

Is Christmas cheer on the horizon?

New Zealand agribusiness monthly



December 2023

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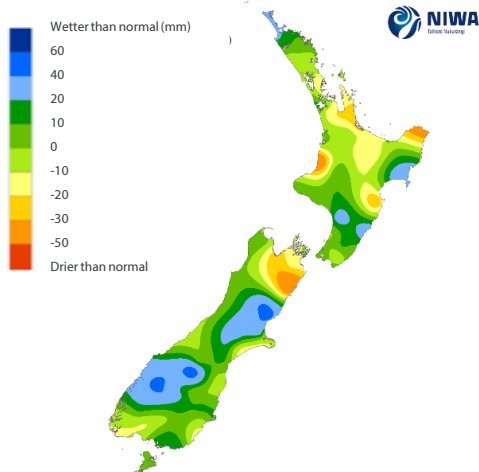


December commodity outlooks

 <p><i>Dairy</i></p>	The dairy commodity market has shown some signs of life. Lower prices are offering international buyers an opportunity to procure raw materials at attractive prices. The milk supply outlook in key production regions is looking less favourable, which is providing price support.	p. 4-5
 <p><i>Beef</i></p>	Beef prices are likely to track along the five-year average mark over the coming month on expectations that US prices will remain strong.	p. 6-7
 <p><i>Sheepmeat</i></p>	With farmgate prices hitting seasonal peaks, all eyes are firmly on China as the country heads into the buying period for the Lunar New Year.	p. 8-9
 <p><i>Farm inputs</i></p>	The final months of the year have shown a lack of global demand for farm inputs, although this does not guarantee lower prices ahead in 2024. The supply and demand elements are in a tangle and El Niño is no help.	p. 10-11
 <p><i>FX and interest rates</i></p>	The NZD surged by more than 3 cents against the USD in November as the market priced in US rate cuts and the RBNZ warned of the possibility of another rate hike. We think that the OCR has peaked and falling goods inflation from offshore will help push inflation rates lower.	p. 12-13
 <p><i>Oil and freight</i></p>	Crude oil prices fell again in November as an extended cease-fire between Israel and Hamas calmed markets and disagreements between OPEC+ members over production cuts muddled the waters over the outlook for the balance between supply and demand.	p. 14-15

Wild and windy through to Christmas 2023

Soil moisture anomaly (mm), 29 October 2023



Source: NIWA, Rabobank 2023

NIWA anticipates warmer-than-average temperatures are most likely for the east of both Islands until Christmas. The remainder of the country is equally likely to experience near-average or above-average temperatures over the same period.

Above-normal rainfall is likely for the west of the South Island. The north and east of the North Island are likely to have below-normal rainfall. The remainder of the country has a chance of below-normal rainfall through the end of 2023.

Most of the South Island is likely to have near-normal soil moisture through to Christmas except for the top of the South, which has a risk of below-normal soil moisture. The west of the North Island is likely to have either below-normal or near-normal soil moisture. The remainder of the North Island is likely to have below-normal soil moisture through to Christmas.

What to watch

- NIWA notes that El Niño conditions will continue through to Christmas 2023.
- Dramatic temperature swings are likely for the country, with warm air from Australia and bitter cold southerlies possible in short succession.
- More westerly winds are likely over the next three months, which raise the risk of prolonged dry spells on both the top and east coasts of both islands.

Hope ahead for Christmas?

There were some positive signs for Oceania dairy exporters in October, with commodity prices generally firmer. Oceania FOB powder prices rallied more than 10% for the month on the back of less favourable milk production signals in New Zealand. Butter prices also firmed over the month, but cheese prices fell again in October as a weak US wholesale market dragged prices lower.

Grey clouds continue to build over the production outlook in New Zealand. For the key month of September, milk production was 0.4% below the same month last year on a volume basis (but higher on a milksolids basis). This means that the volume of production for the season-to-date is trailing the previous season by 1%. Challenging seasonal conditions in the North Island have been the culprit.

In contrast, the milk production outlook in Australia has started the spring season in better shape and is translating into modest growth. For September, production was 1.5% higher than last year and is 1.5% higher season-to-date. Surprisingly, Victoria is a laggard for growth, with Northern Victoria and Western Victoria still trailing behind.

The outlook for milk supply offshore softens. US milk production has been in decline for the past few months, with a smaller herd driving the slowdown. Nonetheless, the USDA has recently upgraded the outlook for the full year of 2023. Across Europe, milk supply growth remains sluggish. In key export regions in Europe, farmgate prices are showing signs of stabilisation.



