



NAB Rural Commodities Wrap

December 2022

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Highlights



Australian agricultural commodity prices retreated on average last month, with the NAB Rural Commodities Index down 2.6% m/m in November. Prices are now around the same time as they were in November 2021 (just 0.2% higher) as the big run-up earlier this year subsides.

The global economic outlook continues to be a major challenge to many commodities. While agriculture had been spared the downsides until recently owing to tight global supply, volatility has continued to increase and some commodities are now facing a more challenging price picture in 2023. That said, overall prices remain well above pre-covid levels and many producers are seeing their most profitable period in living memory.

Livestock and grain market volatility sits at the heart of the recent Rural Commodities Index changes. Wheat saw a big runup coming into spring, but this has now fallen away as markets weight global geopolitical events, USD weakness, an uncertain supply and stocks picture and – domestically – a big Australian crop. ABARES data puts this season's wheat harvest at the biggest on record, despite destructive flooding across parts of eastern Australia.

Cattle markets have seen a sharp decline recently as feedlots and processors eased buying in a market with very strong young cattle supply and more challenging US beef conditions. Further volatility likely awaits producers in 2023.

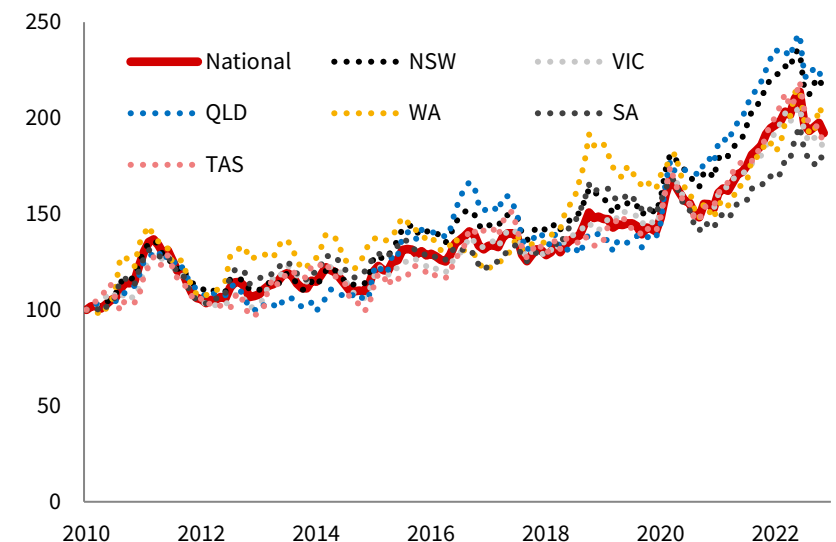
Another emerging trend worth flagging is the potential for 2023 to be a good deal drier than 2020, 2021 and 2022. The BoM sees an average to slightly wetter than average first three months of the year (except in parts of SA which could see quite dry conditions) but with ENSO models pointing to neutral and then closer to El Nino towards winter, we could well see a drier winter-spring period. While this is of course speculative, producers should be prepared for the three year La Nina anomaly to end sooner rather than later.

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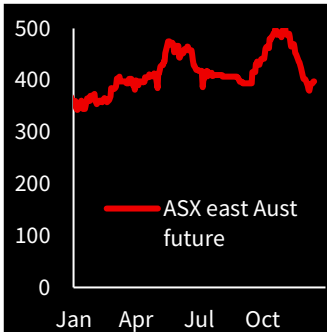
NAB Rural Commodities Index

National and state index, Jan 2010 = 100



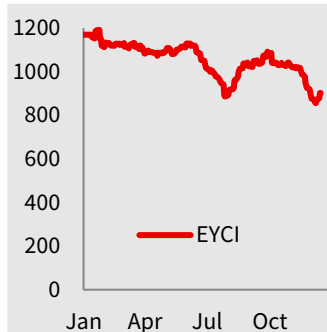
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg

Outlook for major commodities



Wheat

Australian wheat prices have unwound significantly since mid-November, reflecting easing Black Sea supply concerns, a higher AUD and big domestic harvest. Volatility will remain high while global stocks are tight and geopolitical concerns continue to dominate.



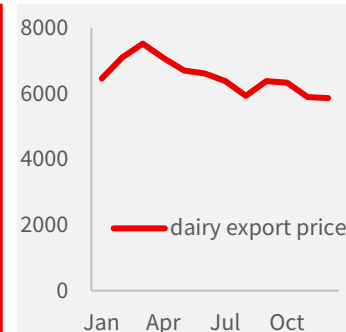
Cattle

Mid-November saw Australian cattle prices head south, as feedlots and processors eased buying in a market with very strong young cattle supply, combined with a challenging US market. While the drop has reversed over the last week and EYCI is back to around 900c, we see further risks in 2023.



