

RURAL COMMODITIES WRAP

JUNE 2021

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KEY POINTS

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With half the year gone, 2021 is shaping up as another very strong year for Australian agriculture. The combination of good commodity prices and strong seasonal conditions continues across many parts of the country, following an excellent 2020. Cattle prices remain close to record highs and domestic grain prices have now increased in response to a global rally. Australian grain remains competitively priced into South-East Asia, and with plenty of old season crop remaining, opportunities abound.

ABARES' latest estimates for the 2021-22 winter cropping season point to well above average crop, driven partly by planting area (the area planted to wheat is forecast to be the highest in a decade) but most importantly by improved yields driven by good subsoil moisture. ABARES sees a very strong 27.8mmt of wheat this season. Last month, we flagged dryness concerns in south-east Australia. We are now substantially less concerned about the Riverina, but western Victoria and south-east SA remains a little dry. Much of Queensland cattle country is likewise dry. The Bureau of Meteorology's three month outlook points to wetter than average conditions across the country over winter and into spring.

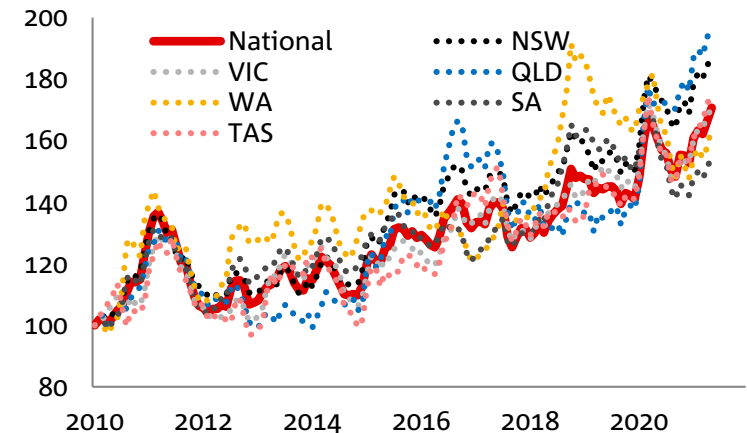
Dairy opening prices have been released (and in the case of Saputo and Fonterra, revised) and represent a strong result for producers. For more detail, see our in focus section on page three.

Overall, the NAB Rural Commodities Index was up 2.5% month-on-month in May. The index is now 6.2% above the same time in 2020.

Australia and the UK have confirmed the broad terms for a free trade agreement. The agreement is yet to be ratified, but includes substantially improved market access for Australian agricultural products.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	March	April	May
Wheat	▼ 3.3%	▲ 1.9%	▲ 5.1%
Beef	▼ 0.5%	▲ 1.9%	▼ 0.2%
Dairy	▲ 6.7%	▲ 1.8%	▼ 2.7%
Lamb	▼ 2.4%	▲ 0.9%	▼ 0.3%
Wool	▲ 0.2%	▲ 0.7%	▲ 0.8%
Sugar	▼ 6.2%	▲ 2.2%	▲ 5.6%
Cotton	▼ 0.8%	▼ 1.0%	▼ 0.3%

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



IN FOCUS: DAIRY OPENING PRICES

Opening prices have been announced, and in the case of Fonterra Australia and Saputo, already stepped up. Saputo opened at \$6.65/kgms and stepped up to \$6.85/ three days later. Fonterra Australia opened at \$6.55 but has likewise stepped up to \$6.85 to stay competitive.

Smaller processors are offering comparable opening prices. Bega opened at \$6.80 (southern VIC) and \$7 (northern VIC), while Bulla is in the \$6.40-6.90 range. ACM is at \$6.85 but offering northern suppliers \$7.00.

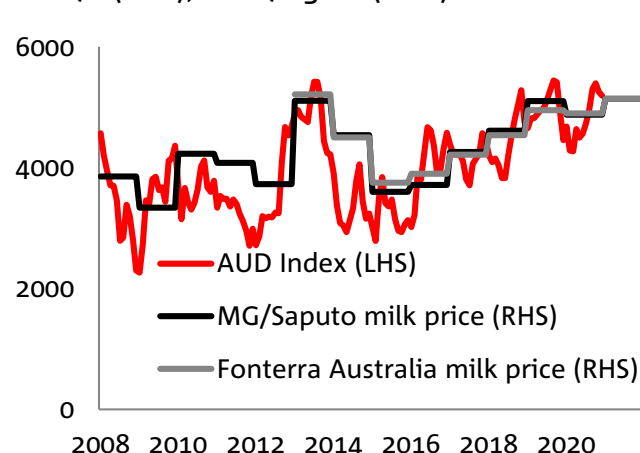
Global Dairy Trade auction results have been flat to lower in USD terms since April this year, but overall producers should be pleased with the trajectory of both GDT and local indicators. Wholesale prices are now at a level in AUD terms to support farmgate prices in the high \$6 range, representing a strong return for producers.

