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Australian Economic & Financial Outlook

Australian Budget 2023-24

Townsville, 19 May 2023

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The economic, political and financial context of the Budget

The 2023-24 Budget is framed under the following circumstances:

- ✓ Near 50-year lows in unemployment
- ✓ 32-year highs in inflation
- ✓ High, but declining commodity prices
- ✓ The highest interest rates in 11 years
- ✓ An economy that is expected to slow over the coming year, contributing to a rise in unemployment
- ✓ A Government that wishes to provide extra support to the most vulnerable in society
- ✓ A Government that is supporting a large increase in minimum wages to protect the lowest paid from real wage declines, given very high inflation
- ✓ A much faster than expected return to surplus in 2022-23, but building medium-term pressures on the budget from higher interest rates, the stage III tax cuts (from 1 July 2024), defence spending, the NDIS, health and aged care
- ✓ Surging rents and strong population growth
- ✓ And a political environment where it is still very difficult to make major structural reforms to taxation policy

The budget economic forecasts

Key Economic Forecasts (a)	2023-24 Budget				Previous	RBA	NAB
	Outcome*	Estimate	Forecasts		(October 2022)	May SoMP	NAB Forecasts
	2021-22	2022-23	2023-24	2024-25	2023-24	2023-24	2023-24
Real GDP	3.7	3.25	1.5	2.25	1.5	1.25	0.7
consumption -	*3.7*	*5.75*	*1.5*	*2.5*	*1.25*	--	*0.2*
dwelling investment -	*2.9*	*-2.5*	*-3.5*	*-1.5*	*-1.0*	--	*-2.1*
business investment -	*6.1*	*3.0*	*2.5*	*2.0*	*3.5*	--	*-3.7*
government spending -	*6.5*	*1.75*	*1.5*	*2.0*	*1.5*	--	*2.0*
Employment (b)	3.6	2.5	1.0	1.0	0.75	1.1	0.6
Unemployment Rate (b)	3.8	3.5	4.25	4.5	4.5	4.2	4.5
Inflation (CPI) (b)	6.1	6.0	3.25	2.75	3.5	3.6	3.3
Wages (WPI) (b)	2.6	3.75	4.0	3.25	3.75	3.9	4.0
Terms of trade	11.9	1.5	-13.25	-8.75	-20.0	--	-5.0
Nominal GDP	11.0	10.25	1.25	2.5	-1.0	--	3.2

(a) Year-average growth unless otherwise stated.

(b) Year-ended growth to the June quarter; unemployment rate June quarter average.

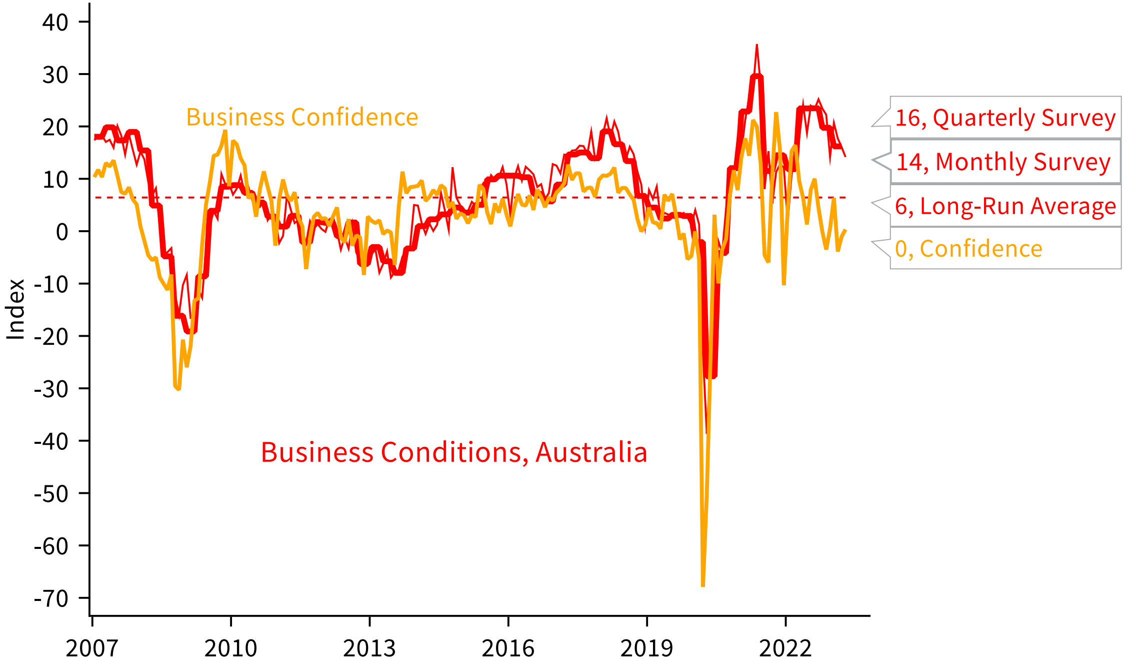
Very similar to recent RBA forecasts, but a little lower on inflation due to budgetary assistance for energy prices.

Slowdown in the economy and rise in unemployment expected this year and next, though rise in unemployment is moderate. Upside risk to wages?

Super indicator # 1: NAB Business Survey

Businesses still reporting strong operating conditions in April, though some easing in recent months. Confidence still weaker, suggesting the expectation that conditions will moderate.

Business Conditions – NAB Business Survey

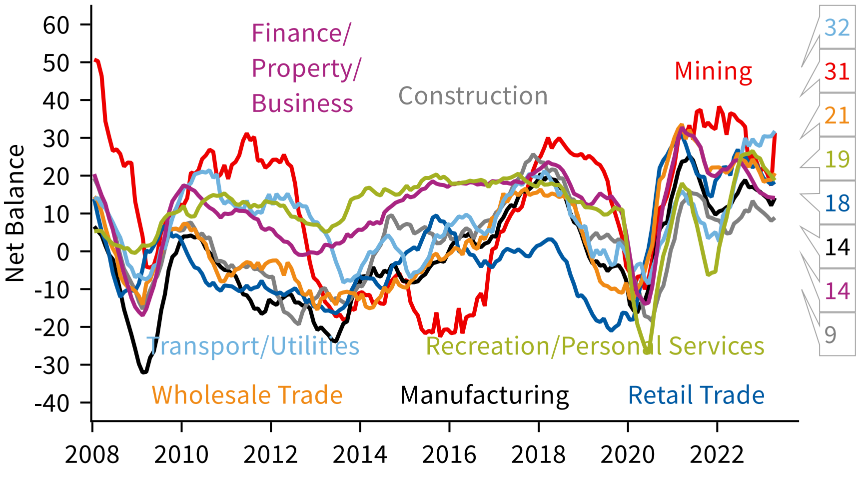


*3-month moving average
Source: National Australia Bank

NAB Business Survey – Industry and State Trends

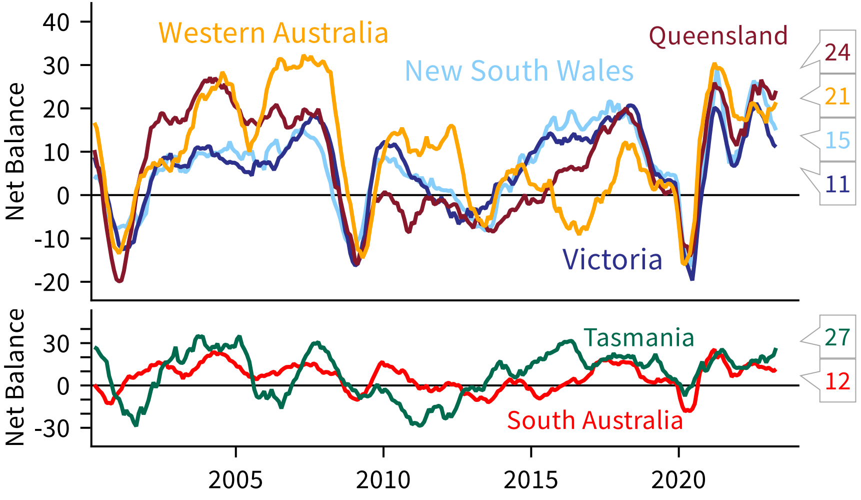
Mining, Transport and Services & WA, QLD and TAS outperforming

Business Conditions by Industry



*7-month centred moving average
Source: National Australia Bank

Business Conditions by State

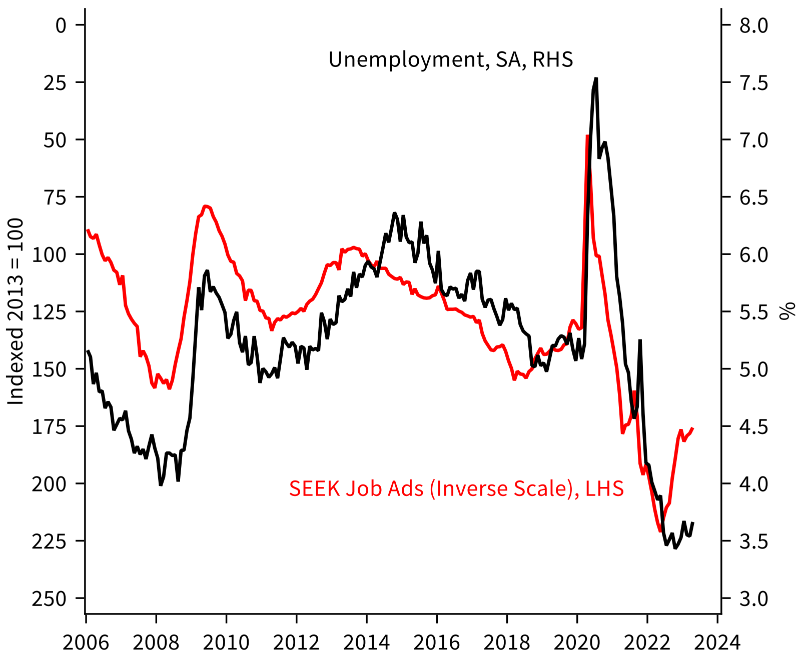


Source: National Australia Bank, Macrobond

Super indicator # 2: SEEK Job Ads

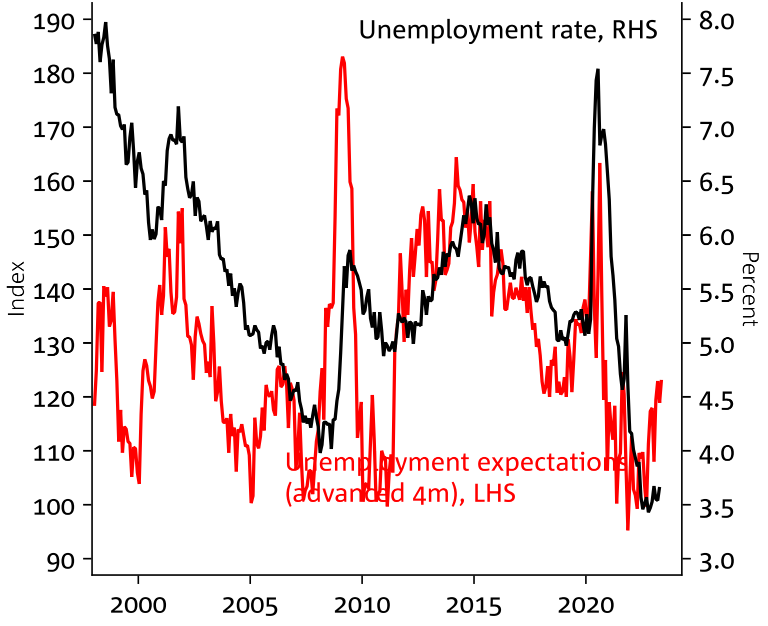
Job ads remain very elevated (+40% vs pre-COVID levels) and little changed in the early months of 2023. Unemployment very low in March (3.5%). Consumers becoming a little less confident

SEEK Job Ads and Unemployment



Source: National Australia Bank, ABS, SEEK

Consumer unemployment expectations



Source: National Australia Bank, W-MI, Macrobond

Framework: Economies globally are dealing with two large, overlapping shocks and a very significant policy response

1. COVID: ongoing/after effects of COVID (actually a package of COVID shocks)
- ✓ Closure/reopening of borders (rate of return of migrants, tourists, students and easing of labour market tightness)
- ✓ Normalisation of goods spending/demand (implications for supply chains, goods inflation, inventory holdings)
- ✓ Reopening of services (pent-up demand, labour supply, services inflation)
- ✓ Working from home – housing (space) demand, office occupancy and CBD visitation
- ✓ Reopening of China
- ✓ What's permanently/temporarily changed?
- ✓ Has demand been pulled forward/delayed?
- ✓ What is the post-COVID rate of growth for your business after the disturbances from COVID wash through?
- ✓ To what extent have existing trends been accelerated (eg Sea change, shift to online retailing)?

