

PRODUCTION INPUTS MONITOR

Issue 163 – May 2019

It was a dry month for WA and the east coast of Australia, while other areas received widespread rain events. Upcoming dry weather is expected to have a slight impact of winter crop production. Notwithstanding this, overall production is forecast to increase 20% year-on-year. Demand for purchased feed continued to increase as fodder is becoming more difficult to source. The irrigation regions in northern Vic and southern NSW need more rain; water prices spiked again this month and water storage levels remain low. As production costs remain elevated, many farmers took advantage of an increase in price of cull cows. All eyes will be on the radar in the coming month as timely.

Feed and fertiliser

As there is very little hay left in the supply chain, sourcing fodder is a growing concern for many farmers. As we begin winter and the onset of cold weather, many farmers are finding it difficult to source fodder. The ongoing seasonal conditions depleted carryover stock last year. More recently, rain in some regions has provided optimism for the upcoming seasons yield. However, this has done little to soften hay prices which remain at near record levels. On the back of a tough season for many dairy farmers, the price of purchased feed is becoming increasingly unaffordable. More rain is required to further establish pasture in most regions and reduce the demand pressure. With the current climate outlook suggesting otherwise, demand is likely to remain strong.

After some recent weakness, the local grain market firmed once again in late May. The ASX wheat and barley futures increased \$23/tonne and \$13/tonne respectively. International factors combined with a drier than average forecast for many cropping regions has caused the rise in prices. In particular the Western Australian and South Australian forecast is looking unfavourable; this is expected to have an adverse impact on new season crop. Western Australia had a very dry May, although some rain across the wheat belt in early June has sparked some confidence. ABARES has forecast Australia's winter crop to increase 20%, reaching 36.4 million tonnes. This is off the back of a significantly small harvest last year. Intentionally, the lingering threat of the trade war continues to inject volatility to the market. Wet weather continues to impact planting of corn and soybean in the US mid-west.

Fertiliser prices remained relatively subdued over the previous month. A lack of demand both internationally and locally were the main drivers to the absence of price movement. Local winter crop is progressing, although expected to be well below the five-year average. This combined with the current weather forecast has kept demand for fertiliser low. It can be expected if there is widespread rain in June then fertiliser demand will increase and therefore hand to mouth buying will be seen locally. The price for Urea and MOP remains at \$248/tonne and \$266/tonne respectively. DAP eased slightly, down \$10.

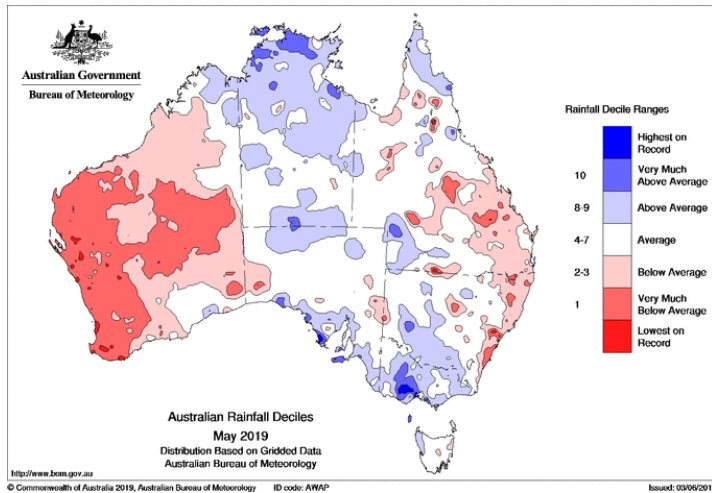
For a comprehensive overview of the market and indicative pricing for hay and feed grains, including canola meal, for key dairy regions across Australia, see Dairy Australia's Grain & Hay Report. Published most weeks:

<https://dairyaustralia.com.au/industry/farm-input-and-costs/hay-and-grain-report-overview>

