# RURAL COMMODITIES WRAP

## MARCH 2020

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# KEY POINTS

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Let's start with the good news: Australia is a net agricultural exporter, in a normal season producing enough food for more than double its population. Most food that Australians eat is grown in Australia. Coronavirus is wreaking havoc on Australia and the world but people still need to eat and at this stage we have not seen any real disruptions to Australian food supply outside of panic buying and hoarding from Australian supermarkets. *Overall, Australian agriculture will play a vital role in keeping Australians in good health through the crisis.*

The virus will have an impact on Australian agriculture, likely increasing demand in domestic markets but potentially limiting export demand and making trade more complex.

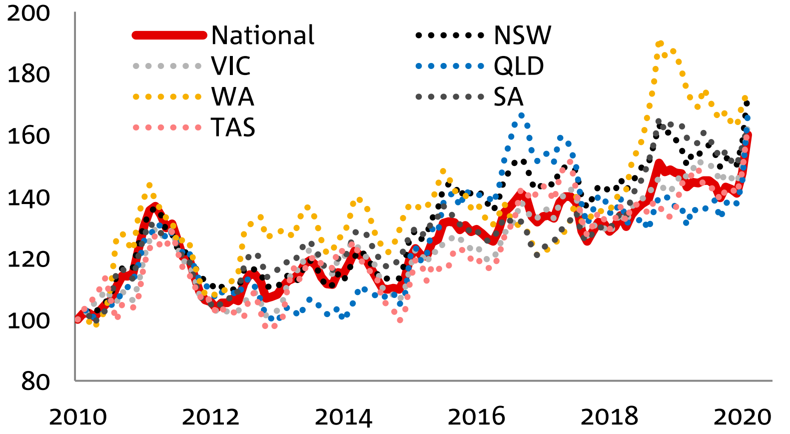
On the domestic front, panic buying at supermarkets will bring forward demand for Australian agricultural products across the board, although some specialty products destined for restaurants will be in surplus. However, with much of the buying now for hoarding, inventories are being transferred into households, and these will eventually be run down (assuming limited spoilage).

With global trade now coming under immense pressure, there is potential for more disruption to Australia's agricultural exports. But, on balance this means more food for domestic consumers.

The NAB Rural Commodities Index had its best month on record in February – rising 8.5% month-on-month, largely reflecting booming livestock markets. Big rains in many areas have driven re-stocker markets into a frenzy, with hope that the big dry has now broken in New South Wales and Queensland. However, substantial climatic risks remain, and if we don't see a good season from here livestock prices are almost certainly overdone at this level.

## NAB RURAL COMMODITIES INDEX

National and by state




## MONTHLY COMMODITY PRICE CHANGES

| | Dec 19 | Jan 20 | Feb 20 |
|---|---|---|---|
| Wheat | ▲ 3.6% | ▲ 4.1% | ▼ 1.6% |
| Beef | ▼ 3.9% | ▲ 7.6% | ▲ 25.9% |
| Dairy | ▲ 0.8% | ▲ 2.3% | ▲ 3.1% |
| Lamb | ▼ 5.0% | ▲ 7.0% | ▲ 15.8% |
| Wool | ▼ 2.1% | ▲ 2.9% | ▼ 0.1% |
| Sugar | ▲ 4.1% | ▲ 6.5% | ▲ 9.6% |
| Cotton | ▲ 0.6% | ▲ 4.4% | ▼ 0.3% |

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

# IN FOCUS: CORONAVIRUS AND FOOD SECURITY

COVID-19 has effectively shut down global travel and is likely to put pressure on transport links, particularly air freight.

The AUD has collapsed, now trading at around 57-58c. This is good news for Australian agricultural exporters, *but* only to the extent that global trade flows can continue in the face of the virus threat.

From first principles, we are well placed with food security as a net export of food products. Australia produces roughly enough food for 60-75m people and with a population of 25m much of our agricultural output is exported.

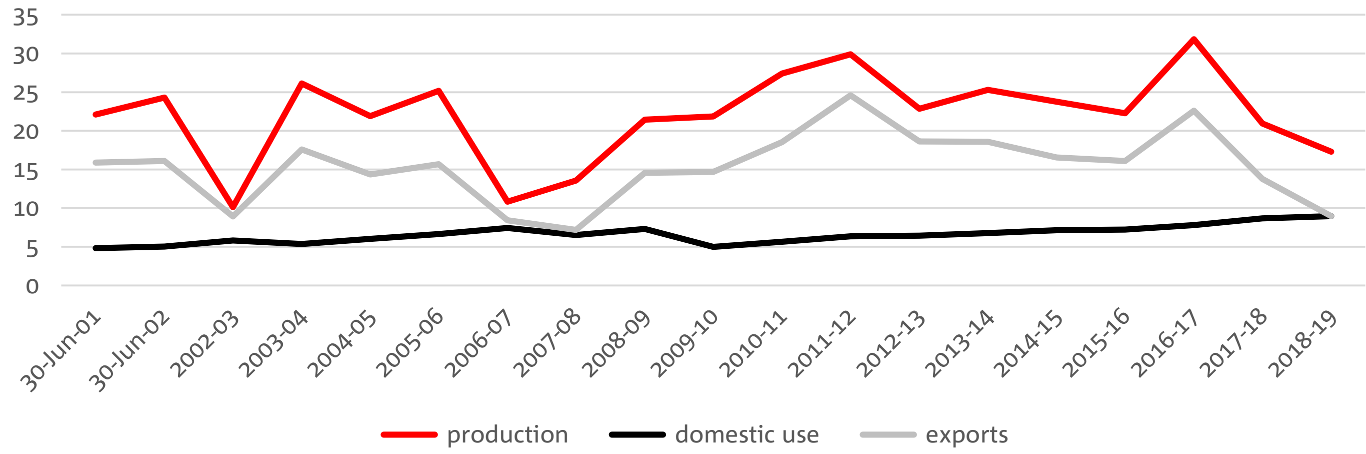
Despite a miserable 2019-20 harvest, there is still grain in storage and the livestock industry can still provide meat. Likewise, fruit and vegetables are still readily available.

