

RURAL COMMODITIES WRAP



NOVEMBER 2020

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Photo: Mai Thai

KEY POINTS

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The stars have aligned for many parts of Australian agriculture this year, with a combination of a strong season in several areas of the country and good commodity prices, particularly for livestock and grain. Australian agriculture is now in the best seasonal shape since 2016, but with generally better prices – an enviable combination.

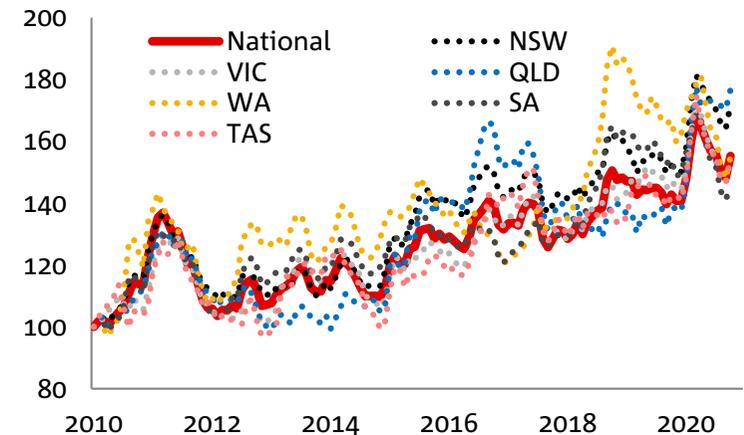
Some sectors are outperforming others though. Cattle prices continue to forge new highs, while lamb is now back above year-ago levels. Global wheat prices have rallied, presenting upside for Australian producers (although the unwinding of basis means domestic wheat is cheaper than a year ago). Barley remains subdued on account of Chinese tariffs. Indeed, Chinese trade barriers are an increasing concern across a number of commodities. Wool prices have recovered somewhat from their earlier slump, but remain well below their 2018 peaks. Meanwhile, Global Dairy Trade auction results have been somewhat mixed, but with little recent downside. Overall, the NAB Rural Commodities Index rose 4.7% in October, the best monthly result since March 2020.

The outlook for summer is broadly positive, reflecting forecast above average rainfall in line with this year’s La Nina event. If anything, the major concern over summer could be flooding. The 2010-12 La Nina event saw extensive flooding, particularly in Queensland.

The two greatest concerns at present are arguably the AUD and China trade issues. The AUD is currently sitting around 73 US cents. We see it at around 74 cents at year-end, gradually climbing to 80 cents by mid-2022. This presents a headwind to local commodity prices. Australia’s trade relationship with China is under increasing strain, with some agricultural sectors now hit by tariffs or non-tariff barriers. This bears close watching.

NAB RURAL COMMODITIES INDEX

National and by state



MONTHLY COMMODITY PRICE CHANGES

	Aug 20	Sept 20	Oct 20
Wheat	▼ 8.2%	▼ 4.9%	▲ 8.4%
Beef	▲ 2.3%	▲ 0.1%	▲ 3.3%
Dairy	▼ 8.9%	▼ 0.9%	▲ 8.7%
Lamb	▼ 12.7%	▲ 4.0%	▲ 11.6%
Wool	▼ 13.1%	▼ 4.8%	▲ 18.1%
Sugar	▲ 5.0%	▼ 3.6%	▲ 16.8%
Cotton	▼ 0.3%	▲ 0.6%	▲ 7.3%

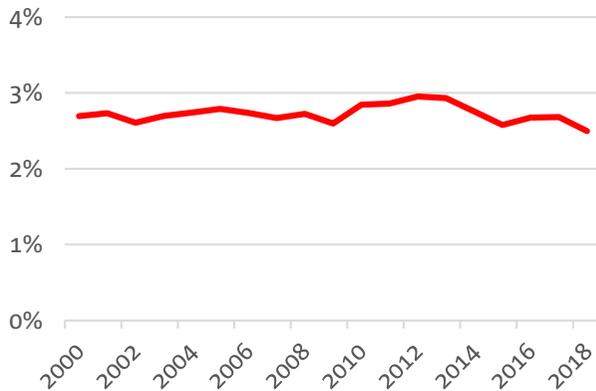
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.



IN FOCUS: HOW HIGH CAN CATTLE PRICES GO?

