

PRODUCTION INPUTS MONITOR

Issue 172 – March 2020

Overview

Spot prices	March-20	Change (from Feb-20)	Change (from Mar-19)
Feed wheat (av. \$/t del Goulburn/Murray Valley)	\$349	- \$3	- \$20
Cereal hay (av. \$/t del Goulburn/Murray Valley)	\$303	-\$20	- \$55
Irrigation (Northern Victoria) \$/ML	\$479	- \$131	+\$9
Irrigation (Murray Irrigation System) \$/ML	\$440	- \$80	- \$38

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

In March, follow-up rain fell across the eastern states, with much of this concentrated in drought affected regions. While long-term rainfall deficiencies persist, this is a step in the right direction. Both irrigation and hay prices eased across the country. Whilst grain prices remained steady, market sentiment is impacted by the spread of COVID-19. The ongoing COVID-19 outbreak has caused disruptions to global supply chains and raised questions regarding the supply of fertilisers and agricultural chemicals. Additional analysis on this topic is included in this months report.

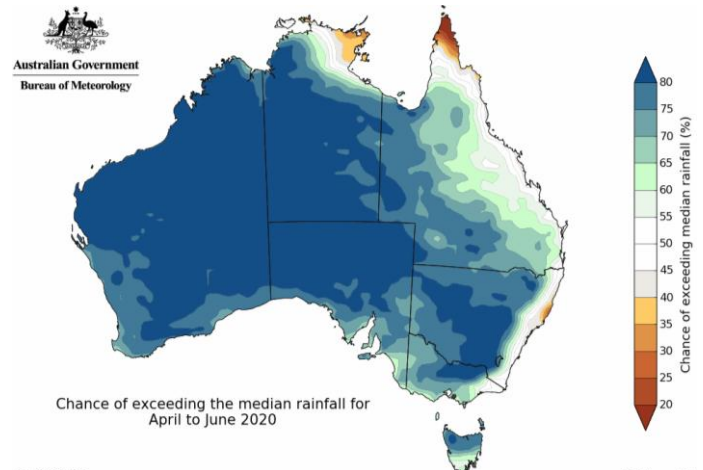
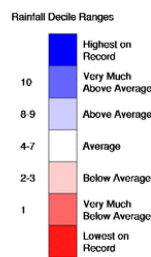
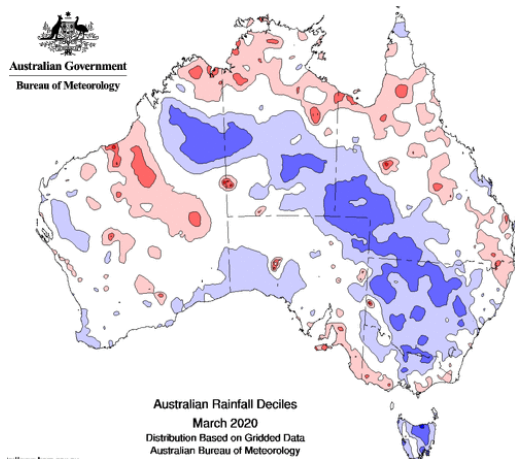
Feed

The hay market continued to trend downwards this month despite uncertainty around COVID-19 and potential logistical issues. To date it has been reported that interstate transport of hay will continue despite increased border controls. Regardless, less hay is being transported as demand softened across the country. A complete autumn break in the weather has not yet arrived, however, rain across the country this month has continued to lower demand. Cereal hay prices eased in all regions except for in Tasmania, where prices remained steady.

Grain prices have been impacted by the ongoing pandemic due to Australia's exposure to international markets. The uncertainty of global trade continues to drive market sentiment; rapidly changing quarantine measures in different countries is increasing anxiety around supply. Buyers fear the shutdown of ports and restrictions of exports could significantly limit supplies. The relatively weak AUD has increased the international appetite for Australian wheat and barley. Despite easing on a month-to-month basis, grain prices firmed over the past week as local buyers entered the market to secure supply. This was reflected in the ASX futures market with both eastern wheat and barley prices up approximately 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>



