



Agribusiness Monthly June 2017

New Zealand

Food & Agribusiness Research and Advisory June 2017



Rabobank

Commodity Outlook



Dairy

Strong pricing signals set by processors should bring healthy margins for farmers.



Beef

Positive short-term outlook for farmgate prices on the back of healthy US import prices.



Sheepmeat

Tightening domestic supply over the coming winter months should see prices continue to rise well above the NZD 6/kg cwt threshold.



Wool

New Zealand wool prices have remained low, but stable, this month.



Wine

Adverse weather during critical stages of the vintage might have taken 10% off the potential volume of the crop.



Horticulture

Zespri expects the second-largest kiwifruit crop ever for the new 2017/18 season.



Fertiliser

Global markets remain quiet, with local demand hinging on the spring peak.



FX

Despite the recent rally, Rabobank expects the NZD/USD rate to slip to 0.67 over the next 12 months.

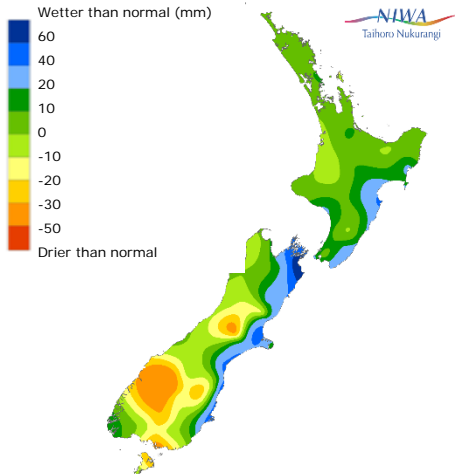


Oil

Forecast price recovery is tempered as OPEC dallies.

Climate

Soil moisture anomaly (mm), 6 June 2017



Source: NIWA, Rabobank, 2017



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NIWA expect there is a high chance temperatures will be at, or above, average for the north of both islands and the west of the North Island through July 2017. The remainder of the country is likely to receive average temperatures across this period.

Rainfall for the two months to July 2017 looks most likely to be in the normal range for top of the North Island and the east of the South Island. The remainder of the country has an equal chance of falling in either the below-normal or near-normal rainfall range across to July 2017.

Soil moisture levels have a mixed outlook from NIWA. The top of the North Island and the east of the South Island have a chance of above-normal soil moisture. The West Coast and the top of the South Island are at risk of below-normal soil moisture levels. The remainder of the country is likely to receive near-normal soil moisture levels through July 2017.

What to watch

- **International guidance suggests that a transition from ENSO-neutral to El Niño conditions over the next three months** are more likely than not (56%).
- **There is a higher chance of El Niño conditions developing as we move through to October 2017**, with the chance of an El Niño event rising to over 70%.



Strong Pricing Signals for 2017/18

Commodity prices continued to improve in global markets through May 2017. Milk supply remains constrained across the export engine, helping to support prices. However, milk supply from export regions will be moving back into a modest growth phase over the coming months—led by the EU and New Zealand.

The opening forecasts for New Zealand milk processors have been announced. With the majority of milk processor opening forecasts within a relatively narrow range of NZD 6.25/kgMS to NZD 6.65/kgMS, the 2017/18 season is already off to a more confident start than the prior season. Positive pricing signals from milk processors reflect the continued improvement in commodity markets since the end of 2016 and anticipation that markets will remain largely balanced over coming months.

New Zealand milk production for the 2016/17 season is likely to close out just 1% lower than last season's production volume (although the final tallies are yet to be counted). Total milk collections for 2016/17 will likely end up around 21.3m tonnes of milk. Stronger milk flows for the second half of the season were supported by favourable weather conditions, underpinning a solid finish to the season.

What to watch

- **Price signals for New Zealand farmers** all point to healthy margins for dairy producers. As such, Rabobank expects NZ milk supply to return to growth in the new 2017/18 season, also supported by more helpful seasonal conditions than were experienced in spring 2016.
- **Intervention purchases of skim milk powder** have slowed to a trickle through the EU seasonal peak, meaning the buildup was lower than many expected. The European Commission still has the task of liquidating the SMP stocks in coming months.

Dairy

Production Falls Ease in Export Regions



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Global dairy prices, 2013-2017



Source: USDA, Rabobank 2017

Production growth in key exporting regions

	Latest month	Last three months
EU	0% (March)	-1.1%
US	2.0% (April)	2.0%
Australia	-6.3% (April)	-7.3%
NZ	-1% (2016/17 season-to-date estimate)	

Source: Rabobank 2017



Beef

Prices Continue to Hold Strong

Cattle prices remain unchanged through May. As at the start of June, both North Island and South Island bull prices are sitting where they were at the start of May. Both are marginally higher than at this stage last season. The current average North Island bull price is NZD 5.60/kg cwt (3% higher YOY). The current average South Island bull price is NZD 5.15/kg cwt (5% higher YOY).

