

# RURAL COMMODITIES WRAP

FEBRUARY 2019



Author Phin Ziebell, Senior Economist – Agribusiness

Photo Carl Davies, CSIRO

# KEY POINTS

## CONTENTS

- 3 | Seasonal conditions
- 4 | Regional prices
- 5 | Farm inputs
- 6 | Livestock
- 7 | Winter crops
- 8 | Summer crops, sugar
- 9 | Rainfall data

## CONTACTS

**Phin Ziebell**

Agribusiness Economist  
+61 (0) 475 940 662

**Alan Oster**

Group Chief Economist  
+61 3 8634 2927

**Dean Pearson**

Head of Economics  
+61 3 8634 2331

2019 has seen a fairly tough start for many areas, amid the hottest January nationally on record and an ongoing lack of rain across much of the country. Intense rainfall in northern Queensland this month has brought devastation to Townsville and other areas, as well as the deaths of potentially hundreds of thousands of cattle.

The outlook remains hot and mostly dry, which combined with a severe feed shortage in eastern Australia after a well below average eastern winter harvest, means that grain prices remain very elevated and livestock are under pressure.

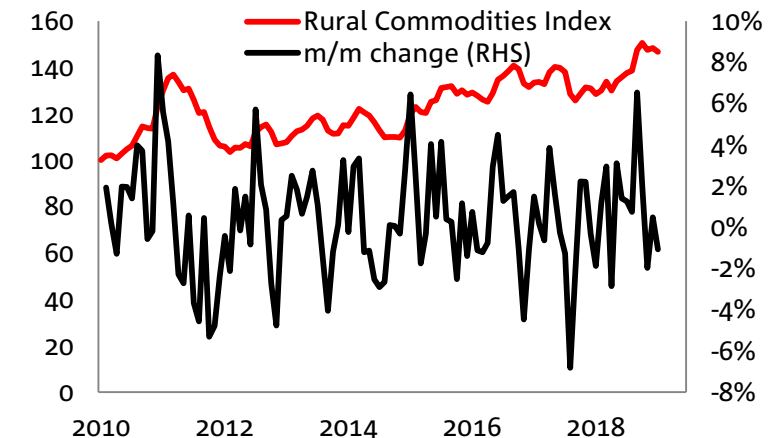
In contrast, Western Australia has enjoyed an outstanding harvest, and considerable grain has been sent east.

Overall, the NAB Rural Commodities Index was up 0.5% in December but down 1.1% in January. The January decline was driven largely by lower cattle and to a lesser extent cotton prices, as well as a slight easing (from a very high level) in the price of wheat. Dairy roared back to life to be one of the strongest performers in the index (up 10.2% in January), although it is less clear whether this improvement in export prices will flow through to farmgate.

Overall, the outlook is highly dependent on where the season goes from here. If the wet season disappoints, and the autumn break in the south is delayed, there is likely to be further pressure on livestock prices. Either way, grain is likely to remain elevated compared to international benchmarks, probably until new season winter crop becomes available late this year.

## NAB RURAL COMMODITIES INDEX

Index and m/m % change



## MONTHLY COMMODITY PRICE CHANGES

	Nov.	Dec.	Jan.
Wheat	▼ 2.6%	▲ 3.3%	▼ 2.1%
Beef	▲ 2.2%	▼ 0.8%	▼ 7.2%
Dairy	▼ 5.5%	▼ 0.2%	▲ 10.2%
Lamb	▼ 4.6%	▼ 2.9%	--- 0.0%
Wool	▼ 7.6%	▲ 2.1%	▲ 2.6%
Sugar	▼ 4.9%	▼ 0.9%	▲ 1.4%
Cotton	▼ 1.9%	▼ 0.4%	▼ 3.4%

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



# SEASONAL CONDITIONS

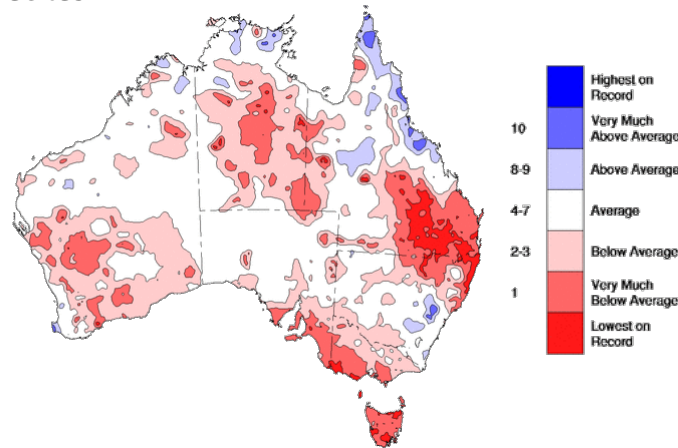
Seasonal conditions have been generally tough this year, with most of Western Australia, South Australia, Victoria and Tasmania seeing below average rainfall. The New South Wales southern Riverina is still dry, as is the north of the state, although parts of the central west and elsewhere saw some good falls. Queensland is a very mixed bag, with the north of the state drenched but the Darling Downs still very dry. The Northern Territory is still dry outside the top end.

