



Agribusiness Monthly

March 2019


New Zealand

Food & Agribusiness Research and Advisory March 2019



Rabobank

Commodity Outlook

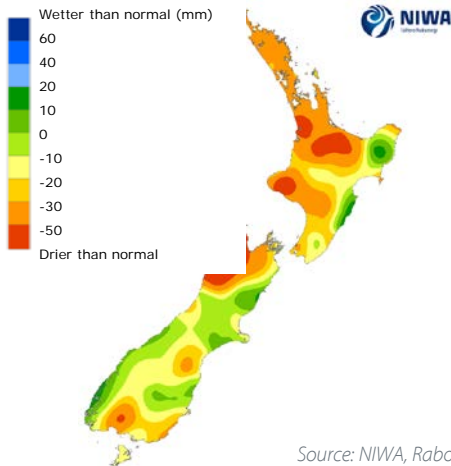
 <p>Dairy</p>	The pace of growth for the shoulder of the season is set to slow down as the heat takes hold.
 <p>Beef</p>	Rabobank expects some softening of farmgate prices in the coming month as domestic slaughter rates pick up. But any downward price movements should be limited by solid overseas market demand.
 <p>Sheepmeat</p>	Rabobank expects increasing seasonal lamb supplies, combined with the conclusion of the high-value Easter chilled production window, to put further downward pressure on prices over the next month.
 <p>Wine</p>	New Zealand achieves record wine export receipts to the UK in 2018, but uncertainty remains surrounding Brexit.
 <p>Horticulture</p>	New Zealand fresh apple exports hit a record in terms of both value and volume, and with a big crop expected for 2019, all eyes are on the outcome of Brexit and the US-China trade war.
 <p>Fertiliser</p>	During Q2, Rabobank expects demand for urea from northern hemisphere cropping regions to halt the recent decline in global urea prices.
 <p>FX</p>	We maintain our forecast that the NZD will fall to 63 USc within 12 months, as the monetary policies of the US and NZ diverge.
 <p>Oil</p>	Rabobank expects Brent Crude to stabilise in the high 60's for the remainder of the year.

Climate



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Soil moisture anomaly (mm), 2 March 2019



Source: NIWA, Rabobank 2019

NIWA notes that a warm start to autumn is likely, with above-average to average temperatures forecast for New Zealand regions from March 2019 to May 2019.

Rainfall totals from March to May are equally likely to be normal or below-normal for the North Island. However, the South Island's west coast is forecast to receive normal or above-normal rainfall, while the remainder of the country looks set to receive normal rainfall levels from March to May.

NIWA are forecasting an equal chance of near-normal or below-normal soil moisture levels for the North Island. The west coast of the South Island is likely to receive near-normal soil moisture levels. Near-average soil moisture is likely for the rest of the South Island through to May 2019.

What to watch

- **Hotter average temperatures for the country:** NIWA notes that a Central Pacific El Niño is now occurring, which, combined with the Tasman Sea experiencing warmer-than-usual temperatures, is likely to result in warmer temperatures across New Zealand in addition to an increased risk for occasional heavy rainfall events this autumn season.
- **Tropical cyclone season:** NIWA indicates that the risk for New Zealand is near normal.

Dry weather to impact production

New Zealand milk collections continued to steadily lift in the first month of 2019. January milk production climbed 7.7%, bringing season-to-date milk production to 4.9% as a reflection of mild summer conditions and a strong milk flow base set over the course of the season. ***But we anticipate the pace of full-season production growth to slow across the final months of the season and ultimately land between 3.5% and 4.5% YOY.***

Dry conditions have since set in for parts of the North Island – particularly Taranaki and Waikato – as well as pockets of the South Island (with a drought declared in the Tasman District) thanks to hot air blasting across the Tasman Sea from Australia. Despite good feed reserves in most key dairying regions, the heat stress has impacted milk flows and therefore the rate of production growth is set to slow.

Global commodity prices have rallied late in the season. Commodity prices (in USD terms) for Oceania-origin product experienced sizeable falls in late 2018. Strong milk flows in New Zealand through their peak were the main cause for the weakness in prices. ***Chinese import activity, EU stock liquidation, and production signals in the Northern Hemisphere have supported a firmer market,*** helping to rally prices into the early months of 2019.

The commodity price improvement has led to Fonterra revising their forecast for the 2018/19 season to lift by NZc 30 to NZD 6.30 to 6.60 kgMS.



