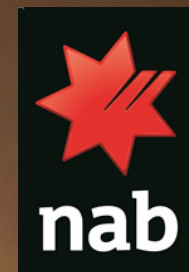




RURAL COMMODITIES WRAP



OCTOBER 2019

Author Phin Ziebell, Senior Economist – Agribusiness

KEY POINTS

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Seasonal conditions have very clearly been – and remain – poor in much of New South Wales and Queensland. Conditions had been much better in southern Australia, but spring has been generally unkind, reflecting a lack of rain combined with heat and frost. This has led us to significantly downgrade our assessment for the wheat crop this month, with a 15.5 million tonne headline figure now a serious prospect.

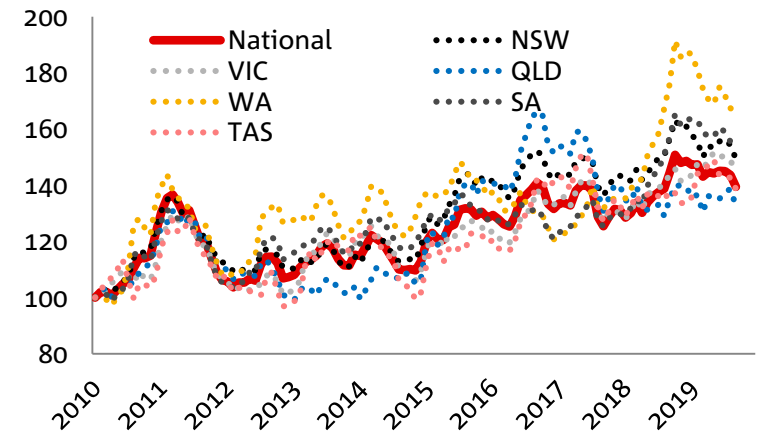
Despite the weakening conditions, livestock markets remain resilient, particularly for lamb. The National Trade Lamb Indicator stands at \$8/kg – an exceptional figure, especially during spring. It is looking increasingly unlikely that the lamb market will see a “traditional” spring flush this year. The restocker cattle market remains soft, but demand for beef in export markets is strong. ABARES reports year to September Australian beef exports to China up 4% y/y.

Water availability will remain a key risk coming into summer in many areas, both dryland and irrigated. Irrigation allocations in the Murray-Darling basin are generally very low and temporary water prices have responded accordingly. While 2019 has been a particularly challenging year, the increase in permanent plantings (almonds, citrus, table grapes etc) in the basin is likely to have a structural impact on water prices.

Overall, the NAB Rural Commodities Index fell 2.9% in September, reflecting weakness in fruit, beef, wool, sugar and lamb prices, only partially offset by upward pressure in grains.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	July	August	Sept.
Wheat	▼ 4.2%	▼ 3.5%	▲ 0.3%
Beef	▲ 5.9%	▲ 1.2%	▼ 7.1%
Dairy	▼ 2.2%	▲ 3.5%	▲ 0.1%
Lamb	▲ 5.4%	▼ 9.7%	▼ 3.8%
Wool	▼ 3.8%	▼ 9.4%	▼ 5.5%
Sugar	▼ 2.9%	▼ 1.9%	▼ 4.0%
Cotton	▼ 3.2%	▼ 3.4%	▲ 0.2%

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



IN FOCUS: WHEAT YIELDS

2019 has presented a very challenging winter cropping season thus far, although some states have been much luckier than others. The CSIRO graincast model, combined with ABARES area planted, pointed to national wheat production of 15.3mmt as of 1 October. Our best guess for wheat is 15.5mmt at this stage.

Western Australia came off 2018-19 with the second biggest harvest on record – a feat unlikely to be repeated this season from the get-go. After a late break, June delivered good rain but spring has seen below average rainfall, frost and heat events, all downgrading yields. We see a Western Australian wheat crop in the order of 6.3mmt this season.

