

# RURAL COMMODITIES WRAP



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# KEY POINTS

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Bushfires saw a horror start to 2020 in parts of the country, with their direct agricultural impact concentrated on (but not limited to) dairy in southern NSW, grazing in Gippsland, northern Victoria, southern NSW and South Australia and wine grapes in South Australia. While the impact on those affected has been calamitous, the fires are unlikely to have materially changed national agricultural production.

2020 has delivered more crises since the fires, most notably in the form of the coronavirus outbreak which started in Wuhan in late 2019. The virus has now infected over 40,000 people – mostly in China – and continues to spread. The outbreak is now having a major impact on the Chinese economy. We consider some potential impacts for Australian agricultural exports in a special in focus section on page three.

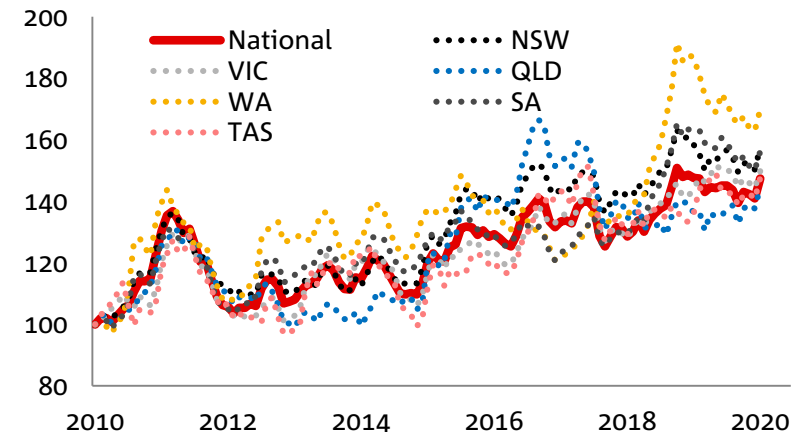
Fires notwithstanding, rainfall in January 2020 was average to above average in many parts of the country and February has brought monster falls to NSW and Queensland. Many areas have now seen excellent rain and cattle and sheep markets have responded accordingly. It's pedal to the metal for the Eastern Young Cattle Indicator, which now stands at 635c/kg having closed out last decade at 482c/kg. Lamb is back in business, up from 696c/kg to 821c/kg.

The AUD has fallen this year, down from 70c at the end of 2019 to around 67c now. This provides further support to agricultural prices, although we see the AUD reaching 71c by the end of 2020.

Overall, the NAB Rural Commodities Index rose 4.6% in January on a national basis, the biggest monthly rise since mid-2016.

## NAB RURAL COMMODITIES INDEX

National and by state



## MONTHLY COMMODITY PRICE CHANGES

	Nov 19	Dec 19	Jan 20
Wheat	▼ 3.7%	▲ 3.6%	▲ 4.1%
Beef	▲ 3.2%	▼ 3.9%	▲ 7.6%
Dairy	▲ 1.3%	▲ 0.8%	▲ 2.3%
Lamb	▼ 6.2%	▼ 5.0%	▲ 7.0%
Wool	▲ 1.6%	▼ 2.1%	▲ 2.9%
Sugar	▲ 1.5%	▲ 4.1%	▲ 6.5%
Cotton	▲ 0.9%	▲ 0.6%	▲ 4.4%

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





# IN FOCUS: CORONAVIRUS AND AUSTRALIAN AGRICULTURAL EXPORTS

The coronavirus outbreak – first detected in Wuhan, China in late 2019 – has now infected over 40,000 people, mostly in China. The virus causes a high rate of intensive care admissions, although the mortality rate is less clear. China has responded with major quarantine measures, including a complete lockdown of Hubei Province and many international governments (including Australia), have severely restricted travel to China.

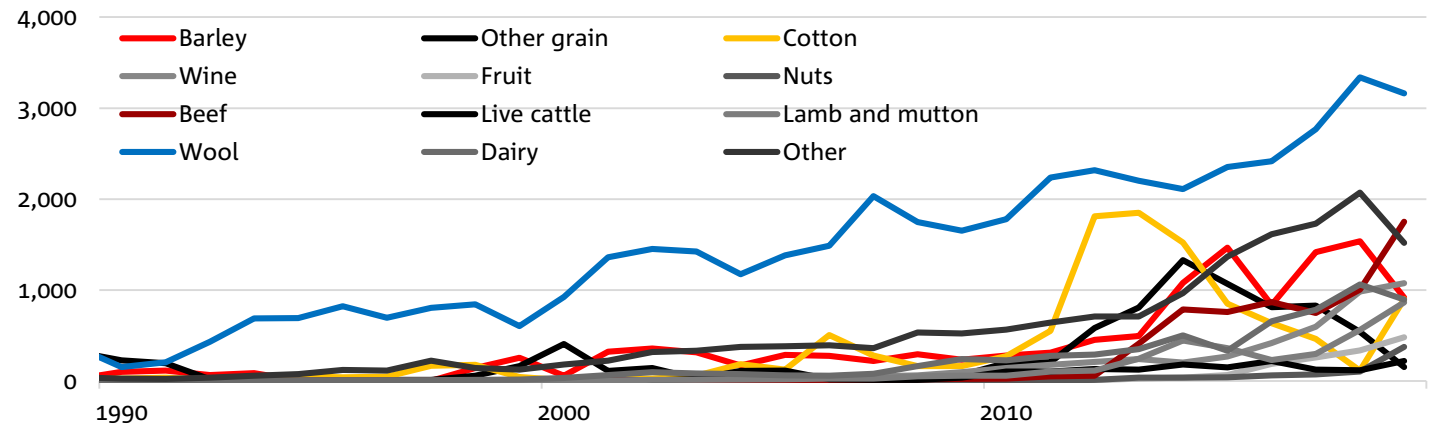
Australia exported over \$12b of agricultural products to China in 2018-19 – around a quarter of our total agricultural exports.

