

NZ Price Records Sprung ahead of Spring

New Zealand Agribusiness Monthly

September 2021

RaboResearch
Food & Agribusiness



Rabobank

Commodity Outlook



Dairy

New Zealand's spring peak is fast approaching, with the strength of the flush set to shape commodity prices over the next two months.



Beef

We anticipate farmgate pricing to remain strong until at least October, off the back of export limitations in Argentina.



Sheepmeat

Rabobank expects lamb pricing to hold across the beginning of spring, given the strong demand from key export markets and procurement pressure within New Zealand.



Downstream Markets

The delta variant continues to cloud the pathway to reopening food markets.



Farm Inputs

Rabobank expects that high global fertiliser prices will be here to stay until the new year at least, primarily driven by demand resulting from the ongoing strength of commodity prices.



FX

We have pulled back our NZD forecasts marginally, to moving below 70USc in the near term, but see it maintaining its value over the balance of the year.



Oil

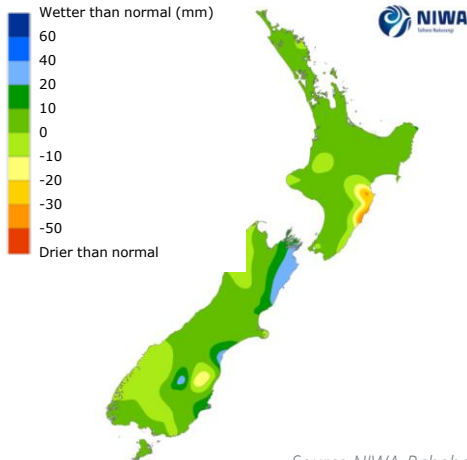
Brent crude has slipped in recent weeks, with prices falling from USD 77/bbl to as low as USD 65/bbl. We expect this trend to reverse toward the end of the year and prices to strengthen again.

A Mild Spring Across the Country



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Soil moisture anomaly (mm), September 1, 2021



Source: NIWA, Rabobank 2021

NIWA is forecasting above-average temperatures across New Zealand through to November 2021, particularly on the east coast of both islands. However, cold spells and frosts can still be expected.

NIWA anticipates rainfall to be below normal for the east coast of the North Island. The west of the South Island is likely to receive near-normal rainfall through to November 2021. The remainder of the country is likely to have near-normal or below-normal rainfall through the spring to November.

NIWA is forecasting near-normal or below-normal soil moisture levels in the north and west of the North Island. The west of the South Island is forecast to have near-normal or above-normal soil moisture. The remainder of the country is expected to be around near-normal soil moisture through to November 2021.

What to watch

- **NIWA continues in La Niña watch.** NIWA notes that ocean and atmospheric conditions in the Pacific Ocean are trending toward La Niña for the second consecutive year. Last year, we saw weather conditions dry out in the lead up to summer, particularly over the month of November 2020.

Spring Peak Is Fast Approaching

Dairy commodity prices had a mixed performance in August 2021. Average prices for Oceania SMP saw a small uptick, reflecting weaker milk production growth in Europe and steady demand from the main buying regions of China and Southeast Asia. Average cheese prices also steadied across August, reflecting demand strength in the US market in parallel with slower rates of milk supply growth.

WMP continued to drift lower over August 2021. Rabobank's view is that Chinese buyer confidence (particularly to procure stock further out across the year) is under pressure. This pressure is brought about by the need to clear expensive inventory and is increasingly impacted by strong local milk production in combination with the resurgence of Covid-19 in parts of China.

New Zealand's peak season is also approaching. The strength of the peak will play an important role in price direction in the coming months. July 2021 milk production jumped 6.6% YOY following high milk price forecasts and supportive North Island weather. The South Island feed situation is looking increasingly tight, with more sunshine required to get pasture growth going ahead of the spring peak. **Rabobank forecasts flat milk production for the full 2021/22 season.**

Across the Tasman, Australian milk production closed out the 2020/21 season at 8.8bn litres, up 0.6% on the previous season. This was despite milk supply being 1.1% lower in June compared to June 2020, as isolated flooding contributed to the weaker result.



