

RURAL COMMODITIES WRAP



AUGUST 2020

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KEY POINTS

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Last month we flagged two key risks for Australian agriculture: seasonal conditions and the trajectory of the AUD. The good news is that while a month ago we were getting nervous about the state of the season, August provided generally better rain, although Western Australian yields will remain sensitive to individual rainfall events.

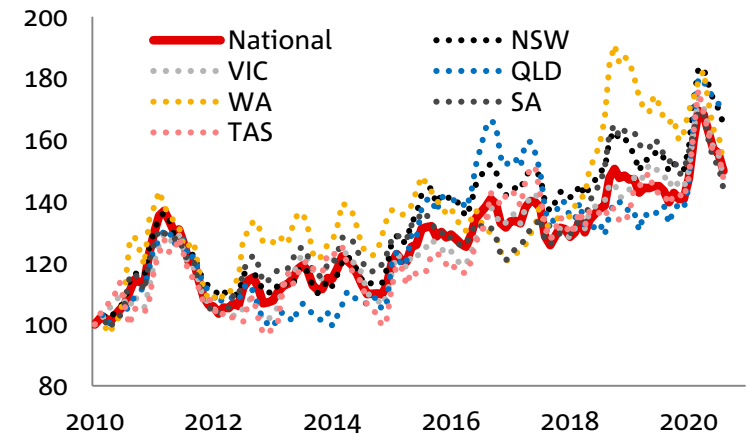
The Bureau of Meteorology moved to a La Nina alert on 18 August, indicating a roughly 70% chance of La Nina forming in coming months. This is generally associated with above average spring rainfall in the eastern states, which is reflected in the latest three month outlook, showing a very high chance of above average rainfall almost everywhere except Western Australia.

The bad news is that AUD appreciation continues. While much of the appreciation is down to persistent USD weakness, China's demand for Australian resources for its industrial and infrastructure led recovery will put further upward pressure on the AUD. Our forecasts point to a weak USD seeing an AUD at 80 US cents by mid-2022. This will be a headwind for Australian agricultural commodity prices.

Recent price movements have seen some divergence. Should the winter crop perform, much of the current domestic basis will dissipate and we see domestic wheat in the \$300/t range at the end of 2020. But there maybe some upside pressure across the grains complex if Chinese flooding leads to higher Chinese demand. Meanwhile, young cattle prices are at eye-watering levels, with EYCI hitting another record and closing on \$8/kg. This reflects substantial pent-up restocker demand and expectations of a big spring in Queensland. But global demand fundamentals aren't so rosy and – as always – we are a little nervous. Similar global concerns have pushed lamb substantially lower, even ahead of traditional spring flush. Overall, the NAB Rural Commodities Index fell 0.7% in July and a further 3.7% in August.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Jun 20	Jul 20	Aug 20
Wheat	▼ 8.7%	▲ 1.6%	▼ 8.2%
Beef	▲ ▼ N/A	▼ 0.8%	▲ 1.1%
Dairy	▼ 8.9%	▲ 5.9%	▼ 8.9%
Lamb	▲ ▼ N/A	▼ 12.9%	▼ 10.0%
Wool	▼ 2.7%	▼ 1.9%	▼ 12.8%
Sugar	▲ 5.0%	▼ 1.2%	▲ 5.3%
Cotton	▼ 2.3%	▼ 0.8%	▼ 0.2%

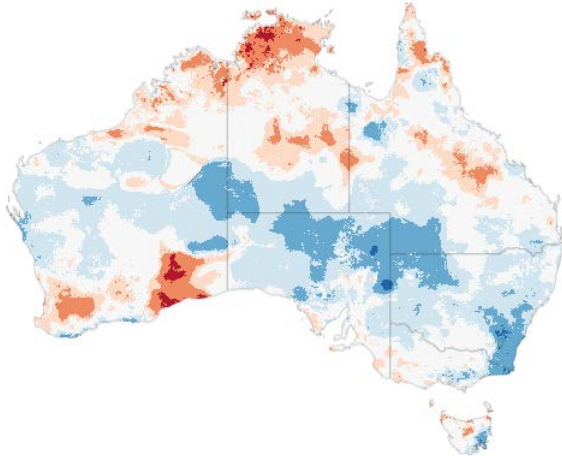
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



