

# RURAL COMMODITIES WRAP

MARCH 2021

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# KEY POINTS

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With a record-breaking 2020-21 harvest done and dusted and winter crop planting approaching, attention is turning from the generally strong season we've just had to what the coming season will bring. Summer was generally wetter and cooler than average (with the notable exception of Queensland), giving southern Australian producers a much needed summer respite and generally good soil moisture levels.

The situation in Queensland remains much more complex. La Nina failed to deliver in many parts of the state and with the wet season drawing to a close, there are concerns that many producers have missed out. While rain over the last week has filled in many gaps and three-month rainfall outlook for the state is wetter than average, challenges for the Queensland cattle industry could continue well into the year. Cattle prices remain near record levels, with EYCI around 860c/kg. If conditions remain dry in much of Queensland cattle country, there are substantial downside risks if southern Australia becomes drier.

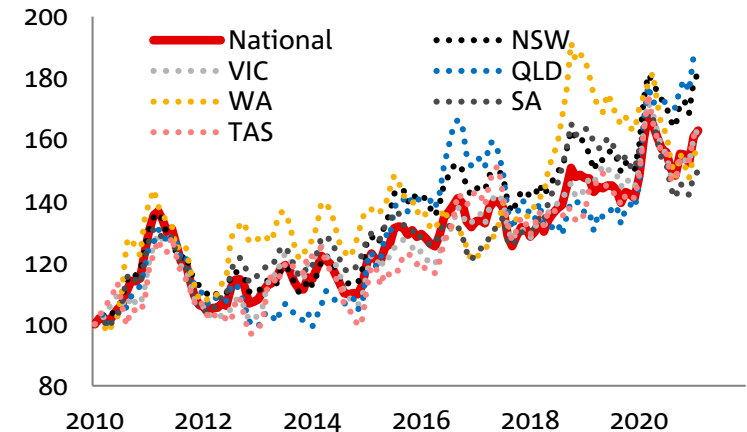
Commodity prices have been generally very encouraging, particularly across the global grains complex. While the Australian dollar's appreciation has cut into local prices to some extent, Australian grain is now well priced in key southeast Asian export markets due to a steep rise in global shipping costs – a stark reversal from just two seasons ago. We see the AUD reaching 83 US cents by the end of this year.

Fibres prices have seen more upside recently than we expected. The next page will detail some key metrics around clothing demand and potential impacts for industry.

Overall, the NAB Rural Commodities Index rose 2.6% in February. The index is now 1.8% higher than the same time last year.

## NAB RURAL COMMODITIES INDEX

National and by state



## MONTHLY COMMODITY PRICE CHANGES

	Dec 20	Jan 21	Feb 21
Wheat	▼ 4.5%	▲ 4.0%	▲ 0.2%
Beef	▼ 3.5%	▲ 5.0%	▲ 0.5%
Dairy	▼ 0.9%	▲ 8.7%	▲ 5.0%
Lamb	▼ 0.4%	▲ 13.1%	▲ 1.7%
Wool	▼ 0.7%	▲ 2.5%	▲ 8.8%
Sugar	▼ 5.0%	▲ 5.9%	▲ 6.1%
Cotton	▲ 0.9%	▲ 4.8%	▲ 6.0%

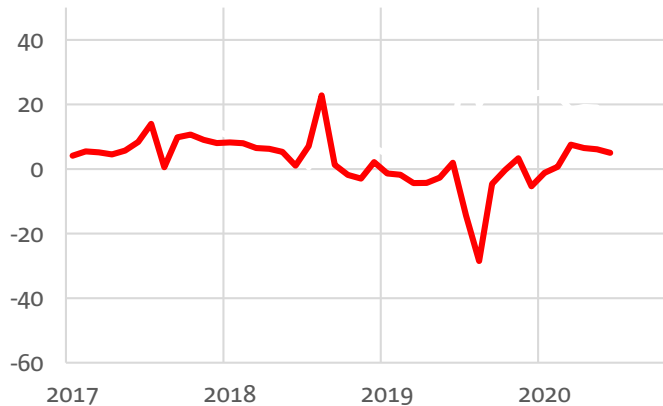
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



