



RURAL COMMODITIES WRAP

JUNE 2019

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KEY POINTS

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We are now well into winter and parts of the country have seen a good break, although other areas are still very dry. The South-east of the country saw generally good rain in May, boosting crop prospects, and the WA wheatbelt has seen some good rains over the last few weeks. However, NSW north of the Riverina and south-east Queensland are still generally very dry.

Cattle markets have been less volatile of late, notwithstanding favourable conditions in some areas and challenging conditions in others. The Eastern Young Cattle Indicator is hovering somewhat below 500c/kg. The trajectory of the indicator for the rest of 2019 will be very sensitive to rainfall. Meanwhile, lamb prices have gone into overdrive, reflecting limited supply and strong export demand. Winter has brought a little more stability but given tight supply it is unclear whether the traditional spring flush will bring any meaningful drop in prices this year.

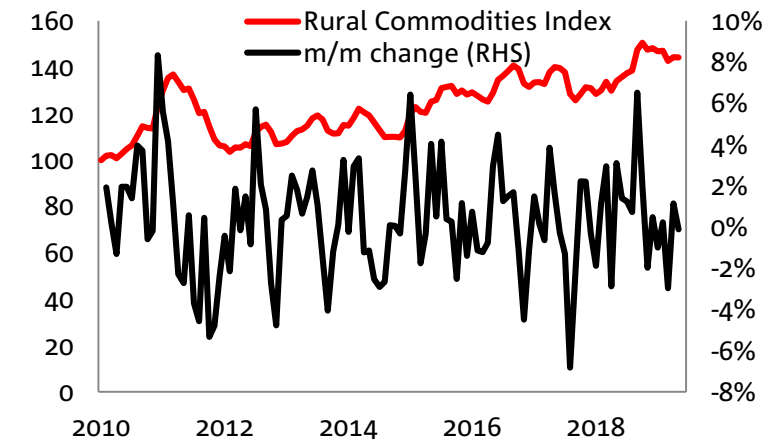
Global Dairy Trade auction results have been lower recently, although this follows several months of positive results. High input costs have been a major issue and Dairy Australia are forecasting another production fall in 2019-20. That said, Saputo's very strong 2019-20 opening price of \$6.80/kgms has brought confidence.

Overall, the NAB Rural Commodities Index fell 0.1% in May.

The Australian Dollar has been below 70 US cents since early May, which is a boost for Australian agricultural exporters and for local commodity prices. The RBA has cut the cash rate to 1.25% and we forecast two further cuts this year. On the other hand, high iron ore prices have boosted the AUD. On balance, we see a gradual appreciation in the AUD this year, reaching the mid-70s range by 2020.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

	March	April	May
Wheat	▼ 6.0%	▼ 4.7%	▼ 3.0%
Beef	▼ 8.0%	▲ 14.9%	▼ 1.4%
Dairy	▲ 6.2%	▲ 5.0%	▲ 4.6%
Lamb	▲ 0.1%	▲ 8.6%	▲ 11.5%
Wool	▲ 0.4%	▼ 2.1%	▼ 1.8%
Sugar	▼ 2.8%	▲ 0.1%	▼ 3.5%
Cotton	▲ 4.2%	▲ 3.7%	▼ 5.9%

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



SEASONAL CONDITIONS

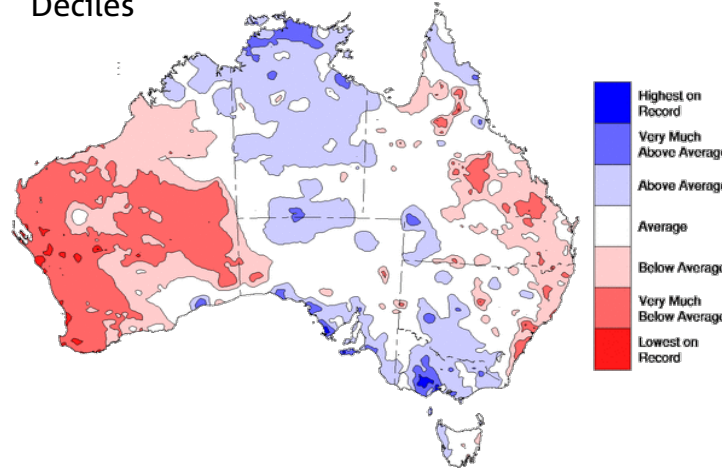
May saw good rainfall across essentially all of Victoria, the agricultural regions of south Australia and the New South Wales Riverina. The break came late to Western Australia but the wheatbelt has seen rainfall this month. The major concern now is New South Wales north of the Riverina and south-east Queensland and the Darling Downs.

