

Fresh Prices, Fresh Autumn Conditions

New Zealand Agribusiness Monthly



May 2023

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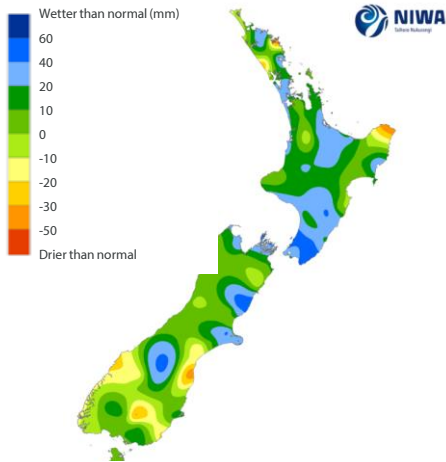


2023 Commodity Outlook

 <p><i>Dairy</i></p>	Global commodity markets are showing some signs of optimism in late April and Oceania commodity returns find some resistance. New Zealand milk supplies are rebounding against weaker comparables from last year and a really wet summer. New Zealand live dairy exports by sea will cease in late May.	p. 4-5
 <p><i>Beef</i></p>	Global beef prices are being supported by strong US and recovering Chinese import demand. New Zealand farmgate prices are expected to remain elevated through autumn and winter, but high inventory levels in China could cause downward pricing pressure.	p. 6-7
 <p><i>Sheepmeat</i></p>	Farmgate prices are anticipated to continue to benefit from the recovery of the foodservice sector in China over the coming months. Robust gross margin analysis is encouraged on winter trading stock.	p. 8-9
 <p><i>Farm Inputs</i></p>	Several factors are influencing the fertiliser market, from raw material and energy prices to politics and demand. The urea price gained momentum during April as demand wakes up with the Northern Hemisphere spring, while phosphate and potash prices are more sticky.	p. 10-11
 <p><i>FX Interest Rates</i></p>	With inflation still well above target and growth in imports very strong, the RBNZ is very likely to increase the OCR by another 25bps to 5.50% on 24 May. New Zealand's deteriorating trade position is a concern, and could place further pressure on the currency.	p. 12-13
 <p><i>Oil</i></p>	Crude oil and diesel prices both dipped at the end of April. We expect this trend to continue in May as weaker global growth weighs on demand and higher refining capacity utilisation makes diesel more readily available.	p. 14-15

May Weather Mayhem Ahead

Soil moisture anomaly (mm), 2 May 2023



Source: NIWA, Rabobank 2023

Over the coming three months, to July 2023, normal or above-normal rainfall is likely in the north and west of both islands. The North Island's east coast is likely to receive normal rainfall levels, while the remainder of New Zealand has a chance of below-normal rainfall levels.

Temperatures are likely to be above-average for the north and west of both islands through to July 2023. The rest of the country is equally likely to have above- or near-average temps over the same period.

Soil moisture levels are likely to be near normal for both of the east coasts of New Zealand, while other parts of the country are equally likely to have near- or below-normal soil moisture levels through to early winter.

What to Watch

- **Turbulent weather is the theme for this month.** The beginning of May will likely bring heavy rain and increased risks of flooding, with NIWA noting some areas will receive more than month's worth of rain thanks to tropical moisture and warm weather.
- The equatorial Pacific seas are warming, consistent with a developing El Niño, which NIWA notes may arrive over the winter months. The early winter period is likely to see more frequent southerly winds, which is consistent with the developing El Niño conditions.

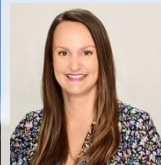
All Eyes on Opening Prices

Global commodity markets broadly softened throughout March before showing some signs of optimism by the end of April.

Oceania commodity returns saw some resistance in April. In US dollar terms, commodities were higher at the end of April versus the previous month (except whole milk powder). Year-on-year, commodity prices are now down between 28% and 36% since April 2022. The underlying fundamentals remain soft and will require a spike in Chinese imports to turn the tide.

New Zealand milk supplies are rebounding against weaker comparables from last year and a really wet summer. March 2023 milk production was up 0.3%, with STD collections now behind by just 1.4% YOY. Meanwhile, across the ditch, **Australia milk production shrank 3.3% YOY in March.** So far in the 2022/23 season, national milk production is down 6.2% versus the previous season. The largest volume falls for the season so far have been in eastern Victoria.

From the end of this month, dairy cattle exports into China will undergo a major change. New Zealand live dairy exports by sea freight will cease from this date, meaning Chinese buyers will have lost access to a major supplier. This is coming amid an ongoing revitalisation plan by the Chinese government, which kickstarted several years ago. The overarching ambition is to reach domestic production of 41m tonnes of milk by 2025. However, the production target is already within reach much earlier.



