FUEL PRICES



The drop in global fertiliser prices of late 2015 looks to have ended for now, with relative stability in fertiliser prices since early this year. October saw the NAB fertiliser index drop 0.7% on lower DAP and urea prices. The trajectory for fertiliser in 2017 will depend in part on oil prices. Oil prices are expected to recover gradually over the medium term, but OPEC's agreement on 30 November to cut production is likely to be a greater driver in the short term. Prices are already up nearly 10% on the decision.

## NAB WEIGHTED FEED GRAIN PRICE INDEX



The decline in feed grain prices looks have slowed for the time being, although with Australia on track for a near record winter crop combined with greater than normal downgrades to feed quality it is easy to see prices falling further in the new year. Prices are likely to be further pressured by a bumper hay season in eastern Australia.

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

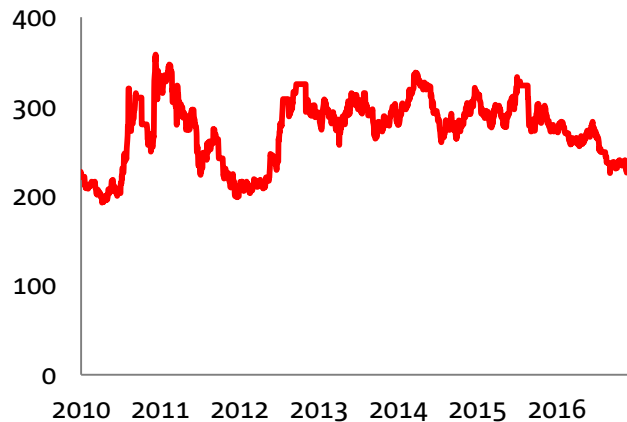
Source: Bloomberg, Profarmer and NAB Group Economics





