



Agribusiness Monthly October 2017

New Zealand

Food & Agribusiness Research and Advisory October 2017



Rabobank

Commodity Outlook



Dairy

Robust Asian import demand will support global prices through Oceania spring flush.



Beef

Little price movement expected through October, but potential for some price softening in November.



Sheepmeat

Prices expected to remain strong over the next month as production for Christmas chilled trade gets underway.



Wool

Crossbred wool price gains to be steadied by strong volumes at auction.



Wine

Emerging markets are once again playing a critical role in driving growth for wine companies.



Horticulture

Wet weather conditions mean PSA disease pressures in kiwifruit orchards remains.



Fertiliser

The global urea price rallied through September, however Rabobank expects prices to start to temper into Q4.



FX

Markets are waiting to see what reforms emerge from the 19th Chinese Communist Party Congress this month.



Oil

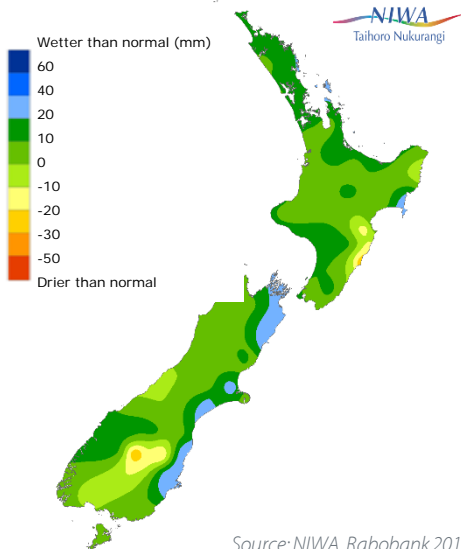
Brent Crude Oil reached 12-month highs during September, driven by the global glut.

Climate



Rabobank

Soil moisture anomaly (mm), 3 October 2017



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

Rainfall for the three months to December 2017 looks equally likely to be in the normal or above-normal range for the north of the North Island, while the eastern coast of the South Island has an equal chance of normal or below-normal rainfall. The remainder of the country is most likely to be in the near-normal rainfall range through this period.

NIWA has a mixed outlook for soil moisture levels to December 2017. The north and west of the North Island have an equal chance of above-normal or near-normal soil moisture range through this period. The remainder of the country is most likely to be in the normal soil moisture range through to December 2017.

What to watch

- International guidance suggests there is a now **a 50:50 chance of either an ENSO-neutral state or La Niña-like conditions** over the next three months to December 2017.
- **The forecast atmospheric circulation** around New Zealand through to December 2017, which includes anomalous northeasterly airflow, **has a risk of bringing heavy rainfalls towards New Zealand.**



Export Engine Warms Up

Milk prices across the globe continue to rise. Notable increases include Dutch dairy giant FrieslandCampina lifting the milk price for September 2017 to EUR 0.4175 cents/litre (the highest monthly milk price since March 2014) while Glanbia Ireland's milk price for August 2017 is at EUR 0.35 cents/litre (the highest milk price since July 2014). ***Higher farmgate milk prices have been the catalyst for milk production responding in export regions.***

More concrete signs of sustained supply growth from major exporters means global prices have peaked in the current cycle. Milk production across the export engine is in growth mode but robust import purchasing from Chinese buyers is supporting markets in the near term. ***The outlook for global commodity markets is for a balanced market to continue.***

The wet weather continues to plague national milk production. Bad weather has hampered milk volumes for August 2017, with national collections lower by 1.6%. September weather also remained wet for most parts of the country and markets are continuing to assess the likely implications of the weather on full-year New Zealand production. However, while it is still early days, ***improved milk flows for October could put some pressure on global prices.***

What to watch

- ***Intervention buying is now closed in Europe.*** A massive stockpile of skim milk powder (around 380,000 tonnes) sits in intervention stores across Europe with no clear plan how to liquidate the overhang.
- ***The timing of Chinese dairy purchases.*** The window is closing for Chinese buyers to obtain and ship dairy product, ready for the lower tariff rate in the new year. Rabobank anticipates heightened purchasing activity over the coming weeks as buyers look to replenish inventory pipelines.

Dairy

Global Prices Have Peaked In The Current Cycle



Rabobank



Production growth key exporting regions

	Latest month	Last three months
EU	1.7% (June)	0.5%
US	2.0% (July)	1.7%
Australia	2.7% (July)	0.8%
NZ	1.5% (season-to-date at August 2017)	

Source: USDA, Rabobank 2017

Source: Rabobank 2017



Beef

Prices Continue To Hold Firm

Prices remained relatively steady through September on the back of a lack of cattle available for slaughter. As at the start of October, the North Island bull price is 2% lower MOM, averaging NZD 5.40/kg cwt (4% higher YOY), while the South Island bull price ended the month where it started, averaging NZD 5.05/kg cwt (2% higher YOY).

The seasonal lull in cattle slaughter, combined with a general reduction in available domestic supply, is helping to generate competition between processors, supporting current pricing levels. Rabobank expects slaughter numbers to remain tight over the month of October.

Dry conditions in some of Australia's major cattle producing regions has lead to higher than expected slaughter rates through winter, as a result, Australia's year-on-year monthly export volumes for July and August increased 15% and 22% respectively. **This will increase competitive pressures for New Zealand exports into the key US imported beef market.** Whether this increase in production is sustained beyond the short term will depend upon the rainfall these regions receive over the coming months.