The Bureau of Meteorology's three-month rainfall outlook points to drier than average conditions across the country, although outlook accuracy is poorer at this time of year. If conditions continue on this trajectory, Victoria, southern New South Wales, South Australia and Western Australia should see reasonable yields, but other grain regions of New South Wales and Queensland would see another very challenging season.

While the Bureau remains on El Nino watch, models suggest there may be a move away from El Nino levels over the coming months.

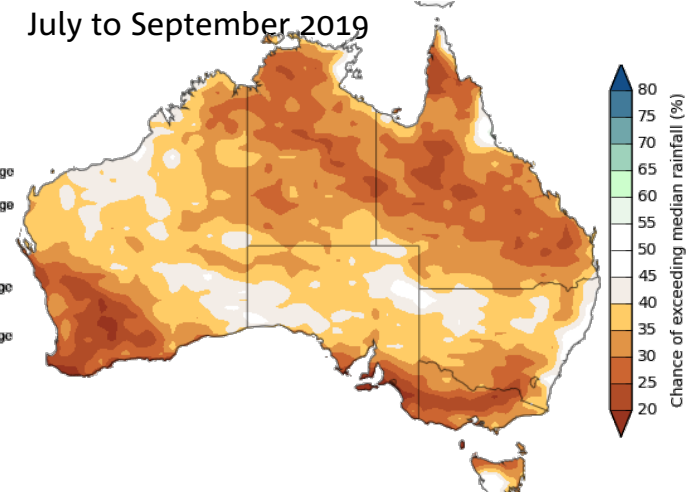
RAINFALL – MAY

Deciles



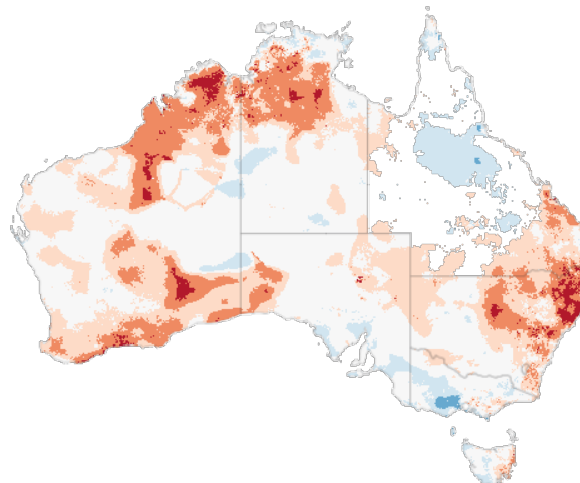
BOM RAINFALL OUTLOOK

July to September 2019



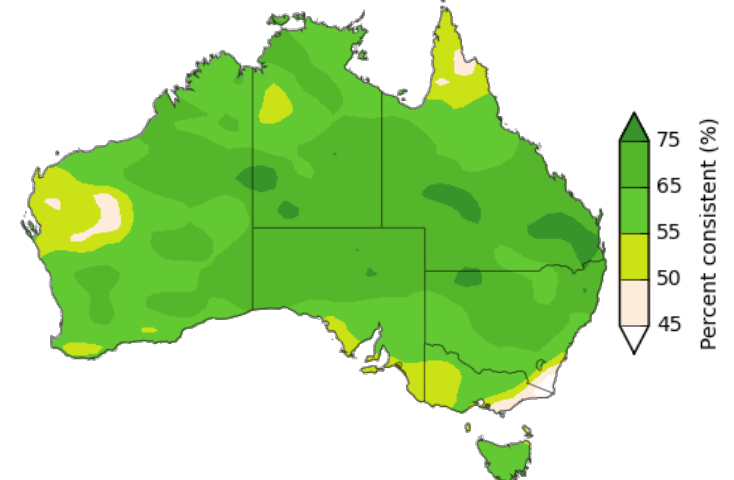
ROOT ZONE SOIL MOISTURE