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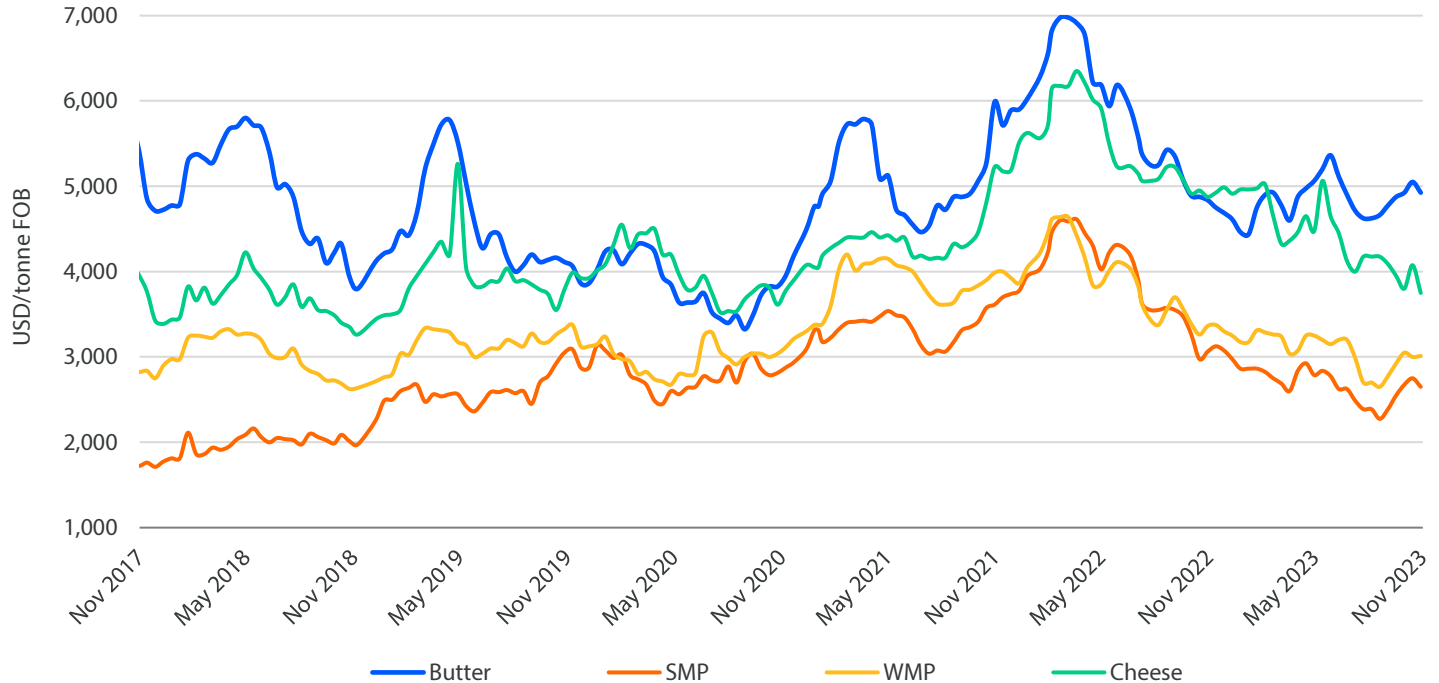
Dairy

What to watch

- **Signs of El Niño taking hold** – Every El Niño weather pattern is different. This makes it difficult to predict its impact on farming regions. MPI and NIWA have produced a drought forecasting tool to help farmers and growers better prepare for drought periods. [Check it out here.](#)

Signs of life for the dairy complex

Oceania spot dairy commodity prices, Nov 2017- Nov 2023



Source: USDA, Rabobank 2023

Back to average to finish the year

After starting the 2023 calendar year close to the five-year average (just 4% higher), North Island bull prices are set to finish the calendar year back close to the five-year average after reaching historical highs in April and May. Despite lifting above the five-year average through October, the AgriHQ North Island bull price dropped back into line in mid-November, closing at NZD 5.85/kg on 24 November. US imported lean trimmings prices have been gradually falling (in USD terms) since a 2H peak in late September, and are currently trading in line with the five-year average and very close to prices received late in 2022. With the US import prices expected to slide a little further and any Chinese buying for Lunar New Year now potentially over, we believe NZ cattle prices will follow a normal seasonal decline to the end of the year.

The New Zealand Meat Board weekly slaughter numbers show a general increase in slaughter numbers for the year-to-date: up 1%. Heifer slaughter is up 11% but cow slaughter is down 11%. Steer slaughter is up 9% but bull slaughter is down 6% for the first five weeks of the season compared to last season.

