



NAB Rural Commodities Wrap

August 2023



Author Gerard Burg | Senior Economist

Highlights



The NAB Rural Commodities Index continued to decline in July – down by 2.1% mom. This was the ninth month in a row to record declines, with the index now 29.6% below the peaks recorded in June 2022.

Unlike the past two months, where declines in the index were driven by cattle and lamb prices, there were a wider range of commodities influencing the trend in July – with the main contributors being dairy (down around 7.3% mom), vegetables (which fell by 11.0% mom), barley and fruit (which decreased by 5.3% mom and 4.4% mom respectively).

Although cattle prices tracked broadly sideways in July, they remain the primary driver of the fall in the overall index since mid-2022, accounting for almost two-thirds of the overall decline over this period. The stabilisation of cattle prices could prove temporary, with El Nino likely to drive drier conditions, which when combined with constrained processor capacity, which could see prices falling around spring.

There was positive news for grain growers in early August, with China removing tariffs on Australian barley. It's too early to know what impact this will have on prices, as it will take some time before barley flows back into China again.

Rainfall conditions across the country have remained mixed – with above average rainfall across much of northern Australia in July, while most of WA, SA, eastern NSW, Victoria and eastern Tasmania saw below average rainfall. The BoM's outlook for the next three months anticipates above median temperatures and below median rainfall as being very likely – with El Nino a key contributor to this trend.

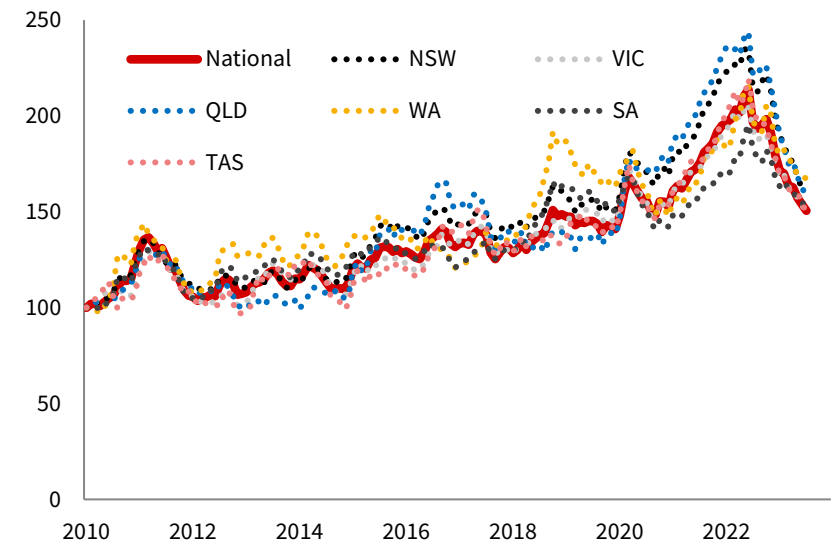
The BoM is still yet to declare an El Nino event, but has suggested it is likely in the coming weeks. This is despite the US National Ocean Atmospheric Administration and the World Meteorological Organization having announced that El Nino is already underway. El Nino is typically associate with hotter and drier conditions across eastern and northern Australia – negatively impacting a range of key agricultural regions.

Contents

- 3 | Outlook for major commodities
- 4 | Economic update
- 5 | Seasonal conditions and farm inputs
- 6 | Livestock
- 7 | Crops

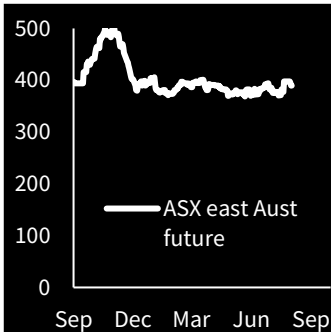
NAB Rural Commodities Index

National and state index, Jan 2010 = 100



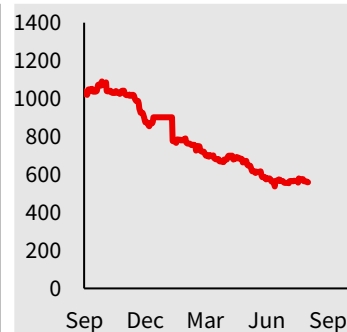
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