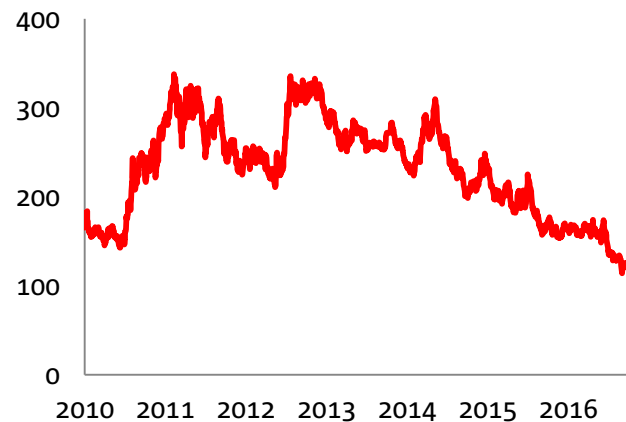
## GENERIC 1ST MILLING WHEAT

Eastern Australia, AUD/tonne



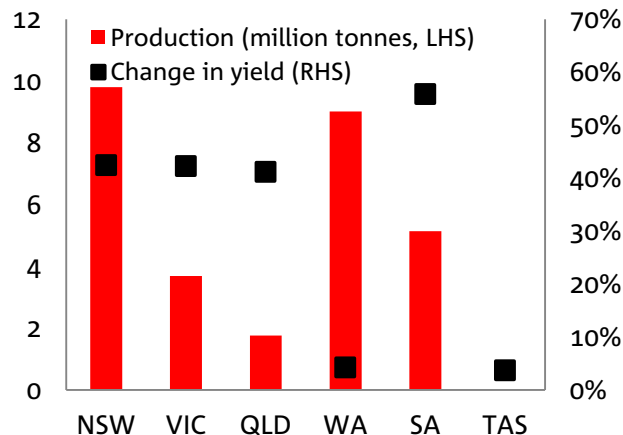
## CBOT SOFT RED WINTER WHEAT

USD/tonne



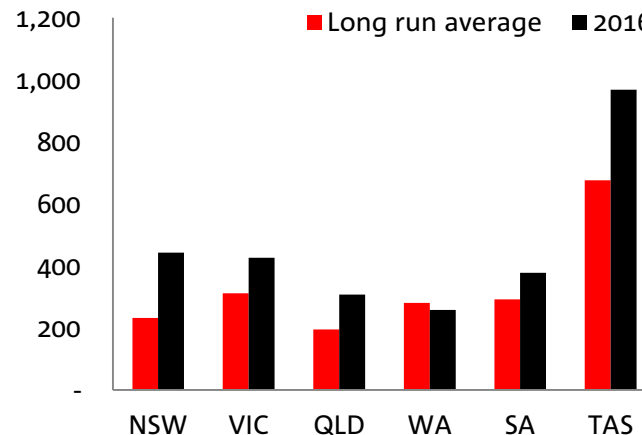
## WHEAT PRODUCTION OUTLOOK

Production and change in yield



## SEASONAL RAINFALL IN WHEAT REGIONS

Total average rainfall April-September, mm



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

## Prices

The steady downward trend in USD denominated global wheat prices over the last four years has abated of late, although it is difficult to see an upside with global supplies so plentiful. Combined with favourable shipping costs and low production costs in the Black Sea region, Australia will remain under substantial pressure beyond harvest. Generic 1st Eastern Australian milling wheat was up 1.1% in October but is off 1.6% in November.

## Production

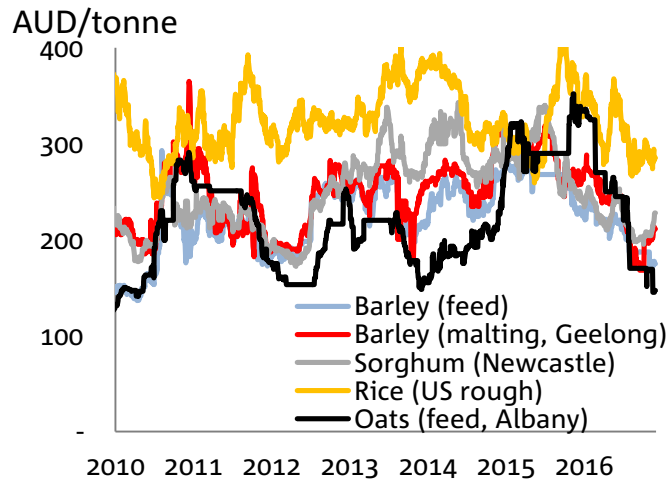
We have increased our wheat production forecast to 29.4 million tonnes for the 2016-17 season, just shy of the 2011-12 record and 21.7% higher than last season. Much of the increase will come from New South Wales, South Australia and Victoria, with the Western Australian harvest likely to be flat.

While the headline production figure is likely to be very large, the quality of the crop is likely to take a hit, with elevated downgrades, especially in the east where late rains were widespread.