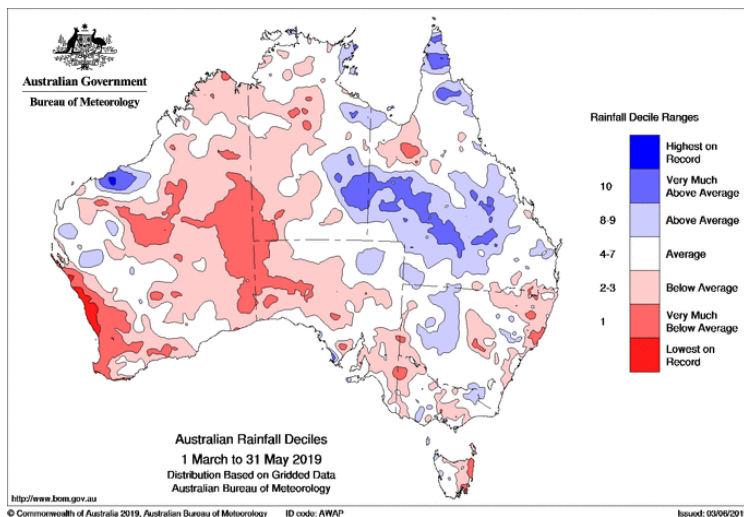
	May-2019	Change (from Apr-19)	Change (from May-18)
Spot prices			
Feed wheat (av. \$/t del Melbourne)	360	-\$19	+\$46
Barley (av. \$/t del Melbourne)	366	-\$3	+\$60
Canola meal (av. \$/t del Melbourne)	461	-\$4	+\$35
Lucerne hay (av. \$/t del Central Vic)	616	+\$6	+\$239
Pasture hay (av. \$/t del Central Vic)	353	+\$77	+194
Source: Rural press			
Urea (US\$/t, spot, fob, Black Sea)	248	\$0	+\$69
DAP (US\$/t, spot, fob, US Gulf)	313	-\$10	+\$4
MOP (US\$/t, spot, fob Vancouver)	266	\$0	+\$59
Source: World Bank			
Futures prices (ASX)			
Wheat (av. \$/t Jan-20 east coast)	330	+\$23	+\$6
Barley (av. \$/t Jan-20 east coast)	282	+\$13	+\$1
*Compared to Jan-20 east coast contract		Source: ASX	

Rainfall

Rainfall was mixed last month. Looking at historical averages, the west and parts of the east coast remained dry while most of inland Australia received rain. The majority of Western Australia recorded below average to very much below average rainfall. Southwestern WA is exceptionally dry, Geraldton only received 1mm in May. These deficiencies stretch along the WA wheat belt. Below average rainfall was also recorded along the east coast of southern QLD and NSW. Well timed cold fronts in the southern regions and cyclones in northern Australia resulted in average to above average rainfall in Victoria, South Australia, Northern Territory and inland southern NSW. Year-to-date rainfall has been below average for much of the country, substantial falls are required in many regions to reduce the deficiency.



Overall, May was warmer than average, following the year-to-date trend. For the period of January to May, this year has exceeded the warmest mean temperature on record. Tasmania, Victoria, NSW and parts of Queensland all recorded above average temperatures this month, while SA largely experienced average conditions. Southern WA had below average temperatures although is indicating warmer than average conditions in the coming months.



Drought Statement

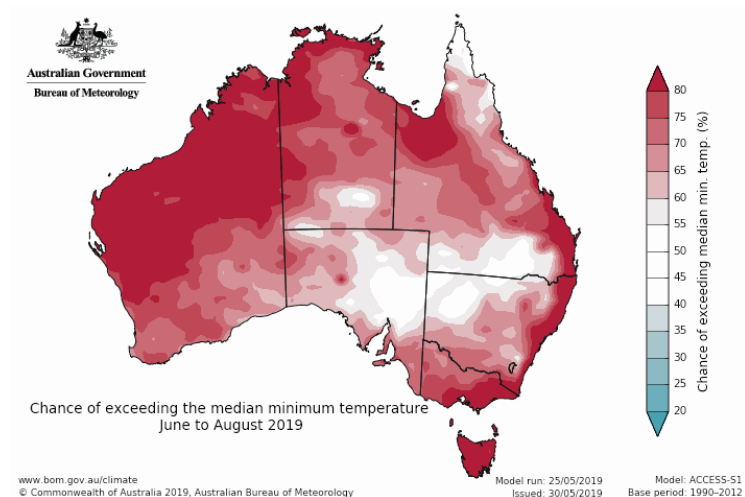
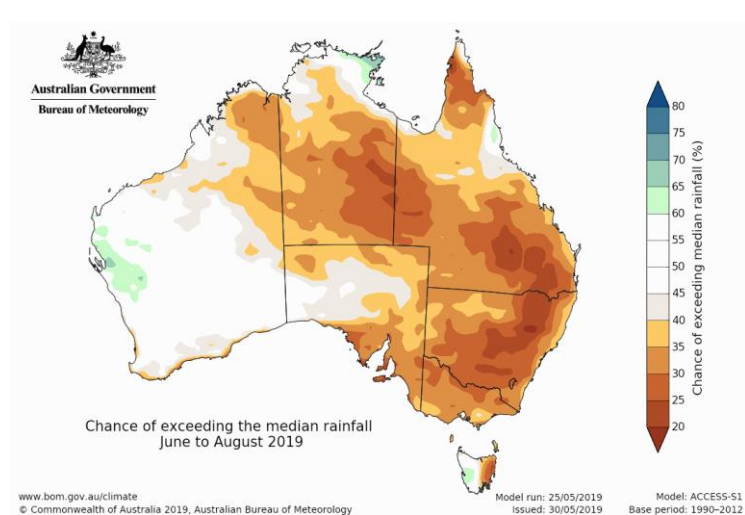
Substantial rainfall in May over parts of SA, Victoria and southern NSW reduced rain deficiencies. A lack of rain in Western Australia did the opposite, impacting the cropping region. To find out more: <http://www.bom.gov.au/climate/drought>

