

RURAL COMMODITIES WRAP



JUNE 2022

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KEY POINTS

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Since last month's wrap, we have seen further gains in most agricultural commodity prices, tentative signs of a stabilisation in fertiliser prices, as well as a lower AUD and a weakening global growth outlook.

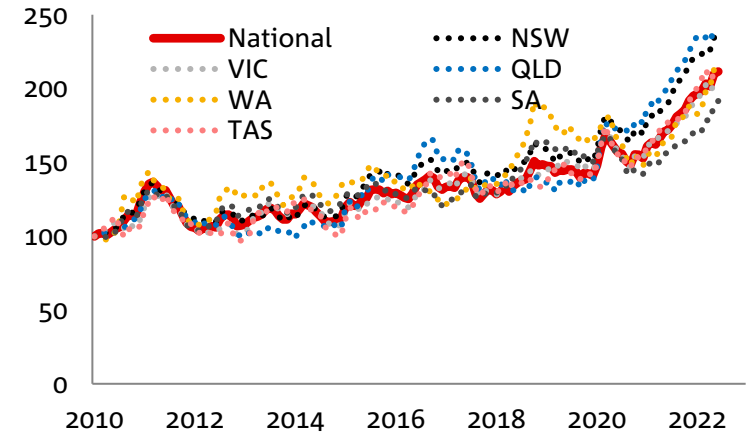
The 2021-22 La Nina event is now officially over, having persisted much later into autumn than might have been expected. This event delivered big rains into large areas of eastern Australia, boosting storages, but also causing destructive flooding across large areas of New South Wales and Queensland. Most importantly, however, four out of seven models surveyed by the Bureau of Meteorology point to *another* La Nina developing in spring. The BoM is now on La Nina watch, predicting a roughly 50% chance of La Nina this spring. If this occurs, there is probably further upside for the already big Australian grain crop, but downside for already stretched global production.

Meanwhile, central banks continue to normalise rates despite mounting signs of weaker economic expectations. The RBA hiked rates 50 basis points last meeting and we expect a further two 50bp hikes over the next two months. The Fed has been even more hawkish, hiking 75bp last meeting – the steepest rise since the mid-90s. The AUD has been hovering below 70 US cents recently. We see more time below 70 in the second half of the year.

The NAB Rural Commodities Index gained 4.2% m/m in May, the strongest rise since early 2021. The index was up another 2.9% in June, with surging vegetable prices a key driver. Our wholesale vegetable price index was up almost 40% in June alone.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Apr	May	June*
Wheat	▲ 1.9%	▲ 11.0%	▲ 0.9%
Beef	▼ 2.4%	▲ 1.4%	▲ 0.7%
Dairy	▼ 5.9%	▼ 5.3%	▼ 1.4%
Lamb	▼ 2.3%	▲ 0.3%	▲ 0.7%
Wool	▼ 2.1%	▲ 3.5%	▲ 2.0%
Sugar	▲ 3.3%	▲ 2.1%	▼ 2.1%
Cotton	▲ 10.7%	▲ 9.7%	▼ 2.7%

* To 24 June

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



SEASONAL CONDITIONS

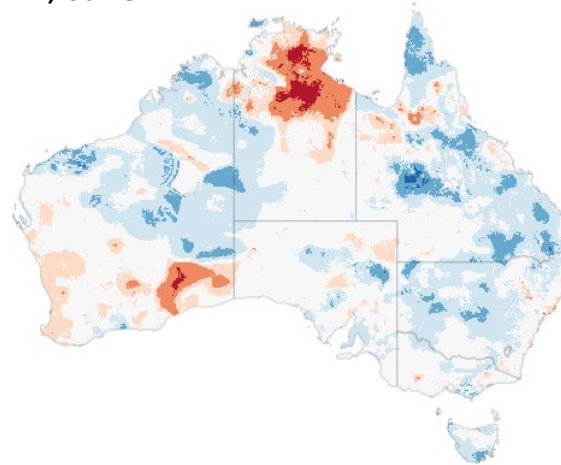
The 2021-22 La Nina event is now officially over, having persisted much later into autumn than might have been expected. This event delivered big rains into large areas of eastern Australia, boosting storages and soil moisture levels, but also causing destructive flooding across large areas of New South Wales and Queensland over summer.

