



RURAL COMMODITIES WRAP

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KEY POINTS

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Seasonal conditions remain at the forefront of concerns for Australian Agriculture. Weather conditions have been generally unfavourable across many winter cropping regions over the last few weeks, with frost, heat and a lack of rain menacing the crop. Yields in Western Australia and South Australia are under pressure, and are likely to be further dented by the dry spring outlook. Victoria should see the best yields nationally, although a dry spring will take some of the cream off. Meanwhile New South Wales and southern Queensland remain under intense pressure, with rain desperately needed ahead of summer crop planting.

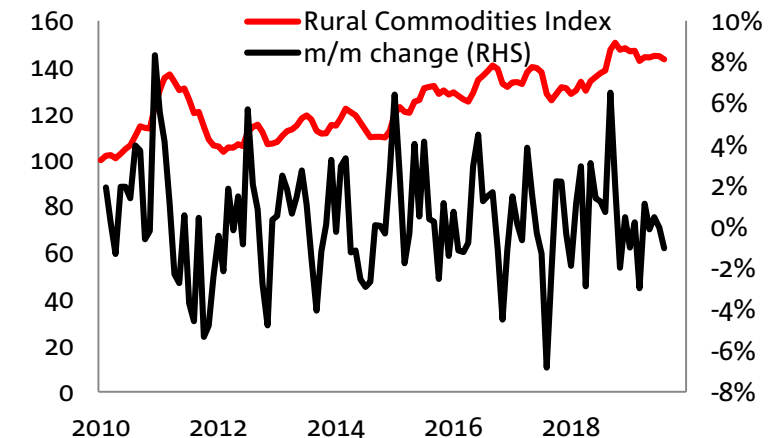
Livestock markets remain fairly resilient despite the challenging season. Cattle markets remain reasonably sound given the seasonal challenges in some areas. Lot feeding continues to perform and processors are chasing quality finished stock. EYCI has drifted lower but at around 468c/kg amid drought conditions represents a fairly resilient price. Lamb prices remain hot, hovering at around 795c/kg for trade lamb. Whether this can be sustained through the spring is far from clear, although there is a possibility that supply will remain constrained, keeping prices elevated. Wool prices are starting to look quite crook and are likely to remain so absent any resolution to US-China trade dramas.

Temporary water prices in the Murray-Darling basin continue to surge, reflecting moribund inflows and very low allocations. This will continue to put pressure on northern Victorian irrigated dairy, although strong farmgate prices and a good season have confidence return to south-west Victoria and (to a lesser extent) Gippsland.

We now see the RBA cutting rates at least twice more, down to 0.5% by December this year, while the AUD is likely to remain in the 60s for some time.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

	June	July	August
Wheat	▲ 8.4%	▼ 4.2%	▼ 3.5%
Beef	▲ 1.7%	▲ 5.9%	▼ 9.7%
Dairy	▼ 9.7%	▼ 2.5%	▲ 3.4%
Lamb	▲ 10.3%	▲ 5.4%	▼ 9.7%
Wool	▼ 5.0%	▼ 3.8%	▼ 8.6%
Sugar	▲ 5.3%	▼ 2.9%	▼ 1.9%
Cotton	▼ 3.2%	▼ 3.3%	▼ 3.4%

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 latest three-month outlook is best read sitting down. The outlook points once again to below average rainfall for most of the country. Only the Pilbara and Kimberley are forecast to see above average rainfall in the three months to December.

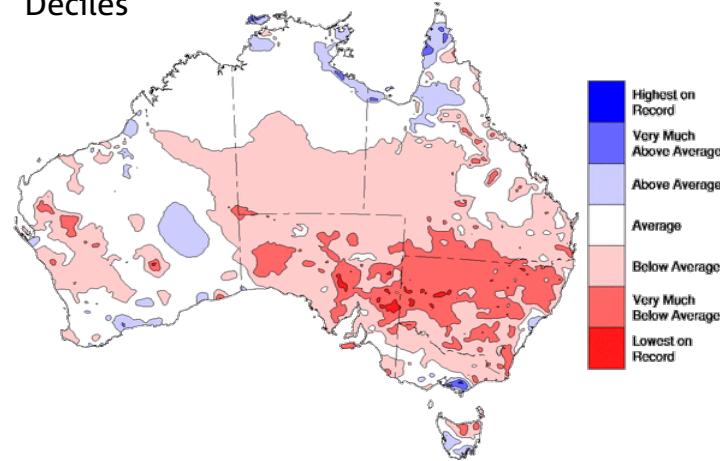
August rainfall was generally below average, with the notable exception of south-west Gippsland and parts of the Great Southern.