Beef export volumes dropped 7% YOY in September to 35,537 tonnes. Volumes to China were down 28% to 12,230 tonnes, while volumes to the US were up 33% to 9,284 tonnes. These numbers continue to reflect the strength of the US market and their declining cow slaughter, compared to the weak Chinese market. Since August 2020, Chinese retail beef prices have traded in a band between CNY 83/kg and CNY 89/kg. Since July, prices have generally been trading at CNY 81/kg to CNY 82/kg, reflecting the weaker demand. New Zealand beef export values have dropped 15% YOY to NZD 7.78/kg in September.



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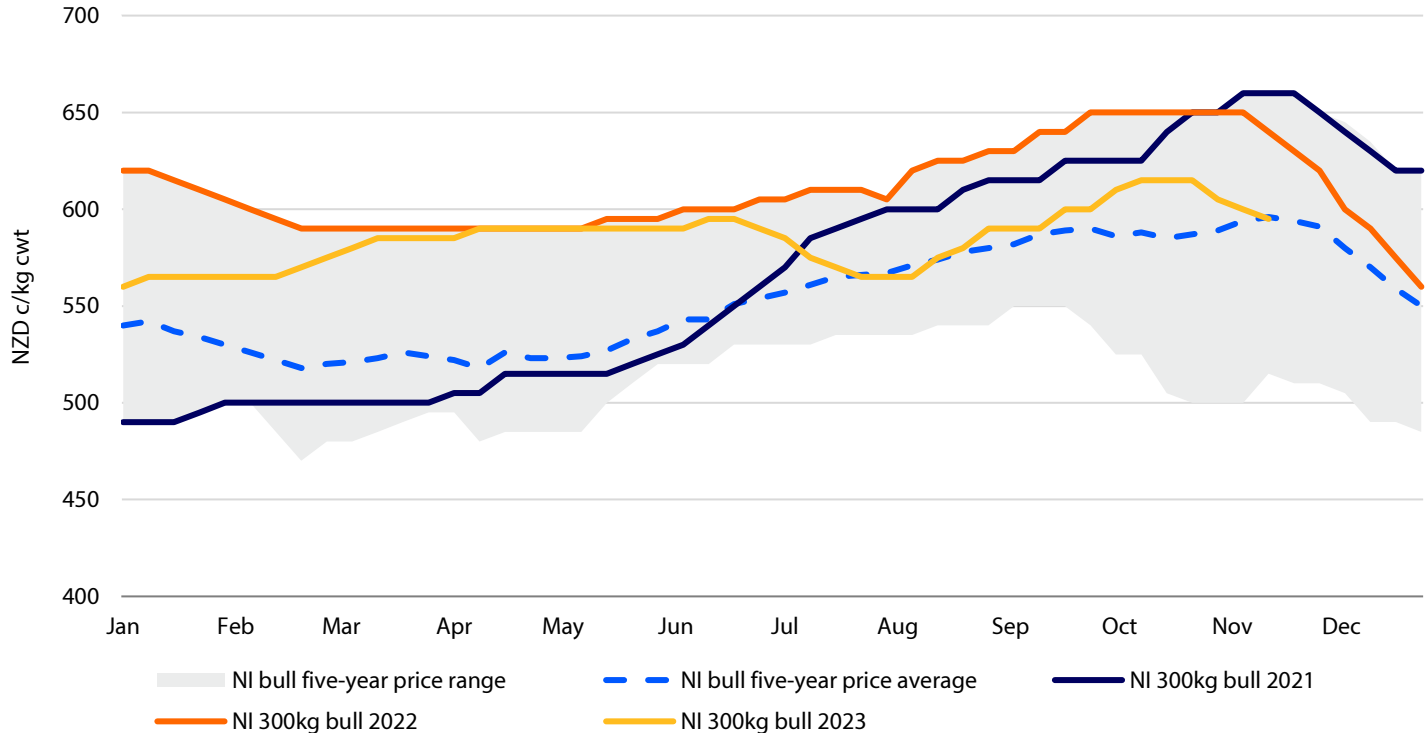
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Beef

What to watch

- **Brazil exports to the US** – this year saw a large volume of Brazilian beef flow into the US in January to take advantage of the “other country” tariff quota. Brazil was the biggest supplier to the US in January. We expect to see a similar volume head to the US again next year when the quota year commences. Although this year it did not appear to have any great impact on volumes from other suppliers, it could potentially lead to some disruption in trade flows.

