The Gift of Strong Prices This Christmas?

New Zealand Agribusiness Monthly

RaboResearch
Food & Agribusiness

Rabobank

November 2022

Commodity Outlook

Dairy	Milk production growth looks set to continue to struggle in Oceania, as inclement weather shapes the 2022/23 season.
Beef	The farmgate beef schedule could face some downward pressure over the next two months as demand softens.
Sheepmeat	The lamb schedule is anticipated to move lower in the lead up to Christmas, following usual seasonal pricing trends.
Farm Inputs	Can a new global price configuration reach Oceania?
FX/Interest Rates	With higher-than-expected inflation, the RBNZ will have to push interest rates higher, with another cash rate hike expected in their final 2022 meeting in late November.
Oil/Freight	The bleak economic outlook continues to put pressure on oil and freight demand.

Windy and Warm Forecast for November 2022

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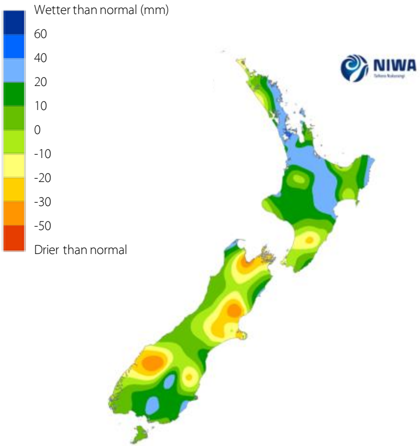
Soil moisture anomaly (mm), 2 November 2022



Source: NIWA, Rabobank 2022

November is set to be a month with plenty of weather volatility. Temperatures are likely to be warmer than average across the country, with periods of humidity.

In the South Island, strong northwesterly winds will be frequent in early November, bringing heavy rainfall around the divide. Over the next three months, higher-than-normal air pressure will likely result in an easterly quarter air flow anomaly and fewer westerly winds.

In eastern areas of the North Island, rainfall is likely to be near or above normal through to January 2023. Rainfall is expected to be normal or below normal in all other regions over the same time. The second week of November may bring a dry spell. Periods of dry spells are likely to occur occasionally through the summer months, and may be interspersed with tropical downpours, particularly in the north.

What to Watch

- ***La Niña déjà vu?*** NIWA anticipate a moderate La Niña event could last through the first half of the 2022/23 summer. NIWA also note an easing of La Niña conditions could be possible during late summer and/or autumn, bringing a "triple dip" La Niña (three consecutive La Niña events between 2020 and 2022). This is the first such triple dip since 1998 to 2000.

Dairy

Any Signs of Life for NZ Milk Flows?

Dairy commodity markets were weaker again in October 2022. There were close to double-digit falls in spot prices across the dairy complex. Growing concern around demand dynamics in consumer markets is weighing on markets. Sluggish imports from Chinese buyers is a key driver of the current price direction.

New Zealand milk supplies have continued to lag last season's flow, with September 2022 production back by 3.2% YOY. Season-to-date supply is trailing behind the prior period by 3.7% YOY. Most regions' production has been impacted by lacklustre spring weather – apart from the mighty Otago and Southland regions. Some production may have been clawed back by the time peak flows hit in late October. However, the full month of October was also plagued with climatic challenges. Delays to planting and silage due to wet conditions are the next consideration. This will determine farmers' comfort levels over the shoulder of the season in the face of any inclement weather.

Australian milk production in August 2022 trailed the previous year by 5.9%. Season-to-date milk production stands at 1.2bn litres, 6.6% behind the first two months of the previous season. The falls in milk production are widespread, with the largest percentage drops in the flood-impacted regions of Northern NSW and Queensland. More recently, impact from the latest flooding in Northern Victoria ranges from moderate to severe for many dairy business. Feed losses will be the most significant issue in flood-affected areas.

Outside of Oceania, milk supply recovery remains a mixed bag. The US posted September growth of 1.5% YOY through improved yield per cow, while the EU remains back marginally due to drought challenges.