Root zone soil moisture is well below average, except for most of Victoria, Tasmania and parts of Queensland (but notably not the Darling Downs).

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

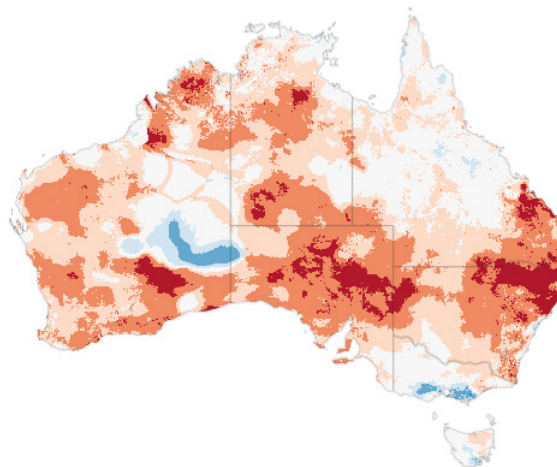
RAINFALL – AUGUST

Deciles



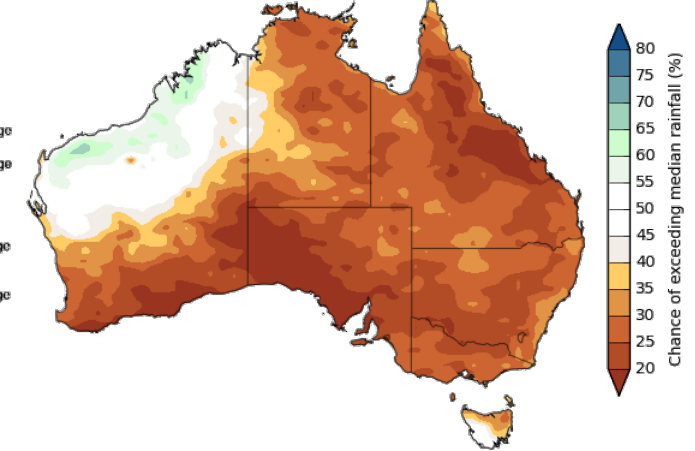
ROOT ZONE SOIL MOISTURE

Relative to average, 17 September



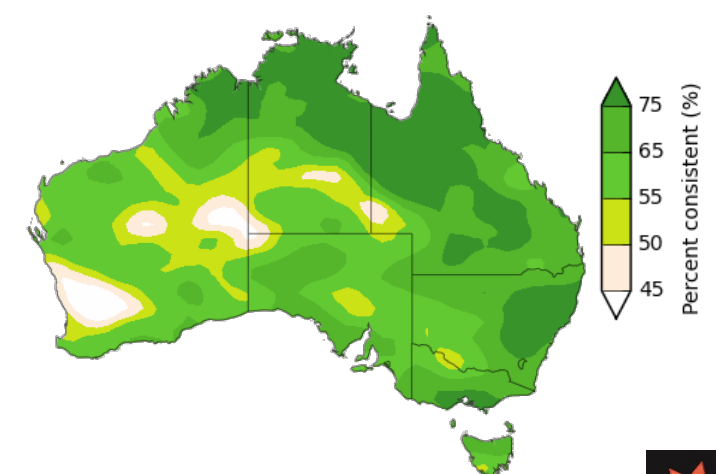
BOM RAINFALL OUTLOOK

October to December 2019.