A key pressure for the industry has been elevated feed and in northern Victoria, water costs. Both have now eased substantially over the last 18 months. While we see feed costs having essentially bottomed out, a return to 2018-19 levels is highly unlikely this year.

Milk flow has likewise stabilised. The latest ABARES forecasts put production just shy of 9 billion litres in 2021-22.

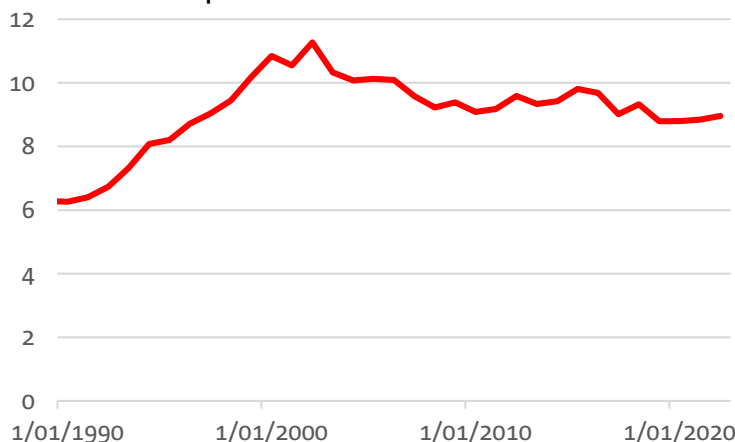
DAIRY EXPORT AND FARMGATE PRICES

AUD/t (LHS), AUD/kgms (RHS)



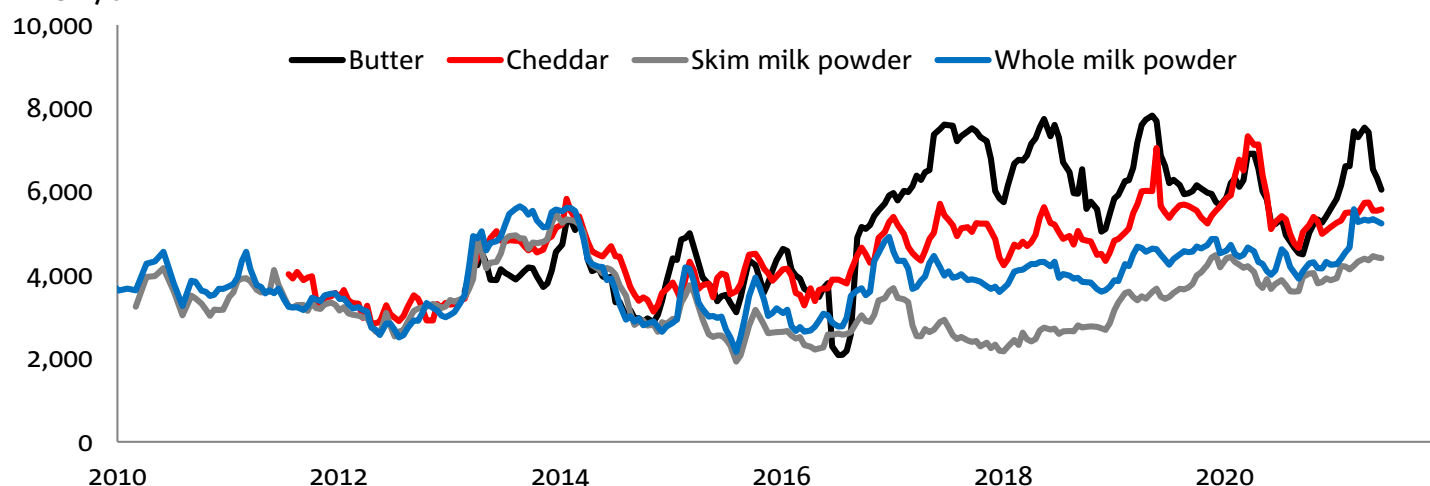
AUSTRALIAN MILK PRODUCTION

Billion litres per annum



GDT AUCTION RESULTS

AUD/t



Source: ABARES, Australian Dairy Farmer, Global Dairy Trade, Saputo, Fonterra and NAB Economics

SEASONAL CONDITIONS

Seasonal conditions are generally very good in most of New South Wales, but a little more mixed elsewhere. Victoria is wetter than average in Gippsland, about average in central Victoria and the north-east, but still a little dry in western Victoria and into south-east South Australia. The west is a little drier than average in some areas, but wetter in others and sentiment there is very strong for the season ahead.

