



Agribusiness Monthly September 2019

New Zealand



Commodity outlook

 <p>Dairy</p>	Rabobank believes a NZD 7.15/kgMS is still possible, based on balanced global dairy market fundamentals.
 <p>Beef</p>	Rabobank expects farmgate prices to remain largely stable over the next month, with some potential for upward price movement as a result of tight supplies, solid export market conditions, and a favourable exchange rate.
 <p>Sheepmeat</p>	We expect further upward pressure on farmgate prices over the next month. The level of price increases will likely vary between regions, depending on how local lamb availability aligns with processing capacity.
 <p>Wine</p>	NZ's premium wine brands will be able to capitalise should the US place tariffs on imported French wines.
 <p>Horticulture</p>	Rising demand across South-East Asia is creating opportunity for New Zealand citrus exporters to grow new markets.
 <p>Fertiliser</p>	Rabobank expects global urea prices to remain firm for the rest of the year, primarily due to demand from India.
 <p>FX</p>	The NZD plummeted in August on rising trade tensions: but there is still further downside.
 <p>Oil</p>	Despite potential further geopolitical impacts, we expect to see Brent crude moving up to average USD 74.50/bbl during Q1 2020.

What you may have missed this month



RaboResearch: Australia & New Zealand

[Podcast: NZ Red Meat Mid-Year Outlook \(Part 1 & 2\)](#)

Blake Holgate, Emma Higgins and Hayden Higgins

[US-China Trade War: Strategic Silver Linings](#)

Emma Higgins and Michael Every

[Global Dairy Top 20: Walking Among Giants](#)

Emma Higgins and Michael Harvey

[Checking the Pulse of China's Dairy Market](#)

Sandy Chen and Michael Harvey

[What's in a Name? Dairy Implications in NZ-EU FTA Negotiations](#)

Emma Higgins and Blake Holgate



Tim Hunt

Head of Food & Agribusiness Research, Australia & New Zealand

+61 3 9940 8406
tim.hunt@rabobank.com

RaboResearch
Food & Agri

Our global picks



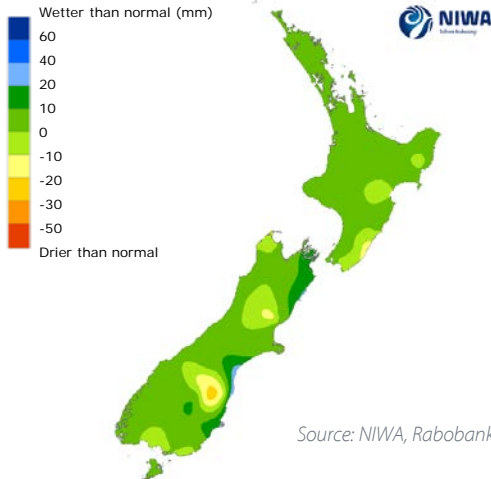
[Making Milk Cool Again: Milk Is in an Era of Flux, Premiumization, and Self-Discovery](#)



[Podcast: On the Road in Iowa – Are Grains a Field of Dreams this Year?](#)



Soil moisture anomaly (mm), 25 August 2019



NIWA notes that all New Zealand regions are forecast to experience either near-average or above-average temperatures through to October 2019.

Rainfall totals through to October are equally likely to be normal or above-normal for the west of the North Island and the top of the South Island. Other New Zealand regions are forecast to have near-normal rainfall levels over the same period.

NIWA is forecasting below-normal soil moisture levels for the top of the North Island, with the east of the South Island equally likely to receive either below-normal or near-normal soil moisture levels. The east of the North Island is most likely to receive normal soil moisture levels. The west of the North Island is likely to receive above-normal soil-moisture levels, while the rest of the South Island is equally likely to receive near-normal or above-normal soil moisture levels through to October.

What to watch

- **A mixed bag of weather through to September.** With more frequent westerly winds forecast than usual, NIWA notes that “a trend towards more unsettled weather” is possible over the month of September 2019.
- **Goodbye El Niño.** The influence of the Oceanic El Niño conditions look set to gradually decline to neutral over the next three months (55% chance).

Supportive fundamentals still

Global dairy commodity prices remained steady in August. While Oceania butter prices continued to modestly decline, powders found price support across the month of August. Global dairy market fundamentals remain well-balanced. Growth in global milk production remains very modest, while import demand has been robust across a number of key markets. Risks to the global market remain evenly balanced at this point in time. However, weaker macroeconomic settings and growing buy-side stocks remain key downside risks in the short-term. RaboResearch still thinks that a farmgate milk price of NZD 7.15/kgMS is possible for the 2019/20 season.

Northern Hemisphere milk flows are underwhelming. US milk production was flat for July 2019 compared to July 2018. This follows two months of lower year-on-year milk flows for May and June, helped by lower cow numbers. Meanwhile, European milk flows have been impacted by intense heat, causing June 2019 milk production to be marginally lower by an estimated -0.1% year-on-year.