The latest outlook from the Bureau of Meteorology points to a very dry end to summer and start to autumn in the west, but closer to neutral conditions in the south-east.

However, the Bureau of Meteorology rates the February to April outlook period as only having “moderate” accuracy for most of the country. Outside some tropical areas, the outlook tends to be less than 65% consistent with actual rainfall. Ultimately, autumn rainfall is very hard to predict. The risk is that a late break will cause heightened concern around winter crop yields.

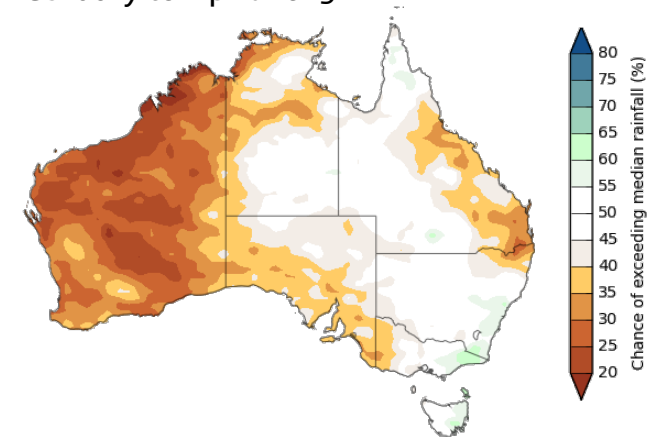
## RAINFALL – JANUARY

Deciles



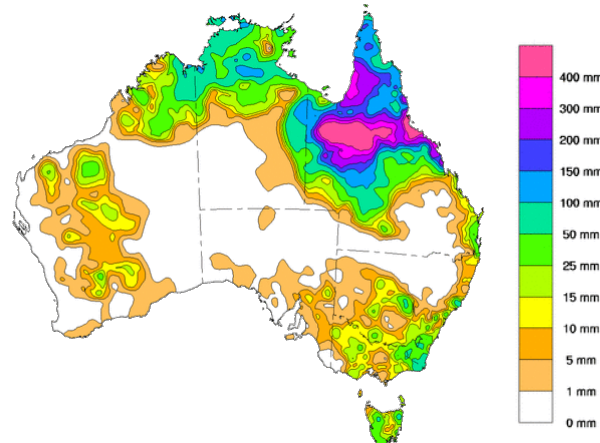
## RAINFALL OUTLOOK

February to April 2019



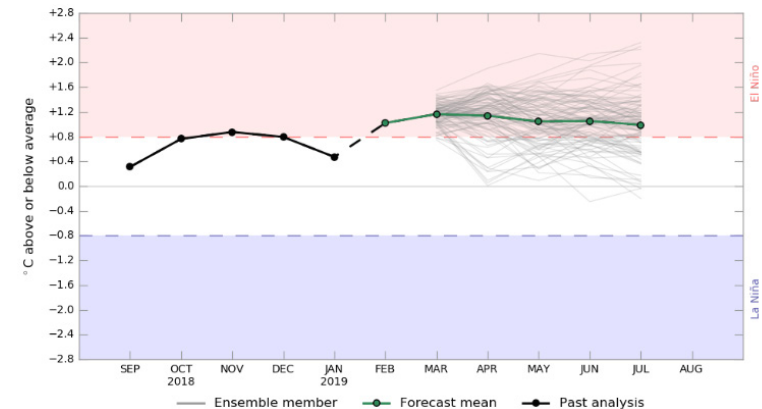
## RAINFALL – FIRST WEEK OF FEBRUARY

Week ending 7 February 2019



