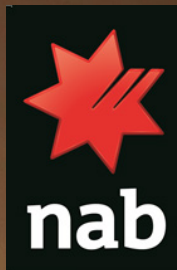


RURAL COMMODITIES WRAP



MAY 2020

Author Phin Ziebell, Senior Economist – Agribusiness

KEY POINTS

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The coronavirus crisis rolls on around the world and while Australia has been fortunate enough to avoid a major outbreak (at least so far), restrictions on activity and consumer caution suggest we are in the midst of a sharp economic downturn.

As we outlined last month, the impact of the virus on Australian agriculture is likely to be much lower than for most other parts of the economy, although some sectors are likely to fare much better than others. So far, grain prices have been buoyed by stockpiling, while livestock prices have pulled back on uncertain export market demand and wool has absolutely tanked. Staples are likely to remain more resilient than high value premium produce as restaurants remain closed and consumer spending remains sluggish.

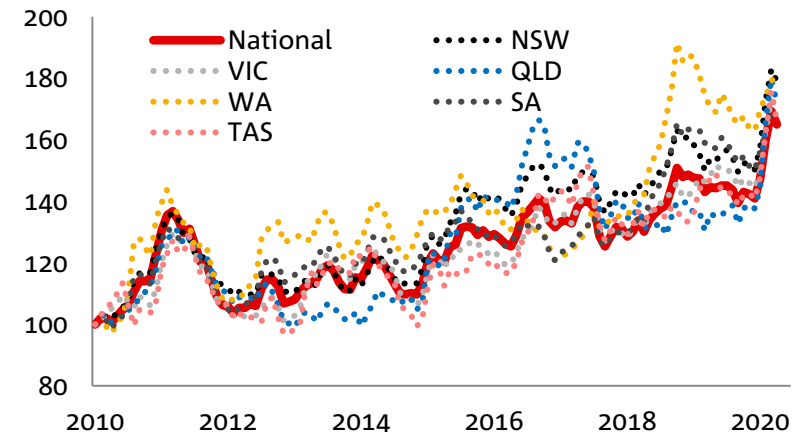
Overall, the NAB Rural Commodities Index fell 2.5% month on month in April, largely reflecting lower beef and lamb prices (although with EYCI and NTLI on hold we are using alternative measures) and a collapse in wool. Grains were generally higher though. On a year on year basis, the index is still up 14.1%.

The AUD had fallen precipitously earlier this year, trading with a 5 in front of it during parts of March. It is now back in the mid-60s range, taking out some of the spike that could have accrued to local prices if it had remained low. We now see the AUD back to the 70 US cent mark by mid-2021.

There has been a marked deterioration in Australia's agricultural trade relationship with China this week amid Chinese Government threats to impose large anti-dumping tariffs on Australian barley, compounded yesterday by a ban on meat imports from four Australian processors. This is clearly a rapidly developing situation and bears close watching.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Feb 20	Mar 20	Apr 20
Wheat	▼ 1.6%	▲ 1.8%	▲ 8.9%
Beef	▲ 25.9%	▲ 12.4%	▼ 5.6%
Dairy	▲ 3.1%	▲ 2.3%	▲ 0.1%
Lamb	▲ 15.8%	▲ 8.3%	▼ 2.7%
Wool	▼ 0.1%	▼ 4.9%	▼ 14.3%
Sugar	▲ 9.6%	▼ 16.1%	▼ 15.8%
Cotton	▼ 0.3%	▼ 5.2%	▼ 7.6%

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



IN FOCUS: WHAT ARE OUR BANKERS SEEING AT PRESENT?

In mid-March and again in mid-April we asked our agribusiness bankers for a quick pulse check of how Australian agriculture was performing. While these are small sample surveys they do provide a high level insight into how conditions are changing in Australian agriculture.

NAB's Agribusiness Conditions Index is based on banker assessments of trading (i.e. sales/turnover) conditions, employment and profitability. Overall, national agribusiness conditions have improved this year, following a trough in March 2019 of -20. In March 2020, we recorded a national conditions reading of -1 and in April our bankers reported a slight drop to -3.

