

RURAL COMMODITIES WRAP



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KEY POINTS

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There are three key takeaways from this month's report. Firstly, seasonal conditions are generally good to very good and many areas that needed rain got it ahead of planting. Secondly, commodity prices remain elevated but some may have peaked – the NAB Rural Commodities Index is on track to record a drop in April, the first in 13 months. Thirdly, inflationary pressures continue to mount across the economy. The biggest impact for agriculture continues to be fertiliser and fuel.

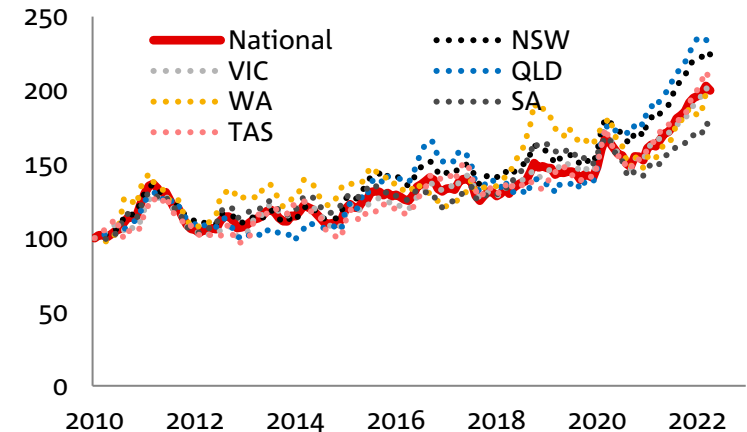
A month ago, we flagged that while much of NSW and south-east Queensland was too wet, other areas were chasing rain. Pleasingly, many dry regions have since seen decent falls ahead of planting, easing concerns around winter crop establishment. Some areas remain dry (notably much of Tasmania, south-west Victoria and south-east South Australia, parts of the WA wheatbelt and parts of central Queensland), but the overall picture is improved and the outlook is wetter than average.

Commodity prices remain generally very elevated, although some (particularly dairy, cattle and sheep) have eased somewhat recently, albeit from record or near-record levels. The NAB Rural Commodities Index rose 2.5% on a monthly basis in March, but is on track for a drop of roughly 1.5% in April, based on partial data. This is the first decline since March 2021.

Rising input costs and inflationary pressures are a substantial challenge across much of the economy. Last month's NAB Monthly Business Survey recorded growth across all four major price and cost measures. Fertiliser and fuel remain the major challenges for agriculture, although labour costs continue to see upward pressure. Meanwhile CPI hit 5.1% y/y in the March Quarter and we now consequently expect the RBA to raise the cash rate next week. We see further upward pressure for the AUD and expect it to hit 80 US cents later this year.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Feb	Mar	Apr*
Wheat	▲ 2.0%	▲ 8.7%	▲ 1.4%
Beef	▼ 2.9%	▼ 1.0%	▼ 2.3%
Dairy	▲ 10.1%	▲ 5.9%	▼ 5.9%
Lamb	▼ 2.5%	▼ 3.2%	▼ 2.4%
Wool	▲ 3.1%	▼ 1.7%	▼ 2.2%
Sugar	▼ 1.3%	▲ 2.0%	▲ 3.3%
Cotton	▲ 4.9%	▼ 1.0%	▲ 9.1%

* To 26 March
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



SEASONAL CONDITIONS

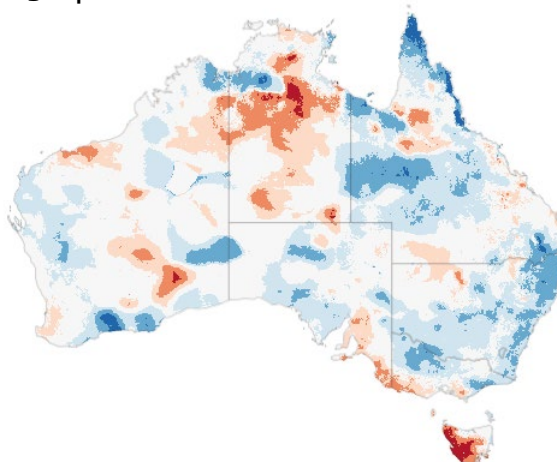
A month ago, we flagged that while much of NSW and south-east Queensland was too wet, other areas were chasing rain. Pleasingly, many dry regions have since seen decent falls ahead of planting, easing concerns around winter crop establishment.

