



NAB Rural Commodities Wrap

July 2023



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Highlights



The NAB Rural Commodities Index fell again in June, down 2.2%, having recorded eight consecutive monthly declines. The index is now 28.1% below June 2022 levels.

Once again, livestock led the downward pressure, with cattle and sheep prices trending lower (although more recent daily data show EYCI levelling off in recent weeks). Wool also fell sharply (down 7.2% in June), while dairy export prices and sugar were also lower, although the latter was coming from extraordinary highs.

Cattle has been the single greatest driver of the lower Rural Commodities Index, constituting a quarter of the total index and losing around half its value from the 2022 peak. While we see some further potential downside from here, cattle prices look reasonably close to their nadir, which we expect later this year. This alone should reduce downside pressure on the broader index from early 2024.

Climatic conditions remain baffling. While the BoM had forecast a very dry winter in southern Australia, the opposite has occurred, with most of Victoria, South Australia and Tasmania, as well as far-western NSW very wet. Some parts of Victoria hit their entire winter average rainfall in June. Meanwhile further north, the tap has well and truly turned off. Much of Queensland is now dry, as is coastal NSW. The WA wheatbelt is a mixed bag, with generally average to above average rainfall in the south of the belt in June. The three-month outlook remains extremely dry for essentially all major Australian agricultural regions.

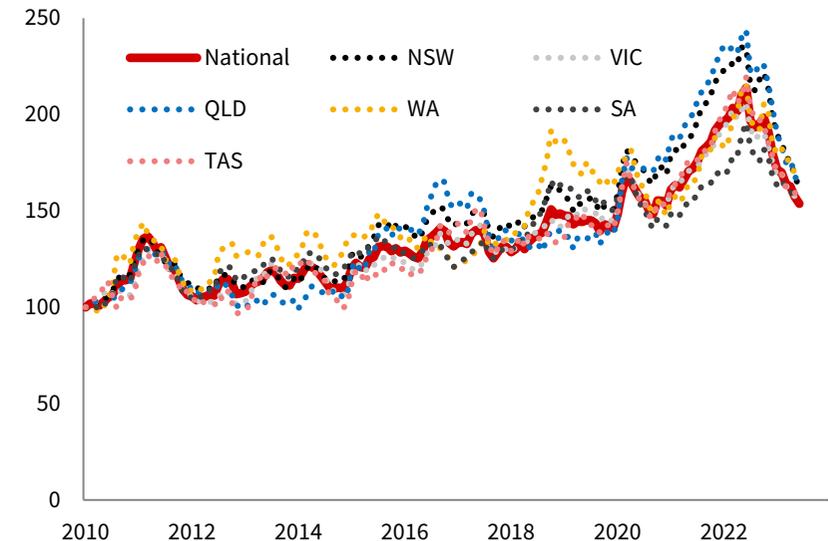
El Nino is here, despite the BoM's delayed declaration – now expected on 18 July. El Nino is typically associated with hotter and drier spring-summer conditions across eastern and northern Australia. This year's event looks set to be extremely strong based on international model runs, although this is not always associated with severe rainfall deficiencies.

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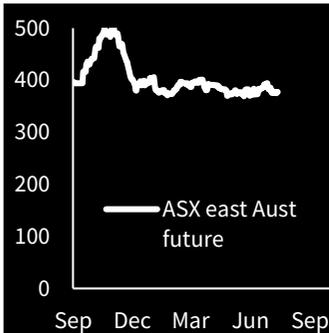
NAB Rural Commodities Index

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

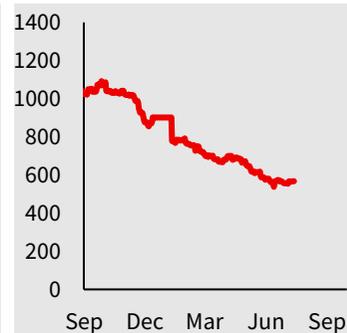
Outlook for major commodities



Wheat

Australian wheat prices continue to see fairly limited movement, with east coast futures in the high \$300s range – a decent price by any standards. We see wheat closing out 2023 at around \$350/t.

