



# Agribusiness Monthly April 2017

*New Zealand*

*RaboResearch Food & Agribusiness* April 2017



**Rabobank**

# Commodity Outlook



*Dairy*

Volumes of milk available for export will take until 2H 2017 to increase, helping to underpin relatively stable prices.



*Beef*

Cattle prices look set to remain strong over the short term, on the back of short supply.



*Sheepmeat*

Prices are defying normal seasonal trends as they continue to rise.



*Wool*

Limited world buying activity and a higher NZ dollar push wool prices down.



*Wine*

Global wine supply ebbs in 2016, leading to a drawdown in global wine inventories in 2016/17.



*Horticulture*

Major rainfall events continue to challenge the kiwifruit harvest, with Cyclone Cook about to descend.



*Fertiliser*

A period of volatility has returned to the global fertiliser complex, but prices are expected to remain weak.



*FX*

Recent data and central bank statements suggest a further weakening in the NZD/USD ahead.



*Oil*

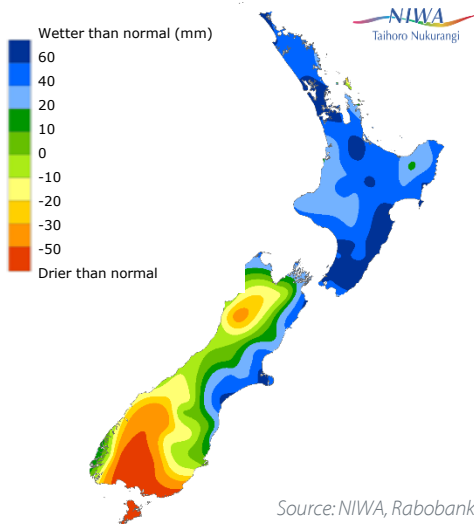
Air strikes and OPEC help the oil price out of its March slump.

# Climate



Rabobank

## Soil moisture anomaly (mm), 10 April 2017



Source: NIWA, Rabobank 2017

**NIWA expect there is an equal chance of average temperatures, or above, for the majority of New Zealand through June 2017—except for the north of the North Island, which is likely to receive above-average temperatures.**

Rainfall for the three months to June 2017 looks equally likely to be either in the normal or below-normal range for the West Coast, while the top of both islands have an equal chance of receiving either normal or above-normal rainfall. The remainder of the country can expect normal rainfall through winter 2017.

Soil moisture levels have a mixed outlook from NIWA. The east of both Islands are likely to have normal soil moisture levels, while the top of both islands and the west of the North Island have a chance of above-normal soil moisture. The West Coast is at risk of below-normal soil moisture levels through June.

## What-to-watch

- **ENSO-neutral conditions** currently remain in play. However, international guidance is mixed on the outlook through June 2017, with an even split between ENSO-neutral conditions continuing (at 53%) vs. El Niño conditions developing (47% chance) across this period. There is a higher chance of El Niño conditions developing as we move through winter, with the chance of an El Niño event rising to over 60%.



# Global Risks Limit Upside to Prices

**Weather conditions across the country have been a mixed bag.** A deluge in the North Island has caused catastrophe in areas, while conditions have been comparatively warmer and drier in the far south. While the full impact of the latest weather events remains to be seen, **New Zealand milk production continues to track lower, by 3% YOY for the season-to-date.**

Global milk production continues to decline, impacting the volume of milk available for export. **Rabobank expects the exportable surplus to take until 2H 2017 to increase, helping to underpin relatively stable prices across this period.** Consequently, global dairy markets remain well-balanced; however, further upside in the current cycle appears limited, and global risks will continue to linger.

Rabobank expects global dairy prices to remain elevated at, or near, current levels through 2017/18. A period of sustained higher prices will help further lift New Zealand dairy farmer confidence. Furthermore, **Rabobank's forecasts across the 2017/18 season point to a full-year farmgate milk price of around NZD 6.25/kgMS**—profitable for the majority of New Zealand dairy farmers.

Dairy

## *What to watch*

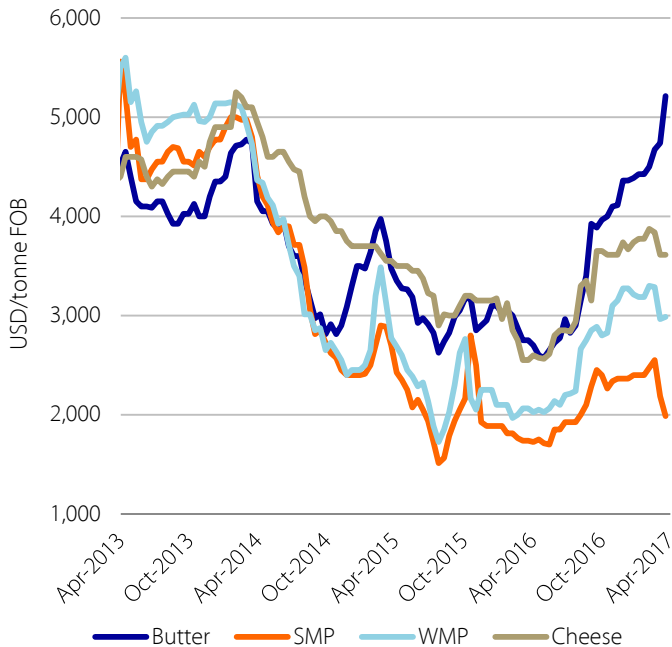
- **Opening forecasts for next season.** Speculation is building, and processors may choose to be conservative, given global risks, with announcements expected over the coming weeks.
- **El Niño.** Despite the recent weather chaos, there is an increasing risk of an El Niño event unfolding across the 2017/18 season.

