



Agribusiness Monthly April 2019

New Zealand

Food & Agribusiness Research and Advisory April 2019



Rabobank

Commodity Outlook



Global dairy market fundamentals point to a sustained rally in commodity prices across 2019.



Rabobank expects farmgate prices to hold stable through April with solid export returns from China and the US helping to underpin current pricing levels.



Rabobank expects farmgate prices to lift over the remainder of the season. Upward price movement is possible over the next month in locations where good pasture growth is limiting supply of livestock to processors.



Rabobank expects that a hard Brexit will accelerate recent declines in UK wine consumption, but may present opportunity in the value segment.



Rabobank expects China to continue to grow the value of imports of fresh fruit and nuts over 2019.



We expect global urea and phosphate prices to decline further toward Q3 2019.



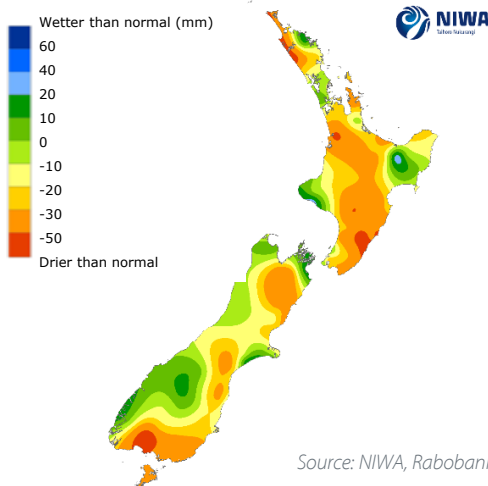
Rabobank forecasts the NZD to hit USc 63 by March 2020.



Rabobank lifts 12-month Brent Crude forecast.



Soil moisture anomaly (mm), 6 April 2019



Source: NIWA, Rabobank 2019

NIWA notes that a warm start to autumn is likely. Above-average temperatures are forecast for the east coast of both Islands and the top of the North Island through to June 2019. All other New Zealand regions are forecast for above-average to average temperatures from April 2019 to June 2019.

Rainfall totals from April to June are equally likely to be normal or below-normal for most of New Zealand. However, the west and north of the South Island are equally likely to receive normal or above-normal rainfall levels from April to May.

NIWA are forecasting an equal chance of near-normal or below-normal soil moisture levels for the west and east coasts of the North Island. The west coast of the South Island is likely to receive above-average soil moisture levels. Near-average soil moisture is likely for the top of the South Island. The remainder of the country is likely to receive below-normal soil moisture levels through to June 2019.

What to watch

- **The impact of warmer seas on the climate** – Warmer surface temperatures, which NIWA describe as ‘well-above average’ for the Tasman Sea, may lead to ‘significant rain events’ and are forecast to have a significant impact on regional temperatures across the country.
- **Tropical cyclone season** – NIWA indicates that the risk for New Zealand is near normal.

Dry Weather Sees Growth Slow

As anticipated, New Zealand milk collections slowed across February 2019. February milk production was flat compared to the same time last year, bringing season-to-date milk collections down to 4.4%. We have lowered our expectations for full-season production growth. ***Rabobank forecasts milk collections to slow across the final months of the season and ultimately land at 3% YOY.***

Commodity prices continue to rally as global supply growth remains muted. Combined year-on-year milk production growth from the major dairy exporting regions completely stalled in Q1 2019. This slowdown of the export engine has supported a commodity price rally. The outlook for milk supply growth for key exporting regions looks set to remain modest through 2019. ***Rabobank expects commodity prices to remain elevated for Q2 as the supply crunch continues.***

China started the new year with strong import activity and the consequent short-term inventory cover will slow down import growth before mid-year. ***A likely low double-digit increase in dairy product imports to China for 2019 suggests import growth will accelerate in 2H 2019.***

Opening forecasts for next season (2019/20) are due to be announced over the coming weeks. Speculation is building. ***Processors may choose to be more bullish than in prior years, given the supply and demand fundamentals at play.***



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What to watch

- ***An uncertain demand outlook.*** Demand uncertainty remains heightened, with a number of geographic tensions still high. Global economic growth is expected to weaken across the next 24 months. There is clear risk regarding the affordability of dairy in an environment of weaker economic growth and rising retail prices.

