

# RURAL COMMODITIES WRAP



**NOVEMBER 2021**

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# KEY POINTS

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La Nina is now officially underway, with the Bureau of Meteorology declaring the event on 23 November. Current modelling suggests the event will persist until late summer or early autumn 2022. While La Nina-like conditions have been present for some time, the official declaration will likely see further interest in livestock, as La Nina events are generally associated with wet conditions in eastern and northern Australia.

November has brought if anything too much rain to already wet cropping regions in Australia's east. This has pushed harvest back weeks in some areas and could see some quality downgrades. But overall, we remain squarely on track for a monster winter crop. Grain prices are once again on the rise, reflecting a lower AUD and most importantly strong global price action. Harvest prices are likely to substantially exceed what was expected just a few months ago.

Livestock prices have been more mixed. Cattle continues to rise, with EYCI breaking \$11/kg this month. Lamb prices have dropped but this is entirely in line with the usual spring flush.

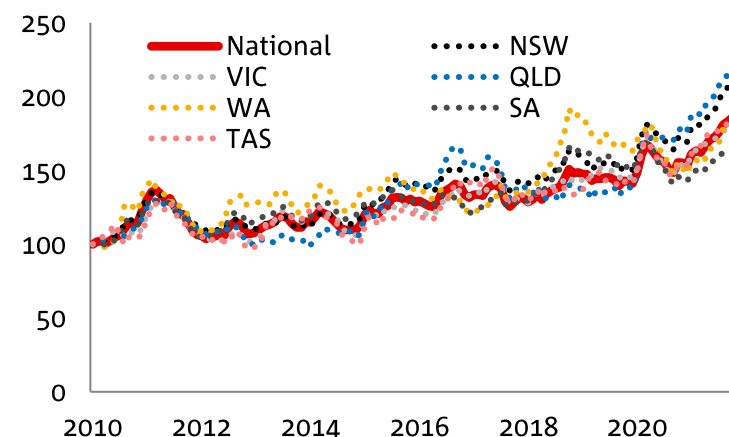
Overall, the NAB Rural Commodities Index was up 1.4% in September and is on track for a 0.5% rise in November so far, based on partial data excluding horticulture. The index is now almost 20% above the same time in 2020. We continue to see record highs for our index, although with cattle and grain prices so strong, this is not surprising.

Input prices have risen again this month, with oil and gas markets the key driver of upward pressure at home. This points to even higher Australian input prices (particularly fuel and fertiliser), in coming months.

The AUD is back down to 72 US cents, in line with our forecast for around 72c at year-end. We see some limited upside next year, but for the moment 70-75c seems to be a reasonable range.

## NAB RURAL COMMODITIES INDEX

National and by state



## MONTHLY COMMODITY PRICE CHANGES

	Sept	Oct	Nov*
Wheat	▼ 2.4%	▲ 1.2%	▲ 5.2%
Beef	▲ 1.6%	▲ 3.1%	▲ 1.1%
Dairy	▲ 5.3%	▲ 0.5%	▲ 10.7%
Lamb	▲ 1.5%	▼ 3.5%	▼ 7.9%
Wool	▼ 1.4%	▼ 0.9%	▼ 0.9%
Sugar	▼ 0.7%	▲ 0.5%	▲ 0.9%
Cotton	▲ 2.1%	▲ 11.8%	▲ 8.2%

\* To 20 October

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



# SEASONAL CONDITIONS

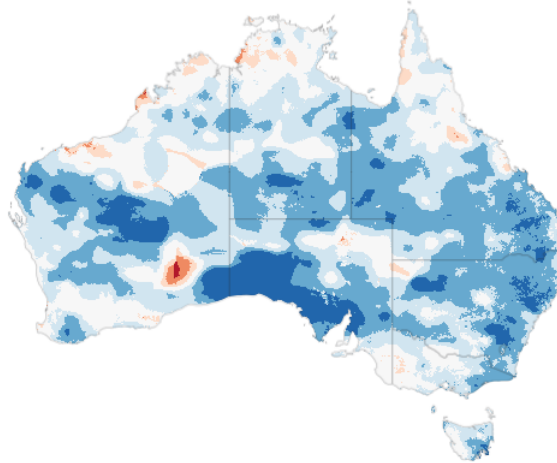
November has brought wet conditions to much of Australia, especially in the east. Root zone soil moisture is now above average for virtually all of the country, with only small areas experiencing below average conditions. Conditions remain supportive of a big winter crop, although late rains are now a hindrance rather than a help and harvest is running weeks late in some areas.

