



Agribusiness Monthly October 2019

New Zealand



Commodity outlook



Regulation

Proposed freshwater reforms have significant implications for New Zealand agriculture, with the potential to impact production costs, operational complexity, and future land-use development.



Rural Confidence

Farmers expect the agricultural economy to deteriorate, as their concerns over government policy mount.



Dairy

We expect general firmness in global dairy markets to continue for the rest of the year.



Beef

Rabobank expects farmgate prices to hold firm during October, as prices in both islands start the 2019/20 season marginally ahead of where prices started last season.



Sheepmeat

Rabobank expects the arrival of new season lamb supplies over the next month to see farmgate prices gradually starting to come off the record levels reached in September.



Wine

The proposed US-Japan trade negotiations, if successful, will level the playing field for US wines in Japan, and Rabobank expects that this will create increased competition for market diversification.



Horticulture

Fresh produce export values are rising, import values are dropping, and Rabobank expects the global economy to continue to slow in key horticulture import markets.



FX

We think the recent rise in the NZD will prove temporary, and look for it to hit USc 61 within 12 months.



Oil

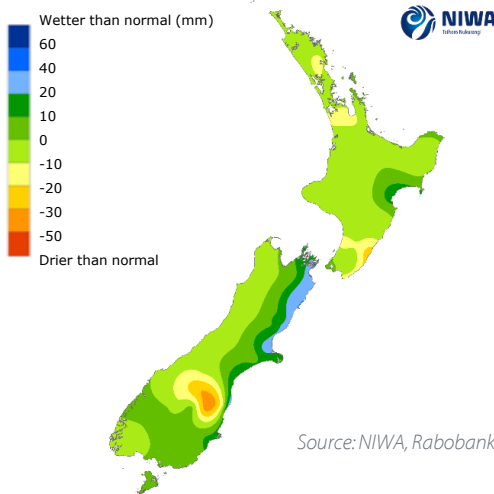
The attack on Saudi Arabia's oil processing facility will add to an already tightening global balance.

Climate



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Soil moisture anomaly (mm), 22 September 2019



Source: NIWA, Rabobank 2019

NIWA notes that most New Zealand regions are forecast to experience near-average temperatures through to November 2019, with the exception of the north and west of the South Island. These regions are equally likely to experience near-average or below-average temperatures across this period.

Rainfall totals through to November are equally likely to be normal or above-normal for most of the country apart from the South Island's west coast, which is more likely to receive normal rainfall levels over the coming two months.

NIWA is forecasting near-normal soil moisture levels for all of New Zealand between September and November.

What to watch

- **A mixed bag of weather for the beginning of October.** NIWA is forecasting unsettled weather patterns that may bring “elevated risk for sharp cold snaps”.
- **Goodbye El Niño.** The El Niño event present since March 2019 has ended in August, with ENSO neutral conditions establishing. ENSO neutral conditions have a 60% chance of continuing over the next three months.

Impact of water reforms significant

Proposals to overhaul New Zealand's freshwater planning laws have significant implications for New Zealand agriculture, with the potential to impact production costs, operational complexity and future land-use development. On 5 September, the Government released the "Action for Healthy Waterways" discussion document, setting out a range of policy proposals with the stated intention of bringing New Zealand's freshwater to a healthy state within a generation. Proposals most relevant to farmers include the introduction of more stringent nutrient bottom lines, new national practice standards, and interim controls on intensification.

The government is proposing to set new bottom lines for a range of water quality and ecosystem health attributes, including for nutrient pollution. Councils would have until 2025 to amend current plans to ensure these new bottom lines can be achieved over a timeframe they consider appropriate. The government's impact assessment concludes that the average catchment will require a 27% reduction in nutrient loss, with some catchments needing to reduce nitrogen loss by up to 80%.

New standards would be introduced for a range of high-risk activities to be applied consistently across New Zealand, regardless of regional location. These national standards would both regulate some existing activities, such as winter grazing and feedlots, while also requiring all farmers to undertake certain activities, including stock exclusion and implementation of environment plans.

Interim controls on intensification are proposed to take effect from mid-2020 to prevent any further water quality degradation between now and when councils have their amended plans in place by 2025. Land use intensification (including irrigation expansion of more than 10 hectares) would only be able to occur where there is evidence it would not increase pollution.



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What to watch

- **Impact on your farming business** – The impact of these proposed reforms on individual farming businesses will vary significantly based on a range of factors, but particularly depending on farm location and system. For some, these proposals will have little effect on how they operate in the future, while for others, complying with these changes will represent a major challenge. Farmers can learn more about the proposals, and how to submit feedback (due by 31 October), at <https://www.mfe.govt.nz/sites/default/files/media/Fresh%20water/action-for-healthy-waterways.pdf>

Regulation

Confidence falls as policy concerns are mounting

Rabobank's September quarter survey of New Zealand farmers shows that New Zealand rural confidence fell significantly across all major commodity sectors.

