



# NAB Rural Commodities Wrap

October 2023



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# Highlights



The NAB Rural Commodities Index continued to fall in September – the eleventh month in a row it has declined – down by 4.6% mom. The index is now 34% below the peak in rural prices back in June 2022.

Once again, cattle was the key driver of the decline in the index – with cattle prices plunging by 21% mom in September and falling further in early October to the lowest levels since late 2014. Various reports suggest that low confidence due to current and upcoming seasonal conditions may have encouraged producers to sell off stock – driving prices lower.

In contrast, sugar, barley and fruit prices were all stronger in September.

Seasonal conditions have been challenging – last month was the driest September on record (with rainfall almost 71% below average) and the third hottest. The BoM's outlook for both October and November look extremely dry in most regions of the country.

For the period for November through January, the BoM's outlook sees below median rainfall across much of western, northern and southern Australia, with small areas in NSW and Queensland with a chance for above median rainfall.

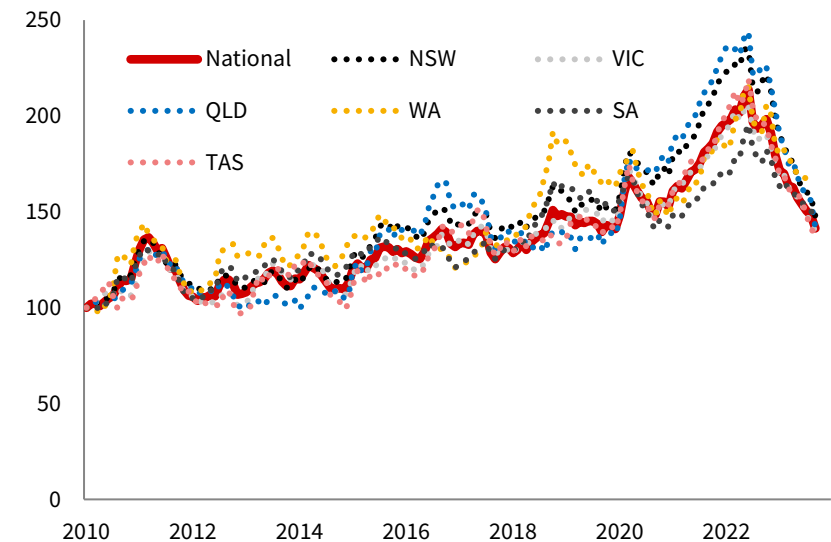
As widely expected, the BoM formally declared an El Nino event in mid-September. El Nino is associated with hotter and drier conditions across eastern and northern Australia – which is likely to negative impact a range of key agricultural regions.

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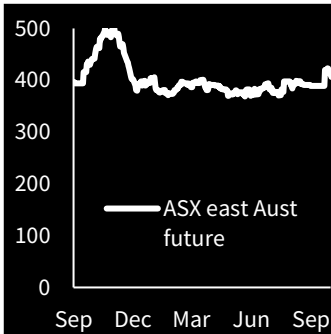
## NAB Rural Commodities Index

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

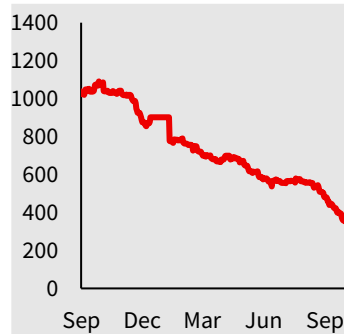
# Outlook for major commodities



## Wheat

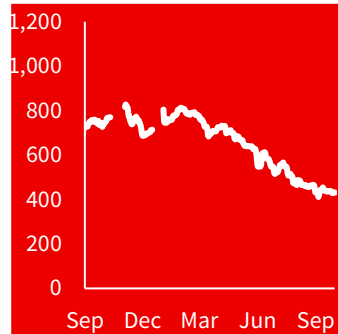
Australian wheat prices edged higher in September, moving back above \$400/t for the first time since March, albeit not substantially above the prices seen since late 2022.

