



NAB Rural Commodities Wrap

June 2024

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Highlights

The NAB Rural Commodities Index continued its upwards momentum and increased 1.4% month-on-month in May. The index is around levels seen in February 2023.

An increase in the price of wheat once again drove the index higher. Wheat prices rose a little over 10% in the month, as prices rallied on the back of poor seasonal conditions in Europe which weighed on global supply. Prices for barley, canola, and lamb also increased in the month. Cattle prices were little-changed again in May, rising around 0.6\$ in monthly average terms.

The Bureau of Meteorology announced a La Nina watch in May, which means there is a roughly 50% chance of a La Nina event developing later in the year. Seasonal conditions were mixed across most of the country in May, with national rainfall 34.9% below the long-term national average in the month but above-average in New South Wales and Western Australia.

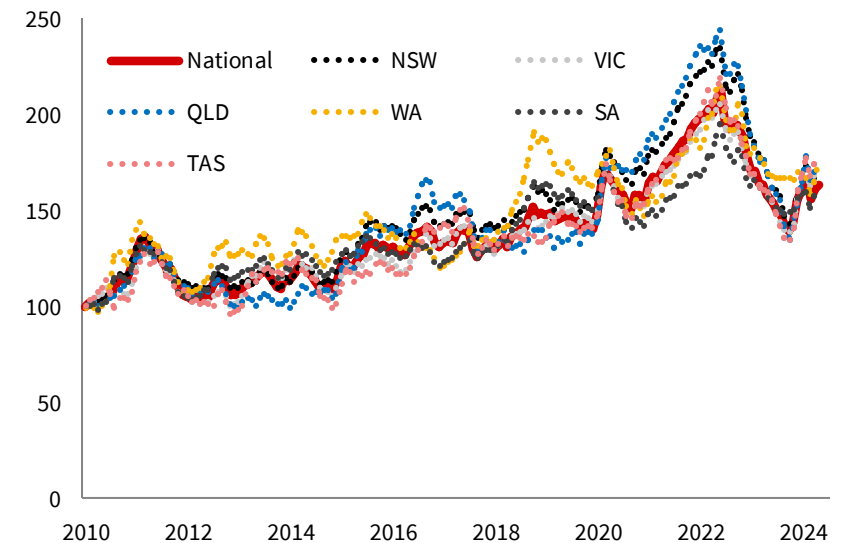
The Australian economy continues to experience a weak period of growth, and GDP grew just 0.1% q/q (1.1% y/y) in the first quarter of this year. Despite the slowing in economic growth, strong employment growth saw the unemployment rate tick down to 4.0% in May. The RBA left the cash rate unchanged at 4.35% at their meeting in June, as was widely expected.

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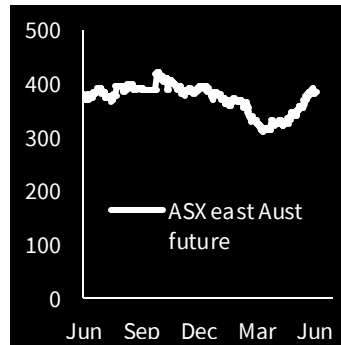
NAB Rural Commodities Index

National and state index, Jan 2010 = 100



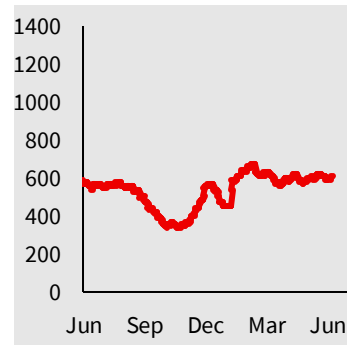
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

Outlook for major commodities



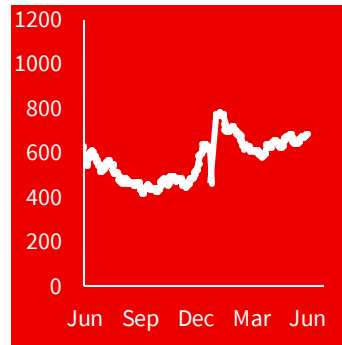
Wheat

Wheat prices continued their rally in May, improving a little over 10% month-on-month in monthly average terms. Supply concerns and poor seasonal conditions in Europe helped support prices.



