

RURAL COMMODITIES WRAP

AUGUST 2018

Author | Phin Ziebell, Agribusiness Economist



KEY POINTS

Drought conditions continue unabated in New South Wales and parts of Queensland, with the Bureau of Meteorology reporting that July 2018 was the driest nationally since 2002. Conditions in Victoria and South Australia are better, although mostly drier than average and would be challenged by a dry spring. Meanwhile, the Western Australian wheatbelt is enjoying broadly favourable conditions and looks set for a strong season, with average to above average yields.

The drought has sent feed prices even higher across eastern Australia as livestock producers scramble to source adequate supplies. Grain is now moving from Western Australia to the east, a trend which may continue if – as seems likely – the eastern states see below average winter (and potentially summer) crops this season. Restocker cattle prices are under considerable pressure, although there has been a shortage of finished cattle in the market. Trade lamb has performed very strongly indeed, reaching the high 700s level late last month, although it has since fallen somewhat.

Overall, the NAB Rural Commodities Index was up 1.3% in July, led largely by higher grain and lamb prices.

PRICE UPDATE



CONTENTS

- 3 Price update
- 4 Regional price indicators
- 5 Seasonal conditions
- 6 Price and production outlook
- 7 Exchange and interest rates
- 8 Farm input prices
- 9 Wheat
- 11 Other winter crops and sugar
- 12 Summer broadacre crops
- 13 Beef
- 14 Lamb and wool
- 15 Pork, poultry and goat
- 16 Dairy
- 17 Horticulture and wine

The NAB Rural Commodities Index gained 1.3% month on month in July, following a 1.4% gain in June. On a year on year basis, the index was down 0.3% in July. The monthly gain reflects strong lamb and grain prices, as well as a (now reversed) recovery in cattle.

The AUD has traded in a narrower range since late June. Our central case is still in the mid-70s range for Q4 2018, which points to a slight appreciation from here.

MONTHLY PRICE CHANGES

AUD prices

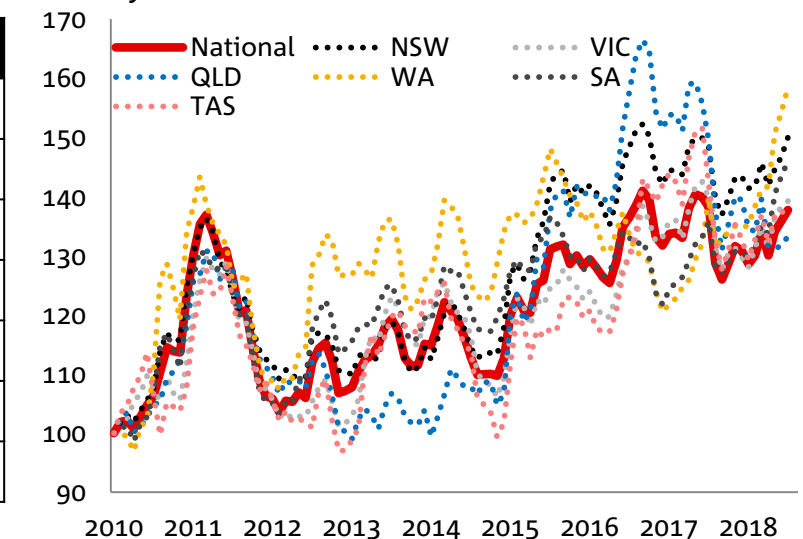
	May	June	July
Wheat	▲ 11.4%	▲ 1.2%	▲ 3.3%
Beef	▼ 5.8%	▼ 0.4%	▲ 4.3%
Dairy	▲ 7.5%	▼ 2.2%	▼ 5.7%
Lamb	▲ 2.3%	▲ 8.0%	▲ 13.6%
Wool	▲ 6.5%	▲ 6.3%	▼ 2.2%
Sugar	▲ 2.4%	▲ 2.2%	▼ 6.2%
Cotton	▲ 4.7%	▲ 3.8%	▼ 0.2%

On a state basis, dairy-heavy Tasmania was weakest, losing 1.0%. Grain-dependent Western Australia saw the strongest gain, up 2.8%. New South Wales was next strongest at 2.3%, followed by South Australia (1.8%), Queensland (1.3%) and Victoria (0.7%).

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

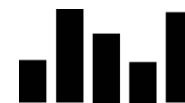
NAB RURAL COMMODITIES INDEX

January 2010 = 100



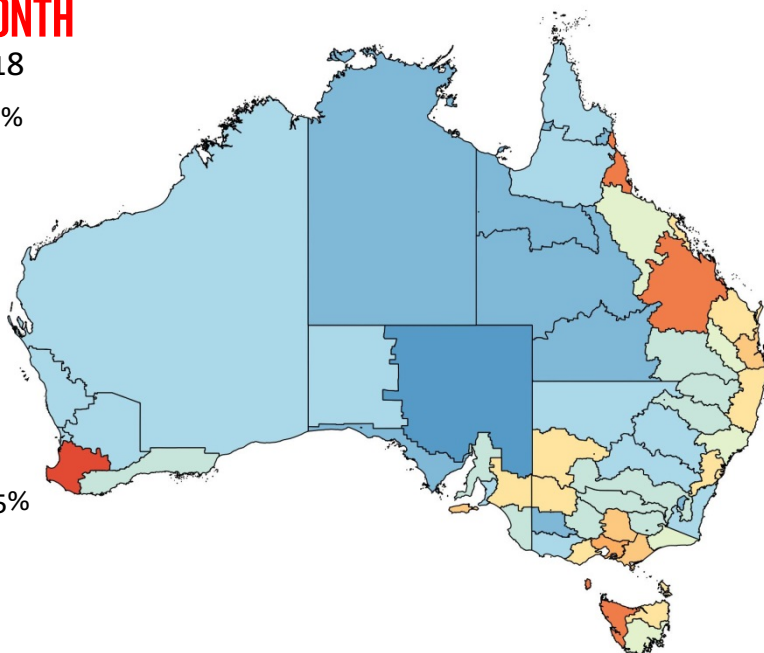
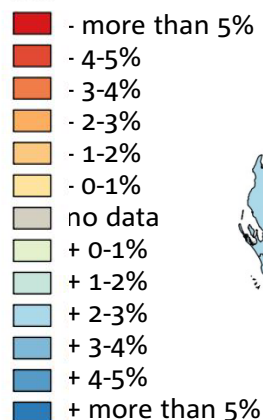
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

REGIONAL PRICE INDICATORS



MONTH ON MONTH

June to July 2018

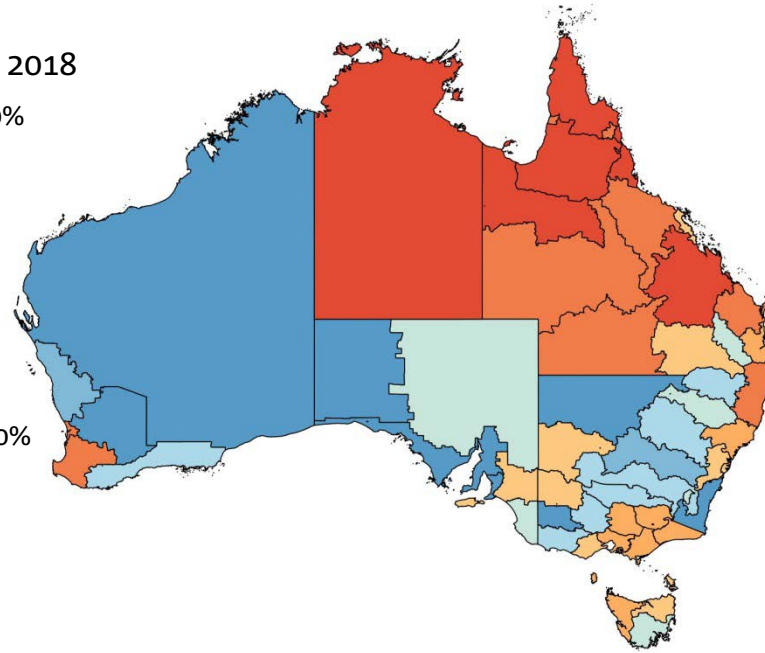
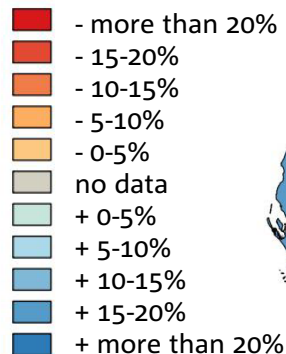


Monthly regional price indicator data shows the ongoing impact of the drought in New South Wales and Queensland, pushing up grain prices and suppressing cattle prices. On a month on month basis, most regions saw higher prices.