## BOM EL NINO 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.

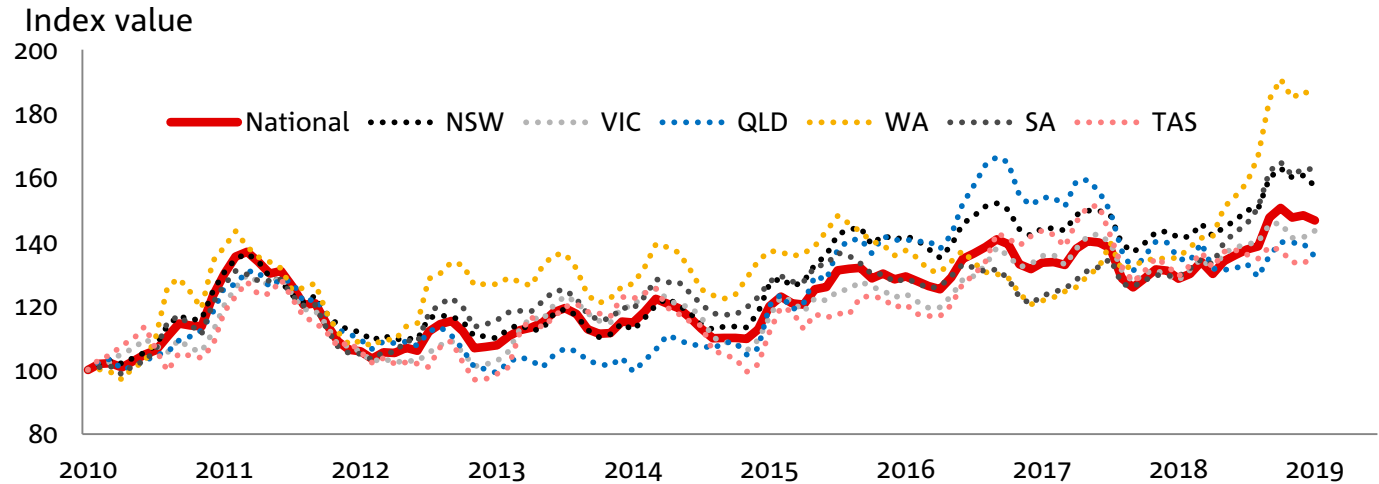
Only Victoria and Tasmania recorded a higher state-level Rural Commodities Index in January, owing to the outperformance in dairy export prices. Victoria was up 1.4% and Tasmania gained 1.9% on a month-on-month basis.

South Australia was off 0.1%, Western Australia 0.9%, New South Wales 2.0%, while Queensland fell the most, losing 2.9% largely on lower cattle prices.

Our regional agricultural price indicators show a very mixed bag indeed – reflecting downside for cattle combined with very high grain prices.

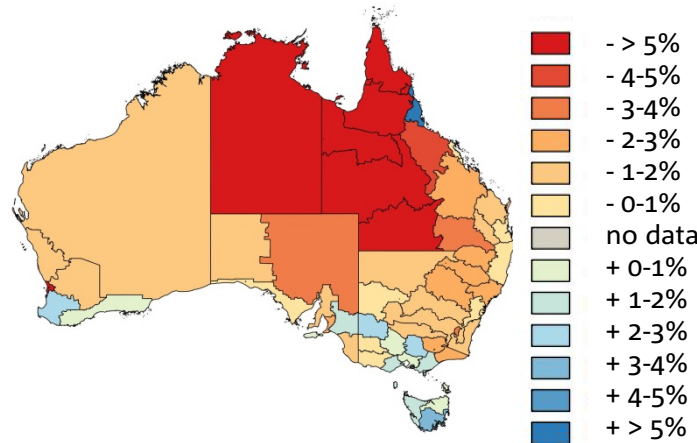
Overall, the best performance on a year-on-year basis remains in grain-growing regions.