The number of respondents who expect the ag economy to deteriorate in the next 12 months outweighed the number who expect it to improve by 33%.

Confidence fell in all major commodity sector groups. In all sectors, those expecting the ag economy to deteriorate outweighed those expecting it to improve by at least 20%, with a 37% negative differential in the dairy sector.

Farmers overwhelmingly cited government policy and intervention as the key reason they expect the ag economy to deteriorate in the next 12 months. 28% of all survey respondents believed that both the ag economy would deteriorate and attributed this to government policy and intervention – a level never seen before in the history of this survey. The result is particularly striking given that the survey took place before the Government released its proposed amendments to New Zealand's freshwater regulation on 5 September, which was greeted with dismay by many in the rural sector.

Farmer investment intentions fell to the lowest level since March 2016. However, the number of farmers expecting to increase investment in the next 12 months still marginally outnumbered the number who said they would reduce investment. This could be interpreted two ways: either farmers remain confident of the long-term future of agriculture in New Zealand, or they will need to increase investment just to meet rising regulatory requirements. Most likely it is some combination of both.



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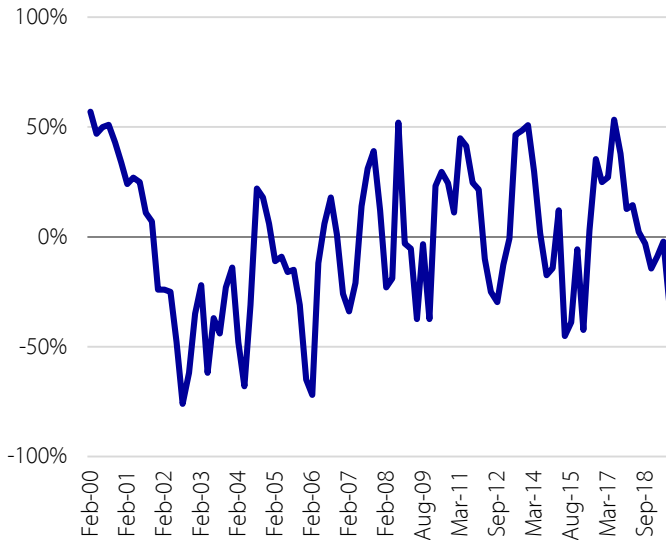
Rural Confidence

Rural confidence falls, with record numbers of farmers concerned over government policy



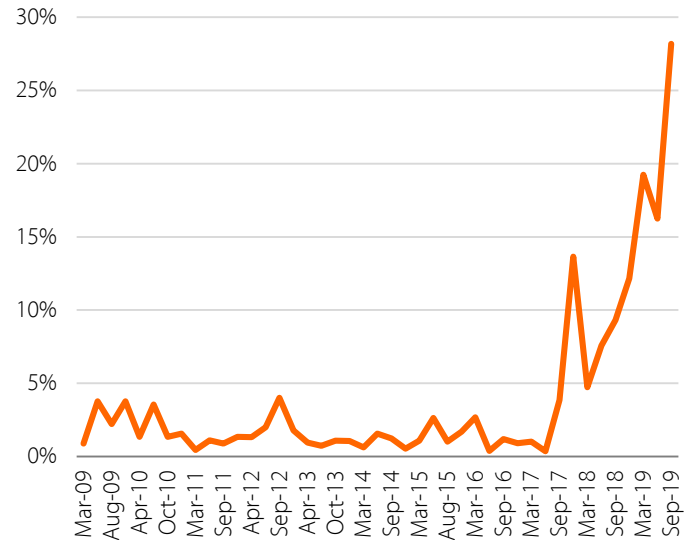
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Share of respondents expecting the agricultural economy to improve minus percentage expecting conditions to worsen over the next 12 months



Source: Kantar TNS, Rabobank 2019

Share of respondents who expect both the economy to deteriorate in the next 12 months and attribute that to government policy and intervention



Source: Kantar TNS, Rabobank 2019

Supportive fundamentals remain

Global dairy commodity prices mostly held their ground in September. While Oceania butter prices continued to modestly decline, powders and cheese prices largely remained steady. Global dairy market fundamentals continue to remain well-balanced with modest growth in global milk production along with steady import demand across a number of key markets, helping to support prices.

RaboResearch reaffirms its forecast milk price of NZD 7.15/kgMS for the 2019/20 season. Our forecasts have not assumed a recession scenario for the 2019/20 season. However, there is a noticeable slowing of global economic activity and confidence is waning – and these factors remain key downside risks to our forecast farmgate milk price, should there be an impact on demand evident over our forecast period.