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

July 2017 to July 2018



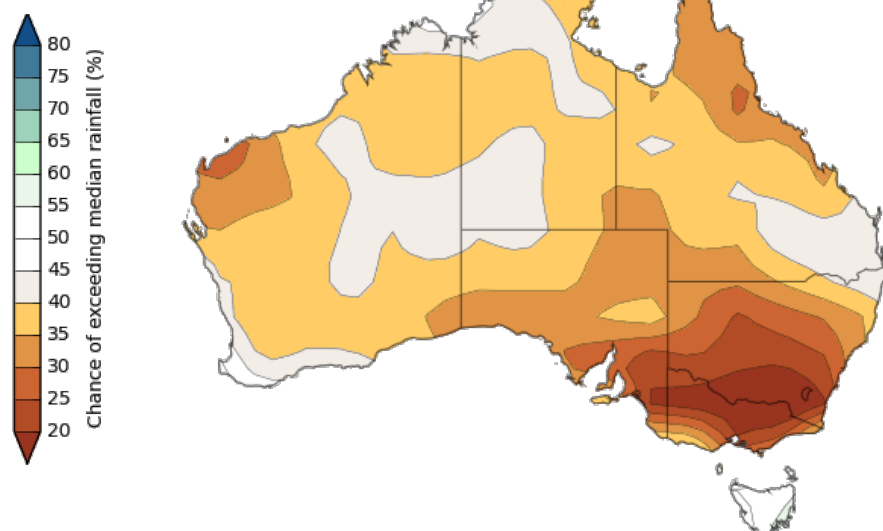
NAB's regional price indicators are in effect a set of separate NAB rural commodities indices for every region in Australia. The project is still in a trial stage and is calculated on a different basis to our national and state data i.e. without annual chain-weighting. We will continue to develop this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

August to October 2018



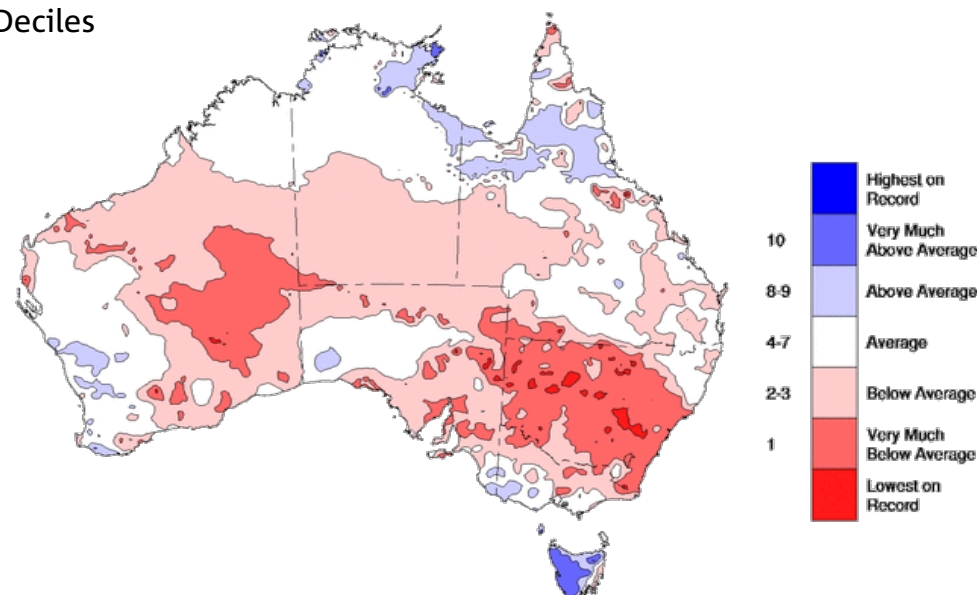
The Bureau of Meteorology's latest three month outlook has deteriorated, with almost the whole country less likely than average to exceed average rainfall. Western Australia, which had previously been forecast to see an average spring, is now likely to see lower than average rains. Southern NSW, northern Victoria and south-east South Australia are forecast to see the most challenging conditions.

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

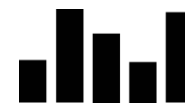
RAINFALL – JULY 2018

Deciles



The outlook follows another dry month across most of the country in July. The BoM reports that July was the driest nationally since 2002 – one of the worst years (along with 2006) of the millennium drought. Overall, the worst conditions continued to be in New South Wales, while parts of Western Australia were average to above average, along with Cape York, the top end, south-west Victoria, south-east South Australia and Tasmania.

OUTLOOK FOR PRICES AND PRODUCTION



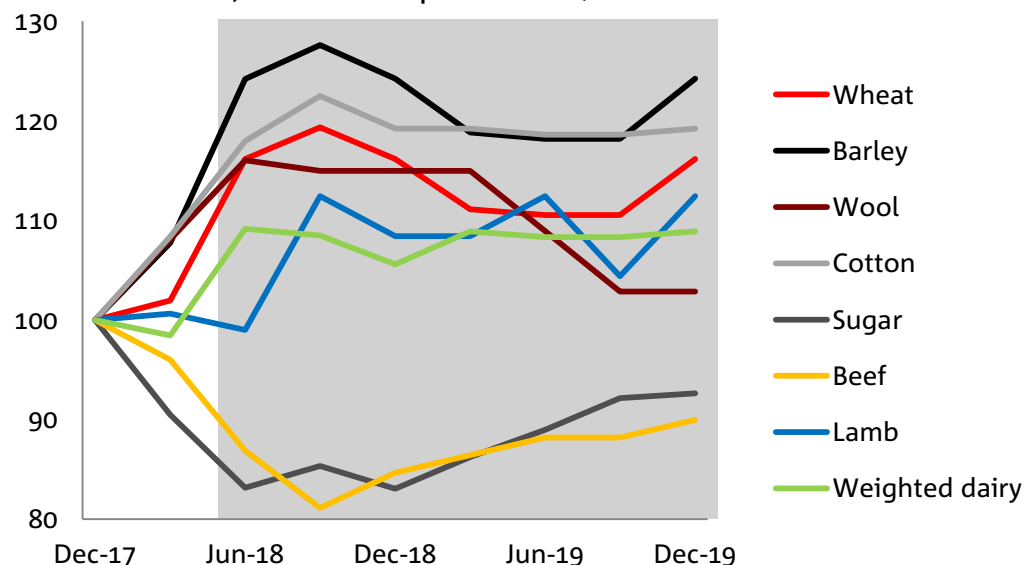
Prices

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. Good rain from here would see renewed restocker interest and lower grain prices, although this is not the BoM's forecast. The wool industry is booming, with the Eastern Market Indicator at record levels. Even if prices retreat somewhat 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.

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

We have again lowered our forecast for Australian wheat production this season (to 18.4 million tonnes), although on a state basis Western Australia is looking stronger. Conditions in New South Wales and Queensland are very poor and we don't expect much in way of a winter crop from these areas. An emerging issue is whether these areas can expect much sorghum, unless conditions improve.

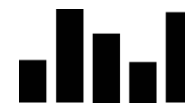
ABARES' latest forecasts for cotton point to a big drop in 2018-19, reflecting lower irrigation dam levels, while other major commodities are forecast to see higher production.

ABARES PRODUCTION OUTLOOK (JUNE 2018) EXCEPT WHEAT

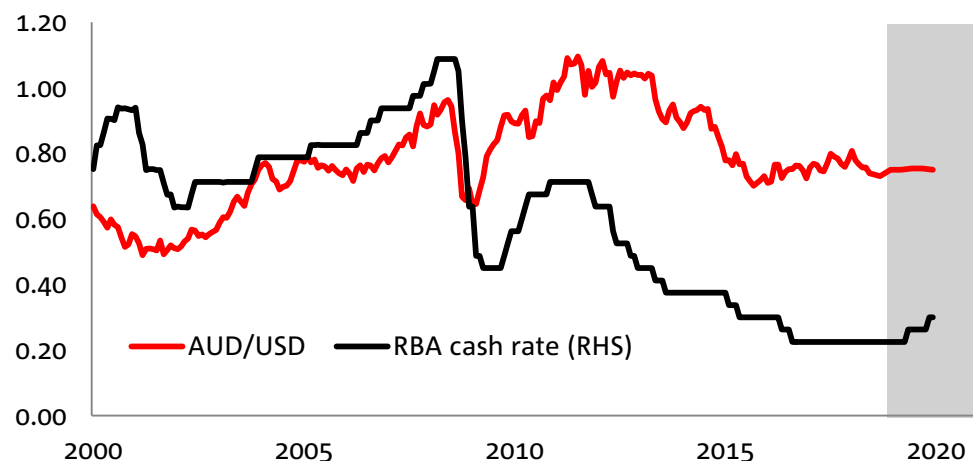
Financial year production estimates, Australia

	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 has remained confined in a fairly limited range against the
7 USD since mid-late June. On paper this would suggest not much has
6 changed, but under the surface there are a couple of AUD dynamics
5 working in opposite directions. On one hand, Asia/emerging market
4 risk sentiment looks a bit better than it did previously and
3 commodities are also showing some signs of stability. Against these
2 developments, however, CNY weakness has remained a thorn in the
1 side for the AUD.