The outbreak continues to have a serious impact on the Chinese economy, amid reports that people are not shopping, dining out or even attending work in non-affected areas. This has two possible impacts for Australian agriculture: lower demand and logistical problems moving product to and within China.

Australian rock lobster exports have been cut off, and any products dependent on air freight will face logistical issues. Most Australian agricultural exports to China are shipped, although offloading and distribution has reported to be an issue. Chinese wholesale meat prices have increased since the outbreak was reported, although getting product to market will be a concern.

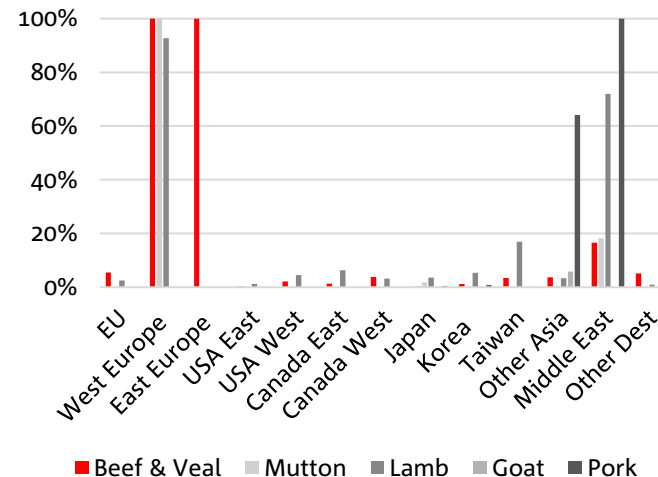
## AUSTRALIAN AGRI EXPORTS TO CHINA

AUD million per annum



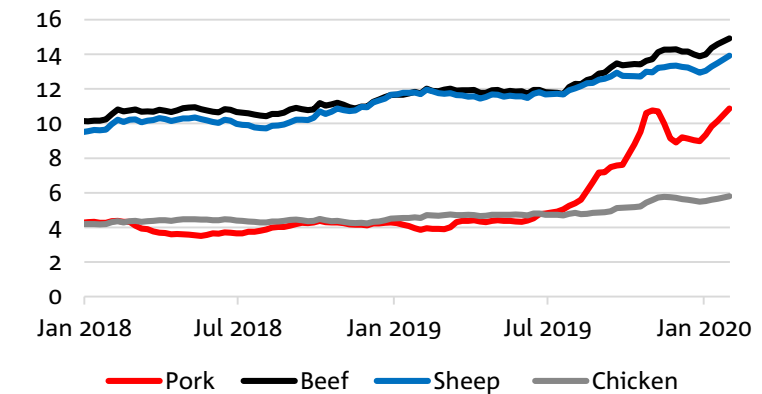
## MEAT AIR FREIGHT TO CHINA

Share of total exported, Australia



## CHINA WHOLESALE MEAT PRICES

AUD/kg



Source: Department of Agriculture, ABARES, BITRE, Bloomberg and NAB Group Economics

# SEASONAL CONDITIONS

Seasonal conditions were – with some notable exceptions – generally poor to very poor in 2019, culminating in devastating fires this summer.

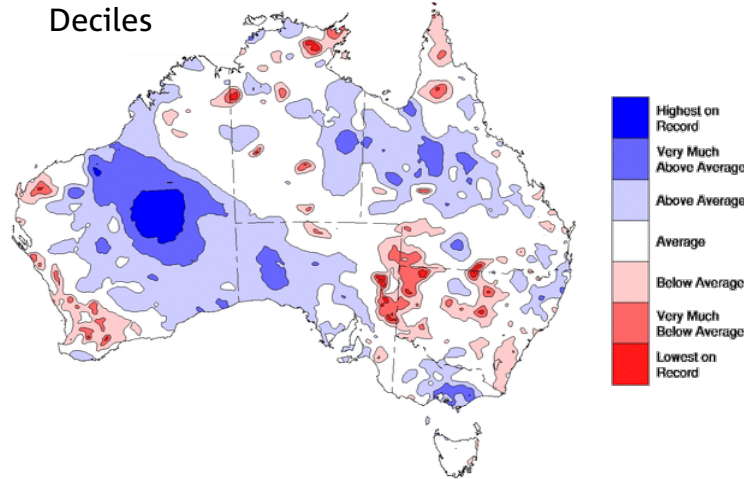
However, this year has now seen average to above average rainfall in many agricultural areas, with some drought-stricken regions enjoying big totals. This has caused flooding in some areas, but overall represents very welcome relief. Much of New South Wales and Queensland saw monster rains over the past few days.

