



NAB Rural Commodities Wrap

April 2023



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Highlights



Australian agricultural commodity prices took another downward turn last month. The NAB Rural Commodities Index fell 3.6% month-on-month on lower beef, lamb, canola, dairy and wool prices. The index is now 19.7% below year-ago levels.

Cattle price falls have grabbed headlines this year and at around a quarter of our index, have an outsized impact. That said, EYCI has been much more stable since mid-March, a welcome break from a sharp decline that began in November last year. While downside risks remain, the early break has given producers a breather.

Speaking of the early break, winter crop growers find themselves in a materially better position than the outlook suggested last month. This is a result of good falls across south-west WA, Victoria, SA and parts of NSW. While the outlook remains dry, producers will have good confidence going into planting.

ENSO conditions are currently neutral, but all but one of the Bureau of Meteorology's surveyed international models point to an El Nino developing by August. Meanwhile the three month rainfall outlook points to drier than average conditions across most of the continent.

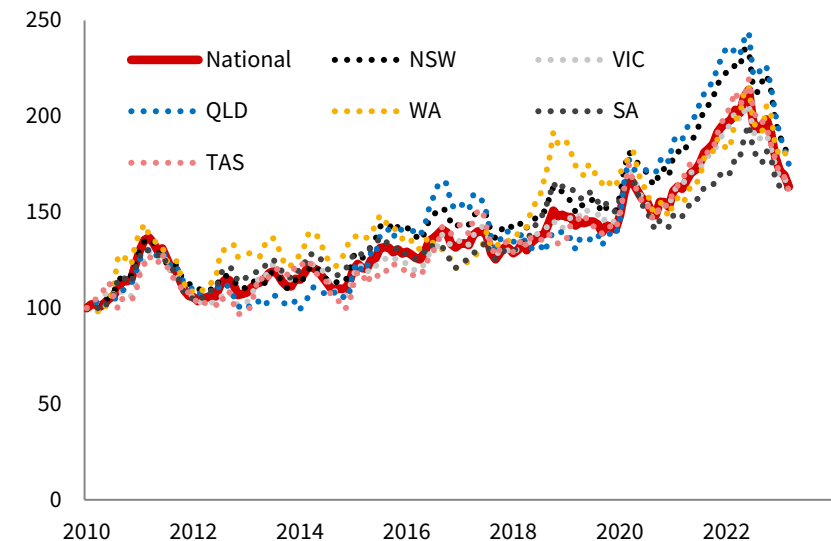
Earlier this month we changed our rate call and now expect the cash rate to peak at its current level of 3.6% following the RBA's decision to pause in April. The AUD has essentially tracked sideways over the last month – between roughly 66.5 and 68 US cents. We revised our FX forecasts late last month and now see the AUD reaching 74 US cents at end-2023 (down from 78c previously) and 73c at end-2024 (down from 80c previously).

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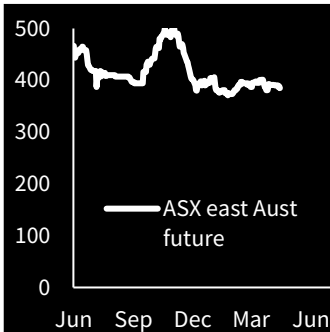
NAB Rural Commodities Index

National and state index, Jan 2010 = 100



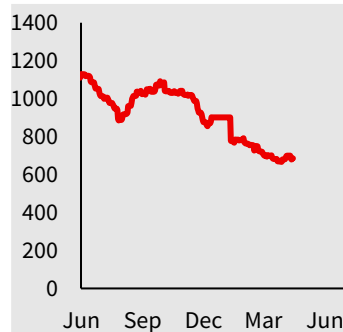
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

Outlook for major commodities



Wheat

Australian wheat prices have seen little change recently, with east coast futures in the high \$300s range. Planting is kicking off into ideal conditions in many areas, although the long range outlook is more challenging. Yields are likely to be below last year's (record) conditions.



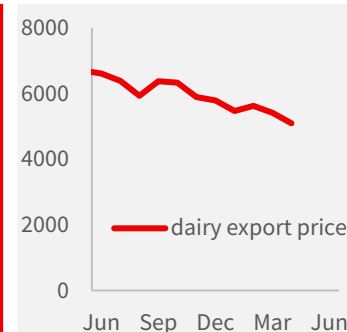
Cattle

Australian cattle prices have moved sideways since mid-March, reflecting better weather conditions, tighter supply and generally less bearish sentiment. However, downside risks remain, especially if an El Nino develops this winter.