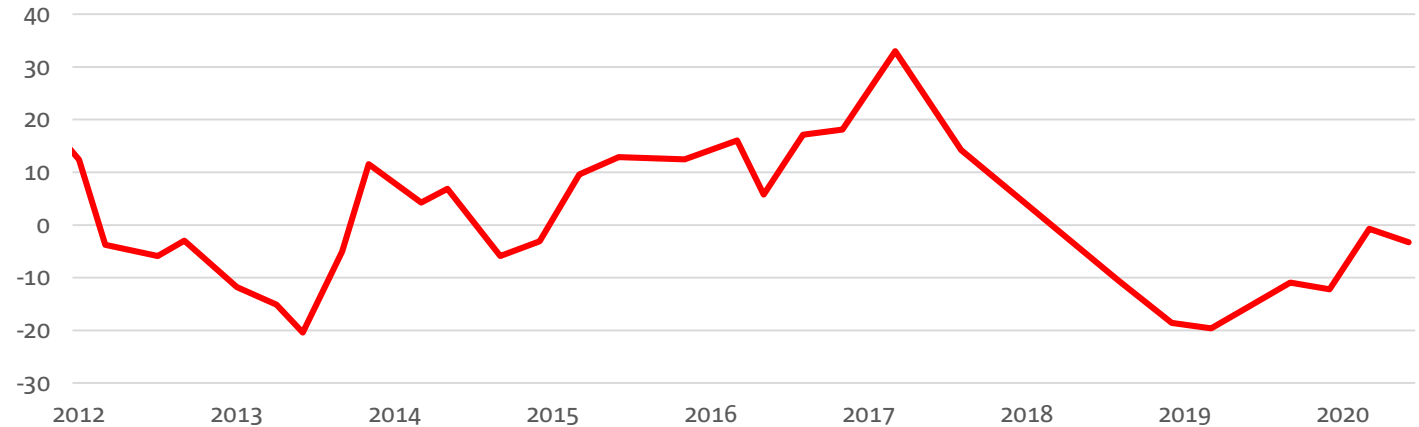
This recovery largely coincides with improved seasonal conditions this year, although the impact of the drought in New South Wales and Queensland will likely have a longer tail for producers.

Looking ahead, our bankers expect conditions to fall to -12 in the next three months, which is potentially a function of coronavirus impacts, before recovering somewhat to -7.

Overall, these results suggest that while conditions have improved, the improved season this year is yet to usher in a boom or act as a panacea for the sector.

AGRIBUSINESS CONDITIONS INDEX

net balance



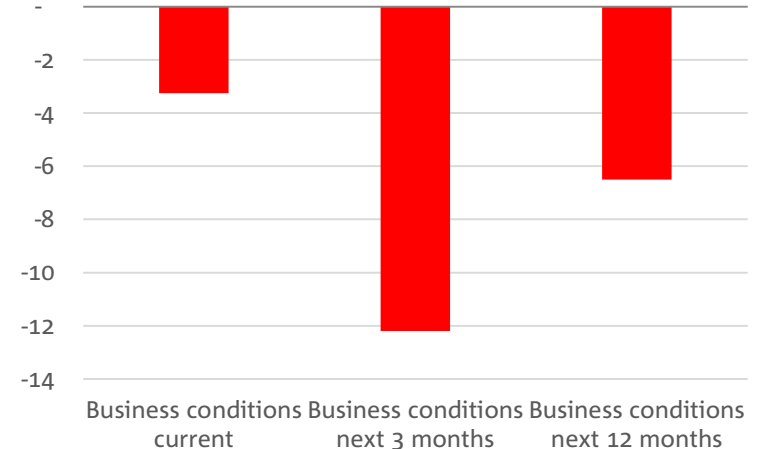
COMPONENTS OF CONDITIONS

net balance



EXPECTATIONS OF CONDITIONS

net balance



Source: NAB Group Economics

SEASONAL CONDITIONS

Seasonal conditions are absolutely ideal in most of New South Wales, Victoria, South Australia and Tasmania after several months of above average rainfall. But after a wet start to the year, Queensland and Western Australia have been much drier recently. Both states are now chasing rain with crop going in the ground.

2020 started with generally above average rainfall in January and February across most agricultural regions. However, since March and particularly in April, fortunes have been more mixed.

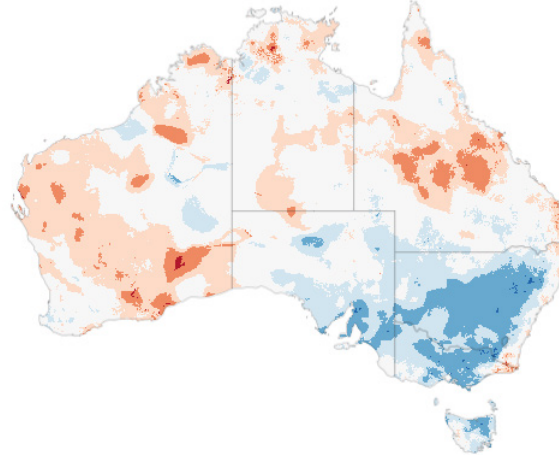
The south-east of the country continues to experience well above rainfall, with some areas seeing close to the best start to the year on record. Overall, rainfall in New South Wales, Victoria, South Australia and Tasmania has been very encouraging.

The situation in Queensland and Western Australia is somewhat less encouraging than it was a month ago. April rainfall was average to below average in April across both states. Root zone moisture is generally average in southern Queensland and across the WA wheatbelt, but below average elsewhere.

The three month outlook remains extremely wet across the entire country (with the exception of Cape York).

