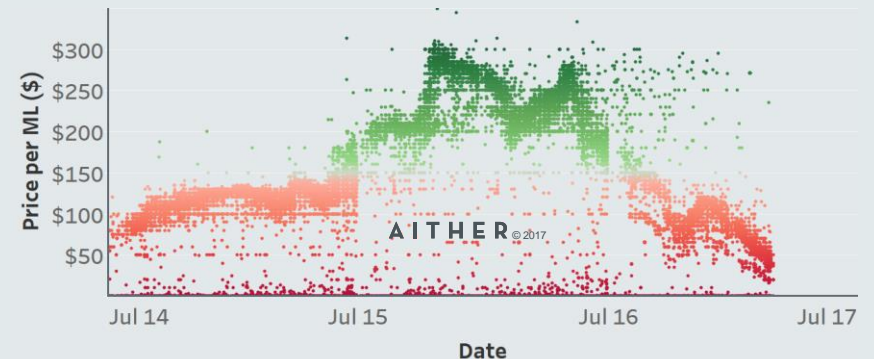


### Market commentary

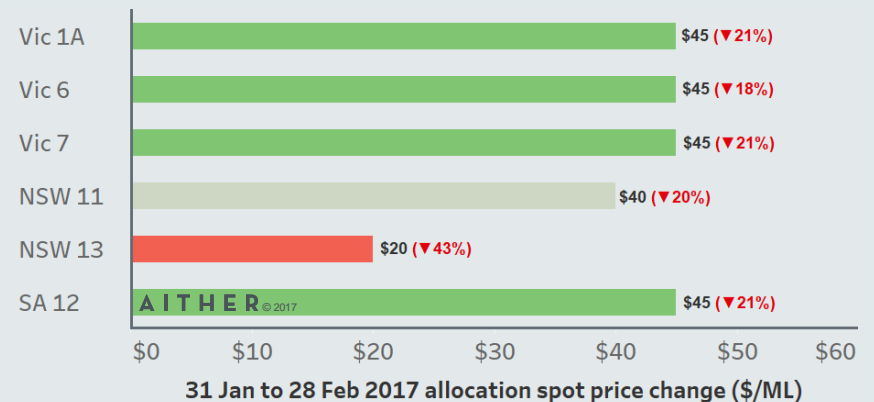
- Spot prices on water allocation markets across southern MDB zones are now at four year lows (February 2017).
- [IVT deliveries out of the NSW Murrumbidgee](#), resulting opening of trade out and then rapid closing has created significant interest and [press](#) this month. In total, 31.6 GL of water has been traded from the NSW Murrumbidgee to Murray, all reported at \$0 per ML and all shared between two major water brokers. The [application queue \(which was around 140 GL\) has been reset](#) and eyes will be watching for [another opportunity](#) next week.
- There is general consensus across the market that allocations to entitlements in the 2017-18 water year will be high and allocated relatively early (i.e. 100 per cent allocations to higher reliability entitlement types within the first half of the irrigation season).
- There is a positive outlook following the Resource Manager for northern Victoria's [first outlook for 2017-18 water allocations](#). A similar positive story is expected when the New South Wales and South Australian outlooks become available.
- If these positive outlooks are realised and carryover is high into 2017-18, we expect lower than long-term average water allocation prices over the next 12 to 18 months.
- Prices reported for southern MDB entitlements continue to increase. This is despite declining prospects for returns to entitlements from spot market allocation sales during 2017-18.
- These two diverging trends highlight a potential disconnect between high prevailing water entitlement prices and expectations about returns to these assets over the medium-term.

### Allocation markets

- Water allocation prices in all southern MDB zones continued to fall across February 2017 (the chart below plots the price of all southern MDB allocation trades since 1 July 2014).



- For the remainder of the 2016-17 water year there could be further downward pressure on allocation prices; driven by [positive outlooks](#) for allocations in 2017-18, the potential for the [CEWH to become a seller](#) in the southern MDB market and loosening temporary trade restrictions between connected zones.



## Entitlement markets

- Driven by strong prices reported across most entitlement markets, the *Aither Southern MDB Entitlement Index* is up for the third month in a row – increasing by 1.85 points (1%) between January 2017 and February 2017, and is now less than a point away from the April 2016 high.
- High prices for NSW Murray and Murrumbidgee HS entitlements are still holding the market up overall, but prices for Vic 7 Murray and Vic 1A Greater Goulburn HRWS now appear to be moving out of a six month slump back towards a \$3,000 and \$2,700 per ML mark respectively.
- We continue to observe strong increases in the value of Vic Murray and Goulburn LRWS. Those who bought Vic Murray LRWS were provided with a 5 per cent allocation last month, but this equates to less than a 1 per cent gross yield. The value of these entitlements also continues to be driven by their utility as a relatively low cost carryover account at a time when water for carryover purposes will be relatively cheap at market.
- High water availability will likely reduce returns to entitlements when selling at spot allocation prices over the next 12 to 18 months. This may be a catalyst for entitlement owners to reconsider how they are managing downside risk and generating returns during wet periods.