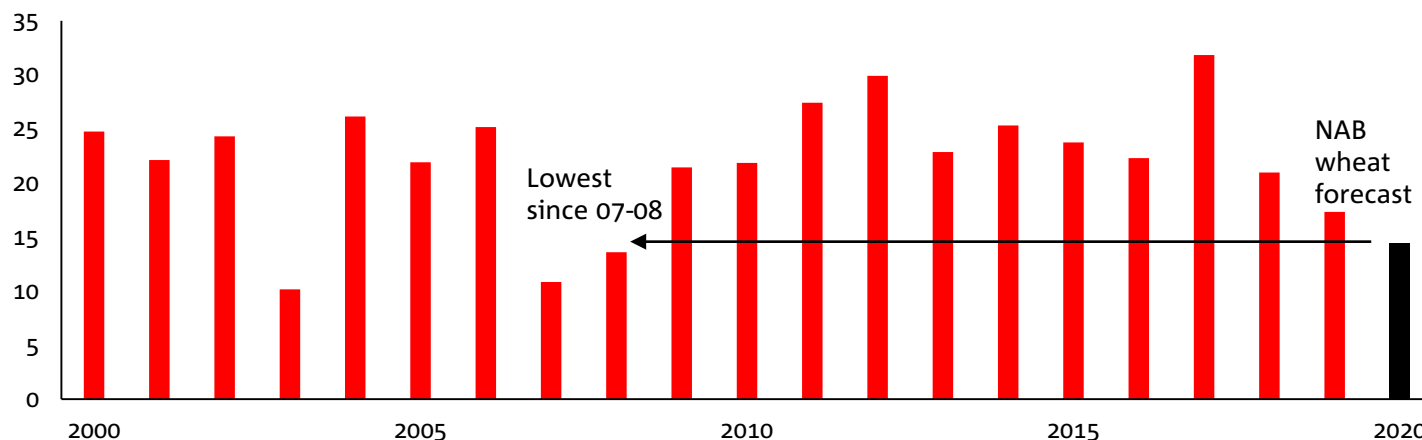
Victoria has outperformed this season, after a late but generally good break. Spring has been dry but we still see wheat production around 3.5mmt.

South Australia has been more mixed, but should still see around 3.5mmt. A good deal of crop in SA will be cut for hay.

Yields in New South Wales are likely to be well below average amid very tough drought conditions across the state. Hay cutting will be in full swing in areas that previously looked good. We see a production figure of 1.75mmt.

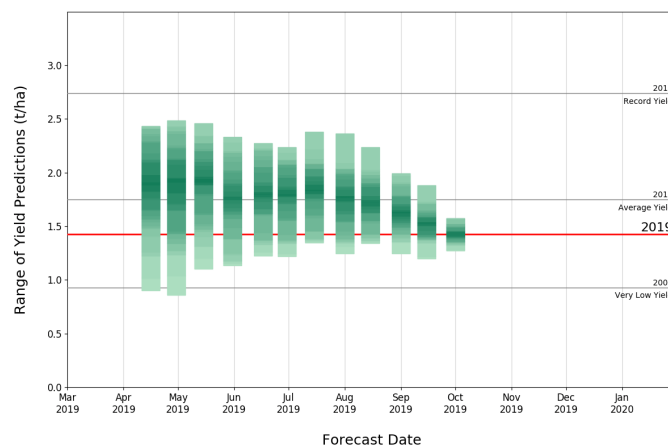
AUSTRALIAN WHEAT PRODUCTION

Million tonnes



CSIRO GRAINCAST NATIONAL YIELD

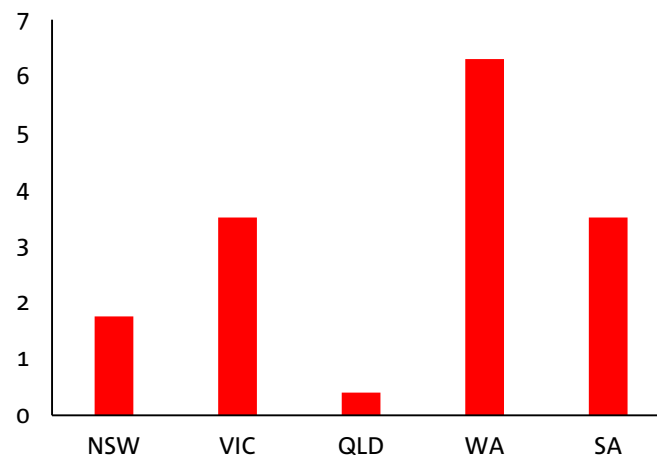
Forecast at 1 October 2019



Source: ABARES, CSIRO Graincast and NAB Group Economics

NAB WHEAT FORECASTS BY STATE

Million tonnes, 2019-20



SEASONAL CONDITIONS

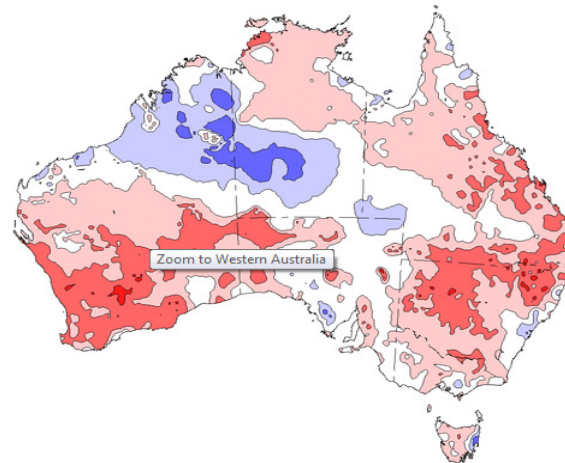
Seasonal conditions have been generally poor all year in New South Wales and parts of Queensland. While winter was kinder in southern Australia, spring has been drier than average so far, compounded by heat and frosts.