Prices head back toward the average to finish the year




Source: AgriHQ, Rabobank 2023

Prices to remain weak

After holding on to the lowest price range in a decade for the last three months, lamb prices finally succumbed to the high volumes of Australian product and weak demand in key markets. Prices dropped below the 10-year range to the lowest level for this time of year since 2016. The AgriHQ South Island lamb price was NZD 6.45/kg on 24 November. Despite a lift in the last month following favourable rain in eastern Australia, Australian lamb prices remain at some of the lowest levels they have seen since 2015. With no signs of a strong recovery in the coming months, and with continuing high volumes from Australia, New Zealand lamb prices are set to enter the higher supply periods of the new year with soft lamb prices.

NZ Meat Board weekly slaughter numbers for the first five weeks of the season show that lamb production is up 3% on the 2022/23 season numbers. Meanwhile, sheep slaughter is 21% ahead of the 2022/23 season volumes. Although only a small portion of total sheep slaughter, hogget slaughter was up 13%. This increased volume of mature sheep on the market may reflect producers looking to reduce their flock size in light of reduced prices and restricted margins.

New Zealand sheepmeat export volumes for September increased 1.5% to 22,363 tonnes. Volumes to China were down 3% to 11,013 tonnes while volumes to the UK were up 35% to 1,545 tonnes and volume to the US were up 16% to 2,158 tonnes – two of the stronger markets in a weak trade complex. Reflecting the weak demand, Chinese retail prices for mutton have dropped to their lowest level since October 2019. The average value of New Zealand sheepmeat exports dropped 17% YOY to NZD 9.35/kg in September, reflecting the weaker demand.



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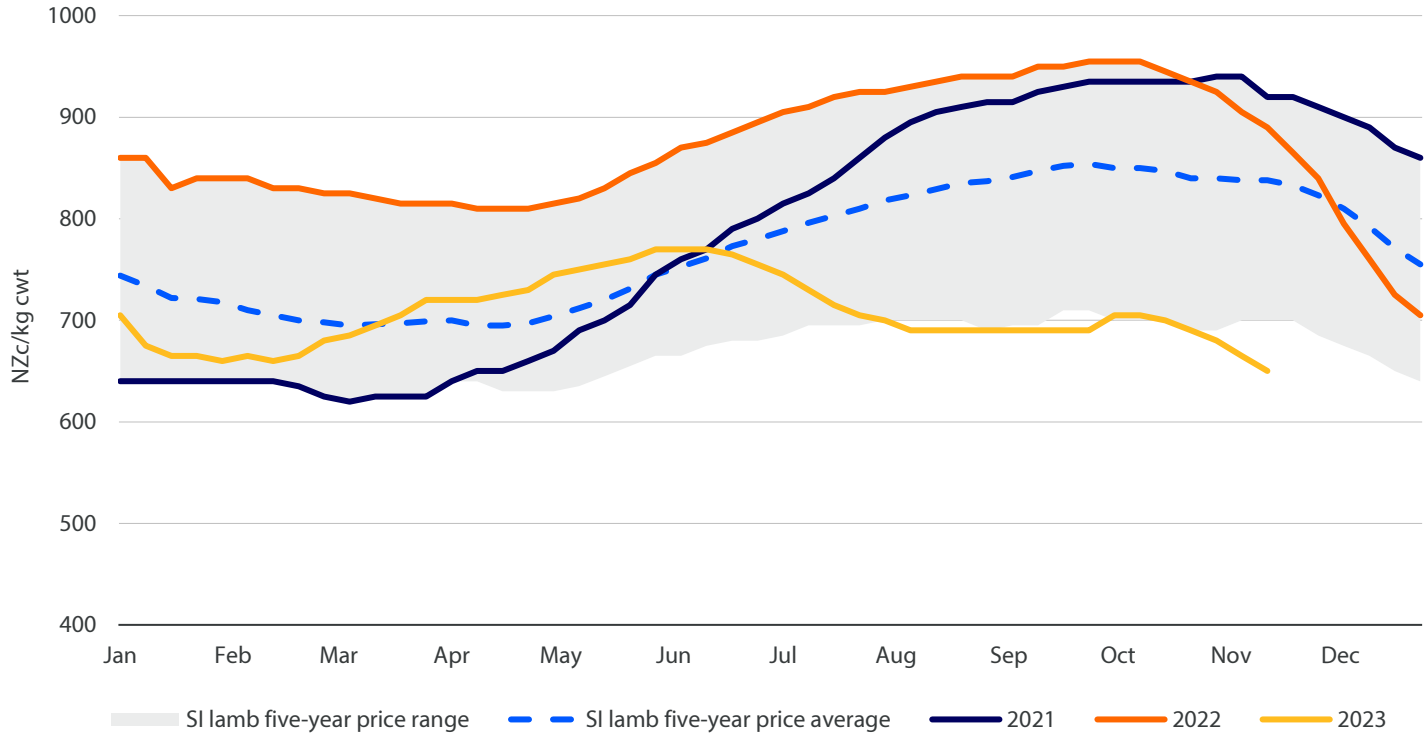
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What to watch