Farmgate milk prices are favourable for most dairy producers around the world, but production growth will be limited as dairy farmers remain cautious and face economic and environmental challenges. This makes significant supply growth challenging.

Financial pressure for European farmers is taking its toll. Dairy farmers in Europe have been widely protesting uneconomic milk prices. Dairy farmers in Brussels sprayed fresh milk onto fields, while German farmers covered government buildings in milk. The European Commission has reinstated export subsidies as a result of weaker economic conditions.



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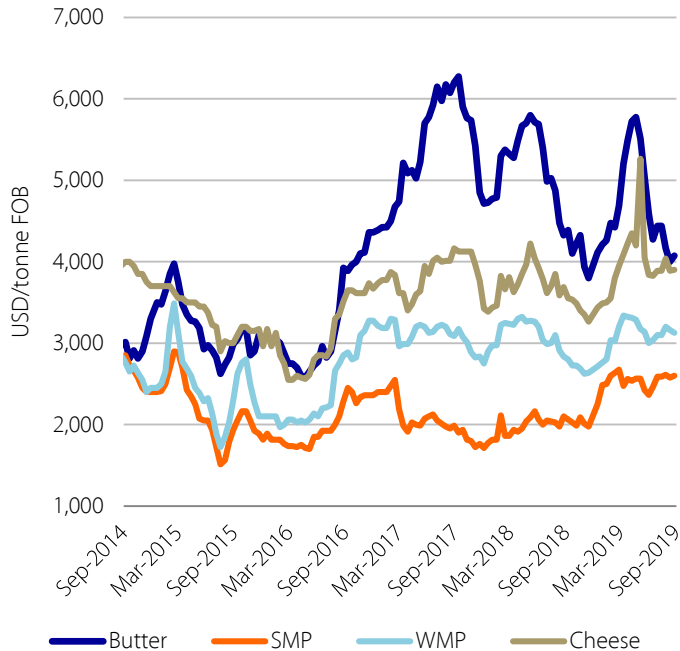
- **Fonterra's annual results for 2019.** The much-anticipated unveiling of the FY19 results are finally set to be announced by the cooperative on 26 September 2019.
- The foreshadowed 2019 reported loss details will also coincide with the unveiling of the cooperative's new strategy, along with sought-after updates to the ongoing asset review and milk price forecasts.

Production regions struggling to find growth



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Global dairy prices, 2014-2019



Source: USDA, Rabobank 2019

Production growth, key exporting regions

	Latest month	Last three months
EU	0.4% (Jul 19)	0.1%
US	0.2% (Jul 19)	0.07%
Australia	-8.4% (Jul 19)	-8.9%
NZ	2.2% (2018/19 season final)	

Source: Rabobank 2019

Positive outlook for start of season

Rabobank expects farmgate prices to hold firm during October, as prices in both islands start the 2019/20 season marginally ahead of where they were at the start of last season.

Farmgate prices continued to edge upwards through September, although higher-than-usual supplies of cattle for this stage of the season did somewhat reduce procurement competition, limiting the upward price movement. At the end of September, the North Island bull price was 2% higher MOM, averaging NZD 5.70/kg cwt, with the South Island bull price moving up 4% MOM to NZD 5.50/kg cwt. Prime cattle prices in the North Island held steady at NZD 6/kg cwt, while South Island prices firmed slightly to NZD 5.90/kg cwt (+1% MOM).

Export data for June to August show a significant jump in New Zealand's beef exports to China, as the ongoing impact of African swine fever sees China increasingly rely on imports to make up for lost domestic protein production. New Zealand's export receipts to China for the three months totalled NZD 425.56m, a 111% increase on the corresponding period last season. This strong demand from China has been a key driver behind consistent lifts in farmgate prices since March, when prices hit their seasonal low. Rabobank expects China's momentum of strong beef import growth to continue for the remainder of 2019, helping to underpin healthy farmgate pricing for at least the first quarter of the 2019/20 season.

US imported beef prices largely held steady over the last month, up between 17-20% YOY on the back of strong domestic retail demand and limited availability of supplies from New Zealand and Australia.