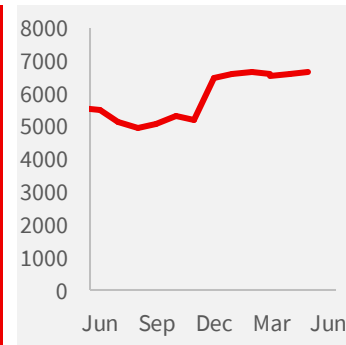
Cattle

Cattle prices were little changed in May, rising nearly 1% again in monthly average terms. Despite elevated slaughter rates and increased supply, export demand helped support prices.



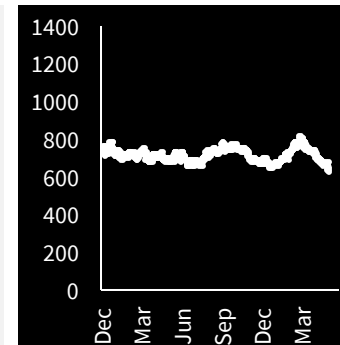
Sheep

Trade lamb prices increased nearly 3% month-on-month in May in monthly average terms. Wool prices slipped a little bit, declining 1.6% month-on-month in May in monthly average terms.



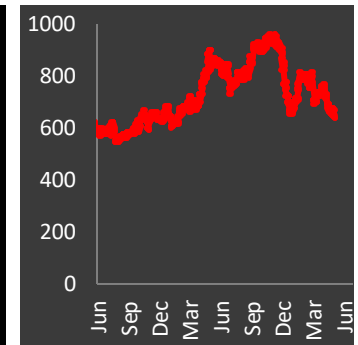
Dairy

Dairy prices were relatively flat in May, increasing 0.6% month-on-month in monthly average terms. Prices increased for cheese, whole milk, and butter, but slipped for skim milk.



Cotton

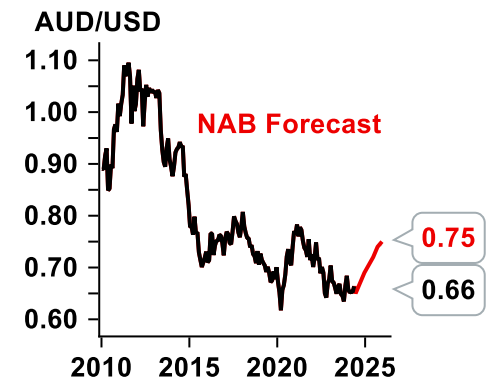
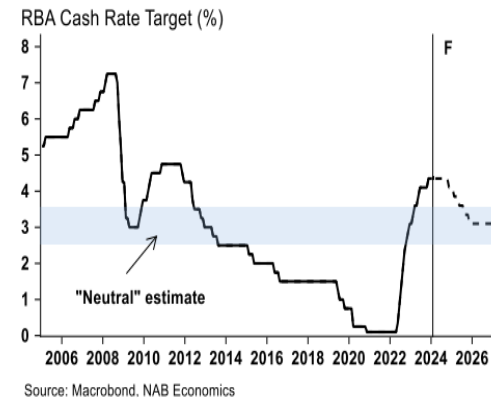
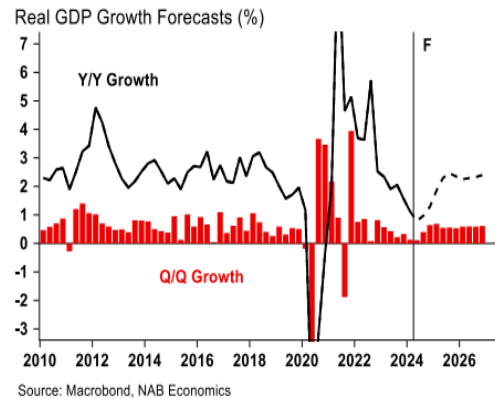
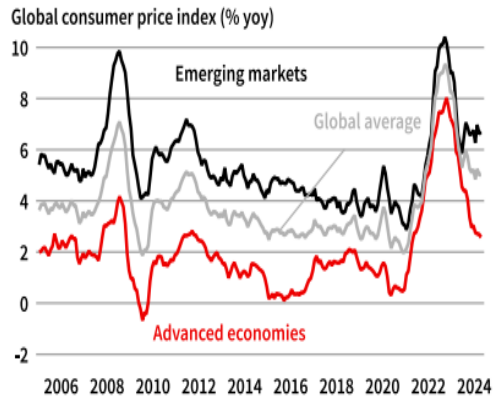
Cotton prices continued to trend downwards in June, falling 6.4% month-on-month in monthly average terms.



