



# Agribusiness Monthly August 2015

*New Zealand*



**Rabobank**

# Commodity Outlook

Sector	Driver
 <b><u>Dairy</u></b>	The global marketplace is still very weak, and this picture is unlikely to look much better over the course of the next six months.
 <b><u>Beef</u></b>	Farmgate prices have reached record levels as at the middle of August 2015 (NZD 5.95/kg cwt), with the 36% increase from last year largely due to a shortage of supply usually seen at this time of the year, compounded with steady demand from the US.
 <b><u>Sheepmeat</u></b>	Farmgate prices have continued to improve into August 2015, as supply has tightened heading into the spring season.
 <b><u>Wool</u></b>	Prices have strengthened in early 2015/16, with strong Chinese demand underpinning both fine and crossbred markets.
 <b><u>Wine</u></b>	New Zealand export volumes enjoy strong growth across all major markets in 2014/15.
 <b><u>Fertiliser</u></b>	Prices remain mostly unchanged at low levels across nutrient spot markets.
 <b><u>FX</u></b>	The Chinese yuan is allowed to depreciate, but further declines are forecast for the NZ dollar versus the US dollar.
 <b><u>Oil</u></b>	Persistently high oil production looks set to keep the global market oversupplied through the remainder of 2015.

# Climate

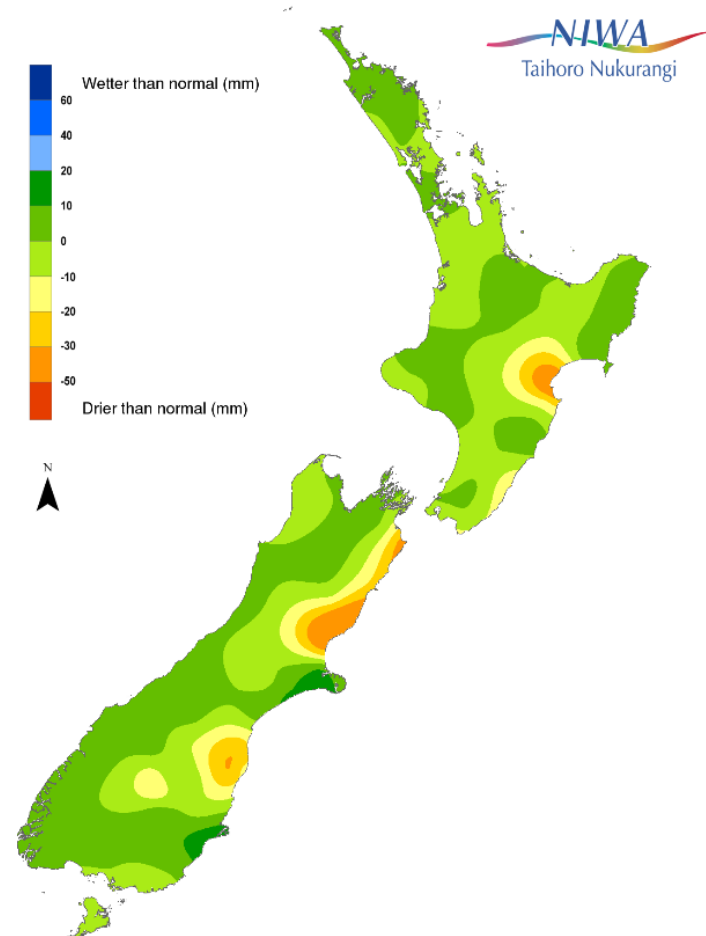
Temperatures are likely to be average or below average across New Zealand through to October 2015, with the usual cold snaps and frosts to be expected in some parts of the country as we progress into spring.

The west coast of the South Island may receive normal or above normal rainfall to October 2015. The remainder of New Zealand can expect normal or below normal rainfall levels.

The north and west of the North Island and the east of the South Island can expect normal soil moisture levels, while the west coast of the South Island is likely to receive above normal soil moisture levels for the August–October 2015 period. Soil moisture levels for the east of the North Island and the north of the South Island may be normal or below normal.

International guidance indicates that El Niño is almost certain (97% chance) to continue over the next three-month period (August–October 2015) and extremely likely (above 90% chance) to persist into the summer 2015/16.

