

# ***A Slow Start to New Season Growth***

***New Zealand Agribusiness Monthly***

***November 2021***

**RaboResearch**  
Food & Agribusiness



**Rabobank**

# Commodity Outlook



## Dairy

A weakening global supply outlook will provide price support for dairy commodities in the near-term.



## Beef

Strong demand and lower global beef supplies will support elevated farmgate pricing through to December 2021.



## Sheepmeat

We anticipate farmgate pricing will remain elevated through to December this year off the back of strong demand from key markets and fewer lambs available due to the unfavourable seasonal conditions.



## Downstream Markets

Consumer response to food inflation will be a local and global watching brief in months ahead.



## Farm Inputs

Rabobank expects fertiliser prices to remain at least at current levels in the run-up to next winter. Of even bigger concern is supply, with challenges growing over the last month.



## FX

More signs of inflationary pressure and at least one interest rate before the end of the year means we now see the NZD remaining above USc 70, and moving towards USc 73 on a nine-month view.



## Oil

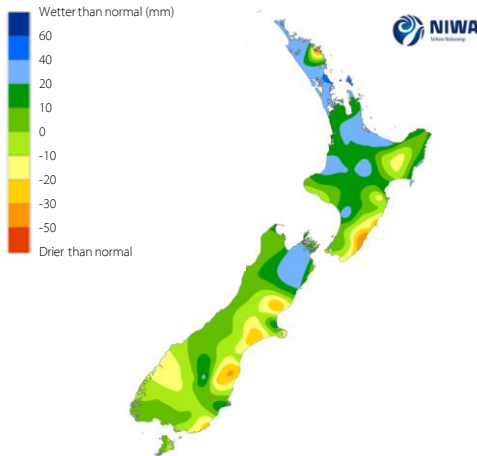
While we expect Brent Crude is nearing a short-term peak, the fundamentals of the global oil markets remain strong. We estimate Brent Crude will trade around USD 81/bbl into the second half of 2022.

# La Niña Pattern Forecast



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## Soil moisture anomaly (mm), November 1, 2021



Source: NIWA, Rabobank 2021

Over the next three months, higher than normal air pressure is expected over the South Island and in the south and east of the country. This will cause more easterly winds and increase the risk of dry spells in the South Island and western North Island. NIWA is forecasting above average temperatures across New Zealand through to January 2022, with a period of particularly warm conditions in mid-November.

NIWA anticipates rainfall to be below normal in the west of the South Island, near-normal in the north and east of the North Island, and equally likely to be near or below-normal for the remainder of the country.

NIWA is forecasting near-normal soil moisture levels in the east and west of the North Island, and near or below-normal levels across the rest of the country.

## What to Watch

- **NIWA has moved to La Niña Alert.** A progression towards La Niña conditions occurred during October and NIWA has updated the status of La Niña from 'Watch' to 'Alert'. NIWA anticipates that the risk for New Zealand receiving at least one tropical cyclone during the season (November 2021 to April 2022) is elevated.



# All Eyes on the Oceania Peak

**Supply pressures are continuing to provide support to commodity prices.** Most of the dairy complex saw prices lift across the month of October, with milk powder prices performing best. Further upside in commodity markets cannot be ruled out, as a slow start to the Oceania season coupled with sluggish production in the northern hemisphere has buyers on high alert.

**Milk production for September in New Zealand was behind last year by -4.3%** on a tonnage basis (or -4% YOY on a kgMS basis), pulling milk production for the season to September lower by 3.5% YOY. October brings peak milk collections and RaboResearch anticipates the weaker supply trend will continue. Full-year production is now likely to be in negative territory.

**Milk production elsewhere continues to drag.** United States milk production slowed to a crawl with September collections growing by just 0.2%. Cow numbers continue to 'right size' to reflect the operating conditions of higher feed costs and tight margins. The EU has reported meagre growth for August at 0.8% YOY, while the slow start to Australia's season has continued with October milk production down 2.9% from September. Australia's peak will also likely be weak as unfavourable conditions - which have hampered growth so far - continue to linger.

