

RURAL COMMODITIES WRAP



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KEY POINTS

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Seasonal conditions remain moribund in New South Wales and parts of Queensland, and are weakening (albeit from a much stronger base) in southern Australia. However, the BoM (very) long range outlook to autumn suggests that hopefully some normality will return in early 2020.

Irrigation water availability and price coming into summer is a major concern. Irrigation allocations in the Murray-Darling basin are generally very low and temporary water prices continue to rise in some areas. Temporary water in VIC Murray 7 – home to considerable plantings of almonds, citrus and grapes – has exceeded \$900/ML this month. The uplift in water price in this region will add on average \$180/t to the cost of production for wine grapes, approaching 40% of the value of the product produced.

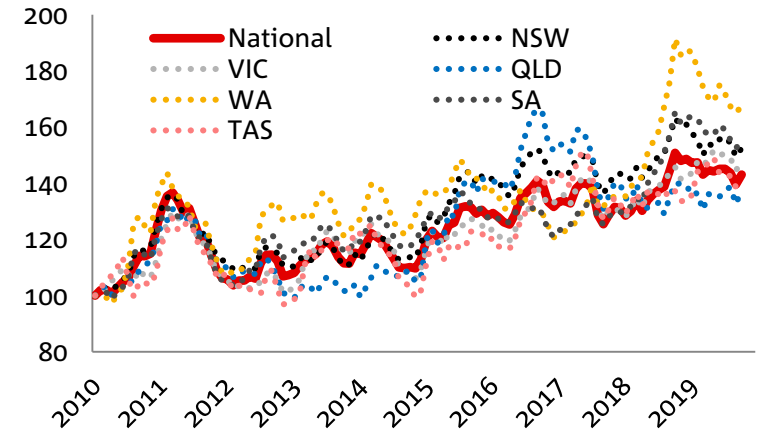
We have held our assessment for the wheat crop at 15.5 million tonnes this month, although eastern states wheat prices have seen if anything, some downward pressure recently.

Livestock markets remain resilient, with lamb continuing to perform. The National Trade Lamb Indicator stands at \$7.41/kg – down on its peak but still very strong given it is spring. The restocker cattle market remains soft, but processor demand looks to be increasing and Australian beef continues to be sought in export markets, particularly China.

Overall, the NAB Rural Commodities Index rose 2.5% in October.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	August	Sept.	Oct.
Wheat	▼ 3.5%	▲ 0.3%	▼ 0.2%
Beef	▲ 1.2%	▼ 7.1%	▲ 2.7%
Dairy	▲ 3.5%	▲ 0.1%	▲ 1.4%
Lamb	▼ 9.7%	▼ 3.8%	▼ 1.4%
Wool	▼ 9.4%	▼ 5.5%	▲ 3.1%
Sugar	▼ 1.9%	▼ 4.0%	▲ 11.8%
Cotton	▼ 3.4%	▲ 0.2%	▲ 3.8%

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



IN FOCUS: WATER ALLOCATIONS AND PRICES IN THE MURRAY-DARLING

The drought in New South Wales and Queensland has led to very limited water availability in the northern Murray-Darling Basin. Storages in the northern basin stand at just 8%, while even the southern basin is going into summer with 44%.

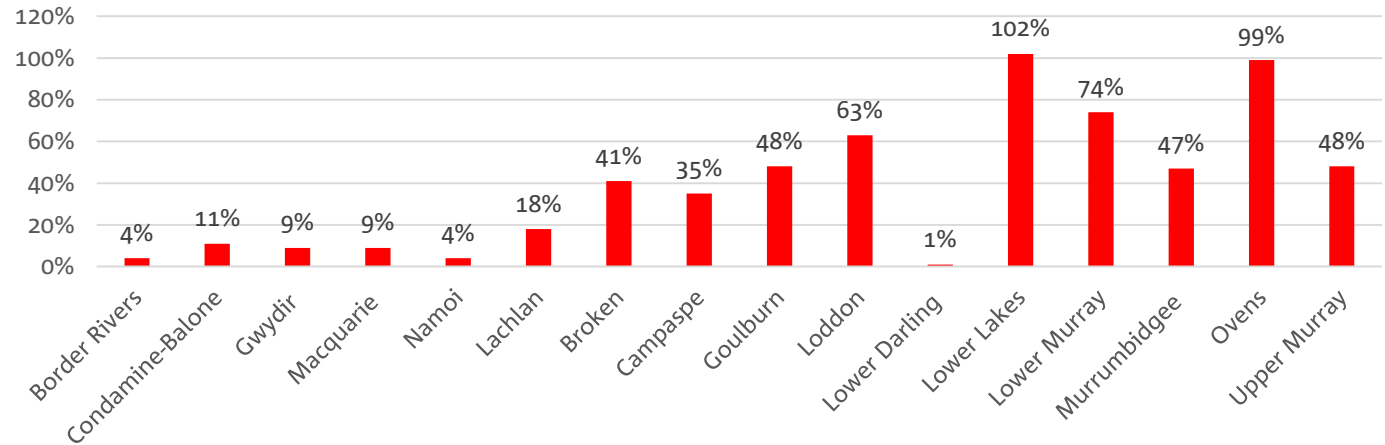
General security entitlements across New South Wales are generally at 0% allocation, and cotton and rice production will suffer accordingly. In a period of such low allocations, temporary water prices are generally very elevated and beyond the reach of annual crops like cotton. Unsurprisingly, based on average application rates and yields and current commodity prices, neither cotton nor rice are profitable at a water price of \$800/ML.

