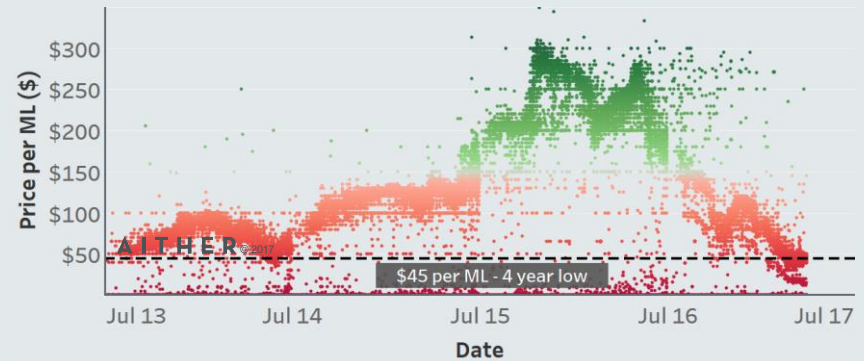


Market commentary

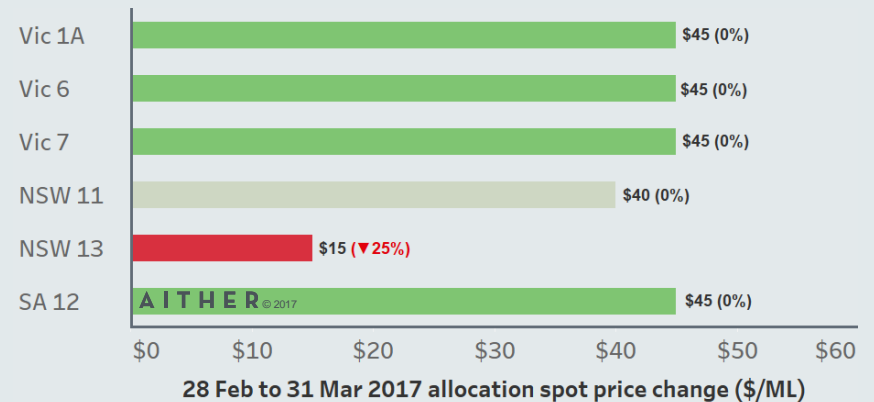
- With the 2016-17 irrigation season essentially complete, the market has turned its focus to planning for the 2017-18 season.
- There is general consensus across the market on three things:
 - Allocations to entitlements in the 2017-18 water year are likely to be high and allocated relatively early.
 - Carryover volumes into next season will be very large and at the end of this year there will be excess water in the system.
 - The 2017-18 southern MDB cotton and rice crop will likely be large and this may demand water in excess of what is carried over and allocated to entitlements owned by these industries.
- In the short-term we expect a generally flat allocation market until carryover parking space is fully exhausted – at which point prices should fall (which is already being observed in the Murrumbidgee).
- As carryover space is exhausted, forward products may gain more market traction – although this market still has a way to mature.
- Based on current water availability outlooks, we have run the Aither Water Allocation Price Model looking forward into the 2017-18 water year. We expect annual average southern MDB water allocation prices to be:
 - below \$50/ML under a wet inflow and rainfall scenario.
 - \$40 to \$70/ML under an average inflow and rainfall scenario.
 - approximately \$100/ML under a dry inflow and rainfall scenario.
- The nature of the 2017-18 allocation market is also likely to hinge on the cotton and rice industries. If irrigators in these industries enter the water year short of water to meet what is expected to be large production commitments and there is low rainfall in the first half of the season, we could observe a sharp rise in allocation prices as these irrigators compete to secure the water they require.

Allocation markets

- Across March 2017, water allocation prices in most southern MDB zones were steady at around \$40 to \$45 per ML – although prices in the NSW Murrumbidgee have continued to fall.
- The southern MDB allocation market is now at a 4 year price low.

