



NAB Rural Commodities Wrap

September 2023



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Highlights



The NAB Rural Commodities Index fell further in August, down by 1.6% mom, with the index declining for ten months in a row. When compared with the peak in rural prices in June 2022, the index is now 30.7% lower, and at their lowest levels since January 2020.

The key drivers of the decline in the index in August were cattle (down by 5.4% mom), vegetables (which fell by 6.4% mom) and lamb (which dropped 11.2% mom). In contrast, barley prices have trended higher since the start of August, when Chinese authorities removed tariffs on Australian imports.

Overall, cattle prices have been the key driver of the decline in the index since June 2022 – accounting for around 64% of the total fall. Vegetables drove another 12%, while dairy accounted for 6% of the decline.

On average, rainfall was almost 50% below average in August, with the NT, Queensland, NSW and SA being particularly dry. The BoM's outlook for September through November sees above median maximum temperatures across the country as very likely, while below median rainfall is likely (60%-80% chance) in southern WA and two-thirds of eastern Australia and very likely (greater than 80% chance) in southern Australia and eastern Queensland).

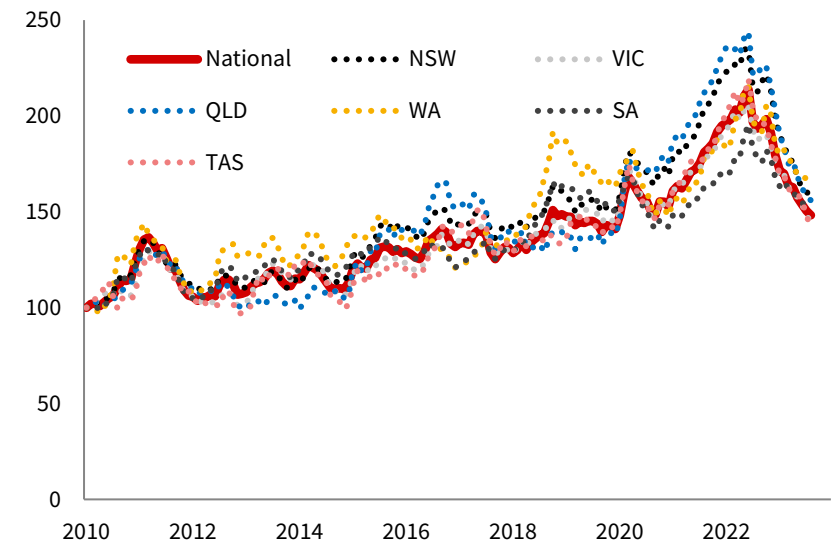
Although the BoM has not yet declared an El Nino event, the bureau's El Nino alert remains and they anticipate that it will develop in spring (consistent with sea surface temperatures in both the Pacific and Indian oceans above threshold). This is likely to result in hotter and drier conditions across eastern and northern Australia, negatively impacting a range of key agricultural regions.

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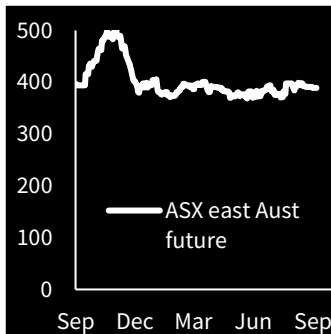
NAB Rural Commodities Index

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

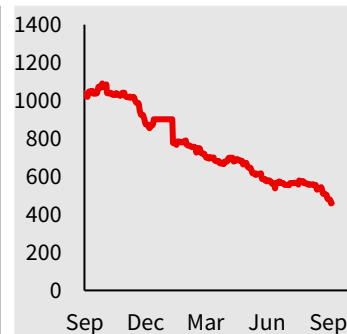
Outlook for major commodities



Wheat

Australian wheat prices continued to track broadly sideways in August, having settled at around \$400/t since late 2022.

