

RURAL COMMODITIES WRAP

NOVEMBER 2018

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KEY POINTS

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The NAB Rural Commodities Index rose 1.8% in October, following a 6.5% jump in September. The index tracks 28 commodities weighted by the relative size of each commodity in the Australian agricultural sector. Big movers were sugar, (up 24.1%), barley (up 11.7%), lamb (down 9.0%) and wool (down 5.0%). While lamb saw the biggest monthly fall in October, NTLI since recovered most of those losses, but has since fallen again. ASX wheat is slightly below its September peak, but remains extremely elevated by global standards.

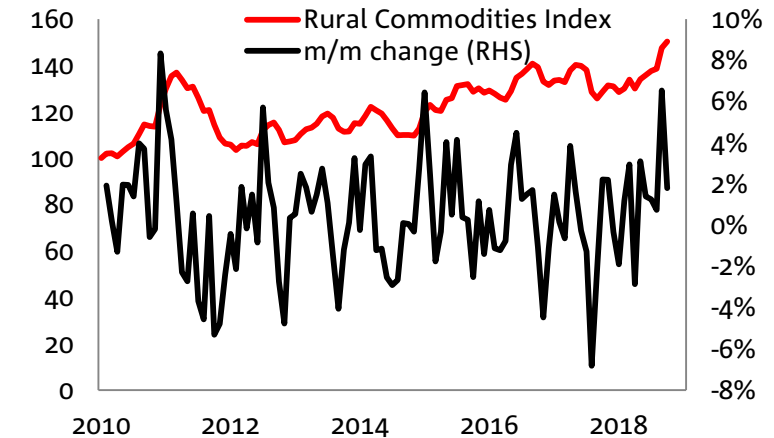
The Eastern Young Cattle Indicator continues to outperform given the challenging season, although this largely reflects strong demand for finished cattle rather than any signs of life in the restocker market. We will be watching US domestic market developments for signs that this is sustainable, but given US supply there are certainly risks.

October and the start of November brought good rain to some areas, although others missed out. Looking ahead, the Bureau of Meteorology's outlook for a 70% chance of El Nino this year, combined with a dry three month outlook, is concerning, especially given how little eastern Australia has in the tank. Murray Darling Basin storage levels have now dropped below 50%, the lowest amount for this time of year since 2015. This suggests that allocations could be affected and temporary prices will be high in coming months.

The AUD has been a little higher over the last week, within our expectations for the AUD to be a 70-75c currency for the coming months. Our AUD forecast for Q4 is 71c, rising to 75c by Q3 2019.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

	August	Sept.	Oct.
Wheat	▲ 5.9%	▲ 22.8%	▲ 1.4%
Beef	▼ 7.2%	▲ 6.1%	▲ 3.4%
Dairy	▼ 2.6%	▲ 1.5%	▼ 2.7%
Lamb	▲ 8.0%	▼ 1.7%	▼ 9.0%
Wool	▲ 2.4%	▲ 1.7%	▼ 5.0%
Sugar	▼ 5.5%	▲ 4.8%	▲ 24.1%
Cotton	▼ 0.9%	▼ 2.6%	▼ 2.5%

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 remain generally mixed to poor, although October and early November have seen very respectable rain totals in many - but by no means all - areas. This is probably too late to do much for the winter crop in most areas, but is an upside for pasture and dryland summer crop prospects.

Overall, New South Wales and much of Queensland remain in drought. Big and sustained follow-ups will be needed to get back on track.

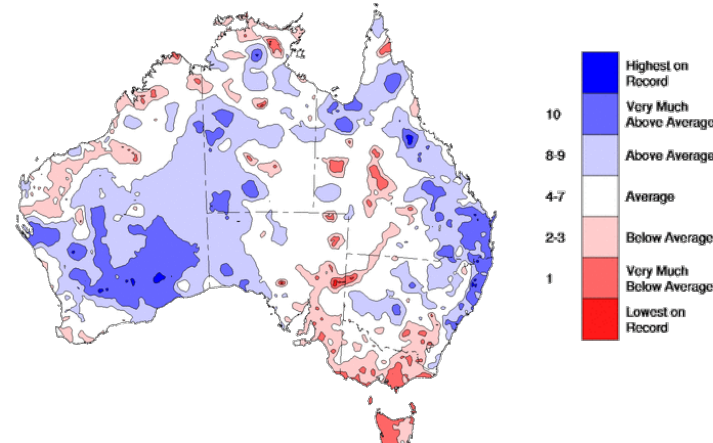
Victoria and South Australia remain a mixed bag - some areas remain very dry but other districts (e.g. south-west Victoria) have enjoyed a good season.

Western Australia remains the pick of the bunch as far as seasonal conditions are concerned, with an average to above average winter harvest on the cards.

