

RURAL COMMODITIES WRAP



MARCH 2022

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KEY POINTS

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Russia's invasion of Ukraine a month ago has sent shockwaves through agricultural commodity markets across the globe. Grains, fertiliser and oil prices have all seen substantial increases (as well as volatility), as a result, with considerable uncertainty over production at risk in Ukraine. While western sanctions do not extend to Russian agricultural products, the old commodity trading routes of the Cold War are being re-established.

Farm inputs prices are a mounting concern for 2022. Fertiliser has seen a sustained uplift since the onset of the pandemic and the war in Ukraine has only exacerbated the challenges. Meanwhile, diesel has exceeded \$2.20/l in some areas.

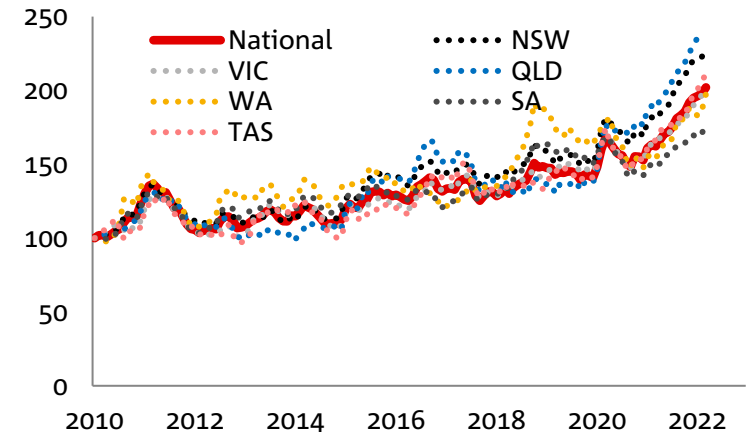
Meanwhile, the La Nina event that began last November continues, with the earlier weakening stalling in March. The event has seen destructive storms across parts of Queensland and New South Wales, as well as high rainfall in some agricultural districts. Meanwhile, other regions remain drier than average. Much of northern Queensland and the Northern Territory is abnormally dry. Given the traditional start to the winter cropping seasons is just a month away, producers in some southern regions are looking for more rain.

The **NAB Rural Commodities Index** ticked up another 0.9% on a monthly basis in February - its eleventh consecutive gain to another record high. Our latest partial data for March points to a roughly 2% gain in the month. The index is now over 20% higher than the same time in 2021.

The AUD has risen to the mid-70s range, as higher commodity prices muscle out risk-off effects. We see the currency reaching around 77c at the end of the year. Inflation is a rising concern, although is yet to hit Australia to the same extent as some other countries. We now expect the RBA to start raising the cash rate in August 2022.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Jan	Feb	Mar
Wheat	▼ 6.4%	▲ 2.0%	▲ 8.9%
Beef	▲ 2.3%	▼ 2.9%	▼ 0.5%
Dairy	▲ 2.5%	▲ 10.1%	▲ 5.8%
Lamb	▼ 0.2%	▼ 2.5%	▼ 2.5%
Wool	▲ 1.9%	▲ 3.1%	▼ 1.2%
Sugar	▼ 4.0%	▼ 1.2%	▲ 2.1%
Cotton	▲ 9.7%	▲ 4.9%	▼ 3.3%

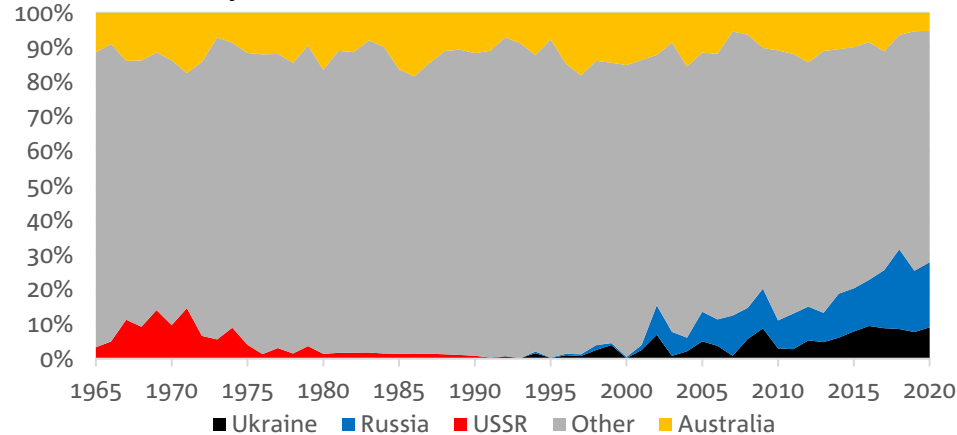
* To 23 March
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