Outlook for major commodities



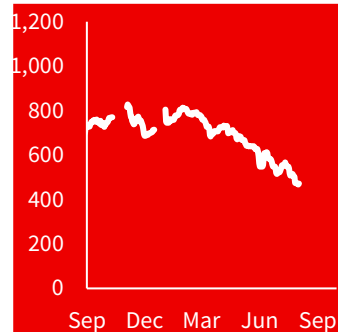
Wheat

Australian wheat prices edged slightly higher in July but are still within the broad range exhibited since late 2022. We still see some modest downward pressure on prices towards the end of the year. Yields appear likely to fall substantially this season, with El Nino a key factor.



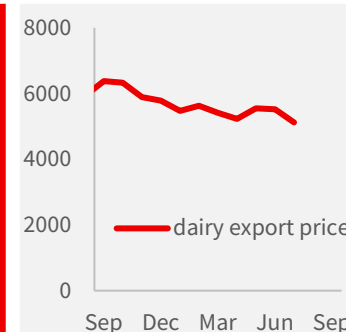
Cattle

Australian cattle prices trended steadily lower since early 2022, but have shown signs of stabilisation since mid-June. We still see risk to the downside – with the dry outlook, plenty of stock and constrained producer capacity adding downside pressure.



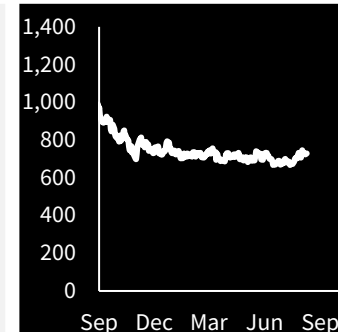
Sheep

Trends in lamb prices have been broadly similar to cattle, although lamb continued to drift lower in July, with this softness likely to continue. Wool prices were slightly higher in mid-July, ahead of the three week recess.



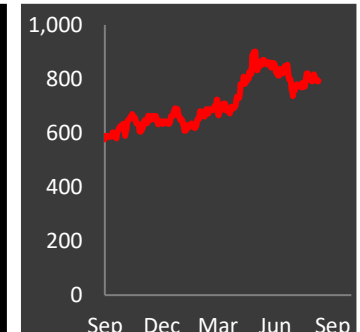
Dairy

Global dairy prices were substantially lower at the early August auctions – down to their lowest levels since mid-November 2020. Weaker export prices and increased domestic supply are expected to weigh heavily on farmgate prices this year – following the sharp rise in 2022-23.



Cotton

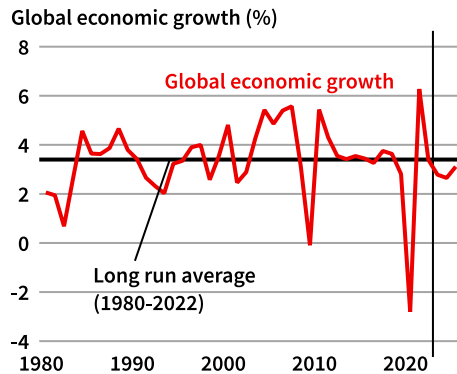
The relative stability in cotton prices has continued, with the Cotlook A edging back above \$700/bale in late July. Despite the likely dry conditions resulting from El Nino, water storage in growing regions should support output going forward.



Sugar

Sugar prices edged a little higher from mid-July onwards, recovering some of the losses recorded across June. Even off the early 2023 peaks, prices remain high by historical standards, reflecting concerns around global supply and ongoing strong demand.

Economic update

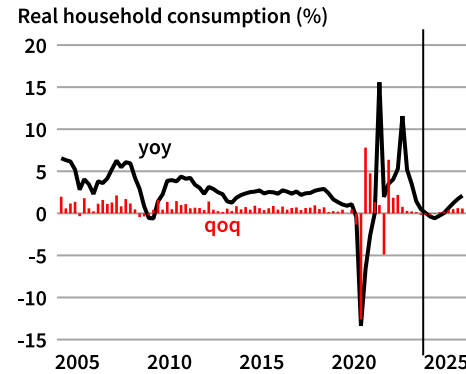


Global economy

China's economic growth slowed in Q2, with tepid consumer demand, weak credit demand and softness in major trading partners stalling its recovery. The latter reflects tighter monetary policy – a response to high global inflation – negatively impacting activity in major advanced economies.

