

RURAL COMMODITIES WRAP

DECEMBER 2018

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KEY POINTS

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The NAB Rural Commodities Index fell 2.0% on a month on month basis in November, mirroring a 2.0% gain in October. The index tracks 28 commodities weighted by the relative size of each commodity in the Australian agricultural sector. Grains were generally lower (albeit from a very high peak), as was wool and lamb. Dairy export prices also trended lower (down 5.5%). Meanwhile, pork looks to have turned a corner (up 6.5%) and cattle remains remarkably resilient given the seasonal challenges.

Eastern Australia and the top end have copped an absolute drenching over the past week. This is very good news for graziers and summer crops (except for those who have been flooded), but a nuisance for the remaining winter crop harvest. The Bureau of Meteorology's latest three month outlook is for a hot, dry summer in the north, but closer to average rainfall in parts of southern Australia.

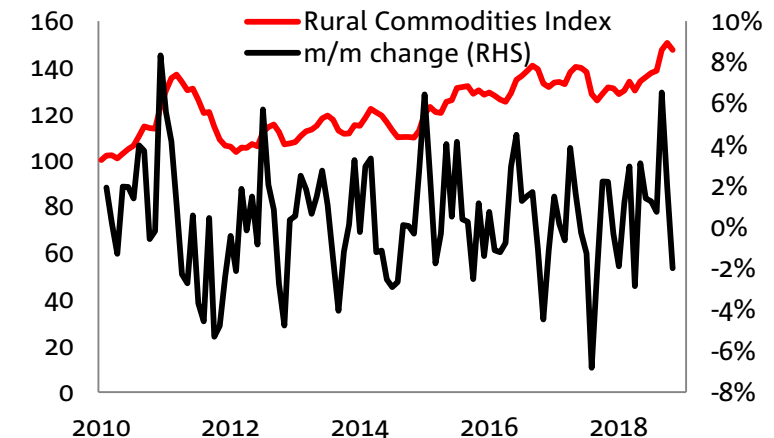
While headline grain prices trended somewhat lower last month, the reality is that Australian eastern states pricing remains well in excess of global benchmarks and remains largely in the thrall of domestic demand amid drought induced shortages.

The latest ABARES forecasts point to farm production totalling some \$58b for 2018-19, above the 10 year average and perhaps higher than expected given the severity of the drought in parts of Australia.

Our expectations for the AUD remain in the 70-75c range 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

	Sept.	Oct.	Nov.
Wheat	▲ 22.8%	▲ 1.4%	▼ 2.6%
Beef	▲ 6.1%	▲ 3.7%	▲ 2.2%
Dairy	▲ 1.5%	▼ 2.7%	▼ 5.5%
Lamb	▼ 1.7%	▼ 8.8%	▼ 4.6%
Wool	▲ 1.7%	▼ 5.0%	▼ 7.6%
Sugar	▲ 4.8%	▲ 24.0%	▼ 4.9%
Cotton	▼ 2.6%	▼ 2.7%	▼ 1.9%

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 have been very mixed, although last week brought very substantial rainfall to much of eastern Australia. Some areas received well in excess of the December monthly rainfall in less than a day. This is good news for graziers and the summer crop but mostly a hassle for winter harvest – coming a couple of months late to be of much use.

Overall, New South Wales and much of Queensland continue to face challenging conditions, particularly with the outlook for a hot, dry summer in northern Australia.

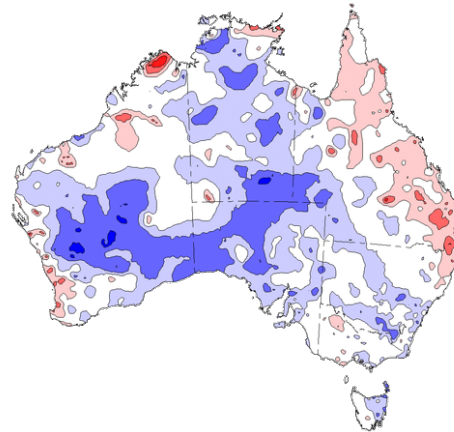
Victoria and South Australia remain a mixed bag, although probably have the best rainfall outlook for the next three months.

Western Australia has enjoyed the best seasonal conditions this year, although a dry summer is forecast in parts of the wheatbelt and most of the north.

The BoM remains on El Nino alert, pointing to a 70% chance of an event in the coming months. This is around triple the normal likelihood, although if El Nino develops, it would be a very late start.

