Hello and welcome,

Thank you for joining me today to go through the latest ABARES Water Market Outlook for 21/22 for the Southern Murray-Darling Basin.

This presentation aims to provide an overview of market conditions and outlook for the year ahead.

We join the latest information from the BOM and state water agencies.

Now, a few things have changed since our last outlook in March.

The amount of unused water sitting in state accounts has been drawn down, and this means that carryover volumes although still quite high is not as quite as high as they had expected to be back in March.

The NSW allocation forecasts has been revised upwards (increasing allocations) and the seasonal outlook has improved, with above median rainfall predicted heading into spring.

So, all these factors have been influential in determining our current market outlook for 21/22 and these are the key points for today’s presentation.

Water supply levels is set to remain high, on the back of favourable allocations and high carryover volumes.

Consequently, prices are set to remain low.

Regional price gaps are forecast, due to regional demand and trade limits and average seasonal conditions are currently considered most likely.

Now we should point out that ABARES provides forecasts under four scenarios: wet, average, dry and extreme dry. But given the current climate outlook, ABARES currently considers the average scenario the most likely.

And this will form the basis of today’s presentation.

Okay, so this table shows state allocations for selected entitlements there on the left, and in green - we have the current year forecasts (assuming average conditions), in purple - the closing allocations of last year, and in orange - historical averages.

So, you can see that for Victorian and South Australian entitlements first, you can see they’re at or near 100% which is quite similar to last year, and certainly above their historical averages.

The forecast for NSW tell a bit of a different story. So, both the Murrumbidgee and Murray are currently forecast at levels below the levels they reached last year.

This is particularly noticeable in the Murrumbidgee, which reached 100% last year for the first time ever and is currently only forecast to reach only 61%.

However, it is important to note, that this early in the ear the Murrumbidgee is already at 50%.

So, taking a step back and looking at the allocation picture as a whole, based on allocations alone, you’d probably think that water supply levels heading into this year would be a bit below last year but above historical averages.

Now, keeping that in mind, this chart shows our water supply forecasts for the Southern Murray-Darling for 21-22, under the four scenarios.

And what should immediately jump out, look at the average scenario, is that we’re expecting the total water supply levels to be at or around about the same as they were last year.

So, this begs the question why, with allocation forecasts a bit lower than last year, would the water supply levels not be lower as well?

Well, the reason for this is that high carryover volumes have been bought forward from last year, into this year.

In fact, the carryover volumes are currently at their highest level since 2017/18.

And this additional water, around 2,600 GL, has boosted supply, and has accounted for the favourable forecasts we see in the chart.

Okay, so our price forecast are largely representative of the supply conditions seen on the previous chart.

This chart shows observed average prices across Southern Basin for the past three years and our forecasts for the year ahead.

In the average scenario, ABARES is forecasting a southern basin price of $141 per ML for 21/22 and this is comparable but marginally above the price from last year at $130 per ML.

Now, the high carryover volumes and generous allocations we’re seeing, explain that prices under all 4 scenarios are actually relatively low in historical terms, particularly compared to the drought years of 17/18 and 19/20.

Okay, so ABARES modelling is forecasting price gaps to emerge throughout 21/22, between regions and this is something we’ve seen in recent years.

Now this chart is an example of that, showing two of those regions: the VIC Goulburn Broken and the VIC Murray Below.

As you can see under all four scenarios, we’re forecasting price gaps to occur, with a $44 gap expected in the *average* scenario.

So why do these price gaps occur?

In this example, we have a net exporting region (the VIC Goulburn), and a net water importing region (the VIC Murray Below),

And there is a trade limit that governs the volume of water that is allowed to be traded between the two regions.

When the trade volume hit a certain threshold, the limit binds, and trade is halted.

The mismatch in supply and demand that results, creates the price gaps seen in the chart.

Now what is interesting, is that price gaps like this have become a *more* prominent feature of the market in recent years and it’s a two-fold reason behind this.

First, is that there is a concentration of high value, water intensive crops such as almonds, in the lower regions of the Murray.

And the second is that, due to trade limits, the amount of water that can be traded to meet this demand is being restricted, resulting in these price differentials.

So, looking ahead with almond trees expected to continue to mature throughout 21/22, we can probably expect these trends to continue for the foreseeable future.

Now, there is one other thing to note on the subject of trade limits, and this is something go into more detail on, in our report.

And that is that there have been ongoing changes to the Goulburn to Murray trade rules.

And while it does seem that the new rules will ultimately reduce the volume of water that can be traded from the Goulburn to the Murray, so we don’t see the high volumes that were considered too high in 2017-18, 19-20, the exact impact is unknown and will have to be observed over time.

So, in summary, take home points from today.

Water supply to remain high, supported by high volumes of carryover and favourable allocations.

Low prices are set to continue as a result, and;

Regional price gaps are forecast, driven by regional demand and changes to trade limit.

Thank you.

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