



Agribusiness Monthly October 2018

New Zealand

Food & Agribusiness Research and Advisory October 2018



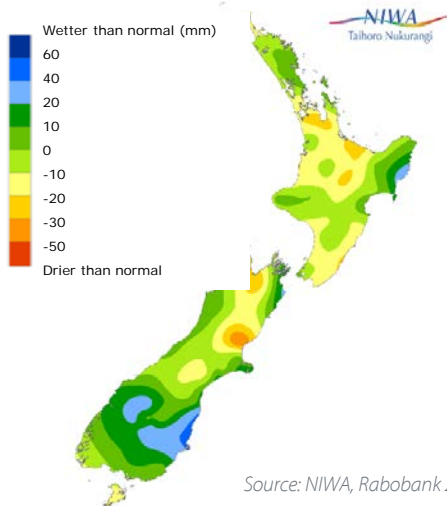
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Commodity Outlook

 Dairy	All eyes remain on New Zealand and the commodity price impact of strong milk flows over the coming weeks.
 Beef	Rabobank expects that the softening US imported beef price will put further downward pressure on farmgate prices during October.
 Sheepmeat	While easing procurement competition will put some downward pressure on prices, Christmas chilled trade premiums and seasonally tight supply will limit any downward price movements during October.
 Wool	Sluggish export demand is a concern for broad wool prices, which are battling to sustain any improvement.
 Wine	NZ wine exports to Canada see continued value and volume growth.
 Horticulture	The apple harvest is looking good in the US (a key northern hemisphere market).
 Fertiliser	Global phosphate prices may have peaked in the short term. We expect demand will decline during Q4.
 FX	We hold our 12-month forecast for the NZD to soften to USc 64 by September 2019.
 Oil	Our crude oil price forecast remains north of USD 80/bbl.



Soil moisture anomaly (mm), 2 October 2018



Source: NIWA, Rabobank 2018

NIWA are forecasting average temperatures for the north and east of the North Island through to November 2018. The remainder of New Zealand is equally likely to receive either average or above-average temperatures across the same period.

Rainfall totals from September to November 2018 are likely to be near normal (40% chance) or below-normal (35% chance) for most of New Zealand. However, the east of the North Island has a 45% chance of receiving normal rainfall through to November 2018.

Below-normal soil moisture levels are forecast for the east of the South Island over the months to November 2018. There is an equal chance of normal or below-normal soil moisture levels for the remainder of the country across the same period.

What to watch

- **El Niño conditions:** International guidance suggests a 65% chance of El Niño conditions developing for the tropical Pacific over the coming months to November 2018. The likelihood of El Niño conditions increases over the summer months, with a 78% chance for El Niño conditions between March and May 2019. If an El Niño eventuates, NIWA suggests that the event will not be in the strong category and so it is not anticipated to be of a similar intensity to what was previously experienced during 2015-16, 1997-98, or 1982-83.



How High Can Supply Bounce?

Most Oceania commodity prices experienced further downward pressure in September.

Buoyant New Zealand milk flows for the first three months of the season continue to provide buyers with no real urgency to procure product, and with October being the peak milk supply month, the market is anticipating some bounce in this season's milk production compared to last year. Rabobank still anticipates a 2% lift in flows for the 2018/19 season.

However, ***New Zealand milk supply is bucking the global trend of slower output.*** As tight margins on-farm and impacts from dry weather take effect, milk flows for Q3 18 are for just 0.5% YOY: the lowest since 2016.

RaboResearch anticipates global milk supply growing only modestly over the coming 12 months. While this will provide some upside to commodity prices, New Zealand's peak milk flows need to be worked through first. ***RaboResearch has revised its NZ forecast farmgate milk price lower to NZD 6.65kgMS for the 2018/19 season.***

Stocks of SMP still remain burdensome. European intervention stocks still need to be worked through, India has tagged a stockpile of SMP for export and US non-fat dry milk stocks are higher than the prior year. But there is some potential good news for SMP. ***As part of the USMCA trade agreement (replacing the old NAFTA), Canada has committed to limiting surplus SMP onto global markets.*** This could prove helpful in a market overloaded with surplus aging SMP.

What to watch

- ***Currency capers.*** Almost all currency values have softened against the USD over the course of the year – particularly emerging markets and exporter currencies. Rabobank expects the USD to remain well-supported moving into 2019, so expensive inputs for farm cost structures look set to continue. Should commodity prices lift as well, emerging markets could face a double whammy with weaker buying power in key regions and more expensive goods.

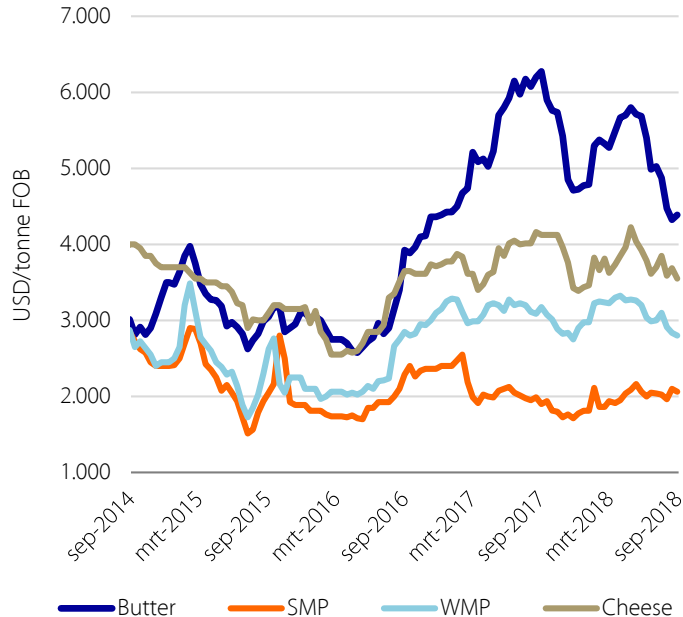
Dairy

Short-Term Pressure With NZ Spring Peak



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Global dairy prices, 2014-2018



