

# *Pricing Not Feeling the Winter Chill*

*New Zealand Agribusiness Monthly*

*July 2022*

**RaboResearch**  
Food & Agribusiness



**Rabobank**

# Commodity Outlook

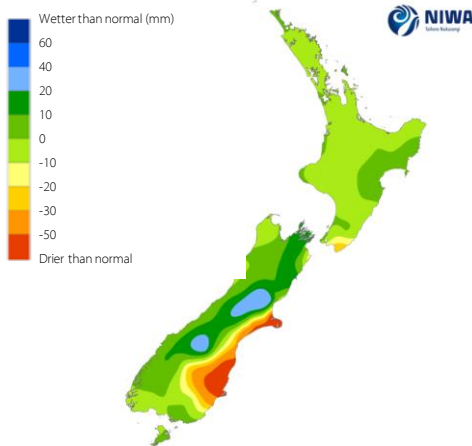
 <p><b>Dairy</b></p>	<p>Most dairy commodity prices have improved from the declines experienced at the beginning of Q2. However, further price volatility is expected over coming months as the market awaits new information on global supply volumes – particularly regarding the New Zealand spring flush.</p>
 <p><b>Beef</b></p>	<p>RaboResearch anticipates that the farmgate beef price will remain elevated through the spring months, supported by a tight global supply situation.</p>
 <p><b>Sheepmeat</b></p>	<p>Farmgate lamb and mutton pricing could ease over the next three months as rampant inflation, recessionary risks, and lockdowns start to impact consumer demand.</p>
 <p><b>Farm Inputs</b></p>	<p>Globally, N fertilisers have already lifted from June lows and might soon face more upward price pressure from EU's gas price crisis. Phosphorous prices are off highs, and more falls could be expected if China resumes its full export capacity, which theoretically could happen in the next months.</p>
 <p><b>FX/Interest Rates</b></p>	<p>Another cash rate increase of 50 basis points – to 2.5% – is expected in July, with another two increases of 50 basis points each likely later in 2022. The NZD continues its volatile ride and, despite recent weakness, we expect a move toward USc 0.68 over 12 months.</p>
 <p><b>Oil/Freight</b></p>	<p>While global crude oil prices fell slightly, diesel prices in New Zealand rose further in June. We see more price upside through 2022 as global oil supply tightness should outweigh recession-driven demand concerns. Port congestions, especially in Asia, put upside risk on container freight rates.</p>

# Another La Niña Spring in Store



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## Soil moisture anomaly (mm), 5 July 2022



Source: NIWA, Rabobank 2022

Temperatures are most likely to be warmer than average across all regions. While cold snaps and frosts will occur, their duration and/or frequency may be lower due to lack of southerly air flows.

Sea temperatures in the Pacific warmed during June. Despite this, the atmospheric imprint of La Niña remains strong and could cause more frequent Southern Ocean anticyclone (high pressure) in early spring, resulting in increased easterly winds. Fewer westerly winds during early spring could result in dry spells across western New Zealand.

Soil moisture levels and river flows are equally likely to be near or above normal in the north of the South Island. For all other regions, soil moisture levels and river flows are most likely to be near normal.

## What to Watch

- Southern Ocean anticyclone conditions have the potential to drive warm spring conditions due to high pressure. This will be welcomed by farmers going into calving or lambing.
- Plumes of tropical moisture have the potential to increase the risk of flooding, with one such event possible in the second week of July.

# Weaker 2022 NZ Shipments to China

**Oceania milk collections have really taken a hit this season.** New Zealand's milk collections fell by 6.5% for May 2022, the last month of the 2021/22 season. This brings final tallies for 2021/22 to a drop of 4.1% YOY. Australian national production was down 6.6% YOY for April 2022. Milk collections stand at -3.4% for the season-to-date. With the new season underway there are some positive drivers that should support stabilisation in Australian milk supply in 2022/23.

**Commodity prices improved over June 2022.** Powders and butter prices saw a small uptick, while cheese prices continued to recalibrate from previous record-high levels. RaboResearch expects dairy commodity prices to remain volatile over the coming months, with weak global milk supply drivers supporting prices to remain at elevated levels.

**Higher farmgate milk prices across most regions have not guaranteed production growth.** Higher corn and soybean prices and weather disruptions in certain regions have put a handbrake on milk supply growth. Overall inflation pressures in energy, fuel, and wages are also impacting profitability across the Big-7, despite higher milk prices. We expect the milk supply to grow again from second half of 2022.

**Lower export volumes to China have emerged for 2022.** Strong domestic milk supply growth in Q1 2022 (8% YOY) and high carryover stocks from last year's strong imports are colliding with weaker demand due to Covid-related lockdowns. Shipments for the year-to-May are lower by 26% compared to last year, while May shipments alone were almost halved compared to last year: a clear reflection of the lockdowns in major Chinese cities.



