

# RURAL COMMODITIES WRAP

JULY 2018

## KEY POINTS

The last couple of weeks have seen some helpful rains across Australia, but overall the season remains very tough in many parts of the country. Northern New South Wales and parts of southern and western Queensland are the worst affected by drought.

As a result, local seasonal conditions continue to have a more than usual impact on prices. Eastern Australian grain prices remain at a substantial premium compared to international benchmarks, reflecting a shortage of grain in the domestic feed market. It is likely that plantings in Northern New South Wales and Queensland will be down on last season. Meanwhile cattle prices are much lower than year-ago levels, although EYCI has seen an uptick in the last few weeks.

Wool and sheepmeat remain star performers, although last week EMI fell below 2,000c/kg for the first time since May. A shortage of finished lambs has seen the National Trade Lamb Indicator surpass 700c/kg. Opening milk prices have been in the high \$5/kgms range - \$5.75 for Saputo and \$5.85 for Fonterra.

The AUD has been quite volatile in response to emerging market concerns and the US-China trade dispute. If the dispute widens further, there could be some further downside for the AUD. That said, our central case forecasts point to the AUD at 0.73 in Q3 and 0.75 in Q4.

# PRICE UPDATE



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The NAB Rural Commodities Index gained 1.4% month on month in June, following a 3.1% gain in May. On a year on year basis, the index was down 2.9% in June. The monthly gain reflects strong lamb, wool and cotton prices.

The AUD has been quite volatile and lower overall. This comes as welcome news for producers, with further downsides this year possible. However, our central case is still in the mid-70s range for Q4 2018.

## MONTHLY PRICE CHANGES

AUD prices

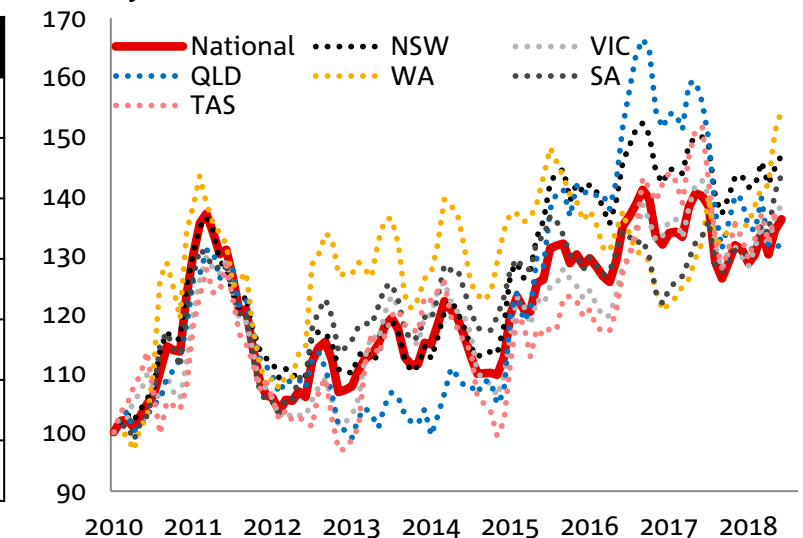
	April	May	June
Wheat	▲ 2.7%	▲ 11.4%	▲ 1.2%
Beef	▼ 7.3%	▼ 5.8%	▼ 0.4%
Dairy	▲ 1.9%	▲ 7.5%	▼ 2.2%
Lamb	▼ 3.4%	▲ 2.3%	▲ 8.0%
Wool	▲ 1.0%	▲ 6.5%	▲ 6.3%
Sugar	▼ 6.8%	▲ 2.4%	▲ 2.2%
Cotton	▲ 1.1%	▲ 4.7%	▲ 3.8%

On a state basis, cattle-heavy Queensland was the weakest performer, along with Tasmania, although both gained 0.4%. New South Wales was up 1.4%, while Victoria was up 1.2%. South Australia was up 2.1%, while grain dependent Western Australia rose 2.2%.

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

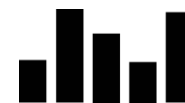
## NAB RURAL COMMODITIES INDEX

January 2010 = 100



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

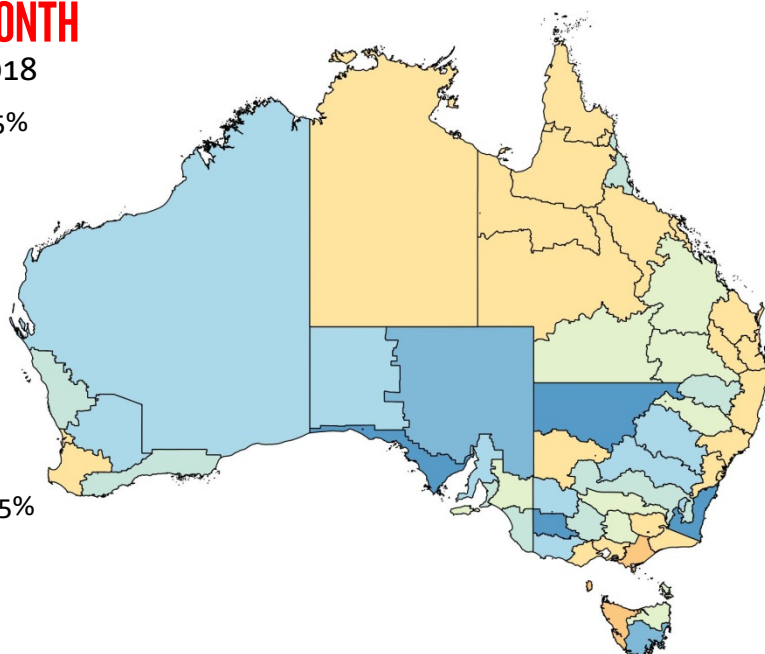
# REGIONAL PRICE INDICATORS



## MONTH ON MONTH

May to June 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%



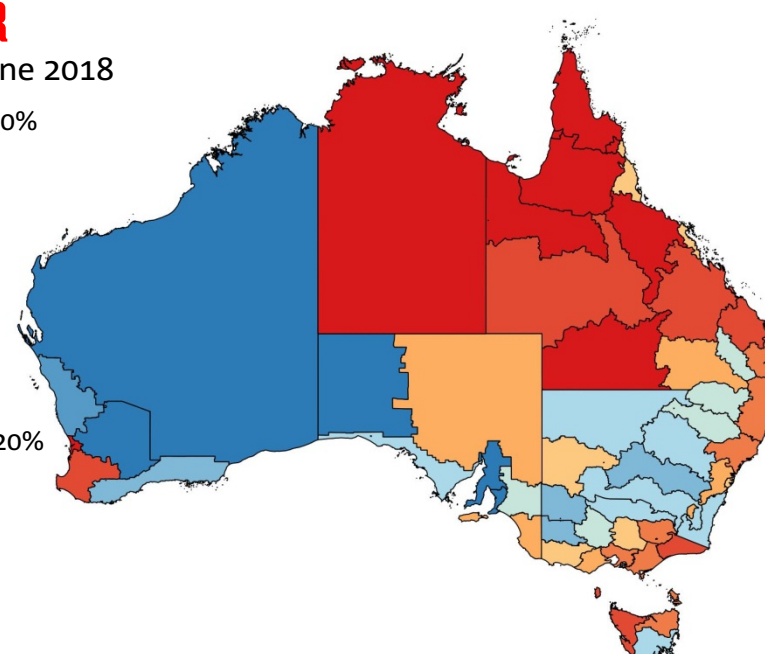
Monthly regional price indicator data shows the impact of another rise in grain prices but also the only moderate monthly average fall in cattle prices. The most severely affected regions – South Gippsland and Northwest Tasmania – were both less than two per cent lower.

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 higher peak).