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Beef

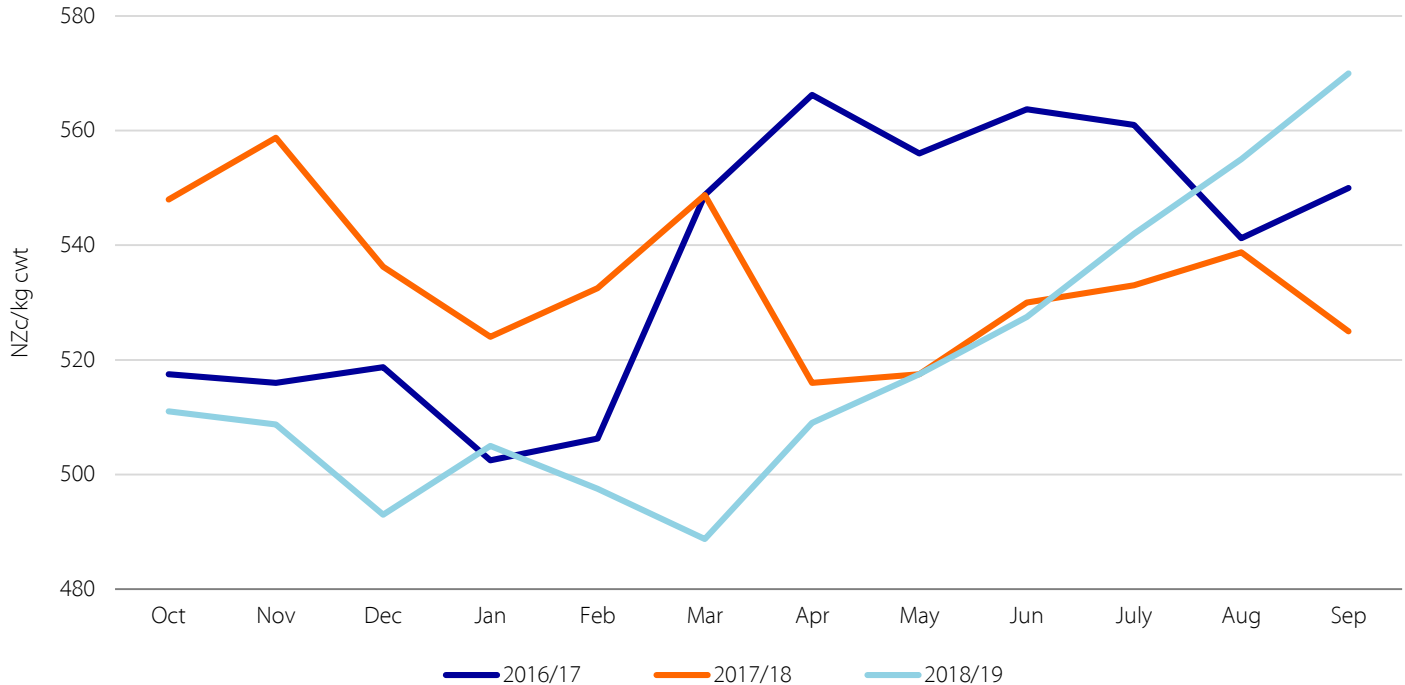
What to watch

- **New disbudding and dehorning rules take effect** – From 1 October onwards, it will be illegal to disbud or dehorn any animal without the use of a local anaesthetic. Failure to comply with these requirements may result in fines from NZD 3,000 for an individual to NZD 25,000 for a body corporate. Further details on the new requirements can be found at: <https://www.mpi.govt.nz/protection-and-response/animal-welfare/guide-to-the-animal-welfare-care-and-procedures-regulations/>

North Island Bull Price



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Prices coming off record peak

Rabobank expects the arrival of new season lamb supplies over the next month to see farmgate prices gradually starting to come off the record levels reached in September. Strong export returns, driven primarily by Chinese demand and a weakened NZD, should ensure an easing of pricing rather than any sharp declines.

Farmgate prices continued to trend upwards during September, largely in line with the normal seasonal pattern, pushing prices marginally above last year's record-highs. As of mid-September, the slaughter price in the North Island averaged NZD 8.60/kg cwt (3% higher MOM), while South Island lamb averaged NZD 8.40/kg cwt (4% higher MOM). Prices last season peaked in September at NZD 8.55/kg cwt in the North Island and NZD 8.30/kg cwt in the South Island.

Export data shows the average export value of New Zealand lamb for 2018/19 (Oct-Aug) is up 3% YOY at NZD FOB 10,736/tonne. Average returns from both China and the US are up 10% YOY, while average returns from continental Europe and the UK held at similar levels to 2017/18.

Rabobank expects ongoing high demand from China, combined with a favourable NZD exchange rate, to support strong export returns for the remainder of 2019. The impact of Brexit on the high-value chilled Christmas trade market remains the biggest downside risk for New Zealand exporters at this stage.

B+LNZ's initial forecast for New Zealand's 2019/20 lamb kill is down marginally (-1%) on this season's low kill numbers, ensuring that there will again be a strong degree of procurement pressure throughout 2019/20.