Recent dry weather and the emerging El Nino conditions are set to negatively impact yields.



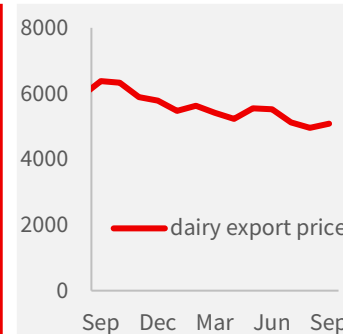
## Cattle

Cattle prices plunged in September – with the average value of the EYCI down over 21% month-on-month – and continued to fall further in early October, near 350c/kg – the lowest levels since late 2014. Low confidence may have inspired a sell off of stock.



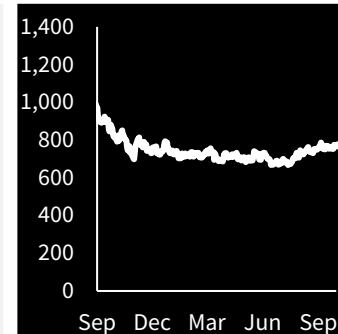
## Sheep

Trade lamb prices dropped substantially at the end of August before largely tracking sideways across September. In monthly average terms, prices fell by around 6.4%. There was little movement in wool markets in September, with prices essentially drifting sideways.



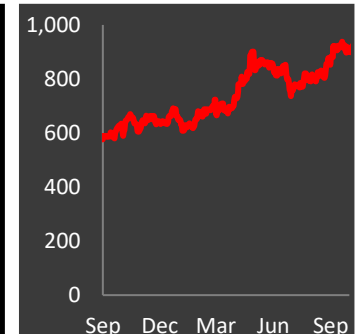
## Dairy

Dairy prices were generally stronger in September – if only marginally – with the exception of skim milk powder (which continued to ease). Broadly dairy prices have been trending down from the peaks of March 2022.



## Cotton

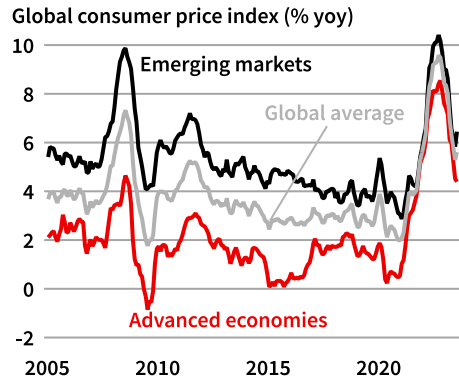
After climbing across August, there was less upward momentum for cotton prices in September, with AUD prices settling above \$750/bale late in the month. Dryland planting area in Australia is set to drop in 2023-24, impacting cotton production.



## Sugar

Sugar prices continued to climb through early September – pushing above \$900/t, before essentially tracking sideways across the rest of the month. This peak represents a record high in AUD terms.

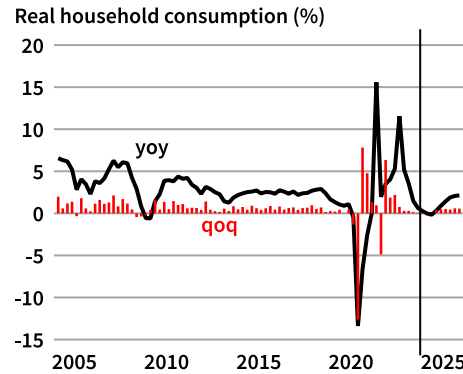
# Economic update



## Global economy

Global growth is set to slow into 2024, as the impact of tighter monetary policy slows demand (particularly in advanced economies).

