

RURAL COMMODITIES WRAP



JULY 2020

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KEY POINTS

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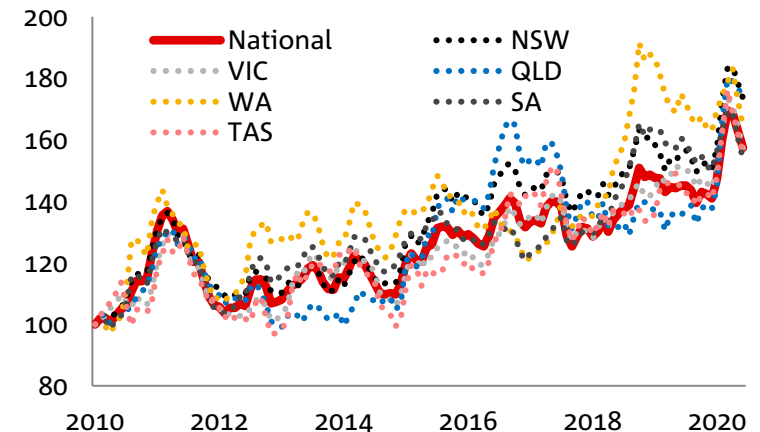
Agricultural commodities have continued their mixed performance of late. While cattle prices remain near all-time highs, the last couple of months has seen a broad decline across grains, lamb under pressure (albeit from high levels), ongoing weakness in fibres and challenges for dairy (although July results have been better). While the NAB Rural Commodities Index remains 8.3% above year-ago levels, it fell 3.7% in June and is 7.4% below its March 2020 record high.

Australia is part of a global supply chain for many commodities, which means many prices are determined or influenced by international trends and benchmarks. Nonetheless, the strong progress of the season in Australia has caused an outsized impact on domestic prices for two key reasons: firstly livestock prices have been boosted by rain-induced restocker demand; and secondly, because grain prices are returning towards global benchmarks as shortages abate with the strong prospect of a good season. These trends are pulling our index in opposite directions, with livestock largely responsible for the rally this year. If livestock prices head south (and there are already some signs of this with lamb), there is further downside risk for the rural commodities index.

Victoria is now in the midst of a coronavirus second wave, with several hundred cases being diagnosed each day. Stage three restrictions are in force for Melbourne and Mitchell Shire, which have closed pubs and restricted restaurants to takeaway. The virus has already changed dining habits in Australia and the recent outbreak in Melbourne is likely to see this continue, with more online supermarket ordering, delivery of takeaway food and a delayed return to pubs. Whether this changes demand for certain food types in the long run remains to be seen though. For more detail on the latest impacts on the food service industry, see page three.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Apr 20	May 20	Jun 20
Wheat	▲ 8.9%	▼ 9.8%	▼ 6.9%
Beef	▲ ▼ N/A	▲ ▼ N/A	▲ ▼ N/A
Dairy	▼ -0.8%	▼ 9.5%	▼ 9.1%
Lamb	▲ ▼ N/A	▲ ▼ N/A	▲ ▼ N/A
Wool	▼ 14.3%	▼ 7.5%	▼ 1.9%
Sugar	▼ 15.8%	▲ 2.4%	▲ 5.0%
Cotton	▼ 7.5%	▼ 0.1%	▼ 2.6%

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



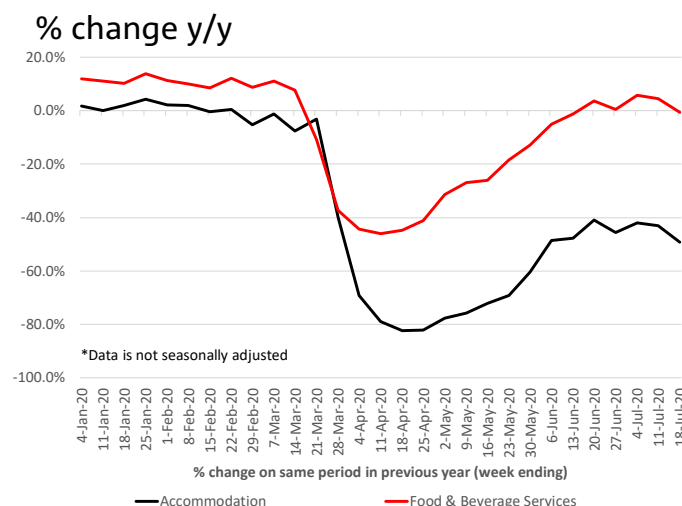
IN FOCUS: AUSTRALIAN FOOD SERVICE DEMAND AMID NEW LOCKDOWNS

With a second wave now well underway in Melbourne and stage three restrictions reintroduced, the potential impact on pubs and restaurants (the former of which have now closed and the latter restricted to takeaway only) is a major concern.

