

Agribusiness Monthly May 2021

New Zealand

May 2021

RaboResearch
Food & Agribusiness



Rabobank

Commodity Outlook



Strong Chinese milk supply and elevated import volumes will see import demand growth slow later this year.



Demand for beef is set to remain firm with less export competition from Australia putting New Zealand beef in pole position to meet US demand.



Chinese demand and procurement pressure will see firm farmgate prices through May 2021.



March data suggests that the channels through which we sell to consumers are reaching a far more normal balance in our key markets abroad. But watch for the 'fine print' on what normal means, and for bumps in the road ahead.



We think that global prices of nitrogen and phosphate have largely peaked across the global fertiliser complex, and will continue to ease into Q3.



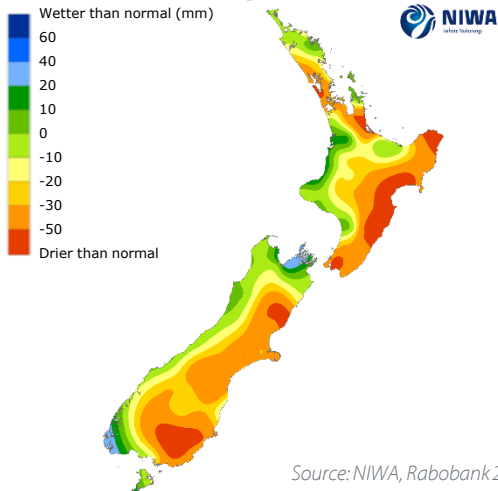
The NZD rose through April on falling US treasury yields and stronger commodity prices. We expect near-term stabilisation.



As we approach higher demand during the northern hemisphere summer, we expect Brent Crude will average in the high USD 60s/bbl in the coming months.



Soil moisture anomaly (mm), 2 May 2021



NIWA is forecasting near-average or above-average temperatures for most of New Zealand through to the end of July 2021. The east coast of the South Island is likely to have average temperatures over the coming three months.

Rainfall levels are anticipated by NIWA to be near-normal for the top of the North Island. The remainder of the country is likely to receive below-normal or near-normal rainfall levels through to July 2021.

NIWA is forecasting near-normal soil moisture levels in both the north and west of the North Island, with below-normal soil moisture likely for the east coast of South Island. The rest of country is forecast to have near-normal or below-normal soil moisture levels through to July 2021.

What to Watch

- **Less rainfall than usual over the remainder of autumn and into the first winter months.** Long dry spells for the next three months are a possibility, with less frequent rainfall events compared to usual. Rainfall deficiencies are a possibility for the hydro-lake areas in the South Island, with the possibility of groundwater recharges and river flows being impacted.

Global Markets in a Holding Pattern

Milk supply volumes boosted almost 10% in March 2021 YOY. Milk flow strength is a mix of favourable weather in February and March, in combination with weak production comparables for last year, as milk production took a hit with hot weather. We anticipate New Zealand milk collection for the current 2020/21 season (ending 31 May 2021) to land around 2% higher than the prior period.

In contrast, a bumpy wind-down to Australia's milk production season continues. Milk production was 1.8% lower year-on-year in March 2021. For the season, national output sits at 6.9bn litres, which is a growth of 0.7% YOY. All states except Western Australia and Queensland have increased milk production for the season-to-date.

Global commodity prices remain in a holding pattern at elevated levels. Chinese purchasing has remained robust, fuelled by the rising cost of locally-produced milk and ongoing economic recovery against a backdrop of a better-than-expected finish to New Zealand's season. Current pricing is testing buyer appetite for regions outside of China.

Market fundamentals are mixed. Close attention is on Northern Hemisphere milk production as seasonal peaks approach. Growth is mixed, with US milk production remaining strong but European milk flows shaking off the impact of unfavourable weather and its impact on feed availability. Freight costs remain elevated and delays in shipping continue to complicate the market for buyers and sellers.



Emma Higgins
Senior Analyst
Dairy

+64 3 961 2908
emma.higgins@rabobank.com

Dairy

What to Watch

- **The global pandemic continues to have a substantial impact on dairy demand.** However, the markets are returning to normal. The recovery in foodservice demand is building on momentum from reduced lockdowns and vaccine rollouts. This is welcome news for mozzarella and processed cheese demand. However, it is not a linear recovery in all markets. The retail channel demand is normalising. Attention is on foodservice demand in Europe and the US, through their seasonal peaks for milk supply and the summer months.

