RURAL COMMODITIES WRAP

SEPTEMBER 2021

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KEY POINTS

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Already very good conditions in the Australian agricultural sector continued to strengthen this month, reflecting good seasonal news and further commodity price gains.

The Bureau of Meteorology's latest ENSO outlook has now moved to La Nina watch, indicating a 50% chance of a La Nina event this spring. La Nina is associated with above average spring-summer rainfall in eastern and northern Australia. If this event occurs, there could be even further upside for already eye-watering cattle prices. In any case, the three month outlook from the Bureau is for a wet finish to the year, apart from in Western Australia. For more information on the potential for La Nina, see page 3.

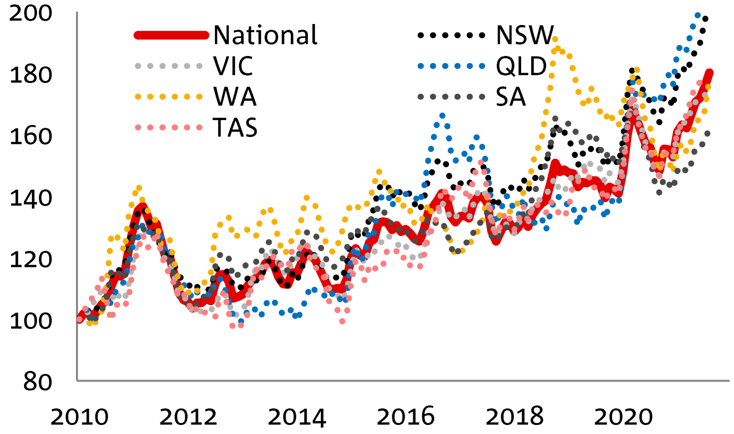
Meanwhile, another cracking grain harvest is squarely in frame. ABARES' September forecasts point to a wheat harvest just below last season's all-time record. But this season is likely to be paired with higher prices, boosting grower returns above last year.

Overall, the NAB Rural Commodities Index was up another 2.7% month-on-month in August. The index is now 19.7% above the same time in 2020. This result is another record high for our index, which began in January 2010. Partial data for September suggests a small gain in the index, should horticultural prices hold steady.

The Australian dollar continues to underperform, broadly trading in the 72-74 US cents range through September. This reflects a mix of factors, including global risk sentiment, a stronger USD, China growth questions amid the Evergrande imbroglio and iron ore price falls. Our forecasts still point to an uptick in the AUD by the end of the year, to 78 US cents. A lower AUD is good news for agricultural commodities, albeit an increasing challenge for input costs.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	July	Aug	Sept*
Wheat	▲ 1.2%	▲ 13.6%	▼ 2.6%
Beef	▲ 6.8%	▲ 1.3%	▲ 2.3%
Dairy	▼ 3.6%	▲ 1.3%	▲ 5.3%
Lamb	▲ 8.0%	▲ 0.5%	▲ 4.4%
Wool	▲ 1.0%	▼ 3.6%	▼ 1.7%
Sugar	▲ 6.0%	▲ 11.1%	▼ 1.0%
Cotton	▲ 6.4%	▲ 5.5%	▲ 0.8%

* To 21 September
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

IN FOCUS: PROSPECTS FOR LA NINA THIS SPRING

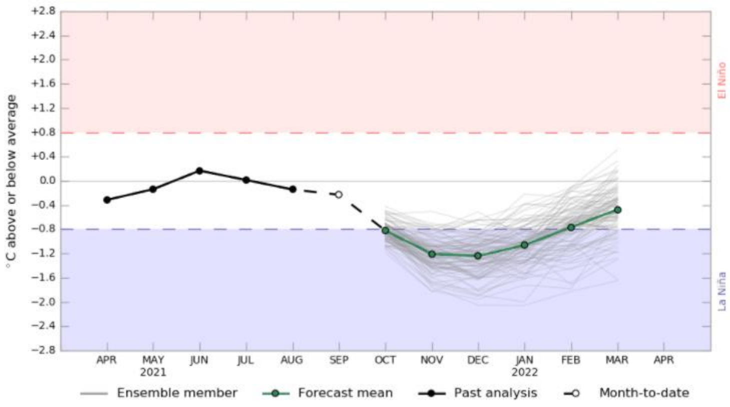
The Bureau of Meteorology has now upgraded its ENSO outlook to La Nina watch, indicating a 50% probability of La Nina developing this spring. In the BoM's latest update, released on 28 September, three of the seven surveyed models point to a sustained (i.e. greater than three month) La Nina event, lasting into 2022. Five of the seven models point to La Nina thresholds being exceeded at some point this year.