Source: USDA, Rabobank 2018

Production growth key exporting regions

	Latest month	Last three months
EU	1% (July)	1.2%
US	1.4% (July)	1.2%
Australia	-4.2% (July)	-0.8%
NZ	5% (season to 31 August 2018)	

Source: Rabobank 2018



Beef

Declining US Market Impacting Prices

Weak demand from the US for imported beef product has seen New Zealand farmgate prices for manufacturing beef take a hit over the last month. As at the start of October, the North Island bull price is 5% lower MOM, averaging NZD 5.25/kg cwt, while the South Island bull price dropped 6% over the last month, averaging NZD 5.25/kg cwt. **Prime cattle prices, which aren't as reliant on the US market, held relatively steady during September.** As of the start of October, the North Island prime price was NZD 5.80/kg cwt (-2% MOM), and the South Island prime price NZ 5.75/kg cwt (-1% MOM).

US imported beef prices fell consistently throughout September, and are now 12%-15% lower YOY, and 17%-19% below the five-year average price. Growing US domestic beef production (up 3% YTD), in combination with increasing supplies of other proteins (pork production is up 4% YTD and poultry production is up 2.5%), and ongoing drought conditions causing some degree of cow herd liquidation, is driving down US demand for imported beef products. **With these dynamics likely to persist throughout the remainder of 2018, US demand for New Zealand beef looks set to remain weak in the short term at least.** However, the continual weakening of the NZD against the USD is helping to offset some of the negative impact on New Zealand farmgate returns.

New Zealand's second largest market, China, continues to perform strongly with YTD export receipts for the 2017/18 season (with September's exports still to be reported) already 33% higher than total export value received in 2016/17. The demand outlook for China remains positive in the short to medium term.

Rabobank expects that the softening US imported beef price will continue to put further downward pressure on farmgate prices during October.

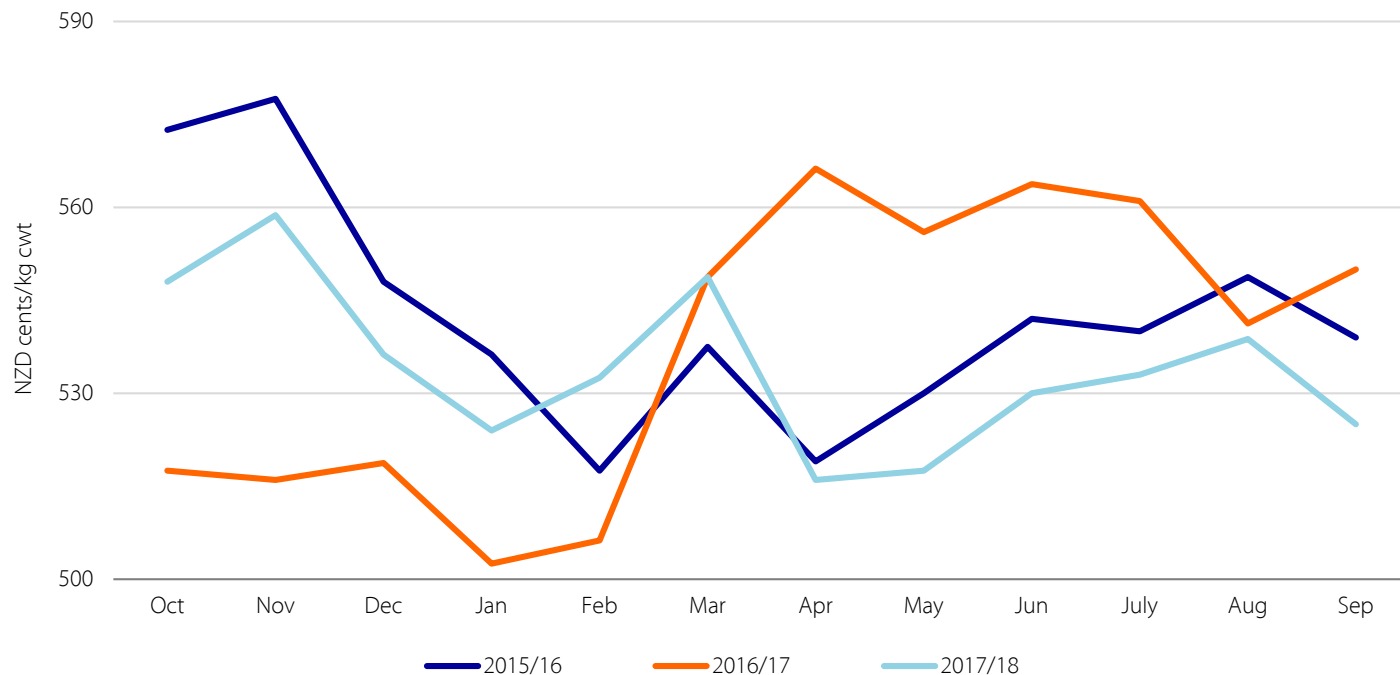
What to watch

- **African Swine Fever outbreaks** – Several outbreaks of African Swine Fever (ASF) were recorded in China in recent months, which raises the possibility of China – the world's largest consumer of pork – being forced to liquidate a proportion of hog herd. While the extent and timing of any herd liquidation remains uncertain, if ASF takes hold, it is likely China will need to increase imports of pork – and other meats, including beef – in 2019. An associated lift in global pork prices could also benefit supply chains in other regions.

