

IN FOCUS: WINTER CROP HARVEST

NOVEMBER 2020

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KEY POINTS

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Harvest is now well underway in Western Australia and the northern regions of the eastern states. All indications so far suggest a bumper crop in the east and a good crop in the west. While storm activity has delayed harvest across many areas, bulk receival data from CBH in the west and Graincorp in the east, points to a strong harvest.

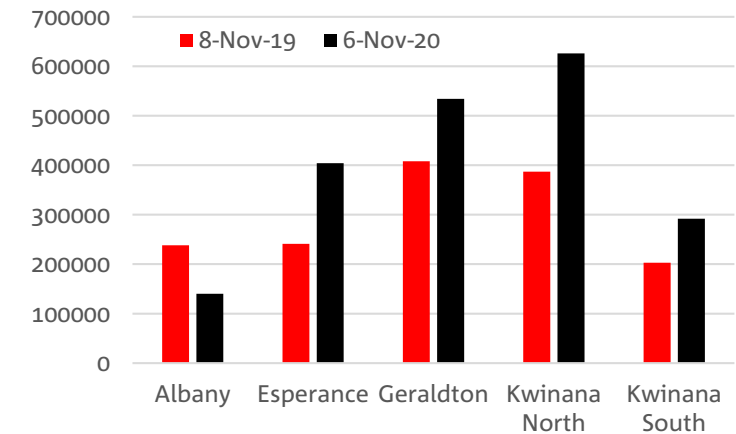
The Bureau of Meteorology declared La Nina in late September and the implications for the season are substantial. La Nina is generally associated with above average spring-summer rainfall in eastern and northern Australia, and conversely below average rainfall in the western Americas. The period 2010-12 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.

Global grain prices have surged over the last two months, reflecting yield concerns across a number of crops and growing regions. This could not be better timed for Australia, with big crops coming into export markets over the next three months. Basis had been historically high in 2018 and 2019, but has now gone well and truly into reverse. Recent indicative at-port cash prices for wheat have been in the high \$200s to low \$300s range, depending on grade and location. While we are a little sceptical whether global prices will stay so high, the news for Australian wheat prices is good overall.

Barley prices are another matter, reflecting China's trade restrictions and our high dependence on that market – around 50-70% of Australia's barley exports are usually destined for China. This has been compounded by a big Australian crop, much of which is destined to remain in storage. That said, Saudi Arabia's re-entry into barley markets is very welcome for exporters.

CBH RECEIVAL DATA

Cumulative season to date, tonnes



GRAINCORP RECEIVAL DATA

Cumulative season to date, tonnes

	NSW	VIC	QLD
14-Nov-19	130030	79420	145450
25-Nov-19	364690	622470	145700
9-Dec-19	494450	1487720	146430
6-Jan-20	513530	2610835	146570
13-Jan-20	513613	2782340	146570
27-Oct-20	260000	0	428000