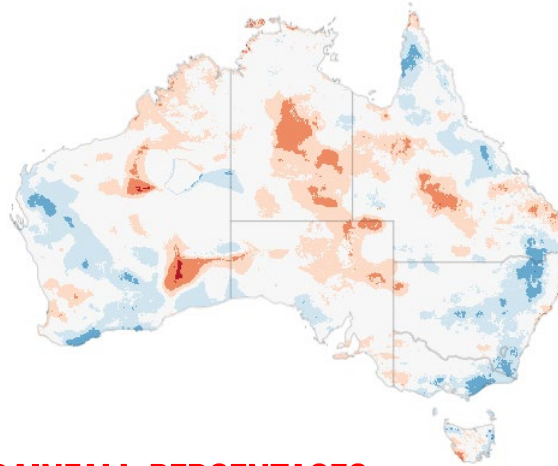
A good deal of Queensland cattle country remains drier than average, particularly in central and western areas. This will be a particular challenge in parts of Queensland that missed the best of the wet season and now may have to wait until spring to see the prospect of big rains.

The latest ENSO outlook from the Bureau of Meteorology shows neutral conditions currently, but with the model outputs tending back closer to La Niña later this year.

The three-month outlook points to generally wetter than average conditions through winter and into early spring, although more average rainfall is likely in parts of Tasmania and Western Australia.

