

# RURAL COMMODITIES WRAP



**MAY 2022**

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# KEY POINTS

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Since last month's wrap, we have seen three key changes, namely more rain forecast, ongoing inflationary pressures making central banks more hawkish and a materially weaker global economic outlook.

La Nina is kicking on longer than expected and a negative Indian Ocean Dipole (IOD) is likely to bring above average rainfall for much of the country this winter, with the notable exception of the WA wheatbelt and south-west Tasmania. This presents an upside for the 2022-23 Australian winter crop, but increases risks to global grain production. While Australian farmers will likely benefit from these circumstances, global food security risks are an increasing challenge.

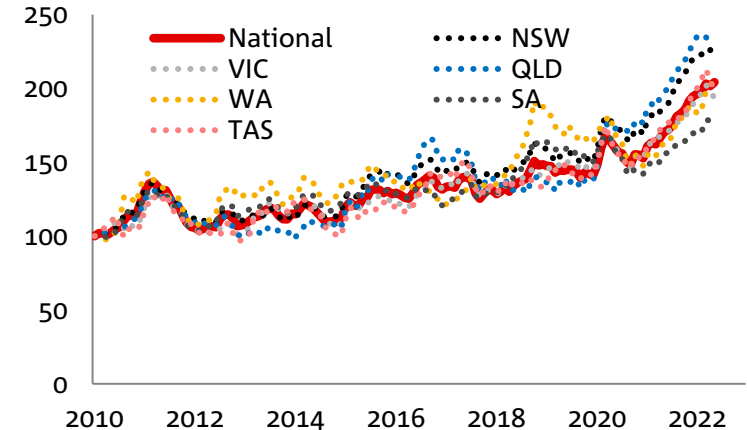
Inflationary pressures continue to mount, with the RBA joining other central banks in raising interest rates. The Fed's hawkishness combined with a flight to safety is boosting the USD. Combined with ongoing Covid lockdowns in China, this presents higher volatility risks for the AUD. The AUD dipped below 70 US cents earlier this month and we see the currency at around 72 US cents by end 2022.

In addition to lockdowns in China, a broad range of global economic risks have emerged in recent times, including the war in Ukraine and energy shocks. With central banks increasingly hawkish in the face of rising inflation, there is a risk of a policy mistake as central banks may need to push rates above "neutral" levels if high inflation persists. With several shocks hitting the global economy at once, the risk of a recession in a major economy is rising.

The NAB Rural Commodities Index fell 0.8% in April, its first drop since March 2021. Partial data puts the index on track for a 2.0% gain in May, taking the index to another record high.

## NAB RURAL COMMODITIES INDEX

National and by state



## MONTHLY COMMODITY PRICE CHANGES

	Mar	Apr	May*
Wheat	▲ 8.7%	▲ 1.9%	▲ 9.5%
Beef	▼ 1.0%	▼ 2.4%	▲ 0.8%
Dairy	▲ 5.9%	▼ 5.9%	▼ 5.3%
Lamb	▼ 3.2%	▼ 2.3%	▼ 0.1%
Wool	▼ 1.7%	▼ 2.1%	▲ 3.4%
Sugar	▲ 2.0%	▲ 3.3%	▲ 2.0%
Cotton	▼ 1.0%	▲ 10.7%	▲ 11.5%

\* To 24 May

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





# SEASONAL CONDITIONS

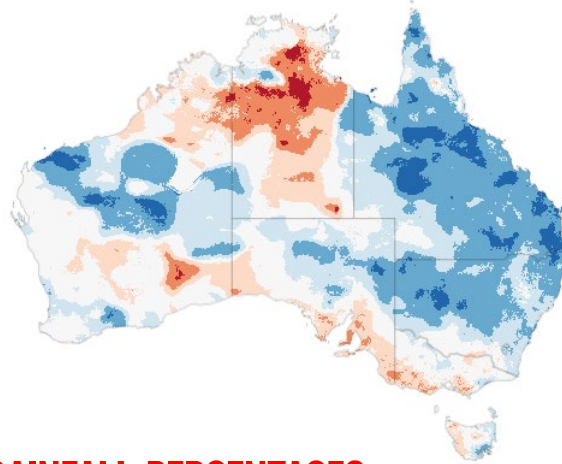
La Nina is kicking on longer than expected, although most models have it dissipating this winter. More importantly, the Bureau of Meteorology's surveyed models point to a negative Indian Ocean Dipole (IOD) developing in coming months, which is associated with above average rainfall in winter-spring.