**Southeast Asia demand remains a key watching point for dairy markets.** China has been doing lots of the heavy lifting in global dairy markets in terms of import volume purchases and price setting. Southeast Asian economies are slowly emerging from a severe wave of the Delta variant. Pipelines need refilling and food markets are recovering. However, sluggish economic settings and rising cost of living provide a weak backdrop.



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Dairy

## What to Watch

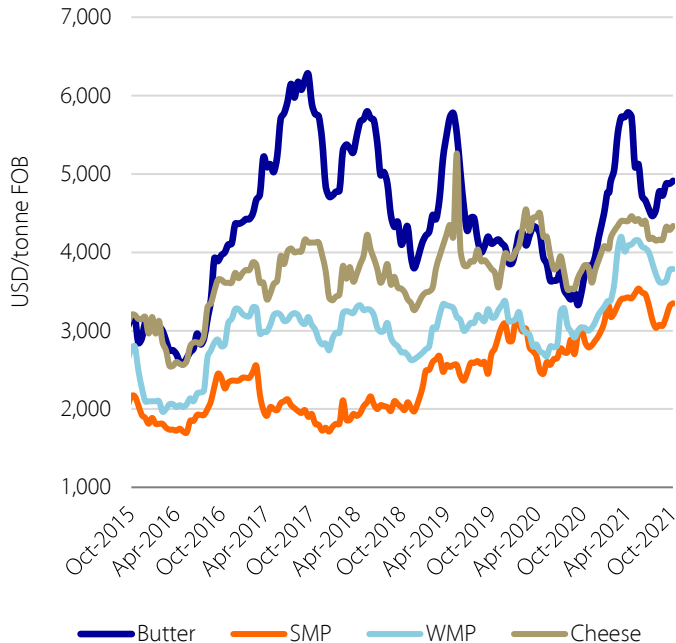
- **Submissions open on live exports.** The Animal Welfare Amendment Bill proposes to ban live exports of cattle, deer, sheep and goats. To find out more and to make a submission, visit the [website](#). Submissions close on Thursday 2 December 2021.

# A Worsening Supply Outlook Firms Pricing



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## Oceania dairy prices, 2015-2021



## Production growth key exporting regions

	Latest month	Last three months
<b>EU</b>	-0.5% (Sept 21)	-0.2%
<b>US</b>	0.2% (Sept 21)	0.9%
<b>Australia</b>	-2.9% (Sept 21)	-3.3%
<b>NZ</b>	-3.5% season-to-date (September)	

Source: USDA, Rabobank 2021

Source: Rabobank 2021

# New Season Pricing Blast Off

**The North Island bull price is holding firm as the new season gets underway.** At the end of October, the AgriHQ North Island bull price was NZD 6.50/kg cwt – a NZD 0.25 lift for the month of October from the end of September. The schedule continues to track well ahead of the five-year average, with the North Island bull price sitting NZD 1.20/kg cwt ahead of the five-year average in the last week of October. The AgriHQ South Island bull price at the end of October was sitting slightly behind the North Island on NZD 6.15/kg cwt.

**Bobby calf kill for the 2021 season is back 1.5% on the previous season, despite more cows being retained.** The cow kill is back around 1% compared to the 2020 season due to farmers choosing to retain more cows to capitalise on the high milk price forecasts. Fewer bobby calves being processed could indicate that industry initiatives to use sexed semen and more beef genetics are having an impact. Although there is a strong beef schedule, anecdotally we understand that there are fewer 100kg calf contracts available this spring, making it unclear how many calves will be available for future beef supply.

**The outlook for farmgate pricing is positive, however the strong NZD/USD cross is likely putting pressure on exporter margins.** Rabobank anticipates farmgate beef pricing to remain elevated through to December due to strong demand from key markets and ongoing lower global beef supply. The UK-New Zealand Free Trade Agreement is expected to be good news for beef producers and exporters when it comes into effect (hopefully from 2022 onwards).

## What to Watch

- **The suspension of beef exports from Brazil** to China and other countries due to the discovery of atypical BSE back in September remains in place, and it is unclear how long it will continue.



