

RURAL COMMODITIES WRAP

OCTOBER 2018

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KEY POINTS

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The NAB Rural Commodities Index rose 6.5% in September, recording the biggest monthly gain since December 2010. With concerns about the state of the winter crop growing, ASX wheat jumped 22.8% to average \$430/t in September. Cattle prices also lifted, with EYCI up 6.1%. The index tracks 28 commodities weighted by the relative size of each commodity in the Australian agricultural sector.

Looking ahead, the progress of the season will be a major influence on agricultural prices, especially how detached some commodities have become from global benchmarks. Domestic grain premiums are banking on extremely tight eastern Australian supply and limited eastern Australian export. While this looks likely given the poor state of the winter crop, another key question will be the capacity of livestock producers to absorb feed costs through a drought. Lamb prices shot up in late August, but have now given up most of these gains. The NTLI now stands at 697c/kg, not much above its level at the same time last year.

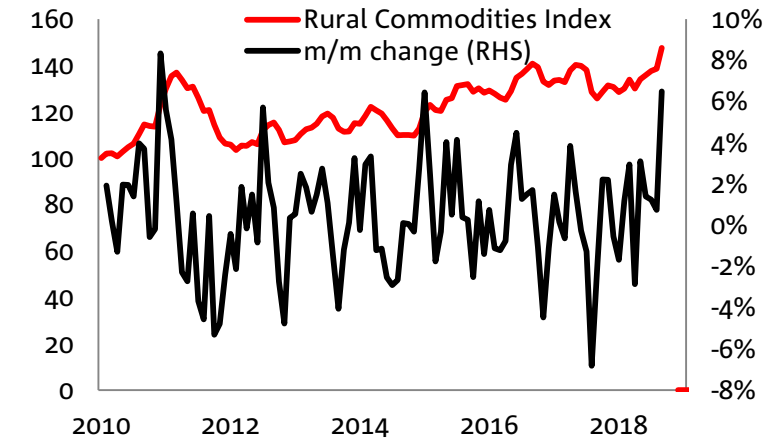
Summer crops benefitted in good rains in New South Wales and southern Queensland over the two weeks and hay supply should be stronger given so much of the winter crop has already been cut for hay.

We have cut our AUD forecast and now see the AUD as a 70-75c currency. Our Q4 2018 has been cut to 71c (down from 75c).

This month marks the introduction of a slimmer Rural Commodities Wrap, with regular in-focus reports to follow later in the month.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

	July	August	Sept.
Wheat	▲ 3.3%	▲ 5.9%	▲ 22.8%
Beef	▲ 4.0%	▼ 7.2%	▲ 6.1%
Dairy	▼ 5.7%	▼ 2.6%	▲ 1.5%
Lamb	▲ 13.9%	▲ 8.0%	▼ 1.7%
Wool	▼ 2.2%	▲ 2.4%	▲ 1.7%
Sugar	▼ 6.2%	▼ 5.5%	▲ 4.8%
Cotton	▼ 0.2%	▼ 0.9%	▼ 2.6%

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

SEASONAL CONDITIONS

Seasonal conditions in eastern Australia are generally mixed to poor. New South Wales and much of Queensland remain in drought. That said, many parts of Australia have seen good rain this month, with more forecast in the coming days. That said, big follow-ups will be needed to get back on track.

Victoria and South Australia were looking better, but suffered through a combination of an extremely dry September and a string of late frosts. Conditions have faded across many parts of these states, although some areas have seen good rain.

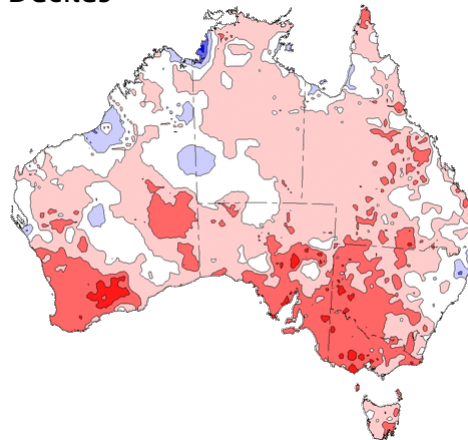
Western Australia also saw a dry September and late frosts, although starting from a considerably better position than the east, it is likely to see an average to above average winter crop.