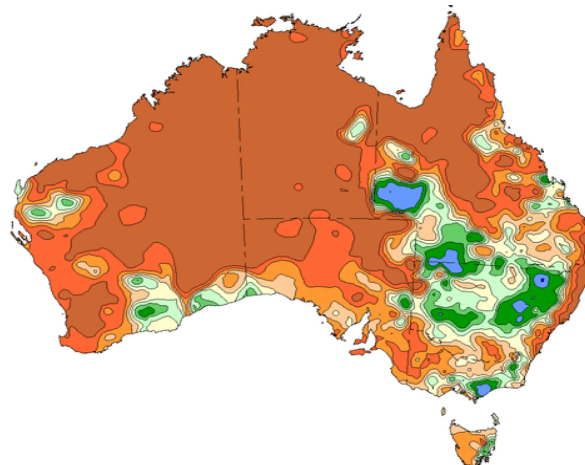
ROOT ZONE SOIL MOISTURE

17 June 2021



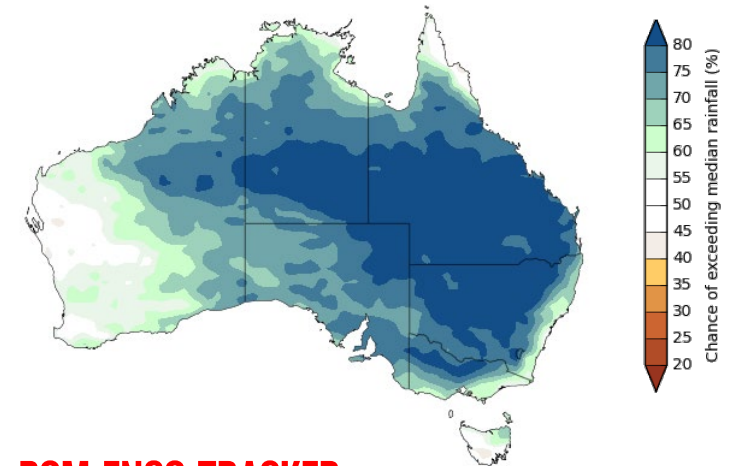
RAINFALL PERCENTAGES

April 2021 month to date



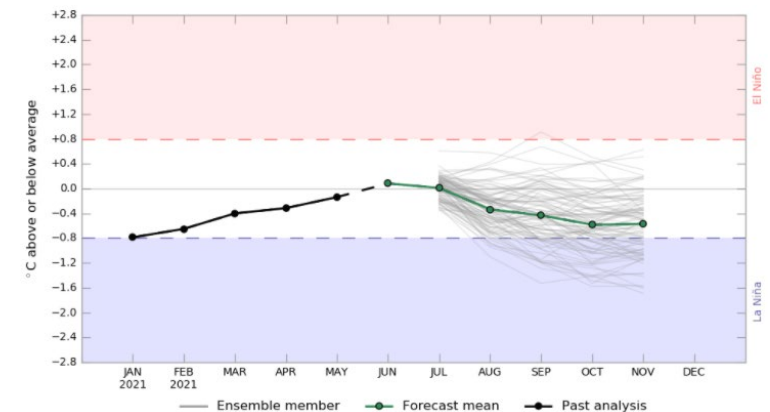
BOM RAINFALL OUTLOOK

July – September 2021



BOM ENSO TRACKER

Monthly SST anomaly 8 June update

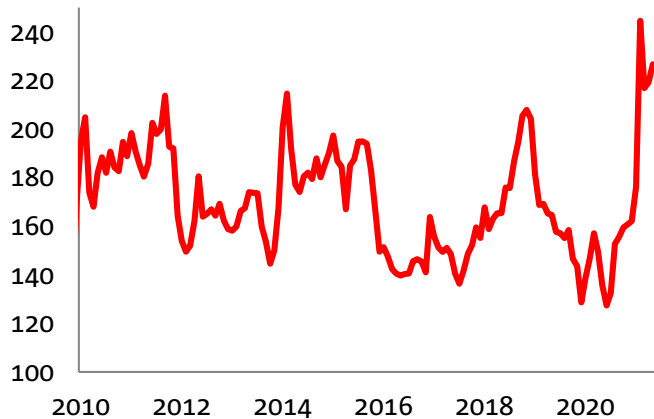


Source: Bureau of Meteorology

FARM INPUTS

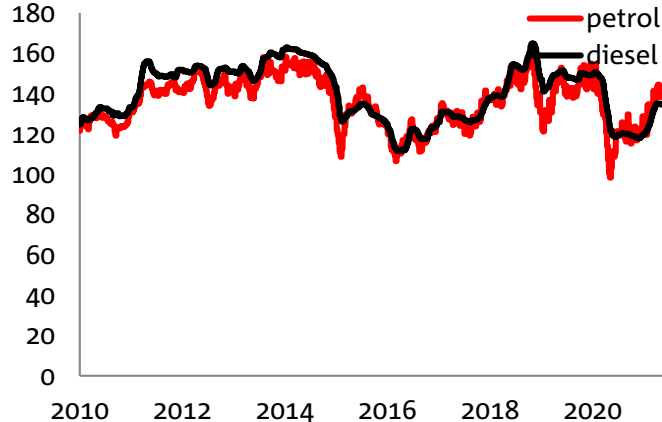
NAB FERTILISER INDEX

AUD index



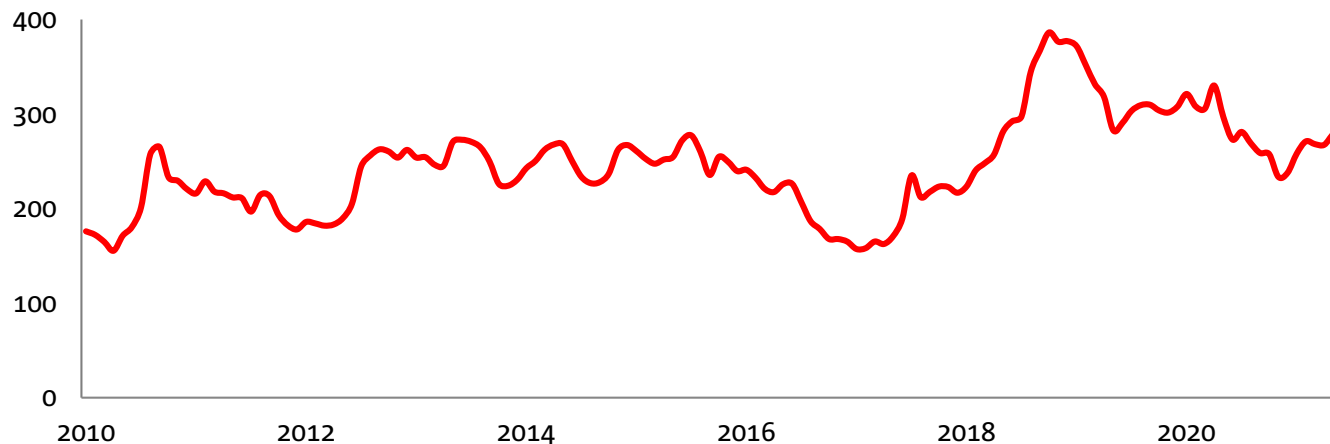
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Farm input prices have clearly seen appreciation recently, although much less so for grain. Our fertiliser index was up 3.4% in May on a monthly basis, but is an eye-watering 67.1% higher than the same time in 2020. In AUD terms, DAP is up 84.9% on a yearly basis, while urea is 47.4% higher. Fertiliser prices are likely to remain elevated throughout winter.

Fuel prices have stabilised a little in weekly national data, at least in capital cities. However, with global oil prices on the rise (and the Australian dollar having dropped a little) there is clearly upside risk. Brent cracked USD70/bbl last month and is now hovering around USD72.50.

