

RURAL COMMODITIES WRAP



JULY 2021

Author Phin Ziebell, Senior Economist – Agribusiness

KEY POINTS

CONTENTS

- 3 | In focus: AUD
- 4 | Seasonal conditions
- 5 | Farm inputs
- 6 | Livestock
- 7 | Winter crops
- 8 | Summer crops, sugar
- 9 | Rainfall data

CONTACTS

Phin Ziebell
Senior Economist
+61 (0) 475 940 662

Alan Oster
Group Chief Economist
+61 (0) 414 444 652

Dean Pearson
Head of Economics
+61 (0) 457 517 342

Things just keep getting better and better for Australian agriculture this year. Seasonal conditions are looking even better, raising hopes for a second bumper crop in a row. The three month seasonal outlook from the Bureau of Meteorology points to a potentially very wet spring in the eastern states.

Meanwhile, commodity prices continue to perform. Cattle is the standout performer, with the Eastern Young Cattle Indicator (EYCI) smashing the \$10 mark this month – an extraordinary (and probably unsustainable) result. Grain continues to look good, reflecting supportive global dynamics.

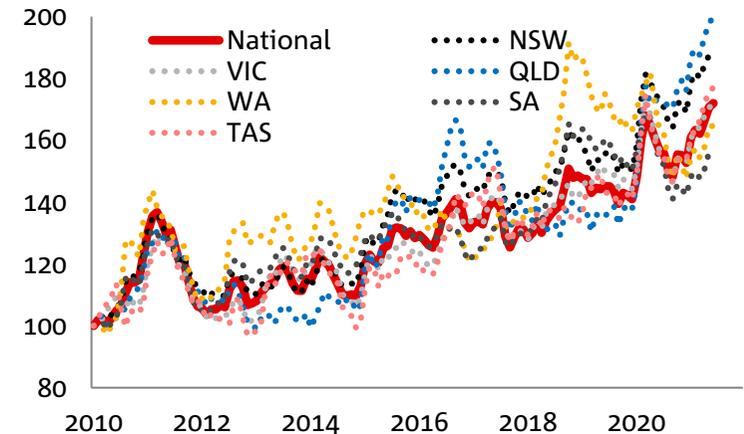
Overall, the NAB Rural Commodities Index was up 0.8% month-on-month in June. The index is now 9.6% above the same time in 2020.

It is fair to say that the Australian dollar has underperformed our expectations recently, reflecting USD strength that started with the June Federal Reserve FOMC meeting and continued with the rise of the COVID-19 delta variant (which is considered at least twice as infectious as the original Wuhan strain). We still see a higher AUD in the back end of 2021 and into 2022, but now do not see 90 US cents until next year.

The delta variant has caused major challenges in Australia. All states and territories (except Tasmania and the ACT) have seen lockdowns of varying lengths since late May. The situation in New South Wales is most concerning, with cases still rising after a month long lockdown. Beyond being a major health and community challenge, there will be economic consequences. At this stage the main challenge for agriculture will be labour and equipment issues with state border closures as well as lower food service demand, particularly in Sydney.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	April	May	June
Wheat	▲ 1.9%	▲ 5.1%	▼ 2.2%
Beef	▲ 1.9%	▼ 0.2%	▲ 2.5%
Dairy	▲ 1.8%	▼ 2.7%	▼ 1.2%
Lamb	▲ 0.9%	▼ 0.3%	▲ 1.1%
Wool	▲ 0.7%	▲ 0.8%	▲ 7.1%
Sugar	▲ 2.2%	▲ 5.6%	▲ 1.7%
Cotton	▼ 1.0%	▼ 0.3%	▲ 5.7%

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



IN FOCUS: WHERE TO FOR THE AUD?

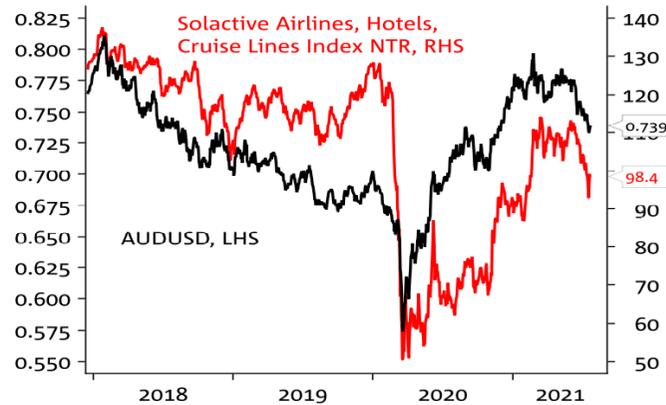
The June Federal Open Market Committee (FOMC) meeting of the US Federal Reserve was the opening shot in a flight to safety driven USD appreciation. The emergence of the of the COVID-19 delta variant (which is considered at least twice as infectious as the original Wuhan strain) and the associated uncertainty has seen the USD continue its appreciation. This has left the AUD in the mid-70s rather than at 80c as we previously envisaged.