La Nina events are typically associated with above average spring- summer rainfall in northern and eastern Australia. The La Nina watch outlook is reflected in the BoM's long range forecasts, which point to a wetter than average spring and start to summer outside WA. For more information on the outlook, see page 4.

Meanwhile, the negative Indian Ocean Dipole has weakened, with all surveyed international models pointing to a return to neutral conditions by December. A negative IOD is typically associated with above average winter-spring rainfall in parts of southern and Eastern Australia.

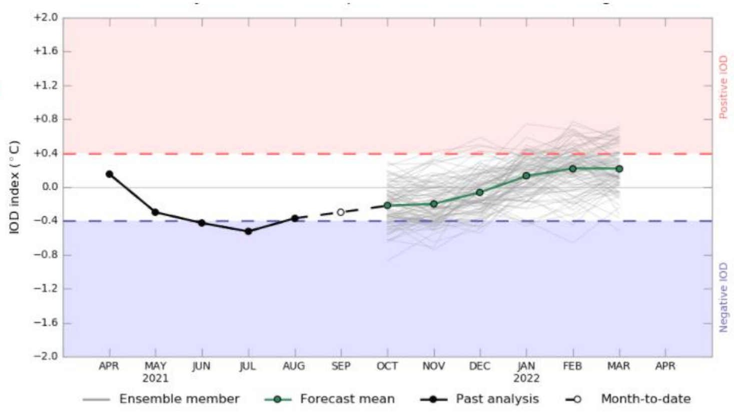
EL NINO SOUTHERN OSCILLATION

Monthly sea surface temperature



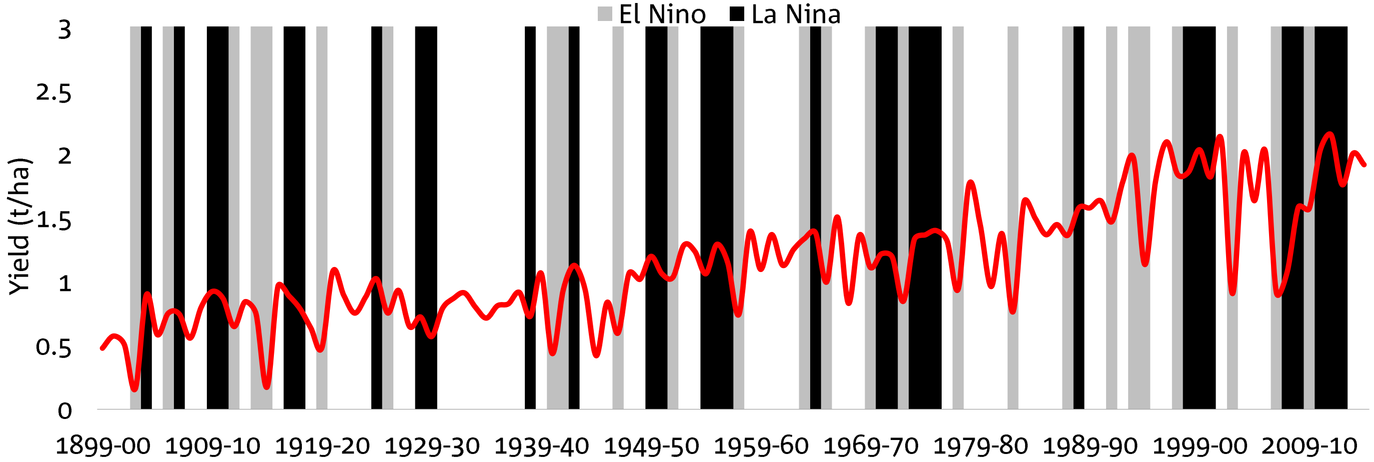
INDIAN OCEAN DIPOLE

Monthly sea surface temperature



WHEAT YIELDS, EL NINO AND LA NINA

Long run analysis



Source: Bureau of Meteorology, ABARES, ABS

SEASONAL CONDITIONS

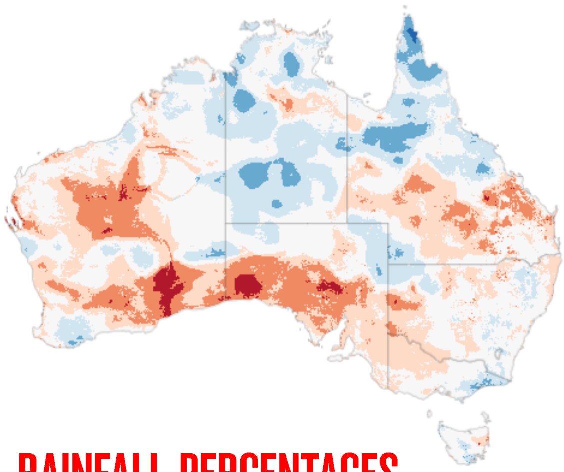
Seasonal conditions remain generally very strong and supportive of an excellent winter crop.

Root zone soil moisture is now below average in many cropping regions, with much of the WA wheatbelt, essentially all of South Australia and western Victoria, parts of New South Wales and southern and central Queensland all drier than average. September has seen below average rainfall in many regions. However, this is unlikely to be an impediment to a good season.

The three month outlook continues to show wetter than average conditions across the country, outside Western Australia and south-west Tasmania. This trend is forecast to continue until the end of 2021.