Relative to average, 20 June



RAINFALL OUTLOOK ACCURACY

Past accuracy for outlook period



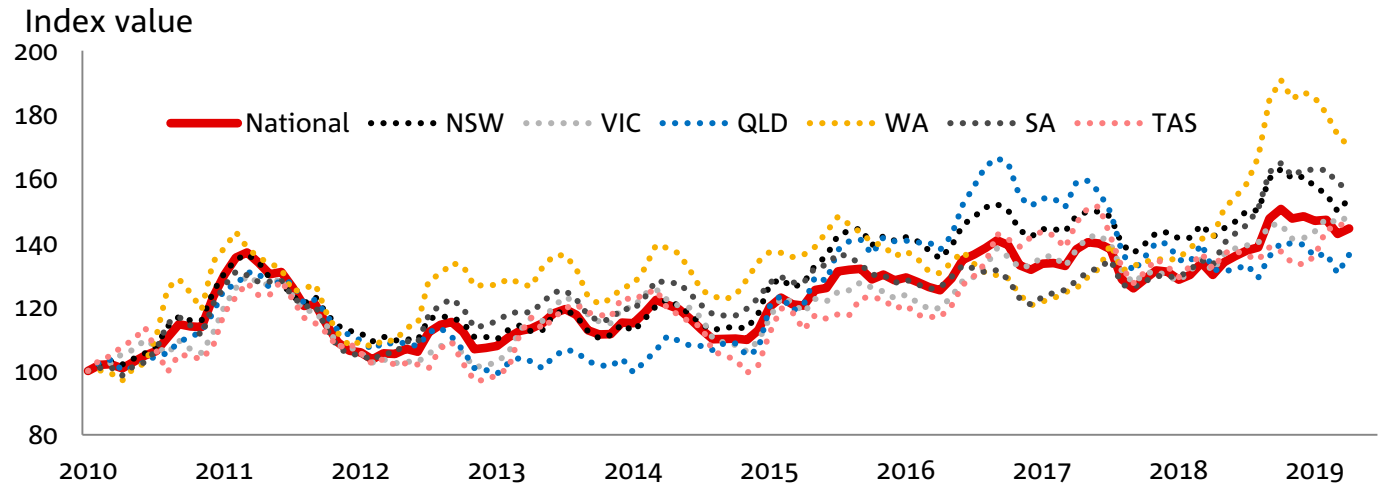
REGIONAL PRICES

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

Victoria was the best performer in May, recording a 2.2% increase, followed by Tasmania, which gained 1.2%. South Australia saw a 0.3% gain while New South Wales, Western Australia and Queensland were negative, falling 0.3%, 0.6% and 1.0% respectively.

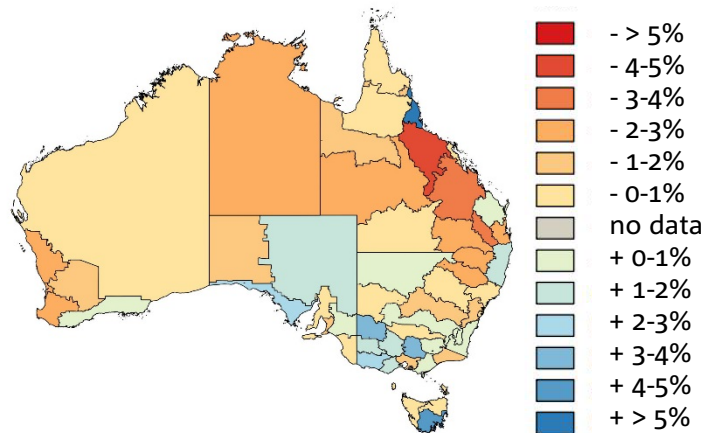
Our regional agricultural price indicators show very mixed month on month data in May, particularly in New South Wales, Queensland, the Northern Territory and Western Australia. On a year on year basis, most of Australia, except Western Queensland and the Northern Territory, is now positive.

