

RURAL COMMODITIES WRAP

JULY 2019

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KEY POINTS

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Winter rains have well and truly arrived in the south-east and south-west of Australia. The Western Australian wheatbelt, Victoria, South Australia and parts of southern New South Wales have all enjoyed good rain. In stark contrast, most of New South Wales and key regions of Queensland remain extremely dry.

Consequently, the winter crop outlook is very mixed indeed. Western Australia, South Australia and Victoria are set up for a decent season if rain continues, but prospects in New South Wales – with the key exception of the Riverina – are fairly poor. Reports suggest that plantings across much of the state are well below normal levels. Overall, we see the crop at 20.4 million tonnes nationally.

Lamb prices are now well into record territory, surging well past 900c/kg amid strong demand and a lack of supply due to drought conditions since (particularly) last year. Prices in New Zealand are a little more subdued, but have followed the same upward trend since 2012-13. That said, we wonder whether prices can stay high through the spring flush.

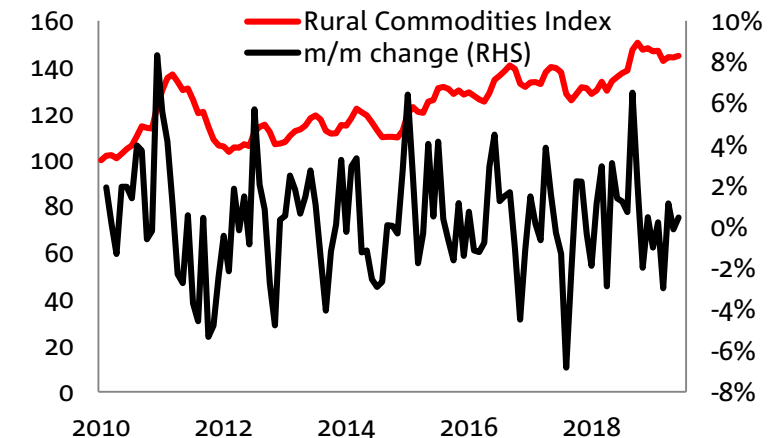
Young cattle prices have trended slightly higher recently, although the premium for finished cattle remains. We don't expect much upside for ECYI unless drought-affected areas of New South Wales and Queensland see some good rain.

Global Dairy Trade auction results have been negative in USD terms for the last four auctions, although from a high base. In Australia, opening prices have been very strong, although input costs remain a challenge, particularly in irrigated areas.

The NAB Rural Commodities Index rose 0.5% in June.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

| | April | May | June |
|--------|---------|---------|---------|
| Wheat | ▼ 4.7% | ▼ 3.0% | ▲ 8.4% |
| Beef | ▲ 14.9% | ▼ 1.4% | ▲ 1.7% |
| Dairy | ▲ 5.0% | ▲ 4.6% | ▼ 9.7% |
| Lamb | ▲ 8.6% | ▲ 11.5% | ▲ 10.3% |
| Wool | ▼ 2.1% | ▼ 1.8% | ▼ 5.0% |
| Sugar | ▲ 0.1% | ▼ 3.5% | ▲ 5.3% |
| Cotton | ▲ 3.7% | ▼ 5.9% | ▼ 3.2% |

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



SEASONAL CONDITIONS

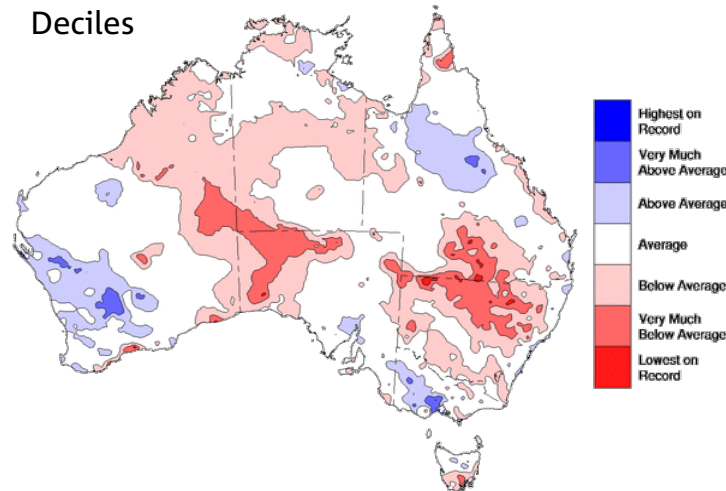
The Bureau of Meteorology's three-month outlook has been pointing to hotter and drier conditions for most of this year, although since May, the south-east and south-west of the country have enjoyed a fairly good winter (although following a very dry first four months of the year). Unfortunately, the same cannot be said for most of New South Wales, much of Queensland, northern Western Australia and the Northern Territory. These areas remain very dry indeed, and some parts of New South Wales in particular are looking at the third year of drought in a row.

