

# **RURAL COMMODITIES WRAP**

**SEPTEMBER 2018**

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## KEY POINTS

Agricultural prices and production continues to be very region and commodity specific. While most of New South Wales and parts of Queensland are in severe drought, the wheatbelt of Western Australia looks on track for a good season, notwithstanding widespread late frosts. Conditions in Victoria and South Australia are varied, although a dry spring and late frosts will be a challenge and cutting for hay is ramping up.

Livestock is mixed, with lamb receding somewhat from dizzying highs but cattle back above 500c, although this could be brief given the outlook.

The Bureau of Meteorology remains on El Nino watch – pointing to a 50% chance of El Nino developing in 2018. The three month outlook is generally drier than average.

The NAB Rural Commodities Index was up 0.7% in August, with grain, lamb and wool prices on the rise, but cattle and dairy lower. Continued drought conditions in the east is likely to see elevated grain prices but lower cattle prices.



# PRICE UPDATE



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The NAB Rural Commodities Index was up 0.7% in August, with grain, lamb and wool prices on the rise, but cattle and dairy lower. Continued drought conditions in the east is likely to see elevated grain prices but lower cattle prices.

This month, grain prices have continued to surge, with ASX wheat futures reaching a record \$450/t last week. Meanwhile, cattle prices have been resilient – back above 500c – but lamb is back below 800c.

## MONTHLY PRICE CHANGES

AUD prices

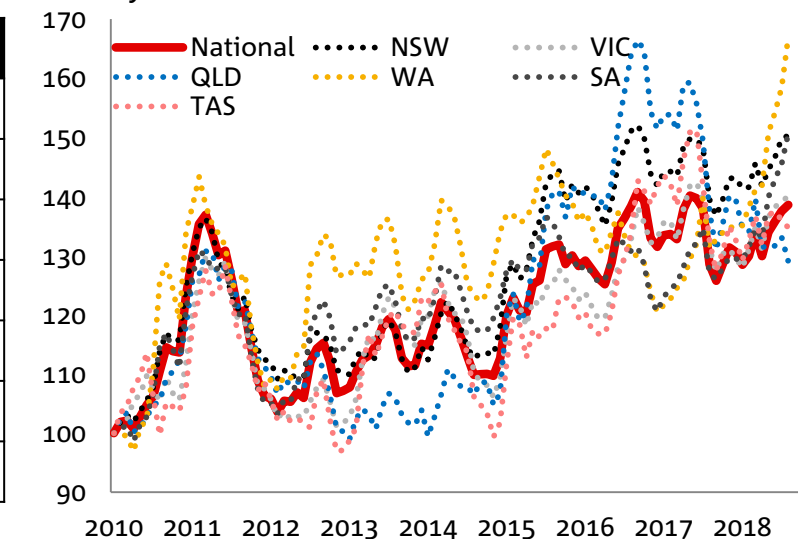
	June	July	August
Wheat	▲ 1.2%	▲ 3.3%	▲ 5.9%
Beef	▼ 0.4%	▲ 4.0%	▼ 6.9%
Dairy	▼ 2.2%	▼ 5.7%	▼ 2.6%
Lamb	▲ 8.0%	▲ 13.9%	▲ 8.0%
Wool	▲ 6.3%	▼ 2.2%	▲ 2.4%
Sugar	▲ 2.2%	▼ 6.2%	▼ 5.5%
Cotton	▲ 3.8%	▼ 0.2%	▼ 0.9%

On a state-by-state basis, grain-dependent Western Australia saw (unsurprisingly) the biggest gains, up 5.2%. Queensland was the weakest performer, down 3.1%. New South Wales was up 0.2%, Victoria up 0.6%, South Australia up 3.4% and Tasmania was down 0.1%.

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

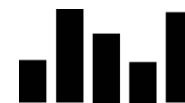
## NAB RURAL COMMODITIES INDEX

January 2010 = 100



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

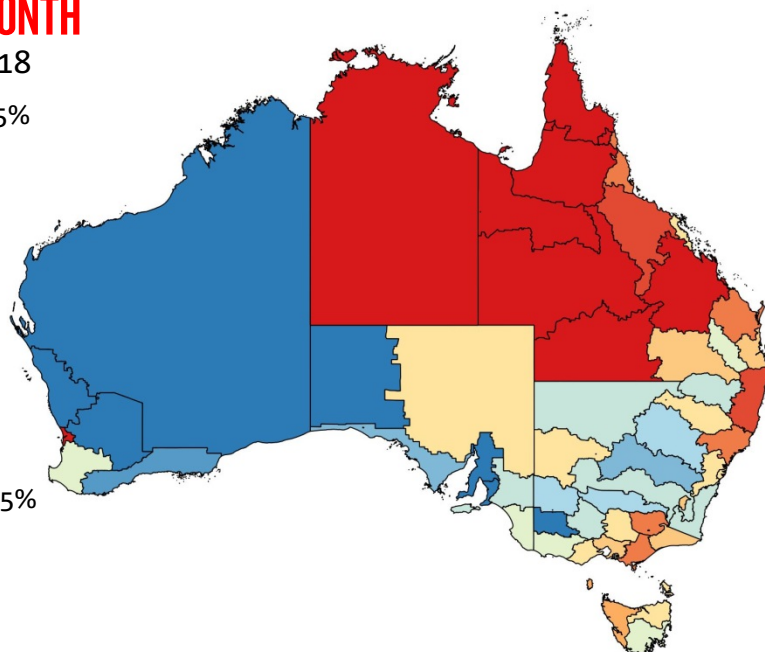
# REGIONAL PRICE INDICATORS



## MONTH ON MONTH

June to July 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%



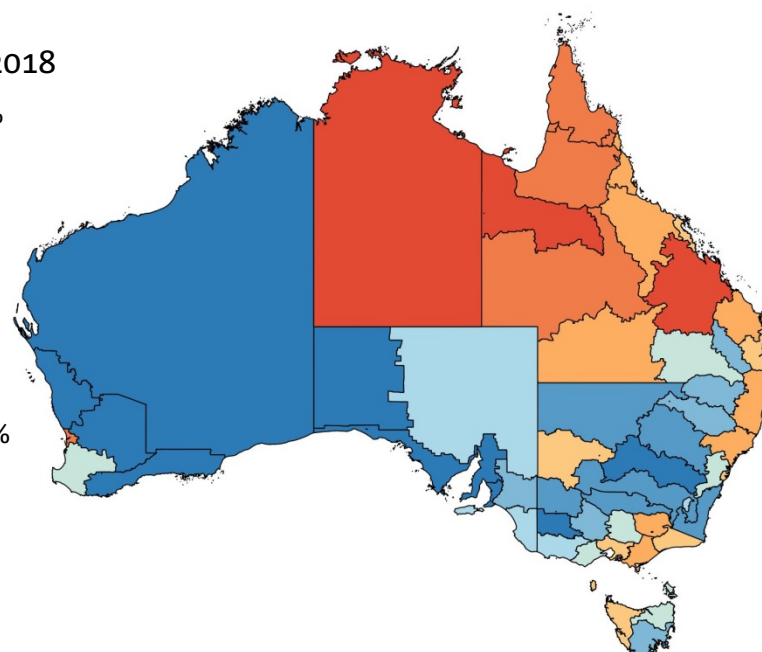
Monthly regional price indicator data shows the ongoing impact of the drought in New South Wales and Queensland, pushing up grain prices and suppressing cattle prices. On a month on month basis in August, most regions were up but cattle country was down.

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.

