



# Agribusiness Monthly

## May 2019


*New Zealand*

*Food & Agribusiness Research and Advisory* May 2019



**Rabobank**

# Commodity Outlook

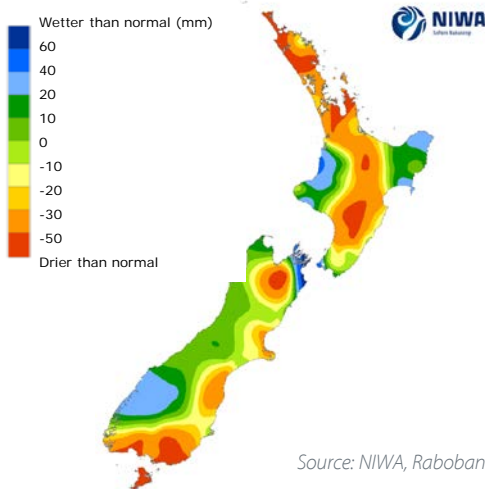
 <p><b>Dairy</b></p>	Rabobank forecasts an NZD 7.15/kgMS farmgate milk price for the 2019/20 season.
 <p><b>Beef</b></p>	Rabobank expects farmgate prices to largely hold firm over the next month, with some upward movement possible on the back of strong market returns for manufacturing beef.
 <p><b>Sheepmeat</b></p>	Rabobank expects some small upward price movement during May as declining availability of stock for slaughter increases procurement competition between processors.
 <p><b>Wine</b></p>	Rabobank expects wine export volume and value to exceed MPI forecasts and continue modest value and volume growth across 2019.
 <p><b>Horticulture</b></p>	Rabobank expects Chilean avocado production to continue to increase, bringing further competition in markets where Chile is already established and New Zealand exporters seek diversification.
 <p><b>Fertiliser</b></p>	Reduced global fertiliser demand ahead of the northern hemisphere spring planting will limit any global price rises in the next three months.
 <p><b>FX</b></p>	The NZD has slumped in the last month, but we haven't bottomed out yet.
 <p><b>Oil</b></p>	Rabobank's base forecast is for Brent crude oil to average USD 75/bbl during Q2.

# Climate



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## Soil moisture anomaly (mm), 28 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 to experience 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 describes as “well above average” for the Tasman Sea, may lead to “significant rain events” and are forecast to have significant impact on regional temperatures across the country.
- **Tropical cyclone season:** NIWA indicates that the risk for New Zealand is near normal.

# A Sharp End to the Season

The last of the summer heat combined with minimal rain in parts of the country has made an impression on New Zealand milk collections. Milk flows have pared back, with March 2019 milk production behind 8% compared to the same time last year. This pulls season-to-date milk collections lower to 3.2%. ***In light of the sharp decline in milk flows for March 2019, Rabobank now expects full-season production to land closer to 2% YOY by the close of the season.***

Commodity prices remain elevated as the supply crunch continues. US milk supplies were 0.4% lower for March 2019 YOY. Germany, France, and the Netherlands continue to act as a handbrake on European milk production, with February 2019 milk flows lower by 0.2% YOY. Australian supply is anticipated to plummet 8% YOY to a two-decade low. ***Rabobank expects commodity prices to remain elevated for Q2 as the supply crunch continues.***

New Zealand shipments of dairy to China reached new levels for March 2019. Exports for March 2019 saw the highest volumes shipped for the month of March, ever. Total shipments to China for the first three months of 2019 are higher by 40% YOY. ***Rabobank anticipates a slowdown in import growth before mid-year as the supply chain digests the strong import activity.***

Based on our forecasts for global supply and demand across the coming 12-month period, ***Rabobank anticipates a milk price of NZD 7.15/kgMS for the new 2019/20 season.***



