

regional &
agribusiness



RURAL COMMODITIES WRAP

MARCH 2019

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Photo | Carl Davies, CSIRO

KEY POINTS

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Autumn rolls on and while some areas have seen rain – particularly across a good deal of Queensland – much of the country continues to experience very dry conditions.

Cattle prices fell to lows not seen since late 2014 earlier this month, although have recovered since then on good rain on the Darling Downs. Ultimately, a good season will be need to see a sustained uptick in the cattle market – a tough ask given conditions in many areas. Lamb has fared better, reflecting strong demand and wool continues to perform well.

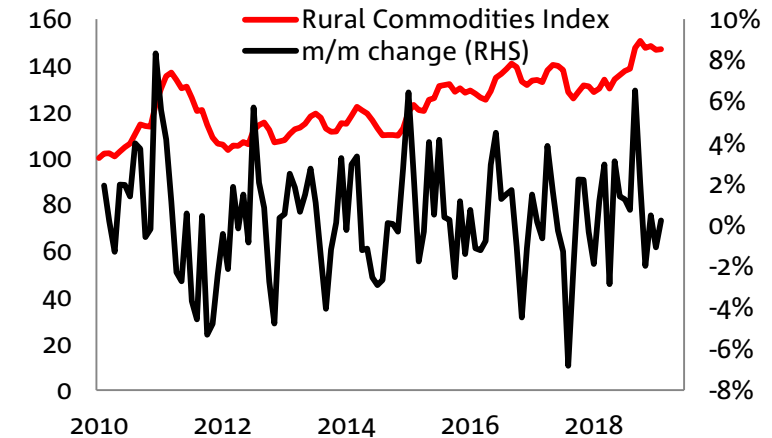
Grain has eased from very high levels at the end of year, with east coast wheat falling from the mid-\$400s range to the high-\$300s more recently. Prices remain well above global benchmarks however, and a late autumn break will limit downward pressure. Ultimately it is hard to see a big decline in prices with so little in the tank in the east.

Dairy auction prices have tracked a good deal higher since the last major farmgate step-ups. The biggest concern for the industry at present is high input costs – particularly grain and in irrigated regions, water.

Overall, the NAB Rural Commodities Index gained 0.2% in February – “above water” only due to strong gains in fruit and vegetables, dairy and to a lesser extent wool and sugar.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

	Jan.	Feb.	Mar. *
Wheat	▼ 2.1%	▼ 5.9%	▼ 5.7%
Beef	▼ 7.2%	▼ 4.9%	▼ 11.9%
Dairy	▲ 10.2%	▲ 7.8%	▲ 6.2%
Lamb	--- 0.0%	▼ 2.3%	▼ 1.2%
Wool	▲ 2.6%	▲ 3.7%	▲ 1.0%
Sugar	▲ 1.4%	▲ 2.2%	▼ 2.8%
Cotton	▼ 3.4%	▼ 1.4%	▲ 2.9%

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



SEASONAL CONDITIONS

Seasonal conditions remain tough across much of the country, although recent rainfall across the Darling Downs and parts of northern New South Wales has been very welcome.

Ultimately though, good rains are sorely needed – and soon.

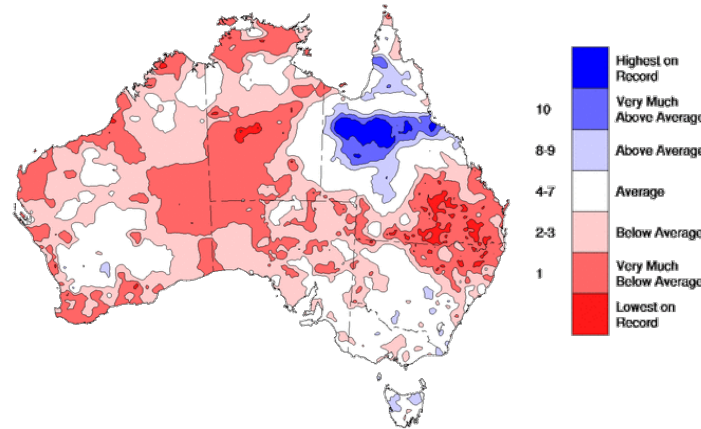
The latest outlook from the Bureau of Meteorology points to a relatively neutral outlook, although parts of Queensland, New South Wales and Victoria have a lower chance of exceeding median rainfall. Conditions in the west could be wetter than average.

However, the three month outlook during autumn is a traditionally less accurate forecast than during other seasons. Outside some largely northern areas, the outlook tends to be less than 65% consistent with actual rainfall. Parts of Queensland and Western Australia, as well as large areas of New South Wales and South Australia are less than 50% accurate over the forecast period to June.

Ultimately, autumn rainfall is very hard to predict. The risk is that a late break will cause heightened concern around winter crop yields.