Overall, we have cut our wheat forecast from 18.1 to 17.4 million tonnes, reflecting downgrades in Western Australia, Victoria and South Australia.

The BoM three month outlook is mostly drier than average, except for parts of WA and the NT. The BoM has now gone to El Nino alert, pointing to a 70% chance of an event this year.

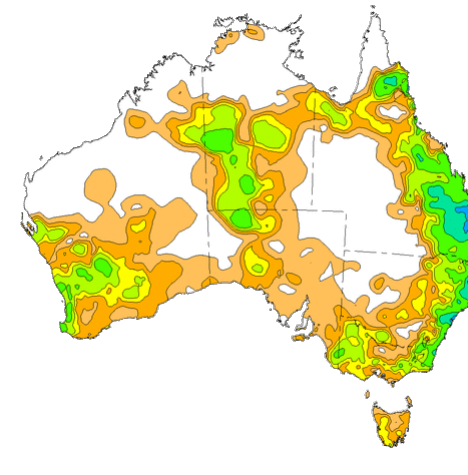
RAINFALL – SEPTEMBER

Deciles



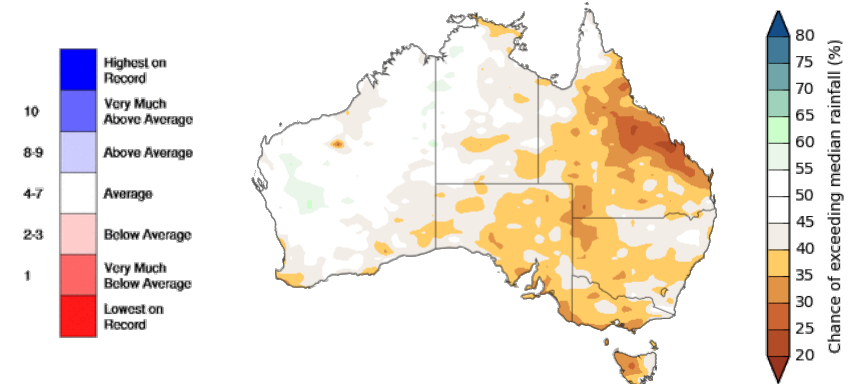
RAINFALL – LAST WEEK

Week to 14 October, mm



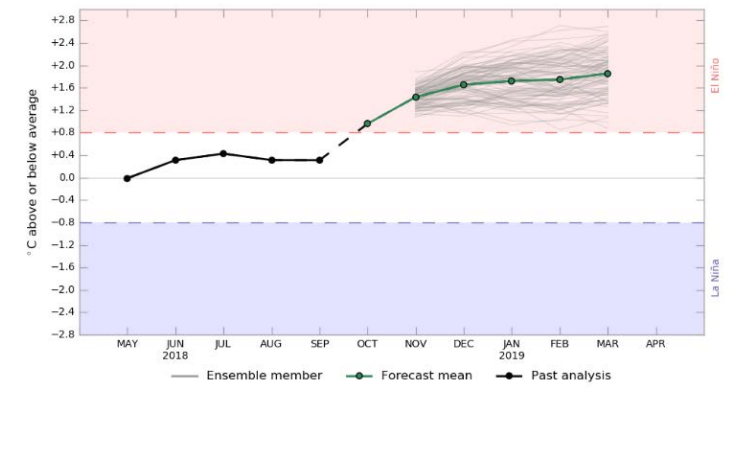
RAINFALL OUTLOOK

November to January



BOM ENSO TRACKER

NINO34 sea surface tracker



Source: Bureau of Meteorology and NAB Group Economics

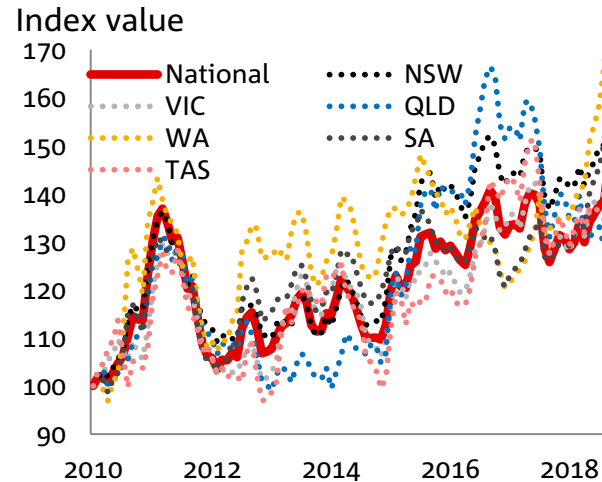
REGIONAL PRICES

We also produce the NAB Rural Commodities Index on a state-by-state basis.

