

# RURAL COMMODITIES WRAP



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# KEY POINTS

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The year from hell rolls on, but Australian agriculture is probably in the best shape since 2016, reflecting good seasonal conditions and largely encouraging price trends.

The Bureau of Meteorology declared La Nina in late September and the implications for the coming summer are potentially substantial. La Nina is generally associated with above average spring-summer rainfall in eastern and northern Australia, and conversely below average rainfall in the western Americas. The period 2010-12 saw a great improvement in Australian crop yields but also summer flooding. 2016 did not quite meet the bureau's La Nina thresholds but still saw the biggest Australian winter crop on record. This season, we expect an Australian wheat crop around 28 million tonnes – the biggest crop since the 2016 record.

La Nina can lead to below average yields in the Americas, which may see upward pressure on prices. While global wheat prices have now risen to six-year highs, these have largely been driven by dryness in Russia.

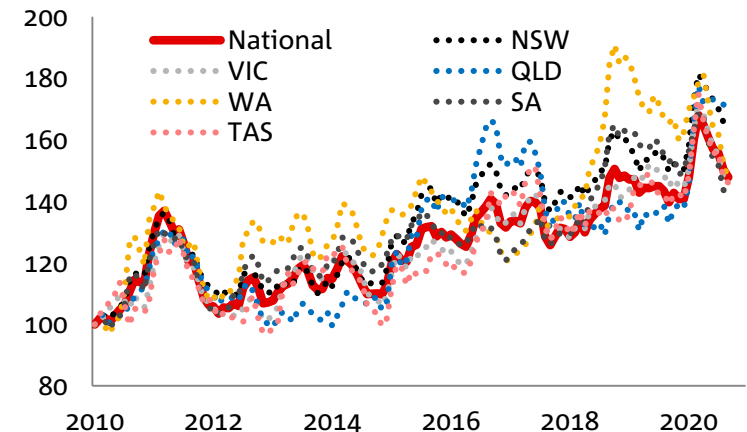
Cattle prices remain at record highs while lamb has staged a recovery to year-ago levels. Meanwhile, Global Dairy Trade auction results have been more encouraging recently.

Overall, the NAB Rural Commodities Index fell 1.6% month-on-month in September, but was still up 5.8% year-on-year. All in all, a large section of Australian agriculture looks set to chalk 2020 up as a pretty good year. Given the conditions facing the rest of the Australian and global economies, this is a remarkable achievement.

Trade concerns with China remain an issue, with cotton recently reported to be in the firing line via instructions for Chinese mills not to purchase Australian cotton. It remains to be seen whether these tensions will be de-escalated.

## NAB RURAL COMMODITIES INDEX

National and by state



## MONTHLY COMMODITY PRICE CHANGES

	Jul 20	Aug 20	Sept 20
Wheat	▲ 1.6%	▼ 8.2%	▼ 4.9%
Beef	▼ 0.7%	▲ 2.3%	▲ 0.1%
Dairy	▲ 5.9%	▼ 8.9%	▼ 0.9%
Lamb	▼ 13.0%	▼ 12.7%	▲ 4.0%
Wool	▼ 1.9%	▼ 13.1%	▼ 12.5%
Sugar	▼ 1.2%	▲ 5.0%	▼ 3.6%
Cotton	▼ 0.8%	▼ 0.3%	▲ 0.6%

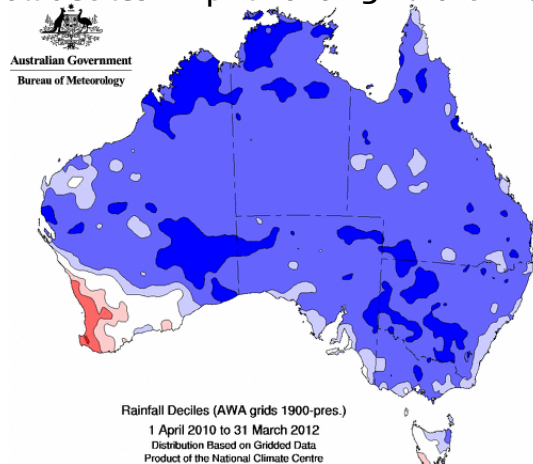
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