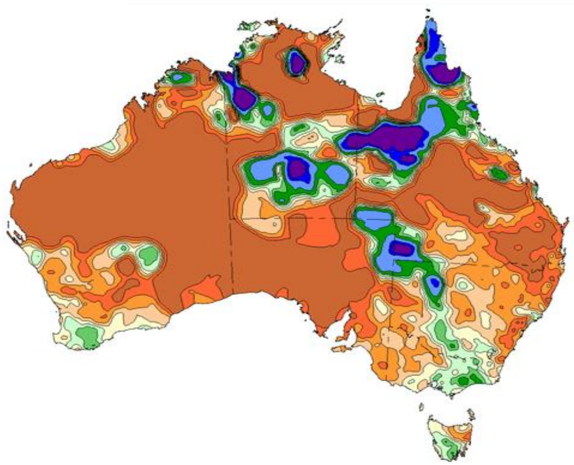
ROOT ZONE SOIL MOISTURE

27 September 2021



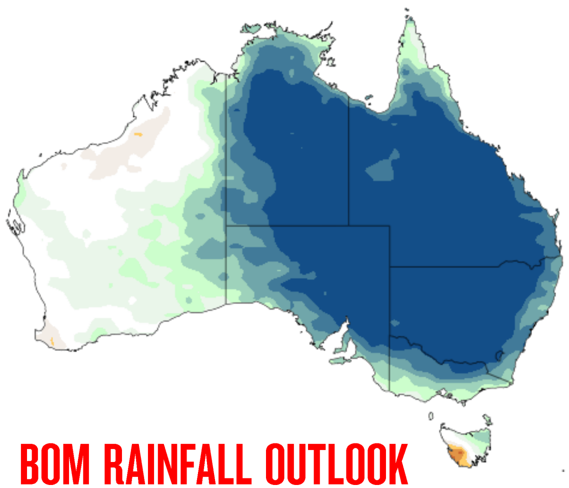
RAINFALL PERCENTAGES

September month to date



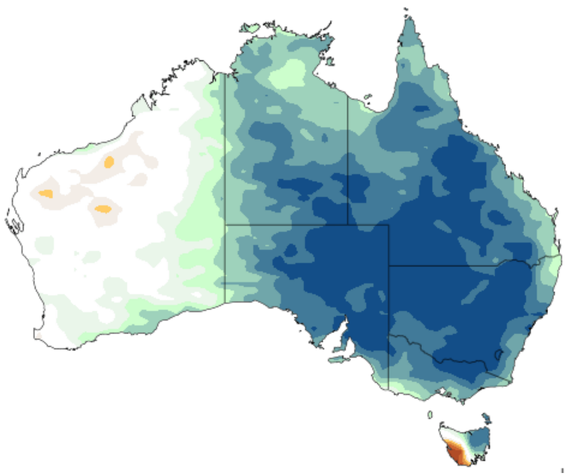
BOM RAINFALL OUTLOOK

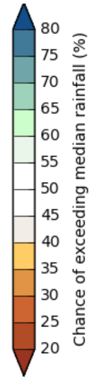
October 2021



BOM RAINFALL OUTLOOK

October – December 2021

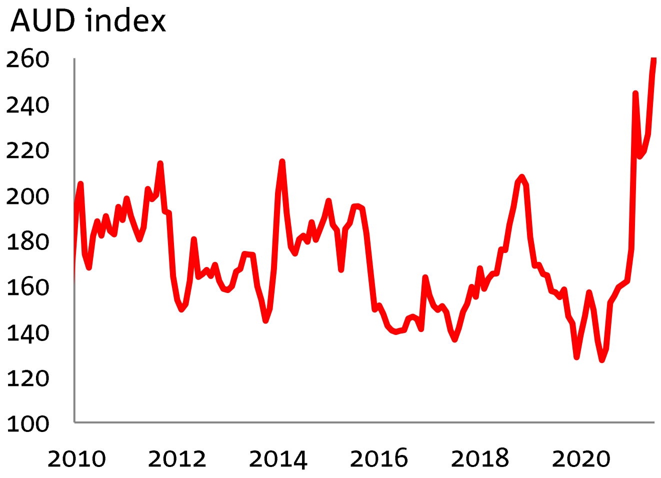




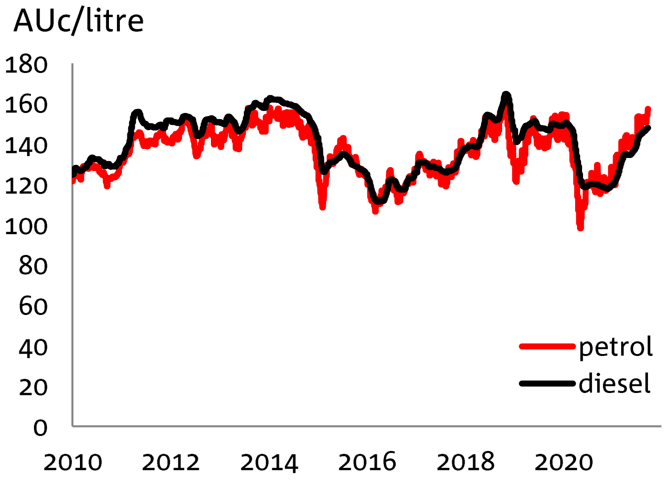
Source: Bureau of Meteorology

FARM INPUTS

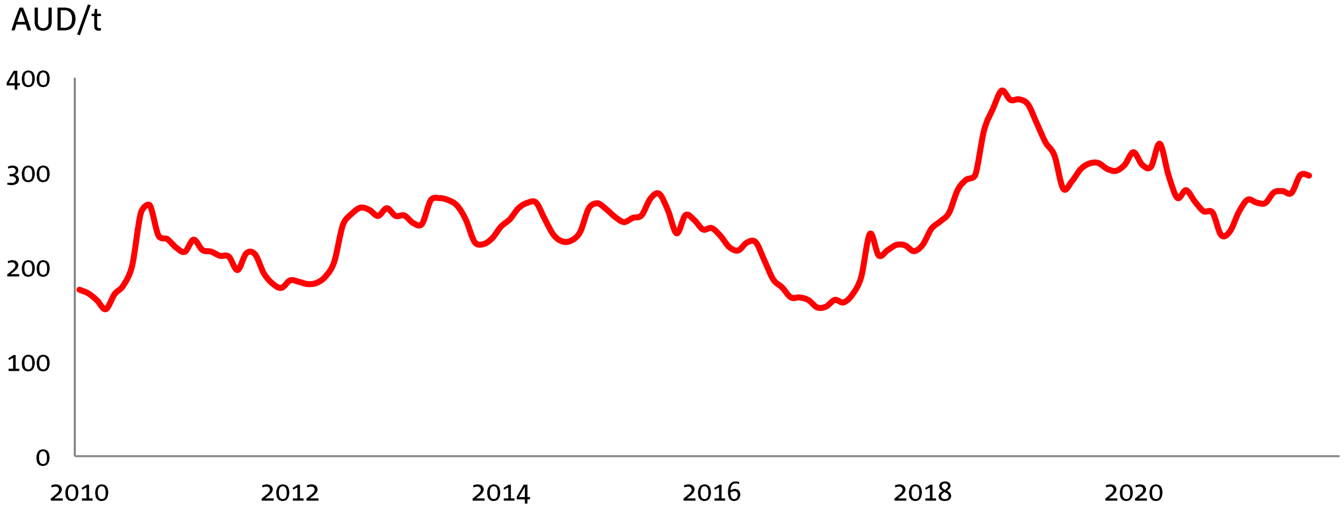
NAB FERTILISER INDEX



NATIONAL AVERAGE FUEL PRICES



NAB FEED GRAIN PRICE INDEX



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices keep rising and this trend is likely to continue for the rest of 2021 (with the possible exception of feed grain). This reflects rising global oil and grain prices, a weaker AUD than we had previously expected combined with higher shipping