While inflation has eased, it remains well above central bank targets in many countries, implying some risk of further, unexpected, policy rate rises.

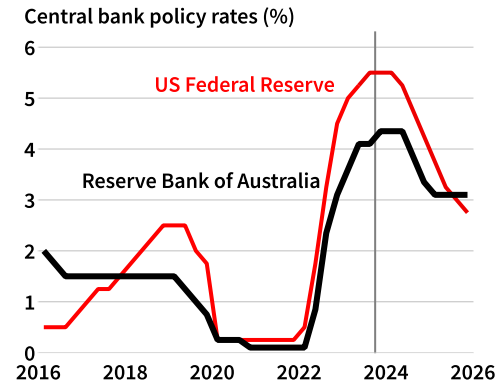
We expect the global economy to grow below its long run average over the next two years.



Australian economy

There are increasing signs that consumption is slowing and we expect that real household consumption growth will be flat or negative for much of the coming year as the impact of higher rates continues to flow through to households.

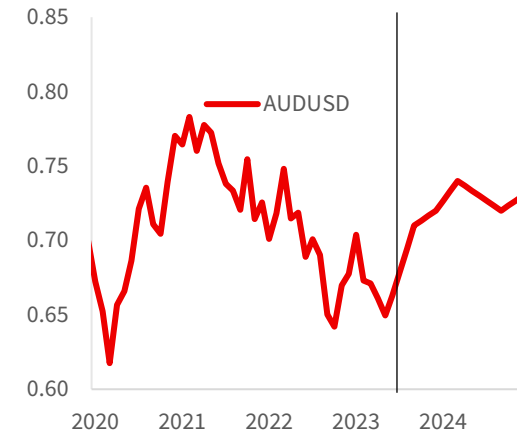
Overall, we expect growth of just 0.5% over 2023 – the slowest pace of growth outside of the pandemic since the 1990s – and 0.9% in 2024. Both would be well below trend.



Interest rates

The RBA remained on hold in August, with the cash rate at 4.1%. Reflecting the easing inflation and slower demand growth, we have lowered our expected peak for the current cycle to 4.35% (4.6% previously) – most likely in November, however the probability that rates have already peaked is increasing.

With the peak of rates slightly lower, we have pushed back our expectation for the beginning of rate cuts to August 2024, with the cash rate to return to around 3% in early 2025.

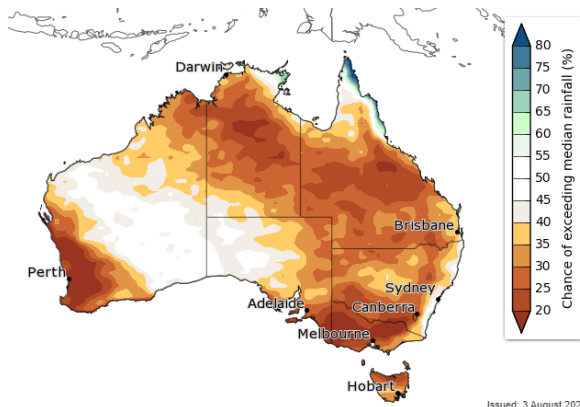


Currency

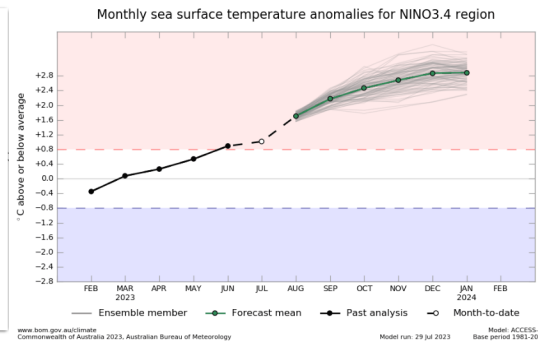
Despite recent weakness in the US dollar, the AUD softened from mid-July onwards – down from around 69 US cents to around 65 US cents – perhaps reflecting changing expectations around rate hikes domestically.