IN FOCUS: WINTER CROP OUTLOOK

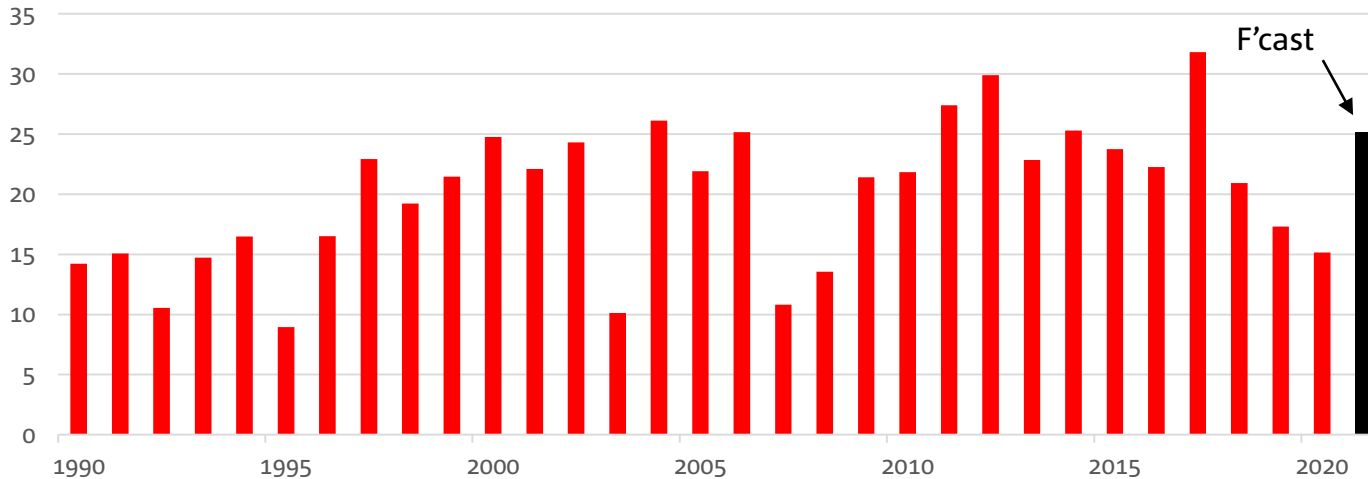
ROOT ZONE SOIL MOISTURE

25 August, relative to average



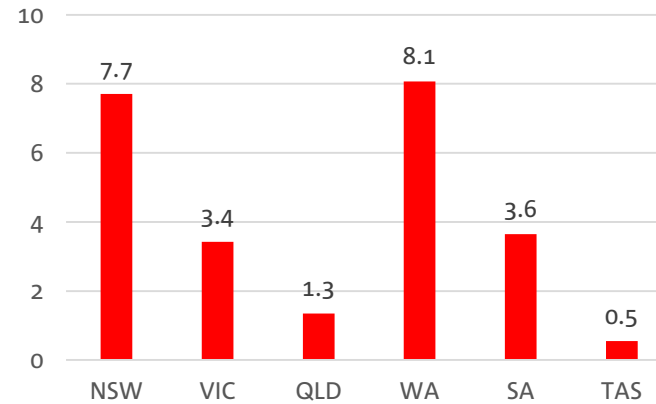
AUSTRALIAN WHEAT PRODUCTION

Million tonnes per annum



WHEAT PRODUCTION FORECAST

Million tonnes per annum



The 2020-21 season started with some big late summer rains and consistently wetter than average three-month rainfall outlooks from the Bureau of Meteorology. This led to elevated expectations for the season, which were challenged by drier conditions in late autumn and into winter.

Rainfall in August has been generally better, although still patchy in some districts. Subsoil moisture levels are generally average to above average in New South Wales and southern Queensland, but average to below average across the WA wheatbelt, SA and much of Victoria. This will be a risk, particularly for WA, which has seen generally below average in season rainfall and has a drier spring outlook. WA has received well-timed rain so far, but has less subsoil moisture reserve than elsewhere.

Our latest wheat crop forecast is for 24.7 million tonnes nationally this season, assuming an average finish to the season. This is a roughly “average” result, and if it transpires would be a great improvement on last season’s miserable yields in NSW especially, but lacking much of the upside that we had foreshadowed earlier this year.

However, with the BoM projecting a much wetter than average spring in the eastern states, scope for upside to the crop remains.

Source: ABARES, ABS, BoM and NAB Group Economics

SEASONAL CONDITIONS

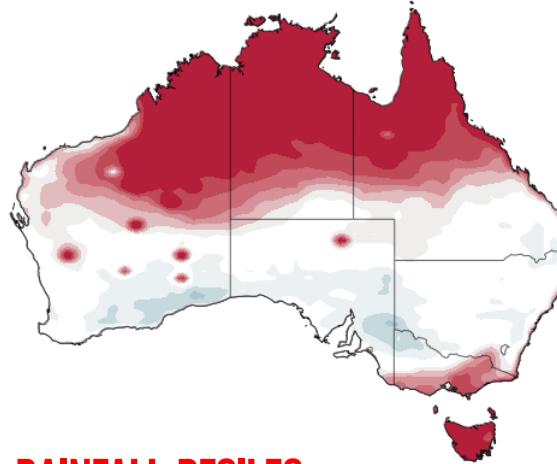
Rainfall was generally better in August, following a dry few months in most major agricultural regions (with the notable exceptions of much of NSW and northern Australia).

The autumn-winter dryness does not appear to have imposed major damage on crops or pasture, but leaves less in the tank in the event of a dry spring, increasing risk. The Western Australian wheatbelt, combined with parts of South Australia, probably pose the biggest spring risks.

The spring rainfall outlook is strongly predicting above average rainfall across every state except most of Western Australia and south-west Tasmania. This is consistent with the BoM ENSO update indicating a 70% chance of La Nina developing in coming months.