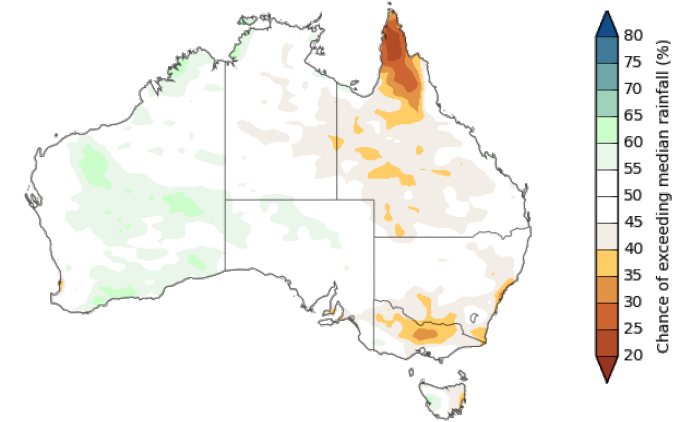
RAINFALL – FEBRUARY

Deciles



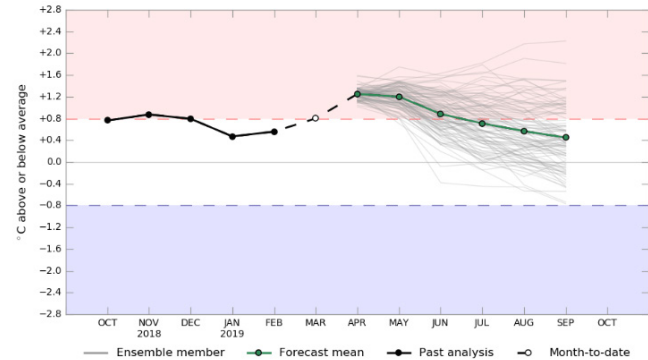
BOM RAINFALL OUTLOOK

April to June 2019



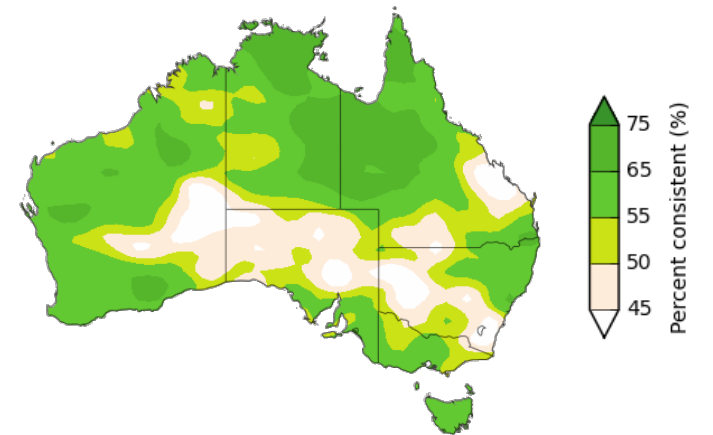
BOM EL NINO ENSO TRACKER

NINO34 sea surface tracker



RAINFALL OUTLOOK ACCURACY

Past accuracy for outlook period



REGIONAL PRICES

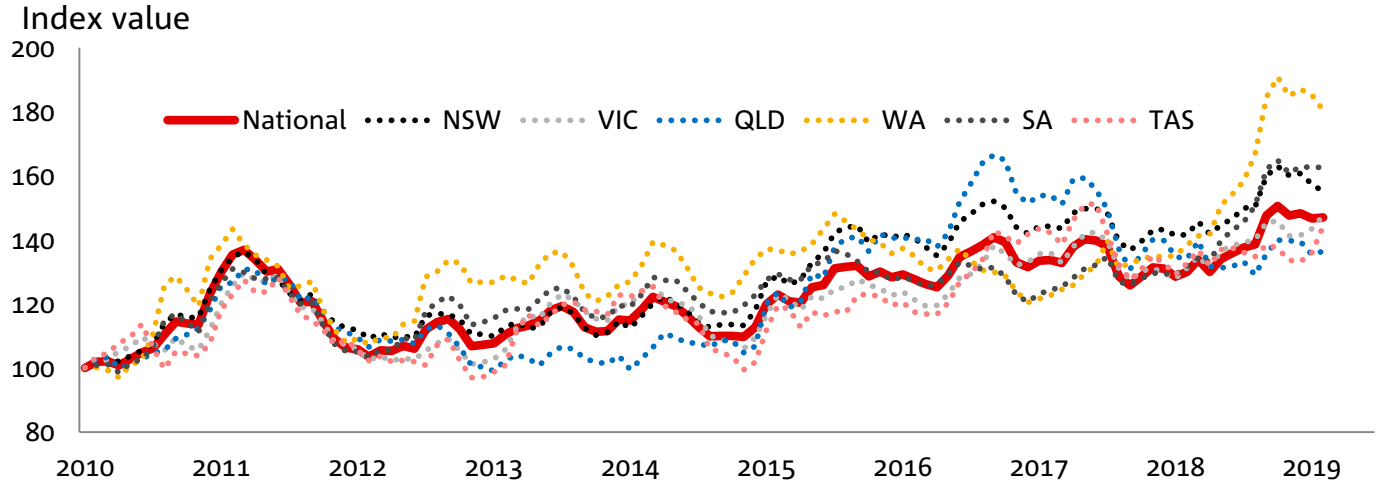
We also produce the NAB Rural Commodities Index on a state-by-state basis.