CHARTS OF THE MONTH

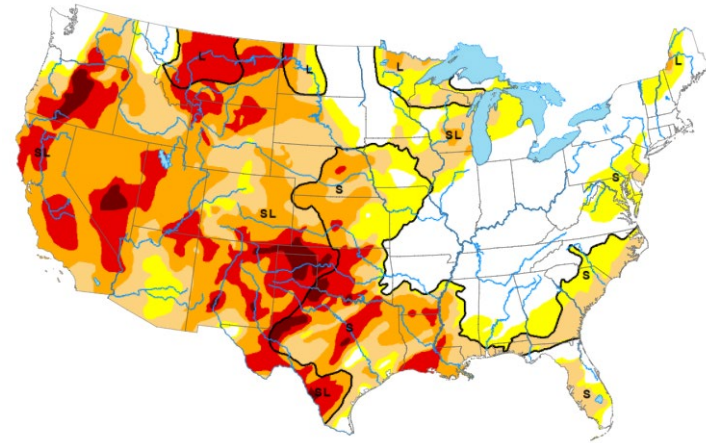
SHARE OF GLOBAL WHEAT EXPORTS – SELECTED COUNTRIES

Share of total by volume



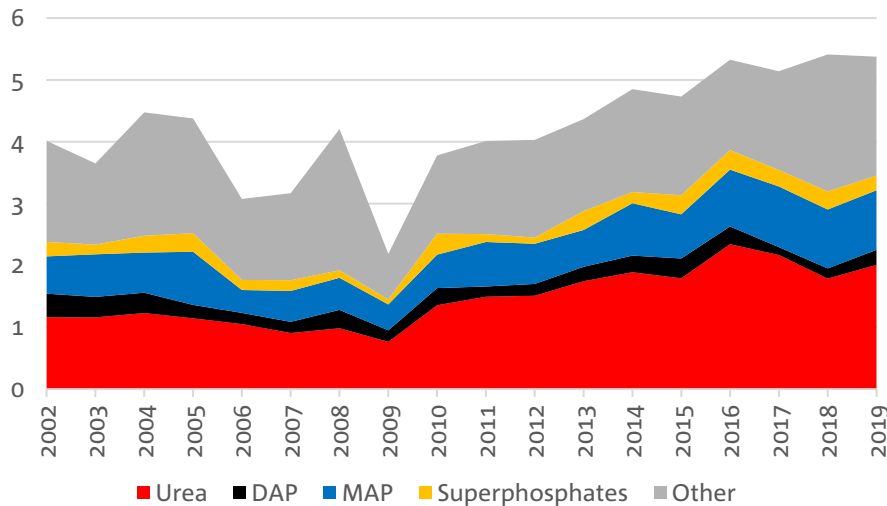
US DROUGHT MONITOR

15 March



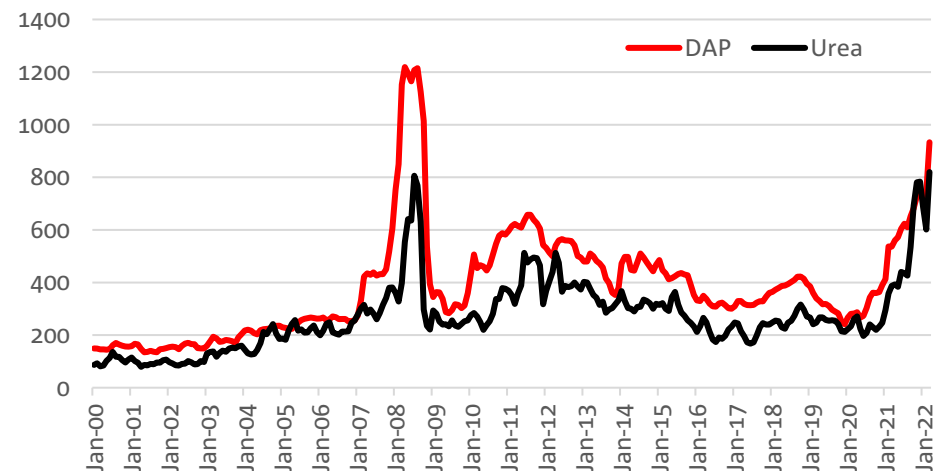
AUSTRALIAN FERTILISER IMPORTS BY TYPE

MTPA



DAP AND UREA PRICES

USD monthly average



SEASONAL CONDITIONS

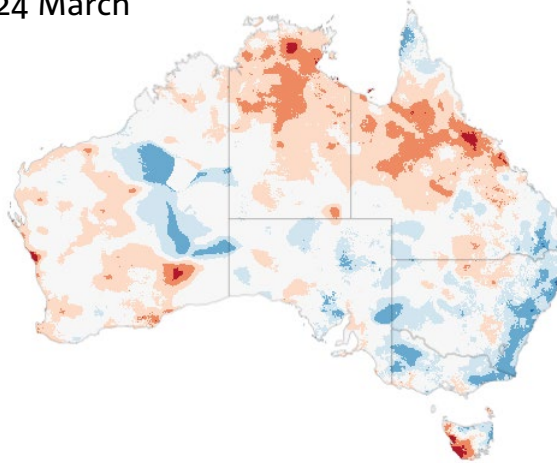
The La Nina event, underway since last November, weakened somewhat in February but this has stalled in March as trade winds remain stronger than average over the western Pacific. This brings an increased risk of tropical cyclones, although we are reaching the tail end of the season.

The event has seen destructive storms across parts of Queensland and New South Wales, as well as high rainfall in some agricultural