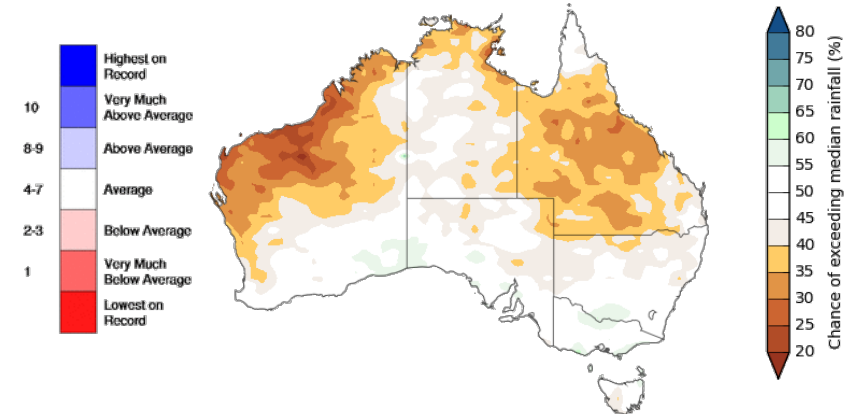
RAINFALL – NOVEMBER

Deciles



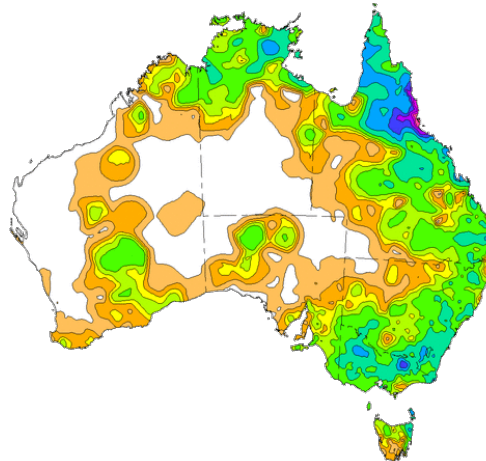
RAINFALL OUTLOOK

December to February



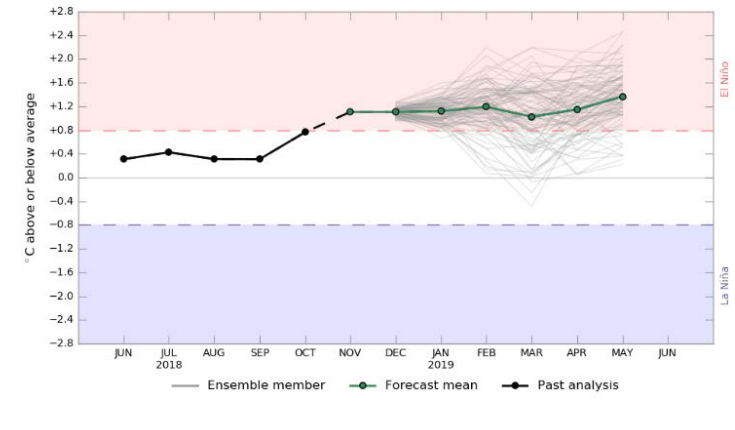
RAINFALL – LAST WEEK

Week ending 16 December 2018



BOM EL NINO ENSO TRACKER

NINO34 sea surface tracker



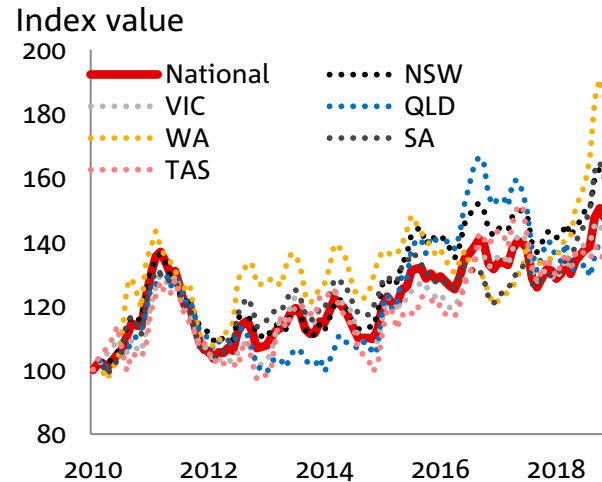
REGIONAL PRICES

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

All states were lower in November. Queensland was the least scathed, off 0.2% m/m. New South Wales fell 1.7% while South Australia dropped 2.5%, Tasmania 2.7% and Victoria and Western Australia 3.1%.

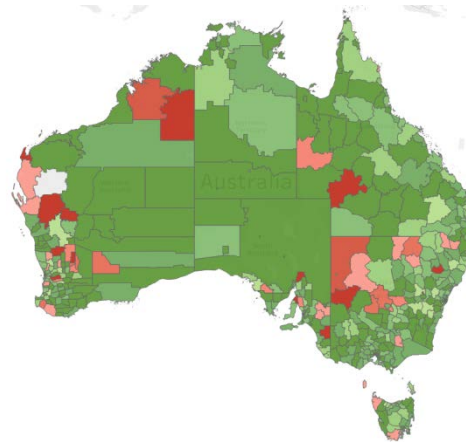
Our regional agricultural price indicators show that almost all regions fell on a monthly basis in November, except for western Queensland, Cape York and the Northern Territory. On an annual basis, only cattle and dairy country is lower, although now not significantly so. The Eastern Young Cattle Indicator has defied the severity of the drought, and is somewhat - but not greatly - below year ago levels.