Cow kill may struggle to reach 1m head. Despite reports that large volumes of cows were processed in May, the overall rate of cow kill is still well down on last season and is predicted to fall short of the 1m head that were killed over each of the previous two seasons.

Strong domestic demand continues to drive up US imported beef prices. Prices for imported 90CL and 95CL (the lean trimmings New Zealand export to US) are both over 10% above their five-year averages.

The NZ dollar appreciated nearly 4% against the US dollar over the last month. If the NZ dollar continues to strengthen through June, it will put downward pressure on cattle prices.

Strong global beef demand is expected to support farmgate prices in the short term (exchange rate movements aside), with the normal seasonal lift in prices expected through winter.

What to watch

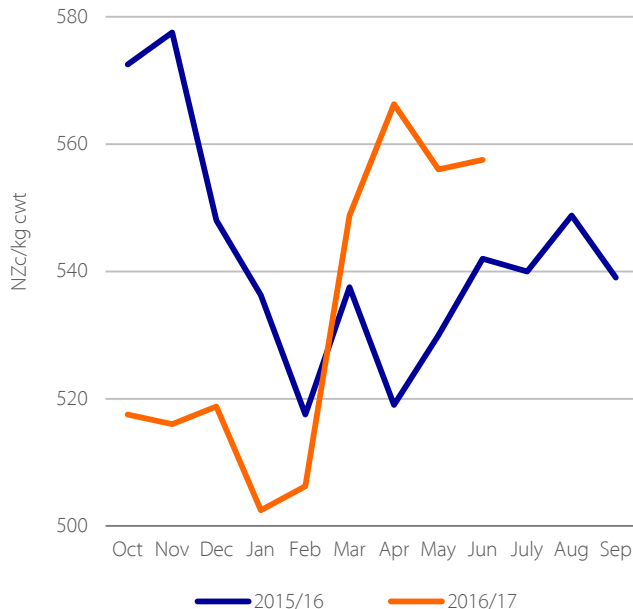
- **Indian ban on sale of cattle for slaughter.** The Indian federal government recently introduced a rule banning the sale of cattle for slaughter in livestock markets (>90% of cattle for slaughter were sourced via these markets). As India is one of the largest bovine exporters in the world, the ban has the potential to impact global beef trade flows. The direct impact on New Zealand beef exports is likely to be minimal, as India's principal export markets are Vietnam, Malaysia, and the Philippines, which only account for a small proportion of New Zealand's exports.

North Island Beef Price and NZ Cow Slaughter



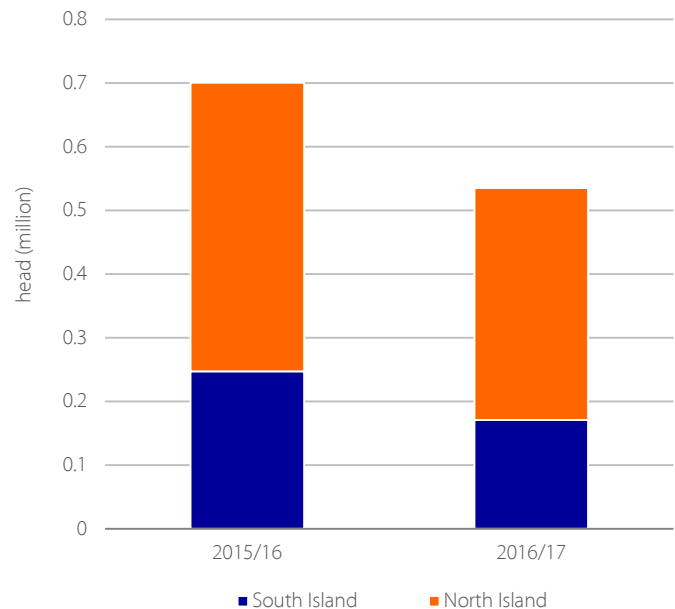
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North Island Bull Price, Oct 2015-Jun 2017



Source: NZX AgriHQ, Rabobank 2017

New Zealand Export Cow Slaughter (YOY as of 6 May), 2015/16 vs. 2016/17



Source: NZ Meat Board, Rabobank 2017



Global Lamb Shortage Continues to Drive up Prices

Strong global demand for lamb saw slaughter prices move well above the NZD 6/kg cwt threshold. As of early June, the slaughter price in both the North Island and South Island sits at NZD 6.40/kg cwt. For the North Island, this is up 5% MOM and 21% YOY, while South Island prices are up 8% MOM and 28% YOY.

The number of lambs processed so far is still well down on last year (7% lower YOY as at 6 May), with the bulk of this season's lambs having already been slaughtered.

There is a global shortage of export lamb supply, resulting in a significant lift in market prices, thanks to New Zealand's near-record-low lamb production for 2016/17, combined with a reduced supply of lamb out of Australia (production for the season expected to be 4% down).

Exports to China and the US performed particularly strongly in Q1 2017, with returns from these two markets up 69% and 21%, respectively (compared to Q1 2016).

