

# RURAL COMMODITIES WRAP

APRIL 2017

Author Phin Ziebell, Agribusiness Economist



# CONTENTS

3		Price update: NAB's Rural Commodities Index
4		Regional price indicators
5		Outlook for the coming year
6		Climatic conditions
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

**Justine Dimond**  
Senior Consultant  
+61 (0) 455 085 137

## 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.

# PRICE UPDATE: NAB'S RURAL COMMODITIES INDEX



The NAB Rural Commodities Index is an index of 28 agricultural commodities weighted by the relative size of each commodity in the Australian agricultural sector.

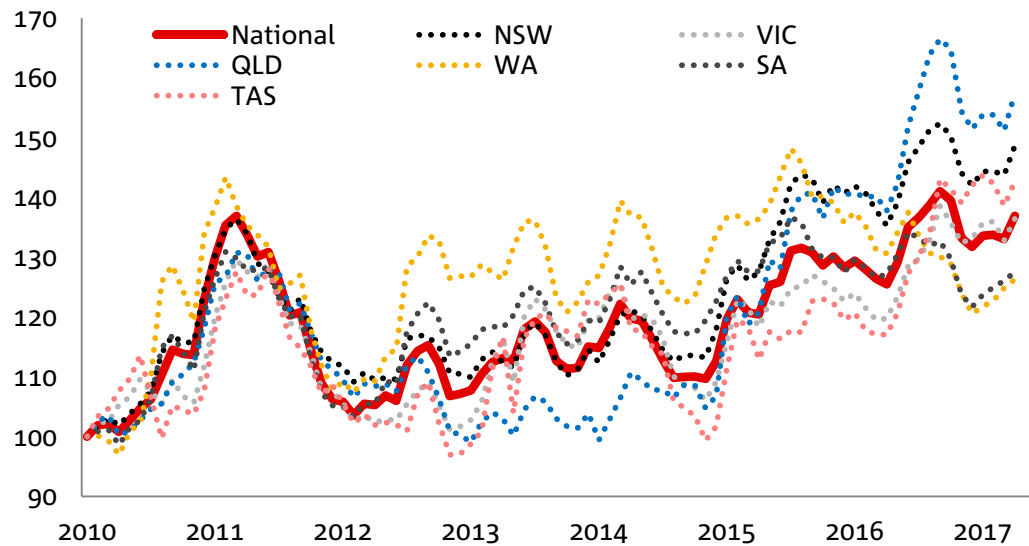
In addition to the national indicator, we publish state-level indicators, reflecting the particular composition for each state. We have further expanded the index this month, releasing for the first time detailed regional price indicators (see page 4). We will further build on and improve these regional indicators as the year progresses.

Overall, the index rose 4.1% in April, reflecting higher beef, lamb, chick pea and vegetable prices. While sugar and pork prices fell and grains were mixed, these falls were not enough to offset the strong gains elsewhere.

At a state level, New South Wales was up 3.7% while dairy-heavy Victoria rose 4.0%. Queensland with its large cattle industry saw the index rise 5.3%, the biggest monthly gain since June 2016. Grain-dependent Western Australia was up 1.7% and South Australia rose 2.7%. Tasmania saw prices jump 5.6%.

## NAB RURAL COMMODITIES INDEX

Agricultural price index, 2010 = 100



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

## MONTHLY AUD PRICE CHANGES – SELECTED COMMODITIES

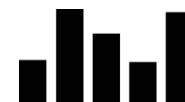
Monthly average price change

	February 2017	March 2017	April 2017
Wheat	▲ 0.1%	▲ 3.7%	▲ 0.4%
Beef	▼ 1.5%	▼ 2.9%	▲ 6.4%
Dairy	▼ 5.6%	▼ 11.0%	▲ 2.0%
Lamb	▲ 5.9%	▼ 1.8%	▲ 6.6%
Wool	▲ 2.5%	▲ 6.2%	▼ 1.8%
Sugar	▼ 3.3%	▼ 11.0%	▼ 8.0%
Cotton	▲ 0.7%	▲ 2.5%	▲ 1.0%





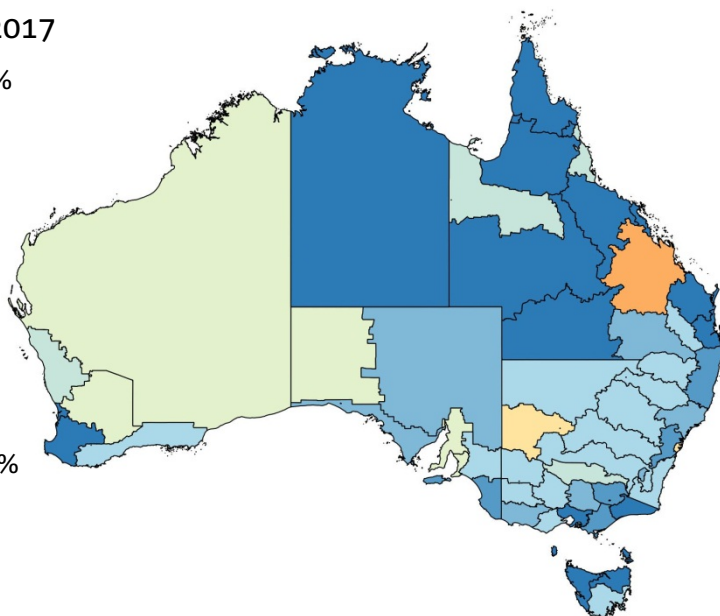
# REGIONAL PRICE INDICATORS



## MONTH ON MONTH

March to April 2017

- more than 5%
- 4-5%
- 3-4%
- 2-3%
- 1-2%
- 0-1%
- no data
- + 0-1%
- + 1-2%
- + 2-3%
- + 3-4%
- + 4-5%
- + more than 5%



This month NAB Economics introduces new regional price indicators, in effect a separate NAB Rural Commodities Index for every region in Australia. The data is based on state natural resource management regions (rather than ABS SA4 regions) to match agricultural regions as well as possible.

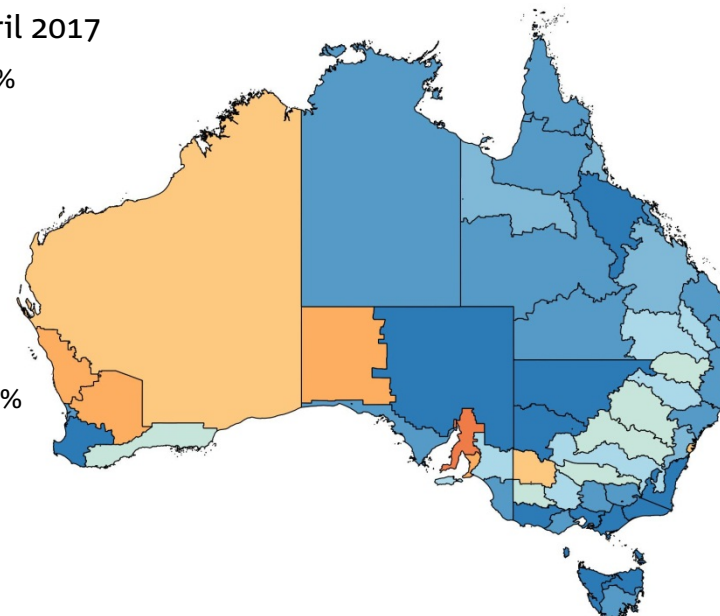
As this is a new offering, it is important to point out some of the limitations of the data. Due to complexity, most price series are national and local grain prices at port and state over the hooks indicators for livestock are not included. This is not a major issue as local prices for grains and livestock tend to move with national data (with the exception of some cattle price indicators).