## YEAR ON YEAR

June 2017 to June 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%



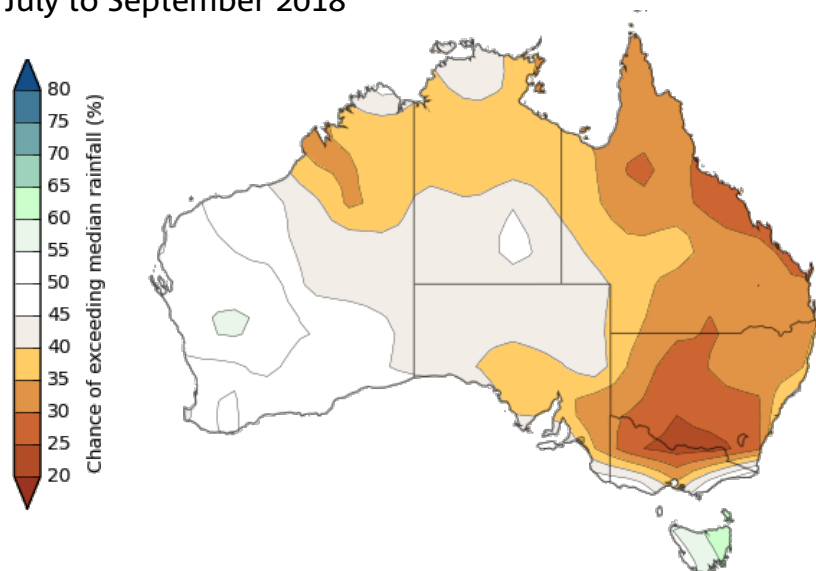
NAB's regional price indicators are in effect a set of separate NAB rural commodities indices for every region in Australia. The project is still in a trial stage and is calculated on a different basis to our national and state data i.e. without annual chain-weighting. We will continue to develop this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

July to September 2018



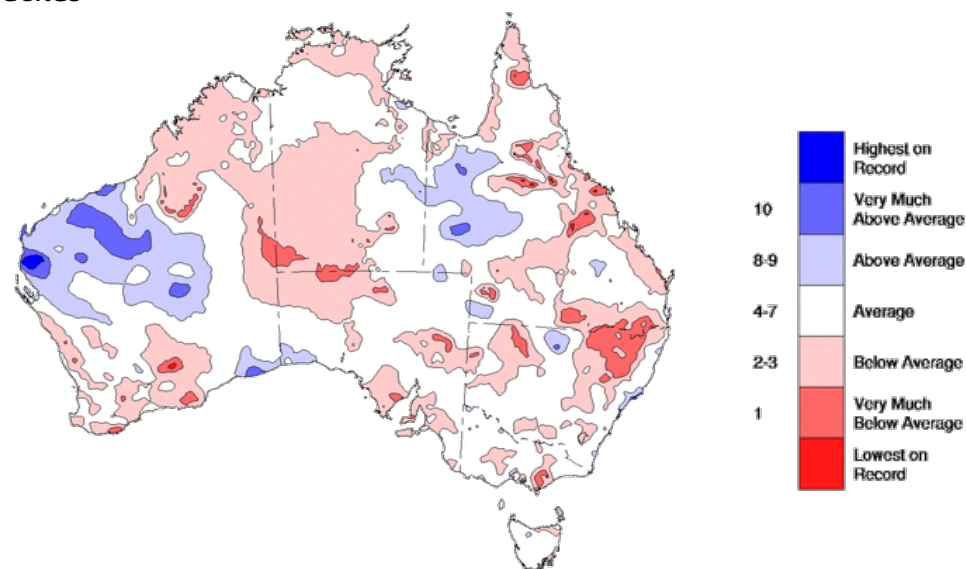
The Bureau of Meteorology's latest three month outlook continues to paint a worrying picture for rainfall across the east and north of the country, with only Tasmania and Western Australia (excluding the Kimberley) forecast to see average rainfall. Much of New South Wales, along with northern Victoria and parts of coastal Queensland, is rated at a less than 30% chance of exceeding median rainfall.

The Bureau of Meteorology's ENSO outlook remains on El Niño watch, which means there is a roughly 50% chance of El Niño developing in spring this year. While the impacts of El Niño are varied, the phenomenon is generally associated with hotter and drier conditions in eastern and northern Australia.

Source: Bureau of Meteorology

## RAINFALL – JUNE 2018

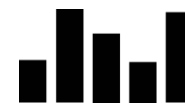
Deciles



The outlook follows another patchy month across most of the country in June. Most agricultural regions saw average to below average rainfall, with northern New South Wales under particular pressure.

That said, parts of New South Wales, southern Queensland and the Western Australian wheatbelt have seen good rain in the past two weeks. This has been a welcome relief for winter crops, although the season, especially in the east, still hangs very much in the balance.

# OUTLOOK FOR PRICES AND PRODUCTION



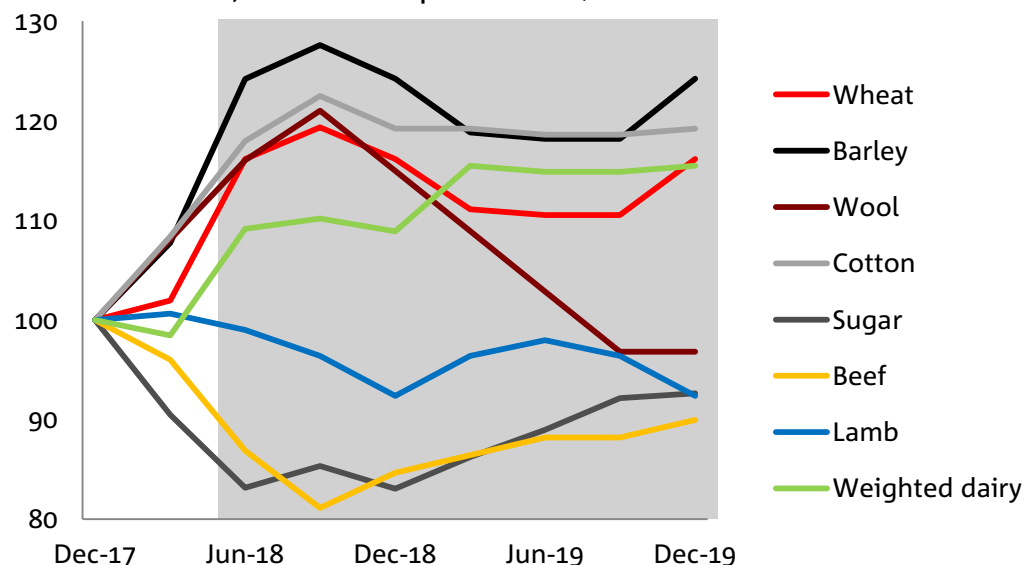
## Prices

Dry weather continues to be a major driver of grain and cattle prices. If it stays dry, domestic grain premiums are likely to remain and cattle prices are likely to stay suppressed, although an improved season should see renewed restocker interest and lower grain prices. The wool industry is booming, with the Eastern Market Indicator at record levels. Even if prices retreat a little from here, the sheep industry is likely to remain a very strong performer this year.

US-China trade tensions continue to escalate, although it is probably still too early to say for sure what impact – if any – awaits for Australian agriculture beyond a probably lower AUD.

## 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

The dry weather presents a short term upside for livestock production and a likely downside for grain yields. Our latest assessment for Australian wheat production is a shade under 20 million tonnes, although a good spring in Western Australia would provide some upside. Conversely, the Bureau's outlook for the east is a worry.

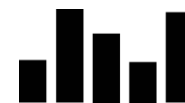
ABARES' latest forecasts for cotton point to a big drop in 2018-19, reflecting lower irrigation dam levels, while other major commodities are forecast to see higher production.

## ABARES PRODUCTION OUTLOOK (JUNE 2018) EXCEPT WHEAT

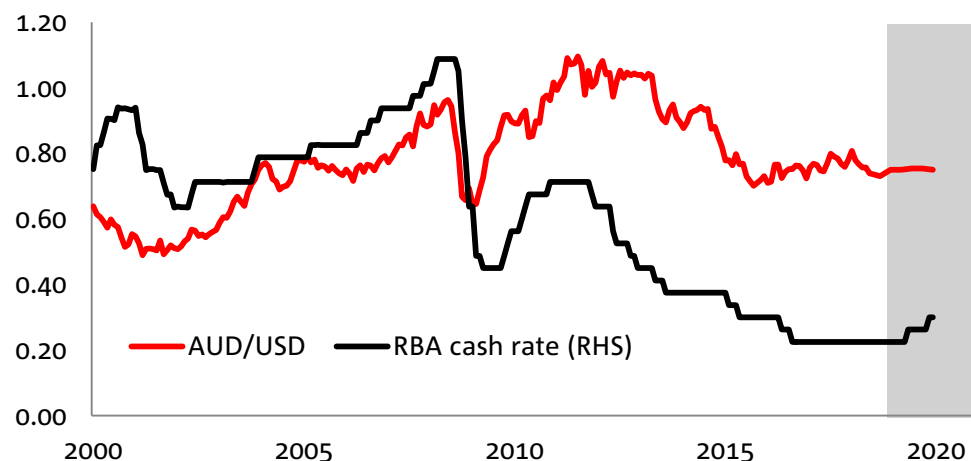
Financial year production estimates, Australia

	2017-18	2018-19	% change
Wheat (million tonnes)	21.2	19.7	▼ 7.2%
Beef (kt)	2,249	2,305	▲ 2.5%
Dairy (milk, ML)	9,250	9,370	▲ 1.3%
Lamb and mutton (kt)	723	735	▲ 1.7%
Wool	422	430	▲ 1.9%
Sugar (kt)	4,700	4,830	▲ 2.8%
Cotton (lint, kt)	1,044	830	▼ 20.5%

# EXCHANGE RATES AND INTEREST RATES



## EXCHANGE AND INTEREST RATES INC. QUARTERLY FORECASTS



## NAB FX STRATEGY TARGETS

	2018Q3	2018Q4	2019Q1	2019Q2
AUD/USD	0.73	0.75	0.75	0.75
NZD/USD	0.69	0.70	0.70	0.71
USD/JPY	109	110	108	106
EUR/USD	1.15	1.18	1.22	1.22
USD/CNY	6.50	6.40	6.30	6.23

Source: NAB

8 The AUD/USD came under pressure in June amidst US-led trade  
7 tensions and ongoing emerging market concerns. Over the month, the  
6 AUD/USD fell from 0.7567 to 0.7406.