China Milk Flows Set to Continue

Average milk prices in China remain elevated near historical highs but some seasonal softening is appearing. Milk prices are below recent peaks for the top-10 milk-producing provinces, and Rabobank expects further seasonal price softening in the coming weeks. Despite this, Rabobank anticipates milk to keep flowing from Chinese dairy farms over the coming months, with milk prices for producers remaining profitable for farms and no slowdown in incentive to invest in production growth in sight.

Retail and foodservice sales in China recorded significant gains for January and February 2021 compared 2020. However, both retail and foodservice sales growth are underperforming compared to long-run average growth rates from before the Covid-19 era.

Processors have largely been bearing the brunt of the increased cost of producing milk since the second half of last year. The retail price of liquid milk products have remained largely static despite the rise in raw material costs. These factors will continue to support retail demand for dairy in the near term. The current price discount for imported WMP from Oceania remains around 10%, which will provide options for processors for cost-optimisation in light of high domestic milk prices. This is also positive for export demand for New Zealand processors.



Emma Higgins

Senior Analyst
Dairy

+64 3 961 2908
emma.higgins@rabobank.com

China
Dairy

What to Watch

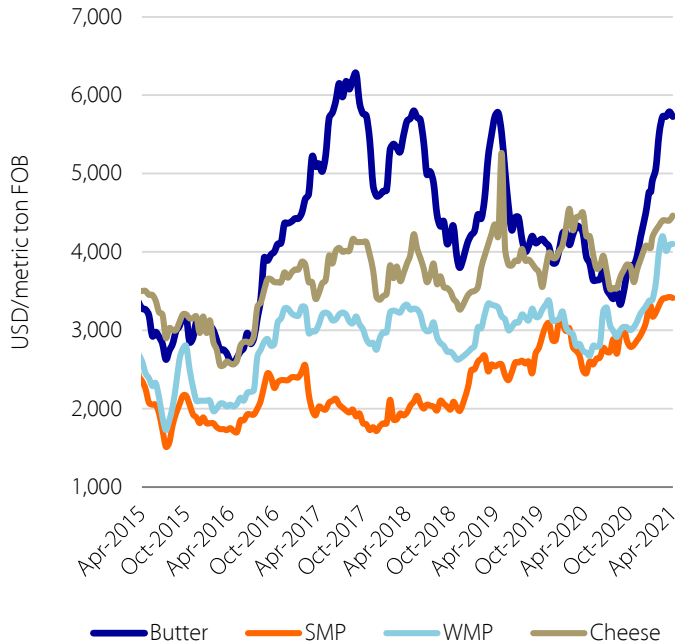
- **Weaker import demand from China later this year.** Strong production growth and import growth during the first few months of 2021 point to a well-stocked market. Despite this, we think global supply chain uncertainties continue to drive a thirst for additional safety stock from buyers of dairy product. Rabobank believes this could drive weaker import demand from China in the second half of this year

Global Markets Remain in a Holding Pattern



Rabobank

Global dairy prices, 2016-2021



Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	Last three months
EU	-0.6% (Feb 21)	-0.3%
US	1.8% (Mar 21)	2.1%
Australia	-1.8% (Mar 21)	1.5%
NZ	2.1% (2020/21 season-to-date*)	

Source: Rabobank 2021
 June-March only.
 February 2020 data is leap-year adjusted

Spring Has Sprung in the US

RaboResearch expects farmgate prices to hold steady during May, with the reduced competition from Australia assisting New Zealand product in finding a home with the change in seasons in the US.

Farmgate prices showed signs of life and nudged upwards for April 2021. As at the end of April, the AgriHQ North Island bull price was NZc 15 higher compared to the same week of March 2021, at NZD 5.15/kg cwt. The AgriHQ South Island bull price pushed NZc 10 higher to NZD 4.60/kg cwt over the same time period.

Cattle slaughter in Australia continues to remain low following rain and low livestock inventory. East coast kill rates for the first four weeks of April 2021 were down 30% YOY and down 35% on the five-year average. Lower production volumes have flowed through to export volumes, which were lower by over 10% for March 2021 YOY.

New Zealand farmgate returns have benefited from less competition from Australia in key markets – particularly the US. US demand for manufacturing beef has lifted in line with the changing of the seasons, with some warmer weather bringing out the barbecues, along with the re-opening of eateries, as vaccinations become more widespread and restrictions ease in some states. These dynamics will continue over the next month, helping to maintain New Zealand farmgate prices.



