



Agribusiness Monthly

March 2017

New Zealand



Commodity Outlook



Dairy

Current commodity prices are largely sustainable, but the upside price potential is limited by slow demand growth in key markets.



Beef

Firming US import beef prices, alongside a falling NZD, will support cattle prices in the short term.



Sheepmeat

Procurement pressure will keep schedule prices around current levels through late March and April.



Wool

Steady offshore buying and a weaker currency are generating some optimism for producers.



Wine

In quite a coup, the value of US wine imports from New Zealand surpasses that from Australia in 2016.



Horticulture

Heavy rainfall in the North Island has kept apple and kiwifruit producers on alert as they gear up for harvest.



Fertiliser

An ongoing global price recovery could impact the upcoming key purchasing window for the local supply chain.



FX

Divergent rate paths in the US and NZ are putting downward pressure on the local currency.



Oil

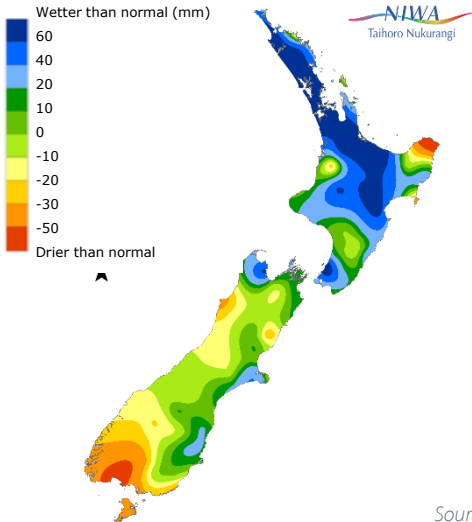
Oil prices have slid on evidence of stronger than expected US production and inventories.

Climate



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Soil moisture anomaly (mm), 15 March 2017



Average temperatures are likely to occur in the west of both Islands through to May 2017. The rest of the country has a chance of above-average temperatures across this same period.

Rainfall for the three months to May 2017 looks equally likely to be either in the normal or below-normal range for most parts of the country. However, the West Coast is likely to receive normal rainfall across this period.

NIWA expects soil moisture levels to have an equal change of normal or below normal reading for most of New Zealand – except for the east of the South Island. Coastal areas in Canterbury and Otago are at risk of below normal soil-moisture levels through to May 2017.

Source: NIWA, Rabobank 2017

What-to-watch

- International **guidance still strongly supports ENSO-neutral conditions across to May 2017** but note that **there is a chance that El Niño conditions may develop during the latter part of 2017.**
- The Australian Bureau of Meteorology places a **50% chance of El Niño developing in 2017.**



Prices Sustainable, but Upside Limited

New Zealand milk supply losses have slowed, with official production down less than 1% YOY in January 2017. Rabobank expects February production will also have come in only slightly below prior year levels, bringing season-to-date supply to just 3% down YOY.

Export volumes for the last three months to January 2017 dropped 7% on the same period last year, reflecting reduced local supply availability.

While Rabobank views current commodity prices as largely sustainable, the upside price potential is limited by slow demand growth in key markets. As such, ***expect a few bumps over the coming months*** as the market responds to changes in key export regions – and in particular, the possibility that milk production in New Zealand may finish the season a modest 2% behind last year.

Rabobank expects only modest milk production growth (+2%) across the new 2018/17 season. Healthier budgets and lower comparable growth numbers from a terrible 2016 spring will help – provided the weather plays ball.

What to watch

- NIWA is expecting largely favourable pasture conditions for key milk producing areas until season end. But any significant ***climate variation*** would shape the tail end of the season.
- With production seasons winding down in Oceania, ***the focus shifts to the Northern Hemisphere. US milk producers are building herds, while Dutch farmers are needing to cull cows to meet phosphate regulations.***

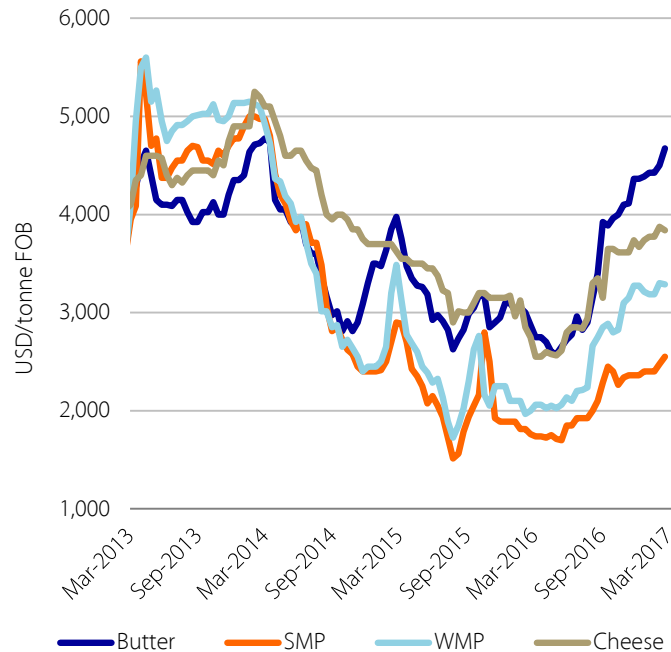
Dairy

Production Continues to Trail Prior Year Levels in Most Major Export Regions



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Global dairy prices, 2013-2017