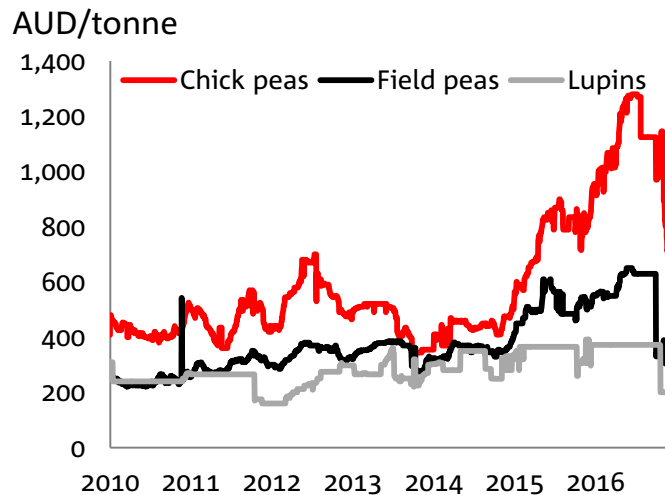
# OTHER BROADACRE CROPS



## SELECTED COARSE GRAINS

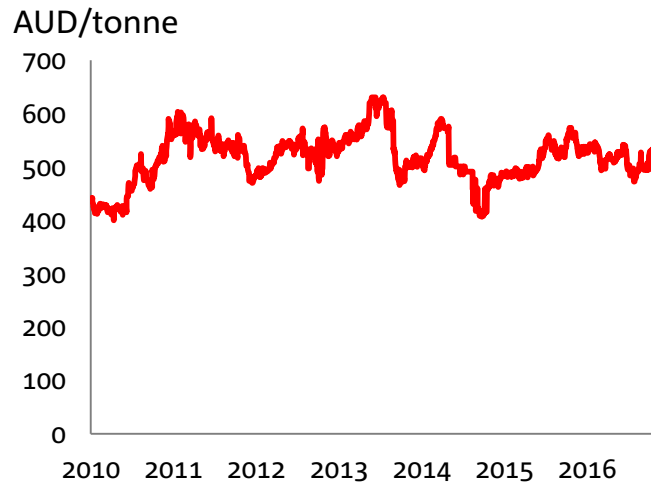


## SELECTED PULSES

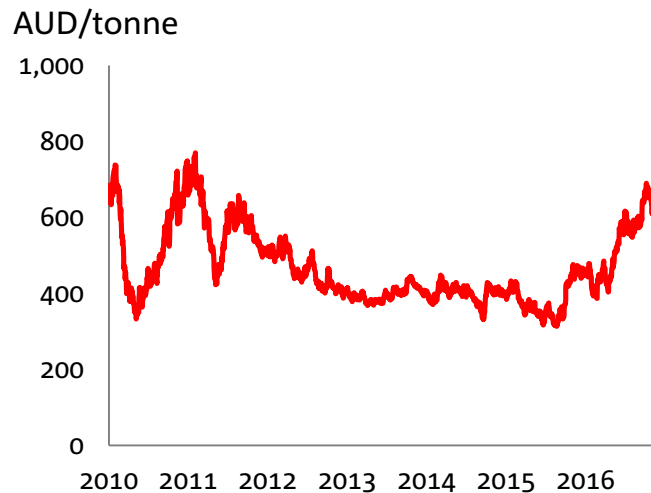


Source: Bloomberg, Profarmer and NAB Group Economics

## CANOLA, NEWCASTLE NSW



## ICE NO.11 SUGAR



Australian coarse grain prices have mostly followed broad trends set by wheat this year, reflecting a dependence on movements in the AUD. Some data point to light trading of old season crop, with new crop starting to become available. Sorghum (Newcastle) was up 4.2% in November, while barley (feed, generic) fell 7.2%. Rice is 3.7% lower and oats are off 5.7% in November.

Domestic canola continues to perform, up 6.9% in October and 1.0% in November. With canola remaining in the high AUD400s to low 500s over the last several months, those who planted canola should see a strong premium compared to wheat this season, although challenging weather may affect yields.

Earlier this year, we foreshadowed the prospect of steep declines in chick pea and lentil prices in response to higher plantings and yields in India after two poor seasons. This decline has come faster than expected, with chick peas now trading in the AUD6-800 range, after reaching over AUD1,200/tonne as recently as July.

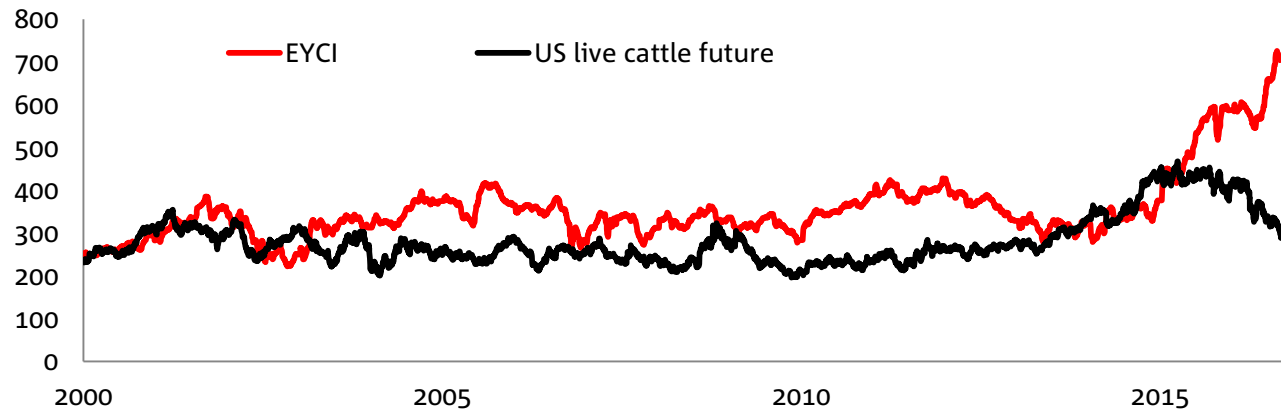
Global sugar prices have taken something of a breather, declining 7.9% in November. However, we note that the trend remains positive for the year, suggesting better returns for growers.