We continue to see some upside to the AUD – pushing up to 72 US cents by end-2023, before trending broadly sideways across 2024 (ending at 73 US cents).

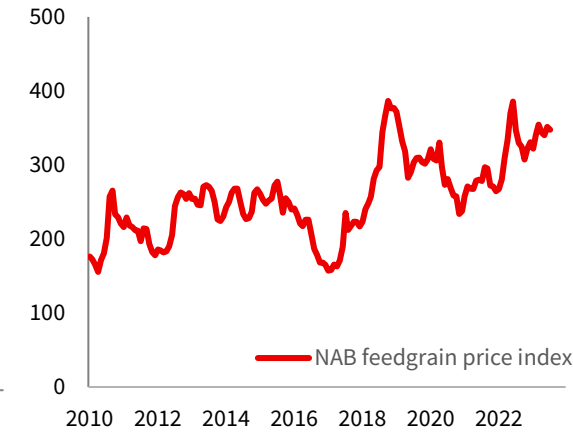
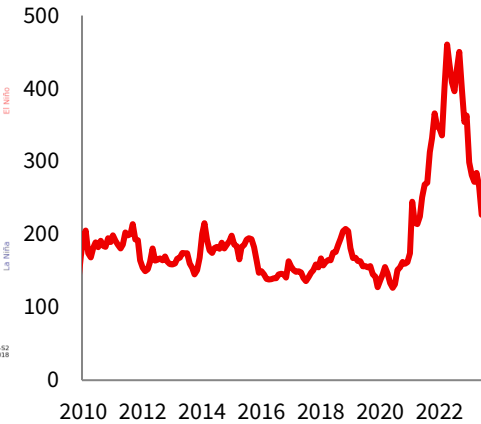
Seasonal conditions and farm inputs



Issued: 3 August 2023



www.bom.gov.au/Climate Commonwealth of Australia 2023, Australian Bureau of Meteorology Model run: 29 Jul 2023 Model: ACCESS52 Base period: 1981-2018



Rainfall outlook remains dry...

The mixed rainfall conditions across the country have continued – with above average rainfall across much of northern Australia in July, while most of WA, SA, eastern NSW, Victoria and eastern Tasmania saw below average rainfall.

The BoM’s outlook for the next three months anticipates above median temperatures and below median rainfall as being very likely – with El Nino a key contributor to this trend.

...with El Nino conditions a key driver

The BoM is still yet to declare an El Nino event, but has suggested it is likely in the coming weeks. This is despite the US National Ocean Atmospheric Administration and the World Meteorological Organization having announced that El Nino is already underway.

El Nino is typically associate with hotter and drier conditions across eastern and northern Australia – negatively impacting a range of key agricultural regions.

Fertiliser prices remain above longer term trends

Fertiliser prices were slightly higher in July – moving up by 3.3% – albeit this barely reversed the sharp declines that were recorded in June. By historical standards, fertiliser prices remain relatively high. That said, they are around half the peak seen in early 2022, when markets were rocked by Russia’s invasion of Ukraine.

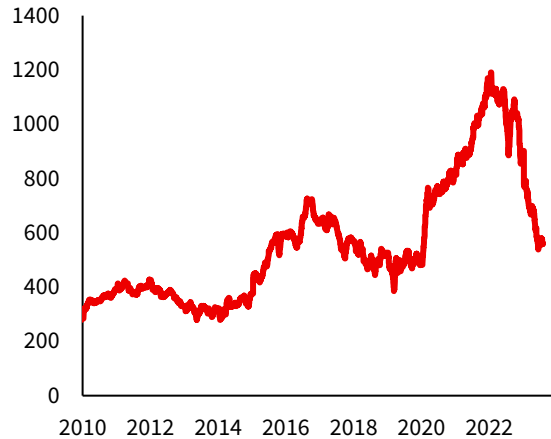
Even so, energy prices are expected to remain comparatively high in the near-term, keeping fertiliser prices above long term trend levels.