The key question for 2020 is whether this good rain will be sustained. States like New South Wales really need an above average season to get back on their feet as the drought has left the soil with zero profile.

The latest three month outlook from the Bureau of Meteorology points to average to below average rain across the country, with New South Wales and southern Queensland most affected. The good news is that outlook reliability in autumn is quite low - for example northern New South Wales and the Darling Downs have outlook reliability of below 50%. Long story short, anything could happen.

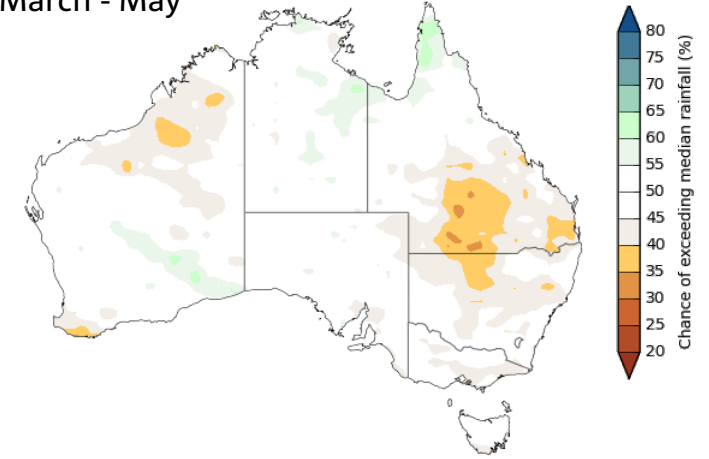
## RAINFALL – JANUARY 2020

Deciles



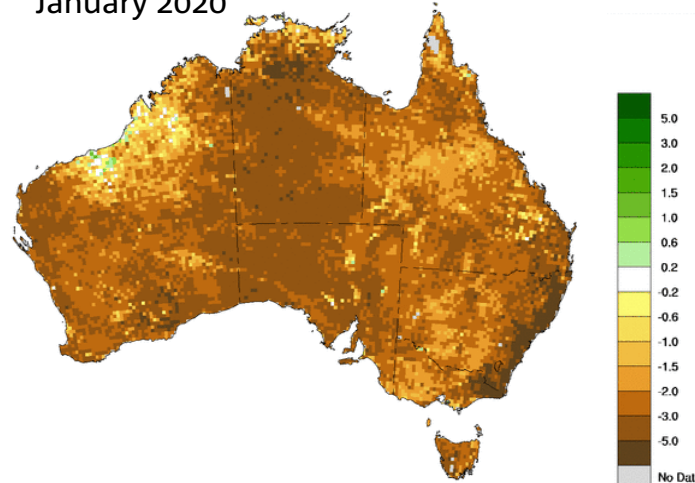
## BOM RAINFALL OUTLOOK

March - May



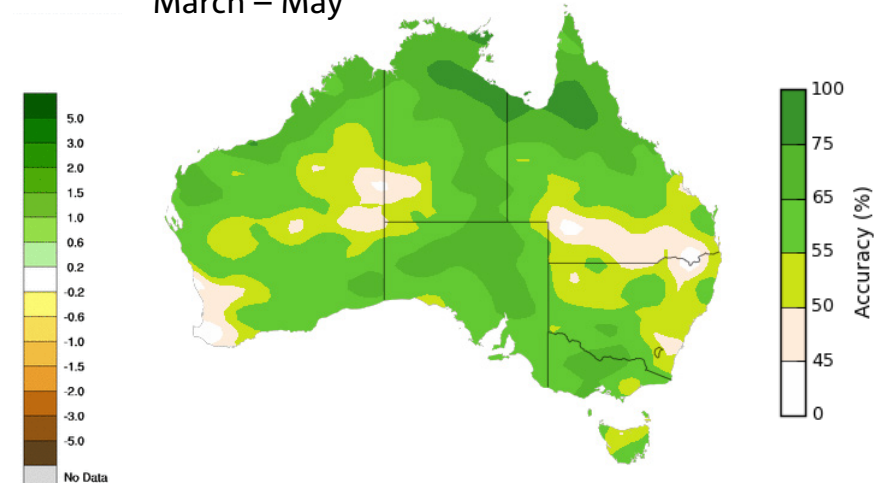
## NDVI ANOMALY

January 2020



## BOM RAINFALL OUTLOOK

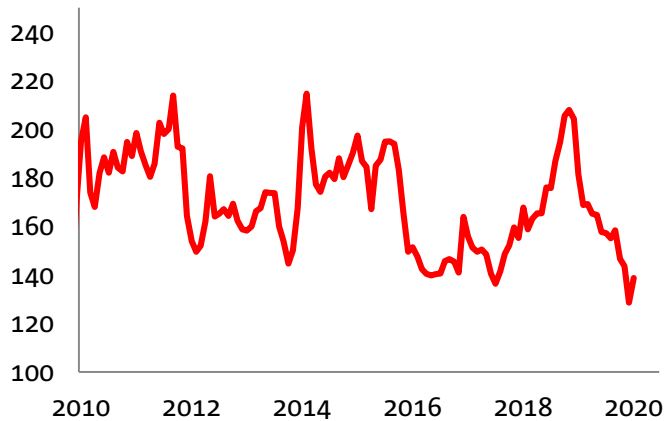
March – May



# FARM INPUTS

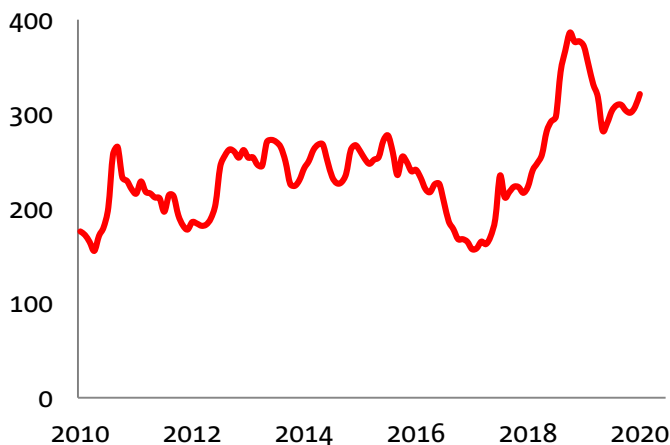
## NAB FERTILISER INDEX

AUD index