# WHAT DOES A RECOVERY IN CLOTHING SALES MEAN FOR FIBRES?

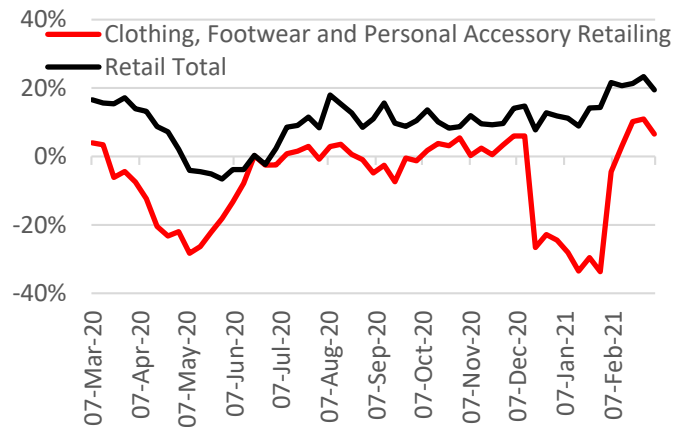
## CLOTHING AND FOOTWEAR SALES

NAB cashless measure, y/y % change



## NAB MERCHANT PAYMENT INFLOWS

y/y% change, 6 week rolling ave, weekly



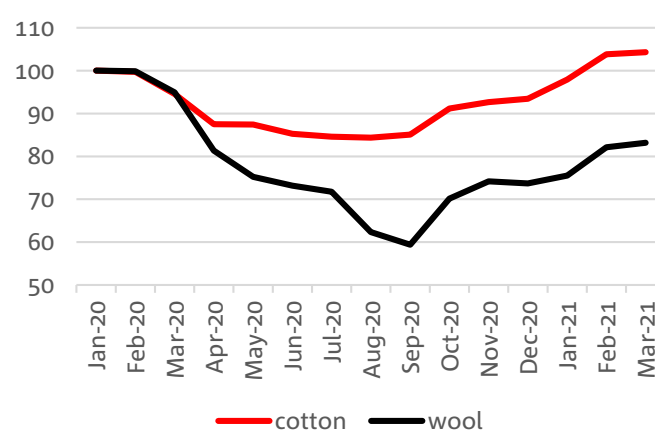
## CASHLESS RETAIL SALES BY SECTOR

NAB cashless measure, y/y % change



## COTTON AND WOOL

AUD index, Jan 2020 = 100



Since the onset of the coronavirus pandemic, we have been quite circumspect on the prospects for fibres, reflecting lockdowns and working from home reducing demand for business attire, combined with consumer hesitancy. In addition, Australia's dependence on China as the major buyer for Australian wool and cotton heightens the consequences of any trade risks.

There are two concerns concerning fibres demand: the cyclical (recessions, lockdowns); and structural (potential ongoing work from home). While clothing sales were very weak for much of 2020, there are encouraging signs that clothing spending is improving somewhat. Internationally, extensive US government stimulus should put upward pressure on consumer spending, as should the rollout of vaccines.

The structural question of working from home and indeed what office attire looks like for those who return, remains unresolved. While the author of this report remains slovenly, many are returning to offices, at least part time.

Prices for cotton and wool have been increasing for the last six months. While the rising AUD will blunt this somewhat, this is encouraging news for fibre producers.

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

# SEASONAL CONDITIONS

The promise of La Nina delivered in spades for New South Wales especially, but also for Victoria, South Australia and Tasmania. But big chunks of Queensland largely missed out on the big summer rainfall outlook. That said, rain in the last week has filled in many gaps in central Queensland, delivering renewed optimism for some producers.

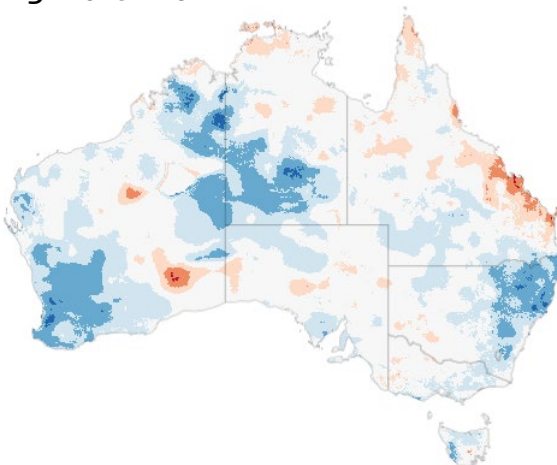
Subsoil moisture conditions look good across much of the Western Australian wheatbelt and New South Wales, as well as parts of Victoria, South Australia and Tasmania. Queensland remains much more mixed.

The Bureau's latest update suggests that Queensland may enjoy an above average tail to the wet season, while southern states look on track for good planting conditions.

The latest El Nino outlook from the Bureau of Meteorology points to an end for La Nina (as is normal in autumn), and a return to more neutral conditions over winter.