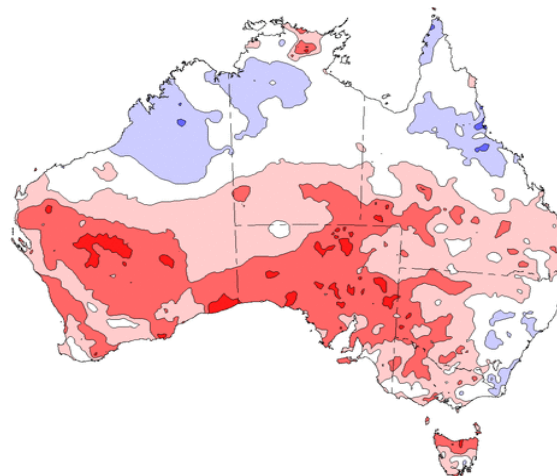
BOM TEMPERATURE OUTLOOK

September - November 2020



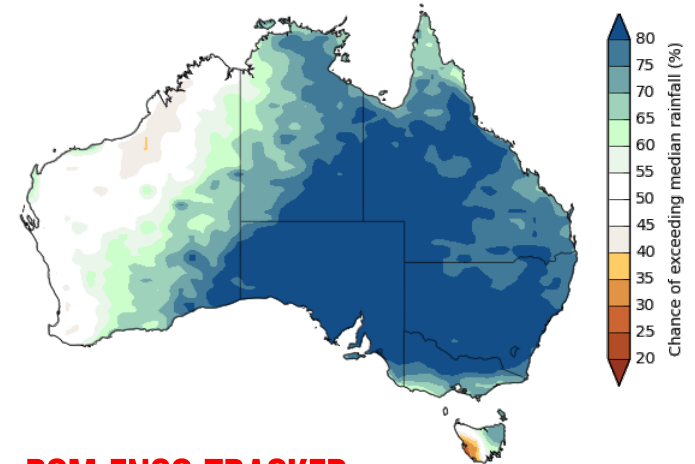
RAINFALL DECILES

May - July 2020



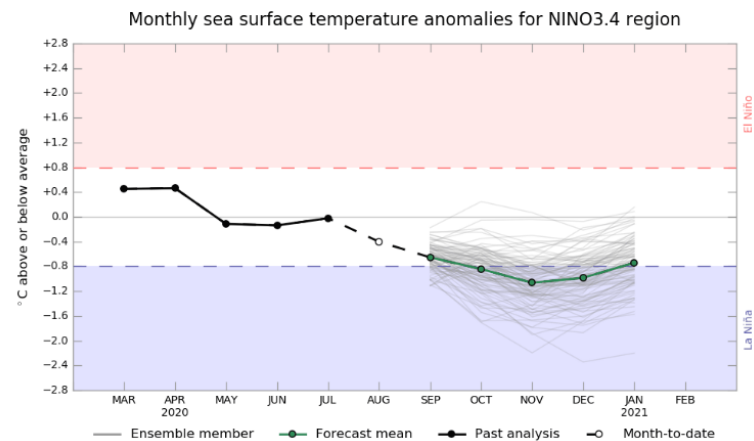
BOM RAINFALL OUTLOOK

September - November 2020



BOM ENSO TRACKER

Monthly SST anomaly 18 August update

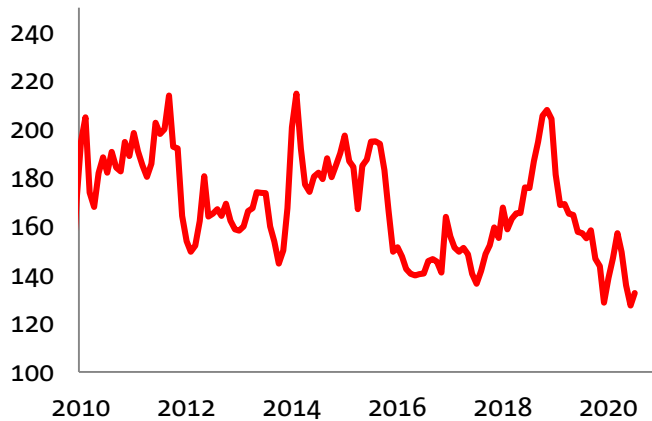


Source: Bureau of Meteorology

FARM INPUTS

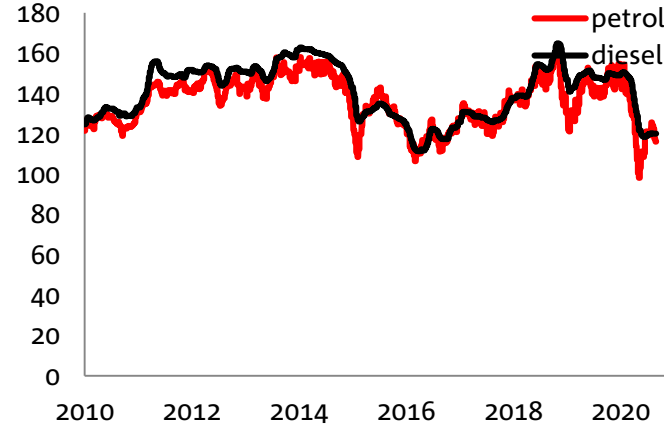
NAB FERTILISER INDEX

AUD index



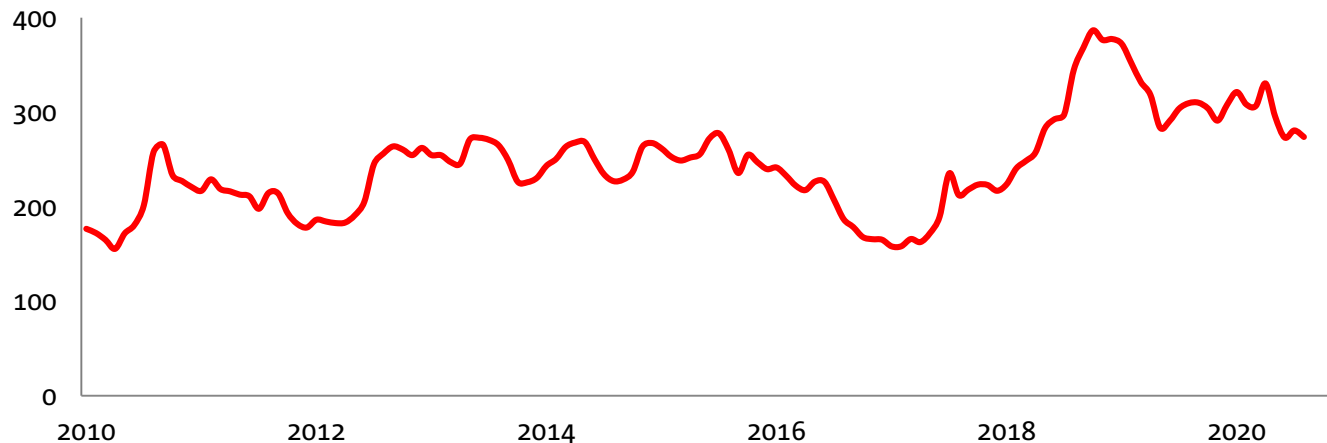
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Farm input prices have been generally lower this year, with fertiliser, fuel and grain all below year-ago levels.

Our fertiliser index saw big declines earlier this year, but looks to have stabilised overall. Importantly though, declines were driven largely by sharply lower US natural gas prices, with DAP and urea trending up rather than down. With US gas prices somewhat higher, there is potential for upside in USD terms, although the appreciating AUD is likely to cut some of this impact.

Fuel prices have seen little excitement in some time. Diesel – the key agricultural fuel – has barely moved from the 120c/l mark since May in national average fuel price data. While some regional areas will face higher prices, the trend has been flat for some time.

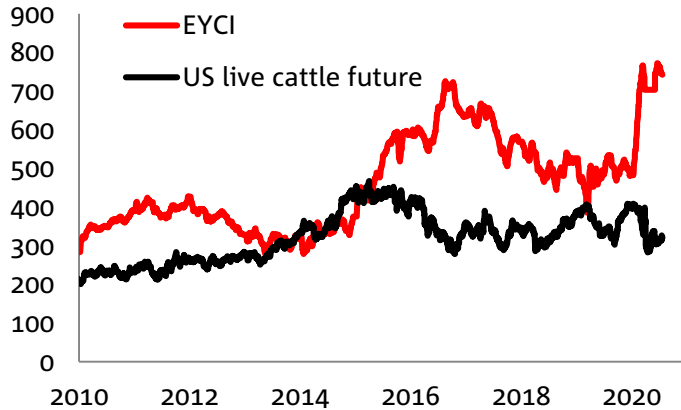
NAB's feedgrain price index stood at \$270/t in August, down 12.8% year on year. With domestic wheat premiums likely to weaken on a good crop and Chinese barley tariffs biting domestic barley prices, this index should unwind further in coming months unless conditions become unexpectedly dry.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