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## Dairy

### What to watch

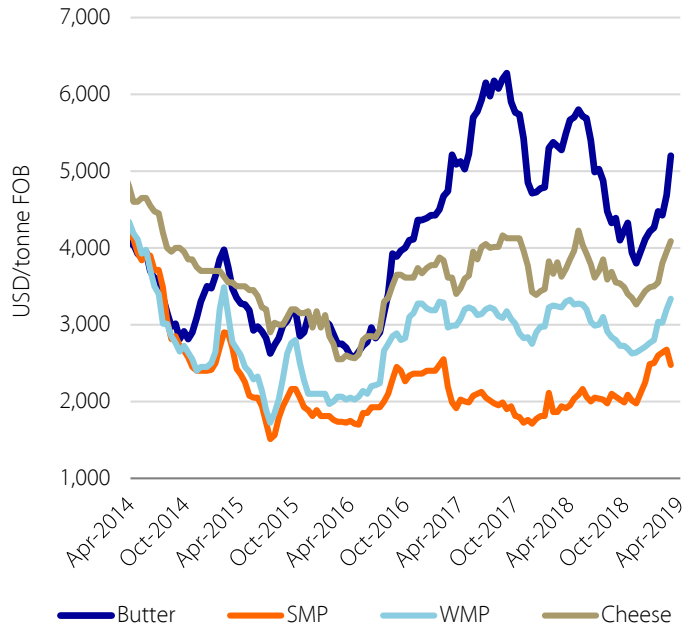
- ***Opening forecasts for the 2019/20 season.*** Opening forecasts for the new season (beginning 1 June 2019) are due to be announced over the coming weeks. Speculation is building. ***Processors may choose to be more bullish than in prior years given the supply and demand fundamentals at play.***

# Commodity Prices Continue to Lift



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## Global dairy prices, 2014 - 2019



Source: USDA, Rabobank 2019

## Production growth key exporting regions

	Latest month	Last three months
<b>EU</b>	-0.2% (Feb '19)	-0.9%
<b>US</b>	0.4% (Mar '19)	0.2%
<b>Australia</b>	-12.6% (Feb '19)	-9.8%
<b>NZ</b>	3.2% (season to 31 March 2019)	

Source: Rabobank 2019

# Manufacturing Beef Drives up Prices

***Rabobank expects farmgate prices to largely hold firm over the next month, with some upward movement possible on the back of strong market returns for manufacturing beef.***

***Prices on both islands made steady gains through April, as improving export market returns started flowing back to the farmgate.*** At the end of April, the North Island bull price was 3% higher MOM, averaging NZD 5.15/kg cwt, while the South Island bull price was up 5% MOM to NZD 4.95/kg cwt. These prices are largely on par with prices at this stage last year.

***Throughout 2019, competition from China for manufacturing beef has driven up the price for US importers to secure supply. The US imported beef price is now up 15% YOY.*** Traditionally, the US has essentially been the only major buyer of manufacturing beef from New Zealand and Australia. The US imported beef price has primarily been driven by the supply and demand factors between these three countries. China's recent emergence as a serious competitor for manufacturing beef has created a new dynamic in the global trade of this product, to the benefit of New Zealand (and Australia) producers.

***Heavy cattle supplies through February/March, when large parts of the country started to dry off, has New Zealand's cattle kill sitting up 5.7% YOY, as of 30 March.*** Slaughter data shows a strong beginning to the national dairy cow cull (up 7.5% YOY), and a particularly heavy bull kill in the South Island (up 13.9% YOY). Supplies have eased slightly in recent weeks, but with the national dairy cow cull still in full swing, processors should not find it difficult to fill capacity in the short term.