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

Most models now suggest that ENSO is neutral and the Bureau's El Nino outlook is inactive for the coming months.

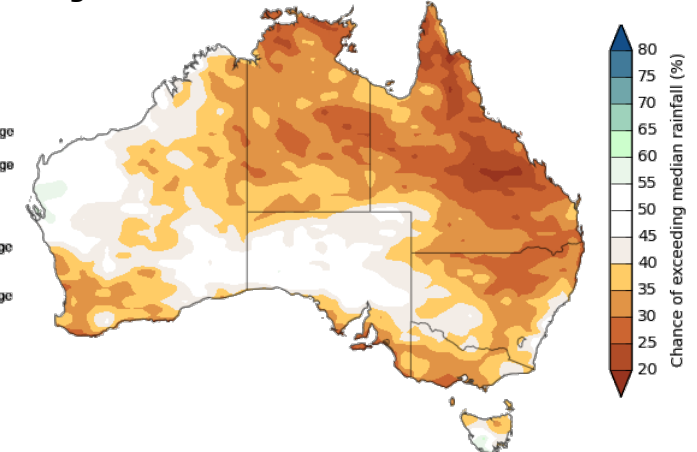
RAINFALL – JUNE

Deciles



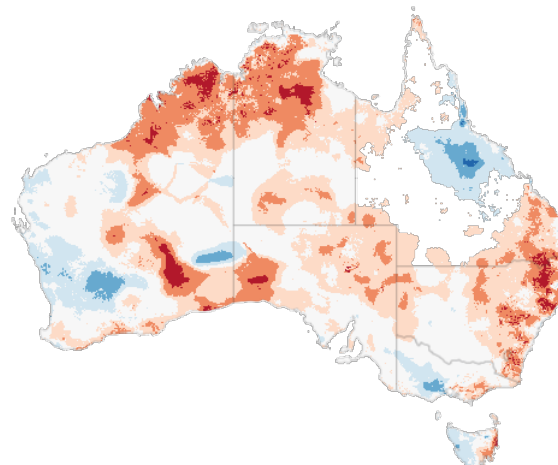
BOM RAINFALL OUTLOOK

August to October 2019



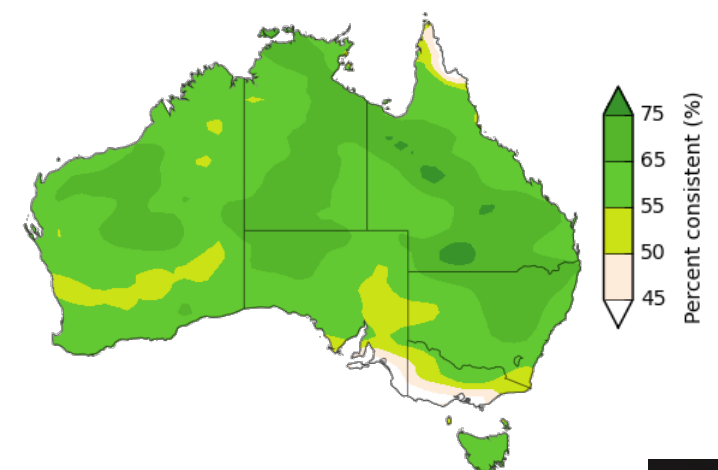
ROOT ZONE SOIL MOISTURE

Relative to average, 10 July



RAINFALL OUTLOOK ACCURACY

Past accuracy for outlook period



Source: Bureau of Meteorology and NAB Group Economics

REGIONAL PRICES

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

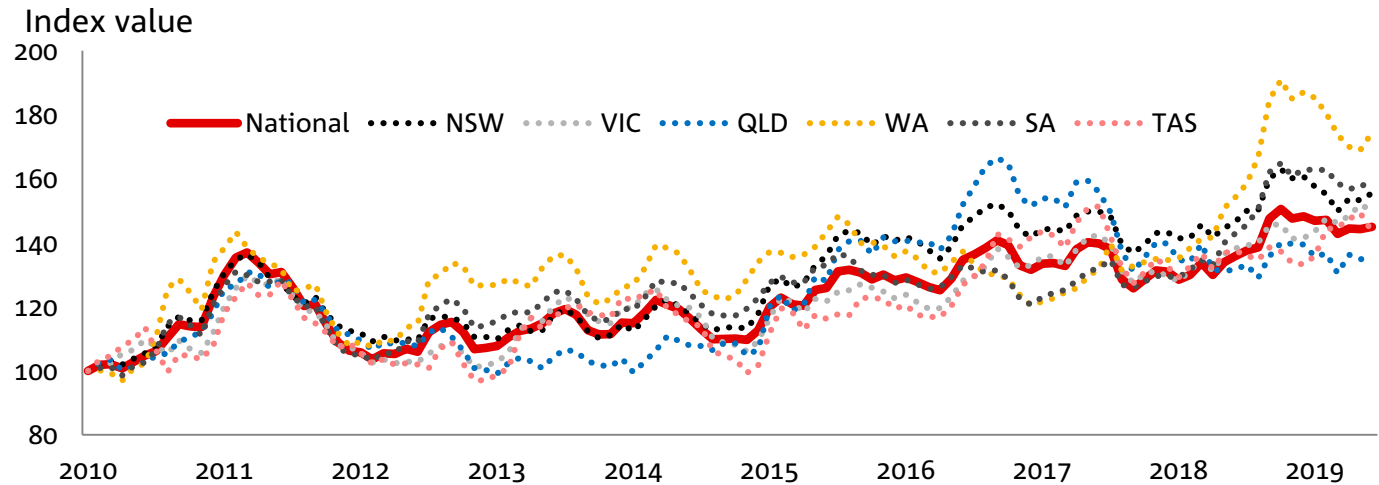
The jump in grain prices saw states like Western Australia, South Australia and New South Wales jump in June (up 3.2%, 1.8% and 1.4% respectively on a m/m basis).

