

Allocation markets

- All eyes across sMDB water markets have been on allocation spot markets, and there is a complex mix of drivers at play in the 2017-18 water year.
- From a supply perspective, in 2017-18 we expect between 5,500 and 6,250 GL of water to be available for consumptive use across major sMDB systems – this is based on carryover into the current water year and conservative expectations about end of season allocations to entitlements.
- This volume of water available for consumptive use is high. When combined with median annual rainfall, such volumes of available water do not support annual average sMDB allocation prices above \$100 per ML (based on historical outcomes).
- As stated in previous monthly updates, modelled 2017-18 **average annual** sMDB water allocation prices were expected to be: below \$50 per ML under a wet inflow and rainfall scenario (which is now an unlikely scenario for 2017-18); \$40 to \$70 per ML under an average inflow and rainfall scenario; and approximately \$100 per ML under a dry inflow and rainfall scenario.
- So with July 2017 opening water allocation prices of between \$110 and \$140 per ML, what is driving the relatively high allocation price which is more than 100% higher than 2016-17 close prices?
- Firstly, [inflows to major sMDB water storages](#) and [rainfall across growing regions](#) have been well below long-term averages over June and July 2017. This combined with a [leaning dry outlook](#) is likely to influence future water allocation announcements, and play on the minds of both annual cropping and permanent planting irrigators.
- On the demand side, annual cropping irrigators are primed for a big season. So opening allocation prices of around the \$100 per ML mark were [not unexpected](#).
- These irrigators – some of whom may still need to purchase additional water from the spot market – are also waiting for increased certainty about 2017-18 allocations to entitlements before making final production commitments.
- Some of these annual cropping irrigators and other owners of water allocations, such as investors, are also waiting and considering at what price they may become sellers. With irrigators comparing the returns from production against the value of the water, and investors trying to pick the top of the market. This has the current effect of keeping spot market depth shallow.
- At allocation prices above approximately \$130 per ML, some rice growers are expected to become sellers of water allocations rather than produce. If sMDB allocation prices continue to rise towards the \$150 to \$160 per ML mark, we expect to see rice growers revise down production commitments and sell carryover water or current 2017-18 allocations on the spot market.
- At the same time, cotton growers (primarily in the Murrumbidgee) can still make good margins at allocation prices between \$150 and \$200 per ML, and will therefore still be in the market as buyers for a while to come.
- Buyer demand over the next few months will hinge on the amount of cotton production commitments with unsecured water and the needs of permanent planting enterprises to buy spot water to either to use this year or to carryover.
- The extent to which the Vic Goulburn dairy industry can supply the connected sMDB water allocation market, which is currently restricted, will also be important as this trade is becoming increasingly vital to meet the spot water requirements of permanent plantings in the Sunraysia Region.
- Planning for the 2018-19 water year and beyond will also become increasingly important during this water year. If large volumes of water are used in 2017-18 and storages are not replenished, there will be concern about the availability of water in the 2018-19 water year.
- This scenario could cause increases in allocation spot market prices, and add to interest in carryover leases or the purchase of entitlements with carryover characteristics, and further mature the allocation forward market.
- Based on current spot market demand, we expect current sMDB allocation prices (\$110 to \$140 per ML) to hold or potentially increase leading into the irrigation season.
- Although, as always, a few good weeks of rain could change all that.

Entitlement markets

- Strong prices are still being recorded across most sMDB water entitlement markets. As a result, the [Aither Southern MDB Entitlement Index](#) is up for the seventh month in a row – increasing by 1.16 points (0.8%) between May 2017 and June 2017. The current *Index* value of 140.03 represents a record historical high.
- The market for NSW Murrumbidgee General Security entitlement types is extremely bullish, with unconfirmed prices over \$1,700 per ML being reported in recent months.
- Over the past 6 to 12 months there has been continued interest and strong prices being reported in the Vic Murray and Goulburn Low Reliability Water Share (LRWS) markets. In June and July 2017, price increases stalled and have corrected by approximately 7 to 10% (or \$20 to \$40 per ML). This is in line with [Aither's expectations](#) about a possible correction reflecting the value of carrying water between 2016-17 and 2017-18 on Vic LRWS.
- There has also been significant trade in NSW Lower Darling High and General Security entitlements, with large purchases being made by the Commonwealth Government. As a result of this transaction, approximately 84% of NSW Lower Darling High and General Security entitlements on issue is now held by the environment.



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



Aither is Australia's leading independent water advisory firm. Our understanding of the value of water underpins our economic, policy and commercial advisory services. Our water markets team have worked with government and industry to design, implement and now participate in Australia's world leading water market. www.aither.com.au