



# NAB Rural Commodities Wrap

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# Highlights



Australian agricultural commodity prices have continued to fall in the new year. The NAB Rural Commodities Index fell 6.6% m/m in December and a further 5.8% in January. Prices are now 14.4% below year-ago levels, as the long covid-Ukraine war boom subsides.

Lower cattle and to a lesser extent grain prices are key drivers of recent weakness in the Rural Commodities Index. Wheat dropped off significantly in late 2022 while cattle's fall continues seemingly unabated. With these two commodities combined constituting nearly 40% of the index, the only way was south.

Looking ahead, we see moderately lower grain prices and further price risks in livestock. Cattle in particular faces parallel challenges of higher turnoff, processor constraints and challenging global conditions. Further volatility awaits this year.

As the third La Nina in a row tails off, BoM and to a slightly lesser degree international models, now indicate that an El Nino could develop this winter. However, two key caveats apply: firstly, La Nina continues and its breakup is likely to be followed by neutral conditions well into autumn; and secondly, late summer-autumn is generally a low reliability forecast period. That said, the BoM's latest outlook points to a dry autumn for southern Australia.

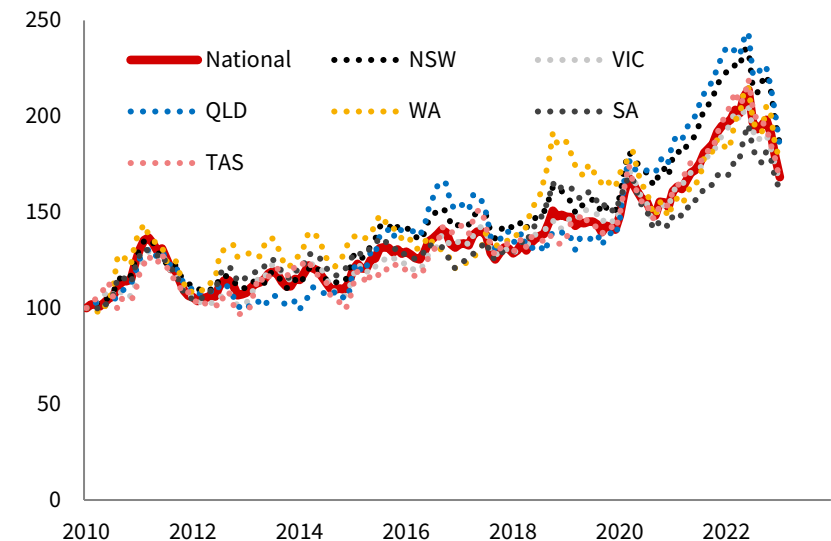
The global economic outlook remains murky, although much recent data have surprised on the upside. However inflationary pressures remain stubbornly persistent. We now see a much more hawkish RBA and forecast 25bp hikes at each of the next three meetings, to peak at 4.1% in May this year.

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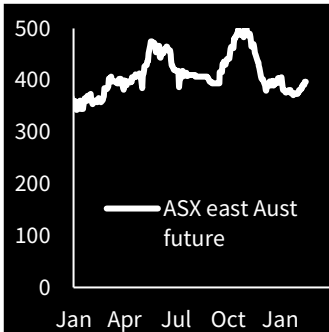
## NAB Rural Commodities Index

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, Refinitiv

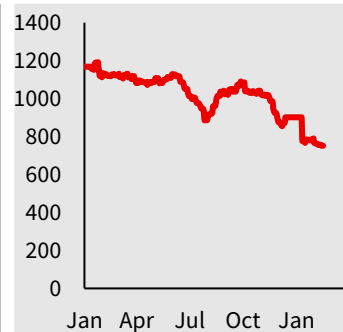
# Outlook for major commodities



## Wheat

Australian wheat prices have been relatively stable since the big spring falls stabilised in December.

Australian wheat futures are currently trading in the high-300s range. We see prices gradually easing this year, partly as a result of our higher AUD forecast.



## Cattle

Australian cattle prices continue to track sharply lower, reflecting ongoing high turnoff, constrained processor capacity and a challenging US market. These risks – particularly around elevated domestic cattle supply – are unlikely to abate in 2023, and we see prices continuing to fall.



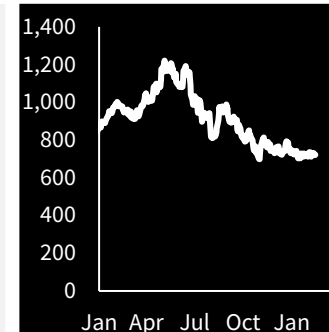
## Sheep

Lamb prices have been surprisingly resilient, notwithstanding a downtrend over the past year. But overall risks remain weighted on the downside. Wool has been improved recently, but global economic uncertainty remains a risk for 2023.