**Emma Higgins**  
Senior Agricultural Analyst  
New Zealand

[emma.higgins@rabobank.com](mailto:emma.higgins@rabobank.com)

Dairy

## What to Watch

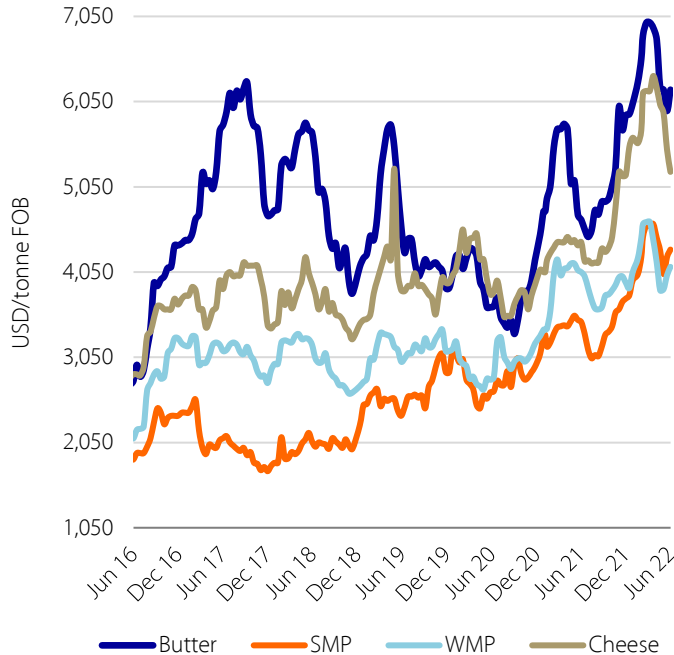
- **The approaching spring flush in New Zealand** – While it might seem as though winter is just hitting its straps here locally, the market is awaiting the first signals of the strength (or otherwise) of New Zealand peak milk for the new season. The spring production months will be the first test for global market fundamentals. The initial Rabobank forecast for the new season (which kicked off 1 June 2022) is for a modest 2% recovery in milk supply.

# Rapid Falls in Oceania Milk Supply Continues



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**Global dairy prices, 2016-June 2022**



**Production growth key exporting regions**

	<b>Latest month</b>	<b>Last three months</b>
<b>EU</b>	-1.6% (Feb 22)	-0.6%
<b>US</b>	-0.7% (May 22)	-0.7%
<b>Australia</b>	-6.6% (Apr 22)	-5.9%
<b>NZ</b>	-4.1% for the 2021/22 full season	



# Beef Prices Still Hot

**Export volumes in May were consistent with volumes exported in May 2021.** There were some changes in buying demand in May though – exports to China lifted (+27% YOY) while exports to the US continued to drop (-30% YOY). Beef export volumes lifted in May after dropping in April due to shipping difficulties and port access in Shanghai.

**US demand for lean trimmings continues to ease.** Beef exports to the US have been declining over the past three months as the US continues to liquidate its cow herd, resulting in the US having sufficient 90CL available and reducing demand for New Zealand 95CL bull lean trimmings. Consequently the 95CL price has been easing (US/lb) but still remains well above the five-year average (+11% in May). The weaker NZD/USD has been supporting favourable returns for exporters and farmers.

**The current liquidation of the US cow herd is positive for demand** for New Zealand lean trimmings over the next few years. Once the US herd stabilises in numbers, there will be a shortage of available 90CL as cows and heifers are retained to build numbers once climatic and economic factors improve. This is likely to provide demand and price support for NZ 95CL. Additionally, RaboResearch anticipates that the US will enter a recession by early 2023, and consumers will opt for lower-value meat cuts (e.g. mince), further supporting NZ 95CL pricing.

**The AgriHQ North Island bull price lifted to NZD 6.05/kg cwt in the last week of June,** which is NZc 0.59/kg cwt higher than the five-year average for the same week. RaboResearch expects the farmgate beef price to remain elevated through the spring months, supported by a tight global supply situation.



**Genevieve Steven**

Agriculture Analyst  
New Zealand

[genevieve.steven@rabobank.com](mailto:genevieve.steven@rabobank.com)