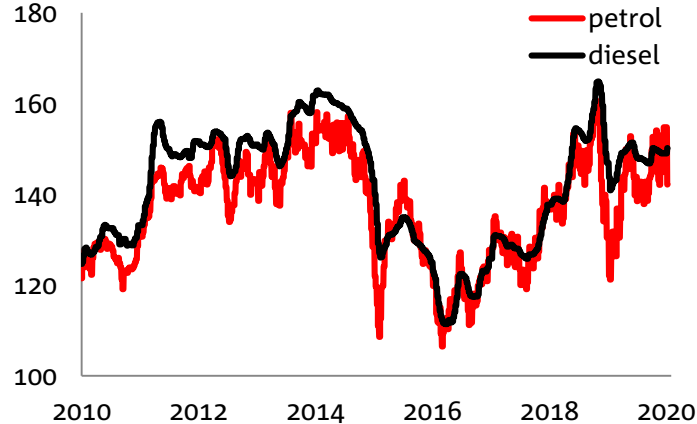
## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



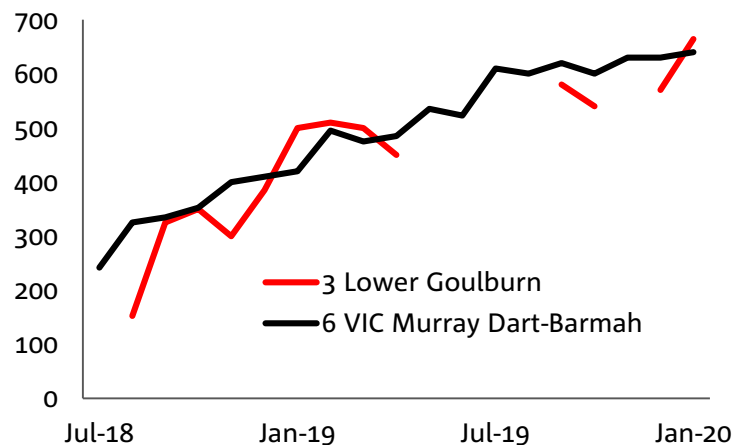
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## ENTITLEMENT TRADE PRICES

\$/ML, selected valleys



Farm input prices are quite mixed. On one hand, fertiliser is much cheaper, but grain prices remain high (although below their 2018 peak), temporary water is very expensive and diesel remains stuck at around 150c/l. Beyond prices, producers in drought-affected regions have been forced to increase volumes, particularly of feed and – in irrigation regions – temporary water.

Petrol prices offer some excitement, but diesel continues to hover around \$1.50/l, as it has for much last year. Crude oil prices surged in early January on Iran tensions but have now tanked on coronavirus denting Chinese fuel demand. On the other hand, a lower AUD has blunted some of this impact. Meanwhile, fertiliser prices fell very substantially in 2019, but look to have stabilised in January.

