



Agribusiness Monthly April 2015

New Zealand



Rabobank

Commodity Outlook

Sector	Driver
 <u>Dairy</u>	<p>Global dairy commodity prices retreated over the past month. Supply-side factors were the main reason as dry conditions in New Zealand eased, and the removal of the EU milk quotas from 1 April 2015 is expected to increase milk flows.</p>
 <u>Beef</u>	<p>High slaughter levels in Australia continue to drive strong volumes into the US market. It will be interesting to see how the supply scenario from both New Zealand and Australia plays out moving into winter, given the large volumes already processed in 2015.</p>
 <u>Sheepmeat</u>	<p>There is evidence lamb supplies have started to tighten and will further tighten moving into winter.</p>
 <u>Venison</u>	<p>Both velvet volumes and returns in February were significantly higher than the corresponding month last year.</p>
 <u>Wool</u>	<p>Wool prices have tracked fairly steadily through the past month, with modest improvement in the fine crossbred prices.</p>
 <u>Wine</u>	<p>Exports to the Australian market return to growth after a brief lull late last year.</p>
 <u>Fertiliser</u>	<p>Ample export supply from China is keeping the global urea market well-balanced. The market is expected to remain supply-driven in the short term.</p>
 <u>FX</u>	<p>The RBNZ board sits again on 30 April, but is expected to keep rates steady.</p>
 <u>Oil</u>	<p>A global oil glut continues to cap any major price movements, but concerns about Iran and turmoil in Yemen have impacted oil markets.</p>

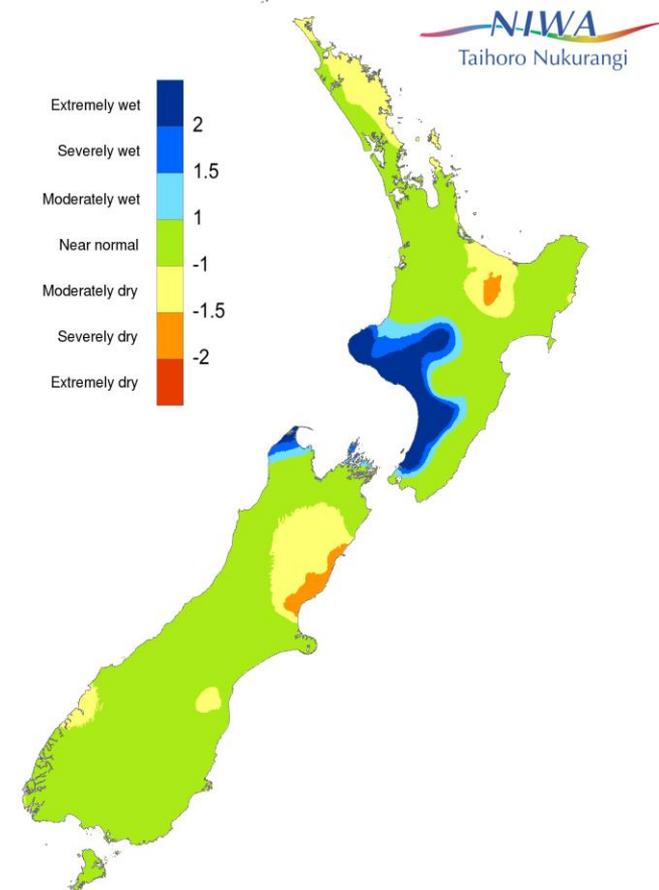
Climate

NIWA expects that temperatures will be above-average in the North and East of the North Island until June 2015. The remainder of the country can expect near-normal temperatures during this time. Despite this, cold snaps and frosts will occur in some parts of the country as the change of season progresses.

Near-normal soil moisture levels can be expected for the western regions of both the North Island and South Island. However, areas in the east of the South Island may have drier soil moisture levels than normal. The rest of the country is likely to find near-normal-or-below levels of soil moisture for the remainder of the month and into May and June 2015.

