



Agribusiness Monthly August 2017

New Zealand

RaboResearch Food & Agribusiness August 2017



Rabobank

Commodity Outlook



Strong production anticipated for the 2017/18 season with Fonterra's lift in farmgate milk prices.



The drop in US import prices and high NZD mean there is potential for a minor further easing of farmgate prices over the next month.



Rabobank expects to see schedule prices hold steady over the next month.



Continued slow demand and rising domestic stocks to maintain pressure on crossbred wool prices.



The industry is capitalising on strong demand conditions to ship out the 2015/16 crop.



The green light has recently been given to export New Zealand persimmons into China.



We expect potash prices to remain stable toward Q1 2018.



Reserve Bank of NZ leaves rates unchanged: downside still lurks for the New Zealand dollar.



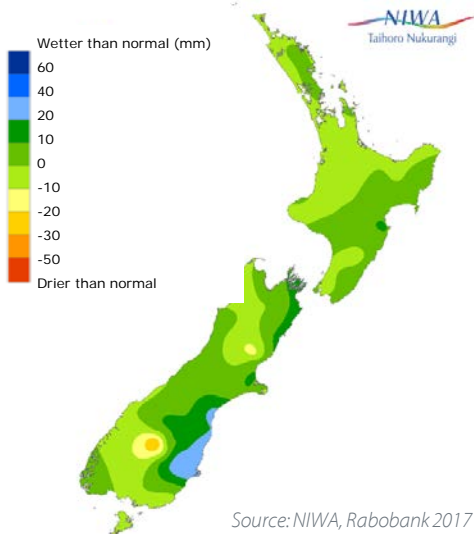
Rabobank forecasts the Brent Crude to reach 58 USD/BBL during Q3 2017.

Climate



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Soil moisture anomaly (mm), 6 August 2017



NIWA expects a high chance of above-average temperatures for New Zealand through October 2017.

Rainfall for the three months to October 2017 looks most likely to be in the normal or above-normal range for most of the country, with the eastern areas of the South Island more likely to be in the near-normal rainfall range through this period.

NIWA has a mixed outlook for soil moisture levels to October 2017. The west of the North Island and both South Island coasts are likely to be in the near-normal soil moisture range. The east and the north of the North Island, as well as the top of the South Island are equally likely to be in the normal or above-normal soil moisture range through to October 2017.

What to watch

- International guidance suggests that **the Pacific Ocean is likely to remain in an ENSO-neutral state (59% chance)** over the next three months to October 2017.
- **ENSO-neutral conditions are most likely to occur through to the first quarter of 2018.**



Fonterra Lifts Milk Price by 25 cents

Fonterra has lifted its opening farmgate milk price forecast for the 2017/18 season by 25 cents to NZD 6.75 kgMS. This positive pricing signal reflects the continued improvement in commodity markets since the end of 2016 and the anticipation that markets will remain largely balanced over the coming months.

New season milk production for the 2017/18 season has kicked off. **Milk intakes for June 2017 were 20% higher** than last season's production volume. Despite the percentage increase, this volume is relatively small compared to milk produced over the coming peak months.

Expectations remain for a strong lift in milk production for the 2017/18 season, particularly given Fonterra's recent increased forecast milk price. **Rabobank expects the national milk supply to grow by 3% across the new season** with improved cashflows and more optimism than the prior season.

Shipments to China have been steadily increasing over recent months. June 2017 exports were particularly high, bouncing by 64 percent YOY. **Rabobank expects Chinese dairy imports to continue to increase over the coming months** as seasonal purchasing begins for delivery of product in early 2018—following a lower tariff rate and an uplift from buyers looking to replenish their inventory pipelines.

What to watch

- Dairy fat substitution. **With global dairy fat prices continuing to defy gravity, continued high prices raise the question of dairy fat substitution.** Some end users may be tempted to substitute dairy fats for cheaper vegetable oil alternatives where possible.
- **Infant formula manufacturers are waiting for product registration in China.** Initial details from China's Food and Drug Administration (CFDA) show 22 companies have a total of 89 products approved. Only five international companies (no local companies) have been approved.

Dairy

The Global Butter Shortage Continues



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Global dairy prices, 2013-2017



Source: USDA, Rabobank 2017

Production growth key exporting regions

	Latest month	Last three months
EU	-0.2% (May)	0.2%
US	1.5% (June)	1.7%
Australia	2.2% (June)	-2.2%
NZ	-1% (2016/17 full season)	

Source: Rabobank 2017



Beef

Cattle Prices Ease Through July

Cattle prices came back slightly over the last month and, depending on location, are now sitting at, or just below, last years pricing. As at the start of August, the North Island bull price is on par with last year, averaging NZD 5.50/kg cwt (3% lower MOM). The South Island bull price is down 2% YOY, averaging NZD 5.10/kg cwt (3% lower MOM). **Prime cattle prices are also back between 3%-5% MOM.**

US imported beef prices declined as US domestic production increases. US imported beef prices have performed strongly through 2017, however, recent price drops have seen import prices for 90CL and 95CL dip below their five-year averages, by 4% and 5% respectively.