There are two key risks for Australian food production. Firstly, labour requirements – particularly for horticulture and livestock processing – may become an issue. This could be compounded as the virus spreads through the community, potentially shutting sites. Secondly, some inputs such as agricultural chemicals and fertiliser are substantially imported. If trade flows break down these could be affected.

Overall, Australian agriculture will play a vital role in keeping Australians in good health through the crisis.

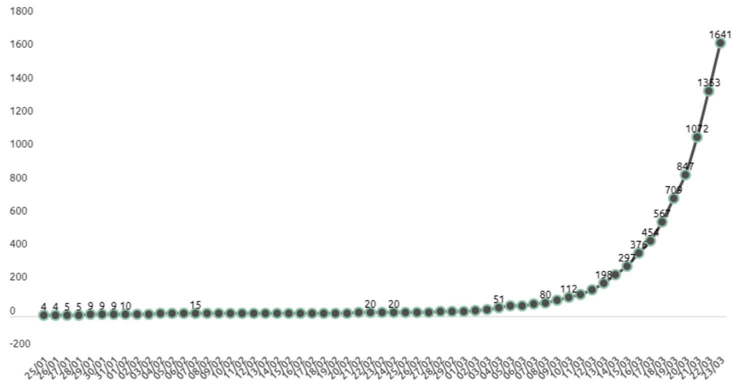
## AUSTRALIAN WHEAT PRODUCTION AND USE

Million tonnes per annum



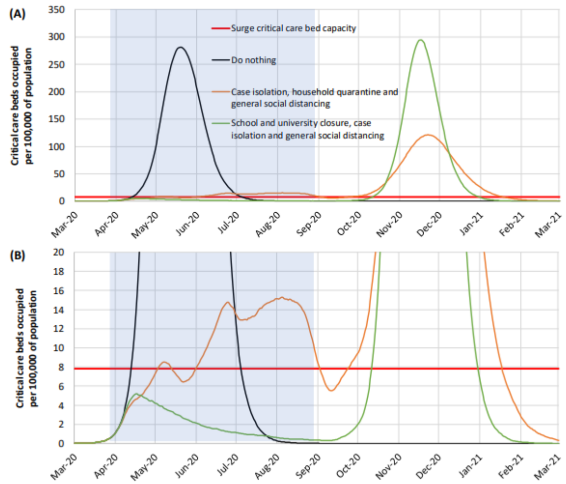

## CORONAVIRUS CASES

Total – Australia




## COVID-19 IMPACT, SELECTED STRATEGIES

Health system, UK, Imperial College modelling




Source: ABARES, www.covid19data.com.au, Imperial College London and NAB Group Economics

# SEASONAL CONDITIONS

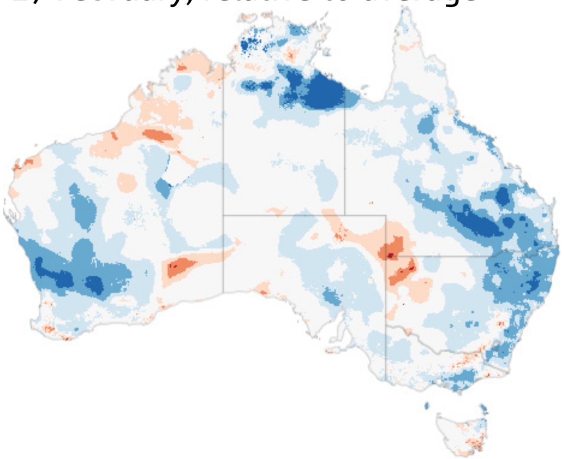
2019 was a very tough season in many parts of Australia. New South Wales and parts of Queensland saw the most severe rainfall deficits over the year.

Since January, many – but not all – of these areas have seen excellent rainfall. This is clearly an extremely welcome relief for producers. Soil moisture levels across northern New South Wales, the Darling Downs and central Queensland are especially encouraging and have led to very spirited activity in the cattle restocker market.

However, it is worth comparing underlying conditions now compared to the last great EYCI rally in 2016. EYCI peaked at 726c/kg in August 2016, amid the best seasonal conditions in arguably decades. The map on the bottom right shows three months of rainfall (relative to average) in the lead up to August 2016 – a sea of blue, with most areas above average and many very much above average. Compared to the three months leading up to the present (map bottom left) conditions were substantially better in 2016. While some areas now have enough moisture to see them through for a good period, many areas still need a full season of above average rain.