Emma Higgins

Senior Analyst
Dairy

+64 3 961 2908
emma.higgins@rabobank.com

Beef

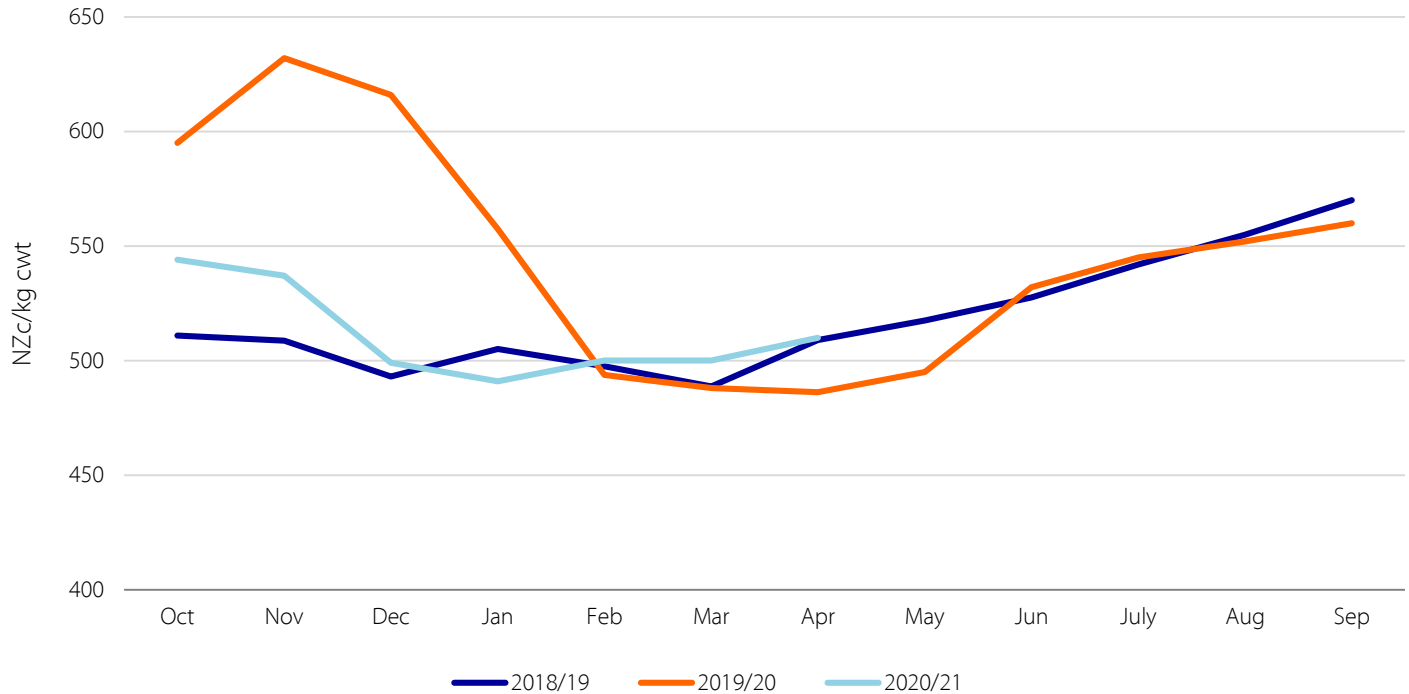
What to Watch

- **High pork prices helping protein consumption** – African swine fever outbreaks in China have slowed down the recovery of the hog herd, helping to maintain relatively high retail pork prices. Retail prices are also elevated in the US – a flow-on effect from US hog prices at their highest level since 2014. Beef demand in these two markets are likely to benefit from pork's challenges – two of New Zealand's key export markets.

North Island Bull Price



Rabobank



Source: AgriHQ, Rabobank 2021

China Supports New March Record

We expect the continued strong demand from China, in combination with lower competition from other export markets, to ensure firm farmgate prices through May 2021.

Farmgate prices lifted further over the last month. As of the end of April 2021, AgriHQ prices in the North Island averaged NZD 7.00/kg cwt, bouncing +8% YOY. South Island lamb also moved higher, lifting +6% YOY to NZD 6.70/kg cwt. Procurement pressure has helped some of the lift in returns, in combination with excellent export demand from China.