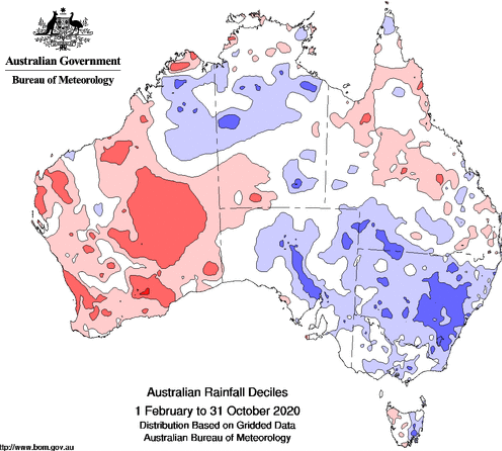
Source: CBH, Graincorp



PRODUCTION AND YIELDS

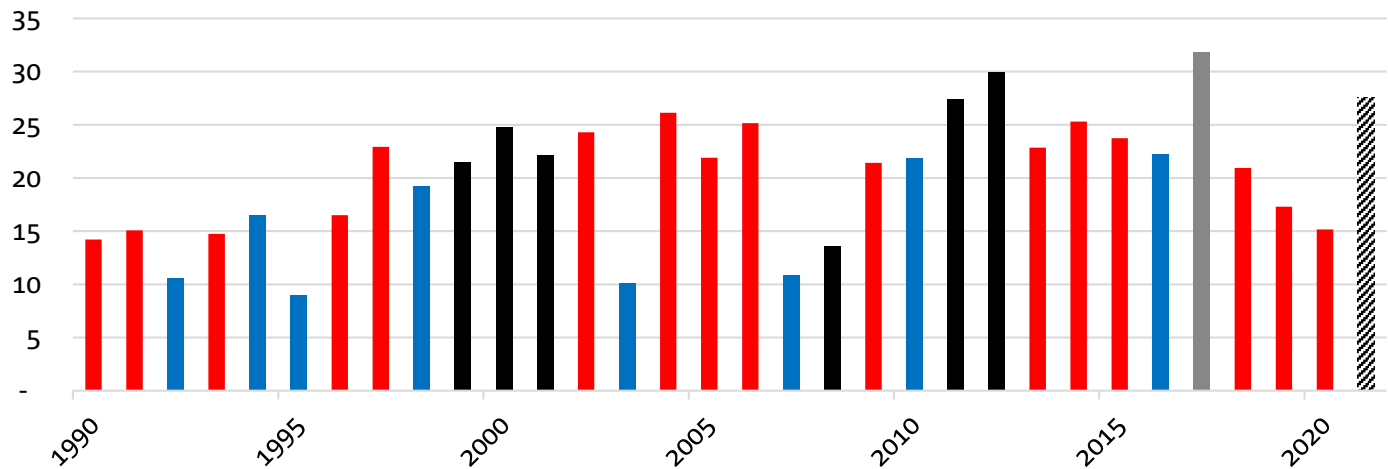
AUSTRALIAN RAINFALL DECILES

9 months February to October 2020



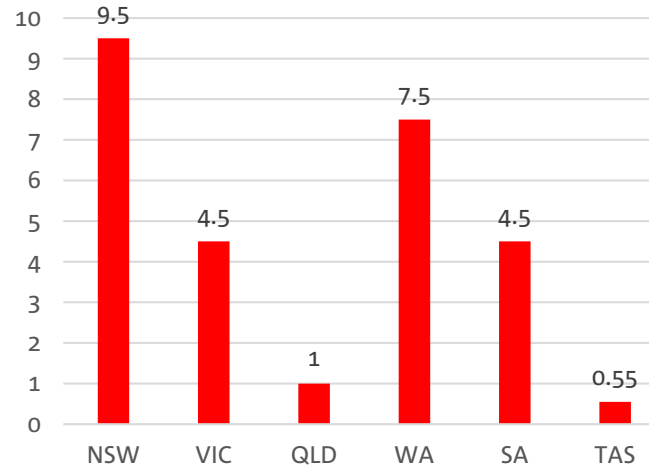
AUSTRALIAN WHEAT PRODUCTION

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



WHEAT PRODUCTION FORECAST

Million tonnes per annum



2020-21 is on track to deliver a well above average winter crop nationally, although Western Australia will likely be much closer to average. We see national wheat production at 27.6mmt, although there is really scope for upside in the eastern states, with NSW in particular having a generally great run.

While our latest forecast is a little less exuberant than ABARES (28.9mmt), the reality is that growers, with some exceptions due to storm damage, are generally on track for a very good season in the east and a reasonable season in the west, especially given below average WA in-season rainfall. ABARES' September forecast had WA wheat production at 8.9mmt, while the Grain Industry Association of WA's (GIWA) October number was just 7.4mmt. GIWA's November forecast has been increased to 7.9mmt, suggesting that yields are better than expected for a season with below average rainfall.

With La Nina in full swing, there is the potential for more wet harvest conditions, which could affect local yields and quality. But overall the national picture is a very positive one.

Source: ABARES, ABS, BoM and NAB Group Economics

WINTER CROP PRICES

The global grains complex has rallied strongly over the last two months, reflecting increasing supply concerns across a number of grains and regions, not to mention surging coronavirus cases and US election dramas. Europe, the Black Sea, North and South America are now closely watched for any potential yield issues. While La Nina is generally good for eastern Australian grain yields, it tends to cause droughts in the Americas, a potential upside for grain prices. This occurred in the 2010-12 La Nina period.