districts. Meanwhile, other regions remain drier than average. Much of northern Queensland and the Northern Territory is abnormally dry. Given the traditional start to the winter cropping seasons is just a month away, producers in some southern regions are looking for more rain.

The three month outlook for April to June points to a potentially very wet period in the tropical north and wetter than average to average conditions elsewhere, with the notable exception of the WA wheatbelt, where average to drier than average conditions are forecast. It is important to note that autumn long range outlooks typically have relatively low confidence.

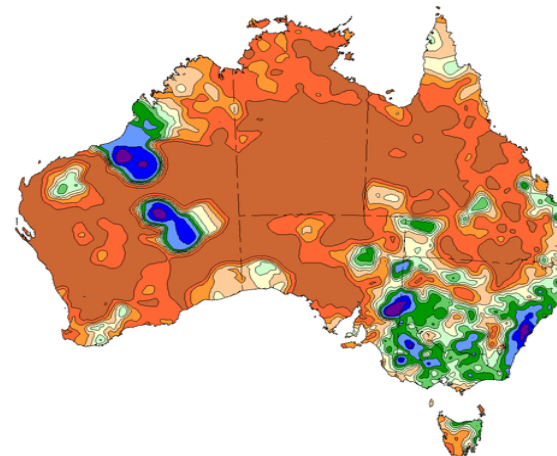
ROOT ZONE SOIL MOISTURE

24 March



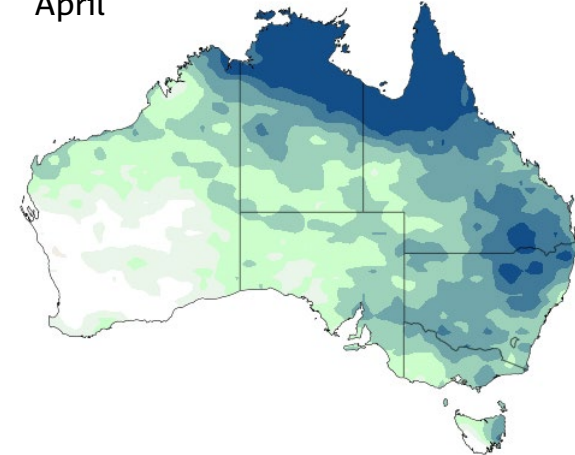
RAINFALL PERCENTAGES

March to date (24 March)



