

Hope ahead for Christmas?

New Zealand agribusiness monthly

November 2023

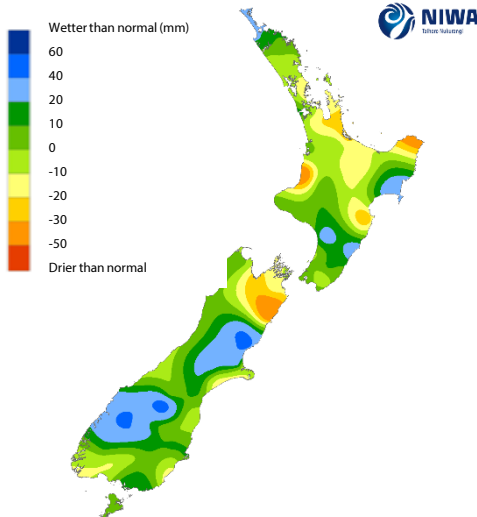
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November commodity outlooks

 <p><i>Dairy</i></p>	<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>	<p>p. 4-5</p>
 <p><i>Beef</i></p>	<p>Beef prices are likely to track along the five-year average mark over the coming month off the back of anticipation that US prices will remain strong.</p>	<p>p. 6-7</p>
 <p><i>Sheepmeat</i></p>	<p>With farmgate prices hitting seasonal peaks, all eyes are firmly on Chinese demand as the country heads into the buying period for the Lunar New Year.</p>	<p>p. 8-9</p>
 <p><i>Farm inputs</i></p>	<p>For farmers, the overall beneficial outlook for farm inputs is still in place despite the Israel-Hamas conflict. The situation could be better for farmers' 2024 budgets, and currency and energy costs are risks to watch.</p>	<p>p. 10-11</p>
 <p><i>FX and interest rates</i></p>	<p>Third quarter inflation was much lower than expected, which has dampened the prospect of any further increases in the official cash rate. As a result of lowered interest rate expectations, the New Zealand dollar was sold heavily in October and is now trading a little above USc 58.</p>	<p>p. 12-13</p>
 <p><i>Oil and freight</i></p>	<p>Crude oil prices fell slightly in October despite the outbreak of war between Israel and Hamas. If the war spreads to draw in Iran, we see a worst-case scenario where prices could hit USD 150/bbl. Containerised freight rates cooled further in October and reliability picked up.</p>	<p>p. 14-15</p>

