

Difficult Export Market Dynamics

New Zealand Agribusiness Monthly



July 2023

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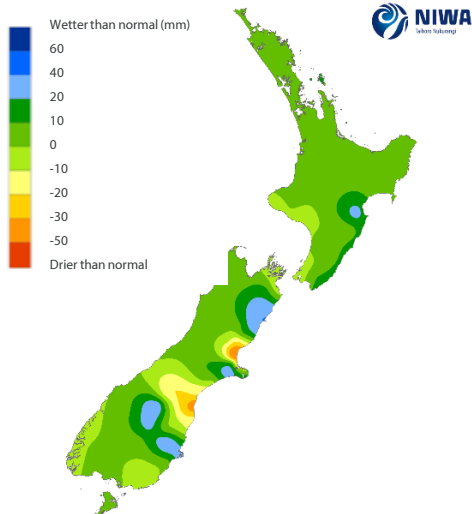


July Commodity Outlooks

 <p><i>Dairy</i></p>	The spring production months will be the first test for global market fundamentals. The initial Rabobank forecast for the new season (which kicked off 1 June 2023) is for a mere 0.6% recovery in milk supply.	p. 4-5
 <p><i>Beef</i></p>	An uncertain US beef export market has resulted from more Australian and Brazilian production. RaboResearch expects that beef schedules are likely to hold over the winter, with upside support dependent on markets digesting ample supply among a mixed demand outlook.	p. 6-7
 <p><i>Sheepmeat</i></p>	Concerns circulating the export market are adding downward pressure to our store lamb price and tempering future schedule prices. New Zealand sheep farmers are desperately awaiting China's rebound in demand – but anticipation that this may not occur is emerging behind the farmgate.	p. 8-9
 <p><i>Farm Inputs</i></p>	Market oversupply and limited demand have been the status quo since late 2022. Price variations in the energy sector were not strong enough to alter the downward trend in farm inputs.	p. 10-11
 <p><i>FX and Interest Rates</i></p>	The New Zealand dollar staged a small rally in June, even as Q1 national accounts data confirmed that the country has entered recession. We expect brighter days ahead and will be focused on NZ's trade performance in the coming months.	p. 12-13
 <p><i>Oil and Freight</i></p>	Crude oil prices scarcely changed over the course of June, as some strong economic data out of the US pared back earlier concerns of a recession-induced slump in demand.	p. 14-15

Short and Sharp Cold Snaps on the Way

Soil moisture anomaly (mm), 2 July 2023



Source: NIWA, Rabobank 2023

According to NIWA, July is likely to start on a cold, windy, and snowy note, with more southwest winds. The entire country will likely experience average or above-average temperatures through to September, with most of the country experiencing normal or below-normal levels of rainfall over this period.

Areas in the east of the North Island are likely to have near-normal rainfall through to September. The west coast of the South Island is forecast to have near-normal or above-normal rainfall. Elsewhere around New Zealand, rainfall is likely to be near-normal or below-normal through to spring.

NIWA anticipates soil moisture levels will most likely be near normal for all of the country.

What to Watch

- NIWA anticipates that the second half of 2023 is unlikely to be as wet as the first half. The start of spring might be particularly windy.
- NIWA noted that El Niño alert criteria was reached during June.
- Historically, E Niño conditions typically have delivered wetter conditions on the west coast and drier conditions than usual on the east coast.

Modest Milk Ahead for 2023/24

Milk production in New Zealand ended the 2022/23 season down just 0.5% on last year. This is quite the feat given the spring flush was the second challenging one in a row. Milk production through the shoulder of the season should show significant improvement on the prior period due to better grass growth. In the last two seasons, milk volumes declined a cumulative 5% from the peak 2020/21 season. We anticipate milk production to grow by 0.6% in the 2023/24 season.

Ample milk for the market has been the theme of the Northern Hemisphere spring flush. April EU supply lifted by 0.4% YOY, driven by Germany and the Netherlands in particular. US milk flows were higher by 0.6% YOY for May, led by South Dakota, Kansas, and Idaho. Weaker milk production growth is likely to emerge over the remainder of the year, with pinched profitability for both major regions.

Dairy commodity prices for fats and proteins diverged over June. Powder prices are sitting below five-year averages, while butter and cheese prices are bouncing just above their averages at 6% and 2%, respectively. Despite this, prices for all commodities are well below the highs achieved at the peak of this cycle, between 20% and 40%, with WMP prices leading the tumble lower.

So far, lower export volumes to China remain a theme for 2023. Strong domestic milk supply growth in Q1 2023 (8.5% YOY) drove weaker demand and flowed through to prices. Shipments for the year-to-May were 7% lower compared to last year. However, exports for May 2023 more than doubled on last year, proving that China hasn't been completely absent from the market. We anticipate weaker exports to China through the coming months.