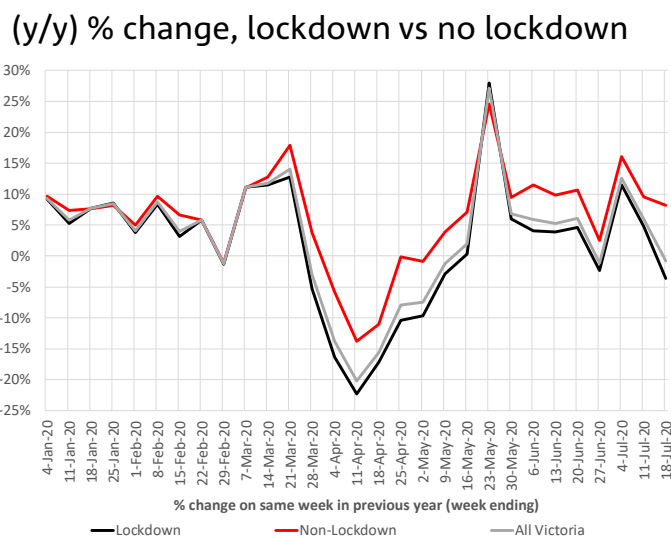
Our latest fortnightly spending data – which now captures the first two weeks of the lockdown in Melbourne – shows that national food service spending, which had largely recovered to pre-crisis levels, has started to decline. While much of this likely occurred in Melbourne (where regulation has heavily curtailed spending), outbreaks in Sydney pubs and restaurants may have some impact on consumer behaviour.

Overall, we have picked up a slowdown in consumption spending in recent weeks, with overall growth easing to 5.8% y/y for the week ended July 18. Spending slowed in all states and territories (except SA/NT). It is now weakest in VIC (-0.7%) with this result heavily influenced by lockdown in metropolitan Melbourne. NSW is also weakening faster than most. Relative to last year, overall spending growth slowed (or fell further) in all industries, but overall growth continues to be supported mainly by spending on Construction and Retail Trade. Spending on hospitality fell 14.6% (down 10.1% last week).

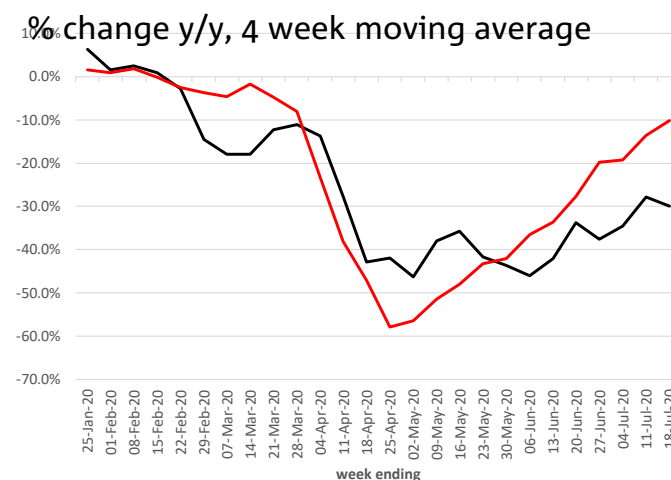
FOOD SERVICE – CONSUMER SPENDING



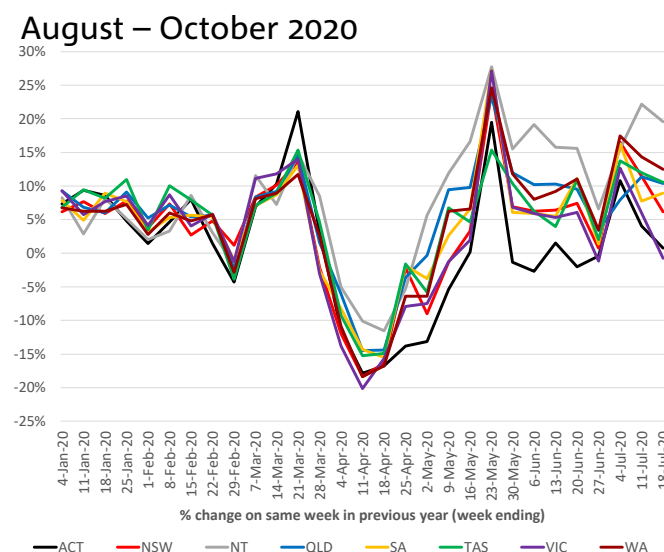
CONSUMPTION SPENDING



FOOD SERVICE – PAY TO NAB MERCHANTS



CONSUMPTION SPENDING BY STATE



Source: NAB Group Economics

SEASONAL CONDITIONS

Seasonal conditions had been generally good since late summer but rain has been absent from many areas more recently.