Some areas however remain dry. The greatest areas of concern are in central Queensland (although recent rains have been very welcome there), notably much of Tasmania, south-west Victoria and south-east South Australia and parts of the WA wheatbelt (although the situation in WA is improved from a month ago).

The outlook for the next three months is much wetter than average across almost all of the continent, with the exception of the WA wheatbelt, southern Victoria and western Tasmania. Outlook reliability is generally lower in autumn, but if something resembling this transpires, the winter crop should be well placed for a strong season.

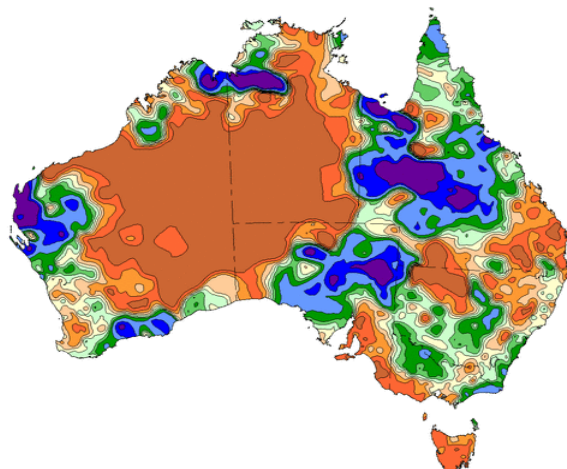
ROOT ZONE SOIL MOISTURE

25 April



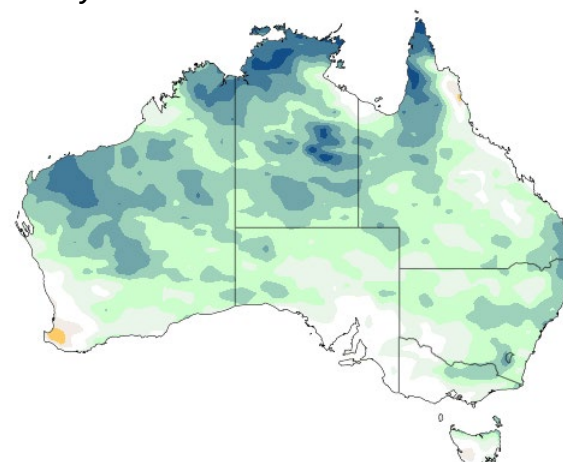
RAINFALL PERCENTAGES

April to date (26 April)



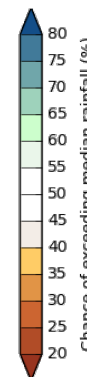
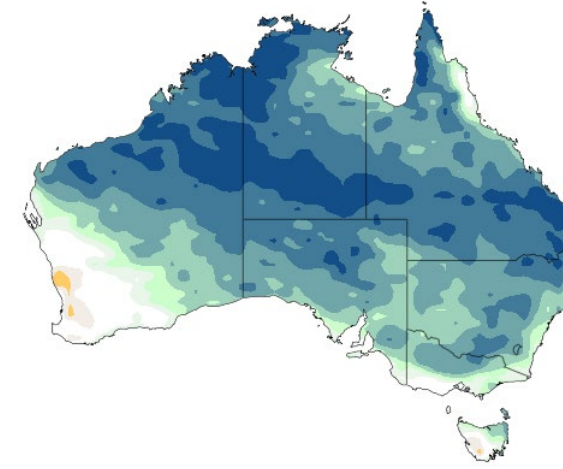
BOM RAINFALL OUTLOOK

