

RURAL COMMODITIES WRAP

MARCH 2018



KEY POINTS

The weak La Niña event which began late last year turned out to be mostly a fizzer for eastern Australia, with many areas seeing well below average summer rainfall. This has led to both higher feed grain and lower cattle prices in the eastern states. However, the last week has seen big rains across much of Queensland, which should give cattle prices a jolt. Meanwhile, the west has seen a generally wetter than average summer. The Bureau of Meteorology's outlook for autumn points to drier than average conditions for the mainland but a potentially solid break for Tasmania. With little subsoil moisture in the east, mainland cropping will be very dependent on in-season rainfall, although the west is better set up for the season ahead.

While La Niña disappointed in Australia, it looks to have more of an impact in the United States, where concerns about the state of the winter wheat crop continue to mount. While a good spring could salvage things, it looks increasingly likely that yields will be under pressure. This could present an upside for grain prices later in 2018.

There are increasing risks that global dairy prices will come under pressure amid northern hemisphere oversupply and a recovery in NZ. Last week, the ACCC flagged limited concerns over Saputo's takeover of MG which may see MG divest the Koroit plant.

PRICE UPDATE



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The NAB Rural Commodities Index gained 1.2% month on month in February, following a drop of 1.8% in January. On a year on year basis, the index was down 2.9% in February. The gain was driven by higher grain, fruit and dairy prices, offsetting falls in beef, lamb and sugar.

The AUD has become less of a thorn in the side of local prices recently after being uncomfortably high earlier in the year .

On a state basis, cattle-heavy Queensland was the weakest, falling 0.5%. New South Wales was up 0.2%. Victoria and Tasmania were the best performers due to better dairy prices, gaining 2.5% and 2.7% respectively. South Australia was up 1.8% while grain dependent Western Australia gained 2.4%.

The index tracks 28 commodities weighted by the relative size of each commodity in the Australian agricultural sector.

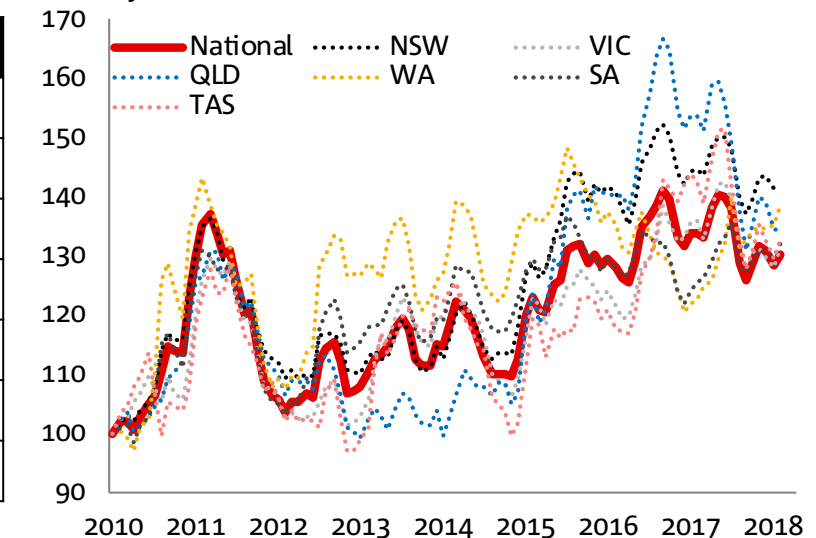
MONTHLY PRICE CHANGES

AUD prices

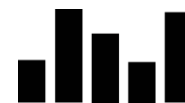
	Dec.	Jan.	Feb.
Wheat	▼ 1.5%	▼ 0.7%	▲ 3.3%
Beef	▼ 0.5%	▼ 4.4%	▼ 3.5%
Dairy	▼ 7.5%	▼ 2.1%	▲ 9.7%
Lamb	▲ 3.9%	▲ 1.0%	▼ 3.7%
Wool	▲ 4.2%	▲ 2.5%	▲ 1.4%
Sugar	▼ 4.0%	▼ 6.4%	▼ 2.6%
Cotton	▲ 6.2%	▲ 2.2%	▼ 2.1%

NAB RURAL COMMODITIES INDEX

January 2010 = 100



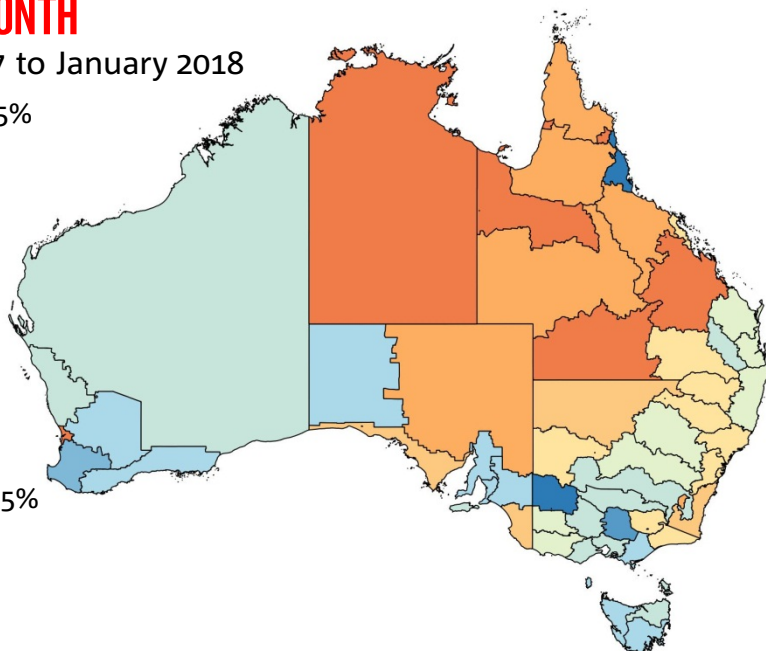
REGIONAL PRICE INDICATORS



MONTH ON MONTH

December 2017 to January 2018

- 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%



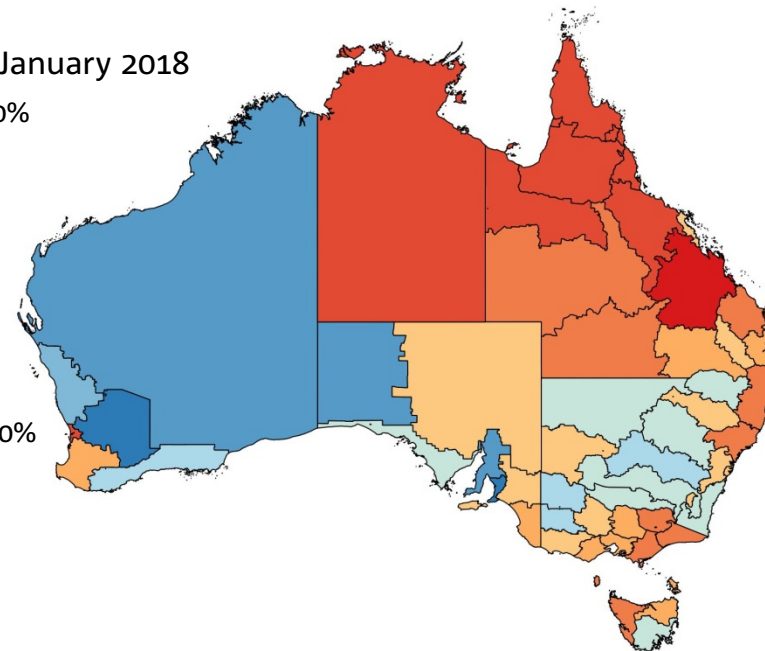
Monthly regional price indicator data shows somewhat lower prices in cattle country, although to a much lesser extent than previous periods.

On a year on year basis, the best performing regions are those with a cropping focus, particularly Western Australia, South Australia and New South Wales. On the other hand, cattle country across Queensland and the Northern Territory has struggled with falling cattle prices for most of the year, although given the peak was so high, this was perhaps inevitable.

YEAR ON YEAR

January 2017 to January 2018

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



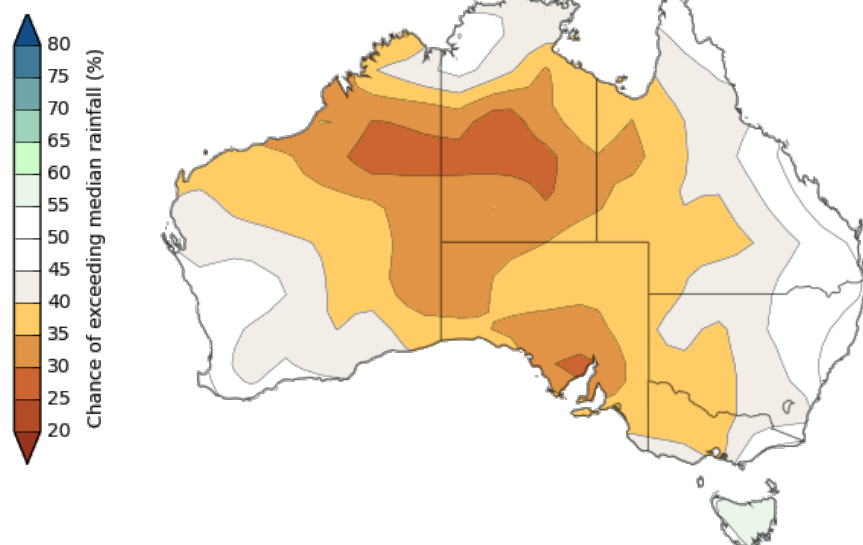
NAB's regional price indicators are in effect a set of separate NAB rural commodities indices for every region in Australia. The project is still in a trial stage and is calculated on a different basis to our national and state data i.e. without annual chain-weighting. We will continue to develop this series throughout 2018, making further improvements where possible.

