Production Inputs Monitor

Issue 153 – 16 July 2018

There is limited supply of hay in Australia and demand remains strong. Reports suggest trucks have been driving on all main highways to deliver feed to regions in need. Rainfall was below average across Australia in June and the dry weather continues to support grain prices. Limited rain across the east coast worsened rainfall deficiencies. The BOM upgraded the ENSO outlook to El Nino watch, indicating a 50% likelihood that an El Nino will form this spring. Water prices continued to increase in northern Victoria and the Murray Irrigation system while higher feed costs and dry weather forecasts increased culling rates in June.

Feed and fertiliser prices

	Jun-2018	Change (from May-18)	Change (from Jun-17)
Spot prices			
Feed wheat (av. $/t del Melbourne)	329	+$15	+$98
Barley (av. $/t del Melbourne)	327	+$21	+$113
Canola meal (av. $/t del Melbourne)	440	+$15	+$66
Lucerne hay (av. $/t del Central Vic)	480	+$103	+$115
Pasture hay (av. $/t del Central Vic)	196	+$103	+$56
			Source: Rural press
Urea (US$/t, spot, fob, Black Sea)	*N/A*		
DAP (US$/t, spot, fob, US Gulf)	*N/A*		
MOP (US$/t, spot, fob Vancouver)	*N/A*		
			Source: World Bank
Futures prices (ASX)			
Wheat (av. $/t Jan-19 east coast)	322	+$2	+$15*
Barley (av. $/t Jan-19 east coast)	282	+$1	+$39*
*Compared to Jan-18 east coast contract			Source: ASX

Many farmers and growers expected the large carryover of hay from previous years to maintain this winter and chose to plant less hay this season. The market has since turned and there is limited supply of hay in Australia and demand remains strong. Reports suggest that in June trucks have been driving on all main highways to deliver feed to regions in need. Carryover stocks from 2016 are selling quickly and protein supplies, lucerne, vetch and straw, have started to deplete in southern regions. Rainfall during the month provided some relief however, subsoils are still dry in most of the country and more rain is necessary to turn the market around. Cold weather and frosts slowed pasture growth in eastern states. As a result of increased demand and limited supply, hay prices grew in June.

Weather has been a major driver of global grain prices as hot and dry conditions caused concerns for wheat production this month. Below average rain in Russia and the Black Sea region resulted in a downwards revision of global wheat production forecasts. In Brazil corn production is suggested to be lower than previously estimated. This has supported international grain prices. In Australia dry weather led to price growth and as the east coast continues to go without any substantial rain, prices are likely to remain strong. Some growers are still holding on to grain further reducing supply, however, according to some reports growers in southeast Australia have started to sell grain, which could act to alleviate some market pressure. ASX Jan 19 wheat futures increased 5% in June compared to last year and ASX Jan 19 barley futures continued to strengthen.

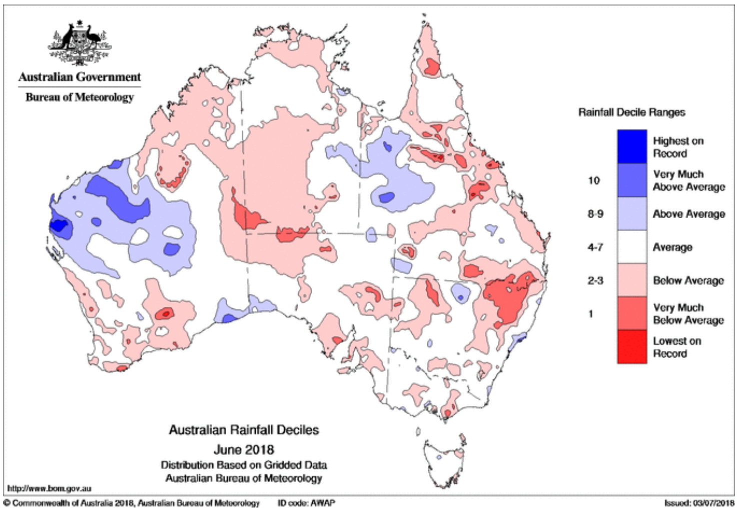
Strong international grain prices continued to drive demand for fertilisers in June and keep the market supported. Reports suggest fertiliser prices grew slightly in June, however, prices are yet to be released by the World Bank and will therefore be updated in the upcoming *Production Inputs Monitor Report* in August.