costs. Fertiliser prices were up almost 80% year on year in August and further rises are locked in for September, with diammonium phosphate and urea continuing to rise, along with natural gas.

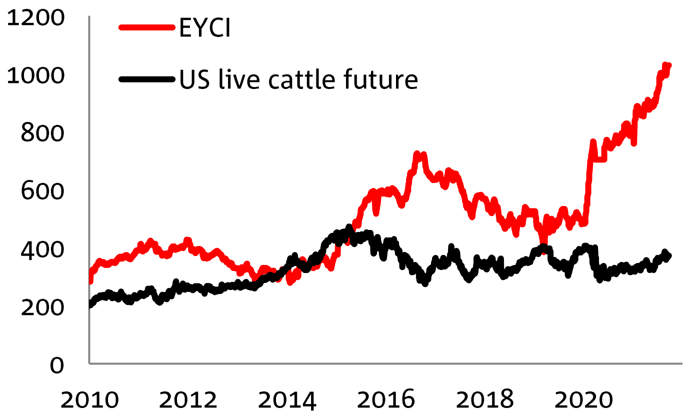
Fuel prices have risen substantially over the last year, reflecting a recovery in global oil markets since the lows last year. Last week's national average petrol prices are now north of 150c/l and while diesel is lower, it will likely follow. With oil prices on the rise (Brent is now at around 80USD/bbl) Producers should be prepared for further fuel price increases, reflecting the oil price rally and weak AUD.

Our feed grain price index has been trending upwards since a low in November last year. This reflects a combination of higher global grain prices and a weak AUD. If global prices keep rising there is scope for further upside despite plentiful domestic supplies.