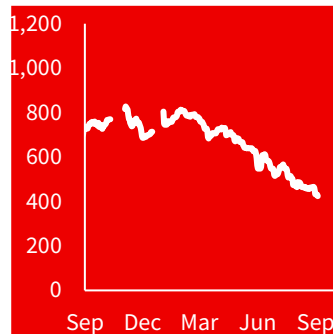
Dry conditions, due to the emerging El Nino, are expected to substantially impact yields.



Cattle

Cattle prices have continued to decline from the early 2022 peak, with the EYCI dropping below 500c/kg at the end of August.

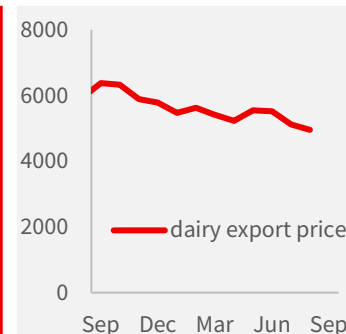
Near term conditions remain unfavourable for cattle prices – with El Nino to bring below average rainfall, while feed grain prices are already elevated.



Sheep

Trade lamb prices fell sharply across August – with prices in early September down to the lowest level since January 2014, before edging slightly higher.

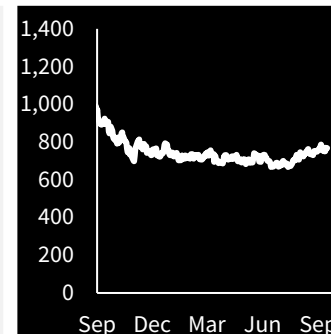
Wool markets reopened in early August, following a three week recess. Prices drifted slightly lower – back to the levels seen in June.



Dairy

The oversupply of raw milk in China has seen a rapid increase in milk powder production, contributing to the downward pressure in global prices (back to levels last seen in mid-2020).

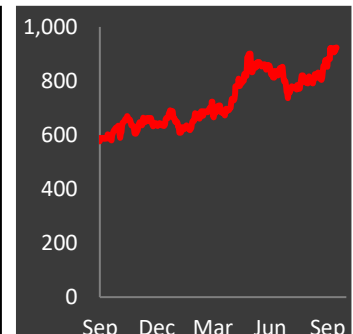
Weakness in export markets and strong domestic output is expected to weigh on farmgate prices.



Cotton

Cotton prices have continued to trend higher since pushing above \$700/bale in mid-July. While still well below the peaks of early 2022, prices are strong from a long run perspective.

Weaker cotton production in 2023-24 will be driven by reduced dryland planting.

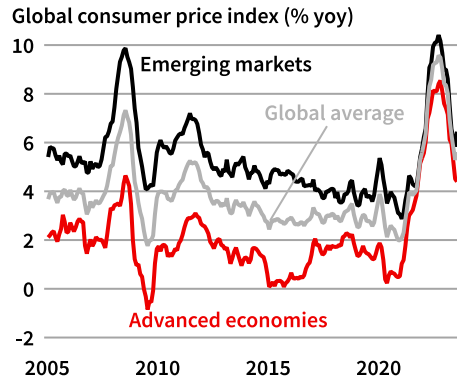


Sugar

The upward trend in sugar prices continued through August and into September, with prices moving back above \$900/t.

Global demand remains strong, while exports from Thailand and India will be impacted by drought, with the latter banning exports to secure domestic supplies.