Rabobank expects schedule prices to steadily lift over the coming months, given that schedule prices traditionally lift through the winter months, as domestic supply tightens.

What to watch

- **Mutton prices.** Mutton prices continued to firm over the last month, reaching the NZD 4/kg cwt mark. This is approximately a 60% increase on where prices were at this time last year. While mutton tends to only generate a small proportion of farm income compared to lamb, it is still an important source of revenue in terms of boosting the overall returns farmers receive for their sheepmeat.

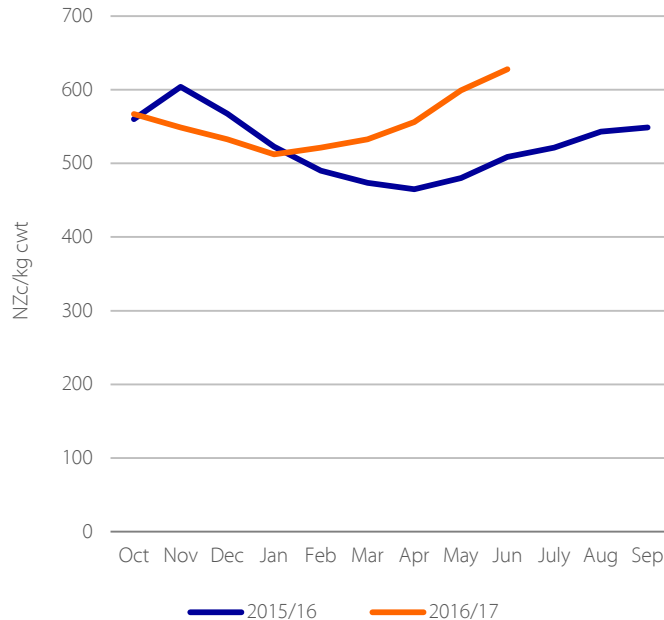
Sheepmeat

South Island Lamb Price and NZ Lamb Slaughter



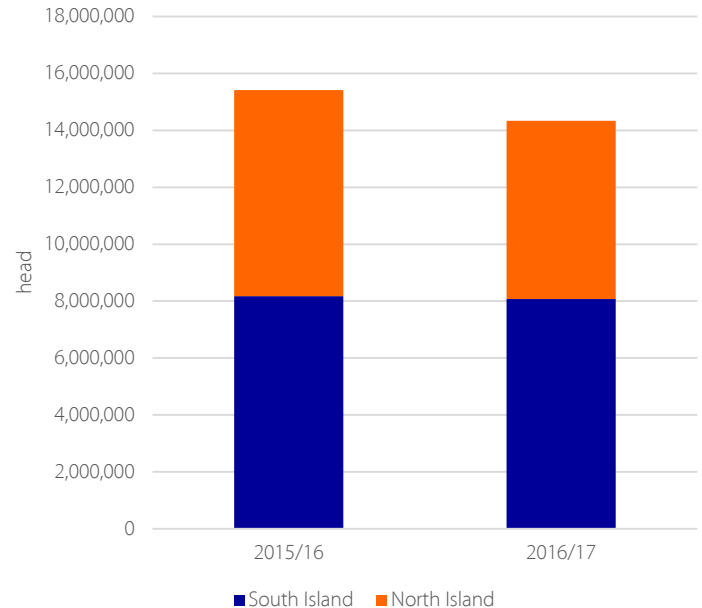
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South Island Lamb Price, Oct 2015-Jun 2017



Source: NZX AgriHQ, Rabobank 2017

New Zealand Lamb Slaughter (YOY as of 6 May, 2015/16 vs. 2016/17)



Source: NZ Meat Board, Rabobank 2017



Wool

Wool Markets Hold Steady

New Zealand wool prices have remained low, but stable, this month. Week 48 saw the fine crossbred indicator at NZc 404/kg, marginally higher than last month. The coarse crossbred indicator, presently at NZc 365/kg, declined slightly in the same period.

There have been mixed pricing outcomes between the wool types, but little change overall. Poorer styles of coarse crossbred fleeces were 5% cheaper between the most recent auctions, while coarser first lambs gained 4%. Both good and average styles of coarse crossbred fleece remained firm.

There are two major forces causing the market's softness. The strengthening New Zealand dollar is still limiting opportunity for the wool industry. Buyer interest has also subsided. China is entering early summer's slow retail demand period, and buyers' hesitation has been felt in the New Zealand auction markets.

Low off-shore demand has had a significant impact on the wool sector this season. The NZ Minister for Primary Industries forecasts wool export revenue to have fallen 19% in the year ending June 2017. A preference for fine wool has meant China's consumption of New Zealand's coarser fleeces fell 33% through the 2017 season.

The Australian wool market has fallen from last month's peak, with the EMI now at AUc 1,472/kg. Merino fine wools were the most adversely affected at auction, while broader wools remained stable or improved. This is positive news for price prospects in New Zealand's coarse market.