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

SEASONAL CONDITIONS

THREE MONTH RAINFALL OUTLOOK

March to May

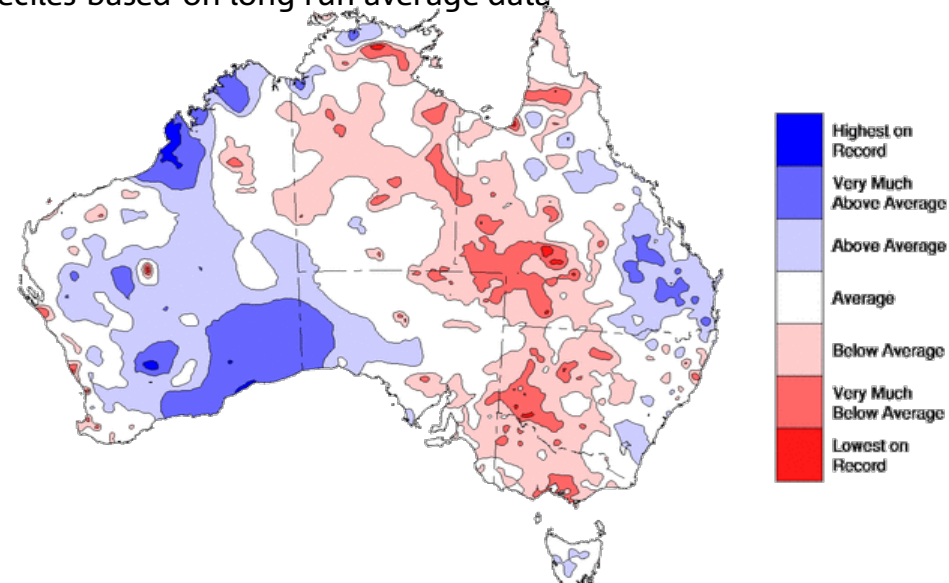


The Bureau of Meteorology's latest three month climate outlook for autumn points to drier than average conditions across essentially all of mainland Australia, while Tasmania is expected to see higher than average rainfall.

If this forecast transpires, there could be a tough break ahead for grain growers in parts of New South Wales, Victoria and South Australia, as well as an ongoing lack of feed for cattle producers in Queensland.

RAINFALL – FEBRUARY 2018

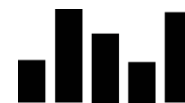
Deciles based on long run average data



Summer rainfall has been very mixed overall, with the west enjoying a wetter than average season but large swathes of eastern Australia – particularly Queensland – struggling through drier than average conditions.

These conditions have dented pasture growth and sorghum yields, exacerbating domestic feed premiums in Queensland and northern New South Wales. Cattle prices have suffered amid renewed destocking in Western Queensland, although the last week has seen very good rains in parts of Queensland, likely to presage a short-term spike in cattle prices.

OUTLOOK FOR PRICES AND PRODUCTION



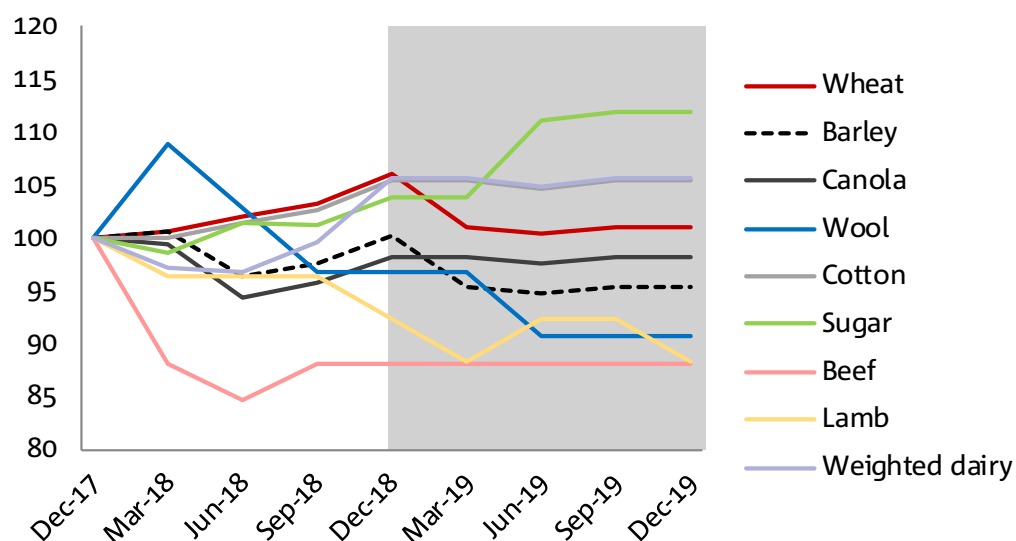
Prices

Weather has been a major driver of local grain and livestock prices and we expect this to continue if Queensland doesn't see follow up rain. Cattle prices have been trending downward and we see moderate falls from here to around the 500c level for EYCI. The poor state of the sorghum crop means that the domestic premium on grain is likely to remain for a while longer in Eastern Australia. Price spreads between Victoria and Queensland remain very elevated. In the second half of 2018, the state of the US winter wheat crop is likely to affect prices here.

While the dollar will be a major influence, our forecasts point to it reaching mid-70s by the end of 2018 – not a substantial depreciation.

INDEX OF PRICE FORECASTS FOR RURAL COMMODITIES

AUD index value, December quarter 2017 = 100



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

Production

Looking ahead to the 2018-19 winter cropping season, the lack of subsoil moisture across major grain-growing districts of New South Wales, South Australia and Victoria leaves a lot of heavy lifting to be done by in-season rainfall. While the outlook for autumn is dry, a decent (if late) break should be sufficient. Meanwhile, the WA wheatbelt is enjoying good soil moisture.

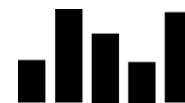
If it stays drier than average, beef production is likely to be elevated amid ongoing northern destocking.

PRODUCTION OUTLOOK (ABARES MARCH 2018)

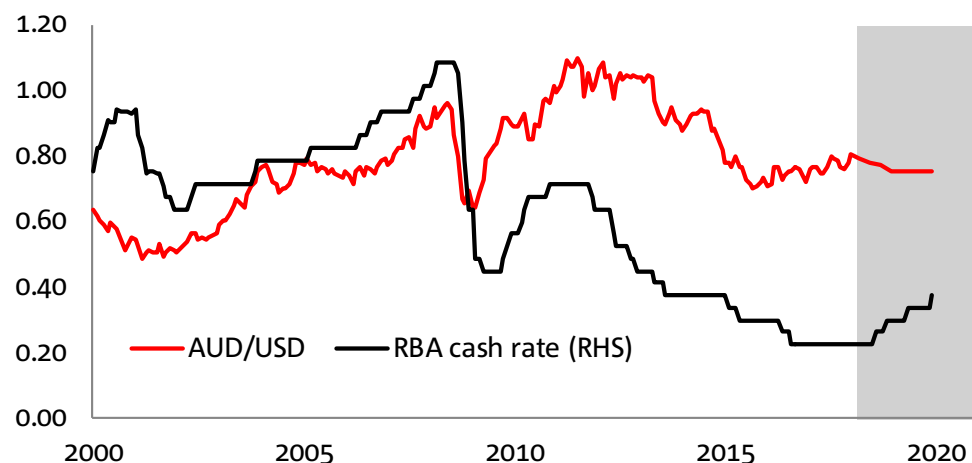
Financial year production estimates, Australia

	2016-17	2017-18	% change
Wheat (million tonnes)	34.4	21.2	▼ 38.2%
Beef (kt)	2,069	2,227	▲ 7.6%
Dairy (milk, ML)	9,015	9,250	▲ 2.6%
Lamb and mutton (kt)	669	710	▲ 6.1%
Wool	414	424	▲ 2.4%
Sugar (kt)	4,804	4,700	▼ 2.2%
Cotton (lint, kt)	891	995	▲ 11.7%

EXCHANGE RATES AND INTEREST RATES



EXCHANGE AND INTEREST RATES INC. QUARTERLY FORECASTS



NAB FX STRATEGY TARGETS

	2018Q1	2018Q2	2018Q3	2018Q4
AUD/USD	0.79	0.78	0.77	0.75
NZD/USD	0.72	0.72	0.71	0.70
USD/JPY	110	110	109	109
EUR/USD	1.25	1.28	1.30	1.30
USD/CNY	6.28	6.25	6.20	6.18

Source: NAB

After rising from 0.75 to 0.81 in late December and early January, the AUD/USD subsequently experienced a 4.5% decrease in late January. This volatility highlights the sensitivity of current environment in reacting to changes in risk sentiment and it is expected that the AUD should fall further.