New Zealand's domestic slaughter for 2016/17 is still well down on last season, with the year-to-date total beef kill down 6.4% YOY (as of 8 July).

The NZD continued to strengthen against the USD during July, putting downward pressure on farmgate prices. The NZD ended the month just above USD 0.74, and is now 3% higher against the USD than it was a year ago.

While the drop in US import prices and high NZD mean there is **potential for further easing of farmgate prices** over the next month, the relatively tight supply of cattle available for slaughter should ensure **any price drops will not be significant.**

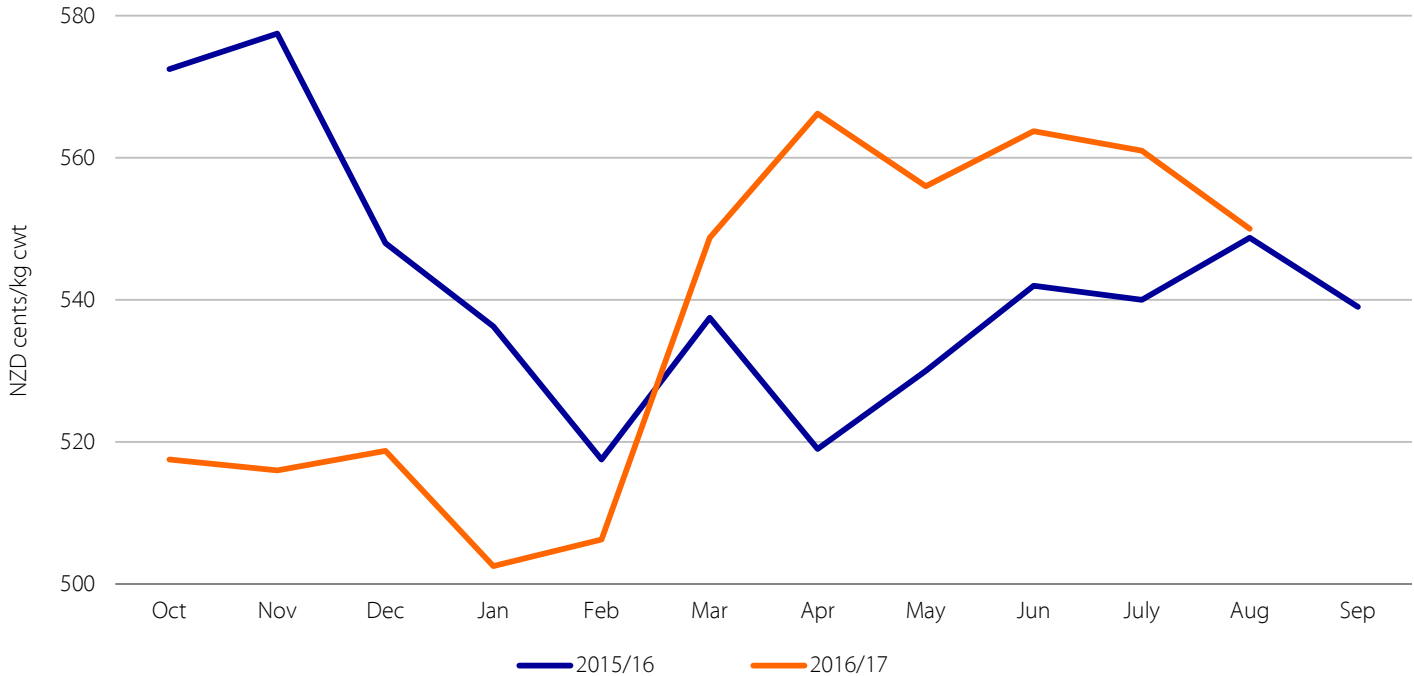
What to watch

- **Impact of Japanese beef tariff hike** – as of 1 August, Japan lifted the tariff rates for frozen beef imports from 38.5% to 50%. The tariff hike was in response to a sharp increase in Japan's beef imports for 1H 2017. Last year, Japan accounted for 4% of New Zealand's beef exports (sixth largest market by volume). New Zealand is now at a significant tariff disadvantage against competitors Australia, who's free trade agreement holds its tariffs at 27%. Due to this disadvantage, New Zealand exporters will likely be forced to divert some product from Japan into alternative markets. The tariff hike is scheduled to last until 31 March 2018.

