



# NAB Rural Commodities Wrap

March 2024

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# Highlights



The NAB Rural Commodities Index increased for the fourth month in a row in February. The index increased 2.2% month-on-month, and is back around levels last seen in April 2023.

Cattle prices were again the main driver of the monthly increase and are now around 80% higher than their October lows. Prices were supported by improved producer sentiment and strong export demand but slipped towards the end of the month as saleyard supply increased. Prices for rice, cotton, pork, dairy and fruit and vegetables also recorded increases in the month. Prices for winter crops continued their downward trend on the back of high global supply and subdued demand.

Conditions were relatively warm in the month and the BoM recorded the fourth-warmest February since observations began. Rainfall was around the historic average.

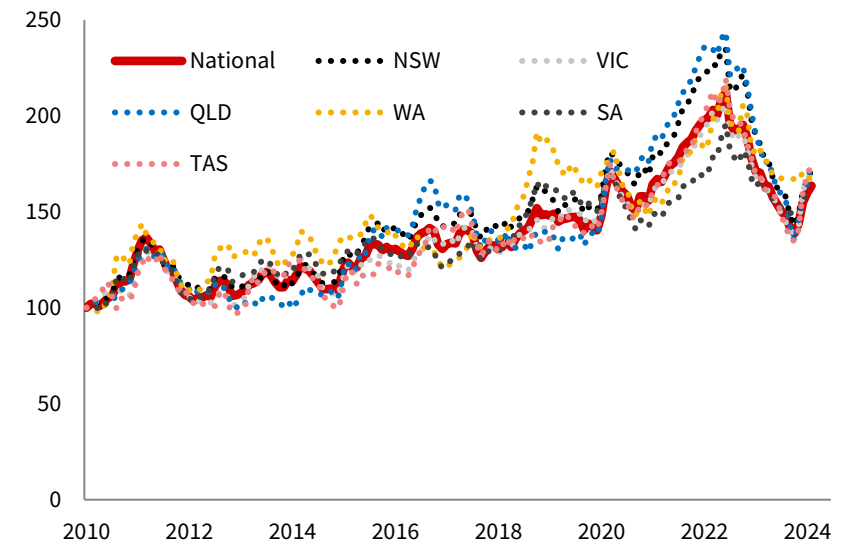
Seasonal conditions are expected to be relatively dry over the coming few months, and rainfall is forecast to be below the historic median across most of the country. Models indicate that El Nino is ongoing but weakened, and ENSO levels will likely return to neutral around the end of April. Some models are predicting a return to La Nina by late winter, but model accuracy predicting events so far into the future is generally low.

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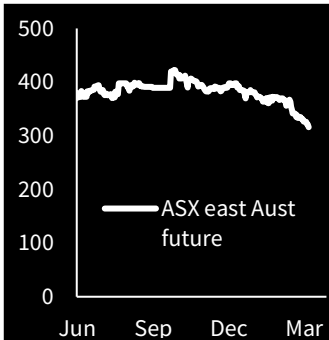
## NAB Rural Commodities Index

National and state index, Jan 2010 = 100



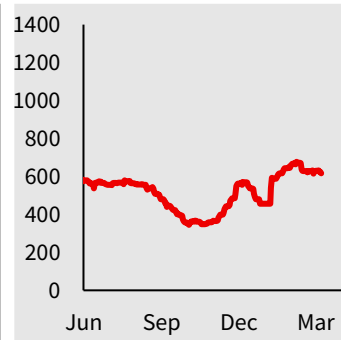
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

# Outlook for major commodities



## Wheat

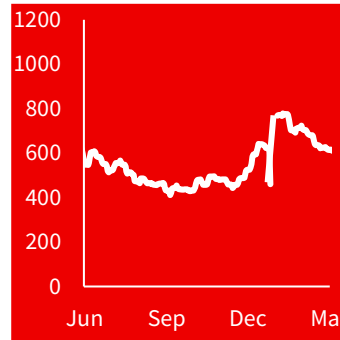
Wheat prices continued to trend downwards. High global supply, particularly with recent strong exports from Russia, weighed on prices.



## Cattle

Cattle prices rose a little over 10% month-on-month in February in monthly average terms.

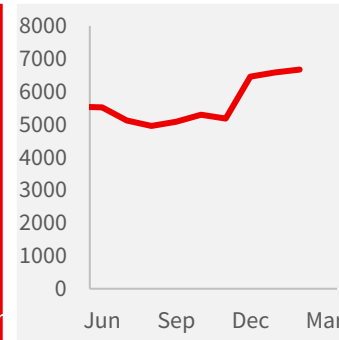
Exports volumes were high again in February on the back of strong demand from the US and Japan.