What to watch

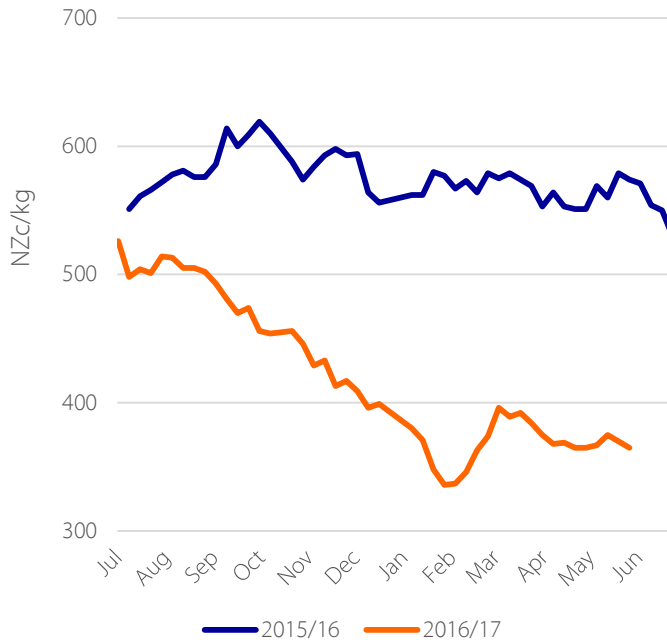
- **Manufacturing needs to pick up in the coming quarter** to cater for the northern hemisphere's key pre-winter retail period. This should be reflected in boosted demand in the coming weeks.

NZ Wool Indicators Are Low, but Stable

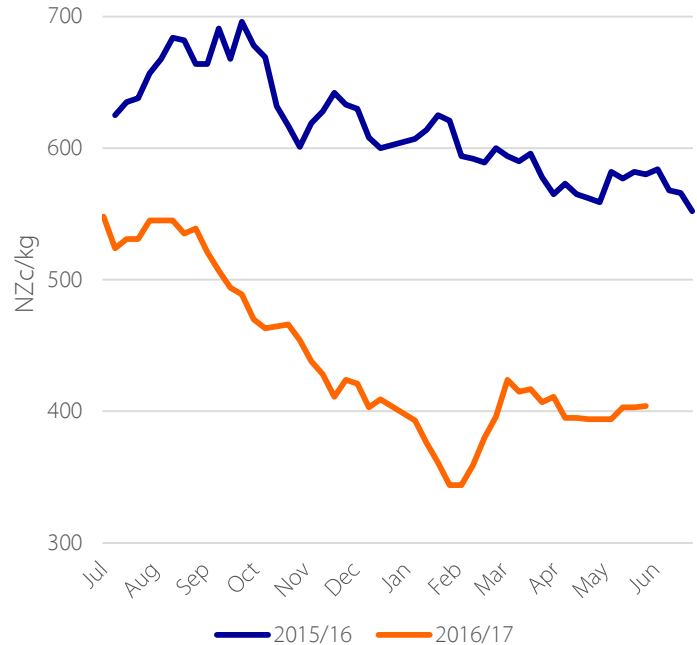


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Coarse Crossbred Indicator, Jul 2015-May 2017



Fine Crossbred Indicator, Jul 2015-May 2017





Export Engine Continues to Fire

The 2017 harvest hasn't been tallied yet, but Rabobank believes that **adverse weather during critical stages of the vintage might have taken 10% off the potential volume of the crop**. Good vineyard management practices, mechanisation and technology appear to have saved the industry from a much larger drop. 2017 Marlborough Sauvignon Blanc has started to be shipped to overseas markets and wine quality is reportedly very good.

For now, the industry has been capitalising on strong demand conditions to ship out the prior year's record crop.

The NZ wine industry has continued to boost its exports well above prior-year levels. Data for April showed a 35% increase in outgoing volumes on prior-year levels, bringing MAT export growth to 18%.

Each of the three core export markets took in considerably more wine in April, with the US, UK, and Australia up 17%, 24%, and 19%, respectively, in the 12 months to April.

Once again, growth was strongest in bulk wine shipments (up 42% MAT April).

The shift to bulk wine has been a contributor to falling average export values. The average value of wine shipped in April fell 14% YOY, to NZD 6.88/litre. The falling value of the British pound post-Brexit hasn't helped, with, in most cases, NZ exporters bearing the brunt of the exchange rate shift in reduced NZ dollar returns.