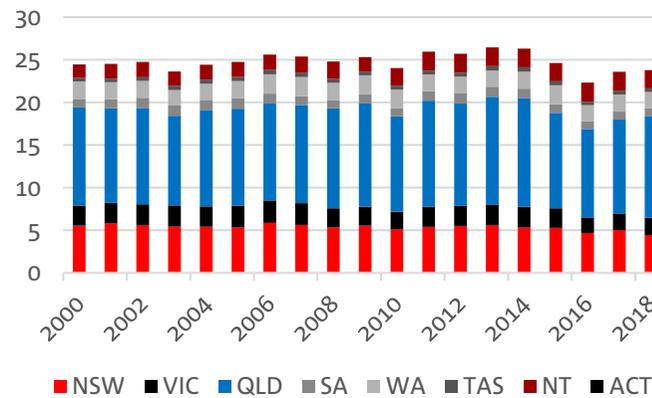
AUSTRALIAN SHARE OF WORLD CATTLE

% share, annual



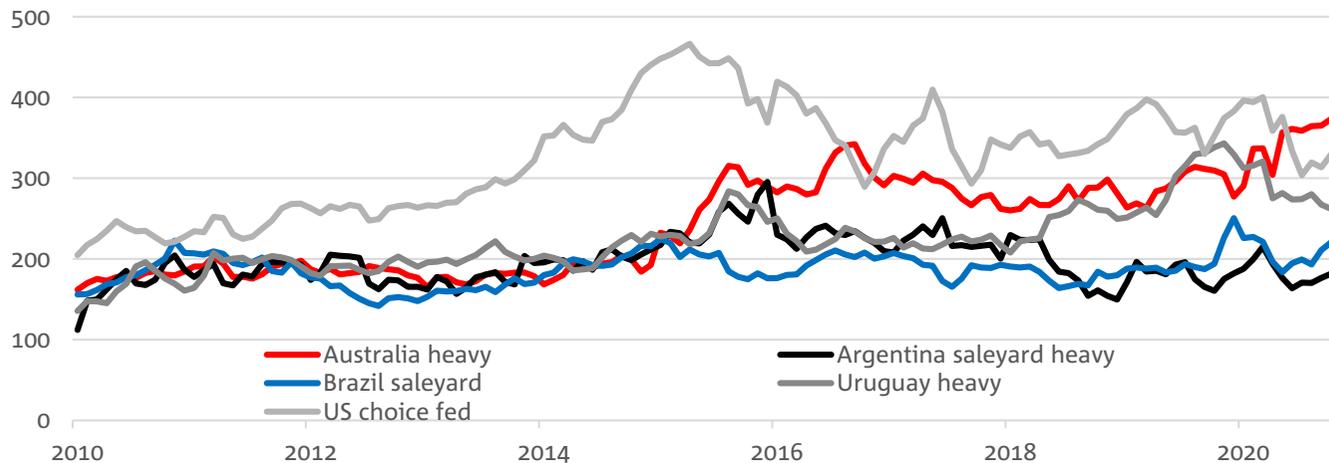
BEEF CATTLE NUMBERS

Millions, including calves



SELECTED GLOBAL STEER PRICES

AUc/kg liveweight, monthly average



Source: ABARES, ABS, MLA and NAB Group Economics

The Eastern Young Cattle Indicator cracked the \$8/kg mark for the first time ever around a month ago and has remained consistently above \$8 since. The price rally – the biggest and steepest in Australian cattle market history – has been driven by a good season so far, but turbocharged by expectations of big summer rainfall in Queensland. Because cattle numbers are so low post-drought, prices have responded very sharply.

This is clearly great news for those who have held cattle through the drought, but more of a challenge for drought-hit properties forced to largely destock in the 2018-19 period. These producers are now buying into a red hot market. Processors also face major challenges finding acceptable quality stock at profitable prices.

The key questions for industry looking into 2021 are how high will EYCI go, and will it be sustainable? Our view is that while it is entirely possible that EYCI will break the \$10 barrier in early 2021, it is not our central case forecast *and* it is likely to be unsustainable if it occurs. Australian cattle prices are already expensive compared to our competitors and if 2021 sees a drier back half, there is likely to be downside in the back half of the year and into 2022 – similar to what occurred after the 2016 spike.

SEASONAL CONDITIONS

2020 started horrifically but seasonal conditions have been much better since late summer.

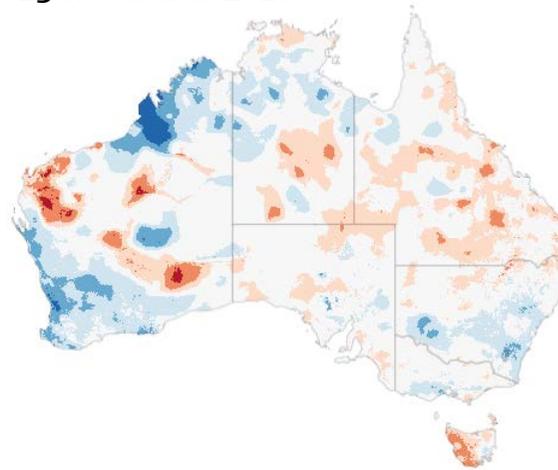
Seasonal conditions have generally been wetter than average across most of the country over spring, with the notable exception of parts of the WA wheatbelt. That said, more recently WA has almost seen too much rain, slowing harvest. Overall, winter cropping conditions have been ideal in many parts of eastern Australia.

The Bureau of Meteorology's declaration of La Nina has raised massively expectations of a wet summer. La Nina is generally associated with wetter than average spring – summer conditions across eastern and northern Australia. The last Australian La Nina event in 2010-12 saw a wet summer with extensive flooding in parts of eastern Australia. 2016 didn't quite meet the BoM threshold for La Nina but still saw the biggest winter crop on record. The latest outlook suggests that this event could be persist well into autumn 2021.

That said, parts of Queensland remain drier than average, and while expectations for summer are huge, if they don't deliver there could be some stress.

