

# RURAL COMMODITIES WRAP

JUNE 2018



## KEY POINTS

Weather conditions across most of the country remain very challenging. With a good deal of planting already done and the rest looking for the break, grain growers need good rain soon. It is probably too late for much pasture growth until spring, and with little grain in storage domestic grain prices continue to surge. ASW indicative cash prices have reached low \$300s in Victoria and mid-high \$300s in Queensland. Conversely, cattle prices have been much weaker, with EYCI now at 466c/kg – the lowest level since May 2015.

These countervailing price forces are reflected The NAB Rural Commodities Index, which gained 3.1% month on month in May amid an 11.4% surge in wheat but a 5.6% drop in cattle. Elsewhere, horticultural, dairy, wool and cotton prices were higher and lamb has proven resilient in the face of the dry. Wool has been an especially strong performer, with the latest auction seeing EMI top 2,027c/kg.

A good winter would go a long way to reviving confidence for grain and cattle producers, although the latest BoM outlook is for below average winter rainfall across New South Wales, South Australia, Victoria and southern Queensland. Fingers crossed.



# PRICE UPDATE



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The NAB Rural Commodities Index gained 3.1% month on month in May after falling 2.8% in April. On a year on year basis, the index was down 4.4% in May. The monthly gain reflects strong grain, horticultural, dairy, wool and cotton 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

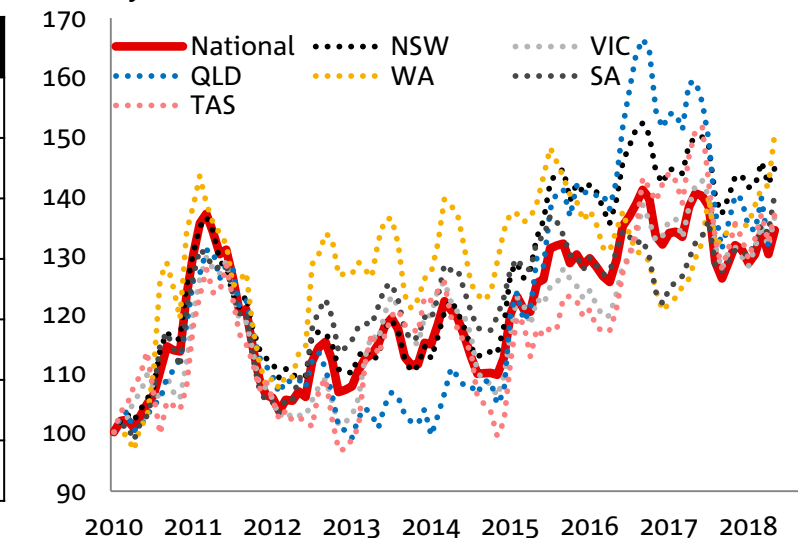
	March	April	May
Wheat	▲ 2.4%	▲ 2.7%	▲ 11.4%
Beef	▲ 4.2%	▼ 7.3%	▼ 5.6%
Dairy	▲ 2.1%	▲ 1.9%	▲ 7.5%
Lamb	▼ 1.6%	▼ 3.4%	▲ 2.2%
Wool	▼ 1.1%	▲ 1.0%	▲ 6.5%
Sugar	▼ 4.2%	▼ 6.8%	▲ 2.3%
Cotton	▲ 5.8%	▲ 1.1%	▲ 4.3%

On a state basis, cattle-heavy Queensland was the weakest performer, down 0.2%. New South Wales was up 2.0%, while Victoria and Tasmania were up 4.1% and 3.8% respectively. South Australia was up 5.2%, while grain dependent Western Australia rose 5.2%.

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

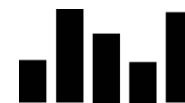
## NAB RURAL COMMODITIES INDEX

January 2010 = 100



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

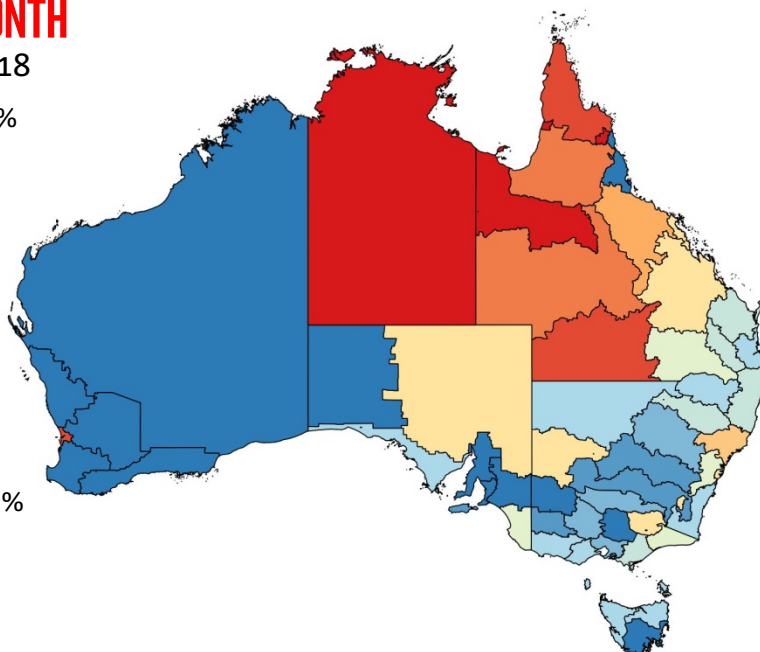
# REGIONAL PRICE INDICATORS



## MONTH ON MONTH

April to May 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%



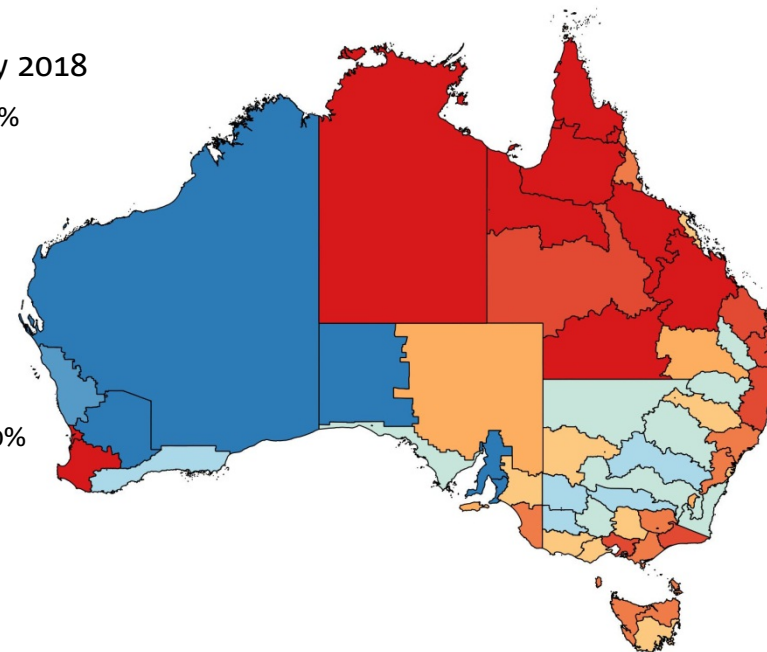
Monthly regional price indicator data shows that higher grain prices are boosting indicators across Australia's major grain growing regions, while cattle country through most of Queensland and the Northern Territory has seen (sometimes sharp) losses.

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 are the weakest performers (albeit from a high peak).

