

Agribusiness Monthly April 2021

New Zealand

April 2021

RaboResearch
Food & Agribusiness



Rabobank

Commodity Outlook



Supply chain pressures will continue to support commodity prices over the coming weeks as freight logistics cause headaches for exporters.



RaboResearch expects farmgate prices to hold steady during April, with the reduced competition from Australia and a weaker exchange rate at the end of March helping to provide a firm pricing floor.



We expect the continued demand from key markets, in combination with seasonal tightening of supply, to see prices firm through April 2021.



A year after 'V-day', Chinese food channels remain heavily distorted. We expect only a slow drift to normalisation in 2021.



We expect that global prices will begin to subside in April, initially for urea, before phosphates follow later in Q2. For local farmers acquiring phosphate, relief will be too late for this season.



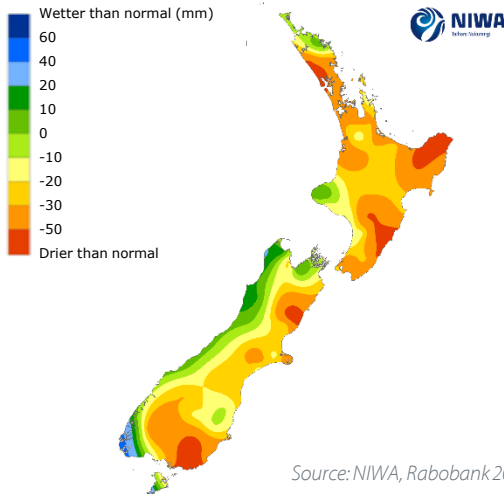
The NZD has lost ground against a stimulated USD. We expect little further downside for the NZD in the near term, and some strengthening thereafter, as expectations for US inflation prove over-done.



We expect Brent Crude to stabilize at around the USD 60/bbl level for the remainder of 2021.



Soil moisture anomaly (mm), 30 March 2021



NIWA is forecasting near-average temperatures for the east coast of both Islands and the top of the South Island through to May 2021. The rest of New Zealand has an equal chance of average or above-average temperatures over the same period.

Rainfall levels are anticipated by NIWA to be normal or below-normal for the west coast of the South Island. Rainfall levels in the normal range are expected for the remainder of the country.

NIWA is forecasting below-normal soil moisture levels for the north of the North Island. The east coast of both Islands are likely to have near-normal soil moisture levels. Normal or below-normal soil moisture levels through to May 2021 are most likely for the remainder of New Zealand.

What to watch

- **The effects of a 'non-traditional' La Niña will begin to ease over autumn.** NIWA expect weather patterns to become more variable as the central Pacific La Niña lessens. More frequent low pressure systems are expected over April and May, which will influence rainfall volumes.

Supply Chain Pressures Move Prices

Milk supply volumes jumped 6.7% for February 2021 YOY, once adjusting for the leap year in 2020. Milk flow strength is a result of welcome rainfall in the middle of the final summer month, in combination with weak production comparables for last year, as the heat sapped yields. We anticipate New Zealand milk collection for the current 2020/21 season (ending 31 May 2021) to land between the vicinity of 1% - 1.5% higher than the prior period.

Trade logistics are leading to a scramble for product and adding to commodity price rallies. Freight challenges are contributing to a scramble for product, driving prices higher during Oceania's off-season. Meanwhile, other exporters, facing as much as a doubling in freight cost, have been forced to discount commodity prices to remain competitive globally.

Attention is focused on the Northern Hemisphere flush in the coming months. Rabobank forecasts a 1.1% increase in milk production across the Big-7 dairy-producing regions in 2021. This is a decrease compared to the 1.6% YOY increase in 2020 and represents a modest tightening of supply.

Opening forecasts for the 2021/22 season. With farmers turning their minds to the new season's budgets, opening forecasts from processors for the new season (beginning 1 June 2021) are eagerly anticipated. At this stage, market fundamentals support another profitable milk price but with the re-emergence of more volatile pricing signals, it's likely that there will be an element of conservatism in opening ranges.



