

Booming Pricing but Grass Growth Sluggish

New Zealand Agribusiness Monthly









October 2021

RaboResearch
Food & Agribusiness



Rabobank

Commodity Outlook

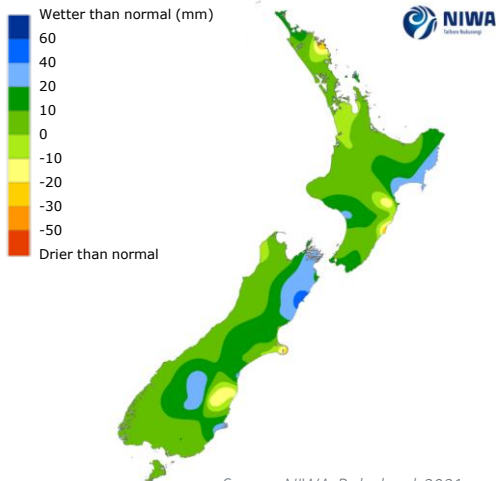
 <p>Dairy</p>	<p>Wet and cold conditions underfoot in local dairying regions could impact the spring peak – which could provide support for commodity prices.</p>
 <p>Beef</p>	<p>A global shortage of beef and strong domestic demand in the US is expected to continue to support farmgate pricing in New Zealand.</p>
 <p>Sheepmeat</p>	<p>Sustained demand from key markets for sheepmeat will likely continue to support elevated farmgate pricing, however we anticipate pricing will ease in line with seasonal supply trends pre-Christmas.</p>
 <p>Venison</p>	<p>A positive outlook long-term for venison but a slow recovery in the pricing schedule anticipated over the next 12 months.</p>
 <p>Downstream Markets</p>	<p>The Delta variant outbreak takes its toll on China foshortage of beef and strong domestic demand in the US is expected to continue to support farmgate pricing odservice markets.</p>
 <p>Farm Inputs</p>	<p>Policy changes in China have heightened the risk of Australian farmers not being able to access local supplies for next season, meaning high prices, and a high level of supply risk, is expected to continue into 2022.</p>
 <p>FX</p>	<p>Rabobank forecasts the NZD/USD will trade near to USc 0.69 on a three-month view, and toward USc 0.72 and USc 0.74 on a nine-month and 12-month view respectively.</p>
 <p>Oil</p>	<p>Brent crude prices increased during September and further in early October, exceeding USD 80/bbl.</p>

Spring Set to Warm Up



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Soil moisture anomaly (mm), October 1, 2021



Source: NIWA, Rabobank 2021

Over the next three months, high pressure is expected to become more common east of the South Island. NIWA is forecasting above average temperatures across New Zealand through to December 2021, with increased north-easterly winds causing periods of warmth and humidity, particularly in October.

NIWA anticipates rainfall to be near normal for the north of both islands and near or below normal in other regions. The first half of October is expected to be unsettled with possible thunderstorms.

NIWA is forecasting near-normal or below-normal soil moisture levels across all regions except the west of the South Island, which is likely to have below-normal soil moisture levels.

What to watch

- **NIWA continues in La Niña watch.** NIWA notes that La Niña remains active, but it is less advanced than it was this time last year. The short-term impact on New Zealand's climate will not be as substantial but is expected to grow over the next three months.

More Sun Required to Boost Supply

Global commodity prices have enjoyed a period of strength in September. Overall, the global market fundamentals remain well-balanced, but with several moving parts. A slowdown in milk production in key production regions, combined with buoyant import purchasing from Asian buyers, has seen commodity prices lift through August and into September. A slow start to milk production in Oceania could help provide further price support in the near-term.

Northern Hemisphere milk production is losing steam. In the United States, milk production expanded by 1.1% in August, which was below the recent trendline. In Europe, milk production has hit a snag in some key producing member states. EU-27 milk production was down 0.6% in July, driven by large milk producing engines Germany and France.

Looking closer to home, New Zealand's milk production growth has stalled in the lead up to the spring flush. August milk production was down 4.8% (on a tonnage basis) compared to August 2020. Pasture production has been impacted by wetter-than-normal conditions through winter and this trend has continued into early spring. There is still time for production to turnaround this season, with October a pivotal month for total volumes.

RaboResearch maintains a milk price forecast of NZD 7.80/kgMS. Our core view is that destocking is needed in China (via slower/falling import volumes into China from September onwards) to rebalance that market. We think supply has outgrown demand growth, leading to high stock levels – despite the need for safety stock amid global supply chain uncertainty.