The three month outlook points to above average rainfall for much of the country this winter, with the notable exception of the WA wheatbelt and south-west Tasmania. This presents an upside for the 2022-23 Australian winter crop, but increases risks to global grain production. While Australian farmers will likely benefit from these circumstances, global food security risks are an increasing challenge.

Looking at recent rainfall, the picture is more mixed. Much of southern Victoria, western Tasmania, the agricultural districts of south Australia and much of the Northern Territory and parts of WA are drier than average.

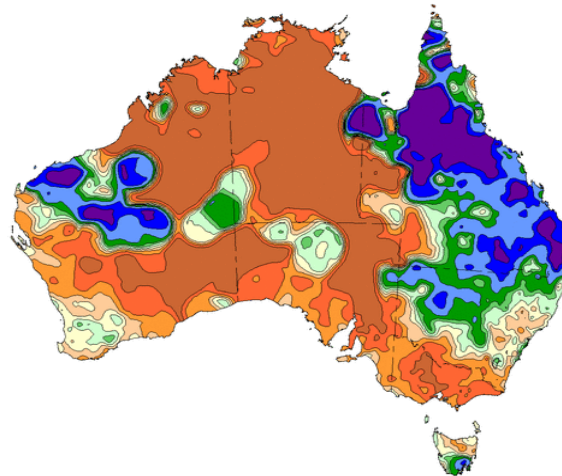
## ROOT ZONE SOIL MOISTURE

24 May



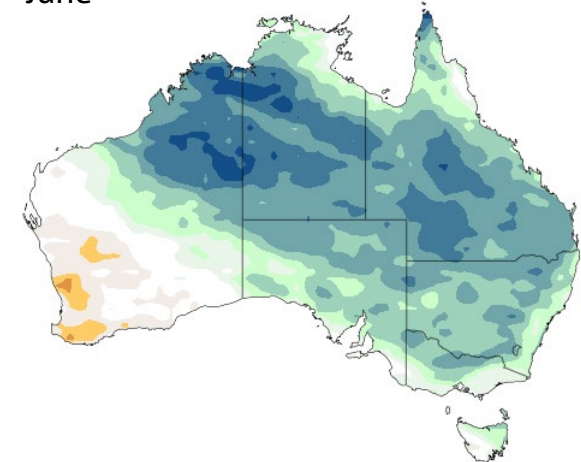
## RAINFALL PERCENTAGES

May to date (24 May)



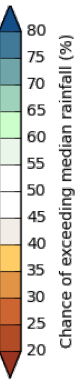
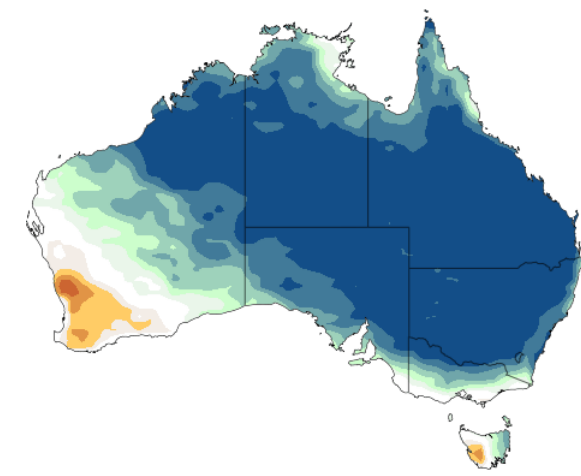
## BOM RAINFALL OUTLOOK

