

RURAL COMMODITIES WRAP



JULY 2022

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KEY POINTS

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The last month has brought big changes for Australian agriculture, with global growth concerns hitting many commodity prices, but seasonal conditions still mostly supportive and further signs that input costs are stabilising.

Many commodities have been hit hard by rising fears of an economic downturn as central banks rapidly normalise interest rates in response to high inflation. This has spilled over into agricultural commodities, with wheat dropping to below Ukraine invasion levels. However, grain supply uncertainty remains and prices could move higher in response to geopolitical or seasonal risks. Preliminary data puts our NAB Rural Commodities Index on track for a monthly drop of around 6.9% in July, a record fall. However this decline follows an all time record high last month.

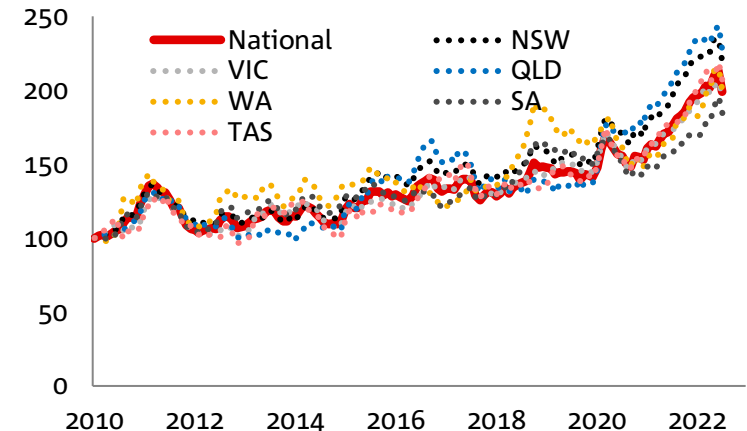
In better news, there are signs that input costs are peaking, although gas remains a key risk. Fuel prices have moved lower in response to cheaper global oil and fertiliser saw another monthly drop. Lower global grain prices have also stopped further domestic feed grain price increases.

Seasonal conditions remain broadly supportive, although rainfall is probably too high across much of coastal NSW and Queensland. Producers in southern NSW, Victoria, South Australia, Western Australia and Tasmania could probably do with more rain.

The RBA has hiked rates 50bp at each of the last two meetings and we expect further rate rises in H2 2022. Meanwhile, global economic headwinds continue to mount. While we still expect a soft landing for the Australian economy, growth is likely to be lower next year – below 2%. The AUD has been trading in the high 60s to low 70s US cents range and we see the currency spending much of the time in the 65-70 cents range in H2.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	May	June	July*
Wheat	▲ 11.0%	▲ 0.9%	▼ 9.3%
Beef	▲ 1.4%	▼ 1.4%	▼ 8.8%
Dairy	▼ 5.3%	▼ 1.4%	▼ 3.4%
Lamb	▲ 0.3%	▲ 0.1%	▼ 1.3%
Wool	▲ 3.5%	▲ 2.0%	▼ 3.5%
Sugar	▲ 2.1%	▼ 2.1%	▲ 1.0%
Cotton	▲ 9.7%	▼ 2.7%	▼ 15.1%

* To 26 July

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



SEASONAL CONDITIONS

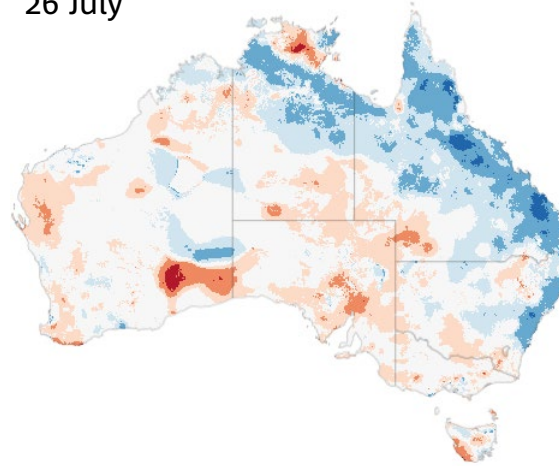
Rainfall has been very mixed in July. While much of north-eastern Australia and coastal New South Wales has been very wet, there has been relatively little rain across much of the rest of the continent. Victoria, South Australia and Tasmania are now experiencing average to below average soil moisture conditions. Meanwhile the Western Australian wheatbelt is essentially seeing average soil moisture.