Near-normal levels of rainfall received in March are likely to continue into May and June 2015. There is, however, a risk that rainfall could be below-average for the months to June in the north and east of the North Island.

SPI Drought Index, 16 March-15 April 2015





Dairy

Market Outlook

Global dairy commodity prices retreated over the past month. Supply-side factors were the main reason, as dry conditions in New Zealand eased and combined with an expected increase in EU milk flows as production quotas were removed from 1 April 2015.

Chinese dairy importers remained on the sidelines. Latest data shows Chinese dairy imports in February decreased 36%, compared to the same month last year.

Supply and demand fundamentals remain under pressure, as it will take until 2H 2015 for lower prices to unlock consumption growth and drive stronger buying from markets outside of Russia and China (which remain weak).

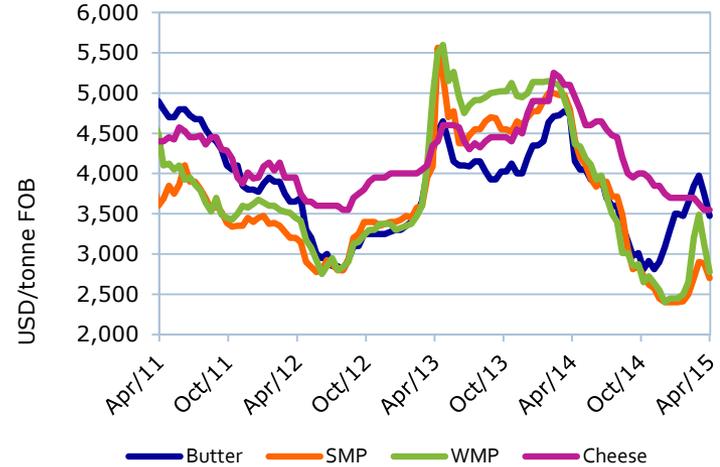
EU export pricing for skim milk powder remains particularly weak as the anticipation of higher milk flows, combined with the depreciation of the euro, increases their competitiveness in global markets.

New Zealand milk flows are likely to fall abruptly over the final two months of the season. The early arrival of wintry weather conditions and dry patches still evident in some regions, combined with a low milk price, will remove any enthusiasm and ability for late season production.

What to watch:

- Milk production in the United States has remained strong, but **prolonged drought is now starting to impact milk production in the largest producing state, California.** (Milk flows were down 3.8% in February.) A quicker-than-expected slowdown in US milk production would impact the global balance.

World dairy prices



Source: USDA, Rabobank, 2015

Production growth in key exporting regions:

	Latest month	Last 3 months
EU	-1.7% (January)	-0.6%
US	1.7% (February)	2.4%
Argentina	-1.3% (February)	-0.7%
Australia	6.4% (February)	1.3%
NZ	+2% (est. 10 months to March 2015)	



Beef

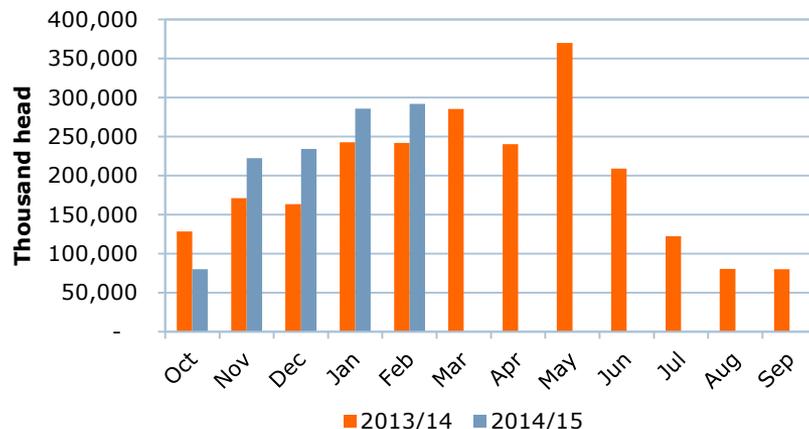
Market Outlook

Farmgate prices have risen sharply throughout March and into April. The North Island bull price averaged NZD 5.45/kg cwt in mid-April: 50% higher YOY.

