

RURAL COMMODITIES WRAP



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KEY POINTS

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Australian agricultural commodity prices continue to perform fairly well overall, although some sectors have performed better than others. Overall, the NAB Rural Commodities Index was flat in July. Had seasonal conditions been favourable, Australian agriculture would be in a strong position, however the seasonal picture remains very mixed.

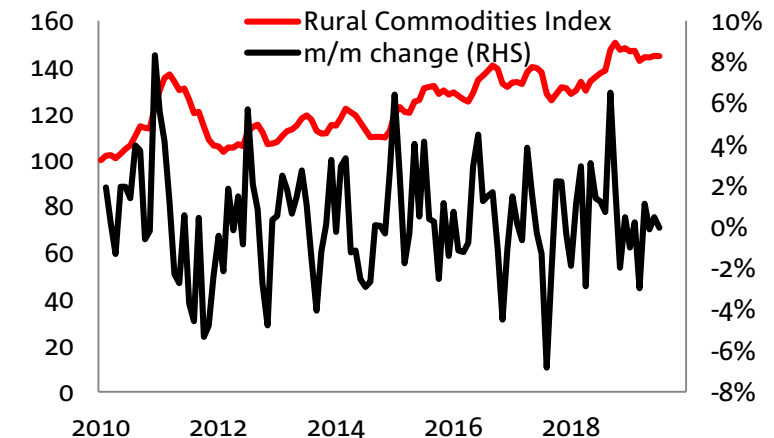
Some areas (particularly the south-east and south-west of the country), look set for a good season, especially if spring rains perform. However, much of New South Wales and Queensland remains in drought. With the winter crop window long gone, producers in northern New South Wales and southern Queensland will be looking to the summer crop, although substantial rainfall will be needed before October to see much sorghum go in the ground.

Cattle markets remain reasonably sound given the seasonal challenges in some areas. EYCI is just below 530c/kg and lot feeding continues to grow. MLA reports over 1.1 million cattle on feed in the June quarter. Containment feeding has also proven popular for lamb, especially given the hot trade lamb price. Whether this can be sustained through the spring flush is another question however. Wool prices have been lower recently and any further US-China trade dramas are a risk for the sector.

The Australian dollar has been a good deal lower recently. This reflects several factors, including USD strength, the US-China trade dispute, RBA rate cuts and domestic weakness, among other factors. We have cut our AUD forecasts substantially and we now see the AUD bottoming out at 66 US cents in Q1 2020 (previously 74c). A lower AUD is generally good news for Australian agriculture, although will see higher fuel and fertiliser prices.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

| | May | June | July |
|--------|---------|---------|--------|
| Wheat | ▼ 3.0% | ▲ 8.4% | ▼ 4.2% |
| Beef | ▼ 1.4% | ▲ 1.7% | ▲ 5.9% |
| Dairy | ▲ 4.6% | ▼ 9.7% | ▼ 2.5% |
| Lamb | ▲ 11.5% | ▲ 10.3% | ▲ 5.4% |
| Wool | ▼ 1.8% | ▼ 5.0% | ▼ 3.8% |
| Sugar | ▼ 3.5% | ▲ 5.3% | ▼ 2.9% |
| Cotton | ▼ 5.9% | ▼ 3.2% | ▼ 3.3% |

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



SEASONAL CONDITIONS

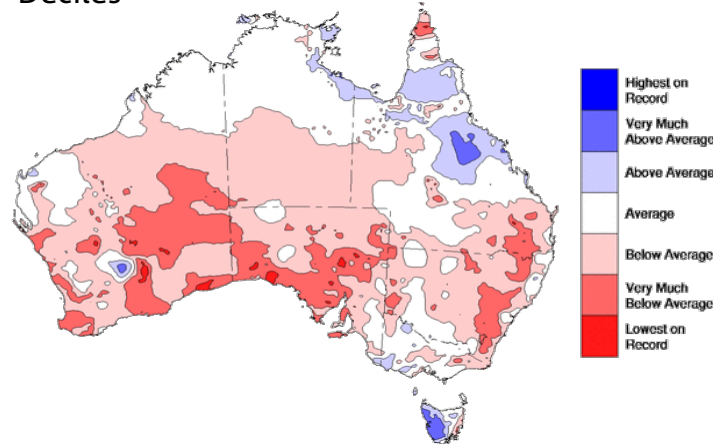
The Bureau of Meteorology's three-month outlook for spring makes for sobering viewing, pointing again to below average rainfall for most of the country. One glimmer of good news is that Septembers forecast is closer to average (outside of Queensland and the Territory), which *may* give the southern winter crop enough rain to get average yields at harvest. That said, the Bureau forecast drier than average conditions for winter, while much of the south has enjoyed a reasonable season.

