



# Agribusiness Monthly September 2017

*New Zealand*

*RaboResearch Food & Agribusiness* September 2017



**Rabobank**

# Commodity Outlook



*Dairy*

More sunshine across the country is needed for a strong 2017/18 spring peak foundation.



*Beef*

Low supply to hold cattle prices relatively steady through September despite declining US import beef prices.



*Sheepmeat*

Competition for remaining lamb supply to put upward pressure on prices over the next month.



*Wool*

Some positive signs for improved demand from China, however market improvement to remain modest.



*Wine*

A hot EU summer will bring further depletion of global wine inventory.



*Horticulture*

Record year of revenue for Zespri with global sales up 19%.



*Fertiliser*

Record low prices set to continue through spring.



*FX*

Prepare for recurrent periods of flight to safe haven currencies as the Korean situation ebbs and flows.



*Oil*

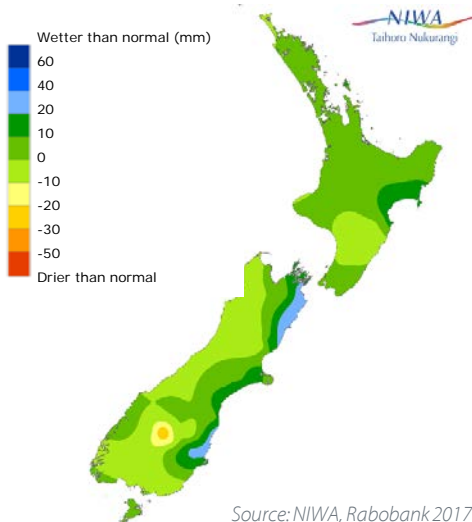
The oil market has absorbed recent political and environmental disruptions, showing signs of growing stability.

# Climate



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## Soil moisture anomaly (mm), 3 September 2017



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

Rainfall for the three months to November 2017 looks equally likely to be in the normal or above-normal range for most of the country, with the lower half of the South Island most likely to be in the near-normal rainfall range through this period.

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

## What to watch

- International guidance suggests that **the Pacific Ocean is likely to remain in an ENSO-neutral state (65% chance)** over the next three months to November 2017.
- Despite the likelihood of ENSO-neutral conditions remaining across 2017, **La Niña-like conditions may be displayed from time to time across 2017.**



# Steady Prices: You Butter Believe It

***Steady commodity prices in global markets continued through August 2017.*** Butter remains firmly in vogue, underpinning Oceania prices for dairy fats. Conversely, SMP still continues to bounce around the USD 2,000/tonne mark. ***Rabobank anticipates the spread in pricing between proteins and fats to continue across the remainder of 2017 with fat markets to remain elevated.***

***European milk production lifted 1.5% for June 2017*** compared to the prior year. ***Rabobank expects European milk production improvement to gather pace across the remainder of 2017,*** largely as a result of lower 2016 milk output combined with more attractive farmgate milk prices across this period.

The New Zealand 2017/18 season is well underway and all eyes are on the weather over the coming weeks. ***More sunshine across the majority of the country would be warmly welcomed for a strong spring peak foundation.***

Strong New Zealand exports for July 2017 (+10% YOY) were underpinned by deliveries to China. Shipments leapt by 86% for July 2017 compared to the prior year. ***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***

- ***Many infant formula manufacturers are still waiting for product registrations in China.*** Initial details from China's Food and Drug Administration (CDFA) show 23 companies have a total of 182 products approved. Only six international companies (no local companies) have been approved.
- ***More skim milk powder has entered intervention recently.*** Although the programme draws to a close at the end of September 2017, the EU Commission still has the task of liquidating the rapidly aging SMP stocks in the coming months.

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
<b>EU</b>	1.5% (June)	0.8%
<b>US</b>	1.8% (July)	1.7%
<b>Australia</b>	2.2% (June)	-2.2%
<b>NZ</b>	-1% (2016/17 full season)	

Source: Rabobank 2017



# Beef

## Tight Supply Holds Prices Steady

**Cattle prices held steady over the last month following the easing of prices through July.** As at the start of September, the North Island bull price is sitting at where it was at the start of August, averaging NZD 5.50/kg cwt (2% higher YOY). The South Island bull price is back slightly, 1% MOM, averaging NZD 5.05/kg cwt (3% lower YOY).

**The low availability of domestic cattle for slaughter is helping to underpin current schedule prices,** with Rabobank expecting New Zealand's cattle supply to remain tight until at least November.

The **downward trend of US imported beef prices continued over the last month.** The import price for 90CL beef dropped 8% during August, putting downward pressure on prices for manufacturing cattle.

Beef+Lamb New Zealand's recently released 'Stock Number Survey' showed the **total number of New Zealand beef cattle increased 2.8% YOY to an estimated 3.63 million head** as at 30 June 2017. The increase was predominately driven by a 5% increase in weaner cattle.