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Dairy

What to watch

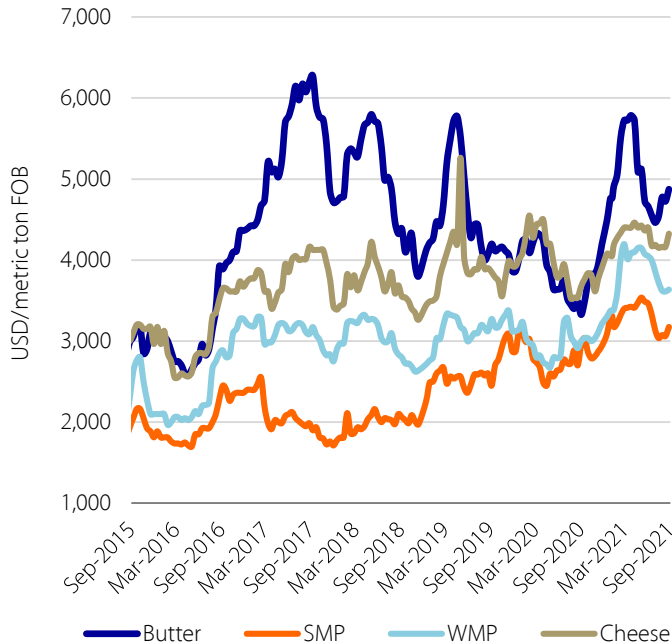
- **Local supply pressure impact on milk price forecasts.** A slow start to peak milk production in New Zealand could support existing commodity price levels. There are a number of moving parts to our forecast, with some upside risk to our existing forecast should the global milk supply picture deteriorate more quickly than we have anticipated in our core view.

Oceania Milk Supply Takes a Turn for the Worse



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Global dairy prices, 2015-2021



Production growth key exporting regions

	Latest month	Last three months
EU	-0.6% (July 21)	0.6%
US	1.1% (Aug 21)	2.0%
Australia	-3.5% (July 21)	-0.4%
NZ	-2.4% season-to-date (August)	

Source: USDA, Rabobank 2021

Source: Rabobank 2021

Global Beef Supply Still Disrupted

But, one gap in global beef supply will narrow in October. The Argentine government has announced that export restrictions will be lifted this week – a month earlier than planned. Argentine beef exports have been restricted to 50% of 2020 volumes since May this year, in a bid to reduce domestic inflation. This resumption of exports is good news for China, which relies on Argentina as its second largest supplier of beef after Brazil. Despite an increase in Argentine beef in the market, it is anticipated that shortages will still exist due to the suspension of Brazilian beef exports and reduced Australian exports.

Ongoing disruptions to global beef supply is driving New Zealand farmgate beef pricing.

As of the end of September, the AgriHQ North Island bull price was NZD 6.25/kg cwt, while the AgriHQ South Island bull price remained at NZD 5.90/kg cwt. The North Island bull price at NZD 6.25/kg cwt is NZc0.74, and 14%, above the five-year average.

The outlook for farmgate pricing is positive with strong demand from key markets.

Rabobank anticipates farmgate beef pricing to remain elevated through to November due to the global beef shortage and sustained demand for 95CL bull beef from the US. However, New Zealand farmers' ability to capitalise on the strong pricing is uncertain. We suspect that paddock inventory is low due to drought earlier this year and the high numbers already killed this season. Steer and heifer kill are 16.8% and 14.6% ahead respectively for the season to August 31, compared to the 2019/20 season.

What to watch

- **The resumption of Brazilian exports.** Brazil identified two atypical cases of mad cow disease on September 6, 2021, suspending exports to China and several other countries. It was anticipated that the issue would be resolved in a period of 14 days, however, the Brazilian beef industry is yet to receive approval from China to resume exports, putting further pressure on global beef supply..