# IN FOCUS: WHAT DOES LA NINA MEAN FOR AUSTRALIA?

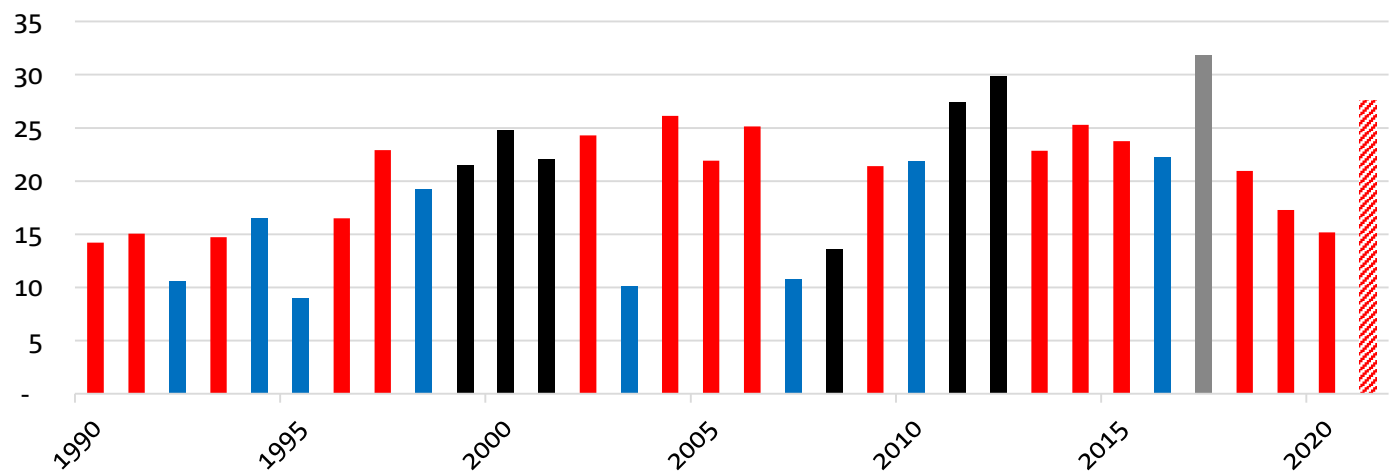
## 2010-12 LA NINA EVENT

Rainfall deciles 1 April 2010 - 31 March 2012



## AUSTRALIAN WHEAT PRODUCTION

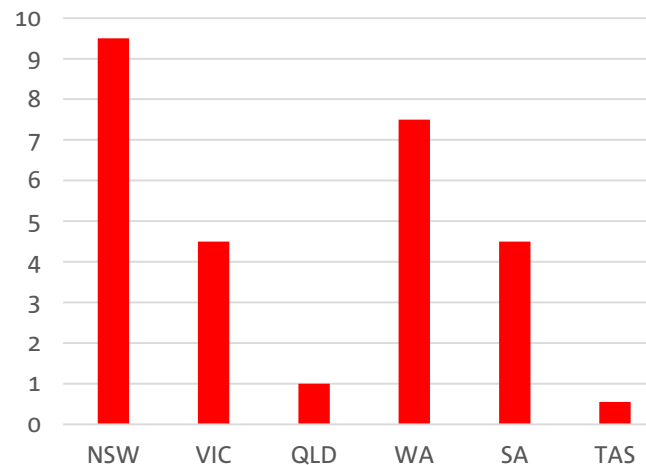
Million tonnes per annum, black = La Nina, blue = El Nino, grey = approaching La Nina



Source: ABARES, ABS, BoM and NAB Group Economics

## WHEAT PRODUCTION FORECAST

Million tonnes per annum



The Bureau of Meteorology declared a La Nina last month, an event typically – but not always – associated with wetter than average spring-summer conditions in eastern and northern Australia. Unfortunately, it is not typically associated with more rainfall in agricultural regions of Western Australia.

The implications for Australian agriculture, at least in the north and east, are substantial. More rainfall means more grass and higher restocker demand for cattle, more inflows into depleted water storages and potentially higher grain yields.

The chart at the bottom right shows Australian wheat production since 1990, with La Nina events marked in black and the 2016 “not quite” La Nina marked in grey (BoM thresholds were not met in 2016 but came reasonably close). Wheat yields are typically - but not always - better. Importantly, over the last decade, the best wheat seasons have either been in La Nina periods (2010-11 and 2011-12) or approaching La Nina (2016-17). Whether 2020-21 will repeat this feat remains to be seen, although our latest wheat production forecast suggests that a big season is on the way (over 27mmt, compared to an average season of around 24mmt).



# SEASONAL CONDITIONS

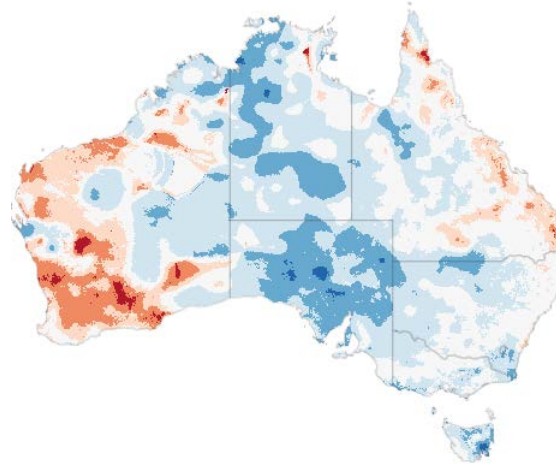
Seasonal conditions have been generally encouraging across most of the country recently, although soil moisture remains below average across the Western Australian wheatbelt and much of the Queensland coast. Agricultural regions of Victoria, New South Wales and Queensland have seen good rains and are on track for a well above average winter crop.

