

NZ Agri Prices Marking Time at Highs

New Zealand Agribusiness Monthly

August 2021

RaboResearch
Food & Agribusiness



Rabobank

Commodity Outlook



Dairy

A recalibration of dairy commodity prices is anticipated in the second half of 2021, as elevated Chinese inventory levels along with strong Chinese milk production growth place pressure on import demand.



Beef

Rabobank expects farmgate prices to hold through to September, with the limitation on exports from Argentina setting a firm pricing floor.



Sheepmeat

We anticipate lamb pricing to hold in the early months of spring, off the back of strong demand from key export markets and procurement pressure within New Zealand.



Downstream Markets

Options to address competition issues in the food retail channel have been drafted.



Farm Inputs

We expect high fertiliser prices to stay for at least the remainder of 2021.



FX

We forecast a modest appreciation of the NZD back towards USc 73 on a three-month view and further upside on to USc 74 in 2022.



Oil

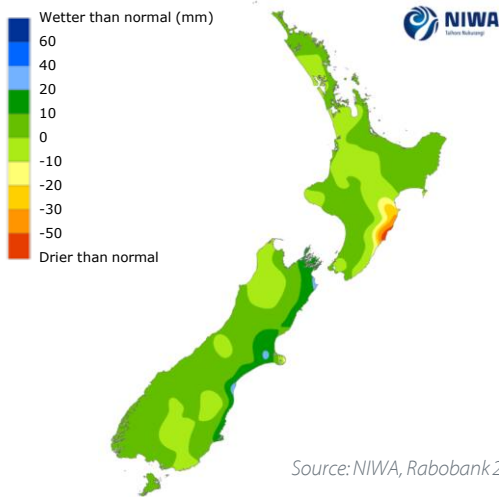
Rabobank expects high prices and congestion will continue in the global ocean freight market until at least year end.

A Warmer-Than-Usual Start to Spring 2021 on the Cards



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Soil moisture anomaly (mm), 1 August 2021



NIWA is forecasting above-average temperatures for New Zealand through to October 2021. NIWA notes that more frequent north-westerly airflows will likely cause unusually warm temperatures over this period.

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

NIWA is forecasting near-normal or below-normal soil moisture levels in the east of the North Island. The rest of the country is forecast to have near-normal soil moisture levels through to October 2021.

What to watch

- **NIWA has moved into La Niña watch.** NIWA notes that there are similarities in rainfall and temperature outlook compared to the La Niña development during spring last year. Last year, we saw weather conditions dry out in the lead up to summer, particularly over the month of November 2020.

New Season Milk Flows Underway

Dairy commodity prices continued to shift down a gear through July 2021. SMP saw the largest price decline over the past month, followed by butter and cheese, as the Global Dairy Trade Auction chalked up its seventh consecutive fall in the last event in July. Importantly, prices remain elevated when compared to year-ago levels. The market fundamentals at this stage are broadly balanced. Rabobank's current NZ farmgate milk price forecast remains at NZD 8.00/kgMS for the 2021/22 season – for now.

New Zealand milk production for the new 2021/22 season has kicked off. June 2021 milk flows bounced 1.6% higher than last year, driven by a combination of high milk price forecasts and supportive North Island weather.

Across the Tasman, Australian milk production showed signs of uplift in May. National milk production rose 2.6% YOY in May, bringing season-to-date output 0.8% higher on the same period last season. Every state recorded growth in May.

Exports from New Zealand to China for the month of June 2021 were remarkable. Over 300,000 tonnes of product were shipped around the globe, the largest export volumes ever for the month of June, following exceptional milk production over the tail months of last season. Shipments to China for June reached new levels, with WMP exports 150% higher than June last year, a reflection of the strong buying demand from China exhibited on the Global Dairy Trade platform in past months.



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Dairy

What to watch

- **Delta outbreaks in Southeast Asia** – A Delta variant outbreak is happening across many Southeast Asian economies. This is leading to mobility restrictions being reintroduced and/or extended. Against this backdrop, weak economic settings have had a negative impact on consumer spending, which is flowing through the food and beverage sector.

Chinese Inventory Nearing Highs

Average local Chinese milk prices for June 2021 were marginally higher from May 2021 levels – the lowest so far in the year – and represent the end of the seasonal downturn in milk prices as summer weather kicks into gear. Rabobank anticipates Chinese milk production is still profitable, despite elevated feed prices.