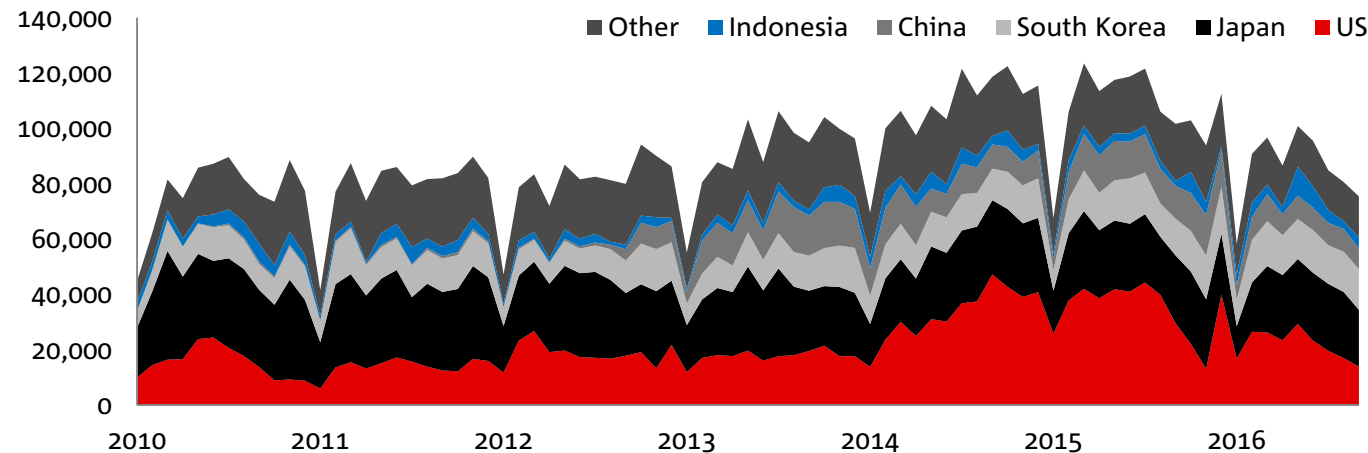
## EASTERN YOUNG CATTLE INDICATOR AND US CATTLE FUTURES

AUc/kg



## MONTHLY AUSTRALIAN BEEF EXPORTS

Tonnes swt



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

Cattle prices continue to fall, with the EYCI now in the mid-640s, quite a retreat from the peak of almost 726AUc/kg reached in mid-August this year. This movement is in line with a seasonal increase in supply, although expectations of a dry summer and concerns about Australian competitiveness in key export markets is also a factor in the decline.

The bigger question is to what extent this decline presages a greater contraction in the new year. It has been our view for some time that the international beef outlook is now much weaker than in 2014 and 2015.

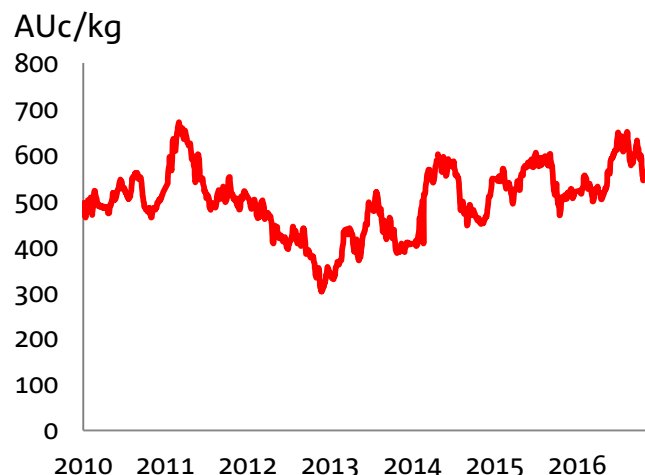
While the US market has seen some upside recently, overall it paints a sobering picture for the industry. Australian 90cl cow meat into the US has recovered somewhat of late, at 575.82AUc/kg last week. However this remains well off the peak in September last year of 739.54AUc/kg. Meanwhile, US cattle futures on the Chicago Mercantile Exchange remain well below their 2015 peak even in AUD terms and low feed prices, especially for corn, have improved input costs for US cattle producers.