2. Russian invasion of Ukraine: additional significant energy/food price shock
- ✓ Significant impact via gas prices – some moderation in energy prices recently (wheat prices also)

1+2 = 3. Inflation ➔ monetary policy "shock"
- ✓ Delayed effect into repayments in Australia and affect on economies masked/moderated for a time by reopening of services, wages growth and savings
- ✓ How quickly does inflation subside?
- ✓ How tight do labour markets remain?
- ✓ Do central banks overdo tightening/take sufficient account of the complex and unusual economic influences of this current cycle? Recent developments in the banking sector will affect banks' cost of funds and lending appetite, tightening policy further i.e. reduce the need for further tightening

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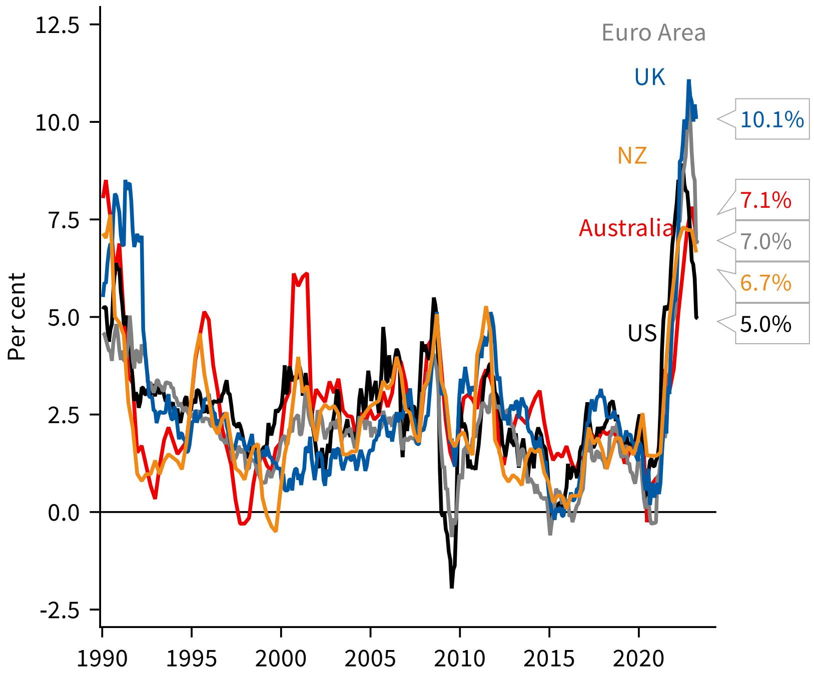
4. Energy Transition/Decarbonisation……….also an important influence but not as large as 1-3.

Outcome 1: High inflation, now falling. How far/quickly?

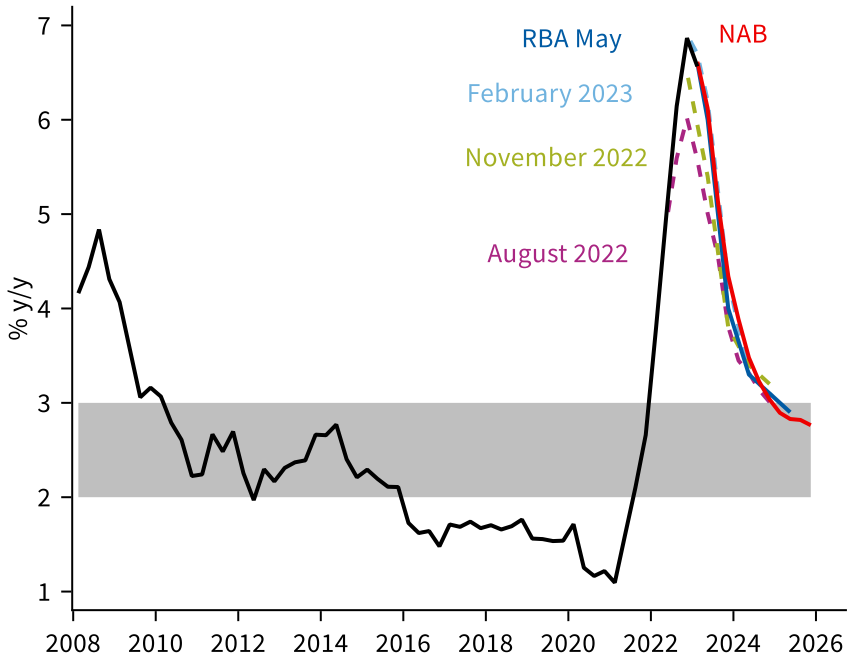
Now declining around the world but later (slower) in Australia due to lags in some elements (rents, energy prices, wages, airfares).

Headline CPI in selected economies



Source: National Australia Bank, Macrobond

Underlying Inflation Forecasts

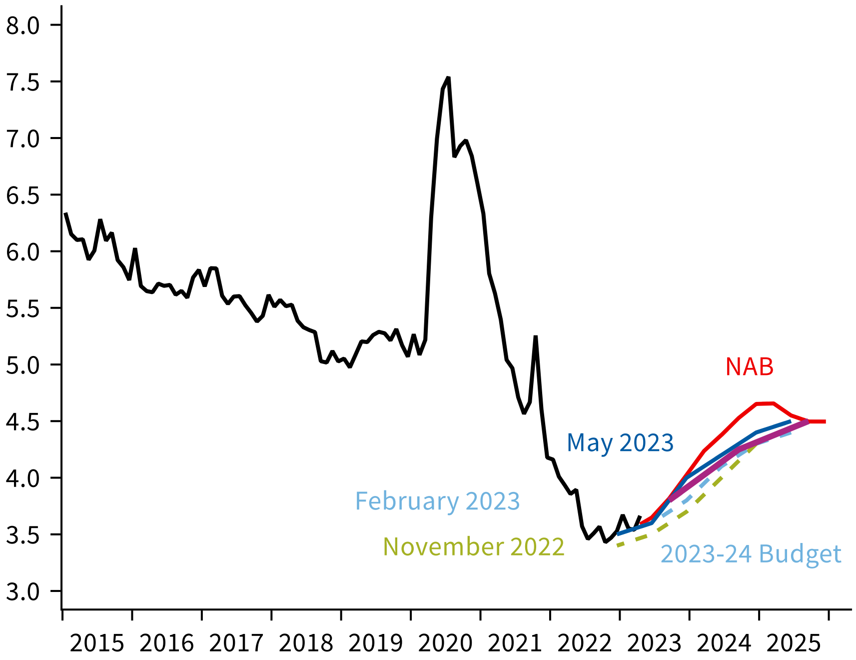


Source: National Australia Bank, ABS, RBA

Outcome 2: Low unemployment – just beginning to rise?

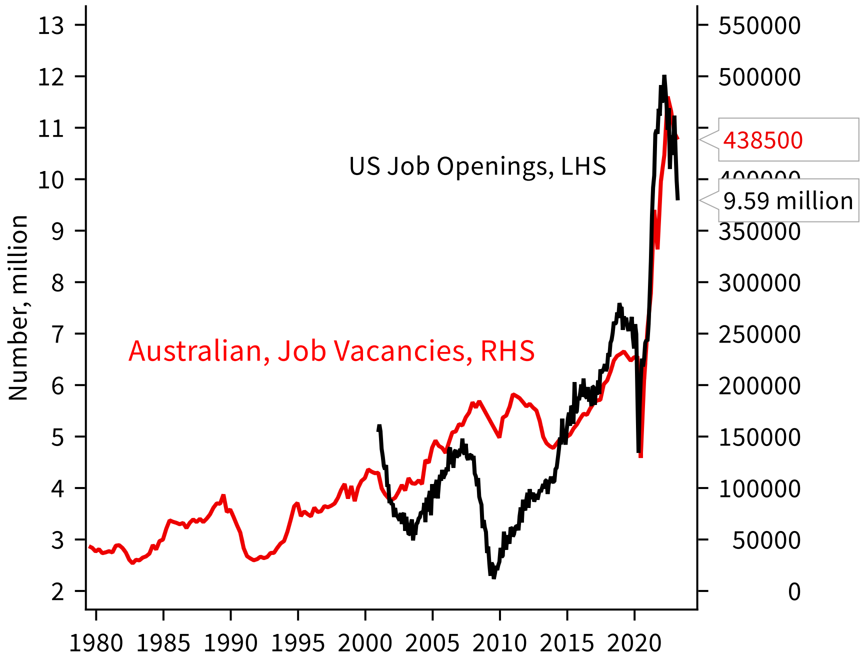
Covid resulted in very tight labour markets globally. Closed borders were an important factor. How quickly will the labour market ease? Job ads and migration data suggest now easing a little.

RBA Unemployment Rate Forecasts



Source: National Australia Bank, Macrobond

Job Vacancies (Aust) and Job Openings (US)



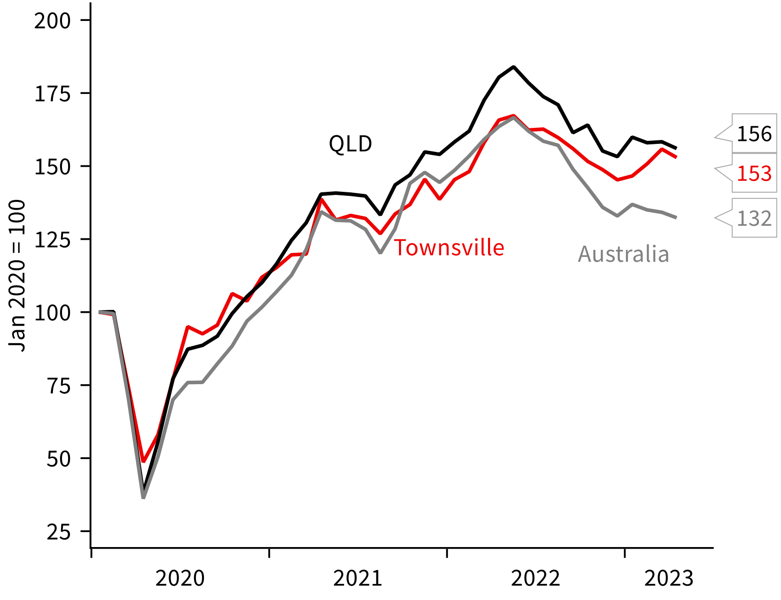
Source: National Australia Bank, ABS, BLS

Job advertising still very elevated, but easing

Weakness in housing lead indicators beginning to show

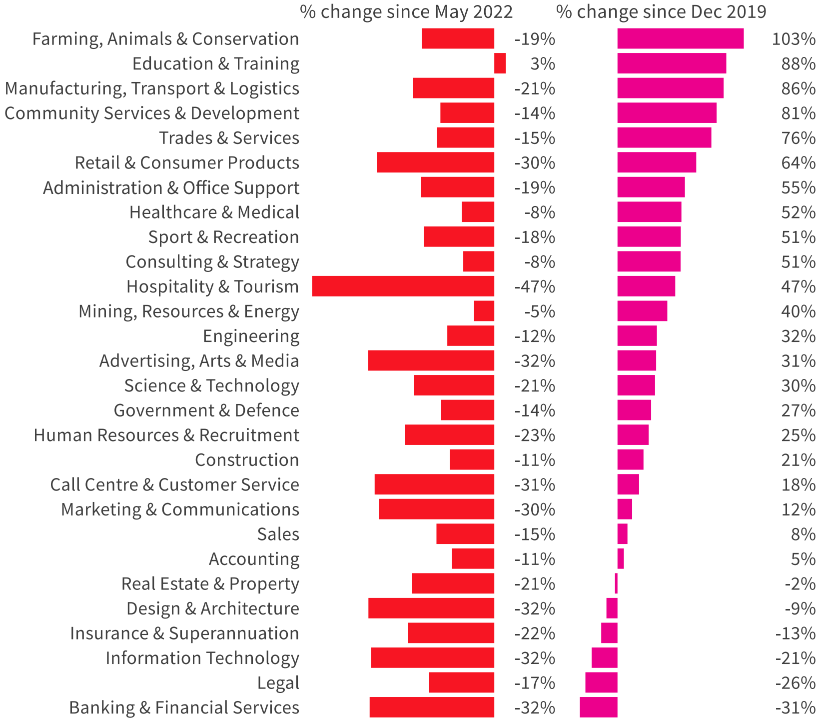
QLD and TSV job ads 50% higher than pre-COVID