## YEAR ON YEAR

May 2017 to May 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%



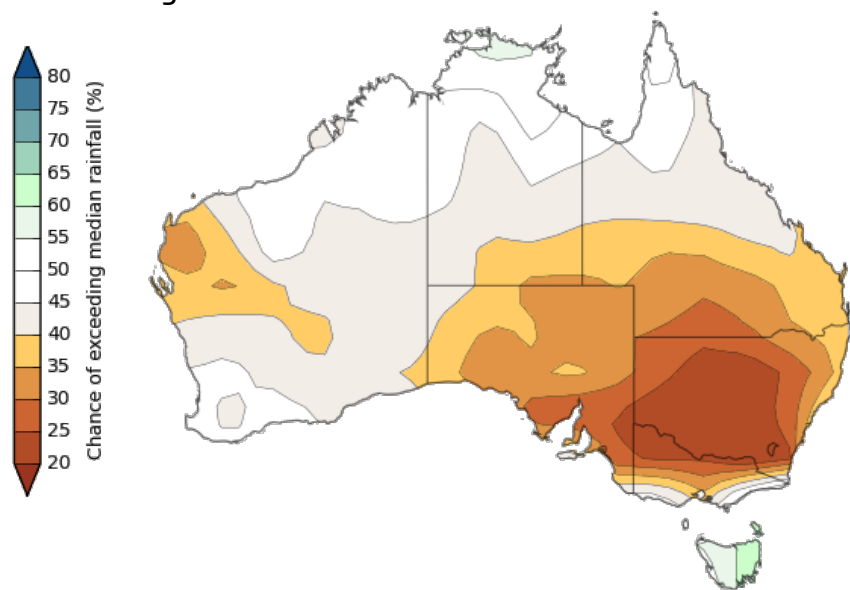
NAB's regional price indicators are in effect a set of separate NAB rural commodities indices for every region in Australia. The project is still in a trial stage and is calculated on a different basis to our national and state data i.e. without annual chain-weighting. We will continue to develop this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

June to August 2018

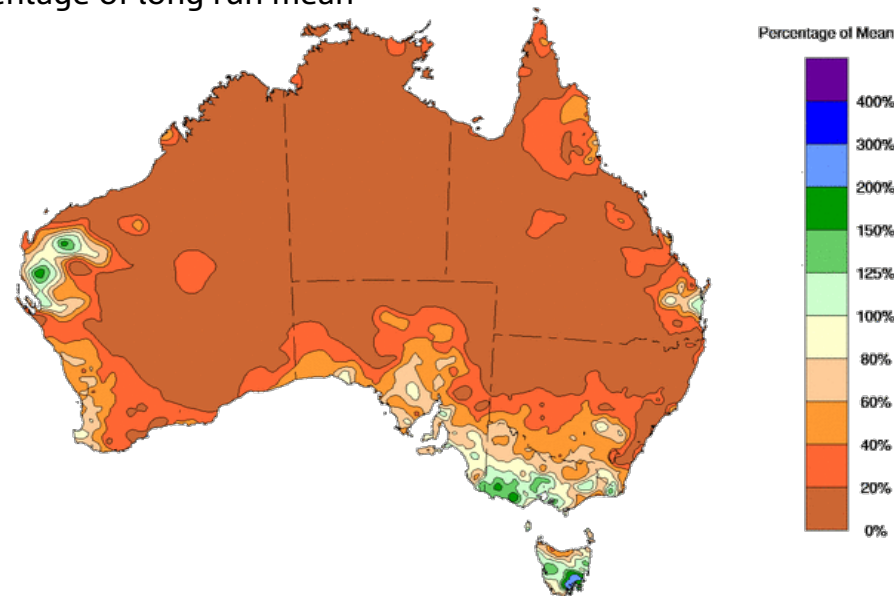


Probably the best comment we have about the Bureau of Meteorology's latest three month outlook is that we very much hope it proves to be wrong.

Most of New South Wales, along with the Mallee, is rated at only a 20-25% chance of exceeding median rainfall and the outlook for the rest of Victoria, South Australia and southern and western Queensland isn't much better. There is better news for the Western Australian wheatbelt, which is closer to neutral, and for Tasmania, which could see above average falls.

## RAINFALL – MAY 2018

Percentage of long run mean



The outlook follows another very dry month across most of the country in May. Apart from the Gascoyne, a small part of south-east Queensland, about half of Victoria and most of Tasmania, the rest of the country saw well below average rainfall.

The rains received have been enough to get the crop going in the south-east, although conditions go south north of Central West New South Wales.

Source: Bureau of Meteorology

# OUTLOOK FOR PRICES AND PRODUCTION



## Prices

Dry weather continues to be the major driver of elevated grain prices, amid low eastern Australian stockpiles and no new supply on the horizon until late this year at the earliest. The dry conditions are likely to dampen cattle prices further if the latest Bureau of Meteorology outlook is borne out. Wool has reached incredible levels and these may prove difficult to sustain, although prices are likely to be elevated for some time.

US-China trade tensions have once again resurfaced, although it is too early to assess the full impact for agriculture.

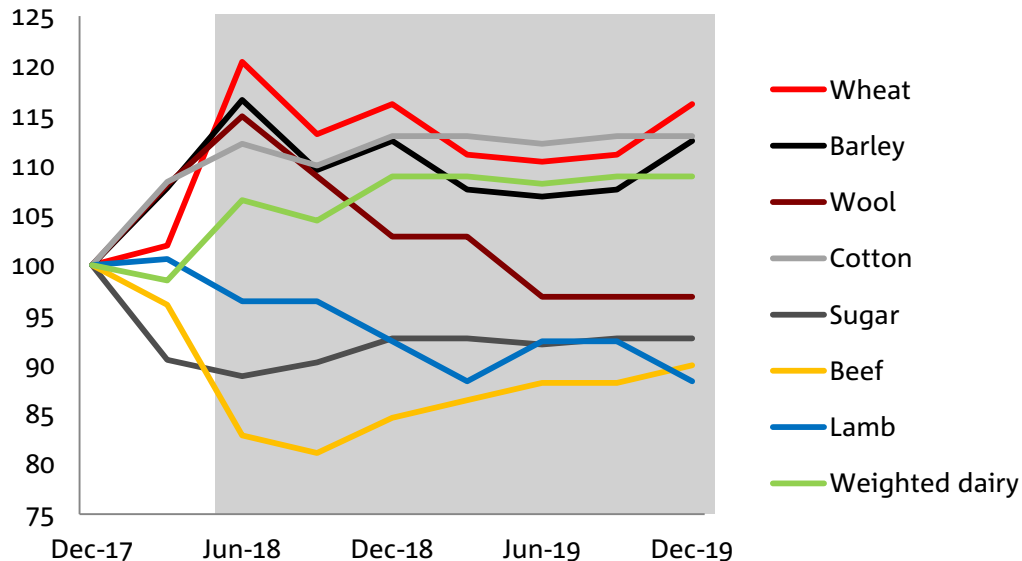
## Production

Looking at 2018-19 winter cropping season, the lack autumn rainfall across many cropping regions will become a major issue for yields if winter disappoints. However, our model currently points to only somewhat below average production, but only if last season's area planted remains constant *and* we see average rainfall for the remainder of the season.

The dry weather will likely see a further tick-up in cattle slaughter if it continues, but with wool prices so good, sheep and lamb could see less of an increase.

## INDEX OF PRICE FORECASTS FOR RURAL COMMODITIES

AUD index value, December quarter 2017 = 100



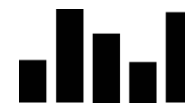
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer

## PRODUCTION OUTLOOK (ABARES MARCH 2018)

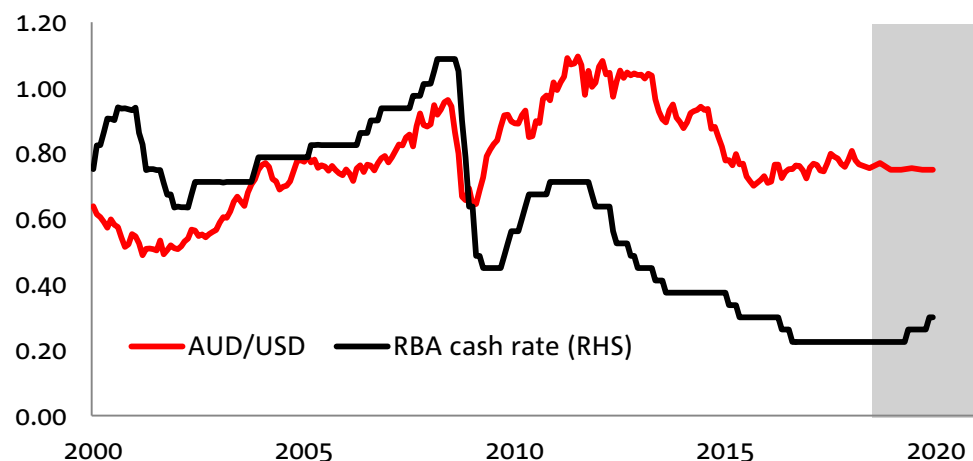
Financial year production estimates, Australia

	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	0.71	0.71	0.70	0.70
USD/JPY	111	110	108	106
EUR/USD	1.20	1.23	1.25	1.26
USD/CNY	6.35	6.28	6.20	6.20

Source: NAB

- Somewhat remarkably the AUD/USD traded in a tight range of just under 2 cents during the month of May, one of its tightest monthly ranges over the past 10 years. This occurred despite an increase in market concerns ranging from Emerging Market (EM) fragility, Italian-induced EU anxieties and ongoing US-led trade tensions.
- Our forecasts for end Q2, Q3 and Q4 2018 continue to have AUD/USD remaining inside the 0.75-0.80 bracket.
- We have delayed the timing of when we expect the RBA to start a gradual rate hiking cycle. While still very data dependent, we now have the start of the rate hiking cycle in mid-2019
- The change reflects the fact there is no sign yet of stronger wages growth and unemployment has been stuck around 5.5% for the best part of a year. We still expect the economy to strengthen, leading to a declining unemployment rate.