Commodity Prices Still On The Up



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Global dairy prices, 2014 - 2019



Source: USDA, Rabobank 2019

Production growth key exporting regions

	Latest month	Last three months
EU	-1.3% (Jan '19)	-0.9%
US	0.2% (Feb '19)	0.5%
Australia	-12.6% (Feb '19)	-9.8%
NZ	4.4% (season to 28 February 2019)	

Source: Rabobank 2019

Strong Markets to Underpin Pricing

Rabobank expects farmgate prices to hold stable through April. Solid export returns from key export markets, China, and the US, will help to underpin current pricing levels and offset any downward pressure that would otherwise result from the seasonal increase in domestic supplies over this period.

North Island farmgate prices firmed slightly towards the end of March. There was some softening of South Island prices due in part to elevated bull supplies. As at the start of April, the North Island bull price is 2% higher MOM, averaging NZD 5.00/kg cwt (4% lower YOY), while the South Island bull price is down 4% MOM to NZD 4.70/kg cwt (11% lower YOY).

Growing demand from China saw it overtake the US as NZ's largest export market for the first four months of the 2018/19 season (Oct-Jan). China accounted for 33% of NZ's total beef export receipts over the period, while the US accounted for 30%. African Swine Fever continues to severely impact China's domestic pork production, forcing consumers to look for alternative sources of animal protein, including beef. New Zealand beef exporters have also benefited from the Chinese government's crackdown on the grey channel beef trade, as it attempts to slow the spread of the disease. Chinese buyers are being forced to purchase more beef via the official channels, through which NZ beef is sold. Rabobank expects Chinese demand for imported beef to remain strong for at least the remainder of 2019, due the ongoing impact of African Swine Fever, combined with China's structural shortage of domestic beef supplies.

US imported beef prices continued to firm during March and are now sitting largely on par with where prices were a year ago, supporting export returns for NZ's manufacturing beef products.



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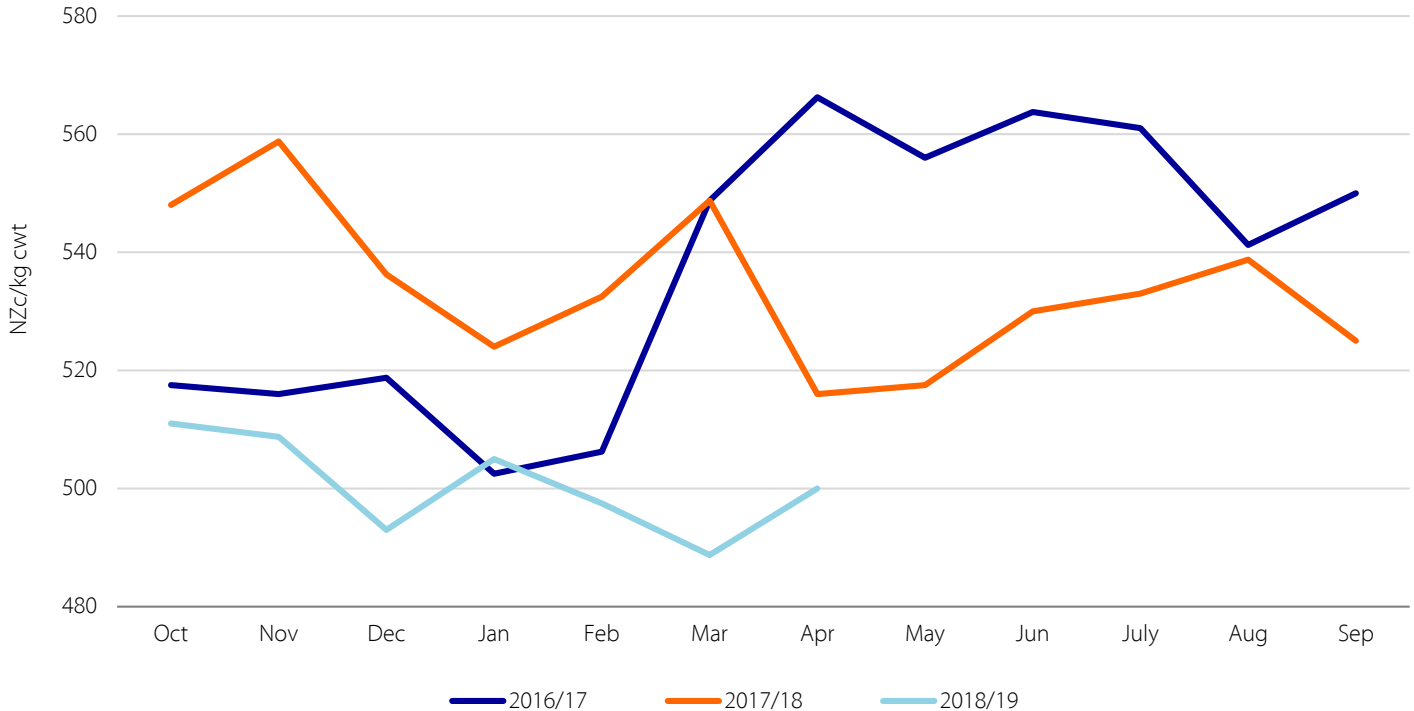
What to watch