Feed grain prices remain stable

The NAB feed grain price index edged marginally lower in July (down by 1.1% from the June average) – but has essentially tracked sideways since February.

Dry conditions heading forward, and the prospect of a weaker crop yield, presents little opportunity for substantial downside to prices.

Livestock

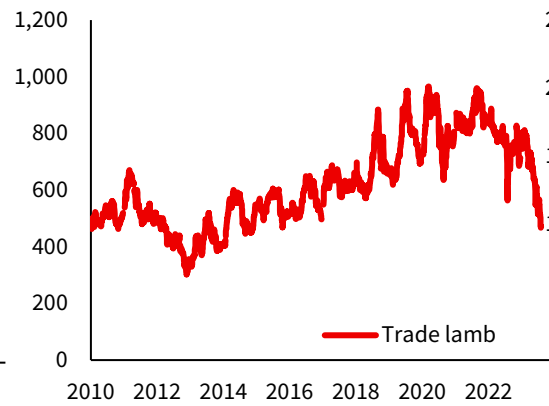


Cattle

Overall, Australian cattle prices steadily trended downwards from early 2022 through to mid-June, when markets showed signs of stabilisation. That said, we still see downside risks to prices.

El Nino is likely to result in below average spring and summer rainfall and feed grain prices are already elevated, which could see the increased slaughter rates persist (despite labour shortages constraining processor capacity).

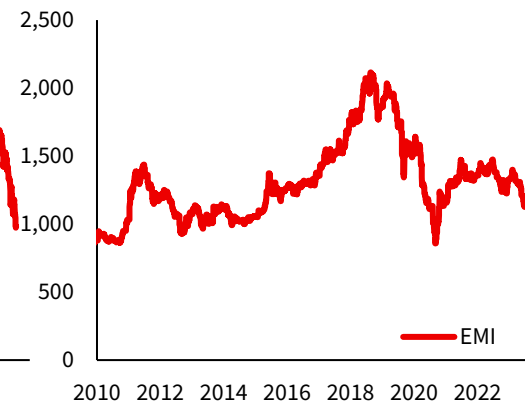
These factors could push the EYCI lower, with the severity of El Nino adding uncertainty.



Lamb

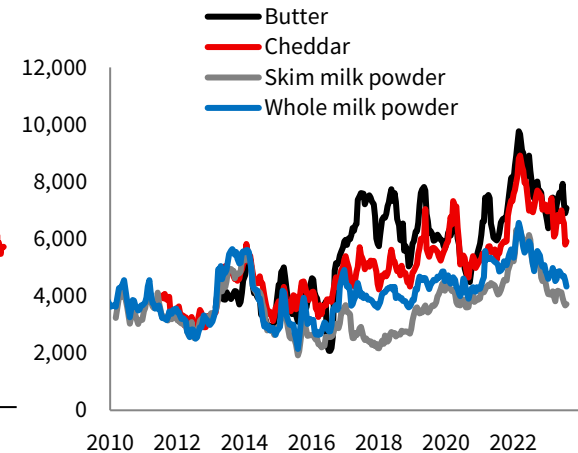
Similar to the trends in cattle prices, trade lamb prices have trended lower since early 2022, albeit lamb continued to drift lower in July.

Short term prospects are also broadly similar to cattle – with dry conditions likely to support the ongoing higher rate of slaughter (up around 63% yoy in the year-to-date by late July). Combined with uncertainty in major export markets, this could see further downward pressure on prices.



Wool

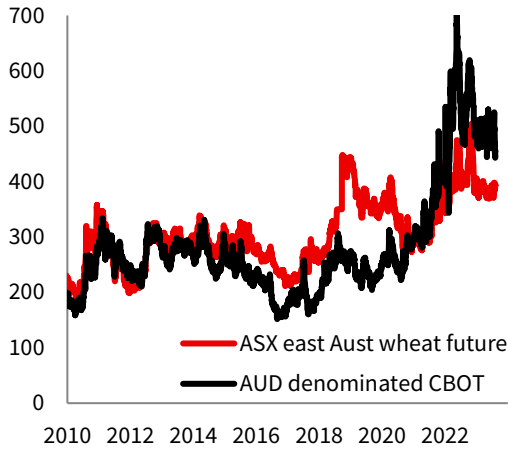
Wool markets closed for a three week recess from mid-July, with the EMI edging slightly up from late-June lows of \$11.26 to \$11.79 a kilogram at its close. Overall, the recent trends in the market have been relatively weak, reflecting the uncertainty around consumer demand heading forward – given subdued global growth prospects in the near-term.