Emma Higgins
Senior Agricultural Analyst

Emma.Higgins@rabobank.com
Twitter: @emhiggins

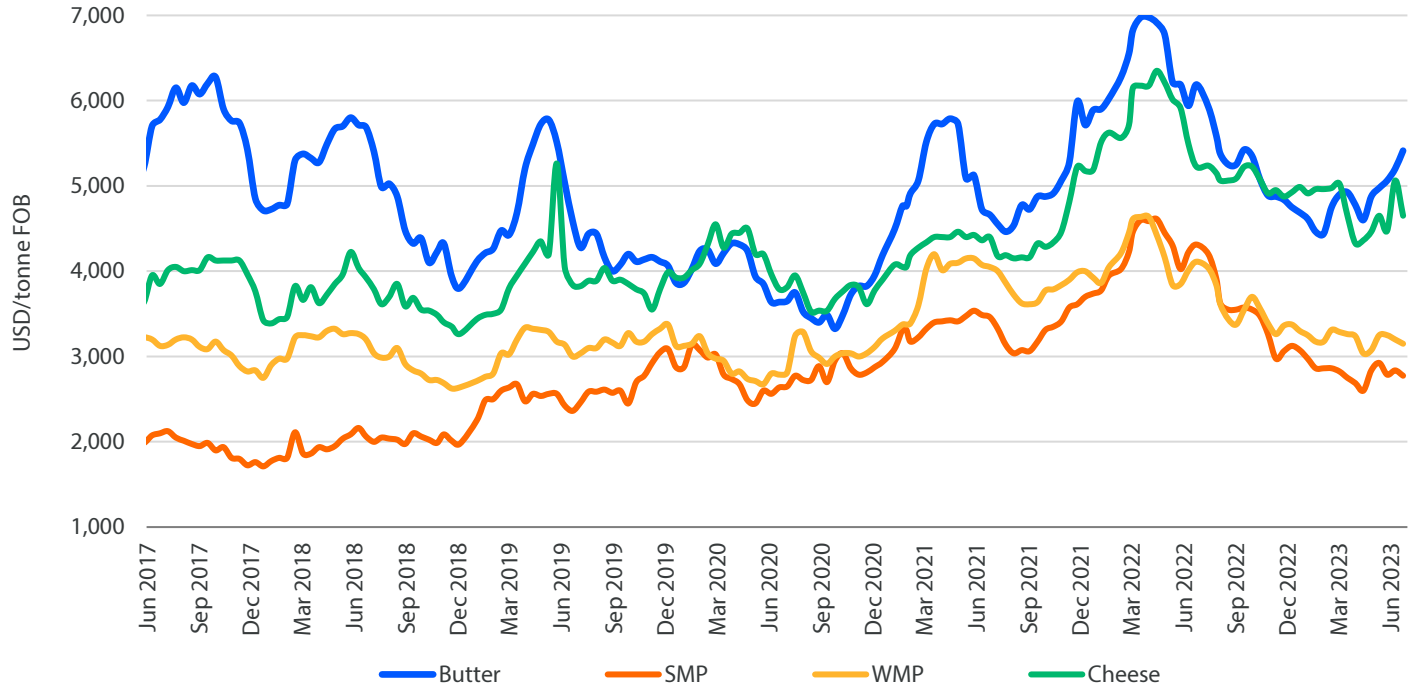
Dairy

What to Watch

- **The approaching spring flush in New Zealand** – While it might seem as though winter is just hitting its straps here locally, the market is awaiting the first signals of the strength (or otherwise) of New Zealand peak milk for the new season. The spring production months will be the first test for global market fundamentals. The initial Rabobank forecast for the new season (which kicked off 1 June 2023) is for a mere 0.6% recovery in milk supply.

Downward Pressure on Prices Over June

Oceania spot dairy commodity prices, June 2017-June 2023



Source: USDA, Rabobank 2023

Schedule Prices Are Feeling Chills

The beef schedule ended June on a weaker note, despite less supply across the country.

The AgriHQ North Island bull price averaged NZD 5.92/kg cwt in June, up 9.0% compared to the five-year average but down 1.5% compared to June 2022. North Island store prices dipped a little month on month but were stronger than June 2022 prices. In particular, R1 Friesian bulls lifted 18.6% (or NZc 61) to NZD 3.90/kg lwt YOY. In recent weeks, store prices have begun a downward trend, with wintering mode and soggy paddocks a priority for farmers.

The total number of cattle processed season-to-May in the North Island was broadly flat with the same period last year, while the South Island was 9.3% ahead of last year. **At 61,117 tonnes, total beef export volumes for May were the largest since March 2015.** Shipments jumped 20.2% YOY, with China taking around 40% of the total amount of beef exported. Still, throughout June, China lowered the amount it imported from New Zealand, which typically increases throughout its summer. However, the slow economic recovery from the pandemic has had a more impactful influence.