The BoM three month outlook is much drier than average for most of the country, except for parts of NSW, Cape York, the Kimberley and the top end. The BoM remains on El Nino alert, pointing to a 70% chance of an event in the coming months.

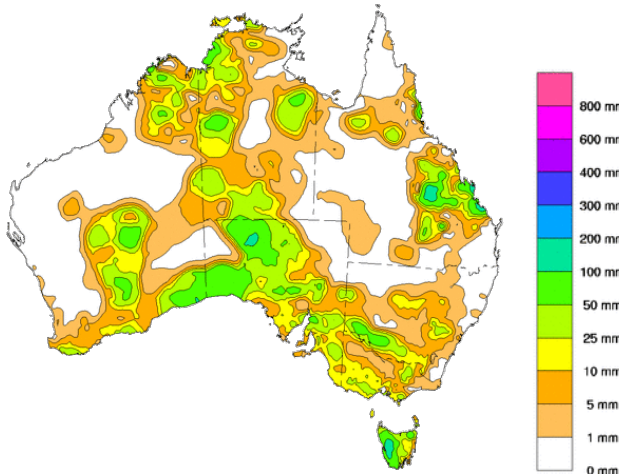
RAINFALL – SEPTEMBER

Deciles



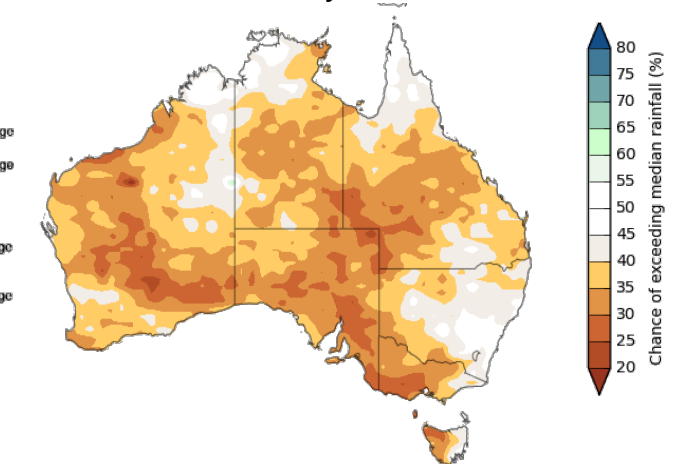
RAINFALL – LAST WEEK

Week to 7 November, mm



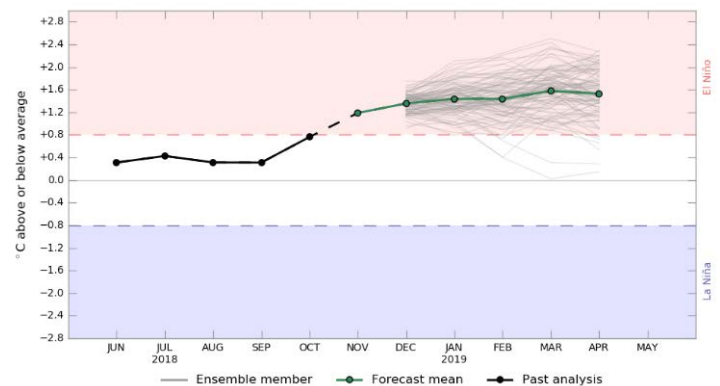
RAINFALL OUTLOOK

November to January



BOM ENSO TRACKER

NINO34 sea surface tracker



Source: Bureau of Meteorology and NAB Group Economics

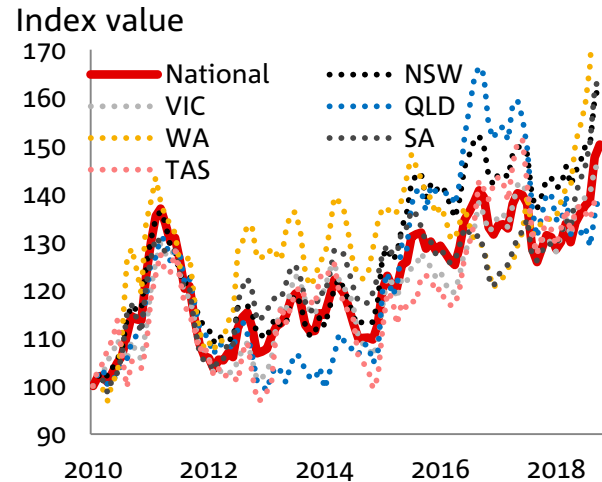
REGIONAL PRICES

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

In October, Queensland saw the biggest gain, up 3.3%, while grain growing powerhouse Western Australia rose 2.9%. New South Wales rose 1.6% and South Australia 1.4%. Victoria and Tasmania both fell, down 0.1% and 1.0% respectively.