2 Lack of dialogue between the US and China along with the increase in
1 negative rhetoric, points to the risk of trade tensions getting worse
0 before they get better. We still think the near term risks to the AUD
are tilted to the downside, although our quarterly forecast track points
to stability beyond Q3, with the AUD forecast to be in the mid-70s
range for the remainder of the decade.

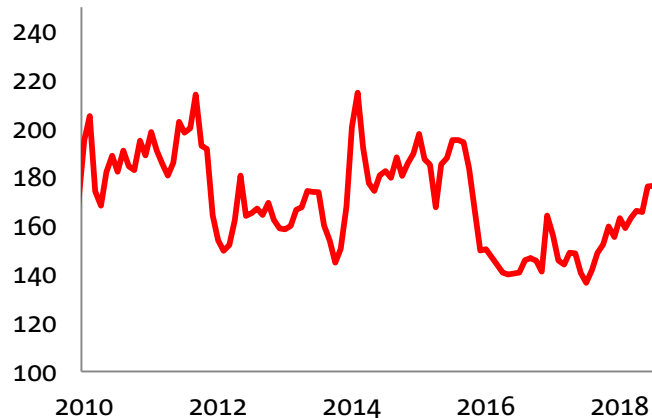
Our outlook for monetary policy is highly data dependent. At this
stage we still see the RBA starting to increase rates from mid-2019,
although unfavourable labour market trends or continued low
inflation could delay any upward move.

FARM INPUT PRICES



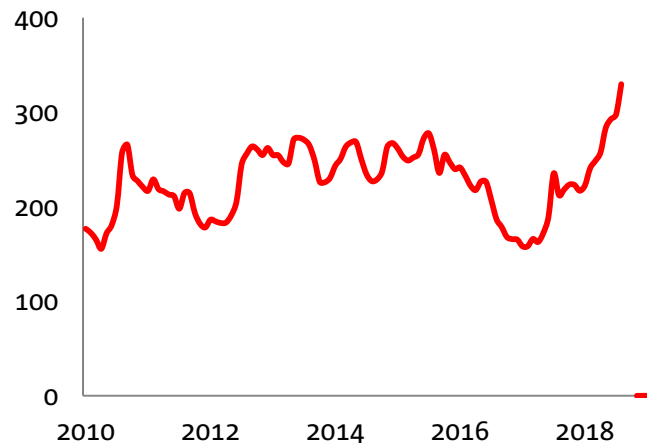
NAB FERTILISER INDEX

AUD index



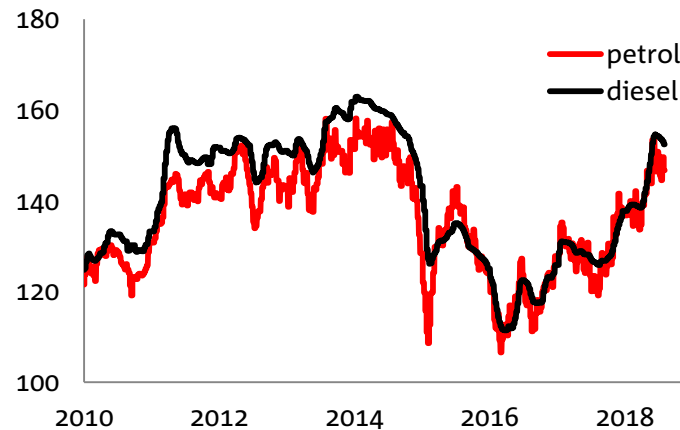
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



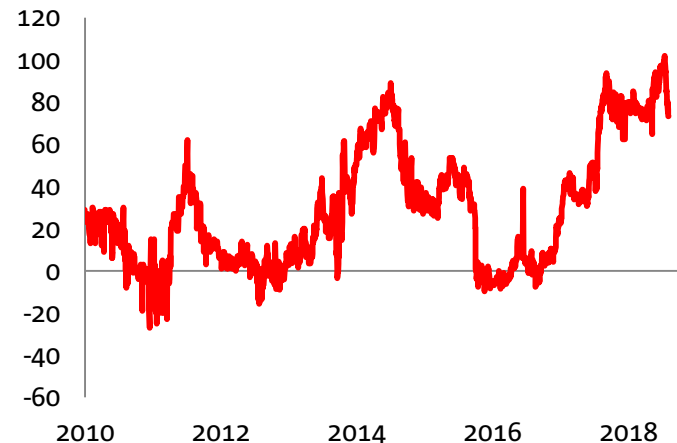
NATIONAL AVERAGE FUEL PRICES

AUc/litre



GEELONG-BRISBANE PRICE SPREAD

ASW1 cash price, AUD/tonne



The rise in Australian fuel prices this year has paused recently, although national average prices remain in the mid-140s range for petrol and low-150s range for diesel. Earlier this year, the lower AUD sharpened the impact of higher crude oil prices, although with crude below earlier peaks and our forecasts pointing to the AUD in the mid-70s range, there may be a limit to the upside. 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 was flat in July (up 0.2%) in July after jumping 6.3% in June. The flat result reflected cheaper US natural gas offsetting higher DAP and urea prices. Overall, we expect that fertiliser prices will rise further this year, although probably not dramatically.

Domestic feed prices continue to skyrocket, reflecting poor grain availability amid drought conditions and the prospect of a below average 2018-19 winter crop. The NAB feed grain price index was up just 1.7% in July but has already risen another 10% in August (to date). Price spreads between Victoria and Queensland have narrowed, although this largely reflects higher prices in the south.

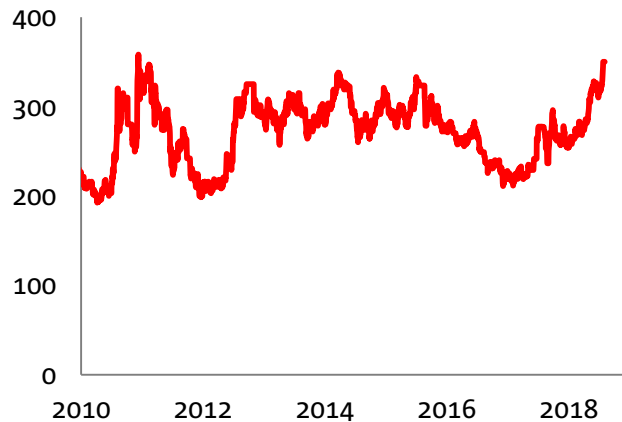
Source: Bloomberg, Profarmer and NAB Group Economics

WHEAT



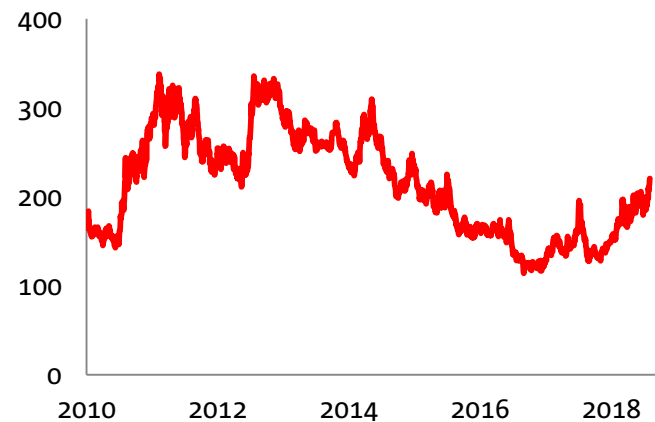
ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



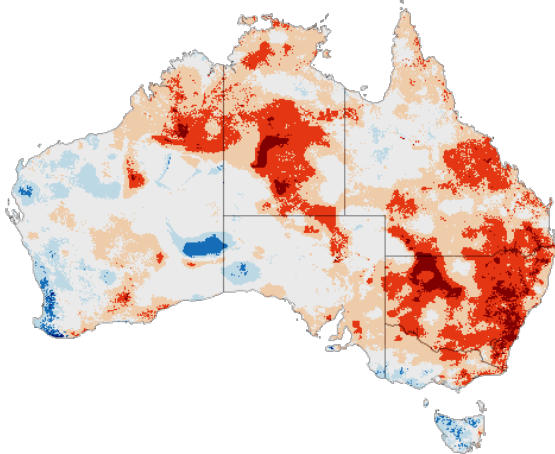
CBOT SOFT RED WINTER WHEAT

USD/tonne



ROOT ZONE SOIL MOISTURE

Relative to average, August 2018



NAB WHEAT PRODUCTION OUTLOOK

Million tonnes



Prices

Global wheat prices have rallied of late, reflecting increasingly challenging growing conditions amid a heatwave across Europe, the Black Sea and Asia. US prices are at a three year high and European benchmarks have rallied further. The latest USDA forecasts point to a 16% fall in EU wheat exports in 2018-19.

