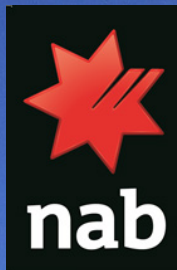


RURAL COMMODITIES WRAP



APRIL 2020

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KEY POINTS

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The COVID-19 pandemic continues to demolish the global economy, but the situation for Australian agriculture looks very positive overall, although with a few key risks looming. Our Rural Commodities Index was up another 5.8% in March. Here are some major positives for Australian agriculture:

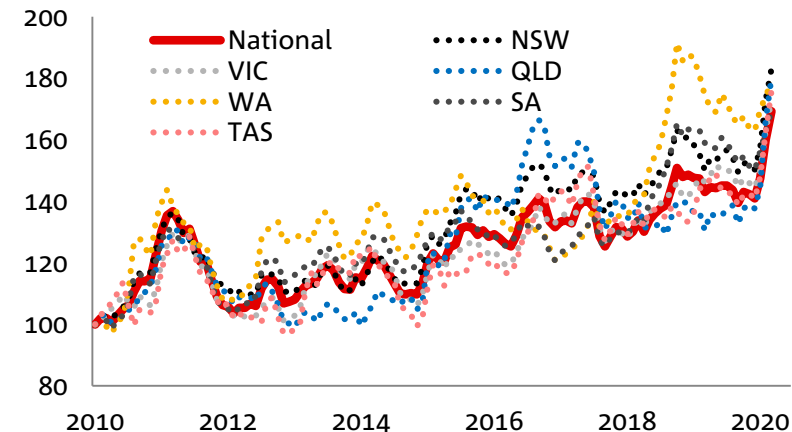
- Seasonal conditions are looking very good indeed. The first three months of 2020 saw big rains in most, but not all, parts of the country. The three month BoM outlook points to well above average rainfall for the next three months as well, although outlook reliability is always an issue in autumn.
- The AUD is low, now trading in the low 60s range, having spent some time with a 5 in front of it recently. A year ago, the AUD was around 71 cents. This is a welcome boost to local prices.
- Demand for staples is high (ask anyone trying to buy flour at present). While most hoarding is likely to be transient, there is a move from some grain exporters to secure more supplies domestically.

As for the not so positives:

- Global supply chains are under massive pressure. This manifested itself earlier in the crisis with the Chinese ban on seafood imports. It is hard to predict what will happen to supply chains in the coming months.
- The global economy is in a sharp downturn. Demand for premium products could well suffer as consumers simply don't have cash to spend. Demand for fibres is likely to be low this year.
- Access to labour and risk of outbreak is likely to be a major concern for labour intensive parts of agriculture, such as horticulture, dairy processing and abattoirs.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Jan 20	Feb 20	Mar 20
Wheat	▲ 4.1%	▼ 1.6%	▲ 1.8%
Beef	▲ 7.6%	▲ 25.9%	▲ 12.4%
Dairy	▲ 2.3%	▲ 3.1%	▲ 2.3%
Lamb	▲ 7.0%	▲ 15.8%	▲ 8.3%
Wool	▲ 2.9%	▼ 0.1%	▼ 4.9%
Sugar	▲ 6.5%	▲ 9.6%	▼ 16.1%
Cotton	▲ 4.4%	▼ 0.3%	▼ 5.2%

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



IN FOCUS: WHERE TO NOW FOR THE AUSTRALIAN DOLLAR?

The AUD was 71 US cents a year ago, but is trading at under 62 cents now. In mid-late March it was below 58 cents. An AUD this low is clearly a major positive for Australian agriculture, boosting local prices in AUD terms for the small price of higher input costs (although the collapse in global oil prices has partly offset this).

The RBA has now cut the cash rate to 0.25% and has indicated this is the lowest rate it will deploy. Unconventional monetary policy is now being used to keep the 3 year government bond yield at around 0.25%, with the RBA buying some \$36 billion of government bonds (including state and territory bonds) in secondary markets.

There remains considerable uncertainty around the outlook for the global economy – dependent on the length of the crisis. That said our forecasts currently point to the AUD at the 63 cent mark at the end of 2020.