After months of speculation on the trajectory for La Nina, the Bureau of Meteorology declared the event underway this week. Current modelling suggests the event will persist until late summer or early autumn 2022. While La Nina-like conditions have been present for some time, the official declaration will likely see further interest in livestock, as La Nina events are generally associated with wet conditions in eastern and northern Australia.

The three month outlook shows a wet summer in prospect across the east, although Western Australia, the Northern Territory and South Australia are likely to be closer to average conditions. Big falls are possible in Queensland in particular, putting the risk of flooding on the cards.

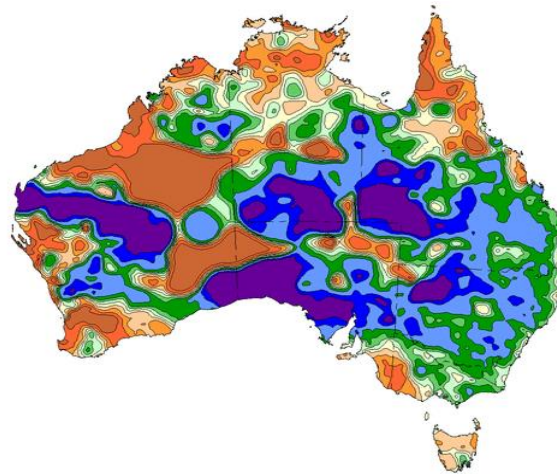
## ROOT ZONE SOIL MOISTURE

22 November 2021



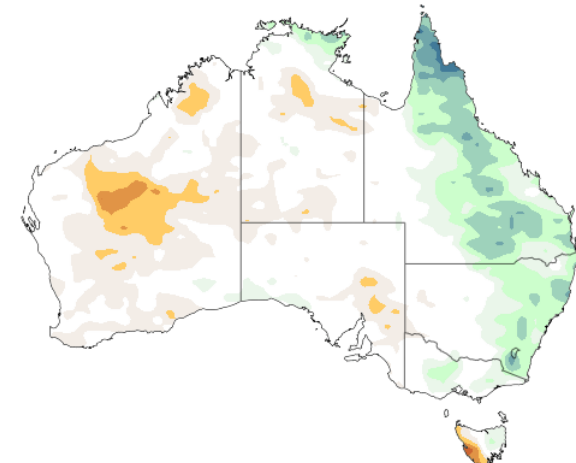
## RAINFALL PERCENTAGES

November month to date



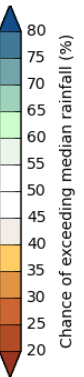
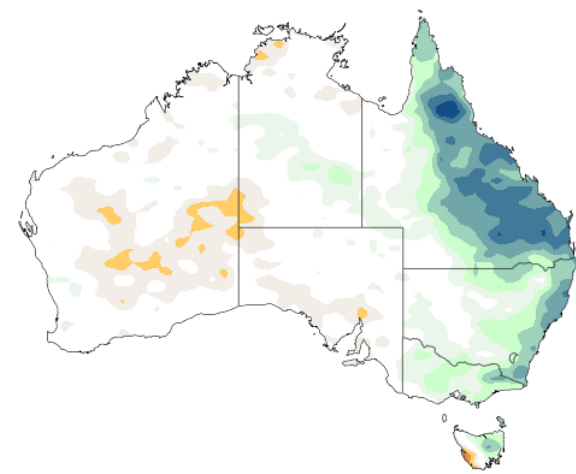
## BOM RAINFALL OUTLOOK