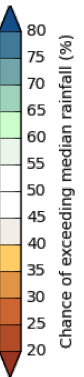
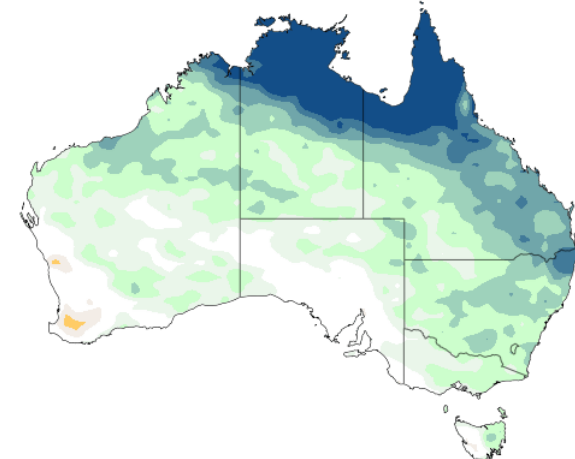
BOM RAINFALL OUTLOOK

April



BOM RAINFALL OUTLOOK

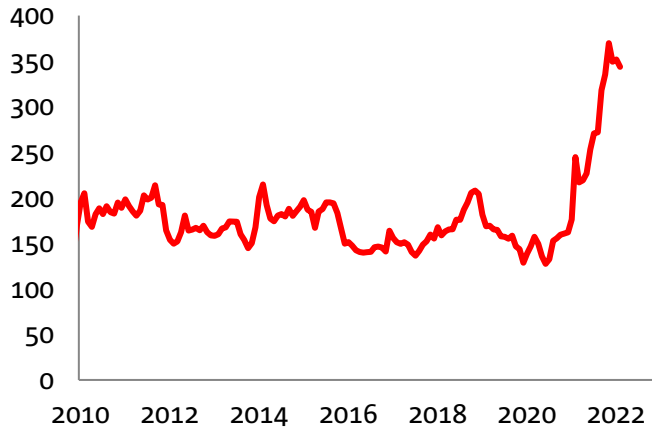
April – June



FARM INPUTS

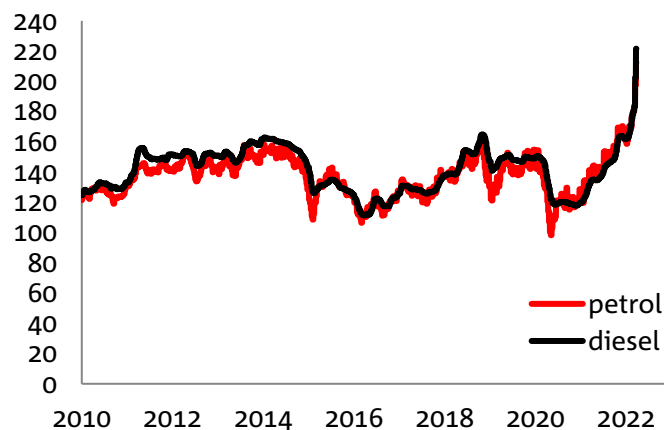
NAB FERTILISER INDEX

AUD index



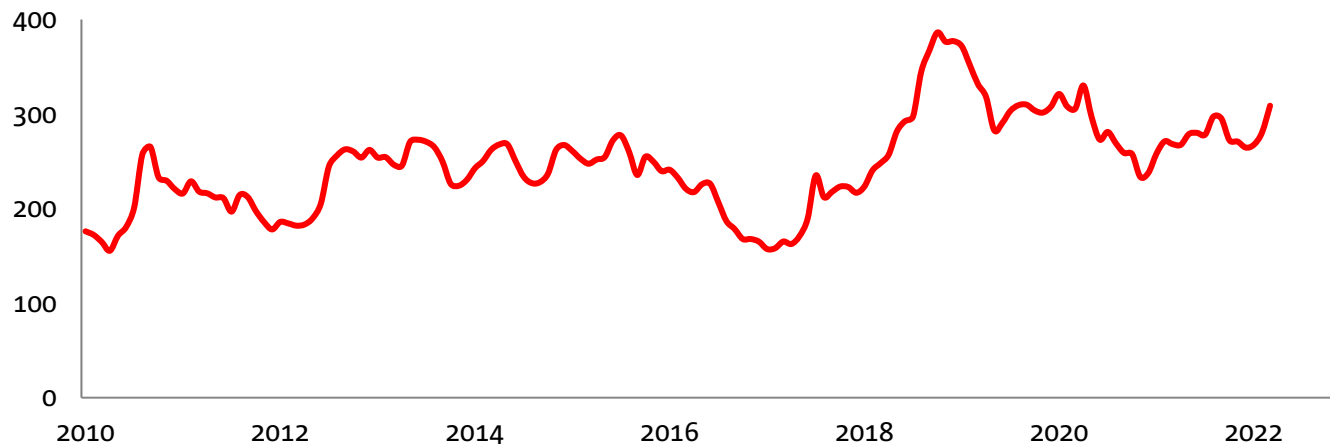
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Input prices present a challenge this year, especially ahead of winter crop planting which is just a month away. While high agricultural commodity prices combined with generally very good production have more than offset the pressure for most producers so far, this could be less of a comfort as the year rolls on.