## RURAL COMMODITIES INDEX BY STATE



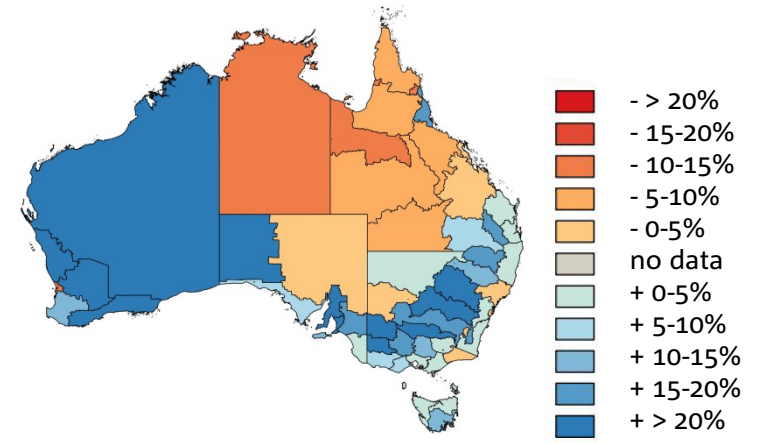
## MONTH ON MONTH

December 2018 to January 2019



## YEAR ON YEAR

January 2018 – January 2019

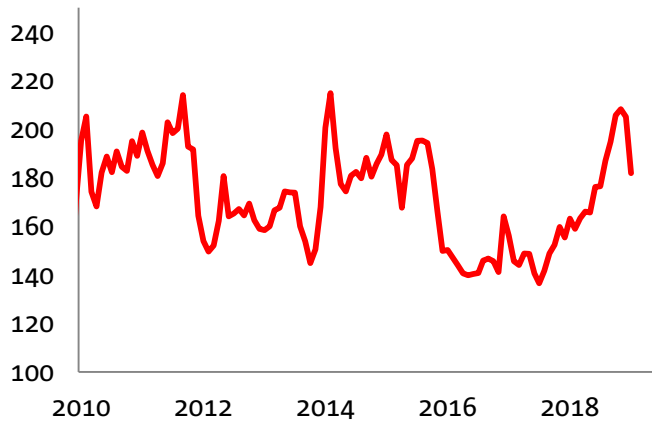


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

# FARM INPUTS

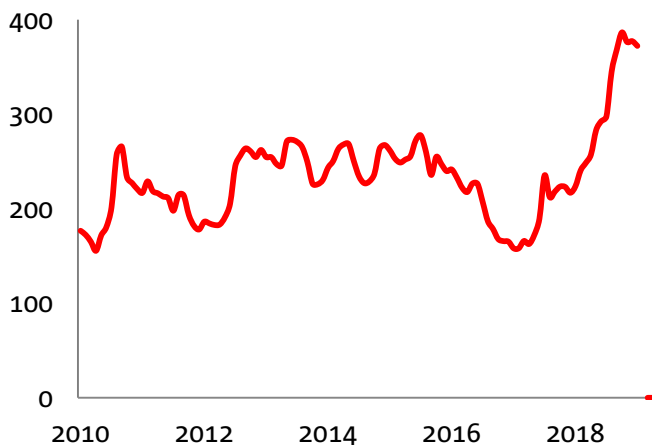
## NAB FERTILISER INDEX

AUD index



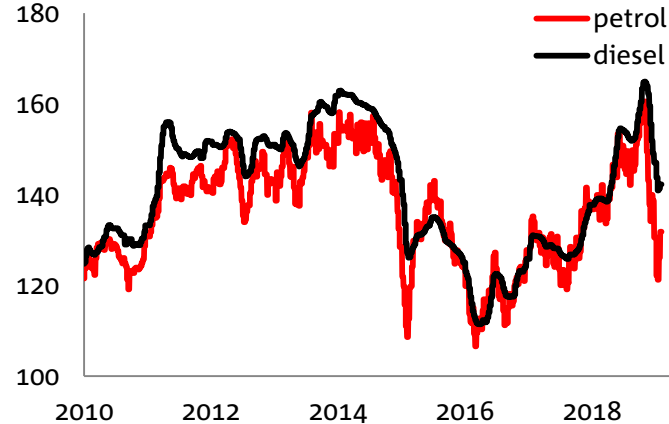
## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



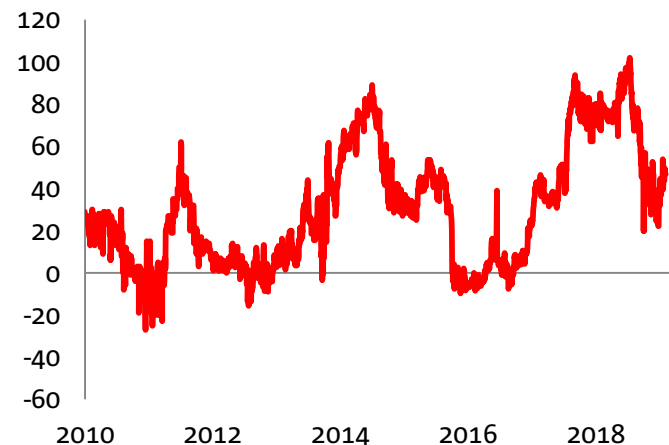
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## GEELONG-BRISBANE PRICE SPREAD

AUD/t



Australian petrol prices dropped substantially late last year, falling from above 160c/l (national average, weekly) in early November, to low-120s by early January. Last week, national petrol prices had risen to the low 130s range, while diesel was in the low 140s range. It is likely that prices will rise gradually from here, reflecting a gradual increase in crude prices and some risks from the AUD.

The NAB Fertiliser index unwound 11.3% in January, reflecting lower DAP, urea but most notably a drop in US natural gas prices. However, prices are still 11.5% higher than in January 2018.

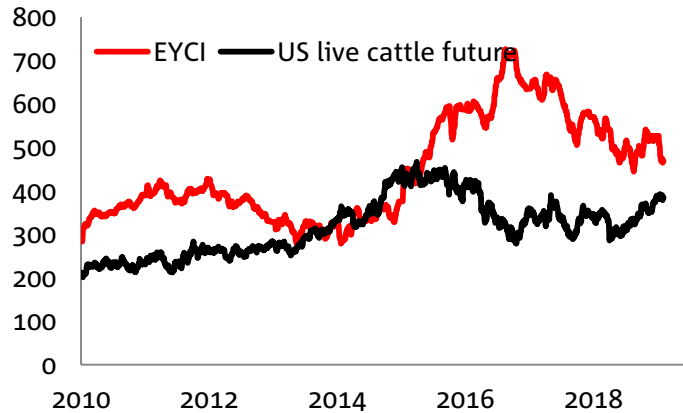
Domestic feed prices are a little below their October 2018 peak, but are stubbornly high and likely to remain so until new season crop becomes available in late 2019. With the 2018-19 eastern states winter crop so poor, shipments from Western Australia are supplying the eastern market, although with west to east transport costs in the order of \$100/t, prices will remain high.