RURAL COMMODITIES INDEX BY STATE



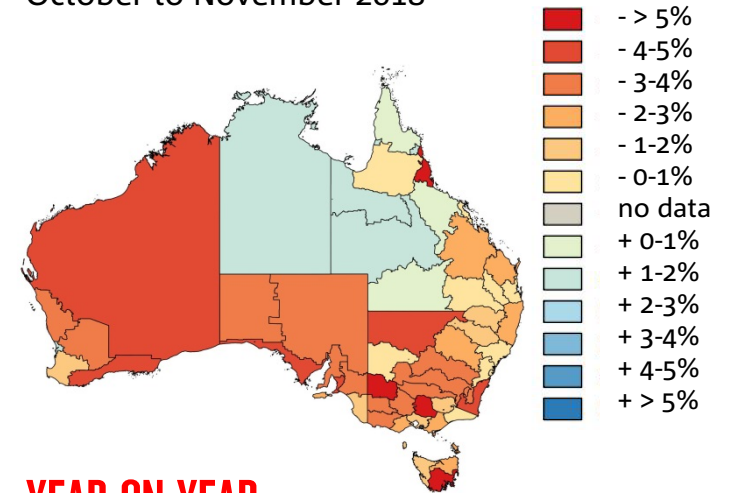
NAB CONSUMER SPENDING BEHAVIOURS

Q3 2018



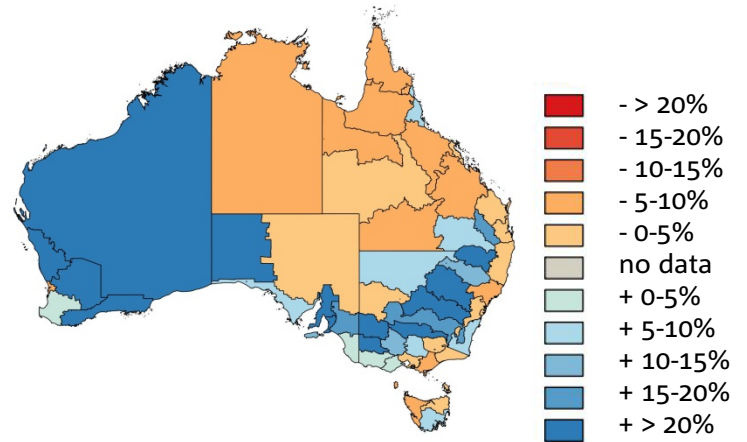
MONTH ON MONTH

October to November 2018



YEAR ON YEAR

November 2017 – November 2018

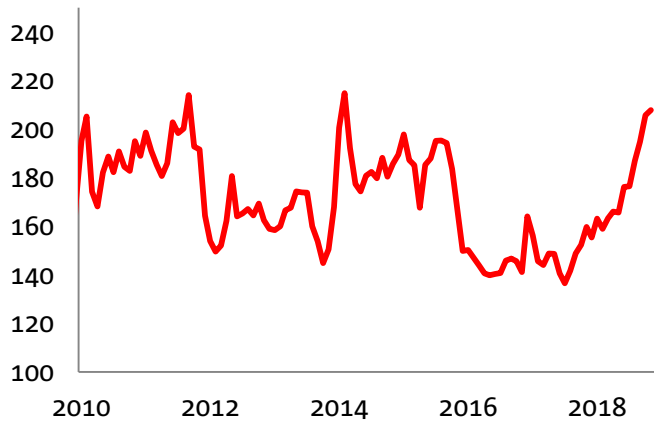


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

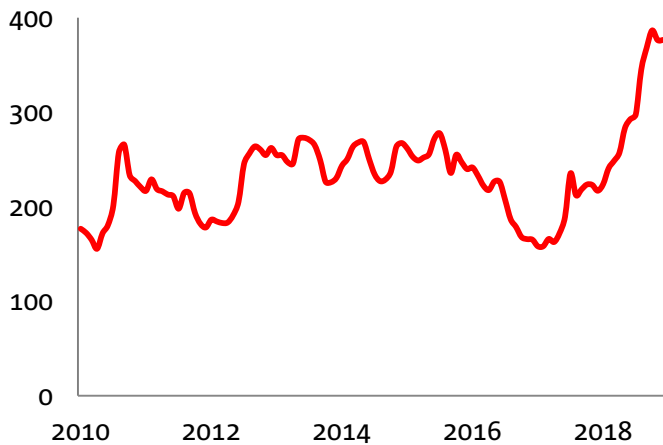
NAB FERTILISER INDEX

AUD index



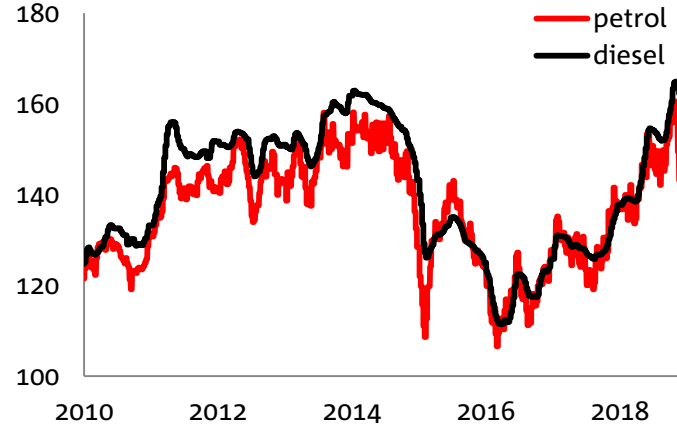
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



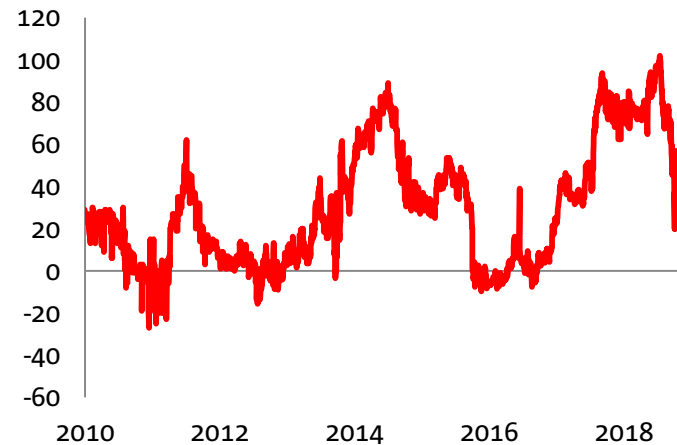
NATIONAL AVERAGE FUEL PRICES

AUc/litre



GEELONG-BRISBANE PRICE SPREAD

AUD/t



Australian petrol prices have now dropped substantially, falling from above 160c/l (national average, weekly) in early November, to mid-130s in early December. It is fair to say that this drop has exceeded our expectations! Diesel prices have seen smaller declines, tending to lag moves in petrol. The decline