



NAB Rural Commodities Wrap

November 2022



Highlights



Australian agricultural commodity prices have posted a slight uptick in the last two months, as measured by NAB's Rural Commodities Index. While the weaker global economic outlook has materially dented demand for many non-energy bulk commodities, agriculture continues to see generally elevated prices as buyers weigh seasonal and geopolitical uncertainty.

Our index was up 1.0% in September and a further 1.1% in October, following a sharp 8.0% drop in July and a further 1.7% fall in August. Much of the recent increase has been driven by higher wheat and cattle prices (although daily cattle prices are now falling), offsetting falls in cotton, fruit and vegetables.

Seasonal conditions have been generally very supportive this year, with a big winter crop just around the corner. However, floods across parts of eastern Australia (particularly Victoria, Tasmania and Southern New South Wales), have destroyed previously good crops for some growers. More wet weather is forecast across eastern Australia coming into summer, increasingly the risk of further crop quality downgrades. Meanwhile, the third La Nina in a row rolls on, although the event is likely to break down early in 2023.

While prices and yields continue to outperform, input costs and market volatility remain a challenge. Volatility is likely to persist and perhaps even increase in 2023.

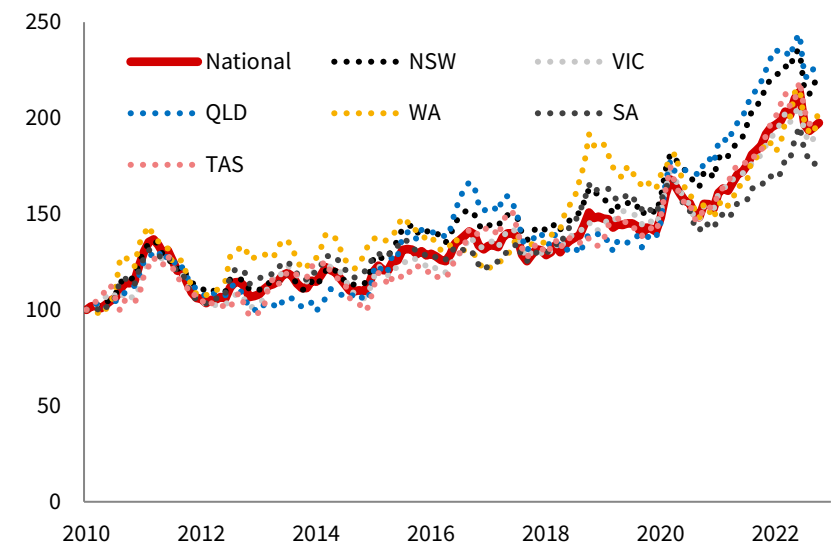
We continue to see a rapid normalisation (i.e. increase) in global and domestic monetary policy. The US Federal Reserve has now hiked by 75 basis points for the last four meetings in a row, while the RBA recently raised rates another 25 basis points to 2.85%. This materially weakens the global economic outlook for 2023. We expect the Fed Funds Rate to peak at around 5% by March 2023, while our RBA track sees the cash rate topping out at 3.6%. The AUD remains choppy amid global economic uncertainty – we see the currency closing out the year at around 65 US cents, with some upside in the new year.

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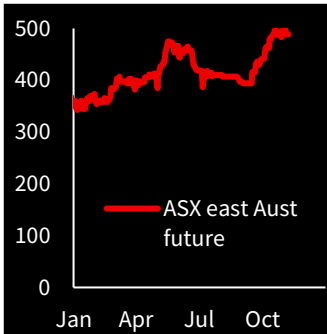
NAB Rural Commodities Index

National and state index, Jan 2010 = 100



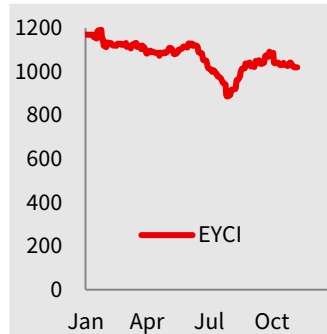
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg

Outlook for major commodities



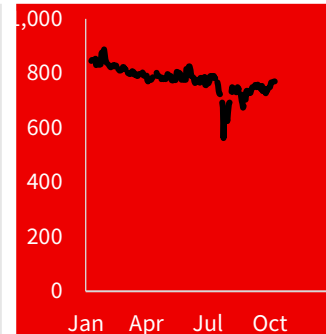
Wheat

Wheat has rallied since mid-September, reflecting global supply uncertainty, a choppy to lower AUD, and most importantly the breakdown of the Russia-Ukraine wheat deal. Tight supply suggests high prices are likely to persist in coming months.



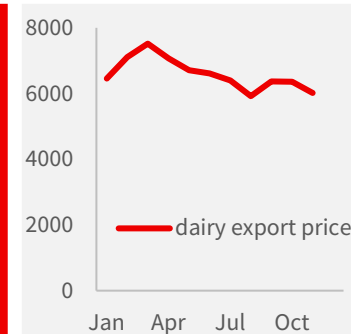
Cattle

The July drop-off in cattle prices has now largely reversed, as buyers reassessed biosecurity risks. The main question for summer is how much a big northern wet season stokes restocker demand, against volatility in global markets and renewed pressure from higher feed grain costs.



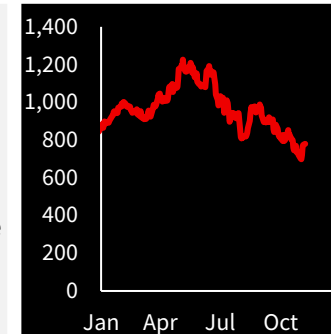
Sheep

Lamb prices are now moderately lower than year-ago levels, staging something of a recovery from a big winter fall. Meanwhile Chinese wool demand has been very mixed, sending EMI lower. While Indian and European demand has been healthier, lower global growth will be a challenge.



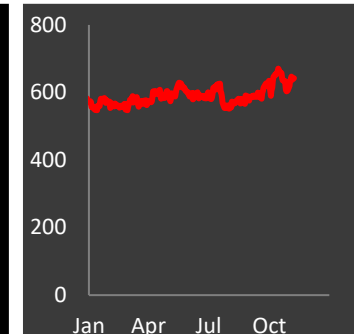
Dairy

Global dairy trade auction results have been generally lower in recent months, even in AUD terms. While farmgate prices remain very high (SDA stepped up to \$9.50 last month), some price risks are now emerging on the downside. Input costs are likely to remain elevated.



Cotton

Cotton prices have now retreated significantly from extraordinary highs earlier this year. AUD denominated Cotlook A is down from a peak of \$1200/bale to around \$7-800 recently. But with a great season, growers have every reason to remain optimistic.



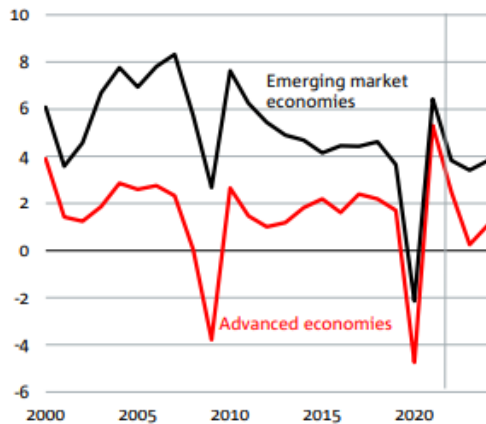
Sugar

Sugar prices have been remarkably stable this year, posting moderate gains recently. We see the oil market outlook, combined with supply concerns, as key drivers in coming months. Prices are likely to remain elevated.

