


# RURAL COMMODITIES WRAP

APRIL 2018

Author | Phin Ziebell  @PhinZiebell

Cover photo | Carl Davies CSIRO



## KEY POINTS

The US-China trade dispute, which began with the US imposition of steel and aluminium tariffs, has now widened considerably. While the confrontation has not yet reached an all-out trade war yet, China's retaliatory 25% tariff on over a hundred US agricultural products is an escalation. Soybeans are included in the tariffs, a major development given that China takes around two-thirds of global soybean trade. The extent to which this will affect Australian agriculture is unclear, with potential upside into some Chinese markets (e.g. horticulture, wine and potentially feed grains) but with a dose of uncertainty, particularly for global grain markets.

Back home, winter planting is rapidly approaching and conditions are hotter and drier than average across most grain-growing regions. While there is still plenty of time for rains to provide good yields, in-season events will be key, with little subsoil moisture going into planting.

Overall, Australian agricultural prices strengthened in March, with the NAB Rural Commodities Index up 3.0%.



# PRICE UPDATE



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The NAB Rural Commodities Index gained 3.0% month on month in March, its second consecutive rise. On a year on year basis, the index was up 0.6% in February. The recent upturn largely reflected favourable cotton, cattle, grain and horticultural prices.

The AUD remains perhaps higher than many producers would like, although we don't expect major downside from here (75c by the end of 2018).

## MONTHLY PRICE CHANGES

AUD prices

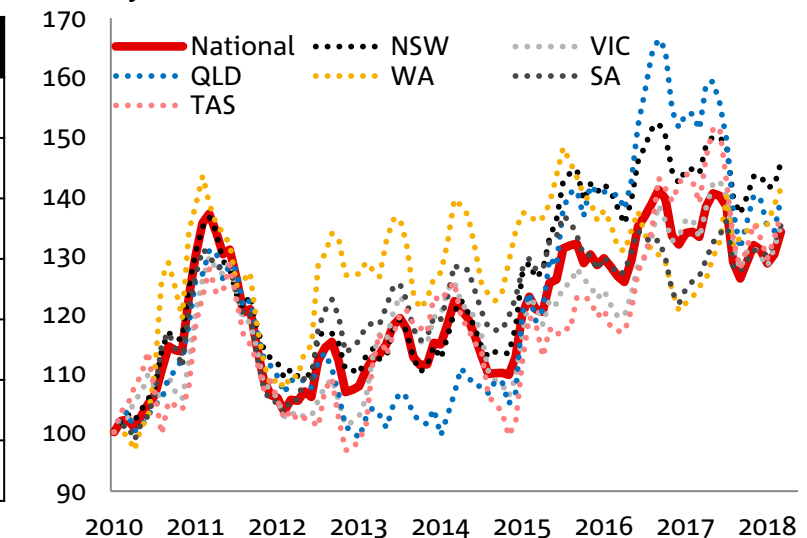
	January	February	March
Wheat	▼ 0.7%	▲ 3.3%	▲ 2.4%
Beef	▼ 4.4%	▼ 3.5%	▲ 4.2%
Dairy	▼ 2.1%	▲ 9.7%	▲ 2.1%
Lamb	▲ 1.0%	▼ 3.7%	▼ 1.6%
Wool	▲ 2.5%	▲ 1.4%	▼ 1.1%
Sugar	▼ 6.4%	▼ 2.6%	▼ 4.2%
Cotton	▲ 2.2%	▼ 2.1%	▲ 5.8%

On a state basis, cattle-heavy Queensland was the best performer, up 4.1% and reflecting good rains across much of the state. New South Wales was up 2.9%, while Victoria and Tasmania were up 2.8% and 3.1% respectively. South Australia was up 2.3% while grain dependent Western Australia rose 2.1%.

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

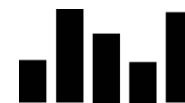
## NAB RURAL COMMODITIES INDEX

January 2010 = 100



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

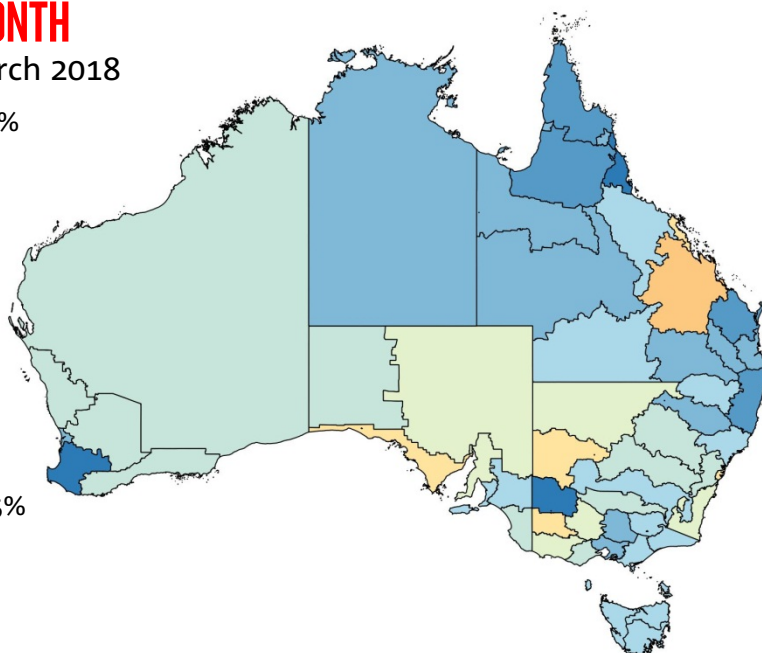
# REGIONAL PRICE INDICATORS



## MONTH ON MONTH

February to March 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%



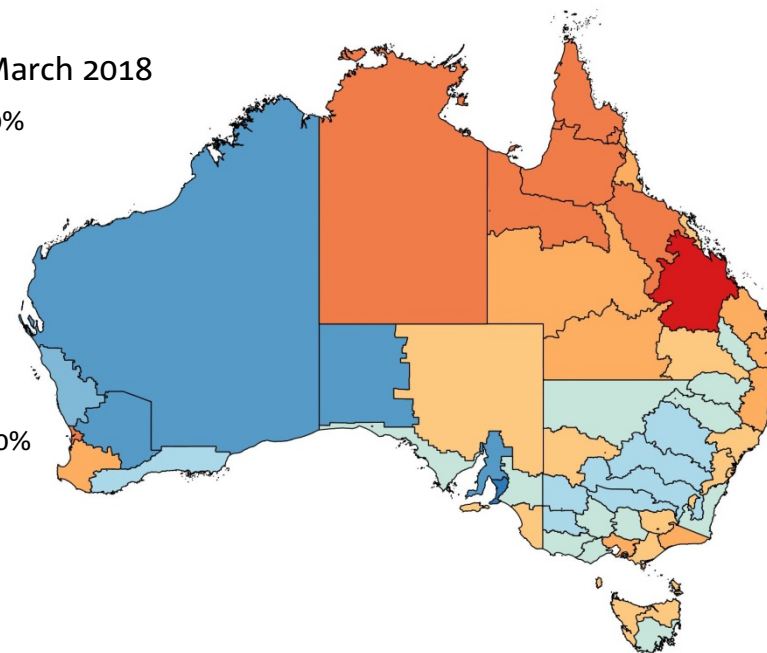
Monthly regional price indicator data shows improved prices across most of the country in March, particularly in cattle country and horticulture heavy regions.