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What to watch

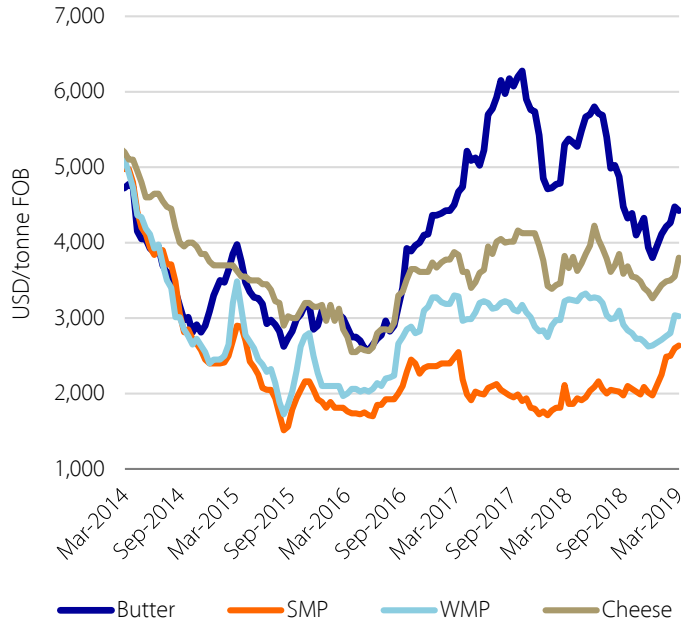
- ***Half-year reporting season.*** With a full strategic review underway, including a reassessment of their dividend policy and asset portfolio, Fonterra's half-year FY 2019 results are due later this month (March 20). In addition, Westland are due to make some comments to shareholders regarding their capital structure review at the end of this month.

The global export engine is stuttering along



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Global dairy prices, 2014 - 2019



Source: USDA, Rabobank 2019

Production growth key exporting regions

	<i>Latest month</i>	<i>Last three months</i>
EU	-1.1% (Dec '18)	-0.8%
US	0.6% (Dec '18)	0.5%
Australia	-6.9% (Dec '18)	-6.6%
NZ	4.9% (season to 31 January 2019)	

Source: Rabobank 2019

Seasonal cow kill to soften prices

We expect farmgate prices to soften slightly next month as domestic slaughter rates pick up, but any downward price movements should be limited by solid overseas market demand.

US imported beef prices continued their recovery throughout February, leading to relatively firm New Zealand farmgate prices. However, an increasing domestic cow kill did cause some price softening towards the end of the month. At the start of March, the North Island bull price was 2% lower MOM, averaging NZD 4.90/kg cwt (9% lower YOY), with the South Island bull price also down 2% to NZD 4.90/kg cwt (6% lower YOY).

Drying weather is starting to impact pasture growth, and will prompt many farmers to start offloading cattle in increasing numbers. With this increase coinciding with the seasonal increase in New Zealand's cow kill, cattle supplies will likely rise above normal levels for this time of year, putting downward pressure on prices. As of late January, New Zealand's beef production was 9% behind last season, with favourable growing conditions in late 2018 slowing the flow of cattle to the processors at the start of the season.

Tight supplies of manufacturing beef from New Zealand and Australia, combined with increasing competition for this product from China, have helped support an upsurge in US imported beef prices since prices bottomed out last October. Whether prices can hold at these levels will in part depend on China's post-New-Year desire to compete with the US for the increasing supplies of manufacturing beef product that will be coming out of New Zealand in the coming months.