Rainfall has been patchy in June, but fortuitously has generally fallen in areas where needed (Victoria, South Australia and Tasmania) and been dry where it was previously too wet (New South Wales and Queensland). The Western Australian wheatbelt is a little dry in some areas but in a generally better state than autumn. The northern half of the Northern Territory remains very dry though.

Four out of seven models surveyed by the Bureau of Meteorology point to *another* La Nina developing in spring. The BoM is now on La Nina watch, predicting a roughly 50% chance of La Nina this spring. If this occurs, there is probably further upside for the already big Australian grain crop, but downside for already stretched global production.

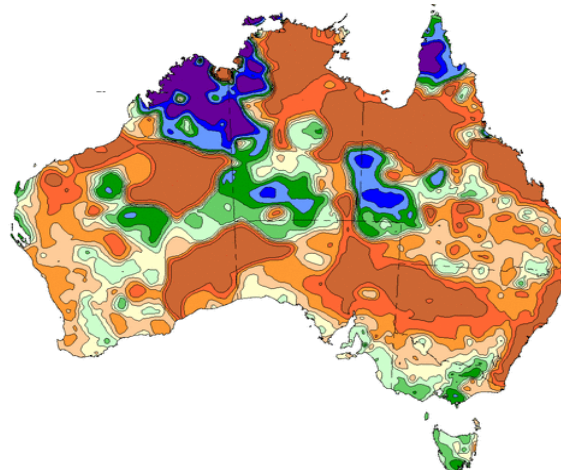
ROOT ZONE SOIL MOISTURE

27 June



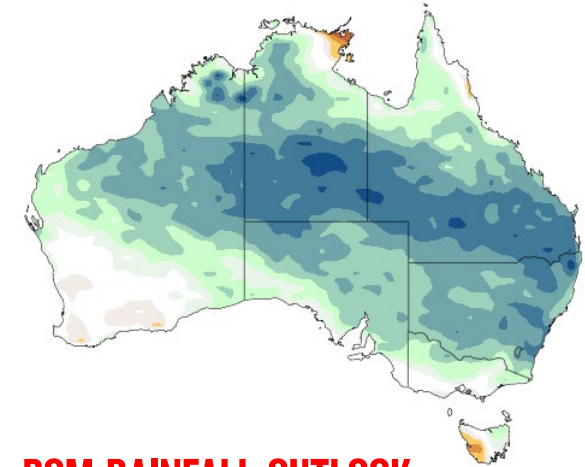
RAINFALL PERCENTAGES

June to date



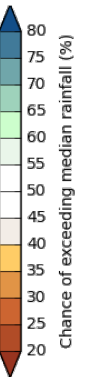
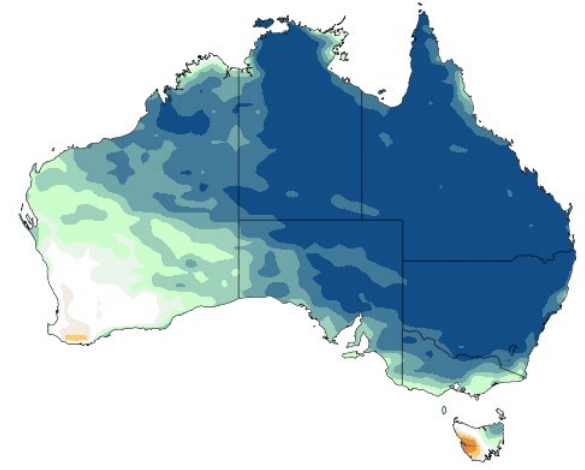
BOM RAINFALL OUTLOOK