Permanent plantings are in a trickier position than annual crops, needing water every year. Temporary water in VIC Murray (Barmah Choke – SA Border) has increased 138% in the last year to \$950/ML, while VIC Murray upstream of the choke have increased 55% over the same period.

For a wine grape producer in the Sunraysia buying temporary water, this \$550 uplift equates to around \$180/t (based on average application rates and yields), approaching 40% of the per-tonne average value of warm climate wine grapes in Australia.

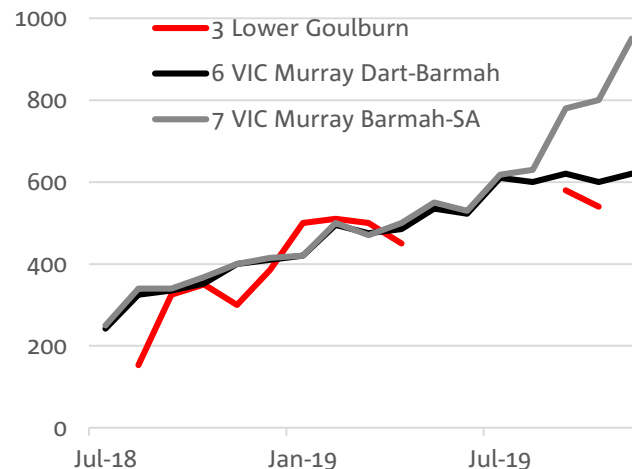
MURRAY-DARLING BASIN WATER IN STORAGE

% at 30 October 2019



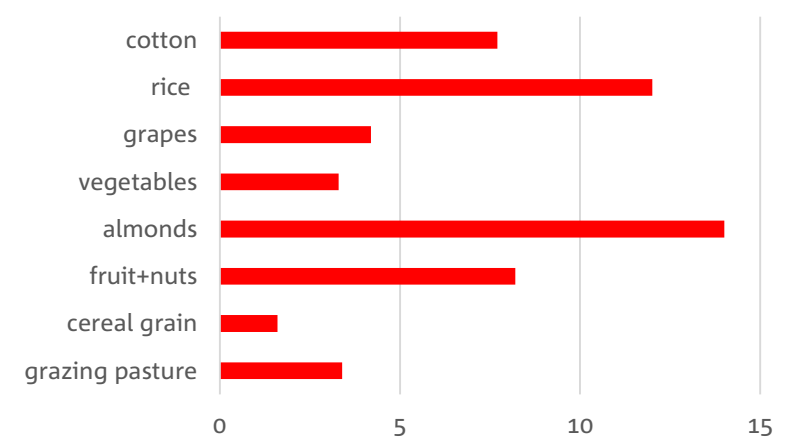
SELECTED TEMPORARY WATER PRICES

\$/ML, monthly



APPLICATION RATES BY COMMODITY

ML/ha, 2017-18



Source: MDBA, Victorian Water Register, Australian Almonds, ABS and NAB Group Economics

SEASONAL CONDITIONS

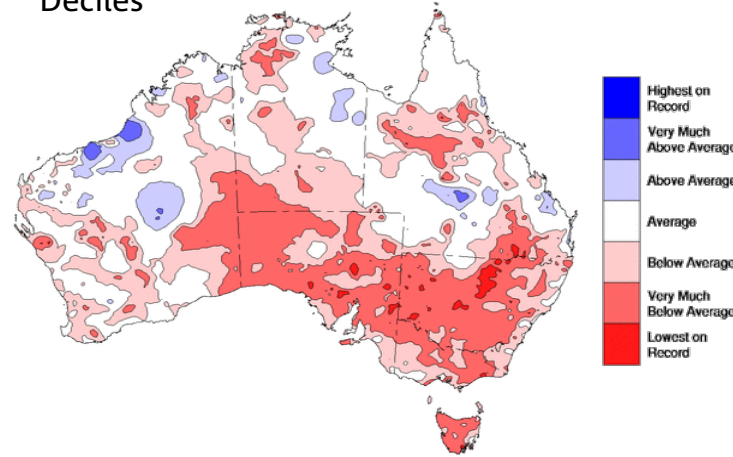
Seasonal conditions have been generally poor all year in New South Wales and parts of Queensland. While winter was kinder in southern Australia, spring has been drier than average so far, although southern Victoria and Victoria have seen a lot of rain in the past week.

Root zone soil moisture is well below average across most major agricultural regions, although the south-east is the obvious outperformer (along with some parts of western Queensland). Vegetation greenness remained well below average in October.