In September, grain growing behemoth Western Australia rose 10.8%, its biggest gain since mid-2012. South Australia was second, up 7.5%, followed by New South Wales on 6.5%, Queensland on 5.1%, Victoria on 3.9% and Tasmania on 2.8%. Weakness in Global Dairy Trade auction prices has seen Tasmania lag the nation over the past few months.

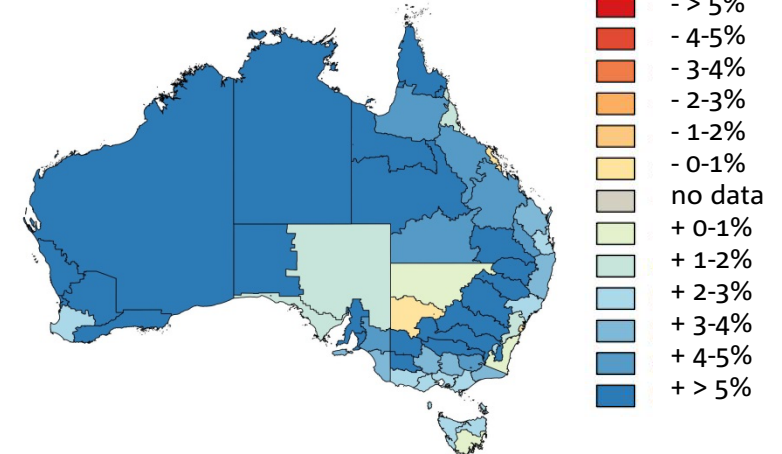
Our regional agricultural price indicators show that most regions gained strongly on a monthly basis in September, while on an annual basis, only cattle heavy regions are lower. That said, the Eastern Young Cattle Indicator has defied the severity of the drought to recently approach levels from the same time last year. This largely reflects finished cattle demand, with restocker interest generally weak. If demand for finished cattle drops (and continued signs of higher production in the US are a worry) there may be further downside risk for the EYCI beyond drought influenced domestic stocking levels.