The bureau has now declared a La Nina, which is generally associated with wetter than average spring – summer conditions across eastern and northern Australia. The last Australian La Nina event in 2010-12 saw a wet summer with extensive flooding in parts of eastern Australia. 2016 didn't quite meet the BoM threshold for La Nina but still saw the biggest winter crop on record. The latest outlook suggests that this event could be quite strong.

The three-month rainfall outlook is for wetter than average conditions to January 2021 for the whole country with the exception of south-west Tasmania.

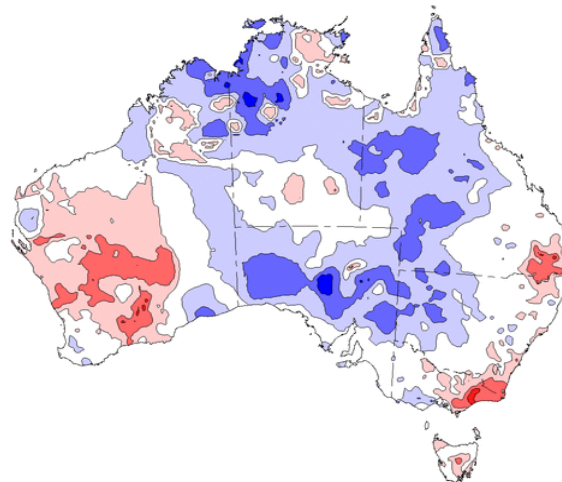
## ROOT ZONE SOIL MOISTURE

19 October 2020



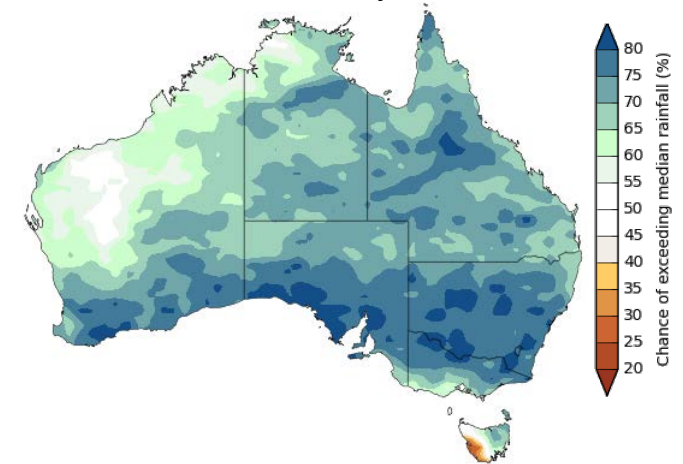
## RAINFALL DECILES

September 2020



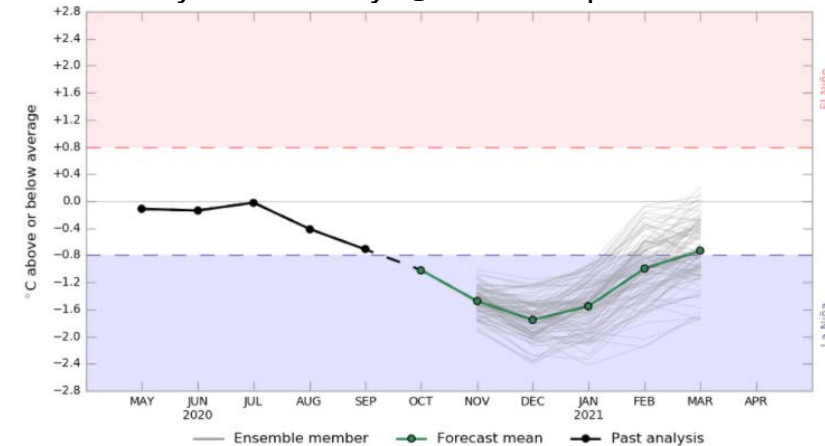
## BOM RAINFALL OUTLOOK

November 2020 – January 2021



## BOM ENSO TRACKER

Monthly SST anomaly 13 October update

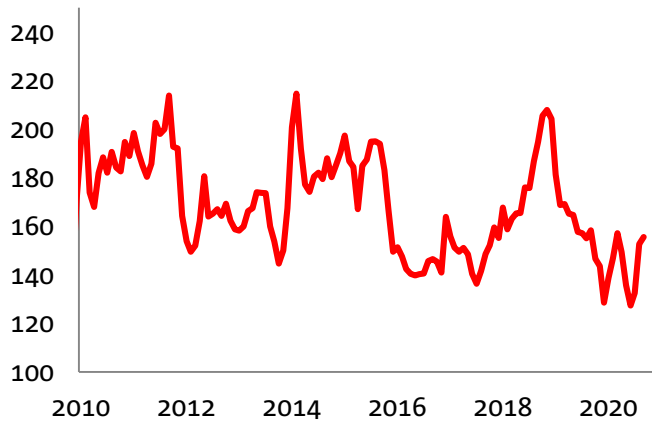