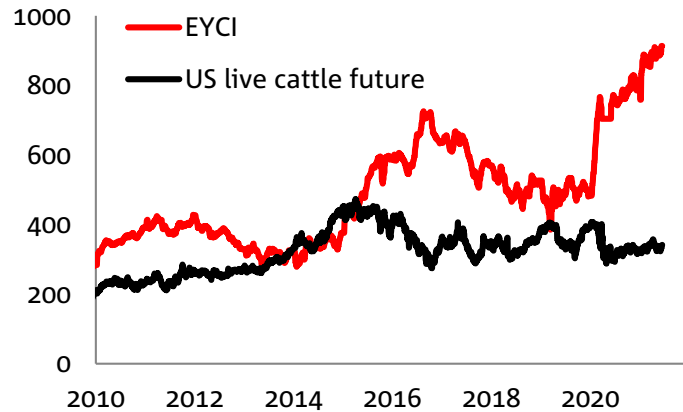
NAB's feedgrain price index looks to have finished its easing cycle and is appreciating, albeit slowly. Our index rose 1.2% last month. Global grain market dynamics are the key driver, but we do not expect major upside from here. This points to some stability in feed prices, but it is unlikely that the lows of 2016-17 will return.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

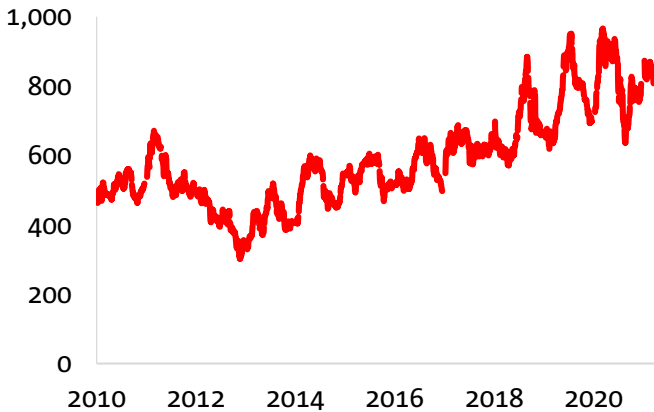
CATTLE

AUc/kg



LAMB

ESTLI, AUc/kg

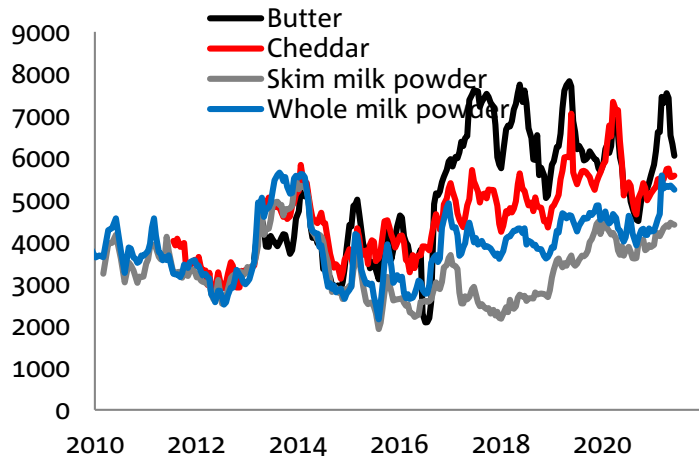


Domestic cattle prices have been fairly stable over the last couple of months, with EYCI hovering in the high 800s to low 900s range.

It remains our view that these levels are well in excess of fundamentals. Restocker interest remains the key driver of young cattle prices, with excellent NSW conditions just as much a driver as the need to restock in Queensland. If restocker activity slows due to drier weather or a reassessment of future prices, there are some real downside risks. However, the strong rainfall outlook is probably a challenge to our long-held view of downside risk for EYCI in the second half of 2021.

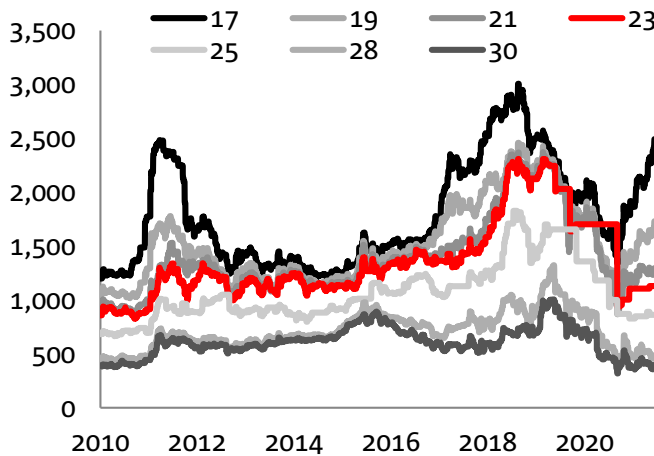
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Lamb prices have essentially remained in a 50c/kg range for the last month, below their levels over the last two years, but not by much. While prices remain very compelling for producers, we still see lamb values as essentially maxed out at 2020's peak.

Meanwhile, wool prices continue their upward trend, particularly for finer wools. EMI ended last week at 1448c/kg, a very strong result overall.