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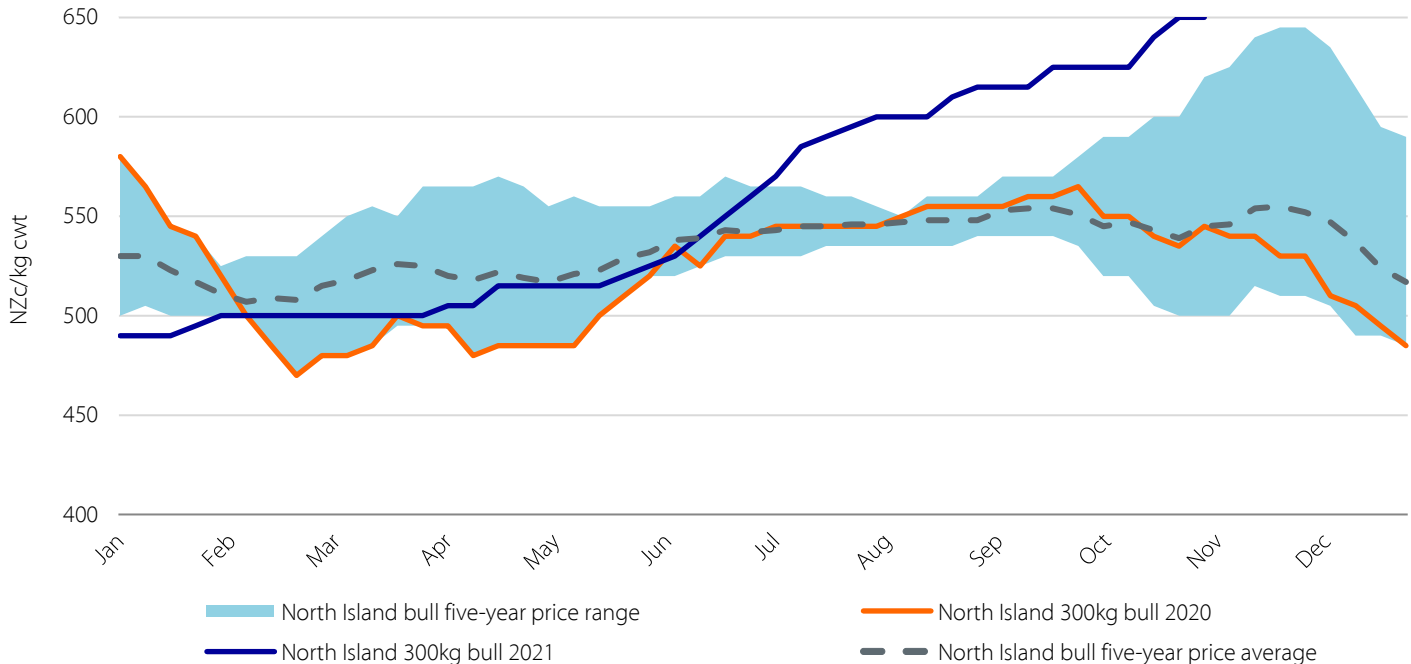
# Beef

# A Strong Finish for the Year Anticipated



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## AgriHQ North Island bull price



# Steady Demand for Sheepmeat

**There was a small lift in New Zealand sheepmeat exports for the 2020/2021 season (+ 0.55%) compared to the 2019/2020 season.** This was despite Covid-19 continuing to cause disruptions across the supply chain and in key markets throughout the 2020/2021 season. A significant decline in exports into New Zealand's second largest market, the EU-27 countries (- 23% YOY), has been offset by growth into China (largest market, +16% YOY), and into the US (fourth largest market, +38% YOY). The UK was New Zealand's third largest export destination for sheepmeat in the 2020/2021 season.

**UK-New Zealand Free Trade Agreement (FTA) expected to be positive for sheep farmers.**

The FTA if ratified as announced in October would result in a sheepmeat quota increase of 44% over the next 15 years from the current quota volume (114,205 tonnes). The increase in quota could provide exporters with the opportunity to further diversify markets, and to take advantage of off-season supply into the UK, particularly lamb for Christmas and Easter.

