

# *Agribusiness Monthly March 2021*

*New Zealand*

*March 2021*

**RaboResearch**  
Food & Agribusiness



**Rabobank**

# Commodity Outlook



## Dairy

The production lull between the Northern and Southern Hemisphere, inclement weather and supply disruptions will support Oceania commodity prices in the next few months.



## Beef

We expect farmgate prices to hold steady during March, with the potential for marginal price drops if climatic conditions and feed availability start to impact supply flows.



## Sheepmeat

We expect the seasonal increase in lamb supply to put a degree of downward pressure on farmgate prices over the coming month, but find reason for optimism beyond the supply peak.



## Downstream markets

Channel distortion is likely to persist through 2021, with foodservice sales recovering only slowly in export markets.



## Farm Inputs

Global fertiliser markets have erupted so far this year. We expect that higher global phosphate prices are here to stay until at least mid to late Q2.



## FX

RaboResearch expects the NZD to hold firm through 2021, and tap in at USc 74 in Q1 2022.

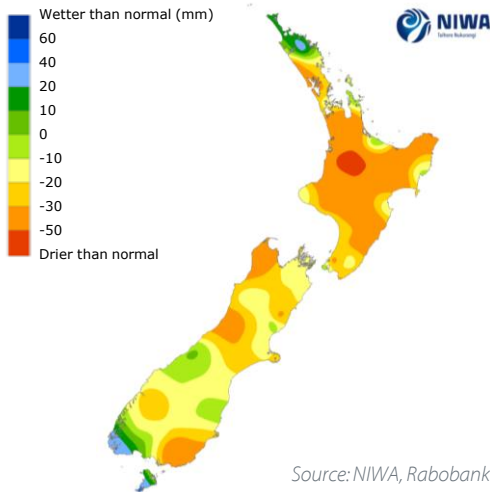


## Oil

Rabobank expects container freight prices to remain high for several more months until global allocation of boxes improves.



## Soil moisture anomaly (mm), 28 February 2021



Source: NIWA, Rabobank 2021

NIWA is forecasting that temperatures through to April 2021 are likely to be above-average for the top of the North Island. The rest of New Zealand has an equal chance of average or above-average temperatures.

Rainfall levels are anticipated by NIWA to be normal or below-normal in the north and east of the North Island, as well as 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 and east of the North Island. Eastern South Island is likely to have normal soil moisture levels. Normal or below-normal soil moisture levels through to April 2021 are most likely for the remainder of New Zealand.

## What to watch

- **The effects of a 'non-traditional' La Niña.** Extended dry spells are anticipated to continue through to April 2021 for northern Waikato, Northland and western Bay of Plenty areas. Regions experiencing extremely dry soil moisture conditions – also known as 'hotspots' – include Mid-Canterbury and North Canterbury, Marlborough, Gisborne, Hawke's Bay and Wairarapa.

# Milk Price Forecasts on the Up

**Flooding, hail and snow followed by record heat in the South Island was not enough to stop milk production growth in January 2021.** Milk supply grew by 0.8% for January compared to last year. Seasonal milk production (for the eight months to January 2021) is holding at 0.8% on a tonnage basis. We anticipate that February 2021 milk collections will remain in positive territory, despite having some shine taken off with dry conditions in the top half of the North Island and east coast of both Islands.

**The heat in commodity markets has continued into the second and third months of the new year, driven by several forces.** Shipping delays have been a key driver of the recent spike in global pricing as buyers scramble for short-term cover in anticipation of interruptions getting product to market. Helping to also fuel positive price movements is the supply lull between the Southern and Northern Hemisphere seasons. Weather-related concerns in the Northern Hemisphere in particular are placing downward pressure on milk production expectations over the short term.

**A lift to both the Fonterra farmgate milk price forecast and earnings forecast has provided a shot of confidence to farmers.** Fonterra's most recent forecast range is NZD 6.90/kgMS to NZD 7.50/kgMS: a lift of NZc 20/kgMS. The cooperative has also narrowed forecast earnings guidance by NZc 5 at the bottom end of the range to NZc 25-NZc 35 per share. RaboResearch has also lifted its price forecast for the current 2020/21 season to NZD 7.80/kgMS.



