

Agribusiness Monthly June 2021

New Zealand

June 2021

RaboResearch
Food & Agribusiness



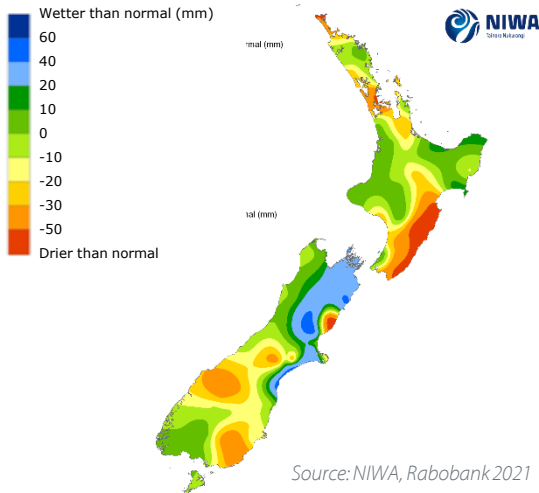
Rabobank

Commodity Outlook

 <p>Dairy</p>	<p>Strong production growth as well as import growth points to a well-stocked market, as China seems unable to quench its thirst for safety stocks for now.</p>
 <p>Beef</p>	<p>RaboResearch expects farmgate prices to lift over June, with the reduced competition from Australia helping to provide a firm pricing floor.</p>
 <p>Sheepmeat</p>	<p>We expect that continued demand from key markets, in combination with seasonal tightening of supply, will see prices firm through June 2021.</p>
 <p>Downstream Markets</p>	<p>Australian foodservice recovery outpaced that of China and the US in April, but will slow with Victoria's lockdown.</p>
 <p>Farm Inputs</p>	<p>Despite global prices lifting again, we still expect downside ahead for global urea markets in coming months. Due to the time taken for procurement and shipping, we expect that this will be too late for local farmers this winter and spring season.</p>
 <p>FX</p>	<p>Rabobank expects that the divergence of expectations for rates in the two countries will see the NZD hit USc 74 within six months.</p>
 <p>Oil</p>	<p>Ocean freight prices for dry bulk and container freight continue to trade at record highs. Without any significant government intervention, we expect to see this rate spike continuing into Q1 2022.</p>



Soil moisture anomaly (mm), 1 June 2021



NIWA is forecasting above-average temperatures for most of the South Island across the winter months. The North Island is equally likely to receive above-average or near-average temperatures over the coming three months.

Rainfall levels are anticipated by NIWA to be near-normal for the top of the North Island, and the north and east coast of the South Island. The east of the North Island is likely to receive either near-normal or above-normal rainfall. The west of both Islands are likely to receive below-normal or near-normal rainfall levels through the winter period 2021.

NIWA is forecasting near-normal or below-normal soil moisture levels in both the north and east of the North Island, as well as the most of the South Island. The rest of country is forecast to have near-normal soil moisture levels through to August 2021.

What to watch

- **NIWA warn that although there may be dry spells over the coming months, period heavy rainfall events are possible over the winter season.** This is a shift from the recent NIWA outlooks, with specific mention made of risk to the eastern areas of the country and the increased risk of flooding events.
- **The feed situation for Canterbury farmers remains a significant watching brief.** With temperatures turning and winter feed stocks under pressure in the area, a keen eye on weather forecasts will be required more than usual.

A Strong Finish to the Season

Global dairy spot markets, for the most part, have been stuck in neutral through May.

Oceania origin commodity prices were mostly flat in the quarter, excluding a correction in the butterfat markets. Further upside cannot be ruled out, but the peak is near. An expected softening of Chinese import demand should be enough to trigger a price correction in the dairy complex that is likely to occur in the later stages of 2021.

Global supply growth across the major export regions has also been stuck in neutral.

The European flush has largely been lackluster. However, US milk production remains in high gear, and Australia has positive milk production flows for the season-to-date. Supply growth has been positive in South America, but rising feed costs and inflation are expected to temper year-on-year growth in 2H 2021.

New Zealand milk production has expanded by 2.7% through to April.

The monthly milk flows for April bounced double digits for the first time since 2014 on the back of low comparables, strong milk price forecasts and favourable weather conditions.

The settings remain in place for healthy profit margins for New Zealand's dairy farmers again in 2021/22 with Fonterra's opening mid-point farmgate milk price forecast of NZD 8.00/kgMS. Other companies are largely in line with a similar forecast price, ensuring strong cashflows over the winter period.