Irrespective of global market movements, we expect domestic wheat premiums to remain into 2019 unless the season markedly improves.

Production

We have once again downgraded our forecasts for Australian wheat production. We now see production in the range of 18.4 million tonnes in the event of an average spring, however with the BoM's forecast for spring drier than average, the prospect of further downgrades looms. Western Australia has the best conditions in the country and we see around 8.5 million tonnes of wheat from the state at this stage. Our New South Wales forecast of 3.5 million tonnes represents the lowest figure since 2007-08. Whether this is met or exceeded depends largely on conditions in the south of the state, with the Central West and north in very poor condition indeed.

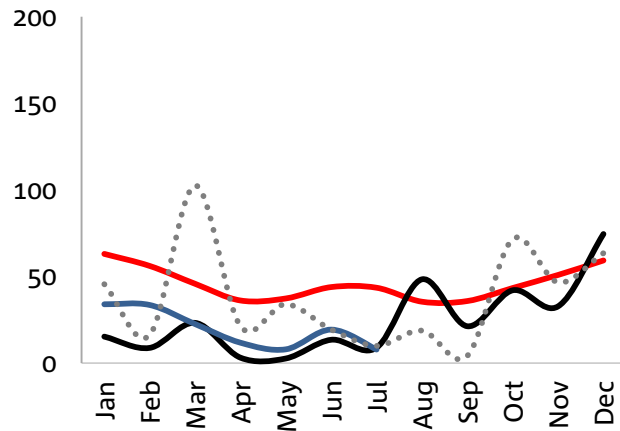
Source: Bloomberg, Profarmer, US drought monitor, BoM and NAB Group Economics

MONTHLY AVERAGE RAINFALL IN WHEAT REGIONS (MM)

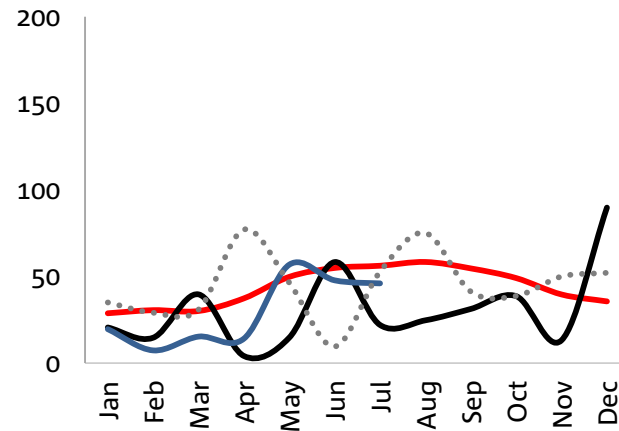


— Long run average 1900-01 to 2013-14 — 1902 drought — 2018 YTD 2017

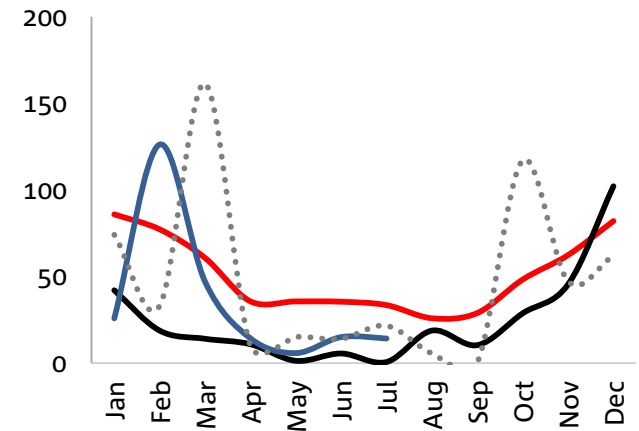
NEW SOUTH WALES



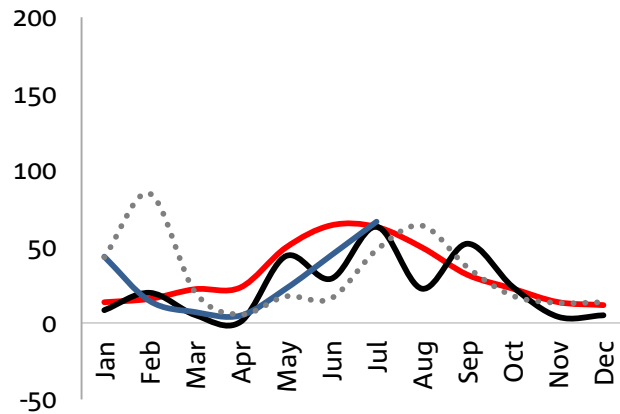
VICTORIA



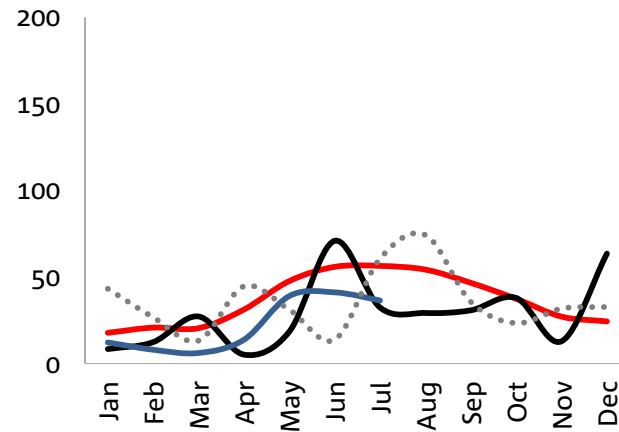
QUEENSLAND



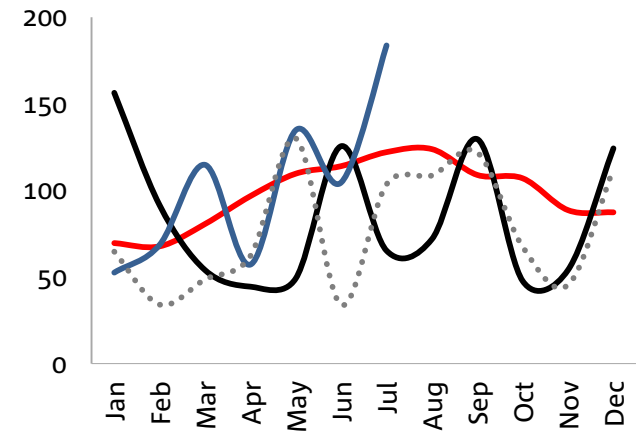
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA

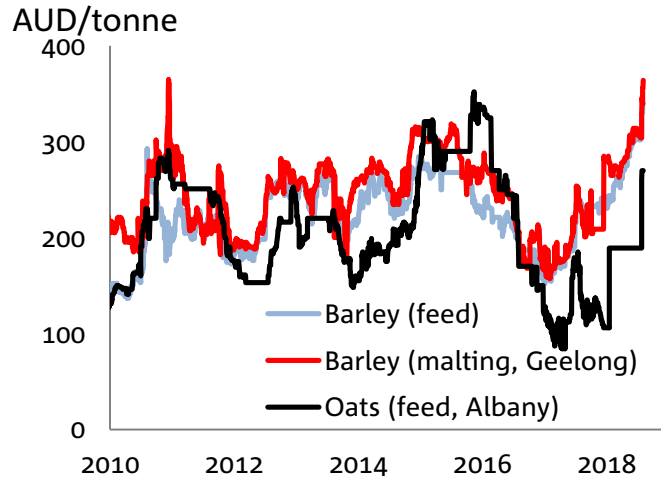


Source: Bureau of Meteorology and NAB Group Economics

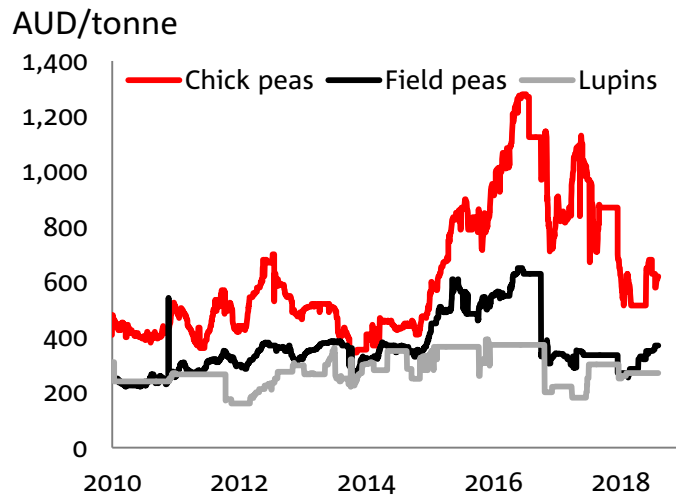
OTHER WINTER CROPS AND SUGAR



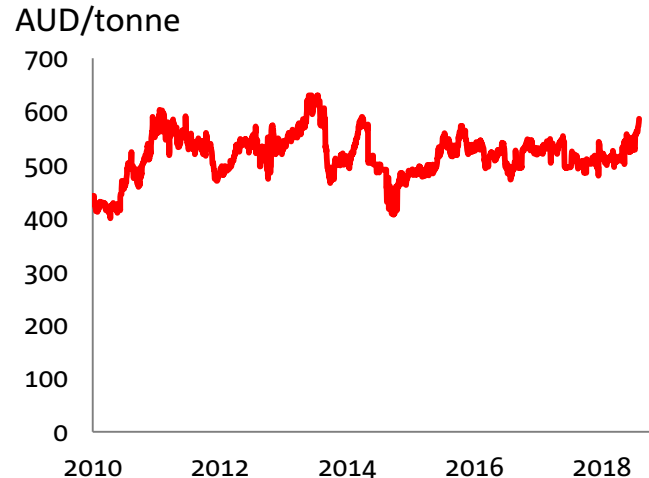
SELECTED COARSE GRAINS



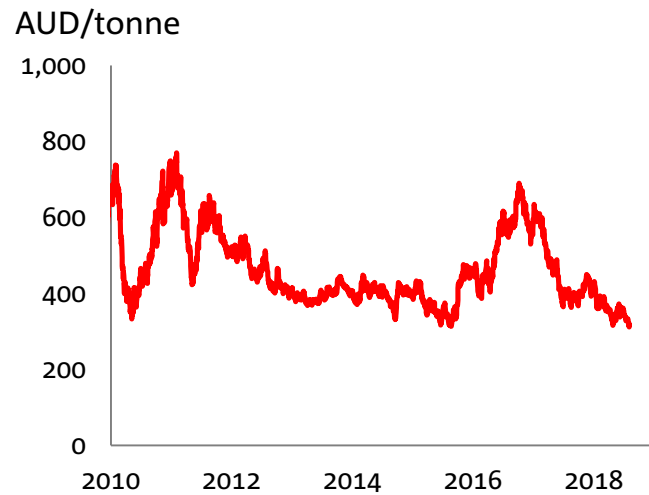
SELECTED PULSES



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, which is probably not many people.

Pulse prices continue to languish (at least compared to their 2016 highs), with chick peas giving up some of their recent gains. In any case, given prevailing growing conditions, the Australian chick pea harvest this season is likely to be fairly small. Lentils in Victoria and South Wales may perform better however.

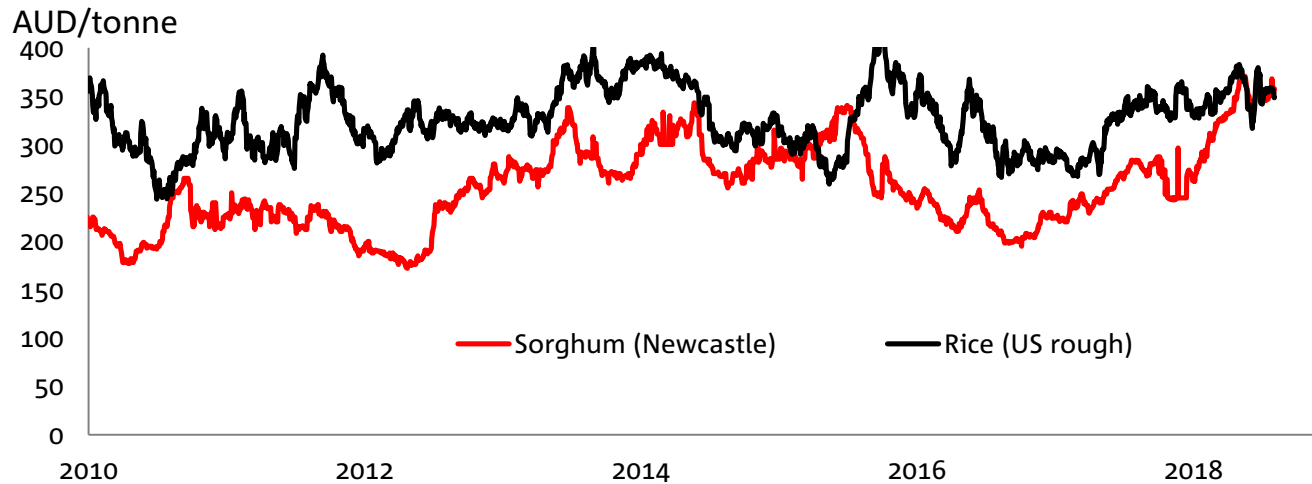
Sugar prices continue to fall in a market beset by large Indian stockpiles, suppressing the prospects of a sustained rally. In AUD terms, ICE no. 11 sugar prices averaged \$333/tonne in July, down 6.2%. August has brought further bad news for prices.

Source: Bloomberg, Profarmer and NAB Group Economics

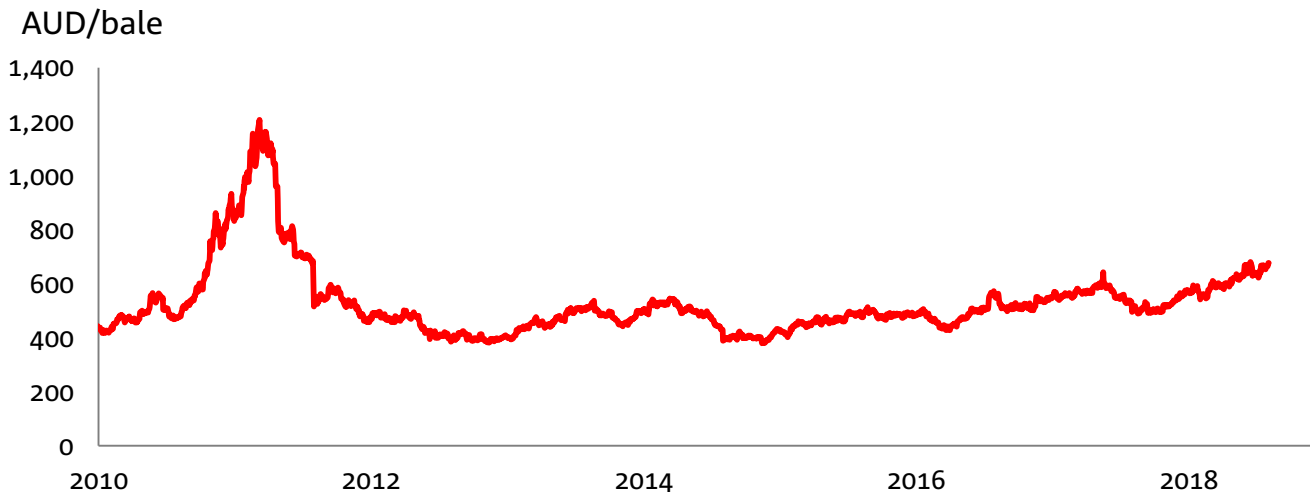
SUMMER CROPS



SORGHUM AND RICE



COTLOOK A INDEX



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

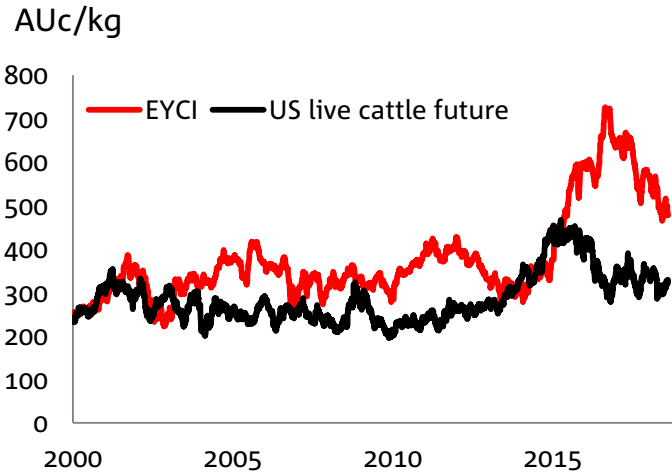
Cotton prices continue to look good, with AUD denominated Cotlook A averaging \$650/bale in July. August has seen further gains amid good global demand and increasing supply concerns. The latest ABARES forecasts point to Australian cotton production falling 21% in 2018-19, reflecting lower plantings due to a lack of irrigation water. There had been some indications earlier this year that dryland plantings could increase if producers didn't put a winter crop in, although conditions are now so challenging that this seems unlikely.