RURAL COMMODITIES INDEX BY STATE



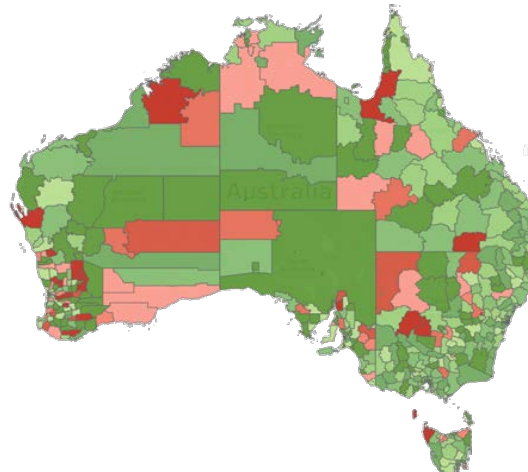
MONTH ON MONTH

August to September 2018



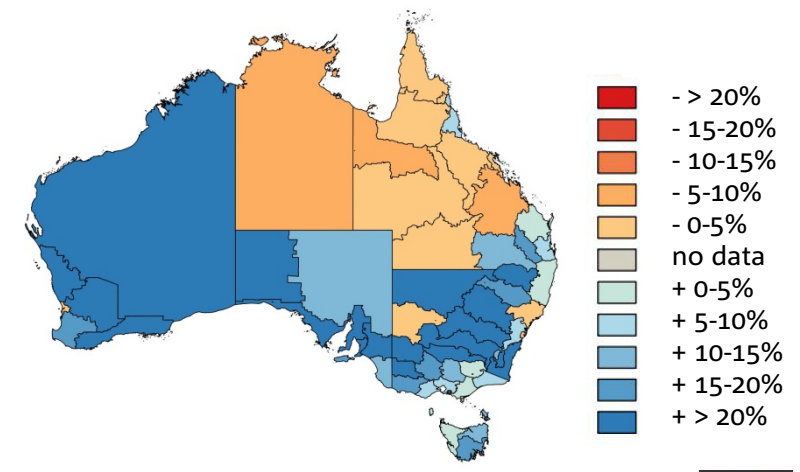
NAB CONSUMER SPENDING BEHAVIOURS

Q2 2018



YEAR ON YEAR

September 2017 – September 2018

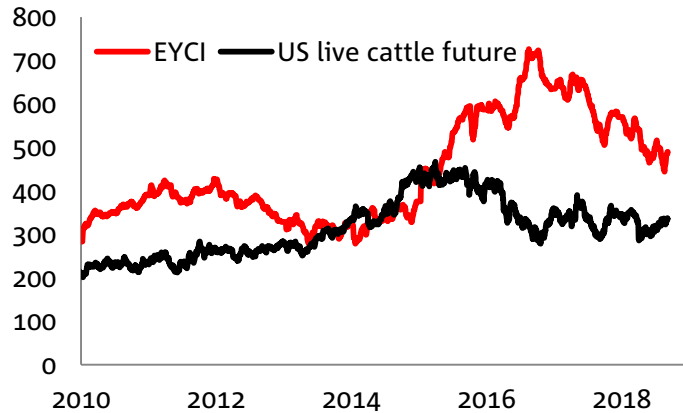


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

LIVESTOCK

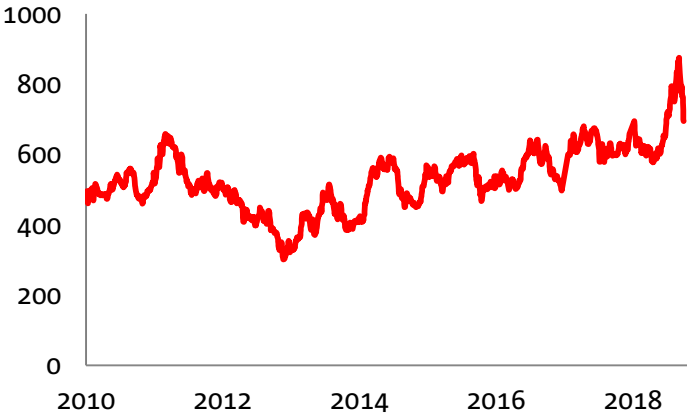
CATTLE

AUc/kg



LAMB

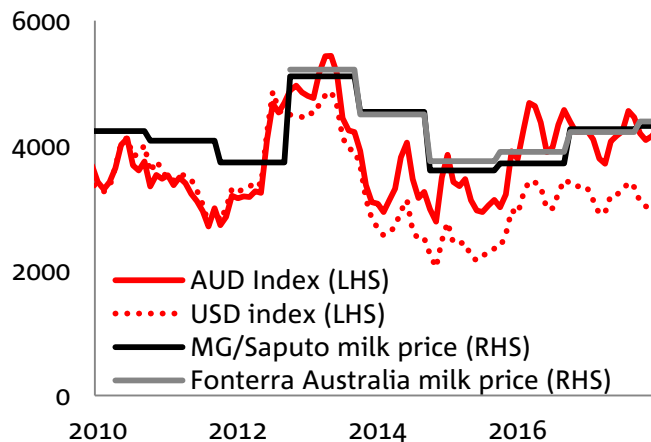
National Trade Lamb Indicator, AUc/kg



Cattle prices have really held up quite well overall, considering the drought conditions plaguing much of the east. Certainly there has been a big drop in demand for restocker cattle, with the EYCI being held up in large part by demand for finished cattle. There may be limited upside for restocker demand following the good October rain in NSW and Qld, although it is still far too early to call an upturn, especially with the climate risks largely on the downside. We see EYCI in the mid-400s to low-500s over the coming months.

