



RURAL COMMODITIES WRAP

MAY 2019

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Photo | Mai Thai

KEY POINTS

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Seasonal conditions continue to be the major driver of sentiment in Australian agriculture. The traditional start to the winter planting has now passed, and while the break has come in some areas, others remain very dry. Overall, we are still concerned about seasonal conditions, particularly in south-east Queensland, New South Wales, Victoria and South Australia. On the other hand, large areas of Queensland have seen good rain over the last few months, resulting in higher confidence.

While we won't start our forecasts for 2019-20 Australian wheat production until next month, if conditions continue on this trajectory, an "average" season in eastern Australia could be difficult. On the other hand, conditions in Western Australia are closer to neutral.

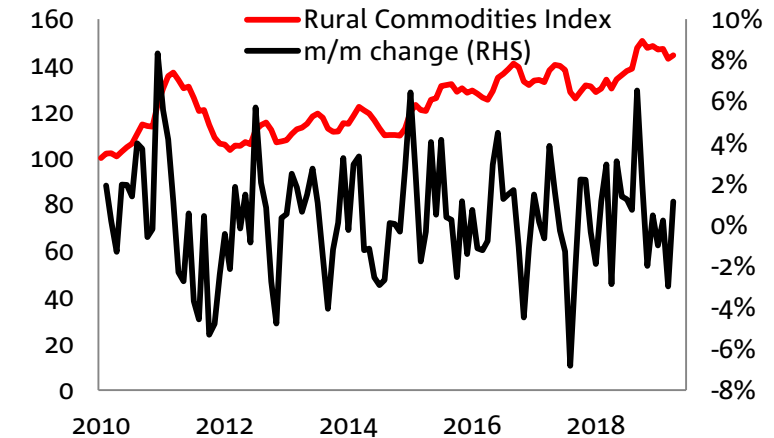
Seasonal conditions are also an ongoing cause of volatility in cattle markets. The Eastern Young Cattle Indicator is now back up to almost 500c/kg, largely reflecting recent rains, combined with generally better conditions in the largest cattle state Queensland. However, the trajectory of the indicator for the rest of 2019 will be very sensitive to rainfall. If a normal winter doesn't eventuate in New South Wales and Victoria, there could be another drop.

Global Dairy Trade auction results continue to perform well, but high input costs – especially in northern Victoria – remain a major concern. Meanwhile, low irrigation water availability will likely limit cotton plantings once again.

Overall, the NAB Rural Commodities Index rose 1.1% in April, largely reflecting higher cattle, lamb, dairy and cotton prices, offsetting further declines in grain.

NAB RURAL COMMODITIES INDEX

Index and m/m % change



MONTHLY COMMODITY PRICE CHANGES

	Feb.	Mar.	Apr.
Wheat	▼ 5.9%	▼ 6.0%	▼ 4.7%
Beef	▼ 4.9%	▼ 8.0%	▲ 14.9%
Dairy	▲ 7.8%	▲ 6.2%	▲ 5.0%
Lamb	▼ 2.3%	▲ 0.1%	▲ 8.6%
Wool	▲ 3.7%	▲ 0.4%	▼ 2.1%
Sugar	▲ 2.2%	▼ 2.8%	▲ 0.1%
Cotton	▼ 1.4%	▲ 4.2%	▲ 3.8%

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



SEASONAL CONDITIONS

April saw below average rainfall in most of south-eastern Australia – New South Wales outside the far-west, Victoria, and most of South Australia all saw below average rainfall. Queensland was more mixed, although the south-east remains dry. Western Australia saw more neutral conditions, although parts of the wheatbelt were a little below average.

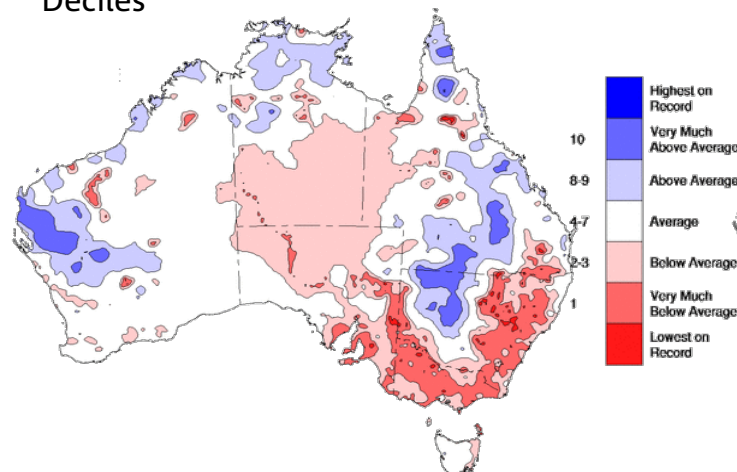
While the first week of May has brought much needed rain to some areas, follow-up is sorely needed. Root zone soil moisture is well below average in parts of the country.