- **NZD 2 *Mycoplasma bovis* levy** – B+LNZ will soon begin consulting on raising the beef producer biosecurity levy to NZD 2 a head (from NZD 0.45) to pay for the *Mycoplasma bovis* eradication programme. Farmers are required to pay for 32% of the total programme costs (with the government covering the remaining 68% of the costs). Following a recommendation from an independent panel set up by B+LNZ and DairyNZ, it was agreed that dairy farmers would pay 94% of the farmers' proportion, while beef farmers would contribute 6%. The split is intended to reflect the expected impact on production the disease will have for each sector respectively.

North Island Bull Price



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Source: NZX AgriHQ, Rabobank 2019

Prices Stabilise After Supply Peak

Rabobank expects prices to generally lift over the course of the remainder of the season, with the seasonal peak in production now all but complete. Over the next month prices will be influenced by the short term availability of supply, with some upward price movement possible in parts of the country where high feed levels limit the pressure to offload stock for slaughter.

Farmgate prices fell through early to mid-March as declining national feed availability resulted in a sharp increase in the flow of lambs to the processors. Lamb supplies did begin to ease later in the month to see prices recover. As of the start of April, the slaughter price in the North Island averaged NZD 7.10/kg cwt (1% higher MOM), while South Island lamb averaged NZD 6.70/kg cwt (1% lower MOM).

Global demand and in-market prices in New Zealand's key export markets, remain generally strong. The Chinese market in particular continues to perform very well. China is importing a greater range of products than ever before, with exports to China of non-traditional cuts on the rise. In January, New Zealand sheepmeat exports to China totalled 59% by volume and 44% by value. The lower value of exports compared to volume exported represents the high proportion of lower value mutton that is sent to China. The international market causing the greatest concern is the UK, where ongoing Brexit uncertainty is having a negative impact on NZ exports, with January export volumes down 32% YOY.

As of 9 March, NZ's national lamb kill was within 1% of last seasons kill for the same stage in the season. This is a significant change from late January when the lamb kill was down 9%, reflecting the lift in lamb supplies experienced through February and early March.



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Sheepmeat

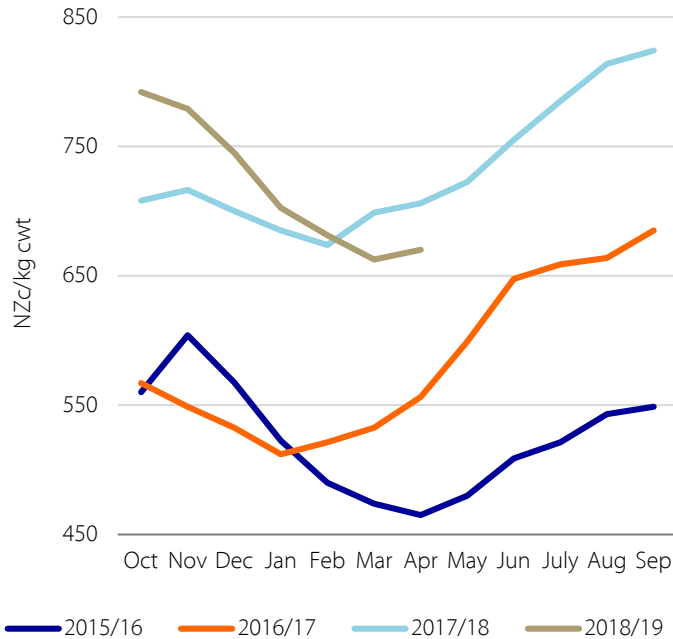
What to watch

- **Meat and wool exports to surpass NZD 10bn** – The Ministry for Primary Industries' latest 'Situation and Outlook' report has forecast that NZ's meat and wool export revenues will increase to NZD 10.1bn for the year ending June 2019, a 6% increase YOY. Strong international demand, especially from China, combined with constrained global beef and sheep meat supplies were highlighted as the main drivers behind the increased export earnings. Should this materialise, it would be the first time NZ's meat and wool export receipts exceed the NZD 10bn threshold.