Very strong milk production growth in China in combination with sizeable import volumes lead Rabobank to consider stock levels as either at or nearing a new historical high. Milk production in China for Q1 2021 was higher by 8.5% (per National Bureau of Statistics), and Rabobank thinks this momentum has continued through Q2. In addition, dairy imports have continued to surge into China, with growth nearing 20% for June 2021 compared to last year. We anticipate the combined growth of imports and production is outpacing domestic consumption growth, adding to overall stock levels.

Milk production expansion in China is likely to continue into 2022. Investments in dairy farming within China continue, underpinned by the current profitable dynamics. Heifer exports from New Zealand into China between January and June 2021 have lifted by almost 60% YOY in the quest for herd size growth for new farms. This follows three years of very strong year-on-year milk production growth from 2019 through to 2021 so far. A further sustained momentum in 2022 could send local milk prices into a cyclical downturn as early as Q1 2022.



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China
Dairy

What to watch

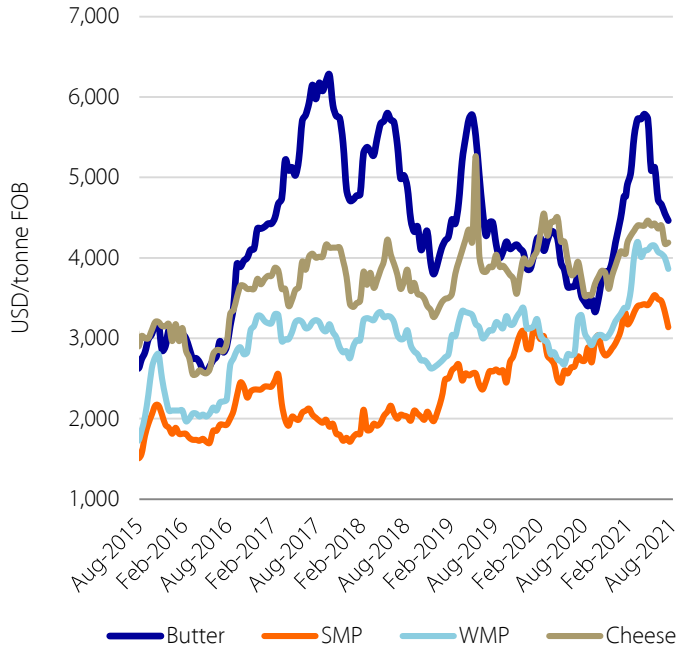
- **China continues to drive global trade.** The pace of seasonal destocking during Q3 and Q4 2021 (over the summer season) will be critical to watch for the impact on overall dairy stock levels in China. Rabobank anticipates a slowdown in import growth in Q3, and we note there is a strong likelihood of a year-on-year decline in import volumes for Q4 2021.

Commodity Prices Move Lower Under Pressure



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Global dairy prices, 2015-2021



Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	Last three months
EU	1.8% (May 21)	1.3%
US	2.9% (Jun 21)	3.7%
Australia	2.6% (May 21)	0.3%
NZ	2.9% (full 2020/21 season)	

Source: Rabobank 2021
February 2020 data is leap-year adjusted

Beef Prices Continue to Hold

Total exports for the month of June 2021 tracked slightly ahead of 2020 volumes (+8%), with a reshuffling of key export destinations. Exports to the US and Canada were lower compared to 2020 volumes for June (-24% and -77%, respectively), but there was strong growth into Asia. Exports to Japan lifted 69%, China 52%, and Indonesia 127% compared to the prior period.

Strong demand – particularly from China – in addition to less market competition from Australia have cumulated in elevated farmgate pricing in New Zealand. As of the end of June, the AgriHQ North Island bull price was NZD 6.00/kg cwt, while the AgriHQ South Island bull price sat lower at NZD 5.65/kg cwt. Both islands are tracking well ahead of last year, as well as 10% ahead of the five-year average. Since early March, the US 95CL imported bull price (NZD) has matched the US domestic 90CL cow price (NZD), reflecting strong US demand for beef.

Rabobank anticipates that beef pricing will remain strong through to September, off the back of continued demand from the US and China. Although the US has come to the end of its grilling season and the stimulus packages have nearly finished, foodservice is mostly returning to normal and demand is steady. The limitation of beef exports from Argentina into China could also provide upside for pricing and demand for New Zealand beef.