Only Victoria, Queensland and Tasmania recorded a higher state-level Rural Commodities Index in February. Tasmania gained 6.2%, while Victoria was up 2.8% and Queensland rose 0.7%.

South Australia was unchanged, while New South Wales fell 1.5%, and Western Australia saw the weakest performance – falling 2.6%.

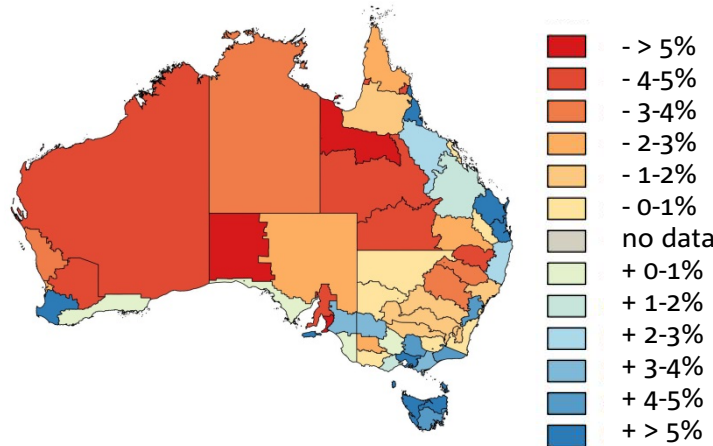
Our regional agricultural price indicators show the higher grain price story of 2018, going into reverse this year. Month on month data shows steep falls in cropping as well as cattle regions. But on a year on year basis, grain regions remain higher as grain prices are still higher than a year ago.