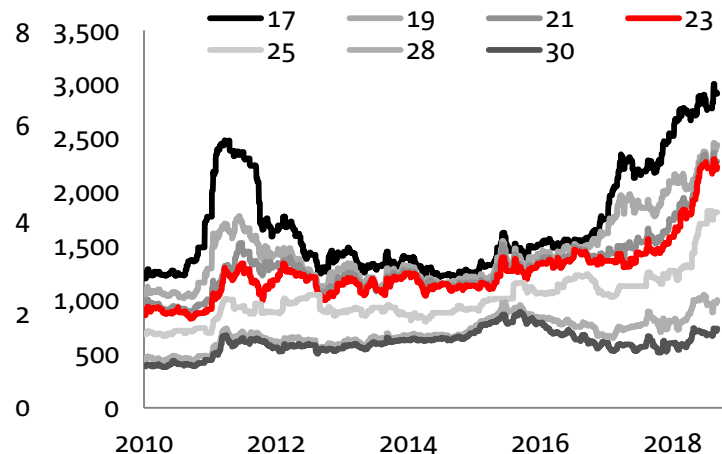
DAIRY

aaa



WOOL

Southern region, by micron, AUc/kg



Lamb prices have now lost their entire late winter and early spring rally amid tough seasonal conditions, with NTLI now hovering in the high-600s range. Wool has seen some weakness too, although EMI is now back above 2,000c/kg. That said, prices still point to very good returns for producers.

Global Dairy Trade auctions continue to be disappointing. The 2 October auction brought another decline in USD terms, with the last positive read having been in May this year. The lower AUD has been the main support to our domestic indicator, but it is challenging to see further step ups in this climate.

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

WINTER CROPS

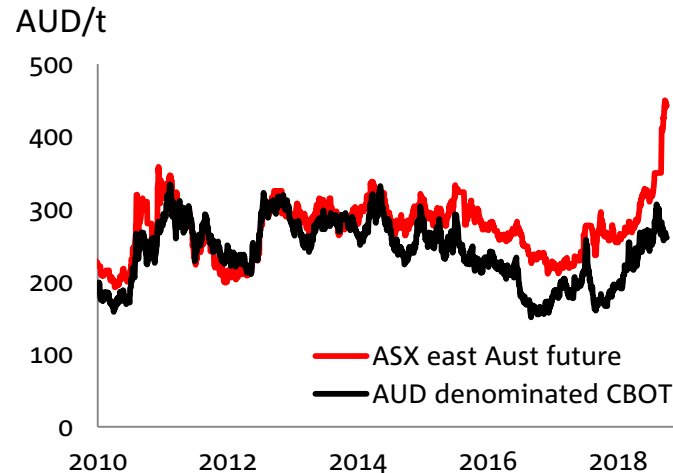
This season has been challenging for crops in the eastern states and arguably the toughest since the millennium drought. NSW and Qld have been very marginal for months, while SA and Vic had a very dry and frosty September. While October has seen good rain in some areas, eastern states crops will still be below average and a lot of cereal crops have already been cut for hay.

On the other hand, the west is still on track for an above average season, notwithstanding late frosts and below average September rainfall.

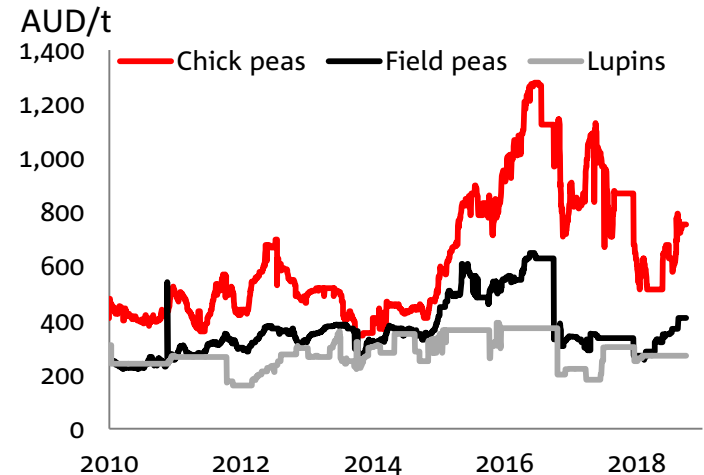
Overall, we have cut our wheat forecast from 18.1 to 17.4 million tonnes, reflecting downgrades in Western Australia, Victoria and South Australia.