July



BOM RAINFALL OUTLOOK

July – September

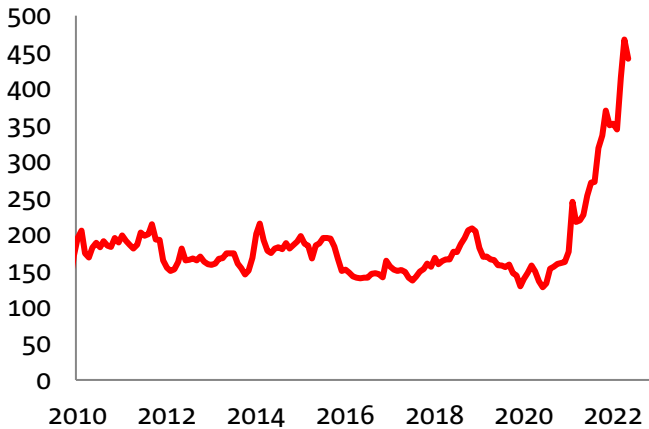


Source: Bureau of Meteorology

FARM INPUTS

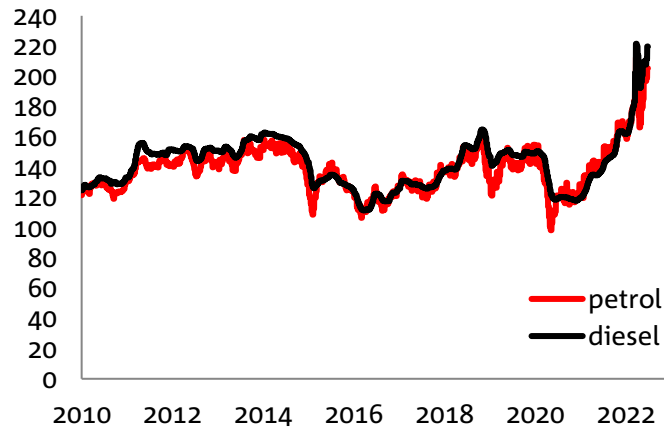
NAB FERTILISER INDEX

AUD index



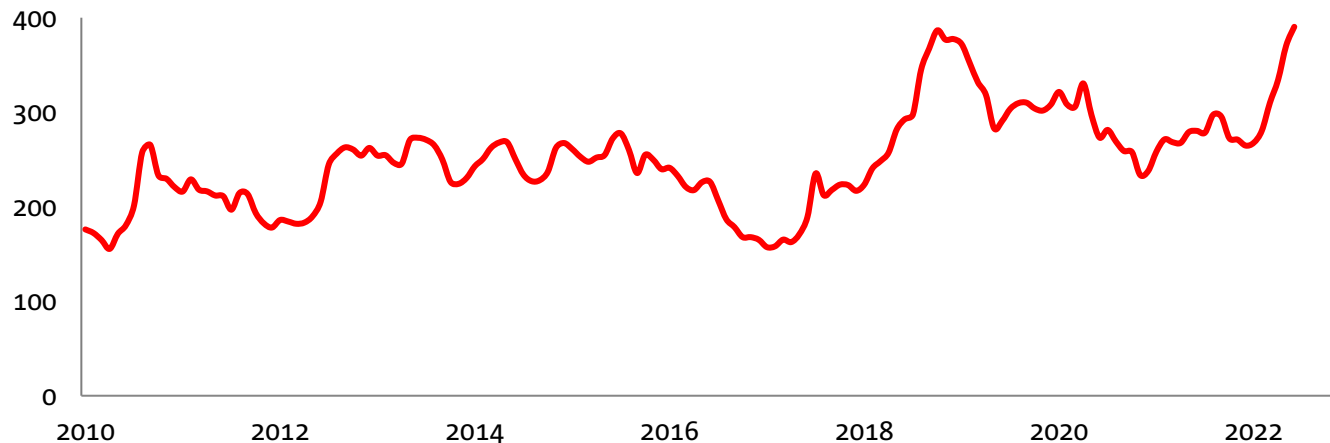
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Input prices continue to present a major challenge, both to global agricultural profitability and Australian farmers more directly, although very good seasonal conditions and high commodity prices continue to provide a larger buffer in Australia than elsewhere.

Our fertiliser index has eased somewhat in AUD terms, despite a slight weakening in the exchange rate. The index was down 5.6% m/m in May, largely reflecting lower urea prices. Partial data for June point to another drop, although the index is still up almost 95% on a year-on-year basis. We do not anticipate a return to pre-pandemic “normal” any time soon though.