Yields are likely to be much lower than last season, with El Nino presenting a real downside risk.



Cattle

Australian cattle prices have steadied since early June, but a very dry outlook and ample cattle supply combined with constrained processor capacity could see them push lower in spring – potentially with EYCI below 500c/kg.



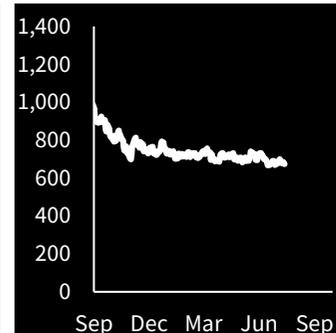
Sheep

Lamb prices continue to trend lower, reflecting similar themes to the cattle decline. The traditional spring flush presents further downside risk. Wool prices continue to weaken, although the last two weeks have seen improved prices.



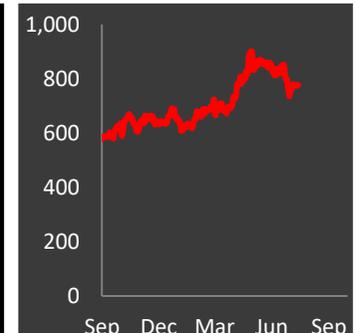
Dairy

Recent global dairy trade auctions have been weaker, with the 4 July auction down 3.3% in USD terms. Opening farmgate prices have been very favourable – settling in the \$9/kgms range. We see these farmgate prices as ultimately unsustainable given the international weakness.



Cotton

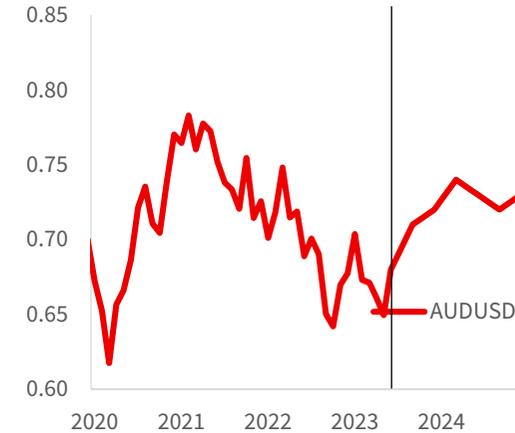
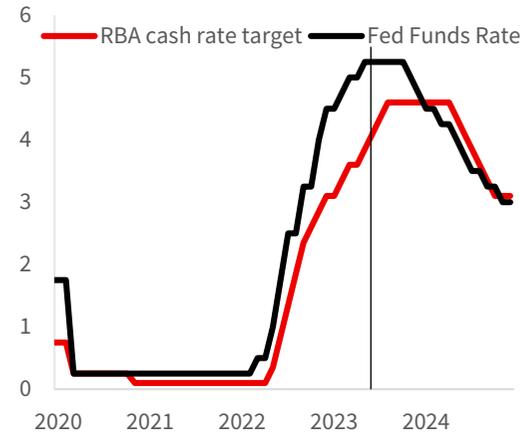
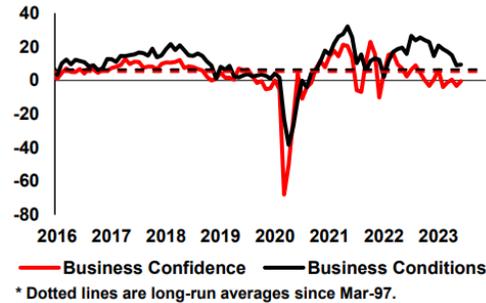
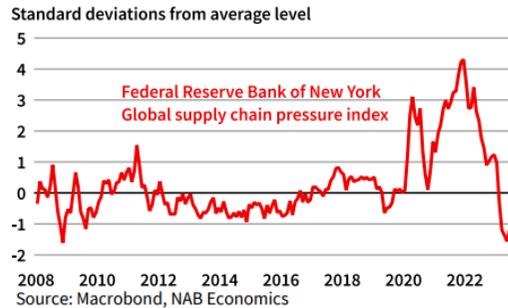
Cotton prices continue to offer little in the way of volatility, although the trend is slightly weaker. AUD Cotlook A is trading at around \$680/bale for July to date. Water storage levels are excellent and likely to remain so for some time, the dry outlook notwithstanding.