Economic update



Global economic growth & forecasts (%)

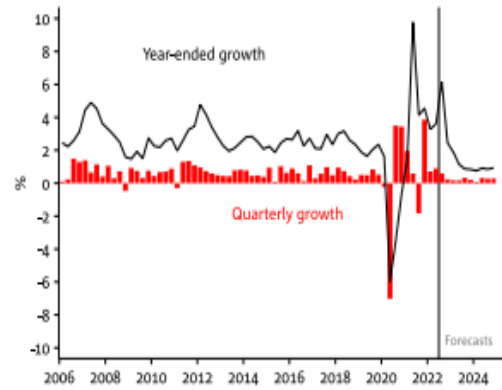


Global economy

Global inflation pressures have remained persistent, running at 9.0% y/y in September. This increases the likelihood of further rate rises.

We anticipate a significant global economic slowdown in 2023, forecasting just 2.2% global GDP growth next year - well below the long run average of 3.4%.

Major risks include geopolitical tensions (notably in Ukraine), the trajectory of covid in China and further inflation surprises.

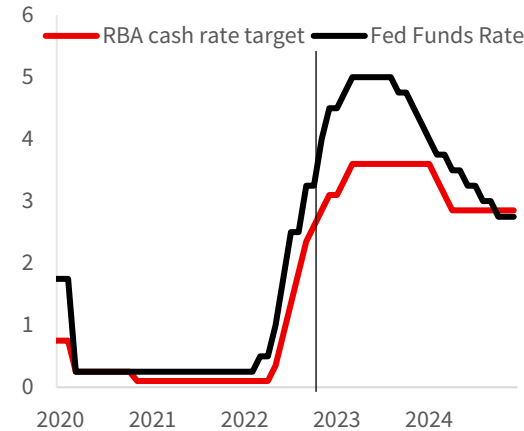


Australian economy

To date, the Australian economy has remained very resilient despite high inflation and a rapid increase in interest rates.

However, there are some very early signs of a slowing with labour demand indicators, forward looking measures in the business survey and high frequency indicators of consumption, easing. Higher mortgage rates are expected to begin flowing through more clearly in coming months.

As a result, we now expect growth to slow to below 1.0% over the next two years.

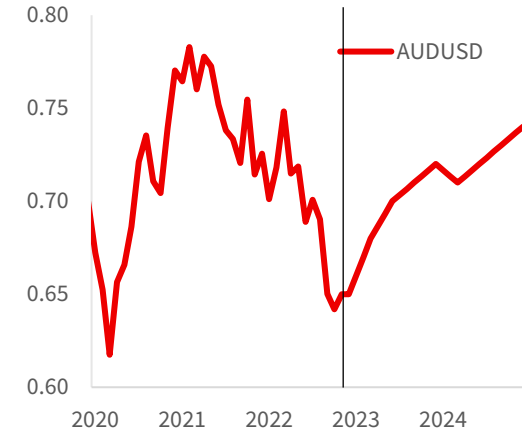


Interest rates

Central banks are in the process of rapidly hiking rates across the world in response to persistently high inflation.

Following the RBA's 25bp hike to 2.85% in November, we expect further 25bp increases at each of the next three meetings, taking the cash rate to 3.60% by March. With wage growth expected to remain contained, we expect the RBA can tread the "narrow path". However, we see risks on either side.

Meanwhile the Fed is likely to be more aggressive, taking the Fed Funds Rate to 5% by March.



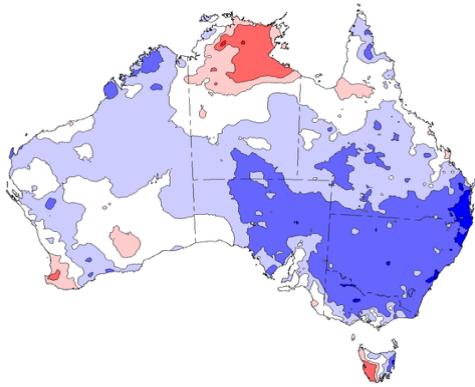
Currency

The AUD/USD has traded in the mid-US60s range recently after falling to the low US62c range in October.

Our forecasts are unchanged, and we continue to expect the Aussie to end the year around US65c before it strengthens to US72c by end 2023 and US74c by end 2024.