## Sheep

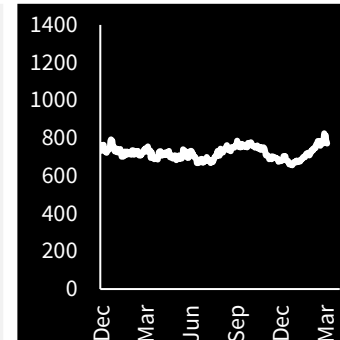
Trade lamb prices fell in February but were around 50% higher than their September lows, and export volumes improved further.

Wool prices slipped a little in February, and weak demand from China contributed to the decline.



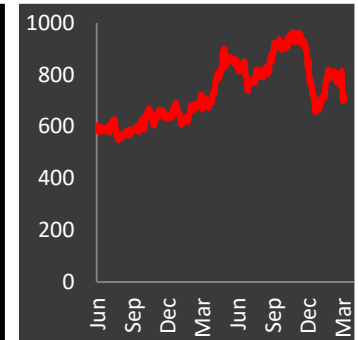
## Dairy

Dairy prices were relatively unchanged in February, increasing around 1% month-on-month in monthly average terms.



## Cotton

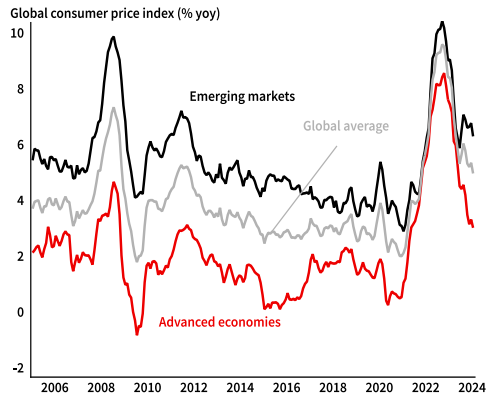
Cotton prices increased around 10% month-on-month in February in monthly average terms. Global demand is expected to outpace global supply in the second half of the year, which could see prices increase further.



## Sugar

Sugar prices increased in February to be around \$789/t on average but remain well below their October highs.

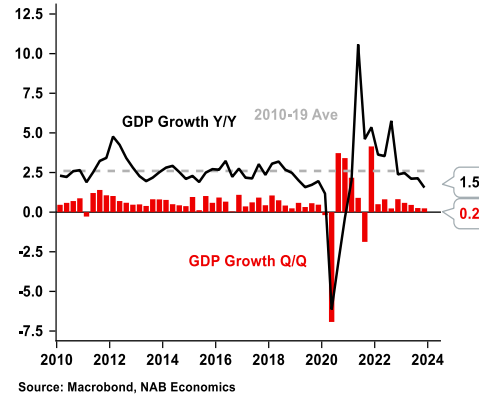
# Economic update



## Global economy

Global growth has been relatively subdued in early 2024, while global inflation continued to ease January. We expect global growth to slow in 2024, before picking up a little over 2025 as monetary policy easing supports demand.

Geopolitical tensions, including a widening of conflicts in Europe and the Middle East, as well as supply chain disruptions, remain an upside risk to inflation.

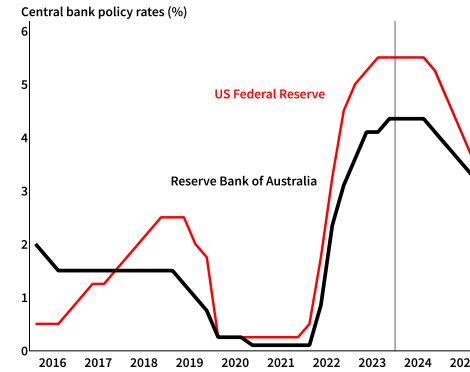


Source: Macrobond, NAB Economics

## Australian economy

The Australian economy grew 1.5% year-on-year in the December quarter. Private domestic demand growth remained weak and public sector spending helped keep overall domestic demand growth over the year at a reasonable level.

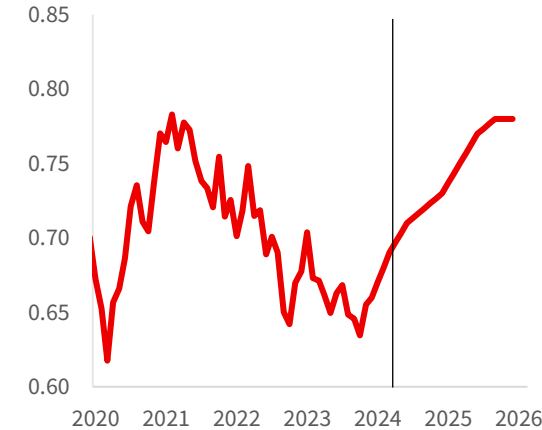
We expect growth to remain below-trend in the near term, but activity should improve later in the year as pressure on households eases with rate and tax cuts as well as a moderation in inflation.