Source: USDA, Rabobank 2017

Production growth key exporting regions

	Latest month	Last three months
EU	-2.8% (December)	-4.0%
US	2.5% (August)	2.4%
Australia	-5.9% (January)	-5.5%
NZ	-3% (2016/17 season-to-February estimate)	

Source: Rabobank 2017



Beef

Cattle Prices Remain Firm

Low slaughter rates helped to drive recent cattle price gains as processors try to incentivise cattle slaughter. As at the middle of March, the North Island bull price averaged NZD 5.45 kg/cwt – 8% higher MOM and 1% higher YOY. The South Island bull price averaged NZD 5 kg/cwt – 2% higher both MOM and YOY.

Weather conditions have kept supply of cattle at lower than normal levels. Timely rainfall in some regions has seen farmers hold on to cattle longer to eat excess feed. In other areas, the low summer temperatures have meant cattle have taken longer than normal to finish. Although this has been slightly offset by farmers in drier areas, particularly Canterbury, the East Coast and Northland, offloading an increased number of cattle, **New Zealand's total beef slaughter is still down 4.6% YOY.**

Rabobank expects that firming US import beef prices, alongside a falling NZD, will support cattle prices in the short term. However, looking further out, Rabobank does expect farmgate prices to start coming under pressure as the continued expansion of the US cattle herd starts to result in increased US beef production, which will consequently have an impact on US demand for imported beef.

What to watch

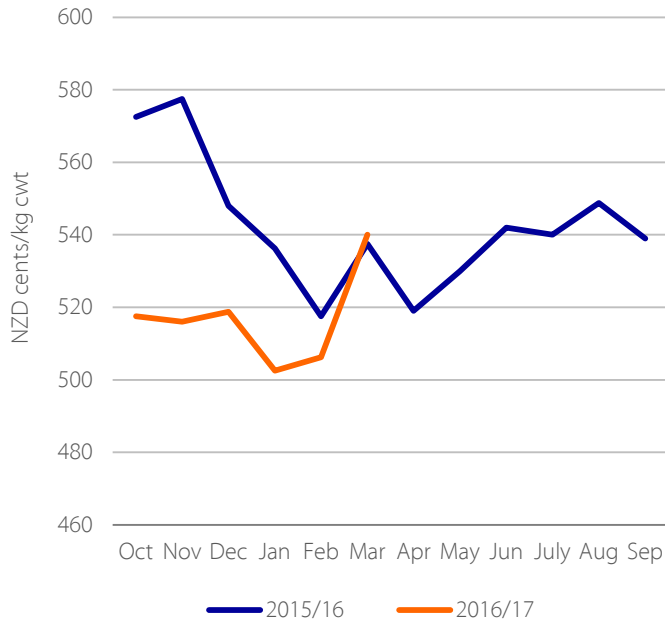
- **New Zealand's cow kill for remainder of 2016/17 season.** Cow kill numbers are currently well down on last season, 15% and 28% YOY for the North Island and South Island respectively. If this trend continues over the coming months, when a significant proportion of cows are traditionally culled, it will help to keep overall beef supply tight and prices firm.

North Island Beef Price and NZ Beef Slaughter

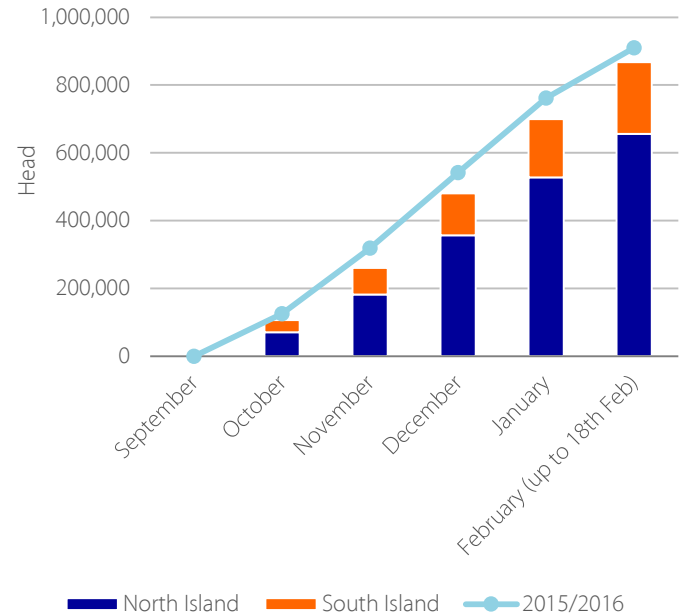


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North Island Bull Price



NZ Export Beef Slaughter 2016/17





Sheepmeat

Lamb Market Short on Supply

Lamb prices across both the North and South Islands continue to hold firm despite the lucrative chilled Easter trade window ending in late February. As at mid-March, farmgate prices in the North Island (NZD 5.35 kg/cwt) are up 4% MOM and 9% YOY, while South Island prices (NZD 5.30 kg/cwt) are up 1% MOM and 10% YOY.