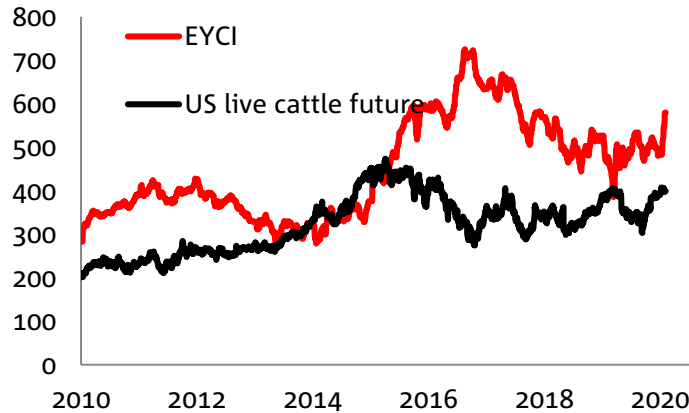
Feed prices remain high, particularly by world standards, but remain well below their 2018 peak. The NAB feed grain price index averaged \$321/t in January, up 4.3% on December but 13.6% below prices a year ago. Following miserable yields this season, we see it hard to see much downside until there is a good break and even then grain is likely to be in fairly short supply until the end of the year.

Source: Bloomberg, Profarmer,  
Department of Agriculture, NAB Group Economics

# LIVESTOCK

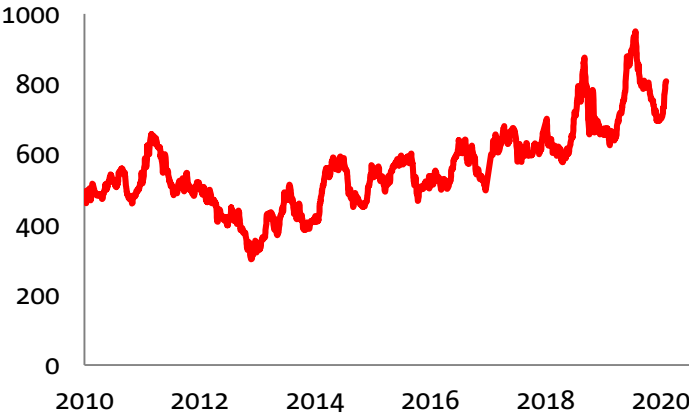
## CATTLE

AUc/kg



## LAMB

National Trade Lamb Indicator, AUc/kg

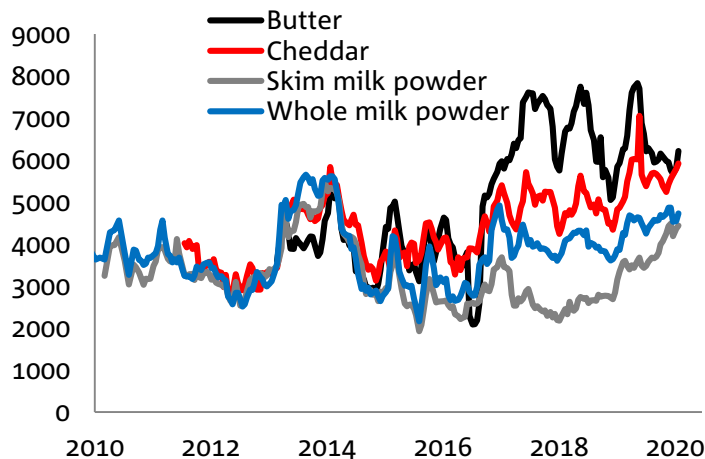


Young cattle prices have surged in response to good rainfall in 2020, with EYCI reaching 653c/kg – the highest since June 2017 and around 100c below the 2016 record. This rapid increase in the store market largely reflects good rains across parts of Australia, although good follow-up will really be needed to keep young cattle prices high. We still are cautious about calling a recovery in cattle prices unless there is sustained rain. Processor demand for quality finished stock continues to be strong, although it is possible that coronavirus will disrupt exports to China to some extent.

Lamb prices have likewise been boosted by rainfall and the long term price trend for the industry since 2012 looks very good indeed. NTLI stands at 808c/kg. Given how constrained supply looks in the wake of the drought, further upside this year is more likely than not. The wool price has in the back end of 2019 but the coronavirus could be a major risk for the wool industry given its dependence on China. That said, EMI finished last week at \$15.77/kg. On balance, wool price risks are weighted on the downside.

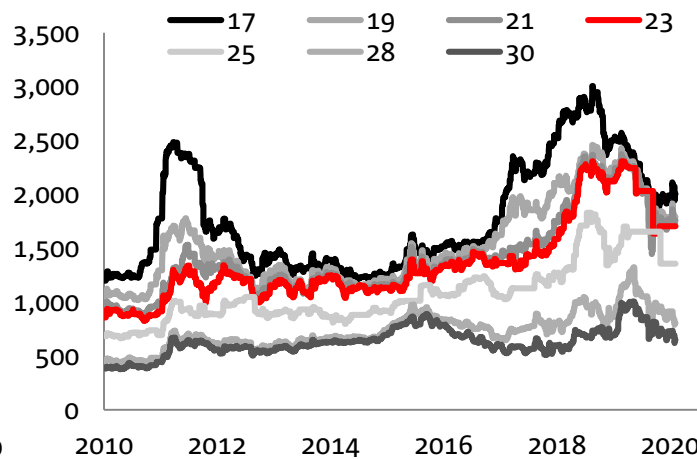
## GDT AUCTION RESULTS

AUD/tonne



## 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 mixed recently. January auctions were positive but coronavirus concerns put a fair dent in the 4 February auction, which fell 4.7% in USD terms. Milk flow is not improving despite major processors offering \$6.95/kgms – an excellent price.