**Rabobank expects farmgate prices to remain steady through September** as New Zealand's seasonally low supply of cattle helps to buffer domestic prices from the potential negative impacts of declining US beef prices, and the recent Japanese beef tariff hike.

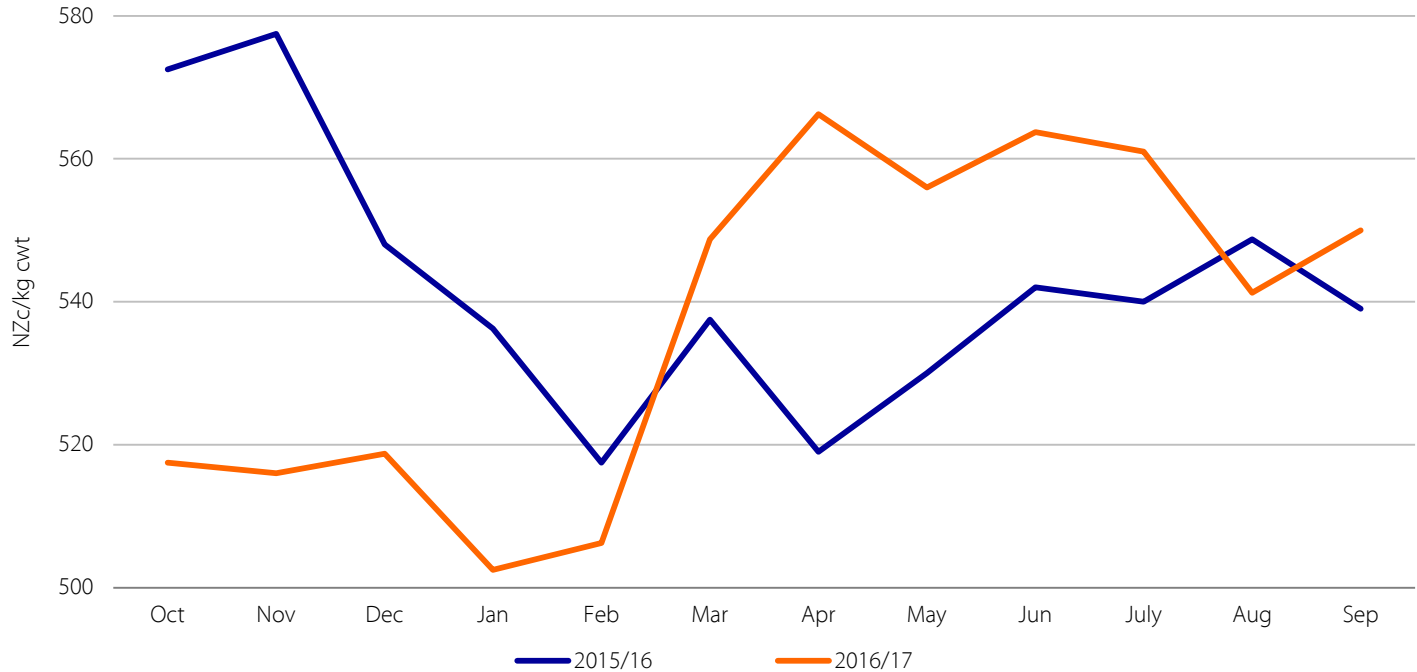
### *What to watch*

- **Ministry for Primary Industries handling of cattle disease outbreak** – On 28 July the MPI confirmed the cattle disease mycoplasma bovis had been discovered on a New Zealand farm. While the disease does not infect humans and presents no food safety risk, it does cause mastitis, pneumonia, abortions, and lameness, and can result in death. Given the potential threat this disease could pose if it became established in New Zealand, cattle farmers will be anxiously watching what steps MPI are taking to manage the outbreak.

# North Island Bull Price



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# Prices Go From Strength To Strength

**Competition for lambs from processors saw strong price gains through August**, with schedule prices lifting 5% in both islands. As of early September, the slaughter price in the North Island averaged NZD 7.10/kg cwt, while South Island lamb averaged NZD 6.90/kg cwt.

Low levels of global lamb supply, combined with strong in-market prices have seen farm-gate prices soar well above where they were at this stage last year, with **prices for North Island lamb up 20% YOY and South Island lamb prices up 27% YOY. Mutton prices are also up approximately 50% YOY.**

Recently released statistics from **Beef+Lamb New Zealand** estimated that **New Zealand's lamb crop for this coming season will be slightly up (by 260,000 head or 1.1%)**. While ewe numbers fell 1.9% YOY (as of 30 June 2017), Beef + Lamb New Zealand highlighted the **increased number of ewe hoggets being mated, and the ongoing productivity gains in the flock as the main reasons behind the increased lamb crop**. Despite the estimated increase, the supply of lambs available for slaughter over the 2017/18 season will still be low by historical levels.