The next six weeks of weather will be crucial for moving the dial either way on New Zealand milk production. Winter conditions have been relatively mild across most dairying areas so far. But with the spring peak rapidly approaching, NIWA's warning that New Zealand could experience plenty of unsettled weather across September and October presents a risk to milk volumes. RaboResearch still forecasts national milk production to be lower by 1% for the 2019/20 season but we note that this is dependent on conditions over the next few weeks.



Emma Higgins

Analyst
Dairy

+64 3 961 2908

emma.higgins@rabobank.com

Dairy

What to watch

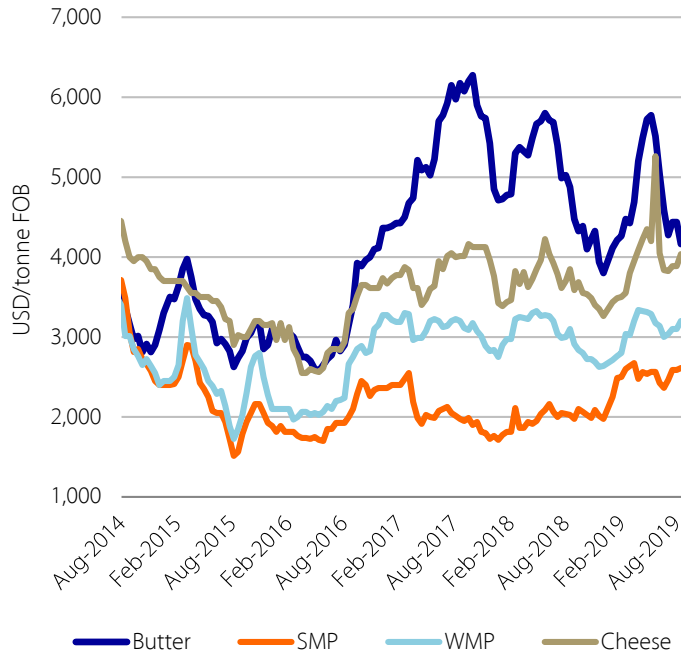
- **Fonterra's annual results for 2019.** Due to be announced on 12 September 2019, the foreshadowed 2019 reported loss details will also coincide with the unveiling of the cooperative's new strategy, along with sought-after updates to the ongoing asset review and milk price forecasts.

Weather risks to supply remain in 2H 2019



Rabobank

Global dairy prices, 2014-2019



Source: USDA, Rabobank 2019

Production growth, key exporting regions

	Latest month	Last three months
EU	-0.1% (Jun 19)	0.5%
US	0.0% (Jul 19)	-0.2%
Australia	-13.6% (May 19)	-12.4%
NZ	2.2% (2018/19 season final)	

Source: Rabobank 2019

Tight supplies push prices higher

Rabobank expects farmgate prices to remain largely stable over the next month, with some potential for upward price pressure as a result of seasonally tight supplies, solid export market conditions, and a favourable exchange rate.

Farmgate prices continued to push higher through August, generally in line with the normal seasonal trend, as cattle supplies remain restricted over the winter period. Bull and prime cattle prices in both islands are currently at, or ahead, of where prices were at this stage last year. As at the end of August, the North Island bull price is 3% higher MOM, averaging NZD 5.60/kg cwt, with the South Island bull price moving up 4% MOM to NZD 5.30/kg cwt. Prime cattle prices in the North Island are now sitting at NZD 6/kg cwt (+3% MOM), while South Island prices moved to NZD 5.85/kg cwt (+ 4% MOM).

The demand outlook from the Chinese market is still positive, although in the short term it will be important that building inventory levels start to come down from October onwards when Chinese domestic consumption rates of beef traditionally pick up. While US imported beef prices continue to sit well-above where they were a year ago, actual demand from importers is relatively soft, with ample domestic beef supplies deterring US buyers from importing New Zealand beef at current pricing levels. At this stage, New Zealand exporters will not be overly concerned given their ability to offload what limited export supplies they currently have available into the Chinese market, but once New Zealand supplies start to lift later in the year, exporters will be keen to see US buyer interest improve (which it traditional does in November/December).