Lower dairy prices and the ongoing dry conditions resulted in high numbers sent for processing in February (291,850 head), with slaughter 21% higher YOY- the largest processing run for beef since June 2014.

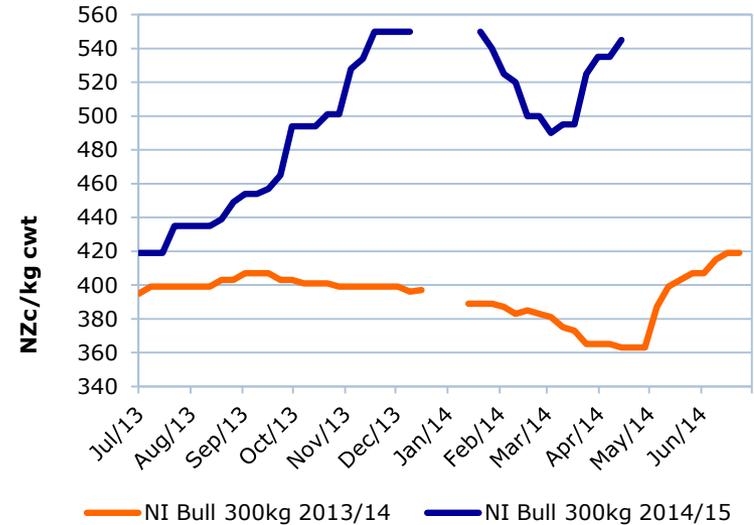
Continued strong demand from the US (up 10% YOY) and China (up 11% YOY) in February mopped up the gap created by a dramatic decline in exports to Indonesia (-74%YOY), with market access issues still ongoing.

New Zealand monthly cattle slaughter



Source: NZ Meat Board, Rabobank, 2015

North Island Bull Price



Source: NZX Agrifax, Rabobank, 2015

What to watch:

- **High slaughter levels in Australia** continue to drive strong volumes into the US market. It will be interesting to see how the supply scenario from both New Zealand and Australia plays out moving into winter, given the large volumes already processed in 2015.



Sheepmeat

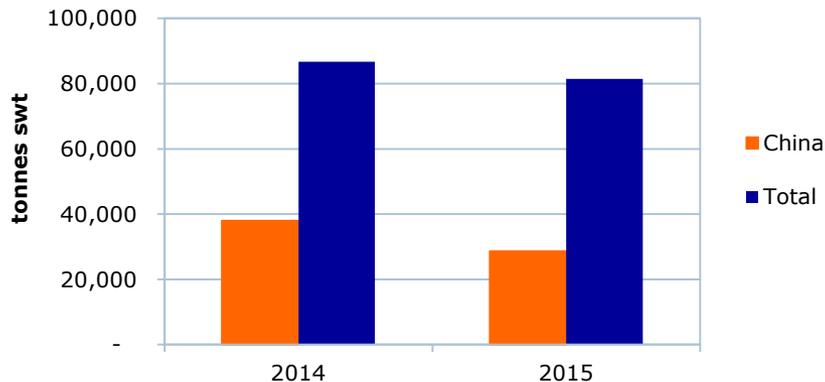
Market Outlook

Farmgate prices are still remaining steady around the NZD 5/kg cwt mark. However, there is evidence lamb supplies have begun to tighten and will further tighten into winter. Processing numbers for February 2015 dropped 460,000 head from the prior month, and they were down 12% on the same time last year.

Exports in February were down 2% YOY, the second month in a row. Product appears to be moving slowly, particularly given large numbers processed over the summer.