Domestic grain prices are at extreme levels, especially in the eastern states. This reflects strong feed demand in a very challenging season. ASX wheat futures have been trading well above \$400/t – a major disconnection with international benchmarks. Canola prices have also been high as so much of the crop has now been cut for hay. Premiums could remain throughout summer and if there is a late autumn break, well into next year as well.

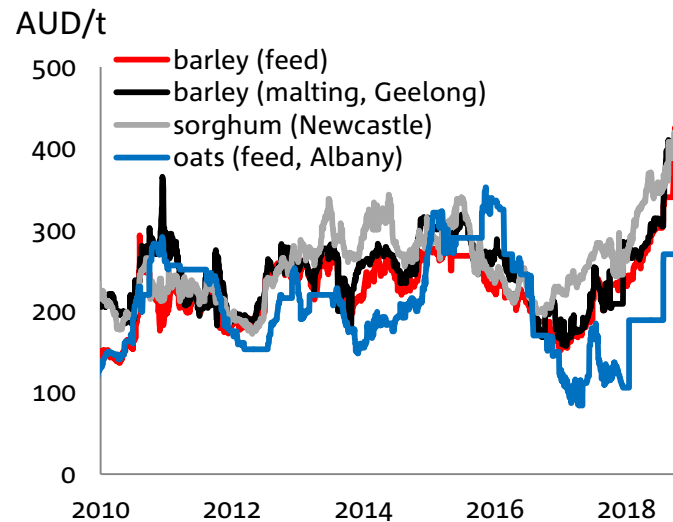
WHEAT



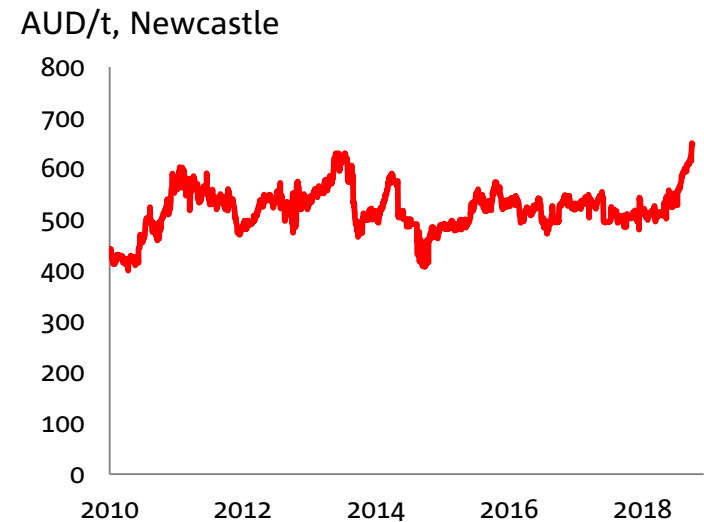
PULSES



COARSE GRAINS



CANOLA



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

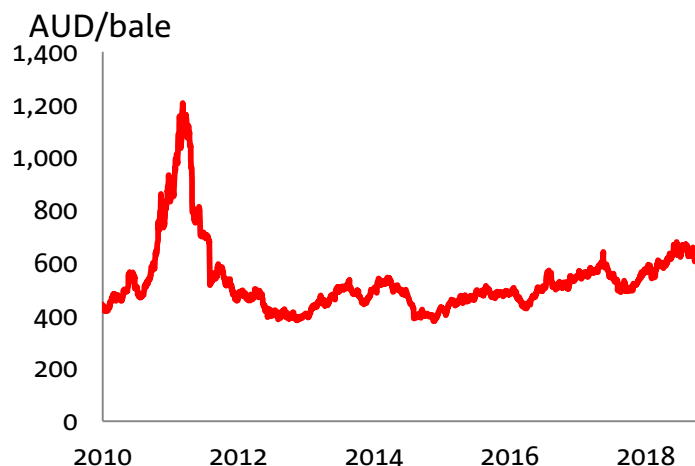
SUMMER CROPS, SUGAR AND HORTICULTURE

Planting conditions for sorghum have been boosted by recent rains, albeit from a low base. ABARES' September estimate for Australian sorghum production in 2018-19 was around 1.6 million tonnes, so even a good season is unlikely to fully ameliorate the feed shortage owing to limited pasture and a poor winter crop. That said, a good summer crop will be very welcome news for graziers.

