

# RURAL COMMODITIES WRAP



**AUGUST 2022**

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# KEY POINTS

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Australian agricultural commodity prices have continued to unwind, posting a second month of lower prices as measured by NAB's Rural Commodities Index. This comes against a backdrop of continued excellent seasonal conditions, but elevated input costs and rapidly rising interest rates to control global inflation.

Our index was off 1.8% in August, following a revised 8.1% decline in July – the largest in the history of our index from 2010. However, commodity prices had enjoyed rapid growth for the preceding two years and stood at record levels in June.

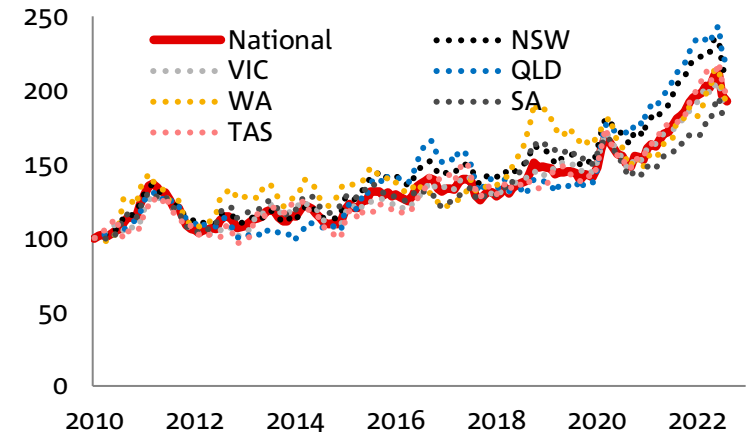
Input costs remain elevated, but we see ongoing signs that they have stabilised, at least for now. That said, our fertiliser index increased 7.5% in August, following three months of declining prices.

Seasonal conditions remain generally very supportive, with most major growing regions experiencing above average rainfall and soil moisture. The Bureau of Meteorology remains on La Nina alert – indicating a roughly 70% chance of La Nina forming this spring. Four of the seven surveyed models point to La Nina forming. If this occurs, it will be the third La Nina in a row, an extremely rare event and a further challenge for global agricultural growing conditions (although presenting further upside in Australia).

The RBA continues to rapidly raise interest rates. The cash rate target currently stands a 2.35%, up from 0.1% at the state of the year. We see the cash rate reaching 2.85% by the end of the year. The AUD fell against the USD through August, as mounting global growth concerns and risk-off sentiment boosted the greenback. We see the AUD closing out 2022 at around 68 US cents – roughly where it stands now.

## NAB RURAL COMMODITIES INDEX

National and by state



## MONTHLY COMMODITY PRICE CHANGES

	June	July	August
Wheat	▼ 0.4%	▼ 8.1%	▼ 1.1%
Beef	▼ 1.4%	▼ 11.4%	▲ 1.6%
Dairy	▼ 1.4%	▼ 3.4%	▼ 7.3%
Lamb	▲ 0.1%	▼ 6.3%	▼ 3.7%
Wool	▲ 2.0%	▼ 3.7%	▼ 2.9%
Sugar	▼ 2.2%	▲ 0.0%	▼ 3.0%
Cotton	▼ 5.5%	▼ 13.0%	▼ 6.1%

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



# SEASONAL CONDITIONS

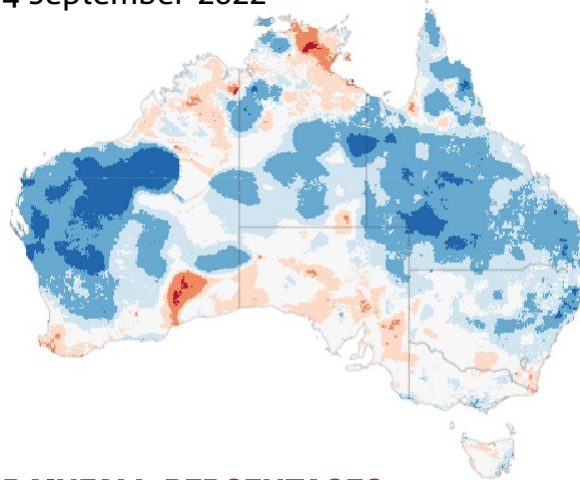
Seasonal conditions remain generally very supportive, with most major growing regions experiencing above average rainfall and soil moisture.