What to watch

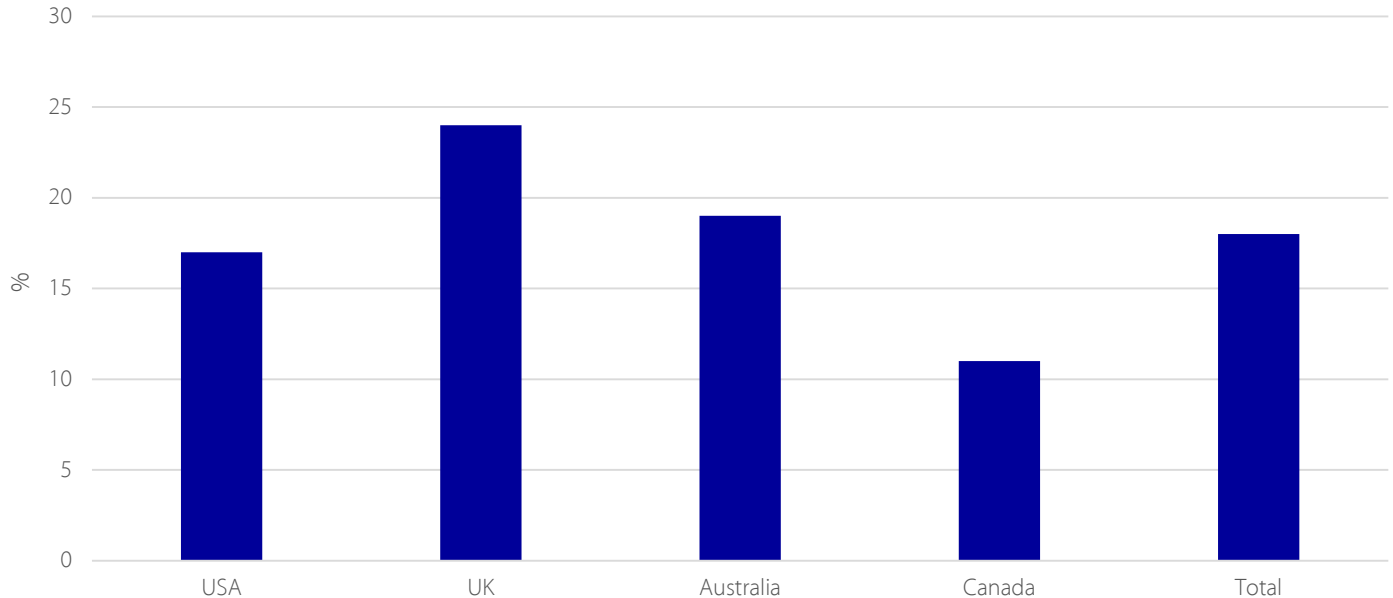
- **We continue to keep an eye on bulk wine shipments.** Given the challenges being faced with the current harvest, we are watching to see how wine company stocks and bulk wine exports normalise.
- **The NZ dollar's direction in the coming months** will be important for export wine values. We look for the recent rally to run out of steam and eventually reverse.

Wine

Wine Exports Continue to Surge Leading into Harvest



YOY Change in New Zealand Wine Export Volume by destination (MAT April 2017)



Source: NZ Winegrowers, Rabobank 2017



Kiwifruit's Star Continues to Shine

The final 2016 export numbers are in, and New Zealand's 2016 horticulture exports leapt 19% YOY, to a record NZD 5bn. One of the key drivers was soaring kiwifruit exports, up 42% compared to 2015, to reach NZD 1.7bn. Apple exports also jumped 23% YOY, generating NZD 692m. The increased focus on Asia has paid dividends, accounting for around NZD 1.9bn of all horticulture export sales.

Similarly, the 2016/17 kiwifruit season ended on a high for Zespri. Their largest-ever crop of kiwifruit generated record sales of NZD 2.2bn, lifting revenues 19% on the prior year. Strong sales in key markets such as Japan, combined with marketing and market development, contributed to this result. Crop expectations for the new 2017/18 season are slightly lower than the previous season, but still would give the second-largest crop for the company.

A smaller 2017 crop of apples and pears is also expected by Pipfruit NZ (which is to be renamed New Zealand Apples and Pears Inc). As the 2017 season harvest winds down, Pipfruit NZ has reduced its crop volume estimate by 10%, to around 531,000 tonnes, with Braeburn the most likely impacted apple variety. As a result, export volumes—particularly to Europe and the UK—will be lower than expectations set at the beginning of the season.

What to watch

- **The spread of Myrtle Rust.** The detection of this exotic fungus in Northland means that bee keepers and feijoa growers in particular should be aware of this disease. Infected spores are easily spread via wind currents and can effect the myrtle family—which includes manuka and rata trees, as well as feijoas and guavas (hence the alternative name of guava rust).

