



NAB Rural Commodities Wrap

September 2024

Highlights



The **NAB Rural Commodities Index** was unchanged in August, having remained around the same level (in Australian dollar terms) since June. When denominated in US dollar terms, the index was marginally weaker in August – down by 0.3% month-on-month.

Despite this overall stability, trends among individual agricultural commodities have differed considerably. **Cattle prices** were much stronger in August – up around 6.3% month-on-month – and global **dairy prices** also moved up (partially recovering from steep month-on-month falls in July). In contrast, **wheat prices** were considerably lower – down around 7.5% month-on-month – as the outlook for global supply has strengthened. Vegetable and canola prices were also weaker in August.

Rainfall conditions were mixed in August, with below average falls across Victoria, southern NSW and southern SA, but above average for coastal QLD and northern coastal NSW. The BoM's latest forecasts see above average rainfall across most of the eastern half of Australia between October and December, while rainfall in the western half is likely to be within typical seasonal ranges. Warmer than average temperatures are very likely over this period.

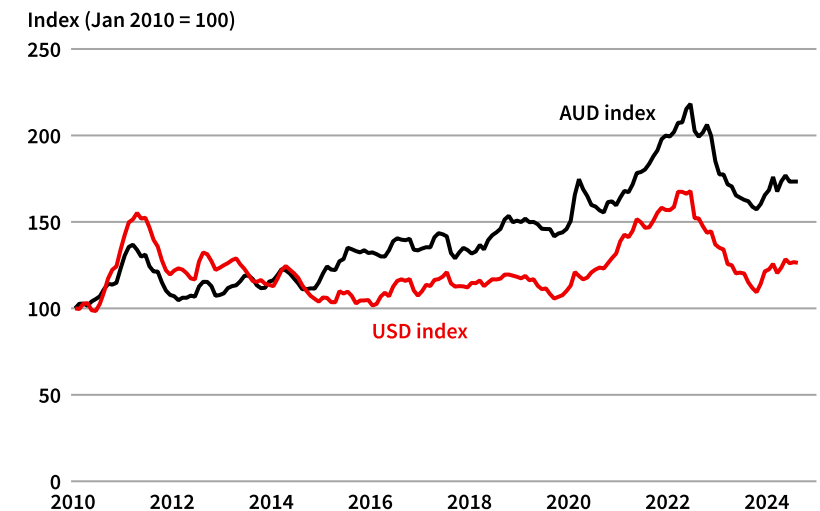
Climatic conditions, as measured by the El Nino-Southern Oscillation (ENSO), are currently neutral, and the BoM see this trend persisting through to February next year. Of the international models tracked by the BoM, three out of six exceed the threshold for a La Niña event from October – a condition that is typically associated with above average rainfall from winter through spring (particularly in the east and north of the country).

In terms of the **economic outlook**, the US Federal Reserve started its rate cutting cycle this month, following other advanced economy (AE) central banks that commenced earlier in 2024. Comparatively less progress on inflation (versus other AEs) means we forecast the RBA to remain on hold until May 2025, although the recent data flow skews the risk around our call to February.

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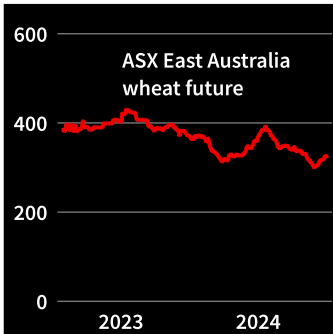
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NAB Rural Commodities Index



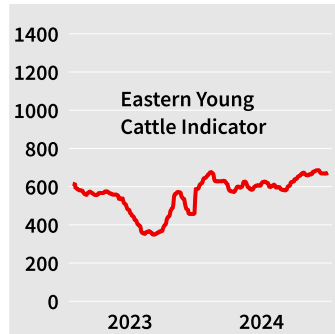
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv, Macrobond

Outlook for major commodities



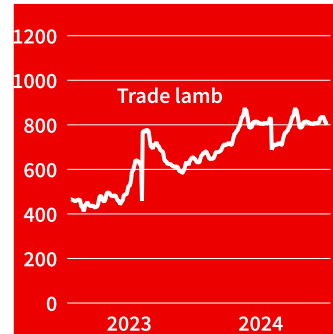
Wheat

Wheat prices drifted lower across much of August, briefly dipping below \$300/t for the first time since mid-2021, before edging a little higher. The outlook for global supply has strengthened, adding downward pressure on prices.