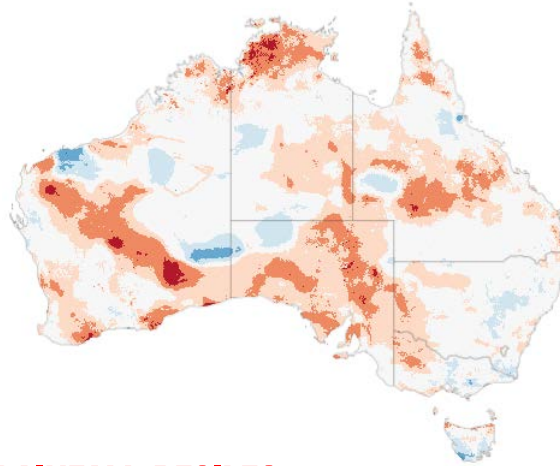
Root zone soil moisture - one of the most timely measures of growing conditions published - is now below average in many cropping regions from the Western Australian wheatbelt to much of South Australia, north-west Victoria and much of Queensland. Agricultural regions of New South Wales, particularly the Central West, are looking better as is the eastern half of Victoria and southern Tasmania.

With the crop enjoying a good start this year, it is probably too early to start looking at big downgrades, but it does increase dependence on individual timely rain events for yields. Western Australia has seen generally below average rainfall for much of the winter cropping season, but timely rain has got producers through so far.

The outlook for late winter and into spring is for generally much wetter than average seasonal conditions. This is good news for Australian farmers, but only if it transpires of course.