Rabobank expects there to be minimal movement in schedule prices during October as domestic supply remains tight, however, there is potential for prices to soften from November onwards as slaughter rates rise.

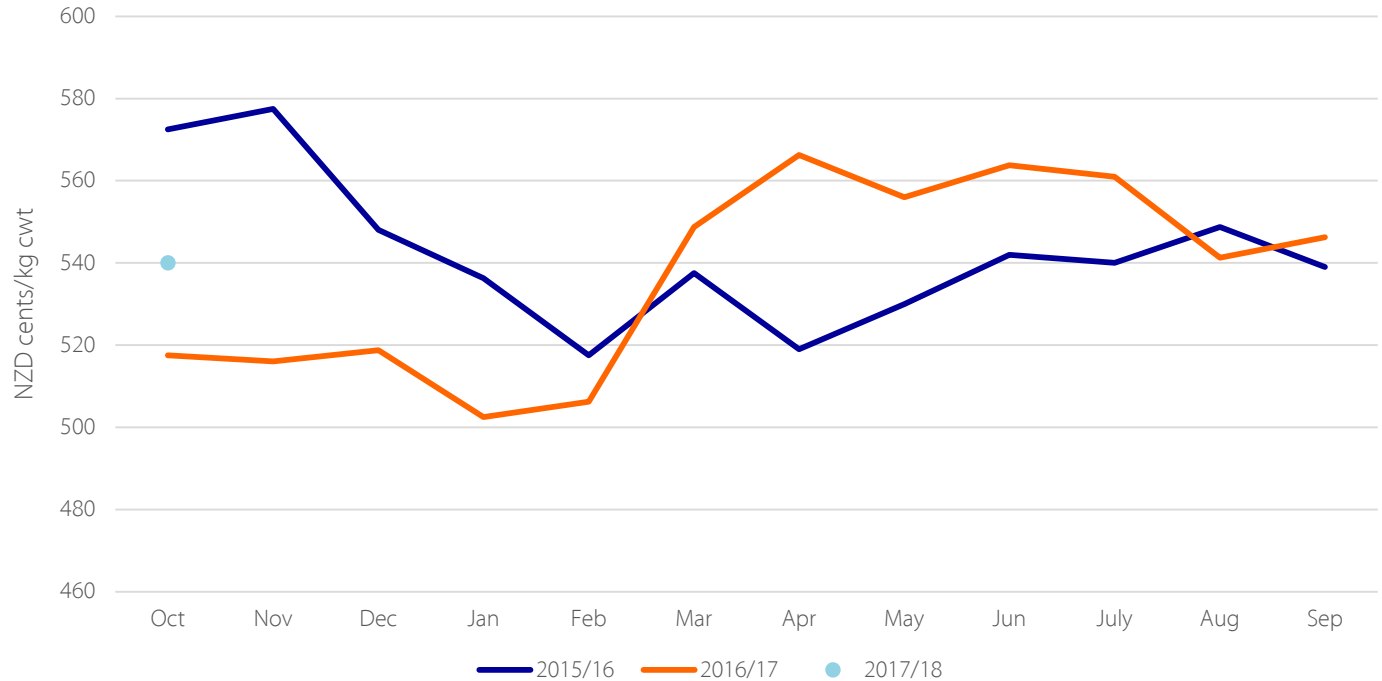
What to watch

- **2017/18 season beef production expectations** – with October being the first month of the 2017/18 production season, Beef + Lamb New Zealand (B+LNZ) has released its annual 'New Season Outlook'. B+LNZ are forecasting that the number of cattle processed for slaughter will remain at the same level as 2016/17 (2.36 million head), while total export production is projected to decrease slightly (-0.9%) as average carcass weights are expected to be down 3kg. This would indicate New Zealand beef production has stabilised following two seasons of increased production from 2014-2016.

North Island Bull Price



Rabobank



Source: NZX AgriHQ, Rabobank 2017



Prices Break NZD 7/kg Barrier

For the first time since the 2011/12 season, schedule prices in both islands are above NZD 7/kg. As of early-October, the slaughter price in the North Island averaged NZD 7.15/kg cwt (1% higher MOM), while South Island lamb averaged NZD 7.10/kg cwt (3% higher MOM).

While slaughter numbers have started to increase over recent weeks, **processors are still competing strongly for those 2016/17 season lambs still on-farm**, before new season lambs start to come online in November.

Strong demand from key export markets, in particular Continental Europe, the US, and China, saw the **average value of New Zealand lamb exports during August increase 20% YOY, and were up 15% on the five-year average.**

As production for the high value Christmas chilled trade gets underway, it is widely anticipated that pricing for product going into this market will be ahead of last year. With European buyers wary of how scarce product was last season they are eager to secure product for this year's Christmas markets.

Rabobank expects to see schedule prices remain relatively unchanged over the next month, although there may be some upside if processors find themselves struggling to secure sufficient supply for the Christmas chilled trade.

What to watch

- **2017/18 season lamb price forecast** – B+LNZ's 'New Season Outlook' forecasts a lamb price of NZD 5.55/kg cwt for the 2017/18 season (based on an annual average exchange rate of USD 0.69). This is a slight decline on the 2016/17 price of NZD 5.65/kg cwt (down 1.7%). A marginal weakening of in-market prices, and an increase in Australian lamb production were cited as the main reasons for the forecast drop in price.

