

RURAL COMMODITIES WRAP



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KEY POINTS

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- 3 | Seasonal conditions
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The new year has been kind (to mostly kind), to Australian agriculture overall. Prices are mostly very strong and seasonal conditions are wetter than average.

The La Nina event, underway since last November, is now at or near its peak, bringing monsoonal conditions to Victoria, South Australia and New South Wales. While central Queensland has been much drier than average recently, the seasonal picture continues to put a floor under already hot livestock prices. Consistent with a La Nina event, Western Australia has experienced a drier than average summer. While the three-month outlook for autumn remains average to wetter than average across most areas, it will be difficult to see a season as good as the previous two record-breakers. This has potential implications for grain production and livestock prices.

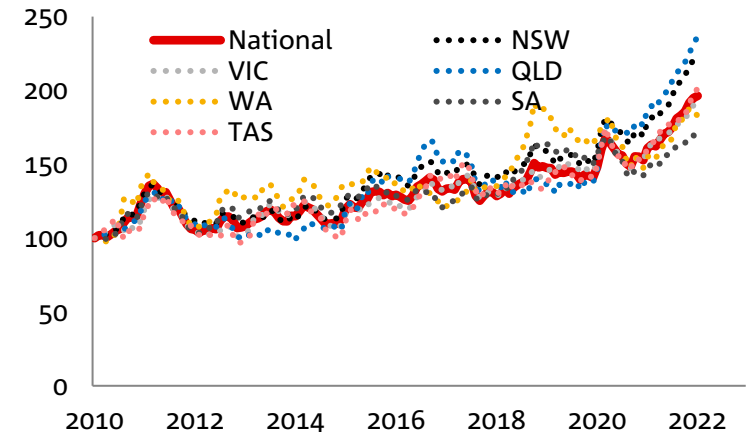
The **NAB Rural Commodities Index** ticked up another 0.7% on a monthly basis in January - its tenth consecutive gain to another record high. The index is now 22% higher than the same time in 2021.

Rising oil and gas prices continue to affect farm inputs, notably fertiliser. While USD denominated DAP and urea prices eased a little in January, they are up 273% and 311% respectively since the beginning of the pandemic in January 2020. This is clearly a global challenge and could have broader implications for crop production and profitability in 2022.

The AUD is trading at around 71 US cents, having briefly broken below 70 late last month. Expectations of imminent US rate rises, geopolitical concerns (notably Ukraine) and a general lack of risk sentiment amid equity market weakness, have boosted the USD. We now see the RBA hiking rates in November this year, with follow-ups in December 2022 and February 2023, taking the cash rate to 0.75% in just over a year's time.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Nov	Dec	Jan
Wheat	▲ 12.2%	▼ 0.3%	▼ 6.6%
Beef	▲ 2.9%	▲ 4.3%	▲ 3.5%
Dairy	▲ 10.7%	▲ 5.9%	▲ 2.5%
Lamb	▼ 6.2%	▲ 0.6%	▼ 1.1%
Wool	▼ 0.7%	▲ 1.8%	▲ 1.9%
Sugar	▲ 2.2%	▼ 1.1%	▼ 4.0%
Cotton	▲ 9.4%	▼ 3.2%	▲ 9.2%

* 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

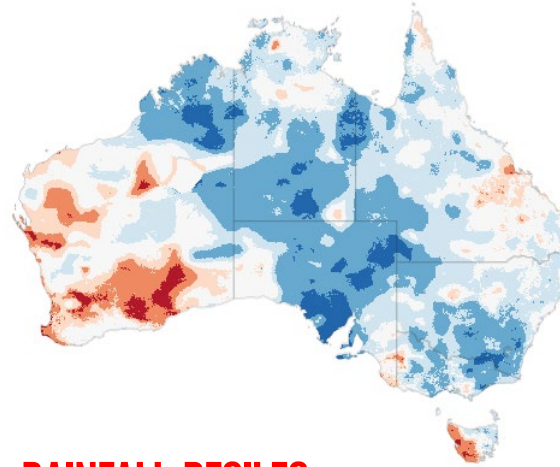
The La Nina event, underway since last November, is now at or near its peak, bringing monsoonal conditions to Victoria, South Australia and New South Wales. While central Queensland has been much drier than average recently, the seasonal picture continues to put a floor under already hot livestock prices. South-west Tasmania is also much drier than average, but mostly outside agricultural regions.

