

PRODUCTION INPUTS MONITOR

Issue 165 – July 2019

High production costs continue to impact dairy farmers. Demand for hay remains strong, driving price pressure while wheat prices eased although remain high. There were rain events in some dairy regions although others missed out. Most water storage sites improved although at a slow rate for this time of year. Both water allocations and price increased this month. Cull cows made the best average monthly price for almost three years. Looking ahead, the forecast is indicating drier and warmer conditions for the next three months.

Feed and fertiliser

Demand for fodder remains strong across the country and a lack of supply is driving in a hefty premium. The price for hay continues to climb across the country with many areas overtaking the peak set late last year. As we enter the last month of winter, many purchased extra feed to get through the cold period. The balance of opinion suggests that even in the event of a good spring and substantial new a crop yield, demand will remain firm due to the ongoing drought impact. Pasture and lucerne hay experienced the largest price increases, up \$26/tonne and \$28/tonne respectively.

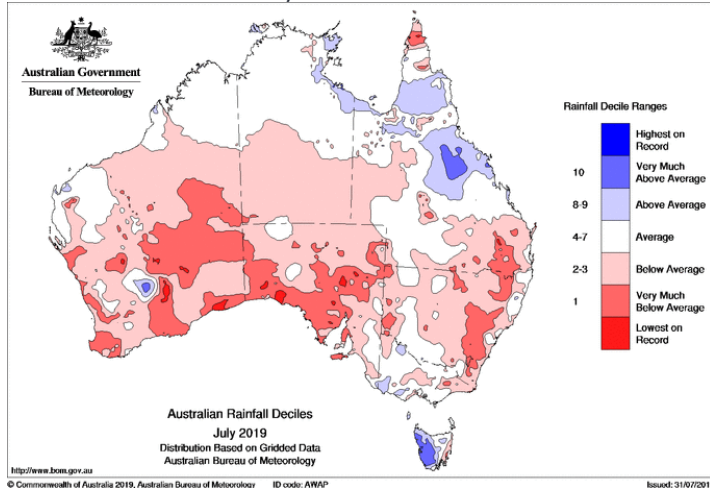
Australia's current winter crop production is on track to be higher than 2017/18, although recent dry weather injected some volatility to markets. Domestic grain markets continue to be dominated by weather; in particular the recent lack of rain firmed prices. Looking ahead spring rainfall will be critical to the success of this year's winter crop. Internationally, there has been some instability in global grains markets as the US and China trade issues continue. The latest development resulted in a plan for the US to increase tariffs a further 10% on Chinese imports. These developments are far from encouraging and the global markets are reflecting this. There were mixed price movements in fertiliser markets this month. Urea increased \$7/tonne, to \$264/tonne while DAP eased \$10/tonne. Internationally, flooding in the US has resulted in less fertiliser application reducing the application rates. Locally, there have been reports of areas in Victoria and NSW experiencing a shortage of urea (although prices don't show this). After recent rain, hand to mouth buying increased reducing stock on shelves.

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>

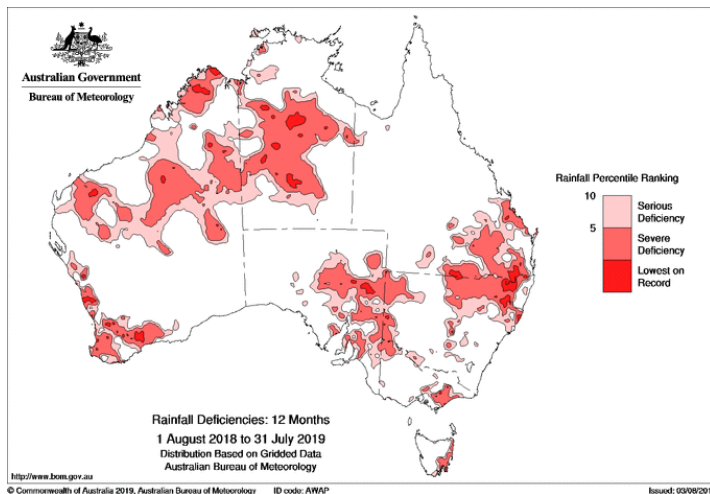
	Jul-2019	Change (from Jun-19)	Change (from Jul-18)
Spot prices			
Feed wheat (av. \$/t del Melbourne)	365	-\$15	+\$37
Barley (av. \$/t del Melbourne)	365	-\$9	+\$47
Canola meal (av. \$/t del Melbourne)	496	+\$19	+\$30
Lucerne hay (av. \$/t del Central Vic)	710	+\$28	+\$213
Pasture hay (av. \$/t del Central Vic)	411	+\$26	+196
Source: Rural press			
Urea (US\$/t, spot, fob, Black Sea)	264	+\$7	+\$11
DAP (US\$/t, spot, fob, US Gulf)	344	-\$10	-\$57
MOP (US\$/t, spot, fob Vancouver)	272	\$0	+\$57
Source: World Bank			
Futures prices (ASX)			
Wheat (av. \$/t Jan-20 east coast)	340	+\$10	-\$53
Barley (av. \$/t Jan-20 east coast)	286	-\$5	-\$72
*Compared to Jan-20 east coast contract		Source: ASX	