The three month rainfall outlook continues to point to a very wet period across most of the continent, although south-west WA and western Tasmania are expected to be drier than average.

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

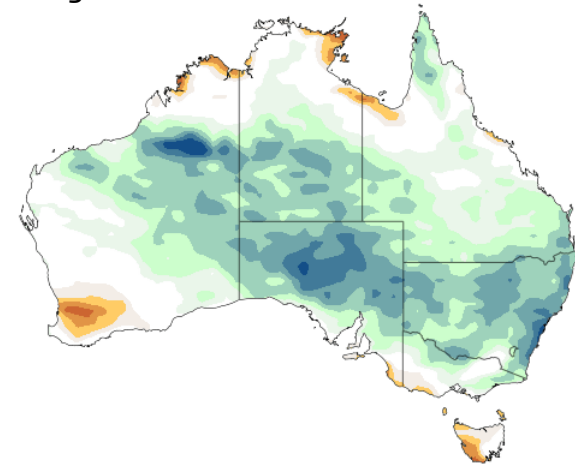
ROOT ZONE SOIL MOISTURE

26 July



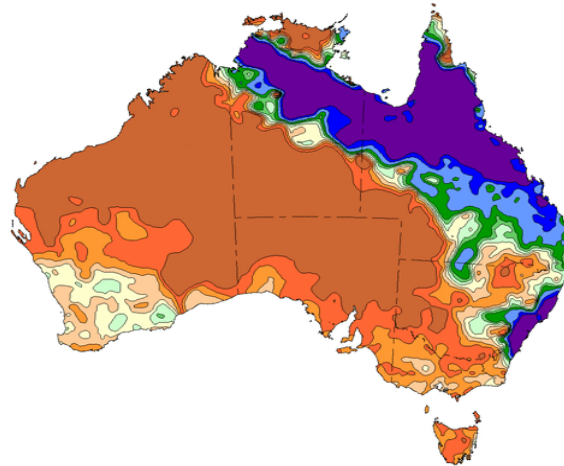
BOM RAINFALL OUTLOOK

August



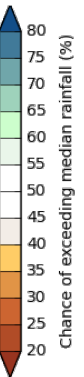
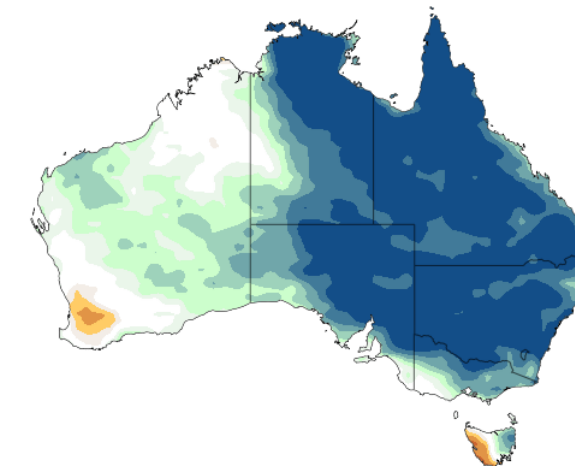
RAINFALL PERCENTAGES