Overall, our fertiliser index was up 40.5% on a year on year basis in February, and 119% compared to the same time in 2020.

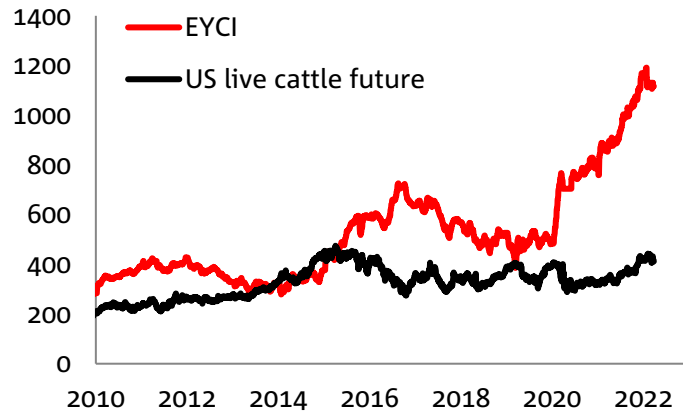
Oil prices have been extremely volatile over the last month. Brent is now hovering around USD120/bbl range, but with large daily swings fairly common, this could well move significantly. This has led to a sharp rise in domestic fuel prices, especially for diesel. National average diesel prices exceeded 220c/l last week. While prices have anecdotally eased over the past few days, upside risks remain.

Our feed grain price index has started to rise again, as a rising global grain price tide lifts all boats. While domestic feed grain is extremely plentiful following a record winter crop, combined with a wet finish downgrading substantial quantities, global price surges will see further upside for domestic customers.

LIVESTOCK

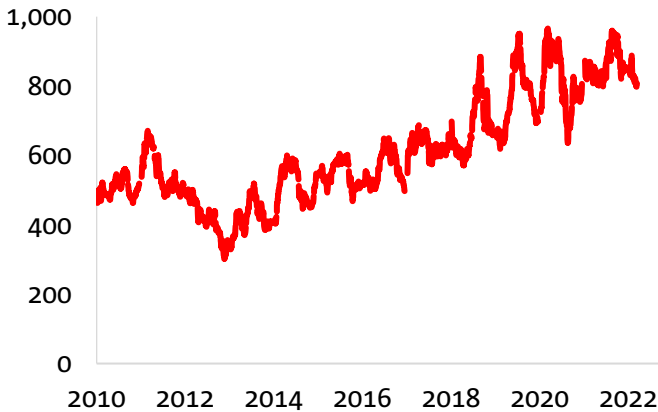
CATTLE

AUc/kg



LAMB

ESTLI, AUc/kg



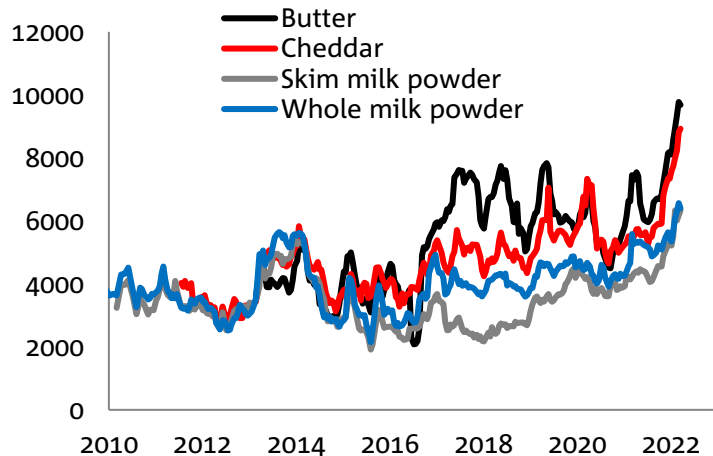
The EYCI has eased a little from its record highs of almost \$12/kg in late January, now hovering at around \$11/kg, a level it has held for around six weeks. With rainfall the key driver of young cattle prices over the last two years, drier conditions in parts of Queensland cattle country may be dampening demand slightly. That said prices remain extremely elevated compared to historic norms. 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.