Source: Bureau of Meteorology

# FARM INPUTS

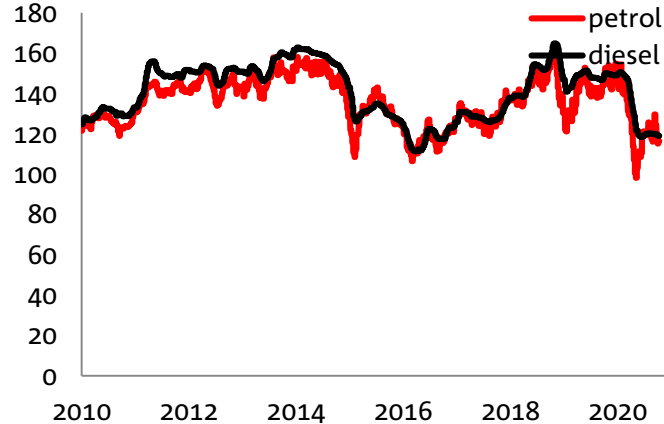
## NAB FERTILISER INDEX

AUD index



## NATIONAL AVERAGE FUEL PRICES

AUc/litre



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

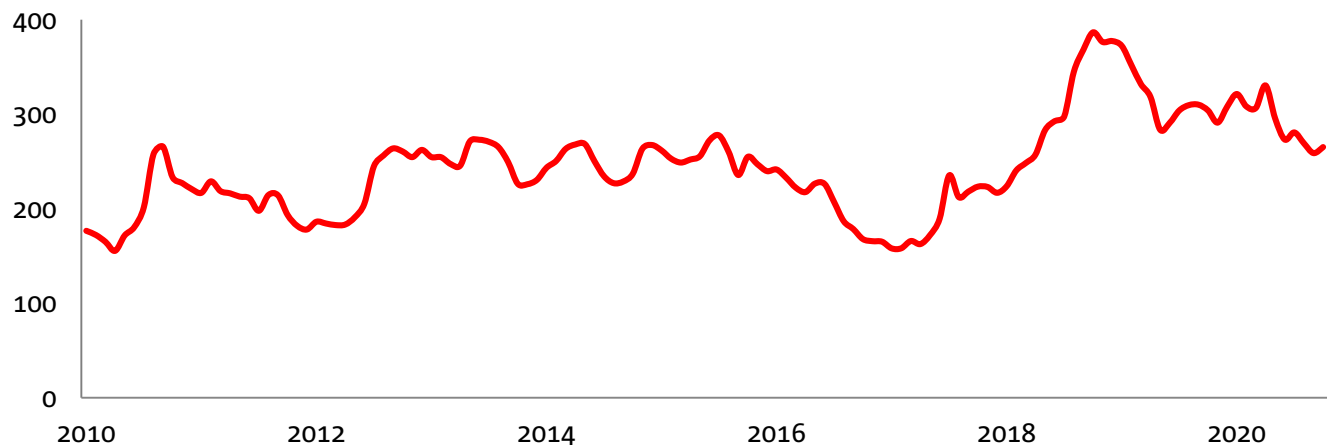
Our fertiliser index saw big declines earlier this year, but is now slightly below where it was a year ago. Low US natural gas prices have kept the index low, but DAP has increased this year.

Fuel prices continue to offer little excitement at the bowser. 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 has continued to trend down, although given the rally in global prices, perhaps further falls are unlikely. One potential downside price risk is in barley, which is on track for a big season but subject to a ~80% tariff from China – its largest market. We may see barley displace other grains in the feed mix if it continues to trade at such a steep discount.