- **US demand** – Typically the easter period in the US is a higher consumption period for lamb. Although import prices (in USD terms) do not show much variation through the year, the US import volumes over the next couple of months will be an indicator of the US consumer demand levels and whether the market is recovering. If so, it may be able to absorb some of the higher volumes from Australia.

Sheepmeat

Prices to remain weak



Source: AgriHQ, Rabobank 2023

Projections are a game of tug-of-war

On the one hand, there are the bearish elements consisting of the lack of robust demand from South America and seasonally subdued players in the Northern Hemisphere. On the other hand, there are some bullish factors, such as the Mideast conflict and possible crude oil export bans. All this is happening as El Niño hovers around, pushing soft commodity forecasts into uncharted waters.

The major overseas exporters of fertilisers have been reporting peculiar numbers. **While the price of DAP in Morocco has been flat since early October, the price of urea in the Middle East has fallen 14.3% in 30 days.** This is due to a combination of lower fertiliser subsidies from the Indian government to its farmers and modest tender activity. In addition, **rainfall has been scarce in central Brazil, which is a concern for the start of the second summer crop (mainly corn), in early January. Every year, 15% to 17% of urea exports go to the South American agricultural powerhouse.** Added to this, OPEC decided on 30 November to extend crude oil cuts until 2024, which will ultimately have an impact on freight costs. International seaborne exports are already facing rough seas due to low water levels – for example in the Panama Canal– and pirate attacks in the Red Sea. On top of that, the Chinese government announced that it may restrict fertiliser exports to guarantee affordable prices in the local market.

On the agrochemical front, the bearish trend continues. Not only has production capacity increased over the last two years, but global demand is also mild. With uncertainties in the commodity markets, end users are buying from hand to mouth. **The index for a basket of Chinese Ex-Work products is down 43% over the past 12 months. Better prices are on the way, but first the old stock has to be used up.**



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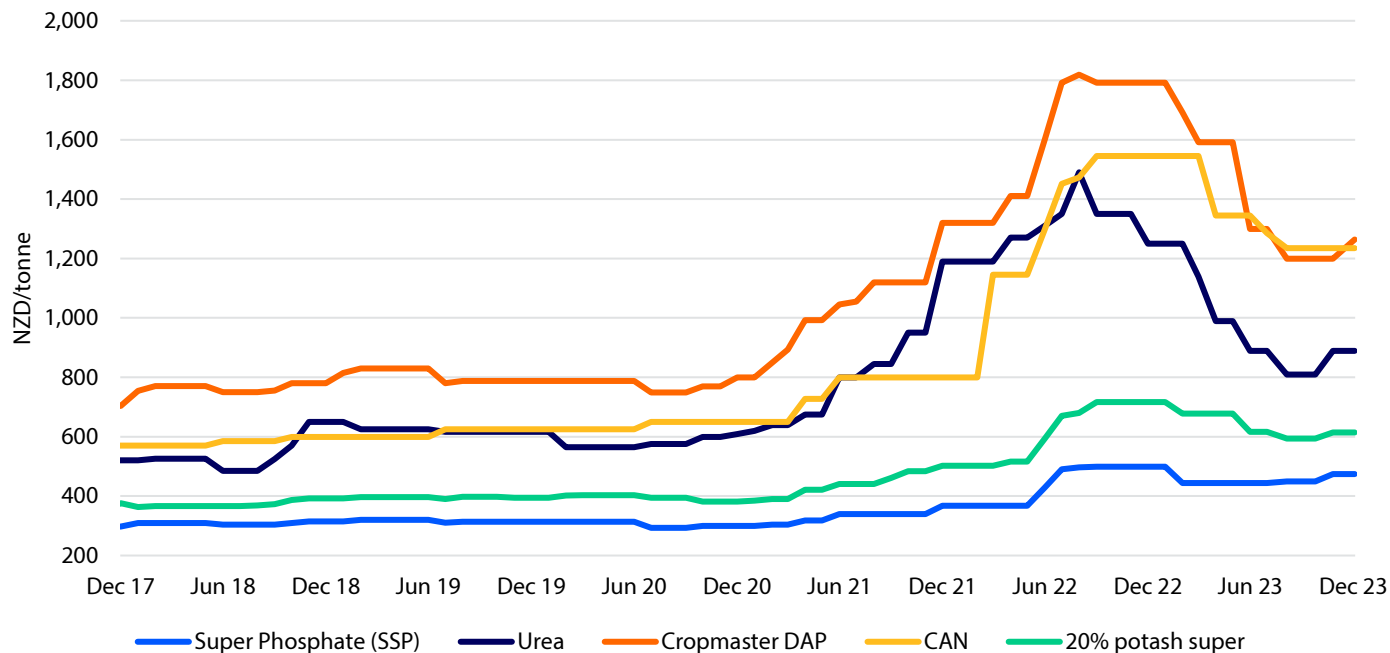
Farm inputs