June



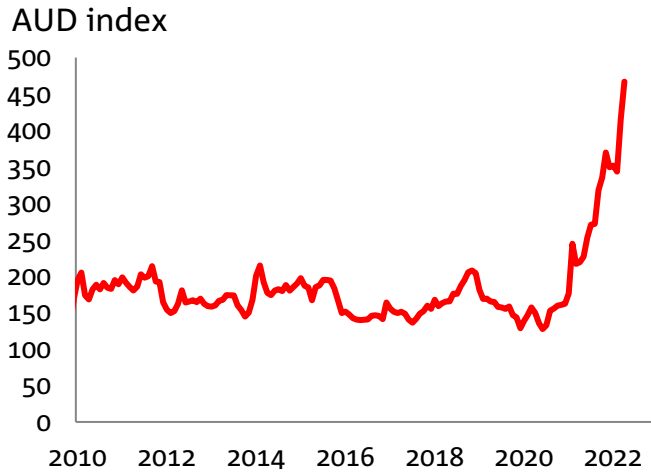
## BOM RAINFALL OUTLOOK

June – August

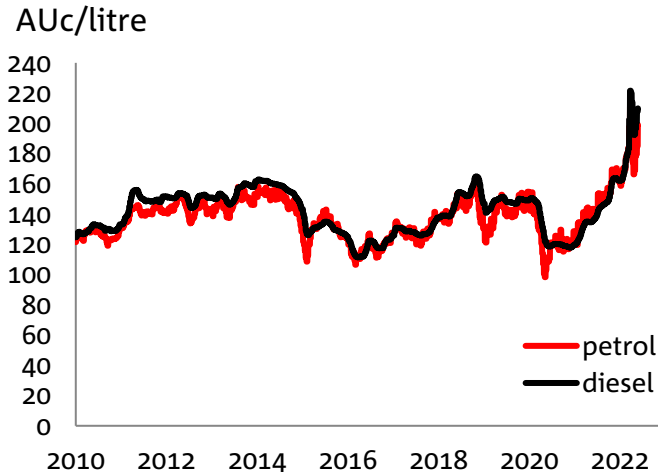


# FARM INPUTS

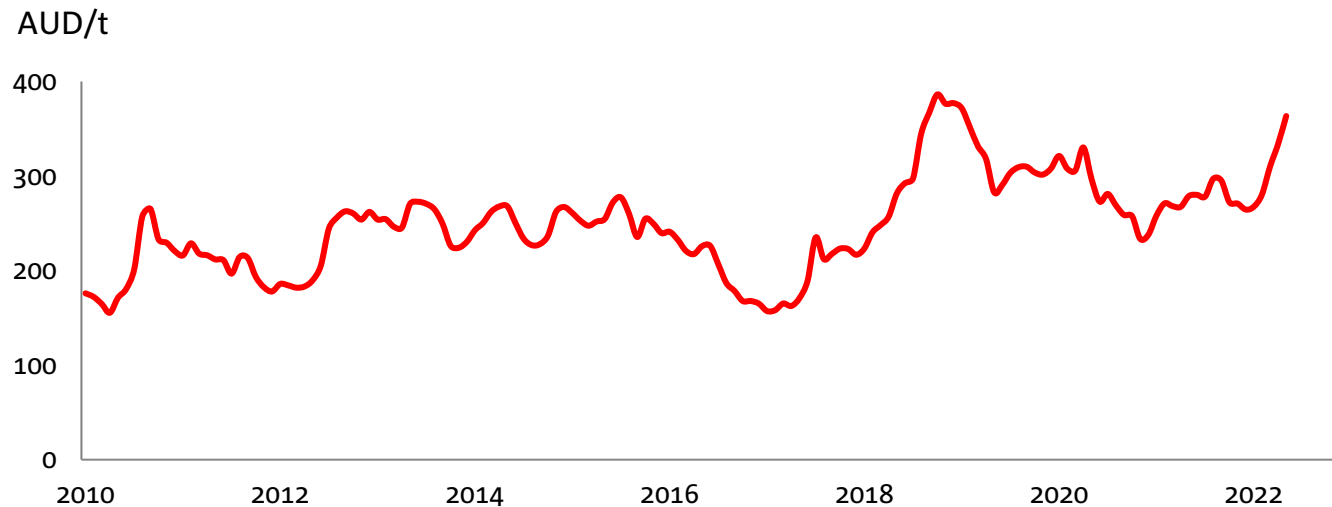
## NAB FERTILISER INDEX



## NATIONAL AVERAGE FUEL PRICES



## NAB FEED GRAIN PRICE INDEX



Input prices continue to grow and now present a major challenge to global agricultural profitability, although good seasonal conditions and high commodity prices continue to provide a buffer in Australia.