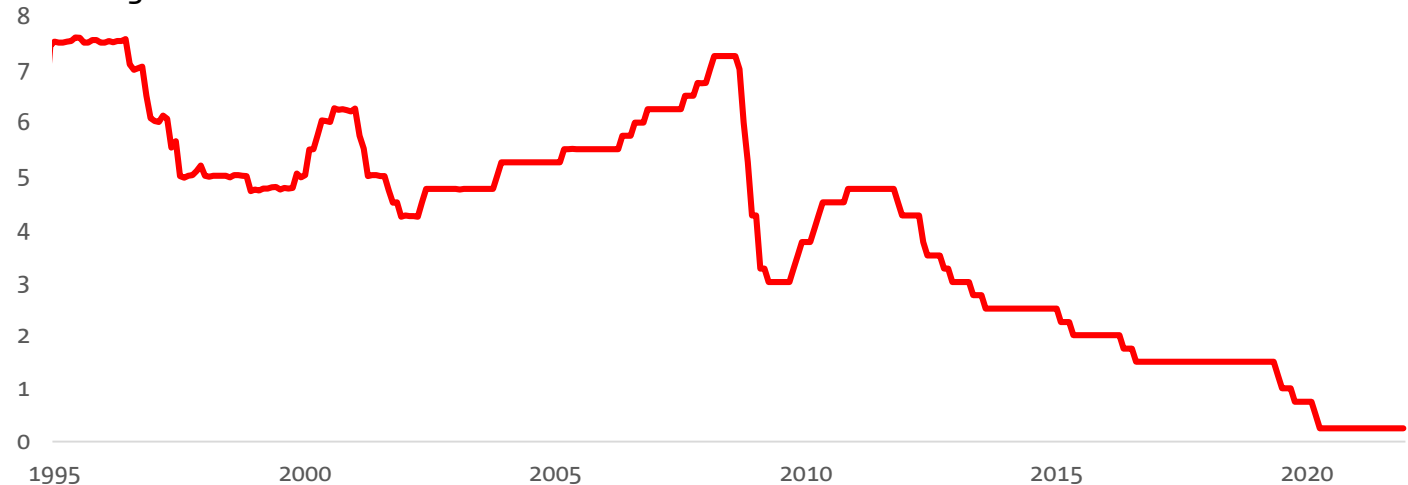
AUD USD

Daily



RBA CASH RATE

% including NAB forecast



Source: RBA, Bloomberg, Refinitiv, NAB

SEASONAL CONDITIONS

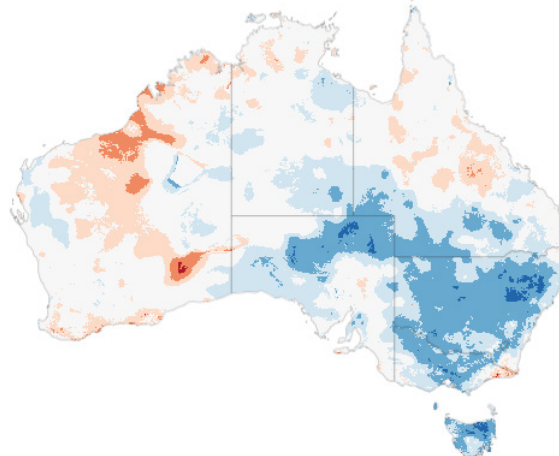
After a 2019 best forgotten in many parts of the country, 2020 is shaping up very well so far. Rainfall across most parts of the country (with the exception of parts of Cape York, the Top End and the Kimberley) was average to above average from January to March. Root zone soil moisture is well above average in southern Queensland, almost all of NSW, Tasmania and most of Victoria.

The Bureau of Meteorology's rainfall outlook for April to June is mind-bogglingly above average, with most of the country having a high probability of exceeding the median rainfall for the period. That said, some areas of Australia have less than 50% outlook accuracy over this period, so a fair degree of caution is required.

All things considered, 2020 is shaping up to be one of the better seasons for agriculture so far. While it is still early days, if there is a strong autumn break most cropping operations will be well set up for the season. Indeed, some could find themselves asking a question considered impossible just a few months ago - "is this too much rain?"

