



Agribusiness Monthly September 2018

New Zealand

Food & Agribusiness Research and Advisory September 2018



Rabobank

Commodity Outlook



Dairy

Rabobank still anticipates 2% growth for New Zealand milk production in the 2018/19 season.



Beef

Rabobank expects that seasonally tight cattle supplies and the weakened NZD will keep prices firm through September.



Sheepmeat

Rabobank expects procurement competition to continue to move schedule prices upwards through September.



Wool

Continued weak demand for coarse wool from China will maintain price pressure. The Merino and medium wool outlook is more constructive, with global supply falling in 2018/19.



Wine

New Zealand wine exports to Australia have fallen but the average price per litre improved.



Horticulture

New Zealand export volumes and prices continue to rise for both fresh cherries and pipfruit.



Fertiliser

Global price movements will be critical to local spring prices.



FX

We expect to see the NZD fall to USc 64 by August 2019, shaving one cent off our last forecast.



Oil

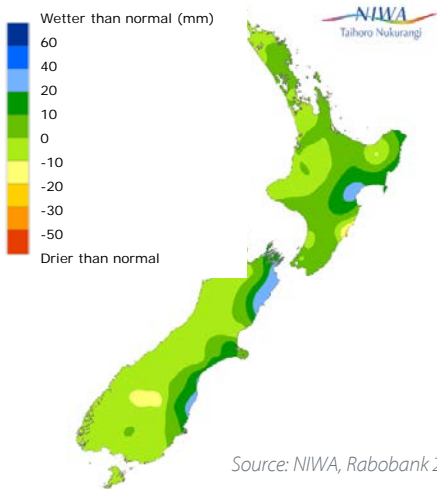
Rabobank forecasts crude oil prices to trade north of USD 80/bbl, before returning to the mid-70s in the longer term.

Climate



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Soil moisture anomaly (mm), 9 September 2018



Source: NIWA, Rabobank 2018

NIWA is 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, so it is not expected to be of a similar intensity to what was previously experienced during 2015-16, 1997-98, or 1982-83.



The Price Pressure Is On

Global commodity prices experienced some downward pressure in August. This was not surprising given the general feeling that New Zealand milk production is expected to be plentiful, with largely benign weather conditions suggesting a strong start to the season. Buyers are in no rush to procure stock and are happy to wait and see how New Zealand's spring peak pans out. RaboResearch still anticipates milk production across the season to lift by 2%. **On the back of weakening commodity prices, Fonterra revised down its 2018/19 forecast** farmgate milk price from NZD 7.00/kgMS to NZD 6.75/kgMS. Despite the 25 cent haircut, this is still a healthy milk price forecast.

Elsewhere around the globe, the hotter summer temperatures are starting to show in the milk supply data. **Irish milk production was behind by 3.1% in July 2018 as a result of the impact of heat on grass growth.** July and August were very hot months and with feed costs lifting given the dry conditions and pressuring margins, RaboResearch expects milk production numbers to reflect these challenges, once finalised.

More SMP has been sold from intervention stores in Europe. 31,493 tonnes of SMP were sold at the most recent tender. This is a significantly higher amount than in the past two tenders (2,408 tonnes and 23,532 tonnes) and means the European Commission has now cleared about one-third of its stock holdings.

What to watch

- **US government support and its impact.** The US government has provided details of the financial assistance it will provide to US agriculture, including the dairy industry. The package includes cash payments, a food purchase programme, and trade marketing initiatives.
- **Trade wars.** The situation remains quite dynamic. The US and Canadian governments are still renegotiating NAFTA. This comes after a preliminary agreement was struck between the US and Mexico.

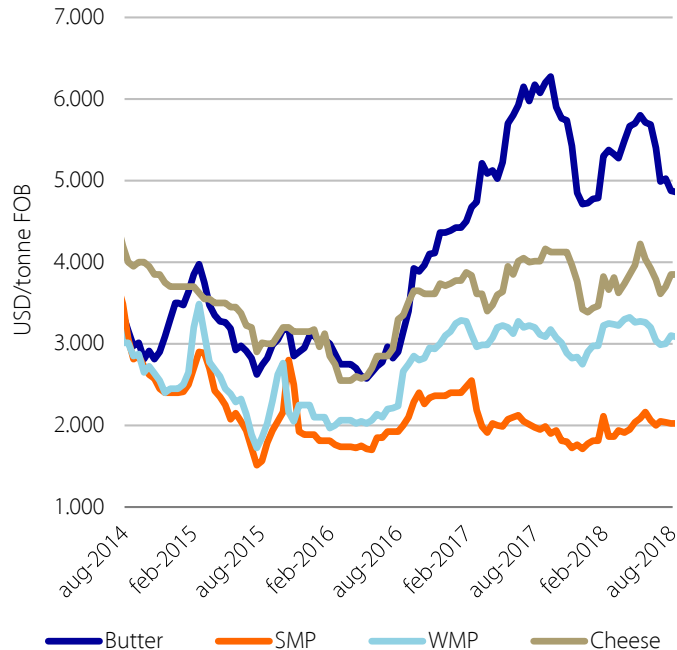
Dairy

Weather Risks to Global Supply Are Climbing



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Global dairy prices, 2014-2018



Source: USDA, Rabobank 2018

Production growth key exporting regions

	<i>Latest month</i>	<i>Last three months</i>
EU	1.1% (June)	1.1%
US	0.4% (July)	0.7%
Australia	-4.2% (July)	-0.8%
NZ	0.1% season final 2017/18	

Source: Rabobank 2018

Weakening NZD Supporting Prices

Farmgate returns through August remained relatively stable, with the weakening NZD and seasonal low supply helping to underpin current pricing levels. At the start of September, the North Island bull price was 3% higher MOM, averaging NZD 5.50/kg cwt, while the South Island bull price did not move over the last month, averaging NZD 5.30/kg cwt.