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Beef

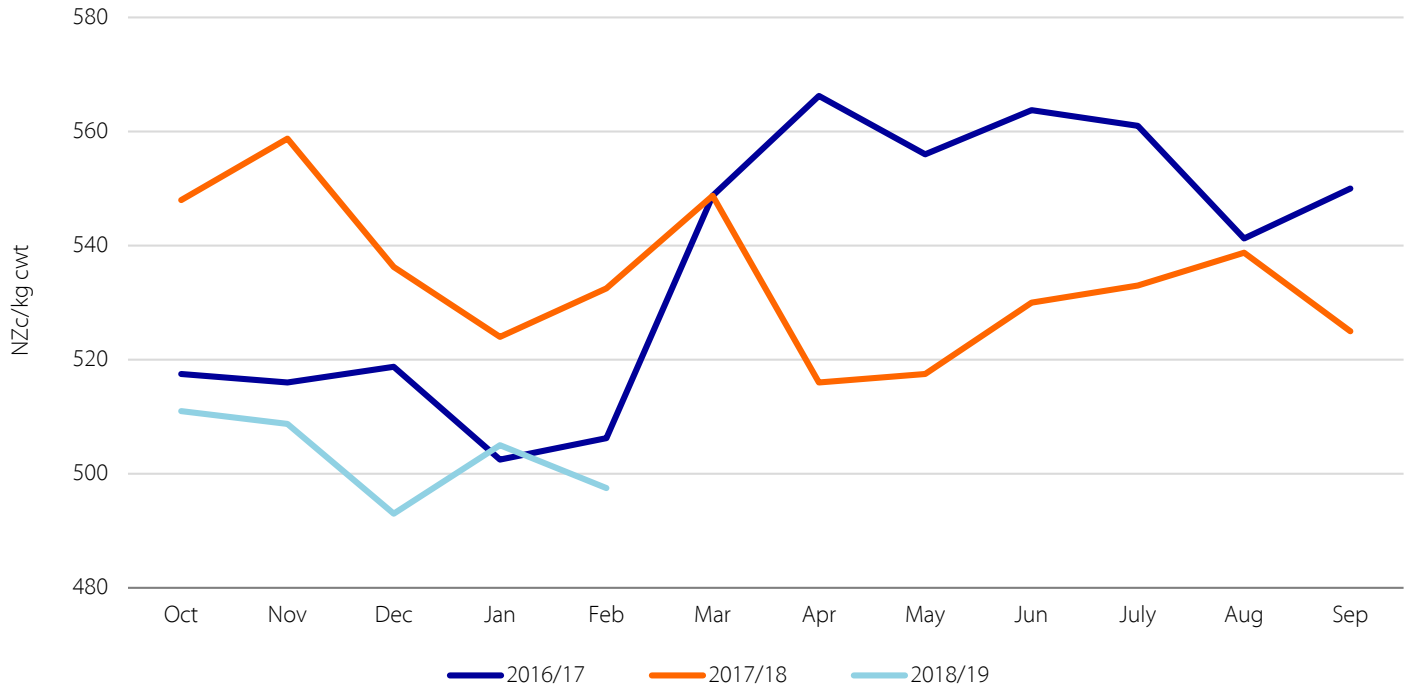
What to watch

- **Queensland floods** – Approximately 13m ha of northern Australia cattle country was impacted by floods in mid-February. We estimate that approximately 1m head of cattle resided within the impacted area (Australia's national cattle herd is around 26m). While it will be some time before actual stock losses are confirmed, initial reports put losses in the vicinity of 300,000-500,000 cattle. This may result in a marginal increase in New Zealand beef exports to common markets such as the US, China, and Japan. However, Rabobank does not expect the Queensland floods to significantly impact on New Zealand export returns.

North Island Bull Price



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Prices to ease as supplies lift

Rabobank expects seasonal lamb supplies to increase. Given that the high-value Easter chilled production window is also ending, increased supplies will put further downward pressure on prices over the next month

Farmgate prices came back slightly towards the end of February, as drying weather conditions across New Zealand sped up the flow of lambs to the processors. At the start of March, the slaughter price in the North Island averaged NZD 7.00/kg cwt (-1% MOM), while South Island lamb averaged NZD 6.75/kg cwt (-4% MOM). Prices are largely consistent with where they were sitting at this stage last season, with the average slaughter price for North Island lambs up 1% YOY and South Island lambs down 1% YOY.

Favourable climatic conditions towards the end of 2018 and into early 2019 have led to a general delay of New Zealand's lamb kill. Many farmers are holding onto stock longer than normal in order to capitalise on high levels of pasture growth. At 26 January, the national lamb kill was down 8.6% (610,810 head) YOY, with the delay most evident in the South Island, where the kill is down 13%, compared to the North Island, where the kill is down only 4%. As a result of stock spending longer on pasture, average carcass weights are noticeably heavier than at the same stage of last year's season (18.9kg vs. 18.07kg).

Overall, global demand for New Zealand lamb remains solid. The US and Chinese market continue to perform strongly, with Q1 2018/19 export volumes and values to both countries ahead of Q1 2017/18.