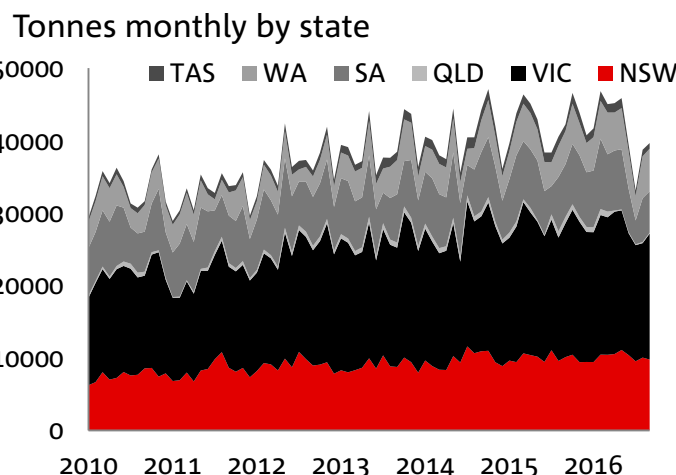
# LAMB, PORK AND POULTRY



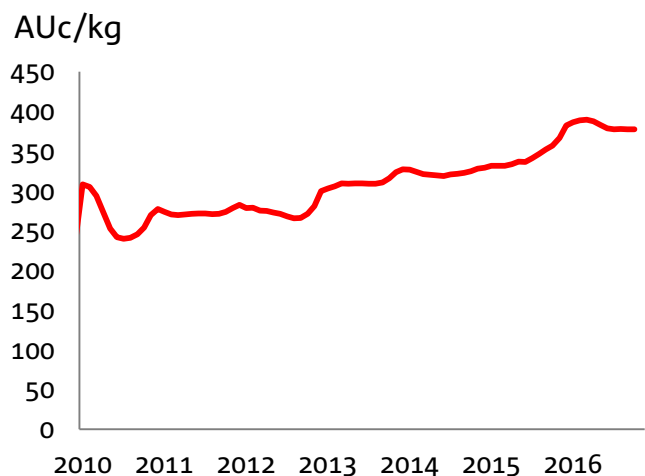
## NATIONAL TRADE LAMB INDICATOR



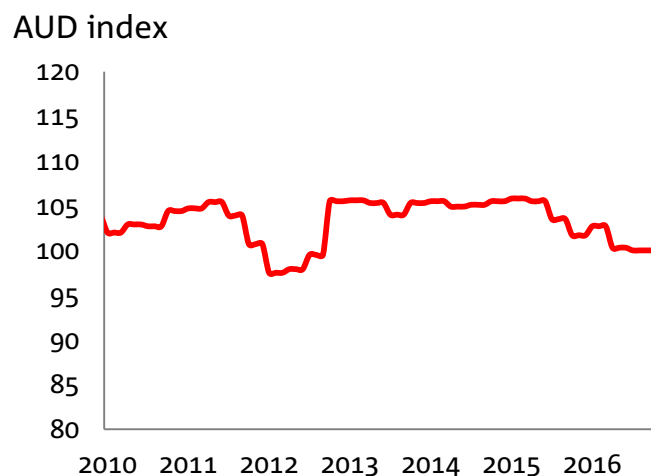
## MONTHLY LAMB PRODUCTION



## AUSTRALIAN PORK PRICE INDICATOR



## ABS POULTRY PRICE INDEX



The Australian lamb industry continues to enjoy broadly favourable conditions, and we remain upbeat in our assessment of the industry. The seasonal spring price fall came later than normal as producers took advantage of a wet spring to rebuild flocks after a some years of elevated slaughter. While prices have now fallen to slightly higher than the same time last year, the trend since 2012 remains positive. We expect stable to moderately higher prices into next year, continuing the good run since 2013. 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.

Australian wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) have flat-lined after some movement earlier in the year (albeit in an industry that generally sees relatively little volatility). Prices were up 0.1% in October and are unchanged this month.

Retail poultry prices have remained reasonably stable since late 2012. National retail prices fell 0.3% in the September quarter 2016.