Heavy kill numbers through June and July resulted in a jump in New Zealand beef exports for the month of July. Exports for the month totalled NZ FOB 305.11m, up 20% on July last year on the back of a 22% increase in export volume. A large proportion of this increase went to China, with July New Zealand beef exports there up 53% on last year. **Overall, New Zealand's season to date exports (October to July) to China are up 36% on last season. This reflects China's strong growth in demand for beef imports in 2018.** China's imports from all countries for the first half of 2018 increased 40% YOY, driven by strong domestic demand and tight local supply.

Beef + Lamb New Zealand (B+LNZ) recently released its Stock Number Survey, which estimated the New Zealand beef cattle herd at 3.68m head at 30 June 2018. This is a 1.9%, or 68,000 head, increase on the previous year. This is the second straight year that New Zealand's beef cattle herd numbers increased following over a decade of decline, with multiple seasons of strong beef prices incentivising farmers to lift their herd sizes.

Outside China, beef prices in New Zealand's key export markets remain relatively flat. However, the continuing depreciation of the NZD (it is now at its lowest point against the USD since February 2016) has helped to protect farmgate returns against some of this negative market pressure.

Rabobank expects the seasonally tight domestic supplies over the next month to keep prices firm throughout September.

What to watch

- **B+LNZ levies set to increase.** Following consultation earlier in the year, B+LNZ's Board has decided to proceed with the proposed increase in beef and sheepmeat levies. From 1 October 2018, the levy for sheepmeat will increase NZc 10 to NZc 70 per head and the beef levy by NZc 80 to NZD 5.20 per head. The increased levies will contribute to accelerating a number of B+LNZ's key programmes, including the international activation of the Taste Pure Nature origin brand and the Red Meat Story. B+LNZ reported that almost 63% of respondents backed the levy increase.

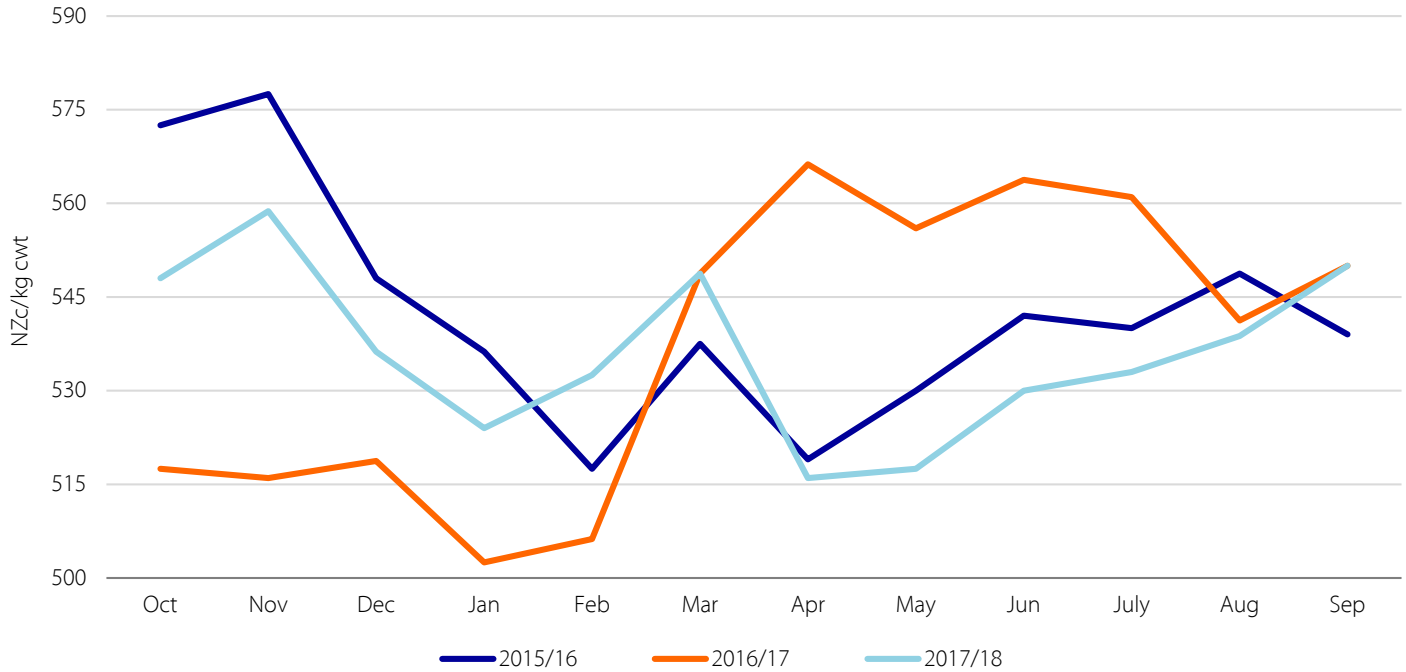


Beef

North Island Bull Price



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Source: NZX AgriHQ, Rabobank 2018



Competition Fuelling Price Lifts

The intense competition between processors for the remaining lamb supply has pushed schedule prices to unprecedented levels, with further lifts likely over the final month of the 2017/18 season. As of the start of September, the schedule price in the North Island averaged NZD 8.55/kg cwt (6% higher MOM), while South Island lamb averaged NZD 8.30/kg cwt (4% higher MOM). Schedule prices are now 22% up YOY in the North Island and up 21% YOY in the South Island.