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Sheepmeat

What to watch

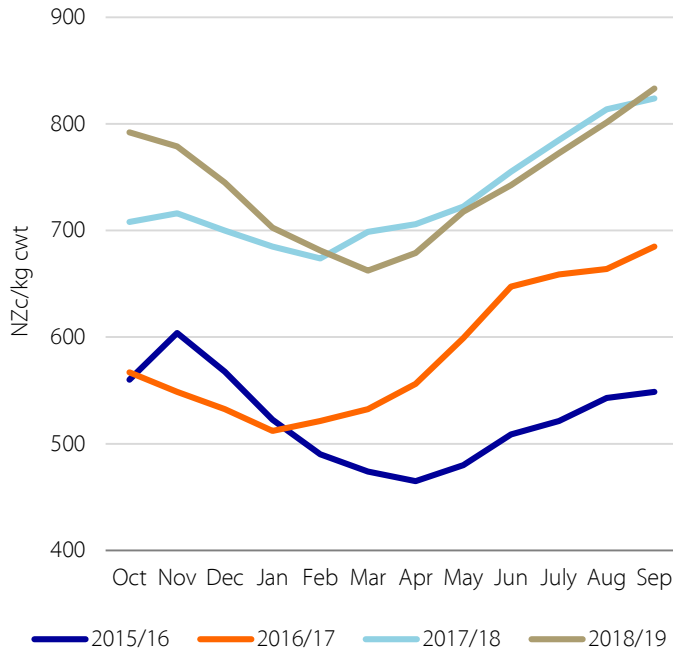
- ***Can New Zealand crack 19kg lambs?*** – The latest slaughter data (up to 24 August) show the season to date average lamb kill weight sitting at 18.92kg, up from 18.37kg at this stage last season. With five weeks of slaughter data still to be reported, and weekly kill weights currently averaging in excess of 21kg, 2018/19 could potentially be the first season the average weight of New Zealand lamb cracks 19kg. This is the result of both the long-term productivity gains made by the sector, as well as favourable growing conditions early in the season, allowing farmers to grow lambs out to heavier weights.

South Island Lamb Price and NZ Lamb Slaughter

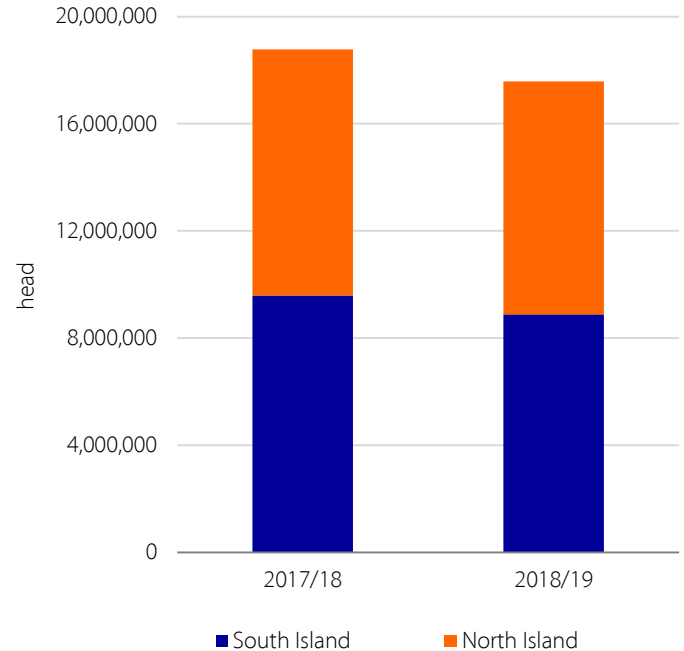


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South Island Lamb Price



New Zealand Lamb Slaughter (YTD 24 August)



Source: NZX AgriHQ, Rabobank 2019

Source: NZ Meat Board, Rabobank 2019

A levelling of the field?

Like a wild-card entry, the US has managed to advance trade discussions with an eye to securing preferential trade access to Japan, with terms similar to those under the CPTPP deal by New Zealand. The US will reportedly secure a reduction in tariffs to zero on imported wines, if a deal is successfully negotiated, within seven years of a deal coming into place. These terms are aligned to those secured by New Zealand, and other parties who are partners under the CPTPP. While Japan is not a significant market for New Zealand, it remains important from a diversification point-of-view.

Japan is an important market for US wines and this will level the playing field for US competitiveness with other exporters in that market. Value of overall US exports to Japan, at around USD 100m for the year end June 2019, has risen by a CAGR of 6% per annum since 2009. This CAGR is ahead of total export value growth to all markets for US wine over the same timeframe. For the same period, New Zealand exported around USD 20m of wine to Japan, with values relatively flat over the past three years. This agreement, if concluded, will make US wines more competitive with other imported wines in Japan, varietal differences aside.

Elsewhere the UK political environment remains in chaos and uncertainty continues to reign for exporters on the eve of another Brexit deadline. The UK continues to increase imports of wine pre the Brexit deadline. This includes wines of French origin, as not only is the UK concerned about trade flow for domestic consumption post-Brexit, but the UK is also historically an exporter of French wines to Hong Kong, leveraging off of the UK's historical ties to the territory.

