

Beyond the Floods

New Zealand Agribusiness Monthly



March 2023

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Tropical Cyclone Gabrielle Support

Farmer and grower recovery grants

The Government has allocated an initial NZD 25m to support farmers and growers.

- Pastoral and arable farmers can apply for grants up to NZD 10,000 to help with repairs to water infrastructure for stock and fencing repairs.
- Growers can apply for grants of NZD 2,000 per hectare up to a maximum of NZD 40,000 per hectare to remove silt from trees and vines, and clean up.
- Grant applications are open and can be made at: www.mpi.govt.nz/cyclonerecovery.
- For more information, visit the above web address or phone 0800 00 83 33.

Feed coordination service

MPI and Federated Farmers have restated the national Feed Coordination Service to help match people with feed or supplement to sell with people looking to buy.








- Grazing needed: <https://arcg.is/0eTPSK0>.
- Grazing available: <https://arcg.is/OWneD>.
- Feed needed: <https://arcg.is/11z9mz0>.
- Feed available: <https://arcg.is/1azj0n>.
- Or phone 0800 FARMING (0800 327 646).

Civil Defence Payments – visit the [Work and Income website](#) or phone 0800 400 100.

Rural Support Trusts – visit the [website](#) or phone 0800 RURAL HELP (0800 787 254).

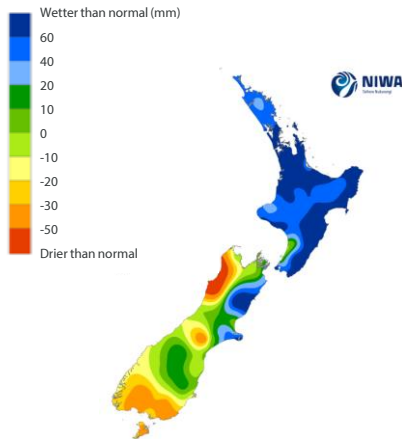
For more information – please visit your relevant sector group website or Federated Farmers of New Zealand website.

2023 Commodity Outlook

 <p><i>Dairy</i></p>	Current farmgate milk price forecasts remain under pressure. Dairy commodity prices will likely see near-term headwinds continue before returning to more promising levels in the second half of 2023.	p. 5-6
 <p><i>Beef</i></p>	RaboResearch anticipates that the North Island bull price will remain stable at current pricing levels in March.	p. 7-8
 <p><i>Sheepmeat</i></p>	There are further potential downside risks for the lamb schedule in March, but reasons to be optimistic in the coming months.	p. 9-10
 <p><i>Consumer Foods</i></p>	Consumer confidence is starting the year on a weak footing. While 2023 will see peak inflation, a real wage squeeze will see ongoing consumer behaviour shift toward trading down on food purchases and reduced non-food discretionary spending.	p.11-12
 <p><i>Farm Inputs</i></p>	“All quiet in the farm inputs front” is not an Oscar-winning quote but defines the current status. There are expectations among stakeholders of how the needle will move when next-season buying starts for real, while stocks are building up.	p. 13-14
 <p><i>FX & Interest Rates</i></p>	With inflation still scorching hot, the Reserve Bank shows no sign of backing off. Higher interest rates and inflation are driving down consumer confidence. Labour shortages remain widespread, and wage inflation is likely to remain buoyant.	p. 15-16
 <p><i>Oil & Freight</i></p>	The year 2023 will be the downcycle in the container shipping market, with capacity improvements expected. Europe’s warm winter has caused energy prices to plummet. However, supply will remain constrained.	p. 17-18

Looking Forward to a More Settled Autumn

Soil moisture anomaly (mm), 28 February 2023



Source: NIWA, Rabobank 2023

The risk of tropical cyclones is not over yet for New Zealand. All eyes will remain focused on the Pacific Ocean over the coming weeks, hoping that the East Coast of the North Island can avoid more devastation.

While the North Island has experienced extraordinary rainfall volumes in February, another extreme was occurring in the ocean along the west and southern parts of New Zealand. A marine heatwave caused coastal sea surface temperatures to be well above average.

Temperatures are expected to remain warmer than average, but a reduction in northwesterly winds will bring fewer warm days to eastern areas in March.

NIWA's outlook indicates rainfall is expected to be above normal in the north and east of the North Island, whereas it is equally likely to be near or below normal in western areas of the South Island. All other regions of New Zealand are likely to receive near- or above-normal rainfall.

What to Watch

- **La Niña neutralising.** La Niña has continued to weaken through January and February and is expected to neutralise by early autumn. Weaker La Niña conditions will result in fewer northeasterly winds and will hopefully result in much needed rain in Southland, Otago, and the West Coast of the South Island.

Weaker Milk Prices Kick off 2023

Commodity markets have traversed softer ground for 2023, and this is now reflected in Fonterra's new forecast farmgate midpoint of NZD 8.50/kgMS. Since peaking in Q2 2022, commodity prices have been losing momentum. Average commodity prices have fallen between 20% to 30% from their mid-2022 peaks, depending on the product. The weaker fundamentals are expected to keep a lid on any major price recovery in the near term, with Chinese imports remaining cautious alongside broader demand rationing in other markets. RaboResearch has also lowered its forecast to NZD 8.50/kgMS for the full 2022/23 season. However, we think upside price potential remains possible, with China anticipated to show more buying interest from Q2 2023.