May



BOM RAINFALL OUTLOOK

May – July

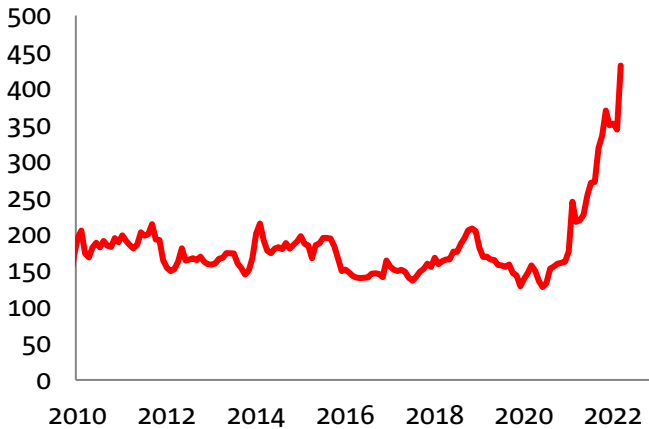


Source: Bureau of Meteorology

FARM INPUTS

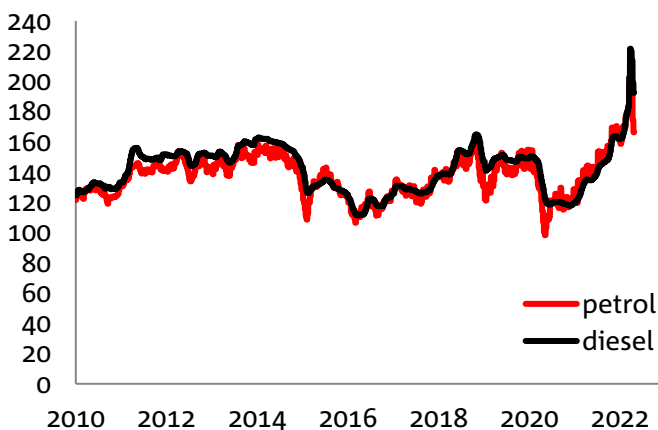
NAB FERTILISER INDEX

AUD index



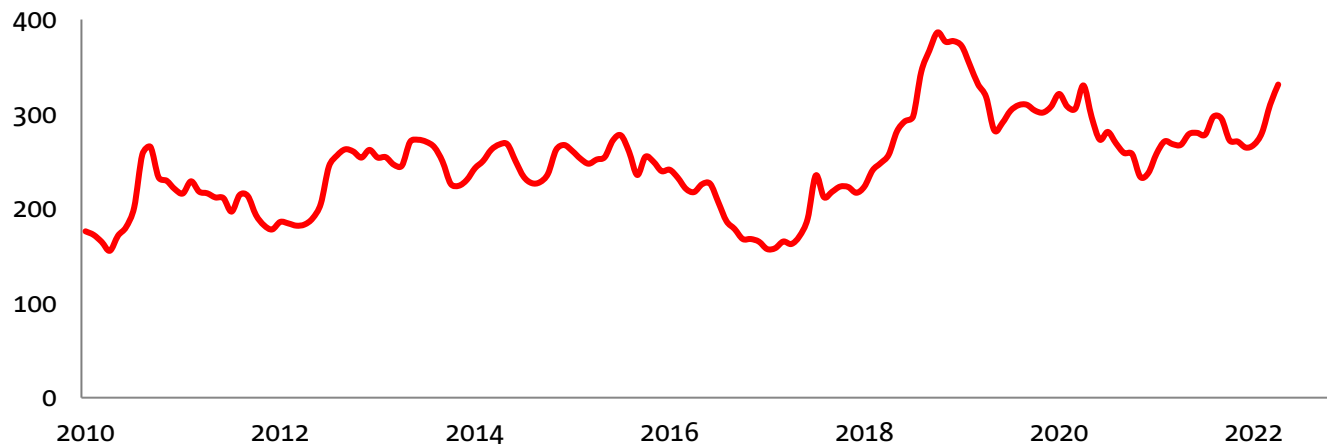
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Input prices continue to present a major challenge to global agriculture, although good seasonal conditions and high commodity prices have provided more of a buffer in Australia so far.

Overall, our fertiliser index was up another 25.5% in March, to almost double its level from just one year ago. April has shown some tentative signs that DAP and urea are flattening out on global markets, but we do not expect much downside this year.