Overall, our fertiliser index was up another 12.5% in April, over double its level from just one year ago. While USD denominated DAP and urea have dropped somewhat in recent weeks, we do not expect much downside this year. The World Bank reports that global fertiliser affordability is at historically low levels, since the 1970s only surpassed during the GFC period.

Oil prices continue to exhibit high volatility as markets weigh the ongoing Russia-Ukraine crisis and lower investment against lockdowns in China and signs of slowing global growth. But with the AUD now lower, fuel prices have rebounded. The national average diesel price was 210c/l last week.

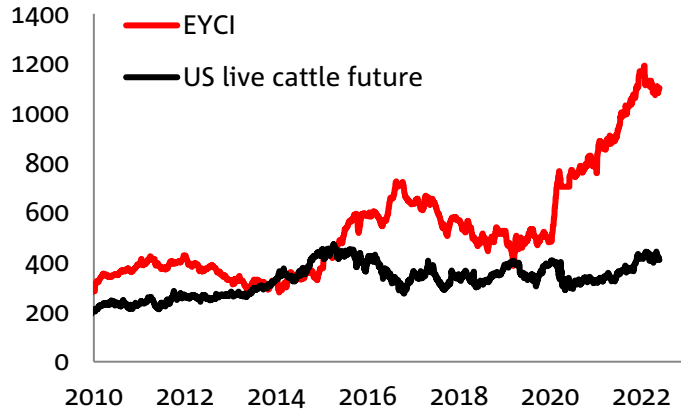
Our feed grain price index is now rising fairly rapidly, following high global grain prices and a lower AUD. The index was up 7.8% in April and another 8.9% in May (to date).