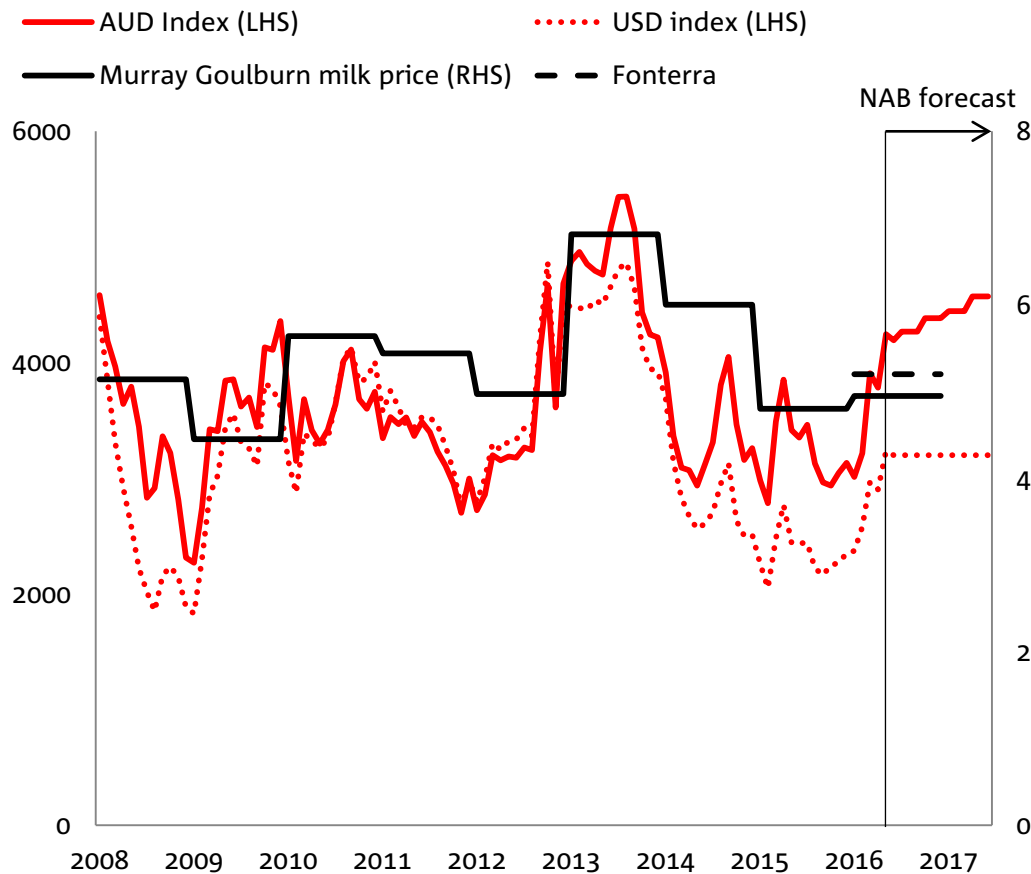
Source: Meat and Livestock Australia, Australian Pork, Australian Bureau of Statistics and NAB Group Economics



## NAB WEIGHTED DAIRY EXPORT PRICE INDICATOR

\$/tonne (export price, LHS)

AUD/kg milk solids (farm gate price RHS)



Global dairy markets are enjoying something of a surge, with the NAB weighted dairy export price indicator up 12.2% in November in AUD terms.

We upgraded our forecasts for dairy last month and we upgrade them again this month. This upgrade reflects buoyant Global Dairy Trade auction results on more constrained international supply conditions. New Zealand raw milk deliveries contracted 5.5% yoy in October, although US supply was up 2.5% yoy for the month. There are also tentative signs that EU production may be peaking.

Although our forecasts do not point to major upside in global markets in USD terms from here, we expect a small depreciation in the AUD which should provide some upside. While it remains to be seen whether this will flow through to farmgate prices, signs such as Fonterra New Zealand's recent farmgate price forecast of NZD6/kg milk solids are encouraging for Australian producers.

Australian production is well down on the same time last year – in October, Australian raw milk deliveries fell 11.4% yoy. While part of this was due very wet conditions in northern Victoria, it is clear that the tumult of the last year has affected supply. This is likely to cause difficulties for processors and could provide further impetus to support prices at a farmgate level.

