

RURAL COMMODITIES WRAP

JUNE 2017

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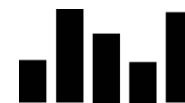
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PRICE UPDATE: NAB'S RURAL COMMODITIES INDEX

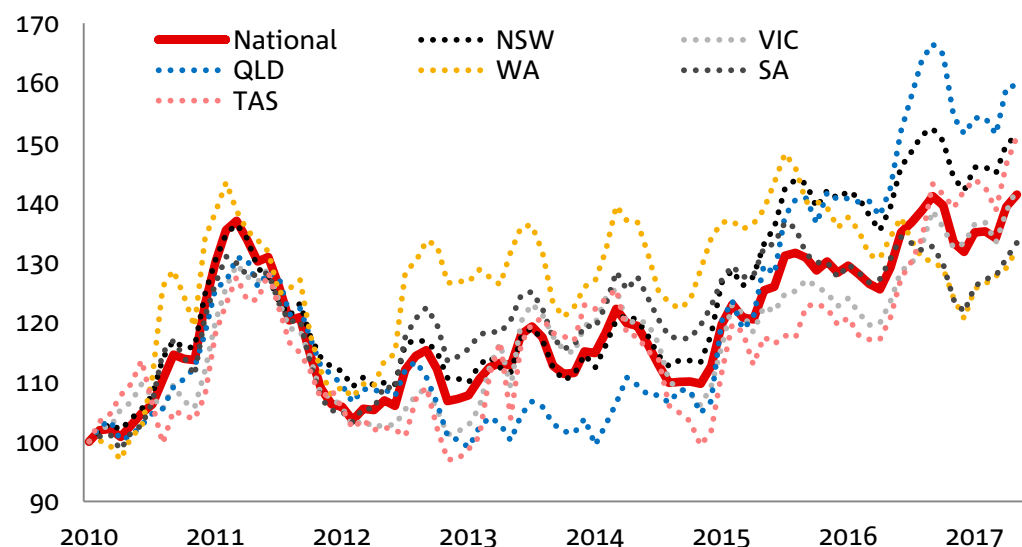


The NAB Rural Commodities Index is an index of 28 agricultural commodities weighted by the relative size of each commodity in the Australian agricultural sector.

In addition to the national indicator, we publish state-level indicators, reflecting the particular composition for each state. We now also release detailed regional price indicators (see page 4). We will further build on and improve these regional indicators as the year progresses.

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.

Overall, the index rose again in May, up 1.5%. reflecting moderately higher grain prices and a strong set of dairy auction results. Cotton, wool, fruit and vegetables also performed well. Beef and lamb were moderately lower, while pork continued a precipitous decline. Domestic pork prices are now down more than 20% compared to this time last year.

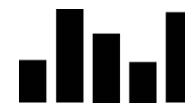
At a state level, New South Wales was up 0.8% while dairy-heavy Victoria rose 2.8%. Queensland with its large cattle industry saw the index almost unchanged at +0.2%. Grain-dependent Western Australia was up 2.5% and South Australia rose 2.0%. Tasmania saw prices rise 3.1%.

MONTHLY AUD PRICE CHANGES – SELECTED COMMODITIES

Monthly average price change

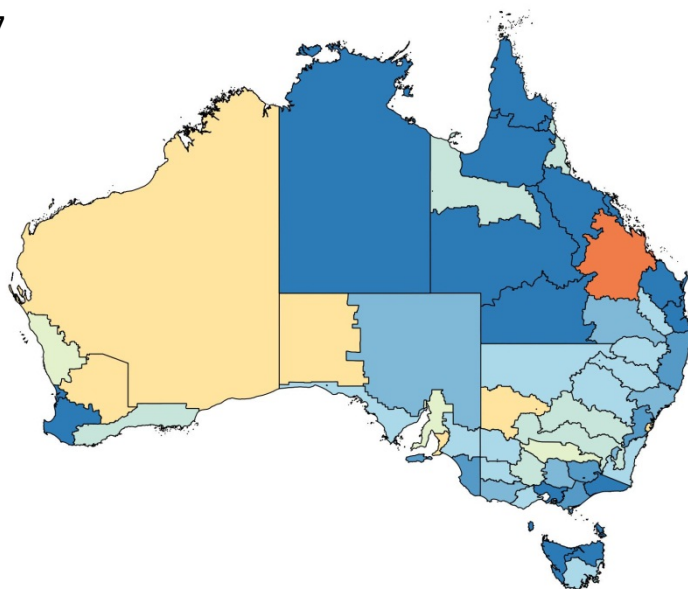
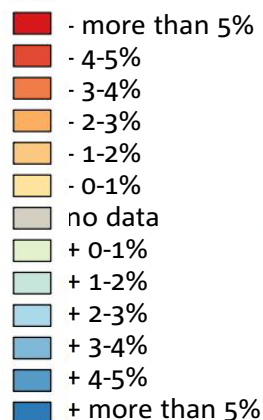
	March 2017	April 2017	May 2017
Wheat	▲ 1.1%	▼ 1.3%	▲ 2.6%
Beef	▼ 2.9%	▲ 6.4%	▼ 2.0%
Dairy	▼ 11.0%	▲ 2.0%	▲ 9.1%
Lamb	▼ 1.8%	▲ 6.5%	▼ 2.5%
Wool	▲ 6.2%	▼ 1.8%	▲ 1.6%
Sugar	▼ 11.0%	▼ 8.6%	▼ 1.7%
Cotton	▲ 2.5%	▲ 1.3%	▲ 4.0%

REGIONAL PRICE INDICATORS



MONTH ON MONTH

April to May 2017

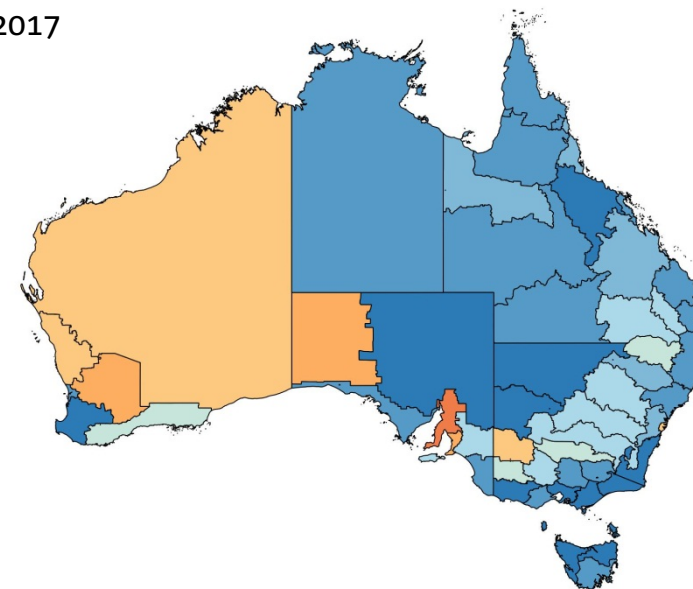
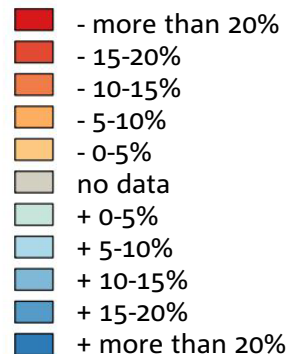


This is the second month of NAB's new regional price indicators, in effect a separate NAB Rural Commodities Index for every region in Australia. The data is based on state natural resource management regions (rather than ABS SA4 regions) to match agricultural regions as well as possible. Our maps are based on 2011 region boundaries. When the ABS releases production data based on updated boundaries, these boundaries will change.