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

## YEAR ON YEAR

March 2017 to March 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%



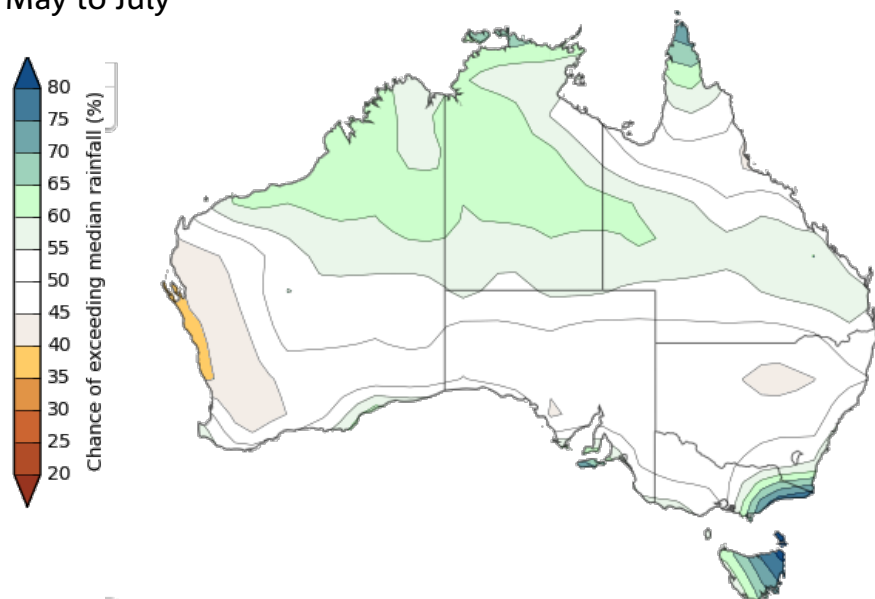
NAB's regional price indicators are in effect a set of separate NAB rural commodities indices for every region in Australia. The project is still in a trial stage and is calculated on a different basis to our national and state data i.e. without annual chain-weighting. We will continue to develop this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

May to July



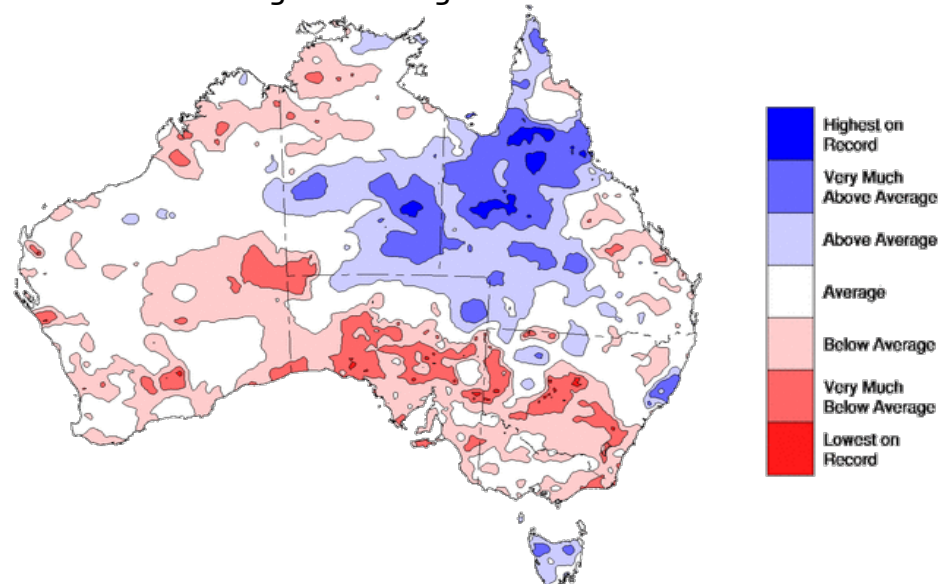
The Bureau of Meteorology's latest three month climate outlook for May to July points to mostly neutral conditions in southern Australia, although Gippsland and Tasmania may see higher than average rainfall. Much of northern Australia is forecast to see above average rain, especially the Northern Territory, the Pilbara and Kimberley. Parts of the WA wheatbelt and north as far as Shark Bay may see below average rainfall.

If this forecast is borne out, and parched cropping districts get close to average rainfall close to planting, the season could still see good yields, but a very late break will make things harder.

Source: Bureau of Meteorology

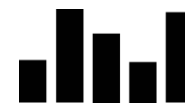
## RAINFALL – MARCH 2018

Deciles based on long run average data



March rainfall has been very mixed overall, with a large part of Queensland and the Northern Territory enjoying very wet conditions and most of Tasmania also exceeding the average, but other areas are very dry. New South Wales, South Australia and parts of Victoria are experiencing the most challenging conditions.

# OUTLOOK FOR PRICES AND PRODUCTION



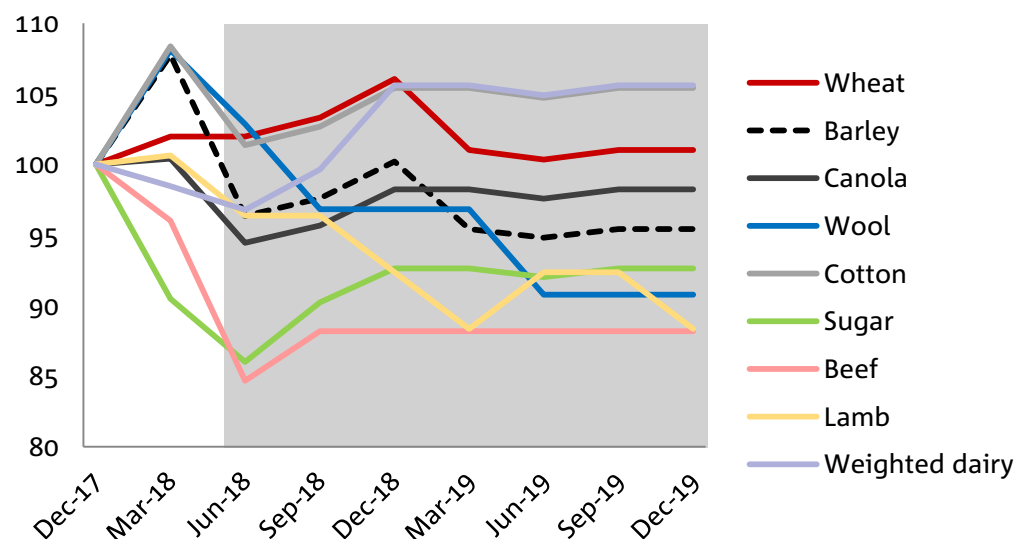
## Prices

Dry weather has been a major driver of elevated grain prices, slashing grain in the system on the east coast and increasing demand for supplementary feed. While the latter pressure has been alleviated somewhat by the strong rains in parts of Queensland, dry conditions south of the Tweed have caused some jitters about yields in the season ahead (although anything could happen if conditions turn). Cattle prices jumped on Queensland rain but have since retreated somewhat. The EYCI is now around 538c/kg. We still see a fall to around the 500c range as likely this year.

A US-China trade war threatens to throw a spanner in the works, although it is too early to assess the full impact for agriculture.

## 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, Victoria and increasingly Western Australia leaves a lot of heavy lifting to be done by in-season rainfall. The outlook for late autumn and early winter is mostly average, although forecast reliability is often low at this time of year.

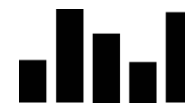
While rains in Queensland have boosted sentiment in the cattle industry, we have seen less restocker activity than perhaps expected.

## PRODUCTION OUTLOOK (ABARES MARCH 2018)

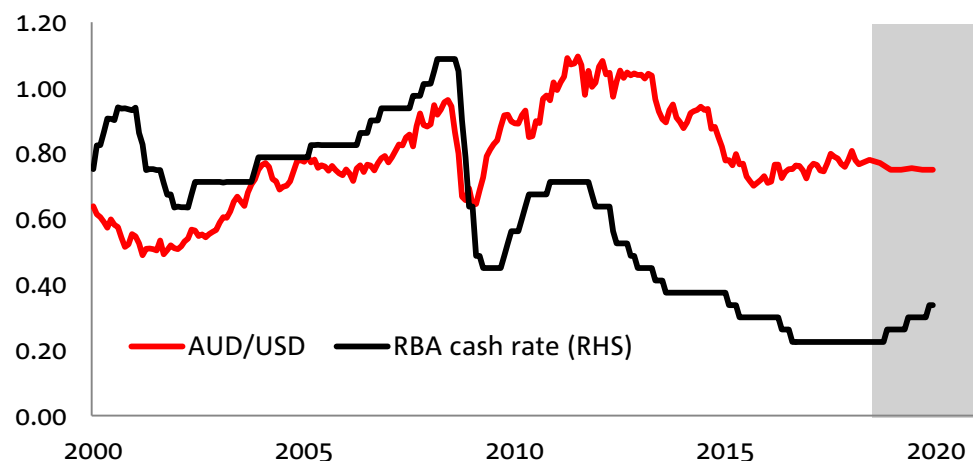
Financial year production estimates, Australia

	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

	2018Q2	2018Q3	2018Q4	2019Q1
AUD/USD	0.78	0.77	0.75	0.75
NZD/USD	0.72	0.71	0.70	0.70
USD/JPY	110	109	109	109
EUR/USD	1.28	1.30	1.30	1.30
USD/CNY	6.25	6.20	6.18	6.18

Source: NAB

Our USD/ AUD model currently has a fundamental value estimate of 77c +/- 5c. We have maintained our forecast that the AUD may move down to around 75c by late 2018 (as interest rate differential move in the USD favour and commodity prices come off by around 5% during the year). For 2019 we see the AUD hovering around the mid 70s. Of course this forecast does not include the outbreak of a real trade war between the USA and China, which would see a significantly lower AUD.