On the other hand, lower Global Dairy Trade auction results hit Victoria and Tasmania (down 1.1% and 3.8% respectively), although it is important to note that these auction results do not directly affect dairy farmers (at least in the short term), and that farmgate opening prices were very strong.

Queensland's index was almost unchanged in June, up 0.2%.

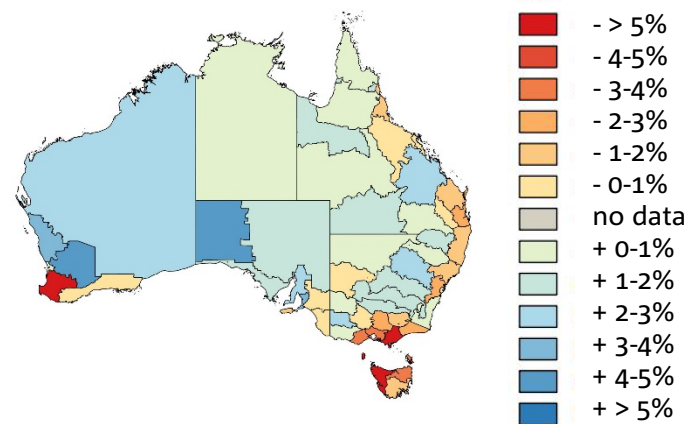
Our regional agricultural price indicators show a generally positive direction on a month on month basis in June, with the exception of some dairy regions. On a year on year basis, most of Australia, except parts of coastal Queensland and south-west New South Wales, are positive.