North Island Bull Price



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Sheepmeat

Prices Starting to Come off Peak

The consistent price lifts over recent months that pushed prices to record levels came to a halt during September, suggesting prices have peaked, and have now started their seasonal decline.

As of the start of October, the schedule price in the North Island averaged NZD 8.40/kg cwt (2% lower MOM), while South Island lamb averaged NZD 8.10/kg cwt (2% lower MOM). Despite falling during September, these prices for the first month of the 2018/19 season are still well ahead of last season's opening prices, up 18% YOY in the North Island, and up 16% YOY in the South Island.

Increasing supply availability appears to have reduced some of the processor competition that has been underpinning the high pricing levels, providing processors with an opportunity to pull schedule prices back. ***This easing of procurement pressure is likely to continue to put downward pressure on prices. However, with chilled production for the EU Christmas trade now underway, and supplies not lifting in significant volumes until closer to December, there will be a limit to any downward price movements during October.***

New Zealand lamb exports for 2017/18 surpassed the NZD 3bn threshold first time in a single season during August (with export receipts for September still to be added to the season end total). Season-to-date export receipts to the US are up a healthy 20% on last year. With export supplies out of Australia to the US likely to be down in the coming months, following heavy slaughter rates earlier in the year due to drought, demand for New Zealand lamb from this growing market is likely to continue to be strong up until at least the end of the year.

While easing procurement competition will put some downward pressure on prices, Christmas chilled trade premiums and seasonally tight supply will limit any downward price movements during October.

What to watch

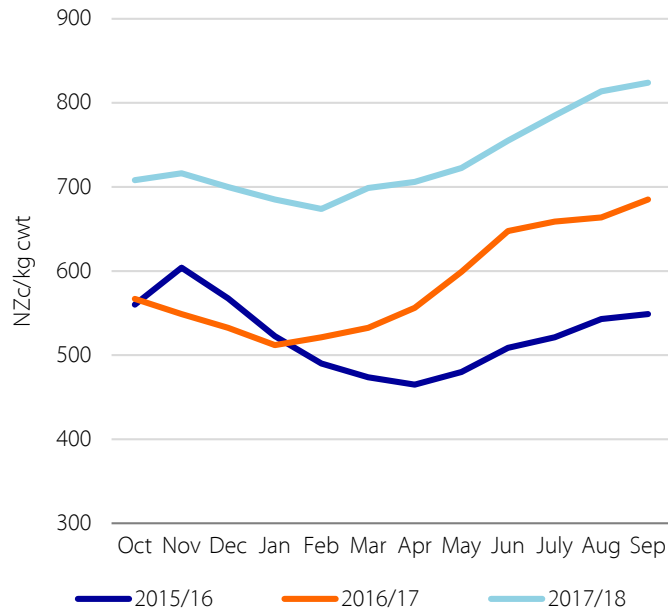
- **2018/19 mutton prices:** the strong pricing received for mutton during the 2017/18 season (which increased 45% on the previous season), looks set to continue into the upcoming 2018/19 season, with Beef+Lamb NZ's 'New Season Outlook' estimating the annual average mutton price at NZD 4.30/kg cwt (a 3% increase the 2017/18 price). Following elevated levels of mutton slaughter from New Zealand and Australia last season, mutton supplies from both countries look set to be tight for the coming season, helping to support pricing at current levels.

South Island Lamb Price and NZ Lamb Slaughter

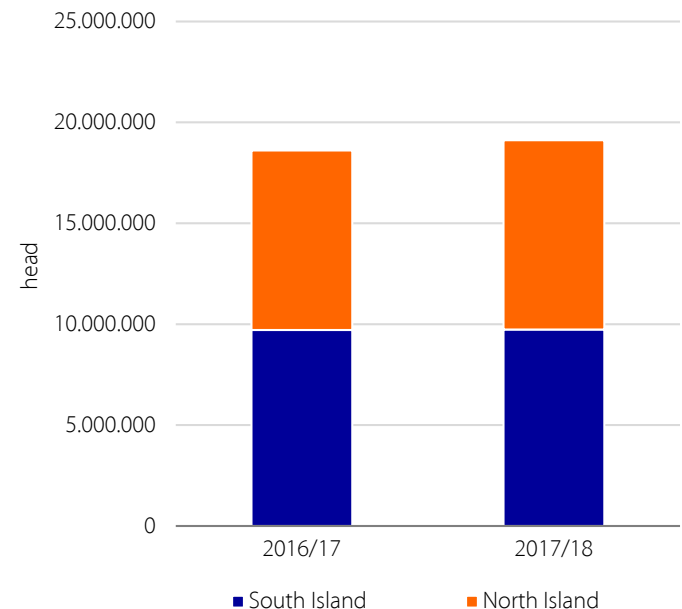


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South Island Lamb Price



New Zealand Lamb Slaughter (YTD-8 September)



Source: NZX AgriHQ, Rabobank 2018

Source: NZ Meat Board, Rabobank 2018



Wool

Steady Market For Crossbreds

The market for coarse crossbred rose slightly through the month before finishing September just about where it started, with the NZWSI coarse crossbred indicator at NZc 330/kg clean. Clearance rates at auction also fell towards the end of the month.