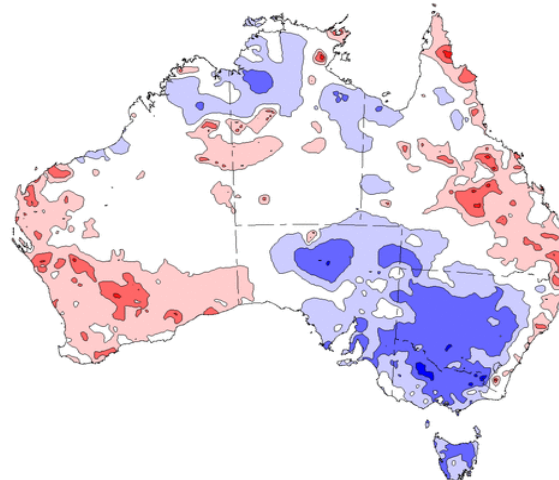
ROOT ZONE SOIL MOISTURE

7 May, relative to average



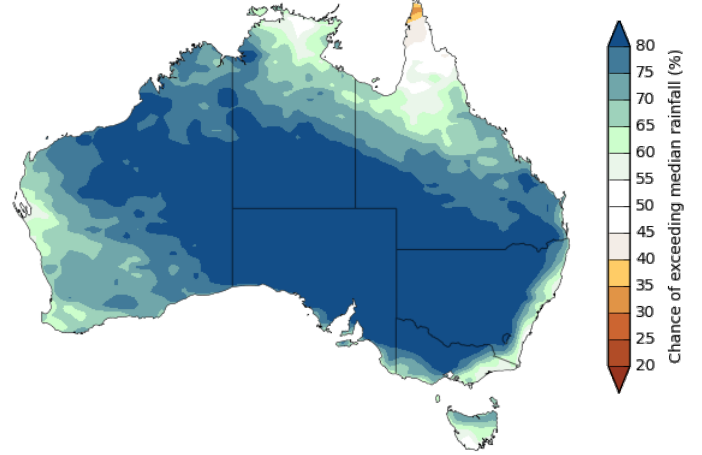
RAINFALL DECILES

April 2020



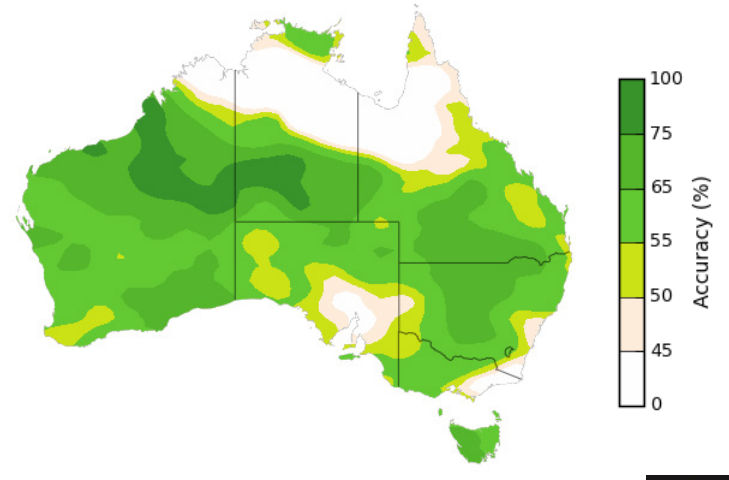
BOM RAINFALL OUTLOOK

June – August 2020



BOM RAINFALL OUTLOOK ACCURACY

June – August 2020

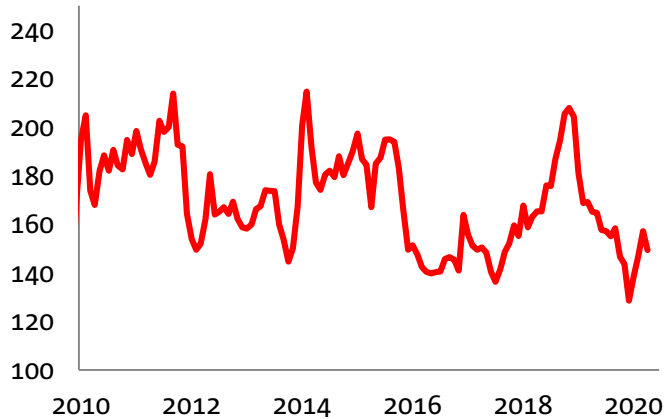


Source: Bureau of Meteorology

FARM INPUTS

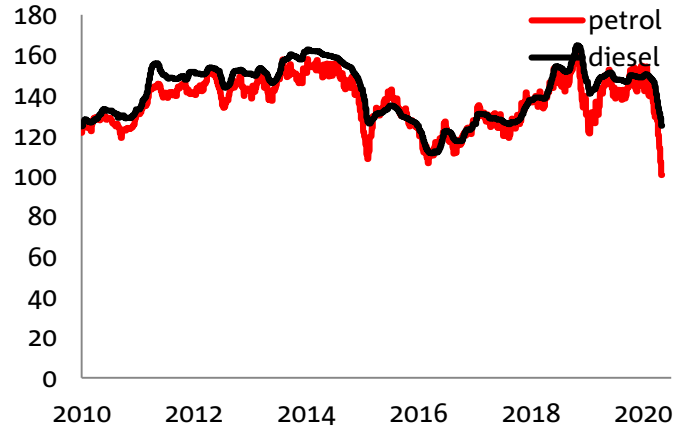
NAB FERTILISER INDEX

AUD index



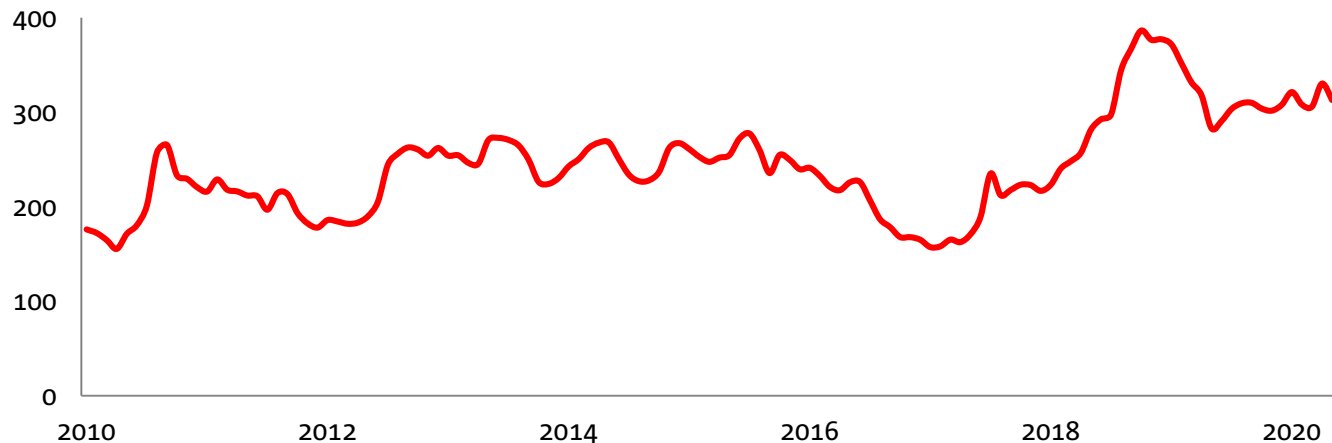
NATIONAL AVERAGE FUEL PRICES

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 (notably oil), others have been more mixed.

Fuel prices collapsed in April, reflecting drama in crude oil markets. However, oil prices have recovered somewhat this month, with Brent back up to around 