## Soil moisture anomaly (mm), 19 August 2015





# Dairy

## Market outlook

Global commodity markets have all but collapsed to lows not seen in more than a decade. The global marketplace is still very weak, and this picture is unlikely to look much better over the course of the next 6 months.

While the mechanisms that will eventually rebalance the market are now being triggered, markets will likely remain weak during New Zealand's critical selling season.

Production for the first month of the 2015/16 season has been strong, with June production growing 8% YOY. Weather conditions going forward into the peak of the season will significantly impact New Zealand's milk production.

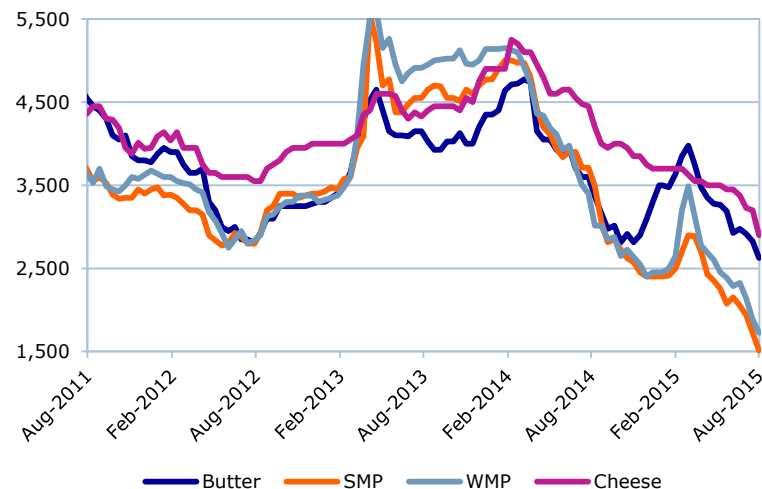
El Niño is now well established, and risks of a drier end to 2015 are elevated. This presents a clear risk to cost and profitability for dairy producers in the southern hemisphere for the current season, although it is too early to suggest there will be a significant impact on New Zealand's milk production.

### What to watch

- Rabobank's expectations are for New Zealand to lead a supply adjustment, with a **sizeable fall in milk supply this production season.**
- Meanwhile, intervention has been triggered in Europe,** so markets will pay close attention to volumes moving into storage.

## World dairy prices, Aug 2011-Aug 2015

USD/tonne FOB



Source: USDA, Rabobank, 2015

### Production growth in key exporting regions

	Latest month	Last 3 months
<b>EU</b>	5.1% (May)	0.4%
<b>US</b>	-0.1% (June)	0.7%
<b>Australia</b>	0.1% (June)	1.4%
<b>NZ</b>	8% (June)	9%

Source: Rabobank, 2015



# Beef

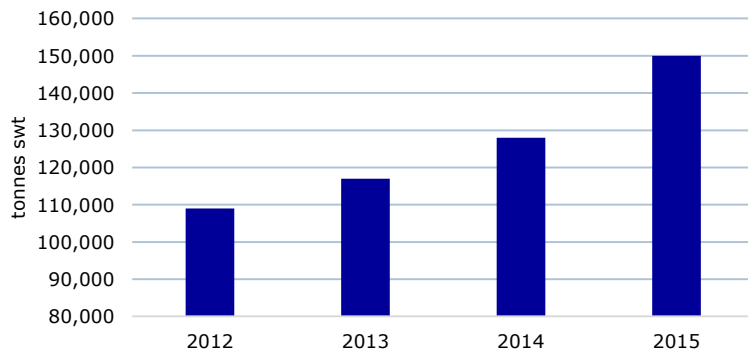
## Market outlook

Farmgate prices have reached record levels as at the middle of August 2015 (NZD 5.95/kg cwt), with the 36% increase from last year largely due to a shortage of supply usually seen at this time of the year, compounded with steady demand from the US.

Total slaughter for July 2015 was down 10% on last year, reflecting the usual seasonal tightening of supplies. Decreases were led particularly by bulls (-25%) and steers (-19%). However, cow numbers bucked July's trend by marginally increasing 3% YOY, bringing the total cow slaughter up 17% for the season-to-date (October to July).

While exports to the US pulled back 6% YOY for June 2015, this was offset by strong demand from China, resulting in a 68% increase YOY, at 7,720 tonnes swt. Total export volumes for June 2015 were 11% higher, at around 49,000 tonnes.