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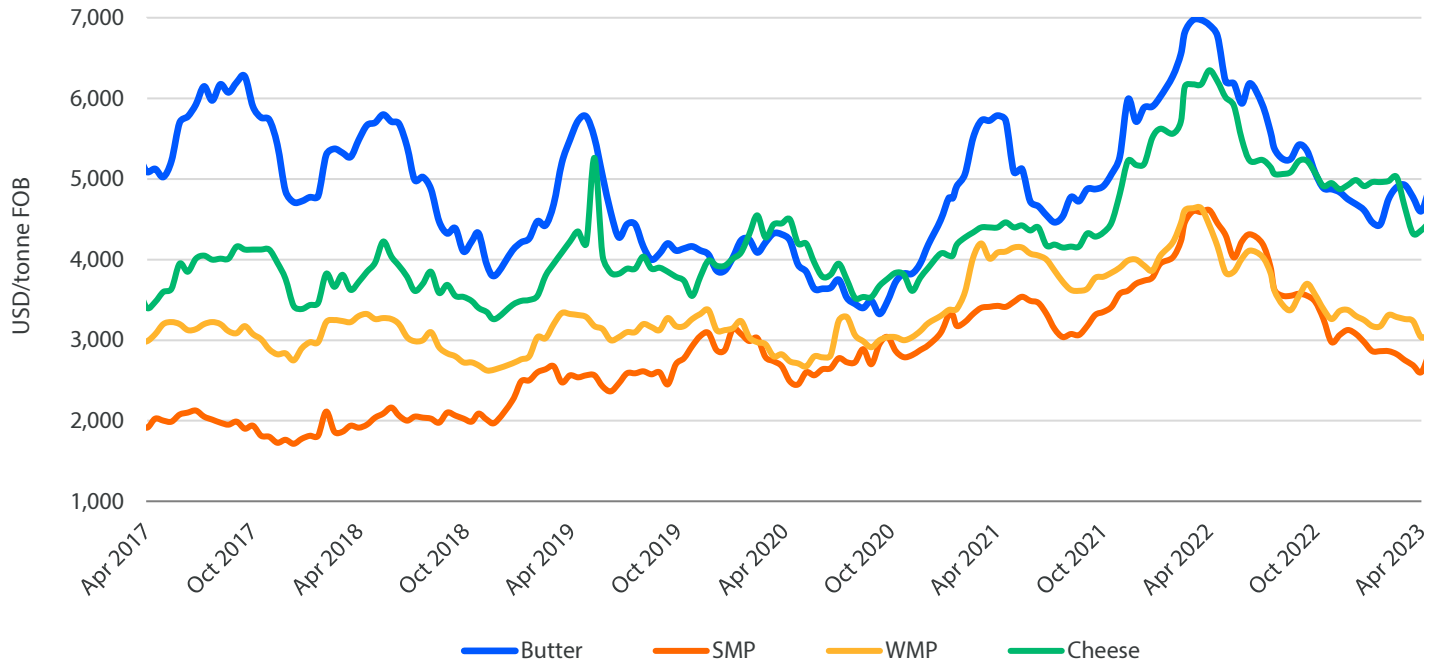
Dairy

What to Watch

- **Opening farmgate milk price forecasts** – Forecasts for the 2023/24 season are around the corner. With farmers well into establishing their new season budgets, processor opening forecasts for the season beginning 1 June 2023 are eagerly anticipated. Global supply and demand fundamentals are weaker than this time last year. With elevated macro risk at this time of the pricing cycle, it's likely that there will be a wide opening range.

Commodity Returns Fall Further

Oceania spot dairy commodity prices, April 2017–April 2023



Source: USDA, Rabobank 2023

Curious Case of Consumption

Import demand from both China and the US pushed higher in March. New Zealand's total beef export volumes in March were only 2,400 tonnes shy of the record volumes of March 2021. Total export volumes were 19% higher compared to February 2023 volumes, and 9% higher on a year-on-year basis. China was the main destination, taking 52% of our exports, while the US took 42%. Export volumes to China lifted 24% YOY. China has continued to import high volumes of beef through Q1, despite very high domestic inventory levels. Given the current inventory levels, recovering foodservice sector, and weaker local beef prices, RaboResearch anticipates China's total beef imports could soften over the next few months. However, the underlying trend of consumers decreasing pork consumption and increasing beef consumption is expected to support New Zealand beef exports in the medium term.