Beef and Lamb New Zealand released the New Season Outlook for 2018/19 through the month which estimated a 4.3% lift in the forecast value of all wool for the season. This comprised of gains in crossbred, lambs and medium wool and a fall in the value of fine wool. Wool production in New Zealand is forecast to fall 2.2% reflecting lower fleece weights and fewer (-1%) sheep shorn.

Fine wool prices continue to reflect the relative strength of the Australian market. Although prices softened 4% through September, reduced supply remains a critical and positive factor for the price outlook. Although official forecasts suggest a 6% decline YOY in Australia, auction volumes have been 14% lower in the 18/19 season and wool tested some 12% behind last year.

New Zealand wool exports had a disappointing month in August. The volume shipped to China was the lowest since August 2016.

Textiles had largely been left out of the trade war to date but were implicated in the latest round of tariffs implemented by the US. Semi-processed wool products such as wool yarn and fabric, as well as wool carpets, imported from China will attract a 10% tariff. China is the second-largest supplier of wool carpets to the US behind India.

What to watch

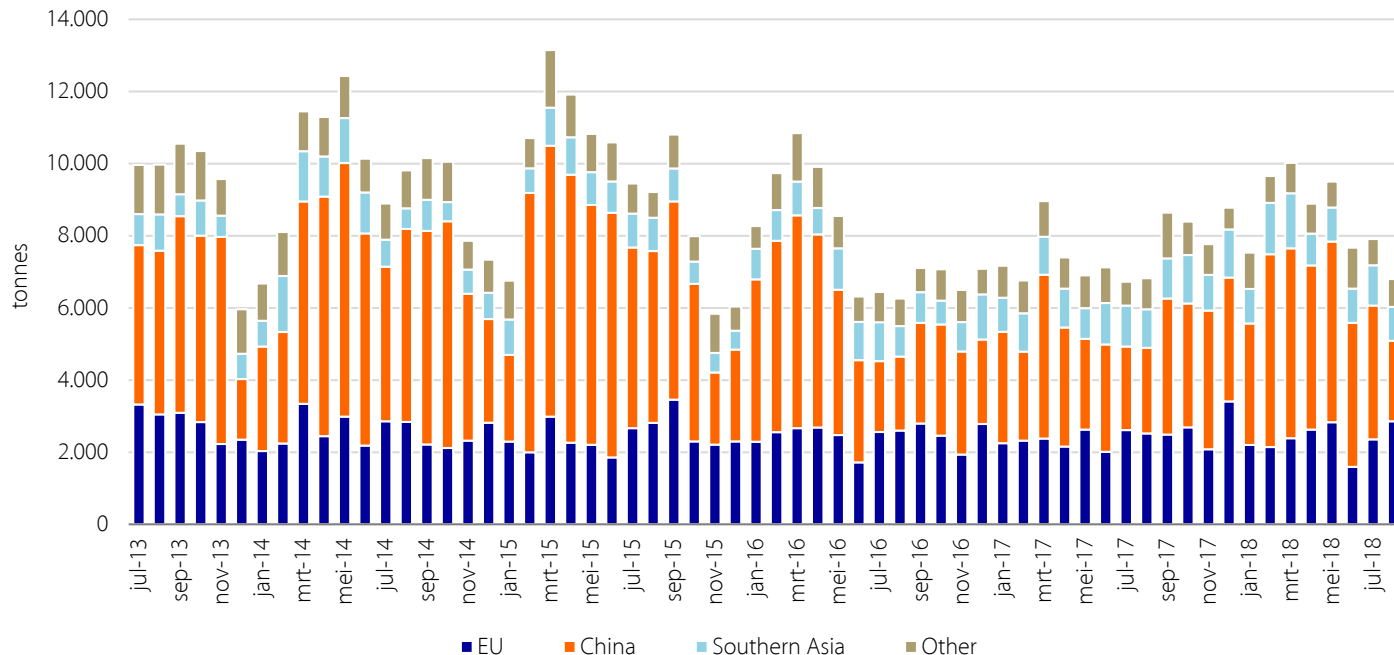
- Export volumes in the coming spring months will be important to track to see if the slowing of volume in July and August continues.
- Implementation of current tariffs and any further escalation of the US trade war may contribute to further dampened demand for broad wool in China and should be watched.

Wool Exports Faced Another Tough Month



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Export shipments remain sluggish and indicative of the ongoing slow demand for broad wool



Source: Beef & Lamb NZ, 2018



Canada: Wine Import Value Growth

Wine represents a significant component of the alcohol beverage market in Canada. ***Retail sales of wine in Canada in 2017 accounted for CAD 7.2bn of total alcoholic beverage sales of CAD 22.5bn.***

Imports of wine into Canada from all partners have shown a consistent growth trend over the past ten years. ***Official figures show that imported wine volumes have increased by over a third during this period, with value up by around 20% at the same time.***

Canada has, for a long period of time, been one of the top wine export destinations for NZ by value. Canadian consumers traditionally have shown a preference for red varietals, with white wine varietals only 32% of wine consumed in 2017. Despite this, ***NZ has achieved a successful export programme to Canada based on white wine (which accounts for 93% of NZ shipments to this market).*** NZ Chardonnay is a key component of this at around 16% of NZ total chardonnay exports by volume to June 2018.