Lamb prices have now dropped slightly below 2021 levels and more substantially below 2020 levels. This is in keeping with our view that the 2012-2020 run-up in prices has now probably peaked. But prices around these levels still represent excellent returns for growers. Importantly, we do not anticipate major risks for lamb. Wool prices have been a little lower of late, with EMI at 1384c/kg last week. The higher AUD has been a challenge - a trend which we expect to continue in 2022.

Global dairy trade auctions this year have been on an absolute tear this year, blowing previous peaks out of the water. Farmgate prices are already high, but if these global results continue there could be further upside.

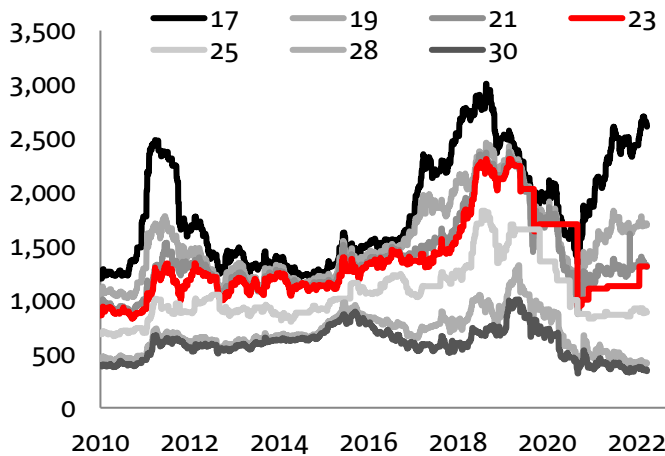
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



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

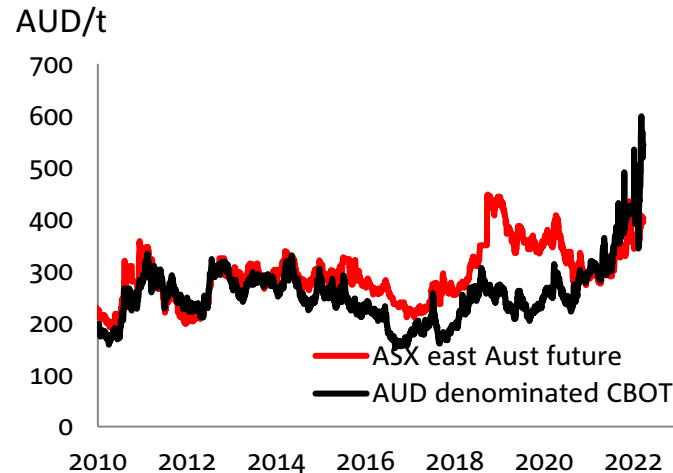
WINTER CROPS

The Russian invasion of Ukraine has caused havoc with global grain markets. Russia and Ukraine combined constitute around 25-30% of global wheat exports, a share that has been trending up from well under 5% through the 1990s. This compounds already mixed overseas growing conditions and low global stocks outside China, creating the conditions for high volatility and substantial rallies.

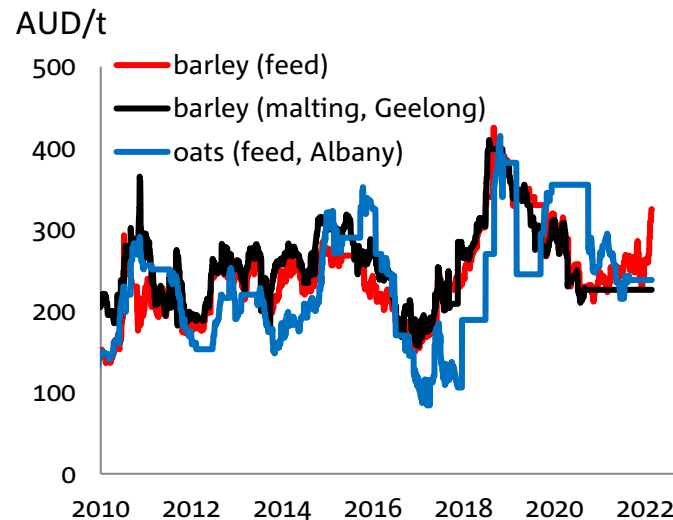
Global wheat indicators have responded accordingly, with CBOT wheat reaching over 14 USD/bushel at one point earlier in March. While Australian wheat has seen price increases (moving into the high-300s to low-400s range), our grains remain under-priced compared to some global benchmarks, reflecting plentiful domestic supply and limits on shipping. But Australian grains will adjust to meet global benchmarks.