Our latest FX forecast revisions, released last week, point to a lower AUD in the back half of 2021 and into 2022. We now see the AUD at 78c at end-2021 and 80c through 2022.

Of course, this is largely a good news story for Australian agriculture, as a lower currency pushes up the value of local commodity prices, all things being equal. However, with the AUD losses being so driven by USD strength, the cross rates may not see the same improvement.

DELTA KEY DRIVER OF LOWER AUD

AUDUSD, airlines hotels, cruise index



NAB FORECAST REVISIONS

as at 23 July 2021

		Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
AUD/USD	New	0.76	0.78	0.80	0.80	0.80	0.80
	Prior	0.81	0.83	0.83	0.82	0.82	0.80
AUD/NZD	New	1.04	1.05	1.05	1.06	1.07	1.08
	Prior	1.08	1.09	1.09	1.09	1.09	1.08
AUD/JPY	New	82	86	87	87	88	87
	Prior	87	91	91	92	92	88
AUD/EUR	New	0.62	0.64	0.65	0.63	0.63	0.62
	Prior	0.60	0.61	0.62	0.63	0.63	0.63
AUD/GBP	New	0.54	0.55	0.55	0.54	0.53	0.52
	Prior	0.55	0.55	0.55	0.53	0.54	0.53
AUD/CAD	New	0.94	0.96	0.97	0.97	0.97	0.98
	Prior	0.98	1.00	1.00	0.99	0.99	0.98
AUD/CNY	New	4.81	5.05	4.81	4.97	5.08	4.72
	Prior	5.06	5.10	5.15	5.08	5.13	5.04

AUD-USD

Daily



Source: NAB, Bloomberg, Macrobond

SEASONAL CONDITIONS

This entire page could probably summarised in a single sentence – how good is the season! But with column inches to fill more detail is contained below.

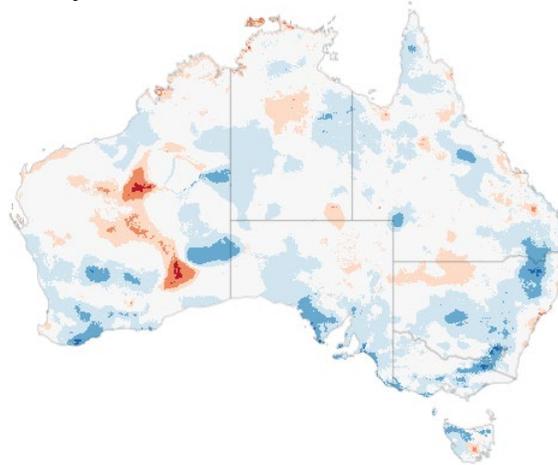
Root zone soil moisture is average to above average across all major cropping regions, while previously dry cattle country in Queensland has enjoyed a good drink (with interesting implications for EYCI – see page 6).

The three month outlook points to well above average rainfall for the whole country east of the WA border, excepting southern Victoria and Tasmania. There is a potential for a drier finish in the WA wheatbelt, but with current conditions excellent, this shouldn't be an impediment to a good harvest in the west.

The latest ENSO outlook from the Bureau of Meteorology is “inactive”, but model outlooks are moving closer to La Nina conditions. This trend is supportive of above spring rainfall in eastern Australia.

