



Agribusiness Monthly August 2018

New Zealand

Food & Agribusiness Research and Advisory August 2018



Rabobank

Commodity Outlook

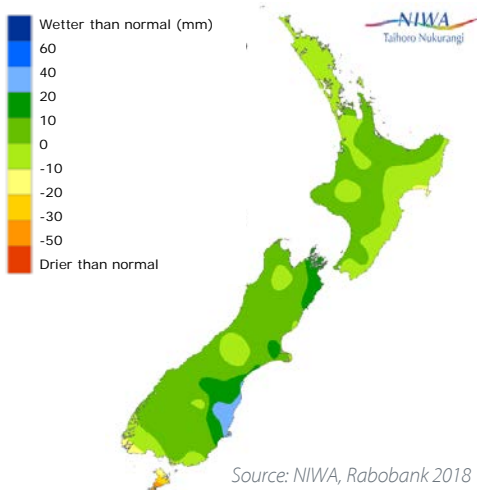
 <p><i>Dairy</i></p>	Short-term sentiment to remain clouded by trade wars and the upcoming spring peak in New Zealand.
 <p><i>Beef</i></p>	Rabobank expects the ongoing competition for a tightening supply, combined with the weaker NZD, to continue to put upward pressure on prices throughout August.
 <p><i>Sheepmeat</i></p>	Rabobank expects procurement competition to continue to put some upward pressure on prices throughout August; however, ever-tightening processor margins may limit just how much higher prices can reach.
 <p><i>Wool</i></p>	Outlook for coarse crossbred wool still subdued, with demand still slow to increase.
 <p><i>Wine</i></p>	Significant value and volume growth into key export markets US and Canada.
 <p><i>Horticulture</i></p>	Export volumes and values lift for NZ fresh blueberry exports to Australia.
 <p><i>Fertiliser</i></p>	A rise in crop prices continues to support demand growth for DAP and, in turn, prices.
 <p><i>FX</i></p>	As monetary policy in the US tightens and NZ settings remain unchanged, we continue to expect to see the NZD soften to USc 65 by July 2019.
 <p><i>Oil</i></p>	Brent Crude falls month-on-month for the first time in six months, although Rabobank expects a move back over USc 80/bbl in Q3

Climate



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Soil moisture anomaly (mm), 2 August 2018



NIWA is forecasting average temperatures for the North Island through to October 2018, while South Island temperatures are anticipated to be either above-average (40% chance) or near-average (35% chance) over the same period.

Rainfall totals from August to October 2018 are likely to be near normal (40% chance) or below-normal (35% to 40% chance) for the east of the North Island and the top of both islands. The remainder of the country is likely to receive normal rainfall across this period.

There is an equal chance of normal or below-normal soil moisture levels for the north and east of the North Island. Below-normal soil moisture levels are forecast for the east of the South Island. The remainder of the country is forecast to have soil moisture levels either in the near-normal or above-normal range through to October 2018.

What to watch

- **El Niño conditions.** International guidance suggests a 55% chance of El Niño conditions developing for the tropical Pacific over the coming months to October 2018. The likelihood of El Niño conditions increases over the summer months, with a 78% chance for El Niño conditions between February and April 2019.



Dry Conditions Impacting Margins

Mild winter conditions have continued across most regions, helping ramp up low-volume winter milk collections by 11% YOY for June 2018. **NIWA forecasts mostly favourable weather in key dairy regions to carry on over the coming three months**, as calves continue to drop on the ground around the country: a crucial period for setting the production tone for the remainder of the season.

Elsewhere, weather risks are escalating, and starting to impact milk production and feed costs in key exporting regions. Hot and dry conditions are impacting feed availability in the European Union. Continuing severe drought in the south-west of the US has slowed production in some areas, while Argentine dairy producers are feeling the bite of increased input costs on margins.

Global commodity prices were generally weaker in July. Trade tensions continue to weigh on market sentiment, while a number of key import markets have sufficient short-term inventory cover. Combined, this has had the effect of muting demand for dairy and softening commodity prices.

Dairy

What to watch

- **Changes to Westland Milk Products' capital structure.** Westland's board has appointed Macquarie Capital and DG Advisory to consider potential capital and ownership options, with the aim of creating a more sustainable capital structure and supporting a higher potential payout. The strategic review options will include introducing a cornerstone investor, a merger, or divestment of the cooperative. Shareholders will vote on any proposals, with the first update on the process expected before Christmas.

Increasing Weather Risks to Global Supply



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Global dairy prices, Jul 2014-Jul 2018



Source: USDA, Rabobank 2018

Production growth key exporting regions

	Latest month	Last three months
EU	1.5% (May)	1.0%
US	1.2% (Jun)	0.8%
Australia	-1.4% (Jun)	2.0%
NZ	0.1% (2017/18 season final)	

Source: Rabobank 2018



Beef

Procurement Pressure Upping Prices

Prices across all classes of cattle made further gains during July, as the seasonal decline in domestic production continued to create increasing procurement competition among processors. As at the start of August, the North Island bull price is 1% higher MOM, averaging NZD 5.35/kg cwt, with the South Island bull price up 5% MOM, averaging NZD 5.30/kg cwt. The lower NZD against the USD has also helped to support these price increases.