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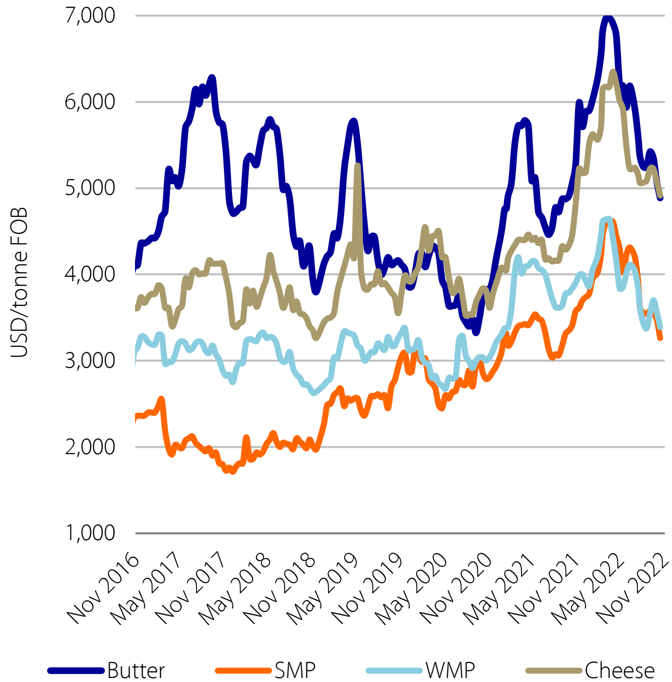
What to Watch

- ***Consumer demand*** – Dairy consumers everywhere are paying more right across the dairy aisle. More and more data points are showing the negative volume impacts. Dairy consumption will exhibit a degree of resilience, but in the large dairy markets, volume declines are reported in key categories such as cheese and milk. The full impact on dairy consumption won't be felt until 2023.

Oceania Peak Milk Production Less 'Peaky' in 2022

Global dairy prices, Nov 2016-Nov 2022



Source: USDA, Rabobank 2022

Production growth in key exporting regions

	Latest month	Last three months
EU	-0.3% (Aug 22)	-0.3%
US	1.5% (Sep 22)	1.1%
Australia	-5.9% (Aug 22)	-6.6%
NZ	-3.7% season-to-September (2022/23)	

Source: Rabobank 2022

Heat Coming off Beef Demand

Final processing tallies are in for the 2022 season. Overall, the total number of cattle processed was down 5.2% compared to the 2021 season, with lower numbers of prime beef, cows, and bulls being processed. Processing challenges were certainly an important factor contributing to the lower slaughter numbers, but not the only factor. Steer and heifer slaughter numbers were anticipated to be around 1.5% and 5% lower YOY respectively, in 2022 – slaughter numbers peaked in 2021 off the back of increased bobby calf retention in 2019. The number of cows processed was around 69,000 head fewer YOY – a strong milk price likely incentivising farmers to retain more dairy cows. The processing industry will continue to face labour constraints in the 2023 season, impacting processing capacity.

Bobby calf processing numbers back this spring, to date. The number of bobby calves processed in spring 2022 (July, August & September) was 3% lower (52,000 head) compared to 2021. October tallies are yet to be included. The meat industry was expecting higher numbers of bobby calves to come forward for processing as dairy farmers that supply Fonterra prepare for the introduction of zero on-farm euthanasia of bobby calves from 2023. However, the increased bobby calf supply caused significant challenges and pressure for the meat industry. This is likely to worsen in 2023 with even more calves forecast to come forward.

September export data highlights market challenges. Overall export volumes for September 2022 were steady (+2% YOY), but the average export value (AEV) softened to NZD 9.75/kg FOB in September, a decline of NZc 0.49/kg FOB compared to August 2022. A month-on-month lift in AEV to Japan and Taiwan in September was offset by a month-on-month decline in AEV to China of NZc 0.73/kg FOB. Economic headwinds and a weaker USD/CNY are impacting Chinese buying power. However, a weaker NZD/USD is helping to mask the full effects of softening demand for beef, supporting export and farmgate returns.

What to Watch

- ***The AgriHQ North Island bull price held steady at NZD 6.50/kg cwt through October, moving in line with the 2021 schedule.*** RaboResearch anticipates that the farmgate schedule could move lower in November, reflecting softer demand from China and the US. As prime cattle supplies lift through November, some regions could experience a processing pinch. Booking stock early will remain important.