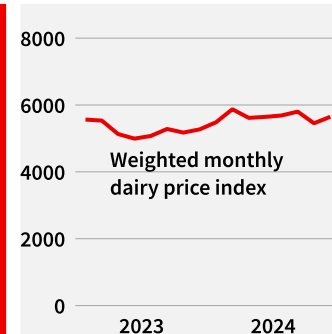
Cattle

Cattle prices moved higher in August, with the average EYCI up 6.3% from July. Global supply conditions are becoming tighter, given the pullback in US beef supply – with greater export opportunities in key markets such as Japan, South Korea and the US itself.



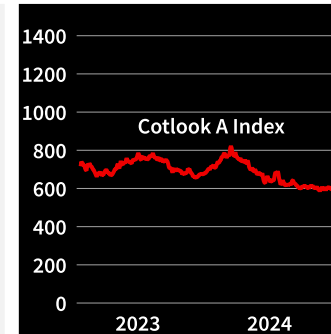
Sheep

Having trended higher between late 2023 and April 2024, trade lamb prices have subsequently tracked broadly sideways. Wool prices have continued the downward trend evident since mid-2022, with prices down 0.2% month-on-month in August, following a 3.2% fall in July.



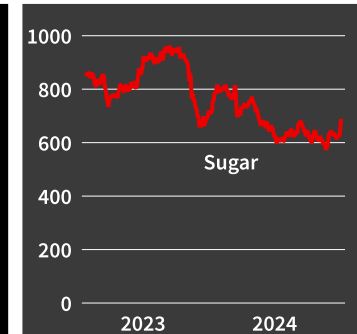
Dairy

Dairy prices moved up 3.5% in August, following a 6.0% fall in July, although the index has been broadly tracking sideways since February. ABARES have revised their 2024-25 farmgate milk price lower to 66.0 cents per litre (a fall of 8%).



Cotton

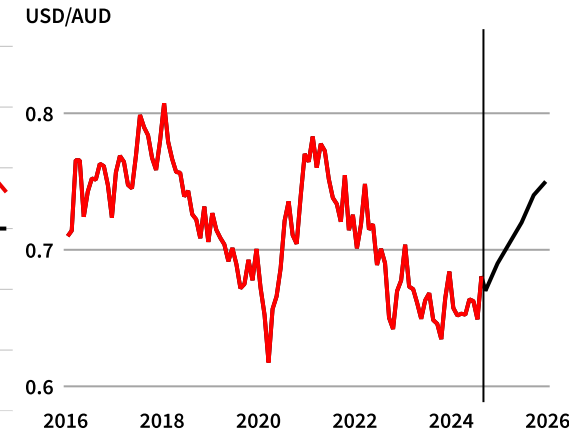
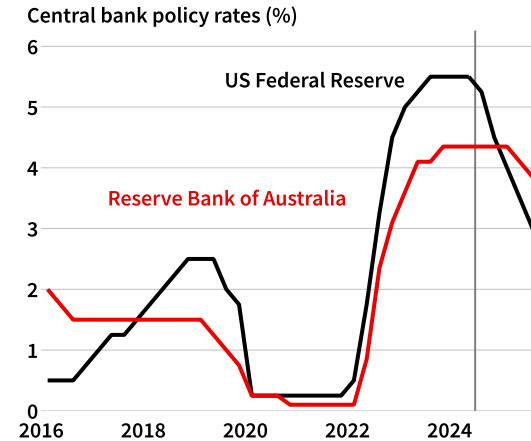
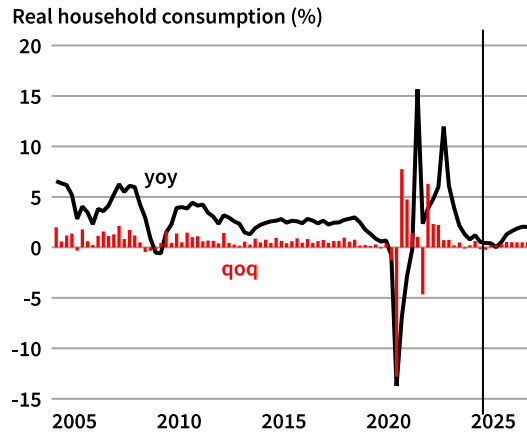
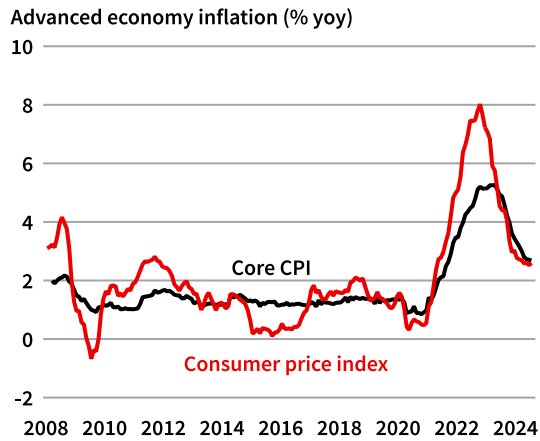
Cotton prices continued to drift lower in August, down by 1.4%. Australian cotton production is expected to fall in 2024-25, while output is expected to expand in both the United States and Brazil – potentially adding further downward pressure on global prices.



