



NAB Rural Commodities Wrap

February 2025

Highlights



The **NAB Rural Commodities Index** moved marginally higher in January – rising by 0.4% month-on-month in Australian dollar (AUD) terms. The effect of a weaker currency was evident here – in US dollar terms, our index fell by 1.2% mom – continuing a downward trend evident for the past four months.

Key to the increase in our AUD index in January were higher average prices for **beef** (albeit prices jumped early January before subsequently declining over the course of the month) along with a more modest increase in dairy prices. These increases were somewhat offset by weaker trends for **lamb, fruit and sugar**.

Rainfall conditions in January were below average across most of the country – with the exception of the NSW east coast and parts of WA’s north-west coast. The BoM’s **forecasts** for February through April see above average rainfall for the period across most of the country – particularly in the north – while parts of southern WA and the south east are likely to see rainfall within the typical range.

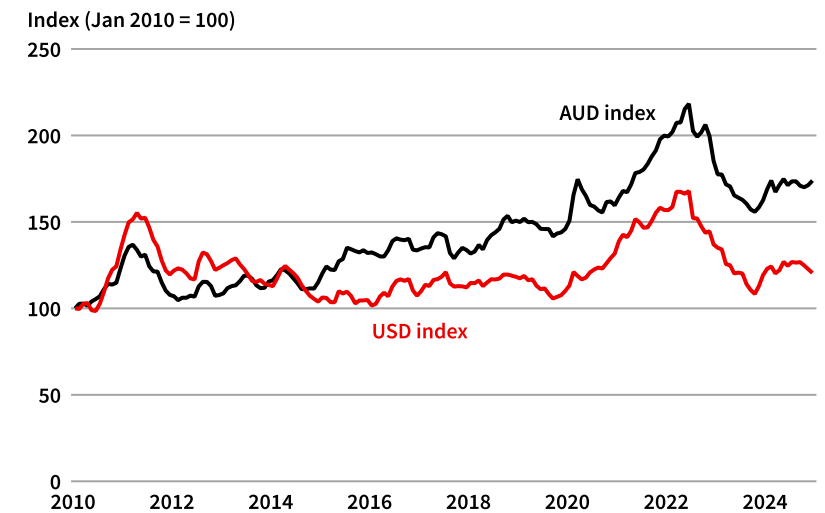
Climatic conditions – as measured by the El Nino-Southern Oscillation (ENSO) index – have remained in neutral territory in recent months, approaching the La Niña threshold in January. The BoM’s modelling suggests that conditions will remain within the neutral range in coming months, gradually moving away from the La Niña threshold.

The outlook for the **global economy** is increasingly uncertain – particularly with respect to trade policy, with US tariffs risking a damaging trade war that could see growth slow and inflation rise. We see **Australian** economic growth picking up in 2025, driven by improving consumer spending, with gradually easing inflation and policy rate cuts set to provide a boost.

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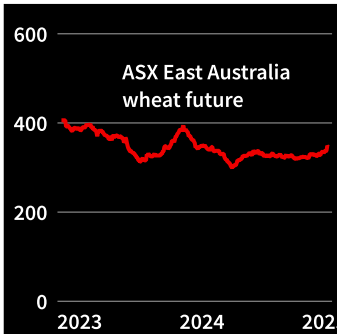
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NAB Rural Commodities Index



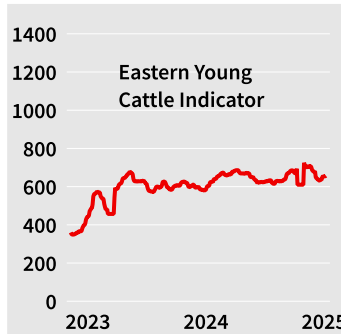
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv, Macrobond

Outlook for major commodities



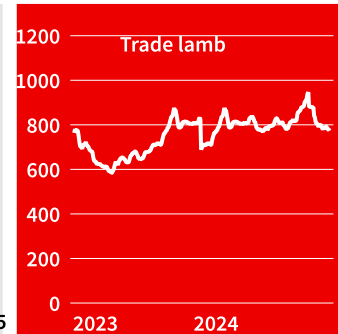
Wheat

Wheat prices have essentially tracked sideways since late September – around the \$330/t mark. Strong domestic production could add some downward pressure, albeit global markets appear to remain tight.