30/bbl. While in ordinary times this would be a moribund figure, these are no ordinary times. Still, with restrictions easing in Australia, fuel demand is recovering a little and prices at the bowser are likely to rise, albeit fairly slowly. That said, diesel, the main agricultural fuel, never saw anywhere near the drop seen in unleaded.

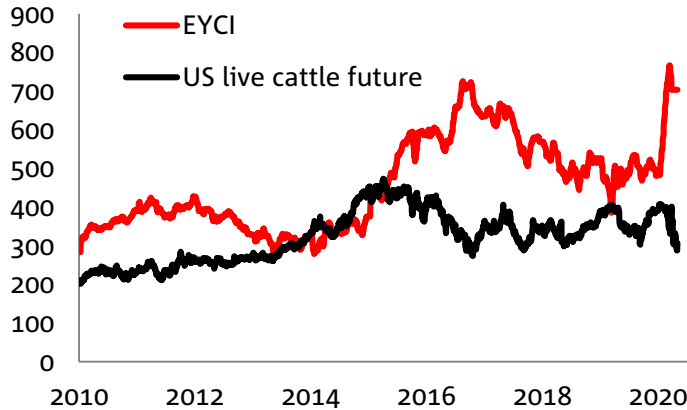
Fertiliser prices fell very substantially in 2019, but have recovered some of this in 2020. While US natural gas remains low, DAP and urea have both gained in USD terms this year.

Feed prices jumped 8% in May, largely in response to global support for grain prices, but with this unwinding to an extent, early May prices have pulled back somewhat. We still see lower feed demand in NSW and Queensland this season.