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 through 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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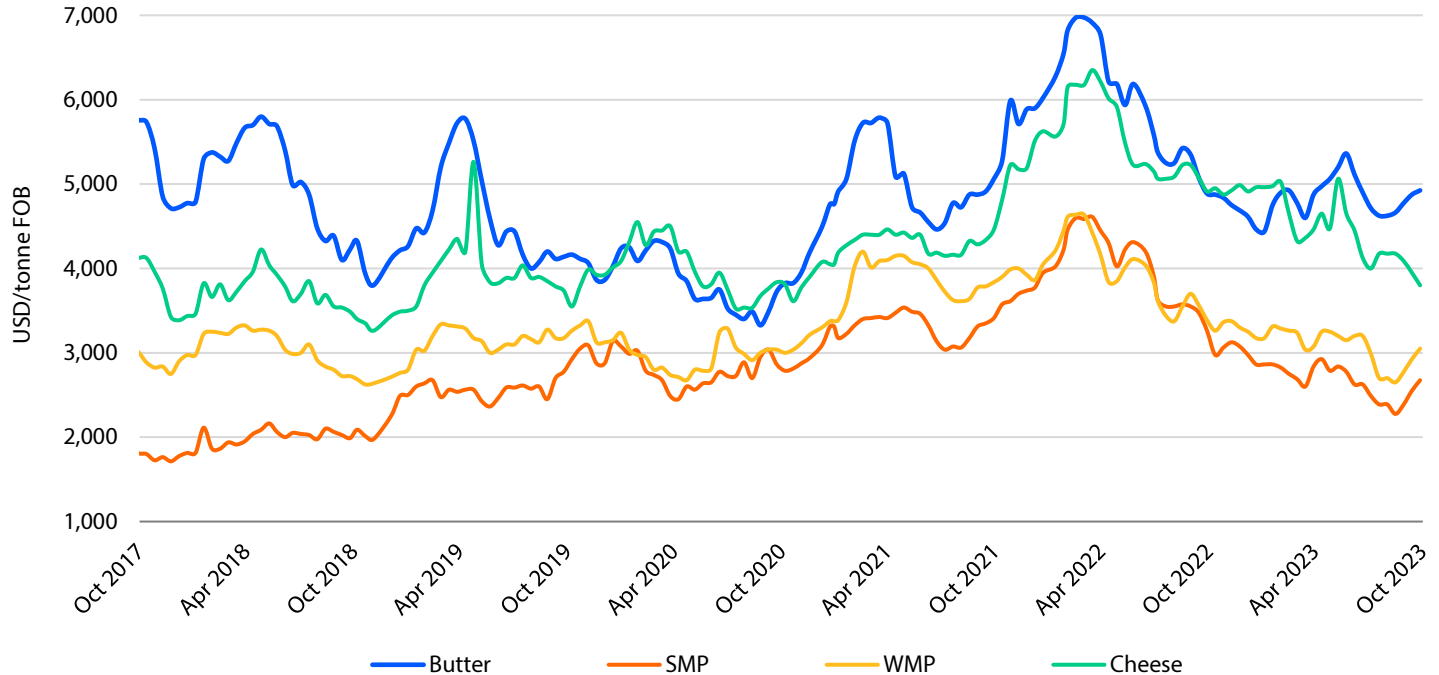
Dairy

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, Oct 2017-Oct 2023



Source: USDA, Rabobank 2023

Seasonal supply supporting prices

Good news for beef producers: The AgriHQ North Island bull price rose a small but steady 2% over the four weeks to 27 October to NZD 6.15/kg. This rise in prices has been stronger than average for this time of year. Prices, after being close to average back in September, are now 5% higher than the five-year average. US imported lean trimmings prices rose through September but have flatlined and dropped slightly in US dollar terms since late September 2023. Meanwhile, the continued rise in New Zealand prices may reflect the seasonally lower volumes of cows and bulls in the system and the desire of processors to attract numbers with the anticipation of the US prices remaining strong. **That being the case, we could expect prices to continue tracking above the five-year average over the coming month.**

Total beef slaughter volumes for the full 2022/23 production season (ending 30 September) were largely similar to the prior period. Provisional New Zealand Meat Board export slaughter data show bull slaughter (500,360) was down 5% while steer slaughter (645,437) was flat for the 2022/23 season versus last season. Heifer slaughter (522,099) was up 2% and cow slaughter (993,992) was up 3%. Higher cow slaughter in the South Island reflects weaker milk prices and harder herd culling.

Beef export volumes for September were lower by 5% YOY. Volumes to China declined by close to 30%, and value dropped by a significant 46% compared to September 2022. However, shipments to the US jumped by 35% to 8,884 tonnes. Similarly, values were higher by 22% YOY, the result of US drought easing and corresponding domestic beef production dropping. This is the fourth month in a row when we have seen a fall in volumes to China and a rise to the US, reflecting slower consumer demand in China and stronger demand in the US.