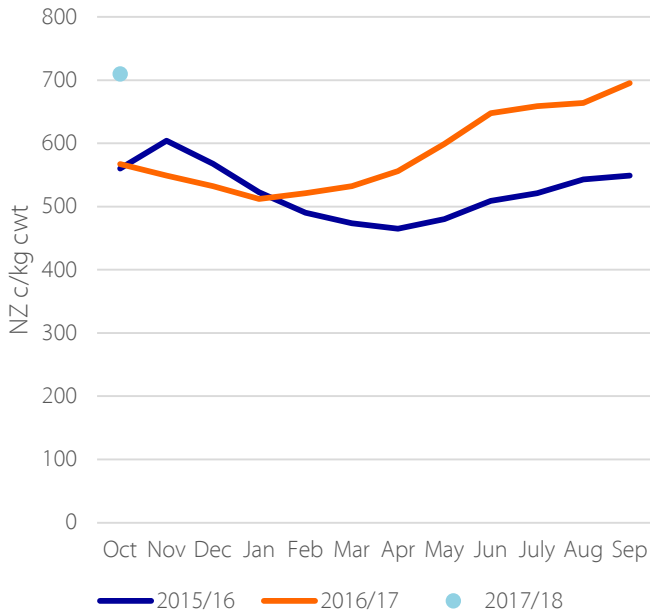
Sheepmeat

South Island Lamb Price and NZ Lamb Slaughter

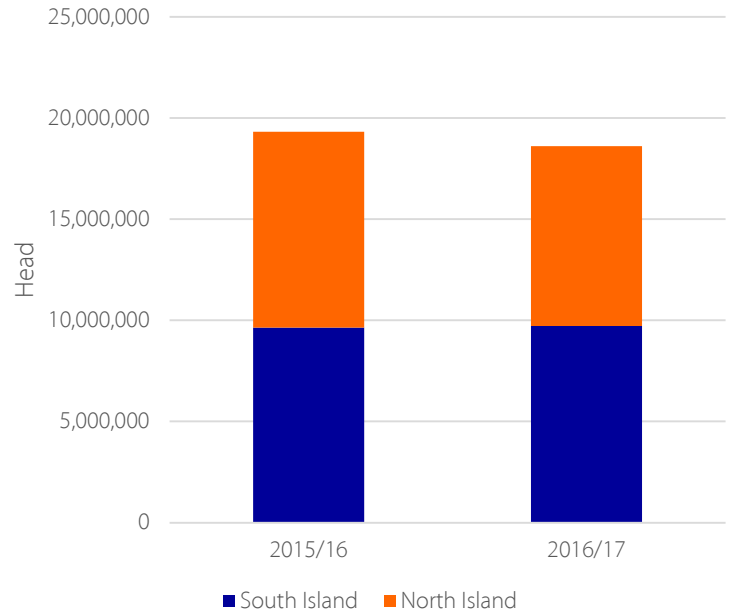


Rabobank

South Island Lamb Price



New Zealand Lamb Slaughter (YTD – 9 September)



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



Wool

Wool Market Steadies

Price gains made toward the end of August and early September were put under a little bit of pressure toward the end of last month as some larger offerings of wool saw pass-in rates rise and prices weaken. The coarse crossbred indicator did manage to maintain levels above 300c./kg clean however.

Prices at the coarse end of the market may continue to fluctuate as the quality and volume of wool on offer varies week to week. So far in 2017/18, 17% more wool has been offered and 34% more wool sold.

Exports to the end of August for the 2017/18 season have seen some continued volume improvement, importantly with gains in shipments to China, up 16% on last year's weak volumes. India also saw some YOY improvement with wool shipments up 20%.

Stronger oil prices through the past month have helped to provide some momentum to synthetic fibre prices. The PCI Woods Mac synthetic fibre index was up 6% in September. This improvement in price will assist broad wool's competitiveness in order to stimulate demand.

B+LNZ's 'New Season Outlook' forecast is for wool production to be steady YOY in 2017/18, however the accumulation of stocks through 2016/17 with the poor prices is expected to see a 16% lift in export receipts.

What to watch

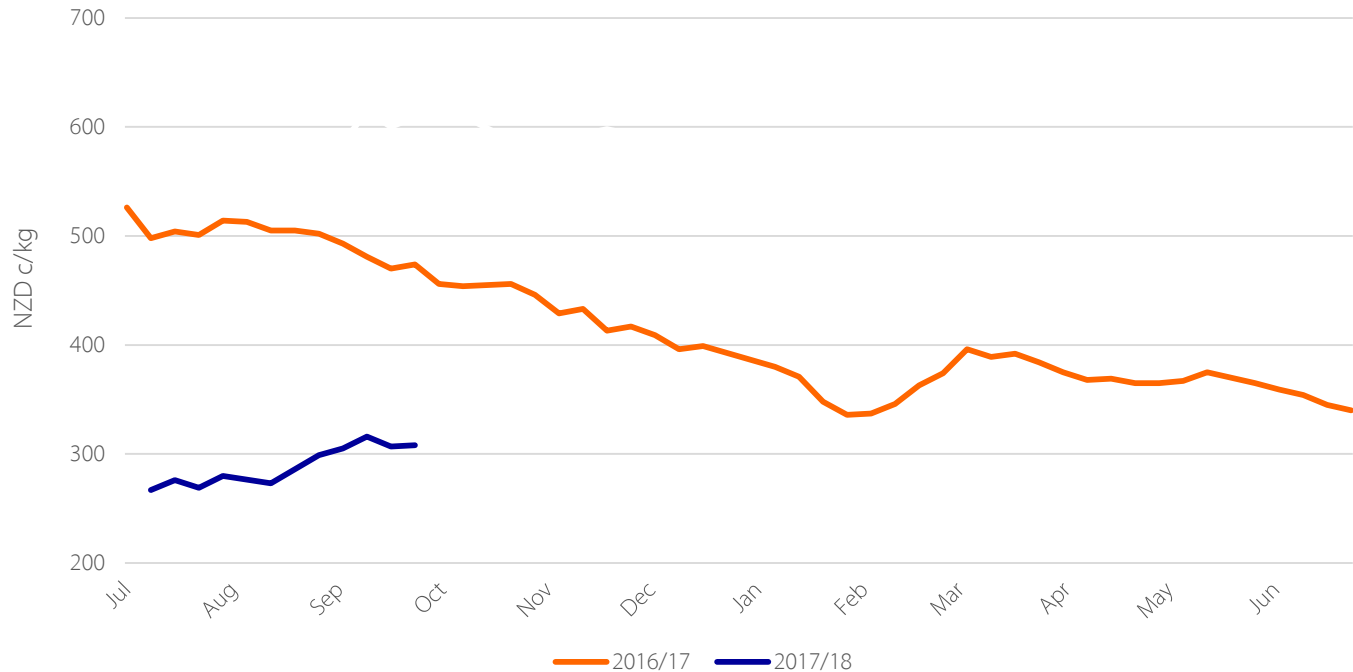
- The wool market in Australia. Although also coming off record levels in September, it is still reflecting good demand for merino wool. Wool broader than 30micron also showed some signs of improvement early in the month before retreating towards the end of September.