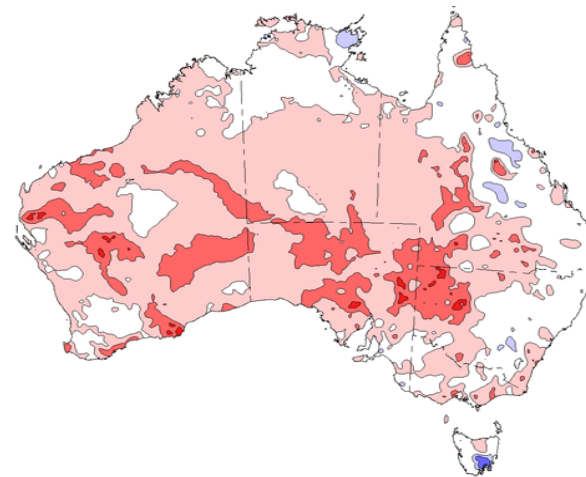
ROOT ZONE SOIL MOISTURE

21 July, relative to average



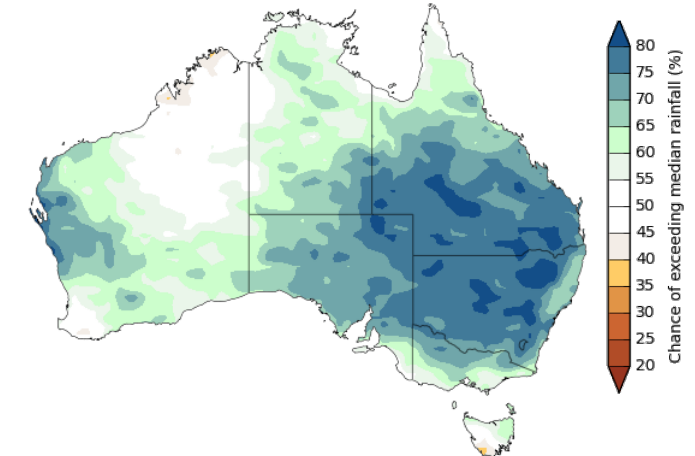
RAINFALL DECILES

June 2020



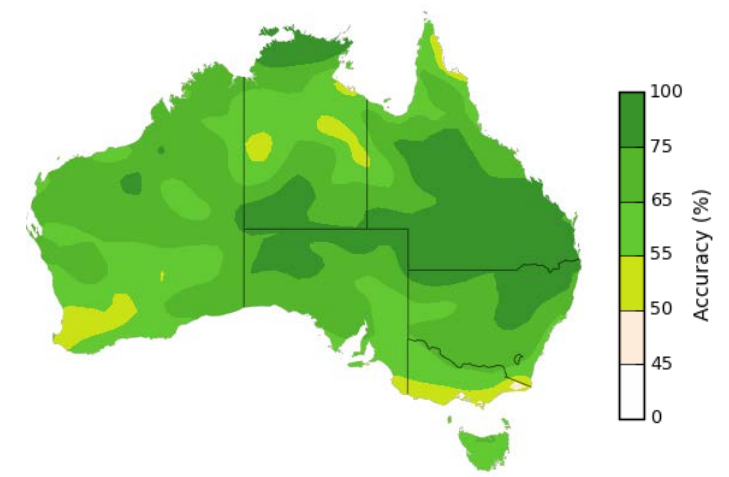
BOM RAINFALL OUTLOOK

August – October 2020



BOM RAINFALL OUTLOOK ACCURACY

August – October 2020

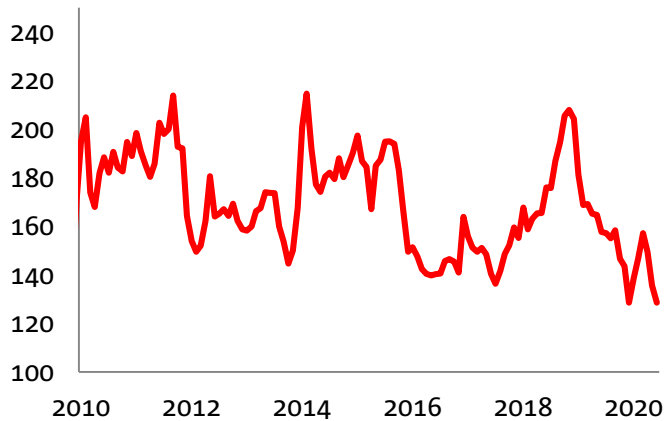


Source: Bureau of Meteorology

FARM INPUTS

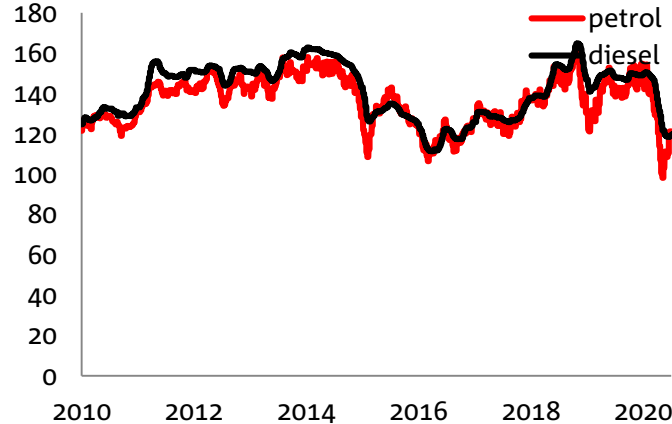
NAB FERTILISER INDEX

AUD index



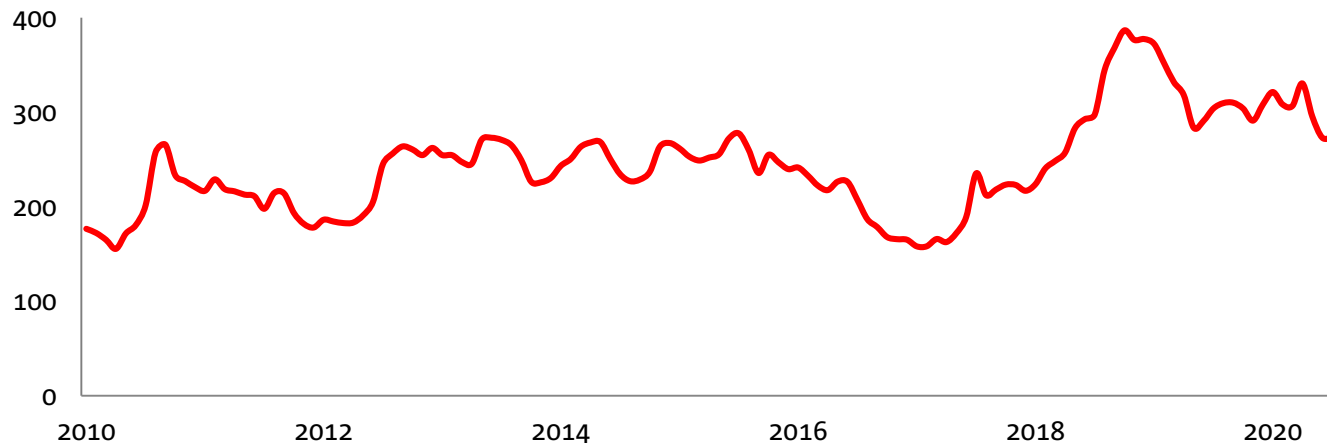
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Farm input prices have been generally lower recently, with perhaps the exception of fuel. National diesel prices have tracked in a very narrow range just either side of 120c/l since May. While some regional areas have seen higher prices, fuel costs remain well below levels seen over the last couple of years. It is hard to see how oil prices could rally in the short term given the level of demand destruction that has occurred.

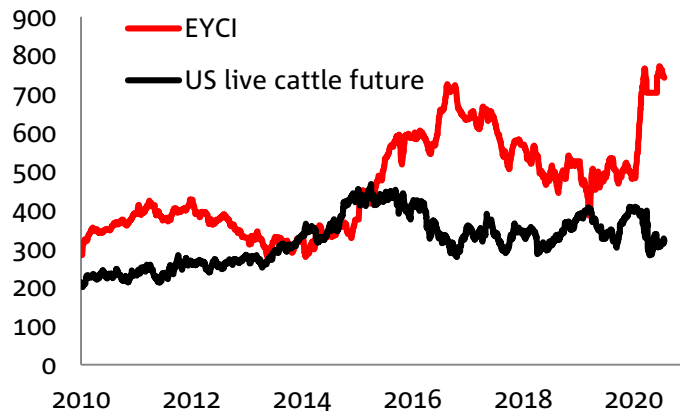
Fertiliser prices have jumped around somewhat this year, but the NAB fertiliser index has fallen to the lowest level since 2002. While this index captures international trends (reflected in AUD terms), the reality is that fertiliser prices are low and are likely to remain so.