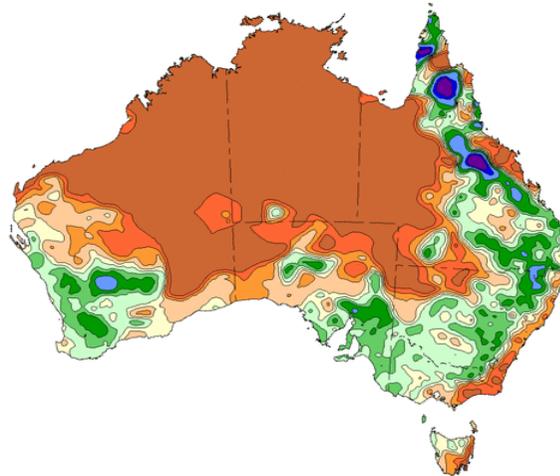
ROOT ZONE SOIL MOISTURE

25 July 2021



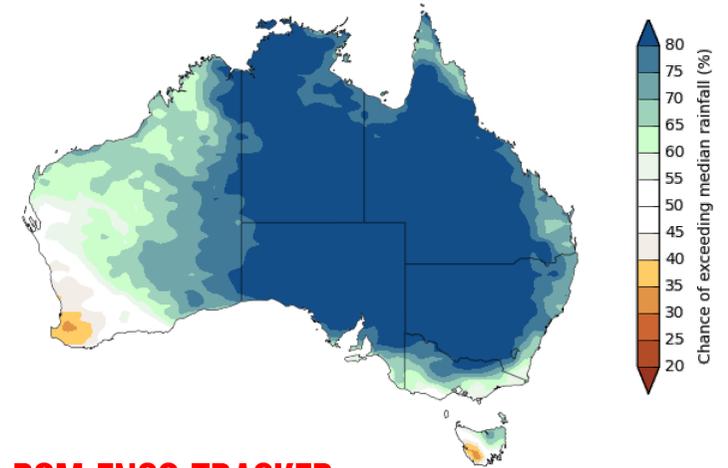
RAINFALL PERCENTAGES

July month to date



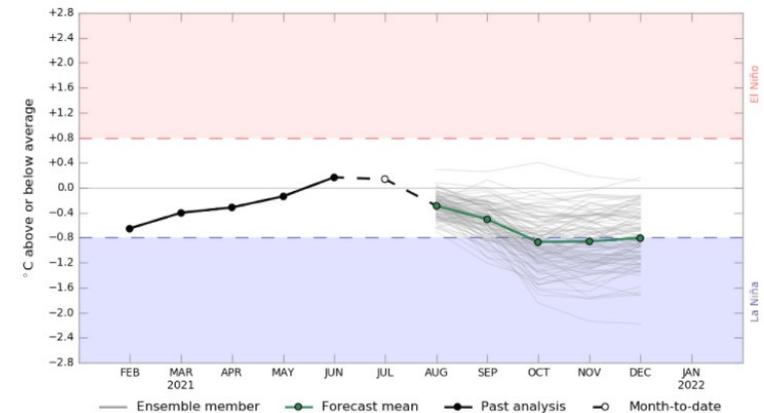
BOM RAINFALL OUTLOOK

August – October 2021



BOM ENSO TRACKER

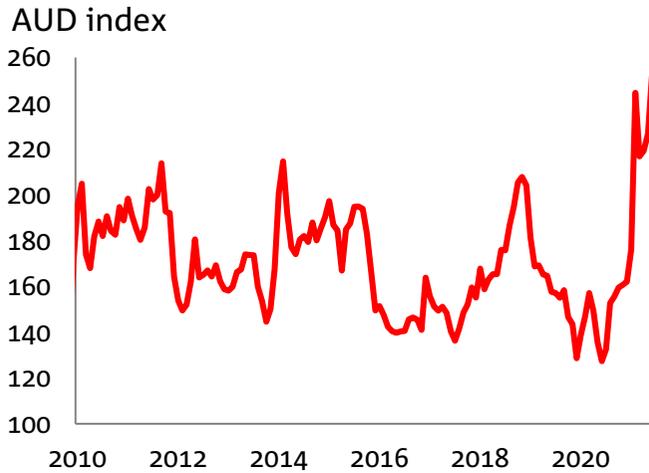
Monthly SST anomaly 20 July update



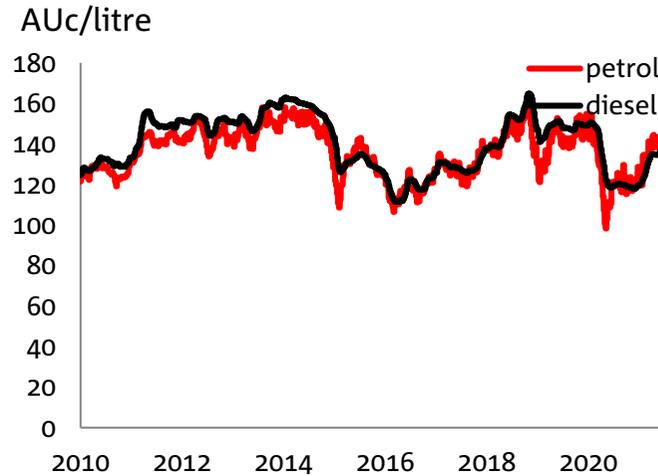
Source: Bureau of Meteorology

FARM INPUTS

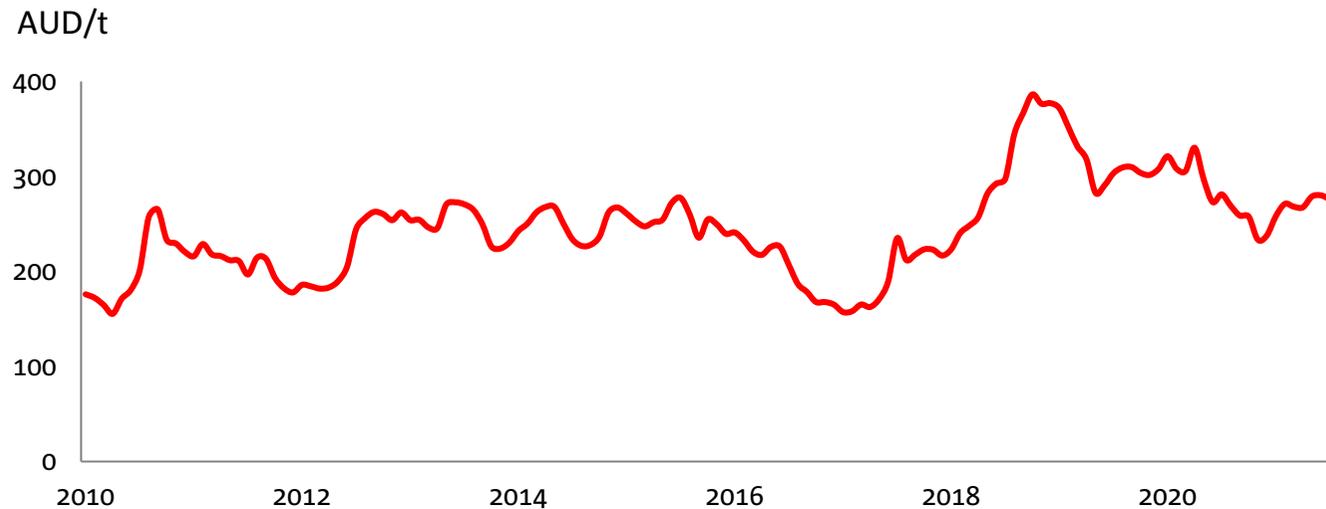
NAB FERTILISER INDEX



NATIONAL AVERAGE FUEL PRICES



NAB FEED GRAIN PRICE INDEX



Farm input prices continue to rise. Fertiliser prices have jumped significantly since late 2020. The index has increased an eye-watering 98.5% since the same time in 2020 and was up 11.6% in June on a monthly