RURAL COMMODITIES INDEX BY STATE



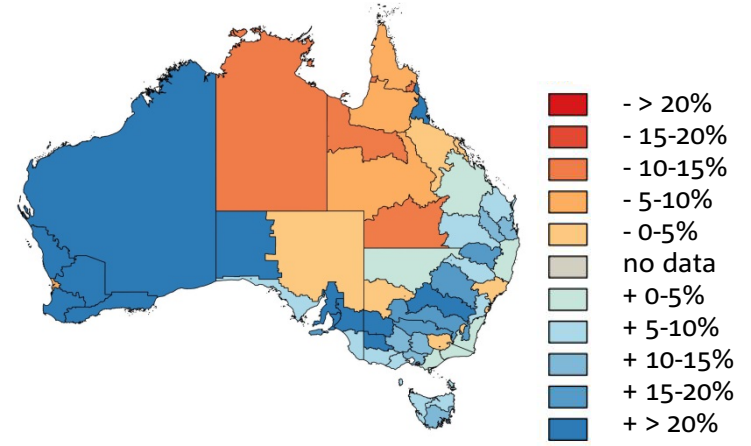
MONTH ON MONTH

January – February 2019



YEAR ON YEAR

February 2018 – February 2019

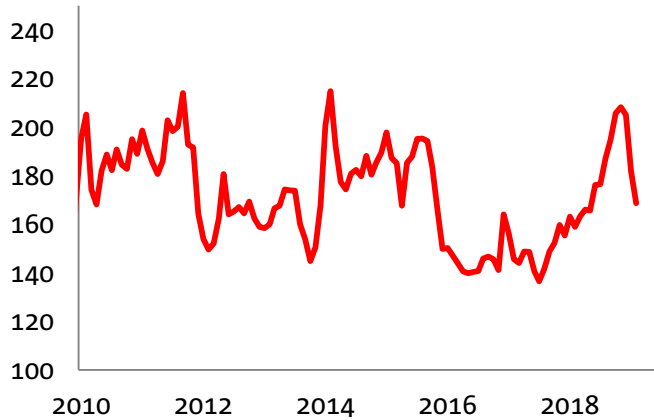


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

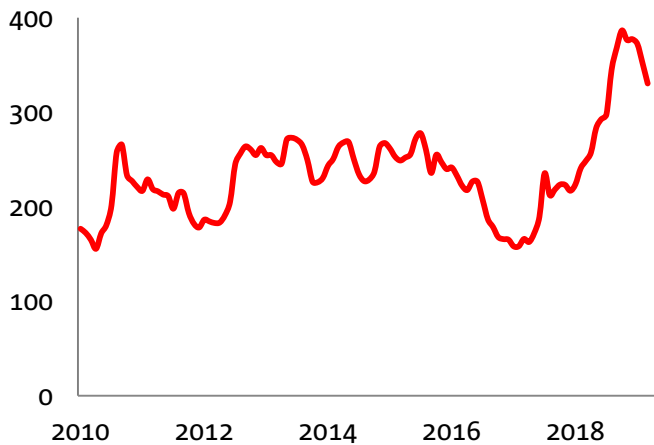
NAB FERTILISER INDEX

AUD index



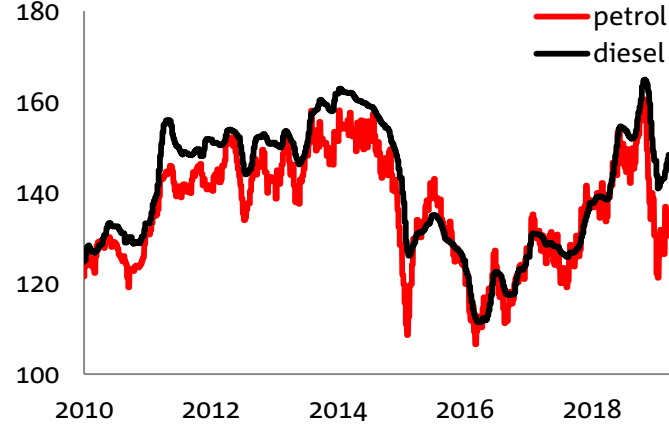
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



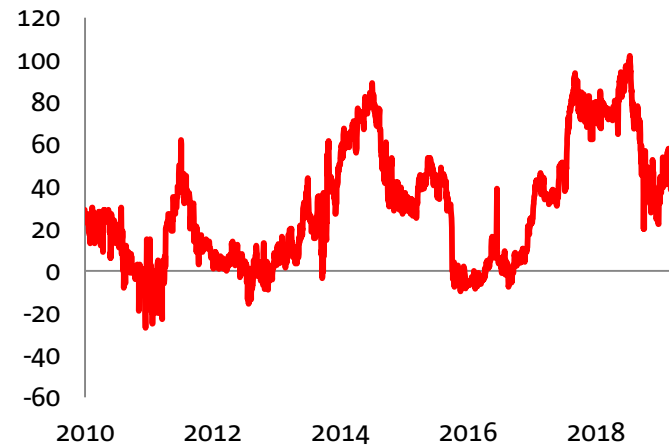
NATIONAL AVERAGE FUEL PRICES

AUc/litre



GEELONG-BRISBANE PRICE SPREAD

AUD/t



Farm input prices have changed direction over the last couple of months – grain and fertiliser have fallen while fuel bottomed out and is back on the rise.

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. Petrol is now back in the mid-130s range and diesel – which never saw the same price drop – is closer to 150c. New regulations restricting the use of high sulphur fuel will likely keep a gap between petrol and diesel for some time.

The NAB Fertiliser index unwound another 7.3% in February, falling a drop of 11.3% in January. This reflects lower DAP, urea and US natural gas prices. Prices are 6.1% higher than a year ago.

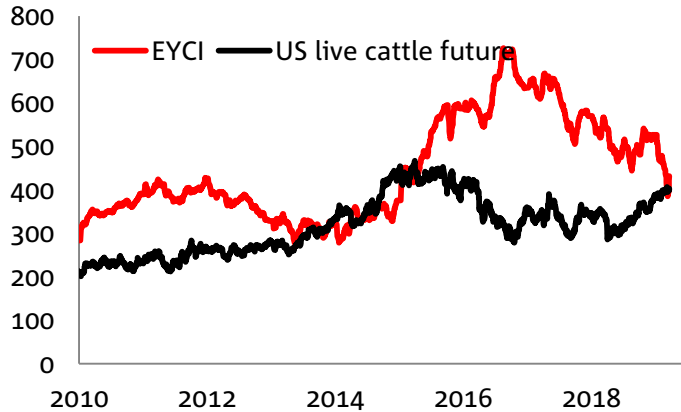
Domestic feed prices dipped 5.4% in February and are down another 6.1% in March (to date). On a year on year basis, prices are still up 33% however. We are sceptical that prices can fall a great deal further until there are signs of a good autumn break.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

