

RURAL COMMODITIES WRAP



AUGUST 2021

Author Phin Ziebell, Senior Economist – Agribusiness

KEY POINTS

CONTENTS

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

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

Good news continues for Australian agriculture this year, with generally excellent seasonal conditions and another month of strong commodity prices. While the ENSO outlook remains neutral, some models are now tending towards La Nina, backing in the prospect of a wetter than average spring in the east of the country. This suggests that a record grain harvest is clearly in frame.

Meanwhile, commodity prices continue to strengthen. Overall, the NAB Rural Commodities Index was up 2.0% month-on-month in July. The index is now 12.6% above the same time in 2020. This result is a record high for our index, which began in January 2010.

The Eastern Young Cattle Indicator (EYCI) broke through the \$10 barrier around a month ago - an extraordinary (and probably unsustainable) result. The wet spring outlook could even see upside for cattle prices, but we continue to see this market as substantially overheated.

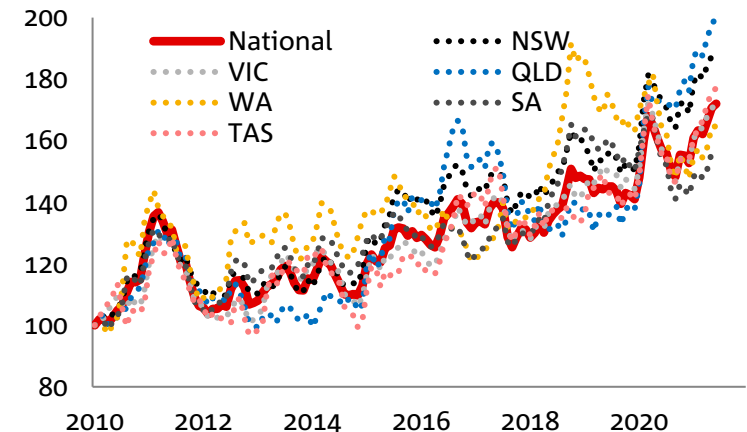
Grain prices have jumped again this month, reflecting an ongoing rally in global markets. Canola prices are looking particularly impressive. We now see Australian wheat prices around the \$350/t mark in the December quarter, having previously expected prices in the low \$300s range.

The Australian dollar continues to underperform, dipping below 72 US cents last week. This reflects lower global risk sentiment amid delta surges, a stronger USD, China growth questions and Australian lockdowns. While some commodities have come off (notably iron ore), commodity prices suggest an AUD recovery later this year. Still, a lower AUD is good news for agricultural commodities, albeit a challenge for input costs.

This month's in focus looks at the economic implications of extended lockdowns as a result of delta outbreaks. For more information, see page 3.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	June	July	Aug*
Wheat	▼ 2.2%	▲ 1.2%	▲ 11.7%
Beef	▲ 2.5%	▲ 6.8%	▲ 2.3%
Dairy	▼ 1.2%	▼ 3.6%	▲ 1.3%
Lamb	▲ 1.1%	▲ 8.0%	▲ 0.5%
Wool	▲ 7.1%	▲ 1.0%	▼ 3.0%
Sugar	▲ 1.7%	▲ 6.0%	▲ 10.1%
Cotton	▲ 5.7%	▲ 6.4%	▲ 4.7%

* To 24 August

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



IN FOCUS: ECONOMIC OUTLOOK AND COVID

Earlier this year, Victorian CHO Brett Sutton said that in a pandemic, a week feels like a billion years. He wasn't wrong.

Since last month's wrap, there has been a marked deterioration in the pandemic situation in New South Wales and to a somewhat lesser extent in Victoria and New Zealand. Prolonged lockdowns are locked-in in NSW and likely in Victoria.