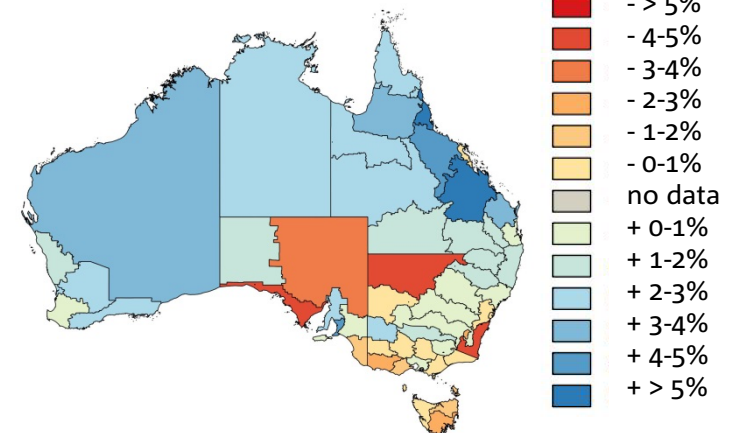
Our regional agricultural price indicators show that most regions gained on a monthly basis in October, although much of Victoria, South Australia, Tasmania and western New South Wales fell, largely reflecting lower lamb and dairy prices. On an annual basis, only cattle country is lower, although now not significantly so. The Eastern Young Cattle Indicator has defied the severity of the drought, and is somewhat - but not greatly - below year ago levels.