Sorghum prices have followed other grain prices north, reflecting domestic feed demand. 2018-19 sorghum production is an emerging issue, as yields could be poor unless the season markedly improves by the end of the year. If sorghum yields disappoint, domestic grain prices could stay high well into 2019.

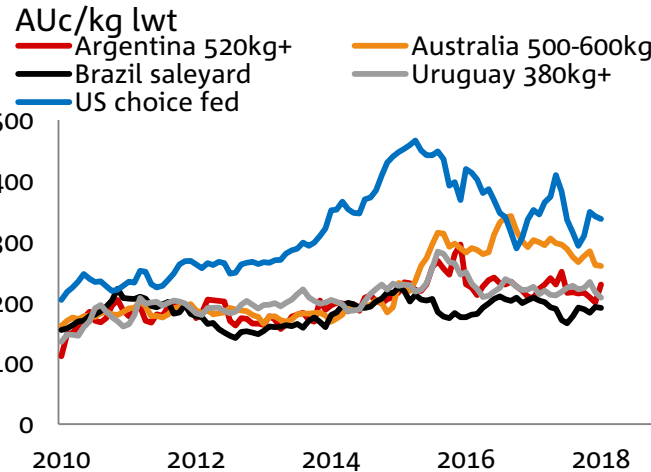
Australian sorghum could be a beneficiary of the US-China trade tensions. While Australia's sorghum industry is a drop in the ocean of Chinese feed demand, there may be further opportunities. Still, if the winter crop disappoints (as looks likely in New South Wales at least), domestic demand could outpace export prices.



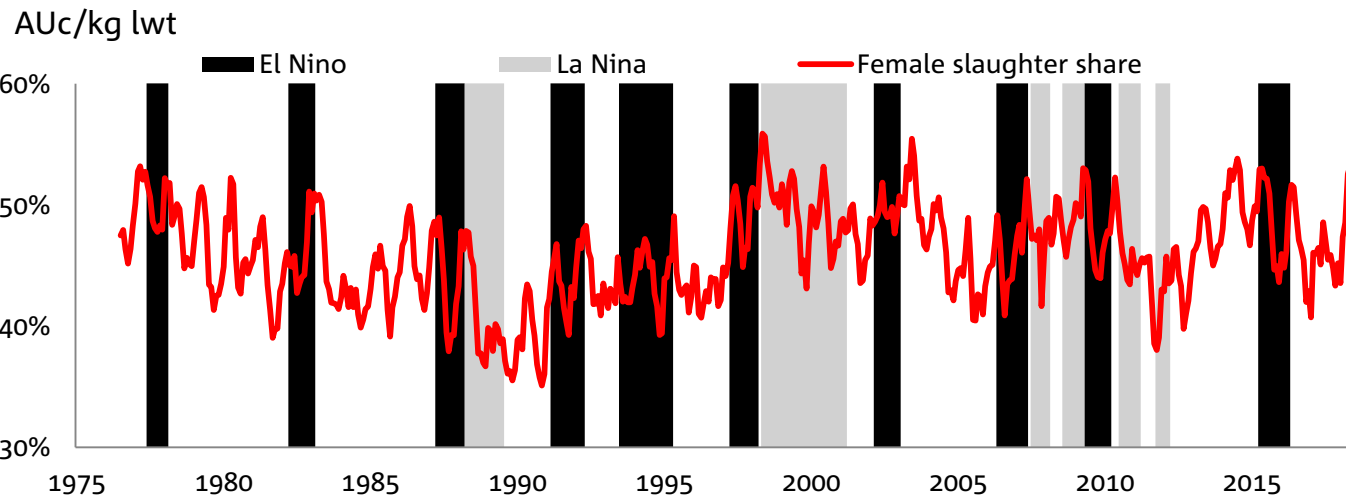
EYCI AND US LIVE CATTLE FUTURES



GLOBAL STEER PRICES



FEMALE SHARE OF SLAUGHTER AND ENSO EVENTS



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

Cattle prices continue to struggle overall, with the Eastern Young Cattle Indicator now in the mid-400s range. Poor feed and water availability continues to dent restocker interest, and while demand for finished cattle has been fairly healthy this year, even this looks to be under some pressure. Meat and Livestock Australia reports that saleyard throughput in eastern Australia was up 28% y/y for the four weeks to 2 August.

The female share of slaughter has now ticked up to drought levels, standing at 53.7% in June – the highest since July 2014.

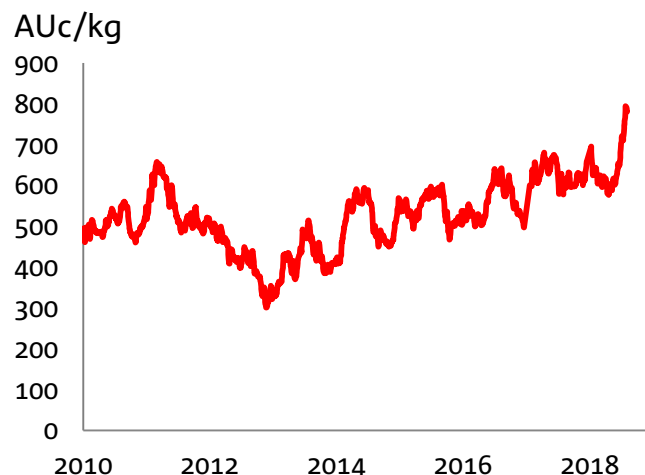
Our forecasts for the EYCI had been in the high-400s to low-500s range for the coming year, although tough seasonal conditions are a challenge to this forecast. If the drought rolls on, prices could fall further – especially if a shortage of water and feed force more destocking.

Export markets remain tricky to pick. There are signs that the US cattle herd is close to peaking, and female slaughter has increased. There is likely to be more US product on the US domestic market in coming months, potentially compounded by dry weather in the US. With Australian herd rebuilding out of sync, our performance against international benchmarks will likely be challenging.