Seek Job Ads



Source: National Australia Bank, Macrobond

SEEK Job Ads by Industry

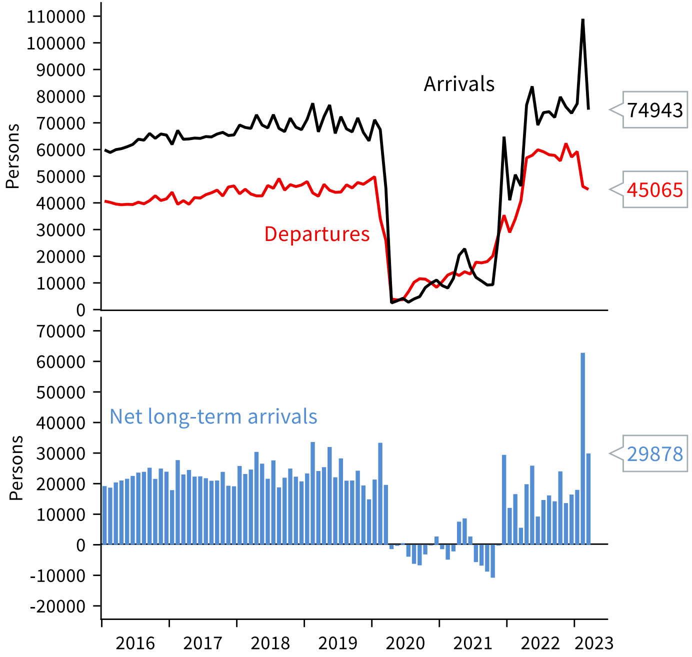


Source: SEEK, NAB

Shock 1: Major impact on migration flows - now recovering

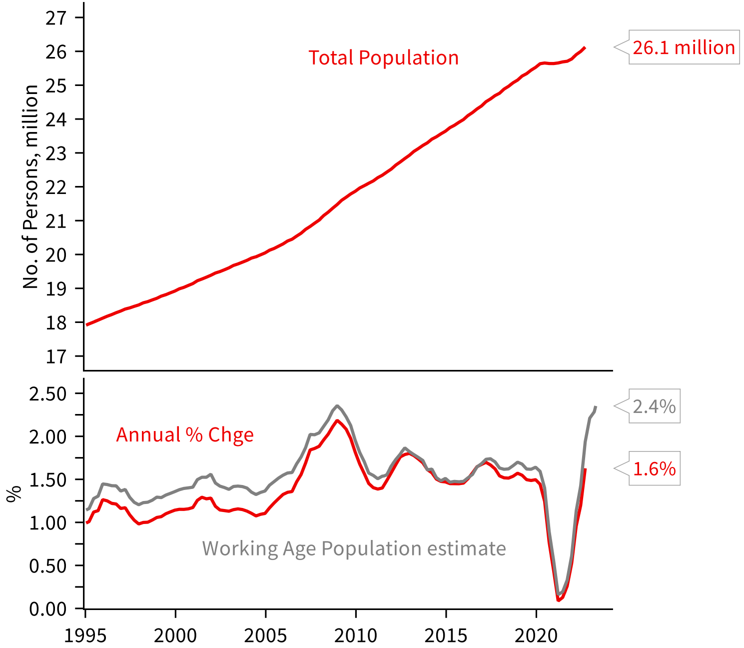
Migration effectively stopped for eighteen months, but is now recovering quickly. Budget predicts net migration of 315K in 22-23 and 260K in 24-25 after +400K this year.

Permanent and Long Term movements



Source: National Australia Bank, Macrobond

Australia's population

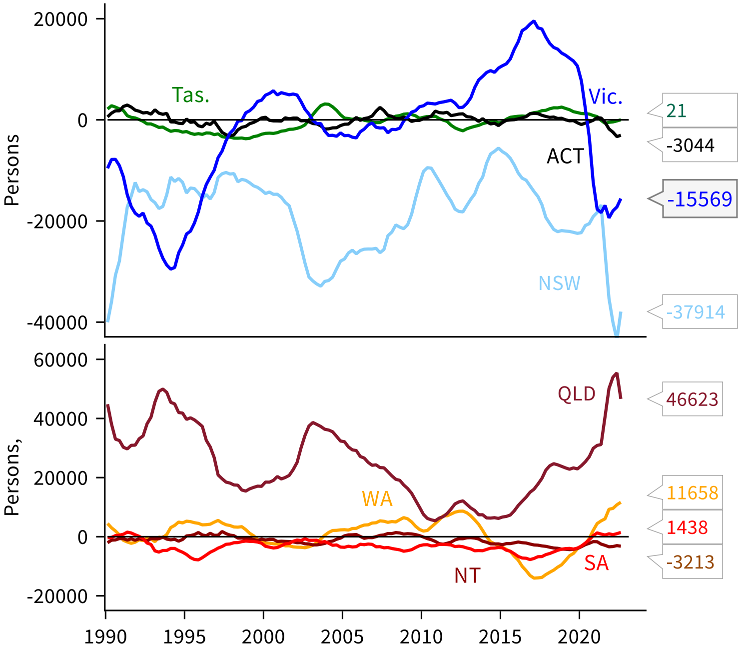


Source: National Australia Bank, Macrobond

Shock 1: Interstate migration also significantly affected

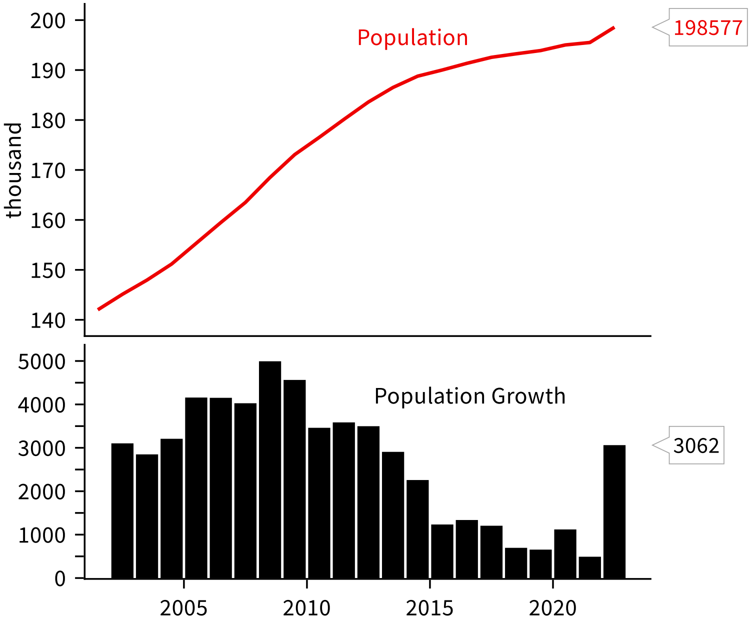
Queensland a major beneficiary – important not to blindly extrapolate most recent trends

Net Interstate Migration



Source: National Australia Bank, Macrobond

Townsville's population

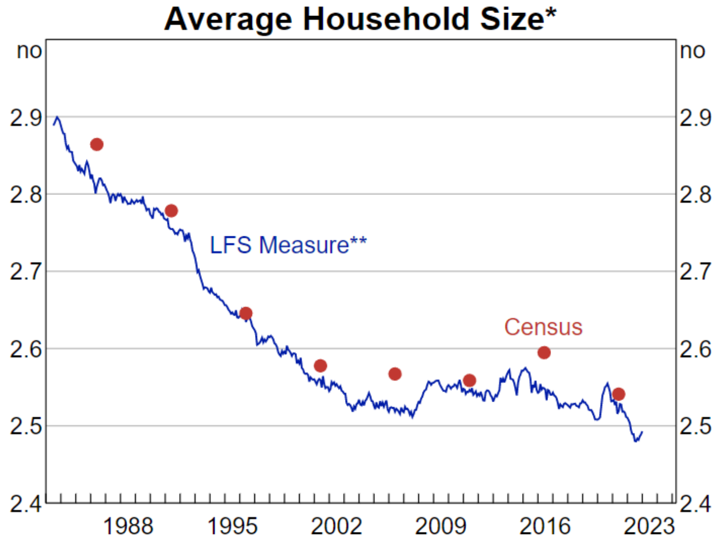


Source: National Australia Bank, Macrobond

Shock 1: COVID had big impact on housing demand

Demand for housing (space) rose significantly during covid and along with low interest rates, overwhelmed reduced immigration and "temporary" unemployment.

Household size dynamics during COVID



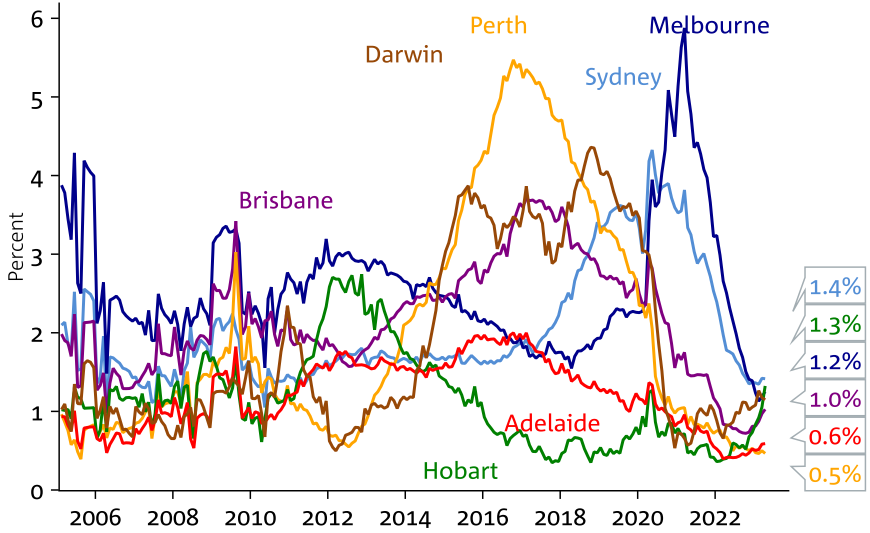
* Average number of persons usually resident in an occupied private dwelling; excludes visitors and persons in non-private dwellings (e.g. hotels and hospitals).

** Estimated using Labour Force Survey microdata; seasonally adjusted.

Sources: ABS; RBA

Source: Reserve Bank of Australia

Residential vacancy rates

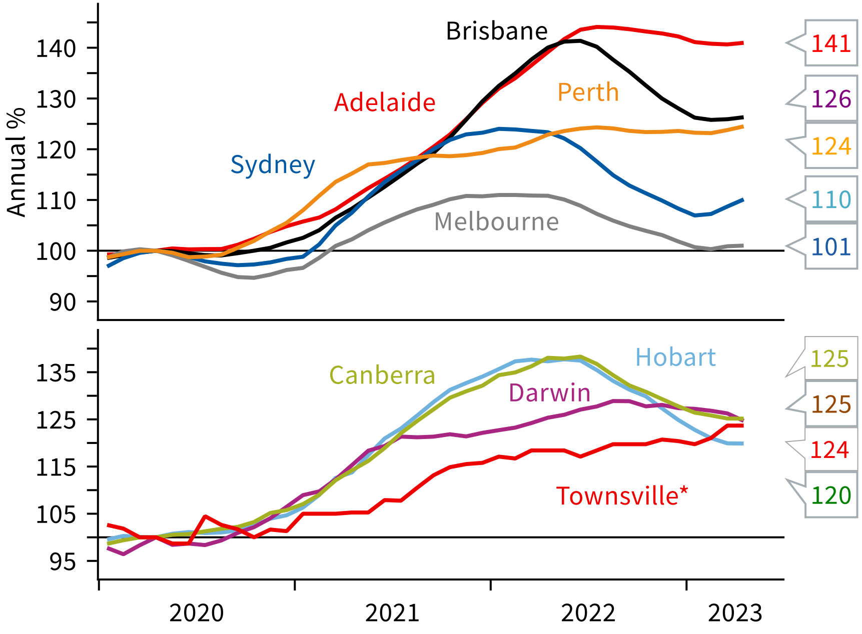


Source: National Australia Bank, SQM

House prices stabilise as rents surge

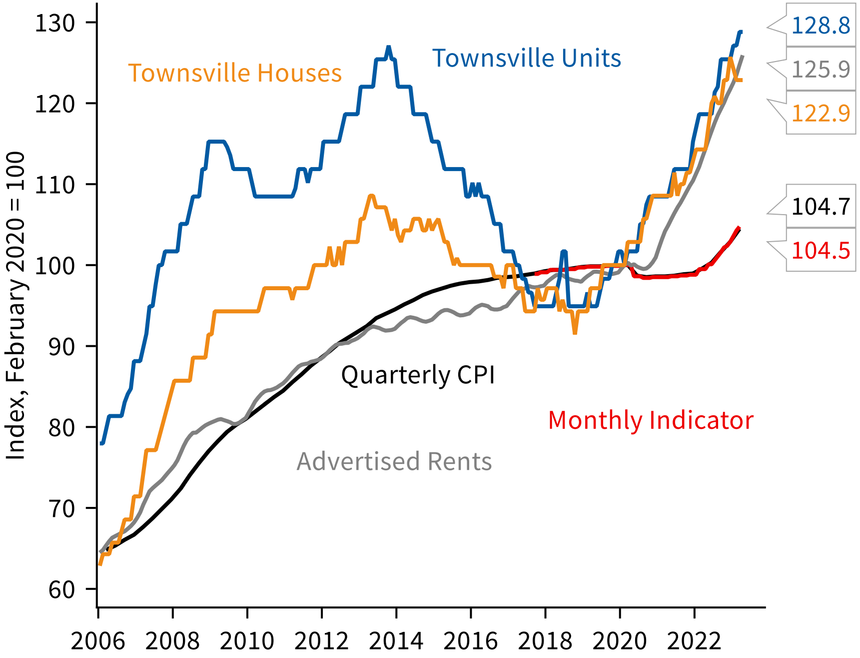
Population growth and rental growth currently outweighing high construction costs and interest rates. A number of measures introduced to boost social housing and incentivise build-to-rent. Report to improve housing supply and affordability due in 6 months.

