

PRODUCTION INPUTS MONITOR

Issue 174 – May 2020

Overview

Spot prices	May-20	Change (from Apr-20)	Change (from May-19)
Feed wheat (av. \$/t del Goulburn/Murray Valley)	\$365	- \$20	+ \$4
Cereal hay (av. \$/t del Goulburn/Murray Valley)	\$205	- \$58	- \$205
Irrigation (Northern Victoria) \$/ML	\$264	- \$57	- \$284
Irrigation (Murray Irrigation System) \$/ML	\$214	- \$113	- \$314

Source: AFIA, Profarmer, Victorian Water Register, Murray Irrigation Ltd

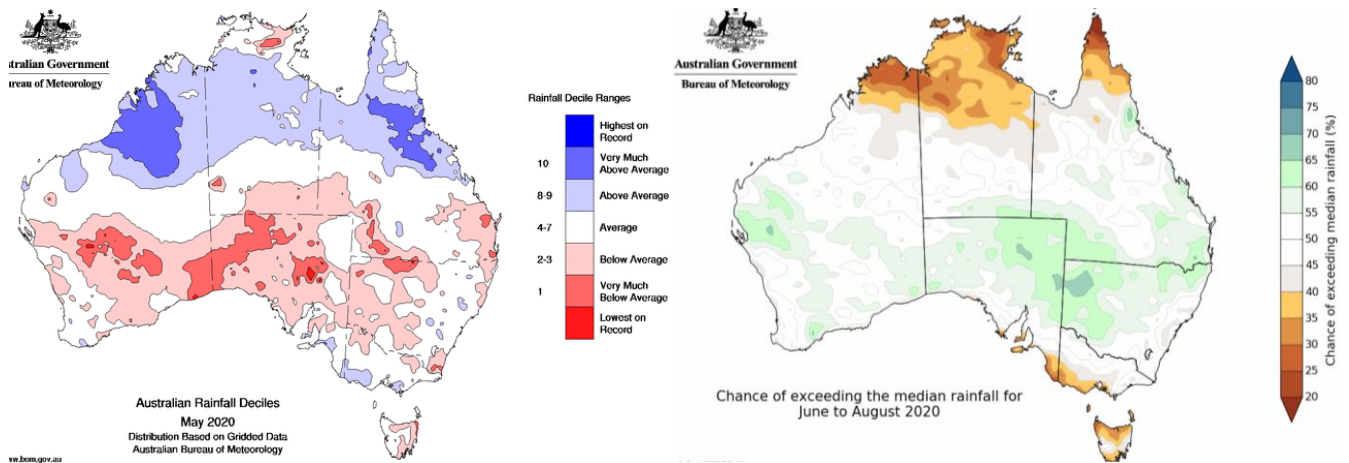
May concluded what was a favourable autumn for most parts of the country. Autumn rainfall was above average for large areas of southeastern Australia, including the Murray-Darling Basin. Improved stream flows and water storage levels have resulted in NSW government issuing the first general security allocation since March 2018. Despite more favourable seasonal conditions, June is expected to be drier than average for most parts of the country.

Feed

Most areas across the country have continued to enjoy favourable conditions and lower purchased feed prices. Cereal hay prices eased or remained steady in all regions this month. The Goulburn Murray Valley reported the biggest monthly drop, down 22 per cent since April. All mainland regions along the eastern seaboard (i.e. excluding Western Australia (WA) and Tasmania) are trading at a significant discount compared to last year. The drop in price is a direct reflection of improved pasture availability and subsequently, lower demand for hay. Prices in WA are approximately the same as the twelve months prior while in Tasmania they represent a significant year-on-year increase.

Grain prices took a similar route to hay this month, trending downwards. Following uncertainty around COVID-19 and prices firming in April, wheat prices eased in all regions by 4 to 12 per cent this month. With expectations of a return to near average production levels, the outlook for Australia's winter crop production continues to add downward pressure to prices. If realised, the size of the exportable surplus would mean that prices in all regions will be more closely aligned to the world market than during previous years. Wheat and barley futures prices (ASX) dropped this month, down 5 and 8 per cent respectively. Whilst production is looking favourable, the outlook remains varied by region. Queensland, WA and parts of South Australia (SA) are off to a slower start than the southeastern growing regions. With returning to a more typical harvest this year, it is expected that the interstate movement of grains will revert to more normal patterns.