On monetary policy the RBA is very relaxed. We agree that inflation is unlikely to be a problem and the more important risks revolve around the consumer. Our forecasts see the slack in the labour market gradually improving and private sector wages starting to finally move up. However the reality is that so far this has not happened - despite employers signalling that they are finding suitable labour harder to find.

While the global environment will see other central banks removing emergency stimulus, the RBA will be very focussed on the local economy. They would not be concerned if current settings see some downside to the AUD from interest rate differentials.

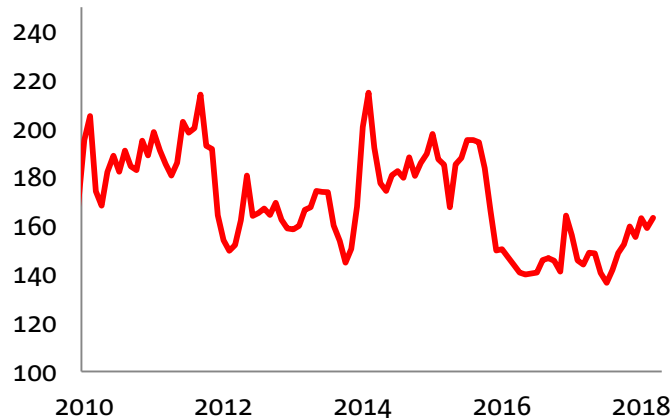
Clearly until the consumer shows more strength the RBA will be on hold. Currently the markets have only priced 7 points of hikes by end 2018. That said our forecasts still point to the possibility of a very cautious start by the RBA to move rates higher by late 2018. Clearly the risks are that the timing will be delayed. Going forward, the RBA will be very cautious and very data driven. We have however maintained our view that two additional rate rises are likely in 2019.

# FARM INPUT PRICES



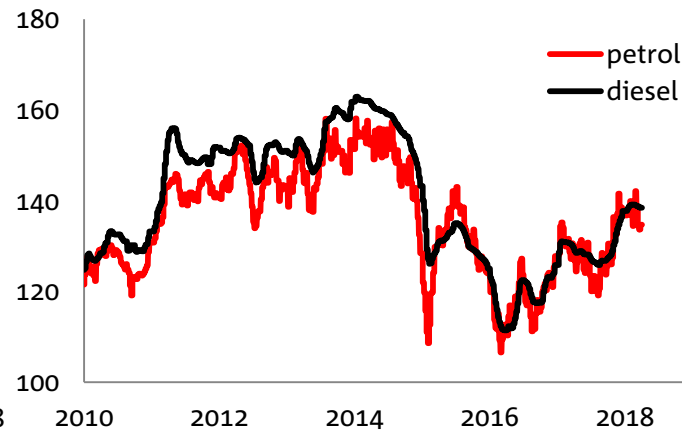
## NAB FERTILISER INDEX

AUD index



## NATIONAL AVERAGE FUEL PRICES

AUc/litre

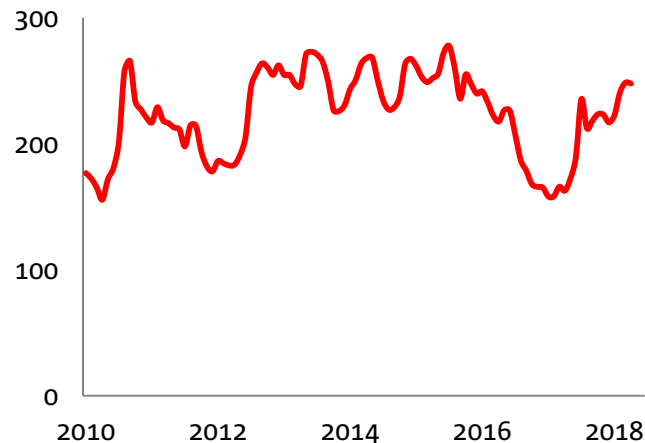


Fuel and fertiliser prices have been on the rise since last year. Given we expect oil prices to consolidate their gains and the Australian dollar to fall (although not by much), the risk for 2018 is probably on the upside.

Overall, the NAB Fertiliser index was up 2.7% in March, largely reflecting higher DAP and US natural gas prices, although urea prices have moved lower. This upward trend in fertiliser prices overall is likely to continue throughout 2018.

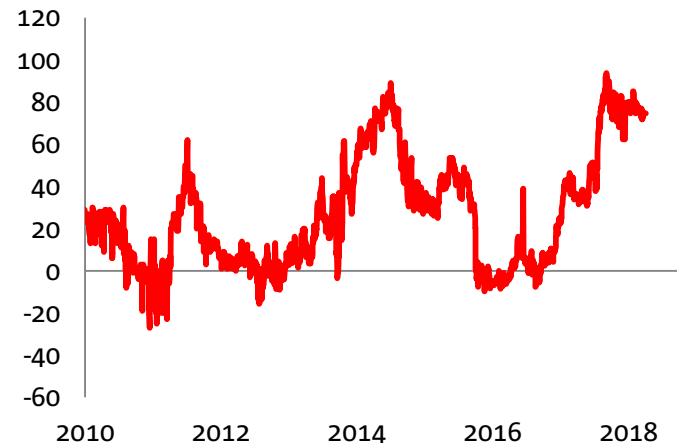
## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



## GEELONG-BRISBANE PRICE SPREAD

ASW1 cash price, AUD/tonne



Domestic feed prices are still elevated in Queensland and northern New South Wales despite good pasture growth in parts of the former. The premium for ASW1 from Geelong to Brisbane has remained relatively steady all year. Feedlots will still need grain for the foreseeable future so these premiums will probably remain for some time. Overall the NAB weighted feed grain price index was off 0.3% in March.

Brent is currently trading in the high 60s range, enough to add some pressure at the pump. We see petrol prices largely remaining in the mid 130s cents/litre range in 2018, although is very sensitive to oil prices and exchange rates, both of which are difficult to forecast.

Source: Bloomberg, Profarmer and NAB Group Economics

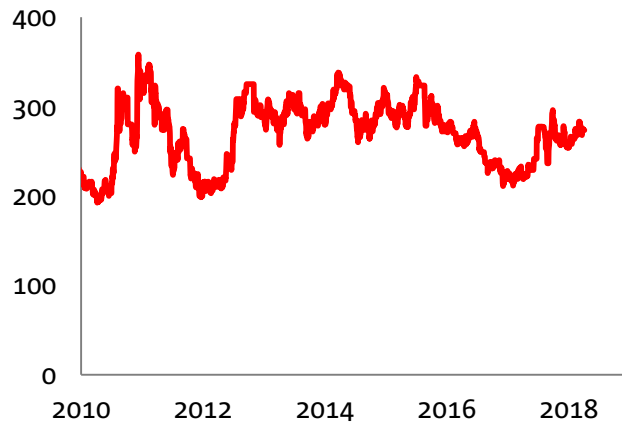


# WHEAT



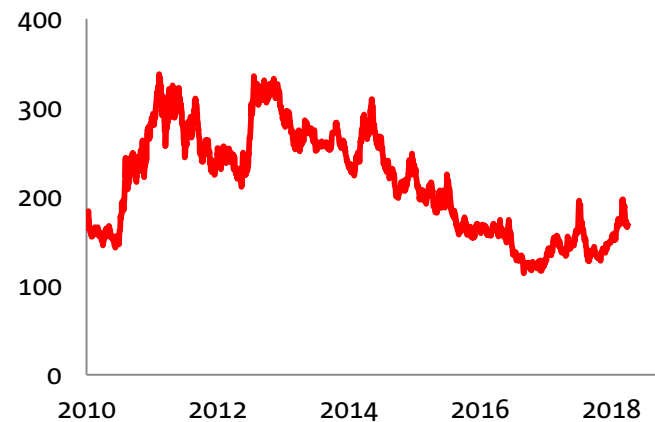
## ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