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Sheepmeat

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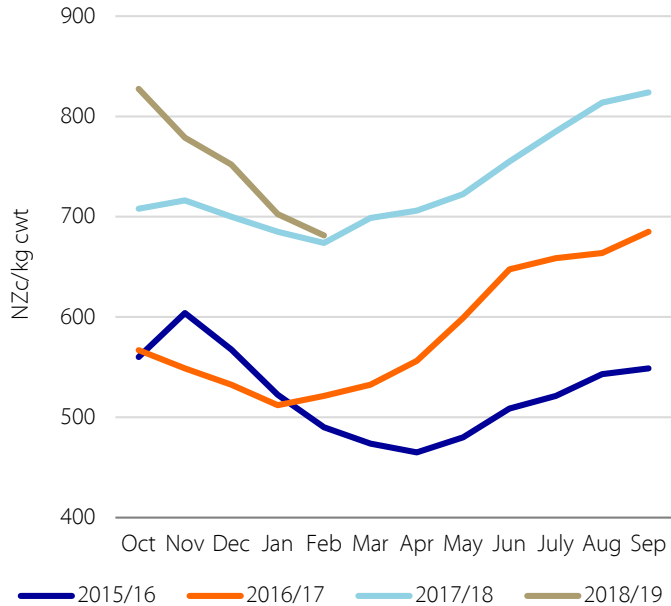
- **Mutton prices** – After a significant jump in mutton prices last season, schedule prices have continued to hold near-record levels into the 2018/19 season. They are sitting just below NZD 5/kg cwt. Chinese demand remains the main driver behind these elevated prices, taking a massive 83% of New Zealand's mutton exports in Q1 2018/19 (October-November). With New Zealand's domestic supplies of mutton likely to remain tight for the rest of the season and Chinese demand showing no signs of slowdown, Rabobank expects the strong farmgate pricing for mutton to continue throughout 2019.

South Island Lamb Price and NZ lamb slaughter

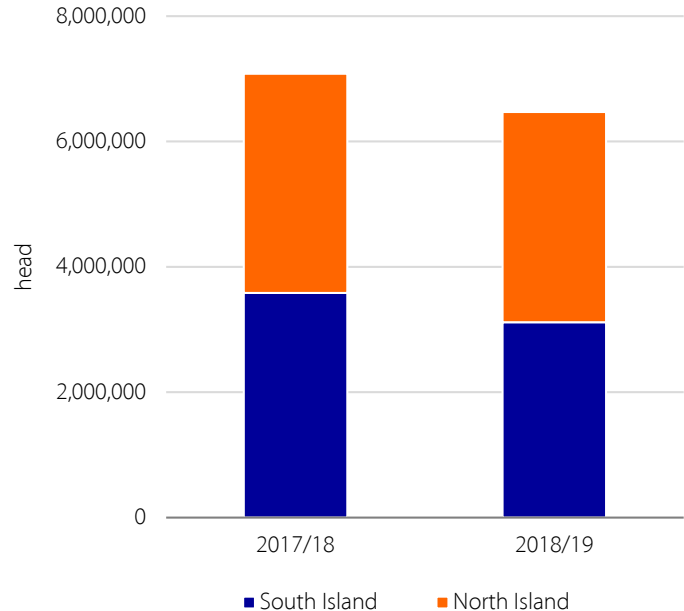


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South Island Lamb Price



New Zealand Lamb Slaughter (YTD – 26th Jan)



Source: NZX AgriHQ, Rabobank 2019

Source: NZ Meat Board, Rabobank 2019

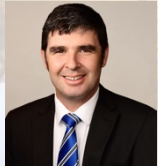
Record NZ fresh apple exports

New Zealand fresh apple exports for the year ended December 2018 showed another strong performance, posting the highest fob value for export receipts since 2009. With our expectation for a big New Zealand apple crop this season, the outcomes of brexit and the US-China trade negotiations will be influential for key apple import markets in 2019.

Increased production and exports led to a significant ten-year shift in key markets and met growing consumer demand. And it's not only value that's growing. Fresh apple production volumes have continued to increase annually since 2012, and 2018 export volumes came in at over 20m export cartons. Against this backdrop of increased production, continued value growth is positive for the sector, and it's happening in all key off-shore markets even as volumes shifted from 2009 to 2018.

Import volumes of New Zealand apples to the EU (including the UK) have shrunk by around 15% collectively since 2009. This volume, along with increased production, has found its way into growing North American and Asian markets. Consumer demand continues to grow across Asia for New Zealand apples, with import volumes into key Asian markets almost doubling, and value trebling, over the ten-year period. In 2019, Rabobank expects a big crop, so all eyes will be on the evolving Asian and European trade dynamics and the opportunities or challenges these may present for exporters.

In other news, the kiwifruit sector is also reporting continued overall strong performance, with tendering for the release of 750 ha of combined G3 and Organic Gold licences commencing in late March. Over the past three license releases, demand has significantly outweighed available licenses. As in 2018, increasing production in 2019 will again challenge available resources across the entire kiwifruit supply chain.