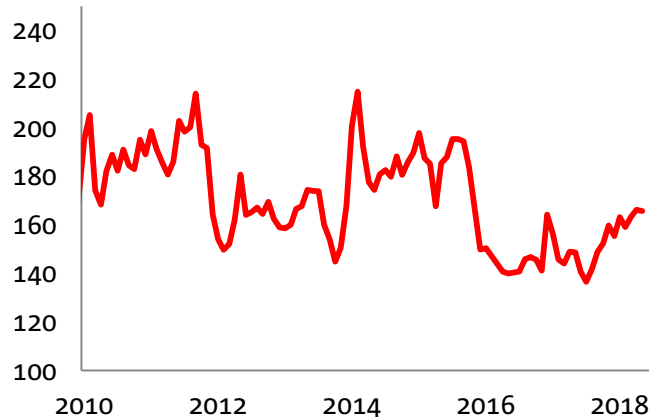
This should eventually translate into stronger wages growth and give the RBA confidence that inflation will track back to its 2.5% target. However, we acknowledge there is considerable uncertainty around the timing at which wages growth will strengthen, and the RBA's next move will remain highly data dependent.

# FARM INPUT PRICES



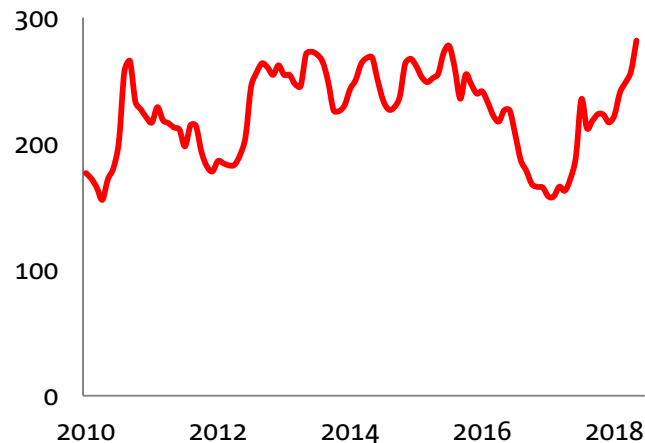
## NAB FERTILISER INDEX

AUD index



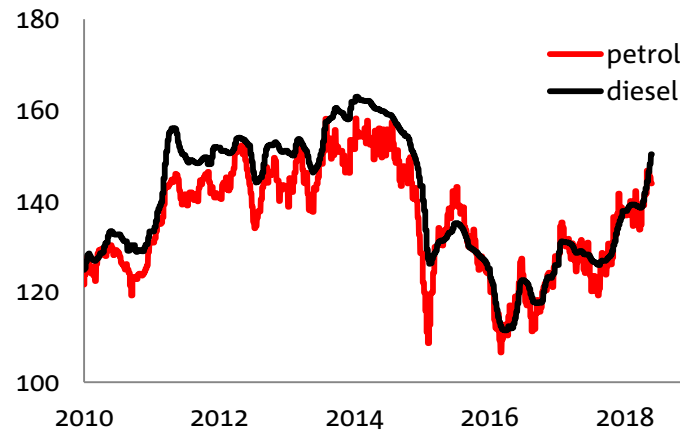
## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



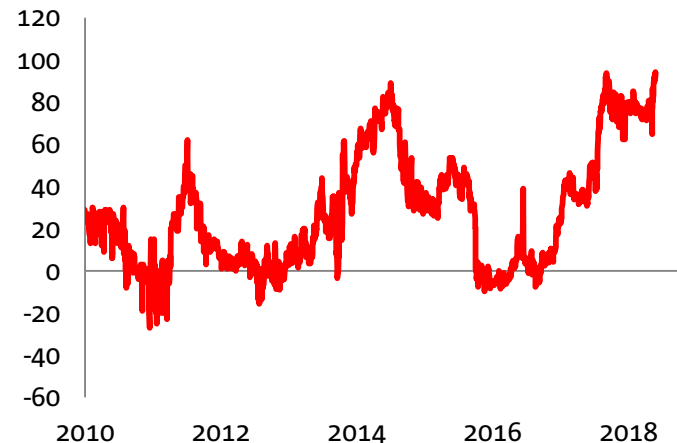
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## GEELONG-BRISBANE PRICE SPREAD

ASW1 cash price, AUD/tonne



Farm input prices continue to rise, although fuel and grain have outpaced fertiliser.

Fuel prices have seen substantial gains, reflecting higher global oil prices. Oil prices have been driven higher by the ongoing impact of the OPEC-Russia deal, collapsing Venezuelan production and the US ending the Iran deal. On the other hand, higher prices should entice US shale drillers back into the market, suggesting that there may be limited upside in the longer term. Still, fuel prices have been generally in the 140-155c range.

Overall, the NAB Fertiliser index was down 0.3% in May in AUD terms after a 1.8% gain in April. In USD terms, DAP, urea were slightly lower and US natural gas prices were steady. Overall, we expect that fertiliser prices will increase over 2018.

Domestic feed prices have continued to surge in line with dry weather and poor grain availability. The premium for ASW1 from Geelong to Brisbane has surged to the \$80-100/t range and some Queensland wheat indicators have touched \$400/t. 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 up 10.0% in May. Our indicator is now at its highest level since it began in 2010.

Source: Bloomberg, Profarmer and NAB Group Economics

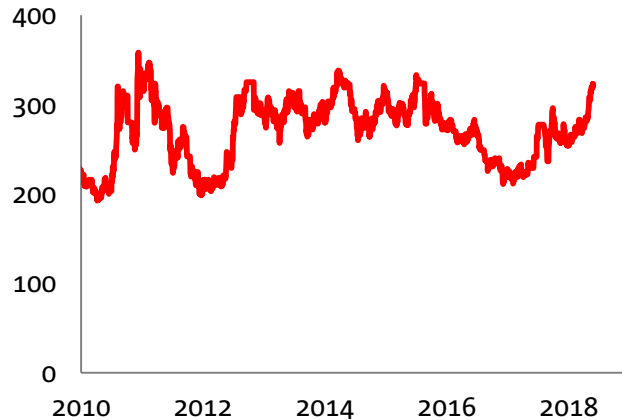


# WHEAT



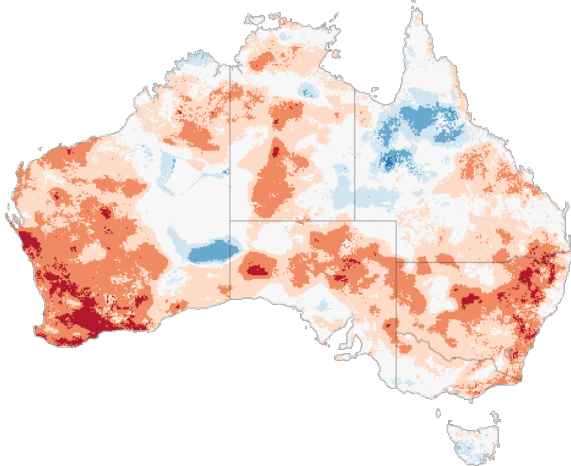
## ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



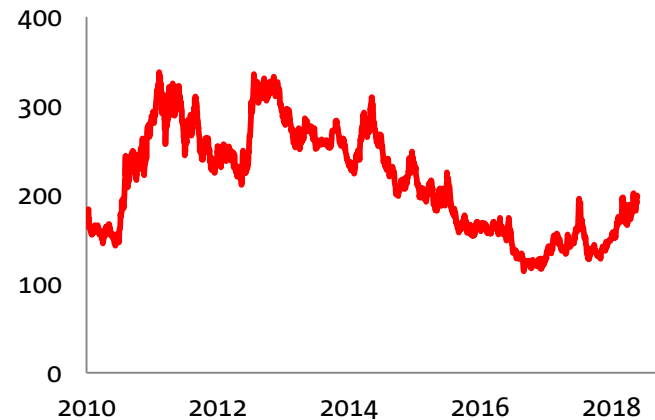
## ROOT ZONE SOIL MOISTURE

Relative to average, May 2018



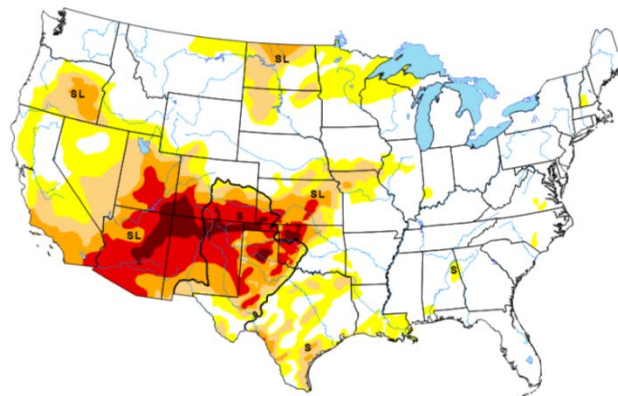
## CBOT SOFT RED WINTER WHEAT

USD/tonne



## US DROUGHT MONITOR

29 May 2018



## Prices

Global wheat prices have seen quite a rally, partly a reflection on tough growing conditions in the US. Swathes of the south-west US are now in extreme or exceptional drought, although years of bountiful global harvests means that prices are coming off a low base. Whether the rally can be sustained is somewhat less clear, although it is hard to see prices going backwards from here.