The latest outlook from the Bureau of Meteorology points to a wetter than average end to autumn and start to winter across the outback, but more neutral to below average rainfall conditions in major agricultural areas in the east and west.

Rainfall accuracy in this period is improved compared to earlier in autumn. Nonetheless, most of the country sees around 55-75% consistency, suggesting that the outlook reflects general guidance, while the actual outcome could be very different.

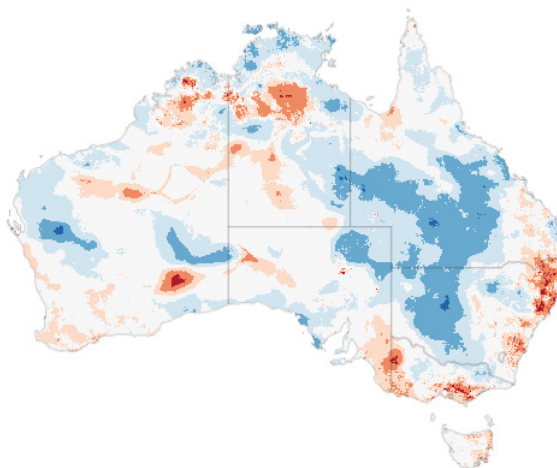
RAINFALL – APRIL

Deciles



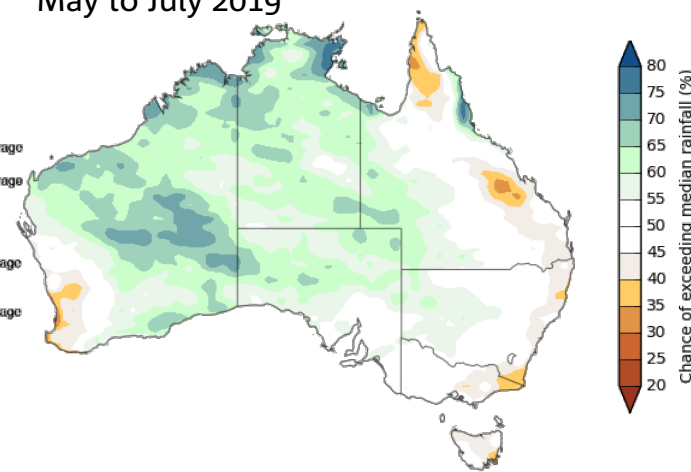
ROOT ZONE SOIL MOISTURE

Relative to average, 6 May



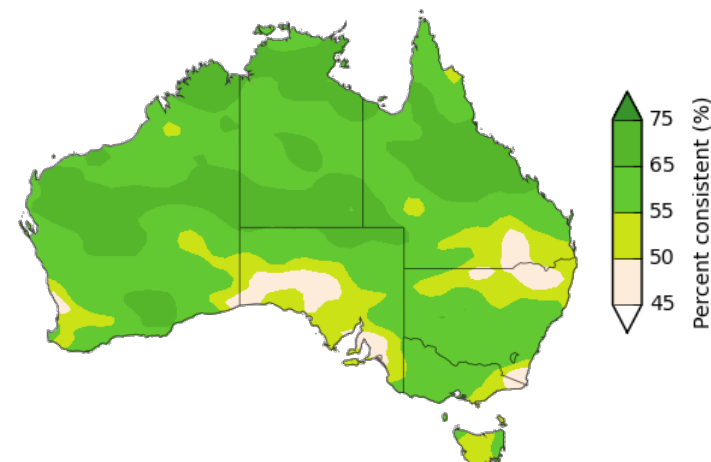
BOM RAINFALL OUTLOOK

May to July 2019



RAINFALL OUTLOOK ACCURACY

Past accuracy for outlook period



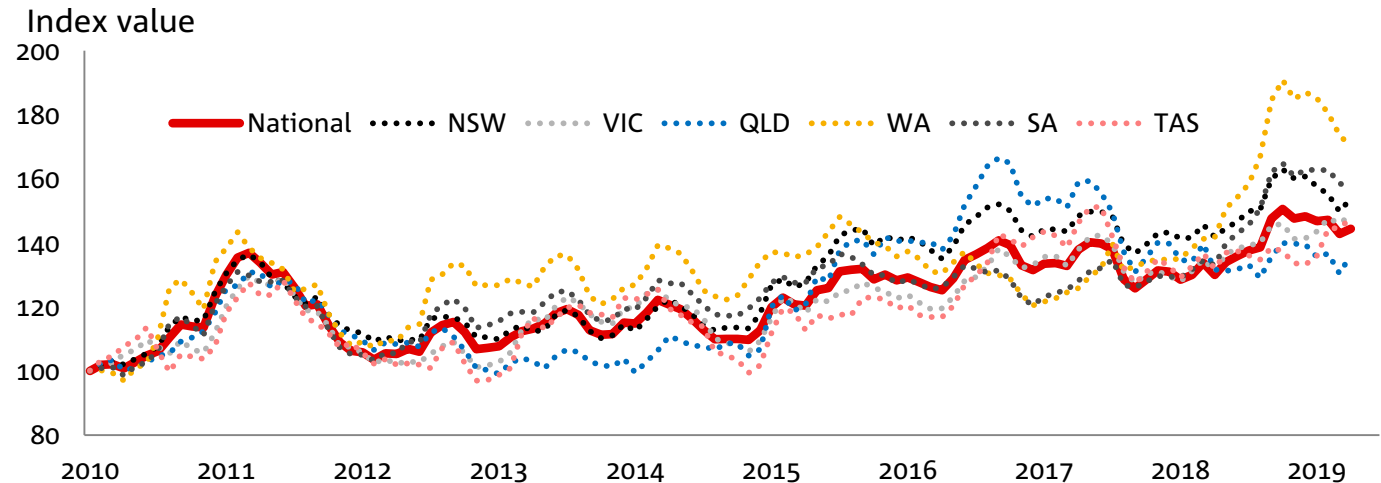
REGIONAL PRICES

We also produce the NAB Rural Commodities Index on a state-by-state basis.