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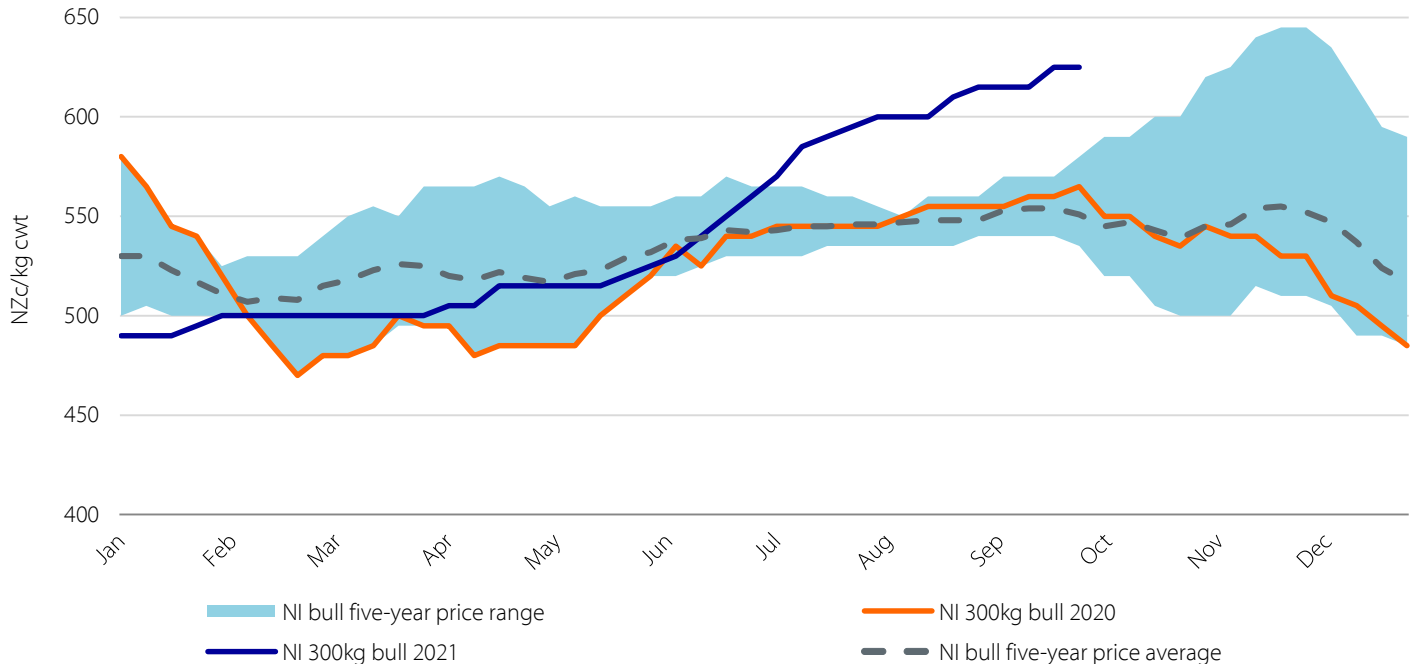
Beef

An Extra NZc 0.10 on September Beef Schedule



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AgriHQ North Island bull price



Growing Appetite for Lamb in US

Farmgate record prices continue to climb! AgriHQ farmgate prices in the South Island reached NZD 9.35/kg cwt, in the last week of September, and in the North Island hit NZD 9.45/kg cwt. Farmgate prices lifted NZD 0.20/kg cwt across both Islands over the month of September. A reduced lamb crop in spring 2020 (300,000 head fewer), in culmination with increased demand from the US, has resulted in procurement pressure late in the season.

Lamb exports to the US are up 32% for the 11 months to August 31, 2021, compared to the 2019/20 season. The roll-out of a stimulus package in the US has meant families have had additional income to allow additional spending on premium cuts of meat to cook at home. The US is New Zealand's fourth largest export destination for lamb and continues to grow – 2021 season-to-date exports to the US are 17% above the four-year average. Increased consumer awareness of lamb presents a positive demand outlook, particularly given the increase in products being purchased in supermarkets and cooked at home rather than in restaurants. Covid-19 has highlighted the importance of a diversified market channel and retail-ready products.

New season lamb will likely take heat out of the market; however, we anticipate pricing will remain elevated. We expect farmgate price support to be maintained through to the end of the 2021 based on the demand from key markets and the continued recovery of food retail in Europe after Covid. However, downside risk exists as fiscal stimulus packages are wound up in the US and the northern hemisphere moves into winter, when the risk of Covid outbreak is higher. With new season lamb hitting the market, we anticipate prices will follow the usual seasonal trends and ease after the rush to export lamb for the Christmas market.



