

Firm Prices To Kick Winter Off

New Zealand Agribusiness Monthly

June 2022

RaboResearch
Food & Agribusiness



Rabobank

Commodity Outlook



Dairy

Global milk supply growth remains elusive, supporting a solid commodity price floor over the coming months. Chinese demand will determine how high the commodity price needle moves.



Beef

RaboResearch anticipates that farmgate beef pricing will remain elevated in the winter months, supported by a tight global supply situation. However, high retail beef prices and inflationary pressure are starting to soften demand.



Sheepmeat

We anticipate farmgate pricing to remain elevated and lift further through winter, but lockdowns in China, and rampant inflation in Europe and the US, are key risks to pricing.



Downstream Markets

With each passing day, consumers are becoming more acutely aware of the broader inflationary pressures across the global economy. There are more and more data points confirming this is impacting discretionary spending and we see consumers trading down.



Farm Inputs

Global urea prices have fallen notably since March and we expect that to filter down locally from now to August.



FX/Interest Rates

The NZD recovered to USc 0.65 at the end of May and we see further upside potential. In its monetary policy outlook, RBNZ shows the quarterly average of the Official Cash Rate to hit 3.95% by in 2H 2023.



Oil/Freight

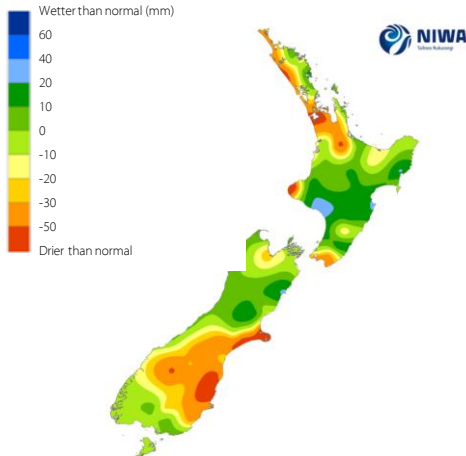
Oil markets globally remain tight, and a big potential price driver is the planned EU sanction banning imports of crude oil from Russia into the EU. Port congestions in Asia seems to be clearing up, but global bottleneck issues remain.

La Niña Provides a Warmer Winter



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Soil moisture anomaly (mm), 1 June 2022



Source: NIWA, Rabobank 2022

A warmer than average winter could be on the cards for New Zealand due to a combination of fewer southerly quarter winds and warmer than average sea surface temperatures.

Regionally these conditions will have the biggest impact on Northland, with NIWA anticipating above average rainfall through to August 2022. The rest of the country is forecast to have average rainfall over the same period.

Air pressure is forecast to be lower than average to the west and higher than normal to the east of both islands, due to north-easterly and westerly quarter air flow anomalies.

Soil moisture is predicted to be above average in the north of the North Island, which will be welcomed through winter given the current drier than average conditions. Westland and Southland are expected to have average rainfall, and the rest of the country is set for normal to above average rainfall.

What to Watch

- **With warmer and wetter conditions forecast for June, the risk of worm burden will be higher.** Keep an eye on stock, especially in areas that have experienced a dry autumn. For more information, refer to [this Wormwise resource](#).

Strong Milk Price Supports Cashflow

Softer demand manifested in a clear downward trend for global dairy commodity prices across May 2022. Export returns for all dairy commodity prices slid in May 2022, with WMP and butter prices leading the charge lower: the result of the continued fallout from Ukraine and Covid-19 events. Importantly, all main commodities, except for WMP, are at higher prices compared to the beginning of the calendar year. RaboResearch expects dairy commodity prices to remain volatile over the coming months, with weak global milk supply settings supporting prices to remain at elevated levels.

Slower supply growth supports a strong price floor. New Zealand milk supplies for the penultimate month of the 2021/22 season were lower by almost 5.6% YOY. This is the ninth month in a row of weaker milk collections compared to last season, driven by average weather across much of the season. Collections for the season-to-April 2022 are down by 4.1% YOY. A similar story is happening in Australia, with milk production continuing to trail last season. As of April 2022, national milk production for the season-to-April was down 3.4% at 7.3bn litres. US March milk collections also dipped lower by 1% YOY in April, with margins and dry weather providing a challenging backdrop.

RaboResearch anticipates a farmgate milk price NZD 9.00/kgMS for the 2022/23 production season. Seismic global events continue to reverberate in markets, providing a challenging backdrop to milk price forecasts. More elevated demand-side risk than usual creates a highly dynamic operating environment for dairy farmer revenues, while on the supply side we expect the global milk production engines to splutter back into life later in the season. Fonterra's farmgate milk price range for the new season is NZD 8.25/kgMS to NZD 9.75/kgMS, with a mid-point of NZD 9.00/kgMS.