RURAL COMMODITIES INDEX BY STATE



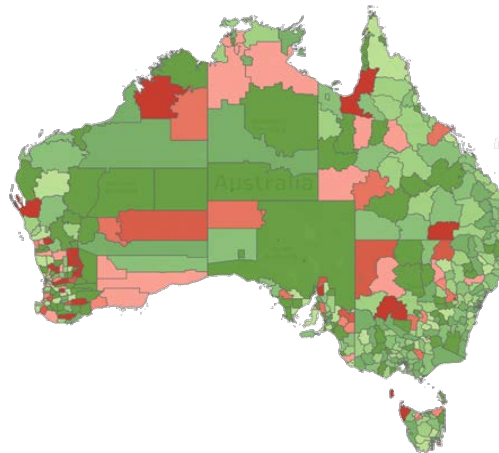
MONTH ON MONTH

August to September 2018



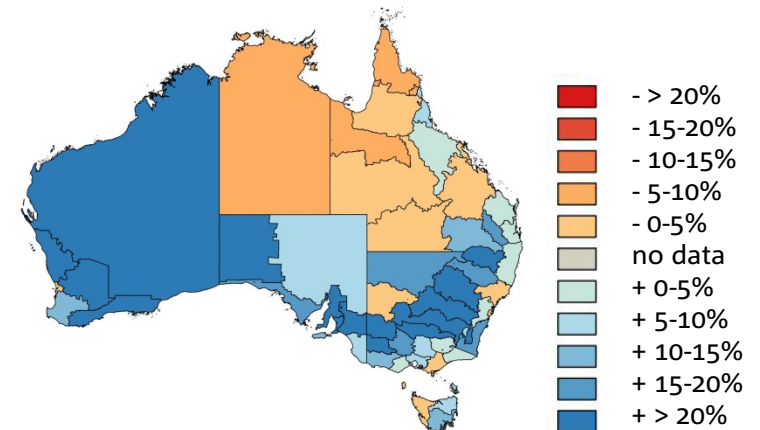
NAB CONSUMER SPENDING BEHAVIOURS

Q2 2018



YEAR ON YEAR

September 2017 – September 2018

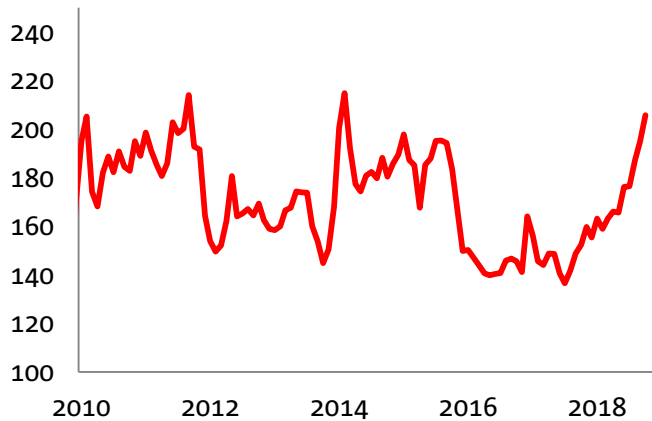


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

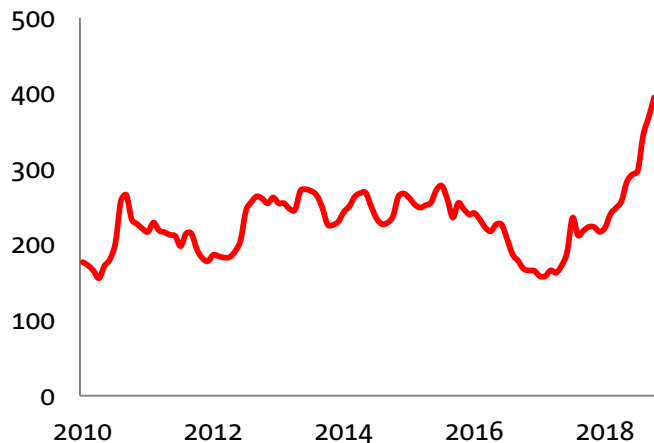
NAB FERTILISER INDEX

AUD index



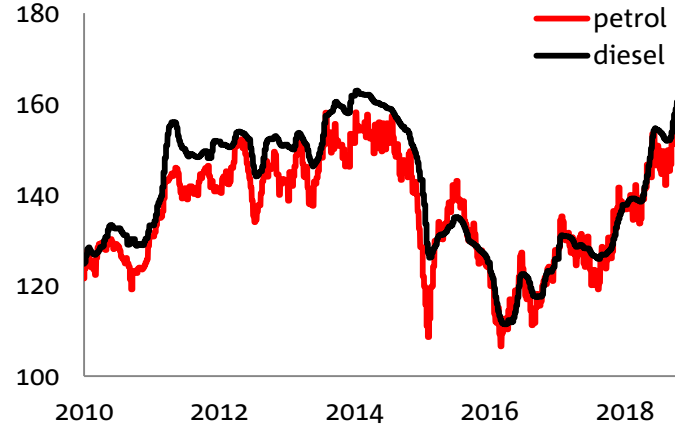
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



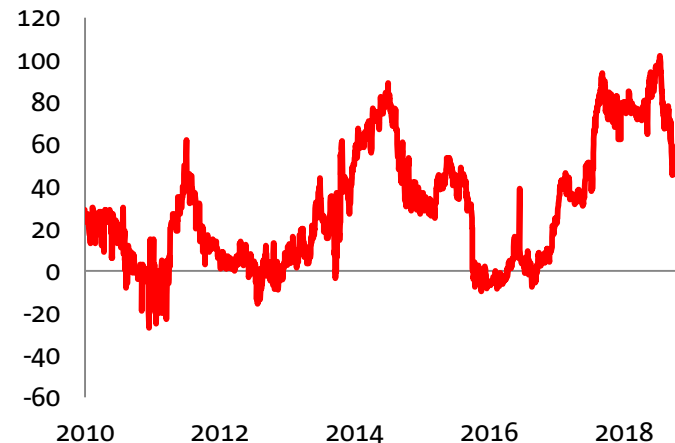
NATIONAL AVERAGE FUEL PRICES

AUc/litre



GEELONG-BRISBANE PRICE SPREAD

AUD/t



Australian fuel prices have risen considerably recently, reflecting a combination of high oil prices and a lower AUD. Global oil prices have fallen a good deal from their earlier peaks, which should provide some relief (although our forecasts do not point to major oil price downside in the coming months). Also, our AUD forecast track doesn't see upside until next year, suggesting that fuel prices will come back somewhat, but will probably stay elevated for the rest of the year.

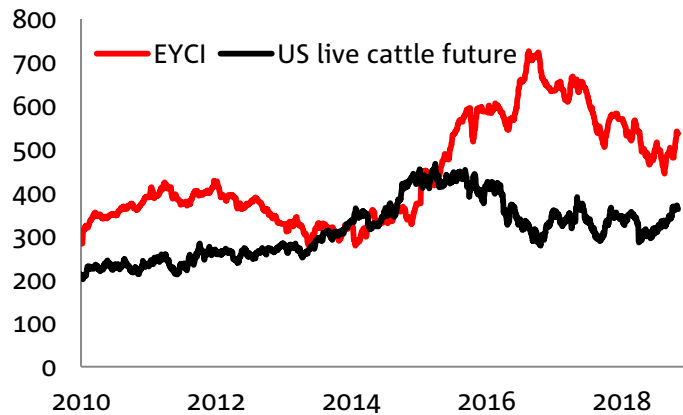
The NAB Fertiliser index has also risen rapidly, reflecting higher DAP, urea and USD gas prices, combined with a lower AUD. The index was up 5.6% in October.

Domestic feed prices remain extremely elevated compared to historic norms and global benchmarks. This reflects poor grain availability amid drought conditions and a below average 2018-19 winter crop. While recent rain has seen some indicators come back a little, there is little sign of a return to 'normal' just yet. The NAB feed grain price index was up 7.2% month on month and a staggering 76.6% year on year in October.