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Dairy

What to watch

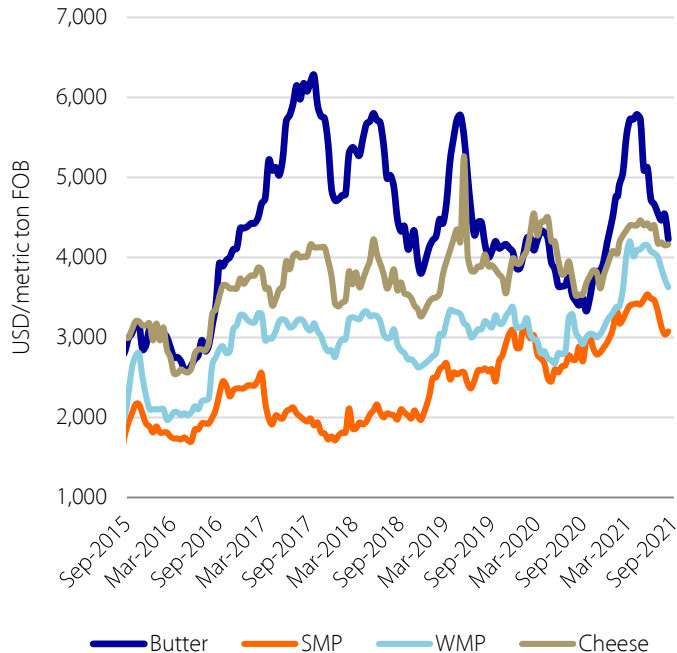
- **Chinese import appetite** – Chinese import demand has been doing plenty of the heavy lifting in global markets. Rabobank is expecting a slowdown in China's import needs in the second half of 2021 and beyond. If Chinese import demand slows, inventory build-up and downward price pressure on milk powders will ripple through global dairy markets.

Commodity Prices Awaiting NZ's Seasonal Flush



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Global dairy prices, 2015-2021



Production growth key exporting regions

	Latest month	Last three months
EU	0.7% (June 21)	1.3%
US	2.0% (July 21)	3.2%
Australia	-1.1% (June 21)	0.5%
NZ	4.5% (June-July 2021)	

Source: USDA, Rabobank 2021

Source: USDA, Eurostat, CLAL, Dairy Australia, DCANZ, Rabobank 2021

Stellar Start to Spring

Argentine beef export restrictions to China are not directly impacting New Zealand export volumes but are supporting farmgate pricing. Total New Zealand beef exports for the month of July 2021 were slightly back on June volumes (-5%), indicating that New Zealand beef isn't filling the deficit in China caused by Argentina's restrictions on beef exports. On the other hand, exports from Brazil and Uruguay to China have increased, suggesting they are filling the gap. The Argentine export restrictions are, however, providing a firm pricing floor for New Zealand farmgate pricing.

Farmgate pricing set a new record for the month of August 2021. As of the end of August, the AgriHQ North Island bull price was NZD 6.15/kg cwt, while the AgriHQ South Island bull price reached NZD 5.90/kg cwt. The North Island bull price continues to track well above (+12%) the five-year average and pricing range.

Rabobank expects the strong demand and pricing to continue through to at least October. Very strong consumer demand for beef in the US has driven a lift in beef prices. US domestic lean trimmings prices were sitting 23% higher than the same time last year at the end of August. Together with low exports of Australian lean trimmings, this is having a positive impact on demand for New Zealand 95CL bull beef.