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

## YEAR ON YEAR

April 2016 to April 2017

- more than 20%
- 15-20%
- 10-15%
- 5-10%
- 0-5%
- no data
- + 0-5%
- + 5-10%
- + 10-15%
- + 15-20%
- + more than 20%



Horticulture presents something of a challenge given data limitations and highly specialised regions. This will be an area for further consideration over the coming year.

Likewise, it is important to note that dairy prices are based on NAB's dairy export price indicator, rather than farmgate prices. With farmgate prices lagging global developments (especially since mid-2016), these maps show greater volatility than generally occurs at farmgate level.

# OUTLOOK FOR THE COMING YEAR



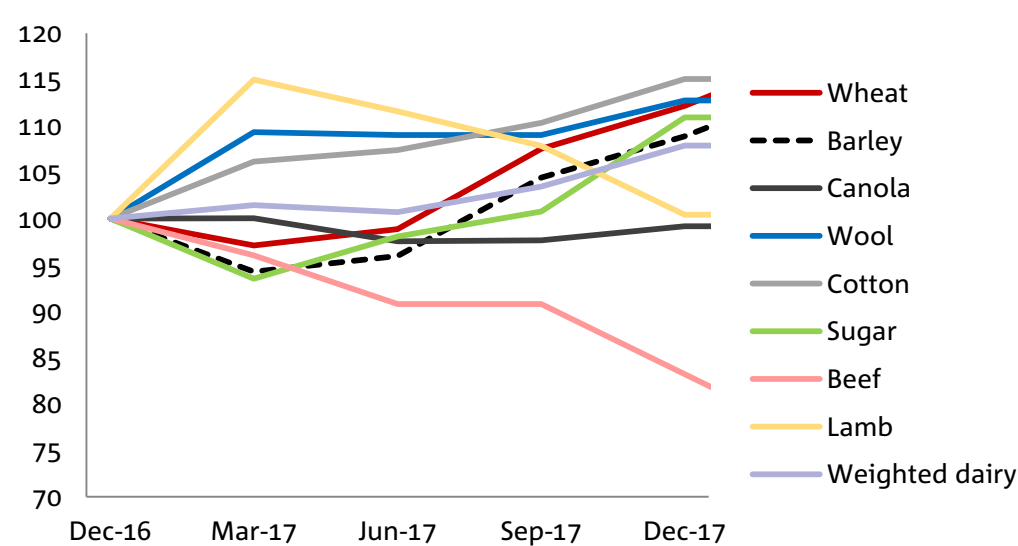
## Prices

The outlook for the coming year is highly dependent on the course of the Australian dollar, although we still expect the AUD to fall to 70 US cents at the end of 2017, providing some upside towards the end of the year. We see the 70 cent mark as a low point for the AUD, with the currency to remain around that level well into 2018.

Weather will also be a key driver of livestock prices. Good rain across parts of Queensland and New South Wales has boosted restocker interest for cattle, pushing prices higher. If drier weather returns (as is forecast by the Bureau of Meteorology) there may be a faster downside in saleyard prices.

## INDEX OF PRICE FORECASTS FOR RURAL COMMODITIES

AUD index value, December quarter 2016 = 100



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

## Production

The outlook for production remains somewhat mixed. Last year, winter crops had a generally spectacular season, with a record 35 million tonnes of wheat harvested. It will be extremely difficult to match this again this season. While the much drier outlook for the coming year is likely to see downward pressure in the 2017-18 season, better than expected rainfall in autumn has left grain growers in a better position than had been forecast previously.

ABARES forecasts point to lower production for major proteins in 2016-17 but a rise in 2017-18. We continue to see some pressure in line with a need to rebuild herds and flocks. For dairy, low prices are the primary driver for lower milk production.

## ABARES PRODUCTION OUTLOOK

Financial year production estimates, Australia

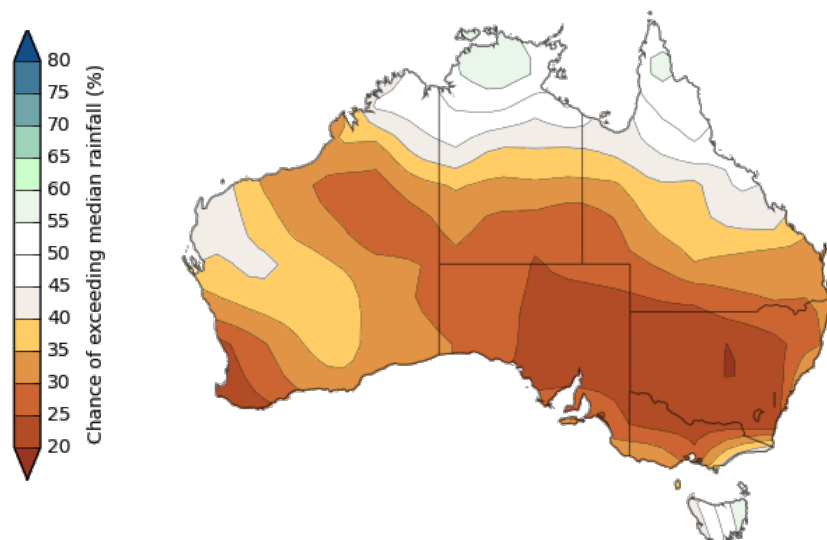
	2016-17	2017-18	% change
Wheat (million tonnes)	35.1	24.0	▼ 31.7%
Beef (kt)	2,140	2,091	▲ 2.9%
Dairy (milk, billion litres)	8.8	9.0	▲ 1.7%
Lamb and mutton (kt)	661	663	▲ 0.4%
Wool	415	427	▲ 3.1%
Sugar (kt)	5,087	5,161	▲ 1.5%
Cotton (lint, kt)	1,029	1,117	▲ 8.5%





## THREE MONTH RAINFALL OUTLOOK

May to July 2016

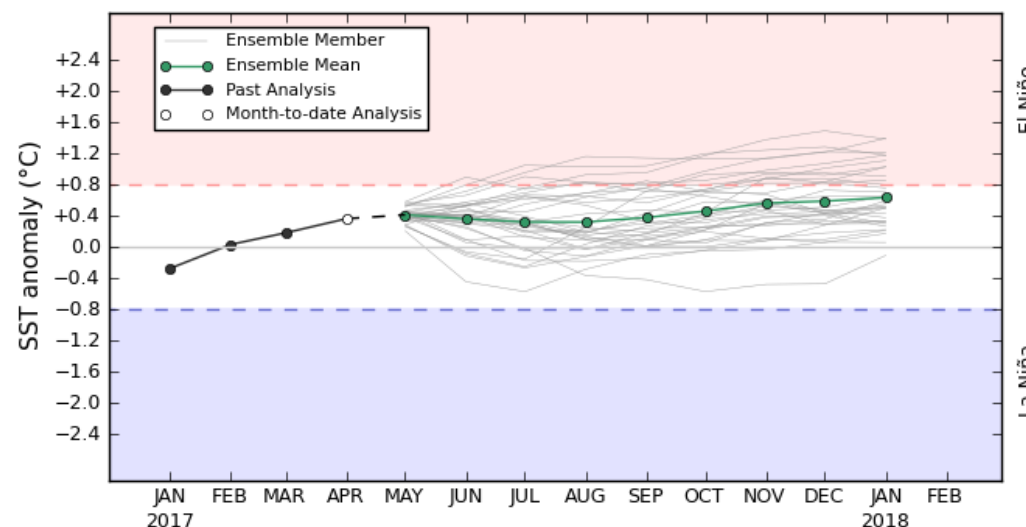


Despite forecasts of dry conditions, autumn has so far brought generally average to above average rainfall to much of Australia, although large areas of Queensland are still very dry and Tasmania has seen below average rainfall. However much of the rain has fallen across cropping districts, setting up good planting conditions for grain growers. The rain has also brought an uptick in cattle prices. The Bureau of Meteorology's climate outlook for the rest of autumn and into winter remains generally much drier than average outside the top end. While this is troubling, the higher than anticipated rainfall so far in autumn, combined with a less aggressive El Niño forecast track presents good news for farmers.