Sugar

Sugar prices have fallen recently, albeit following a surge earlier this year. On balance, the conditions that underpinned higher prices (global supply concerns and strong demand) probably remain and sugar should continue to offer good returns this year.

Economic update



Global economy

After relatively robust growth in Q1, activity looks set to slow in the near term. China's recovery appears to be stalling, with the anticipated rebound in consumption yet to eventuate, while the tightening in monetary policy (particularly across much of the advanced economies) will negatively impact demand. While global inflation has fallen from its peaks of late 2022 (US headline inflation is easing significantly), core inflation measures do show some stubbornness.

Australian economy

While the Australian economy remained resilient through 2022, there are increasing signs that interest rates are beginning to flow through. Consumer spending growth is slowing, although on our data hospitality remains surprisingly resilient. Housing construction faces substantial challenges and overall capex expectations have softened.

The NAB Monthly Business Survey was steady in June, showing some resilience at above-average levels.

Interest rates

The RBA decided to pause in July, holding the cash rate at 4.1%. Our cash rate call stands at 4.6%, but with the caveat that the longer the RBA delays, the less likely it is to hike into a slowing economy.

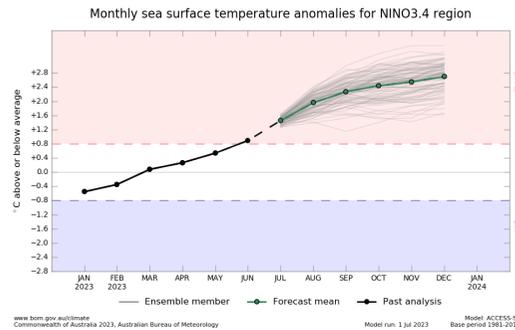
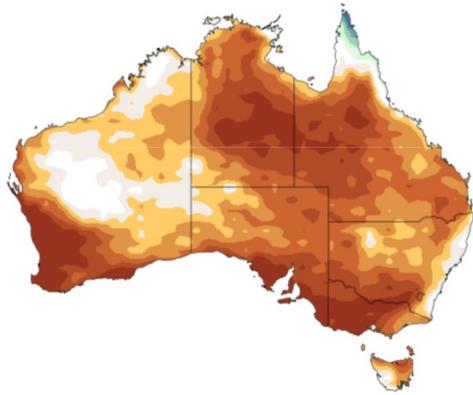
We still see the RBA cutting interest rates back towards neutral in 2024 as a "forward-looking" central bank sees the slowing in growth and unemployment rising.

Currency

The AUD has been much higher recently, or perhaps more accurately the USD has been generally lower as lower US CPI has lessened the chances of further US rate hikes. That said, the Fed could hike again in coming months.

We see the AUD reaching 72 US cents at end-2023 and 73c at end-2024.

Seasonal conditions and farm inputs



Parts of southern Australia wet, outlook dry

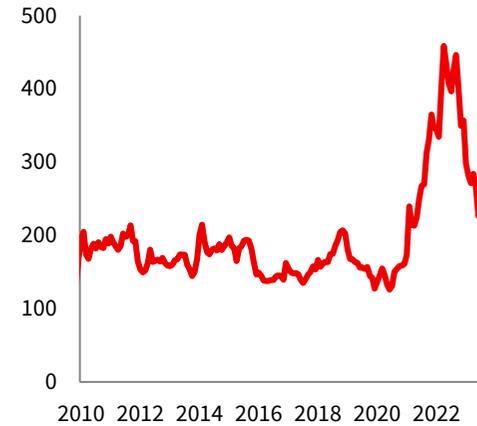
While the BoM had forecast a very dry winter in southern Australia, the opposite has occurred, with most of Victoria, South Australia and Tasmania, as well as far-western NSW very wet.