The latest available slaughter data (up to 7 July) shows **New Zealand's season-to-date beef kill remains well ahead of last season, with 9.6% more beef having been slaughtered so far this season, compared to the same stage in the 2016/17 season.** It has been the jump in the number of cows (+12.2%) and bulls (18.4%) killed that has driven this increase, with steer and heifer kill numbers increasing only marginally: 1.4% and 3.4%, respectively. An increase in the number of calves being raised for beef and the culling of cattle impacted by the M.Bovis disease outbreak are two of the main factors behind this increased cow and bull kill.

While New Zealand's largest export market, the US, remains under pressure from increasing volumes of domestic supply, to date, **exporters have been able to hold the average value received for New Zealand beef exports at essentially the same level since 2015/16.** At NZD 6,565/tonne, this season's average export value is 1% higher than last season's average value, and effectively the same average value that was received in 2015/16.

Rabobank expects the ongoing competition for a tightening supply, combined with the weaker NZD, to continue to put upward pressure on prices throughout August.

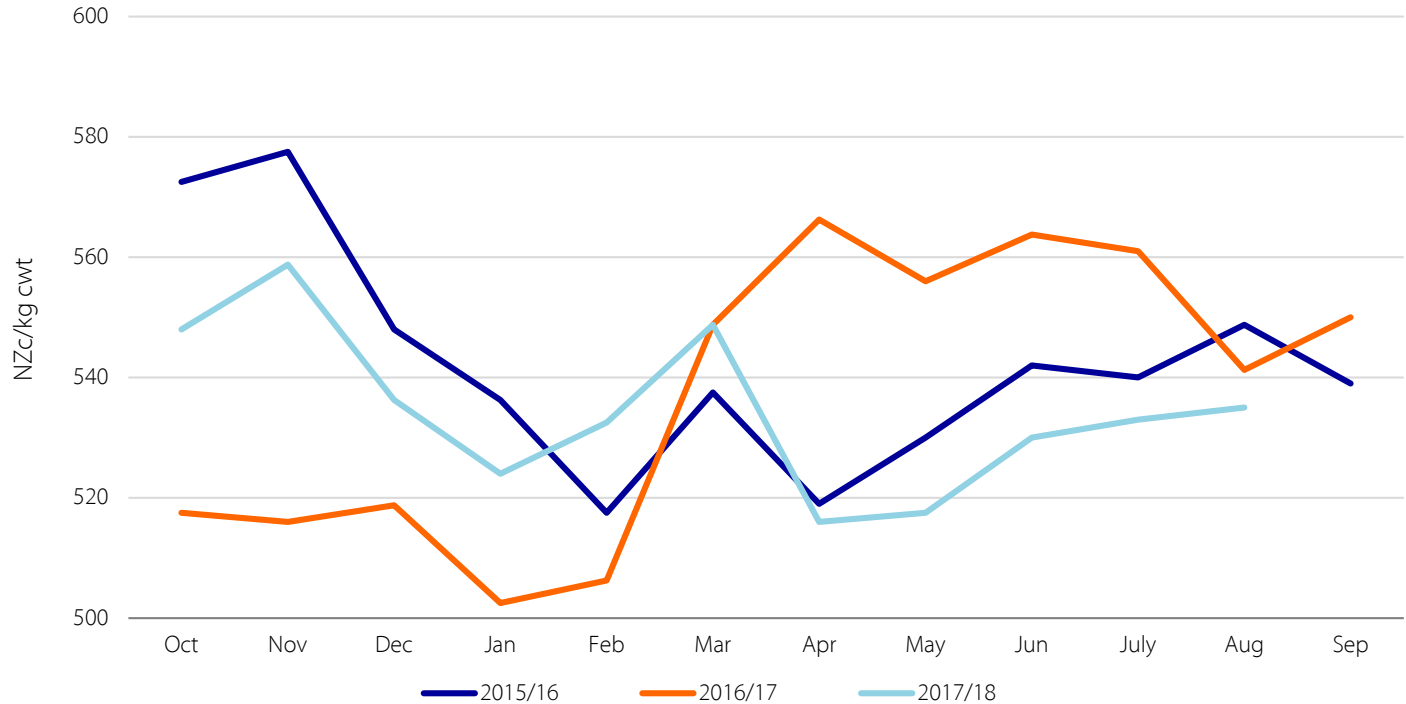
What to watch

- **Exchange rate gains.** Beef + Lamb New Zealand Economic Service data shows that exchange rate movements in New Zealand farmers' favour over the course of the 2017/18 season have added an average of NZD 59 to the farmgate price of cattle. It is estimated that the average farmgate price per head of cattle (all grades) for 2017/18 will be NZD 1,327. This is a NZD 75/head increase on the average per head price received in 2016/17 (NZD 1,252). Market price gain accounted for the remaining NZD 16 price increase.