Horticulture

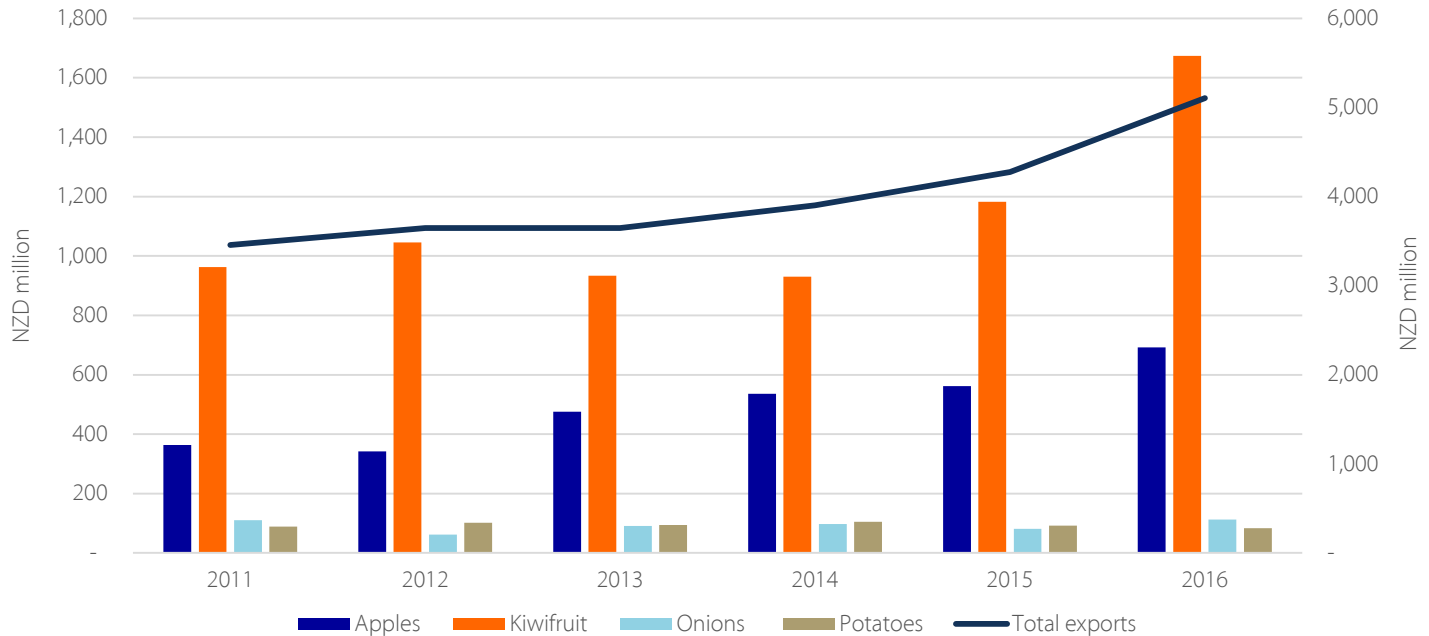


Another Record for 2016 Kiwifruit Exports



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Select New Zealand horticulture exports (fob)



Sources: Plant & Food Research, Horticulture New Zealand, Rabobank 2017



Quiet Markets Favourable for Farmers

It has been a quiet period in global fertiliser markets, caused by seasonally low demand across the nutrient complex. Market dynamics indicate that global urea prices will continue to remain weak through the remainder of Q2 and Q3, driven by well-supplied markets (thanks to increasing US production throughout 2017).

The eyes of the global DAP market are on India at the beginning of the monsoon season, while US demand remains strong heading into summer. Chinese and Australian demand has finished for the season, which, in addition to higher exports from Australia and Saudi Arabia, is the basis for a downward trend in prices through the northern hemisphere summer. Potash prices are expected to remain stable, with the market awaiting the Chinese contract settlement anticipated in late June.

A Moroccan shipment of rock phosphate bound for New Zealand remains detained in South Africa for geopolitical reasons. A shift away from phosrock imports from Morocco toward alternate sources has helped ensure a security of supply.

Local urea demand will increase heading towards the spring peak. Milk price signals for the new season are again above break-even, supporting dairy farmers to maximise application rates. Rabobank expects local farmgate fertiliser prices to remain stable for the short to medium term.

What to watch

- **The extent of the Indian monsoon.** Expect increased demand to cause a rise in global fertiliser prices should a strong monsoon eventuate.
- **Local fertiliser market dynamics** coming into the spring peak.