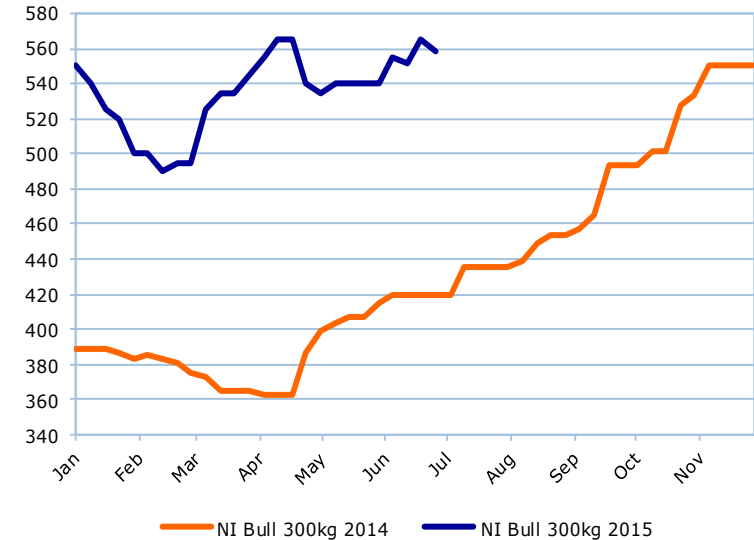
## New Zealand beef exports to the US (Jan-Jun)



Source: Stats NZ, 2015

## North Island Bull Price, Jan 2014-Jul 2015

NZc/kg cwt



Source: NZX Agrifax, Rabobank, 2015

## What to watch

- Processors will be watching their quota allocations for beef exports to the US.** New Zealand exporters face filling the annual allocated shipments of beef (213,402 tonnes) to the US before the end of the year, with US exports sitting at just over 150,000 tonnes for the first six months of 2015.



# Sheepmeat

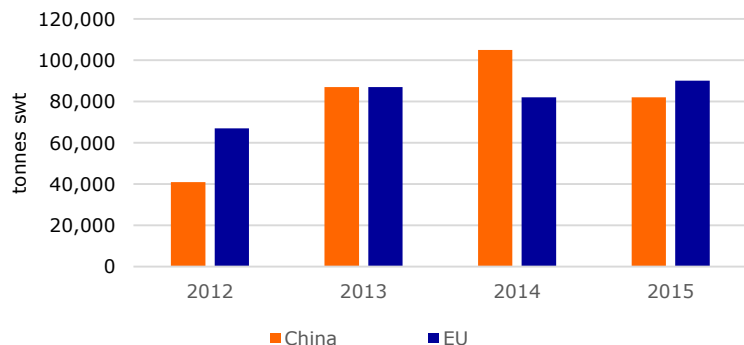
## Market outlook

Farmgate prices have continued to improve into August 2015, as supply has tightened heading into the spring season. Despite this improvement, the South Island lamb price is 7% lower YOY, averaging NZD 5.35/kg cwt.

Total lamb slaughter for the season-to-date (October to July) is on par with last year's slaughter, at 19m head. However, lamb slaughter for the month of June 2015 was back 9% YOY, at 914,000 head. Mutton slaughter is tracking 6% lower than last year for the season-to-date.

Total sheepmeat exports increased 5% in July 2015 (or 1,500 tonnes swt), compared to the same month last year, at 31,200 tonnes. Weak demand from China continues, with shipments back 12%, or almost 1,300 tonnes. Although demand from the UK eased (-13%), exports to the euro zone were higher overall (+5%). Shipments to North America continued to increase YOY, with exports to the US 24% higher and Canada 29%.