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## Beef

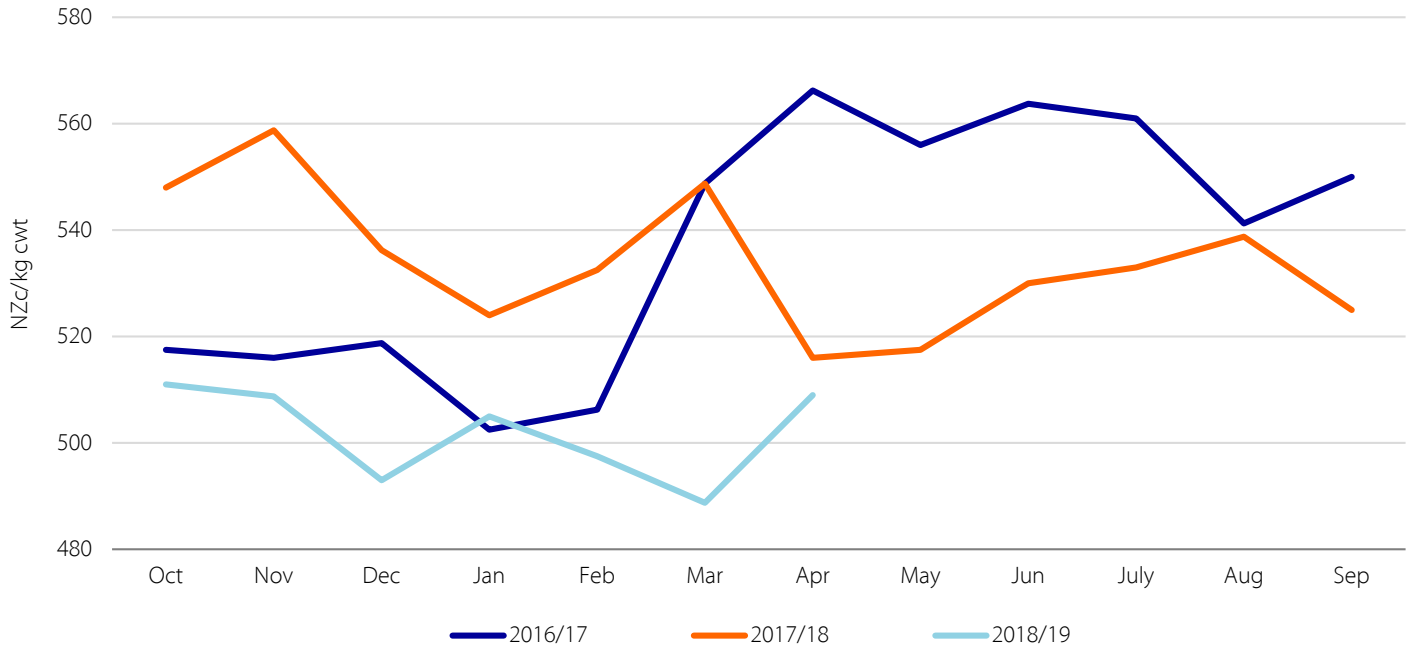
### What to watch

- ***The Ministry for Primary Industries (MPI) to step up Mycoplasma bovis programme*** – In late April, the MPI announced it would be contacting approximately 300 farms in the coming weeks and place around 250 under movement control. Following testing, the MPI expects around 10% to 12% of these farms to be confirmed as infected properties. A significant proportion of farms notified are likely to be beef farms, given that beef farms make up 51% of the confirmed properties to date.

# North Island Bull Price



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# Slowing Supply Pushes up Prices

**Rabobank expects some small upward price movement during May as declining availability of stock for slaughter increases procurement competition between processors.**

**Farmgate prices lifted marginally through April, continuing to trend upwards from mid-March when the seasonal peak in production saw prices hit a seasonal low point.** At the end of April, the slaughter price in the North Island averaged NZD 7.30/kg cwt (3% higher MOM), while South Island lamb averaged NZD 6.80/kg cwt (1% higher MOM). The North Island slaughter price is now up NZD 0.10/kg cwt YOY, while the South Island slaughter price is down NZD 0.25/kg cwt YOY. This difference reflects the significant increase in South Island lamb supplies through March/April, with dry weather conditions over that period resulting in farmers offloading stock in large numbers.

**Export data for the first half of the 2018/19 season (October to March) shows solid growth for New Zealand's lamb exports.** New Zealand's total lamb export volumes were up 6% YOY, while export receipts grew 9% YOY. The season-to-date average value of New Zealand's lamb exports is NZD 10,637/tonne, up NZD 184/tonne on last season's average value. The ongoing strong returns received from New Zealand's export markets will help to maintain healthy farmgate pricing for 2H 2018/19.

**Export data also reveals that New Zealand continues to redirect an increasing proportion of exports away from the EU, towards China and the US.** From October to March, export receipts to the EU (including the UK) accounted for 37% of Zealand's total export receipts (down from 48%), while export receipts to China accounted for 29% (up from 22%) and the US 14% (up from 10%).



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## Sheepmeat

### What to watch

- **Heavy lamb kill weights** – The average weight of lambs killed season to date is almost a full kilo heavier than at this stage last season (18.71kg versus 17.93 kg). While there has been a general trend towards heavier kill weights over recent seasons, this sharp increase predominately results from favourable climatic conditions early in the season, enabling farmers to hold onto stock longer. These heavier kill weights will help to underpin New Zealand's production levels for the 2018/19 season, which will otherwise be negatively impacted by what Rabobank expects to be a reduced national lamb kill.