LIVESTOCK

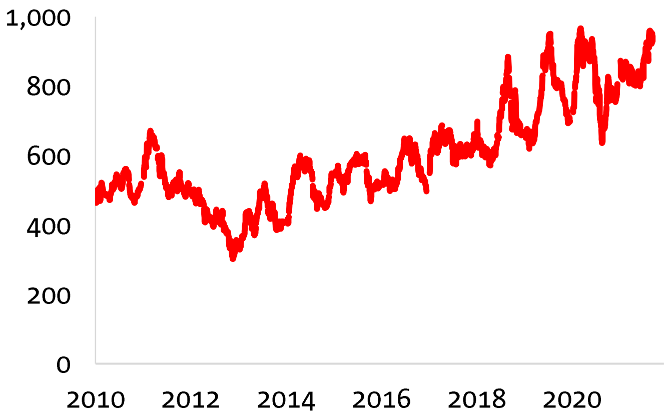
CATTLE

AUc/kg



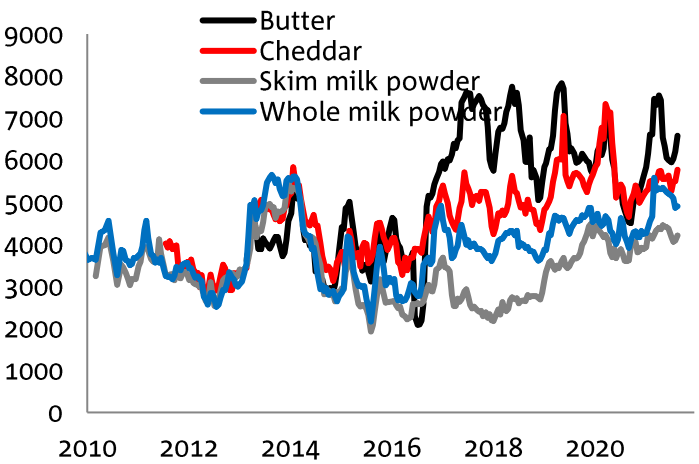
LAMB

ESTLI, AUc/kg



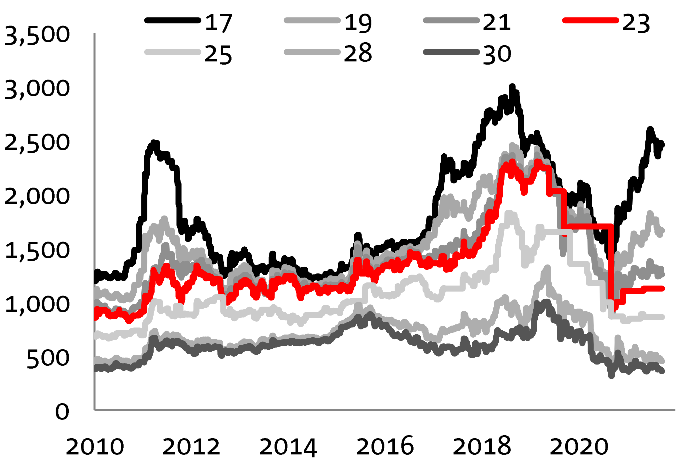
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



The EYCI continues to trend higher, although the pace of growth has been much slower since the indicator broke 1,000c/kg in July this year. This is clearly an excellent result for producers, and forecast strong spring rainfall may push prices higher again. However, we remain convinced that this price trajectory is 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.

Lamb prices continue to look good, trading in the mid-900s range over the last month. Spring flush would normally be starting to hit prices about now, but we are yet to see signs of it. With a wet spring underway, it is likely that flock rebuilding will take precedence and the seasonal price drop will be less than usual. Still, the last three seasons have shown a price ceiling in the mid-900s range. Wool prices have tread water recently, with EMI at 1368c/kg last week.

Global dairy trade auction results have been stronger in September, following weakness in July and August.