Emma Higgins
Senior Analyst
Dairy

+64 3 961 2908

emma.higgins@rabobank.com

Dairy

What to watch

- ***China continues to drive global trade.*** China's healthy appetite for imports is visible in the early months of 2021 and has been the primary pillar of price support. Rabobank is still expecting softer year-on-year import volumes in the second half of 2021, and this remains the key demand determinant shaping commodity dairy prices into 2022.

High Milk Prices Mean More Growth

Average milk prices in China remain elevated near historical highs but some seasonal softening is at play. The average milk price closed April 2021 down 1.1% compared to March 2021. The marginally weaker prices are unremarkable given the strong milk production growth year-to-date. Farmgate prices remain profitable and will still continue to incentivise milk production and investment in the dairy sector.

Importing New Zealand WMP still remains at a discount to local product. The Oceania WMP offers a single-digit discount to the current average domestic milk price (vs. the historical average of 15% since 2013), based on import parity.

Sales volume growth from listed dairy companies suggest China's dairy consumption growth in 2020 was at best stable, rather than 'strong' as suggested by market euphoria. On an annualised basis, headline sales growth came in at a two-year CAGR of 10%. Considering some limited price hikes and corporate M&A activities, comparable sales growth can reasonably be estimated to be below this number, and is at best on par with growth in recent years, if not slightly lower.

Stable consumption, in combination with rising milk production and elevated import arrivals leads RaboResearch to consider the market is well covered, which is likely to drive weaker import demand in second half 2021.



Emma Higgins

Senior Analyst
Dairy

+64 3 961 2908

emma.higgins@raboresearch.com

China Dairy

What to watch

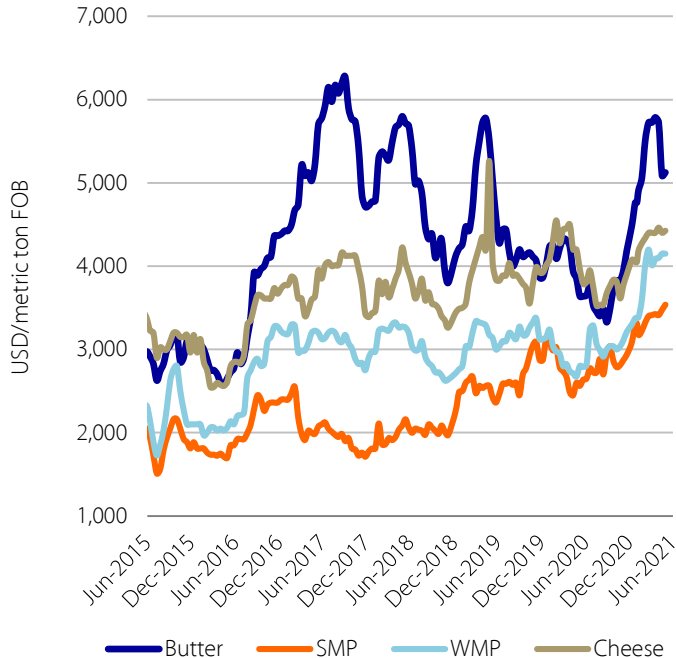
- **Continued elevated import arrivals for April 2021.** China's interest in safety stocks is likely to help support strong import numbers for April, considering uncertainties over the global supply chain, from port congestion, delays in customs clearance and shipping remain.

Global Market Remains Range-Bound



Rabobank

Global dairy prices, 2015-2021



Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	Last three months
EU	0.8% (Mar 21)	-0.2%
US	3.3% (Apr 21)	1.4%
Australia	-1.8% (Mar 21)	0.5%
NZ	2.7% (2020/21 season-to-date*)	

Source: Rabobank 2021

*June to April only.

February 2020 data is leap-year adjusted

Higher Prices To Come Through

RaboResearch expects farmgate prices to lift over June, with the reduced competition from Australia and a hot US market will help to lift the pricing floor. However, the stronger currency and increased production are limiting the impact of these external pressures.

Farmgate price movements moved north over May 2021. As at the end of May, the AgriHQ North Island bull price was NZD 5.25/kg cwt, with the AgriHQ South Island bull price sitting fractionally lower at NZD 4.70/kg cwt. Higher prices are being driven by the imported beef price mixed with some local procurement pressure.

Covid-19 vaccinations are rolling out in the Northern Hemisphere and restrictions are easing. Renewed competition between foodservice and retail, in combination with the grilling season and an re-opening economy have seen beef demand spike and move through to the imported beef values. US imported 95CL bull beef prices (USD288/lb) are 9% higher than the same time last year and 23% higher than this time in 2019 before the covid disruptions.

Opportunity ahead for New Zealand beef with lower competition into the US market for lean beef. Australian national slaughter numbers for Q1 were released in May, showing total cattle slaughter was down 27% year-on-year to 1.413m head. Female proportion of slaughter was at 45%, reflecting the rebuild in process. Australian export volumes are down 24% for the first four months of 2021 and exports to the US are down 39%.