## YEAR ON YEAR

July 2017 to July 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%



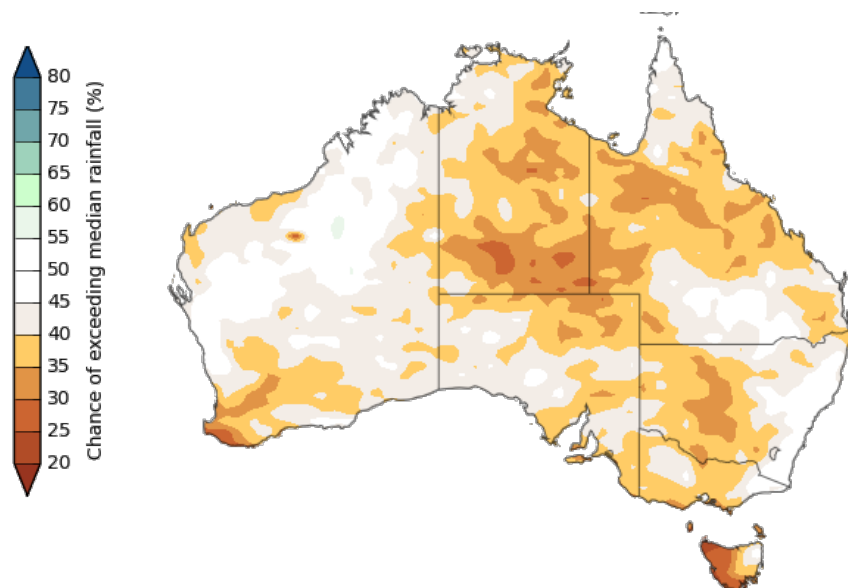
NAB's regional price indicators are in effect a set of separate NAB rural commodities indices for every region in Australia. The project is still in a trial stage and is calculated on a different basis to our national and state data i.e. without annual chain-weighting. We will continue to develop this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

October to December 2018



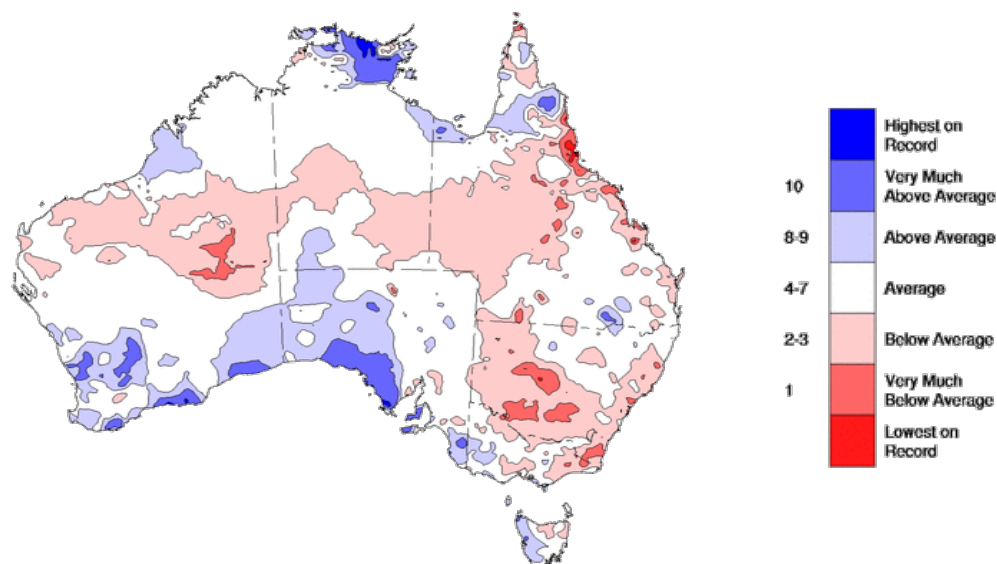
The Bureau of Meteorology's latest three month is crook indeed, with almost the whole country less likely than average to exceed average rainfall, a familiar picture this year. Western Australia is likely to see a dry finish, while east coast crops that could go either way after a dry winter and frost damage won't be helped by the outlook.

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 – AUGUST 2018

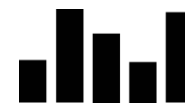
Deciles



The outlook follows a dry August in the east, but better conditions in Western Australia and parts of South Australia. More recently, parts of northern New South Wales and southern Queensland enjoyed some good falls, but there has been no follow up and September to date averages are well below average. Furthermore, most of the rain fell in areas where the winter crop had essentially been written off, suggesting limited upside for grain yields.

Frost activity has been a big concern west and east, and is and will likely see a bigger share of winter cereal crop cut for hay.

# OUTLOOK FOR PRICES AND PRODUCTION



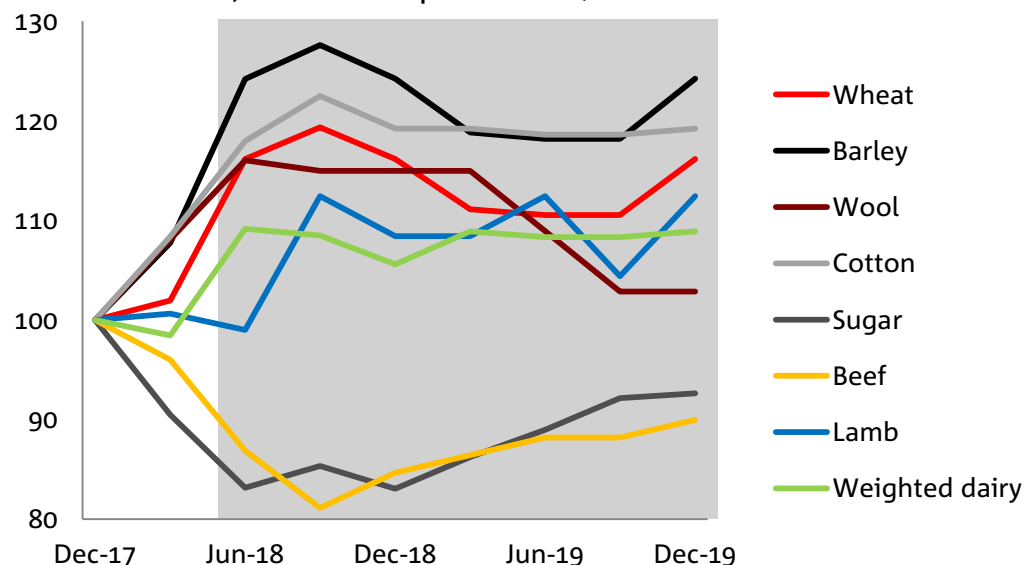
## Prices

Drought continues to be a major driver of grain and cattle prices. If it stays dry, substantial domestic grain premiums are likely to remain and cattle prices are likely to stay suppressed. Good rain from here is probably unlikely, but would see renewed restocker interest and lower grain prices. That said, cattle prices have held up fairly well. Wool and lamb continue to perform. 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 18.1 million tonnes), although on a state basis Western Australia should still see above average yields, notwithstanding recent frosts. 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.

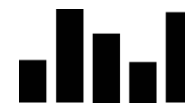
ABARES' latest forecasts for cotton point to a big drop in 2018-19, reflecting lower irrigation dam levels. ABARES now also sees wool production declining this year.

## ABARES PRODUCTION OUTLOOK (SEPT 2018) EXCEPT WHEAT

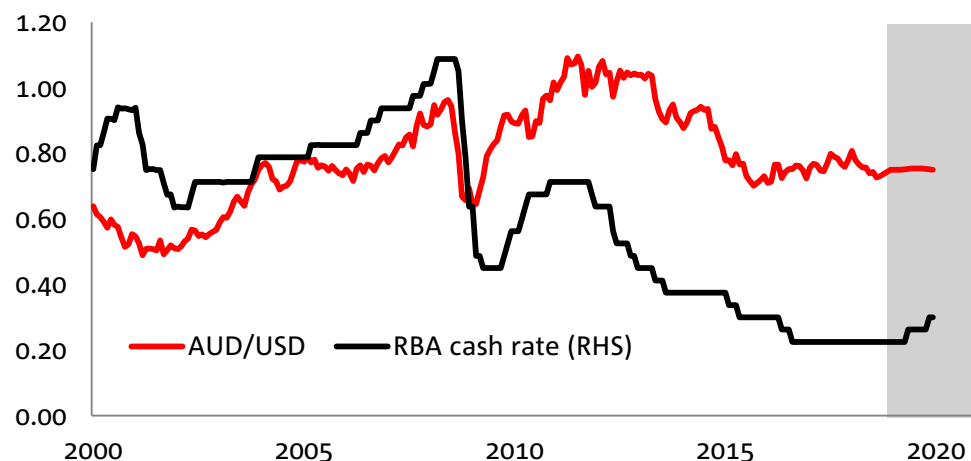
Financial year production estimates, Australia

	2017-18	2018-19	% change
Wheat (million tonnes)	21.2	18.1	▼ 15.0%
Beef (kt)	2,238	2,303	▲ 2.9%
Dairy (milk, ML)	9,293	9,327	▲ 0.4%
Lamb and mutton (kt)	735	777	▲ 5.7%
Wool	422	404	▼ 4.3%
Sugar (kt)	4,700	5,000	▲ 6.4%
Cotton (lint, kt)	1,148	580	▼ 44.5%

# EXCHANGE RATES AND INTEREST RATES



## EXCHANGE AND INTEREST RATES INC. QUARTERLY FORECASTS



## NAB FX STRATEGY TARGETS

	2018Q4	2019Q1	2019Q2	2019Q3
AUD/USD	0.75	0.75	0.75	0.75
NZD/USD	0.68	0.68	0.69	0.69
USD/JPY	110	108	106	104
EUR/USD	1.18	1.22	1.22	1.25
USD/CNY	6.75	6.70	6.65	6.50

Source: NAB

Our 0.75 'flat-line' profile for 2019 disguises expectations for a fair amount of volatility. In truth, we're more comfortable in thinking of the currency as now more firmly ensconced inside a 0.70-0.75 range. This is in the context of:

- 1: EM pressures which are not going to disappear even if President Trump does no more than impose tariffs on an additional \$200bn of Chinese goods at 10% (as per latest 'source' stories) not the previously threatened 25%).
  - 2: Potential additional USD strength from the ongoing rising US interest rate environment amid very strong incoming economic data.
- Hence 0.75 is for now seen more as a probable 'best case' range top.