6 Trump chooses to push on with tariffs, to which we can be sure China  
5 will immediately respond. This is likely to add to emerging market  
4 stresses and so place additional downward pressure on AUD. If there is  
3 a serious ramp-up in the Sino-US trade dispute, levels around 0.7150,  
2 seen in both June and December 2016, are likely to be challenged.

2 We still maintain that China will, from self-interest, refrain from  
1 escalating its current endorsement of a weaker Yuan into a full-blown  
0 'currency as trade-war weapon'. If we're wrong, we'd have to think  
that a re-run of August 2015 and January 2016 is on the cards with  
AUD/USD falling below 0.70.

Ultimately our forecasts point to the AUD at 0.73 in Q3 and 0.75 in Q4.

We expect the towards target and so start to gradually lift the cash  
rate off its current very low level in mid 2019 (May).

Once the tightening cycle starts, further rate increases are likely to be  
very gradual and highly data dependent. We have the second move  
up in late 2019.

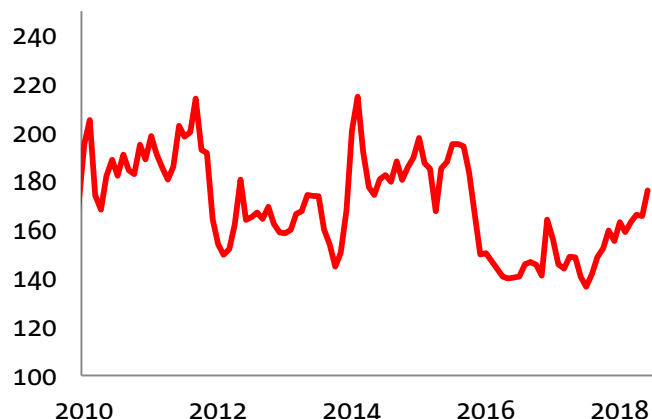
While the global environment will see other central banks tightening  
policy – particularly the US Federal Reserve where we could 5 more  
rate rises by late 2019 – the RBA will be very focussed on the local  
economy. They would not be concerned if current settings see some  
downside to the AUD from interest rate differentials.

# FARM INPUT PRICES



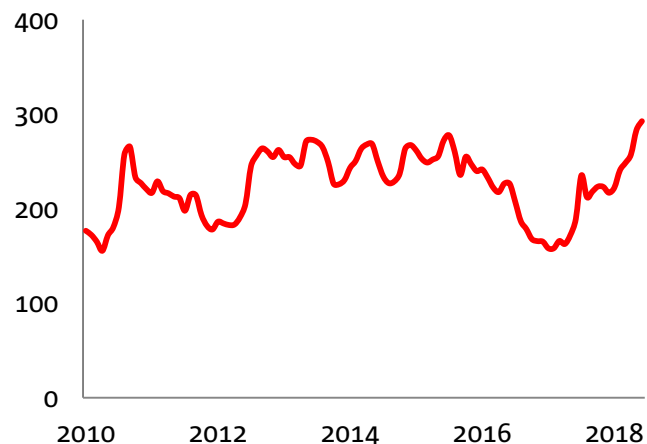
## NAB FERTILISER INDEX

AUD index



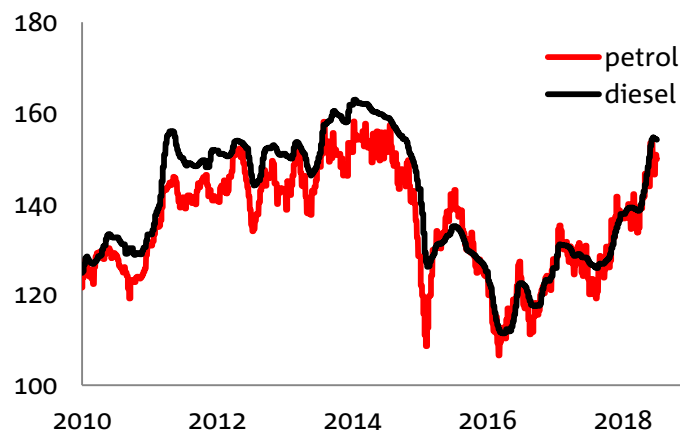
## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



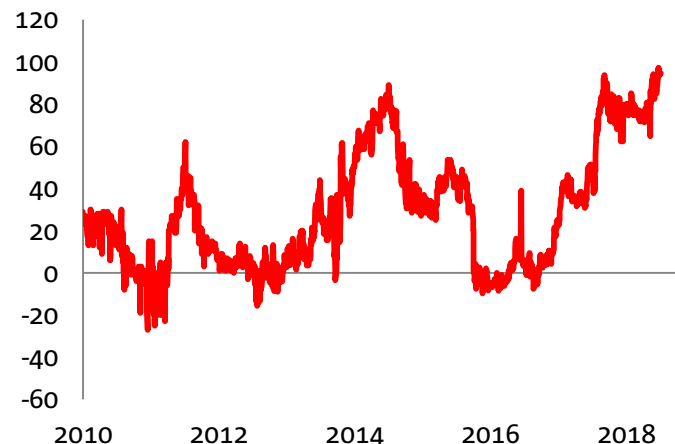
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## GEELONG-BRISBANE PRICE SPREAD

ASW1 cash price, AUD/tonne



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices continue to rise almost across the board, driven by a lower AUD, higher oil prices and elevated feed demand in eastern Australia.

Australian petrol prices have been rising, most recently to the 145-155c/l range at a national average level. Diesel has risen somewhat above this level. The lower AUD has sharpened the impact, although we do not forecast major downside for the AUD this year. At this stage, we see national fuel prices largely in the 140-145c/l range for the remainder of the year, although this will be very sensitive to crude oil prices and exchange rates.

The NAB Fertiliser index spiked 6.3% in June, its biggest monthly gain since February 2017. In USD terms, DAP, urea and natural gas were all higher, compounded by a lower AUD. Overall, we expect that fertiliser prices will rise further this year.

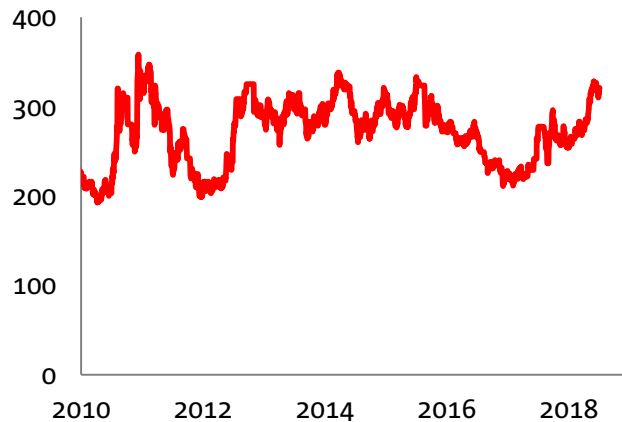
Domestic feed prices were again higher in June, reflecting poor grain availability amid drought conditions in parts of the country. Overall the NAB feed grain price index was up 3.4% to \$293/t – the highest level since the index began in 2010.. Some regional prices, particularly in northern New South Wales and Queensland are substantially higher again.