Source: Bureau of Meteorology

## BOM POAMA MODEL LONG-RANGE EL NINO OUTLOOK

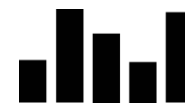
Monthly mean NINO 34 – 23 April 2017



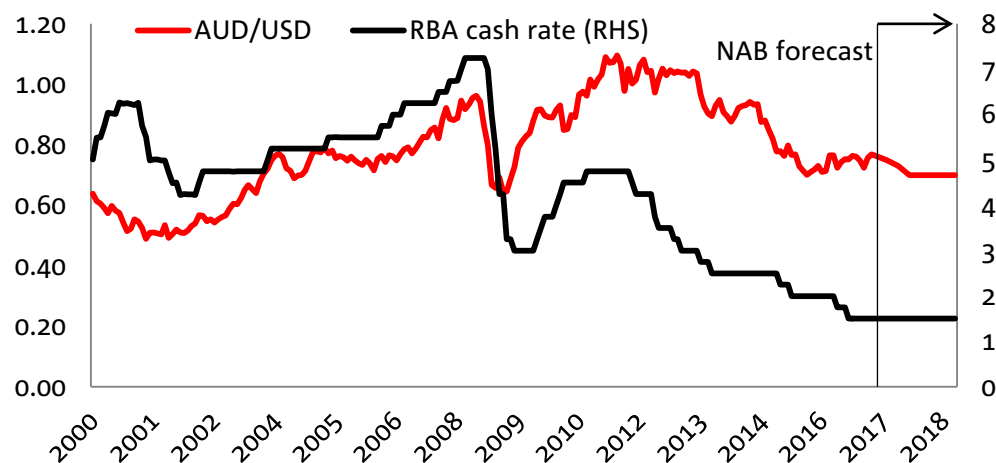
The El Niño outlook had been deep into El Niño territory for some months, although recent modelling from the Bureau shows the sea surface temperature anomaly forecast track back below the El Niño threshold throughout 2017. Nonetheless, most international models still point to El Niño developing by September this year. The Bureau of Meteorology is currently on El Niño watch, indicating an approximately 50% change of an event this year.

El Niño events tend to bring hotter and drier conditions on average to eastern and northern Australia. The impact of any given event is difficult to predict, but the 2006-07 El Niño saw Australian wheat production fall below 11 million tonnes. On the other hand Australia managed over 24 million tonnes in 2015-16 despite El Niño.

# EXCHANGE RATES AND INTEREST RATES



## EXCHANGE AND INTEREST RATES INC. QUARTERLY FORECASTS



## NAB FX STRATEGY TARGETS

	2017Q2	2017Q3	2017Q4	2018Q1
AUD/USD	0.75	0.73	0.70	0.70
NZD/USD	0.71	0.70	0.67	0.68
USD/JPY	114	116	118	120
EUR/USD	1.10	1.11	1.13	1.15
USD/CNY	6.92	6.96	6.97	7.00
AUD TWI	65.8	64.7	62.4	62.4

Source: NAB

AUD/USD has so far in April spent less than 3 hours above 0.76 and less than 48 hours beneath 0.75. The 25-year (or 100-quarter) moving average is 0.7550, adding to the appeal of the narrative – however simplistic – about the gravitational attractions of the 75 handle. AUD has though fallen on most crosses, notably against EUR and GBP on idiosyncratic political developments

Notwithstanding the low-volatility environment near 75 cents that has endured this month, there should be little doubt that there will be a break-out sooner or later. Whether it is to back above 0.76 or to below 0.75 is most likely to be driven by the broader US dollar trend than idiosyncratic AUD factors – unless of course we witness a major ‘risk-off’ episode or commodity prices relevant to Australia plummet (and not just the iron ore price). We continue to believe in a stronger US dollar this year and much of next, just not against the euro and euro-linked currencies. As such we continue to believe AUD/USD will trend lower in H2 2017.

Market pricing is shifting away from the probability of higher RBA rates over the next year. This follows the RBA’s post-meeting statement on 4 April which acknowledged the recent weakening in the labour market, while at the same time added further emphasis to the role of macro-prudential policy in curbing housing market excesses (ie. the growth of household indebtedness). This promoted the money market to remove any risk of higher RBA rates over the next year. At the start of last week, the implied probability was about one-third.

We expect the RBA to remain on hold through the remainder of 2017 and 2018, before rates are hiked gradually in 2019 as the economy experiences a gradual cyclical recovery in domestic demand, the unemployment rate eases slightly to around 5½% and underlying inflation returns to the 2-3% target.