LIVESTOCK

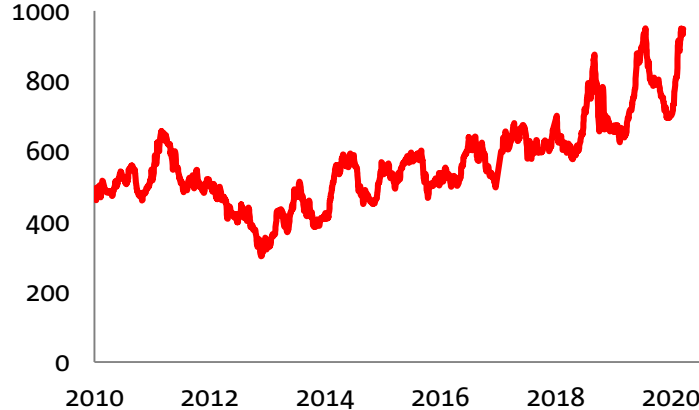
CATTLE

AUc/kg



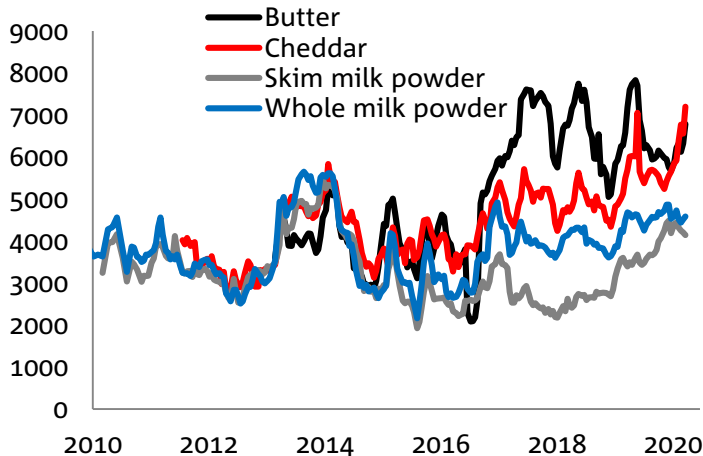
LAMB

National Trade Lamb Indicator, AUc/kg



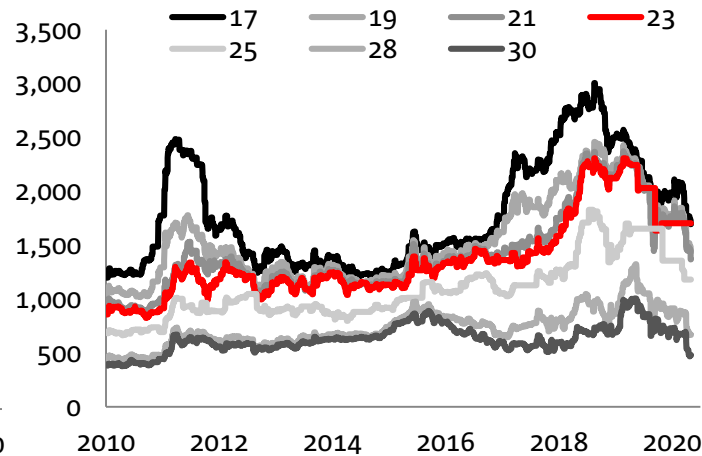
GDT AUCTION RESULTS

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, EYCI and NTLI will not be reported until at least late May. However, various other indicators – such as state OTH prices – remain available. These have been generally lower over the past month, with the exception of restocker lamb.

The pressure for both beef and lamb over the coming months will be the competing forces of ongoing restocker interest, tempered by challenging global market fundamentals (i.e. global recession and little restaurant dining).

Processor capacity is likely to be an ongoing wildcard. Already US domestic beef supply has been heavily disrupted by outbreaks at processors. While Australia has been mostly immune, the processor cluster in Victoria should be a wake up call.

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

All but one of the last seven Global Dairy Trade auctions have seen prices fall. While the lower AUD provided some cushion in previous months, we expect this crutch to fall away somewhat.

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

WINTER CROPS

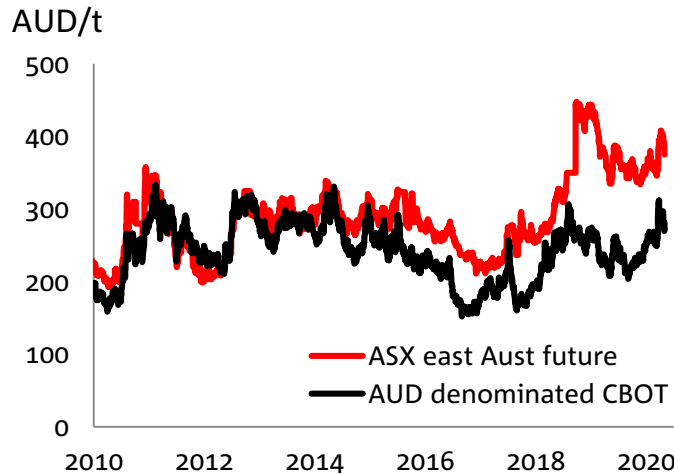
Planting is now well underway for the 2020-21 winter cropping season and conditions are shaping up remarkably well in the south-east of the country. The WA wheatbelt is now chasing rain, as are cropping regions in Queensland.

Australian grain continues to trade above international benchmarks, although the gap has been closing via higher global prices. There are some signs on global markets that the stockpiling induced rally of March and April is now unwinding somewhat. Many consumers have stocked up on staples and these purchases will effectively unwind future demand as they are run down. While grain production is unlikely to be as exposed to virus outbreaks as meat processing or horticulture, the scope of the outbreak in major producers such as Russia is concerning.

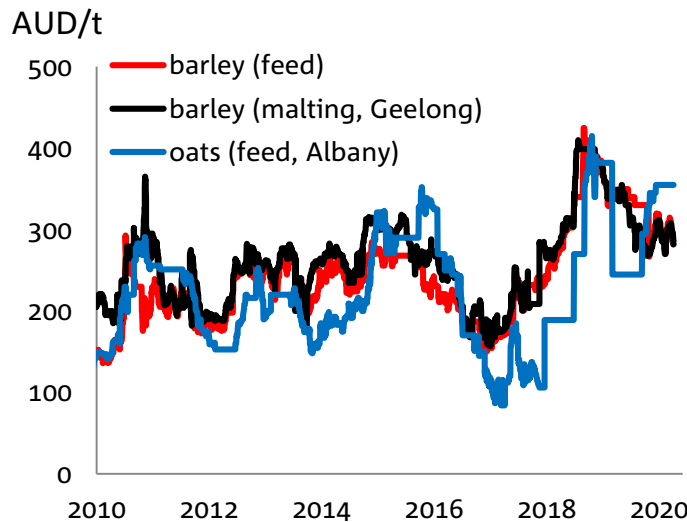
On balance, we still see prices in AUD terms at higher levels than had COVID-19 not occurred. Should the season deliver, prices are unlikely to be an impediment to profitability.