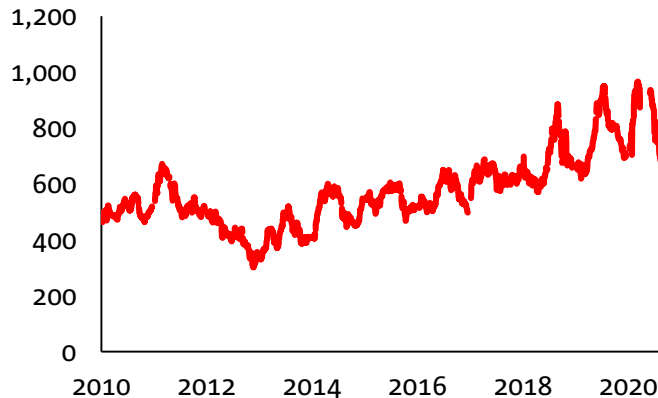
CATTLE

AUc/kg



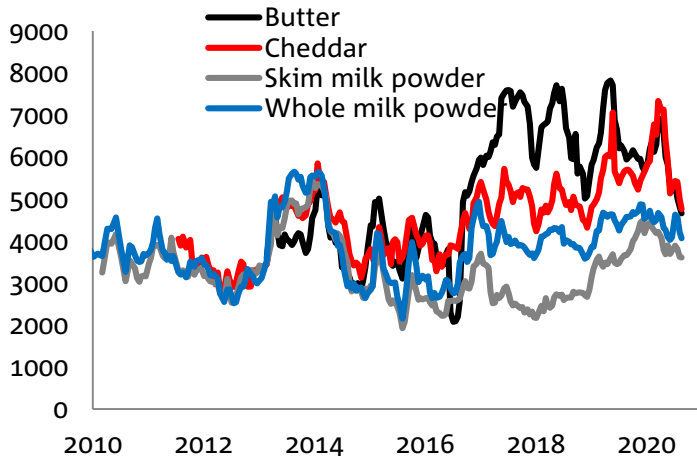
LAMB

ESTLI, AUc/kg



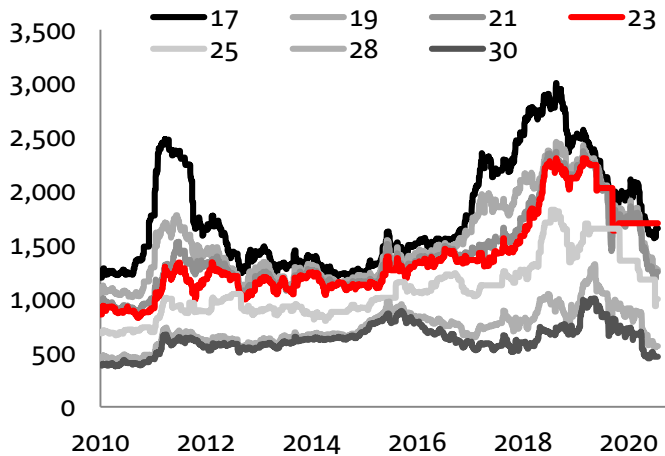
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



This year has seen the fastest runup in cattle prices in Australian history. August has showed no signs of slowing down, with EYCI hitting new records and now closing on an extraordinary 800c/kg (now 786c/kg). All this has occurred at a time of heightened global risk and uncertainty around demand. Global prices have not moved in the same way and the jump largely reflects domestic restocker interest. A big spring could push restocker demand higher again, but risks are mounting.

Lamb prices continue to fall, with eastern states trade lamb now around 673c/kg. While strong seasonal changes have been an increasing feature of Australian lamb markets, the fall this year predates major spring flush and reflects concerns around the resilience of international demand – not a strong feature of recent price cycles. It is possible that there will be further downside in spring as more supply becomes available. Wool remains in a very tough spot – for more information see our recent [wool in focus report](#).

Global Dairy Trade auction results have been very mixed recently, with downside for cheddar and butter. Opening prices were 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.

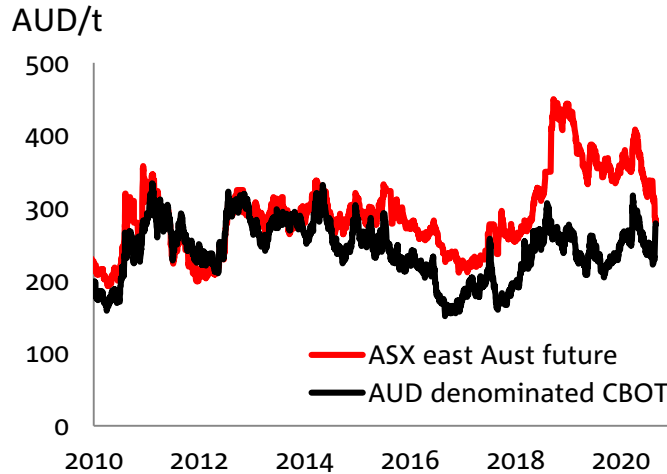
WINTER CROPS

Should the winter crop perform (for more information on our latest forecasts see page 3), much of the recent domestic basis (which was already eroding) will be absent for cash prices. On balance we expect to see domestic wheat in the \$300/t range at the end of 2020. An appreciating AUD will also be a pressure point for local prices. There maybe some upside pressure across the grains complex if Chinese flooding leads to higher Chinese demand, but it is far from clear that these will flow through to wheat.