New Zealand milk supplies have started 2023 with an improved lease of life on what has been a very underwhelming season. January 2023 supply lifted by 1.2% YOY: the first positive monthly increase for the 2022/23 season (tonnage basis). STD collections are trailing behind the prior period by 2.0% YOY. Cyclone Gabrielle and a very dry Southland region are likely to cause re-emerging pressure on milk supply growth for February – and will cast a shadow over the remainder of the season. The flip side is that a wet summer for other unaffected parts of the North Island has resulted in great grass growth compared to last year. Rabobank anticipates milk production to slide this season by around 2% YOY for the full 2022/23 year.

Milk production growth outside of Oceania is gaining momentum. A return to growth is being led by the Northern Hemisphere. Latest numbers are showing solid growth across most of the European Union. Milk production is expanding in the US and South America. Meanwhile, milk production in Australia remains stalled. The strength in milk supply across the approaching seasonal peaks in the Northern Hemisphere is a key watch.



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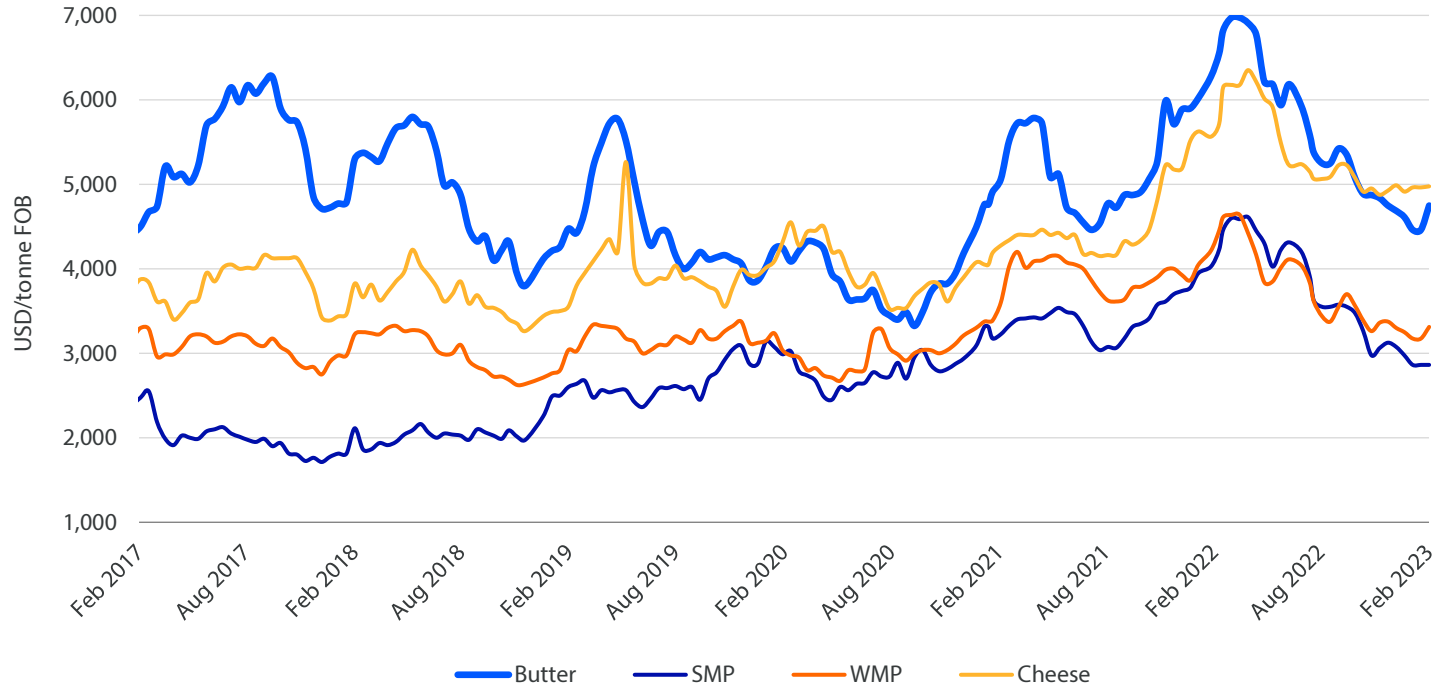
Dairy

What to Watch

- **Trading down** – Consumer prices for dairy products have risen in all channels. In some instances, the rate of inflation is at record levels. This is driving shifts in consumer behaviour. Dairy consumption will continue to show a level of resilience in most major dairy markets. However, there are growing signs of volume declines. Consumers will remain thrifty for a period of time given the cost-of-living pressures still flowing through the economy.

Softer Tone to Commodity Markets Sets In

Oceania spot dairy commodity prices, Jan 2017-Feb 2023



Source: USDA, Rabobank 2023

BSE in Brazil Could Impact NZ Beef

An atypical case of BSE was identified in a nine-year-old bull in the northern state of Pará, in Brazil. In alignment with the animal health pact agreed between the two countries, Brazil voluntarily suspended exports to China from February 23, 2023. This is significant, as Brazil is China's largest supplier of beef. According to the Brazilian Minister of Agriculture, Carlos Fávaro, the suspension is expected to be lifted by late March, in anticipation of President Luiz Inácio Lula da Silva's visit to China to meet with President Xi Jinping on March 28. The decision on when to remove the trade suspension falls to the Chinese authorities. In 2021, two forms of atypical BSE were identified in Brazil, and it took just over three months for the trade suspension to be lifted.