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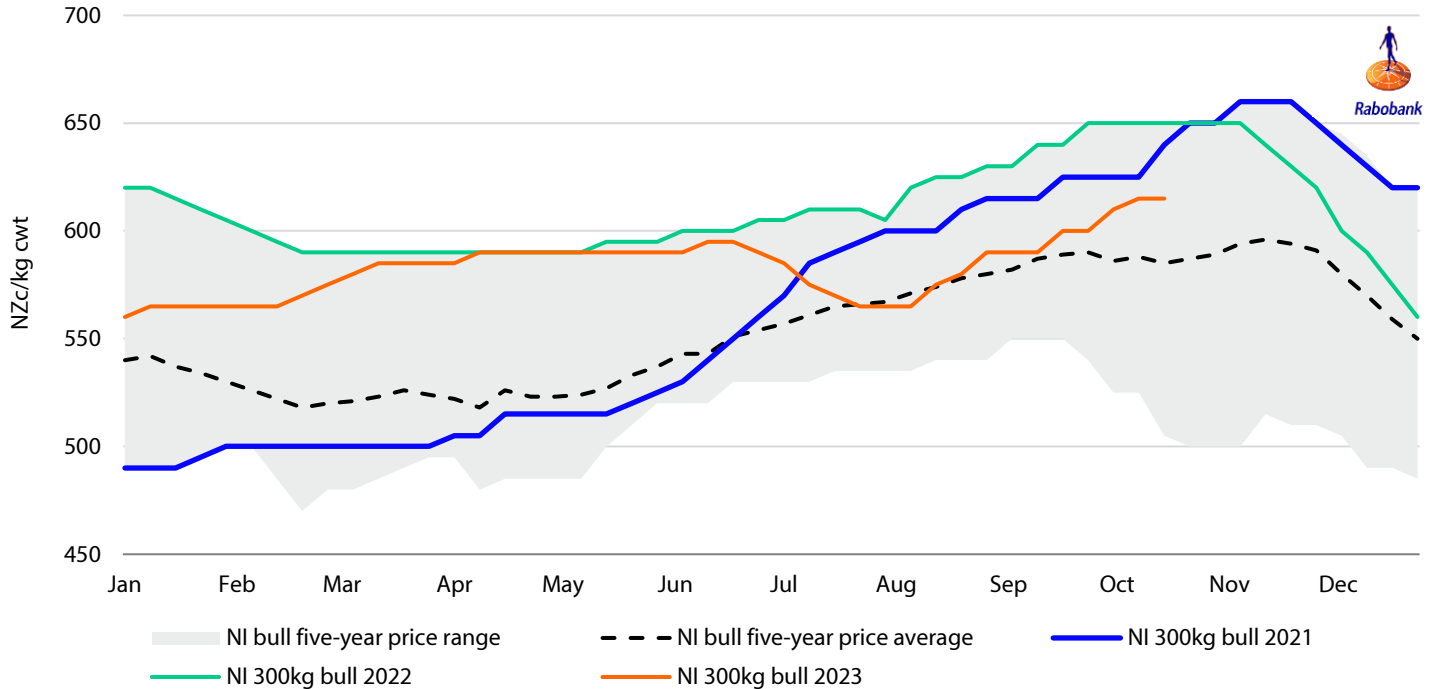
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Beef

What to watch

- **Chinese demand** – Chinese Lunar New Year is slightly later this year, on 10 February 2024. After the 2023 new year failed to generate the expected jump in sales, this Lunar New Year period will be an important bellwether for setting expectations of Chinese appetite. The next couple of months will be a key buying time for Chinese buyers. However, with large amounts of product in store and a slow consumer market, demand may be soft, particularly if shortages in the US mean global prices are higher.

US import prices and reduced supply pull cattle prices up



Source: AgriHQ, Rabobank 2023


Prices flatlining, eyes on China

Not much good news over the month of October for lamb prices, unfortunately. The slight lift in farmgate prices exhibited over September and into October had disappeared by the end of last month, with the AgriHQ SI lamb price dropping back down below NZD 7/kg on 27 October 2023. Farmgate prices are now 25% lower than this time last year, and almost 20% below the five-year average when comparing the same week's prices received. Plainly stated, prices continue to hover at levels similar to 2020: some of the lowest farmgate prices received over the last 10 years.