basis. With oil prices continuing to gradually rise (Brent is now at around 75USD/bbl) and shipping costs remaining very elevated, there is unlikely to be respite any time soon.

Fuel prices are again rising, reflecting higher oil prices combined with a lower AUD. The biggest impact has been on petrol so far, but diesel will follow. Producers should be prepared for further fuel price increases.

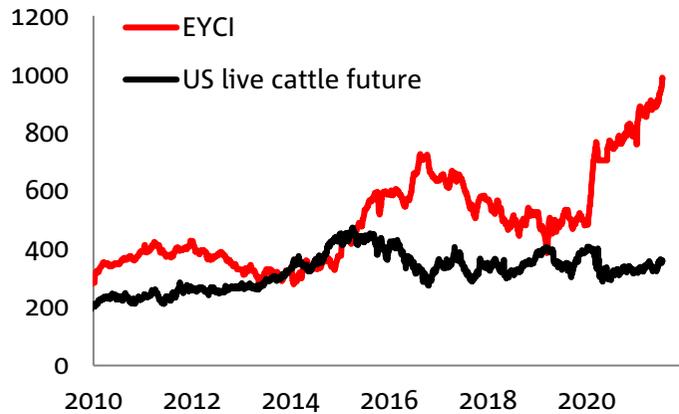
NAB's feedgrain price index has been fairly stable since March, but has clearly settled into a pattern reflecting more elevated global grain prices. While we don't see a return to the extreme drought-induced highs of 2018-19, there may be some upside due to AUD weakness.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

