



# NAB Rural Commodities Wrap

December 2023



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# Highlights



The NAB Rural Commodities Index increased in November after declining for each of the past thirteen months. The index increased 3.5% month-on-month, retracing its October fall to be slightly above its September level.

Cattle prices were the main driver of the increase in the month, reversing their October decline. Prices rose 20% on the back of above-average rainfall, which increased producer sentiment, and an increase in demand going into the holiday season. Prices also increased for other meat products. In contrast, prices for winter crops fell.

Seasonal conditions improved slightly in November, which saw rainfall levels nearly 40% above the long-term average. This improved soil moisture and sowing conditions for summer crops in Queensland and northern New South Wales, though lower layer soil moisture is still below average in large areas and more rainfall is required for next year's winter crops.

Despite the relief, dry conditions are expected to continue for the next few months. Summer rainfall is likely to be below the historical median for Western Australia, northern and central Northern Territory, northern Queensland and coastal New South Wales.

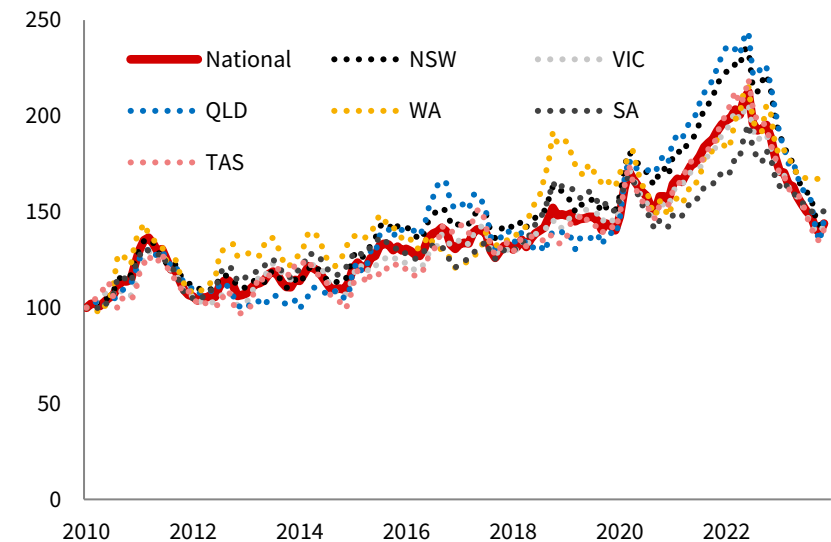
The BoM models indicate that El Nino is ongoing, and they continue to forecast warmer days and nights across the country. However, the positive Indian Ocean Dipole event, which increases the dryness associated with El Nino, has likely already peaked and showed signs of easing in early December.

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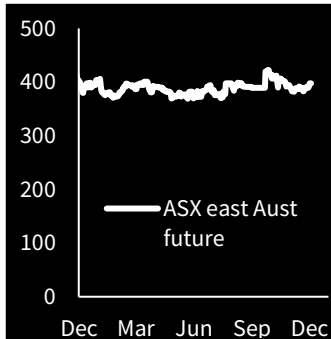
## NAB Rural Commodities Index

National and state index, Jan 2010 = 100



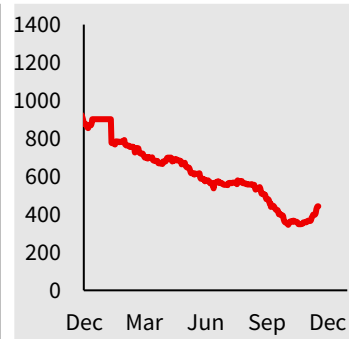
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

# Outlook for major commodities



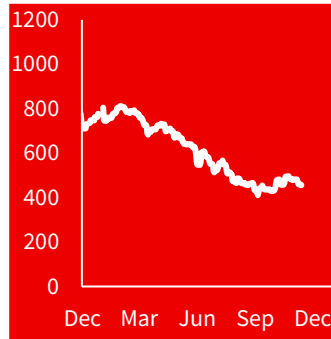
## Wheat

Wheat prices continued to slip in November in monthly average terms, but approached October levels by early December. High rainfall in November will have likely pushed back winter crop harvesting and decreased the grain quality of unharvested crops.