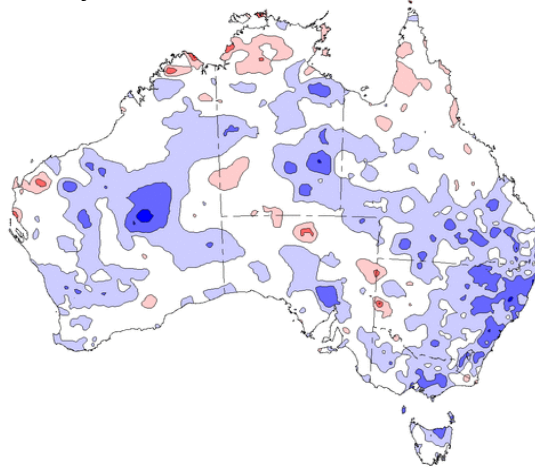
ROOT ZONE SOIL MOISTURE

5 April, relative to average



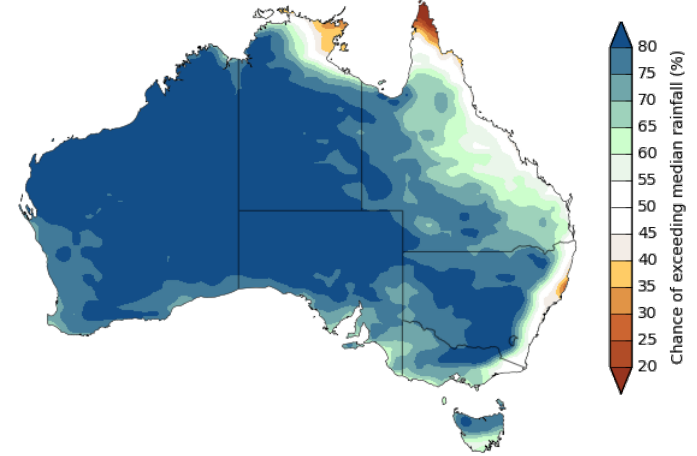
THREE MONTH RAINFALL DECILES

January – March 2020



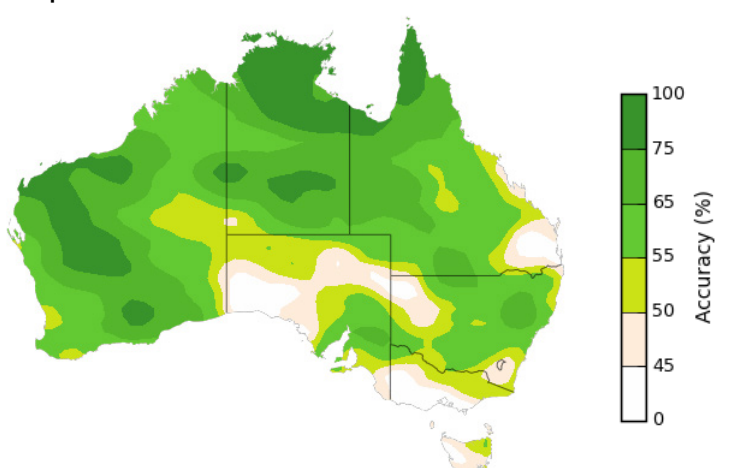
BOM RAINFALL OUTLOOK

April – June 2020



BOM RAINFALL OUTLOOK ACCURACY

April – June 2020

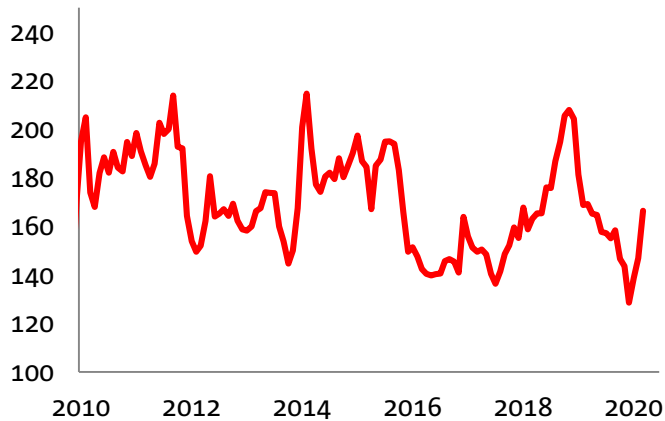


Source: Bureau of Meteorology

FARM INPUTS

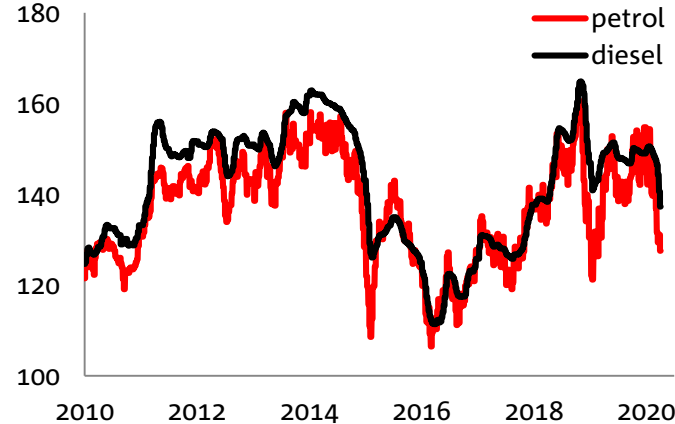
NAB FERTILISER INDEX

AUD index



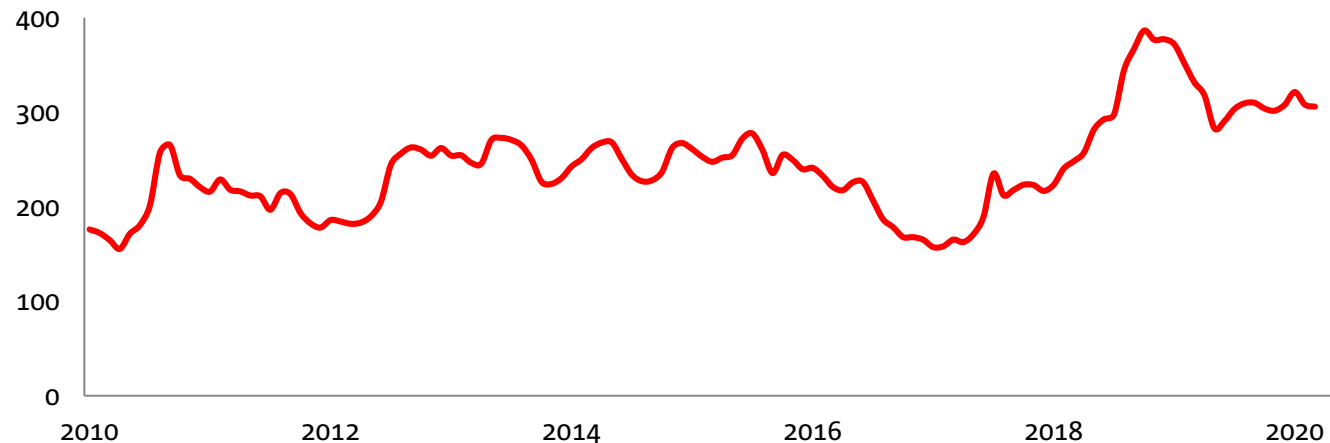
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



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

While some farm input prices have been pushed lower by global events, coronavirus will likely keep others higher through a lower AUD, grain and fertiliser demand.