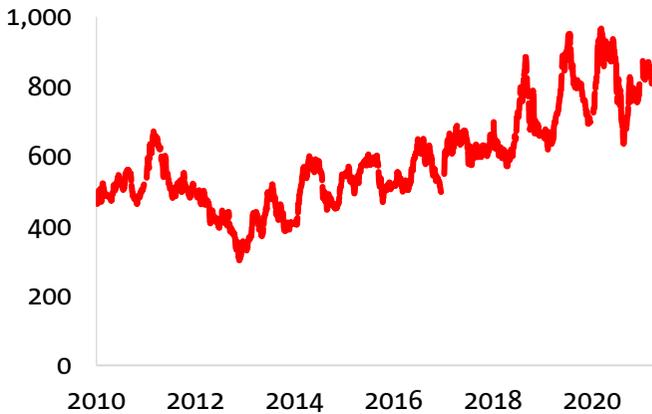
CATTLE

AUc/kg



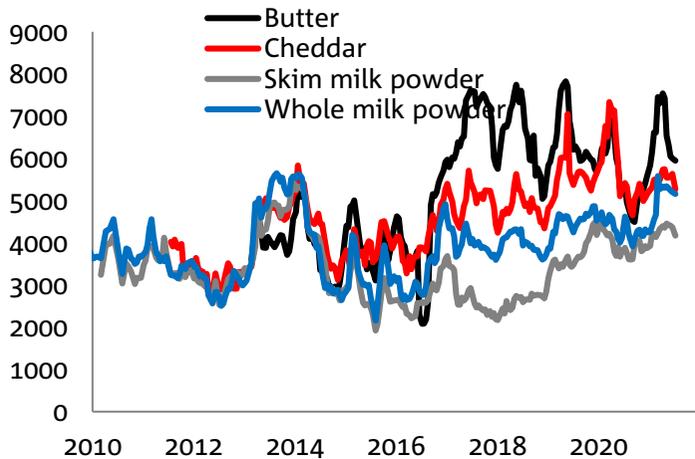
LAMB

ESTLI, AUc/kg



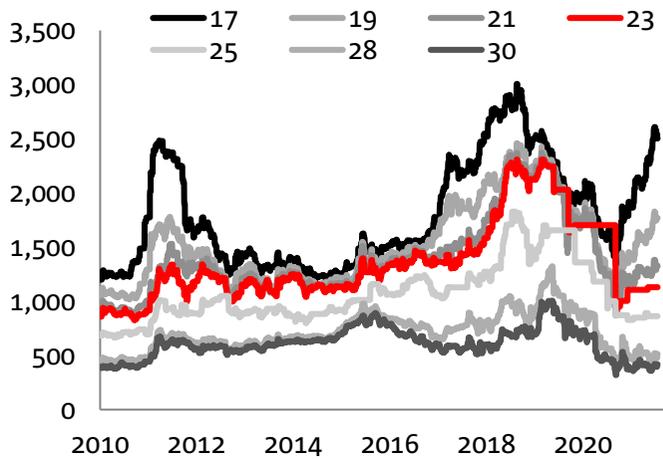
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



The EYCI continues an absolutely incredible run at present, reaching an entirely unprecedented \$10/kg last week. This is simply phenomenal and has many asking whether the trajectory is sustainable. While prices have *clearly* exceeded our forecasts, we are more concerned than ever that domestic prices – which are driven almost entirely by restocker interest – are unsustainable. Importantly, they do not reflect trends in global markets and will be a challenge for processors. But for those who have been able to hold stock through the drought it's happy days.

Lamb prices have staged something of a rally since late June and are now closing on 900c. We are approaching the usual spring flush, which should see downwards pressure, but with the season looking so good there may be temptation to hold lambs back for flock rebuilding/expansion, perhaps keeping prices higher. Wool prices continue to look good for finer wools but above 20 micron is going nowhere at present.

Global dairy trade auction results have been somewhat weaker recently, but the lower AUD has muted this impact domestically. Importantly, opening prices have been generally very strong – in the high \$6 range.

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

WINTER CROPS

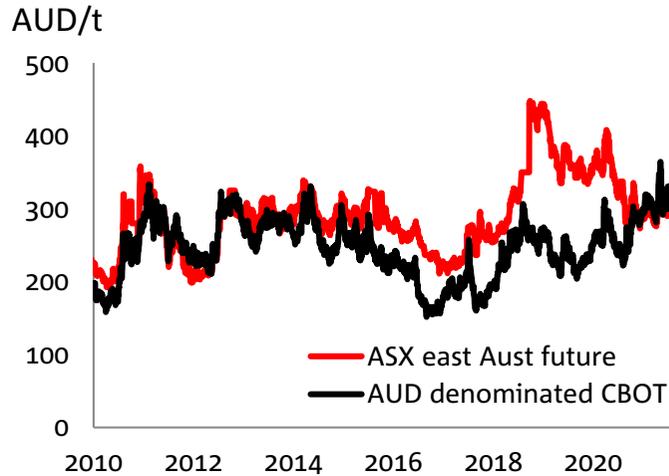
Seasonal conditions are close to perfect for the winter crop, with the main problem being waterlogging more than anything else. ABARES June release points to 27.8mmt of wheat this season. It is highly likely that there will be further upward revisions. This season is looking every bit as good as last season, which delivered a record 33mmt of Australian wheat.

Global price sentiment remains strong, reflecting strong demand and supply challenges in a number of growing regions. Domestic wheat futures have dropped a little recently, with Australian grain now very well priced into south-east Asia.

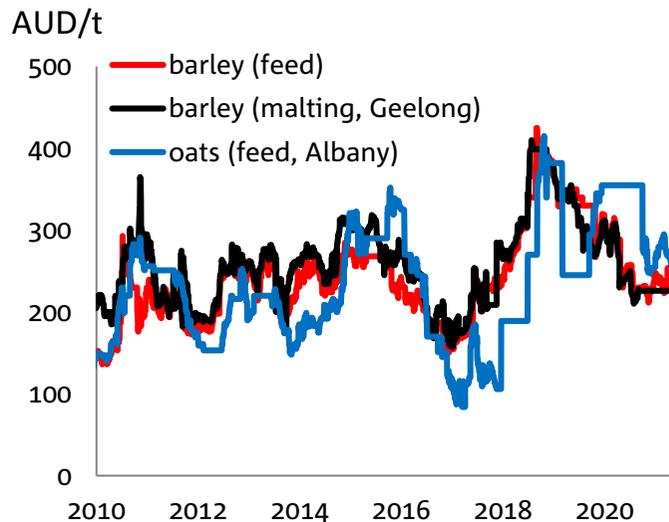
Canola continues to be absolute stand-out, supported by a big rally in global oil seeds, reflecting labour shortages in palm oil plantations in covid-hit Malaysia and extreme heat in Canada.