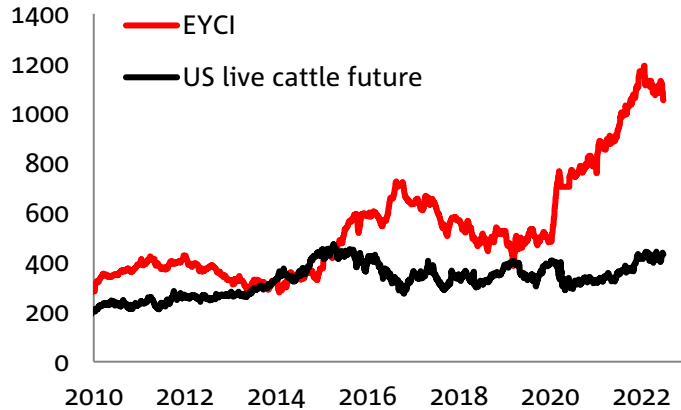
Oil prices remain elevated, but below the peak seen in the immediate wake of Russia’s invasion of Ukraine. It is hard to chart a path below \$100/bbl as geopolitical problems and low investment continue. With the AUD now lower, fuel prices are at very elevated levels. The national average diesel price was 210c/l last week.

Our feed grain price index is now at a record level, having surpassed the previous peak in October 2018, as drought ravaged NSW and Queensland. High global demand will likely keep this index at this level through the back half of 2022 – good news for growers but a challenge for feedlots.