While domestic schedule prices continue to push higher weekly, there are signs that in-market performance in some key markets is just starting to soften slightly. In particular, the hot summer conditions in Europe have had a negative impact on demand for lamb there, while there are also reports of inventory levels starting to rise in China. This means current schedule lifts are largely coming off processors' margins, although the weakening NZD is also providing some pricing support. ***This does have the potential to put some additional downward pressure on schedule prices later in the season when processors may look to regain some lost margin when the supply of lambs begins to increase.***

Overall though, exports are continuing to perform strongly. Export volumes to China for the month of July were up 53% on last year, with the average value received per tonne also up a healthy 18%. July exports to New Zealand's largest regional market, the EU, were also up on last year, 9% by volume and 7% by average value received per tonne.

Rabobank expects procurement competition, supported by the weakened NZD, to continue to move schedule prices upwards throughout September.

What to watch

- **2018 spring lamb crop** – B+LNZ's Stock Number Survey estimates that New Zealand's lamb crop for the 2018 spring will be down 900,000 head (-3.8%) on spring 2017. That would make it New Zealand's lowest lamb crop on record. The continued long-term decline in the number of New Zealand's breeding ewes, combined with poorer-than-expected scanning results in some regions are the main reasons for the decline. While the impact of climatic conditions on survival rates through spring will still have a major influence over the final lamb crop for 2018/19, it is clear that supplies of New Zealand lamb are set to remain tight for the coming season.

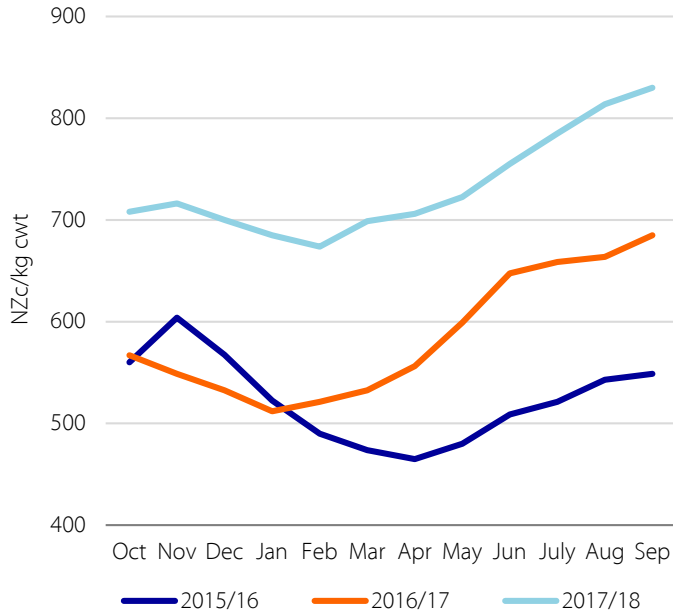
Sheepmeat

South Island Lamb Price and New Zealand Lamb Slaughter

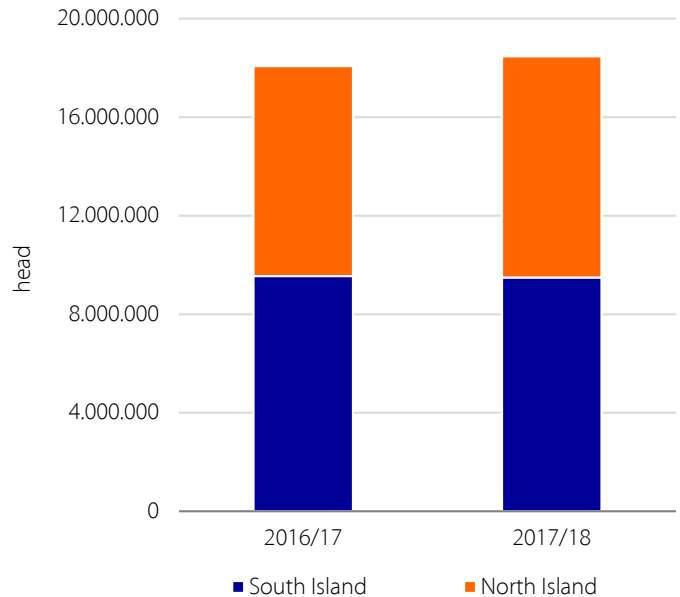


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South Island lamb price



New Zealand lamb slaughter (YTD – 11 August)



Source: NZX AgriHQ, Rabobank 2018

Source: NZ Meat Board, Rabobank 2018



Wool

Merino Sale Season Kicks Off Well

The auction market for New Zealand wool saw improvement through August to recover the losses recorded in the first few weeks of selling in the new season. The coarse crossbred end of the market is still battling lacklustre demand and sits at NZc 329/kg.

Conversely, the fine wool season on the South Island has kicked off strongly, mirroring the market strength seen in Australia. The tale of two wool markets continues with China's appetite for fine and medium wool well outweighing coarse crossbred. In August, the Australian benchmark Eastern Market Indicator pushed through yet another price record above AUc 2100/kg clean, helped by a weakened Australian dollar and falling supply.