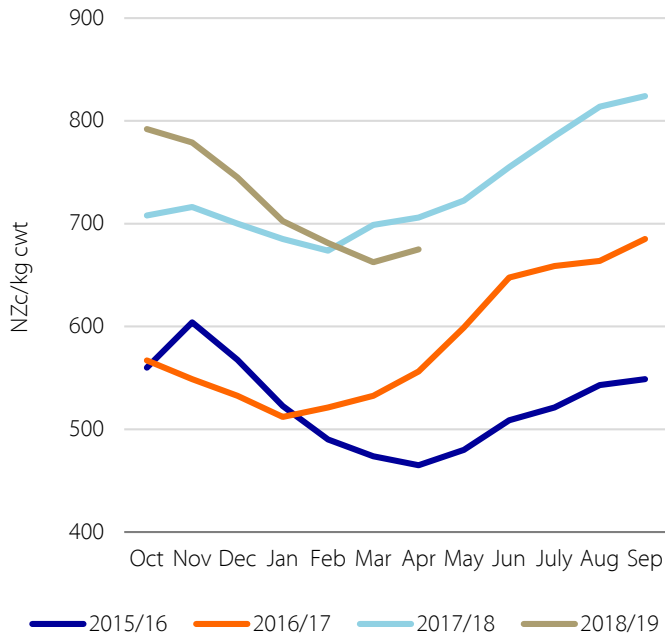


# South Island Lamb Price and New Zealand Lamb Slaughter



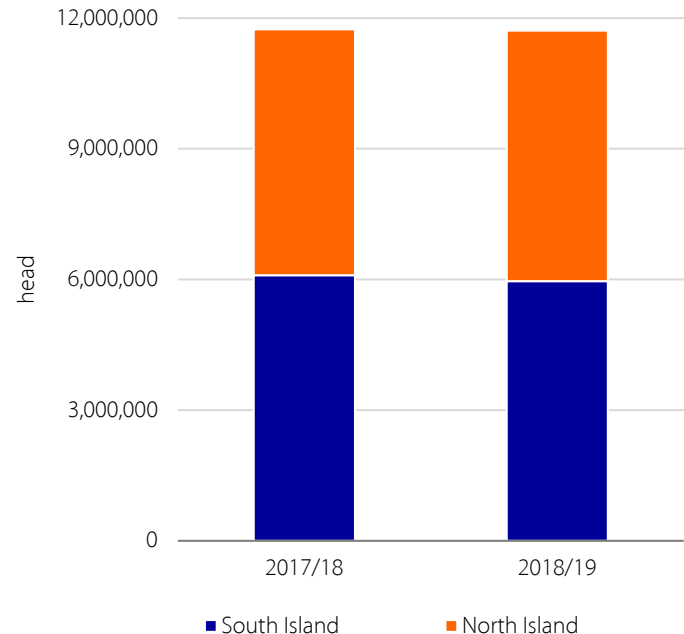
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## South Island lamb price



Source: NZX AgriHQ, Rabobank 2019

## New Zealand lamb slaughter (YTD 30 March)



Source: NZ Meat Board, Rabobank 2019

# Diverse Chilean Avocado Markets

*With New Zealand's reliance on Australia as a key avocado export market and production growth occurring in New Zealand, diversification of export markets remains key. Chile's move into China, the world's fastest growing import market, provides an example of market diversification in the face of rising production and competition.*

As New Zealand production grows and competition across the Southern Hemisphere heats up on production, quality of fruit, and market access, a diversification strategy is key. With access now granted to China, New Zealand rightly sees China as part of this strategy. China is the world's fastest-growing avocado import market, off a low base, but still with a ten-year CAGR of 44% for imports to 2017.

A decade ago, the US was the only story in town for Chilean avocado exports. But as avocado production has grown across Latin America, Chile has faced increasing competition in the US and has reacted well to this with a diversification strategy to new markets. Countries within the EU represent the largest growth market for Chile, but China is also rapidly expanding. Chilean production continues to grow with new plantings underway, and Rabobank expects this to continue in the medium term.

Meanwhile, China's leading e-commerce companies Alibaba and JD.com are stepping up links with Southern Hemisphere exporters and producers of fresh fruits, via their fresh sales channels. A range of supply agreements have recently been put in place between Tmall and 7Fresh and various New Zealand fresh fruit exporters. See Rabobank's 2018 report [Bringing Retail to a Broader Industry](#) for more details.