Emma Higgins

Senior Analyst
Dairy

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

Beef

What to watch

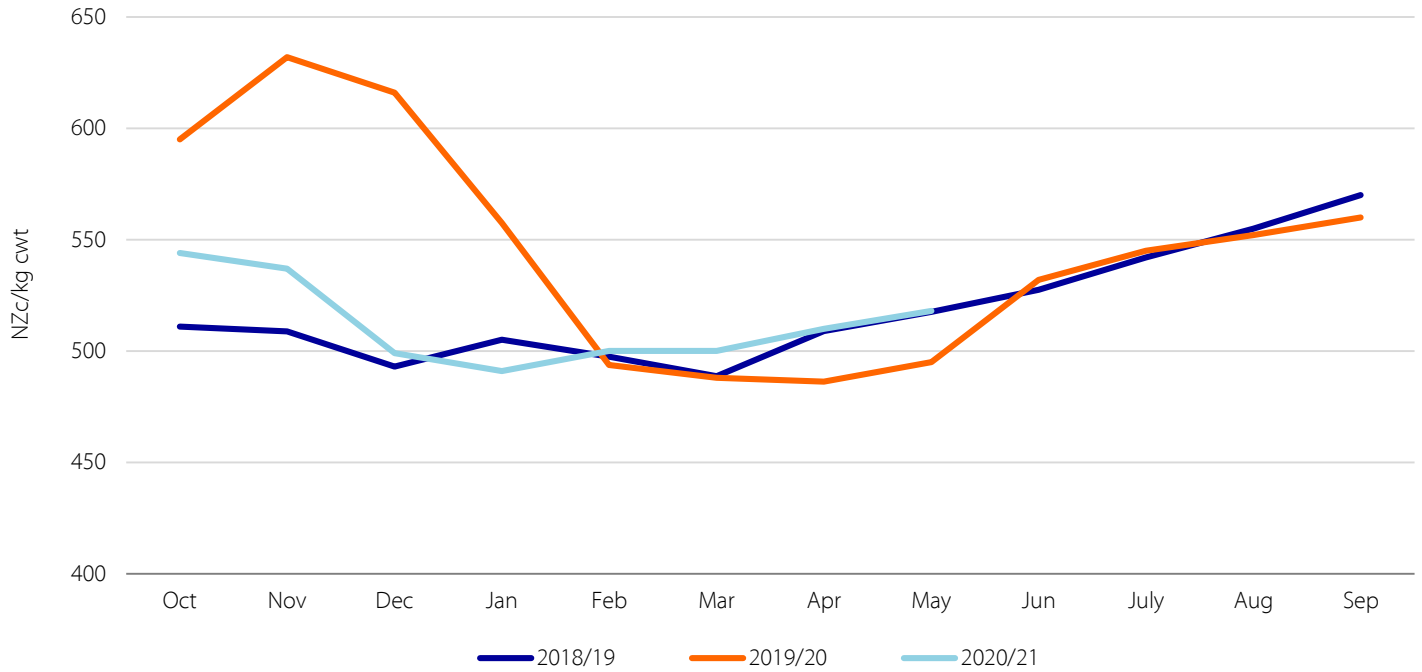
- **Argentina's export suspension.** On 20 May, Argentina suspended beef exports for 30 days to alleviate rising domestic beef prices. Argentina currently represents 22% of China's beef imports. The suspensions will cause some disruption, but with a finite timeframe we believe the disruption will be minimised. With limited exports from Australia NZ stands in a good position to benefit from the Argentinian export suspension.

North Island Bull Price



Rabobank

North Island Bull Price



Source: AgriHQ, Rabobank 2021

Pricing Optimism to Continue

We expect the continued demand from key markets as we move closer to winter months here in New Zealand, helping to see prices lift through June 2021.

Farmgate prices have seen a jump over May, in line with seasonally tightening of product availability. As of the end of May 2021, AgriHQ prices in the North Island averaged NZD 7.70/kg cwt, while South Island lamb averaged NZD 7.45/kg cwt, both lifting 12% compared to the same week last year.

Demand for sheepmeat from key markets continues to remain robust. New Zealand shipments of lamb to China were 16% higher in April 2021 compared to the year prior, which was impacted by the early stages of Covid-19. Export volumes for April 2021 were 28% higher when compared to the three-year average export volumes to China, highlighting the strength in the Chinese market. New Zealand shipments of lamb to the US were similarly strong for April, with exports +41% higher on 2019 volumes. Reflecting the improvement in foodservice operations US, imported NZ rack prices have shown gradual improvement since the beginning of the year with average May prices up 12% on average January prices.