Blake Holgate

Analyst

Animal Protein and
Sustainability

+64 3 955 4603

blake.holgate@rabobank.com

Beef

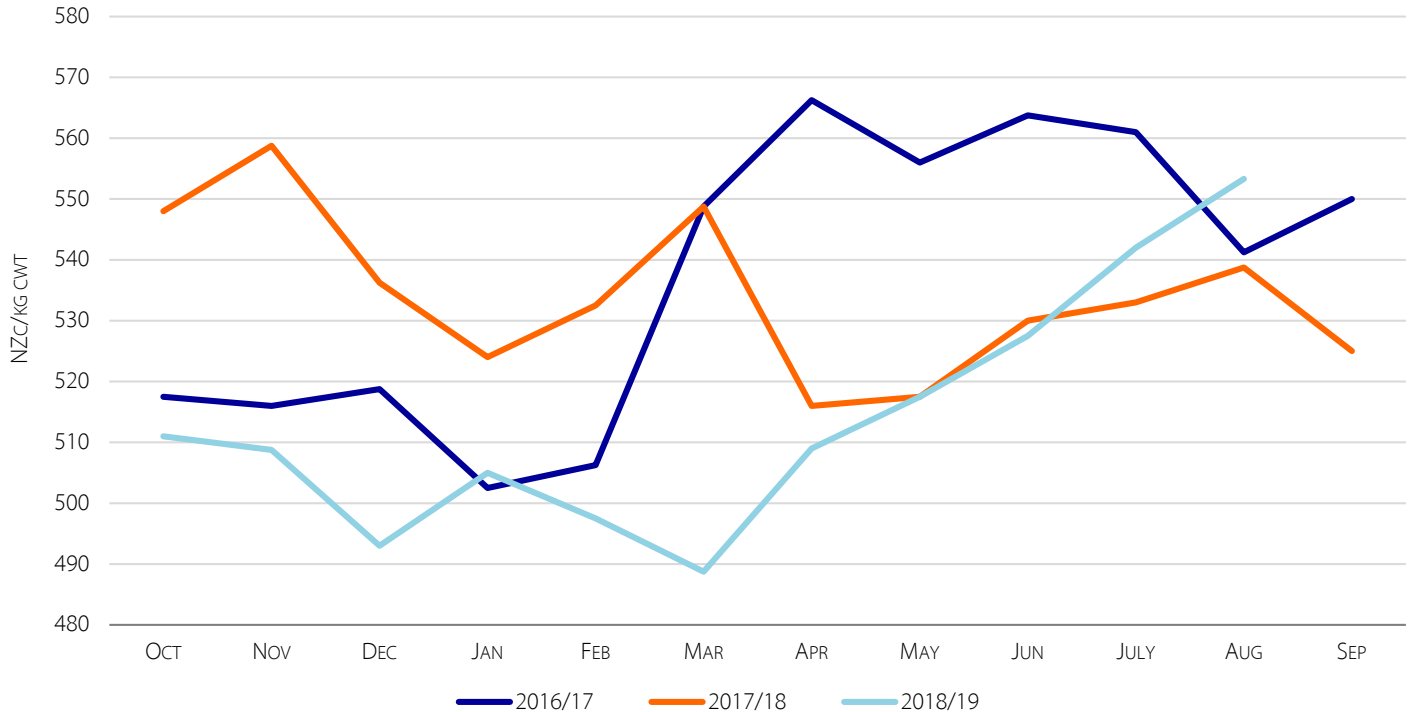
What to watch

- **NZD/USD exchange rate** – There was a significant depreciation of the NZD against the USD over the last month, largely in response to the Reserve Bank cutting its official cash rate by half a percentage point to 1%. At USc 63.8 on 22 August, the NZD was down over USc 3 since the end of July. With over 70% of New Zealand's meat exports traded in USD-denominated contracts, this magnitude of currency movement will help lift the value of New Zealand's beef exports over the coming months and put upward pressure on farmgate prices. Rabobank's long-term forecast is for the NZD to hit USc 63 by June 2020.

North Island Bull Price



Rabobank



Source: NZX AgriHQ, Rabobank 2019

Prices to end season on a high

Rabobank expects some further upward pressure on farmgate prices over the last month of the 2018/19 season, as supplies hit seasonal low levels. The exact degree of any price increases will likely vary between regions depending upon how local lamb availability aligns with processing capacity in those regions.

Tighter-than-normal supplies through July continued to see farmgate prices make healthy gains over the last month, with prices in both islands now above the NZD 8 mark. As of the end of August, the slaughter price in the North Island averaged NZD 8.35/kg cwt (4% higher MOM), while South Island lamb averaged NZD 8.10/kg cwt (4% higher MOM).

In the four weeks up to 27 July, the national lamb kill was down 14% on the same period last year. This is a result of having both a lower 2018/19 lamb crop, as well as disruptive climatic conditions distorting the normal timing of stock flow through different stages of the season. The YTD national lamb kill is down 6.7% YOY, meaning 1,216,137 fewer lambs have been killed so far this season.

Overall, export market sentiment remains positive, although there is some divergence between how key markets are performing. While China's strong demand and pricing shows no signs of waning in the immediate future, there are reports of some weakening of demand out of the UK, continental European and the US. At this stage, pricing has not been materially impacted in any of these markets, in part due to the limited volume of product currently available out of New Zealand. New Zealand's lamb exports for the month of July were down 25% on July last year.