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

WINTER CROPS

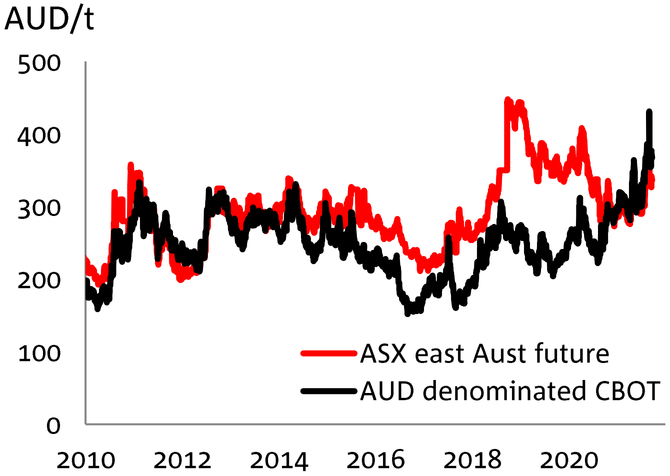
Winter crop conditions generally remain excellent, with ABARES projecting 32.6mmt of wheat this season, just down on the 33.3mmt record last season. Conditions are now so good that we could well exceed last year's crop.

Meanwhile, wheat prices continue to perform on global markets, reflecting solid demand and ongoing supply question marks. Australian wheat now looks very sharply priced indeed, and we may yet see further upside in domestic prices. This combination of price and yield is likely to be one of the best in Australian history. We have Australian wheat prices pencilled in around the $350/t mark in the December quarter, but if the AUD continues to underperform our expectations (we see 78 US cents by year end), further upside is possible.

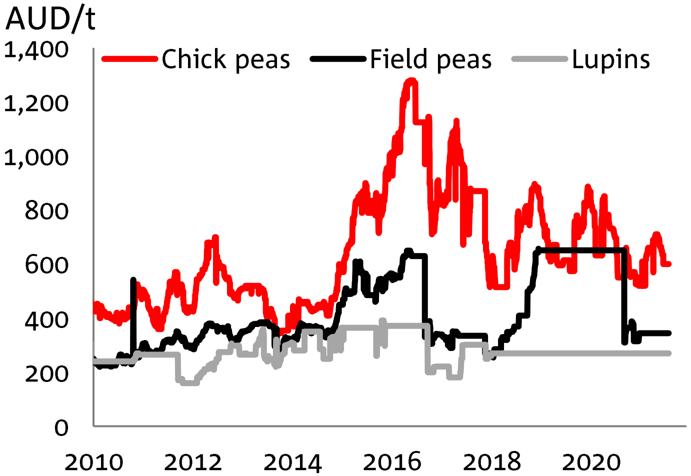
Canola continues to impress, supported by a big rally in global oil seeds, reflecting labour shortages in palm oil plantations in Covid-hit Malaysia and extreme heat in Canada.