# WHEAT



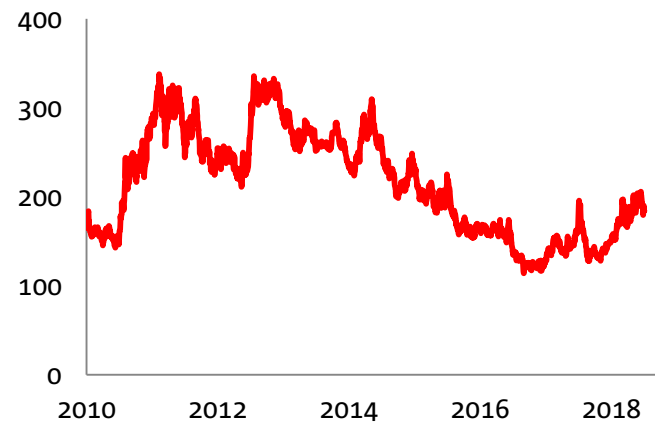
## ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



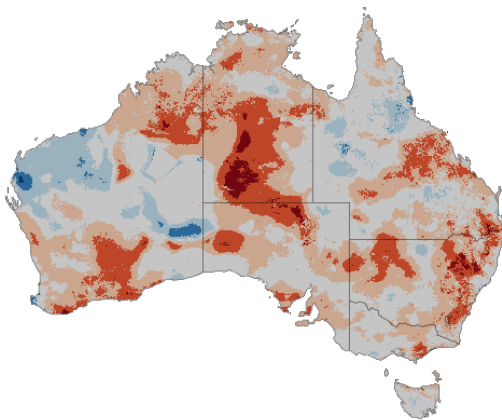
## CBOT SOFT RED WINTER WHEAT

USD/tonne



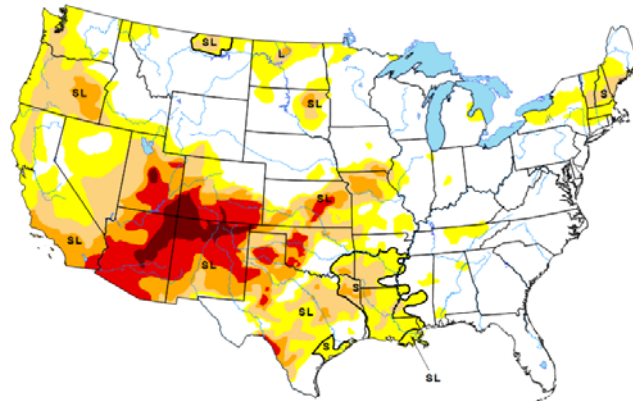
## ROOT ZONE SOIL MOISTURE

Relative to average, 2 July 2018



## US DROUGHT MONITOR

26 June 2018



## Prices

Global wheat prices are something of a mixed bag at present. While US drought conditions remain serious in the south-west, crop condition concerns have eased. On the other hand, benchmark indicators have seen signs of life amid challenging conditions in Europe (floods in France but a dry season in Germany) and ongoing questions around Russia.

Irrespective of global market movements, we expect domestic wheat premiums to remain for some time, unless the season markedly improves.

## Production

Our latest forecasts point to further downside for Australian wheat production. This is not because of any particular new calamities in the last month, but rather because June rainfall was again below average in many areas, combined with a lower area planted in New South Wales and Queensland. Our model estimates that Australian wheat production will reach a shade under 20 million tonnes, although the final number could very well be higher if the Bureau of Meteorology's three month outlook Western Australia transpires. On the contrary, if eastern Australia sees a dry spring, there could be further downgrades for NSW, Victoria and South Australia.

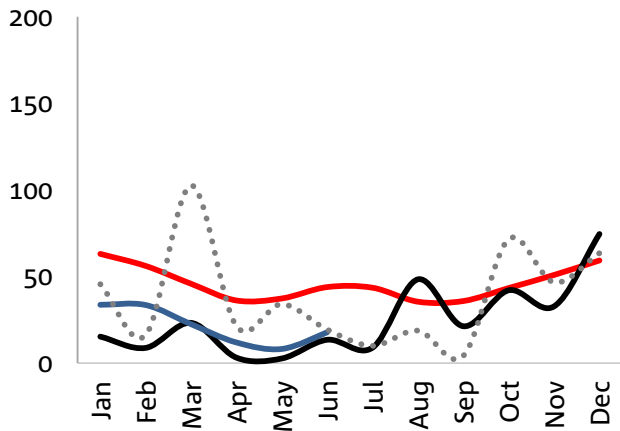
Source: Bloomberg, Profarmer, US drought monitor, BoM and NAB Group Economics

# MONTHLY AVERAGE RAINFALL IN WHEAT REGIONS (MM)

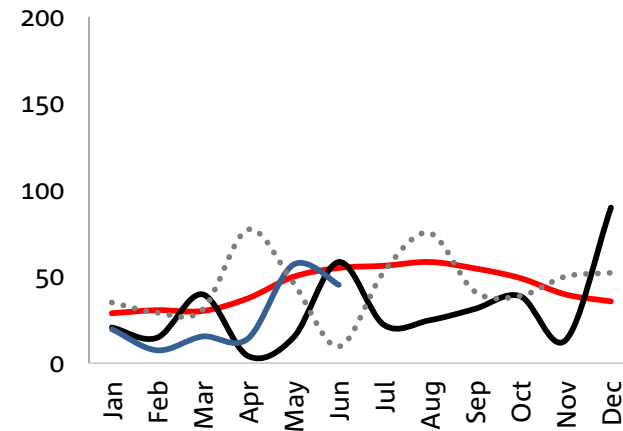


— Long run average 1900-01 to 2013-14    — 1902 drought    — 2018 YTD    ..... 2017

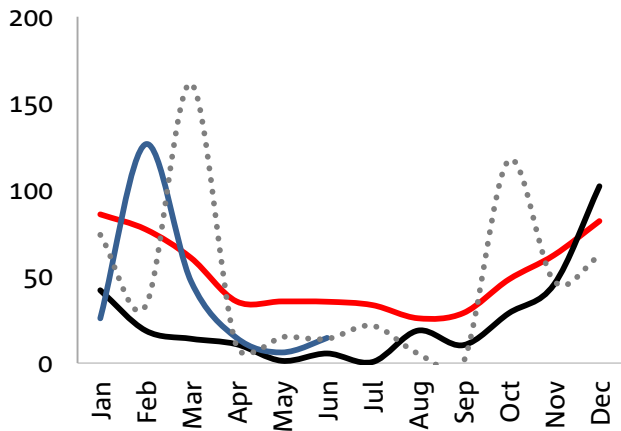
## NEW SOUTH WALES



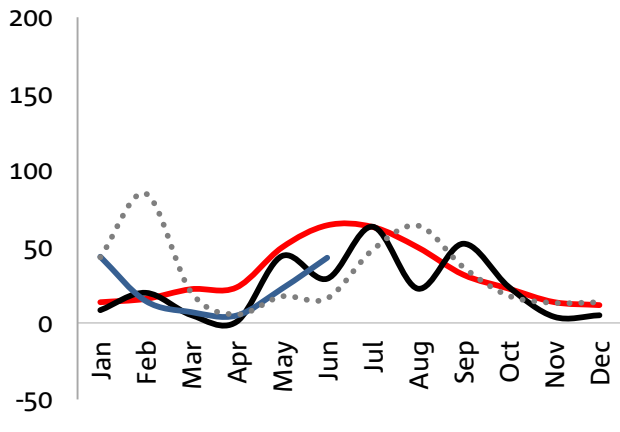
## VICTORIA



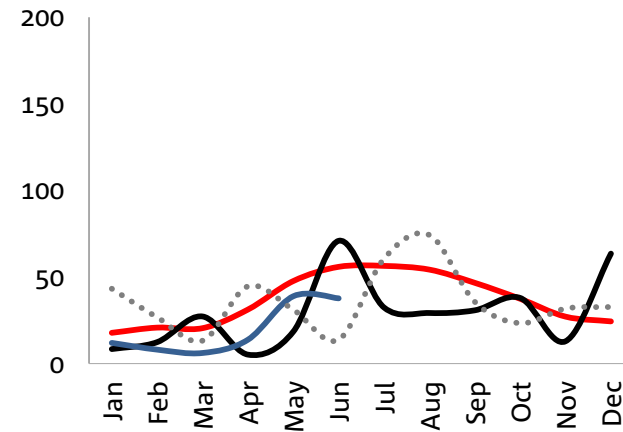
## QUEENSLAND



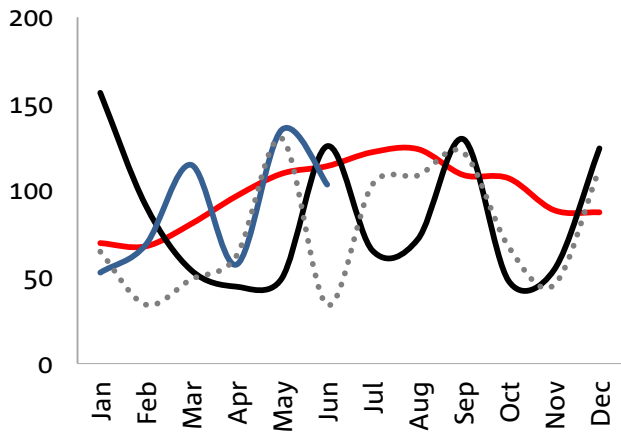
## WESTERN AUSTRALIA



## SOUTH AUSTRALIA



## TASMANIA



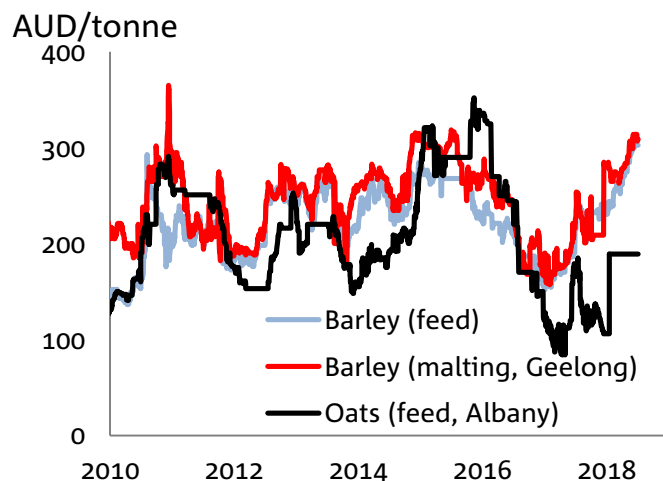
Source: Bureau of Meteorology and NAB Group Economics