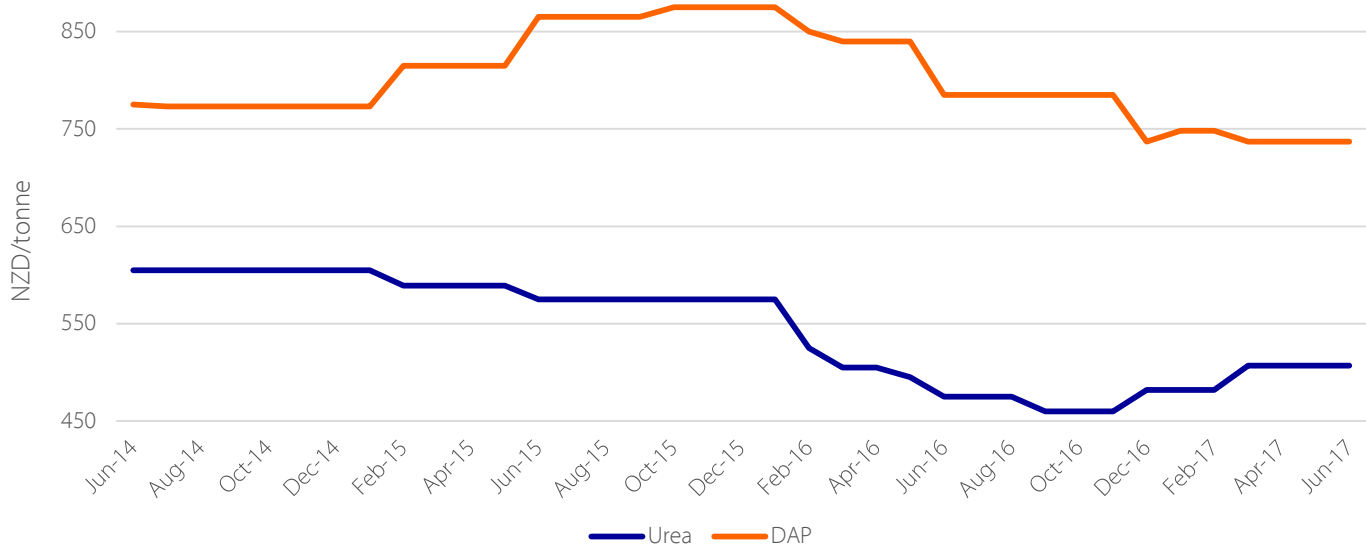
Farm Inputs

It's All about Spring Demand



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Reported monthly retail local prices, Jun 2014-Jun 2017



Source: Ravensdown, Rabobank 2017

While global pricing is suppressed by oversupply, local pricing largely rests on demand ahead of the spring peak.



NZD Rallies (for Now)

Recent events in Washington support our view that the Fed will only hike rates once more this year. It is becoming increasingly difficult to make fiscal policy in the US, and investigations into the Trump campaign's alleged dealings with Russia during the 2016 election campaign are likely to hang over markets for many months to come. Furthermore, the recent data flow has underwhelmed (including weak jobs data for May), geopolitical risks have increased in recent months, and we remain concerned about the state of the Chinese economy.

In New Zealand, the situation is far more stable. In late May, the Reserve Bank Governor noted that risk to the nation's financial system had receded, given evidence of slowing house-price inflation and increasing confidence that recent gains in dairy export prices would hold.

With optimism fading over the outlook for the US economy this year and risks dissipating in NZ, the NZ dollar rallied against the US dollar in the month to 13 June, rising by NZc 3.51, to reach NZc 72.12 cents to the US dollar—its highest level since late February.

Despite the recent rally, Rabobank expects the NZD/USD rate to slip to 0.67 over the next 12 months. While we expect the US Fed to raise rates only once more in 2017, we believe that this will ultimately exert downward pressure on the NZD/USD rate.

What to watch

- **'Trump-gate'.** The worse the revelations are in the coming months of the alleged engagement of the Trump campaign with Russian officials before the 2016 US election, the longer it will take the government to implement key policy initiatives—which would slow the recovery of the US dollar.

FX

NZ Dollar Rallies against the US Dollar



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NZD/USD cross rate, Jun 2016-Jun 2017



Source: RBA, Rabobank 2017



Oil & Freight

Forecast Price Recovery tempered as OPEC dallies

The meeting of OPEC on 25 May heightened bearish sentiment across the oil markets, as both OPEC and non-OPEC members failed to deepen production cuts. Instead, cuts were extended by nine months on the same terms. This was not enough to alleviate market concerns that global oil stockpiles are declining only slowly.

Talks between OPEC and Russia furthered their cooperation to draw down inventories. Russian output in May fell to 10.95mb/d—the first reported output below 11 mb/d since October 2016.

A number of forecasters cut 2018 price forecasts on the announcement by OPEC. Rabobank now forecasts Brent Crude to reach USD 60/bbl by Q1 2018, while WTI reaches USD 58/bbl over the same period. ICE Brent Crude is currently trading in the low-USD 50/bbl area, remaining well within the USD 9 /bbl price range through 2017.

The Baltic Dry Index (BDI) fell a further 18% to 6 June, to sit at 821 points, following a 22% fall in late April/early May. Shipping demand is seasonally lower during the northern hemisphere winter; however, the rate of fall is irregular. Demand has been unusually low for Panamax ships, carriers of grain and coal, although it is expected to increase at the beginning of the northern hemisphere crop harvest. Demand will likely fall from China during Q3, following the conclusion of infrastructure development programmes.