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Dairy

What to Watch

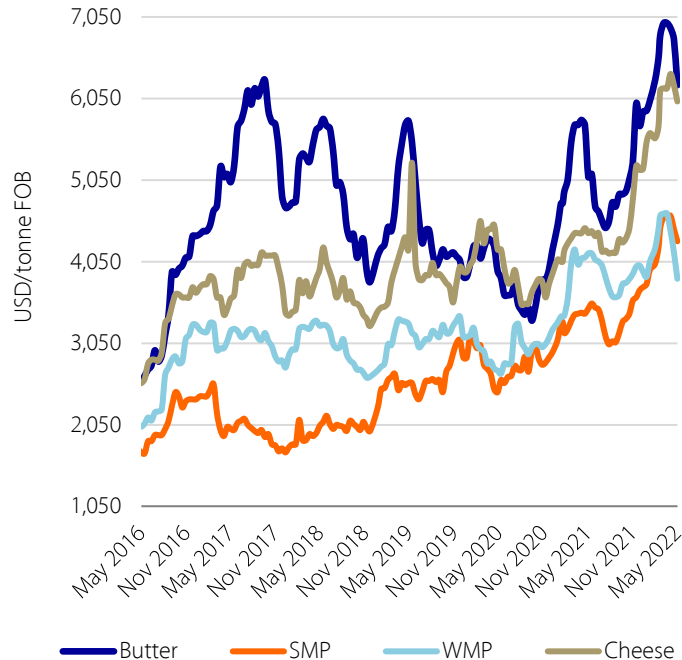
- **Uncertainty is clouding demand prospects – particularly in China.** The impact of dynamic 'zero-Covid' movement restrictions on dairy's largest importing country, China, will have far-reaching reverberations both inside and outside of China. Our base case assumption is that many regions in China will remain under various lockdown policies for much of this year. Shanghai is in the process of loosening lockdown restrictions and we are watching how dairy consumption and import demand fare.

Milk Supply Growth Remains Elusive



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Global dairy prices, 2016-2022



Source: USDA, Rabobank 2022

Production growth key exporting regions

	Latest month	Last three months
EU	0.5% (Feb 22)	-0.3%
US	-1.0% (Apr 22)	-0.8%
Australia	-5.1% (Mar 22)	-5.8%
NZ	-4.1% season-to-date (to April 2022)	

Source: Rabobank 2022

Export Volumes Remain Lower

New Zealand beef export volumes dropped 3% below the five-year average in April 2022, as the entire supply chain faces delays from processors right through to retailers.

Exports to China in April fell slightly by 3% YOY. We expect to see the impacts of the lockdowns in Shanghai reflected in the May and June export data for New Zealand. Although Shanghai is easing lockdown restrictions, other regions in China remain in lockdown. Beef is a popular protein and anecdotally we understand that consumers in Shanghai have been bulk buying beef and keeping it in their freezers. However, a worsening economic environment will likely force some consumers to reduce their beef consumption and substitute for cheaper pork and chicken options.

US beef export volumes remain lower YOY due to shipping challenges and competition from Brazil. While earnings for New Zealand 90CL cow and 95CL bull remain elevated above the five-year average, prices have eased through April and May due to increased competition from cheaper Brazilian imports. Shipments from Brazil to the US increased 283% in Q1 2022.

New Zealand exports to Japan increased +16% YOY in April. Japan's total chilled and frozen beef imports have been declining YOY due to high prices and lower household consumption demand. New Zealand is the only exporter that has increased supply.

NZ processors continue to play catch up on backlogs of cattle, but have been able to pass through healthy margins to farmers. The AgriHQ North Island bull price averaged NZD 5.95/kg cwt in May 2022. RaboResearch anticipates that the farmgate beef price will remain elevated through the winter months, supported by a tight global supply situation.

What to Watch

- ***China has suspended exports from four Brazilian beef plants.*** Two of the plants were from JBS and the other two from Marfrig. The suspensions for three plants are for one week but Marfrig's Promissão-SP plant is suspended for one month. A reason for the suspensions has not been given, but in previous suspensions it was reported that omicron nucleic acid was found.



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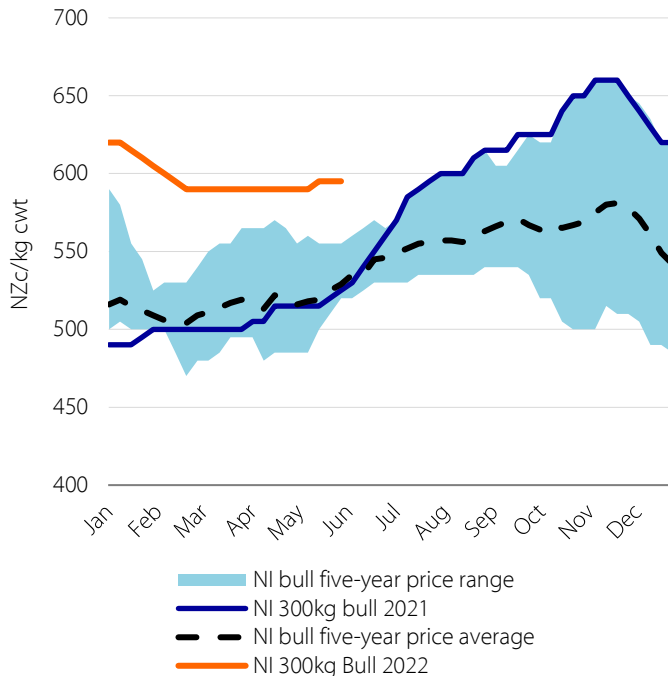
Beef