Demand for sheepmeat from China hit a new level for March 2021. New Zealand shipments of lamb to China reached the highest level for any March, with 23,445 metric tons of lamb exported. Export volumes for March 2021 were 27% higher when compared to 2019 export volumes and 57% higher than the prior four-year average. A quiet European and UK market post-Easter, with lower Australian supplies, has resulted in more product being directed towards New Zealand's largest sheepmeat market in order to meet demand.

Upside potential for farmgate returns remains over the coming months. Prices are likely to see some upside as we move through into the seasonally-tighter supply period and procurement pressure continues to build – particularly in light of recent store lamb demand. We anticipate export demand to China to remain robust, and continue to set the price floor – particularly in light of lower supply volumes from Australia, as producers there continue their quest to rebuild capital stock.



Emma Higgins

Senior Analyst
Dairy

+64 3 961 2908
emma.higgins@rabobank.com

Sheepmeat

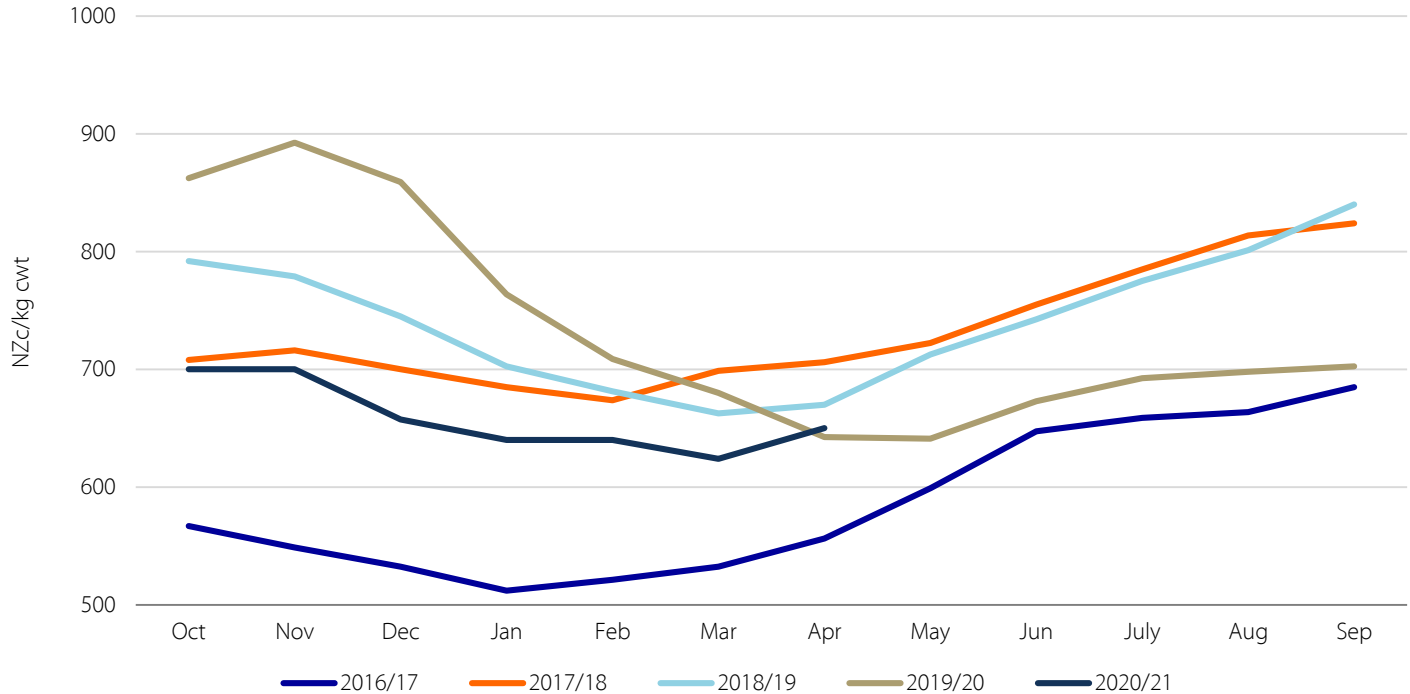
What to Watch

- ***Looming winter feed shortages in the South Island*** – The days are getting noticeably cooler and weather conditions continue to remain dry on the east coast of both Islands. NIWA are noting the prospects of extended dry periods over the final autumn month and into winter.