Australian Dwelling Prices



*Townsville values are median house values All others are hedonic delling values
Source: National Australia Bank, Corelogic

Rents Price Levels (Indexed to February 2020)

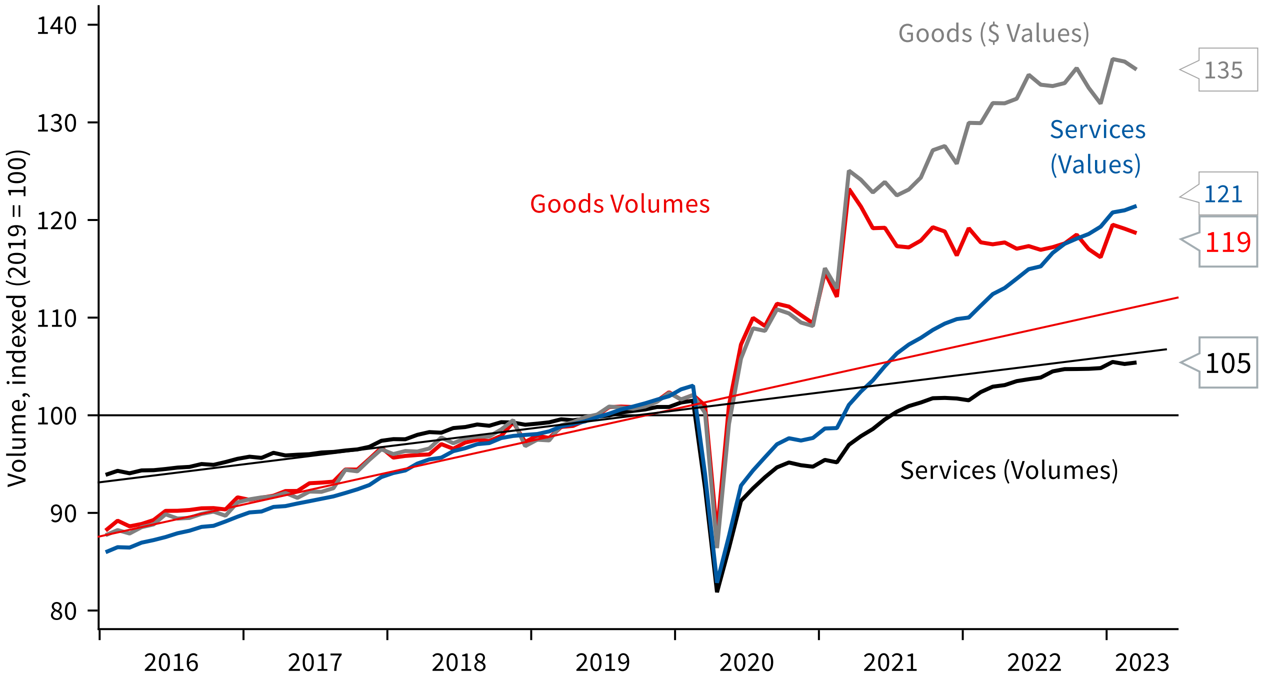


Source: National Australia Bank, ABS, Corelogic

Shock 1: Major shifts in spending – slow to rebalance

Big switch in spending to goods was an under-recognised factor in supply chain disruptions and global inflation developments. Services now recovering.

US: Consumer spending split by good/services (indexed)



Source: National Australia Bank, Macrobond

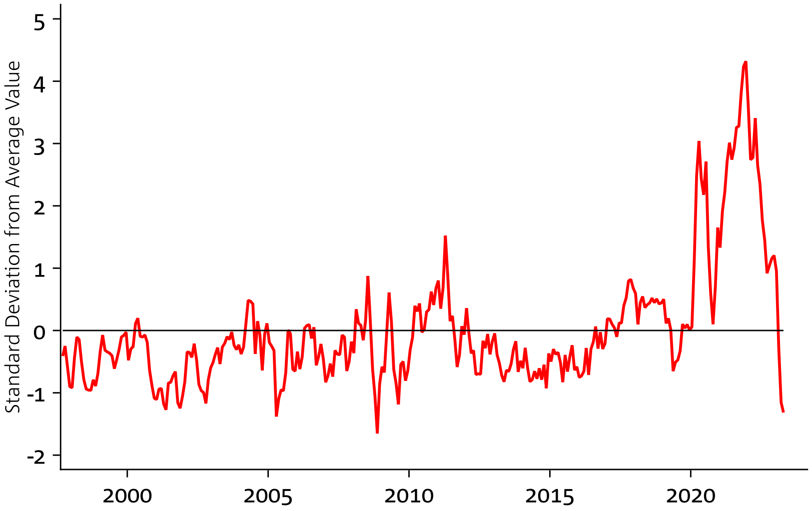
Now, pent-up demand for services/re-opening pressures (including on prices).

Rebalancing slower than expected

Supply chain disruptions/freight rates largely resolved

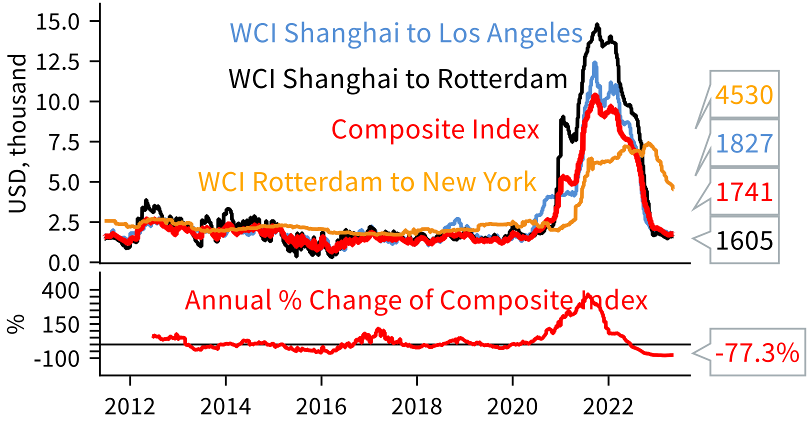
NY Fed's global supply chain indicator signalling significant resolution of supply chain issues – an important component of the Government's near-term reduction in inflation.

Global World Supply Chain Index



Source: NAB, NY Fed

Container Freight Cost per 40 foot container (USD)

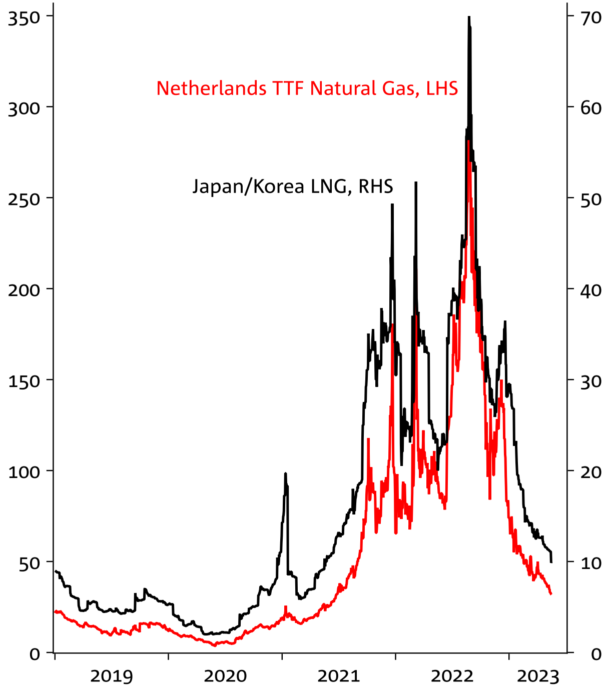


Source: National Australia Bank, Macrobond

Shock 2: Russia/Ukraine energy/food shock – unwound?

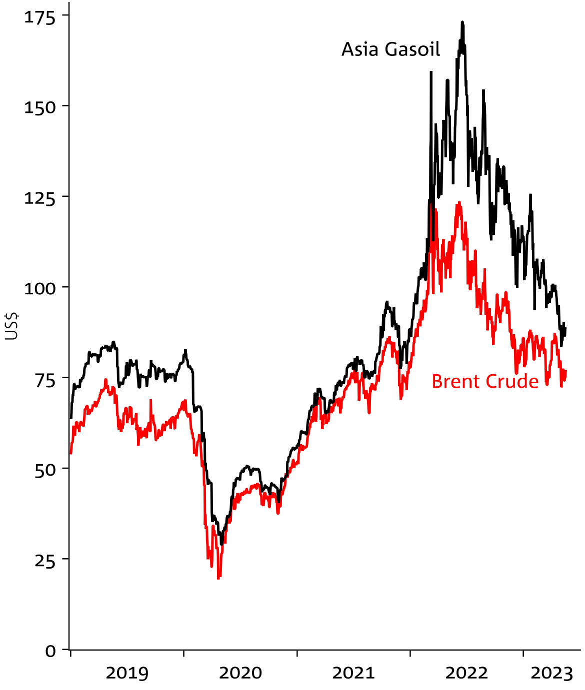
Resulted in a further sharp increase in energy and food prices from February 2022, especially gas. Now seeing an unwind in many spot prices – mild European winter and storage full and wheat and vegetable oils also reversing much of Ukraine surge