Farmgate Beef Prices Remain at Record Levels

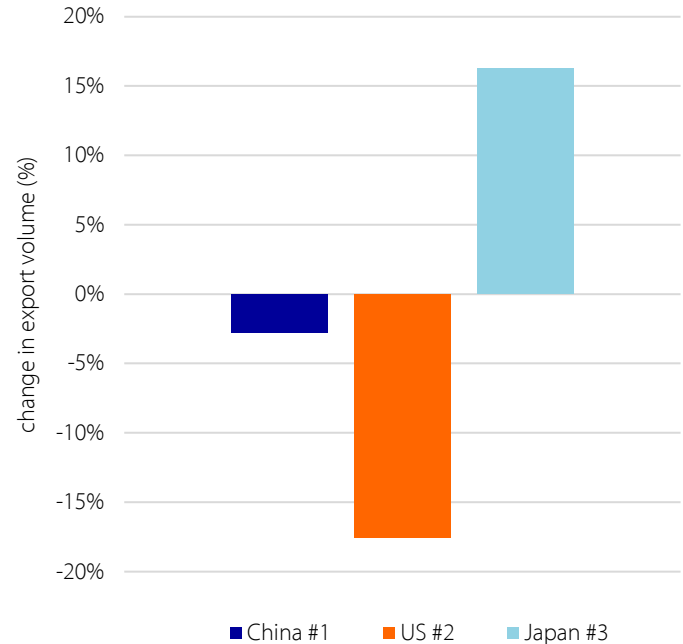


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AgriHQ North Island bull price



Change in Export Volumes in April 2022 YOY to NZ's top-three export markets



Farmgate Schedule Moves Higher

The AgriHQ South Island lamb schedule moved higher in May 2022, hitting NZD 8.55/kg cwt at the end of the month. The uptick in pricing follows the usual seasonal trend of a rising schedule through winter. However, this is not a usual season, with delayed production due to processing capacity. The national lamb kill at the end of April was 12.2% behind YOY, and the mutton kill across both islands was 12.5% behind YOY.

The mutton schedule also lifted in May – the AgriHQ South Island mutton price was NZD 5.65/kg cwt at the end of May. The combined effect of New Zealand processing delays and increased ewe retention in Australia (flock rebuilding), means there are tight supplies of mutton available, supporting pricing.

Lockdowns in China remain a risk to sheepmeat pricing in the coming months. Exports to China were back -29% YOY in April and the average export value/kg FOB was -5% lower YOY in April. China forequarter and lamb flap prices moved lower in May but remain above the five-year average price. Strong export earnings in New Zealand's other key markets – the EU-27, UK, and US – are supporting farmgate pricing. However, these markets are also facing economic headwinds and we expect inflation will negatively impact on foodservice sector's recovery post-Covid.

China remains New Zealand's core sheepmeat market, with 47% of our exports in April destined for the market. However, exports to the UK and the US have been growing and continue to help offset reduced export volumes to the EU-27.

RaboResearch anticipates that farmgate lamb and mutton pricing will remain elevated through the winter months, but lockdowns in China, and rampant inflation in the EU region and US, are a risk.



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Sheepmeat

What to Watch

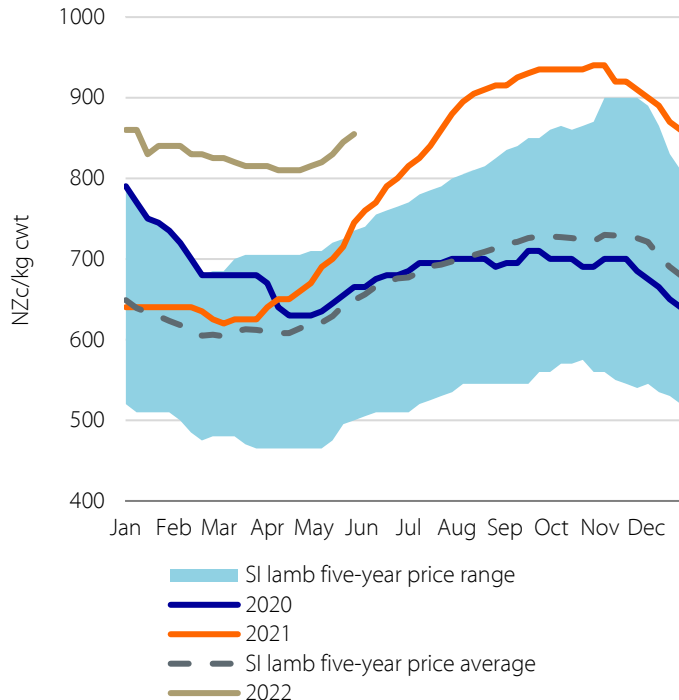
- **The NZD moved lower against the USD in May, providing a favourable exchange rate for exporters.** RaboResearch forecasts that the NZD/USD will trade around 0.65c on a six-month view. Processors may pass through the extra earnings to farmers, further strengthening the farmgate schedule.