We have reached the usual point in time when farmgate prices have seasonally peaked and new season lambs are about to come online. US import prices are holding for now and fortunately, Australian production growth appears to have moderated. Still, all eyes are firmly on demand from China as it heads into the buying period for the Lunar new year.

The final production tallies are in for the 2022/23 season (ending 30 September 2023). Provisional New Zealand Meat Board export slaughter data for the 2022/23 season shows lamb slaughter (17.7m) was steady versus 2021/22 volumes. Lamb slaughter was lower in the first half of the season – tracking below the five-year average, before lifting in the second half of the season. Mutton slaughter (3.2m) was down 9% with the South Island experiencing the largest fall with a reduction of 12%.

Sheepmeat export data reflects the challenging market conditions in China. Shipments for September 2023 were higher by 2% YOY. Export receipts received were lower by 17% over the same period, driven by the weaker value of shipments to China and the US – down 11% and 15%, respectively, compared to last September.



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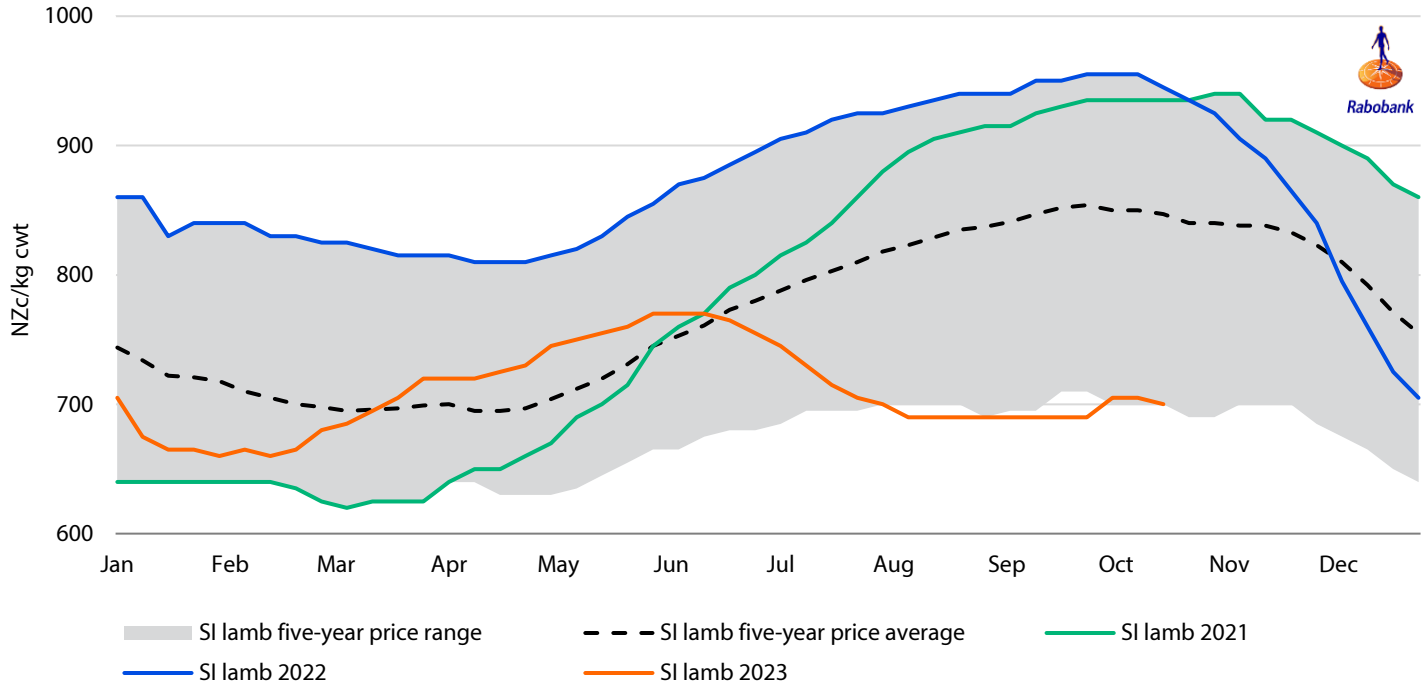
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What to watch