China's recent threat to impose a 73.6% anti-dumping tariff on Australian barley bears close watching indeed.

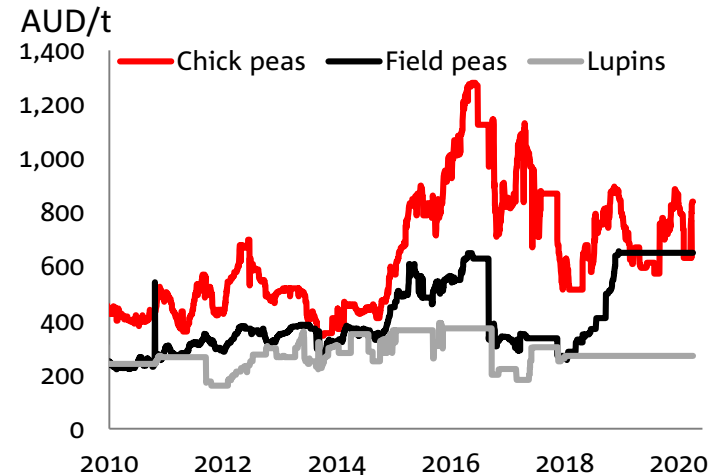
WHEAT



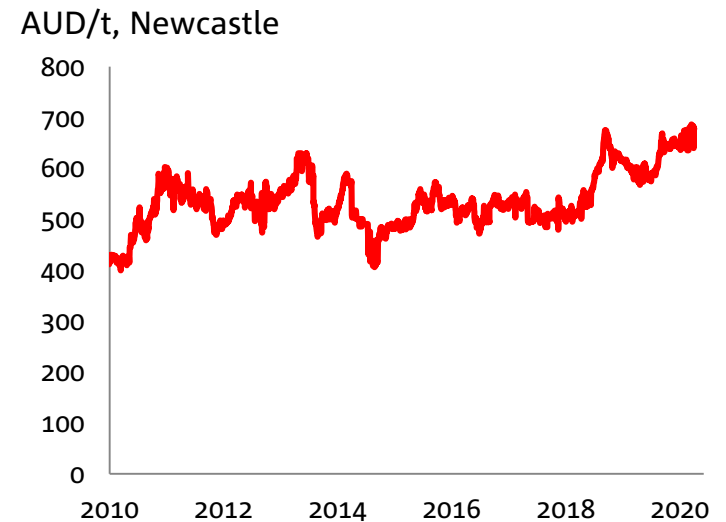
COARSE GRAINS



PULSES



CANOLA



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

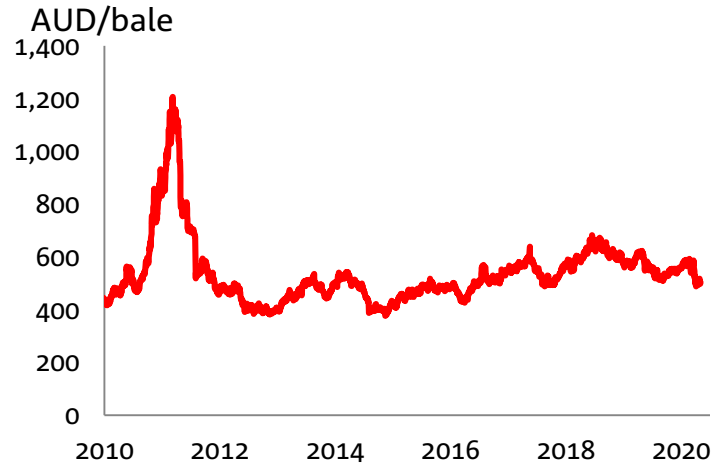
SUMMER CROPS, SUGAR AND HORTICULTURE

Generally good inflows into the Murray-Darling basin have seen temporary water prices fall, although total basin water in storage remains just below 30%.

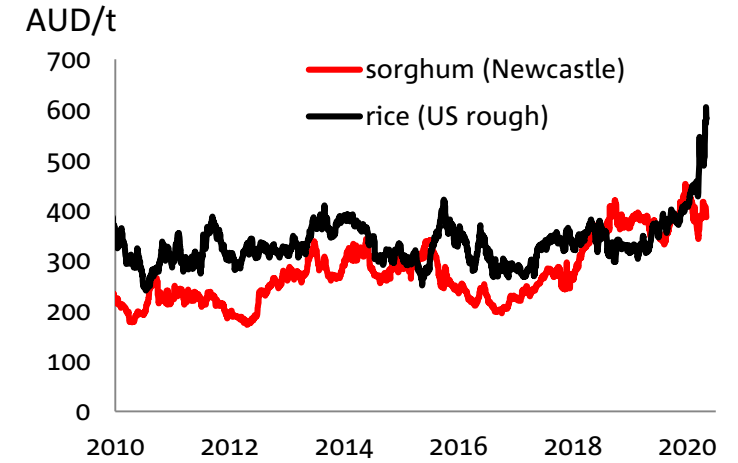
Cotton prices have fallen, a trend which we expect to continue. Fashion and clothing is unlikely to be a priority for people who are largely unable to leave their houses for non-essential purposes, and some offices may see working from home as an ongoing rather than temporary proposition.