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What to watch

- **A close eye on food price inflation in the months ahead is warranted.** Higher commodity prices will begin flowing through supply chains, eventually reaching consumers. Promotions will likely return to retail outlets as brands and retailers will once again need to compete for consumers. But, in a still fragile economy, consumers may first experience some sticker shock and become more price sensitive with their food budget.

Chinese Demand Still Has Heat

Milk prices soared to new historical highs in February 2021, leaping 12% compared to February 2020. Attractive milk prices have flowed through to milk supply, with January 2021 production growth jumping by an estimated 10% YOY. Rabobank anticipates milk to keep flowing from Chinese dairy farms over the coming months, with attractive milk prices for producers enabling dairy farming to remain very profitable – despite higher feed costs.

Our primary view is that the market is well covered - but we still anticipate further upside for import volumes in the near term. We think global supply chain uncertainties are driving a thirst for additional safety stock from buyers of dairy product. In addition, Rabobank believes Oceania WMP remains competitively priced compared to local WMP. However, the discount for imported product has been whittled down to approx. 10% compared to local WMP, with the lift in Oceania WMP over March 2021.

Retail and foodservice sales over Chinese New Year 2021 improved remarkably compared to 2020 when China was in the midst of the first lockdown in response to Covid-19. However, when comparing the growth of retail and foodservice sales against the same period in 2019, the growth is below the long-run average before the pandemic. The 2021 results could have been impacted by less travel over the Chinese New Year holiday period due to Covid-19 restrictions.



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What to watch

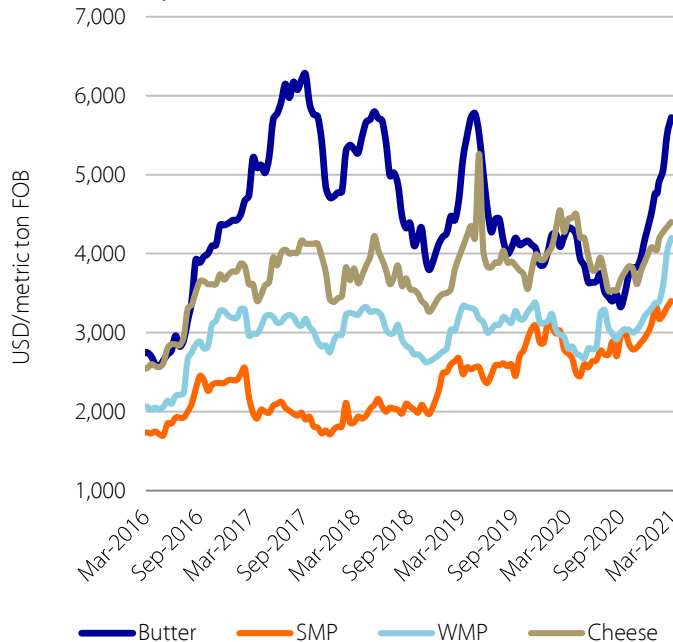
- ***Rising retail prices for dairy products.*** Processors have largely been bearing the brunt of the lift in milk prices since the second half of 2020. In early 2021, some processors lifted the price of white milk at a modest rate of between 3% and 5%. While demand growth is unlikely to be impacted by the small price lifts, further retail price rises are possible given the rising trajectory of the raw milk price.

Milk Prices on the Up, In Line With Commodities



Rabobank

Global dairy prices, 2016 - 2021



Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	Last three months
EU	-0.9% (Jan 21)	0.2%
US	2.0% (Feb 21)	2.3%
Australia	3.3% (Jan 21)	0.6%
NZ	1.4% (2020/21 season-to-date*)	

Source: Rabobank 2021

*June-Feb only

February 2020 data is leap-year adjusted

Australian Rains Are NZ's Price Gains

RaboResearch expects farmgate prices to hold steady during April, with the reduced competition from Australia and a weaker exchange rate at the end of March helping to provide a firm pricing floor.

Minimal farmgate price movements – a feature of 2021 thus far – continued into March.

As at the end of March, the AgriHQ North Island bull price was NZD 5.00/kg cwt, with the AgriHQ South Island bull price sitting fractionally lower at NZD 4.50/kg cwt. The trading range for prices has remained largely benign since mid-December, in stark contrast to the sharp decline experienced during the same period last season, with prices in both Islands continuing to sit slightly below their five-year average.