**Lamb prices have slowed down, but remain firm.** AgriHQ farmgate prices in the South Island lifted to NZD 9.40/kg cwt in the last week of October after remaining at NZD 9.35/kg cwt for five consecutive weeks. In the North Island, the AgriHQ farmgate lamb price hit NZD 9.65/kg cwt in the last week of October. The slow, cold start to spring in many areas of New Zealand is likely to result in weaning dates being pushed two to three weeks back. This delay could help to keep pricing elevated as processors compete for limited lamb supply, however, a late influx of lambs could then cause processing delays in December.

**RaboResearch anticipates farmgate lamb pricing will remain elevated for the remainder of 2021 due to strong demand from key markets and tighter new season lamb supply.**



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## Sheepmeat

### What to Watch

- **The government released its Emissions Reduction Plan discussion document in October.** Submissions are invited and need to be made by the 24 November 2021. To read the plan visit the [Ministry for the Environment website](#).

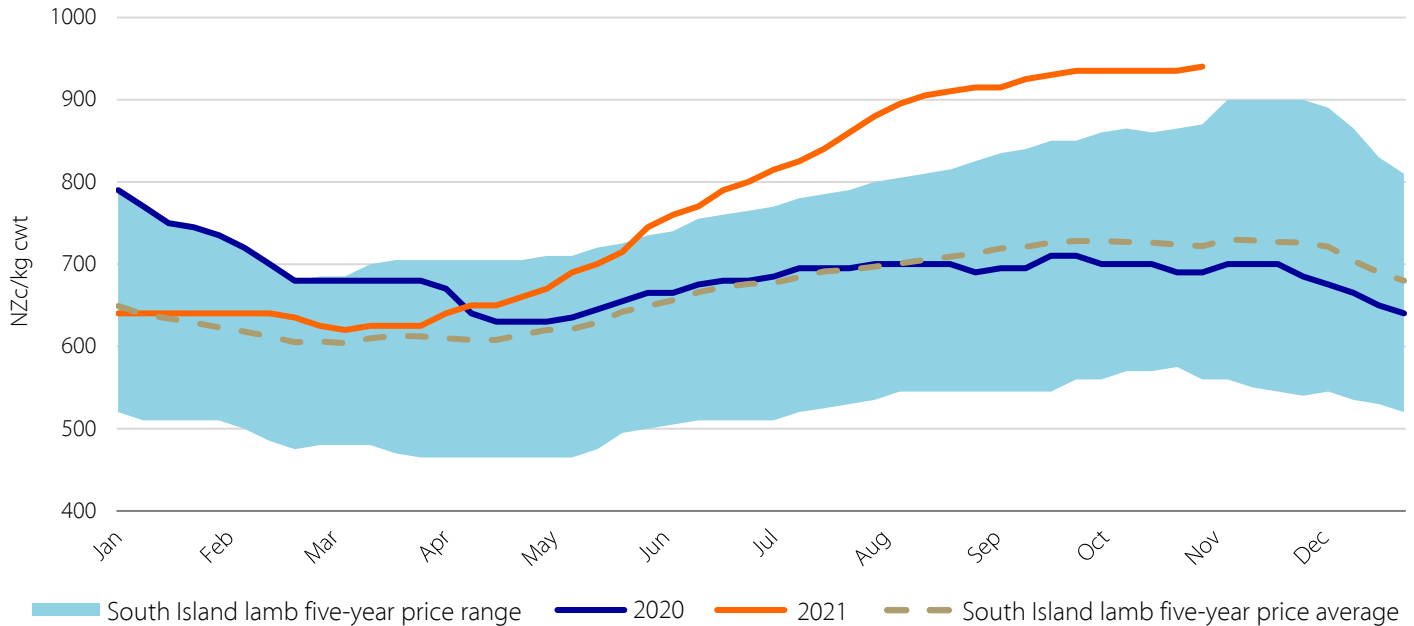


# Lamb Pricing Remains Elevated



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## AgriHQ South Island lamb price



# Inflation Rampant in Supply Chains

## **Food and beverage companies are facing a period of cost inflation in their businesses.**

Margin pressure stems from the rising cost of raw materials, packaging and distribution, among others. To mitigate against this, companies will use several levers. However, many Fast-Moving Consumer Good (FMCG) companies are needing to act on pricing with retail prices for consumables rising in many regions. **Australian food CPI, for example, was 1.3% higher in the September quarter compared to the same quarter in 2020.** This is despite deflation in the fruit and vegetable category, as it cycles past the elevated pricing following last season's unfavourable growing season.

