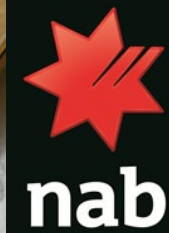


RURAL COMMODITIES WRAP

FEBRUARY 2021

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KEY POINTS

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Despite the global challenges of 2020, Australian agriculture had a generally very good run, driven by strong prices for many (but not all) commodities and much better seasonal conditions. While trade issues with China hurt some sectors, the reality is that Australian agriculture is in its strongest position in years.

But what will 2021 deliver? Overall our sense is that 2021 should bring another solid year for many, although it is likely that an appreciating AUD and frothy livestock prices will see some downwards pressure on the **NAB Rural Commodities Index** in the back half of 2021. This should however be seen in context: cattle prices are currently at record highs and the Rural Commodities Index hit a record in April last year (although has since fallen somewhat). Prices for most commodities (with some exceptions) should be supportive of good producer returns throughout 2021.

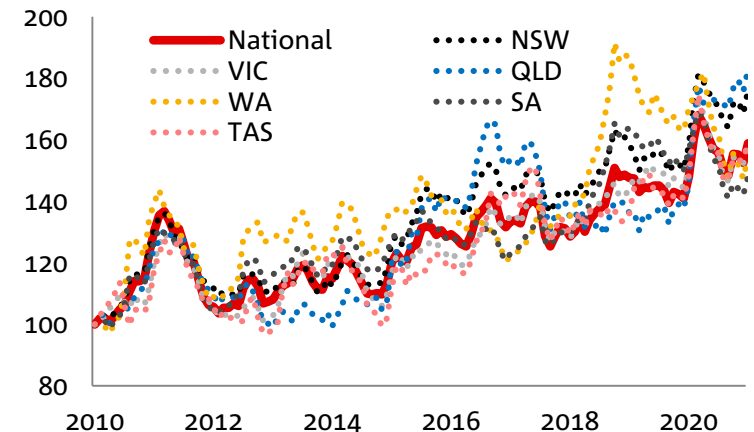
Chinese trade barriers were a feature of 2020 and their continuation, escalation or de-escalation is a key question for Australian farmers in 2021.

Seasonal conditions have been generally wetter than average in the south-east as well as northern Australia, reflecting the La Nina we entered last year. However, large areas of Queensland remain drier than average, as does much of Western Australia. The Bureau of Meteorology expects the La Nina to continue to weaken, although the seasonal outlook for the next three months is wetter than average.

Overall, the NAB Rural Commodities Index fell 1.7% in December 2020 but rose 4.2% in January 2021 on a month-on-month basis. The index is now 7.3% higher than the same time last year.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Nov 20	Dec 20	Jan 21
Wheat	▼ 6.1%	▼ 4.5%	▲ 4.0%
Beef	▲ 3.1%	▼ 3.5%	▲ 5.0%
Dairy	▼ 8.9%	▼ 0.9%	▲ 8.7%
Lamb	▼ 2.7%	▼ 0.4%	▲ 13.1%
Wool	▲ 5.7%	▼ 0.7%	▲ 2.5%
Sugar	▲ 2.2%	▼ 5.0%	▲ 5.9%
Cotton	▲ 1.6%	▲ 0.9%	▲ 4.8%

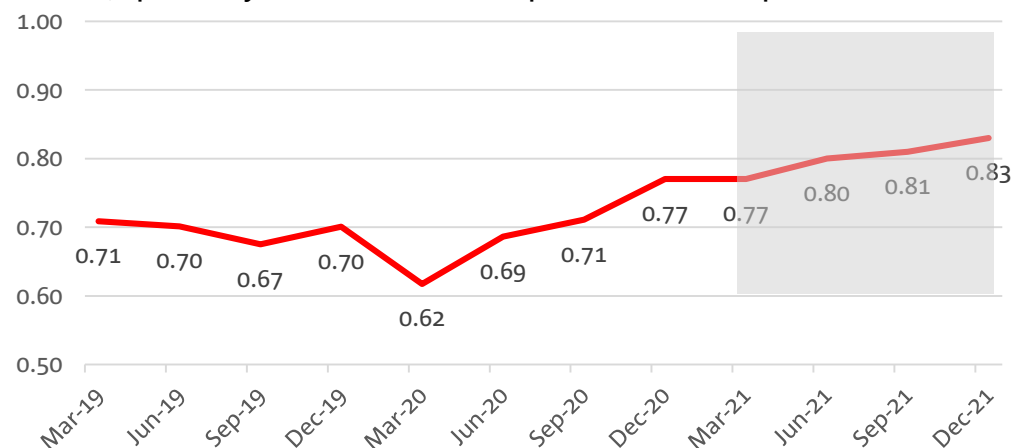
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