In New Zealand's second-largest beef market – the US – exports lifted 18% YOY in March and 31% compared to February 2023. US market dynamics are currently very unusual. The US economy is slowing, as Fed hikes helped pull March inflation levels back to 5%. GDP contracted to 1.9 in 2022 and RaboResearch forecasts it will slow further in 2023 to 0.6. Under challenging economic conditions, history has shown that beef demand is usually the first to drop, as it is the most expensive protein in the household shopping basket. However, this is not what is happening. Beef sales are remaining resilient, while the amount of pork and poultry being sold is coming under pressure. RaboResearch believes this is due to strong domestic beef demand (a hangover from Covid lockdowns and higher levels of disposable income), and not yet a function of slowing cow slaughter rates in the US. While Americans' appetite for beef is holding, it could be tested over the next 18 months as local beef prices are likely to be pushed higher in line with the anticipated contraction in US beef production. In the short term, the summer grilling season is approaching and will support beef consumption.



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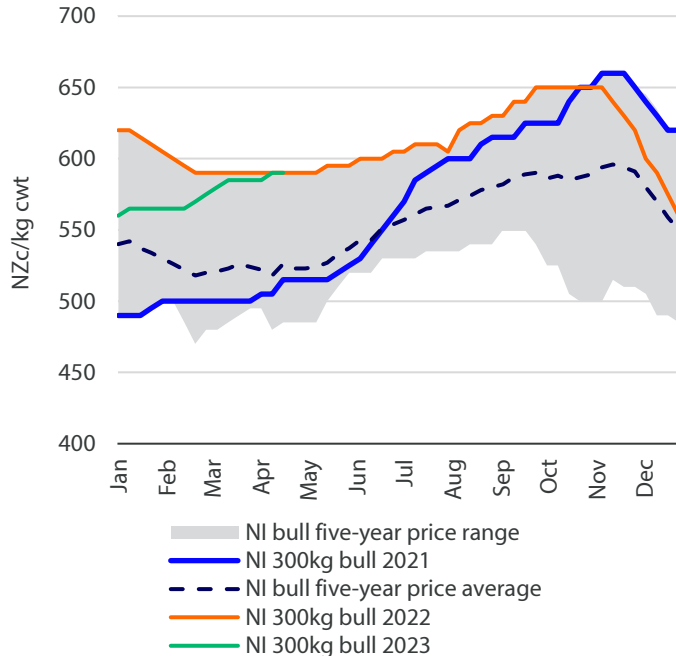
Beef

What to Watch

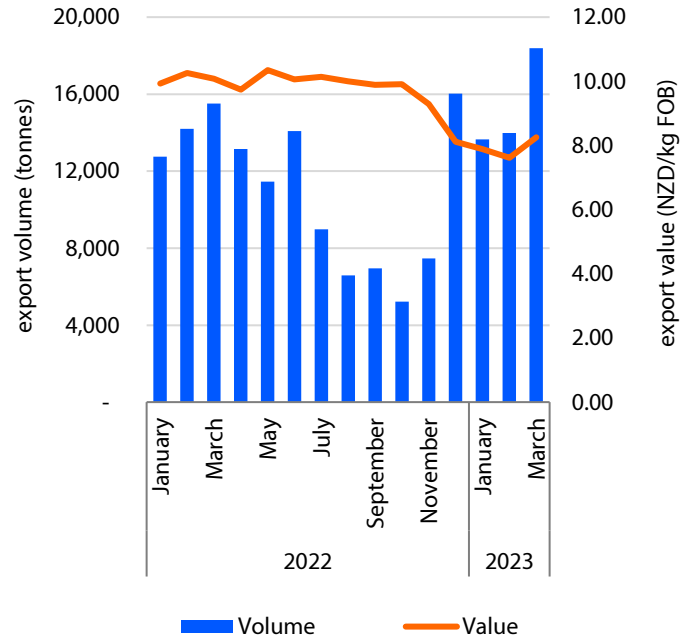
- **Firm outlook for farmgate beef prices** – The AgriHQ North Island bull price lifted through April and settled on NZD 5.90/kg cwt in the last week of the month. For the same week, the schedule was NZc 64 above the five-year average price. RaboResearch anticipates that the North Island bull price will continue to track in line with 2022 pricing, supported by demand tension between our two key markets. However, if Chinese import demand dips in the next few months, it could shift the dynamics.