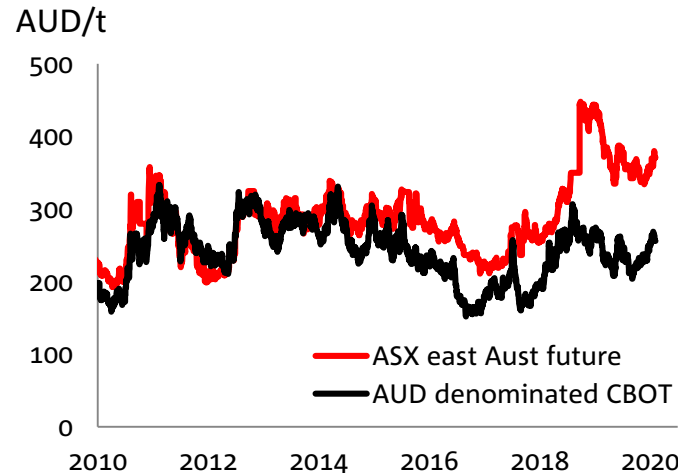
# WINTER CROPS

2019-20 provided a pretty miserable crop overall, with ABARES' latest wheat assessment standing at 15.9mmt. We see this number being somewhat lower, but either way it represents the worst winter cropping season since 2007-08. Conditions in New South Wales and Queensland were particularly poor, while Victoria, and to a lesser extent South Australia, had decent yields. Western Australia saw a generally disappointing wheat crop of just 5.4mmt.

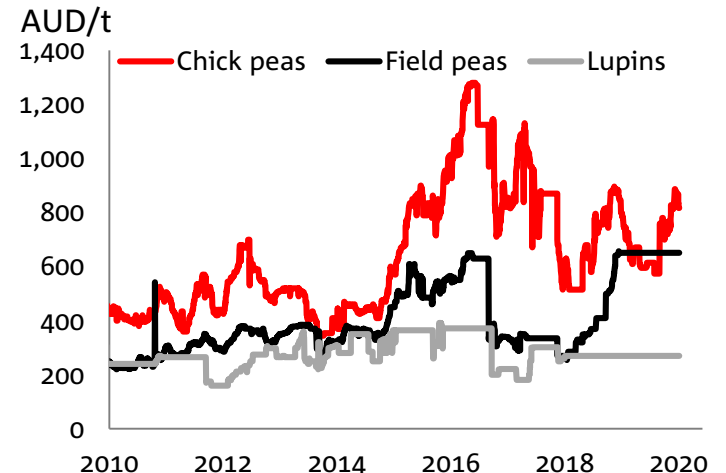
Australian grain continues to trade well above international benchmarks – arguably Australia now has some of the most expensive wheat in the world. That said, prices are below the late 2018 peak and at least this season, stock feed for New South Wales and Queensland could be brought from Victoria and South Australia rather than Western Australia (as occurred the previous season). We see prices staying high for the next few months until the break becomes clearer, helped by a lower AUD and elevated lot feeding.