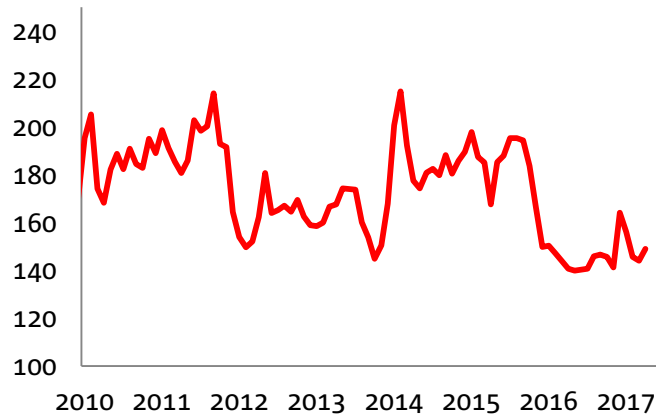


# FARM INPUT PRICES



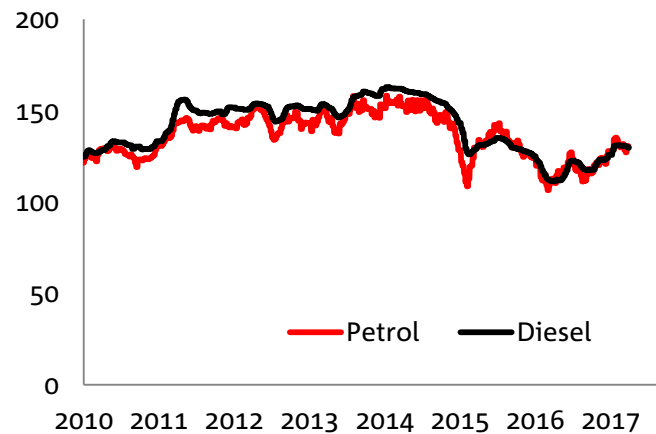
## NAB FERTILISER INDEX

AUD index



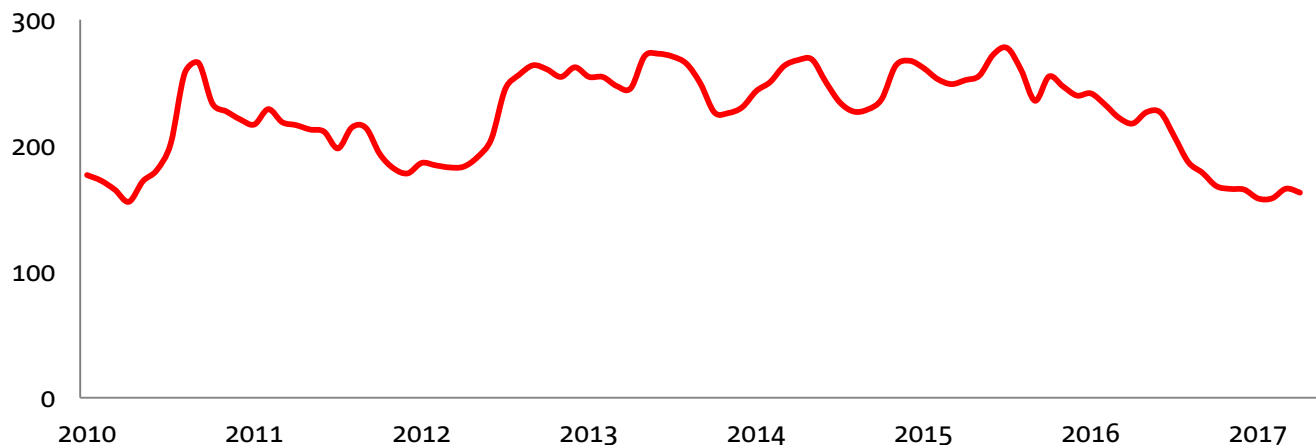
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



Source: Bloomberg, Profarmer and NAB Group Economics

Feed prices remain very low in the wake of a bumper grain and hay season across eastern Australia, although international market developments have seen some upside this month. NAB's weighted feed grain price index fell 1.9% in April to \$163/tonne and we see little upside in global grain markets this year amid exceedingly strong supply. Domestically, the combination of a record grain harvest and quality downgrades in some areas ensures that there will be ample feed grain for some time to come, although a dry winter could see stocks depleted with some speed. NAB's index includes feed wheat, barley, oats and sorghum. Three quarters of the indicator is made up of feed wheat and barley.

Fertiliser prices showed an increase in April, with the NAB index up 3.4% on higher US gas prices offsetting falls in urea and DAP. The most recent national fuel price data shows an average of 130.6c/litre for petrol and 128.9c/litre for diesel.

The trajectory of oil prices will be a key factor in both fuel and fertiliser prices this year. If prices rise slower than expected there may be a downside for retail prices. Recent data show oil struggling to break out of the low 50s range on improving US supply.

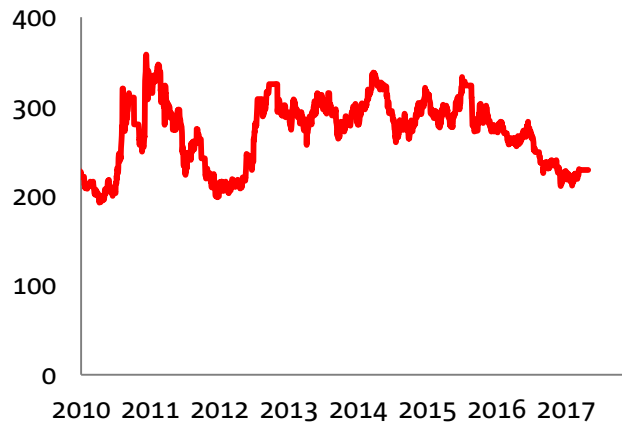


# WHEAT



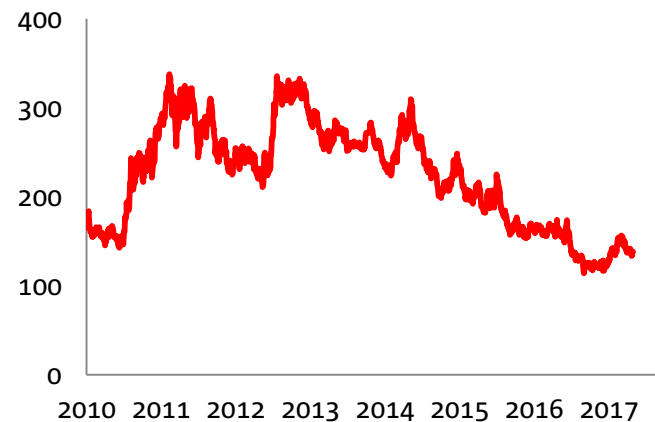
## GENERIC 1ST MILLING WHEAT

Eastern Australia, AUD/tonne



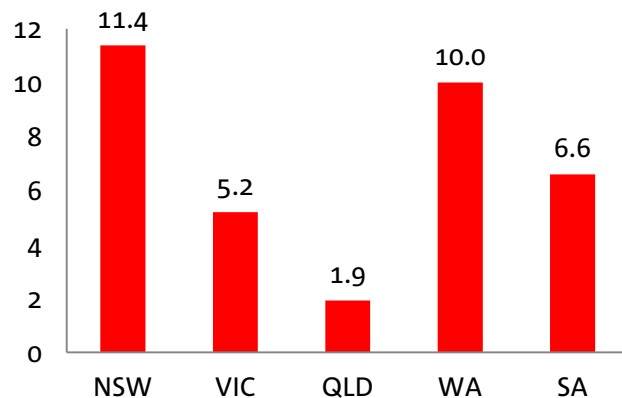
## CBOT SOFT RED WINTER WHEAT

USD/tonne



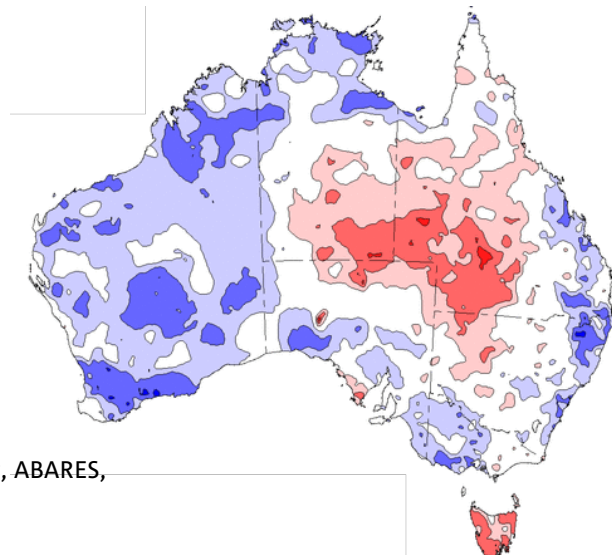
## WHEAT PRODUCTION BY STATE

ABARES February 2017 estimates



## RAINFALL – LAST THREE MONTHS

Deciles



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

## Prices

Freak snowstorms across parts of the US (mainly Oklahoma, Kansas and Colorado) since the weekend have seen uncertainty about the state of the hard red winter wheat crop surge. Prices jumped over 6% overnight as traders processed the news. Nonetheless, global wheat supplies remain abundant and it is too early to assess the damage in the US. It is unlikely that prices will sustain a rally unless supplies tighten. Australian wheat prices will depend heavily on the AUD, with our forecast of 70 cents by the end of the year contributing to our forecast that wheat prices will rise around 12% this year. If the AUD does not fall, upside for local (AUD) prices will be more limited.