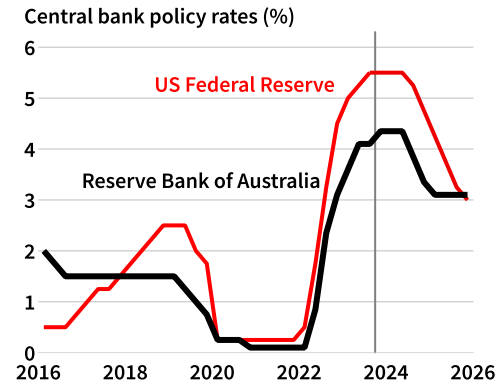
Inflation has been trending lower in most major economies but remains above the targets of central banks. Recent energy market trends – such as the rise in oil prices following OPEC+ production cuts – could threaten this downward trend and drive further monetary tightening.



## Australian economy

Following the Q2 GDP data, we have revised our forecasts for Australian economic growth a little higher – albeit still well below trend in the near term.

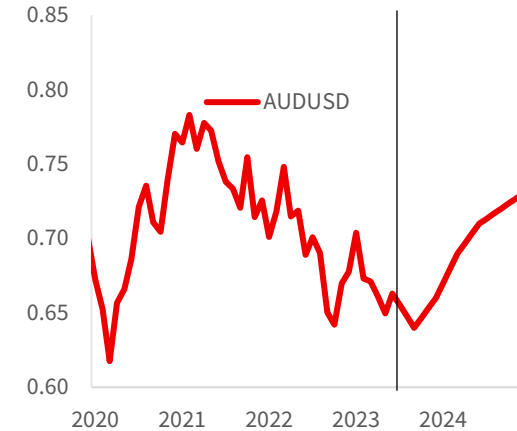
Household consumption will remain a constraint – reflecting the impact of inflation and rising borrowing costs. Despite unemployment remaining near historically low levels, consumers are cutting back on discretionary spending.



## Interest rates

The RBA remained on hold again in October – keeping the cash rate at 4.1%. The central bank continues to focus on inflation – with the central bank noting that it may have to lift rates further if inflation does not return to its target in a reasonable timeframe.

Our rate view is unchanged – we continue to see one further hike in the cash rate in November, although this is dependent on inflation data. We currently see rate cuts starting in the second half of 2024.

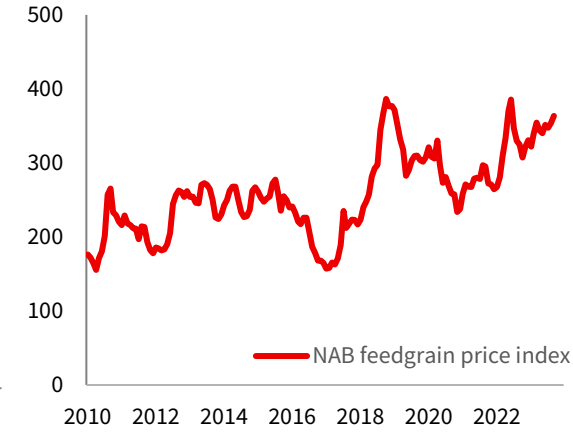
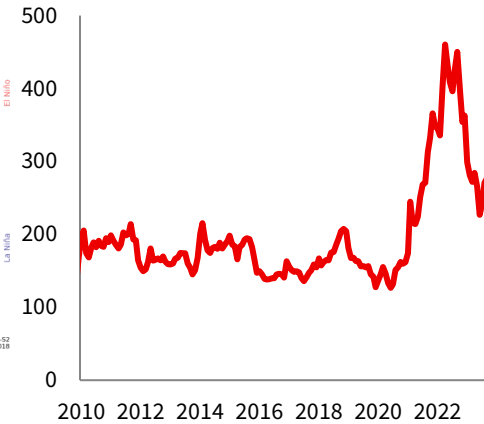
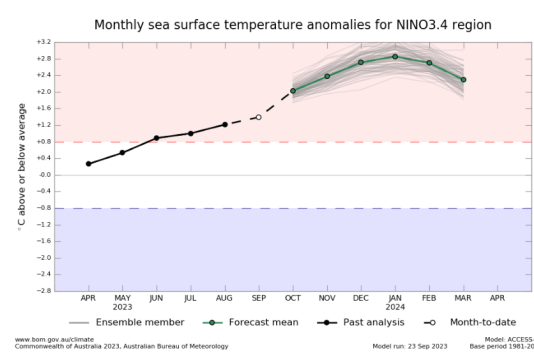
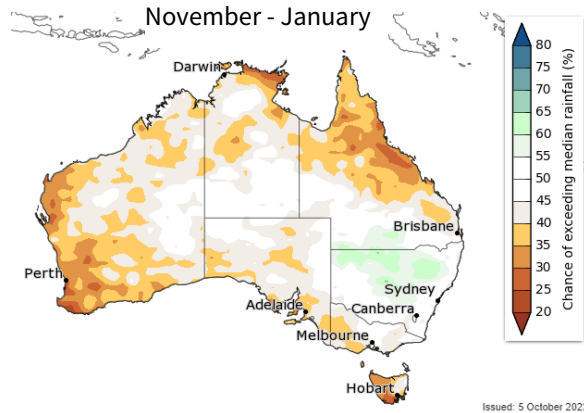