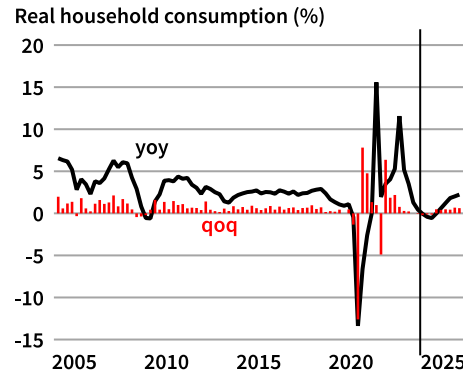
Economic update



Global economy

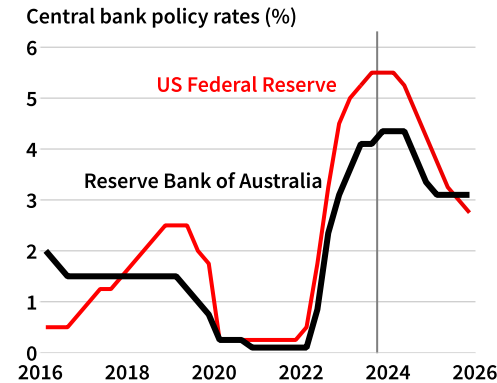
Global inflation remains elevated – well above the targets set by major central banks – despite generally trending lower since the peaks of September 2022.

Central banks have rapidly lifted policy rates in response, which is negatively impacting economic activity and will continue to do so through 2024. Market pricing suggests that most major central banks are either at or near their peaks, however they appear to still have a tightening bias – meaning further rate rises cannot be ruled out.



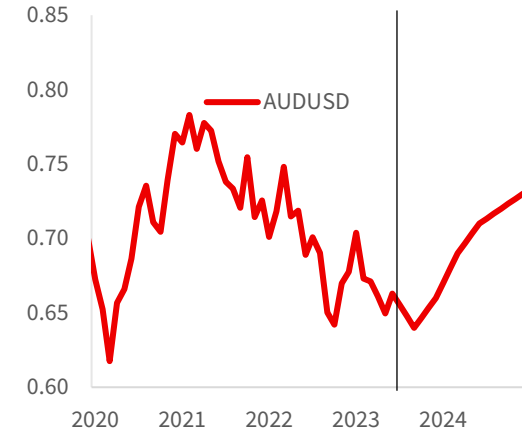
Australian economy

Incoming economic data has been stronger than anticipated, leading to an upward revision in our growth forecast for Australia. That said, this largely reflected an expansion in exports in Q2. Domestic consumption has already slowed significantly and will remain very weak across 2024, as household budgets are constrained by higher interest rates.



Interest rates

The RBA remained on hold in September, with the cash rate at 4.1%. Commentary from the central bank continues to suggest that they have a tightening bias (given above target inflation and low unemployment), meaning that we still see one further hike in November, however the probability that rates have already peaked continues to increase. We don't expect rate cuts to start before the second half of 2024.

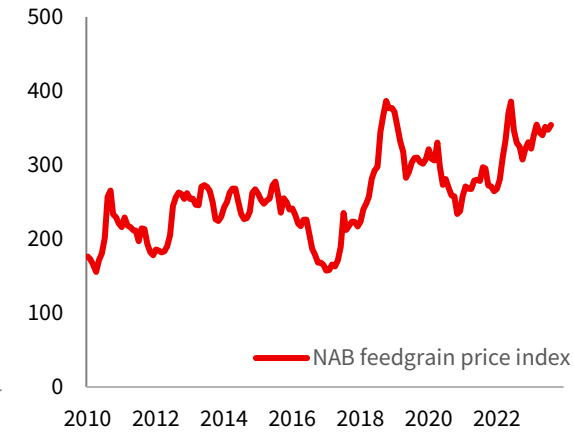
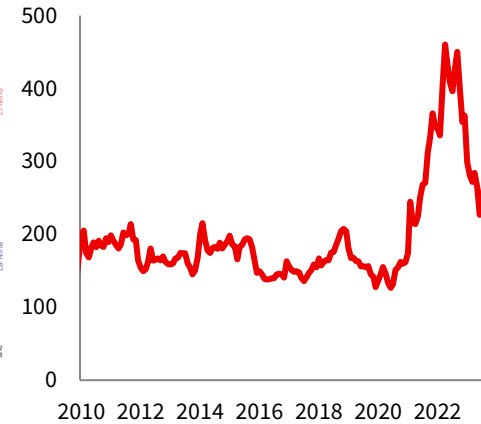
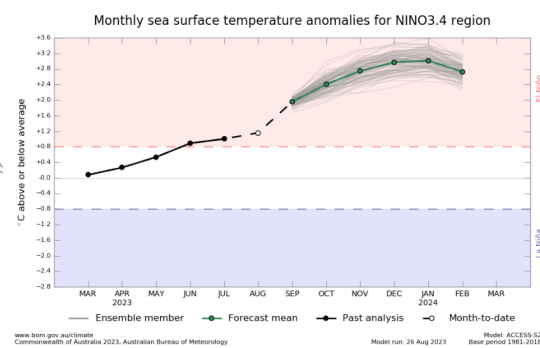
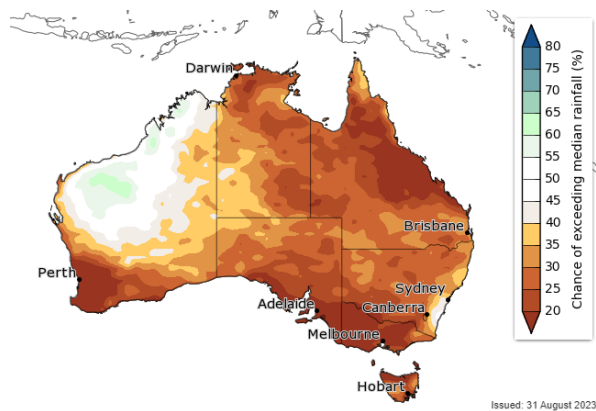