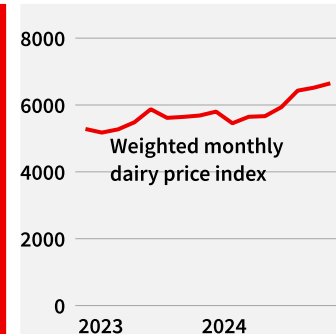
Cattle

Cattle prices jumped in early January before fading across the rest of the month, back closer to 600c/kg. Tighter global supply continues to offer opportunities for Australian exporters – however the uncertainty around US tariffs could present some risk.



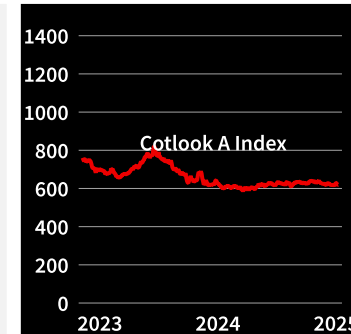
Sheep

Poor rainfall conditions across much of 2024 could negatively impact lamb supply in the near term, keeping prices elevated. Subdued global economic conditions, and particularly the weakness in China, remains a negative trend for wool.



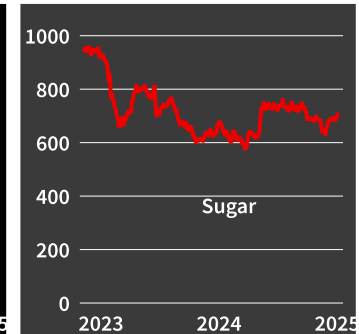
Dairy

The dairy price index trended higher across the second half of 2024, and this continued into January – led by cheddar cheese and WMP. Tight global supply conditions are likely to persist in the short term – keeping prices higher.



Cotton

Cotton prices were relatively stable across the second half of 2024 – just above \$600/bale. Global output is expected to increase this year – led by the US and Brazil – which could add further downside pressure to prices.



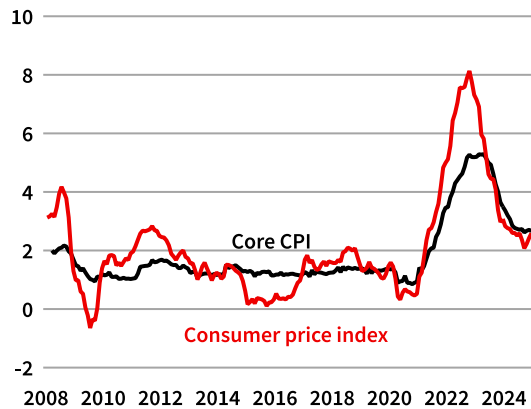
Sugar

Sugar prices drifted slightly lower in January – below \$700/t at the end of the month. Prices are likely to remain elevated in the near term due to the impact of wildfires in Brazil in late 2024. These are likely to limit the growth of Brazilian sugar output.