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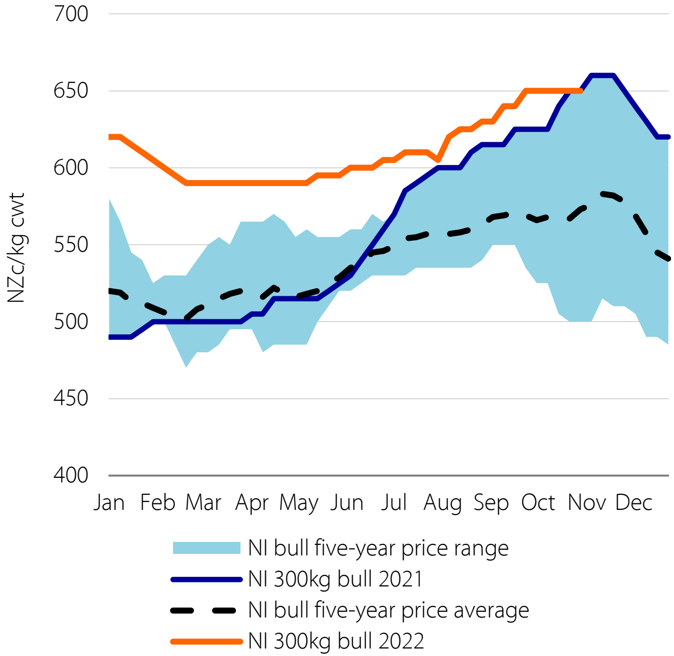
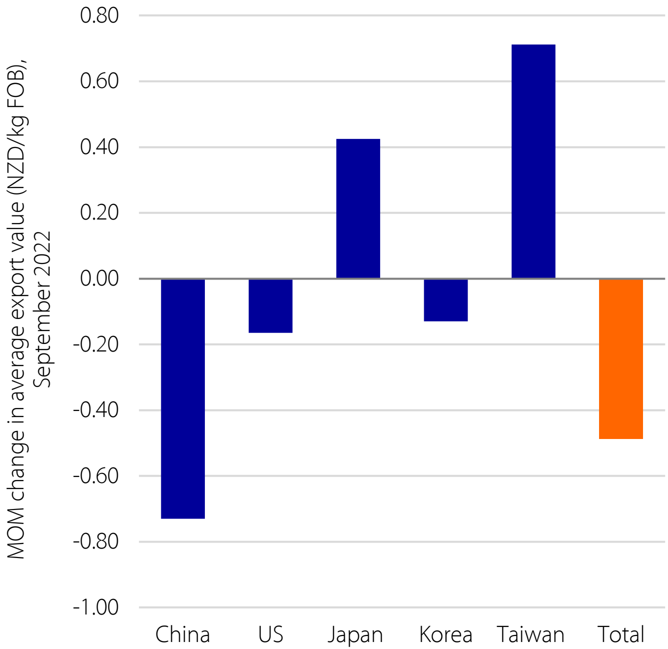
Beef

Headwinds Facing Beef Schedule

AgriHQ North Island bull price moves in line with 2021 schedule



Softer Chinese demand evident in September 2022 export values compared to August



Source: AgriHQ, Stats NZ, Rabobank 2022

Christmas Lamb Anyone?

Sheepmeat

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Growing market challenges are finally catching up with the lamb schedule. As expected, the AgriHQ South Island lamb price peaked in September and moved lower through October, sliding to NZD 9.25/kg cwt at the end of the month. While the lamb price remains historically high, it has moved lower than the schedule for the same time in 2021(lower by NZc 15/kg cwt). The mutton schedule has remained relatively steady over the past few months, but started to track downwards in October, dropping below the NZD 6/kg cwt mark. Further downside is anticipated for the mutton schedule as weaning gets underway.

A turbulent economic situation in New Zealand's key lamb markets – China, Europe, and the US – is flowing through to softer demand and export earnings. The average export value of sheepmeat exported to China in September was down NZD 1.56 YOY – highlighting the impact that Covid lockdowns have had and are continuing to have on the economy. RaboResearch holds its forecast of 2.8% GDP growth in China for 2022, recovering to 5% growth in 2023 on the premise that lockdowns ease.

The final processing tallies for the 2022 season paint an interesting picture. The total lamb kill for the 2022 season was 3.1% lower than the previous season – around 560,000 lambs. The 2021 lamb crop was estimated to be 0.6% higher than the previous year by Beef and Lamb New Zealand. Therefore, a number of lambs are yet to come forward for processing in November. The national mutton and hogget tallies were also both significantly lower for the season, at 200,000 and 15,000 head, respectively. Processing numbers spiked in 2021 due to the combined effect of drought and strong mutton and lamb prices.