In the last 3 years the AUD/USD has peaked above 0.80 four times but such a peak has primarily been short-lived, lasting only weeks or even days.

NAB recently revised the end-2018 forecast from 0.73 to 0.75 AUD/USD to account for the cyclical downtrend that the US dollar appears to have entered. Unless there is a much more significant drop in risk appetite, the current NAB end-2018 forecast for AUD/USD relies on softer commodity prices, which are also forecasted. Such prices would lead to a weaker AUD across the board (bar AUD/NXD).

A significant uncertainty in the current forecast is whether lower Australian commodities prices can co-exist with a weaker USD and continued strong global economic growth. Due to known supply increase and the expected fall in Chinese steel production, the answer to this uncertainty is thought to be yes for iron ore and coking coal.

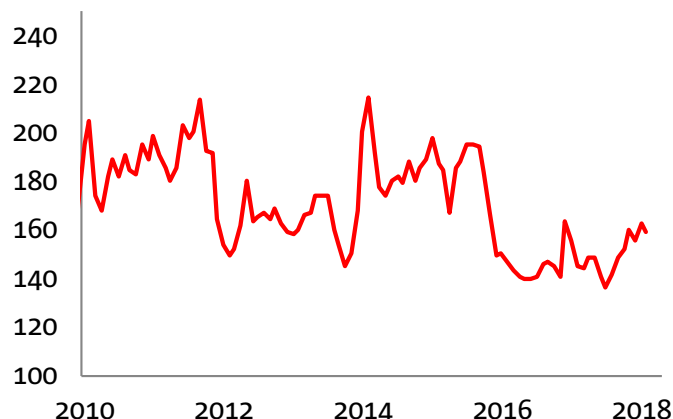
Weak wages growth and slow progress reducing unemployment means it is now less likely that the RBA will raise rates twice in 2018 (our previous forecast). We now see the RBA raising rates only once in late 2018 – with November 2018 as the most likely start date for a gradual RBA rate hiking cycle. That said, much will still depend on the data flow – it is not impossible that the RBA stays on hold for all of 2018 and raises rates in early 2019.

FARM INPUT PRICES



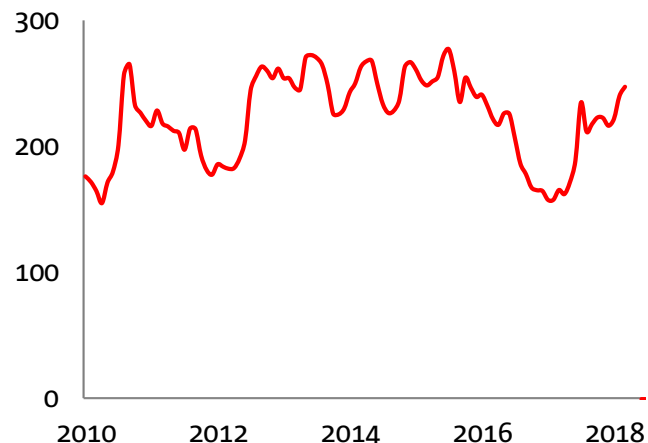
NAB FERTILISER INDEX

AUD index



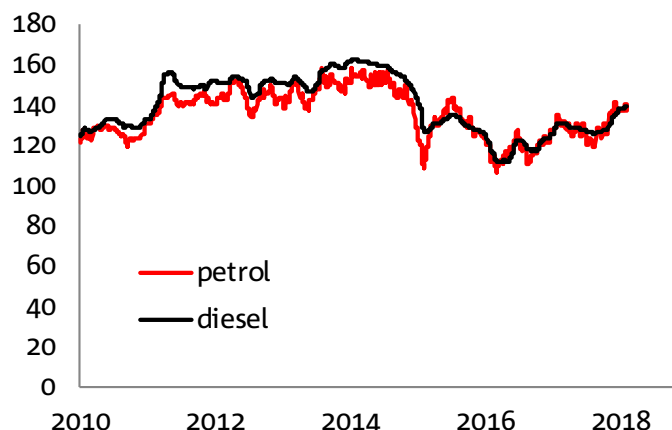
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



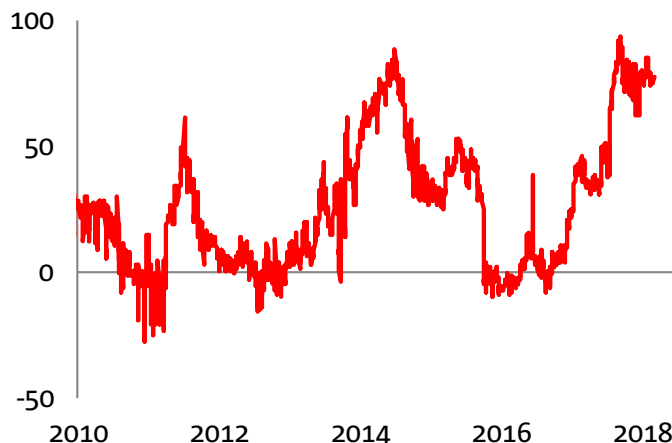
NATIONAL AVERAGE FUEL PRICES

AUc/litre



GEELONG-BRISBANE PRICE SPREAD

ASW1 cash price, AUD/tonne



Domestic feed prices are elevated in Queensland and northern New South Wales as a feed shortage bites amid dry conditions. The premium for ASW1 from Geelong to Brisbane is in the order of \$75-80/tonne. While rains in the last week will no doubt aid pasture growth in parts of Queensland, feedlots will still need grain for the foreseeable future and there won't be much available in Queensland for several months. Consequently, we see these premiums remaining for some time yet.

Fertiliser prices were lower in February, reflecting lower US natural gas prices, although DAP and urea continued to rise in USD terms. With the rally in oil prices having been blunted for now, there may be some stabilisation in fertiliser prices in the short term.

The rising fuel prices experienced in late 2017 have continued into 2018. Brent is currently trading in the mid 60s range, down from its peak but enough to add some pressure at the pump. This in conjunction with the recent decrease in AUD/USD is likely to see petrol largely in the 130-135 Australian cents/litre range.

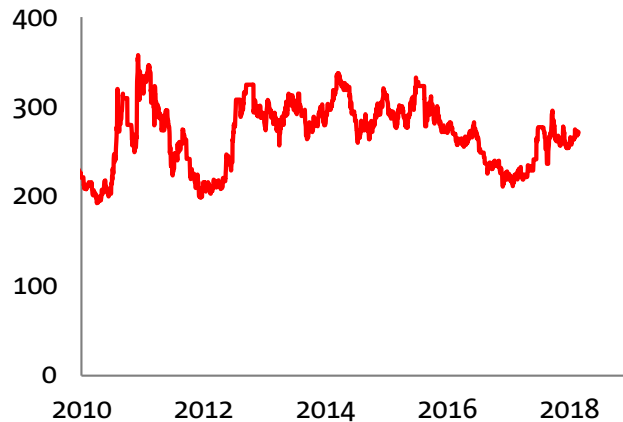
Source: Bloomberg, Profarmer and NAB Group Economics

WHEAT



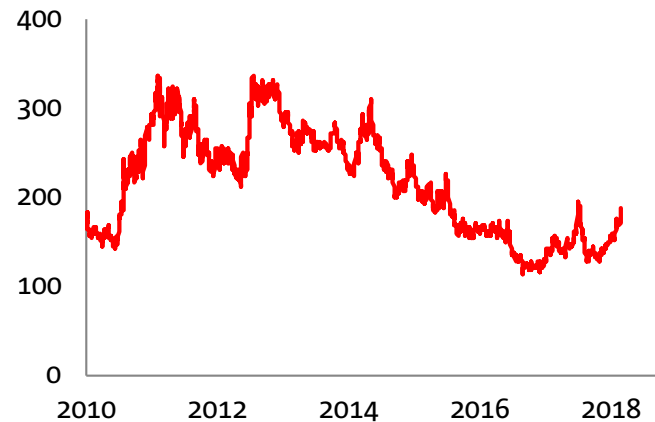
ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



CBOT SOFT RED WINTER WHEAT

USD/tonne

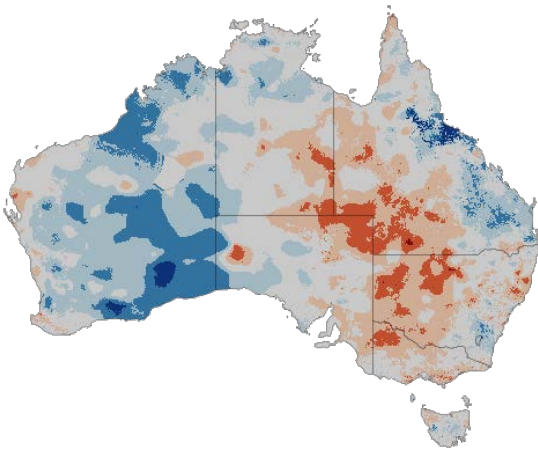


Prices

Global grain prices have surged recently, with heavily traded CBOT wheat futures jumping on US weather concerns. A recent USDA report rated 49% of the Kansas winter wheat crop at “poor” to “very poor”. At this stage, unless there is a good spring, US winter wheat yields are likely to take a hit. Still, it would take a considerable fall in global production to see a sustainable jump in global prices. We are not at this point yet, although the US situation will be key. Domestic grain continues to trade at a premium and will likely continue to until feed shortages are alleviated on way or another.

