



NAB Rural Commodities Wrap

November 2023

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Highlights



The NAB Rural Commodities Index eased further in October, having now declined for each of the past twelve months. Our index fell by 1.8% mom, leaving it 35.0% below the peak for rural prices in June 2022.

Cattle prices have been the main driver of the decline from the mid-2022 peak and they fell on average by 15.2% mom in October, although daily prices show a broadly sideways track across the month, following steep declines in September.

In contrast, there were notable price increases for chickpeas, lamb, dairy and vegetables – partially offsetting the downward pressure on our index.

Seasonal conditions remain challenging – rainfall in October was around 65% below the long term average. Persistently dry weather has led to low soil moisture, which will negatively impact crop growth in coming months.

Dry conditions are expected to continue – the BoM’s latest outlook for November through January sees a 60-80% chance of below median rainfall across northern, western and southern Australia – but with a chance of higher rainfall in northern NSW and southern QLD.

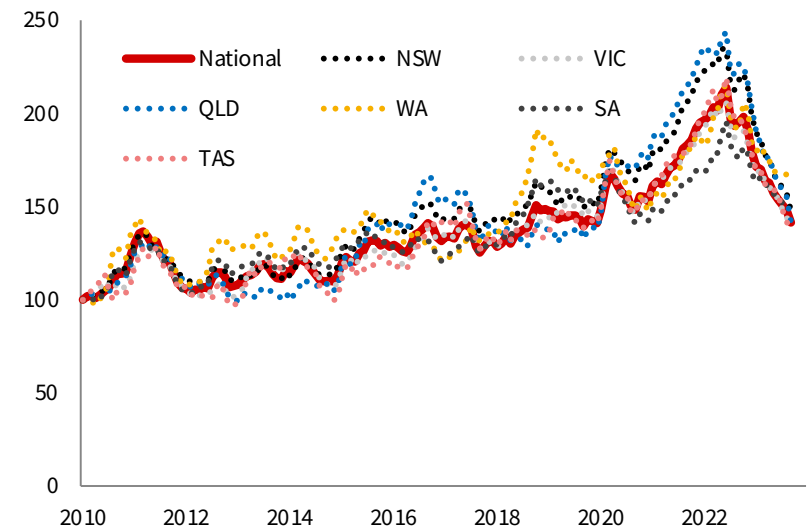
BoM models indicate that Pacific sea temperatures will remain above El Nino thresholds until at least early autumn. This has been combined with a positive Indian Ocean Dipole which can increase the drying effects of El Nino – which reduces spring and summer rainfall.

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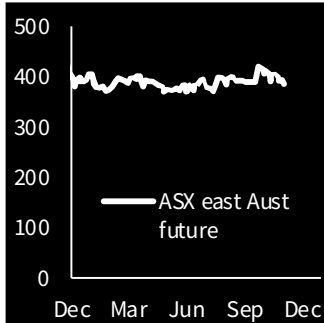
NAB Rural Commodities Index

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

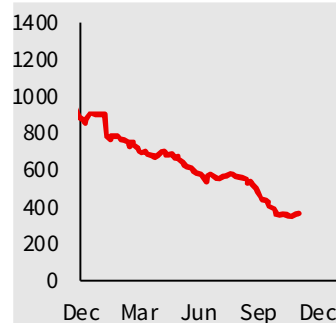
Outlook for major commodities



Wheat

The upward pressure on wheat prices ran out of momentum in early October, which saw prices drift back below US\$400/t.

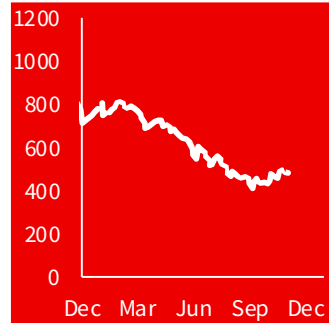
Comparatively dry weather in recent months and the development of El Nino conditions will negatively impact Australian crop production.



Cattle

While cattle prices fell in monthly average terms, they stabilised around the levels of late September, just above 350c/kg.

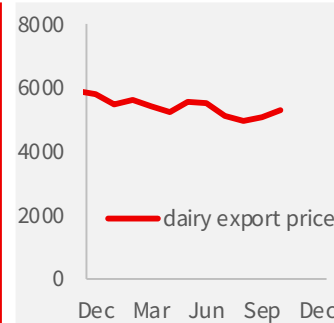
Declining prices reflect concerns around dry conditions in coming months, as high feed grain prices and limited pasture growth make feeding stock more difficult.