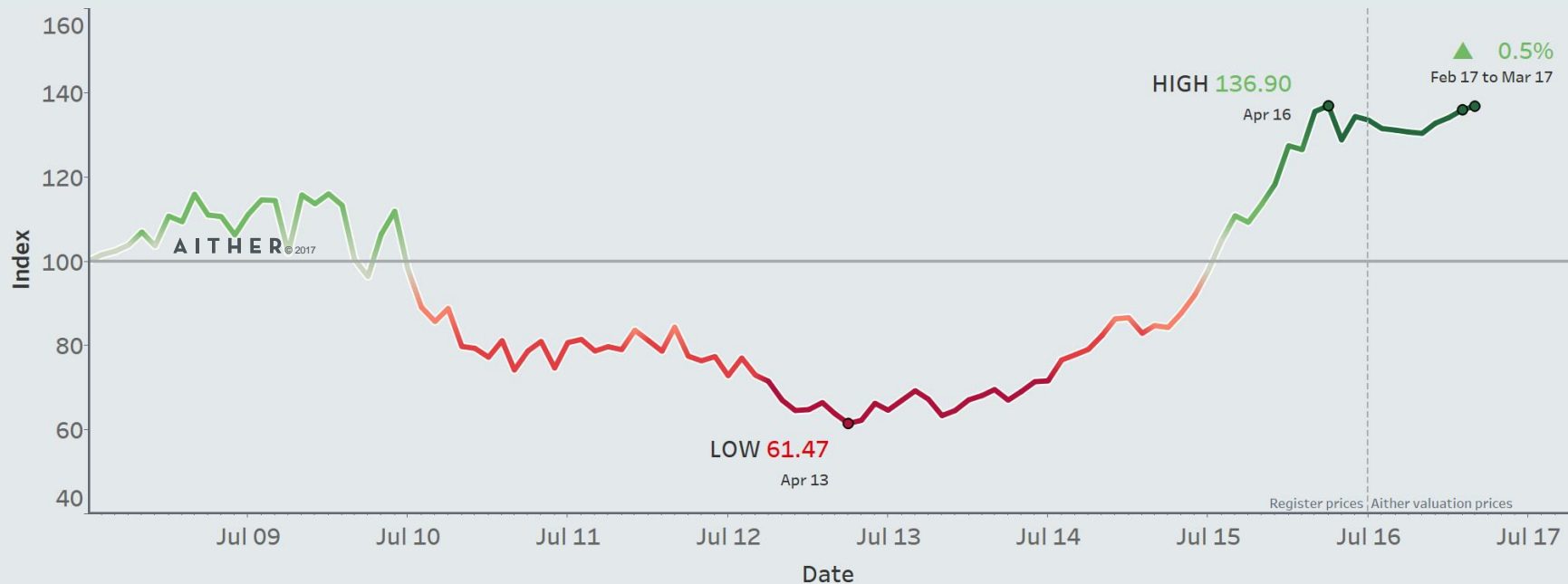


- The [CEWH suggested to the market that it may become an allocation seller](#) between January and March 2017. At the end of March, there has been no sale and no further guidance.



Entitlement markets

- The entitlement market has taken somewhat of a backseat over the month of March as market participants' primary focus has been on the spot allocation market as well as kicking the tyres of carryover and forward products being offered by large portfolio owners and brokers.
- That said, we have continued to see strong interest in Vic Murray and Goulburn LRWS markets, with increasing price spreads and relatively high trade volumes over the past month. With all major Vic LRWS types now valued at over \$300 per ML, the market is entering new territory and it will be interesting to observe how both incumbent and new owners of these products will generate value from holding these entitlements.
- Driven by continued strong prices reported across most entitlement markets, the *Aither Southern MDB Entitlement Index* is up for the fourth month in a row – increasing by 0.85 points (0.5%) between February 2017 and January 2017. The Index is now less than 0.1 points away from the April 2016 high.



Chris Olszak | Director | Melbourne
Phone: +61 425 707 170
Email: chris.olszak@aither.com.au



Daniel Baker | Senior Consultant | Melbourne
Phone: +61 430 102 611
Email: daniel.baker@aither.com.au



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