Sugar

Sugar prices fell by a little over 10% month-on-month in May, to be around \$625/t on average.

Economic update



Global economy

Inflation remains elevated globally although has edged lower in advanced economies.

Some central banks have seen enough progress on inflation to begin cutting rates. In early June, the Bank of Canada and the European Central Bank both cut policy rates by 25 basis points. We expect the US Fed and the Bank of England to also begin cutting rates later this year and continue into next year.

Australian economy

The Australian economy is experiencing a period of weak growth, and GDP grew just 0.1% q/q (1.1% y/y) in the first quarter of 2024. We expect Q2 to remain soft overall, but to see a pickup in the second half of this year ease pressures on households ease and consumption growth rebounds.

Despite slowing growth, the labour market has remained resilient. Strong employment growth saw the unemployment rate tick down to 4.0% in May.

Interest rates

The RBA left the cash rate unchanged at 4.35% at their meeting in June, as was widely expected.

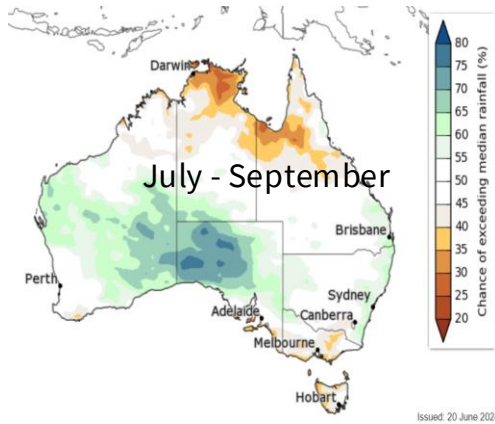
We continue to expect that the RBA will remain on hold in the near-term, with the question being how long rates will need to remain at their current restrictive level to see inflation back into the target range. We are still pencilling in a first cut in November, but the exact timing is heavily data dependent.

Currency

We continue to see the AUD appreciating against the USD in the second half of 2024 and into 2025. The currency is expected to rise to around US69c by the end of this year.

The outlook depends on a broader softening in the USD as the US economy slows and Fed begins to ease monetary policy.

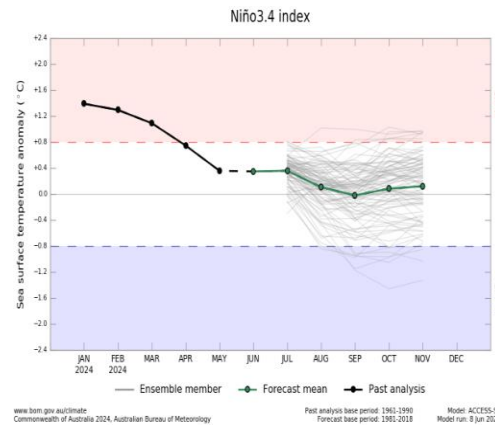
Seasonal conditions and farm inputs



Conditions are looking slightly drier over the next few months...