July to date



BOM RAINFALL OUTLOOK

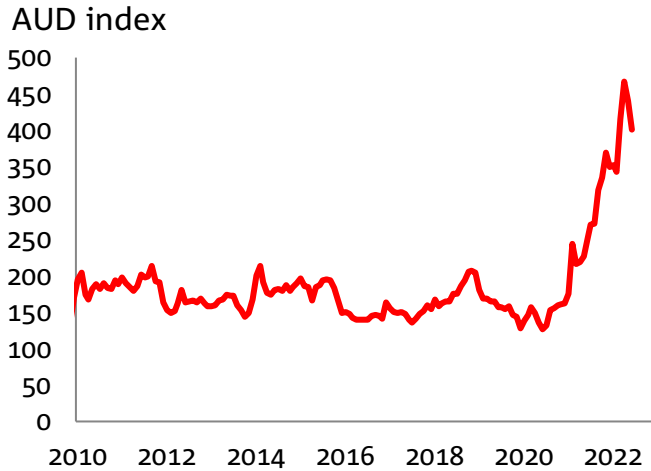
August - October



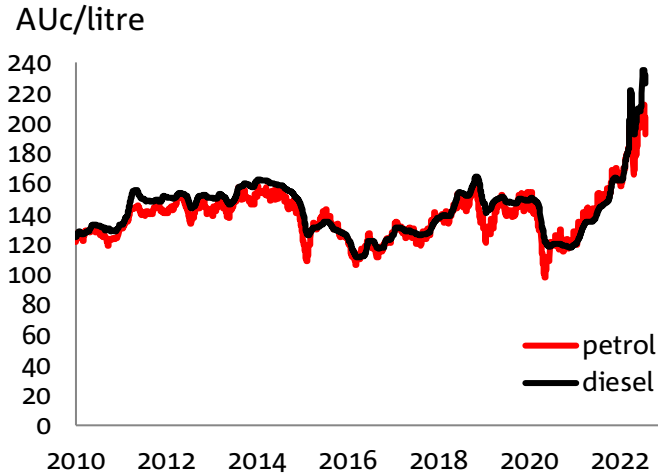
Source: Bureau of Meteorology

FARM INPUTS

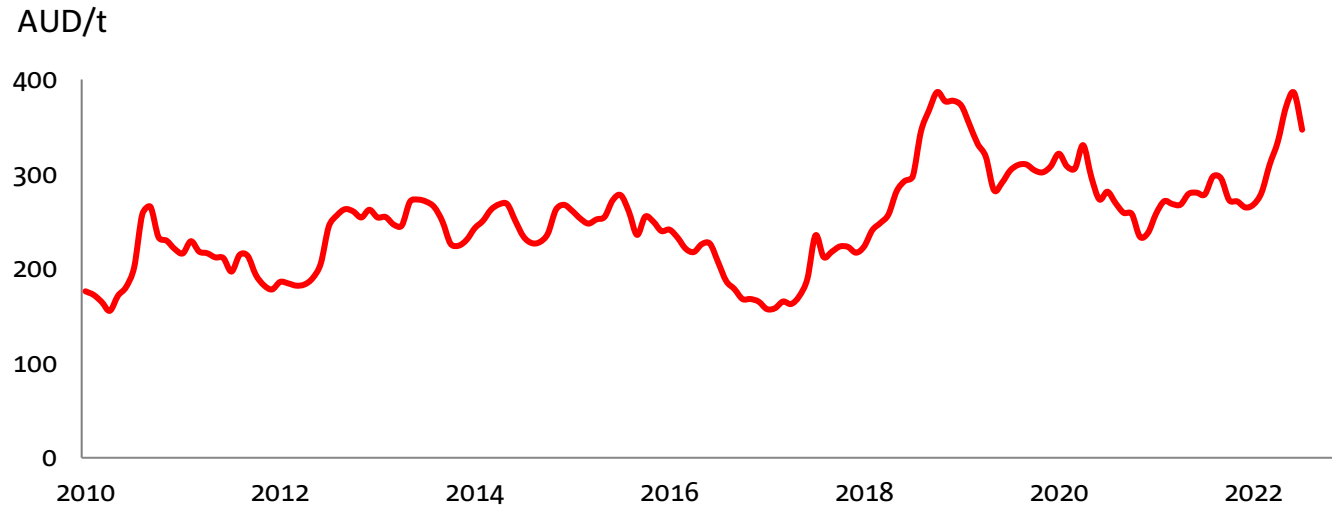
NAB FERTILISER INDEX



NATIONAL AVERAGE FUEL PRICES



NAB FEED GRAIN PRICE INDEX



Source: Bloomberg, Profarmer and NAB Group Economics

Input prices, which have presented a major challenge to agricultural producers, have eased somewhat over the last month, albeit from very high levels.