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Seasonal Outlook

Conditions are expected to remain dry for much of the country, according to the latest Bureau of Meteorology climate outlook. The June to August forecast suggests below average rainfall is likely for most of the eastern states and parts of South Australia. Southwest WA is showing no real indication of wetter or drier conditions other than one small area north of Geraldton. The lack of rain is expected to limit stream flows and soil moisture for many agriculture areas. The effects of low rainfall are likely to be exacerbated by higher than average temperatures across the country. Clear nights and lack of soil moisture will increase the chance of frosts.



The waters of the Tropical Pacific Ocean are expected to cool in the coming months, therefore the Bureau has downgraded their ENSO outlook. Now at El Niño Watch, the risk has contracted although remains a factor. Not taking into account El Niño, the BoM has forecast an increased amount of high-pressure systems across southern Australia. This is expected to keep skies clear throughout the southern states further enhancing the chance of frost.

Water

Storage levels (2018/19 as at 9 May)

	% full May -19	Change from Apr -19	% full May-18
Dartmouth	64	0%	88
Hume	15	+2%	37
Eildon	36	0%	55
Waranga Basin	38	+1%	39
Eppalock	37	0%	62
Glenmaggie*	6	-3%	25

Source: G-MW, *SRW

There were small movements in the water storage levels across the country. Rain in southern NSW and Victoria facilitated small improvements in the Hume Dam and Waranga Basin. These were the only two sites that recorded improvements. Lake Eppalock, Lake Eildon and the Dartmouth Dam all remained steady while Lake Glenmaggie recorded a 3% drop. Lake Glenmaggie is now at 6% capacity, the lowest it has been in 16 years. With low rainfall predicted in the next three months storage levels are expected to improve at a slower rate than previous years.

Irrigation Allocations (2018/19 as at 9 May)

Victoria	HRWS	Change (HRWS)	LRWS
Murray	100%	0%	0%
Broken	37%	0%	0%
Goulburn	100%	0%	0%
Campaspe	100%	0%	0%
Loddon	100%	0%	0%
Bullarook Creek	100%	0%	100%
MID	100%	0%	35%

Full details at www.g-mwater.com.au or www.srw.com.au

As the irrigation season come to the end the Broken System remains the only system under 100% HRWS. Bullarook Creek and Macalister are still the only two irrigation systems that offer LRWS. At the time of writing Bullarook Creek continues to offer 100% and Macalister 35%. The BoM's forecast for June is predicting dry conditions for these areas.

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

NSW Murray General Security allocations remain at 0%

<http://www.murrayirrigation.com.au>

Temporary water trades

	May - 19	May - 18	Change
Northern Victoria			
Volume traded (ML)	93,804	90,259	+4%
Average price (\$/ML)	548	150	+265%
Murray Irrigation System*			
Volume traded (ML)	1,579	8,905	-82%
Average price (\$/ML)	528	162	+226%

Source: Victorian Water Register, *Murray Irrigation Ltd

Water prices have once again firmed this month, nearing year-to-date records. Spot prices for the Murray Irrigation System reached \$565/ML in the last week of May. With a monthly average of \$528/ML, prices have increased 226% since May 2018. This price surge combined with recent rain has resulted in significantly less water traded. The amount traded in the Murray Irrigation System this month was down 82%, to 1,579 ML. Some recent rainfall in southern NSW has helped establish pasture and eased the irrigation pressure slightly.

Northern Victoria experienced a similar price increase throughout May. The monthly average reached \$548/ML, 265% more than May 2018. This is the highest monthly average since 2008. Unlike southern NSW the price didn't influence farmers' decision to purchase water. The total volume traded increased by 4% this month. With the current forecast indicating drier than average conditions for the irrigation district, it is unlikely prices will soften much in the next month or two.

Cull Cows

	May-19	May-18	Change
Sales volume (head)	12,175	7,470	71%
Average price (c/kg)	340	410	-17%
	YTD 2018/19	YTD 2017/18	Change
Sales volume (head)	75,339	61,700	22%
Average price (c/kg)	348	404	-14%

Source: NLRs, from sale-yards within Vic

Culling increased this month as many farmers look to destock in order to reduce overheads throughout winter. Month-on-month culling increased 57%, this is the fourth consecutive monthly double figure increase. (29% in April, 14% in March and 36% in February). Compared to last year, culling has increased a noteworthy 71%. The increase in sales this month was complimented by a slight increase in the average price. Firming 2%, the average May price was 340c/kg. The price has been steadily increasing since the low of February this year.

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