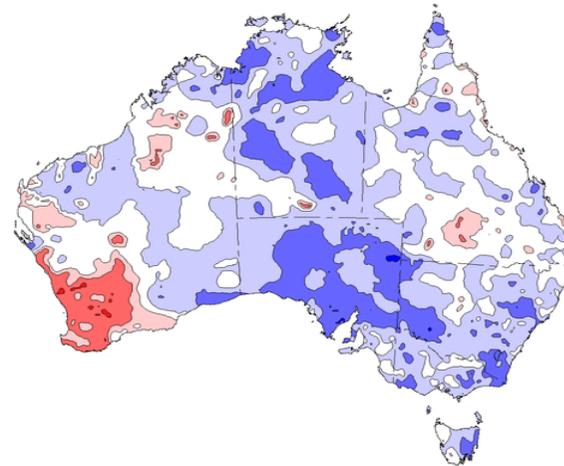
ROOT ZONE SOIL MOISTURE

23 November 2020



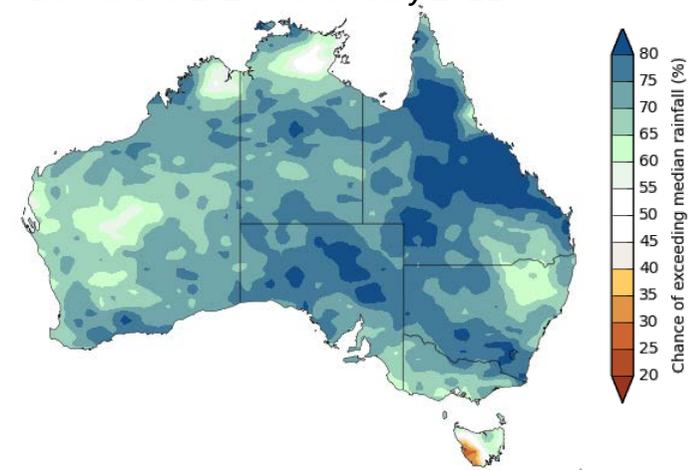
RAINFALL DECILES

October 2020



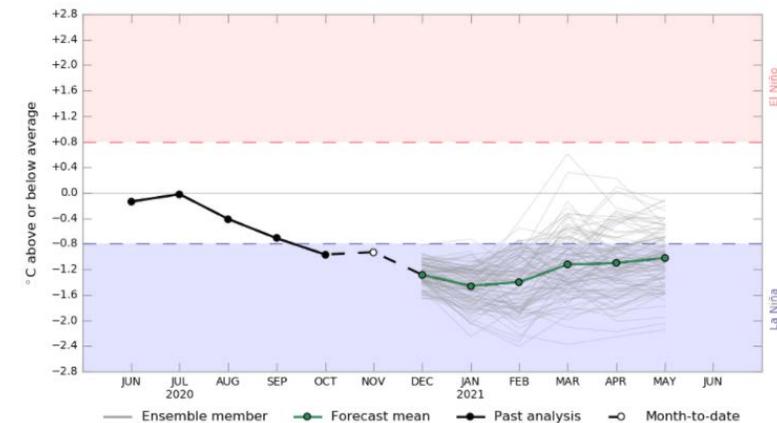
BOM RAINFALL OUTLOOK

December 2020 – February 2021



BOM ENSO TRACKER

Monthly SST anomaly 24 November update

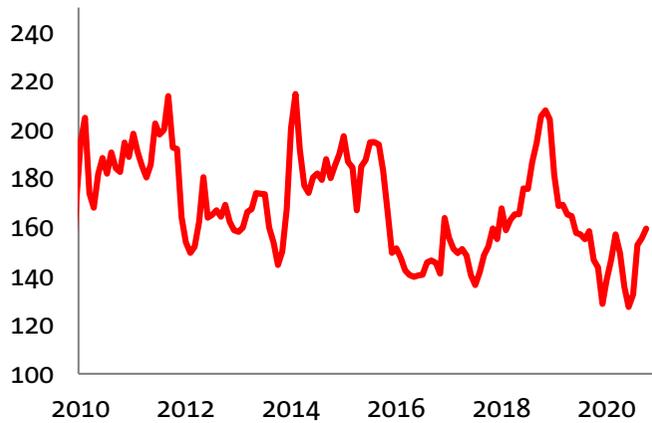


Source: Bureau of Meteorology

FARM INPUTS

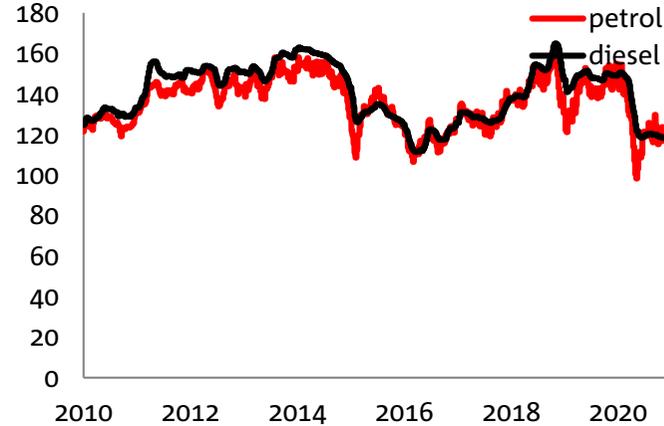
NAB FERTILISER INDEX

AUD index



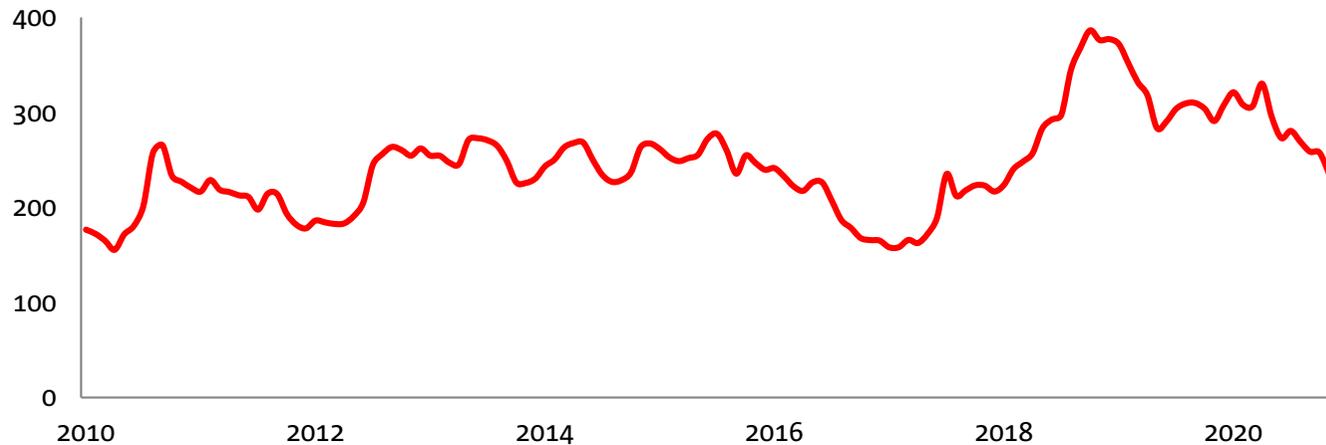
NATIONAL AVERAGE FUEL PRICES

AUc/litre



NAB FEED GRAIN PRICE INDEX

AUD/t



Source: Bloomberg, Profarmer and NAB Group Economics

Farm input prices have been generally lower this year, with fuel and grain well below year-ago levels, but fertiliser now climbing back to year-ago levels.

Our fertiliser index saw big declines earlier this year, but have since risen and are now up 8.8% y/y. Low US natural gas and urea prices had kept the index low, but this has now been offset by DAP price rises.