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

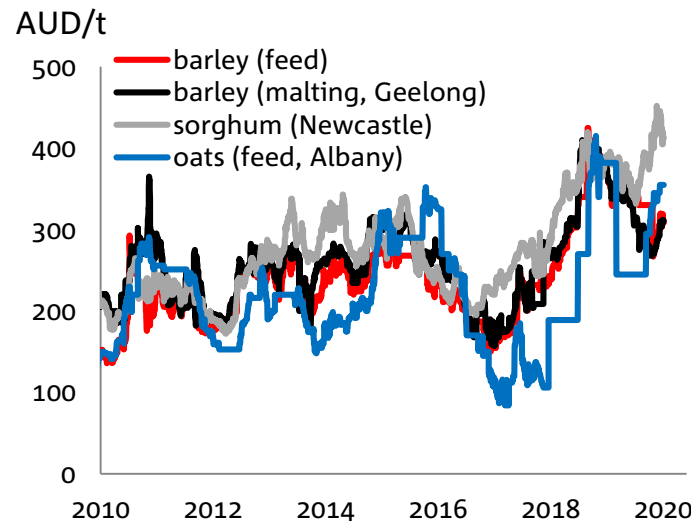
## WHEAT



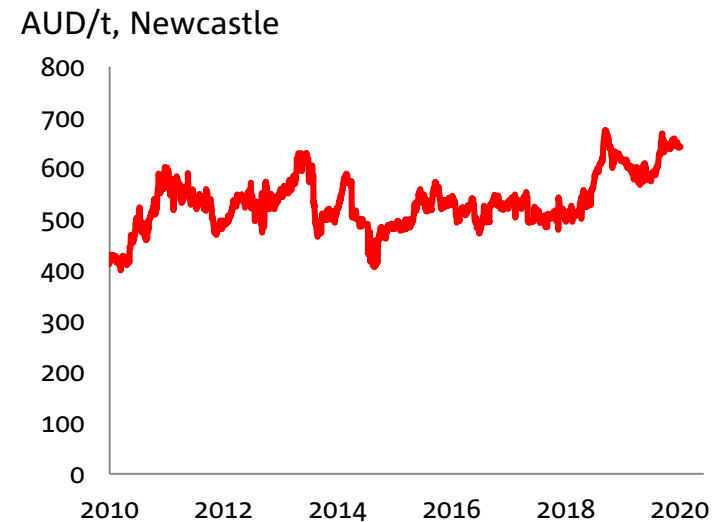
## PULSES



## 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

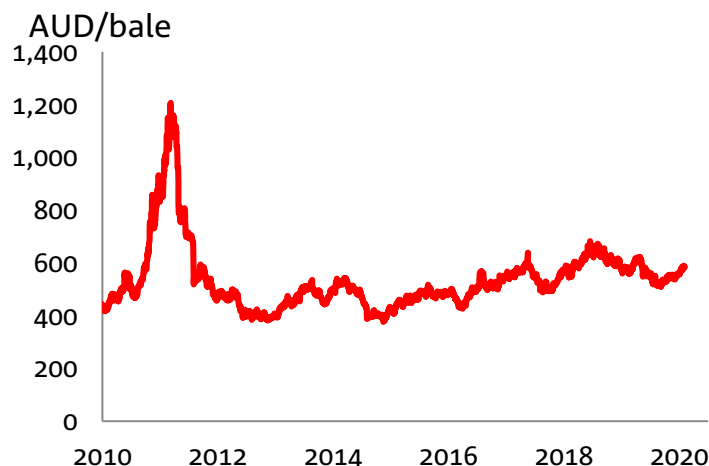
Allocations in the Murray-Darling basin are very low, and practically non-existent in major cotton regions. Consequently, Australia will see another season of low cotton production.

Cotton prices are well below peak in AUD terms, with AUD denominated Cotlook A averaging around \$577/bale in January. That said, price is not the problem and good rain would see good returns for growers.

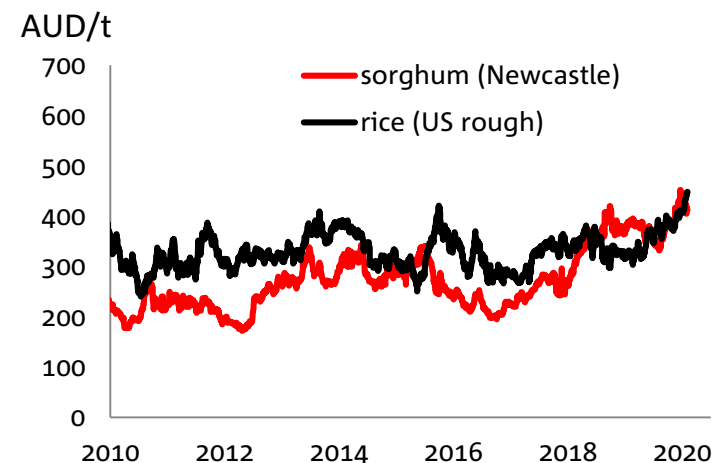
Having essentially missed the winter crop, some northern New South Wales and Queensland grain growers have seen enough rain to plant a late sorghum crop, although the total crop size is likely to be below average.

Fruit prices have been declining for some months, while vegetables have been on the up. Fruit prices fell 8.1% in January while vegetables were up 13.9%.