# Beef

## What to Watch

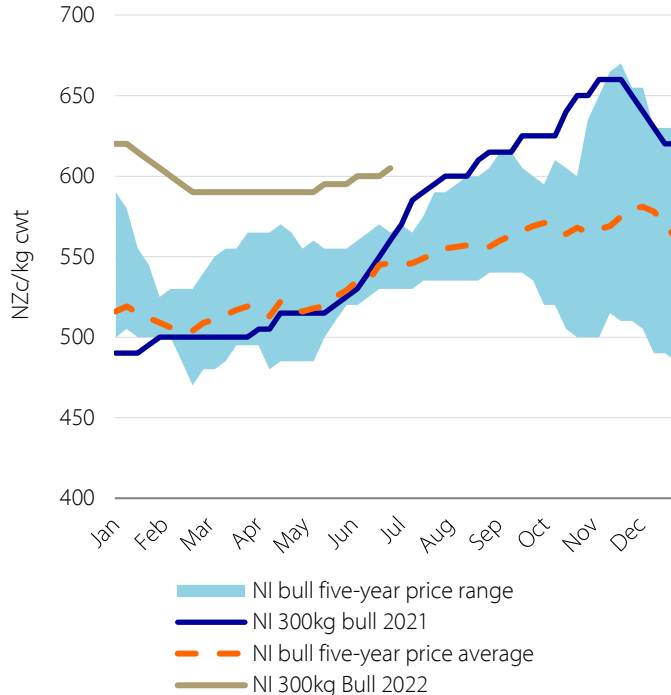
- **New Zealand has agreed, in principle, to a Free Trade Agreement with the EU,** which is expected to be signed in 2023. Under the deal, New Zealand beef export volumes are able to increase from the current quota of 1,102 tonnes per year to 10,000 tonnes over seven years. The in-quota tariff will reduce from 20% to 7.5% on day one. In the 2021 season, New Zealand exported around 7,000 tonnes of beef to the EU, less than 1.5% of New Zealand total export volumes.

# The EU Is a Small Beef Market for NZ

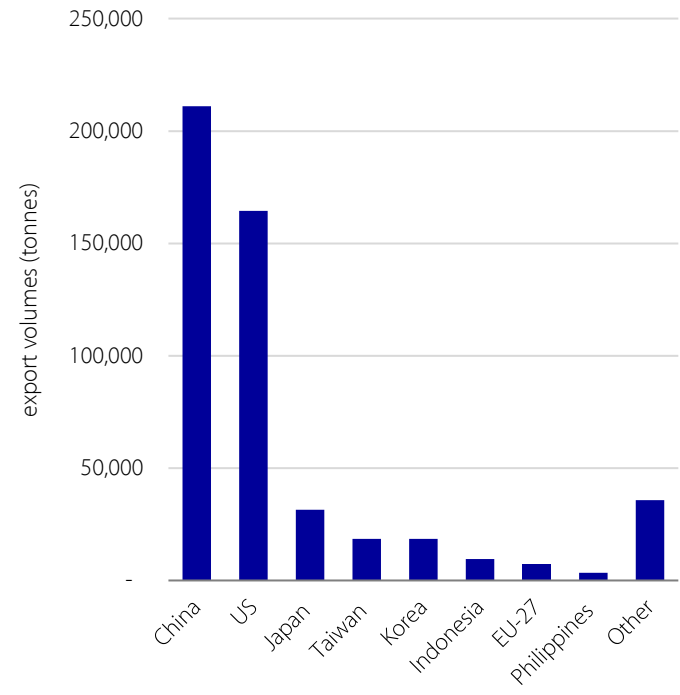


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**AgriHQ North Island bull price**



**New Zealand beef export volumes in 2021**



# Processors Seeking Stock

**Schedule pricing continues to heat up as processors seek stock.** After months of backlogs, processors are actively searching for stock as the allure of spring pricing is incentivising many farmers to hold lambs longer. The AgriHQ South Island lamb price climbed to NZD 8.96/kg cwt in the last week of May.

**The impacts of lockdowns in China are evident in the May export data.** Export volumes to China were down 11% on the previous month, and down 27% compared to May 2021. Although lockdowns eased in Shanghai at the start of June, China's zero-Covid policy means we can expect lockdowns to be a regular occurrence for the remainder of the year. The cities that were in full or partial lockdown in April and May this year had a combined contribution of around 35% of China's GDP – a significant portion of China's economic engines were in lockdown. The Bureau of Statistics of China has reported that Chinese consumer confidence has fallen to its lowest point since records began in 1997. RaboResearch is forecasting China's GDP growth to slow to 2.8% YOY in 2022. For reference, GDP growth in China was 8.1% in 2021.

**Demand recovery evident in some markets.** The May sheepmeat export data includes some bright spots – exports to the UK lifted 16% in May compared with May 2021. In 2021, the UK exported lower volumes of sheepmeat into the EU, resulting in more product being available for domestic consumption. Imports, therefore, declined. Although the CKT leg price in May 2022 was about 24% above the five-year average, it has been easing. May exports also increased to some of our smaller markets: Saudi Arabia (+54% YOY) and Malaysia (+97% YOY). The weaker NZD/USD has supported strong returns for exporters.

**RaboResearch anticipates that farmgate lamb and mutton pricing could ease over the next three months** as rampant inflation, recessionary risks, and lockdowns start to impact consumer demand.