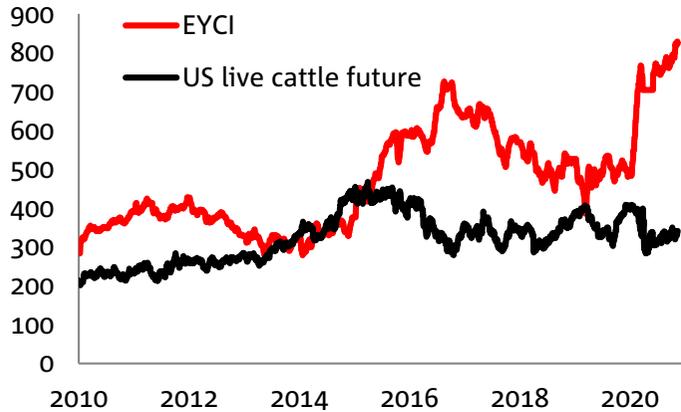
Fuel prices continue to offer little excitement at the bowser – perhaps good news for those now taking regional holidays. Diesel – the key agricultural fuel – has barely moved from the 120c/l mark since May in national average fuel price data. While some regional areas will face higher prices, the trend has been flat to very slightly lower for some time.

NAB's feedgrain price index has continued to trend down – it is now down around 15% y/y. The rally in global prices has put a floor under domestic grain, but basis was so large there was a long way to fall from peak. One potential downside price risk is in barley, which is on track for a big season but subject to a ~80% tariff from China – its largest market. We may see barley displace other grains in the feed mix if it continues to trade at such a steep discount.