Consistent with a La Nina event, Western Australia (with the exception of the Kimberley) has experienced a drier than average summer.

While the three-month outlook for autumn remains average to wetter than average across most areas, it will be difficult to see a season as good as the previous two record-breakers.

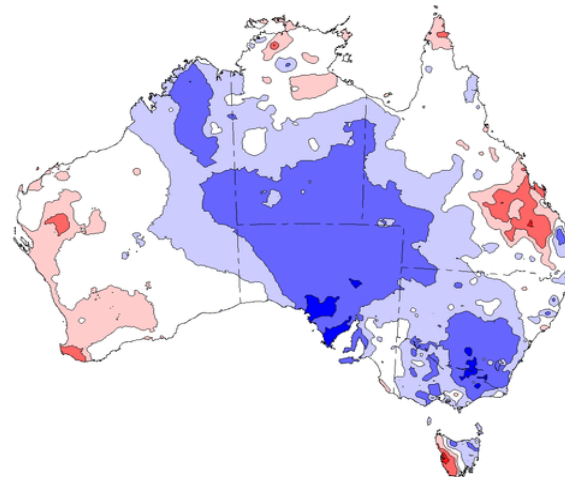
ROOT ZONE SOIL MOISTURE

31 January



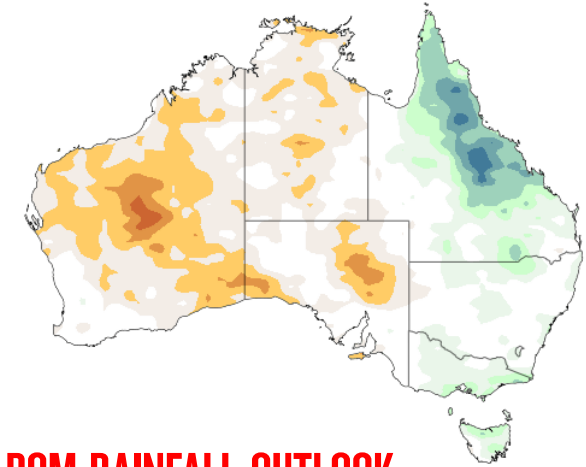
RAINFALL DECILES

January



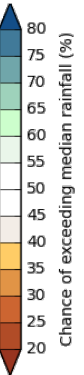
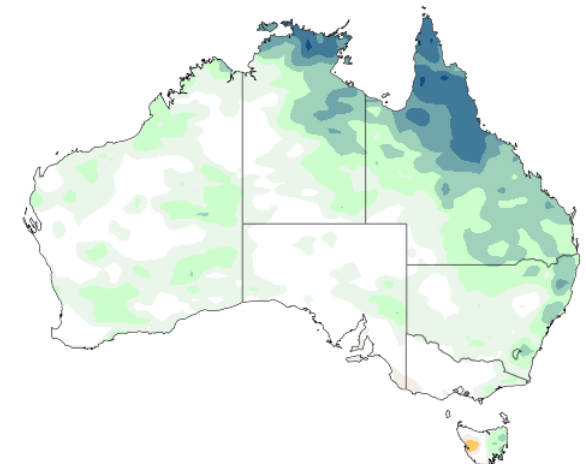
BOM RAINFALL OUTLOOK

