



NAB Rural Commodities Wrap

March 2023

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Highlights



After steep falls in late 2022 and early 2023, Australian agricultural commodity prices were more stable last month. While the NAB Rural Commodities Index was down 1.2% m/m in February, almost all of the downside was driven by falling cattle prices, with other commodities mostly stable or even recording gains.

Cattle prices constitute around a quarter of our index, so volatility here will have an outsize impact. Grains – another big part of the index and a key driver of price weakness late last year – have stabilised. Cattle continues to face parallel challenges of higher turnoff, processor constraints and challenging global conditions, with EYCI closing out last week just below 670c/kg. This points to more volatility ahead for the index, even if most commodities are relatively stable.

The third La Nina in a row is now over, replaced swiftly by the threat of an El Nino event. The BoM is now on El Nino watch, indicating a roughly 50% chance of an event developing this year. While autumn is a tricky time to forecast, the three-month outlook points to very dry conditions heading into winter. An El Nino, if it develops, increases the chances of a hot, dry spring-summer across eastern and northern Australia.

The global outlook has become much more complicated recently, as central banks find themselves caught between competing forces, namely persistently high inflation (despite steep policy rate increases in much of the world in 2022) and banking sector instability in both the United States and Europe.

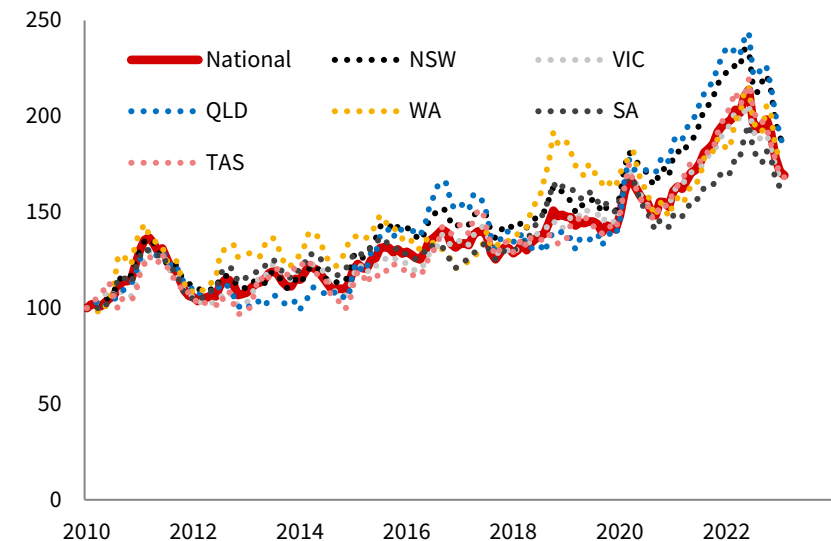
The Australian economy looks to have remained resilient in Q4, with real retail sales declining only modestly, business conditions remaining well above average and the labour market remaining strong. But we see growth slowing sharply from here as consumer spending comes under pressure from both higher rates and inflation.

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NAB Rural Commodities Index

National and state index, Jan 2010 = 100



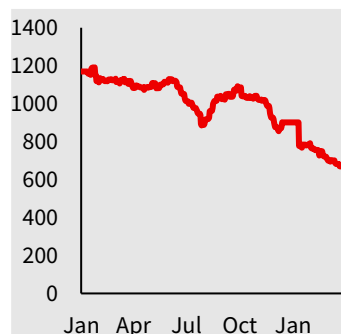
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

Outlook for major commodities



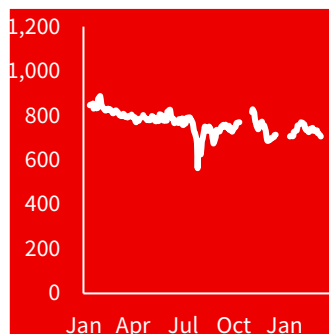
Wheat

Australian wheat prices rose earlier this month, cracking \$400/t before retreating to around \$380. A lower AUD has been the main driver, and gains will likely unwind if the AUD appreciates. Planting will start in the next few weeks and yields are likely to be below last season.



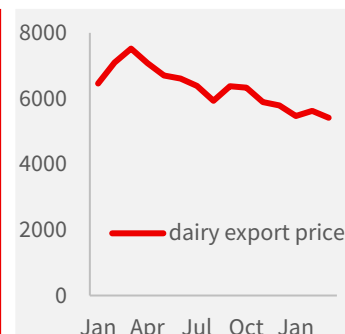
Cattle

Australian cattle prices continue to plummet, as the now-rebuilt herd drives high turnoff, combined with constrained processor capacity and a challenging US market. The dry outlook could make things even more challenging. We see further downside in coming months.