July rainfall was generally below average, outside parts of Queensland and Tasmania. Grain regions in Western Australia and South Australia will need some follow up rain soon to keep the crop going. Meanwhile, much of New South Wales remains as dry as a chip.

Most models now suggest that ENSO is neutral and the Bureau's El Nino outlook is inactive for the coming months. That said, the Indian Ocean Dipole is again positive, which tends to be correlated with drier than average winter-spring rain in southern and central regions.

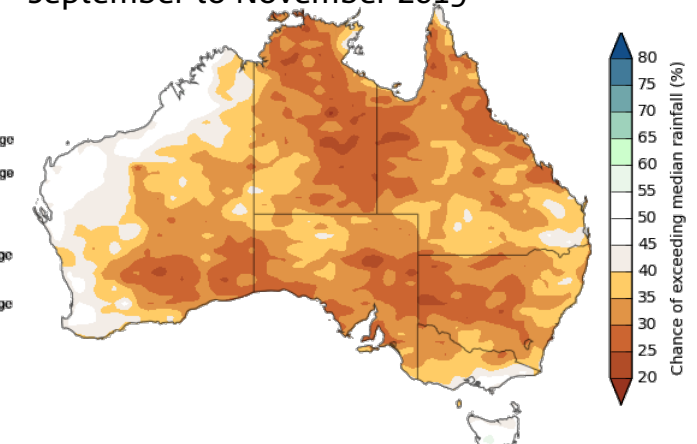
RAINFALL – JULY

Deciles



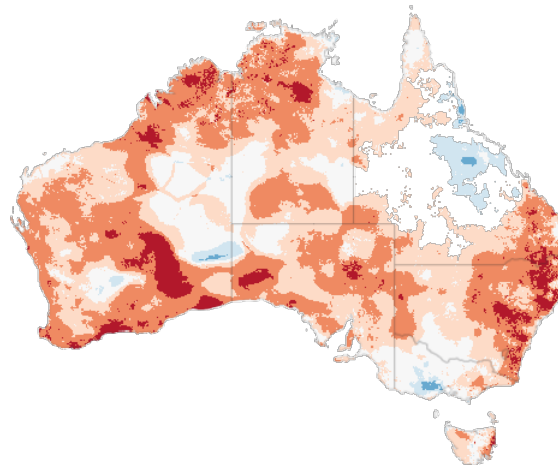
BOM RAINFALL OUTLOOK

September to November 2019



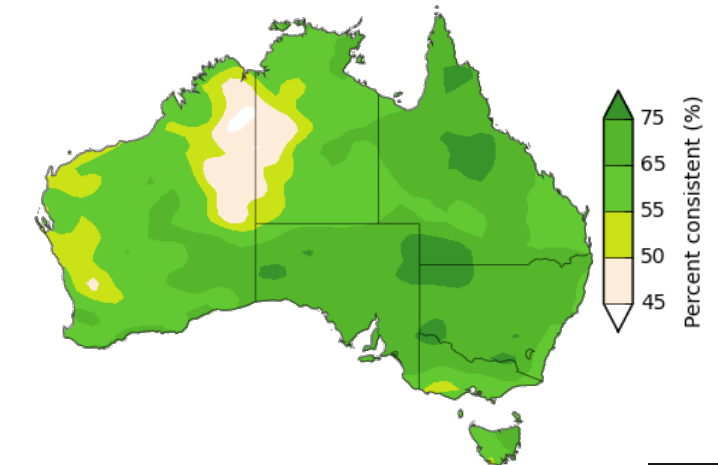
ROOT ZONE SOIL MOISTURE

Relative to average, 5 August



RAINFALL OUTLOOK ACCURACY