Sugar

Sugar prices fell below \$575/t mid-month, its lowest level since August 2022, before trending higher again. Wild fires in Brazil's key growing region could negatively impact global supply in the next year.

Economic update



Global economy

Global economic growth is forecast to remain below its long-term average through to 2026, reflecting the impact of restrictive monetary policy in advanced economies and weak domestic demand in China.

Advanced economy (AE) inflation has tracked broadly sideways in 2024. Core inflation, which excludes volatile goods and services, has trended lower in 2024, but even here progress has slowed to a crawl in recent months.

Australian economy

Recent data continue to show weak economic growth – with private sector activity impacted by the soft consumer.

The Q2 national accounts showed modest growth of 0.2% q/q (1.0% y/y) – led by the public sector, with household consumption falling slightly.

Easing inflation, tax cuts and energy subsidies will all help to put households in a better position through the second half of 2024 and we see consumption growth eventually normalising as rate cuts begin in H1 2025.

Interest rates

How far (and how fast) major central banks cut their policy rates will depend on further progress on inflation.

The US Federal Reserve started its rate cutting cycle this month, following other AE banks that commenced earlier in 2024.

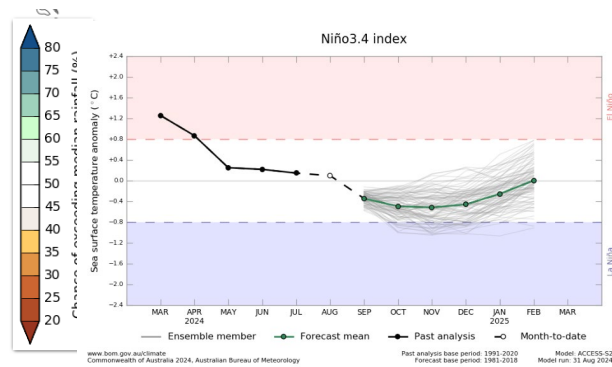
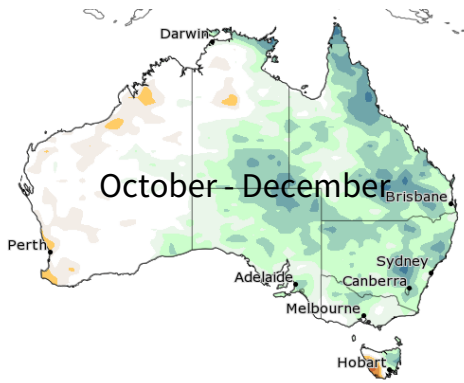
Comparatively less progress on inflation (versus other AEs) means we forecast the RBA to remain on hold until May 2025, although the recent data flow skews the risk around our call to February.