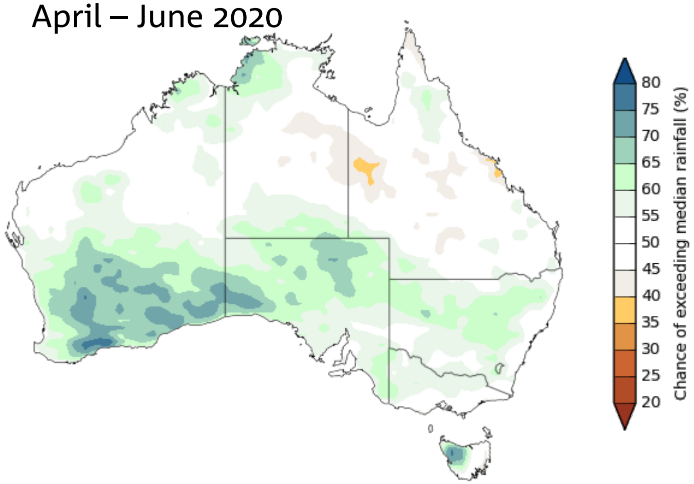
## ROOT ZONE SOIL MOISTURE

27 February, relative to average



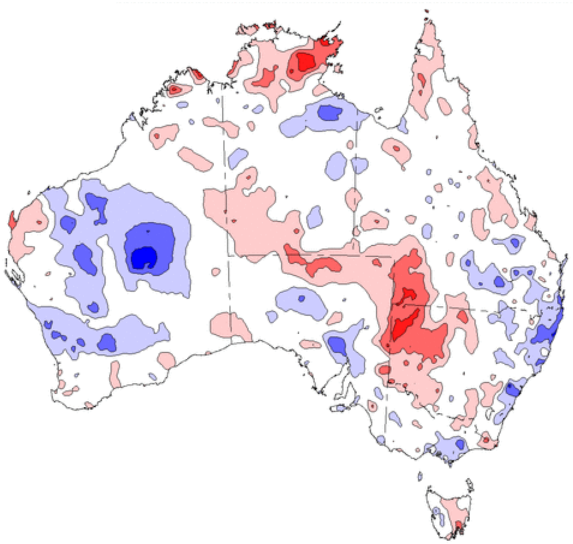
## BOM RAINFALL OUTLOOK

April – June 2020



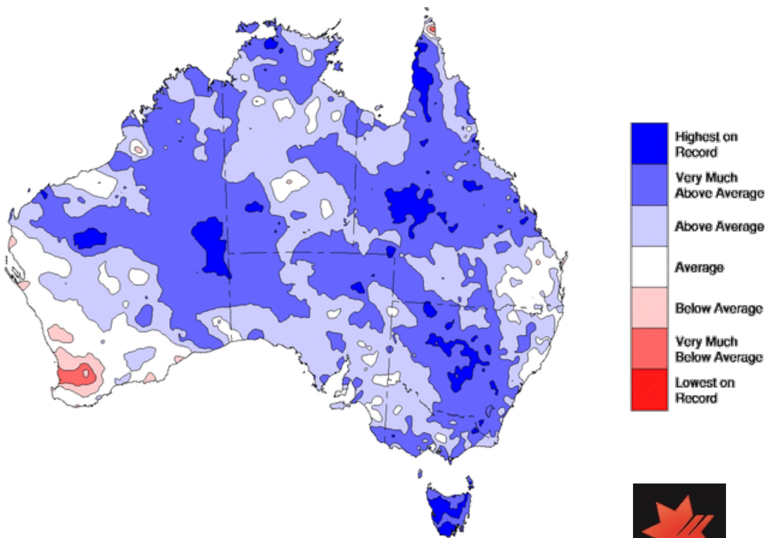

## THREE MONTH RAINFALL DECILES

December 2019 – February 2020



## THREE MONTH RAINFALL DECILES

May – July 2016

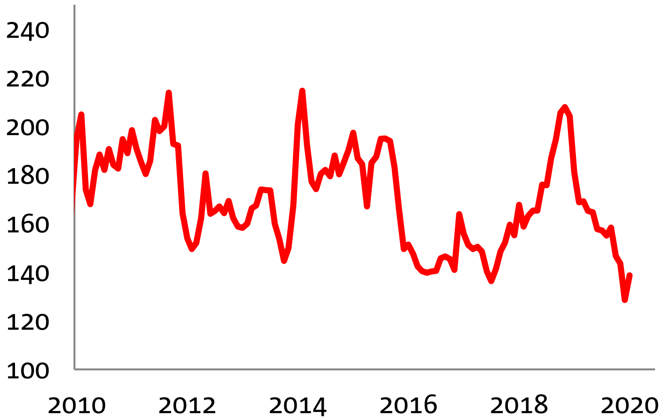



Source: Bureau of Meteorology

# FARM INPUTS

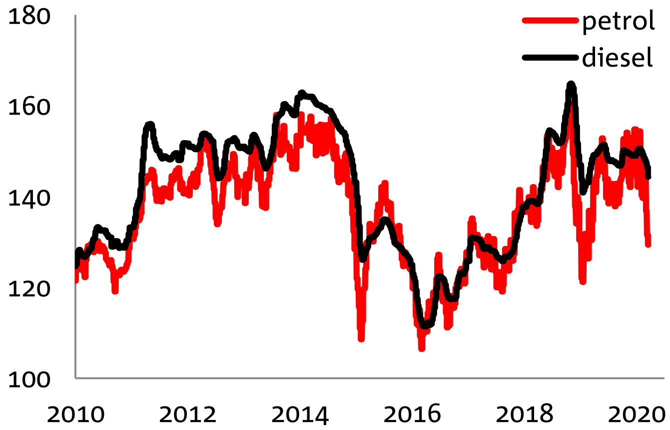
## NAB FERTILISER INDEX

AUD index



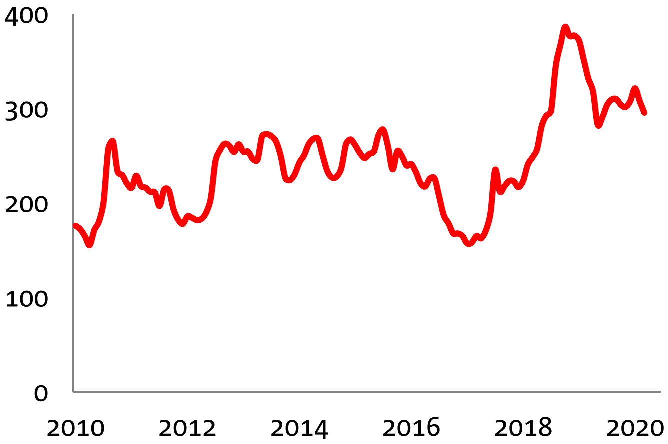

## NATIONAL AVERAGE FUEL PRICES

AUc/litre



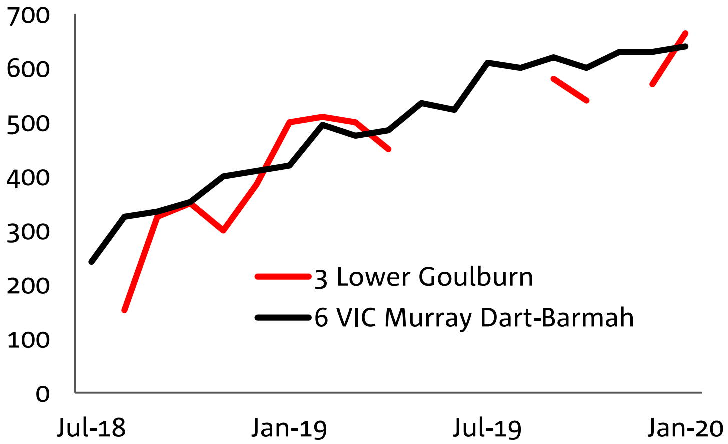

## NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t




## ENTITLEMENT TRADE PRICES

$/ML, selected valleys




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

Farm input prices have been pushed lower by global events, albeit this is partly offset by a lower AUD and potential supply issues - particularly for fertiliser and agricultural chemicals.