December 2021



## BOM RAINFALL OUTLOOK

December 2021 – February 2022

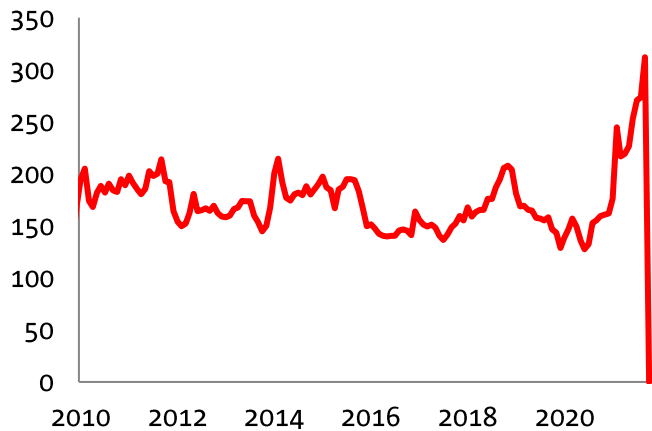




# FARM INPUTS

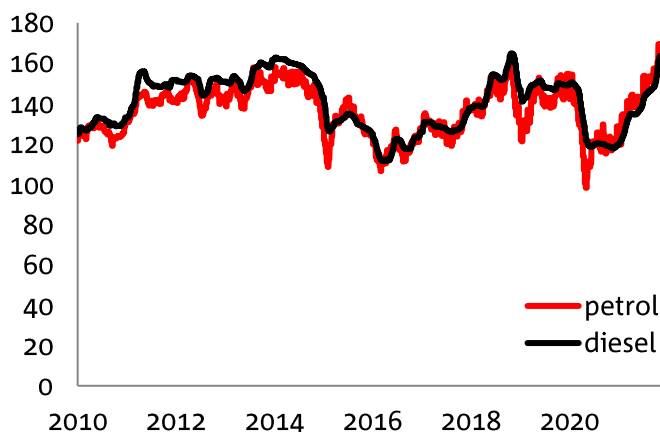
## NAB FERTILISER INDEX

AUD index



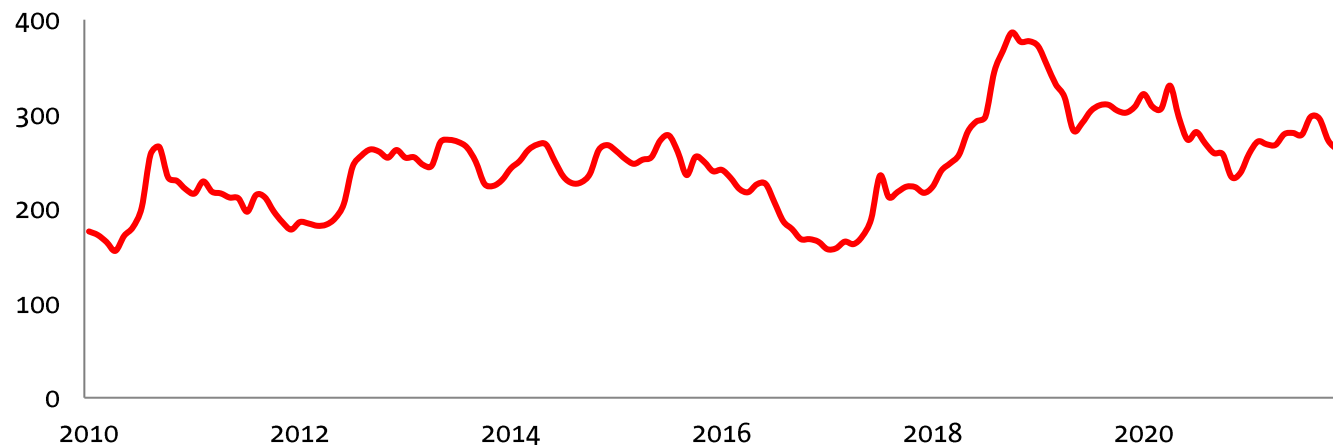
## NATIONAL AVERAGE FUEL PRICES

AUc/litre



## NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Input prices continue to surge, largely reflecting movements in oil prices following a pandemic-induced slump as well as elevated gas demand across Europe and Asia.

Oil prices have fallen somewhat recently, reflecting US plans to tap into strategic reserves to dampen price pressures. It is not clear that this will offset higher demand, combined with the consequences of lower drilling activity. The challenges for gas are if anything more substantial. Demand across Europe and Asia remains elevated and Russia-Ukraine tensions could see further price increases in Europe this northern winter.