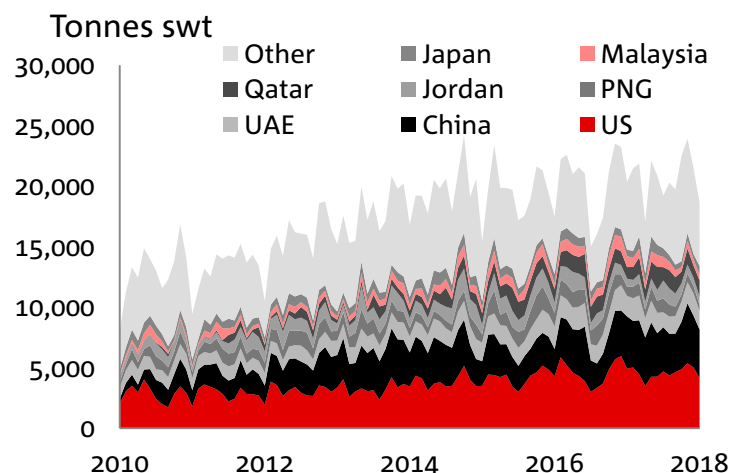
LAMB AND WOOL



NATIONAL TRADE LAMB INDICATOR



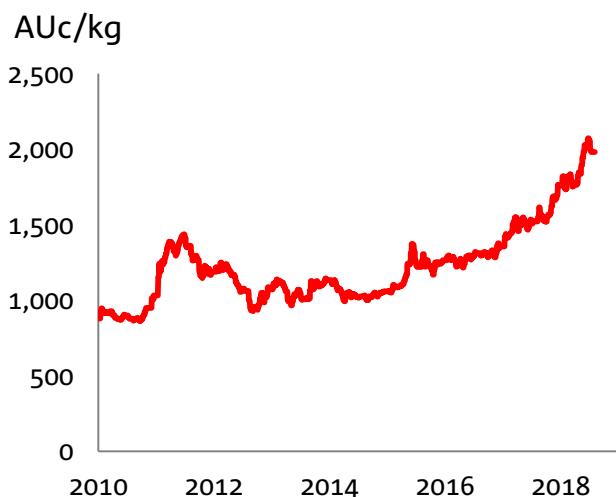
MONTHLY LAMB EXPORTS BY DESTINATION



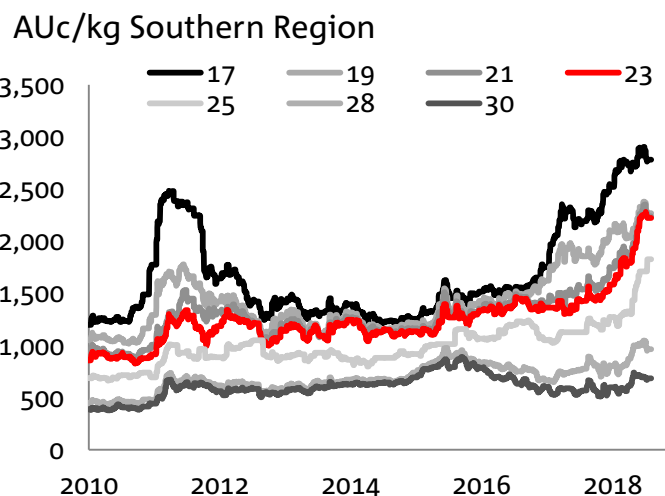
Lamb prices surged, then retreated a little, reflecting both the usual winter shortage but also strong export fundamentals. Lamb was the strongest performer in the NAB Rural Commodities Index in July, up 13.6%. The National Trade Lamb Indicator peaked in late July at 794c/kg, but has since retreated to 750c/kg.

With Australia and New Zealand accounting for up to three-quarters of lamb exports and global demand strong, the trend for prices has been good. This has been compounded by the expansion of the dairy industry in New Zealand and a structural contraction of the Australian flock in the 1990s and 2000s.

WOOL EASTERN MARKET INDICATOR



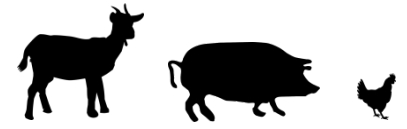
WOOL PRICES BY MICRON



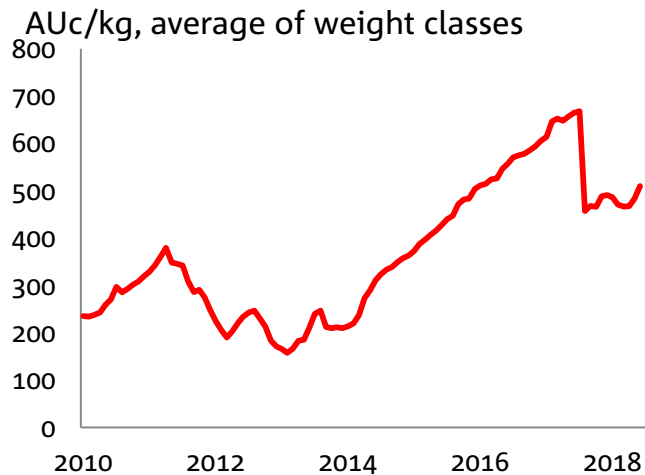
Wool prices continue to impress, although have fallen slightly from their peak of 2,073c/kg. With China a big buyer of Australian wool, the impact of Chinese currency depreciation (which has been significant by historic standards) could be a wildcard. That said, prices remain very strong and even if prices were to decline somewhat woolgrowers would still be seeing very strong wool cheques (subject to volumes).

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

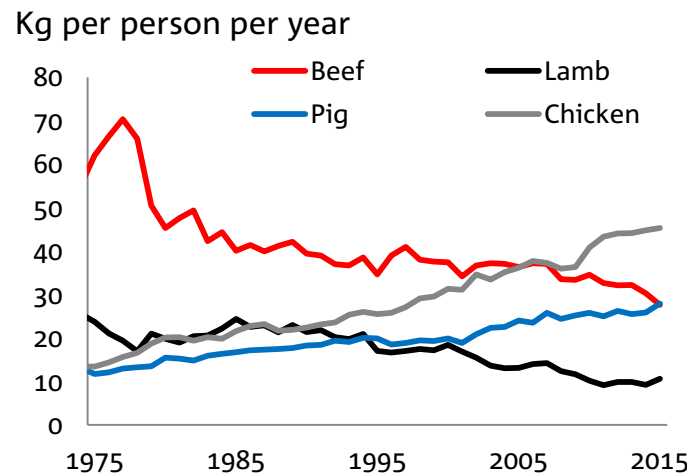
PORK, POULTRY AND GOAT



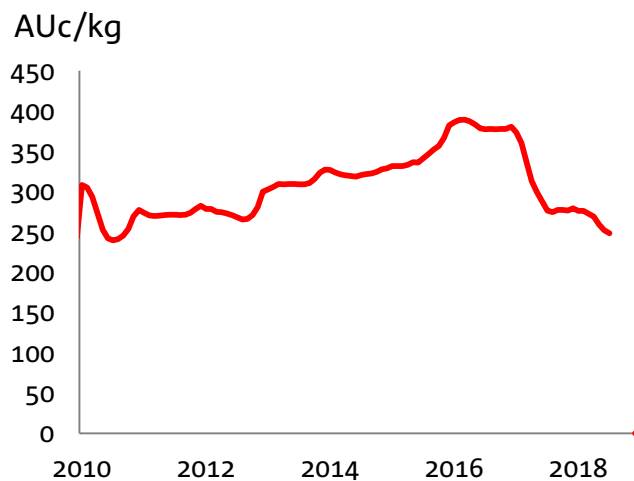
EASTERN STATES GOAT PRICES



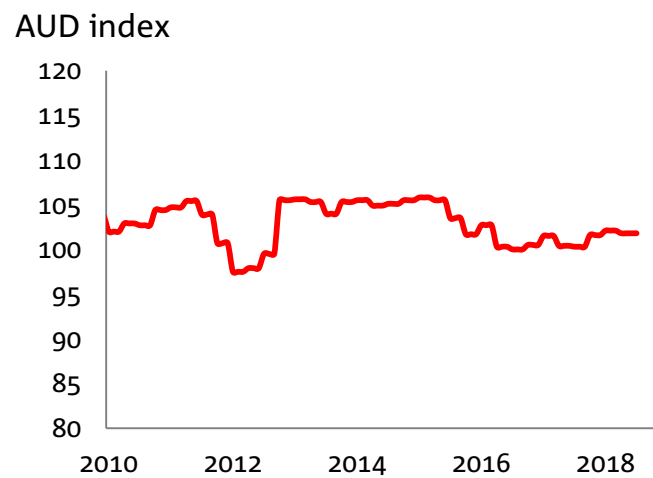
AUSTRALIAN MEAT CONSUMPTION



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, relatively expensive, notwithstanding recent declines in cattle prices. Meanwhile retail prices for chicken (measured by the ABS) have seen little change in years.

Wholesale pork prices have now crashed 36% from their peak in 2016, largely as a result of higher domestic supply but also import competition. The 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 another 1.6% in July, the fifth consecutive month of falling prices.

