

Some Spring Weather Surprises







New Zealand Agribusiness Monthly

October 2022

RaboResearch
Food & Agribusiness



Commodity Outlook

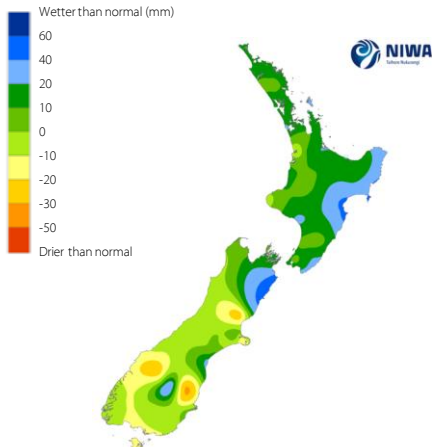
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|  <p>Dairy</p> | Some signs of life in global milk production engine are evident – but there is increasing risk that New Zealand’s milk production is likely to remain stalled for this season. |
|  <p>Beef</p> | Strong demand from China and a low NZD are expected to support elevated farmgate returns over the next two months. |
|  <p>Sheepmeat</p> | Some of the heat is anticipated to come out of the spring lamb schedule over the next two months as demand in key markets softens. |
|  <p>Farm Inputs</p> | Urea price upside is on the cards in the months ahead. |
|  <p>FX/Interest Rates</p> | Another 50-basis-point hike was announced at the RBNZ October meeting, bringing the cash rate to 3.5%. NZD has weakened, but we hold our 12-month target of a slightly strengthening NZD compared to the USD. |
|  <p>Oil/Freight</p> | Looming economic conditions have softened prices for oil and freight. Brent crude hovered between USD 84 and USD 97/bbl this August. Global freight rates continue to decline for most routes, while reefer rates remain elevated. |

Bitterly Cold Start to October



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Soil moisture anomaly (mm), 4 October 2022



Source: NIWA, Rabobank 2022

While the first week of October has brought bitterly cold southerly conditions, the weather for the remainder of the month is looking more favourable for grass growth.

Moderate La Niña conditions are expected to prevail, bringing warmer-than-average temperatures across the North Island and western areas of the South Island. Higher-than-normal air pressure around New Zealand is likely to bring less frequent westerly winds, and more north-easterly winds. Western areas could experience longer dry spells.

Rainfall is forecast to be below normal for the west of the South Island, and near or below normal in all other regions. Conditions on farm are already very wet for most of the country, but sub-tropical lows are expected through October that could bring heavy rain to the north and east of the North Island.

What to Watch

- **Cyclone Season** – there is an increased risk for tropical cyclone activity in the Southwest Pacific during November and December. More details will be available when NIWA releases the Tropical Cyclone Outlook in October 2022.

An Underwhelming Peak Ahead

Plenty of attention has been on New Zealand's milk supply as the seasonal peak hits its stride.

Weather risk was always lurking in the background, and some of the risk has started to materialise. New Zealand milk production for August 2022 was down 4.9% YOY: the lowest volume for the month of August in five years. This means New Zealand milk production season-to-date is down 4.4% (4.2% on a milksolids basis). Milk production for the full season is now likely to end between 2% lower and 0% compared to last season – with the next month's production a key watch. An underwhelming flush looks likely for the second season in a row. In contrast, US milk production posted its strongest gain in 15 months in August, and EU milk supply is showing some positive signs.

A largely absent Chinese buyer is still evident in global markets. The August data showed a sixth-consecutive year-on-year total volume decline. It is not surprising to see China's import volumes trending lower. Rabobank has been forecasting lower imports in 2022, which will likely carry into early 2023. Buoyant local supply, ample inventories, and softness in consumer demand are feeding through into reduced import purchasing. A close eye will remain on the China dairy market for future price direction.

Nonetheless, other importers are taking advantage of lower prices, and reduced purchasing activity by China. This has helped stabilise Oceania commodity prices in September after a sizeable drift in prices since March. Across the dairy complex, there was a small increase in spot prices for Oceania-origin products. Rabobank has not ruled out further weakness in prices to come, but local exporters will welcome the recent price stability.