- **Australian production** – Rain through southern parts of Australia in early October might just be enough to give producers the confidence to hold sheep and look for store lambs to fatten. The number of lambs and sheep on the market dropped 6% for the four weeks to 20 October compared to the four weeks prior, and sheep slaughter has fallen back in line with the five-year average. If this continues, it may be enough to reduce global supplies and support prices.

Sheepmeat

Prices flatlining; will Chinese demand offset seasonal lift in lamb supply?



Source: AgriHQ, Rabobank 2023

Setting up 2024 budgets

The farm inputs price structure in Q4 2023 will have a heavy impact on farmers' budgets next season. This is due to retailers' procurement time frame, which can be several months long for some products.

On the fertiliser side, we expect **price stability with a small bearish potential for major overseas exporters, assuming the Israel-Hamas war does not disrupt supply chains or boost crude oil prices.** For the next five months, we forecast international urea prices to be down 11% in US dollar terms compared to the period between November 2022 and March 2023, with DAP prices down 26% and potash down 41%. **This is a very encouraging outlook for farmers. However, currency and energy costs will adversely impact farmers' input budgets.** Given the exchange rate, the declines in New Zealand dollar terms are "only" 4%, 19%, and 35%, respectively, for urea, DAP, and potash. The diesel terminal gate price is another headwind that will make operations more costly.

For agrochemicals, the story is brighter, but also tricky. Many products have a long shelf life, meaning they not only can be stored on farms, but also in retailers' and manufacturers' sheds. Hence, we must look more at price records rather than forecasts. In that sense, using October 2021 as a reference, many active ingredients are showing a 50% reduction or more in price. Currency effects and freight costs may offset these price reductions, but it is important to mention the shelf-life effect. **This is to say: To be able to secure supply with lower prices, it is first necessary to use the old stock.** To illustrate, in the last 24 months, the international price of glyphosate dropped 67%, but farmers may have old stock to work through first.



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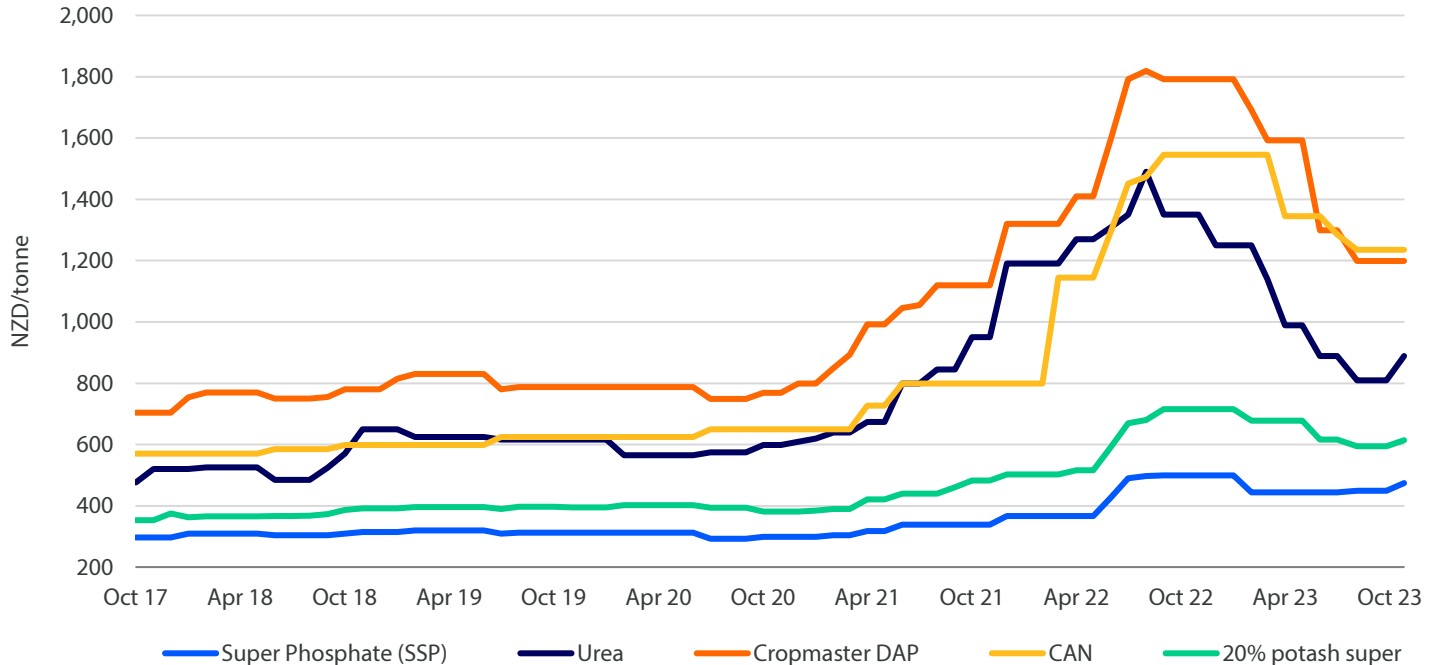
Farm inputs