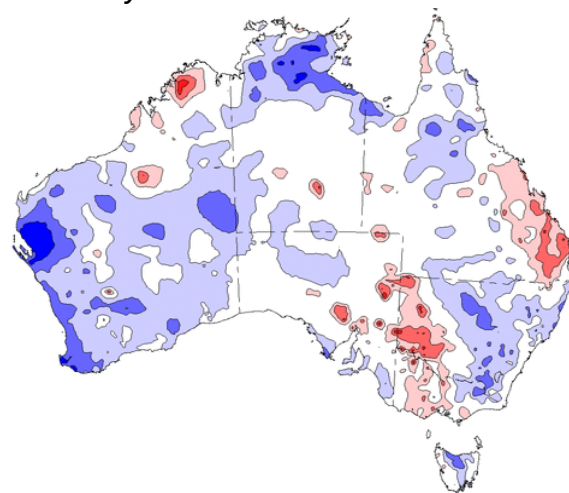
## ROOT ZONE SOIL MOISTURE

15 March 2021



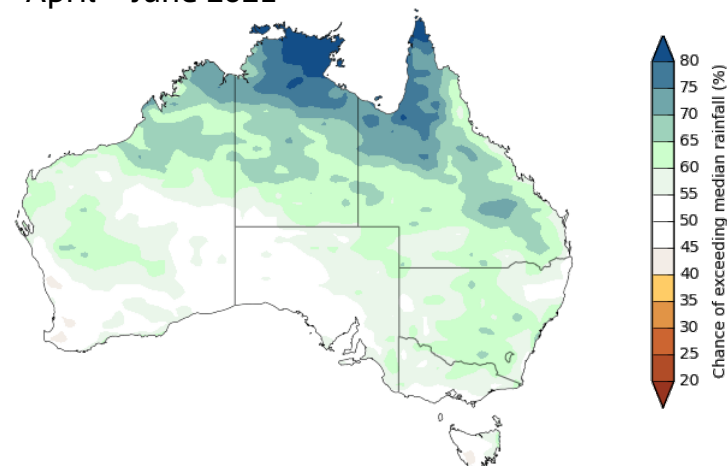
## RAINFALL DECILES

February 2021



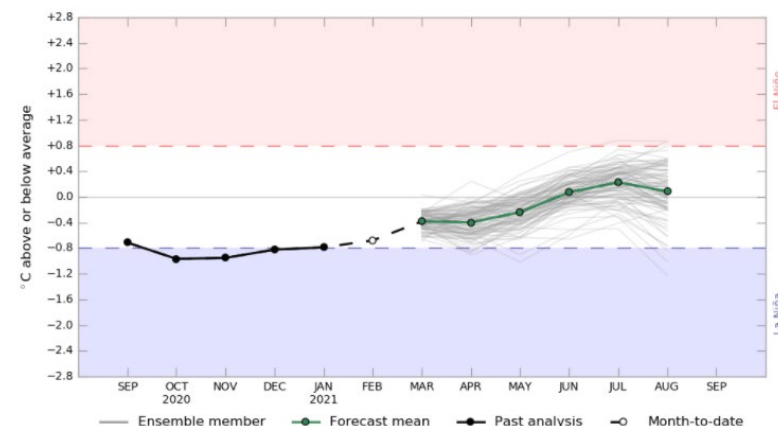
## BOM RAINFALL OUTLOOK

April – June 2021



## BOM ENSO TRACKER

Monthly SST anomaly 2 March update

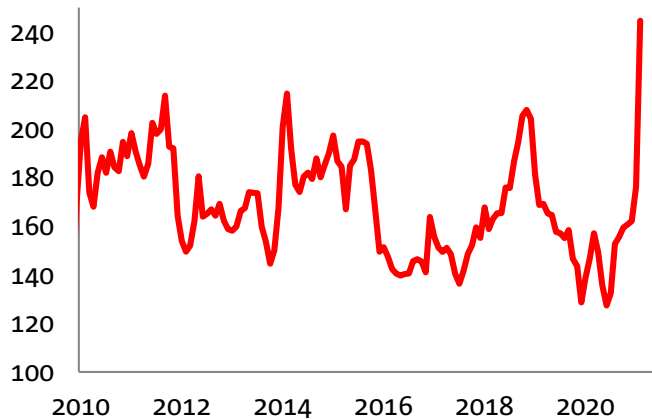


Source: Bureau of Meteorology

# FARM INPUTS

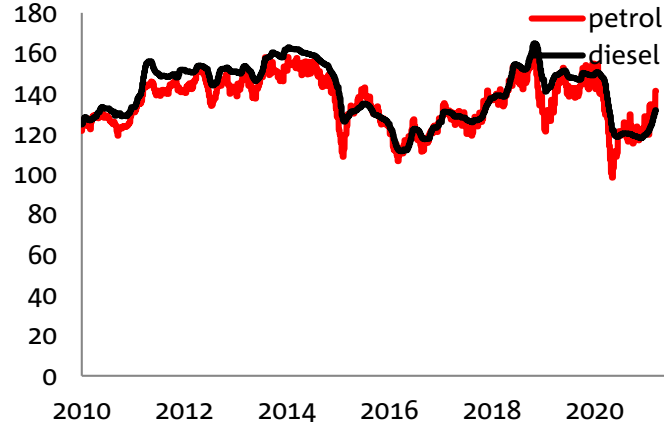
## NAB FERTILISER INDEX

AUD index



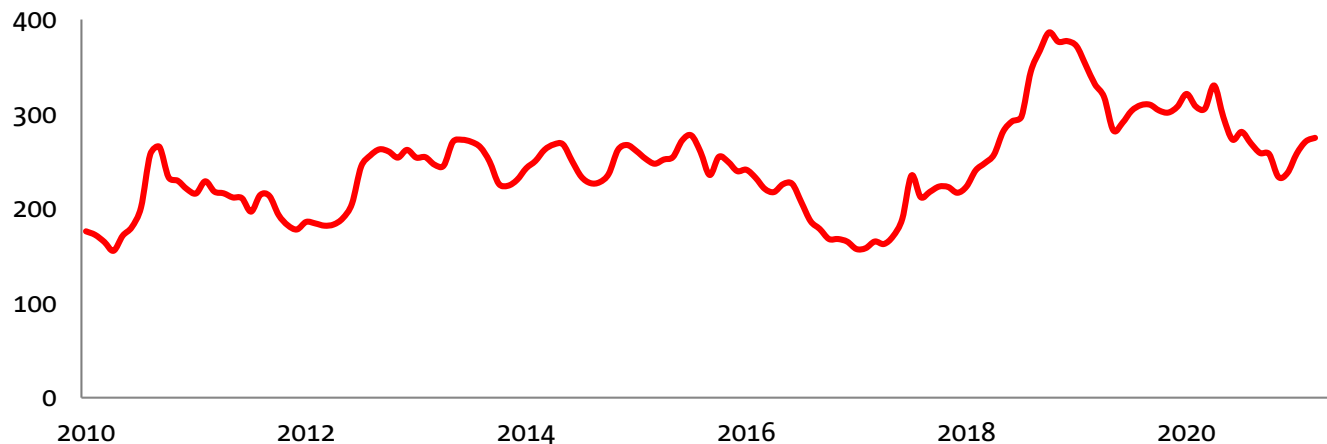
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Our fertiliser index soared nearly 39% m/m in February, although this is partly a technical function of the US natural gas input into the index. US gas prices surged during extreme weather, particularly in Texas, but have normalised since. Concerningly though, both DAP and urea continue to rally. USD denominated DAP is 91% higher than a year ago and urea is 53% higher. This will translate to higher fertiliser costs domestically.