Barley prices remain fairly low compared to other winter crops, although there are some signs feed barley is again gaining.

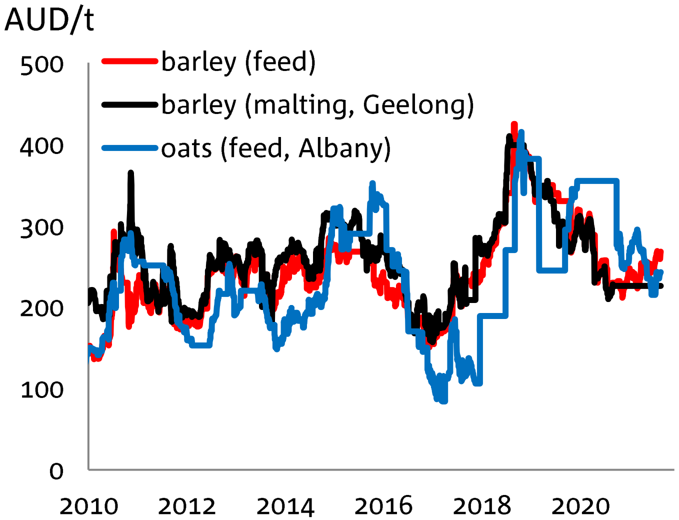
WHEAT



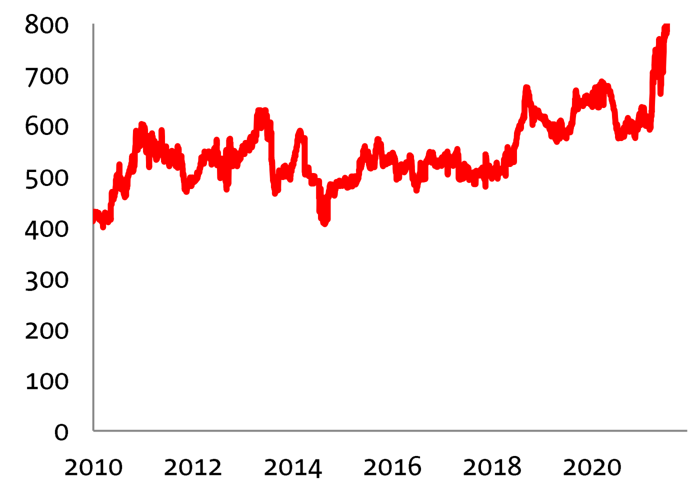
PULSES



COARSE GRAINS



CANOLA



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

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SUMMER CROPS, SUGAR AND HORTICULTURE

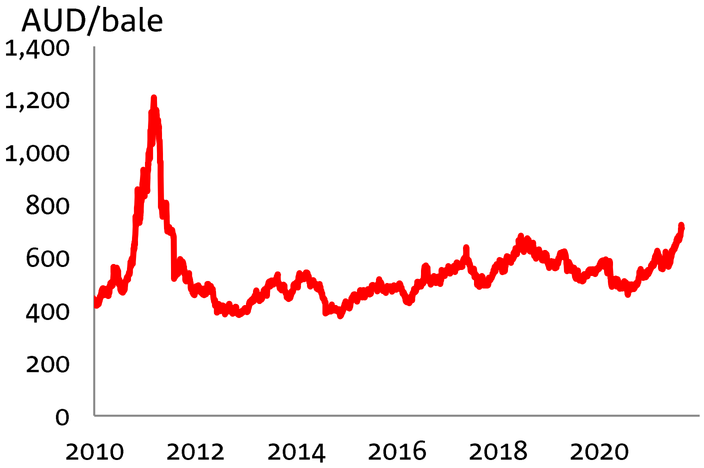
Cotton prices are now on a real tear, enjoying the best rally in AUD terms since the 2011 spike. The strong seasonal conditions since 2020 have replenished storages and allowed a strong recovery in cotton production. ABARES' latest forecasts suggest that Australian cotton lint production will almost equal 2017-18 and be the third highest on record.