**Genevieve Steven**  
Agriculture Analyst  
New Zealand

[genevieve.steven@rabobank.com](mailto:genevieve.steven@rabobank.com)

## Sheepmeat

### What to Watch

- **New Zealand has agreed, in principal, to a Free Trade Agreement with the EU**, which is expected to be signed in 2023. Under the deal, New Zealand will gain access to 38,000 tonnes of duty-free quota per year, in addition to the existing 125,769 tonnes permitted under the WTO agreement. The quota will be phased in over seven years and has limits of 35% chilled and 65% frozen product. The EU is New Zealand's second largest market – we sent approximately 18% of our total sheepmeat exports there in the 2021 season.

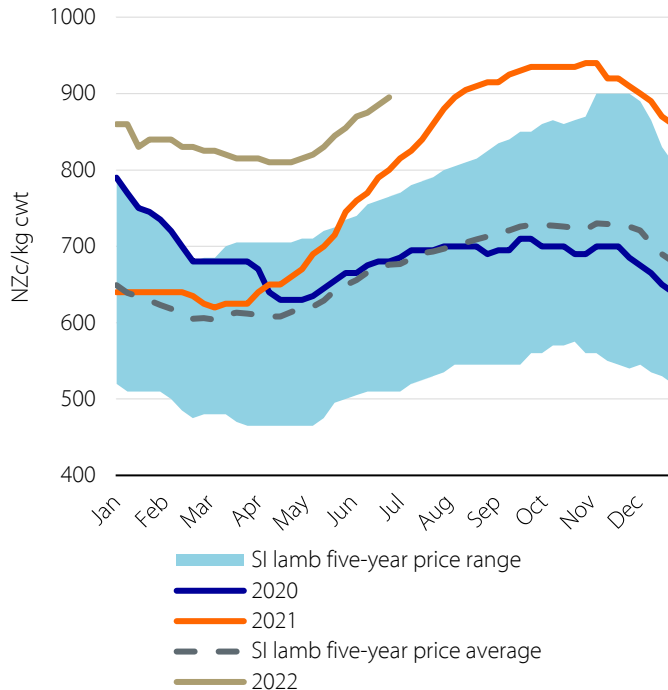


# The EU Remains an Important Sheepmeat Market

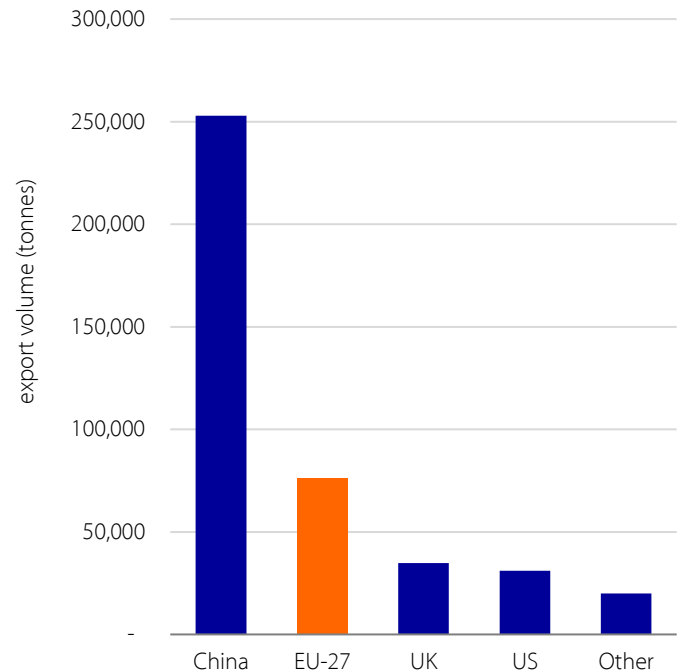


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**AgriHQ South Island lamb price**



**New Zealand export volumes in 2021**



# Global Urea Prices May Move Higher

**Global fertiliser prices edged higher in June but are still 41% (urea) and 3% (MOP) lower than H1 2022 highs in USD terms.** Seasonal lows in Northern Hemisphere use, some dust settling after initial market fears as Russia invaded Ukraine, some new capacity coming online/supply constraints being loosened, and falling commodity prices have removed some support from crop nutrient markets.

Despite a substantial decline, urea prices remain more than 100% above their 2019/20 five-year average, and N fertilisers have already seen a lift from June lows and might soon face more upward price support. This would likely be driven by energy prices and a seasonal uptick in demand as Northern Hemisphere regions start to stock up toward the end of their summer.

Phosphorous prices are also off highs but more falls could be expected if China resumes its full export capacity. This could theoretically happen in the next three months when China is past its own peak domestic use. Meanwhile, potash prices have the potential to fall further. Reports are that Brazil has ample supplies and North American is at capacity with concerns from some that there is an excess in the farm inputs supply channel.