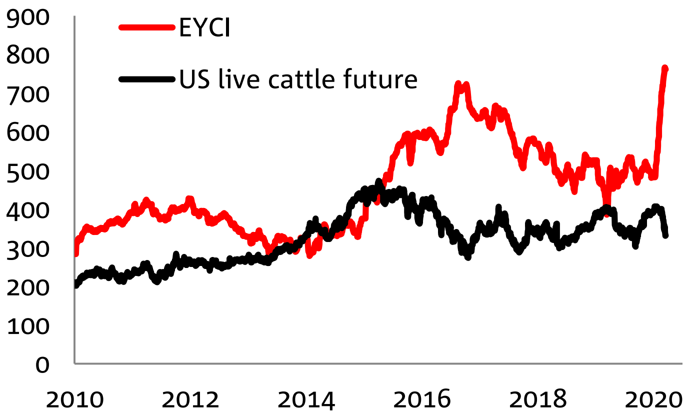
Petrol prices have absolutely tanked, reflecting a collapse in crude oil prices – Brent is now just USD26/bbl. This partly reflects a sharp drop in demand due to coronavirus but also the Saudi-induced breakdown of the OPEC+ supply restrictions. Diesel is yet to fall to the same extent, but is now seeing downside as well. While a lower AUD has blunted some of this impact, oil price falls are so substantial that we are likely to see cheap petrol at the bowser unless there is a supply interruption. Meanwhile, fertiliser prices fell very substantially in 2019, but 2020 could be a rollercoaster. Lower oil prices point to downside, but possible supply issues combined with a lower AUD, bears watching closely.

Feed prices have trended lower this year, reflecting  lower feed demand in NSW and Queensland. While this trend is likely to continue, there are two key caveats. Firstly, a lower AUD will push up local prices and secondly, local demand for human consumption may increase.