RURAL COMMODITIES INDEX BY STATE



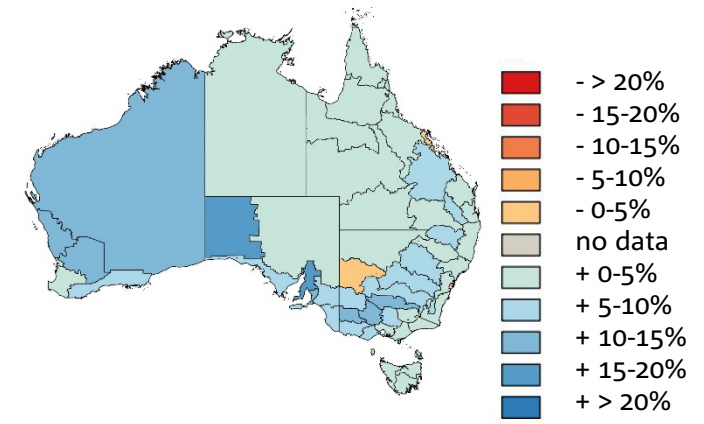
MONTH ON MONTH

May – June 2019



YEAR ON YEAR

June 2018 – June 2019

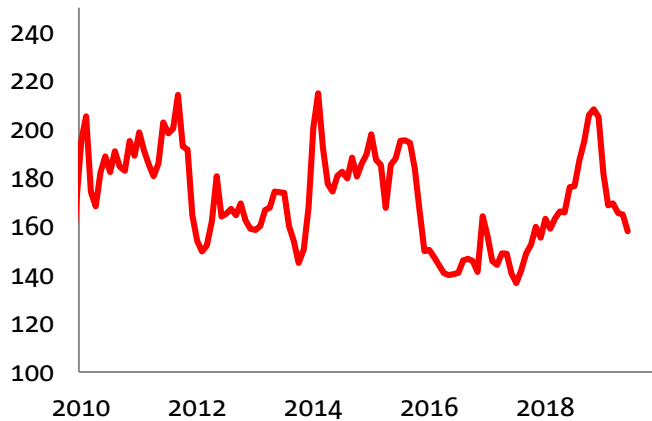


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

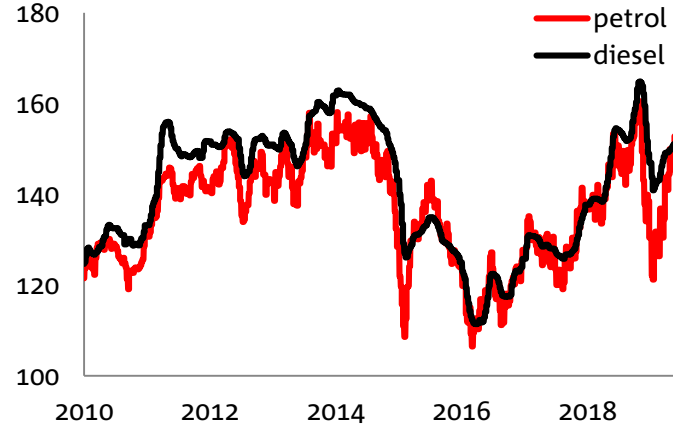
NAB FERTILISER INDEX

AUD index



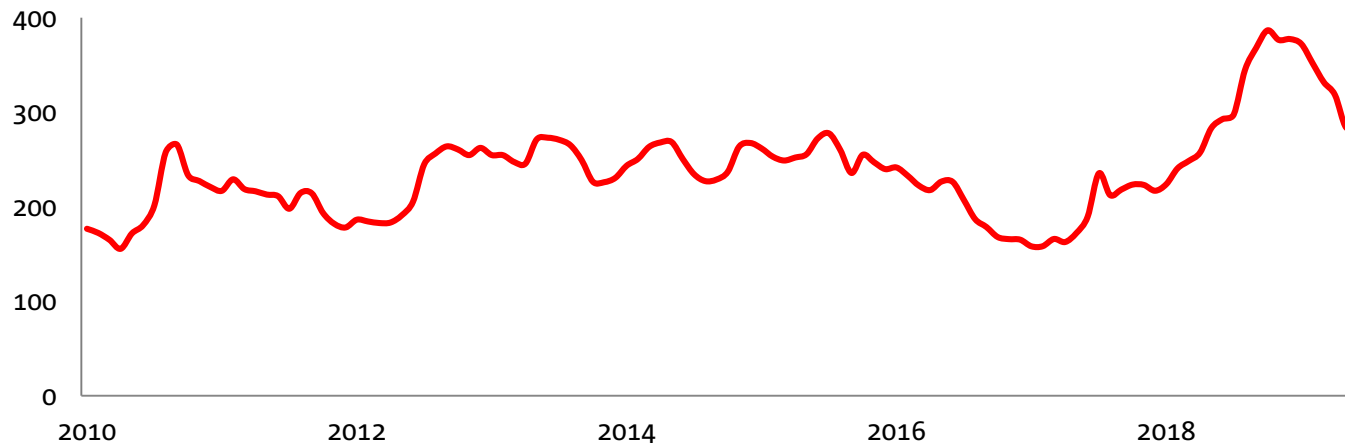
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices are mixed at present – fertiliser continues to trend lower overall, while feed has risen a little and fuel is a mixed bag.

Domestic feed prices rose 2.5% in June, the first monthly rise since December 2018. On a year on year basis, prices are essentially flat. Overall, the NAB weighted feed grain price index stood at \$290/t for the month, having peaked at \$386/t in October last year. While international pressures have seen grain prices rise, another challenging season in New South Wales and Queensland, combined with lamb prices strong enough to continue supplementary feeding at high levels, will likely see eastern Australia in an import phase (either from the west or internationally), meaning high cash prices for feed.

Oil prices continue to face competing forces. OPEC has elected to continue output cuts and geopolitical tensions remain very elevated, but demand expectations remain fairly subdued. Petrol prices have been quite volatile but diesel prices seem stuck in the 140-150c range, reflecting regulatory requirements to reduce sulphur in shipping fuel.

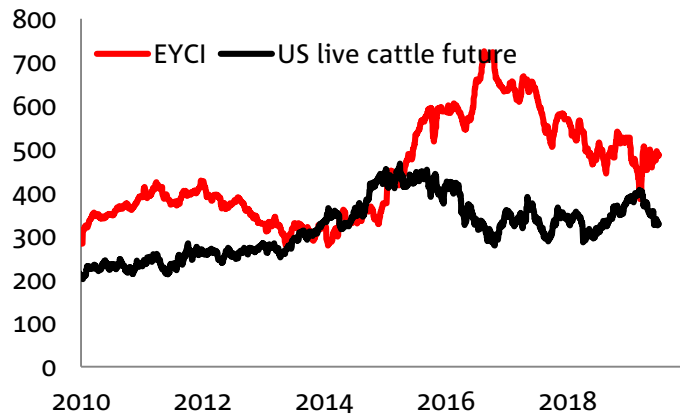
The NAB Fertiliser index fell 4.2% in June, largely reflecting lower urea and US natural gas prices.