Barley prices remain subdued, but there has likely been substitution into other crops this season.

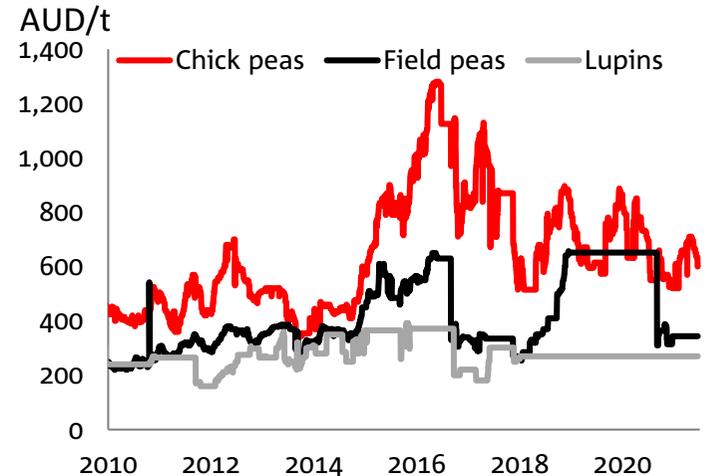
WHEAT



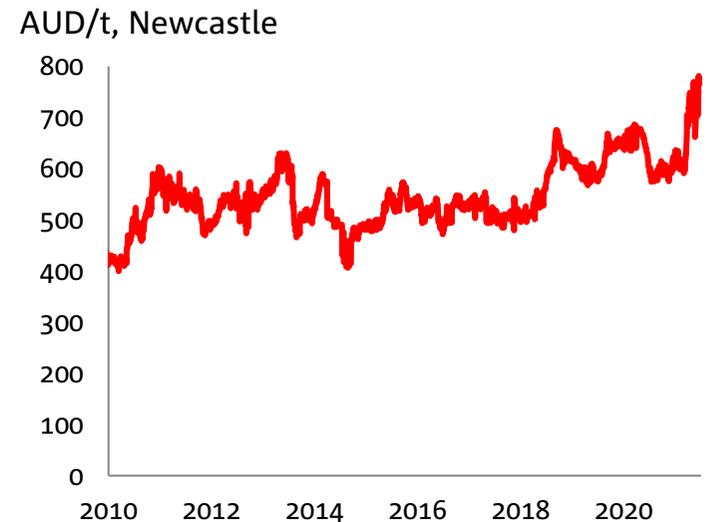
COARSE GRAINS



PULSES



CANOLA



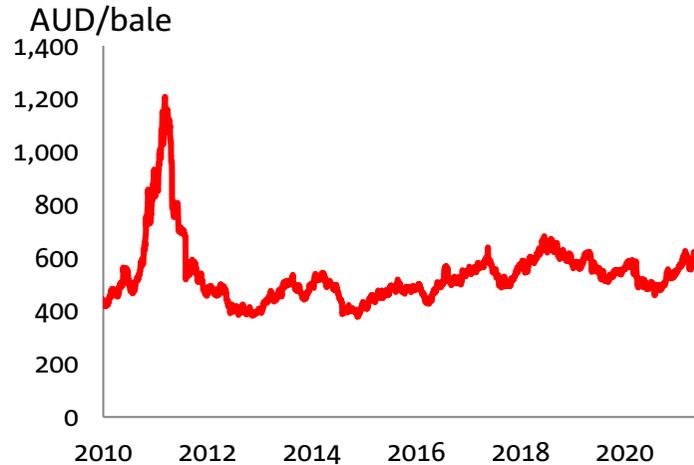
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

SUMMER CROPS, SUGAR AND HORTICULTURE

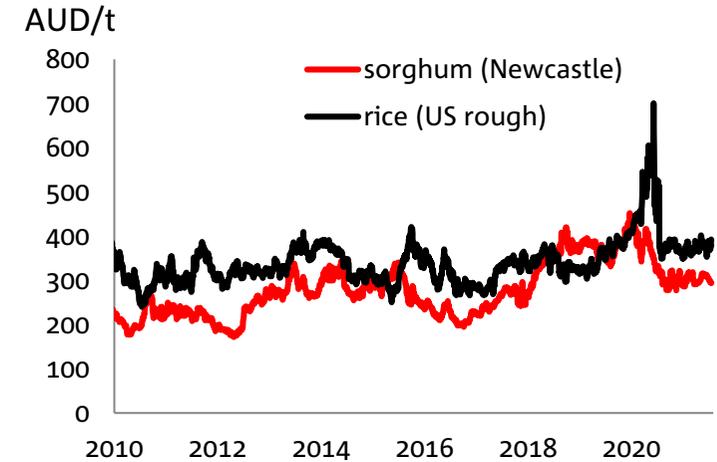
Cotton prices have continued to rise recently, but the major good news is filling storages and better allocations. ABARES' June estimates put cotton area up 49% in 2021-22 to 443,000ha, with lint production up 55.7% to 946kt.