Currency

The softening trend for the AUD that commenced in mid-July continued across August and into early September, dropping below 64 US cents, reflecting a stronger US dollar and weaker sentiment around China.

The forecast profile for the AUD has been pushed lower – ending 2023 at 66 US cents but trending higher across 2024 (ending at 73 US cents).

Seasonal conditions and farm inputs



Dry conditions are likely...

Across the country, rainfall was almost 50% below average in August, with the NT, Queensland, NSW and SA being particularly dry.

The BoM's outlook for September through November sees above median maximum temperatures across the country as very likely, while below median rainfall is likely (60%-80% chance) in southern WA and two-thirds of eastern Australia and very likely (greater than 80% chance) in southern Australia and eastern Queensland.

...driven by El Nino conditions

Although the BoM has not yet declared an El Niño event (despite other global meteorological organisations having announced that El Niño is underway), the bureau's El Niño alert remains and they anticipate that it will develop in spring (consistent with sea surface temperatures in both the Pacific and Indian oceans above threshold).

This is likely to result in hotter and drier conditions across eastern and northern Australia, negatively impacting a range of key agricultural regions.

Fertiliser prices moved back up in August

Fertiliser prices in August somewhat reversed the downward trend that they have exhibited since September 2022. Our index rose 8.1% month-on-month, driven by a strong uptick in the price of DAP.

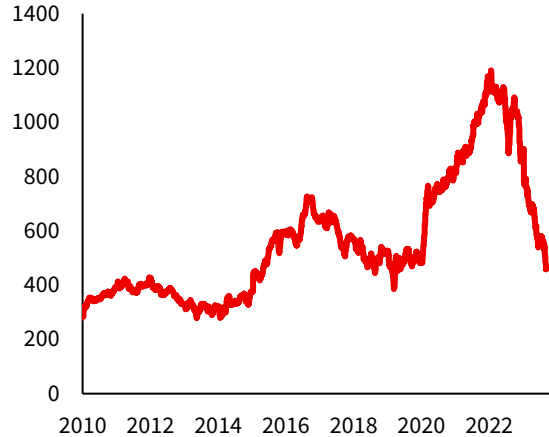
While prices are well down from the peaks that followed Russia's invasion of Ukraine, they remain above long term trends. Comparatively high energy prices are likely to see this recent trend persist.

Feed grain has tracked sideways

The NAB feed grain price index edged back up in August – rising by 1.9%, following a slight easing in July. Having climbed across the last quarter of 2022, feed grain prices have largely tracked sideways since February.

In the near term, risk around feed grain prices are to the upside – given weaker crop yields as a result of the dry conditions, along with potential upside to barley prices.