RaboResearch anticipates that the beef schedule will hold around current pricing levels in March, but there is potential upside. The AgriHQ North Island bull price held at NZD 6.65/kg cwt through January and February, which is NZc 52 above the five-year average price. The suspension of Brazilian beef exports may provide some pricing support for New Zealand beef exports, but it depends on two things: how long the suspension lasts and how quickly reported high beef inventories in China are worked through.

Although there are reported high beef inventory levels in China, we do not think it is cause for concern. Demand for New Zealand beef from China continued to grow through 2022 – New Zealand export volumes grew 5%, and the average export price lifted 27% YOY (or NZD 2.00/kg FOB). A shift in consumption channels for beef, from predominantly foodservice to increased at-home cooking, has meant that beef demand and pricing were not impacted during lockdowns to the same extent as sheepmeat. The ongoing recovery of the Chinese economy through 2023 is expected to support further upside in the farmgate beef schedule. Additionally, the US import price for bull beef (95CL) tracked upward through February, after dipping in early January.



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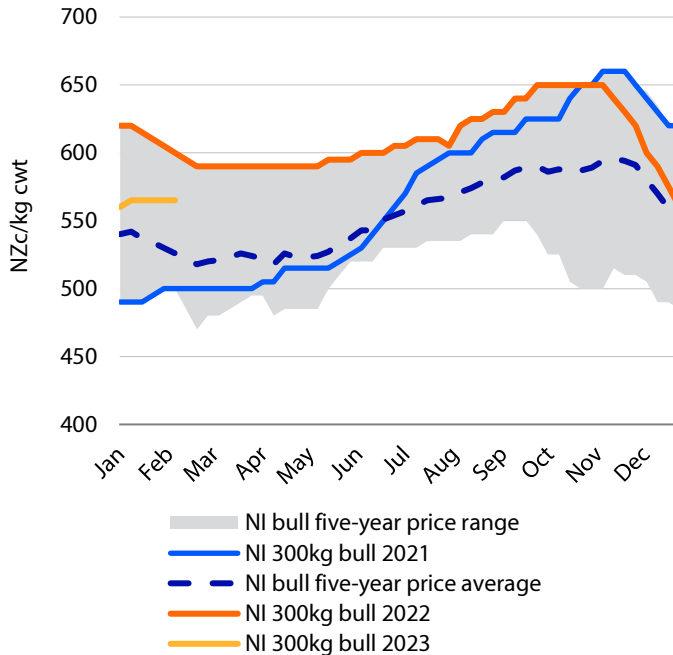
Beef

What to Watch

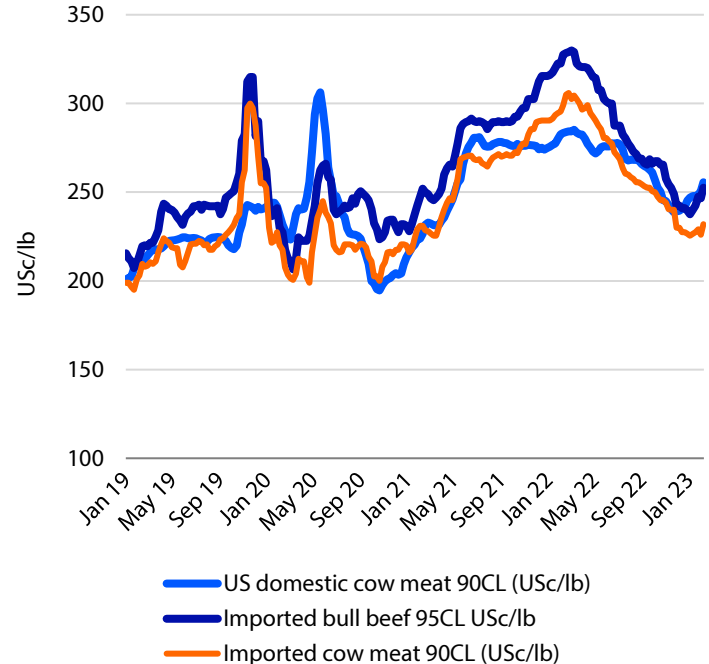
- Farm expenses remain a pain point. The latest farm input cost data from StatisticsNZ shows that input costs (excluding livestock purchases) for sheep and beef farms were 15% higher in Q4 2022. While farm input costs remained high, commodity prices moved lower. The average North Island bull price was 3% lower YOY in Q4, and the average South Island lamb price was 7% lower YOY. Many farmers will be facing margin pressure. We encourage farmers to work with their trusted advisors to identify levers in their business that they can pull to manage or mitigate the impacts.

Beef Returns Remain Favourable

AgriHQ North Island bull price expected to remain stable in March



US imported 95CL price ticking upward which is positive



Source: AgriHQ, MLA, USDA, Rabobank 2023

Market Showing Positive Signs

Export prices have been picking up, but lamb is not out of the woods yet. The US French rack import price has lifted through February 3% YOY, as wealthy consumers in the US continue to enjoy lamb in restaurants. Higher levels of interest from China also translated into lifts of prices for lamb flap (+11%) and forequarter (+4%) in February compared to January. While there are positive signals from China, we still expect it will take several months for there to be a material shift in demand and pricing, as China is currently in a mild recession.