Across the ditch, a combination of widespread rain and low livestock inventory has resulted in Australian producers holding on to stock longer – and even causing saleyard numbers to drop to their lowest levels in over 10 years. As the Australian herd rebuild continues, the resulting reduced competition in export markets will prove helpful for farmgate returns over the coming months.

Covid-19 disruptions are still impacting demand for higher-value beef cuts, with foodservice operations remaining restricted in key markets. RaboResearch expects a revival of foodservice sales in the second half of this year, as vaccination programmes continue to roll out, helping to boost overall farmgate returns for producers.



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Beef

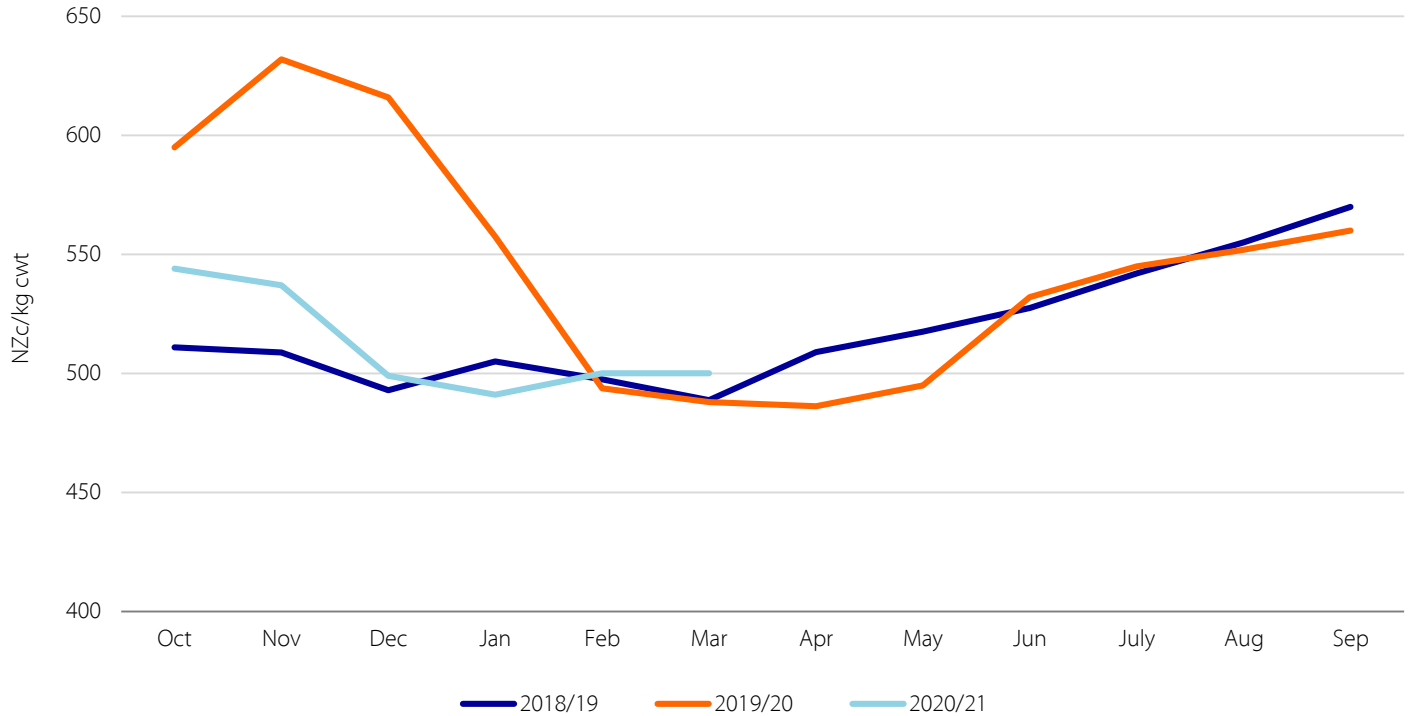
What to watch

- **Global freight disruptions.** Global supply chain disruptions due to freight delays, Covid-19 screening and port congestions continue to cause headaches for exporters and present a downside risk to farmgate returns should product not make it to its final destination on time.