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## Dairy

### What to watch

- **Fonterra's interim results for FY 2021.** The cooperative's mid-year results will be released on March 17, 2021. Following the upbeat earnings guidance, Fonterra suppliers will be keenly interested in whether the cooperative will pay an interim dividend for the first time since 2018.

# A Hint of Softer Chinese Milk Prices

**Average Chinese milk prices for January 2021 sat just below the record highs last experienced in February 2014.** Feed prices in China – particularly corn and soymeal – have also hit multi-year highs. This has helped ensure a price discount for New Zealand WMP prices to the cost of Chinese WMP made from domestic milk. As at the middle of February 2021, the average milk price was beginning to ease back. Rabobank believes this is a combination of seasonal weakness post-Chinese New Year, in addition to resurgences of Covid-19 hotspots in January 2021.

**National Statistics Bureau reported a Chinese milk production growth of 7.5% YOY in 2020.** Chinese milk supply growth reflects the higher local milk prices, as well as a renewed herd expansion push which kicked off last year. New Zealand heifer exports have contributed to the Chinese herd growth strategy, with a 127% leap in dairy cattle shipments compared to 2019, with 2020 numbers 40% higher than the prior 2014 record.

**Chinese dairy import volumes in Liquid Milk Equivalents were 3% higher YOY for 2020.** Liquid milk, cheese and whey were particular dairy categories which demonstrated robust growth over the calendar year. Infant milk formula (IMF) imports were 3% weaker YOY. Rabobank expects headwinds for IMF to persist over the coming years, following a fourth consecutive decline in the birth rate.



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## Dairy

### What to watch

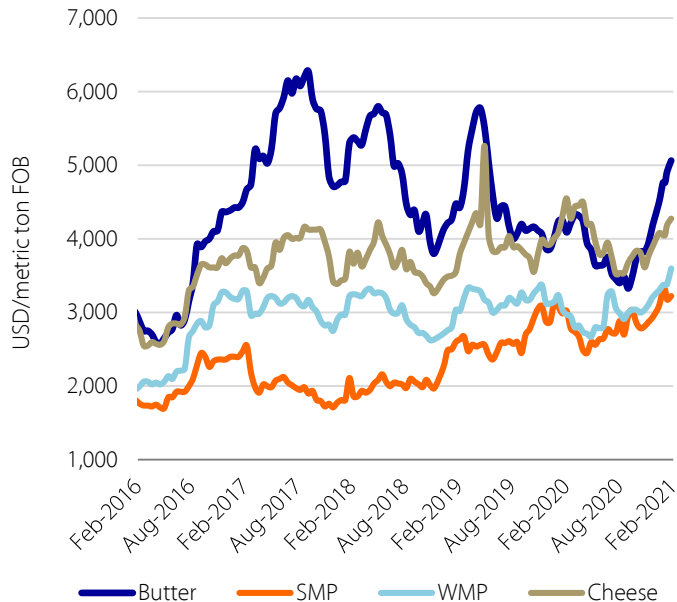
- **The influence of localised flare-ups of Covid-19 on global supply chains.** The emergence of local Covid-19 cases in some Chinese regions will have ramifications for trade, including a handbrake on post-pandemic foodservice demand recovery, additional lead time for customs clearance with increased Covid-19 screening on inbound cargos and procurement pressure for dairy companies to hold higher safety stock levels.

# Modest Milk Supply Supporting Markets



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## Global dairy prices, 2016 - 2021



Source: USDA, Rabobank 2021

## Production growth key exporting regions

	Latest month	Last three months
<b>EU</b>	0.4% (Dec 20)	1.0%
<b>US</b>	1.6% (Jan 21)	2.5%
<b>Australia</b>	3.3% (Jan 21)	0.6%
<b>NZ</b>	0.8% (2020/21 season-to-date*)	

Source: Rabobank 2021

\* June-Jan only

# US Continues to Hold Prices Steady

***RaboResearch expects farmgate prices to generally hold steady during March, with the potential for marginal price drops in some parts of the country if climatic conditions and feed availability start to have a meaningful impact on supply flows.***

***There was very little movement in farmgate prices during February.*** As at the end of February, the North Island bull price was NZD 5.00/kg cwt, with the South Island bull price sitting at NZD 4.60/kg cwt. Prices have been very consistent since mid-December, in stark contrast to the sharp decline experienced during the same period last season. As a result, the YOY pricing gap, which was significant earlier in the season, has all but disappeared in most regions. Prices in both Islands continue to sit slightly below their five-year average.