RAINFALL OUTLOOK ACCURACY

Past accuracy for outlook period



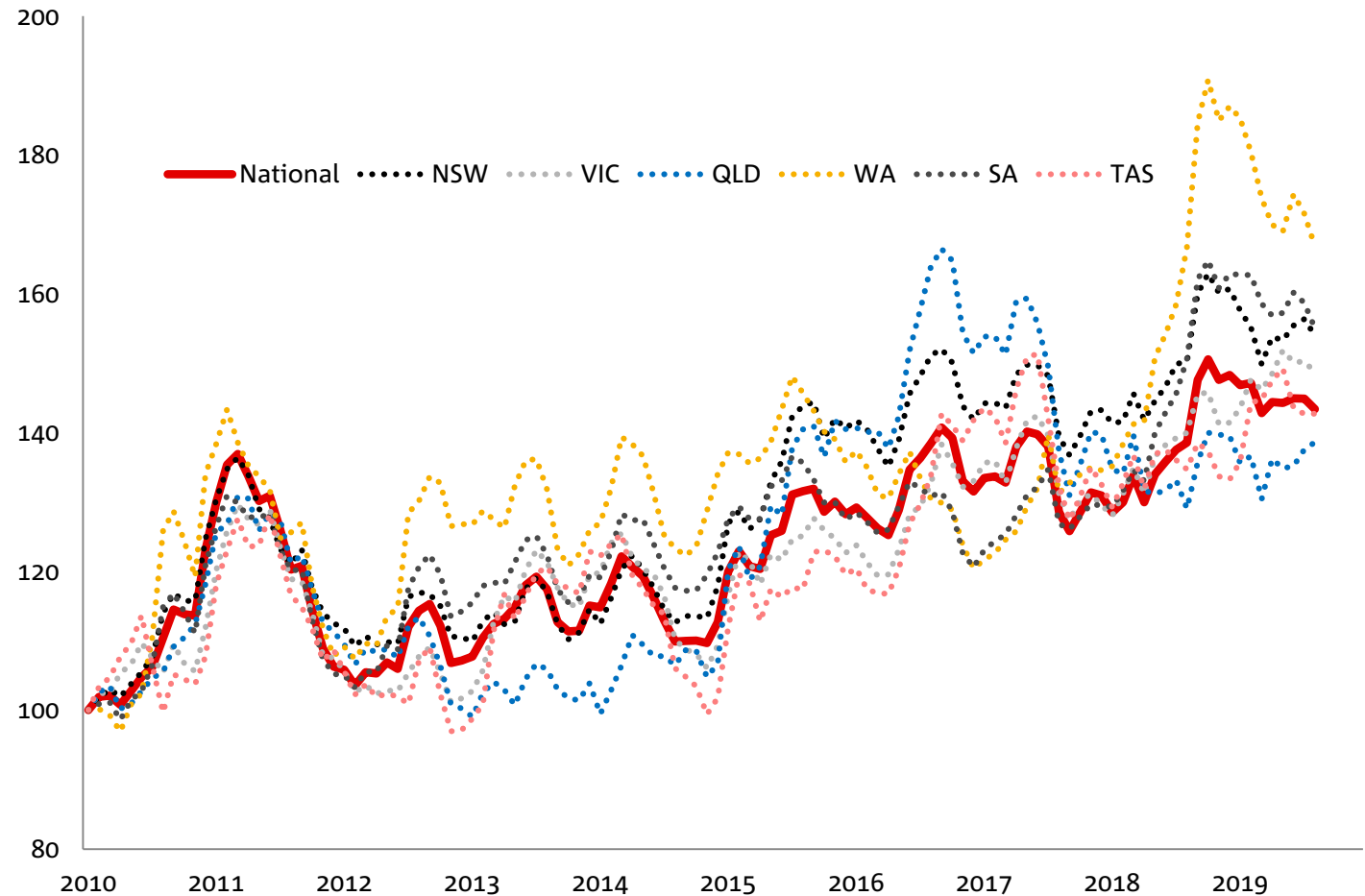
STATE PRICES

Overall, the NAB Rural Commodities Index fell 1.0% nationally in August on a month on month basis, but was up 3.5% on a year basis.

We also produce the NAB Rural Commodities Index on a state-by-state basis. Queensland again saw the best price performance in in August, up 1.7% on a month on month basis while Tasmania was flat. The other states were all negative, with Western Australia the weakest performer. A likely tough grain season may see WA prices rally later this year though.