**Cheryl Kalisch Gordon**  
Senior Commodities Analyst

[cheryl.kalischgordon@rabobank.com](mailto:cheryl.kalischgordon@rabobank.com)  
Twitter: @kalischgordon



**Dennis Voznesenski**  
Agricultural Analyst, Grains & Oilseeds, and Wool

[dennis.voznesenski@rabobank.com](mailto:dennis.voznesenski@rabobank.com)  
Twitter: @Voz\_Dennis

## Farm Inputs

### What to Watch

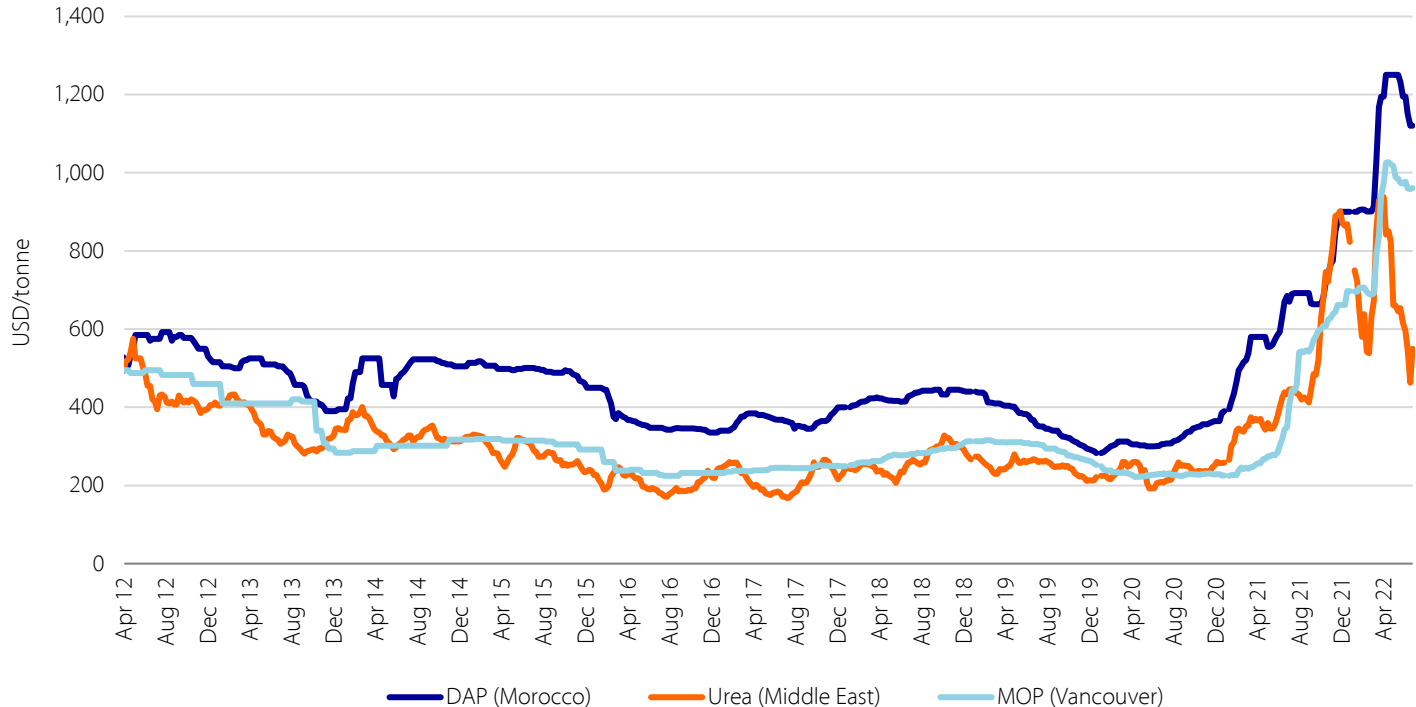
- **EU turning off the Russian gas tap in H2 2022** – This will mean higher prices for gas, and in turn, N fertiliser production costs. As the EU is a significant N fertiliser producer, this will keep support in the global market and likely cause re-tightening of supplies in coming months. However, the decision to turn off the gas tap is fraught with political uncertainty within the EU, so we can expect dramatic volatility as negotiations proceed. With some of the other price supports now tempered, we are less likely to see sustained global urea prices move toward the highs of November 2021 and March this year.

# EU Gas Policy To Keep Fertiliser Market on Edge



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## Local reported retail fertilizer prices



# Three More Hikes in 2022?!

***A 50 basis point cash rate hike – to 2.5% – is expected in July by the RBNZ. The NZD has been volatile and fell again to USc 0.62 after, but we expect a move toward USc 0.68 within 12 months.***

- ***All eyes remain on the RBNZ meeting on July 13*** and the likely cash rate hike of 50 basis points, to 2.5%, which will likely be followed by another two hikes of 50 basis points each in 2022. These would already bring the cash rate into the 3.5% to 4% range many analyst expected for 2023.
- ***The five-year swap rate, however, came down close to 4%***, after exceeding 4.5% in June.
- ***More and more central banks have joined the RBNZ in raising interest rates***, like the massive 85 basis point hike by the US Fed. Australia's RBA hiked rates in June and July by 50 basis points each. The EU's ECB also announced that it plans to raise rates 25 basis points in July.
- ***GDP: Rabobank's economics team has increased its forecast for New Zealand's 2022 GDP*** by 160 basis points from the previous forecast – to 4.4% – but cut its forecasts for 2023 and 2024 by 20 and 40 basis points, to 1.9% and 1.7%, respectively.
- ***The outlook for China's economy is rather grim***, which raises concerns for NZ exports. We forecast GDP growth in China in at only 2.8% in 2022 and 5.0% in 2023, following 8.5% in 2021.