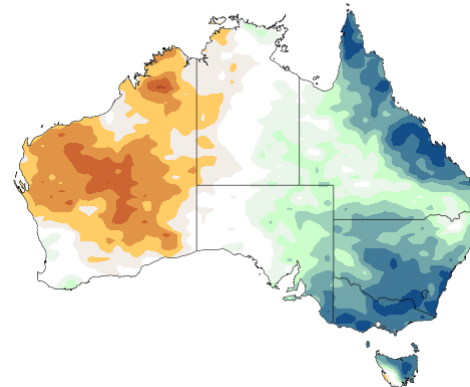
For more detail on our forecasts, click [here](#).

Seasonal conditions and farm inputs



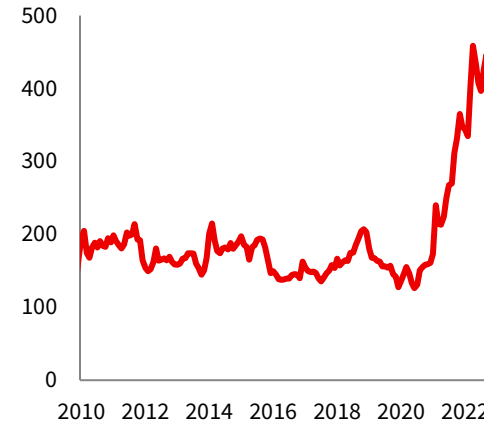
2022 has been much wetter than average

Year to date rainfall shows a very wet 2022 across much of Australia. South-east Queensland, New South Wales, Victoria and South Australia have been especially wet. While this has been generally very supportive for crop production, recent flooding across Victoria, New South Wales and Tasmania has been a major challenge for residents and producers alike.



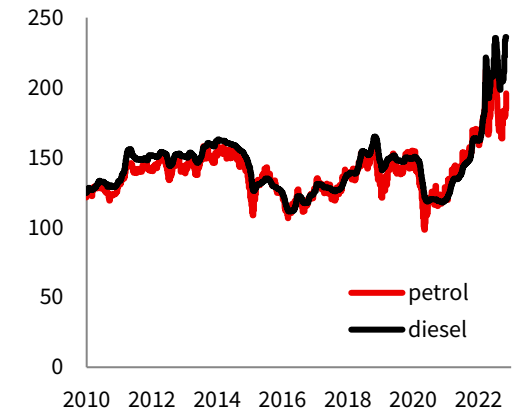
Three month outlook - wet in the east, dry in the west

As the third La Nina in a row rolls on, we are likely to see further above average rainfall for the next three months, but only in the eastern states. Meanwhile, the outlook for WA looks decidedly drier than average. While the current La Nina event is forecast to break down early in 2023, the current wet period looks set to continue at least for the next few months.



Fertiliser prices have stabilised at high levels

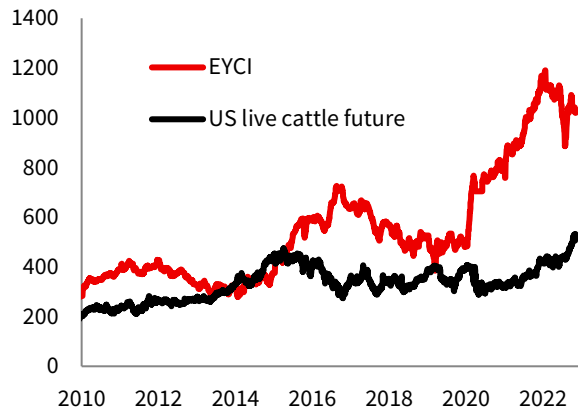
Farm input prices have been on a tear since 2020, as covid, trade disruptions, and more recently the war in Ukraine and associated inflationary pressures, pile pressure on key inputs. But more recently, we have seen signs of stabilisation in fertiliser prices, albeit at historically elevated levels. Our index (above) is more than double its pre-covid average,



Fuel prices remain high amid global oil uncertainty

Oil prices have been choppy this year – Russia’s invasion of Ukraine saw prices skyrocket, but global growth concerns, Chinese covid cases, US SPR releases and OPEC cuts, are all stoking volatility. For the Australian motorist, prices remain high at the pump. But the US EIA forecasts slightly lower prices in 2023 (around \$95/bbl), combined with our outlook for a slightly stronger AUD, this could see domestic fuel prices ease a little.