RURAL COMMODITIES INDEX BY STATE

Index value

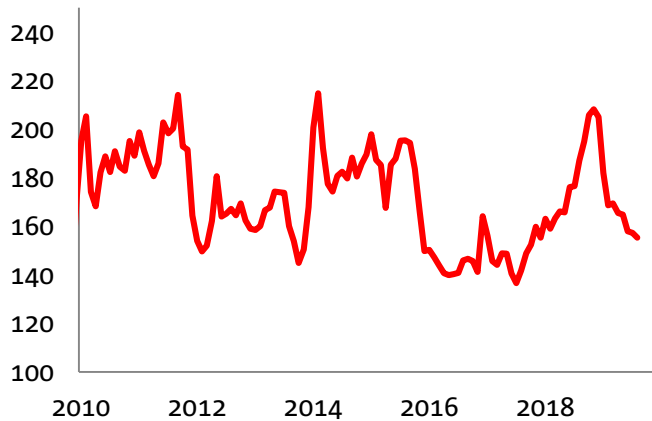


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

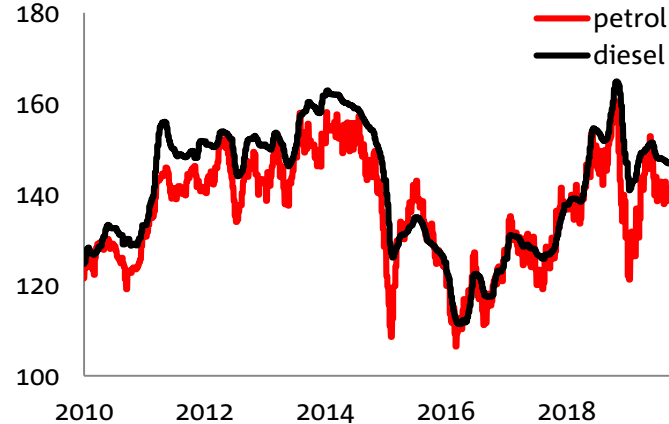
NAB FERTILISER INDEX

AUD index



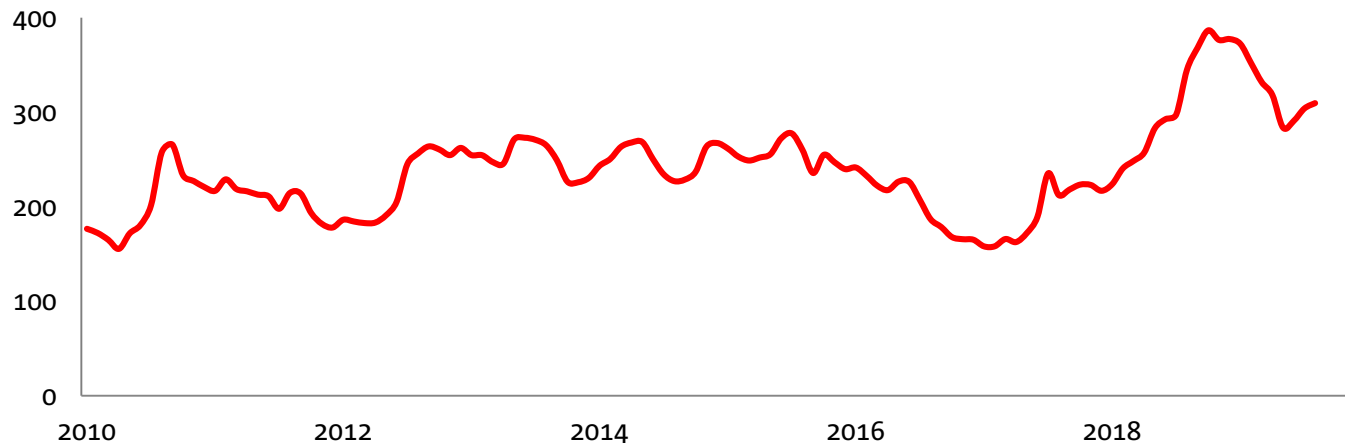
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices are in an interesting position at present, with a lower AUD and dry season likely to put upward pressure on input costs, with the impact of recent attacks on Saudi oil refinery infrastructure a real wildcard.

Domestic feed prices rose 1.9% in August. On a year on year basis, prices are 10.2% lower, but we are already seeing life in new season crop prices as yield estimates take a hit. Feed grain will likely be expensive once again this summer. There is talk that a good deal of crop in South Australia and New South Wales will be cut for hay. Overall, the NAB weighted feed grain price index stood at \$310/t for the month, but few graziers would have access to anything resembling these prices on farm delivered.

Oil prices spiked almost 20% on news of the attacks on Saudi oil infrastructure knocking out 5% of global oil supply. But, the announcement that much of this supply will return quickly have seen prices retreat. Unless there is a further ramp-up in tensions in the region, we see markets remaining close to “normal” but a lower AUD will put some pressure on at the bowser in Australia.

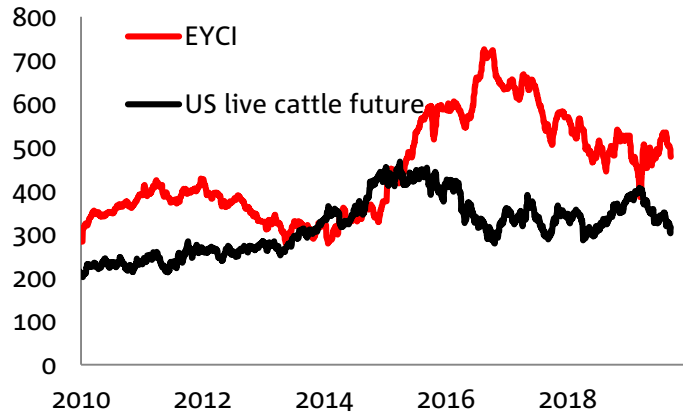
The NAB Fertiliser index fell 1.3% in August.