RaboResearch sees favourable farmgate returns over the coming months. We anticipate steady demand from our key trading partner, China, particularly in light of limited supply volumes from Australia as producers there continue their quest to rebuild capital stock. Australian lamb export volumes are down 16% for the first four months of the year.



Emma Higgins

Senior Analyst
Dairy

+64 3 961 2908

emma.higgins@rabobank.com

Sheepmeat

What to watch

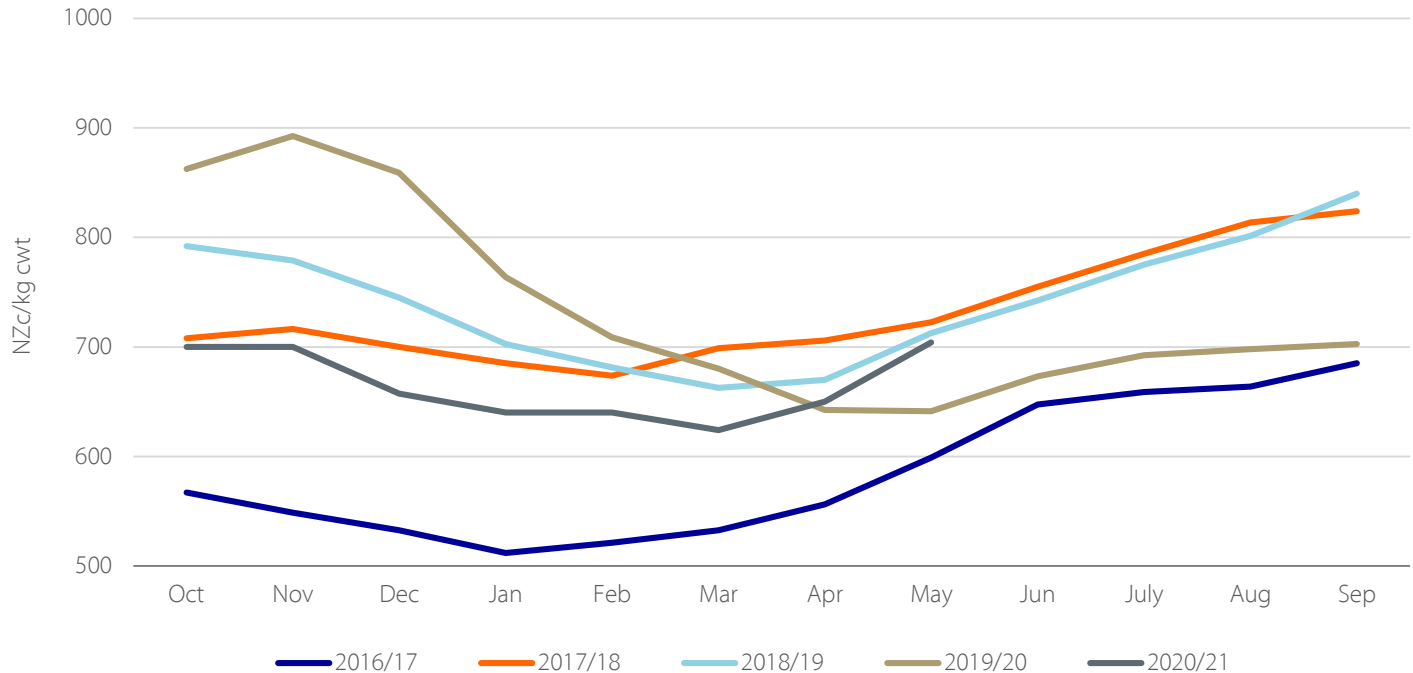
- **Shipping is still causing headaches for exporters.** While the economies are improving around the globe, one challenge remains persistent: getting product to market in a timely manner. We anticipate this will be an ongoing feature over the coming quarter, as supply chains continue their adjustment to life post-Covid.

South Island Lamb Price



Rabobank

South Island Lamb Price



Source: AgriHQ, Rabobank 2021



Australian Foodservice Recovery Outpacing That in the US or China

The Australian food market remained on a solid growth path in April. Seasonally-adjusted sales climbed in both retail and foodservice channels. Both were well above pre-pandemic levels, and the split between them was back to the normal too (with 25% of Australians' spend on food again devoted to eating out and takeaway). Foodservice sales have been buoyed by the increased mobility, confidence and incomes being enjoyed by consumers, and the improved ability of operators to adapt to the Covid restrictions that do remain.