We'll see how trade issues look to be developing in coming weeks before making a call on possible revisions to end 2018 and 2019 forecasts.

We have left out expectation for the path of monetary policy unchanged, though as in previous months, we recognise the risk that this could well be delayed. While growth has been quite strong and the labour market generally healthy, the unemployment rate until recently has remained at around 5.5% - around 0.5% above most current estimates of full employment. This has seen only a slight pick-up in wage growth and inflation to date, with the former well below the 3.5% seen as necessary for inflation in the middle of the band and the latter at the bottom of the band itself. Further, the release of Q2 national accounts confirmed that inflation pressures according to the broader national accounts measures of price inflations – the domestic final demand and consumption deflators – suggest continued meek outcomes.

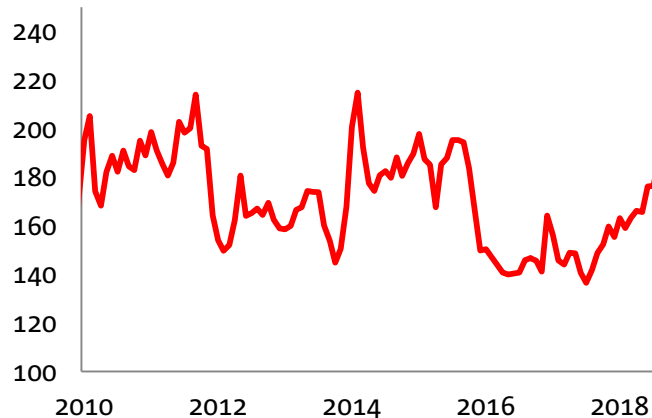


# FARM INPUT PRICES



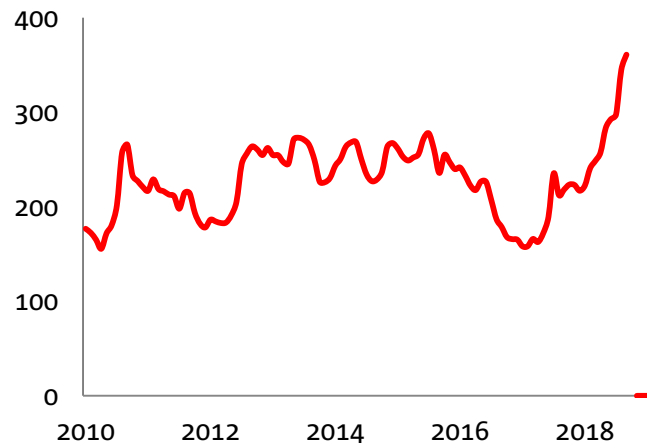
## NAB FERTILISER INDEX

AUD index



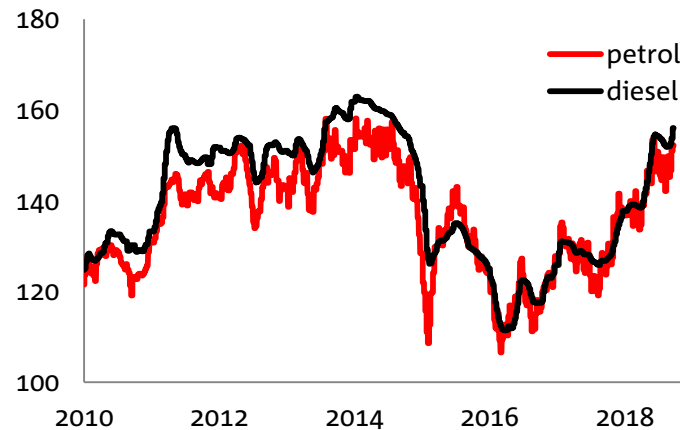
## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/tonne



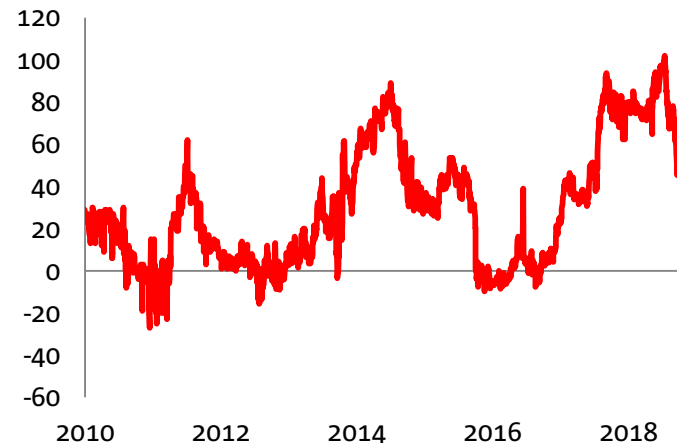
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## GEELONG-BRISBANE PRICE SPREAD

ASW1 cash price, AUD/tonne



The rise in Australian fuel prices this year has continued, reflecting a generally lower AUD and a rebound in oil prices. While the AUD has been back up over the past couple of weeks, the reality is that exchange rate and commodity price pressures mean that domestic fuel is more expensive at the pump. If (in line with our forecasts) the AUD is in the 75c range, and there is no further upside for oil, there *should* be limited further domestic increases, but uncertainty abounds.

The NAB Fertiliser index was up strongly in August, rising 6.1%. The result reflected higher USD natural gas, DAP and urea prices, combined with a fall in the AUD. 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 15.8% in August and another 4.7% for September (to date). Price spreads between Victoria and Queensland continue to plummet, although this reflects higher prices in the south.