LIVESTOCK

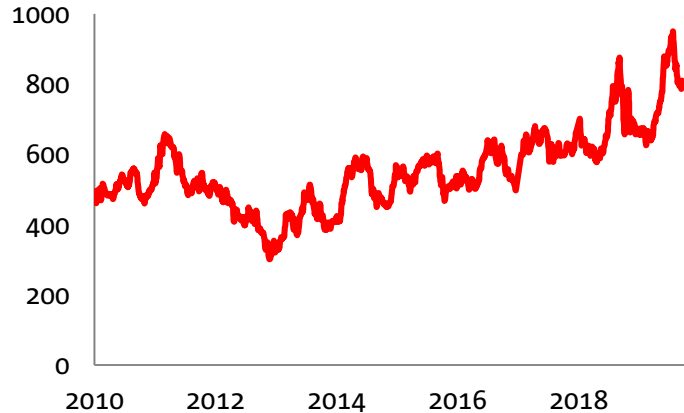
CATTLE

AUc/kg



LAMB

National Trade Lamb Indicator, AUc/kg

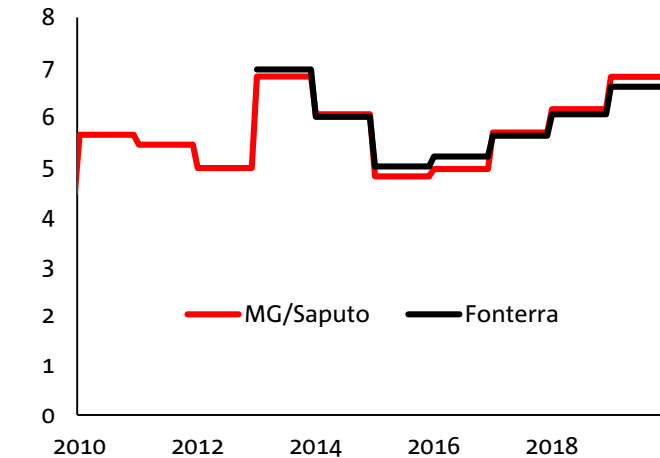


Young cattle prices have dropped off recently, with EYCI around 468c/kg. There is a good premium for quality finished cattle, which remain in short supply. Ultimately though, poor conditions in many areas are a brake on prices and continued elevated female slaughter points to a herd in liquidation mode. We don't expect much upside for ECYI, unless drought-affected areas of New South Wales and Queensland see very good rain.

Lamb prices have retreated somewhat from their record peaks earlier this year, but remain strong. Whether this can be sustained through the spring is far from clear, although there is a possibility that supply will remain constrained, keeping prices elevated. Containment feeding is very popular, suggesting that traditional seasonal factors may become less prevalent over time. However, we are a little nervous around high input cost models should prices fall from here. Wool prices are starting to look quite crook and are likely to remain so, absent any resolution to US-China trade dramas. EMI has bounced back from the very worrying \$13.65 seen at the start of September to \$15.42, but this is still around a quarter below levels seen quite recently.

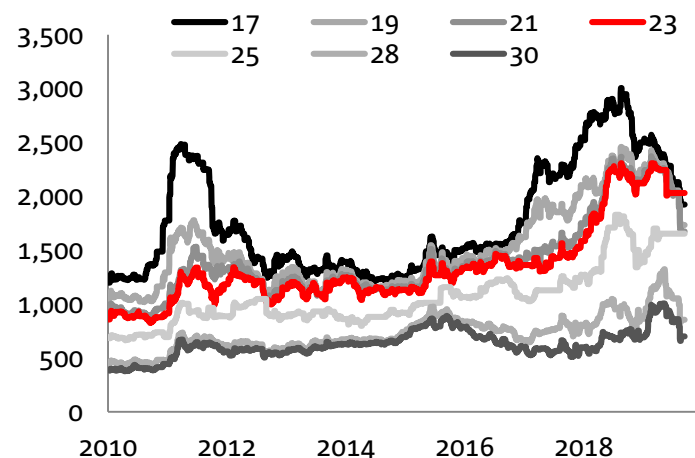
DAIRY FARMGATE PRICES

AUD/kgms



WOOL

Southern region, by micron, AUc/kg



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

Global Dairy Trade auction results have been generally better over the last two months and the lower AUD is a boost to processors offering strong farmgate prices to maintain milk flow. However, northern VIC input costs are an ongoing concern.



WINTER CROPS

Winter crop condition reports from Western Australia and South Australia have soured over the last few weeks amid frost, heat and dry weather. New South Wales is looking worse again but Victoria remains fairly resilient. Reports suggest a lot of crop will be cut for hay.