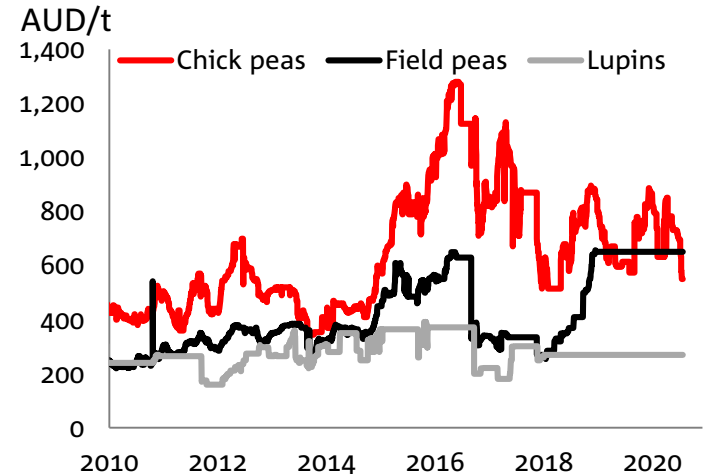
Ultimately, if the season delivers, few producers will be worried about a price around \$300/t rather than \$350-450 that occurred in the last two seasons. More challenging will be regaining market access into traditional export markets South-East Asia following a period of lower exports due to domestic feed demand and poor domestic grain supply.

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.

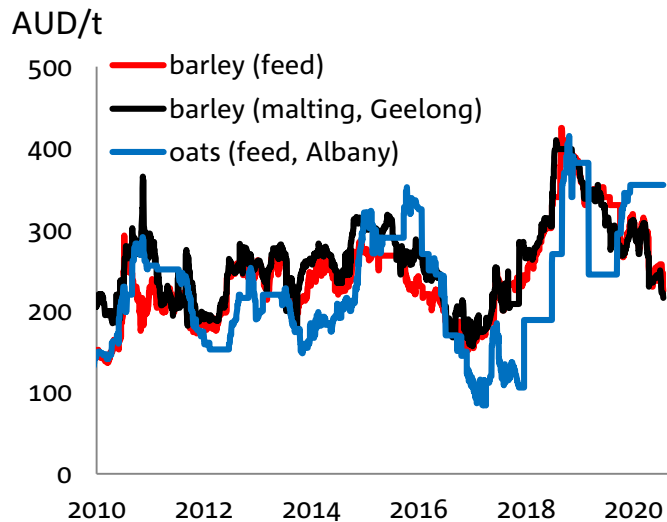
WHEAT



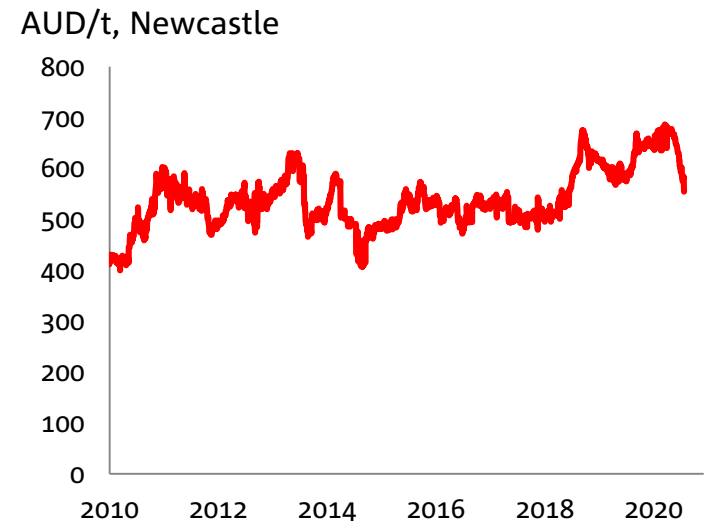
PULSES



COARSE GRAINS



CANOLA



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



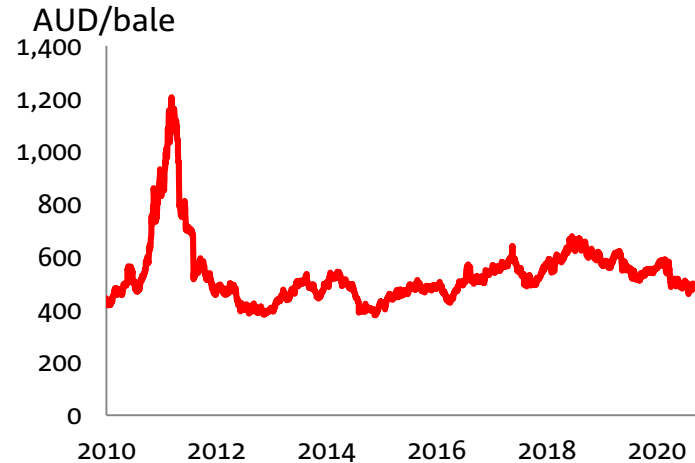
SUMMER CROPS, SUGAR AND HORTICULTURE

While 2020 has brought generally better seasonal conditions to much of eastern Australia, water in storage in the Murray-Darling stands at 48%, compared to 40% a month ago. The major challenge is in the northern basin, which is only at 22% of capacity, while the southern basin is on 57%.