Wholesale fruit and vegetable prices both dropped in June – up 5.0% and 0.2% respectively. 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).

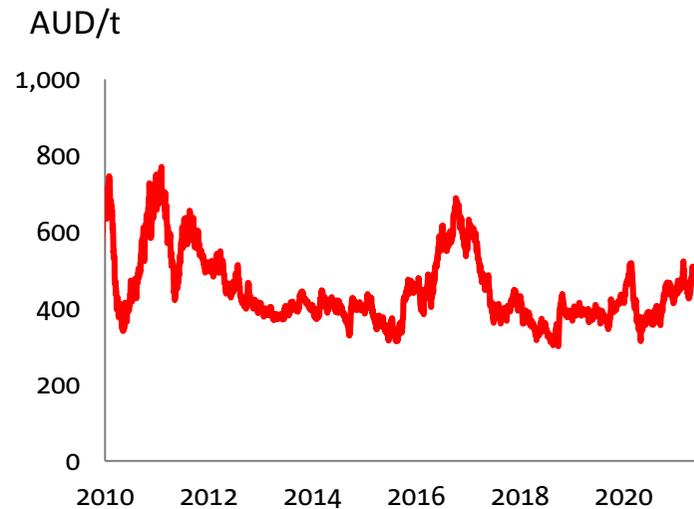
COTTON



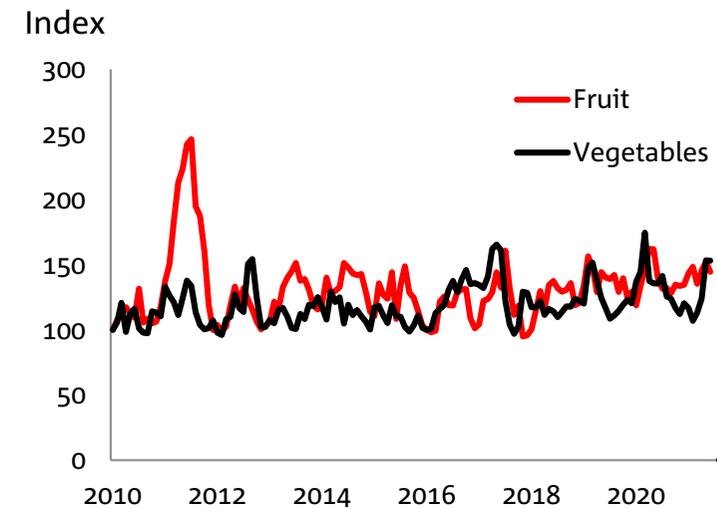
SORGHUM AND RICE



SUGAR



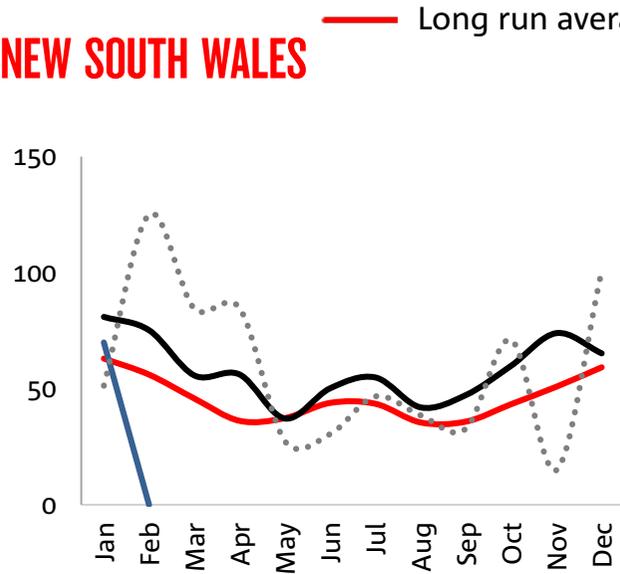
FRUIT AND VEGETABLES