**Stefan Vogel**  
General Manager  
RaboResearch AU & NZ

+61 419 782 452  
[stefan.vogel@rabobank.com](mailto:stefan.vogel@rabobank.com)

## Interest rate & FX

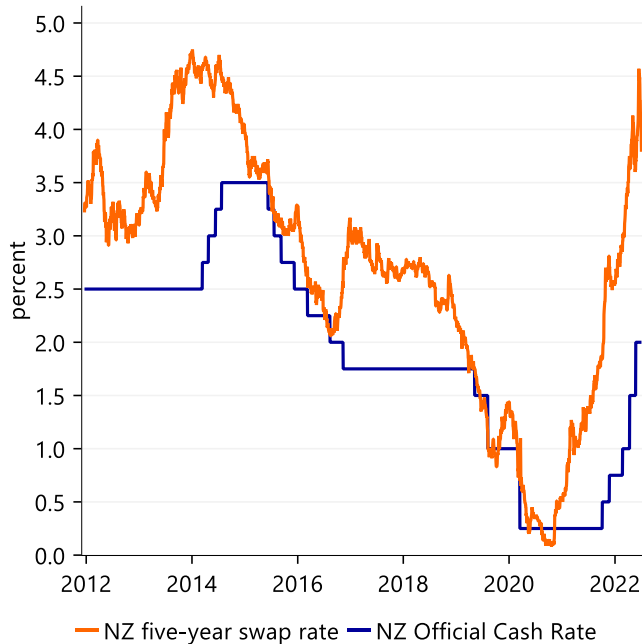
### ***What to Watch:***

- ***July 13:*** The RBNZ will meet and likely hike the cash rate 50 basis points to 2.5%.
- ***There will likely be two more 50 basis point hikes in the remainder of 2022***, bringing the OCR to 3.5% by year-end. With these moves, by year-end, the RBNZ might already move rates close to the 3.5% to 4% range many analysts expect the cash rate to reach in 2023.

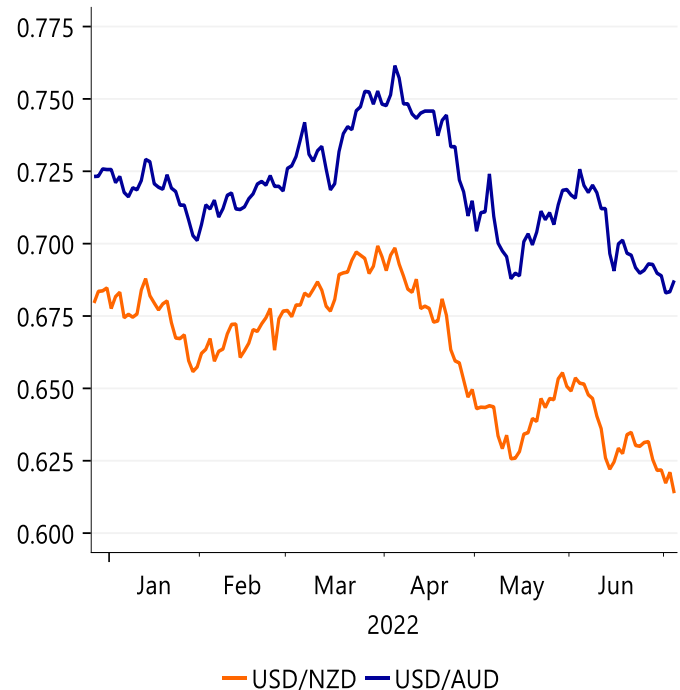
# Official Cash Rate Expected To Continue To Rise Considerably Through Next 15 Months



**The NZ Official Cash Rate is at 2.0% and the five-year swap rate came down in June**



**NZD and AUD weakened against the USD in June 2022**



# High Energy Costs To Continue



**Stefan Vogel**

General Manager  
RaboResearch AU & NZ

[stefan.vogel@rabobank.com](mailto:stefan.vogel@rabobank.com)



**Kinnan Li**

Analyst – F&A Supply Chains

[kinnan.li@rabobank.com](mailto:kinnan.li@rabobank.com)



**Viet Nguyen**

Analyst – F&A Supply Chains

[viet.nguyen@rabobank.com](mailto:viet.nguyen@rabobank.com)

**Crude oil faced a volatile month, but has been gaining back strength recently.** Trading well above USD 120/bbl, Brent crude oil in early June reached one of the highest levels since 2015. However, with global recession concerns driven by steep interest rate hikes in several key economies of the world, crude prices were pressured down about 15% from the early June highs. We expect continued volatility at a high price level and tight global supply to outweigh recession-driven demand concerns, with Brent moving potentially toward USD 140/bbl by the end of the year. Diesel prices globally rose even more strongly this year than crude prices due to an ongoing global shortage of refining capacity as well as seasonal summer demand in the Northern Hemisphere.