February



BOM RAINFALL OUTLOOK

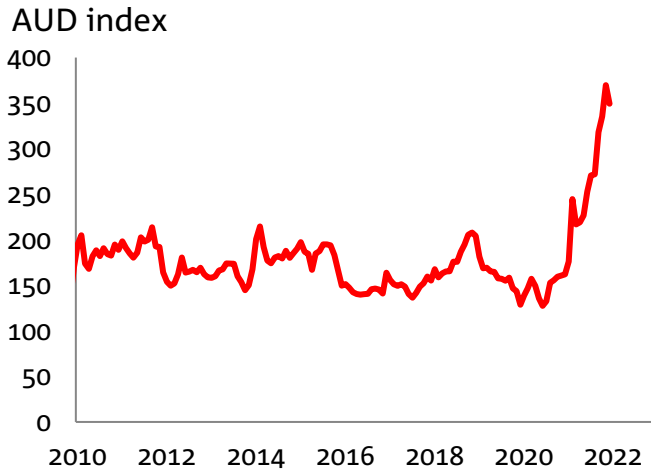
March – May



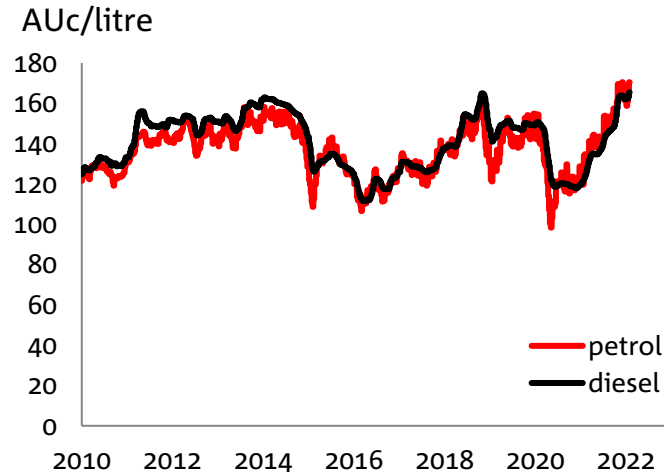
Source: Bureau of Meteorology

FARM INPUTS

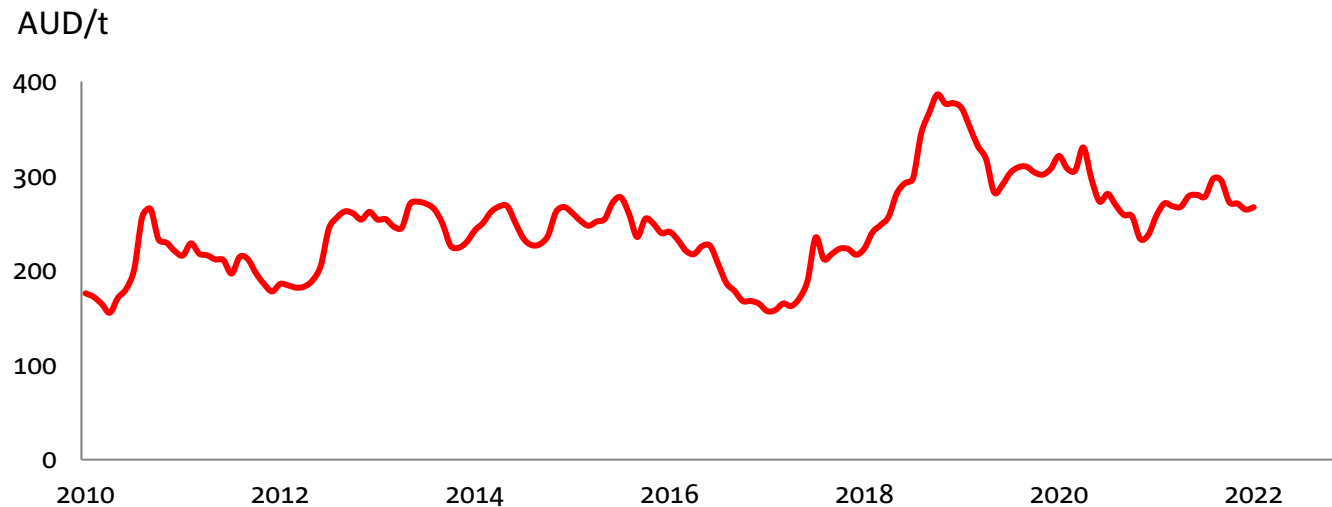
NAB FERTILISER INDEX



NATIONAL AVERAGE FUEL PRICES



NAB FEED GRAIN PRICE INDEX



Source: Bloomberg, Profarmer and NAB Group Economics

Input prices continue to present a challenge, although high agricultural commodity prices have more than offset the pressure for most producers.