North Island Bull Price



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Sheepmeat

Prices Remain Steady and Strong

Farmgate prices continue to perform strongly, pushing slightly higher in both islands. As of early August, the slaughter price in the North Island averaged NZD 6.75/kg cwt, while South Island lamb averaged NZD 6.60/kg cwt. For the North Island, this is up 2% MOM and 18% YOY, while South Island prices are up 1% MOM and 21% YOY.

While New Zealand's **overall lamb supply remains tight (currently down 5% YTD)**, there is a **clear split in supply trends developing between the North and South Islands.** The South Island's lamb kill is on track to match last year's numbers, while North Island lamb kill is down 10% YTD. This is largely the result of early season weather conditions, and a severe outbreak of facial eczema in the North Island last season.

In-market **prices for UK legs continued to decline during July (down 3% MOM)**, which could create headwinds once New Zealand's new season supply comes online later in the year. **However, the US market continues to perform strongly.** This is reflected in export figures for Q2 2017, which show a **25% decline in export volumes to the UK, and a 34% increase in export volumes to the US** compared to Q2 2016.

As processors operate at reduced capacity to match the seasonal lower supply available through August **Rabobank expects to see schedule prices hold steady over the next month.**

What to watch

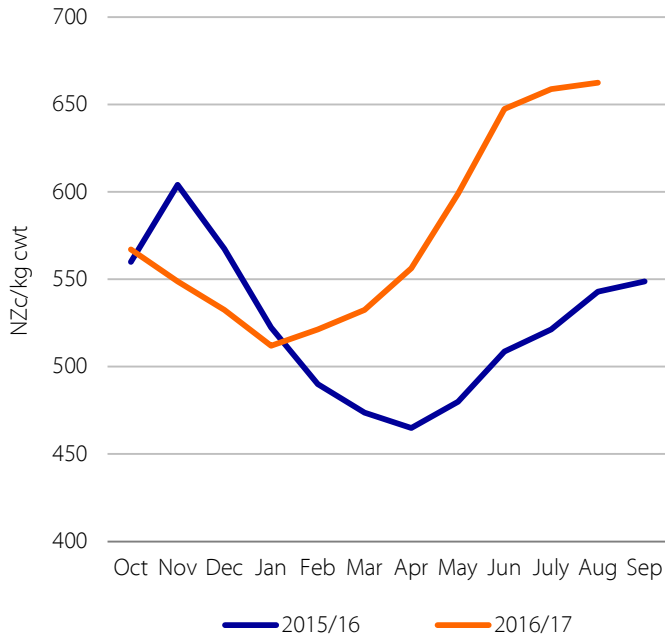
- **Weather conditions** – as lambs start to hit the ground in the northern regions, weather conditions over the next couple of months will have a big impact on the overall number of lambs available for supply next season. Anecdotal evidence suggests scanning results across New Zealand are generally ahead of last year, however, it is the number of lambs that make it through spring that really counts, and favourable weather would go a long way to maximising those numbers.

South Island Lamb Price and NZ Lamb Slaughter

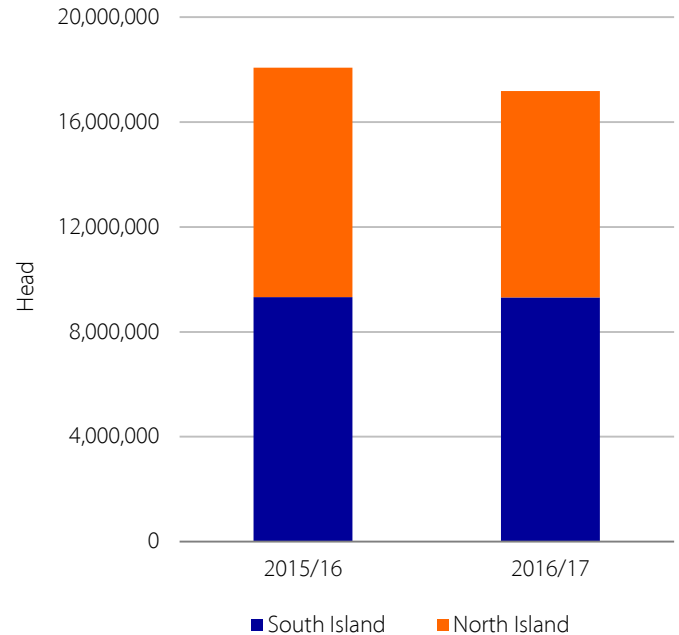


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South Island Lamb Price



New Zealand Lamb Slaughter (YTD – 8 July)



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



Wool

Challenges for wool remain

The 2016/17 season saw a consistent downward trajectory for crossbred wool prices. As prices have fallen about 30% through the season, the average clearance rate at auction fell to 74% from 87% across the past two seasons.