# LIVESTOCK

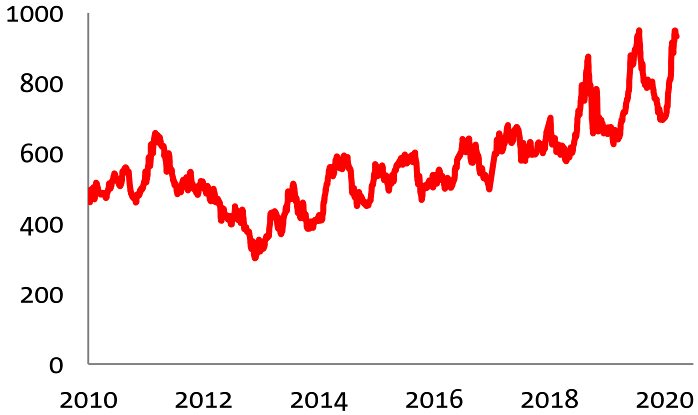
## CATTLE

AUc/kg



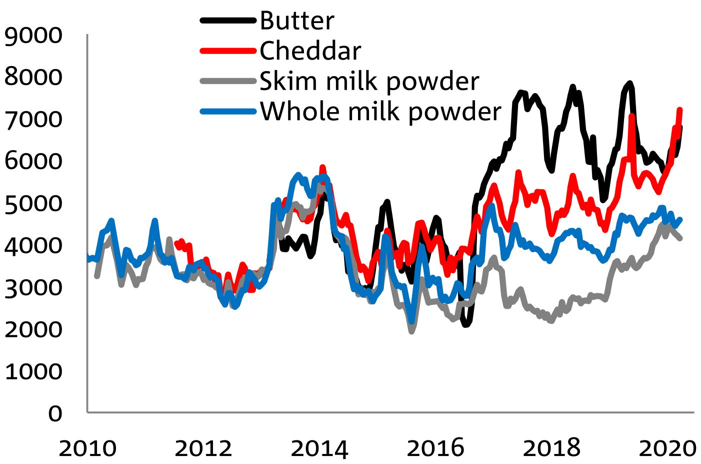

## LAMB

National Trade Lamb Indicator, AUc/kg



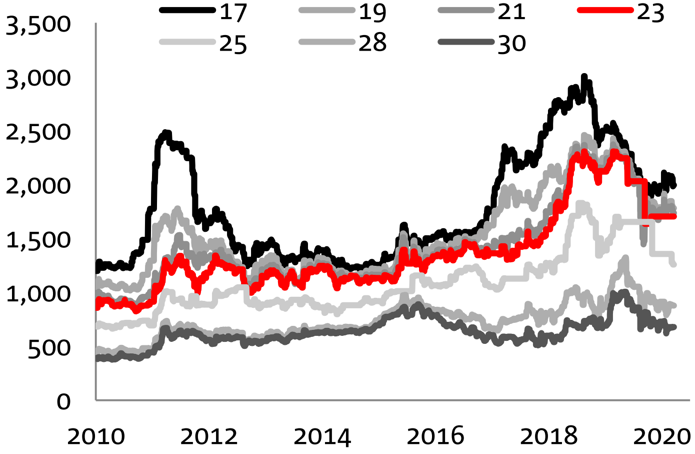

## GDT AUCTION RESULTS

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.

2019 was a generally tough year for the Australian cattle industry, reflecting poor seasonal conditions in much of the country. But this all changed in 2020, in response to very good rains in many areas. Restocker interest has been through the roof and domestic prices have responded accordingly. EYCI has now taken a breather, falling from a record 767c/kg to 742c/kg (it started the year on 487c/kg0. A lack of rain in the last two weeks combined with coronavirus ravaging export markets, suggests risks are now on the downside.

Lamb prices have likewise been boosted by rainfall but look to have peaked for now – likely reflecting the rainfall situation and coronavirus concerns. NTLI now stands at a very respectable 923c/kg. While China still needs protein following African Swine Fever, export logistics are going to become more difficult. Wool prices have held up, but demand is very uncertain in the current environment.

Global Dairy Trade auction results have been lower in the last four auctions, although the sharply lower AUD will offset much of this. Where the market goes from here is difficult to predict. On the one hand, China is a massive buyer and has been otherwise occupied over the last two months, but given the situation in Europe, it is possible that EU supply could suffer.

# WINTER CROPS

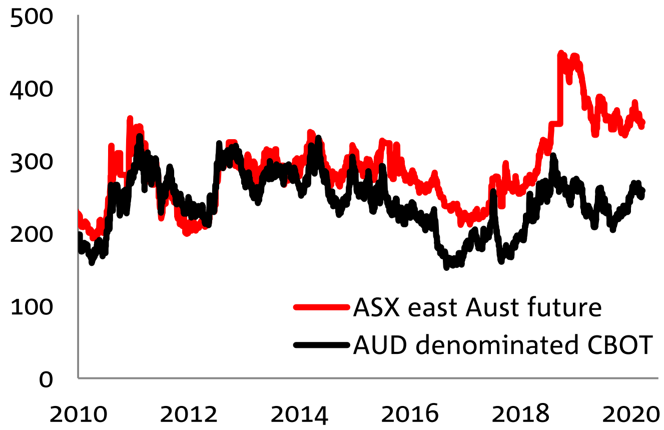
2019-20 provided a pretty miserable crop overall, with ABARES' latest wheat assessment standing at 15.2mmt, representing the worst winter cropping season since 2007-08. Apparent domestic use (human consumption, stock feed, seed) was just under 9mmt in 2018-19. We expect the domestic consumption figure for 2019-2020 to be comparable, or perhaps slightly lower.