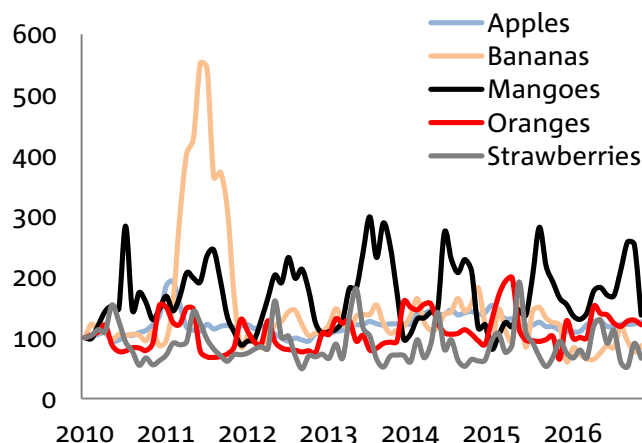
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, Fonterra, Murray Goulburn, ABC and NAB Group Economics

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



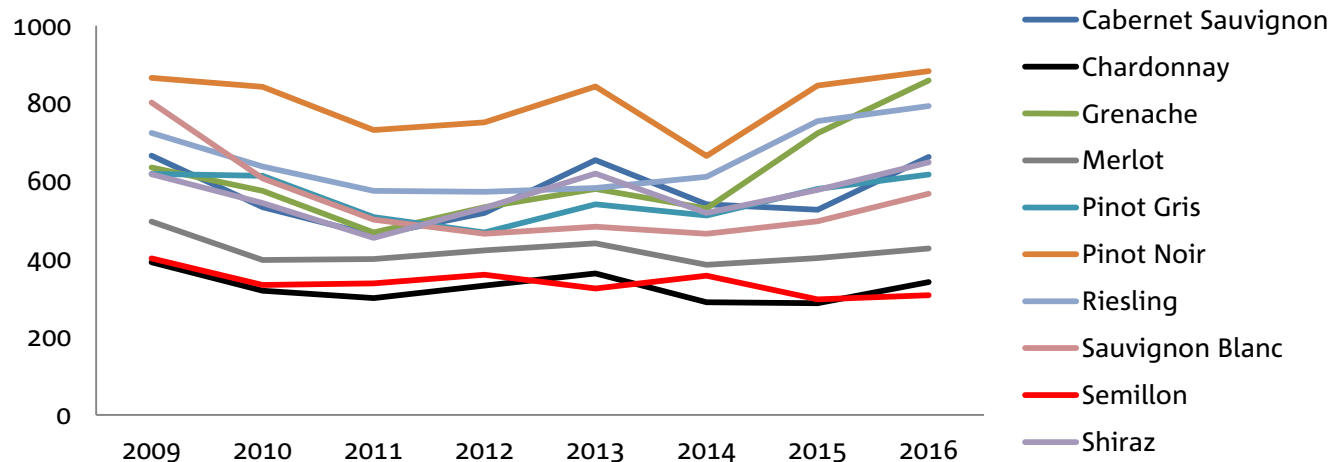
## WHOLESALE FRUIT PRICES

AUD index, Sydney and Melbourne



## NAB WEIGHTED WINE GRAPE PRICES

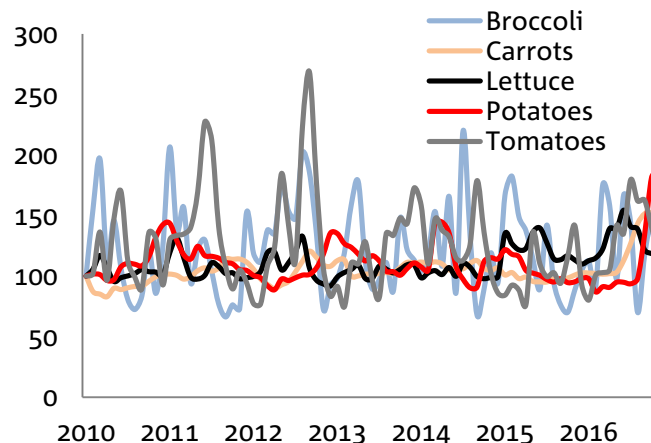
AUD/tonne



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 were mixed in October and down in November. Fruit prices tumbled 17.0% to an index value of 109.0 (January 2010 = 100). This largely reflects seasonal factors in the mango industry. Vegetables fell 7.5% to an index value of 135.1 (January 2010 = 100). ABS data indicates that retail fruit prices rose almost 20% in the September quarter 2016.