What to Watch

- ***RaboResearch anticipates that the lamb schedule will move lower*** through November and December, following the usual seasonal pricing patterns. A favourable exchange rate will help to mask some of the effects of softer demand. While there are significant headwinds for the lamb schedule in the lead up to Christmas, we anticipate that high protein prices globally will provide an elevated pricing floor.

Lamb Schedule Reflecting Market Challenges

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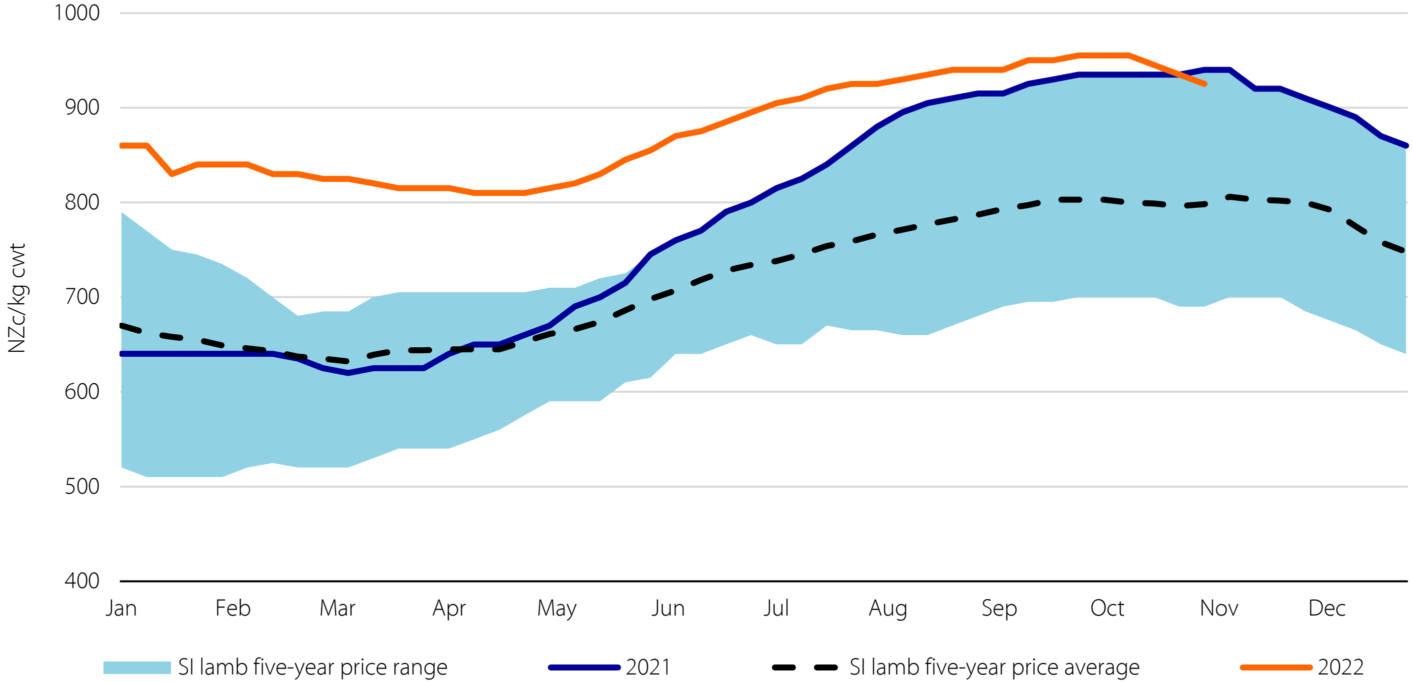
AgriHQ South Island lamb price moving lower



Source: AgriHQ, Rabobank 2022

Cost Relief on the Horizon?

Despite recent events in global energy markets, European gas stocks have reached good levels for the coming winter, prompting a 90% reduction in the Dutch TTF natural gas spot price. Global reference prices for urea, DAP, and MOP decreased 10%, 5%, and 6%, respectively.