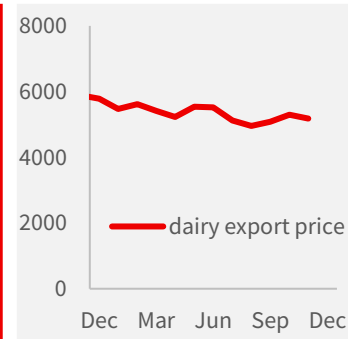
## Cattle

Cattle prices retraced their October fall, to be back slightly above September levels in monthly average terms. Above-average rainfall in November improved producer confidence and supported prices and improved the outlook for 2024, which is also supported by strong exports.



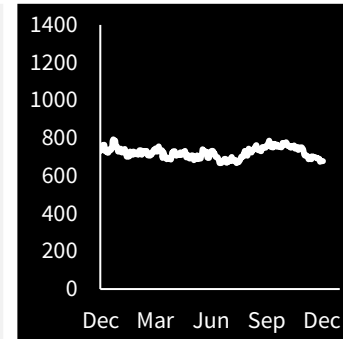
## Sheep

Trade lamb prices recorded little movement during the month and remained on average around 475c/kg in November, well below the levels of early 2023. The sideways momentum in wool prices continued, though prices picked up in the back half of November.



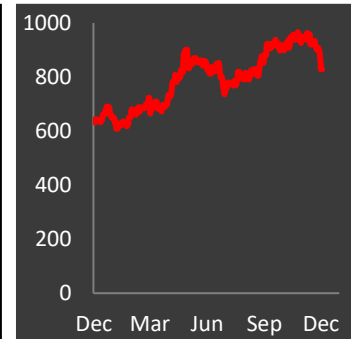
## Dairy

On average, dairy prices fell slightly in November. The price of skim milk powder was relatively unchanged, while other products recorded declines in price.



## Cotton

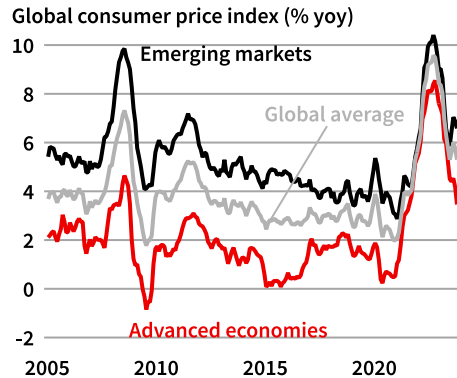
Cotton prices fell in November and on average were just below \$700/bale. That being said, prices are still elevated by historical standards. Drier conditions brought on by El Ninon and the positive Indian Ocean Dipole event will weigh on production in 2023-24.



## Sugar

Sugar prices retraced their October rise, falling to below \$900/t by the end of November. Prices remain historically high with dry conditions constraining global supply.

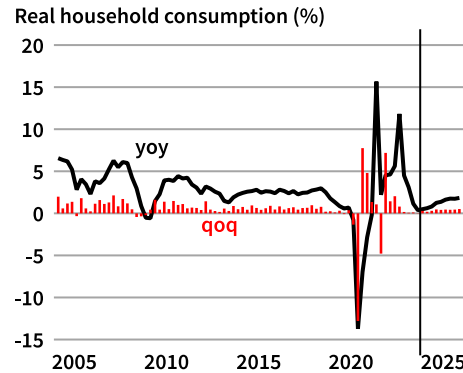
# Economic update



## Global economy

We expect global economic growth to slow in 2024, before seeing a modest recovery in 2025. Persistent above-target inflation and the consequent tightening in monetary policy will continue to weigh on growth.