Fuel prices have absolutely tanked, reflecting a collapse in crude oil prices – Brent is around 32/bbl, reflecting a fundamental collapse in demand as well as ongoing uncertainty around a Saudi-Russian OPEC+ supply deal. Diesel has now fallen substantially and while a lower AUD has blunted some of this impact, oil price falls are so substantial that we are likely to see cheap fuel at the bowser for some time.

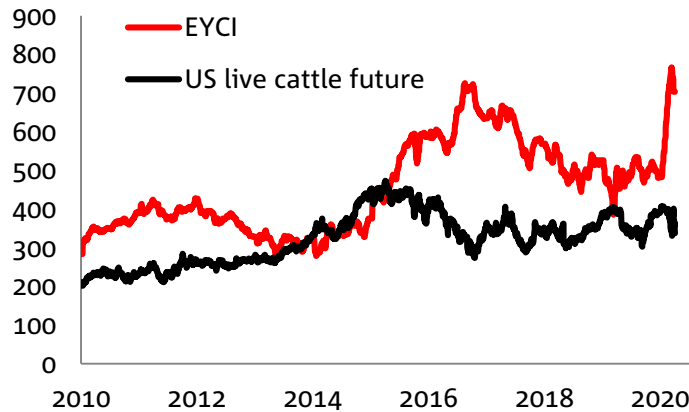
Fertiliser prices fell very substantially in 2019, but 2020 presents some upside risks. Lower oil prices point to downside, but supply issues, higher urea and DAP prices in USD terms, combined with a lower AUD, are pushing prices back up.

Feed prices were trending lower, reflecting lower feed demand in NSW and Queensland. But grain price strength and a lower AUD has seen this trend end. We are becoming more bullish that grain will stay higher for longer.