Past accuracy for outlook period



REGIONAL PRICES

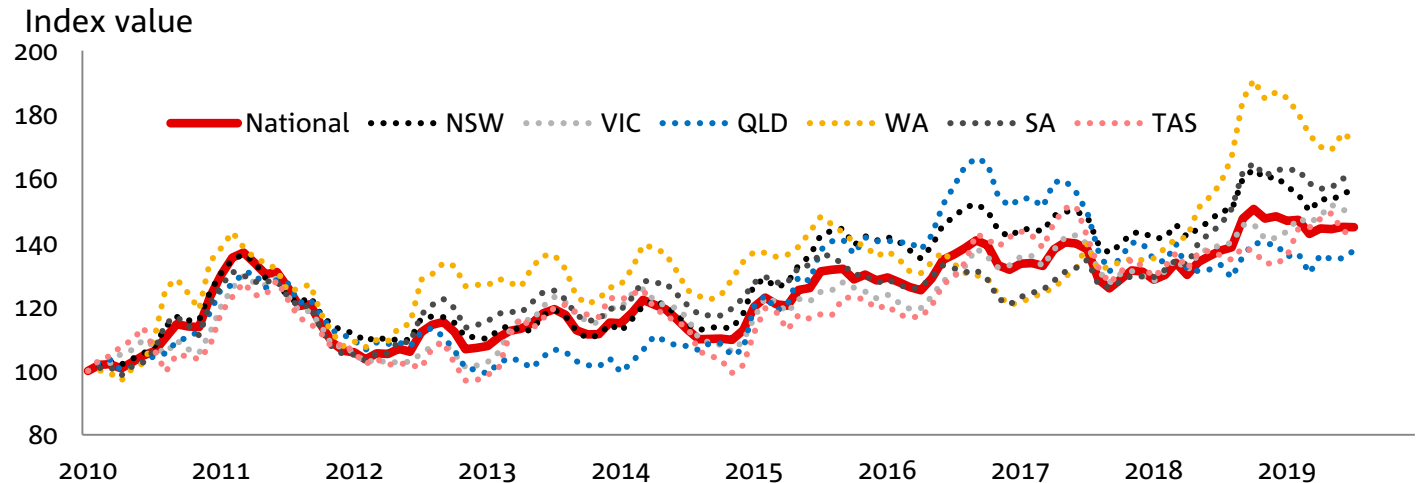
We also produce the NAB Rural Commodities Index on a state-by-state basis.

Queensland saw the best price performance in July, up 1.8% largely reflecting an improvement in cattle markets (although southern premiums remain). Meanwhile New South Wales gained 1.6% and Victoria was almost flat on 0.1%.

Tasmania, South Australia and Western Australia were all lower, down 0.6%, 1.0% and 1.6% respectively.

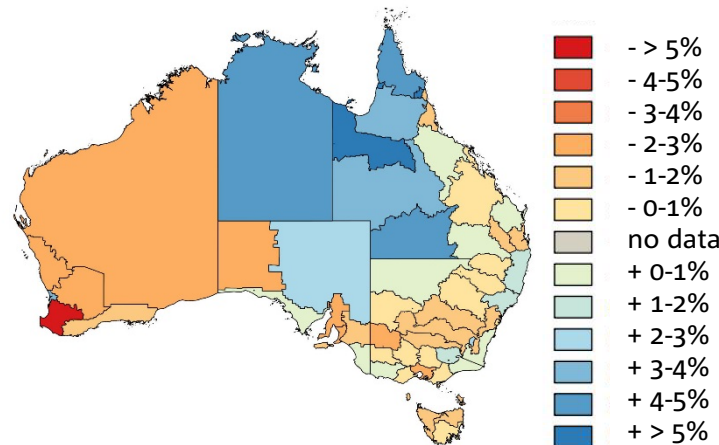
Our regional agricultural price indicators show a generally positive direction on an annual basis in July, with the exception only three regions, largely in New South Wales. On a monthly basis, grain growing regions saw generally lower prices, while outback Queensland and the Northern Territory were positive.