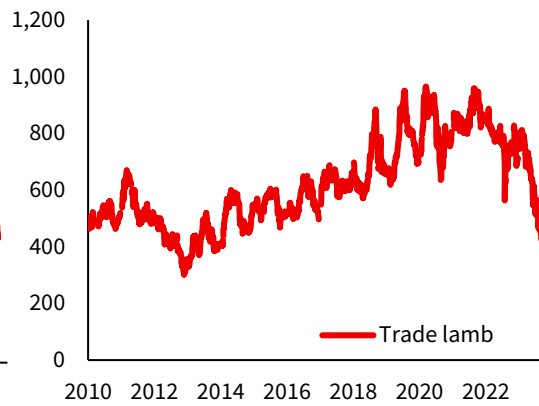
Livestock



Cattle

Cattle prices have continued to decline from the early 2022 peak. After stabilising between mid-June and mid-August at around 550c/kg, the EYCI has subsequently weakened, dropping below 500c/kg at the end of August.

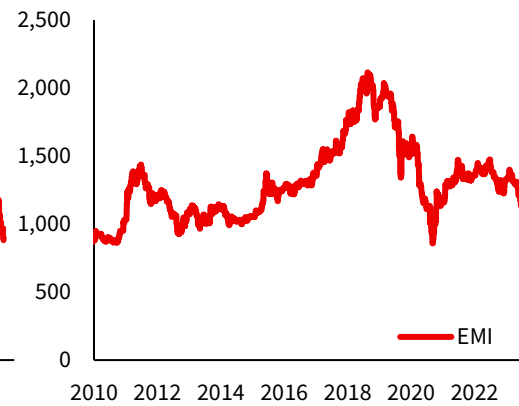
Near term conditions remain unfavourable for cattle prices – with El Nino conditions to bring below average spring and summer rainfall, while feed grain prices are already elevated. Processor capacity remains constrained by labour shortages.



Lamb

Trade lamb prices fell sharply across August – with prices in early September down to the lowest level since January 2014, before edging slightly higher.

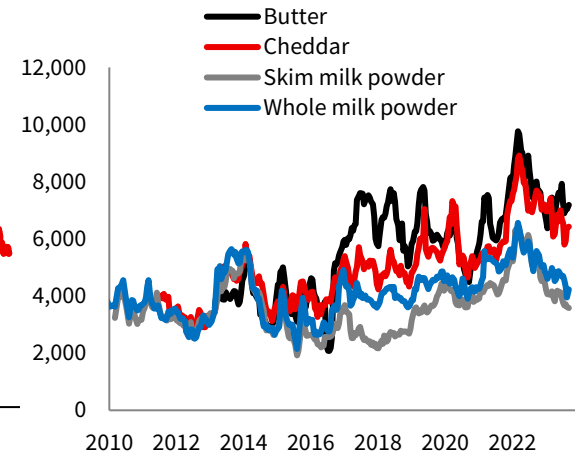
In line with trends for cattle, the dry conditions in coming months and the large sheep stock has increased the supply of sheep to saleyards and constrained restocker demand.



Wool

Wool markets reopened in early August, following a three week recess from mid-July. Prices drifted slightly lower – back to the levels seen in June.

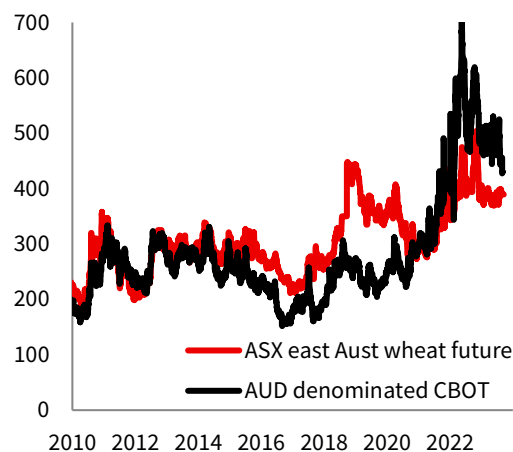
Demand prospects are likely to remain subdued going forward, given that weaker activity in advanced economies is likely to hit higher end products (key to wool demand) harder.