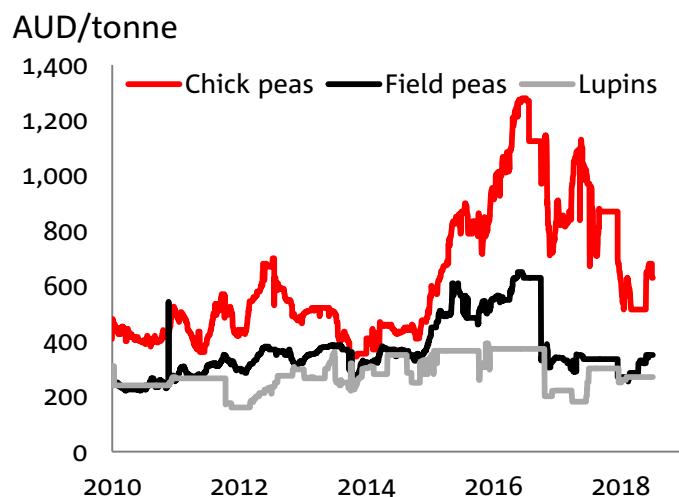
# OTHER WINTER CROPS AND SUGAR



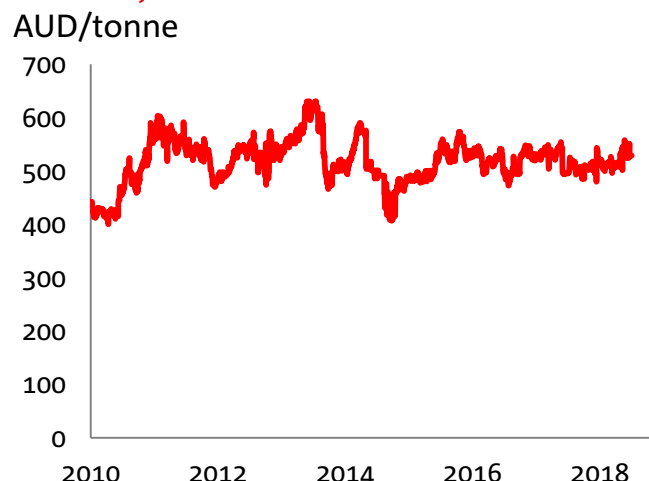
## SELECTED COARSE GRAINS



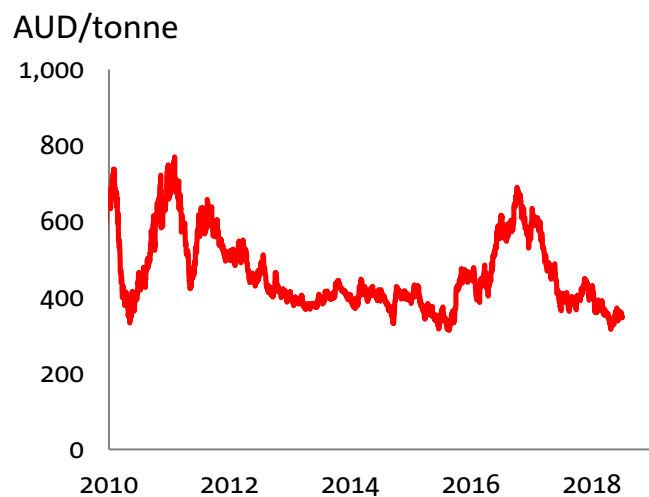
## SELECTED PULSES



## 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.

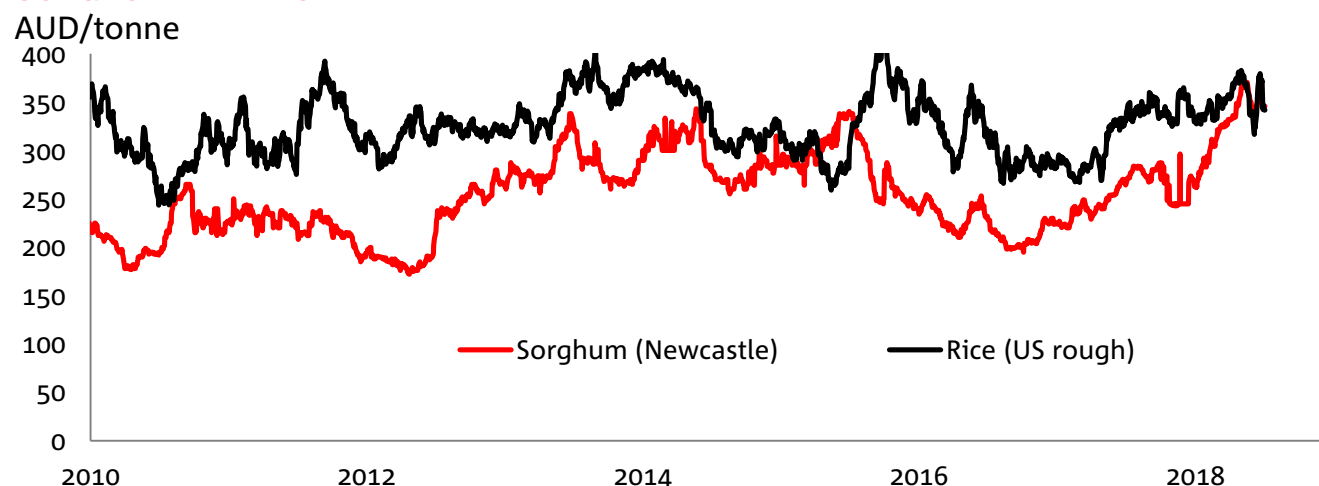
While pulse prices continue to languish amid fairly light trading, chick peas have seen their best rally in some time, reflecting a lack of local supply and a somewhat underwhelming monsoon season in India. Nonetheless, given prevailing growing conditions, the Australian harvest this season is likely to be fairly small.

Sugar prices have been a bit more encouraging recently, although early July results are less impressive. Nonetheless, the market remains beset by large Indian stockpiles, suppressing the prospects of a sustained rally. In AUD terms, ICE no. 11 sugar prices averaged \$355/tonne in June, up 2.2% but still close to the lowest level in a decade.

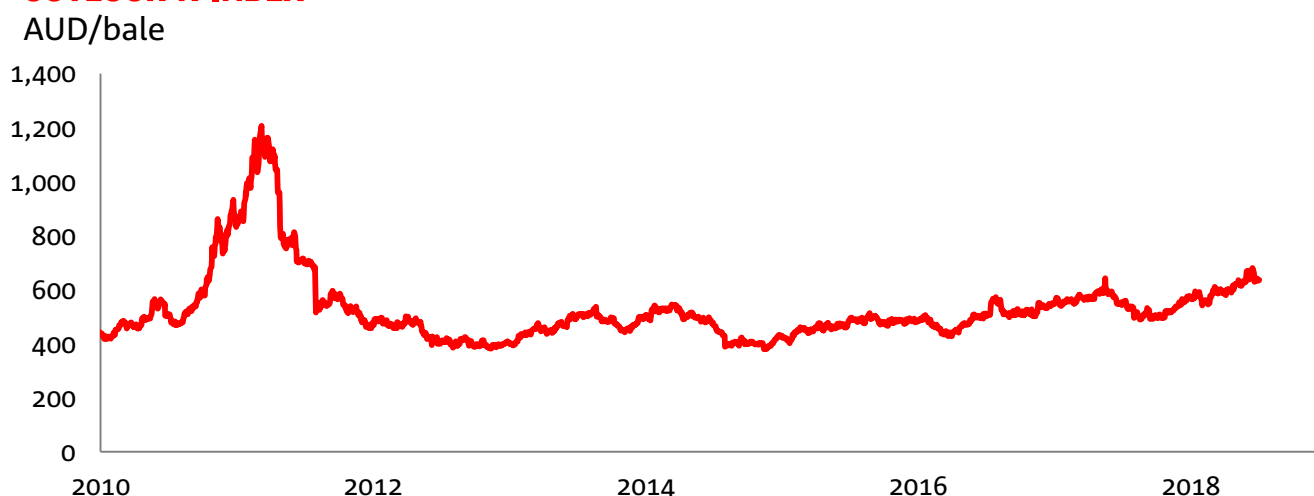
Source: Bloomberg, Profarmer and NAB Group Economics



## SORGHUM AND RICE



## COTLOOK A INDEX



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

Cotton prices continue to trend higher, with AUD denominated Cotlook A averaging \$652/bale in June (although it has since fallen a little). The latest ABARES forecasts point to Australian cotton production falling 21% in 2018-19, reflecting lower plantings due to a lack of irrigation water. Perversely, the dry conditions in New South Wales and Queensland could encourage dryland cotton, as the winter planting window has now closed and some producers have elected to use any available moisture for a summer crop.