LIVESTOCK

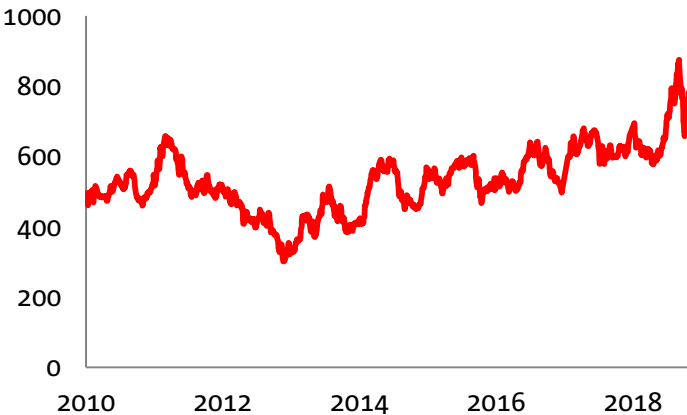
CATTLE

AUc/kg



LAMB

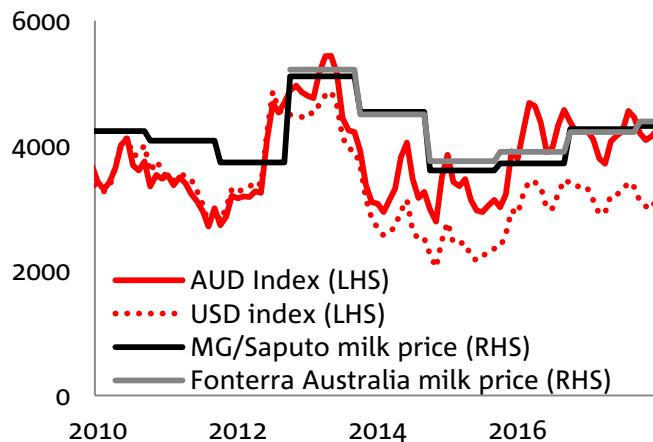
National Trade Lamb Indicator, AUc/kg



The Eastern Young Cattle Indicator continues to outperform given the challenging season, although this largely reflects strong demand for finished cattle rather than any signs of life in the restocker market. While some areas have seen good rain in the past month, restocker demand is likely to be constrained by the dry outlook and very high feed costs. We will be watching US domestic market developments for signs that this is sustainable, but given US supply there are certainly risks. We see EYCI in the mid-400s to low-500s over the coming months.

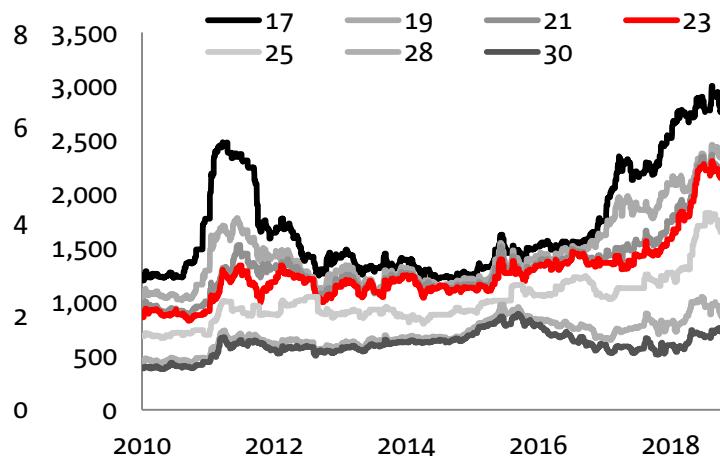
DAIRY

\$/t, AUD/kgms (farmgate)



WOOL

Southern region, by micron, AUc/kg



Lamb prices have been on a rollercoaster recently – NTLI peaked at a mindboggling 875c/kg on 4 September, before dropping to 671c/kg on 2 October, rising to 783c/kg on 25 October and now back to 678c/kg. That said, prices are still above year ago levels and remain very good for producers. Wool, on the other hand, continues to fall, largely reflecting lower demand. EMI was down to 1,776c/kg last week, a trend which could continue if buyers continue to hold out.