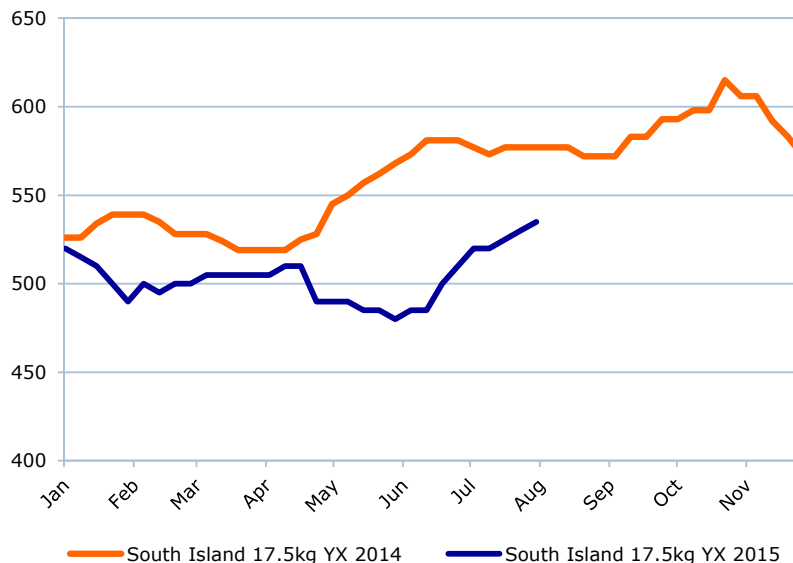
## New Zealand sheepmeat exports (Jan-Jun)



Source: Stats NZ, 2015

## New Zealand Lamb (South Island), Jan 2014-Aug 2015

NZc/kg cwt



Source: NZX Agrifax, Rabobank, 2015

### What to watch

- During the first six months of 2015, exports to China have slowed significantly (down 22%). However, shipments to the EU have risen 10% YOY and the US is 15% higher.

**Improved demand from these higher valued markets** is important given the sluggish demand from China currently.



# Wool

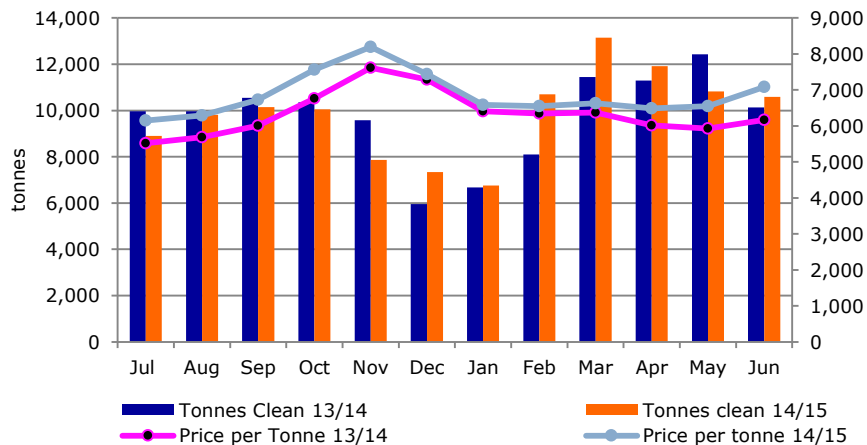
## Market outlook

Momentum has continued throughout the month for NZ wool sales, buoyed by strong demand from China, mirroring the strength of the Australian market. The crossbred indicator as at the middle of August has gained 4% MOM, sitting at NZc 581/kg clean. The fine crossbred indicator, at NZc 684/kg, reached its highest point since 2011.

The Australian market has returned from the three-week recess with some strong markets, seeing the EMI lift over AUc 80/kg, to move above AUc 1,300/kg clean.

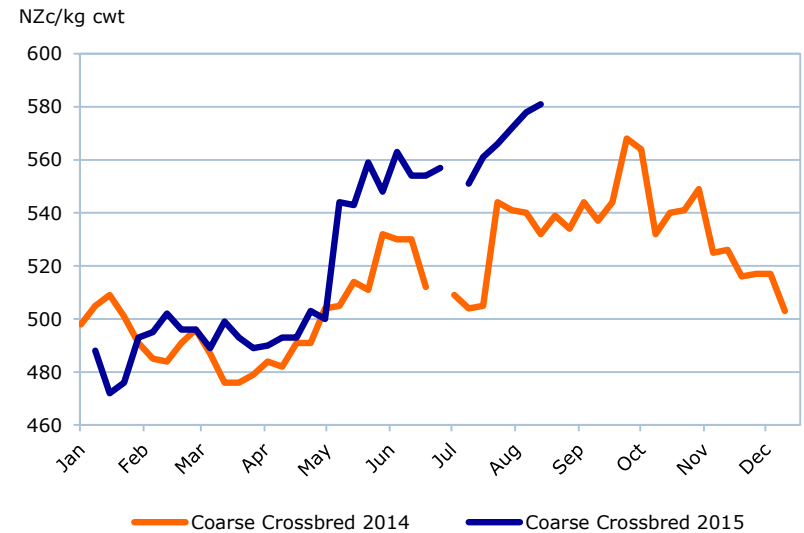
New Zealand wool exports increased just 1.4% in 2014/15 YOY; however, stronger wool prices saw the average price per tonne increase 8.6% on last year. China remained the dominant market for NZ exports, taking 57% of the total clean tonnes shipped. Volumes to China improved some 15% YOY.