The three month outlook for spring continues to show a very elevated chance of wetter than average conditions across most of the continent. Indeed, expectations of very wet weather continue to increase. However average, to drier than average, conditions are forecast in south-western WA, consistent with a La Nina event. South-west Tasmania is also likely to be relatively dry, although this has limited implications for agriculture.

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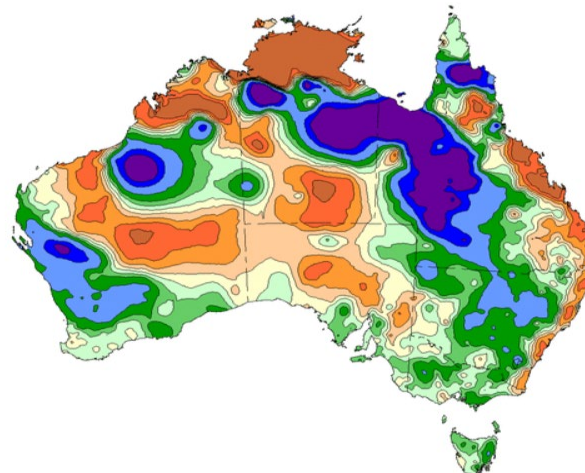
## ROOT ZONE SOIL MOISTURE

4 September 2022



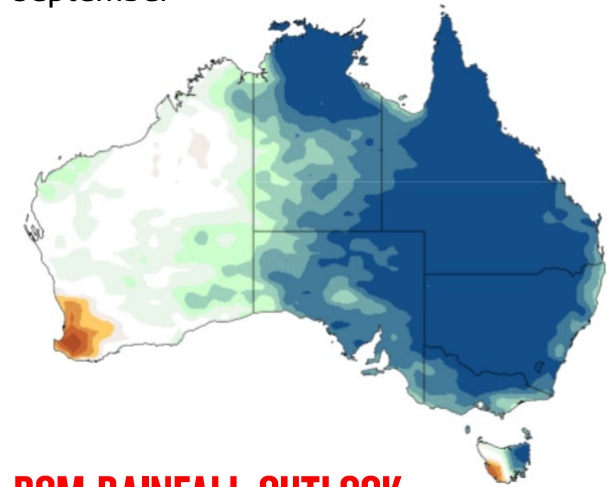
## RAINFALL PERCENTAGES

August



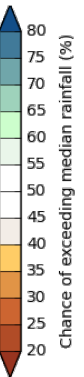
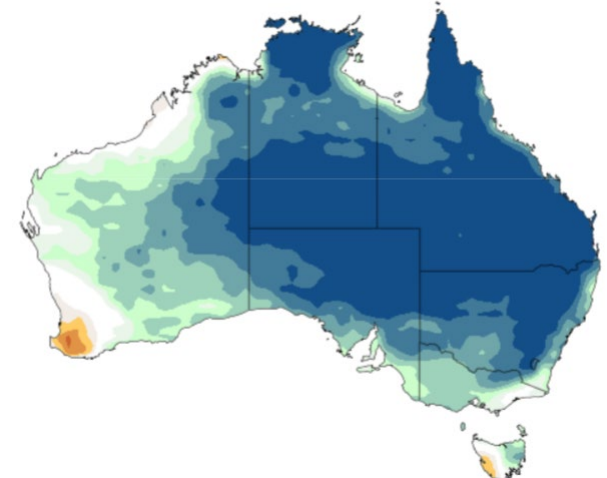
## BOM RAINFALL OUTLOOK