Global Dairy Trade auctions continue to be disappointing. While the lower AUD has helped, 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

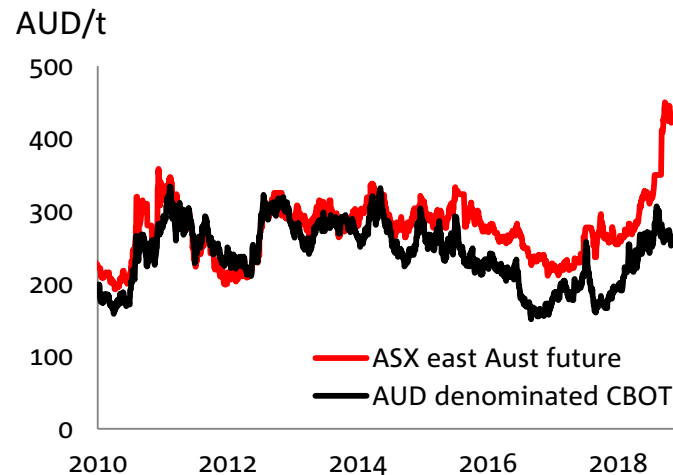
This season has been very tough for crops in the eastern states, with NSW and Qld performing generally very poorly and SA and Vic looking somewhat better, but overall below average. October saw good rain in some areas, but it was probably too late for many. Given the late frosts, many cereal crops have already been cut for hay.

On the other hand, the west is still on track for an above average season, notwithstanding late frosts and a mixed spring.

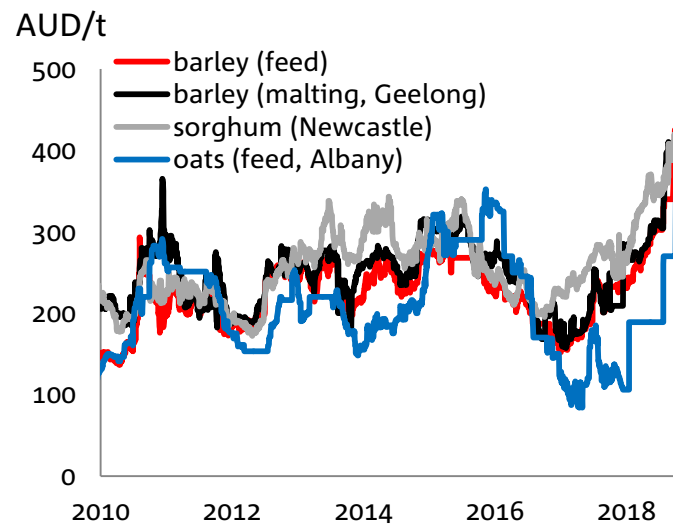
Overall, we have cut our wheat forecast from 17.4 to 16.9 million tonnes, reflecting downgrades in New South Wales and Victoria.

Domestic grain prices remain at extreme levels, despite falling a little from their peak. 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 despite encouraging rain in parts. This largely reflects concerns that with the dry outlook, feed could be in short supply for many months to come. If there is a poor autumn break, we are looking at one year feed plans.