Astonishingly, as at April, the recovery in the Australian foodservice sector was progressing faster than in China and the US. Chinese foodservice sales regained pre-Covid levels quicker than any market we track, regaining prior year levels in October 2020. But channel activity appears to have stagnated since. By April 2021, Chinese foodservice sales were only 2% up on the levels seen two years prior, compared to 6% in Australia. The sluggish Chinese market reflects two realities. Despite the rapid growth in GDP, consumers were financially impacted by the Covid-downturn of 2020 and remain cautious. And despite very low infection levels, some Chinese consumers appear reluctant to eat out as much as they used to. Some regions socially encourage eating at home.

The US foodservice market saw a 3% growth over the two years to April 2021.

What to Watch

- **Bumps in the road to recovery!** Readers will recall that last month we noted that there will be bumps as we travel the road to recovery of food markets – including the likelihood of localised lockdowns in response to local viral flare ups. Following a new cluster of infections, Victoria was locked down again on 28th May for at least 14 days. Accounting for 24% of Australian foodservice spend, a 14 day Victorian lockdown will snuff out any improvement in Australian foodservice sales in May and June (on April levels). A reminder that the virus will remain in control of the rate of recovery until countries are well vaccinated.

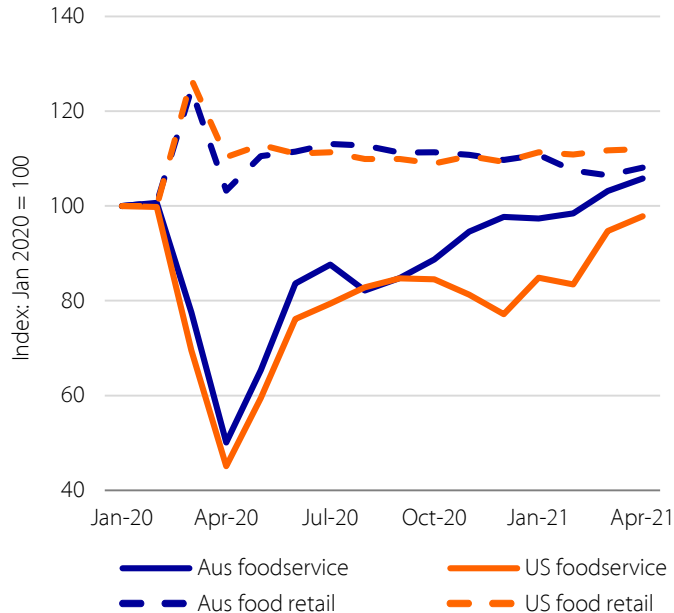
Downstream Markets

Australian Food Channel Split Returned To Normal In April, With the Foodservice Recovery Now Outpacing That of China

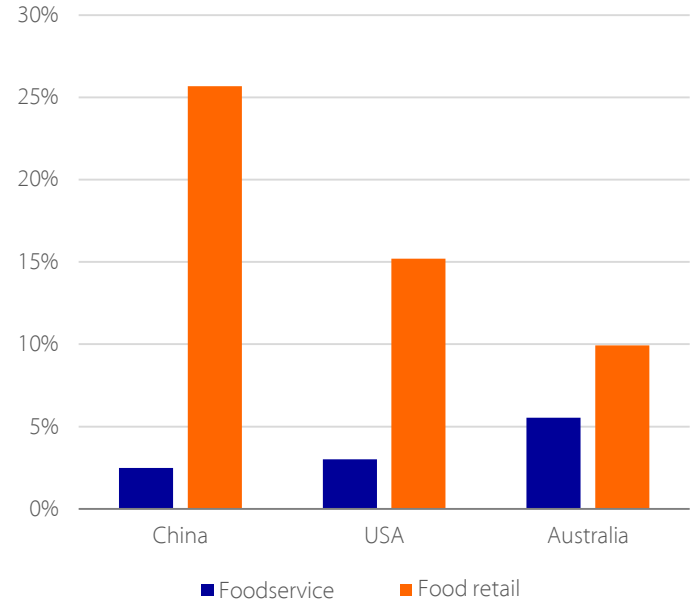


Rabobank

Australia and US markets: Indices of seasonally-adjusted monthly sales since crisis



Australia, US and China: April 2021 sales vs. April 2019 sales by channel



Sources: US Census Bureau, ABS, Chinese National Bureau of Statistics
 Notes: April 2021 data are preliminary. All data are seasonally adjusted.

Global Demand Keeps on Giving

Despite global prices lifting again, we still expect downside ahead for global urea markets in coming months. Due to the time taken for procurement and shipping, we expect that this will be too late for local farmers this winter and spring season.