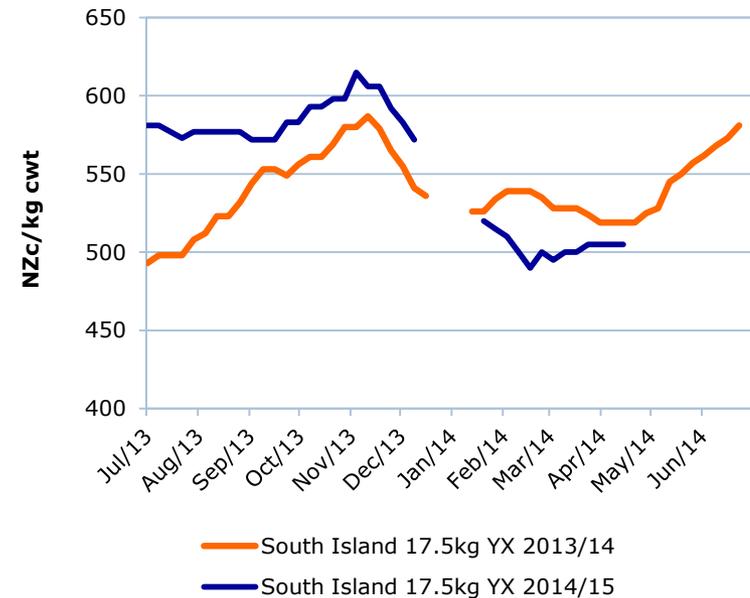
Exports to China declined 12% YOY in February, with reports of high Chinese domestic production dampening demand. Shipments to the UK and Europe picked up in February 2015 in preparation for Easter, with increases of 27% and 7% to these markets, respectively.

New Zealand sheepmeat exports (Jan-Feb)



Source: Stats NZ, Rabobank, 2015

New Zealand Lamb (South Island)



Source: NZX Agrifax, Rabobank, 2015

What to watch:

- **Demand from China has been sluggish so far in 2015**, with reports that Chinese production and inventory levels are high.



Venison

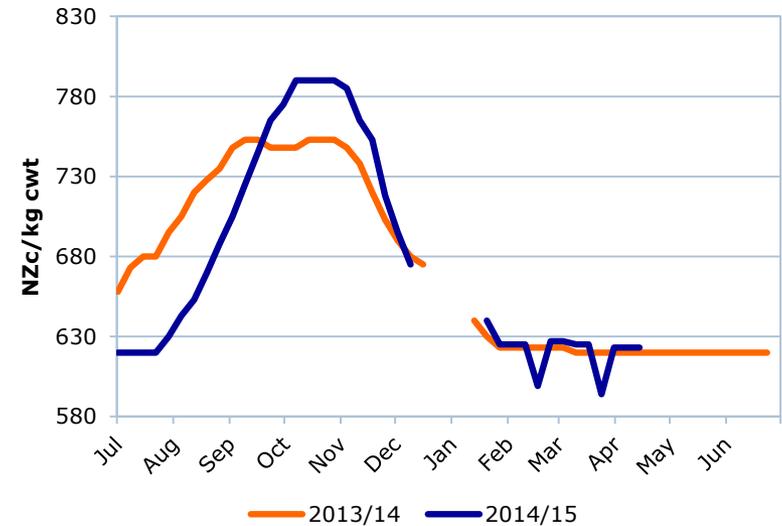
Market Outlook

Farmgate prices continue to remain steady, despite a brief drop in late March, with prices in mid-April averaging NZD 6.30/kg cwt.

However, exports of velvet—the current rock star of the deer industry—were 66 tonnes swt for February 2015, an increase of 75% compared with the previous year. The lucrative Asian markets (particularly China) have assisted with solid returns of late, with prices currently sitting just under NZD 100/kg: 57% up on February 2014.

Shipments of both chilled (16% YOY) and frozen (25% YOY) venison were down in February. Exposure to the Eurozone has impacted returns for these products, with the NZ dollar's recent record high against the euro making trading conditions challenging.