September



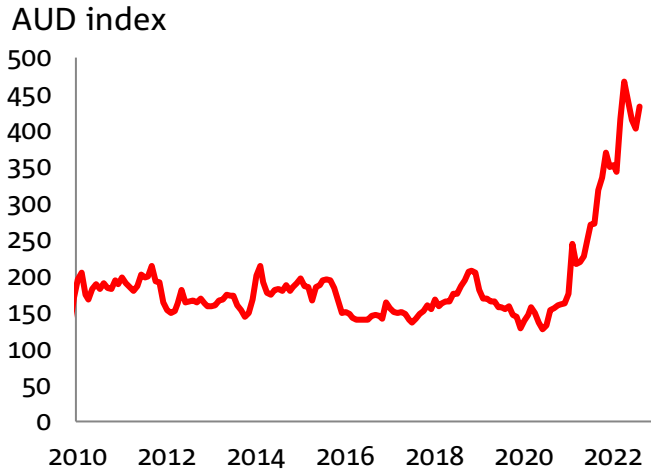
## BOM RAINFALL OUTLOOK

September – November

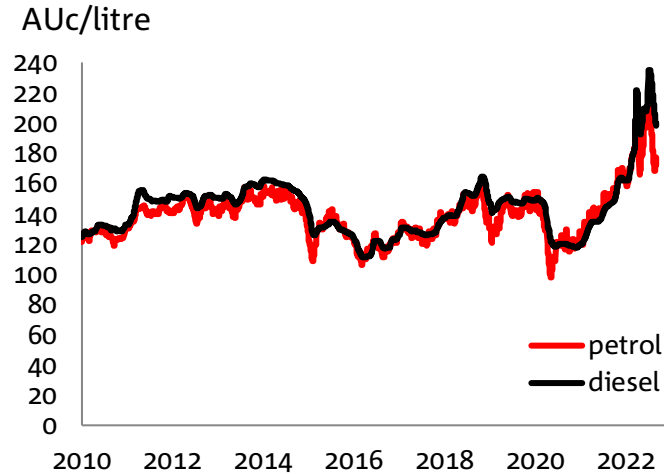


# FARM INPUTS

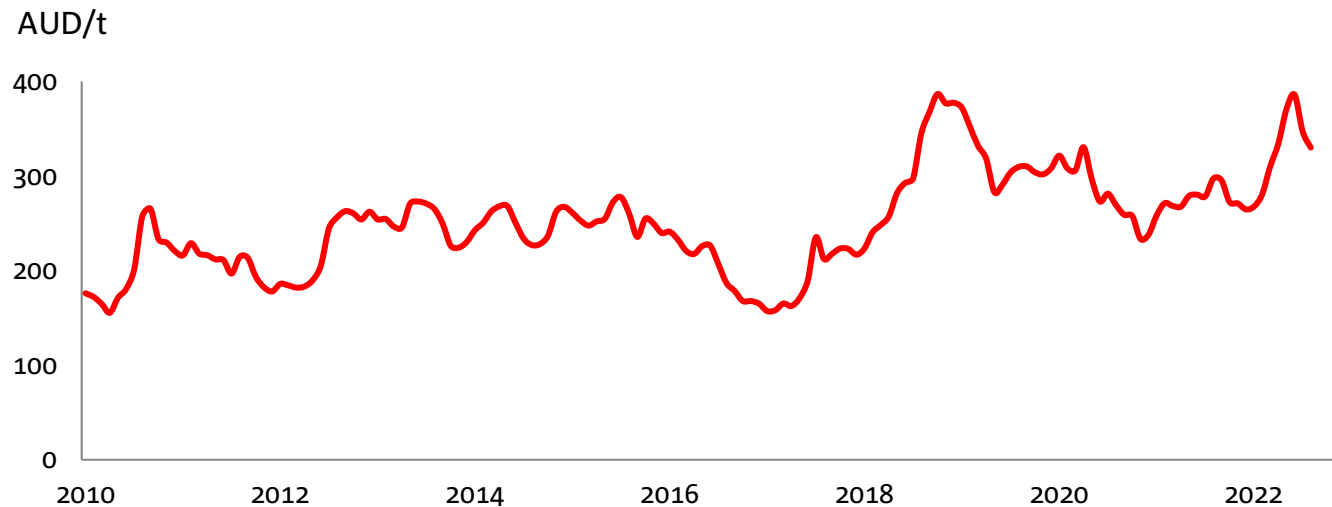
## NAB FERTILISER INDEX



## 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, are down on recent peaks. However, signs over the last month point to stabilisation, or in some cases even a re-emergence, of price growth.