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Horticulture

What to watch

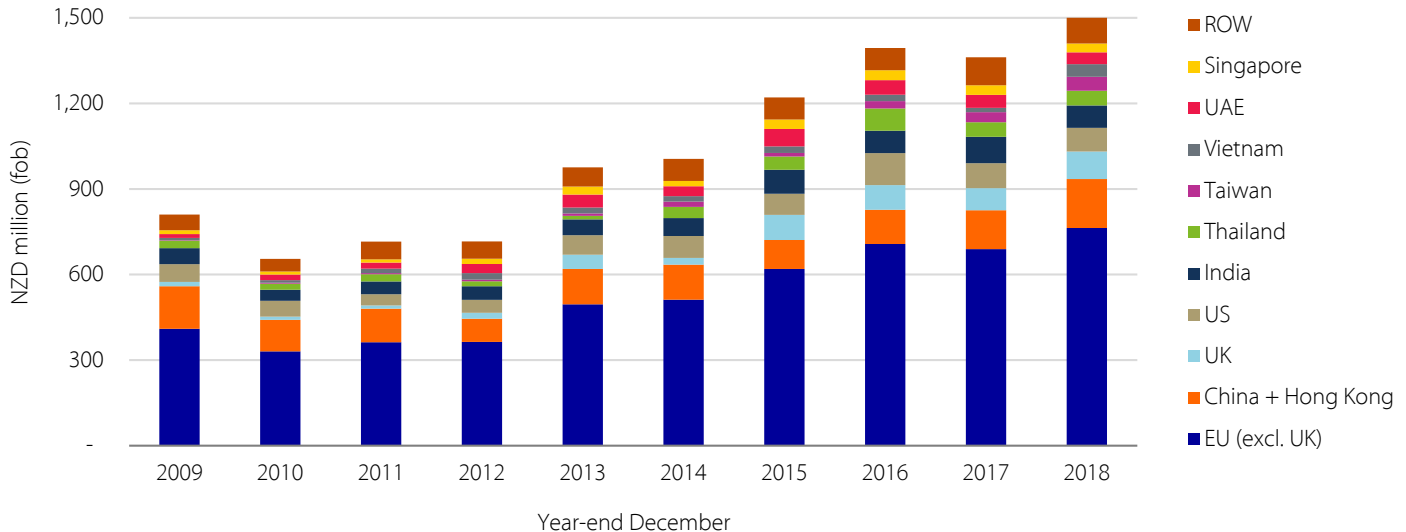
- ***Where to for Brexit?*** – Can New Zealand negotiate access to the UK under common terms with the EU for more primary sector exports? Will we see an orderly Brexit? Bilateral agreements were signed in January for veterinary medicines and animal product exports. Yet larger Brexit negotiations continue to flounder as a resolution between the parliaments in both the UK and the EU seems far away. Rabobank's base view remains for an orderly Brexit, but the case for a hard Brexit is becoming almost as compelling, as the 29 March deadline draws near.

Another strong year for NZ fresh apple exports



Rabobank

Annual export value by key destination, fresh apples



Source: Statistics NZ, Infoshare, Rabobank 2019

Fresh apple export receipts from New Zealand's top-ten import destinations returned to growth in 2018 delivering the highest combined value in ten years.

Wine exports to UK at 10-year high

In the face of Brexit uncertainty, wine exports to the UK for the calendar year achieved their highest aggregate value in ten years, for both sparkling and still wines. Alternative products continue to challenge beverages in the US market.

With the deadline for Brexit looming, UK wine importers have lifted orders to ensure sufficient inventory. This will provide some buffer to any initial trade disruptions post 29 March, the current date set for Brexit. Naturally, this lift in value coincides with a lift in overall volumes over Q4 2018 versus Q4 2017, driving the growth. This was the largest Q4 change since 2009 for NZ wine exports to the UK.

Annual UK export sales value increased by 23%, and volume by 18%, across both bulk and packaged segments. A slight reduction was observed in bulk values per litre with the average value per litre for packaged wine exports increasing alongside overall volume growth. Total global sales for the 12-month period to December 2018 were flat YOY.

In North America, it's not just different brands fighting over the US consumer, but competition from marijuana also poses a threat to all beverage categories, as highlighted in a recent IWSR study. See also RaboResearch's June 2018 report [Does Alcohol Have a Marijuana Problem?](#)

Meanwhile, the harvest is underway in Marlborough and not far away in Hawkes Bay. Rabobank expects a good crop for both volume and quality in Hawkes bay. In Marlborough, we're also thinking good quality with perhaps a slightly lower-than-average yield given the prolonged hot and dry summer weather.