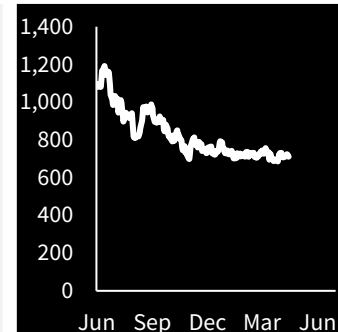
Sheep

Lamb prices have tracked lower over the last year, but only moderately so. But risks remain – particularly prices into the US market if the US experiences a downturn. Wool has been generally weaker, but only moderately so by historic standards.



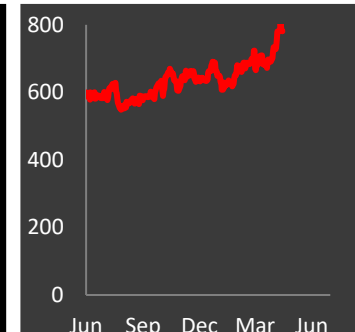
Dairy

Recent global dairy trade auctions continue to trend lower, pulling our export price indicator to its lowest level since October 2021. Opening prices are around the corner, and competing pressures have the potential to challenge processor and producer alike.



Cotton

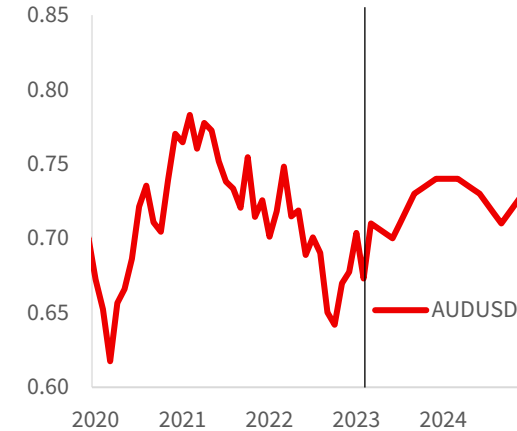
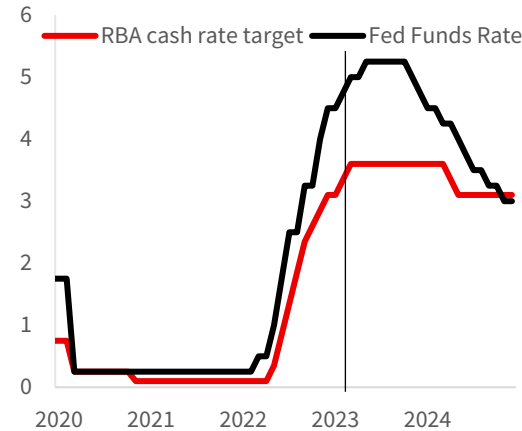
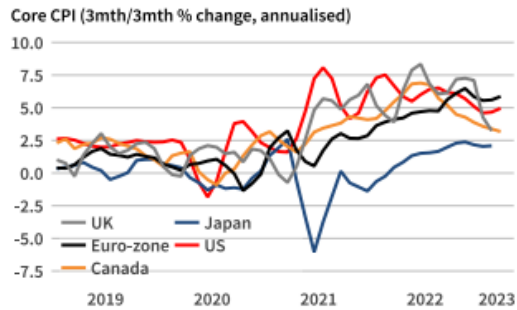
Cotton prices continue to offer little in the way of volatility. AUD Cotlook A is trading at around \$700/bale. Dry conditions this year may affect dryland cotton yields but storage levels are excellent and likely to remain so for some time.



Sugar

Sugar prices have surged recently – reflecting global supply concerns (especially Brazil and India) and strong Chinese demand. OPEC's surprise cut likely only increased upward pressure. Sugar will be a commodity to watch in coming months.

Economic update



Global economy

Global GDP growth looks to have bounced higher in Q1 2023. This largely reflects the impact of China's abandonment of zero-COVID, with China's economy growing 2.2% q/q in Q1. The US economy is also on track to record solid growth in the quarter, while the Euro-zone and UK are also set grow. However, China will not be able to sustain growth at its Q1 pace, and with the impact of tighter policy settings (including fiscal) still working its way through, global growth over the rest of 2023 is likely to be more subdued.