The NAB feed grain price index was down 1.3% in January on a month-on-month basis, but up 66.3% on a year-on-year basis.

# LIVESTOCK

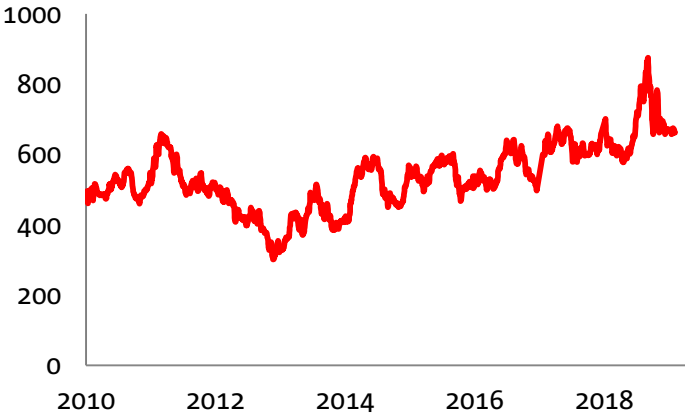
## CATTLE

AUc/kg



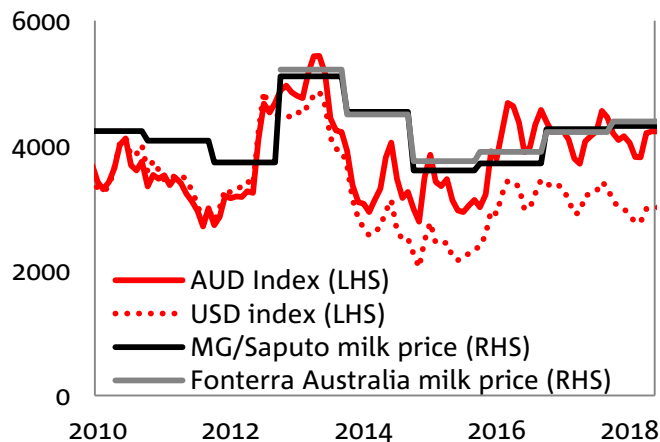
## LAMB

National Trade Lamb Indicator, AUc/kg



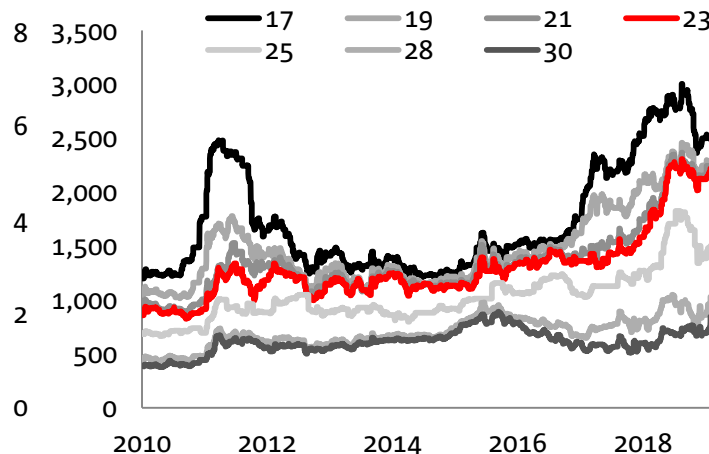
## DAIRY

\$/t, AUD/kgms (farmgate)



## WOOL

Southern region, by micron, AUc/kg



Cattle prices have been generally lower in the new year, with EYCI down around 9% since the final read of 2018. January 2019 was the hottest on record for Australia and many parts of the north have seen a disappointing wet season so far. Meanwhile, there is a major issue for many north-west Queensland graziers as flooding claims the life of potentially hundreds of thousands of head of stock. Media reports suggest that some areas have seen 50% of cattle killed. Further south, grain is scarce and remains very expensive. On the other hand, demand for finished cattle remains strong and global markets are looking fairly healthy (although the US – China trade war will be closely watched). If weather improves, there is likely to be elevated restocker demand and upside for the EYCI, but a dry autumn will be a challenge. On balance, we see EYCI in the order of 450c/kg in Q1 2019.

Lamb prices have lost essentially all of their 2018 rally, but the long term trend remains positive. Wool declined in late 2018, but has seen an uptick over the past four months.

Global Dairy Trade auctions have picked up substantially, although farmgate has seen more limited step-ups. Input costs, especially feed and water, are the major challenges.