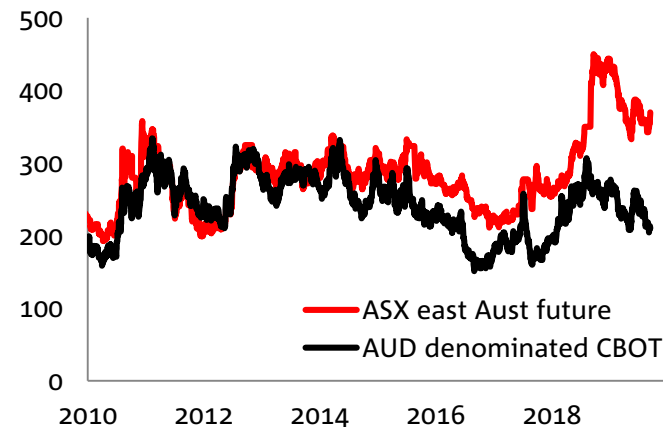
GIWA's latest forecasts are for Western Australia point to a 6.8 million tonne wheat crop, down from 7.4 million tonnes forecast in August. This is well below ABARES' 8 million tonne wheat forecast for the west and underscores the downside risks for harvest.

A sub-20 million tonne wheat crop is now essentially guaranteed, with minds now turning to downside risks. Even if the west produces 7 million tonnes of wheat, and Victoria and South Australia 3.5 million tonnes each, a 16-17 million tonne crop is not out of the question given how poor conditions are in New South Wales.

The eastern states will face another season of imports from the west and overseas, and new season crop prices already reflect this reality. This will likely keep prices high for those feeding stock. Elevated lot feeding will keep demand elevated into 2020.