Volatility is now very high and it is hard to predict where the market will go, especially given the uncertainty in how much of Ukraine's crop is at risk. Another factor to consider is global growing conditions - the US drought monitor shows challenging conditions across the western half of the US. All of these factors point to potential upside risk in coming months.

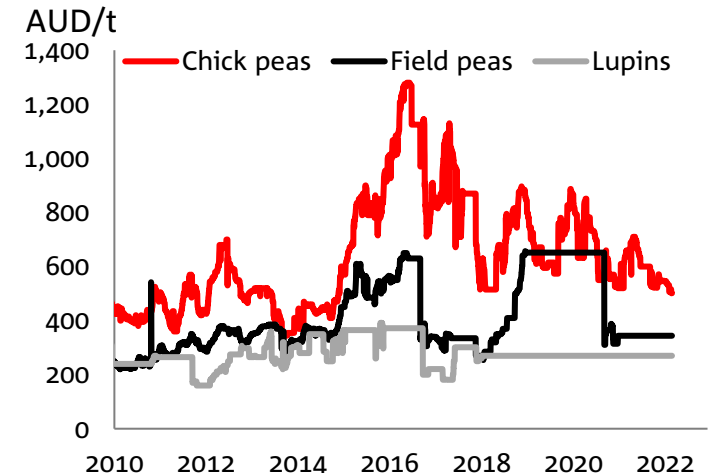
WHEAT



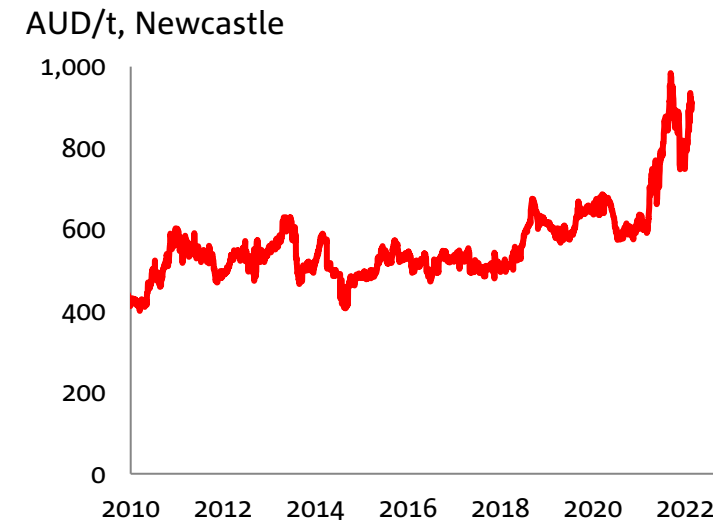
COARSE GRAINS



PULSES



CANOLA



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

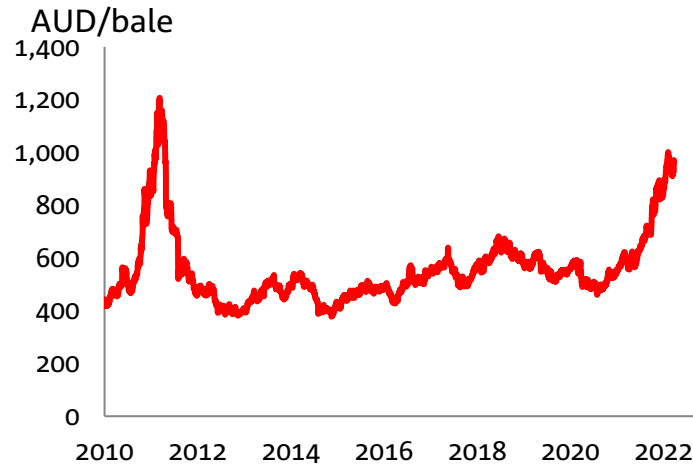
SUMMER CROPS, SUGAR AND HORTICULTURE

The cotton price rally looks to have topped out for now, with AUD denominated Cotlook A hovering in the mid 900s/bale range, the best result in 11 years. Seasonal conditions are excellent, reflecting replenished storages and good dryland performance.