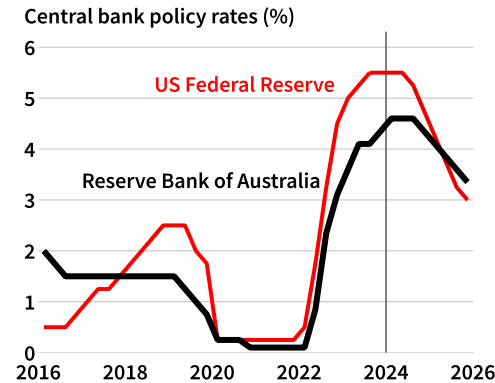
The pace of disinflation and the timing of rate cuts in 2024 remain key risks to the outlook. Geopolitical factors, including conflict in Russia-Ukraine and the Middle East and tensions between the US and China, could also impact economic activity.



## Australian economy

Our forecasts for the Australian economy are largely unchanged – we still expect annual average growth to be below trend in 2023 to in 2024.

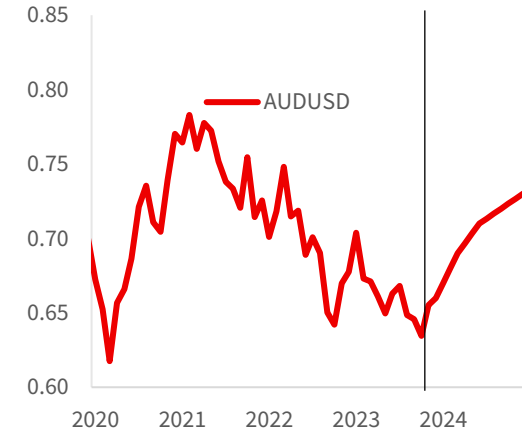
Consumption will be relatively soft, as rising borrowing costs, inflation, and a slight softening in the labour market weigh on households.



## Interest rates

As expected, the RBA left the cash rate unchanged in December at 4.35%. There was little new data in the month, and the RBA continues to wait to see the effects of previous cash rate increases pass through the economy.

Inflation will continue to moderate in Q4 and into the future, particularly due to goods disinflation. We continue to pencil in one final rate hike in February, with cuts commencing in late 2024.

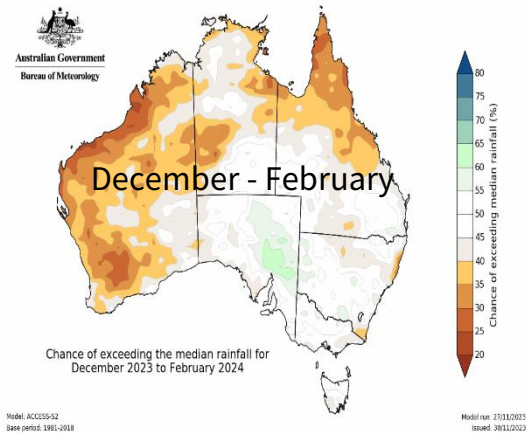


## Currency

The AUD strengthened in November, and is up around 7% from its lows in late October.

We continue to expect the AUD to strengthen over the outlook period – largely reflecting a softening in the US currency. We expect the AUD to end 2023 at around 66 US cents and trend higher across 2024.

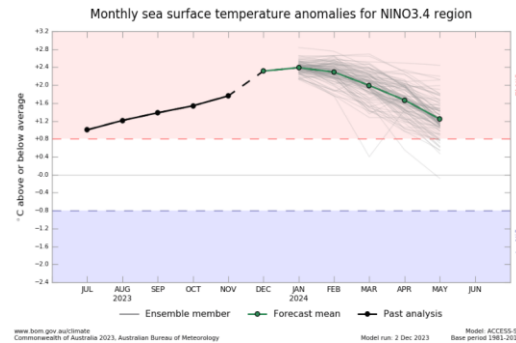
# Seasonal conditions and farm inputs



## Dry conditions eased a little but not for long...

After two months of below-average rainfall, November saw rainfall nearly 40% above the long-term average. Despite this, spring rainfall was around 20% below average.