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Dairy

What to Watch

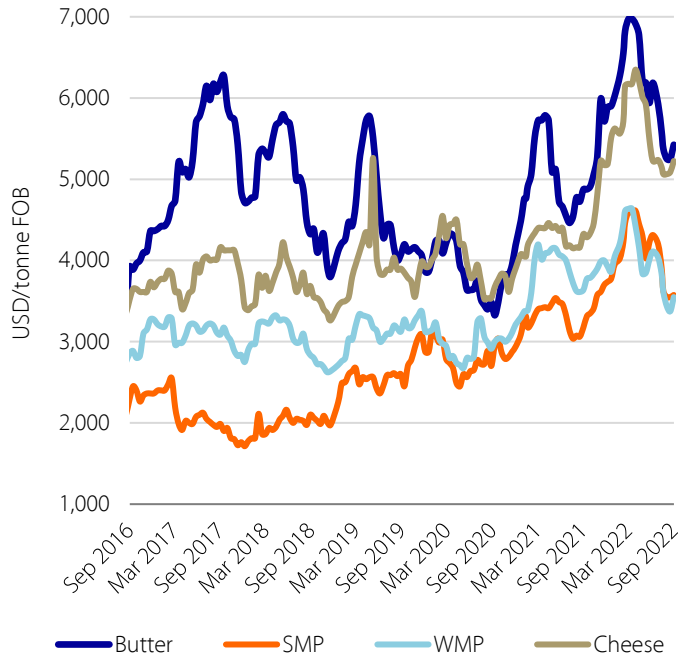
- **Australian milk supply** – Despite a strong footing, Australian milk supply has started 2022/23 on a weak note. National milk supply fell 4% last season, and is down more than 8% to start the season (albeit on a low volume base). Rabobank still expects milk supply to stabilise as the season progresses on the back of an ample supply of feed, irrigation water, and healthy farmgate margins.

Commodity Prices Still Trending Lower



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Global dairy prices, Sep 2016-Sep 2022



Production growth key exporting regions

| | Latest month | Last three months |
|------------------|-----------------------------------|--------------------------|
| EU | 0.4% (Jul 22) | -0.4% |
| US | 1.6% (Aug 22) | 0.7% |
| Australia | -8.3% (Jul 22) | -8.5% |
| NZ | -4.4% season-to-August in 2022/23 | |

Source: USDA, Rabobank 2022

Source: Rabobank 2022

China Driving Farmgate Schedule

Beef demand and returns are continuing to chug along steadily, but the impact of inflation on consumer spending behaviour is something to watch over the next six months.

New Zealand beef exports in August remained strong, with export volumes lifting 13% YOY and export earnings increasing 37% YOY for the month. Demand from China, Japan and Korea is providing broad-based support for the farmgate schedule, as those markets soak up beef that would otherwise be destined for the US. Exports to China for the month of August were strong, with 58% of New Zealand's beef exports sent to China. Typically, around 40% of New Zealand total beef exports are exported to China in a year. The low NZD is supporting beef returns, in addition to strong demand from China.

Demand from the US continues to remain soft as the US cow herd liquidation is producing ample supplies of 90CL lean trimmings. The US 90CL import price continues to track below the domestic 90CL price. New Zealand beef exports to the US in August were back a significant 41% YOY.

The AgriHQ North Island bull price tracked up further in the second half of September to NZD 6.50/kg cwt. Processing backlogs have been improving, but beef slaughter numbers remain lower compared to 2021. Extremely wet conditions on farm and a lack of sunshine are impacting finishers' ability to get stock off farm. RaboResearch anticipates that the beef pricing schedule will remain elevated over the coming two months, supported by a favourable exchange rate and strong demand from China.

As processors breathe a sigh of relief that another bobby calf season has wrapped up, focus will now be shifting to what the final processing numbers are. As of 3 September, the bobby calf numbers were 4.2% ahead of 2021. Full data will be available at the end of October 2022.

What to Watch

- **Tight global beef supplies are continuing to support beef prices, but consumers and customers are starting to show resistance to high prices** – Consumers are starting to trade down cuts and proteins, choosing lower value cuts such as mince and lower-value proteins like chicken and pork. However, across the protein complex globally, prices are very high due to inflated input costs and the availability of chicken and pork continuing to be impacted by Avian Influenza and African Swine Fever.