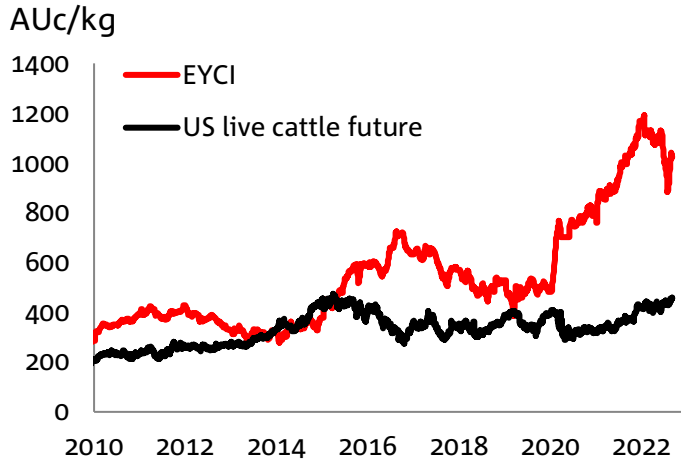
Our fertiliser index continued dropped from May to July, after posting double digit monthly gains in February and March. But the index gained 7.5% in August and is now around 60% higher than the same time last year. Natural gas represents a major challenge to the fertiliser outlook. Russia has now suspended Nord Stream 1 indefinitely, imperilling European gas supply coming into winter.

Oil prices remain choppy amid slowing global growth expectations, although geopolitical concerns could change this. Petrol prices are well below peaks earlier this year, but diesel is yet to see declines much below \$2/l at the bowser.

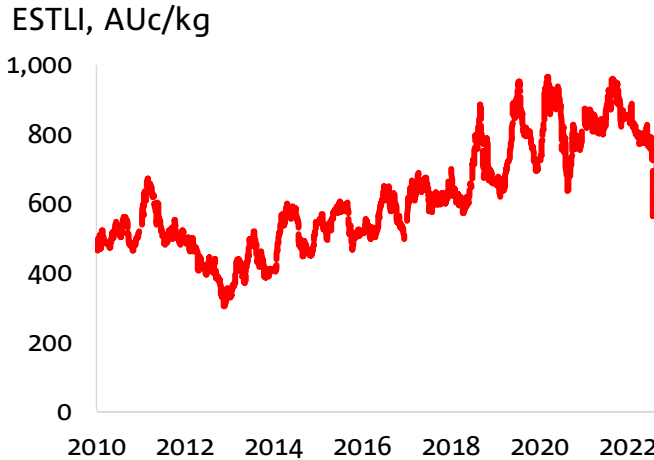
Feed grain prices continue to fall, down another 4.9% in August and are now around 14.5% below their June peak. While domestic supply remains plentiful and global prices are down on February peaks, there is potential for another spike given challenging conditions in across many growing regions.