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Beef

What to watch

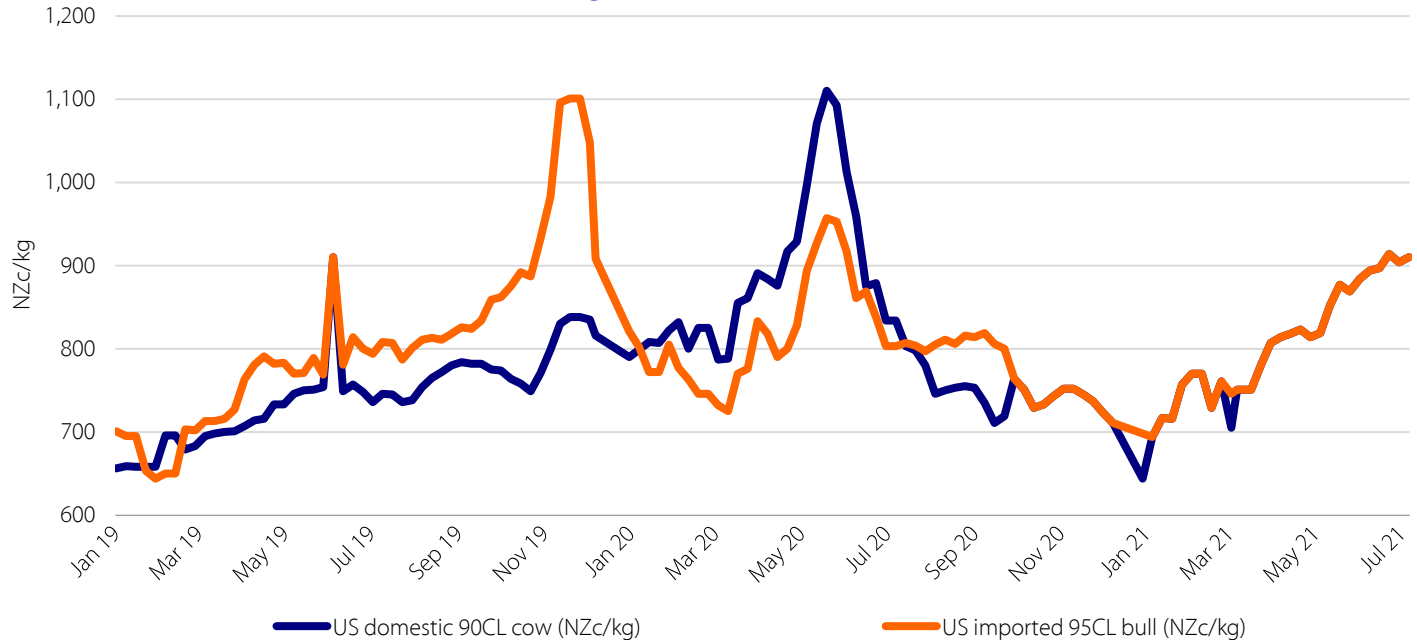
- **US cow cull is tracking well ahead of normal**, off the back of several years of deflated prices in addition to higher feed costs and drought. Demand remains strong for beef, and Rabobank anticipates that the domestic price will appreciate over the coming years. This could further help to strengthen demand and pricing for New Zealand beef, particularly while Australia's beef herd rebuilds.

US Imported Beef Price Matches US Domestic Beef Price



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US domestic 95CL vs. imported 95CL pricing



Farmgate Returns Reach New High

Rabobank expects the strong demand for New Zealand sheepmeat to continue into the spring, off the back of local procurement pressure and continued demand from key markets.

Farmgate lamb prices reached an all-time high for the month of July across both the South and North Islands. As reported by AgriHQ, the South Island achieved a peak lamb price of NZD 8.80/kg cwt at the end of July, while the North Island reached NZD 9.05/kg cwt. This was a lift of around 26% across both islands compared to the five-year average for the same week.

Post-Covid US demand for lamb is recovering well, with exports more than doubling compared to lockdown-impacted June 2020. Total New Zealand shipments of sheepmeat were slightly higher (+2%) for June 2021 compared to June last year and well above 2019 export volumes for the same period (+30%). Export volumes to China eased slightly in June (-4%). However, exports to the US grew strongly (+121%). Demand for lamb in the US is growing as a result of the foodservice sector recovering post Covid, with lamb exports to the US 40% higher YOY for June 2021, well ahead of pre-Covid levels.

Rabobank anticipates farmgate returns will hold over the coming months. We expect price support to be maintained due to continued strength in demand from key markets, in addition to local procurement pressure as a result of lower sheep flock numbers following severe droughts in many NZ regions over the past few years.