Fruit and vegetable prices were very mixed in April. Fruit rose 10.5% after gaining 9.9% in March, while vegetables fell 21.2% after gaining 20.8% in March. Fresh produce continues to be widely available, although we continue to note that the sector faces substantial risks around labour availability, particularly with backpackers heading home. Potential outbreaks in packing sheds would cause serious problems. For now though, supply remains mostly strong. Demand has been somewhat mixed, with produce dependent on the food service industry struggling.

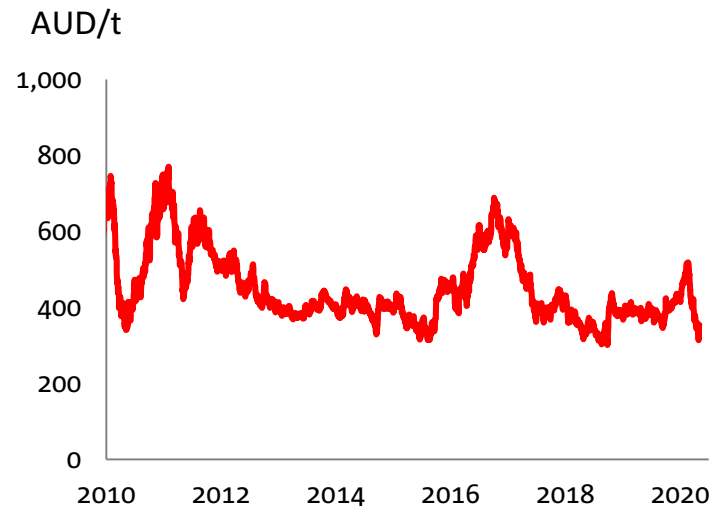