# The Protein and Butter Spread Widens



Rabobank

## Global dairy prices, 2013-2017



Source: USDA, Rabobank 2017

## Production growth, key exporting regions

	Latest month	Last three months
<b>EU</b>	-1.6% (February)	-2.1%
<b>US</b>	2.3% (February)	2.4%
<b>Australia</b>	-10.0% (February)	-6.4%
<b>NZ</b>	-3% (2016/17 season-to-date estimate)	

Source: Rabobank 2017



# Beef

## Supply Pressure Supporting Prices

**Cattle prices continue to gain on the back of reduced supply.** As at the middle of April, the North Island bull price averaged NZD 5.65/kg cwt—5% higher MOM and 10% higher YOY. The South Island bull price averaged NZD 5.10/kg cwt—2% higher MOM and 11% higher YOY. **The short-term outlook for cattle prices remains positive, with Rabobank expecting farmgate prices to remain steady over April/May.**

**New Zealand's total beef slaughter continues to fall behind last year's kill, down 8.7% YOY as of mid-March.** This is, in part, due to many farmers deciding to hold on to killable cattle longer, in order to eat excess feed and avoid the expense of having to enter a very hot store market. However, it is also the result of the cow kill being significantly down on previous seasons, when low global dairy prices led many dairy farmers to heavily cull their herds. **North Island cow kill is 20.4% down YOY and South Island cow kill down 34.1% YOY, with New Zealand's overall cow kill down 24.6% YOY.**

**Export data shows there has been a significant lift in New Zealand's beef exports to China in the first two months of 2017.** Export volumes to China are up 40%, compared to the first two months of 2016, while export values are up 30%. It will be interesting to see if this trend continues for the remainder of the 2016/17 season.

### *What to watch*

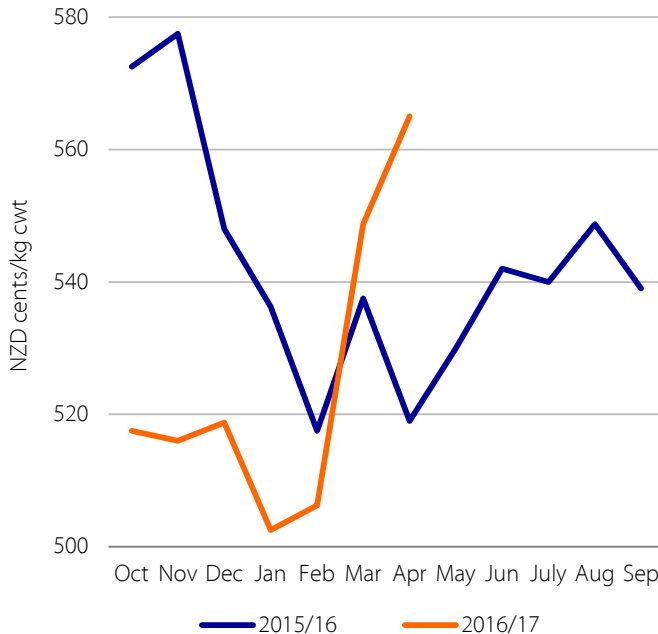
- **Impact of Brazilian beef scandal.** While it appears the scandal did not significantly impact Brazilian beef exports in the short term, with most countries lifting suspensions within a week, the question remains as to whether damage to their food safety reputation will impact Brazil's plans to expand their beef market access in the US, Japan, and South Korea before the end of 2017.

# North Island Beef Price and NZ Cow Slaughter

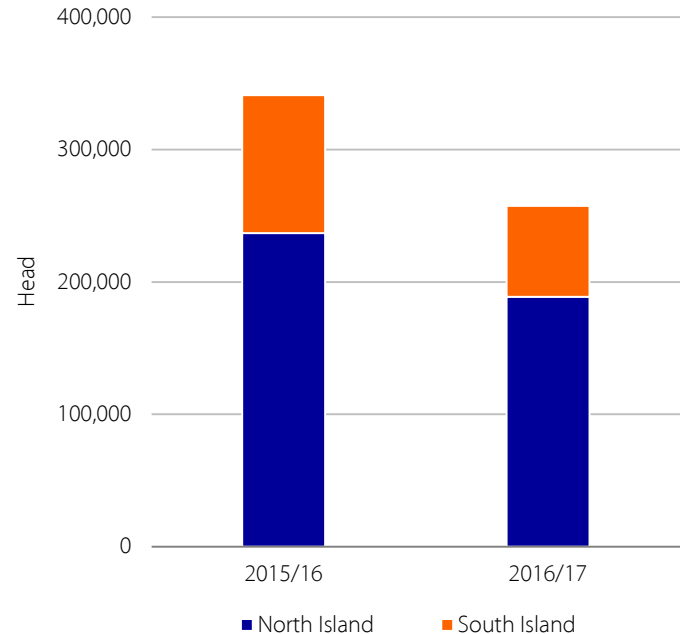


Rabobank

## North Island Bull Price



## NZ Export Cow Slaughter (YOY, as of 11 March)



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



# Lamb Prices Continue to Lift

**Lamb prices across both the North and South Islands are bucking normal seasonal trends, as prices continue to rise well above what they were at this time last year.** As at mid-April, farmgate prices in the North Island (NZD 5.80/kg cwt) are up 8% MOM and 18% YOY, while South Island prices (NZD 5.50/kg cwt) are up 4% MOM and 18% YOY.