Reduced natural gas prices brought profitability back to manufacturers, with plant curtailments in Europe declining from 67% to 37% for ***nitrogen***. This represents a 45% recovery in site numbers since 2022's energy price escalation and adds roughly 4m tonnes of urea back to the supply chain on a yearly basis. International prices are beginning to reflect this recent status change, but some regions show minimal price reductions. Baltic Sea urea spot prices moved from NZD 940 to 1,030/tonne to a range of NZD 910 to NZD 1,000/tonne during October, down 3% MOM.

The future is misty for ***phosphate*** due to Hurricane Ian's damage to the US logistics system, Chinese export quota size uncertainty, and just how high worldwide stocks are. In general, global prices show a steady and slow reduction caused by high levels of stocks. India is back in the export game but the benefit may be offset if China employs more stringent export quotas in Q1 2023.

High levels of ***potash*** stocks are also causing price reductions – and disparities of up to 20% between regions. The high stocks in the Americas, especially in Brazil, might lead to further price reductions globally. The question is the depth and timing of the price corrections.

The downward trend for ***agrochemical*** prices is expected to continue as global demand softens, Chinese stocks steady, and production remains undisturbed. The FOB reference price for glyphosate at Chinese ports marks a 29% reduction YTD.

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Farm Inputs

What to Watch

- ***Container flows*** – The Baltic Dry Container Index is close to AUD 6,250, a 25% reduction MOM and 55% YOY. The partial rearrangement of global flows and new vessels might soften freight costs for agrochemicals. Rabobank forecasts a 9.4% increase in ocean liner container capacity in 2023. Of those, 75% are refrigerated containers.
- ***EU nitrogen production valves opening*** – In the comings weeks we will be able to see how much nitrogen production can bounce back given the new natural gas price level.

Will the New International Prices Arrive?

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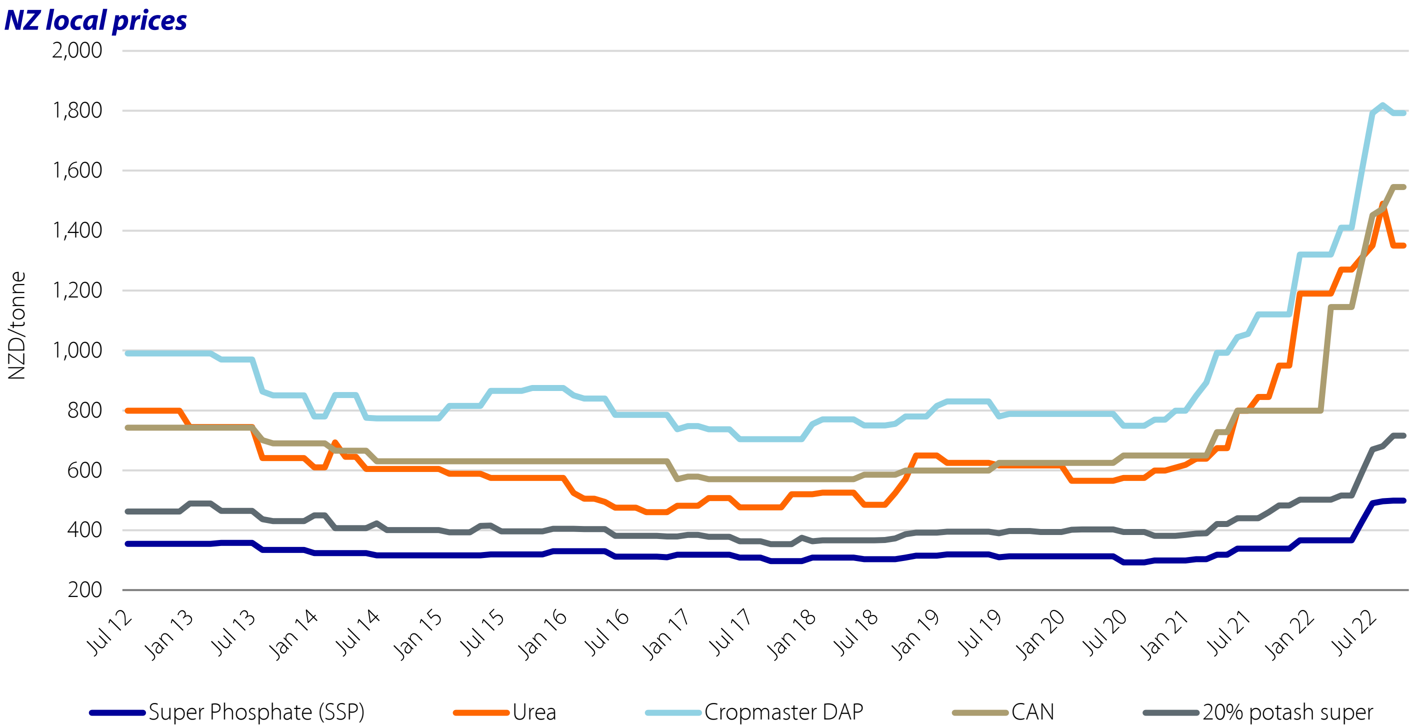