The AgriHQ South Island lamb price stabilised through February at around NZD 6.60/kg cwt. We anticipate that there could be some further downside for the lamb schedule through March as more lambs come forward for processing. Farmers have been holding lambs longer to capitalise on good feed levels by adding a few extra kilograms to compensate for softer schedule prices. However, the combined effect of lambs being held longer, plus Southland and Otago being very dry, is that we can see a large number of store lambs and prime lambs hitting the market in March. Processing capacity is not currently an issue in the South Island, but with more lambs likely to come forward in March, a few more cents could come out of schedules. Plenty of feed in the North Island, plus Canterbury cropping farmers entering the market in March, should support the store lamb market.

The livestock losses and infrastructure damage as a result of Cyclone Gabrielle, as well as the flow-on effects, will become more apparent through March. Many farmers were carrying higher numbers of stock than usual due to adequate feed levels. We anticipate that as farmers assess the full extent of the infrastructure damage and start to work out feed plans for the coming months, some will need to reduce stock numbers. We do not think this will have a big effect on the store lamb market, due to the reasons outlined above.



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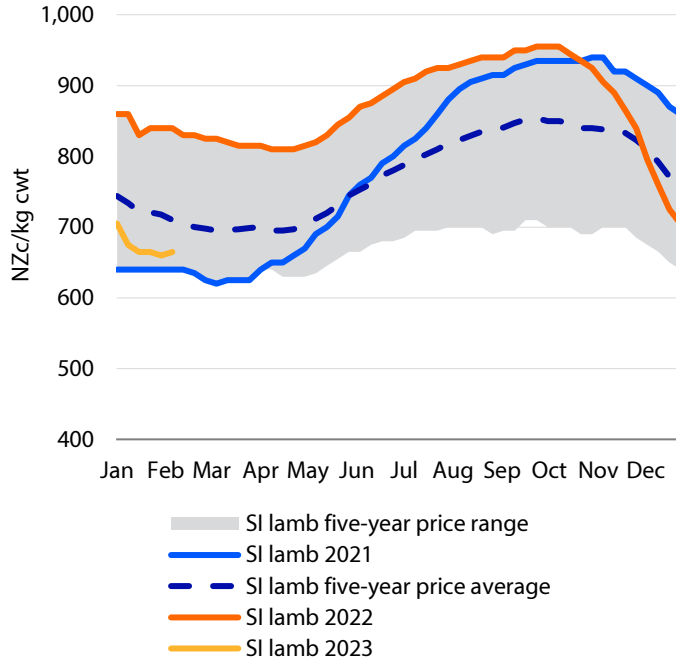
Sheepmeat

What to Watch

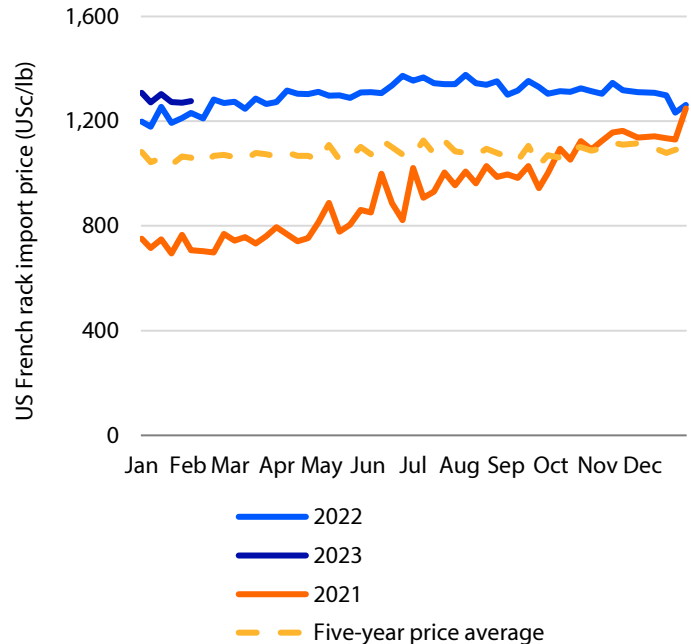
- *Mutton schedule recovery is facing more headwinds than lamb.* Given that China is the largest buyer of New Zealand's mutton, any price recovery is solely reliant on that market. There are still a lot of cull ewes in the South Island that need to be processed and that have been stockpiled since weaning due to labour challenges and little demand from China for mutton. Slaughter numbers as at January 28 (week 17 of the season) were 29% behind YOY in the South Island, but +4.5% in the North Island. RaboResearch expects mutton prices will remain softer until mid-2023, when demand from China starts to recover.

Farmers Focusing on Lamb Weights To Make Margins

AgriHQ South Island lamb price could face more pressure in March



US French rack import price from NZ above 2022 levels



Source: AgriHQ, USDA, Rabobank 2023

Deeper Trading Down To Come

As 2022 drew to a close, New Zealand's CPI was running its highest levels in three decades. While the main drivers were housing and household utilities, food inflation was high, with fresh produce the major contributor. Food price inflation is running at double-digit rates as we begin 2023. The rising cost of living has taken a toll on consumer confidence.

As in many economies, consumers in New Zealand will be hoping to pass the peak of inflation in early 2023. Furthermore, there will be some hope that household savings and income growth will provide some support for household spending. However, New Zealand consumers will be part of a large global contingent of the world's population that will face recession in 2023.

One thing is certain, the food market is expected to enjoy a much better year ahead in terms of product availability. The year 2022 was heavily impacted by supply chain disruptions and lockdowns.

Trading down will become more prevalent in shopping baskets. Shopping behaviours were already adapting to inflationary pressures in 2022. However, given the costs-of-living pressures that are still coming through interest rate increases, consumers will intensify the search for value and savings. Wage growth is anticipated to pick up pace in 2023 but to remain below other advanced economies. In 2023, food and beverage companies will need to continue to adapt offerings to cater to the value-conscious consumer.