What to watch

- **The Israel-Hamas war** – The recent outbreak of violence in the region is taking place far from the Israeli mines, and no port activity has been suspended so far. Israel accounts for 8% of global phosphate exports and 6% of potash. It is also especially active in specialty fertilisers, like hydroponic solution ingredients. Not only is the fertiliser supply under threat, but also crude oil and natural gas and, thus, nitrogenous fertilisers. Egypt is a heavy player in this sector. A conflict escalation involving Egypt would flip the market.

No Middle East effect, so far

New Zealand local fertiliser prices



Source: Ravensdown, Rabobank 2023

Coming in for landing

Third quarter inflation for New Zealand was lower than expected at 5.6% YOY. That compares to a consensus forecast of 5.9%, and the RBNZ's forecast of 6% that was made in the August Monetary Policy Statement.

So, after we had confirmation last month that New Zealand was doing better than many thought on economic growth, we now know that it is also doing better than we thought on fighting inflation.

That's great news for Kiwis who had been concerned that the RBNZ might deliver another rate hike or two. We've been saying for some time that we believe the OCR has peaked at 5.5%, but the futures market had been gradually pricing in more hikes.

The day before the inflation numbers were released, the futures market was suggesting that there was a 4 in 5 chance of another rate hike by April next year. As of today, that probability has fallen to just 1 in 3.

The lower inflation figures saw the New Zealand dollar come in for some punishment during October. The currency fell as low as 0.5774 after opening the month at 0.6004. At time of writing, the currency is dealing around 0.5815.

The sharp falls in the New Zealand dollar and the continued high rates of net inward migration are providing support to the economy, even as individual consumers remain under pressure and New Zealand's trade performance gradually recovers from its very weak position.

Can the economy manage a soft landing where inflation returns to the 1% to 3% target without a recession? It seems like the odds that it can are increasing.