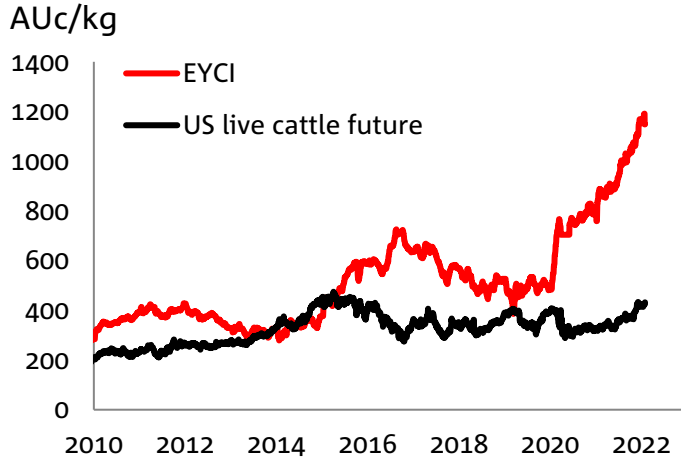
While fertiliser eased a little in late 2021 (with DAP and urea both a little lower in January too), the trajectory of these markets will be heavily sensitive to oil and gas prices. Brent is now hovering around the USD94/bbl range and gas will be very sensitive to geopolitical tensions, notably in Ukraine. This makes the forecast track difficult to pick, at least until northern winter has passed.

Domestic petrol prices continue to rise, following the lead from oil and a weaker AUD. National petrol prices closed out the final week of January at 170c/l a litre, with diesel at 165c. Anecdotally there has been some further upside for diesel early this month. It is likely these price pressures will continue in 2022.

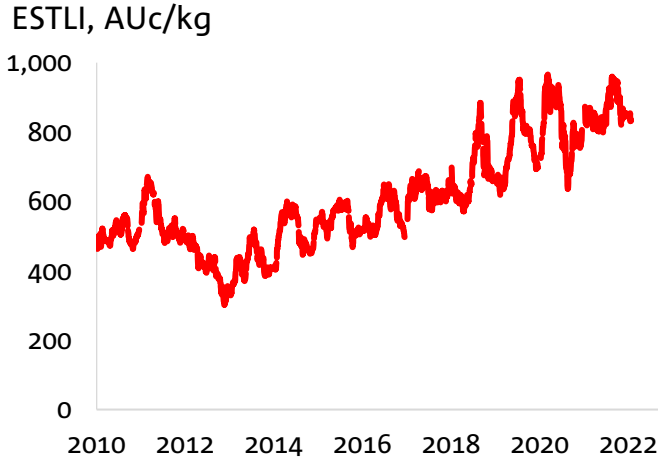
Our feed grain price index has gone sideways for three months, with strong global prices balanced against a surplus of feed grade grain domestically and high shipping costs. Grain supplies should remain strong through 2022 based on strong recent harvests.