Rabobank continues to watch developments in both the UK economy and wine trade for this key market.



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Wine

What to watch

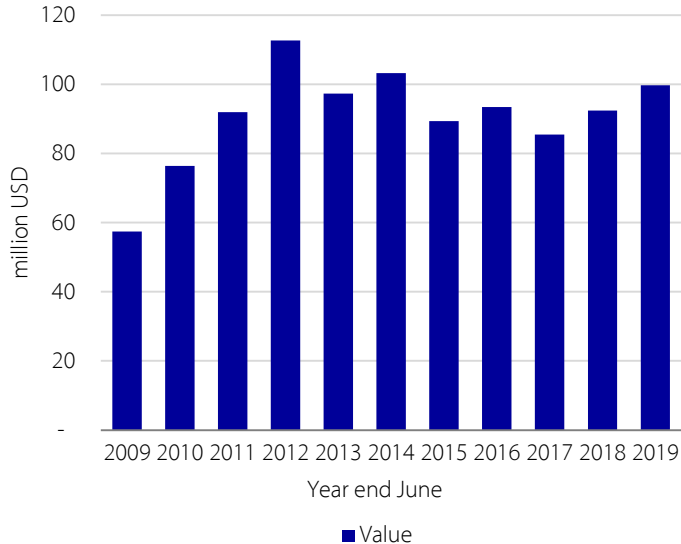
- ***National freshwater reform*** - With the New Zealand government releasing its discussion document "Action for Healthy Waterways", it is important for wine sector participants to understand the implications of the proposal including for future land use change.

Japanese upside for US wine exports

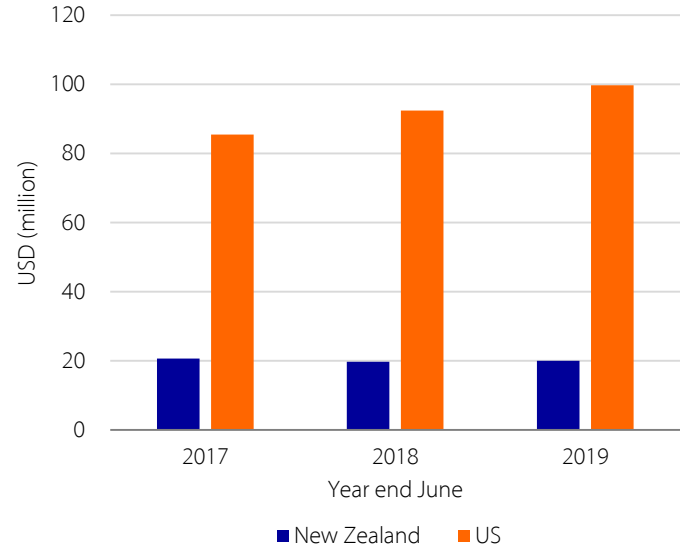


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US wine exports to Japan



New Zealand vs US wine exports to Japan



Source: USDA, Infoshare, RBNZ, Rabobank 2019

Potential tariff reductions for US exports of wine to Japan will have strong upside for US exporters.

Fresh produce: bounce of the ball?

*Its Rugby World Cup time and fans will be looking for a strong result, similar to the New Zealand horticulture sector in 2019. New Zealand total fruit and vegetable export values rose by healthy margins YOY to June 2019. Both categories grew at virtually the same rate of almost 19% to provide a total lift of NZD 0.6bn in FOB export receipts. **How the global economy performs over 2019-2020 will be a key influencer for horticulture exporters to get a repeat performance.***

***Against this export backdrop, total fruit and vegetable imports were down YOY, led by fruit but with vegetable imports registering a slight increase.** Alongside this, we saw an 8.8% drop in the New Zealand food price index for fresh fruit and vegetables between June 2018 and June 2019.*

Imports of fresh grapes and index values at both import value and retail level buck this trend, although possible retail price upside exists as key supplier US feels supply pinch.** New Zealand imports 58% of its fresh grapes from the US, followed by Australia and Chile (rounding out 96% of supply), with fresh grapes representing 12% of the value of all fruit imports. The US is feeling a supply pinch due to spring rains followed by extreme heat in the Californian summer, impacting supply. New Zealand imports for Q3 are down in volume with prices per kg up for US grapes, which may lead to price rises at retail level. **We see a close relationship to the import price of Australian fresh grapes to New Zealand retail prices (see next page).