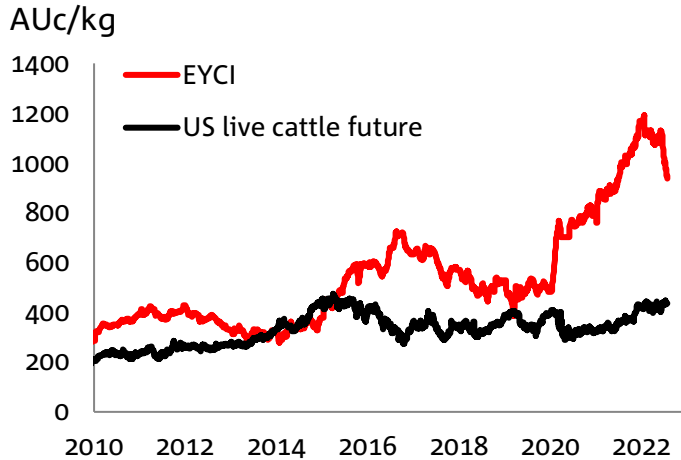
Our fertiliser index continued to ease in June, down 8.7% m/m, but partial data for July suggest that the index will be flat to slightly higher this month. While the pause in price growth is very welcome, our index is still up almost 60% compared to the same time in 2021. With natural gas prices back on the rise due to Russia cutting back flows on Nord Stream 1, it's probably too early to hope for further relief in the short term.

Oil prices have dropped back on signs of slowing global growth, although geopolitical concerns have seen increased volatility. This means that petrol prices have been lower at the bowser (192.9c/l on average last week), although diesel remains stubbornly high (226.1c/l last week on a national average basis).

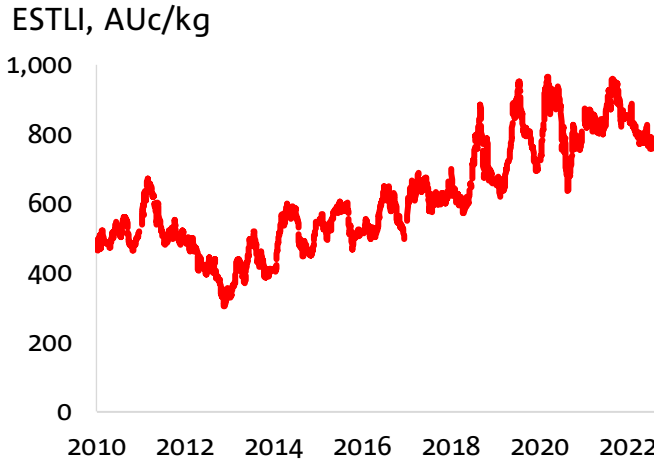
Our feed grain price index dropped 5.6% last month and a further 8.7% this month, reflecting easing global grain prices. However, demand fundamentals remain strong and supply challenged, so further hits to prices are less clear.