North Island Bull Price



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Source: NZX AgriHQ, Rabobank 2018



Lamb Hits Record Prices

The continual upward price movements over the last few months have pushed schedule prices in both islands through the NZD 8/kg threshold, the highest price ever recorded for August. As of the start of August, the slaughter price in the North Island averaged NZD 8.10/kg cwt (3% higher MOM), while South Island lamb averaged NZD 8.00/kg cwt (4% higher MOM).

As is normal at this stage of the season, ongoing price lifts are predominantly driven by procurement competition for an increasingly shrinking supply of lambs available for slaughter. The latest available slaughter data (up to start of July) shows New Zealand's total lamb kill for the season-to-date remains only marginally ahead (+2%) of the low numbers seen last season. However, ***there is a clear split between the islands, with the North Island kill currently +5.7%, while the South Island kill is -1.1%. This would indicate that a greater proportion than normal of the remaining supply will be sourced from the South Island.***

Export data for Oct-Jun reveals just how strong New Zealand's lamb exports are currently performing, with ***total lamb export receipts for the first three quarters of this season (NZD 2.590bn) up 23% on the same period last season, thereby already surpassing the total value of lamb export receipts for the entire 2016/17 season (NZD 2.537bn).*** The increased value has predominantly been driven through improving average export values, which, at NZD 10,375/tonne, are currently 16% higher than last season's average export value. However, season-to-date export volumes are also 4% higher, helping to support the overall increase in export returns.

Rabobank expects procurement competition to continue to put some upward pressure on prices throughout August; however, ever-tightening processor margins may limit just how much higher prices can reach.

What to watch

- ***Increasing on-farm inflation.*** B+LNZ's Sheep and Beef On-farm Inflation report shows prices for sheep and beef farm inputs increased +2% in 2018. This is the first increase since 2015, following decreases of -2% in 2016 and -0.2% in 2017. Prices increased for all of the 16 input categories measured, except fertiliser, lime, and seeds. Fuel recorded the greatest increase in price, followed by prices for insurance and electricity. While improved scheduled prices should ensure most farmers are able to absorb these extra costs, farmers will still be keeping a keen eye on their own cost structure to protect against any unnecessary increases in on-farm expenditure.

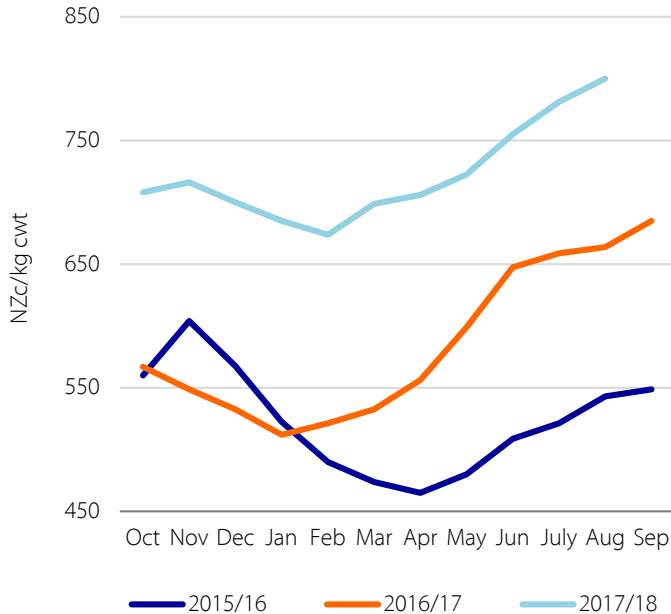
Sheepmeat

South Island Lamb Price and NZ Lamb Slaughter

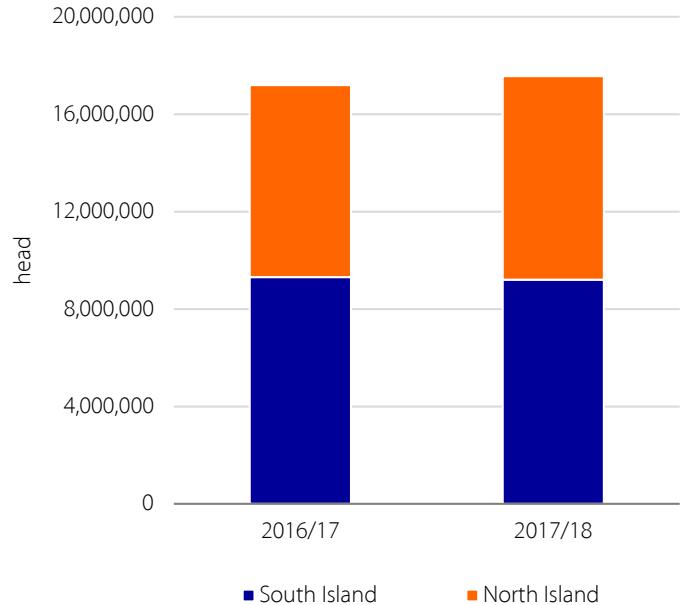


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**South Island lamb price,
Oct 2015-Aug 2018**



**New Zealand Lamb Slaughter (YTD, 7 July),
2016/17 vs. 2017/18**



Source: NZX AgriHQ, Rabobank 2018

Source: NZ Meat Board, Rabobank 2018



Wool

Disappointing Start to 2018/19

Having had a positive run through the last quarter of the 2017/18 season, the first sales of the new season have seen a disappointing fall in prices and clearance rates at auction. The finer end of the New Zealand market held somewhat better in the South Island sale in mid-July, but coarse crossbred saw lacklustre demand.