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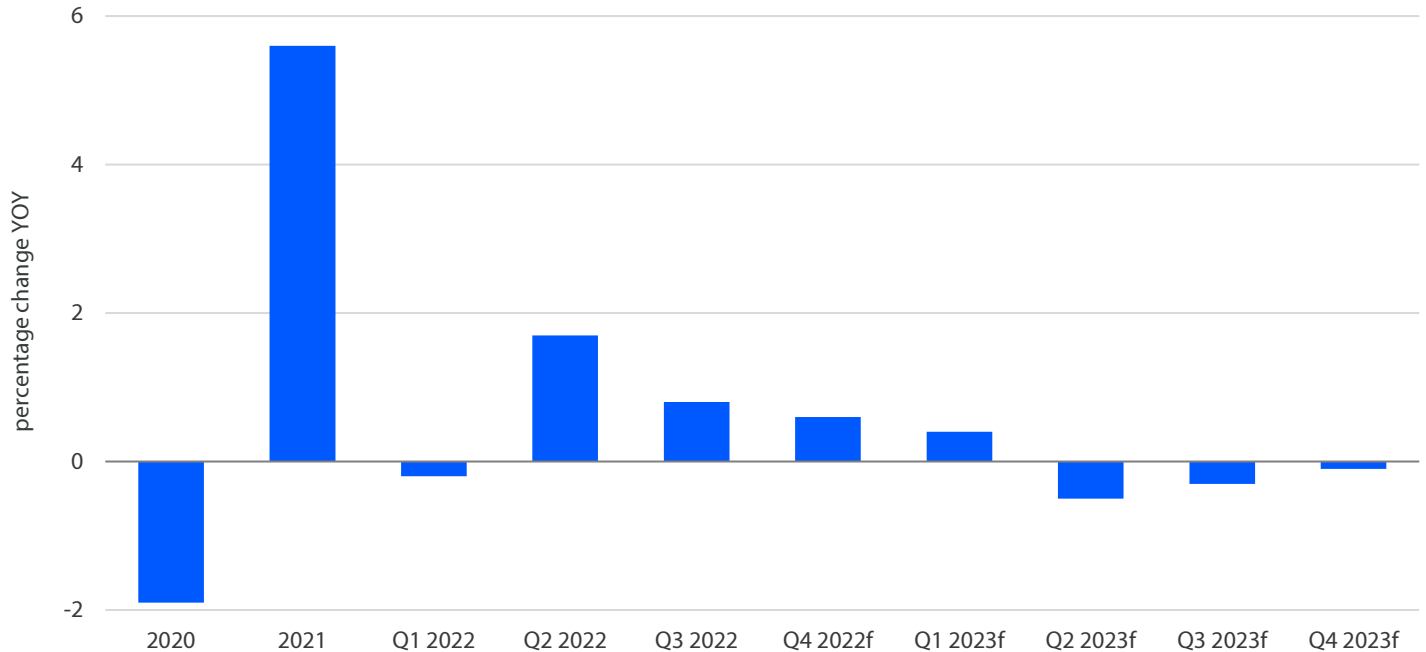
Consumer Foods

What to Watch

- **Global impacts** – Rampant inflation is a global challenge. Consumers in many economies are facing high rates of inflation. In some economies, peak inflation has passed, which would be welcome news. Nonetheless, the global economy is navigating a synchronised slowdown with the International Monetary Fund (IMF) warning of a third of the global population facing a recession in 2023. Consumers will be tightening their belts everywhere in 2023.

Recession on the Cards for New Zealand

New Zealand gross domestic product, actual and forecast



Sources: Stats.gov.nz, Rabobank 2023

Temporary Stalemate

The fertiliser market is currently stuck in a stalemate between buyers and sellers. The downward price trend is continuing (except for potash), and offers are struggling to find markets. The reason for this is the uncertainty, or caution, about how prices will behave after the spring buying period kicks off in the Northern Hemisphere and volumes start rolling again.

For early 2023, the supply-and-demand seesaw is favouring global stocks of fertilisers, as companies' 2022 performance reports confirm. For instance, the Moroccan OCP Group (a state-owned phosphate rock producer that has the mineral monopoly and exports 30% of global phosphate fertilisers) reported a marketed volume of 5.5m tonnes, over 45% down compared to the 2021 mark of 9.9m tonnes. And capacity is believed to be operating at 50%. Expanding the analysis to other nutrients and countries, the general picture is similar to some extent. **Another indication of the standoff comes from some of the inputs for fertiliser production.** The price of phosphoric acid, which is used to produce MAP/DAP, is down 10% QOQ in North Africa. Sulphuric acid, also used for phosphate fertilisers and ammonium sulphate, is down 95% in China since its peak in Q2 2022 and now stands at NZD 12/tonne versus the NZD 235/tonne record.

The input prices doldrum, however, may not last too long, as evidenced by agrochemicals. Since prices peaked in late 2021, they have shown a gradual reduction, and some are now stabilised, such as the Chinese glyphosate 62% concentration reference, which dropped by over 40%. For this input, the price has been hovering around the same mark – NZD 5,700/tonne – for the last four months.

Contrary to chess rules, market participants will not say “good game” and shake hands after a temporary stalemate or a draw. Post-Covid volatility is still around, and the farm inputs needle will move again. The recent currency dip was not enough to counter international fertiliser prices in NZD terms.