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

WINTER CROPS

Six weeks ago, we flagged that there was the potential for a somewhat mixed winter crop, with excellent conditions in New South Wales not being mirrored elsewhere. While some areas of Victoria and South Australia, along with parts of the Western Australian wheatbelt, remain drier than average, the good news is that seasonal conditions have generally improved and we are now well set up for a strong winter cropping season. The latest ABARES June release points to 27.8mmt of wheat this season – a very strong forecast for June. Area planted is a key driver for wheat, but yields are also looking good.

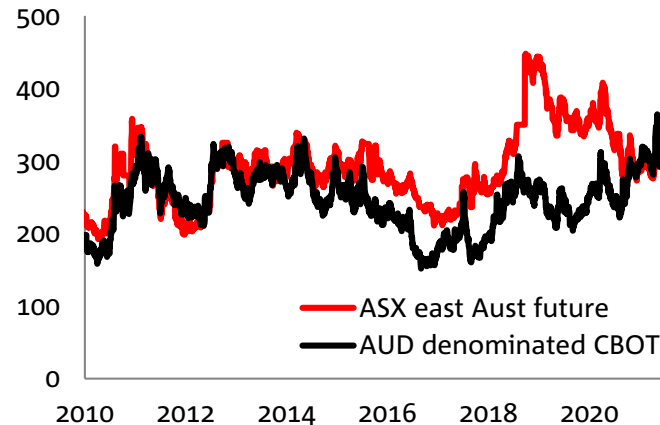
Price sentiment is likewise strong. Domestic wheat futures are back above \$300/t, reflecting strong global demand fundamentals. With Australian grain well priced into south-east Asia, export volumes are likely to remain well supported.

Canola has been an absolute stand-out, supported by a big rally in global oil seeds, while barley prices are a little weaker than growers would perhaps like.

All things considered, there is much to be positive about in Australian cropping at present.