# LIVESTOCK

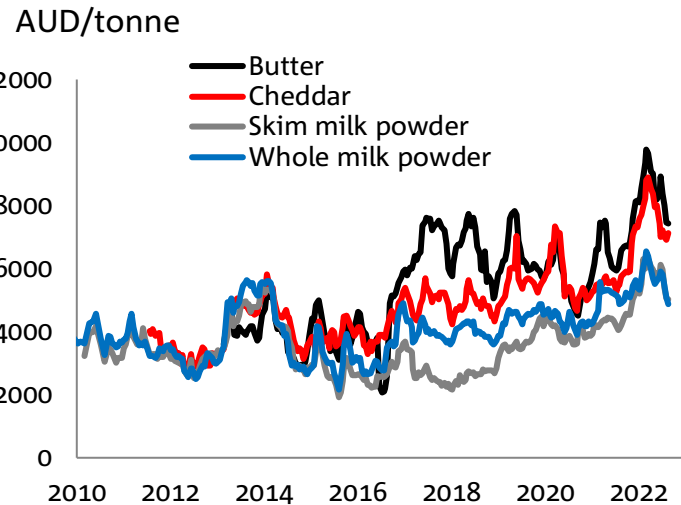
## CATTLE



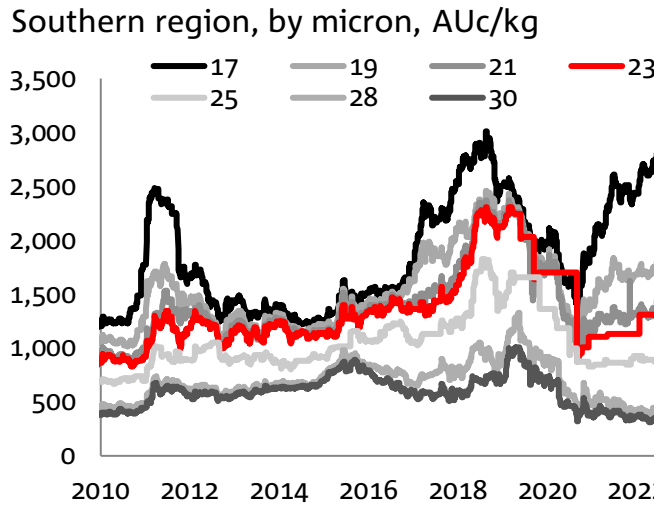
## LAMB



## GDT AUCTION RESULTS



## WOOL



Young cattle prices have rebounded sharply from their price crash in June and July. EYCI was as low as \$8.86/kg in late July, but has bounced back to the above the \$10 mark recently. Seasonal conditions remain broadly very supportive, but a weaker global growth outlook and high input costs have dampened sentiment to some extent. That said, prices remain extremely 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 fall, although there may be some tentative signs of stabilisation over the last few weeks. But with the traditional spring flush just around the corner, downward pressure is likely to resume in coming months. It remains our view that the decade long price run-up has now peaked, but the speed of the recent decline has exceeded our forecasts. The wool market has returned from winter recess with flat to lower prices.

Global dairy trade auction results continue to fall, but farmgate prices are generally excellent as processors compete for milk. The risk of further margin squeeze for processors continues to be a risk in coming months.

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

# WINTER CROPS

While higher rates and global recession fears brought grain prices down over recent months, there are now some signs that prices may move north once again.

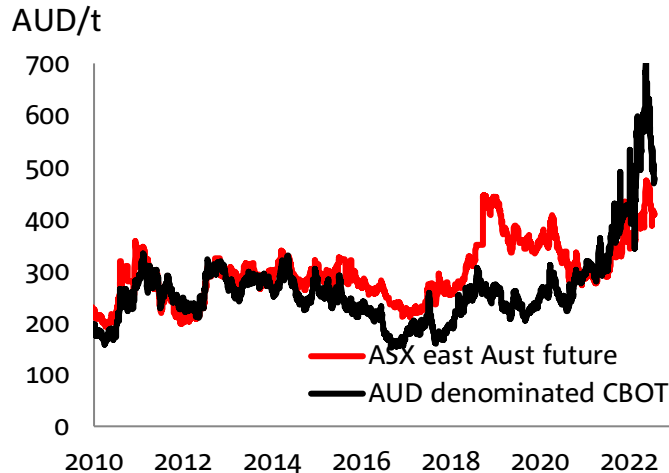
The global supply picture remains mixed, with several key growing regions experiencing extreme weather events. There is now a 70% chance of a third La Nina event, which if it occurs would put further pressure on global production. Meanwhile, the war in Ukraine continues to drive uncertainty around Black Sea grain and heap pressure on fertiliser prices.

Domestic prices did not experience the same February spike seen overseas, so the commensurate downside has been more limited. East coast wheat futures continue to trade in the high-300s to low-400s range.

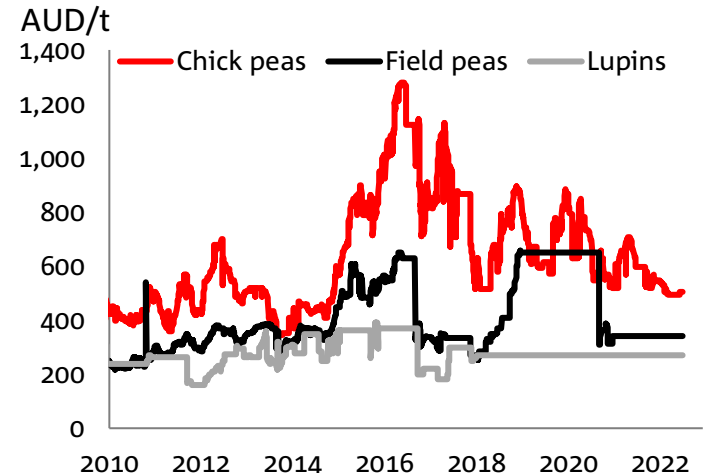
Australian seasonal conditions remain mostly supportive, although if anything some areas are now too wet. We continue to expect a well above average crop this season.