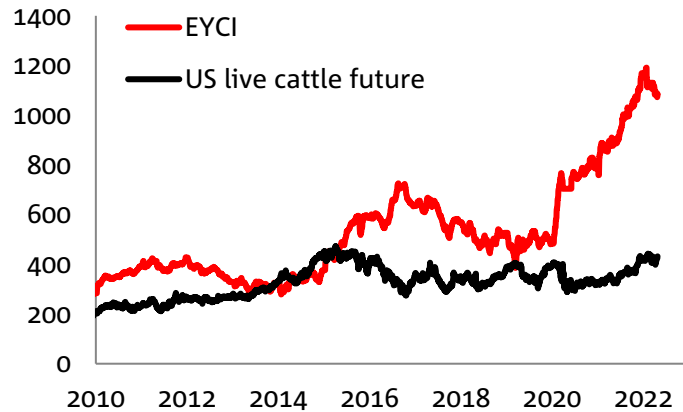
Oil prices have been extremely volatile this year. Crude is now see-sawing as traders weigh the ongoing Russia-Ukraine crisis against lower Chinese demand, as lockdown continues in Shanghai and an outbreak spreads in Beijing. That said, Brent is now a good deal lower than peaks reached in the days following Russia's invasion of Ukraine. The 22c excise cut has brought petrol back to pre-Ukraine levels, but diesel remains elevated. In any case, agricultural producers are generally not subject to excise, so continue to face fuel cost pressures.

Our feed grain price index continues to rise, following high global grain prices. Domestic feed grain remains plentiful following a record winter crop, combined with a wet finish downgrading substantial quantities, but global price surges will see further upside for domestic customers.