There is, however, some potentially good news in the BoM three month outlook. While summer is still forecast to be drier than average in eastern Australia, moving into early autumn, conditions may improve. While rainfall outlooks this far into the future are speculative, we would rather see above average rainfall in the outlook.

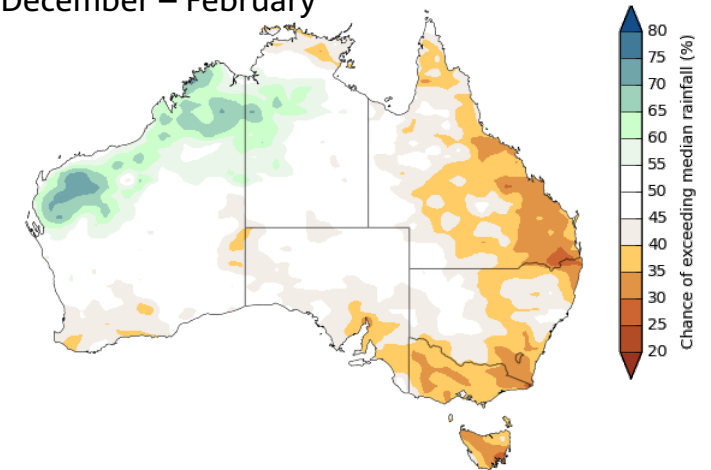
RAINFALL – OCTOBER

Deciles



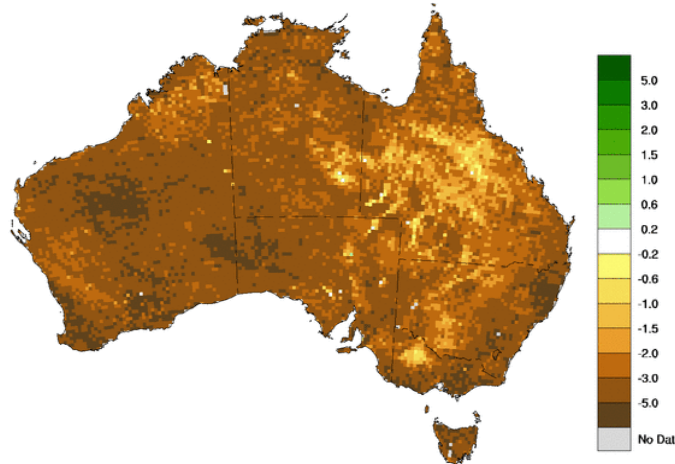
BOM RAINFALL OUTLOOK

December – February



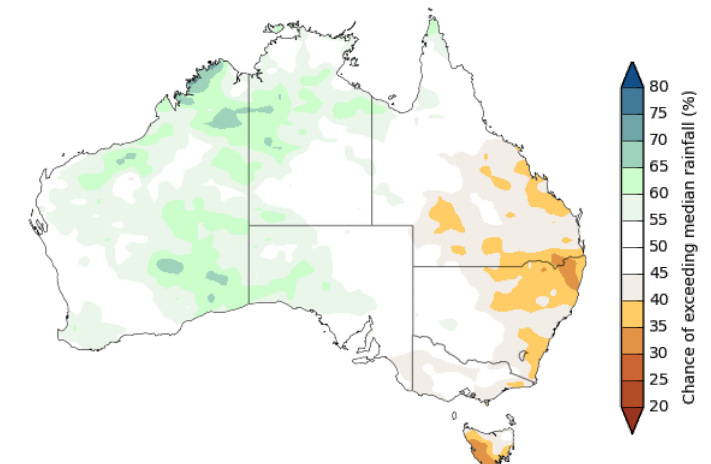
NDVI ANOMALY

October 2019



BOM RAINFALL OUTLOOK

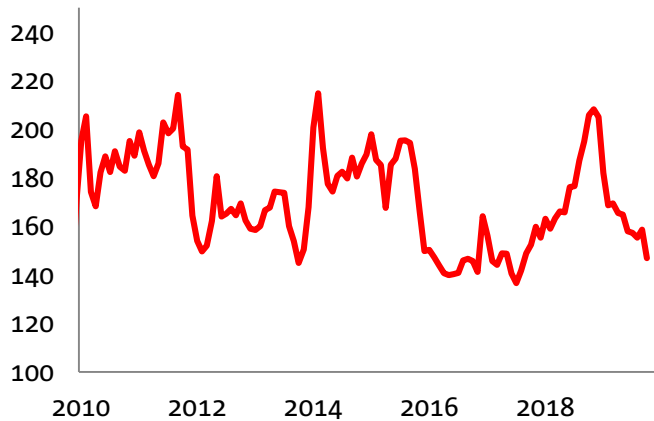
January - March



FARM INPUTS

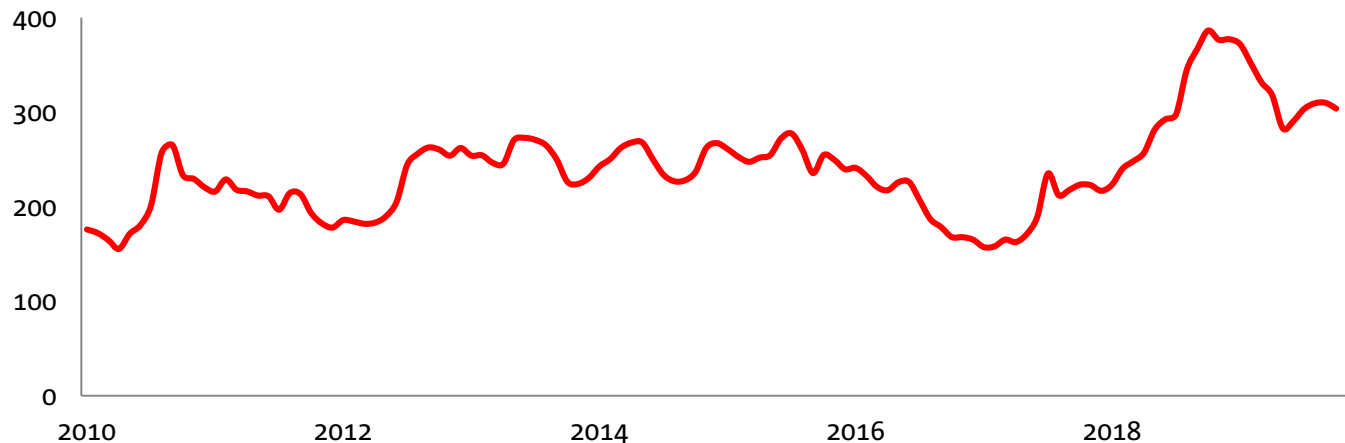
NAB FERTILISER INDEX

AUD index



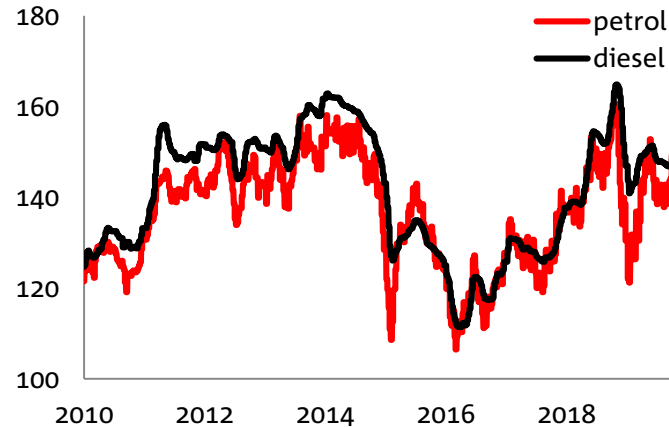
NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



NATIONAL AVERAGE FUEL PRICES

AUc/litre