Currency

The AUD has been volatile in recent times, fluctuating on shifts in risk sentiment and movement in global commodity prices.

The rate cutting cycle in the US will put downward pressure on the US dollar, which is the key driver of our AUD forecasts. We see the AUD moving up to US69c by the end of 2024 and US75c by the end of 2025.

Seasonal conditions and farm inputs



Issued: 12 September 2024

Near term outlook sees strong rainfall in the East

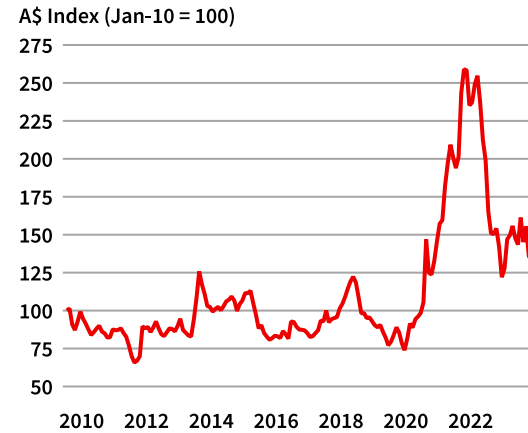
Rainfall conditions were mixed in August, with below average falls across Victoria, southern NSW and southern SA, but above average for coastal QLD and northern coastal NSW.

The BoM's latest forecasts see above average rainfall across most of the eastern half of Australia between October and December, while rainfall in the western half is likely to be within typical seasonal ranges. Warmer than average temperatures are very likely over this period.

Neutral conditions likely through summer

Climatic conditions, as measured by the El Niño-Southern Oscillation (ENSO), are currently neutral, and this trend is likely to persist through to February next year.

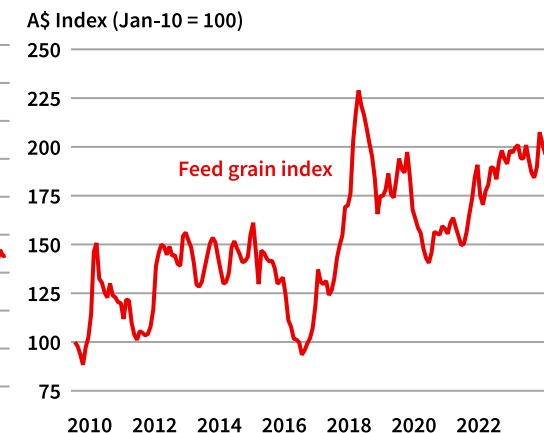
Of the international models tracked by the BoM, three out of six exceed the threshold for a La Niña event from October – a condition that is typically associated with above average rainfall from winter through spring (particularly in the east and north of the country).



Fertiliser prices ticked higher

Fertiliser prices edged marginally higher in August – up by around 0.3% month-on-month – driven by higher prices for urea.

While our price index is well off the peaks of early 2022 – associated with Russia's invasion of Ukraine – they remain above pre-pandemic levels.