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## Horticulture

### What to watch

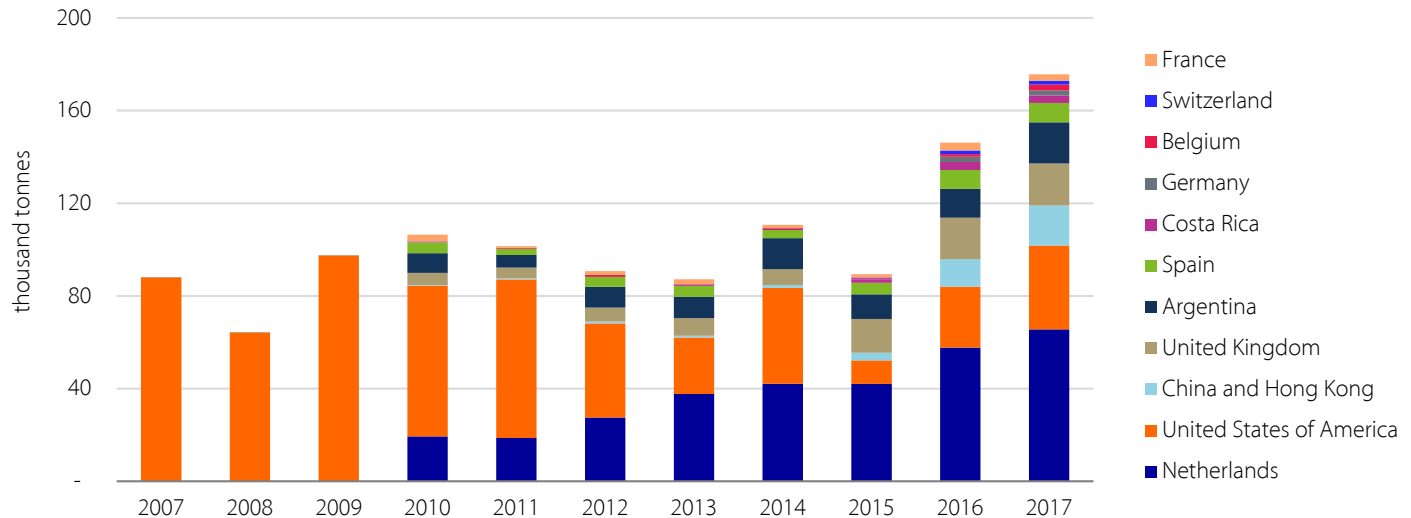
- **South African "Kiwi Gold" into Europe** – South Africa, which has traditionally focussed on exports within the African continent, has started to export gold kiwifruit, also called Kiwi Golds, to Europe. Off a small base, South Africa reportedly sees an opportunity to diversify its fruit production with gold kiwifruit and can fit a window when supply is sometimes short in Europe. This could be viewed as competition, or fitting a seasonal window in the short term, assisting with building out overall category awareness and growth.

# Market Mix Changes for Chile



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## Chile avocado exports by key country, volume



Source: ITC, Rabobank 2019

*As Chilean production of avocados has continued to grow, along with other Latin American producers, market diversification has been achieved. China has been Chile's fastest-growing avocado export market over the five years to 2017.*

# On Track for Another Growth Year

***New Zealand wine exports remain on track to exceed growth forecasts for the 2019 export year. Rabobank expects modest New Zealand wine export growth to continue over the balance of the calendar year 2019. In early 2019, wine import growth continued the slowdown witnessed in 2018 for both the US and China, while Brexit has been thrown a lifeline, for now.***

New Zealand's export value and volume is in line to exceed MPI 2019 forecasts. Rabobank expects overall value growth to be around NZD 60m, representing a 4% YOY change, which is in line with our earlier forecast for modest value growth in our 2019 Agribusiness Outlook.

Wine export revenue to the US contracted slightly in the 12 months to February 2019 by around 1%, but the US remains our lead market by value. Total US wine imports, on a case equivalent basis, contracted by 4% in the 12 months to December 2018, but New Zealand achieved overall growth at the expense of other exporters such as Chile, Australia, Spain, and South Africa. Total US import volumes contracted again in the first two months of 2019, but at a slower rate than 2018. We expect continuous modest US value and volume import growth for New Zealand Wine across 2019, but downside risks do exist in 2020, with the potential for a modest US recession looming in 2H 2020.

New Zealand continues to experience strong wine export growth to China, off a small base. China's wine import volumes contracted in 2018, and the market there continues to evolve as consumers trend towards premiumisation and drinking less but more (lower volumes of higher value wines).

Meanwhile, the Brexit deadline came and went, with an extension agreed until 31 October 2019 and a review of progress planned for June 2019. Rabobank expects importers to run down current inventory levels, and then start rebuilding stocks in the third quarter, prior to the new Brexit date.