**Rabobank expects to see schedule prices to hold steady at, or slightly above current levels over the next month** as processors seek to procure stock by enticing farmers to part with any lambs they have remaining on farm.

## Sheepmeat

### *What to watch*

- **First chilled meat shipments to China** – the first sea freight consignment of chilled New Zealand meat product has arrived in China. The first shipment from Greenlea arrived on 18 August, followed by shipments from AFFCO and Silver Fern Farms. These shipments follow earlier airfreight consignments of beef and lamb from Greenlea and Alliance. Utilising sea freight will enable New Zealand to export a much greater volume of product into China in its higher value chilled form.

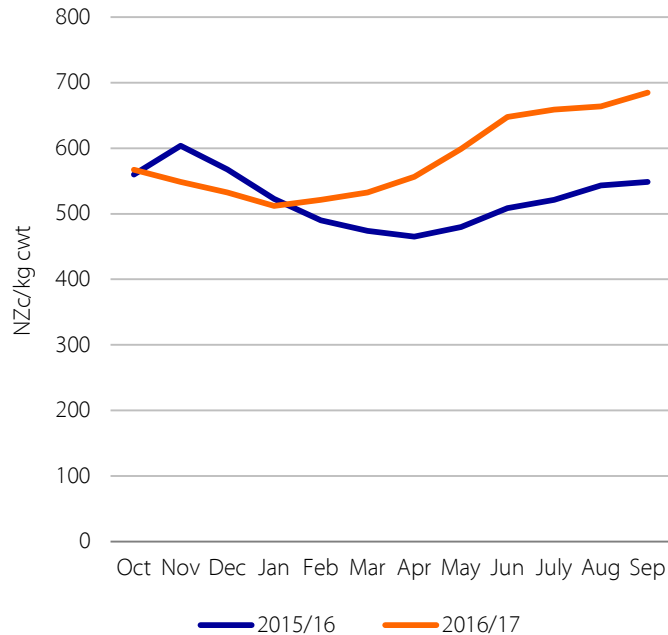


# South Island Lamb Price and NZ Lamb Slaughter

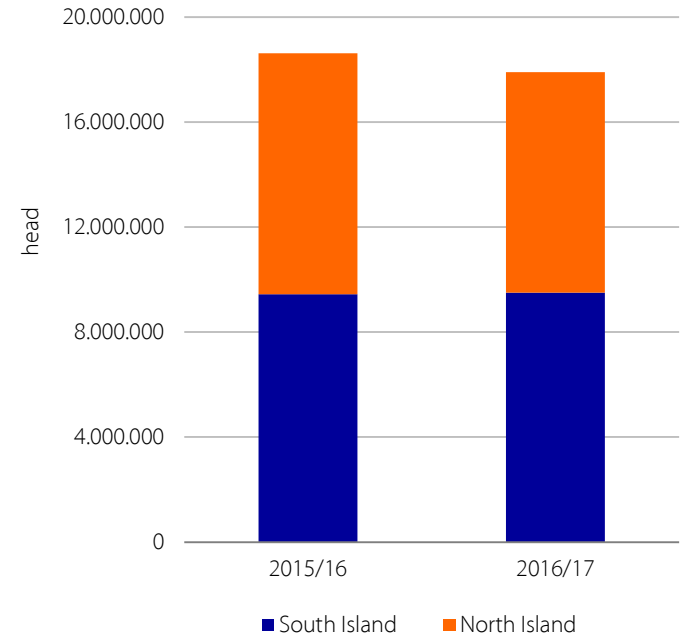


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## South Island Lamb Price



## New Zealand Lamb Slaughter (YTD – 5 August)



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



Wool

# Positive Developments for Wool

**August brought some positive developments for the New Zealand wool market** with the coarse crossbred indicator across NZ lifting to NZc 299/kg from the lows in the first weeks of the new season.

The price gains in recent weeks stem a steady stream of falls since March 2017, and in the context of larger volumes offered and improved clearance rates compared with last year, do indicate some improved demand. **Volumes arriving at sale will test this renewed demand in the coming month.**

Export volumes from June and July were both up YOY. All major markets saw lifts in volumes, notably the YOY gain in volumes to China is a positive signal, although they remain well-below the large shipments from 2014 and 2015.

This demand improvement will have been aided by New Zealand wool's price competitiveness compared with competing origins and fibres. This competitiveness will remain important to sustain buyer interest.

Mid micron and merino types have maintained strength in the South Island and are reflecting the record month for fine wool in Australia. While Chinese demand for broad wool has been under pressure, buying of fine wool for the apparel market has been strong. Exports of wool finer than 24micron were up 7% from New Zealand in 2016/17 and some 14% from Australia.