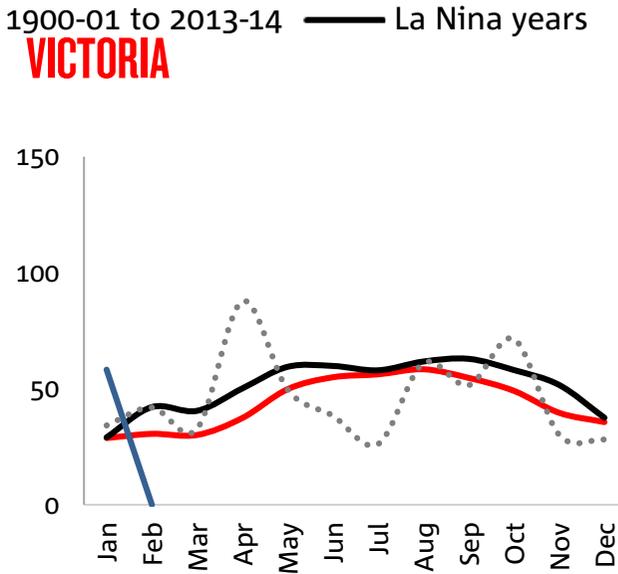
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

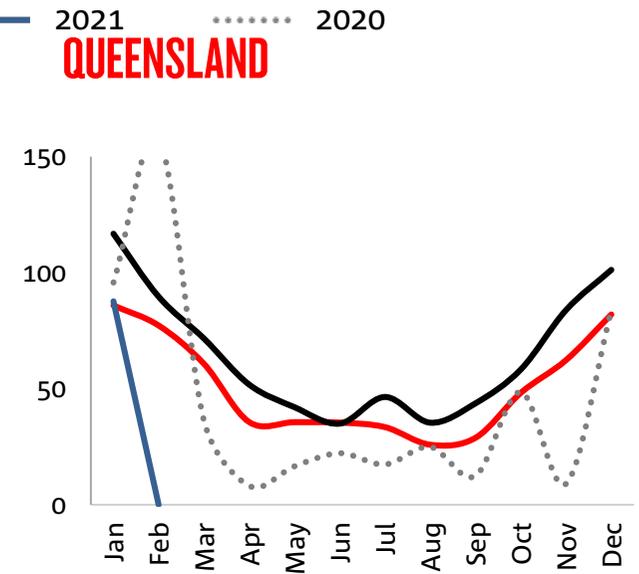
NEW SOUTH WALES



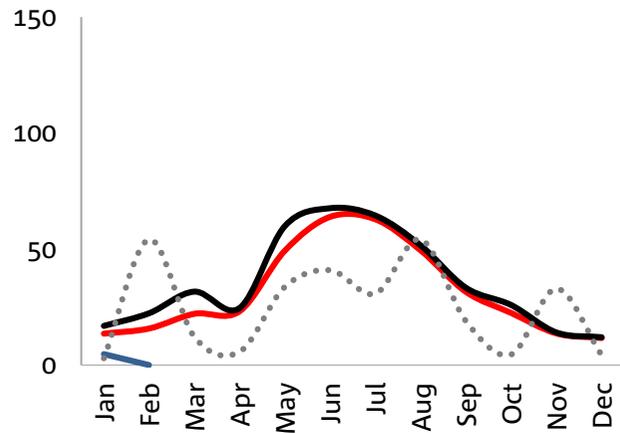
VICTORIA



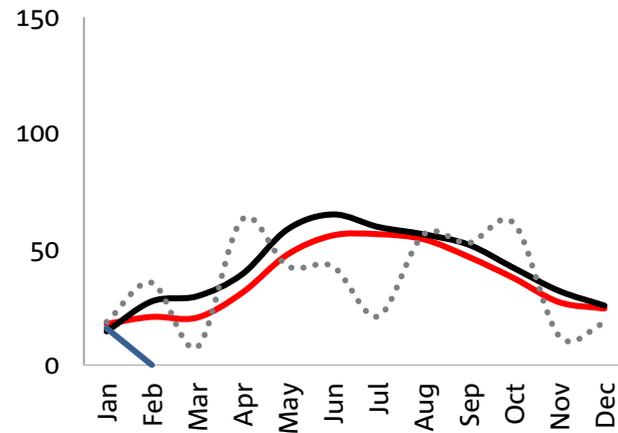
QUEENSLAND



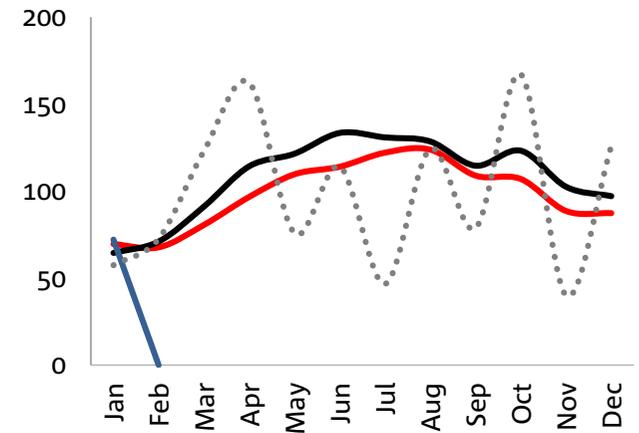
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