***The ability of NZ exporters to produce manufacturing beef to meet healthy demand from the US market is a key driver behind prices holding.*** With Covid-19 disruptions still impacting demand for higher-value beef cuts, and South American competition limiting prices in the Chinese market, US demand remains critical in ensuring a satisfactory pricing floor.

***Tightening cattle supplies since Christmas have also helped hold prices steady.*** Despite supplies slowing, NZ's season-to-date cattle slaughter still remains well ahead of where it was at this stage last season (+8.3% YOY as at January 30). Given B+LNZ are forecasting the overall number of cattle available for processing to change little from last season, cattle supplies in the second half of this season look set to remain relatively tight.



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# Beef

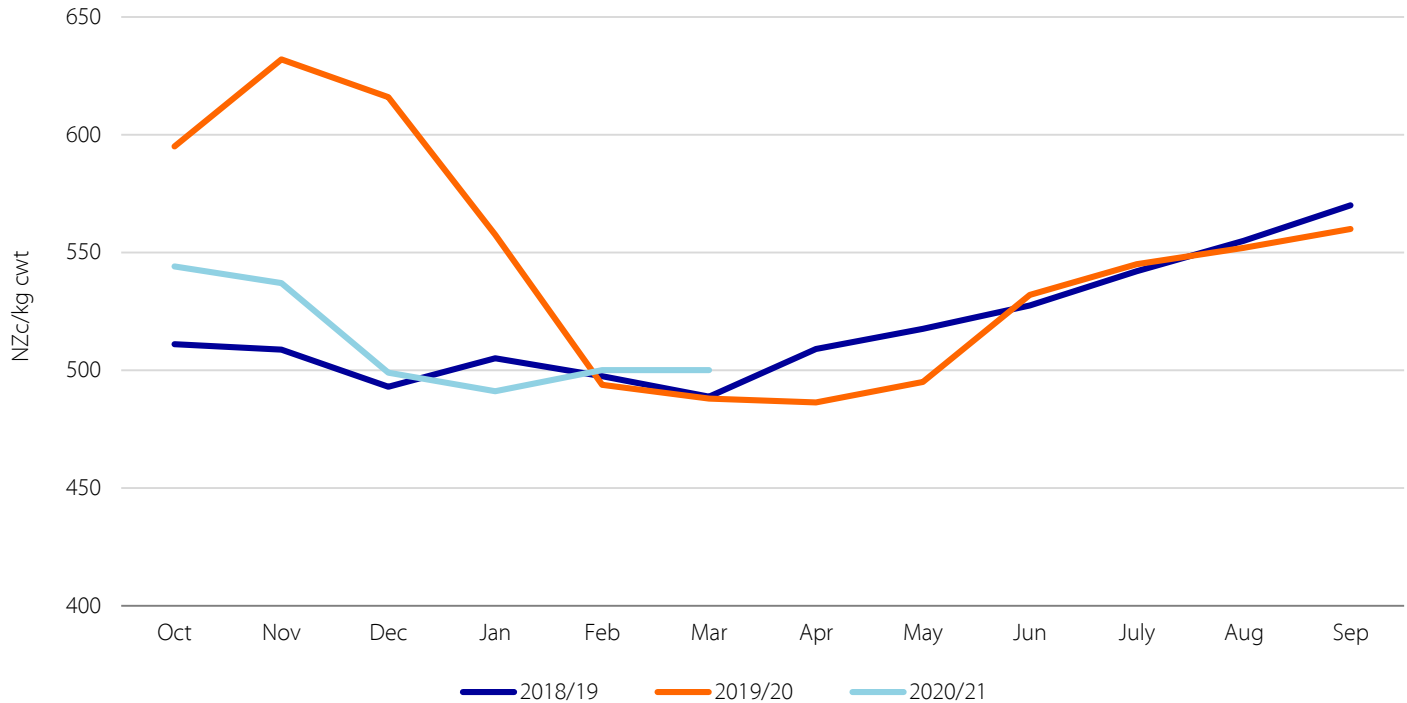
## **What to watch**

- ***Sustainably-produced NZ beef*** – A year-long trial has proven that NZ can produce a sustainable beef patty. The trial, 50:50 funded by industry and the government, involved an independent audit and verification of the entire supply, using the McDonald's supply chain as the test case. The trial demonstrated that the NZ Farm Assurance Programme Plus (NZFAP+) can demonstrate NZ's ability to produce sustainable beef on-farm. NZFAP+ is expected to be rolled out more widely in April. To learn more go to <https://www.nzfap.com/>