## **Food markets in Australia and New Zealand continue to be distorted by the lockdowns in NSW, Victoria and Greater Auckland.**

In September, Australian retail food sales were 3% higher versus last year. Turnover in the foodservice channel was 1% higher. When anchored to 2019, food retail sales were 15% higher, while foodservice sales were still 14% lower.

## **In New Zealand, Woolworths reported 9% sales growth in their stores for the September quarter versus the same period last year.**

**Supply chain challenges and costs are lingering.** Woolworths reported that since the outbreak of the Delta variant in Australia and New Zealand, they have had 22,000 team members in isolation, and 1,500 exposure sites across their network. Lockdowns continue to support the e-Commerce boom with Woolworths and Coles both boasting healthy gains in online sales for the most recent quarter.



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## Downstream Markets

### **What to Watch**

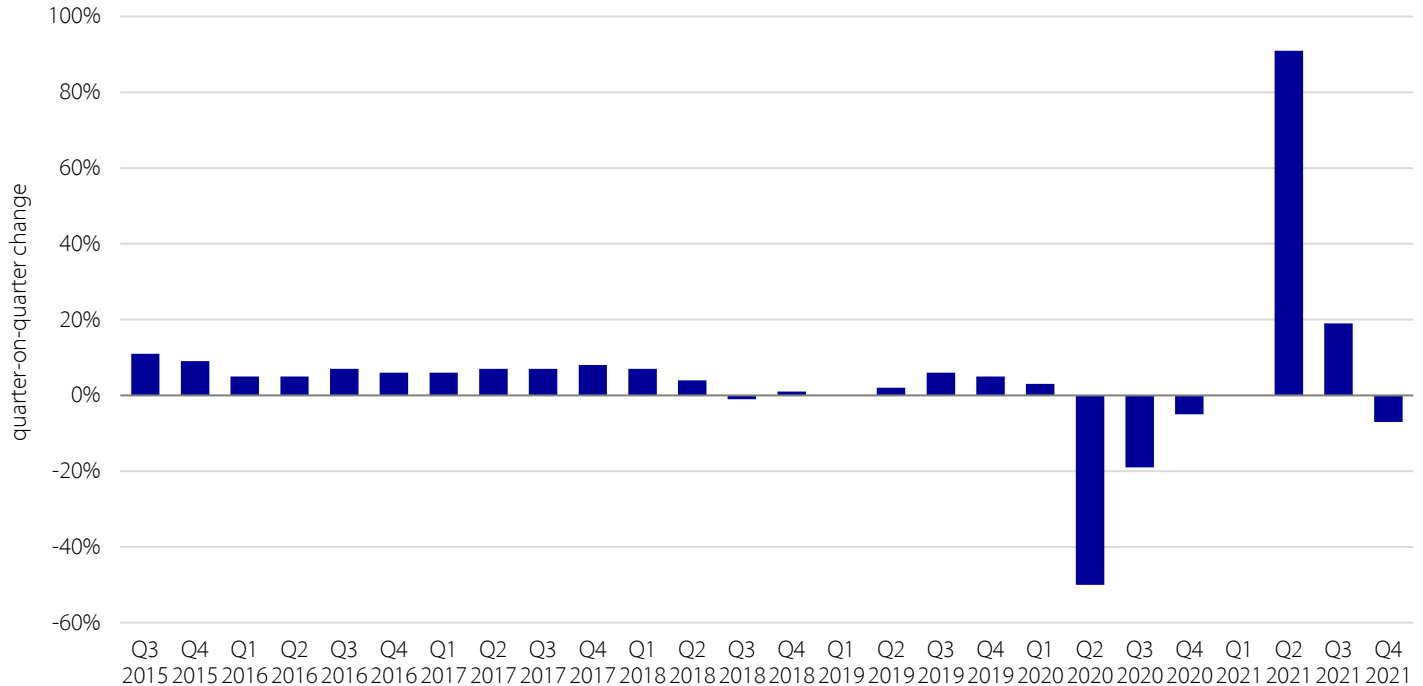
- **China's bumpy foodservice recovery.** Performance of the Chinese foodservice channel was negatively impacted in August and September due to a Delta outbreak and subsequent strict public health measures, as foreshadowed by large Quick Service Restaurant operators. A new outbreak in a number of provinces is again leading to reduced consumer spending and subdued travel. The foodservice channel in China is well below the pre-Covid levels with a bumpy recovery continuing.