LIVESTOCK

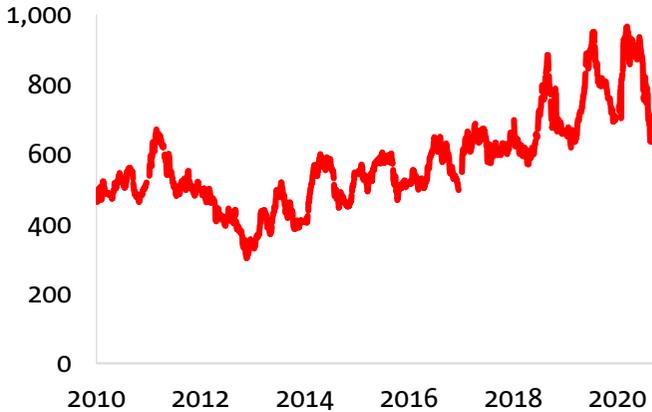
CATTLE

AUc/kg



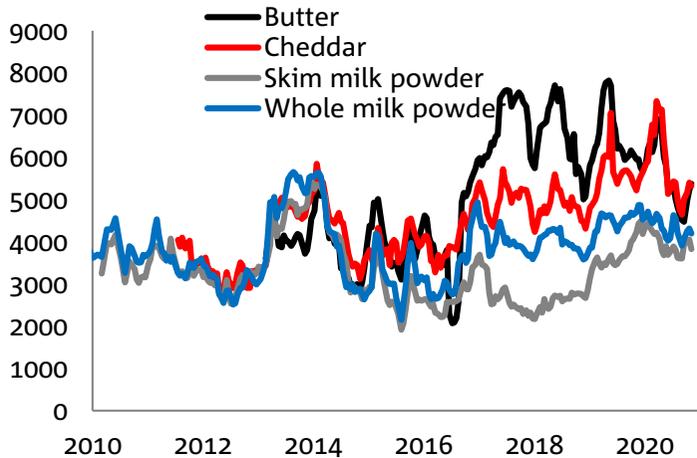
LAMB

ESTLI, AUc/kg



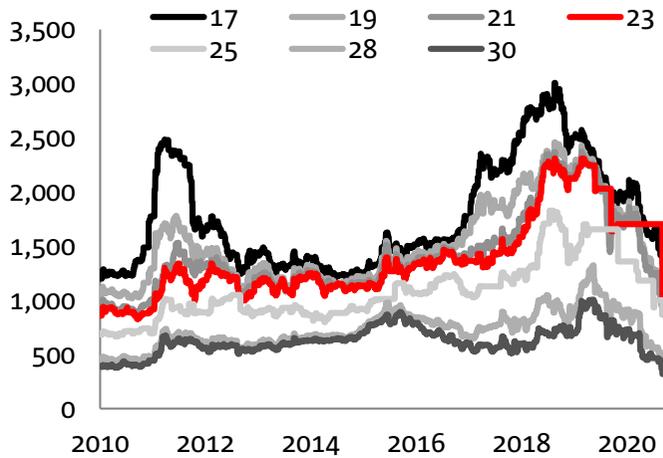
GDT AUCTION RESULTS

AUD/tonne



WOOL

Southern region, by micron, AUc/kg



Lamb prices have moved out of sync with their usual seasonal patterns this year. Trade lamb took a major tumble in late winter, reflecting pandemic-related global demand concerns. However, flock rebuilding in a good season has been more at the fore recently and the usual spring flush period has seen prices trending higher rather than lower. NTLI is now above year-ago levels. Prices at these levels point to excellent returns for sheep producers.

Wool is much less encouraging. While finer wools have recovered somewhat recently, EMI stood at \$11.59 last week – well down on peaks two years ago. Perhaps more concerning is the possibility that there will be a structural change in the nature of office work, reducing suit demand. Anecdotal reports from Australian offices suggest that those that have returned to work might be dressing more casually. If workwear expectations change, so will wool prices. While the industry has been very proactive at moving into activewear and certain automotive upholstery products, consumer trends are always a concern.

Global Dairy Trade auction results have been mixed to better recently, with little change in direction.

For more information on cattle, see our *in focus* section on page 3.

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

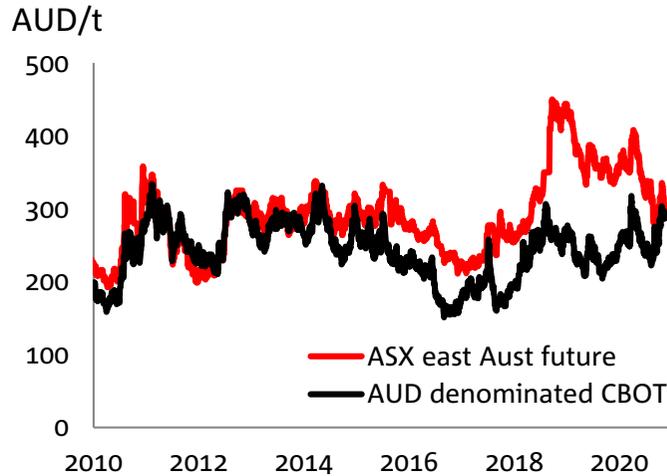
WINTER CROPS

Harvest is now well underway in Western Australia and the northern regions of the eastern states. All indications so far suggest a bumper crop in the east and a good crop in the west. While storm activity has delayed harvest across many areas, bulk receival data from CBH in the west and Graincorp in the east, points to a strong harvest. This season, we expect an Australian wheat crop of around 28 million tonnes – the biggest crop since the 2016 record.