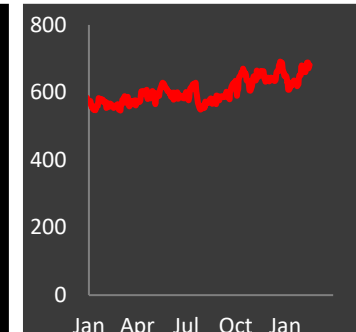
## Dairy

While the latest global dairy trade auction was positive, the trend continues to be negative. This remains challenge for Australian processors squeezed by high farmgate prices (in the \$9-10 range). But for now, returns remain very strong at a pre-farmgate level.



## Cotton

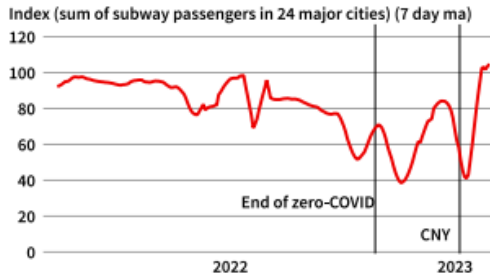
Cotton prices have stabilised in the new year, with AUD Cotlook A around \$730/bale. Water storage levels remain excellent although planting was challenging with a cold, wet spring. Even if 2023 is dry, the season should deliver a reasonable crop.



## Sugar

Sugar prices continue to post moderate gains – one of the few commodities in our index seeing growth over the last year. We see the oil market outlook, combined with supply concerns, as key drivers in coming months. Prices are likely to remain elevated.

# Economic update

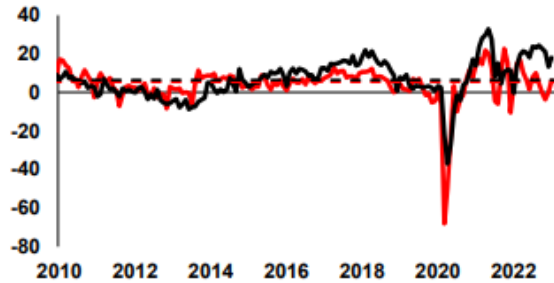


Source: Macrobond, NAB Economics

## Global economy

While we continue to expect below-trend global growth in 2023, the US economy has surprised somewhat on the upside in early 2023, with a strong GDP print and very strong employment.

Meanwhile China's sudden- and unexpected – abandonment of its zero-COVID policies in December led the country into a disruptive transition period before what is likely to be an economic rebound across 2023.

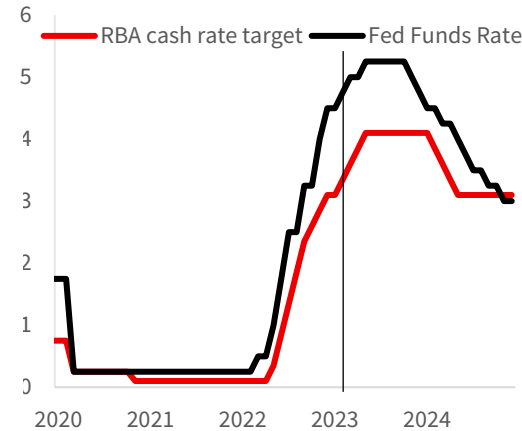


— Business Confidence — Business Conditions

## Australian economy

While the Australian economy has proven very resilient, higher policy rates will have an impact. We see consumption growth slowing sharply, alongside a weaker outlook for both dwelling and business investment.

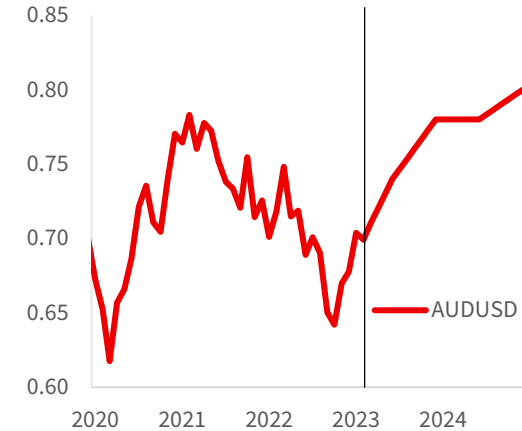
Overall, we expect growth of around 0.7% during 2023 and 0.9% during 2024 – well below trend growth of 2¼ - 2½. We see the unemployment rate beginning to drift higher through H2 2023 with slowing labour demand unable to fully absorb the rebound in population growth.