Sheep

Lamb prices are lower than year-ago levels but have held up well despite strong supply. Volatility is likely to reign in 2023, especially given the challenging global economic outlook. Wool is choppy on account of Chinese covid policies, but is likely to see a drag from the global economy in 2023.



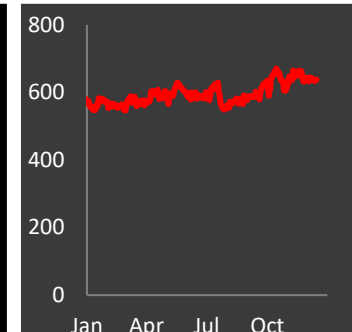
Dairy

While the last two global dairy trade auctions were positive, the trend is decidedly downward. This is a headache for Australian processors chasing falling milkflow with high farmgate prices (in the \$9-10 range). But for now, returns remain very strong at a pre-farmgate level.



Cotton

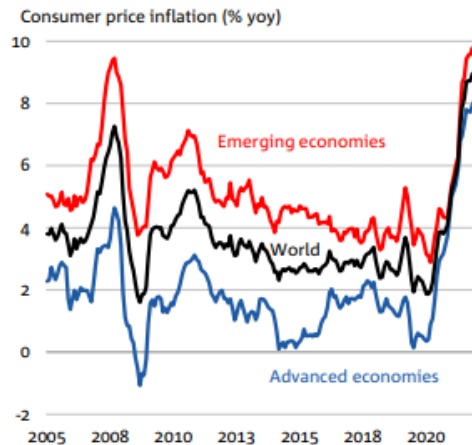
Cotton prices continue to unwind, with AUD Cotlook A now down into the low-700s range. While last season was a monster and well timed for the price boom, 2023 planting has been much more challenging with the cold and wet spring. Water storage levels remain excellent.



Sugar

Sugar prices have been remarkably stable this year, continuing to post 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.

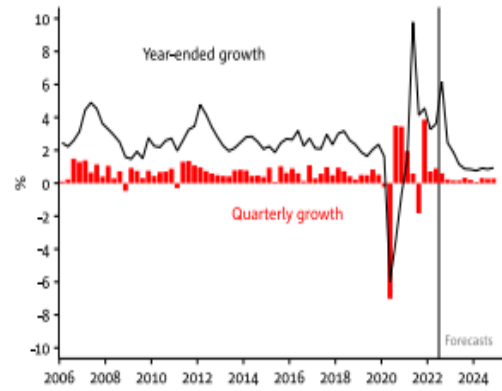
Economic update



Global economy

Global inflation data to October only point to a marginal easing in consumer price inflation, which remains high at 8.8% yoy. However, US CPI inflation again showed signs of easing in November.

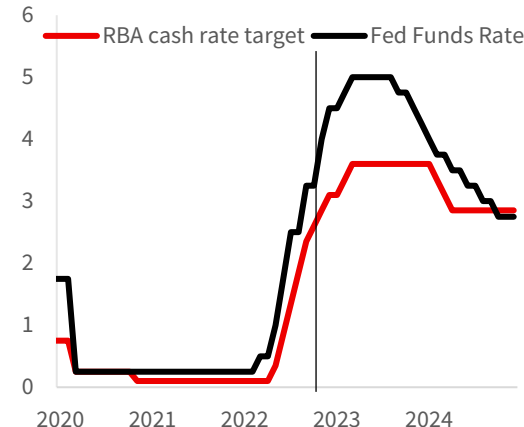
Our global forecast is little changed this month, with a substantial slowing in growth anticipated in 2023 – down to 2.3% (previously 2.2%) – before a modest recovery to 2.8% in 2024. These rates of growth are well below the long-run average.



Australian economy

Our forecasts are little changed this month. The national accounts confirmed that the economy remained resilient in Q3, and the labour force data continues to reflect a healthy but tight labour market.

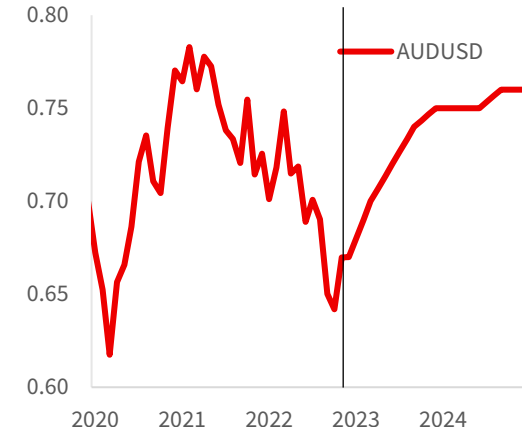
That said, leading indicators of the labour market have eased slightly, while high frequency transaction data suggest that spending growth has slowed. We continue to expect inflation to peak in Q4 before easing over the next two years – reaching 3.2% by the end of 2024.