Domestic wheat premiums continue to surge on very dry conditions across most of Australia's grain regions. Indicative cash prices for ASW are in the mid-high \$300s range in Queensland, even touching \$400/t in Brisbane recently. Without rain these prices will probably persist.

## Production

Given the dry start to the season combined with the dry outlook, estimating area planted and yield is little more than a stab in the dark at this stage. Our model estimates that Australian wheat production will reach 21.3 million tonnes, based on average rainfall for the rest of the season and the same area planted as last season. But given the seasonal conditions so far, risks are clearly weighted to the downside.

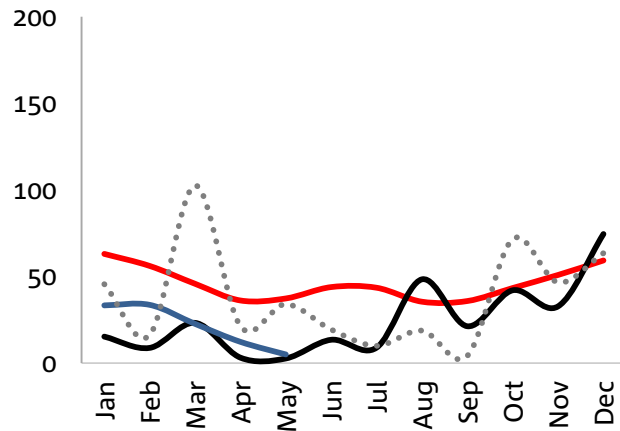
Source: Bloomberg, Profarmer, US drought monitor, BoM and NAB Group Economics

# MONTHLY AVERAGE RAINFALL IN WHEAT REGIONS (MM)

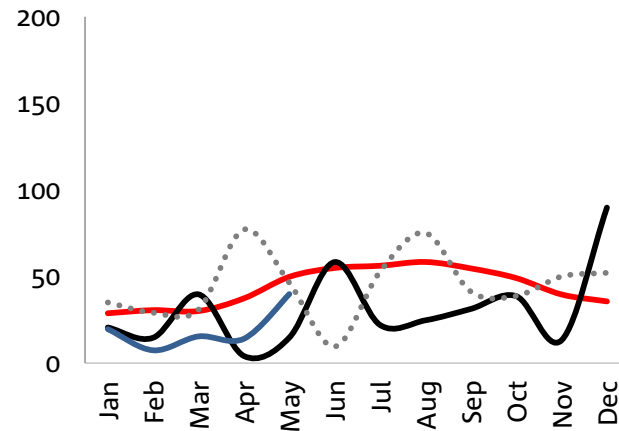


— Long run average 1900-01 to 2013-14 — 1902 drought — 2018 YTD ..... 2017

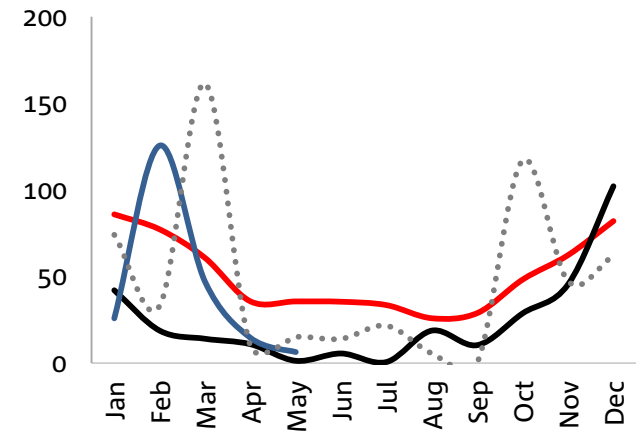
## NEW SOUTH WALES



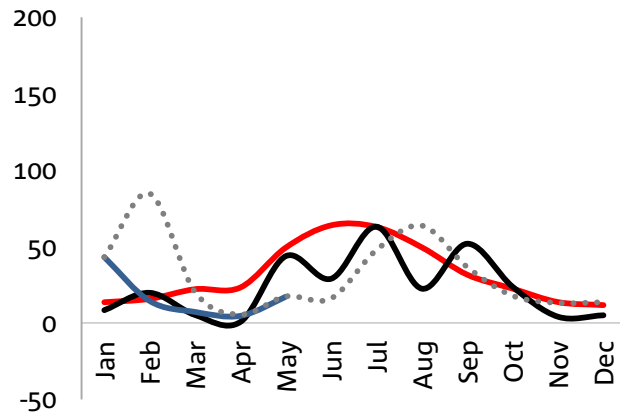
## VICTORIA



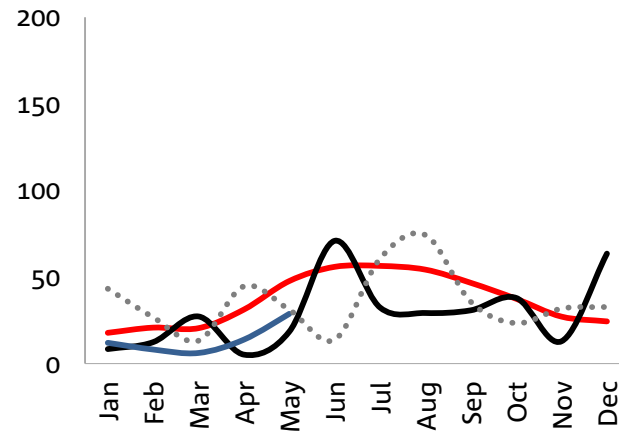
## QUEENSLAND



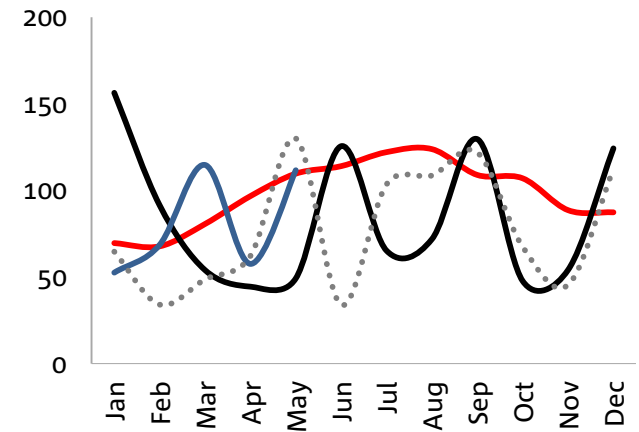
## WESTERN AUSTRALIA



## SOUTH AUSTRALIA



## TASMANIA



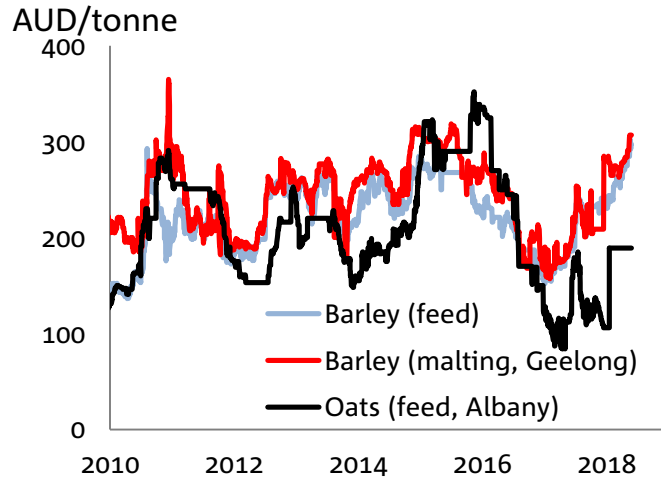
Source: Bureau of Meteorology and NAB Group Economics