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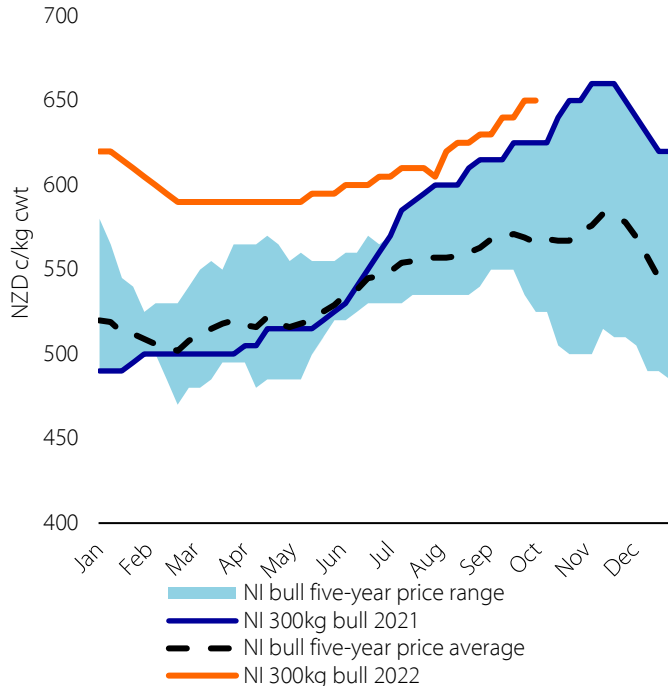
Beef

Farmgate Schedule Continues To Move Up

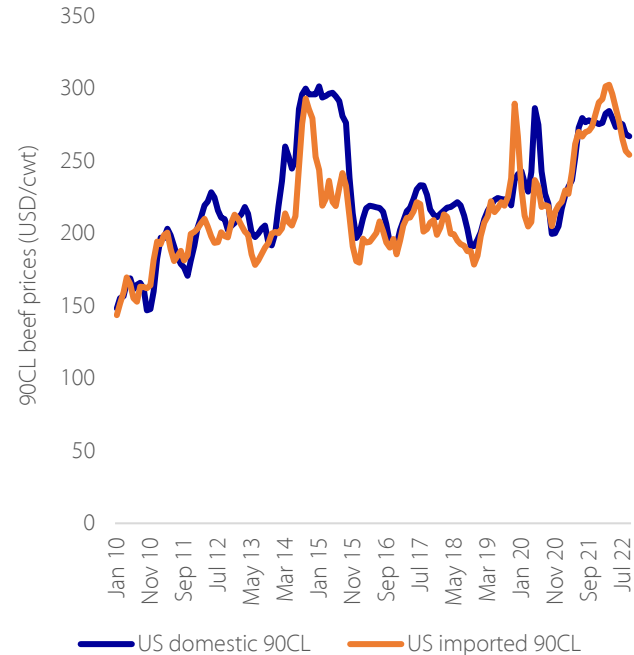


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AgriHQ North Island bull price setting new records



US imported 90CL beef price softer



Price Pushback in Key Markets

The new season has kicked off, but not with the spring boost we had all hoped. On-farm conditions across the country are challenging, with most regions very wet, impacting lamb growth rates. In addition to slowed lamb growth, we're seeing slowing demand in New Zealand's key markets.

The national lamb kill tallies are catching up, but still have a way to go. The processing industry made significant inroads on the lagging national lamb kill through the winter months, with slaughter numbers catching up to be only 3.1% behind for the same period in 2021 (538,000 lambs) at the start of September. 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.

Lack of sunshine could boost the farmgate schedule. Wet conditions across the country are hampering efforts to finish lambs, therefore we could see increased procurement pressure through October as processors try to keep chains full ahead of the new season lamb crop. Processors will also be extremely mindful of keeping shifts operating at capacity, to incentivise and retain valuable staff as the season kicks off.

The AgriHQ South Island lamb price climbed to NZD 9.55/kg cwt through the second half of September, supported by a low NZD against the USD, offsetting softening demand for lamb in New Zealand's key markets. While export volumes to China in August were 21% higher compared to August 2021, there was no increase in export earnings.

Ongoing Covid-lockdowns in China are impacting GDP growth, and pinching consumer spending. Additionally, the strength of USD vs. CNY is increasing the cost of importing sheepmeat. Exporters are reporting that they are starting to experience price resistance, evidenced by rapidly declining cut prices. The China lamb flap price took a dive in the last week of September, dropping NZc 60 WOW to USD 8.00/kg. For the same week in 2021, the China lamb flap price was NZD 9.20/kg.