COTTON



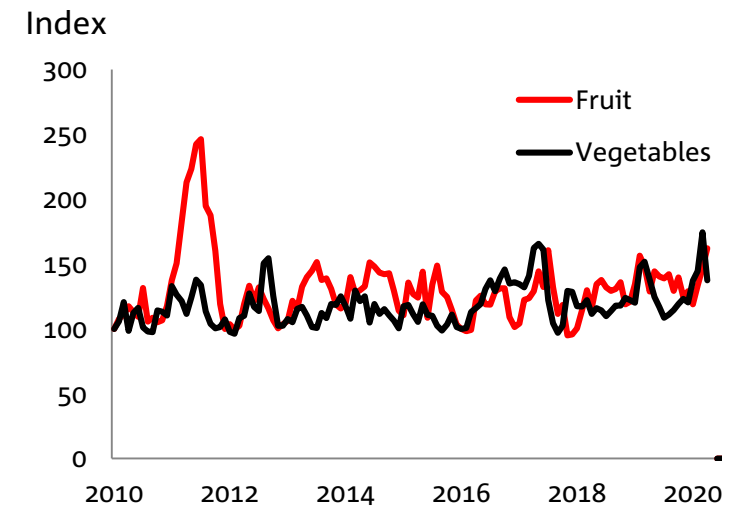
SORGHUM AND RICE



SUGAR



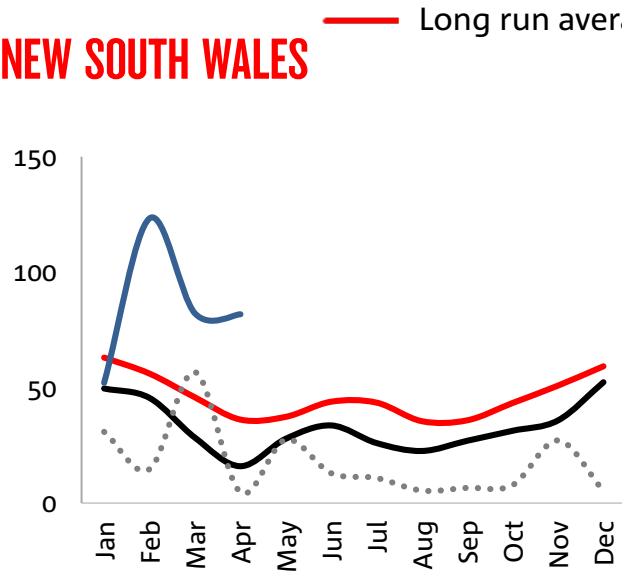
FRUIT AND VEGETABLES



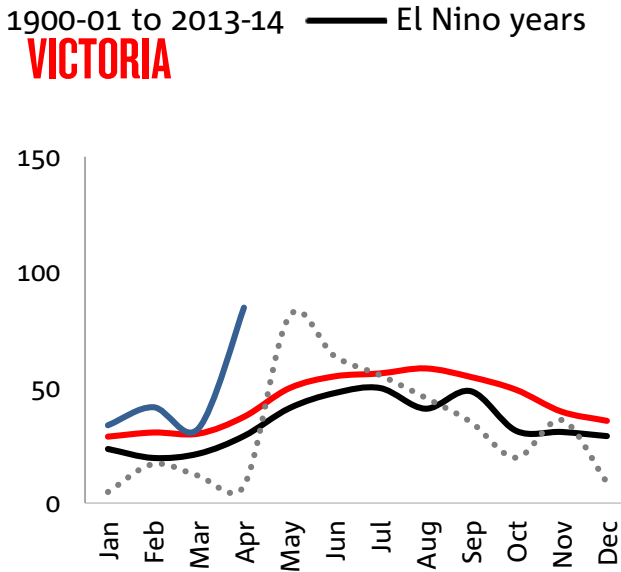
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

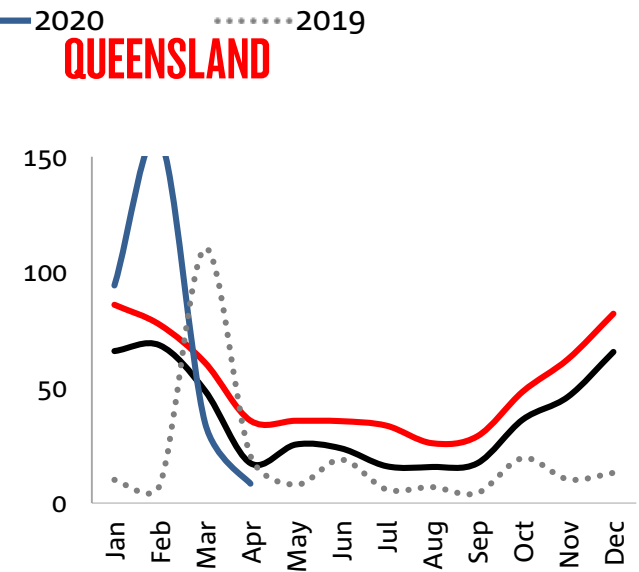
NEW SOUTH WALES



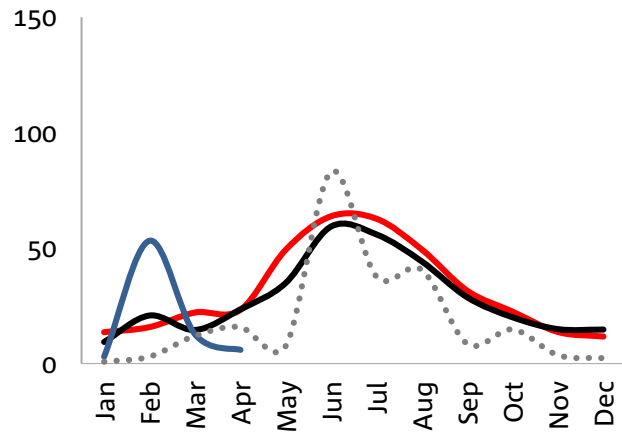
VICTORIA



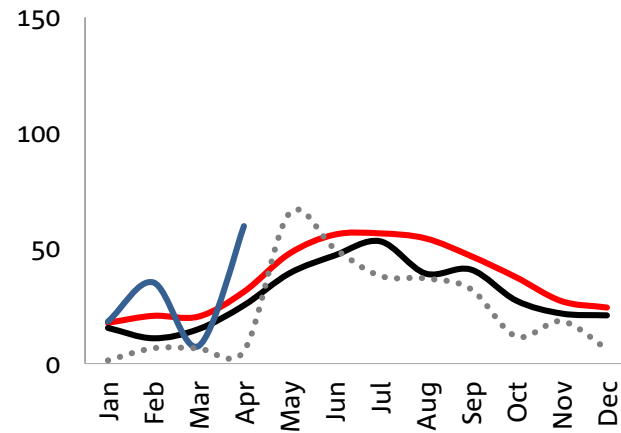
QUEENSLAND



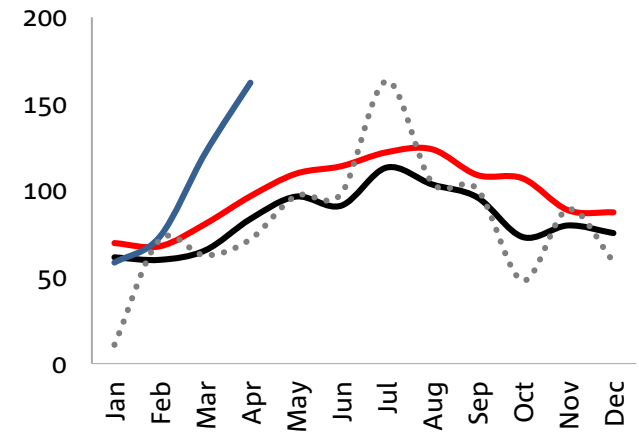
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

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