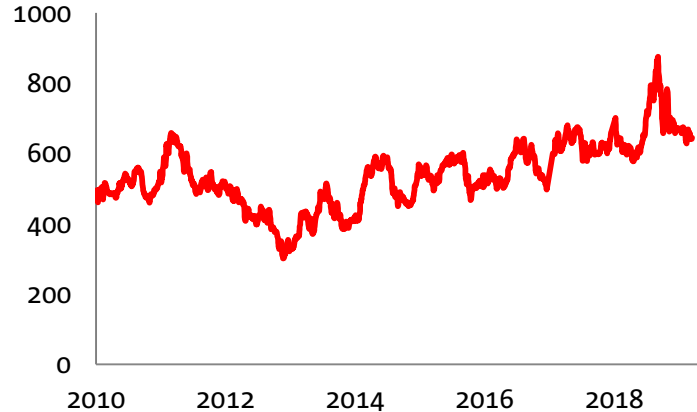
CATTLE

AUc/kg



LAMB

National Trade Lamb Indicator, AUc/kg

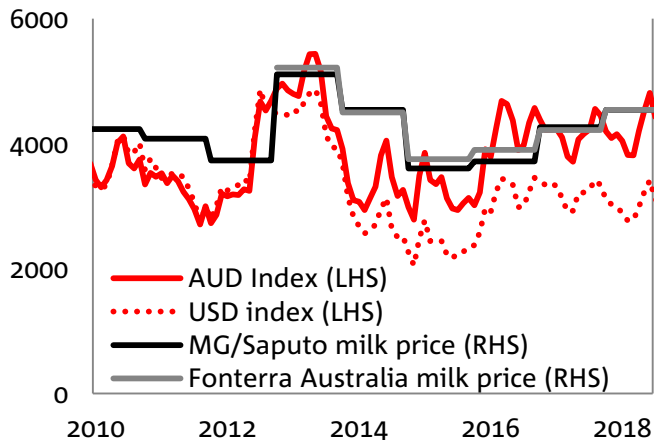


Cattle prices dropped precipitously earlier this month, to the lowest level since late 2014. EYCI dropped to 385c/kg on 8 March but has since returned to above 440c in response to rain on the Downs.

If there is more rain, there is likely to be elevated restocker demand and upside for the EYCI, but if the dry autumn continues it will be a challenge, with the sharp drop in early March a sign of things to come. On balance, we see EYCI in the order of 425c/kg in Q2 2019, recovering to around 500c by Q1 2020.

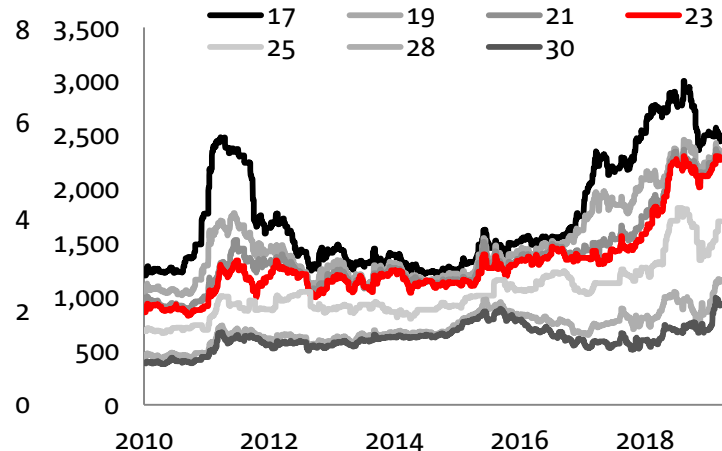
DAIRY

\$/t, AUD/kgms (farmgate)



WOOL

Southern region, by micron, AUc/kg



Lamb prices have come under pressure from seasonal conditions, although the trend since late 2012 is positive overall and returns for the industry remain very strong. This has been further supported by a hot wool market. While there has been some pullback in super fine wool, overall prices remain very supportive. We see some downside for wool prices, although they should remain high by post-reserve price scheme standards.

Global Dairy Trade auctions continue to look good and there have been step-ups at farmgate level. Input costs have been and continue to be a major challenge, particularly in irrigated areas. While grain prices have eased somewhat it is likely they will be elevated until the new season crop arrives.

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

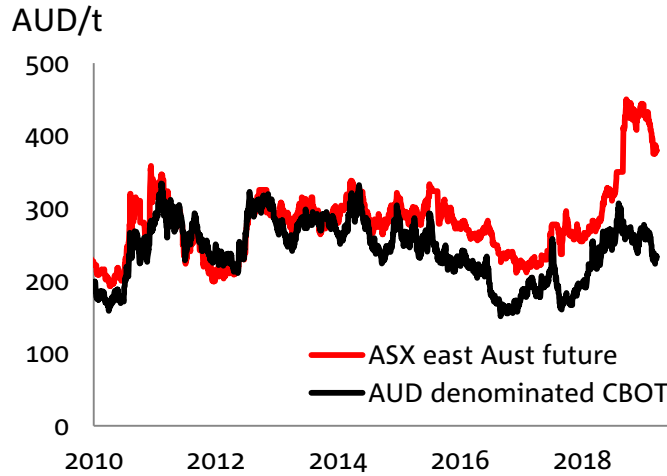
WINTER CROPS

The 2018-19 season was near record levels in Western Australia – CBH enjoyed its second biggest harvest. In the east however, it was a season to forget, especially in New South Wales and Queensland.

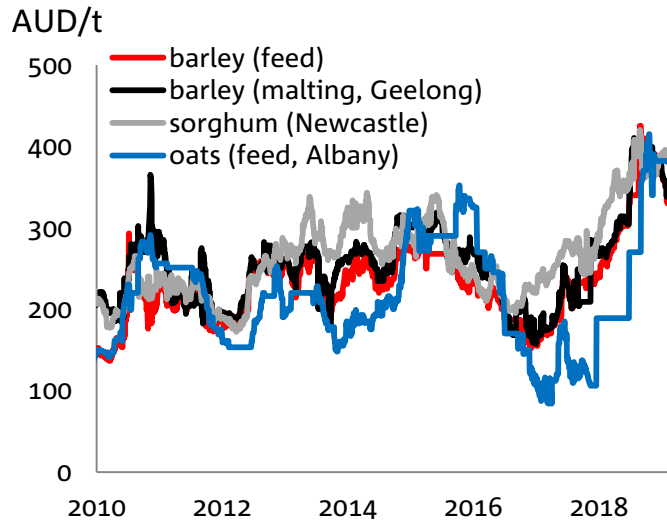
Now a third of the way through autumn, the need for a good break ahead of planting looms large. Soil moisture is well below average in many areas and while March is generally very dry in the south, the traditional start of planting is only a month away and a late break – if it occurs – will be a challenge.