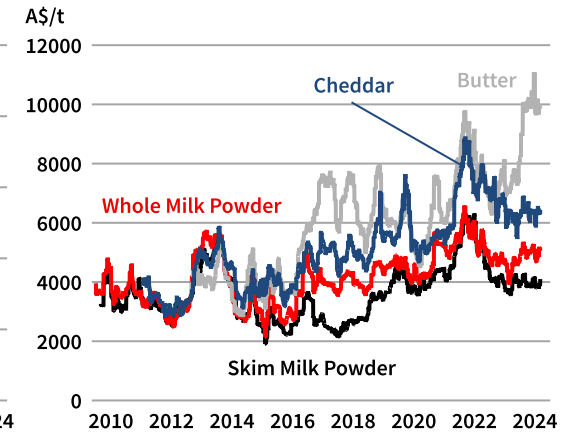
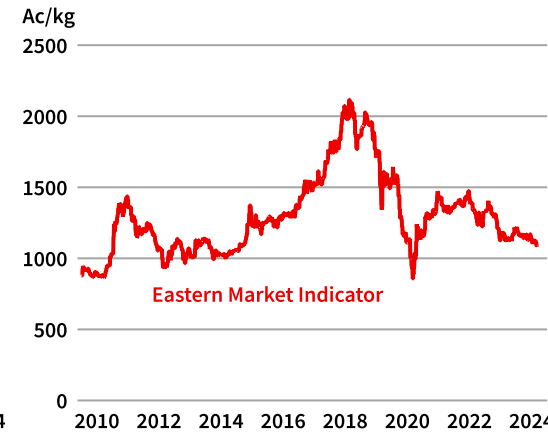
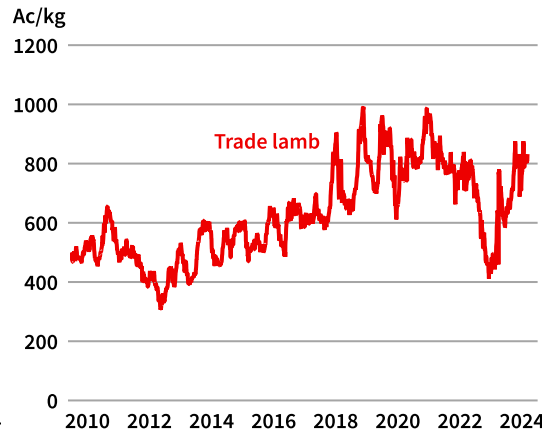
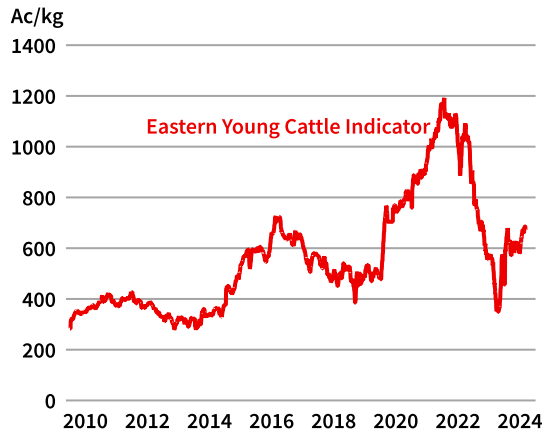


Feed grain edges down from May's highs

Our feed grain price index fell by 1.0% month-on-month in August (led by weaker prices for feed wheat) – continuing the downward trend of recent months.

That said, feed grain prices remain elevated by historical standards.

Livestock



Cattle

Cattle prices moved higher in August, with the Eastern Young Cattle Indicator averaging 672c/kg – up 6.3% from July. Global supply conditions are becoming tighter, given the pullback in US beef supply – with greater export opportunities in key markets such as Japan, South Korea and the US itself.

Lamb

Having trended higher between late 2023 and April 2024, trade lamb prices have subsequently tracked broadly sideways (albeit with some volatility) around the 800c/kg mark. In monthly average terms, prices were down 0.7% in August. MLA data shows lamb slaughter rates have grown strongly in recent months, before easing in early September.