LIVESTOCK

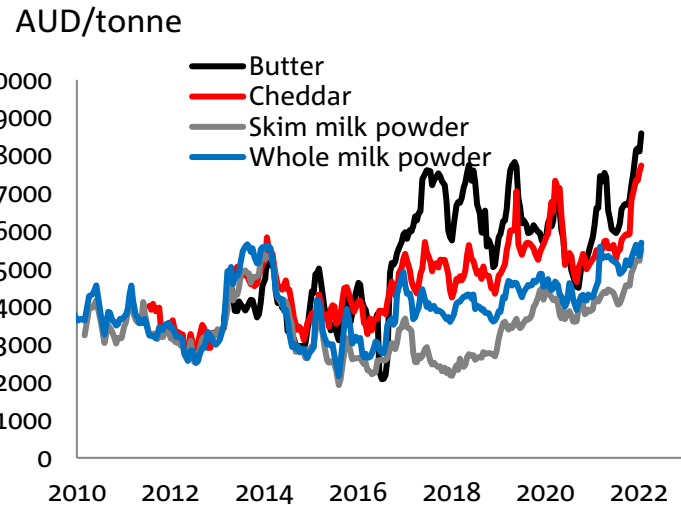
CATTLE



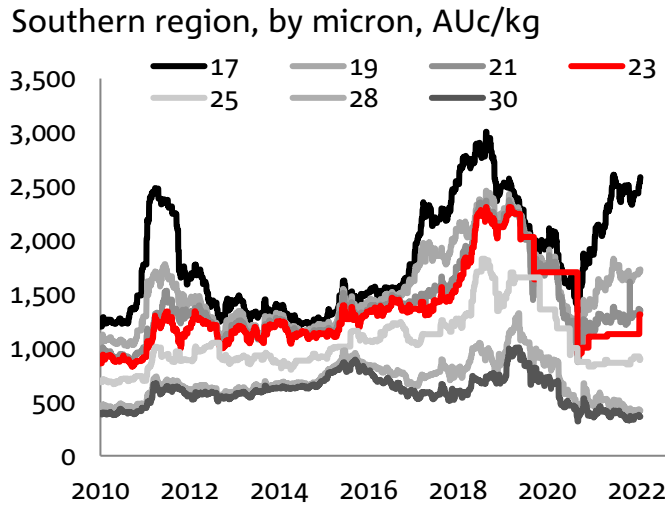
LAMB



GDT AUCTION RESULTS



WOOL



The EYCI came close to \$12/kg in late January, but has now fallen back to around \$11/kg, still close to record levels. Rain has been the key driver of young cattle prices since early 2020, reflecting very strong seasonal conditions and a depleted national herd. Processor demand has been strong, although domestic prices are now so detached from global fundamentals that export viability could be an increasing issue. It remains our long-standing view that these prices are not sustainable in the face of a return to a “normal” or even below average season. The wet summer has prolonged the peak, but we see EYCI breaking the \$10 level on the way down around mid-year, with further falls in the back half of 2022.

Lamb has now eased post-spring flush, hovering in the 850c range since November. 2021’s winter peak was around the same level as 2019 and 2020, suggesting that the 2012-2020 run-up in prices has now probably reached its maximum level. But prices around these levels still represent excellent returns for growers. Wool prices have been mixed to slightly higher recently, with EMI at 1407c/kg last week.

All three global dairy trade auctions this year have been positive, the latter two especially. Our export price index is now well above any time in the last decade, representing very good news for producers.

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

WINTER CROPS

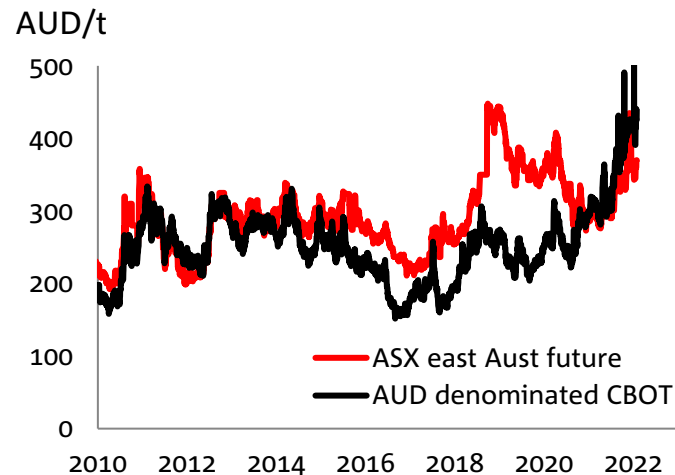
Summer brought a generally excellent harvest in the eastern states - late rain issues notwithstanding. While the La Nina was a challenge for harvest, the summer rainfall tallies (especially in Victoria, NSW and SA), should keep soil moisture levels high enough for a good start to the 2022-23 season, even if the break is late.

Grain prices have been generally very strong, although have pulled back a little in the new year. ASX eastern states wheat futures averaged over \$380/t in November and December, pulling back to \$356 in January. High global fertiliser prices, geopolitical uncertainty in Ukraine and patchy global growing conditions have kept wheat elevated – a trend likely to continue in the first half of 2022.