This is an unfortunate note on which to commence the season, with the last few months pointing to some, albeit moderate, improved demand levels for broader wool. While the market in Australia also saw some softening through the first two sales of the new season, the 30micron indicator has actually lifted 5% through the month.

While the final export report for the 2017/18 season does reflect the better conditions in the market, with an 18% lift in the volume of exports for the season, June's shipments saw a month-on-month decline of 19%.

China is New Zealand's largest wool market, although its share of coarse wool exports is generally lower than overall shipments, at 27% in 2017/18. While overall volumes shipped to China lifted 37%, compared with 2016/17, this was predominantly driven by an increase in fine crossbred wool volumes, with a more minor lift in coarse wool. Sustained lifts in coarse crossbred wool prices will be difficult until there are some clearer signals for demand from the world's largest wool processor. Positively, exports of coarse crossbred wool to India lifted to their highest level since 2009/10.

What to watch

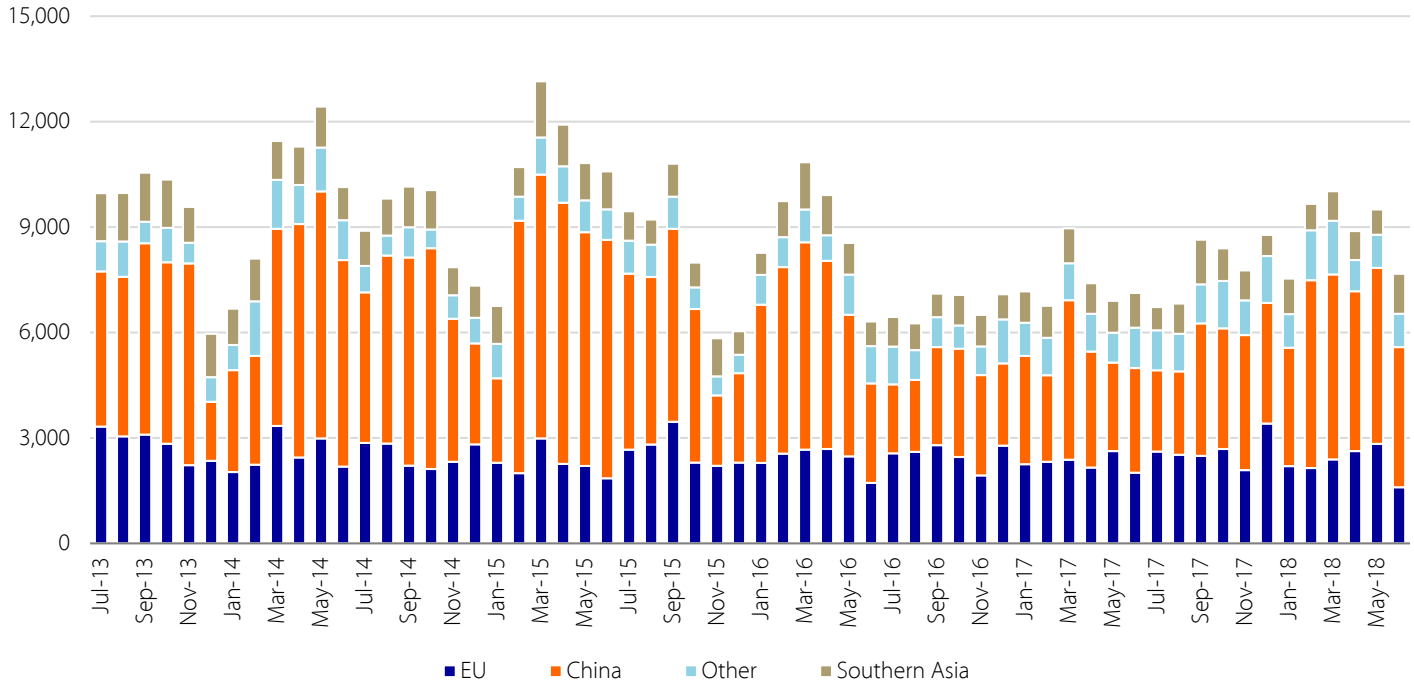
- The fine wool market has softened marginally in Australia in the lead-up to the recess. The next update for production is expected from the Australian Wool Production Forecast Committee in August and will be an important update as to the impact of the current dry conditions on the Australian clip, and subsequent global supply of merino and medium-micron wool in the 2018/19 season.