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Sheepmeat

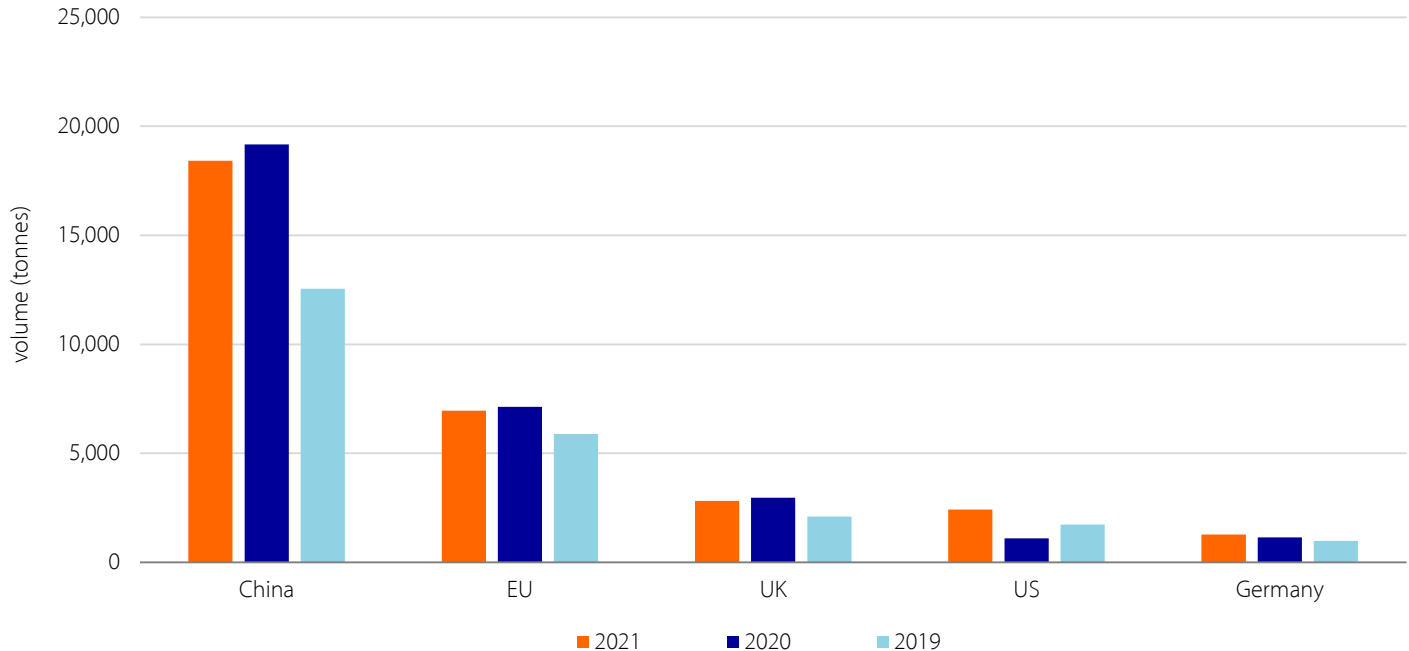
What to watch

- **Lamb tails** – New regulation on the length of lambs' tails came into effect in May 2021. Tails are now required to be docked to a length that ensures coverage of the vulva on ewe lambs and an equivalent length on male lambs. For more information, please see <https://beeflambnz.com/knowledge-hub/PDF/animal-welfare-obligations-painful-husbandry-procedures-sheep.pdf>

Growing Sheepmeat Exports to the US Post-Covid Are Bridging the Chinese Gap



NZ Sheepmeat export volumes to key markets for June



Channel Distortion Rears Again

In New Zealand, the Commerce Commission has released a draft report that flags competition issues in the New Zealand grocery sector stemming from market structure inadequacies. The study mandate was to assess competition in the grocery sector. According to the Commerce Commission draft report, the current market structure leads to a lack of competition, which in turn leads to downside for consumers (high food prices and lack of innovation) and grocery suppliers (lack of market power). Some draft options centre around making it easier for new entrants and smaller players to expand. A final report is due to be published in November following a consultation process.

The latest data for Australia's food retail spend showed a lift of 1.5% in June compared to May 2021. On a year-on-year comparison, food retail sales were slightly lower in June 2021 vs. June 2020, a sign the food retail market was finding a new normal. Foodservice sales bounced 20% in June 2021 vs. June 2020 when lockdowns were in force. However, this will be short-lived, as current and recent lockdowns in major cities (especially Sydney and Melbourne) will inevitably lead to another period of channel distortion through July and beyond.