reflects a sharp drop in the price of crude over the past two months. Brent peaked above USD86 in early October, before falling to the high USD50s to low USD60s range recently.

The NAB Fertiliser index has not followed oil lower. DAP and urea have dropped, but US natural gas prices are holding up the index. The index was up 1.0% in November.

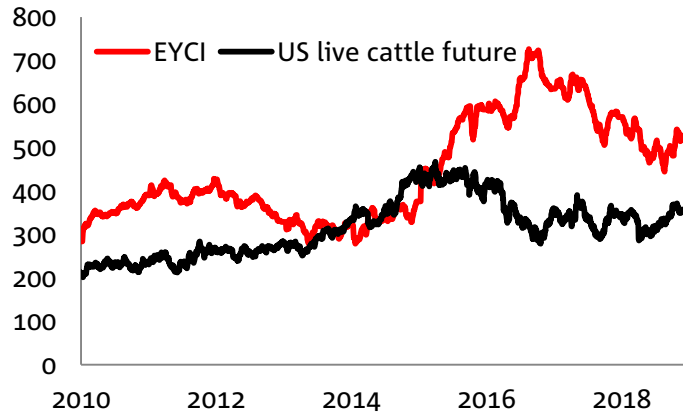
Domestic feed prices are a little below their October 2018 peak, but are still very elevated by both historic and international standards. This reflects poor grain availability amid drought conditions and a below average 2018-19 winter crop. While recent rain has boosted summer crop prospects and seen some indicators come back a little, it is too early to contemplate a return to 'normal' just yet. The NAB feed grain price index fell 2.6% month on month but is still up a massive 68.7% year on year in November.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