## **What to watch**

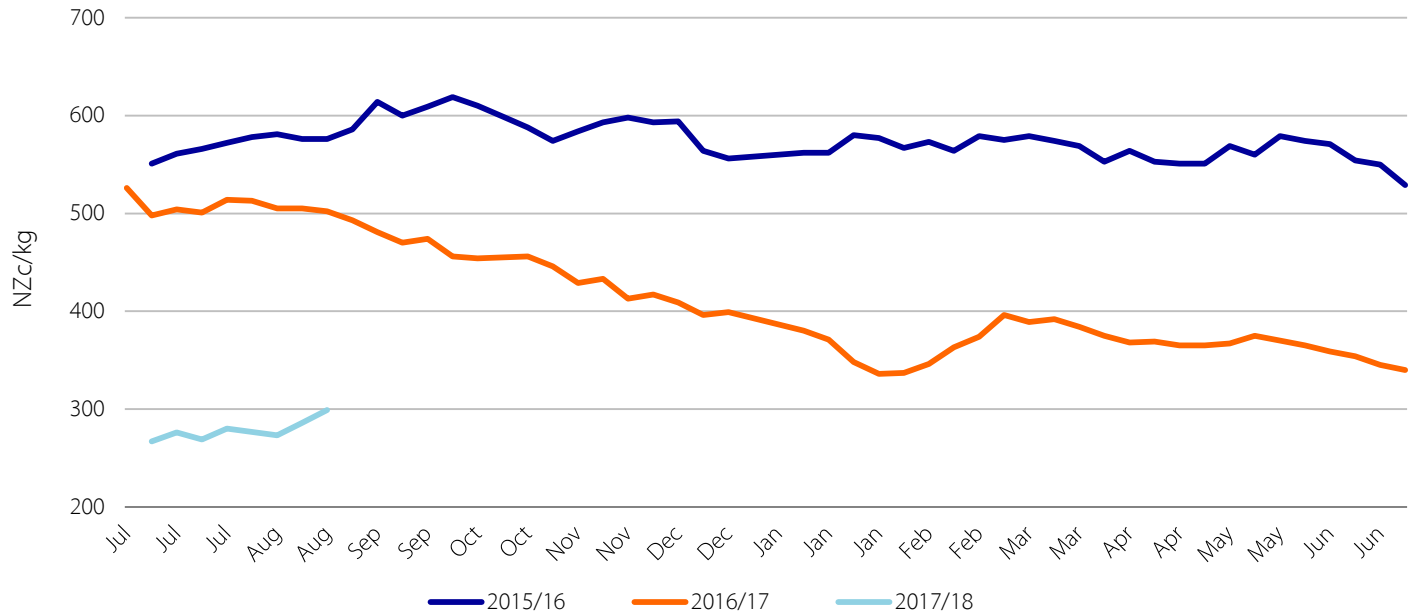
- RaboResearch has just recorded a podcast discussing the New Zealand wool market and some of the headwinds that remain in play. You can tune in by clicking [here](#).

# Some Early Signs of Life for Wool Prices



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## Coarse Crossbred Indicator



Source: PGG Wrightson, Rabobank 2017



# Hot EU Summer Will Bring Further Inventory Evaporation

***The impact of adverse weather conditions*** (particularly the extreme heat of this past summer) **on EU vineyards is becoming clearer as harvest gets underway.** Both France and Italy are flagging this as the worst harvest in many decades, with dramatically reduced wine grape yields. Spanish production is also likely to contract.

***This will generate a significant decline in total global wine production in 2017.*** France, Italy, and Spain together account for around 60% of global production, and there is insufficient growth elsewhere in the world to come close to offsetting their falls.

***Already light global wine inventories will further contract as a result.*** Based on early indications of the EU harvest, Rabobank estimates that global inventories could end 2017 as much as 12% below prior year levels.

***We expect a further tightening of the wine market to manifest itself in several ways:***

- Global bulk wine prices will likely see some upward pressure moving into 2018, as markets look to fill the gap;
- While margins will be under pressure for some wine companies (particularly in Europe), the tight grape market could create some limited opportunities for improved wine pricing; and
- The tight supply situation will also likely be favourable from a brand-building perspective, as there will be little incentive to undercut competitors on pricing.

## ***What to watch***

- In many regions of the world, suppliers using third-party sourcing (i.e. asset light models) will see increased pressure on COGS from rising grape/bulk wine prices.

