



Agribusiness Monthly February 2015

New Zealand



Rabobank

Commodity Outlook

Sector	Driver
 <u>Dairy</u>	Slowing production growth and weather risks lift prices off the floor
 <u>Beef</u>	Farmgate prices are continuing to weaken in the face of dry conditions, with further softening likely for the remainder of February and into March
 <u>Sheepmeat</u>	Dry conditions in New Zealand are impacting farmgate returns across most of the country, with farmers looking upwards in anticipation of much needed rain
 <u>Venison</u>	Prices are following seasonal trends, with this likely to continue over the coming months
 <u>Wool</u>	Both fine and coarse crossbred indicators are tracking above the five-year average, quiet mill activity over CNY may slow further gains in February
 <u>Wine</u>	Carryover stocks and the strength of the NZD are likely to limit any price upside stemming from a smaller 2015 harvest
 <u>Fertiliser</u>	Global markets are well balanced, although the falling AUD and NZD are putting pressure on landed prices in domestic markets
 <u>FX</u>	Weak commodity prices, an anticipated slowdown in the Chinese economy, steady rates in New Zealand, and a strengthening US economy will see the NZD edge lower against the USD over the course of the year
 <u>Oil</u>	Oil prices have rebounded somewhat in recent weeks, although building global stockpiles look set to prevent any major price recovery

Climate

NIWA expects the remainder of February to hold warm temperatures for New Zealand. All regions in the North Island are at risk of below normal soil moisture, as well as the lower half of the South Island. Soil moisture levels are most likely to be normal for the remainder of the South Island.

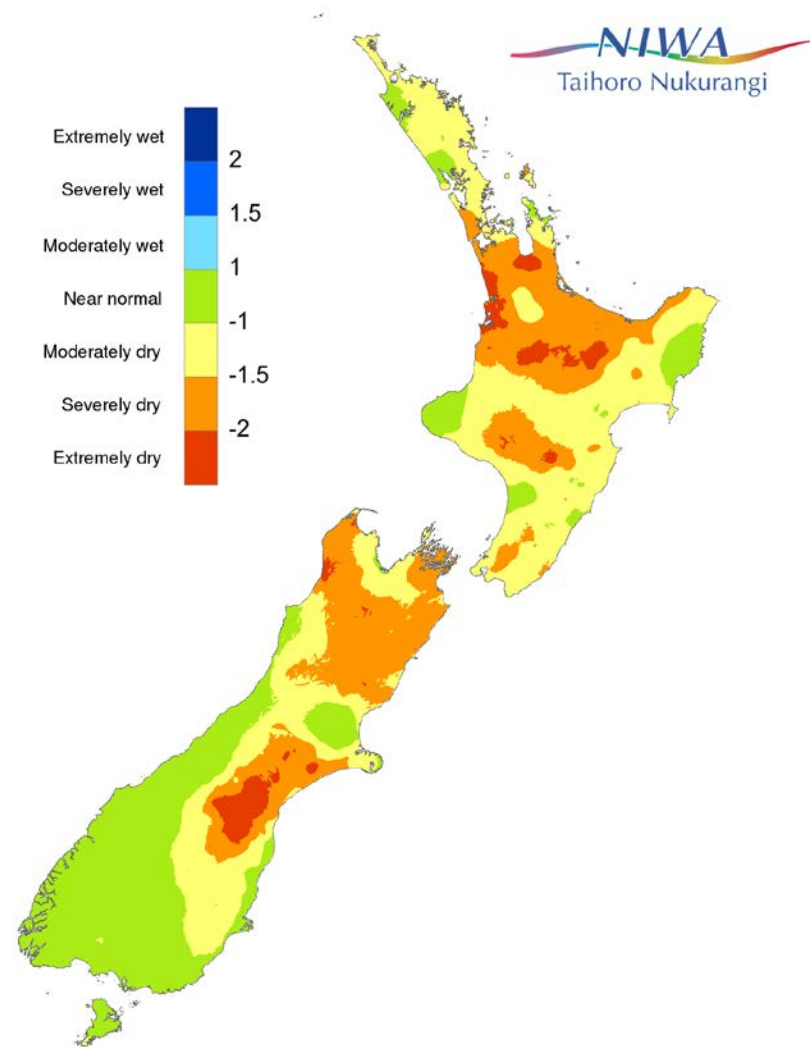
Areas to watch for increasing dry conditions in the North Island include the Waikato and Wairarapa areas, with Canterbury and Nelson / Tasman regions being the hot spots in the South Island.

Rainfall is expected to be in the near normal range for most of New Zealand for the first quarter of 2015, with the east of the South Island at some risk of below normal rainfall.

What to watch:

- Palm kernel imported in late 2014 has ensured high levels of feed availability; however, **prices for additional feed are rising** with the continued dry conditions.

SPI Drought Index, 18 Dec 2014- 16 Feb 2015





Dairy

Market Outlook

Global dairy commodity prices have seen some signs of life in recent weeks but remain at low levels.

Mounting concerns about lower milk flows from New Zealand have been the main catalyst for the recent improvement in commodity prices.

However, a major recovery in global commodity markets is still a few months away. Supply is still readily available in most key export regions; albeit production growth is now slowing.