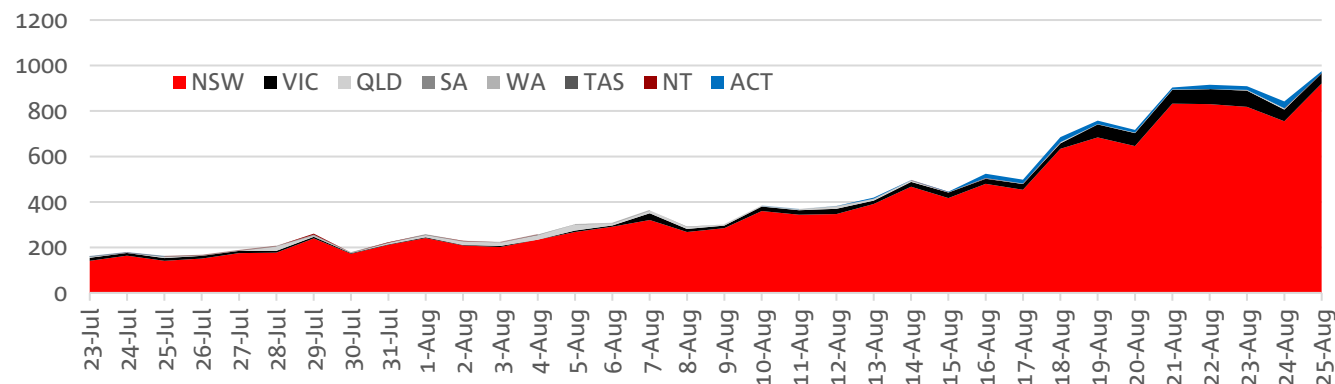
This continues to disrupt Australia's COVID-19 recovery in the near-term. Sydney has been in a protracted lockdown since June 26 with lockdown restrictions set to continue at least until the end of September. Victoria has also been in and out of lockdown since mid-July.

A significant hit to activity is guaranteed and NAB has pencilled in a Q3 GDP contraction of around 3.0% q/q and expects the unemployment rate to rise to 5.6% from 4.6% (though there are clear risks of even higher unemployment outside of measurement issues).

Importantly though, with key vaccination hurdles likely to be achieved by year end, we expect activity to rebound strongly in 2022 and we project the unemployment rate to be back below 5% by mid-2022 and to end the year at 4.4%.

AUSTRALIAN COVID CASES

Daily, last month



AUD-USD

Daily



Source: NAB, Bloomberg, www.covid19data.com.au

SEASONAL CONDITIONS

Seasonal conditions remain strong and supportive of an excellent winter crop. While it has dried out somewhat in August (see root zone soil moisture - to the right), 2021 has seen good rainfall overall.

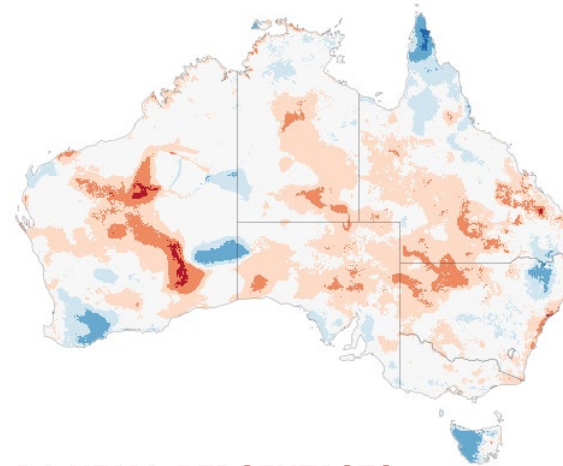
Root zone soil moisture is now below average in many cropping regions, while cattle country in Queensland dried out somewhat too. But overall we do not see any major challenges at present.

The three month outlook points to a potentially very wet spring across whole country except Western Australia. This largely reflects developments in the latest ENSO outlook from the Bureau of Meteorology.

While the outlook remains inactive, the negative Indian Ocean Dipole continues. This is generally associated with above average winter and spring rainfall in the south and east of the country. In addition, three of the seven surveyed models point to NINO3.4 exceeding La Nina thresholds – a trend worth watching.