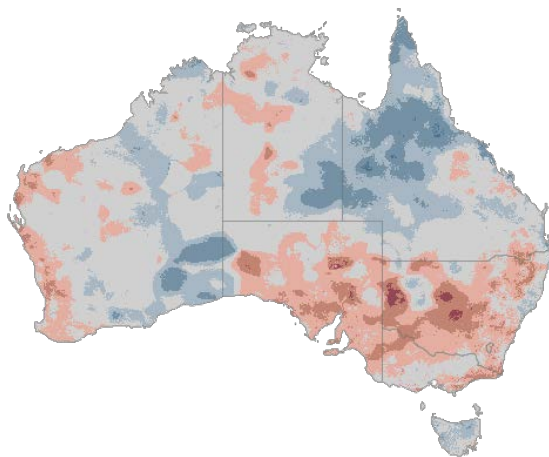
## CBOT SOFT RED WINTER WHEAT

USD/tonne



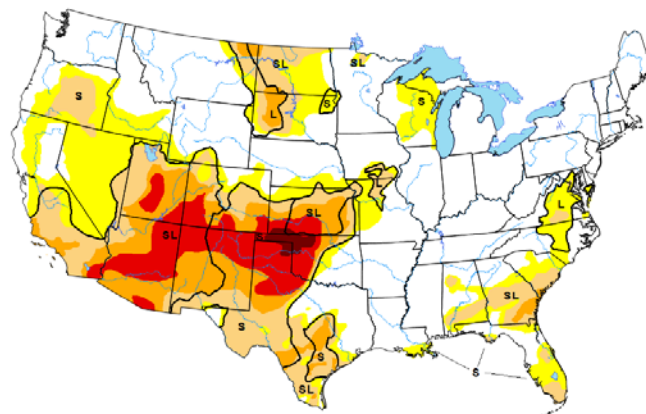
## ROOT ZONE SOIL MOISTURE

Relative to average, 4 March 2018



## US DROUGHT MONITOR

27 March 2018



### Prices

Global wheat prices have now lost most of their weather-driven March rally, although there have been signs of life in the last week amid reports of lower spring wheat plantings, winter wheat frost concerns and (the elephant in the room) worsening drought in parts of the US. But overall it remains tough to see a sustained rally amid strong global supplies.

Domestic wheat premiums remain – despite rain in Queensland putting a rocket under pastures. Lot feeders will continue to need grain for some time to come and after the disappointing summer crop, it is likely to remain at a premium for now.

### Production

Planting is rapidly approaching but most of Australia's wheat regions are as "dry as a chip". New South Wales, South Australia and the northern half of Victoria are particularly dry, although the situation in the west is somewhat better (although March rainfall in the wheatbelt was below average). While the season could easily recover to produce average or even above yields, in-season rainfall will need to do most of the heavy lifting. If rain doesn't arrive by winter, yields could come under pressure.

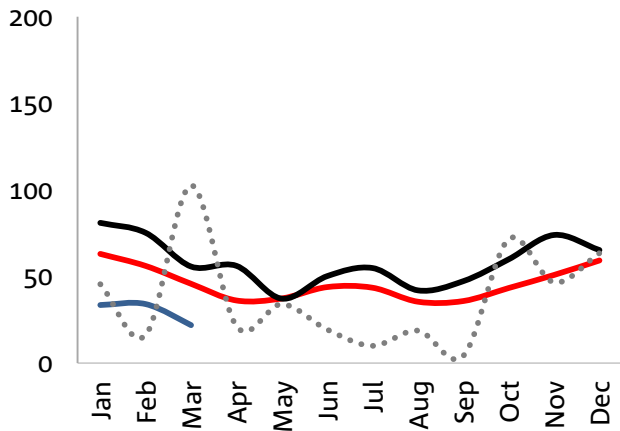
Source: Bloomberg, Profarmer, CBH Group, Graincorp, US drought monitor, BoM and NAB Group Economics

# MONTHLY AVERAGE RAINFALL IN WHEAT REGIONS (MM)

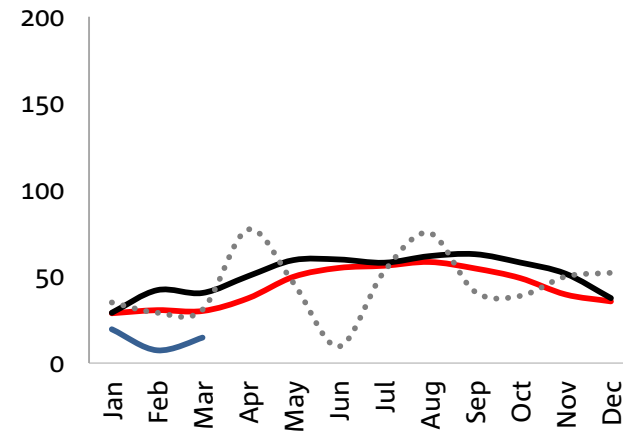


— Long run average 1900-01 to 2013-14    — La Nina years    — 2018 YTD    ..... 2017