The price for US imported lean trimmings has been declining. Higher volumes of beef in the market – especially from Brazil in the first half of the year and now Australia – is the driving force here, causing the imported lean trimming price to drop despite US domestic lean trimmings prices increasing. US imported lean trimmings prices have dropped USc 14/lb to USD 2.32/lb since the beginning of autumn. This is USc 43/lb behind June 2022.

RaboResearch anticipates beef schedules are likely to broadly hold near existing values over winter, with upside support dependent on markets digesting ample supply among a mixed demand outlook.



Emma Higgins
Senior Agricultural Analyst

Emma.Higgins@rabobank.com
Twitter: @emhiggins

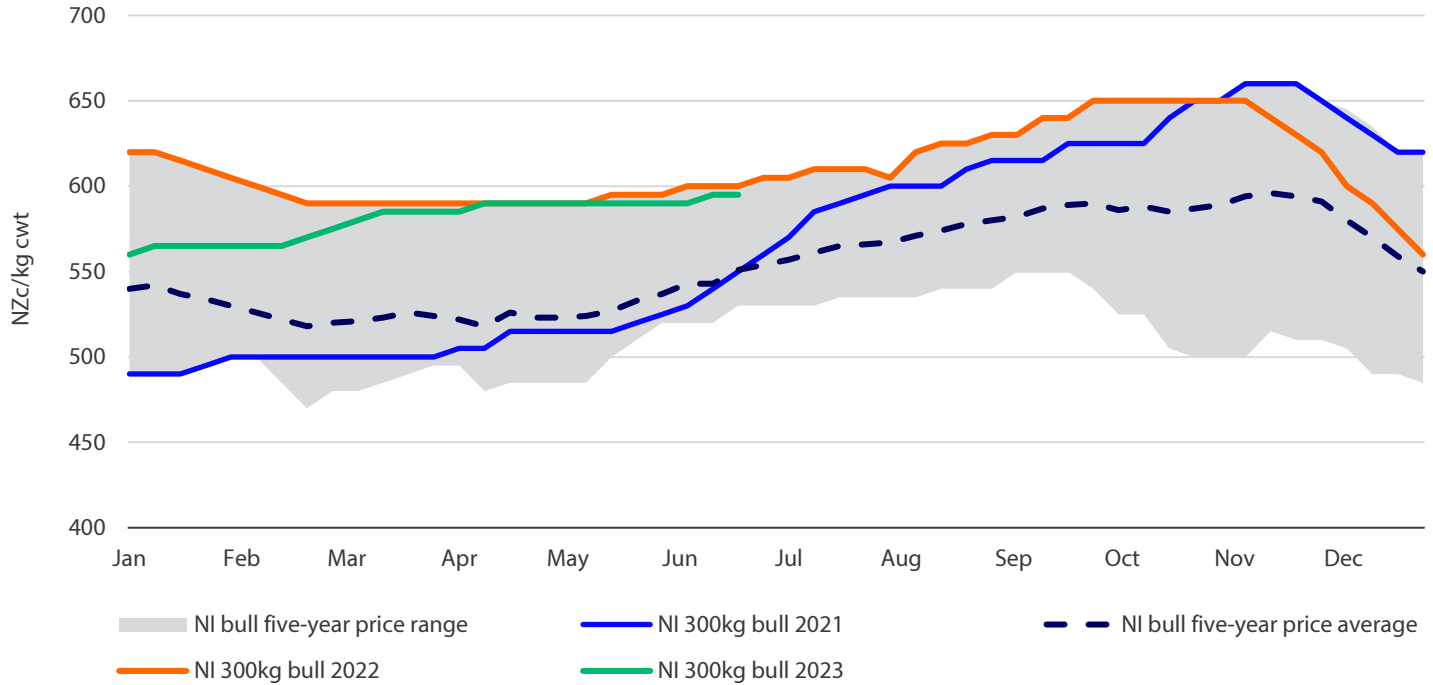
Beef

What to Watch

- **Australian beef supplies ramping up** – Australia has increased its exports to the US, up 43% for the year to date (May), totalling 68,400 tonnes. Australia's supply is set to grow further, and the country is on track to achieve its largest month of exports to the US in three years during June. These increased volumes in the market are likely to have increasing competitive impacts on US import trimmings prices.

Bull Prices Are Holding On

Good global demand is still supporting the AgriHQ North Island bull price



Source: AgriHQ, Stats NZ, Rabobank 2023


Lots of Lamb for Less Demand

Early in June, the store lamb market was bursting with lambs – with Temuka achieving a record yarding of close to 13,000 lambs. However, concerns circulating export markets are adding downward pressure to the store lamb price and tempering future schedule expectations. In recent weeks, agents have reported the challenge they are facing in finding buyers for all of the store lambs available. Procurement pressure has masked the deteriorating state of the export market to date, allowing slaughter prices to lift. This was evidenced by an increase in the AgriHQ South Island lamb price from an average NZD 7.52/kg cwt in May to NZD 7.68/kg cwt in June.