Reduced Exports From China Expected To Continue

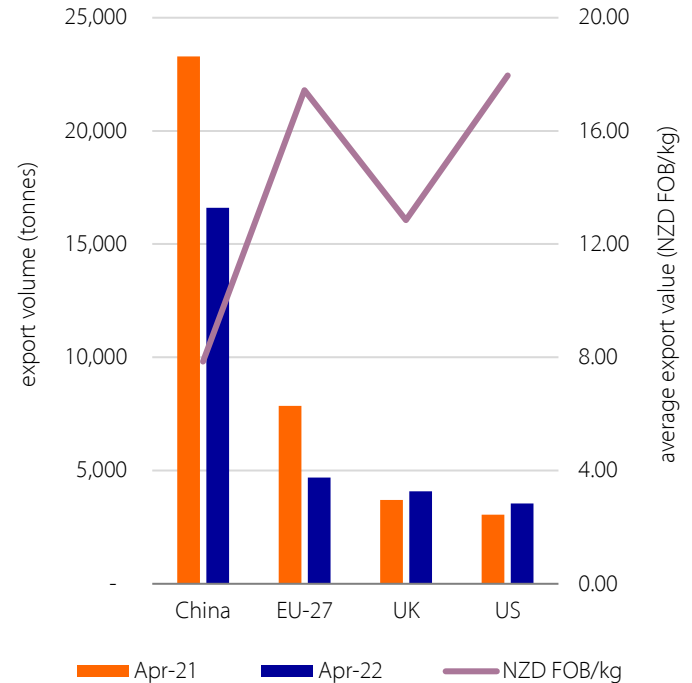


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AgriHQ South Island lamb price



April export volumes and average value



Consumer Support on Offer

New Zealand consumers will get some reprieve from the rising cost of living pressures they, like many households around the world, are feeling. The New Zealand Treasury budget included cash payouts, fuel discounts, and a reduction in the cost of public transport. With an election due by late November, cost of living pressure for households looks set to remain a key political issue, as it was in Australia.

Food and beverage companies are bracing for an ongoing margin squeeze. As the global economy cycles through a period of high inflation, consumers and primary producers are feeling the pain. Downstream margins also remain under pressure as cost headwinds persist across many aspects of the business. Efforts are underway to support margins through pricing action. Nonetheless, there appears little relief in sight for a major improvement in margins over the next 12 months.

New Zealand retail sales sequentially increased in the March 2022 quarter. Year-on-year retail sales were 8.9% - but against a very weak comparable in Q1 2021.

Conditions in the Chinese consumer market are deteriorating. Hard lockdowns will be taking a toll on the Chinese economy and are adding additional pressure to global supply chains. Food and beverage companies with operations in China are reporting a disruption in sales performance caused by mobility and distribution restraints in Shanghai. China's retail sales slumped to their lowest levels in two years in April.