# North Island Bull Price



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Source: AgriHQ, Rabobank 2021



# Positive Signs Beyond Peak Supply

**We expect the seasonal increase in lamb supply to put some downward pressure on farmgate prices through March, but see reason for optimism beyond the peak supply period.**

Farmgate prices did ease over the last month, **but we saw no major pricing correction once lambs started coming forward in significant numbers, with prices only declining 2% MOM.** For comparison, prices in February 2020 fell 6%-7% MOM, although this was during the period that the full impact of Covid-19 lockdowns in China, and associated supply chain disruptions, were starting to materialise. As of the end of February, the price in the North Island averaged NZD 6.50/kg cwt (-6% YOY) while South Island lamb averaged NZD 6.25/kg cwt (-8% YOY).

**NZ's key export markets have performed relatively well so far in 2021, considering Covid-19 continues to rage in many parts of the globe.** Exporters reported healthy demand in China in the initial post the Chinese New Year buying window, indicating structural demand from NZ's largest market remains high. While demand outside China is more variable, overall in-market pricing appears to be holding at generally similar levels to this stage last year across almost all cuts (with the notable exception of lamb racks, which remain compromised). However, the high NZD is eating into returns, and is being reflected in prices that are being paid at the farmgate.

**Favorable growing conditions in many regions since the start of the year have seen lamb kill fall back to levels similar to last season (+0.9% YOY as of January 30), with a clear split between the North Island kill (-2.9% YOY) and the South Island kill (+5.3% YOY).**



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## Sheepmeat

### What to watch

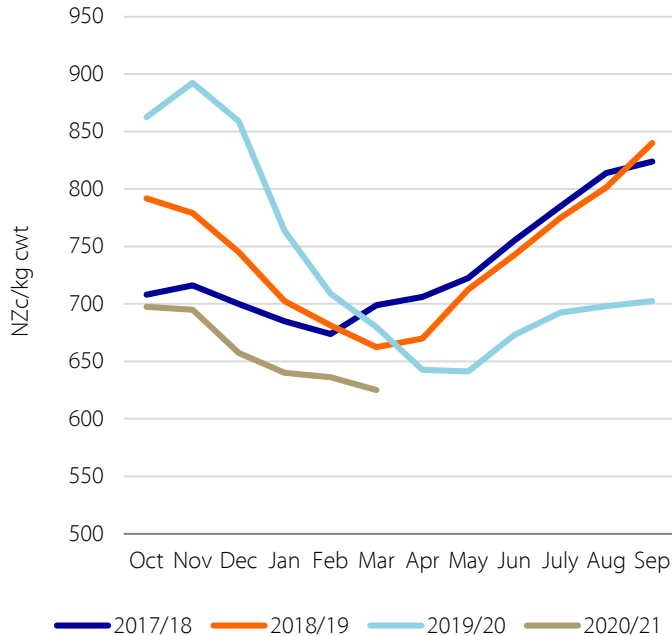
- **GHG emissions calculation guidance from He Waka Eke Noa** – in late March, the Primary Sector Climate Action Partnership is expected to update the “Greenhouse gases: Farm Planning Guidance” document it released in December with a list of recognised methods for calculating on-farm GHG emissions. This will provide greater clarity and certainty for those farmers wanting to get a better understanding of their existing GHG emissions profile. To learn more go to: <https://hewakaekenoa.nz/>