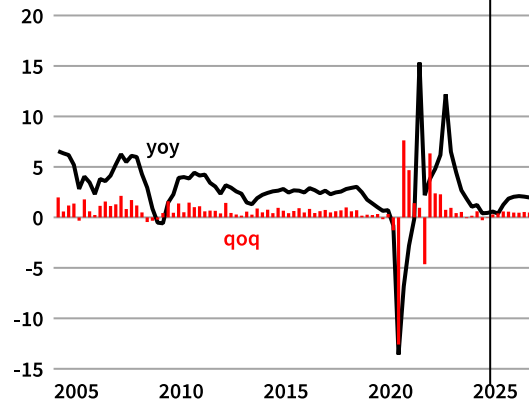
Economic update



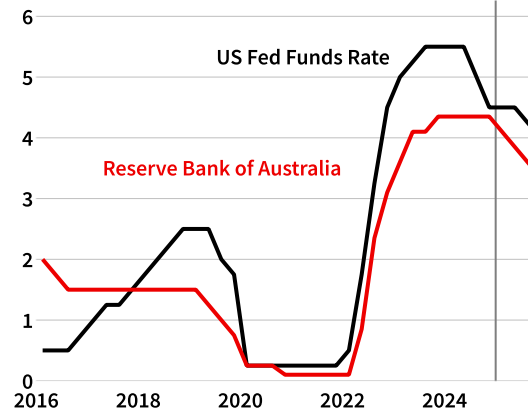
Advanced economy inflation (% yoy)



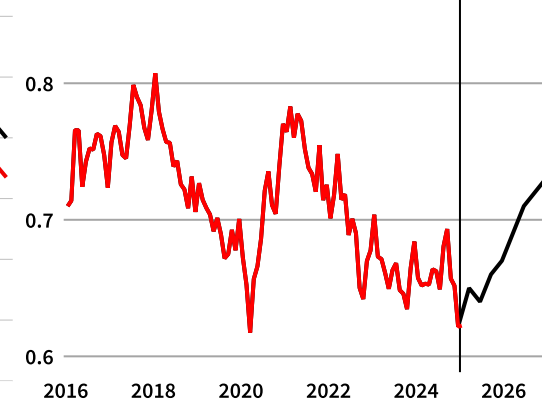
Real household consumption (%)



Central bank policy rates (%)



USD/AUD



Global economy

NAB forecasts a slowing trend for the global economy over the next two years. However, the outlook is increasingly uncertain – particularly with respect to trade policy, with US tariffs risking damaging trade wars that could see growth slow and inflation rise.

In the near term, inflation among major advanced economies remains relatively elevated, with little progress in bringing core inflation (excluding volatile items like food and energy) lower since April 2024.

Australian economy

We see economic growth picking up in 2025, driven by improving consumer spending, with gradually easing inflation and policy rate cuts set to provide a boost.