The US foodservice channel continues to spring to life. June data highlights that US foodservice sales were 40% higher year-on-year. However, this is overlapping a weak result in 2020 at the height of the pandemic's impact on the foodservice channel. Since May, stay-at-home orders have been gradually lifted across many US states. Against this backdrop, Covid-19 case numbers are rising again across much of the country.



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What to Watch

- ***Consolidation in the food delivery sector*** – The global pandemic provided a tailwind for meal kit and ready-made meal platforms. Most companies operating in this space reported historic growth and greater consumer acquisition through the pandemic. The sector continues to evolve, and HelloFresh is set to acquire Youfoodz.

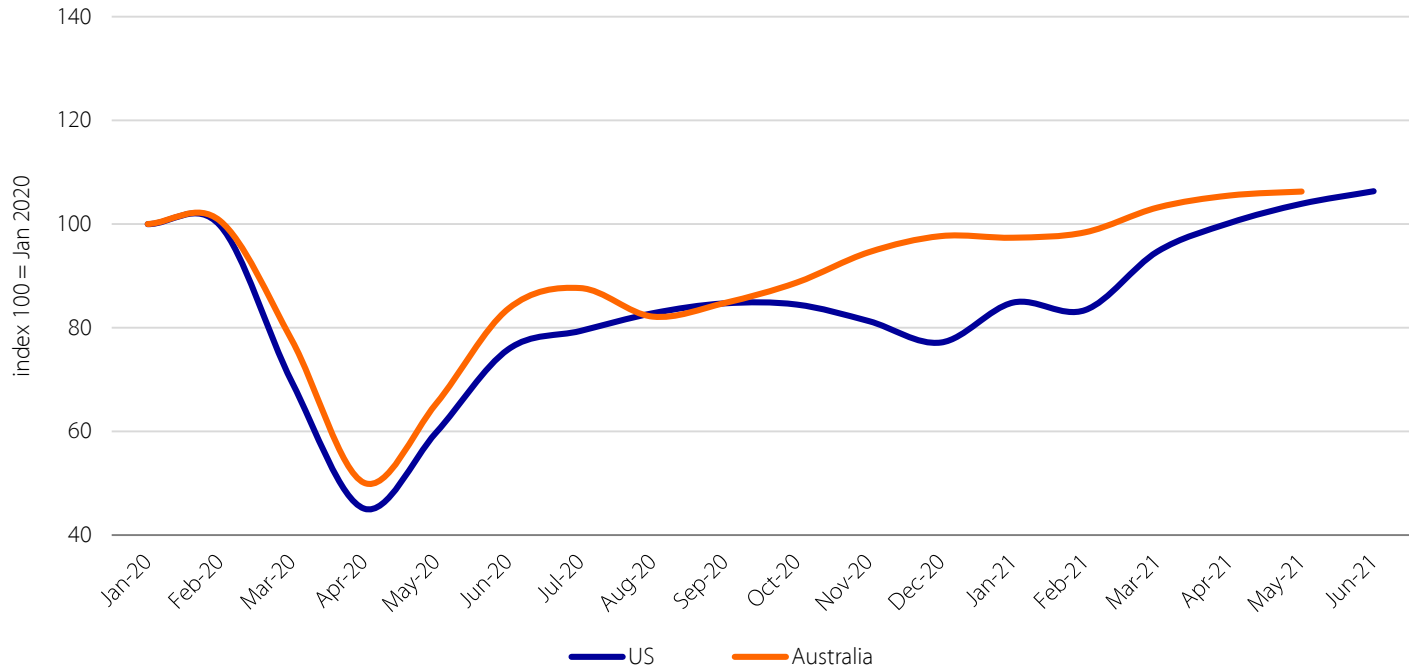
Downstream Markets

A Return to Growth in Out-of-Home Channels



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Index of year-on-year change in foodservice sales, by country



Sources: Australian Bureau of Statistics, United States Census Bureau 2021

No Price Relief in Sight

We expect that high fertiliser prices are here to stay for at least the remainder of 2021.

While we are not even at the finish line from an inputs perspective yet, the 2021 winter season has been characterised by high prices and tight supply, which prompted farmers to secure supply of their inputs early. This year alone, global urea prices have increased between 60% and 70% and DAP prices have increased 55% to 75%, in USD terms. Meanwhile, ocean freight prices have added as much as 10% to the farmgate cost. Shipping times have also blown out, adding delays and uncertainty.