New Zealand wool producers face two key obstacles to potential price improvement during the 2017/18 season. Firstly, they are waiting for China's return to the crossbred market, and secondly, they are clearing the stocks of wool on farm and in wool stores as prices hover around multi-year lows.

Wool exports for the 2016/17 season highlight the difficulties experienced in the market. The total volume of exports was down 18%, with value down some 31%. Wool categories coarser than 24.5 micron all saw declines in the value of exports. Weak buying from China has been a driving factor in these overall declines. 35% less wool was sent to New Zealand's largest market, seeing China's share of exports fall from just over half in 2015/16 to 40 percent in 2016/17.

India saw the greatest volume increase in exports—up 25% to nearly 8,000 tonnes clean. Predominantly a market for coarse crossbred, 2016/17 saw the largest volume of this type make its way to India since 2009-10. While no single market has been able to stem the flow of damage caused by China's absence from the market, India's increase in volume is certainly a positive for the industry and a market to watch in 2017/18.

What to watch

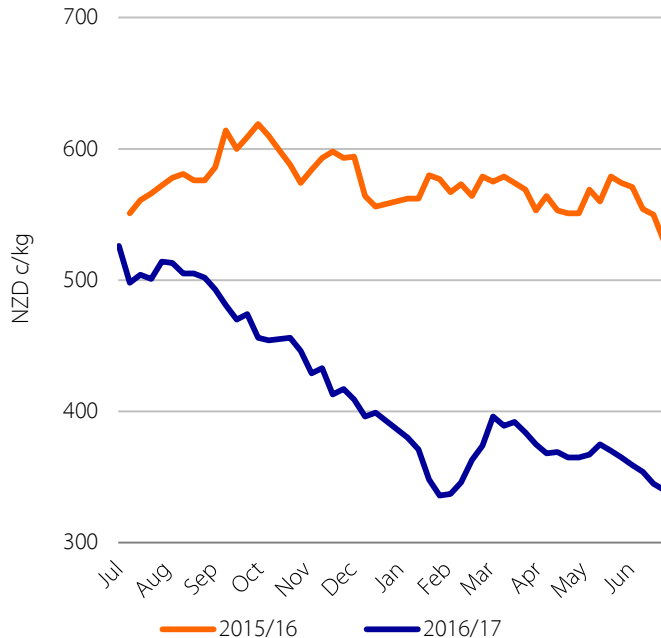
- ***For fine wool producers, the Australian market returns to action following the three week annual recess in August.*** While crossbred wool demand has been under pressure, merino wool prices across the ditch closed 2016/17 very strongly.

The export market story is a compelling one

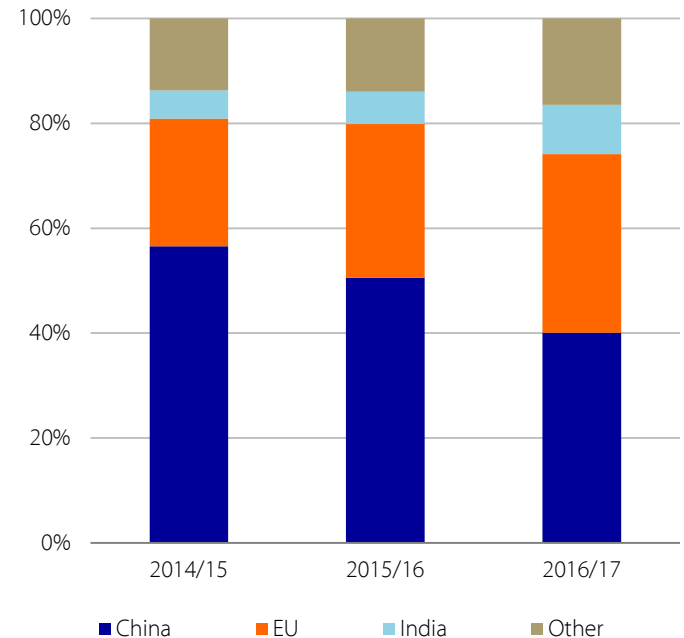


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Coarse Crossbred Indicator



NZ Wool export market share



Source: NZ Wool Services, Beef & Lamb NZ, Rabobank 2017



Harvest Down, Export Volumes Hold up for Now

The small, weather-impacted, 2017 harvest will inevitably see wine export growth tail off in the coming year.

But recent data releases continue to show the industry capitalising on strong demand conditions to ship out the prior year's record crop.

The volume of **NZ wine export volumes rose by 16% in YOY terms in June**, representing the 13th consecutive month of growth.

After a poor showing in May, **the value of outgoing shipments grew 10%** in YOY terms in June in local currency terms.

The average value of wine exported from NZ came in at NZD 6.86/litre in June, the highest since August 2016.

The **NZD has more or less held its ground against the GBP in the last month** – a welcome respite for NZ wine exporters after the significant strengthening of the local currency in June and July.