Queensland led the states in April, recording a 4.4% increase on higher cattle prices, followed by New South Wales, up 2.6%. Tasmania gained 1.9%, largely reflecting strong dairy prices, while Victoria rose 1.6%. South Australia fell 1.1% while Western Australia was off 2.2% on lower grain prices.

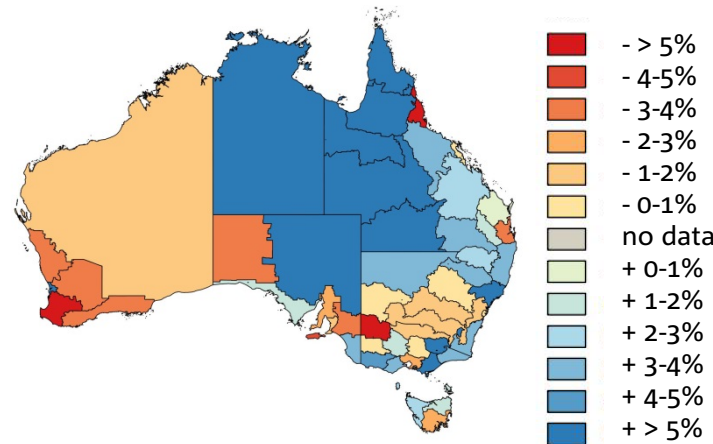
Our regional agricultural price indicators show generally positive results across livestock-dependent regions in April on a month on month basis, while cropping country generally saw falls. On a year on year basis, most of Australia, except Western Queensland and the Northern Territory, is now positive.

RURAL COMMODITIES INDEX BY STATE



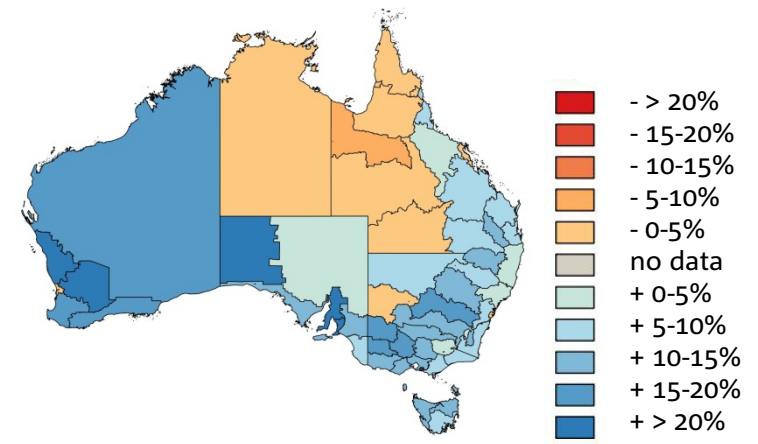
MONTH ON MONTH

March – April 2019



YEAR ON YEAR

April 2018 – April 2019

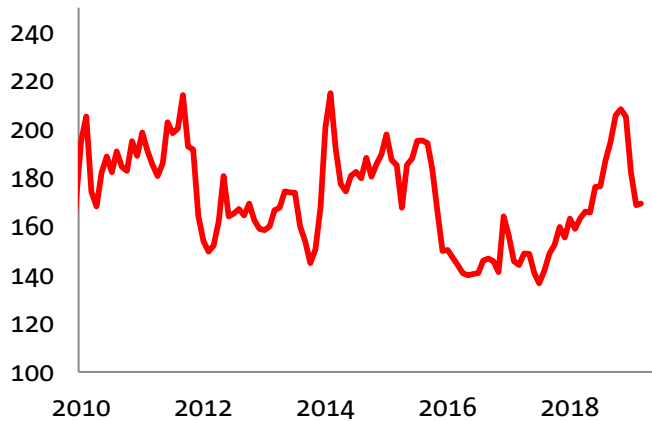


Source: NAB Group Economics, Bureau of Meteorology, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