Root zone soil moisture is well below average across most of the country, apart from parts of coastal Queensland, central Australia and southern Victoria. Northern and central western New South Wales continues to record root zone soil moisture levels in the lowest 1% on record. Vegetation greenness was well below average in September.

There is, however, some potentially good news in the long-range outlook. The Bureau's three month outlook to January is below average in many areas, but closer to average across much of New South Wales. The summer outlook is much closer to average, apart from parts of Queensland and most of Tasmania.

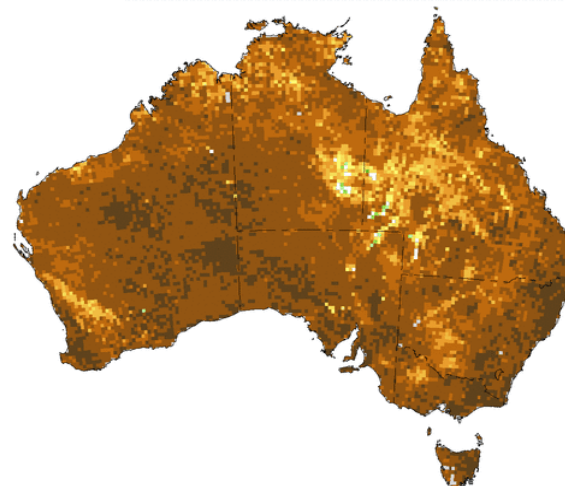
RAINFALL – SEPTEMBER

Deciles



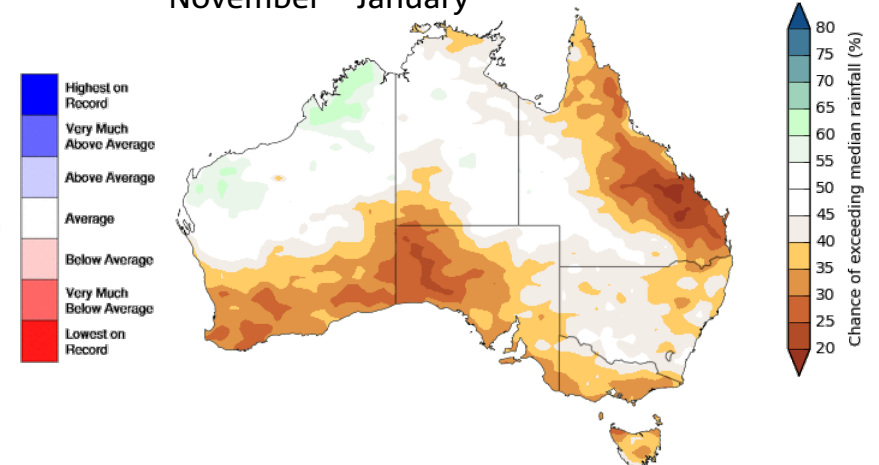
NDVI ANOMALY

September 2019



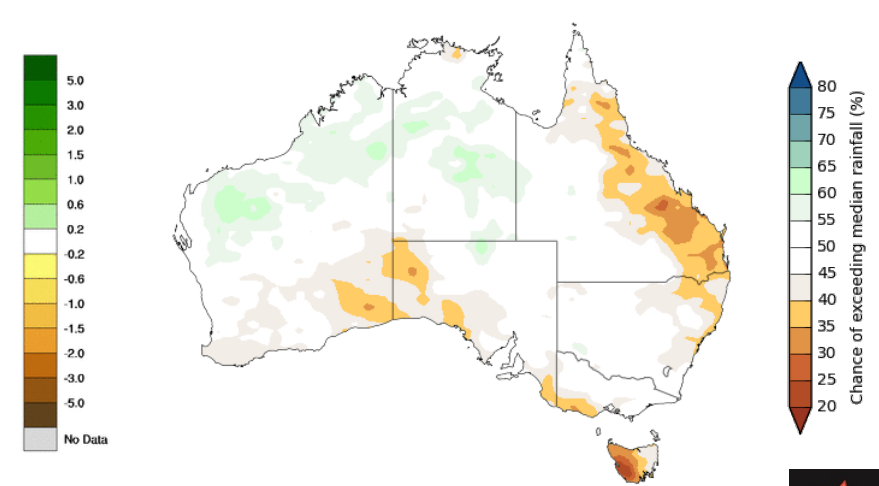
BOM RAINFALL OUTLOOK