IN FOCUS: KEY FORECASTS FOR 2021

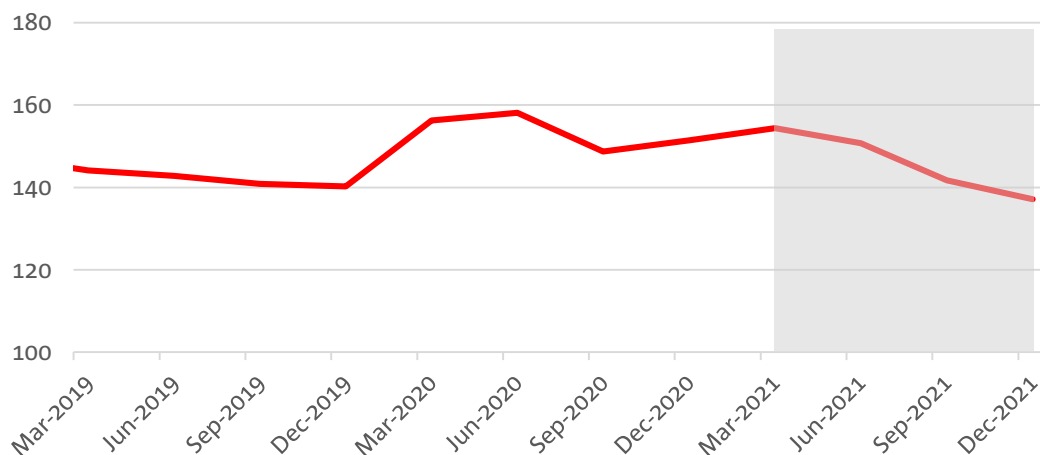
NAB AUD FORECASTS

AUDUSD, quarterly. Note forecasts represent end of quarter



NAB RURAL COMMODITIES INDEX

Quarterly. Note forecasts represent quarterly average



Source: ABARES, ABS, MLA and NAB Group Economics

With 2020 done and dusted, we have (perhaps ill-advisedly) put our heads on the chopping block with some thoughts on the direction of key grain and livestock commodity prices in 2021.

Underpinning our 2021 forecasts is the AUD forecast track. The AUD tanked early in 2020, but quickly recovered and has been trading in the 76-78c range this year, with USD weakness the driver of many currencies' strength, Australia's included. Our forecasts point to the AUD climbing to 80 cents by mid-year and 83c by the end of 2021.

While there are clearly some risks to our AUD outlook (equity market volatility, trade issues, vaccine rollout delays, broader risk events etc), the reality is that China's economic recovery is relatively steel intensive and this is pushing up demand for Australian iron ore. With iron ore prices buoyant, the US dollar relatively weak and Australia's economy outperforming expectations (in substantial part due to good virus management), the AUD is likely to appreciate over the year.

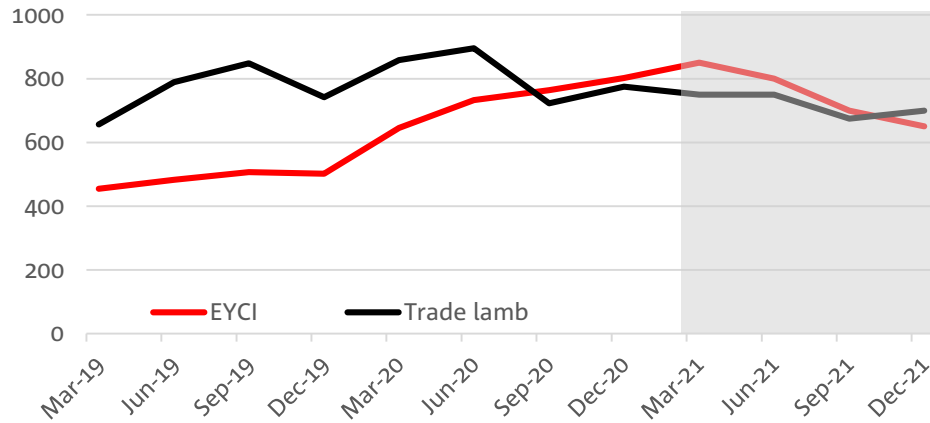
For a more detailed look at our FX forecasts, see our [Global FX Strategist](#).

This currency appreciation will likely put some pressure on rural commodity prices. While some commodities, like grains, wool, cotton etc are highly FX sensitive, others like saleyard cattle prices are more driven by weather at present. Our forecasts for the commodities underpinning the NAB Rural Commodities Index are mixed, but overall we see an easing of rural commodity prices this year, largely unwinding the gains of 2020. For more detail on our cattle and grain forecasts, see overleaf.

IN FOCUS: KEY FORECASTS FOR 2021 (CONTINUED)