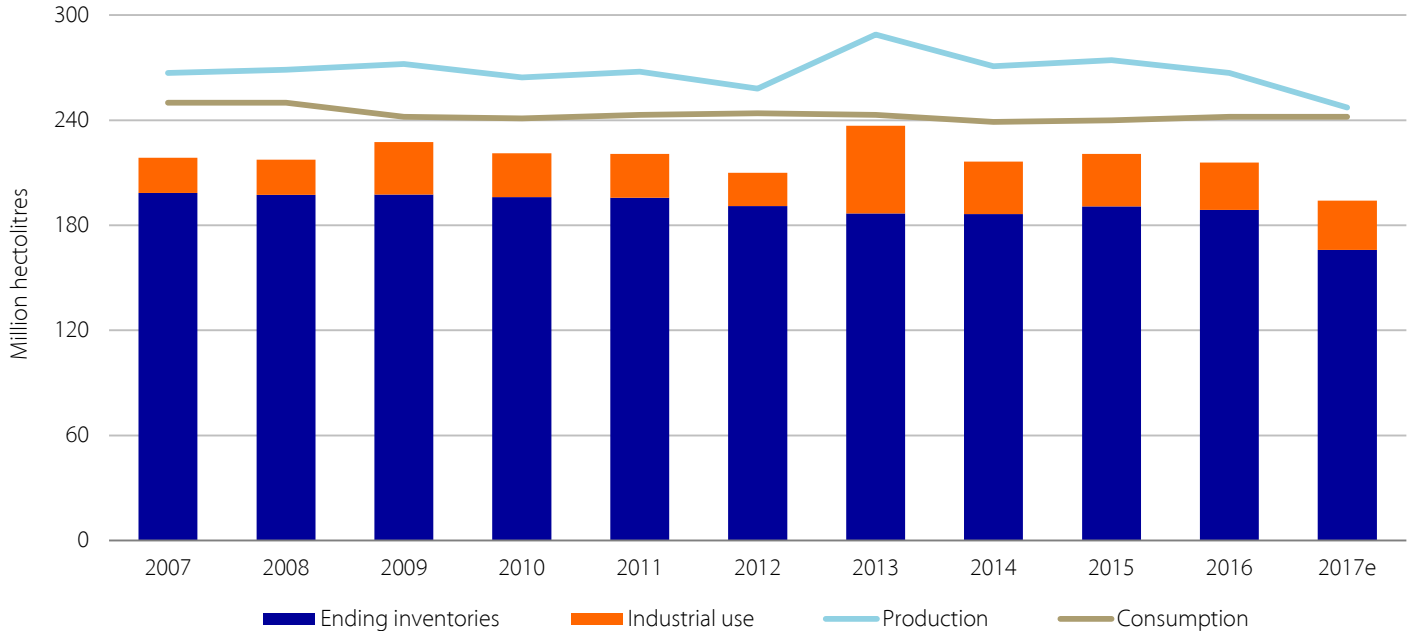
Wine

# Global Wine Inventories Set to Fall Sharply in 2017



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**Global wine market balance, 2007 to 2017e**





# Record Year for Zespri

**Zespri have reported a record revenue of NZD 2.26 billion for the 2016/17 season, with global sales up 19% from last season.** While a late start to the season and high yields meant per-tray returns for Zespri Green declined, a sharp increase in both volume and per-tray returns for SunGold saw its total per hectare returns increase 39% to NZD 98,838/hectare.

**According to Statistics New Zealand's latest food index, fruit prices continued to fall during July, while vegetables became more expensive.** Led by a 29% decline in avocado prices, and a 23% decrease in strawberries, fruit prices fell 5.2%. The modest 1.6% increase in vegetable prices was underpinned by a 12% price increase for both cucumbers and tomatoes.

Despite a 18.6% increase in revenue for the six months ended 30 June, to NZD 501.6 million, **T&G Global have reported a 49% decrease in first-half-year profit.** Poor weather impacting harvest timing, quality, volume and margin, along with challenging market conditions in the northern hemisphere were highlighted as the key reasons behind the reduction in profit.

**T&G Global also announced that it is expanding its blueberry growing and selling operations offshore,** after gaining exclusive rights to grow 16 high yielding blueberry varieties in Australia. Working with Australian growers, commercial production is scheduled to start in 2019.