The Road to Price Improvement Proving Slow



Rabobank

Coarse Crossbred Indicator





Exports Continue to Hold Above Prior Year Levels

The impact of the reduced 2017 harvest is yet to catch up with NZ wine exports, with the industry still shipping out the prior year's record crop.

The volume of ***NZ wine export volumes rose by 9% in YOY terms in July***, representing the 14th consecutive month of growth.

Volume growth was driven mainly by increased shipments to the UK, especially in the non-packaged wine category.

The value of outgoing shipments was up, but less strongly, at 4% in YOY terms for the month in local currency terms.

The average value of wine exported from NZ came in at NZD 6.81/litre in July.

Wine

What to watch

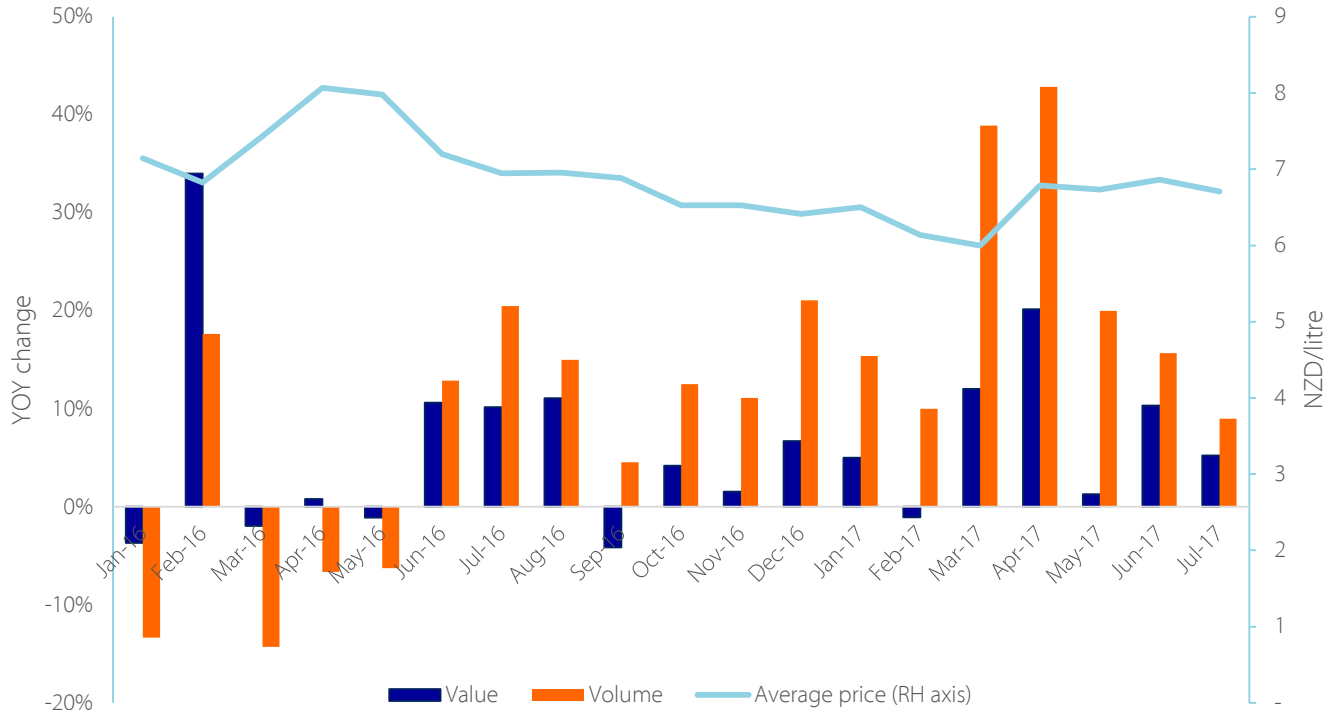
- ***Emerging market economies getting back to growth mode.*** A quick review of the most recent earnings results of a number of major beverage companies suggests that emerging markets are once again playing a critical role in driving growth. Read Rabobank's full analysis in its recent report: [Liquid Lunch: Lessons Learned from Emerging Markets](#)