LIVESTOCK

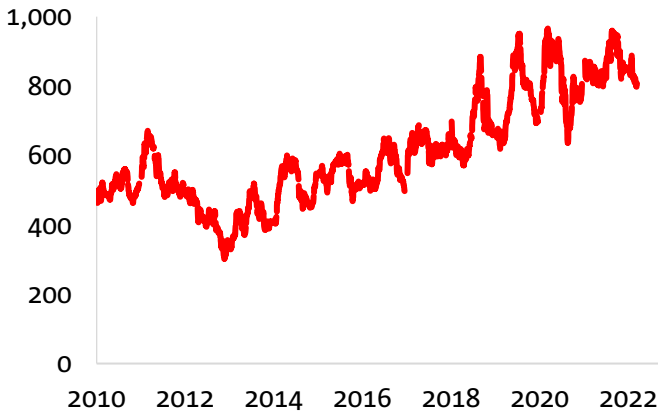
CATTLE

AUc/kg



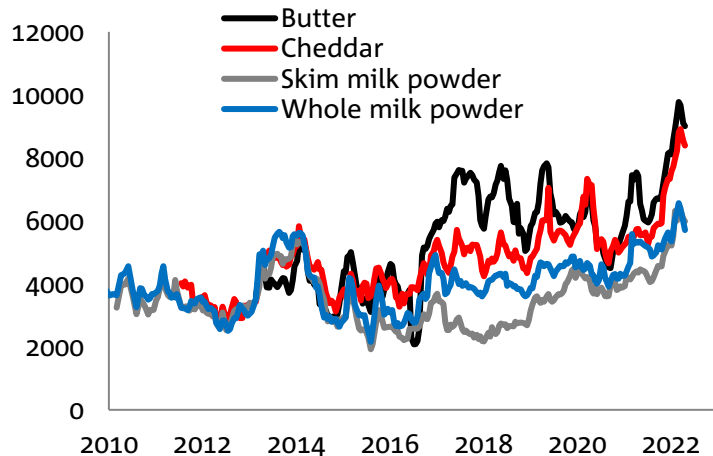
LAMB

ESTLI, AUc/kg



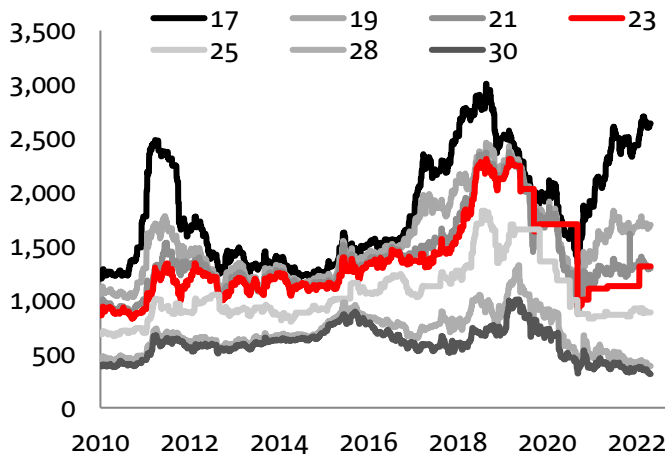
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Young cattle prices have been on a generally downward trajectory since late January, albeit starting from record levels. Drier conditions in parts of Queensland had been a challenge for prices and it will be interesting to see whether recent rains increase restocker activity. Cattle prices remain elevated compared to historic norms and it continues to be our long-standing view that these prices are not sustainable in the face of a return to a “normal”, or even “below average”, season. However, economy-wide inflationary pressures are likely to put a higher floor on prices in this event, suggesting the downside risks may be less significant than we previously expected.

Lamb prices are now slightly below 2021 levels, in keeping with our view that the 2012-2020 run-up in prices has now probably peaked. But returns for producers remain generally very strong and we do not anticipate major price risks for lamb. Wool prices continue to diverge, with finer wools strong but further downsides for higher microns. EMI stood at 1367c/kg last week. The higher AUD is likely to present a challenge later in the year.

Global dairy trade auctions have been negative since mid-March, although coming off record levels. Even with further moderate losses, farmgate prices are likely to stay high by historic standards.

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

WINTER CROPS

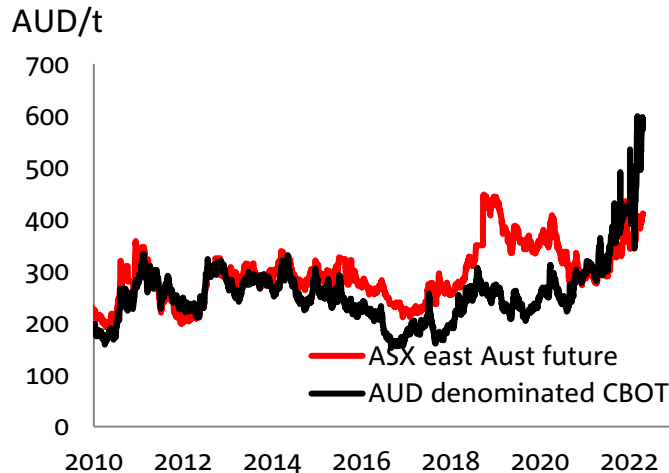
Global grain prices have skyrocketed in response to Russia's invasion of Ukraine, but underlying factors were already pushing up prices before this. Three key reasons for price growth are mixed global production, notably in the Americas, unevenly distributed stocks (China holds around half the world's wheat stocks), and rising input costs.

Australian wheat continues to be under-priced compared to major international benchmarks, a sharp reversal from the domestic premiums seen during the 2017-19 drought period. Eastern states wheat futures have cracked \$400/t, hovering around that range since late March. Plentiful domestic supply and limits on shipping will probably keep Australian grain discounted, but we expect further possible upside in coming months.

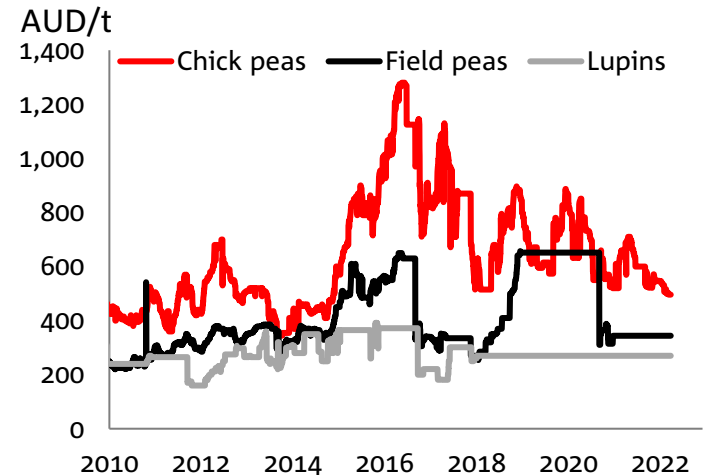
That said, volatility remains high and it is hard to predict where the market will go, especially given continued uncertainty in Russia and Ukraine, which combined account for 25-30% of global wheat exports.