That said, east coast grain prices have come off a good deal, with wheat dropping from a peak in the mid-400s range to high-300s now. This is welcome news for graziers but there is still very substantial compared to global benchmarks. Our forecasts are in the mid-high 300s range for east coast wheat over winter, although a good autumn break could challenge this. A dry winter will likely see renewed upward pressure on grain prices, although Western Australian grain (plus transport costs in the order of \$100/t) will provide a cap.

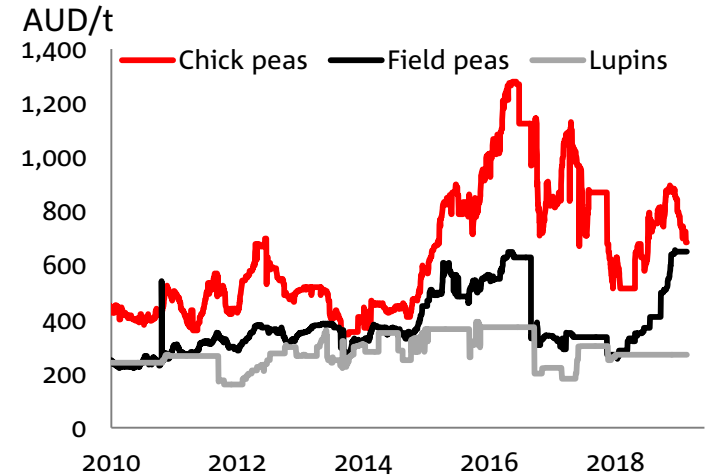
WHEAT



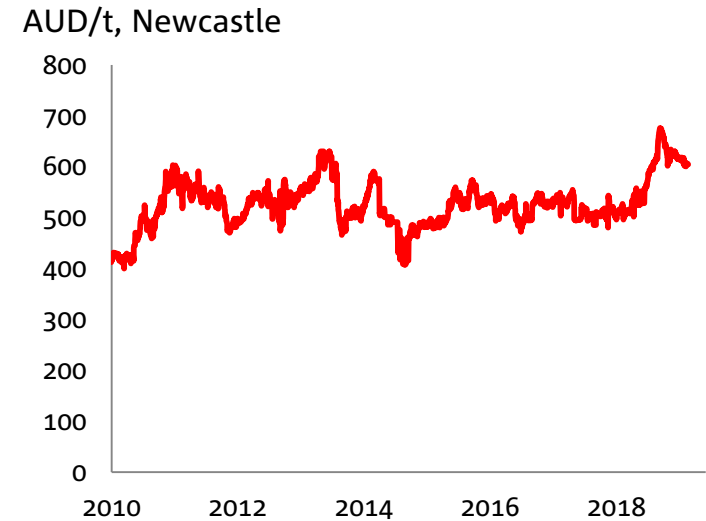
COARSE GRAINS



PULSES



CANOLA



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

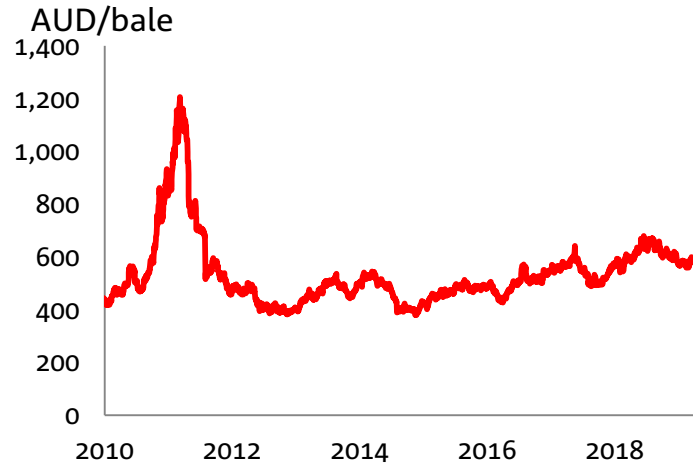
SUMMER CROPS, SUGAR AND HORTICULTURE

Planting conditions for sorghum were generally good but much of the crop cooked over a hot summer. While the smaller crop is a disappointment for growers, even strong yields would have been inadequate to greatly alter the eastern states feed supply-demand balance.