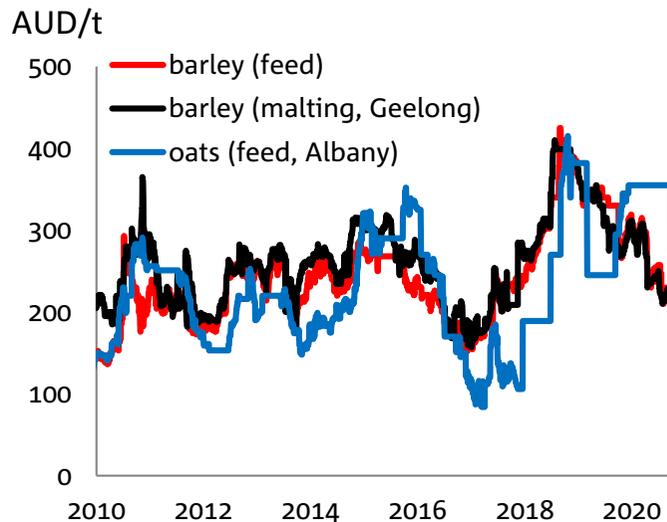
Global grain prices have surged over the last two months, reflecting yield concerns across a number of crops and growing regions. This could not be better timed for Australia, with big crops coming into export markets over the next three months. Basis had been historically high in 2018 and 2019, but has now gone well and truly into reverse. Recent indicative at-port cash prices for wheat have been in the high \$200s to low \$300s range, depending on grade and location. While we are a little sceptical whether global prices will stay so high, the news for Australian wheat prices is good overall.

Barley prices are another matter, reflecting China's trade restrictions and our high dependence on that market.

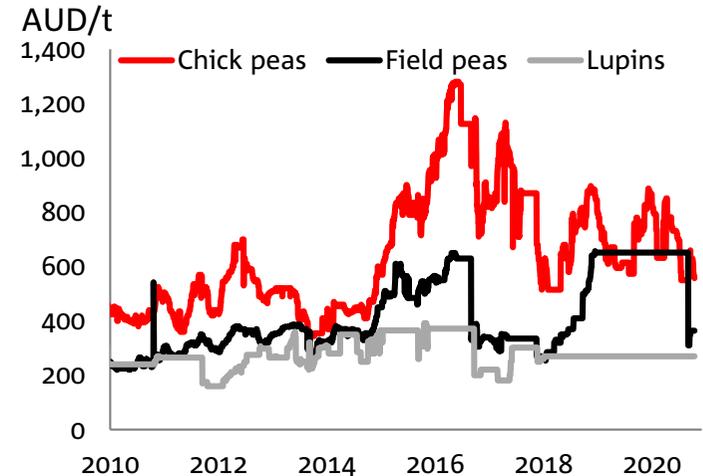
WHEAT



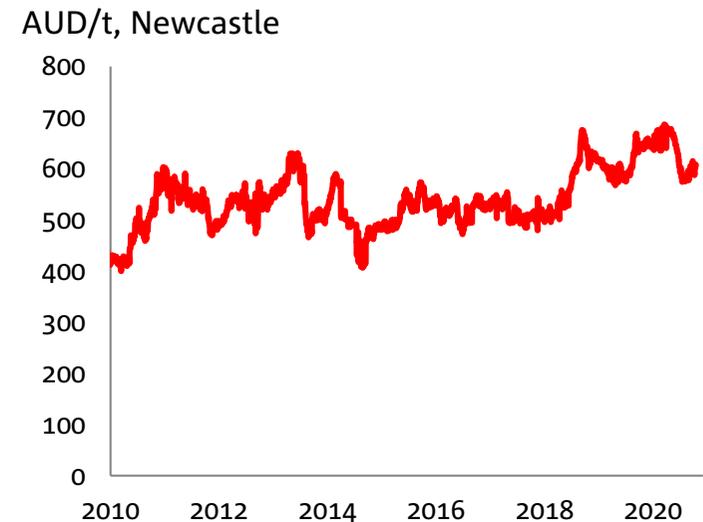
COARSE GRAINS



PULSES



CANOLA



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

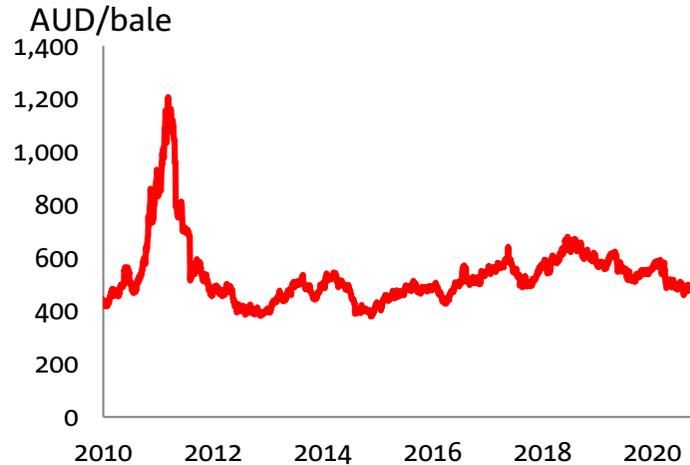
SUMMER CROPS, SUGAR AND HORTICULTURE

2020 has brought generally better seasonal conditions to much of eastern Australia, bringing Murray-Darling water in storage to 60% as of 11 November. With a big summer potentially on the way, there is hope that storages can be replenished ahead of next season. That said, the northern basin remains much drier, standing at only 27% of capacity, compared to 69% in the southern basin.