RURAL COMMODITIES INDEX BY STATE



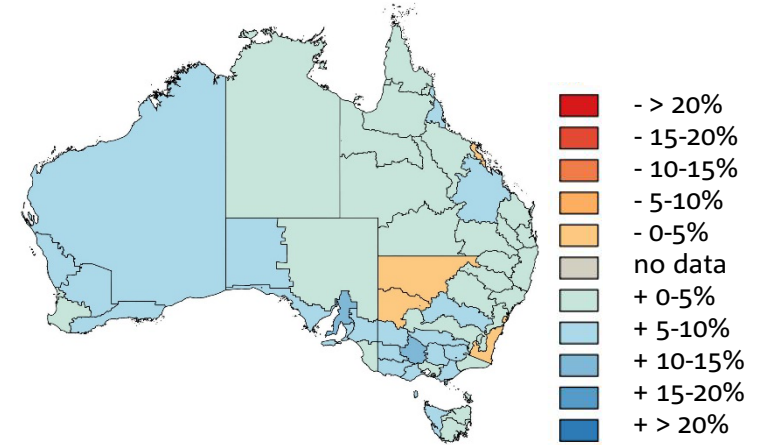
MONTH ON MONTH

June – July 2019



YEAR ON YEAR

July 2018 – July 2019

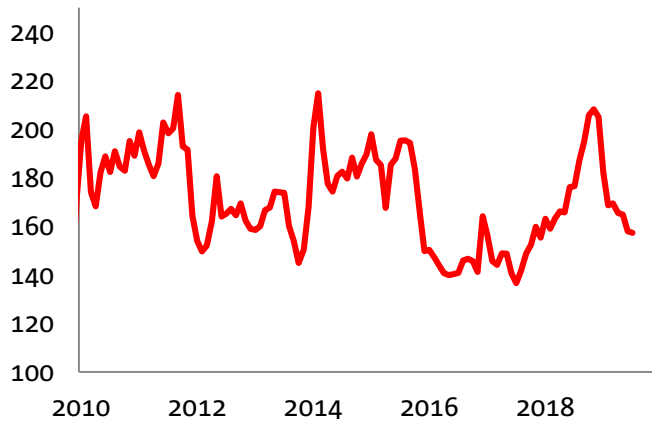


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

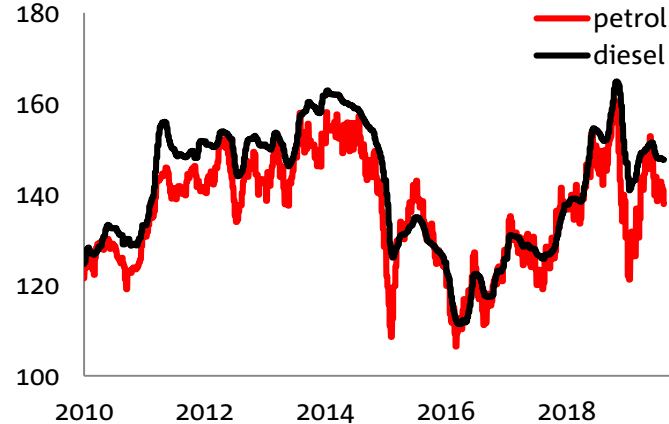
NAB FERTILISER INDEX

AUD index



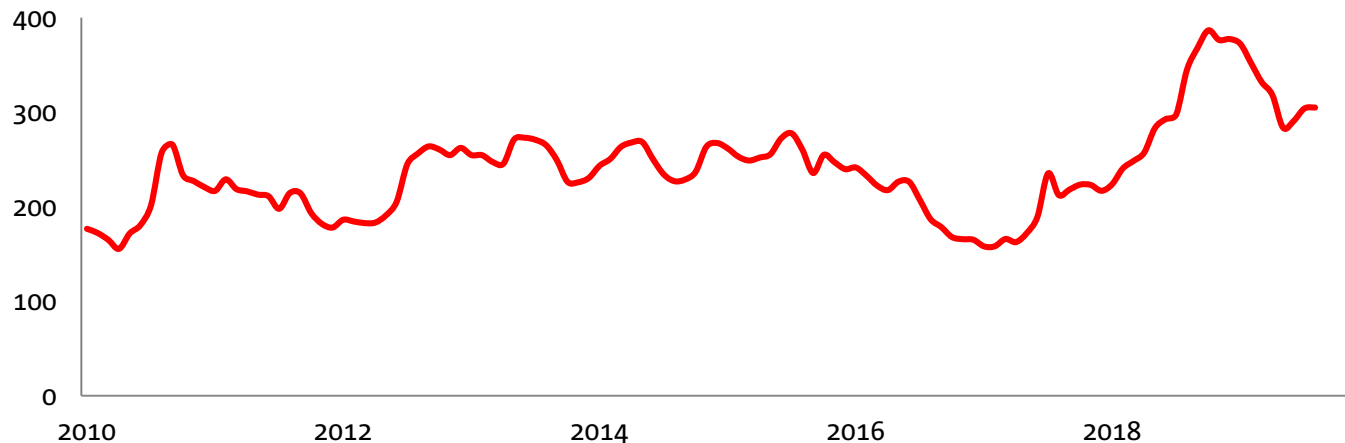
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices have mostly tracked sideways, although movements in exchange rates could see pressure mount in coming months.

Domestic feed prices rose 4.5% in July. On a year on year basis, prices are essentially flat. Overall, the NAB weighted feed grain price index stood at \$304/t for the month, having peaked at \$386/t in October last year. While international forces are mixed, 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 delivered on farm for feed.

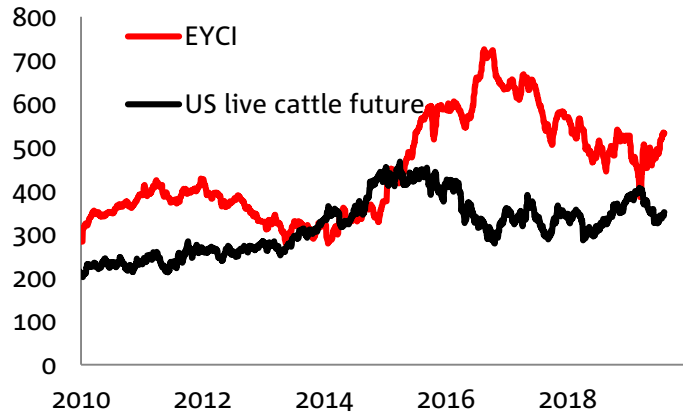
Oil prices have been generally lower over the past month, with Brent back in the \$50s range for this first time since January. The market continues to face competing forces, with ongoing output cuts and simmering geopolitical tensions, against soft demand this year and a weakening global economy. We have cut our oil price forecasts, but also our AUD forecasts. Consequently we don't expect much downside for fuel prices.

