

PRODUCTION INPUTS MONITOR

Issue 176 – July 2020

Overview

Spot prices	July-20	Change (from June-20)	Change (from July-19)
Feed wheat (av. \$/t del Goulburn/Murray Valley)	\$333	- \$13	- \$26
Cereal hay (av. \$/t del Goulburn/Murray Valley)	\$205	\$0	- \$216
Irrigation (Northern Victoria) \$/ML	\$276	+\$81	- \$337
Irrigation (Murray Irrigation System) \$/ML	\$234	+\$28	- \$327

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

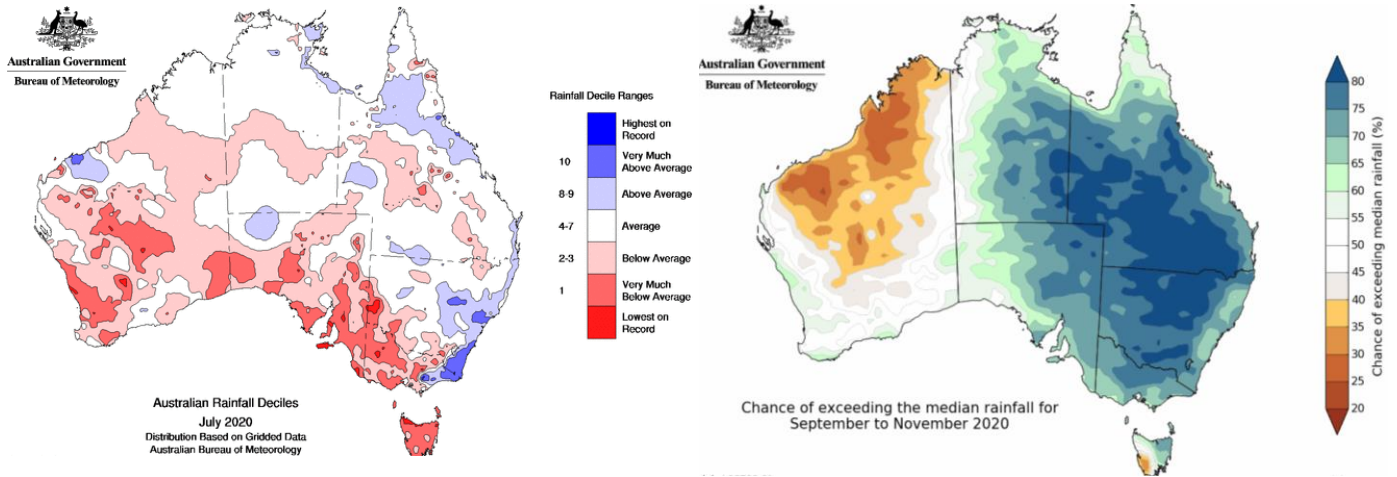
Another dry month caused speculation around feed production, however early August rain and current forecasts have started to ease concerns. Southeastern NSW was one of the only regions to record major rainfall this month, a welcome change for the region having experienced prolonged dry conditions so far this season. Soil moisture across the Murray Darlin-Basin has been resilient and remains in a much better position than twelve months prior. This has assisted streamflow and water levels across major storage sites. With that said, there has only been a minor improvement to general security allocation in the NSW Murray irrigation system, causing some frustration amongst irrigators.

Feed

Whilst demand for hay has been slow the past month, there has been some speculation about this season's production volumes of late. Drier than average conditions across key hay growing regions over the past month, caused some concern about the quality of the prospective yield. Prior to the dry month, the season was already shaping up to be one of lower quality, high yielding volumes. Below average rain cast some further doubt to the outlook. However, it is expected that any uncertainty will subside if the rain forecast for the coming month (and beyond) eventuates. This is the first season since 2016/17, that supply is expected to be plentiful, particularly in the south. With that in mind, it is expected that prices should return to more historical averages and in some regions, this is already occurred.

Consecutive dry months and underwhelming rainfall totals also caused some speculation to this season's grain production. Timely rainfall due in August, is expected to lift confidence and ensure that current estimates of an average production year is realised. A favourable weather forecast, in conjunction with positive news for grain supplies in the northern hemisphere, has provided some downward pressure to grain prices. ASX wheat and barley futures both eased this month, down 2 and 1 per cent, respectively. However, the Australian dollar firmed throughout July at the same time the US dollar depreciated. The AUD ended the month at 0.72 AUD/USD. A higher AUD lowers export competitiveness of a range of commodities including wheat and coarse grains.