Climate

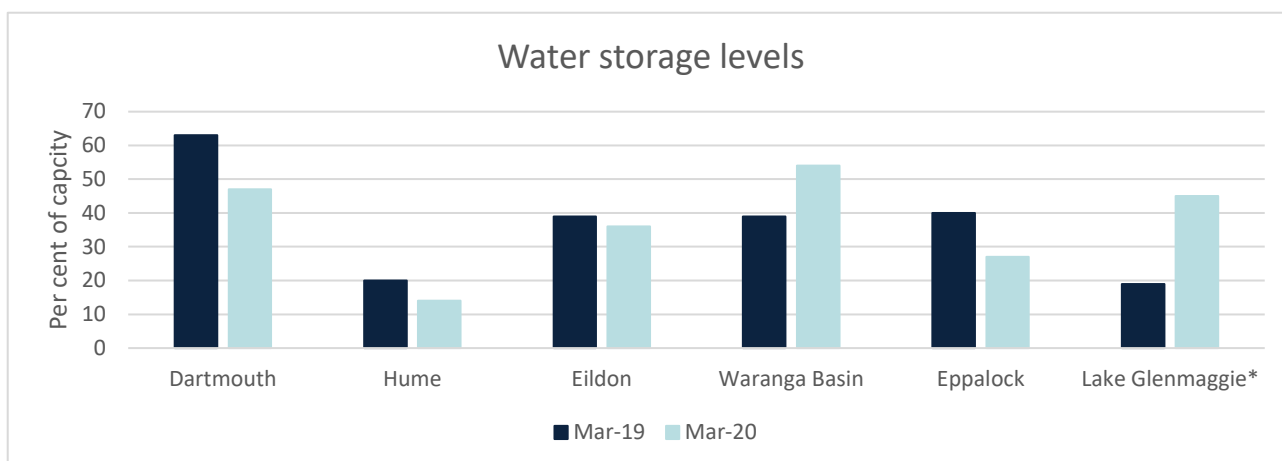
Overall, rainfall across the country was below average in March, however the rain received was concentrated in heavily affected drought areas. March rainfall was 15% below average for the country as a whole. Following the tropical Cyclone Esther, a band of heavy rain stretched down the eastern states. This provided much of the rain reported in western Queensland (QLD), New South Wales (NSW) and northern Victoria and set daily record in parts of NSW. Fowlers Gap in western NSW reported 120mm in six hours, more rain than the 2018 and 2019 total combined. The Murray-Darling Basin recorded 50% more rain than the average for this time of year. These widespread rain events improve soil moisture and alleviate long-term deficiencies across eastern Australia, however ongoing rain is required for a full recovery. Temperatures throughout March were relatively mild across the country; the eastern states recorded mostly average while southwest Western Australia were slightly above average.

Seasonal Outlook

The weather so far this year has been relatively favourable in many regions, however, the outlook for coming months will be critical for a recovery from years of drought. Currently, the climate drivers are indicating a neutral to positive three-month outlook (April to June). Both the El Niño–Southern Oscillation (ENSO) and Indian Ocean Dipole (IOD) are neutral and are expected to remain neutral through winter.

Warmer than average ocean temperature to the northwest of Australia are indicating an increase in tropical rain event. Rainfall in April is expected to be much higher than average for most of the country. Similarly, the three-month outlook is indicating 60 – 80 per cent chance that Australia will receive higher than average rainfall. However, part of the east coast is forecast to miss much the rain events. Overall, the autumn break is expected to be closer to average timing in most locations this year.

Water storage levels (2019-20 as at 1 April)



Source: G-MW, *SRW

Water levels at major storage sites in southern Australia remained relatively steady over March. Levels in the Dartmouth Dam and Lake Eppalock were both unchanged, while minor decreases were noted in the Hume Dam, Lake Eildon and Lake Glenmaggie. Both the Hume Dam and Lake Eildon are operating at lower levels than last year, with storage levels of 14 per cent and 36 per cent respectively. The improved soil moisture from February rain helped falls during March reach the site, but these were not enough to make any significant improvements. A break in the weather and significant rain throughout April could see storage levels improve. The storage levels in the northern Murray-Darling Basin have risen over the past month.

Temporary water trades

	March-20	March-19	% Change
Northern Victoria			
Volume traded (ML)	186,562	111,986	+67%
Average price (\$/ML)	\$479	\$470	+2%
Murray Irrigation System			
Volume traded (ML)	2,295	5,788	-60%
Average price (\$/ML)	\$440	\$496	-8%

Source: Victorian Water Register, *Murray Irrigation Ltd

There has been some relief for those irrigating in southern NSW and northern Victoria. The purchased water market has eased in both systems. In northern Victoria, the price for temporary water dropped \$131/ML to an average of \$479/ML. This is still historically high and slightly more than the March 2019 prices, although it is heading in the right direction for end users. This marks the third consecutive decline since the high of \$773/ML in January. Volume for March also dropped to total of 186,562 megalitres.

Across the border in southern NSW, less volume traded also accompanied lower prices. In this system, 2,295 megalitres were traded for the month at an average price of \$440/ML. The price is 8% below the same time last year. If further inflows are received into major storage and catchment areas, this price could be expected to remain bearish.