While wool production in New Zealand remains constrained with no increase in sheep numbers expected, stocks of wool not sold through the last 18 months will continue to overhang the market through the coming season. This, combined with the still slow demand signals for coarse crossbred wool, indicates continued pressure on coarse crossbred wool prices

Exports in July did recover somewhat from the decline in June, lifting 3% MOM and were 17.6% up on last July. Interestingly, with little improvement in coarse crossbred market demand, the decline in NZD currency against the USD falling in September to its lowest level since 2016 has helped to boost the average NZD per tonne, and support New Zealand farmgate returns.

What to watch

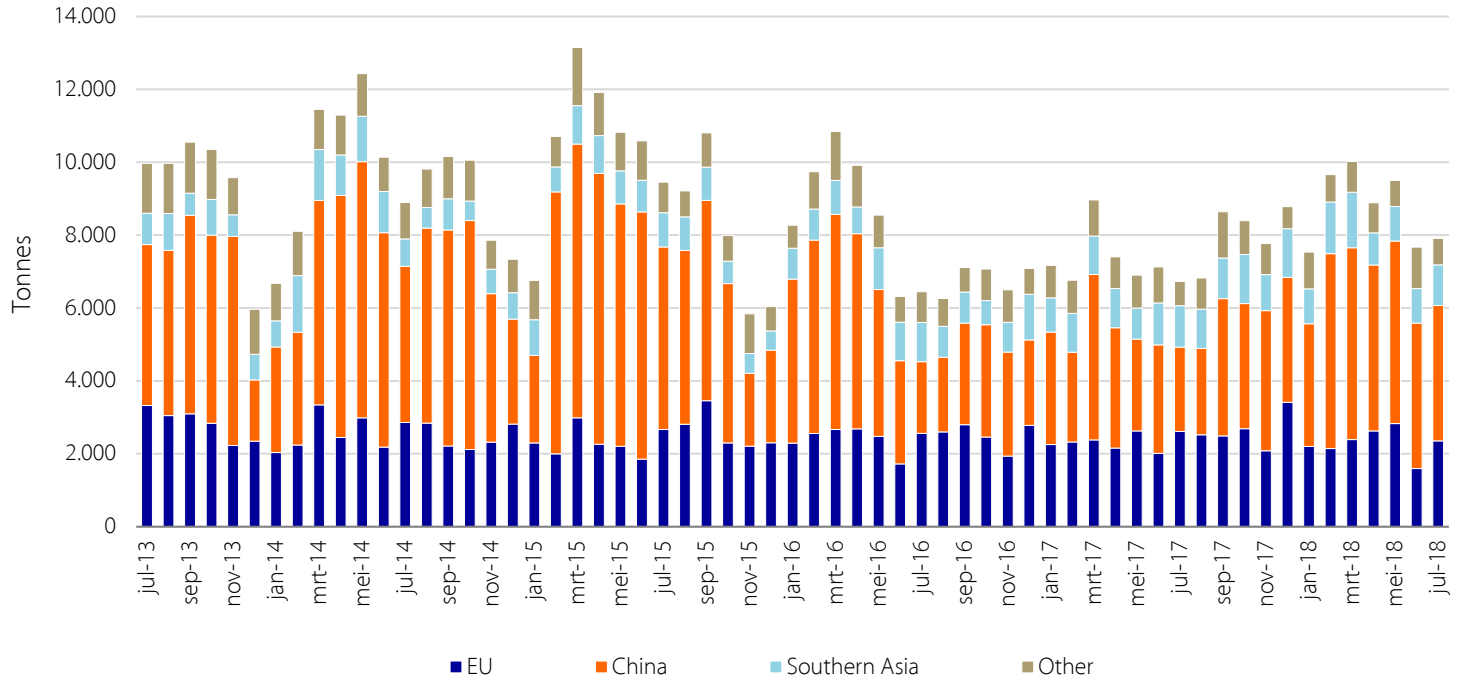
- **Merino markets are to be supported by the slide in supply coming out of Australia.** The recently released Australian Wool Production Forecast is for a 6% decline in wool supply through the 2018/19 season. Although prices are at near-record levels in AUD and USD terms, drought in NSW in particular has limited many Australian producers' capacity to capitalise on the market.

Wool Exports Still Lagging



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July exports lift off the June low, but wool shipments are yet to really take off





New Zealand Vintage Up, Average Export Prices Lift

The **2018 New Zealand vintage took a slight lift** to 419,000 tonnes with estimated production volumes of around 302m litres (up 5.5% YOY).

Twelve-month New Zealand export volumes to 30 June 2018 were almost flat, with overall value up by around NZD 42m compared to 2017. **Encouragingly, the average price per litre saw a modest lift.**

Australia remained a significant market for New Zealand, representing 22% of total export volumes at 55m litres, although volumes were down 6% YOY. The total value of wine exports to Australia also dropped, but only marginally. More importantly, average value per litre rose.

The key export varietal remained Sauvignon Blanc, representing 80% of New Zealand's wine export volume to Australia, reflecting the strong Australian domestic consumption of white wine (47% of total wine consumed in Australia). New Zealand is the largest source of wine imported into Australia at around 47% of all imports, followed by France at 38% and Italy at 10%.

Similar to New Zealand, domestic consumption of Australian wine has remained relatively flat over recent years. Wine consumption stood at 19.7 litre per capita in 2016-17 in Australia, with a ten-year average of 20.1 litres, Australians drink significantly more than New Zealand consumers (New Zealand ten-year average of 13 litre per capita). This strong consumption market, in particular for white wine varietals, will see Australia remain a key export market for New Zealand wine, particularly as New Zealand production continues to increase.

