



NAB Rural Commodities Wrap

February 2024

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Highlights



The NAB Rural Commodities Index in January increased for the third month in a row. The index increased 2.2% month-on-month, and is back around levels seen in May 2023.

Cattle prices were the main driver of the increase in the month, and are now around 60% higher than their October lows. Prices rose on the back of above-average rainfall, which increased producer sentiment, an increase in demand going into the holiday season, and robust export demand. Prices also increased similarly for lamb, though increases in pork prices were more subdued. Prices for winter crops fell, weighed on by high global supply and weak demand.

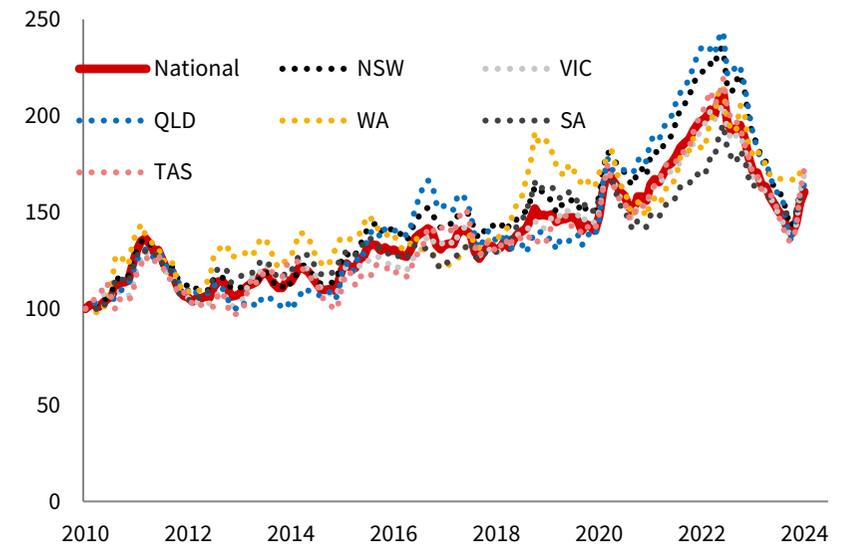
Seasonal conditions were favourable in January, which was the ninth-wettest January on record. Seasonal conditions are expected to be mixed next month, with rainfall likely to be below median for the eastern and northern coasts. The Rest of the country has roughly equal chances of a wetter or drier March. The BoM models indicate that El Nino is ongoing but past its peak, and sea surface temperatures are expected to return to a neutral ENSO level in autumn 2024. The positive Indian Ocean Dipole event has ended, and returned to neutral.

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NAB Rural Commodities Index

National and state index, Jan 2010 = 100



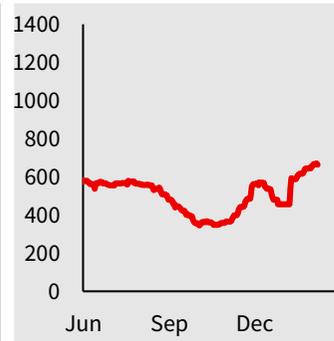
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

Outlook for major commodities



Wheat

Wheat prices continued to move downwards, falling 5% since the start of the year in monthly average terms. Strong global supply and high competition have seen wheat prices move lower recently.



Cattle

Cattle prices have rallied over the past few months and are back at levels seen in the first half of 2023. Improved seasonal conditions, as well as the prospect of strengthening export demand in the second half of the year, have improved prices.



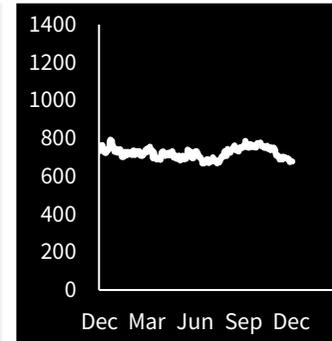
Sheep

Trade lamb prices have lifted from last year's lows to be around 740c/kg, which were levels seen in the first half of last year. Wool prices have continued to track relatively sideways, weighed on by subdued global demand, though tight supply could improve the price outlook in the future.