Source: Ravensdown, Rabobank 2022

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Interest Rate & FX

Inflation Prompting RBNZ Rate Hike

October saw the latest CPI data come in much higher than the market expected. Q3 total inflation was up 2.2% QOQ and 7.2% YOY. Markets responded with increased expectations of further rate hikes, as the five-year swap rate increased to over 5% on the back of the release. Expectations have since fallen back to pre-announcement levels at 4.7%.

This past year has seen the RBNZ hike rates six times, five of which were by 50bps, taking the official cash rate up to 3.5%. The Reserve Bank shows no sign of backing off, adding that monetary conditions need to continue to tighten until the RBNZ is confident that there is sufficient restraint on spending to bring inflation back within its 1% to 3% target range. Indeed, they remain "resolute in achieving the Monetary Policy Remit." With higher-than-expected inflation data, another hike is expected in late November.

After reaching a year low of USD 0.55, the New Zealand dollar slightly recovered by the end of October, trading between 0.55 and 0.58 against the USD dollar. With expectations of another hawkish 75-basis-point rise from the Fed, US dollar strength is expected to continue in the short term.

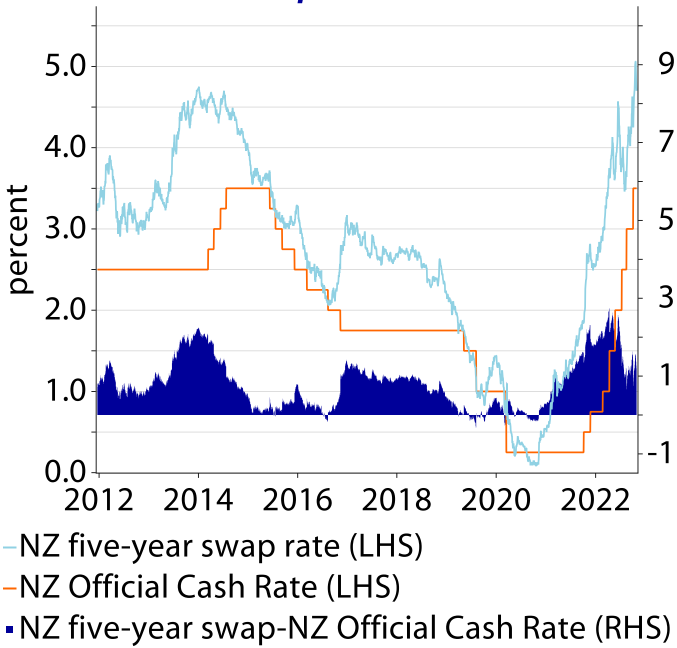
Our 12-month forecast of NZD/USD 0.62 is below the five-year average for the currency pair and well below longer-term averages. Despite expectations of further RBNZ rate hikes, the NZD's association with commodity prices suggests scope for further downside in NZD/USD. We expect the US dollar's strength to turn around on a 12-month timeframe, allowing NZD/USD to recover to 0.62 in 12 months.

What to Watch:

- ***23 November*** – With higher-than-expected inflation, the RBNZ will likely issue another rate hike at their final board meeting for 2022.
- ***Short-term USD strength*** – We expect a recovery of the NZD towards USc 0.62 within 12 months.