A shortage of lamb supply, combined with higher in-market product prices, has maintained pricing above early season predictions. The lack of supply into key markets has resulted in a significant lift in pricing for high value lamb cuts, with French Racks and Lamb Legs up 20% and 34% YOY, respectively.

With lamb slaughter numbers well down on last year (8% lower YOY as of mid-February) **competition for the remaining lamb kill will strongly influence pricing for the remainder of the 2016/17 season.**

Rabobank expects procurement pressure to result in schedule prices remaining relatively steady at current levels through late March and April.

What to watch

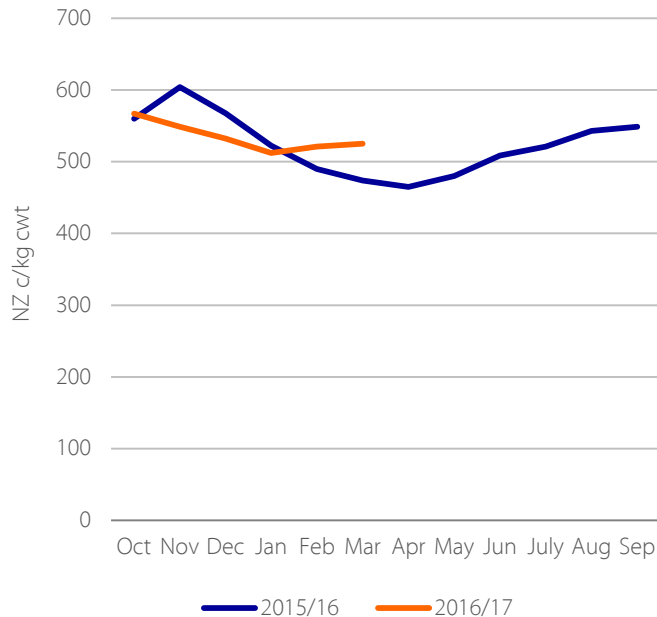
- **Exchange rate movements against key trading partners** – to date this season the high NZD has meant in-market price gains have not been directly reflected in farmgate prices. Since late February the NZD has fallen against the USD, EUR and GBP. Further falls against these currencies will help to maintain schedule prices at, or above current levels.

South Island Lamb Price and NZ Lamb Slaughter

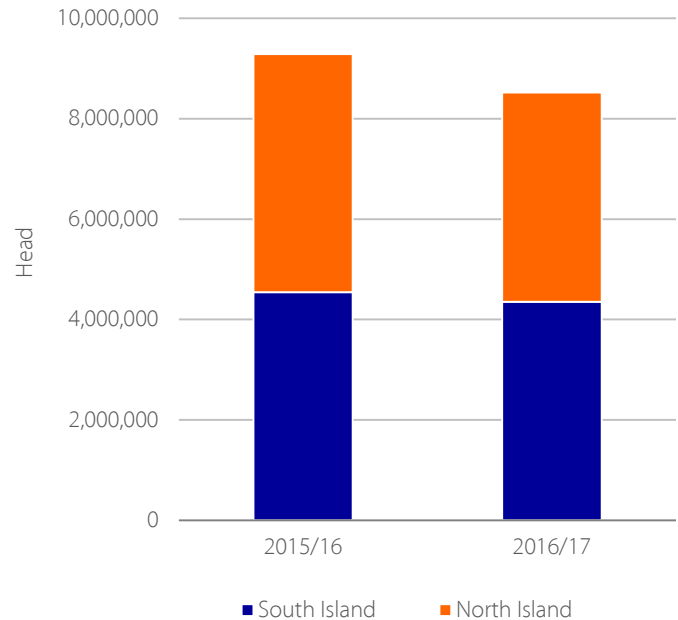


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South Island Lamb Price



New Zealand Lamb Slaughter (YOY – 18 Feb)



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



Wool

Wool Changes Direction against NZD

There is some optimism in the wool sector as prices trend upwards this month for both coarse and fine types. The change was brought on by a long-awaited weakening of the New Zealand dollar. Wool price gains ranged from 3% in crossbred combing oddments, up to 12% in both fine and coarse crossbred fleeces, in the past week.

Steady off-shore buying provided a welcome change following a period of lacking Chinese interest. 88% of the 5,268 South Island bales auctioned sold in the most recent week. Approximately 40% of sales were made to China, with interest also from Western Europe, India, Japan and the UK. The quantity of bales offered is expected to grow in the coming weeks with the main shearing season drawing to a close.

Global textile trends have had some impact on the New Zealand market conditions. Demand has been stronger for good quality wool to be dyed lighter colours, and also for cheaper, poorer-coloured fibres to be dyed in darker tones. Polyester prices are falling across the board in Asia after a decline in crude oil prices, further softening the New Zealand coarse wool market.