# South Island Lamb Price and NZ Lamb Kill

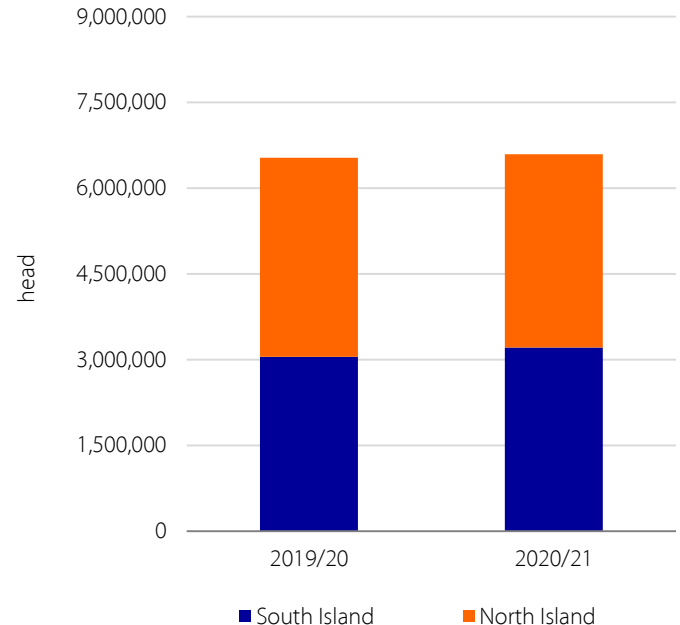


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## South Island Lamb Price



## New Zealand STD Lamb Kill (as of Jan 30)



Source: AgriHQ, Rabobank 2021

Source: NZ Meat Board, Rabobank 2021

# Government Stimulus Underpins Retail, But Foodservice Still Struggles

**NZ's food and beverage producers continue to benefit from hefty government stimulus in export markets.** US personal disposable income in January jumped 11% prior month levels due to generous stimulus spending. An additional USD 1.9 trillion stimulus bill passed the US house in late February, and now awaits senate treatment. As McDonald's noted in their latest earnings call, its difficult to know how healthy consumer finances will be when this stimulus wears off, but for now it, and other food companies, are benefitting considerably.

**Food retail sales offshore remained buoyed by lifestyle changes and stimulus.** Preliminary data shows food retail sales in January were up YOY by 11% in Australia and 7% in the US.

**But a year after initial outbreaks, the foodservice sector is struggling to recover to pre-Covid levels.** The nascent recovery of US foodservice sales was snuffed out in Dec/Jan by further lockdowns, while in the UK the channel has been reeling (see next slide).

**Channel distortion is likely to persist through 2021.** Sporadic lockdowns are likely to bedevil attempts to revive restaurants and cafes in many markets through 1H 2020 until vaccines gain traction. But shifts in consumer lifestyles are likely to take still longer to unwind, with normalisation not likely to appear this year.