The NAB Fertiliser index fell 0.4% in July, largely reflecting lower USD denominated urea, DAP and US natural gas prices, offset by a lower AUD.

LIVESTOCK

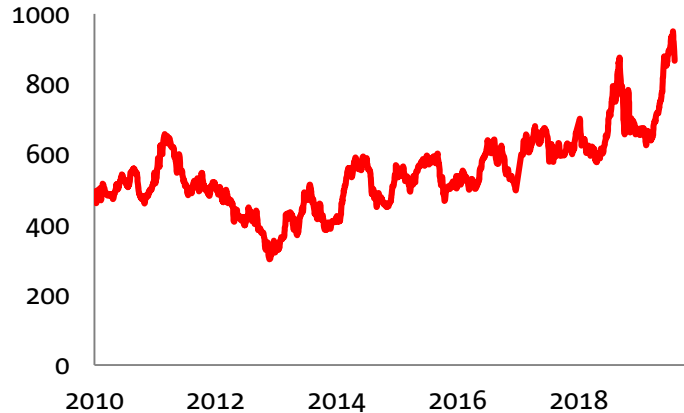
CATTLE

AUc/kg



LAMB

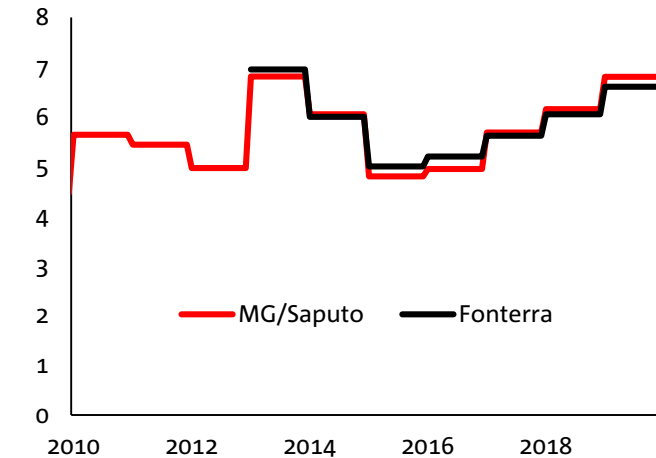
National Trade Lamb Indicator, AUc/kg



Young cattle prices have been a good deal higher recently, with EYCI just below 530c/kg – closing on same time 2017 levels. The premium for finished and southern cattle remains, reflecting strong processor demand 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 more upside for EYCI, unless drought-affected areas of New South Wales and Queensland see some good rain. Lot feeding continues at an elevated rate, with over 1.1 million cattle on feed.

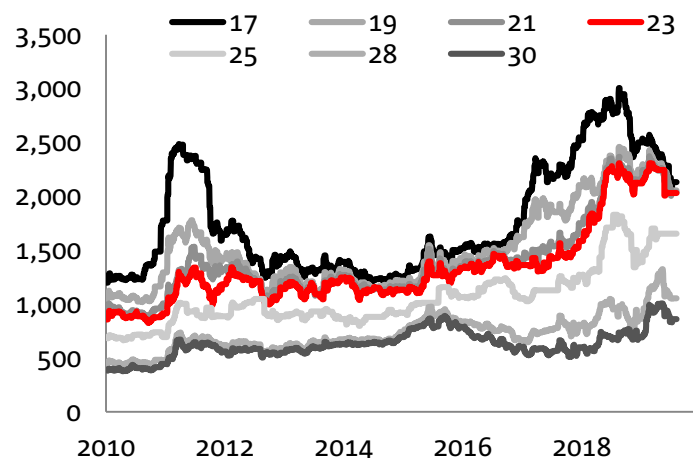
DAIRY FARMGATE PRICES

AUD/kgms



WOOL

Southern region, by micron, AUc/kg



Lamb prices have retreated somewhat from the record levels set last month, but remain excellent overall. The spring flush is coming and the big question is how much prices will fall. Seasonal conditions are likely to be the biggest factor, with a good spring likely to keep prices high. Containment feeding continues to expand, suggesting that traditional seasonal factors may become less prevalent over time. Wool is lower and the ongoing trade war and weaker global growth is making us more nervous.

Global Dairy Trade auction results remain negative in USD terms (except for the 16 July auction). The lower AUD should support processors squeezed between keeping farmgate prices high enough for milkflow and the value of product on world markets.