## NAB FEED GRAIN PRICE INDEX

AUD/t

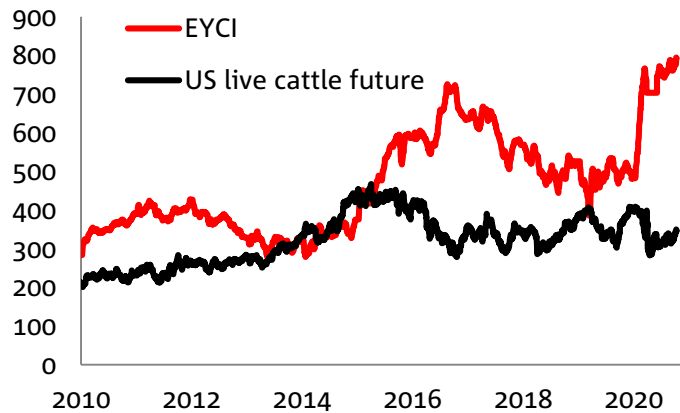


Source: Bloomberg, Profarmer and NAB Group Economics

# LIVESTOCK

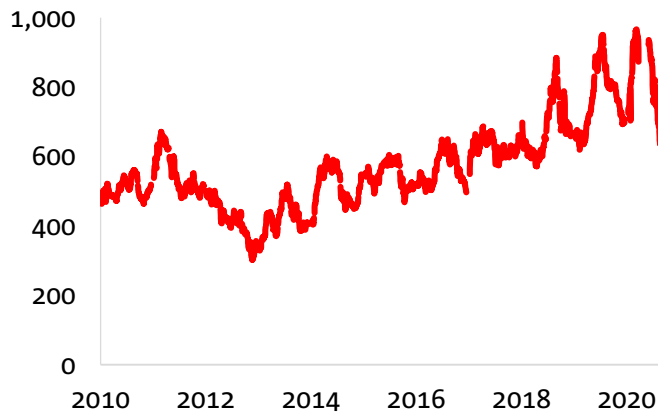
## CATTLE

AUc/kg



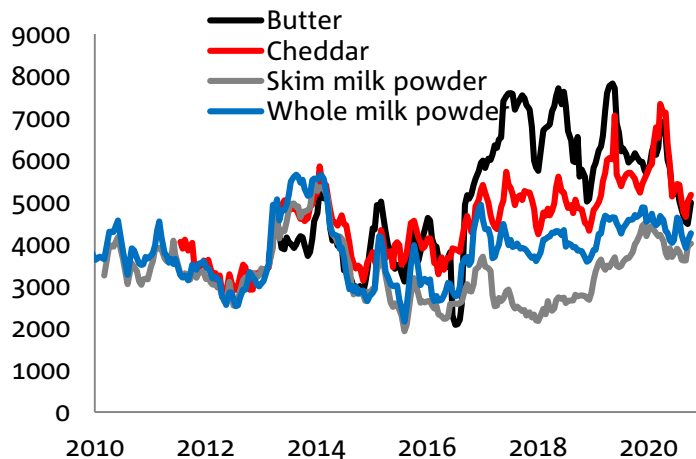
## LAMB

ESTLI, AUc/kg



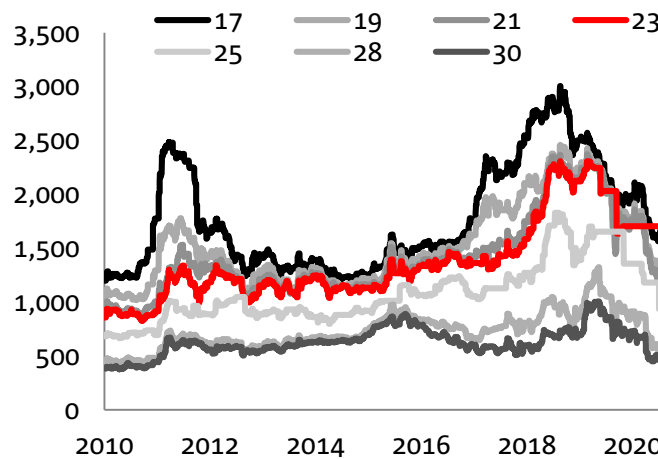
## GDT AUCTION RESULTS

AUD/tonne



## WOOL

Southern region, by micron, AUc/kg



This year has seen the fastest runup in cattle prices in Australian history, with a rapid appreciation from January to March, followed by a slower increase in prices since. EYCI has been setting new records all year, the latest being 801c/kg. With EYCI now at record levels, the question is where to from here given the big rainfall outlook and lack of domestic supply? If Queensland has a big summer, demand is likely to push young cattle prices even higher. However, it is important to note that Australian cattle prices are increasingly detached from global cattle market fundamentals and that demand in the US and Europe could be slowed by worsening coronavirus infection levels. The next 6-12 months will be time of heightened price volatility risk.

Lamb prices have rebounded since late August, with trade lamb now around 750c/kg, similar to year-ago levels. Spring flush is now kicking in, but we now expect the seasonal outlook to limit downside price risk to some extent. Wool has suffered through a tough year, although auction results have been better recently with EMI back over 1100c/kg. Nonetheless, we remain concerned about demand fundamentals over coming months and perhaps years.

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

Global Dairy Trade auction results have been somewhat better since September, although the demand outlook is mixed.