Source data: NAB Group Economics, S&P Global, Macrobond, Refinitiv, IMF, Australian Bureau of Statistics

Australian economy

We see signs that consumption is plateauing ahead of a likely slowdown later in the year.

We continue to see well below trend GDP growth of around 0.7% y/y over 2023 as higher rates increasingly weigh on household budgets.

The unemployment rate remains at record lows, but strong population growth and slowing activity should see labour market pressures ease with unemployment likely to reach 4.7% by end-2024.

Interest rates

Earlier this month we changed our rate call and now expect the cash rate to peak at its current level of 3.6% following the RBA's decision to pause in April.

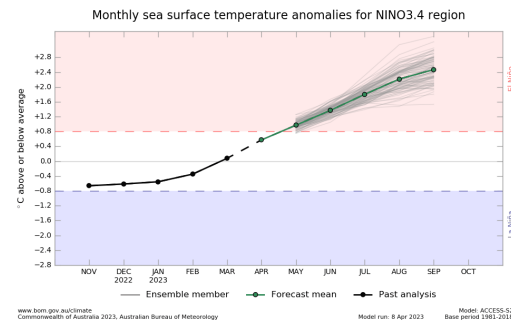
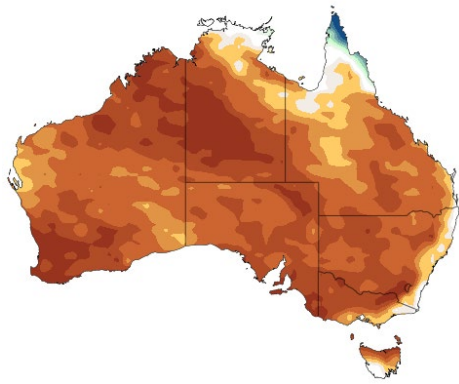
In our view, waiting for more than a few months would see the RBA overrun by slowing consumption data and a deteriorating labour market outlook meaning the RBA will remain on hold as inflation moderates.

Nonetheless, a rate rise in May or June remains a real possibility.

Currency

The AUD has essentially tracked sideways over the last month – between roughly 66.5 and 68 US cents. We revised our FX forecasts late last month and now see the AUD reaching 74 US cents at end-2023 (down from 78c previously) and 73c at end-2024 (down from 80c previously).

Seasonal conditions and farm inputs



Unexpected early break, but outlook still dry

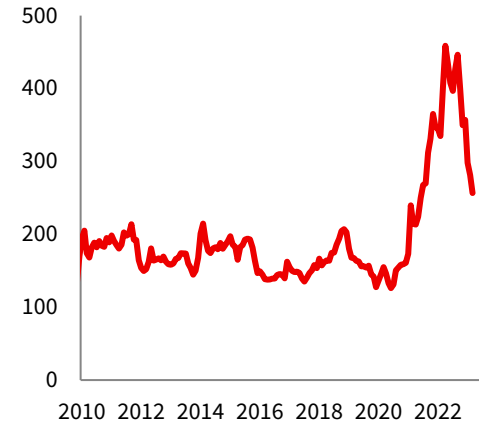
Against expectations of a dry autumn, much of south-eastern and south-western Australia has enjoyed an early autumn break, setting up an ideal start to the winter cropping season in many areas.

However, the BoM's three-month outlook continues to show a sea of orange across much of the continent, pointing to drier than average conditions for the remainder of autumn and into mid-winter.

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

While ENSO is now neutral, The BoM remains on El Nino watch, indicating a roughly 50% chance of an event developing this year.

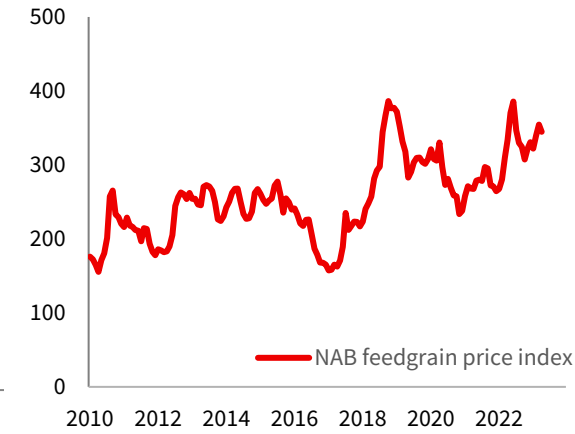
All but one of the international climate models surveyed by the BoM point to an El Nino event forming by August. El Nino events typically see hotter and drier spring-summer conditions in eastern and northern Australia.