Australian Merino wool prices are presently at a 29-year high and some European buyers have been deterred by this. The perception of New Zealand crossbred wool as a better value and lower risk alternative may see gains in demand.

What to watch

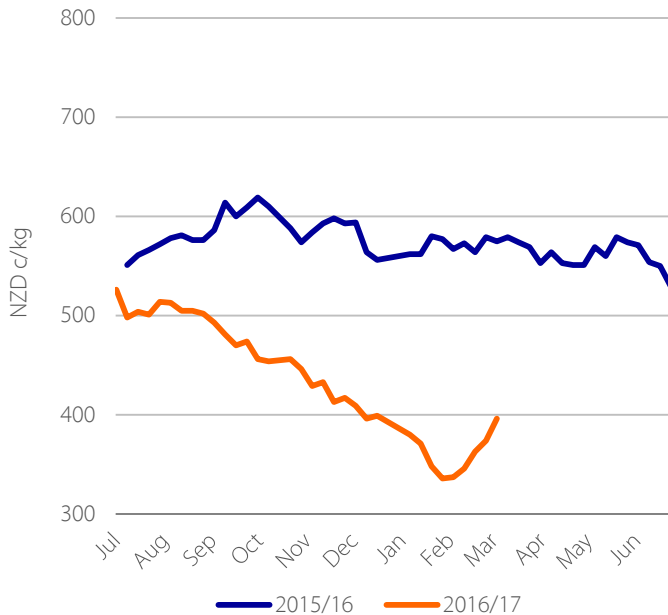
- ***Export data for 2H 2016 has been released.*** The overall 9.9% price decrease for all wool exports in this period was attributed to the effects of an 11% trade weighted exchange rate appreciation and a small market price increase of 0.3%.

Some Optimism in NZ Wool Indicators

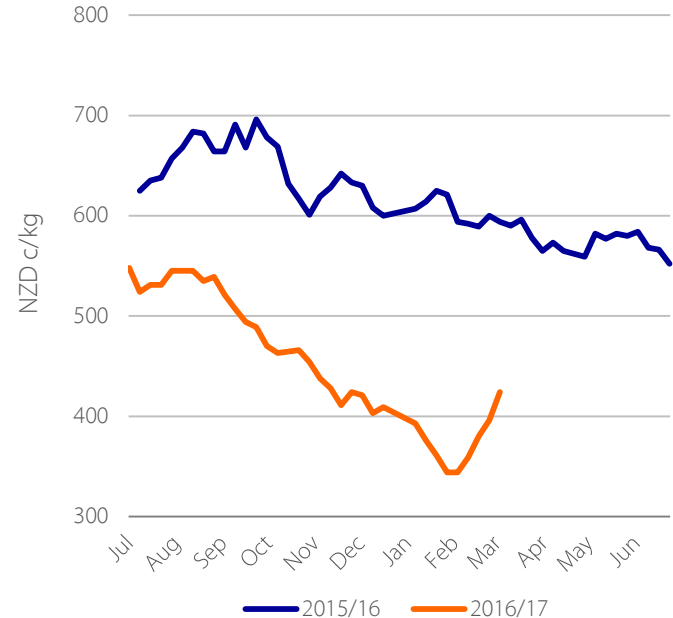


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Coarse Crossbred Indicator



Fine Crossbred Indicator



Source: NZ Wool Services, Rabobank 2017



NZ Gets One-Up on the Aussies

Recent heavy rains across much of the North Island have presented some challenges in the major wine producing regions of Gisborne and Hawke's Bay, and while South Island regions largely avoided this storm front, they have still had other less extreme rainfall events of their own to contend with. With the Marlborough harvest set to get into full swing by the end of the month, **expectations are for lower production than last year** and more in line with long-term average yields.

In what marks quite a milestone for the New Zealand wine industry, recently released data summarising US wine imports for the 2016 year show that **the value of bottled and bulk wine imported from New Zealand now exceeds that imported from Australia**. In the year just gone, the value of imports from New Zealand grew by 11% to reach USD 399.8 million, while imports of Australian wine fell by 9% to USD 351.7 million. The trends for each country couldn't be more different, and while the US still imports more than twice the volume of Australian wine, New Zealand wine on average commands over two-and-a-half times the price of Australian wine at the border.

More broadly, global shipments of New Zealand wine have continued to follow a steady upward trajectory as volumes from the large 2016 harvest have become available to meet demand, particularly from North American markets. Total export volumes increased by 10% to 232.1 ML in 2016, while value increased by 5% to NZD 1.6 billion. For wine companies, average export prices have been falling back over the past six months from what were elevated levels, with some room still to go unless further assistance from a significantly lower New Zealand dollar is forthcoming.

What to watch

- **Average export values to the UK market.** Data from NZ winegrowers shows average export values for packaged wine to the UK market falling steadily from above NZD 8 per litre, prior to the Brexit vote, to now falling below NZD 7 per litre. Annual export volumes to the UK market grew strongly, by 14%, in 2016, but the depreciation of the British pound has badly impacted returns from this important market that continues to receive over a quarter of NZ wine exports.