Americans Are Still Enjoying Beef

Strong beef demand supporting AgriHQ North Island bull price



New Zealand beef exports to the US are expected to remain supported by strong consumer demand



Source: AgriHQ, Stats NZ, Rabobank 2023

Optimistic Store Lamb Market

The store lamb market has been buoyed by plenty of grass across both islands this autumn. The AgriHQ South Island store lamb price traded at 48% of the lamb schedule price through April, which is 4% higher than in April 2022. In the North Island, the AgriHQ store lamb price averaged 50% of the lamb schedule price – 1% higher than in April 2022. Although schedule prices are softer compared to the highs of 2022, pricing is still well above five-year averages – the sting in the tail is production costs. In the third week of April, the AgriHQ South Island lamb schedule was NZD 7.25/kg cwt – NZc 85 behind YOY, but NZc 30 above the five-year average for that week.

March export data brought welcome news, with sheepmeat exports surpassing March 2022 volumes. Export volumes increased 30% compared to February 2023, and 12% YOY. The average export value climbed NZc 28 from February values, to NZD 9.05/kg FOB. While the lift in export earnings is trending in the right direction, the average export value for March was still NZD 1.94 behind YOY. The lift in export earnings was predominantly underpinned by growing demand from China, with exports lifting 31% MOM and 51% YOY. The ongoing recovery of the Chinese economy will be pivotal to bolstering farmgate prices in New Zealand. RaboResearch anticipates that lamb and mutton schedules will continue to track upward through autumn, as the foodservice sector recovers in China.

New Zealand sees increasing export volumes and competition from across the ditch. Australian sheepmeat export volumes for the first three months of this year were up 20% YOY (totalling 116,000 tonnes). Mutton exports lifted 44% in the same period, with considerable growth in exports to Australia's three leading markets: China, Malaysia, and the US. On the other hand, lamb exports experienced more modest overall growth of 6% in the same period. Volumes to the US have taken the biggest hit, back 16% YOY for the first three months of 2023.



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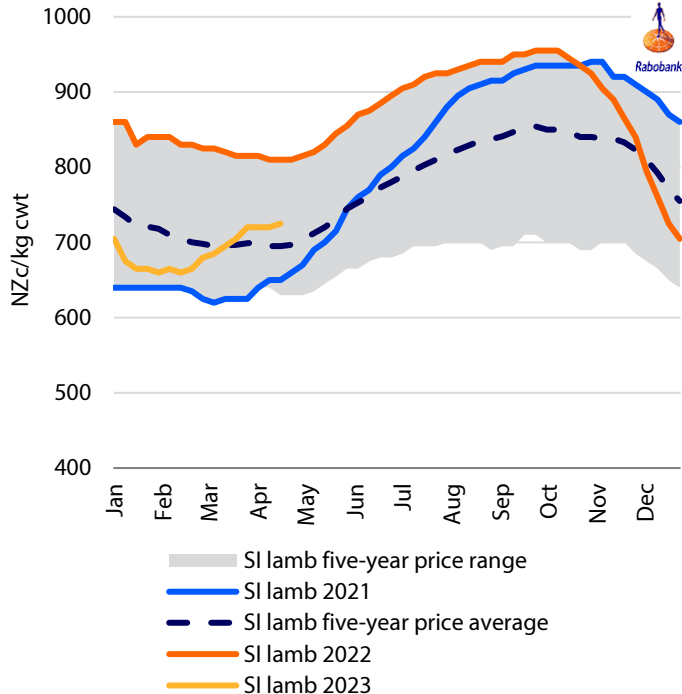
What to Watch

- **Winter lamb trading margins** – While global markets are tracking in the right direction and input costs are easing, RaboResearch recommends carrying out adequate due diligence on grass margins. There are still some headwinds in markets, particularly in Europe. Additionally, the bobby calf season will bring added uncertainty this winter, with more calves anticipated to require processing. Bobby calves are processed on lamb chains, so be prepared to hold winter lambs longer if need be – chewing into margins.