LIVESTOCK

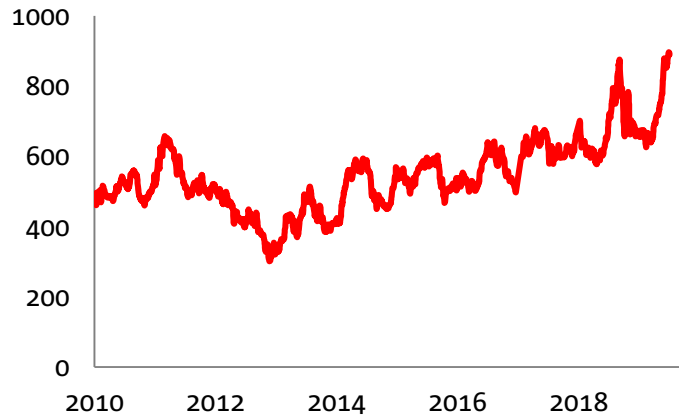
CATTLE

AUc/kg



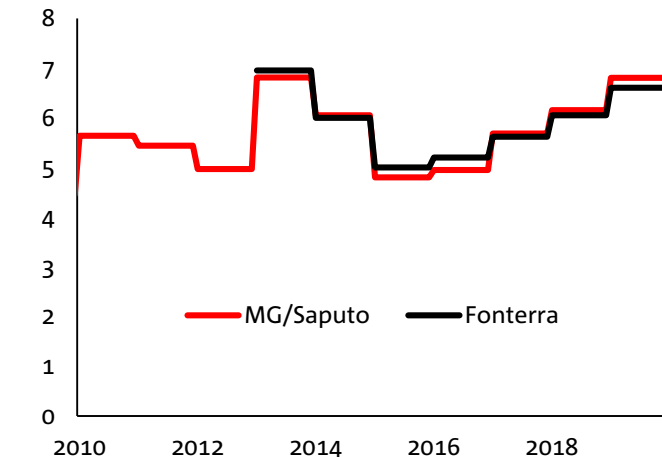
LAMB

National Trade Lamb Indicator, AUc/kg



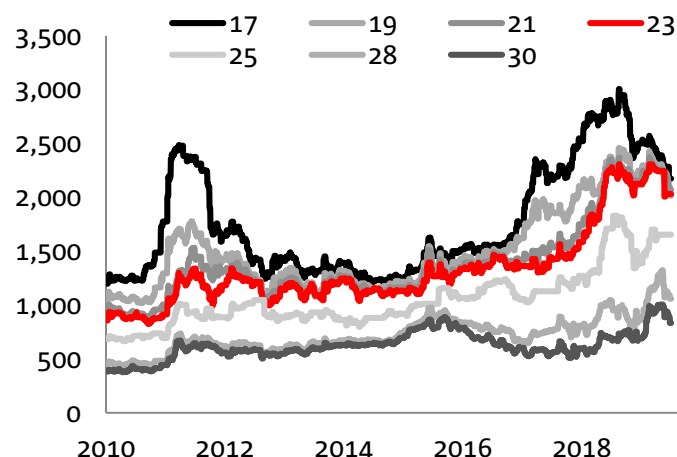
DAIRY FARMGATE PRICES

AUD/kgms



WOOL

Southern region, by micron, AUc/kg



Young cattle prices have trended slightly higher recently, although a premium for finished cattle and Victorian cattle remains, reflecting solid demand for beef and also for young cattle in regions where the season is able to support stock. Ultimately though, poor conditions further north are a brake on prices and we don't expect much upside for EYCI unless drought-affected areas of New South Wales and Queensland see some good rain.

Lamb prices are now well into record territory, surging well past 900c/kg amid strong demand and a lack of supply due to drought conditions since (particularly) last year. Prices in New Zealand are a little more subdued, but have followed the same upward trend since 2012-13. That said, we wonder whether prices can stay high through the spring flush.

Wool is lower, with EMI still below \$18/kg. This still represents a strong price, although there are some reasons for caution, especially if the trade war is not resolved.

Global Dairy Trade auctions have been negative for four auctions in a row in USD terms, although 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

The winter crop is now essentially in the ground and condition reports from Western Australia, Victoria and South Australia are generally good following a strong (if late) break. However, New South Wales (apart from the Riverina) and Queensland face generally very challenging conditions.