Feed grain prices have been lower since autumn, but remain above the levels seen before the drought-induced runup of 2018-19. Our index fell 7.5% in June but is flat so far for July. If seasonal conditions continue to perform well, domestic feed grain prices should continue to ease.

LIVESTOCK

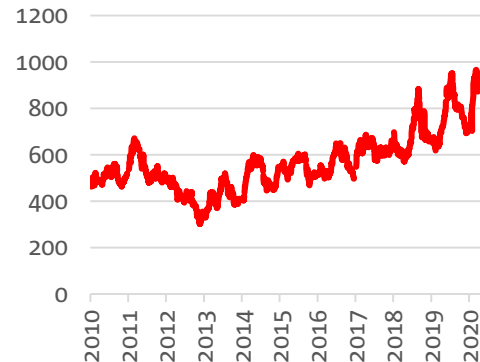
CATTLE

AUc/kg



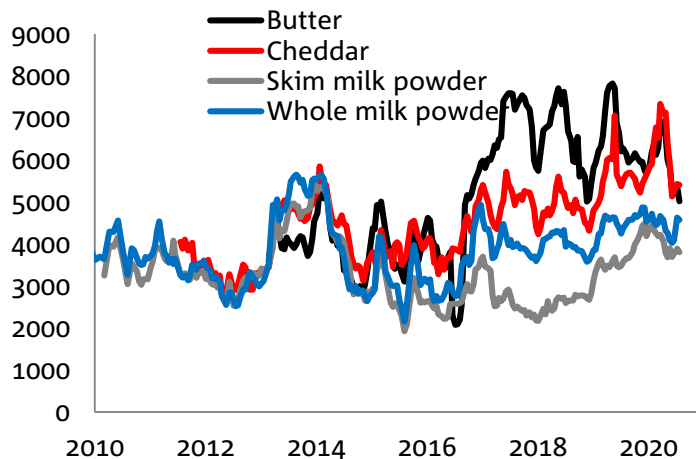
LAMB

ESTLI, AUc/kg



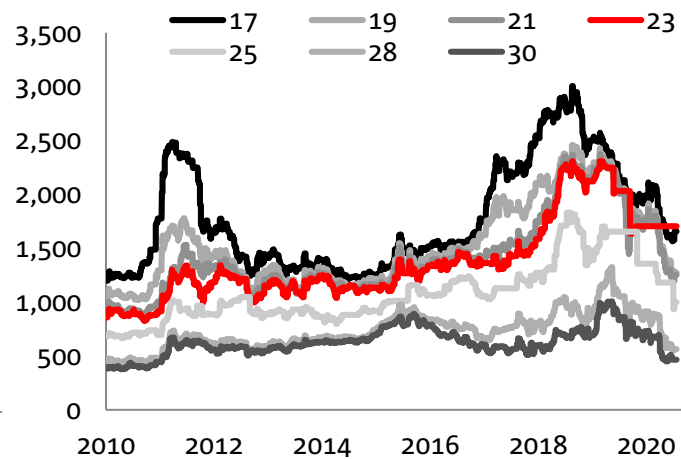
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Cattle prices continue to defy gravity (and international trends), with EYCI just below its all time record of 771c/kg, set in late June. This year has seen the biggest runup in cattle prices in Australian history, all at a time of heightened global risk and uncertainty around demand. It is important to note that global prices have not moved in the same way. While good seasonal conditions will keep restocker demand high, keeping prices elevated, there is a risk that the fundamentals are now largely mis-aligned with our export markets, pointing to downside risks if it dries out.

Lamb prices have fallen a fair amount (from record levels) over the last two months. ESTLI reached 936c/kg but is now down to 780c while NTLI stands at 776c/kg. Global demand fundamentals for lamb are likely to exhibit some weakness due to virus-induced recession, however it is important to note that these prices are still excellent by both historic standards and also what is needed to ensure farm profitability. Wool remains in the doldrums and we do not expect a major upside for price any time soon.

Global Dairy Trade auction results have been mixed in USD terms this year, but could be worse. Opening prices are fairly strong given global developments. Saputo opened at \$6.40, Fonterra at \$6.06 and Bega \$6.40 (southern VIC) and \$6.55 (northern VIC).