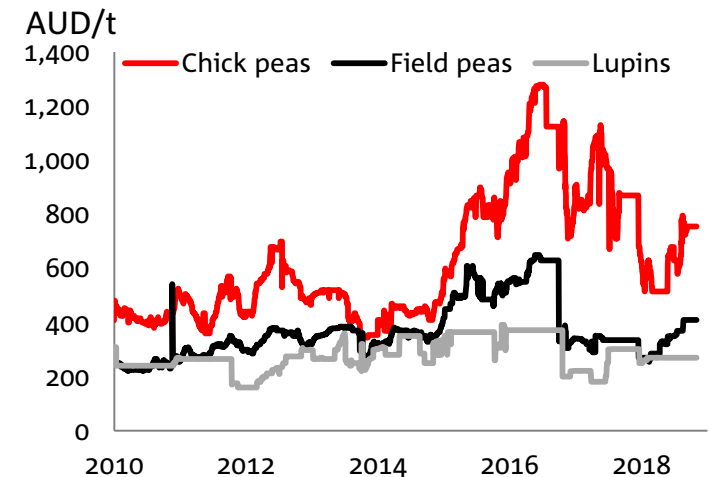
WHEAT



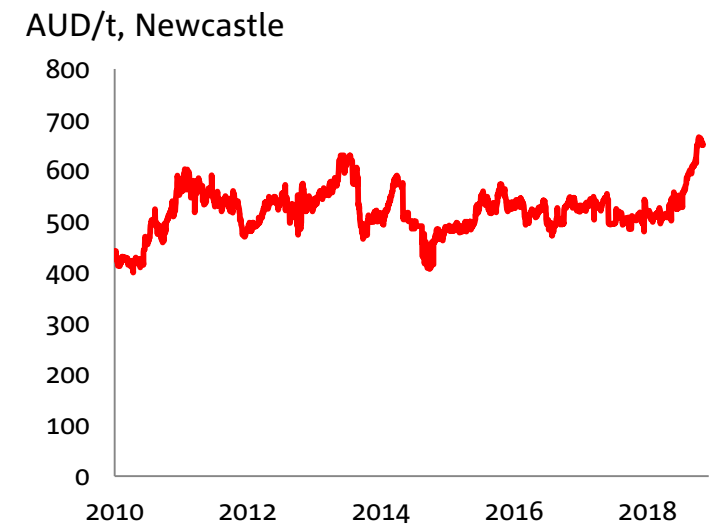
COARSE GRAINS



PULSES



CANOLA



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

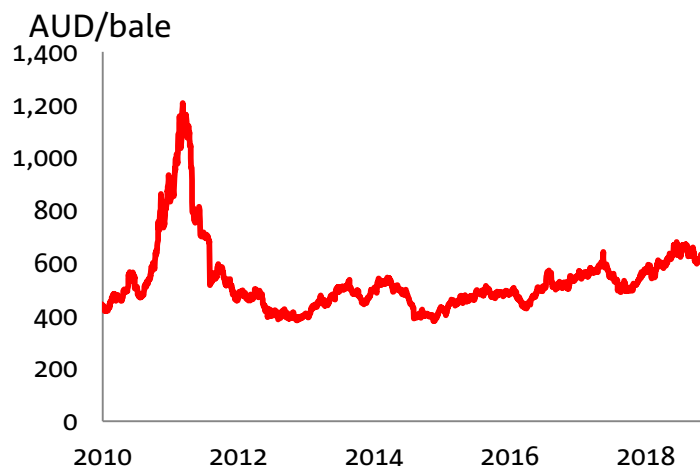
SUMMER CROPS, SUGAR AND HORTICULTURE

Planting conditions for sorghum have been boosted by good rain across parts of northern New South Wales and Queensland, although the outlook is still very dry. 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.

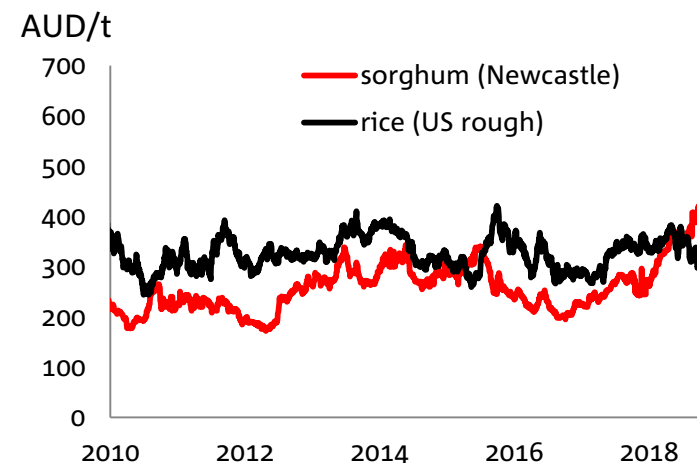
Cotton prices have come off a little, but still look good overall. The main constraint for Australian growers this season will be producing a crop - as production is likely to be well down on last season owing to a sharp reduction in irrigation water availability and likely tough conditions for the dryland crop.

Sugar prices have jumped – but since retreated a little – recently, with sugar one of the best performers in the NAB Rural Commodities Index in October. Overall ICE no.11 sugar in AUD terms rose 24.1% in October.