For a comprehensive overview of the market and indicative pricing for hay and feed grains, including canola meal, for key dairy regions across Australia, see Dairy Australia's Grain & Hay Report. Published most weeks: <https://dairyaustralia.com.au/industry/farm-input-and-costs/hay-and-grain-report-overview>



Climate

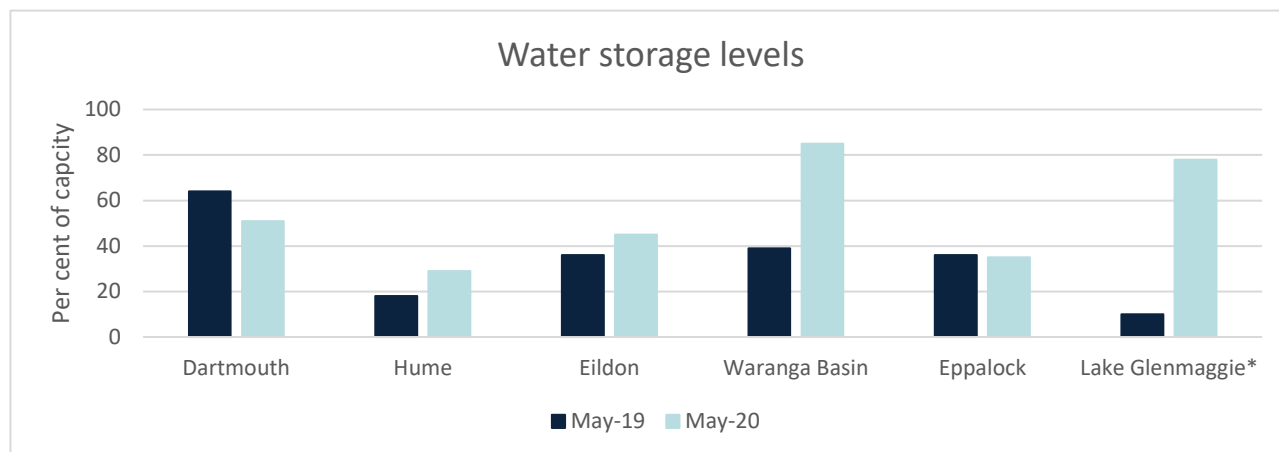
Most dairy regions experienced a dry end to what has been one of the most favourable autumns in recent years. May rainfall was 31 per cent below the average for Australia, with much of the deficit occurring in the southern half of the country. In particular, SA and New South Wales (NSW) were much below average, reporting rain totals 66 per cent and 53 per cent below the mean (respectively). The Bega Valley also missed out on much of the May rainfall, adding to long-term deficiencies. Despite the dry end, autumn rainfall was above average for a large area of the southeastern states (including Tasmania). Conversely, Southwest WA didn't experience the same favourable start, but did receive some rainfall in late May. A storm front arrived on the 24th of May, resulted in strong winds and widespread rain across the region. However, the storm didn't provide the rainfall totals that were first anticipated and reportedly produced more damage than rain. Despite this, the rainfall that was received has been beneficial for the development of the new season crop.

Seasonal Outlook

The Bureau of Meteorology's three-month outlook indicates average rain for much of the country. Tasmania, southern Victoria and small areas of southern SA are the only regions in the south of the country which are expected to have below average winter rainfall. The initial forecast that suggested a much wetter than average winter has been revised, to indicate a dry June overall. Rainfall throughout autumn improved soil moisture for large areas of southeastern Australia, providing a favourable start to the crop and pasture season. Increased soil moisture, particularly along the eastern wheat belt, will provide (somewhat) of a buffer to any dry weather experienced this June. However, WA enters June with below average soil moisture levels, therefore any prevailing dry weather is expected to be more damaging to the development of crops and pasture.

Two of Australia's main climate drivers, the El Niño–Southern Oscillation (ENSO) and Indian Ocean Dipole (IOD) remain neutral. After early indications of a negative IOD, the index turned less favourable in May, trending upwards. Generally, a positive IOD decreases rainfall across the country. It is expected the upward trend will be short lived and return to neutral in July. Meanwhile, the ENSO outlook continues to point towards a La Niña potentially developing in the spring.

Water storage levels (2019-20 as at 10 June)



Source: G-MW, *SRW

Approaching the new season, it's fair to say that most regions experienced one of the wettest starts to the year in recent times. Rainfall across the Murray-Darling Basin was well above the autumn average, up 22 per cent from the mean. Increased soil moisture and improved river flows resulted in further expansions to water storage levels in the monitored southeastern storage sites. Both the Waranaga Basin and Lake Glenmaggie reported the largest monthly increase in May, improving volumes by 20 per cent. The Hume Dam also posted a notable increase, up 13 per cent, while all other storages sites increased by less than 5 per cent. Most sites are now operating at higher levels than twelve months prior. Despite the dry outlook for June, long-range weather forecasts suggest winter rainfall should be close to average for much of the southeast.