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 grain will remain in hot demand throughout 2022 and into 2023.

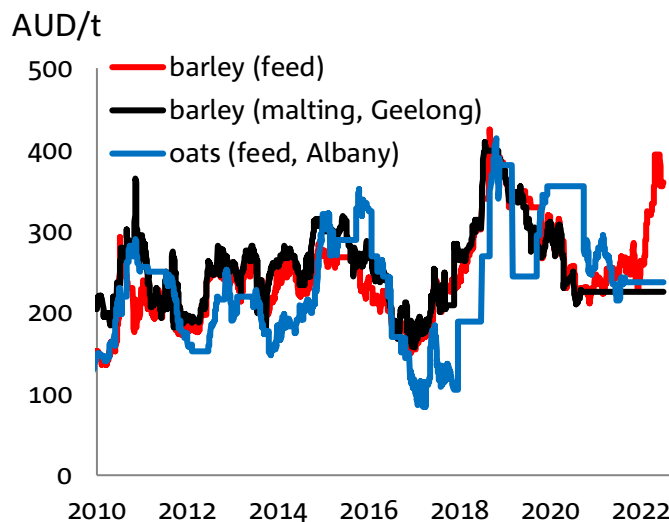
## WHEAT



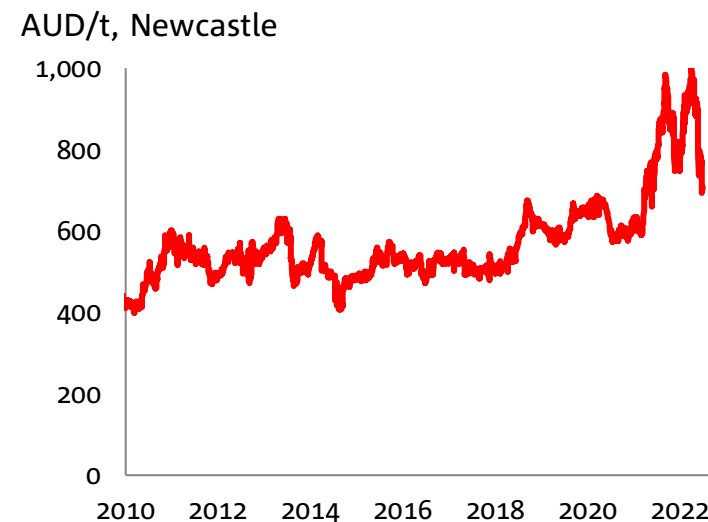
## PULSES



## COARSE GRAINS



## CANOLA



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

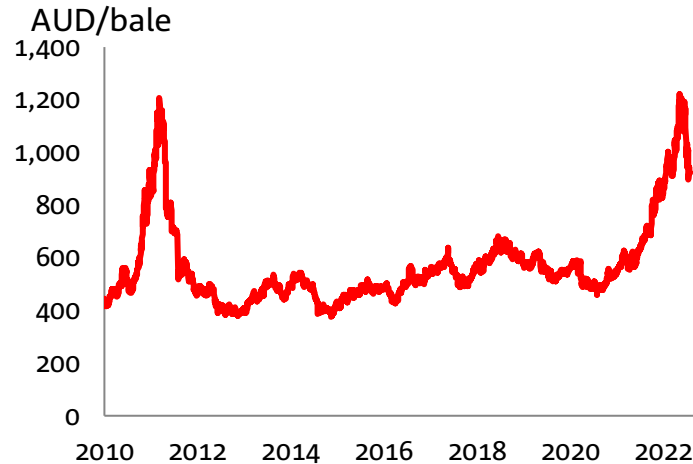
# SUMMER CROPS, SUGAR AND HORTICULTURE

This year's cotton rally is well past its peak, although cotton prices remain well above pre-pandemic levels. Seasonal conditions remain first class, reflecting replenished storages and good dryland performance.