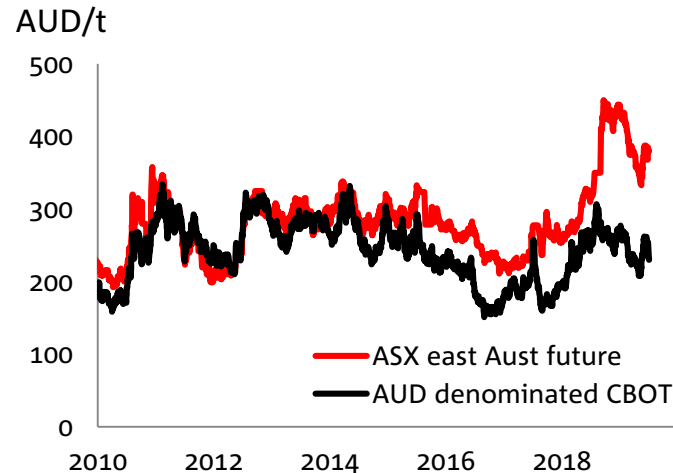
ABARES' June crop report puts the wheat crop at a tentative 21.2 million tonnes - below the "average" of around 24 million tonnes, but an improvement on the middling 17.3 million tonnes seen last season.

Our own assessment of the crop is a little more pessimistic overall (20.4 million tonnes vs 21.2 million tonnes for ABARES). We are more optimistic in Victoria, South Australia and Western Australia, but substantially more pessimistic in New South Wales.

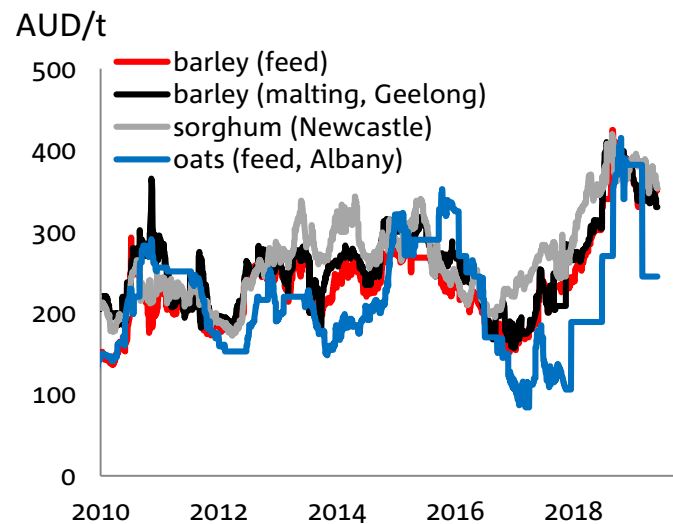
Our major concern at this stage is that the outlook is for a drier than average winter and start to spring.

It now appears that the eastern states will face another season of imports from the west or overseas. This will likely keep prices high for those feeding stock.