Livestock

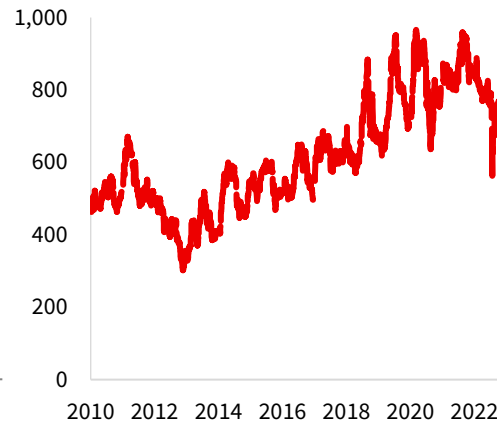


Cattle

The July drop-off in cattle prices has now largely reversed, as buyers reassessed biosecurity risks. Seasonal conditions remain broadly very supportive, but a weaker global growth outlook and high input costs have dampened sentiment to some extent.

The main question for summer is how much a big northern wet season stokes restocker demand, against volatility in global markets and renewed pressure from higher feed grain costs.

Our forecast track sees prices remain above pre-2020 levels into 2023.

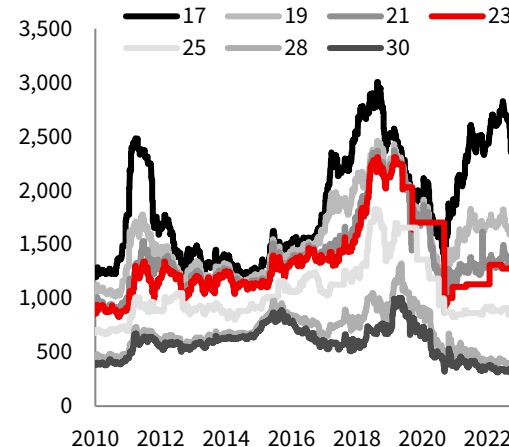


Lamb

Lamb prices are now moderately lower than year-ago levels, staging something of a recovery from a big winter fall, mirroring what occurred in cattle markets.

It remains our view that the decade long price run-up has now peaked, although prices remain very good by historic standards.

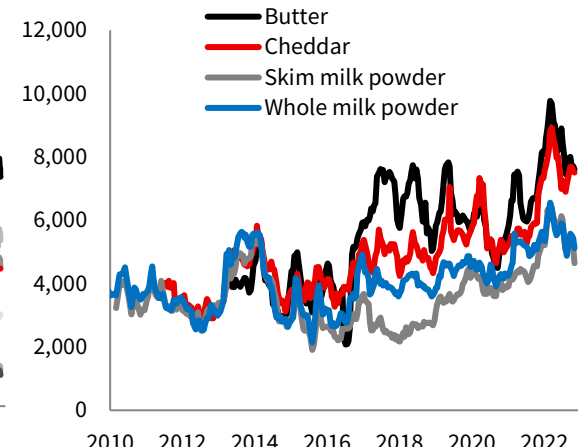
With lamb a high value-add niche product on global markets, it remains to be seen if lamb can ride the global agricultural commodity boom or whether consumers cut back on luxuries as global growth slows.



Wool

The wool market has been generally lower in recent months. Chinese wool demand has been very mixed, sending EMI lower. While Indian and European demand has been healthier, lower global growth will be a significant challenge in 2023.

The price of substitutes is mixed – oil remains elevated but cotton prices have now declined substantially (albeit from stratospheric levels).