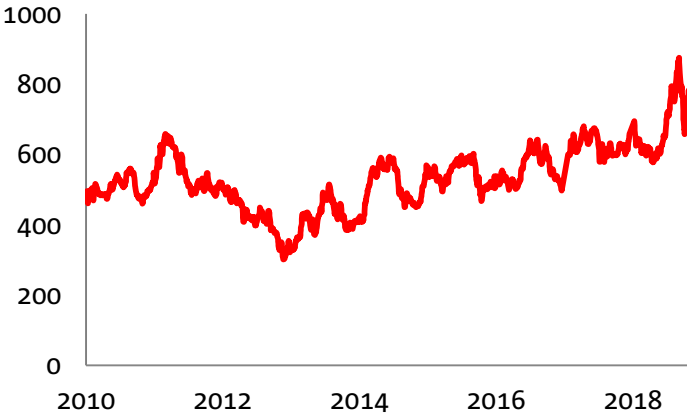
CATTLE

AUc/kg



LAMB

National Trade Lamb Indicator, AUc/kg

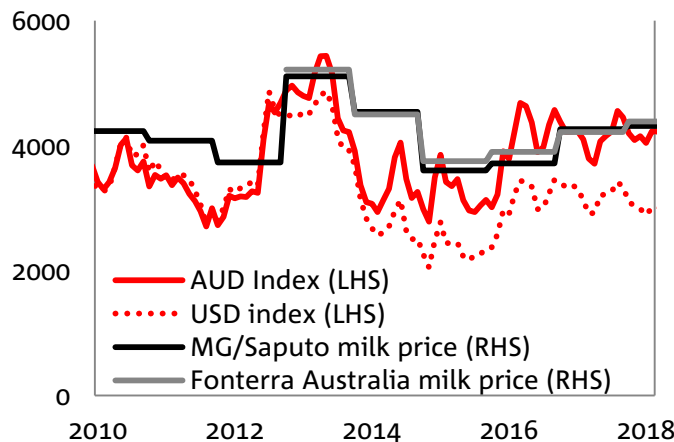


The Eastern Young Cattle Indicator has performed quite well given the tough season, although this largely reflects strong demand for finished cattle, while the restocker market remains fairly weak. Restocker demand should be boosted in the short term by the recent rains from Cyclone Owen, but a dry outlook in Queensland and feed costs will likely remain a dampener. We see EYCI in the mid-400s to low-500s over the coming months.

Lamb prices have declined with the spring flush and are now back to year-ago levels. NTLI peaked at a massive 875c/kg on 4 September, but is now back to 663c/kg. That said, prices are still very good by historic standards. Wool has fallen a good deal from its peak, but is still returning a strong profit to growers. The wool Eastern Market Indicator stood at 1,862c/kg last week. Further downside from here is more likely than not in our view.

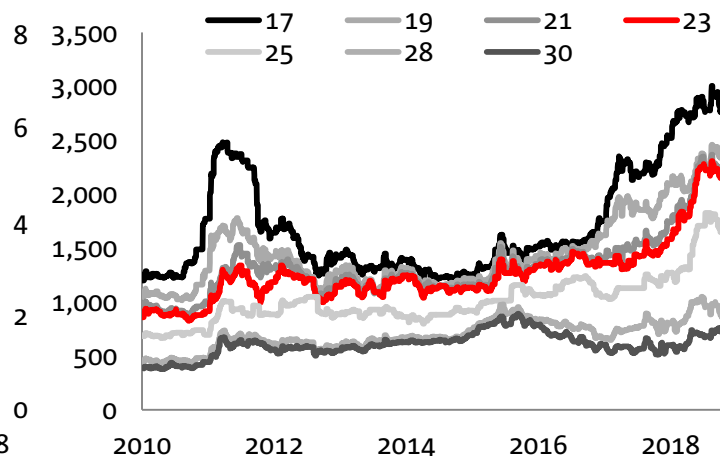
DAIRY

\$/t, AUD/kgms (farmgate)



WOOL

Southern region, by micron, AUc/kg



Global Dairy Trade auctions remain disappointing overall, although the 4 December auction saw the best result in months. It is difficult to see a step-up for Australian producers in these conditions.

Pork prices have improved somewhat following a very challenging period. Our measure of Australian pork prices was up 6.4% m/m in October and 6.5% in November.

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

WINTER CROPS

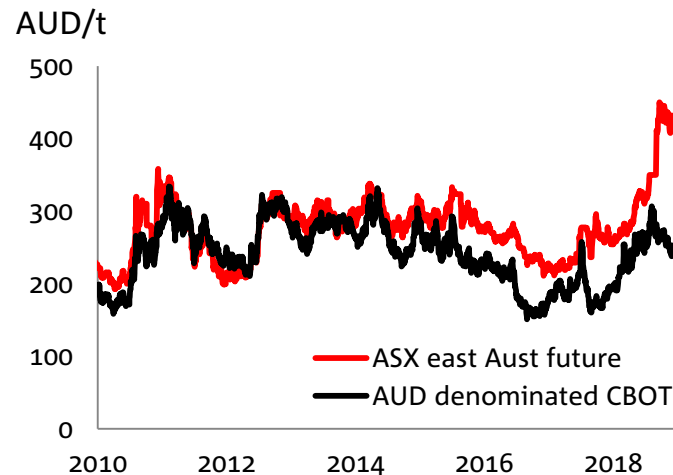
This season has been very tough for crops in the eastern states, with NSW and Qld performing generally very poorly and SA and Vic looking somewhat better, but overall below average. Many cereal crops have already been cut for hay and southern states harvest has been under some pressure from wet conditions.