North Island Bull Price



Rabobank



Source: AgriHQ, Rabobank 2021

A Few Reasons for Pricing Optimism

We expect the continued demand from key markets, in combination with seasonal tightening of supply to see prices firm through April 2021.

Farmgate prices eased further over the last month, in line with farmers seasonally offloading stock. As of the end of March 2021, AgriHQ prices in the North Island averaged NZD 6.55/kg cwt (-6% YOY) while South Island lamb averaged NZD 6.25/kg cwt (-8% YOY).

Demand for sheepmeat from China continues to remain robust. New Zealand shipments of lamb to China were significantly higher in February 2021 compared to the year prior, which was materially impacted by the outbreak of Covid-19. Export volumes for February 2021 were 12% higher when compared to 2019 export volumes and back in line with broad historical trends. A recent weaker Kiwi cross will further support export returns, with the NZD below USc 70 as at the end of March 2021.

RaboResearch sees some upside potential for farmgate returns over the coming months. We think prices have some upside to come as we move through into the seasonally-tighter supply period and some procurement pressure builds. We anticipate steady demand from our key trading partner, China - particularly in light of lower supply volumes from Australia as producers there continue their quest to rebuild capital stock.



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Sheepmeat

What to watch

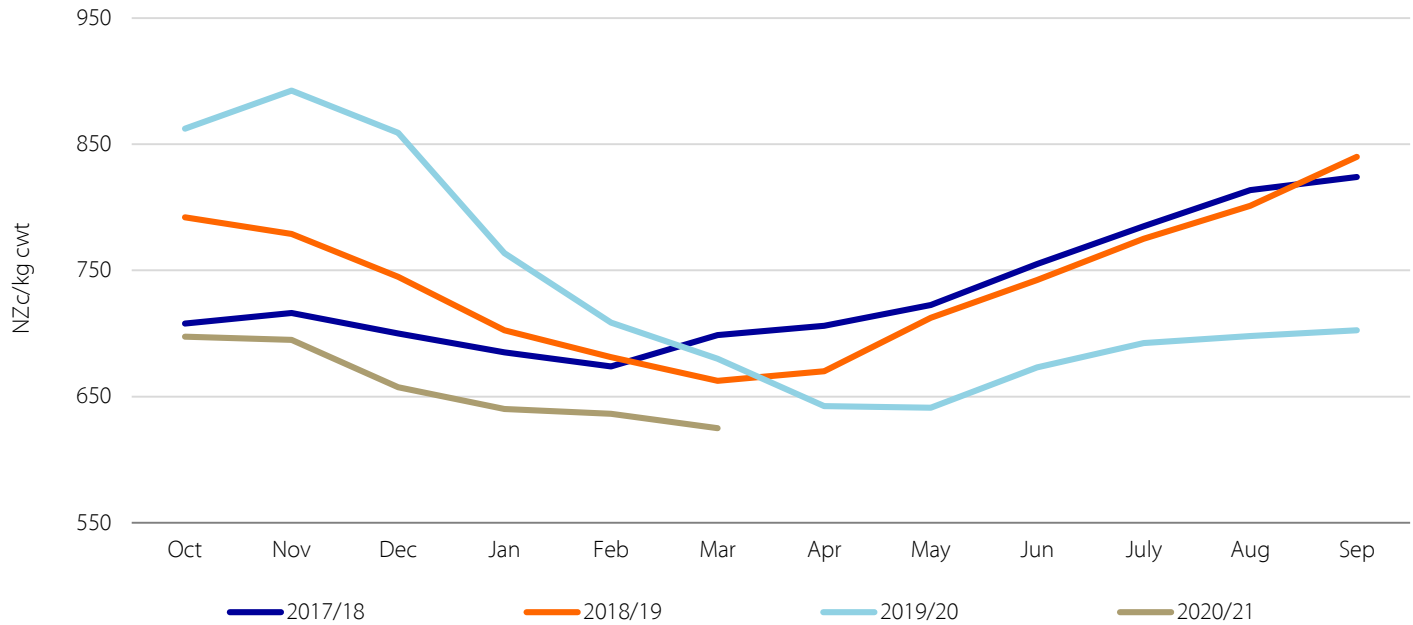
- ***US lamb demand*** – Easter is traditionally the high point of the season for US lamb demand. Despite US foodservice figures showing a 17% contraction YOY for February, US imported lamb prices are showing some signs of life. With US government stimulus packages and the Covid-vaccine being rolled out, lamb demand may start to recover. While this is a smaller market than some of the usual suspects, an improvement in demand support could still support New Zealand lamb prices – particularly in light of much tighter Australian lamb supplies.