RURAL COMMODITIES INDEX BY STATE



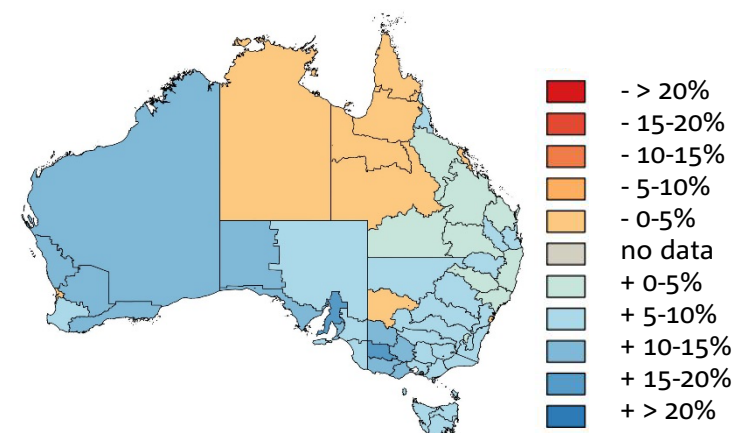
MONTH ON MONTH

April – May 2019



YEAR ON YEAR

May 2018 – June 2019

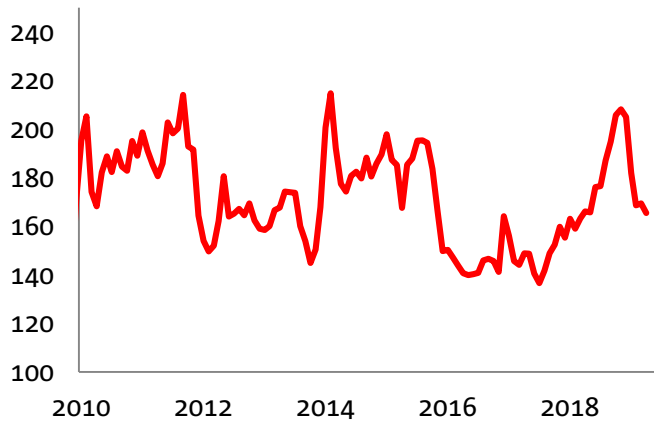


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

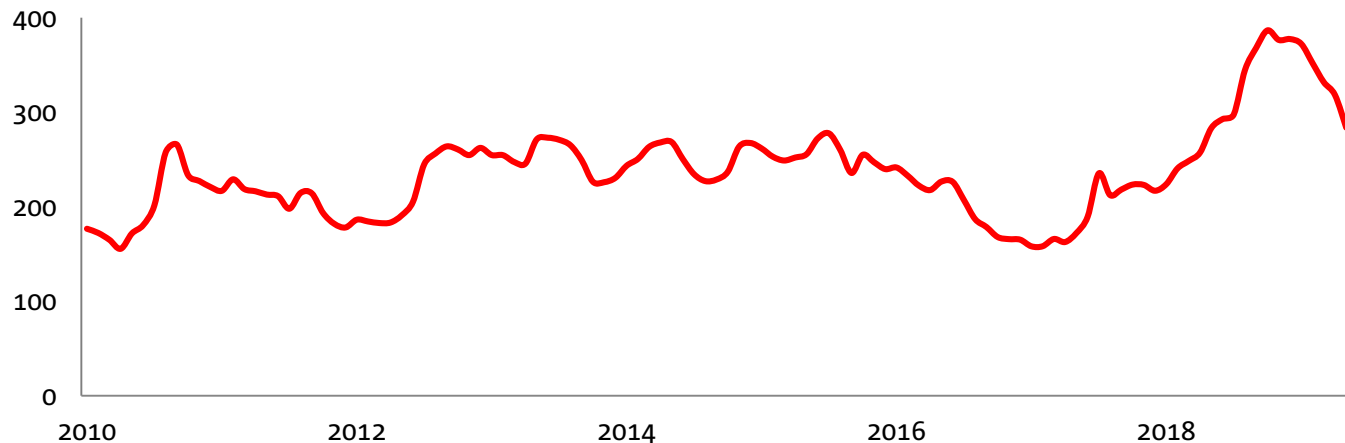
NAB FERTILISER INDEX

AUD index



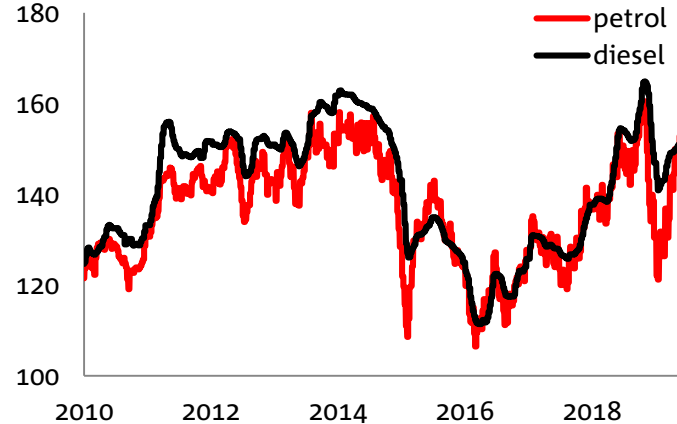
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



NATIONAL AVERAGE FUEL PRICES

AUc/litre



Farm input prices continue to trend lower overall, a pattern that has been established for some months now.

Domestic feed prices dropped another 10.8% in May. On a year on year basis, prices are now flat. Overall, the NAB weighted feed grain price index stood at \$284/t for the month, the first time it has been below \$300 since July last year. However, month to date data for June shows that prices have trended upwards once again, largely reflecting international pressures. Furthermore, we remain somewhat sceptical whether graziers in drought-affected areas are able to access good feed at this price, particularly given transport costs.