November – January



BOM RAINFALL OUTLOOK

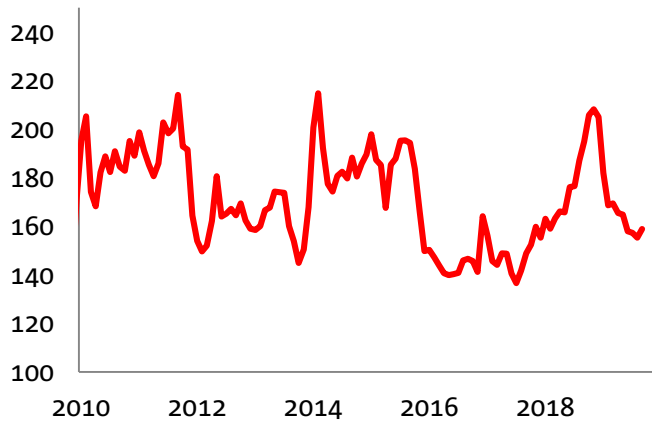
December – February



FARM INPUTS

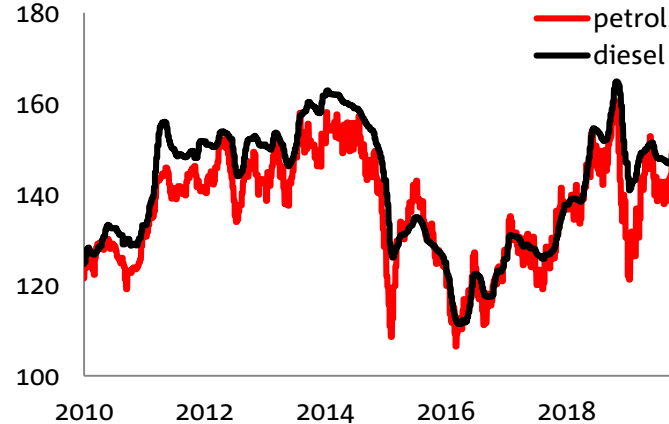
NAB FERTILISER INDEX

AUD index



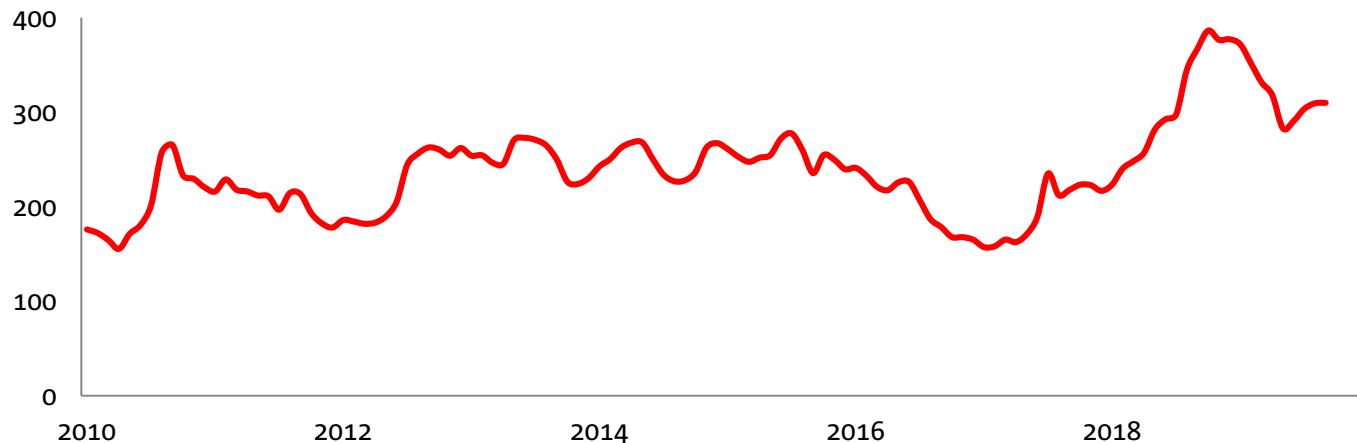
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



Farm input prices have been moderately higher recently, largely reflecting a weak AUD.

Domestic feed concerns amid a poor winter crop have kept prices higher than international benchmarks, although there has been perhaps less upside than we expected recently. Domestic feed prices rose 0.2% in September. On a year on year basis, prices are 15.6% lower. With a good deal of the winter crop now being cut for hay, it is likely that domestic hay supply will be fairly strong coming into summer. 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.