Farm input prices have been a little lower recently, with perhaps the exception of petrol prices. The latest national average petrol price is 152.2c/l and diesel 149.7c/l. With most farm businesses using exclusively diesel, the stability in diesel prices at least allows for some planning.

Domestic feed concerns amid a poor winter crop have kept prices higher than international benchmarks - our domestic feed grain price index fell 2.0% m/m in October. Domestic feed prices are now over 20% lower than the same time last year. With a good deal of the winter crop 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 \$304/t for the month, but few graziers would have access to these prices on farm delivered.

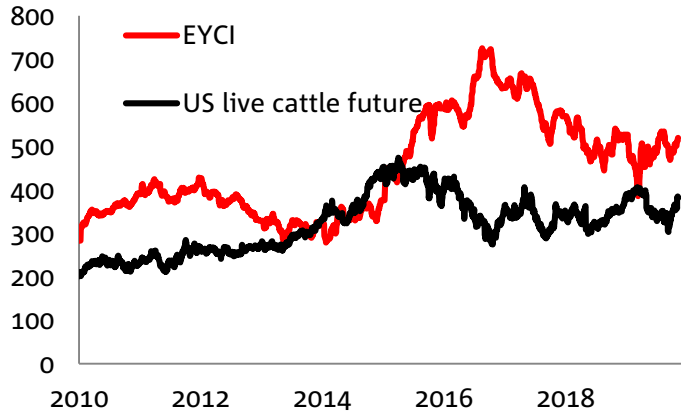
The NAB Fertiliser index fell 7.4% in October, reflecting lower urea, US natural gas and DAP prices, combined with an uptick in the AUD recently.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