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## Downstream markets

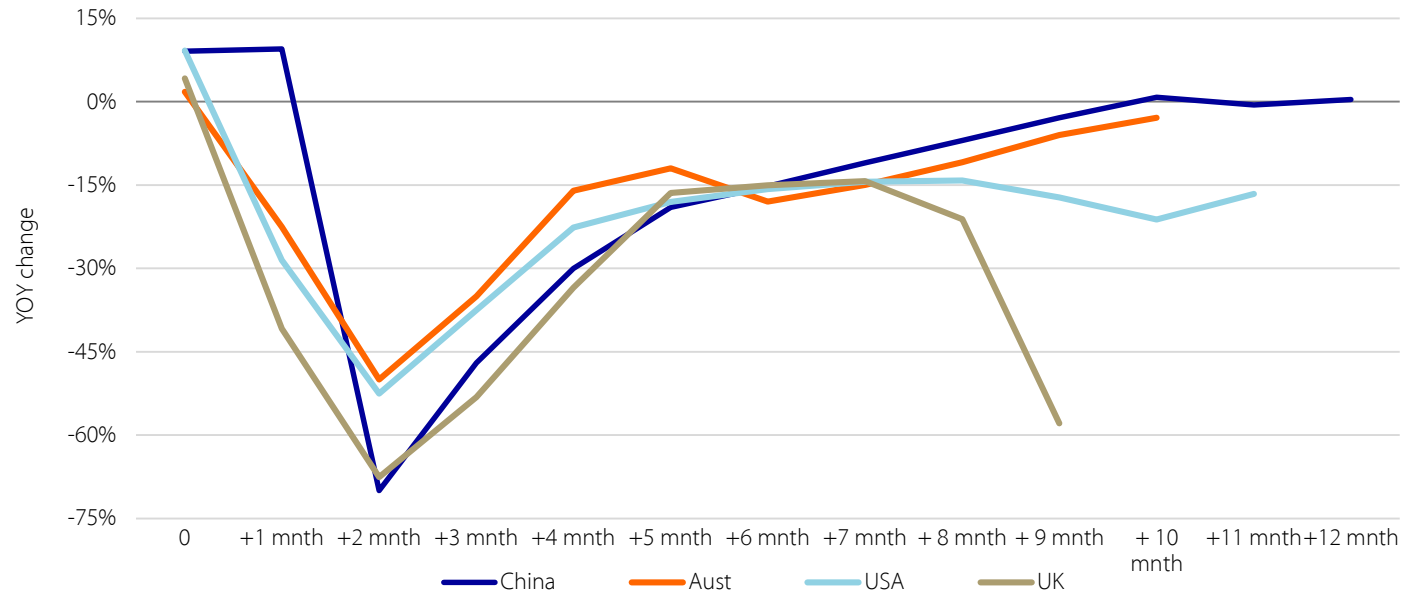
### What to watch

- **Progress on the Biden stimulus package.** The food industry will be hoping for only a limited haircut as it passes through the senate, and for a speedy implementation.
- **The delicate transfer from government support to real economics.** The Australian government will be the next to test the water. On April 1, 2021, 1.3 million citizens on Jobseeker will see their benefits cut by AUD 100 per fortnight.

# A Year Into the Pandemic, Food Service Is Struggling To Even Regain Prior Year Levels



## YOY change foodservice sales after national Covid-19 outbreaks



Sources: ABS, US census department, China National Bureau of Statistics, Rabobank analysis  
Note: 0 = Dec for China, Feb for all other markets

# Global Price Spike Here for 1 H 2021

**Global fertiliser markets have taken-off so far this year. We expect that higher global phosphate prices are here to stay until at least mid-late Q2.**

In late January, prices for major CBOT grains and oilseeds climbed to their highest point since 2014. Improved fertiliser affordability has prompted farmers in many key regions to buy up.

On the supply side too, a number of factors have contributed to the spike. Most significantly, the US Department of Commerce has published countervailing duties as high as 47.05 percent against phosphate fertiliser from Morocco and Russia, following a petition filed last June. This has caused US domestic prices to rise faster than other international benchmarks.

Added fuel to the fire is the fact that Chinese phosphate exporters have faced rising costs of raw materials and tight domestic supply.

In addition, Q1 is typically quieter for international imports compared with other times of the year, so the unexpected high demand has caught some suppliers on the hop with scheduled maintenance impacting their production levels. Some global suppliers are now fully booked until April, with others unclear on the next available cargo.

All of these factors leave New Zealand farmers, who are mostly reliant on the global market for phosphate supplies, in a cautious position ahead of the new season.

In coming months, we expect global production utilization rates will lift, and Northern Hemisphere demand will decline. As a result, we expect phosphate prices will move more favourably, mid-late Q2.



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## Fertiliser

### **What to Watch**

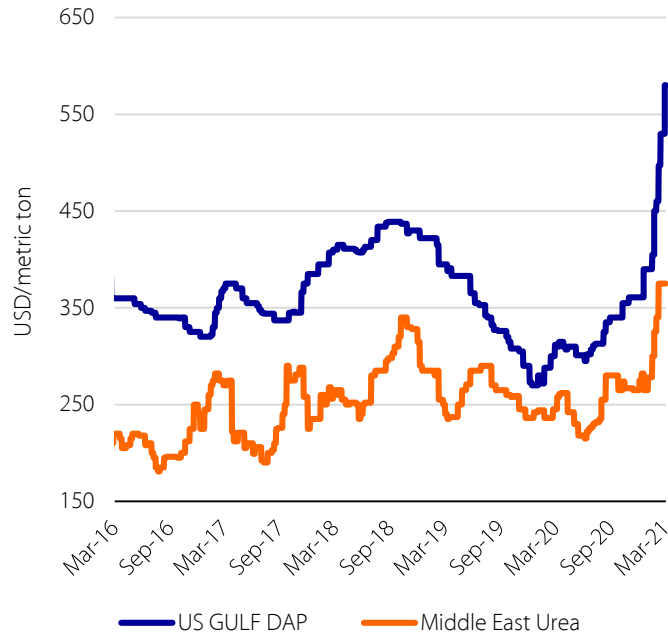
- **Bulk Freight**- Panamax dry bulk prices hit 10-year highs in February 2021, due to strong demand for vessels, resulting from strong soybean exports from the Americas to China, and strong grain exports from the Black Sea. Additionally, icy sea conditions in the Baltic sea and the east coast of Canada have impacted some vessel movements. While we expect the bulk freight market to remain firm, a further rise in freight prices would further impact local fertiliser prices.