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

WINTER CROPS

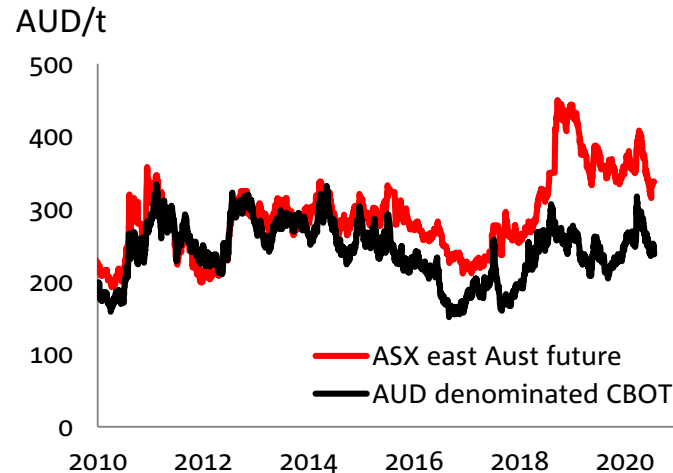
Last month we flagged the possibility of a very large winter crop, if the season delivered. But with rainfall having been below average in many areas, expectations have been dialled back somewhat.

That said, even in areas with below average seasonal rainfall (such as much of the WA wheatbelt), timely rain is keeping the crop going fairly well. Overall, a wheat crop in the mid-20s million tonnes seems likely at this stage (noting that a big spring – as is forecast – could still deliver big upside).

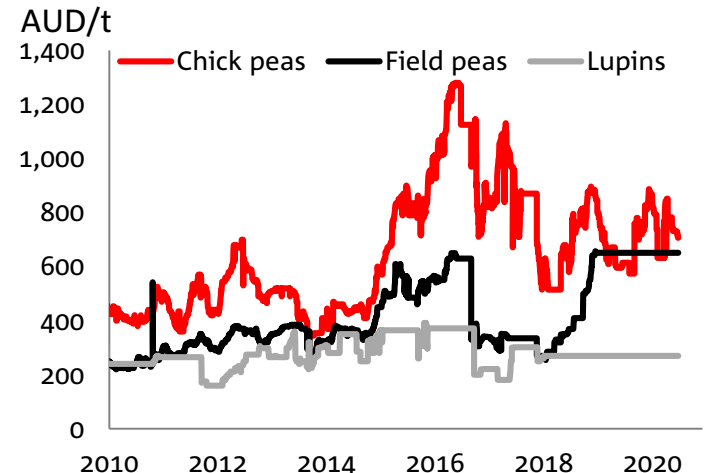
Wheat prices have come off substantially on an improved AUD, some weakness in global markets but also an unwinding of domestic price premiums which reflected a lack of domestic feed supply in a drought – this shortage is now effectively over with more grass in NSW and Queensland and a good crop on the horizon. If the season delivers, few producers will be worried about a price around \$300/t rather than \$350-450 that occurred in the last two seasons.

Barley prices remain low in the wake of the Chinese governments tariff decision. Physical new season crop won't come to market until the end of the year but it is unlikely that price will recover unless Chinese market access is restored.