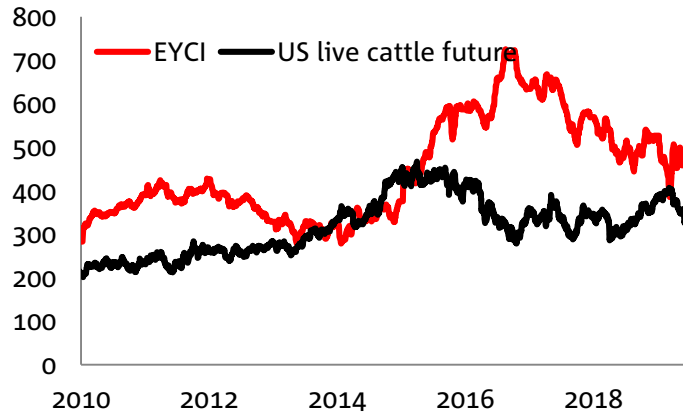
Oil prices have been volatile of late, reflecting lacklustre supply, counterbalanced by geopolitical tensions with Iran. Brent remains below levels seen in mid-May and petrol prices have been lower. However diesel prices have barely fallen from the 150c range, reflecting regulatory requirements to reduce sulphur in shipping fuel.

The NAB Fertiliser index fell 0.4% in May, largely reflecting lower DAP prices.

LIVESTOCK

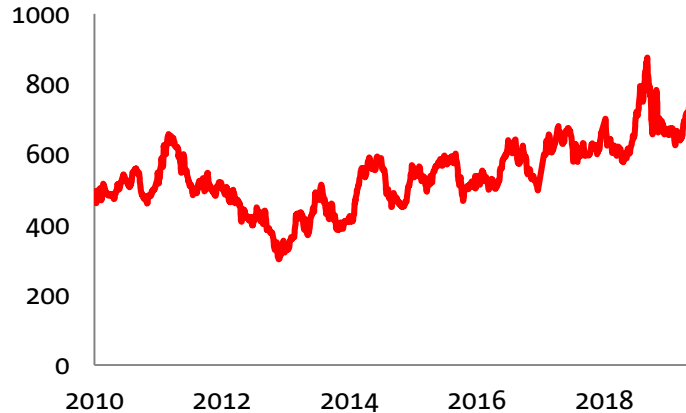
CATTLE

AUc/kg



LAMB

National Trade Lamb Indicator, AUc/kg

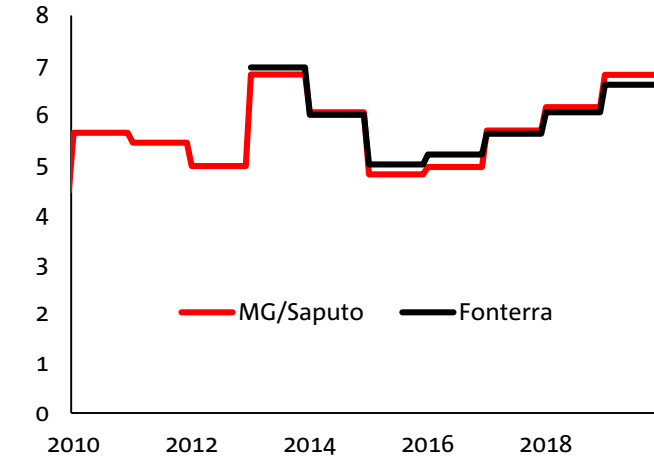


Young cattle prices have been more stable recently, following a volatile period earlier in the year. Slaughter data shows the national herd in a liquidation phase into April, although the break in the south-east and earlier big rains in north Queensland, should see these trends mitigated somewhat. That said, the climate outlook is a concern.

If seasonal conditions become more favourable, restocker demand should increase, although it is unclear whether stock will be available. On balance, we see EYCI in 400s range in 2019, recovering to around 500c by Q1 2020.

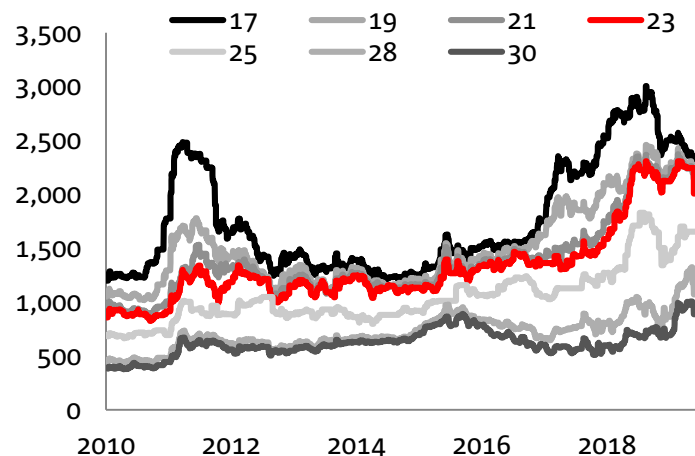
DAIRY FARMGATE PRICES

AUD/kgms



WOOL

Southern region, by micron, AUc/kg



Lamb prices have broken records recently, on strong export demand and a lack of supply. Returns for the industry are very strong indeed, supported by a good wool market, although EMI is back below \$18/kg. We are a little cautious about whether lamb will remain at this level, although a good southern winter could see the traditional spring flush disrupted as producers look to rebuild flocks.