South Island Stag prices



Source: NZX Agrifax, Rabobank, 2015



Wool

Market Outlook

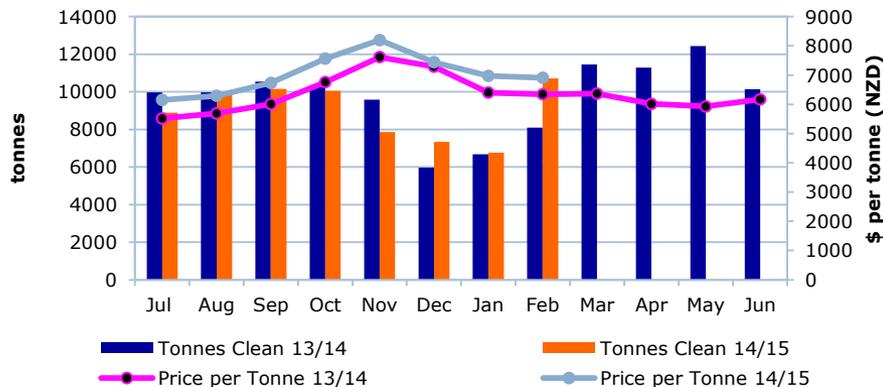
New Zealand wool prices have tracked fairly steadily through the past month, with modest improvement in the fine crossbred prices and although softening in the most recent April sale the lambswool market is still up to 28% higher than the corresponding sale in 2014.

Exports saw a big lift in February, up 58.5% from last month, which included a big lift in exports to China, recording the highest volume sent there since March 2013.

The merino cardings and crossbred market also remains strong in Australia, continually outperforming and now reaching 20-year highs in AUD terms.

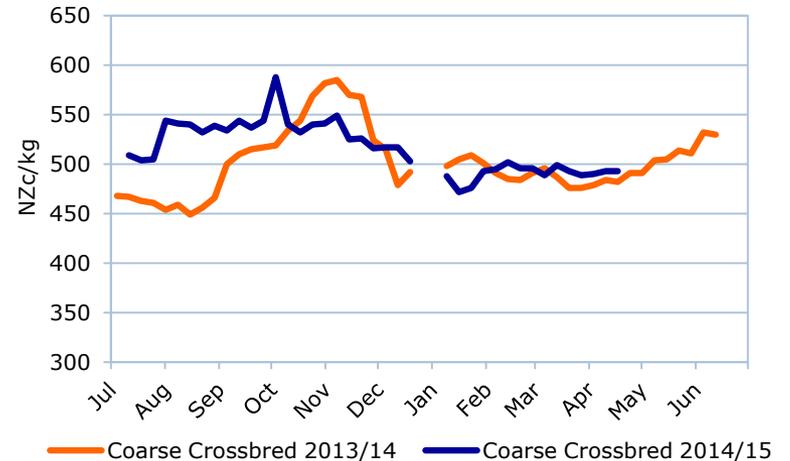
The NZ-weighted currency indicator has lifted to its strongest level since week 13 of the season in September 2014. This may contribute to some softness in the market, particularly with the kiwi appreciating strongly against the euro and the Australian dollar.

NZ exports by volume and value 2013/14–2014/15



Source: Beef & Lamb NZ, Rabobank, 2015

NZ Coarse Crossbred wool prices



Source: Bloomberg, Rabobank, 2015

What to watch:

- **The Commerce Commission of NZ has issued a draft determination** indicating a preliminary approval of the Cavalier Wool Holdings' acquisition of New Zealand Wool Services International's wool-scouring business and assets.
- Submissions are open on the draft determination until 21 April.