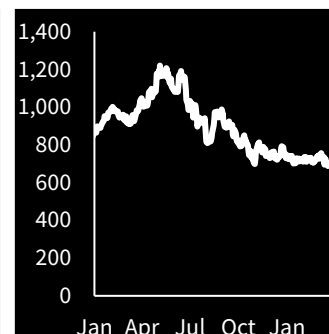
Sheep

Lamb prices had been surprisingly resilient, although March has seen a sharp correction. But overall risks remain weighted on the downside, particularly prices into the US market. Wool has been generally weaker, even though the lower AUD has been supportive.



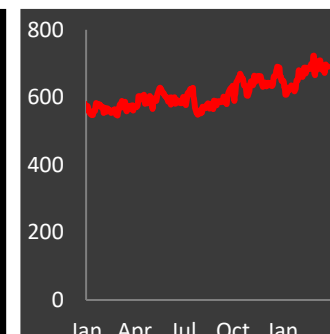
Dairy

Recent global dairy trade auctions have been generally lower, although AUD volatility has caused some choppiness. However, with opening prices around the corner, it will be a challenge for processors to offer a farmgate price that maintains milkflow without further squeezing margins.



Cotton

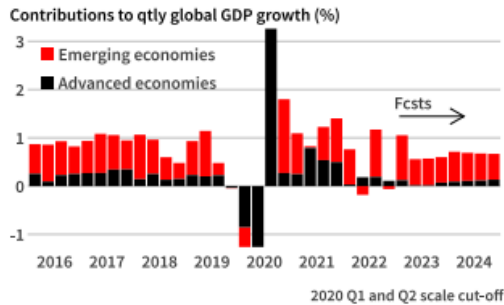
Cotton prices stabilised in the new year although we have seen some falls in the past couple of weeks. AUD Cotlook A is trading at around \$700/bale. Dry conditions this year may affect dryland cotton yields but storage levels are excellent and likely to remain so for some time.



Sugar

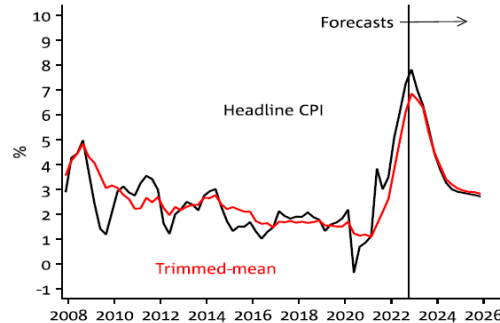
Sugar prices continue to chalk up further gains – one of the few commodities in our index seeing consistent growth. We see the oil market outlook, combined with supply concerns, as key drivers in coming months. Prices are likely to remain elevated.

Economic update



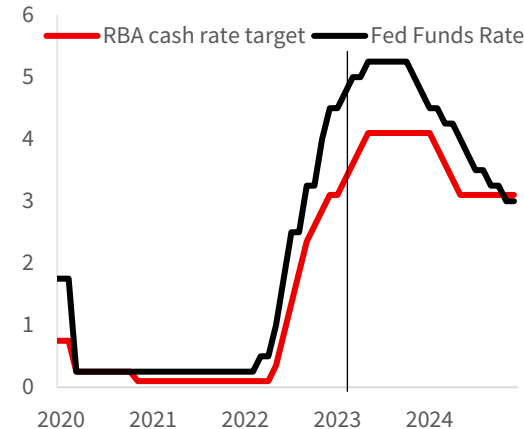
Global economy

The global outlook has become much more complicated recently, as central banks find themselves caught between competing forces, namely persistently high inflation (despite steep policy rate increases in much of the world in 2022) and banking sector instability in both the United States and Europe. We have been expecting growth to slow materially this year, and the banking developments reinforce this. We assume authorities will be able to contain the problem and that the level of stress will subside.



Australian economy

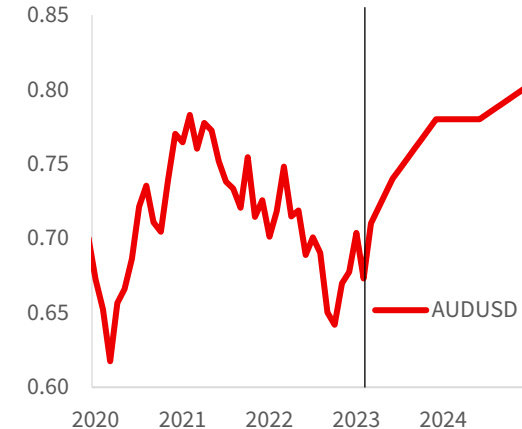
The Australian economy looks to have remained resilient in Q4, with real retail sales declining only modestly, business conditions remaining well above average and the labour market remaining strong. But we see growth slowing sharply from here as consumer spending comes under pressure from both higher rates and inflation. Dwelling construction and business investment are also expected to fall modestly this year. Public spending and net exports will partially offset this weakness, in the near term at least.