Gas prices continue to put a rocket under our fertiliser index. Fertiliser prices have risen 110% in the year to October, with further increases essentially locked in for November.

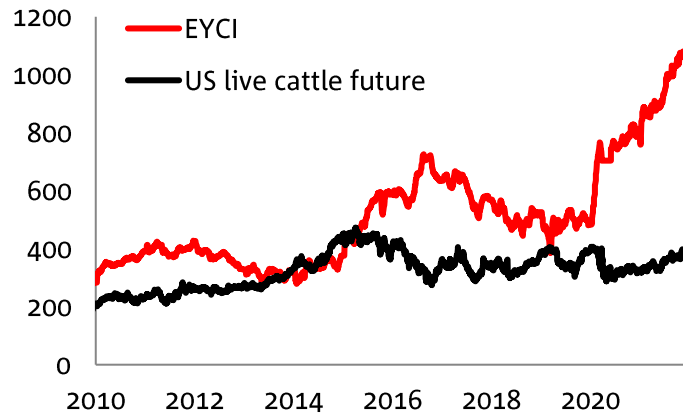
Australian fuel prices have hit record highs this year. If oil prices increase further there is potential for further upside.

Our feed grain price index was down again last month, despite global rallies. There is still old season crop available, which combined with quality downgrades this season due to late rain, should keep domestic prices below global benchmarks

# LIVESTOCK

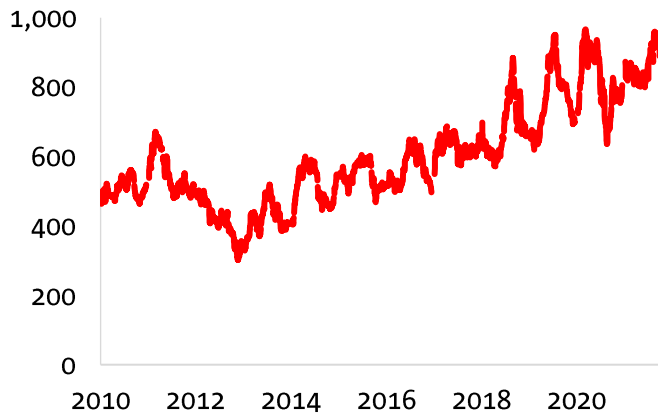
## CATTLE

AUc/kg



## LAMB

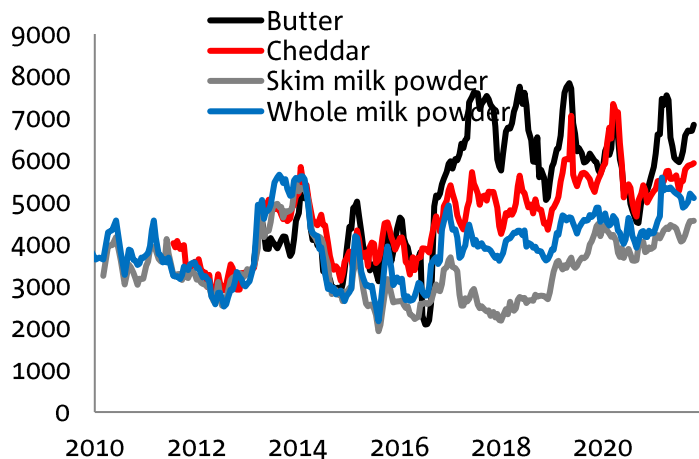
ESTLI, AUc/kg



The EYCI has now broken \$11/kg, likely reflecting further rain events bolstering the restocker market. A lot more rain is forecast this summer for eastern and northern Australia and grass fever could push prices even higher. However, how resilient is the market to dry conditions that will surely arrive eventually? Our view remains that fundamentals do not support prices anywhere near these levels if weather conditions return to drier than average. Ultimately, prices remain out of step with trends in global markets and at some point Australian markets will need to adjust accordingly.