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Sheepmeat

What to watch

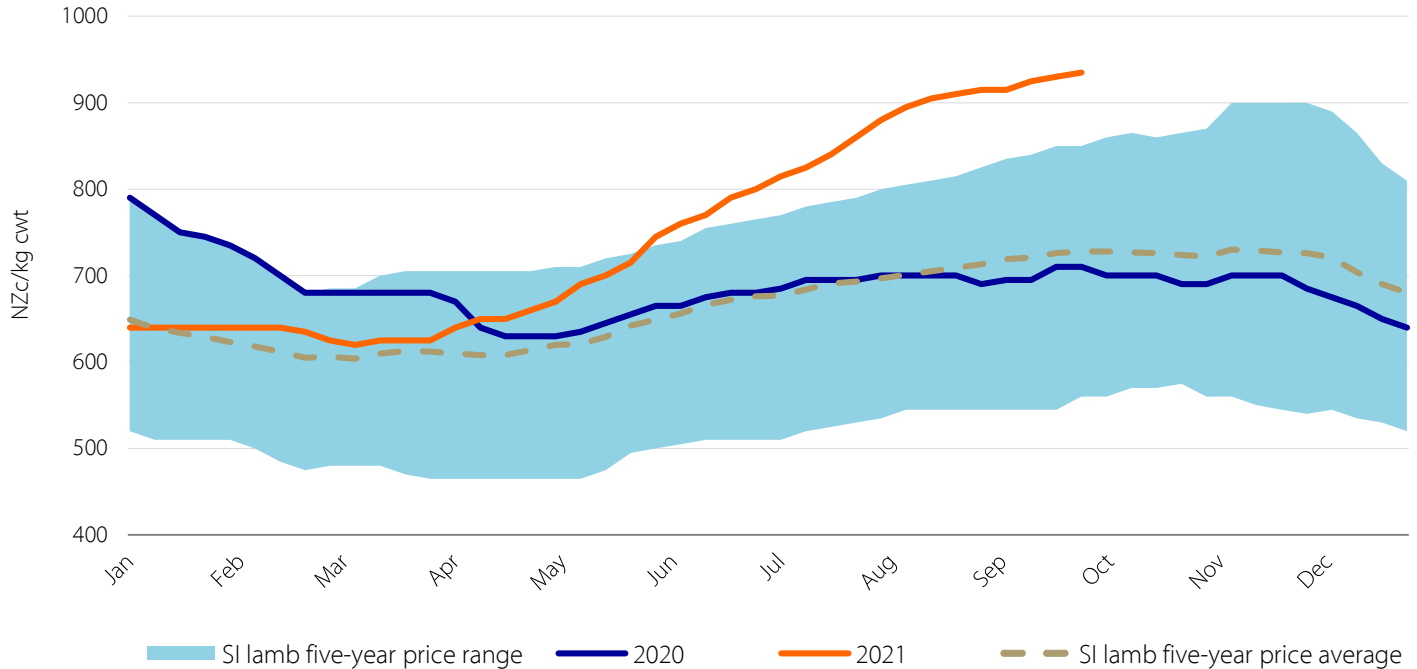
- **New docking rules came into effect in May 2021.** Make sure you are familiar with the new minimum length requirements this docking season. Tails shorter than the requirement could incur a NZD 500 fee per farm. Read more [here](#).

Lamb Pricing Continues to Climb



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AgriHQ South Island lamb price



Source: AgriHQ, Rabobank 2021

Venison Market Recovering

Venison schedule continues to slowly recover from the impacts of Covid-19. The venison schedule dropped 35% from NZD 8.50/kg in January 2020 to a low of NZD 5.45/kg in June 2020 and has been slow to recover since. The widespread lockdowns and closure of restaurants in Europe and the US have caused the drop in farm gate returns – the schedule continues to track around the NZD 6.00/kg mark which is well below the five-year average. The South Island 60kg stag schedule peaked at NZD 6.45 in the last week of September 2021. There are some contracts available for new season supply in October around NZD 7.00/kg.

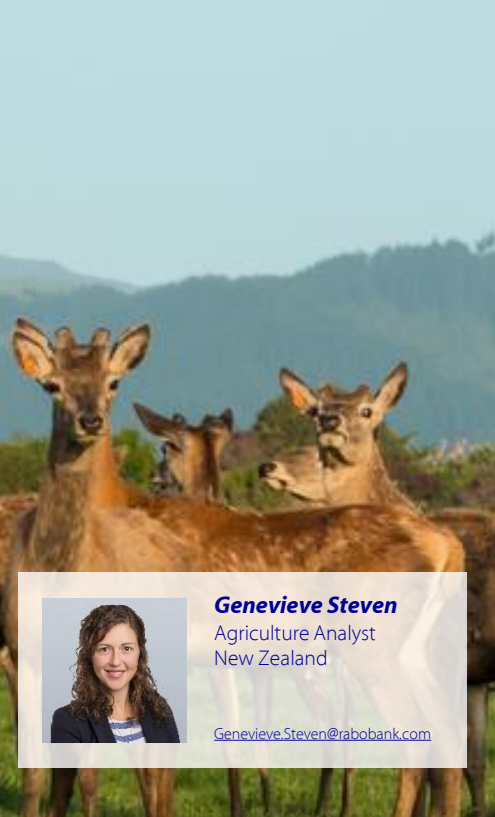
US continues to grow as a key export market for venison. Germany has historically been New Zealand's main export market – 28% of venison exports were to Germany in the 2019/20 season. However, the US has risen to take first place this season – 25% of exports for the 11 months to August 31, 2021 – with Germany falling back into third place (16% of exports) behind the Netherlands (19%). Export volumes to the US are building, with New Zealand meat processors focusing on offering retail-ready venison mince packs and venison patties, in an effort to diversify away from food service.

A positive outlook for venison, but a slow recovery. On the upside – foodservice is starting to return to normal in key markets, new retail-ready products have been developed e.g. mince and patties, and online sales platforms are being trialled. On the downside – due to high levels of New Zealand and European venison inventory in European chillers, it will likely take some time before demand and supply are matched again.

RaboResearch anticipates that farmgate pricing will remain subdued through 2021/22, strengthening into 2022/23 season.