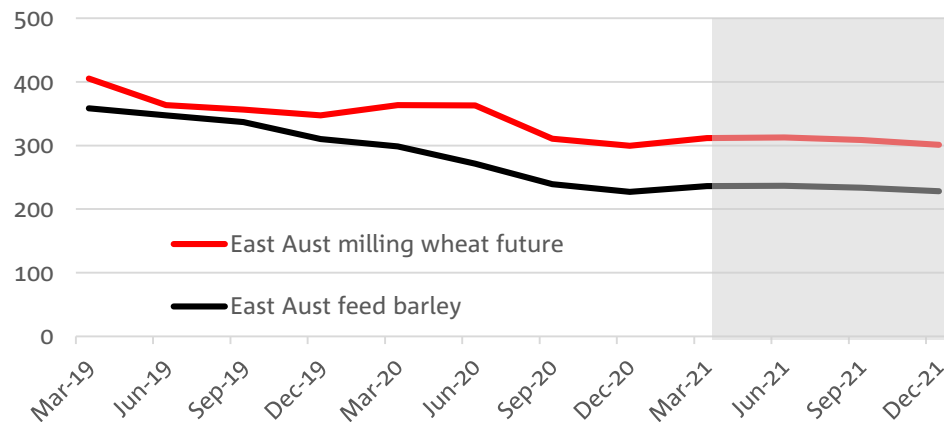
LIVESTOCK FORECASTS

AUc/kg, quarterly



NAB RURAL COMMODITIES INDEX

Quarterly



Source: ABARES, ABS, MLA and NAB Group Economics

Cattle prices are likely to be a major driver of this unwinding. Cattle prices have enjoyed a monster run over 2020, largely in response to better seasonal conditions driving restocker demand. EYCI is now approaching 900c/kg. While it is possible that prices will continue to move higher if Queensland rains deliver, local prices are now out of step with global fundamentals, particularly in light of an appreciating AUD. While it is entirely normal for Australian prices to be out of step with global benchmarks during times of herd rebuilding, if demand eases there is substantial downside risk.

On balance, we expect saleyard prices to fall somewhat in the back half of the year. Our forecast track has EYCI at 700c in Q3 and 650c in Q4 2021. It is important to consider that there is substantial uncertainty around cattle prices for the coming year, with weather events, currency moves, global demand and global supply (particularly if processor capacity improves in the Americas), all major influences.

Australian grain prices headed south over 2020, with eastern states wheat futures down almost 20% over the year. This largely reflected the end of domestic premiums as drought-induced supply shortages and feed demand ended. With a massive crop now harvested, growers will be looking to the trajectory of 2021 prices. One on hand, global prices have rallied over past year on supply concerns, trade issues and the Covid-induced desire to hold more physical grain for security reasons. We see global prices remaining elevated, but largely counterbalanced by a higher AUD and the demise of basis. All this adds up to a forecast for Australian wheat in the low \$300s range, a respectable price especially factoring in good to excellent yields in the recent harvest.

Barley has come under more pressure due to China's trade restrictions, although alternative markets have been found, predominantly in Saudi Arabia as feed. We do not expect a swift resolution to this trade issue.

SEASONAL CONDITIONS

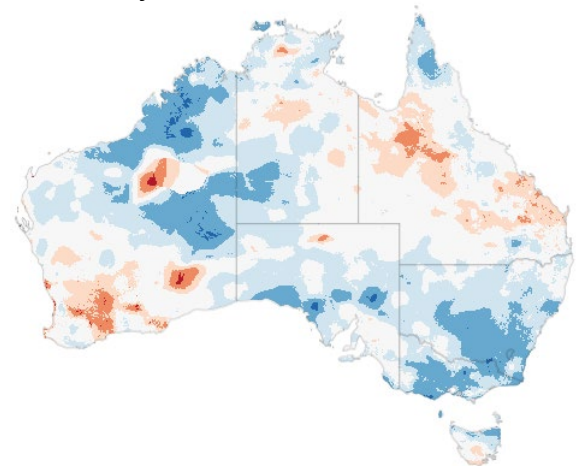
The declaration of La Nina late last year promised much for agriculture in eastern and northern Australia. While it has delivered handsomely for Victoria, New South Wales, South Australia and northern Tasmania, Queensland is much patchier. Soil moisture from central Queensland to the Gulf Country remains below average.

The Bureau’s latest update suggests that El Nina is likely to have peaked, but it likely to continue into autumn. The latest three-month outlook points to above average rainfall from February to April, particularly in far-north Queensland.

Subsoil moisture levels in much of Victoria, New South Wales and South Australia should be enough to give the 2021-22 winter crop a fighting start, and paddock feed levels remain anecdotally very good in many regions.