Wine

US Imports of Bottled and Bulk Wine



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Source: Gomberg Fredrikson, Rabobank 2017

The value of US imports of bottled and bulk wines from New Zealand have just surpassed that from Australia, pointing to the diverging fortunes of each country's producers in this important market in recent years.



Gearing up for Harvest

Recent heavy rains across much of the North Island have kept apple and kiwifruit growers on alert as they gear up for harvest. Reports from apple producers in the Hawke's Bay suggest that the rain event won't have an adverse impact on the overall condition of the crop, while kiwifruit growers in this and other major regions have also emerged relatively unscathed, but have reason to hope for fine weather hereon out. Further major rainfall events could impact fruit quality, and may even expose vines to unwelcome PSA disease pressure.

New Zealand fruit exports took another significant leap forward in 2016, rising by 19% to NZD 2.731 billion, with the NZD 3 billion mark now well in sight with another large apple crop and gold kiwifruit crop in the making. Markets across Asia, but also North America and Australia in particular contributed to the strong result, while traditional EU markets also played a growing role.

Strong export growth has gone so far as to place pressure on the domestic market in some cases, which was quite remarkably left short of apples in the lead up to the 2017 harvest. **Naturally, apple prices in the domestic market ticked up but have already started to ease as 2017 harvest volumes have become available. Domestic vegetable prices have also been rising on the back of a particularly wet and challenging start to the season last spring which has acted to delay harvest and crimp yields.** Carrots have been one of the most affected categories, with prices reaching an all-time high in February, but are expected to fall sharply as increased volumes come to market.

Horticulture

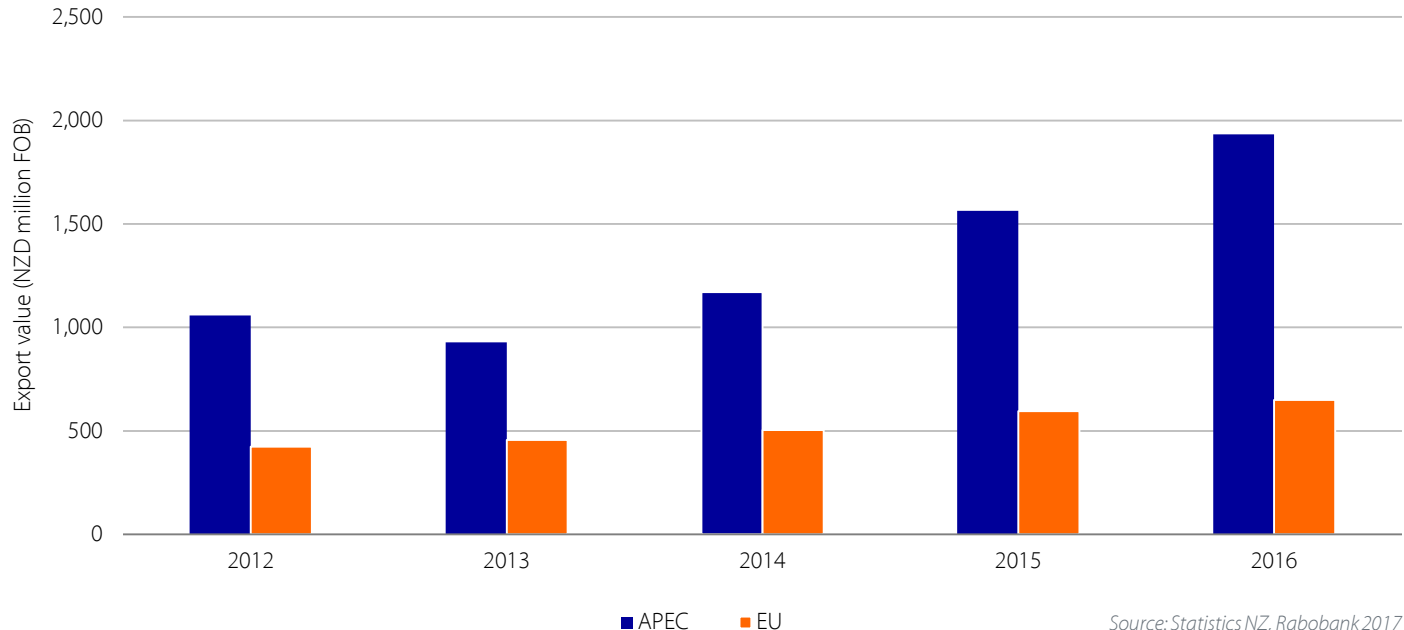
What to watch

- **Drought breaker.** South Africa has recently seen some relief from its prolonged drought as sustained heavy rainfall and flooding has swept through large parts of the country, with the notable exception of the Western Cape. The drought had been acting to constrain production and exports, and providing support to global prices in significant fruit and nut crops such as apples, macadamias, and citrus amongst others. The country's recovery from drought over the next two years and the subsequent impact on global production and trade will be closely watched.