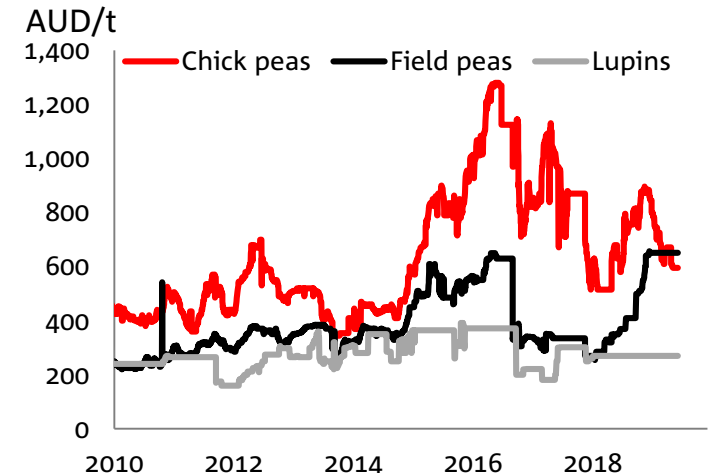
WHEAT



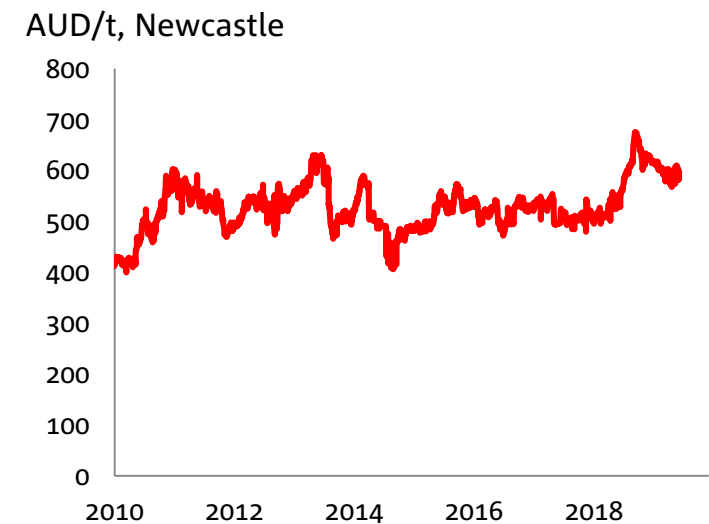
COARSE GRAINS



PULSES



CANOLA



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

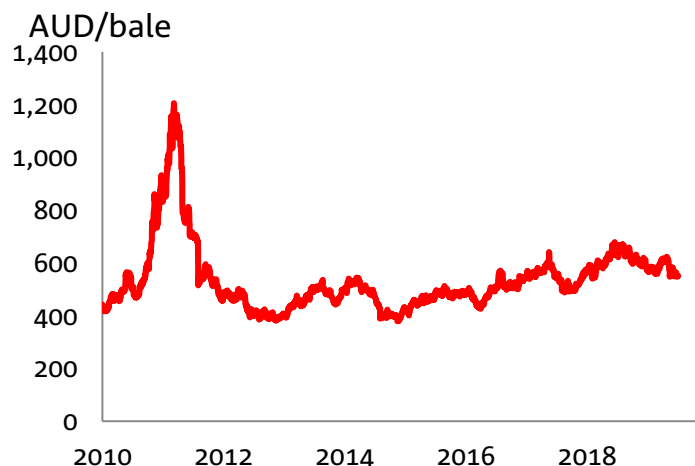
SUMMER CROPS, SUGAR AND HORTICULTURE

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.

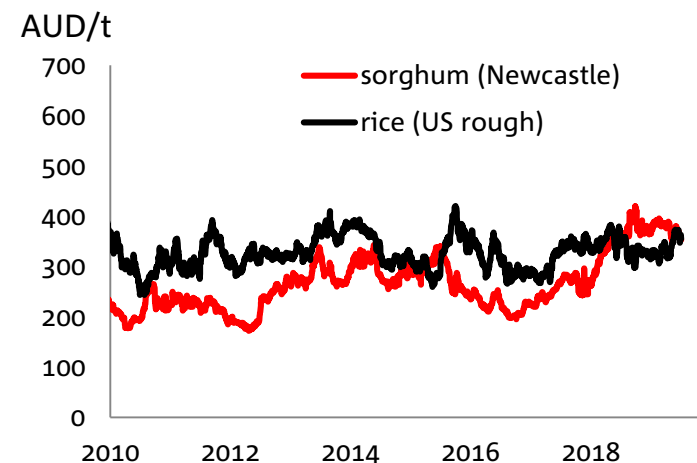
Cotton prices have come off a little recently, with AUD denominated Cotlook A averaging around \$560/bale in June.

Fruit and vegetables fell last month. Fruit prices dropped 2.8% in June – while vegetables dropped 6.2%.