## Production

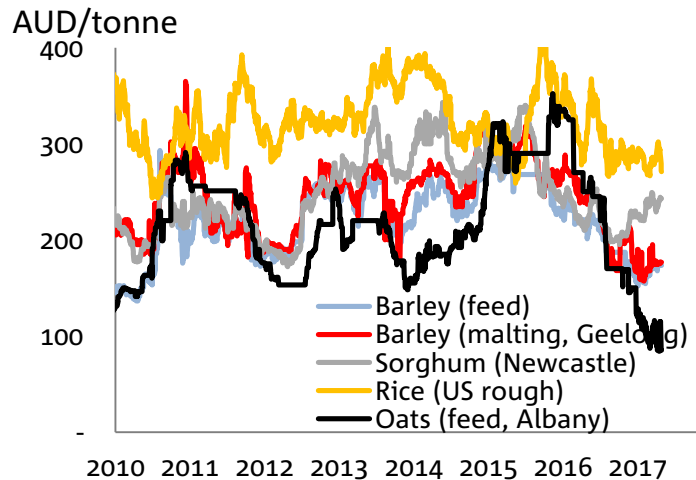
The dry outlook since early this year gave us much concern about the prospects for the 2017-18 season, although many areas have been lucky enough to enjoy a strong autumn break, with rainfalls sometimes well above average. The slightly lower prospect of El Niño in the BoM forecast track is also a positive, although international models still point to the event occurring in spring this year. El Niño events seldom deliver above average crops in Australia. In the coming weeks we will release our initial forecasts for Australian production.



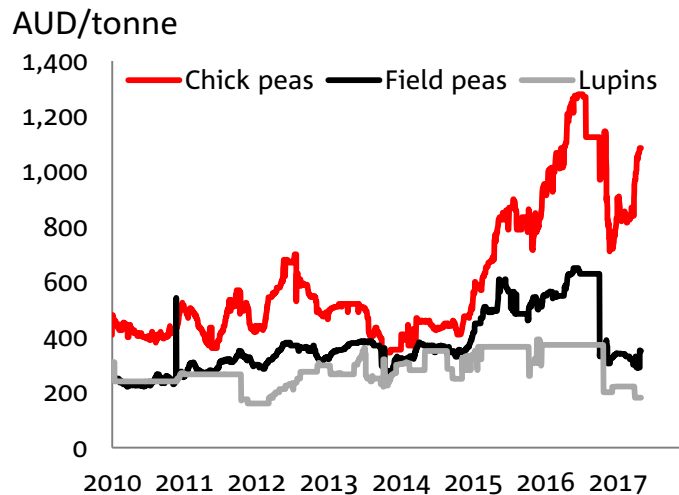
# OTHER BROADACRE CROPS



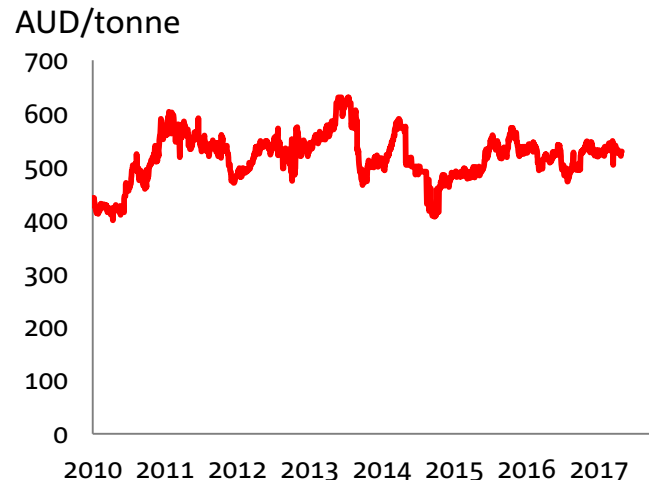
## SELECTED COARSE GRAINS



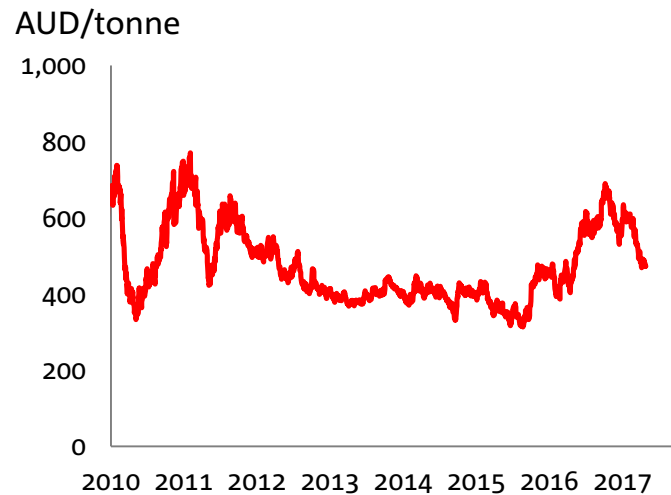
## SELECTED PULSES



## CANOLA, NEWCASTLE NSW



## ICE NO.11 SUGAR



Prices for most coarse grains remain mired in much the same situation as wheat. Strong global supply has seen prices tumble and the outlook is broadly similar to wheat for the coming year. Canola remains a stand-out, with prices holding up much better. The price premium for canola could see higher Australian plantings this year.

We have been cautious around the trajectory of chick pea prices for some time (they exceeded AUD1,200/tonne last year following two poor Indian monsoon seasons). With the return of more favourable conditions to India last year prices receded to the AUD800 range, but they have jumped this year, again surpassing AUD1,000/tonne. Although it is fair to say that our expectations around chick pea prices have not materialised, it is unlikely that these prices are sustainable. Nonetheless, chick peas are likely to remain more expensive than alternative crops this season.

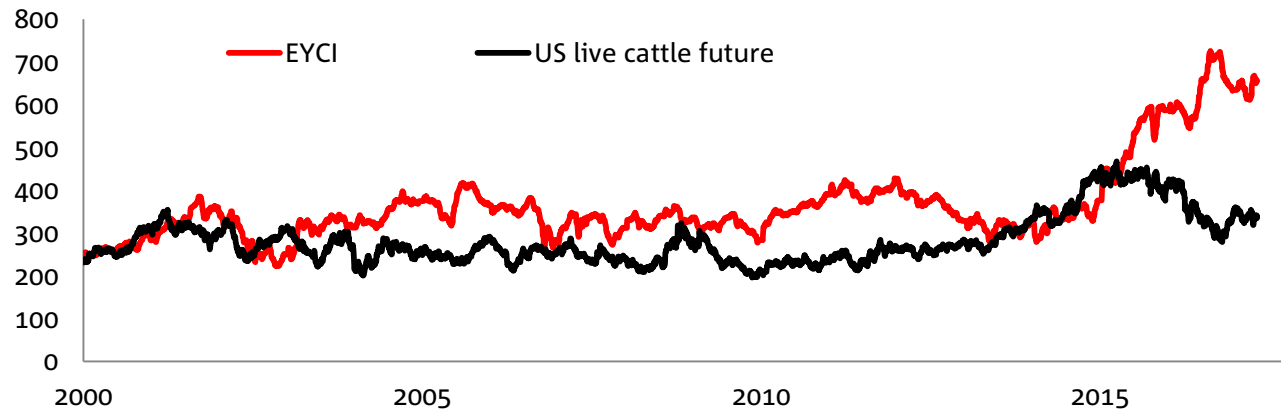
Sugar prices have taken something of a tumble of late, wiping off around half their gains since 2015. However, prices remain above their 2015 lows. Locally, grower concerns around QSL-Wilmar remain an issue and Cyclone Debbie is likely to have some impact on production volumes.