FARM INPUTS

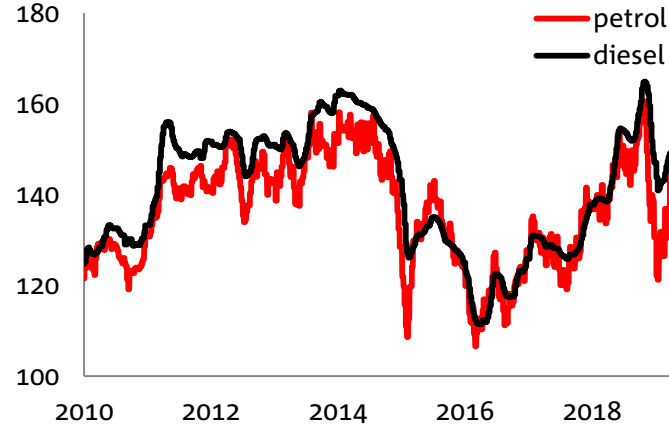
NAB FERTILISER INDEX

AUD index



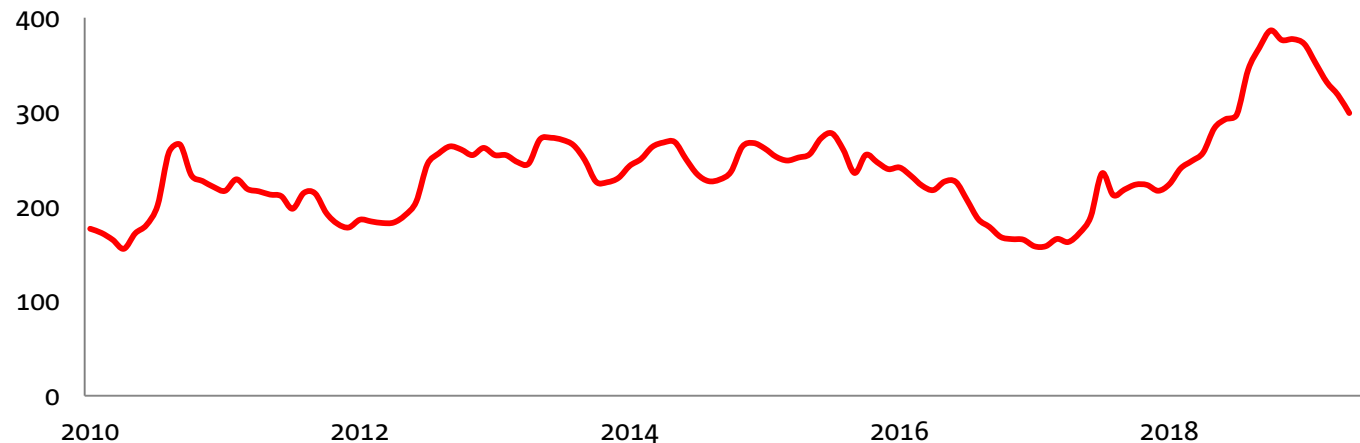
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB WEIGHTED FEED GRAIN PRICE INDEX

AUD/t



Farm input prices continue to reinforce trends seen over the last few months, with grain coming off, fertiliser stabilising at lower levels, and fuel back on the rise.

Domestic feed prices dropped another 4.1% in April. On a year on year basis, prices are up 23.7%. Overall, the NAB weighted feed grain price index stood at \$318/t for the month, although we are sceptical whether graziers in drought-affected areas are able to access feed at this price. Wheat futures for new season crop are in the low \$300s range, although another challenging season will see prices remain elevated.