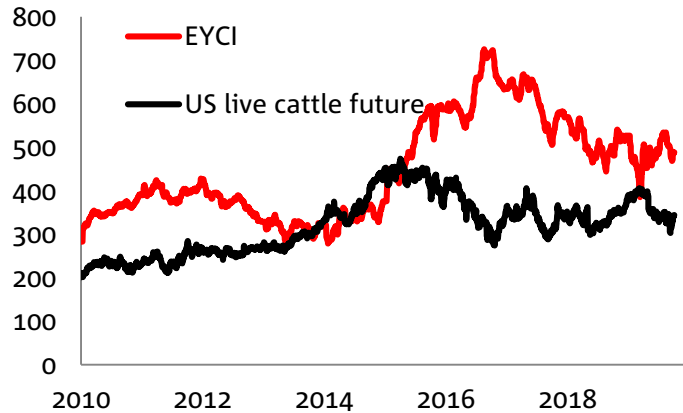
Oil prices are just below USD60/bbl (Brent), but a sub-70c AUD means that motorists are unlikely to see relief at the bowser. The latest national average petrol price is 149.7c/l and diesel 149.1c/l.

The NAB Fertiliser index rose 2.3% in September, largely on more expensive US natural gas prices.

LIVESTOCK

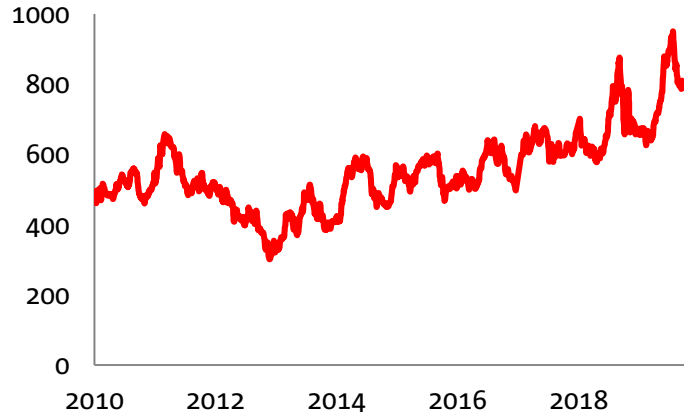
CATTLE

AUc/kg



LAMB

National Trade Lamb Indicator, AUc/kg

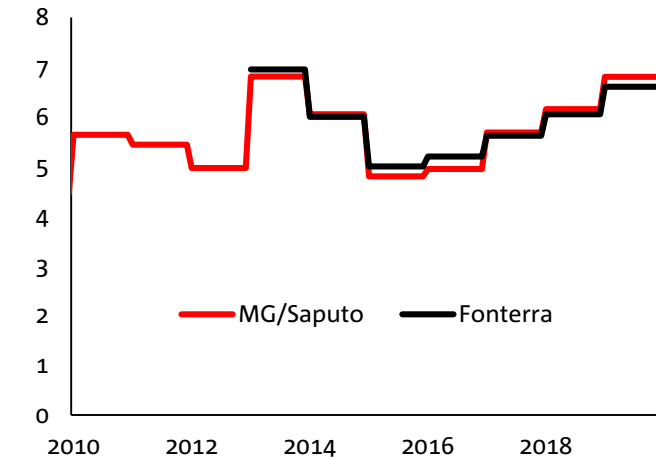


Young cattle prices have tracked sideways recently, with EYCI just below 500c/kg – essentially unchanged from a month ago. While there is still weakness in the store market, demand for quality finished stock continues to run hot amid strong performance in export markets. The national herd remains in decline, with MLA reporting female slaughter share around 55%. We struggle to see much upside for cattle prices until climatic conditions improve.

Lamb prices continue to look very good, with NTLI around 800c/kg – an excellent price in the middle of spring. It looks as if supply will be fairly tight through spring, suggesting the seasonal price decline will be less than usual. High input cost containment feeding is very popular, although its viability will be fairly sensitive to lamb prices. The wool price rollercoaster continues, reflecting substantial uncertainty. EMI finished last week at \$15.43/kg. While the US and China have reached a limited first-stage agreement on trade, the market is likely to face more uncertainty for the rest of the year.

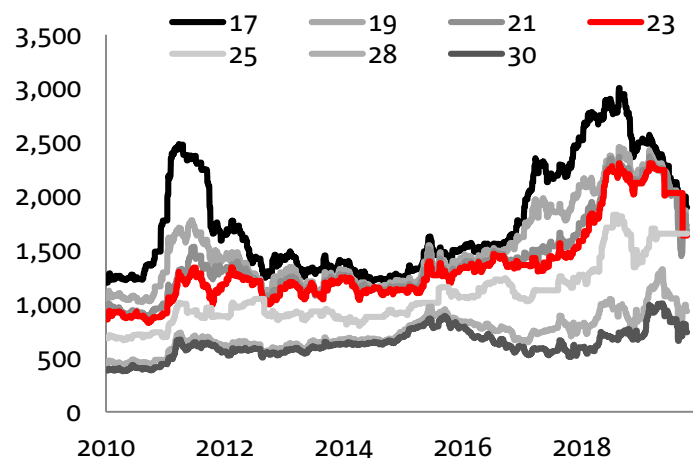
DAIRY FARMGATE PRICES

AUD/kgms



WOOL

Southern region, by micron, AUc/kg



Global Dairy Trade auction results have been somewhat better over the last few 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.