LIVESTOCK

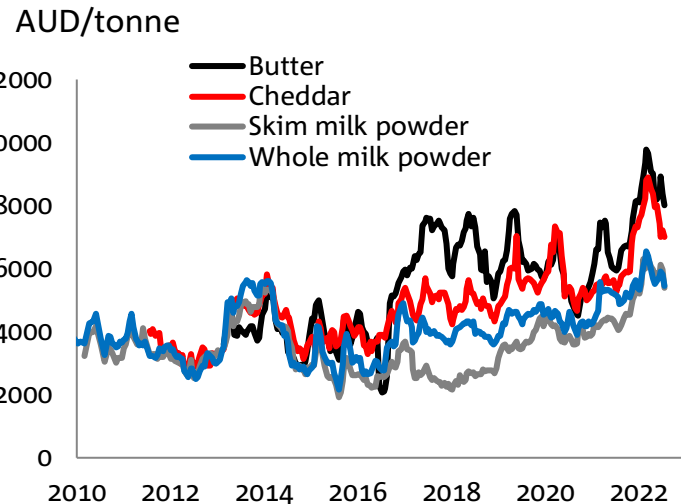
CATTLE



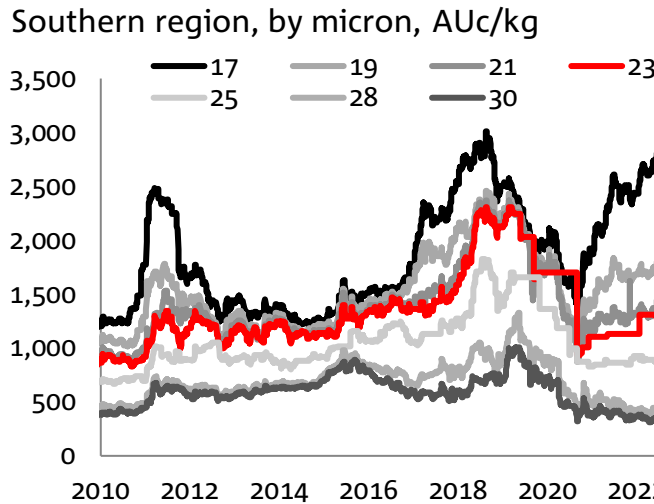
LAMB



GDT AUCTION RESULTS



WOOL



Young cattle prices have dropped sharply since mid-June, falling from above \$11/kg to under \$9/kg this week. The underpinnings of this market uncertainty are multifaceted. The reality is that Australian cattle prices have been heavily detached from global fundamentals since the NSW-Qld drought ended in 2020. While seasonal conditions have been mostly supportive (southern frosts and northern floods notwithstanding), higher input and transport costs, rising interest rates, an uncertain global growth outlook and Covid staff shortages at processors, have all contributed to weaker cattle demand. That said, prices remain very high by historic Australian – and current international – standards. While we continue to see some downside from here, our forecast track sees prices remain above pre-2020 levels into 2023.

Lamb prices continue to ease, albeit gradually compared to dramas in cattle markets. This is in line with our view that the decade long price run-up has now peaked. The wool market is in winter recess until 11 August, but pre-recess prices were a little weaker overall.

Global dairy trade auction results continue to fall, albeit from high levels. Farmgate prices are generally excellent, with a bidding war for milkflow. This does present a risk of margin squeeze for processors however.

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

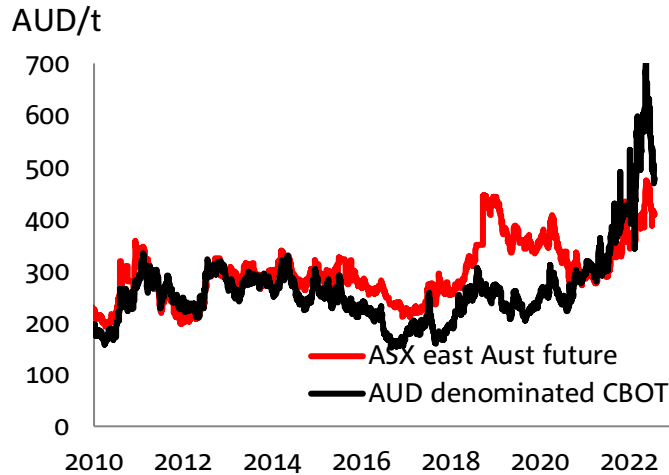
WINTER CROPS

Higher rates and increased fears of a global economic slowdown have whacked many commodity prices since mid-June and grains are no exception. Global wheat markets have now basically unwound their gains since Russia's invasion of Ukraine, despite ongoing uncertainty over the state of Ukraine's production and export. However, prices remain elevated by pre-February standards and the global supply picture remains mixed. Domestically, we didn't see the same price spike seen overseas, so the commensurate downside has been more limited. East coast wheat futures have been trading in the low-400s range in AUD terms recently.

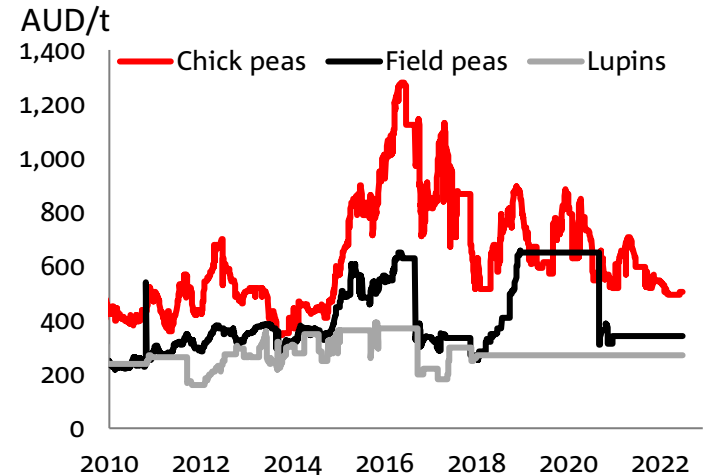
So where to from here? Australian seasonal conditions remain mostly supportive, although outside NSW and Qld conditions are not mostly drier than average and frosts have been more frequent than usual. That said we continue to expect a well above average crop this season.