What to watch

- **Global temperatures** – The next two months will be crucial for fertiliser prices and supply in 1H 2024 . If El Niño continues to lead to lower amounts of rainfall in Brazil, we could see a decent supply of urea sitting idle, forcing global prices downward. But if the Northern Hemisphere winter is harsh – the past two winters have not been very cold – natural gas stocks could deplete rapidly, pushing up the cost of nitrogen fertiliser production. Prices over the next three months will follow this complex balance of supply and demand.

Are we there yet?

New Zealand local fertiliser prices



Source: Ravensdown, Rabobank 2023

Off-script

The RBNZ unsurprisingly left the OCR unchanged at 5.50% in November, but there was a bit of a surprise in the Monetary Policy Statement. The RBNZ lifted its forecast for the average OCR rate in 2024 from 5.6% (published in the August statement) to 5.7%. This means that the RBNZ now sees a better than 50-50 chance that the OCR will be increased one more time in 2024. We don't think this will happen and we are sticking with our forecast of 5.5% being the top.


The upwardly-revised forecasts on the OCR, combined with rising expectations of imminent rate cuts in the US, sent the New Zealand dollar surging during the month. The New Zealand dollar was up more than 3 cents against the US dollar in November, after opening the month at 0.5825 and closing at 0.6155. The stronger tone in the currency will help lower the price of imported goods, which are already getting cheaper as major goods exporting countries China, Germany and Japan struggle with factory gate deflation. We think that this could mean that the aggressive tone from the RBNZ in the monetary policy statement is ultimately never delivered upon, and that the inflation rate may fall faster than expected.

Interest rate swaps fell during November as the New Zealand market followed a global shift lower in bond yields. Ten-year swap rates are approximately 32 basis points (0.32 percentage points) lower than they were a month ago, and two-year swap rates are about 22 basis points lower. That means that the market has delivered almost 1 full rate cut in the cost of forward-hedging interest rate exposures.

If inflation does fall faster than markets are expecting (there are already signs of that) and the slide in yields continues, we could see swap rates fall further through December. That would make for a merry Christmas indeed.

What to watch:

- **NZ Food Prices for November** – Released on the 13 December.
- **NZ Q3 GDP figures** – Released on the 14 December.
- **NZ November trade balance report** – Released on the 19 December.



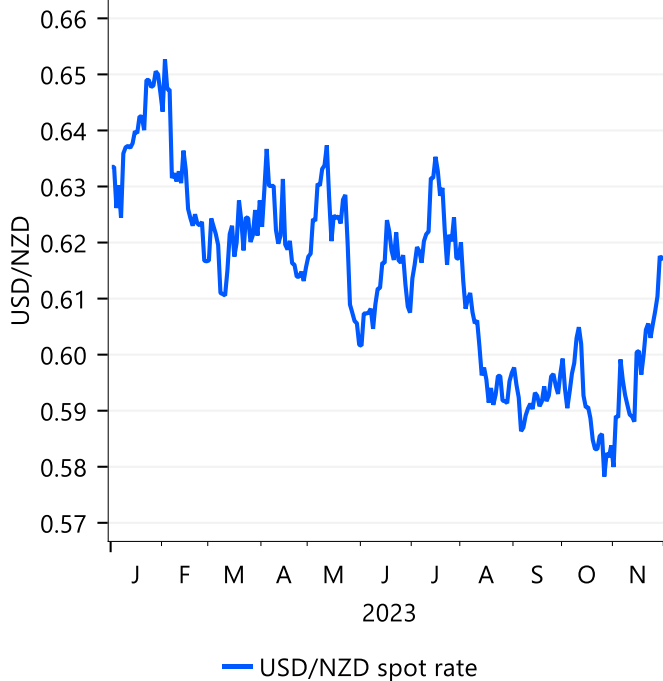
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Interest rates and FX