Sheep

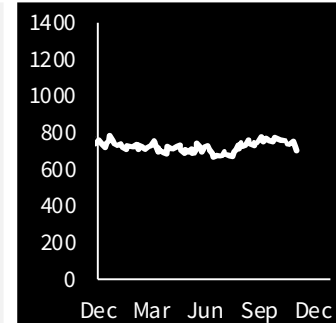
Trade lamb prices have trended higher from around 400c/kg in early September to almost 500c/kg in late October. That said, prices remain well below the levels of early 2023.

Recent months have seen wool prices tracking largely sideways – with the EMI trading within a range of just 12 cents in October.



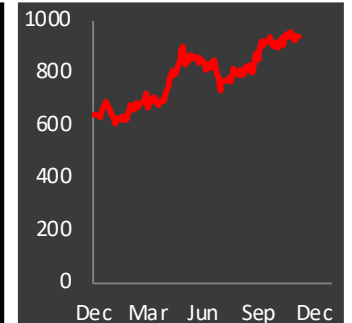
Dairy

On average, dairy prices trended higher in October, led by strong month-on-month increases in both skim and whole milk powder and a modest boost to butter prices. In contrast, cheddar prices continued to trend down.



Cotton

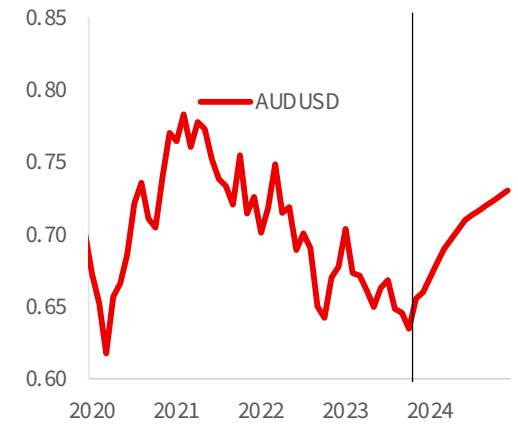
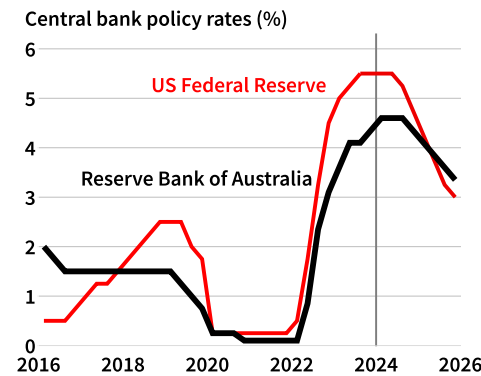
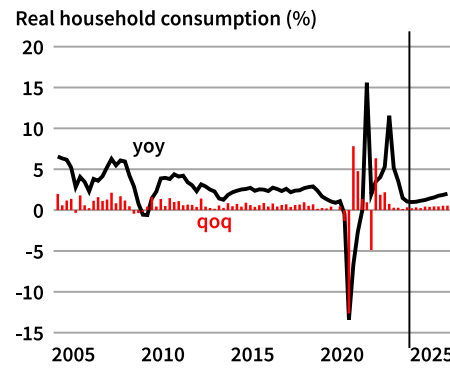
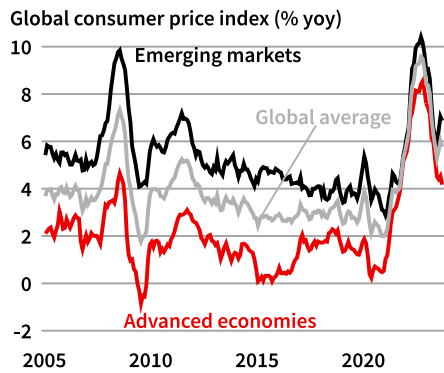
Having stabilised in September, cotton prices drifted a little lower across October, before dropping more sharply in early November – back to around \$700/bale. That said, by historical standards, prices remain relatively elevated.



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 economic growth is expected to weaken in 2024, in a large part reflecting the lagged impacts of tighter monetary policy, as central banks have attempted to rein in inflation.

Consumer price growth in advanced economies slowed to around 4.2% yoy in October – its slowest pace since September 2021, but still well above most central bank targets. That said, bond market pricing suggests that most major central banks have reached the peak of the tightening cycle.

Australian economy

Our forecasts for the Australian economy are essentially unchanged – with annual average growth expected to be below trend in 2023 to in 2024.

The impact of inflation and the rising cost of borrowing will constrain household consumption – particularly for discretionary items. That said, these factors have been partially offset by unemployment rates that have remained near historical lows.