Interest rates

The Fed's aggressive rate hikes slowed this month – up only 50bp compared to 75bp in previous meetings. We expect two further 25bp increases by the Fed in early 2023 before it pauses at a target range of 4.75-5.00%,

Following the 25bp increase in the cash rate at the December meeting, we see the RBA lifting rates at each of the next two meetings which will take the cash rate to 3.6% before pausing as global growth slows and inflation softens.

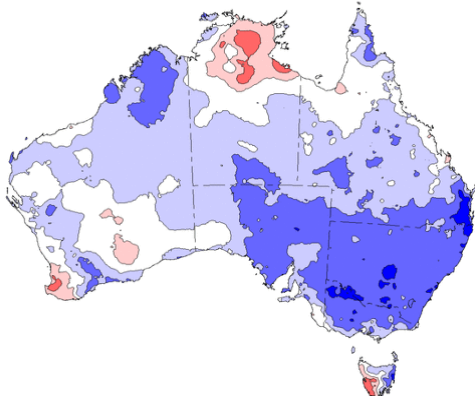


Currency

We now see the USD as having essentially topped out, with a multi-year depreciation ahead. This is already evident for AUD/USD, which is up over 10% inside two months. We now see the AUD at around 70c at end-Q1 2023 and around 75c in H2 2023.

Our latest FX forecasts and commentary can be found [here](#).

Seasonal conditions and farm inputs

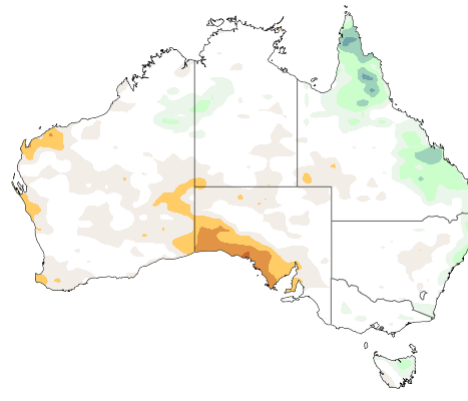


2022 has been much wetter than average

Year to date rainfall shows a very wet 2022 across much of Australia – particularly in the south-east.

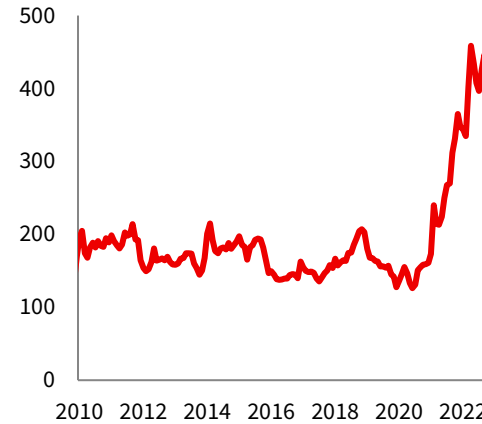
Spring was very wet across most of the country, with rainfall the highest on record across much of Victoria, New South Wales, south-east South Australia and the Kimberley in WA and into the NT.

While the wet year has seen a monster winter crop, spring flooding across parts of the south-east have wiped out crops for some growers.



Wet start to summer but beware a drier 2023

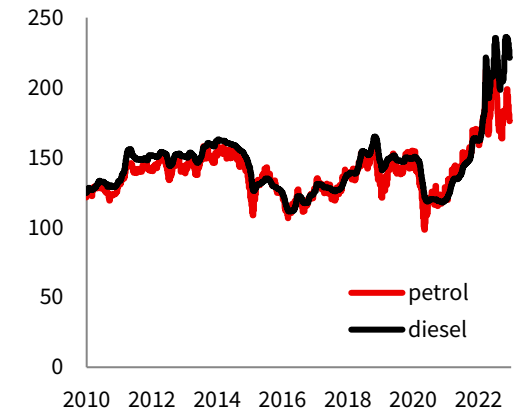
As the third La Nina in a row starts to break up (at least as forecast) early next year, conditions will turn to neutral before – according to some models – trending further towards the El Nino side of the ledger. While these trends often have more limited impact in autumn, it appears likely that 2023 will be drier than 2022 – how much so remains to be seen.