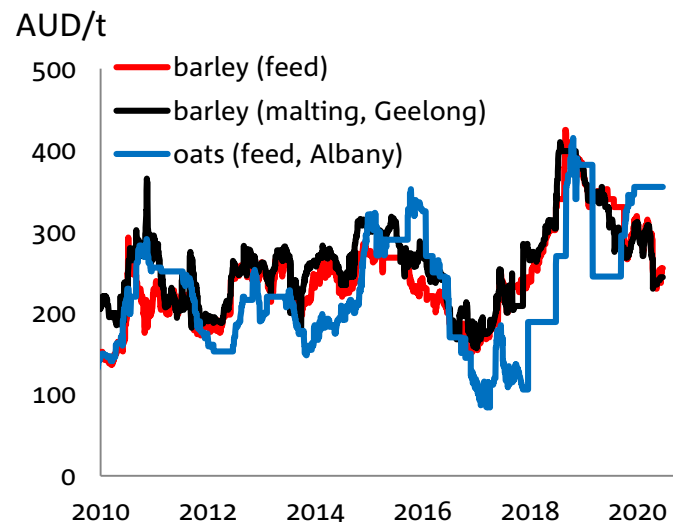
WHEAT



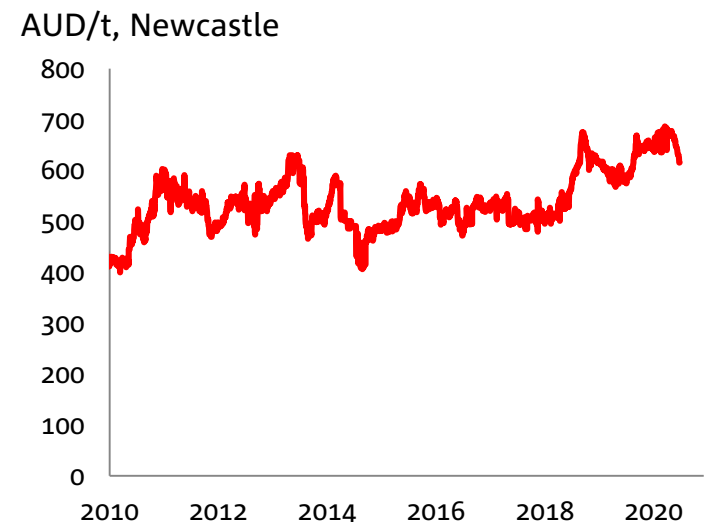
PULSES



COARSE GRAINS



CANOLA



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

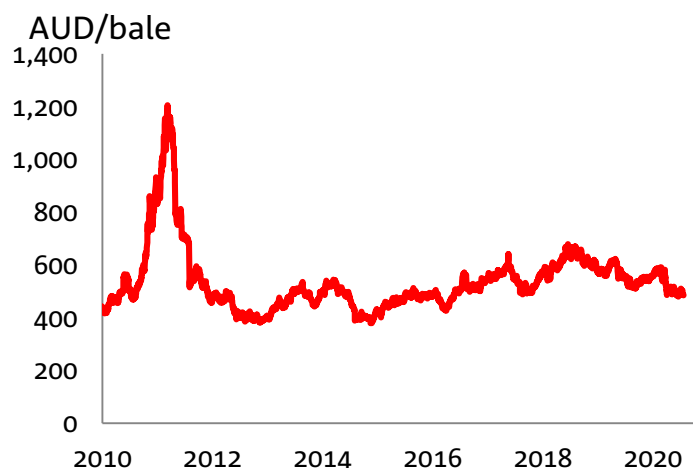
SUMMER CROPS, SUGAR AND HORTICULTURE

Generally good inflows into the Murray-Darling basin have seen temporary water prices fall, although total basin water in storage remains low by historic standards. Inflows this season alone are unlikely to fully replenish the basin. Water in storage in the basin stands at 40%, but only 17% in the northern basin.

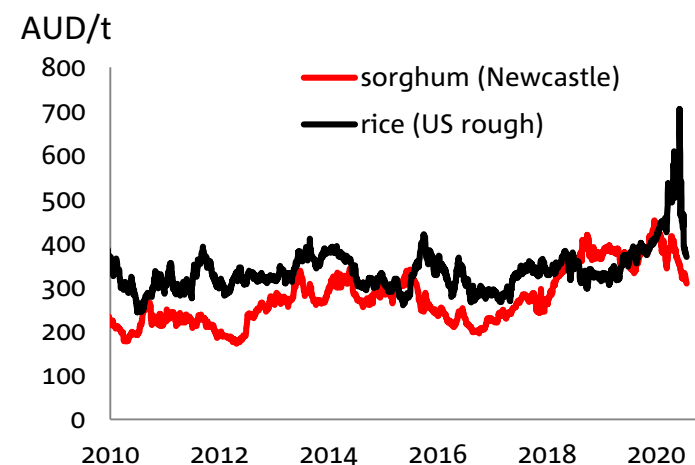
Cotton prices remain subdued, a function of weak global demand fundamentals and AUD issues. Last month we offered the view that global fashion was unlikely to rebound but recent retail sales data both in Australia and internationally has shown a strong resurgence in clothing and footwear sales. Whether this flows through to cotton demand and sales remains to be seen. Many governments have offered considerable income support in response to the virus crisis, but it is unclear whether retail spending will remain elevated as those measures are withdrawn, especially with unemployment staying elevated.

Fruit prices fell 13.6% in June, while vegetables were off just 0.1%.