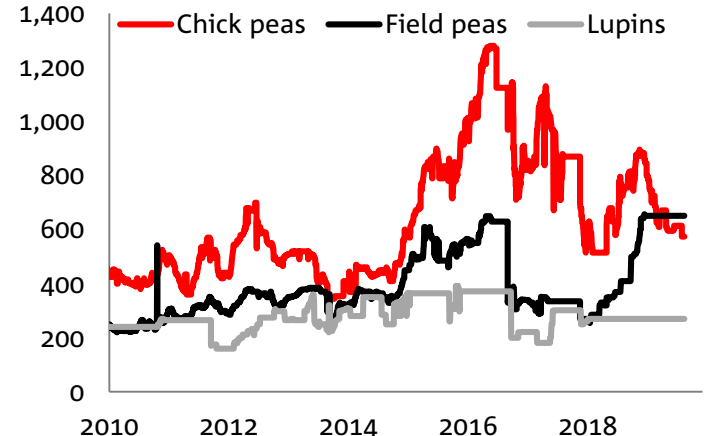
WHEAT

AUD/t



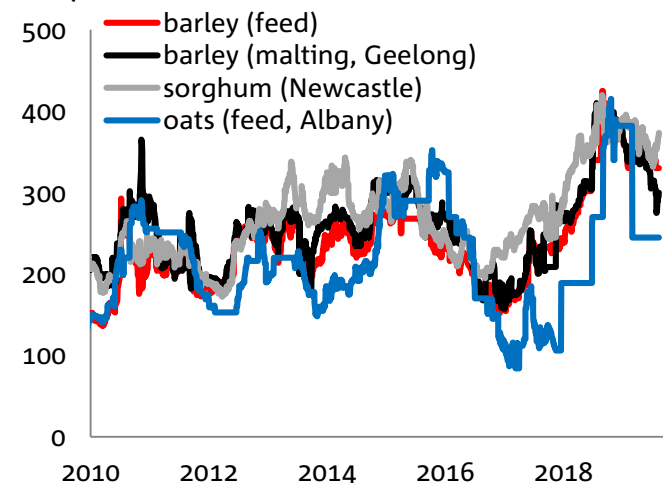
PULSES

AUD/t



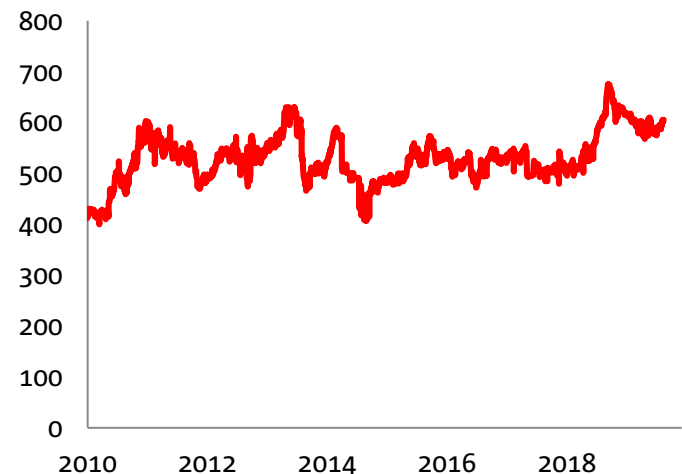
COARSE GRAINS

AUD/t



CANOLA

AUD/t, Newcastle



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

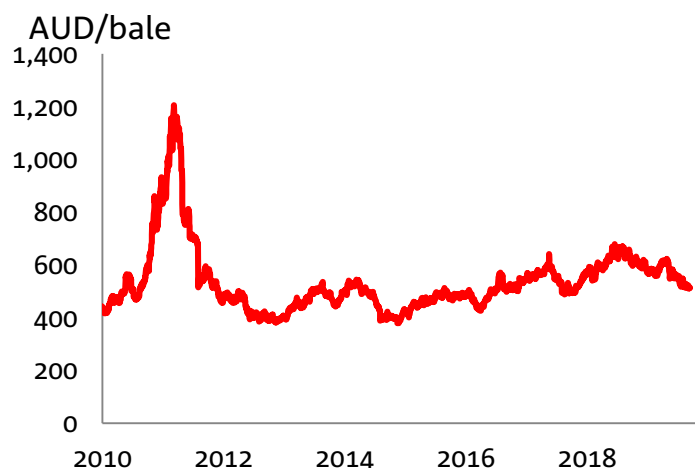
Storage volumes for major public storages in the Murray Darling Basin are low overall, and inflows have been generally poor. Allocations are low throughout many parts of the basin and temporary water prices are now reaching the \$700-800/ML range. Australia will see another season of low cotton production.

Cotton prices are well below peak in AUD terms, with AUD denominated Cotlook A averaging around \$515/bale in September (to date).

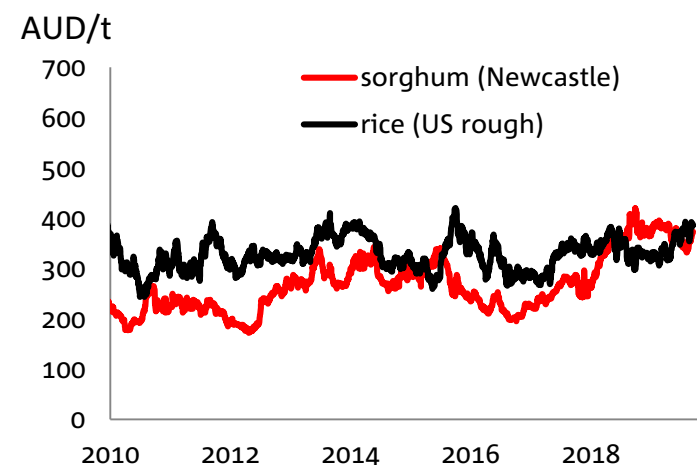
Having essentially missed the winter crop, northern New South Wales and Queensland grain growers are looking to the summer. Very good rain is now needed if much sorghum is to go in the ground come October-November.

Fruit and vegetables rose last month. Fruit prices gained 2.3% while vegetables were up 2.4%.