NZ accounts for less than five percent of total Canadian bottled wine imports. Ten countries provide 97% of Canadian imported bottled wine collectively (where NZ is ranked eighth). ***However, similar to the US market, of the top-ten wine exporters, NZ achieves the second-highest price in CAD/litre, behind France.***

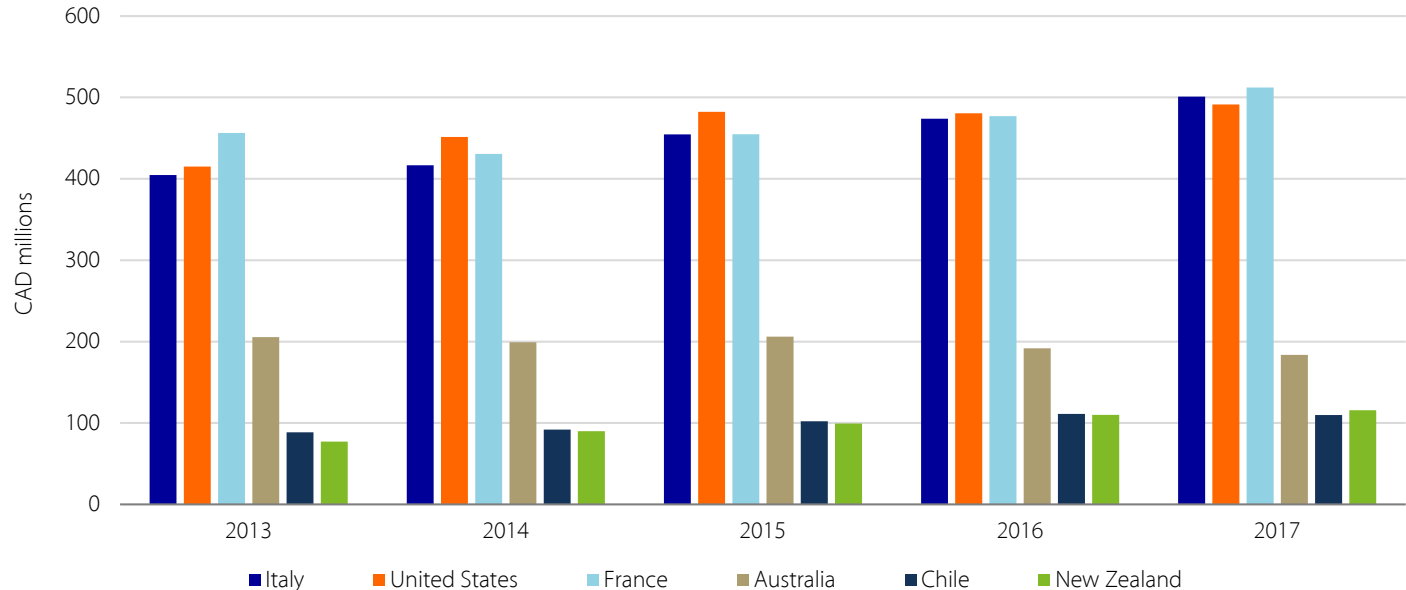
NZ has slipped from the number one position for value per litre in 2013, however has, at the same time, lifted both the absolute value and volume of bottled exports to Canada by over 50%.

Wine

What to watch

- ***Competitiveness of Eastern European wines in the EU and UK*** – Following the short European harvest of 2017, importers in the EU and UK turned to Eastern European wines to fill supply gaps. Reportedly, consumers in the UK found the wines provided both good value and quality, lifting consumer interest in wines from this region.
- If the 2018 vintage returns to more normal levels in Europe. Keep an eye on whether consumers in the EU and UK continue to support Eastern European wines

Canadian Bottled Wine Imports: Key Suppliers



Source: Canadian Vintners Association, FAO, Rabobank 2018

France, Italy, US, Australia and Chile are the top-five suppliers of Canada's imported bottled wine by value, with New Zealand ranking eighth.



US Apple Harvest: Well Underway

The 2018 US crop has been estimated by the US Apple Association at around 265m 18.4kg Tray Carton Equivalent.

Growers are reporting the early harvest crop in Washington state is below their initial expectations which is linked back to challenging conditions at bloom in the US spring.

The Midwest and East reportedly has a crop that looks better and the area has had favourable growing conditions right across their season to date in New York State and Michigan, with good fruit quality and sizes.

US apple exporters have been facing continued trade challenges. Mexico in June applied a 20% tariff to US Apples imported into Mexico. Mexico historically has imported up to thirty percent of US fresh apple exports by volume. However, with the recently agreed USMCA trade deal between Canada, Mexico and the US these tariffs will come off. US apple producers do continue to attract additional trade tariffs resulting from the current US and China trade dispute.

Closer to home, the NZ fresh produce sector is currently working on the Produce Traceability Initiative project. ***This multi-party project aims to achieve whole chain traceability.*** The project is being led by United Fresh in conjunction with two other international parties and has funding support from the Sustainable Farming Fund.