**The weather continues to have a major influence on supply dynamics. Favourable grass-growing conditions have again impacted supply, as farmers are retaining lambs on their farms longer in order to chase higher kill weights.** While South Island lamb kill is now only 1.6% down YOY—due to a significant increase in slaughter rates through February—New Zealand’s overall lamb slaughter numbers still remain well down on last year (7.3% lower YOY as of mid-March).

Strong in-market demand, combined with New Zealand’s reduced export supply, has seen significant in-market price increases for legs, French racks, forequarters, and flaps. Provided lamb supply does not significantly increase over the next month, Rabobank expects schedule prices to remain steady at current levels.

## Sheepmeat

### *What to watch*

- **Price sensitivity in key export markets.** Benchmark prices for legs, French racks, and flaps are now the highest they have been since July 2015, April 2012, and September 2014, respectively. How consumers react to this pricing will indicate whether these price points are sustainable over the longer term.

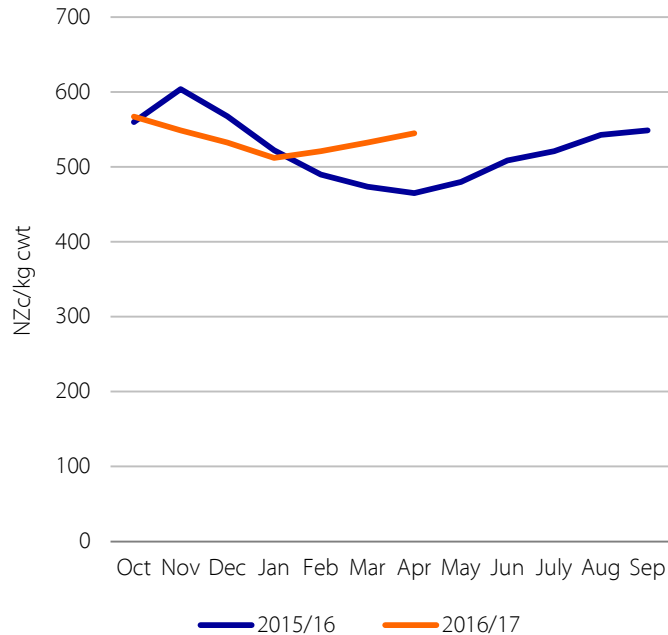


# South Island Lamb Price and NZ Lamb Slaughter

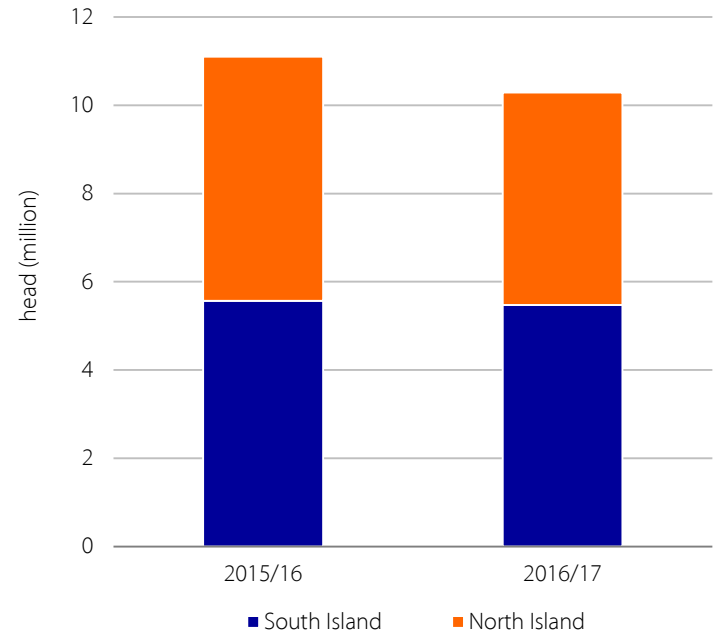


Rabobank

## South Island Lamb Price



## New Zealand Lamb Slaughter (YOY, as of 11 March)



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



# Wool

## Wool Remains Weak

**The optimism seen in the wool market last month was short-lived.** The price upturn created by a weakening New Zealand dollar was dampened when the currency rose. At the most recent auction, **week-on-week prices were cheaper across almost all wool types.** Poorer styles of coarse crossbred fleece have borne the steepest reduction, losing between 7.0% to 8.5% of value on the previous week. Prices for both fine and coarse crossbred are now at levels similar to those offered in February.

**The clearance rate has fallen, from 81% at the end of March to 46% in mid-April, reflecting growers' increasing unwillingness to accept market prices.** A high proportion of the 11,700 bales offered in the most recent week were re-offered lots.

Export data for the third quarter of 2016/17 shows **the value of exports slump by 29%, to NZD 130m in the three months to the end of February.** Wool is now New Zealand's 17th most-valuable commodity export, falling from 14th position at this time last year. Many large traders have fulfilled their short-term shipment requirements, seeing buying activity slowing in wool markets globally. Australian wool prices have fallen back from the 29-year highs seen in March, but are still well above trend, with the EMI at AUC 1,457/kg.