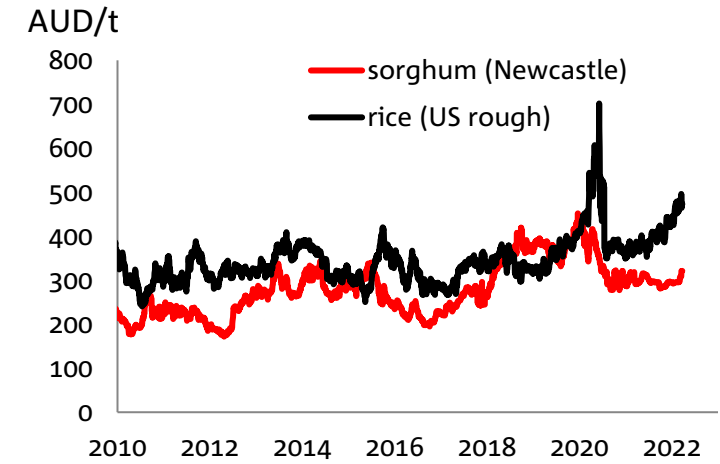
The sugar rally has peaked and now slightly declined, but only very moderately since November. Oil price gains should provide a support to prices in coming months.

Wholesale fruit and vegetable prices were up in January, with vegetables up 1.6% and fruit up 15.0%.

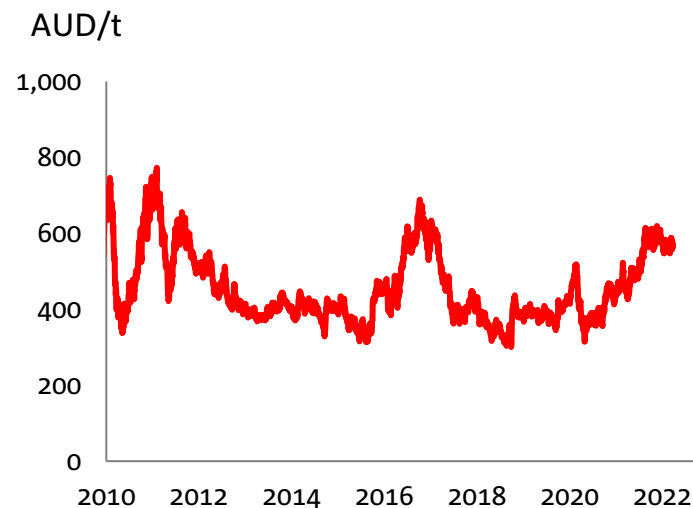
COTTON



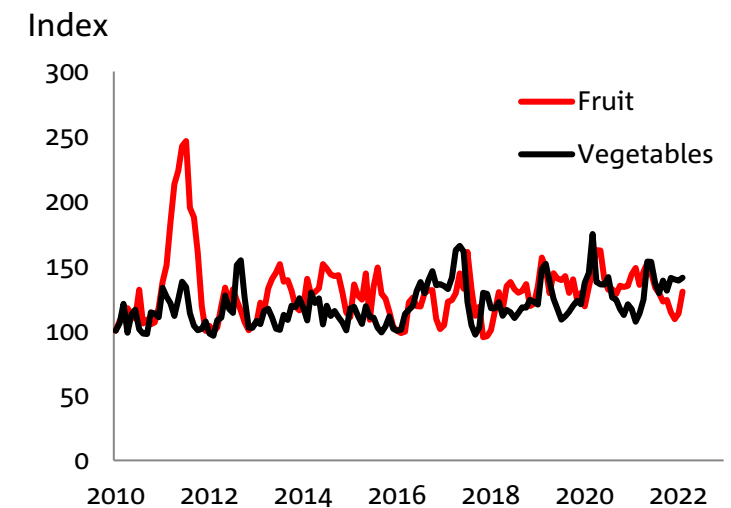
SORGHUM AND RICE



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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