There are some limitations to the data. Due to complexity, most price series are national. While this is not a major issue for grains or livestock, our dairy export prices are not directly comparable with farmgate prices.

YEAR ON YEAR

May 2016 to May 2017

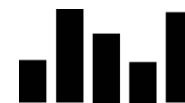


This month shows a continuing trend of better performance in livestock-heavy regions compared to grain-growing districts, notwithstanding somewhat better wheat prices in the past month. Western Australia in particular shows weakness on a year on year basis, reflecting its grain dependence.

While the key dairying areas of Gippsland, Northern Victoria, South-west Victoria and Tasmania show better prices of late, it is important to note that this reflects dairy export prices. Farmgate prices have not risen to the same extent and opening prices will be closely watched in the coming month.

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

OUTLOOK FOR THE COMING YEAR



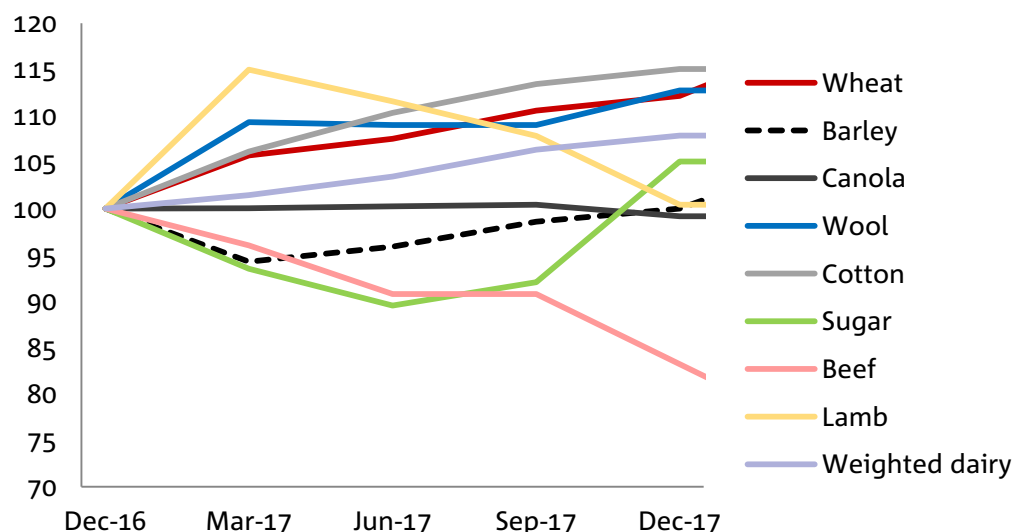
Prices

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 continue to be a key driver of livestock prices. The autumn was wetter than forecast, boosting restocker interest for cattle and 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 sensational season, with a record 35 million tonnes of wheat harvested. It will be extremely difficult to match this again this season. On the other hand, the autumn break has been kinder than expected across some (but by no means all) areas, so if rain continues yields should be average to even above average in some districts. We will release our initial production forecasts for grain production in the coming weeks. 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.

ABARES PRODUCTION OUTLOOK

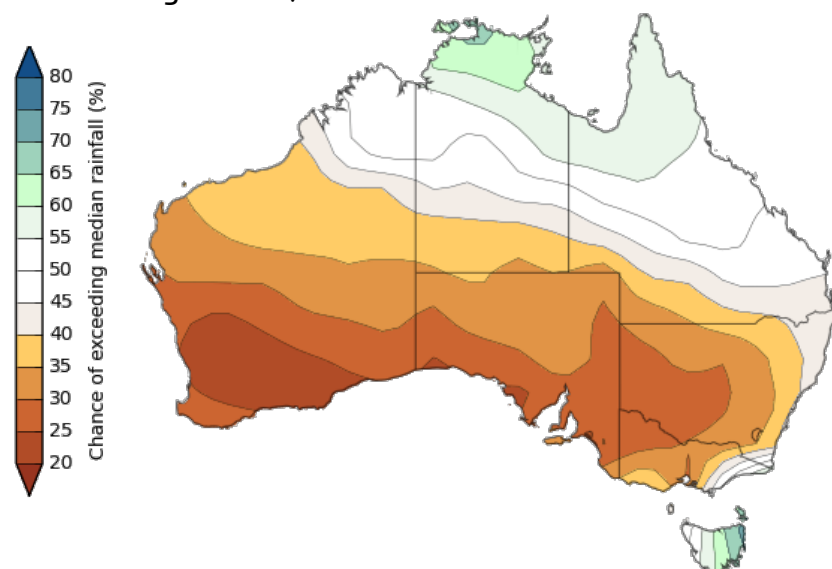
Financial year production estimates, Australia

	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

June to August 2017



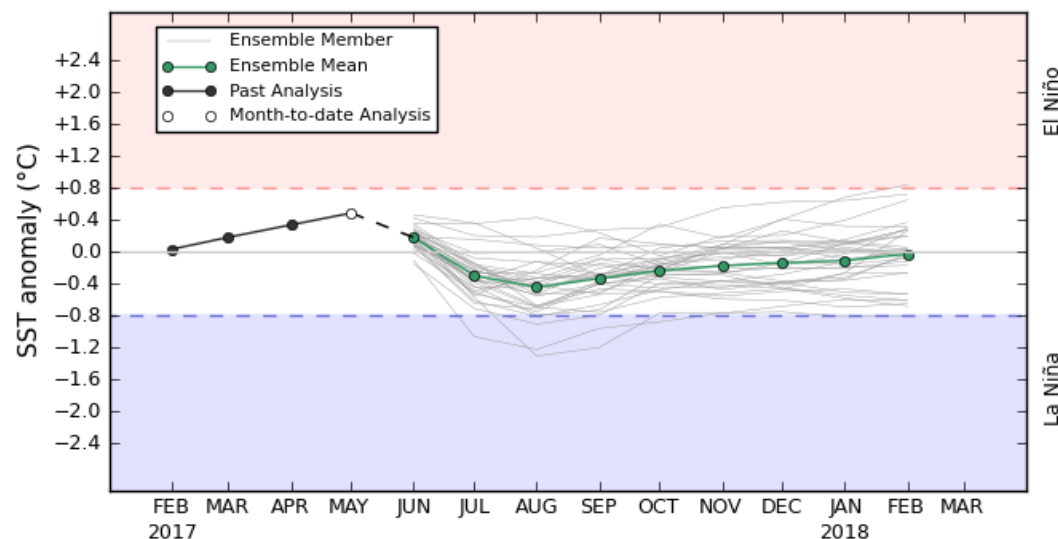
Despite forecasts of dry conditions, autumn has so far brought generally favourable conditions to parts of eastern Australia, although most of the Western Australian wheatbelt, South Australia's Eyre Peninsula, Tasmania and outback Queensland and far western New South Wales are drier than average.