Source: Bloomberg, Profarmer and NAB Group Economics

# LIVESTOCK

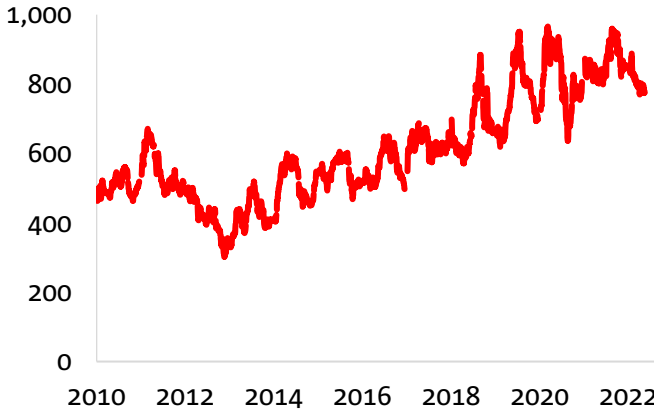
## CATTLE

AUc/kg



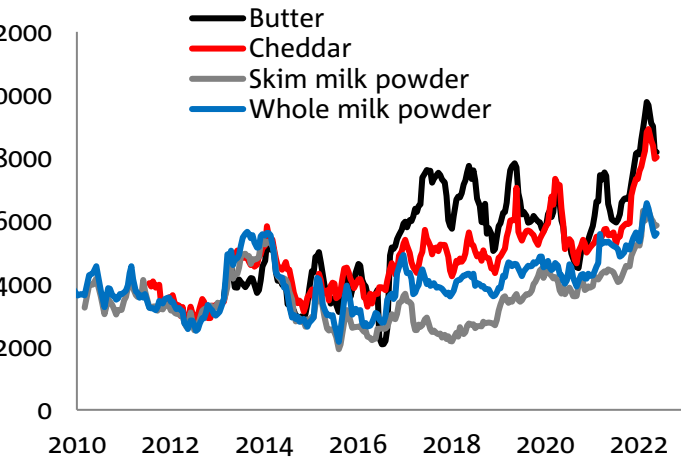
## LAMB

ESTLI, AUc/kg



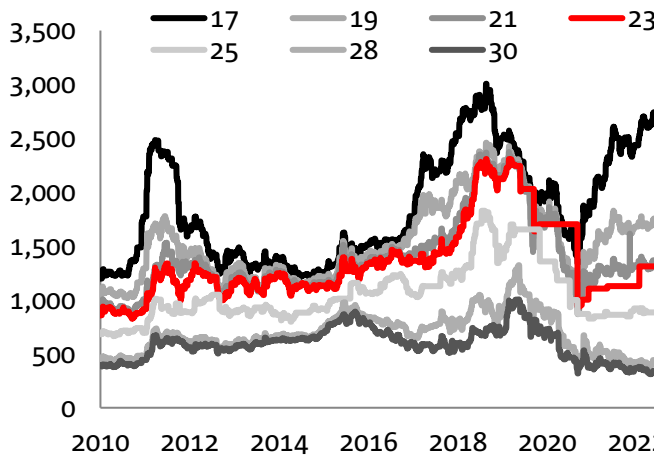
## GDT AUCTION RESULTS

AUD/tonne



## WOOL

Southern region, by micron, AUc/kg



Young cattle prices eased from their January records until mid-April, but have since been on an uptrend. Drier conditions in parts of Queensland were a challenge for prices and some big recent rains have arrested this. 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, with a very wet winter forecast and strong global food inflation, downside risks are starting to look less likely, at least for 2022.

Lamb prices are now somewhat below 2021 levels, although the downtrend has stopped since early April. This is in line with our view that the 2012-2020 run-up in prices has now peaked. That said, producers continue to enjoy generally strong returns and we do not anticipate major price risks on the horizon. Wool prices continue to diverge, with finer wools strong but further downsides for higher microns. EMI stood at 1434c/kg last week.

Global dairy trade prices have dropped significantly over the last five auctions, although this comes 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.

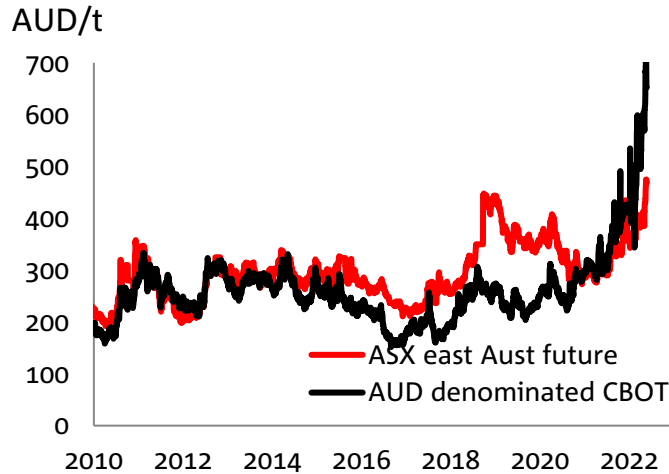
# WINTER CROPS

Global grain prices continue to skyrocket, driven by a confluence of challenges. Russia's invasion of Ukraine, drought in Germany and France, drought across parts of Africa, a ban on Indian wheat exports and very mixed conditions in the Americas have all conspired to push prices higher. Stocks are unevenly distributed (around half the world's wheat stocks are in China), which limits the ability to draw down supplies to meet demand.

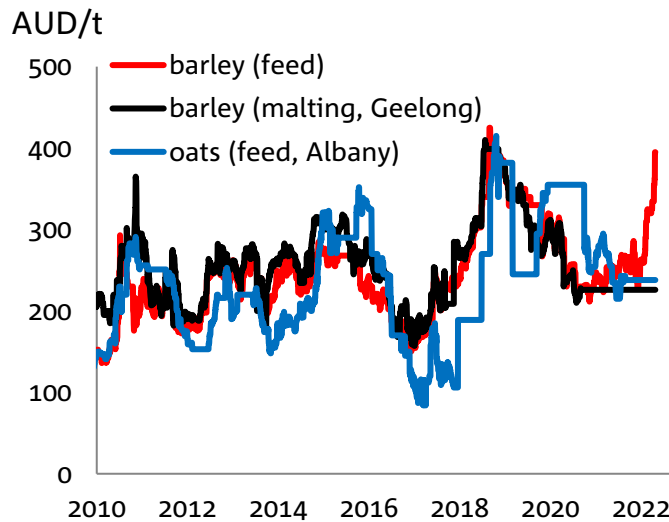
Australian wheat continues to be keenly priced compared to major international benchmarks, a sharp reversal from the domestic premiums seen during the 2017-19 drought period. Eastern states wheat futures have recently traded as high as 475/t – a new record. Plentiful domestic supply and limits on shipping will probably keep Australian grain somewhat discounted, but the world needs grain and Australia will be a key source of it in the coming year.