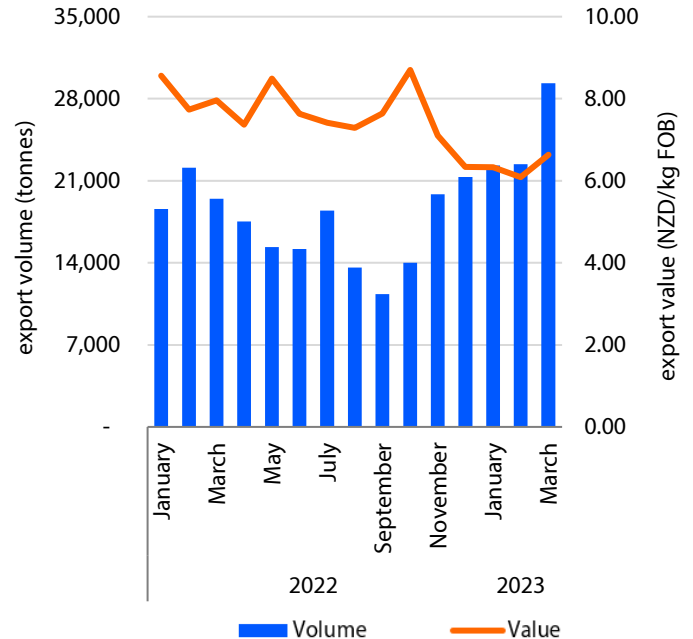
Sheepmeat

Big Jump in Exports to China in March

AgriHQ South Island lamb price above five-year average



Export volumes to China expected to be supported by foodservice sector recovery



Source: AgriHQ, Stats NZ, Rabobank 2023

Fertilisers at a Crossroads

While all hands are on deck putting seeds into the ground around Oceania, fertilisers markets have started to track different paths. Oil production cuts, a possible increase in China's fertiliser export quota, and a rebound in US demand are sending nitrogen in its own direction.

Phosphate and potash markets have been sustaining similar fundamentals in recent weeks: Despite a reduction in mining and processing, the global available supply exceeds demand. End users are buying from hand to mouth due to farm input and commodity price uncertainties. The story is very different for urea. The US market flipped as 'weak market activity' turned into 'corn planting ahead of schedule,' with greater buying and inputs shipments anticipated. This pushed the market up 40% MOM for New Orleans barges, for example. Meanwhile, in early April, OPEC announced a cut of 1.15m barrels of oil per day, adding more volatility to the energy market. The instant 8% price surge has since faded away, with Brent crude futures back to pre-announcement levels. Another factor that could occur in the coming weeks and months is the non-official increase in China's fertiliser export quota scheme after spring applications. This would mean Chinese providers could increase their exports, which, combined with a temporary price increase, would put Chinese urea at competitive levels, thus increasing global supply.

There are many moving pieces and factors that still need to play out before a new price level for farm inputs is set. The landing track is rough and full of potholes.



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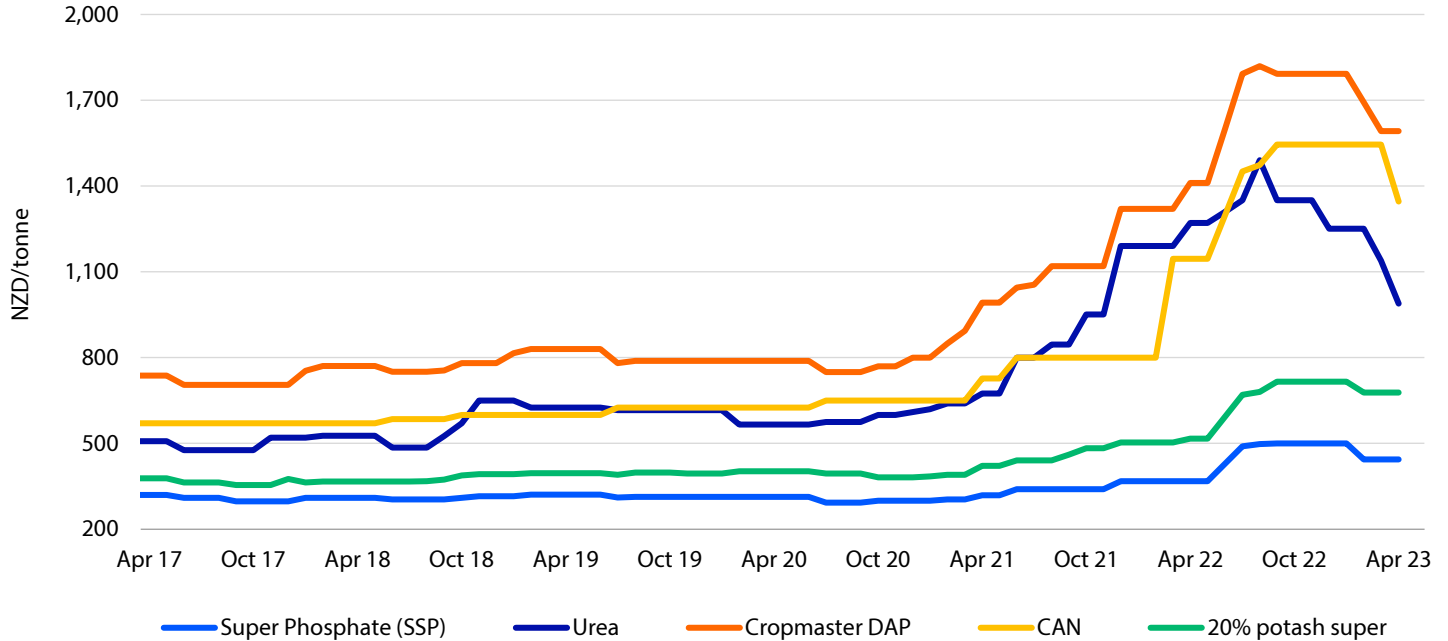
Farm Inputs