NZ Wine Exports Continue to Grow YOY



Rabobank

YOY Growth in NZ Wine Exports by Volume and Value



Source: Statistics NZ, Rabobank 2017



Inclement Weather Still a PSA Threat

PSA disease pressures in kiwifruit orchards still remain with the wet weather impact. 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 and New Zealand kiwifruit growers are now much better informed and equipped to manage PSA disease pressure in their orchards. However, **the especially wet start to this growing season will again test growers ability to keep this disease at bay and any symptoms are likely to become evident over the coming weeks.**

Zespri's kiwifruit harvest has kicked off recently in Italy, with SunGold volumes expected to reach 5 million trays, amounting to around a 25% increase. **Over the next five years, Zespri plans to double its European SunGold production** in order to satisfy year-round demand for product. To meet the twelve-month supply strategy, **SunGold hectares in Italy are set to treble to 2,900 hectares over the coming five years.**

Vegetable production continues to be heavily interrupted by inclement weather. **Vegetable prices rose almost 9% for August 2017 YOY due to continued supply disruptions.** The impact of the wet weather on potatoes in particular has lifted vegetable prices, with crop losses in parts of New Zealand passing through to the consumer via higher prices.

What to watch

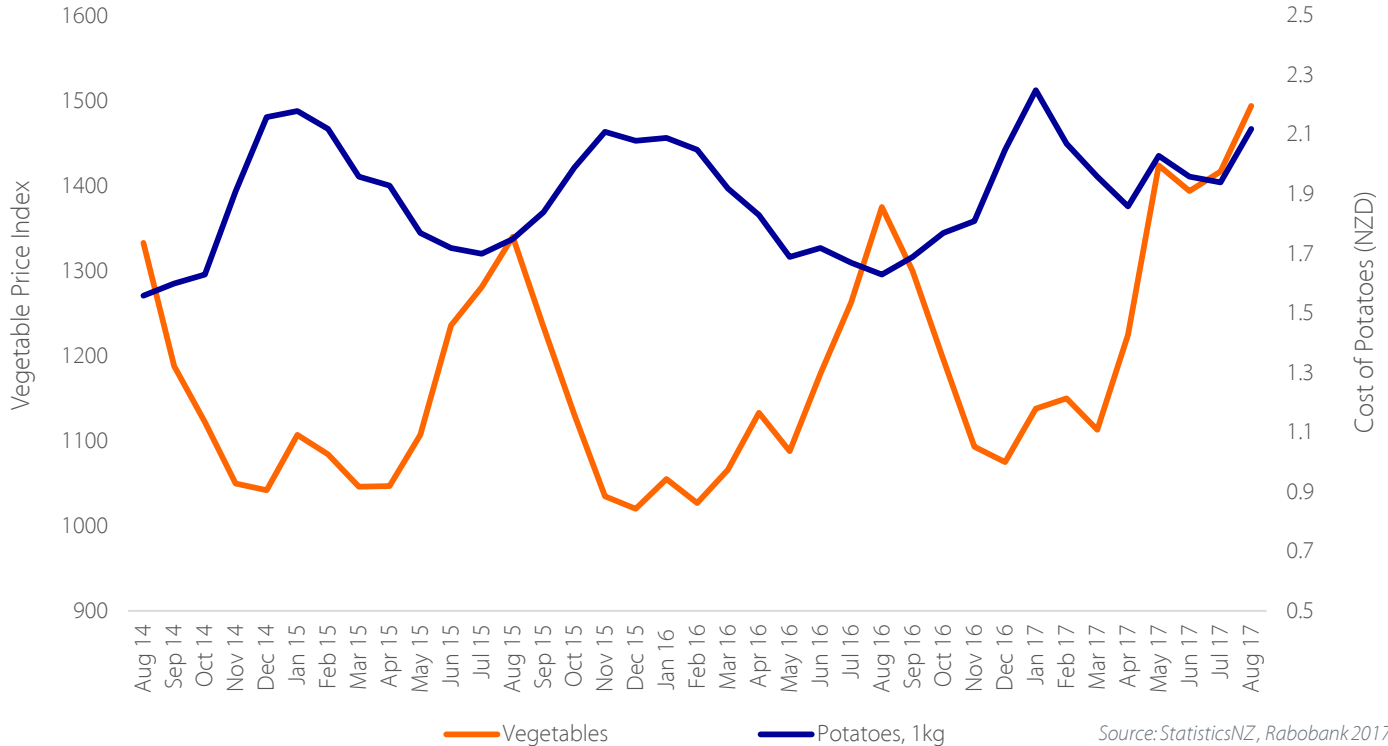
- **The rise of port fees for apple exports** – Napier's port is proposing a levy aimed at the pipfruit sector during peak season. Beginning in February, Napier port is proposing a fee of USD 100 per twenty-foot container. NZ Apples and Pears Inc. are currently negotiating with the port and suggest the levy could amount to a significant NZD 2m.

Horticulture

Wet Weather Lifts Vegetable Prices



Rabobank



Source: StatisticsNZ, Rabobank 2017



Bearish View Toward Global Urea Rally

After a relatively subdued six months in global urea markets, prices rallied during September, with Urea ex Middle east up 28% MOM (USD 290/tonne); its highest point since July 2015. Market bulls have been encouraged by new tenders from India and Ethiopia. **Rabobank holds a more bearish view, with the key fundamentals pointing to a well-supplied market, and with no sudden movement in currency and energy prices expected, we expect urea prices to temper.**

Global DAP prices were stable during September, with Urea ex US Gulf NOLA rising 2% MOM. **We expect prices to rise slightly heading into Q4**, with price pressure on the supply front. Following Hurricane Irma, some US production was slowed, while production cuts have been announced in China and new phosphate production being delayed.