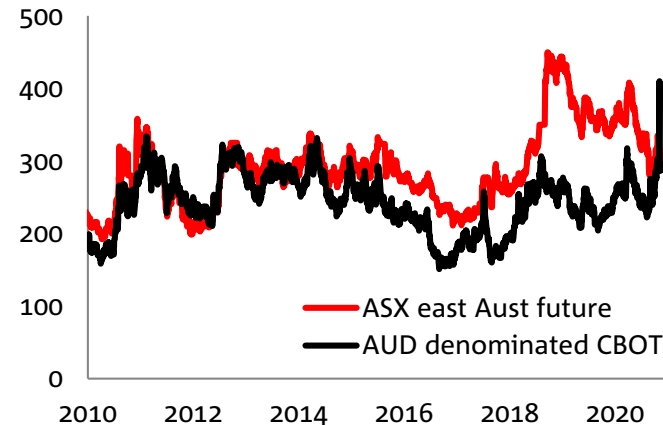
Basis has now been erased and Australian prices look very sharp compared to global indicators. These global developments could not have come at a better time for Australian wheat growers, just ahead of harvest and with the drought-induced domestic feed demand long gone.

Where does that leave domestic wheat prices at harvest? Indicative cash prices have been in the high \$200s to low \$300s range at key Australian ports. With the international rally, no doubt many producers are waiting to see whether this will boost local prices. We are a little sceptical on the global front, but far stranger things have happened in 2020.

Sadly, barley prices remain subdued due to Chinese trade restrictions. Despite Saudi interest it is hard to see big upside.