By historical standards, the loosening expected in the labour market is set to be modest – with unemployment edging up to 4.2% by the end of 2025.

Interest rates

Persistent above-target inflation, solid growth and receding labour market risks (and possibly also the prospect of additional price pressures from US tariffs) has reduced market expectations of policy rate cuts by the US Federal Reserve in 2025. We see two 25bps cuts in the second half.

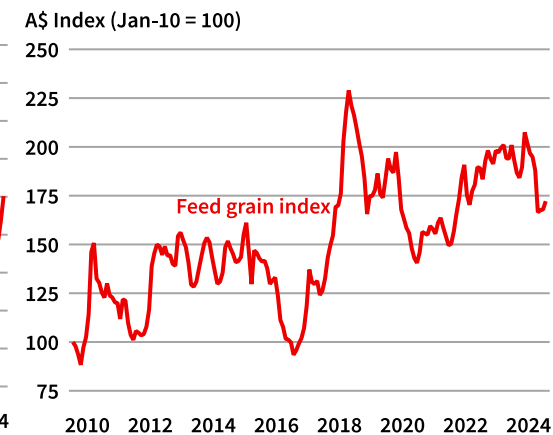
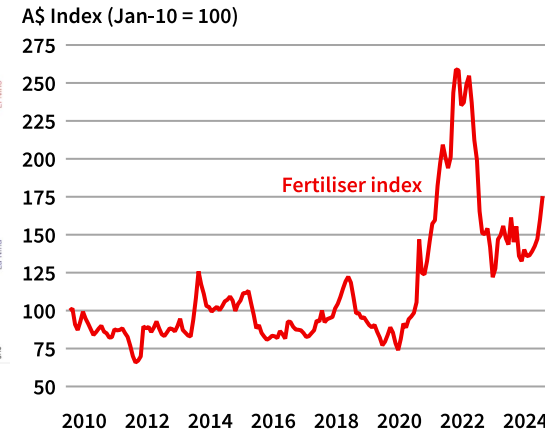
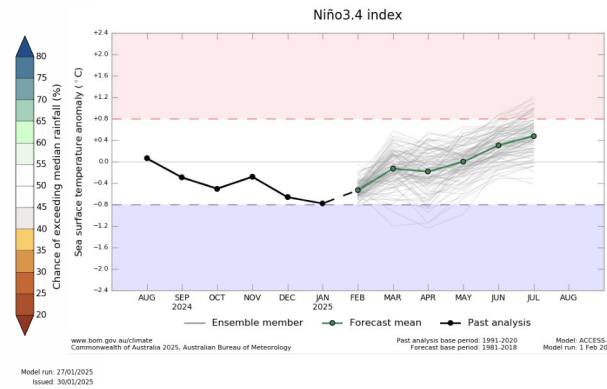
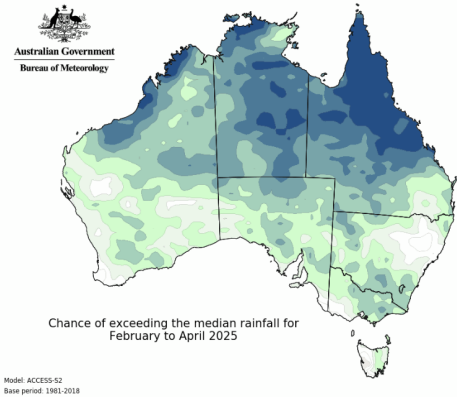
The RBA cut its policy rate to 4.1% in February, having previously hiked in , and held rates stable since, November 2023. NAB expects the RBA to cut rates again in May, but that is based on ongoing progress on inflation.