## New Zealand exports (all wool), Jul 2014-Jun 2015



Source: Beef & Lamb New Zealand, Rabobank, 2015

## NZ Coarse Crossbred wool prices, Jan 2014-Aug 2015



Source: NZWSI, Rabobank, 2015

### What to watch

- China's import demand.** Strong increases in both volumes going to China have been recorded across a number of types and origins. Australian exports to China are also up significantly YOY. Sustaining this demand, however—particularly following the move to devalue the yuan—will be reliant on good orders through the pipeline.



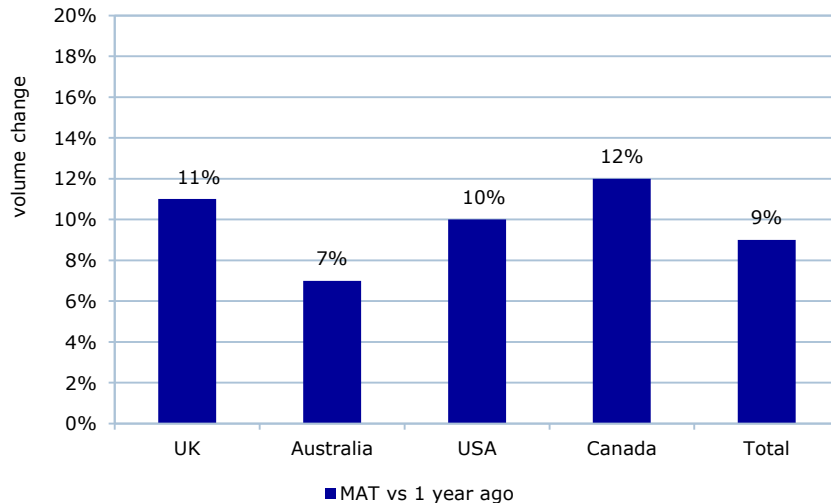
# Wine

## Market outlook

New Zealand wine exports increased 9% in volume and 7% in value in the year to June 2015. Export shipments in the month of June grew 10% in volume and 9% in value versus the same month last year.

New Zealand wine continues to enjoy strong growth in the US wine market, with growth in bottled still wine import volumes continuing to lead most other major countries of origin in the six months ending June 2015.

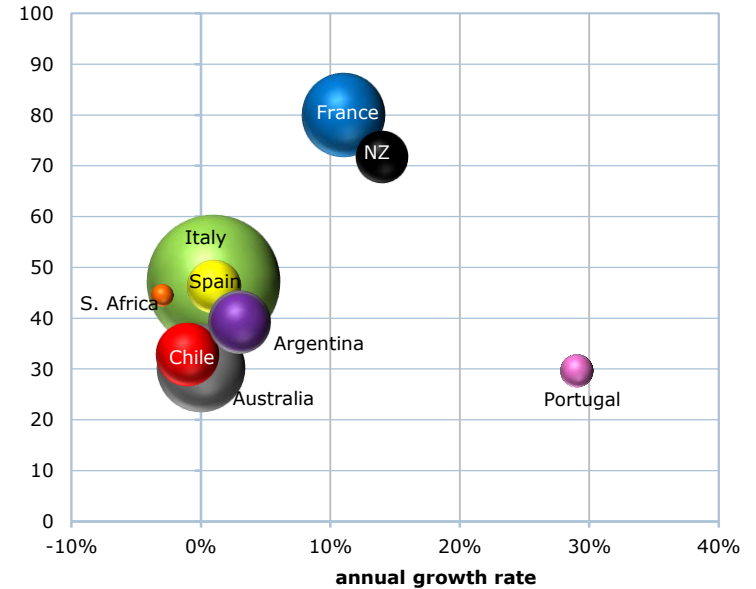
## New Zealand wine exports, MAT June 2015



Source: NZ Winegrowers, Rabobank, 2015

## US bottled still wine imports, 1H 2015

Average import price (USD/litre)



Source: GFA, Rabobank, 2015

### What to watch

- **The relatively small size and good quality of the 2015 harvest** will act to support the profitability of wine companies over the coming 12- to 18-month period, as they look to re-balance their inventory holdings and recover some pricing power in global markets. Growth in export volumes should begin to slow towards the end of the year as a result of lower stocks.