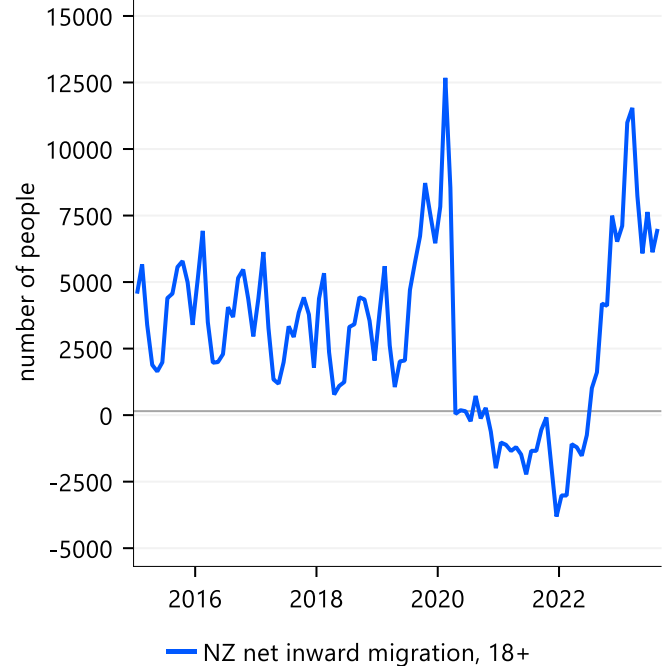
NZD recovers on US rate cut bets

The NZD surged in November as the market priced in rate cuts in the US from mid 2024 onward



Source: Macrobond, Rabobank 2023

The RBNZ has flagged concern over the inflation impact of strong migration



Source: Macrobond, Rabobank 2023

Production cuts fail to arrest slide

Brent Crude prices fell by 4.25% over the course of November as extended cease-fires in the Israel/Hamas war and a softening demand outlook weighed on markets. Front Month Brent futures closed the month at USD 80.86/bbl, after dipping well under the USD 80/bbl mark during the month. Disagreements between OPEC+ members over production cuts were also a factor in the weakening of prices. The OPEC+ meeting scheduled to be held on 26 November in Vienna was pushed back and eventually held online due to tensions between Saudi Arabia and some smaller producers who were not supportive of further production cuts. The cartel ultimately agreed to voluntary cuts of an additional 1m barrels per day to prevent a build-up in supplies as global economic activity slows.

Reefer container shipping rates in 2024 are expected to further decline, albeit at a slow pace. The Drewry Global Reefer Container Freight Rate Index is expected to decrease by 15% to 20% YOY in 2024. The downward trends are driven by improvements in supply capacity and in network operations. Total reefer plugs capacity on containerships continues to grow by 4.5% YOY in 2023 and 3.2% YOY in 2024, thanks to new containerships deliveries this year and next. The global reefer container equipment fleet is forecast to grow annually about 3% YOY from 2024 to 2027. On the demand side, global seaborne reefer cargo is likely to rebound in 2024 with a growth rate of 2% YOY, according to Drewry. However, downside risks remain high, such as extreme climate conditions affecting upstream production, or an uncertain economic outlook due to ongoing wars and geopolitical tensions. Additionally, elevated and volatile fuel prices as well as increasing costs from emissions regulations will add considerable surcharges to the base reefer freight rates.

The Baltic Panamax index (a proxy for grain bulk freight) continues to fluctuate around the lower end of the spectrum. The drought curtailing transits through the Panama Canal, has forced US grains exports to China and Asia to detour through the Suez Canal, adding around 10 days to the journey and contributing to a rise in the index.

What to watch:

- **US Department of Energy weekly inventory reports** on 14, 21 and 29 December.