What to watch

- **Demand from the US for venison is growing off the back of an increasing group of consumers interested in 'wild meats.'** Social influencer and podcast host Joe Rogan, is influencing a movement of modern conservationists and ethical eaters to consume game meat produced in a natural system e.g. farmed bison and farmed deer. New Zealand processors are looking to increase the market share of venison in the 'wild meats' category.



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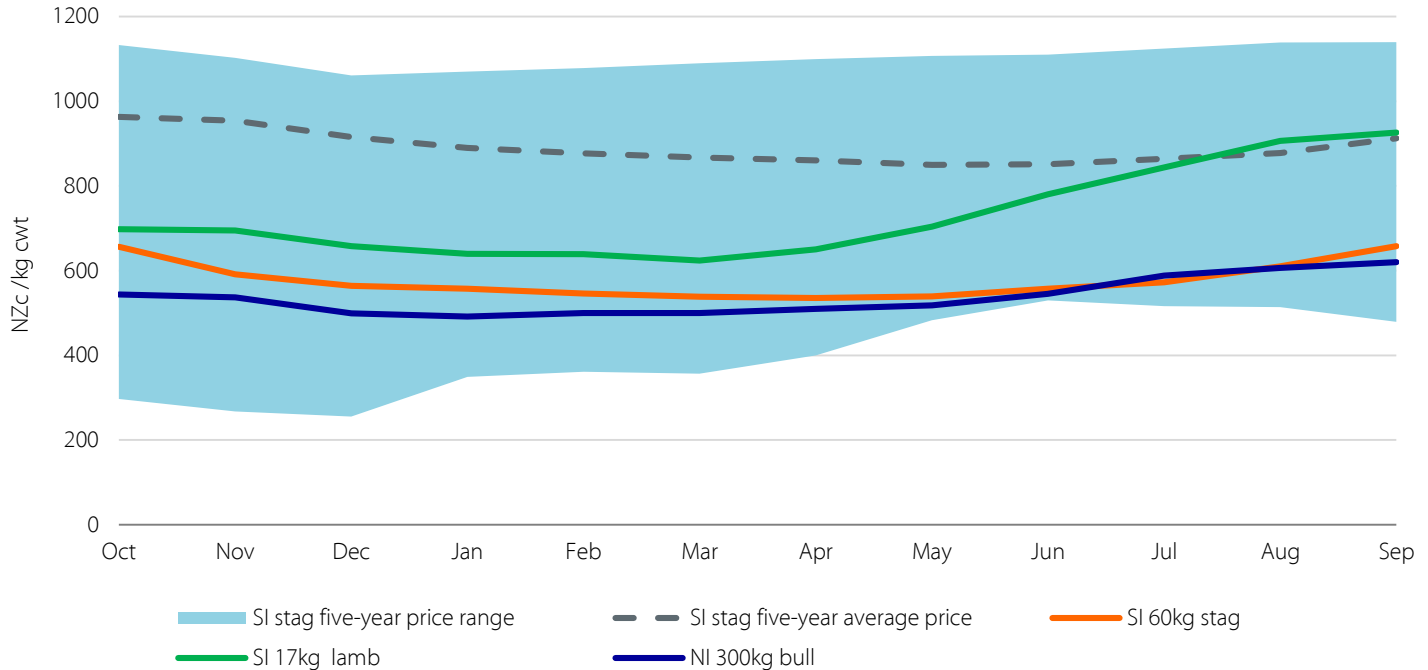
Venison

Lamb Price Surpasses Venison Schedule



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AgriHQ South Island stag price compared with South Island lamb, October 2020 – September 2021



Source: AgriHQ, Rabobank 2021

Delta Dampens China Foodservice

A Delta outbreak has been interrupting the Chinese foodservice sector. Yum China, a major Quick Service Restaurant (QSR) operator, provided a business update recently. A Delta variant outbreak in Eastern China across several provinces led to severe lockdown in some major cities. As a result, the company reported that August same-store-sales were down 'mid-teens' compared to August 2020. In the previous quarter (to June) they reported same-store-sales being 10% higher versus the previous period. Encouragingly, by September the outbreak was receding.

Meanwhile, retail sales in China underperformed in August. Markets were surprised by the August retail sales number, which rose just 2.5% YOY. Looking more closely at the food market, August food retail sales were 9% higher YOY. However, the rate of growth has slowed over the previous three months.

Total retail sales continue to take a bit of hammering in Australia. For the third consecutive month, total retail sales fell, down 1.7% in August on a MOM comparison. Fortunately, Australian consumers continue to lift spending on food. The combined expenditure on food (sum of retail and foodservice) was up 2% in August versus August 2020. But channel distortion was more pronounced. Food retail sales in August were up 3% on the elevated numbers in 2020, while foodservice turnover was down 1% on weak results last year. We expect Australia's food market will return to normal, but it will be a slow crawl to the end of the year.