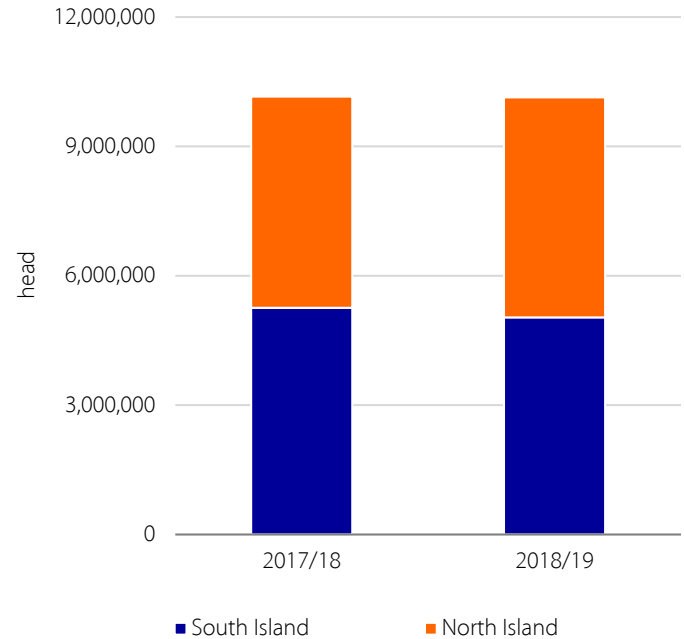
South Island Lamb Price and NZ Lamb Slaughter



South Island Lamb Price



New Zealand Lamb Slaughter (YTD-9 March)



Source: NZX AgriHQ, Rabobank 2019

Source: NZ Meat Board, Rabobank 2019

China – Kiwifruit Front and Centre

Subject to any further economic downside in China related to current US-China trade war, Rabobank continues to expect growth in import demand for imported fruit and nuts from China across 2019. This will be positive news for New Zealand fresh fruit exporters and for kiwifruit in particular, with kiwifruit having ridden a significant wave of export growth to China over 2018.

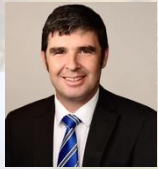
During the final six months of 2018, China's total import value for fruit and nuts from all countries grew by over a third YOY, even amid an economic downturn. This highlights the importance China's consumers place on imported fresh foods. Over the same period, the value of China's imports of New Zealand fruit and nuts grew at a faster rate than its total value growth from all countries, with kiwifruit at the fore.

For kiwifruit, China (including Hong Kong and Taiwan) is the world's largest single import destination by value, worth over NZD 800m and streets ahead of the next largest, Japan. By contrast, in 2001, China's kiwifruit imports were less than NZD 60m in total, or put another way, less than a third of Japan's value.

Chinese import value growth for kiwifruit is the strongest in the world (refer to graph over page).

Elsewhere, individual countries across Europe have shown strong import value growth, but there is much inter-country fresh fruit trade within the EU. Countries such as Spain and the Netherlands often act as import and re-distribution hubs within the EU.

In 2018, New Zealand kiwifruit export growth continued to attain a rising fob price per kg across the world. New Zealand export growth also took the heat out of Chile's kiwifruit exports. The only market where Chile has kept pace is in India, a market that is more meaningful for Chile than New Zealand.