Source: Bloomberg, Profarmer and NAB Group Economics



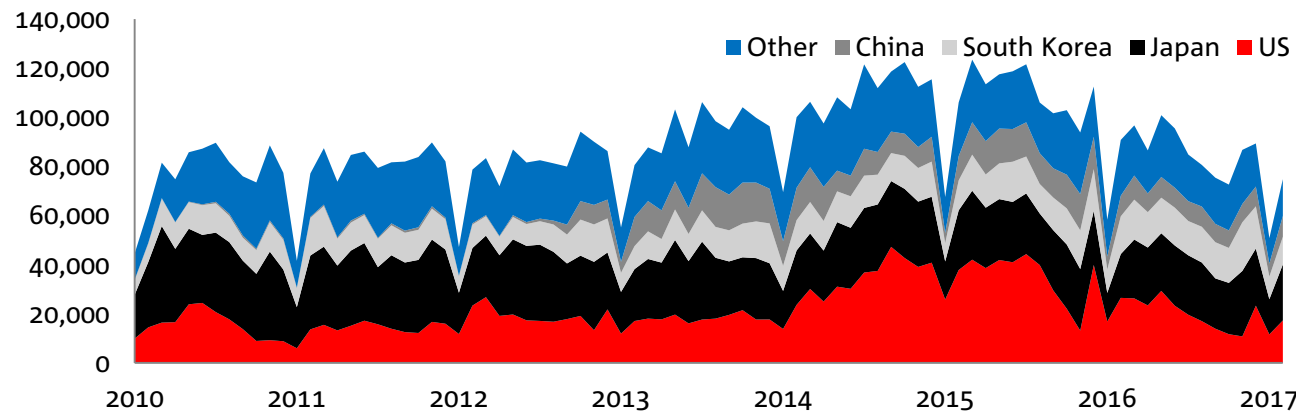
## EASTERN YOUNG CATTLE INDICATOR AND US CATTLE FUTURES

AUc/kg



## MONTHLY AUSTRALIAN BEEF EXPORTS

Tonnes swt



Source: Meat and Livestock Australia and NAB Group Economics

Good rains across parts of Queensland and New South Wales have reversed the downward trend in cattle prices seen since late last year, with restocker interest again driving interest at saleyards.

Whether this recent jump is likely to continue is much less clear. While the Australian cattle industry has enjoyed a stellar two year run of rising prices (The EYCI peaked 725 AUc/kg in August 2016), this largely reflects several one-off factors which are unlikely to be repeated.

The initial phase of the boom reflected US demand for imported beef in response to domestic US supply constraints following high corn prices and drought in 2011, but these conditions are long over and US beef prices have fallen substantially. The gap between US and Australian cattle prices remains well above historic norms and recent highs in Australian cattle prices reflect mostly restocker interest rather than strong global fundamentals. With corn remaining cheap and plentiful, we do not expect much upside in US cattle prices.

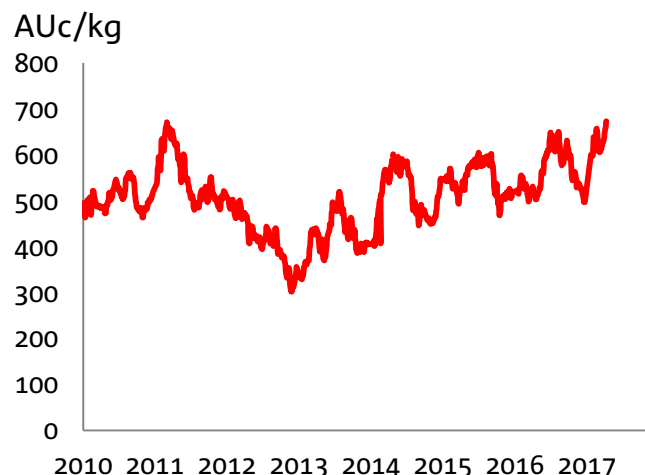
Nonetheless, our previous forecast of the EYCI falling to 500 AUc/kg later this year looks increasingly unrealistic. We still see prices falling to this level, but this is more likely to occur in 2018.



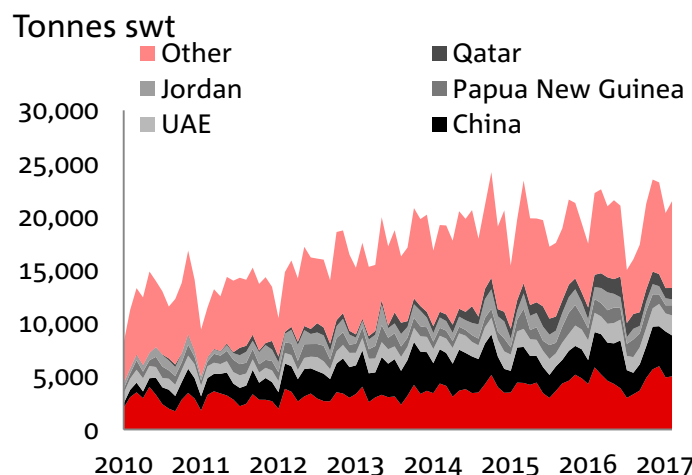
# LAMB, PORK AND POULTRY



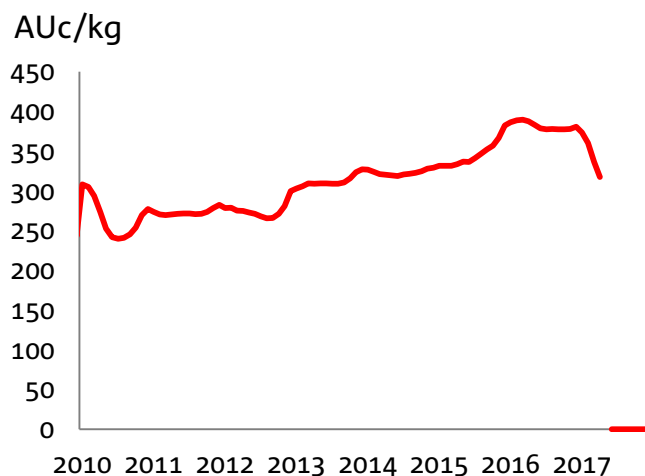
## NATIONAL TRADE LAMB INDICATOR



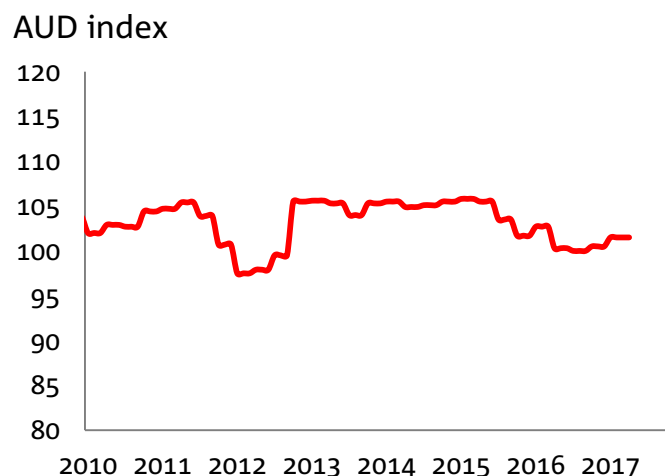
## MONTHLY LAMB EXPORTS BY DESTINATION



## AUSTRALIAN PORK PRICE INDICATOR



## ABS POULTRY PRICE INDEX



Lamb prices were down in the second half of April but remain well above the same time last year, defying the usual seasonal pattern. Constrained supply has been a major driver of improved prices and lamb and mutton producers with good stock levels have done generally very well. We expect stable to moderately higher prices this year. 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. Jitters in the oil market may see some issues in the middle east, but these are likely to be minor.