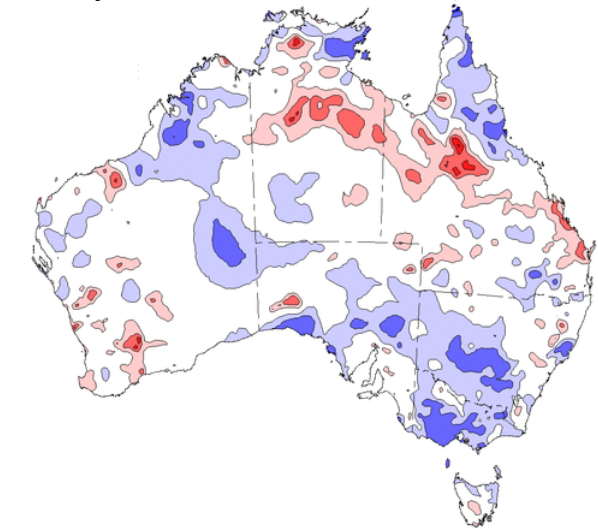
ROOT ZONE SOIL MOISTURE

2 February 2020



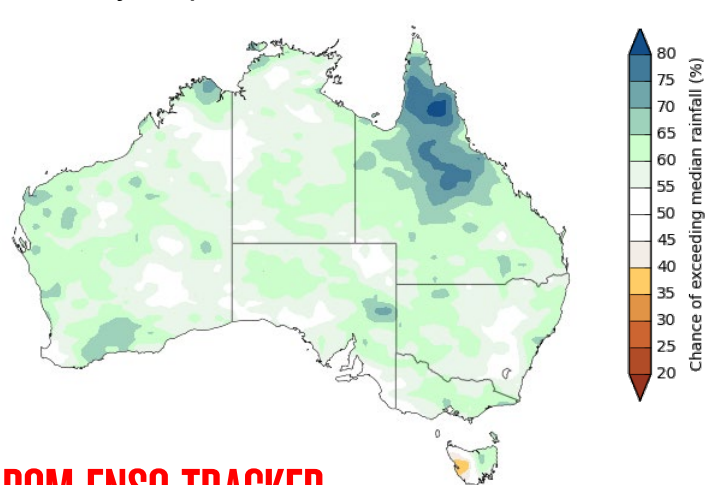
RAINFALL DECILES

January 2021



BOM RAINFALL OUTLOOK

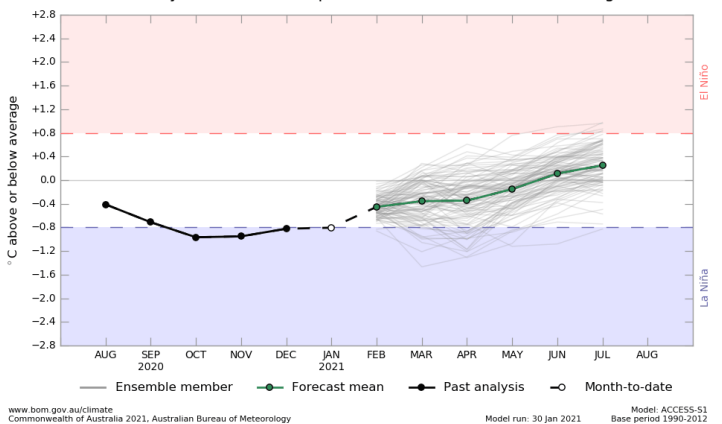
February – April 2021



BOM ENSO TRACKER

Monthly SST anomaly 2 February update

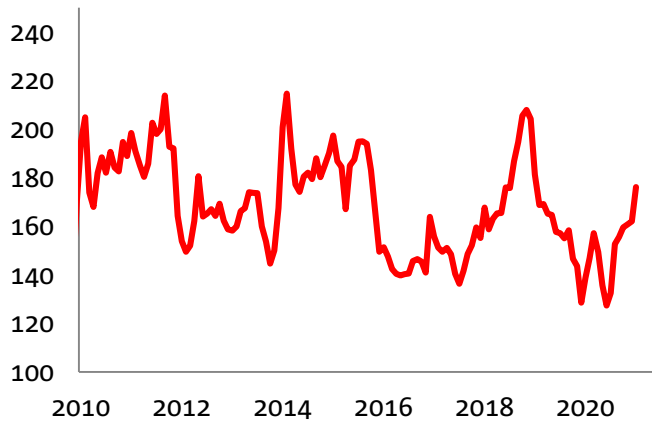
Monthly sea surface temperature anomalies for NINO3.4 region



FARM INPUTS

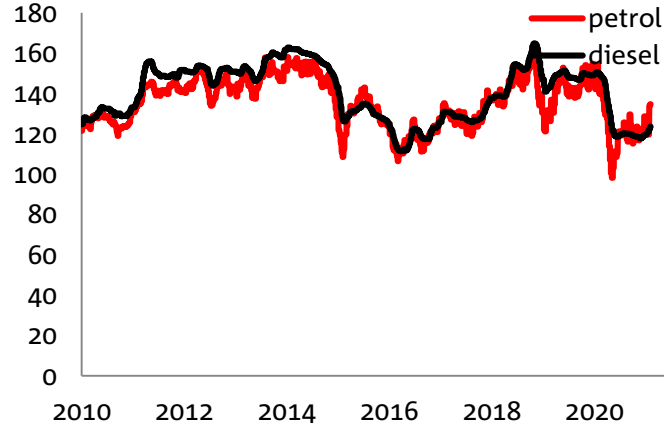
NAB FERTILISER INDEX

AUD index



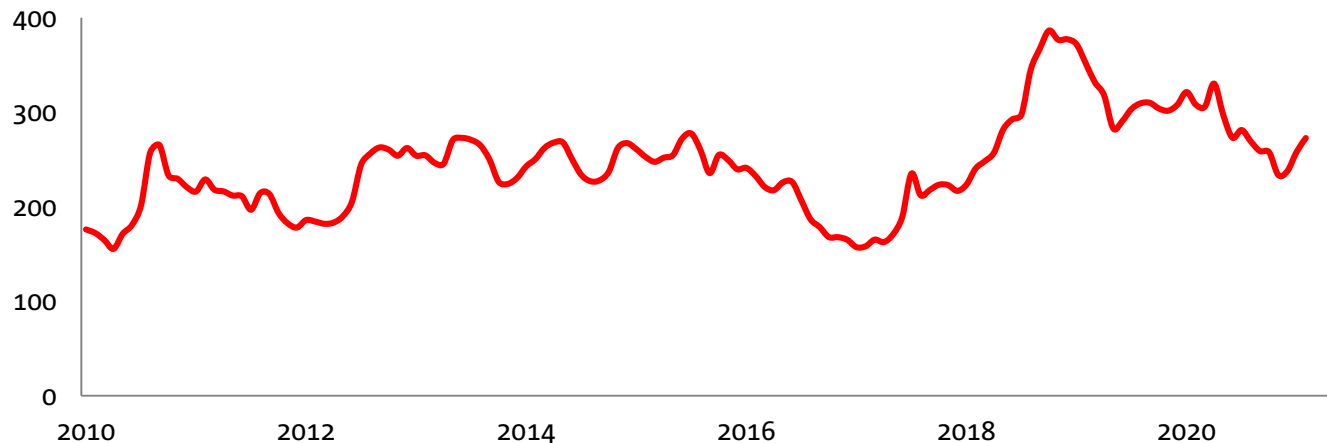
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices seen some uptick in the new year, higher AUD notwithstanding.