Blake Holgate

Analyst
Animal Protein and
Sustainability
+64 3 955 4603
blake.holgate@rabobank.com

Sheepmeat

What to watch

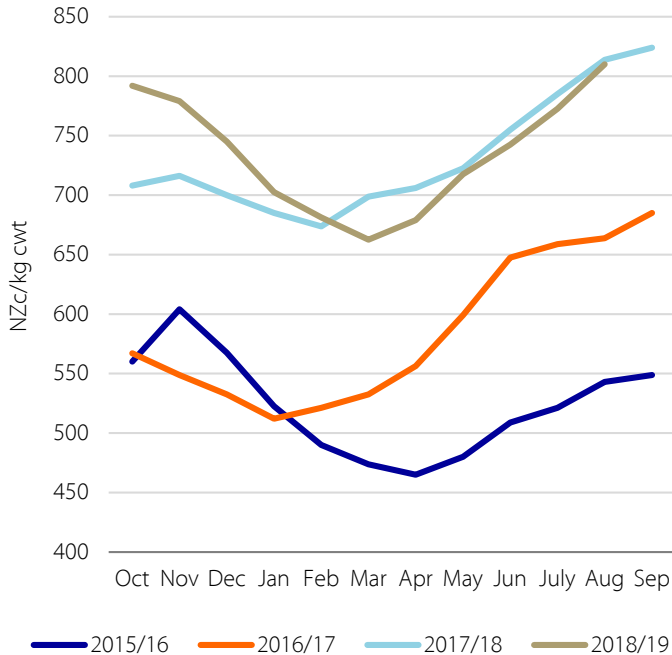
- **China concentration** – New Zealand now exports more sheepmeat to China than all its other export markets combined, following a significant growth in exports to China over the last year. In the 12 months ending on 30 June, China took 51% of all New Zealand's sheepmeat exports (up 22% YOY). The value of New Zealand's exports aren't as concentrated to the same extent, with China only representing 36% of New Zealand's total sheepmeat export receipts (up 39% YOY) over that period. This reflects the higher proportion of lower value lamb cuts and mutton product that China buys from New Zealand.

South Island Lamb Price and NZ Lamb Slaughter

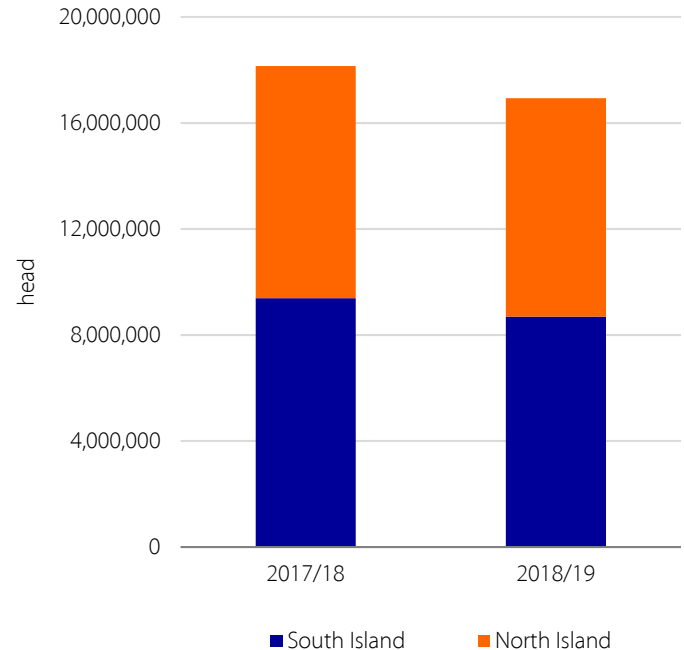


Rabobank

South Island Lamb Price



New Zealand Lamb Slaughter (YTD – 27 July)



Source: NZX AgriHQ, Rabobank 2019

Source: NZ Meat Board, Rabobank 2019

Strong citrus export returns

New Zealand fresh citrus exports rebounded to increase export receipts for the year end 30 June 2019. Opportunities also exist in other South-East Asian import markets that are rising rapidly for citrus imports. And, while off a low base, citrus exports are competing well in growth terms with the big export crops.

Good import demand growth from key markets US, China, and Japan helped lead a significant YOY rise in export receipts of around NZD 2.8m (+29%). New Zealand fresh lemon and lime producers have in particular enjoyed a strong export year to June 2019, with much of the strong overall citrus sector value growth coming from this group. Absolute export values grew in all key markets but with a strong rebound in US imports, the market share of the US grew as a percentage of overall export receipts. And while Japan dropped market share in percentage terms, it remains the key export market for NZ citrus exports overall.

Other markets across South-East Asia have continued to show strong import demand growth over the past five years. The Philippines, Indonesia, Malaysia and Thailand have all shown double digit CAGR for increasing import volumes of lemons and limes (2013-2018). The Philippines and Indonesia have increased imports by around 600% and 300%, respectively, over the period.

Meanwhile, citrus exports by value for New Zealand have performed well in comparison to the other key export sectors for New Zealand's permanent horticultural tree crops, avocado, kiwifruit, apple and cherry. The ten-year CAGR of export receipt values has been 9% between June 2009 and 2019.