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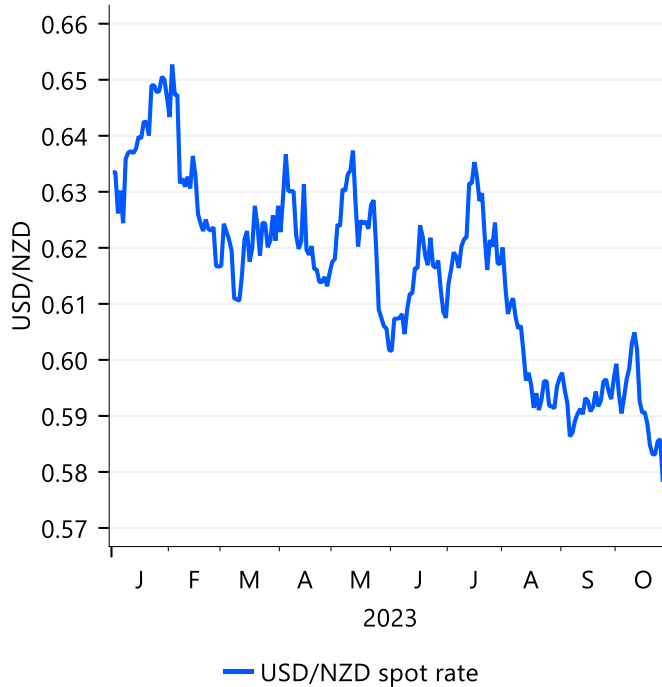
Interest rates and FX

What to watch:

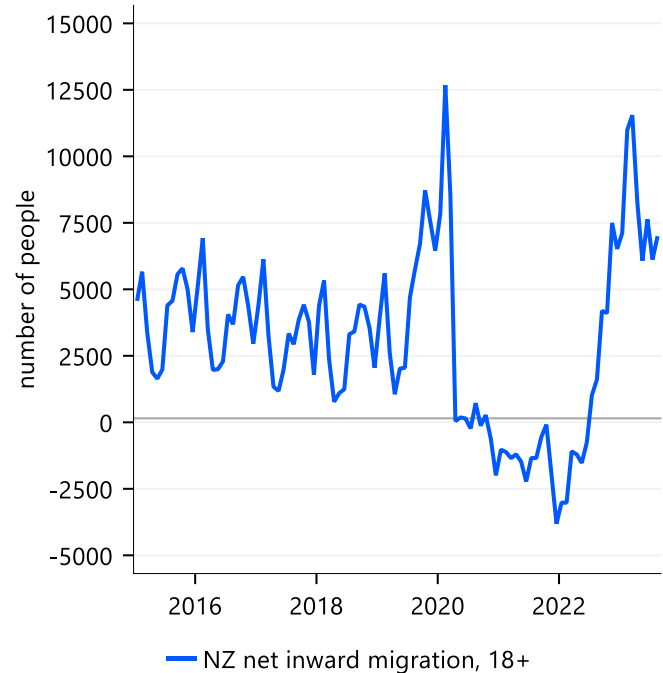
- **NZ Balance of Trade figures** – 21 November.
- **RBNZ Official Cash Rate decision** – 29 November.

Economy supported by lower NZD, high migration

The NZD was sold heavily in October



Net inward migration remains high



Source: Macrobond, Rabobank 2023

Source: Macrobond, Rabobank 2023

Shipping schedule reliability improving

Brent Crude prices moderated in October, despite the war between Israel and Hamas. Brent was trading around USD 89.25/bbl at the end of the month after opening the month at USD 92.18/bbl. There has been some compression in crude prices and prices for distillates, which means that gasoline and diesel became a little cheaper relative to crude during the month.

If the Israel-Hamas conflict remains contained to Gaza, we don't expect it to be a major driver of prices. However, if the war expands to draw in regional players like Iran, there is a worst-case scenario where we could see crude prices hit USD 150/bbl.

Amid low demand and excess inventory, the global shipping schedule reliability index has improved significantly but is still well below pre-pandemic levels. Global schedule reliability (the percentage of container ships that arrived on time) reached 63.2% in August 2023, but is still steps away from the pre-pandemic 80%. This is due to weather events, one-off incidents, and the supply chain gradually being sorted out. As labour agreements have finally been achieved across US and Canadian west coast ports, reliable operations are expected for the near future for transpacific shipments. Forecasts for US retail imports have been downgraded due to excess inventory through January 2024, suggesting continued improvements in capacity availability and schedule reliability. Regarding container shipping rates, no significant changes are expected for the rest of this year.