Our fertiliser index saw big declines from late 2018 to mid-2020, but the trajectory since has been anything but. In January alone our fertiliser index rose 8.8%. While there has been considerable volatility in fertiliser prices of late, producers should perhaps be mindful of upside risk, particularly given the rally in natural gas prices recently.

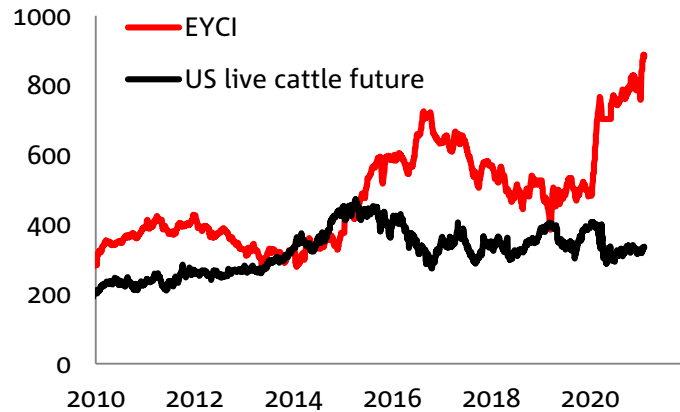
Fuel prices have moved upwards recently (although more so for petrol than diesel), following a period of fairly low prices throughout 2020. Global oil prices have essentially recovered to pre-pandemic levels, presaging upward pressure at the bowser. Pre-pandemic, national average diesel prices were closer to 150c/l, compared to around 120c/l for much of 2020.

NAB's feedgrain price index has shown some signs of life in 2021, following a downward trend in 2020. With Australian grain prices now comparable to world benchmarks, and higher global grain prices offsetting the rise in the AUD, it is likely that feed prices have reached their low point. That said, with good domestic supplies, we do not see major upside for prices.

LIVESTOCK

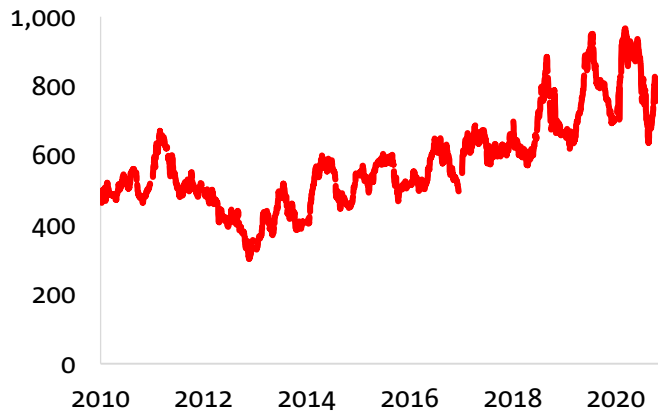
CATTLE

AUc/kg



LAMB

ESTLI, AUc/kg

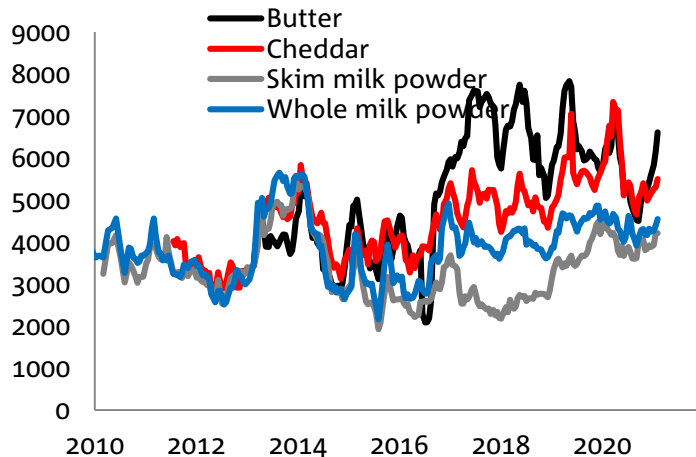


Lamb prices moved out of sync with their usual seasonal patterns last year, rising instead of falling during the spring flush. The new year has brought further gains, with trade lamb above year-ago levels. That, said we see lamb values as essentially maxed out at 2020's peak. While that may see some upside in coming months, spring flush price falls are likely to return this year after an absence in 2020.

Wool prices have recovered somewhat from their lows in September last year, but recovery has been much more pronounced for finer wools, generally below 20 micron and below. While the Australian wool industry has made great strides in diversification, the extent to which office workers return post-pandemic – and the attire they wear – will be of great interest to the sector.