Energy Prices



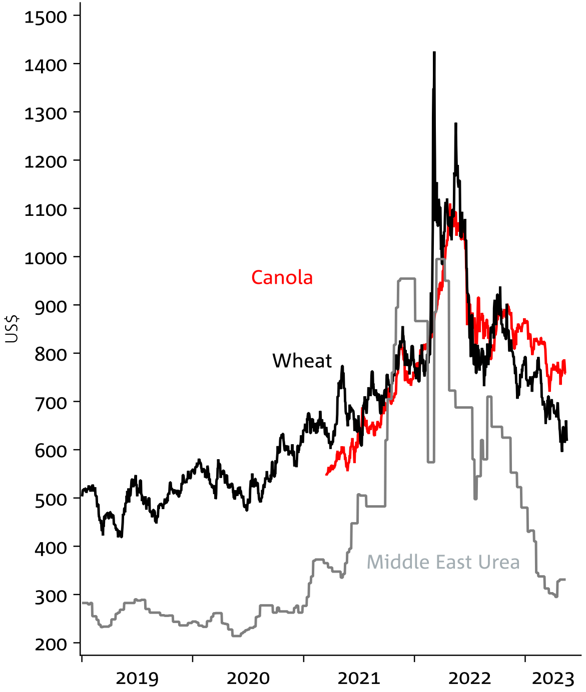
Source: Macrobond

Fuel Prices



Source: Macrobond

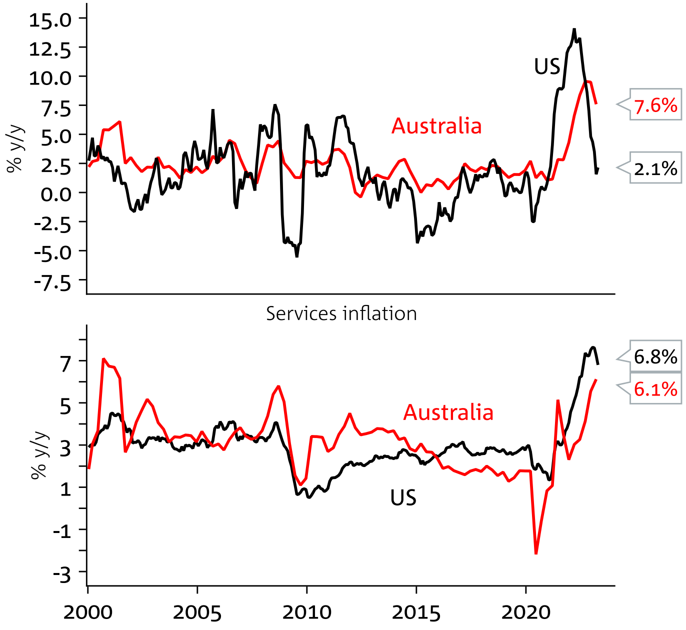
Food/food input Prices



Source: Macrobond

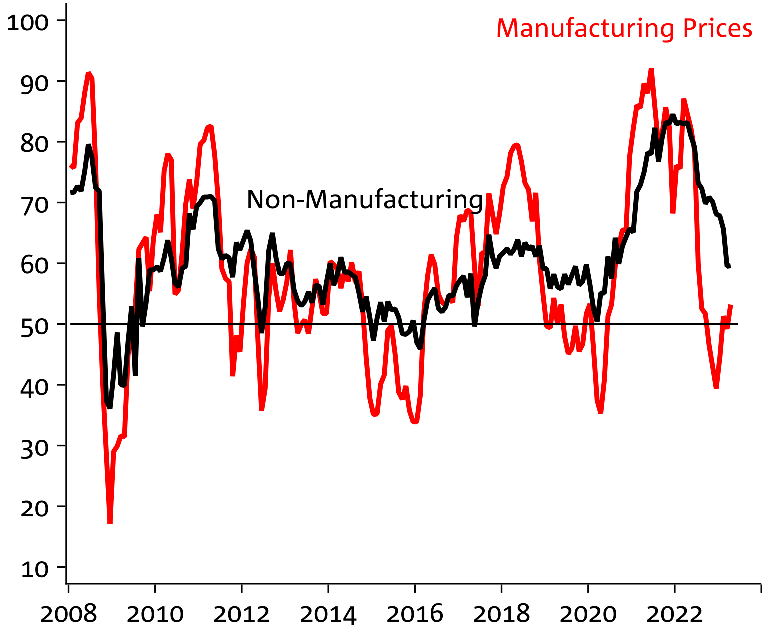
Inflation – services inflation very high; goods moderating

Goods and services inflation



Source: National Australia Bank, ABS, BLS

ISM inflation indicators



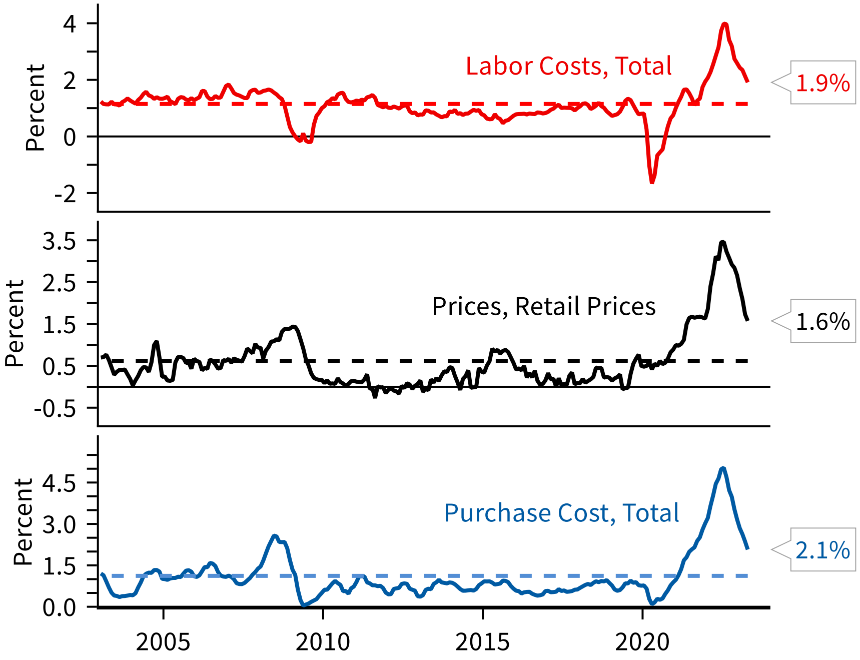
Source: National Australia Bank, Macrobond

Elevated goods demand and supply chain disruptions drove significant goods inflation, which is now clearly moderating in the US. Services inflation remains very elevated in the US (in part due to rents) but is close to peaking. Australia is clearly lagging US inflation developments – and is expected to continue to do so as wages pick up with a lag, higher rents are measured in the CPI.

Australian cost pressures – now easing but still too high

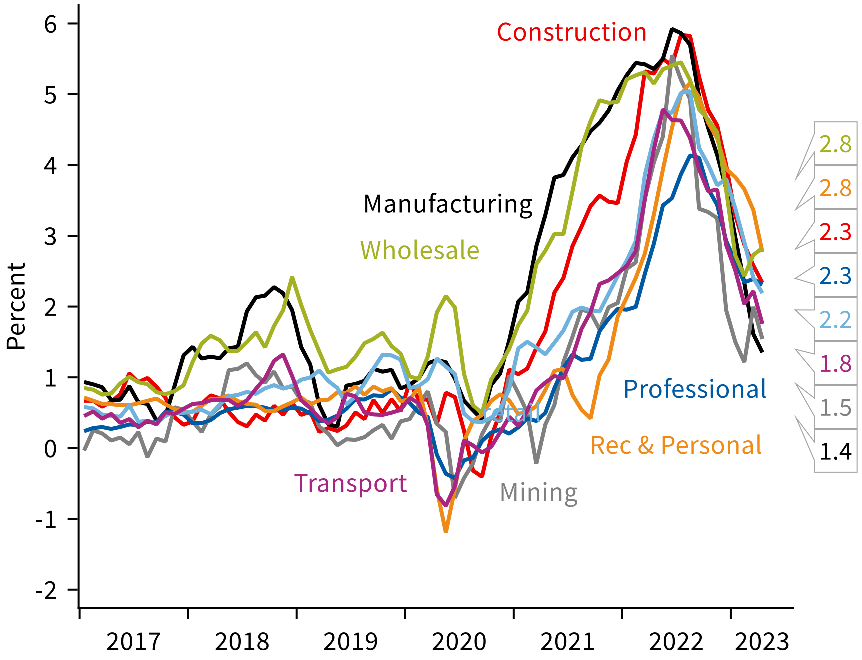
NAB survey gave early warning of the acceleration in inflation in 2021

NAB Survey inflation Indicators (3m average)



Source: National Australia Bank

NAB Survey Purchase Costs (3m average)



Source: National Australia Bank

Does the Budget add to inflation? Yes and no!

No:

- Energy price moderations (electricity +10% down from +36% and gas +4% versus +20% expected) are expected to reduce the CPI by 0.75 percentage points over 2023-24 relative to earlier forecasts of -0.5ppts. Note this policy was known and incorporated into the RBA's February and May forecasts. The RBA still assesses that energy will ad 25bp to inflation over 2023-24.
- Pharmaceutical reforms will reduce dispensing costs/costs of medicines
- Rent assistance lowers average rent prices
- This is 'measured CPI' rather than inflation pressure, though some second round effects via indexation and next year's minimum wage

Yes:

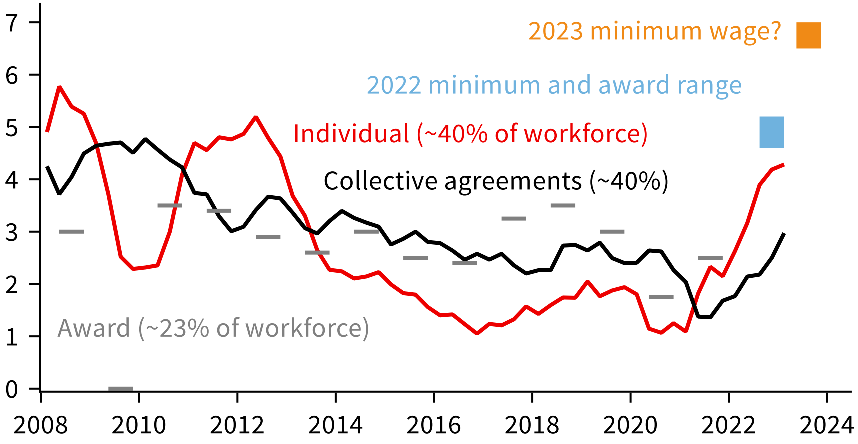
- Cigarette prices rise 5% per annum for each of the next three years adding to inflation (+0.15ppt per annum perhaps)
- The extra spending to support the less well off, will add to demand, as will the extra wages paid to aged care workers and those on the Minimum Wage. This is not to say that these are not justified, just that they will add somewhat to demand and therefore also support inflation in a macro sense.

Conclusion: Not really a big story – much larger other influences on inflation than the Budget

Wages

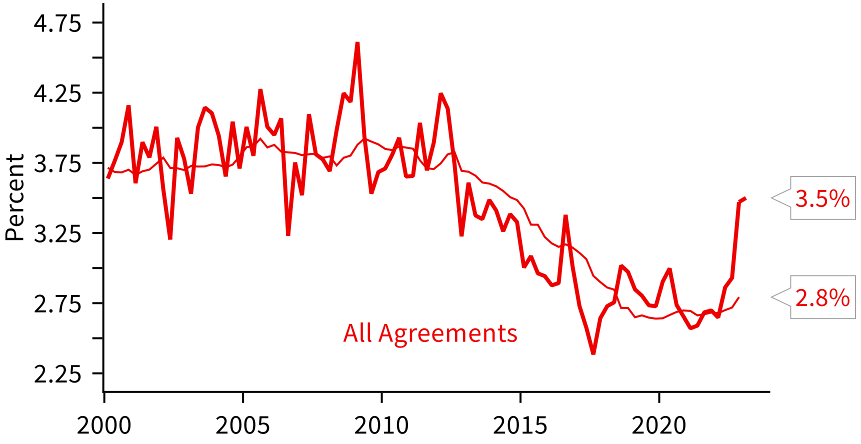
Wages growth has been picked up, led by the more flexible parts of the wages setting process and minimum and award wages. The RBA's and Government's wages forecasts seem on the low side in the near term and therefore are a key risk for further tightening. ACTU/Government supporting 7% minimum wage adjustment. Key will be broader award wage rise.

Indicative Wages Growth by Pay Setting Method*



*Estimated by NAB using decomposition based on industry level data. Indicative only. Award is the increase in the national wage decision
Source: National Australia Bank, ABS

Enterprise Agreement Average Wage Increases*

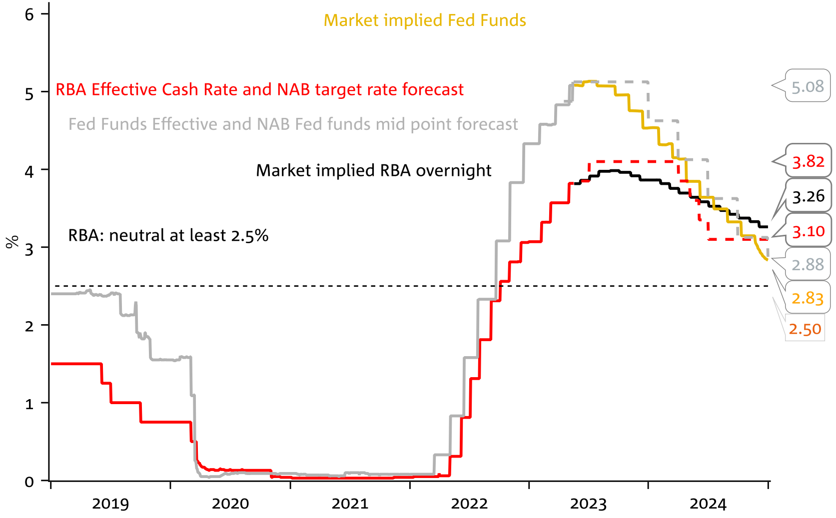


*Thick line is new agreements, thin line is all current agreements. Dot is agreements in the first half of Q1
Source: National Australia Bank, Attorney General's Department

Policy outlook: close to, but maybe not yet quite at peak?