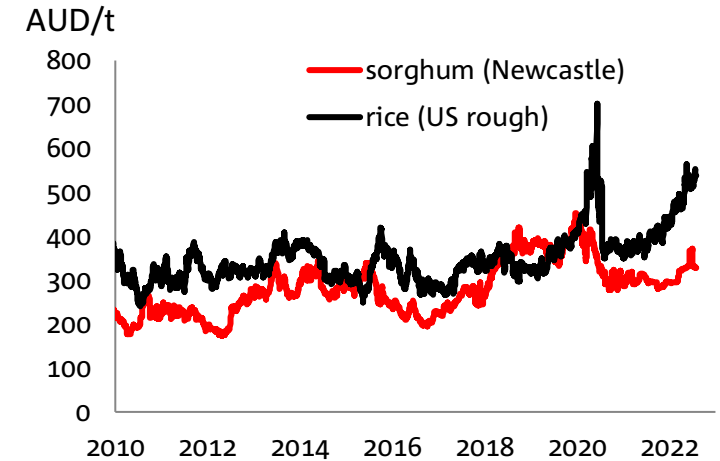
Our customer business inflow data shows cotton as the strongest performer across ag, with a combination of high prices and likely record delivering huge grower returns, especially in NSW. NSW grower inflows for July 2022 were up 58% on a year ago and 370% on two years ago. Queensland incomes were up 48% and 158% respectively. With August usually the biggest month for revenue, these results are likely to jump further.

Fruit and vegetable prices have been big drivers of inflation, but August wholesale data showed another decline. Fruit prices fell 3.4% while vegetables were off 5.3%. Wholesale vegetable prices are now down 14.3% from their June peak.

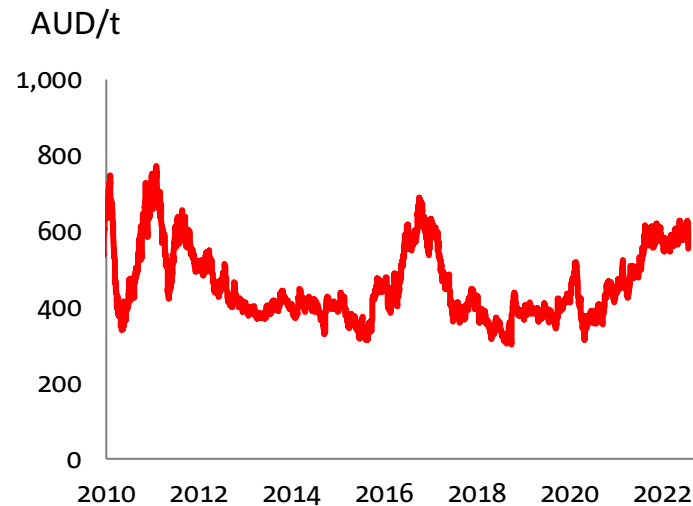
## COTTON



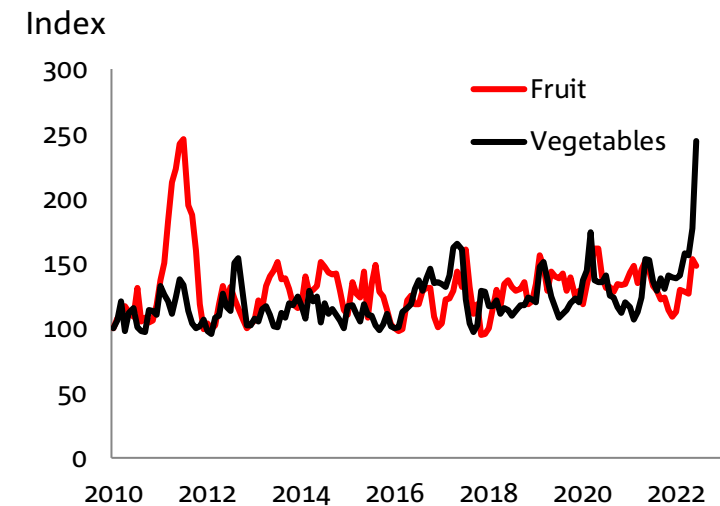
## SORGHUM AND RICE



## 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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