Fertiliser prices continue to plummet

Fertiliser prices continue their downward trend, having now erased well over half their covid/Ukraine war spike. While prices are still high by historic levels, prices are now falling so rapidly (our index is down 36.1% y/y), that another few months at this rate will see a return to 2020.

That said, we remain cautious about this scenario, particularly given OPEC's unexpected output cut and the potential for further European natural gas supply challenges this coming northern winter.



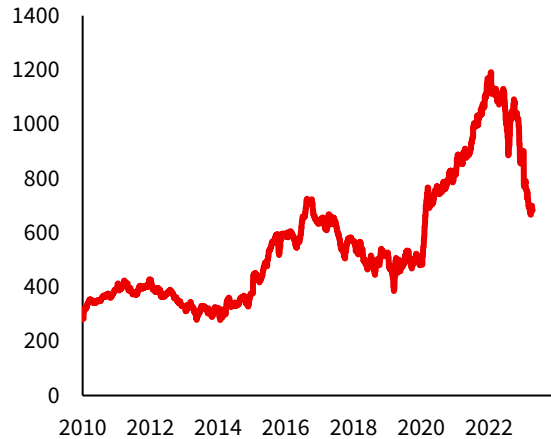
Feed grain prices have risen recently

Our feed grain price index has jumped recently, up 4.4% m/m in March, although a little lower so far in April.

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

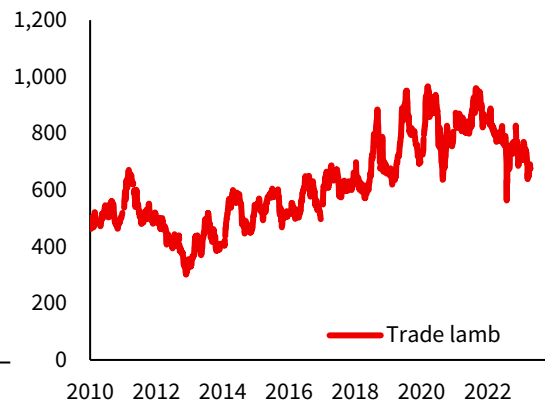


Cattle

Australian cattle prices have moved sideways since mid-March, following a steep drop that began in November.

EYCI currently stands around 685c/kg, reflecting better weather conditions, tighter supply and generally less bearish sentiment

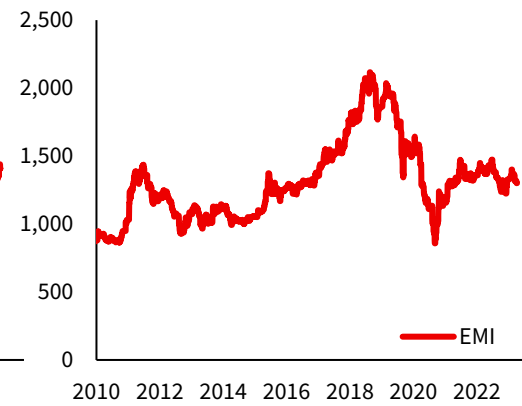
While downside risks remain, the early break has given producers a breather. But the prospect of an El Nino developing this winter remains a concern.



Lamb

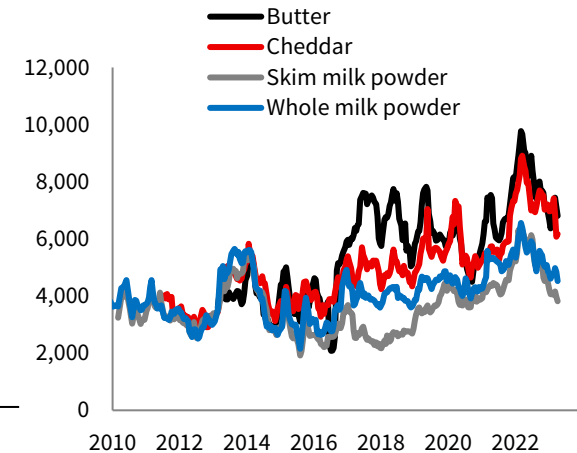
Lamb prices have tracked lower over the last year, but only moderately so. But risks remain – particularly prices into the US market if the US experiences a downturn.