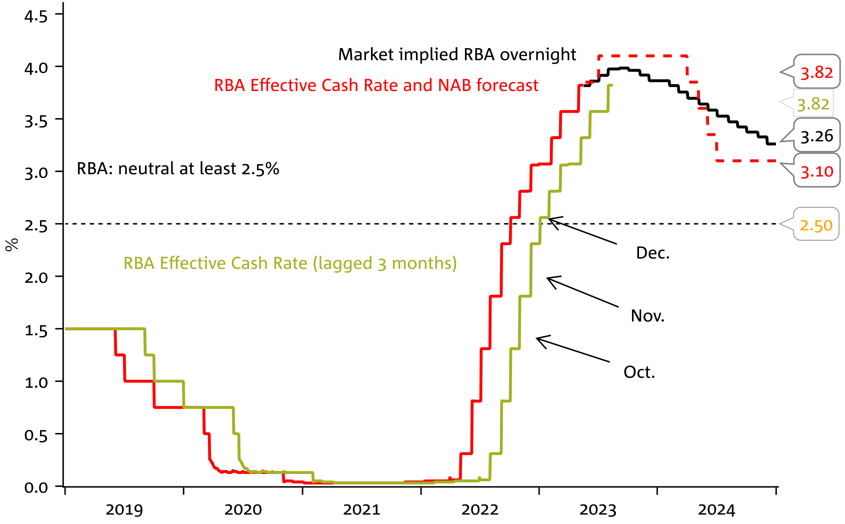
Early rate cuts in the US would likely require greater banking sector problems. RBA signalling bias to do more. Anchor: is inflation on track to return to 2-3% target "in a reasonable timeframe" (by mid-2025)?

Market pricing for the Fed and the RBA



Source: National Australia Bank, Macrobond

Repayment adjustments lag by 3+ months



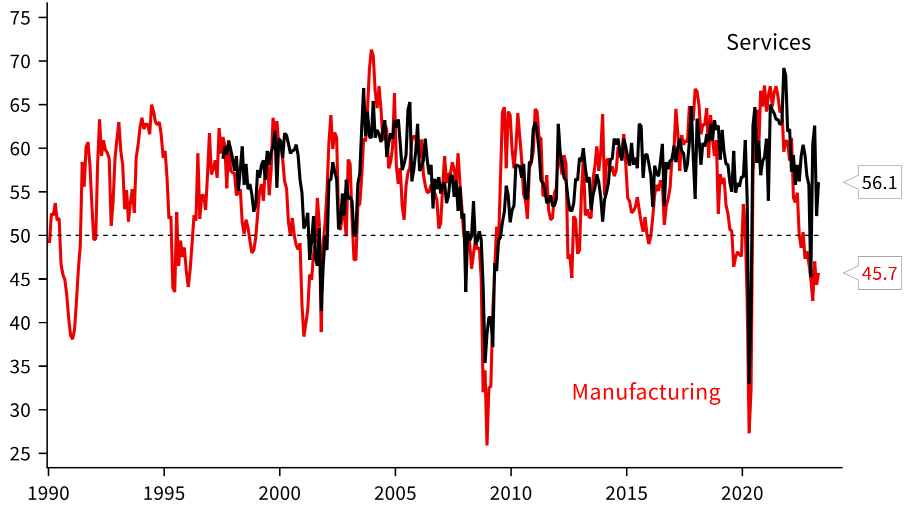
Source: National Australia Bank, Macrobond

Significant repricing in the US following SVB failure. US Markets now priding over 2% of rate cuts by the end of next year. NAB forecasts one more RBA rate hike but close to the peak.

Lags in adjusting repayments, more fixed-rate mortgages – and pent-up demand for services – mean the impact on the economy will likely only become clearer late in Q1 and in Q2

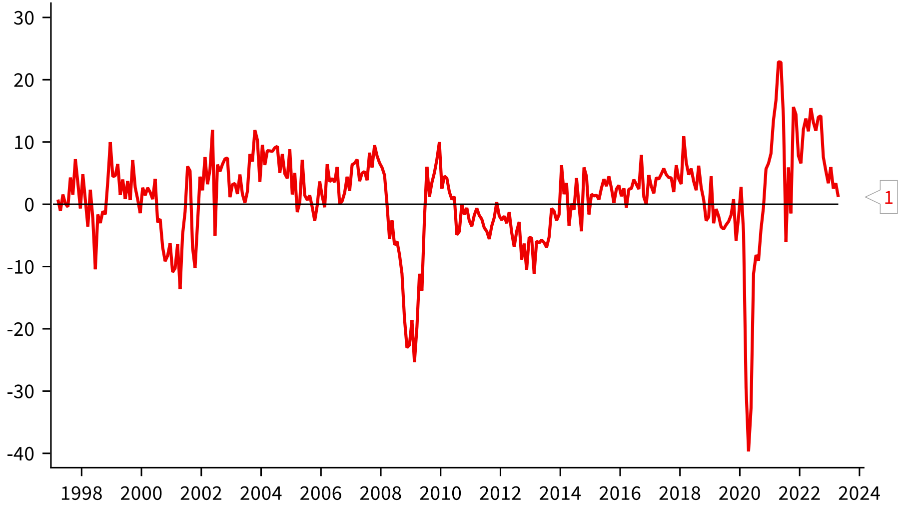
Watching US new orders indicators closely – goods recession but services holding up so far (but slowing)

United States, ISM Business Survey - New Orders



Source: National Australia Bank, Macrobond

Australia, NAB Business Survey - Forward Orders

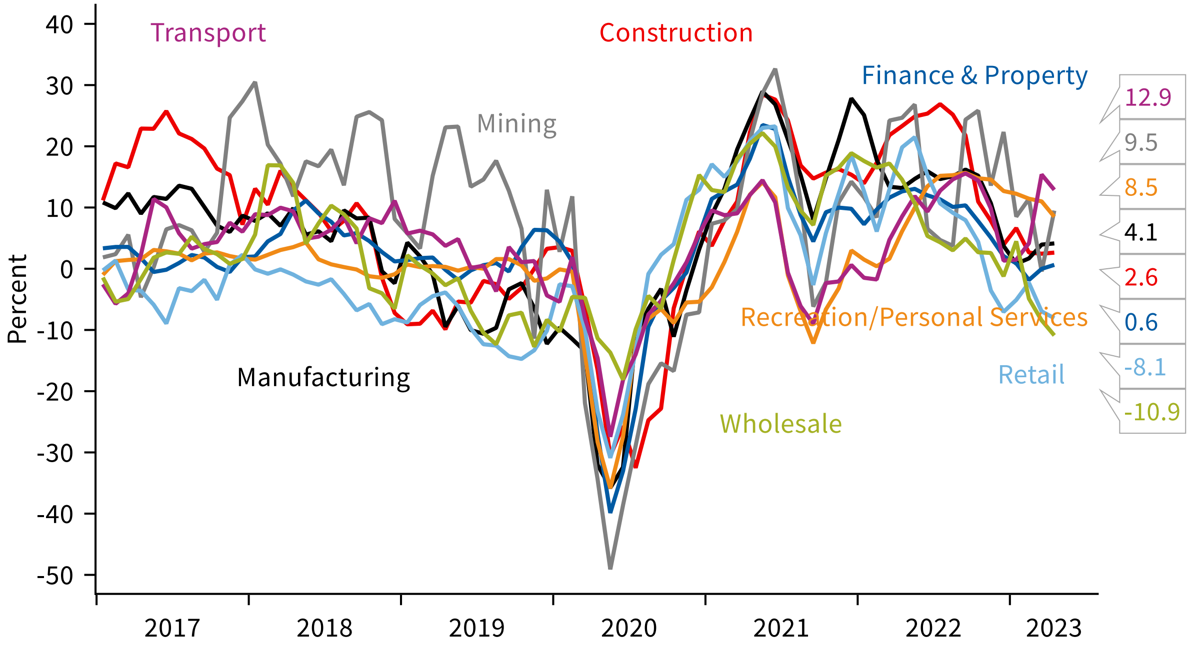


Source: National Australia Bank, Macrobond

Forward orders by Industry – Australia

Services also holding up, while Retail and Wholesale soften.

NAB Survey Forward Orders*



*3 month moving average

Source: National Australia Bank

There are some divergent trends in forward orders by industry. Mining remains very strong, as are forward orders in Services and Transport & Utilities (both reopening sectors). Elsewhere orders have moderated.

Budget surplus of $4bn for this year (2022-23)

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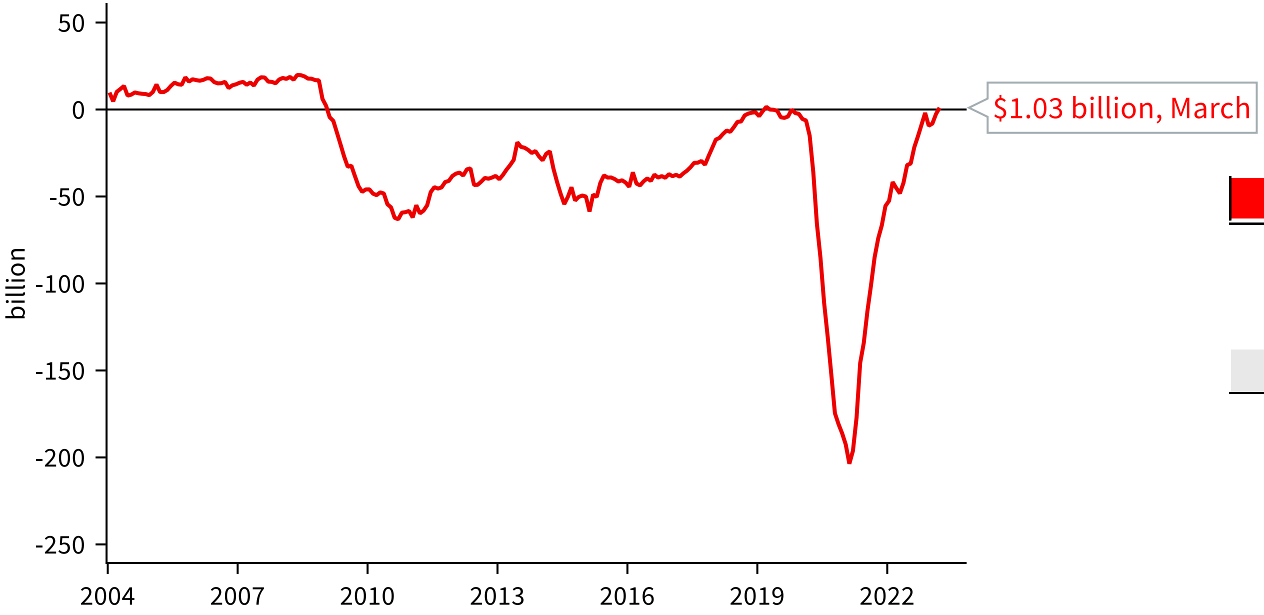
Underlying Cash Balance (12m rolling sum)



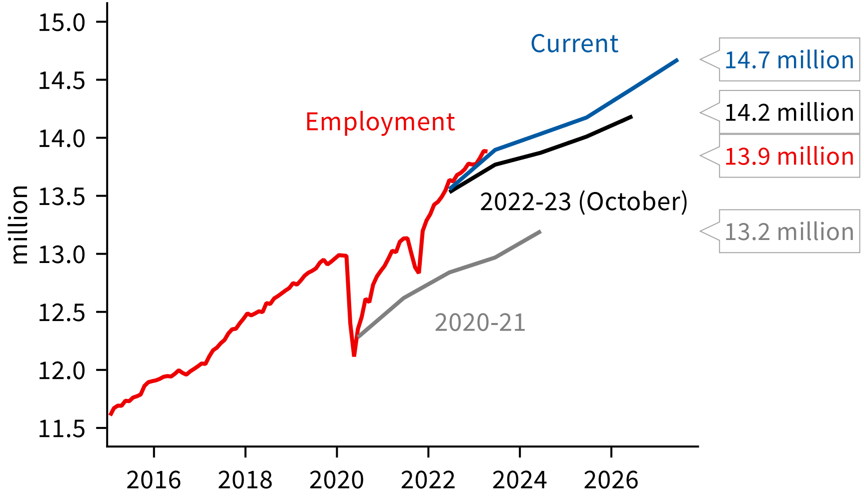
Source: National Australia Bank, Macrobond

2022-23 Budget Forecast	
May-21	-$99.3bn
Mar-22	-$78.0bn
Oct-22	-$36.9bn
May-23	+$4.2bn