## Currency

The AUD traded in a relatively narrow band close to 64 US cents in September, with little change to sentiment around the US currency or the outlook for China (two factors that drove the AUD lower in recent months).

The forecast profile for the AUD is unchanged this month – we see some modest upside in the near term, pushing up to 66 US cents at the end of 2023, before trending higher across 2024 (to 73 US cents at year end).

# Seasonal conditions and farm inputs



## Recent dry conditions to continue through Nov...

Last month was the driest September on record (with rainfall almost 71% below average) and the third hottest.

The BoM's outlook for November through January sees below median rainfall across much of western, northern and southern Australia, with some areas in NSW and Queensland with a chance for above median rainfall. Both October and November look extremely dry in most regions.

## ...reflecting the impact of El Niño

The BoM formally declared an El Niño event in mid-September, widely expected given other meteorological organisations had announced that El Niño was underway several months ago.

El Niño is associated with hotter and drier conditions across eastern and northern Australia – which is likely to negative impact a range of key agricultural regions.

## Fertiliser index edged higher

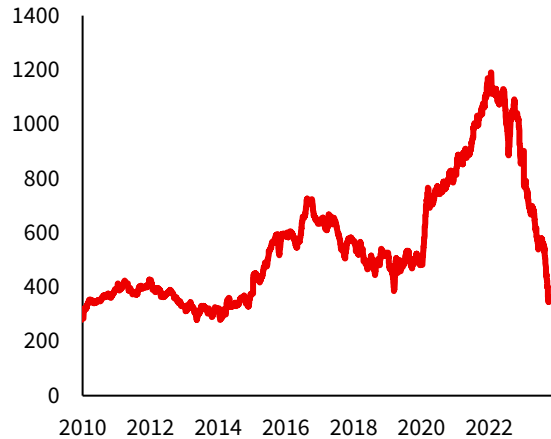
Our fertiliser price index edged higher in September – up by around 2.4% mom. This increase reflected a sizeable jump in urea prices, following curbs on Chinese exports in early September (China is the world's largest producer). Overall, our fertiliser price index remains well below the peaks following Russia's invasion of Ukraine, but also well above the long term trend.

## Feed grain prices lifted in September

Following on from a period of relative price stability between February and August 2023, feed grain prices moved considerably higher in September – increasing by 2.7% mom.

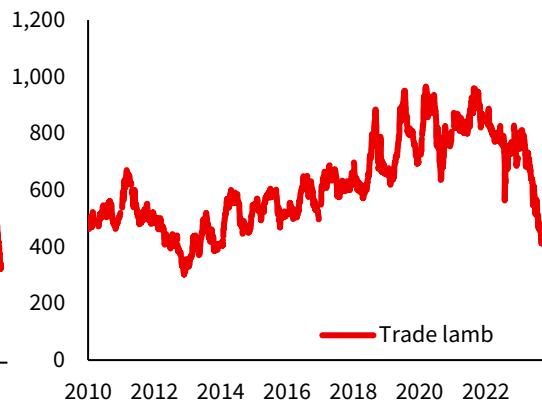
The removal of Chinese trade measures has seen barley prices increase, while the dry conditions in coming months is likely to impact crop yields, meaning further upside risk to feed grain prices more generally.