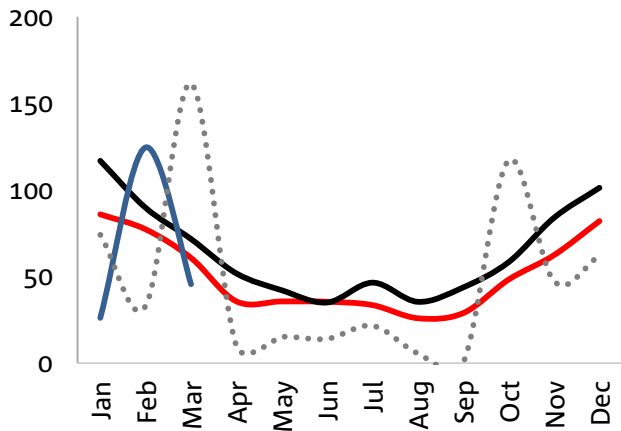
## NEW SOUTH WALES



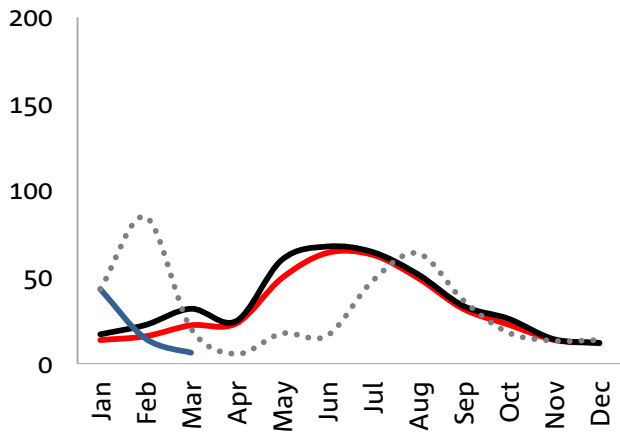
## VICTORIA



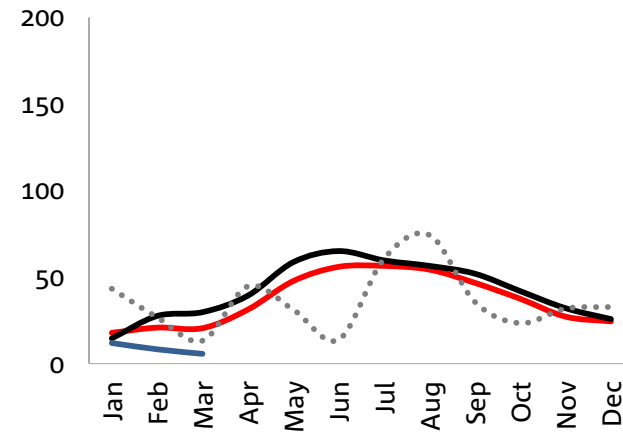
## QUEENSLAND



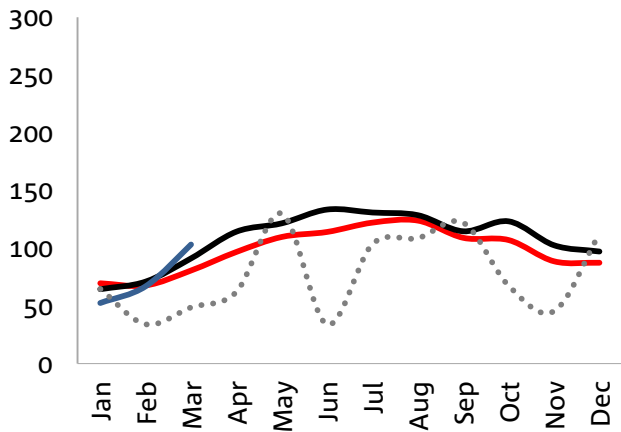
## WESTERN AUSTRALIA



## SOUTH AUSTRALIA



## TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

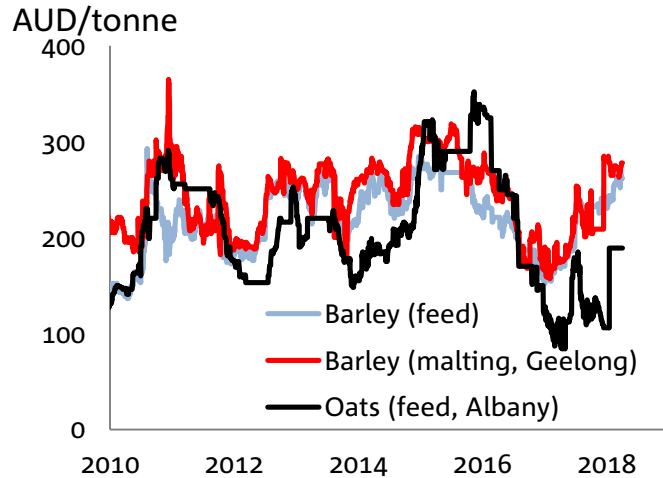




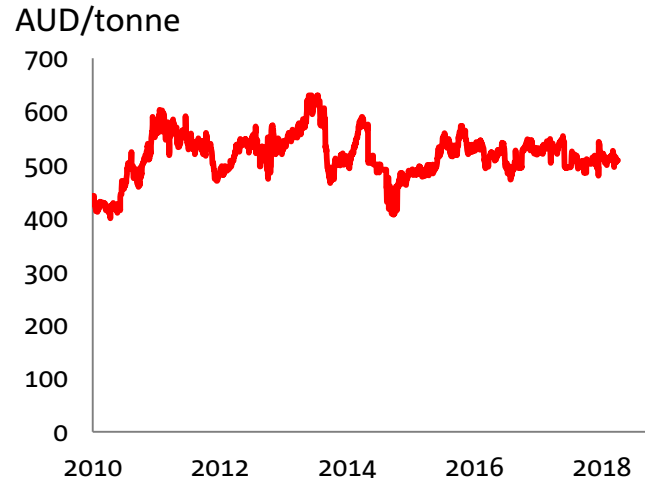
# OTHER WINTER CROPS AND SUGAR



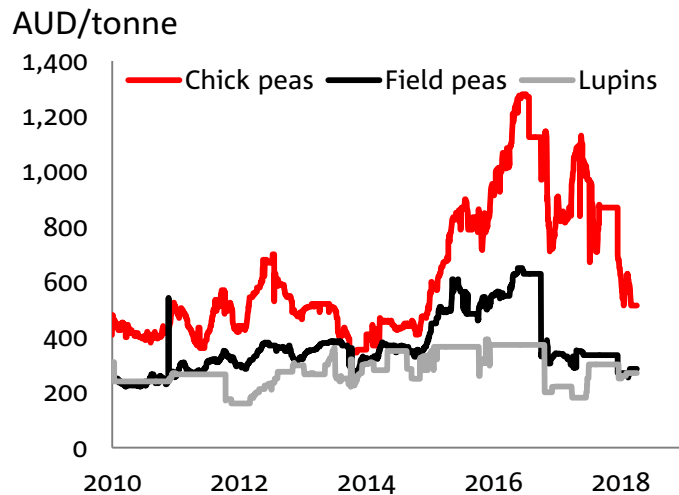
## SELECTED COARSE GRAINS



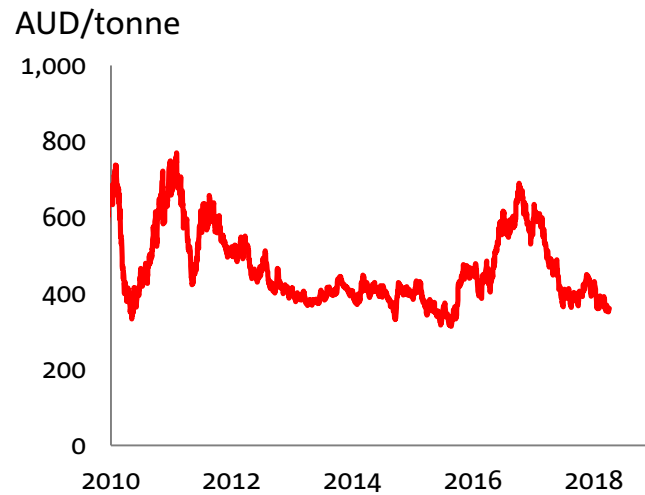
## CANOLA, NEWCASTLE NSW



## SELECTED PULSES



## ICE NO.11 SUGAR



Barley prices are still being held high by the aforementioned 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, the pulse prices continue to reflect increasing Indian tariffs – now up to 60% for chickpeas. Rumours abounded last week that the Indian Government was set to completely ban imports. While these remain rumours for now, the fact is that decent Indian production and high tariffs have effectively closed off the Indian market to pulse imports for the foreseeable future (or until Indian domestic supplies dwindle).

Indian domestic political considerations are also significant, with eight state legislative assembly elections in the coming year.

These price pressures are likely to mean much lower chickpea and lentil plantings this season.

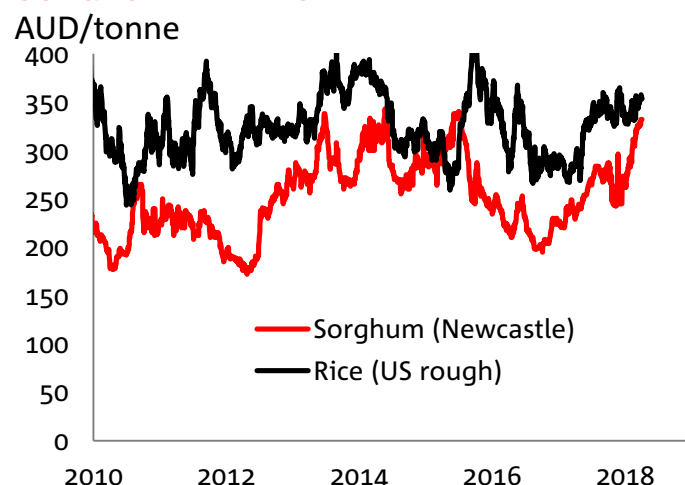
Sugar prices are once again falling after cautious optimism in the second half of 2017. In AUD terms, ICE no. 11 sugar prices were down 4.2% in March.

Source: Bloomberg, Profarmer and NAB Group Economics

# SUMMER CROPS



## SORGHUM AND RICE



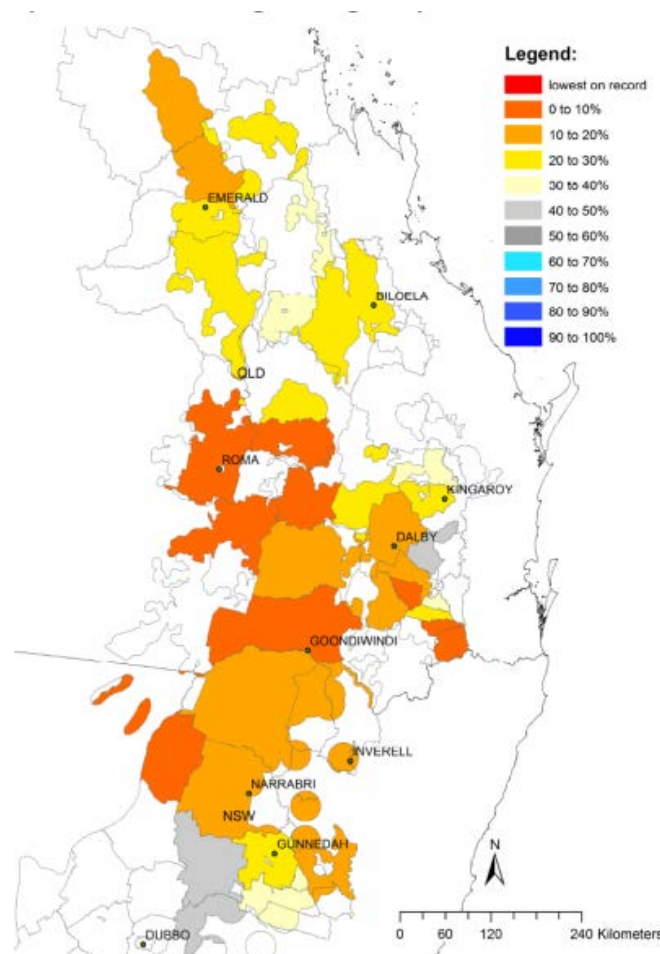
## COTLOOK A INDEX



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

## ABARES SORGHUM YIELD ESTIMATES

Forecast median against all years



Sorghum prices have continued to surge on three factors: challenging yields, domestic feed demand and expectations of higher Chinese demand due to tariffs on US soybeans.

The outlook for sorghum faded through the season, although harvest has seen yields probably better than we expected a month ago. Still, given the mixed state of the last winter crop season, there is plenty of demand for domestic feed.