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

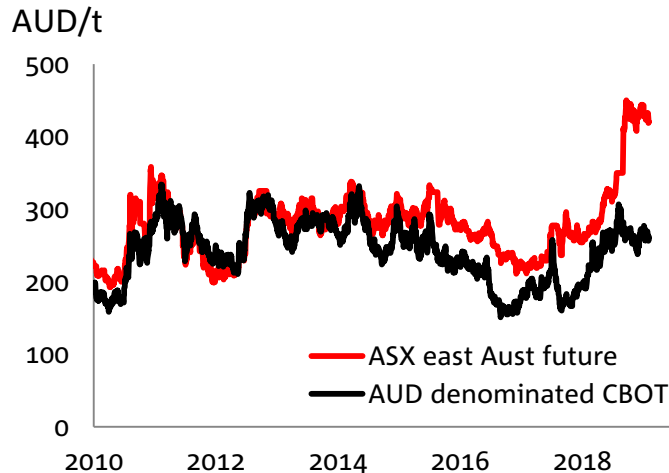
# WINTER CROPS

The 2018-19 season was a tale of two harvests. On one hand, Western Australia enjoyed an absolute cracker of a season, with CBH enjoying its second biggest harvest on record, taking in 16.4 million tonnes of grain. The east was miserable however, with GrainCorp taking in only 0.6 million tonnes in New South Wales, 0.1 million tonnes in Queensland and 1.4 million tonnes in Victoria (with a little more to come from that state) by mid-January. While much of the eastern crop has stayed out of the bulk handling system this year, the overall yield picture remains fairly grim.

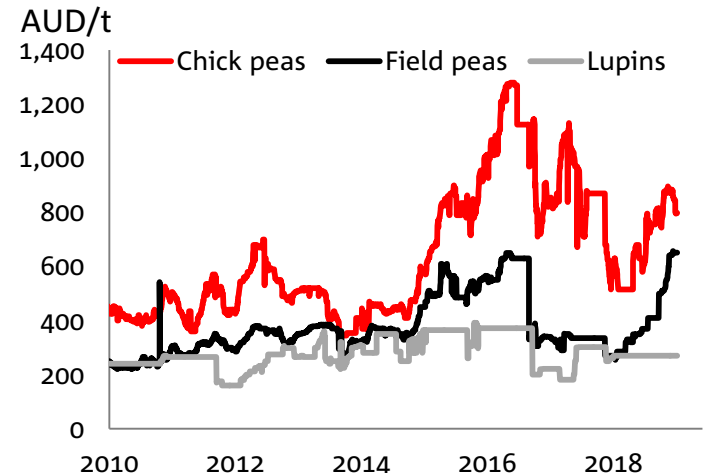
This domestic supply picture in our estimation adds up to eastern states domestic prices remaining detached from global fundamentals and at elevated levels probably until new season crop becomes available in late 2019. Western Australian grain is making its way east, although transport costs mean that while it has capped prices in the low-mid \$400s range for now, eastern grain prices will remain high.

A strong autumn break will likely dampen domestic grain demand, but we are very cautious about suggesting a price downside until late in the year.