Interest rates

We still expect the RBA to lift rates at each of the next two meetings, taking the cash rate to 4.1%, and holding there until cutting in early 2024. There is some near-term downside risk to this view with the RBA becoming increasingly data dependent as it nears the peak.

We see neutral as broadly around 3% and therefore expect rates to drift back towards this level as the economy slows.

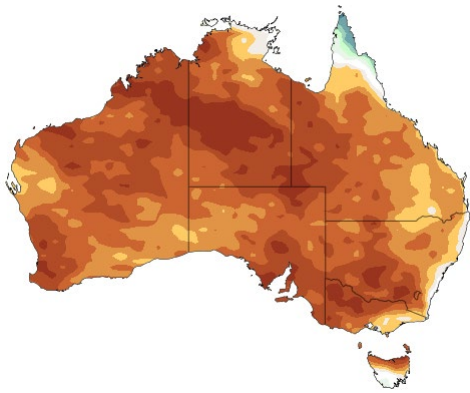


Currency

We see the AUD/USD rising to around US78c by end 2023 and US80c by end 2024.

This view is largely predicated on a longer-term depreciation of the USD while a reopening in China is a positive for global commodity demand.

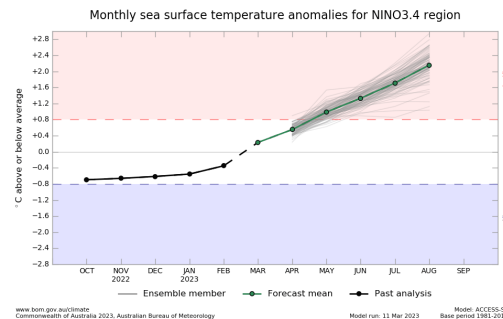
Seasonal conditions and farm inputs



Three month outlook very dry across the continent

While much of northern half of Australia has been very wet in February and so far in March, the southern half of the continent has been generally much drier than average.

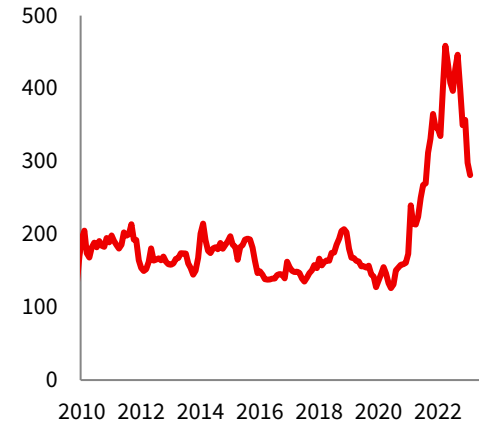
Looking ahead, the BoM's three-month outlook is showing a sea of orange, pointing to drier than average conditions across the country until early winter. While early autumn is a lower reliability forecast period, 2023 is shaping up to be much drier than 2022.



BoM on El Nino watch, 50% chance of event this year

With the third La Nina in a row officially over, the spectre of a potential El Nino looms. The BoM has moved to El Nino watch, indicating a roughly 50% chance of an event developing this year.

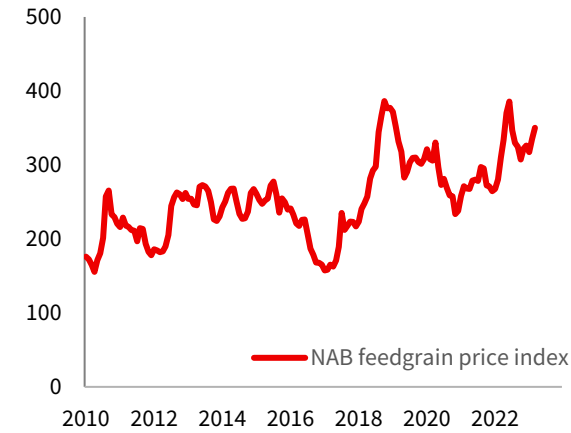
While this is a tricky time of year for ENSO forecasting, the model signals are becoming stronger every run. El Nino events are typically associated with hotter and drier spring-summer conditions across eastern and northern Australia.



Fert has given up around half its covid/war gains

Farm input prices have been on a wild ride since 2020, but fertiliser – a key input – has seen continued downward pressure since September last year.