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Wine

What to watch

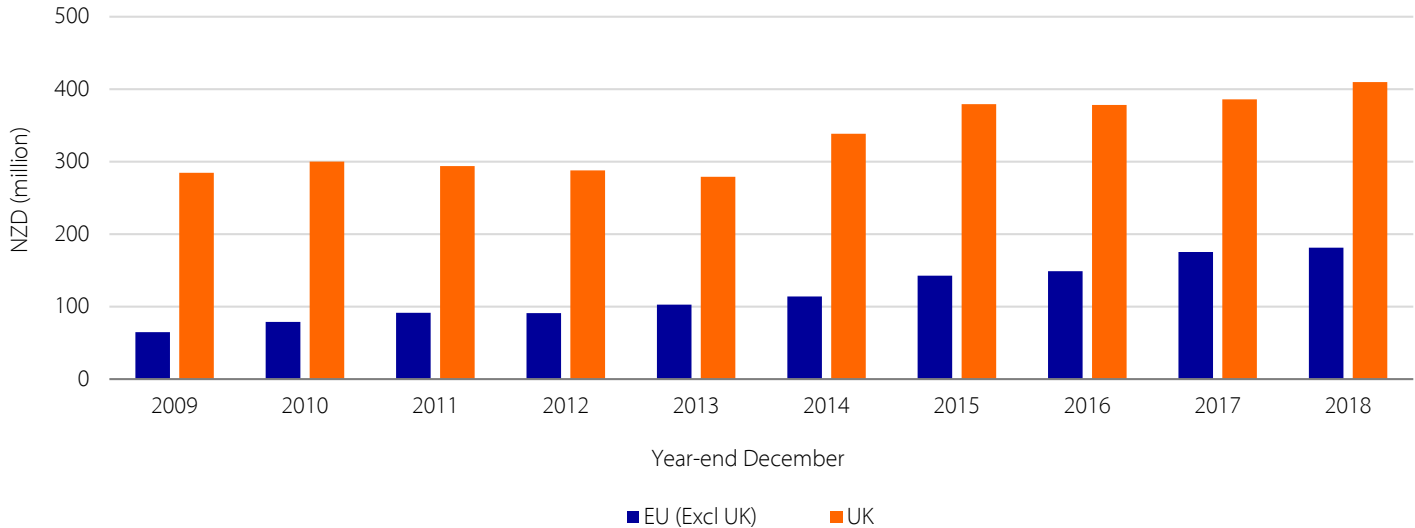
- ***Post-Brexit wine trade*** – Australia has successfully negotiated access to the UK under a continuation deal with terms mirroring its existing provisions for wine trade with the EU. South Africa and Chile have made similar arrangements. Without such an agreement after 29 March (the current Brexit deadline) New Zealand wine exporters may be at a short-term disadvantage in this key market.

Pre-Brexit surge of NZ still-wine exports to UK



Rabobank

New Zealand still-wine export values (fob)



Source: Statistics NZ, Rabobank 2019

NZ still-wine exports to the Europe and the UK have climbed to the highest total fob value in ten years (Jan - Dec) in the lead-up to Brexit.

Global urea prices to stabilise

Rabobank expects global DAP benchmarks to continue to decline, while a return of demand from the northern hemisphere will stabilise falling global urea values.

Since reaching four-year highs in September 2018, global fertiliser benchmarks have continued to decline. In early March, global values for DAP were down 10% (395 USD/tonne FOB ex US GULF) for the September 2018 - February 2019 period. Urea fell further in the same period – down 22% (240 USD/tonne FOB ex Middle East). Demand is traditionally lower in Q1, with the southern hemisphere in between seasons and the Northern Hemisphere winter crops in dormancy.

Typically there is a delay for local NZ retail prices to reflect global trends. Local urea prices fell 25 NZD/tonne during February, reflecting the downward movement of global benchmarks.

During Q2 2019, Rabobank expects urea demand from Northern Hemisphere cropping regions to halt the decline in global urea values.

Local NZ DAP retail prices have bucked the trend of global DAP benchmarks this month, increasing 15 NZD/tonne to 830 NZD/tonne.

While global DAP prices haven't fallen as far as urea, Rabobank holds a bearish view about the impact of continued growing production capacity in the Middle East and subdued demand as a result of forecast lower crop values YOY, most prominently wheat. We expect the global planted wheat area from major wheat exporters to increase 4% this year. This will somewhat offset a fall in demand as a result of a lower per-hectare investment from farmers.



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What to Watch

- **Freight rates** – As an import-dependent nation, freight costs can heavily influence fertiliser prices at the farmgate. Since mid-December, the Baltic Dry index (the leading indication of ocean freight costs) has halved. Lower seasonal demand, alongside a dam collapse at a large Brazilian iron ore mine, is behind this fall. Lower freight rates may lead to lower local retail prices, depending on the timing and volume of imports.