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, but only moderately so by historic standards. EMI stood at 1300c/kg in the final week before the Easter recess. Although prices have been reasonably stable recent, volatility is a risk for 2023 – we see global growth slowing and consumer goods spending is likely to weaken further.



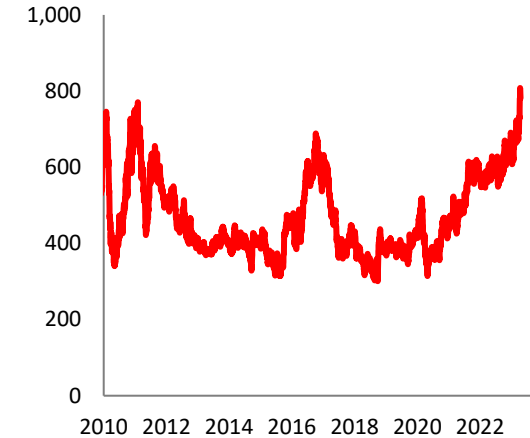
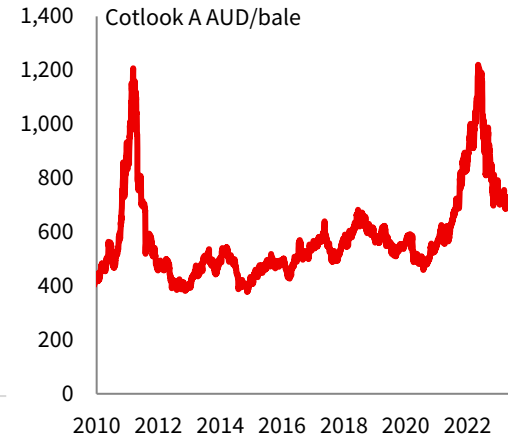
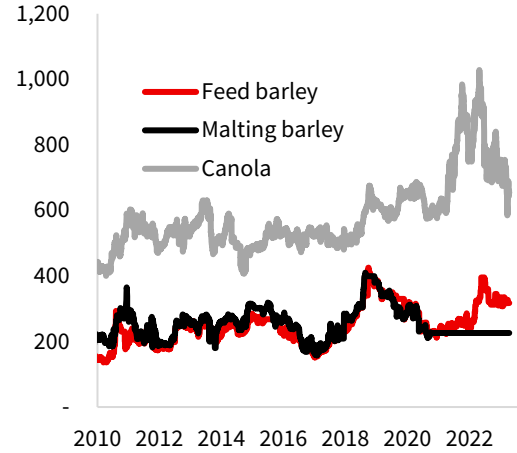
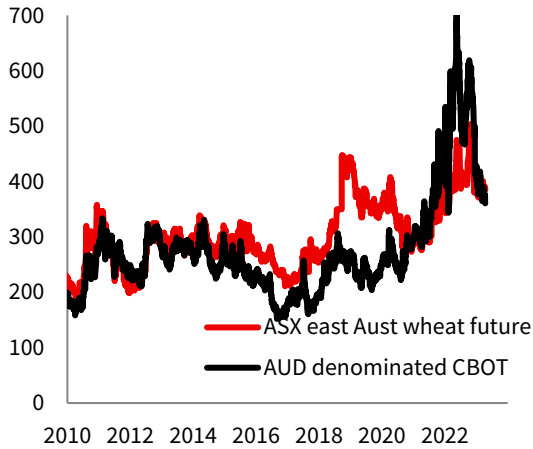
Dairy

Recent global dairy trade auctions continue to trend lower, pulling our export price indicator to its lowest level since October 2021.

Our export price index was down 3.7% in March and saw further declines in April despite a stronger showing at the 18 April auction.

Opening prices are around the corner, and competing pressures have the potential to challenge processor and producer alike.

Crops



Winter crop prices

Australian wheat prices have seen little change recently, with east coast futures in the high \$300s range. We expect moderately lower prices this year.

Meanwhile canola has now unwound basically all of its gains since 2021 and was down almost 10% in March alone.

On the other hand, encouraging signs that China is set to resume imports of Australian barley is likely provide some upside to prices and potentially planting.

Crop production

Planting is kicking off into ideal conditions in many areas, although the long range outlook is more challenging. Yields are likely to be below last year's (record) conditions, with the dry outlook and El Nino potential key risks.

ABARES' March crop forecasts suggest an indicative domestic crop of 28.2mmt wheat, 9.9mmt barley and 5.4mmt canola, noting that we are only just entering the season.

Cotton

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