Forecast surprises drive revenue upgrades

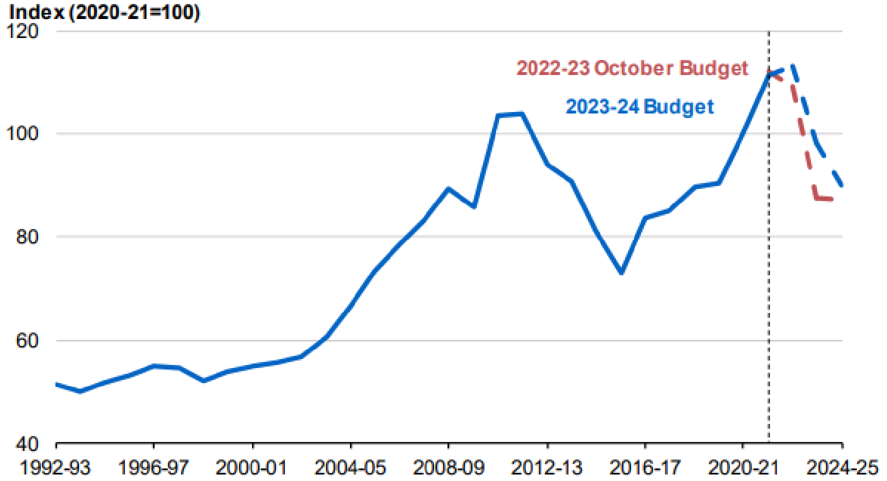
Stronger employment and higher wages, inflation and commodity prices benefit the budget

Employment



Source: National Australia Bank, ABS

Terms of Trade



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Major budget initiatives

Payments		
JobSeeker	$4.9bn	Jobseeker increase for 1.1m people receiving working age payments (payment increases $40 a fortnight)
Energy Relief	$1.5bn	Up to $3bn (cofunded with states) of target relief to households to reduce prices paid on energy bills
Rent Assistance	$2.7bn	15% increase in rent assistance
Health	$5.7bn	tripling of the bulk billing incentive to make it cheaper to see a doctor and changes to dispensing quantities for PBS medicine to reduce cost and $2.2 billion for new and amended PBS listings
Parenting Payment	$1.9bn	extension to support principal carers with a youngest child under 14 years of age
Brisbane Olympics	$1.1bn	Additional $1.1bn over 4yrs (3.4bn over 10) increased spending for legacy venue infrastructure
Revenues		
Tobacco Excise	$3.3bn	increasing tobacco excise each year for 3 years from 1 September 2023 and aligning the treatment of stick and non-stick tobacco tax
PRRT	$2.4bn	Amending the Petroleum Resource Rent Tax
Super	$1bn	Reduce the superannuation tax concessions available to individuals with a total superannuation balance exceeding $3 million
Initiatives		
Reducing emissions	$4.5bn(10yrs)	A range of measures to build on earlier climate commitments including a $2bn fund to accelerate development of Australia's hydrogen industry
Investment Vehicles		National Reconstruction Fund is a $15 billion fund for loans, equity and guarantees to projects in 7 priority areas. Rewiring the Nation will provide $20.0 billion in concessional financing for transmission projects
Housing		A new Investment Fund – the Housing Australia Future Fund (HAFF) to boost the supply of, and better facilitate private investment into, social and affordable housing, 30,000 social and affordable homes over 5 years

The Budget Numbers

Key Budget Aggregates 2023-24

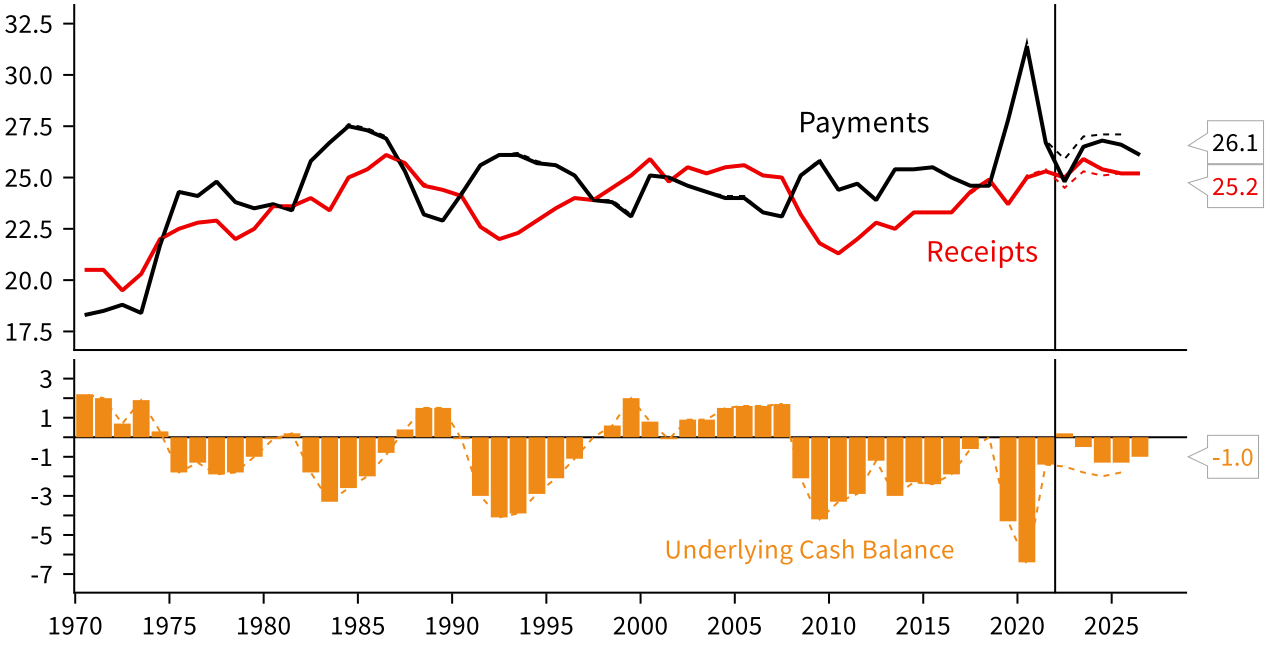
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	Actual	Estimate	Forecasts			
Underlying cash balance						
Current Budget 2023-24	-32.0	4.2	-13.9	*-35.1*	*-36.6*	*-28.5*
Prior Budget 2022-23	--	-36.9	-44.0	-51.3	-49.6	--
Change between budgets	**--**	**41.1**	**30.1**	**16.2**	**13.0**	**--**
Gross debt						
Current Budget 2023-24	895.3	887	923	958	1015	1067
Prior Budget 2022-23	--	927	1,004	1,091	1,159	--
Change between budgets	**--**	**-40**	**-81**	**-133**	**-144**	**--**

Source: National Australia Bank, Treasury

It's very rare to move from a small surplus to a small deficit, but consistent with the predicted modest economic slowdown

The budget forecasts

Australian Budget Forecasts (% of GDP)



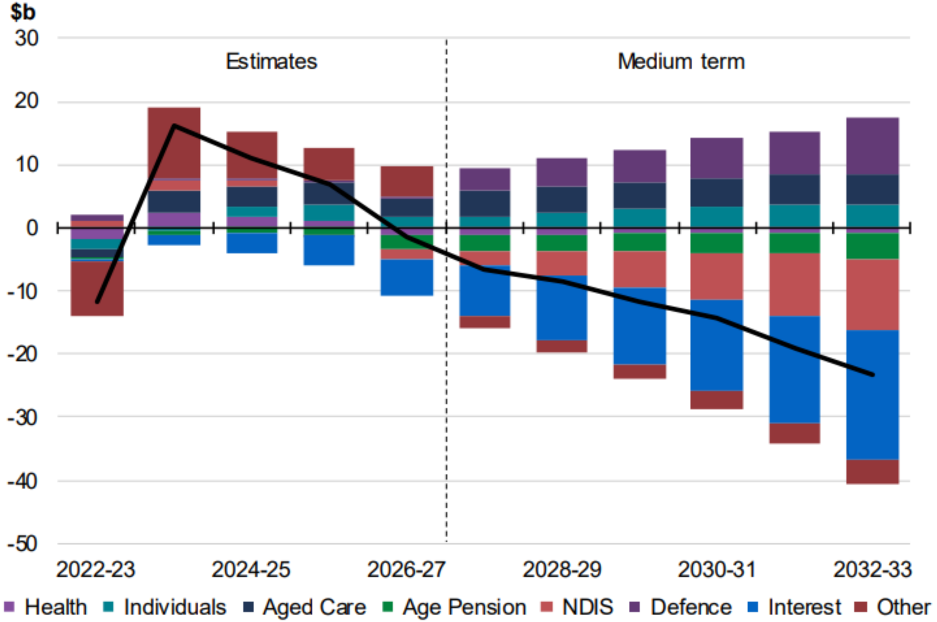
*Dashed lines are previous October Budget
Source: National Australia Bank, Treasury

The Government continues to warn of the medium-term pressures on spending from defence, the NDIS, ageing, health and public debt interest. Those pressures are not especially clear in these aggregate data, nor are moves to significantly address these – in next year's budget!

Outlays provide part of the answer

Changes in outlays payments since October last year

Chart 3.7: Revisions to major payments since the 2022–23 October Budget



Source: Treasury.

Note: Numbers may differ from estimates presented in *Statement 6: Expenses and Net Capital Investment* due to accounting and classification differences. Interest refers to interest payments on Australian Government Securities. NDIS refers to the Commonwealth's contribution to payments for NDIS participant supports.

Health, Defence and Aged Care more than offset by Interest and NDIS savings

Rating the budget – as always there are competing priorities

national australia bank

- **Short-term forecasts** - are the fiscal and economic assumptions credible? YES
- **Long-term fiscal sustainability** - does the Budget help rebuild fiscal flexibility and address the long-term fiscal challenges of the ageing population? MORE TO BE UNVEILED AND DONE. ARGUABLY MAJOR CHANGES DELAYED FOR A FURTHER YEAR, BUT SOME PROGRESS
- **Is the level of expenditure correct and appropriately targeted? Are the various agents paying appropriate tax?** SOME REASONABLE CHANGES TO TAX, BUT NO MAJOR CHANGES
- **Policy Initiatives and the Economy** - does the Budget support productivity? Are the economy's/government's resources being used appropriately – is there sufficient infrastructure? LITTLE MENTION OF PRODUCTIVITY – INFRASTRUCTURE PROJECTS TO BE STARTED UNDER REVIEW
- **Fairness** - does the Budget support Australians' sense of a fair go – rewarding initiative as well as providing a social safety net? A SIGNIFICANT FOCUS ON SUPPORTING THE VULNERABLE
- **Politics** - will it help the Government get re-elected? IT WOULDN'T SEEM TO HURT. STAGE III TAX CUTS?
- **What's not in the Budget?** Are key policy issues addressed – eg. housing affordability, energy security, education, retirement savings, immigration, tax reform, climate change etc.? MANY USEFUL CONCURRENT REVIEWS/INITIATIVES (HOUSING, MIGRATION). IS MAJOR TAXATION REFORM POSSIBLE UNDER ANY GOVERNMENT?

The US debt ceiling

- 6 debt crises in the past 30 years
  - 5 saw government shutdowns (3-35 days)
  - 1 saw a sovereign credit rating downgrade
  - 0 saw a default on US government debt
- President Biden: leaders reached "an overwhelming consensus…that defaulting on the debt is simply not an option. Our economy would fall into recession" McCarthy hopeful on debt ceiling deal, AFR, p13, 18 May 2023
- No default has to be most likely outcome – only the path to that outcome is unclear.
- Observations about previous crises:
  - Did not change the general trend for the US economy or financial markets
  - In the month prior, typically the US$ weakened, bond yields fell, gold prices rose and the $A sometimes rose and sometimes fell
  - In the month after,, the US$ mostly rose, the $A fell, bond yields rose and gold rose further.
- Other events occurred simultaneously (Greek/Eurozone debt crisis, Trump China tariffs)

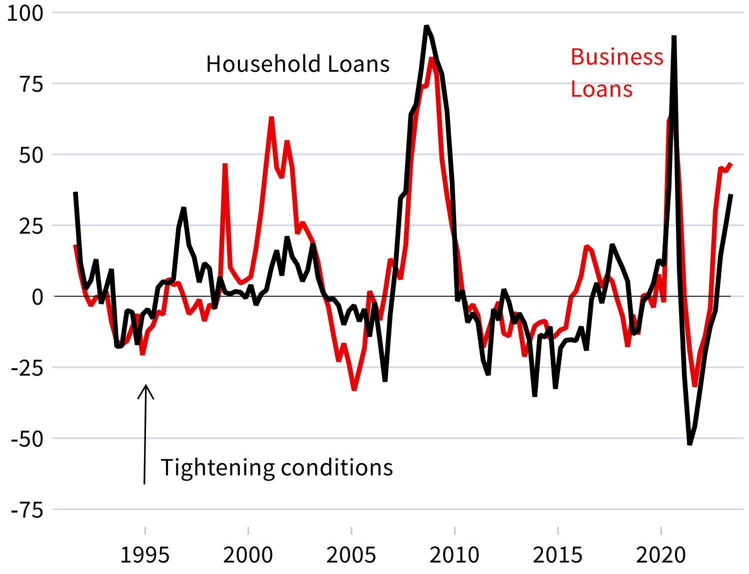
Silicon Valley Bank/Credit Suisse: A signal of what's to come or factors idiosyncratic to those banks?