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

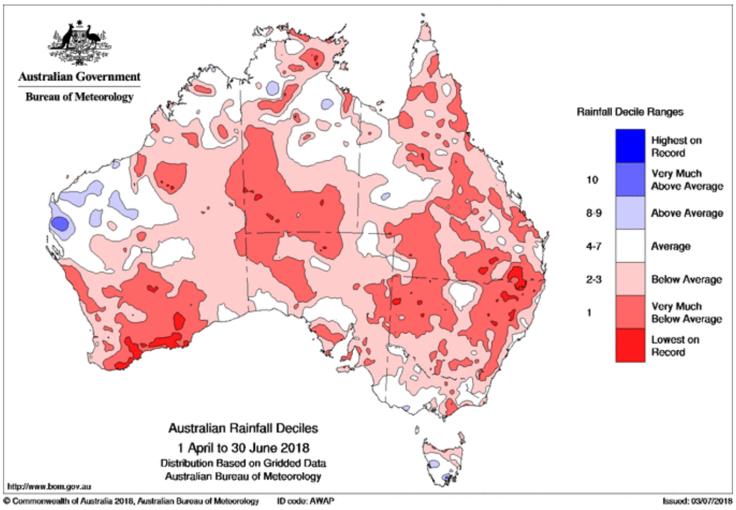
Contact: **Sofia Omstedt** Phone: (03) 9694 3876 Email: sofia.omstedt@dairyaustralia.com.au

Rainfall

Following an unusually dry and warm autumn, rainfall during June was below average across Australia. South Australia, eastern mainland Australia and parts of Western Australia reported dry conditions while the east coast received minimal rainfall. Some parts of the east coast in New South Wales and Queensland experienced the driest June in 20 years. Temperatures have overall been above average across the country, while night-time temperatures in Victoria, parts of South Australia, Queensland and New South Wales were cooler than normal.



Some regions in Western Australia received above average rain this month which resulted in minor flooding and western Queensland also reported wetter than average conditions.

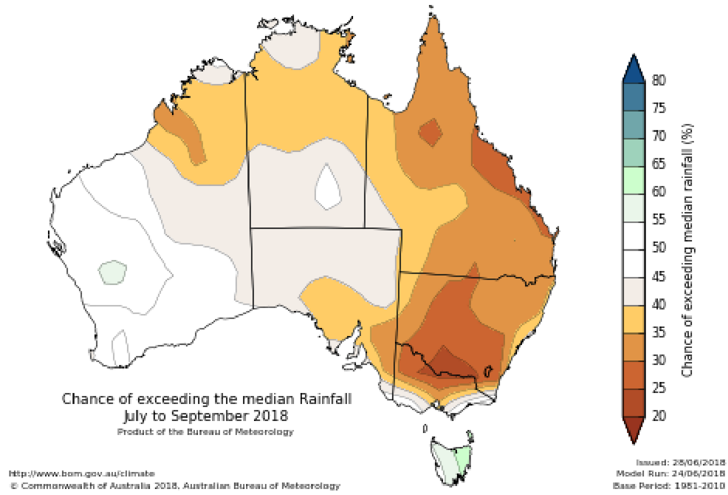


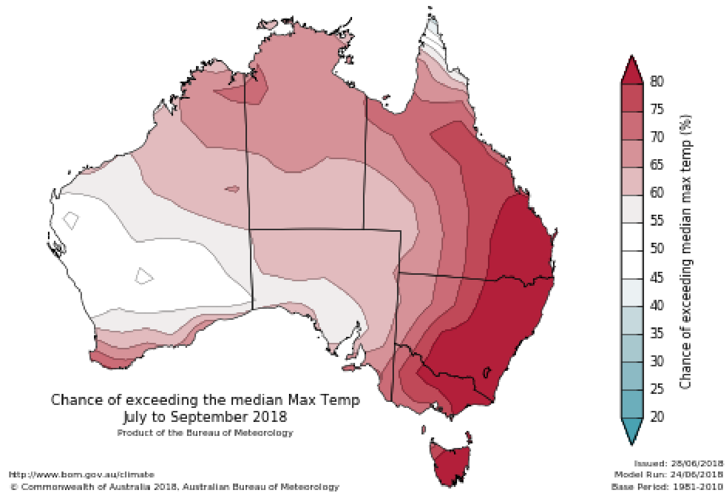
Drought Statement

The start of the southern wet season has been unusually dry. Below average rain during June in southwestern Western Australia, parts of South Australia and Queensland worsened rainfall deficiencies. As rain on the east coast of New South Wales and Queensland was record low this month serious rainfall deficiencies have increased in affected areas*:* http://www.bom.gov.au/climate/drought

Seasonal Outlook

The Bureau of Meteorology's seasonal outlook for July-September forecasts drier than average conditions in eastern and northern Australia. In northern regions rainfall is usually limited around this time of year. Rainfall is projected to be below average across eastern Australia in July. The BOM suggests temperatures will be warmer than usual in eastern Australia and night-time temperatures are expected to be hotter than average for the next three month.