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

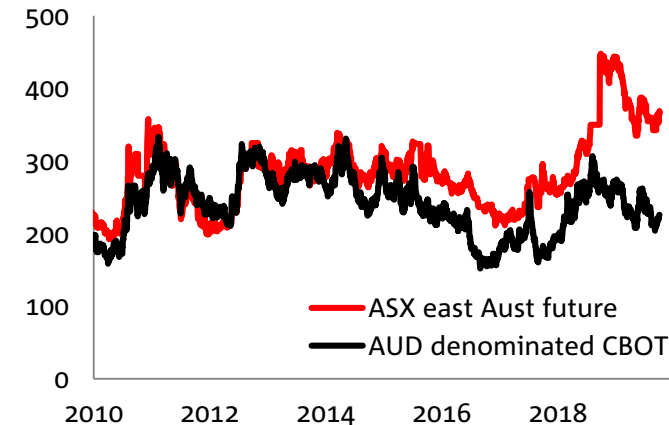
WINTER CROPS

As outlined on page three, we see a tough winter crop season overall, with the worst conditions in New South Wales and Queensland. This will keep prices high compared to international benchmarks. That said, Australian wheat futures have been a little more subdued than we expected and well below the mid-400s range peak seen in late 2018 and early 2019.

The eastern states will face another season of imports from the west and overseas, and new season crop prices already reflect this reality. With the west on track for a smaller crop this season, west-east shipments may be down somewhat. Prices will stay high for those feeding stock. Elevated lot feeding will keep demand elevated into 2020.