Prices are likely to remain high by historic standards. Lower global growth has limited impact on grain demand fundamentals and storages remain under pressure. Australian will remain in hot demand – the world needs grain and Australia will be a key supplier over the coming year.

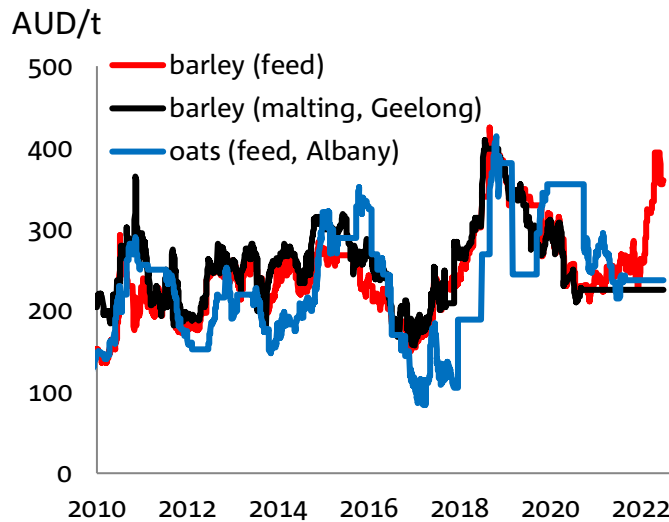
WHEAT



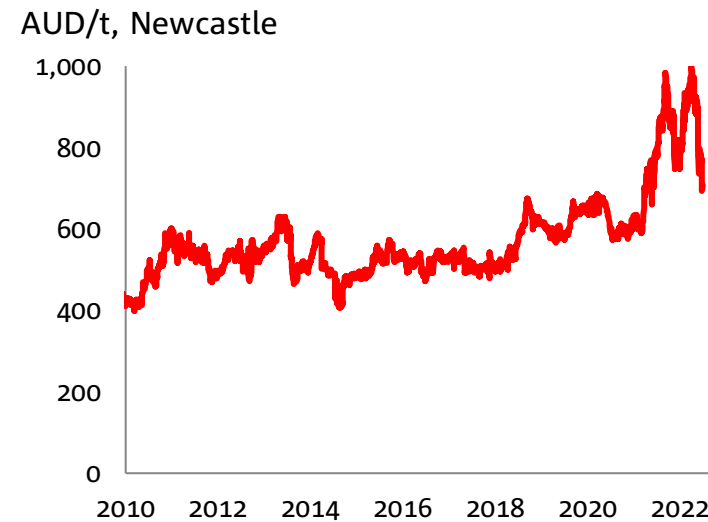
PULSES



COARSE GRAINS



CANOLA



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

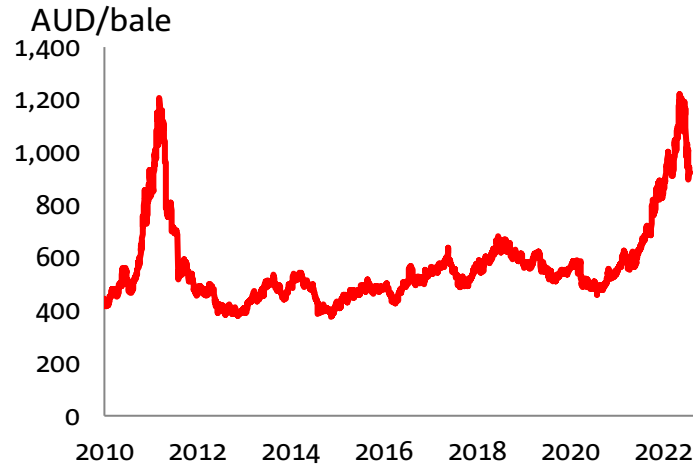
SUMMER CROPS, SUGAR AND HORTICULTURE

This year's cotton rally, which saw record prices in AUD terms, looks well and truly over. AUD denominated Cotlook A exceeded \$1,200/bale in May, but is now back just below \$900. Seasonal conditions remain first class, reflecting replenished storages and good dryland performance. The Australian cotton industry has done remarkably well this season and is likely to enjoy another good season from water in storage alone.