New Zealand sheep farmers are desperately awaiting China’s rebound in demand – but anticipation that this may not occur is emerging behind the farmgate. The slower recovery in demand (and subsequently pricing) observed in China is also reflected in other key markets, with subdued demand coming from Europe and the UK – New Zealand’s largest export markets.

The importance of China is clear. Nearly 24,000 tonnes of sheepmeat was shipped to China during May – 55.4% of the sheepmeat that left New Zealand shores. Yet, across the ditch, Australia achieved its highest monthly export volume to China in four years, shipping 28,500 tonnes in May. While the large export volumes appear promising, increased global supplies are pressuring the market and shifting the price-setting power to buyers.

RaboResearch expects that processor margins have been squeezed. This is reflected in processors pulling money from the schedule late in the month in an attempt to maintain a balance with export revenues.



Emma Higgins
Senior Agricultural Analyst

Emma.Higgins@rabobank.com
Twitter: @emhiggins

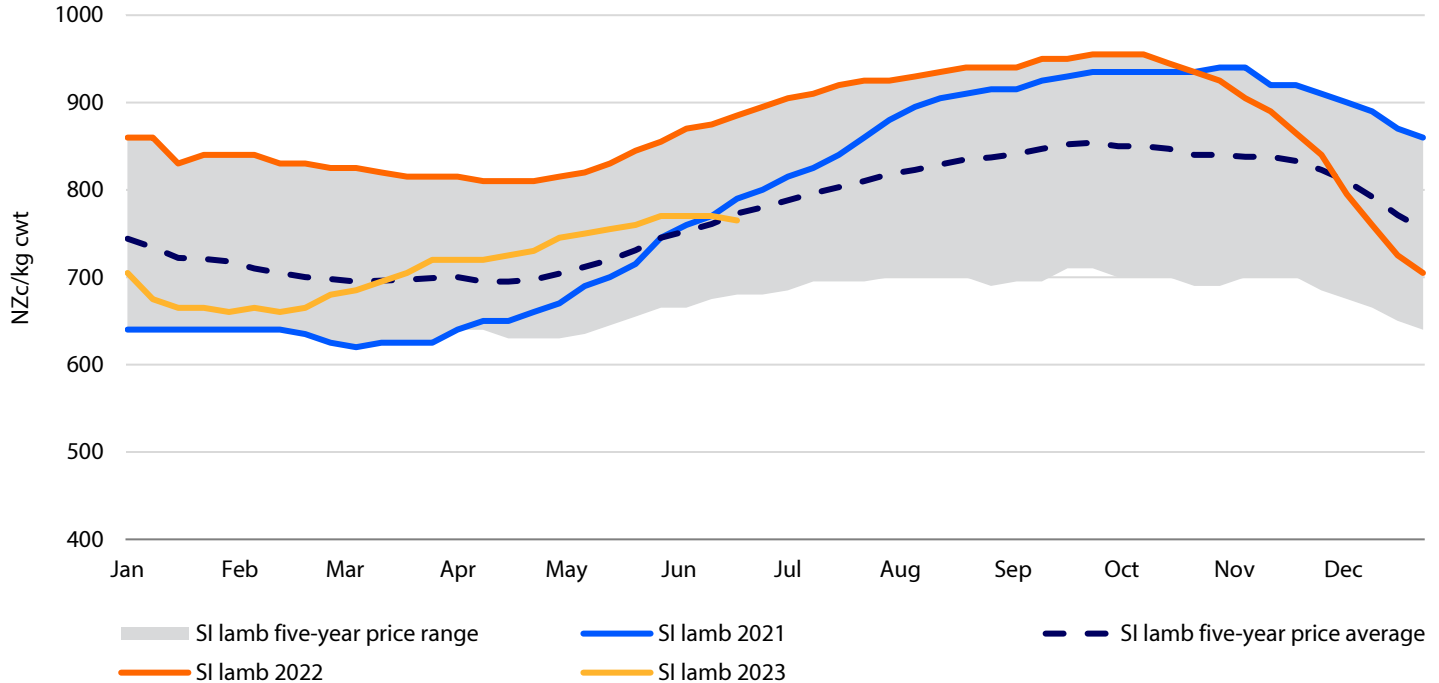
What to Watch

- Despite once being the key destination for our lamb exports, the UK has been steadily lowering import volumes for the past five years. Volumes in May 2023 were down 2,000 tonnes on May 2022. Industry forecasts indicate that UK sheepmeat production will increase in 2023 but that consumption will weaken. We’ll be watching Australia’s activity in the UK, following their recent free trade agreement, which is now in play. This will add more competition to this congested market.