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Farm Inputs

What to Watch:

Upside

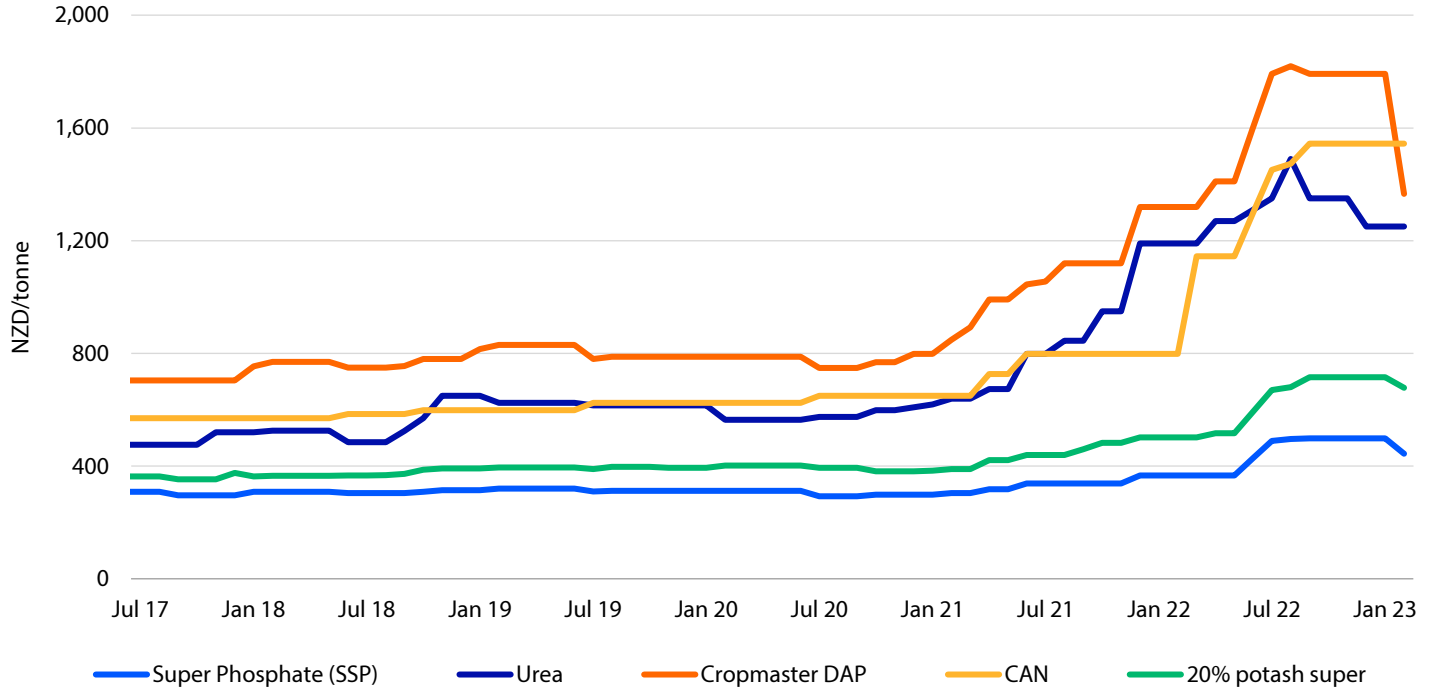
1. A natural gas supply restriction in Europe if the spring offensive does take place in the Black Sea conflict.
2. Good weather conditions support growth in cropping acreage in North America.

Downside

1. If the effects of drought intensify in Argentina, they could cause further demand destruction for the coming winter season.

Is There a Further Dip To Come?

NZ local fertiliser prices




Source: Ravensdown, Rabobank 2023

Cool Your Jets

The Reserve Bank of New Zealand raised the Official Cash Rate by 50 bps in February to 4.75%. This move was very much expected by the market and was in line with Rabobank's official forecast. The RBNZ was quicker than other central banks to act on the inflation challenge, but there is still work to do and Governor Adrian Orr noted in his statement that there are further rate hikes still to come. Despite a pickup in immigration, and some early signs that pressures are easing, the labour market in New Zealand remains extremely tight and firms are finding it very difficult to find workers. The Reserve Bank considers the economy to be operating above its maximum sustainable level of employment, and this is helping to fuel surging consumer demand.

The devastating impacts of Cyclone Gabrielle should have implications for monetary policy going forward. The RBNZ says inflation is likely to spike in the short term, but it is too early to tell what the full effects may be, and that they are looking through it to target medium-term outcomes for the time being. **Rabobank maintains its view of a further 50 bps hike in April, followed by 25 bps in May,** but we see some risk that the RBNZ will go at a slightly slower pace now that the cash rate is at an unambiguously restrictive level.