South Island Lamb Price



Rabobank



Source: AgriHQ, Rabobank 2021



Downstream Markets

Approaching Normal

March data suggests that the channels through which we sell to consumers are reaching a far more normal balance in several key markets abroad. Preliminary data suggests that foodservice sales for first time were at, or above, pre-crisis levels for the same period in all of Australia, the US and China. As consumers shift some of their purchasing to restaurants and cafes, we also saw some of the heat coming out of retail.

The experience was also reflected in the recent earnings statements of major food companies for the March quarter. McDonald's, Yum Brands and Starbucks are all close to or exceeding the sales they saw in same quarter of 2019, while we saw less growth in retail-oriented companies like Kraft Heinz.

The pathway towards normalisation has been different between markets. In Australia and China, infection control has reduced the frequency and breadth of lockdowns, allowed increased mobility and improved consumer confidence to socialise. The removal of the requirement to wear masks in Victorian supermarkets also appears to have boosted traffic. In the US, the rapid progress of vaccinations, and the Biden stimulus plan have had much the same effect. Starbucks reckoned there was a rise in mobility and increased desire to connect, as vaccinations hit the 3m-4m mark during the quarter.

Normalisation is reflected in more than just the balance of retail and foodservice. Coles gave a succinct summary of some of the important aspects of normalisation in the Australian market. Customers are returning to CBDs and shopping centres. Increased shopping in person helps impulse lines, convenience stores sales, and food-to-go. And, once more, Sunday is the dominant period for sales.



'Normal' Comes With Fine Print

The recovery story is less good in other markets. Europe especially remains heavily distorted, with markets like France, Germany, Spain and Italy still really tough for foodservice. McDonald's noted that dining-in is still impossible in 50% of their European restaurants.

Nor does regaining pre-crisis sales levels really mean 'normal' in all cases. Chinese catering sales are back above pre-crisis levels. But this channel used to grow at double digit rates heading into the crisis: its two-year growth rate to March 2021 was an annualised 2%. And pre-crisis growth rates in that market look a long way off!

Major Covid-driven disruptions may now be behind us in the key Australian, Chinese and US markets, but we are still likely to see bumps ahead.

Things to watch for that may impact the rate of recovery in coming months include: a lull in foodservice spend, after consumers rush to eat out in the first months after lockdowns ease; the likelihood of localised lockdowns in response to local viral flare ups; the diversion of more consumer spending to the service sectors (tourism, entertainment, sports) as crowd restrictions ease; and the waning of the US stimulus impact as the year progresses.

What to Watch

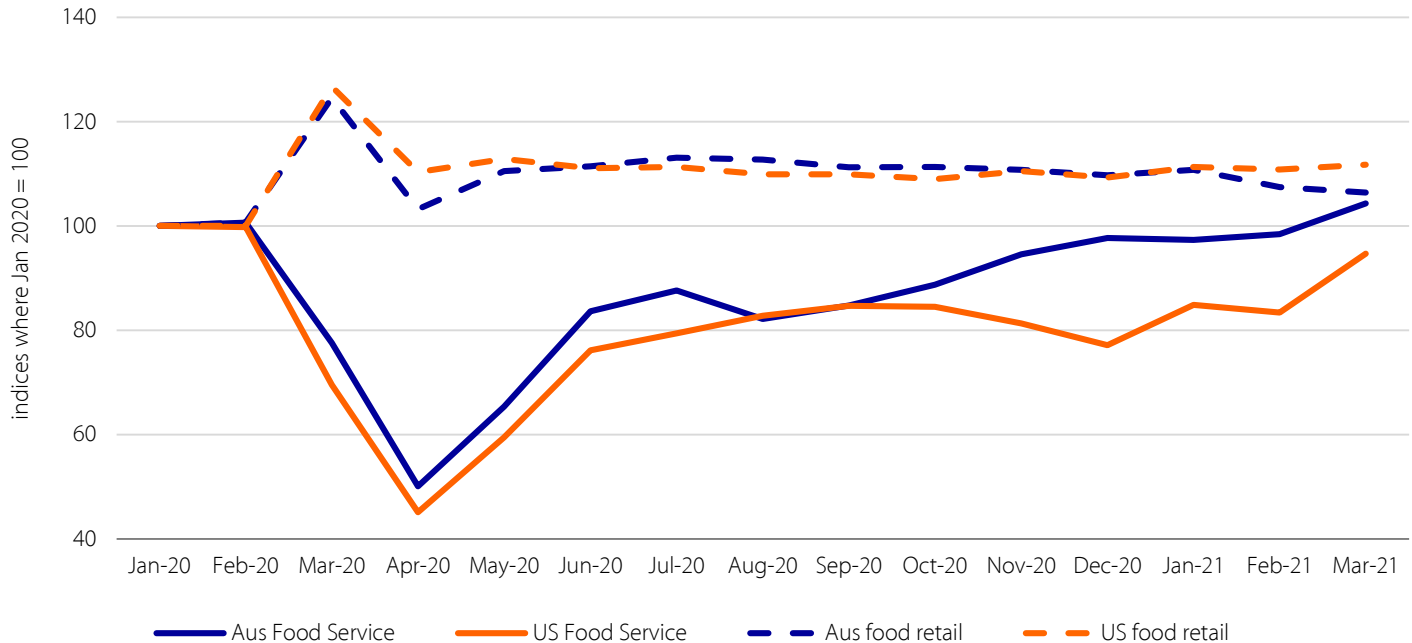
- **Misleading interpretation of data!** The extraordinary distortion of markets in the first half of 2020 makes for some eye watering statistics on YOY growth for the early months of 2021. A 95% YOY growth in Chinese foodservice sales in March sounds like the boom to end all booms – but it is only just exceeding the impact of the 47% YOY contraction seen in March 2020. And preliminary data suggesting a 15% YOY fall in Australian food retail sales in March doesn't constitute a disaster – it's just hard to replicate the pantry stuffing we saw 12 months prior. Be careful out there!