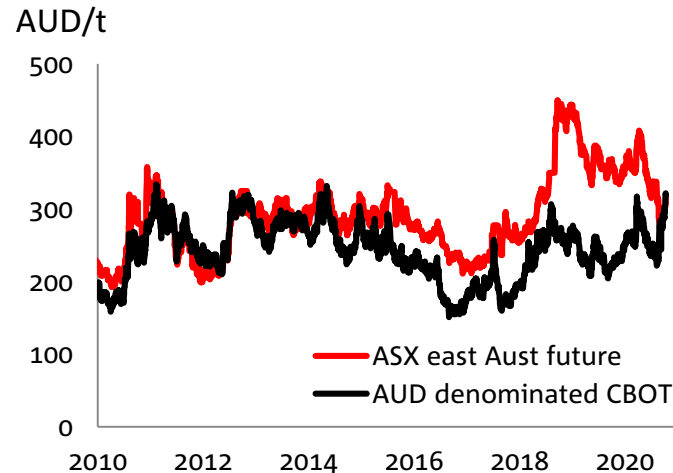
# WINTER CROPS

2020-21 is on track to deliver a big crop – likely well above average. Just how big remains to be seen but the latest forecast from ABARES is in the 28.9mmt range. We are a little less exuberant, largely on a lower Western Australia forecast. ABARES' September forecast had WA wheat production at 8.9mmt, while the Grain Industry Association of WA's October number was just 7.4mmt. Our national wheat forecast is 27.6mmt, but there is still scope for upside.

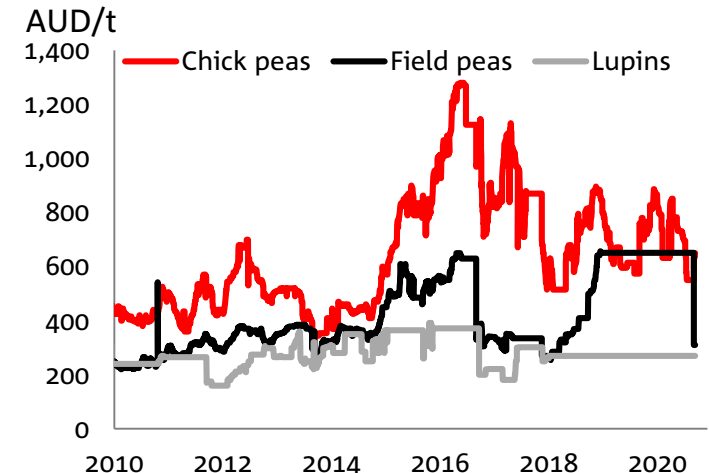
Global wheat prices have rallied to six-year highs on dry conditions in Russia as well as ongoing coronavirus concerns as the US and Europe enter challenging winter conditions with virus cases on the rise. This has essentially wiped out basis, which had spent two years at historically high levels. However, the international rally will be a very welcome support to Australian prices, which we see in the low \$300s range at harvest. With yields likely good to excellent, few will complain about these prices.

Barley prices remain low in the wake of the Chinese governments tariff decision and with a big crop likely it may be difficult to move some malting barley. Increased on-farm storage beckons.