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

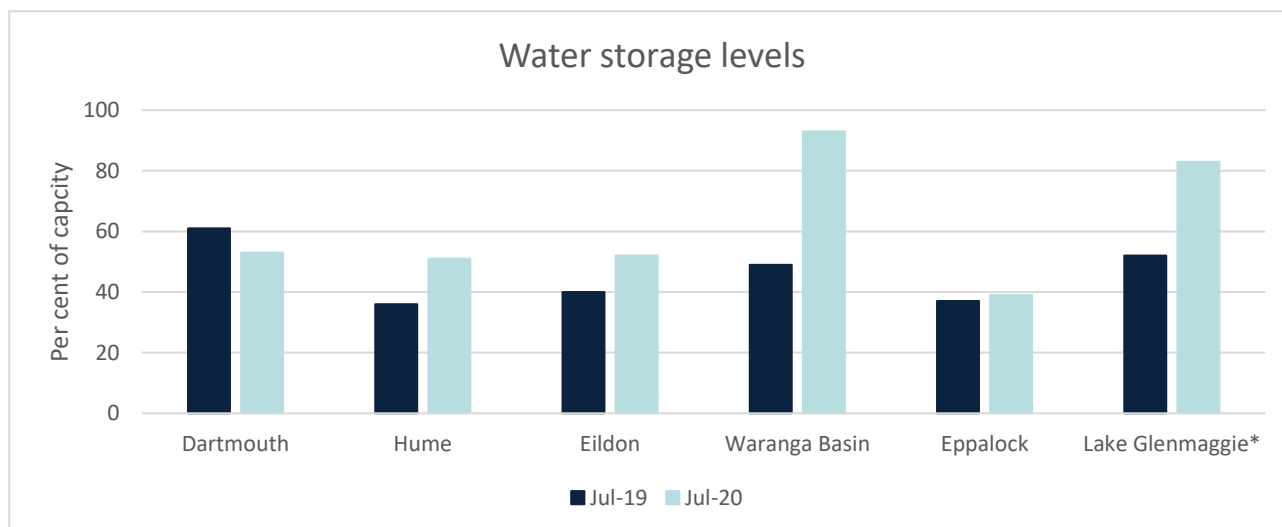
As forecast, July was drier than average across the country. Total monthly rainfall was 43 per cent below the mean, with deficiencies widespread across Western Australia, South Australia, Tasmania and Victoria. This development significantly impacted Tasmania, recording the second driest July since 1957. However, two low pressure systems throughout the month moved along the east coast bringing large rainfall to the NSW coastline and much of Gippsland. The second front between the 26th and 28th, resulted in record daily totals and localised flooding through the Lower Hunter. This has been a turn of fortunes for the southeastern pocket of NSW which missed most of the early rain that many other regions experienced. Bega reported the wettest July since 1922, recording 299.4mm of rain. With the long-range forecast indicating further rain in August and following months, optimism for the season has begun to lift.

Seasonal Outlook

July was predicated to be the last (predominantly) dry month for the eastern states before more enduring wet weather. The driving factors behind the increasingly wet weather is a positive phase of the Southern Annular Mode (the movement of westerly winds circling the Antarctic), combined with La Niña patterns developing. With that in mind, August rainfall is expected to be higher than average, particularly in NSW and Queensland. It is expected to be around average for the remainder of the of the country.

Looking at the three-month outlook (September to November) there is very much a divide between the west and east for mainland Australia, as well as Tasmania. If you draw a line down the middle of the Northern Territory (NT) and SA, everywhere east is expecting much higher than average rainfall. Whilst west of the line, most areas are forecast to receive largely average to below average rain. It is a similar situation in Tasmania, forecasts suggest substantial rainfall in the east, while closer to average in the west. The widespread falls across the eastern states will continue to improve soil moisture levels, which have been resilient over the past two months. Soil moisture levels across the Murray Darling-Basin (MDB) are currently average to above average, a significant improvement from last year. However, soil moisture across WA, SA and western Victoria will significantly benefit from any rain in the coming months.