## Interest rates

Following the first RBA meeting of the year and the release of the February Statement of Monetary Policy, NAB now sees the RBA lifting rates to a peak of 4.1% in May, including 25bp increases at each of the next three meetings.

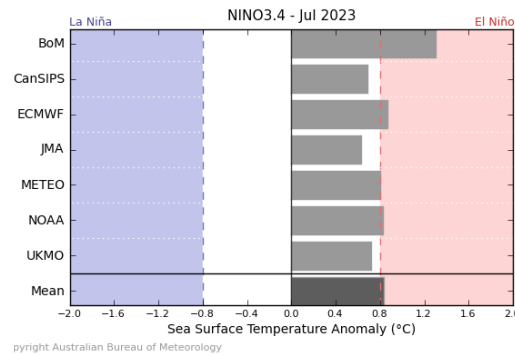
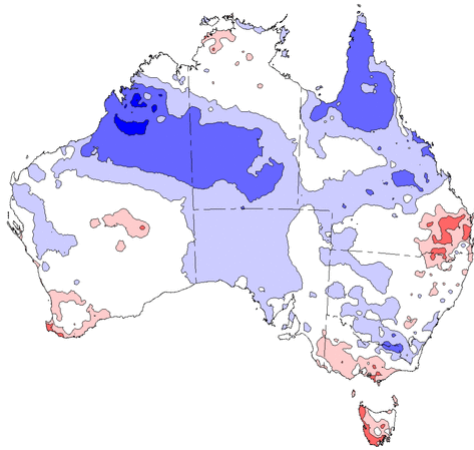
We still see a strong case for the RBA to look to pause the current hiking cycle soon given the considerable tightening put in place, the 'long and variable lags', and the need to look through some unusual features of the post-COVID normalisation period.



## Currency

Unexpected strength in the US economy provides something of a challenge to the weaker USD in late 2021 and early 2022. We still see an appreciating AUD this year (74 US cents end-June 2023, 78c end-2023, 80c end-2024), but this will of course be data dependent. Our latest FX forecasts and commentary can be found [here](#).

# Seasonal conditions and farm inputs

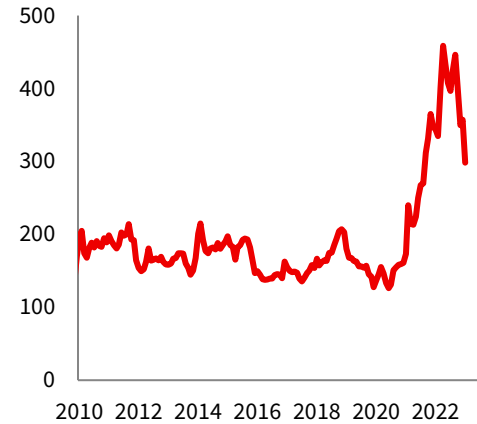


## Mixed start to 2023, some areas remain very wet

2023 has seen a mixed start rainfall-wise. Much of northern Australia, particularly the Kimberley and into central Australia, as well as far-north Queensland, has seen well above average rain. Indeed the Kimberley suffered from record flooding in the new year. But south-east Queensland, south-west Western Australia as well as much of Victoria and Tasmania have seen a drier than average start to the year.

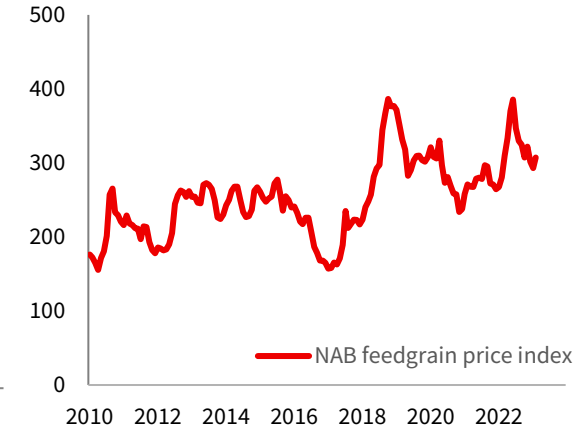
## El Nino may return this winter, per BoM modelling

As the third La Nina in a row tails off, BoM and to a slightly lesser degree international models, now indicate that an El Nino could develop this winter. However, two key caveats apply: firstly, La Nina continues and its breakup is likely to be followed by neutral conditions well into autumn; and secondly, late summer-autumn is generally a low reliability forecast period. That said, the BoM's latest outlook points to a dry autumn for southern Australia.