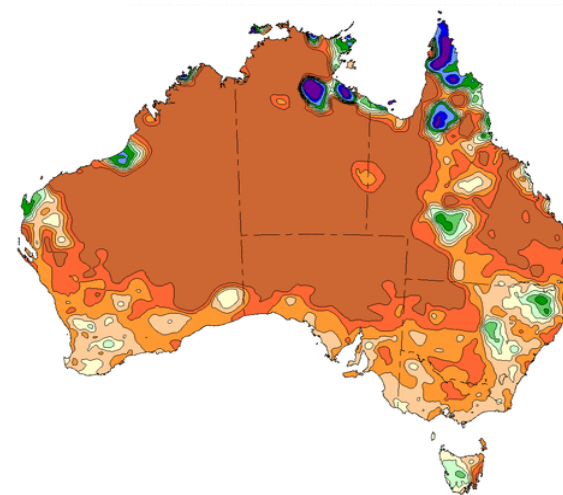
ROOT ZONE SOIL MOISTURE

25 July 2021



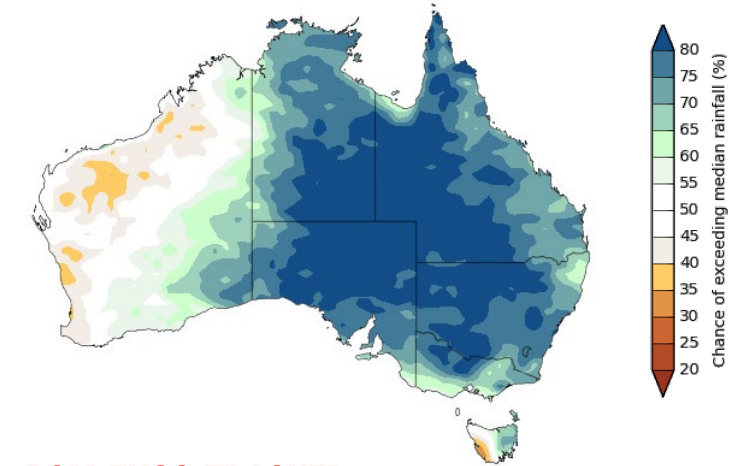
RAINFALL PERCENTAGES

August month to date



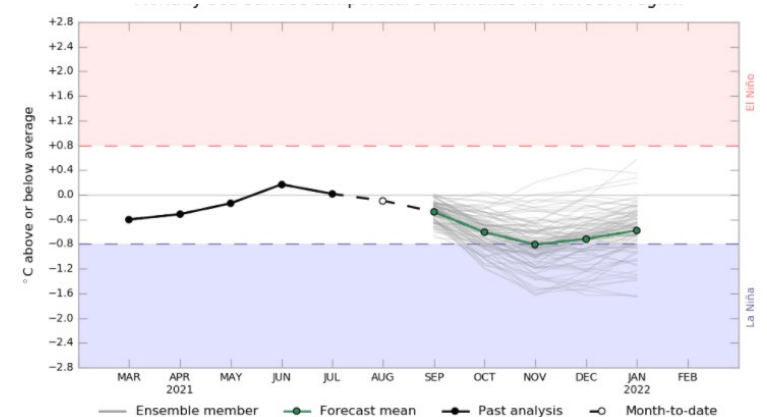
BOM RAINFALL OUTLOOK

September – November 2021



BOM ENSO TRACKER

Monthly SST anomaly 17 August update

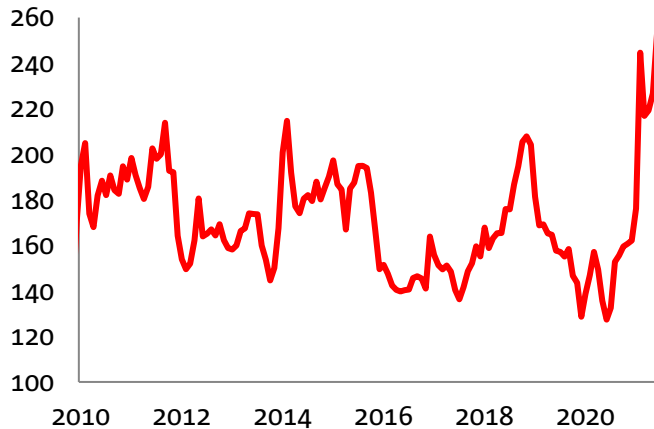


Source: Bureau of Meteorology

FARM INPUTS

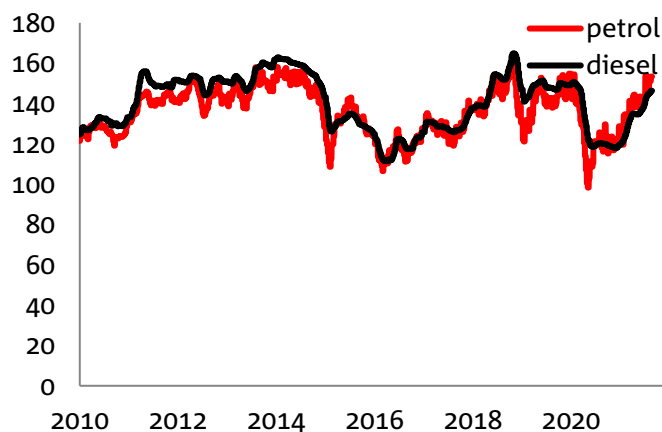
NAB FERTILISER INDEX

AUD index



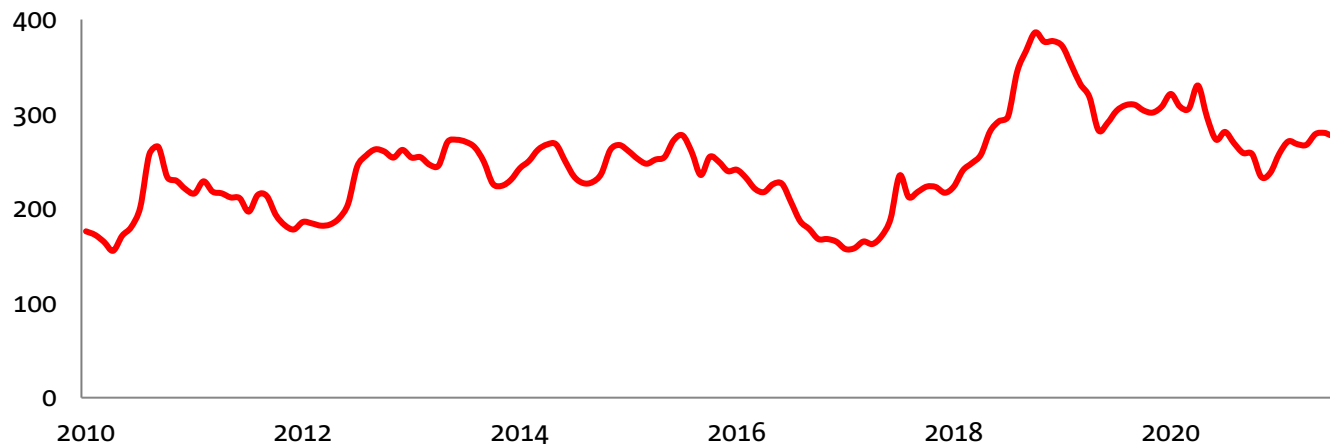
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Farm input prices continue to rise, reflecting global markets, a lower AUD and shipping cost challenges. Fertiliser prices have more than doubled in a year and rose 7.1% last month alone. We continue to see higher global diammonium phosphate and urea prices, which combined with a lower AUD, keep pushing our index north. While oil prices have fallen a little in the past month (Brent is now at around 71USD/bbl), shipping costs remain very elevated, and there is unlikely to be respite any time soon.