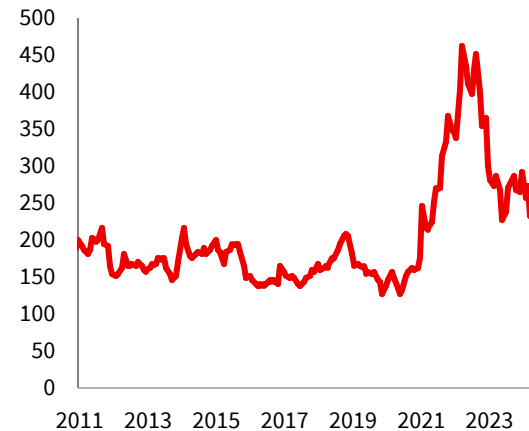
In May, national rainfall was 34.9% below the long-term (1961-1990) average according to the BoM. Above-average rainfall was seen in New South Wales, Western Australia and the middle of the country, but was below average across southern Australia and the north.

Over July to September, rainfall is expected to be below average across much of Victoria, parts of NSW and South Australia, and northern Australia.



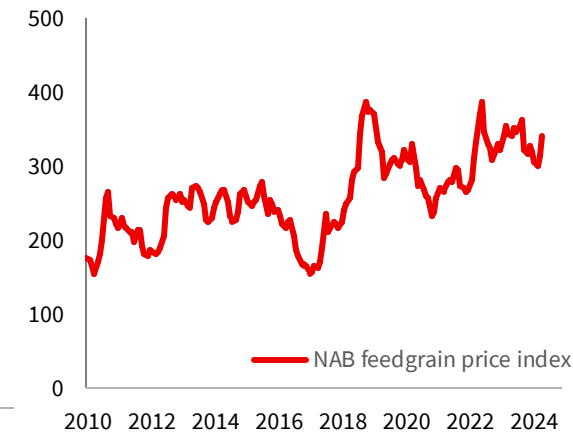
...but the BoM is now on La Nina watch

In mid-May, the BoM announced a La Nina watch. This means that there is a roughly 50% chance that a La Nina event will develop. El Niño – Southern Oscillation (ENSO) conditions are currently neutral. The Indian Ocean Dipole is currently neutral, and the IOD index has been at neutral levels over the past six weeks.



Fertiliser prices were little changed in the month

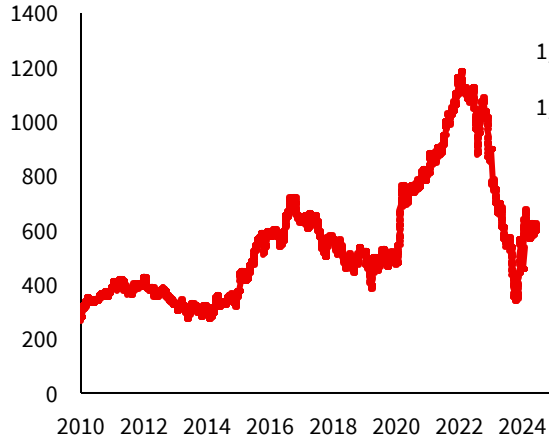
Fertiliser prices slipped slightly in May, declining a little over 1% month-on-month in monthly average terms. Global fertiliser prices are expected to decline over the coming year as supply improves.