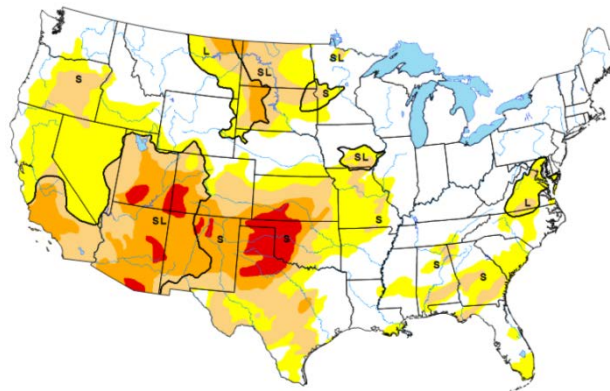
ROOT ZONE SOIL MOISTURE

Relative to average, 1 March 2018



US DROUGHT MONITOR

27 February 2018



Production

Bulk receival data from CBH in the west and Graincorp in the east shows a very mixed 2017-18 season. CBH receivals in WA are down 20%, not a bad result given the tough start to the season especially in the Geraldton and Kwinana zones. On the east coast, New South Wales and Queensland look grim, both down 68%. Victoria was a much more modest 21%. ABARES' latest estimate is for 2017-18 production to total 21.2 million tonnes, although we are a little more circumspect. Low subsoil moisture will make the 2018-19 crop heavily dependent on in-season rainfall events and the outlook for autumn is dry at this stage.

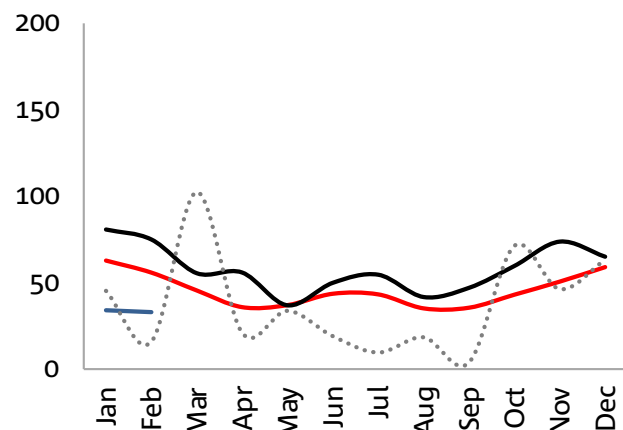
Source: Bloomberg, Profarmer, CBH Group, Graincorp, US drought monitor, BoM and NAB Group Economics

MONTHLY AVERAGE RAINFALL IN WHEAT REGIONS (MM)

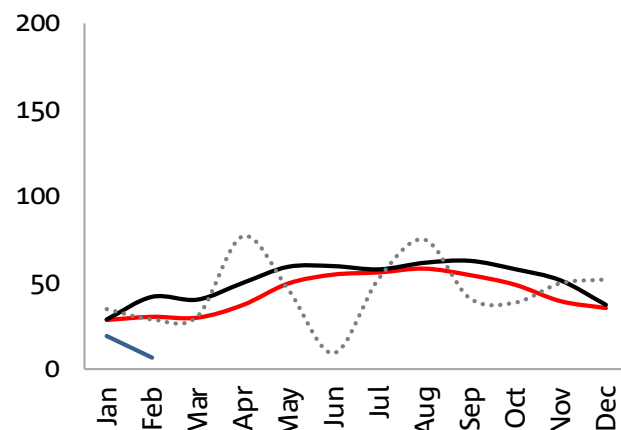


— Long run average 1900-01 to 2013-14 — La Nina years — 2018 YTD 2017

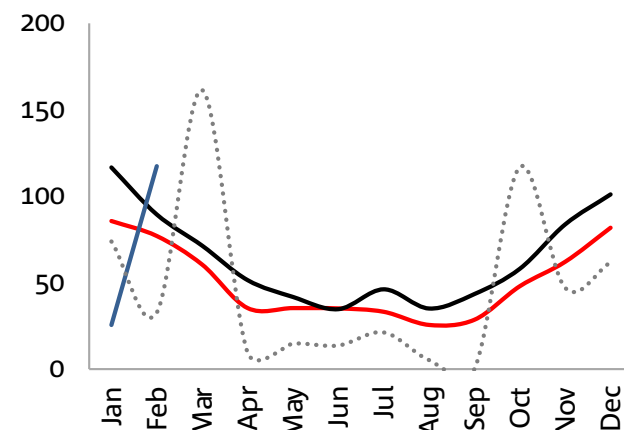
NEW SOUTH WALES



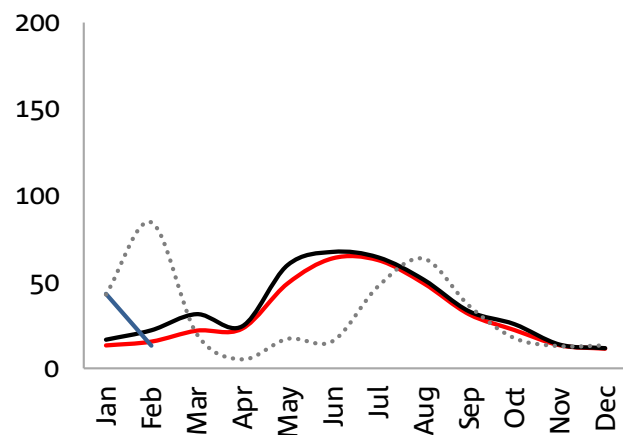
VICTORIA



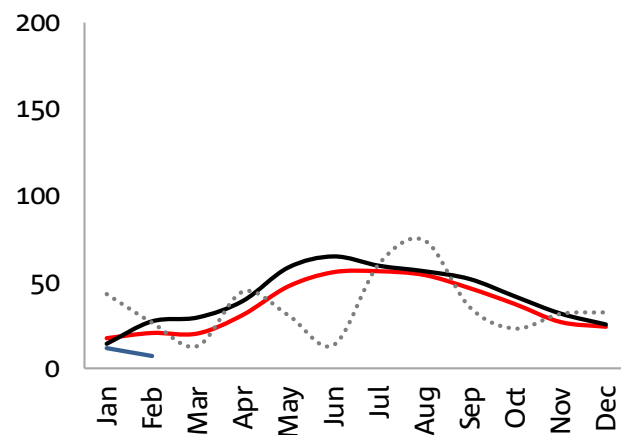
QUEENSLAND



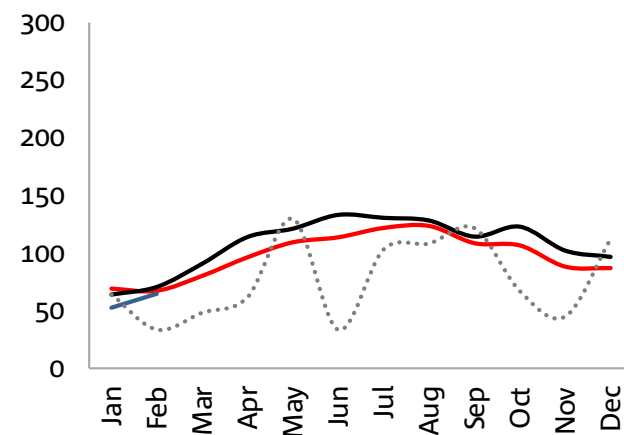
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA