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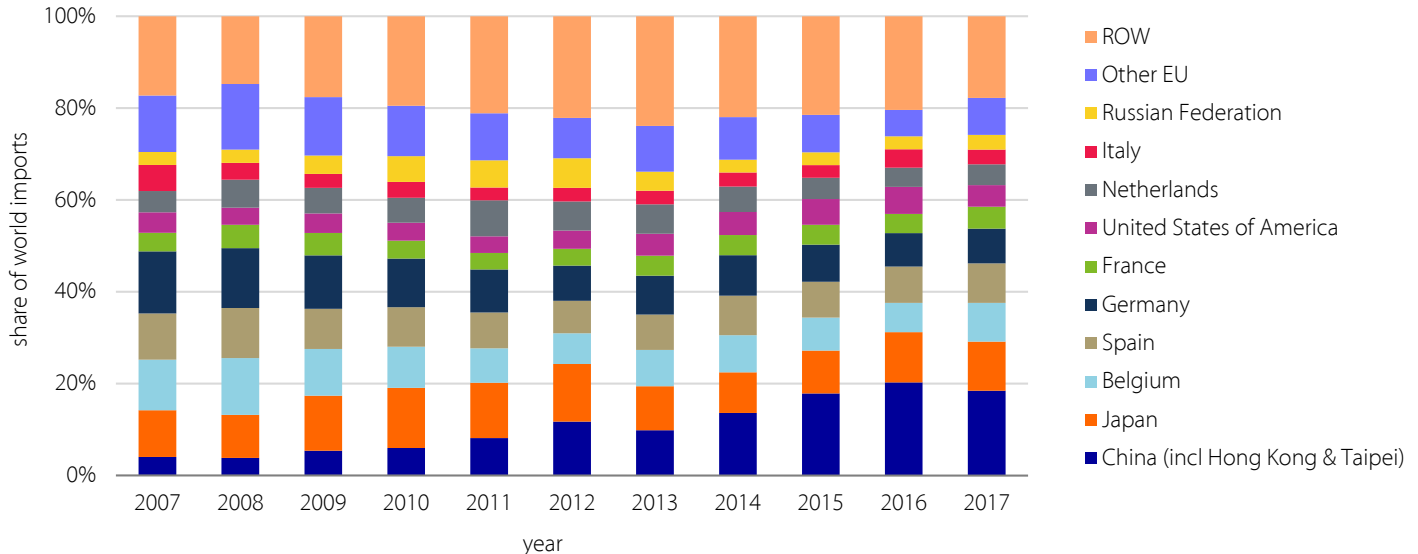
What to watch

- ***Ambrosia Beetle*** - Vigilance is the watchword for Ambrosia Beetle, and other unwanted pests after a recent spate of increased findings of numerous insects around major metropolitan areas. Ensuring our local communities outside of Auckland are aware of the risk and remain vigilant is an action all sector participants can take to support MPI in its bid to contain or eradicate.

Chinese Kiwifruit Import Value Growth Leads The World



World kiwifruit imports by key market, value



Source: ITC, Rabobank 2019

Since 2007, Chinese import value growth has outpaced all other markets. New Zealand continues to achieve a premium above its key competitors in this market.

Definitely, Maybe,...

After much fanfare, 29 March 2019 came and went, and at the time of writing, the Brexit outcome is no clearer. And much like the lyrics to Rock'n'Roll Star, there's no easy way out.

The case for a no deal Brexit becomes more real by the day. With wine consumption already in slight decline in the UK, Rabobank's expectation is that while the UK will remain an important market, wine consumption will continue to fall under a no-deal or hard Brexit scenario.

Rabobank does not expect wine consumption to fall away completely. But a recession would bring a further slowdown in UK wine consumption. To what degree this affects exporters from across New Zealand, Australia, Latin America or Europe is currently difficult to forecast. What Rabobank considers likely in this scenario is a trading down across the value segments. Therefore bringing a greater downside potential for premium wines with perhaps some short-term upside for value or private-label segments.

For the 12 months to the end of February 2019, UK imports from New Zealand continued to grow, with a surge in bulk volumes YOY as importers stockpile wine ahead of Brexit.

Of course it is not just antipodean producers who place significant weighting on the UK market. In calendar year 2018 collectively, the 'big five' EU countries of France, Italy, Spain, Germany and Portugal accounted for around two-thirds of the GBP 3.1bn value of UK wine imports. The outcomes of Brexit will have a meaningful impact on these countries not only from the potential for continued consumption slowdown but also for cross-border trade.

Red, red wine... 2019 reds from Hawkes Bay could be ones to watch out for. Harvest is wrapped up and while volume is down, reports are of high-quality red grapes.