Source: Bloomberg, Profarmer and NAB Group Economics

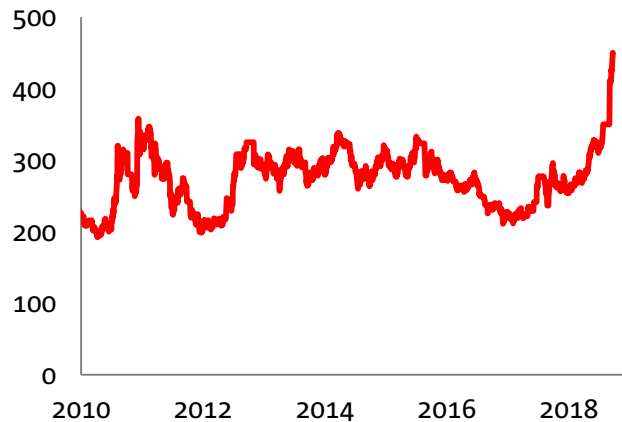


# WHEAT



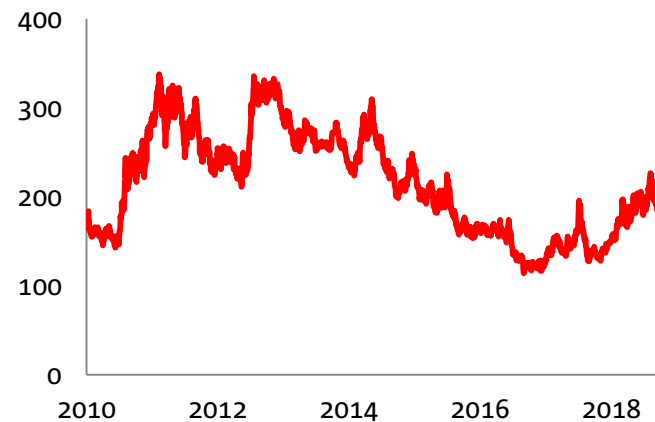
## ASX MILLING WHEAT FUTURE

Eastern Australia, AUD/tonne



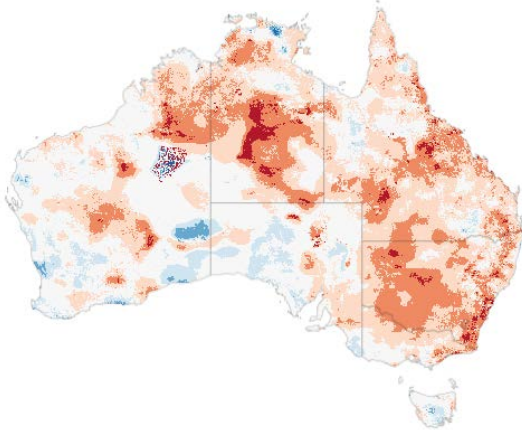
## CBOT SOFT RED WINTER WHEAT

USD/tonne



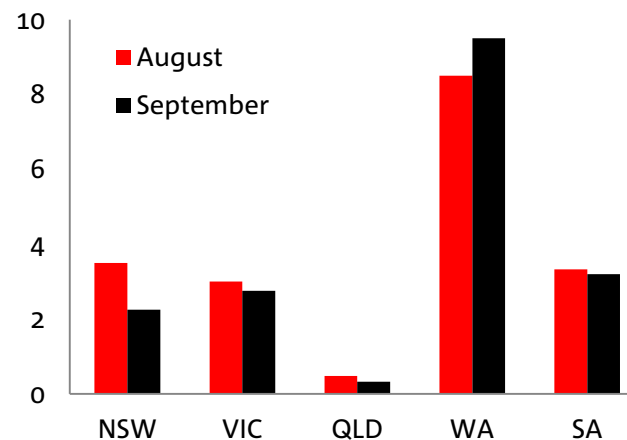
## ROOT ZONE SOIL MOISTURE

Relative to average, month to 10 Sept 2018



## NAB WHEAT PRODUCTION OUTLOOK

Million tonnes



## Prices

Global wheat prices have risen more or less consistently over the past year. Recently, supply concerns in Europe and the Black Sea following a hot and dry summer have provided support to prices as the multi-year run of record global crops looks set to end.

Australian (especially east coast) prices are at very high levels and largely detached from global developments. ASX wheat futures reached AUD450/t last week as late frosts cut crop forecasts. With the NSW crop in a parlous state, more WA grain is likely to make its way east via coastal shipping.

## Production

Our headline wheat production forecast is down a little this month (18.1 million tonnes vs. 18.4 million tonnes last month). However, there have been some big moves between states, with our NSW forecast down to 2.3 million tonnes and our WA forecast up to 9.5 million tonnes (although lower than we probably would have placed it two weeks ago). Late frosts have caused considerable drama in the west and east, and a lot of crop is now being cut for hay.

ABARES' latest forecast is for the Australian wheat crop to reach 19.1 million tonnes in 2018-19.

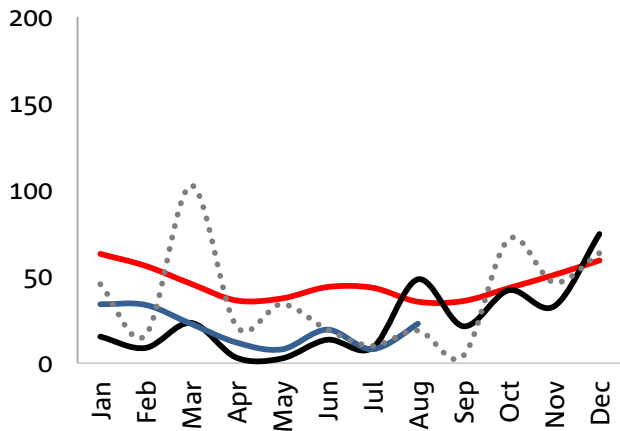
Source: Bloomberg, Profarmer, US drought monitor, BoM and NAB Group Economics

# MONTHLY AVERAGE RAINFALL IN WHEAT REGIONS (MM)

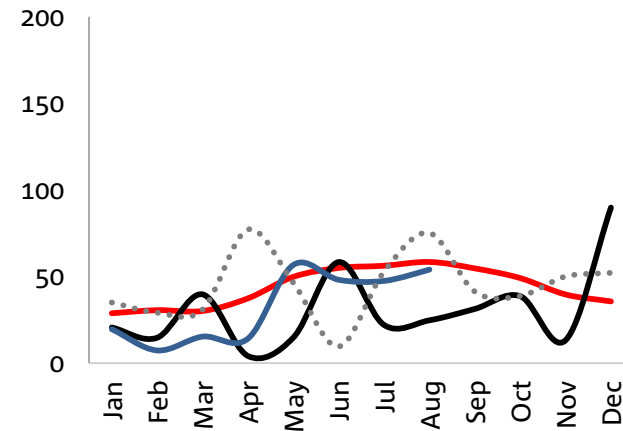


— Long run average 1900-01 to 2013-14    — 1902 drought    — 2018 YTD    ..... 2017

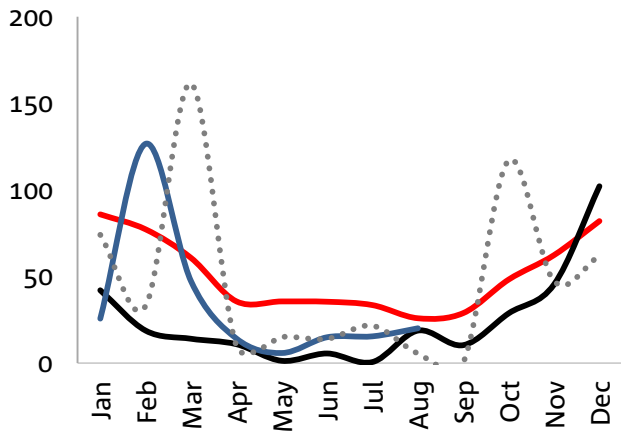
## NEW SOUTH WALES



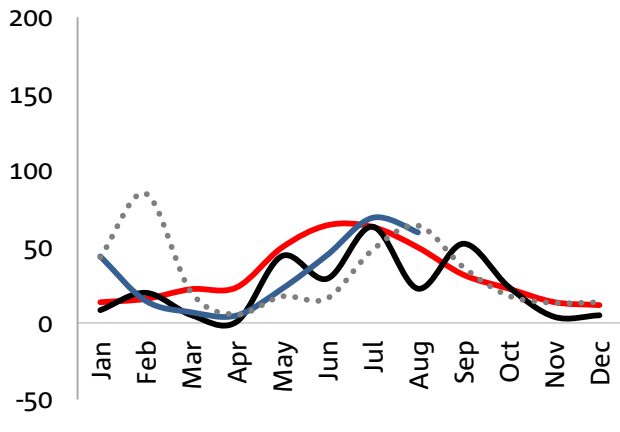
## VICTORIA



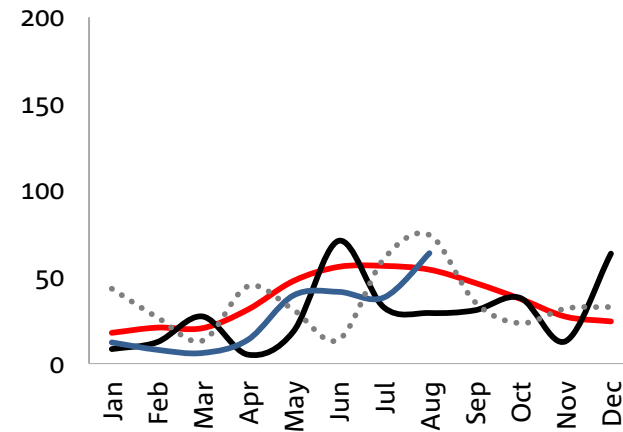
## QUEENSLAND



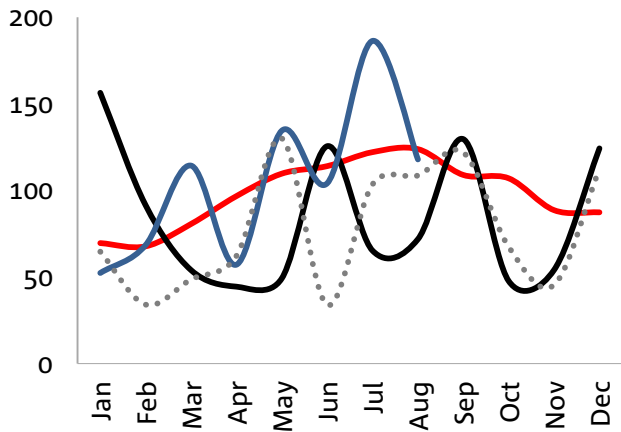
## WESTERN AUSTRALIA



## SOUTH AUSTRALIA



## TASMANIA



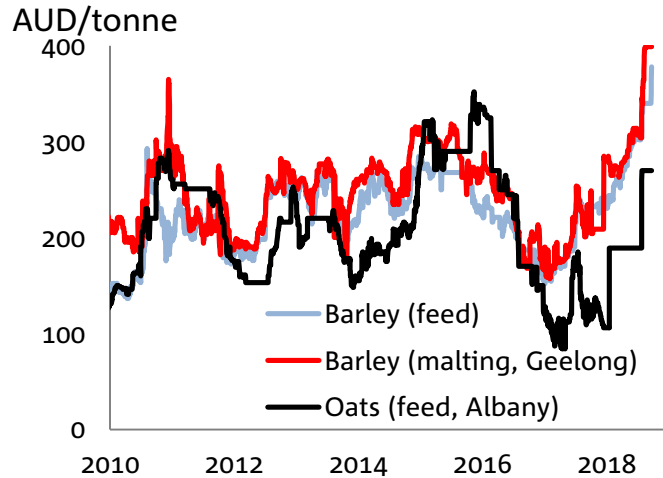
Source: Bureau of Meteorology and NAB Group Economics