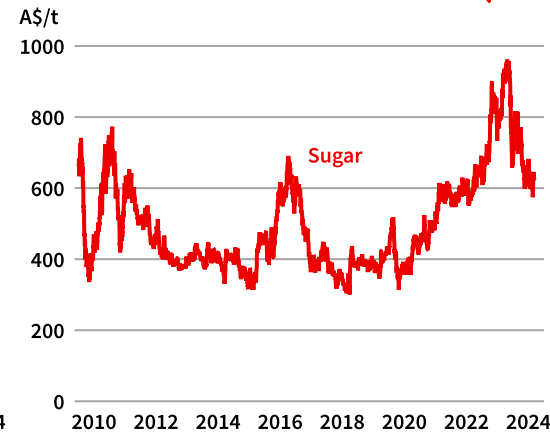
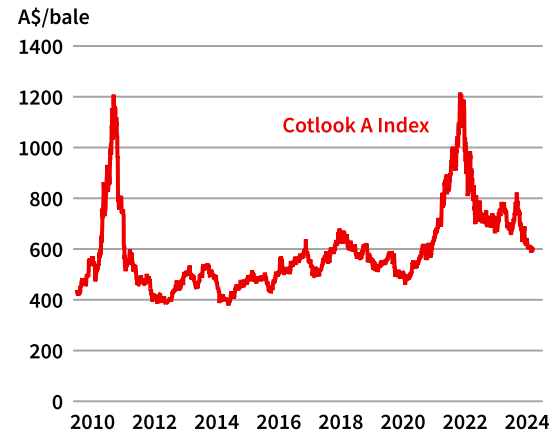
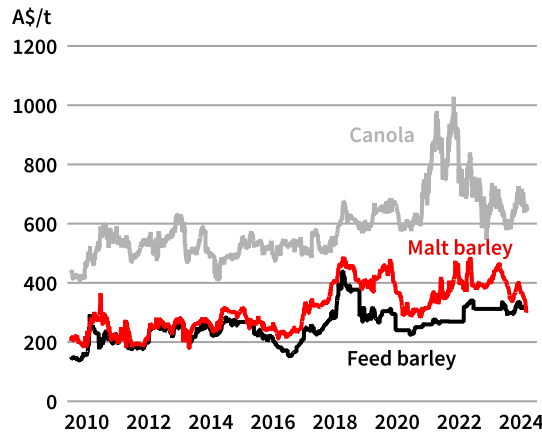
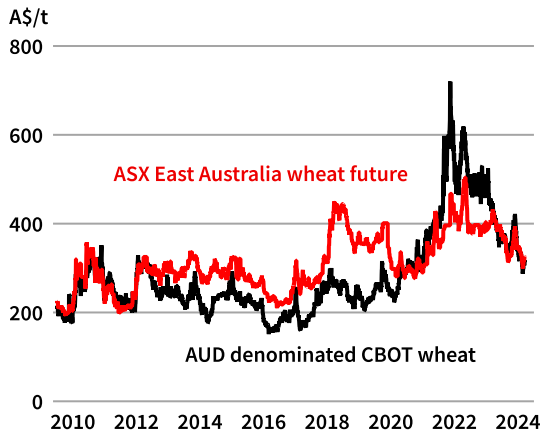
Wool

Wool prices have continued the downward trend evident since mid-2022, with prices down 0.2% month-on-month in August, following a 3.2% fall in July. Global demand for wool remains relatively subdued, given the fibre’s consumption in more discretionary, often higher end, products.

Dairy

Our dairy price index moved up in 3.5% in August, following a 6.0% fall in July, although the index has been broadly tracking sideways since February, with butter prices remaining elevated. ABARES have revised their 2024-25 farmgate milk price lower to 66.0 cents per litre (a fall of 8%), reflecting in part reduced domestic milk processing capacity impacting demand.

Crops



Winter crop prices

Wheat prices drifted lower across much of August, briefly dipping below \$300/t for the first time since mid-2021, before edging a little higher. The outlook for global supply has strengthened, adding downward pressure on prices. Similarly, barley prices moved lower, with malting barley down by 8.9% month-on-month.

Canola prices fell by 4.5% mom, but remain relatively elevated when compared with pre-COVID-19 pandemic levels.

Crop production

ABARES latest crop production forecasts (released in September) see the 2024-25 winter crop increasing 17% to 55.2 million tonnes (which would be the fifth largest outcome on record).

That said, conditions are expected to vary by state, with stronger prospects in NSW, QLD and WA, but weaker in SA and VIC – largely reflecting rainfall patterns.

Summer crop planting is expected to be above average in 2024-25.

Cotton

Cotton prices continued to drift lower in August, with the average price down by 1.4%. A reduced planting area in 2024-25 should result in weaker cotton production, while output is expected to expand in both the United States and Brazil – potentially adding further downward pressure on global prices.

Sugar

In AUD terms, the monthly average sugar price fell by 4.5% in August, with daily prices falling below \$575/t mid-month, its lowest level since August 2022, before trending higher again.

The upturn came as wild fires hit the key growing region in Brazil – the world's largest sugar exporter – with the potential for a sizeable negative impact on production over the next year. Growth in Brazilian output was a key driver of downward price pressure since late 2023.



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