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Beef

What to watch

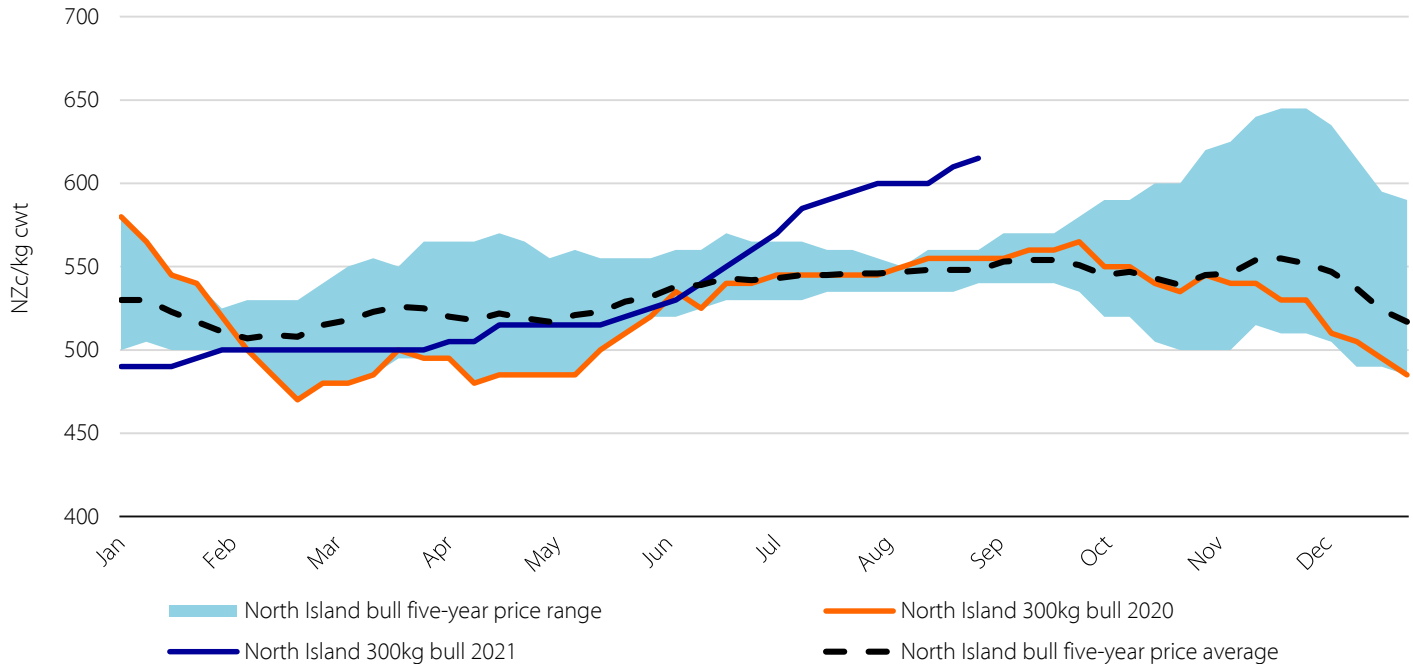
- **The Argentine government will revise its beef export restrictions at the end of August.** Rabobank anticipates that Argentina will likely resume exports to the key markets of China and Israel in September, and restrictions to other markets will remain in place until at least December. If this occurs, it is likely to relieve some of the pressure in the global beef market.

Record August Beef Pricing a Good Start to Spring



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AgriHQ North Island bull price



Source: AgriHQ, Rabobank 2021

Lamb Price Creates New Record

Record farmgate prices across both islands for August! As per AgriHQ data, farmgate prices in the South Island cracked NZD 9.15/kg cwt in the last week of August, while the North Island hit NZD 9.25/kg cwt. Both prices not only signify schedule records for the month of August, they set new records for the highest schedule prices since RaboResearch began recording this data in 2010. These record prices are being supported by demand from the US and local procurement pressure.

July exports were 10% back on 2020 volumes for the same month. Lower export volumes for July are a reflection of the higher number of sheep killed early in the season due to drought. The season-to-date mutton kill is 8.7% ahead of the 2020 season. In addition, lower lamb crop volumes for 2020 have flowed through to a reduced lamb kill of 3.9% for the season to date. Beef + Lamb NZ is forecasting a slight increase in lambing percentages across the country for 2021, with ewes in OK body condition after a challenging autumn and summer.