## *What to watch*

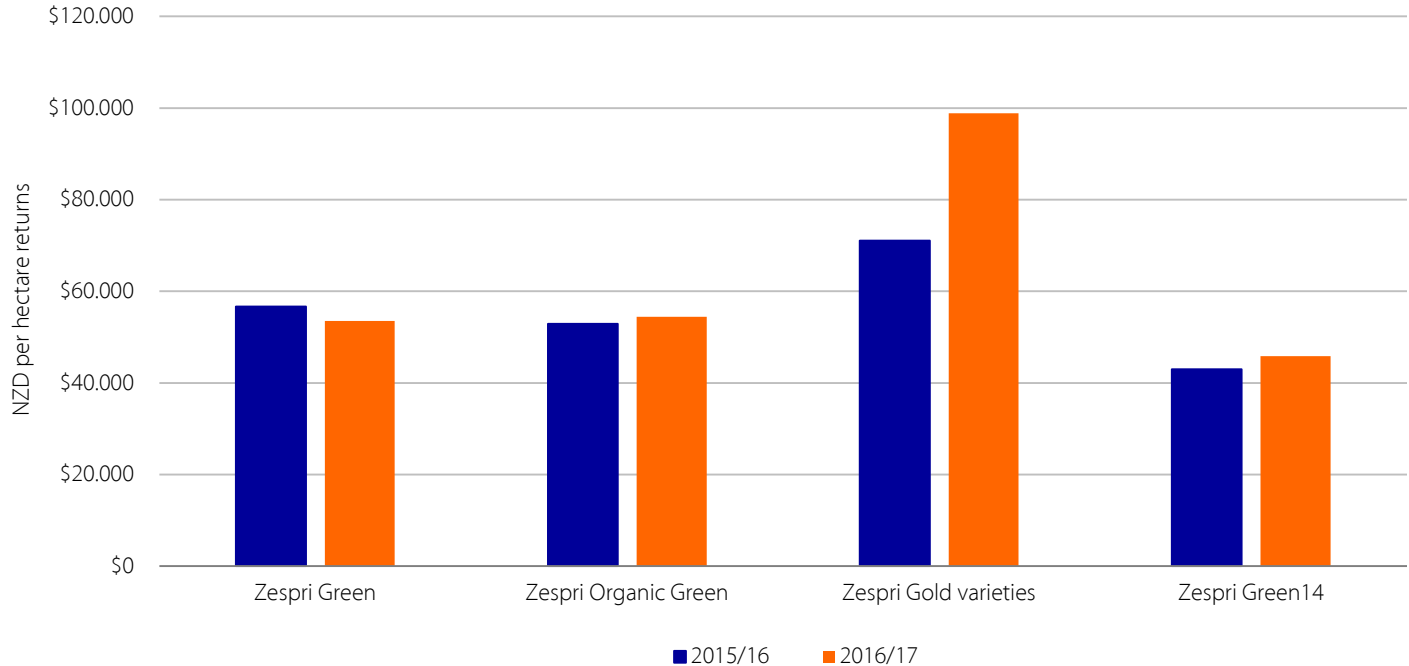
- **Kiwifruit harvest contractors to be audited from next season** – the new audit system is designed to prevent worker exploitation and will cover labour law and worker welfare. Contractors will need to gain a compliance certificate, and growers will be required to ensure any contractor they use has a valid certificate. The audits will be carried out by an independent organisation to a Zespri standard.

# Horticulture

# SunGold, the Star Performer Of Zespri Varieties



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Source: Zespri International Ltd, Rabobank 2017



## Farm Inputs

# Record Low Prices Set To Continue

The global urea market may have awoken from its six month slumber, with **urea ex Middle East rising 12% in the month prior to 5 September, finishing at 226 USD/tonne**, its highest point since Mid-March. We expect the small uptick in prices to be short lived, with rising supply from Middle East and North Africa, and limited demand in Asia, South America, and Canada following large procurement in 1H 2017.

**Global phosphate prices continued a six month price decline during August**, falling slightly, with DAP ex US Gulf at 337 USD/tonne in early September. Tightening demand may support pricing out of some ports in Q3, however new supply from Saudi Arabia, and increased exports from Russia and India will strengthen the ceiling on phosphate prices looking into 2018. Prices also remain favourable for potash, with **MOP ex Vancouver at 218 USD/tonne in early September, the lowest point since August 2007**.

Lows in global pricing are translating to record low prices locally for New Zealand farmers. Current low prices will assist any late purchases for this spring. Otherwise farmers are looking firmly toward to price outlook for next season.

### *What to watch*

- **NZ elections** – Farmers are closely watching the outcome of this month's election, and in particular the implications of any new nitrate use levies that may be implemented pending election results.