# China Foodservice Operators Still Dealing With Delta



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## Starbucks, quarterly change in same-store sales, Chinese market



Sources: Company report, Rabobank, 2021

# Bad to Worse, to Even Worse

***Rabobank expects prices of fertiliser will remain at least at today's prices in the run-up to next winter. Of even bigger concern is supply, with challenges growing in the last month.***

It's due to these supply concerns that we think it is prudent that farmers assess their ordering options for next year's supplies, if they haven't done so already.

Export restrictions on fertiliser in China are our primary concern when it comes to supply of both phosphate and nitrogen. Some Chinese provinces have now blocked exports of all fertiliser, including the phosphate-heavy producing province, Hubei. In 2020, China was responsible for 30% of traded phosphate globally.

For nitrogen, soaring natural gas prices in Europe have inflated urea prices. Gas inventories in the EU are now at the lowest level in almost a decade, consequently we estimate that 12% of European nitrogen fertiliser production is offline. In some good news, Vladimir Putin very recently announced intentions to pump more gas into the EU, which is likely to take some pressure off prices.

While supply issues are ongoing, we expect demand will continue to act as a floor for high fertiliser prices, even if supply issues ease somewhat. We expect high global prices of wheat, corn and soybean will continue until into the second half of 2022.

On the agrochemical front, according to Chinese market commentator BAIINFO, Chinese glyphosate suppliers are still not taking new orders, and have not been doing so for the last month.



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## Farm Inputs

### What to Watch

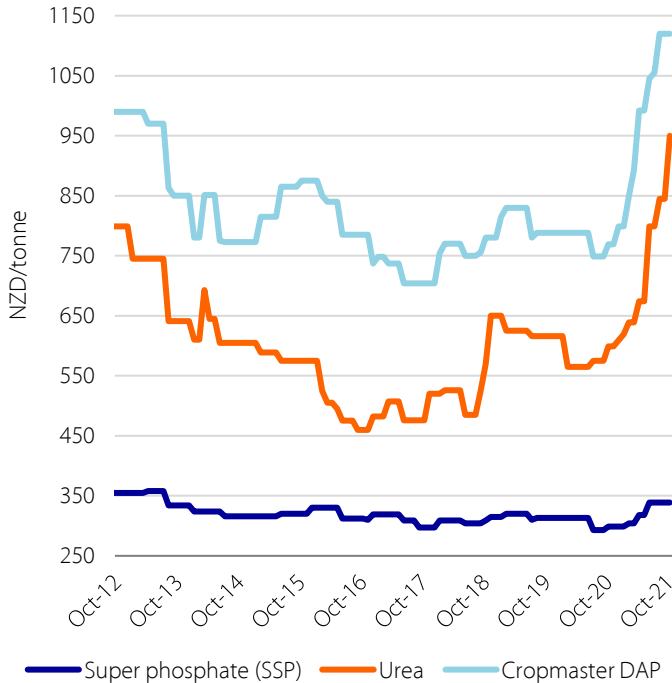
- **Could urea prices fall?** – While not our base case (or most likely) outlook, it is important to examine what may bring about a fall in urea prices ahead of next autumn. First, further increases of Russian gas into Europe and/or a mild northern winter would support lower prices. Similarly, China returning to the export market earlier than expected (June 2022) may also prompt prices lower, as would commodity prices moving lower than we expect.
- You can listen to our latest nitrogen podcast [here](#).