Market fundamentals are holding firm, and Rabobank anticipates farmgate pricing to hold over the coming months. We expect price support to be maintained due to continued strength in demand from key markets and local procurement pressure resulting from lower sheep flock numbers following severe droughts in many NZ regions over the past few years.

The freshwater farm plan and low-slope map consultation period closes on September 12. For more information about the proposed rules and how you can make a submission, visit the Beef + Lamb website <https://beeflambnz.com/freshwaterconsultation>.



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Sheepmeat

What to watch

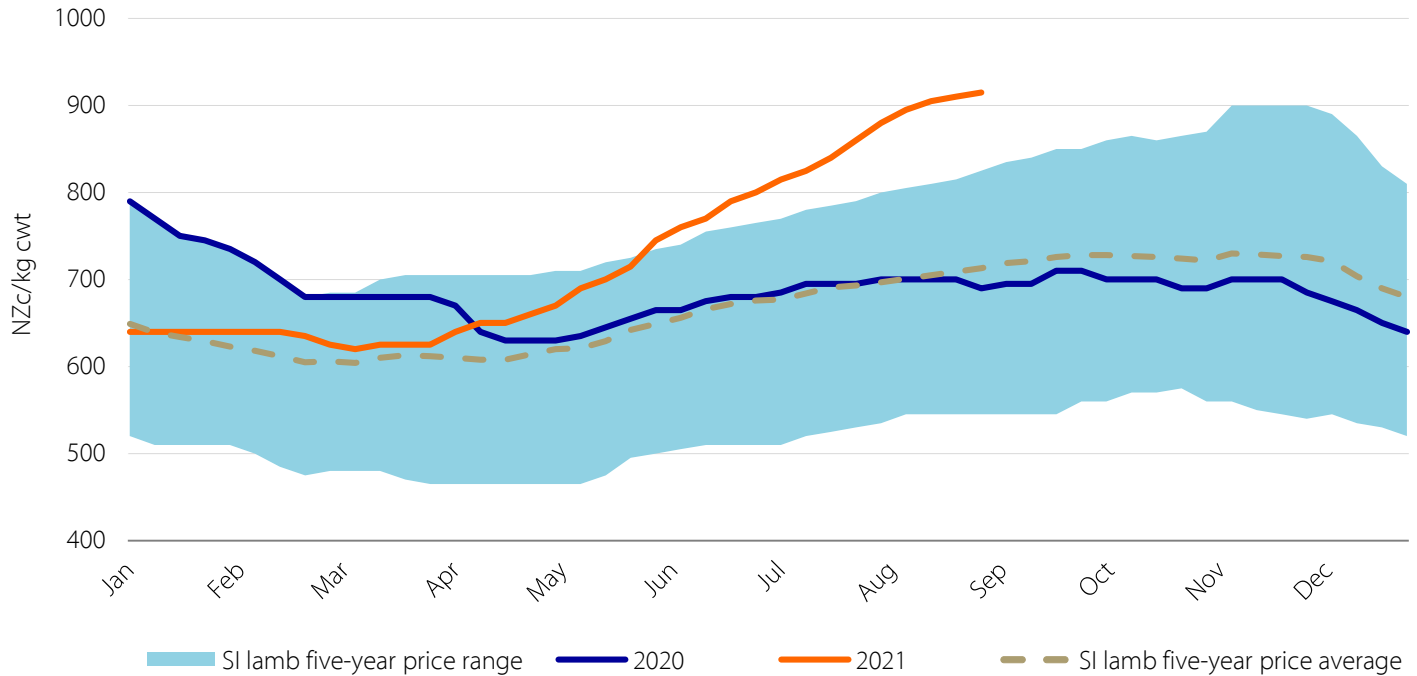
- **Lingering effects of Covid-19 on processors** – We are hearing mixed reports of processing availability across the country due to Covid-19 restrictions. Furthermore, ongoing shipping logistics issues could challenge processors exporting lamb for the Christmas market.