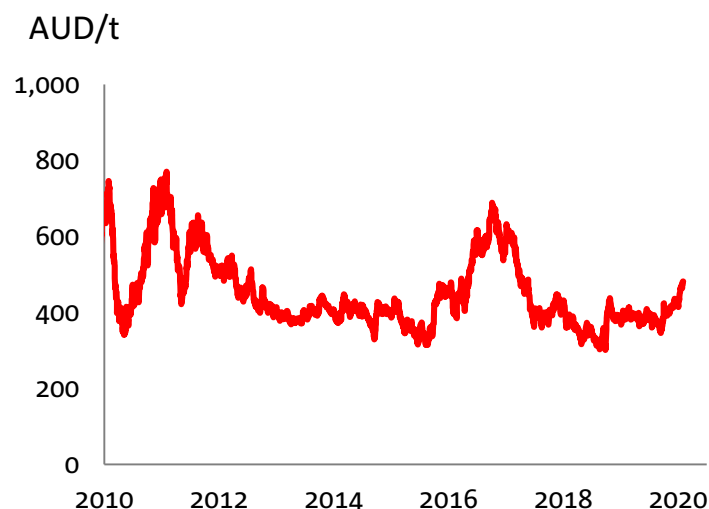
## COTTON



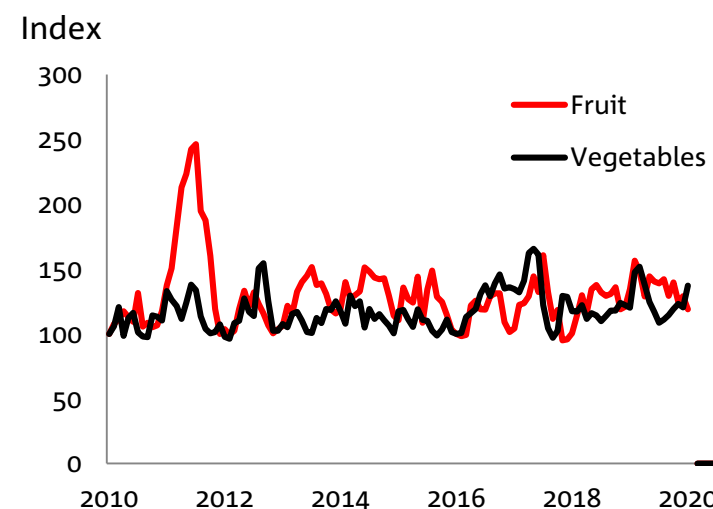
## SORGHUM AND RICE



## SUGAR



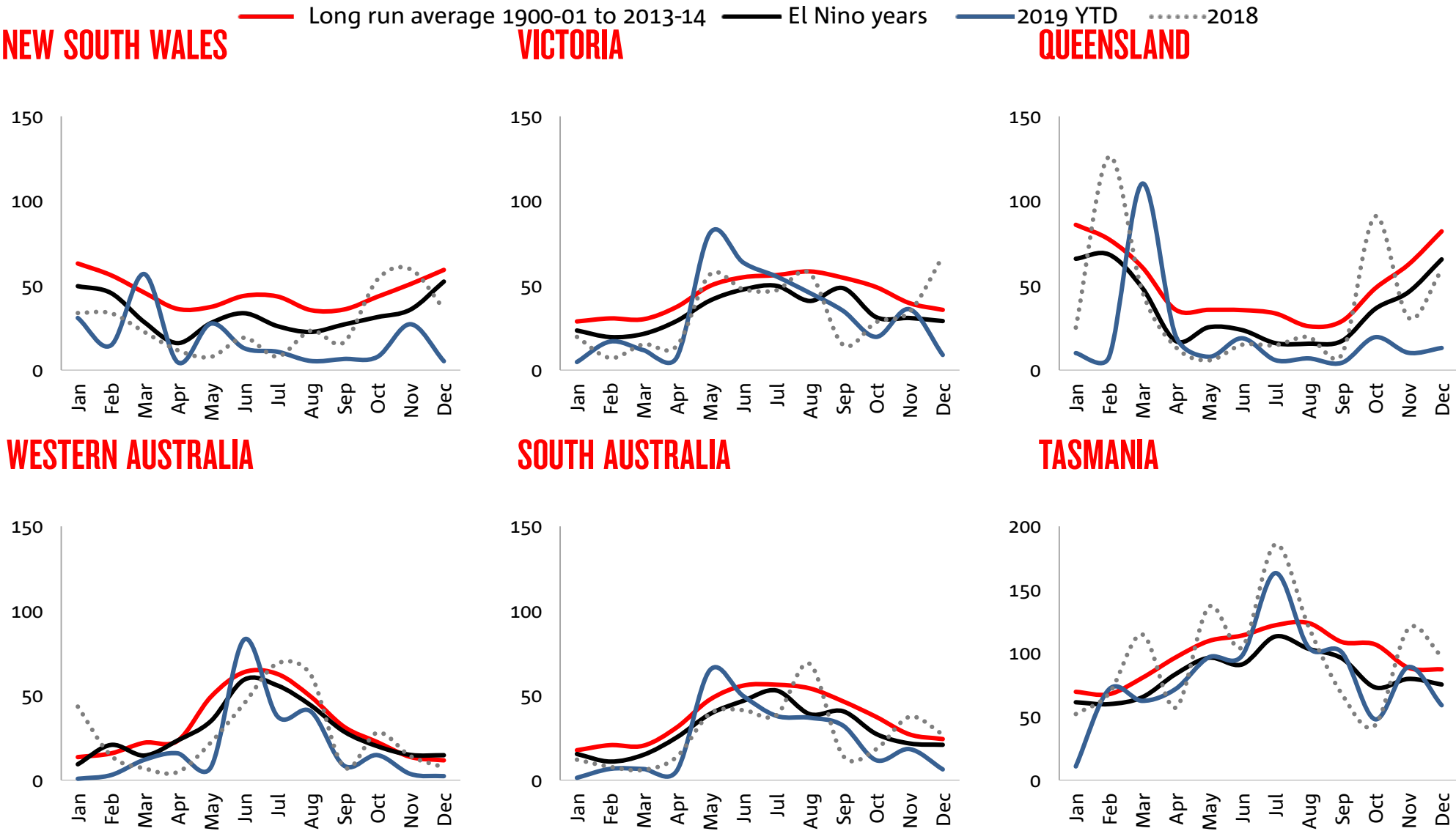
## FRUIT AND VEGETABLES



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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