What to watch

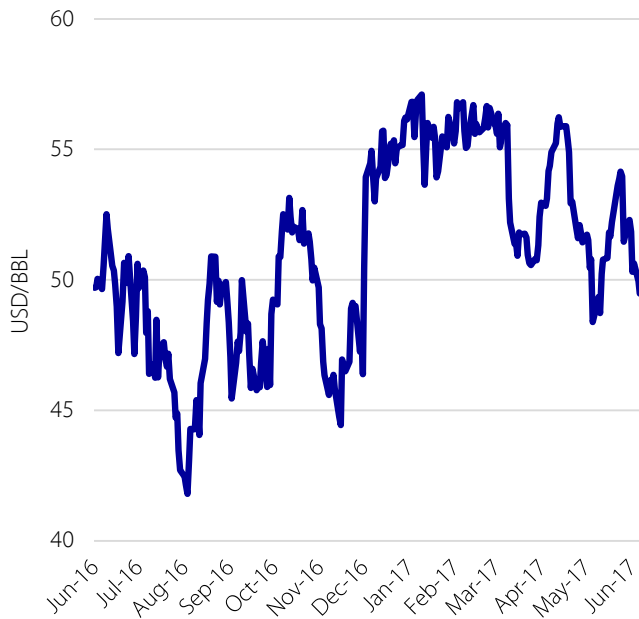
- **President Trump's withdrawal of the US from the Paris agreement on climate change** highlighted the pro-fossil fuel stance of the White House. A friendlier environment for the US oil industry is a bearish longer-term market factor for the market.

OPEC Triggers Brent Slip, BDI Seasonally Low



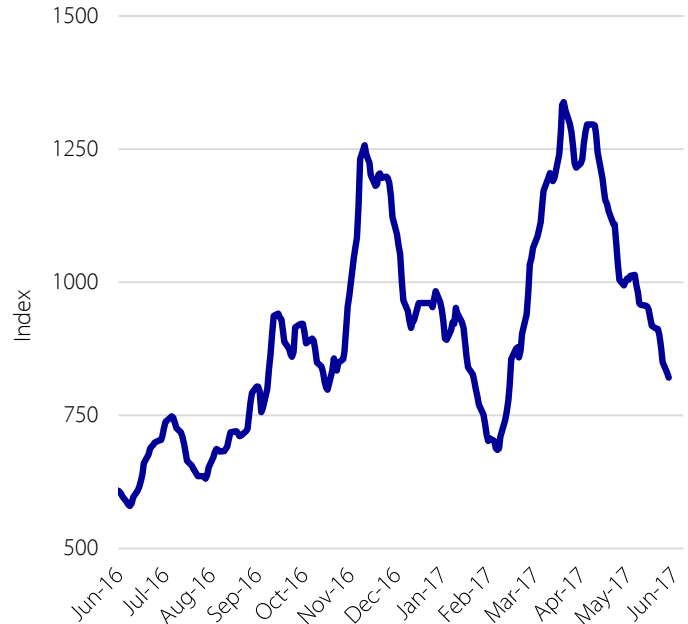
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Brent, Jun 2016-Jun 2017



Source: Bloomberg, Rabobank 2017

Baltic, Jun 2016-Jun 2017



Source: Bloomberg, Rabobank 2017

Agri Price Dashboard

As of 6 June 2017	Unit	MOM	Current	Last month	Last year
Grains & Oilseeds					
CBOT Wheat	USc/bushel	▲	432	428	508
CBOT Soybeans	USc/bushel	▼	922	963	1,138
CBOT Corn	USc/bushel	▲	372	362	427
Australian ASX EC Wheat	AUD/tonne	▲	257	248	268
Australian Canola	AUD/tonne	▼	495	543	539
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	652	644	586
Feeder Steer	AUc/kg lwt	▲	349	349	320
North Island Bull 300kg	NZc/kg cwt	•	560	560	545
South Island Bull 300kg	NZc/kg cwt	•	515	515	490
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	671	634	593
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	640	610	540
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	640	590	505
Venison markets					
North Island Stag	NZc/kg cwt	▼	396	840	770
South Island Stag	NZc/kg cwt	▼	845	860	770
Dairy markets					
Butter	USD/tonne FOB	▲	5,225	5,025	2,650
Skim Milk Powder	USD/tonne FOB	▼	1,987	2,000	1,700
Whole Milk Powder	USD/tonne FOB	▲	3,225	3,200	2,063
Cheddar	USD/tonne FOB	▲	3,637	3,600	2,700

Agri Price Dashboard

As of 6 June 2017	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	88	89	73
ICE #2 NY Futures (nearby contract)	USc/lb	▼	76.4	79.76	65.55
Sugar markets					
ICE Sugar #11	USc/lb	▼	13.9	15.3	18.8
ICE Sugar #11 (AUD)	AUD/tonne	▼	410	455	562
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,472	1,544	1,296
NZ Coarse Crossbred Indicator	NZc/kg	▼	365	367	571
NZ Fine Crossbred indicator	NZc/kg	▲	404	394	584
Fertiliser					
Urea	USD/tonne FOB	▼	199	205	218
DAP	USD/tonne FOB	▼	355	360	350
Potash	USD/tonne FOB	▲	236	232	315
Other					
Baltic Dry Index	1000=1985	▼	821	994	607
Brent Crude Oil	USD/bbl	▼	50	52	50
Economics/currency					
AUD	vs. USD	▲	0.747	0.742	0.737
NZD	vs. USD	▲	0.714	0.692	0.692
RBA Official Cash Rate	%	•	1.50	1.50	1.75
NZRB Official Cash Rate	%	•	1.75	1.75	2.25

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