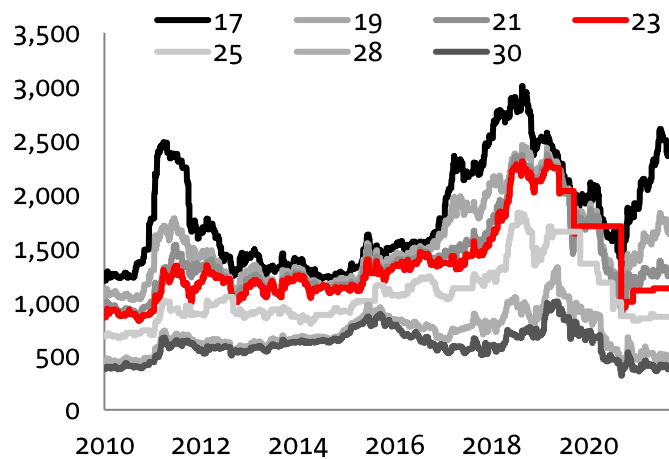
## GDT AUCTION RESULTS

AUD/tonne



## WOOL

Southern region, by micron, AUc/kg



The traditional spring flush is now well underway in lamb markets, having started a little late this year. Trade lamb was as down as low 800s around two weeks ago, but is now back above 850c/kg. Wool prices have been mixed to slightly lower recently, with EMI at 1324c/kg last week.

Global dairy trade auction results are back into positive territory. The last three auctions have seen the index move higher in USD terms and a lower AUD has boosted this impact. Overall, global markets continue to offer good support to already strong farmgate prices.

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

# WINTER CROPS

November has brought if anything too much rain to already wet cropping regions in Australia's east. This has pushed harvest back weeks in some areas and could see some quality downgrades. But overall, we remain squarely on track for a monster winter crop. ABARES forecast 32.6mmt of wheat in its September update, a near-record wheat crop. There has probably been more upside since, although late rains could temper expectations somewhat.

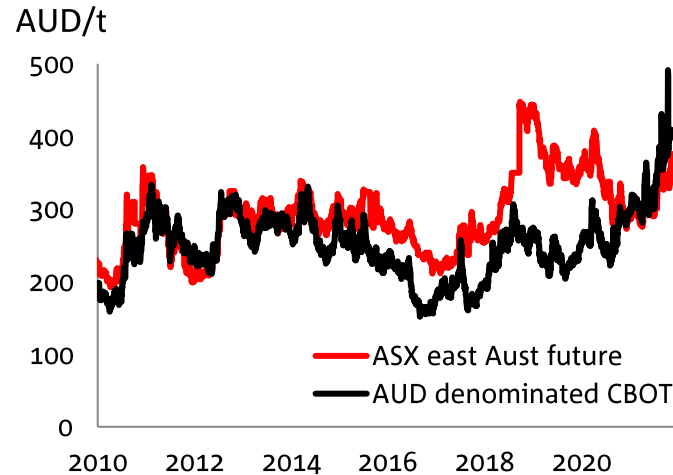
Grain prices are once again on the rise, reflecting a lower AUD and most importantly strong global price action. Harvest prices are likely to substantially exceed what was expected just a few months ago.

Last month we upgraded our December quarter price forecast from \$350/t to \$375/t. If the current global rally persists, this should reach Australian prices.

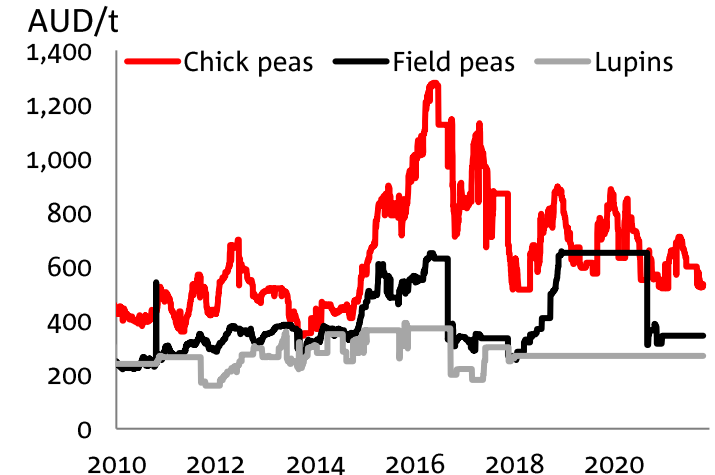
Canola has pulled back somewhat from its earlier rally, which had seen prices almost \$1,000/t at the Port of Newcastle. Nonetheless, producers should expect excellent returns this season.