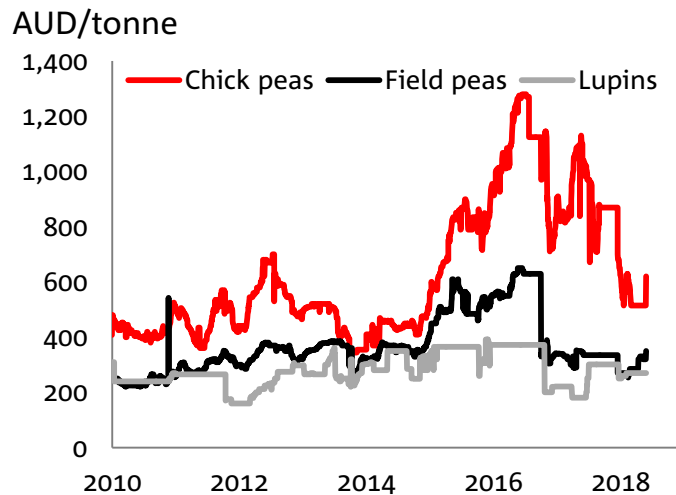
# OTHER WINTER CROPS AND SUGAR



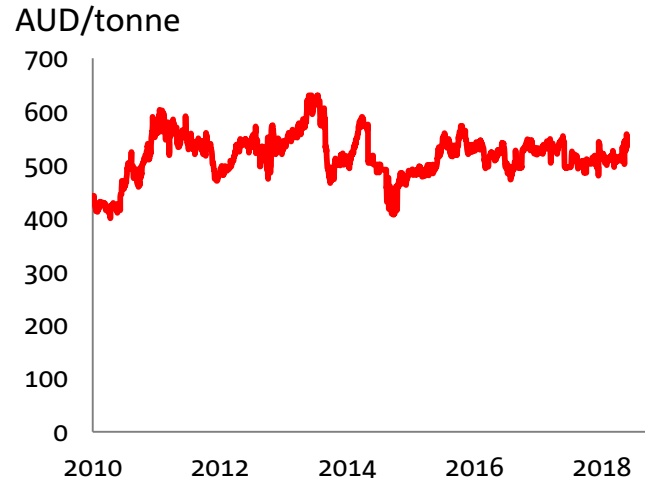
## SELECTED COARSE GRAINS



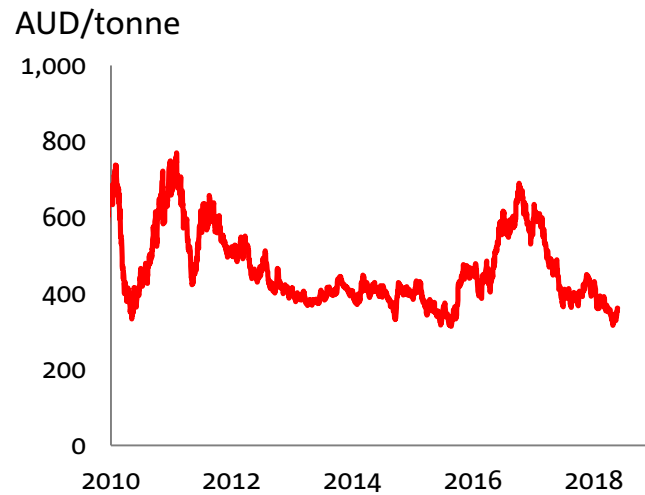
## SELECTED PULSES



## CANOLA, NEWCASTLE NSW



## ICE NO.11 SUGAR



Feed grain demand has flowed through to barley and indeed most grains that can be readily used for stock feed. Such is demand that feed barley is trading close to ASW levels, an enticing prospect for those with barley in storage.

On the other hand, the pulse prices continue to languish, although trading has been fairly light. The Indian market, previously the largest destination for Australian chickpeas and lentils, has been effectively closed. Decent Indian domestic production, combined with political factors, has made the environment for importers difficult. Given disappointing Australian yields last season, lower prices and poor planting conditions this season, we expect that pulses plantings will be much lower this year.

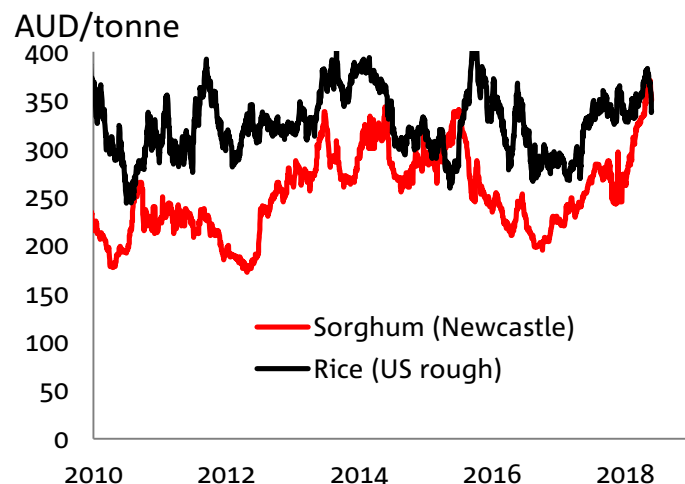
Sugar prices are once again falling after cautious optimism in the second half of last year. Large Indian stockpiles are a major driver of concerns in the market. In AUD terms, ICE no. 11 sugar prices stood at \$347/tonne, up 2.3% but still close to the lowest level in a decade.

Source: Bloomberg, Profarmer and NAB Group Economics

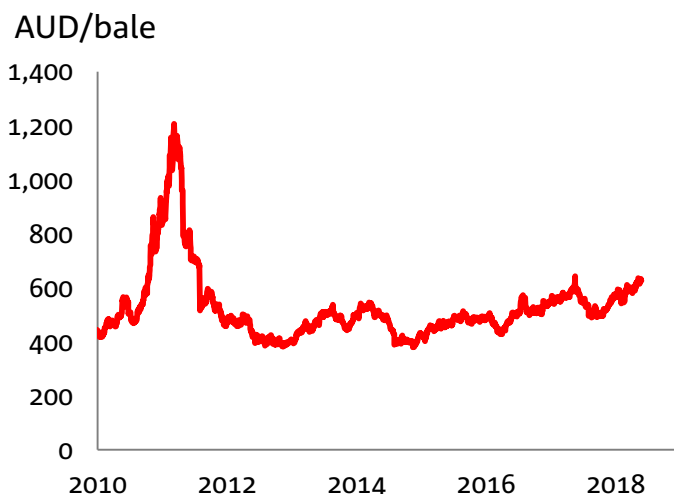
# SUMMER CROPS



## SORGHUM AND RICE



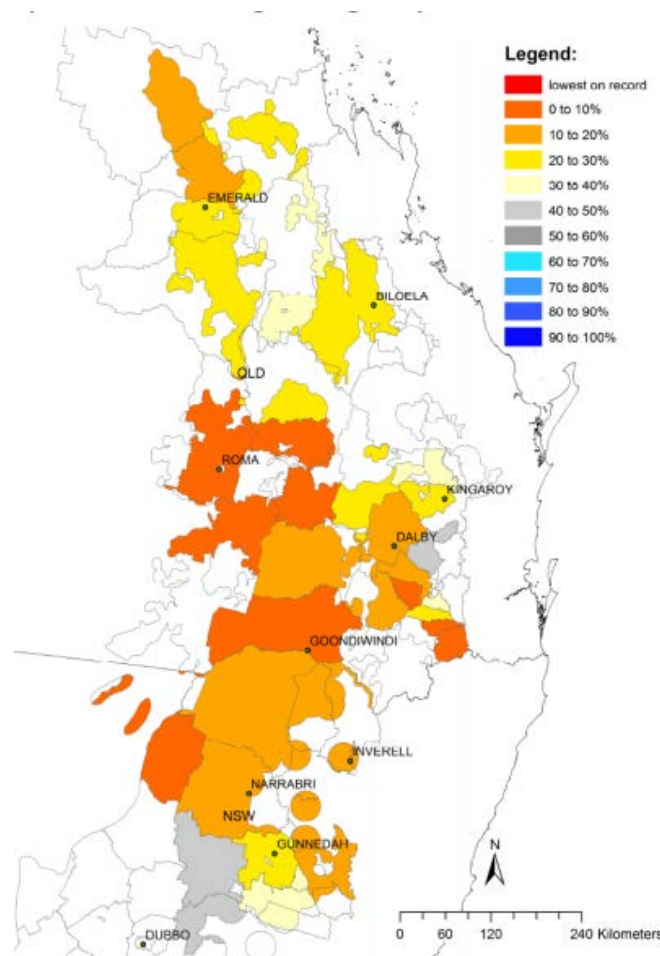
## COTLOOK A INDEX



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 domestic feed demand, middling yields, and the prospect of higher Chinese demand should the trade dispute with the US escalate.