LIVESTOCK

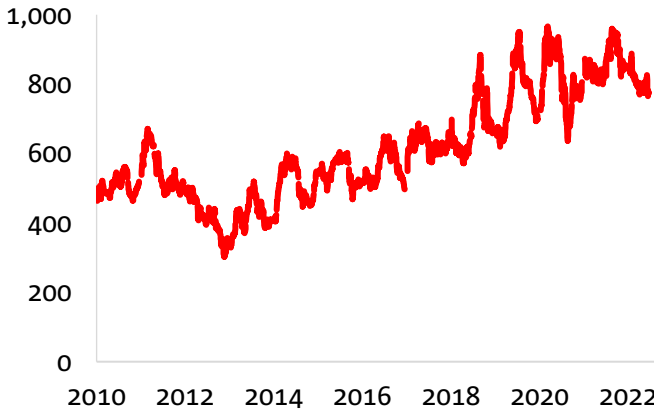
CATTLE

AUc/kg



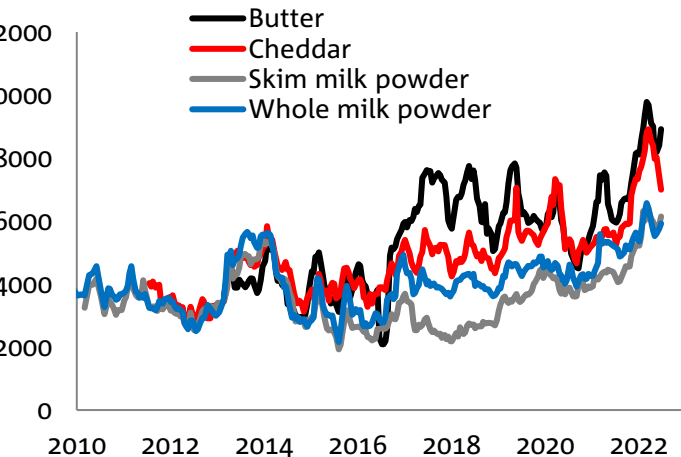
LAMB

ESTLI, AUc/kg



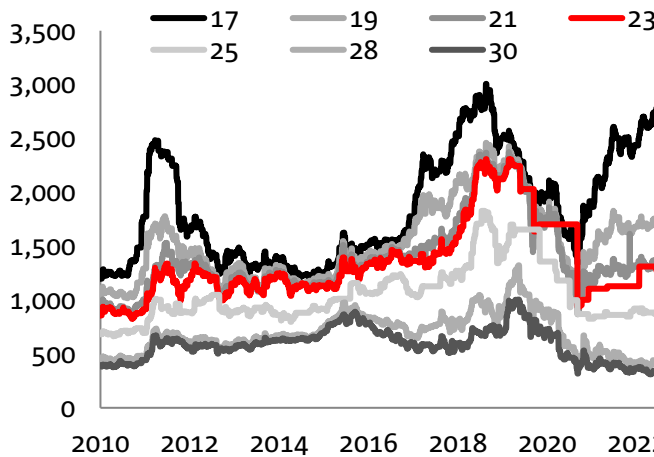
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Young cattle prices continue to ease, down about 75c/kg since the start of this month albeit from extremely high levels. While weather conditions are generally good to excellent, rising feed costs will present a challenge to feedlot operations. Cattle prices remain elevated compared to historic norms, but with global inflation running hot the downside risks may be smaller than we previously anticipated. Against this, rising interest rates are likely to make consumers cut back on luxury goods. Whether this extends to Australian beef remains to be seen.

Lamb prices have been on the downtrend this year, but the big spike in late 2021 means prices are only a little below year-ago levels (around 773c vs 819c a year ago). 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 increase, driven by strong demand, a lower AUD and the rising price of substitutes cotton and oil. EMI stood at 1474c/kg last week.

Global dairy trade prices have dropped since autumn, although the big driver is weaker cheddar. Opening prices for 2022-25 are excellent - \$8.50/kgms for Saputo and \$8.25 for Fonterra. This puts the industry on a strong footing for the next year.

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



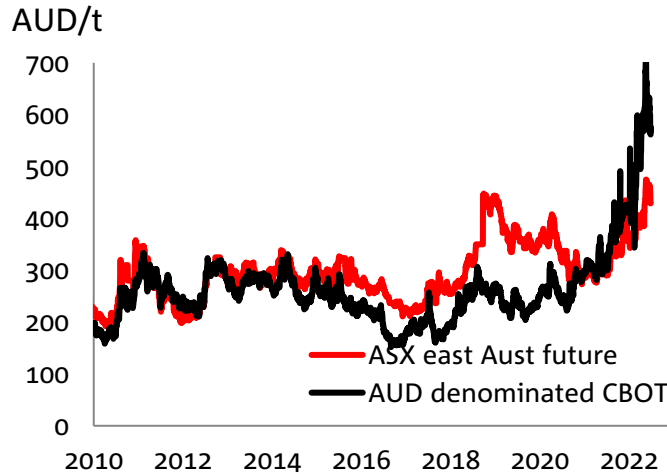
WINTER CROPS

Global grain prices have now eased a little from peaks seen 5-6 weeks ago, but remain well above historic norms. Russia's invasion of Ukraine, drought in Germany, France and across parts of Africa, a ban on Indian wheat exports, supply chain challenges and mixed conditions in the Americas are all pressure points for grain buyers.

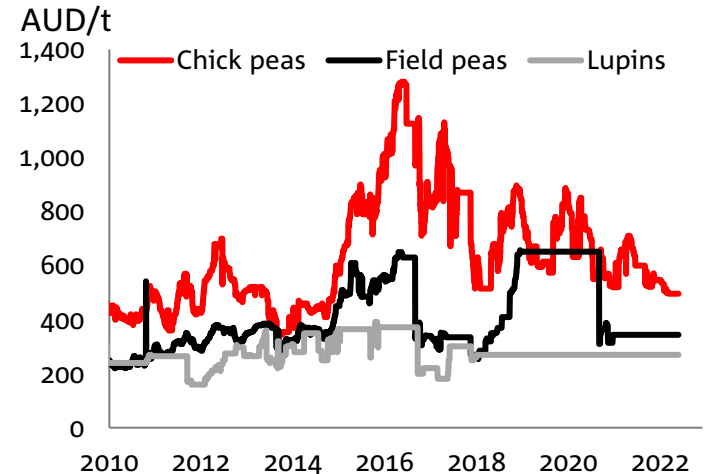
Australian wheat continues to be keenly priced compared to major international benchmarks, a sharp reversal from the domestic premiums seen during the 2017-19 drought period. Eastern states wheat futures traded as high as \$475/t last month, but have eased back to around the \$430/t mark more recently. Australian grain is likely to remain in hot demand – the world needs grain and Australia will be a key supplier over the coming year.