Interest rates

As expected, the RBA raised rates in November – lifting the cash rate to 4.35%. Reflecting recent data, the RBA’s inflation outlook has been revised up – increasing the chance of another hike – most likely in February, although the December meeting should be considered “live”.

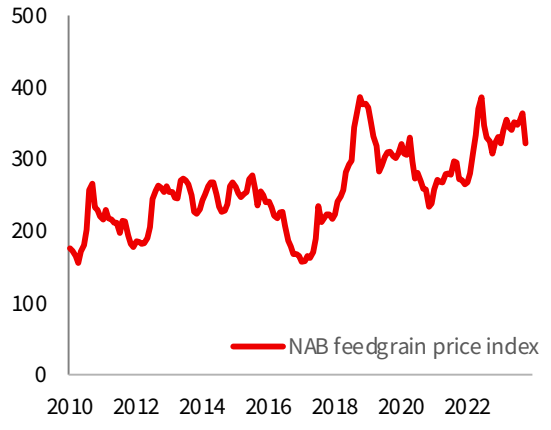
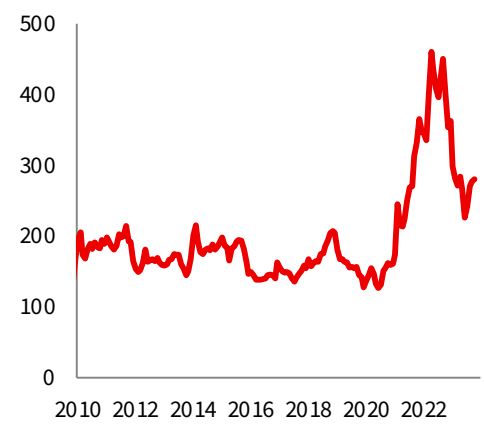
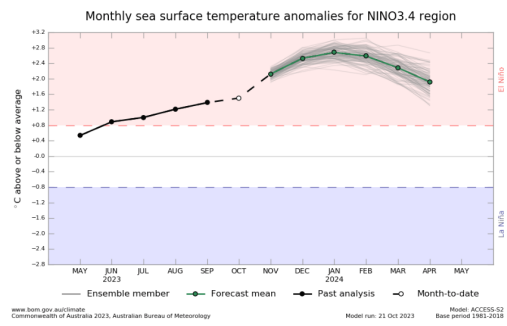
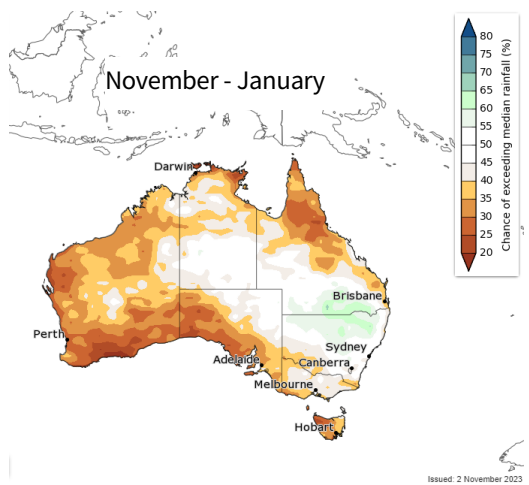
The RBA sees inflation reaching the top of its target range at the end of 2025. That said, with monetary policy already restrictive, our forecasts sees rate cuts commencing in late 2024.

Currency

The AUD eased in early October, before tracking broadly sideways near 63 US cents for the rest of the month, before pushing up in early November, ahead of the RBA meeting.

We continue to expect the AUD to strengthen over the outlook period – largely reflecting a softening in the US currency. The AUD is tipped to push up to 66 US cents at the end of 2023 and trend higher across 2024 (ending the year at 73 US cents).

Seasonal conditions and farm inputs



Dry conditions set to continue...

Following on from the driest September on record, rainfall in October remained weak – around 65% below the long term average. Low soil moisture will negatively impact crop growth in coming months.

Dry conditions are expected to continue – the BoM’s latest outlook for November through January sees a 60-80% chance of below median rainfall across northern, western and southern Australia – but with a chance of higher rainfall in northern NSW and southern QLD.

...with El Nino remaining until at least autumn

Climatic conditions are forecast to remain broadly negative for the agriculture sector in coming months.

BoM models indicate that Pacific sea temperatures will remain above El Nino thresholds until at least early autumn.

This has been combined with a positive Indian Ocean Dipole which can increase the drying effects of El Nino – which reduces spring and summer rainfall.

Fertiliser prices remain at high levels

Fertiliser prices continued to edge higher in October – increasing by around 1.3% month-on-month.