What to watch

- The Geographical Indications (Wine and Spirits) Registration Act came into force in NZ on 27 July. 18 wine regions filed their applications to register as a New Zealand 'GI'. The new law will help protect the investment local industries have made in developing regional provenance.

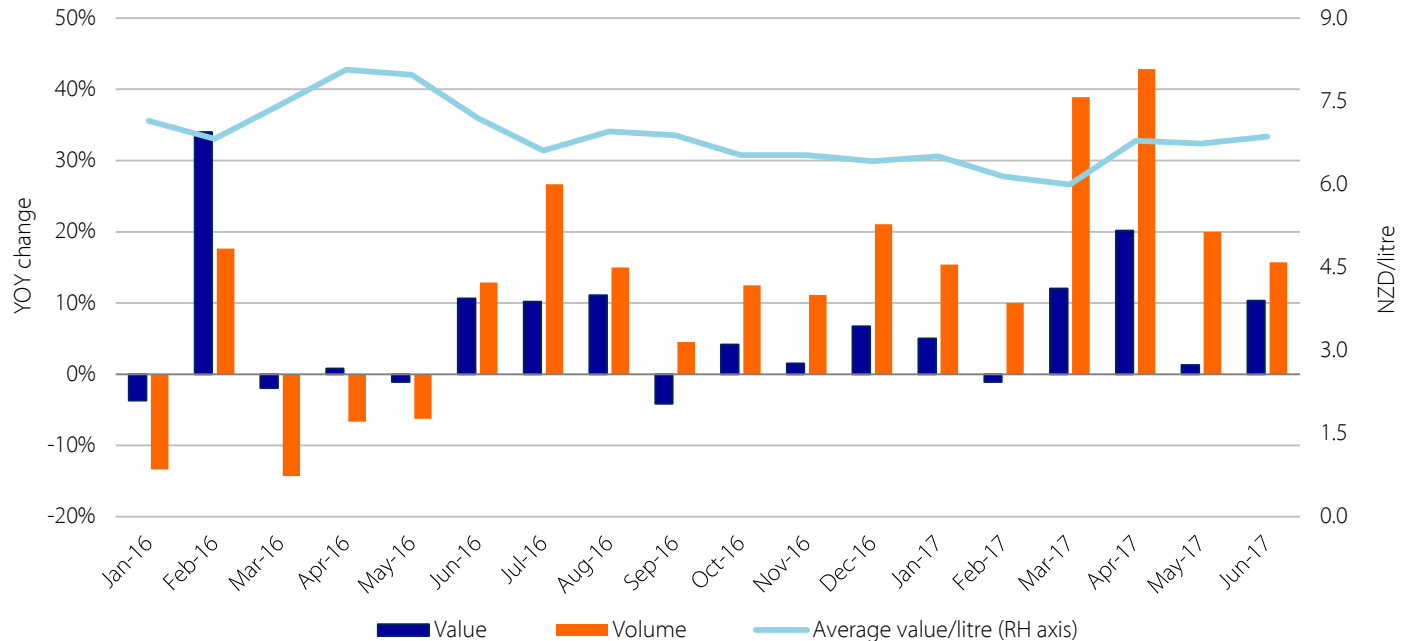
Wine

The value and volume of wine exports rose through June



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YOY Growth in NZ Wine Exports by Volume and Value





Persimmons set for China

Vegetable production continues to be heavily impacted by severe weather this season, as Statistic NZ figures show in the recently released consumer price inflation (CPI) data for Q2 2017.

Vegetable prices leapt 19% in the June 2017 quarter: the largest quarterly price increase in vegetables since 2013. This is the result of supply disruptions throughout the season in the wake of a very wet autumn and has particularly impacted leafy green vegetable crop yields. **Conversely, fruit prices fell 5% over the same period.**

New Zealand has recently been given the green light to export persimmons into China. The recent approval by China's quarantine authority is the culmination of 12 years of negotiation. **The first test shipments to China are set to leave New Zealand over the coming weeks.** New Zealand persimmon exports were worth around NZD 8.7 million in 2016, with the majority of fruit headed to Australia, Thailand and Singapore.

The High Court in Wellington has begun hearing the case of 212 kiwifruit growers who are claiming negligence by the Ministry of Primary Industries for allowing the Psa virus to enter the country via infected kiwifruit pollen in 2009. This is a landmark case in which the claimants are seeking around NZD 400m.