What to Watch:

- 1. Chinese exports** – Still to be confirmed, the increase in the quota for exports could expand the global supply of fertiliser. This would fuel the bearish phosphate market and provide support to stabilise urea prices.
- 2. US initial crop development** – Will the faster planting rate also mean more investment in inputs and, hence, the pursuit of higher yields? The already vast planted area could signify a massive harvest, pushing commodities prices and affordability to a different level globally.

Price Relief Is Here

NZ local fertiliser prices



Source: Ravensdown, Rabobank 2023

Trade Fade

First quarter CPI inflation surprised to the downside in April. That was very welcome news for New Zealand households and the RBNZ, as the pressure to keep raising interest rates seems to be lifting somewhat. The battle hasn't been won yet though. Despite the weaker-than-expected CPI read, food prices for the month of March increased by almost double the expected level. This will be partially due to the effects of Cyclone Gabrielle, but food price inflation is likely to be a persistent feature for a while yet. Of particular interest in the CPI figures was news that inflation is now being generated overwhelmingly by domestic influences, rather than by broken supply chains and Vladimir Putin. Unfortunately, this means that further falls in inflation will need to be driven on the domestic side, because helpful influences from improvements in the external environment may be close to exhausted.

Other economic indicators were mixed in April. REINZ home sales figures were down 31% on 2022 levels, immigration figures for the month of February were double compared to the prior month, and trade figures showed a NZD 1.45bn lift in exports, but that was unfortunately dwarfed by a NZD 1.92bn lift in imports. That means that the already bad trade deficit widened further, and will be a headache for the RBNZ who have been telling Kiwis to stop spending. With inflation still well above target and growth in imports very strong, the RBNZ is very likely to increase the OCR by another 25bps to 5.50% on 24 May.

The New Zealand dollar was under pressure in April as the strength generated by the RBNZ's surprise 50bp rate hike proved to be short-lived. The softer inflation figures, home sales volumes, and the poor trade data were all negative influences for the Kiwi dollar over the course of the month.



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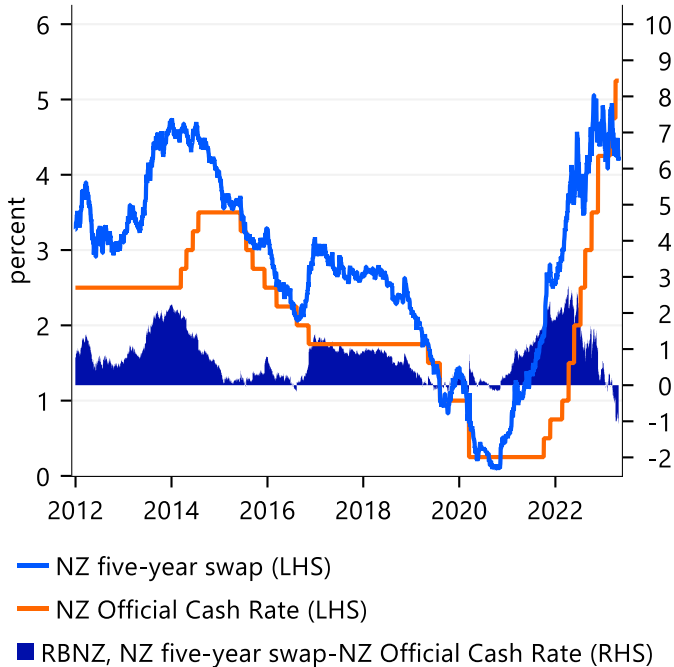
Interest Rates & FX

What to Watch:

- **Two-year inflation expectations** – This data point will be released on 12 May and will be a key decision-making input for the RBNZ.
- **The RBNZ monetary policy decision** – This is due out on 24 May. We expect a further 25bp lift in the OCR to 5.50.