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## Wine

### ***What to watch***

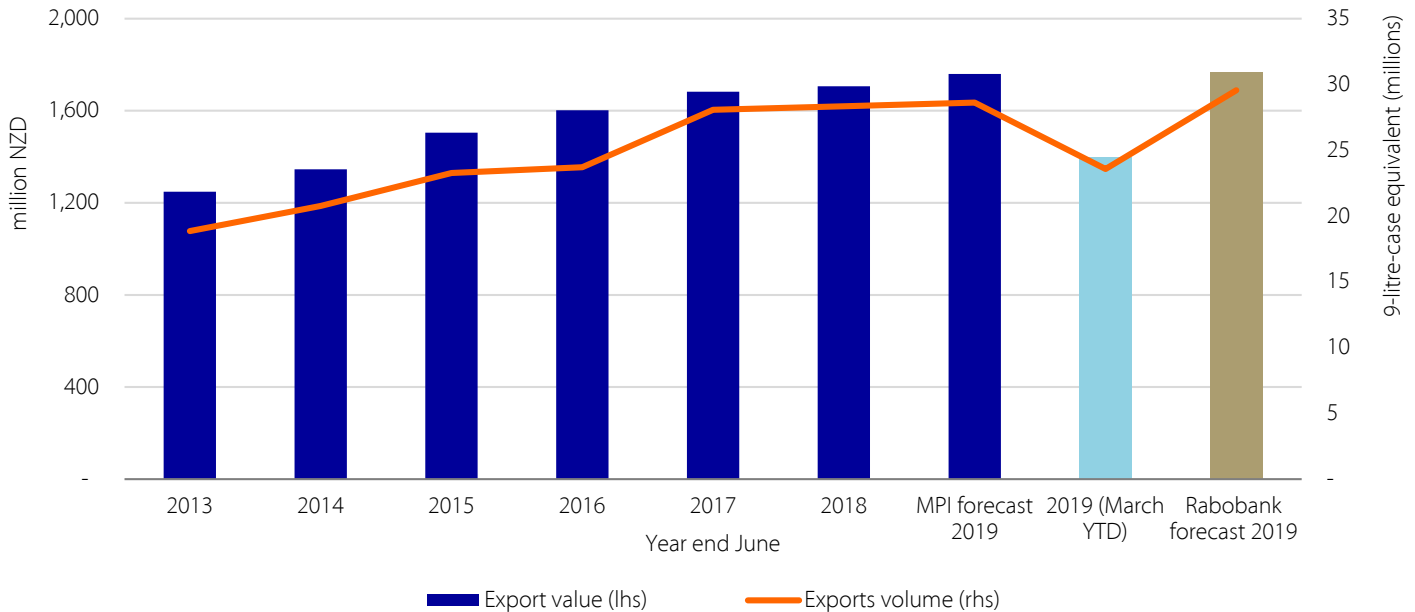
- ***E-commerce sales channels in China*** – Wine companies and distributors in China continue to seek a closer relationship with their customers. As online wine sales are growing, China's e-commerce giants JD.com and Alibaba continue to use big data to understand consumer profiles, and China's wine companies and distributors are becoming more aligned to these tech giants.

# Wine Exports on Track to Exceed Forecast



Rabobank

## New Zealand wine exports



Source: Statistics NZ, NZ Winegrowers, Rabobank 2019

# Subdued Demand to Cap Prices

***Market fundamentals are pointing to reduced global fertiliser demand ahead of the northern hemisphere spring planting. We expect this will limit any global price rises in the next three months.***

An improved outlook for global crop production for the 2019/20 season has had a negative impact on global crop prices. Global prices for wheat and soybeans are trading well below price highs reached in mid-2018. Rabobank doesn't expect prices of either commodity to recover, at least not before Q4 2019. We see this placing a cap on farmer input investment, and subsequently fertiliser demand in the northern hemisphere this season.

The key swing factor is corn-planted area. A significant expansion in corn plantings will support demand for nitrogen. Although farmers in the US have had a delayed start to planting as a result of bad weather, Rabobank expects a 3% expansion in planted corn area. Together with a bullish price outlook, this will support demand for nitrogen, and to some extent offset lower demand from wheat and soybean crops.

During March, global urea prices (ex. Middle East) finished up 28 USD/tonne (12%). DAP (ex. US Gulf) remained unchanged MOM.