# Livestock



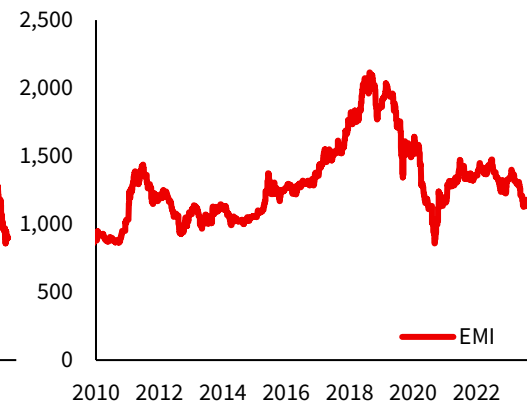
## Cattle

Cattle prices plunged in September – with the average value of the EYCI down over 21% month-on-month – and continued to fall further in early October, near 350c/kg – the lowest levels since late 2014. Reports suggest that low confidence – related to recent dryness and upcoming seasonal conditions – may have inspired a greater sell off of stock – driving prices lower. Feed grain prices have continued to trend higher, while below average rainfall in coming months will impact pasture growth.



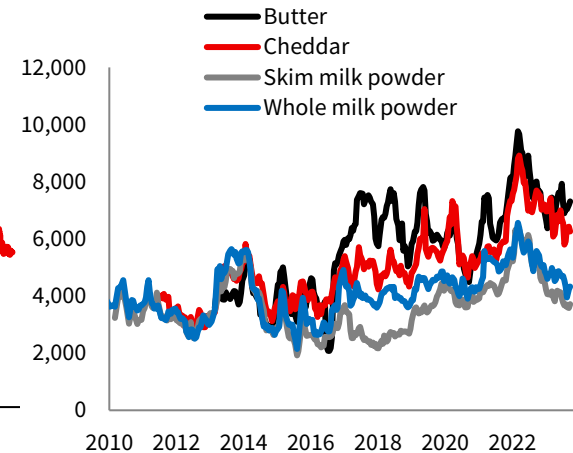
## Lamb

Trade lamb prices dropped substantially at the end of August before largely tracking sideways across September. In monthly average terms, prices fell by around 6.4%. Market trends are broadly similar to that of cattle, with recent dry conditions (along with the El Nino impacted outlook) encouraging a selloff from relatively high stock levels.



## Wool

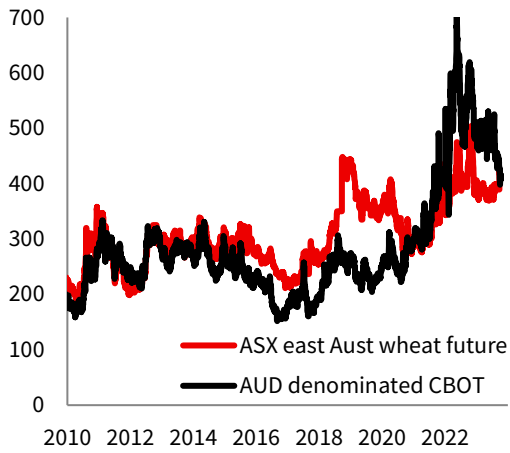
There was little movement in wool markets in September, with prices essentially drifting sideways (with the EMI trading within a 32 cent range over the month). Global demand for woollen products is likely to be constrained by weaker economic activity – as these products are more likely to be discretionary.



## Dairy

Dairy prices were generally stronger in September, with the exception of skim milk powder (which continued to ease). Broadly dairy prices have been trending down from the peaks of March 2022. Oversupply of raw milk in China has been a factor – contributing to the larger than average declines in skim and whole milk powder since the peak.