Growing conditions for the 2022-23 season are generally good, with too much water over winter a possibility in some eastern areas. WA has a dry winter forecast, although there is still plenty of scope for a decent crop in the west.

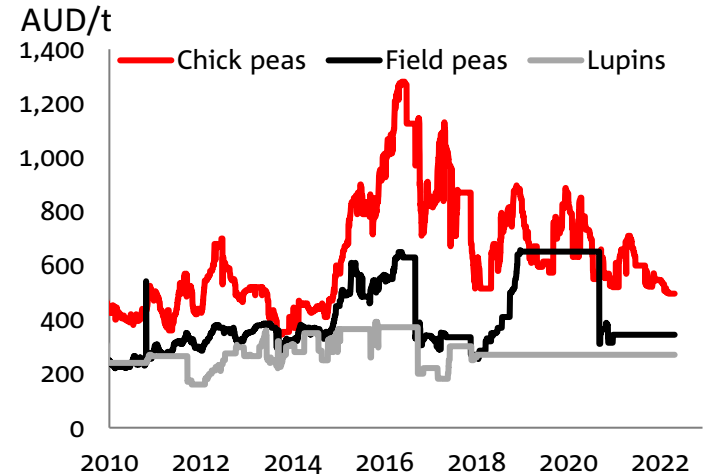
## WHEAT



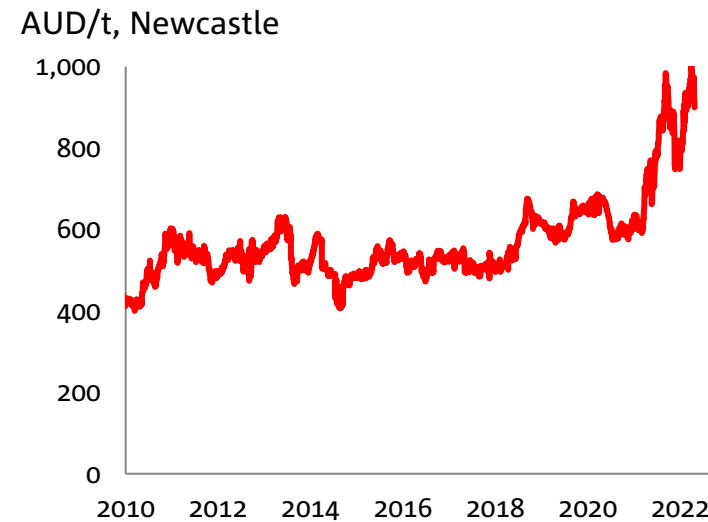
## COARSE GRAINS



## PULSES



## CANOLA



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

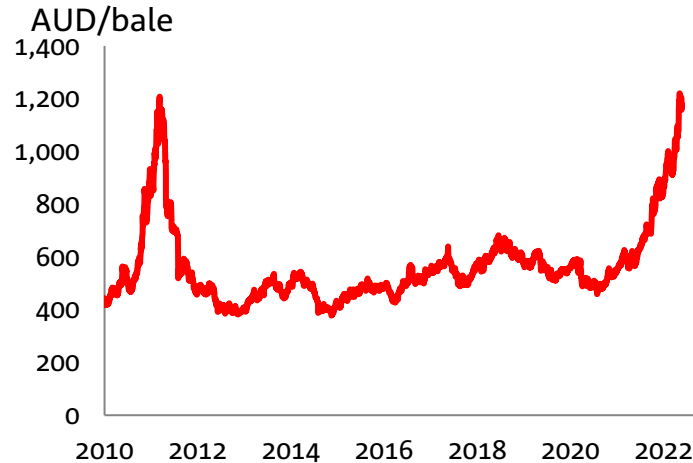
# SUMMER CROPS, SUGAR AND HORTICULTURE

The cotton price rally shows no signs of slowing down, reflecting drought in India, growing challenges in the US, war in Ukraine and global supply chain disruptions. AUD denominated Cotlook A cracked \$1,200/bale earlier this month, exceeding the previous peak in 2011. Seasonal conditions are excellent, reflecting replenished storages and good dryland performance. The Australian cotton industry is very well placed this season.