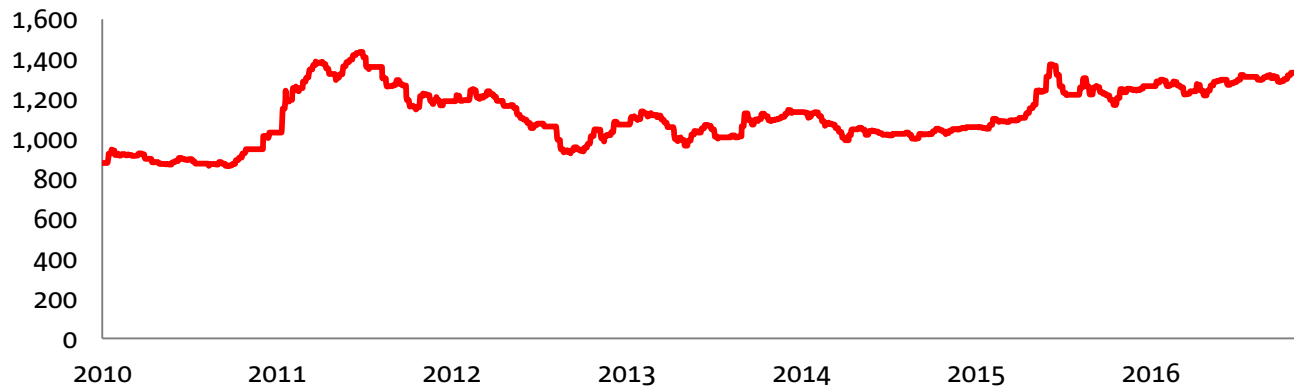
Wine Australia's 2016 Price Dispersion Report, shows further strengthening in wine grape prices in the 2016 vintage, reflecting the rewards of a lower AUD. Overall, wine grape prices for major varieties were higher to much higher. Cabernet Sauvignon was a standout performer, up 26% from last season.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





## WOOL – EASTERN MARKET INDICATOR

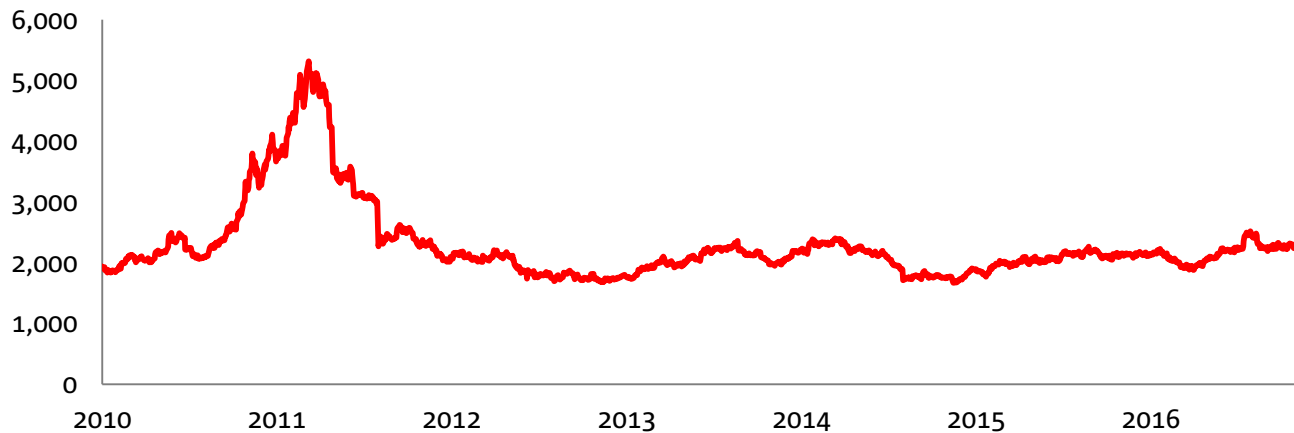
AUc/kg



Confidence returned to the wool industry this year following several years of unfavourable prices. The moderate price upturn enjoyed by wool producers has stabilised more recently on continued AUD strength has put a brake on the price rally (wool is quite sensitive to movements in the dollar), however the recent downside break may presage more favourable currency conditions in the new year. The Eastern Market Indicator rose 1.0% in October but has been flat so far this month. We forecast that prices will increase 6.9% in 2016-17.

## COTLOOK A INDEX

AUD/tonne



The higher prices are forecast to offset lower production in 2015-16 and provide some production incentive to wool growers in 2016-17. We forecast the value of Australian wool exports to increase 5.9% in 2016-17.

Global cotton prices have been quite stable, with a moderate uptrend over the last month. Cotlook A was up 0.5% (AUD) in October and a further 1.5% this month.

Source: Bloomberg and NAB Group Economics