### *What to watch*

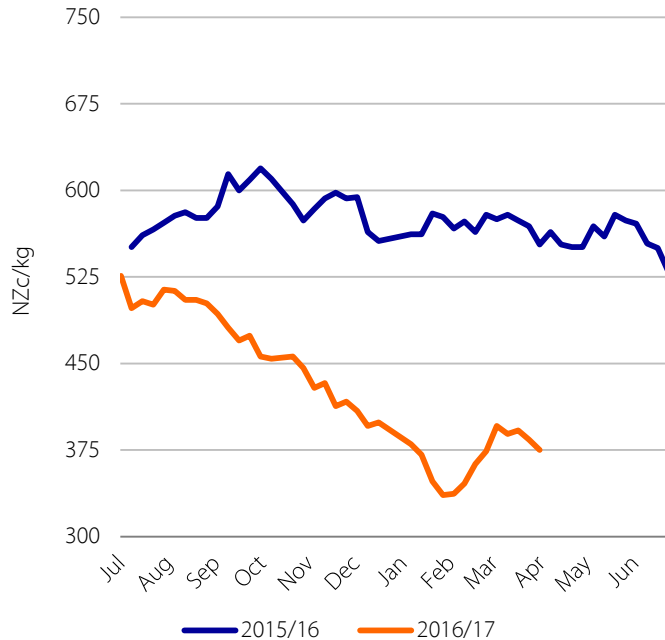
- **The outlook for the global economy.** For the first time in seven years, it appears that both advanced and developing wool-consuming countries will record a respectable rise in economic growth in 2017 and 2018. The improved economic environment has seen consumer confidence in the US reach its highest levels since 2001, while Europe sits at around eight-year highs.

# Wool Price Optimism Eases

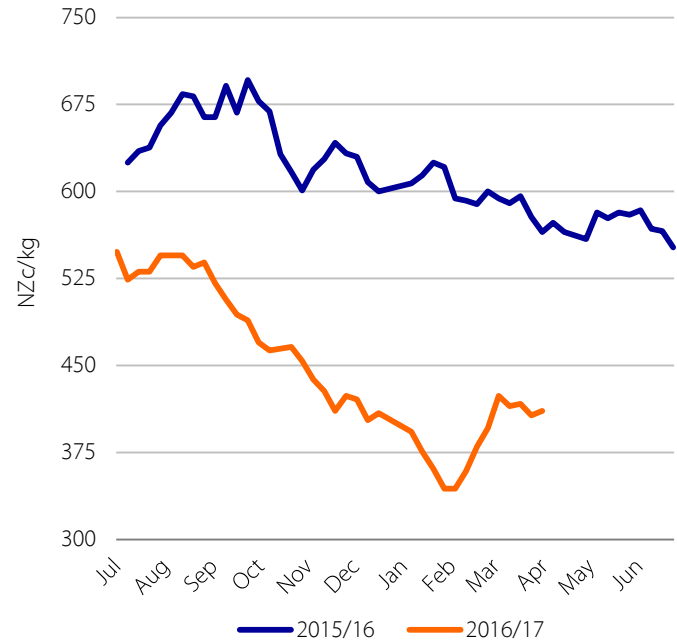


Rabobank

## Coarse Crossbred Indicator



## Fine Crossbred Indicator



Source: NZ Wool Services, Rabobank 2017



# Global Wine Supply Ebbs in 2016

After tallying up the harvest numbers across the northern hemisphere, the International Organisation of Vine and Wine (OIV) has estimated that **global wine production fell by 3.3% in 2016, well short of its three-year average, while global wine consumption ticked up ever so slightly for the second year running.**

Especially variable seasonal conditions led to significant swings in production across the world's major wine-producing countries last year. In aggregate, production from the big three Old World producers Italy, France, and Spain remained fairly constant, but **higher production from Italy and Spain was in stark contrast to a significant 7.4% fall in production from France.** Elsewhere, above-average production in the US, Australia, and New Zealand was at odds with significant falls across other New World producing countries. **Most notably, production across South Africa, Chile, and Argentina fell by a remarkable 20% in 2016—and while some recovery in production is expected in 2017, stock levels will remain in check.**

**After supply attributable to industrial uses is taken into account, the small rise in global consumption will be sufficient to draw down global wine inventories to a limited extent in 2016/17.** In this respect, the growth in wine demand from China—on top of continued growth in US wine demand—has been critical to offset declining consumption in traditional wine-drinking countries across Europe and South America.