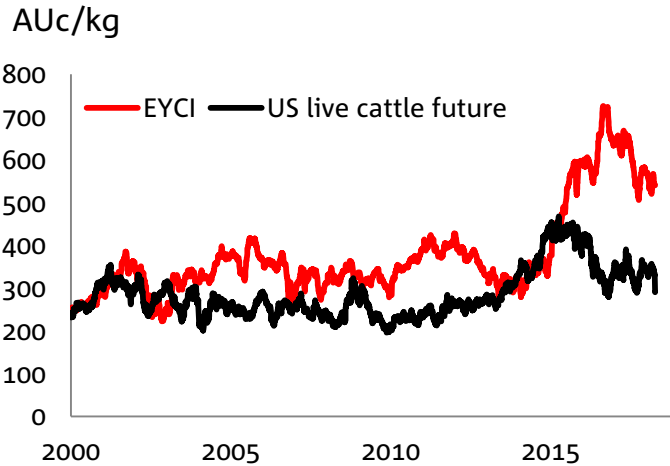
The coming 25% tariff on US soybeans are providing some upside (based on expectations of higher Chinese demand), although it is important to note that prices across the grains complex have moved arguably less than initially expected and Australian sorghum supplies are merely a drop in the ocean of Chinese feed demand (China imported over 92.5 million tonnes of soybeans in 2016-17).

The cotton harvest is underway and moving south. Yields have been generally good so far, although dryland has been more mixed. With cotton a very profitable crop, it is likely that the industry will expand in coming years. Cotton prices rose in March (up 5.8% in AUD terms) and the US-China trade dispute will be an issue to watch in coming months.

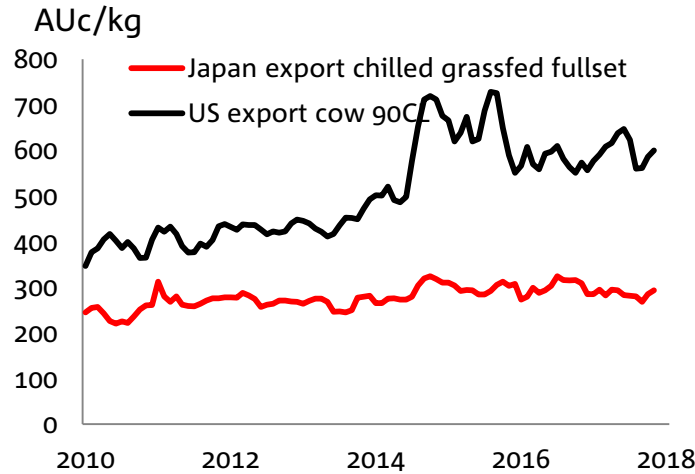




## EYCI AND US LIVE CATTLE FUTURES



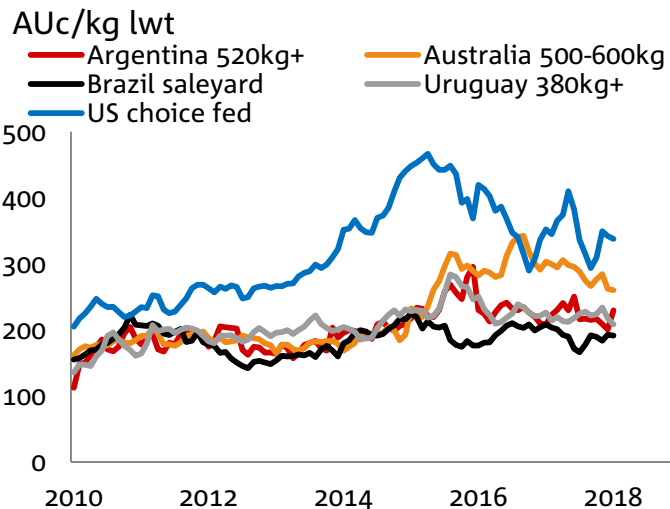
## SELECTED AUSTRALIAN EXPORT PRICES



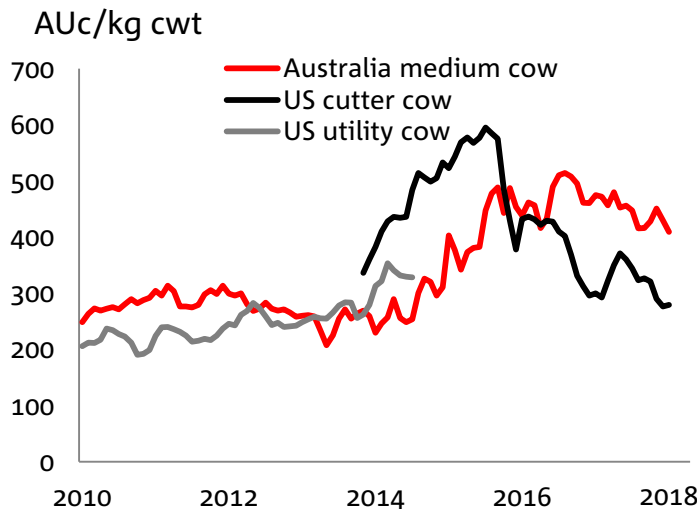
Good rains across a much of Queensland cattle country over the last month saw a jump in prices, but with most of Australia still dry, restocker interest hasn't fired up prices to a great extent (and the latest EYCI data has drifted lower). In the top end, live export prices have drifted lower on soft Indonesian demand.

Export markets are tricky to pick. The latest USDA projections suggest that the US cattle herd will peak in 2018-19. With Australian herd rebuilding out of sync, our performance against international benchmarks will probably remain difficult for some time.

## GLOBAL STEER PRICES



## AUSTRALIAN AND US COW PRICES



The challenge for Australia is that saleyard prices have been largely running on restocker interest since 2016, all while US prices faced downward pressure. This has been tough for processors. The low cost of South American beef has been a further obstacle in emerging markets such as China.

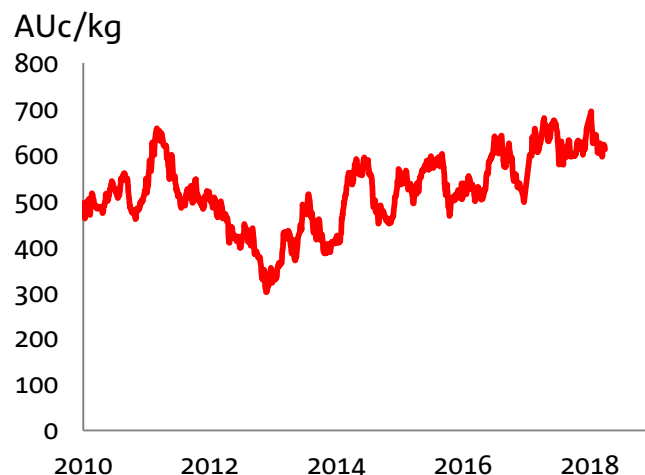
Our view is that global trends, combined with expensive domestic feed grain and dry conditions in many areas, will see downward pressure on Australian prices this year (although not by a large amount). We still see the EYCI at the 500 mark or thereabouts over the coming months.