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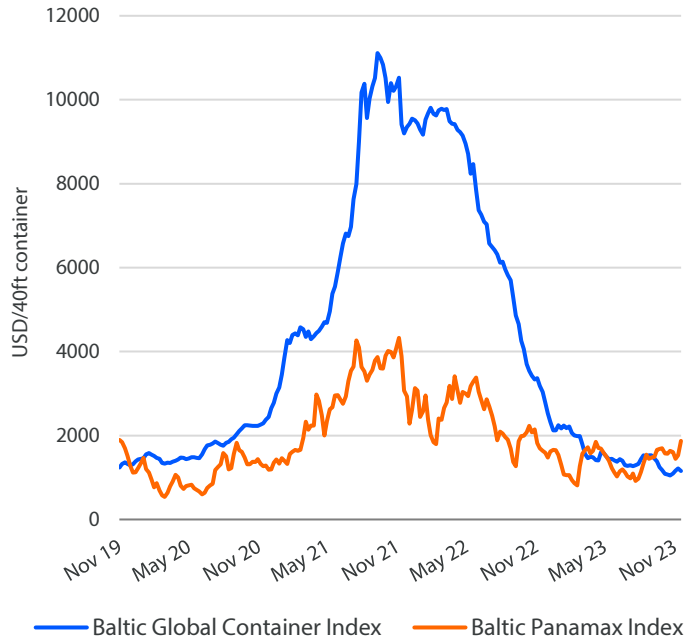
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Oil and freight

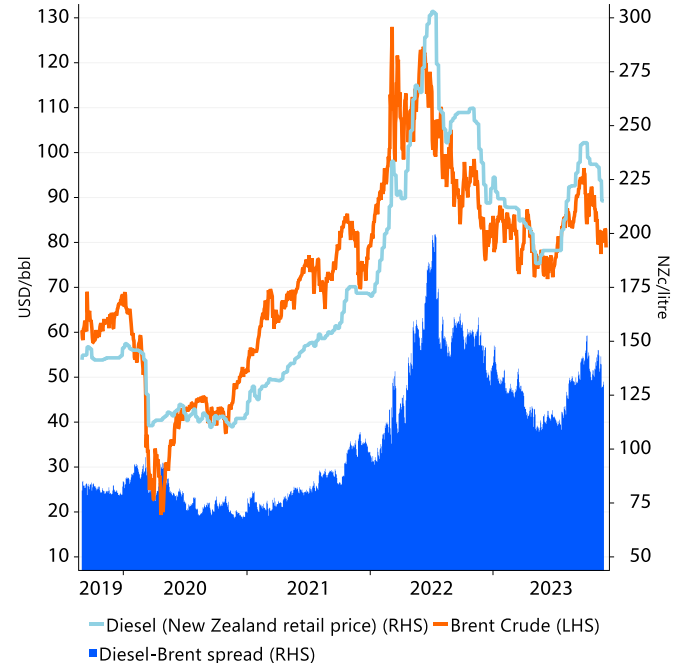
Crude oil struggles to hold its ground

Baltic Panamax Index and Dry Container Index, Nov 2019-Nov 2023



Source: Baltic Exchange, Bloomberg, Rabobank 2023

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



Source: Macrobond, Rabobank 2023

Agri price dashboard

30/10/2023	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	572	542	882
CBOT soybean	USc/bushel	▲	1,297	1,275	1,407
CBOT corn	USc/bushel	▲	481	477	692
Australian ASX EC Wheat Track	AUD/tonne	▼	393	414	503
Non-GM Canola Newcastle Track	AUD/tonne	▼	652	675	812
Feed Barley F1 Geelong Track	AUD/tonne	▼	333	347	353
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	359	357	1,028
Feeder Steer	AUc/kg lwt	▼	205	240	518
North Island Bull 300kg	NZc/kg cwt	▲	615	600	650
South Island Bull 300kg	NZc/kg cwt	•	555	555	635
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	489	438	803
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	4,925	4,775	4,888
Skim Milk Powder	USD/tonne FOB	▲	2,675	2,388	3,263
Whole Milk Powder	USD/tonne FOB	▲	3,050	2,775	3,388
Cheddar	USD/tonne FOB	▼	3,800	4,088	4,913

Source: Bloomberg, MLA, Rabobank 2023

Agri price dashboard

30/10/2023	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	95.0	98.9	90
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	84.4	86.9	72
Sugar markets					
ICE Sugar No.11	USc/lb	▲	27.3	26.3	18.0
ICE Sugar No.11 (AUD)	AUD/tonne	▲	951	907	570
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,139	1,135	1,300
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	386	383	625
DAP (US Gulf)	USD/tonne FOB	•	570	570	700
Other					
Baltic Panamax Index	1000=1985	▼	1,605	1,701	1,745
Brent Crude Oil	USD/bbl	▼	90	95	95
Economics/currency					
AUD	vs. USD	▼	0.634	0.644	0.640
NZD	vs. USD	▼	0.581	0.600	0.581
RBA Official Cash Rate	%	•	4.10	4.10	2.60
NZRB Official Cash Rate	%	•	5.50	5.50	3.50

Source: Bloomberg, MLA, Rabobank 2023

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