The Bureau of Meteorology's three month climate outlook for winter remains much drier than average for the south, but wetter than average for the top end. However, it is important to note that autumn rainfall outperformed forecasts in many parts of country, so a dry winter is by no means guaranteed.

Source: Bureau of Meteorology

BOM POAMA MODEL LONG-RANGE EL NINO OUTLOOK

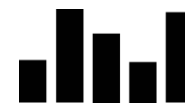
Monthly mean NINO 34 – 21 May 2017



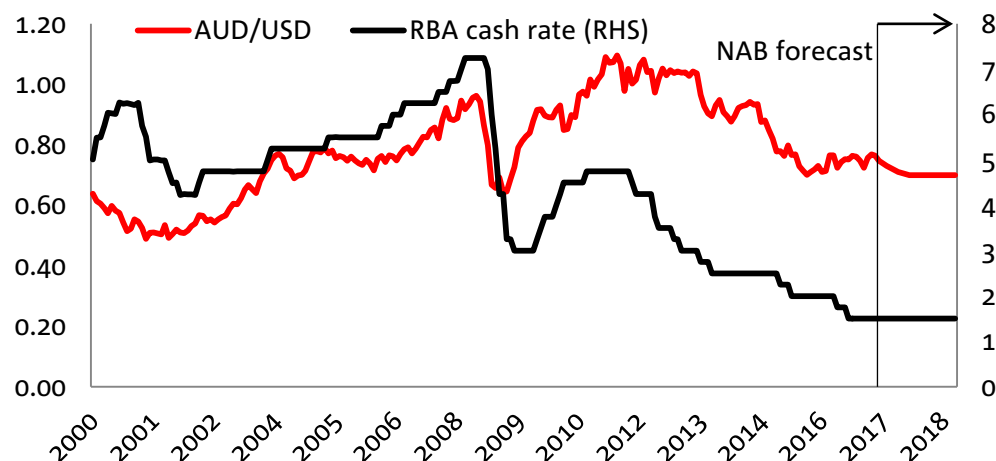
The El Niño outlook is looking considerably better than even two months ago. Earlier this year, the outlook had been deep into El Niño territory for some months, but recent model results from the Bureau show the sea surface temperature anomaly forecast track close to neutral for the rest of the year. The Bureau of Meteorology remains on El Niño watch, indicating an approximately 50% change of an event this year. Around half of all international models point to El Niño this spring.

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	0.73	0.71	0.70	0.70
NZD/USD	0.68	0.67	0.67	0.68
USD/JPY	114	116	118	120
EUR/USD	1.12	1.11	1.13	1.15
USD/CNY	6.92	6.96	6.97	7.00
AUD TWI	63.5	62.4	61.6	61.8

Source: NAB

While the USD has been weaker recently, reflecting ongoing White House political turmoil, lack of convincing US data and lower US Treasury yields, the AUD has performed notably poorly relative to other G10 currencies. Apart from the pound all other G10 currencies have recorded gains of between 1% and 2.4% against the USD. AUD underperformance has also occurred against a setting of improved risk appetite.

Our outlook remains that the AUD will trade down towards 0.70 cents by year-end and remain there (with downside risk). This is predicated on our expectations of a stronger – Fed driven – USD and the view that China's support for commodity prices over the past year is unlikely to be matched over the next twelve months. Deleveraging is a high priority for China and the ongoing tightening of monetary conditions means growth going forward is likely to be more dependent on domestic consumption and less supportive of commodity prices.

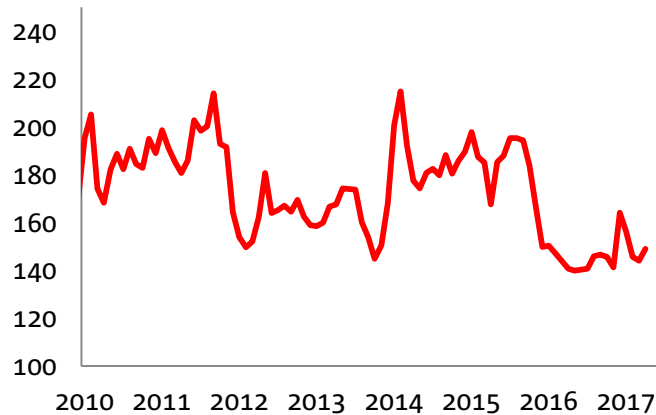
We expect the RBA to maintain the cash rate at the current 1.5% for an extended period, before hiking late in 2019. Measures announced in the Federal Budget designed to address housing affordability will on balance be welcomed by the RBA, but is unlikely to be enough for them to put aside concerns around balance sheet risks – meaning additional cuts to raise underlying inflation or lower unemployment quicker are still highly unlikely. By the same token, rate hikes are off the table in our view given forecasts (the RBA's and our own) which see the unemployment rate somewhat elevated for a considerable period, and for underlying inflation to remain below or just on the bottom of the target band.