A New High for Lamb Pricing



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AgriHQ South Island lamb price



Source: AgriHQ, Rabobank 2021

The E-Commerce Wave Rolls In

The online boom in Australian and New Zealand grocery markets continues. Woolworths' full-year results underscored this, with the company reporting that 8.5% of total sales occurred online in the 2020/21 fiscal year. In New Zealand specifically, online sales showed sustained growth, with sales up 30% for the full year on top of elevated sales from Covid-19 impacts in 2020. Meanwhile in Australia, Coles chalked up an historical marker, with online grocery sales growing by more than 50% and surpassing AUD 2bn for the full year.

With a race to accelerate the delivery process, the online boom won't end there. Meal delivery service Youfoodz has extended same-day delivery across more major cities in Australia. Meanwhile, Woolworths is teaming up with Uber to offer same-day grocery deliveries from some key metro outlets in Australia.

The pandemic disruption continues in Australian and New Zealand food markets. Australia is having a particularly tough time dealing with the current outbreak. With many consumers in Australia and New Zealand in lockdown, channel disruption and shifts in consumer purchasing behavior are occurring again. Local shopping trends have re-emerged, meaning neighbourhood stores are outperforming metro and shopping centres, and online sales are getting another boost.

Lockdowns are having an impact in China. July food retail sales were 10.3% higher vs. the same month last year. This was down from the rate of growth in June (+13.3%). China continues to battle outbreaks and government-imposed restrictions.



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What to Watch

- **Delta** – The far more contagious delta variant is rapidly changing the overall equation, particularly in Southeast Asia. Countries that were successful with containment strategies or that mostly escaped the 2020 waves suddenly face major outbreaks and extended lockdowns, which are threatening consumer demand and channel disruption in these markets.