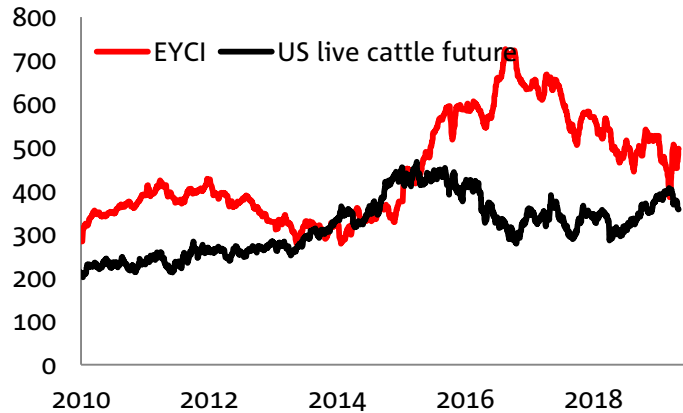
Oil prices have tracked sideways recently, with Brent around the US\$70/bbl range. Our outlook for the oil market is for only limited upside for prices this year. While geopolitical risks could push prices higher, US supply remains strong and global growth concerns continue.

The NAB Fertiliser index fell 2.3% in April, largely reflecting lower DAP and US natural gas prices.

LIVESTOCK

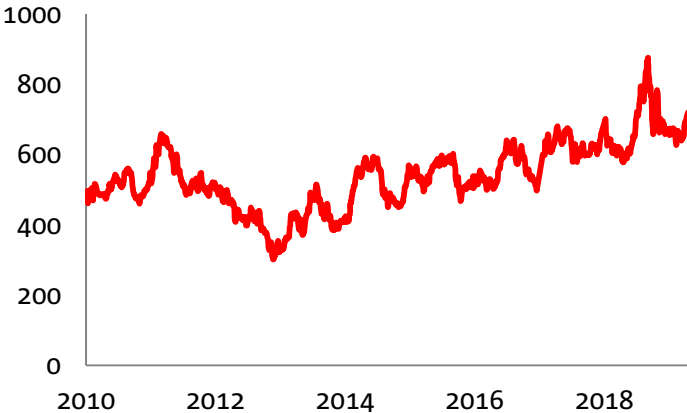
CATTLE

AUc/kg



LAMB

National Trade Lamb Indicator, AUc/kg

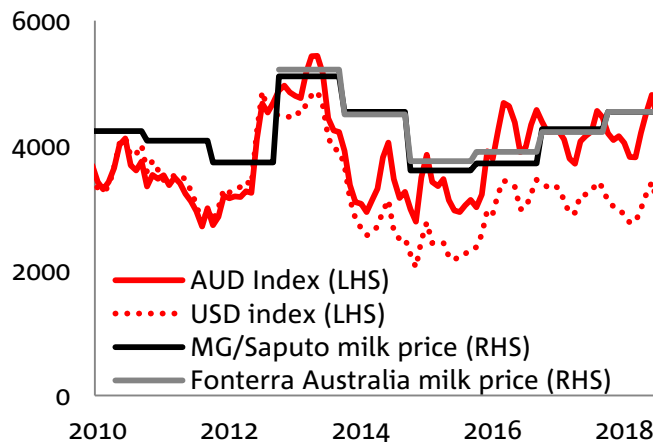


Young cattle prices have been on rollercoaster this year, with EYCI bottoming out at 385c/kg in early March (the lowest level since late 2014), but now back up to almost 500c/kg.

This movement largely reflects buyer and seller dynamics in response to rainfall events – put simply, if it rains, there is strong demand, but dry conditions are forcing graziers to sell into a depressed market. If there is more rain, there is likely to be very elevated restocker demand and upside for the EYCI. Indeed it is unclear whether stock will be available en-masse. On balance, we see EYCI in 400s range in 2019, recovering to around 500c by Q1 2020.

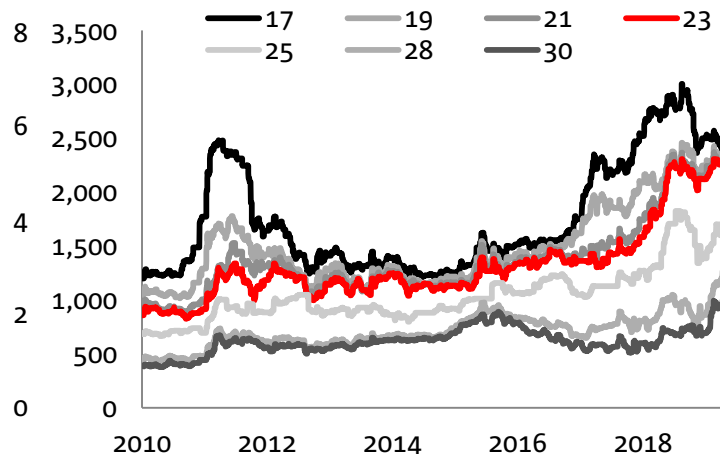
DAIRY

\$/t, AUD/kgms (farmgate)



WOOL

Southern region, by micron, AUc/kg



Lamb prices have been on the up recently, while MLA reports mutton recently reaching an all-time high. Returns for the industry are very strong indeed, with favourable export conditions. This has been further supported by a hot wool market, although we are a little cautious about whether wool can be sustained at this level. An emerging risk for the industry is the slowdown in global growth, which could see lower consumer demand.