Fuel prices have risen substantially over the last year, reflecting a recovery in global oil markets since the lows last year. Last week's national average prices were 153.4c/l for petrol and 146.3c/l for diesel. Producers should be prepared for further fuel price increases, although the oil price rally seems to have stalled for now.

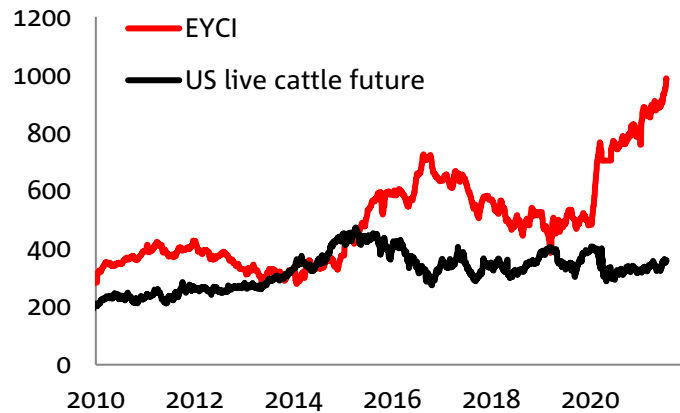
NAB's feedgrain price index had been fairly stable, but the upward trend has now returned, reflecting higher global grain prices. While we don't see a return to the extreme drought-induced highs of 2018-19, there may be some further upside in coming months.

Source: Bloomberg, Profarmer and NAB Group Economics

LIVESTOCK

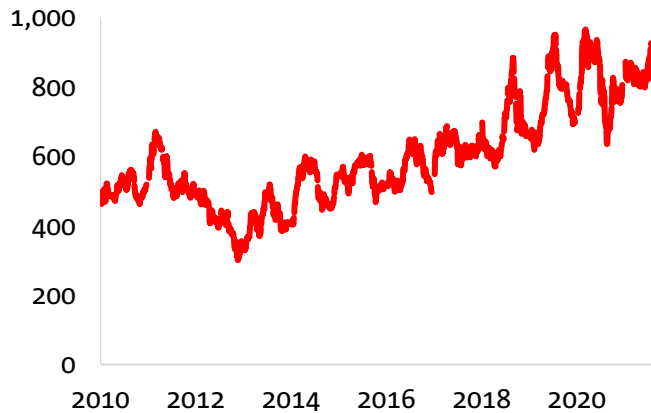
CATTLE

AUc/kg



LAMB

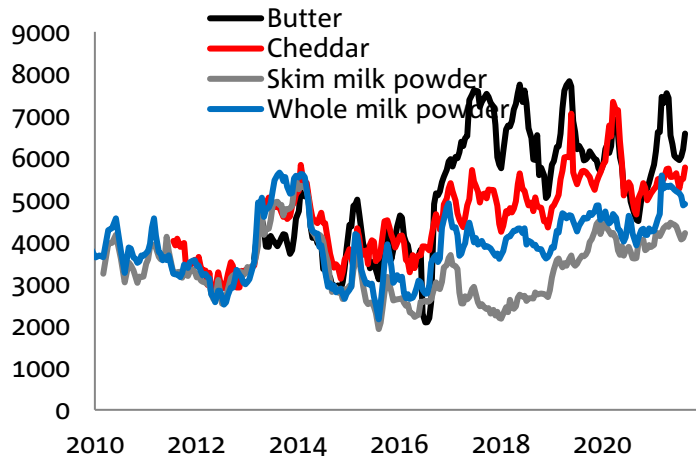
ESTLI, AUc/kg



The EYCI has cemented its incredible run this year, hovering around the previously unprecedented \$10/kg range over the last month. This is extraordinary, but we feel unsustainable in 2022. While restocker interest is keeping the market hot, we do not expect prices to be resilient to the arrival of drier weather conditions. Whether this occurs this summer remains to be seen. Prices remain out of step with trends in global markets and will be a challenge for processors. But for those who have been able to hold stock through the drought, income continues to be very strong.