## Interest rates

The RBA left the cash rate unchanged at 4.35% as expected in March. The RBA highlighted that services inflation is moderating gradually, and that they are ‘not ruling anything in or out’ in further decisions.

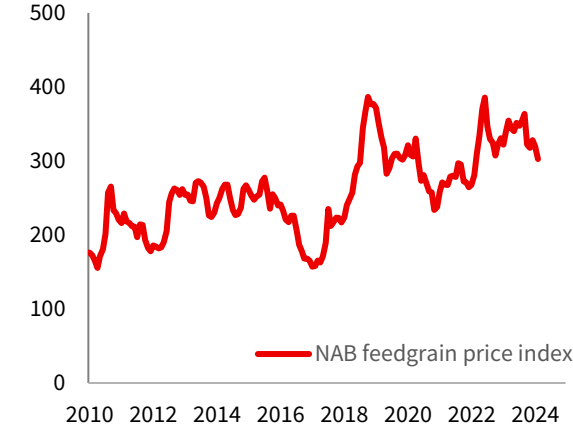
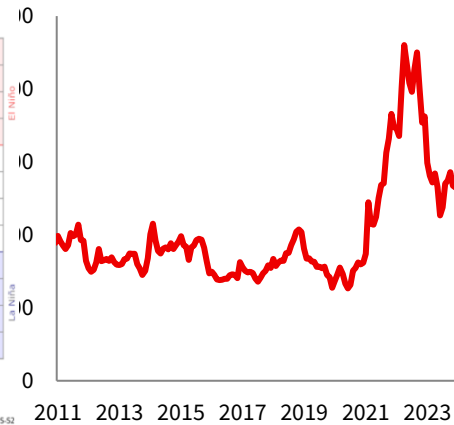
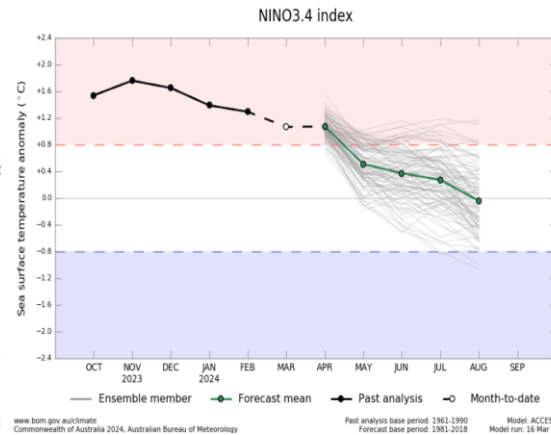
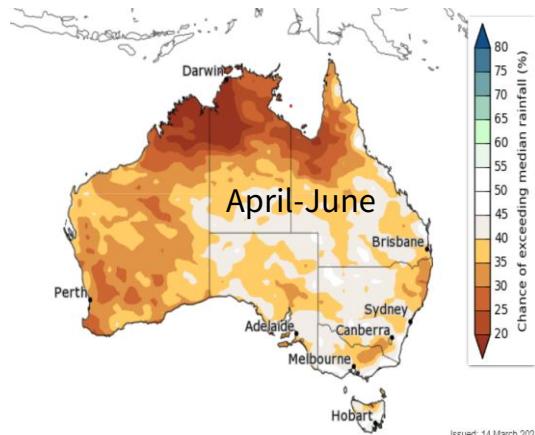
We continue to pencil in the RBA’s first rate cut for November 2024, with a gradual cutting cycle to reach 3.1% by end 2025.



## Currency

We expect that the AUD will rise over the forecast period. US economic growth remains robust but is set to moderate, and we expect the Fed to begin rate cuts from around mid-year.

# Seasonal conditions and farm inputs



## Dry conditions are set to continue...

The BoM recorded the fourth-warmest February since 1910 (when observations began). National rainfall was average in February.

Long-range forecasts continue to suggest that rainfall will likely be below median across most of northern and western Australia, and parts of southern and eastern Australia.

Maximum and minimum temperatures in April to June are expected to be above median across most of the country.