Some parts of Victoria hit their entire winter average rainfall in June. Meanwhile further north, the tap has well and truly turned off. Much of Queensland is now dry, as is coastal NSW. The WA wheatbelt is a mixed bag.

El Nino makes its presence known ahead of BoM

El Nino is here, despite the BoM's delayed declaration, and is typically associated with hotter and drier spring-summer conditions across eastern and northern Australia. This year's event looks set to be extremely strong based on international model runs, although this is not always associated with severe rainfall deficiencies.

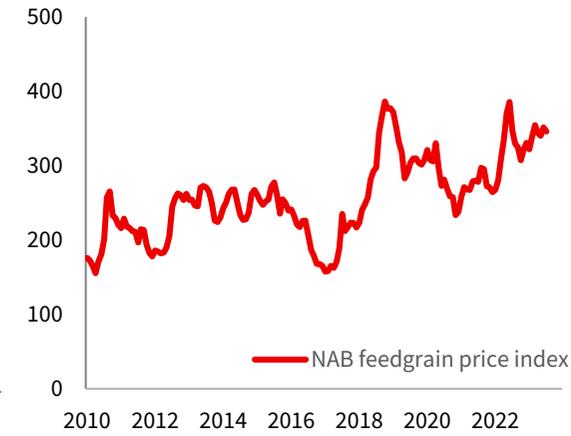
The three-month outlook remains extremely dry for essentially all major Australian agricultural regions.



Fertiliser prices continue to ease

Fertiliser prices tanked in June, down 14.8% on the previous month on lower DAP and urea prices. While prices are still elevated by historic levels, they are now 44.5% below year-ago levels.

While we have been cautious about further downside, given oil and LNG market uncertainty, weakness persists. This is good news for growers.

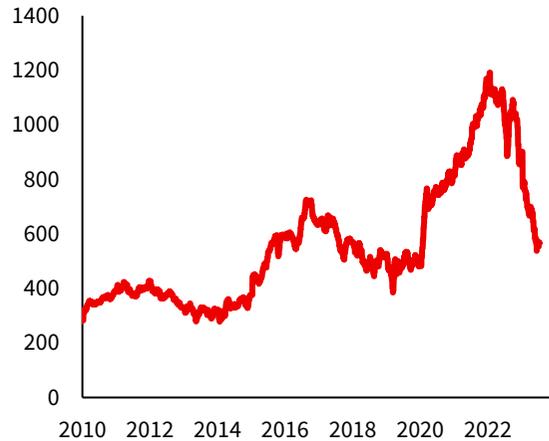


Feed grain prices flat since February

Our feed grain price index has offered little in the way of excitement for some time. Prices rose 3.3% in June but have fallen 1.6% so far this month in the very antithesis of a thrilling roller-coaster.

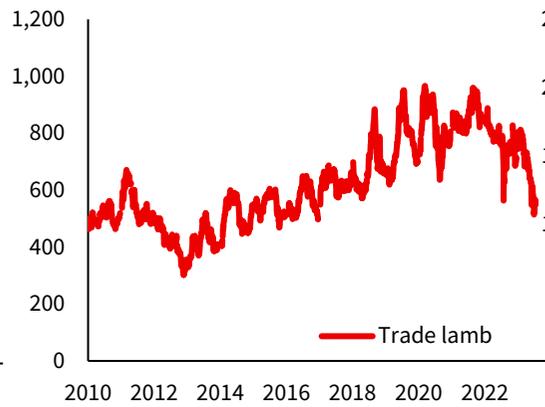
While last season saw a big (and quality downgraded) winter crop, 2023 is looking much drier. While we still don't expect major upside this year, but a very dry season could test this.