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Downstream Markets

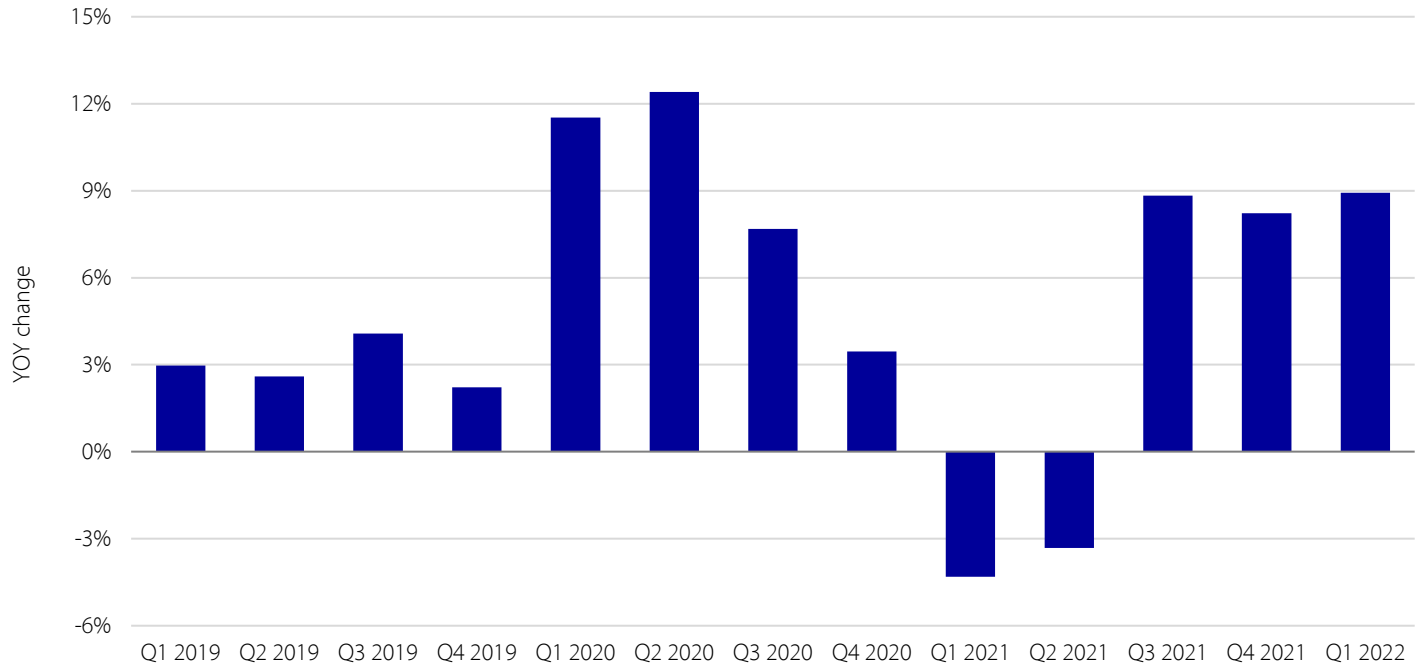
What to Watch

- ***Trading down.*** There are already signs of consumers responding to higher costs of living. The response is trading down. This can include purchasing private label over brands and looking for value offerings. It might also see consumers shift shopping trips from major supermarkets to discounters and even see more in-home meals at the expense of eating out. The response will require agile food companies in the coming months.

New Zealand Retail Sales Pick Up Marginally



New Zealand Retail Trade, Supermarkets and Grocery Stores



Sources: Stats.NZ, Rabobank 2022

Prices To Stay High, With Exceptions

Offshore prices for urea declined 5.4% MOM, while potash and phosphate prices both declined 4.3% MOM.

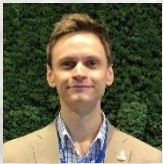
The decline in offshore **urea** prices this month is reportedly due to weakening demand and discounted supplies continuing to flow from Russia. **We could see softer global prices flow through to the NZ market by late July or early August.** Despite this, we expect prices will remain volatile and will rise substantially if Russian gas is sanctioned.

The decline in offshore potash prices has reportedly, like urea, been due to continued large flows out of Russia, moving primarily to Brazil. Prices have likely peaked with the loss of the Black Sea supply now priced in. Expectations of a soft AUD this year will absorb some of the potential downside locally.

Though **phosphate** prices may have peaked, they are expected to remain well above average in 2022. If China returns to the export market, price downside could occur in 2H 2022. However, recent news suggests that the Chinese government has reinforced export controls, with inspection periods for shipments increased to 75 days from 45 to 60 days.

Chinese lockdowns and exportable surpluses will be key drivers for **chemical price volatility** in the coming 12 months. High inflationary pressures and associated increases in production costs are expected to keep prices high.

Delays for shed components, machinery, and machinery parts are expected to continue through at least 2022, with a return to normal delivery times unlikely this year.