The cooler weather experienced recently over the NZ winter has helped to lower the overall cost of broccoli, through good production. ***The drop in the price of broccoli has also contributed to a drop in overall food price index values.***

What to watch

- ***Developments with imported apple and stonefruit material*** – The ongoing and well-documented issues that arose involving MPI, growers, nurseries, and United States-based Clean Plant Centre, appear to have taken a positive turn. On 25 September, MPI released around 20,000 apple plants and 400 stonefruit plants from their restrictions. How this continues to evolve will be important for future new cultivars and development for the NZ pipfruit and stonefruit sectors.

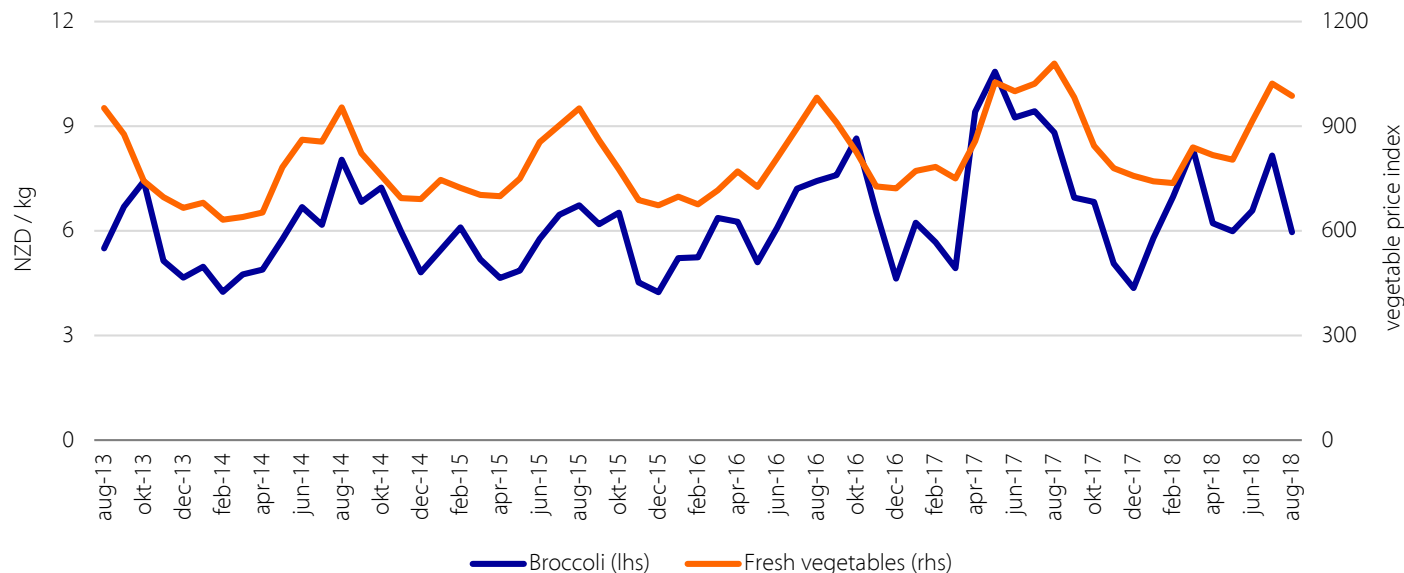
Horticulture



Cool Winter Weather Lifts Broccoli Production and Lowers Price



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Source: Statistics NZ, Infoshare, Rabobank 2018

2018 broccoli prices reduced from their July peak in August, which was still below a five-year high hit in the 2017 winter, due to extremely wet conditions at the time.

Local Prices Up, In Line with Global Prices

Price pressure continued to grow in the fertiliser complex during September, with **three global forces acting to elevate local phosphate and urea values**. Urea rose NZD 45/tonne, to NZD 570/tonne during September – this follows a NZD 40/tonne jump in August. DAP rose NZD 25/tonne to NZD 780/tonne.

Firstly, global benchmarks are now at their highest point for three years. Urea ex Middle East is trading above USD 300/tonne (up 7% MOM) FOB for the first time since July 2015, while DAP ex US Gulf FOB (USD 439/tonne) is at its highest point since November 2015.

A move in the corn/soybean ratio in favour of corn, and a lift in global wheat prices is primarily responsible for the lift in urea prices. Demand has been strong from Brazil, Asia, and Africa of late. In Brazil, imports of urea in 1H '18 were lower than expected to due lower investment in the 2017/18 corn crop and a truck strike in May. Tight inventories will drive extra Brazilian demand in coming months. Rabobank expects urea prices to remain firm over the coming months. In the near term, a new tender from India will sustain demand. The extent to which higher corn area relative to soybean planted area drives demand for urea is a key watch factor in the US.

Demand has also elevated prices for phosphate. Rabobank expects prices to stabilise with some easing of demand, mainly from India, in Q4.

Secondly, a weaker NZD is decreasing the purchasing power of importers, affecting imports of product and raw materials. The NZ dollar has weakened 9 cents against the USD since the beginning of 2018.

Finally, ocean freight rates have been rising since Jan 2016. The rising cost of fuel (crude oil values have tripled since 2016), together with a decrease in new shipping capacity has elevated freight rates.

What to watch

- **Late spring demand** – Following a rebalance of NZ retail urea prices to reflect the rise in global benchmarks, any late spring shifts in local urea prices will be dictated by local demand and availability.