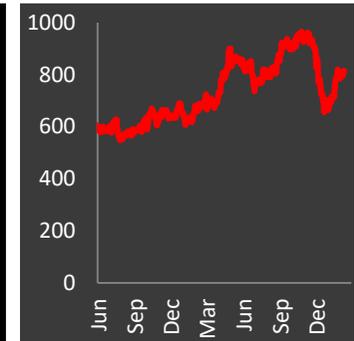
Dairy

On average, dairy prices have risen around 40% from their August lows and nearly 10% since the start of the year. Prices increased for dairy products across the board.



Cotton

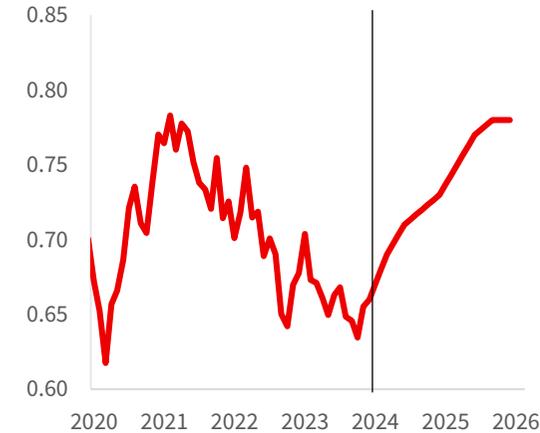
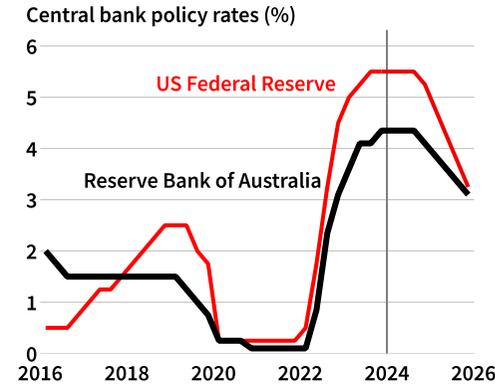
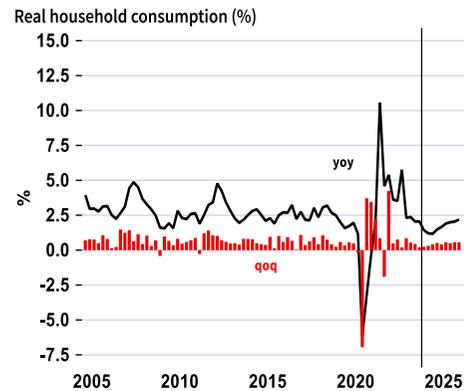
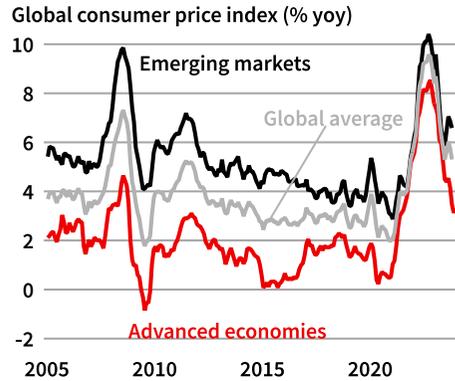
Cotton prices have remained subdued over the past few months. While cotton crop declines are expected globally, weak global demand for goods will likely weigh on prices.



Sugar

Sugar prices have fallen around 80% since November. Prices remain historically high with dry conditions constraining global supply.

Economic update



Global economy

We expect global growth to slow further in 2024, particularly the US economy. Growth should pick up a little over 2025, helped by central bank rate cuts – though the timing and scale of monetary policy easing remains an uncertainty.

Supply chains remain a risk to the outlook, with disruptions to trade and shipping in the Red Sea providing an upside risk to inflation.

Australian economy

We continue to expect subdued economic activity in Australia, and see the RBA keeping the cash rate on hold at 4.35% until November.

Growth is expected to be below-trend in the Australian economy. Household consumption remains the key dynamic, weighed on by high inflation and interest rates but supported by population growth.