Looking ahead, we expect that current price levels could prompt farmers across the globe to buy only minimum phosphate requirements for the next season. However, any reduction this brings to demand, and therefore price, is likely to be short-lived. This is mainly due to diminished export availability from China (see ***What to Watch*** below).

On the nitrogen side, aside from ongoing strong global demand, a recent announcement from Chinese state-owned enterprises (SOEs) of their intention to focus on domestic markets will place further pressure on global prices.

We expect high prices will not be limited to fertilisers only. Chinese glyphosate prices have also nearly doubled this year, primarily due to high demand and, to a lesser extent, increasing costs of production. We expect that prices will remain high, due to ongoing demand and elevated production costs.



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Fertiliser

What to Watch

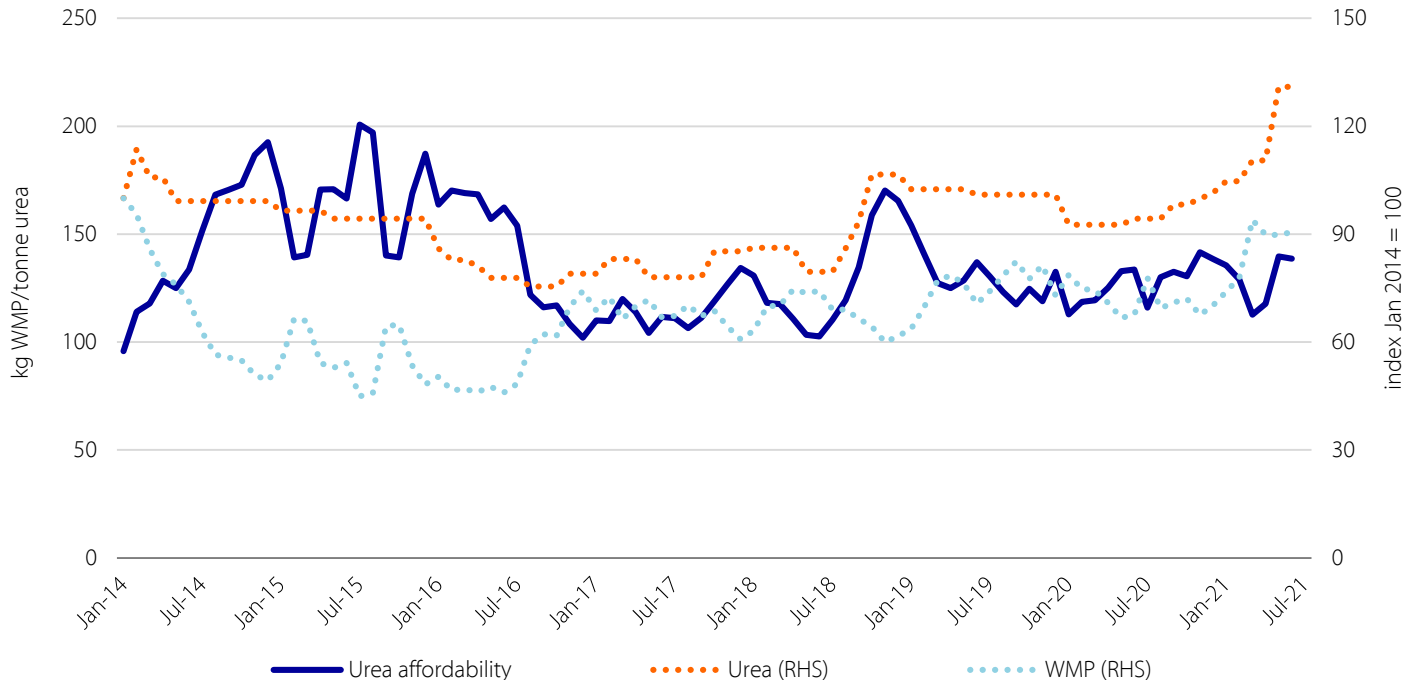
- ***Chinese fertiliser exports*** –No official announcement has been made, but there has been some speculation that China will curb exports to increase domestic availability and dampen prices. Australian MAP imports, from China in particular, have been increasing in recent years and are likely to reach 700,000 tonnes this importing season (Sep 20 – Aug 21), or nearly 60% of our total MAP import programme. If speculation turns to reality, and given lower global availability, MAP prices would find even higher ground.

High Milk Prices Are Softening the Impact of Record Urea Prices



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Reported NZ local retail fertiliser prices relative to NZD-adjusted WMP prices





Hawkish Is Relative for the NZD

The RBNZ shifted up a gear in its hawkish stance during July, but the NZD moved up by less than 0.3% by the end of the month.