In contrast, wholesale pork prices (measured as an average of buyer and seller prices for eastern seaboard 60.1-75kg animals) continue to tumble. Prices are off 5.9% in April (to date) in an industry which has traditionally been quite stable. Competition from imports, a subdued Chinese New Year and domestic oversupply (including a reported inability to send stock to processors) have all been raised as factors in the price fall.

Retail poultry prices have remained reasonably stable since late 2012. Retail prices rose 1.0% in the March quarter 2017.

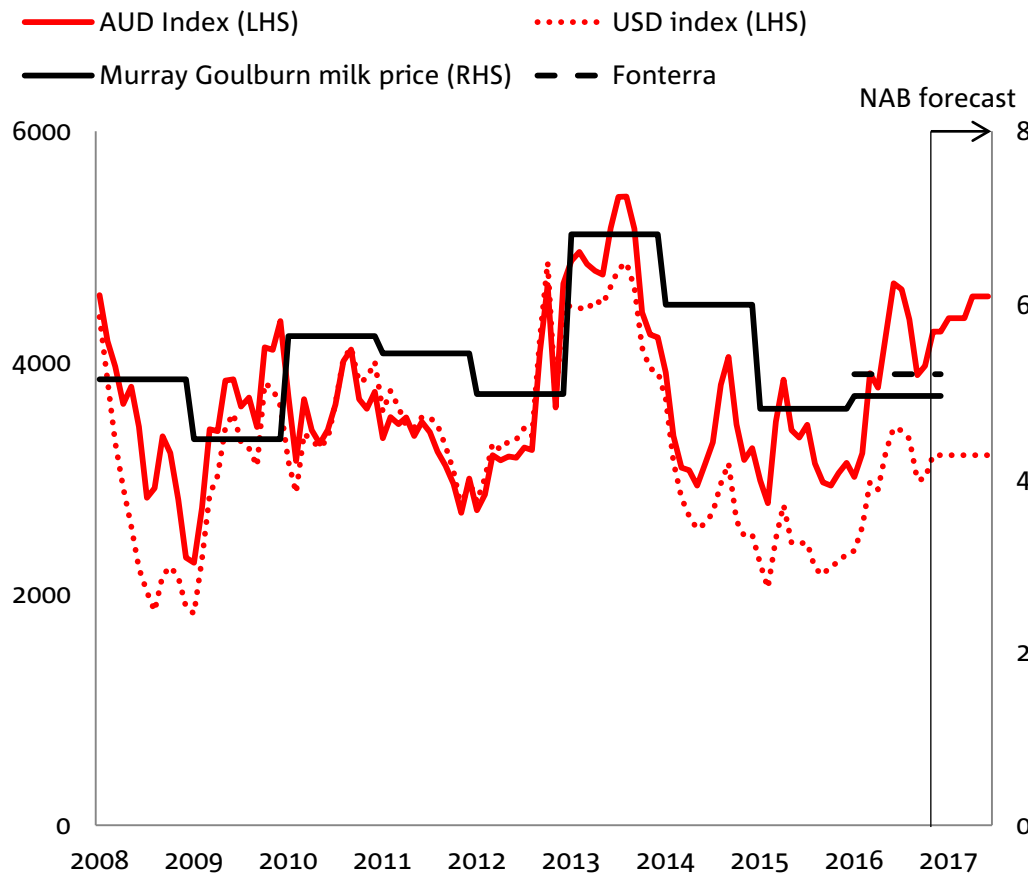
Source: Meat and Livestock Australia, Australian Pork, Australian Bureau of Statistics and NAB Group Economics



## NAB WEIGHTED DAIRY EXPORT PRICE INDICATOR

\$/tonne (export price, LHS)

AUD/kg milk solids (farm gate price RHS)



While the second half of 2016 saw a substantial upturn in global dairy prices, 2017 has seen mixed to lower Global Dairy Trade auction results, although results in April were better. NAB's weighted dairy export price indicator rose 2.0% in April. Last year's rally reflected in large part a pull-back in production in New Zealand and the European Union, but recent data has been more mixed. The extent to which New Zealand and European Union producers can resume higher milk deliveries will be key for the price outlook this year.

New Zealand is the world's largest dairy exporter and exports around 95% of the milk it produces. Fonterra New Zealand currently forecasts a farmgate price of NZD6/kg milk solids, a significant recovery from last year.

In Australia, the recovery in farmgate prices has been much slower so far, which has been reflected in lower milk production. Australian milk production plunged last year, and the latest data for 2017 shows February deliveries down 10% and production for the season to date 8.4% lower.

- 2 It is difficult to see Australian production recovering unless farmgate prices increase, so the opening prices will be closely watched over the coming months. A key concern is the state of the industry, which finds itself in something of a catch-22, as falling milk deliveries are denting processor revenue, impeding their ability to offer the higher prices
- 0 needed to boost raw milk production.

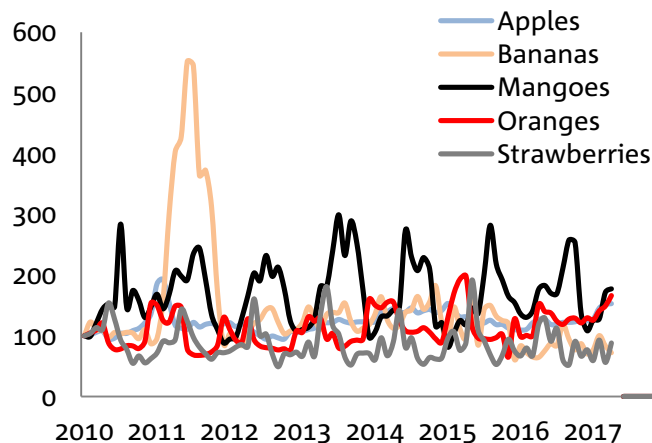
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, Fonterra, Murray Goulburn, [ABC](#) and NAB Group Economics