South Island Lamb Price



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South Island Lamb Price



Source: AgriHQ, Rabobank 2021



A Year After 'V-Day', Chinese Channels Remain Heavily Distorted

January/February data were a wake-up call for those reading economic headlines and thinking that, a year after the arrival of the virus, all might be back to normal in China.

Chinese food retail sales continued to perform strongly. Consumers spent 11% more in Jan/Feb than a year prior – and 22% more than in the same period of 2019.

But the foodservice channel is struggling to recover to anything like its former health.

The 69% YOY growth in Jan/Feb sales sounds spectacular, but leaves sales still 4% short of the same period of 2019. And remember, this was a channel that, pre-pandemic, was growing at double-digit annual rates. Early 2021, sales appeared to be constrained by travel restrictions imposed during the Spring Festival period, sluggish consumer confidence and tight management of discretionary spending.

The stalling of the recovery of China's foodservice channel is not ideal for those selling beef, lamb, cheese and seafood into this market. Though it remains a lot better than the same channel in the US and EU.

What to watch

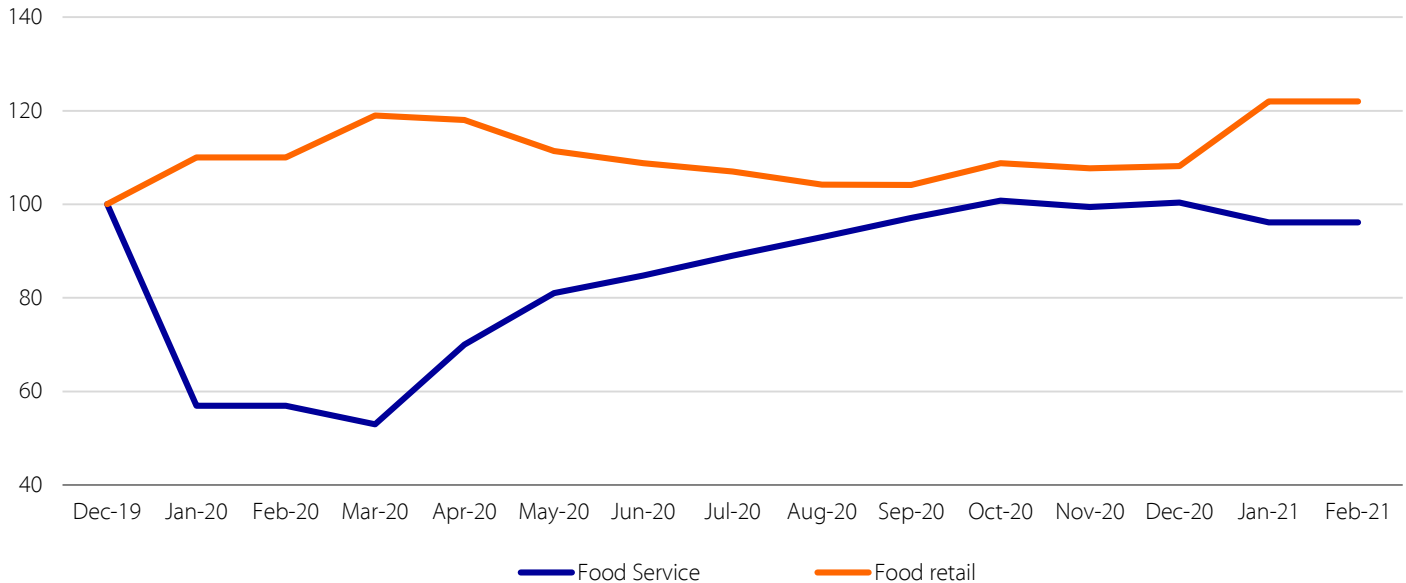
- **The appetite of Chinese consumers to spend.** We expect the lingering economic effects of the pandemic will constrain growth in the Chinese foodservice sector. Overall, food service sales will likely struggle to fully regain pre-crisis levels in 2021. But QSRs and cafés are likely in a better position than full-service restaurants given cheaper offerings and the ability to provide takeout and delivery. For a more detailed view of foodservice in China and other regions, see our March 2021 report: [What's on the Menu](#)