# Fertiliser

## Market outlook

Global benchmark prices for urea remained mostly stable in recent weeks. New production capacity across the Middle East and North Africa (MENA) is coming on line over the next few months, keeping a lid on prices.

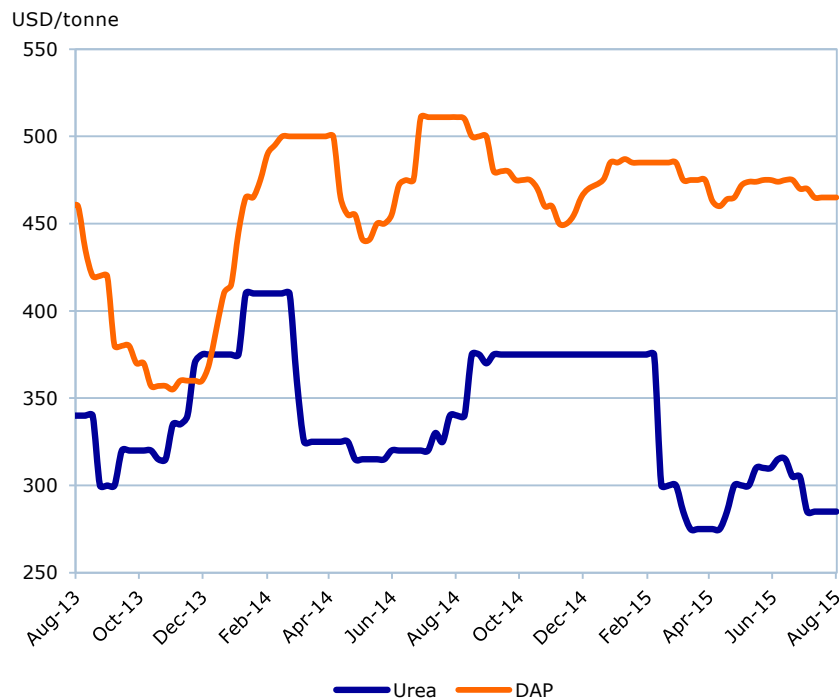
Global phosphate markets remain subdued, with little trading activity occurring in key import markets, including India and Brazil. There appears to be limited upside to pricing in the short term.

There has been little change to global potash markets. Markets are characterised by sluggish demand and high inventories in many key markets, a situation unlikely to change in the short term.

### What to watch

- **Disruptions or delays to new capacity** due to come on-stream could have a price impact.
- **Monsoon rainfall in August and September in India** is critical to the rabi crop plantings, and ultimately nutrient demand.