Long-range forecasts suggest that summer rainfall is likely to be below the historical median for Western Australia, northern and central Northern Territory, the top of Queensland and coastal New South Wales. Some parts of inland Australia might see above or below-average rainfall.

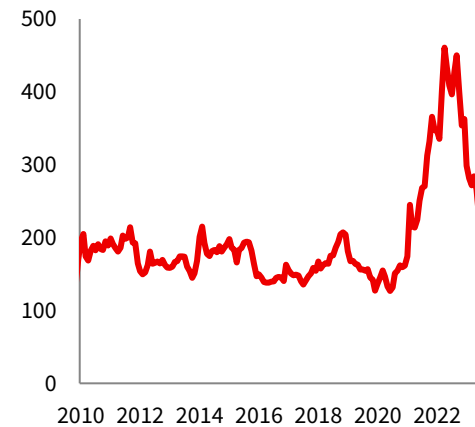


## ...with El Nino expected to remain over the coming months

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

El Nino continues, and the BoM forecasts warmer days and warmer nights across the country.

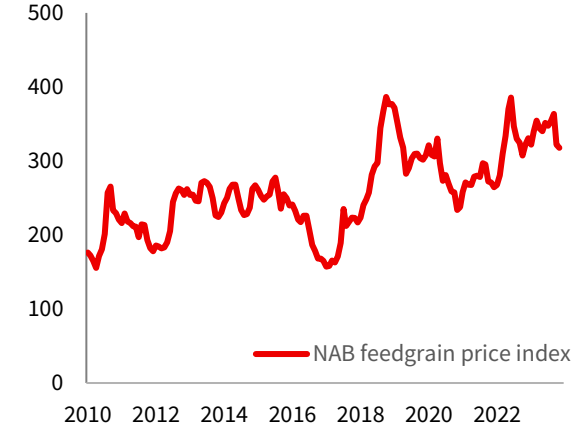
The positive Indian Ocean Dipole event, which can increase the drying effects of El Nino, has likely already peaked and is showing signs of easing in December.



## Fertiliser prices retracing but to remain high

Fertiliser prices fell in November by a little over 5% month-on-month.

Prices of fertiliser remain well above pre-pandemic levels. Prices will likely fall in 2023-24, but remain relatively high.

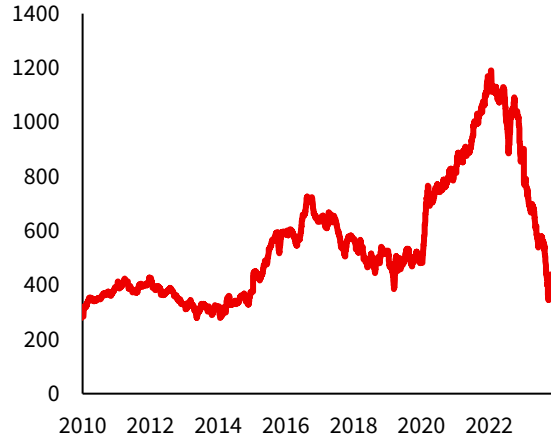


## Feed grain prices relatively stable in November

Feed grain prices fell again in November, but less sharply than they did the previous month. Easing barley, sorghum, and feed wheat prices more than offset the ongoing increase in the price of oats.

The index slipped 1.4% month-on-month, but remains relatively high. Global demand for feed wheat, in particular, is expected to reach a new record in 2023-24.