Hayden Higgins

Senior Analyst
Horticulture & Wine

+64 6 974 9504

hayden.higgins@rabobank.com

Horticulture

What to watch

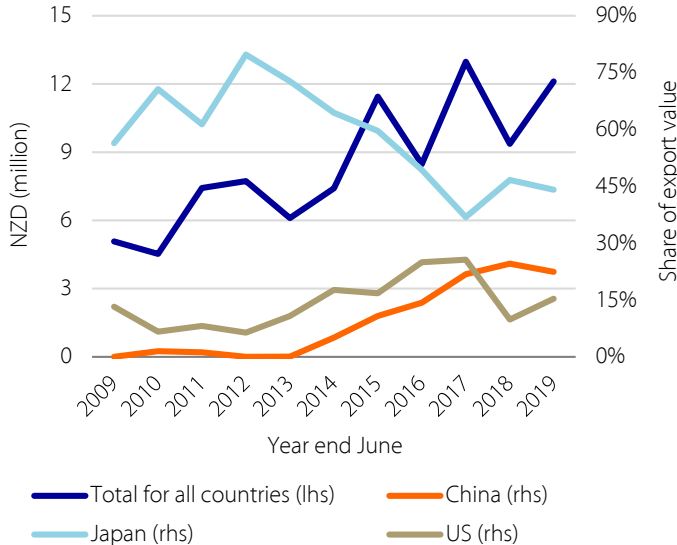
- ***Where the US places its processed potato products*** – The US has historically been the largest supplier of processed potato products to China. Continuing trade tensions may see a re-direction into other Asian markets for processed potatoes if they become more favourable. This may provide an opportunity for increased New Zealand exports into China.

Market growth opportunity

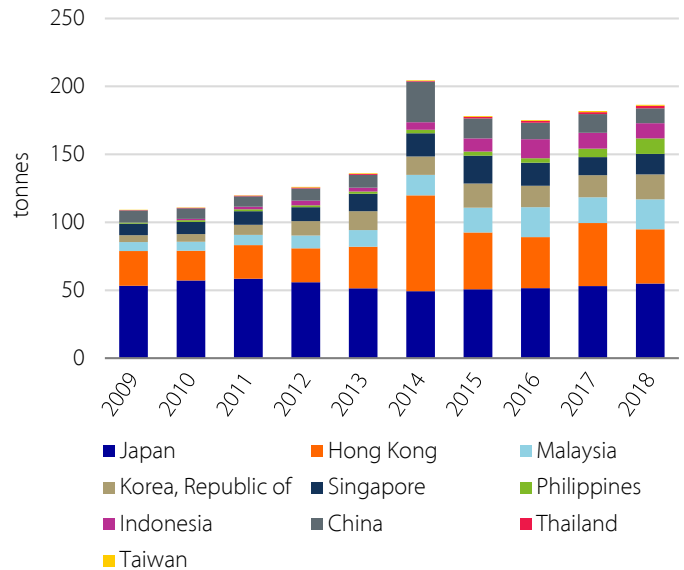


Rabobank

New Zealand Citrus exports



Import volume, lemons and limes



Source: Trade Map, Infoshare, Rabobank 2019

Citrus exports return to growth. Demand continues to increase across key South-East Asia markets for lemons and limes.

High stakes for French wine in US

US president Donald Trump has threatened to impose up to a 100% tariff on French wine imports into the US, which would have a material impact on French wines. They already hold the highest average value per litre by some margin, and a doubling of value could materially alter the demand side equation for France. Rabobank expects this to create opportunities for premium New Zealand wines to capitalise on market positioning at the unfortunate expense of the French.

US imports over the year to June 2019 of French wine were worth around USD 2.2bn, with an imported price of around USD 11.52/ litre. New Zealand wines hold the next highest ranking in value per litre, at around USD 6.26/litre with Australian wines averaging USD 2.39/litre.

Reportedly President Trump believes looks are more important than taste when it comes to wine, and US wines “look better” than French wines. Flavour, structure, quality and origin of a wine are all key components consumers seek out and will pay a premium for. French wines have earned a reputation on these and many other attributes to become the highest value of any imported wines in the US, perhaps indicating that taste is more important than looks.

A doubling of the value of imported French wine could have big implications for the demand for French wines in the US and this comes at a time when French wines are also losing ground to Australian wines in China. ***Rabobank believes that if the US does implement increased tariffs, and of this magnitude, then an opportunity exists that is twofold for New Zealand exporters.*** US consumers who may be too price sensitive to persevere with French wines may seek to try alternative wines. US consumers who have to date not been consumers of New Zealand wines may engage with Sauvignon Blanc. Furthermore, while volumes of New Zealand red wine exports to the US are low, an opportunity to capitalise on New Zealand Sauvignon Blanc’s reputation and premium positioning may arise.