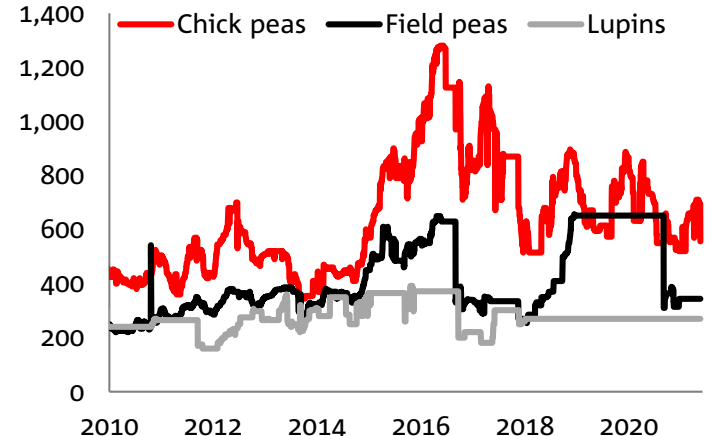
WHEAT

AUD/t



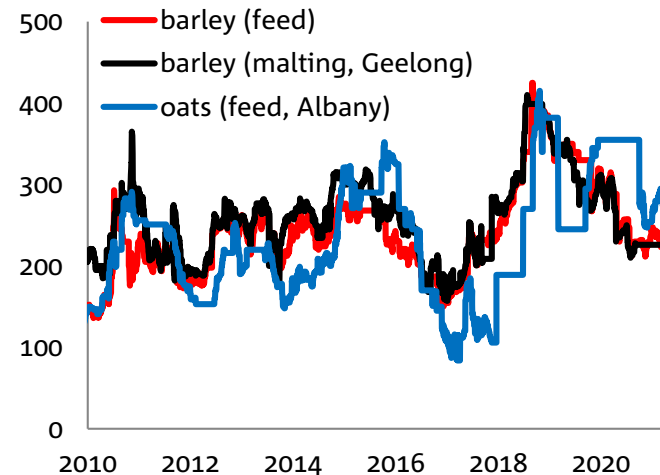
PULSES

AUD/t



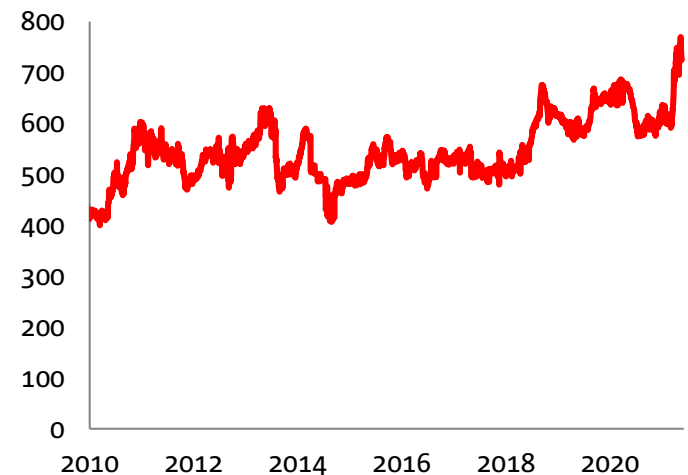
COARSE GRAINS

AUD/t



CANOLA

AUD/t, Newcastle



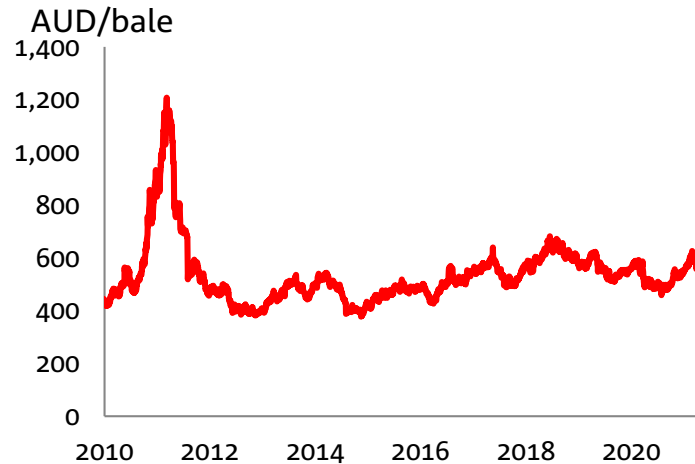
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

SUMMER CROPS, SUGAR AND HORTICULTURE

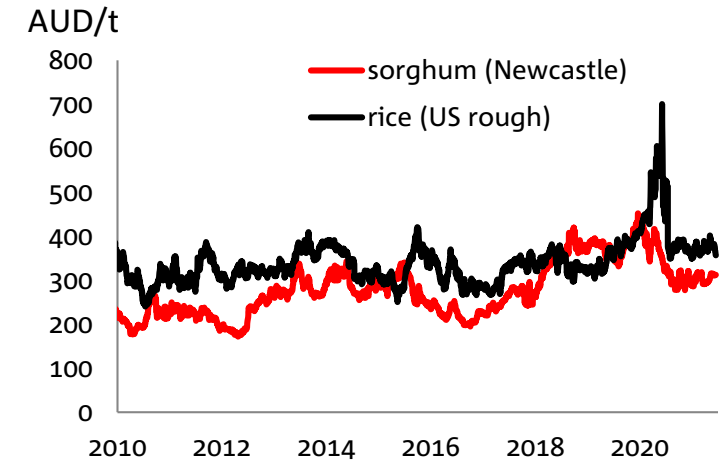
Cotton prices have enjoyed something of an upward trend recently, but the major good news is filling storages and better allocations. ABARES' June estimates put cotton area up 49% in 2021-22 to 443,000ha, with lint production up 55.7% to 946kt.

Wholesale fruit and vegetable prices both gained in May – up 4.5% and 23.7% respectively. Tomatoes were a major driver of the vegetable price gains. As has been the case since the pandemic began, labour availability will remain a challenge until normal travel returns (forecast by the Commonwealth at mid-2022).