Growing conditions for the 2022-23 season are generally good to excellent, with too much water over winter a possibility in some eastern areas. The prospect of a spring La Nina represents an upside surprise for volumes, but a risk for quality if harvest conditions are wet. If a La Nina occurs, there are likely to be further challenges across international markets.

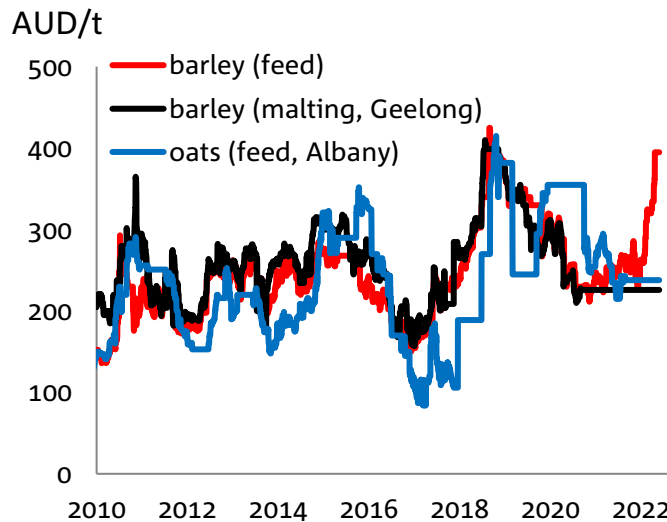
WHEAT



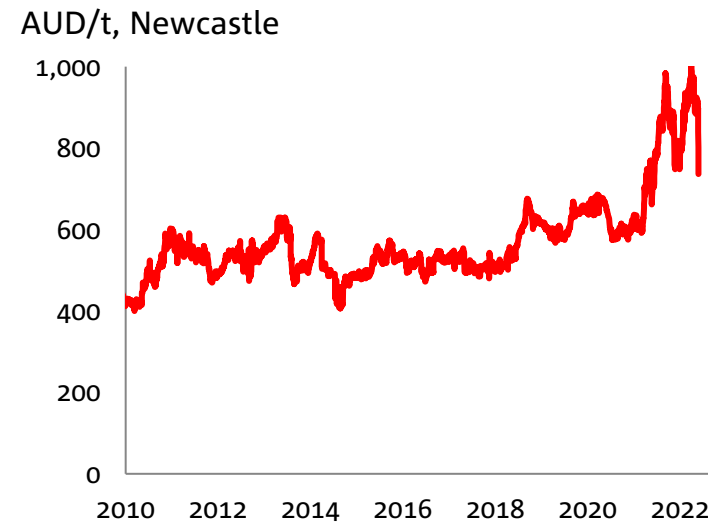
PULSES



COARSE GRAINS



CANOLA



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

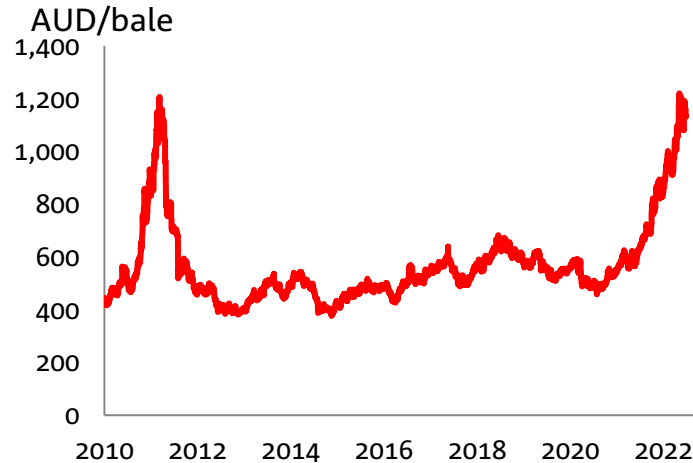
SUMMER CROPS, SUGAR AND HORTICULTURE

The cotton price rally looks to have peaked, albeit at extraordinary levels. Challenging conditions in India and elsewhere, war in Ukraine and global supply chain disruptions – not to mention the elevated price of substitutes – have all put upward pressure on price. AUD denominated Cotlook A has been just over \$1,130/bale recently, an excellent result. Seasonal conditions are first class, reflecting replenished storages and good dryland performance. The Australian cotton industry is extremely well placed this season.