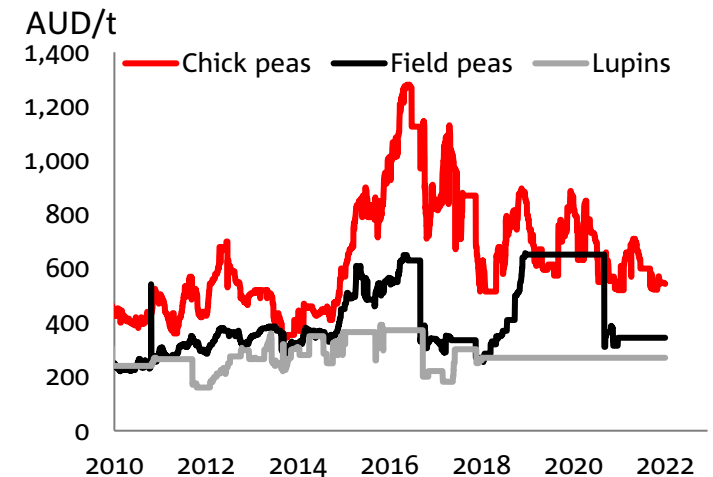
Canola has now pulled pack substantially from its earlier rally, which had seen prices close to the \$1,000/t range. It seems unlikely at this stage that we will see a similar peak in 2022.

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

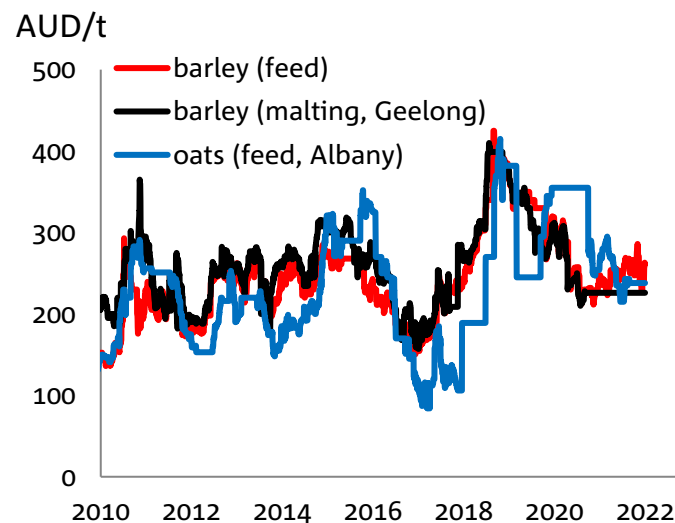
WHEAT



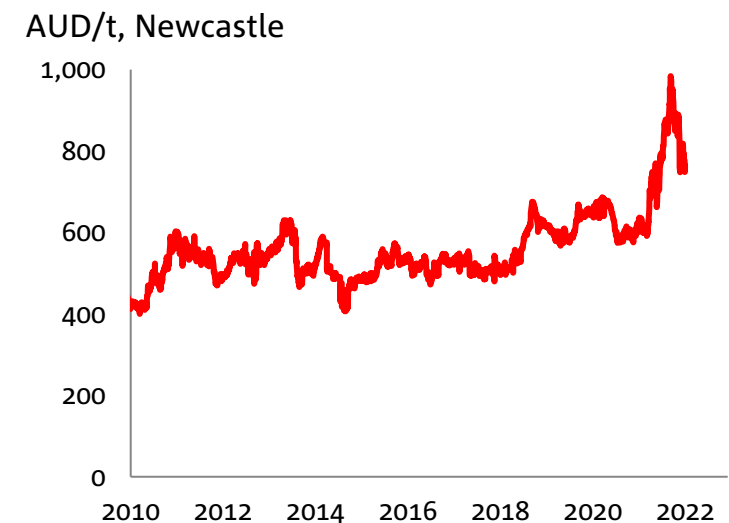
PULSES



COARSE GRAINS



CANOLA



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

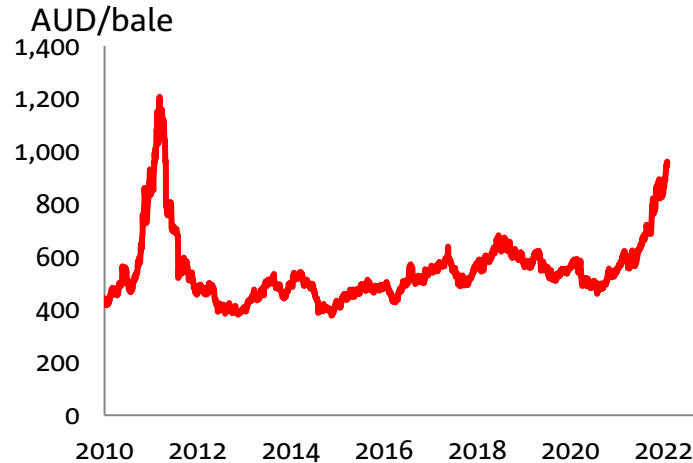
SUMMER CROPS, SUGAR AND HORTICULTURE

The cotton price rally continues, with AUD denominated Cotlook at closing in on \$1000/bale, the best result in 11 years. Seasonal conditions are excellent, reflecting replenished storages and good dryland performance.