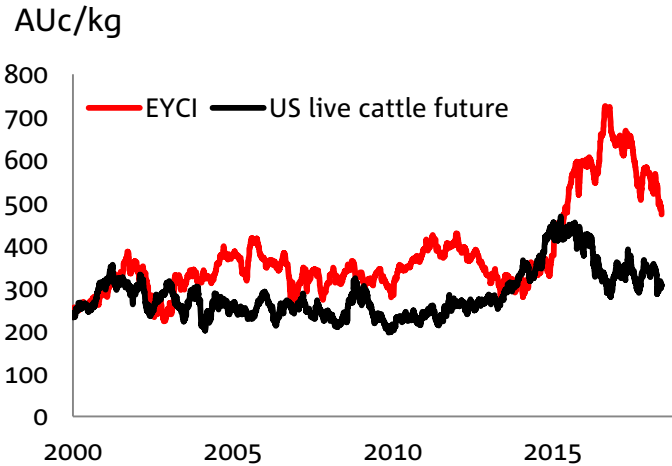
The US has now flagged it will go ahead with steel and aluminium tariffs, although it is not yet clear that previously threatened Chinese retaliation will go ahead. China had previously flagged imposing a 25% tariff on US soybeans. However, it is important to note that global prices across the grains complex have largely continued to reflect supply fundamentals, particularly US supply concerns. Even in a good year, 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 Australian cotton harvest has been generally very favourable, reflecting good water allocations. With cotton a very profitable crop, it is likely that the industry will expand in coming years. Cotton prices rose in May (up 4.3% in AUD terms). Very dry conditions in New South Wales and Queensland and well below average Murray Darling Basin inflows may be a risk to allocations in the coming season however.

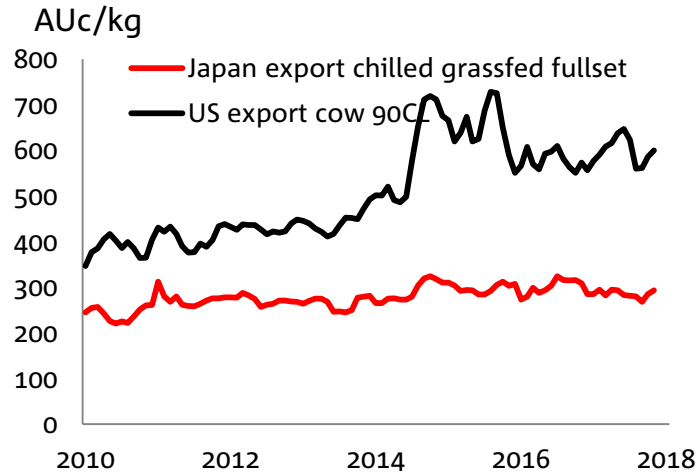




## EYCI AND US LIVE CATTLE FUTURES



## SELECTED AUSTRALIAN EXPORT PRICES

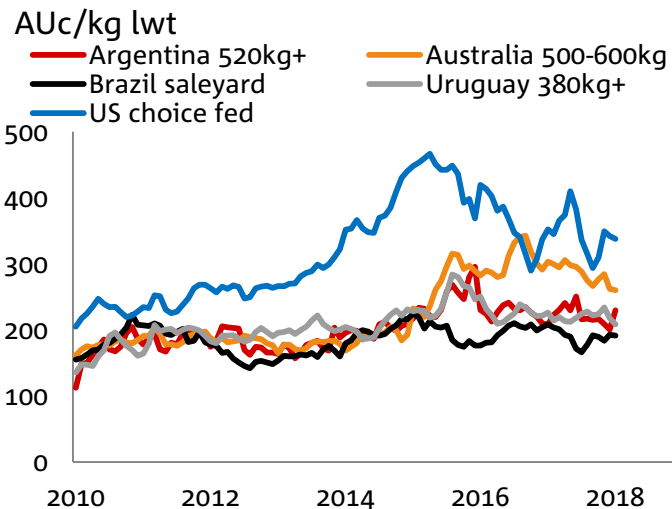


Conversely, cattle prices have been quite weak recently, with EYCI now at 466c/kg – the lowest level since May 2015. Overall, cattle prices fell 5.6% in May, with very dry weather and elevated feed prices the key cause. If the weather stays dry over winter (as is forecast), further downside is possible. However, if more normal seasonal conditions return, we should see EYCI back in the 500c/kg range later in 2018.

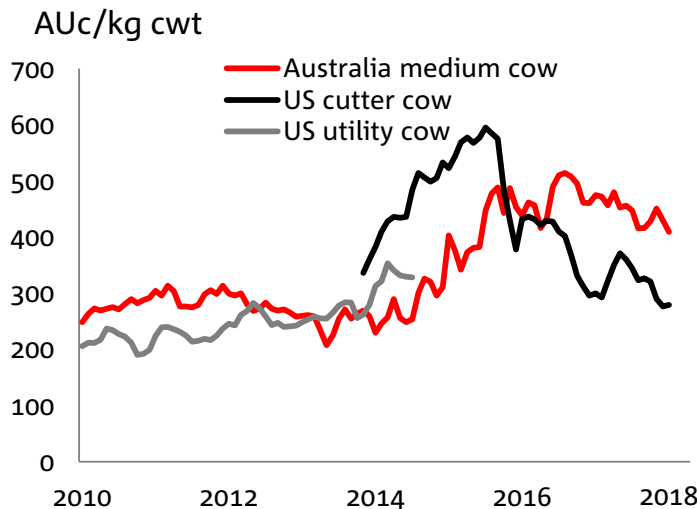
Export markets remain tricky to pick. USDA projections suggest that the US cattle herd will peak in 2018-19, which will likely see more US product on the US domestic market in coming months. This may be compounded by dry conditions in parts of the US. With Australian herd rebuilding out of sync, our performance against international benchmarks will probably remain difficult for some time.

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.

## GLOBAL STEER PRICES



## AUSTRALIAN AND US COW PRICES

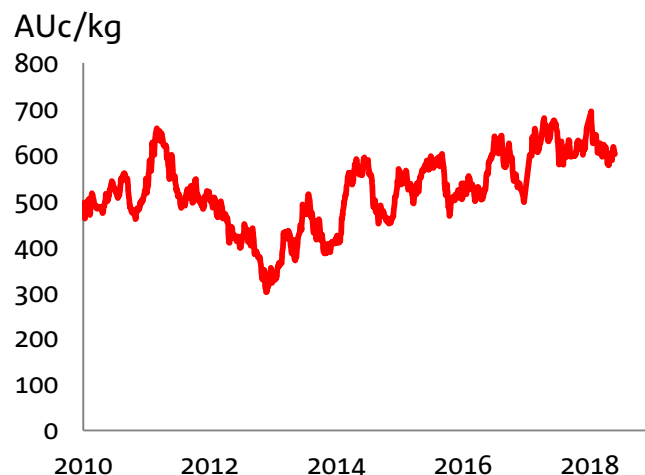


Source: ABARES, Australian Bureau of Statistics, Meat and Livestock Australia, USDA and NAB Group Economics