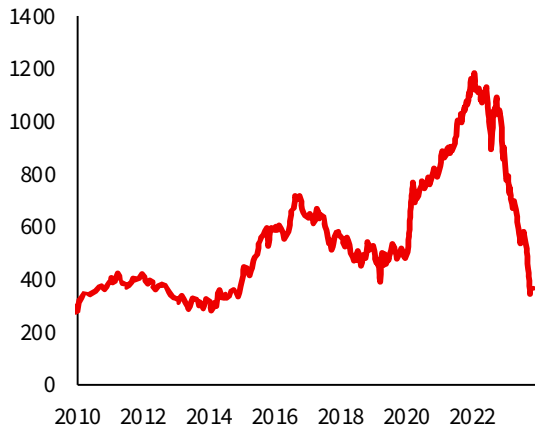
Although prices are well down on the levels seen in early 2022 – following Russia’s invasion of Ukraine – they remain well above the levels experienced prior to the COVID-19 pandemic.

Feed grain prices down in October (but still high)

Our aggregate measure of feed grain prices dipped sharply in October, albeit there were divergent trends among different grains. The key driver was an easing in feed wheat prices more than offset an increase in the price of oats. Overall, our feed grain price index fell by 11.4% month-on-month, but it remains comparatively high on a historical basis.

Source data: Bureau of Meteorology, Bloomberg, World Bank, Refinitiv

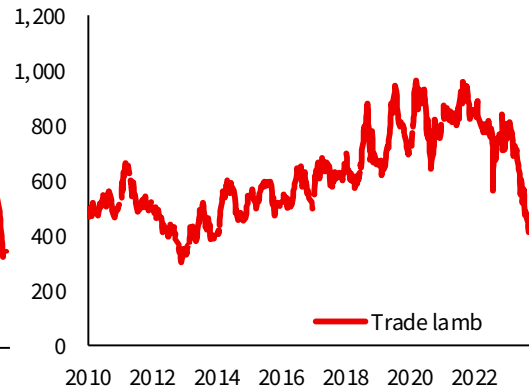
Livestock



Cattle

While cattle prices fell in monthly average terms (down 15% month-on-month), they stabilised around the levels of late September, just above 350c/kg.

The rapid falls in cattle prices since mid-2022 has seen them fall to their lowest levels since late 2014. In a large part, the falling prices reflect concerns around El Nino and dry conditions in coming months, as high feed grain prices and limited pasture growth make feeding stock more difficult.

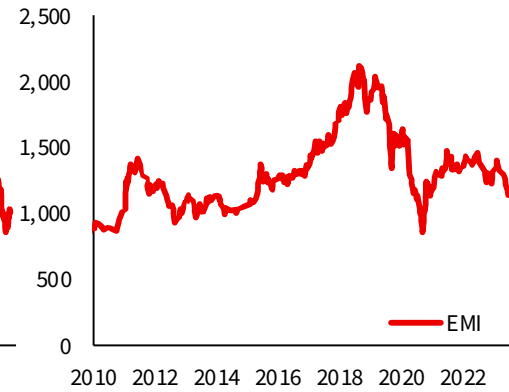


Lamb

Trade lamb prices have trended higher since recent lows in early September, moving up from around 400c/kg to almost 500c/kg in late October. That said, prices remain well below the levels of early 2023.

MLA data showed a pickup in lamb slaughter rates in October – indicative of improved demand – while sales were somewhat weaker.

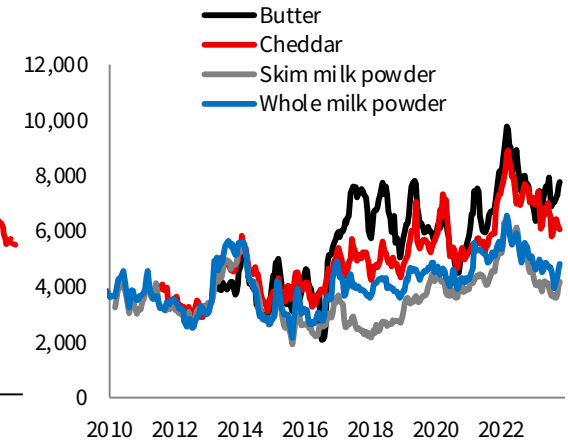
Similar to trends in cattle, weather conditions related to El Nino remain unfavourable in the next few months, which could encourage further sell offs.



Wool

Recent months have seen wool prices tracking largely sideways – with the EMI trading within a range of just 12 cents in October.