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

Victoria	HRWS	Change (HRWS)	LRWS
Murray	65%	+6%	0%
Broken	2%	+2%	0%
Goulburn	73%	+3%	0%
Campaspe	80%	+2%	0%
Loddon	78%	+3%	0%
Bullarook Creek	100%	0%	100%
MID	100%	0%	40%

Follow-up rain this month resulted in high flows into major storages and improved allocations. The high inflows came early in the month and were enough to prompt resource managers into allowing more resource allocations.

All the major Victorian irrigation systems improved high-reliability water shares (HRWS) where possible this month. The Murray irrigation system had the largest increase, up 6 per cent. All other systems (other than Bullarook Creek and Macalister Irrigation District which remain at 100 per cent HRWS) increased from 2 to 3 per cent. The Macalister Irrigation District also recorded a minor improvement to low-reliability water shares (LRWS).

The Broken system received the 800 megalitre shortfall to record a positive change in allocation. The system is now trading at 2 per cent HRWS. The Minister for Water qualified rights in the Broken system from 1 January 2020. This allows access to water for critical domestic and stock use while the seasonal determination remains below 50 per cent HRWS. It is not affected by the 2 per cent HRWS announced today (according to NVRN).

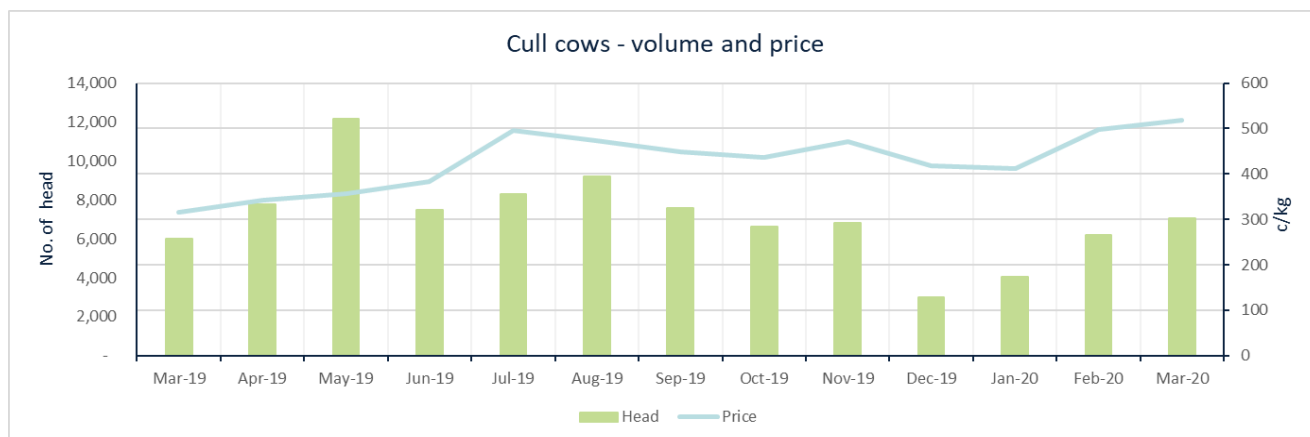
New South Wales Irrigation Allocations (2019-20 as at 1 April)

NSW – Murray Irrigation Ltd	Allocation	Change
Class C-General Security	0%	0%

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

In NSW, the general security allocation remains at 0% despite the recent inflow to catchment areas. The allocation has been 0% for over 18 months now.

Cull cows



Source: NLRS, from sale-yards within Vic

The cull cow market continues to be bullish this month; both the volume of cattle through saleyards and the average price grew this month. March recorded the third consecutive month prices increased. On average, cull cows traded at 517c/kg this month, significantly higher than the same time last year (up 64%). The volume was also up (17%) to a total of 7,051 heads. Higher prices for saleyard cattle have been recorded throughout the current financial year, up 30% compared to 2018-19. It will be interesting to see where the market goes, particularly in volume terms in the coming months as timely rain has improved the seasonal outlook for many regions.

Fertiliser

Key points:

- Favourable rainfall in key Australian agricultural regions has increased demand for fertiliser and agricultural chemicals, off a drought-induced low base.
- Increased demand locally, combined with decreased international production prior to the outbreak of COVID-19 is temporarily stressing the glyphosate market.
- The ongoing spread of COVID-19 has caused disruptions to global supply chains and flow-on logistical challenges, however key farm inputs continue to be shipped, along with local supplies secured before the outbreak.
- Widespread or prolonged shortages are not regarded as likely and farmers are advised not to panic-buy excess volumes of product, but to be proactively communicating requirements with suppliers. Active relationship management will be the best source of information on local stock availability and delivery dates

Market situation:

Markets around the world are still reeling from the outbreak of COVID-19 which continues to make its way around the globe. The international fertiliser and agricultural chemical markets are no different, with uncertainty around production and supply evident in end users' minds. These international market dynamics have a direct on-farm impact in Australia, as we are heavily reliant on the international market to source these inputs.