Interest rates

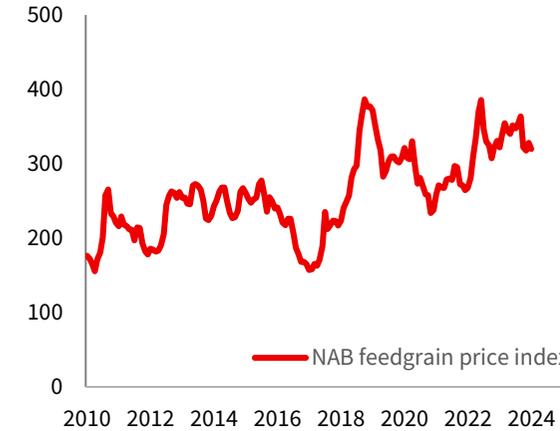
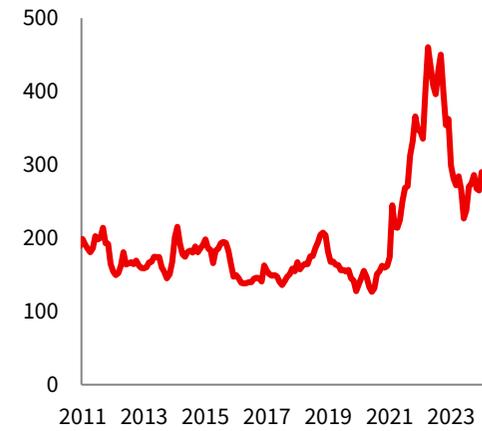
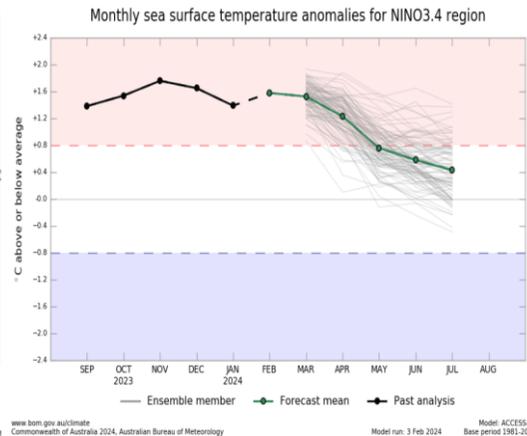
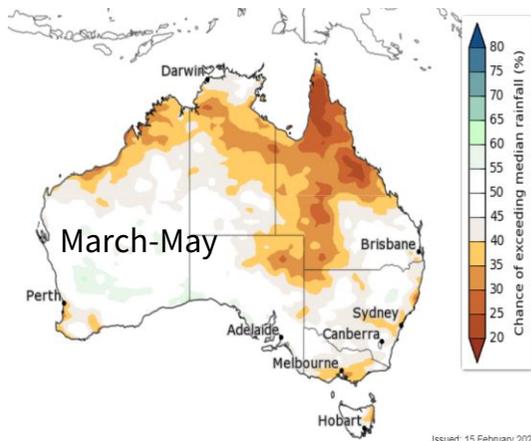
The RBA left the cash rate unchanged in February at 4.35%, as expected. Q4 Inflation slowed faster than the RBA had previously forecast, but remains above target, with services inflation continuing to run particularly hot.

The question of when the RBA will start cutting rates has taken a front seat; we expect rate cuts to begin in November 2024.

Currency

We continue expect that the AUD will appreciate over the forecast period, as the US economy slows. We expect this to happen a little later than previously thought, however, reflecting recent US economic strength and our expectation that rate cuts by the Fed will start mid-year.

Seasonal conditions and farm inputs



Dry conditions eased in the new year...

Rainfall was above-average in January for most of the country, which saw the ninth-wettest January on record.

Long-range forecasts suggest rainfall will likely be below median in Autumn across the northern parts of the country, and parts of north-east South Australia, and southern Victoria. Elsewhere, the chances of a wetter or drier Autumn are roughly equal. Maximum temperatures in Autumn are likely to be above median across all of Australia.

...with El Niño past its peak and the IOD event returning to neutral

El Niño continues but the effects have weakened, and sea surface temperatures are forecast to return to neutral El Niño-Southern Oscillation (ENSO) levels in autumn.

The positive Indian Ocean Dipole event, which can increase the drying effects of El Niño, has returned to neutral, and is forecast to remain so until April.