Sea surface temperatures in the Pacific Ocean are neutral but have since April slowly warmed while below surface temperatures are warmer than average. These are signs that an El Niño might potentially develop this spring. As a result the BOM has updated the ENSO outlook to El Niño watch, indicating a 50% likelihood of an El Niño forming in spring. A typical El Niño usually results in below average rain during winter and spring. The Indian Ocean Dipole (IOD) remains neutral and forecast to be inactive this winter.

For more climate outlook information see www.bom.gov.au

Contact: **Sofia Omstedt** Phone: (03) 9694 3876 Email: sofia.omstedt@dairyaustralia.com.au

Water

Storage levels (2017/18 as at 6 July)

	% full Jun -18	Change from May-18	% full Jun -17
Dartmouth	89	0%	78
Hume	39	+6%	68
Eildon	55	0%	65
Waranga Basin	46	+7%	53
Eppalock	61	0%	89
Glenmaggie*	20	+1%	26
Source: G-MW, *SRW			

Despite below average rain during the month water levels improved in several storages. In Hume, Waranga basin and Glenmaggie levels increased 6%, 7% and 1% respectively compared to last month. Despite this increase levels are still well below last year, down 29% in the Hume, 10% in Eildon and 28% in Eppalock. In Dartmouth water levels remain unchanged.

Irrigation Allocations (2017/18 as at 2 July)

Victoria	HRWS	Change (HRWS)	LRWS
Murray	41%	-59%	0%
Broken	0%	-100%	0%
Goulburn	32%	-68%	0%
Campaspe	100%	0%	0%
Loddon	32%	-68%	0%
Bullarook Creek	0%	100%	0%
MID	40%	-60%	0%
Full details at www.g-mwater.com.au or www.srw.com.au			

At the first announcement for the 2018/19 seasonal determination the Northern Victoria Resource Manager advised that the Campaspe system received 100% high-reliability water shares while the Loddon and Goulburn system both received 32% shares. Bullarook and Broken started the season with 0% high-reliability water shares. Following a dry and hot autumn inflows into all major systems have been low. More rain is essential to improve the current outlook.

Full season determinations and outlook updates are available at:
http://www.nvrm.net.au/allocations/current.aspx
http://nvrm.net.au/outlooks/current-outlook

Murray Irrigation Ltd	Allocation	Change
Class C – General Security	0%	0%
For further details see www.murrayirrigation.com.au		

The NSW Murray General Security allocation is at 0% at the start of the 2018/19 season.
http://www.murrayirrigation.com.au

Temporary water trades

	Jun-18	Jun-17	Change
Northern Victoria			
Volume traded (ML)	326,347	388,730	-16%
Average price ($/ML)	168	41	+309%
Murray Irrigation System*			
Volume traded (ML)	5,906	4,987	+18%
Average price ($/ML)	187	9	+1947%
Source: Victorian Water Register, *Murray Irrigation Ltd			

As dry weather continued to dominate weather forecasts in June, water prices in northern Victoria grew for the fourth consecutive month. The June price $168/ML increased 12% on a monthly basis and has grown 59% since the start of autumn. Compared to the five year average the price is elevated, up 40%. Water trading also increased, up 262% on a monthly basis, however compared to last year trading is subdued, down 16%.

In the Murray Irrigation system water prices grew 15% on a monthly basis, up to $187/ML. Since the start of autumn prices have consistently increased while trading has declined. Trading was down 34% on a monthly basis but is up 18% compared to last year. The water exchanged closed on the 18th of June for the 2017/18 season.

Cull Cows

	Jun-18	Jun-17	Change
Sales volume (head)	7,254	8,259	-12%
Average price (c/kg)	353	453	-23%
	YTD 2017/18	**YTD 2016/17**	**Change**
Sales volume (head)	87,340	68,954	-21%
Average price (c/kg)	399	470	-15%
Source: NLRS, from sale-yards within Vic			

Cull cow prices dropped 14% in June, down to $353c/kg. This is the lowest reported prices for years and 7% below the five year average. In June 7,254 cows passed through saleyards, a 2% increased on a monthly basis despite the price drop. Higher feed costs and dry weather forecasts are leading to increased sales for pastoralists looking to destock. The average cull price during 2017/18 was $399c/kg, down 15% on last year's price. In the twelve months leading to June 2018 68,954 cows were sold to slaughter, a decrease of 21% compared to last year.

Contact: **Sofia Omstedt** Phone: (03) 9694 3876 Email: sofia.omstedt@dairyaustralia.com.au