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Sheepmeat

What to Watch

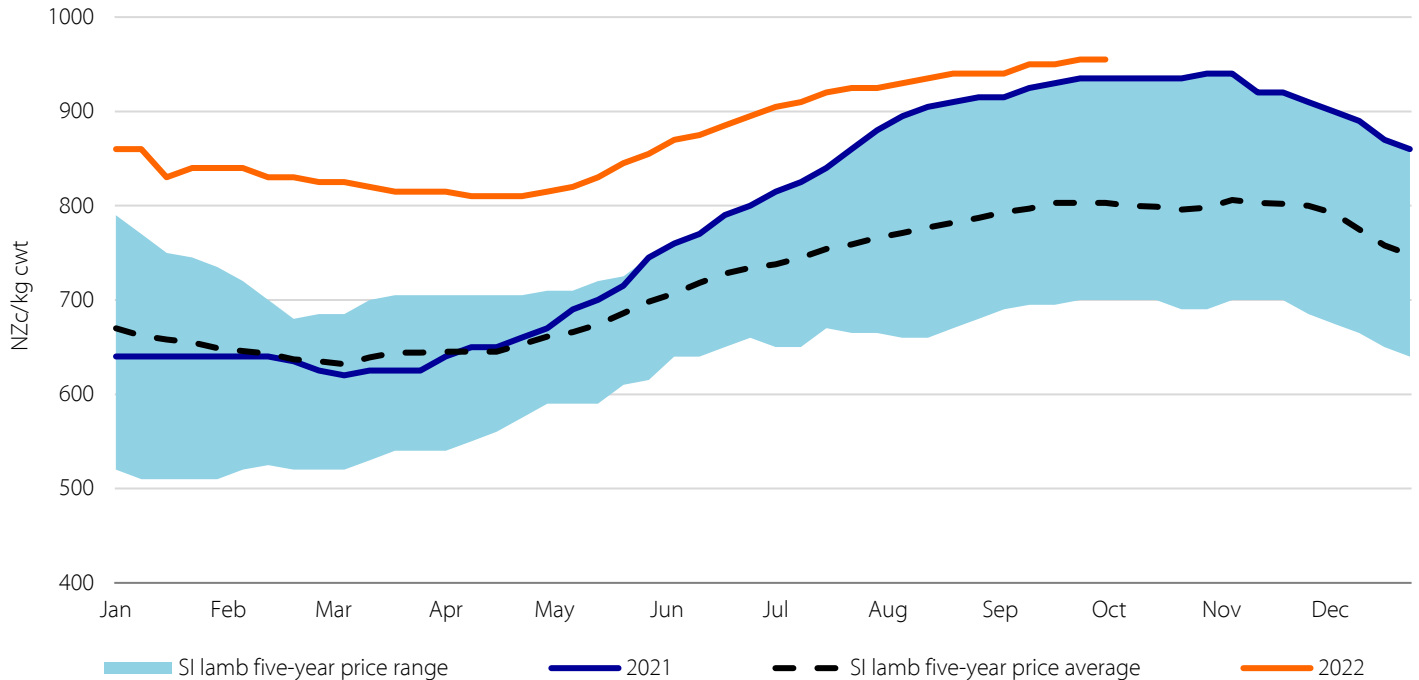
- **The rush to secure Christmas lamb in UK and European markets is likely to be dampened by soaring living and energy costs** – As a result, the farmgate schedule is unlikely to receive the usual pre-Christmas boost associated with chilled trade. While procurement pressure may boost the farmgate schedule as the season kicks into gear in October, RaboResearch anticipates it will be short-lived and the schedule will continue to soften as it follows its usual seasonal supply trend.

Market Pressures Starting To Impact Schedule



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AgriHQ South Island lamb price still elevated



The Hunt for Nord Stream Sabotage

Overseas prices in USD, for urea, increased 3% MOM in September, while phosphate and potash both eased 12% MOM, respectively. In New Zealand, in NZD, urea prices declined 9% MOM, DAP declined 1% MOM, while potash super increased 5% MOM.

Rabobank continues to see substantial upside price risk for urea moving into Q4 2022 and Q1 2023. On 27 September, three simultaneous leaks spread in the Nord Stream I and II pipelines connecting Russia and Europe, and hope is largely lost for an increase in gas flows in the near future as a result. Leaks of this scale are extremely rare, and the timing, distance and damage corresponds to sabotage according to several EU energy and intelligence agencies. Rabobank's view (see [Flows, Flows, Flows](#)) is for substantial upside risk for natural gas prices moving into peak northern hemisphere winter and then an easing of prices in Q2 2023. In mid-September, Europe's fertiliser industry association reported that 70% of fertiliser production was either slowed or shut down due to high natural gas prices. Given the latest reduction of natural gas supplies, we don't expect a reversal in production volumes any time soon, and consequently any sustained reprieve in nitrogen pricing.