## Global fertiliser prices, Aug 2013-Aug 2015



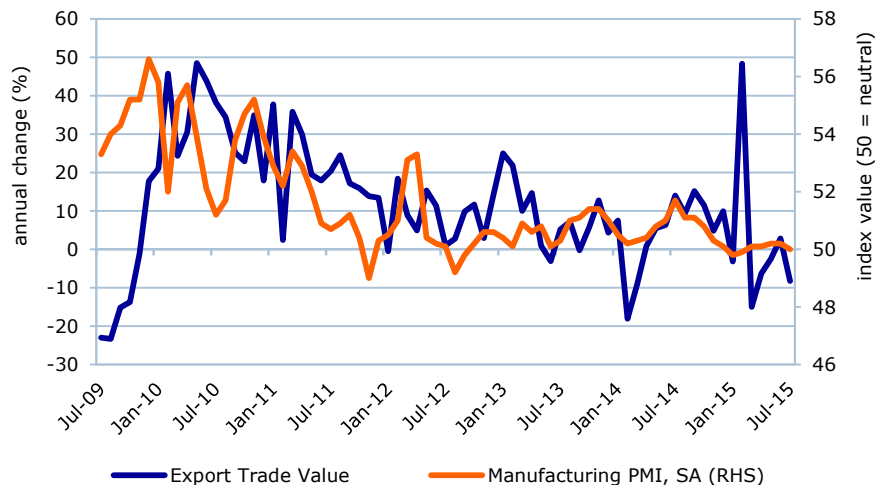
Source: Bloomberg, Rabobank, 2015



## Market outlook

The Reserve Bank of New Zealand next meets on 10 September 2015 to review monetary policy settings, but has flagged that further easing will be necessary. The big news in currency markets this month came from China, with the decision by the People's Bank Of China to devalue the Chinese yuan in order to bolster competitiveness. While this is a long-anticipated move, given the weakness in Chinese exports and manufacturing activity, it came some months ahead of time, catching markets by surprise.

### China export trade and manufacturing activity, Jul 2009-Jul 2015



Source: Bloomberg, Rabobank, 2015

### NZD/USD: 12-month price movement, Aug 2014-Aug 2015



Source: RBNZ, Rabobank, 2015

#### What to watch

- **We forecast NZD/USD falling towards 0.62 on a 12-month view.** Weak commodity prices, ongoing signs of slower economic growth in China, and the easing bias from the RBNZ are expected to weigh on the NZ dollar, against a backdrop of an improving US economy and stronger US dollar.



# Oil & Freight

## Market outlook

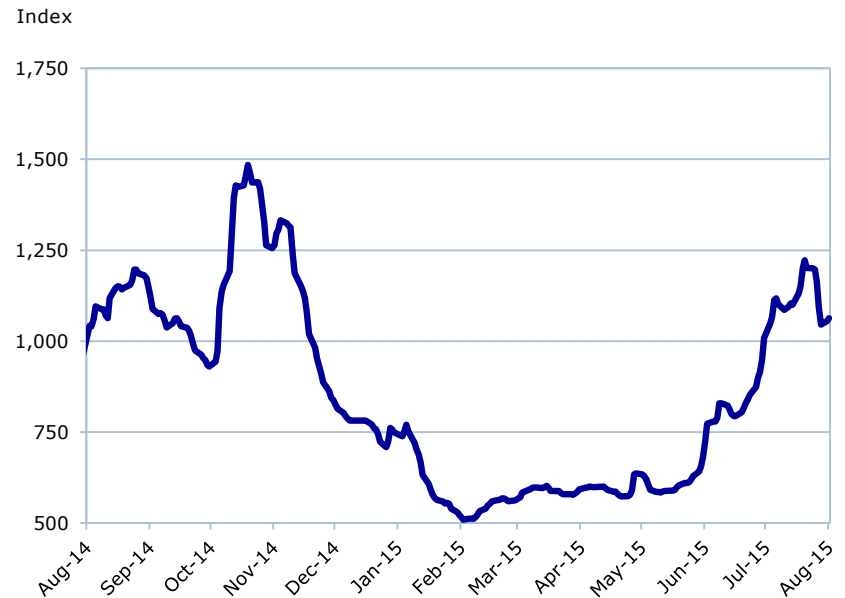
Oil prices have given up ground through August, as concerns have mounted that persistently high oil production will keep the global market oversupplied through the remainder of 2015.

Despite rising off record lows reached in early 2015, the Baltic Dry Index remains low by historic standards. Overcapacity remains in the global shipping market, and while oil prices remain depressed and global economic growth sluggish, any sustained increase in the index looks unlikely.

### Brent Crude Oil, Aug 2014-Aug 2015



### Baltic Dry Index, Aug 2014-Aug 2015



Source: Bloomberg, Rabobank, 2015

# Agri Price Dashboard

As of 19 August 2015	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT Wheat	USc/bu	▼	501	562	543
CBOT Soybeans	USc/bu	▼	927	1,019	1,116
CBOT Corn	USc/bu	▼	363	430	361
Australian ASX EC Wheat	AUD/tonne	▼	292	328	283
Australian Canola	AUD/tonne	▼	525	553	474
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	568	541	347
Feeder Steer	AUc/kg lwt	▲	313	301	190
North Island Bull 300kg	NZc/kg cwt	▲	595	562	439
South Island Bull 300kg	NZc/kg cwt	▲	580	540	379
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	•	586	586	475
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	550	525	578
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	535	520	577
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	▲	710	675	638
South Island Stag	NZc/kg cwt	▲	710	660	670
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▼	2,625	2,913	3,363
Skim Milk Powder	USD/tonne FOB	▼	1,513	1,938	3,488
Whole Milk Powder	USD/tonne FOB	▼	1,725	2,913	3,013
Cheddar	USD/tonne FOB	▼	2,900	2,913	4,200