Temporary water trades

	May-20	May-19	% Change
Northern Victoria			
Volume traded (ML)	66,006	93,804	-30%
Average price (\$/ML)	\$264	\$548	-58%
Murray Irrigation System			
Volume traded (ML)	2,263	1,579	+43%
Average price (\$/ML)	\$214	\$528	-59%

Source: Victorian Water Register, *Murray Irrigation Ltd

May saw the continuation of easing water prices in both irrigation systems. In northern Victoria, prices traded at an average of \$264/ML, down \$508/ML from the peak in January. This drop of 18 per cent is slightly less than the month prior (-33 per cent) but remains positive news for irrigators. The price in northern Victoria is now trading below the five-year average and reached levels not seen in almost two years. The volume traded in the system also recorded the fourth consecutive monthly decline. In total, just over 66,000 litres were traded throughout May, the lowest monthly quantity since July 2016.

The story was much the same across the border in NSW; prices dropped for the fourth consecutive month, to an average of \$214/ML. However, despite easing \$426/ML since January, prices remain 15 per cent above the five-year average. There was a slight increase in volume traded throughout May, however the quantity traded has remained relatively steady over the past four months.

Victorian Irrigation Allocations (2019-20 as at 1 April)

Victoria	HRWS	Change (HRWS)	LRWS
Murray	66%	+1%	0%
Broken	2%	0%	0%
Goulburn	80%	+7%	0%
Campaspe	80%	0%	0%
Loddon	80%	+2%	0%
Bullarook Creek	100%	0%	100%
MID	100%	0%	100%

Victorian irrigation allocations remain unchanged this month. The final seasonal determinations for 2019-20 that were announced on the 1st of April will continue until July the 1st 2020, when the opening seasonal determinations for 2020-21 are announced.

The outlook for the new season allocations has improved throughout April. Recent rain, improved flows into major storages and an overall increase in water availability have added to the improved outlook. Some storage sites experienced the largest April intake in 30 years. With improved inflows and the conclusion of the irrigation season, storage levels are rising. Therefore, the risk of spill has been updated for the Murray Goulburn and Campaspe systems. The Murray is posing the highest chance (60 per cent), whilst the Goulburn and Campaspe are operating at 20 and 50 per cent risk, respectively.

New South Wales Irrigation Allocations (2019-20 as at 10 June)

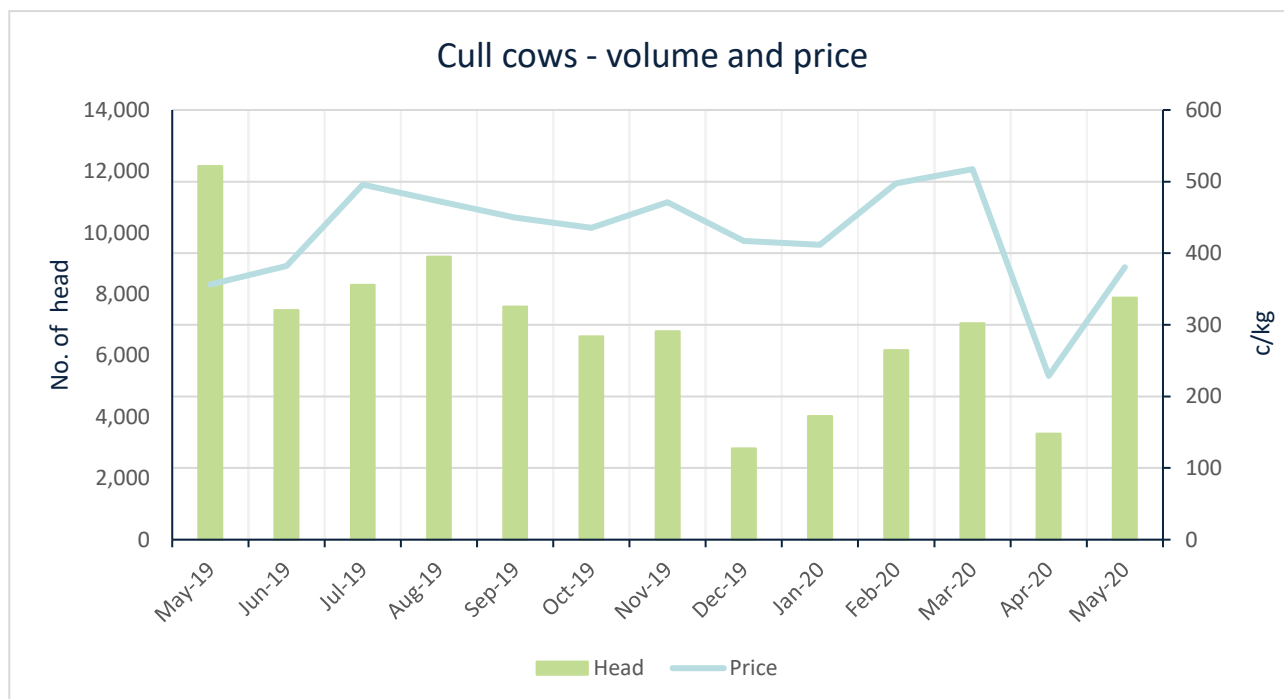
NSW – Murray Irrigation Ltd	Allocation	Change
Class C-General Security	3%	+3%