LIVESTOCK

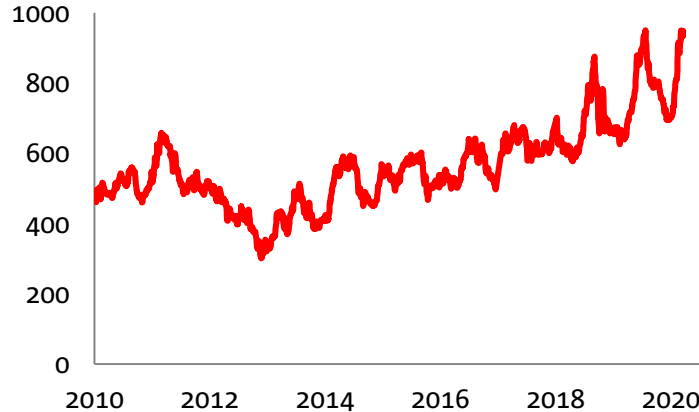
CATTLE

AUc/kg



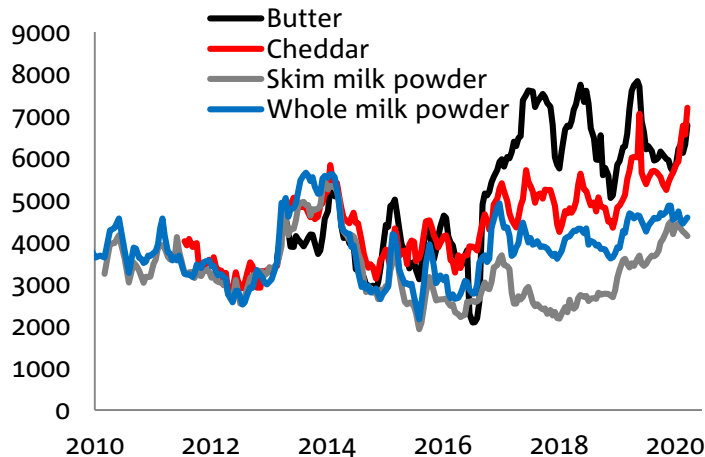
LAMB

National Trade Lamb Indicator, AUc/kg



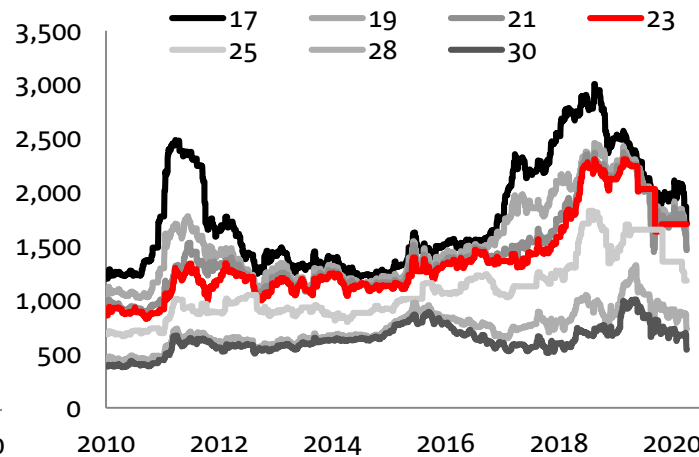
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



MLA has curtailed some livestock price reporting in response to the coronavirus crisis. This means that from xx March to yy April, EYCI and NTLI will not be reported. However, various other indicators – such as state OTH prices – remain available.

The pressure for both beef and lamb over the coming months will be the competing forces of likely strong restocker interest, tempered by challenging global market fundamentals (i.e. global recession). Australia has rightly set its sights on value added premium product in the sector, but with restaurants across much of the world closed and many consumers losing their jobs, buying premium product will be a tough ask for many global consumers.

On balance, domestic restocker pressure will pull prices away from rough global fundamentals. If the next 12 months can proceed as a restocking phase that will go some way to reducing this tension.

Wool prices have now dropped significantly – a trend which we expect to continue. Demand fundamentals are likely to be poor for the remainder of 2020 and buying activity will be highly uncertain.

Global Dairy Trade auction results had a surprise upside in early April following several poor showings. But the lower AUD has blunted the worst price falls in March which is welcome news for processors.

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

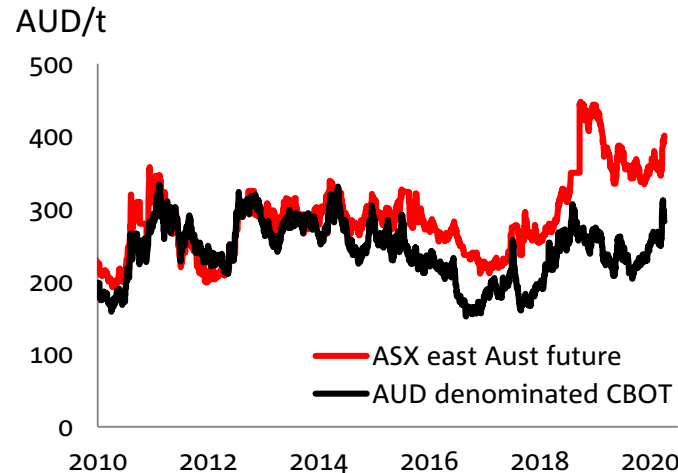
WINTER CROPS

While the 2019-20 season was best forgotten in many areas, 2020-21 is shaping up to have almost the best start possible. Subsoil moisture is looking mostly good (with the exception of the west) and if the outlook transpires there will be plenty of planting rain. We will begin forecasting the 2020-21 Australian wheat crop over the next month or so.