Canola prices have now almost back to the late 2021 peaks. Last week Indonesia announced a ban on palm oil exports, which is likely to put further upside on prices.

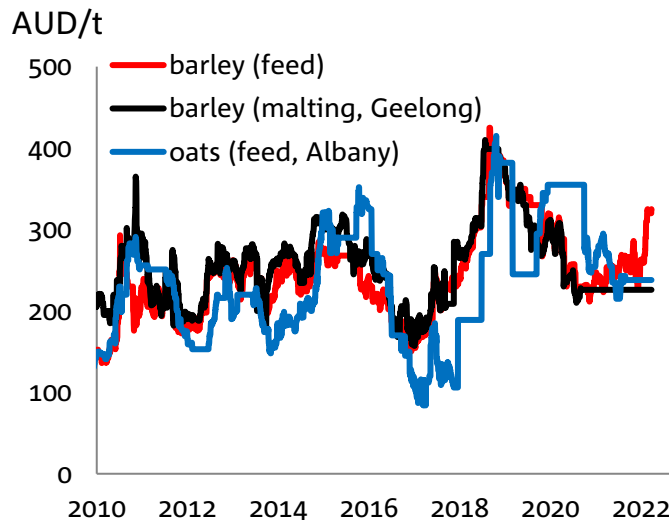
WHEAT



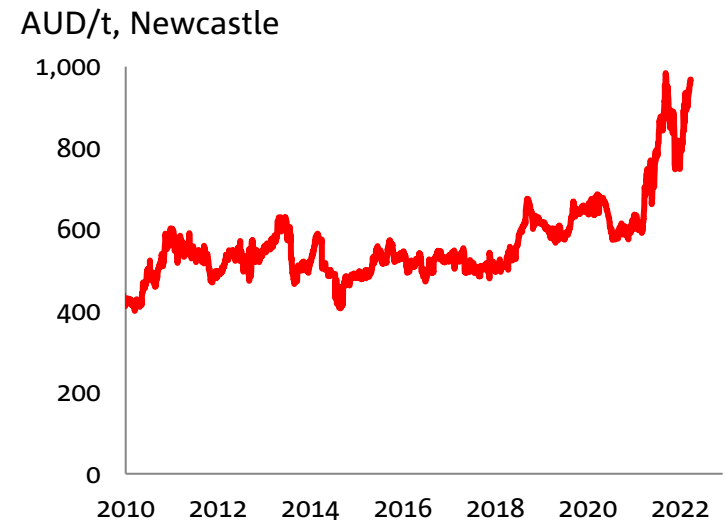
PULSES



COARSE GRAINS



CANOLA



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

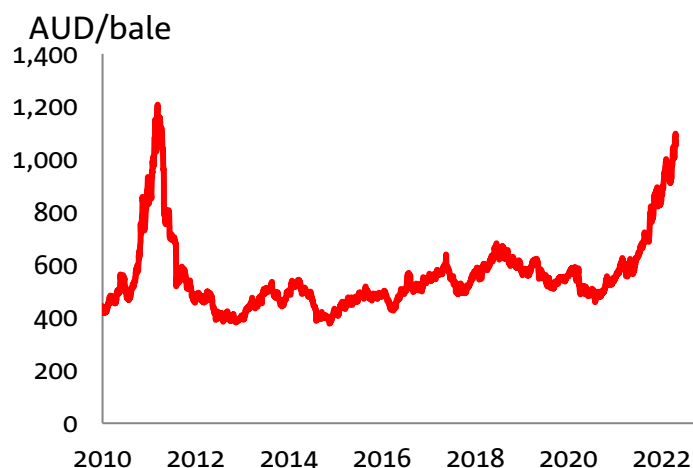
SUMMER CROPS, SUGAR AND HORTICULTURE

The cotton price rally just keeps going, with AUD denominated Cotlook A cracking \$1,000/bale, not too far off the \$1,200 peak seen in 2011. Seasonal conditions are excellent, reflecting replenished storages and good dryland performance.