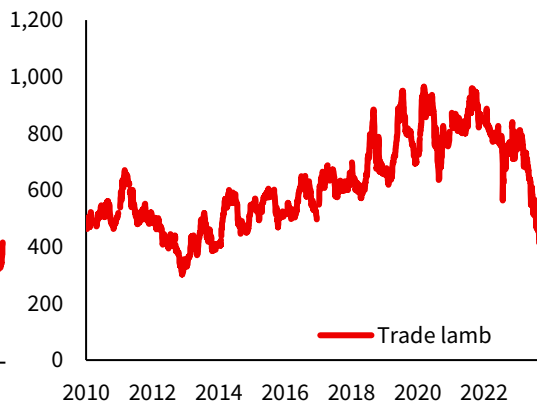
# Livestock



## Cattle

Cattle prices rose in monthly average terms (20% month-on-month), retracing their fall in October to be around September levels.

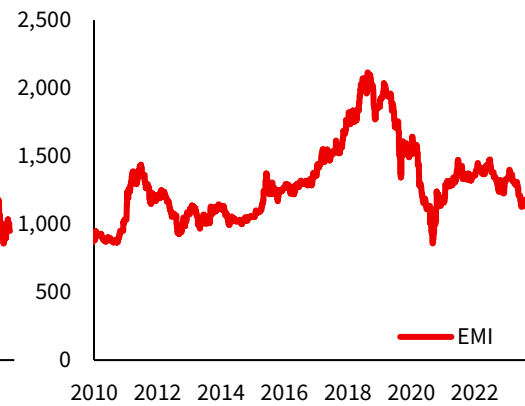
In November, above-average rainfall, as well as the imminent arrival of the holiday season, did much to lift producer confidence. The increase in supply and dry conditions brought about by El Nino continue to weigh on prices, however.



## Lamb

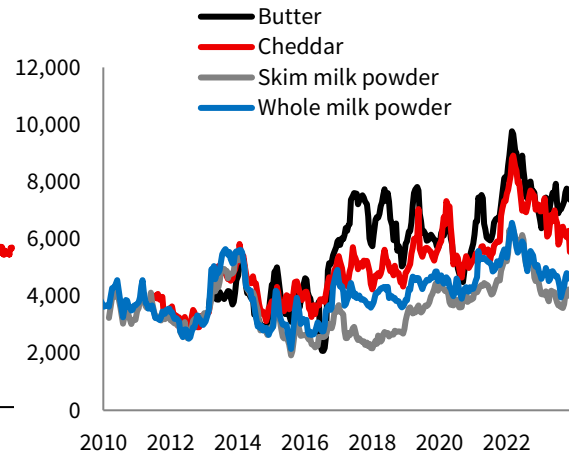
Trade lamb prices recorded little movement during the month and remained on average around 475c/kg in November, well below the levels of early 2023.

Prices recorded relatively mixed performance across states, and slaughter fell slightly in the month. The increase in flock size over the past two years, brought about by wet conditions, continues to weigh on prices. An improvement in demand in the coming months should support prices in the new year.



## Wool

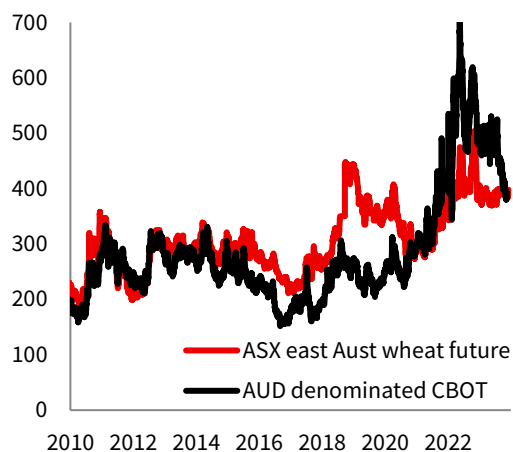
The sideways momentum in wool prices seen in the last few months has largely continued, though prices picked up in the back half of November. Increased demand came initially from China, though Italy and India also increased their presence at auctions. The wool market will go into its annual three-week Christmas recess in mid-December.