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Wine

What to watch

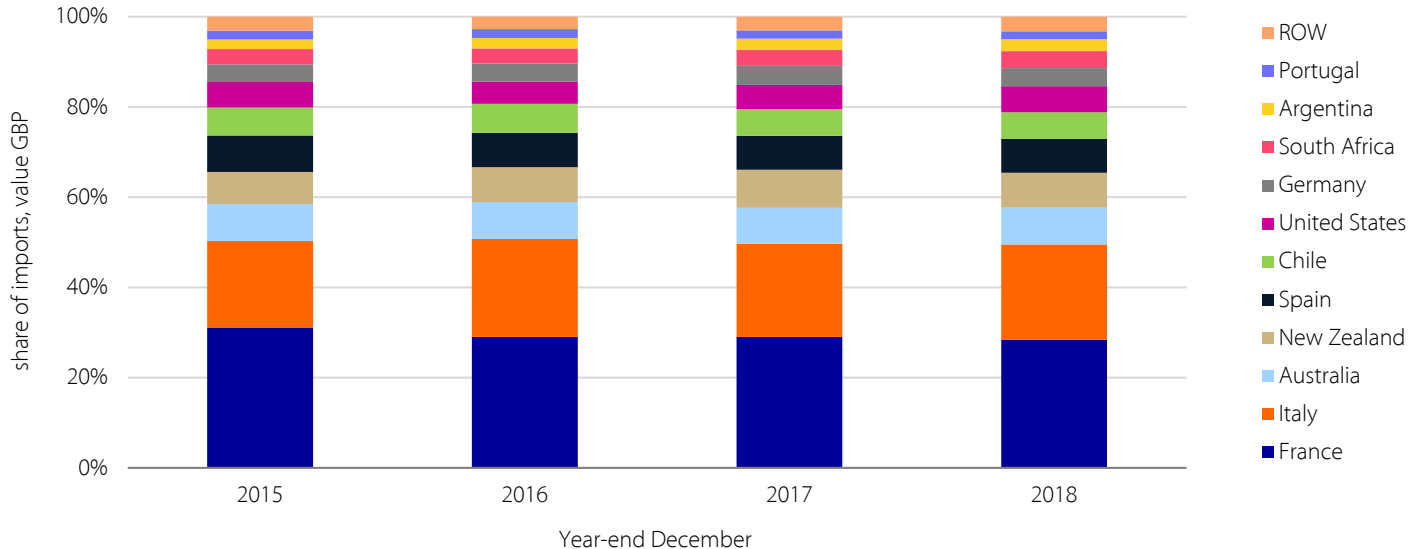
- **Sourcing of labour for winter pruning** – now that harvest is all but complete, thoughts should be turning to core winter tasks. As the autumn days draw in, vineyards should be considering their strategies for securing labour to assist with this key task. Competition will continue to intensify for this key resource across the horticultural sectors in 2019. How vineyard owners can collaborate and share labour with other vineyards and sectors should be front of mind.

Wines Of EU Origin Remain Dominant In UK



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UK wine imports share of market by country of origin, value



Source: HM Revenue & Customs, Rabobank 2019

UK wine imports of an EU origin have consistently sat at close to two-thirds of total value for a sustained period.

Global Price Decline to Continue

On the basis of expectations for continuing low demand and reduced production costs across the global fertiliser complex, we expect global urea and phosphate markets to decline further toward Q3 2019.

Several factors within the global agri-commodity markets point to lower demand for all nutrients this season. Our forecast for CBOT wheat is for lower values this season, which in-turn will discourage high rates of crop investment.

The second major factor is the ongoing trade discussions between the US and China, who are reportedly inching towards a deal. The largest implications are for CBOT Soybean prices, and subsequently soy and corn planted area. While the soy/corn ratio has recovered slightly in favour of soy, a large expansion of planted corn area, at the expense of soybean would support nitrogen demand. Demand also hinges on farmers in the US Midwest being able to plant crops on flood-affected fields.

To some extent, lower production costs, particularly for phosphate, will enable processors to reduce prices to stimulate demand.

Since global benchmarks reached seasonal highs in Oct 2018, both nitrogen and phosphate have been in decline. Urea (FOB Middle East) has fallen 24 percent, while DAP (FOB US Gulf) has fallen 13 percent.