Feed grain prices increased in May

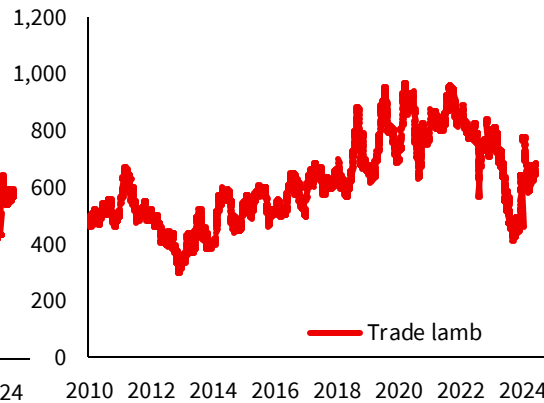
Feed grain prices rose about 8.9% over the month in May in monthly average terms. The increase was driven largely by a roughly 15% increase in price in feed wheat. Prices for sorghum and barley also rose in the month.

Livestock



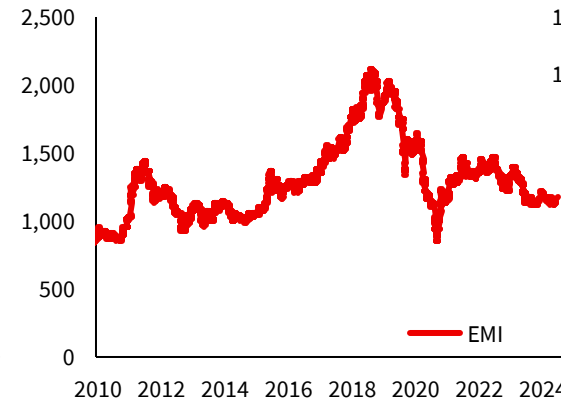
Cattle

Cattle prices were relatively flat in May again, rising around 0.6% in monthly average terms. Despite elevated slaughter rates and increased supply, export demand helped support prices. The BoM's announcement of La Nina watch in mid-May improved sentiment in the cattle market.



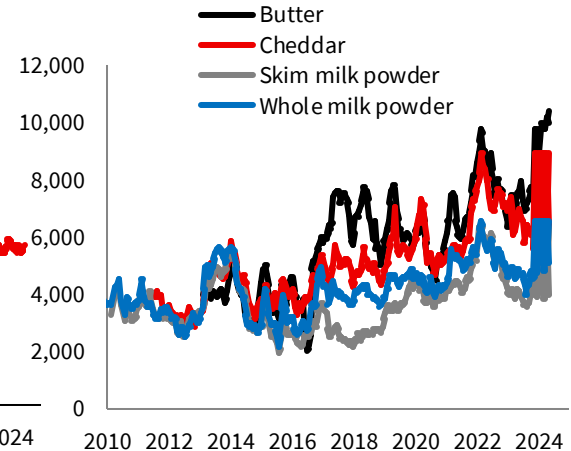
Lamb

Trade lamb prices continued their upwards move in May, increasing around 2.9% month-on-month in monthly average terms. Prices rose despite high supply on the back of strong domestic demand. Supply is expected to ease through winter and slaughter rates to fall, which should support prices in the near future.