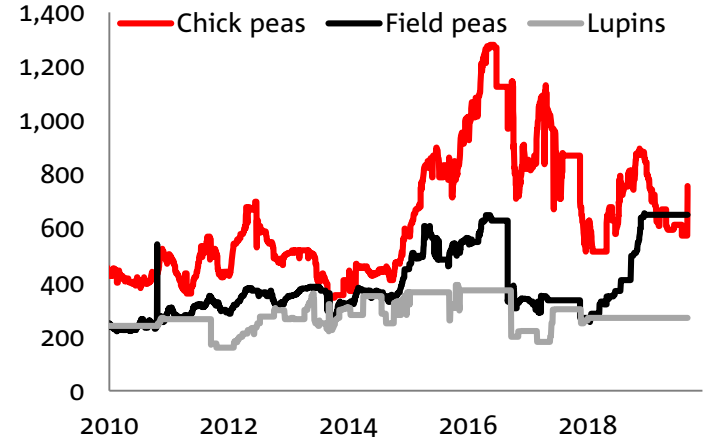
WHEAT

AUD/t



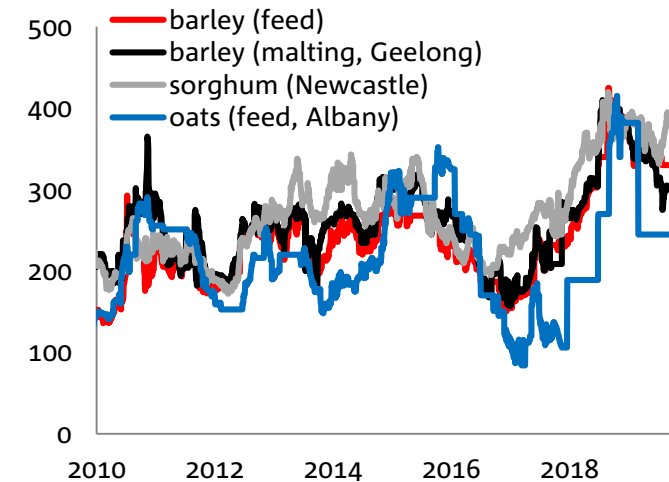
PULSES

AUD/t



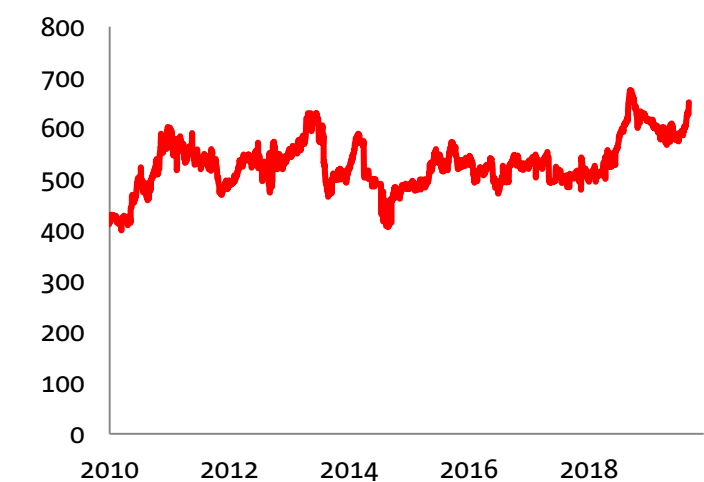
COARSE GRAINS

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

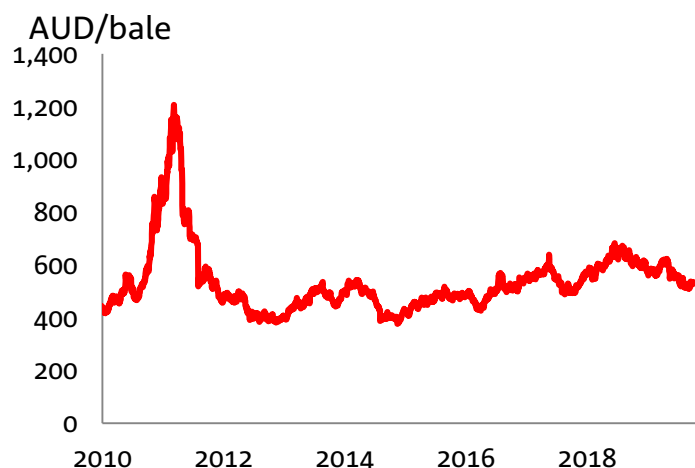
Storage volumes for major public storages in the Murray Darling Basin are low overall, and inflows have been generally poor. Allocations are low throughout many parts of the basin and temporary water prices are now reaching the \$700-800/ML range. Australia will see another season of low cotton production.

Cotton prices are well below peak in AUD terms, with AUD denominated Cotlook A averaging around \$524/bale in September. That said prices have picked up a little in October.

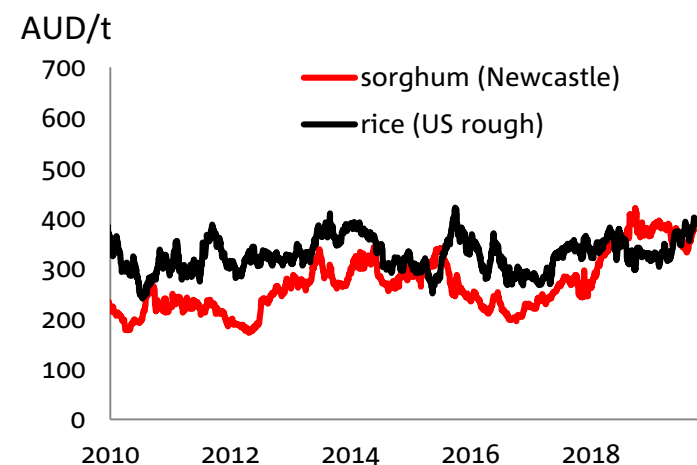
Having essentially missed the winter crop, northern New South Wales and Queensland grain growers are looking to the summer. Very good rain is needed and needed soon if much sorghum is to go in the ground come October-November.

Fruit and vegetables were mixed last month. Fruit prices fell 9.1% while vegetables were up 3.1%.