Global Dairy Trade auctions have been negative this month, although this comes from a high base. Input costs remain a major challenge, particularly in irrigated areas like northern Victoria. Opening prices for 2019-20 are generally very strong: Saputo has opened at \$6.80 and Fonterra at \$6.60.

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

WINTER CROPS

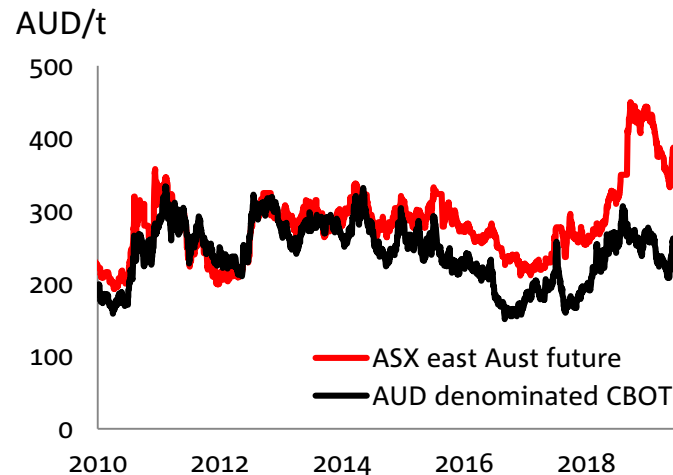
Most of the winter crop is now in the ground and while conditions are still mixed, Western Australia has seen rain this month, and Victoria, South Australia and southern New South Wales saw a good break in May. Central-west and northern New South Wales as well as the Darling Downs in Queensland are looking a lot less encouraging.

ABARES June crop report puts the wheat crop at a tentative 21.2 million tonnes - below the “average” of around 24 million tonnes, but an improvement on the middling 17.3 million tonnes seen last season. Our major concern at this stage is that the outlook is for a drier than average winter and start to spring.

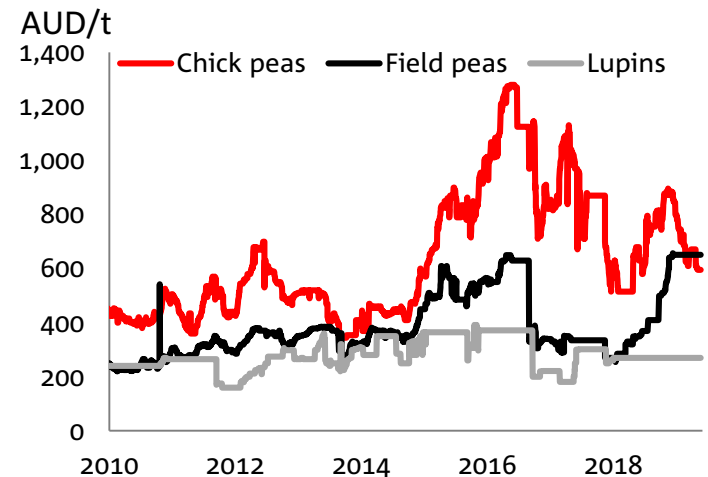
Domestic grain prices fell earlier this year, although have risen recently on weaker global conditions, particularly in the United States.

There is still tightness in the eastern states old crop market for feed, with supplementary feeding still needed in much of New South Wales and southern Queensland. A poor domestic season could see the eastern states grain market re-detach from global trends.