***Meanwhile freshwater reforms are on the table,** and with a short timeframe for submissions, it is important for all New Zealand growers to understand the implications for current business models as well as land use change into the future.*



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Horticulture

What to watch

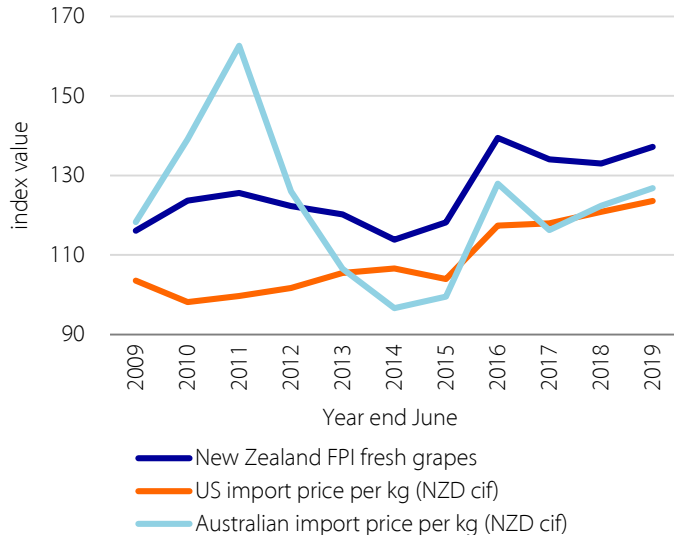
- ***Will global economic headwinds be like the television match official?** – Rabobank sees the likelihood of a global recession rising, with this flowing into a number of our key trading partners. Exporters should remain observant of these external influences, as, just like in rugby, outcomes are not always decided in the field of production.*

Is Australia the pick of the bunch?

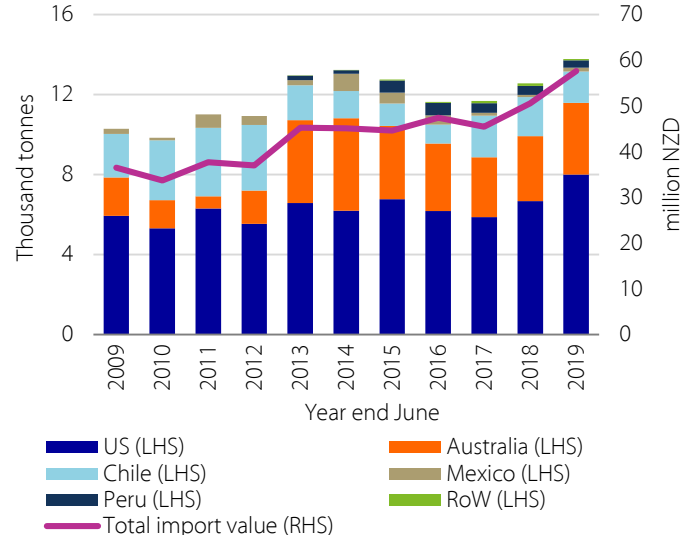


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New Zealand fresh grape price index



New Zealand fresh grape imports



Source: Infoshare, Rabobank 2019

Note: 2007 base year index value 100. FPI (Food Price Index)

Imports of Australian fresh grapes take market share from Chile and exert influence on New Zealand retail prices.

NZD rises marginally – and, we think, temporarily

We forecast the NZD to reach USc 61 within 12 months. The NZD was trading at just under USc 63 on 20 September down fractionally on its late-August low. The steadying of the NZD was driven at least in part by the unwinding (for now) of several risks which alarmed markets in the prior month. Trade talks between the US and China were resumed, some tariffs were delayed, and protests in Hong Kong eased somewhat after the government ditched its extradition bill. Economic data was mixed – breaking a run of unequivocally bad news the prior month.

In the US, the Fed cut the target range for the federal funds rate by 25 bps on 18th September. The cut came amid rising concerns of slowing global growth and trade wars. But the Fed stressed a solid outlook for US growth and indicated that this is “a time of difficult judgement”. Investors took that as a more hawkish tone than expected – and ironically the US dollar rose.

We stick to our view that the feedback loop between trade policy and monetary policy is likely to lead to **another US insurance cut before the end of the year**. But we change our call for the most likely timing from October to December.

While US rates will likely be cut, we expect a slowing global economy and loose local monetary policy to continue to put pressure on the NZD in the next 12 months.



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What to watch

- **Slowing global growth.** Specific drivers are acting to slow growth in the world’s key economies. But these also have a mutually reinforcing influence, as reduced momentum in each region slows trade and investment with the others. The World Bank in late September joined economists in downgrading their growth outlook. President Malpass stated that 2019 global real GDP growth may fall short of the 2.6% projected in June. He mainly pointed the finger to slowing emerging markets – and China in particular – as the main factors behind this slowdown.