The NZD lost more than two cents against the US Dollar in February to be trading around the 0.6240 level. Of the G10 major currencies, only the AUD and JPY performed worse than the NZD in the month. The story here is not so much weakness on the part of the NZD, but rather strength for the USD, which has been bid up by FX traders who are betting that the US Federal Reserve will need to increase rates further, and hold them higher than was previously anticipated. This should moderate later in the year as cumulative rate hikes impact economic activity in the US and **we see NZD/USD recovering to 0.66 on a twelve-month view.**



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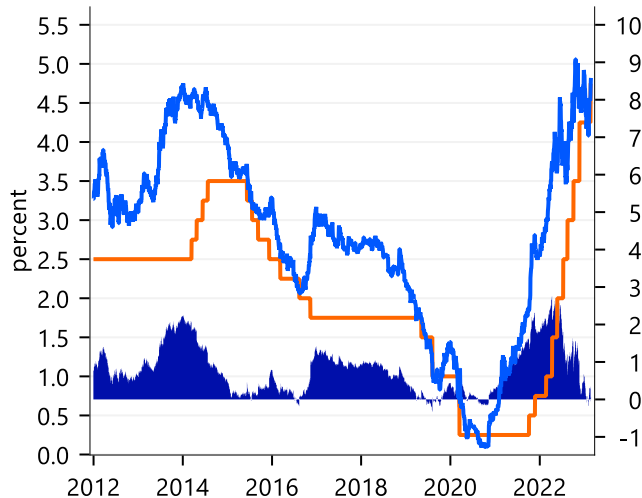
Interest Rates & FX

What to Watch:

- **Government response to Cyclone Gabrielle** – The RBNZ has reserved judgment on whether the course of monetary policy will need to be adjusted as a result of the cyclone. Much will depend on how large the government spending response is, and whether it is financed by taxes or debt.
- **Retail Sales** – The RBNZ has told New Zealand shoppers to “cool your jets” as strong consumer demand pulls inflation higher. March retail sales figures will be a good early gauge on the progress that rate hikes are making.

Encouraging Signs, but More Work To Do

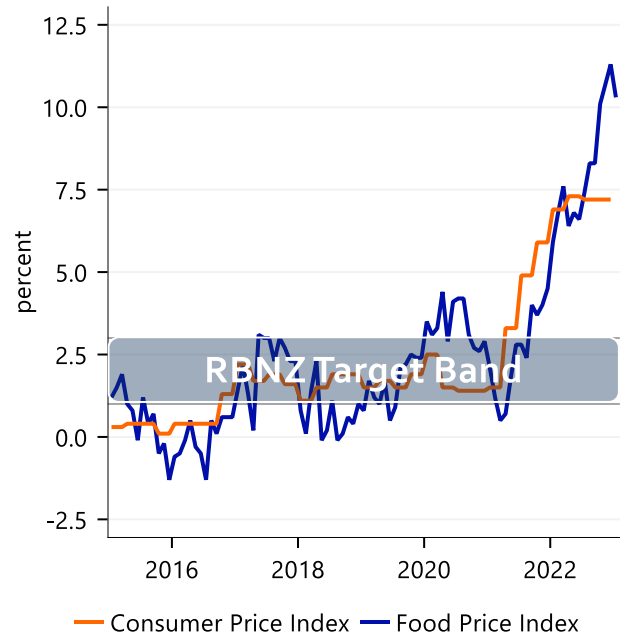
New Zealand's Official Cash Rate now stands at 4.75% with expectations of a further 75 bps of hikes to come



- NZ five-year swap (LHS)
- NZ Official Cash Rate (LHS)
- New Zealand, Reserve Bank of New Zealand, NZ five-y...

Source: Macrobond, Rabobank 2023

Inflation pressures in New Zealand remain very high, but there are some early signs that we are close to a peak



Source: Macrobond, Rabobank 2023

Container Shipping Market Enters the Period of Structural Changes



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Brent crude prices slid lower again in February as synchronised interest rate tightening globally weighed on the demand outlook. Diesel terminal gate pricing also fell during the month, but the effect was moderated somewhat by tightening spreads between European and Asian diesel pricing. We expect diesel pricing to be supported by structural imbalances in global refining capacity.

The strong position of ocean carriers in contract negotiations is likely to change. One factor contributing to such strong positions of ocean carriers is their shipping alliances (2M, THE, Ocean). Such alliances allow carriers to effectively manage capacity for cost reduction and stable returns. Mass blank sailings when demand falls have been implemented in the past years. Therefore, the breakup of the 2M alliance (Maersk and MSC together account for approximately 30% to 35% market share) announced on 25 January 2023 is expected to trigger structural changes, especially as the sector goes through its down cycle of overcapacity. Possible consequences include carriers seeking new alliance partners or another round of M&A competing for market share partly enabled by aggressive pricing. Such changes could benefit shippers in terms of freight costs, however, in the long term, shippers need to align their strategies with those of their freight logistics partners to ensure stable supply chains.

The Baltic Panamax index (a proxy for grain bulk freight) is approaching its pandemic low before a quick rebound. We are now at the one-year mark of Russia's invasion of Ukraine, where Ukraine's grain export declined by two-thirds. Along with weak bulk shipments in another category (mostly non-food) and weak Chinese demand, this led to a prolonged depression of the dry bulk index, possibly with a soft rebound at the end of Q2.