What to watch

- **European Harvest** – The global market awaits the harvest in Europe to ascertain global volumes for the 2018 vintage. The harvest commenced across key production region France in late August and early September. With the long, hot, and dry summer, which has reportedly led to a healthy crop, early predictions are for the crop to be larger than that of 2017.
- A lift in total European volumes could temper any further growth in global bulk wine prices.

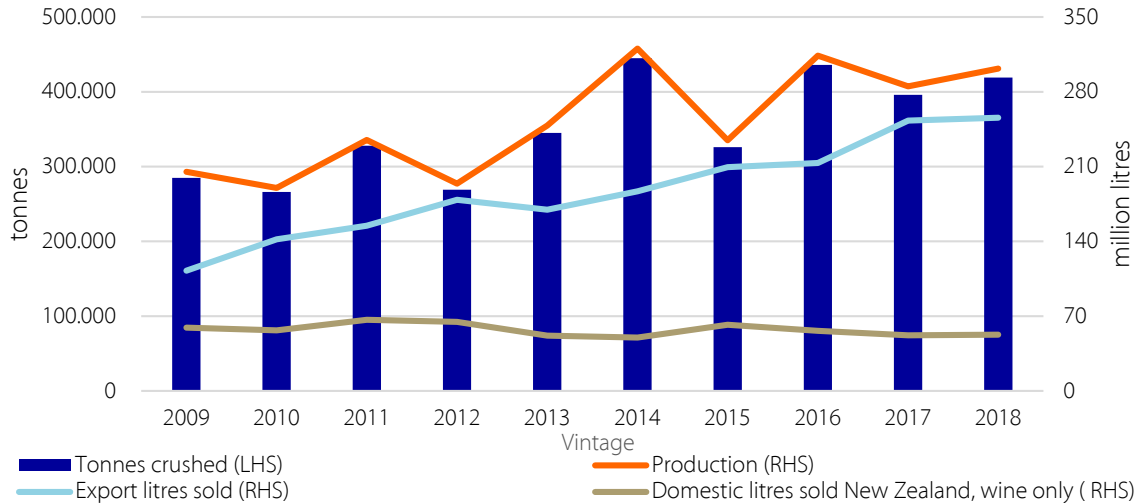
Wine

Production, Exports, and Domestic Sales



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New Zealand vintages, 2009-2018



Source: NZ Winegrowers, Statistics NZ, Rabobank 2018

2018 vintage shows a slight production lift while total export volumes flattened in 2018 to 30 June. Domestic consumption remains relatively stable.



Value and Volume Growth for Cherries & Pipfruit

Cherry production in New Zealand continues to grow. Planted area and production volumes have increased YOY since 1999. **Between 1999 and 2017, planted area for New Zealand cherries has grown from around 2,000 hectares to over 5,000 hectares.** Increased production has correspondingly flowed into increased export volumes and value (see figure on next slide).

According to data by Statistics NZ, over the period of 2008 to 2018 FOB, export values have **grown from around NZD 12/kg to around NZD 40/kg.** This growth in value is linked to global demand growth in key export markets, fuelling significant increased plantings in New Zealand over recent years. We expect this activity to continue in the short term.

Global cherry production has also been on the rise, as increased demand and increasing prices have driven similar behaviours in other key production countries. **Between 2008 and 2016, estimated global production grew by around 20% or 630,000 tonnes to around 3.8m tonnes.** That said, it has not all been smooth sailing, as Chilean growers are reportedly struggling to make a profit in the 2017/18 season due to their large crop depressing their export returns for the second year in a row.

Meanwhile, increasing New Zealand annual pipfruit production continues to flow into growth in export volumes and values. **For the seven months to July 2018, total New Zealand pipfruit exports have grown in both carton volumes (up 18%) and FOB value (up 12%), compared to the same period in 2017.**

What to watch

- **Trade Wars Continue** – The tit for tat trade dispute continues between China and the US. This will be of interest to New Zealand apple exporters in particular. The US supplies 27% of total Chinese imports. New Zealand supplies 30%.
- Where the US will choose to sell the fruit it would normally send to China, or other traditional grey channels in to China, and what implications this has in other markets.



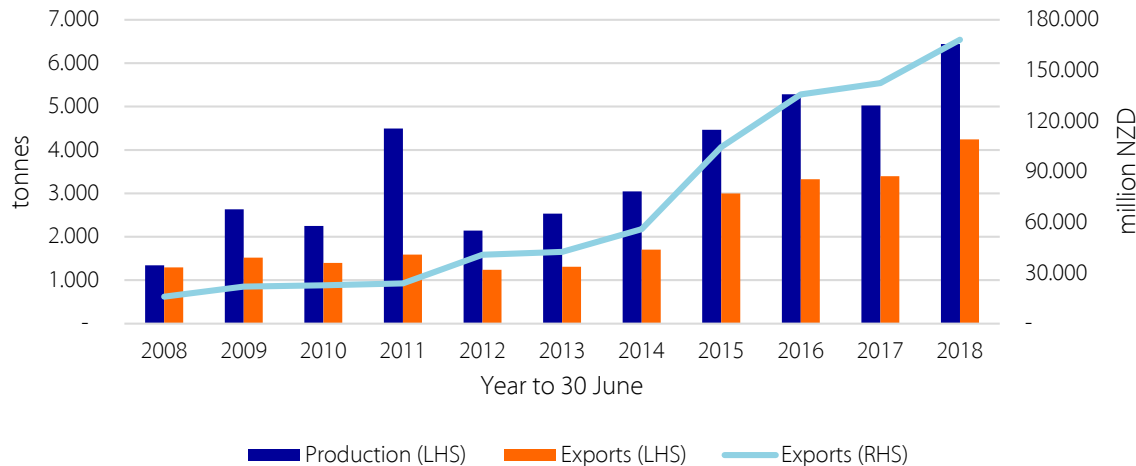
Horticulture

New Zealand Cherries: Volume and Value Growth



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New Zealand cherry production, exports (volume and value): 2008 to 2018



Source: Infoshare, Statistics NZ, FreshFacts, Rabobank 2018

Note: Production is estimated, export value and volume are actual

New Zealand cherry exports have grown consistently over the last ten years. On average, 66% of production was exported over the period.