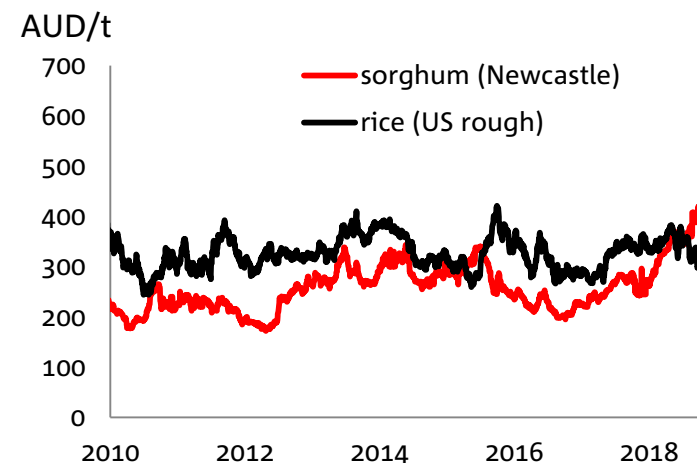
Cotton prices continue to look good, although production is likely to be well down on last season, owing to a sharp reduction in irrigation water availability and likely tough conditions for the dryland crop.

Sugar prices remain under considerable pressure, reflecting sluggish demand but perhaps more importantly the prospect of more Indian sugar on the global market. The Indian government has announced assistance for the industry, including export subsidies. This will be a challenge in coming months.