On the other hand, the west is seeing an above average harvest, and a considerable amount of WA grain is making its way to the east via coastal shipping.

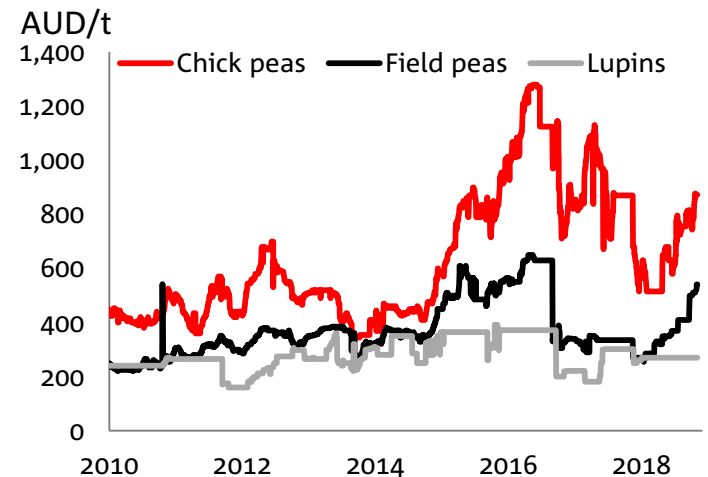
Overall, we have held our wheat forecast at 16.9 million tonnes this month, although realistically the risks are heavily on the downside. ABARES' latest wheat forecast is 16.95 million tonnes.

Domestic grain prices had eased somewhat, although ASX wheat finished last week back up to \$450/t. Feed demand in the eastern states remains strong, although recent rainfall is likely to dampen this somewhat. That said, the outlook for a hot dry summer in Queensland suggests that more grain will be needed. If there is a poor autumn break next year, there could be grain shortages in the second half of next year.