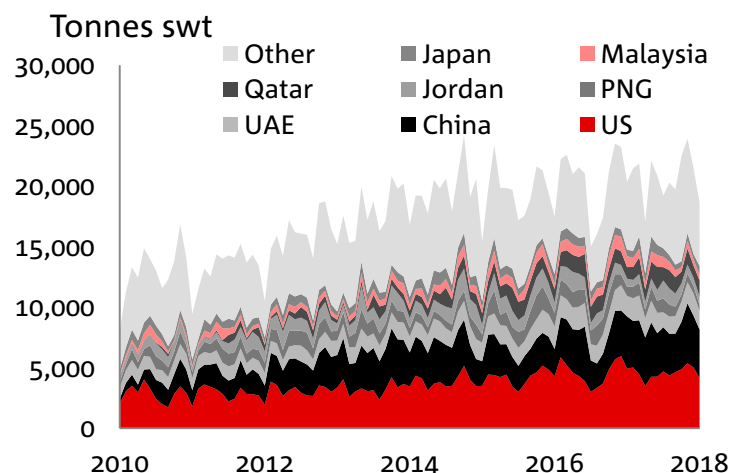
# LAMB AND WOOL



## NATIONAL TRADE LAMB INDICATOR



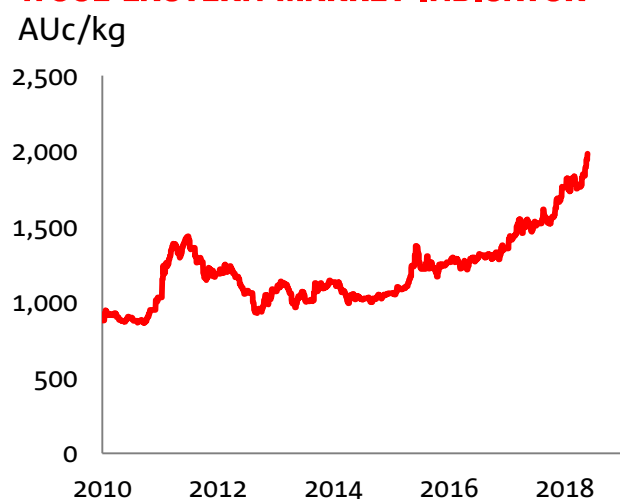
## MONTHLY LAMB EXPORTS BY DESTINATION



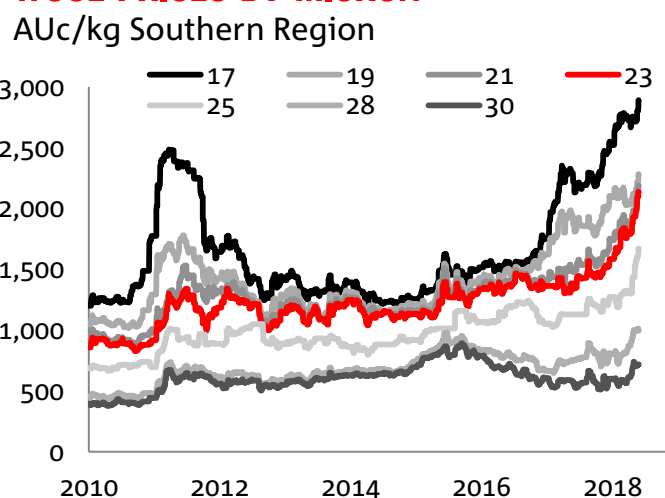
Lamb prices have been a little lower, although have not seen the price drop experienced by cattle. MLA's National Trade Lamb Indicator is hovering around the 620c/kg mark, below the same time last year but above 2016 levels and still a good return for producers. Dry weather hasn't helped, so we expect to see some continued upward pressure in turnoff.

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

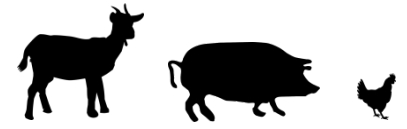


Wool prices have gone absolutely gangbusters, with the latest auction putting the Eastern Market Indicator at 2,027c/kg. This represents an excellent return for growers, particularly those with finer wool. That said, returns have been improving up to 25 micron. The main note of caution we sound is that with Chinese demand a major driver, there could be some risk to prices if buyers decide to substitute to other fibres for cost reasons. However it is important to note that we have not seen any major jitters yet.

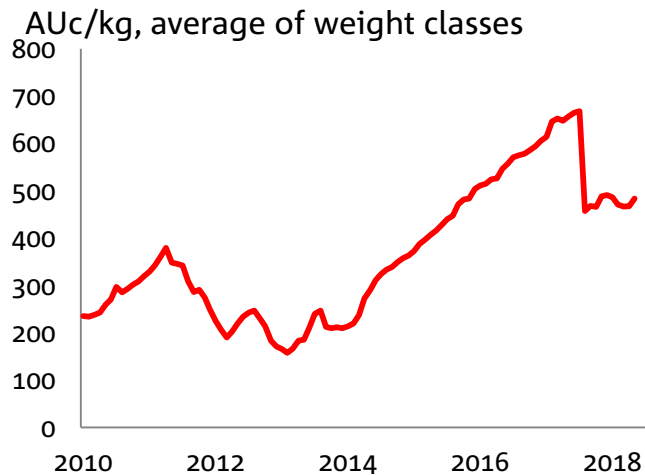
Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics



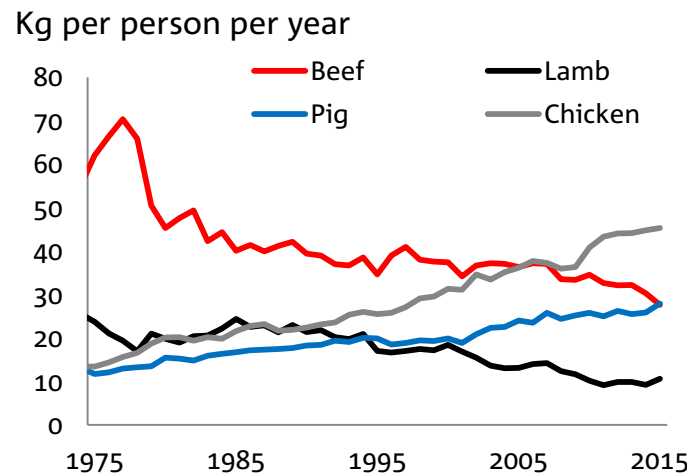
# PORK, POULTRY AND GOAT



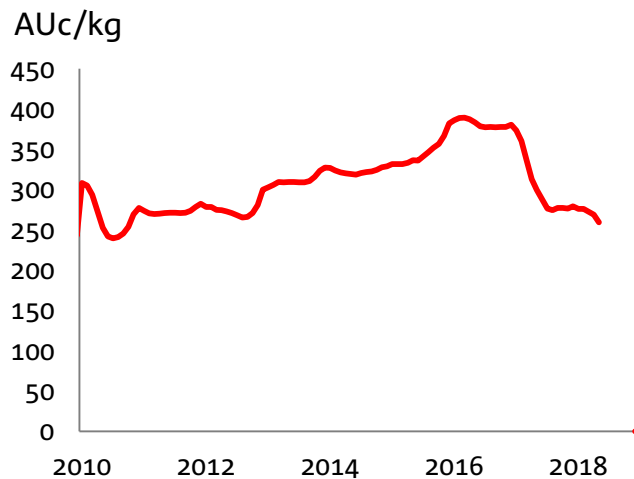
## EASTERN STATES GOAT PRICES



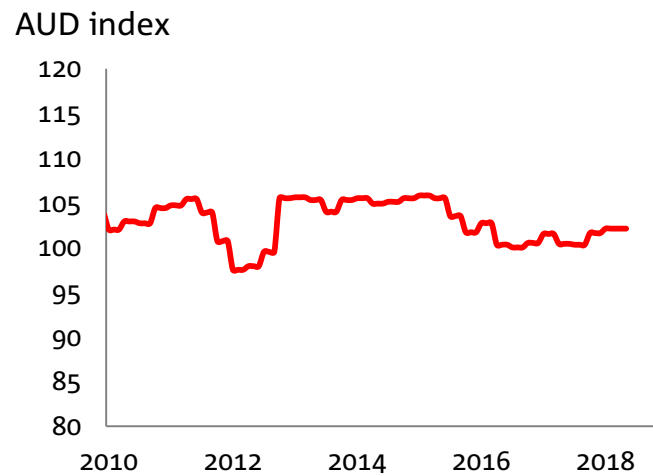
## AUSTRALIAN MEAT CONSUMPTION



## 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 more importantly, its lower cost. Beef and lamb have become, and remain, despite recent declines in cattle prices, relatively expensive. Meanwhile 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, reflecting import competition and higher domestic supply. Their more recent period of stability may have come to an end. Our pork price indicator (using an average of Australian Pork reported buyer and seller prices for Eastern Australia), was down 1.3% in April and 3.4% in May.