## *What to watch*

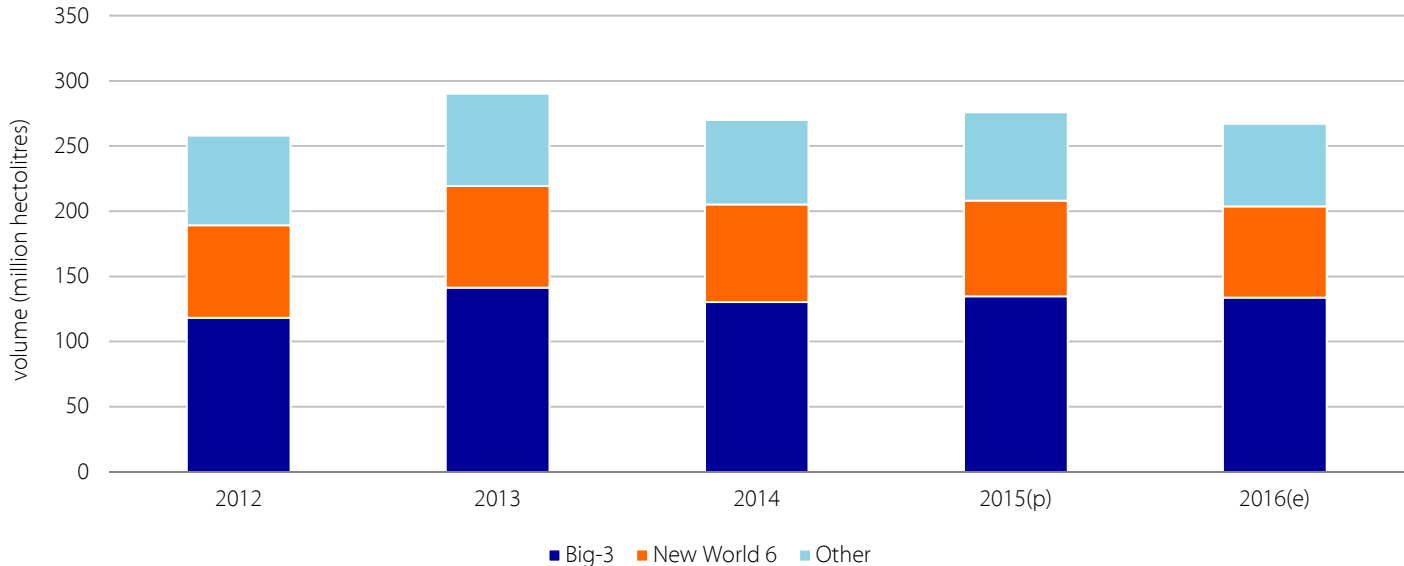
- **El Niño.** The pattern in global wine production over the past ten years has tended to closely follow developments in the El Niño Southern Oscillation (ENSO) climatic relationship. Particularly the years in which La Niña prevailed (i.e. 2007-09, 2010-12, and, to a lesser extent, 2016) have tended to deliver below-average-sized global harvests.

Wine

# World Wine Supply on the Short Side in 2016



Rabobank



Source: OIV, Rabobank 2017

*Global wine production is estimated to have fallen by a little over 3% in 2016, with New World production falling by significantly more than Old World production.*



## Rain, Rain Go Away

Major rain events have continued to sweep across the country, with more falls expected. **Each subsequent event acts to set back the kiwifruit harvest, as global markets keenly await shipments from the new-season crop.**

Rainfall in March 2017 measured three to four times above-average in the Bay of Plenty, while falls in the first two weeks of April have also tracked well above-average. **Of particular concern at the time of writing is the imminent arrival of Cyclone Cook, tracking towards the northwest coast of the North Island and expected to make landfall late on Thursday afternoon.** Heavy rain and destructive winds are a concern for the kiwifruit crop, while much of the country is expected to experience a deluge of rain in the wake of the storm. Fortunately, the apple harvest is much more advanced at this stage, but the weather still has significant implications for other in-season crops, including vegetables, berries, and even hops.

To date, growers and packers have been reporting that fruit harvested has been of good quality, with the added maturity of gold orchards this year helping to manage the conditions. **There has, however, simply been a lack of volume of fruit being harvested due to maturation being delayed. This means that it is still too early to predict the full impact of the unseasonably wet weather conditions on the harvest, but we can expect that early-season returns will be affected.** The beginning of the marketing season provides an important window to generate above-average returns in global markets, when Northern Hemisphere markets are short of supply as Southern Hemisphere supplies build.

### *What to watch*

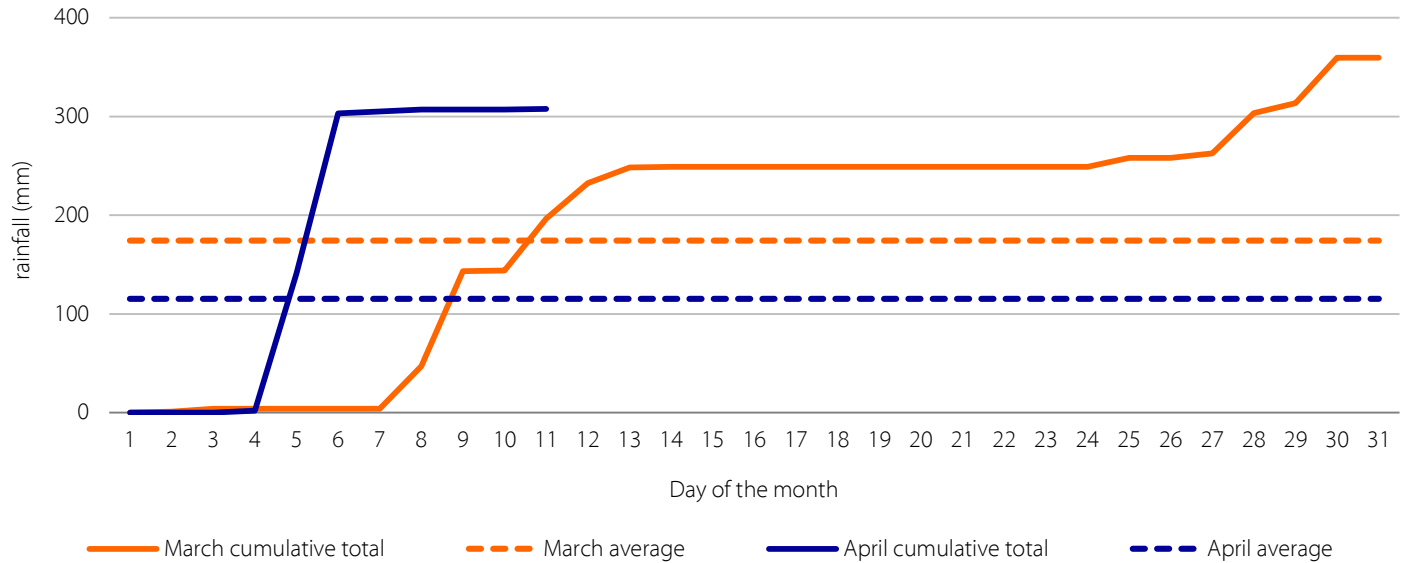
- **PSA disease pressures in kiwifruit orchards.** The relationship between wet orchard conditions—especially early in the growing season around the period of budburst and flowering—and increased risk of PSA disease pressure is relatively well-established. Indeed, New Zealand kiwifruit growers are now much better informed and equipped to manage PSA disease pressure in their orchards; however, the especially wet finish to this growing season will again test their ability to keep this disease at bay.