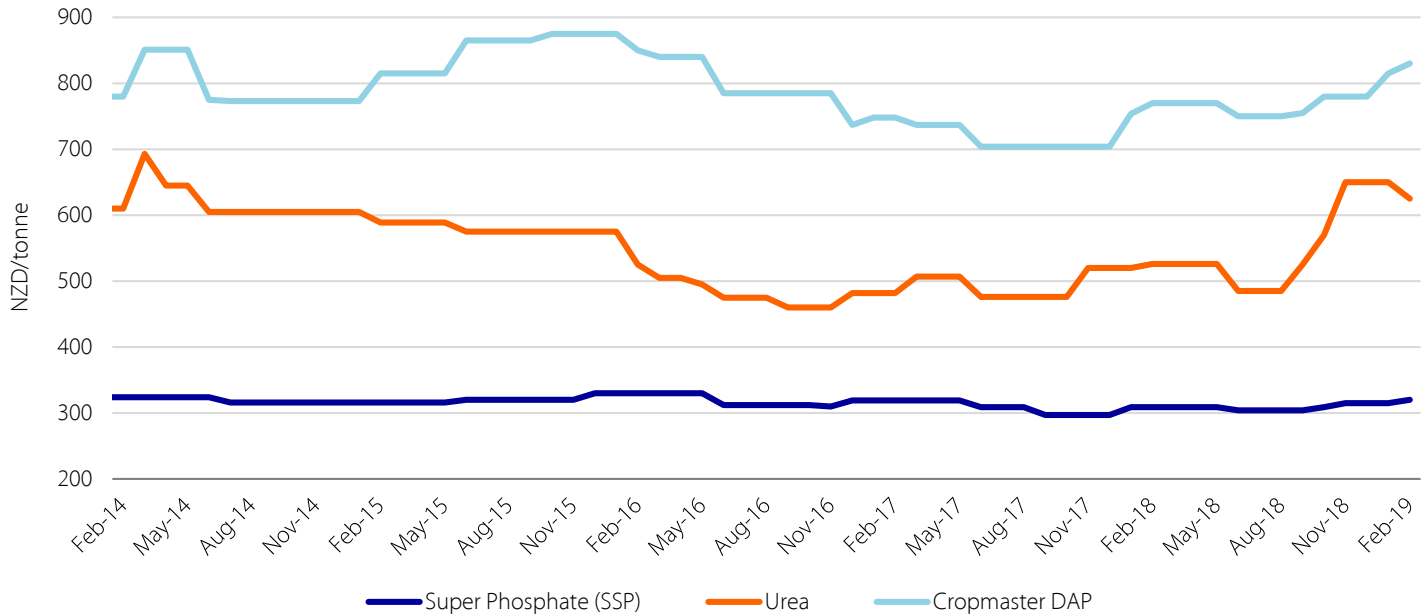
Fertiliser

Urea eases in line with global benchmarks



Rabobank

New Zealand local retail prices



NZD weak, and it will get weaker

We maintain our forecast that the NZD will fall to USc 63 within 12 months, as monetary policies in the US and New Zealand diverge.

In the US, we see no further monetary policy tightening this year, with the OCR set to stay put at 2.5%. The economic expansion is showing signs of fatigue. GDP growth slowed to 2.6% YOY in Q4. The effects of tax cuts and fiscal stimulus are wearing off, we are seeing the first cracks in the housing market, and a rising trade deficit will exert a drag on the economy in 2019. Against this backdrop, we expect inflation to subside through the year, removing the need for any further monetary policy tightening.

In New Zealand, we think the next rate move is down. The Reserve Bank left the official Cash Rate unchanged at 1.75% in February. It still expects to keep the OCR at this level through 2019 and 2020, as its economy picks up but inflation remains below target. We are less optimistic. The economic outlook for New Zealand's key trading partner China remains worrying, despite signs that fresh stimulus is about to start flowing. New Zealand will also likely be squeezed by either a trade war or a trade deal that locks it out, and tensions with China are now clear. We expect a slowdown in China to deliver significant headwinds in New Zealand, likely leading to a rate cut next.

At just below 68 USc on 6 March, the NZD is already below its five-year average, and likely has further to fall. A falling AUD will add impetus to that.

Rabobank forecasts the NZD to hit USc 63 by February 2020.