Hayden Higgins

Senior Analyst
Horticulture & Wine

+64 6 974 9504

hayden.higgins@rabobank.com

Wine

What to watch

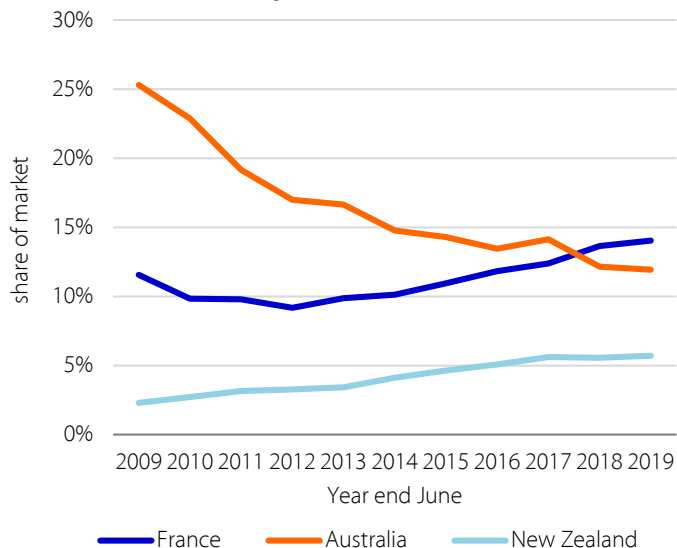
- ***French vintage for 2019*** - Recent reports from the French Ministry for Agriculture are estimating a vintage that is below the five-year average and between 43m-46m hectolitres due to variable weather patterns across France – from heatwaves to frost at critical times.

Much at stake for French wine

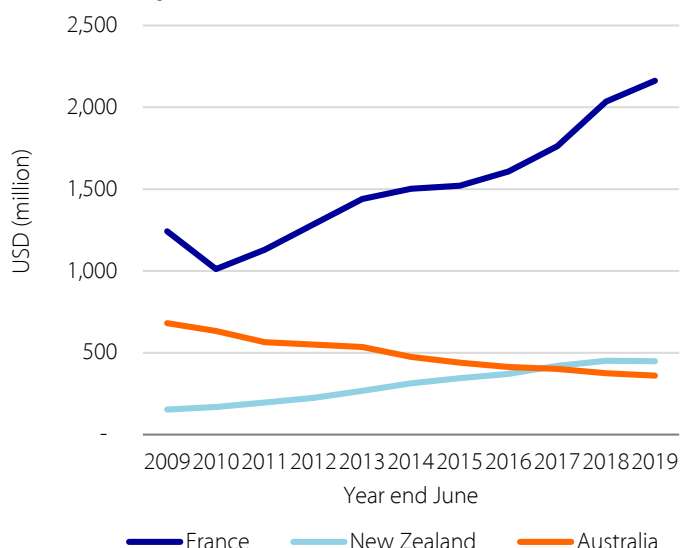


Rabobank

Share of US wine imports, volume



US wine imports, value



Source: USDA, Rabobank 2019

The value of US imports of French wine is significant in the US market.

NZD plummets, but there is still downside

We maintain our forecast for the NZD to reach USc 63 within 12 months. Happily for exporters, it will fall less against the Chinese Yuan.

The NZD fell USc 2.5 against the US dollar in the month to 26 August, to reach just under USc 64 – its lowest level since September 2015. The slump in the NZD accompanied falling local and global stock markets (as investors exited riskier assets) and surging bond yields and record gold prices (reflecting the flight of capital to safer investments). Investor concerns stemmed from a combination of poor economic data and a significant escalation in the US-China trade war. In a tumultuous month, Trump and China both ratcheted up tariffs to new highs. China allowed its currency to devalue, and ordered SOEs to stop buying US ag products. Trump ‘ordered’ American companies to “immediately start looking for alternatives to China”. Meanwhile, ongoing protests in Hong Kong raised concerns of how much worse things could still get if China opts for heavy-handed intervention and the US responds with yet more sanctions.

Despite the sharp fall in the NZD through August, we still see further downside. With geopolitical tensions assumed to stay high, and the global economy continuing to slow, ***Rabobank forecasts the NZD to hit USc 63 by August 2020.***



Tim Hunt

Head of Food &
Agribusiness Research,
Australia & New Zealand

+61 3 9940 8406

tim.hunt@rabobank.com

FX

What to watch

- **NZD/CNY.** China has let its currency fall against the USD since Trump imposed another round of tariffs on 1 August. The market has jumped on this. By 26 August, the CNY had fallen 4% against the US dollar.
- A weaker CNY makes Chinese exports more competitive, but reduces China’s ability to buy imports. Thankfully for NZ exporters, the reliance of the NZ economy on China means that any fall in the CNY against the US dollar tends to trigger a fall in the NZD/USD rate also. Rabobank expects the NZD /CNY to change little over the next 12 months as a result.

NZD registers a heavy monthly fall against the US dollar



Rabobank

NZ/US dollar cross rate



Firm outlook for global urea

Rabobank expects global urea prices to remain firm for the rest of the year, primarily due to the anticipation of continuing demand from India.

Despite FOB prices ex Middle East falling some 9 percent during August, to USD 265/tonne, global urea prices remain near their highest point for five years during the August period.

Demand originating from India has been the dominant driver of the global urea market over recent months. We expect that demand from India will continue late into the year, due to the late arrival of the monsoon.