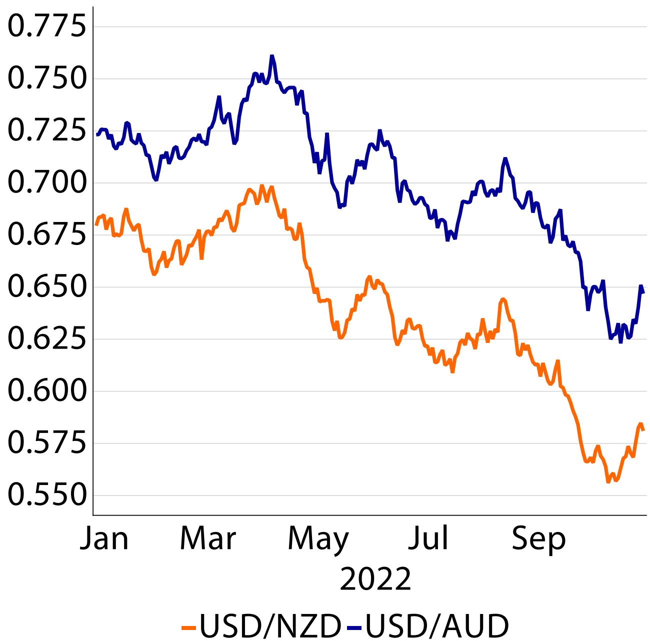
Official Cash Rate Expected To Continue To Rise Further in November

The NZ Official Cash Rate is at 3.5% after five consecutive 50-basis-point hikes



Source: Macrobond, Rabobank 2022

Commodity-linked NZD and AUD slightly recovered against the USD this October



Source: Macrobond, Rabobank 2022

Reefer Container Rates To Decrease Through 2023

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Crude oil prices increased over October, as OPEC agreed to cut supply by another 2m bpd to keep prices elevated. This caused a recovery in prices over the past month as Brent Crude Oil hovered between USD 87 and USD 97/bbl. Despite the expected seasonal hike in oil demand for the Northern Hemisphere winter, slowing economic growth is weighing on demand, particularly in China were zero-Covid policy restrictions remain. OECD inventories of oil remain significantly below the five-year average, and risk of further supply shocks will continue to support prices. Rabobank expects the price of crude to remain around USD 97.2/bbl out to the end of 2022.

Reefer container rates are likely to decrease through 2023, yet at a significantly slower pace compared to the steep declines of dry container rates we have seen in recent months. Looking at the demand side, whereas freight demand for dry cargo (mostly non-food) has experienced strong declines, freight demand for reefer cargo (mostly food) is expected to stay resilient through the current economic downturn. Looking at the supply side, capacity is expected to grow in 2023 and therefore contribute to a downward trend of reefer container rates. Reefer plug capacity on containerships will grow 7.1% YOY in 2023 thanks to many ordered containerships coming online in 2023. Reefer container production will also grow with an expected CAGR of 3.4% 2021-2026. However, reefer container shortages, which put upward pressure on rates, will remain an issue in major F&A exporting regions including Central America, South America, Southern Africa, as well as Oceania as a result of their high imbalances between low-volume reefer import versus high-volume reefer export.

The Baltic Panamax index (a proxy for grain bulk freight) is dropping from its September peak, reversing the month-long trend of impressive gains. We observe weakness across vessel segments in recent weeks, overshadowed by challenging economic conditions.

Oil & Freight

What to Watch

- ***Looming global economic conditions*** – A slowing global economy will continue to impact global trade and, thus, ocean container and bulk shipping conditions.
- ***China's zero-Covid policy weighing on oil demand*** – Recent spikes in Covid infections have increased restrictions in China's largest city of Shanghai. With no sign of China ending the zero-Covid policy anytime soon, restrictions will continue to impact demand for oil.