Wine

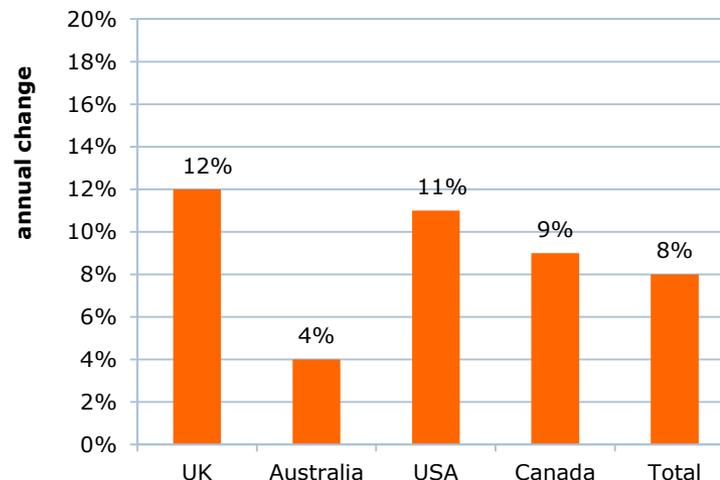
Market Outlook

New Zealand wine export volumes increased by 8% in the year to February 2015. Export shipments in the month of February grew by 2% versus the same month last year, while the share of bulk wine shipments in the export mix fell back somewhat, from the near-record level recorded the prior month.

On a market-by-market basis, annual export volumes to the Australian market returned to growth in February after falling into decline late last year. It appears as though Australian consumers still have love left to give to one of their favourite tipples, Marlborough sauvignon blanc; however, retail prices are plumbing new lows, as ever-greater sales fall to the private label brands of retailers.

Interestingly, it is smaller wine companies who are experiencing the strongest export growth at the present time... and by some margin. Conceptually, this would suggest that it is New Zealand's smaller wine companies who have the longest inventory holdings in the industry—and not so much the bigger companies who tend to have greater distribution reach with which to manage their stock positions.

NZ wine export volume: MAT February 2015



Source: NZ Winegrowers, Rabobank, 2015

What to watch:

- **The timing of the New Zealand wine harvest has been relatively early in 2015**, with consistently warm conditions prevailing for much of the growing season. The size and quality of the harvest will be key to the profitability of wine companies over the coming 12- to 18-month period, as they look to re-balance their inventory holdings.



Fertiliser

Market Outlook

Global urea benchmark prices remain weak. Ample export supply from China is keeping the global market well-balanced. The market is expected to remain supply-driven in the short term.

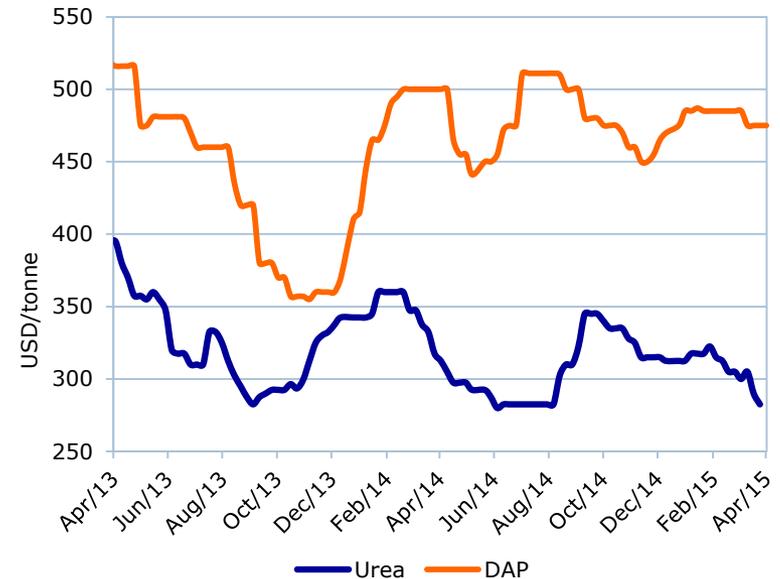
Global phosphate markets are quiet, and prices are facing some downward pressure. Brazilian buyers continue to sit on the sidelines, and Indian buyers are waiting for confirmation of subsidy changes before making purchasing decisions.

Global potash benchmark prices remain stable. Contract negotiations between Northern Hemisphere sellers and Chinese buyers are nearly complete at lower-than-expected prices.

What to watch:

- Brazil and India are major importers of fertiliser. Right now, **the Brazilian market remains very quiet**, with buyers preferring to wait until the traditional start to the season.
- Attention is on **the Indian monsoon**, as it will impact demand levels for fertiliser.