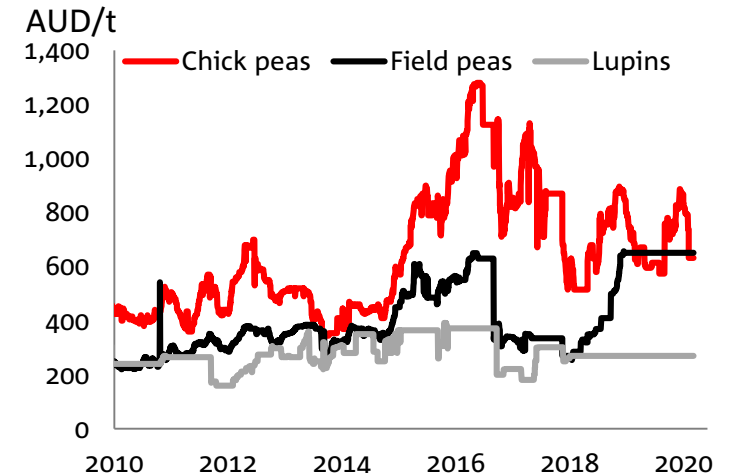
Australian grain continues to trade above international benchmarks, although the gap is now closing via higher global prices and a lower AUD. Two months ago we would have expected Australian prices to fall to meet global fundamentals, but now it looks like the opposite has occurred – with global fundamentals now providing a support to local prices amid consumer stockpiling and the possibility of export restrictions in some markets.

Overall this represents very good news for Australian grain growers – the combination of a good season and a good price is the holy grain and sorely needed after two very tough seasons in New South Wales.