Global Dairy Trade auctions continue to look good – every auction result has been positive in USD terms since December 2018.

However, input costs are a major challenge, particularly in irrigated areas like northern Victoria.

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

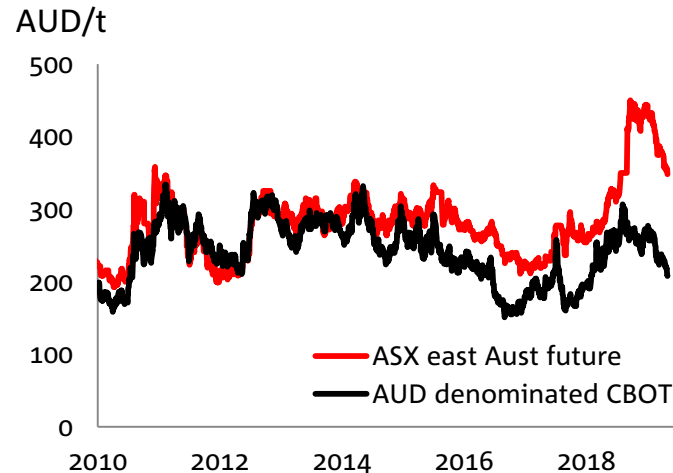
WINTER CROPS

Planting is now well underway, west and east, and conditions remain very mixed depending on region. A good deal of seed has been dry sown. While May has brought good rain to some areas, low subsoil moisture, especially in the east, means that good and sustained follow up rain is needed to see decent yields.

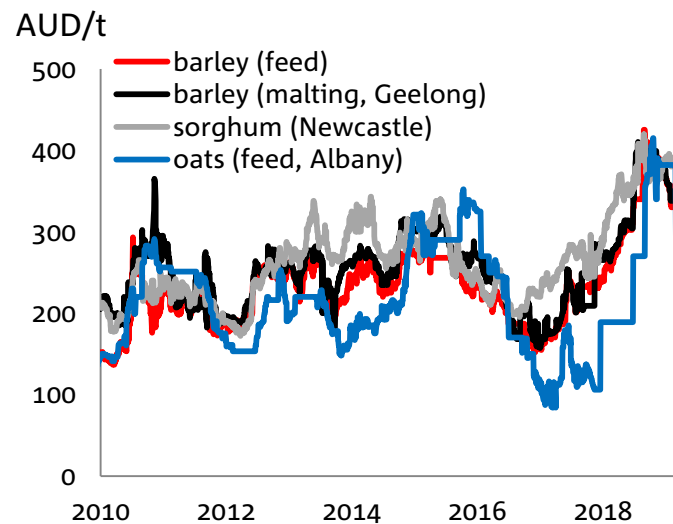
Eastern states grain cash prices have come off a good deal from their peak, with wheat dropping from a high in the mid-400s range to low to mid-300s now. This is welcome news for graziers, although transport costs mean that many are still paying big money for supplementary feed. Eastern Australian wheat futures for January 2020 – new season crop – have plummeted in the last two weeks and are now barely above \$300/t. This is moving somewhat closer to where the eastern states market would be without a domestic stockfeed premium, although global prices themselves have trended downwards substantially this year.

If Australia sees a more normal season, we would expect wheat to trade roughly in the \$250-300/t range, but at this point, a normal season is far from guaranteed. If it stays dry, prices will stay high.