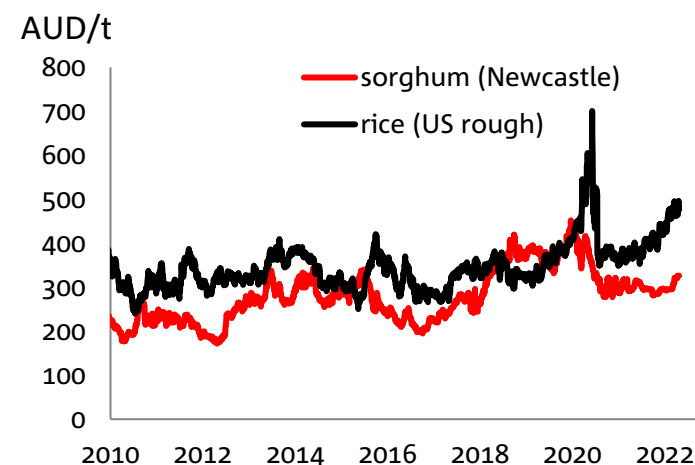
The sugar rally has peaked but is holding at elevated levels. With global inflation surging and oil remaining high, it is hard to see major downside from here.

Wholesale fruit and vegetable prices were mixed to higher in March, with vegetables up 12.2% but fruit off 1.3%.

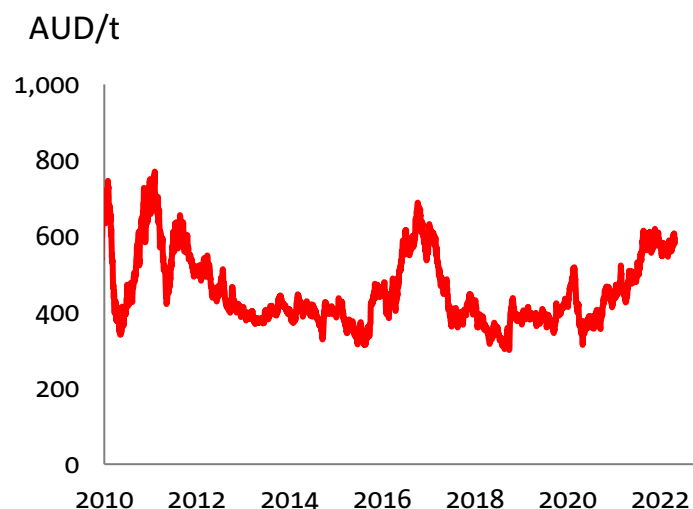
COTTON



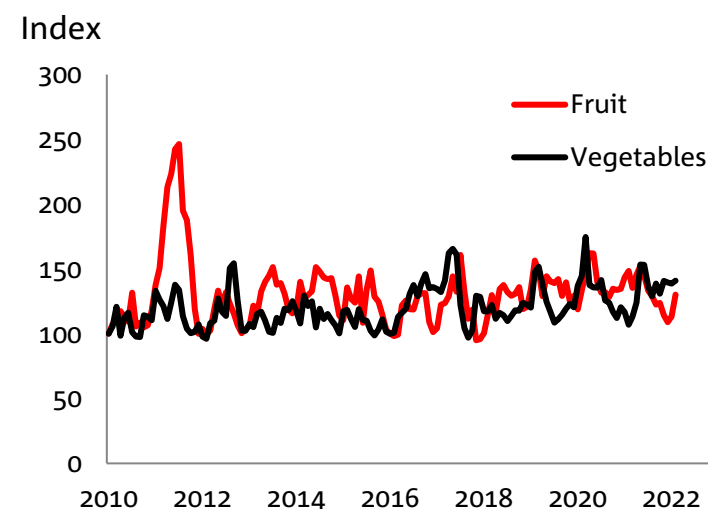
SORGHUM AND RICE



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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