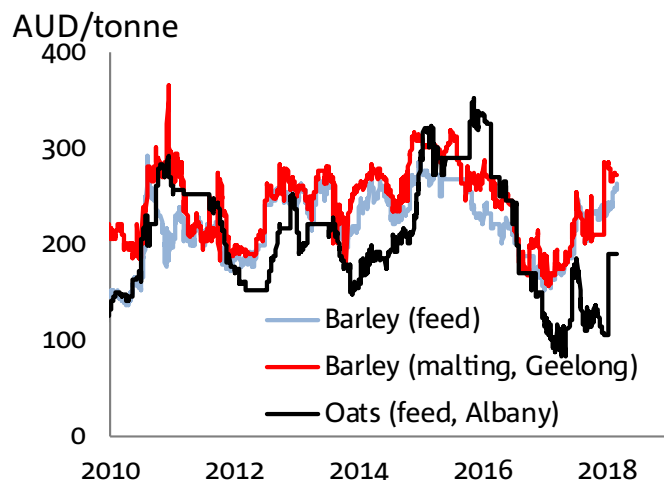


Source: Bureau of Meteorology and NAB Group Economics

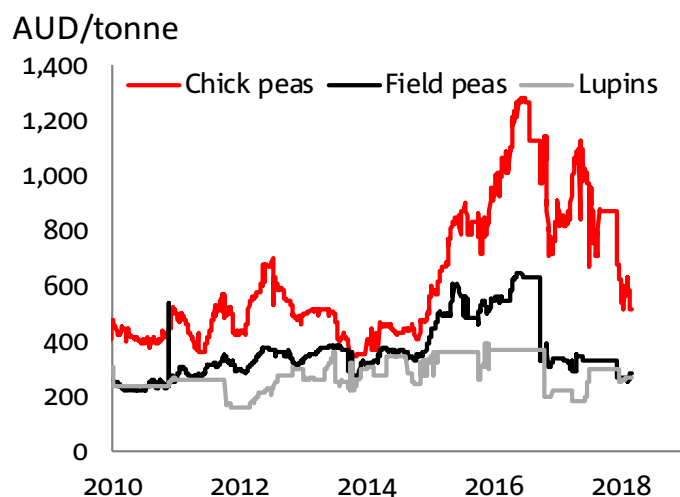
OTHER WINTER CROPS AND SUGAR



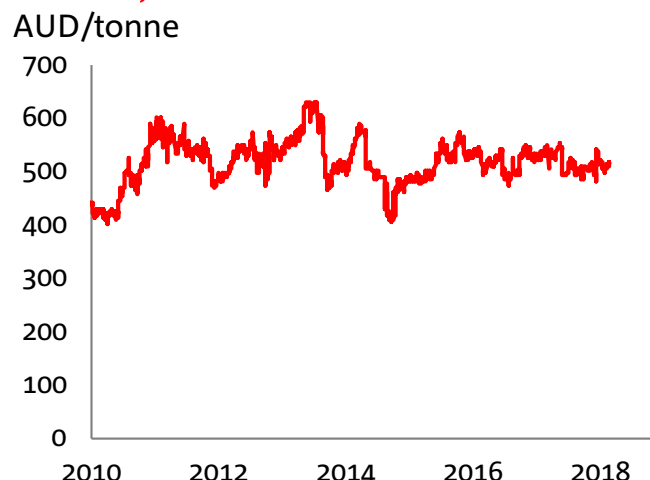
SELECTED COARSE GRAINS



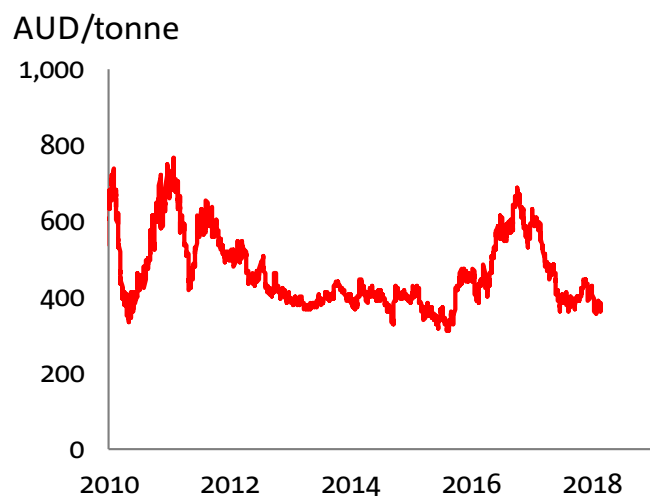
SELECTED PULSES



CANOLA, NEWCASTLE NSW



ICE NO.11 SUGAR



Barley prices have been driven higher by the aforementioned northern feed demand. Such is demand that feed barley is trading close to ASW levels, a delicious prospect for those with barley in storage.

On the other hand, pulses prices have tanked in response to the Indian Government's decision to impose a 30% tariff on chick peas and lentils. This has been compounded last by a further increase in the chick pea tariff to 40%. These tariff hikes represent domestic Indian political considerations with eight state legislative assembly elections in the coming year.

Most of Australia's chick peas and lentils are exported to India. Chick pea prices (Port of Brisbane) fell 24.3% in January, rose slightly in February but are lower again this month (to date).

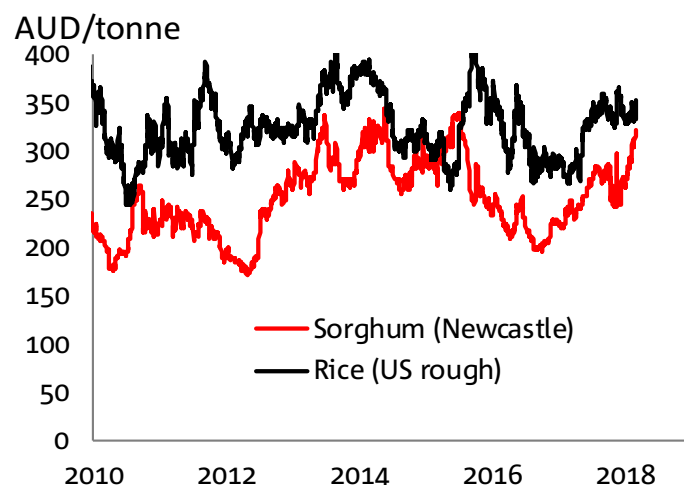
Sugar prices have fallen after a period of cautious optimism in the second half of 2017. In AUD terms, sugar prices were down 2.6% in February.

Source: Bloomberg, Profarmer and NAB Group Economics

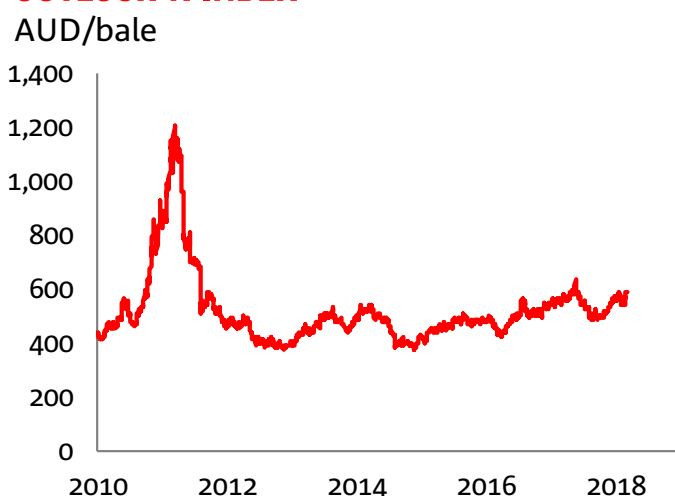
SUMMER CROPS



SORGHUM AND RICE

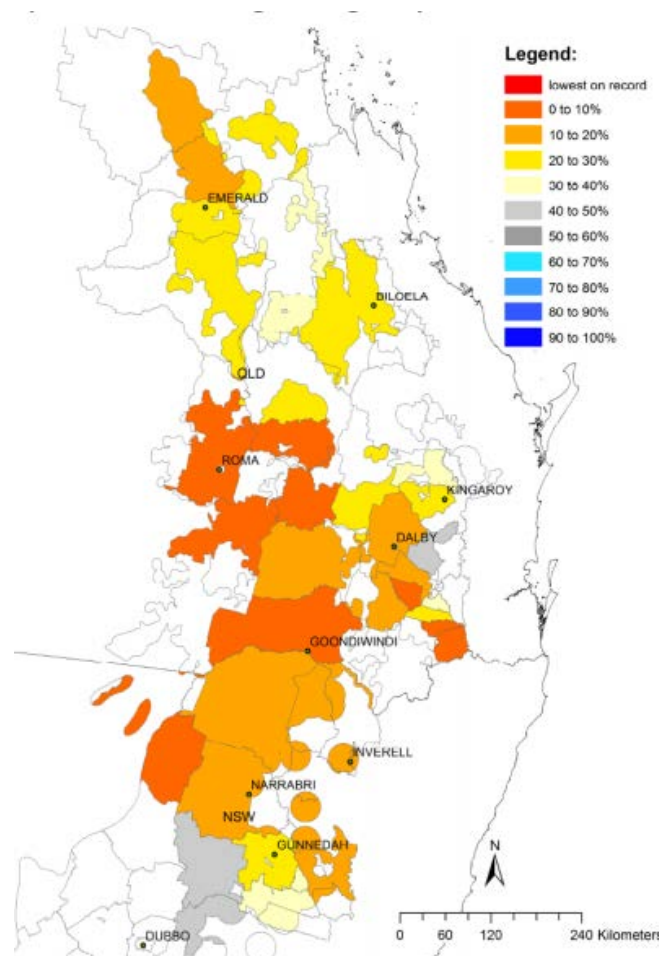


COTLOOK A INDEX



ABARES SORGHUM YIELD ESTIMATES

Forecast median against all years



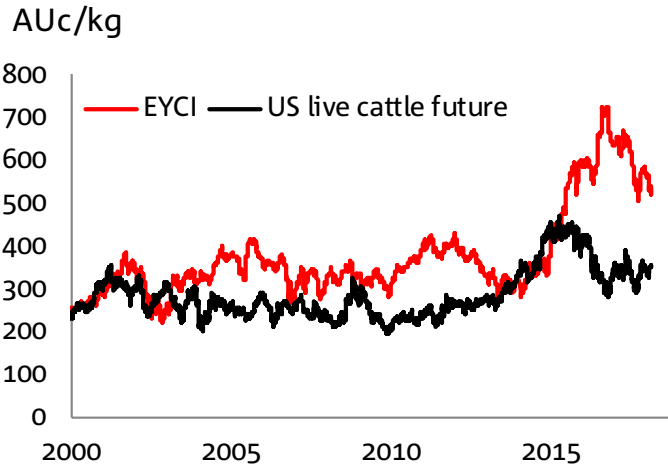
The outlook for sorghum has faded through the season, as good planting conditions gave way to a very dry January. The latest ABARES forecasts from February show higher sorghum plantings, with the area planted up 35% in Queensland and 11% in New South Wales. While production is likely to increase compared to last year, it will be below early season expectations and arguably insufficient to meet northern feed demand ABARES forecasts that Queensland will produce 998kt of sorghum in 2017-18, while New South Wales will produce 465kt.