Downstream Markets

March Data Suggested We Are Approaching Normal in Some of Australia's Key Markets



Australia and US markets: food sales via retail and foodservice channels



Sources: US Census Bureau, ABS

Notes: March 2021 data are preliminary. All data are seasonally adjusted.

Global Price Declines in Sight

We expect that global prices of nitrogen and phosphate have now largely peaked across the global fertiliser complex, and will continue to ease into Q3. While this is good news for local farmers, prices will take a number of months to flow through to the farmgate.

Global urea benchmarks fell between 1% and 5% during April, primarily due to northern hemisphere demand easing as planting progressed. In USD-terms, global prices are at the highest point since 2014, although when converted to AUD, global urea prices were at a similar level to April 2018 and April 2020.

Late in the month, India issued a new tender for an unspecified amount of urea, which caused a marginal price bounce in some regions, although we expect this to be short-lived. With good supplies of urea available globally, we don't foresee any supply-side price rallies in coming months.

It was a slightly more mixed result for global phosphate benchmarks during April, with prices in most regions trading between -2 and +4% for the month. With many domestic markets in the Northern Hemisphere now supplied, major producers will shift their focus to exports, which supports our view of lower prices in the coming months.

We are now in the peak time for urea imports – on average 64% of annual Australian urea imports hits our shores from April to July, ahead of the winter and spring application. Global supply chains remain heavily clogged with strong demand for commodities flowing through to shipping demand. Prices on some routes have doubled, and even tripled compared to three months ago. We estimate that this is resulting in a ~5% price increase to fertiliser at the farmgate.