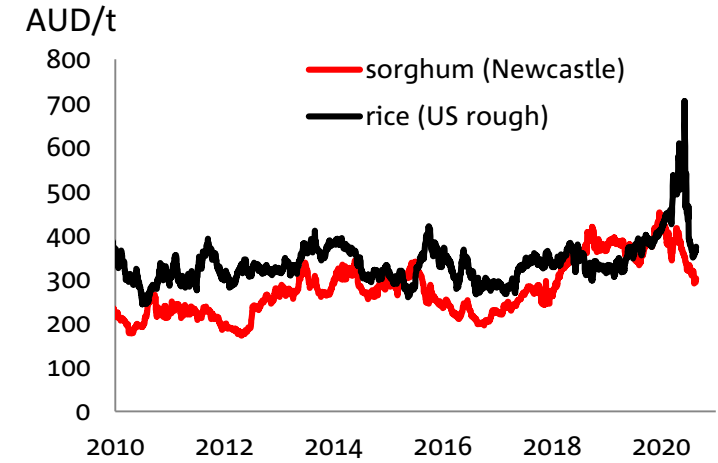
Cotton prices remain subdued and have unwound further in AUD terms in the last month. Our latest wool in focus report considers some potential directions for clothing demand over the coming months and the impact of the broader downturn.

Fruit and vegetable prices remain something of a mixed bag. Wholesale fruit prices fell 5.8% in July but steadied (up 0.4%) in August. Vegetables rose 4.2% in July but dropped 11.1% in August.