Global potash Prices were also stable, with MOP ex Vancouver only falling by USD 1/tonne to USD 216/tonne in early October. **We are expecting a slight fall in global potash prices moving into Q1 2018**, largely driven by extra supply from Canada.

Local pricing also remains largely unchanged through September. While the global urea rally may flow through to local prices somewhat, we expect global prices to contract again, nullifying any price movements.

What to watch

- **AgTech Acquisitions** – In early September, John Deere announced the acquisition of Blue River Technology, a machine learning start-up, specialising in ‘see and spray’ technology. This signals John Deere’s intentions to advance quickly in this area, and apply this technology to their products

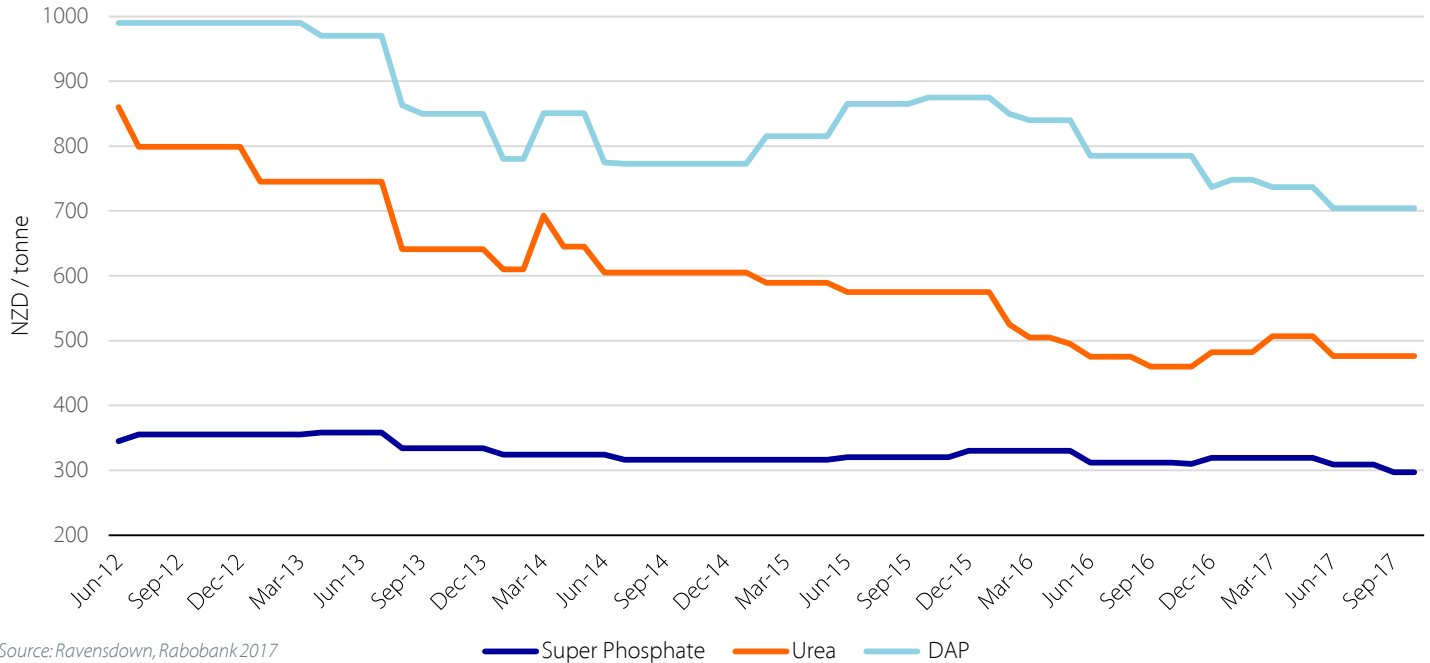
Farm Inputs

Global Urea Rally Yet to Influence Local Prices



Rabobank

Reported monthly local retail Super Phosphate, Urea and DAP prices



Source: Ravensdown, Rabobank 2017

Drivers of local retail prices including global benchmarks, exchange rate, and shipping rates.



US Optimism and Local Political Uncertainty Push NZD Lower

The **NZD slid against the USD in the second half of September**. At USc 71.85 on 4 October, it sat USc 1.7 lower than it reached on its 19 September peak.

Markets appeared nonplussed by the lack of a clear winner from the 23 September NZ election, with NZ First still yet to determine who they will support (and hence enable to govern) at the time of writing.

But much of the movement in the cross rate appears to have come from drivers from the US side. Not only did Fed Chair Yellen heighten market expectations this week regarding the chances of another rate rise in December, but US Republicans have finally outlined a tax plan to support their pledge of putting into law a key piece of fiscal reform this year. With these developments front of mind, the USD benefitted from short-covering as the market questioned whether this year's dollar downtrend had extended too far.

Despite the Fed's recent guidance, we remain sceptical about the prospects of another rate rise by the end of the year. Not only is inflation proving to be stubbornly low, but Fed Vice Chairman Fischer (who retires next month) will not be voting in forthcoming policy meetings. This reduces the chances of a hawkish outcome.