Water storage levels (2020-21 as at 5 August)



Source: G-MW, *SRW

A favourable autumn and adequate soil moisture across the MDB, have helped maintain (and improve) water storage levels despite drier than average conditions. Water levels in lake Glenmaggie and the Waranga Basin are currently much higher than July 2019, operating at 83 and 93 per cent capacity, respectively. The favourable long-term rainfall outlook will help further improve these storages prior to summer. Whilst the MBD storage sites are in a better position than this time last year, Tasmania and southwest WA are operating at lower levels than 12 months ago. Both Tasmania and WA missed some of the early rain that the southeastern states received. With multiple fronts expected across both regions throughout August, water levels could start to improve.

Temporary water trades

	July-20	July-19	% Change
Northern Victoria			
Volume traded (ML)	252,350	295,913	-15%
Average price (\$/ML)	\$276	\$613	-55%
Murray Irrigation System			
Volume traded (ML)	1,332	752	+77%
Average price (\$/ML)	\$234	\$606	-61%

Source: Victorian Water Register, *Murray Irrigation Ltd

After six months of consecutive declines, irrigation prices have firmed. Northern Victoria recorded the largest price climb out of the two systems, up 41 per cent. The average price was \$276/ML for the month. This remains largely in line with the five-year average (up 1 per cent) but significantly less than the average last season (down 51 per cent). The total volume of water traded throughout the system dropped significantly from the prior month, however this was off a very large base. The Murray Irrigation system in NSW also recorded a lower total volume (down 63 per cent) but a higher average price (up 14 per cent). Trading at \$234/ML, the southern NSW system remains 26 per cent above the five-year average.

The Australian Bureau of Agricultural and Resource Economics (ABARES) released their latest water market outlook for 2020, indicating that irrigation prices in the southern Murray-Darling Basin are likely to drop in the coming season. The report suggests that prices dropping from recent highs was inevitable due to the wet conditions across the Basin.

Victorian Irrigation Allocations (2020-21 as at 3 August)

Victoria	HRWS	Change (HRWS)	LRWS
Murray	19%	+11%	0%
Broken	30%	+13%	0%
Goulburn	37%	+2%	0%
Campaspe	40%	+8%	0%
Loddon	37%	+2%	0%
Bullarook Creek	5%	+5%	0%
MID	100%	0%	0%

There have been some minor improvements to high-reliability water shares (HRWS) over the past month. The Broken and Murray systems both improved by just over 10 per cent, whilst all other northern Victorian systems increased by less than 10 per cent. Dry conditions throughout June and July slowed streamflow into major storage facilities. This resulted in the available water being close to initial estimates and with no surplus water available, there were only minor changes to allocations. With early indications of significant rainfall in August, it can be expected that allocations should improve more substantially in coming months. The next seasonal determination announcement will be released on Monday 17th August and give a better indication of the season ahead

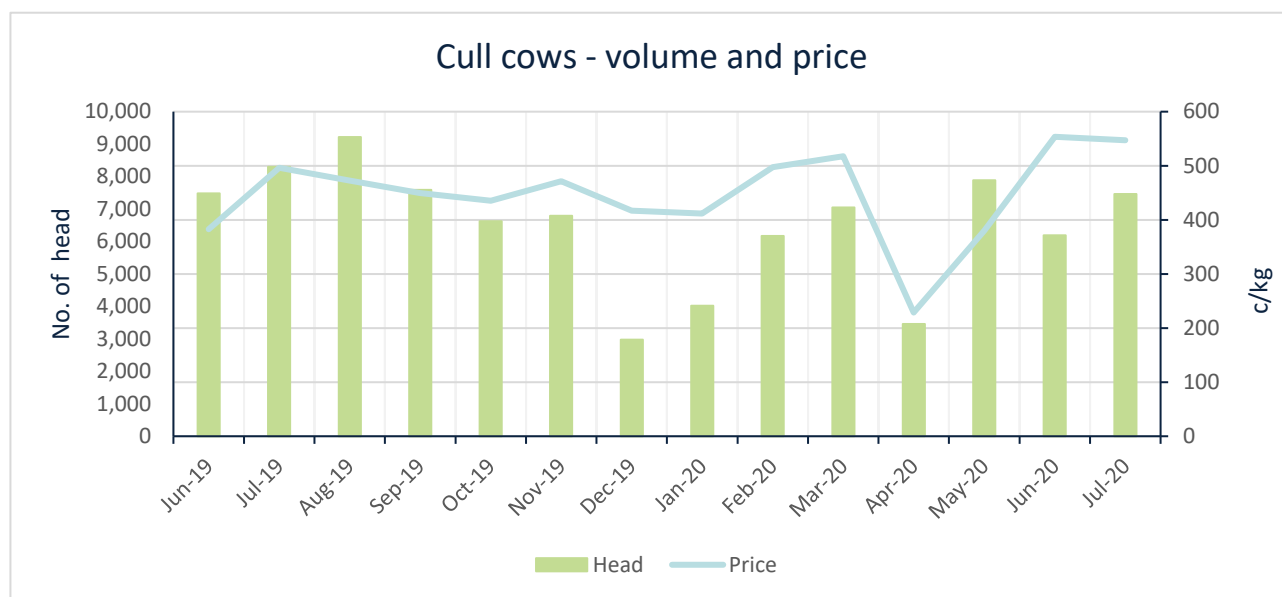
New South Wales Irrigation Allocations (2020-21 as at 7 July)