FARM INPUT PRICES



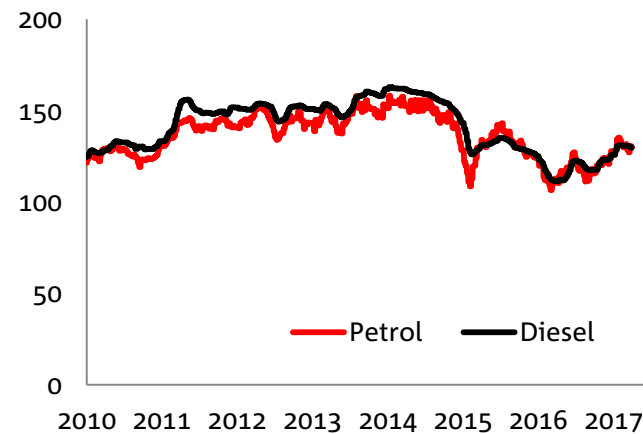
NAB FERTILISER INDEX

AUD index



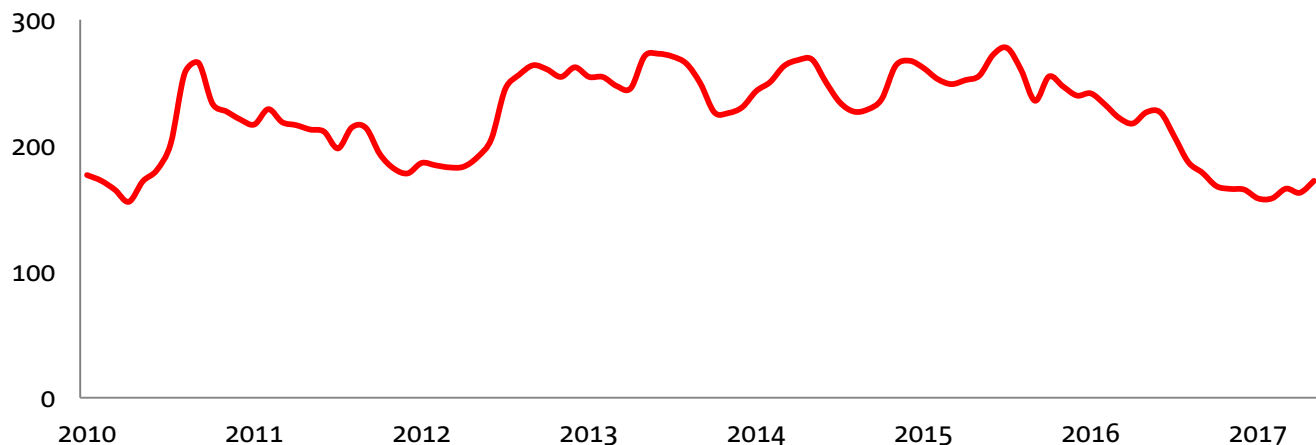
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



Source: Bloomberg, Profarmer and NAB Group Economics

Feed prices remain low in the wake of a bumper grain and hay season across eastern Australia, although international market developments have seen some upside this month and domestic prices for old crop are performing well (in the context of overall global market dynamics).

NAB's weighted feed grain price index jumped 5.8% in May to \$172/tonne on higher feed wheat, barley, oat and sorghum prices. However, the sheer volume of feed grain and hay stored on farm, combined with wetter than expected autumn in some areas points to limited further upside for old season crop.

Fertiliser prices were somewhat lower in May, reflecting lower urea prices, with US natural gas and DAP prices tracking sideways. The NAB index was down 1.0% in May. The most recent national fuel price data shows an average of 124.0c/litre for petrol and 128.1c/litre for diesel.

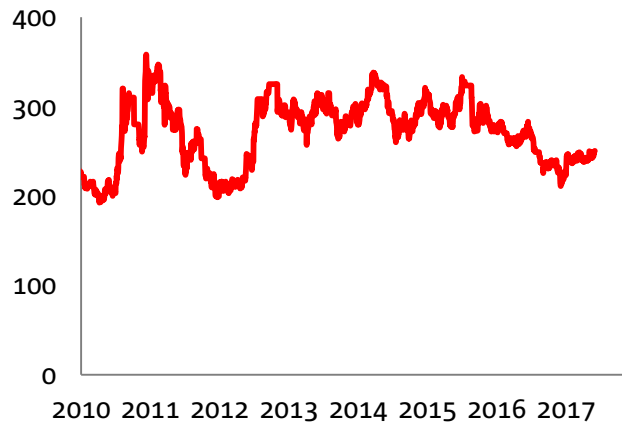
The trajectory of oil prices will be a key factor in both fuel and fertiliser prices this year. Market reaction to the OPEC extension was very muted and if US production continues to increase the upside for crude prices could be quite limited.

WHEAT



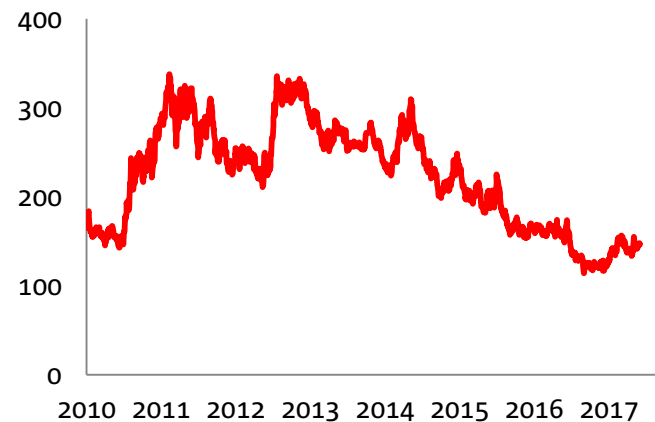
ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



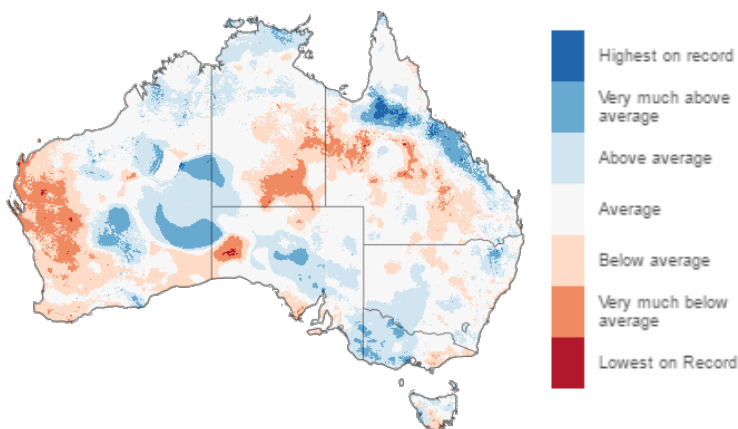
CBOT SOFT RED WINTER WHEAT

USD/tonne



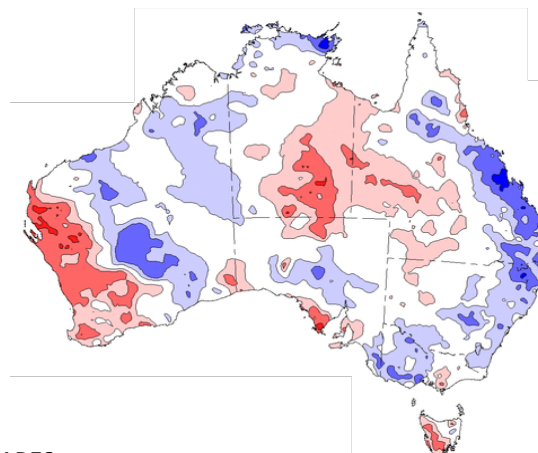
ROOT ZONE SOIL MOISTURE

Relative to average, 30 May 2017



RAINFALL – LAST THREE MONTHS

Deciles, 1 March to 31 May 2017



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

Prices

Latest global data suggest that wheat prices have perhaps turned a corner after bottoming out in the second half of last year. However, price growth so far this year has been quite limited as markets weigh a continued abundance of wheat on global markets. Australian wheat prices will depend heavily on the AUD, with our forecast of 70 cents by the end of the year our major expected driver of any upside for domestic wheat prices. Old season crop has held its value better than we had expected, with mice perhaps a bigger issue than prices in coming months.