Rainfall

Rainfall over the last month was below average for the country as a whole. The majority of the deficits occurred throughout Western Australia, South Australia, New South Wales and southern Queensland. There were a number of areas in NSW, QLD, SA and WA which recorded their lowest July total rainfall in over 20 years. However, both the northern and southern points of the country recorded higher average falls; Tasmania received substantial rain on the western side while the select areas in northern QLD received above average rainfall. Parts of Victoria and southwestern WA also received timely rainfall.



The first seven months of the year have been very warm for the country and July was no exception. Overall, it was the fourth warmest July on record for Australia. Most of the country recorded above average to very much above average temperatures, this was especially widespread in Victoria and New South Wales. There was some respite in the north of the country as the north east coast of QLD remained average over the course of the month.



Drought Statement

The first half of the year has started very dry which intensified drought in many areas. Drought conditions persist in northern NSW, southern QLD, eastern SA, southwest WA and pockets of Victoria.

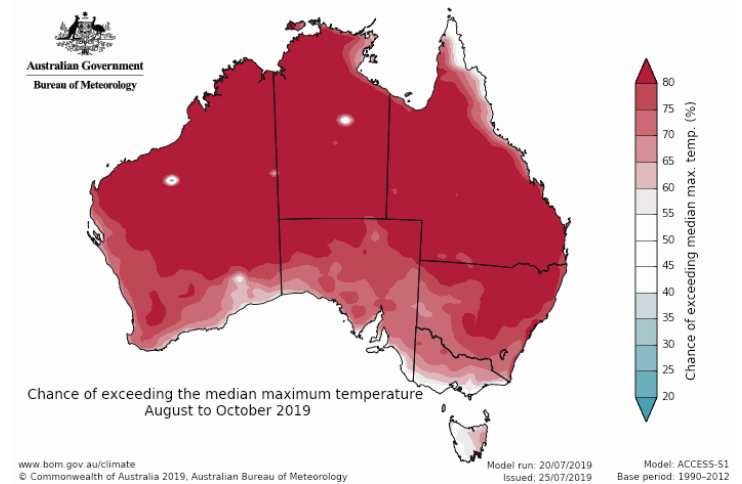
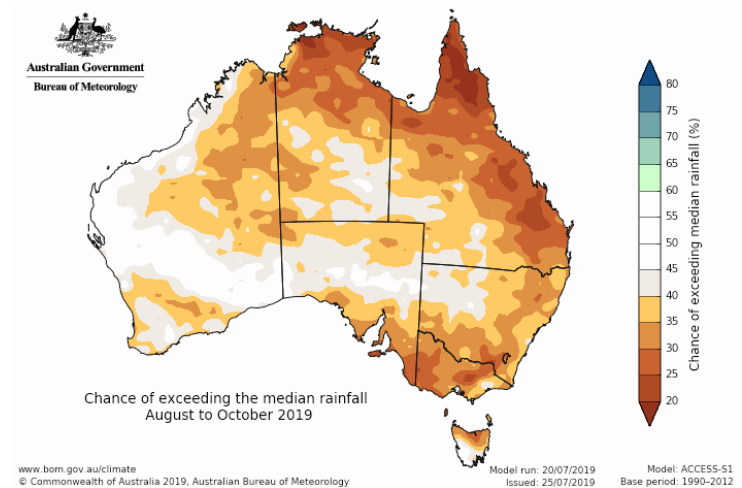
<http://www.bom.gov.au/climate/drought>