## ...but El Niño is near completion and the IOD event neutral

El Niño has weakened and most climate models are forecasting a return to neutral El Niño-Southern Oscillation (ENSO) levels in the central Pacific by the end of April. Some models are predicting a La Niña event by late winter, but model accuracy several months out is low.

The Indian Ocean Dipole event is neutral; while index levels have been above the positive threshold, they have not been sustained.

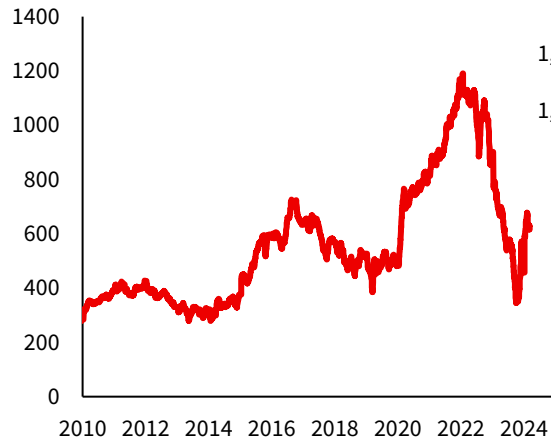
## Fertiliser prices moved down over the month

Fertiliser prices slipped around 10% month-on-month in February, as falls in the price of natural gas outweighed the increase in the price of urea. Supply chain risks in the Red Sea could prove a near-term upside risk to fertiliser prices.

## Feed grain prices declined

Feed grain prices slipped about 5% over the month in February in monthly average terms. The decline was driven by falls in the price of barley and feed wheat, while prices for oats and sorghum remained relatively unchanged.

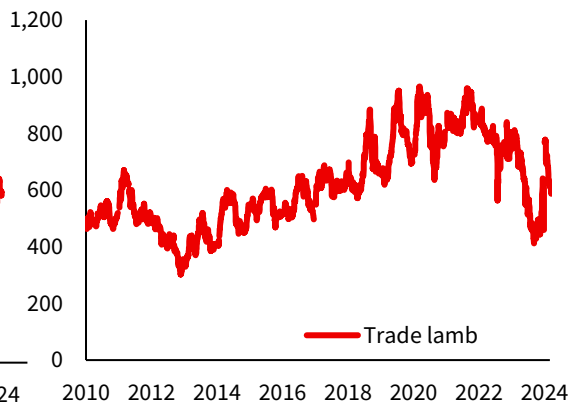
# Livestock



## Cattle

Cattle prices rose a little over 10% month-on-month in February, in monthly average terms.

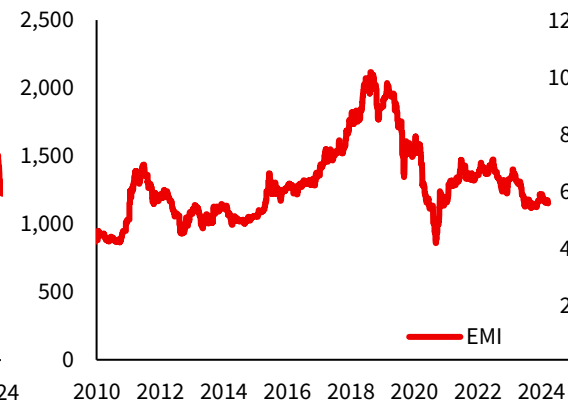
Prices continued to improve on the back of strong producer sentiment but eased a little towards the end of the month due to high supply and buyers being selective on quality. Exports volumes were high again in February on the back of strong demand from the US and Japan.



## Lamb

Trade lamb prices fell a little over 10% month-on-month in February in monthly average terms, and on average were around 50% higher than their September lows.

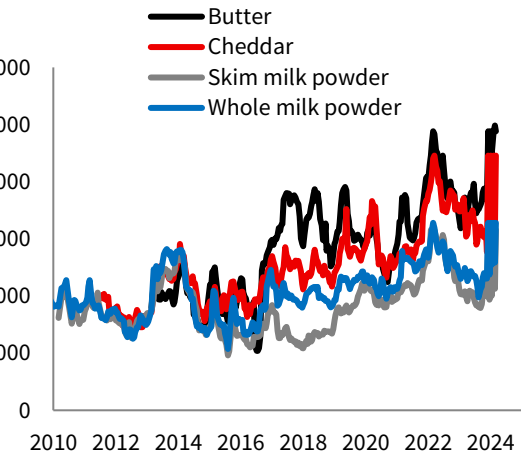
Export volumes improved further in February. Similarly to the cattle market, buyer demand moderated a little as buyers were concerned with quality.



## Wool

Wool prices continued to see little movement and slipped 3% month-on-month in February in monthly average terms.