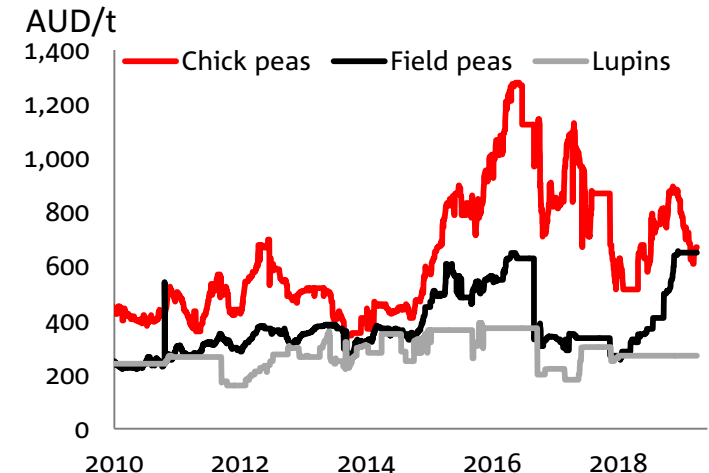
WHEAT



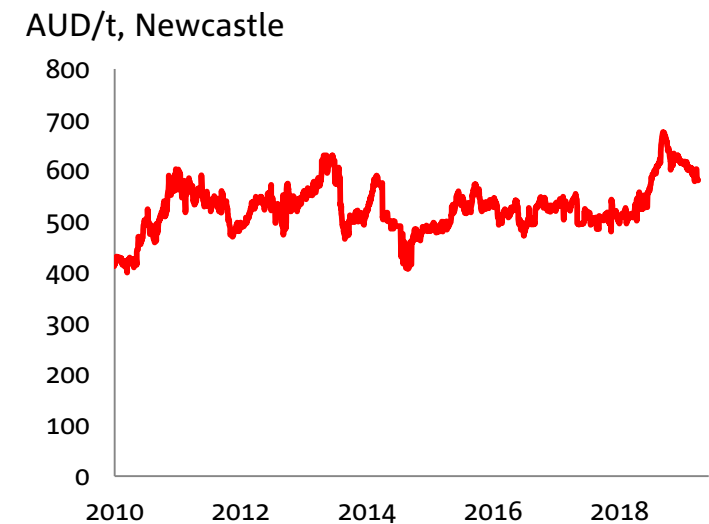
COARSE GRAINS



PULSES



CANOLA



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

SUMMER CROPS, SUGAR AND HORTICULTURE

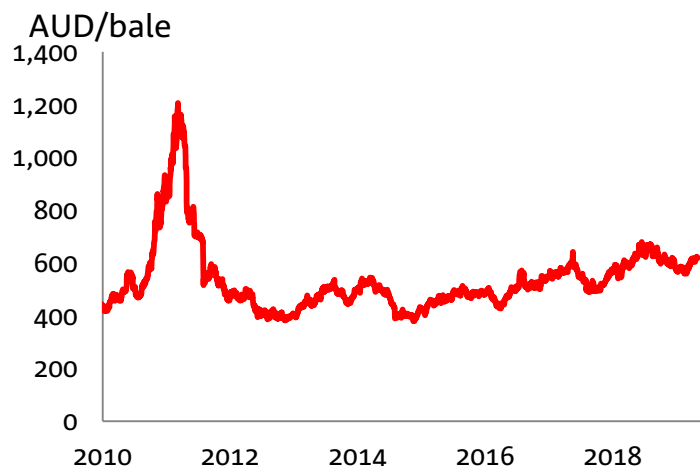
Storage volumes for major public storages in the Murray Darling Basin are still at generally low levels, and even if they see decent inflows from here, allocations will probably be under pressure for the coming season. Private storages in the basin are also likely to be fairly low. As a result, Australia will face a second year of lower cotton production.

Cotton prices have come up a little recently, with AUD denominated Cotlook A averaging around \$615/bale last month.

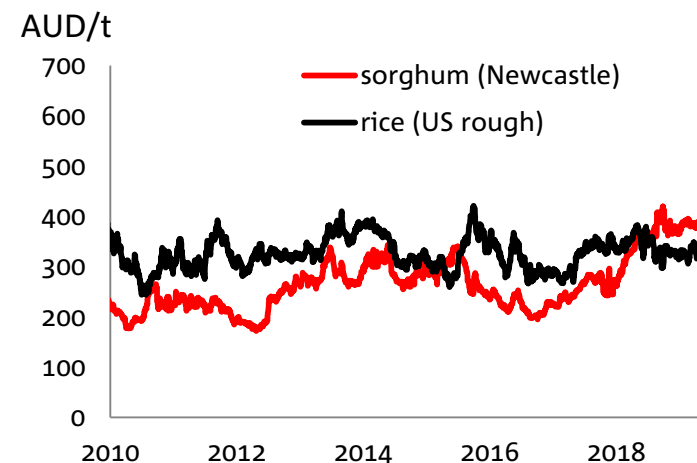
Fruit and vegetables were very strong in Q1, largely reflecting seasonal variation combined with severe weather events, but were much lower in April. Fruit dropped 12.9% while vegetables fell 9.1%.

Monthly moves in horticultural prices often reflect seasonal supply patterns more than anything else. In this case, the effect of severe weather events (cyclone, flooding and drought) dissipating is likely to have been a major factor.