**Global ocean container rates have passed the 2021 peak and are expected to find a 'new normal' over the next 12 months.** Spot rates are falling for most major trade lanes, except the trans-Atlantic one from Europe to North America, due to strong market demand and port congestion. However, the normalised contract rates are expected to stay significantly higher than pre-pandemic levels due to four structural factors: 1) heightened inflation and all-time low consumer confidence, 2) imbalanced global trade flows removing container capacity from network circulation, 3) geopolitical uncertainties bringing increased risks to the sector, and 4) growing operational costs from energy and sustainability regulations. The first factor exerts negative pressure on ocean rates, while the other three create upward pressure.

**The Baltic Panamax index (a proxy for grain bulk freight) dropped by 25% in the month of June** from recent peaks in March and May. Global economic recession concerns are putting commodities and bulk freight rates under pressure.

## What to Watch

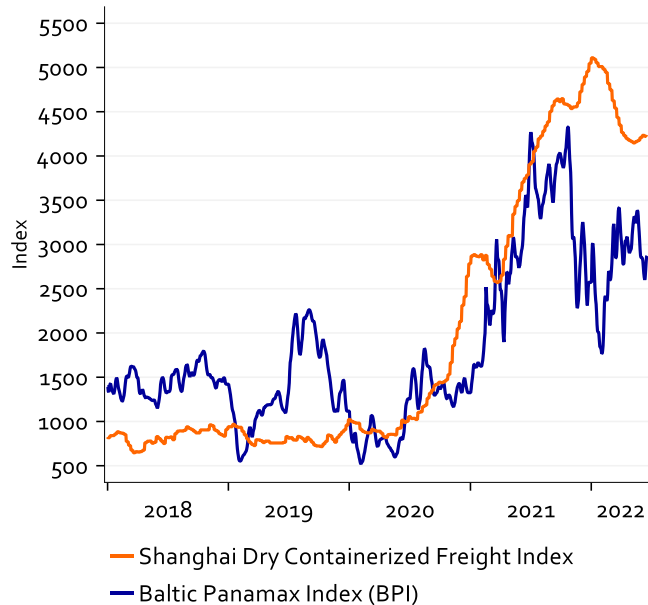
- **Oil prices to remain volatile but at high levels** – Tight supply is likely to outweigh demand concerns. We forecast continued price increases through 2022, growing potentially by about 25% toward USD 140/bbl by the end of the year.
- **Port congestions, especially in Asia, put upside risk on container freight rates.**
- **The Russia-Ukraine war will continue to be a major factor in oil and freight prices.**

Oil &  
Freight

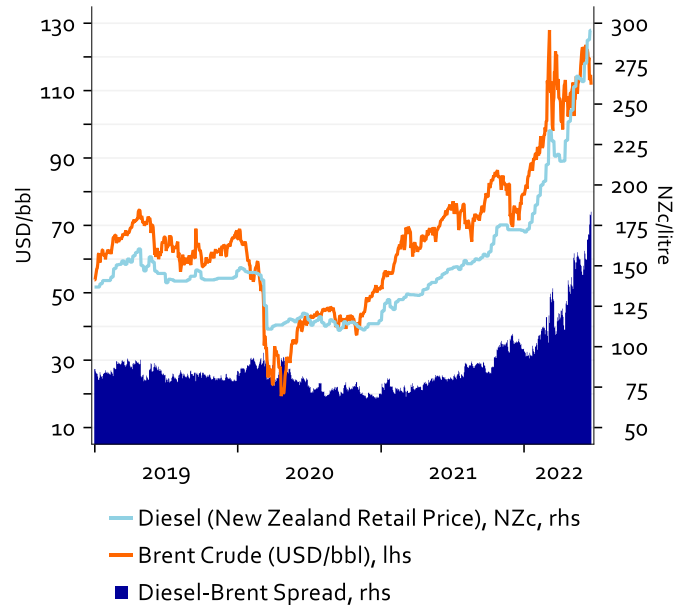
# New Zealand Diesel Hit New Highs, While Container Freight Should Face More Pressure