This is reflected in our customer data, with cotton inflows in NSW now at the highest level since our series began in 2015. Meanwhile Qld cotton inflows are at their highest in three years.

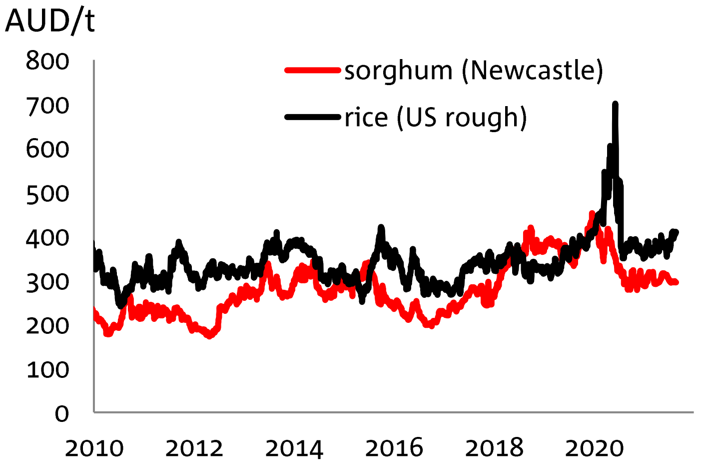
The sugar rally continues following on from drought followed by severe frost activity in Brazil, and more recently, oil price gains. This represents the best rally in AUD denominated sugar prices in around five years.

Wholesale fruit and vegetable prices both fell again in August - down 3.1% and 5.6% respectively. labour availability will remain a challenge until normal travel returns.

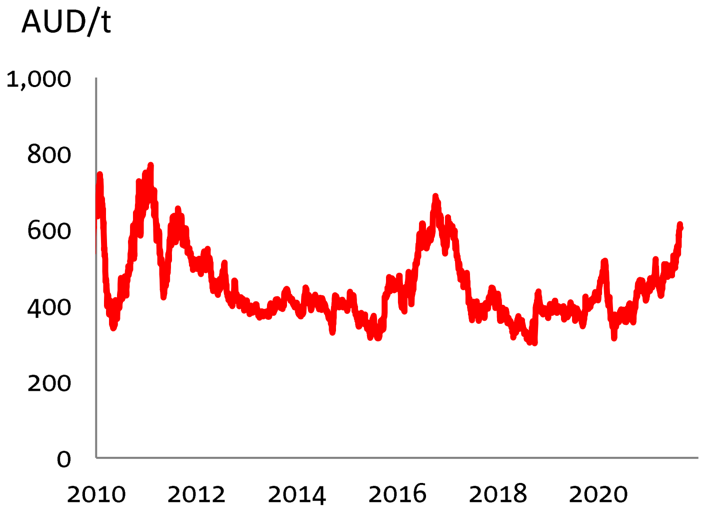
COTTON



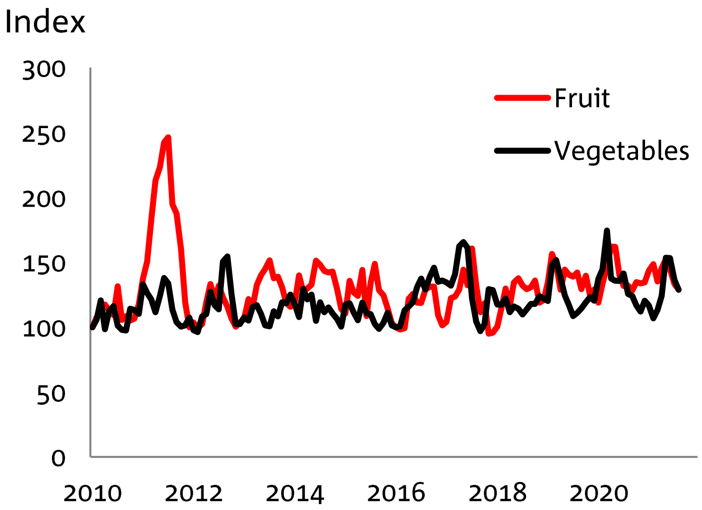
SORGHUM AND RICE



SUGAR



FRUIT AND VEGETABLES



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

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