Oil & Freight

What to Watch

Upside

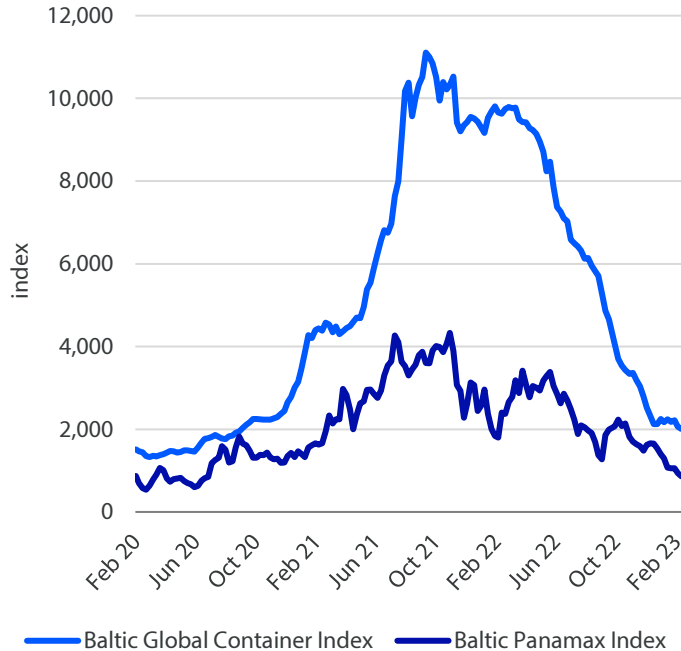
- Oil markets remain tight globally. As the west moves away from Russian supplies there remains limited room for supply disruptions.
- Relaxation of China's lockdowns elevate upside price risk.

Downside

- Looming global economic conditions to impact global trade and thus ocean container and bulk shipping conditions.

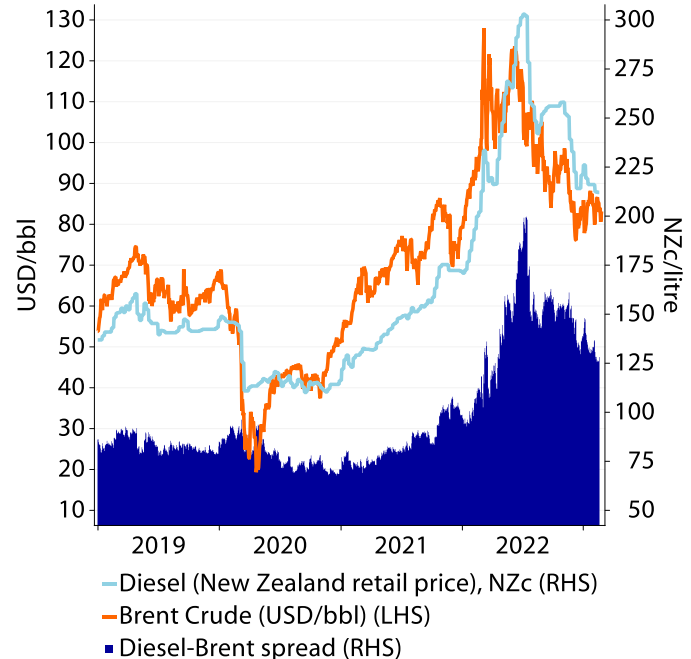
Prices Declining but Diesel Resilient

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



Source: Baltic Exchange, Bloomberg, Rabobank 2023

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



Source: Macrobond, Rabobank 2023

Agri Price Dashboard

	24/02/2023	Unit	MOM	Current	Last month	Last year
Grains & oilseeds						
CBOT wheat		USc/bushel	▼	708	735	926
CBOT soybean		USc/bushel	▲	1,529	1,489	1,662
CBOT corn		USc/bushel	▼	650	677	695
Australian ASX EC Wheat Track		AUD/tonne	▲	394	371	385
Non-GM Canola Newcastle Track		AUD/tonne	▲	737	675	864
Feed Barley F1 Geelong Track		AUD/tonne	▲	341	323	301
Beef markets						
Eastern Young Cattle Indicator		AUc/kg cwt	▼	722	781	1,124
Feeder Steer		AUc/kg lwt	▼	376	394	587
North Island Bull 300kg		NZc/kg cwt	•	565	565	590
South Island Bull 300kg		NZc/kg cwt	▼	505	510	585
Sheepmeat markets						
Eastern States Trade Lamb Indicator		AUc/kg cwt	▲	740	735	810
North Island Lamb 17.5kg YX		NZc/kg cwt	▲	700	695	835
South Island Lamb 17.5kg YX		NZc/kg cwt	▼	660	665	830
Venison markets						
North Island Stag		NZc/kg cwt	▼	885	890	775
South Island Stag		NZc/kg cwt	▼	890	900	775
Oceanic Dairy Markets						
Butter		USD/tonne FOB	▲	5,090	4,463	6,275
Skim Milk Powder		USD/tonne FOB	▲	3,385	2,863	4,025
Whole Milk Powder		USD/tonne FOB	▲	3,482	3,175	4,213
Cheddar		USD/tonne FOB	▲	5,043	4,963	5,563

Source: Bloomberg, MLA, Rabobank 2023

Agri Price Dashboard

24/02/2023	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	97.4	102.5	137
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	85.1	86.2	123
Sugar markets					
ICE Sugar No.11	USc/lb	▲	21.3	19.9	18.3
ICE Sugar No.11 (AUD)	AUD/tonne	▲	645	583	538
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,364	1,339	1,421
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	338	433	574
DAP (US Gulf)	USD/tonne FOB	•	650	650	854
Other					
Baltic Panamax Index	1000=1985	▲	1,271	1,035	2,689
Brent Crude Oil	USD/bbl	▼	83	86	99
Economics/currency					
AUD	vs. USD	▼	0.67	0.70	0.716
NZD	vs. USD	▼	0.62	0.65	0.669
RBA Official Cash Rate	%	▲	3.35	3.10	0.10
NZRB Official Cash Rate	%	▲	4.75	4.25	1.00

Source: Bloomberg, MLA, Rabobank 2023

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