**Baltic Panamax Index & Shanghai Dry Container Index, 2018-June 2022**



**Brent Crude Oil & New Zealand Retail Diesel, 2019-June 2022**



# Agri Price Dashboard

	30/06/2022	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>						
CBOT wheat		USc/bushel	▼	869	1,158	672
CBOT soybean		USc/bushel	▼	1,675	1,732	1,450
CBOT corn		USc/bushel	▼	744	777	720
Australian ASX EC Wheat Track		AUD/tonne	▼	418	466	292
Non-GM Canola Newcastle Track		AUD/tonne	▼	801	921	740
Feed Barley F1 Geelong Track		AUD/tonne	▼	380	430	257
<b>Beef markets</b>						
Eastern Young Cattle Indicator		AUc/kg cwt	▼	1,014	1,110	942
Feeder Steer		AUc/kg lwt	▼	542	568	476
North Island Bull 300kg		NZc/kg cwt	▲	605	595	560
South Island Bull 300kg		NZc/kg cwt	▲	590	575	515
<b>Sheepmeat markets</b>						
Eastern States Trade Lamb Indicator		AUc/kg cwt	▲	783	777	930
North Island Lamb 17.5kg YX		NZc/kg cwt	▲	890	855	810
South Island Lamb 17.5kg YX		NZc/kg cwt	▲	895	855	800
<b>Venison markets</b>						
North Island Stag		NZc/kg cwt	•	795	795	550
South Island Stag		NZc/kg cwt	▲	805	800	560
<b>Oceanic Dairy Markets</b>						
Butter		USD/tonne FOB	•	6,188	6,188	4,663
Skim Milk Powder		USD/tonne FOB	▲	4,313	4,025	3,463
Whole Milk Powder		USD/tonne FOB	▲	4,112	3,850	4,050
Cheddar		USD/tonne FOB	▼	5,225	5,913	4,400



# Agri Price Dashboard

	30/06/2022	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>						
Cotlook A Index		USc/lb	▼	139.3	157.5	97
ICE No.2 NY Futures (nearby contract)		USc/lb	▼	103.9	139.4	84
<b>Sugar markets</b>						
ICE Sugar No.11		USc/lb	▼	18.8	19.6	17.63
ICE Sugar No.11 (AUD)		AUD/tonne	▼	591	605	473
<b>Wool markets</b>						
Australian Eastern Market Indicator		AUc/kg	▲	1,430	1,420	1,423
<b>Fertiliser</b>						
Urea Granular (Middle East)		USD/tonne FOB	•	690	690	450
DAP (US Gulf)		USD/tonne FOB	▼	1,000	1,100	650
<b>Other</b>						
Baltic Panamax Index		1000=1985	▼	2,485	2,944	4,119
Brent Crude Oil		USD/bbl	▼	115	122	75
<b>Economics/currency</b>						
AUD		vs. USD	▼	0.690	0.720	0.750
NZD		vs. USD	▼	0.624	0.656	0.698
RBA Official Cash Rate		%	▲	0.85	0.35	0.10
NZRB Official Cash Rate		%	•	2.00	2.00	0.25

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# RaboResearch Food & Agribusiness Australia and New Zealand



## **Stefan Vogel**

Head of Food & Agribusiness Research  
and Advisory, Australia and New Zealand  
+61 460 734 578  
[Stefan.Vogel@rabobank.com](mailto:Stefan.Vogel@rabobank.com)

## **Angus Gidley-Baird**

Senior Animal Protein Analyst  
+ 61 424 266 909  
[Angus.Gidley-Baird@rabobank.com](mailto:Angus.Gidley-Baird@rabobank.com)

## **Michael Harvey**

Senior Dairy & Consumer Foods Analyst  
+61 409 488 485  
[Michael.Harvey@rabobank.com](mailto:Michael.Harvey@rabobank.com)

## **Cheryl Kalisch Gordon**

Senior Commodities Analyst  
+61 412 419 209  
[Cheryl.KalischGordon@rabobank.com](mailto:Cheryl.KalischGordon@rabobank.com)

## **Pia Piggott**

Associate Analyst  
+61 460 734 578  
[Pia.Piggott@rabobank.com](mailto:Pia.Piggott@rabobank.com)

## **Emma Higgins**

Senior Agriculture Analyst  
+64 27 600 5549  
[Emma.Higgins@rabobank.com](mailto:Emma.Higgins@rabobank.com)

## **Genevieve Steven**

Agriculture Analyst  
+64 02 139 4585  
[Genevieve.Steven@rabobank.com](mailto:Genevieve.Steven@rabobank.com)

## **Dennis Voznesenski**

Agriculture Analyst  
+61 438 595 314  
[Dennis.Voznesenski@rabobank.com](mailto:Dennis.Voznesenski@rabobank.com)

## **Catherine Keo**

Business Coordinator  
+64 418 404 237  
[Catherine.Keo@rabobank.com](mailto:Catherine.Keo@rabobank.com)

## **Rabobank Australia**

Nearest branch call 1800 025 484  
<https://www.rabobank.com.au>

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