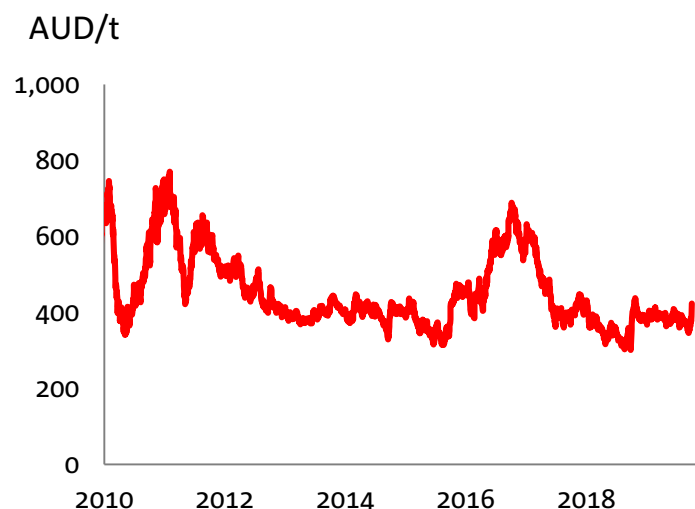
COTTON



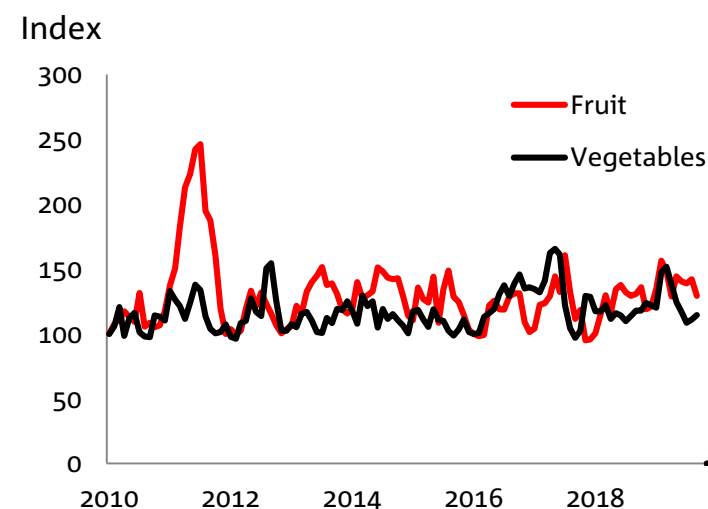
SORGHUM AND RICE



SUGAR

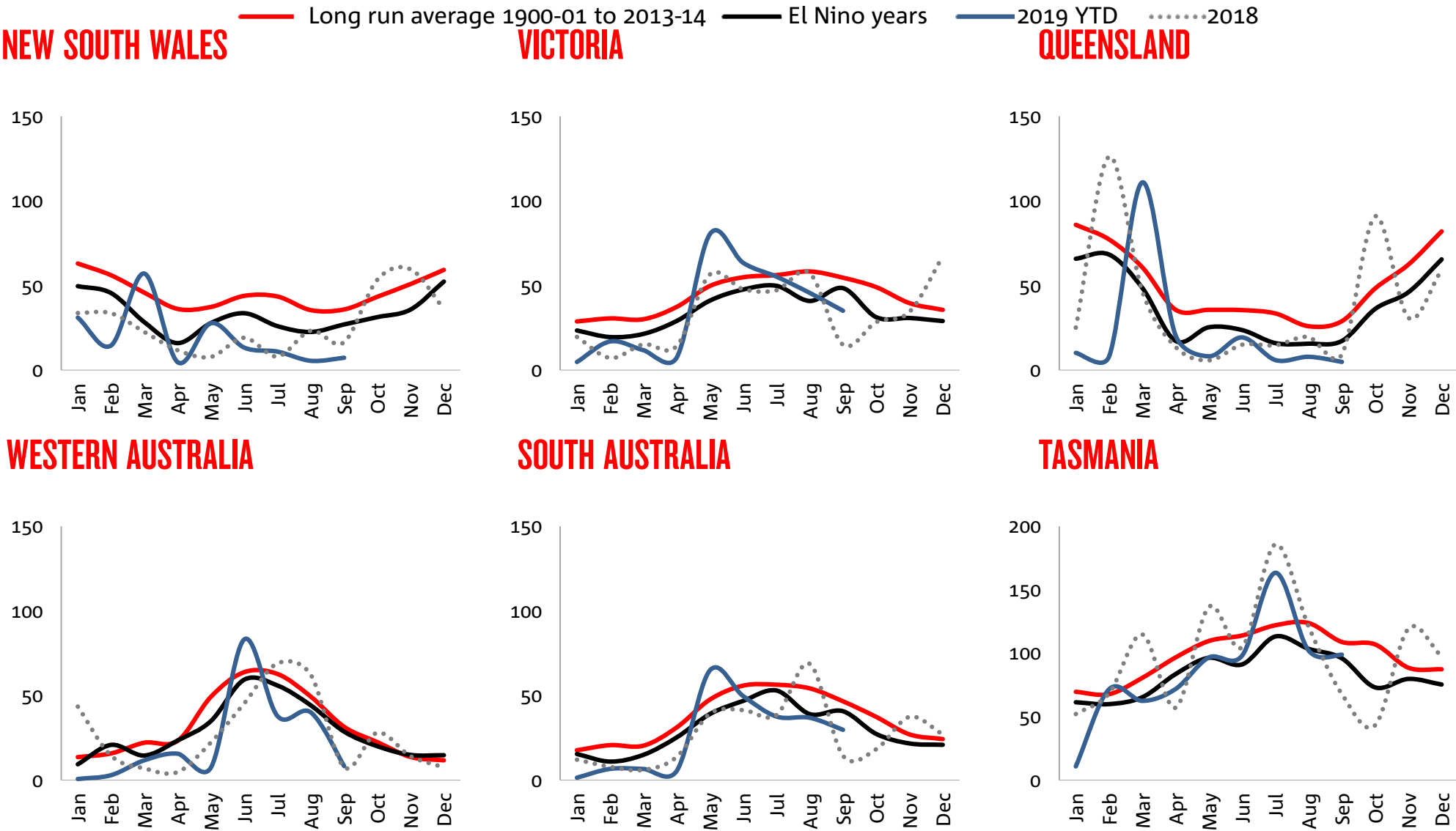


FRUIT AND VEGETABLES



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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