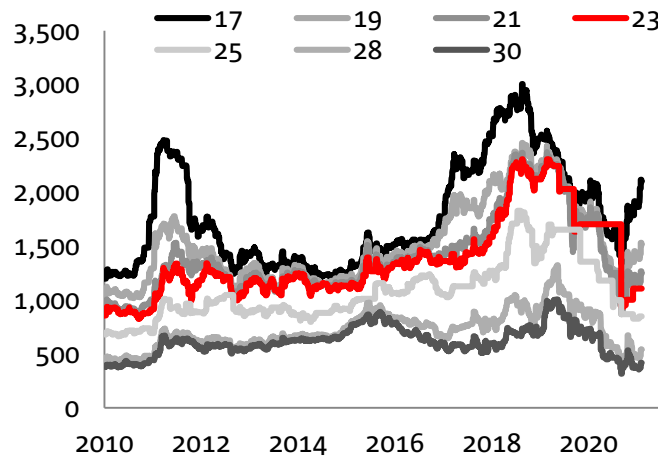
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Global Dairy Trade auction results have moved higher in USD terms over the last six auctions in a row. NAB's dairy export price indicator moved 4.9% higher in AUD terms in January – encouraging news for the sector.

For more information on cattle, see our more detailed forecasts on page 4.

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

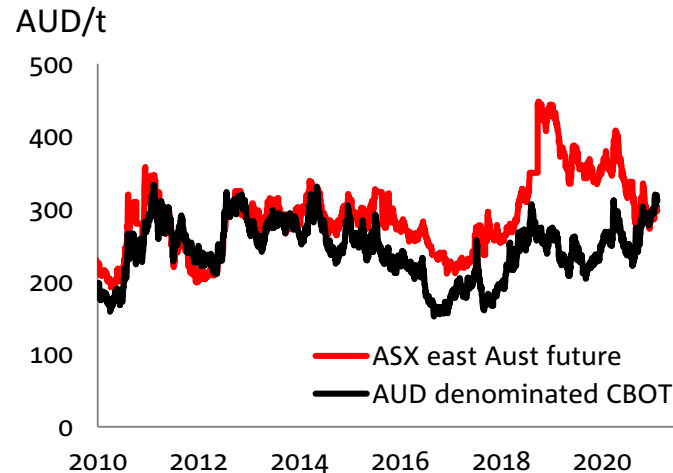
WINTER CROPS

Harvest is now done and dusted and has delivered excellent results. In the east, Graincorp brought in 12.8mmt of grain (8.4mmt NSW, 3.5mmt VIC and 1mmt QLD) as of 11 January, while in the west CBH brought in 14.2mmt as of 18 December. While a big crop was largely expected in eastern states due to the wetter than average conditions, the strong numbers in Western Australia came despite fairly challenging seasonal conditions.

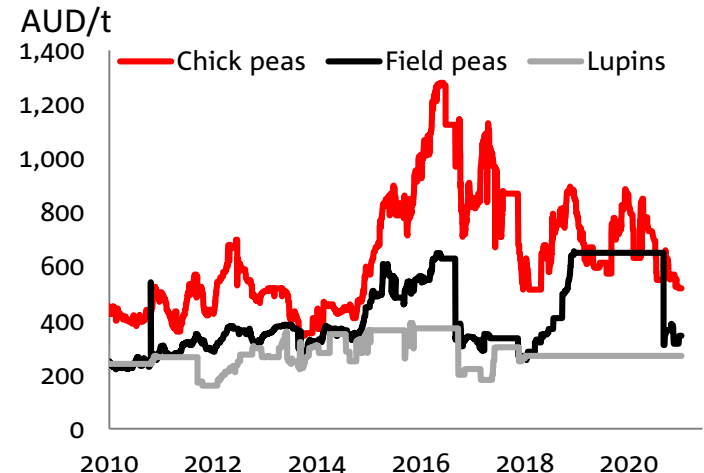
ABARES' December update had wheat pegged at a monster 31.2mmt, essentially double 2019-20's crop and just shy of the 2016-17 record. Meanwhile ABARES had barley at just shy of 12mmt.

While we went into some detail around our forecasts for wheat prices on page 4, barley will be closely watched in the coming months. With a huge crop to move and China imposing 80% tariffs, Australian growers have been fortunate to enjoy strong Saudi buying activity. While this is only feed barley, the global grain price rally has allowed growers to enjoy reasonable prices.