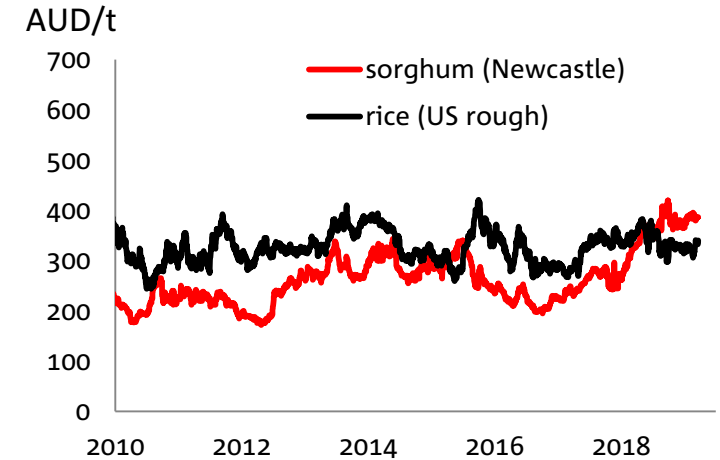
Cotton prices have trended downwards a little, although remain at levels to be a very profitable crop if water is available. Water was in short supply in the 2018-19 season and allocations are likely to remain under pressure in 2019-20. This points to another season of below average Australian production.

Fruit and vegetables were very strong in February, with fruit up 16.4% and vegetables up 22.9%, the best result for the latter since late 2017. Monthly moves in horticultural prices often reflect seasonal patterns more than anything else and this is likely to have been the case in February.