This new gear involved the halt of the RBNZ Large Scale Asset Purchase programme. This has increased speculation that there will be a lift in the cash rate before the end of the year (and despite the RBNZ's own forecast that the first change in the official cash rate since March 2020 will be a lift in Q3 2022).

However, US CPI data for June (released in July) exceeded expectations and put the market's focus back on the likelihood that the US Federal Reserve will begin tapering its asset purchases sooner rather than later. Together with broadbased USD strength, any strength the NZD might have seen this month was muted, showing that being hawkish is relative.

Still, the RBNZ remains more concerned than most of its peers about the risks of persistent inflation, noting it is "expected to build over time due to rising domestic capacity pressures and growing labour shortages". July reads on inflation, a jump to 3.3%, and jobs, a fall to 4.0%, confirm their need for concern.

With the RBNZ having already acted, but to little effect, and a case for a rate rise building, we see some modest appreciation of the NZD back towards USc 73 on a three-month view and further upside on to USc 74 in 2022.

What to Watch

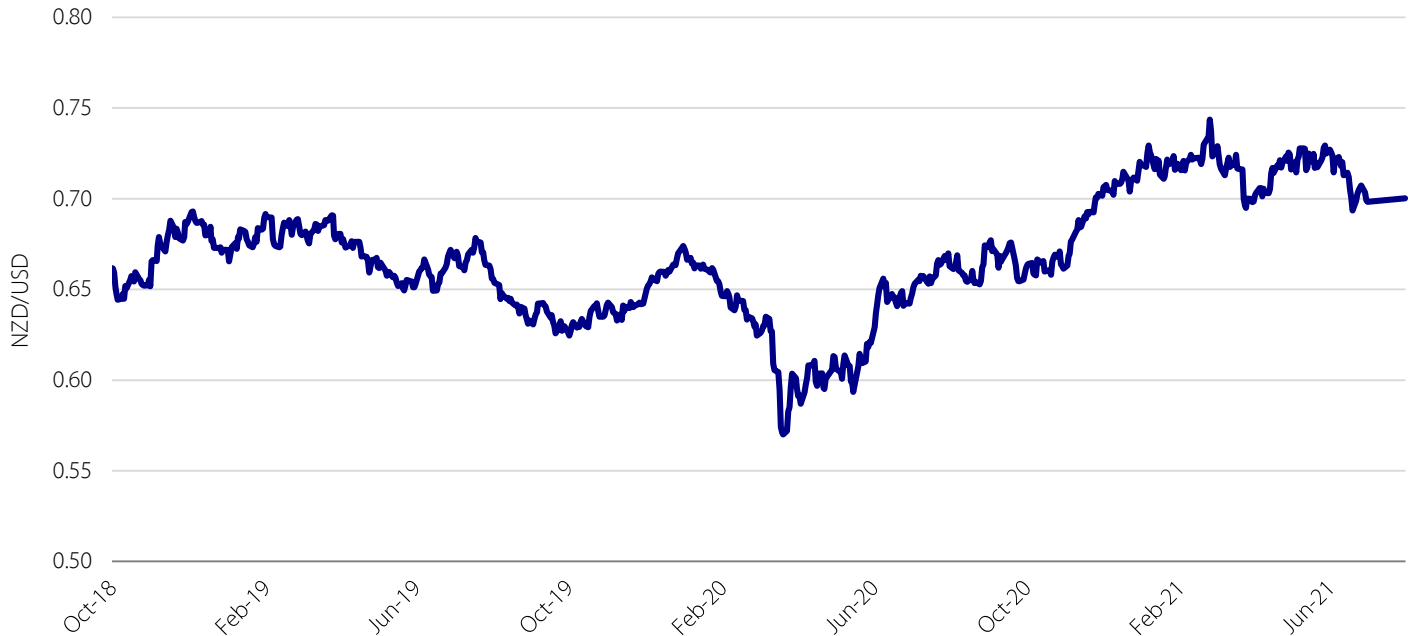
- ***Labour market*** – June 2021 quarter labour market statistics will be released this week, and are expected to show a continued trend of a strengthening New Zealand labour market. Stronger June figures will support expectations of a nearer-term lift to the cash rate and keep the NZD supported.