Wes Lefroy
Senior Agricultural Analyst

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

Fertiliser

What to Watch

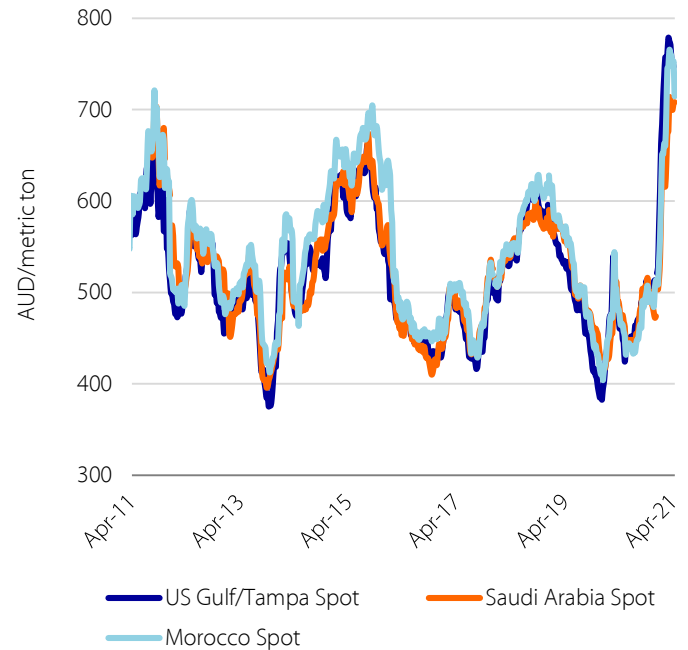
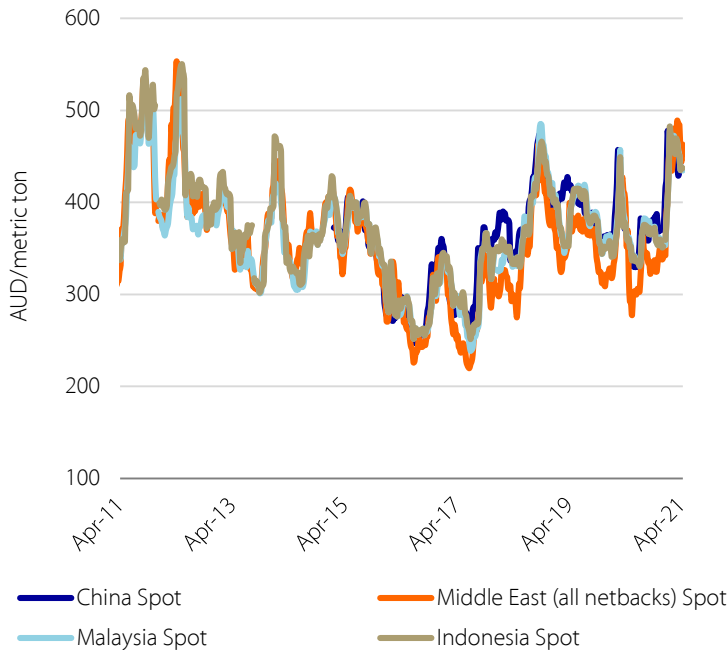
- **Global supply chains** remain under heavy stress, due to strong global demand for commodities, and little expansion in shipping capacity. According to Refinitiv ([Reuters](#)), dry bulk capacity is only estimated to increase by 2% in 2021, and 0.8% in 2022, compared with 3.2% in 2020 and 4.1% in 2019. The Baltic Dry Index, which is an indicator of global shipping prices, is currently at an 11-year high.

Global Prices Have Eased Very Slightly in the Last Month



Rabobank

AUD-adjusted global FOB prices (weekly avg.), Urea (left) and DAP(right)



Source: CRU, Rabobank 2021



NZD Rises on Falling US Treasury Yields and Stronger Commodities

The NZD rose 2.6 cents against the US dollar in April, and was trading at USc 71.57 on May 5.

The USD itself retreated against most currencies during the month, on the back of a softening in treasury yields.

The NZD also received support from strong data suggesting that the Chinese economy is growing strongly and on rising commodity prices. The Reserve Bank stated in April that “the global economic outlook has continued to improve since the February Monetary Policy Statement. Ongoing fiscal and monetary stimulus are continuing to underpin the global recovery in economic activity. However, economic uncertainty remains elevated and divergences in economic growth both within and between countries are significant”. The Bank left interest rates unchanged at 0.25% at its April meeting.

We expect the NZD to trade at around USc 71 to USc 72 in coming months before a modest rise towards USc 74, 12 months from now.

What to Watch

- ***The Chinese economy.*** China’s economic growth surged to 18.3%YOY (off the weak Covid-depleted base). While we think the recovery will lose steam as the initial pent up demand dies out and because policy support is being scaled back, we still expect 7.7% growth for the year as a whole. A key downside risk to this is increasing tensions between China and the US, EU, Japan, Australia and India. Such tensions could lead to sanctions on Chinese businesses and tariffs on Chinese exports, which would cut into China’s economic growth.