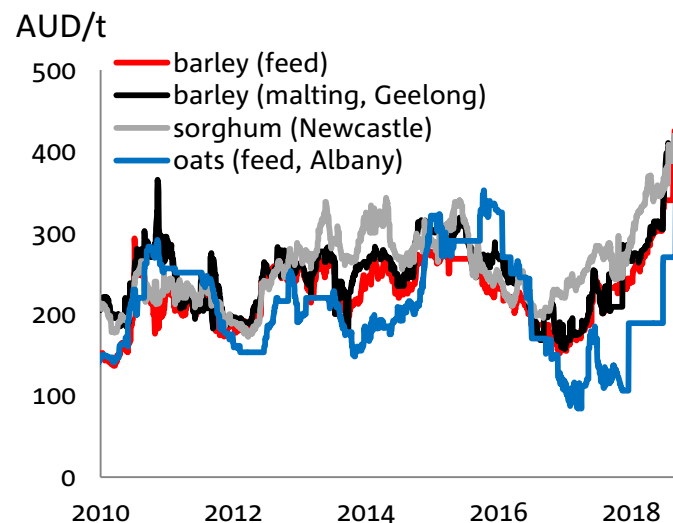
WHEAT



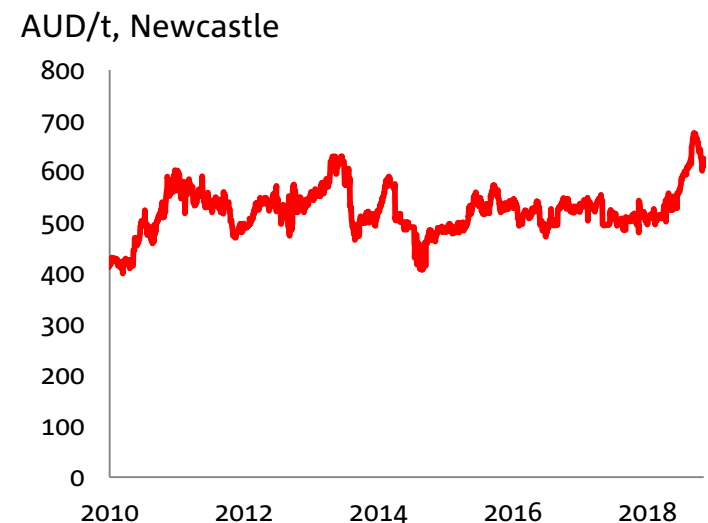
PULSES



COARSE GRAINS



CANOLA



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

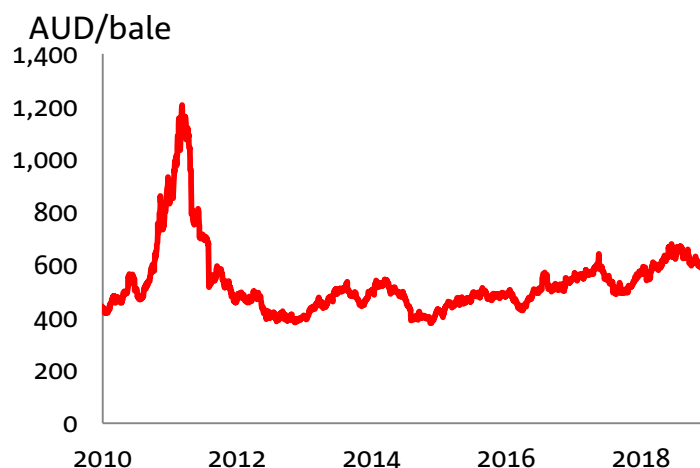
SUMMER CROPS, SUGAR AND HORTICULTURE

Planting conditions for sorghum have been generally reasonable. While the outlook is still very dry for many areas, there will hopefully be enough in the tank for a decent crop. ABARES' December estimate for Australian sorghum production in 2018-19 was around 1.5 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.

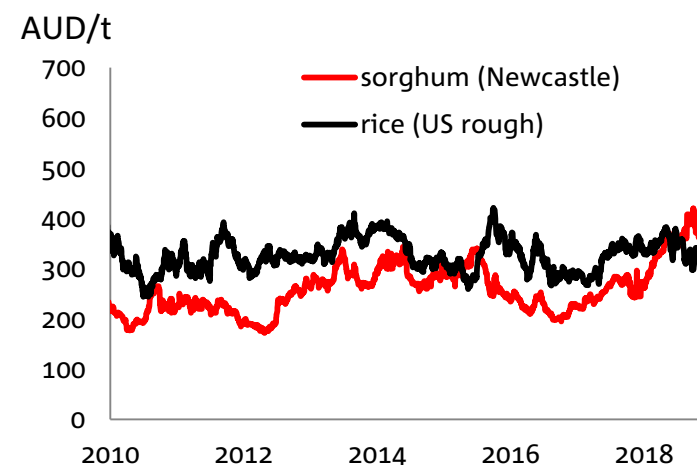
Cotton prices have come off somewhat, but still look good overall. The main constraint for Australian growers this season will be producing a crop. Production is likely to be well down on last season owing to a sharp reduction in irrigation water availability. The latest ABARES forecasts from December point to a 42% decline in lint production to 581kt.

Sugar prices saw a big jump in October, although have retreated a little since then. While sugar was of the best performers in the NAB Rural Commodities Index in October (up 24.0% m/m) it fell 4.9% in November (ICE no.11 sugar in AUD terms).