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

WINTER CROPS

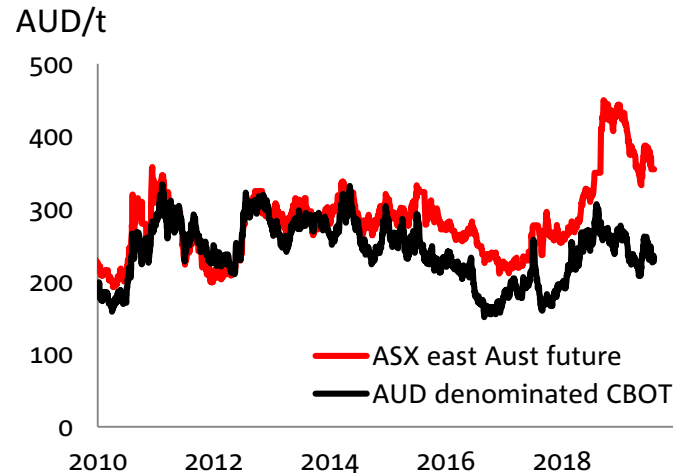
Winter crop condition reports from Western Australia, Victoria and South Australia remain generally good following a strong (if late) break. Perhaps surprisingly, some parts of New South Wales are also reporting reasonable crops. However, New South Wales overall and Queensland, face generally very challenging 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.

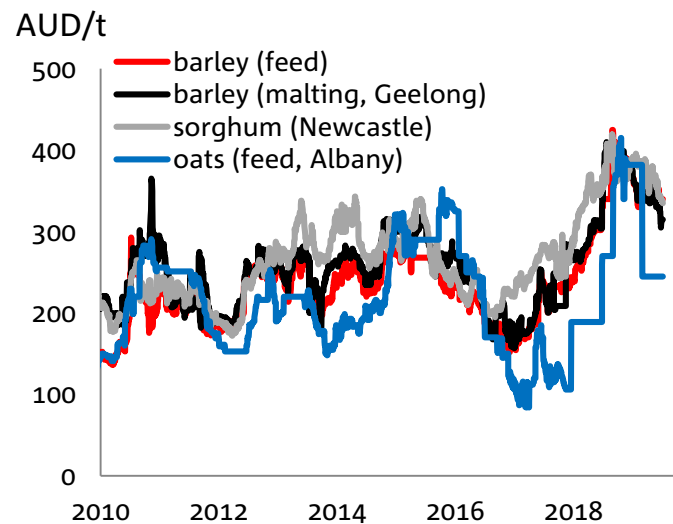
We have kept our assessment of the crop on hold this month (20.4 million tonnes of wheat). There is a good chance that the crop will well exceed this figure, but the dry outlook gives us some pause for concern. Ultimately at least some spring rain will be needed.

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. The expansion of lot feeding means that demand will likely remain well into 2020.