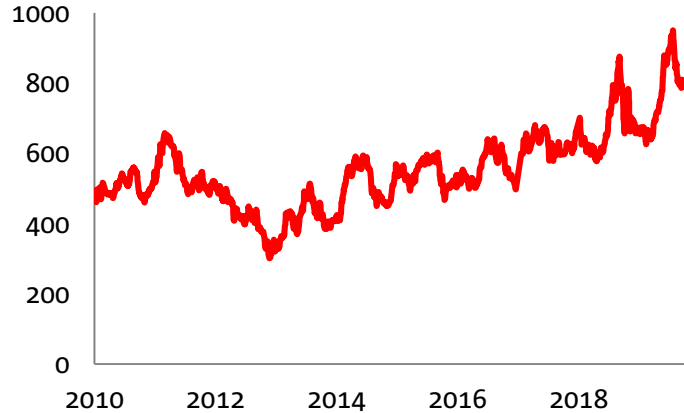
CATTLE

AUc/kg



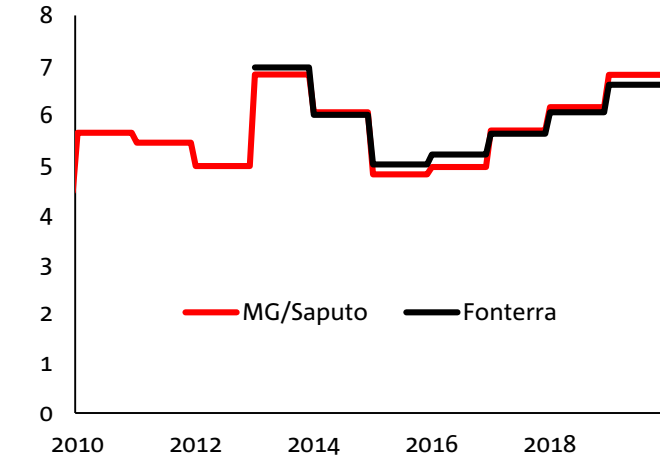
LAMB

National Trade Lamb Indicator, AUc/kg



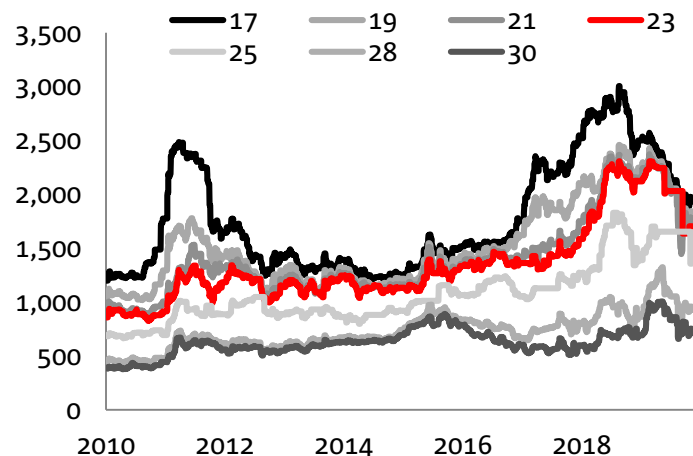
DAIRY FARMGATE PRICES

AUD/kgms



WOOL

Southern region, by micron, AUc/kg



Young cattle prices have been somewhat higher recently, with EYCI reaching almost 523c/kg – the highest for several months. At the end of last week it stood at 517c/kg. While there is still considerable weakness in the store market, processor demand for quality finished stock continues to run hot amid strong performance in export markets. The national herd remains in decline, and it is hard to see much upside for cattle prices until climatic conditions improve, swine fever in China notwithstanding.

Lamb prices continue to look very good. NTLI stands at 741c/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 had been expected. The wool price has stabilised a little from some wild moves earlier this year, reflecting substantial US-China trade uncertainty. EMI finished last week at \$15.74/kg. While there have been positive signs on US-China trade, we are sceptical that this will see much reinflation of wool prices.

Global Dairy Trade auction results continue to improve, with the last four auctions positive overall in USD terms. This 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.

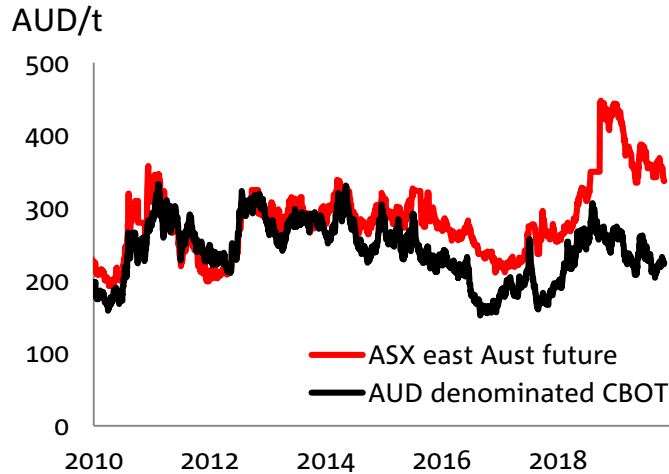
WINTER CROPS

We have kept our wheat forecast on hold this month, standing at 15.5 million tonne 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 continue to underperform our expectations, largely reflecting downward pressure in international markets.