Supply Cuts Putting Pressure on Crude Prices

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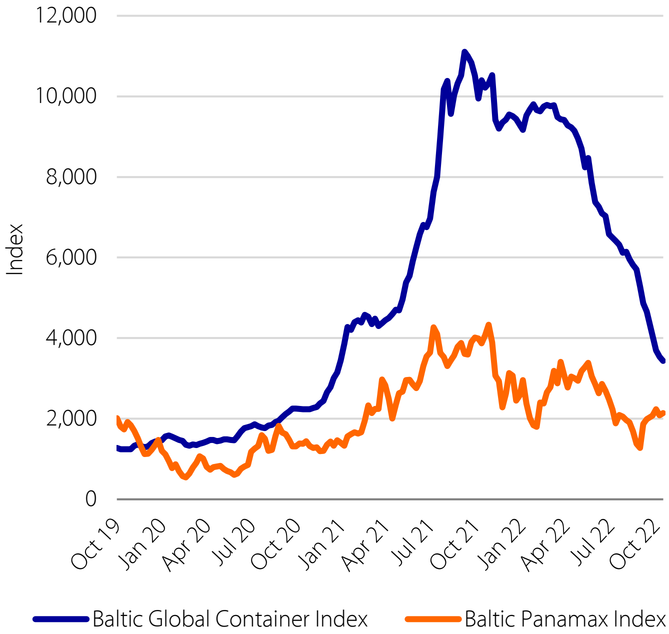
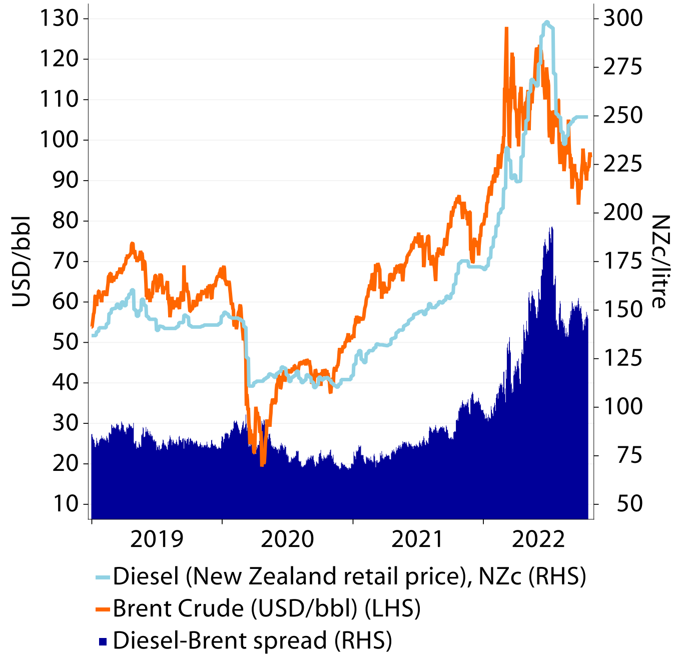
Baltic Panamax Index and Dry Container Index, Oct 2019-Oct 2022



Source: Baltic Exchange, Bloomberg, Rabobank 2022

Brent Crude Oil and New Zealand Retail Diesel, 2019-Oct 2022



Source: Macrobond, Rabobank 2022

Agri Price Dashboard

28/10/2022	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	831	922	773
CBOT soybean	USc/bushel	▲	1,376	1,365	1,236
CBOT corn	USc/bushel	▲	678	678	568
Australian ASX EC Wheat Track	AUD/tonne	▲	483	442	333
Non-GM Canola Newcastle Track	AUD/tonne	▲	807	730	889
Feed Barley F1 Geelong Track	AUD/tonne	▲	349	326	276
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	1,042	1,075	1,073
Feeder Steer	AUc/kg lwt	▼	551	567	559
North Island Bull 300kg	NZc/kg cwt	•	650	650	650
South Island Bull 300kg	NZc/kg cwt	▲	635	625	615
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	767	737	853
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	925	960	965
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	925	955	940
Venison markets					
North Island Stag	NZc/kg cwt	▲	880	840	690
South Island Stag	NZc/kg cwt	▲	885	855	700
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	4,888	5,350	5,063
Skim Milk Powder	USD/tonne FOB	▼	3,263	3,550	3,413
Whole Milk Powder	USD/tonne FOB	▼	3,388	3,700	3,838
Cheddar	USD/tonne FOB	▼	4,913	5,225	4,463

Agri Price Dashboard

28/10/2022	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	96.0	103.8	123
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	75.0	93.2	115
Sugar markets					
ICE Sugar No.11	USc/lb	▼	17.7	18.4	19.3
ICE Sugar No.11 (AUD)	AUD/tonne	▼	606	609	539
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,300	1,255	1,333
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	625	648	818
DAP (US Gulf)	USD/tonne FOB	▼	700	755	740
Other					
Baltic Panamax Index	1000=1985	▼	1,900	2,082	3,896
Brent Crude Oil	USD/bbl	▲	96	88	84
Economics/currency					
AUD	vs. USD	▲	0.64	0.64	0.752
NZD	vs. USD	▲	0.58	0.56	0.717
RBA Official Cash Rate	%	▲	2.60	2.35	0.10
NZRB Official Cash Rate	%	▲	3.50	3.00	0.50

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