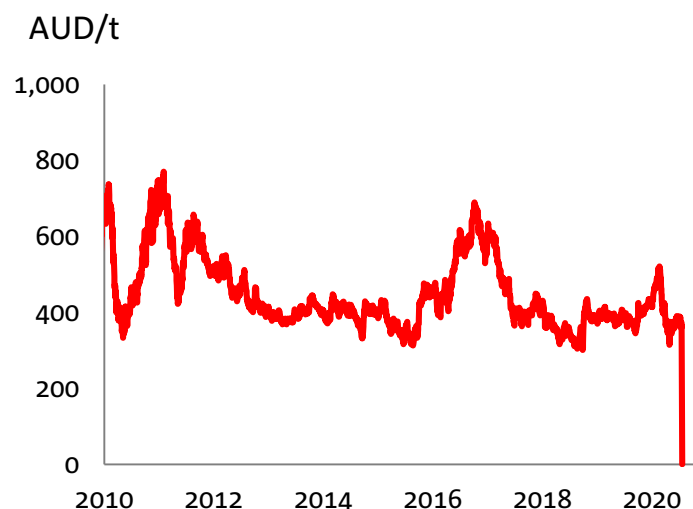
COTTON



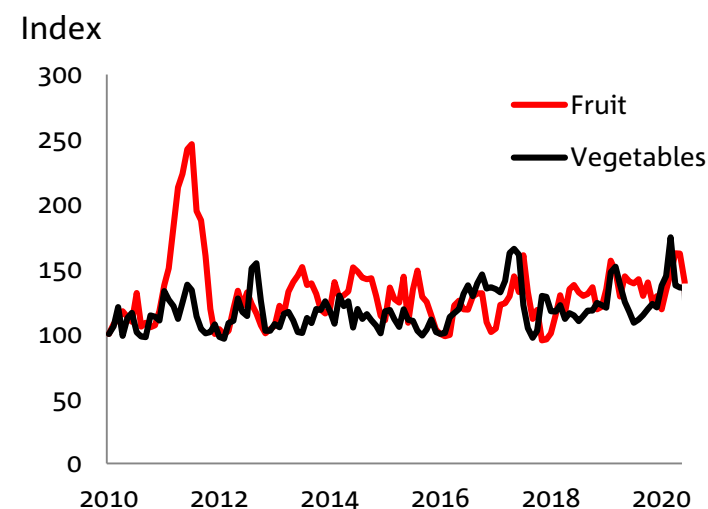
SORGHUM AND RICE



SUGAR

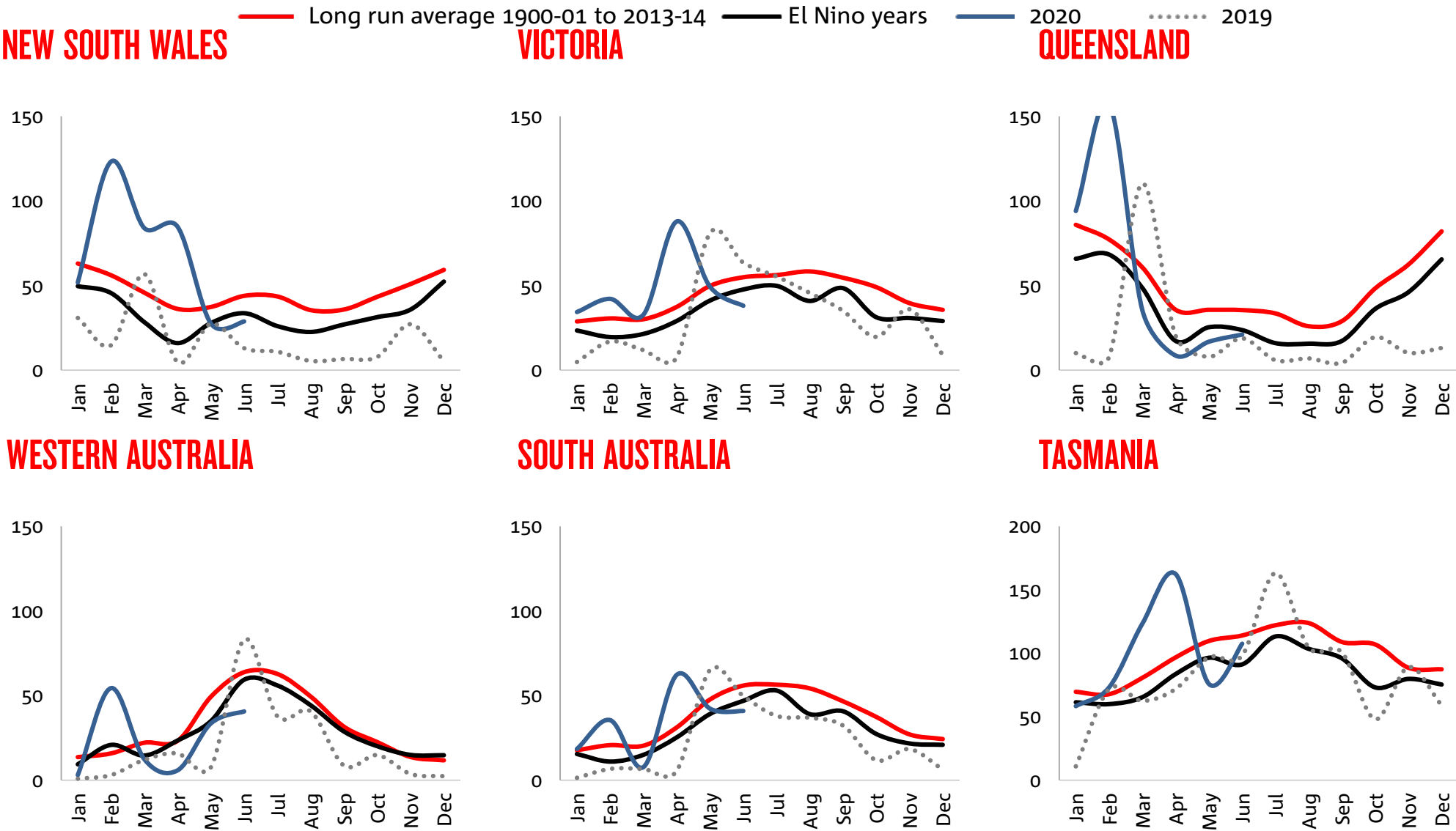


FRUIT AND VEGETABLES



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)



Source: Bureau of Meteorology and NAB Group Economics



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