Barley prices remain fairly low compared to other winter crops, reflecting the hangover from the China trade ban.

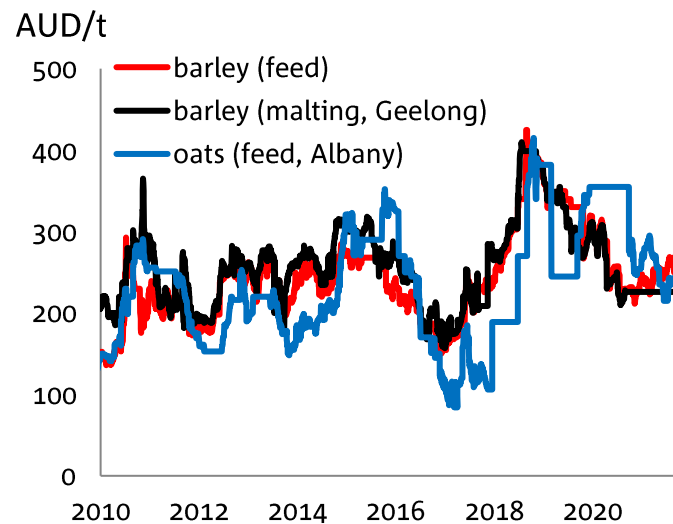
## WHEAT



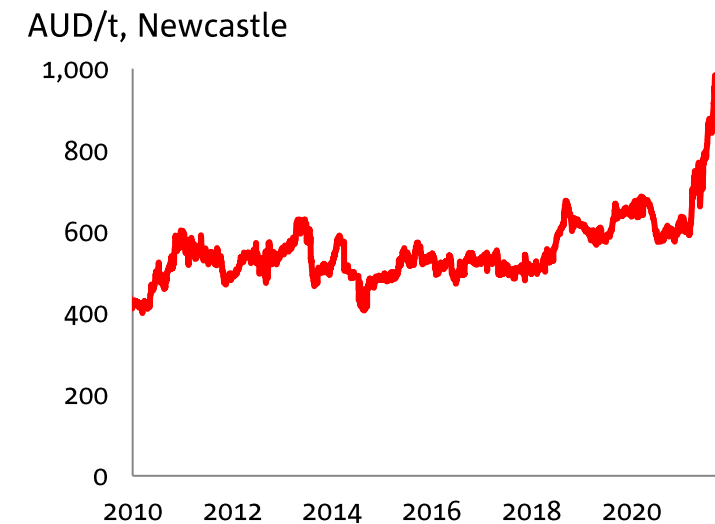
## PULSES



## COARSE GRAINS



## CANOLA



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

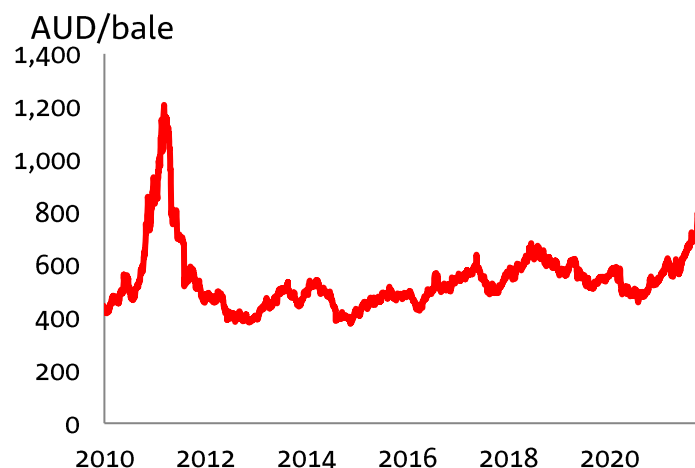
# SUMMER CROPS, SUGAR AND HORTICULTURE

The cotton price rally rolls on, representing great news for growers after challenging times in 2018 and 2019. Cotlook A in AUD terms/bale has averaged over \$850 for November to date, the highest in a decade. Seasonal conditions are excellent, reflecting replenished storages and good dryland performance. ABARES' latest forecasts suggest that Australian cotton lint production will almost equal 2017-18 and be the third highest on record.