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

What to watch

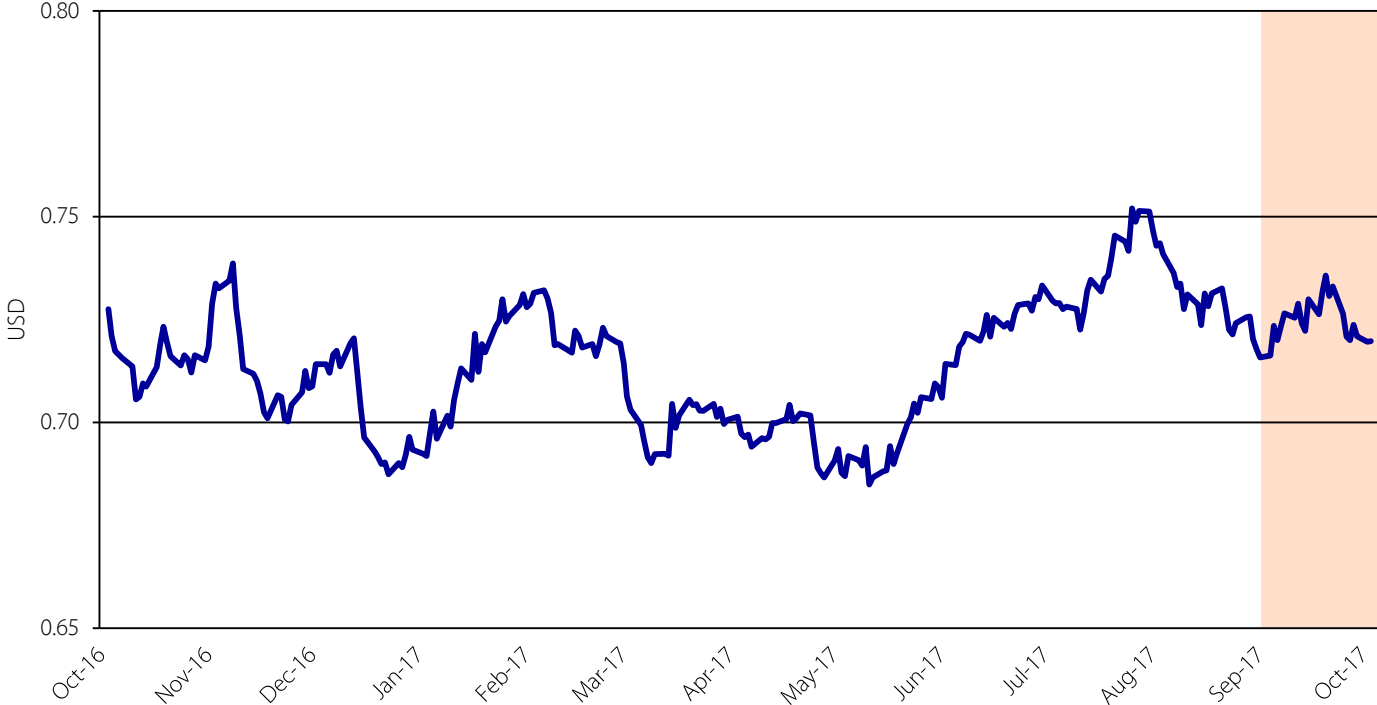
- **US tax reform legislation**. Overall, we (and many others) remain sceptical as to whether the Trump Administration can push through a key legislative success before next year's mid-term elections, never mind by the end of the year. If this proves to be the case, some of the recent optimism behind the US currency may wane.
- **The 19th Chinese Communist Party Congress in October**. Markets are waiting to see what reforms emerge.

FX

NZ Dollar Slides Against the Greenback From Mid September



NZD/US dollar Cross Rate



Source: RBA, Rabobank 2017

The Ebbs and Flows of Oil & Freight

September was looking to be a show-stopping month for both Brent Crude oil and the Baltic Dry Index. There were gains of 12% and 27% respectively within the first three weeks of September, until a dramatic change in direction on 25 September.

The global oil glut is still directing the market and while inventories are reducing, it's at a slower rate than expected. Oil production rebounded quickly following Hurricanes Harvey and Irma, which eventuated into very little disruption to markets. Prices rose on the back of brightening demand prospects and signals that OPEC will intensify output cuts, however news of OPEC nations adding 120,000 barrels a day in September saw a rapid market retreat towards the month's end. All eyes will be on compliance, with production cuts within OPEC for the next quarter. **Brent crude oil is down to USD 56.12/bbl at the time of writing.**

The Baltic Dry Index (BDI) broke the 1,500 mark on 24 September, a height not seen for three years. Demand for ore and coal shipping drove growth in Capesize prices, feeding China's appetite for raw material imports from Australia, Brazil, and South Africa. However, this level was only sustained for two days, before retreating with the biggest single-day drop in four months to sit at 1,356 at the time of writing. Looking forward, the high rate of shipbuilding orders is a significant threat to the dry bulk market's recent strength.

What to watch

- **US energy firms have cut the number of operating oil rigs through September.** The oil rig count acts as an early indicator of future output, and is facing a second month of losses. This comes in reaction to the soft oil prices through June and July. It is unlikely any rigs will come back online in response to recent price gains until OPEC's verdict on the state of the market in January.