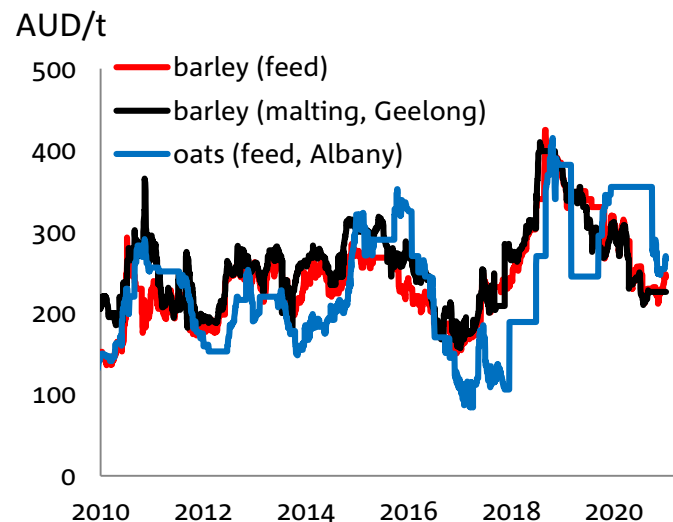
WHEAT



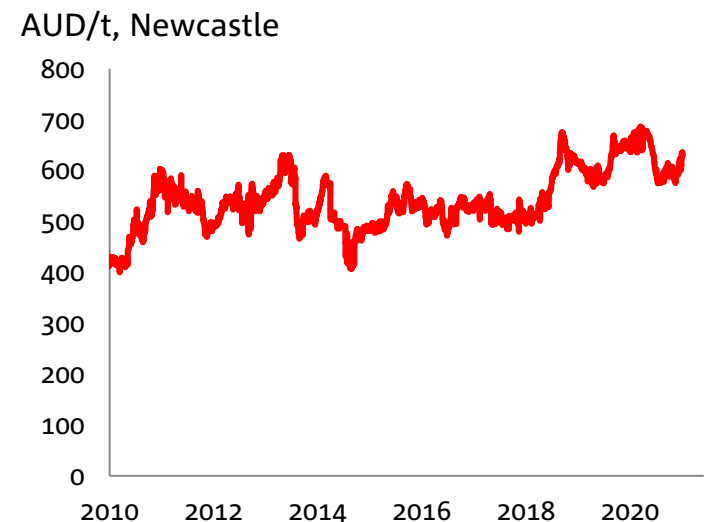
PULSES



COARSE GRAINS



CANOLA

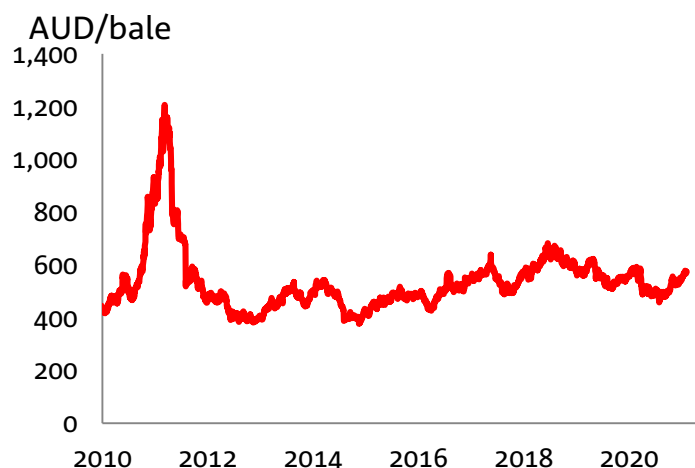


Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

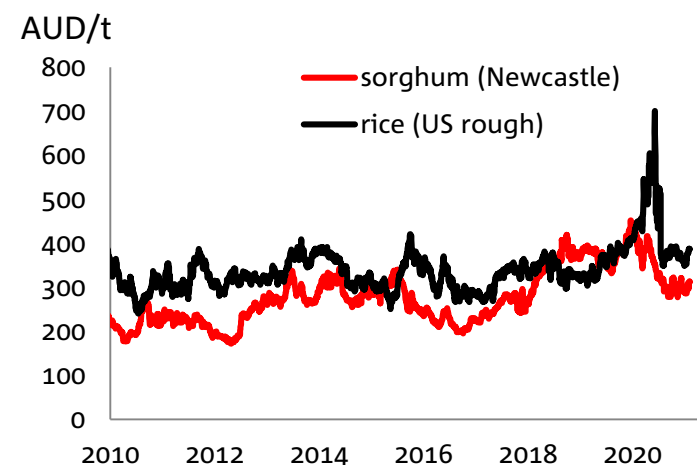
SUMMER CROPS, SUGAR AND HORTICULTURE

Cotton prices have risen gradually in AUD terms recently, although price is arguably not the constraint for Australian cotton. Two major areas will be a focus for 2021. Firstly, water availability is always a key determinant of plantings (although dryland cotton is back in the ground this year), and total water in storage in the Murray Darling basin is 53%, and just 27% in the northern basin. Growers will be hoping for further inflows this year. Secondly, with a commodity so dependent on the Chinese market, growers will be closely watching any formal or informal restrictions on Australian cotton.