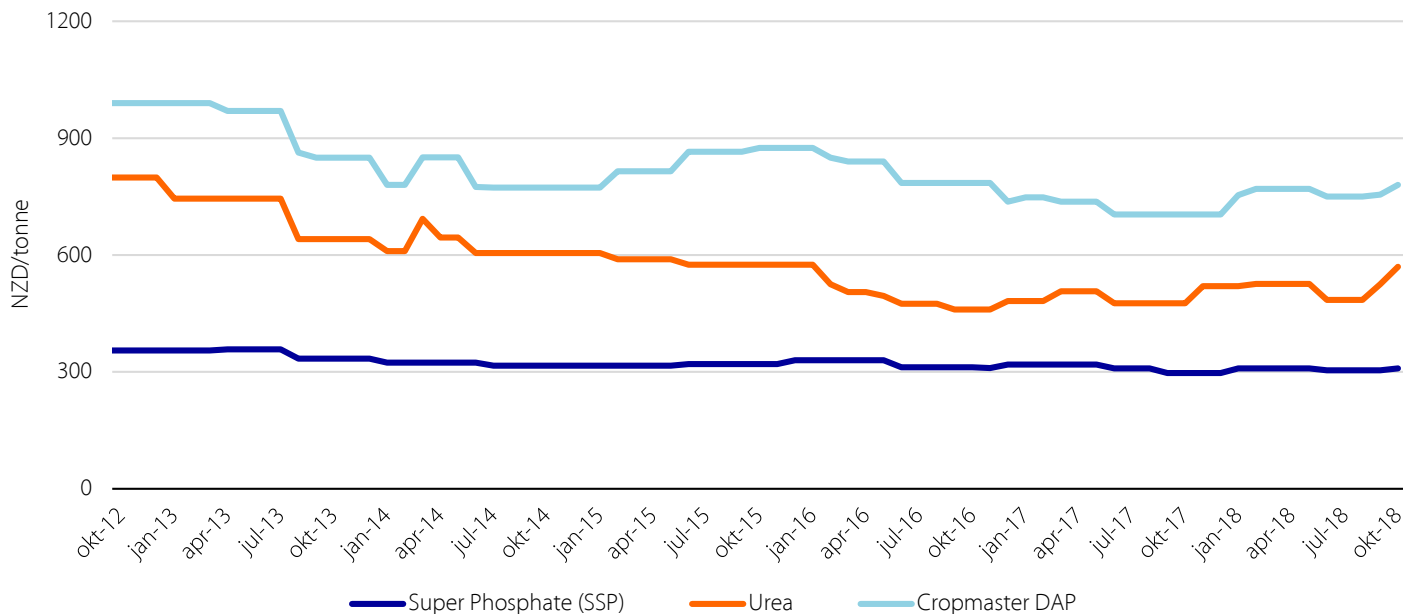
Fertiliser

Local Prices Rose but Remain Historically Low



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Local NZ reported retail prices



Source: Ravensdown, Rabobank 2018



Stronger GDP Buoy NZD

A small bounce in the NZD through mid September proved short-lived, with the **NZD trading at US\$ 64.42 on 8th October – its lowest since early 2016.**

The NZ currency was temporarily buoyed by a stronger than expected economy in Q2. GDP grew 1.0% QOQ, double the pace of the previous quarter, with services industries leading the expansion. In its August policy statement, the RBNZ said that “we expect to keep the OCR at this level through 2019 and into 2020, longer than we projected in our May Statement”. The strength of the Q2 GDP release will prove a test to this outlook. However, in view of headwinds in the form of slowing Chinese growth and low business confidence, we expect no policy change in the coming months.

As widely expected, in the US, the FOMC decided to hike the target range for the federal funds rate by 25 bps. the FOMC expects one more hike this year, followed by three in 2019 and one in 2020.

Rabobank has changed its forecast to now also anticipate one more US rate hike this year, with the next hike in December. While we stuck to our call of three hikes in 2018 as the US-China trade war escalated, it is clear that the FOMC remains sanguine about the impact on the US economy. With recent data indicating that domestic momentum remains strong, it would take time for the trade war to slow US economic growth down to a pace that would concern the FOMC

As monetary policy in the US tightens and NZ settings most likely remain unchanged, **we hold our 12-month forecast for the NZD soften to US\$ 64 by September 2019.**

What to watch

- **Trade wars (again).** The latest set of US tariffs on USD 200bn of Chinese goods took effect on Monday 24 September. China is set to retaliate with tariffs on USD 60bn of US products, which would trigger duties on USD 267bn of Chinese imports as President Trump threatened.
- While the markets show some resilience to the ongoing China-US trade spat, the prospects of further escalation of trade tensions do not bode well for risky assets. We are not convinced that Emerging Market currencies have reached their nadir and the AUD and NZD will not be immune.

FX

NZ Dollar Rises A Little



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NZ/US dollar Cross Rate



Source: RBA, Rabobank 2018



Oil Hits Four-Year High

Brent Crude oil prices have increased to USD 84.80/bbl, up 10% MOM. This is the highest oil price since November 2014 and the move higher was triggered by fears of a supply shortage as the November 4 deadline for Iran oil sanctions approaches. Furthermore, the Joint Opec-non-Opec Ministerial Monitoring Committee agreed to increase production by 350kbpd. The market, however, was looking for more assurance of future supply and rallied sharply on this uncertainty. Production in Venezuela also slipped further, contributing to the upward pressure on oil prices. **Rabobank maintains its forecast that crude oil prices will continue to trade above USD 80/bbl, before returning back to the mid-70s in the longer term.**

The Baltic Dry Index has decreased two points since the beginning of September, where it currently sits at 1555 points. The index plunged to 1356 in the first half of September due to growing uncertainty around the trade war's impact on freight rates, however has since bounced back. This is due to a decrease in China's domestic production as a result of environmental compliance inspections and elevated steel margins, which has lead to rising iron ore imports from Brazil and Australia.