Wool Exports Waver in June



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June exports fall to lowest level in five months, Jul 2013-Jun 2018



Source: Beef & Lamb NZ 2018



North American Markets Favourable for NZ Wine

Both the US and Canada are key export markets for NZ wine, along with Australia and the UK.

The US is now considered the world's most significant market by volume and value (see the Rabobank Wine Quarterly Q3 2018). ***Absolute growth for NZ exports to the US over the period 2012 to 2017 has been NZD 246m, which is a CAGR of nearly 14%.***

Imports into the US continue to reflect a premiumisation trend there. ***Bottled wine imports into the US from higher-value suppliers such as NZ and France continue to grow.*** Declines are occurring in bottled wine volumes for lower-priced suppliers such as Australia and Chile.

Canada is also a growing market for NZ exports, but at a slower pace than the US. ***Canada contributed absolute growth over the period 2012 to 2017 of NZD 42m, a CAGR of 9%.***

While Chile and Australia also export greater volumes of wine into Canada than NZ, again NZ sits at a higher pricing point per litre in Canada.

Wine

What to watch

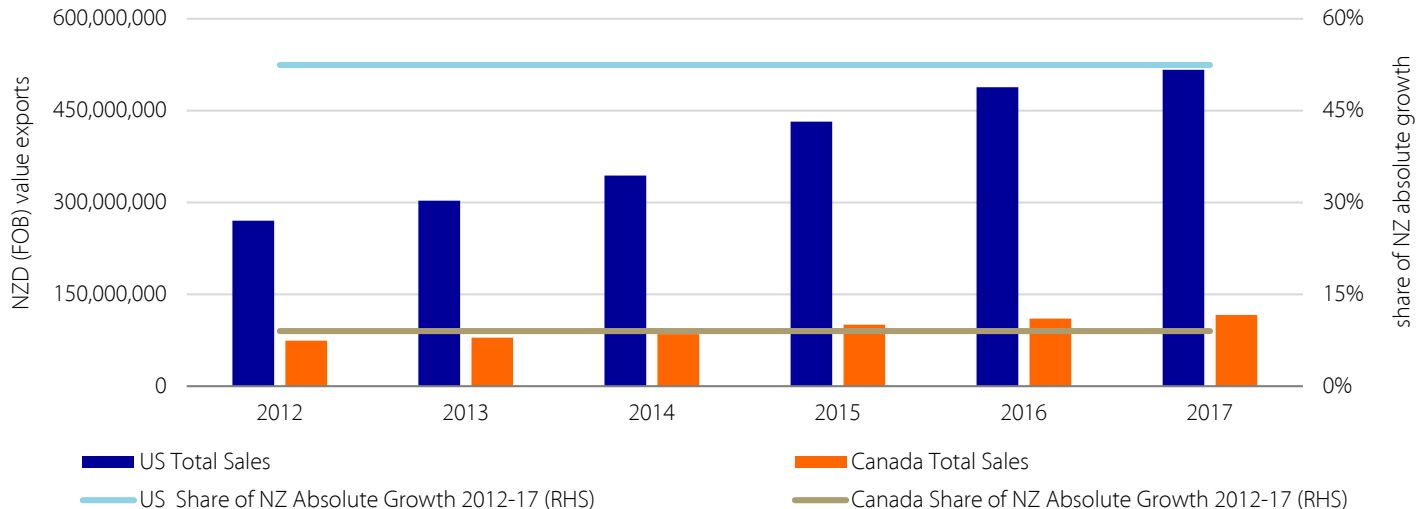
- ***Post-Brexit market access.*** With the Brexit date set for 29 March 2019, exporters should be mindful of any potential disruption to entry into the UK afterwards. Intentions to keep trade freely flowing will remain front-of-mind for the UK. Even so, exporters should consider strategies to ensure sufficient volumes of product are in-market pre-Brexit to ensure availability post-Brexit, should any disruptions occur.

Key NZ Export Markets Continue to Grow



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US and Canada exports: value growth continues, 2012-2017



Source: Statistics NZ Infoshare, Rabobank 2018

Both the US and Canada are key NZ markets that had a combined contribution of over 60% of NZ absolute value growth between the period 2012 to 2017.



Blueberry Exports to Australia Lift

Total volumes of NZ fresh blueberry exports were up slightly year-on-year to key export market Australia for the year ending July 2018. This was following a challenging period of weather across NZ in late 2017 and early 2018, impacting fruit quality.

Australian domestic production volumes have continued to grow by almost a third since 2013, sitting at around 9,353 tonnes in 2017. Australian consumption has grown, but is still modest, at less than 400 grams per capita (300 grams in 2013).

However, Australian domestic production has not kept pace with domestic consumption, allowing NZ to continue to increase its export volumes there.