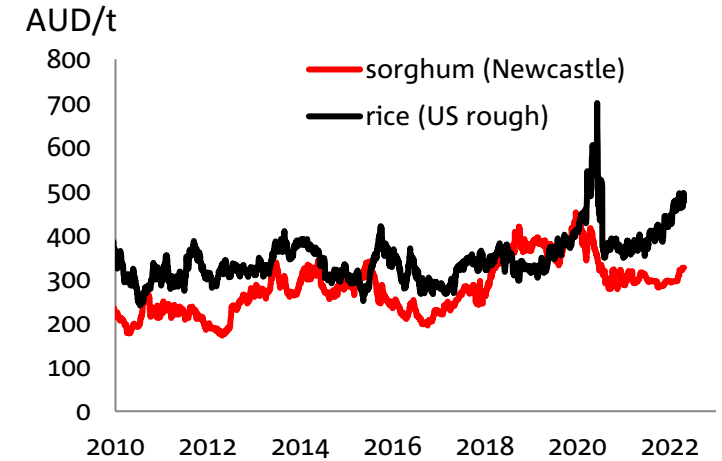
Sugar prices have seen renewed upward pressure recently, having already been at elevated levels following their big rally in 2020 and 2021. With global inflation surging and oil remaining high, it is hard to see major downside from here.

Wholesale fruit and vegetable prices were lower in April, with fruit down 1.3% and vegetables down 0.8%. The wholesale market data appears to be detaching from what is occurring at a retail level and it is not clear why.

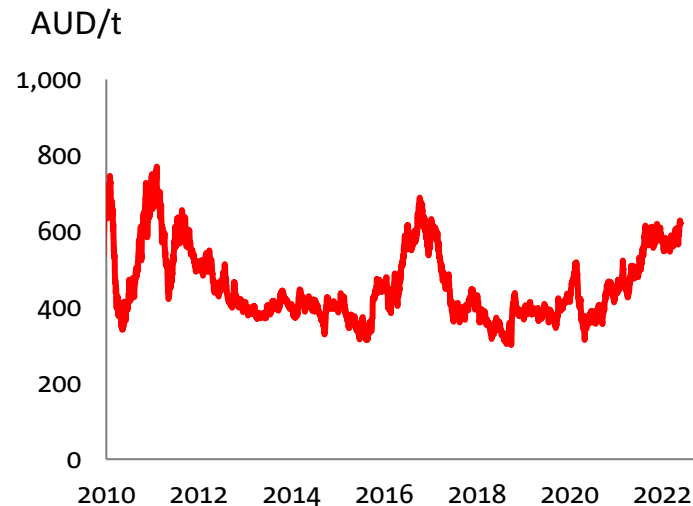
## COTTON



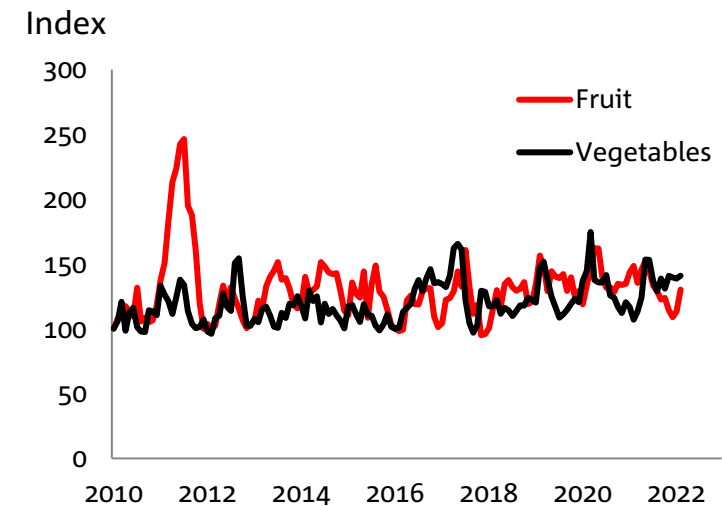
## SORGHUM AND RICE



## 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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