Production

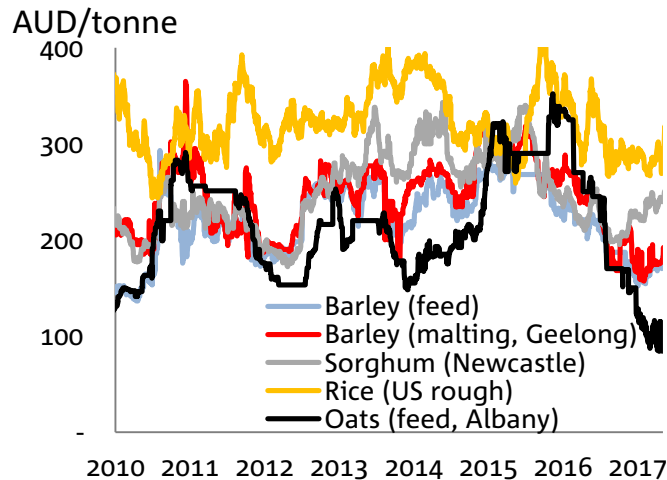
The dry outlook since earlier this year gave us much concern about the prospects for the 2017-18 season, although many parts of New South Wales, Victoria and Queensland have been lucky enough to enjoy a strong autumn break. The Western Australian wheatbelt and the Eyre Peninsula are probably of greater concern at this point, with a below average autumn rainfall and below average root zone soil moisture. The lower prospect of El Niño in the BoM forecast track is very welcome news. We will release our first estimates for Australian wheat production this season in a special report in the coming weeks.



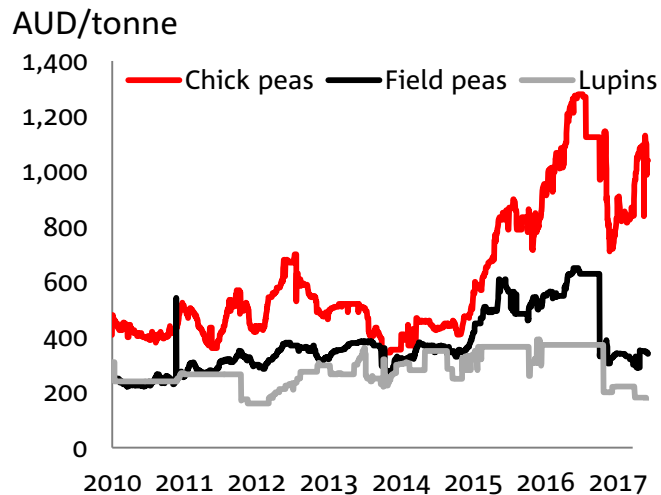
OTHER BROADACRE CROPS



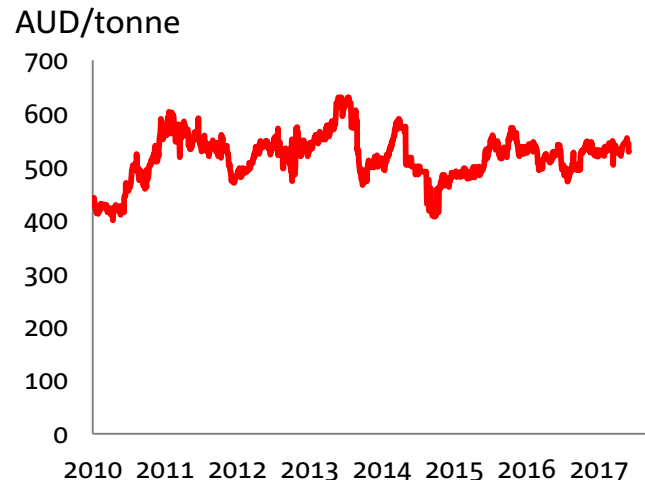
SELECTED COARSE GRAINS



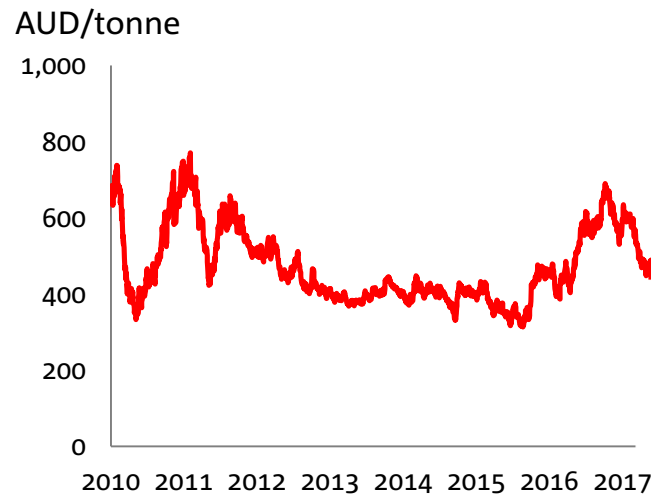
SELECTED PULSES



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 kept prices low and the outlook is broadly similar to wheat for the coming year. Canola remains a stand-out, with prices holding up much better, although obtaining seed was a major challenge for planting,

We have been cautious around the trajectory of chick pea prices for some time, so the roller-coaster of the last few months has come as something of a surprise. Prices exceeded AUD1,200/tonne last year following two poor Indian monsoon seasons, before falling into the 700s late last year and then recovering to around AUD1,000-1,100/tonne of late. While we continue to see these prices as unsustainable, it appears that prices will stay elevated for longer. If the Indian monsoon is stronger this year prices are likely to see some downside. Nonetheless, chick peas are likely to remain more expensive than alternative crops this season.

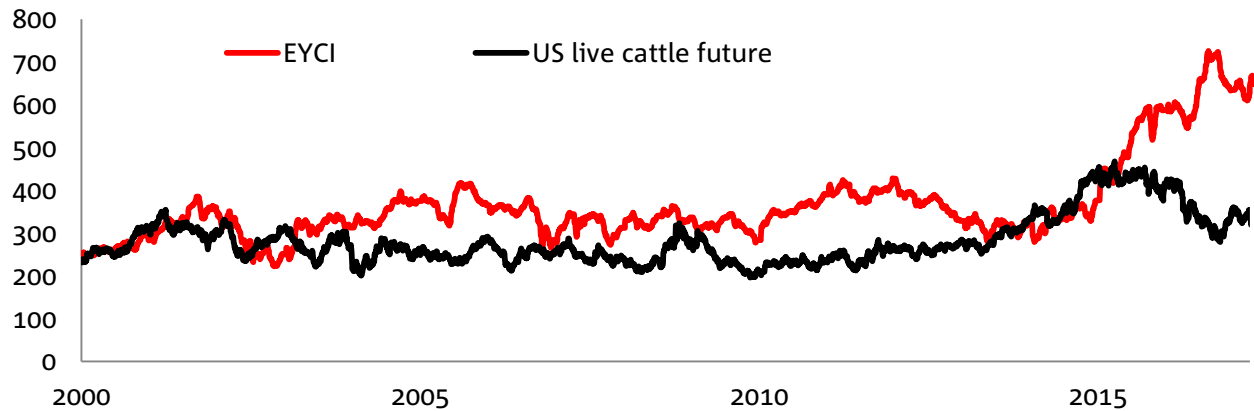
Sugar prices continue to tumble, wiping off all of the price rally seen over the past year, reflecting stronger global supply and subdued crude oil denting ethanol prices.