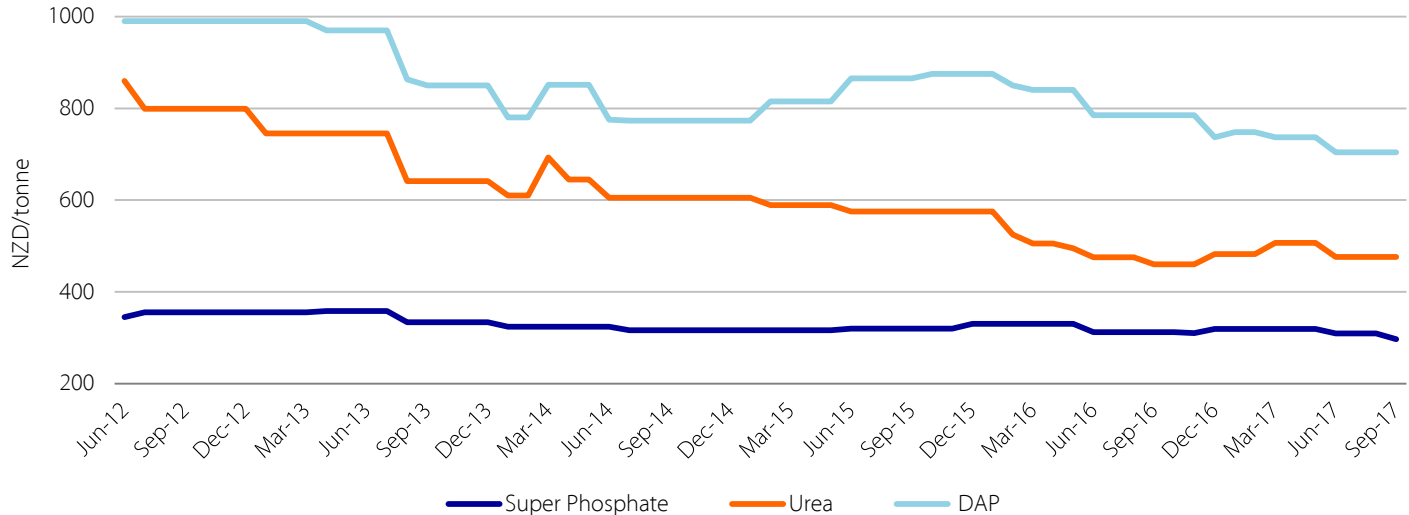


# Super Phosphate, DAP At Five-Year Lows



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**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 are expected to remain favourable for end users.**



# Narrowing Polling and North Korea Weigh on the NZD

The **NZD fell through August, before a brief rally in early September offset some of the losses. At the close of 8<sup>th</sup> September the currency was worth** at 76.25USc; similar to the levels seen in early July.

The **alarming escalation of the political tensions between North Korea and others** triggered some flight of capital to 'safe haven currencies'. These, as is typical in such situations, included the JPY (despite Japan's proximity to Korea), the CHF, and USD (as investors switch to the safety of US treasuries).

The market also appeared concerned by the **better-than-expected performance of the Labour party in election campaigning**, that has raised the very real prospect of a change in government when the nation goes to the polls on 23 September.

**Softening economic data** has also played a role. But not all of the news has been bad for the kiwi economy, with the terms of trade improving 1.5% in Q2 on the prior three months, as dairy and meat prices rose faster than the prices of key imports.

The US Federal Reserve still seems to be aiming for another rate hike in December. Our expectation is that the incoming inflation data will continue to fall below Fed expectations, and delay a rate hike till 2018.

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 Aug 2018** as a result of these dynamics.

## What to watch

- **Recurrent moments in which capital seeks safe haven investments as the Korean situation ebbs and flows.** See Rabobank's 18 August report "North Korea: Recurring Risk-Off" for a detail exploration of this issue.

FX

# New Zealand dollar slumps



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## New Zealand/US dollar Cross Rate





# Oil Navigates Global Uncertainties

**Brent crude oil traded within a tight range in August, wavering between USD 50/bbl and USD 52/bbl.** The limited movement that did occur seemed to stem from rising political tensions between Saudi Arabia and Qatar as well as North Korea and the US, and the aftereffects of Hurricane Harvey.

**Despite these challenges, the market is remaining stable.** The US released oil from its strategic reserves for the first time in five years to stimulate refinery activity. Meanwhile, the geographic spread of market share between producing nations has been neutralising the price impact of political shocks. **Rabobank maintains a forecast of a Brent crude oil price of USD 55/bbl for the first quarter of 2018.**

**The Baltic Dry Index (BDI) has experienced a change of direction after strong growth through July and August.** The index is at 1183 at the time of writing, coming off a peak on 21 August of 1266. Chinese demand for seaborne iron ore has grown 7% YOY, and the corresponding increase in capesize rates caused the BDI's recent rally. Chinese bulk dry imports have seen the fundamental balance of the shipping market greatly improve this year after the depressed conditions of 2016.

However, **the BDI has been extremely sensitive to supply-side dynamics**, where a small change to vessel availability translated to a dramatic change in the index in early September. The introduction of 78 new megaships over the next two years will exacerbate the problem, pushing freight prices down into unprofitable territory.

## What to watch

- **Damage from Hurricane Harvey** reduced US fuel-making capacity by 4.25 million barrels per day, the lowest level since 2010. The disruption to production saw short-term gasoline futures break away from oil prices and jump by 22%. While many refineries have come back online already, competition for fuel will be intensified worldwide as repairs continue.