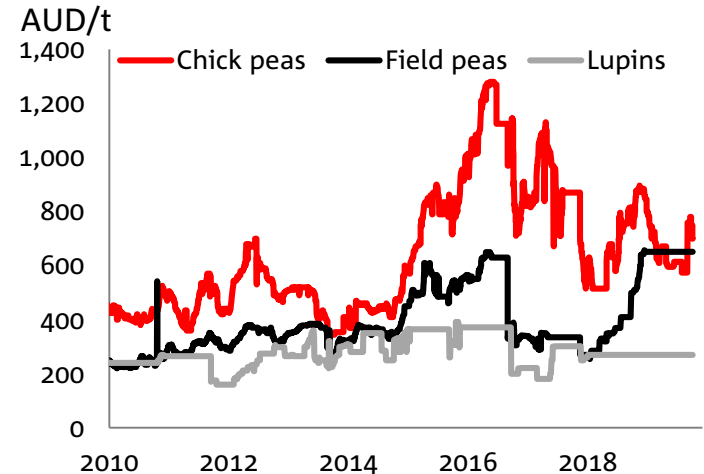
The eastern states will face another season of imports from the west and overseas, and new season crop prices already reflect this reality. With the west on track for a below average crop this season, west-east shipments will be down somewhat. Prices will stay high for those feeding stock and elevated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

While eastern states feed demand has given Western Australian producers strong prices over the last two seasons, south-east Asia has now swung heavily away from Australian grain. Recapturing this south-east Asian market from Black Sea and South America grain could be a challenge for the sector in 2020

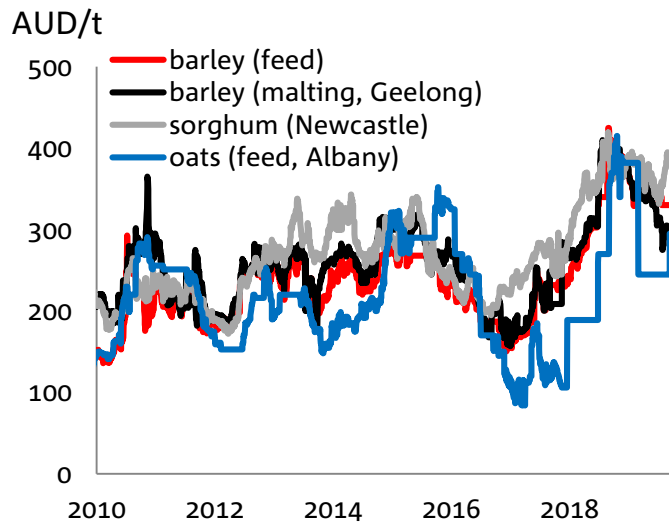
WHEAT



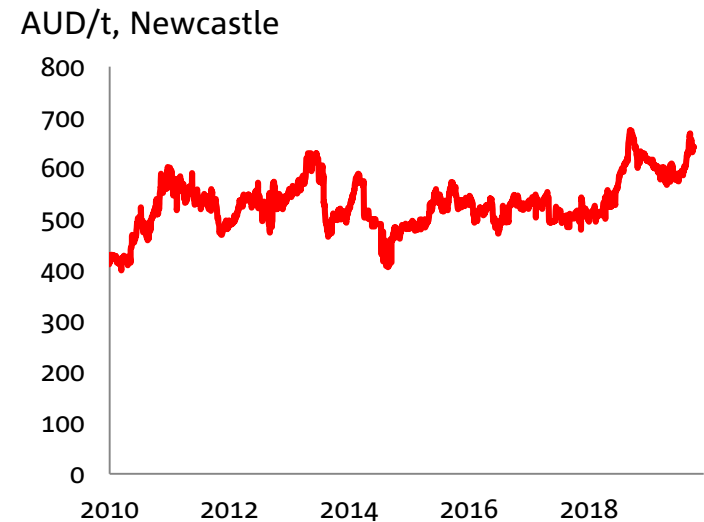
PULSES



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

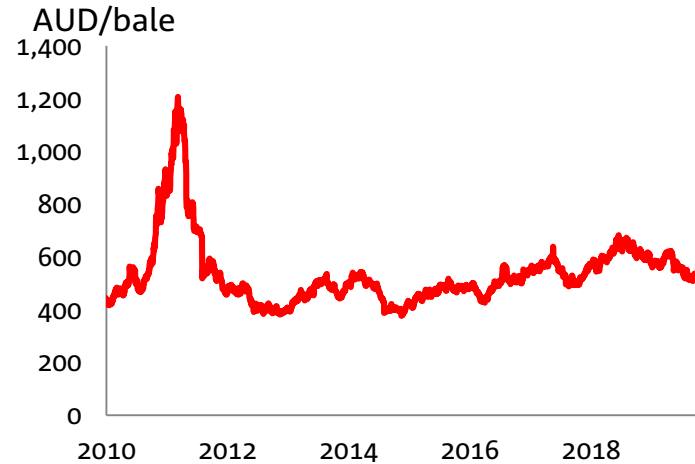
As highlighted on page three, allocations in the Murray-Darling basin are very low, reflecting poor storage levels. Consequently, Australia will see another season of low cotton production.

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.