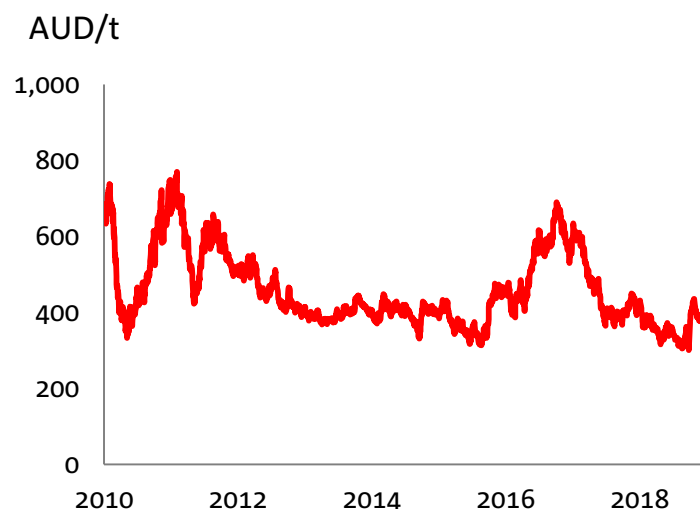
COTTON



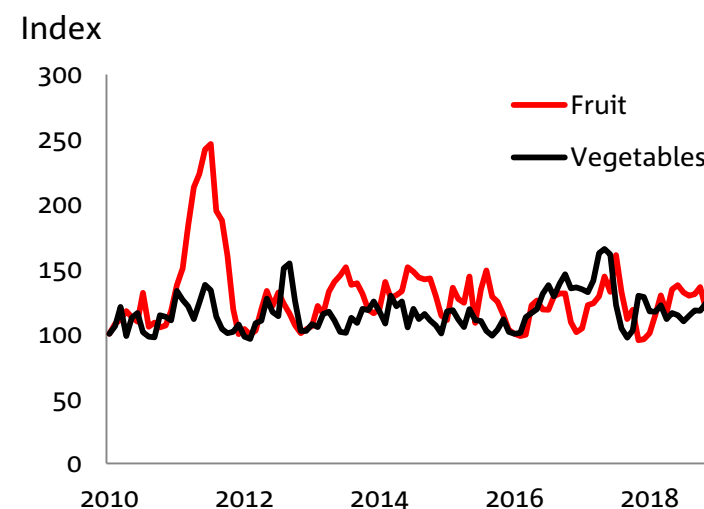
SORGHUM AND RICE



SUGAR

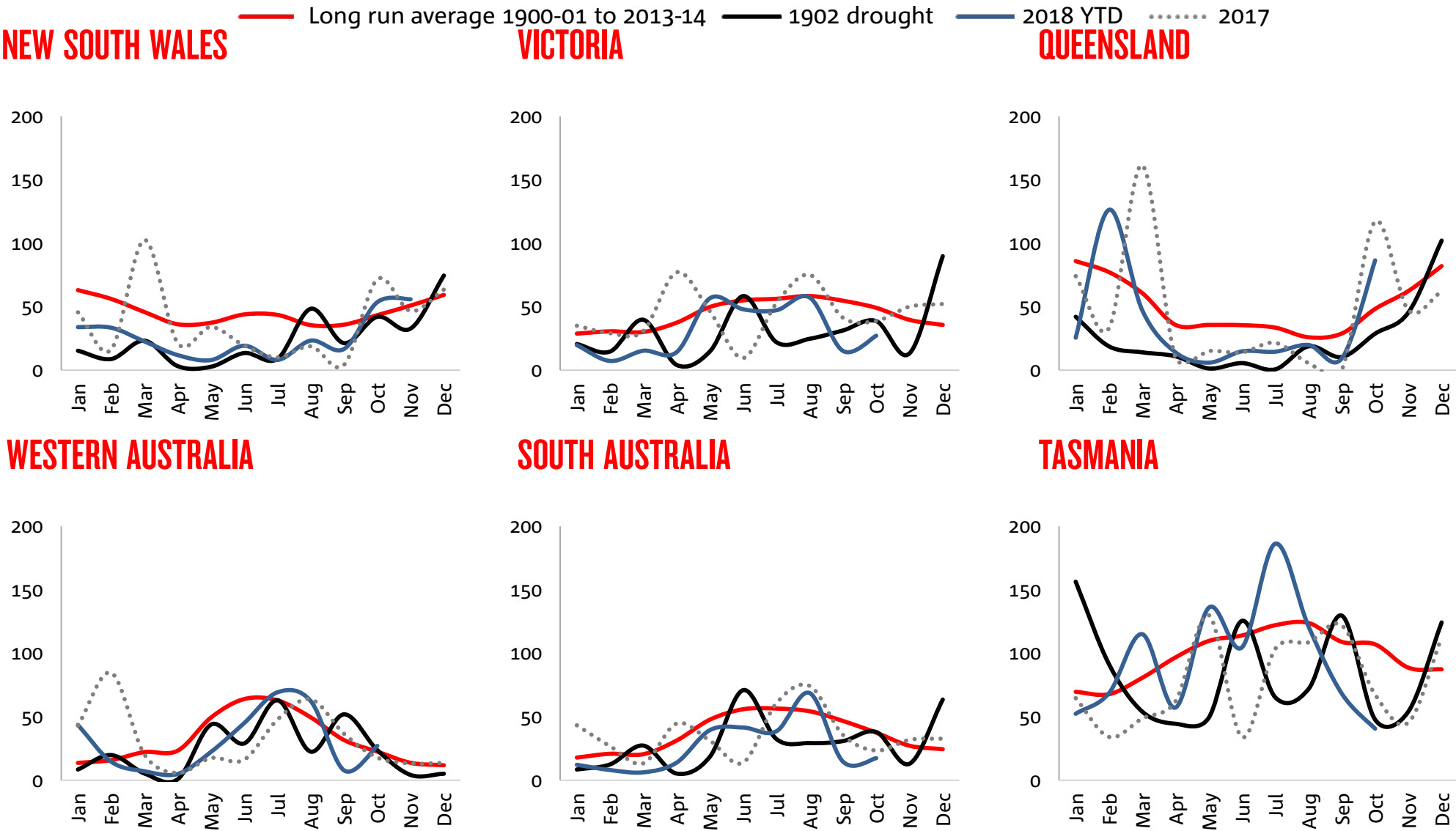


FRUIT AND VEGETABLES



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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