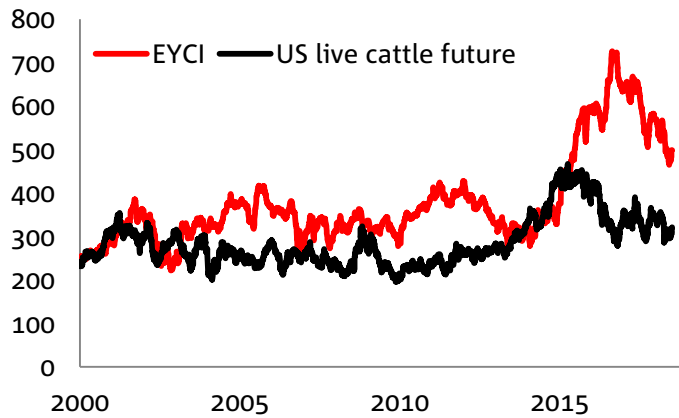
Sorghum prices have followed other grain prices north, reflecting domestic feed demand.

Australian sorghum could be a beneficiary of the US-China trade tensions. China is a massive soybean consumer, importing over 92.5 million tonnes of soybeans in 2016-17) and the tariffs could make US soy less attractive. While Australia's sorghum industry is a drop in the ocean of Chinese feed demand, there may be further opportunities. Still, if the winter crop disappoints, domestic demand may outpace export price growth.



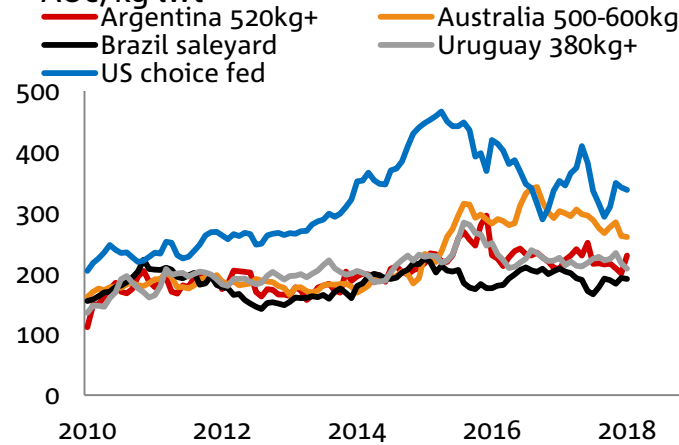
## EYCI AND US LIVE CATTLE FUTURES

AUc/kg



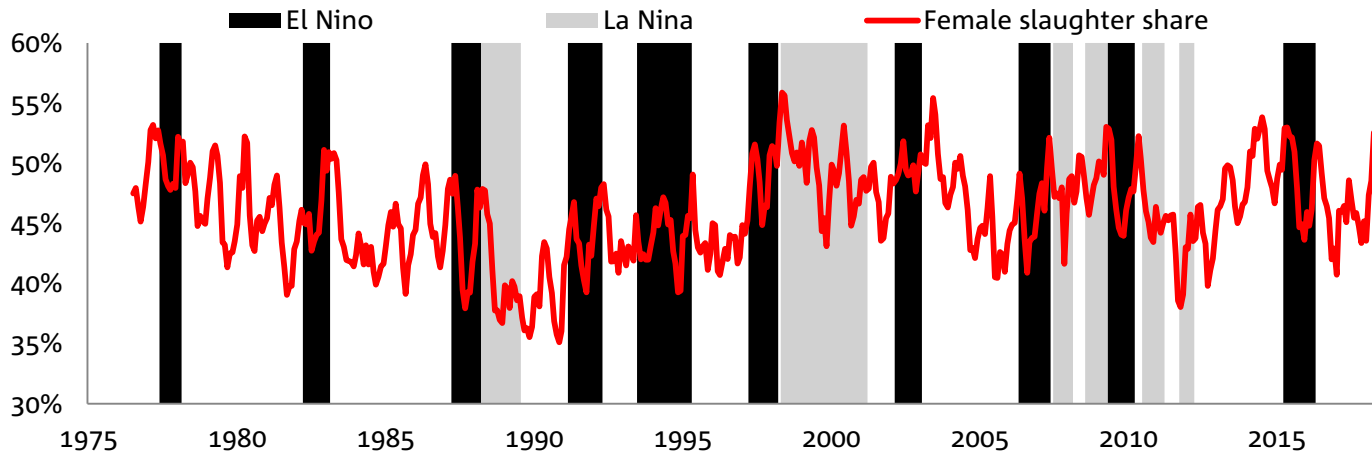
## GLOBAL STEER PRICES

AUc/kg lwt



## FEMALE SHARE OF SLAUGHTER AND ENSO EVENTS

AUc/kg lwt



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

While cattle prices have been – and continue to be – quite weak compared to previous highs, the last few weeks has seen a resilience in the market surpassing our expectations. While problems persist in Queensland and New South Wales, with many forced to sell breeders and the female share of slaughter ticking up to drought levels, some areas have seen useful rain. This probably goes some way to explaining why the EYCI has ticked up back above 500c/kg, after bottoming out at 465c at the end of May.

Ultimately, our forecasts are in the high 400s to low 500s range for the coming 12 months.

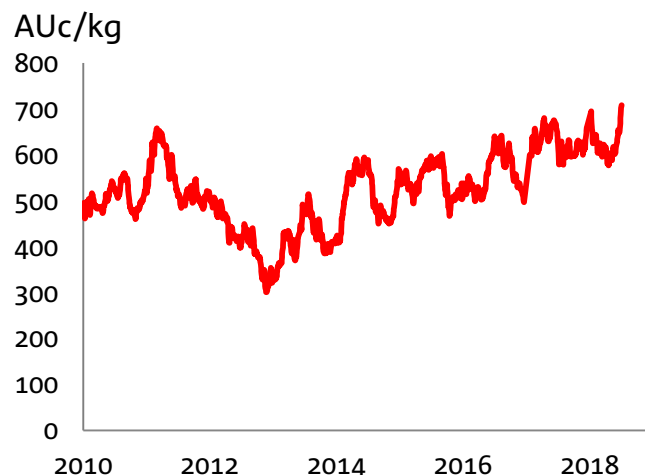
Export markets remain tricky to pick. USDA data suggests that US cattle herd will peak the next year or so. There is likely to be more US product on the US domestic market in coming months, potentially compounded by drought in the south-west of the US. With Australian herd rebuilding out of sync, our performance against international benchmarks will likely be challenging.

The low cost of South American beef remains an obstacle although Australian beef volumes in China have been encouraging of late.