NZ export volumes of fresh blueberries lifted by around 7.6% YOY to July 2018, with a slight increase of around NZD 0.75/kg (FOB), or 3%. ***This export volume was around 11% lower than the record export volume in the year to July 2016. However, with an elevated price, total returns were similar, at FOB NZD 33.4m.***

NZ is a key supply market for Australia for fresh blueberries, with NZ increasing its exports to Australia by over 1,000 tonnes since 2006. This is a compound average growth rate of around 19% for the period.

NZ itself exports to very few other countries in any significant volume, with more than 93% of its export volume going to Australia.

What to watch

- ***Pipfruit opportunities.*** Following a significant frost event in some of China's key apple-growing regions earlier in the year, a watch on the impact to the country's crop. With China the world's largest apple producer, any material impact to its crop will have flow-on effects for all exporters.
- While not a significant market, at around 2% of NZ apple export value in 2017, India's continued refusal to grant Chinese apples entry on phytosanitary grounds may also present NZ exporters with an opportunity.

Horticulture



Blueberry Exports to Australia Continue to Grow



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Annual exports to Australia to July, 2006-2018



Source: Statistics NZ, Infoshare, Rabobank 2018

Export volume improved on 2017, but difficult weather conditions impacting fruit quality restricted a potentially higher export volume.



Fertiliser

DAP Price Streak Continues

Prices of DAP ex-US Gulf have been on an upward trend since November 2017. **The AUD-adjusted price rose 2% during July, to AUD 584/tonne.** Firming demand, following improved crop prices, is pushing prices higher from the low price environment experienced in 2016 and 2017. Market commentators have noted that the USD 12bn government support package has driven some demand, while over the next month, tighter US supply and prolonged demand will continue the growth in prices.

Urea prices were moderately stable through July, up 1% MOM, with urea ex-Middle East closing July at AUD 385/tonne. India announced a new tender of an unspecified amount of urea for loading in September. Price movement over the next two months will largely depend on Iran's involvement in supplying the tender, after quoting a significantly lower price than other suppliers. The reduction of lower-priced Iranian supply in other global markets will act to firm prices.

MOP ex-Vancouver slightly lost ground in July, down 1% MOM, closing at AUD 292/tonne. There has been no news regarding the Chinese potash negotiation, which sets benchmark prices for the proceeding 12 months.

In industry news, Balance announced a 25% lift in its gross trading result. Also announced was that the NZD 45/tonne rebate will continue.

What to watch

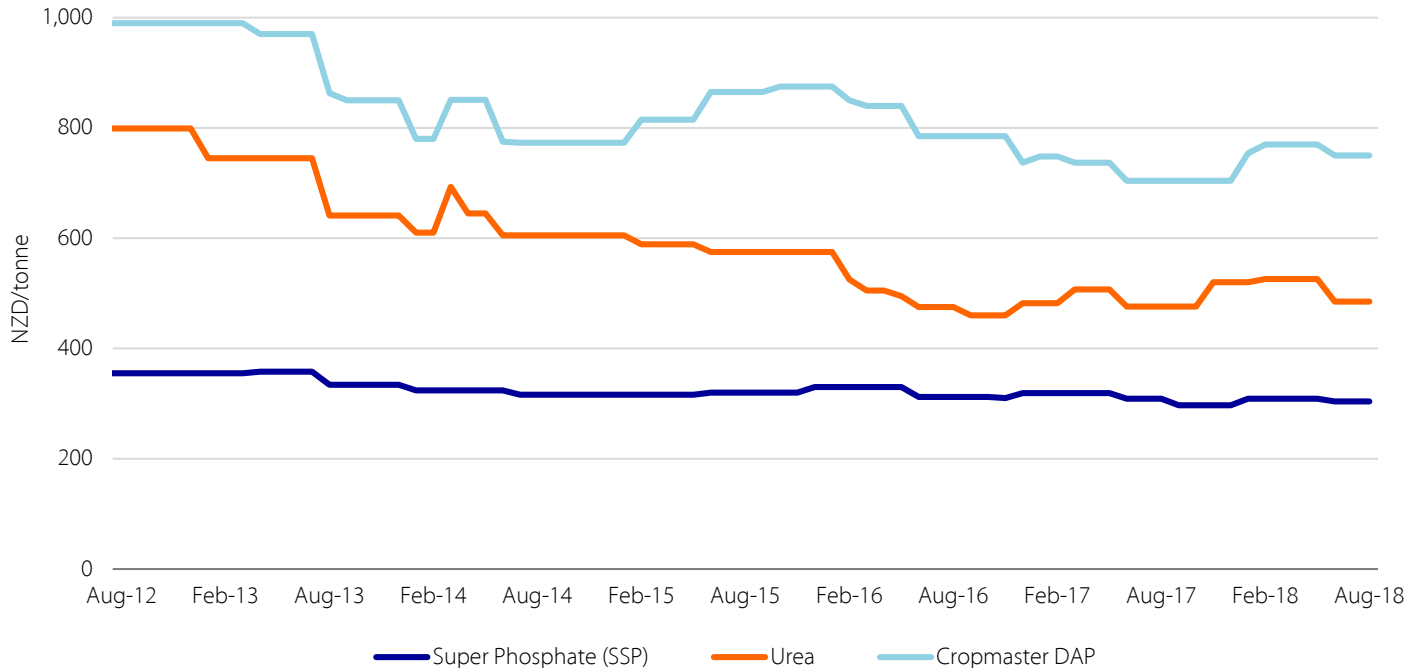
- Spring is the key time for urea applications in NZ. With the milk price profitable and positive seasonal conditions for urea, demand is expected to remain strong.