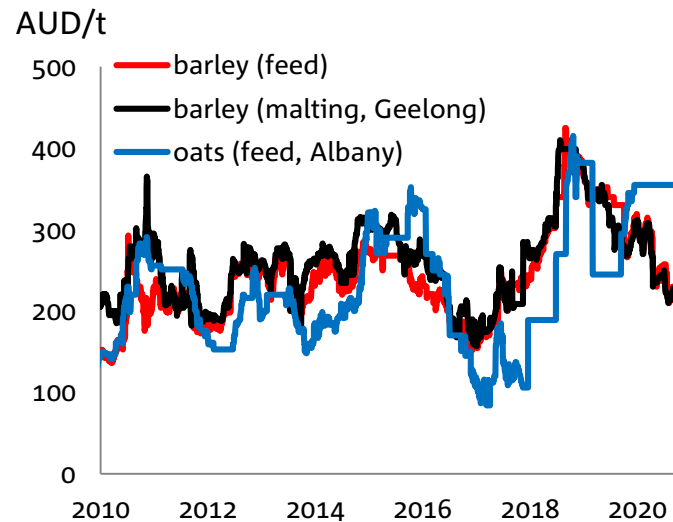
## WHEAT



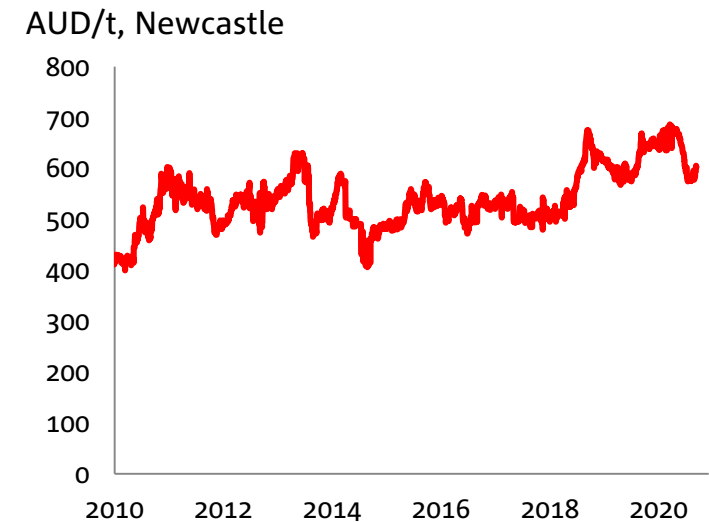
## PULSES



## COARSE GRAINS



## CANOLA



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

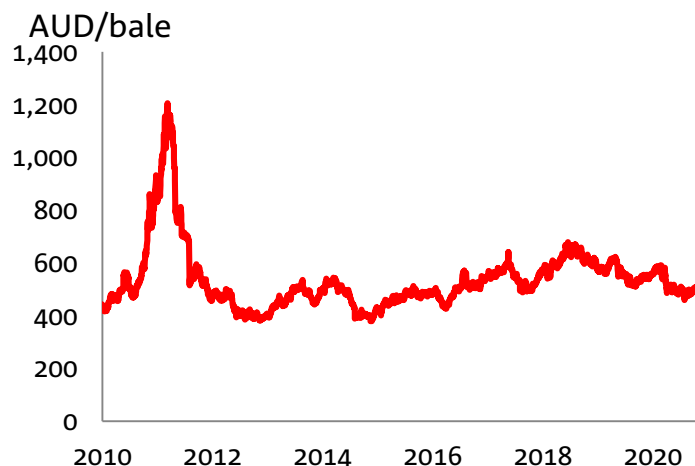
# SUMMER CROPS, SUGAR AND HORTICULTURE

2020 has brought generally better seasonal conditions to much of eastern Australia, bringing Murray-Darling water in storage to 57%. With a big summer potentially on the way, there is hope that storages can be replenished ahead of next season.

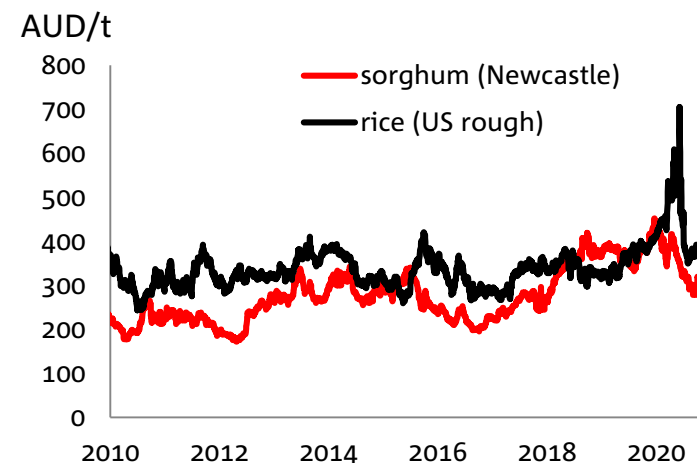
Cotton prices remain fairly low, although have seen relatively little change in AUD terms over the last few months. Of greater concern are reports that the Chinese government has instructed mills to avoid using Australian cotton. Combined with global stocks and subdued clothing demand amid the most challenging economic environment in many decades, the outlook for Australian cotton prices is subdued.

Fruit and vegetable prices fell in September but have been on an increasing trend this year. Wholesale fruit prices fell 2.9% in September while vegetables were off 0.7%. The biggest concern for the industry ahead of some critical harvests is labour availability rather than price.