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

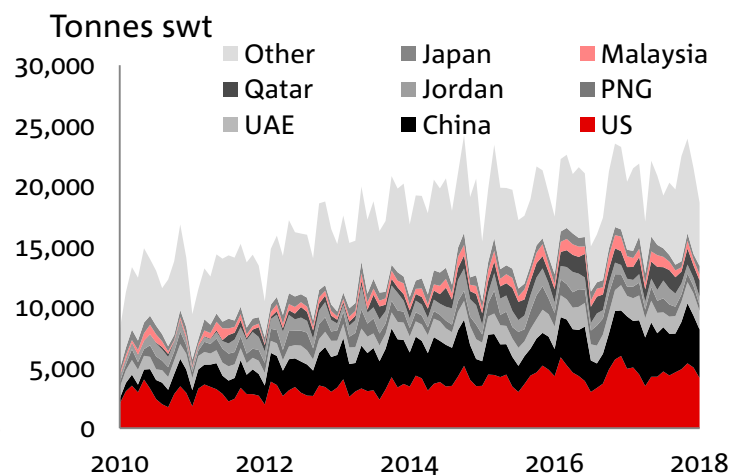
# LAMB AND WOOL



## NATIONAL TRADE LAMB INDICATOR



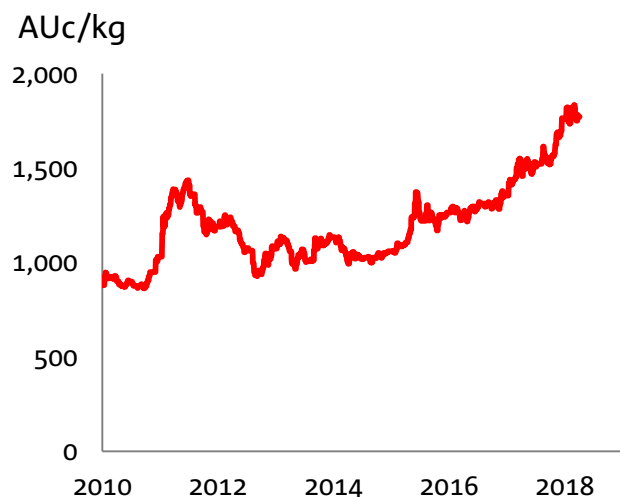
## MONTHLY LAMB EXPORTS BY DESTINATION



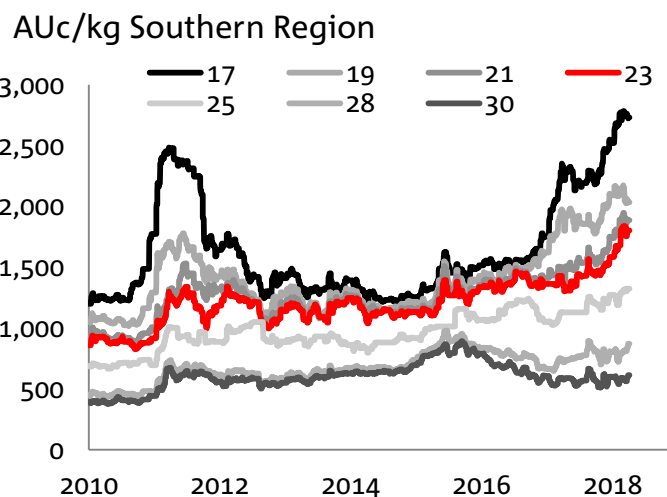
Lamb prices have been a little lower recently, with MLA's National Trade Lamb Indicator hovering around the 600c/kg mark – below the same time last year but still a good return for producers. Dry weather probably hasn't helped, so producers will be looking to the skies over the coming weeks.

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

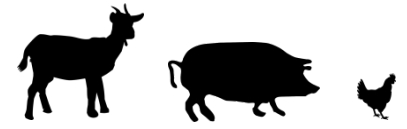


Wool prices have also backed off slightly, with the latest auction putting the Eastern Market Indicator at 1,776c/kg, down from record levels. This still represents an excellent return for growers nonetheless and goes some way to explaining the resilience in lamb prices. Looking across the micron range, the biggest gains over the past two years have been in fine and superfine wool (below 20 micron), although they have seen some of the steeper declines recently. Chinese demand has been the major driver, and if the tap turns off, there could be some risks to prices. However it is important to note that we have not seen any major jitters yet.

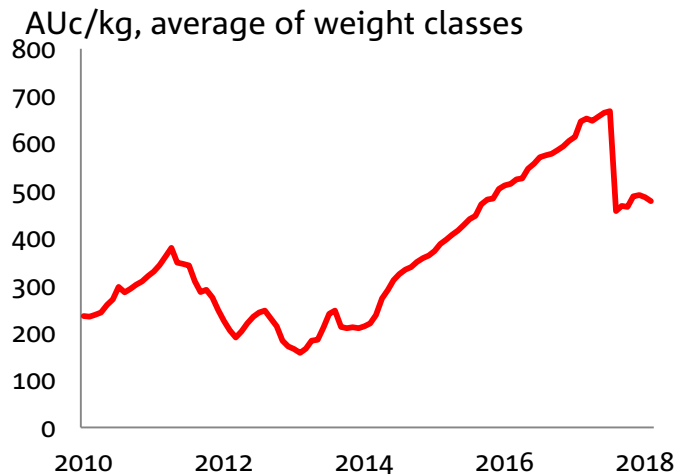
Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics



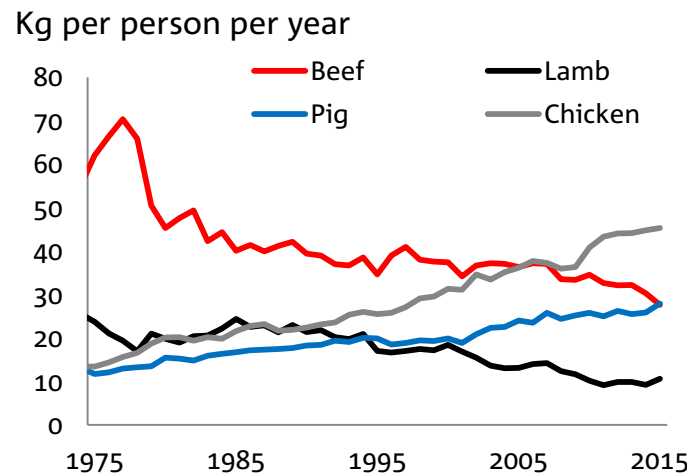
# PORK, POULTRY AND GOAT



## EASTERN STATES GOAT PRICES

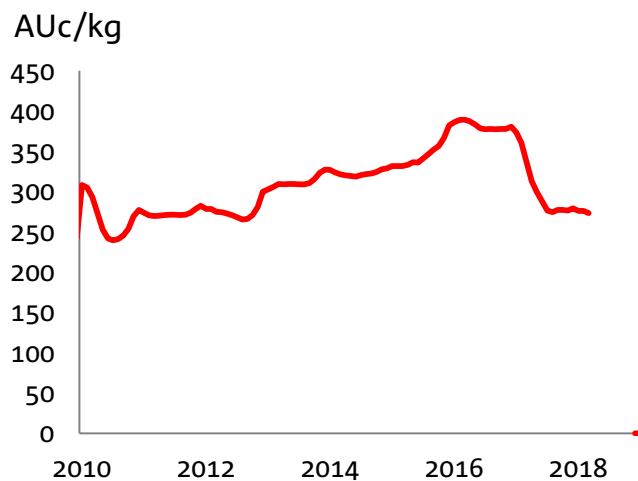


## AUSTRALIAN MEAT CONSUMPTION

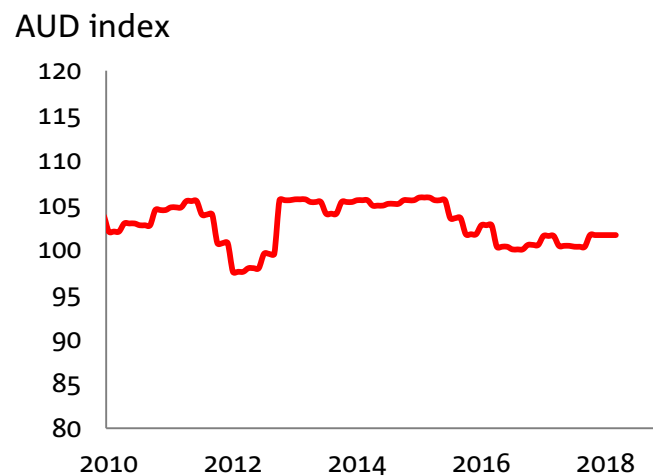


Chicken and pork are the first and second most consumed meats respectively in Australia. While beef was once king, it was overtaken by chicken in 2006 and lost its second place to pork in 2015. This reflects a combination of the perceived health benefits of chicken but probably more importantly, its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

## AUSTRALIAN PORK PRICE INDICATOR



## ABS POULTRY PRICE INDEX



Wholesale pork prices crashed over 25% peak to trough in 2017, but have remained much more stable recently. Our pork price indicator (using an average of Australian Pork reported buyer and seller prices for Eastern Australia), was down 1.0% in February.