Downstream
markets

A Year After the Arrival of the Virus, the Chinese Market Remains Distorted



China Food Channel Sales Index (where each month of 2019 = 100 for that period)



Global Price Relief May Be Too Late

Global fertiliser markets continue to be gripped by what can only be described as a perfect storm. We expect that global prices will begin to subside in April, initially for urea, before phosphates follow later in Q2. For local farmers acquiring phosphate, relief will be too late for this season.

Through March, three factors have continued to drive global prices to new highs. Strong prices of global grains and oilseeds have incentivised farmers in key regions to buy up ahead of spring planting in the Northern Hemisphere. Secondly, prices of some raw materials have increased. For example, natural gas, used for the production of urea is trading 5%-15% above the five-year average, while coal, also used in the production of some urea, is also trading well-above the five-year average. Finally, global freight prices continue to be a thorn in the side of importers. High demand and logistical disruption is continuing to push prices for both container and bulk ocean higher, which is adding as much as 5% to the cost of the product, between ports.

Global phosphate prices have increased most significantly – most global phosphate benchmarks have now nearly doubled (in USD terms) compared to 12 months ago. DAP ex US Gulf has now increased some 45% this year, in part due to the countervailing duties published by the US Department of Commerce. They published countervailing duties as high as 47.05 percent against phosphate fertiliser from Morocco and Russia.

In the face of global higher prices, and higher freight rates, local farmers can expect to pay higher prices for urea this season. We do expect global prices will ease from April to June, but this may be too late for this importing period.



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Fertiliser

Are prices sustainable at these levels?

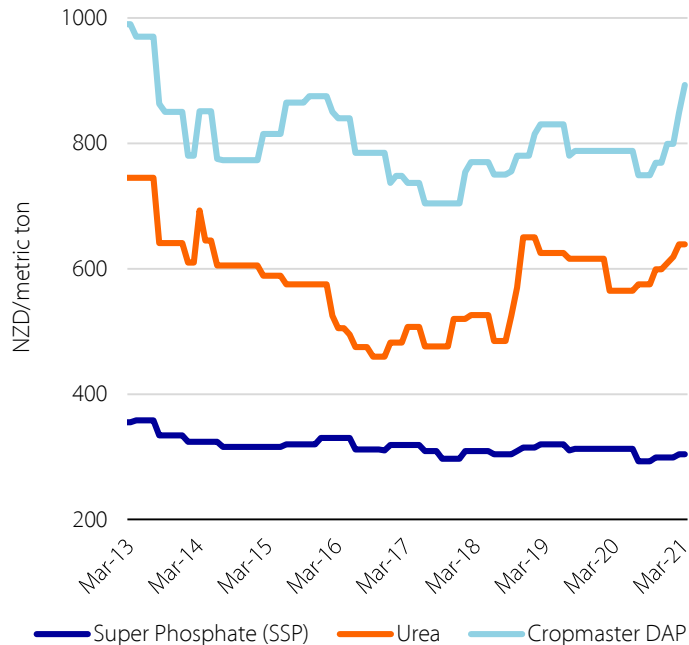
- After trading at 10-year lows in 2020, global fertilizer prices have made a sharp recovery. We expect prices will ease in mid-late Q2, primarily due to the **easing of Northern Hemisphere demand**. The Northern Hemisphere spring is one of the peak times for global fertiliser demand. Once procurement is complete for this crop, we expect global prices will ease, although it may take several months to flow through to local markets.