Currency

The AUD has been volatile in recent times, but the trend has been lower. This continues to be driven by trends in the USD, with tariff announcements (and expectations of more to come) adding to the “big” dollar’s strength.

NAB forecasts a strengthening in the AUD in the second half of 2025 – up to around US67c at the end of 2025 and US73c at the end of 2026 – with this reflecting anticipated softening in the US dollar from the second half of 2025 onwards.

Seasonal conditions and farm inputs



Strong rainfall expected heading into autumn

Rainfall conditions in January were below average across most of the country – with the exception of the NSW east coast and parts of WA’s north-west coast.

The BoM’s forecasts for February through April see above average rainfall for the period across most of the country – particularly in the north – while parts of southern WA and the south east are likely to see rainfall within the typical range.

Climatic conditions set to remain neutral

Climatic conditions – as measured by the El Niño-Southern Oscillation (ENSO) index – have remained in neutral territory in recent months, approaching the La Niña threshold in January.

The BoM’s modelling suggests that conditions will remain within the neutral range in coming months, gradually moving away from the La Niña threshold.

Fertiliser prices have moved higher

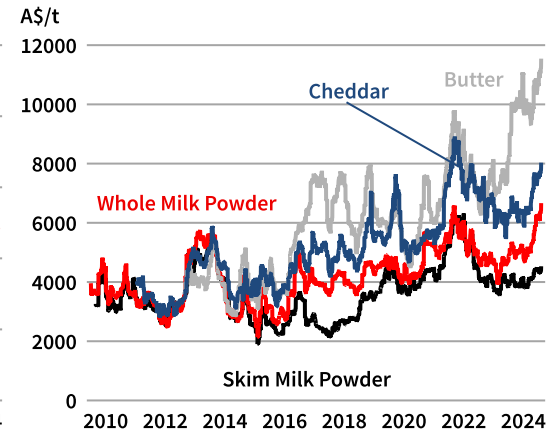
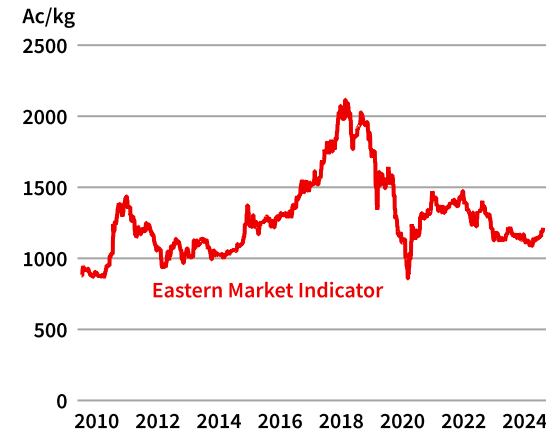
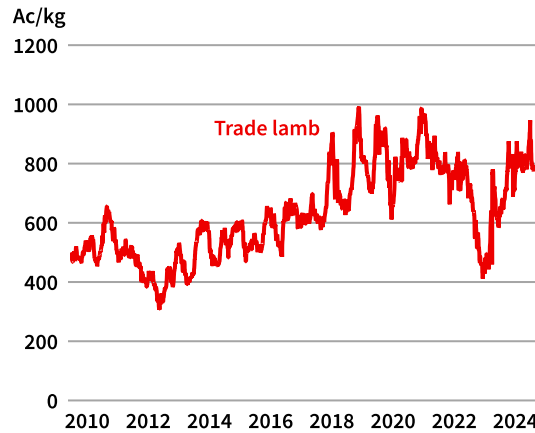
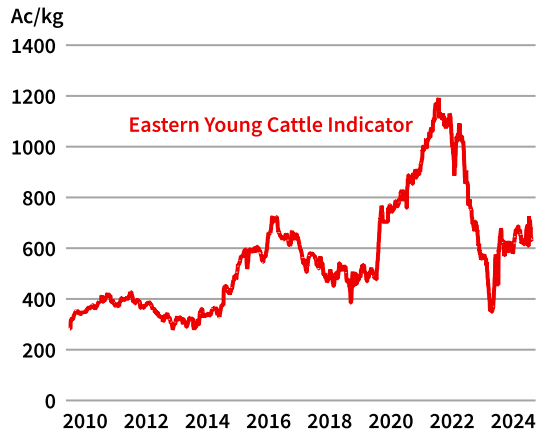
Fertiliser prices have trended higher in recent months, with our index increasing by 9.7% month-on-month in January. This largely reflects increases in US natural gas prices (which have a strong seasonal component due to peak winter demand), but urea prices have also climbed since November. For Australian consumers, the decline in the AUD has also increased the costs of fertilisers.

Feed grain prices lower compared with mid-2024

Feed grain prices edged back up in January – increasing by 2.5% month-on-month – however modest increases since the lows of October followed steep declines over the previous few months.

Lower prices for feed wheat has been the main driver of the weaker trend since mid-2024, although all feed grains have been softer over this period.

Livestock



Cattle

Cattle prices jumped in early January – with the Eastern Young Cattle Indicator pushing back above 700c/kg – before fading across the rest of the month, back closer to 600c/kg – similar to the levels recorded in late 2024.

Tighter global supply continues to offer opportunities for Australian exporters – however the uncertainty around US tariffs could present some risk.

Lamb

Trade lamb rose rapidly across December – peaking at Christmas at almost 950c/kg – before subsequently easing back to around 800c/kg by the end of January – a pattern similar to beef cattle.

Poor rainfall conditions (impacting pasture) across much of 2024 could negatively impact lamb supply in the near term, keeping prices elevated in early 2025.

Wool

Wool prices moved higher from early January, with prices climbing to their highest levels since January 2024. That said, these prices remain relatively modest compared with the past decade.

Subdued global economic conditions, and particularly the weakness in China, remains a negative trend for wool, given that much of wool demand is driven by higher end discretionary products.