The combination of **potash** exports still heading out of Russia and rumours of sizeable stocks in the Americas adds to our view of a downward trend in global potash prices continuing. While stocks of **phosphate** are also reported high in the Americas, the dependency on natural gas for ammonia production means there is less price downside than for potash.

Agrichemical prices are expected to continue their downward trend moving into the end of 2022.

While the drought continues in some regions of China, government-enforced electricity rationing for manufacturers has reportedly largely been resolved and production is expected to ramp up again with prices to ease at export terminals.

What to Watch

- **Exchange rate** – The sharp recent decline in the NZD is expected to reduce New Zealand's purchasing power in international markets in coming months. The three-month view is for the NZD to remain at USD 0.55 but by the end of 2023 return to USD 0.62.



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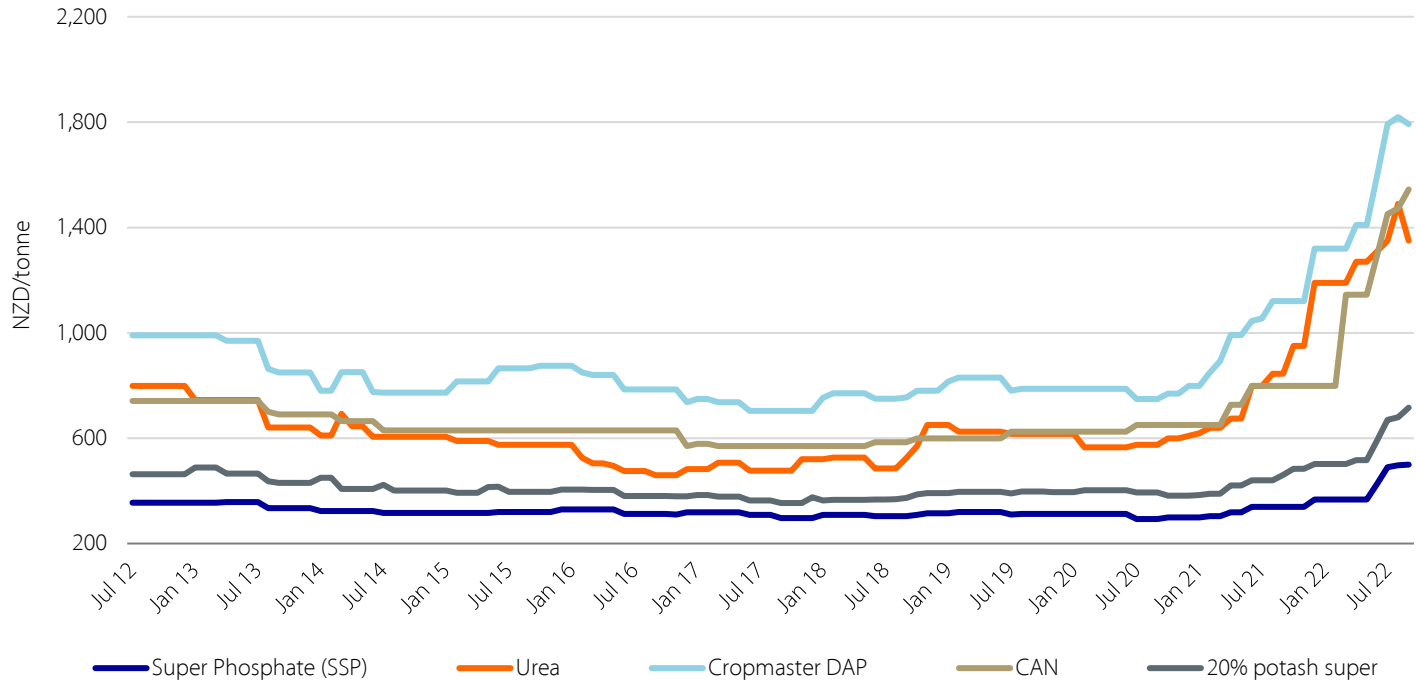
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Farm Inputs

Local Urea Prices Ease, but Reprieve May Be Short-lived



NZ local prices



Six Hikes Up, One To Go?

As expected, RBNZ announced another 50-basis-point cash rate hike in the first week of October to 3.5%. The NZD has continued to weaken, passing below USD 0.60 in September. We expect a move towards USD 0.62 within 12 months.