Local DAP Prices Are the Highest Since 2013

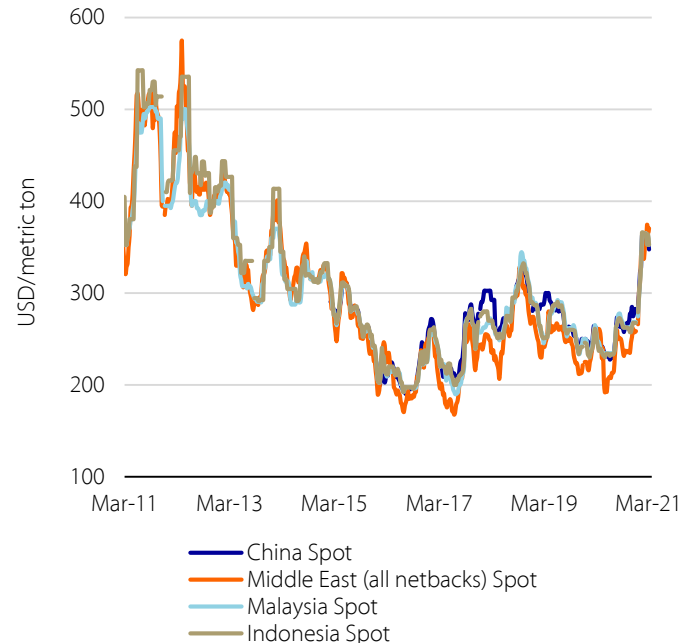


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Local NZ reported retail prices (left) and global urea prices (right)



Source: Ravensdown, Rabobank 2021



Source: CRU, Rabobank 2021



Stimulated USD on the Rise

The NZD weakened against the USD during March. Having opened the month at USc 72.7 it closed just below USc 70 on March 30.

Much of the movement can be attributed to the strength of the USD, which rose against many currencies: with the USD broad index up almost 3% for the month.

The USD was pushed higher on the approval of more stimulus spending, rising vaccination rates and encouraging early economic data for March. Congress passed the USD 1.9 trillion stimulus bill on March 11 – freeing up the government to inject funds worth around 8.5% of the size of the economy into the economy. This in turn led the Federal Open Market Committee to upgrade their 2021 forecasts for both economic growth (to 6.5%) and inflation (to 2.4%). While most officials still don't expect to raise interest rates till 2023, some investors are betting on more inflation, and earlier interest rate hikes than the Federal Reserve envisages, and hence a stronger USD. Weekly US jobless claims fell in late March to the lowest level since the pandemic, adding to the sense that the US economy is recovering faster than many expected.

Rabobank is less convinced than the market about the prospects for an inflation overshoot and early rate hike. And with commodity prices expected to remain firm, we expect that NZD to avoid major downside from here. **RaboResearch expects the NZD to tap in at USc 74 by Q1 2022.**

What to watch

- **Near-term US inflation** (April/May) is likely to rise significantly as the weak early pandemic figures drop out of the 12-month calculation and the rapid ascent of commodities prices feeds into the pricing of goods. If inflationary pressure proves sustained, the USD will push higher than we anticipate. But we see this unlikely, given slack in the US labour market and the erosion of US real incomes given the lack of upward wage growth. We look for inflation to ease through 2H 2021, and with it some of the support for the USD.

Rates & FX

NZD Falls Against the USD as Optimism Regarding US Recovery Gains Traction



NZ currency against the US dollar





Oil &
Freight

Lower Brent Crude Prices Ahead

We expect Brent Crude to stabilize at the USD 60/bbl level for the remainder of 2021.

It has been a volatile couple of weeks in oil markets, with re-newed lockdowns in France and Italy tempering the narrative of a near-term fuel demand recovery. In recent weeks investment toward commodity indexes has been slowing, as investors reassess and rebalance commodity allocations. We expect travel-related demand to increase this summer, although markets are well-supplied in the near term.

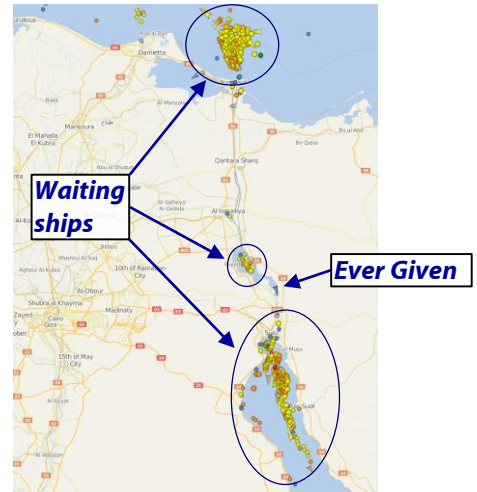
Global freight issues continued to compound late in March, with the 400m long ship 'Ever Given' wedged in the Suez Canal, blocking the major trade route. At the time of writing, over 320 vessels were waiting for the ship to be dislodged, which may cause further delays to freight movement and port logistics.