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FX

What to watch

- ***By how much is the Chinese economy slowing?*** Official statistics suggest that the Chinese economy slowed to 6.4% in Q4 2018. We think it's likely slowing much more than that. In February, western companies as diverse as Apple, Ford, Caterpillar, and 3M reported a significant slowdown in their Chinese sales. We have also seen an unusually large number of Chinese companies reporting losses so far this year. The CEO of the 'China Beige Book' says the economy grew probably around 2% in Q4 2018. If that's true, expect a major drag on the New Zealand economy in 2019 via slowing exports, weaker tourism, and diminishing Chinese investment.

NZ dollar cedes a little in February



Rabobank

NZD/USD cross rate

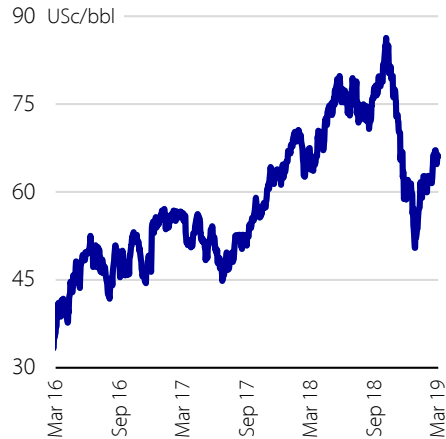


Brent Crude continues rebound

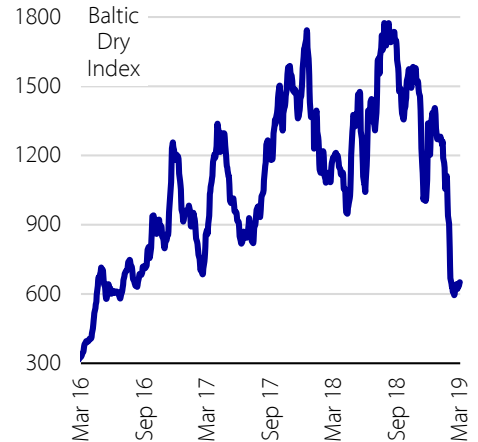
Brent Crude values continued to rebound during February, off the back of tighter supply and firm demand. OPEC cuts started to take hold, alongside rising geopolitical risk from Venezuela, Iran, Libya, and Nigeria. We consider the market fairly priced following this recent rally. **Rabobank expects Brent Crude to stabilise in the high 60's for the remainder of the year.**

The first quarter is traditionally a quieter time for ocean freight, but the collapse of a dam at a major Brazilian iron ore mine exacerbated the slowdown. Since mid-December, the Baltic Dry Index has fallen some 800 points.

Brent Crude Oil, March 2016 to March 2019



Baltic Dry Index, Aug 2015 to Aug 2018



Source: AIP, Bloomberg, Rabobank 2018

Source: Bloomberg, Rabobank 2018

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Oil &
Freight

Agri Price Dashboard

As of 1/3/2019	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	454	524	506
CBOT soybean	USc/bushel	▼	899	918	1,058
CBOT corn	USc/bushel	▼	364	378	379
Australian ASX EC Wheat	AUD/tonne	▼	323	341	305
Australian Canola	AUD/tonne	▼	610	614	508
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	434	469	539
Feeder Steer	AUc/kg lwt	▼	254	269	290
North Island Bull 300kg	NZc/kg cwt	▼	490	500	540
South Island Bull 300kg	NZc/kg cwt	▼	490	500	520
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	656	662	624
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	700	710	695
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	675	700	685
Venison markets					
North Island Stag	NZc/kg cwt	▼	955	985	1,030
South Island Stag	NZc/kg cwt	▼	960	995	1,080
Dairy Markets					
Butter	USD/tonne FOB	▲	4,425	4,263	5,300
Skim Milk Powder	USD/tonne FOB	▲	2,638	2,500	2,113
Whole Milk Powder	USD/tonne FOB	▲	3,025	2,800	3,225
Cheddar	USD/tonne FOB	▲	3,800	3,500	3,825

Agri Price Dashboard

As of 1/3/2019	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	81	84	92
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	73	74	83
Sugar markets					
ICE Sugar No.11	USc/lb	▲	13	13	14
ICE Sugar No.11 (AUD)	AUD/tonne	▲	393	385	421
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	2,016	1,934	1,830
Fertiliser					
Urea	USD/tonne FOB	▼	231	242	170
DAP	USD/tonne FOB	▼	395	415	410
Other					
Baltic Dry Index	1000=1985	▲	664	645	1,196
Brent Crude Oil	USD/bbl	▲	65	63	64
Economics/currency					
AUD	vs. USD	▼	0.708	0.725	0.776
NZD	vs. USD	▼	0.680	0.690	0.725
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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