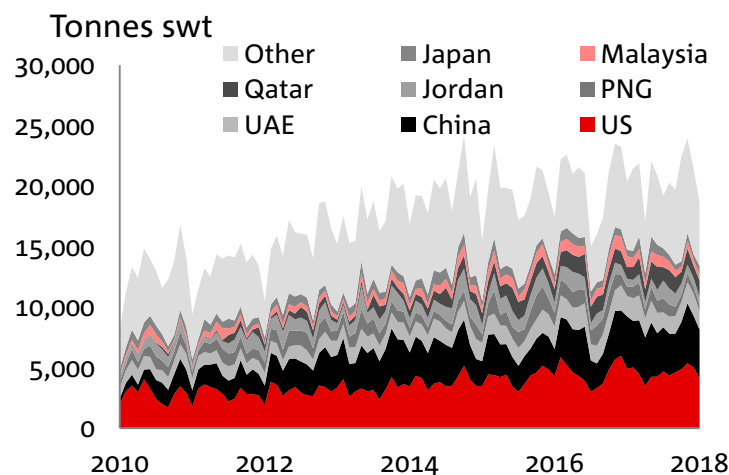
# LAMB AND WOOL



## NATIONAL TRADE LAMB INDICATOR



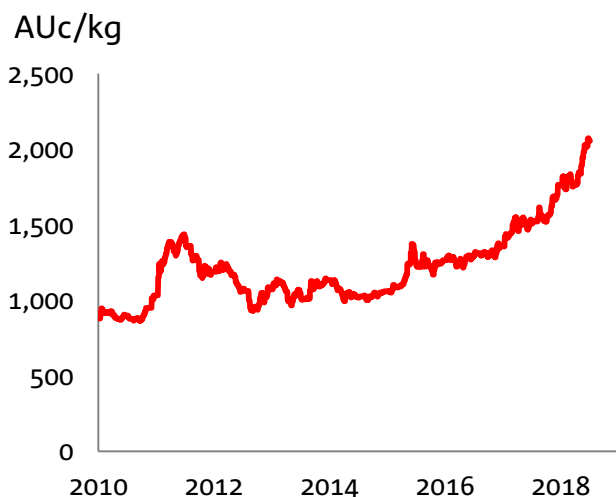
## MONTHLY LAMB EXPORTS BY DESTINATION



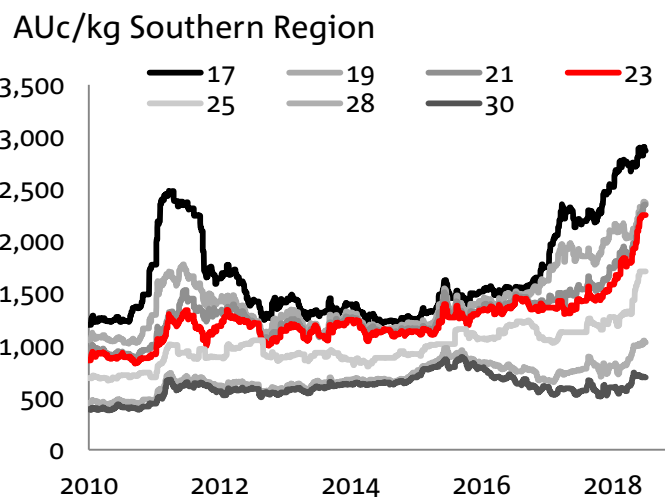
Lamb prices have surged, reflecting both the usual winter shortage but also strong fundamentals. While slaughter was quite elevated in autumn (largely reflecting dry conditions in New South Wales), this looks to have abated in MLA slaughter data over the last month. Lamb was the second strongest performer in the NAB Rural Commodities Index in June, up 8.0%. The National Trade Lamb Indicator is now at 711c/kg.

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

## WOOL EASTERN MARKET INDICATOR



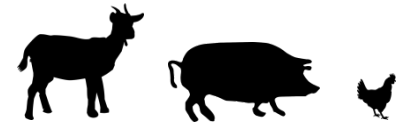
## WOOL PRICES BY MICRON



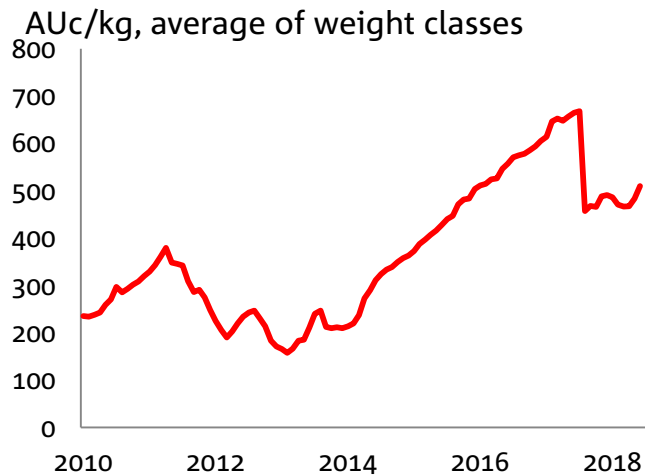
Wool prices continue to impress, although last week EMI fell below 2,000c/kg for the first time since May, with the fall reflecting lower Chinese demand due to Chinese currency depreciation. That said, prices remain very strong overall. The main note of caution we sound is that with Chinese demand a major driver, there could be some risk to prices if buyers decide to substitute to other fibres for cost reasons or a trade war develops in earnest. However it is important to note that we have not seen any major jitters yet, despite falls at the last four auctions.

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

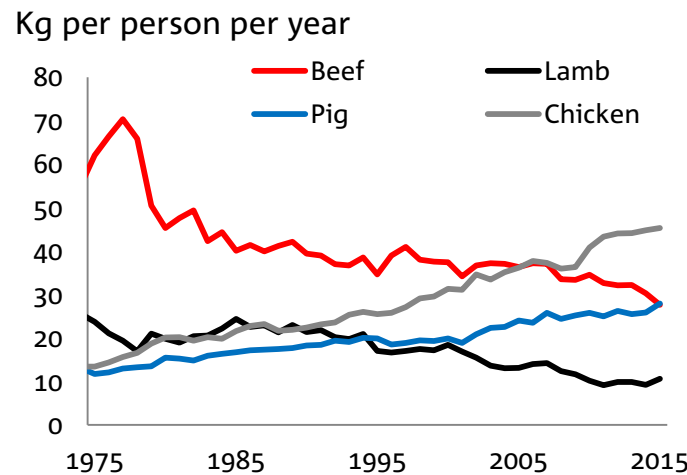
# PORK, POULTRY AND GOAT



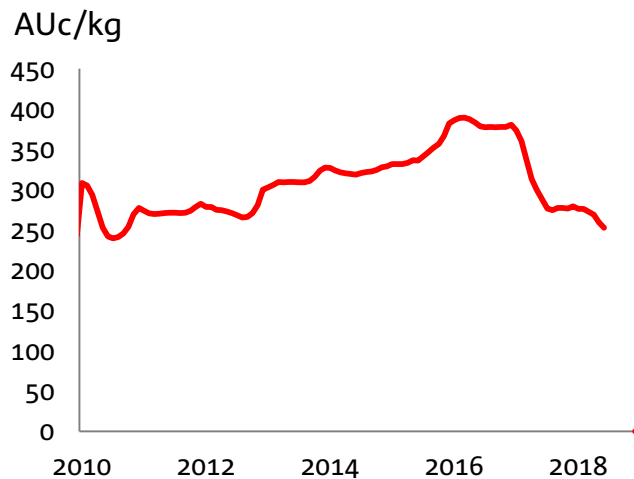
## EASTERN STATES GOAT PRICES



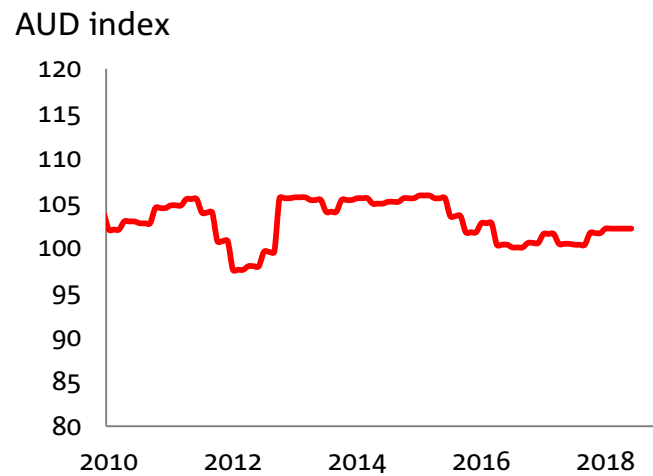
## AUSTRALIAN MEAT CONSUMPTION



## 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, largely as a result of higher domestic supply but also import competition. Their more recent period of stability looks to be over, with our pork price indicator (using an average of Australian Pork reported buyer and seller prices for Eastern Australia), down 2.6% in June, the fourth consecutive month of falling prices.