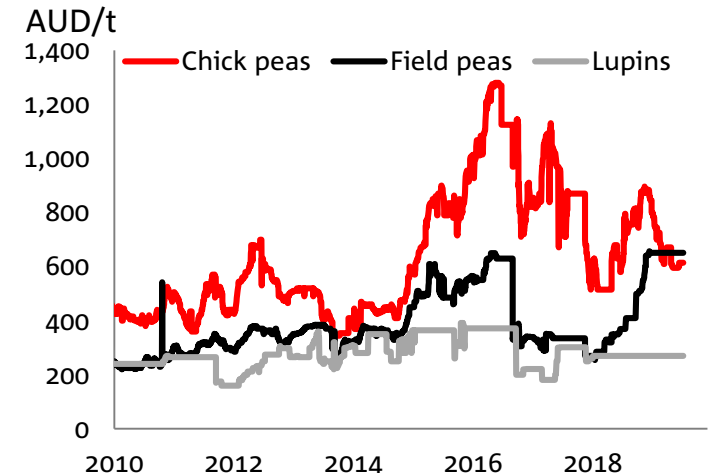
WHEAT



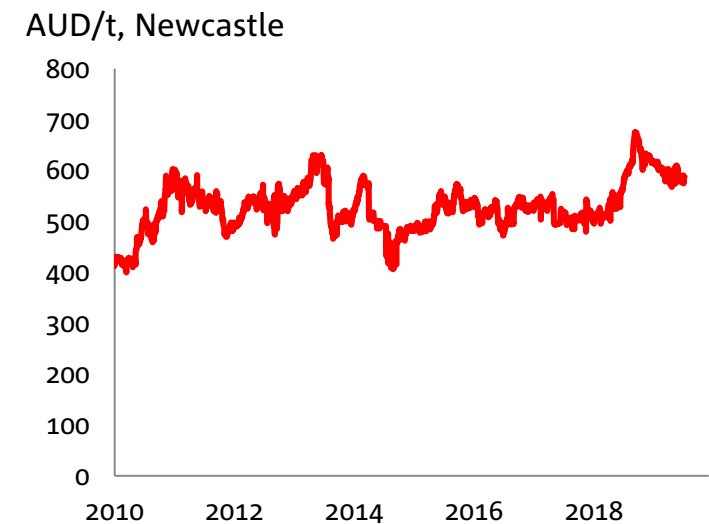
COARSE GRAINS



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

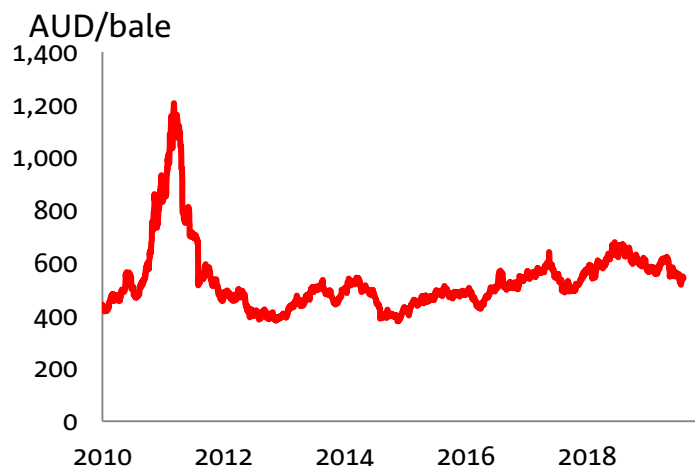
Storage volumes for major public storages in the Murray Darling Basin remain low overall, and even with a recovery in inflows from here, allocations will probably be under pressure for the coming season. Private storages in the basin are also likely to be fairly low. As a result, Australia will face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

Cotton prices have now fallen a good deal from peak, with AUD denominated Cotlook A averaging around \$541/bale in June.

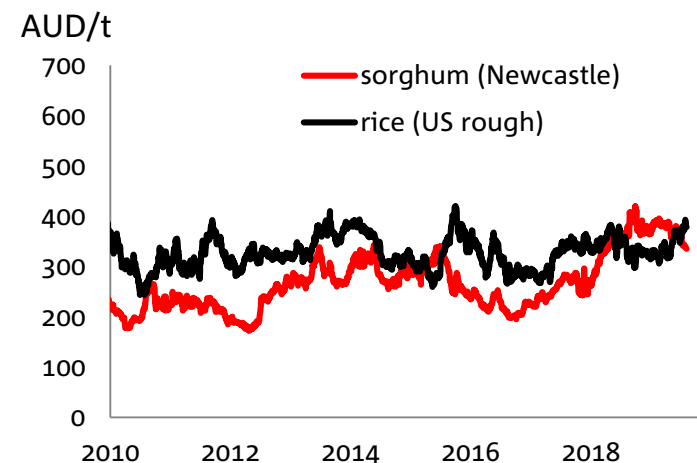
Having essentially missed the winter crop, northern New South Wales and Queensland grain growers are looking to the summer. Decent rain is needed sooner rather than later if much sorghum is to go in the ground come October.

Fruit and vegetables fell last month. Fruit prices dropped 1.0% in July – while vegetables dropped 7.1%.