Sheepmeat

Export Market Pressure Impacts Lamb Price

2023 AgriHQ South Island lamb prices track significantly behind 2022



Source: AgriHQ, Stats NZ, Rabobank 2023

Vast Supply Ain't Busted

Another Russian ammonia pipeline blast occurred, and now the grain corridor deal very likely will be ditched. Europe reimposed import duties on ammonia and urea, and the Dutch natural gas price reference hiked 62% in the last 30 days. However, none of these incidents was strong enough to revert the downward trajectory of farm input prices, which will only change when demand exceeds supply and current stocks.

Despite the fact that the pipeline connecting Tolyatti in Russia to the Odesa port in Ukraine was inactive, its bombardment in early June removed a bargaining chip from Black Sea Grain Initiative negotiations. It also eliminated a possible increase in European natural gas supply from Russia, which became a very strong market driver for fertiliser prices in early 2022. European natural gas price future contracts rose substantially during June but still fell short of last year's bull market. Today's price equals only 16% of 2022's highs. The blast was unable to alter Europe's nitrogen price reference, and Middle East references dropped about 15% for urea. The global market remains well supplied.

Conversely, Chinese DAP exports for the first five months of 2023 saw an increase of 38% YOY, from 1.1m to 1.48m tonnes. As the summer sowing period is done in the Northern Hemisphere, any strong bullish element in the second half of the year will come from South America. So far, nothing has emerged. Since January 2023, the Argentine reference has dropped by 21.5% and the Brazilian one by 34.5%. Potash fertilisers follow a similar path, with international prices down 13%.



Vitor Pistoia
Agriculture Analyst
Farm Inputs

Vitor.Cacula.Pistoia@rabobank.com
Twitter: @victor_agri

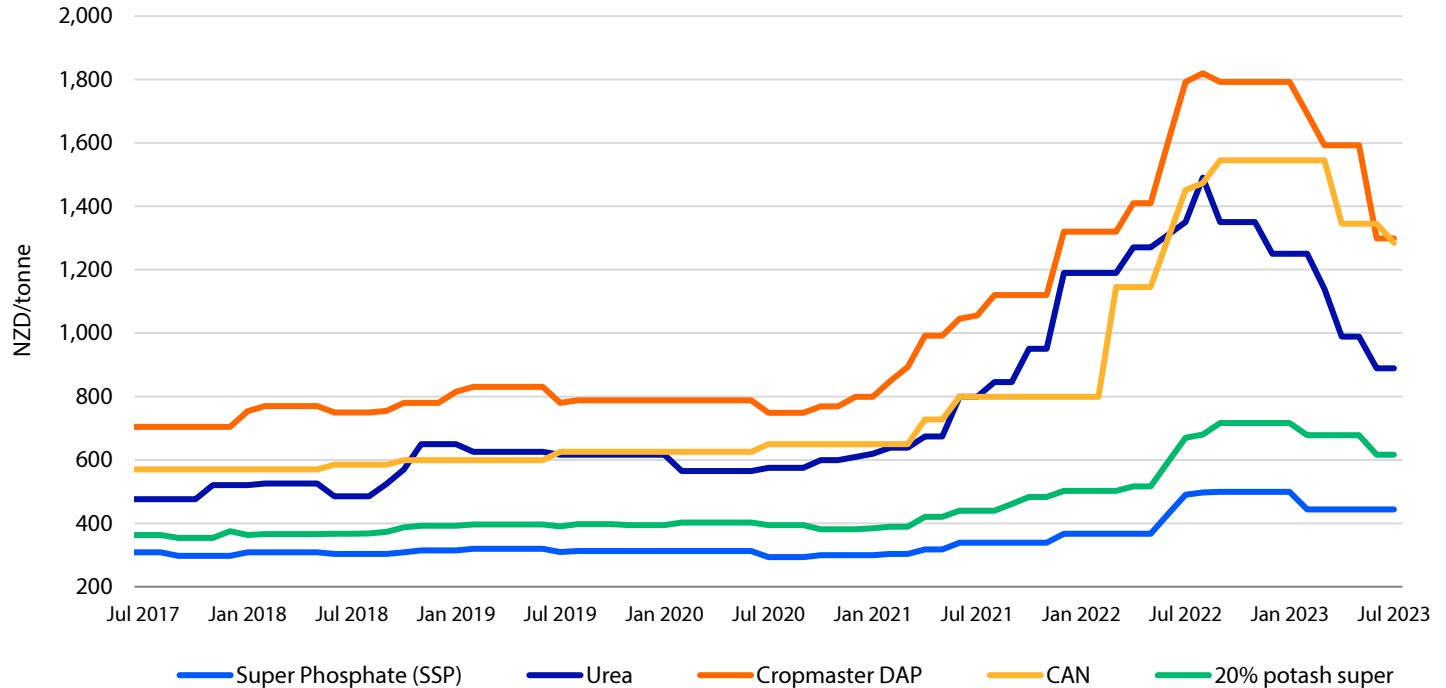
Farm Inputs

What to Watch

- **Agrochemicals** – Most prices for agrochemical ingredients have declined during 2023. For example, Chinese glyphosate is down 45% this year alone. However, some agrochemicals might show a different consumption rate soon. Brazilian demand for dicamba, for example, might surge in the coming months as the next soybean season approaches. On the other side of the Southern Hemisphere, resistant GMO varieties are on the rise in the upcoming crop.