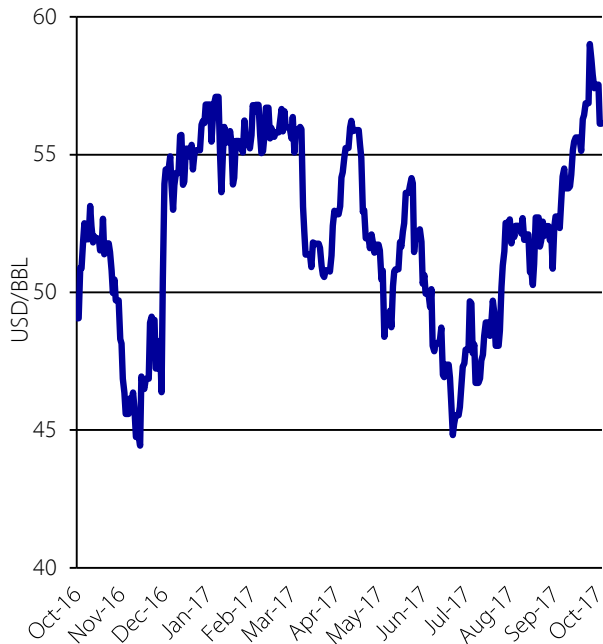
Oil &
Freight

New Heights in Oil and Freight Markets



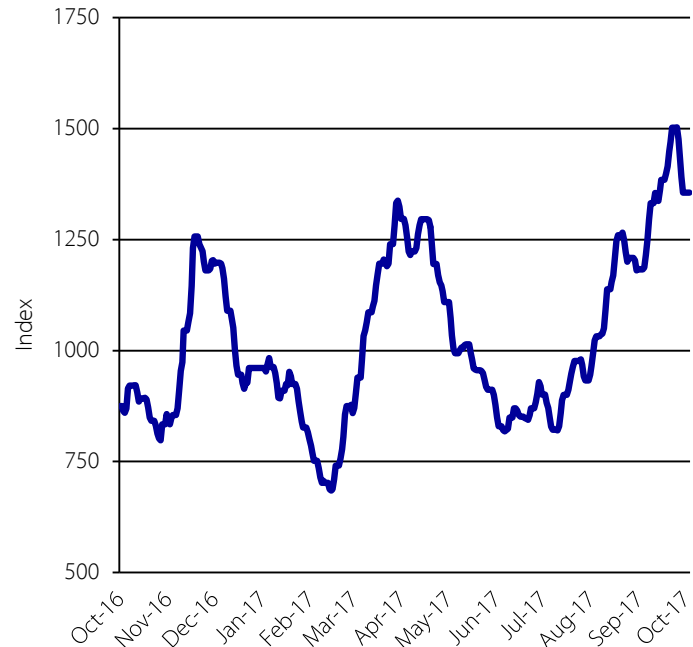
Rabobank

**Brent Crude Oil,
October 2016 – October 2017**



Source: Bloomberg, Rabobank 2017

**Baltic Dry Index,
October 2016 – October 2017**



Source: Bloomberg, Rabobank 2017

Agri Price Dashboard

As of 3/10/2017	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	445	421	396
CBOT soybeans	USc/bushel	▲	957	942	973
CBOT corn	USc/bushel	▲	352	340	346
Australian ASX EC Wheat	AUD/tonne	▲	282	251	249
Australian Canola	AUD/tonne	▼	485	500	529
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	506	553	717
Feeder Steer	AUc/kg lwt	▼	288	302	385
North Island Bull 300kg	NZc/kg cwt	▼	540	545	520
South Island Bull 300kg	NZc/kg cwt	▼	510	520	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	603	633	599
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	715	710	600
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	710	680	560
Venison markets					
North Island Stag	NZc/kg cwt	▲	980	945	880
South Island Stag	NZc/kg cwt	▲	970	945	885
Dairy Markets					
Butter	USD/tonne FOB	▲	6,275	6,075	3,925
Skim Milk Powder	USD/tonne FOB	▼	1,900	1,950	2,288
Whole Milk Powder	USD/tonne FOB	▲	3,175	3,113	2,850
Cheddar	USD/tonne FOB	▲	4,125	4,013	3,650

Agri Price Dashboard

As of 3/10/2017	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	79	81	78
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	68.2	72.6	68.7
Sugar markets					
ICE Sugar No.11	USc/lb	▲	14.31	13.75	22.67
ICE Sugar No.11 (AUD)	AUD/tonne	▲	403	380	651
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,522	1,558	1,290
NZ Coarse Crossbred Indicator	NZc/kg	▲	308	299	456
Fertiliser					
Urea	USD/tonne FOB	▲	275	226	195
DAP	USD/tonne FOB	▲	345	337	339
Other					
Baltic Dry Index	1000=1985	▲	1,356	1,183	864
Brent Crude Oil	USD/bbl	▲	56	53	51
Economics/currency					
AUD	vs. USD	▼	0.783	0.798	0.768
NZD	vs. USD	▲	0.720	0.716	0.728
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	2.00

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

Angus Gidley-Baird

Senior Analyst – Animal Proteins
+61 2 8115 4058

Michael Harvey

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

Cheryl Kalisch Gordon

Senior Analyst – Grains & Oilseeds
+61 2 6363 5900

Emma Higgins

Dairy Analyst
+64 3 961 2908

Wes Lefroy

Agricultural Analyst
+61 2 8115 2008

Georgia Twomey

Commodity Analyst
+61 2 428 467 945

Blake Holgate

Analyst – Animal Proteins and Sustainability
+64 3 955 4603

Felicity Taylor

Intern
+61 2 8115 2297

Catherine Keo

Business Coordinator
+61 2 8115 4157

Rabobank New Zealand

Nearest branch call 0800 722 622
www.rabobank.co.nz



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 ©