Meanwhile, ABARES February forecasts for cotton lint point to production increasing 16% in New South Wales and 4% in Queensland, although the total area planted is expected to have fallen. While irrigated cotton makes up around three-quarters of Australian production, dryland plantings could become more enticing. With cotton a very profitable crop, it is likely that the industry will expand in coming years. Cotton prices fell in February (down 2.1% in AUD terms) although prices this month look more favourable.

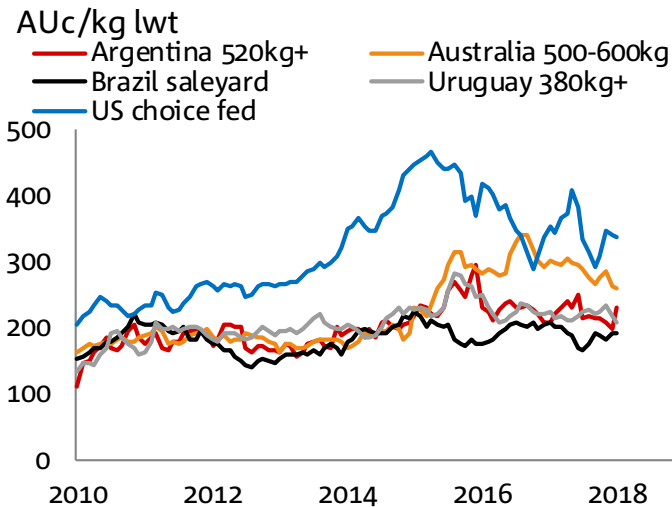
Source: ABARES, Bloomberg, Profarmer, ABARES and NAB Group Economics



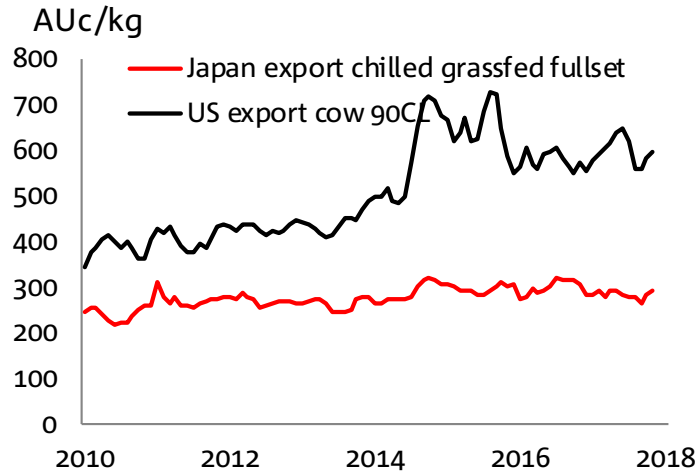
EYCI AND US LIVE CATTLE FUTURES



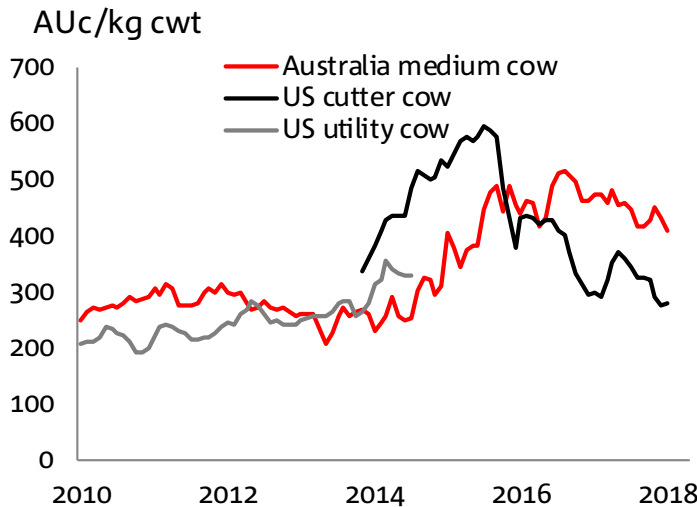
GLOBAL STEER PRICES



SELECTED AUSTRALIAN EXPORT PRICES



AUSTRALIAN AND US COW PRICES



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

Australia's performance against international cattle price benchmarks continues to be troublesome. While the 2014 to 2015 period saw a huge boom in US cattle indicators, as the effects of the 2011 US drought were felt in lower US stock levels, the US herd has rebuilt fairly rapidly on cheap feed. US indicators have since been generally lower since their 2015 peak, although Australia-US import prices have held up better than some domestic US indicators.

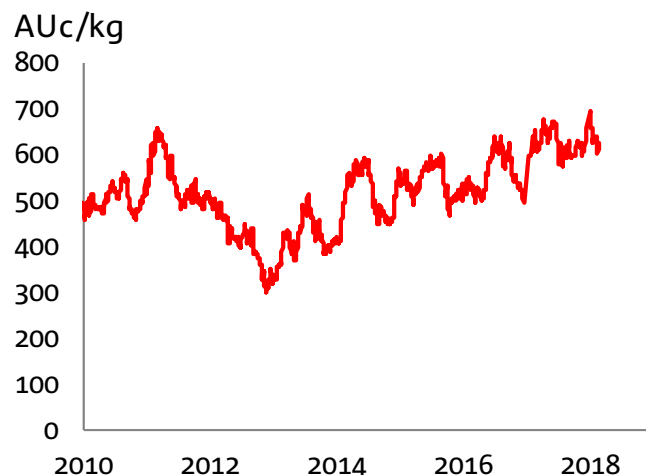
The challenge for Australia is that saleyard prices have been largely running on restocker interest since 2016, coinciding with declining US prices. This is arguably unsustainable, even accounting for a depleted national herd. Another obstacle for Australia is in emerging markets such as China, where the low cost of South American beef has been a major challenge for Australian exporters.

Ultimately, the key question for Australia is to what extent saleyard prices simply reflect pasture availability rather than global fundamentals. Our view is that global trends are likely to put downward pressure on Australian prices, although dry weather in the US could see this picture change in 2018. We see the EYCI at the 500 mark or thereabouts over the coming months, although good rainfall challenges this.