COTTON



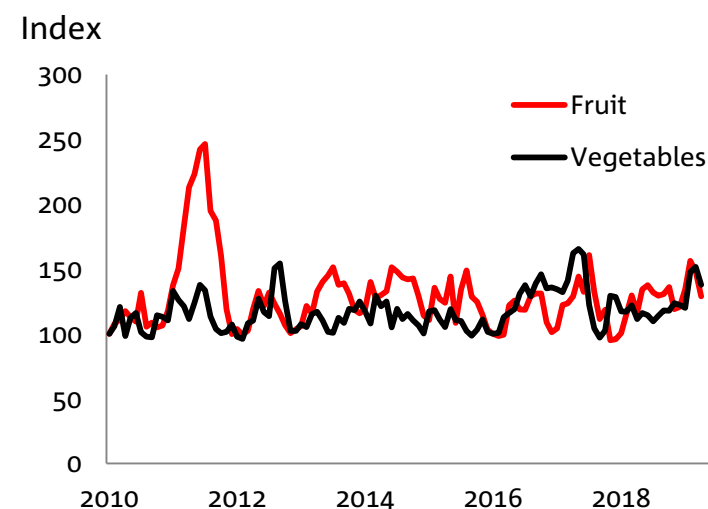
SORGHUM AND RICE



SUGAR

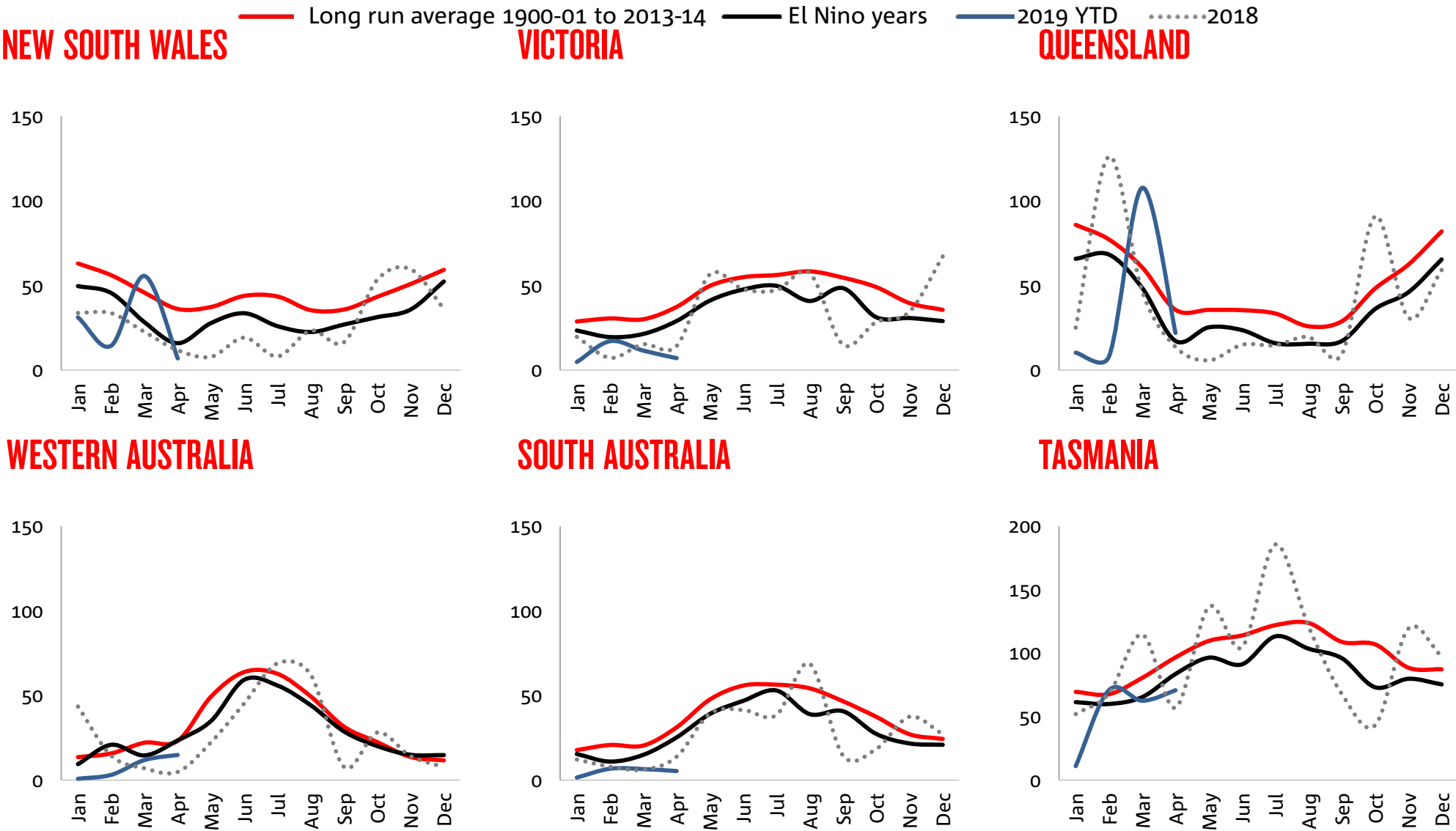


FRUIT AND VEGETABLES



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

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)



Source: Bureau of Meteorology and NAB Group Economics



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