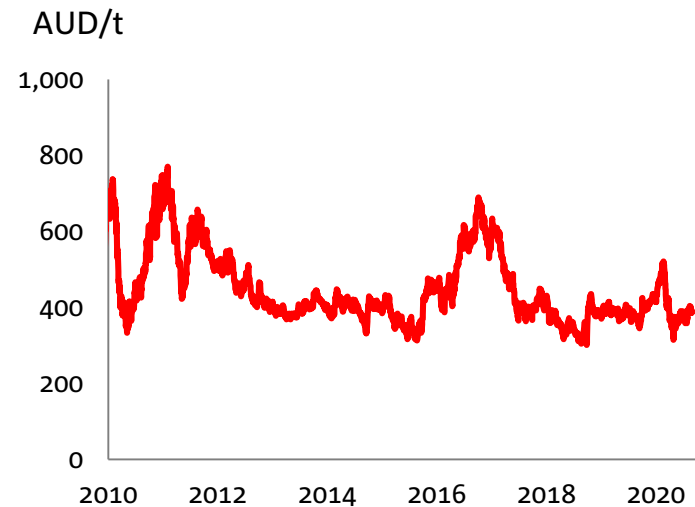
COTTON



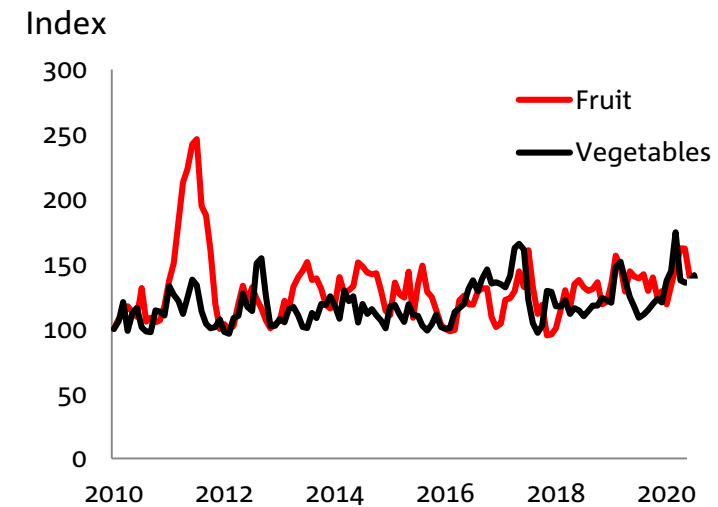
SORGHUM AND RICE



SUGAR



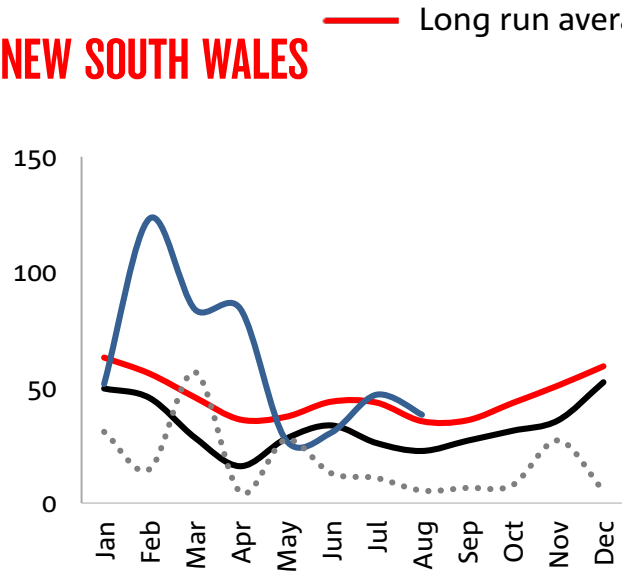
FRUIT AND VEGETABLES



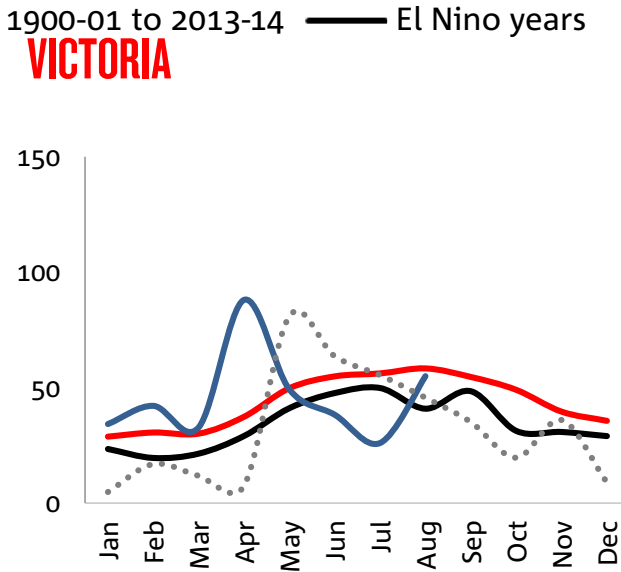
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