Local Prices Remain Stable



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NZ reported retail prices, Aug 2012-Aug 2018



Source: Bloomberg, Rabobank 2018



NZ Dollar Fall Slows in July

After losing USc 2.5 against the USD in June, **the NZD fell another cent in July – to sit at USc 67.49 on 8 August.**

As widely expected, the Fed kept the target range for the federal funds rate unchanged at 1.75% to 2.00% in July. But the FOMC upgraded its assessment of economic growth to 'strong' from 'solid', reflecting the strong Q2 GDP report (4.1% growth) published in late July.

The committee stated that it expects "that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labour market conditions, and inflation near the committee's symmetric 2% objective over the medium term".

We continue to expect at least one more interest rate hike in the US the next 12 months. But if the trade conflicts do not escalate and the yield curve does not invert before the end of the year, a further additional hike becomes a distinct possibility. The Fed itself has three more hikes planned for 2019, according to its current published 'dot plot'.

While the US continues on a phase of monetary policy tightening, the situation in NZ is far more benign. We expect the RBNZ to keep the overnight cash rate unchanged at 1.75% when it meets on 9 August, given domestic inflation remains below the 2% mid-point of its target, and trade tensions are causing considerable uncertainty about the regional and global economic outlook.

As monetary policy in the US tightens and NZ settings remain unchanged, **we continue to expect to see the NZD soften to USc 65 by July 2019,**

What to watch

- **The potential for further depreciation in the Chinese CNY.** Somewhat unusually, the PBOC allowed the CNY to drop another 2.5% against the USD in the month to 3 August, with the CNY now down 8.7% in value against the USD since February – more than the NZD has fallen. Thus, while NZ exporters have become more competitive against those in the US, they have seen no improvement against Chinese ag producers – with potential to even lose ground in coming months as the PBOC switches to easing monetary policy to support domestic demand.

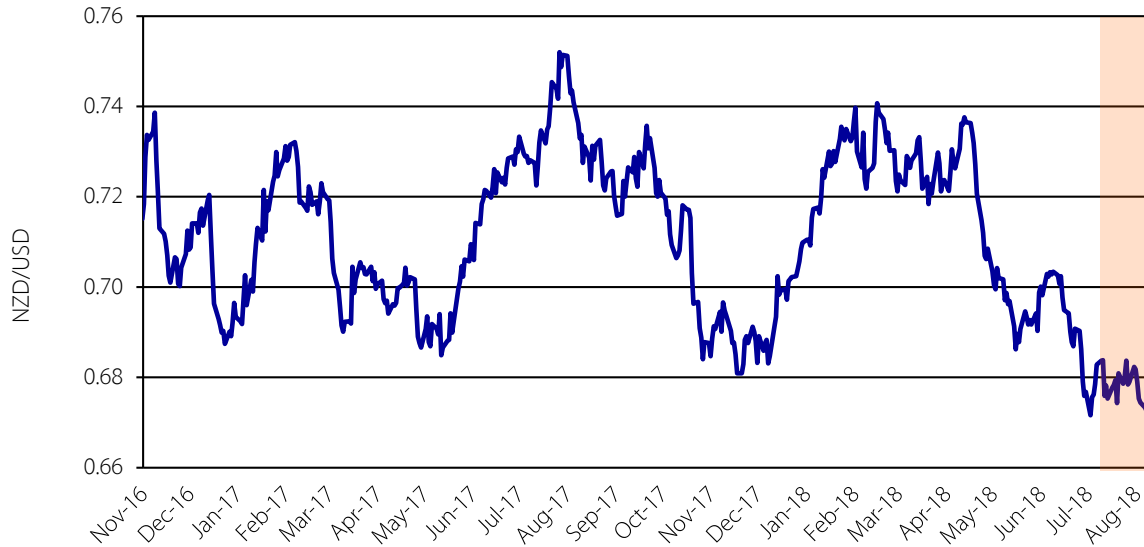
FX

NZ Dollar Fall Slows in July



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NZ/US dollar cross rate, Nov 2016-Aug 2018





Tides Turn on Brent Crude

Brent Crude failed to reach a sixth consecutive month of gains, falling 3.9% MOM, closing July at US\$ 74.25/bbl. Supply factors continue to dominate headlines following OPEC's decision on 22 June to increase production. Supply grew faster than expected from the world's top-three oil producers: the US, Russia, and Saudi Arabia. US production topped 11mb/d, up from 10.5mb/d in April. During the OPEC agreement, Saudi Arabia produced ~10mb/d, but following the 22 June decision, it is now producing closer to 11 mb/d. Production growth in Russia was largely stagnant from May 2017 to May 2018, but the country has now increased production to 11.2mb/d, up 0.3mb/d since May.