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Downstream Markets

What to Watch

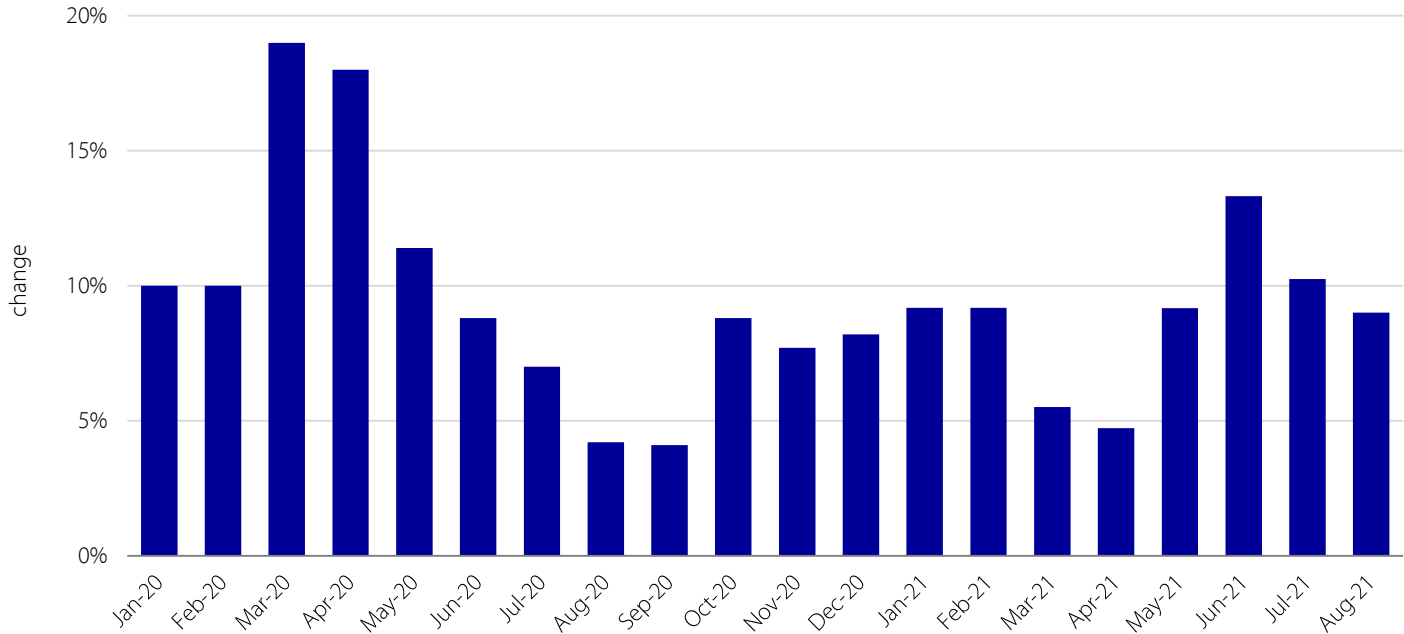
- **Economic bounce back.** We expect that there will be drag on the Australian economy during the third quarter (and possibly beyond). There was a sharp bounce back in Australian economic activity after the lifting of restrictions following the first lockdowns. This provides a level of confidence of another quick recovery once the current restrictions are removed in Australia.

Underlying Food Retail Sales in China Slow



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China Year-on-Year Change in Food Retail Sales



Sources: National Bureau of Statistics China, Rabobank, 2021
Seasonally adjusted

Phosphate, GLY Supply Risk Growing

Last month, several policy changes in China have heightened the risk of local farmers not being able to access local supplies ahead of next season. Rabobank expects high prices, and a high level of supply risk to continue into 2022.

Last month, electricity shortages, increased environmental regulation and limits on fertiliser exports have put pressure on input imports.

This year alone Chinese export prices of glyphosate have increased 150%, primarily due to increases in demand, and to a lesser extent cost pressure. In recent weeks, one of the provincial governments in China, Yunnan, placed heavy reduction on the production of yellow phosphorus – one of the key raw materials in the production of glyphosate.

Yunnan province itself accounts for 40% to 45% of Chinese yellow phosphorus production capacities. Since only 10% of Yunnan capacity can be utilised during the last quarter of this year, effective Chinese operating capacity will likely be down by over 35% to 40% during this period. According to Chinese market commentators BAINFO, glyphosate suppliers have temporarily halted taking orders.

Simultaneously, the Chinese government has announced an export ban on state-owned companies exporting fertiliser, to ensure supply is available for the local market. To be clear: this isn't a ban on all fertiliser exports, but it represents a large portion of Chinese exports.