Locally, as we move further into winter and closer to spring, global markets will have a reduced influence on local prices, with local demand and supply (imports) becoming the primary influences. The latest trade data (March) indicates that local imports were behind the last four years for Q1, although this follows a very strong import period during Q4 2020.

Global prices for urea kicked upwards again this month, as most global benchmarks increased by 15% during May. In USD-terms, global prices are now the highest they have been since January 2014. India featured heavily again on the demand side, with another tender being issued mid-month. This demand is soaking up much of the available supplies from major exporters. For example, according to IHS Markit, Chinese urea exports for April 2021 were nearly five times the level recorded in April 2020.

Looking forward, we maintain our view that global urea prices will ease during the southern winter, however the timing of this is dependent on two factors. First, the participation of India in the global market, and second, weather in major northern hemisphere cropping regions, which will determine demand for nitrogen during the top-dressing window.



Wes Lefroy
Senior Agricultural Analyst

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

Fertiliser

What to Watch

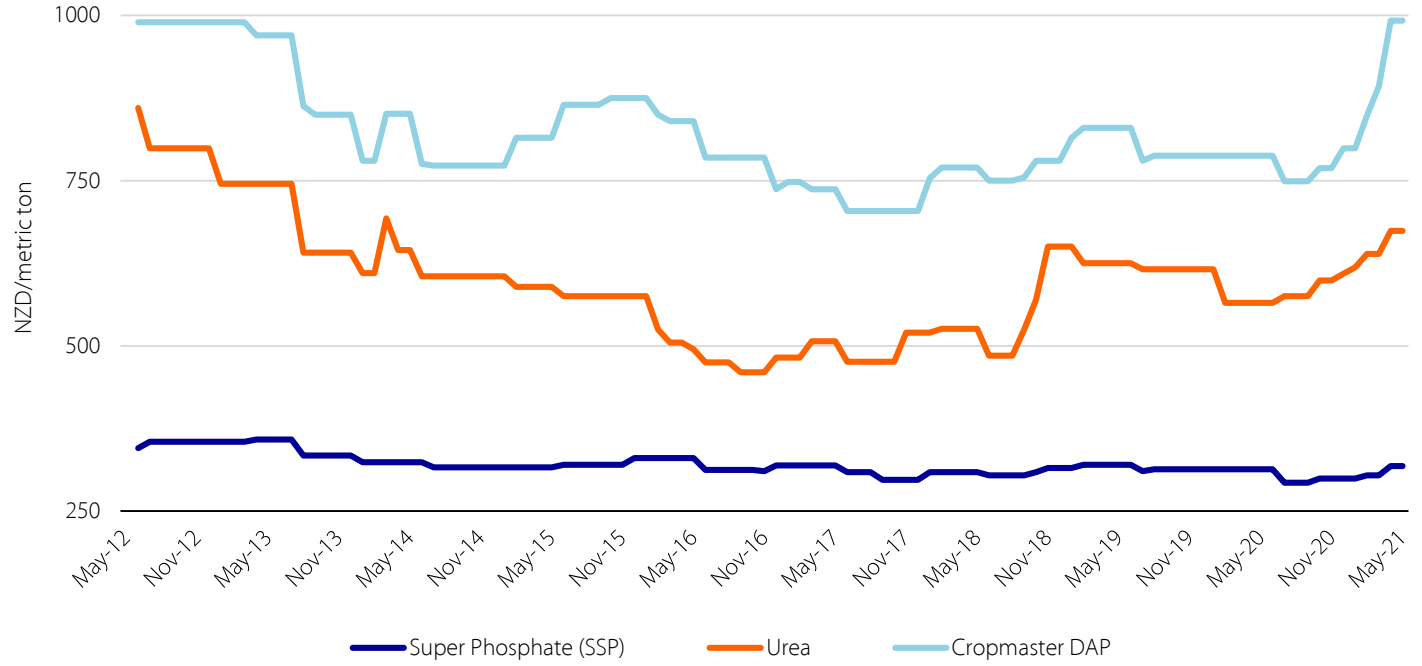
- ***Ocean freight disruption:*** Ocean freight prices remain at record highs, which on some trade routes, is adding up to 5% in product cost at the farmgate. We don't expect this situation easing any time soon, with vessel fleet growth at a record low and shipping demand very high. A clogged supply chain will force local importers to take a longer lead-time, and give less ability to react to spikes in demand.

NZ Urea Highest Since 2014



Rabobank

NZ Local Reported Retail Prices



Source: Ravensdown, Rabobank 2021



NZD up on Bullish RBNZ Comments

The NZD rose almost 1 cent against the US dollar in May, and was trading at USc 72.5 on 2nd June.