NZD registers a heavy monthly fall against the USD



Rabobank

NZD/USD dollar cross rate



Source: RBNZ, Rabobank 2019



Oil & Freight

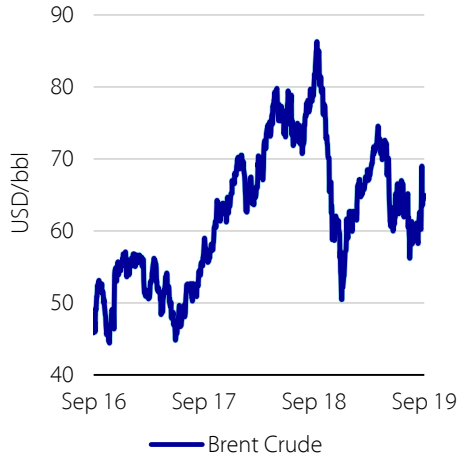
Drone attacks and price records

The oil market saw a record price surge on the market open, following a missile and drone strike that took out 5.7million barrels/day of crude-oil processing in the world's largest crude-oil processing facility, Saudi Arabia's Abqaiq. Brent prices increased 7.6% MOM and we maintain a bullish outlook in the weeks ahead, as the market digests the full impact of these attacks. We expect to see Brent crude moving up to an average of USD 73.46/bbl during Q1 2020.

The attack on Saudi Arabia's oil supplies adds to Rabobank's view of a tightening of fundamental balances moving into the end of 2019. Furthermore, we see the current market too focussed on how quickly Saudi Arabia's supplies can come back online, as opposed to focussing on the potential US/Saudi response to Iran, which will likely increase friction in the Middle East and create more risk in the price outlook.

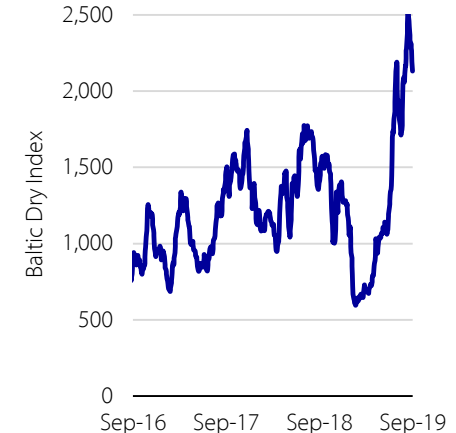
The Baltic dry index finished up 3.5% MOM, but we did see a steep 18% fall since the 4th of September. One driver of the sudden reversal is a decline in Chinese iron ore prices over the same time period.

Brent Crude Oil, Sep 2016-Sep 2019



Source: AIP, Bloomberg, Rabobank 2019

Baltic Dry Index, Sep 2016-Sep 2019



Source: Bloomberg, Rabobank 2019

Agri Price Dashboard

As of 20/09/2019	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	484	460	524
CBOT soybean	USc/bushel	▲	883	856	850
CBOT corn	USc/bushel	▲	371	360	353
Australian ASX EC Wheat	AUD/tonne	▲	365	334	380
Non-GM Canola Newcastle	AUD/tonne	▲	627	596	620
Feed Barley F1 Geelong	AUD/tonne	▼	310	315	393
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	469	509	501
Feeder Steer	AUc/kg lwt	▼	280	304	285
North Island Bull 300kg	NZc/kg cwt	▲	570	560	550
South Island Bull 300kg	NZc/kg cwt	▲	550	530	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	804	834	773
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	860	835	855
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	840	810	830
Venison markets					
North Island Stag	NZc/kg cwt	▲	940	910	1,150
South Island Stag	NZc/kg cwt	▲	930	885	1,140
Dairy Markets					
Butter	USD/tonne FOB	▼	4,075	4,163	4,325
Skim Milk Powder	USD/tonne FOB	▼	2,600	2,613	2,100
Whole Milk Powder	USD/tonne FOB	▼	3,125	3,200	2,838
Cheddar	USD/tonne FOB	▼	3,900	4,038	3,688

Agri Price Dashboard

As of 20/09/2019	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	71.3	70.5	88
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	59.1	59.2	79
Sugar markets					
ICE Sugar No.11	USc/lb	▼	11.09	11.44	10.80
ICE Sugar No.11 (AUD)	AUD/tonne	▼	393	407	385
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,497	1,508	2,067
Fertiliser					
Urea	USD/tonne FOB	•	265	265	310
DAP	USD/tonne FOB	▼	320	327	439
Other					
Baltic Dry Index	1000=1985	▲	2,131	2,059	1,396
Brent Crude Oil	USD/bbl	▲	64	60	79
Economics/currency					
AUD	vs. USD	▼	0.677	0.678	0.729
NZD	vs. USD	▼	0.626	0.642	0.669
RBA Official Cash Rate	%	•	1.00	1.00	1.50
NZRB Official Cash Rate	%	•	1.00	1.00	1.75

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