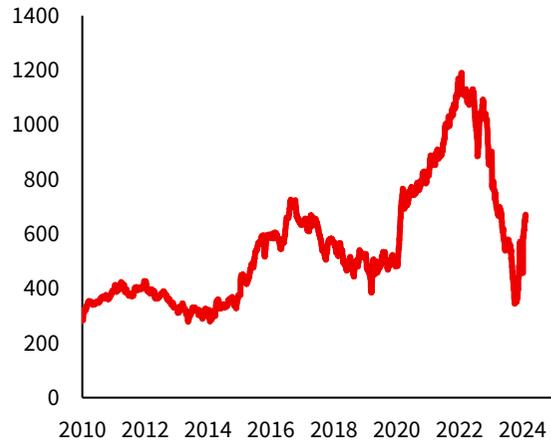
Fertiliser prices ticked up in the month

Fertiliser prices ticked up month-on-month in January, as prices of natural gas and urea moved upwards. Supply chain risks in the Red Sea could prove a near-term upside risk to fertiliser prices.

Feed grain prices remained relatively unchanged

Feed grain prices fell a little into the start of the year but have not moved much since November. Since November, falls in the price of barley and sorghum have driven the decline in the index, offsetting the increase in feed wheat prices.

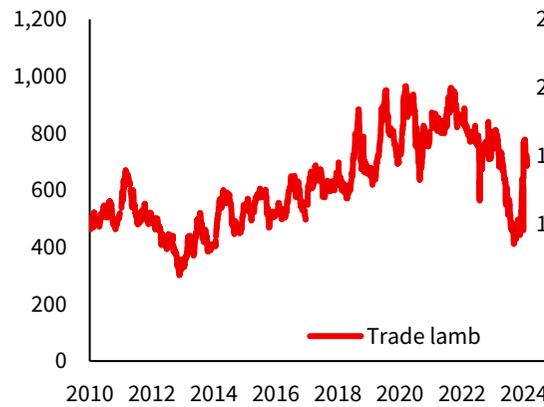
Livestock



Cattle

Cattle prices continued to rise for the third month in the row and rose 11% month-on-month in January in monthly average terms.

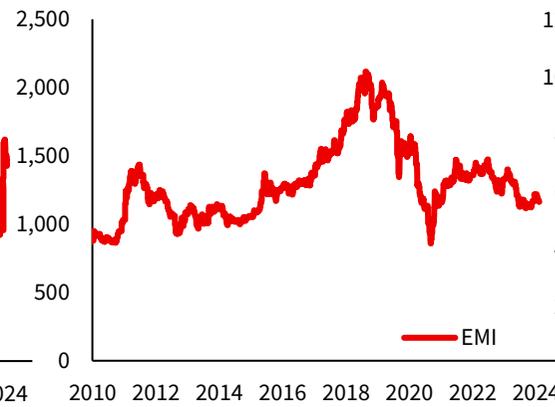
Rainfall at the end of 2023 and into 2024 resulted in good pasture growth, which buoyed producer confidence. Exports were also strong in January. Improved seasonal conditions and export demand should continue to support prices.



Lamb

Trade lamb prices rose nearly 25% month-on-month in January in monthly average terms, and were around 70% higher than their September lows.

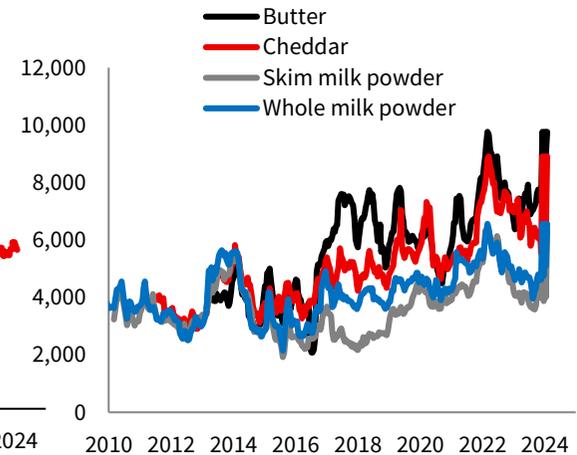
Strong exports in January, as well as an improvement in consumer demand, supported prices. Lamb supply will likely come under pressure in the coming months, which will also buoy prices.



Wool

Wool prices continue to track largely sideways, increasing a little in January in monthly average terms.