The US economy is performing well. After surging in March, US consumer spending rose again (if modestly) in April, as rising vaccinations rates helped underpin confidence to spend savings accumulated in the last year (thanks to the help of the US government). Jobless claims also fell in late May to a new post pandemic low, while Biden pitched for more stimulus spending in his fiscal 2021 budget. The unleashing of consumer spending, rising commodity prices and supply bottlenecks drove US inflation higher in April. We expect this to be transitory and see no interest rate hike in the coming 12 months at least.

While the US Federal Reserve believes that the current inflation evident in its market is transitory and warrants no action, the Reserve Bank of NZ is pushing the other way.

Encouraged by falling unemployment and rising commodity prices, in late May the RBNZ flagged that their first hike is likely to be in 2H 2022. All being well they hope to be well into a normalising cycle by the end of next year, and to have hiked six times by the end of 2024.

Rabobank expects that the divergence of expectations for rates in the two countries will see the NZD hit USc 74 within six months.

What to Watch

- ***US asset purchase tapering.*** The minutes of the US FOMC meeting on April 27-28 revealed that a number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases. The last time it did this, in 2013, financial markets were spooked. Hopefully the process goes smoother this time.

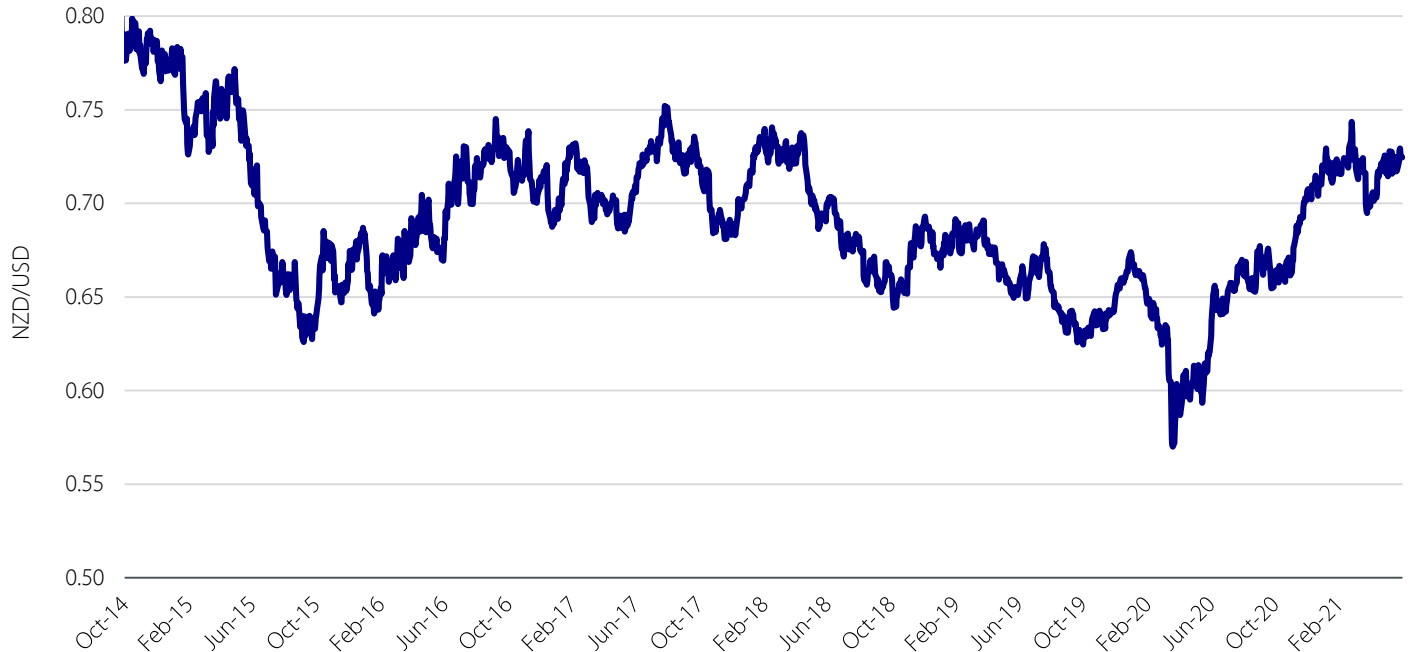
Rates & FX

NZD Rises for the Second Consecutive Month



Rabobank

NZD currency against the US dollar





Oil & Freight

Freight Prices Stuck on High Seas

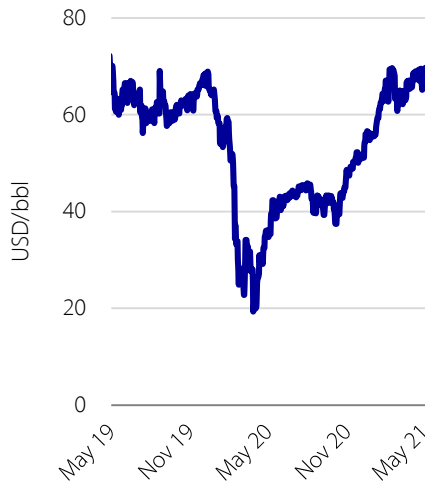
Ocean freight prices for dry bulk and container freight continue to trade at record highs. Without any significant government intervention, we expect to see this rate spike continuing into Q1 2022.