What to watch

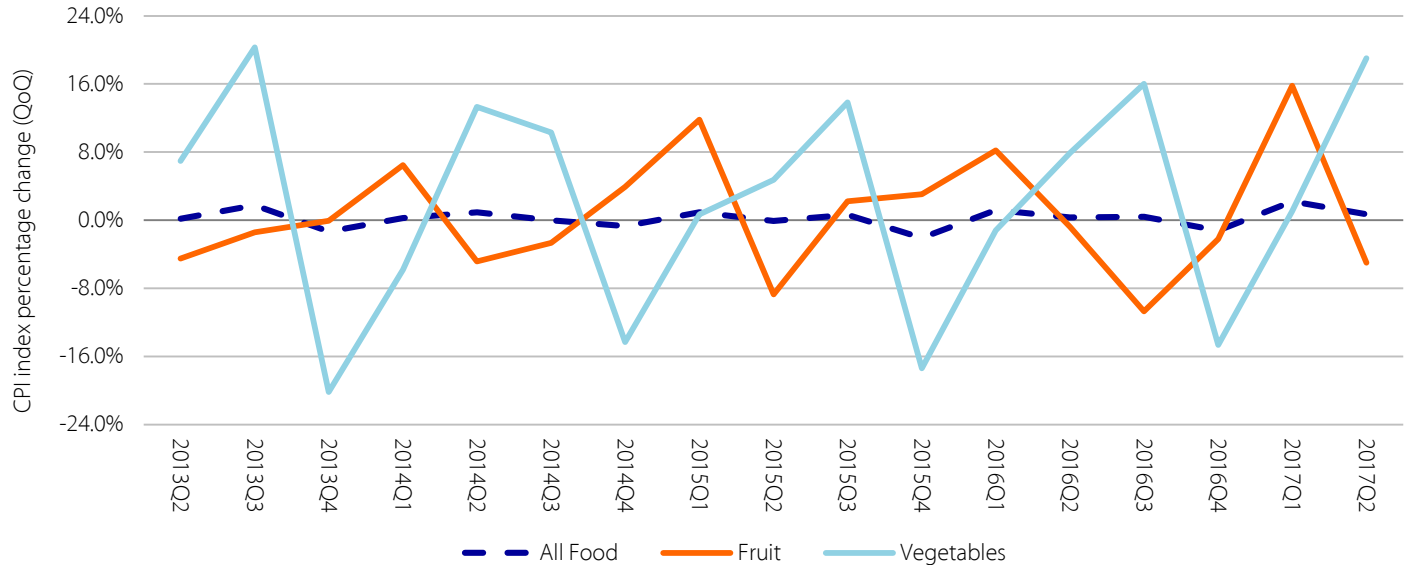
- **Kiwifruit sales to the US.** Zespri has an intention to double sales to NZD 4.5 billion by 2025 and the US is one of the regions anticipated to assist in reaching this goal. Zespri sales are set to achieve over NZD 100 million by next season, mainly driven by Sungold sales.

Horticulture

Weather hikes vegetable prices



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Source: Statistics NZ, Rabobank 2017

Vegetable price inflation in New Zealand is headed back towards levels last seen in 2011. In that instance, the culprit wasn't supply disruptions, but rather the GST rate hike.



Eyes Turning Toward 2018

Farmers' fertiliser buying has all but concluded for the spring, with the large majority of contracts now committed. The focus is now shifting toward finding an opportunistic time to purchase fertiliser ahead peak application periods in autumn and spring 2018.

The global urea market rose slightly during July, finishing the month just above 200 USD/tonne. **US supply is holding a ceiling on global pricing** with more supply due to come online during Q3. Exports from China are expected to fall during Q3 and Q4, although this supply will still maintain some downward price pressure. Exports from China are expected to fall during Q3 and Q4 which may cause some price pressure, while import demand from Europe during Q4 will provide some support to global pricing.

Global DAP pricing fell during July, and we expect this fall to continue moderately through the second half of 2017. Additional supply in the Middle East and increasing exports from India and Russia are expected to continue the downward pressure on prices. Chinese and Indian potash contracts have now been negotiated, bringing stability to the market. **We expect potash prices to remain stable toward Q1 2018.**

Local retail pricing for both Urea and DAP remained unchanged throughout July and early August.