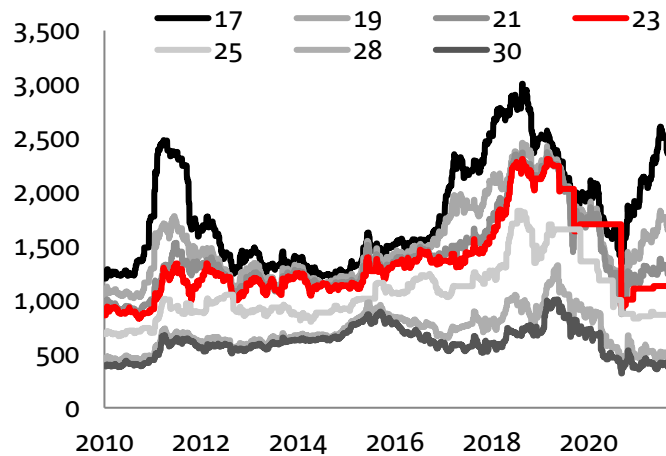
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Lamb prices have enjoyed a strong two months, breaking 950c/kg this week. With the usual spring flush just around the corner we expect some downside, but with the season continuing to perform there may be temptation to hold lambs back for flock rebuilding/expansion, perhaps keeping prices higher. The recent wool price rally looks to have lost some steam, with EMI down to 1335c/kg last week.

Global dairy trade auction results have been generally weaker since April, 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

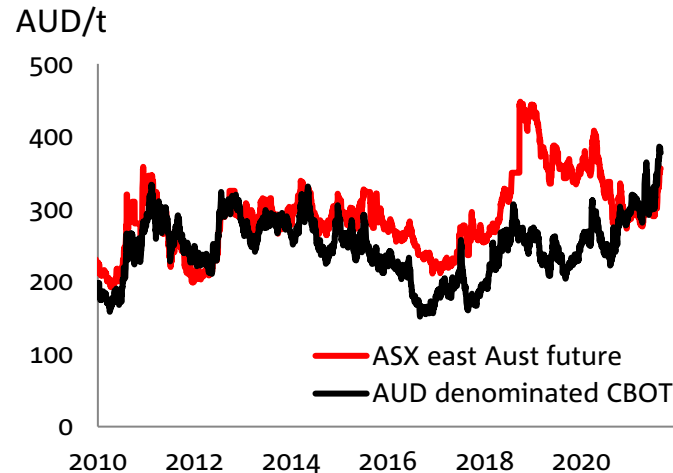
Winter crop conditions remain generally good to excellent, although some areas are chasing rain. This season continues to look as good as last season, which delivered a record 33mmt of Australian wheat.

Grain prices have jumped again this month, reflecting an ongoing rally in global markets. We now see Australian wheat prices around the \$350/t mark in the December quarter, having previously expected prices in the low \$300s range.

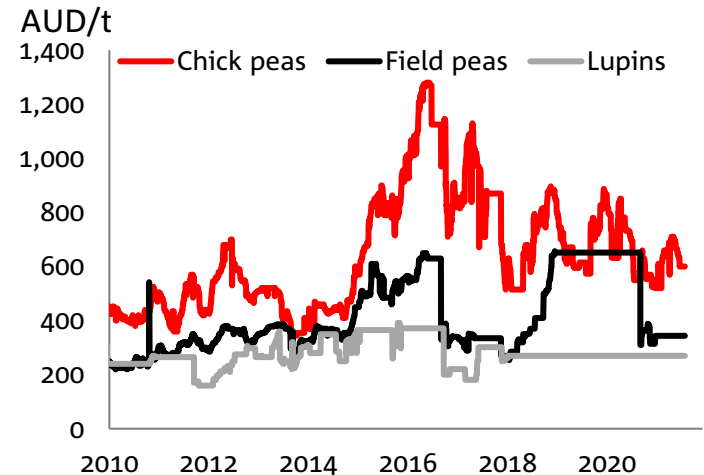
Canola continues to impress, supported by a big rally in global oil seeds, reflecting labour shortages in palm oil plantations in Covid-hit Malaysia and extreme heat in Canada.