Australian grain continues to trade well above international benchmarks, although there are signs of this moderating following good rains in NSW and Queensland. Australian grain is still being exported, although it is unclear how coronavirus will affect shipping and demand for product.

Looking ahead to the 2020-21 crop, some areas have now received good enough rainfall to have sufficient profile for some months. Planting is likely to be in full swing in a month from now. It remains too early to forecast the size of the 2020-21 crop.

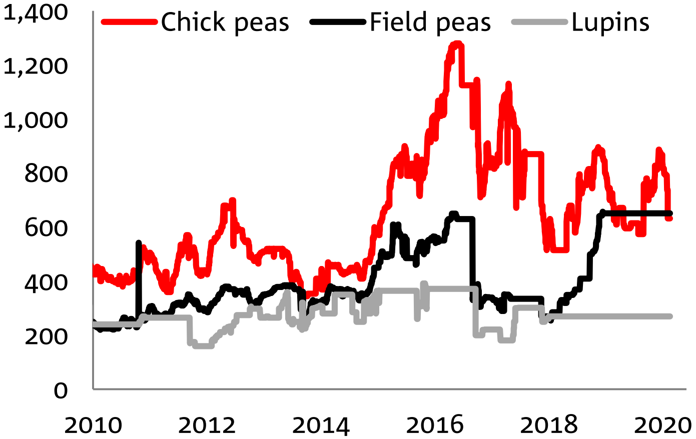
## WHEAT

AUD/t



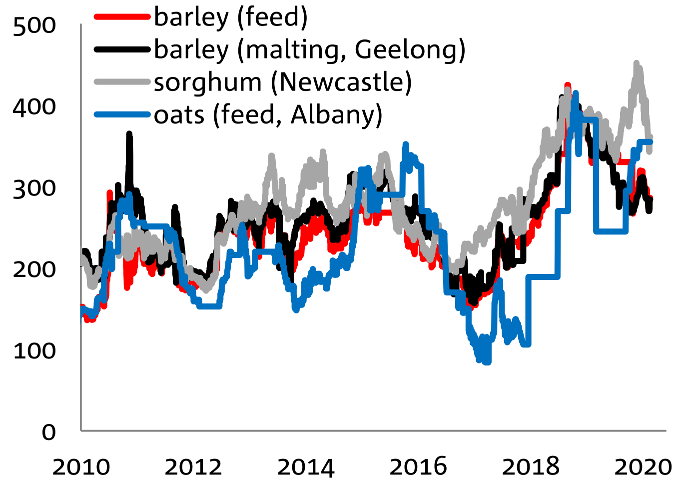

## PULSES

AUD/t



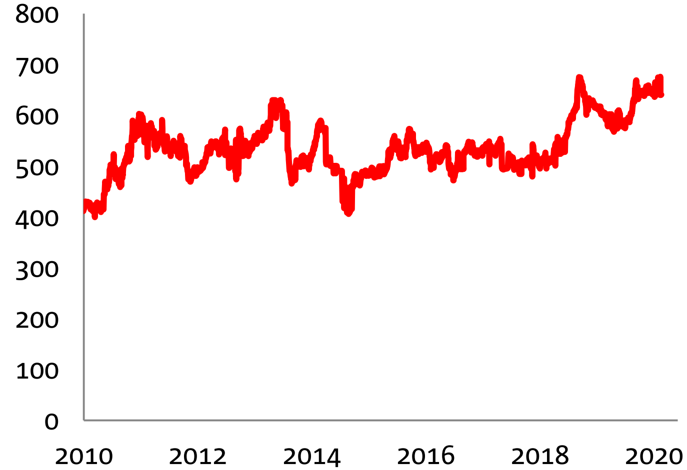

## COARSE GRAINS

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.

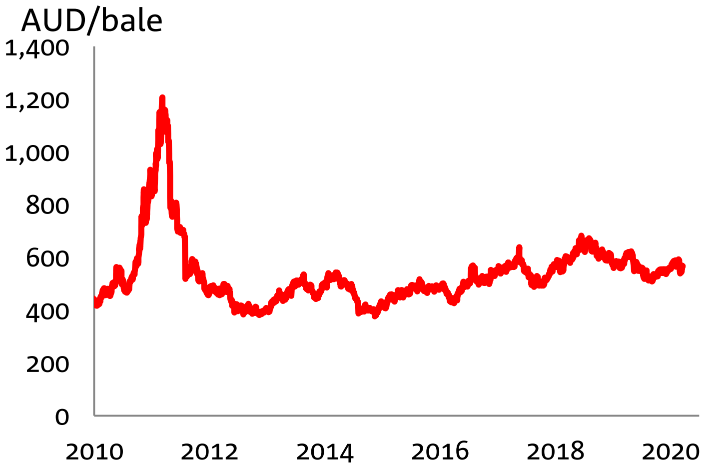
# SUMMER CROPS, SUGAR AND HORTICULTURE

Good summer rains have been a welcome relief for summer crop prospects, with Sorghum prices having come down a good deal. While the season will see lower than average production (on low plantings), it's not a bad result given where it started.