# Local Prices Have Followed Global Prices Upward

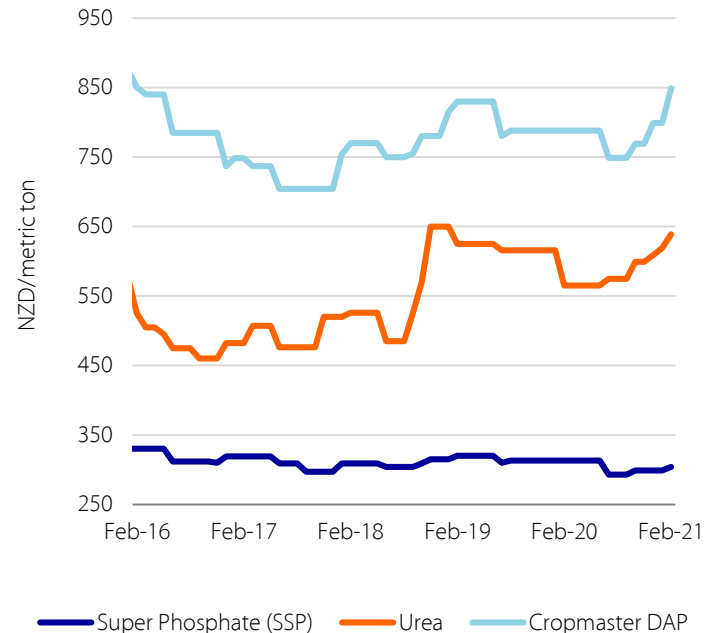


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**Global Fertiliser FOB Prices (left), Local NZ Reported Retail Prices (right)**



Source: Bloomberg, Rabobank 2021



Source: Ravensdown, Rabobank 2021



# NZD Buoyed by Reflation Trade

**The reflation trade and the associated increase in commodity prices has led to a surge in the value of commodity currencies including the NZD.** The NZD closed February higher, despite a late-month slip driven by a global asset market fall. And on a four-month view, the NZD has gained over 9% versus the USD. This period has seen the rally in the price of minerals, energy and agricultural products, including dairy.

**The strength of the NZD raises the question of what else, if anything, the RBNZ can do to subdue the impact on the currency of the reflation trade.** In late February, it certainly hosed down expectations that rates would be increased any time soon. It noted that it would take some time for full confidence to return and the need to be mindful of the fact that central banks had been too quick to normalise policy coming out of previous crises around the world.

The USD will likely be held back through 2021 by a late start to the hiking cycle by the Fed. The minutes of the January meeting confirm that the FOMC thinks that the anticipated rise in inflation readings in coming months is transient. The labour market remains slack, which makes a domestic wage spiral upwards hard to envisage.

**The NZD is likely to remain well-supported around current levels as long as reflation is dominating market attention.**

RaboResearch expects the NZD to tap in at USc 74 by Q1 2022.

## What to watch

- **Chinese growth** is central to the reflation trade. There are considerable downside risks to this, ranging from tensions between China and the US, an overheated real estate sector, very high (corporate) debt, an unexpected resurgence of the virus, to tightening fiscal and monetary policy. If any of the downside risks materialize, China's growth will disappoint markets and likely reduce the NZD/USD also.

# Rates & FX

# NZD Closes February Higher, Despite a Late-Month Slip Driven by a Global Asset Market Fall



## NZ currency against the US dollar





# Ocean Freight to Remain Firm

## **Rabobank expects bulk and container freight prices to remain firm through 2021.**

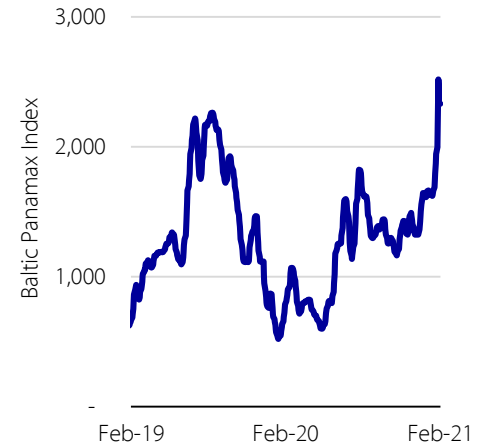
Rising consumer demand for products shipped in containers to western countries (US/EU), and constrained supply of containers at Asian ports is causing disruption and higher container-shipping costs worldwide. It takes time to move ships globally and hence the misallocation of containers is expected to stay with us for months to come, until, eventually, a return to more normal conditions.