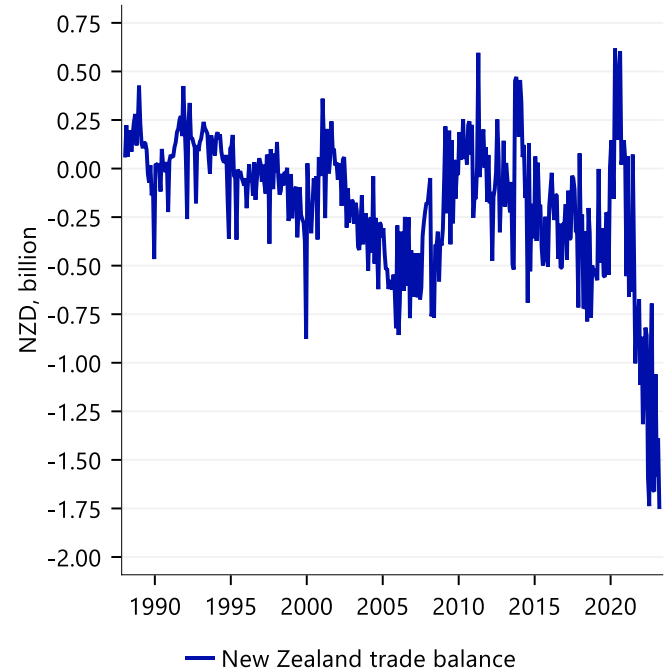
Close to the Top?

The RBNZ surprised in April with a 50bp hike to 5.25%



Source: Macrobond, Rabobank 2023

New Zealand's trade balance is looking diabolical



Source: Macrobond, Rabobank 2023

Crude and Diesel Prices Lower

Crude oil prices went on a rollercoaster ride in April. Front-month Brent futures reached a high of USD 87.49/bbl before falling back below USD 80/bbl by month-end. The softer pricing came despite recent data showing US crude inventories shrinking by more than expected and highlights pessimism over the outlook for demand in the months ahead. Refining margins also fell as stocks of distillates (diesel, kerosene) increased and refiners increased capacity utilisation. We expect prices to take direction from macro developments in May and remain under pressure.

Dry container shipping rates saw signs of recovery in April 2023. After nine months of a continuous downward trend, dry container freight rates have started to slightly move up, as reported by various rate tracking platforms. Surcharges like the General Rate Increase (GRI) will also likely be implemented in addition to the base rate. This upward trend is most recognised for routes from China to the US due to increases in export volumes in the past month. It is still too early to say if it is a clear sign of bottom-out or what the pace of recovery may be. Many factors, especially geopolitical tension, can alter the direction.

The slow downward trend of reefer container freight rates will continue. The Q1 2023 average reefer rate is only 5% higher than that of Q1 2022. The global reefer rate index is expected to decrease 10% to 15% this year compared to 2022.

The rebound of the Baltic Panamax index (a proxy for grain bulk freight) continues as major global economies recover. As the Chinese demand picks up and Ukraine's Black Sea Grain Initiative continues smoothly, the index may have bottomed out in the near term. However, as the global economy enters turbulent waters, we expect the Panamax index to fluctuate around the lower end of the spectrum.




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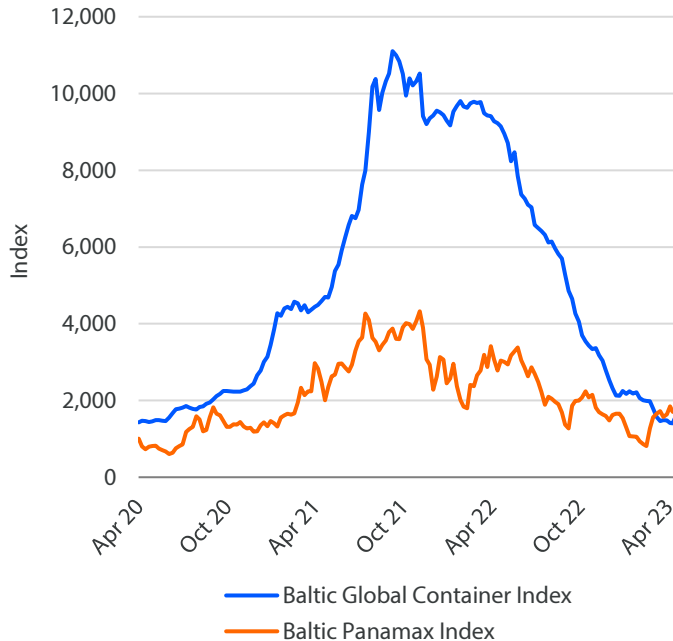
Oil & Freight

What to Watch:

- **Department of Energy inventory reports** – These are due out on 11, 18, and 25 May.