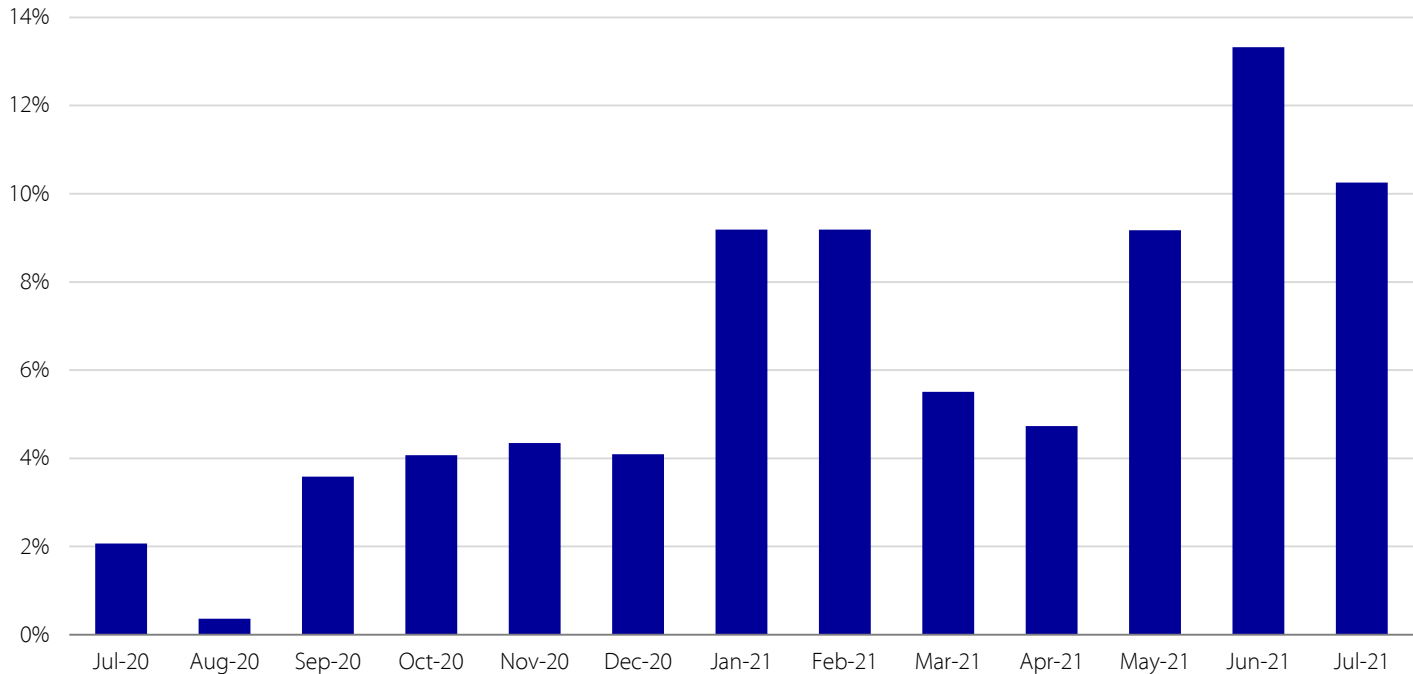
Downstream Markets

A Bumpy Road to Normal in China



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Year-on-year change in China's food retail turnover



Sources: National Bureau of Statistics, Grain and Oil, Foodstuff, 2021

No Letup in Sight

Rabobank expects that high global fertiliser prices will be here to stay until at least the new year, primarily supported by the ongoing strength of commodity prices.

With phosphate prices so high, we expect some farmers will lighten application rates. Initially, we think this could lead to global prices easing by as much as 10% to 15% during the third quarter in the course of northern hemisphere procurement. We expect that this will be short lived though and that, given the time taken for shipping and local procurement, local farmers are unlikely to see any benefit flow through by way of lower prices.

We continue to watch the situation regarding Chinese fertiliser exports very closely. To recap, the Chinese government is providing guidance to local fertiliser producers to focus on domestic markets rather than exports. If we see Chinese exports tightened, this is likely to put further pressure on global prices, which will flow through to local NZ farmers.

During August, urea prices finally took a breath, falling between 5% and 13% during the month, in USD terms. This was largely prompted by India's absence in the market, although market commentators do expect a new Indian tender soon. While there are some signals of oversupply in the short term, any price reductions will be limited by high commodity prices and the fertiliser demand that they encourage.

We have just released our Semi-Annual Fertiliser Outlook. [Clients can login here.](#)



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Fertiliser

What to Watch

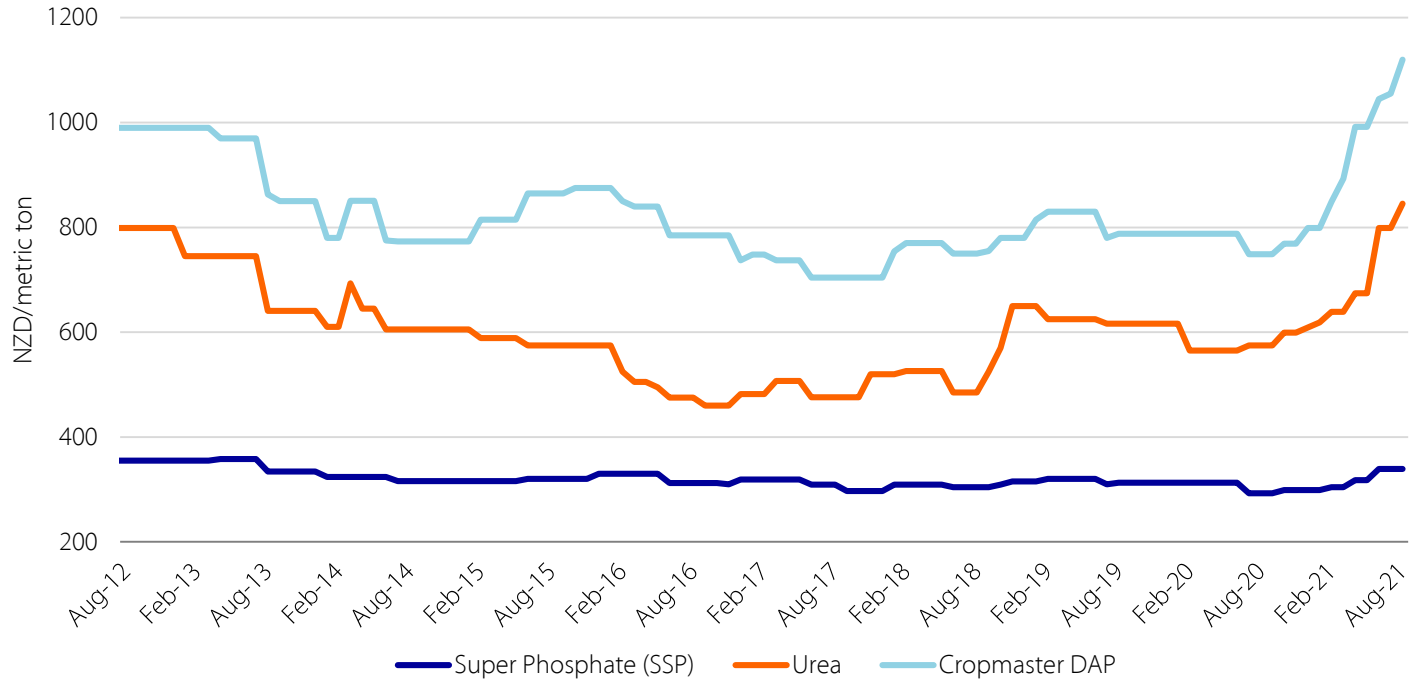
- **Freight** – Global freight remains a thorn in the side of local farmers, not only for fertilisers but also for other inputs, such as agrochemicals and farm merchandise. High ocean freight costs and port congestion are set to continue for the next 12 months at least. For bulk freight, costs are expected to remain high given strong global demand and trade in commodities and scant new shipping capacity coming to market. A path to the normalisation of costs is not forecast to begin before Q2 2022.