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## Farm Inputs

### What to Watch

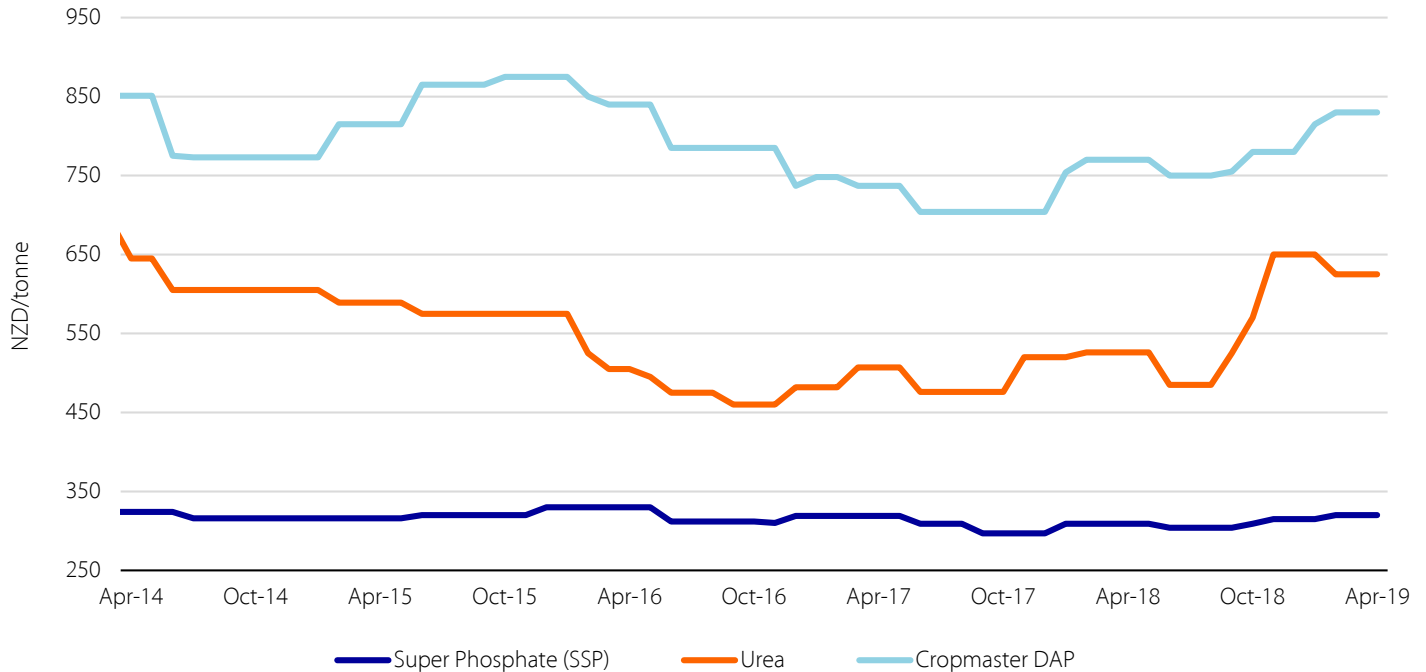
- **Vietnam bans glyphosate** – During April, the Vietnamese government announced that it would be taking its ban on glyphosate imports one step further, and ban the use of glyphosate altogether. While this will not impact local NZ farmers immediately, it should be considered what follow-on decisions might be made, and the longer-term impacts on commodity exports. More broadly speaking, this case illustrates a move away from a scientific, evidence-based approach to policy.

# Local Prices in a Holding Pattern



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## Reported local retail prices



Source: Ravensdown, Rabobank 2019

# The NZD Slumps, but We Haven't Bottomed out Yet

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

***In the US, we still see no further monetary policy tightening in 2019***, with the OCR set to stay put at 2.5%. The minutes of the FOMC meeting on 19 & 20 March (released in April) show that muted inflationary pressures and downside risks to the economic outlook led the committee to remove all hikes for 2019 from the dot plot.

***In New Zealand, we think the next rate move is down.*** The RBNZ itself has clarified that it also now believes this. In late March, the Bank stated: "Given the weaker global economic outlook and reduced momentum in domestic spending, the more likely direction of our next OCR move is down". The likelihood of a cut was then increased by CPI data, which showed only a 0.1% QOQ and 1.5% YOY increase, a big downside surprise on both fronts.