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Farm Inputs

What to Watch

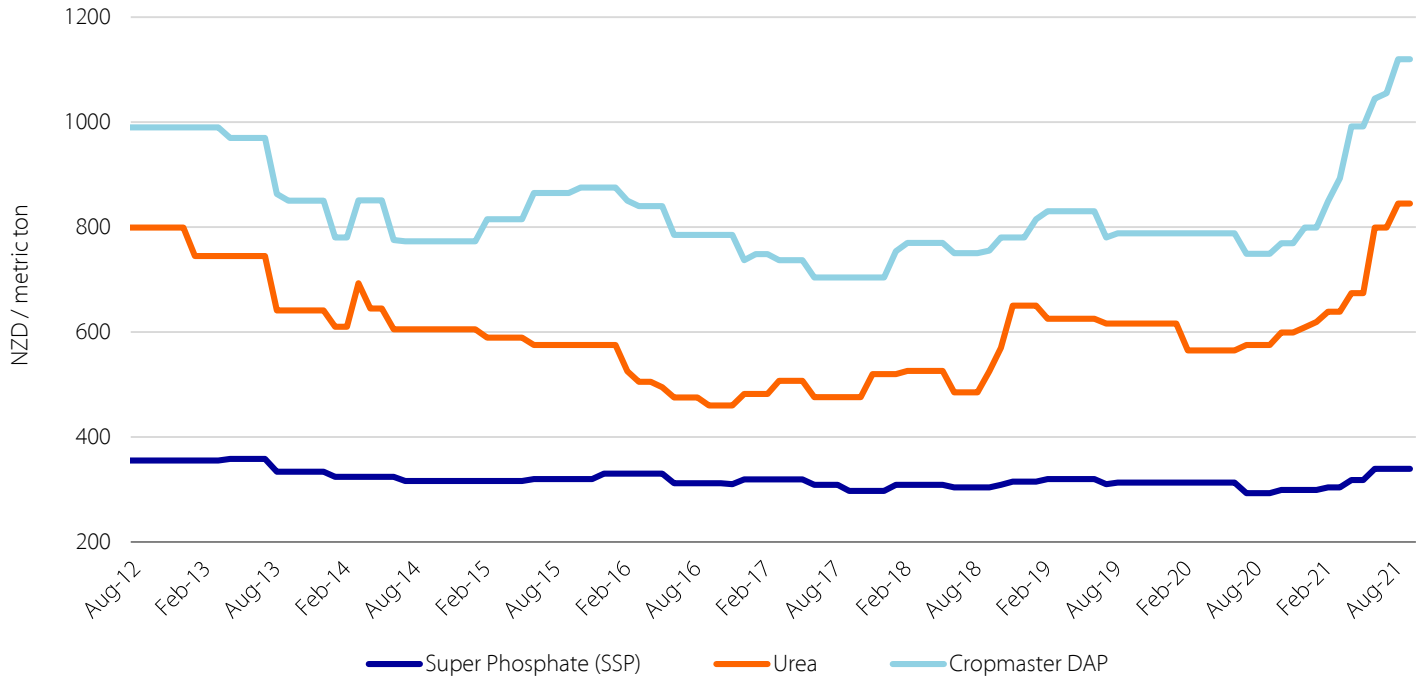
- ***2022 Input Supplies*** – China is responsible for 65% global glyphosate production and supplies raw materials and intermediaries to other regions. All this doesn't bode well for farmers ahead of the summer and the 2022 season. They are already facing high prices and supply disruption, this is one more factor that adds an additional layer of pressure. If nothing else – this situation is something to watch closely and consider as part of broader input purchasing decisions.

Local Prices Held Record Highs



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Local NZ reported retail prices





Rate Steps up, Still Ahead

After recovering from August's sharp dip to nine-month lows, the NZD spent much of September working its way back down again to end the month below US\$70. With multiple rate rises on the cards and still good economic data, we forecast the NZD to strengthen on a 12-month view, but to stay near to current values for the rest of the 2021.

The next RBNZ policy meeting is this week and markets expect a 25 bps rate rise – lower than the 50 bps expected prior to the Delta variant Covid-19 outbreak in August, but still among the first of the G10 economies to move rates higher. ***Further rate rises are expected due to the continuing momentum of the NZ economy.***

Q2 NZ GDP figures released this past month showed a quarterly surge of 2.8% – more than double market expectations and four times the RBNZ's own forecast. This was alongside a drop in the unemployment rate to 4%, an uptick in wage inflation and booming manufacturing PMI data. Unsurprisingly, this was also accompanied by a spike in the CPI inflation rate to 3.3%, and well above the RBNZ's target range. Despite a likely Covid lockdown drag on GDP in Q3, the RBNZ is still expected to take steps up in the rate to target this inflation, and markets are pricing in a total of 50 bps on a three-month view, and a total of 80 bps on a six-month view.