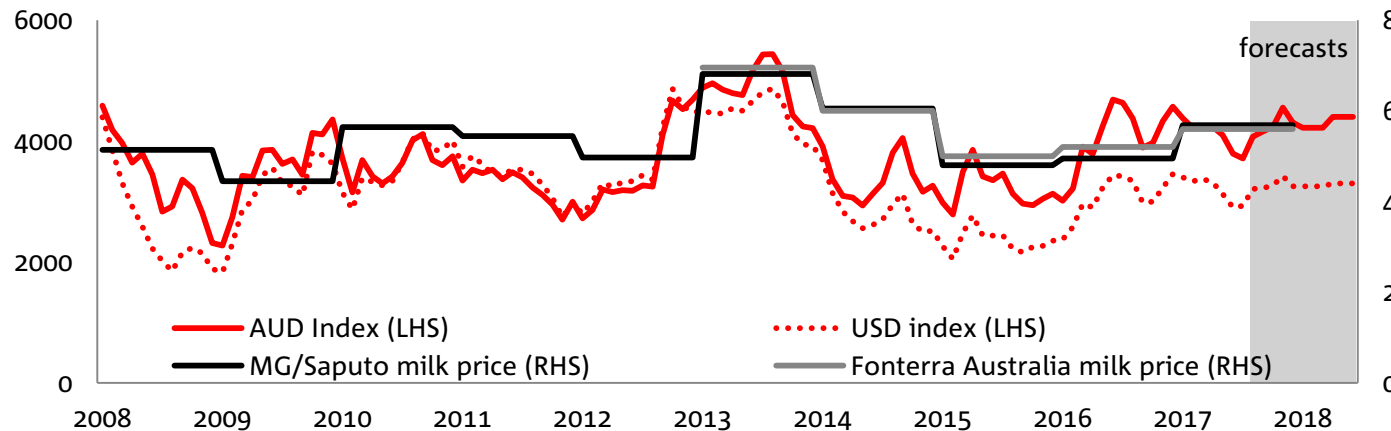
Although the NAB Rural Commodities Index does not include goat, the commodity has become an important source of revenue in parts of New South Wales and elsewhere. MLA data on goat prices shows a steady run-up in prices until mid-2017, before falling from mid-600s to 457c/kg in August 2017. Prices averaged just under 489c/kg across the weight range in May.

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)

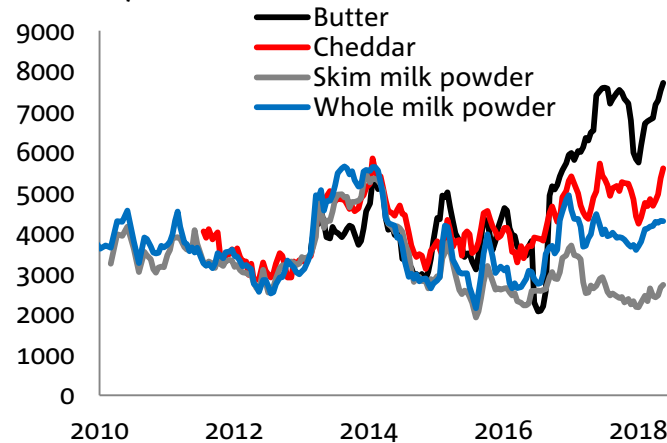


Global Dairy Trade auctions have been a little more encouraging recently. Combined with a somewhat benign AUD, the NAB weighted dairy export price indicator managed to jump 7.5% in May.

Our forecasts still do not point to major upside for global dairy prices in USD terms in the coming year, reflecting strong supply from the northern hemisphere. However, risks to production in our competitors have begun to increase a little recently. Higher feed costs and oil prices the US have historically been associated with higher dairy prices and may have an impact on production later this year.

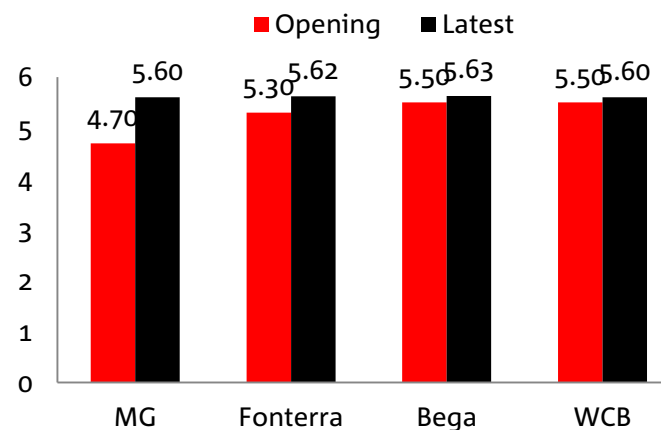
## GDT AUCTION RESULTS

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.

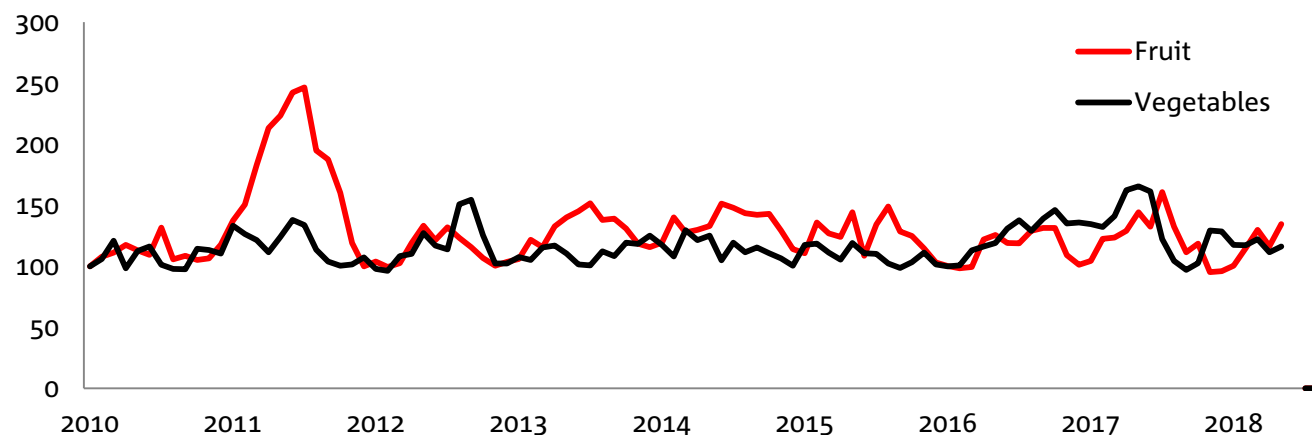
In New Zealand, the government has committed to an NZD886 million project to attempt to eradicate *Mycoplasma bovis*. This will see 152,000 cattle culled and restrictions on stock movement. While New Zealand has around 6.5 million dairy cattle, the impact will be closely watched over coming years.

Eyes are now on opening prices for the 2018-19 season. Farmgate prices tracked in the mid-high \$5 range in AUD terms for major processors last season and Saputo recently announced a late step-up for WCB and MG suppliers. Bega has broken with convention and guaranteed its suppliers a price of \$5.63 until September.



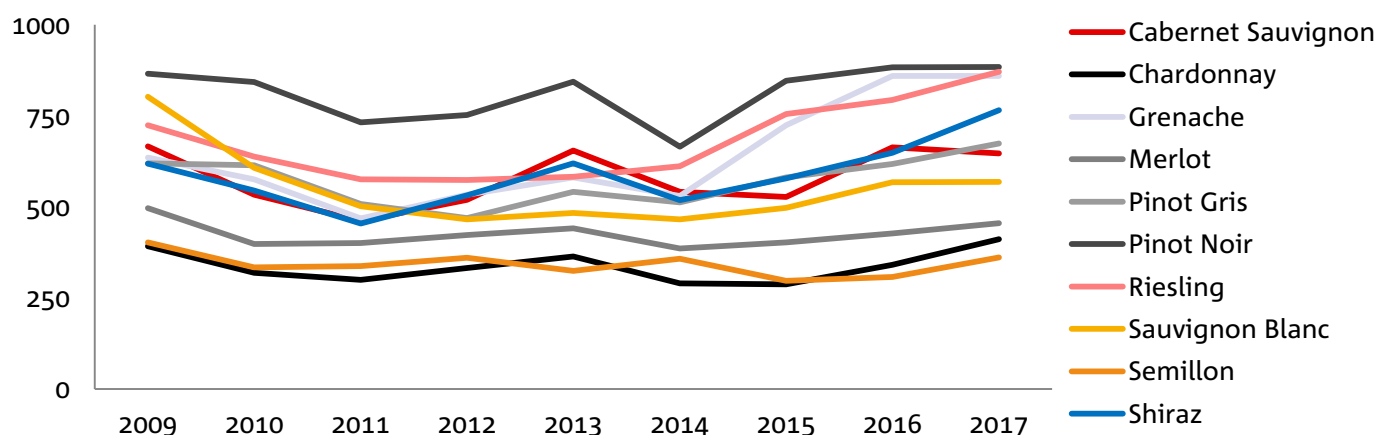
## WHOLESALE FRUIT AND VEGETABLE PRICES

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



## WINE AUSTRALIA 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 higher in May. Fruit was up 15.6% for the month, although followed a drop of 10.4% in April. The index has now reached 134.5 index points (January 2010 = 100), the highest level since July 2017. Vegetables were up 4.1% to 116.1 index points.

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%).



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