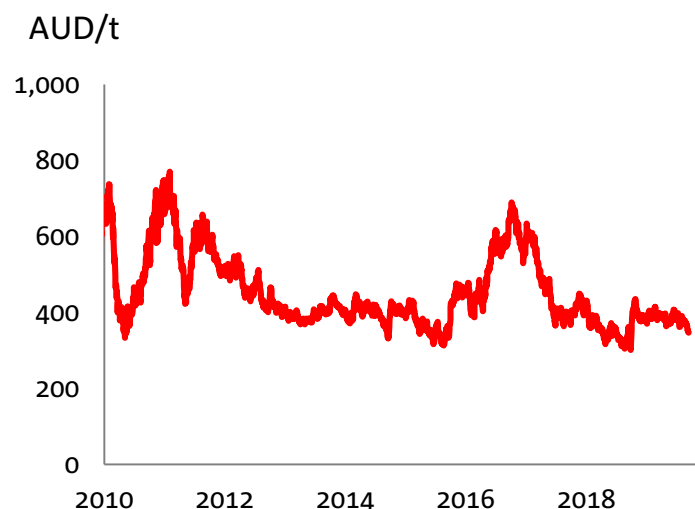
COTTON



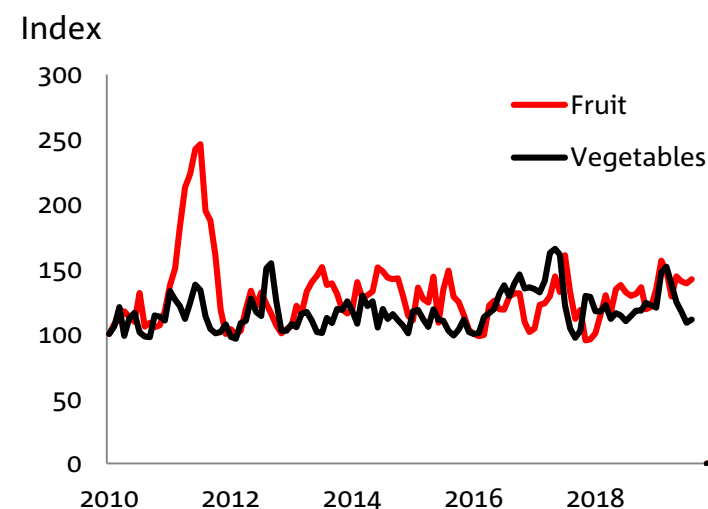
SORGHUM AND RICE



SUGAR

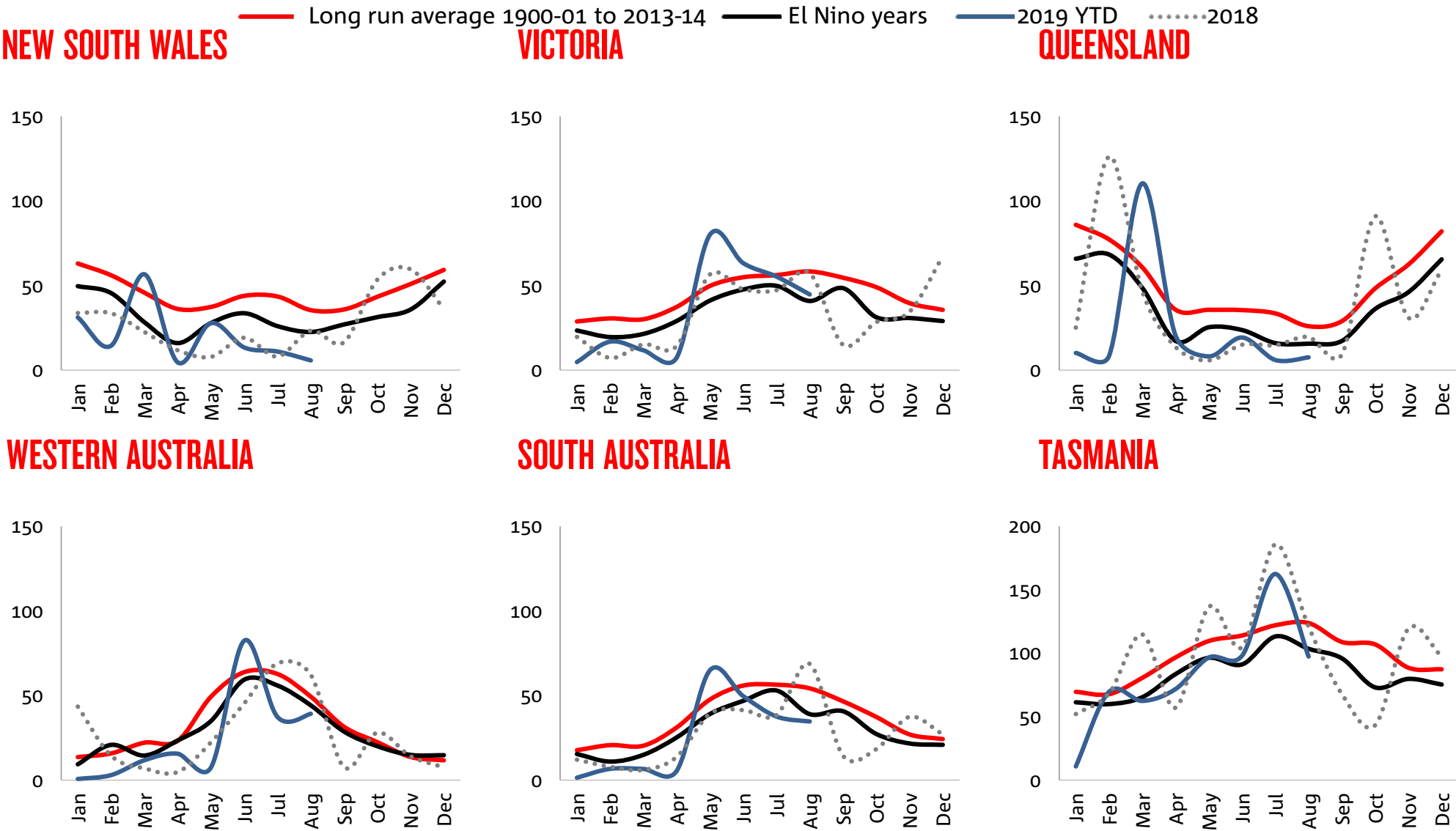


FRUIT AND VEGETABLES



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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