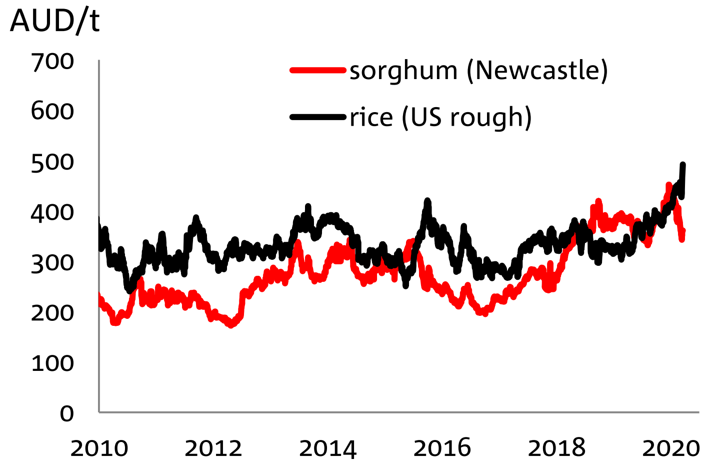
Cotton prices have held up, although serious questions have to be asked about demand in 6 months if coronavirus continues to smash the global economy.

Fruit and vegetable prices were both higher in February, increasing 12.4% and 5.4% respectively. Fresh produce continues to be widely available in shops, likely reflecting the folly of panic buying produce that rapidly spoils. Labour availability will be an issue for horticulture this year, as will the possibility for outbreaks among workers, potentially shutting down operations at farms.