At USc 66.3 on 26 April, the NZD was down almost 3 cents since late March, as the market came to terms with the increased likelihood of a local rate cut. ***Rabobank forecasts the NZD to hit 63 US cents by March 2020.***



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FX

## What to watch

- ***The slowing global economy.*** In April, the IMF downgraded their forecast for world economic growth in 2019 by 20 percentage points (to 3.3%). This would be the slowest rate of growth since 2016, and below the 20-year average of 3.6%. Despite the downgraded forecast, the IMF notes that risks are tilted to the downside. It's unavoidable that such a slowdown will have impact on consumption of many products that New Zealand exports. The hope is that it will be offset somewhat by a falling NZD, improving commodity prices in local currency terms.



# NZD Slumps, Bringing it Nearer Our 12-Month Forecast of USc 63



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## NZ/US dollar cross rate

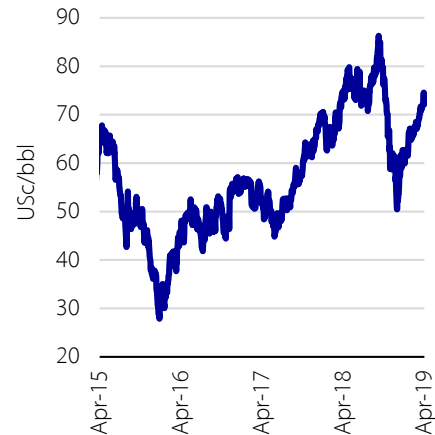


# Oil Supply Concerns May Deliver Price Upside

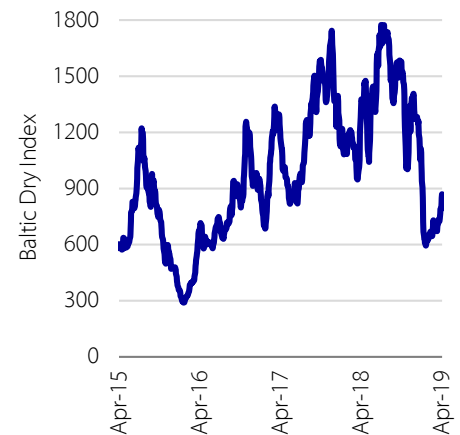
Despite the potential for tight supply to push prices higher, Rabobank's base forecast for Brent crude oil to average 75 USD/bbl during Q2 remains. We forecast that during 2019, Iranian oil production lowest point in more than 30 years resulting from an announcement from the Trump administration that no new waivers would be made for importers of Iranian oil. In response, Saudi Arabia and the UAE have assured the US they will keep the market well supplied in return for isolating Iran, although the details are murky.

Ocean freight costs have bounced off a 3 year low, and are up 30 per cent MOM ahead of the northern hemisphere summer.

**Brent Crude Oil, April 2015 – April 2019**



**Baltic Dry Index, April 2015 to April 2019**



Source: AIP, Bloomberg, Rabobank 2019

Source: Bloomberg, Rabobank 2019



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Oil &  
Freight

# Agri Price Dashboard

As of 26/4/2019	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▼	435	469	481
CBOT soybean	USc/bushel	▼	854	901	1,028
CBOT corn	USc/bushel	▼	351	377	386
Australian ASX EC Wheat	AUD/tonne	▲	334	324	316
Australian Canola	AUD/tonne	▼	583	599	518
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	469	472	494
Feeder Steer	AUc/kg lwt	▲	273	260	272
North Island Bull 300kg	NZc/kg cwt	▲	515	495	510
South Island Bull 300kg	NZc/kg cwt	▲	485	470	500
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	713	647	597
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	730	705	720
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	680	670	705
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	▼	900	920	1,045
South Island Stag	NZc/kg cwt	▼	905	915	1,100
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▲	5,725	4,688	5,488
Skim Milk Powder	USD/tonne FOB	▼	2,538	2,675	1,913
Whole Milk Powder	USD/tonne FOB	▲	3,313	3,200	3,300
Cheddar	USD/tonne FOB	▲	4,350	3,950	3,725

# Agri Price Dashboard

As of 26/4/2019	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	88	87	93
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	77	78	85
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▼	12	13	11
ICE Sugar No.11 (AUD)	AUD/tonne	▲	396	394	385
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▼	1,943	1,963	1,846
<b>Fertiliser</b>					
Urea	USD/tonne FOB	▲	275	240	170
DAP	USD/tonne FOB	•	383	383	411
<b>Other</b>					
Baltic Dry Index	1000=1985	▲	889	683	1,375
Brent Crude Oil	USD/bbl	▲	72	68	75
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.704	0.714	0.755
NZD	vs. USD	▼	0.666	0.691	0.706
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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