Mild but Continuous Improvement

NZ local fertiliser prices



Source: Ravensdown, Rabobank 2023

Brighter Days Ahead?

The New Zealand dollar staged a modest rally in June, even as the national accounts data for the first quarter confirmed that the country has entered recession. The price action seems to suggest that traders now believe that the worst is behind us and that brighter days lay ahead for the rest of the year. That would be good news indeed, but let's not get ahead of ourselves just yet. The RBNZ is forecasting negative growth for Q2 and Q3 this year. Some of that bad news may have been 'pulled forward', but we probably have another couple of months of weak economic activity before we see anything like a proper recovery.

One interesting indicator is that residential real estate prices seem to be approaching a nadir. Realestate.co.nz reports that new listings have fallen substantially, and several local banks have updated their forecasts to align with the RBNZ's suggestion that prices will be rising again soon. Expectations that the RBNZ will hold the OCR steady at 5.50% for an extended period of time may well assist asset prices, and that should also see a recovery in consumer confidence over time.

Futures markets are predicting cuts to the OCR from April next year, which aligns with Rabobank's forecast for the next move from the RBNZ. We expect that economic activity will start to improve as the reconstruction efforts for Cyclone Gabrielle and the Auckland floods and improving trade performance all start to wash through the economy.

Trade will be the focus for the next few months. Prime Minister Chris Hipkins visited China in late June to hold talks to improve market access for New Zealand's agricultural and services exports. New Zealand has been struggling under a large trade deficit, as strong consumer spending increased imports while low prices and volumes and closed borders hampered exports. We expect to see moderate improvement in exports, while import growth falls over the back half of the year.



Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
Twitter: @BenPicton1

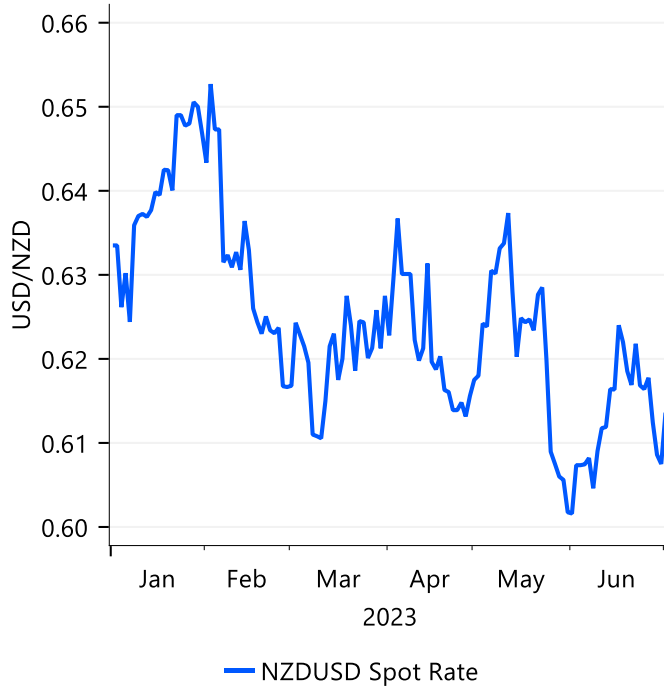
Interest Rates & FX

What to Watch:

- **RBNZ decision** – Due on 12 July. No change to the OCR expected.
- **Q2 CPI inflation data** – Due on 19 July
- **New Zealand trade balance** – Due on 24 July