# Local Urea Climbed Again to NZD 950/Tonne

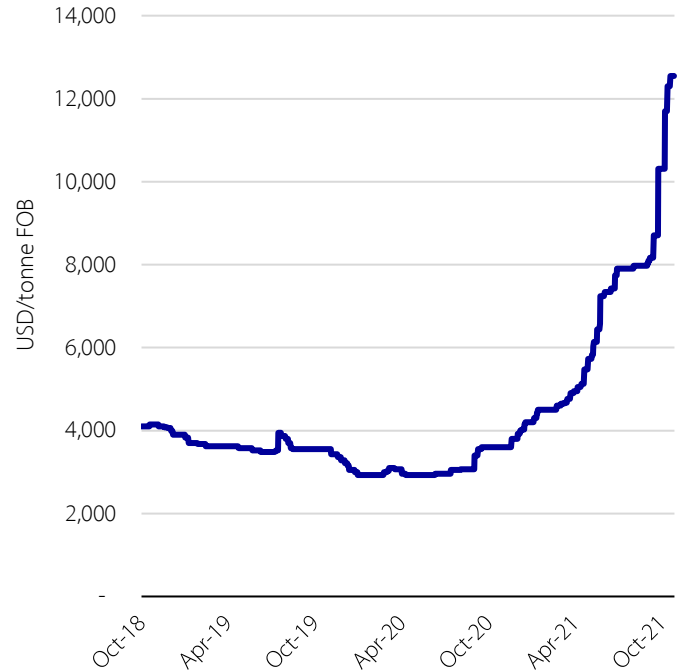


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## Local NZ reported retail prices



## Glyphosate price, ex. China







# One-step, or Two-step?

***The NZD gained 3% over October, with a firm footing above USc 0.71 by the end of the month. Near certainty of an interest rate rise in the last week of November, together with ongoing inflation concerns that mean another may follow quickstep, or as a double up, has lifted our expectations for the NZD.***

If it wasn't for the extension of Auckland's Covid lockdown by another fortnight in October, it is possible that the market would be confident that the RBNZ could hike rates by as much as 50 bps at its meeting on 24 November. As it is, the money market is fully priced for a 25 bps move before the end of this year and partly priced for a more significant tightening.

The mid-October release of New Zealand's Q3 CPI inflation data at a much faster than expected rate (4.9% YOY and 2.2% QOQ for the biggest quarterly lift since 2010) triggered the most recent lift in the NZD and provided more reason for us to believe that the RBNZ will lift the cash rate by 50 bps by the end of the year. It just remains to be seen whether that comes as a one-step, or a two-step.

***Rabobank forecasts the NZD will trade near to USc 0.71 on a three-month view and towards USc 0.73 on a nine-month view.***

## ***What to Watch***

- ***Persistence to inflation*** – Emerging evidence of wage growth in New Zealand may raise the risk of a demand-side element to price pressures going forward, and more permanence to inflation. New Zealand's 2.1% YOY wage growth in Q2, including 3.1% YOY for the construction industry, is expected to be followed by lifts in the November labour data release for Q3.

# Rates & FX

# NZD Back Above USc 0.70 and Likely to Stay



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## ***NZ currency against the US dollar, October 2020 – November 2021***



Source: RBNZ, Rabobank 2021



# Oil & Freight

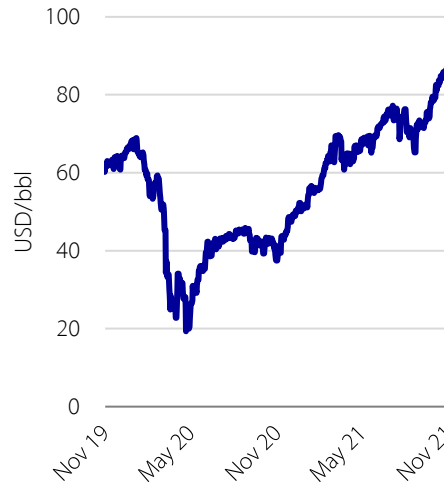
## Oil at a Short-Term Peak

**While we expect Brent Crude is nearing a short-term peak, the fundamentals of the global oil markets remain strong. We estimate Brent Crude will trade around USD 81/bbl into the second half of 2022.**