Barley prices remain fairly low compared to other winter crops, but there has likely been substitution into other crops this season.

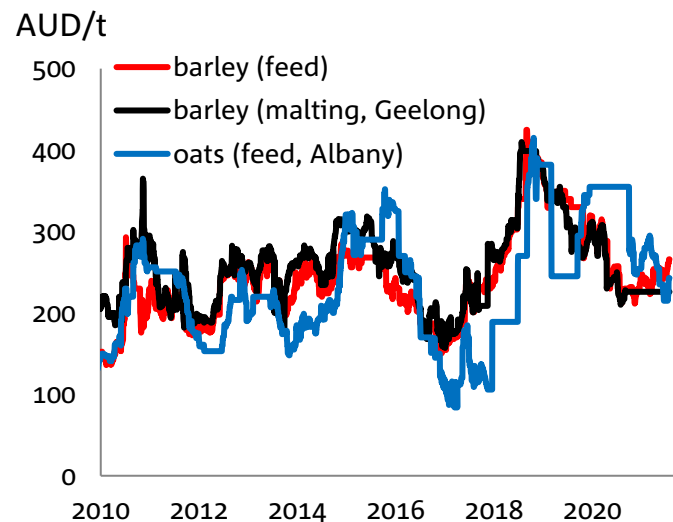
WHEAT



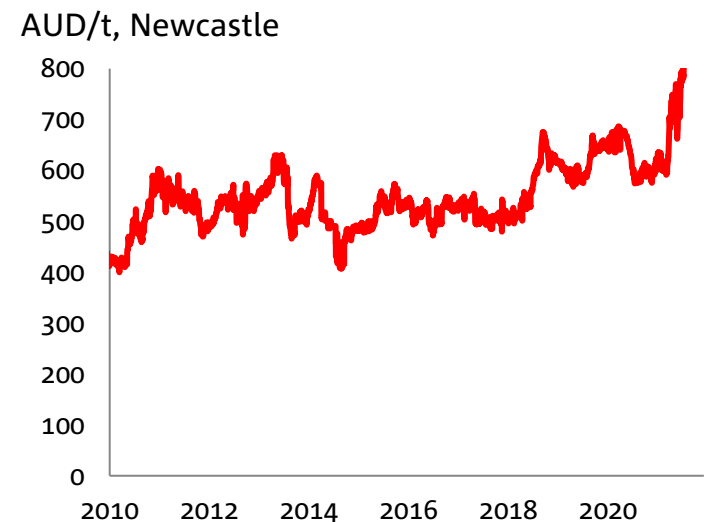
PULSES



COARSE GRAINS



CANOLA



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

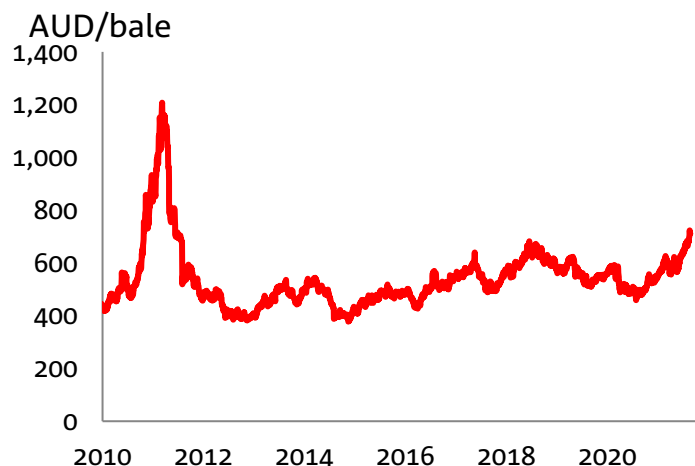
SUMMER CROPS, SUGAR AND HORTICULTURE

Cotton prices have continued 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.