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Farm Inputs

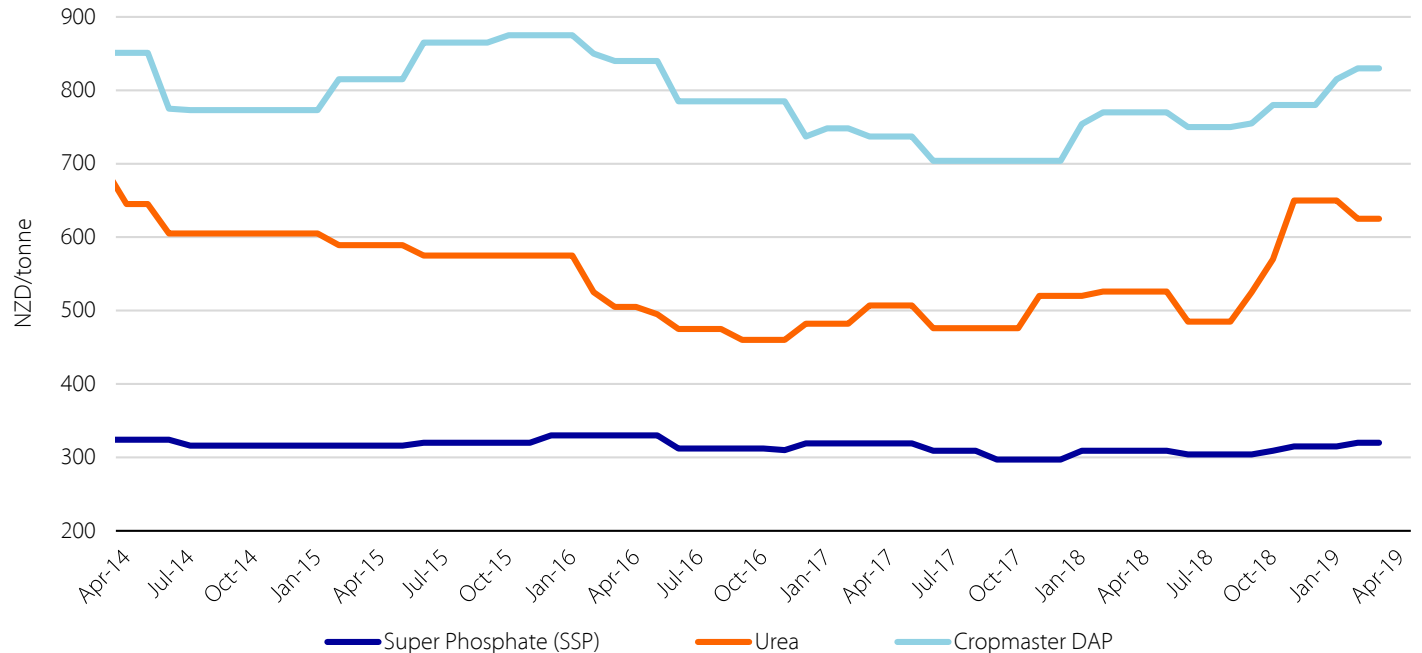
What to Watch

- ***Glyphosate:*** Glyphosate was back in the news during March. In the second cancer-related case bought before the courts, a US jury ruled that the glyphosate based chemical, 'Roundup', was a 'significant contributor' in causing the cancer of a man who used Roundup in his garden for decades. Reportedly, this is one of 11,200 cases in the US alone involving glyphosate. Glyphosate was last reviewed in NZ by the Environment protection authority (EPA) in August 2016. The EPA has not announced any plans to re-review the status of glyphosate use in NZ.

Despite Global Price Decline, Local Prices Stable MOM



NZ Local Retail Prices



Source: Ravensdown, Rabobank 2019

NZD Slips: Yet It Has Further to Go

We maintain our forecast that the NZD will fall to USc 63 within 12 months, as monetary policy in the US and NZ diverges.

In the US, we still see no further monetary policy tightening this year, with the OCR set to stay put at 2.5%. The Fed itself now also holds this view. We believe that the prolonged US economic expansion, the longest on record, is coming to an end as recent rate hikes start to bite. Inflation will ease to 1.4% this year, removing any case for tighter monetary policy.

In New Zealand, we think the next rate move is down. The RBNZ had, until recently, forecast rates to stay on hold, but has now declared that it shares the same view as us. The Bank cited weaker global economic growth and reduced momentum in domestic consumer spending. It further noted that the balance of risks to the outlook has shifted to the downside. We watch, in particular, for the Q1 Chinese stimulus to wane, and caution that the trade war may not be over.

At just above USc 67 on 8 April, the NZD was down almost a cent since the start of March.