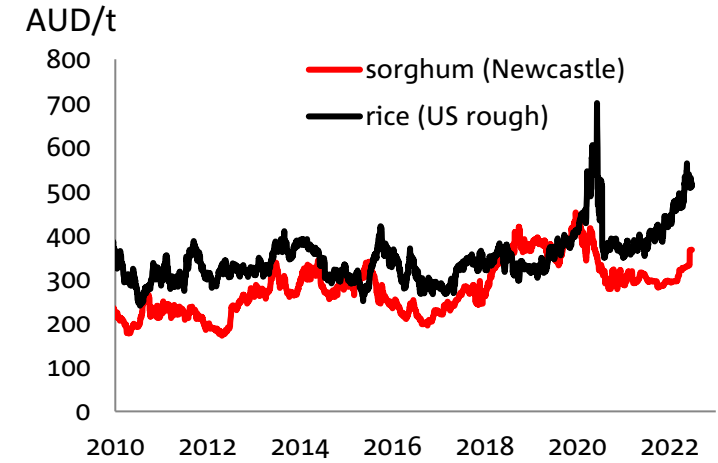
Sugar prices have been relatively steady over the last eight months or thereabouts, following a strong rally in 2021. With global inflation surging and oil remaining high, it is hard to see major downside at least in the short term.

Fruit and vegetable prices have been prominent in buyers' minds recently, as floods in Queensland hit supplies of some staples like lettuce. Wholesale market data in May and June shows a strong uptick, with fruit up 20.8% in May and down 2.9% in June, but vegetables up 12.9% in May and a massive 38.4% in June.

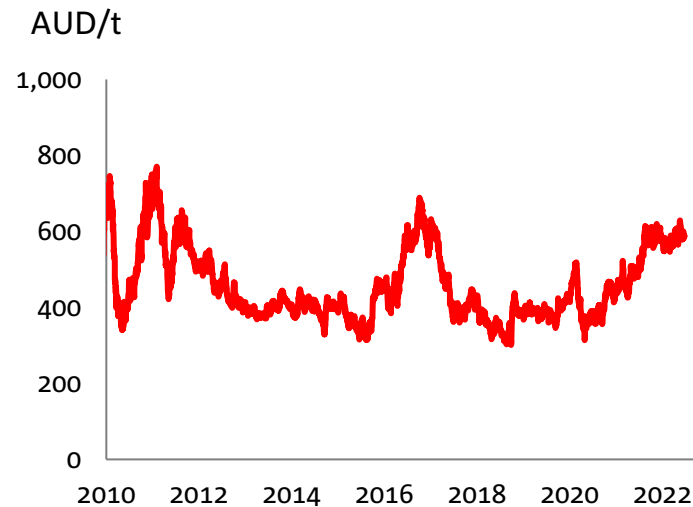
COTTON



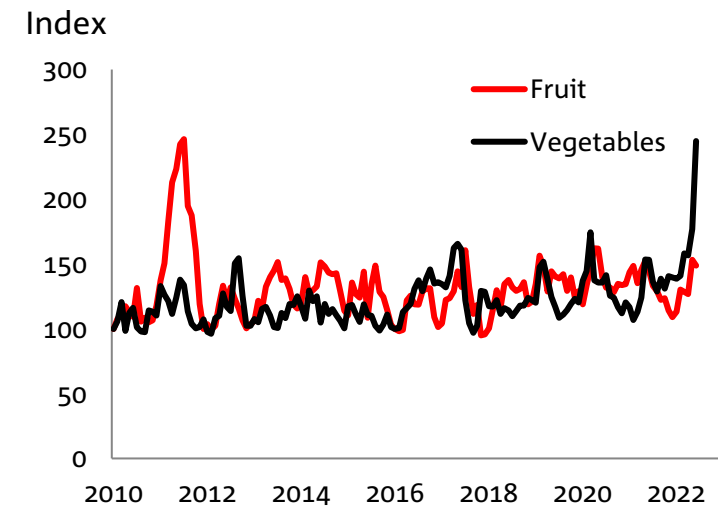
SORGHUM AND RICE



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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