Livestock



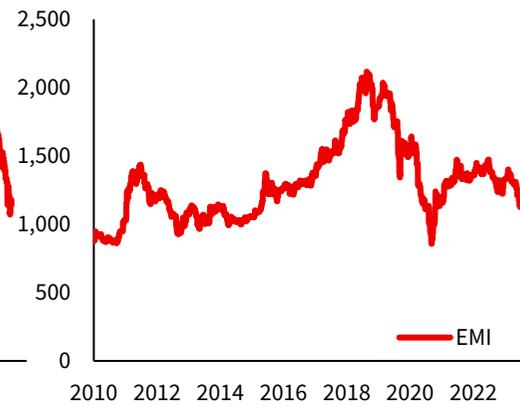
Cattle

Australian cattle prices have stabilised since early June, although ~~it~~ if the market has hit bottom is much less clear. Queensland is already dry and El Nino is likely to see below average spring-summer rainfall across a large area. While processor capacity remains constrained amid a very tight labour market, cattle will be very sensitive to drier weather. El Nino remains the major downside risk and we see a typical El Nino event potentially pushing EYCI below 500c/kg in spring.



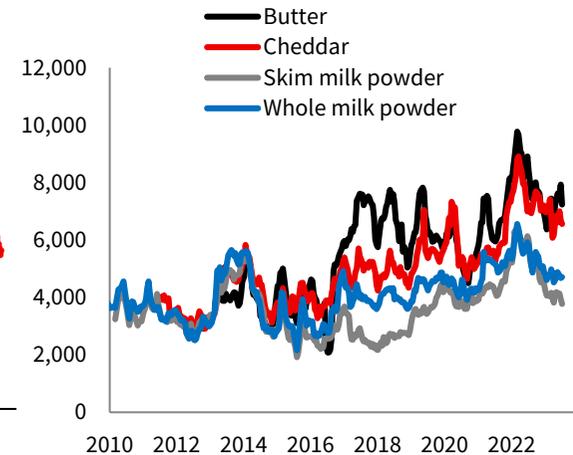
Lamb

Lamb prices continue to trend lower, reflecting similar themes to the cattle decline. The traditional spring flush presents further downside risk. We remain optimistic about lamb's long-term prospects. The industry has innate risk-management advantages when paired with broadacre cropping and we have a strong position in the global market. But in the short-term, a dry season, rebuilt flock and economic uncertainty in major export markets will continue to sap prices.



Wool

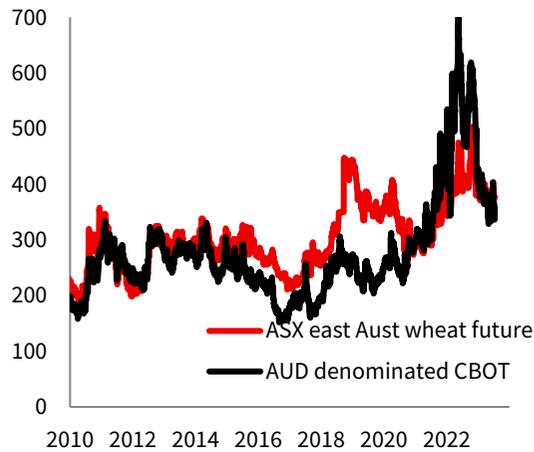
Weakness in the wool market gathered pace over the last two months, with EMI squarely seeing a \$11 handle at recent auctions. That said, sentiment at the last two auctions has been markedly stronger. However, the fundamental problem remains that consumer demand remains uncertain, particularly in China, which has seen a sluggish post-covid rebound this year. We see a risk of ongoing volatility in 2023 – we see global growth slowing and consumer goods spending is likely to weaken further.