Global Fertiliser Recovery Continues

Improved demand continued to drive the recovery of fertiliser prices across the nutrient complex during August.

Local retail urea prices jumped up above 500 NZD/tonne in August to 525 NZD/tonne, in line with the recent growth in global prices. Globally, demand continues to drive market optimism and tighter supply too, which has put pressure on prices. Preliminary data from China shows that January to July exports are down 71% YOY – this is primarily attributed to environmental protection regulations that have forced the temporary closure of some plants. Last week, some market analysts reported that significant volumes of Chinese urea have been offered on the export market, signalling some supply pressure may be about to be relieved, in turn acting to temper the global urea price.

Local DAP prices were also adjusted upwards during August to reflect global price movements, up NZD 5/tonne to NZD 755/tonne. Strengthening crop prices continue to drive demand for phosphates, although summer orders are coming to a close in the US, which will alleviate some demand.

What to watch

- Glyphosate continues to dominate headlines following a decision by a US jury that a man should be paid USD 289m following his claim that glyphosate caused his cancer. This was in addition to a decision in Brazil, where a judge ordered the suspension of glyphosate within 30 days – which was then subsequently overturned. For New Zealand farmers, this squarely underpins the need for the sector to be increasingly judicious with the use of glyphosate and consider options in the face of an event where restrictions are placed on its use.



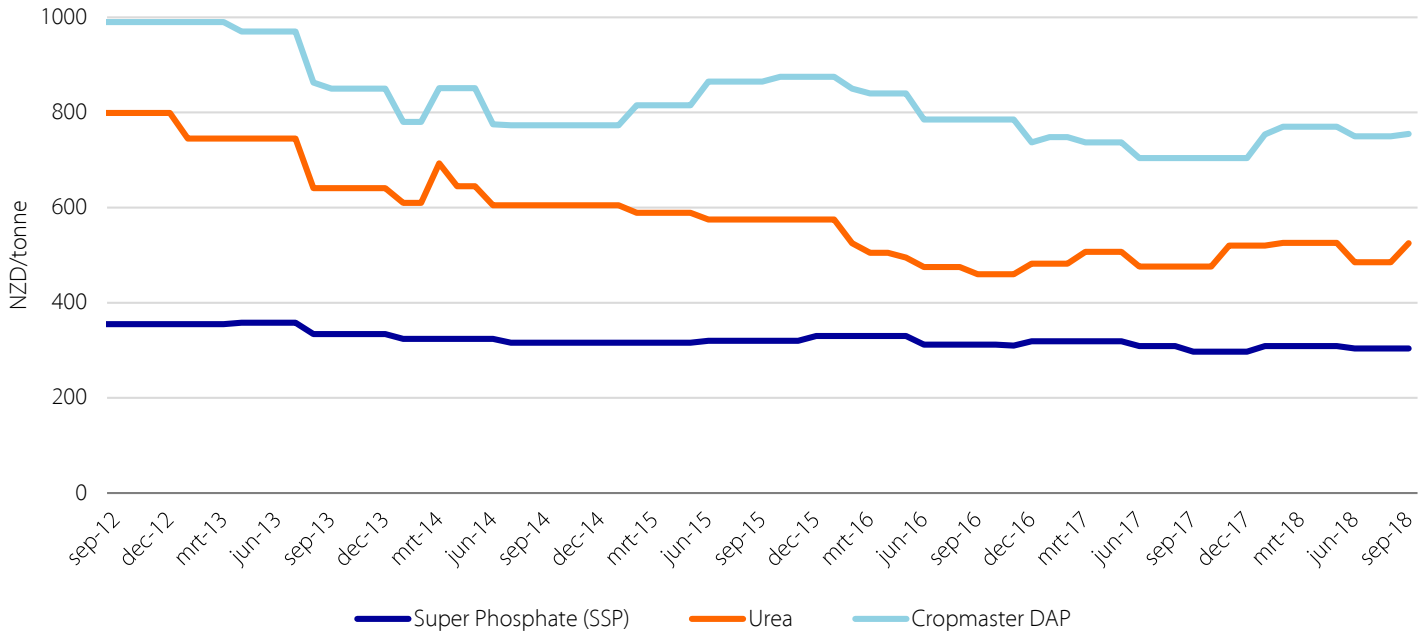
Farm Inputs

Local Prices Pull Higher By Global Surge



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New Zealand reported retail prices, 2012-2018





NZD Slides Again

In early September, the NZD fell to its lowest level against the US dollar since February 2016, trading at USc 65.36 on 10 September. The NZD was pushed lower by a combination of positive US economic news, weak New Zealand economic news, and a general flight of capital to safe havens amid worsening economic crises in Argentina and Turkey.