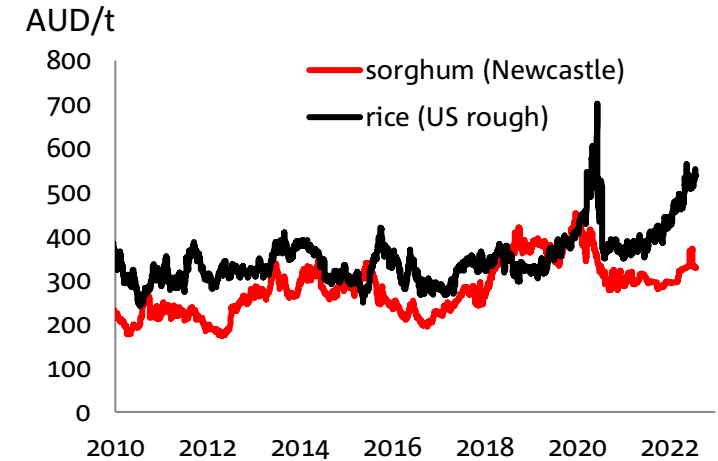
Sugar prices remain relatively steady, so far avoiding the big declines seen in other commodities.

Fruit and vegetable prices have been prominent in buyers' minds recently, but the most recent wholesale data suggest that prices have peaked at least for the time being. Wholesale fruit prices were up 1.7% in July following a fall of 2.9% in June. Meanwhile vegetable prices fell 9.5% in July after an extraordinary 38.4% jump in June.

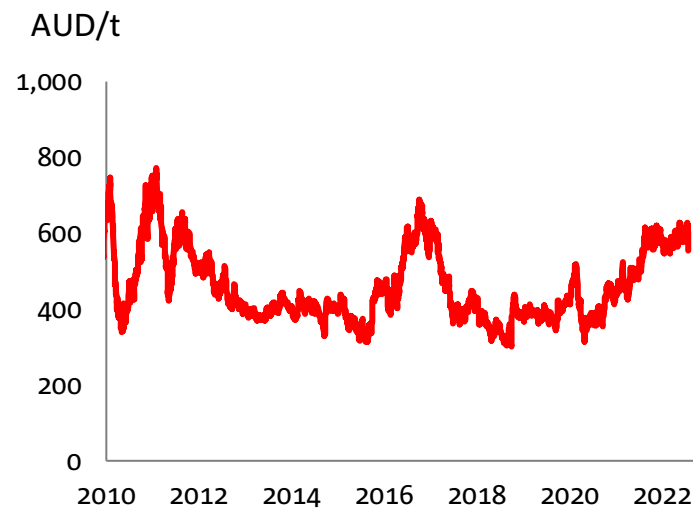
COTTON



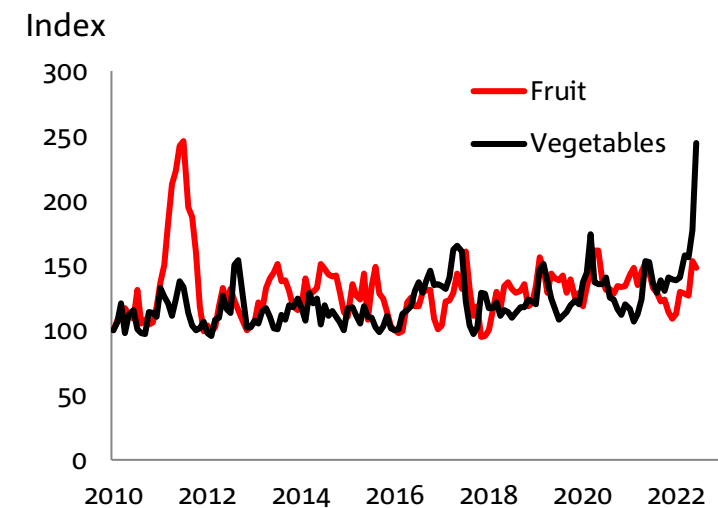
SORGHUM AND RICE



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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