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What to Watch

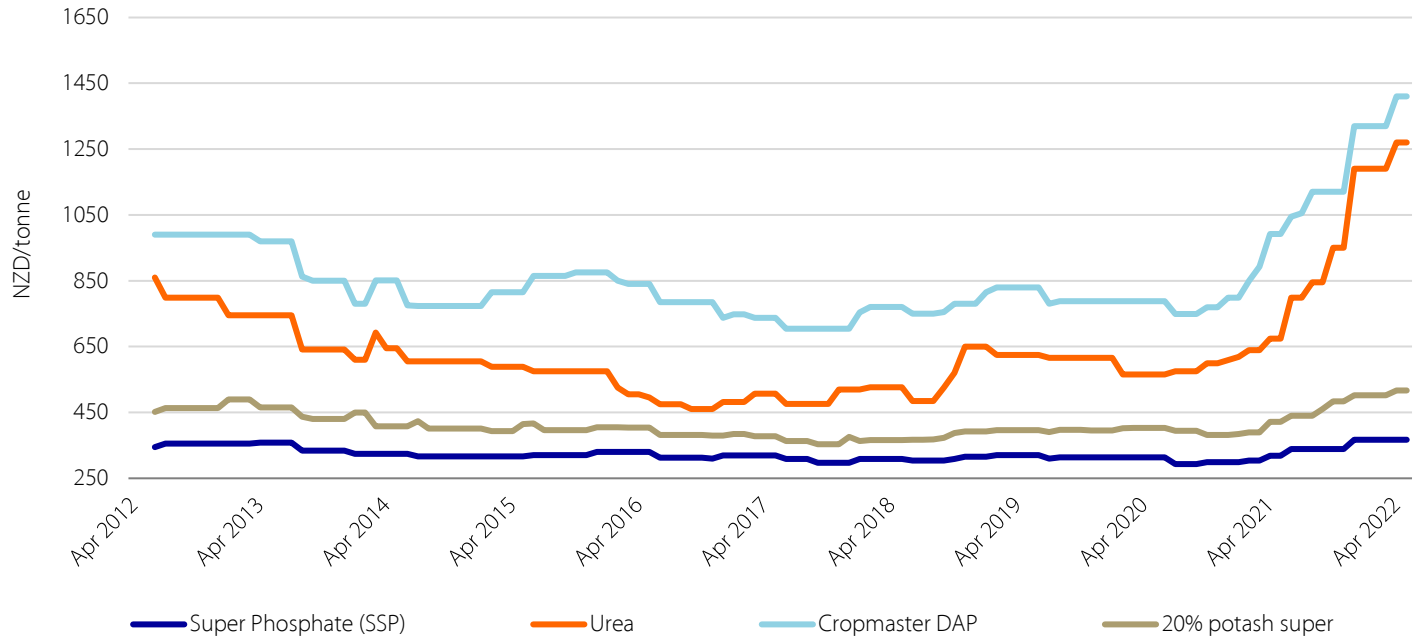
- **Sanctions on Russian oil** – The EU has announced it will ban all Russian seaborne oil imports. The ban – amid high energy costs and supply chain challenges – could lead to a significant increase in fossil fuel prices around the world. This would put upward pressure on input costs of fertiliser and agrochemical manufacturing, and consequently pose upside price risk for the global fertiliser markets.

Farm Inputs

NZ Still Waiting To See Global Fertiliser Price Declines



Local reported retail fertiliser prices



Source: CRU, Rabobank 2022

Source: Rabobank 2022/23 Crop Outlook – ask your manager for a copy of the full report

More Hikes To Come

The Reserve Bank of New Zealand (RBNZ) raised the official cash rate (OCR) by 0.5 percentage points to 2.0% in May. The NZD recovered recently to USc 0.65 from a mid-May low of USc 0.62.

The RBNZ continued to be a front runner in interest rate hikes, raising interest rates for the fifth time in a row in May. The additional 50 basis points elevated the OCR to 2.0%, the highest since November 2016. Since the rate hike cycle started in October 2021, the RBNZ has added 1.75 percentage points to control inflation.

Q1 CPI inflation registered 6.9% YOY, the strongest level since the early 1990s, and consumers are struggling under the weight of rising food and petrol prices. The RBNZ is concerned that higher prices could trigger a wage-price spiral if inflation expectations are not checked.

By raising the OCR by a larger increase, the central bank hopes to reduce the risk of inflation becoming entrenched. The RBNZ outlook shows the quarterly average of the OCR to hit close to 4% by in 2H 2023, before slightly declining again. In short: expect more interest rate hikes.

We see the potential for further safe-haven demand to boost the USD in the month ahead. This view stems from concerns over the pace of global growth. We see the risk of another dip to the NZD/USD 0.63 area in the weeks ahead, with a moderate recovery back to USc 0.65 on a six-month view dependent on a broad-based softening in the value of the USD.



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Interest rate & FX

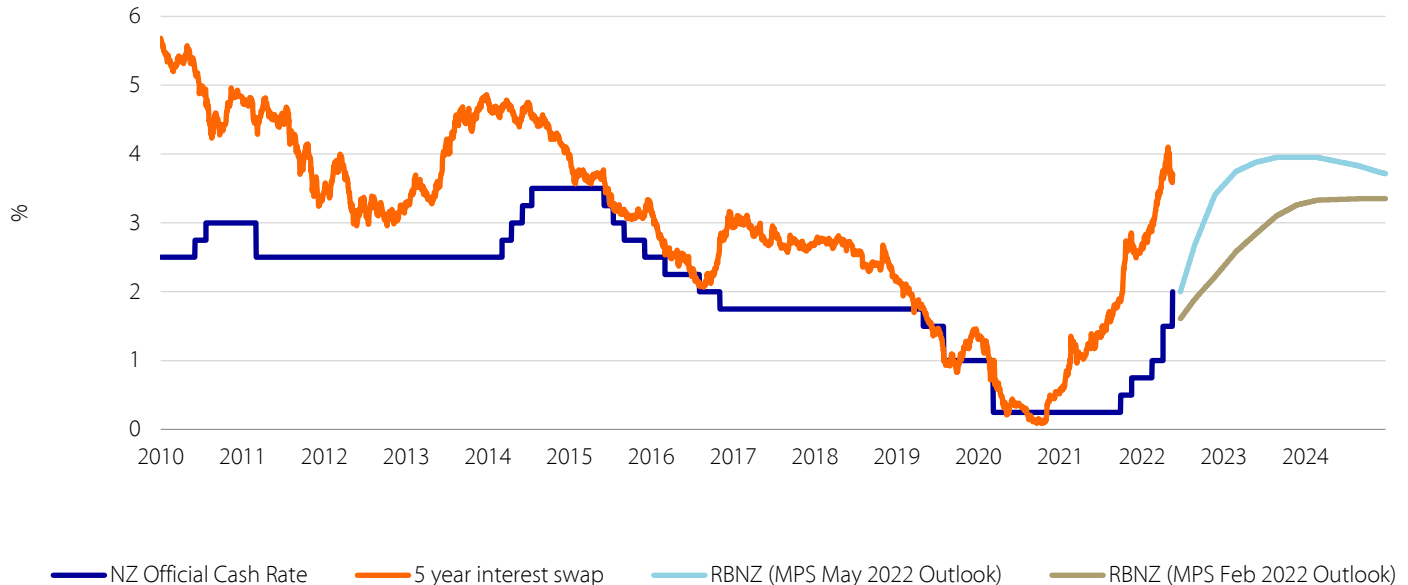
What to Watch:

- **Rising recessionary risks.** To protect consumers from the impact of inflation on household incomes, this month's Treasury budget included cash pay-outs, fuel discounts and a reduction in the cost of public transport. It can be argued that additional fiscal spending may mean that the RBNZ moves faster and harder on rates in the months ahead to dampen demand and create some slack in the economy. However, a faster pace of monetary tightening along with the impact of slowing growth in China may mean that the New Zealand economy could be facing recessionary risks late next year and into 2024.

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



NZ Official Cash Rate increases in 2022 were significant, but still behind five-year interest rate swap. RBNZ forecasts Official Cash Rate to double by 2H 2023 to 3.95%, up from its February forecast.



Source: Bloomberg, RBNZ, Rabobank 2022

Oil Price Strength To Continue

Crude oil continued to move slowly higher. Volatile energy prices resulted from continued policy uncertainty and the EU's work to ban imports of oil from Russia later in the year. While not yet decided, the EU is working to make such a ban happen. This has kept crude oil prices volatile through the month and Brent has continued its rising trend, moving above USD 117/bbl most recently, after having traded in a wide range of USD 102-122/bbl throughout May. Year-on-year prices are up 65%, and year-to-date are up 44%.

Global container rates saw downward pressure as the war in Ukraine and China's Covid-19-lockdowns led to temporary lower demand. Carriers canceled 468 sailings in the first five months of 2022, 167% and 60% higher than the same period in 2021 and 2020 respectively. The number of canceled sailings is expected to decline in June to around 70 as China is easing lockdown restrictions and Shanghai is expected to return to unrestricted living by the end of June. As a result, June and July will likely see upward container rates.

High congestion also contributes to the canceled sailings. Average ship waiting times for a berthing window at the ports of Brisbane and Melbourne are currently around 24 and 38 hours, respectively. Global on-time arrival of ships fell from 76% pre-pandemic to low 30% in the past 12 months and continued to decline lately.

The Baltic Panamax Index (a proxy for grain bulk freight) is heading back to a high level from relatively low levels in March 2022, amid strong demand from state buyers. Global trade of grains & oilseeds is forecast to rise 1.1% in 2022/23 to a new record, after a marginal 0.5% decline in the current season, which still remains well below the 5% to 6% growth seen in 2019/20 and 2020/21.

What to Watch

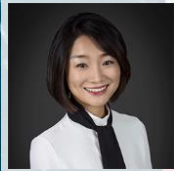
- **Oil markets globally remain tight** – The EU sanction Russia further by banning crude oil imported by vessels from Russia, which account for about 65% of EU's imports. Risk is that OPEC+ may exclude Russia and with it could raise oil production outside of Russia.
- **Port congestions in Asia seem to have cleared,** but will the problems just shift to destination ports once elevated levels of vessels arrive there in four to six weeks?



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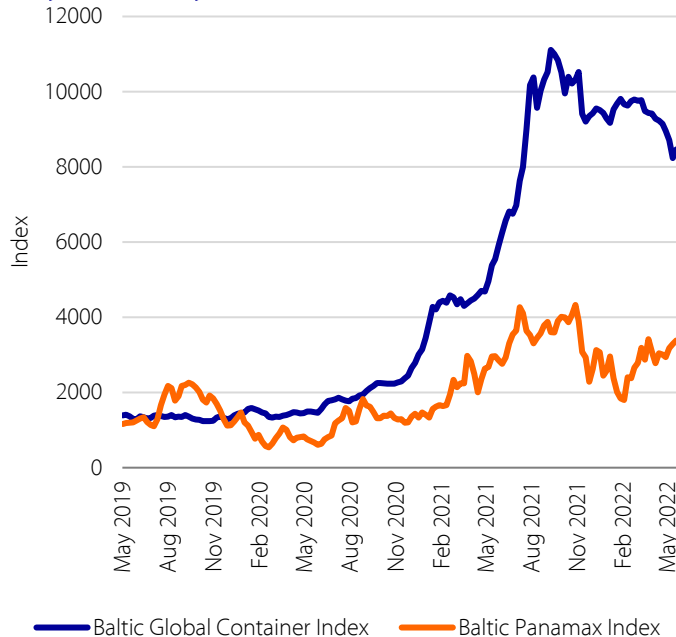
Oil &
Freight