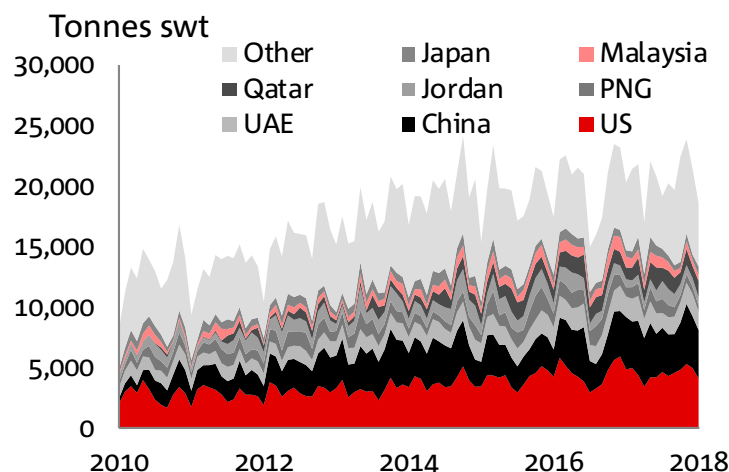
LAMB AND WOOL



NATIONAL TRADE LAMB INDICATOR



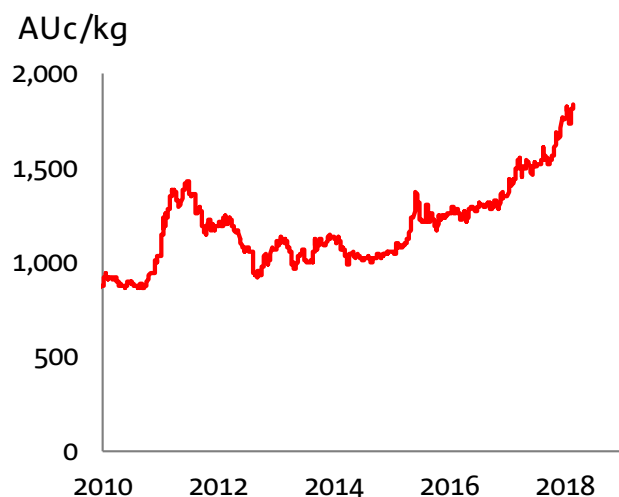
MONTHLY LAMB EXPORTS BY DESTINATION



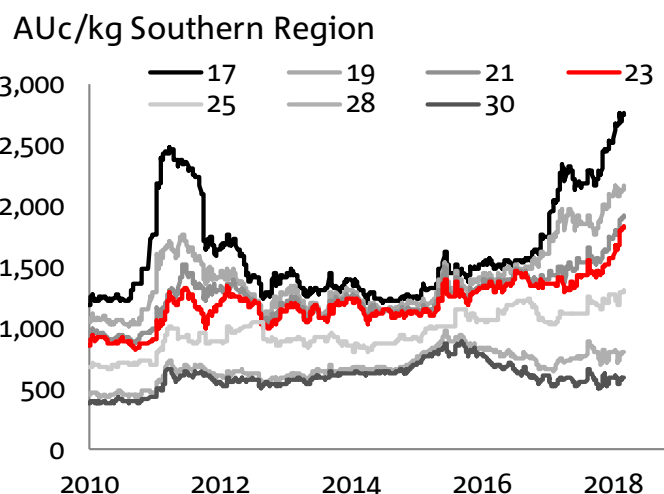
Lamb prices have been tempered somewhat of late, although the reality is that the industry continues to have a strong run, underpinned by decent export demand combined with a strong interest in rebuilding flocks (which arguably contributed to the lack of seasonal price drop last spring). The MLA National Trade Lamb Indicator is currently tracking around the same level as this time last year (currently 622/kg).

Export markets for lamb are reasonably diversified, with the US and China accounting for a substantial volume. It looks likely that demand will continue to be strong this year.

WOOL EASTERN MARKET INDICATOR



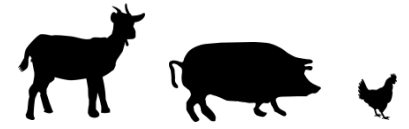
WOOL PRICES BY MICRON



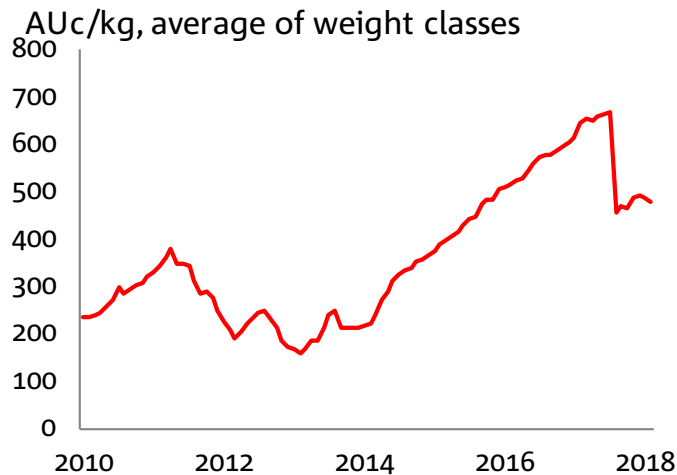
The wool industry continues to enjoy eye-watering prices. The Eastern Market Indicator currently stands at 1,830c/kg, close to record. This represents an excellent return for growers nonetheless and goes some way to explaining the resilience in lamb prices. Looking across the micron range, the biggest gains have been in fine and superfine wool, with below 20 micron seeing the best performance. The run up in prices has been largely led by Chinese demand, although it is not clear whether these prices can be sustained at such high levels without some substitution by buyers to either coarser wool or even cotton or synthetic fibres.

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

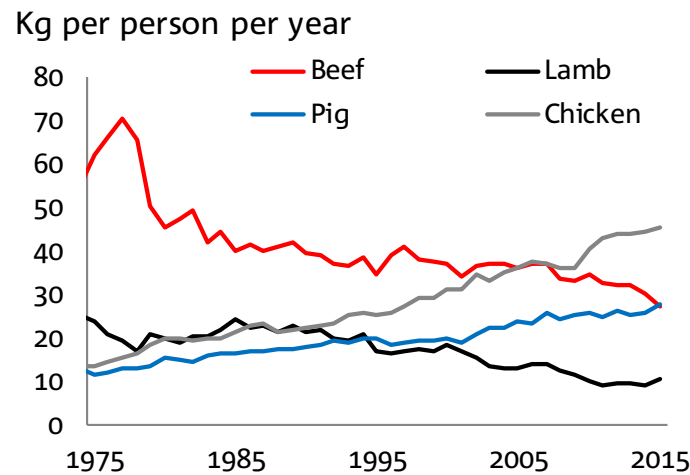
PORK, POULTRY AND GOAT



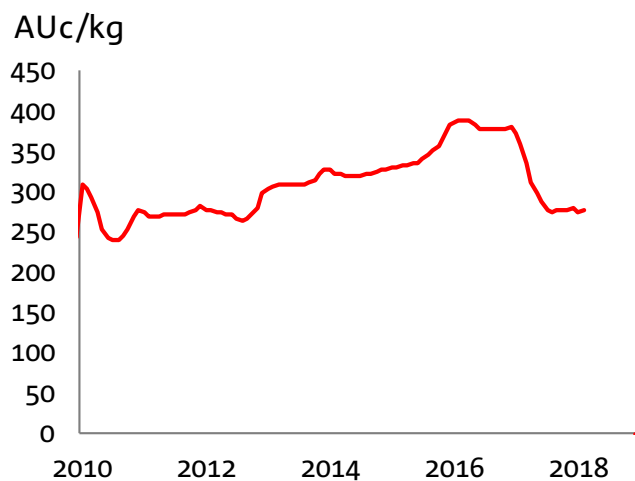
EASTERN STATES GOAT PRICES



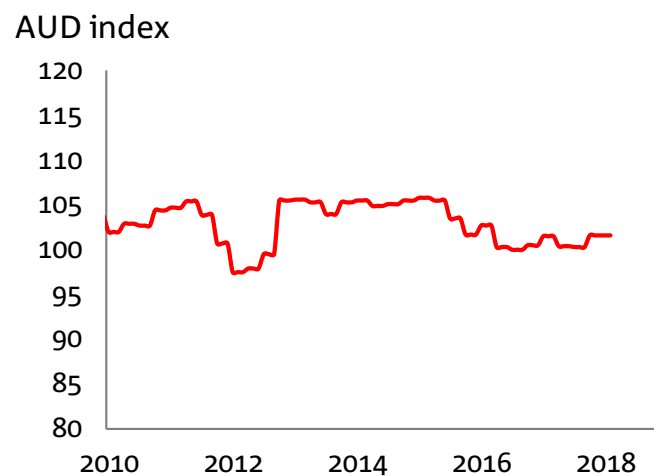
AUSTRALIAN MEAT CONSUMPTION



AUSTRALIAN PORK PRICE INDICATOR



ABS POULTRY PRICE INDEX



Chicken and pork are the first and second most consumed meats respectively in Australia. While beef was once king, it was overtaken by chicken in 2006 and lost its second place to pork in 2015. This reflects a combination of the perceived health benefits of chicken but probably much more importantly its lower cost. Beef and lamb have become relatively expensive while retail prices for chicken (measured by the ABS) have seen little change in years.

Wholesale pork prices crashed over 25% peak to trough in 2017, but prices have been much more stable over the last 6 months. Our pork price indicator (using an average of Australian Pork reported buyer and seller prices for Eastern Australia) was unchanged in February.

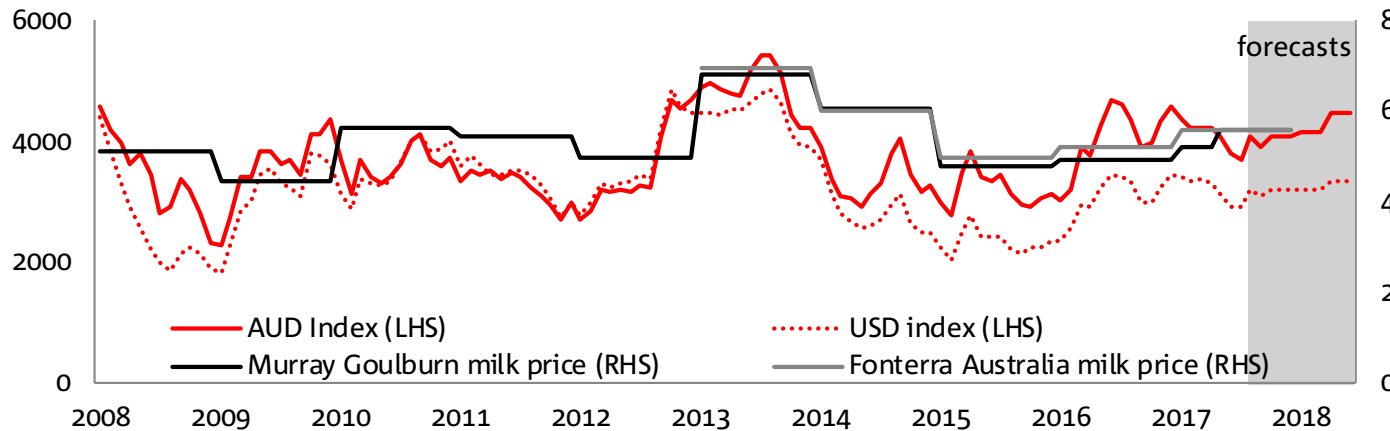
Although the NAB Rural Commodities Index does not include goat, the commodity has become an important source of revenue in parts of New South Wales and elsewhere. MLA data on goat prices shows a steady run-up in prices until mid-2017, before falling from mid-600s to 471c/kg (February 2018 average).