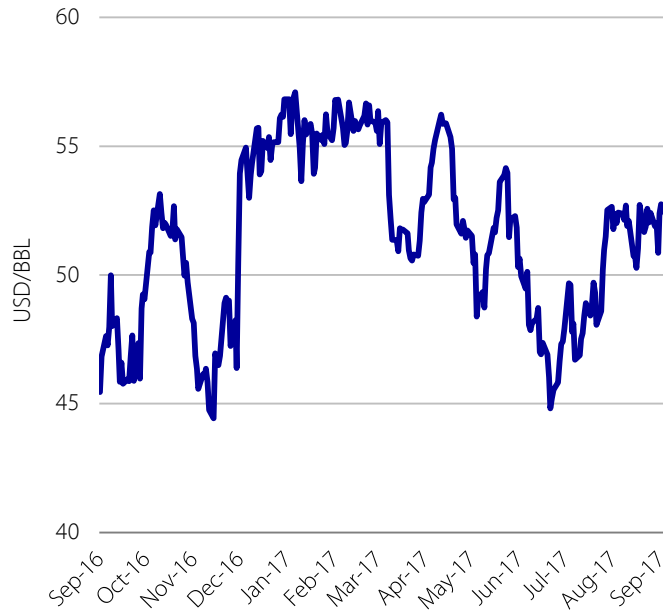
Oil &  
Freight

# Freight Rates Under Pressure From Over-Supply



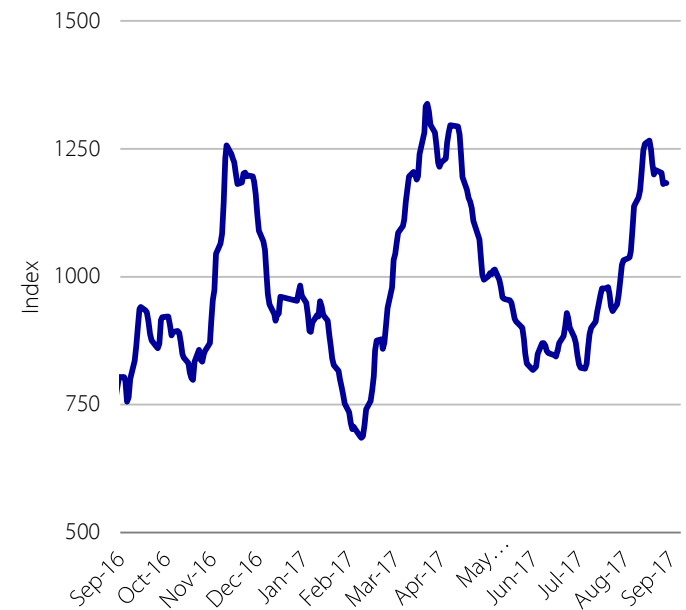
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**Brent Crude Oil, September 2016 – September 2017**



Source: Bloomberg, Rabobank 2017

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



Source: Bloomberg, Rabobank 2017

# Agri Price Dashboard

As of 5/09/2017	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▼	421	455	373
CBOT soybeans	USc/bushel	▼	947	949	969
CBOT corn	USc/bushel	▼	343	367	317
Australian ASX EC Wheat	AUD/tonne	▼	257	268	244
Australian Canola	AUD/tonne	▼	497	514	498
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	552	574	706
Feeder Steer	AUc/kg lwt	▼	302	318	381
North Island Bull 300kg	NZc/kg cwt	▼	550	555	540
South Island Bull 300kg	NZc/kg cwt	▼	505	520	500
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	633	596	581
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	710	675	590
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	690	665	545
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	▲	960	890	850
South Island Stag	NZc/kg cwt	▲	960	910	820
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▲	6,075	5,975	3,150
Skim Milk Powder	USD/tonne FOB	▼	1,950	2,013	2,000
Whole Milk Powder	USD/tonne FOB	▼	3,113	3,225	2,663
Cheddar	USD/tonne FOB	▲	4,013	4,000	3,350

# Agri Price Dashboard

As of 5/09/2017	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	81	80	77
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	72.6	71.0	67.5
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▼	13.75	14.14	20.18
ICE Sugar No.11 (AUD)	AUD/tonne	▼	381	394	587
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▲	1,558	1,522	1,317
NZ Coarse Crossbred Indicator	NZc/kg	▲	299	280	493
NZ Fine Crossbred indicator	NZc/kg	•	395	395	521
<b>Fertiliser</b>					
Urea	USD/tonne FOB	▲	226	203	196
DAP	USD/tonne FOB	▼	337	344	340
<b>Other</b>					
Baltic Dry Index	1000=1985	▲	1,183	1,032	724
Brent Crude Oil	USD/bbl	▼	52	52	48
<b>Economics/currency</b>					
AUD	vs. USD	▲	0.795	0.792	0.758
NZD	vs. USD	▼	0.716	0.741	0.731
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	2.00

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