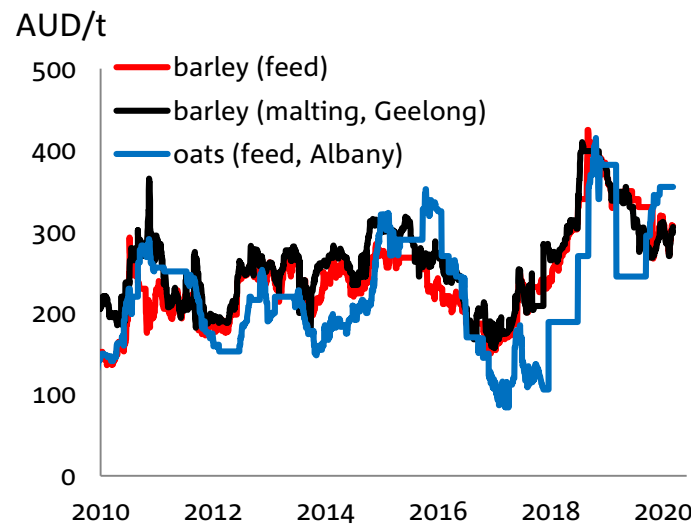
WHEAT



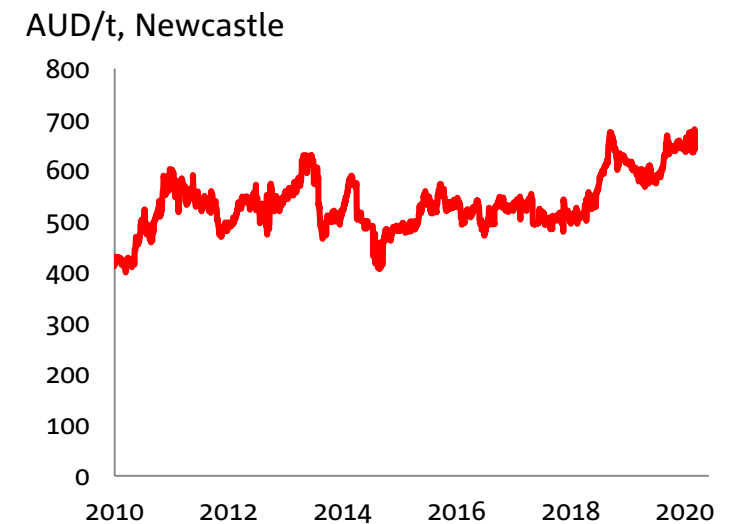
PULSES



COARSE GRAINS



CANOLA



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

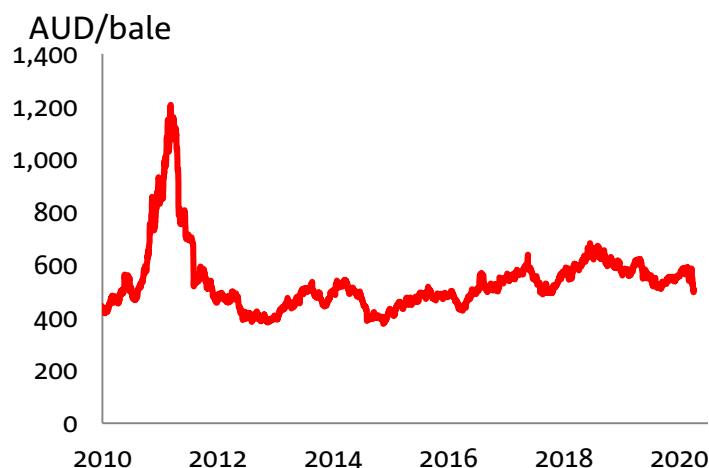
SUMMER CROPS, SUGAR AND HORTICULTURE

Good summer rains have been a welcome relief for parched summer cropping regions. If the season continues to perform, it will be welcome news for water storages in the Murray Darling basin and will go some way to putting allocations back into more normal territory.

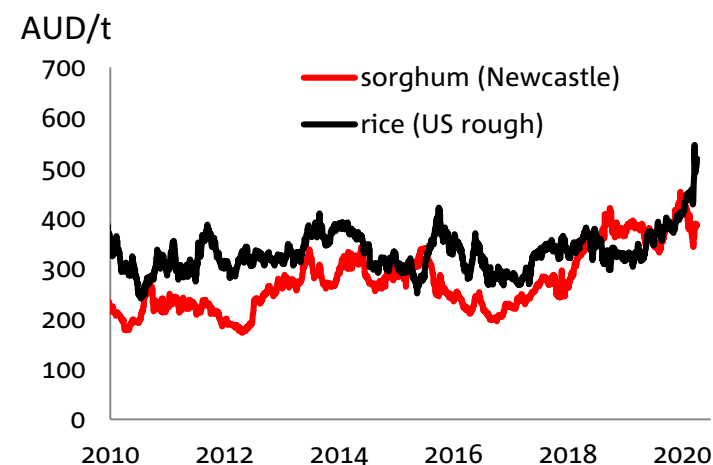
Cotton prices have now started to fall, a trend which we don't expect to be reversed while the crisis continues to smash the global economy. Demand for fibres from consumers with often much lower income and an inability to go out anyway, is likely to be very low.

Fruit and vegetable prices were again higher in March, increasing 9.9% and 20.8% respectively. Fresh produce continues to be available in shops, although the sector faces among the biggest risks from coronavirus for any agricultural sector. As a generally labour intensive industry, labour availability will be a key issue, particularly with backpackers heading home, and potential outbreaks in packing sheds would cause serious problems. For now though, supply remains mostly strong and demand (with some exceptions like avocados) is healthy.