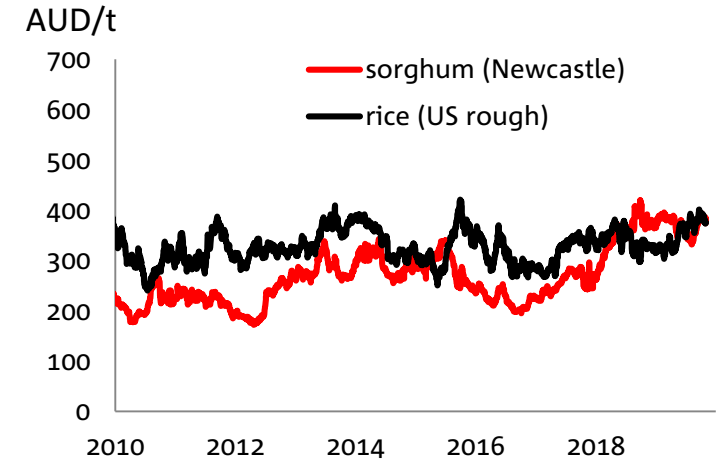
Having essentially missed the winter crop, northern New South Wales and Queensland grain growers have been looking to the summer, but unless there is big rain soon, this window is closing. We do not expect much sorghum to go in the ground this summer.

Fruit and vegetables rose in October. Fruit prices gained 8.1% after falling 9.1% in September, while vegetables were up 4.1%.