Rabobank forecasts the NZD/USD will trade near to 0.69 on a three-month view, and towards 0.72 and 0.74 on a nine-month and 12-month view respectively. Despite the hawkishness of the RBNZ, we expect USD strength to be the headwind.

What to Watch

- ***China factor*** – nervousness about the state of the Chinese economy continues to develop and so also concern for Chinese demand, and import demand. This is a particular worry for New Zealand, whose export program is dominated by China and whose economic resilience has relied on strong exports. Signs of Chinese faltering will undermine NZD values.

Rates & FX

NZD Testing the sub-Usc 70 Range Again



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NZ currency against the US dollar



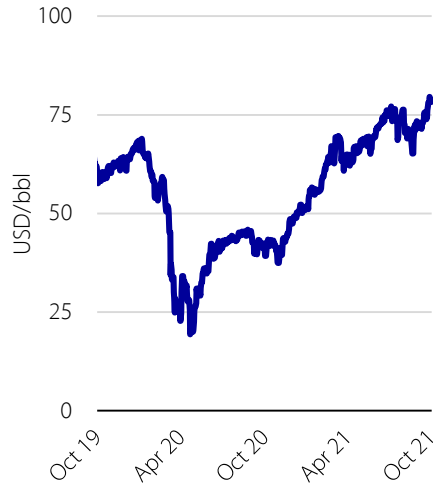


Full Throttle for Brent Crude

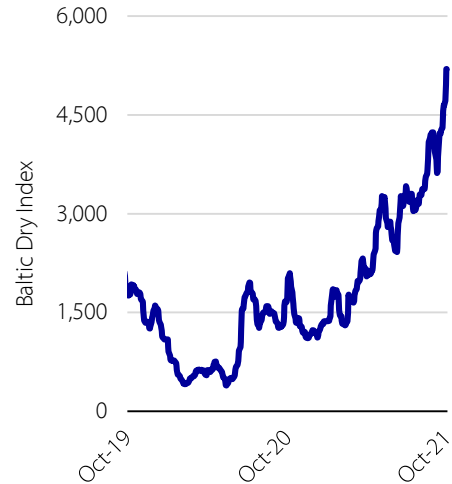
Prices of brent crude increased during September and further in early October, exceeding USD 80/bbl.

All eyes were on the OPEC+ meeting on October 4 to see how Saudi Arabia would react to China's decision to release strategic oil reserves. Despite gas shortages in Europe boosting demand for crude, the Saudis announced that they will continue with only gradual production increases. This resulted in another price hike, with brent crude breaking a new three-year high to above USD 80/bbl. As this is still unfolding, our updated forecasts will be released shortly.

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



Baltic Dry Index, Oct 2019-Oct 2021



Source: AIP, Bloomberg, Rabobank 2021

Source: Bloomberg, Rabobank 2021

Oil &
Freight

Agri Price Dashboard

As of 30/09/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	726	707	578
CBOT soybean	USc/bushel	▼	1,256	1,299	1,024
CBOT corn	USc/bushel	▲	537	534	379
Australian ASX EC Wheat	AUD/metric ton	▼	339	355	299
Non-GM Canola Newcastle	AUD/metric ton	▲	954	869	585
Feed Barley F1 Geelong	AUD/metric ton	▼	260	271	217
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	1,030	995	776
Feeder Steer	AUc/kg lwt	▲	555	530	398
North Island Bull 300kg	NZc/kg cwt	▲	625	615	565
South Island Bull 300kg	NZc/kg cwt	•	590	590	515
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	928	946	732
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	945	925	720
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	935	915	710
Venison markets					
North Island Stag	NZc/kg cwt	▲	655	640	620
South Island Stag	NZc/kg cwt	▲	675	630	665
Dairy Markets					
Butter	USD/metric ton	▲	4,875	4,775	3,325
Skim Milk Powder	USD/metric ton	▲	3,175	3,075	2,950
Whole Milk Powder	USD/metric ton	▲	3,638	3,625	3,000
Cheddar	USD/metric ton	▲	4,325	4,163	3,675

Agri Price Dashboard

As of 30/09/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	110.2	103.8	71
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	107.8	93.9	64
Sugar markets					
ICE Sugar No.11	USc/lb	▼	19.8	19.8	13.07
ICE Sugar No.11 (AUD)	AUD/metric ton	▲	620	619	399
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,337	1,334	996
Fertiliser					
Urea	USD/metric ton	•	485	485	265
DAP	USD/metric ton	•	660	660	340
Other					
Baltic Dry Index	1000=1985	▲	5,197	4,132	1,725
Brent Crude Oil	USD/bbl	▲	79	73	41
Economics/currency					
AUD	vs. USD	▼	0.723	0.732	0.716
NZD	vs. USD	▼	0.690	0.705	0.662
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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