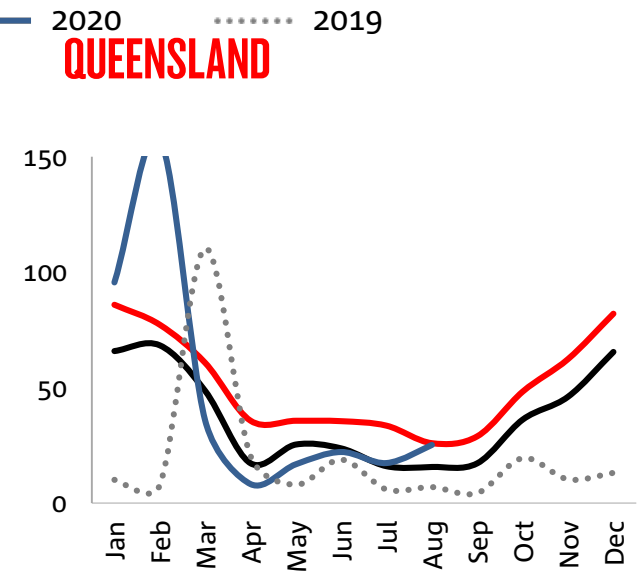
NEW SOUTH WALES



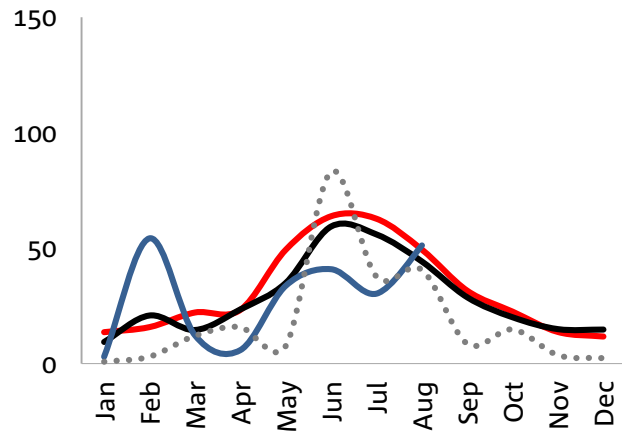
VICTORIA



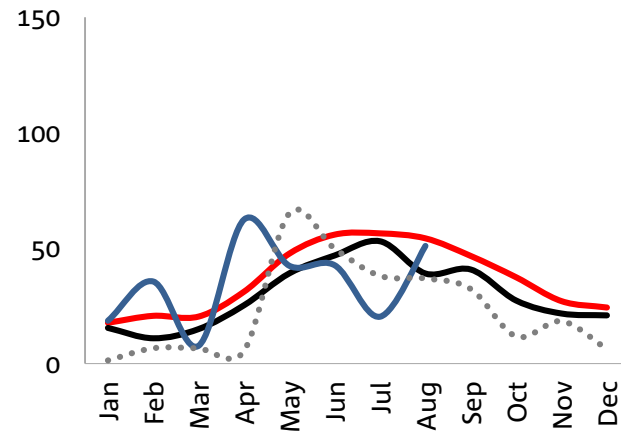
QUEENSLAND



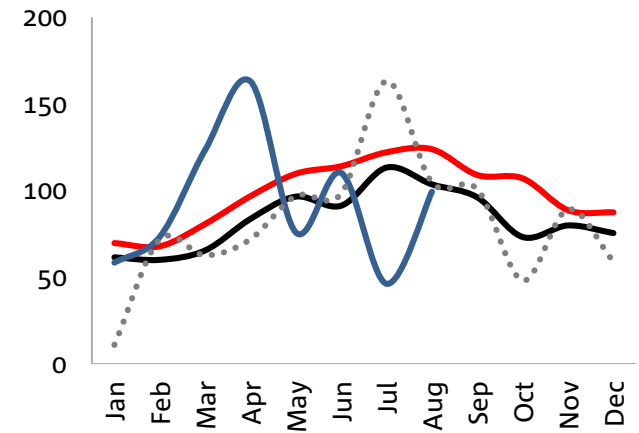
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

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