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



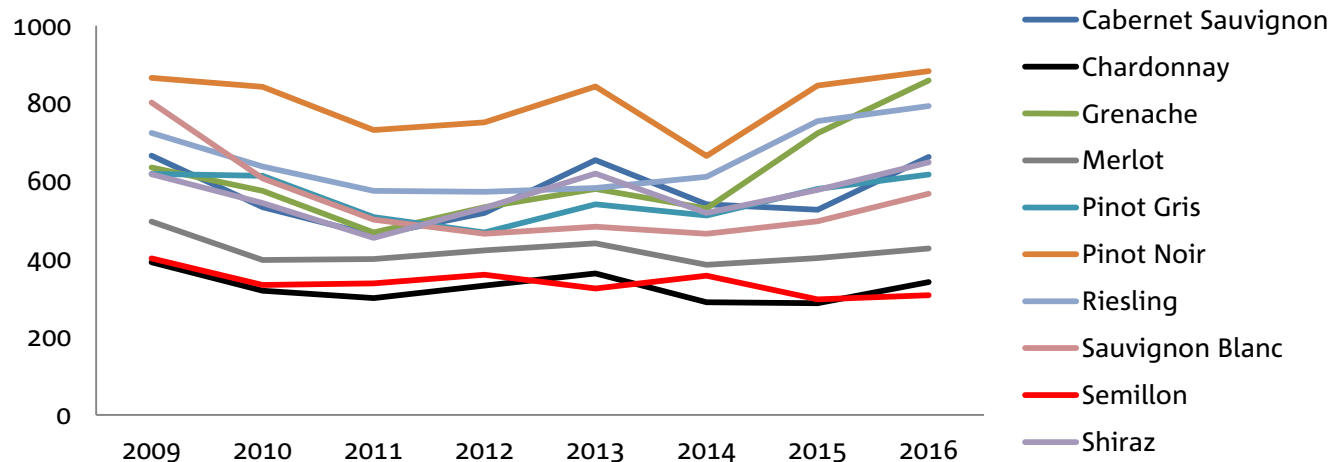
## WHOLESALE FRUIT PRICES

AUD index, Sydney and Melbourne



## NAB WEIGHTED WINE GRAPE PRICES

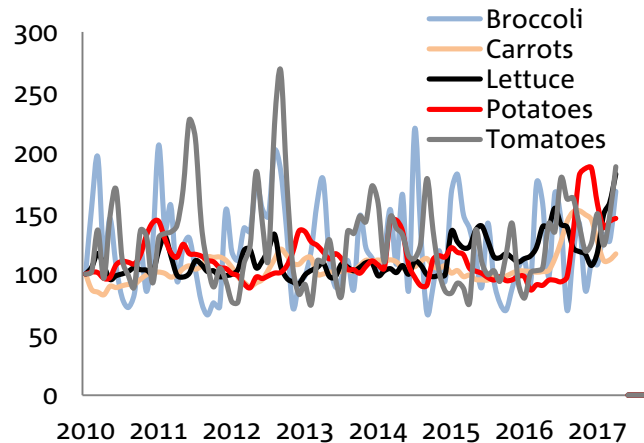
AUD/tonne



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 up strongly in April. Fruit prices rose 4.3% to an index value of 128.9 (January 2010 =100). Vegetables surged 15.1% to an index value of 162.3 (January 2010 =100). While fruit and vegetable prices show strong seasonal volatility, the trend since the beginning of the index in 2010 shows quite limited growth in wholesale prices for many of the products we track, a concerning trend for producers.

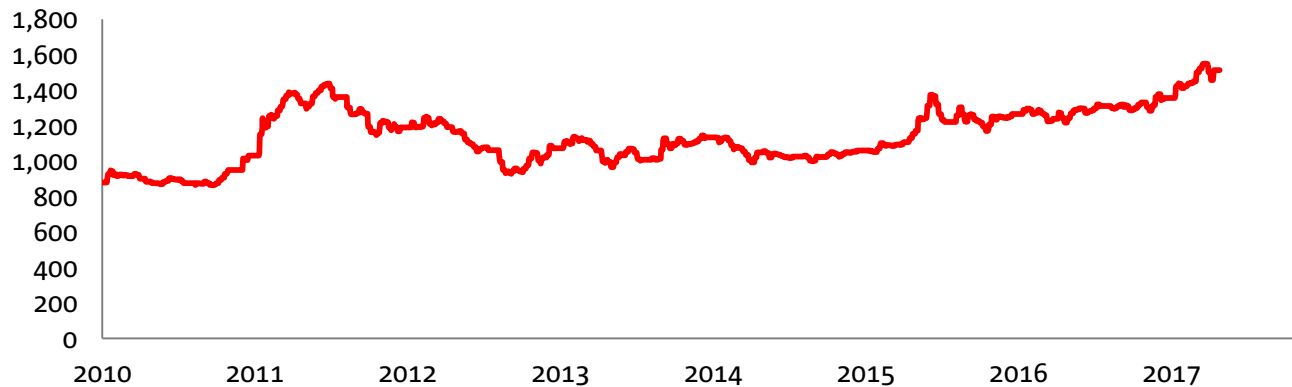
Wine Australia's 2016 Price Dispersion Report, shows further strengthening in wine grape prices in the 2016 vintage, reflecting the rewards of a lower AUD. Overall, wine grape prices for major varieties were higher to much higher. Cabernet Sauvignon was a standout performer, up 26% from last season.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





## WOOL – EASTERN MARKET INDICATOR

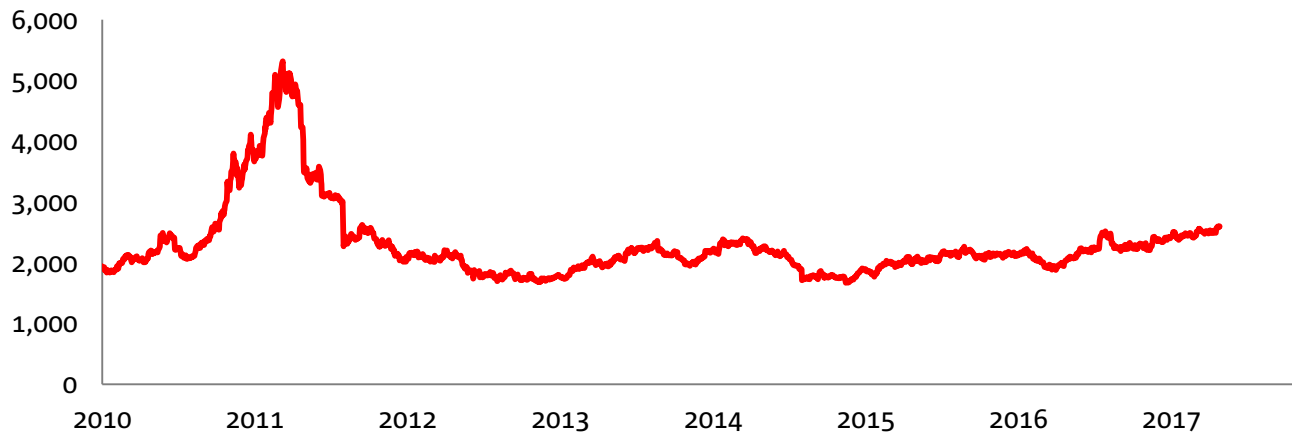
AUc/kg



The wool market continues to enjoy some of the best conditions in three decades. This follows a return of confidence to the industry last year after several years of unfavourable prices. The price upturn enjoyed by wool producers has continued despite limited movement in the AUD (wool is quite sensitive to movements in the dollar), and our expectations of a lower AUD this year point to further upside. The Eastern Market Indicator fell 1.8% in February but is around 20% higher than the same time last year. With prices rising, ABARES projects that wool production will increase in the coming year, arresting (at least temporarily) a long decline in production.

## COTLOOK A INDEX

AUD/tonne



Cotton prices continue to rise modestly, up 1.0% in March. However, the major story for Australian cotton is the rapid expansion in cotton production this season, as plantings stretch as far south as the Victorian border on plentiful irrigation water availability. ABARES forecasts cotton lint production to increase a further 8.5% in 2017-18.

Source: Bloomberg and NAB Group Economics