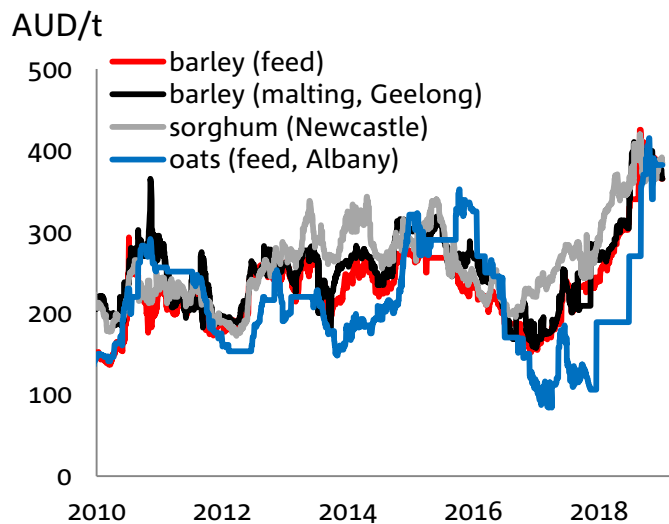
## WHEAT



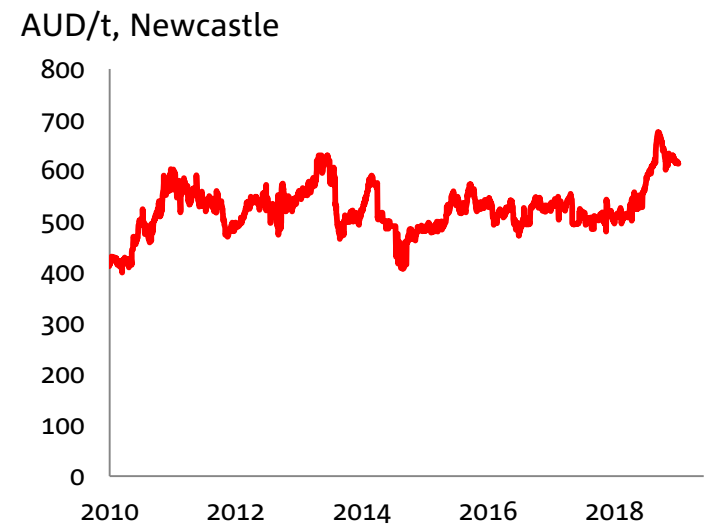
## PULSES



## 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

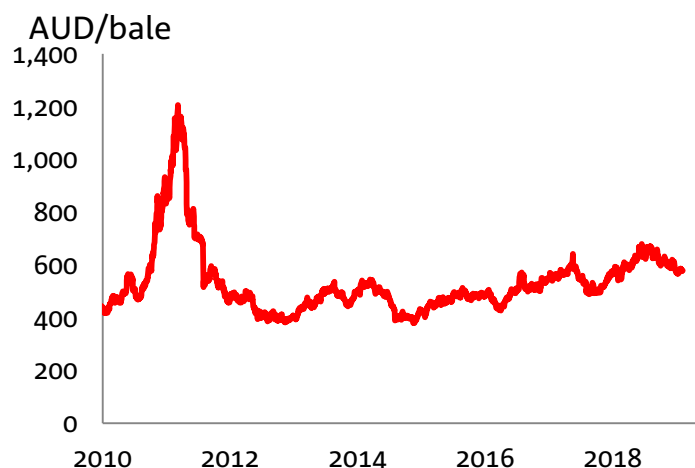
Planting conditions for sorghum were generally good but much of the crop cooked in record heat in January, along with hopes for strong yields. That said, sorghum is too small a crop to make much of a dent in the overall eastern states supply picture.

Cotton prices have trended downwards a little, although remain at levels to be a very profitable crop if water is available. The problem is that water simply hasn't been available to growers in New South Wales and Queensland. ABARES estimates from December point to a 42% decline in Australian lint production to 581kt.

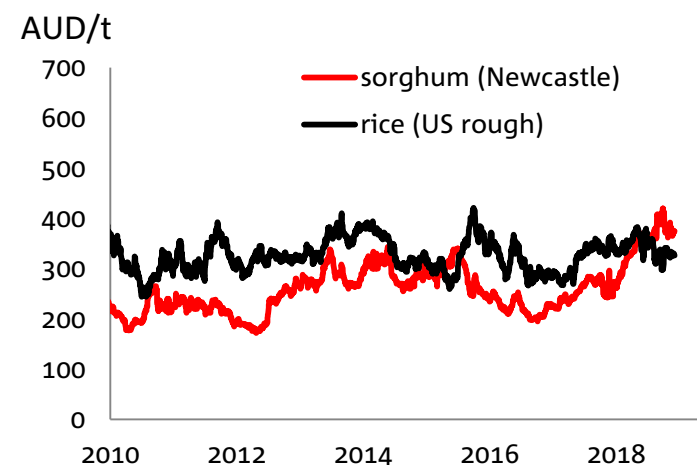
Sugar prices have essentially tracked sideways recently, following big gains last year.

Fruit and vegetables were mixed in January, with fruit up 11.2% but vegetables down 1.7%. Monthly moves in horticultural prices often reflect seasonal patterns more than anything else.