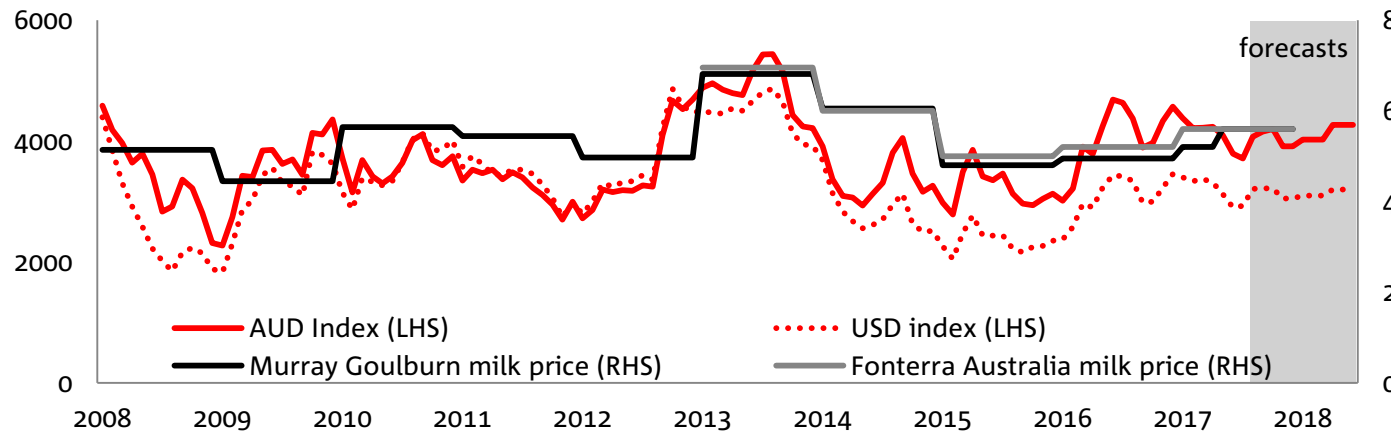
Although the NAB Rural Commodities Index does not include goat, the commodity has become an important source of revenue in parts of New South Wales and elsewhere. MLA data on goat prices shows a steady run-up in prices until mid-2017, before falling from mid-600s to 47c/kg (April 2018 average to date).

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 auctions were lower in USD terms in March and the first April auction, in line with fading New Zealand weather concerns and ongoing strong supply from the northern hemisphere.

The slightly lower AUD cushioned this locally, with the NAB weighted dairy export price indicator up 2.1% in March.

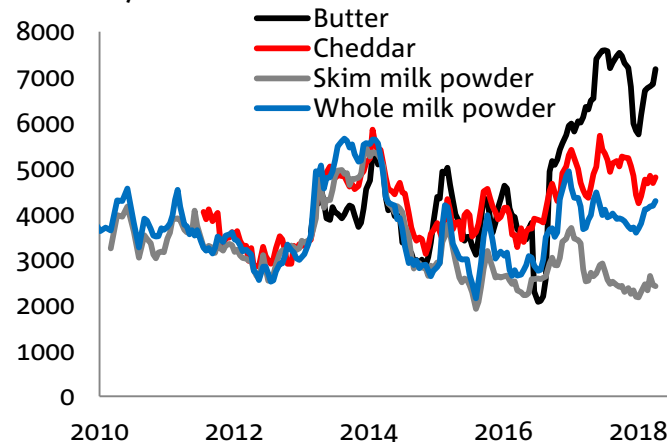
Our forecasts do not point to much upside for global dairy prices in USD terms in the coming year, reflecting strong supply from the EU in particular, better weather conditions in New Zealand, cheap feed in the US and inventory overhang. Any local gains are more likely to come from currency or competition between processors.

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, although Bega has broken with convention and guaranteed its suppliers a price of \$5.63 until September.

The ACCC and shareholders have now approved the sale of Murray Goulburn's assets to Saputo, subject to the divestment of Koroit. While the deal still needs FIRB approval, it looks likely that Saputo will control around 1/3 of Australian milk production.

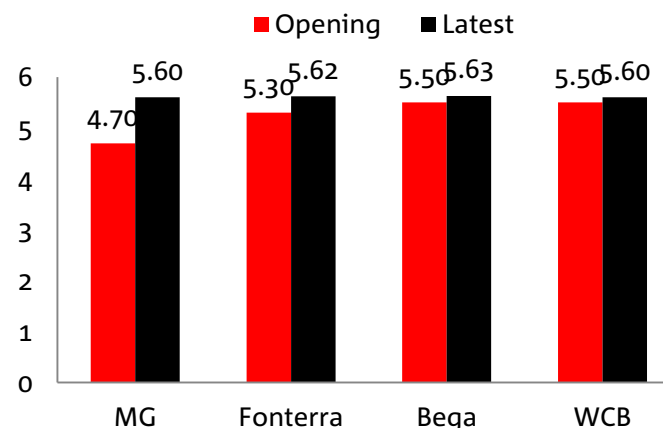
## GDT AUCTION RESULTS

AUD/tonne



## FARMGATE PRICES

Opening and latest (MG not whole year)

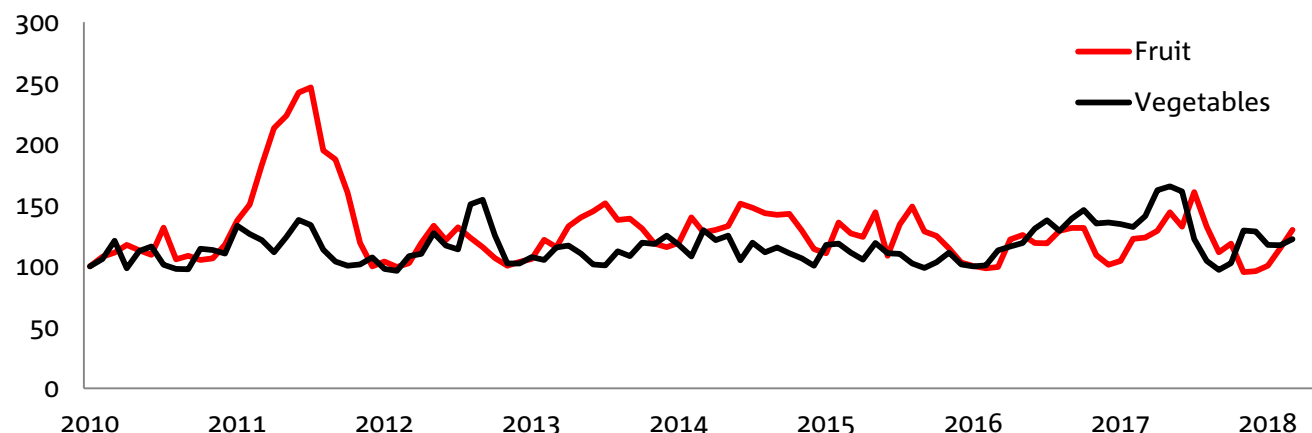


Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, IBISworld and NAB Group Economics  
 Note: chart shows Murray Goulburn farmgate prices except 2008-09 which shows Dairy Australia's reported Victorian average value. MG latest farmgate prices apply from 1 November 2017 and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



## WHOLESALE FRUIT AND VEGETABLE PRICES

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

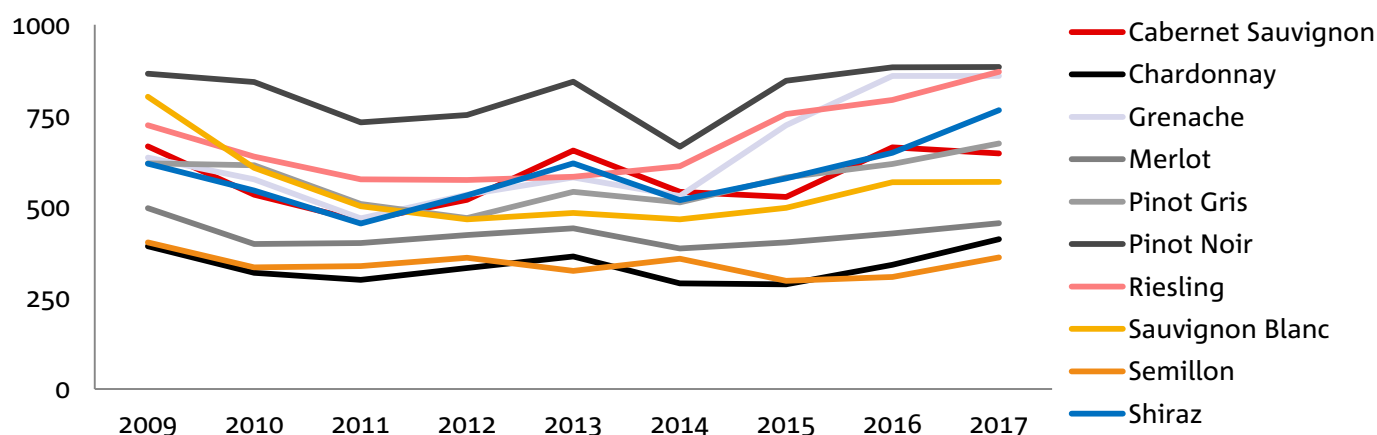


We produce wholesale price indices for fruit and vegetables, based on data from the Melbourne and Sydney wholesale markets.

Wholesale fruit and vegetable prices were higher in March. Fruit was up 13.1% in March, following a similar gain in February. The index has now reached 129.8 index points (January 2010 = 100). Vegetables were also up 4.2% to 122.1 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



# CONTACTS

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

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

**Dean Pearson**  
Head of Economics  
+61 3 8634 2331

**Khan Horne**  
General Manager  
NAB Agribusiness

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

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