**Brent Crude Oil,
29 Mar 2019-29 Mar 2021**



Source: AIP, Bloomberg, Rabobank 2021

**Suez Canal vessel locations,
March 28 2021**



Source: Vessel finder, Rabobank 2021

Agri Price Dashboard

As of 29/03/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	613	644	570
CBOT soybean	USc/bushel	▲	1,399	1,393	882
CBOT corn	USc/bushel	▲	549	548	341
Australian ASX EC Wheat	AUD/tonne	▼	277	297	390
Non-GM Canola Newcastle	AUD/tonne	▼	599	600	641
Feed Barley F1 Geelong	AUD/tonne	▼	228	239	302
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	888	857	704
Feeder Steer	AUc/kg lwt	▼	440	445	375
North Island Bull 300kg	NZc/kg cwt	•	500	500	495
South Island Bull 300kg	NZc/kg cwt	▼	450	460	465
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	827	848	941
North Island Lamb 17.5kg YX	NZc/kg cwt	•	655	655	700
South Island Lamb 17.5kg YX	NZc/kg cwt	•	625	625	680
Venison markets					
North Island Stag	NZc/kg cwt	▼	520	530	700
South Island Stag	NZc/kg cwt	▼	535	545	700
Dairy Markets					
Butter	USD/tonne FOB	▲	5,725	5,063	4,325
Skim Milk Powder	USD/tonne FOB	▲	3,400	3,225	2,738
Whole Milk Powder	USD/tonne FOB	▲	4,200	3,600	2,800
Cheddar	USD/tonne FOB	▲	4,400	4,275	4,438

Agri Price Dashboard

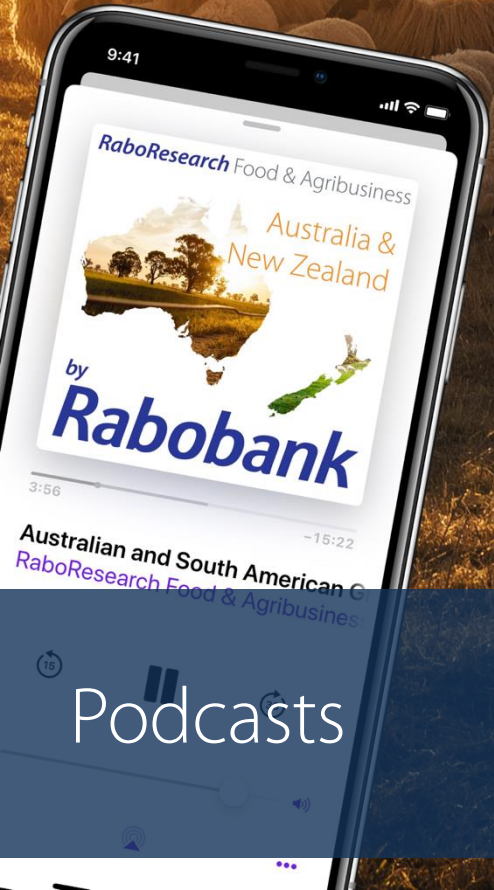
As of 29/03/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	85.1	94.4	61
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	80.3	90.3	51
Sugar markets					
ICE Sugar No.11	USc/lb	▼	15.2	16.2	10.73
ICE Sugar No.11 (AUD)	AUD/tonne	▼	439	460	407
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,285	1,306	1,442
Fertiliser					
Urea	USD/tonne FOB	▼	357	375	262
DAP	USD/tonne FOB	•	580	580	310
Other					
Baltic Dry Index	1000=1985	▲	2,178	1,651	548
Brent Crude Oil	USD/bbl	▼	63.52	63.69	23
Economics/currency					
AUD	vs. USD	▼	0.76	0.78	0.62
NZD	vs. USD	▼	0.70	0.73	0.60
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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