Farm Inputs

What to watch

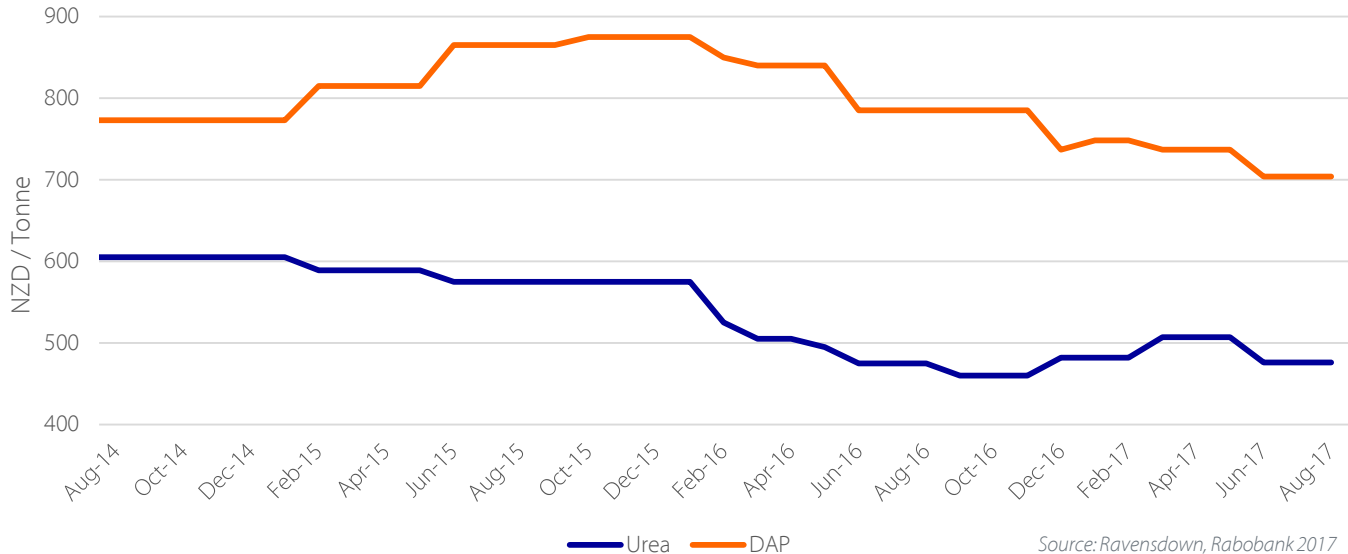
- **NZD foreign exchange** - Since early May, the NZD has been increasing against the USD, reaching USc 75c at the end of July, before sitting at USc 73c in mid August. A rising exchange rate will assist farmers to lock in favourable fertiliser prices for 2018.

Prices Stable for Last Minute Spring Purchases



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Reported monthly local retail Urea and DAP prices



Source: Ravensdown, Rabobank 2017

Drivers of local retail prices including global benchmarks, exchange rate and shipping rates are expected to remain favourable for end users.



A volatile month with a bearish end

In a volatile month for many currencies, the **NZD rose USc 2.5 in the second half of July, and then lost the same in the two weeks to 10 August** – ending the four weeks almost unchanged at USc 72.5.

The initial rise in the NZD/USD rate appears to have been driven by mixed economic data out of the US (reducing expectations that the Fed will raise interest rates any time soon), with the subsequent fall influenced by the announcement of lower than expected inflation in NZ in Q2 (flat) and weak local employment data.

On 9 August, the Reserve Bank of NZ left rates unchanged at 1.75% as expected. They kept their options open to the downside rather than the upside, it seems, in contrast to many other central banks around the world, adding: “Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly.”

With the US Fed likely to raise rates late in our 12-month forecast period, we look for **the NZD to soften modestly to around USc 70 by June 2018** as a result of these dynamics.

What to watch

- **Political tensions.** It's likely we will all be more concerned about other issues than exchange rates if Trump makes good on his recent threat to meet any threats to the US from North Korea “with fire and fury like the world has never seen.” But rising tensions are starting to impact market sentiment, and any further escalation will heighten currency market volatility.

FX

New Zealand dollar up again



New Zealand/US dollar Cross Rate



Source: RBA, Rabobank 2017

Tightening Oil Supply Taking Effect

Brent crude made a slight recovery in July, up 12% MOM to finish at 52 USD/BBL.

Inventories in the US have tightened, which has slightly eased concerns of a global oil glut. Saudi Arabia announced they will be supplying less to the Asian market than has been requested. To date, Asia has been void of any supply cuts, as the cuts have focused on the more observable US market. Iraq also announced production cuts in early August.

Rabobank forecasts Brent Crude to reach 58 USD/BBL during Q3 2017, although the uncertainty around these projections is high. The driver of this volatility is the breadth and depth of supply cuts. While no new cuts are on the horizon, both Nigeria and Libya are in discussion with regard to production levels.

The Baltic Dry Index (BDI) had also made a recovery during July, up 25% MOM. Higher commodity imports to China have significantly contributed to the rise in shipping hire rates. A rise at this time of the year is unusual, given the BDI usually falls during the northern hemisphere summer. Chinese importers are restocking earlier than usual given the potential for emissions restrictions later in the year.

What to watch

- ***Chinese Imports*** – Earlier than expected commodity restocking by the Chinese has pushed shipping rates unseasonal higher.