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

Frustration is mounting among NSW Murray and Murrumbidgee irrigators, due to the lack of general security allocation. After no opening allocation, the NSW government announced 3 per cent general security allocation this month. Irrigators are increasingly curious as to why the allocation is so low, despite significant improvements to the Hume and Dartmouth Dams storage levels. In the Water Allocation Statement realised by the NSW government, the limited improvement to resource availability was a result of dry conditions throughout July. Furthermore, the NSW Murray water source has been eased to 'Stage 1 drought criticality' as all shortfalls for 2020/21 have been met and general security allocations have been issued.

Cull cows



Source: NLRS, from sale-yards within Vic

The new season continued the strong cull cow pricing seen in saleyards, with farmers receiving an average price of 547c/kg. This remained steady from the month prior although is a 10 per cent improvement on the price twelve months prior and 14 per cent on the five-year July average. The number of head that went through the saleyards increased 21 per cent, to total 7,461. This is slightly less than July 2019 and 13 per cent less than the long-term trend (for this time of year).

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

There has been support for global fertiliser prices this month. Diammonium phosphate (DAP) and urea prices both firmed, up by \$32/tonne and \$12/tonne, respectively. Meanwhile, muriate of potash (MOP) prices remained steady. Despite some price strength over the past two months, global fertiliser prices remain at historical lows and below the level of twelve months prior. Global urea prices are expected to continue to rise in the coming months, although remain under historical average for the near future. In Australia, fertiliser supply concerns have stabilised, and low prices are benefitting end users. Furthermore, the appreciating Australian dollar is encouraging for the cost of importing inputs such as agriculture chemicals and fertilisers. It is expected that the AUD will remain volatile throughout the remainder of the year, although depreciate from current levels. This will be an important factor to watch when Australia enters the main fertiliser importing phase ahead of next season.

	July-20	Monthly % change
Cereal hay		
Northern Australia (\$/tonne)	340	-10%
Southern Australia (\$/tonne)	205	0%
Western Australia (\$/tonne)	350	+1%
Wheat		
Northern Australia (\$/tonne)	396	+1%
Southern Australia (\$/tonne)	333	-4%
Western Australia (\$/tonne)	319	0%
Futures prices (ASX)		
Wheat (av. \$/t Jan-21 east coast)	282	-2%
Barley (av. \$/t Jan-21 east coast)	223	-1%
Fertiliser		
DAP (US\$/tonne)	305	+12
Urea (US\$/tonne)	214	+6%
MOP (US\$/tonne)	203	0%
Irrigation		
Northern Victoria		
Volume traded (ML)	252,350	-39%
Average price (\$/ML)	276	+41%
Murray Irrigation System*		
Volume traded (ML)	1,332	-63%
Average price (\$/ML)	234	+14%
Cull Cows		
Sales volume (head)	7,461	21%
Average price (c/kg)	547	-1%
	YTD 2020-21	% change
Sales volume (head)	7,461	-10%
Average price (c/kg)	547	+10%

Jun-20	May-20	Apr-20
Source: AFIA		
377	390	415
205	205	263
347	345	345
Source: Profarmer		
394	440	488
346	365	385
320	346	371
Source: ASX		
288	299	316
225	234	253
Source: World Bank		
273	263	282
202	202	235
203	216	245
Source: Victorian Water Register, *Murray Irrigation Ltd		
414,036	66,006	108,579
195	264	321
Source: NLRS (sale-yards within Vic)		
3,587	2,263	2,203
206	214	327
6,187	7,887	3,455
554	380	229
YTD 2019-20	YTD 2018-19	YTD 2017-18
8,803	6,900	6,071
496	418	453

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

Grain report 

Hay report 

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