COTTON

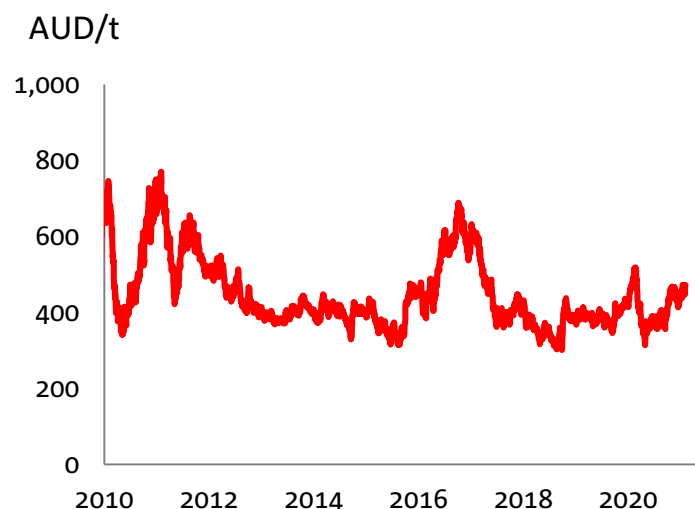


SORGHUM AND RICE

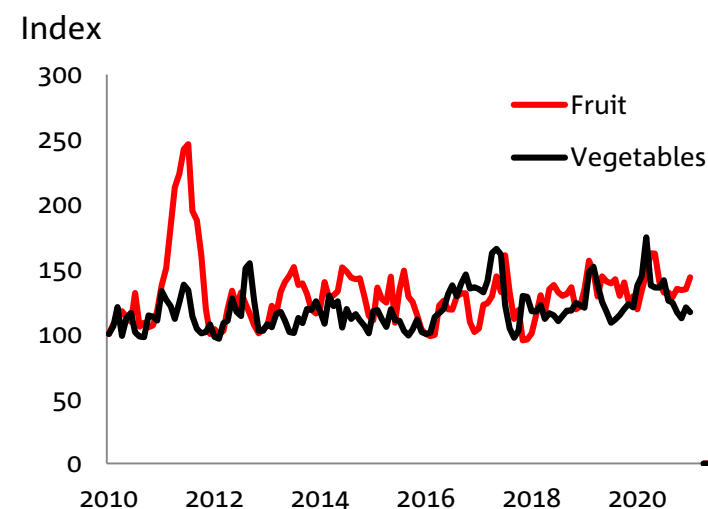


Fruit and vegetable prices were – as is often the case – mixed in wholesale market data. Fruit prices gained 6.6% while vegetables were off 3.0% in January. A lack of labour availability continues to be the major concern for industry, with some producers unable to harvest crops. It is unlikely that quarantine will end until later this year, although special arrangements have been made for some farm workers.

SUGAR

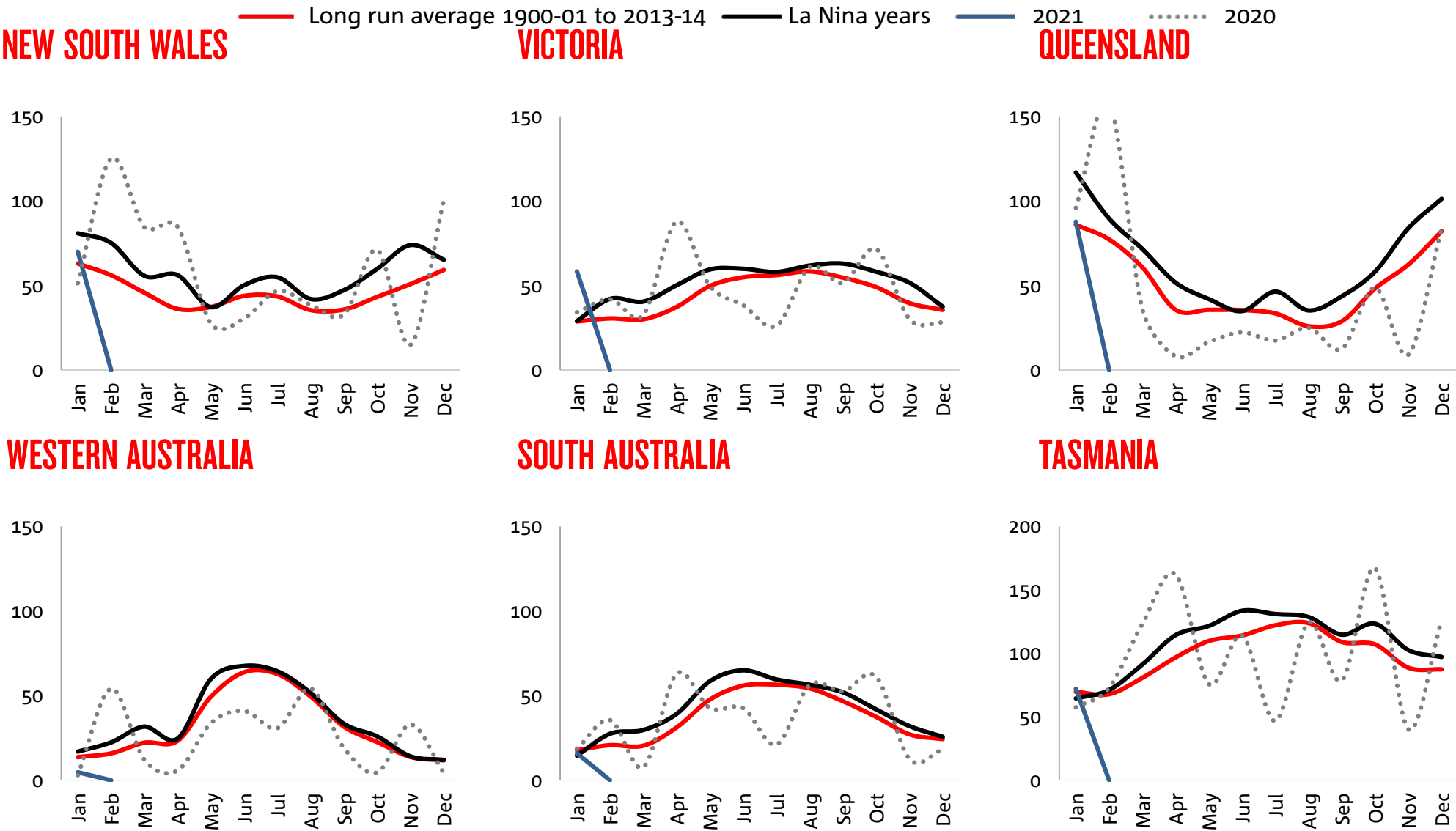


FRUIT AND VEGETABLES



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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