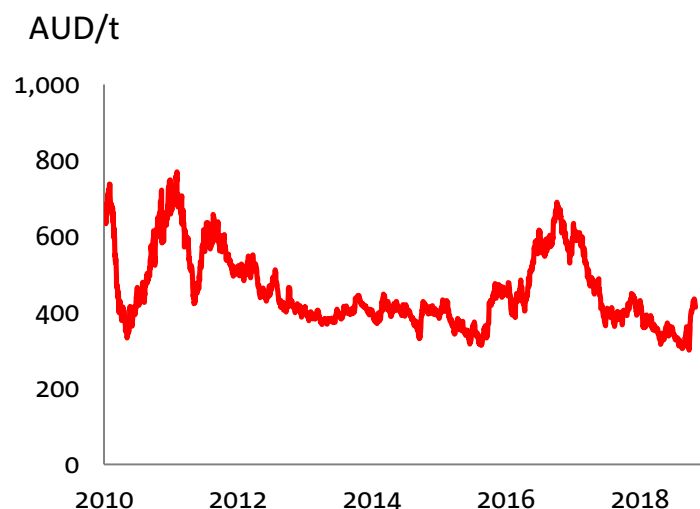
COTTON



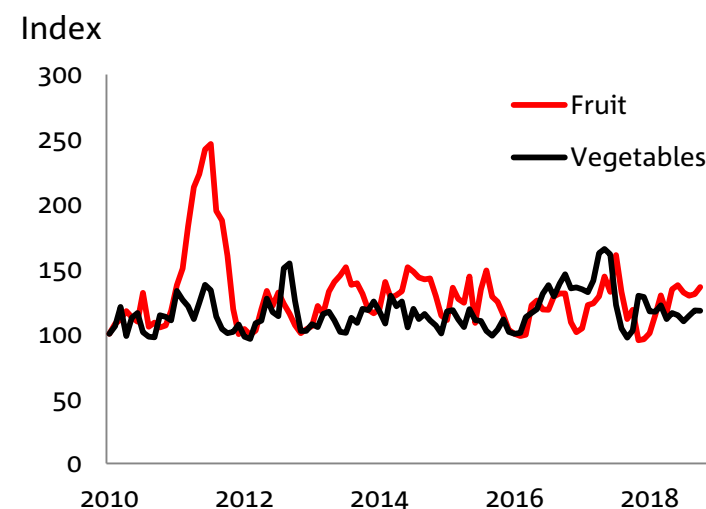
SORGHUM AND RICE



SUGAR

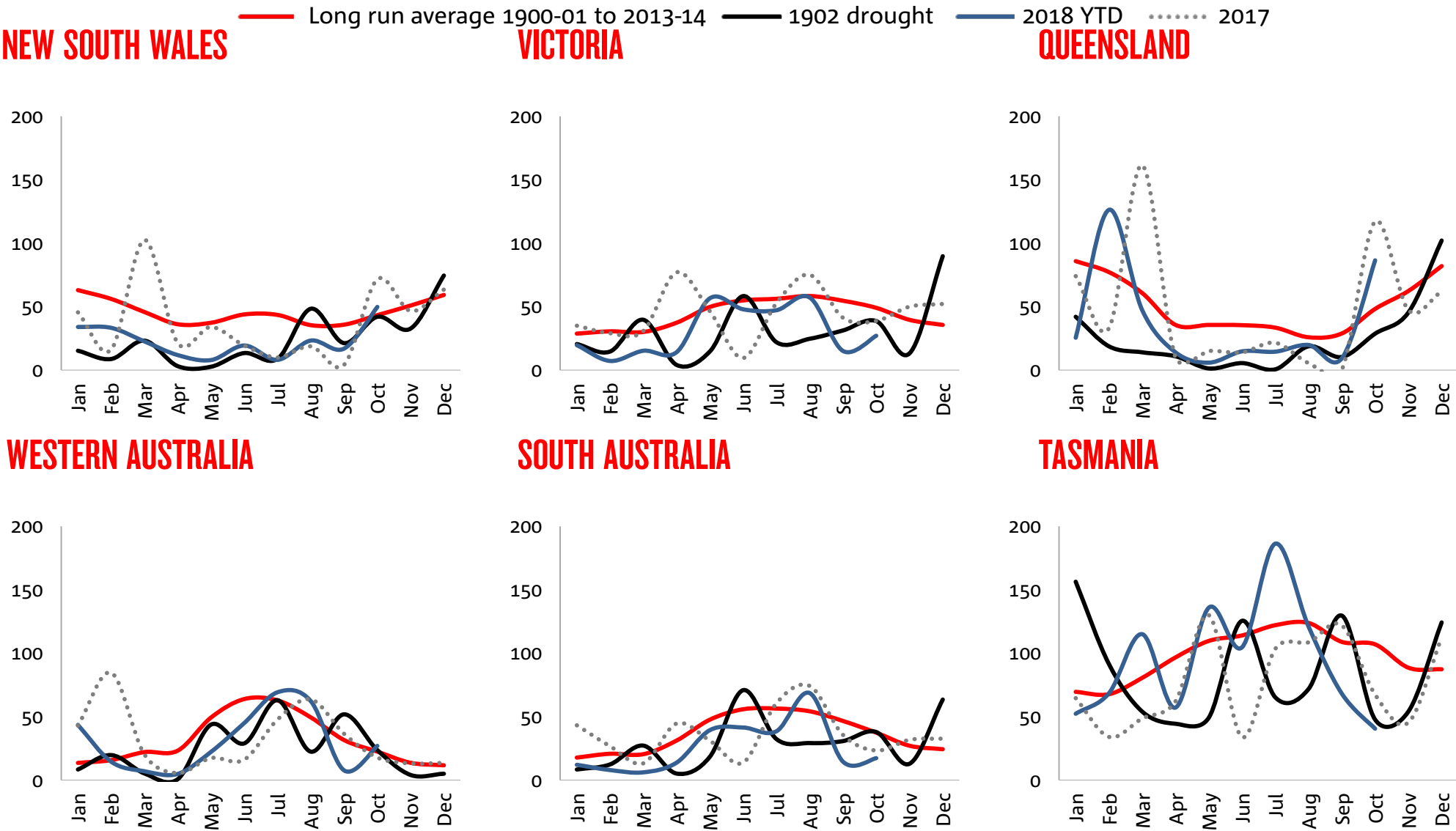


FRUIT AND VEGETABLES



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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