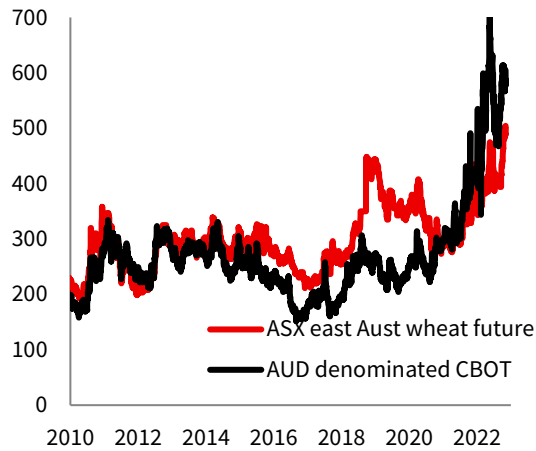
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While farmgate prices remain very high (SDA stepped up to \$9.50 last month), some price risks are now emerging on the downside. Input costs are likely to remain elevated.

In the short term, the main risk lies with processors, although if these trends continue there is likely to be an impact in 2023-24 (noting that this is over half a year away).

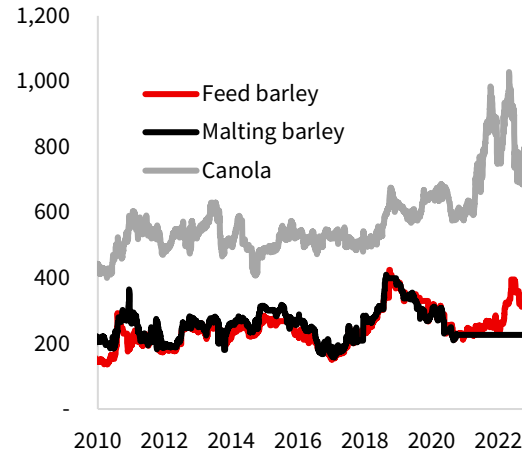
Crops



Winter crop prices

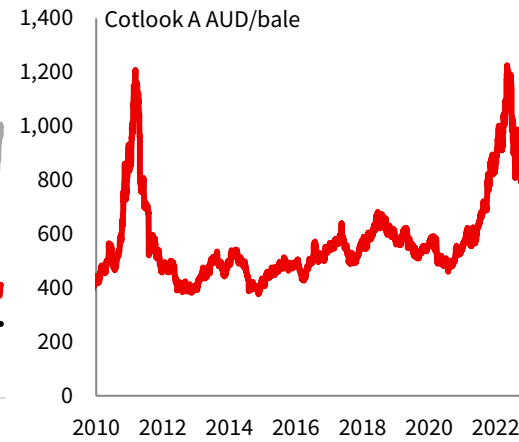
Wheat has rallied since mid-September, reflecting global supply uncertainty, a choppy to lower AUD and most importantly the breakdown of the Russia-Ukraine wheat deal. Tight global supply suggests high prices are likely to persist in coming months.

However, as with many commodities, the trajectory of the Russia-Ukraine war will be key.



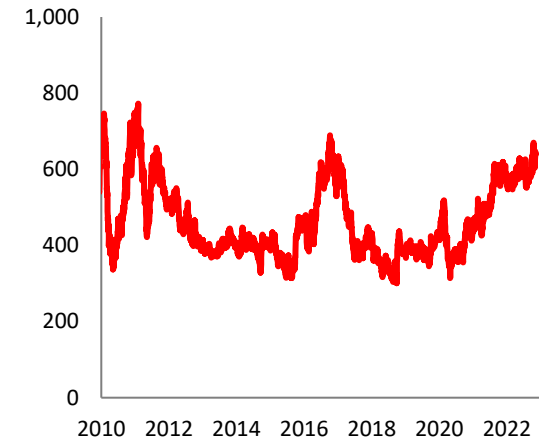
Crop production

ABARES' September crop forecasts pointed to around 32.2mmt of wheat, 12.3mmt of barley and 6.6mmt of canola. While these are slightly down on last year, they represent excellent production. Recent flooding has established a downside production risk in Victoria and New South Wales, but looking ahead the biggest challenge is likely to be harvest rain. This will make the crop hard to get off paddocks and could see quality downgrades. Nonetheless, very strong season all round.



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