Local Prices Reach New Record Highs



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Local NZ reported retail prices





Lockdown-Led Dive, Recovered

The NZD plummeted 2.8% in three days, to a nine-month low, in mid-August. This followed the snap three-day nationwide Covid lockdown announcement and was in the context of a stronger USD. Despite remaining in lockdown for the rest of the month, the NZD rebounded to be steady with the end of July.

The snap nationwide lockdown may have appeared outsized, given that there was only one case of Covid-19 detected in Auckland. However, with lagging vaccination rates, concern is high. In the context of the lockdown and uncertainty, it is not surprising that expectations that the RBNZ would lift interest rates this month were not met.

The market is, however, still positioned for two 25bp interest rate hikes in the coming six months, in line with the RBNZ's continuing concerns regarding inflation. The third quarter RBNZ Survey of Expectations for forward inflation, released in August, showed them to be at their highest since 2014. This was on the back of releases showing stronger official inflation (3.3% YOY), a drop in unemployment to 4%, and substantial house price inflation.

In line with this, we have pulled back our NZD forecast only marginally. We now expect to see a 69USc NZD over the coming month, 70USc on a three month view and then strengthening to 72USc on a 9 month view. Strength above these levels is not ruled out if border restrictions can be relaxed early in 2022, a factor that could further boost the country's economic outlook over the year ahead.

What to Watch

- ***Cases and vaccinations*** – After more than 100 days without community transmission of Covid-19, Auckland's delta variant cluster now has all eyes on new daily Covid cases and vaccination rates. Only 22% of the population was fully vaccinated by August-end, so continuing new case numbers and spread outside of the Auckland and northland areas could take the feet out from under the NZD again, if only momentarily.

