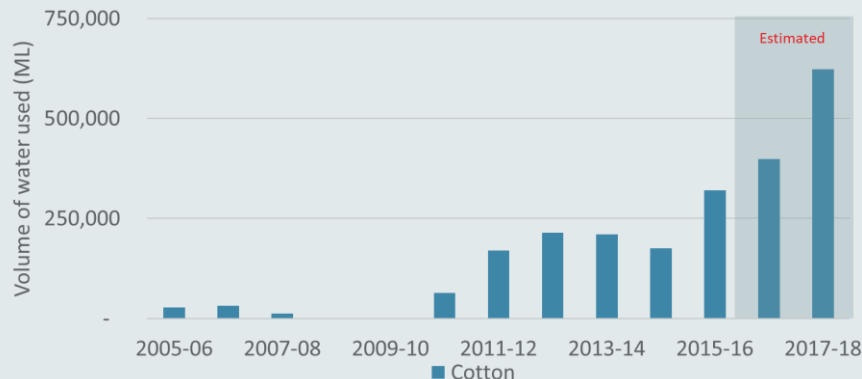


Market commentary

- What's happening in the New South Wales Murrumbidgee? That's the question that many market participants and observers are asking right now.
- Taking a specific look at the allocation market, the answer is increased annual cropping. The estimated annual water requirement of annual cropping (in particular cotton and rice) commitments in the Murrumbidgee for the 2017-18 irrigation season equate to approximately 70 - 80 per cent of the estimated volume of water currently made available to General Security entitlements, and all carryover and allocation trade into the Murrumbidgee this water year.
- Taking into account other agricultural production in the region and carryover planning for the 2018-19 water year, this degree of annual production in the Murrumbidgee is clearly enough to reverse the IVT in this year and put upward pressure on allocation prices.
- Importantly, cotton growers are currently profitable at water allocation prices between \$150 and \$250 per ML. Historically rice growers have dominated annual production in the Murrumbidgee, however, rice becomes marginally profitable at water prices above \$150 per ML. Given the willingness to pay of cotton compared to rice, it is likely that historical average allocation prices of around \$100 per ML in the Murrumbidgee will increase in the future as a result of cotton growers' current ability to outbid and buy water from rice production.

Water use by cotton in New South Wales Murrumbidgee, 2005-06 to 2017-18



Source: Aither 2017. Based on ABS 2017.

Allocation markets

- While sMDB allocation prices have largely plateaued across recent months, they remain high (\$130 and \$150 per ML) when considering the total water available for consumption in the 2017-18 water year.
- Taking water available for consumptive use and assuming median annual rainfall, such volumes of available water do not support annual average sMDB allocation prices much above \$100 per ML (based on observed historical outcomes). There are four plausible reasons for this difference:
 - **Rainfall** – Rainfall across much of the sMDB's annual cropping regions over the first quarter of the 2017-18 water year was much lower than median. This has caused a drier than ideal run into the irrigation season and this has been reflected in allocation prices.
 - **No connectivity** – Aither's allocation price model assumes a single connected market where excess water in one system can meet demand in another. In 2017-18, the sMDB is not a connected market and binding trade restrictions are causing price differentials between zones.
 - **Rapid production change** – The rapid growth in cotton production in the Murrumbidgee region between 2015-16 and 2016-17 is likely to have caused a step change in annual allocation market behaviour and this change in water demand is not fully captured in Aither's model.
 - **Carryover** – while historically high volumes of carryover water are available for consumptive use in 2017-18, it is likely that a number of annual cropping enterprises are planning on carrying over a proportion of this water to underpin production in 2018-19. This has the effect of limiting supply on allocation markets for 2017-18 and raising allocation prices.
- In the absence of high rainfall across the rest of the 2017-18 growing season (which is not expected), current sMDB allocation prices are likely to hold as the season develops. Current prices could also rise at the end of the season as irrigators start securing water for carryover into 2018-19.

Entitlement markets

- Entitlement prices continue to hit historical highs across the sMDB. The [Aither Southern MDB Entitlement Index](#) has increased by 8.68% since the start of the 2017-18 water year (to 31 October 2017). The current *Index* value of 152.23 represents a record historical high and represents nearly a year of unbroken gains.
- Between September and October 2017, most sMDB high security entitlement prices are up, with continued interest in Vic 7 Murray HRWS, NSW Murrumbidgee HS, and NSW Murray HS types. The markets for NSW Murrumbidgee HS and NSW Murray HS are particularly bullish, with prices in excess of \$4,000 per ML being recently reported by market intermediaries.
- Aggregate reported sMDB entitlement trade volumes for October 2017 slightly increased on September 2017 volumes. This represents a return to historically average market liquidity after relatively limited entitlement trade activity at the beginning of the 2017-18 water year.



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