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Seasonal Outlook

Dry and warm conditions are likely to persist until at least October, according to the latest climate outlook published by the Bureau of Meteorology. A lack of rainfall for the August to October period is likely to occur across the eastern seaboard, particularly along the coastline. Drier than average conditions continue to dry vegetation and increase the risk of bush fires in the north. Parts of southwest Western Australia are showing no real indication of drier or wetter conditions, particularly along the wheatbelt. Temperatures for the next three months are likely to be warmer than average for most of Australia. This is expected to be accompanied by cloud free nights and therefore a higher chance of frost.



The ENSO outlook remains neutral, not favouring either an El Niño or La Niña event. The current warm and dry outlook is due to models suggesting a positive Indian Ocean Dipole. A positive IOD generally results in drier conditions over central and southern Australia during winter and spring which is what we are seeing now. The IOD index has been near threshold over the past few weeks however at the time of writing this has eased.

Water

Storage levels (2018/19 as at 1 August)

	% full Jul-19	Change from Jun -19	% full Jul-18
Dartmouth	62	-2%	89
Hume	35	+10%	44
Eildon	40	+2%	54
Waranga Basin	47	+4%	52
Eppalock	37	0%	60
Glenmaggie*	50	+28%	34

Source: G-MW, *SRW

Most monitored water storage sites improved levels this month although at a slower rate than usual. Mid-winter is normally the time when water storage levels improves the most. By the end of July Lake Eildon improved 2% and Waranaga Basin 4%. Larger improvements were seen in the Hume Dam and Lake Glenmaggie which increased 10% and 28% respectively. On the other hand, the Dartmouth Dam decreased 2% and Lake Eppalock remained the same. Currently, Lake Eppalock and Hume are most in need of runoff as they track well below the same time last year.

Irrigation Allocations (2018/19 as at 1 August)

Victoria	HRWS	Change (HRWS)	LRWS
Murray	16%	14%	0%
Broken	0%	0%	0%
Goulburn	25%	23%	0%
Campaspe	37%	11%	0%
Loddon	25%	23%	0%
Bullarook Creek	100%	81%	100%
MID	70%	35%	0%

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

A month after the new season allocations were listed there have been some improvements. HRWS increased 81% in Bullarook Creek to reach 100% HRWS allocation. All other systems recorded improvements, other than the Broken which remains at 0%. Rainfall in July increased flows and therefore resulted in a higher volume of water available. Currently Bullarook Creek is the only system which is offering LRWS.

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>

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Temporary water trades

	Jul - 19	Jul - 18	Change
Northern Victoria			
Volume traded (ML)	295,913	207,879	42%
Average price (\$/ML)	613	237	+158%
Murray Irrigation System*			
Volume traded (ML)	752	4,297	-82%
Average price (\$/ML)	606	317	+91%

Source: Victorian Water Register, *Murray Irrigation Ltd

Water prices have surged higher than the peak of last year in northern Victoria. Currently trading at \$613/ML, the price for water is 158% more than July last year. However, the increase in price didn't result in less water traded. Compared to the previous month there was almost 30% more water traded. Looking at the current outlook, it is unlikely we will see a substantial change next month.

Similar to northern Victoria, prices in the Murray Irrigation System have firmed dramatically month to month. The average price for water was \$606/ML in July. However, this premium seriously deterred irrigators from purchasing water. There was only 757ML traded throughout the month, a 71% drop from last month and 82% less than July 2018. The lack of irrigation water and high cost is putting growers in a very difficult position, many will be watching the sky in hope for substantial rainfall in the near future.

Cull Cows

	Jul-19	Jul-18	Change
Sales volume (head)	8,303	6,900	20%
Average price (c/kg)	496	418	19%
	YTD 2019/20	YTD 2018/19	Change
Sales volume (head)	8,303	6,900	20%
Average price (c/kg)	496	418	19%

Source: NLRS, from sale-yards within Vic

Finishing the first month of the new financial year, culling was up 11%. The increased rate of head sold was accompanied by a higher average price, up 30%, to 496 c/kg. Tracking 19% above the same month last year, this is the highest average price farmers have received in almost three years and significantly more than the five-year average. With the average price increasing the four months in a row, it will be interesting to see what the market does throughout August.