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 needed to continue to tighten until they are confident there is sufficient restraint on spending to bring inflation back within its 1%-3% target range. Indeed, they remain “resolute in achieving the Monetary Policy Remit.” Despite this, domestic demand has remained resilient, with spending supported by a tight labour market, fiscal policies and healthy terms of trade.

The RBNZ forecast is now that the base rate peaks around 4.1% in mid-2023, up from 3.95% previously forecast. The five-year swap rate has increased over September moving higher again to 4.5%.

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 the strong risk of further RBNZ rate hikes, the NZD’s association with commodity prices suggests scope for further downside in NZD/USD. We expect USD strength to turn around on a 12-month timeframe, allowing NZD/USD to recover to 0.62 in 12 months.



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Interest Rate & FX

What to Watch:

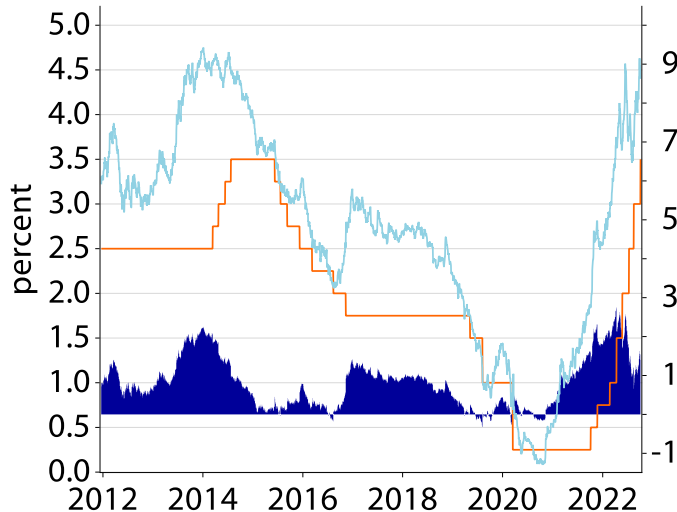
- **23 November** – likely another 25 or 50 basis points, which would bring the cash rate close to the RBNZ forecast of a 4.1% peak.
- Short-term USD strength, but a recovery of the NZD towards USD 0.62 within 12 months.

Official Cash Rate Expected To Continue To Rise Further



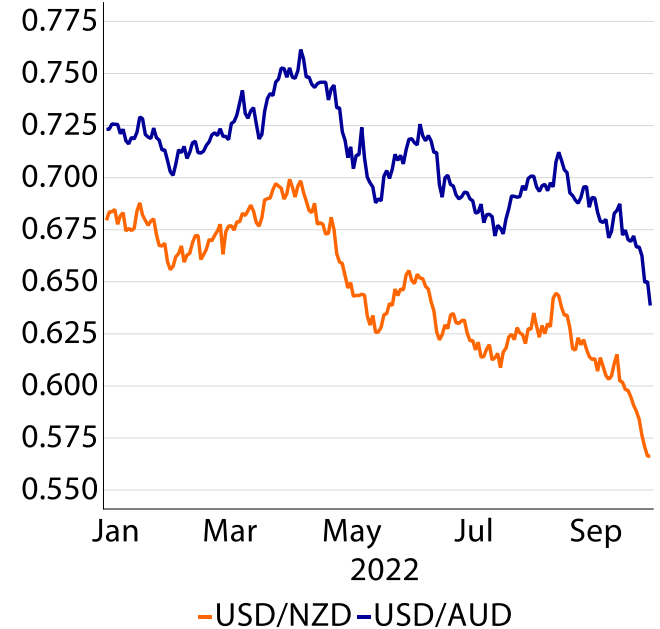
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The NZ Official Cash Rate is at 3.5% after five consecutive 50-basis-point hikes



- NZ five-year swap rate (LHS)
- NZ Official Cash Rate (LHS)
- NZ five-year swap-NZ Official Cash Rate (RHS)

Commodity-linked NZD and AUD have weakened against the USD this September



- USD/NZD
- USD/AUD

A Steep Decline for Container Rates



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Crude oil prices have continued to fall this September, as economic outlook weighs on sentiment.