Currently the impact of Israel-Hamas war on ocean shipping is limited, yet disruptions, extra costs, and longer shipping times can be expected if the war escalates.

The Baltic Panamax index (a proxy for grain bulk freight) continues to fluctuate around the lower end of the spectrum. Seasonal rate hikes started in July and August, but we do not expect further significant increases.




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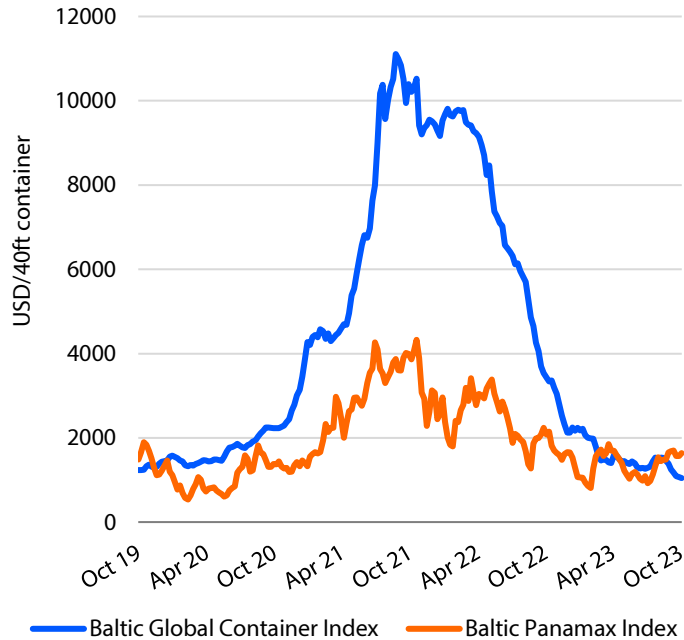
Oil and freight

What to watch:

- **US Department of Energy weekly inventory reports** on 9, 16, 23, and 30 November.
- **OPEC Monthly Oil Market Report** – 13 November.

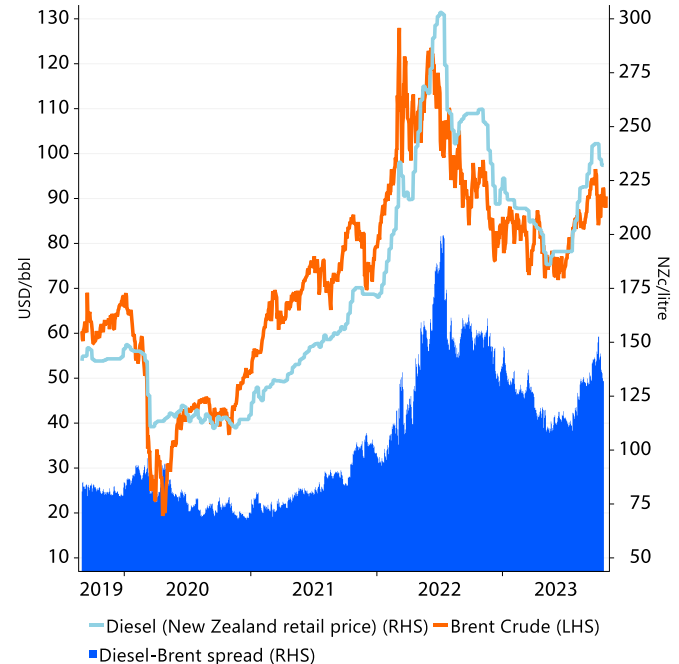
Crude oil takes a breather

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



Source: Baltic Exchange, Bloomberg, Rabobank 2023

Brent Crude Oil and New Zealand retail diesel, Oct 2019-Oct 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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