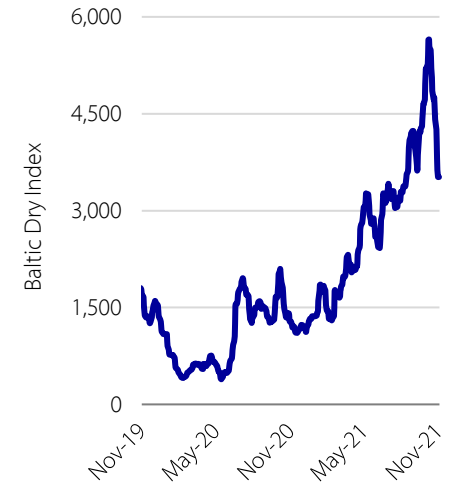
The Brent Crude price reached its highest level since 2018 during October, primarily driven by rising demand as economies return from the pandemic to tight supplies. While OPEC+ is continuing to raise its production target on a monthly basis, Saudi Arabia's energy minister recently announced OPEC+ was reluctant to increase production while the threat from Covid remained.

Global ocean freight declined significantly during October, due to a downturn in demand.

**Brent Crude Oil**  
Nov 2019-Nov 2021



**Baltic Dry Index, Nov 2019-Nov 2021**



# Agri Price Dashboard

	1/11/2021	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>						
CBOT wheat		USc/bushel	▲	773	726	599
CBOT soybean		USc/bushel	▼	1,236	1,256	1,057
CBOT corn		USc/bushel	▲	568	537	399
Australian ASX EC Wheat		AUD/tonne	▼	333	339	319
Non-GM Canola Newcastle		AUD/tonne track	▼	889	954	590
Feed Barley F1 Geelong		AUD/tonne track	▲	276	260	237
<b>Beef markets</b>						
Eastern Young Cattle Indicator		AUc/kg cwt	▲	1,073	1,042	819
Feeder Steer		AUc/kg lwt	▲	559	537	423
North Island Bull 300kg		NZc/kg cwt	▲	650	625	535
South Island Bull 300kg		NZc/kg cwt	▲	615	590	510
<b>Sheepmeat markets</b>						
Eastern States Trade Lamb Indicator		AUc/kg cwt	▼	900	943	794
North Island Lamb 17.5kg YX		NZc/kg cwt	▲	965	945	710
South Island Lamb 17.5kg YX		NZc/kg cwt	▲	940	935	690
<b>Venison markets</b>						
North Island Stag		NZc/kg cwt	▲	690	655	620
South Island Stag		NZc/kg cwt	▲	700	675	630
<b>Dairy Markets</b>						
Butter		USD/tonne FOB	▲	4,913	4,875	3,725
Skim Milk Powder		USD/tonne FOB	▲	3,350	3,175	2,863
Whole Milk Powder		USD/tonne FOB	▲	3,788	3,638	3,038
Cheddar		USD/tonne FOB	▲	4,338	4,325	3,838

# Agri Price Dashboard

	1/11/2021	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>						
Cotlook A Index		USc/lb	▲	123.1	112.2	77
ICE No.2 NY Futures (nearby contract)		USc/lb	▲	114.9	107.8	69
<b>Sugar markets</b>						
ICE Sugar No.11		USc/lb	▼	193	198	14.36
ICE Sugar No.11 (AUD)		AUD/tonne	▼	565	620	407
<b>Wool markets</b>						
Australian Eastern Market Indicator		AUc/kg	▼	1,333	1,337	1,138
<b>Fertiliser</b>						
Urea		USD/tonne FOB	▲	850	485	267
DAP		USD/tonne FOB	▲	740	660	361
<b>Other</b>						
Baltic Dry Index		1000=1985	▼	3,519	5,167	1,283
Brent Crude Oil		USD/bbl	▲	84	79	37
<b>Economics/currency</b>						
AUD		vs. USD	▲	0.752	0.723	0.703
NZD		vs. USD	▲	0.717	0.690	0.662
RBA Official Cash Rate		%	•	0.10	0.10	0.25
NZRB Official Cash Rate		%	▲	0.50	0.25	0.25



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