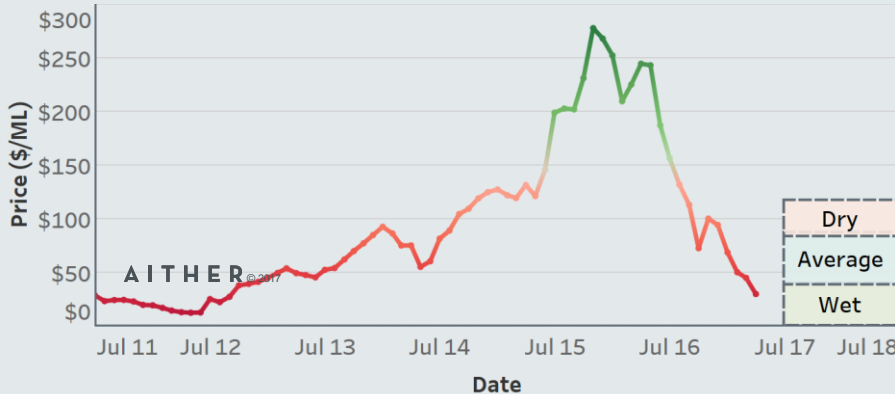


Market commentary

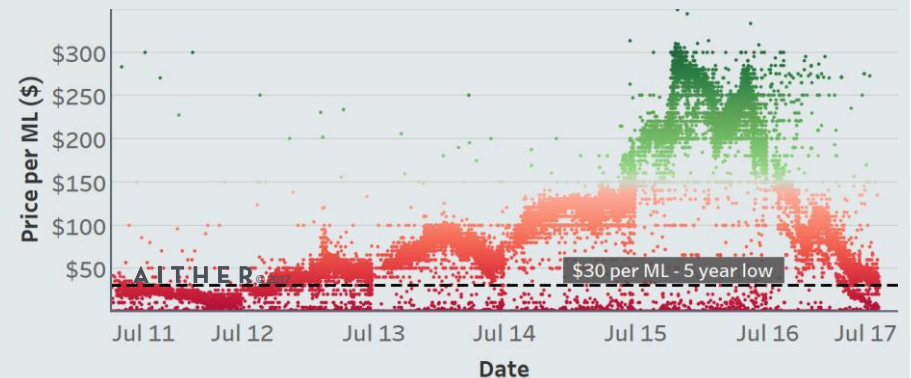
- Water allocation prices across southern MDB markets are currently at a five year low (i.e. since 2011-12 to 2012-13).
- These low prices are expected given the volumes of water that are forecast to be unused at the end of this water year, the positive allocation outlooks for 2017-18 and current risk of carryover spills.
- In March 2017, we ran the *Aither Water Allocation Price Model* for the 2017-18 water year. The water availability outlooks published by the New South Wales Government since this model was run have not changed materially and we continue to expect 2017-18 average annual 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.



- With historically low water allocation prices, historically high water entitlement prices, and rapidly increasing sophistication around forward, lease and carryover products, the next few water years should be a very interesting period for the market.

Allocation markets

- Across April and early May 2017, water allocation prices have trended down sharply in most major southern MDB zones.
- The Commonwealth Environmental Water Holder (CEWH) has ruled out any allocation sales during 2016-17. Increased environmental demand and below average rainfall was put forward as the reason. Low allocation prices and weak demand for large volumes of allocation water are also likely to have contributed.
- Single digit spot prices in the NSW Murrumbidgee suggest that carryover parking space in this zone is essentially fully exhausted.
- Increasing prices for carryover products in Victorian zones suggests that space is also nearing exhaustion in these zones.



- Opening season prices for 2017-18 of between \$75 and \$100 per ML have been put forward by some commentators and brokers.
- If irrigators rush to secure water early, these opening prices might be correct. But prospective buyers should be equally mindful that if allocations to entitlements are high and early, rainfall is median or above, and the carryover buffer is as large as expected, such high prices may not be sustained over the full course of the year.

Entitlement markets

- While there is continued interest and strong prices being reported in the Vic Murray and Goulburn LRWS markets, over the past month the pace of price increases has slowed. Across this period, prices for other entitlement markets in the southern MDB have been stable or slightly up.
- At the start of the 2017-18 water year, a price correction is possible for Vic LRWS types. The extent of the correction should be driven by the fact that buyers of these entitlements in the new water year will no longer realise the value of carrying water between 2016-17 and 2017-18.
- A correction, if it occurs, should not materially impact the long-term value of these entitlements. The valuable carryover characteristics that Vic LRWS types have will continue to attract interest from irrigators and water portfolio owners; and this may support high prices in the longer-term.
- Driven by small increases in value of some entitlement types during April 2017, the *Aither Southern MDB Entitlement Index* is up for the fifth month in a row – increasing by 0.37 points (0.5%) between March 2017 and April 2017. The *Index* is now at a historical high of 137.24 points.