## Dairy

On average, dairy prices fell slightly in November. The price of skim milk powder was relatively unchanged, while other products recorded declines in price. Dairy prices are expected to continue to return to their long-term averages in the new year, as input costs decline, though dry conditions could weigh on milk supply.

# Crops

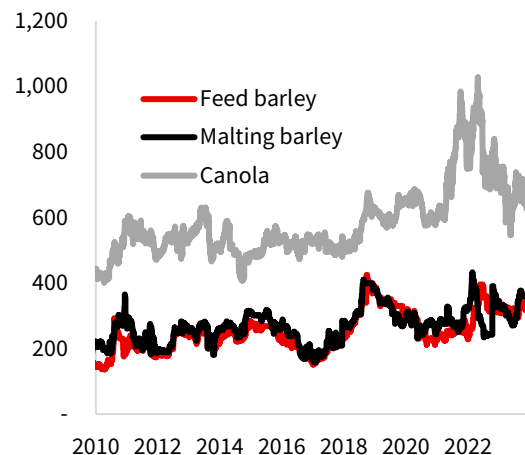


## Winter crop prices

The upwards trend in wheat prices broke in November, which saw prices on average slip back to around their July levels of \$385/t.

Barley prices continued to ease for the third month in a row, driven mostly by downwards movement in feed barley prices.

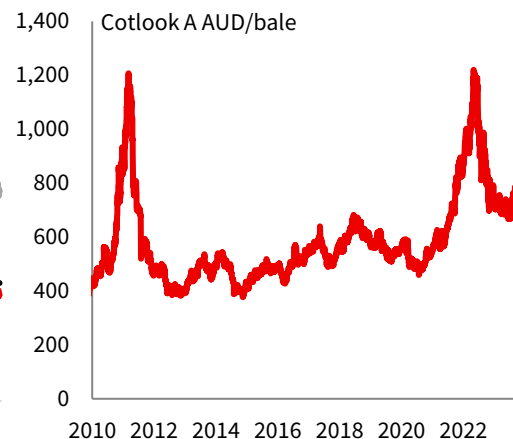
Canola prices also continued their downwards trend, hitting a low of \$625/t in the second-last week of November.



## Crop production

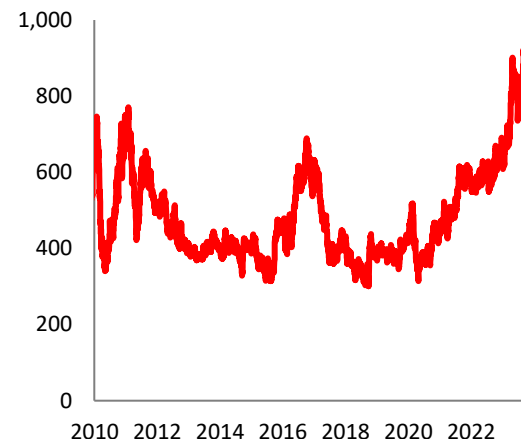
Mixed seasonal conditions for the 2023-24 winter cropping season will likely see production fall. Rainfall in early October improved prospects for the southern half of the country, after a dry September. But significant rainfall in November will likely have delayed harvest across several cropping regions, and contributed to a fall in grain quality.

Summer crop planting in 2023-24 will likely fall, due to low rainfall and consequently low soil moisture early in the planting window.



## Cotton

Cotton prices fell in November and on average were just below \$700/bale, a level last seen in August 2021. That being said, prices are still elevated by historical standards. Cotton production is forecast to fall in 2023-24, as El Nino and a positive Indian Ocean Dipole event result in drier conditions.



## Sugar

Sugar prices retraced their October rise, falling to below \$900/t at the end of November. Prices still remain historically high, as dry weather hampers production in major exporting countries Thailand and India. While sugarcane production is forecast to fall in 2023-24, sugar content in the cane is expected to increase due to drier conditions.



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