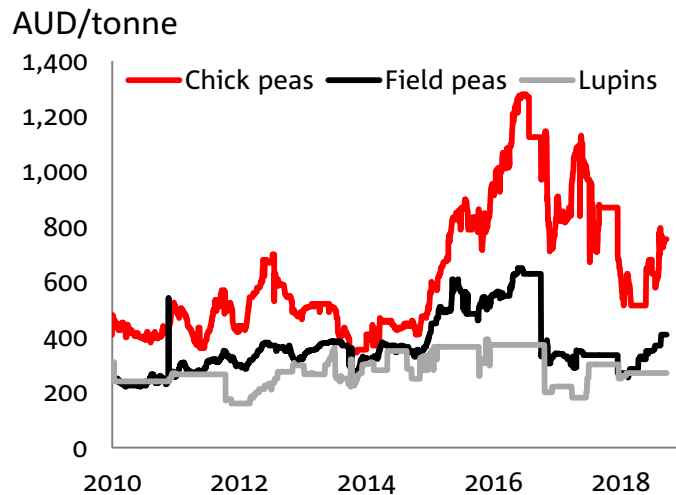
# OTHER WINTER CROPS AND SUGAR



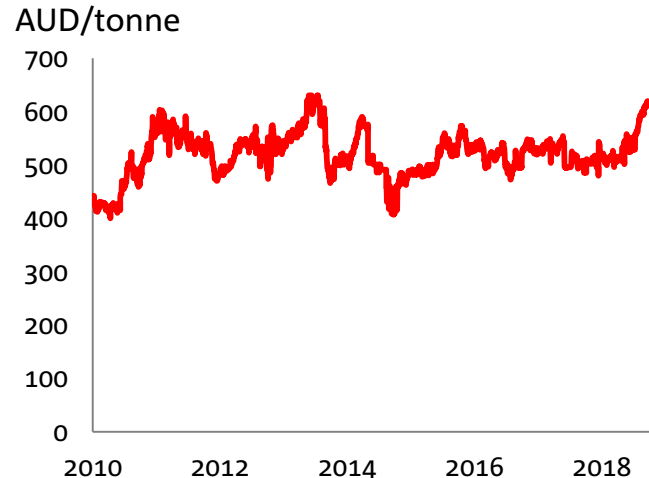
## SELECTED COARSE GRAINS



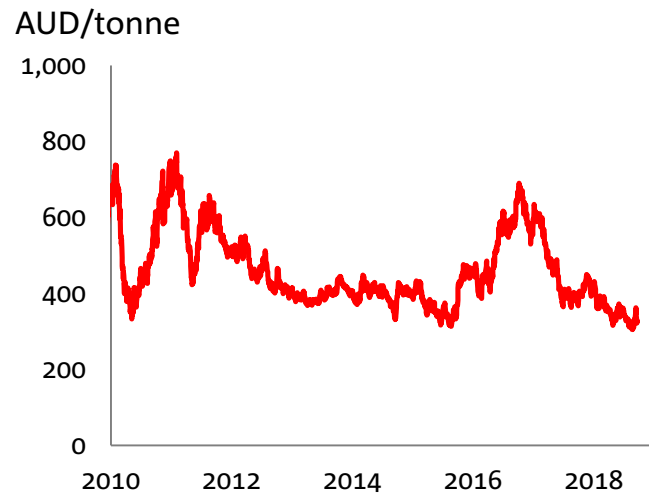
## SELECTED PULSES



## 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. Frost activity is likely to have hit barley in some areas, suggesting that yields will continue to be under pressure.

Canola prices have seen the first decent upside for several years, although anecdotally it seems that a fair amount of the eastern states crop is currently being cut for hay.

Pulse prices have seen a little life, with chick peas back in the mid-high 700s range. In any case, given prevailing growing conditions, the Australian chick pea harvest this season is likely to be fairly small. Lentils in Victoria could perform a bit better, although conditions are far from ideal.

Sugar prices continue to languish in a market beset by large Indian stockpiles, suppressing the prospects of a sustained rally. In AUD terms, ICE no. 11 sugar prices averaged \$315/tonne in August and \$336/t in September (to date).