# Crops

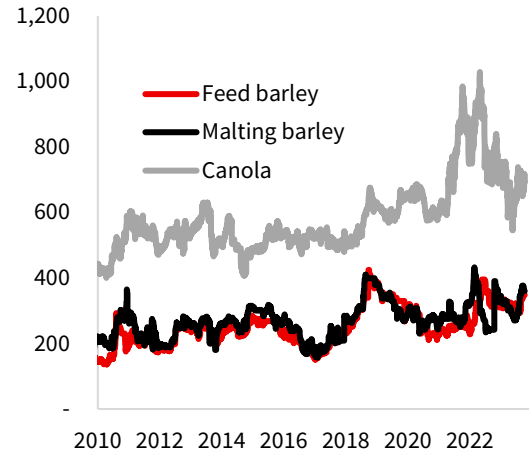


## Winter crop prices

Australian wheat prices edged higher in September, moving back above \$400/t for the first time since March, albeit not substantially above the prices seen since late 2022.

Barley prices have continued their upward trend since early August, boosted by the removal of Chinese tariffs on imports from Australia.

Canola prices dipped in month average terms in September but have continued to fluctuate close to \$700/t.

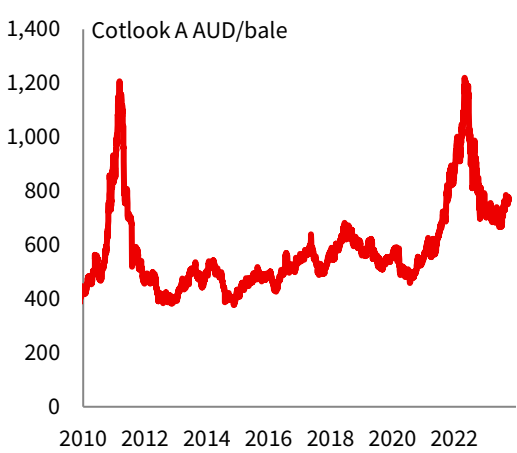


## Crop production

Recent dry weather and the emerging El Nino conditions are set to negatively impact Australian crop production in coming months.

ABARES' September forecasts anticipate a fall of almost 34% in winter crop production in 2023-24 – albeit this was coming off record highs in 2022-23.

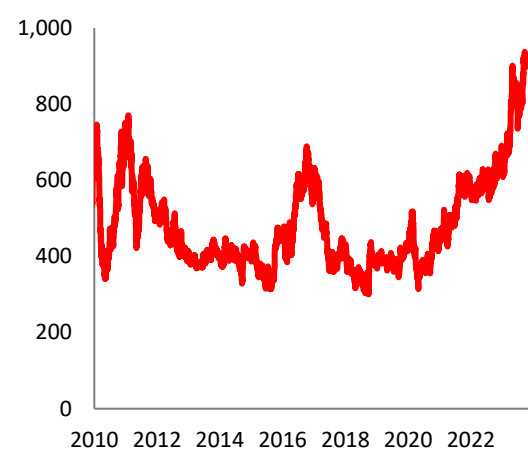
Below average rainfall in Spring and into summer is expected to drive reduced summer crop planting this year.



## Cotton

After climbing across August, there was less upward momentum for cotton prices in September, with AUD prices settling above \$750/bale late in the month.

Australia's production of cotton is set to fall in 2023-24 – reflecting a drop in dryland planting area. However, other major producers are also facing challenging conditions (either droughts or floods) – which could keep prices comparatively high.



## Sugar

Sugar prices continued to climb through early September – pushing above \$900/t, before essentially tracking sideways across the rest of the month. This peak represents a record high in AUD terms.

Supply side pressures persist, with limited supplies from major exporters such as Thailand and India, while global demand remains strong – meaning that prices are likely to remain elevated.

Source data: Bloomberg, Refinitiv



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