Wool

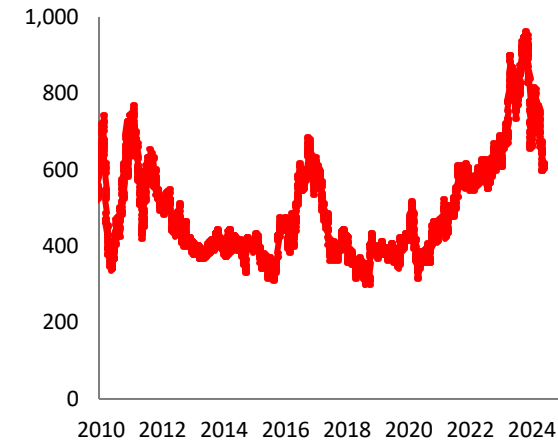
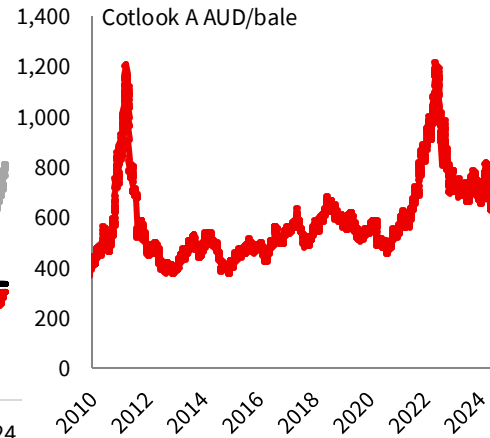
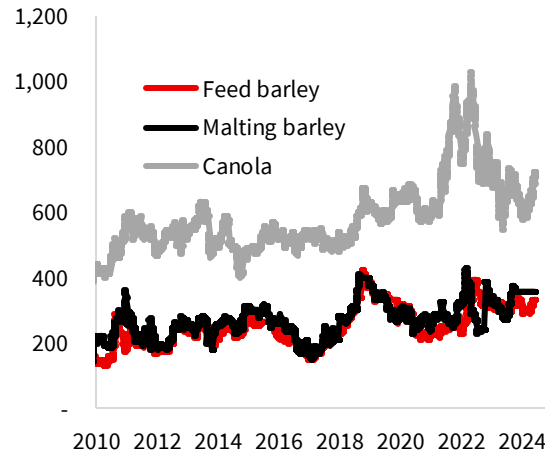
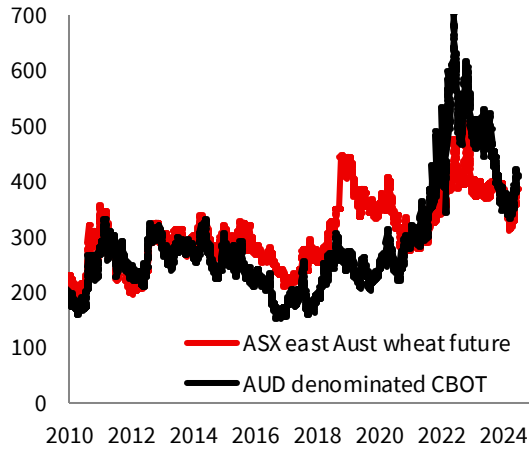
Wool prices slipped a little more in May, falling about 1.6% month-on-month in May in monthly average terms. Updated forecasts from ABARES show the value of wool production is forecast to improve slightly in 2024/25 (by 2%), and export values are also expected to increase (by around 3%).



Dairy

Dairy prices went largely unchanged in May, rising about 0.6% month-on-month in monthly average terms. Price rose for butter (1.8%), cheese (1.0%), and whole milk (0.06%), and slipped slightly for skim milk (-0.2%).

Crops



Winter crop prices

Wheat prices continued to rally in May, rising 10.9% month-on-month in monthly average terms. Poor seasonal conditions weighed on European supply, pushing global prices higher.

Canola and feed barley prices also rose in the month, rising 7.1% and around 7.8% in monthly average terms respectively.

Crop production

The onset of the winter cropping season has seen mixed outcomes across the country, with dry conditions in South Australia and Western Australia contrasting with healthy soil moisture in New South Wales and Queensland.]
ABARES expects the value of crop production to rise 2% in 2024-25, largely due to increased production across most crops despite softening prices. But they expect the value of crop exports to soften in 2024/25 by nearly 10%, but to remain well above the 10-year average.

Cotton

Cotton prices continued to trend downwards, easing around 6.4% month-on-month in May in monthly average terms.

ABARES forecast the value of cotton production to fall around 9% in 2024/25, from its record high in 2023/24 of \$3.1b.

Sugar

Sugar prices slipped a little over 10% month-on-month in May in monthly average terms.

For 2024/25 ABARES forecasts a decline in sugarcane prices to be offset by higher production due to improved seasonal conditions, which should see the value of production remain relatively unchanged at 2024/25.



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