Source: Bloomberg, Profarmer and NAB Group Economics

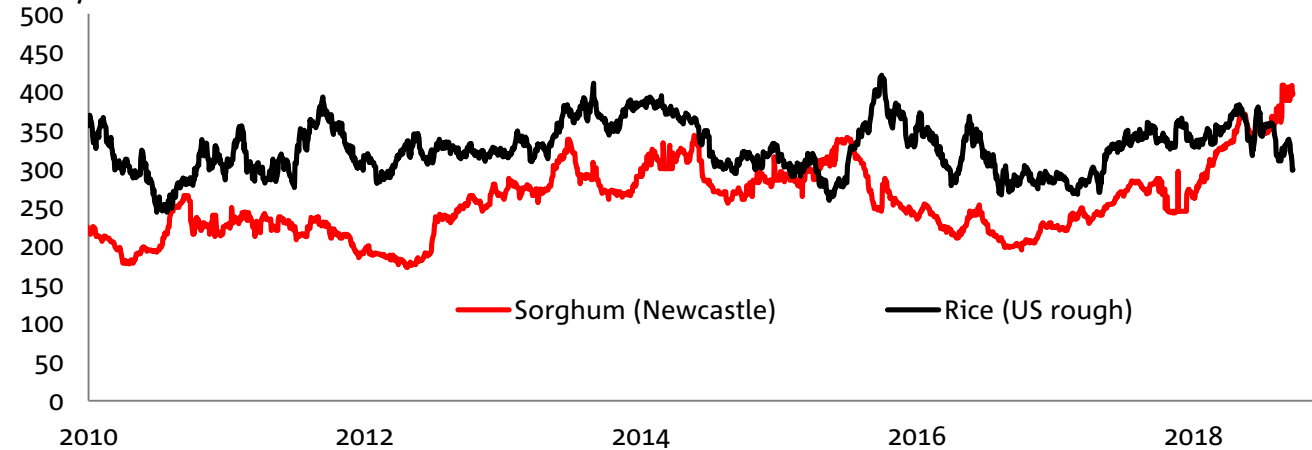


# SUMMER CROPS



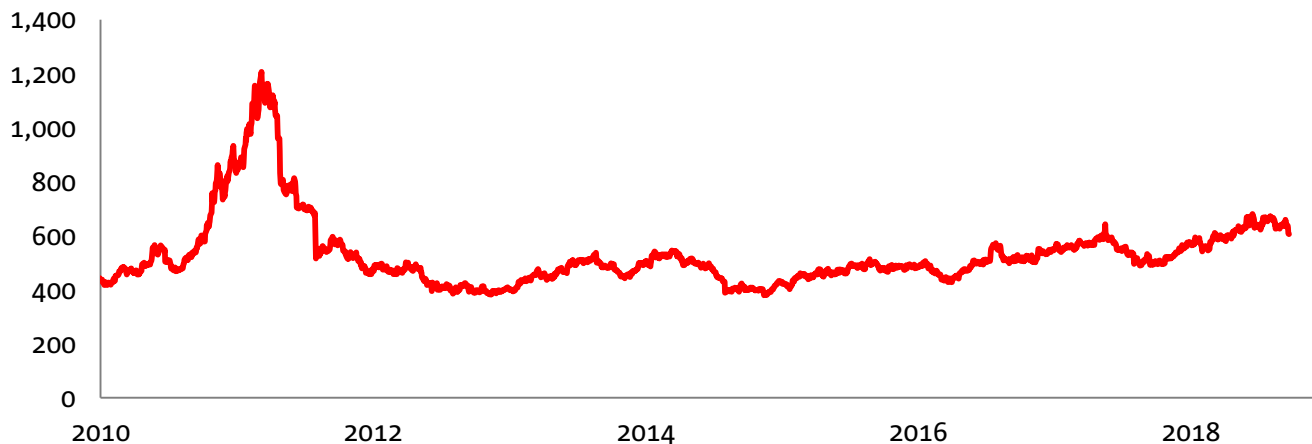
## SORGHUM AND RICE

AUD/tonne



## COTLOOK A INDEX

AUD/bale



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

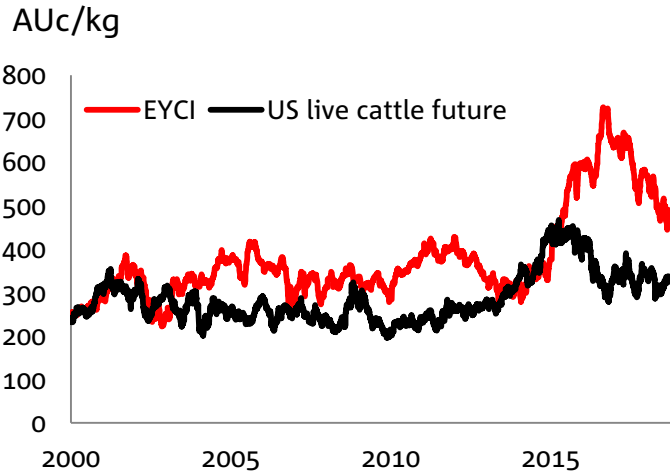
Cotton prices continue to look good, although prices in September are a little lower. AUD denominated Cotlook A averaged \$645/bale in August and \$634/t in September. The latest ABARES forecasts point to Australian cotton production falling 44.5% in 2018-19, reflecting lower plantings due to a lack 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 the big question mark, with early crop now going in the ground in Queensland. 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.

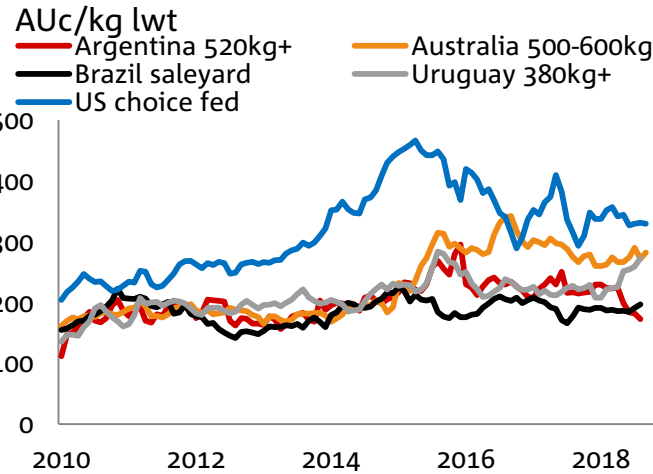
Australian sorghum prices could be a beneficiary of the US-China trade tensions, although domestic prices are now so high that export markets could be priced out.



## EYCI AND US LIVE CATTLE FUTURES

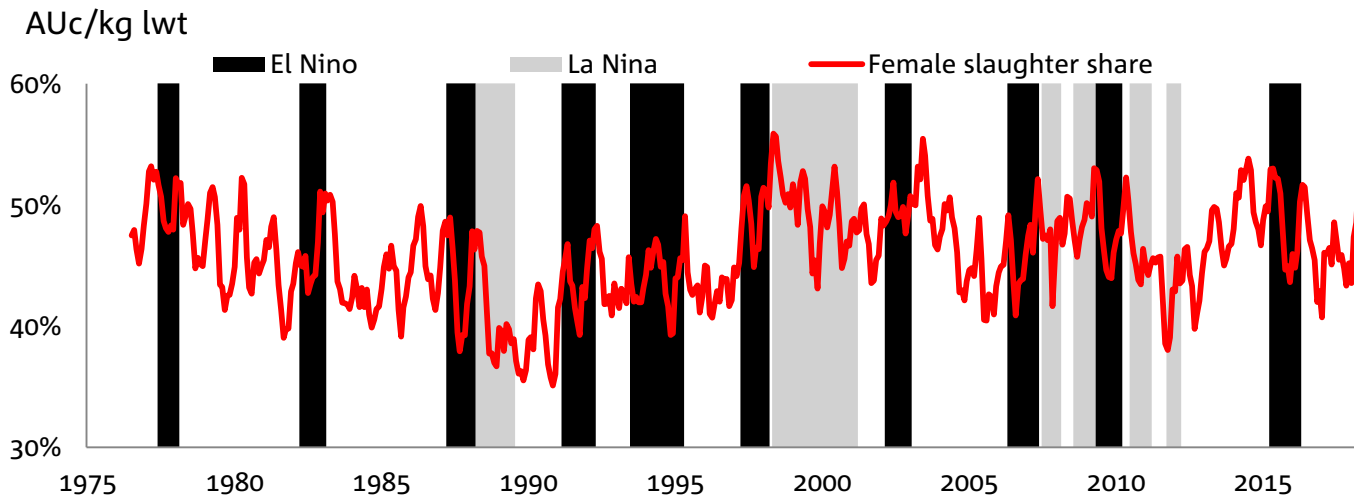


## GLOBAL STEER PRICES



Cattle prices have held up reasonably well given the severity of the drought across parts of eastern Australia. The Eastern Young Cattle Indicator has been in the mid to high 400s range for much of the year but has recently broken 500c/kg. Indeed, the indicator is almost back to its level at the same time last year, largely reflecting strength in demand for finished cattle. Whether this trend will continue is unclear and remains weather dependent. Particularly severe rainfall deficiencies could dampen restocker sentiment further – especially if a shortage of water and feed force more destocking.

## FEMALE SHARE OF SLAUGHTER AND ENSO EVENTS



The female share of slaughter (excluding calves) remains at drought levels, having exceeded 53% for the past three months to July.

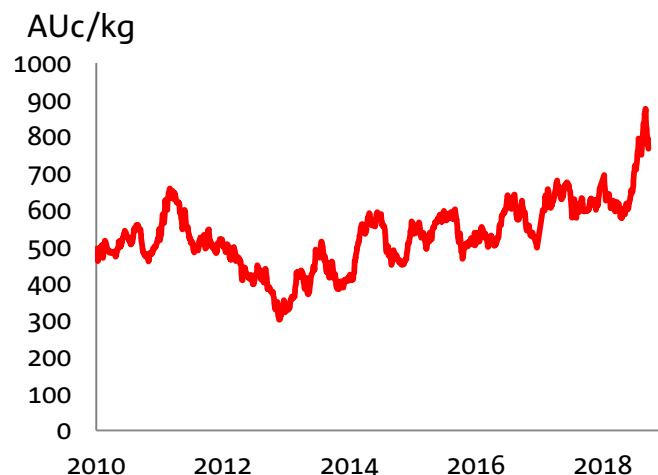
There are signs that the US cattle herd is close to peaking, and female slaughter has increased. There is likely to be more US product on the US domestic market in coming months, potentially compounded by dry weather in the US. With Australian herd rebuilding out of sync, our performance against international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

