

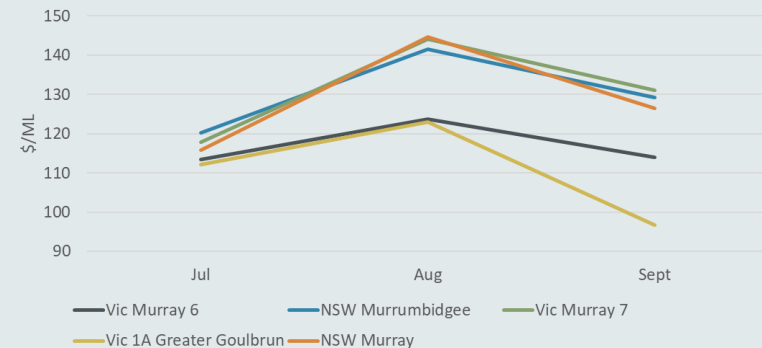
### Market commentary

- Aither hosted irrigators, policy makers, brokers and investors at four events in August & September for the release of our annual report. These events provided a platform for thought leaders across the industry to discuss the need for further water market reform.
- Some of the key messages to emerge from the keynote sessions and panel discussions were:
  - **The market does work well:** Viewed in an international context, most stakeholders would certainly prefer the policy and market settings in the sMDB compared to those in place elsewhere.
  - **The market needs more attention:** Continued improvement is required. Much of this is about doing the basics well and building confidence – not a major upheaval. A common message was that market settings are not keeping pace with the increased sophistication of market participants.
  - **The priorities are clear:** Water users, investors and lenders want transparency, clarity and predictability in market settings across a range of areas. This includes improved price reporting, market information and transaction efficiency across state boundaries.
  - **Deliverability:** There are growing concerns that the significant shift in demand to below the Barmah Choke may create deliverability constraints at times of peak demand. The market will adjust its response to this but needs information about the extent of the challenge and the opportunities to manage it, as well as clear rights.
- A common view was expressed that the Basin Plan had diverted attention from water market policy and architecture, and that it was time to rebalance the focus.

### Allocation markets

- Allocation prices opened strongly in July and August between \$100 and \$145 per ML - driven by demand from cotton growers and horticulturalists in the Murrumbidgee and Murray. A cotton crop in excess of 60,000 ha is expected in the Murrumbidgee valley.
- Prices declined in September but remain strong when considering the total water available for consumption.
- Greater Goulburn (and to a lesser extent Vic Murray above the Choke) allocations are trading at a discount as a result of binding trade restrictions.
- Murrumbidgee allocations, however, have consistently attracted a premium throughout the water year and are anticipated to continue to do so.

2017-18 monthly VWAP allocation prices



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- Water is moving into the Murrumbidgee unlike in recent years, and currently the IVT account has capacity for about another 57 GL into the 'Bidgee.
- Current prices are right on the breakeven point for rice growers so October will be an important month for planting decisions which will then influencing the demand for water for the season and the pricing.
- A few wet weeks over October could significantly reduce allocation prices. If it remains dry, we expect current prices to hold creating tough choices for rice growers.

## Entitlement markets

- Entitlement prices continue to hit historical highs across the sMDB. The [Aither Southern MDB Entitlement Index](#) is has increased by 5.76% since the start of the water year (to 30 September). The current *Index* value of 148.13 represents a record historical high.
- All entitlement types are up with the strongest interest in Vic 7 Murray HRWS, NSW Murrumbidgee, and Vic 1A Greater Goulburn LRWS.
- How high can entitlement prices go? Here at Aither we are currently seeing no immediate signs of easing as prices continue to reach new highs. Across entitlement markets entitlements are being held tightly by current owners in the face of strong continued demand. This demand is currently coming from investors and agribusinesses in line with the wave of investment in irrigated agriculture in Australia that is increasing asset prices more broadly. However, as discussed in Aither's recently released [2016-17 annual report](#), prevailing allocation prices mean the returns on these capital values are currently fairly low and some new irrigation developments are preferring to ride their luck on the allocation market, at least in the short term.
- One thing is clear, land use change to cotton and almonds is placing significant pressure on the dairy and rice sectors. This pressure will be continue to expressed in allocation and entitlement prices over coming years.



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