Our fertiliser index dropped another 5.7% in February after a 16.5% plunge in January. Prices are now 16% below year-ago levels. While this is undoubtedly good news for producers, it is hard to see a return to early-2020 levels any time soon, especially given volatility in gas markets.



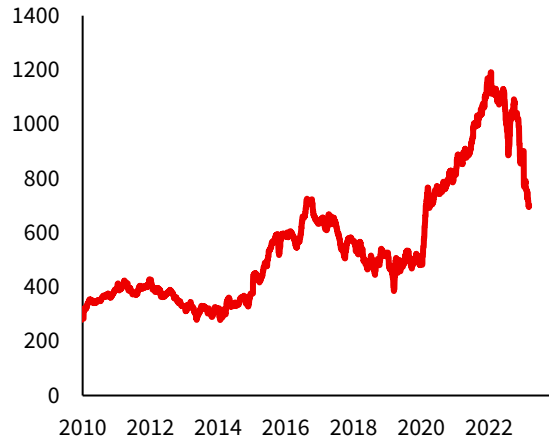
Feed grain prices are back on the rise

Our feed grain price index has jumped recently, exceeding our expectations somewhat. The index was up 5.6% in January and a further 4.5% so far in March.

While last season saw a big (and quality downgraded) winter crop, 2023 is looking much drier and hay has been tight as producers scrambled to cash in planting grain last year.

We still don't expect major upside this year, but a very dry season could test this.

Livestock



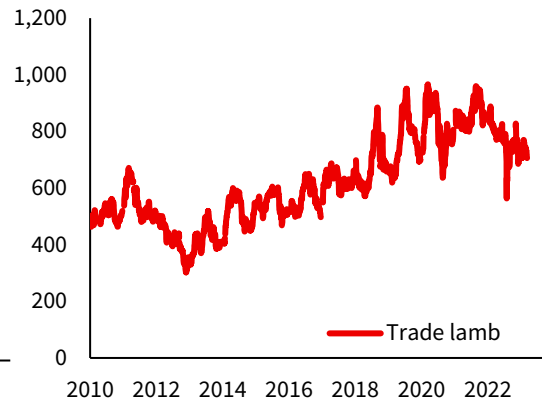
Cattle

Australian cattle prices continue to plummet, as the now-rebuilt herd drives high turnoff, combined with constrained processor capacity and a challenging US market.

EYCI has now dropped just below 670c/kg, from a peak of 1,192c/kg in early 2022.

The dry outlook for 2023 presents an additional challenge, although grass levels are likely to be excellent across much of Queensland following big rains.

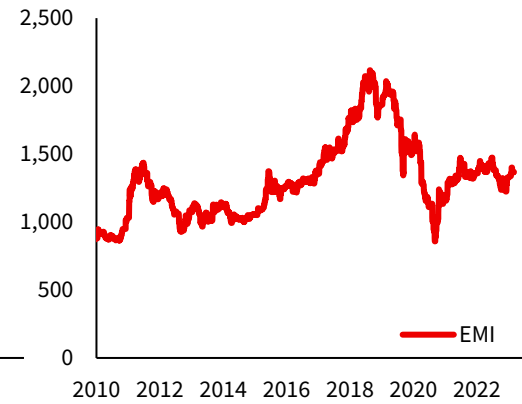
On balance, we see further downside in coming months.



Lamb

While lamb prices had been surprisingly resilient until recently, March has seen a sharp correction. Overall risks remain weighted on the downside at present, particularly prices into the US market.

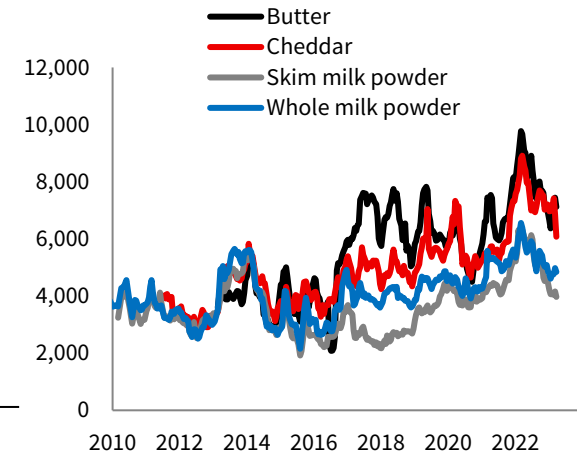
We remain optimistic about lamb's long-term prospects. The industry has innate risk-management advantages when paired with broadacre cropping and we have a strong position in the global market. But in the short-term, a dry season, rebuilt flock and economic jitters will likely sap confidence.