Fruit Exports Nearing NZD 3 billion



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Source: Statistics NZ, Rabobank 2017

Exports to APEC member group countries, which predominantly represents Asia, Australia and North America have surged in recent years, dwarfing growth experienced in traditional EU markets which in itself has been significant.



Fertiliser

Price Rally Nearing Peak

Global fertiliser prices (particularly urea) have increased in recent months on the back of tighter global export supply. As at mid-March, the global urea price was 25% higher than at the same time last year. These higher global prices have passed through to local retail prices. Despite the recent rally, global benchmark prices remain below historical averages.

The key supply factor impacting global urea markets remains the reduced export volumes from China. Chinese exports were down 35% in 2016 versus the previous year.

Rabobank is expecting further upside in global prices in the near-term.

The timing of the global recovery will mean local prices could rise even further and impact the upcoming key purchasing window for the New Zealand supply chain.

However, global prices are expected to see downward pressure in the second half of 2017 once the Northern Hemisphere application season ends. The variables expected to help push prices lower include continued expansion of global production capacity and falling raw material costs.

Global potash prices have remained mostly unchanged over the past year as major manufacturers manage production to keep supply in balance with sluggish demand across key import markets.

New Zealand farmers will need to be budgeting for higher nutrient prices in 2017/18. But there is a silver lining for farmers who can delay purchases into mid-2017.

What to watch

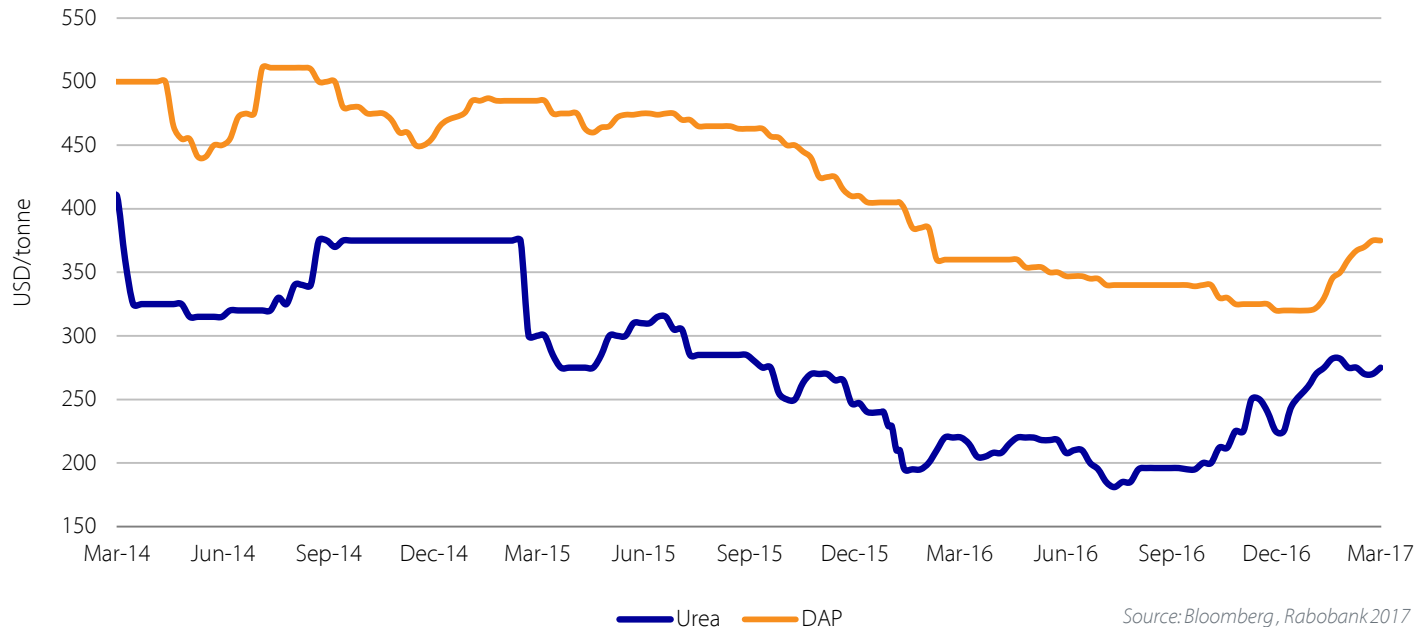
- Further downward shifts in the **New Zealand dollar** would add further risk to local retail prices.

Increasing Likelihood of Lower Prices in Late 2017



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Global Fertiliser Prices



Source: Bloomberg, Rabobank 2017



Divergent Rate Paths

The US Federal Reserve raised its interest rate by 25bps on 15 March to 0.75-1.00%. This was the third rate increase in the current cycle, though rates remain exceptionally low by historic standards. Rates were increased in recognition that **the economy appears to have achieved a sweet spot**, reducing the need for monetary policy to remain quite so loose. In Yellen's own words, "The message is simple: the economy is doing well".