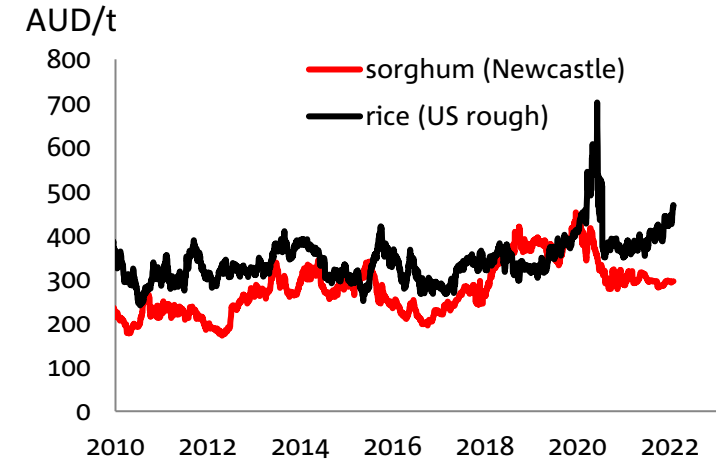
The sugar rally has peaked, but has only declined very moderately since November. Oil price gains should provide a support to prices in coming months.

Wholesale fruit and vegetable prices were mixed in January, with vegetables off 0.6%. Fruit saw declines in late 2021, but was up 3.9% last month.

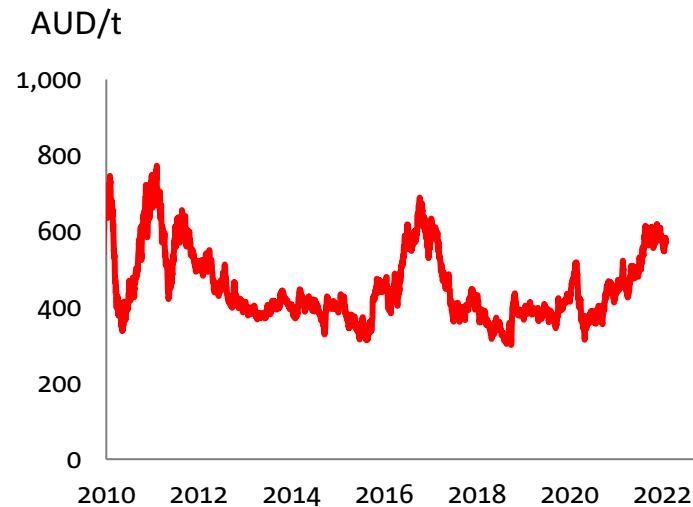
COTTON



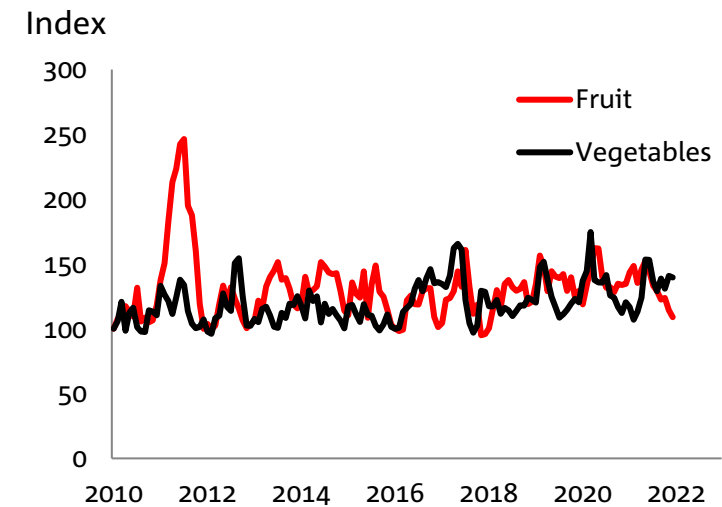
SORGHUM AND RICE



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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