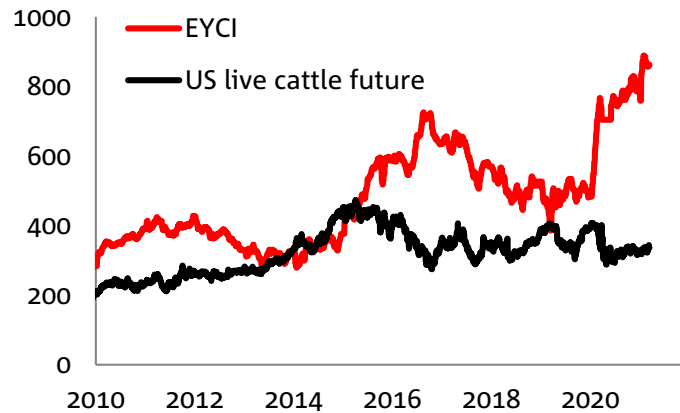
Fuel prices have continued to rise this year following a period of fairly low prices throughout 2020. The pandemic saw supply turned off and investment in new capacity plunge, which has set global oil markets up for upside risk. While Brent fell last week on renewed global COVID risks, domestic diesel is starting to tick up, now over 130c, having hovered in the 120c/l range for much of 2020. Further upside in coming months is likely.

NAB's feedgrain price index was up 5.0% in February but just 1.4% so far for March. With basis long gone and domestic supplies plentiful, global price trends and the AUD will be key drivers of the index for the remainder of 2021. Based on our forecasts. There is unlikely to be major upside from here.