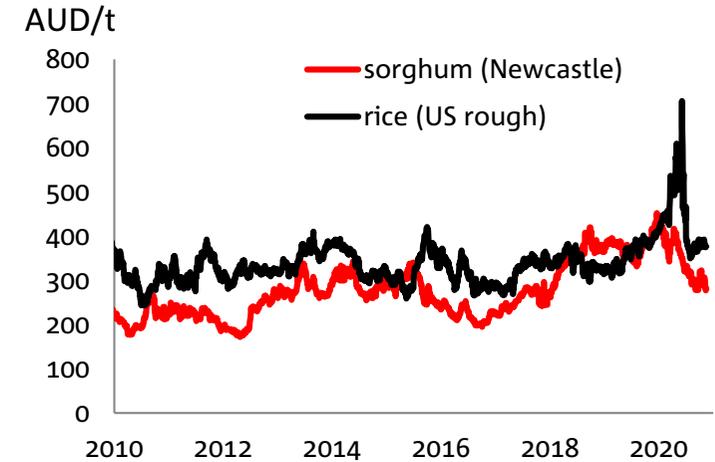
Cotton prices remain fairly low, although have seen relatively little change in AUD terms over the last few months. Reported trade disruptions with China are probably a bigger issue than price. The outlook for Australian cotton prices is subdued, but next season should see an uptick in production.

Fruit and vegetable prices were once again mixed in October. Fruit was up 5% in the month but vegetables were down 6.5%. The biggest concern for the industry remains labour availability rather than price.