In the US, the labour market remains tight, as US consumer spending (which had helped deliver a whopping 4.2% GDP growth in Q2) grew nicely in July, while inflation remained at the Federal Reserve target level of 2% (for the third time this year).

We continue to expect one more interest rate hike in the US over the next 12 months (to 2.25%). But if the trade conflicts do not escalate, 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'.

Meanwhile, the RBNZ left rates on hold when it met on 4 September. Inflation remains low and wage growth weak, while business confidence is falling. The RBNZ has already said that rates are likely to be on hold until 2020.

As monetary policy in the US tightens and New Zealand settings most likely remain unchanged, ***we expect to see the NZD soften to USc 64 by August 2019*** (one cent below our last forecast).

What to watch

- ***Emerging markets.*** Domestic issues, rising global tensions, and higher US interest rates are generating pressure on emerging markets as diverse as Brazil, Turkey, South Africa, Argentina and Russia – with their currencies in some cases plummeting against the USD in the last month.
- *Reduced economic growth and weaker currencies reduce the purchasing power of these countries (where they import New Zealand goods) and increase their export competitiveness (where they sell agricultural products into the same markets as New Zealand does).*

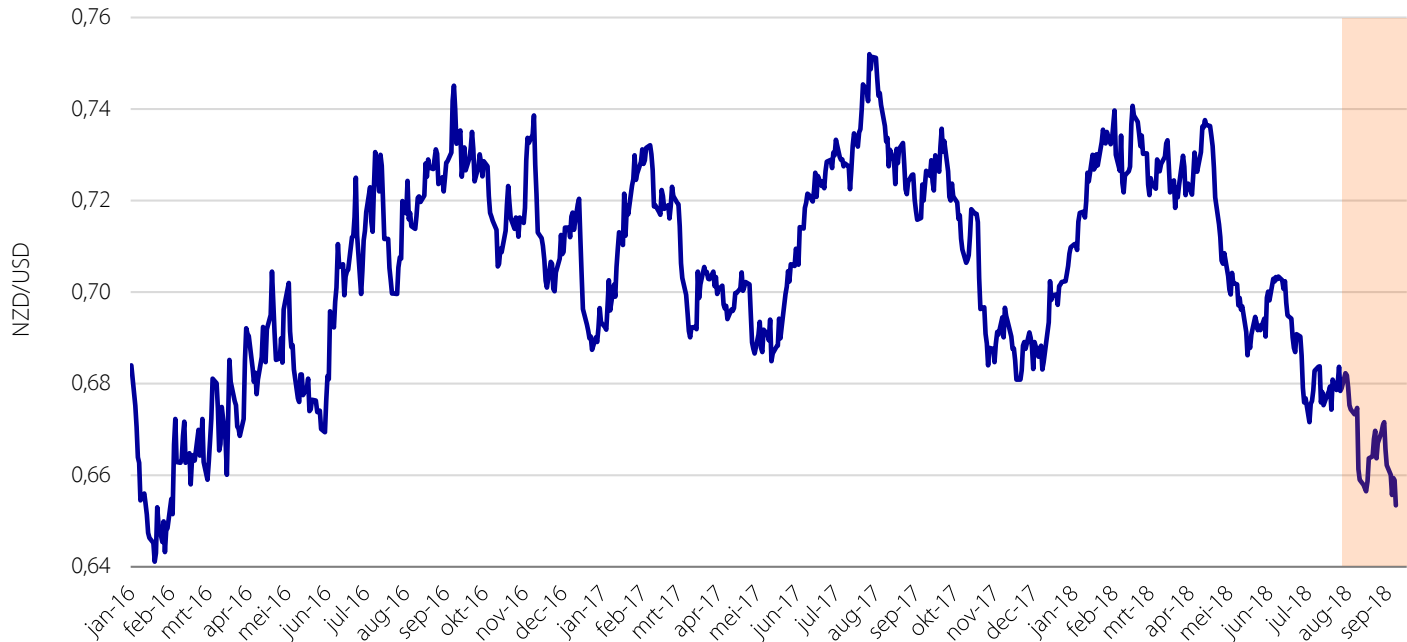
FX

NZ Dollar Slides as US and New Zealand Economic Prospects Diverge Further



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NZD/USD cross rate





Oil on the Move

Brent Crude oil prices have increased to 77.27 USD/bbl during August, up 7% MOM. Supply concerns continue to put upward pressure on prices. US sanctions on Iran kick in on 3 November, which has forced buyers to search elsewhere given purchases may not arrive until after the deadline. Furthermore, production in Venezuela continues to decline and conditions have been made worse as a tanker crashed into a pier on one of the main loading terminals. This could reduce exports by up to 250 kbpd. The outlook of crude oil prices remains bullish and our forecast remains unchanged. **Rabobank forecasts crude oil prices to trade north of USD 80/bbl, before returning back to the mid-70s in the longer term.**

The Baltic Dry Index has dropped 16% since the beginning of August, where it currently sits at 1477 points. The index has declined gradually since the beginning of August, but still remains buoyed due to strong demand on key iron ore routes. It now sits at 1447, its lowest value in two months due to a build-up of tonnage in China and a lack of cargo in Brazil, reducing the demand for larger vessels. Nonetheless, the average monthly index value during August was the highest we have seen in over a year. With this in mind, Rabobank maintains its view that freight rates will increase, with higher fuel prices and a limited number of new vessels coming online.