Dairy

Global dairy prices were substantially lower at the early August auctions – down to their lowest levels since mid-November 2020 – led by a 7% fall in whole milk powder. The weaker export prices and increased domestic supply are expected to weigh heavily on farmgate prices this year – following the sharp rise recorded in 2022-23.

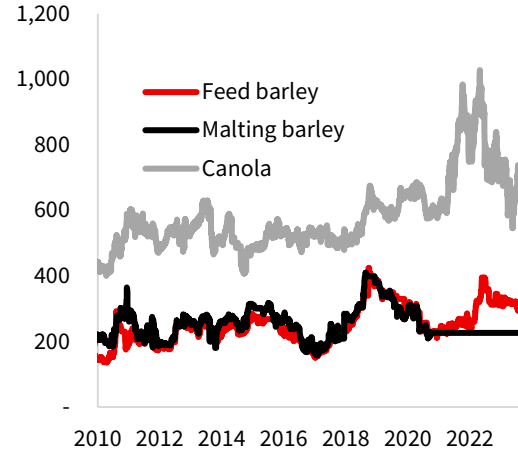
Crops



Winter crop prices

Australian wheat prices edged slightly higher in July but are still within the broad range exhibited since late 2022. We still see some modest downward pressure on prices towards the end of the year.

Canola prices recovered to around \$700/tonne in mid-July (having plunged between March and May), before subsequently trending sideways.

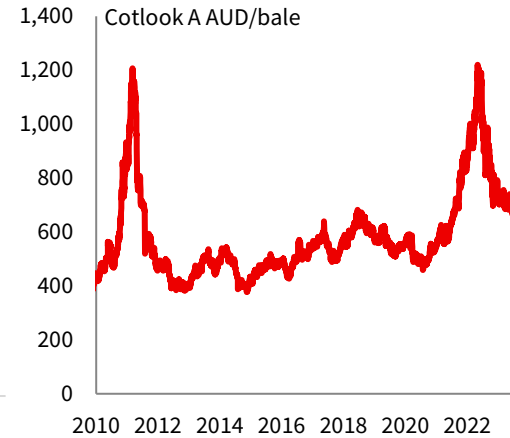


Crop production

The severity of El Nino conditions, and its impact on rainfall in key growing regions, remains uncertain, however it is set to negatively impact crop production.

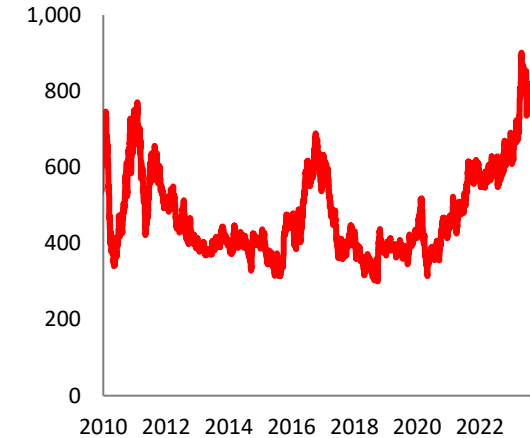
ABARES' June crop forecasts saw winter crop production down by over 33% in 2023-24, despite the area planted only being around 2.6% lower.

Weaker soil moisture is expected to negatively impact crop yields, with the severity of El Nino conditions a key determinant.



Cotton

The relative stability in cotton prices has continued into early August, with the Cotlook A edging back above \$700/bale in late July. Despite the likely dry conditions resulting from El Nino, the strong levels of water storage in growing regions should support output going forward.



Sugar

Sugar prices edged a little higher from mid-July onwards, recovering some of the losses recorded across June. Even off the early 2023 peaks, prices remain high by historical standards, reflecting concerns around global supply and ongoing strong demand.



Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.