The Fed has the confidence to boost rates as the country approaches 'full employment' (unemployment fell to 4.7% in February) and inflation pushes above the 2% target the Fed has in mind as optimal (inflation hit 2.7% in February).

In addition to raising rates, the **Fed outlined that it still thought that two more rate increases would be required** over the course of 2017 – outlining a gradual and orderly tightening.

While the US economy continues to please, the NZ economy has disappointed. Data released in March puts growth in the final quarter of 2016 at just 0.4% QOQ – almost half of what some economists had anticipated.

The result puts into doubt the RBNZ's expectations that economic growth could reach 4% by mid 2017.

The diverging fortunes of the US and NZ economies saw the NZ dollar fall 3% against the Greenback in the four weeks to 16 March, closing at just under USD 0.70.

What to watch

- **Potential for the US economy to hit at least one bump this year**, which would reduce the number of likely rate hikes. The timing or size of fiscal policy stimulation could yet disappoint, trade conflicts remain a risk and the world economy may contain some negative surprise.

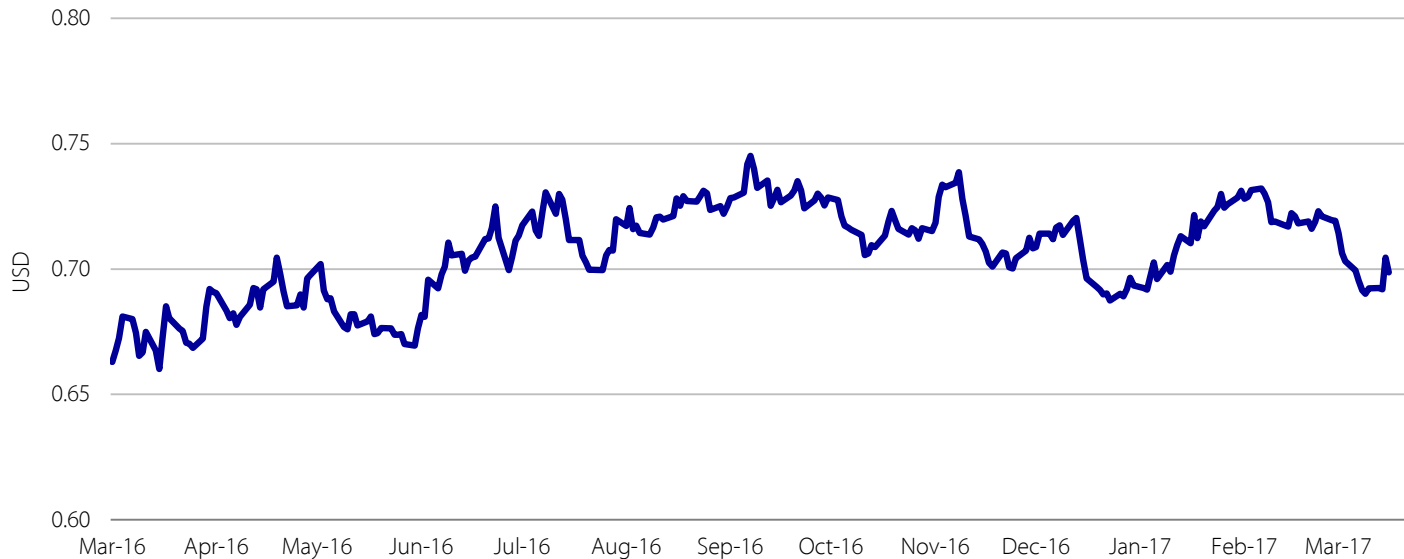
FX

NZ Dollar Loses Ground as the Fed Hikes US Rates



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NZ/US Dollar Cross Rate



Source: RBA, Rabobank 2017



Oil & Freight

Oil Price Falls as US Inventories Rise

After trading in a narrow band in the opening two month of the year, **the price of Brent crude oil fell 10% in the first half of March**: to close just above the USD 50/barrel mark mid-month.

The slide wiped out most of the gain achieved since OPEC announced in late 2016 that it would implement its first agreed production cut in eight years.

The market was caught off guard by the release of data showing **surging US oil production and rising inventories in that country**. Shale production has recovered faster than many anticipated, and with new drills still being opened, production is running ahead of local demand growth.

The data releases also coincided with comments by the Saudi Oil minister that production by OPEC countries was falling slower than anticipated.

Wholesale diesel prices fell modestly. The Sydney average terminal gate diesel price eased in the four weeks to 14 March, to sit at AUD 1.15/litre.

After bottoming out in mid February, **global freight rates rose almost 60% in the month to 13 March**, with the Baltic Dry Index (BDI) closing that day on 1099. The index is now approaching the level it reached in late 2017.

The rise of freight rates is being attributed by market watchers to **stronger demand from China for imported raw materials** – partly driven by seasonal factors (Chinese construction usually picks up in April).