Overall, Australia is a relatively small player in the global fertiliser market. Fertiliser Australia estimates that Australian buyers account for around 1% of global consumption. Locally, Australia has both manufacturers and importers but few large producers. Therefore, Australia is net importer of product, meaning that prices and supply are heavily influenced by international factors. Current international developments combined with favourable on-farm conditions have caused concern and conversation around the access of rural chemical supplies.

Prior to the outbreak of COVID-19, large structural changes were taking place in the supply chain for agricultural chemicals, particularly in China. Government restrictions were set in place aimed at reducing the emissions associated with the production of these chemicals. This had resulted in Chinese exporters cutting production.

Entering the new year, favourable rainfall in Australia caused demand to spike, this combined with international COVID-19 quarantine measures prompted conversations around access to supply. COVID-19 has slowed handling at Chinese (and other) ports, caused some congestion and a temporary backlog in shipment. However, Australian agricultural input markets (particularly fertilisers) benefit from having a variety of locations to source product from, highlighting that the market is not reliant on one country or geographical area. This, combined with the seasonality of application, meant Australian wholesalers had begun to secure supply prior to the full extent of COVID-19 being realised. The risk of fertiliser shortage for Australia is considered by most in the industry to be low.

The healthy summer rain also caused a spike in demand for agricultural chemicals including glyphosate. This caught some retailers off-guard and could potentially cause a gap in the market, however most are confident any supply shortfalls won't last long with new shipments expected soon. Most suppliers suggest this could be within the next two weeks.

Overall, systemic disruption to supply chains has not been reported, and Australia's diversification in sourcing products means that a significant or prolonged shortfall in supply is unlikely.

Resolving impacts

There are positive signs coming from China as production of agricultural supplies has also started to improve, this includes the manufacturing of chemicals, fertilisers and rural supplies. Supply chains where COVID-19 originated are beginning to get back to normal. The Chinese Ministry of Agriculture and Rural Affairs has stated they will closely monitor supply and price movements to prevent the unreasonable increase of prices.

Locally, the overwhelming advice from those in the industry, for farmers, is not to panic-buy excess volumes of product, but to be proactively communicating requirements with suppliers. Active relationship management will be the best source of information on local stock availability and delivery dates.

Outlook

With production and supply chains back up and running in China, suppliers are confident of resolving any backlogs that have built up, in the near future. Favourable rain (and therefore a positive seasonal outlook) will cause the main pressure on the supply chain.

For more information on COVID-19 can be found at our online COVID-19 directory.

<https://www.dairyaustralia.com.au/about-dairy-australia/about-the-industry/dairy-industry-covid19-directory>

	Mar-20	Monthly % change
Cereal hay		
Northern Australia (\$/tonne)	428	-13%
Southern Australia (\$/tonne)	303	-6%
Western Australia (\$/tonne)	342	-4%
Wheat		
Northern Australia (\$/tonne)	443	-1%
Southern Australia (\$/tonne)	349	-1%
Western Australia (\$/tonne)	333	+3%
Futures prices (ASX)		
Wheat (av. \$/t Jan-21 east coast)	346	+9%
Barley (av. \$/t Jan-21 east coast)	285	+10%
Fertiliser		
DAP (US\$/tonne)	N/A	N/A
Urea (US\$/tonne)	N/A	N/A
MOP (US\$/tonne)	N/A	N/A
Irrigation		
Northern Victoria		
Volume traded (ML)	186,562	-10%
Average price (\$/ML)	479	-22%
Murray Irrigation System*		
Volume traded (ML)	2,295	-1%
Average price (\$/ML)	440	-15%
Cull Cows		
Sales volume (head)	7,051	+14%
Average price (c/kg)	517	+4%
	YTD 2019-20	% change
Sales volume (head)	58,764	+6%
Average price (c/kg)	470	+30%

Feb-20	Jan-20	Dec-19
Source: AFIA		
495	511	452
323	343	265
355	348	320
Source: Profarmer		
449	453	428
351	363	352
324	339	312
Source: ASX		
318	340	347
260	281	303
Source: World Bank		
279	265	238
214	215	218
245	245	266
Source: Victorian Water Register, *Murray Irrigation Ltd		
206,298	236,569	115,547
610	773	714
Source: NLRS (sale-yards within Vic)		
2,321	2,030	3,730
521	640	625
6,174	4,025	2,976
498	412	417
YTD 2018-19	YTD 2017-18	YTD 2016-17
55,371	48,425	66,461
361	423	480

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

Grain report 

Hay report 

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