Dairy

Global dairy price trends remain divergent. The oversupply of raw milk in China has seen a rapid increase in milk powder production, contributing to the downward pressure in global prices (back to levels last seen in mid-2020). Weakness in export markets and strong domestic output is expected to weigh on farmgate prices (away from historic highs in 2022-23).

Crops

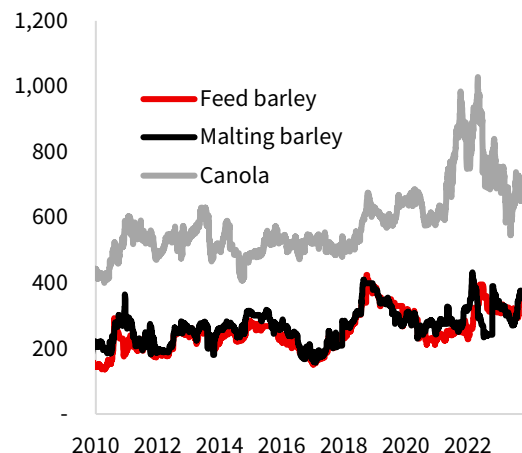


Winter crop prices

Australian wheat prices continued to track broadly sideways in August, having settled at around \$400/t since late 2022.

Barley prices have trended higher since the start of August, when Chinese authorities removed tariffs on Australian imports.

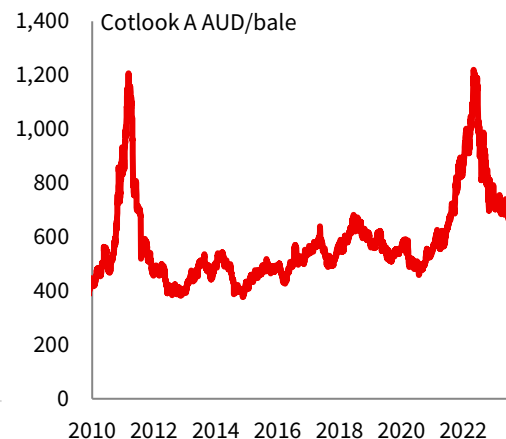
Canola prices edged up above \$700/t in mid-August, before dropping back below this level in early September.



Crop production

Despite a marginal upward revision, ABARES' September forecasts still expect winter crop production to fall by almost 34% in 2023-24 (from record highs in 2022-23). Conditions are more favourable in southern regions, due to better than anticipated winter rains, than northern regions which have been dry.

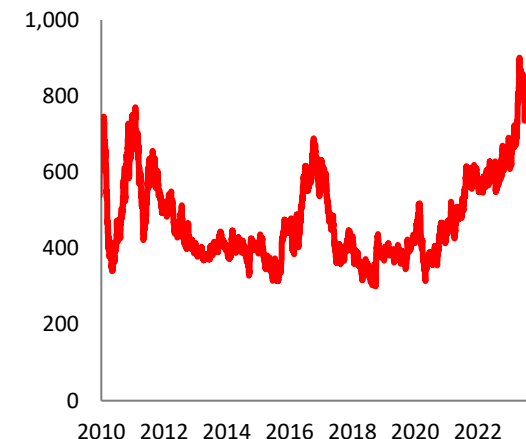
Anticipated below average rainfall in spring and summer is expected to result in lower planting of summer crops.



Cotton

Cotton prices have continued to trend higher since pushing above \$700/bale in mid-July. While still well below the peaks of early 2022, prices are strong from a long run perspective.

ABARES' forecasts an 8% fall in cotton lint production in 2023-24, with reduced dryland planting area. Strong water storage levels are expected to support irrigated cotton output.



Sugar

The upward trend in sugar prices continued through August and into September, with prices moving back above \$900/t.

Global market conditions remain strong, with demand continuing to grow, while exports from Thailand and India will be impacted by drought, with the latter banning exports to secure domestic supplies.



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