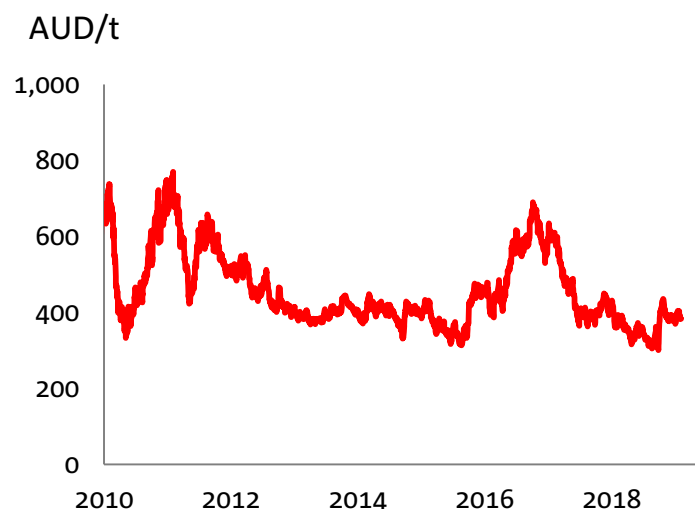
## COTTON



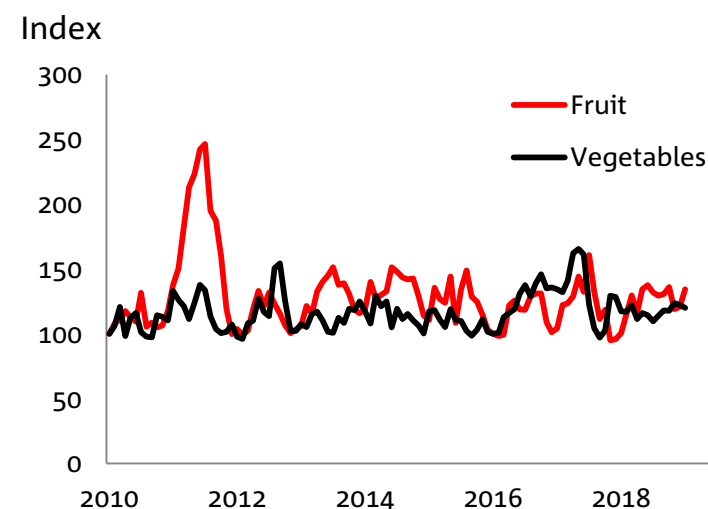
## SORGHUM AND RICE



## SUGAR



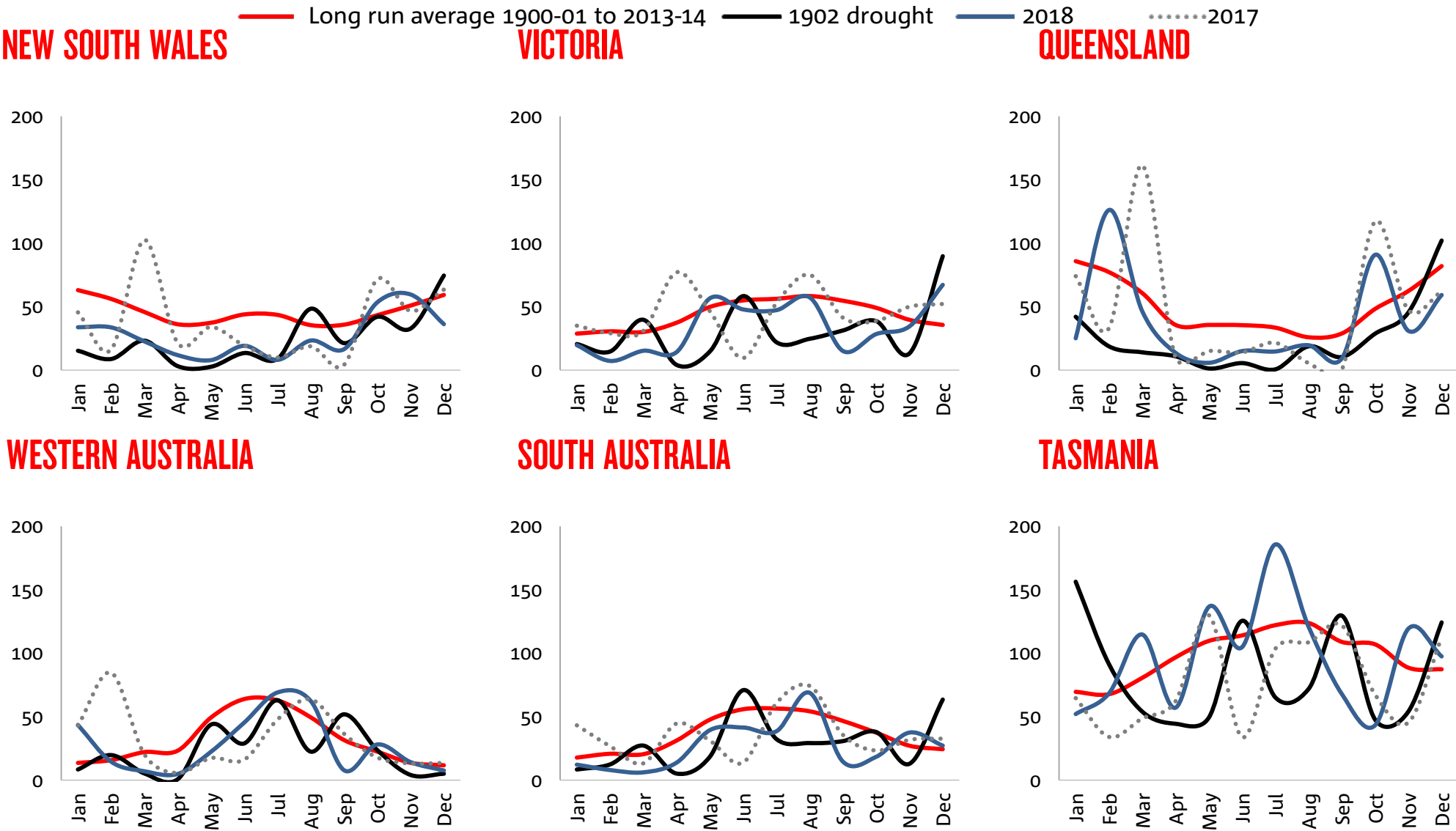
## FRUIT AND VEGETABLES



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



---

### 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.