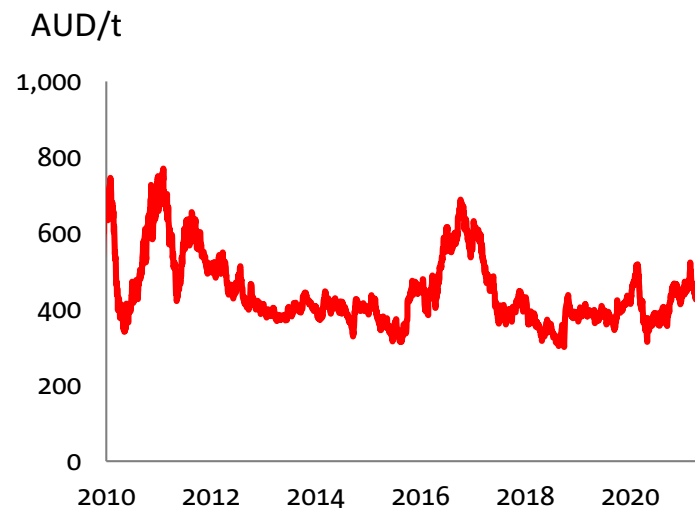
COTTON



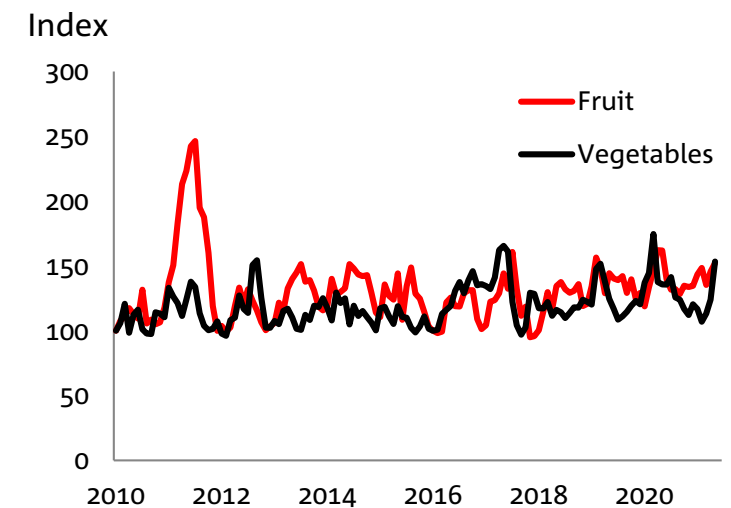
SORGHUM AND RICE



SUGAR

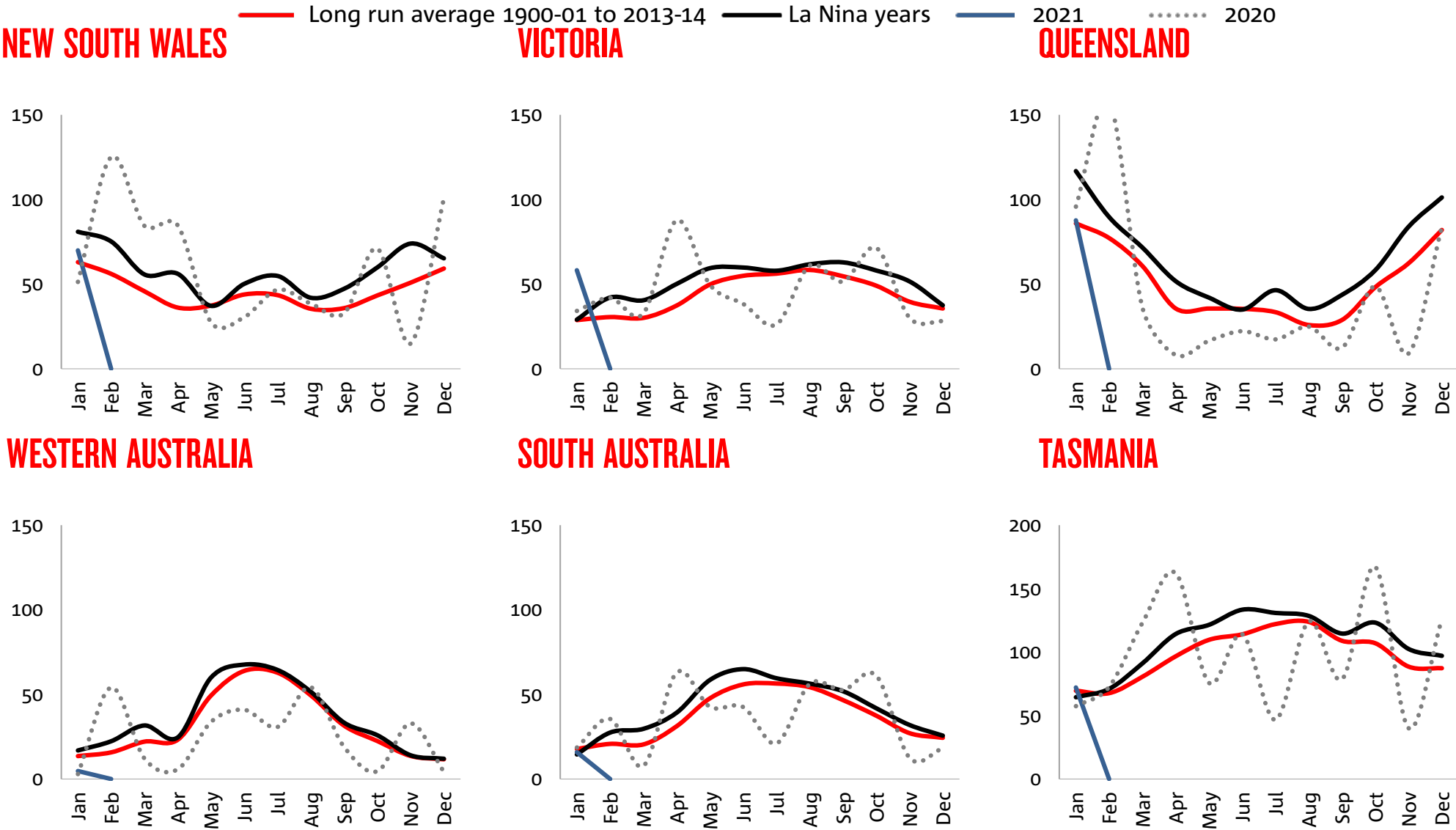


FRUIT AND VEGETABLES



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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