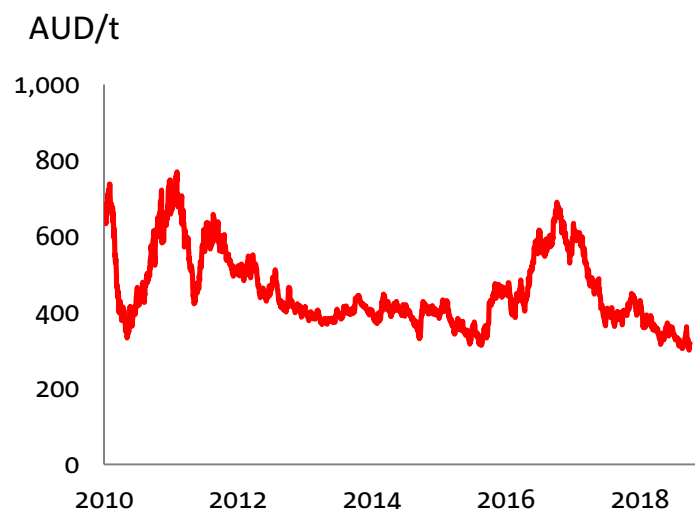
COTTON



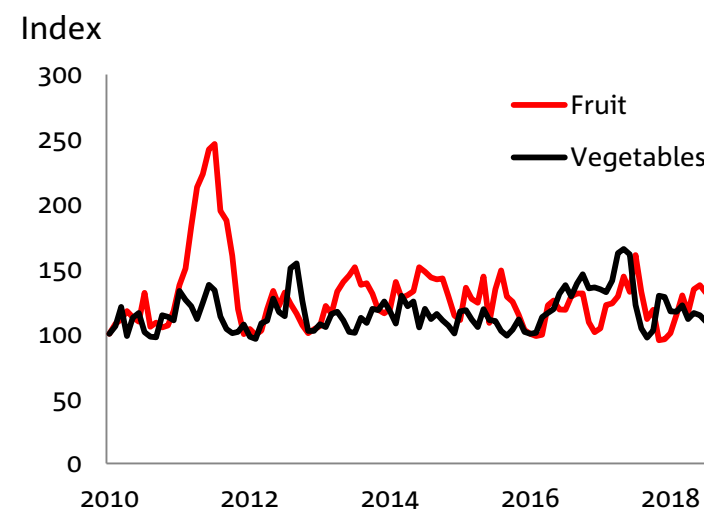
SORGHUM AND RICE



SUGAR

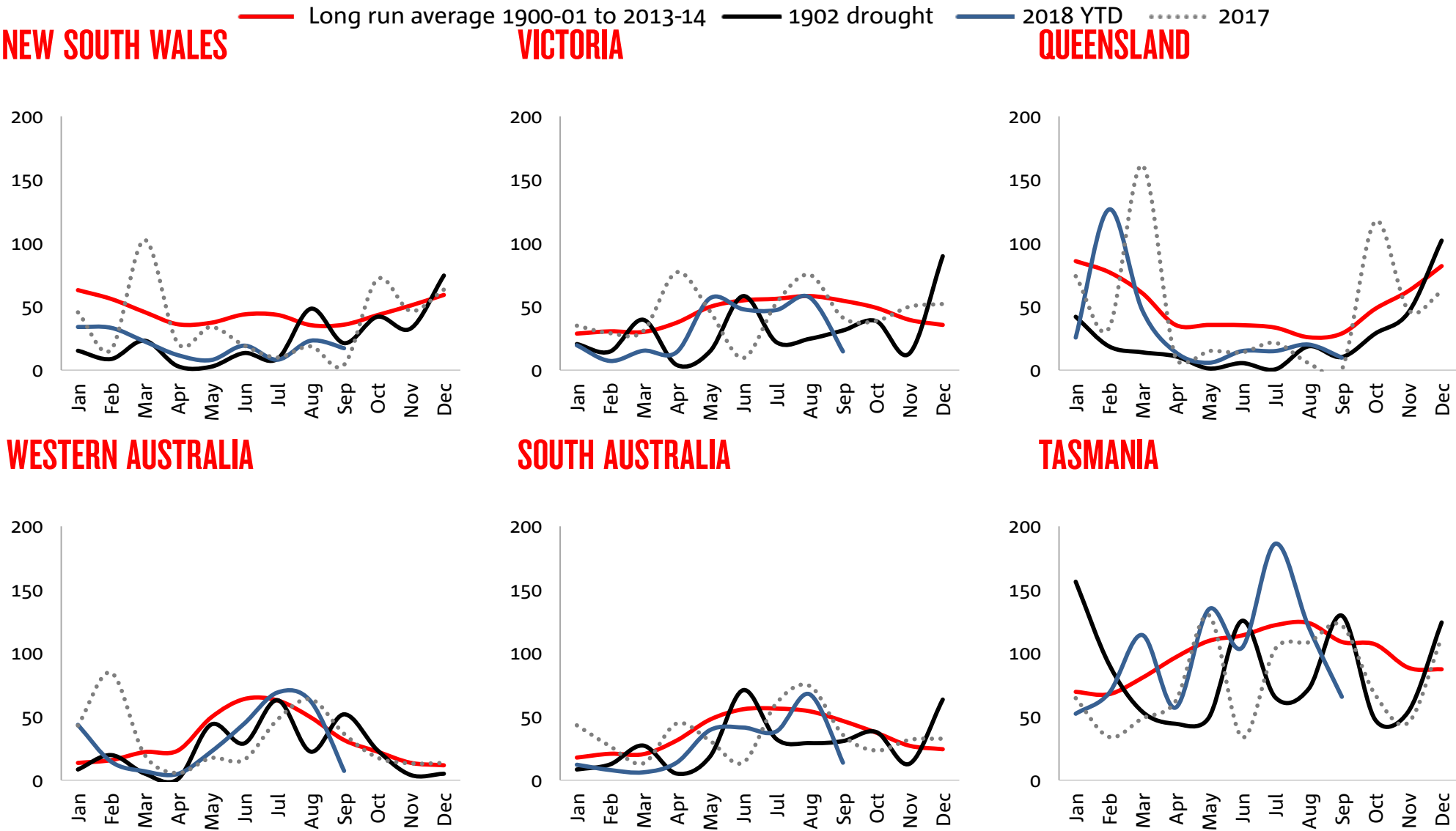


FRUIT AND VEGETABLES



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

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)



Source: Bureau of Meteorology and NAB Group Economics



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