Weak demand from China, as many factories shut down for Lunar New Year celebrations, weighed on prices.

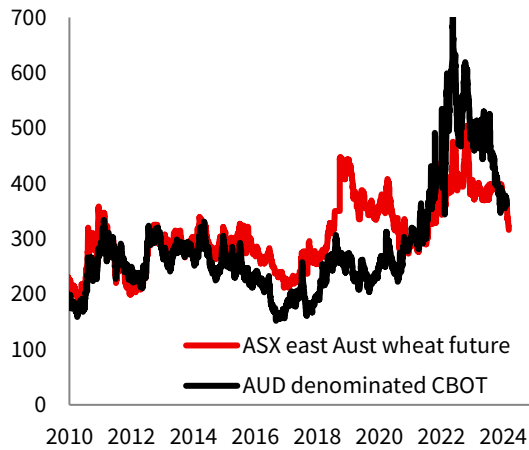


## Dairy

Dairy prices were relatively unchanged in February, increasing 1% month-on-month in monthly average terms.

Prices rose most significantly over the month for butter (5%) and skim milk powder (2%), but fell slightly for cheese (-1%).

# Crops

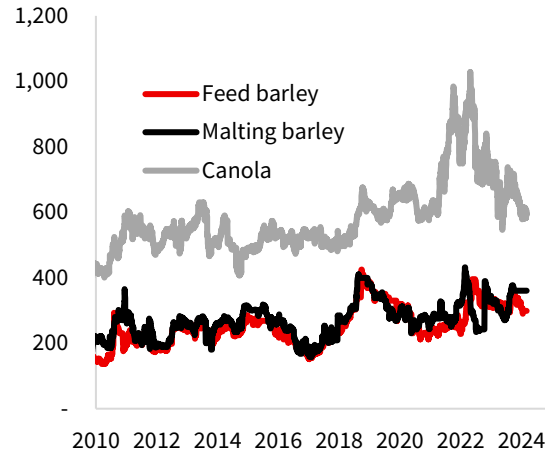


## Winter crop prices

Wheat prices continue to trend downwards and in February were around levels last seen in August 2021. A continuation of high global supply, particularly with recent strong exports from Russia, is weighing on prices.

Prices for feed and malting barley were both relatively flat in February in monthly average terms, and barley exports to China softened due to Lunar New Year celebrations.

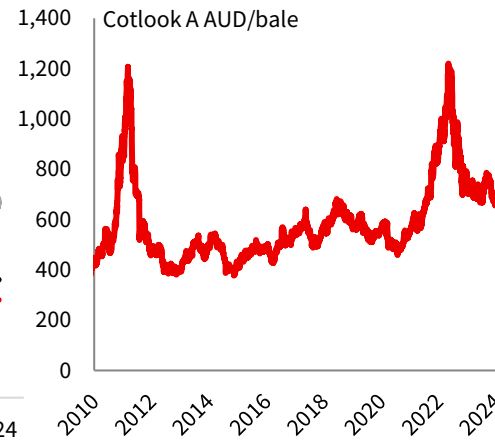
Canola prices were also little changed in the month.



## Crop production

Crop production is expected to fall in 2023-24, but ABARES revised up its production estimates by 14% in March (compared to December) due to the improvement in seasonal conditions with the summer rain.

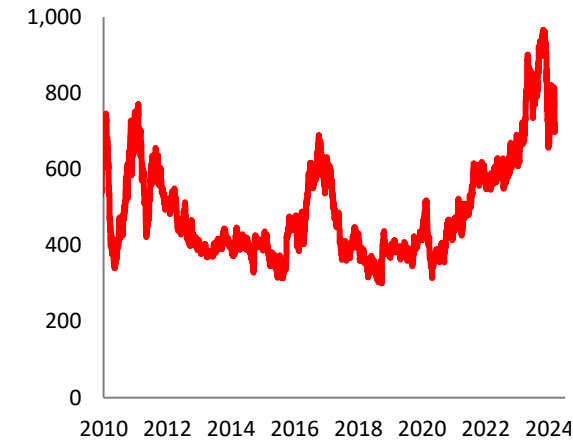
More favourable climate conditions should see crop production increase over the next year.



## Cotton

Cotton prices bounced up 10% month-on-month in February in monthly average terms.

Cotton prices are expected to rise in the second half of the year as global demand recovers and outpaces global supply, despite improvements in seasonal conditions.



## Sugar

Sugar prices increased around 5% month-on-month in February to be around \$789/t on average but remain well below their October highs.

Relatively dry conditions in Brazil and Thailand continue to constrain global supply.



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