# Horticulture

# Bay of 'Plenty' of Rainfall in March/April



Rabobank



Source: Bay of Plenty Regional Council, Rabobank 2017

*After a relatively dry start to the year, heavy rains have fallen on the Bay of Plenty. As at 11 April, cumulative rainfall is already well above-average for the month, with Cyclone Cook yet to make landfall on 12 April.*



# Supply Weighs Heavily on Markets

Some heat has come out of the recent global fertiliser price rally. **Sluggish import demand (as buyers took a breather) saw global urea prices fall over the past month. Global phosphate markets have remained mostly unchanged in the past month.** US seasonal demand is winding down, but production curtailments in export regions have kept markets in balance.

**Global potash prices remain stable at record lows.** Buyers and sellers are largely awaiting the start of formal negotiations of the Chinese supply contracts. Sellers are angling for higher contract prices.

**Local fertiliser demand is expected to be buoyant, on the back of a return to profitability for dairy farmers.**

## Fertiliser

### *What to watch*

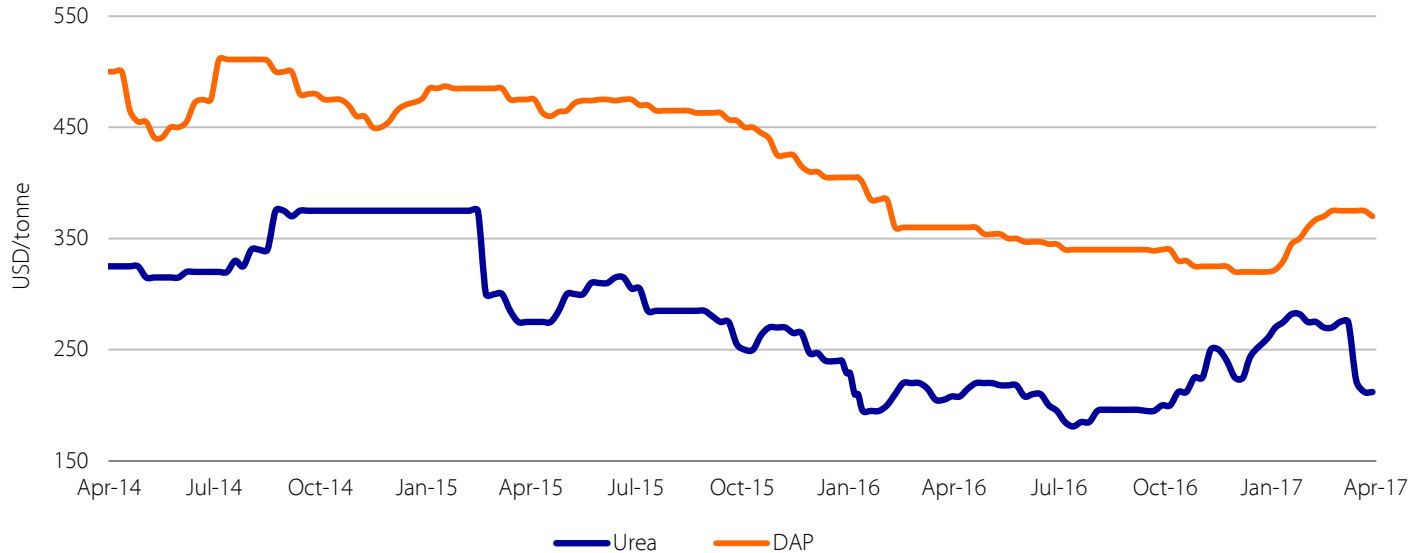
- **Movements in the New Zealand dollar.** The currency still looms as a risk to local retail prices. Any depreciation in the currency in the coming months will push up retail prices.
- **Global supply.** Increased supply still looms as the biggest hurdle to a price recovery in the short term.