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)

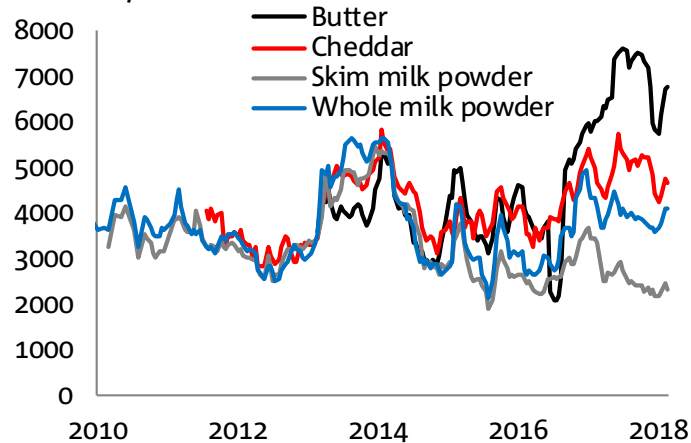


Dairy prices rebounded in February, largely reflecting a 5.9% uptick at the 6 February GDT auction and a decline in the AUD (albeit from elevated levels). Overall, the NAB weighted dairy export price indicator was up 9.7% in AUD terms.

While this price gain is certainly welcome, our forecasts do not point to much upside for global dairy prices in USD terms in the coming year. Local gains more likely to come from currency or competition between processors. There are increasing risks that global dairy prices will come under pressure amid northern hemisphere oversupply and a recovery in NZ.

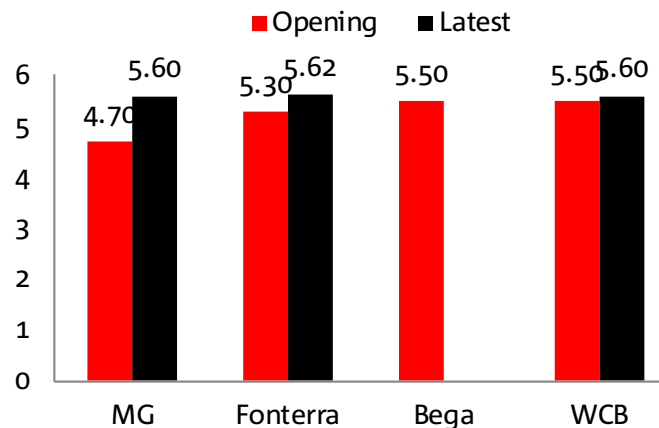
GDT AUCTION RESULTS

AUD/tonne



FARMGATE PRICES

Opening and latest (MG not whole year)



Farmgate prices are tracking in the mid-\$5 range in AUD terms for major processors. Given global market risks, there may be limited upside from here, as these prices are close to the long run average (AUD5.90/kg milk solids nationally over the last 8 years).

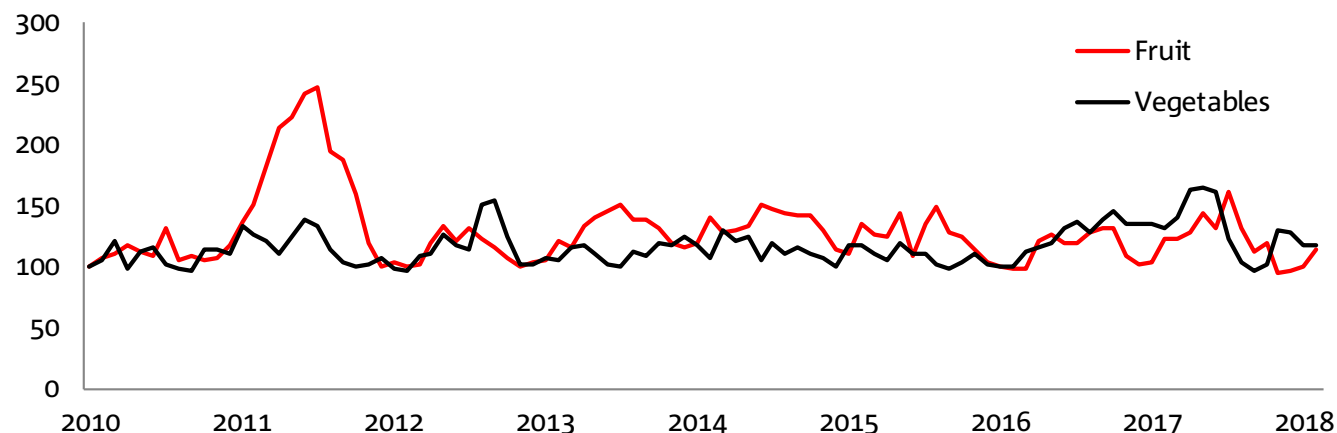
Last week, the ACCC flagged limited concerns over Saputo's takeover of MG which may see MG required to divest the Koroit plant.

Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, IBISworld and NAB Group Economics
Note: chart shows Murray Goulburn farmgate prices except 2008-09 which shows Dairy Australia's reported Victorian average value. MG latest farmgate prices apply from 1 November 2017 and are not retrospective.



WHOLESALE FRUIT AND VEGETABLE PRICES

AUD index, Sydney and Melbourne market average, Jan 2010=100

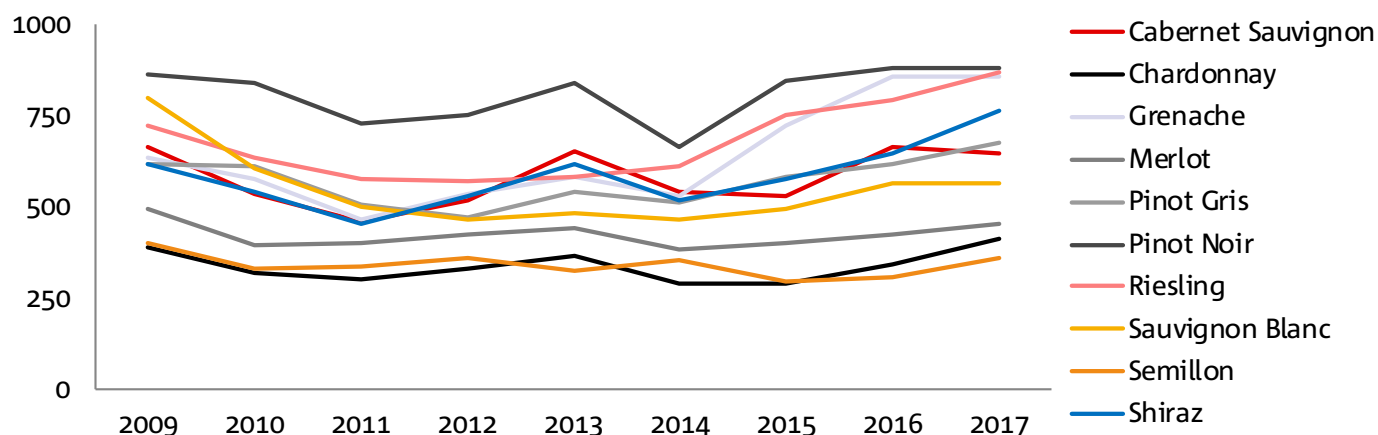


We produce wholesale price indices for fruit and vegetables, based on data from the Melbourne and Sydney wholesale markets.

Wholesale fruit and vegetable prices were (as is mostly the case) mixed in February. Fruit was up 14.3%, largely reflecting seasonal factors. In January the index stood at 114.8 index points (January 2010 = 100). Vegetables were flat – down 0.2% to 117.2 index points.

WINE AUSTRALIA WEIGHTED WINE GRAPE PRICES

AUD/tonne



Wine Australia's 2017 National Vintage Report shows prices rose once again this year, with the average of all wine grapes up 7% on a volume weighted basis. An AUD at more sustainable levels in 2016 likely explains some of the increase, although the higher currency more recently is some concern. Overall the industry looks to be on a more sustainable footing following years of glut and poor export conditions. Among the best performers were Riesling (up 13%), Shiraz (up 12%), and Pinot Gris (up 9%).

Source: Ausmarket Consultants, Wine Australia and NAB Group Economics

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