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

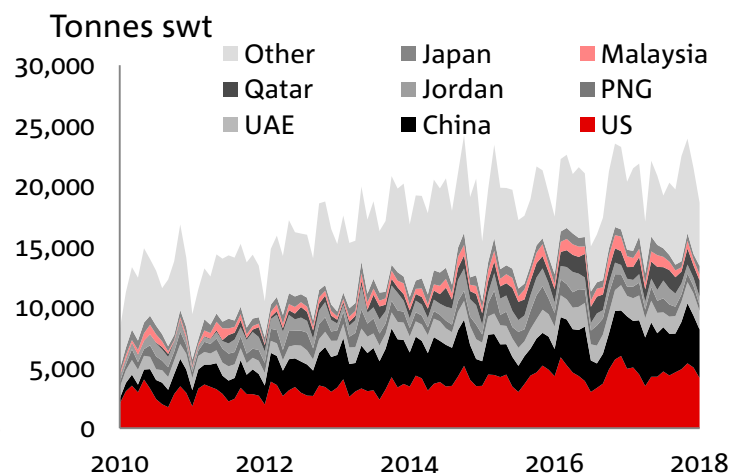
# LAMB AND WOOL



## NATIONAL TRADE LAMB INDICATOR



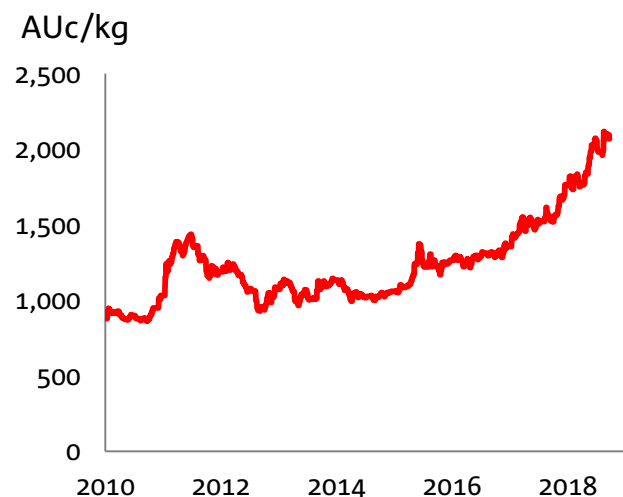
## MONTHLY LAMB EXPORTS BY DESTINATION



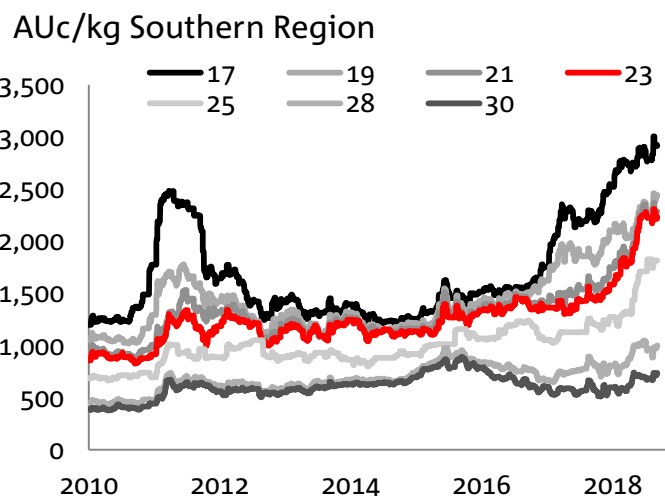
Lamb prices continue to defy gravity, although the laws of physics have fought back since the National Trade Lamb Indicator peaked at 875c/kg in early September. The indicator now stands at 768c/kg, still a great return by historic standards.

With Australia and New Zealand accounting for such a large share of global 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. While it is far from clear that this extraordinary run can continue, prices are likely to remain solid this year.

## WOOL EASTERN MARKET INDICATOR



## WOOL PRICES BY MICRON

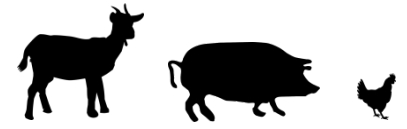


Wool prices continue to perform, although were off a little last week to 2,067c/kg. China is a major buyer of Australian wool, but the impact of the trade dispute with the US (and attendant Chinese currency depreciation), is yet to have a major impact on the market. Should the dispute widen into an all out trade war, there could be some risk to wool markets, but wool cheques remain excellent for now.

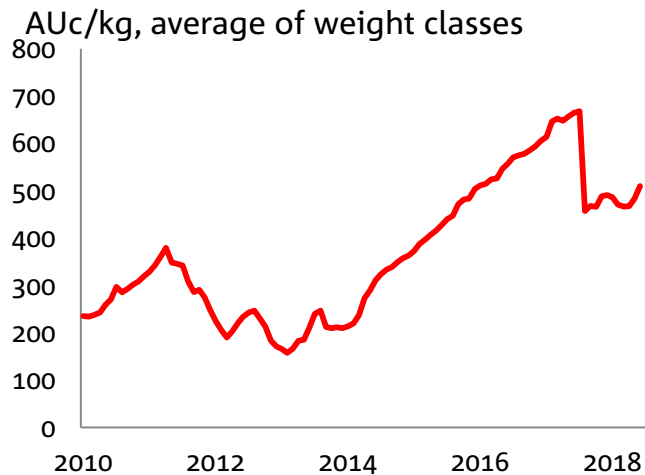
Source: Meat and Livestock Australia, Australian Bureau of Statistics and NAB Group Economics



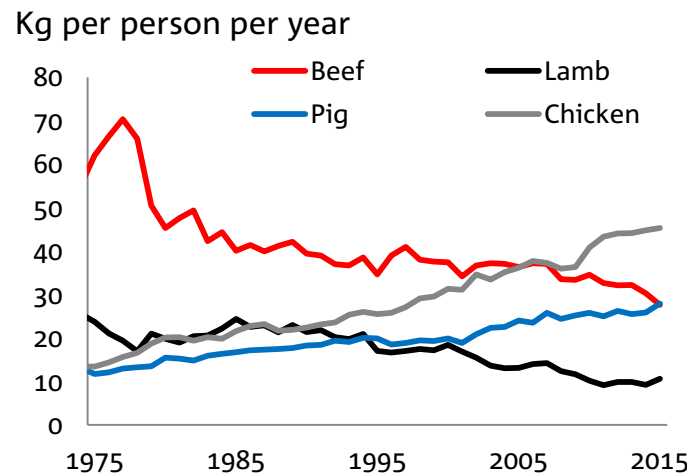
# PORK, POULTRY AND GOAT



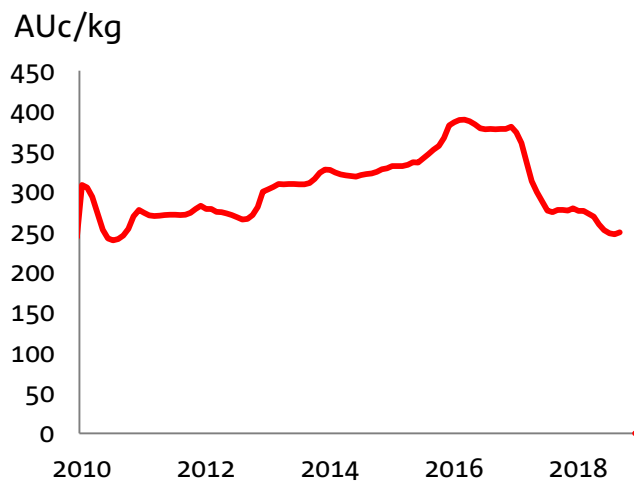
## EASTERN STATES GOAT PRICES



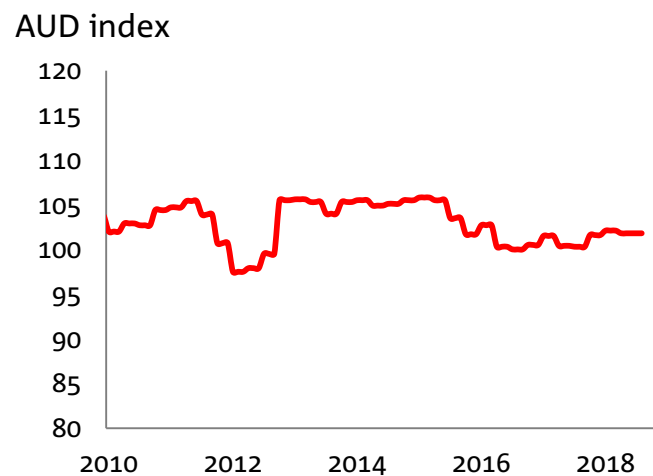
## AUSTRALIAN MEAT CONSUMPTION



## 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.

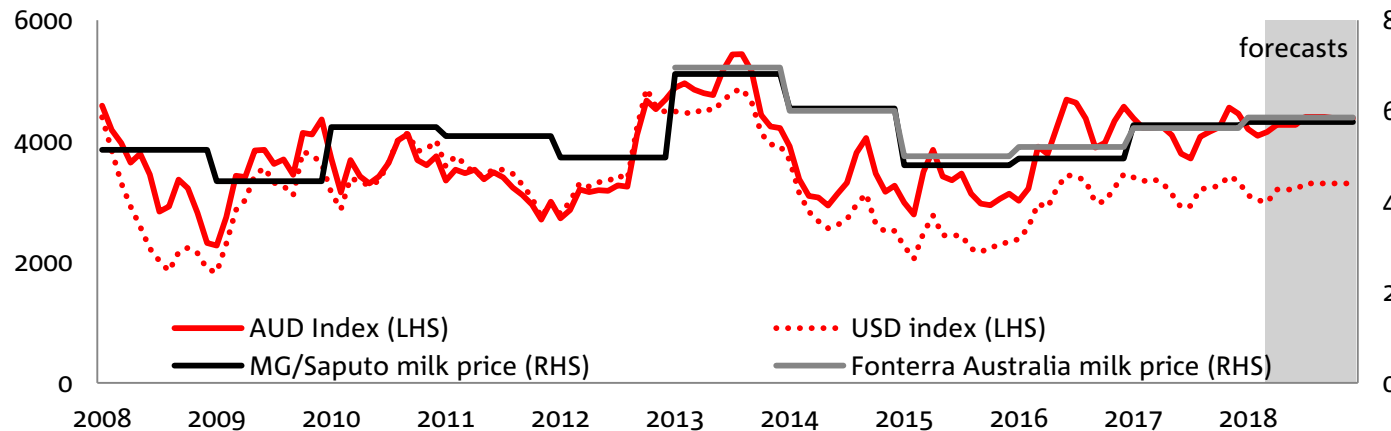
Wholesale pork prices have now crashed 36% from their peak in 2016, largely as a result of higher domestic supply but also import competition. The more recent period of stability looks to be over. That said the first two weeks of September have been a little better. Our pork price indicator (using an average of Australian Pork reported buyer and seller prices for Eastern Australia), was down 0.5% in August but up 1.0% for September (to date). Very elevated domestic grain prices are likely to increase cost pressures for domestic producers.