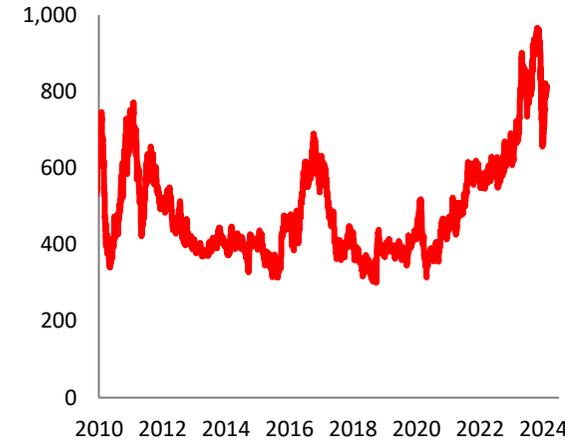
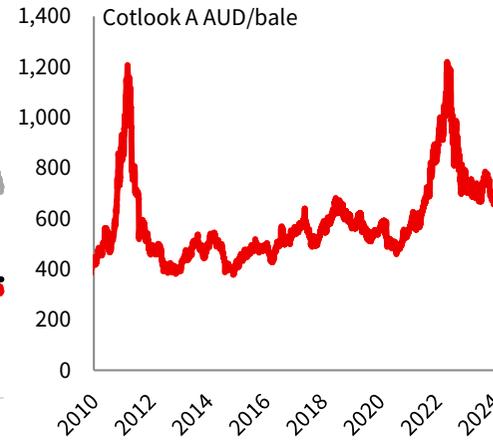
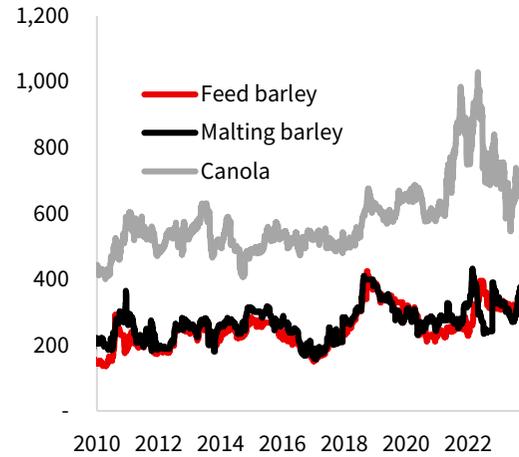
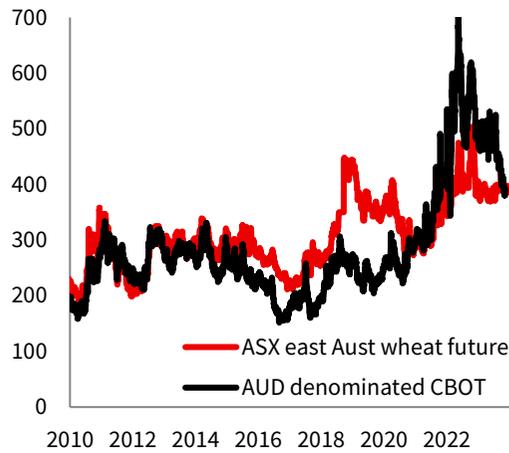
Subdued demand from China, the main market for Australian wool, is weighing on prices.



Dairy

On average, dairy prices rose 7% over the month in January and around 30% since November. Prices have risen for all dairy products. Production is expected to improve in 2024 after last year's 30-year production low, which supported farmgate prices.

Crops



Winter crop prices

Wheat prices have continued to ease and in January at \$370/t on average were around their May 2023 levels. High global supply is depressing prices.

Barley prices also continued to ease in January in monthly average terms, driven by a soft decline in the feed barley price with malting barley prices relatively stable.

Canola prices fell a little over January.

Crop production

While crop production in 2023-24 winter cropping season will likely fall following last year's record harvest, the outlook has improved slightly.

Crop production this year is expected to be slightly higher than previously thought after the rainfall at the end of 2023 and start of 2024.

Cotton

Cotton prices increased in January after falling slightly in December, and on average were back at their November levels. Prices are still elevated by historical standards. While cotton crop declines are expected globally, weak global demand for goods will likely weigh on prices.

Sugar

Sugar prices increased a little over January, to \$746/t on average, but have fallen from their October highs. Prices still remain relatively high as dry conditions constrain global supply, particularly from India and Thailand.



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