# Spot Fertiliser Prices Remain Volatile



Rabobank



Source: Bloomberg, Rabobank 2017

*Global prices are expected to remain under pressure through most of 2017, as global supply combines with sluggish demand.*



# Fundamentals Point Lower

**Recent data has served as a reminder of the limitations of the current US growth phase.** US non-farm employment increased by just 98,000 jobs in March (around half of what many had expected), with estimates of the number of people in jobs in January and February also revised downwards. Meanwhile, the failure of the Republican-led Congress to pass a healthcare reform bill has also brought into question whether it will be able to deliver on tax reform and an infrastructure programme, both of which will be important to the strength of the US economy in the coming year.

**However, the US Federal Reserve remains optimistic.** It continues to emphasise upside risks to the outlook (from a fiscal policy perspective), with several representatives repeating that they expect to hike rates twice more this year.

Meanwhile, the **RBNZ left rates unchanged, at 1.75%, as expected in late March**, and is now set to ignore higher inflation by leaving policy accommodative for a 'considerable period'. As usual, they'd like to see a weaker NZ dollar, where 'further depreciation is needed'.

The NZ dollar changed little against the US dollar in the month to 11 April, rising just NZc 0.4, to sit just below 0.70.

**Rabobank expects the NZD/USD rate to slip to 0.68 over the next 12 months.** We expect the US Fed to raise rates only once more in 2017 (concerned that fiscal policy progress will ultimately disappoint), but that this will ultimately exert modest downward pressure on the NZD/USD rate.

## *What to watch*

- **Progress (or lack thereof) of fiscal policy and tax reform in Congress.** We assume only limited achievements on both fronts, particularly in the wake of the failure of efforts to reform healthcare policy. If reform is faster and more substantial than we assume, there is potential for the US economy to outperform in 2017—and hence further downward pressure on the NZD/USD exchange rate.

FX

# NZ Dollar Trading in a Tight Range



Rabobank



Source: RBNZ, Rabobank 2017



# Oil Recovers in Uncertain Times

The oil market has recovered back to levels last observed in January and February, after enduring a 10% fall through March. **The price of Brent crude oil reached just shy of the USD 56/barrel level mid-month, and Rabobank forecasts Brent crude oil moving towards USD 60/barrel by Q1 2018.** The US air strikes in Syria have contributed to political instability in the Middle East, leaving security of future oil supply in jeopardy. With this in mind, buyers look to cover their needs more immediately.

**US inventories of oil were expected to drop in early April, and while this has not been the case, expectations are that US oil inventories will fall from the current highs.** Elsewhere, OPEC countries are meeting the agreed production cuts, led by Saudi Arabia. Although not a part of the agreement, closure of oilfields in Libya and a short-term assurance of production cuts in Russia have assisted the deal. Commentators remain pessimistic about increasing oil prices, as a large amount of stock remains on the market.

**In freight markets, the Baltic dry index rose nearly 200% in the six weeks prior to 31 March, before the climb halted, remaining at 1,231 on 11 April.** China has shifted focus from production of raw materials to imports, contributing to a rising freight rate throughout the mentioned period. Closure of Queensland coal mines in the wake of the cyclone is assisting falling shipping rates.

**Wholesale diesel prices fell through the last half of March, but regained lost ground in early April.** The Sydney average terminal gate diesel price sits at AUD 1.16 on 11 April.

## *What to watch*

- **The oil price**—which way will it go? The OPEC deal and political pressures are pushing the price upwards, while high US inventories and excess stock are pushing the price downwards. How these influences play out over the second half of April and May is a must-watch.
- **Dropping diesel price for farmers?** Commentators are expecting a drop in Australian diesel demand, driven from the coalmining shutdown as a result of Cyclone Debbie.