Brent crude oil hovered between USD 84 to USD 97/bbl this September, reaching the lowest level since January. Slowing economic growth has weighed down demand for oil this past month and the IEA have marginally downgraded growth forecasts. While there has been large-scale switching from gas to oil recently it has not been enough to keep a floor on prices as improved supply and seasonal slowdown has let the futures price fall below USD 90/bbl. Notably, worldwide inventories of diesel remain at multi-decade lows, while the continued uncertainty of Russia's future oil exports and risk of supply shocks will continue to support prices.

Global container spot rates continue their steep downward trend, and carriers turned up their cancellation strategy.

Ship cancellation remained above March 2020 levels as the Baltic global container index fell another 25% MOM in September. Shippers, especially in Asia, have reached out to agents and freight forwarders to renegotiate contract rates, which are around twice the current spot rates. According to Xeneta, an ocean freight and market analytics platform, nearly 50% of their customers have succeeded in negotiating lower contract rates. We expect the strong decline of spot rates to continue to create downward pressure on contract rates. On the contrary, we expect reefer container rates to decline significantly slower in Q4 2022. Imbalanced reefer equipment and port congestions remain major hurdles. Ship scheduling and port congestion have been slowly recovering: the global percentage of on-time arrivals of container ships reached 40.5% in July, slightly up from 36.4% in May and 39.9% in June.

The Baltic Panamax index (a proxy for grain bulk freight) bounced back in September, reversing the downward trend since May.

Strong volume from both coasts of South America supported the increase. The index, along with other Baltic dry indexes, reached its highest level in over two months.

What to Watch

- **OPEC+ meeting** – At September's OPEC meeting, allies agreed to cut supply by 100 kb/d. With last month's negative momentum in prices, a further output cut is likely on the cards for the October meeting.
- **Looming global economic conditions** to impact global trade and thus ocean container and bulk shipping conditions.

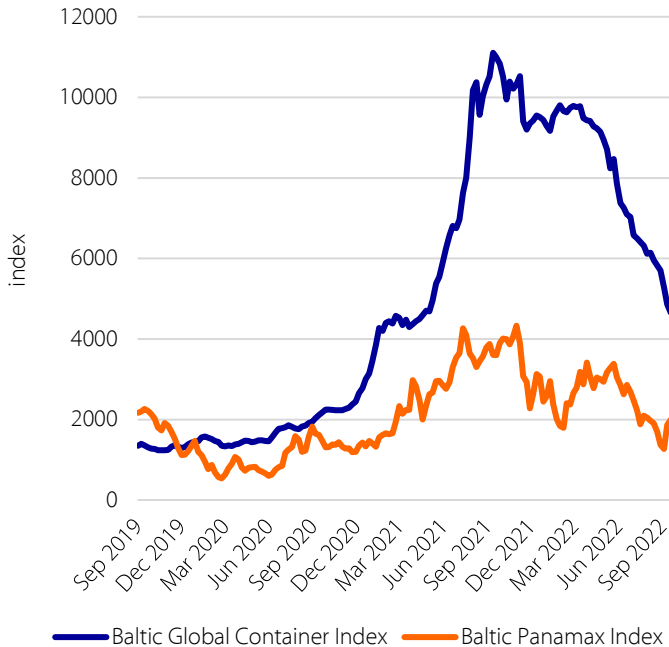
Oil &
Freight

New Zealand Diesel Falls Back, but Remains Expensive

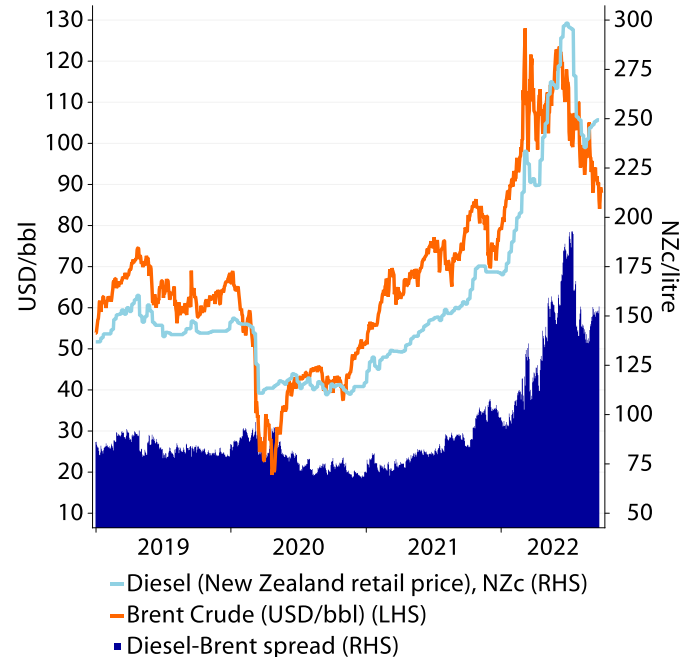


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Baltic Panamax Index & Dry Container Index, Sep 2019-Sep 2022