# LIVESTOCK

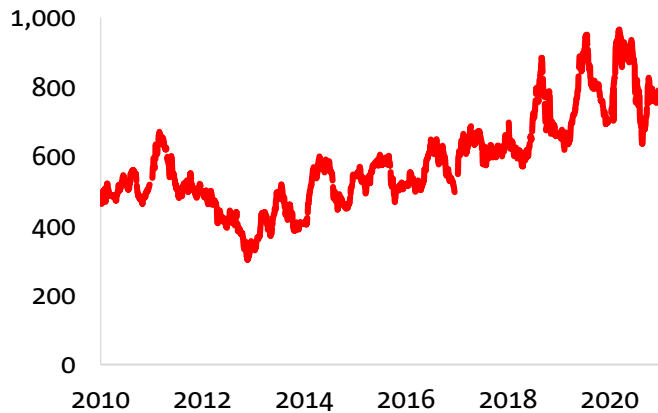
## CATTLE

AUc/kg



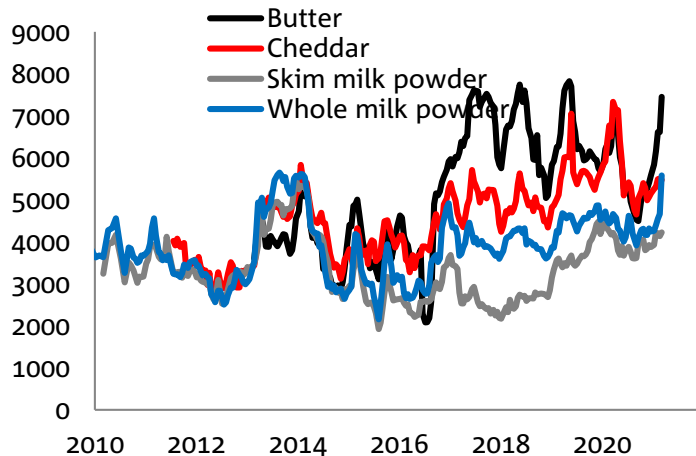
## LAMB

ESTLI, AUc/kg



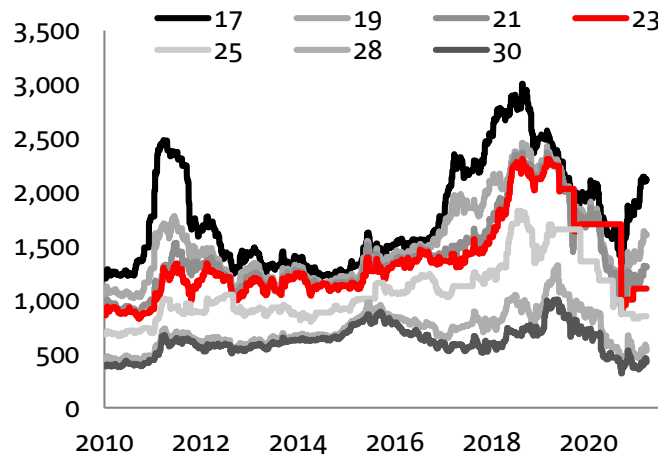
## GDT AUCTION RESULTS

AUD/tonne



## WOOL

Southern region, by micron, AUc/kg



Domestic cattle markets remain resilient and frankly well beyond fundamentals. Restocker interest remains the key driver, with EYCI around the 860c/kg mark, not far below record levels. With the Queensland wet season having disappointed in many areas, southern regions are in the drivers seat. If restocker activity slows due to drier weather or a reassessment of future prices, there are some real downside risks.

Lamb prices have eased a little recently, but remain at very juicy levels for producers. That said, we see lamb values as essentially maxed out at 2020's peak. While there maybe some seasonal upside coming into late autumn, these are unlikely to be held into spring unless restocking continues.

Wool prices continue to recover, although most of the price gains have been sub-20 micron. While it is encouraging to see a recovery in consumer clothing spending, we remain a little cautious about big price upside for wool, particularly with the appreciating AUD.

Global Dairy Trade auction results have been on an absolute tear recently, particularly for butter and whole milk powder. Our export indicator rose 5.0% last month. This is encouraging news for opening prices.

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

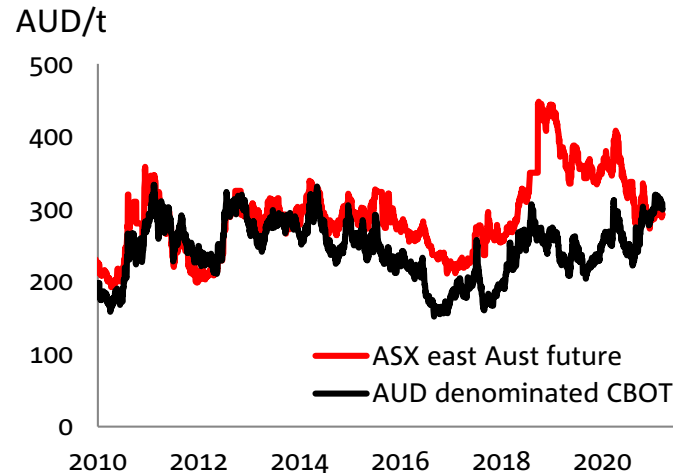
# WINTER CROPS

With the traditional start of planting just a month away, soil moisture levels are looking good across much of the south-east and south-west of the country, although Queensland looks a little more mixed. The seasonal outlook is for above average planting rains, which if transpires, should ensure a good start for the crop.