## Fert has given up almost half its covid/war gains

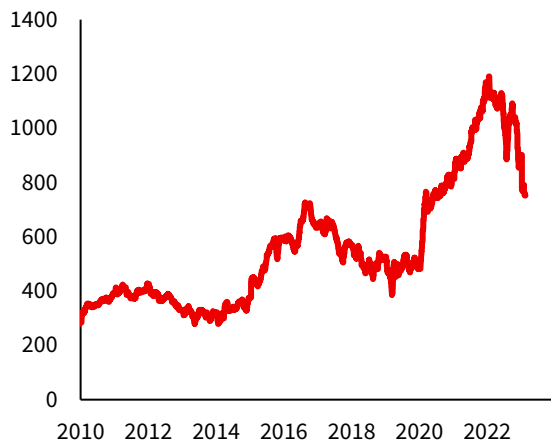
Farm input prices have been on a wild ride since 2020, as covid, trade disruptions, and more recently the war in Ukraine and associated inflationary pressures, piled pressure on key inputs. But fertiliser has now been steadily declining from extraordinary levels in 2022. Our index dropped 16.5% m/m in January and is now 13.5% below year-ago levels. While this is undoubtedly good news for producers, it is hard to a return to early-2020 levels any time soon.



## Feed grain prices are trending lower

Our feed grain price index has now retreated substantially from its mid-2022 highs, falling to \$293/t in January, down 2.9% m/m, but still nearly 10% above year-ago levels. While partial data for February suggests something of an increase, a big (and quality downgraded) winter crop, and our expectations of a higher AUD, should keep a lid on prices for the coming months.

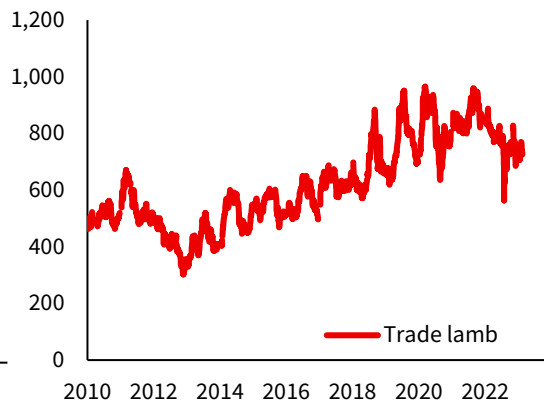
# Livestock



## Cattle

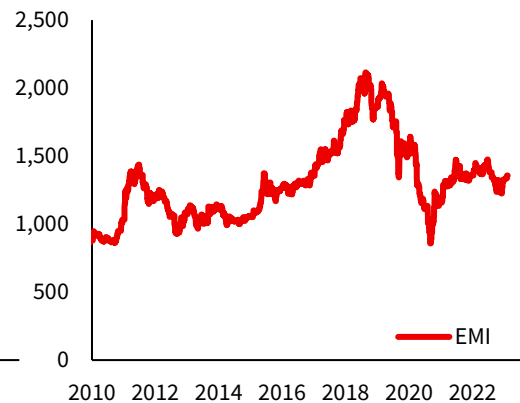
Australian cattle prices are in the midst of a sharp correction. EYCI is now closer to the drought-affected levels of late 2019 than the La Nina induced peak of early 2022.

This reflects ongoing high turnoff, constrained processor capacity and a challenging US market. These risks – particularly around elevated domestic cattle supply – are unlikely to abate in 2023, and we see prices continuing to fall. Our forecast track continues to see prices remain above pre-2020 levels into 2023.



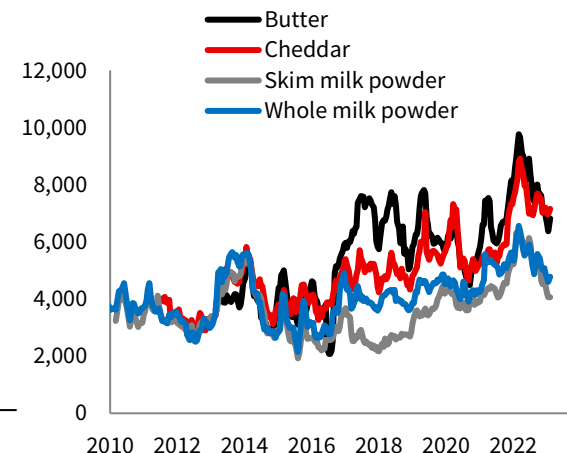
## Lamb

Lamb prices have been surprisingly resilient, notwithstanding a downtrend over the past year. But overall risks remain weighted on the upside. The decade long price run-up has peaked in 2021 and is unlikely to be retraced this year, although prices remain very good by historic standards. With lamb a high value-add niche product on global markets, prices will be tied to the extent to which consumers cut back on luxuries as global growth slows. The extent to which this occurs remains to be seen.