Dairy

Recent global dairy trade auctions have been weaker, with the 4 July auction down 3.3% in USD terms. Opening farmgate prices have been generally favourable given the global market – settling in the \$9/kgms range. These prices are very high by historic standards and reflect processor need for milk flow rather than global market fundamentals. Ultimately processors will come under pressure to reduce capacity, eliminating this domestic premium in coming years.

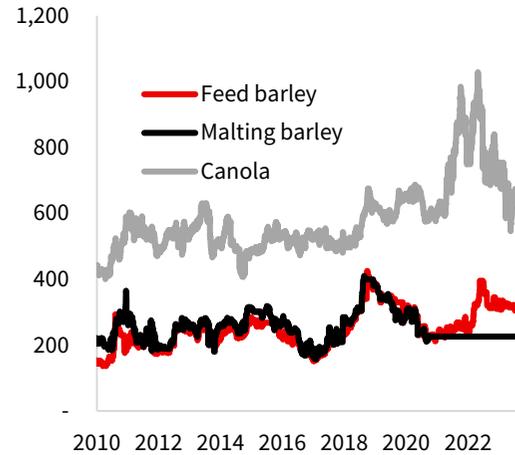
Crops



Winter crop prices

Australian wheat prices continue to see fairly limited movement, with east coast futures in the high \$300s range – a decent price by any standards. We see wheat closing out 2023 at around \$350/t.

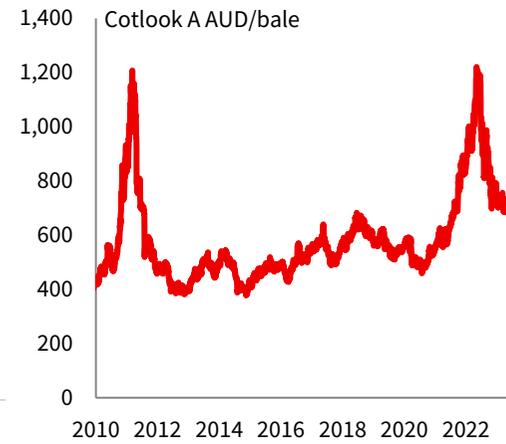
Canola prices have again risen following a sharp fall since last year. However we do not expect a return to anywhere near the heady 2022 peak.



Crop production

ABARES' June crop forecasts have seen some downgrades, with wheat down from 28.2mmt in March to 26.2mmt in June, while barley is unchanged at 9.9mmt and canola down to 4.9mmt.

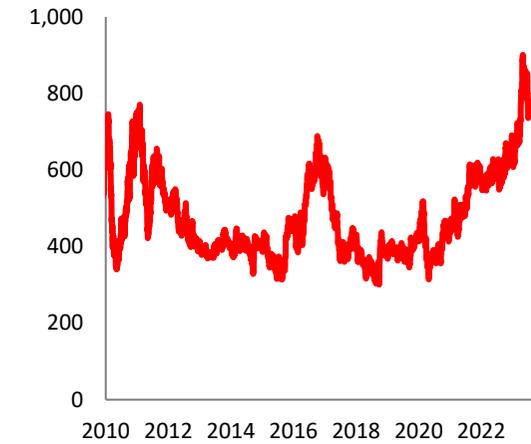
While the March forecasts were speculative and predated planting, there are risks of further reductions from here if the season deteriorates amid an El Nino. That said, at present waterlogging is a bigger issue across Victoria and SA than a lack of rainfall.



Cotton

Cotton prices continue to offer little in the way of volatility. AUD Cotlook A is trading at around \$700/bale. Dry conditions this year may affect dryland cotton yields but storage levels are excellent and likely to remain so for some time.

THERE IS DOUBLE SPACING IN HERE!



Sugar

Sugar prices have eased a little following a surge earlier this year. But the conditions that underpinned higher prices (global supply concerns and strong demand) remain.



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