What to watch

- **Trade wars** – Higher prices as a result of tariffs in China and the US will reduce demand and decrease shipping rates between these countries. Despite this, the trade wars could actually increase shipping demand as buyers scramble for cheaper sources of goods, such as South-East Asia and/or products get shipped via inefficient routes to avoid tariffs.

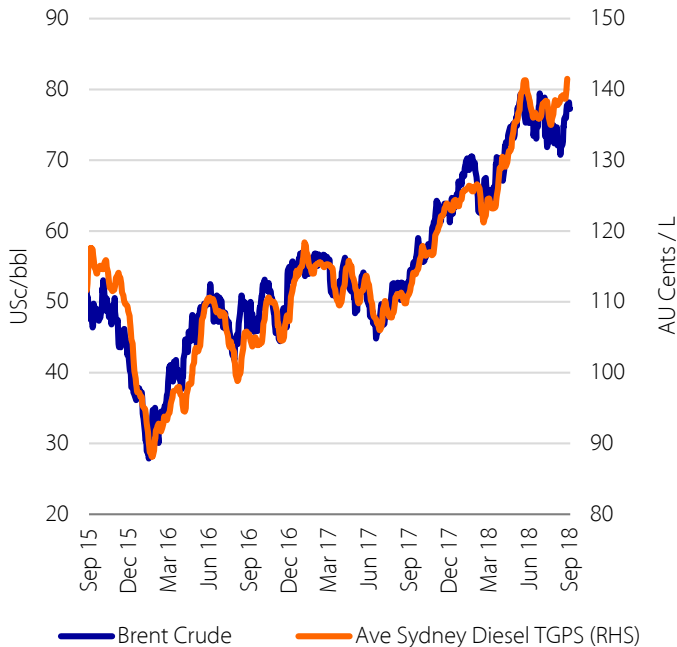
Oil &
Freight

Baltic Dry Index Falls



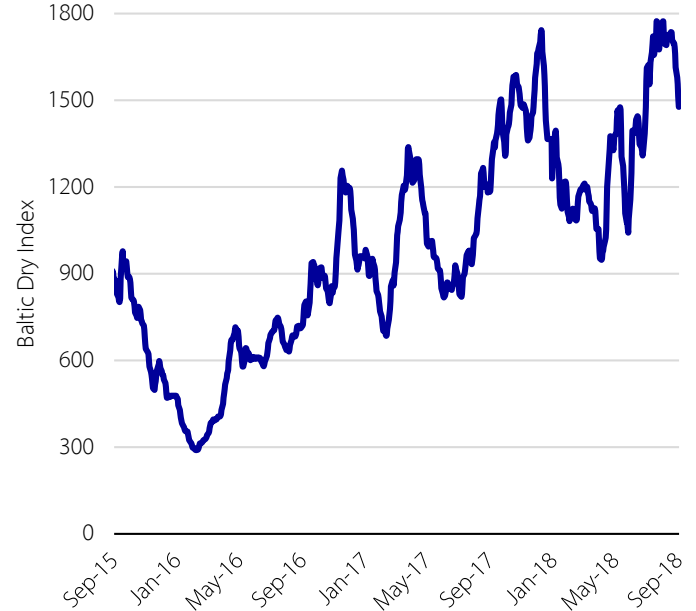
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**Brent Crude Oil & Average Sydney Diesel*
September 2015 to September 2018**



Source: AIP, Bloomberg, Rabobank 2018

Baltic Dry Index, September 2015 to September 2018



Source: Bloomberg, Rabobank 2018

Agri Price Dashboard

As of 7/09/2018	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	486	575	455
CBOT soybeans	USc/bushel	▼	832	877	949
CBOT corn	USc/bushel	▼	354	371	367
Australian ASX EC Wheat	AUD/tonne	▲	408	395	271
Australian Canola	AUD/tonne	▲	607	583	514
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	489	475	574
Feeder Steer	AUc/kg lwt	▼	280	285	317
North Island Bull 300kg	NZc/kg cwt	•	535	535	555
South Island Bull 300kg	NZc/kg cwt	•	530	530	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	809	778	599
North Island Lamb 17.5kg YX	NZc/kg cwt	•	810	810	675
South Island Lamb 17.5kg YX	NZc/kg cwt	•	800	800	665
Venison markets					
North Island Stag	NZc/kg cwt	•	1,100	1,100	890
South Island Stag	NZc/kg cwt	•	1,135	1,135	910
Dairy Markets					
Butter	USD/tonne FOB	▼	4,860	5,025	5,975
Skim Milk Powder	USD/tonne FOB	▼	2,025	2,038	2,013
Whole Milk Powder	USD/tonne FOB	▲	3,085	3,000	3,225
Cheddar	USD/tonne FOB	▲	3,850	3,700	4,000

Agri Price Dashboard

As of 7/09/2018	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	91	98	#N/A
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	82.1	88.7	#N/A
Sugar markets					
ICE Sugar No.11	USc/lb	▲	11.01	10.98	#N/A
ICE Sugar No.11 (AUD)	AUD/tonne	▲	342	328	#N/A
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	2,088	1,981	1,522
NZ Coarse Crossbred Indicator	NZc/kg	•	312	312	280
Fertiliser					
Urea	USD/tonne FOB	▲	303	285	203
DAP	USD/tonne FOB	▲	439	434	344
Other					
Baltic Dry Index	1000=1985	▼	1,490	1,773	#N/A
Brent Crude Oil	USD/bbl	▲	77	74	#N/A
Economics/currency					
AUD	vs. USD	▼	0.711	0.739	0.792
NZD	vs. USD	▼	0.653	0.673	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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