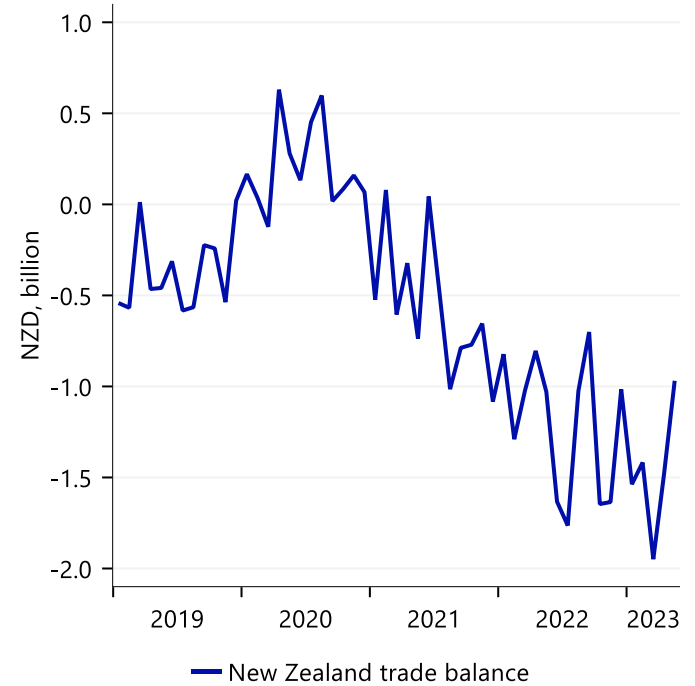
Trade in Focus

The NZ dollar acted as a shock absorber for growth in June



Source: Macrobond, Rabobank 2023

Progress on trade performance is encouraging



Source: Macrobond, Rabobank 2023

Energy Searches for Direction

Crude oil prices went on a rollercoaster ride in June before closing the month close to where they started. Front month Brent crude prices rallied in the middle of the month following a lower-than-expected CPI print for May and a decision by the FOMC to keep interest rates on hold. The gains came despite a Department of Energy report that showed an unexpected buildup in inventories and lower refinery utilisation rates that may explain some of the recent divergence between crude prices and distillates.

The aborted mutiny in Russia also saw some volatility in energy markets. Crude prices saw a bit of a rally as news of the mutiny hit the markets. But this was quickly reversed as it became clear that Wagner PMC would be standing down, and Federal Reserve Chairman Jerome Powell told the US Senate that two or three more rate hikes may be needed in the US this year. Prices rallied into the end of the month after US GDP growth was unexpectedly revised higher and a number of other strong data prints allayed fears of a demand-sapping recession in the US.

While ocean shipping spot rates have returned to pre-pandemic levels, contract rates are far behind. The Producer Price Index (PPI) for deep sea freight transportation tracked by the US Bureau of Labor Statistics stood 33% higher in May 2023 than the pre-pandemic average. The rate of PPI decline has also significantly slowed. As over 50% of the shipping volume is contracted out, the spot rate chart alone may not be a good indicator for pricing in a deflationary environment for the remainder of the year.

The Baltic Panamax Index (a proxy for grain bulk freight) continues to fluctuate around the lower end of the spectrum as capacity frees up and the global economy enters turbulent waters.



Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
Twitter: @BenPicton1



Xinnan Li
Analyst
F&A Supply Chains

Xinnan.Li@rabobank.com



Viet Nguyen
Analyst
F&A Supply Chains

Viet.Nguyen@rabobank.com

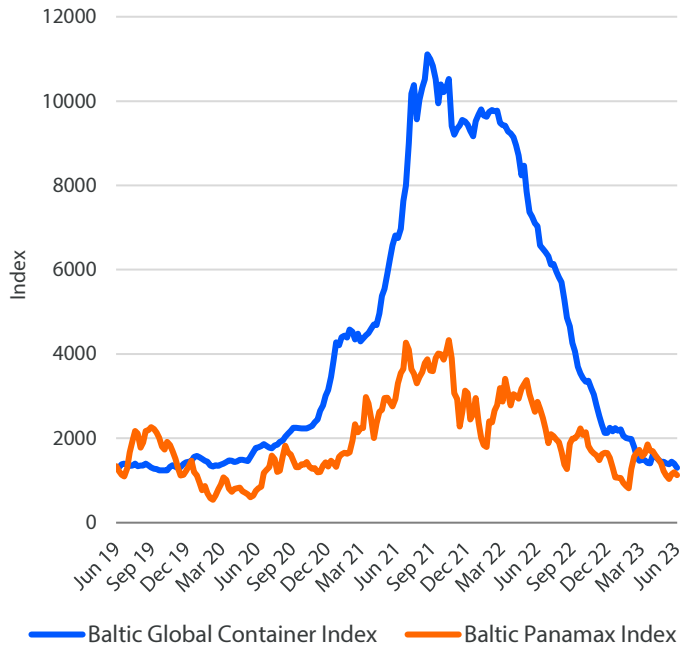
Oil & Freight

What to Watch:

- US Department of Energy weekly inventory reports on 7, 13, and 20 July will give an updated picture of available supply in energy markets.
- The US Federal Reserve's interest rate decision on 27 July will also be important for its influence on economic activity and demand for energy.