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



Agri Price Dashboard

| | 30/09/2022 | Unit | MOM | Current | Last month | Last year |
|-------------------------------------|------------|---------------|-----|---------|------------|-----------|
| Grains & oilseeds | | | | | | |
| CBOT wheat | | USc/bushel | ▲ | 922 | 798 | 726 |
| CBOT soybean | | USc/bushel | ▼ | 1,365 | 1,513 | 1,256 |
| CBOT corn | | USc/bushel | ▼ | 678 | 680 | 537 |
| Australian ASX EC Wheat Track | | AUD/tonne | ▲ | 442 | 397 | 339 |
| Non-GM Canola Newcastle Track | | AUD/tonne | ▲ | 730 | 715 | 954 |
| Feed Barley F1 Geelong Track | | AUD/tonne | ▲ | 326 | 320 | 260 |
| Beef markets | | | | | | |
| Eastern Young Cattle Indicator | | AUc/kg cwt | ▲ | 1,075 | 1,028 | 1,042 |
| Feeder Steer | | AUc/kg lwt | ▲ | 541 | 527 | 599 |
| North Island Bull 300kg | | NZc/kg cwt | ▲ | 650 | 630 | 625 |
| South Island Bull 300kg | | NZc/kg cwt | ▲ | 625 | 615 | 590 |
| Sheepmeat markets | | | | | | |
| Eastern States Trade Lamb Indicator | | AUc/kg cwt | ▲ | 757 | 674 | 943 |
| North Island Lamb 17.5kg YX | | NZc/kg cwt | ▲ | 960 | 940 | 945 |
| South Island Lamb 17.5kg YX | | NZc/kg cwt | ▲ | 955 | 940 | 935 |
| Venison markets | | | | | | |
| North Island Stag | | NZc/kg cwt | ▲ | 840 | 825 | 655 |
| South Island Stag | | NZc/kg cwt | ▲ | 855 | 840 | 675 |
| Oceanic Dairy Markets | | | | | | |
| Butter | | USD/tonne FOB | ▲ | 5,350 | 5,250 | 4,875 |
| Skim Milk Powder | | USD/tonne FOB | • | 3,550 | 3,550 | 3,175 |
| Whole Milk Powder | | USD/tonne FOB | ▲ | 3,700 | 3,438 | 3,638 |
| Cheddar | | USD/tonne FOB | ▲ | 5,225 | 5,063 | 4,325 |

Agri Price Dashboard

| 30/09/2022 | Unit | MOM | Current | Last month | Last year |
|---------------------------------------|---------------|-----|---------|------------|-----------|
| Cotton markets | | | | | |
| Cotlook A Index | USc/lb | ▼ | 103.8 | 135.3 | 112 |
| ICE No.2 NY Futures (nearby contract) | USc/lb | ▼ | 93.2 | 117.5 | 108 |
| Sugar markets | | | | | |
| ICE Sugar No.11 | USc/lb | ▲ | 18.4 | 18.1 | 19.8 |
| ICE Sugar No.11 (AUD) | AUD/tonne | ▲ | 609 | 578 | 563 |
| Wool markets | | | | | |
| Australian Eastern Market Indicator | AUc/kg | ▼ | 1,255 | 1,337 | 1,337 |
| Fertiliser | | | | | |
| Urea Granular (Middle East) | USD/tonne FOB | ▲ | 650 | 600 | 485 |
| DAP (US Gulf) | USD/tonne FOB | ▼ | 760 | 925 | 660 |
| Other | | | | | |
| Baltic Panamax Index | 1000=1985 | ▲ | 2,082 | 1,284 | 4,013 |
| Brent Crude Oil | USD/bbl | ▼ | 88 | 99 | 79 |
| Economics/currency | | | | | |
| AUD | vs. USD | ▼ | 0.640 | 0.685 | 0.723 |
| NZD | vs. USD | ▼ | 0.560 | 0.613 | 0.690 |
| RBA Official Cash Rate | % | ▲ | 2.35 | 1.85 | 0.10 |
| NZRB Official Cash Rate | % | • | 3.00 | 3.00 | 0.25 |

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