Source: Bloomberg, Profarmer and NAB Group Economics



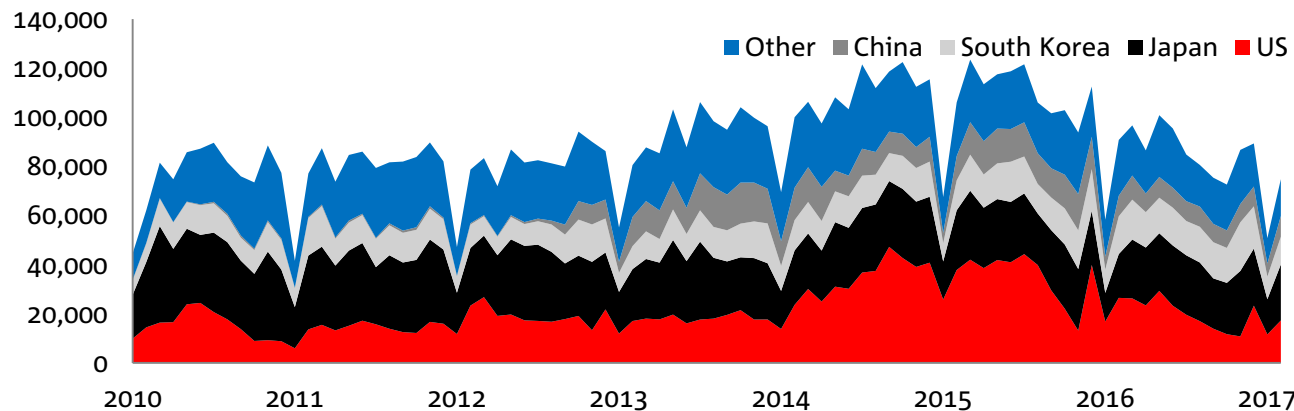
EASTERN YOUNG CATTLE INDICATOR AND US CATTLE FUTURES

AUc/kg



MONTHLY AUSTRALIAN BEEF EXPORTS

Tonnes swt



Source: Meat and Livestock Australia and NAB Group Economics

Prices for young cattle have tracked sideways over the last month, with rain in some areas stoking restocker demand after falls from last year's record highs.

Whether this will 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 we see as unlikely to be repeated.

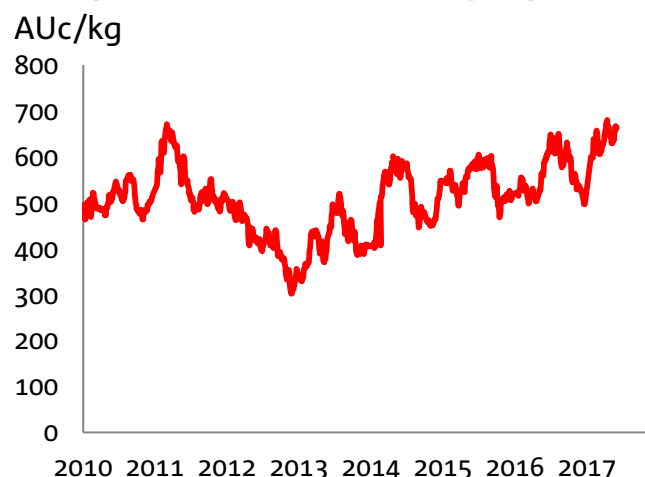
International markets present a mixed picture. While the US has seen some gains, prices are still well off 2015 levels and cheap feed grain is a limit to upside. Developments in China (improved Australian market access and the Brazilian beef adulteration imbroglio) give some hope in the market, although improved access for US producers in China will reduce opportunities. India's moves to further restrict cattle slaughter may provide some benefit for northern Australian producers selling into Indonesia.

Reduced cattle slaughter and poor margins for Australian processors are also a concern, with high saleyard and over the hooks prices meeting muted export markets. However, our earlier forecast of the EYCI falling to 500 AUc/kg later this year looks unrealistic. We still see prices falling to this level, but not until 2018.

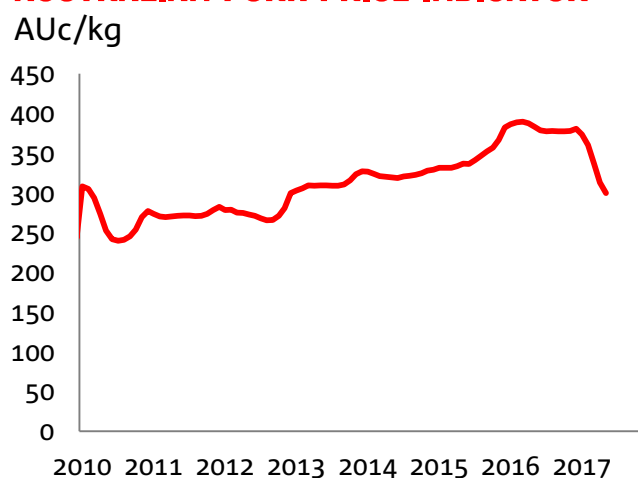
LAMB, PORK AND POULTRY



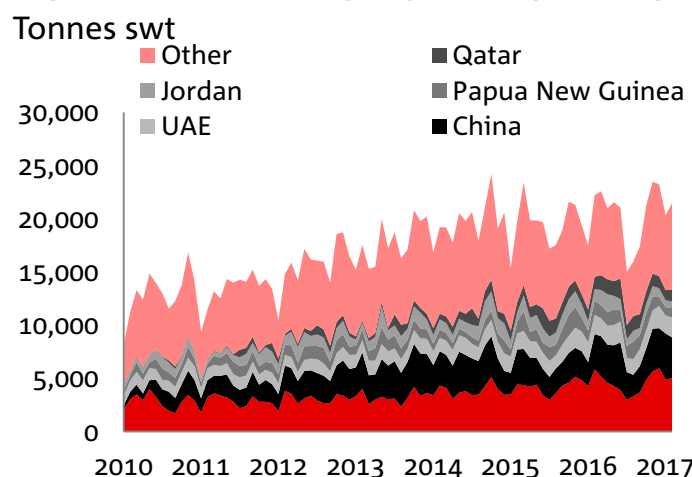
NATIONAL TRADE LAMB INDICATOR



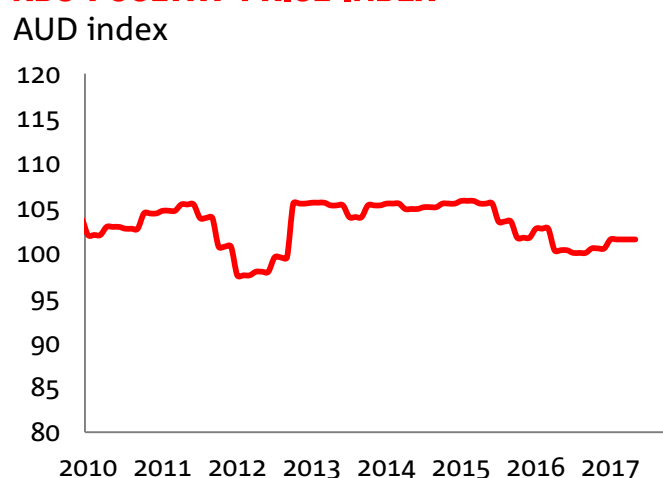
AUSTRALIAN PORK PRICE INDICATOR



MONTHLY LAMB EXPORTS BY DESTINATION



ABS POULTRY PRICE INDEX



The lamb and mutton sector continues to perform very well indeed. While price growth of late has not matched the jump earlier in the year, prices for trade lambs are well above levels at the same time last year, reflecting a positive trend since 2013.