Local NZ reported Urea retail prices were stable month-on-month.

Global phosphate prices continued to slide during August, a trend that began in October 2018. DAP ex US Gulf FOB, fell to USD 326/tonne at the end of August, down 26% over the past 11 months.

The global phosphate market continues to be weighed down by oversupply and poor demand. Looking ahead, we expect prices to remain under pressure in coming months, albeit nearing a price floor, with demand support coming ahead of the Northern hemisphere winter crop planting.



Wesley Lefroy
Agricultural Analyst

+61 2 8115 2008
wesley.lefroy@rabobank.com

Farm Inputs

What to Watch

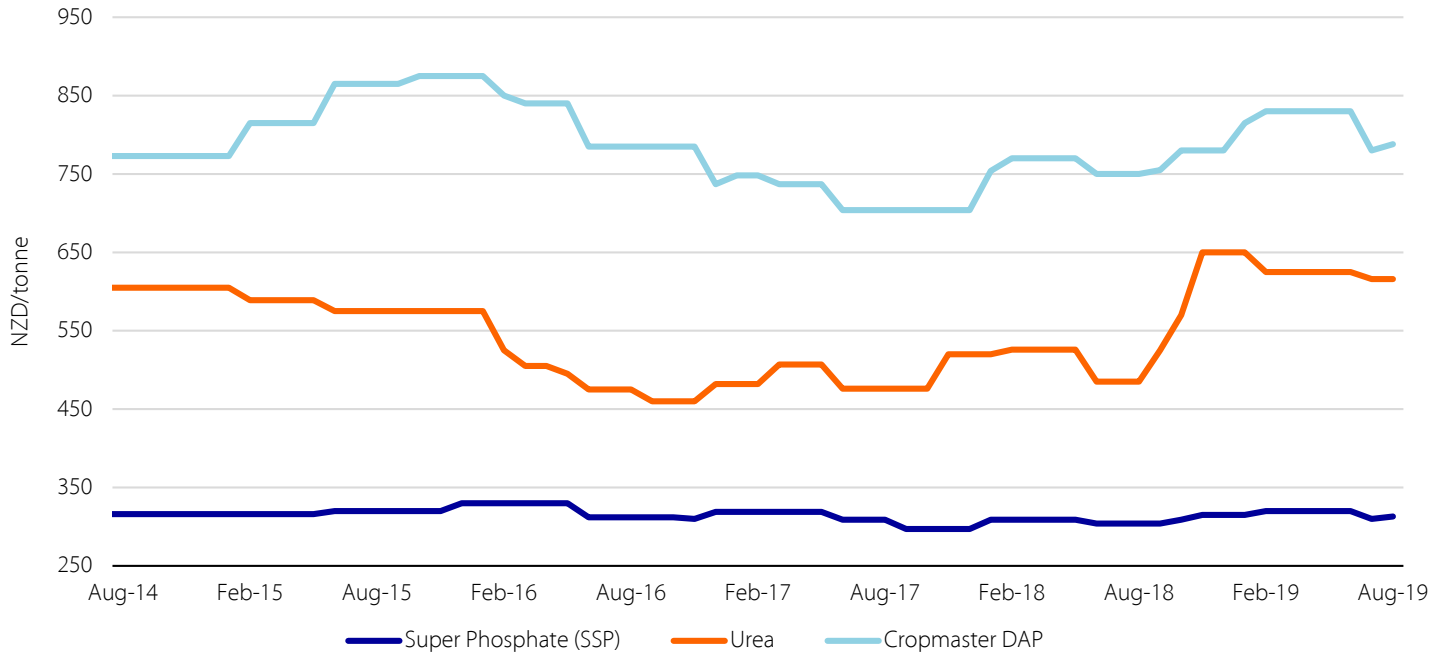
- ***Urea demand ahead of the spring flush*** – Grass conditions and soil moisture levels are favourable across a majority of New Zealand, which will support urea applications during the spring. NIWA has forecast ‘more unsettled weather’ during September, which may provide some difficulty for farmers to apply urea during the period.

Local urea prices stable month-on-month



Rabobank

Local Reported NZ Retail Prices





Oil &
Freight

Upside ahead despite geo-political storm

For the first time, the US-China trade war hit the oil market this month, with China targeting US crude imports as a part of its latest round of retaliatory tariffs. Despite this, we see upside in the market. We expect to see Brent crude moving up to average USD 74.50/bbl during Q1 2020.

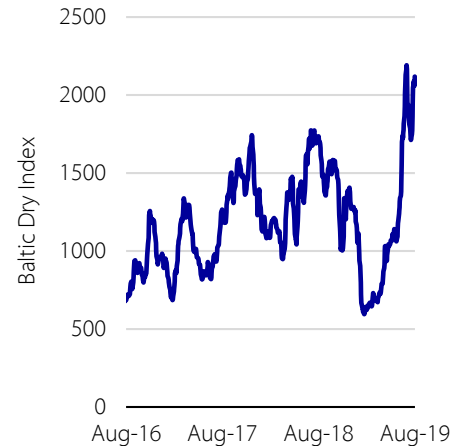
Geopolitics aside, the fundamentals of the Brent crude remains strong. Ahead of the IMO 2020 shipping fuel change, we are already seeing demand being increased. In response to this extra demand, Saudi Arabia will maintain their aggressive supply management, which will act to keep balances tight. The wildcard remains the US-China trade war. Any further escalation will continue to impact market sentiment.