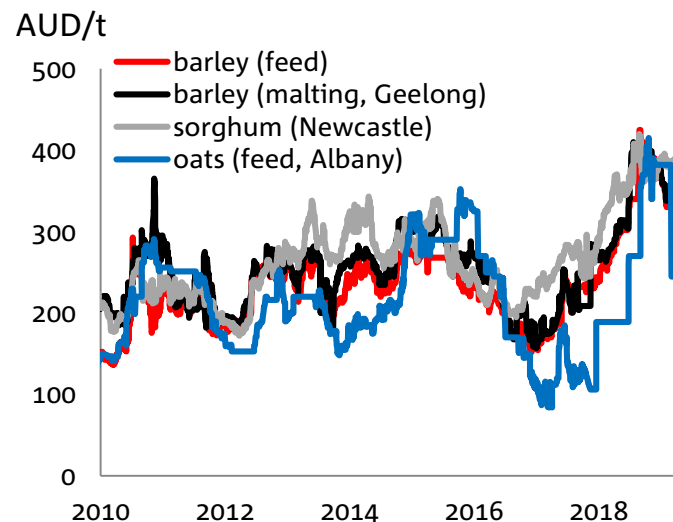
WHEAT



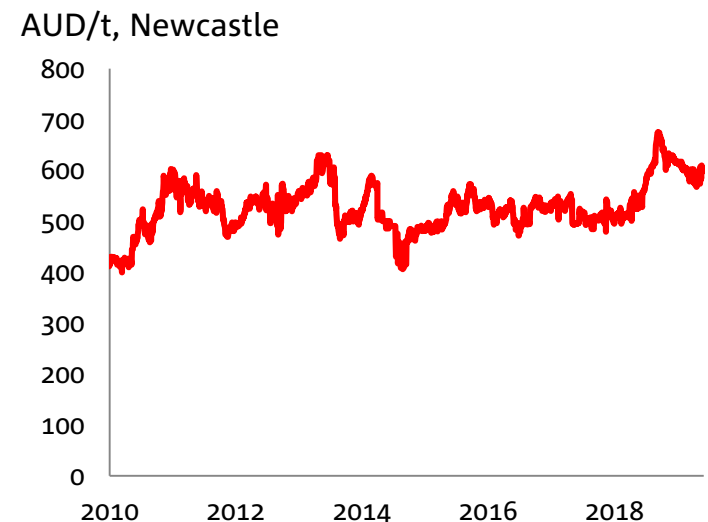
PULSES



COARSE GRAINS



CANOLA



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

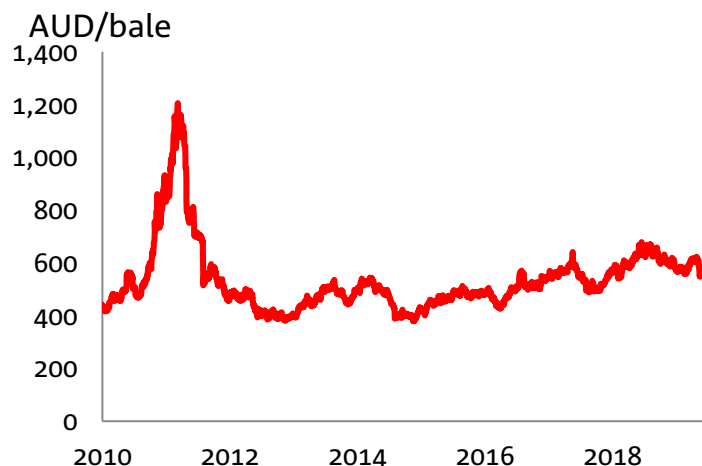
SUMMER CROPS, SUGAR AND HORTICULTURE

Storage volumes for major public storages in the Murray Darling Basin remain low overall, and even with a recovery in inflows from here, allocations will probably be under pressure for the coming season. Private storages in the basin are also likely to be fairly low. As a result, Australia will face a second year of low cotton production.

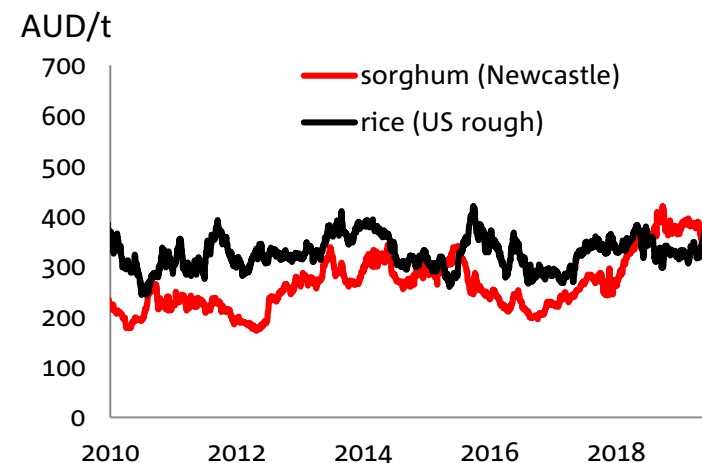
Cotton prices have come off a little recently, with AUD denominated Cotlook A averaging around \$560/bale this month to date.

Fruit and vegetables were mixed last month. Fruit prices jumped – up 9.6% in May – while vegetables dropped 12.0%.