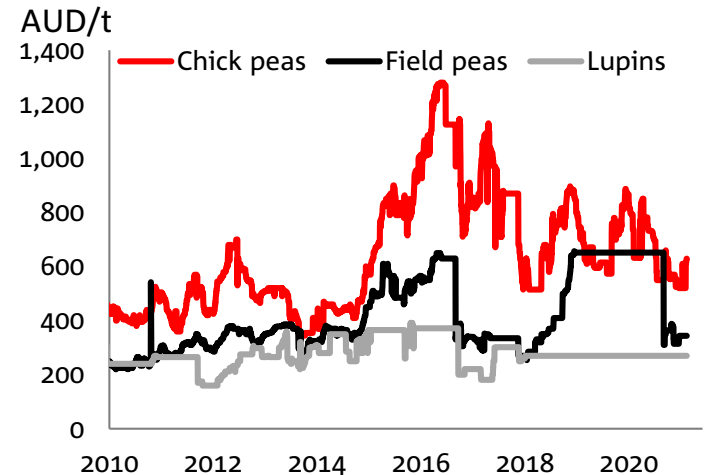
ABARES' February crop update had wheat pegged at over 33mmt, more than double 2019-20's crop and breaking the 2016-17 record.

Prices continue to perform, with Australian grain well priced into south-east Asia. Global shipping prices have shot up in response to the pandemic, which has made Black Sea grain more expensive. This suggests that the big crop will largely be moved at good prices. We see Australian wheat in the low \$300s range over coming months.