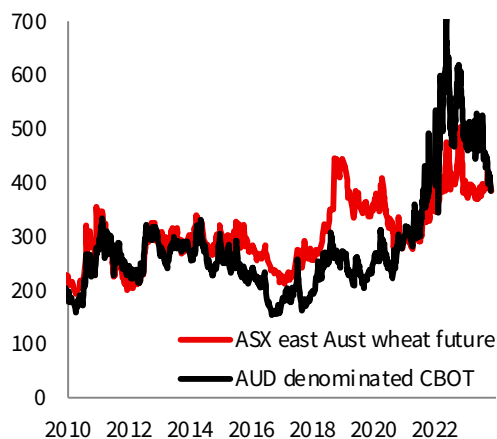
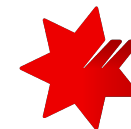
Global wool demand is expected to weaken going forward, as woollen products are typically more discretionary than those of other fibres.



Dairy

On average, dairy prices trended higher in October, led by strong month-on-month increases in both skim and whole milk powder and a modest boost to butter prices. In contrast, cheddar prices continued to trend down. That said, dairy prices have generally trended lower since March 2022 (with butter appearing to have less downward pressure).

Crops

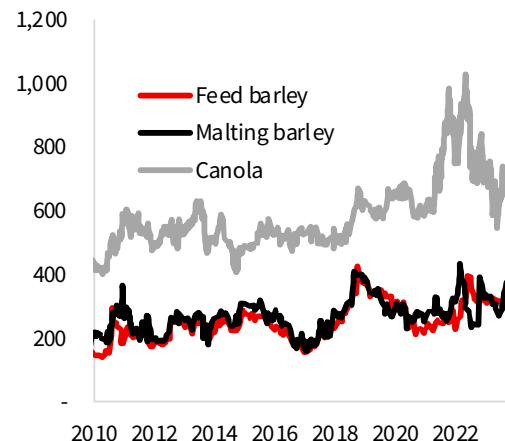


Winter crop prices

The upward pressure on wheat prices ran out of momentum in early October, which saw prices drift back below US\$400/t .

Similarly, barley prices eased, with feed barley falling more substantially than malting varieties.

Canola prices spiked above \$700/t in early October but subsequently trended lower, back down close to \$650/t in early November.

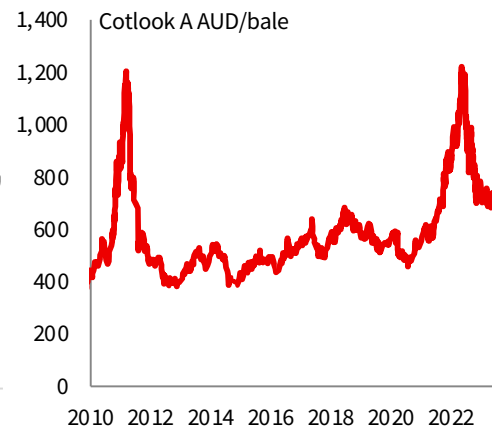


Crop production

Comparatively dry weather in recent months and the development of El Nino conditions will negatively impact Australian crop production.

ABARES' latest forecasts (from September) anticipate winter crop production falling by 34% in 2023-24 (albeit 2022-23 was a record high).

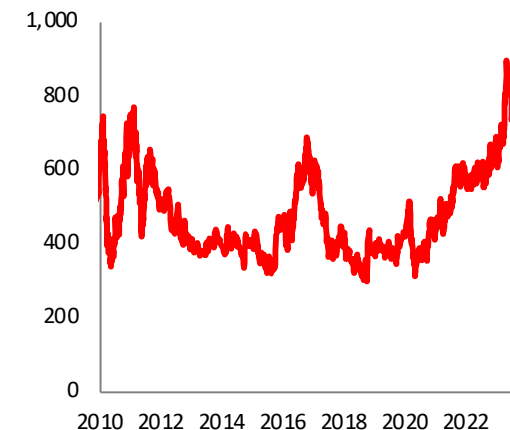
Summer crop planting is tipped to be reduced, owing to below average rainfall in spring and into summer.



Cotton

Having stabilised in September, cotton prices drifted a little lower across October, before dropping more sharply in early November – back to around \$700/bale.

That said, by historical standards, prices remain relatively elevated. Further downward pressure on prices may be limited – reflecting global demand remaining robust, while a range of exporters – including India and Australia – are set to be impacted by El Nino conditions.



Sugar

Sugar prices continued to track higher in October, pushing up from around \$900/t at the start of the month to \$950/t near the end, before dipping just below this level in early November – setting a fresh record high in AUD terms.

Prices are likely to remain elevated in the near term, reflecting the limited supply availability for global markets – given lower export volumes from Thailand and India.



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