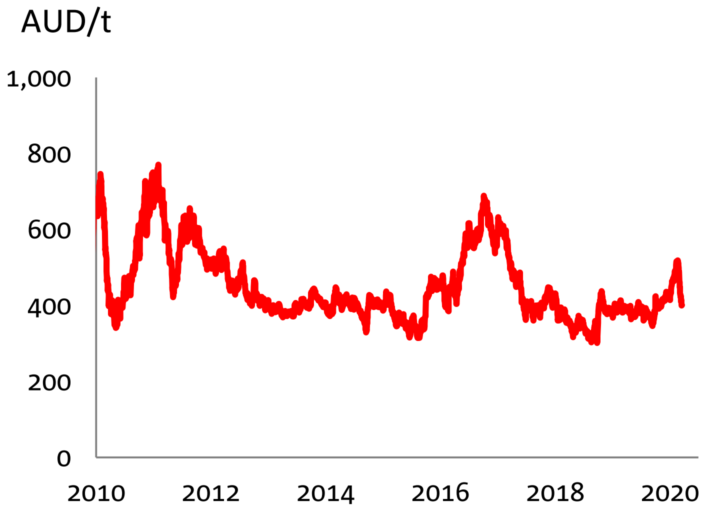
## COTTON



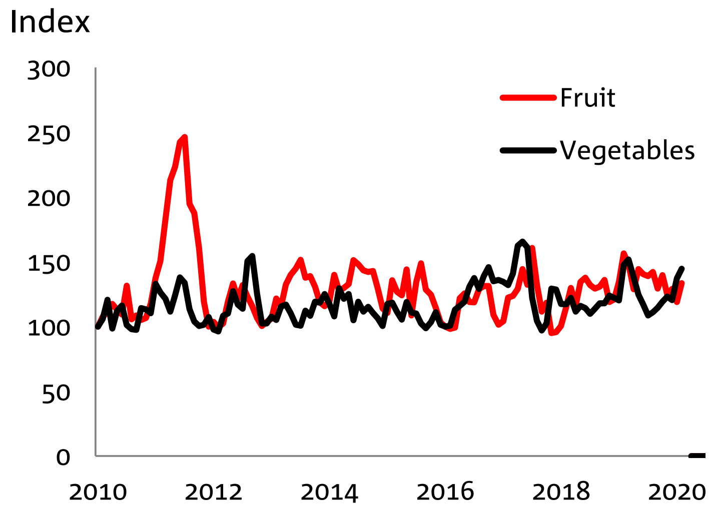

## SORGHUM AND RICE




## SUGAR




## FRUIT AND VEGETABLES

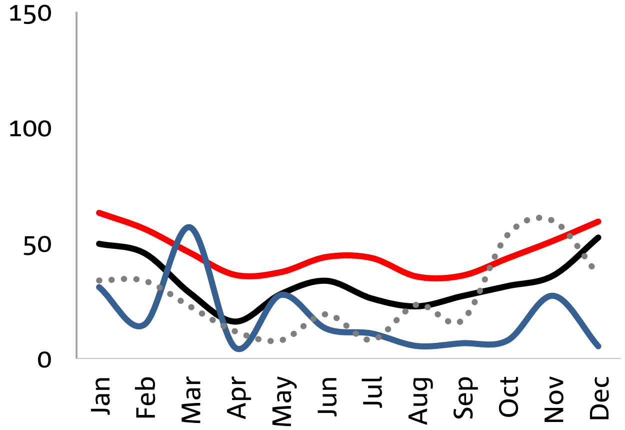



Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

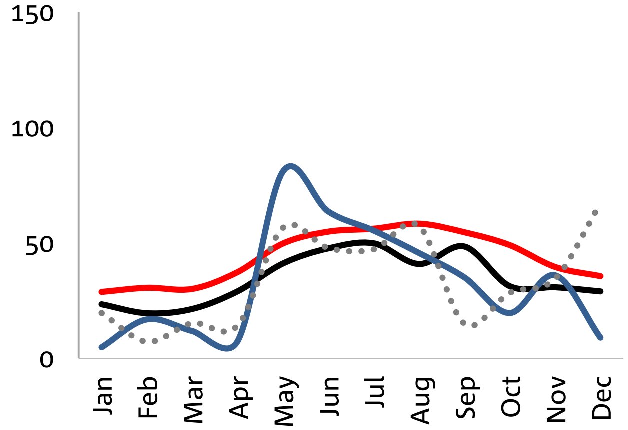
# MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

Long run average 1900-01 to 2013-14 | El Nino years | 2019 | 2018

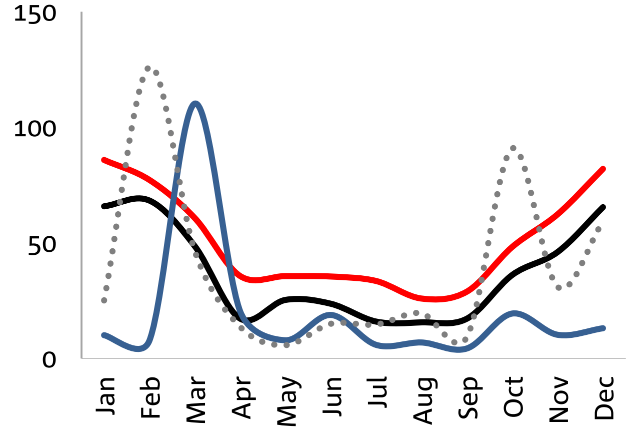
## NEW SOUTH WALES



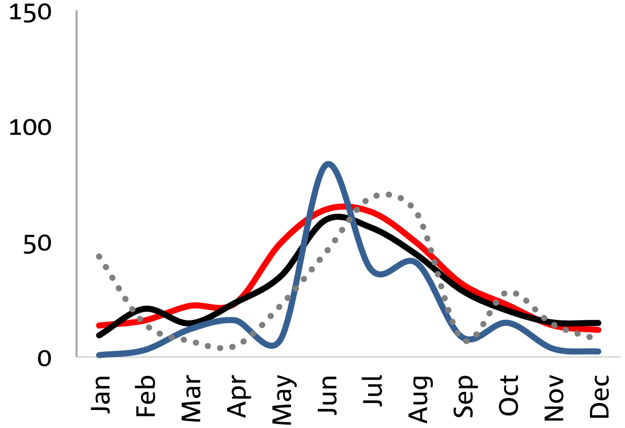

## VICTORIA



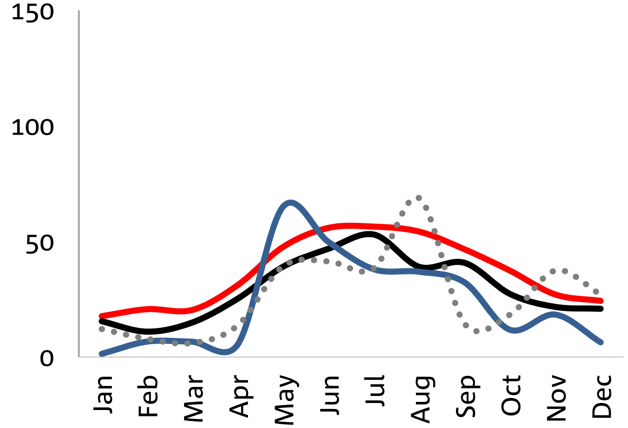

## QUEENSLAND



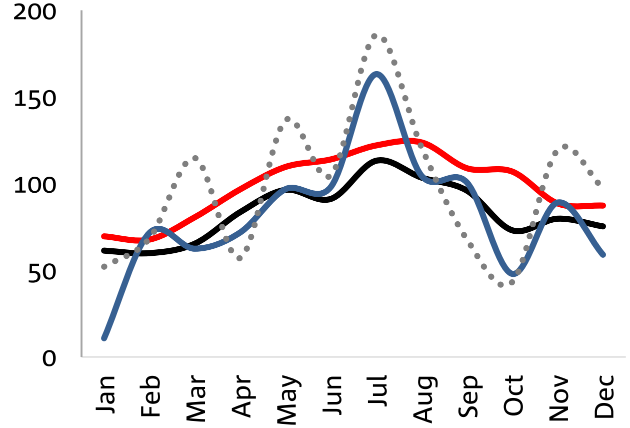

## WESTERN AUSTRALIA




## SOUTH AUSTRALIA




## TASMANIA




Source: Bureau of Meteorology and NAB Group Economics

Photo | **Mai Thai**