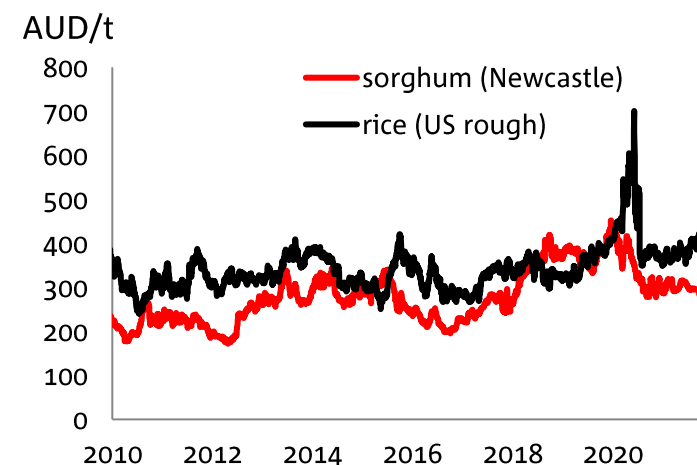
The sugar rally looks to have topped out for now, but overall AUD denominated prices are still at their best level in nearly 5 years. The catalyst for this years rally lay in drought and frost activity in Brazil, but oil price gains should cement this in coming months.

Wholesale fruit and vegetable prices were mixed in October, with fruit up 1.0% but vegetables down 5.6%. As has been the case since the start of the pandemic, labour availability will remain a challenge until normal travel returns.

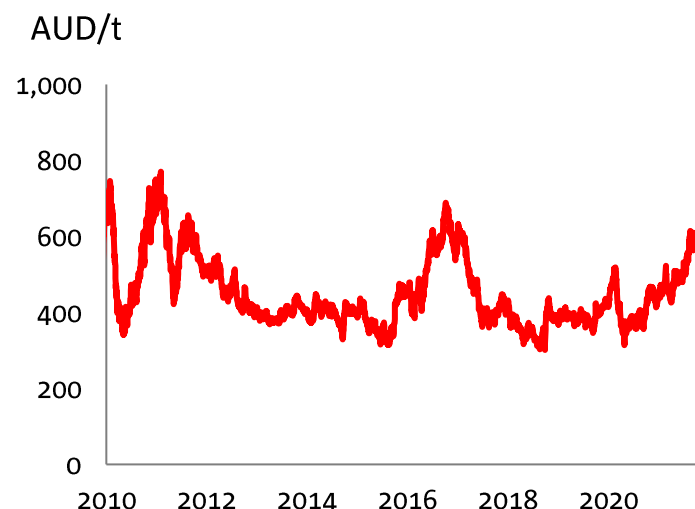
## COTTON



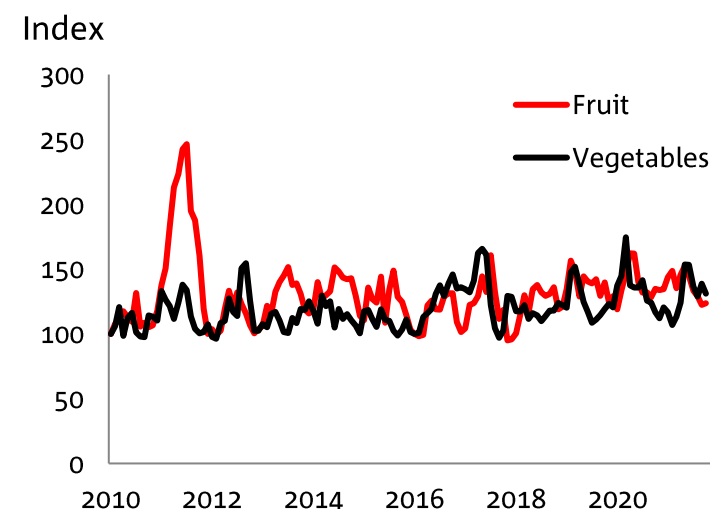
## SORGHUM AND RICE



## 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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