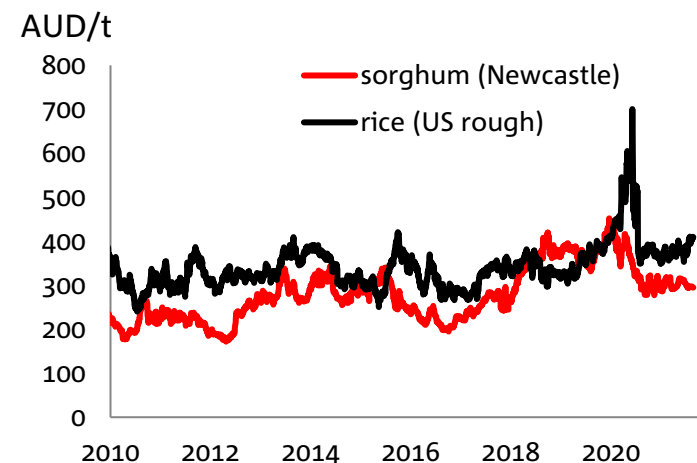
Sugar has rallied sharply in recent months, reflecting drought followed by severe frost activity in Brazil. This represents the best rally in AUD denominated sugar prices in around five years.

Wholesale fruit and vegetable prices both dropped again in July - down 7.9% and 10.8% 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).

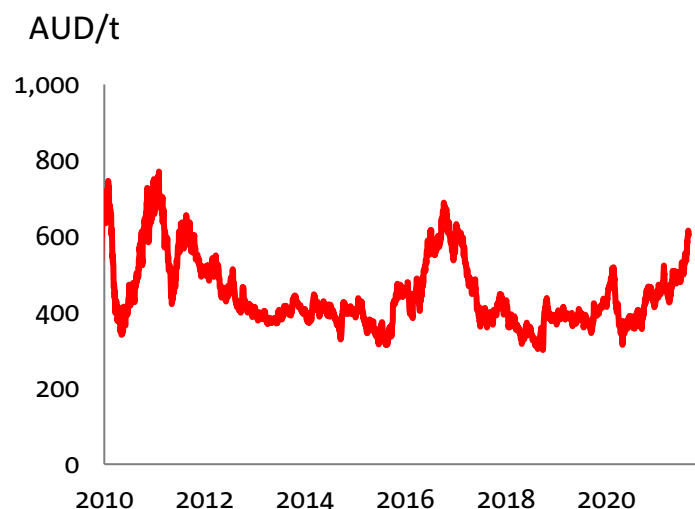
COTTON



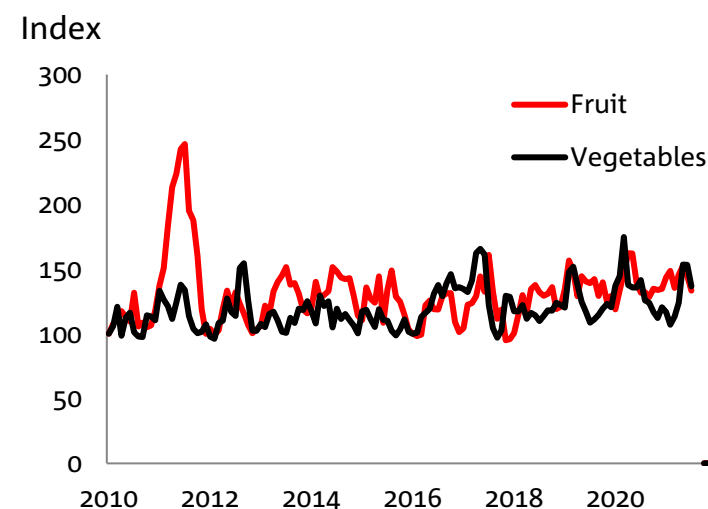
SORGHUM AND RICE



SUGAR



FRUIT AND VEGETABLES



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

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.