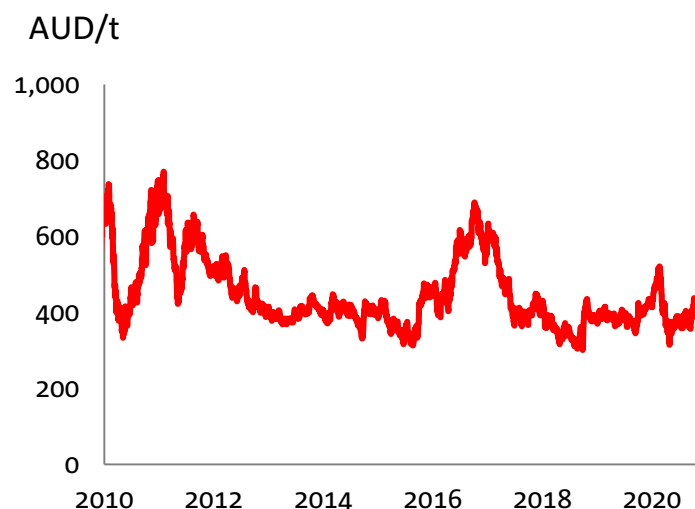
## COTTON



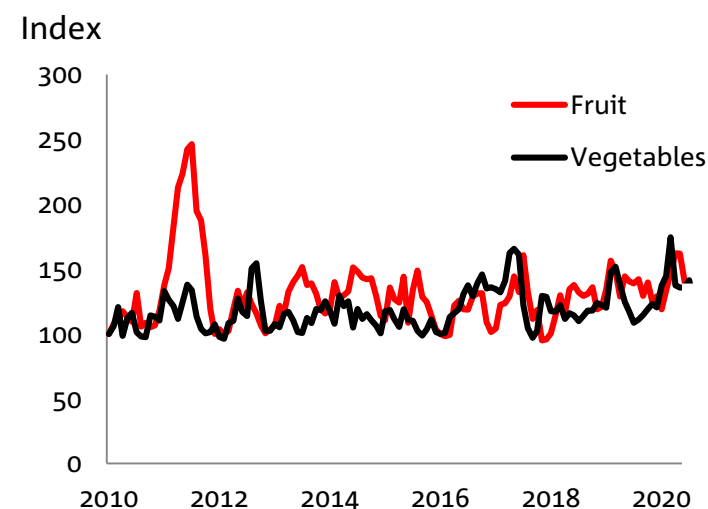
## SORGHUM AND RICE



## SUGAR



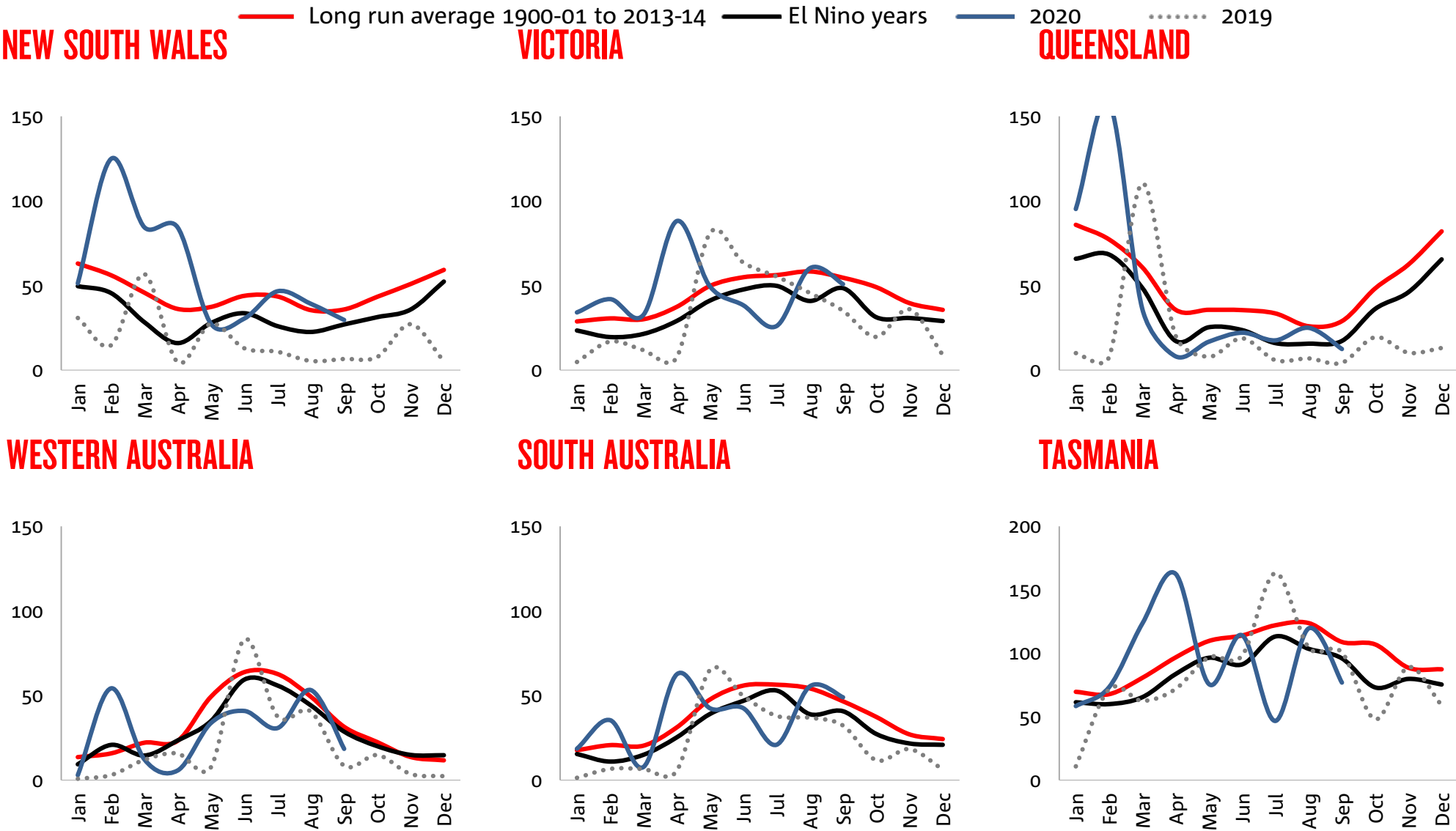
## FRUIT AND VEGETABLES



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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