Constrained supply has been a driver of improved prices for lamb and mutton, reflecting over-exuberant slaughter rates in previous years. 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 their poor run that began late in 2016. Prices were off another 4.3% in May (to date) and are now over 20% lower than the same time last year. This represents a significant drop for an industry which has traditionally been quite stable.

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

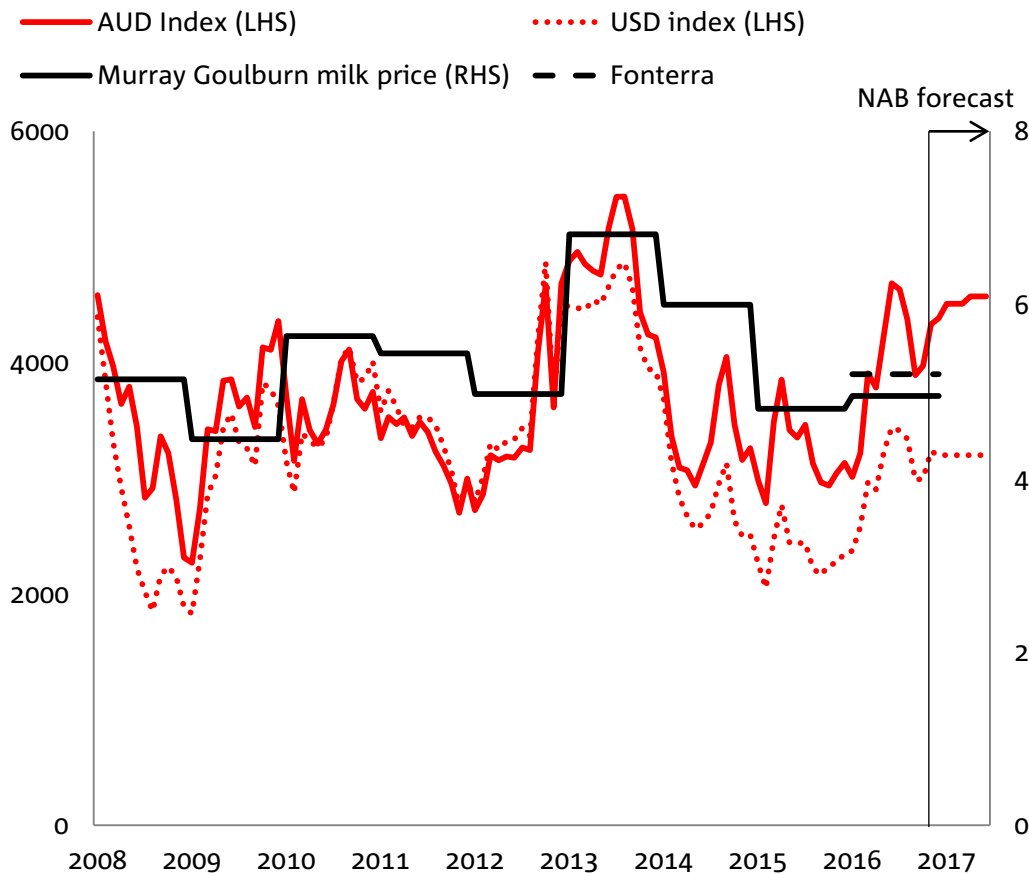
Source: Meat and Livestock Australia, Australian Pork, Australian Bureau of Statistics and NAB Group Economics



NAB WEIGHTED DAIRY EXPORT PRICE INDICATOR

\$/tonne (export price, LHS)

AUD/kg milk solids (farm gate price RHS)



Global Dairy Trade auction results were more favourable in May and the NAB weighted dairy export price indicator gained 9.1% in for the month – the best performance since December 2016 – amid improved demand from China and earlier flooding in New Zealand.

This improvement has already been felt by farmers in New Zealand, with Fonterra upping its current year forecast to NZD6.15/kg milk solids and providing an opening price for next season of NZD6.50. New Zealand is the world's largest dairy exporter and exports around 95% of the milk it produces.

6 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 the 2016-17 season shows the year to date for April down 8.0% nationally (and 9.6% lower in biggest dairy state Victoria).

2 It is difficult to see Australian production recovering unless farmgate prices increase, so the opening prices will be closely watched over the next month. 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 needed to boost raw milk production.

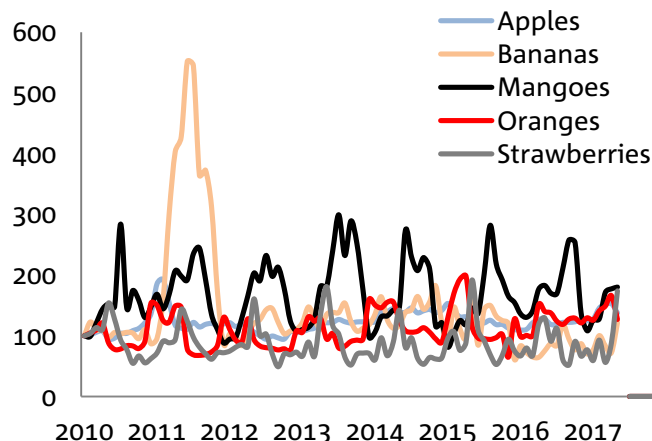
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, Fonterra, Murray Goulburn, ABC and NAB Group Economics