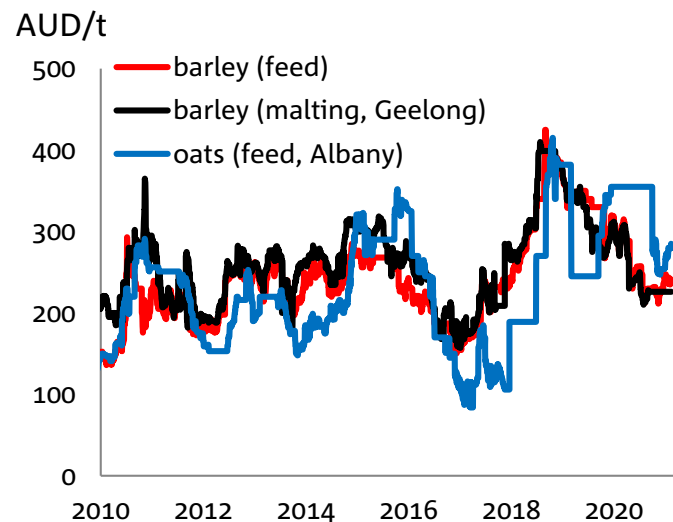
## WHEAT



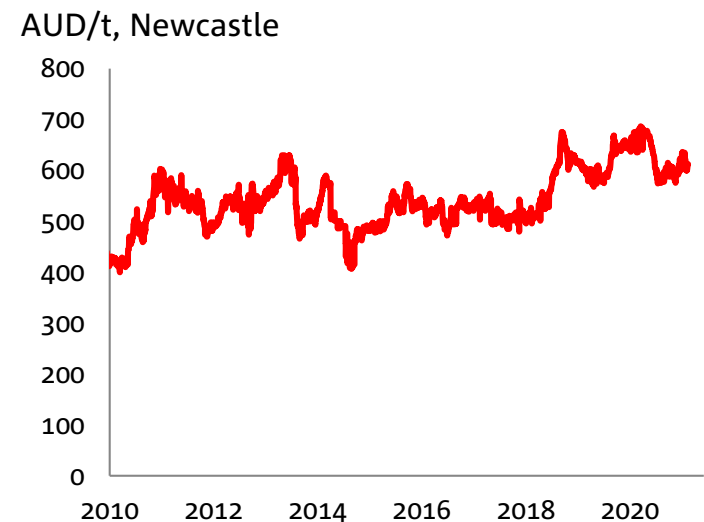
## PULSES



## COARSE GRAINS



## CANOLA



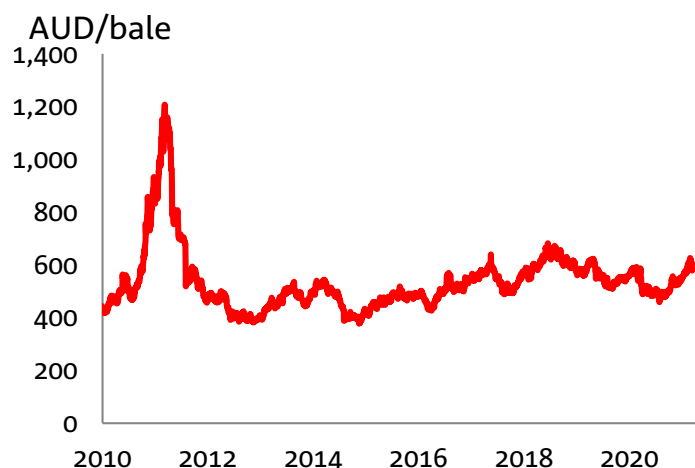
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

# SUMMER CROPS, SUGAR AND HORTICULTURE

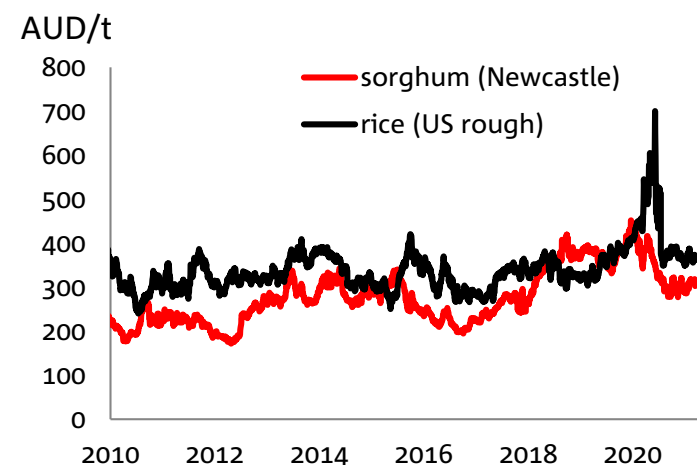
Cotton prices have continued their gains, although the major constraint for growers remains water allocation. That said, plenty of NSW dryland cotton is in the ground this season. Growers should be encouraged at the trajectory, although water allocations for the coming season will be key.

Wholesale fruit and vegetable prices have diverged somewhat of late. Fruit prices gained 3.5% while vegetables were off another 8.4% in February. A lack of labour availability continues to be the major concern for industry, with some producers unable to harvest crops over summer. It is unlikely that quarantine will end until later this year, although special arrangements have been made for some farm workers. Slow vaccine rollout remains a concern.