# Agri Price Dashboard

As of 19 August 2015	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	73	72	74
ICE #2 NY Futures (nearby contract)	USc/lb	▲	67.98	65.3	63.34
<b>Sugar markets</b>					
ICE Sugar #11	USc/lb	▼	10.6	12.3	15.7
ICE Sugar #11 (AUD)	AUD/tonne	▼	318	365	371
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▲	1,304	1,221	1,020
NZ Coarse Crossbred Indicator	NZc/kg	▲	581	561	540
NZ Fine Crossbred indicator	NZc/kg	▲	684	635	573
<b>Fertiliser</b>					
Urea	USD/tonne FOB	•	285	285	340
DAP	USD/tonne FOB	▼	465	470	511
Potash	USD/tonne FOB	▼	303	305	287
<b>Other</b>					
Baltic Dry Index	1000=1985	▲	1,063	1,009	1,042
Brent Crude Oil	USD/BBL	▼	49	58	103
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.737	0.741	0.933
NZD	vs. USD	▲	0.657	0.651	0.848
RBA Official Cash Rate	%	•	2.00	2.00	2.50
NZRB Official Cash Rate	%	▼	3.00	3.25	3.50

# Food & Agribusiness Research and Advisory

**Luke Chandler**

General Manager, Food & Agribusiness Research & Advisory, Australia & New Zealand  
+61 2 8115 2217  
[Luke.Chandler@rabobank.com](mailto:Luke.Chandler@rabobank.com)

**Michael Harvey**

Senior Analyst - Dairy & Farm Inputs  
+61 3 9940 8407  
[Michael.Harvey@rabobank.com](mailto:Michael.Harvey@rabobank.com)

**Marc Soccio**

Senior Analyst – Wine, Horticulture & Rural Economics  
+61 3 9940 8437  
[Marc.Soccio@rabobank.com](mailto:Marc.Soccio@rabobank.com)

**Graydon Chong**

Senior Analyst - Grains & Oilseeds  
+61 2 8115 4091  
[Graydon.Chong@rabobank.com](mailto:Graydon.Chong@rabobank.com)

**Angus Gidley-Baird**

Senior Analyst - Animal Proteins  
+ 61 2 8115 4058  
[Angus.Gidley-Baird@rabobank.com](mailto:Angus.Gidley-Baird@rabobank.com)

**Matthew Costello**

Analyst - Animal Proteins  
+61 2 8115 2233  
[Matthew.Costello@rabobank.com](mailto:Matthew.Costello@rabobank.com)

**Georgia Twomey**

Commodity Analyst  
+61 2 8115 2446  
[Georgia.Twomey@rabobank.com](mailto:Georgia.Twomey@rabobank.com)

**Emma Higgins**

Research Analyst  
+64 3 961 2908  
[Emma.Higgins@rabobank.com](mailto:Emma.Higgins@rabobank.com)

**Maddie Armstrong**

Business Co-ordinator  
+61 2 8115 4157  
[Maddie.Armstrong@rabobank.com](mailto:Maddie.Armstrong@rabobank.com)

**Ben Larkin**

Agricultural Analyst  
+61 2 8115 2741  
[Ben.Larkin@rabobank.com](mailto:Ben.Larkin@rabobank.com)

**Rabobank New Zealand**

Nearest branch call 0800 722 622  
[www.rabobank.co.nz](http://www.rabobank.co.nz)

This document is issued by a Rabobank Group member. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by any Rabobank Group member to enter into a transaction. This information is not professional advice and has not been prepared to be used as the basis for, and should not be used as the basis for, any financial or strategic decisions. This information is general in nature only and does not take into account an individual's personal circumstances. All opinions expressed in this document are subject to change without notice. No Rabobank Group member accepts any liability whatsoever for any direct, indirect, consequential or other loss or damage howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of a Rabobank Group member. By accepting this document you agree to be bound by the foregoing restrictions. All copyright is reserved ©