Rates & FX

Three-Day Lockdown Announcement Takes NZD for a Short Dip Lower



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NZ currency against the US dollar





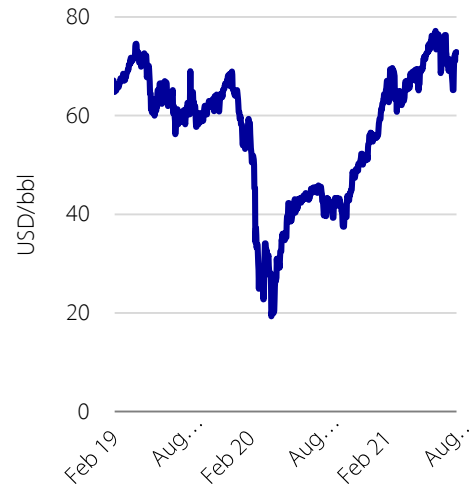
Oil &
Freight

A Slight Slip for Brent Crude

Brent crude has slipped in recent weeks, with prices falling from USD 77/bbl to as low as USD 65/bbl. We expect this trend to reverse toward the end of the year and for prices to strengthen again.

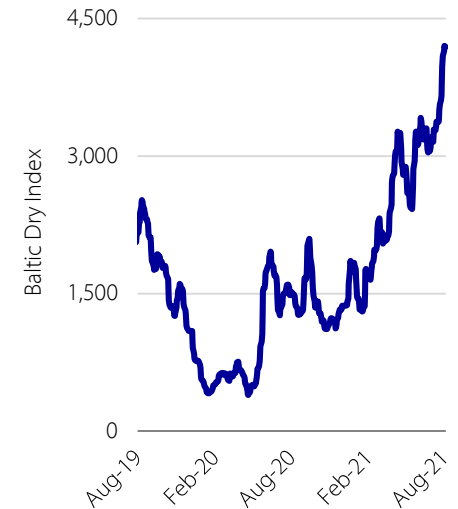
Oil markets have been hit by a wave of selling pressure, as funds have liquidated long oil futures positions in favour of building short positions. We attribute this to herd-like behaviour rather than any change in the fundamentals. As US oil inventories drain and Saudi Arabia reportedly considers pausing agreed production increases due to Delta-variant concerns, we expect oil balances to remain tight. This will stabilise prices and push them higher as fund-selling begins to wane.

**Brent Crude Oil,
Aug 2019-Aug 2021**



Source: AIP, Bloomberg, Rabobank 2021

Baltic Dry Index, Aug 2021



Source: Bloomberg, Rabobank 2021

Agri Price Dashboard

As of 30/08/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	719	704	544
CBOT soybean	USc/bushel	▼	1,359	1,415	951
CBOT corn	USc/bushel	▲	558	547	349
Australian ASX EC Wheat	AUD/tonne	▲	361	322	284
Non-GM Canola Newcastle	AUD/tonne	▲	877	797	578
Feed Barley F1 Geelong	AUD/tonne	▲	272	248	211
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	1,028	985	787
Feeder Steer	AUc/kg lwt	▲	524	516	397
North Island Bull 300kg	NZc/kg cwt	▲	615	600	555
South Island Bull 300kg	NZc/kg cwt	▲	590	565	510
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	957	924	669
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	925	905	725
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	915	880	690
Venison markets					
North Island Stag	NZc/kg cwt	▲	640	570	620
South Island Stag	NZc/kg cwt	▲	630	570	655
Dairy Markets					
Butter	USD/tonne FOB	▼	4,225	4,463	3,400
Skim Milk Powder	USD/tonne FOB	▼	3,075	3,138	2,888
Whole Milk Powder	USD/tonne FOB	▼	3,625	3,863	2,988
Cheddar	USD/tonne FOB	▼	4,163	4,188	3,538

Agri Price Dashboard

As of 30/08/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	103.7	100.3	71
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	96.3	89.8	64
Sugar markets					
ICE Sugar No.11	USc/lb	▲	20.0	17.9	12.66
ICE Sugar No.11 (AUD)	AUD/tonne	▲	604	538	380
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,350	1,428	929
Fertiliser					
Urea	USD/tonne FOB	•	485	485	280
DAP	USD/tonne FOB	•	660	660	340
Other					
Baltic Dry Index	1000=1985	▲	4,235	3,292	1,488
Brent Crude Oil	USD/bbl	▼	73	76	45
Economics/currency					
AUD	vs. USD	▼	0.731	0.734	0.738
NZD	vs. USD	▲	0.701	0.697	0.673
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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