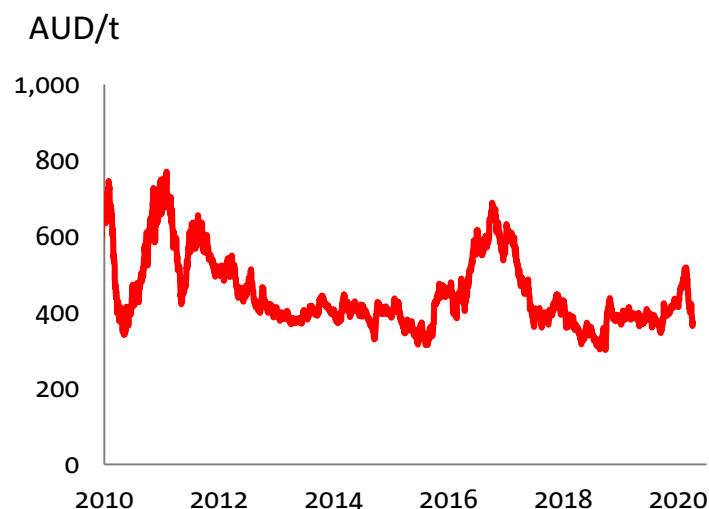
COTTON



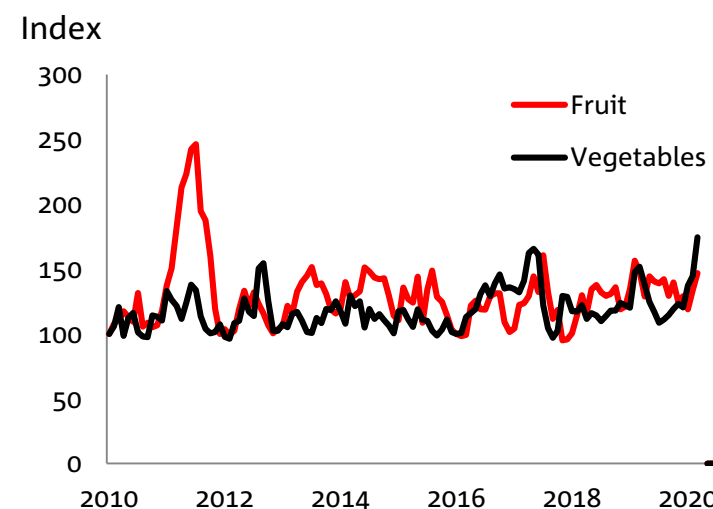
SORGHUM AND RICE



SUGAR

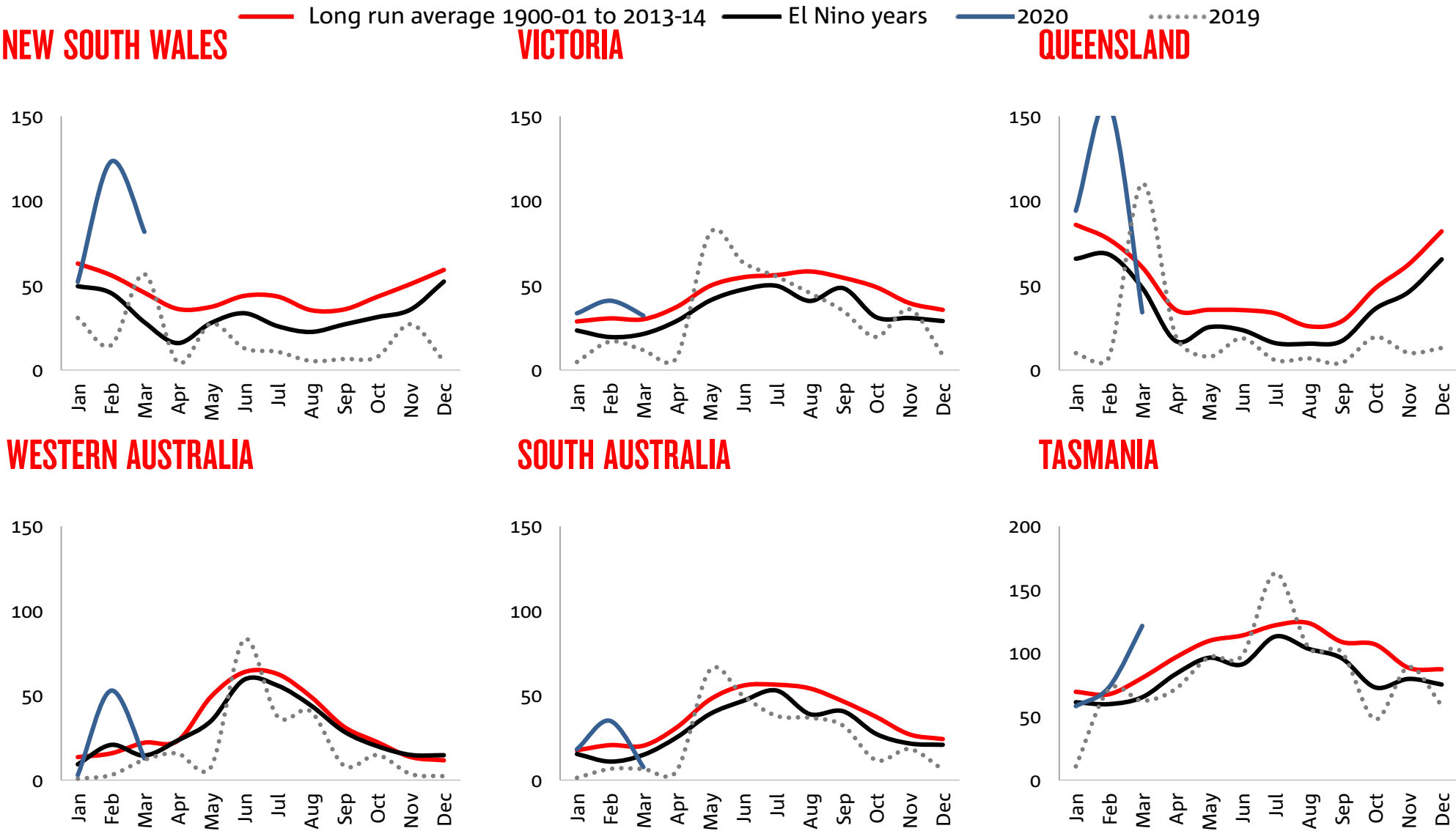


FRUIT AND VEGETABLES



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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