It is already below its five-year average. It likely has further to fall

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



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FX

What to watch

- **The US bond yield curve** – At the moment, the yield on short-term US treasury bonds is higher than the yield on long-term treasury bonds. This is a rare situation, and historically it has been a useful indicator that a recession is coming. Rabobank is taking the warning signs of the inverted yield curve seriously. We expect the US economy to slide into recession in 2H 2020.

NZ Dollar Cedes Further Ground in March



NZ/US dollar Cross Rate



Oil & Freight – Rabobank Lifts 12-month Brent Crude Forecast



Rabobank expects US sanctions on Venezuela and production cuts from OPEC+ members to drive prices above our base case Brent Crude forecast of USD 67.5/bbl set at the beginning of the year, to 71 USD/bbl at Q1 2020. We also see further considerable upside on prices, if Venezuelan production completely collapses or other geo-political risks arise.

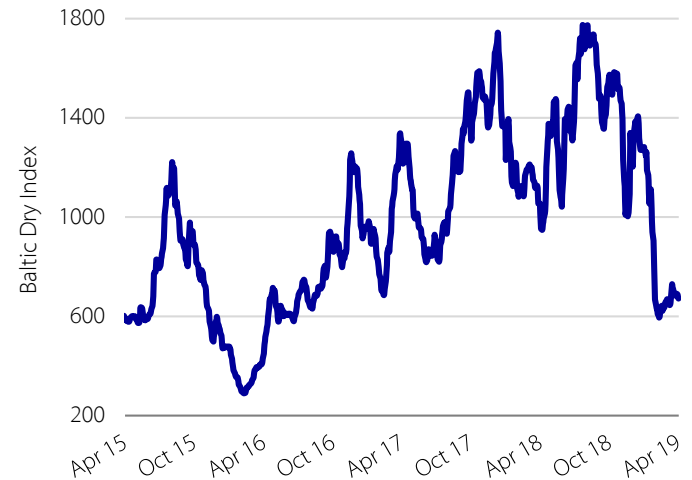
Ocean Freight rates remain near three year lows. The collapse of a major iron ore mine in Brazil is continuing to impact on low demand for ocean freight. Typically the beginning of the second quarter signals an increase in shipping rates, due to a seasonal increase in demand.

Brent Crude Oil, April 2016 – April 2019



Source: AIP, Bloomberg, Rabobank 2019

Baltic Dry Index, April 2015 to April 2019



Source: Bloomberg, Rabobank 2019

Agri Price Dashboard

As of 5/4/2019	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	468	454	465
CBOT soybean	USc/bushel	▼	899	901	1,031
CBOT corn	USc/bushel	▼	363	366	390
Australian ASX EC Wheat	AUD/tonne	▼	325	331	306
Australian Canola	AUD/tonne	▼	592	601	510
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	505	418	540
Feeder Steer	AUc/kg lwt	▲	278	251	289
North Island Bull 300kg	NZc/kg cwt	▲	500	485	520
South Island Bull 300kg	NZc/kg cwt	▼	470	475	515
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	697	656	600
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	710	690	710
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	670	665	705
Venison markets					
North Island Stag	NZc/kg cwt	▼	910	960	1,045
South Island Stag	NZc/kg cwt	▼	905	945	1,100
Dairy Markets					
Butter	USD/tonne FOB	▲	5,200	4,425	5,275
Skim Milk Powder	USD/tonne FOB	▼	2,475	2,638	1,938
Whole Milk Powder	USD/tonne FOB	▲	3,338	3,025	3,225
Cheddar	USD/tonne FOB	▲	4,088	3,800	3,625

Agri Price Dashboard

As of 5/4/2019	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	87	81	89
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	78	73	83
Sugar markets					
ICE Sugar No.11	USc/lb	▲	13	12	12
ICE Sugar No.11 (AUD)	AUD/tonne	▲	396	387	407
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,943	2,018	1,772
Fertiliser					
Urea	USD/tonne FOB	▲	254	237	170
DAP	USD/tonne FOB	▼	383	395	411
Other					
Baltic Dry Index	1000=1985	▲	711	663	953
Brent Crude Oil	USD/bbl	▲	70	66	68
Economics/currency					
AUD	vs. USD	▲	0.711	0.708	0.768
NZD	vs. USD	▼	0.673	0.679	0.728
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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