Global fertiliser prices



Source: Bloomberg, Rabobank, 2015



FX

Market Outlook

The Reserve Bank of New Zealand (RBNZ) elected to leave the official cash rate unchanged at 3.5% at its meeting on 12 March 2015, with the Governor reiterating to the market that the RBNZ expects “a period of stability in the official cash rate”.

Overall, domestic economic fundamentals remain strong, with above-trend output growth generating ongoing improvement in labour market conditions, while wage growth and consumer price pressures remain well in check. Key near-term risks to the outlook remain the slowdown in Chinese economic growth, and the future path of dairy incomes as they relate to household spending.

From a structural perspective, the RBNZ remains concerned about imbalances in the housing market, even despite past policy measures to restrict risky lending in the sector. Most recently, they’ve advocated the streamlining of building approvals to ease supply constraints, but more controversially, they have flagged their support for a review of the tax-preferred status of non-owner/occupier investments.

NZD/USD: 12-month price movement



Source: RBNZ, Rabobank, 2015

What to watch:

- **We forecast NZD/USD falling towards 0.70 on a 12-month view.** Relatively weak commodity prices, ongoing signs of slower economic growth in China, and the expectation that the RBNZ is likely to keep interest rates on hold this year against a backdrop of an improving US economy and stronger US dollar.



Oil and Freight

Market Outlook

A global oil glut continues to cap any major price movements, but concerns about Iran and turmoil in Yemen have impacted oil markets.

The Baltic Dry Index remains muted at very low levels on the back of sluggish global shipping activity, with very little signs of improvement on the radar.

Brent oil



Source: Bloomberg, Rabobank, 2015

Baltic Dry Index



Agri Price Dashboard

As of 15/04/2015	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	502	514	688
CBOT soybeans	USc/bushel	▼	949	969	1,519
CBOT corn	USc/bushel	▼	371	379	498
Australian ASX EC Wheat	AUD/tonne	▲	299	297	320
Australian Canola	AUD/tonne	▼	481	483	573
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	437	423	355
Feeder Steer	AUc/kg lwt	▲	239	238	197
North Island Bull 300kg	NZc/kg cwt	▲	545	495	363
South Island Bull 300kg	NZc/kg cwt	▲	475	455	364
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	543	516	572
North Island Lamb 17.5kg YX	NZc/kg cwt	•	515	515	529
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	505	500	519
Venison markets					
North Island Stag	NZc/kg cwt	▼	635	640	613
South Island Stag	NZc/kg cwt	▼	623	625	620
Dairy markets					
Butter	USD/tonne FOB	▼	3,475	3,975	4,150
Skim Milk Powder	USD/tonne FOB	▼	2,700	2,900	4,413
Whole Milk Powder	USD/tonne FOB	▼	2,775	3,975	4,363
Cheddar	USD/tonne FOB	▼	3,550	3,975	4,950

Agri Price Dashboard

As of 18/03/2015	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	68	70	98
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	62.48	63.8	92.03
Sugar markets					
ICE Sugar #11	USc/lb	▼	12.7	15.1	17.1
ICE Sugar #11 (AUD)	AUD/tonne	▼	361	427	414
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,094	1,087	1,054
NZ Coarse Crossbred Indicator	NZc/kg	▼	499	502	487
NZ Fine Crossbred indicator	NZc/kg	▼	549	553	498
Fertiliser					
Urea	USD/tonne FOB	▼	300	375	360
DAP	USD/tonne FOB	•	485	485	500
Potash	USD/tonne FOB	▲	306	287	332
Other					
Baltic Dry Index	1000=1985	▲	568	516	1,481
Brent Crude Oil	USD/bbl	▼	53	62	109
Economics/currency					
AUD	vs. USD	▼	0.777	0.782	0.909
NZD	vs. USD	▼	0.749	0.754	0.857
RBA Official Cash Rate	%	•	2.25	2.25	2.50
NZRB Official Cash Rate	%	•	3.50	3.50	2.75

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