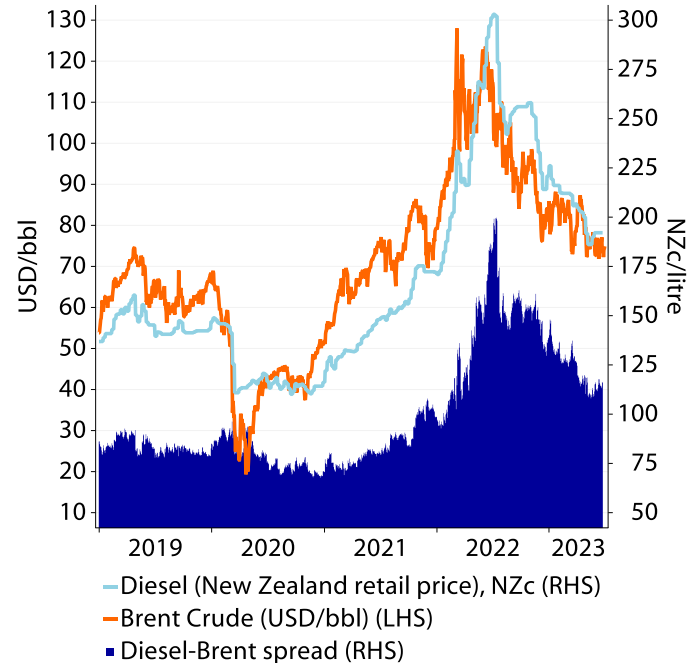
Energy Prices Traded Sideways in June

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



Source: Baltic Exchange, Bloomberg, Rabobank 2023

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



Source: Macrobond, Rabobank 2023

Agri Price Dashboard

29/06/2023	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	657	594	1,158
CBOT soybean	USc/bushel	▲	1,455	1,300	1,732
CBOT corn	USc/bushel	▼	592	594	777
Australian ASX EC Wheat Track	AUD/tonne	▲	387	370	466
Non-GM Canola Newcastle Track	AUD/tonne	▲	648	586	921
Feed Barley F1 Geelong Track	AUD/tonne	▼	313	323	430
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	557	575	1,110
Feeder Steer	AUc/kg lwt	▼	309	335	568
North Island Bull 300kg	NZc/kg cwt	▲	595	590	595
South Island Bull 300kg	NZc/kg cwt	▲	560	540	575
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	540	587	777
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	770	755	855
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	765	760	855
Venison markets					
North Island Stag	NZc/kg cwt	•	885	885	795
South Island Stag	NZc/kg cwt	•	885	885	800
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	5,413	5,063	6,188
Skim Milk Powder	USD/tonne FOB	▼	2,775	2,788	4,025
Whole Milk Powder	USD/tonne FOB	▼	3,150	3,250	3,850
Cheddar	USD/tonne FOB	▲	4,650	4,475	5,913

Source: Bloomberg, MLA, Rabobank 2023

Agri Price Dashboard

29/06/2023	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	89.3	94.2	157
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	80.1	83.5	139
Sugar markets					
ICE Sugar No.11	USc/lb	▼	22.6	25.1	19.6
ICE Sugar No.11 (AUD)	AUD/tonne	▼	754	839	573
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,126	1,209	1,420
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	262	328	688
DAP (US Gulf)	USD/tonne FOB	•	520	520	1,090
Other					
Baltic Panamax Index	1000=1985	▲	1,058	1,045	2,944
Brent Crude Oil	USD/bbl	▲	74	73	122
Economics/currency					
AUD	vs. USD	▲	0.661	0.650	0.720
NZD	vs. USD	▲	0.608	0.602	0.656
RBA Official Cash Rate	%	▲	4.10	3.85	0.35
NZRB Official Cash Rate	%	•	5.50	5.50	2.00

Source: Bloomberg, MLA, Rabobank 2023

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Meet our RaboResearch Food & Agribusiness Australia and New Zealand team



Stefan Vogel

Head of Food & Agribusiness
Research and Advisory, Australia
and New Zealand
+61 460 734 578
Stefan.Vogel@rabobank.com



Angus Gidley-Baird

Senior Animal Protein Analyst
+61 424 266 909
Angus.Gidley-Baird@rabobank.com
🐦 @angus_gb



Benjamin Picton

Senior Market Strategist
+61 408 571 012
Ben.Picton@rabobank.com
🐦 @BenPicton1



Dennis Voznesenski

Senior Agriculture Analyst
+61 438 595 314
Dennis.Voznesenski@rabobank.com
🐦 @Voz_Dennis



Emma Higgins

Senior Agriculture Analyst
+64 27 600 5549
Emma.Higgins@rabobank.com
🐦 @emhiggins



Michael Harvey

Senior Dairy & Consumer
Foods Analyst
+61 409 488 485
Michael.Harvey@rabobank.com
🐦 @MickHarvey77



Pia Piggott

Associate Analyst
+61 460 734 578
Pia.Piggott@rabobank.com
🐦 @piapiggott



Vítor Caçula Pistóia

Agriculture Analyst
+61 473 862 667
Vitor.Cacula.Pistoia@rabobank.com
🐦 @victor_agri



Edward McGeoch

Associate Analyst
+61 418 273 123
Edward.McGeoch@rabobank.com
🐦 @mcgeochedward

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