Bloomberg forecasts that the index could reach a five-year high in the coming months, off the back of robust Chinese demand, as they invest heavily in renewed infrastructure, before dipping in late December.

What to watch

- **USD 100/bbl** – If OPEC fails to increase supply, it is possible that Brent Crude oil prices could trade around USD 100/bbl.

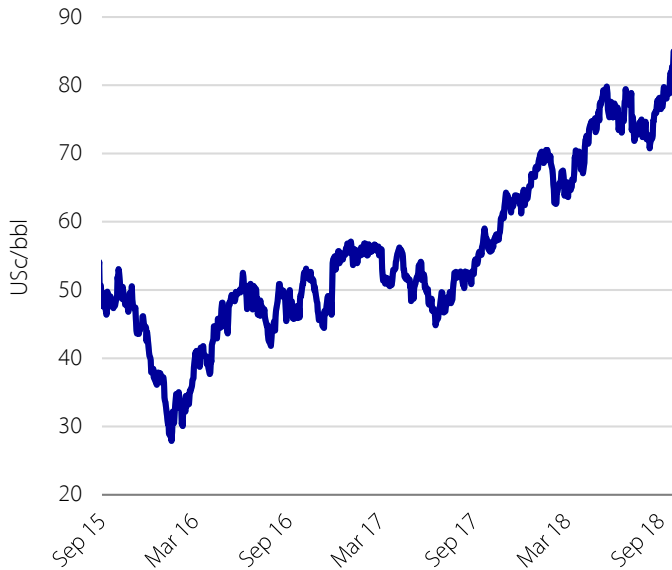
Oil &
Freight

Brent Crude Oil Surges



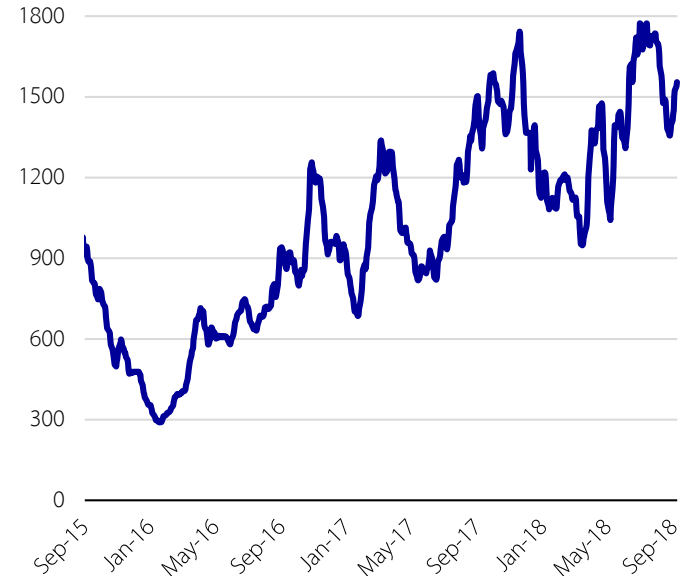
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Brent Crude Oil, September 2015 to end of September 2018



Source: AIP, Bloomberg, Rabobank 2018

Baltic Dry Index, September 2015 to end of September 2018



Source: Bloomberg, Rabobank 2018

Agri Price Dashboard

As of 2/10/2018	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	519	561	445
CBOT soybeans	USc/bushel	▼	866	883	957
CBOT corn	USc/bushel	▲	368	367	352
Australian ASX EC Wheat	AUD/tonne	▲	443	384	285
Australian Canola	AUD/tonne	▲	650	587	485
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	481	477	508
Feeder Steer	AUc/kg lwt	▼	278	281	270
North Island Bull 300kg	NZc/kg cwt	▼	525	535	540
South Island Bull 300kg	NZc/kg cwt	▼	500	530	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	707	788	603
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	840	810	715
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	810	800	710
Venison markets					
North Island Stag	NZc/kg cwt	▲	1,150	1,100	980
South Island Stag	NZc/kg cwt	▲	1,140	1,135	970
Dairy Markets					
Butter	USD/tonne FOB	▼	4,388	5,025	6,275
Skim Milk Powder	USD/tonne FOB	▲	2,063	2,038	1,900
Whole Milk Powder	USD/tonne FOB	▼	2,800	3,000	3,175
Cheddar	USD/tonne FOB	▼	3,550	3,700	4,125

Agri Price Dashboard

As of 2/10/2018	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	86	98	79
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	76.6	89.4	68.2
Sugar markets					
ICE Sugar No.11	USc/lb	▲	12.07	10.59	14.31
ICE Sugar No.11 (AUD)	AUD/tonne	▲	370	317	403
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	2,013	1,981	1,522
NZ Coarse Crossbred Indicator	NZc/kg	▲	330	312	308
Fertiliser					
Urea	USD/tonne FOB	▲	320	285	275
DAP	USD/tonne FOB	▲	439	434	345
Other					
Baltic Dry Index	1000=1985	▼	1,555	1,756	1,328
Brent Crude Oil	USD/bbl	▲	85	73	56
Economics/currency					
AUD	vs. USD	▼	0.719	0.736	0.783
NZD	vs. USD	▼	0.659	0.675	0.720
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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