Global shipping remains heavily congested. For dry bulk freight, demand has been primarily driven by the commodity boom. On the supply side, net fleet growth is at its lowest point since 1995.

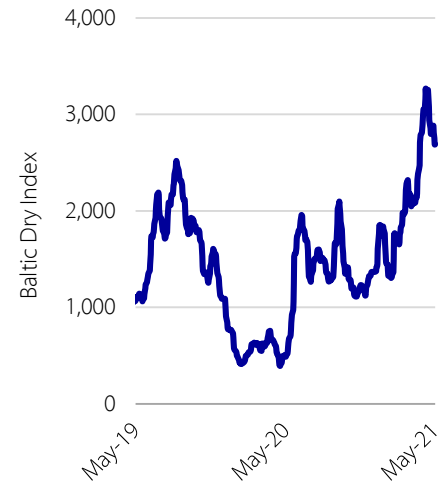
Similarly for containers, capacity is not up with demand and containers remain unevenly distributed across the globe. Container turn-around times have dramatically increased, to the point that some carriers are now adding congestion levies to cover warehousing and waiting costs.

Oil prices continue to firm, as travel begins to increase. We expect Brent Crude will remain around the 70-71 BSD/bbl mark for the remainder of 2021.

Brent Crude Oil, May 2019-May 2021



Baltic Dry Index, May 2021



Agri Price Dashboard

As of 31/05/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	664	743	521
CBOT soybean	USc/bushel	▼	1,531	1,571	841
CBOT corn	USc/bushel	▼	657	740	326
Australian ASX EC Wheat	AUD/tonne	▲	308	303	350
Non-GM Canola Newcastle	AUD/tonne	▲	718	696	678
Feed Barley F1 Geelong	AUD/tonne	▲	253	243	240
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	886	877	704
Feeder Steer	AUc/kg lwt	▼	452	455	388
North Island Bull 300kg	NZc/kg cwt	▲	525	515	510
South Island Bull 300kg	NZc/kg cwt	▲	470	460	445
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	831	812	914
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	770	695	670
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	745	660	655
Venison markets					
North Island Stag	NZc/kg cwt	▲	550	520	550
South Island Stag	NZc/kg cwt	▲	550	535	550
Dairy Markets					
Butter	USD/tonne FOB	▼	5,125	5,725	3,850
Skim Milk Powder	USD/tonne FOB	▲	3,538	3,413	2,600
Whole Milk Powder	USD/tonne FOB	▲	4,150	4,100	2,675
Cheddar	USD/tonne FOB	▼	4,425	4,463	4,200

Agri Price Dashboard

As of 31/05/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	89.7	91.9	65
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	82.1	87.4	58
Sugar markets					
ICE Sugar No.11	USc/lb	▼	17.4	17.4	10.91
ICE Sugar No.11 (AUD)	AUD/tonne	▲	496	485	379
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,320	1,342	1,172
Fertiliser					
Urea	USD/tonne FOB	▲	390	350	218
DAP	USD/tonne FOB	▲	583	580	301
Other					
Baltic Dry Index	1000=1985	▼	2,596	3,053	504
Brent Crude Oil	USD/bbl	▲	69	67	35
Economics/currency					
AUD	vs. USD	▼	0.77	0.77	0.67
NZD	vs. USD	▲	0.725	0.716	0.62
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

Angus Gidley-Baird

Senior Analyst – Animal Protein
+ 61 2 8115 4058

Michael Harvey

Senior Analyst – Dairy
+61 3 9940 8407

Cheryl Kalisch Gordon

Senior Analyst – Grains & Oilseeds
+61 2 6363 5900

Emma Higgins

Senior Analyst
+64 3 961 2908

Wes Lefroy

Senior Analyst - Agricultural
+61 2 8115 2008

Dennis Voznesenski

Analyst
+61 2 8115 3920

Catherine Keo

Business Coordinator
+61 2 8115 4154

Charlie Clack

Senior Analyst - Commodity
+61 2 8115 2471

Rabobank New Zealand

Nearest branch call 0800 500 933
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 © 2021