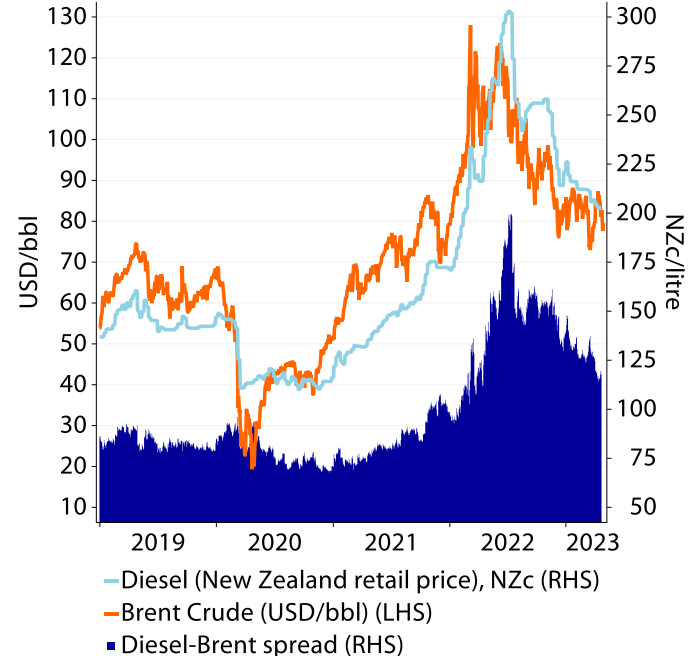
Crude Prices Lower, Crude/Diesel Spread Narrowing

Baltic Panamax Index and Dry Container Index, Apr 2020-Apr 2023



Source: Baltic Exchange, Bloomberg, Rabobank 2023

Brent Crude Oil and New Zealand retail diesel, Jan 2019-Apr 2023



Source: Macrobond, Rabobank 2023

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Agri Price Dashboard

	2/05/2023	Unit	MOM	Current	Last month	Last year
Grains & oilseeds						
CBOT wheat		USc/bushel	▼	600	694	1,044
CBOT soybean		USc/bushel	▼	1,461	1,522	1,674
CBOT corn		USc/bushel	▼	649	658	813
Australian ASX EC Wheat Track		AUD/tonne	▼	375	391	385
Non-GM Canola Newcastle Track		AUD/tonne	▼	641	678	989
Feed Barley F1 Geelong Track		AUD/tonne	▼	321	325	375
Beef markets						
Eastern Young Cattle Indicator		AUc/kg cwt	▼	657	686	1,097
Feeder Steer		AUc/kg lwt	▲	355	353	575
North Island Bull 300kg		NZc/kg cwt	▲	590	585	590
South Island Bull 300kg		NZc/kg cwt	▲	530	525	565
Sheepmeat markets						
Eastern States Trade Lamb Indicator		AUc/kg cwt	▼	650	681	780
North Island Lamb 17.5kg YX		NZc/kg cwt	▲	735	730	830
South Island Lamb 17.5kg YX		NZc/kg cwt	▲	725	720	815
Venison markets						
North Island Stag		NZc/kg cwt	•	885	885	795
South Island Stag		NZc/kg cwt	•	880	880	800
Oceanic Dairy Markets						
Butter		USD/tonne FOB	▲	4,875	4,775	6,775
Skim Milk Powder		USD/tonne FOB	▲	2,838	2,688	4,450
Whole Milk Powder		USD/tonne FOB	▼	3,075	3,238	4,163
Cheddar		USD/tonne FOB	▲	4,463	4,325	6,213

Source: Bloomberg, MLA, Rabobank 2023

Agri Price Dashboard

2/05/2023	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	93.2	96.8	166
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	79.5	82.4	157
Sugar markets					
ICE Sugar No.11	USc/lb	▲	25.4	22.4	18.9
ICE Sugar No.11 (AUD)	AUD/tonne	▲	838	714	569
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,307	1,318	1,377
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	331	303	723
DAP (US Gulf)	USD/tonne FOB	▼	610	635	1,240
Other					
Baltic Panamax Index	1000=1985	▼	1,586	1,664	2,938
Brent Crude Oil	USD/bbl	▼	77	85	108
Economics/currency					
AUD	vs. USD	▼	0.668	0.679	0.705
NZD	vs. USD	▼	0.620	0.630	0.643
RBA Official Cash Rate	%	▲	3.85	3.60	0.10
NZRB Official Cash Rate	%	▲	5.25	4.75	1.50

Source: Bloomberg, MLA, Rabobank 2023

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