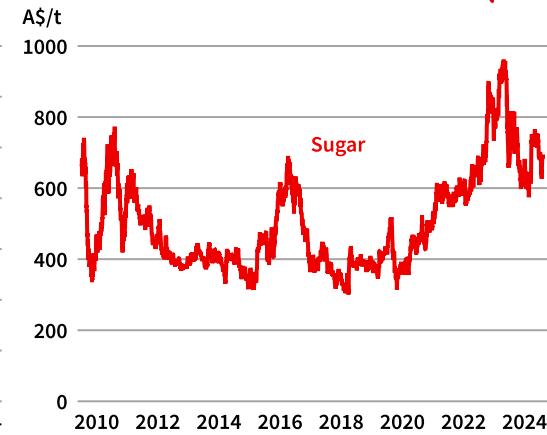
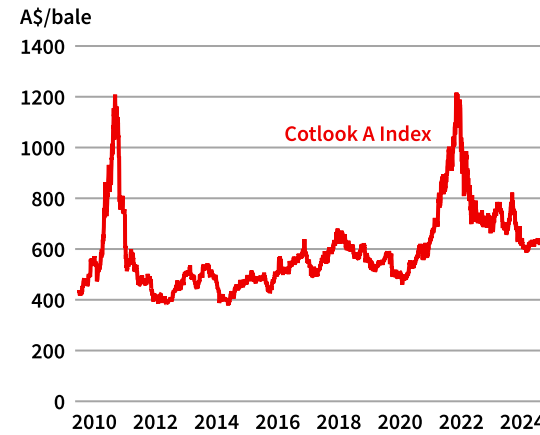
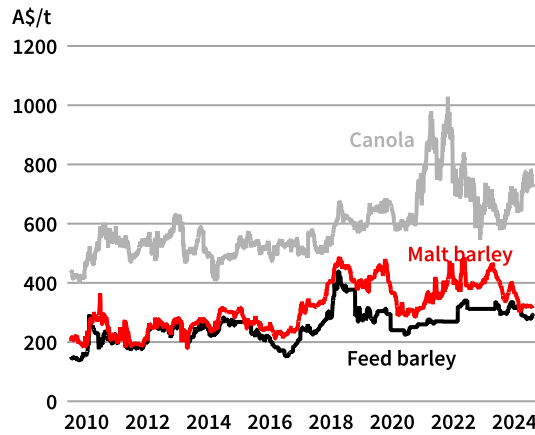
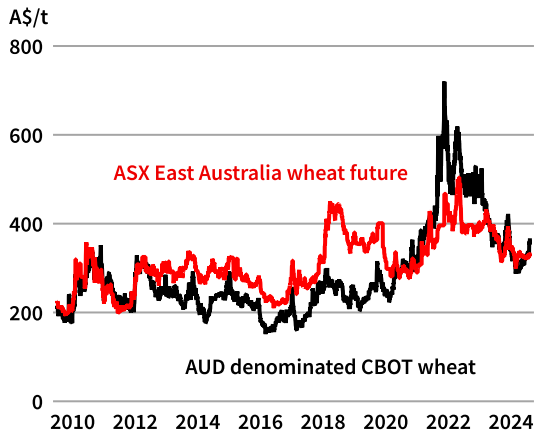
Dairy

The dairy price index trended higher across the second half of 2024, and this continued into January.

The key drivers of this increase were cheddar cheese and whole milk powder, while butter prices were also stronger.

Tight global supply conditions are likely to persist in the short term, keeping product prices higher which could flow through to higher farmgate prices as well.

Crops



Crop prices

Wheat prices have essentially tracked sideways since late September – around the \$330/t mark. Strong domestic production could add some downward pressure, albeit global markets appear to remain tight.

Similarly, malt barley prices remained broadly stable over the same period, having eased considerably from the heights of the first half of 2024.

In contrast, canola prices moved higher, pushing close to \$800/t in early February.

Crop production

ABARES' December crop forecasts were marginally weaker than September, but still see a 16% increase in winter production to 55.1 million tonnes. This would be the fifth largest crop on record.

In contrast, the summer crop is expected to fall – down by 7.1% in 2024-25.

Cotton

Cotton prices were relatively stable across the second half of 2024 – just above \$600/bale. Australian cotton production is forecast to fall in 2024-25 – with ABARES expecting a decline of 6.7%.

However global output is expected to increase – led by increased production in the US and Brazil – which could add further downside pressure to prices.

Sugar

Sugar prices drifted slightly lower in January, away from the relative highs (near \$750/t in Q4 2024) – below \$700/t at the end of the month.

Prices are likely to remain elevated in the near term due to the impact of wildfires in Brazil in late 2024. These are likely to limit the growth of Brazilian sugar output – the world's largest producer.



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