Rates & FX

Hawkish Stance Supports USc 73/NZD on a Three-Month View



NZ currency against the US dollar



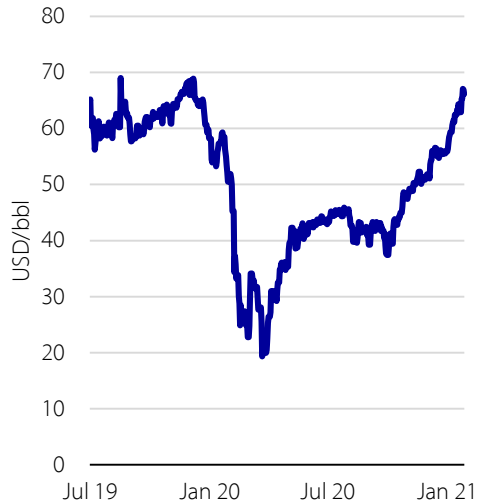


Freight Challenges to Linger On

Rabobank expects high prices and congestion will continue in the global ocean freight market until at least year-end.

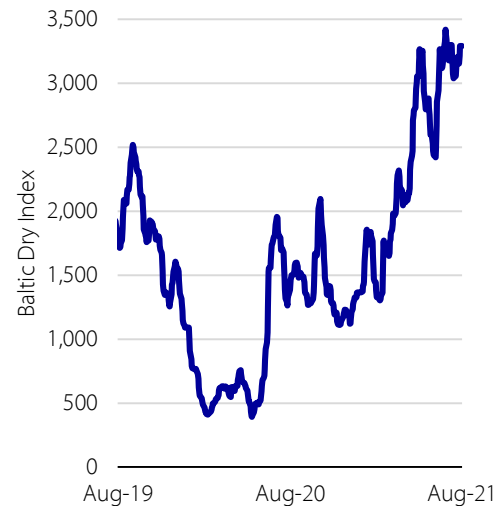
The global freight market is currently facing major challenges that are bringing high prices and lengthy delivery times. Global demand for commodities has continued to drive demand for ships, both dry bulk and container. According to shipping association BIMCO, bulk shipping demand increased 6.1% YOY for the first four months of the year. For containers, strong demand for exports from Asia has led to a container misallocation away from Asia. This has also flowed over to dry bulk, with some buyers opting for bulk freight. Furthermore, new fleet growth is at a record low. According to maritime transport company Pacific Basin, the total dry bulk orderbook is 5.6%, the lowest since at least 1995, meaning freight challenges will linger.

Brent Crude Oil, July 31 2019 – July 31 2021



Source: AIP, Bloomberg, Rabobank 2021

Baltic Dry Index, July 31, 2021



Source: Bloomberg, Rabobank 2021

Oil &
Freight

Agri Price Dashboard

As of 30/07/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	702	672	533
CBOT soybean	USc/bushel	▼	1,433	1,450	892
CBOT corn	USc/bushel	▼	557	720	316
Australian ASX EC Wheat	AUD/tonne	▲	316	292	338
Non-GM Canola Newcastle	AUD/tonne	▲	789	740	603
Feed Barley F1 Geelong	AUD/tonne	▼	249	257	247
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	985	942	754
Feeder Steer	AUc/kg lwt	▲	521	476	392
North Island Bull 300kg	NZc/kg cwt	▲	600	560	545
South Island Bull 300kg	NZc/kg cwt	▲	565	515	470
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	1,003	930	751
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	905	810	720
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	880	800	695
Venison markets					
North Island Stag	NZc/kg cwt	▲	570	550	610
South Island Stag	NZc/kg cwt	▲	570	560	610
Dairy Markets					
Butter	USD/tonne FOB	▼	4,463	4,663	3,750
Skim Milk Powder	USD/tonne FOB	▼	3,138	3,463	2,775
Whole Milk Powder	USD/tonne FOB	▼	3,863	4,050	3,243
Cheddar	USD/tonne FOB	▼	4,188	4,400	3,950

Agri Price Dashboard

As of 30/07/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	100.0	96.7	67
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	90.4	84.0	61
Sugar markets					
ICE Sugar No.11	USc/lb	▲	18.3	17.6	12.01
ICE Sugar No.11 (AUD)	AUD/tonne	▲	546	526	375
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,428	1,423	1,134
Fertiliser					
Urea	USD/tonne FOB	▲	505	450	235
DAP	USD/tonne FOB	▲	660	650	313
Other					
Baltic Dry Index	1000=1985	▼	3,214	3,383	1,317
Brent Crude Oil	USD/bbl	▲	76	75	44
Economics/currency					
AUD	vs. USD	▼	0.74	0.75	0.72
NZD	vs. USD	▲	0.700	0.698	0.67
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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