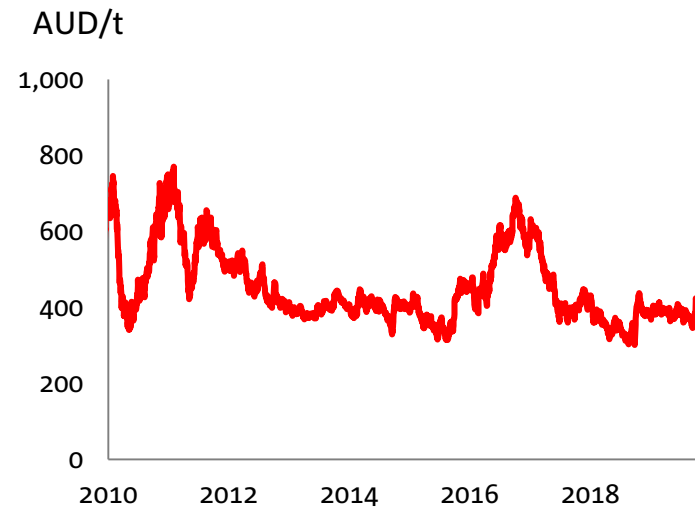
COTTON



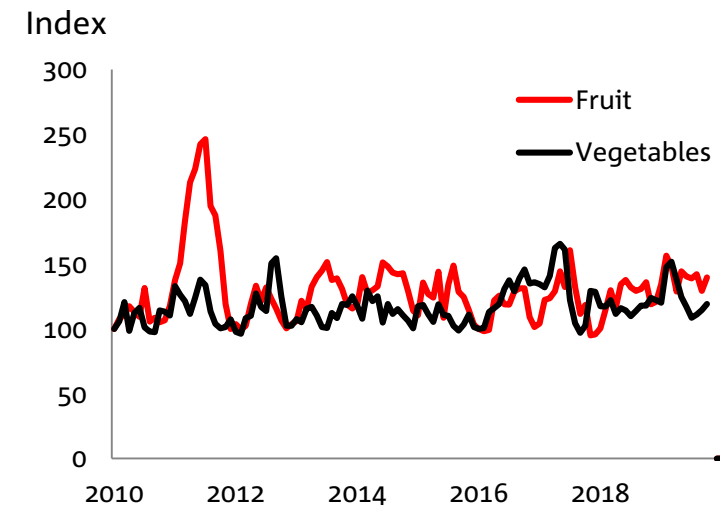
SORGHUM AND RICE



SUGAR



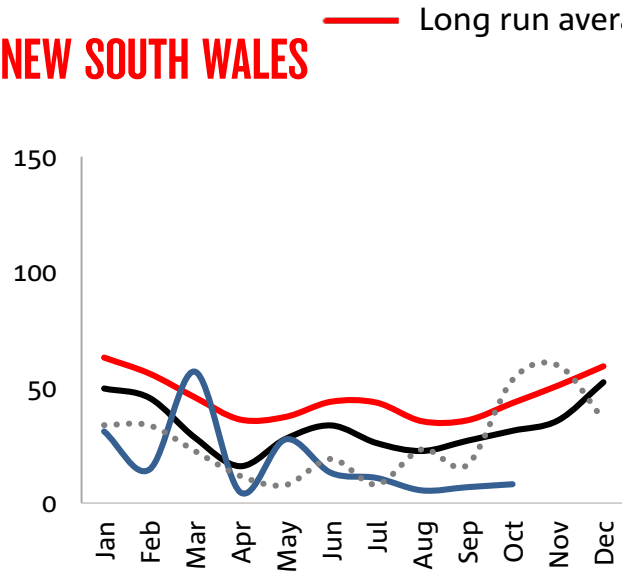
FRUIT AND VEGETABLES



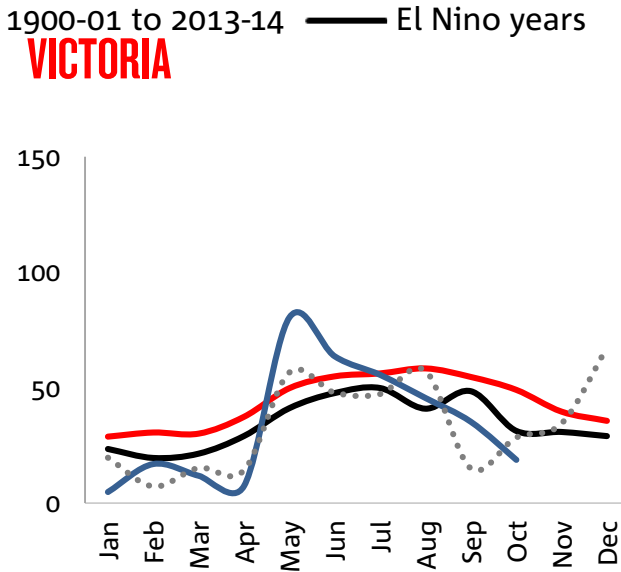
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

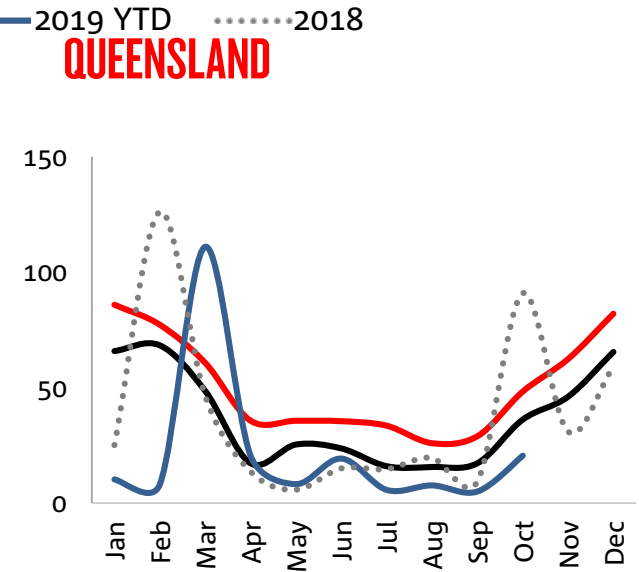
NEW SOUTH WALES



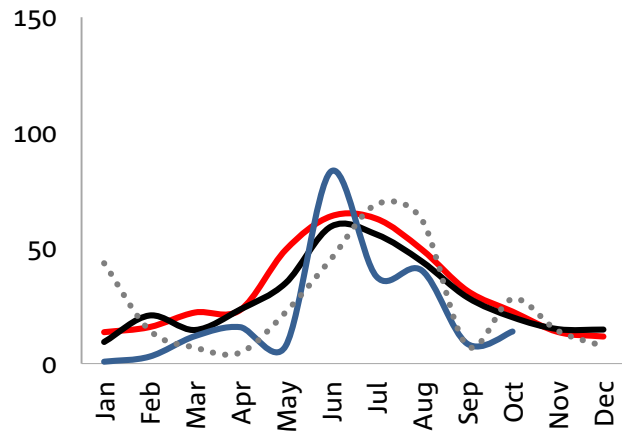
VICTORIA



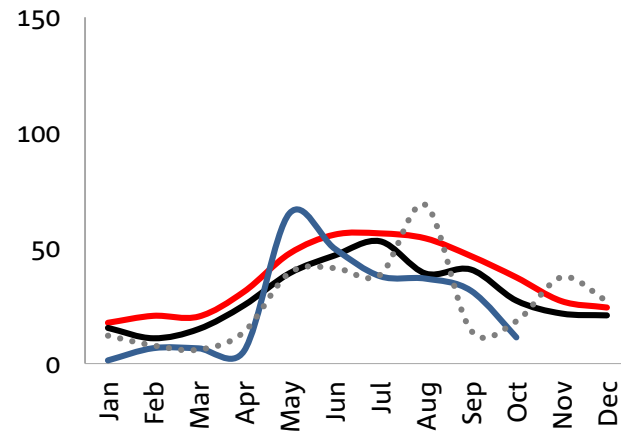
QUEENSLAND



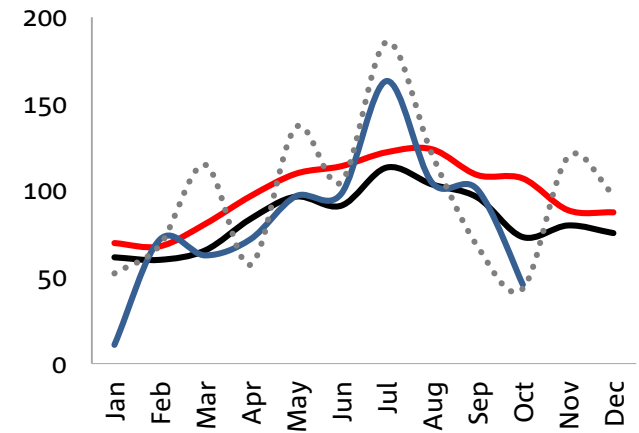
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

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