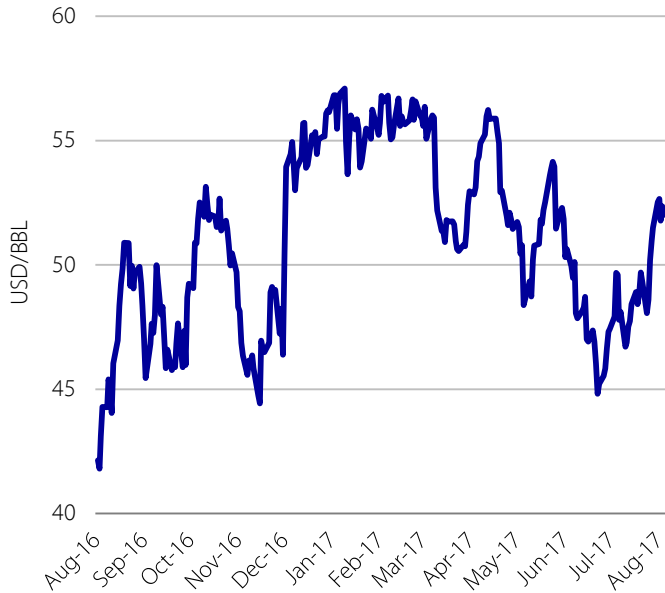
Oil &
Freight

Oil and Freight Recover after June Lows



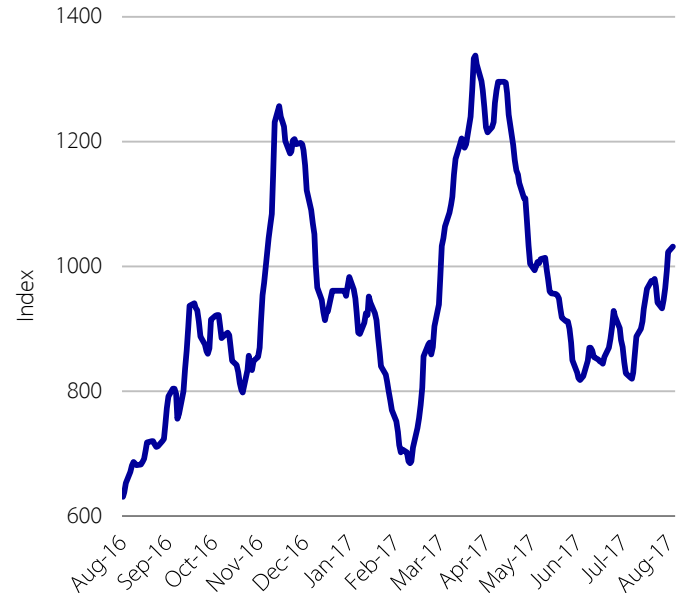
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Brent Crude Oil, August 2016 – August 2017



Source: Bloomberg, Rabobank 2017

Baltic Dry Index, August 2016 – August 2017



Source: Bloomberg, Rabobank 2017

Agri Price Dashboard

As of 10/08/2017	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	458	496	416
CBOT soybeans	USc/bushel	▼	964	973	1,022
CBOT corn	USc/bushel	▲	372	361	321
Australian ASX EC Wheat	AUD/tonne	▼	263	310	258
Australian Canola	AUD/tonne	▼	517	525	492
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	560	598	720
Feeder Steer	AUc/kg lwt	▼	305	326	387
North Island Bull 300kg	NZc/kg cwt	▼	550	565	550
South Island Bull 300kg	NZc/kg cwt	▼	510	520	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	604	605	633
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	675	665	580
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	660	650	570
Venison markets					
North Island Stag	NZc/kg cwt	▲	910	865	805
South Island Stag	NZc/kg cwt	▲	915	910	800
Dairy Markets					
Butter	USD/tonne FOB	▲	5,975	5,925	2,775
Skim Milk Powder	USD/tonne FOB	▼	2,013	2,125	1,850
Whole Milk Powder	USD/tonne FOB	▼	3,225	3,275	2,100
Cheddar	USD/tonne FOB	▼	4,000	4,013	2,850

Agri Price Dashboard

As of 10/08/2017	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	81	83	81
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	71.8	66.54	71.27
Sugar markets					
ICE Sugar No.11	USc/lb	▼	13.6	14.1	19.6
ICE Sugar No.11 (AUD)	AUD/tonne	▼	382	403	561
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,540	1,522	1,297
NZ Coarse Crossbred Indicator	NZc/kg	▲	273	267	505
NZ Fine Crossbred indicator	NZc/kg	•	0	0	545
Fertiliser					
Urea	USD/tonne FOB	▲	203	190	195
DAP	USD/tonne FOB	•	344	344	340
Other					
Baltic Dry Index	1000=1985	▲	1,050	888	653
Brent Crude Oil	USD/bbl	▲	53	48	45
Economics/currency					
AUD	vs. USD	▲	0.787	0.773	0.770
NZD	vs. USD	▼	0.727	0.732	0.721
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	2.00

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