Rates & FX

NZD Rises on Falling Us Treasury Yields and Stronger Commodity Prices



Rabobank

NZ currency against the US dollar





Oil &
Freight

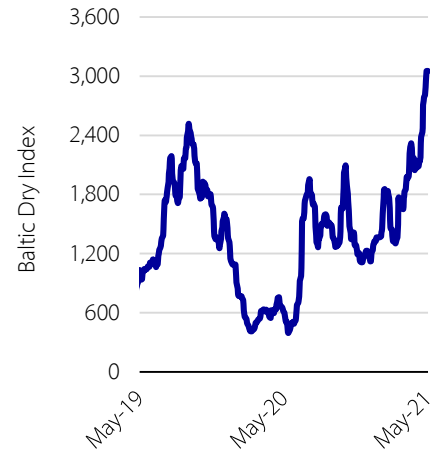
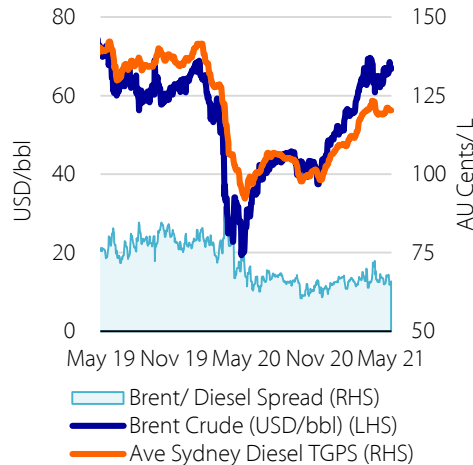
Market Bulls Are Back

We've improved our outlook for Brent crude oil in recent weeks, as we approach higher demand during the northern hemisphere summer. We expect Brent Crude will average in the high USD 60s/bbl in coming months.

We expect that government stimulus programs, as well as high personal savings rates will lead to some strong demand for fuel over the northern summer. On the supply side, we expect a recent decision by OPEC+ will add meaningful volumes to the market. Importantly, volumes will remain well below pre-pandemic levels for the foreseeable future, and is likely to be more than offset by upcoming demand increases.

Global ocean freight prices continue to increase, to an eleven year high at the end of April. This has primarily been a result of strong demand for commodities, and limited expansion of the dry bulk fleet.

Brent Crude Oil & Average Sydney Diesel, May 2019- May 2021 **Baltic Dry Index, May 3 2021**



Source: AIP, Bloomberg, Rabobank 2021

Source: Bloomberg, Rabobank 2021

Agri Price Dashboard

As of 30/04/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	743	602	520
CBOT soybean	USc/bushel	▲	1,571	1,367	832
CBOT corn	USc/bushel	▲	740	539	305
Australian ASX EC Wheat	AUD/tonne	▲	303	280	385
Non-GM Canola Newcastle	AUD/tonne	▲	696	600	681
Feed Barley F1 Geelong	AUD/tonne	▲	243	228	292
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	908	884	704
Feeder Steer	AUc/kg lwt	▲	460	454	359
North Island Bull 300kg	NZc/kg cwt	▲	515	500	485
South Island Bull 300kg	NZc/kg cwt	▲	460	450	435
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	826	856	895
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	695	655	645
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	660	625	630
Venison markets					
North Island Stag	NZc/kg cwt	•	520	520	700
South Island Stag	NZc/kg cwt	•	535	535	700
Dairy Markets					
Butter	USD/tonne FOB	•	5,725	5,725	4,238
Skim Milk Powder	USD/tonne FOB	▲	3,413	3,400	2,488
Whole Milk Powder	USD/tonne FOB	▼	4,100	4,200	2,738
Cheddar	USD/tonne FOB	▲	4,463	4,400	4,500

Agri Price Dashboard

As of 30/04/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	91.9	87.2	65
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	87.4	80.6	58
Sugar markets					
ICE Sugar No.11	USc/lb	▲	17.4	14.9	9.76
ICE Sugar No.11 (AUD)	AUD/tonne	▲	485	431	370
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,342	1,294	1,225
Fertiliser					
Urea	USD/tonne FOB	▼	350	357	242
DAP	USD/tonne FOB	•	580	580	310
Other					
Baltic Dry Index	1000=1985	▲	3,053	2,103	643
Brent Crude Oil	USD/bbl	▲	67	64	23
Economics/currency					
AUD	vs. USD	▲	0.77	0.76	0.66
NZD	vs. USD	▲	0.72	0.70	0.61
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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

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

Emma Higgins

Senior Analyst – Dairy
+64 3 961 2908
Emma.Higgins@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

Senior Analysts - Agricultural
+61 2 8115 2008
Wesley.Lefroy@rabobank.com

Charlie Clack

Senior Analysts - Commodity
+61 2 8115 2471
Charles.Clack01@rabobank.com

Rabobank New Zealand

Nearest branch call 0800 500 933
www.rabobank.co.nz



Rabobank

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 © 2021