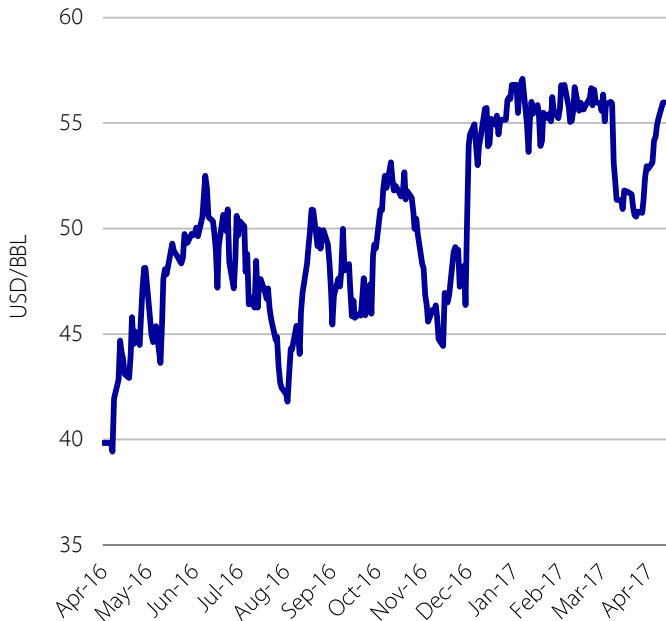
Oil &  
Freight

# March a Hiccup for Oil—Freight Rise Halts



Rabobank

**Brent Crude oil price, Apr 2016-Apr 2017**



**Baltic Dry Index, Apr 2016- Apr 2017**



Source: Bloomberg, Rabobank 2017

Source: Bloomberg, Rabobank 2017

# Agri Price Dashboard



Rabobank

As of 11 April 2017	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; Oilseeds</b>					
CBOT Wheat	USc/bu	▲	429	423	447
CBOT Soybeans	USc/bu	▼	942	996	928
CBOT Corn	USc/bu	▲	367	358	357
Australian ASX EC Wheat	AUD/tonne	▼	241	249	244
Australian Canola	AUD/tonne	▼	528	549	523
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	668	614	560
Feeder Steer	AUc/kg lwt	▲	354	327	299
North Island Bull 300kg	NZc/kg cwt	▲	565	540	515
South Island Bull 300kg	NZc/kg cwt	▲	510	485	460
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	681	611	503
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	580	535	490
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	550	520	465
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	▲	810	800	745
South Island Stag	NZc/kg cwt	▲	850	825	740
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▲	5,213	4,675	2,750
Skim Milk Powder	USD/tonne FOB	▼	1,988	2,550	1,738
Whole Milk Powder	USD/tonne FOB	▼	2,988	3,112	2,063
Cheddar	USD/tonne FOB	▼	3,613	3,838	2,550

# Agri Price Dashboard



Rabobank

As of 11 April 2017	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▼	86	87	68
ICE #2 NY Futures (nearby contract)	USc/lb	▼	75.2	77.29	60.71
<b>Sugar markets</b>					
ICE Sugar #11	USc/lb	▼	16.6	18.2	14.2
ICE Sugar #11 (AUD)	AUD/tonne	▼	488	533	411
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▼	1,457	1,522	1,270
NZ Coarse Crossbred Indicator	NZc/kg	▼	375	389	553
NZ Fine Crossbred indicator	NZc/kg	▼	411	415	565
<b>Fertiliser</b>					
Urea	USD/tonne FOB	▼	212	275	208
DAP	USD/tonne FOB	▼	370	375	360
Potash	USD/tonne FOB	▲	236	232	315
<b>Other</b>					
Baltic Dry Index	1000=1985	▲	1,231	1,086	555
Brent Crude Oil	USD/bbl	▼	53	56	41
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.751	0.754	0.760
NZD	vs. USD	▲	0.697	0.692	0.686
RBA Official Cash Rate	%	•	1.50	1.50	2.00
NZRB Official Cash Rate	%	•	1.75	1.75	2.25

# RaboResearch Food & Agribusiness Australia and New Zealand



**Rabobank**

## **Tim Hunt**

Head of Food & Agribusiness Research and  
Advisory, Australia and New Zealand  
+61 3 9940 8406

[Tim.Hunt@Rabobank.com](mailto:Tim.Hunt@Rabobank.com)

## **Angus Gidley-Baird**

Senior Analyst – Animal Proteins  
+ 61 2 8115 4058

[Angus.Gidley-Baird@rabobank.com](mailto:Angus.Gidley-Baird@rabobank.com)

## **Charlie Clack**

Commodity Analyst  
+61 2 8115 2412

[Charles.Clack@rabobank.com](mailto:Charles.Clack@rabobank.com)

## **Maddie Armstrong**

Business Coordinator  
+61 2 8115 4157

[Maddie.Armstrong@rabobank.com](mailto:Maddie.Armstrong@rabobank.com)

## **Rabobank New Zealand**

Nearest branch call 0800 722 622  
[www.rabobank.co.nz](http://www.rabobank.co.nz)

## **Marc Soccio**

Senior Analyst – Wine, Horticulture & Rural  
Economics  
+61 3 9940 8437

[Marc.Soccio@rabobank.com](mailto:Marc.Soccio@rabobank.com)

## **Cheryl Kalisch Gordon**

Senior Analyst – Grains & Oilseeds  
+61 2 6363 5900

[Cheryl.KalischGordon@rabobank.com](mailto:Cheryl.KalischGordon@rabobank.com)

## **Blake Holgate**

Analyst – Animal Proteins and Sustainability  
+64 3 955 4603

[Blake.Holgate@rabobank.com](mailto:Blake.Holgate@rabobank.com)

## **Felicity Taylor**

Intern  
+61 2 8115 2297

[Felicity.Taylor@rabobank.com](mailto:Felicity.Taylor@rabobank.com)

## **Michael Harvey**

Senior Analyst – Dairy and Farm Inputs  
+61 3 9940 8407

[Michael.Harvey@rabobank.com](mailto:Michael.Harvey@rabobank.com)

## **Wes Lefroy**

Agricultural Analyst  
+61 2 8115 2008

[Wesley.Lefroy@rabobank.com](mailto:Wesley.Lefroy@rabobank.com)

## **Emma Higgins**

Dairy Analyst  
+64 3 961 2908

[Emma.Higgins@rabobank.com](mailto:Emma.Higgins@rabobank.com)





This document is issued by a Rabobank Group member. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by any Rabobank Group member to enter into a transaction. This information is not professional advice and has not been prepared to be used as the basis for, and should not be used as the basis for, any financial or strategic decisions. This information is general in nature only and does not take into account an individual's personal circumstances. All opinions expressed in this document are subject to change without notice. No Rabobank Group member accepts any liability whatsoever for any direct, indirect, consequential or other loss or damage howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of a Rabobank Group member. By accepting this document you agree to be bound by the foregoing restrictions. All copyright is reserved ©