COTTON



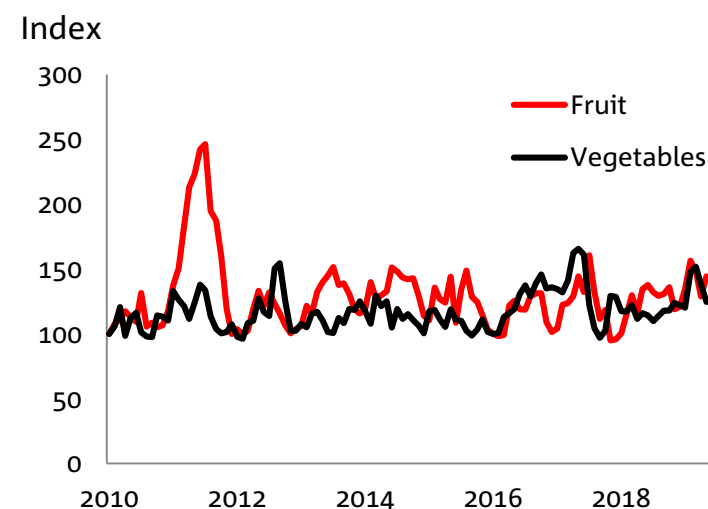
SORGHUM AND RICE



SUGAR

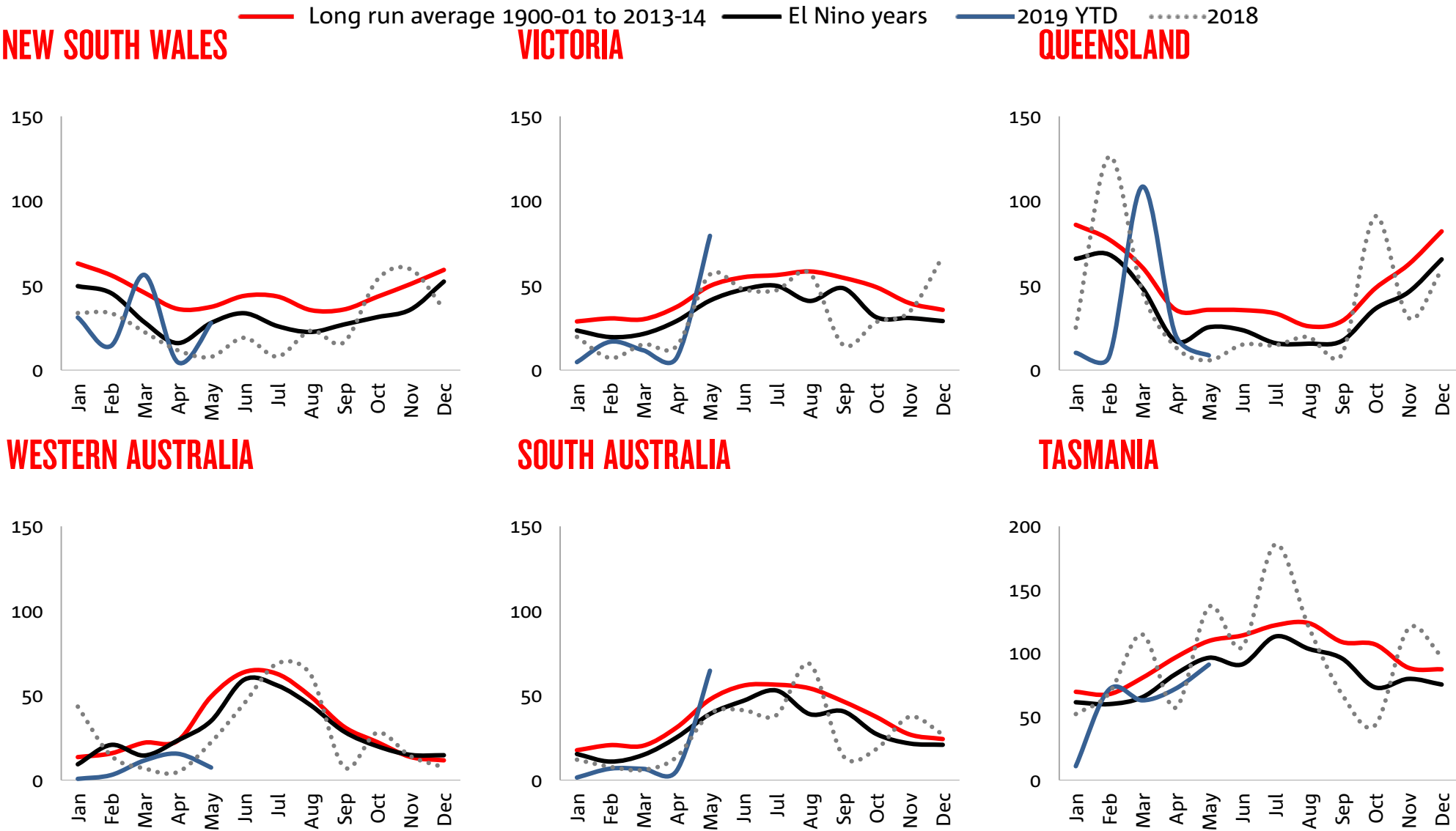


FRUIT AND VEGETABLES



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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