Brent Crude Oil, Aug 2016-Aug 2019



Source: Bloomberg, Rabobank 2019

Baltic Dry Index, Aug 2016-Aug 2019



Source: Bloomberg, Rabobank 2019

Agri Price Dashboard

As of 26/08/2019	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	475	496	515
CBOT soybean	USc/bushel	▼	843	883	842
CBOT corn	USc/bushel	▼	360	415	349
Australian ASX EC Wheat	AUD/tonne	▼	326	338	353
Non-GM Canola Newcastle	AUD/tonne	▲	590	586	599
Feed Barley F1 Geelong	AUD/tonne	▼	311	321	395
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	508	532	461
Feeder Steer	AUc/kg lwt	▲	305	300	263
North Island Bull 300kg	NZc/kg cwt	▲	560	545	540
South Island Bull 300kg	NZc/kg cwt	▲	530	510	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	806	926	843
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	835	805	830
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	810	780	815
Venison markets					
North Island Stag	NZc/kg cwt	▲	910	900	1,120
South Island Stag	NZc/kg cwt	•	885	885	1,140
Dairy Markets					
Butter	USD/tonne FOB	▼	4,163	4,438	4,875
Skim Milk Powder	USD/tonne FOB	▲	2,613	2,588	2,025
Whole Milk Powder	USD/tonne FOB	▲	3,200	3,100	3,100
Cheddar	USD/tonne FOB	▲	4,038	3,888	3,850

Agri Price Dashboard

As of 26/08/2019	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	70	75	91
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	58	64	82
Sugar markets					
ICE Sugar No.11	USc/lb	▼	11.47	12.02	10.23
ICE Sugar No.11 (AUD)	AUD/tonne	▼	378	383	352
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,497	1,754	2,068
Fertiliser					
Urea	USD/tonne FOB	▼	265	290	295
DAP	USD/tonne FOB	▼	326	340	439
Other					
Baltic Dry Index	1000=1985	▲	2,168	1,937	1,697
Brent Crude Oil	USD/bbl	▼	58	63	76
Economics/currency					
AUD	vs. USD	▼	0.670	0.691	0.733
NZD	vs. USD	▼	0.635	0.664	0.667
RBA Official Cash Rate	%	•	1.00	1.00	1.50
NZRB Official Cash Rate	%	▼	1.00	1.50	1.75

RaboResearch Food & Agribusiness Australia and New Zealand



Rabobank

Tim Hunt

Head of Food & Agribusiness Research and
Advisory, Australia and New Zealand
+61 3 9940 8406

Tim.Hunt@Rabobank.com

Cheryl Kalisch Gordon

Senior Analyst – Grains & Oilseeds
+61 2 6363 5900

Cheryl.KalischGordon@rabobank.com

Emma Higgins

Analyst – Dairy
+64 3 961 2908

Emma.Higgins@rabobank.com

Dennis Voznesenski

Associate Analyst
+61 2 8115 3920

Dennis.Voznesenski@rabobank.com

Angus Gidley-Baird

Senior Analyst – Animal Protein
+61 2 8115 4058

Angus.Gidley-Baird@rabobank.com

Hayden Higgins

Senior Analyst – Horticulture and Wine
+64 6 974 9504

Hayden.Higgins@rabobank.com

Blake Holgate

Analyst – Animal Protein and Sustainability
+64 3 955 4603

Blake.Holgate@rabobank.com

Catherine Keo

Business Coordinator
+61 2 8115 4154

Catherine.Keo@rabobank.com

Michael Harvey

Senior Analyst – Dairy
+61 3 9940 8407

Michael.Harvey@rabobank.com

Wes Lefroy

Agricultural Analyst
+61 2 8115 2008

Wesley.Lefroy@rabobank.com

Charlie Clack

Commodity Analyst
+61 2 8115 2471

Charles.Clack01@rabobank.com

Rabobank New Zealand

Nearest branch call 0800 722 622
www.rabobank.co.nz



This document is issued by a Rabobank Group member. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by any Rabobank Group member to enter into a transaction. This information is not professional advice and has not been prepared to be used as the basis for, and should not be used as the basis for, any financial or strategic decisions. This information is general in nature only and does not take into account an individual's personal circumstances. All opinions expressed in this document are subject to change without notice. No Rabobank Group member accepts any liability whatsoever for any direct, indirect, consequential or other loss or damage howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of a Rabobank Group member. By accepting this document you agree to be bound by the foregoing restrictions. All copyright is reserved © 2019