Fertiliser prices have peaked but remain high

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 fertiliser prices have not only stabilised, they are now down on their previous peaks. Our index dropped 12.2% m/m in November and is now 4.2% below the same time in 2021. That said, we still see elevated fertiliser prices across 2023.

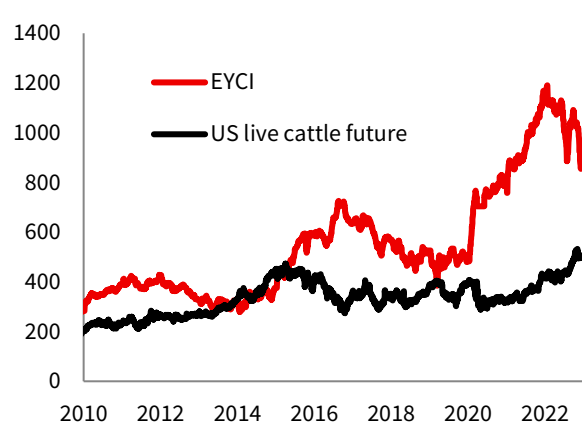


Fuel prices remain choppy amid global oil uncertainty

Oil prices remain choppy as markets digest Russia price caps, the end of covid zero in China, OPEC production cuts and a materially weaker global outlook in 2023.

While petrol has now fallen at the bowser, diesel remains as expensive as ever – underlying how global gas market challenges are eating into diesel while petrol remains relatively abundant. For agricultural producers, this means diesel fuel is likely to stay expensive into 2023.

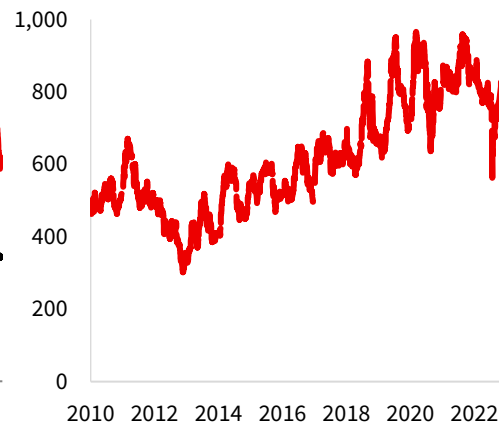
Livestock



Cattle

Mid-November saw Australian cattle prices head south, as feedlots and processors eased buying in a market with very strong young cattle supply, combined with a challenging US market. While the drop has reversed over the last week and EYCI is back to around 900c, we see further risks in 2023.

Our forecast track continues to see prices remain above pre-2020 levels into 2023.

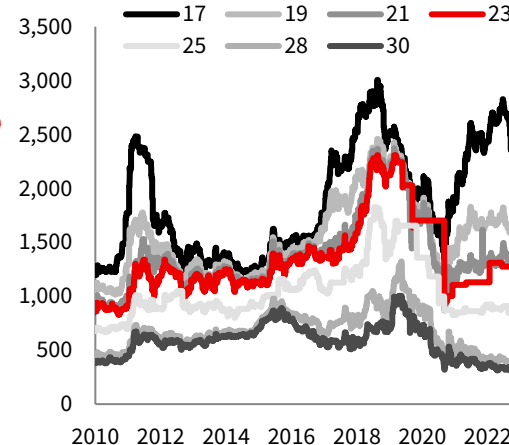


Lamb

Lamb prices are lower than year-ago levels but have held up well despite strong supply. Volatility is likely to reign in 2023, especially given the challenging global economic outlook.

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

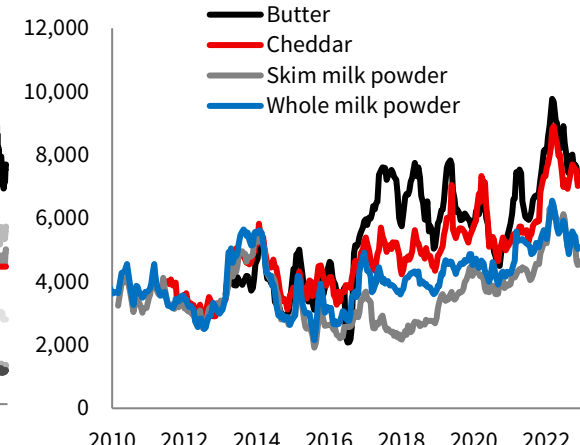
With lamb a high value-add niche product on global markets, the extent to which consumers cut back on luxuries as global growth slows, remains to be seen.



Wool

Wool is choppy at present on account of Chinese covid policies, with EMI up last week to 1,327c/kg. But finer wools have struggled in the increasingly challenging economic environment.