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



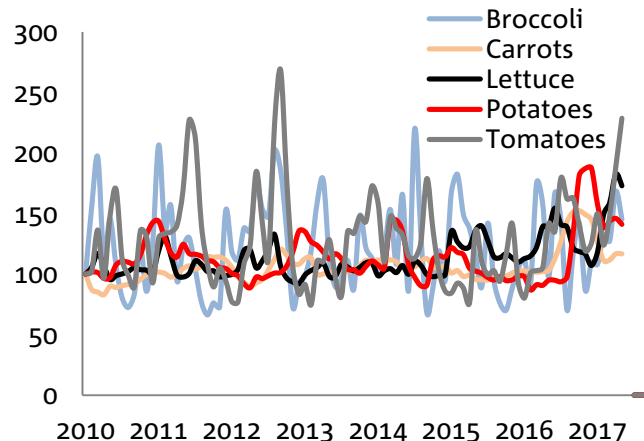
WHOLESALE FRUIT PRICES

AUD index, Sydney and Melbourne



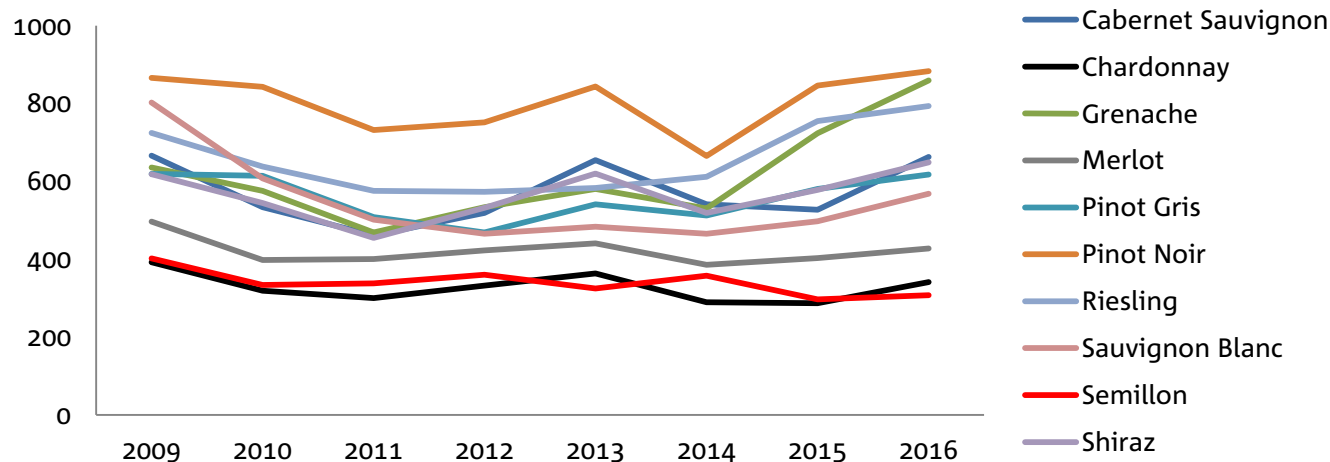
WHOLESALE VEGETABLE PRICES

AUD index, 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 were up again in May. Fruit prices surged 11.9% to an index value of 144.3 (January 2010 = 100). Vegetables rose more modestly, up 2.0% to an index value of 165.3 (January 2010 = 100). Tomatoes have been an especially strong performer, up 21% in May alone.

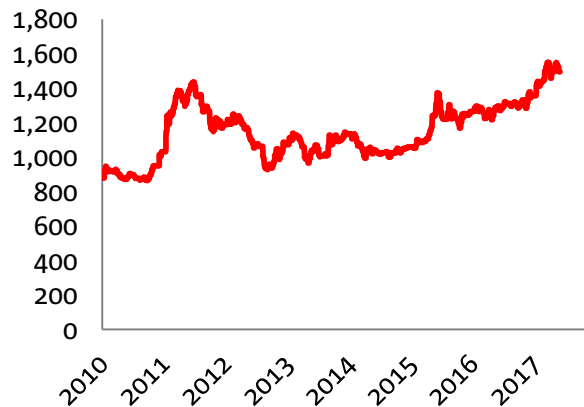
While fruit and vegetable prices show strong seasonal volatility, the trend since the beginning of the index in 2010 shows somewhat limited growth in wholesale prices for many of the products we track, a concerning trend for producers.

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.



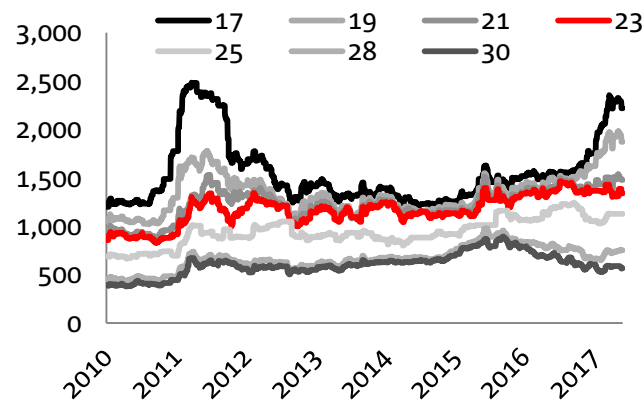
WOOL – EASTERN MARKET INDICATOR

AUc/kg



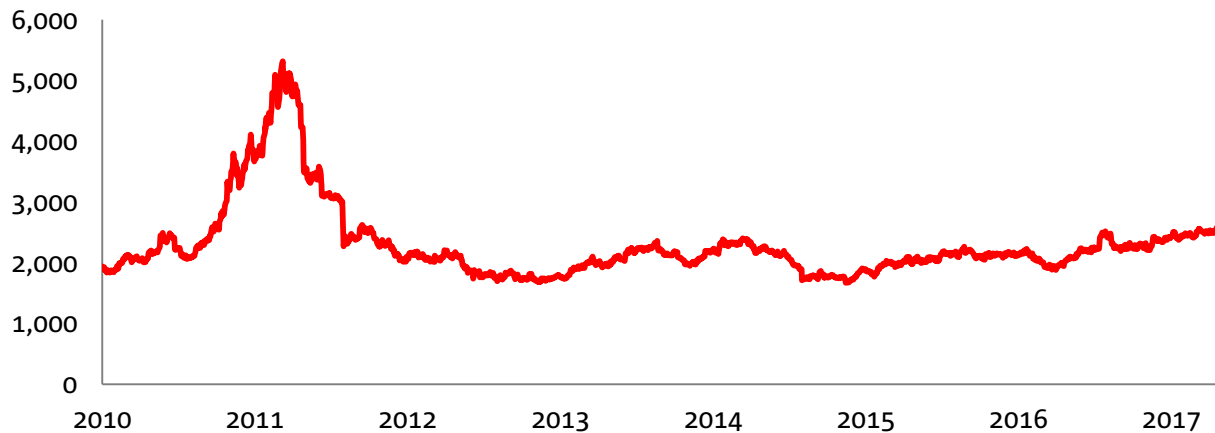
WOOL PRICES BY MICRON

Southern Region



COTLOOK A INDEX

AUD/tonne



Source: Bloomberg and NAB Group Economics

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. Interestingly, the best performance is in fine and super-fine wool – below 20 microns. Coarser wools at the 28 and 30 micron level have actually seen lower prices.

The Eastern Market Indicator gained 1.6% in May. With prices rising, ABARES projects that wool production will increase in the coming year, arresting (at least temporarily) a long decline in production.

Cotton prices continue to rise modestly, up 3.2% in May. 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.