Oil Prices Move Further up in May

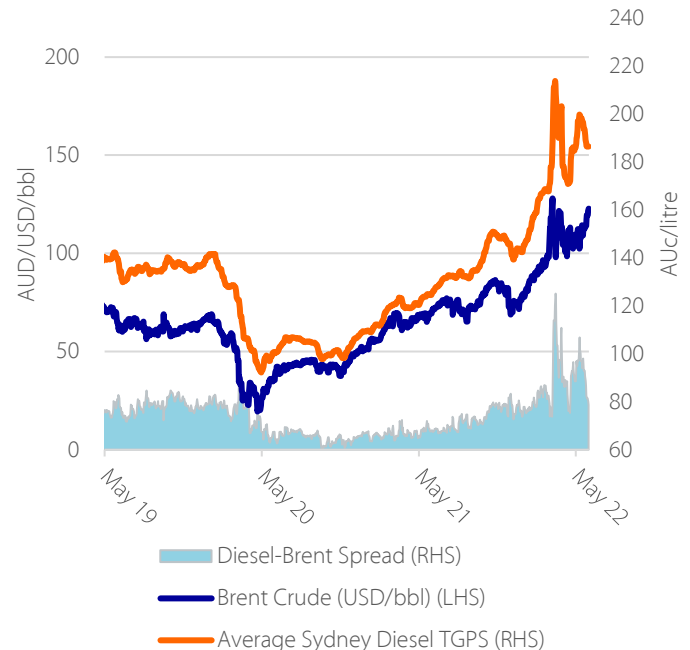


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Baltic Panamax Index & Dry Container Index, May 2019-May 2022



Brent Crude Oil & Average Sydney Diesel, May 2019-May 2022



Agri Price Dashboard

	30/05/2022	Unit	MOM	Current	Last month	Last year
Grains & oilseeds						
CBOT wheat		USc/bushel	▲	1,158	1,044	676
CBOT soybean		USc/bushel	▲	1,732	1,708	1,537
CBOT corn		USc/bushel	▼	777	818	665
Australian ASX EC Wheat Track		AUD/tonne	▲	466	410	300
Non-GM Canola Newcastle Track		AUD/tonne	▼	921	994	696
Feed Barley F1 Geelong Track		AUD/tonne	▲	430	376	253
Beef markets						
Eastern Young Cattle Indicator		AUc/kg cwt	▲	1,113	1,088	891
Feeder Steer		AUc/kg lwt	▲	578	575	456
North Island Bull 300kg		NZc/kg cwt	▲	595	590	520
South Island Bull 300kg		NZc/kg cwt	▲	575	565	470
Sheepmeat markets						
Eastern States Trade Lamb Indicator		AUc/kg cwt	▲	806	780	843
North Island Lamb 17.5kg YX		NZc/kg cwt	▲	855	830	750
South Island Lamb 17.5kg YX		NZc/kg cwt	▲	855	815	715
Venison markets						
North Island Stag		NZc/kg cwt	•	795	795	550
South Island Stag		NZc/kg cwt	•	800	800	545
Oceanic Dairy Markets						
Butter		USD/tonne FOB	▼	6,213	6,775	5,088
Skim Milk Powder		USD/tonne FOB	▼	4,300	4,450	3,475
Whole Milk Powder		USD/tonne FOB	▼	3,838	4,163	4,150
Cheddar		USD/tonne FOB	▼	6,013	6,213	4,400

Agri Price Dashboard

30/05/2022	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	158.7	166.1	89
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	139.4	152.3	83
Sugar markets					
ICE Sugar No.11	USc/lb	▲	19.6	19.4	17.12
ICE Sugar No.11 (AUD)	AUD/tonne	▲	602	598	452
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,420	1,377	1,320
Fertiliser					
Urea	USD/tonne FOB	▼	690	725	365
DAP	USD/tonne FOB	▼	1,100	1,240	583
Other					
Baltic Panamax Index	1000=198.5	▲	3,048	2,938	2,735
Brent Crude Oil	USD/bbl	▲	120	109	69
Economics/currency					
AUD	vs. USD	▲	0.719	0.706	0.775
NZD	vs. USD	▲	0.655	0.646	0.729
RBA Official Cash Rate	%	▲	0.35	0.10	0.10
NZRB Official Cash Rate	%	▲	2.00	1.50	0.25

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