Similarly, we expect that the growth of Brent Crude prices will begin to curtail in coming weeks, with prices trading near USD 60/bbl for the remainder of 2021. You can read our complete outlook for Brent Crude [here \(Page 13\)](#)

### **Brent Crude Oil, 1 Mar 2019 - 1 Mar 2021**



### **Baltic Panamax Index, 26 Feb 2019-26 Feb 2021**



# Agri Price Dashboard

As of 01/03/2021	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▲	655	651	526
CBOT soybean	USc/bushel	▲	1,405	1,365	891
CBOT corn	USc/bushel	▲	556	549	375
Australian ASX EC Wheat	AUD/tonne	▼	296	298	353
Non-GM Canola Newcastle	AUD/tonne	▼	600	637	641
Feed Barley F1 Geelong	AUD/tonne	▼	240	247	287
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	873	863	731
Feeder Steer	AUc/kg lwt	▼	445	457	383
North Island Bull 300kg	NZc/kg cwt	•	500	500	480
South Island Bull 300kg	NZc/kg cwt	•	460	460	465
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	866	888	933
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	650	660	690
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	625	640	680
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	•	530	530	780
South Island Stag	NZc/kg cwt	▼	545	550	780
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▲	5,063	4,763	4,088
Skim Milk Powder	USD/tonne FOB	▼	3,225	3,313	3,025
Whole Milk Powder	USD/tonne FOB	▲	3,600	3,375	2,975
Cheddar	USD/tonne FOB	▲	4,275	4,050	4,550

# Agri Price Dashboard

As of 01/03/2021	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	95.1	87.4	70
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	87.8	80.0	63
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▲	17.5	16.2	13.81
ICE Sugar No.11 (AUD)	AUD/tonne	▲	470	443	472
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▲	1,306	1,291	1,581
<b>Fertiliser</b>					
Urea	USD/tonne FOB	▲	375	340	245
DAP	USD/tonne FOB	▲	580	460	312
<b>Other</b>					
Baltic Dry Index	1000=1985	▲	1,675	1,444	539
Brent Crude Oil	USD/bbl	▲	66.13	56.35	52
<b>Economics/currency</b>					
AUD	vs. USD	▲	0.77	0.76	0.65
NZD	vs. USD	▲	0.72	0.72	0.63
RBA Official Cash Rate	%	•	0.10	0.10	0.75
NZRB Official Cash Rate	%	•	0.25	0.25	1.00

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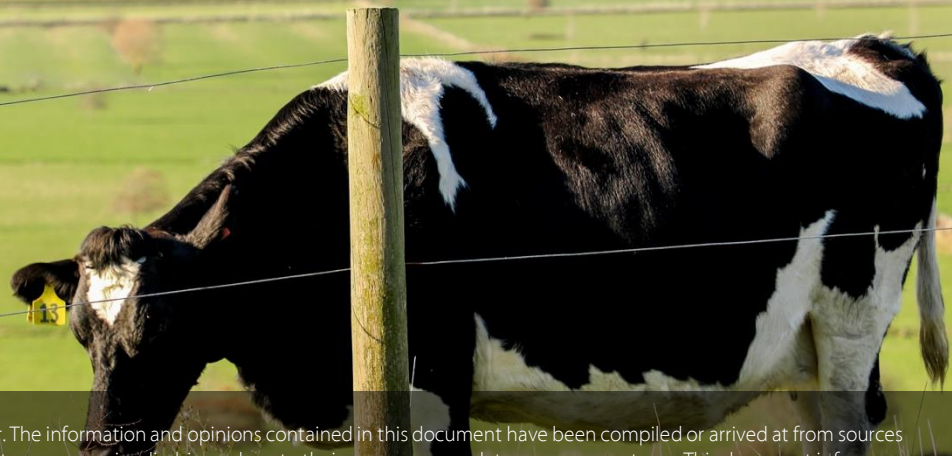
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