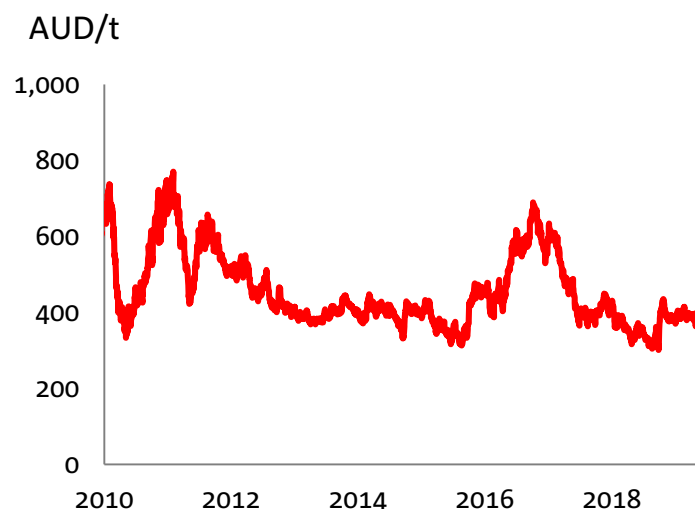
COTTON



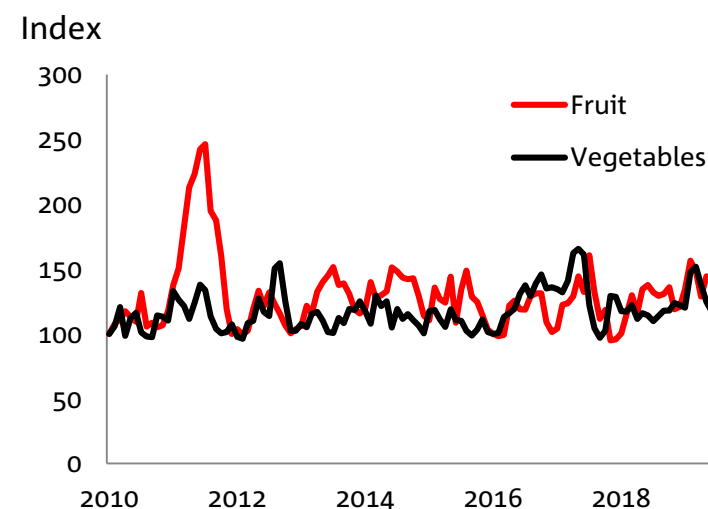
SORGHUM AND RICE



SUGAR

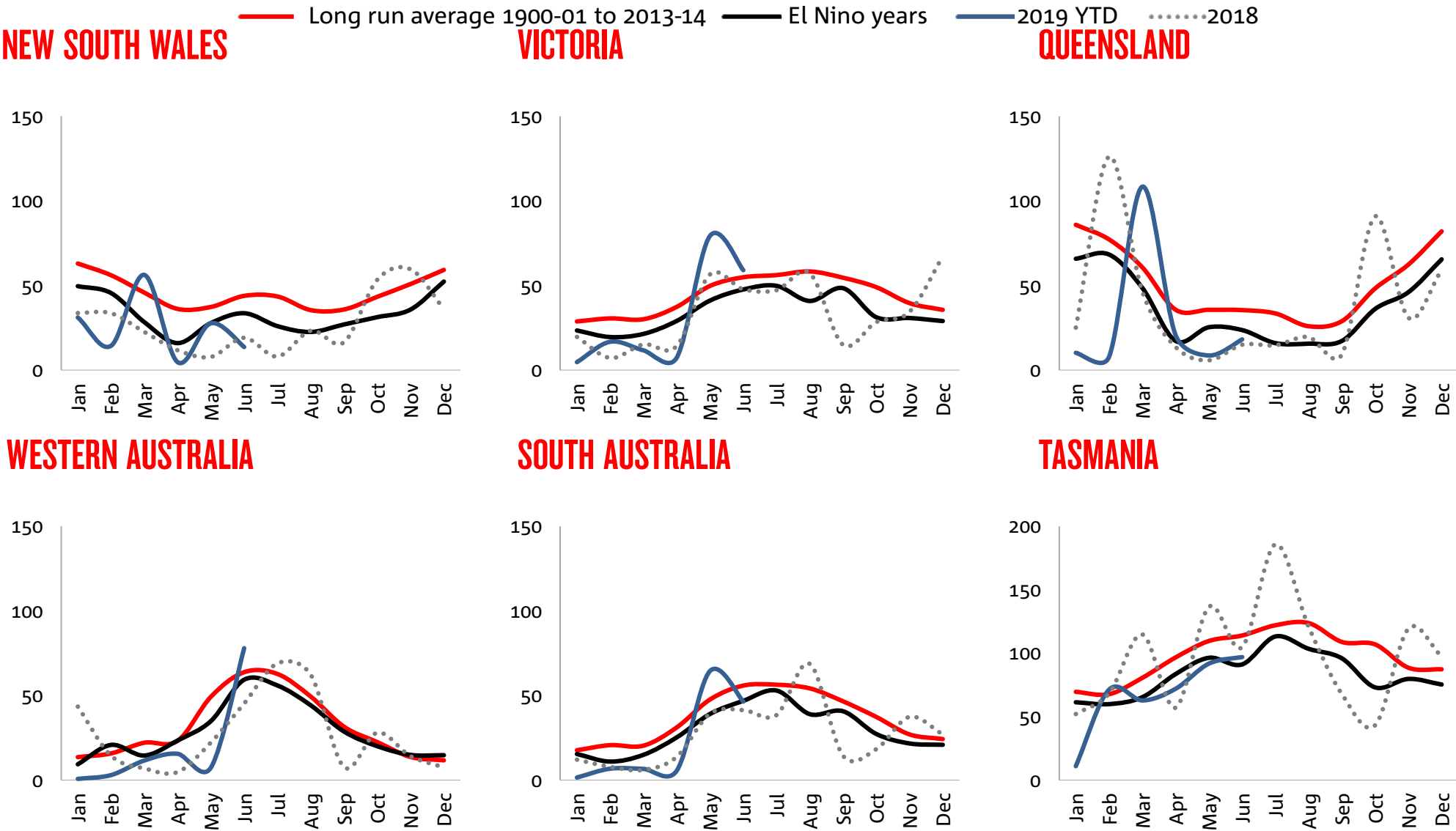


FRUIT AND VEGETABLES



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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