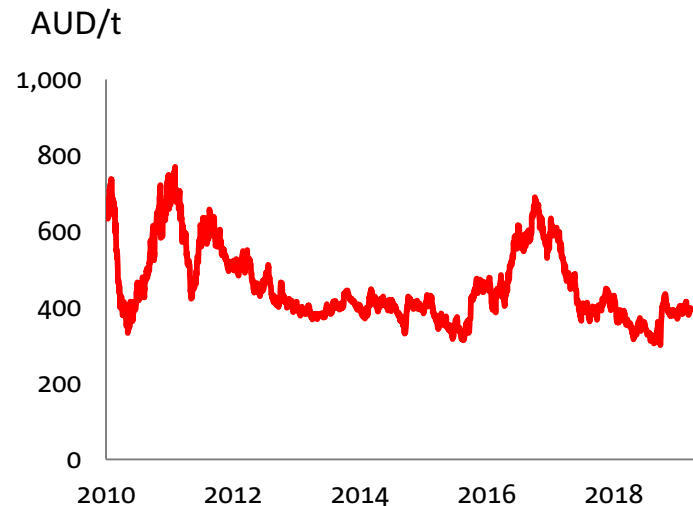
COTTON



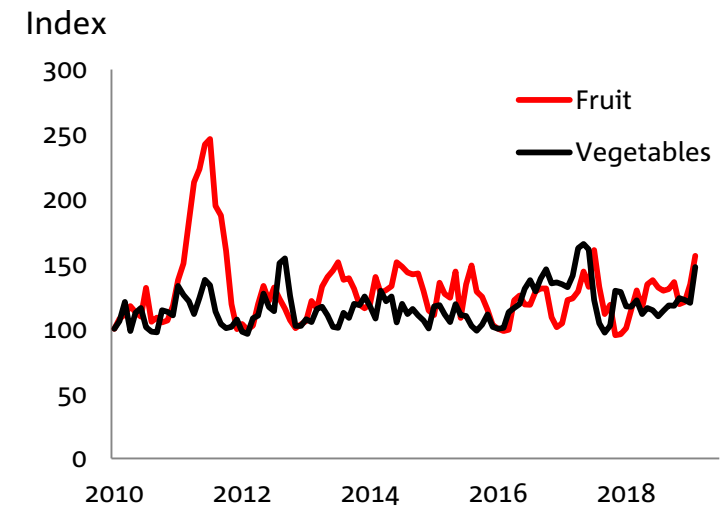
SORGHUM AND RICE



SUGAR



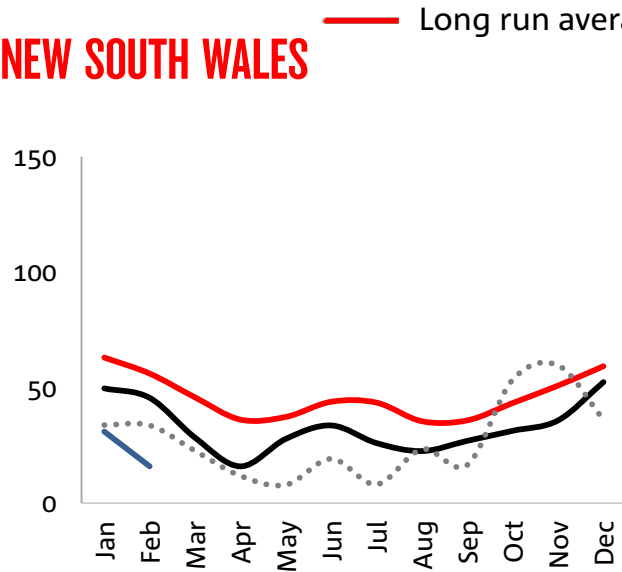
FRUIT AND VEGETABLES



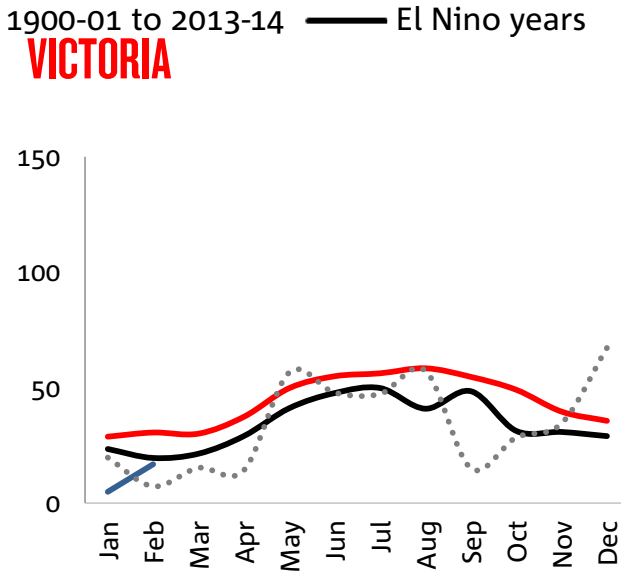
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

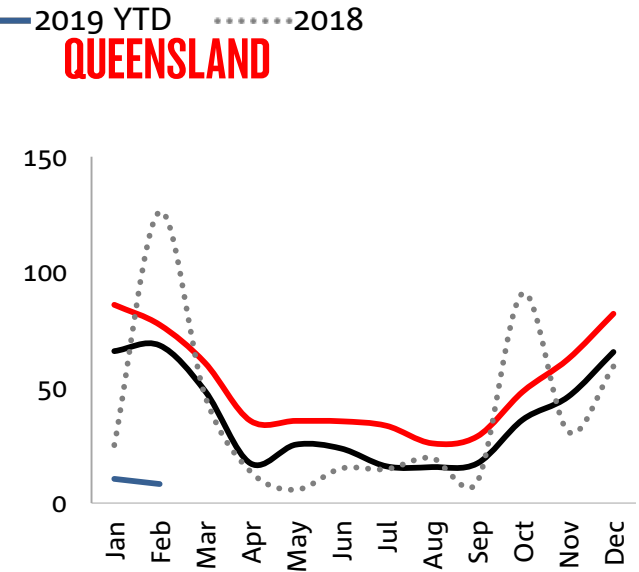
NEW SOUTH WALES



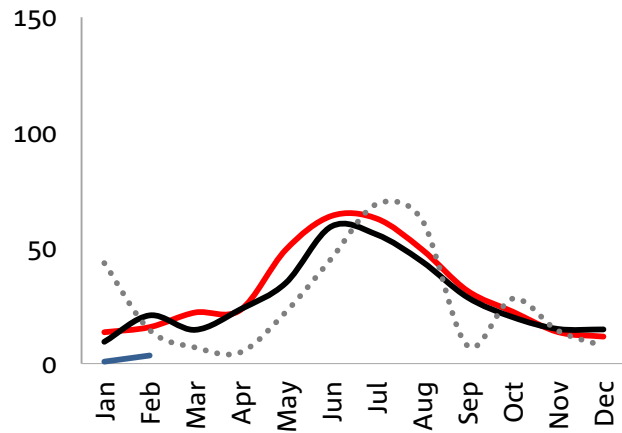
VICTORIA



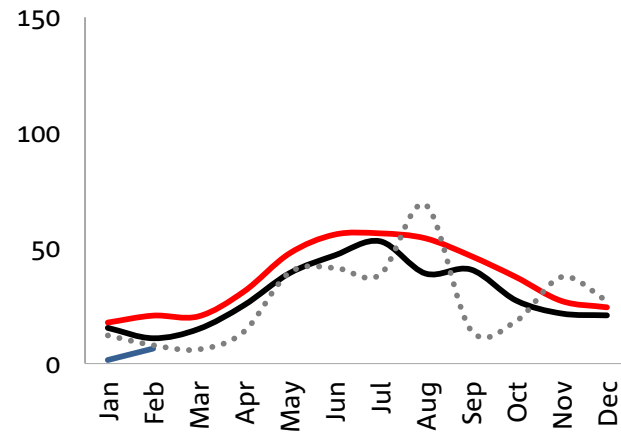
QUEENSLAND



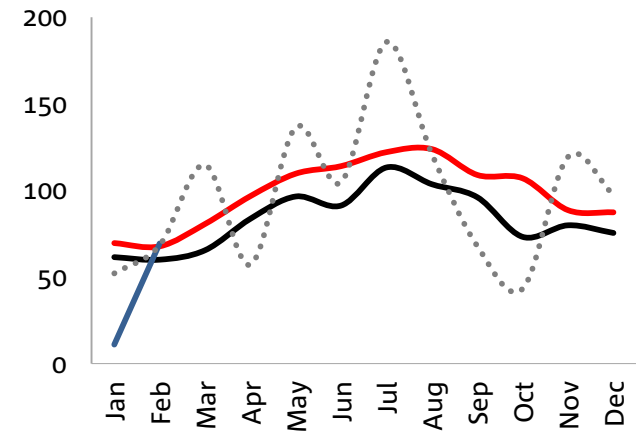
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

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