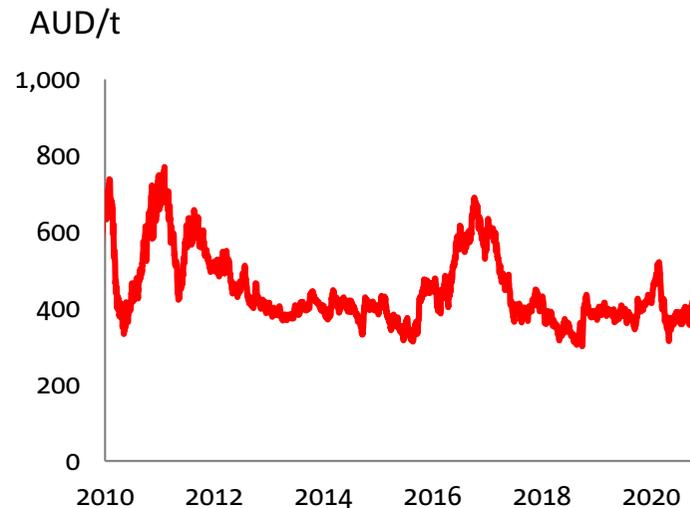
COTTON



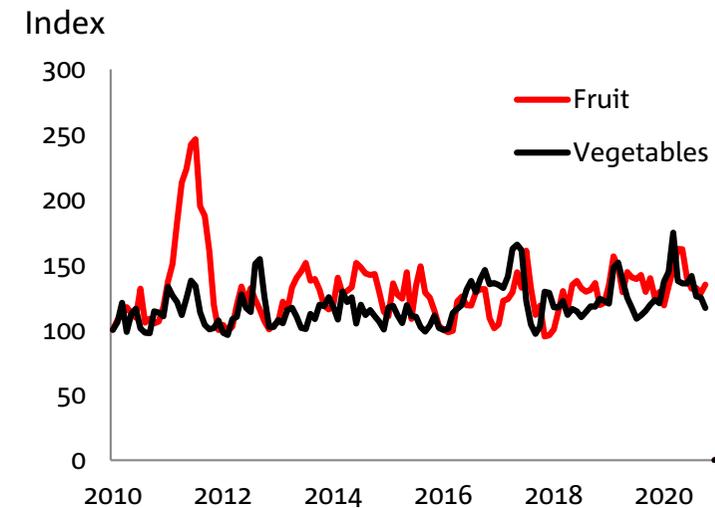
SORGHUM AND RICE



SUGAR



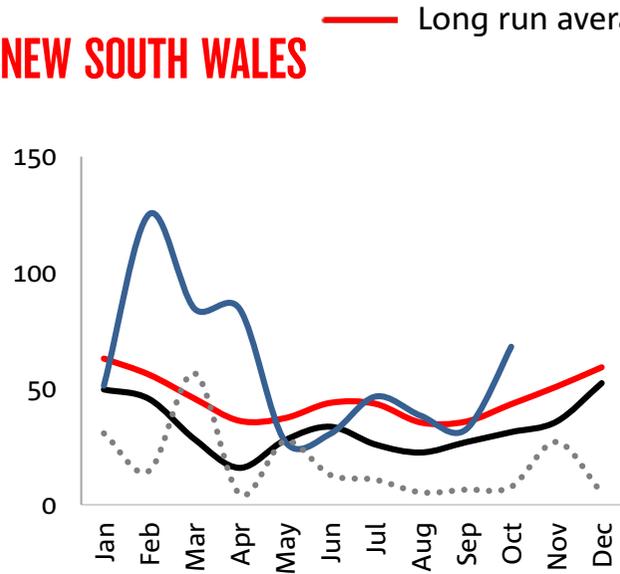
FRUIT AND VEGETABLES



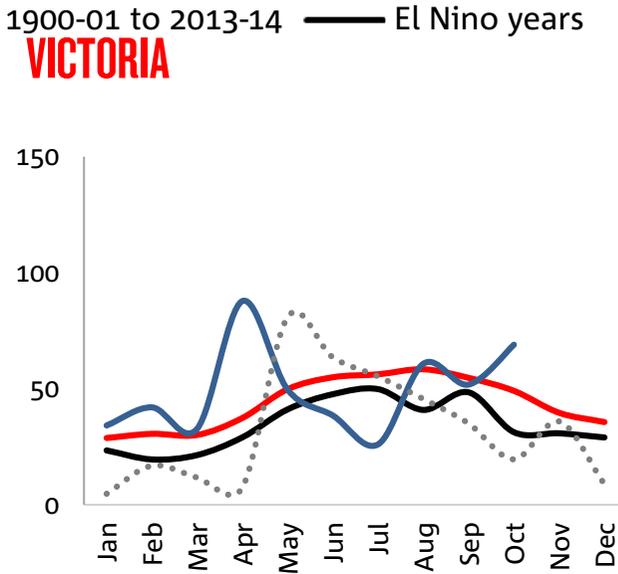
Source: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg and Profarmer.

MONTHLY AVERAGE RAINFALL IN WINTER CROPPING REGIONS (MM)

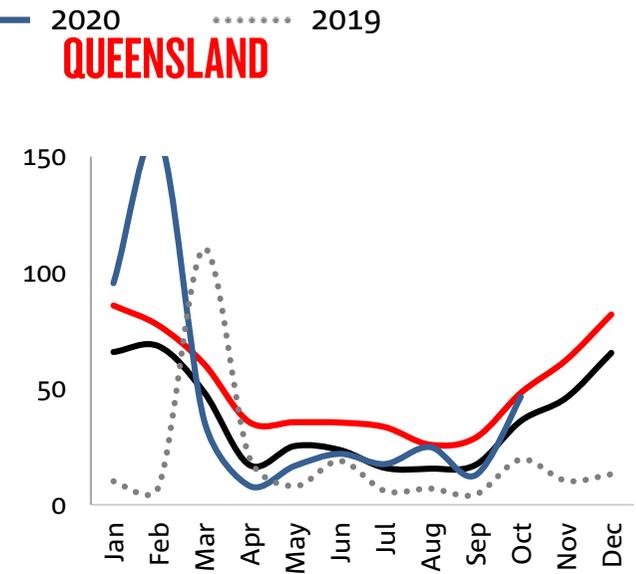
NEW SOUTH WALES



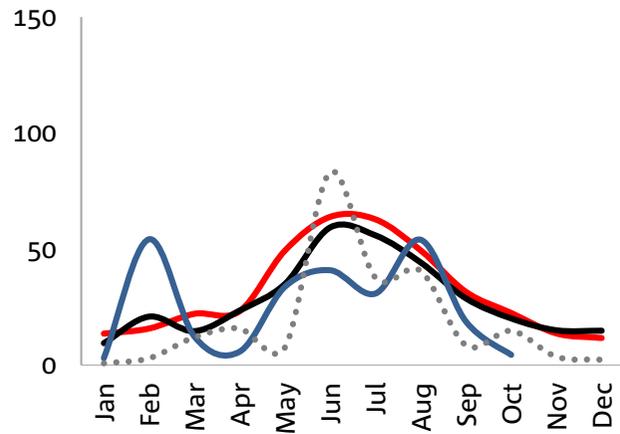
VICTORIA



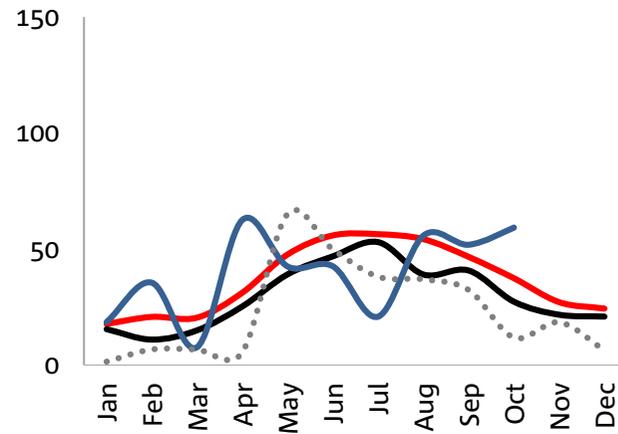
QUEENSLAND



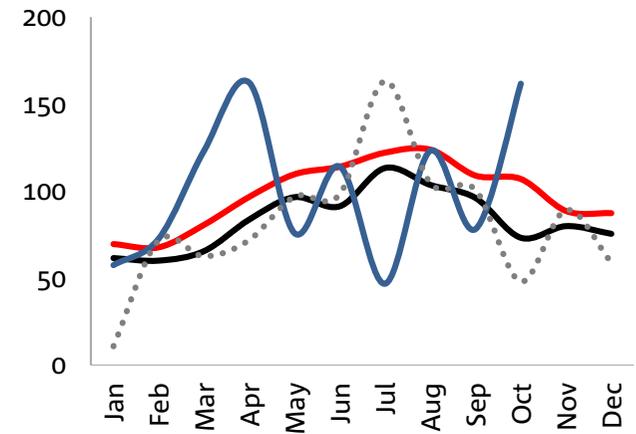
WESTERN AUSTRALIA



SOUTH AUSTRALIA



TASMANIA



Source: Bureau of Meteorology and NAB Group Economics

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