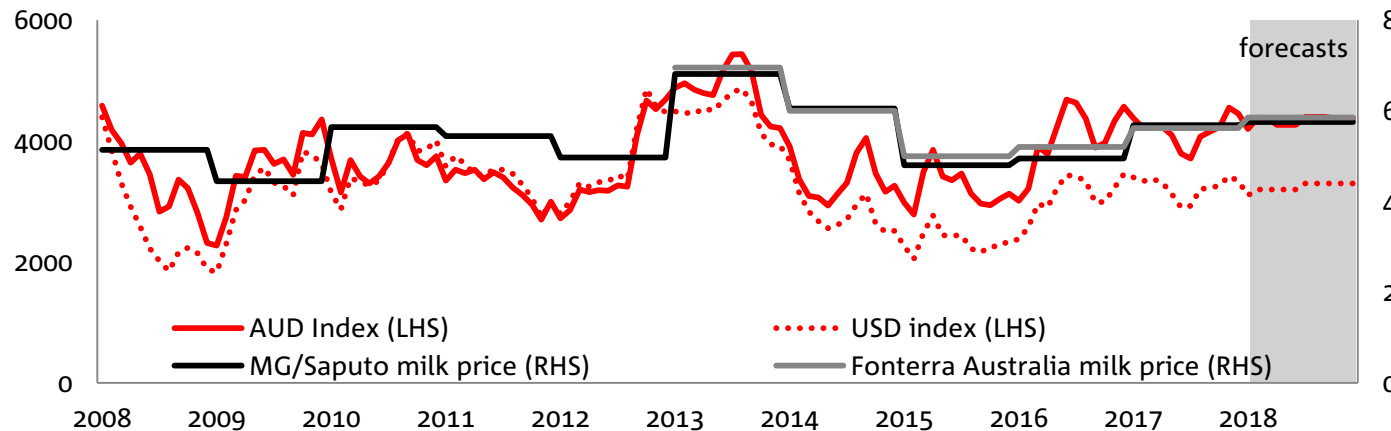
Although the NAB Rural Commodities Index does not include goat, the commodity has become an important source of revenue in parts of New South Wales and elsewhere. MLA data on goat prices shows that prices continue to rise, with the OTH goat indicator reaching 560c/kg last week.

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)



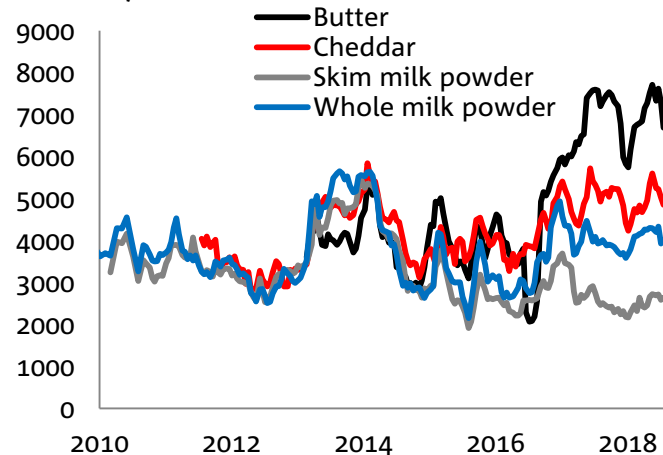
Global Dairy Trade auctions have been weaker over the last couple of months, with the last positive result in USD terms in mid-May (although the 7 August result was flat). Our NAB weighted dairy export price indicator was down 5.7% in July.

Our forecasts still do not point to major upside for global dairy prices in USD terms in the coming year. However, the potential impact of a very hot summer in Europe is an emerging issue. While this is yet to appear in the latest EU data for May (which was up 1.6% y/y), there are potential risks for coming months.

Meanwhile, Fonterra NZ made a small cut to its 2017-18 milk price last week, from NZD6.75/kgms to NZD6.70.

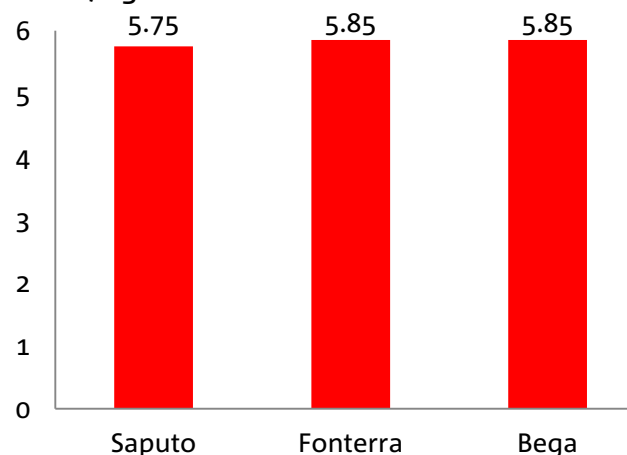
GDT AUCTION RESULTS

AUD/tonne



2018-19 OPENING PRICES

AUD/kg milk solids



Australian opening prices for the 2018-19 season are in the high \$5 range. 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 still not clear that they will be enough to entice much in the way of extra milk flow, especially in northern Victoria which faces the prospect of higher temporary water prices.

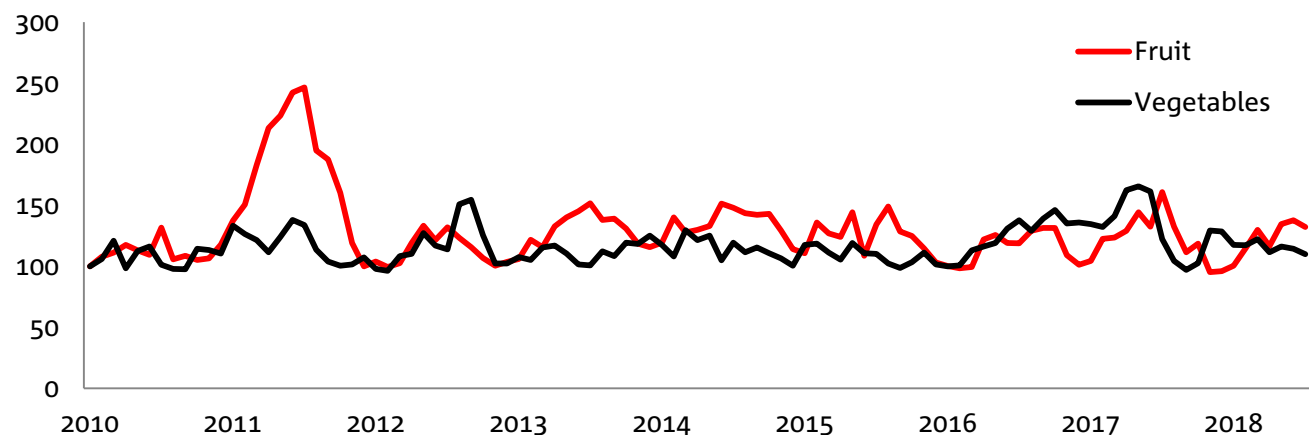
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, IBISworld and NAB Group Economics

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

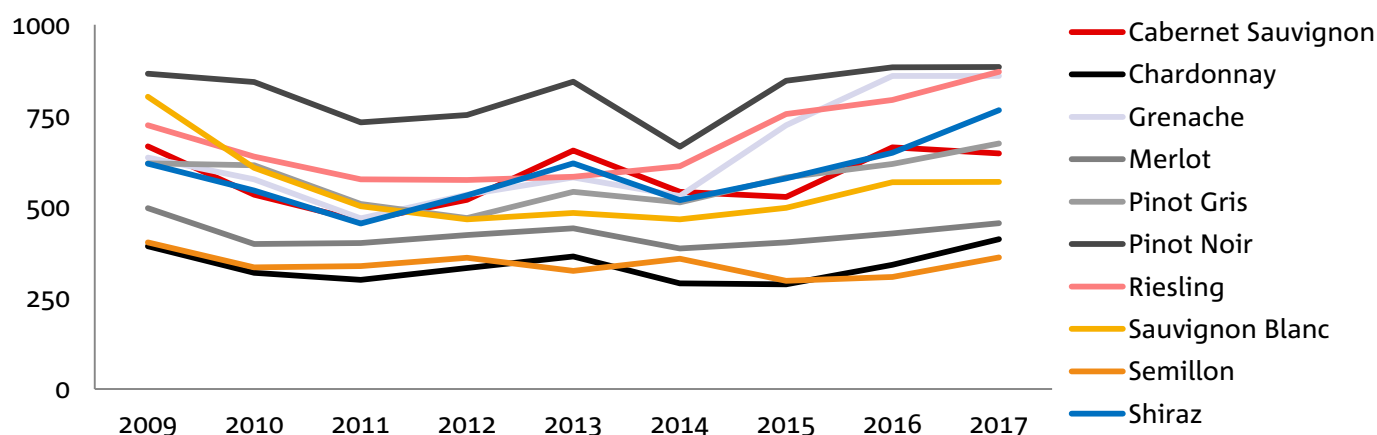


We produce wholesale price indices for fruit and vegetables, based on data from the Melbourne and Sydney wholesale markets.

Wholesale fruit and vegetable prices were lower in July. Fruit was down 4.0% in July to 132.0 index points (January 2010 = 100), while vegetables were down 3.9% to 109.8 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

CONTACTS

Phin Ziebell
Senior Economist
+61 (0) 475 940 662

Alan Oster
Group Chief Economist
+61 3 8634 2927

Dean Pearson
Head of Economics
+61 3 8634 2331

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