This volatility is likely to continue into 2023 –slowing global growth and our expectation of recessions across the US and elsewhere will weigh, but the end of covid zero policies could see a boost to Chinese growth later in 2023 (after a challenging transition). It will be difficult for wool to chart a clear direction through these competing challenges.

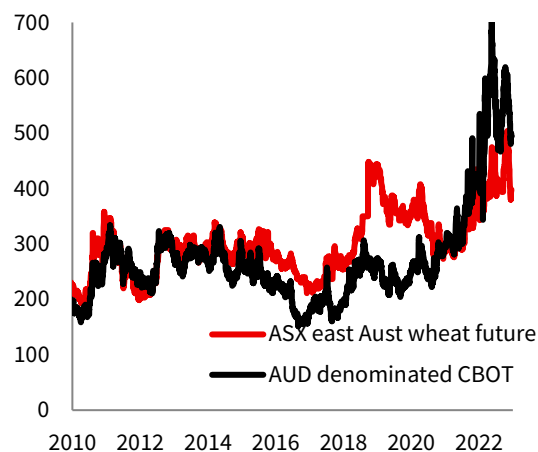


Dairy

While the last two global dairy trade auctions were positive, the trend is decidedly downward. This is currently a headache for Australian processors chasing falling milkflow with high farmgate prices – the disconnect won't continue forever.

While farmgate prices remain very high (Saputo Australia has stepped up to \$9.50/kgms), price risks are now emerging on the downside for the 2023-24 season.

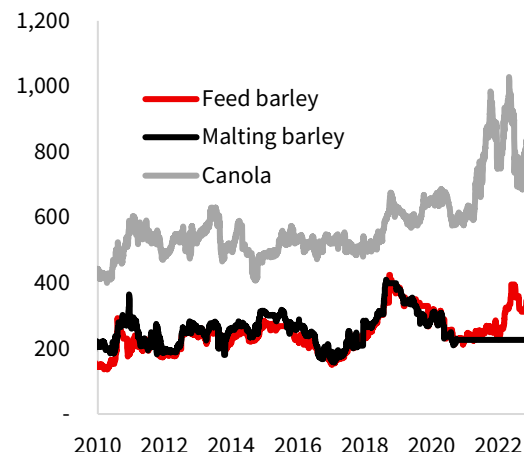
Crops



Winter crop prices

Australian wheat prices have unwound significantly since mid-November, reflecting easing Black Sea supply concerns, a higher AUD and big domestic harvest. Volatility will remain high while global stocks are tight and geopolitical concerns continue to dominate.

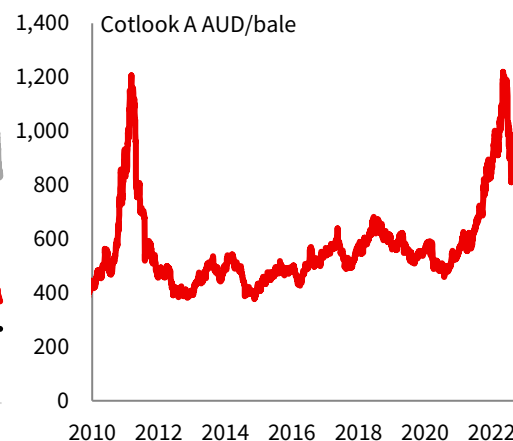
Australian domestic feedgrain prices remain higher than year-ago levels – our feedgrain price indicator was nearly 28% higher than 2021 in November. That said, there will be ample feed-grade grain in the Australian market in 2023.



Crop production

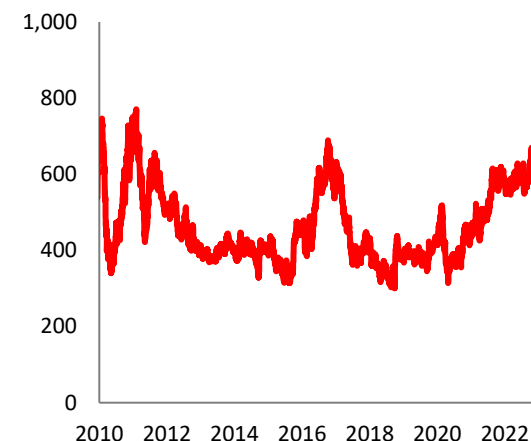
ABARES' latest crop forecasts point to a record wheat season for Australia, despite many producers having major challenges with a very wet spring.

Wheat production is pegged at 36.6mmt, surpassing last year's 36.3mmt record. Barley is forecast to see a shade under 14mmt, slightly below the 2020-21 record, while canola is expected to see a record 7.3mmt. These are on any assessment incredible production numbers.



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