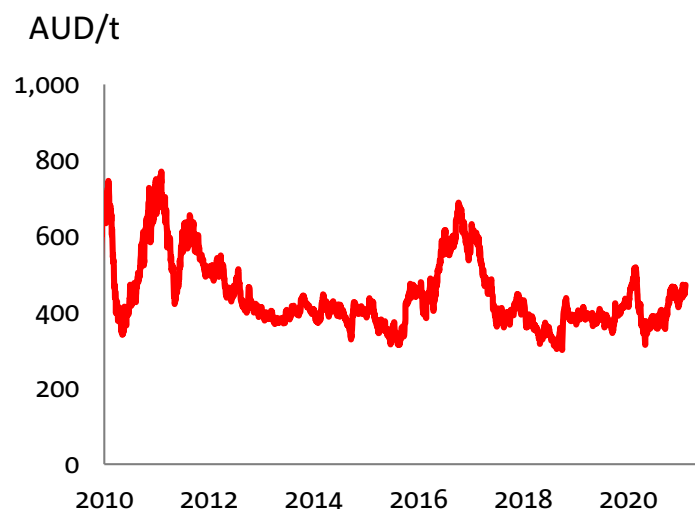
## COTTON



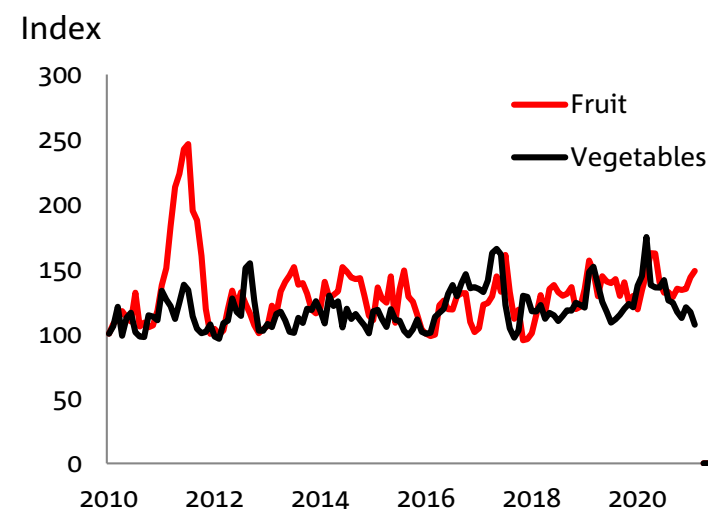
## SORGHUM AND RICE



## SUGAR

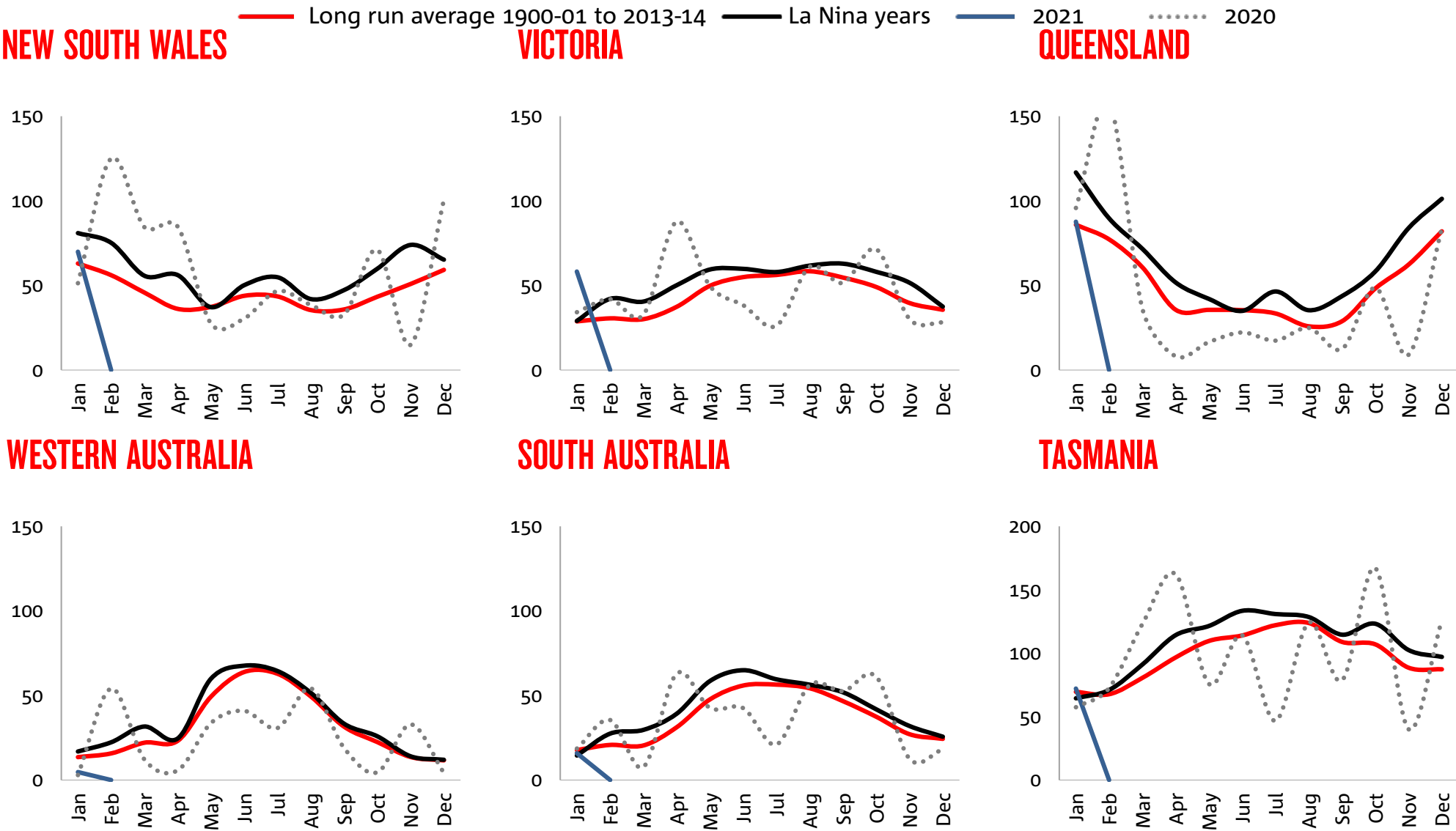


## FRUIT AND VEGETABLES



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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