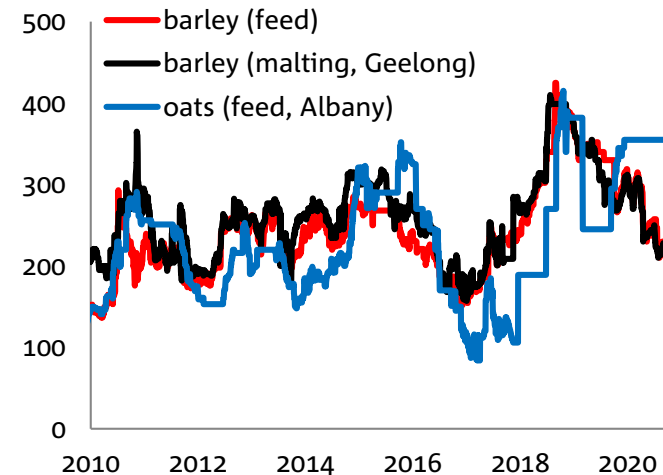
WHEAT

AUD/t



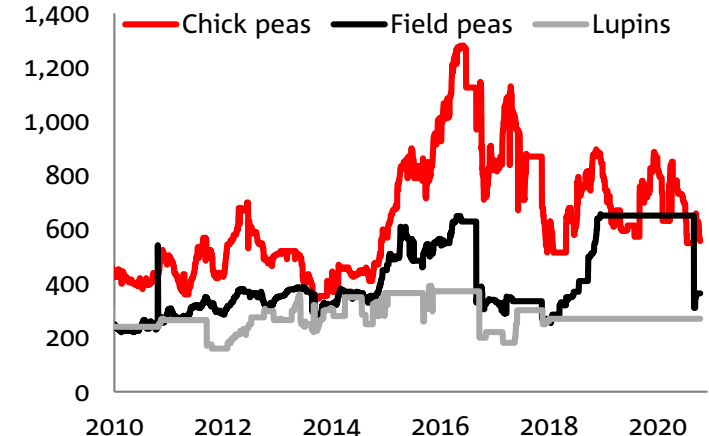
COARSE GRAINS

AUD/t



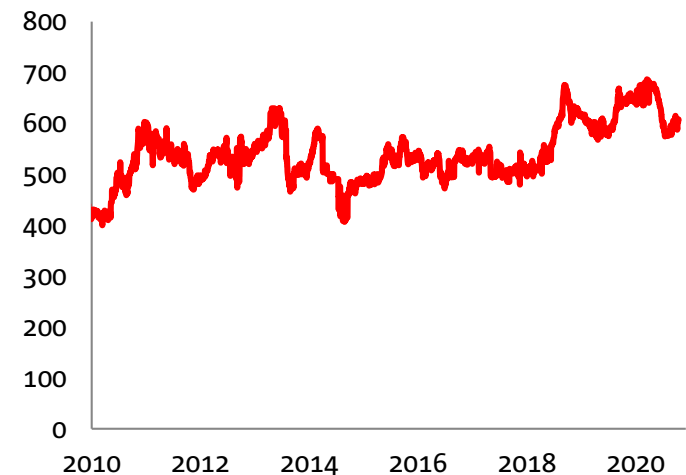
PULSES

AUD/t



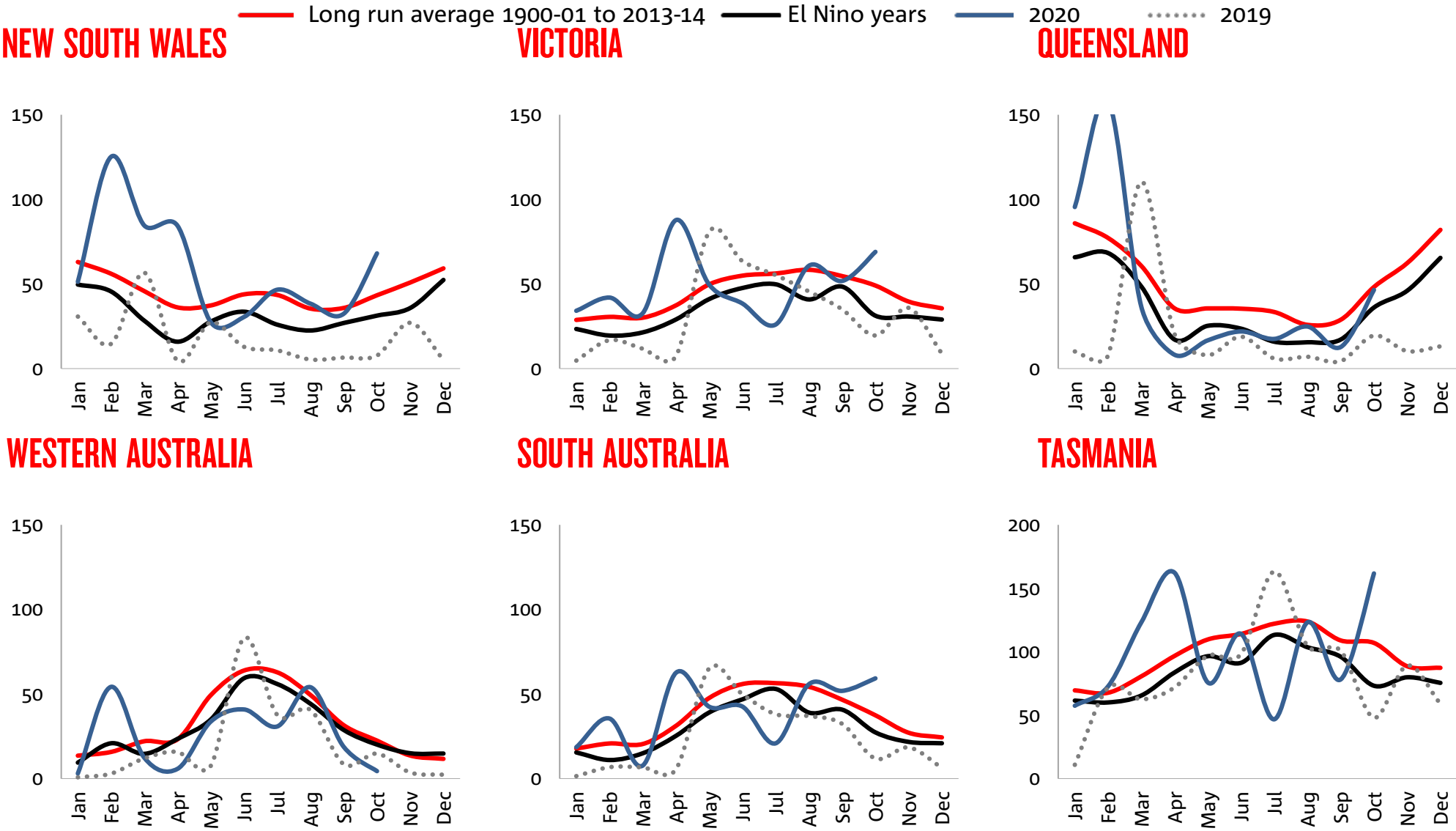
CANOLA

AUD/t, Newcastle



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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