For further details see www.g-mwater.com.au, www.srw.com.au or www.murrayirrigation.com.au

In NSW, the general security allocation increased 3% this month. This is the first time since March 2018 that the NSW government issued any general security allocation. Favourable rainfall leading up to May improved NSW Murray resources, thus allowing for this development. Although recent rain caused speculation, many were surprised by the announcement as some storage levels were still operating at below the level of the same time last year.

The report indicates that the system has to reserve a certain volume of water (400GL) for high-priority usage, before releasing any general security allocations. The statement issued in April, outlined that 285GL had been saved for high priority and the system required an additional 115GL to meet the 400GL target. In comparison, last April the statement outlined that only 85GL had been saved. Opening water allocations for the 2020-21 water year will be made on Wednesday 1 July 2020.

Cull cows



Source: NLRS, from sale-yards within Vic

Following the disruptions experienced in April, both cull cow prices and volume sold increased this month. Volume through the saleyards reached 7,887 head, up 128 per cent from April. However, much of this increase could be the result of the uncertainty around social distancing restrictions and a reduced number of sales the month prior. The average price reported also grew considerably. On average, prices have been 25 per cent higher this financial year compared to last.

Due to the ongoing impact of COVID-19 there has been changes to the reporting mechanism of saleyard cattle which may account for some variation in reported figures. COVID-19 related disruptions to market reporting between March and June could account for a discrepancy in data.

Fertiliser

The initial panic and concern around the accessibility of fertilisers and agricultural chemicals following the COVID-19 outbreak has begun to ease. Despite this, there continues to be some risk to the outlook, including freight disruptions and the potential for the AUD to fall again. The Australian dollar started to appreciate throughout May, contrary to market expectations. This rally was favourable for imported inputs such as fertilisers and agricultural chemical; however, forecasts suggest that the AUD could depreciate against the USD again.

International fertiliser prices have eased this month, on the back of increased production in some key regions. Global urea eased 14 per cent, trading at \$202/tonne, meanwhile potassium chloride (MOP) and Diammonium phosphate (DAP) dropped 12 per cent and 7 per cent respectively.

	May-20	Monthly % change
Cereal hay		
Northern Australia (\$/tonne)	390	-6%
Southern Australia (\$/tonne)	205	-22%
Western Australia (\$/tonne)	345	0%
Wheat		
Northern Australia (\$/tonne)	440	-10%
Southern Australia (\$/tonne)	365	-5%
Western Australia (\$/tonne)	346	-7%
Futures prices (ASX)		
Wheat (av. \$/t Jan-21 east coast)	299	-5%
Barley (av. \$/t Jan-21 east coast)	234	-8%
Fertiliser		
DAP (US\$/tonne)	263	-7%
Urea (US\$/tonne)	202	-14%
MOP (US\$/tonne)	216	-12%
Irrigation		
Northern Victoria		
Volume traded (ML)	66,006	-39%
Average price (\$/ML)	264	-18%
Murray Irrigation System*		
Volume traded (ML)	2,263	+3%
Average price (\$/ML)	214	-34%
Cull Cows		
Sales volume (head)	7,887	+28%
Average price (c/kg)	380	+66%
	YTD 2019-20	% change
Sales volume (head)	70,106	-7%
Average price (c/kg)	448	+25%

Apr-20	Mar-20	Feb-20
Source:		
415	428	495
263	303	323
345	342	355
Source: Profarmer		
488	443	449
385	349	351
371	333	324
Source: ASX		
316	346	318
253	285	260
Source: World Bank		
282	276	279
235	231	214
245	245	245
Source: Victorian Water Register, *Murray Irrigation Ltd		
108,579	186,562	206,298
321	479	610
2,203	2,295	2,321
327	440	521
Source: NLRS (sale-yards within Vic)		
3,455	7,051	6,174
229	517	498
YTD 2018-19	YTD 2017-18	YTD 2016-17
73,320	62,064	79,051
358	409	474

To access more information on the Hay and Grain report click here

Grain report ▶

Hay report ▶