- A bit of both, but developments will cause further tightening of financial conditions
  - Financing conditions for tech start ups with high cash burn have tightened a lot over the past 6-12 months
  - But investing in long bonds and not hedging the interest rate risk and having a very concentrated deposit base is not a great business model
  - Credit Suisse vulnerable as in major restructuring
  - Quick actions by regulators in both countries helpful – but bank runs happen much more quickly now
  - Fed Senior Loan Officers Survey has tightened significantly due monetary tightening – and will likely tighten further, impacting real estate lending appetite – slower growth ahead more broadly/monetary policy more effective

- Implications for the Fed:
  - More cautious in tightening pace going forward but did not stop in May. Still very inflation driven.

- Implications for RBA:
  - Australian banks' share prices and cost of funds little impacted
  - RBA pause in April not driven by these developments

Fed Senior Loan Officers' Survey

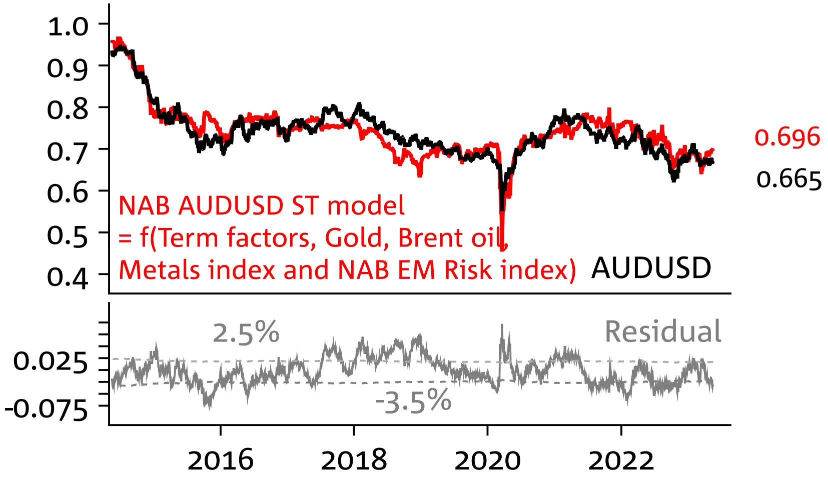


Source: National Australia Bank, Macrobond

AUD/USD – targeting US$0.70-0.75 in H2, 2023

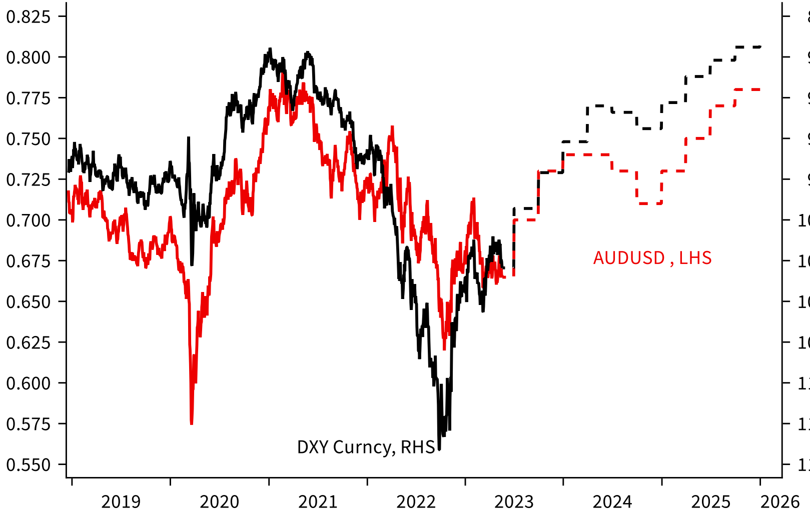
Now on an upward trend as US$ cycle turns due to relative policy shifts in the US, Europe, Japan and China (end to China zero-COVID policy, ECB/less dire European economic developments, BoJ). But Fed remaining hawkish might delay the next leg higher a little.

Short term fair value model



Source: National Australia Bank, Macrobond

AUD/USD versus USD DXY Index



Source: National Australia Bank, Bloomberg

Megatrends….next 5 to 20 years

According to Ivan

- Decarbonisation/energy transition/climate change
- Technology – AI, digitalisation,
- Ageing
- Defence spending/geopolitics
- Political changes/pressures to reduce inequity

According to ChatGPT:

- Technological advances
- Climate change
- Demographics/ageing
- Geopolitics
- Globalisation (note, not deglobalisation!)

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- Economic Trends
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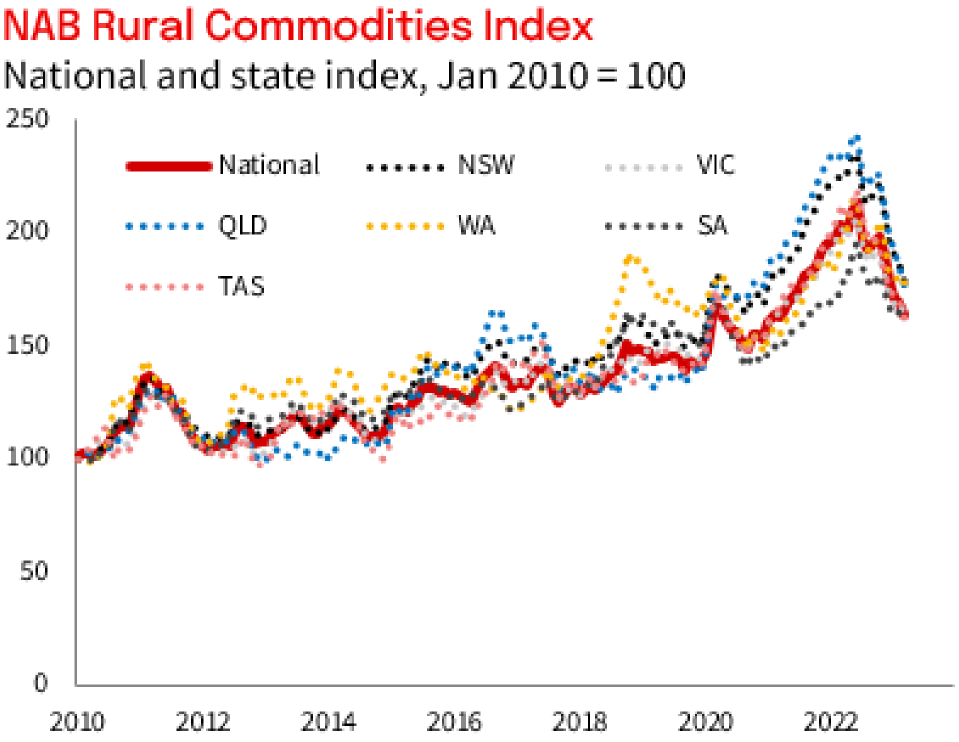
    - → Australian Economic Notes
- Property Research: Quarterly Residential and Commercial Property Surveys
- Rural Commodities Wrap
- NZ Research from our BNZ colleagues


NAB Rural
Commodities Wrap
April 2023

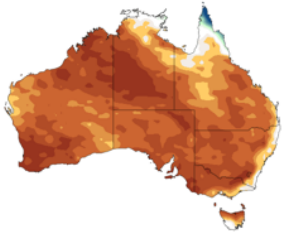
Many rural commodity prices under pressure but still high

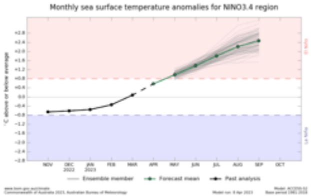


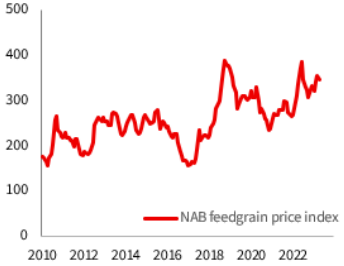
Source data: NAB Group Economics, ABARES, Meat and Livestock Australia, Australian Pork, Ausmarket Consultants, Australian Bureau of Statistics, Bloomberg, Refinitiv

Weather outlook less favourable

Seasonal conditions and farm inputs







Unexpected early break, but outlook still dry

Against expectations of a dry autumn, much of south-eastern and south-western Australia has enjoyed an early autumn break, setting up an ideal start to the winter cropping season in many areas.

However, the BoM's three-month outlook continues to show a sea of orange across much of the continent, pointing to drier than average conditions for the remainder of autumn and into mid-winter.

BoM on El Nino watch, 50% chance of event this year

While ENSO is now neutral, The BoM remains on El Nino watch, indicating a roughly 50% chance of an event developing this year.

All but one of the international climate models surveyed by the BoM point to an El Nino event forming by August. El Nino events typically see hotter and drier spring-summer conditions in eastern and northern Australia.

Fertiliser prices continue to plummet

Fertiliser prices continue their downward trend, having now erased well over half their covid/Ukraine war spike. While prices are still high by historic levels, prices are now falling so rapidly (our index is down 36.1% y/y), that another few months at this rate will see a return to 2020.

That said, we remain cautious about this scenario, particularly given OPEC's unexpected output cut and the potential for further European natural gas supply challenges this coming northern winter.

Feed grain prices have risen recently

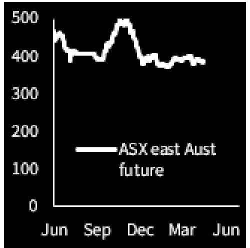
Our feed grain price index has jumped recently, up 4.4% m/m in March, although a little lower so far in April.

While last season saw a big (and quality downgraded) winter crop, 2023 is looking much drier and hay has been tight as producers scrambled to cash in planting grain last year.

We still don't expect major upside this year, but a very dry season could test this.

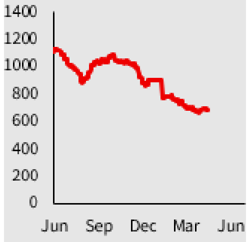
Source data: Bureau of Meteorology. Bloomberg, World Bank, Refinitiv

Major commodities outlook



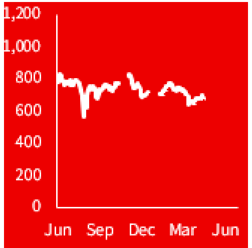
Wheat

Australian wheat prices have seen little change recently, with east coast futures in the high $300s range. Planting is kicking off into ideal conditions in many areas, although the long range outlook is more challenging. Yields are likely to be below last year's (record) conditions.



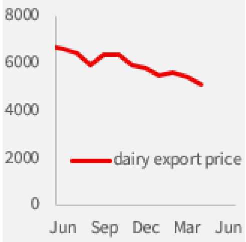
Cattle

Australian cattle prices have moved sideways since mid-March, reflecting better weather conditions, tighter supply and generally less bearish sentiment. However, downside risks remain, especially if an El Nino develops this winter.



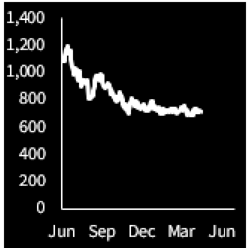
Sheep

Lamb prices have tracked lower over the last year, but only moderately so. But risks remain – particularly prices into the US market if the US experiences a downturn. Wool has been generally weaker, but only moderately so by historic standards.



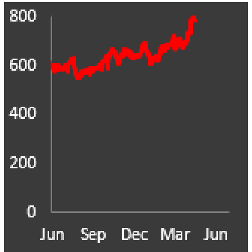
Dairy

Recent global dairy trade auctions continue to trend lower, pulling our export price indicator to its lowest level since October 2021. Opening prices are around the corner, and competing pressures have the potential to challenge processor and producer alike.



Cotton

Cotton prices continue to offer little in the way of volatility. AUD Cotlook A is trading at around $700/bale. Dry conditions this year may affect dryland cotton yields but storage levels are excellent and likely to remain so for some time.



Sugar

Sugar prices have surged recently – reflecting global supply concerns (especially Brazil and India) and strong Chinese demand. OPEC's surprise cut likely only increased upward pressure. Sugar will be a commodity to watch in coming months.

Source data: NAB Group Economics, Meat and Livestock Australia, Bloomberg, Global Dairy Trade, Refinitiv

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