Wool

Wool has been generally weaker recently, even though the lower AUD has been supportive. But overall, trading has been in a historically narrow range since late 2021. EMI was steady at 1,318c/kg last week.

Volatility is likely to be a challenge in 2023 – we see global growth slowing and consumer goods spending is likely to weaken further. While we expect Chinese growth to strengthen later in 2023, there are few signs (as yet) that Chinese consumers are spending big post-lockdown.



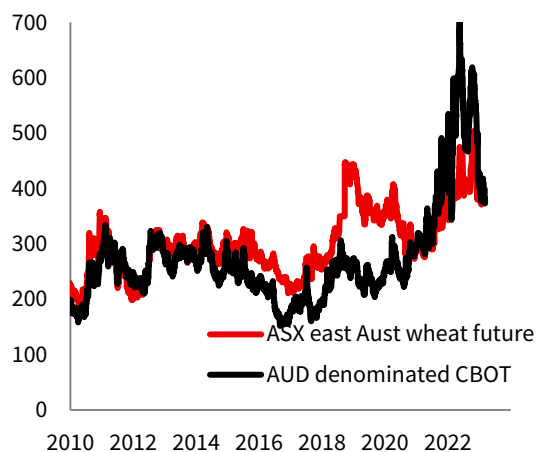
Dairy

Global dairy trade auction results hit a record a year ago and since then the trend has been weaker.

Our export price index was up 2.8% in February but down 3.7% in March.

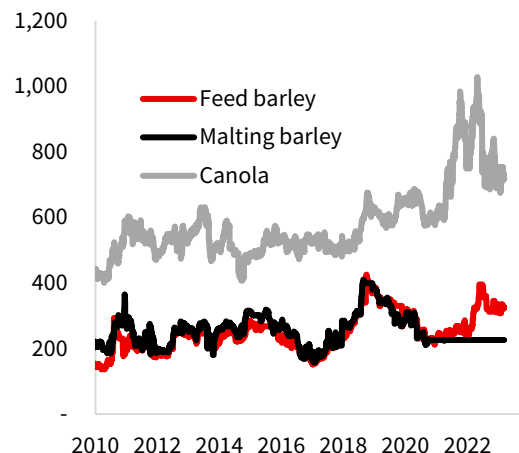
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Crops



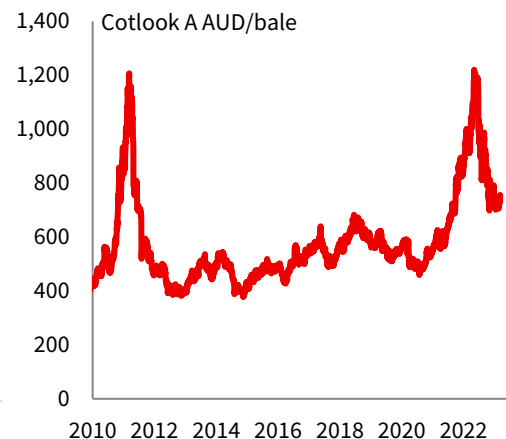
Winter crop prices

Australian wheat prices ticked up a little earlier this month, cracking \$400/t, since retreating a little to around \$380. AUD changes have been the main driver and AUD appreciation will likely unwind grain prices at a domestic level. Global prices are generally weaker at present, most recently reflecting the renewed Russia-Ukraine grain export agreement and more favourable US weather.



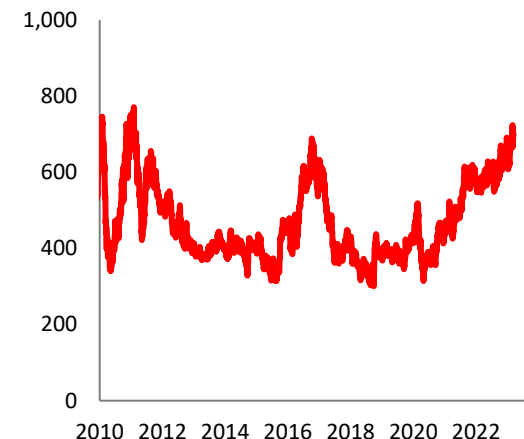
Crop production

Planting will start in the next few weeks and yields are likely to be below last season. ABARES' March crop forecasts suggest an indicative domestic crop of 28.2mmt wheat, 9.9mmt barley and 5.4mmt canola, noting that essentially none of this crop has gone in the ground yet. Subsoil moisture should get the crop going even if autumn stays dry (as forecast), but the big unknown is whether El Nino develops this winter and if so how severe the event becomes.



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