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)

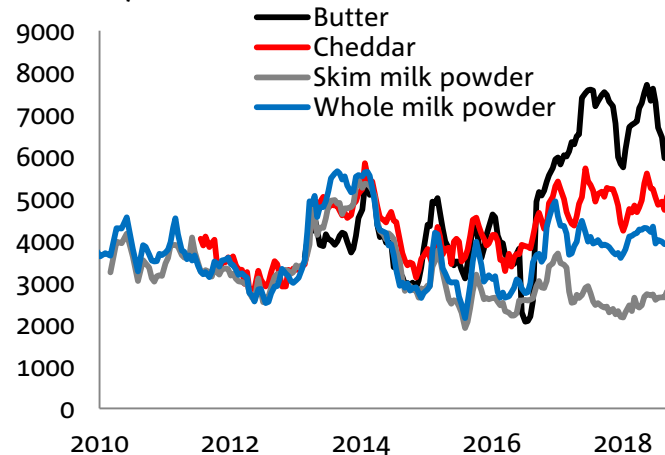


Global Dairy Trade auctions have been weaker in the second half of the year. The last positive USD denominated auction result was in May, followed by one flat and seven negative results. Our NAB weighted dairy export price indicator was down 2.6% in AUD terms in August but up 1.5% in September, with the latter result largely reflecting exchange rate fluctuations.

Our forecasts still do not point to major upside for global dairy prices in USD terms in the coming year. However, a hot summer in Europe and an upward trend in grain prices globally, could see some life in the market yet. Fonterra recently announced its first ever loss (NZD 196m), so New Zealand farmgate prices will be closely watched.

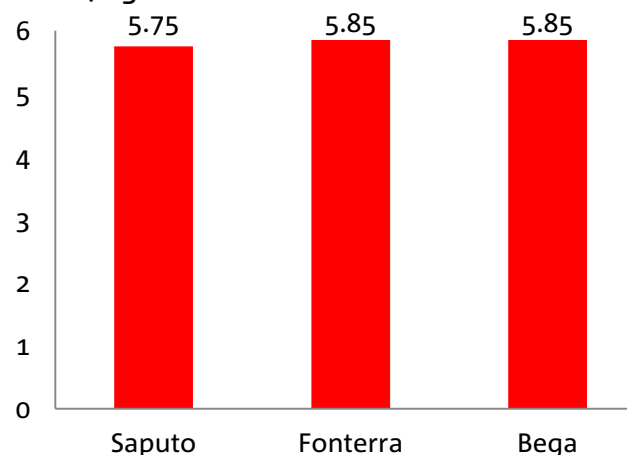
## GDT AUCTION RESULTS

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.

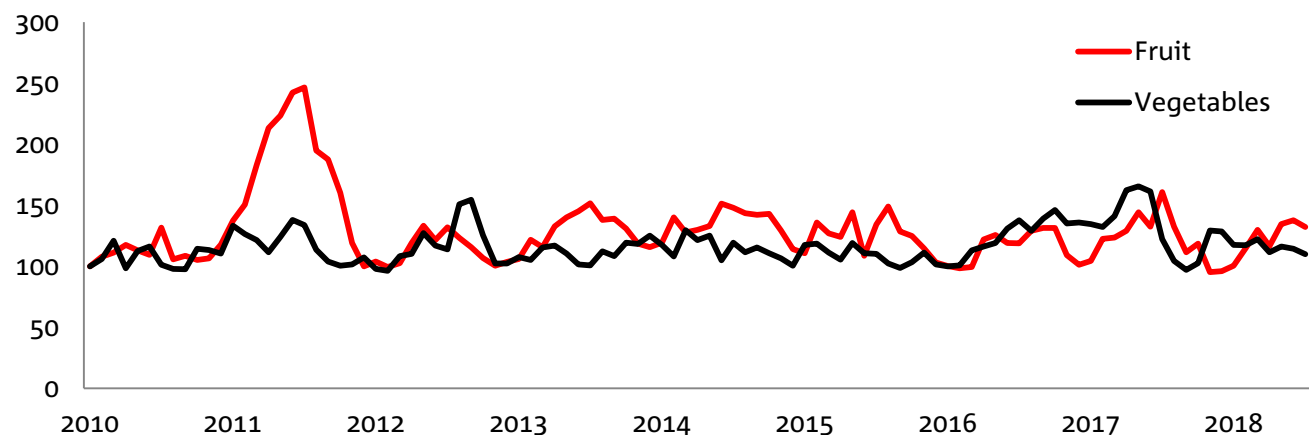
Source: Australian Bureau of Statistics, Global Dairy Trade, Dairy Australia, IBISworld and NAB Group Economics

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

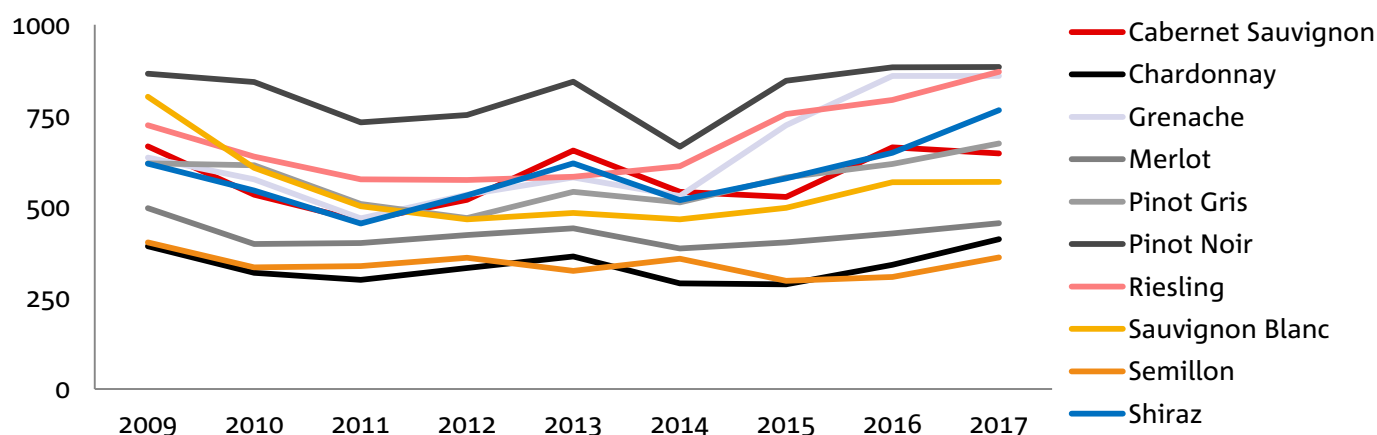


We produce wholesale price indices for fruit and vegetables, based on data from the Melbourne and Sydney wholesale markets.

Wholesale fruit prices were again lower in August. Fruit was down 2.0% to 129 index points (January 2010 = 100), and the strawberry crisis is likely to hit this index in September. Vegetables were higher, up 3.6% to 114 index points.

## WINE AUSTRALIA WEIGHTED WINE GRAPE PRICES

AUD/tonne



Wine Australia's 2018 National Vintage Report shows prices rose once again last year, with the average of all wine grapes up 8% on a volume weighted basis to \$609/t to reach the highest level since 2008. Red wine outperformed while white varieties generally lagged a little. The former gained 11% but the latter gained 5% on average. The crush was down 10%, but in line with the long run average.

Source: Ausmarket Consultants, Wine Australia and NAB Group Economics



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