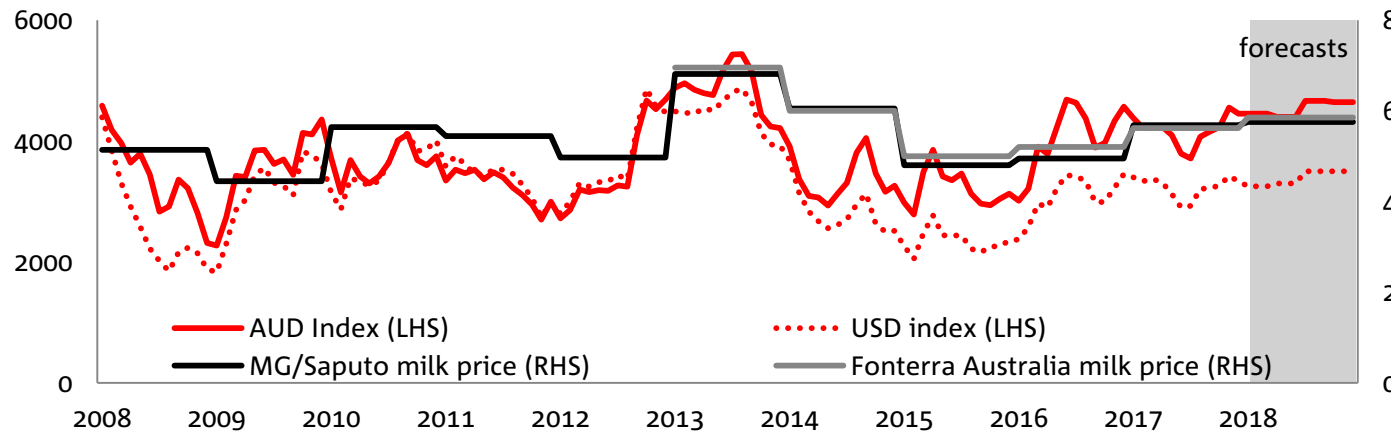
Although the NAB Rural Commodities Index does not include goat, the commodity has become an important source of revenue in parts of New South Wales and elsewhere. MLA data on goat prices shows an uptick recently, up 5.4% to break the 500c mark for the first time in a year.

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)

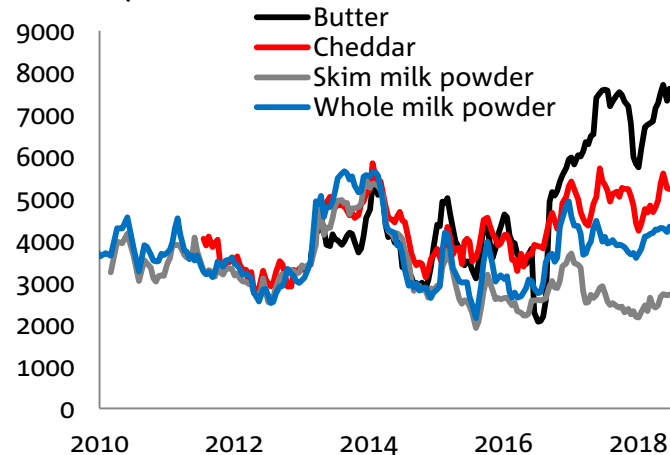


Global Dairy Trade auctions were a little lower in June on a USD basis, but the latest auction on 3 July saw a 5.0% drop. Our NAB weighted dairy export price indicator was down 2.2% in June.

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 amid an EU stockpile wind-down. While New Zealand is producing little milk at this time of year, recent data shows that production is increasing.

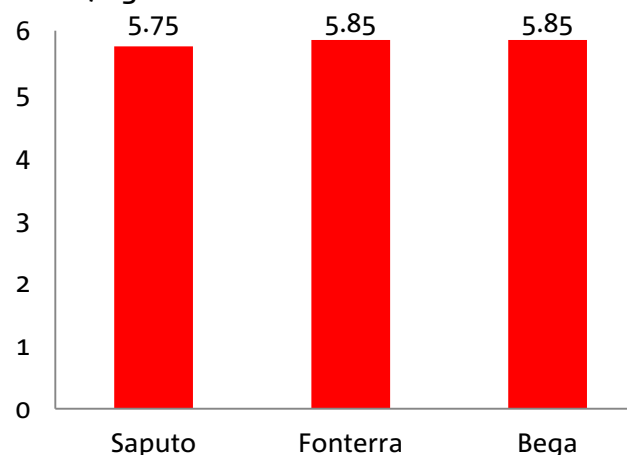
## GDT AUCTION RESULTS

AUD/tonne



## 2018-19 OPENING PRICES

AUD/kg milk solids



Opening prices for the 2018-19 season are now out. Saputo (which is now Australia's biggest processor – taking up to one-third of Australian milk) opened on \$5.75/kgms, while Fonterra Australia and Bega both opened at \$5.85. These are the best prices in some time, although it is not clear that they will be enough to entice much in the way of extra milk flow.

Seasonal conditions are somewhat challenging. This is compounded by high domestic grain prices, combined with the prospect of higher temporary water prices.

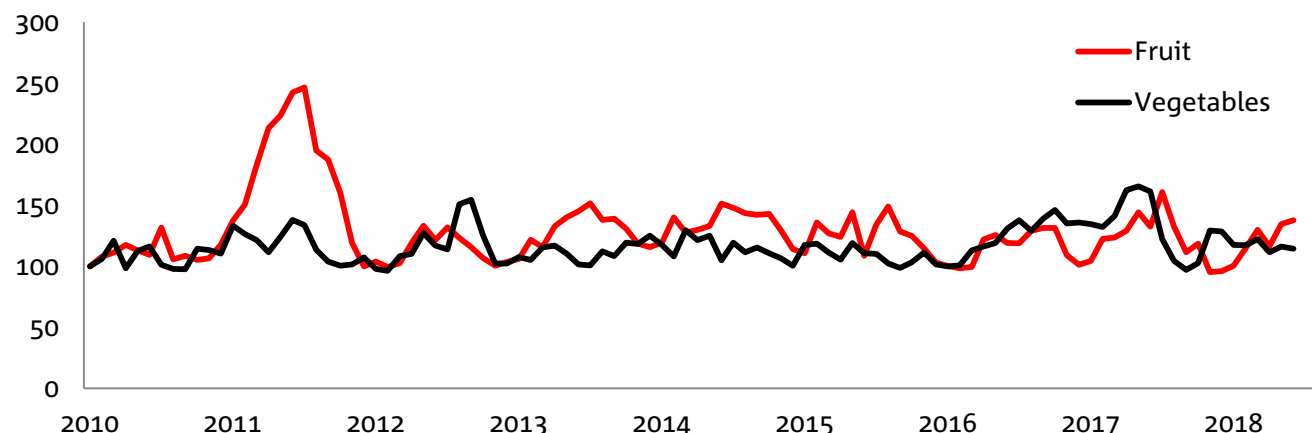
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, IBISworld and NAB Group Economics

Note: 2018-19 Saputo and Fonterra prices are opening, not forecast seasonal



## WHOLESALE FRUIT AND VEGETABLE PRICES

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

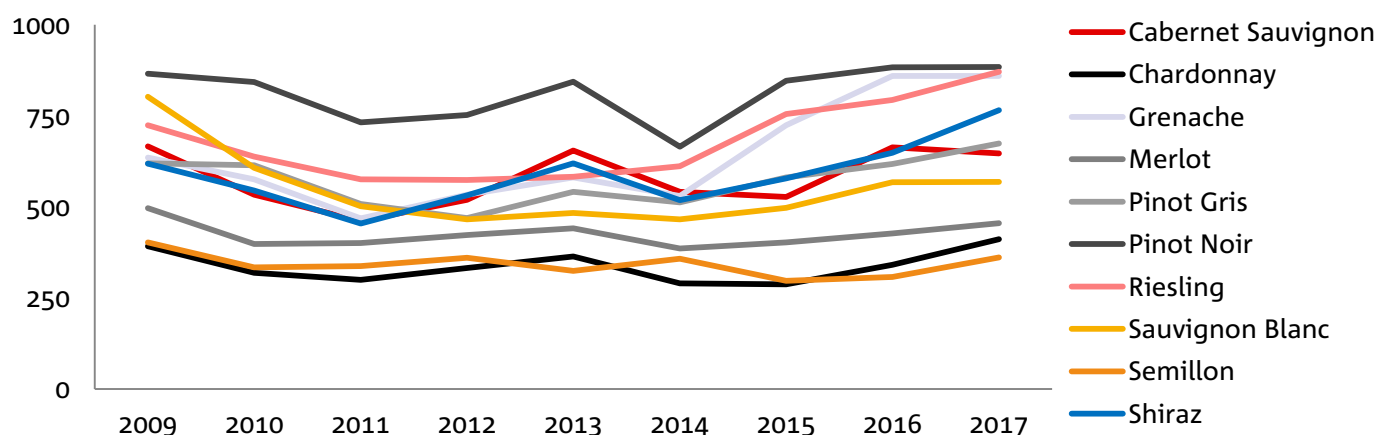


We produce wholesale price indices for fruit and vegetables, based on data from the Melbourne and Sydney wholesale markets.

Wholesale fruit and vegetable prices were mixed in June. Fruit was up 2.3% for the month (following a 15.6% gain in May). The index has now reached 137.5 index points (January 2010 = 100), the highest level since July 2017. Vegetables were down 1.5% to 114.3 index points.

## WINE AUSTRALIA WEIGHTED WINE GRAPE PRICES

AUD/tonne



Wine Australia's 2017 National Vintage Report shows prices rose once again last 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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