What to watch

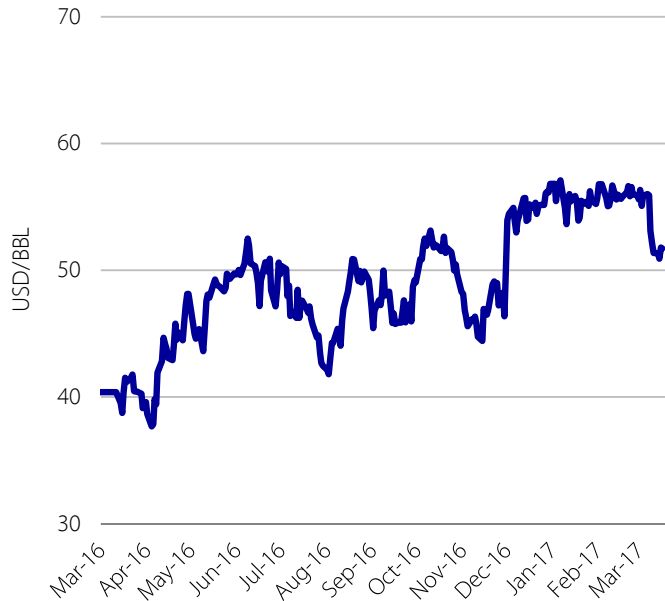
- **Will OPEC extend production cuts?** Members had agreed to reduce production for the first six months of 2017. If prices fail to recover from current levels, they may look to extend these cuts into the back half of the year to generate some price lift.
- **The fragility of recent gains in the BDI** . Commentators note the potential for Chinese demand for freight to drop quickly after its seasonal peak, given that iron ore inventories are already high in that country.

Oil Falls, but Freight Continues Its Rally



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Brent Crude oil price, Mar 2016 - Mar 2017



Baltic Dry Index, Mar 2016- Mar 2017



Source: Bloomberg, Rabobank 2017

Source: Bloomberg, Rabobank 2017

Agri Price Dashboard



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As of 14/03/2017	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	412	450	472
CBOT soybeans	USc/bushel	▼	994	1,045	888
CBOT corn	USc/bushel	▼	354	374	367
Australian ASX EC Wheat	AUD/tonne	•	228	228	276
Australian Canola	AUD/tonne	▼	536	538	497
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	614	640	594
Feeder Steer	AUc/kg lwt	▼	327	349	317
North Island Bull 300kg	NZc/kg cwt	▲	545	505	540
South Island Bull 300kg	NZc/kg cwt	▲	500	490	490
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	611	618	499
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	535	515	490
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	530	525	480
Venison markets					
North Island Stag	NZc/kg cwt	▲	800	790	730
South Island Stag	NZc/kg cwt	▲	825	790	735
Dairy Markets					
Butter	USD/tonne FOB	▲	4,675	4,425	2,875
Skim Milk Powder	USD/tonne FOB	▲	2,550	2,400	1,763
Whole Milk Powder	USD/tonne FOB	▼	3,112	3,287	2,000
Cheddar	USD/tonne FOB	▲	3,838	3,775	2,750

Agri Price Dashboard



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As of 14/03/2017	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	87	87	66
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	76.9	76.32	58.29
Sugar markets					
ICE Sugar No.11	USc/lb	▼	18.2	20.5	15.4
ICE Sugar No.11 (AUD)	AUD/tonne	▼	530	589	452
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,522	1,438	1,223
NZ Coarse Crossbred Indicator	NZc/kg	▲	396	346	579
NZ Fine Crossbred indicator	NZc/kg	▲	424	359	590
Fertiliser					
Urea	USD/tonne FOB	•	275	275	220
DAP	USD/tonne FOB	▲	375	360	360
Potash	USD/tonne FOB	▲	236	232	315
Other					
Baltic Dry Index	1000=1985	▲	1,099	685	393
Brent Crude Oil	USD/bbl	▼	56	56	41
Economics/currency					
AUD	vs. USD	▼	0.756	0.766	0.752
NZD	vs. USD	▼	0.692	0.717	0.668
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

Angus Gidley-Baird

Senior Analyst – Animal Proteins
+61 2 8115 4058

Angus.Gidley-Baird@rabobank.com

Emma Higgins

Dairy Analyst
+64 3 961 2908

Emma.Higgins@rabobank.com

Marc Soccio

Senior Analyst – Wine, Horticulture & Rural Economics

+61 3 9940 8437

Marc.Soccio@rabobank.com

Blake Holgate

Analyst – Animal Proteins and Sustainability
+64 3 955 4603

Blake.Holgate@rabobank.com

Maddie Armstrong

Business Coordinator
+61 2 8115 4157

Maddie.Armstrong@rabobank.com

Michael Harvey

Senior Analyst – Dairy and Farm Inputs

+61 3 9940 8407

Michael.Harvey@rabobank.com

Georgia Twomey

Commodity Analyst
+61 2 8115 2446

Georgia.Twomey@rabobank.com

Felicity Taylor

Intern
+61 2 8115 2297

Felicity.Taylor@rabobank.com

Rabobank New Zealand

Nearest branch call 0800 722 622

www.rabobank.co.nz



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