Despite extra production, tensions in the Middle East continue to impact prices. Saudi Arabia suspended exports on one of its key trade routes after being attacked by Iranian-backed Yemini rebels. In addition, President Trump's 'constructive' meeting with the president of the European Commission has put the trade war on hold, adding support to prices. **Rabobank forecasts prices to move back above US\$ 80/bbl during Q3, before moving toward US\$ 75/bbl in the first half of 2019.**

The first six months of 2018 were mixed for the Baltic Dry Index. Freight rates contracted during Q1, before moving on an upward trend during Q2. **The Baltic Dry Index increased 22% MOM during July, up 325 index points, to 1,747.** Traditionally, freight demand is lower during the northern hemisphere summer, lowering prices. Freight rates have been supported by strong demand on key iron ore routes. Rabobank maintains its view that freight rates will continue to increase, with dry bunker fuel trading in a higher range and a limited number of new capacity coming online.

What to watch

- **Iran sanctions.** New US sanctions against Iran come into affect in early August. The market is concerned the effect a fall in supply will have on upward Brent Crude price movement.

Oil &
Freight

Freight Rates Sail North

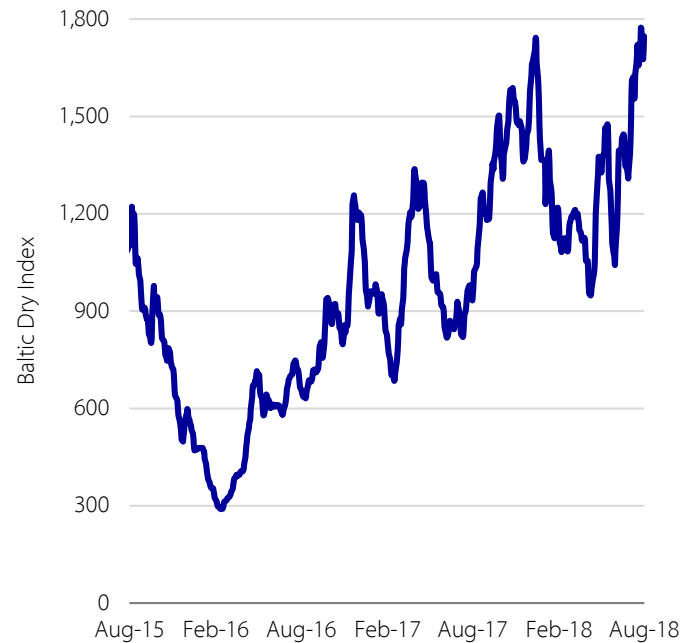


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Brent Crude Oil, Aug 2015-Aug 2018



Baltic Dry Index, Aug 2015-Aug 2018



Source: AIP, Bloomberg, Rabobank 2018

Source: Bloomberg, Rabobank 2018

Agri Price Dashboard

As of 6/08/2018	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	575	513	455
CBOT soybeans	USc/bushel	▲	877	874	949
CBOT corn	USc/bushel	▲	371	352	367
Australian ASX EC Wheat	AUD/tonne	▲	395	322	271
Australian Canola	AUD/tonne	▲	583	530	514
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	477	512	574
Feeder Steer	AUc/kg lwt	▼	285	288	317
North Island Bull 300kg	NZc/kg cwt	▲	535	530	555
South Island Bull 300kg	NZc/kg cwt	▲	530	505	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	778	714	599
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	810	785	675
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	800	770	665
Venison markets					
North Island Stag	NZc/kg cwt	▲	1,100	1,080	890
South Island Stag	NZc/kg cwt	▲	1,135	1,110	910
Dairy Markets					
Butter	USD/tonne FOB	▼	5,025	5,688	5,975
Skim Milk Powder	USD/tonne FOB	▼	2,038	2,063	2,013
Whole Milk Powder	USD/tonne FOB	▼	3,000	3,200	3,225
Cheddar	USD/tonne FOB	▼	3,700	3,925	4,000

Agri Price Dashboard

As of 6/08/2018	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	99	92	80
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	88.7	86.4	71.0
Sugar markets					
ICE Sugar No.11	USc/lb	▼	10.98	11.51	14.14
ICE Sugar No.11 (AUD)	AUD/tonne	▼	328	342	394
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,981	1,994	1,522
NZ Coarse Crossbred Indicator	NZc/kg	▼	312	341	280
Fertiliser					
Urea	USD/tonne FOB	▲	285	280	203
DAP	USD/tonne FOB	▲	434	420	344
Other					
Baltic Dry Index	1000=1985	▲	1,773	1,622	1,032
Brent Crude Oil	USD/bbl	▼	74	77	52
Economics/currency					
AUD	vs. USD	▼	0.739	0.743	0.792
NZD	vs. USD	▼	0.673	0.683	0.741
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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