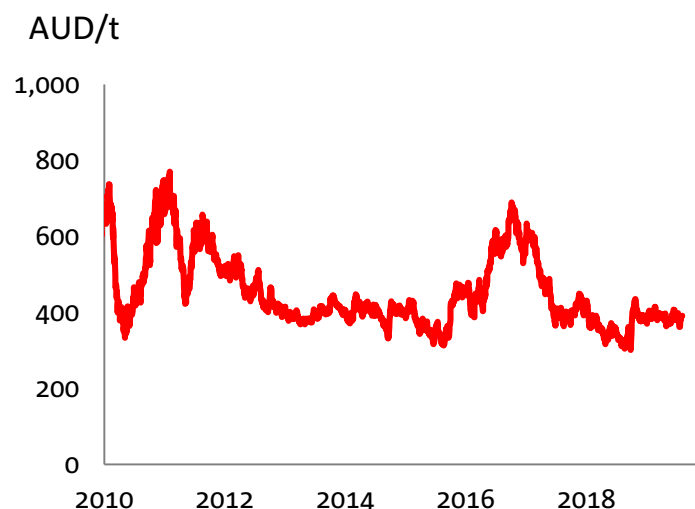
COTTON



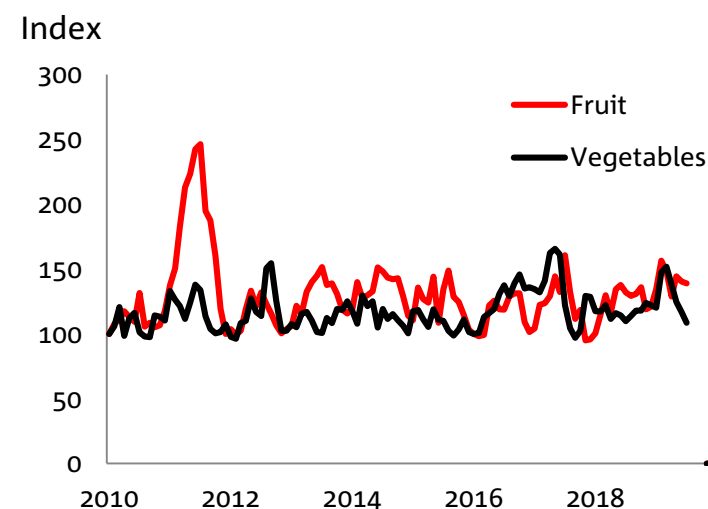
SORGHUM AND RICE



SUGAR

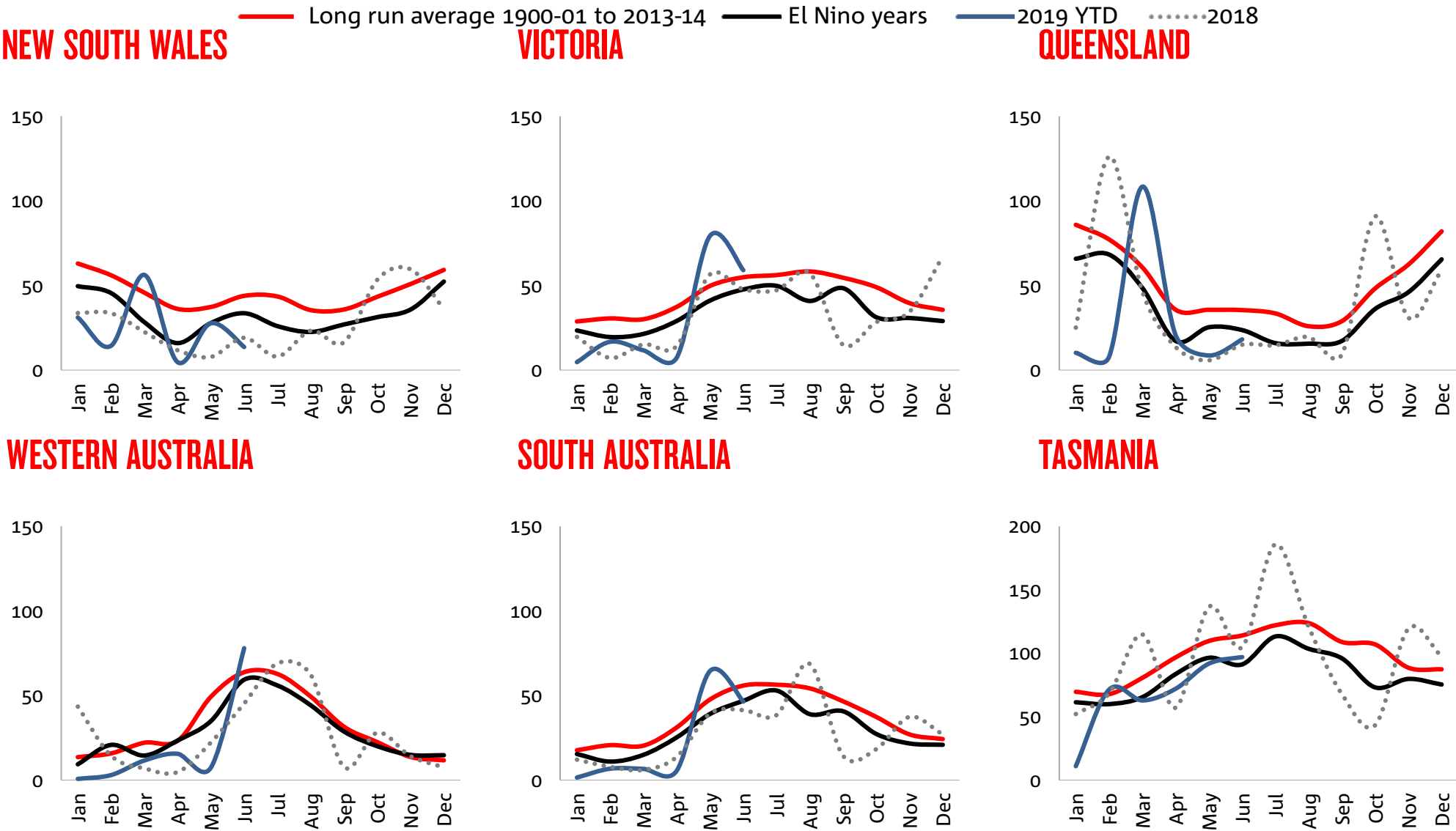


FRUIT AND VEGETABLES



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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