## Wool

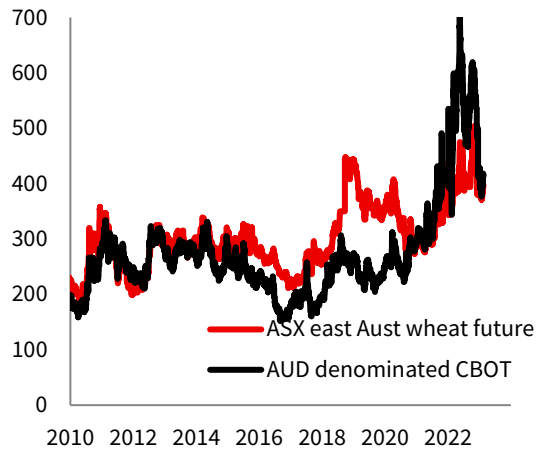
Wool has improved somewhat recently, although EMI fell slightly last week to 1,374c/kg. But volatility is likely to remain a challenge in 2023 –slowing global growth and our expectation of nervous consumers will weigh, but we expect the end of covid zero policies will see a boost to Chinese growth later in 2023 (following a challenging transition). It will be difficult for wool to chart a clear direction through these competing challenges.



## Dairy

Having peaked around 11 months ago, global dairy trade auction results are now decidedly in reverse. This is a headache for Australian processors trying to incentivise milkflow with high farmgate prices. While farmgate prices remain very high (Saputo Australia has stepped up to \$9.50/kgms), there is likely to be downward pressure on farmgate prices for the 2023-24 season.

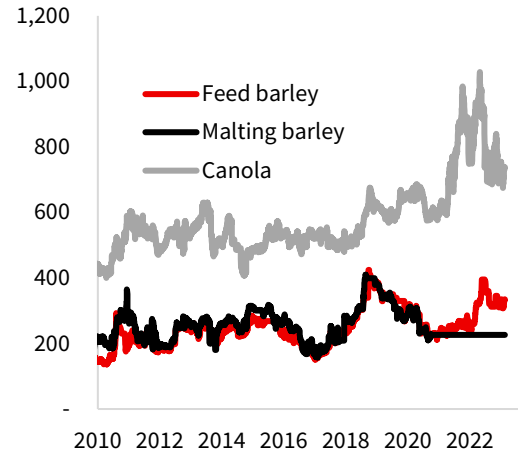
# Crops



## Winter crop prices

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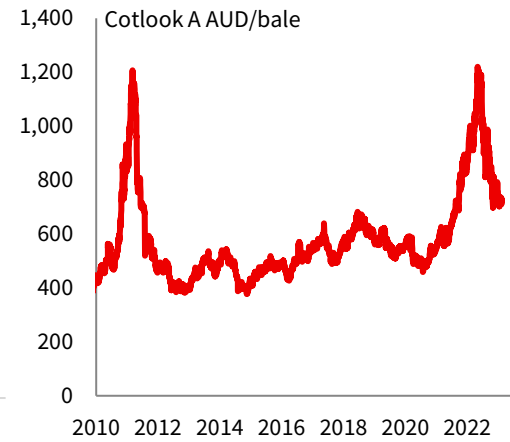
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## Crop production

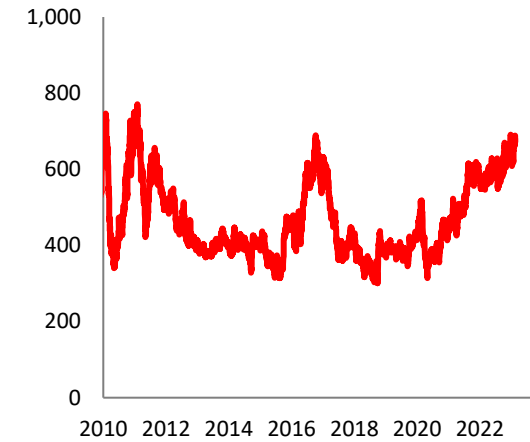
ABARES' December crop forecasts saw big grain numbers, despite many producers having major challenges with a very wet spring.

While New South Wales saw clear challenges (Graincorp reported around 4.9mmt of grain received in NSW at end-January, compared to around 7.5mmt the year prior), the west saw monster yields. CBH reported the biggest harvest in its 90 year history, with 21.3mmt received by early January.



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