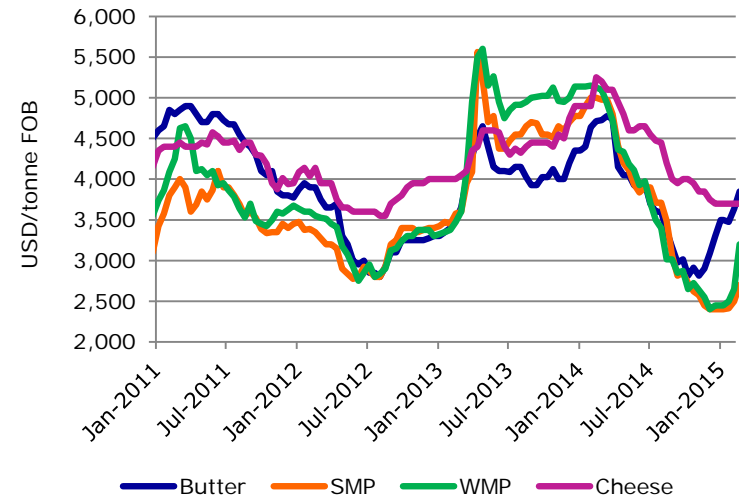
Meanwhile, China remains mostly sidelined from the market, as it contends with slowing local demand growth and a better-than-expected recovery in local milk supply, resulting in discounted products being offered at retail for consumers.

While New Zealand milk production remains ahead of last year's season to date, milk flows have turned sharply negative in most regions, as supplementary feed is largely uneconomical and dry weather takes its toll.

What to watch:

- Consumption levels following the **Chinese New Year holiday period**. With retail discounts currently on offer, sales will be a leading indicator of the likely strength of the Chinese market in 2015.

World Dairy Prices



Source: USDA, Rabobank 2015

Production growth in key exporting regions:

	Latest month	Last 3 months
EU	0.8% (December)	1.9%
US	3.1% (December)	3.1%
Argentina	-5.0% (November)	-3.1%
Australia	-1.6% (December)	2.6%
NZ	+3% (est. eight months to January 2015)	



Beef

Market Outlook

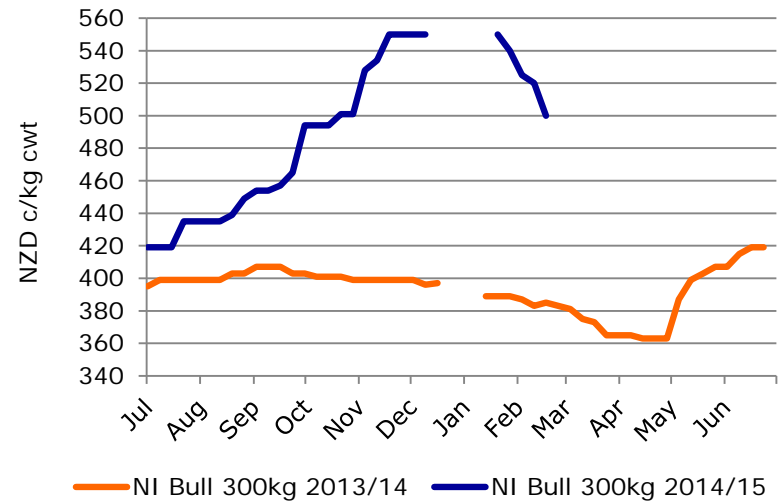
Farmgate prices are continuing to weaken in the face of dry conditions, with further softening likely for the remainder of February and into March. However, prices are 30 percent higher than the previous year.

Lower dairy prices, together with hot and dry conditions, have underpinned higher slaughter rates over the final months of 2014 and into Q1 2015. Slaughter numbers for cows in November 2014 and December 2014 were up 62 percent and 77 percent on the same periods in 2013.

New Zealand beef exports totalled 401,916 tonnes swt for 2014, a 9 percent increase from 2013 and a 12 percent rise compared to the five-year average.

Continued tight supply in the US supported a 19 percent increase in New Zealand exports to the US in 2014, with shipments accounting for 51 percent of total New Zealand beef exports.

North Island Bull Price



Source: NZX Agrifax, Rabobank 2015

What to watch:

- **The ongoing labour dispute in the US** is impacting both US imports and exports, with significant delays in the movement and transportation of products.



Sheepmeat

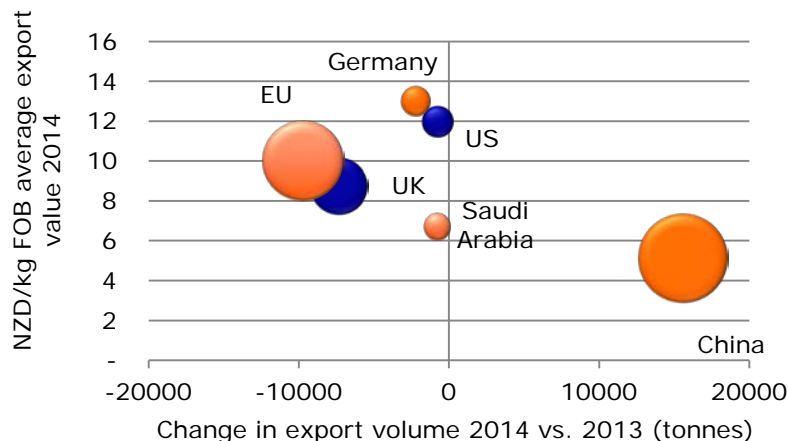
Market Outlook

Farmgate prices have declined sharply moving into 2015, as dry conditions force producers to send stock to processors, and slaughter volumes rising significantly through January and into February. Subsequently, the average price for South Island lambs is 9 percent lower YOY.

New Zealand exported 397,186 tonnes swt of sheepmeat in 2014—similar to volumes in 2013.

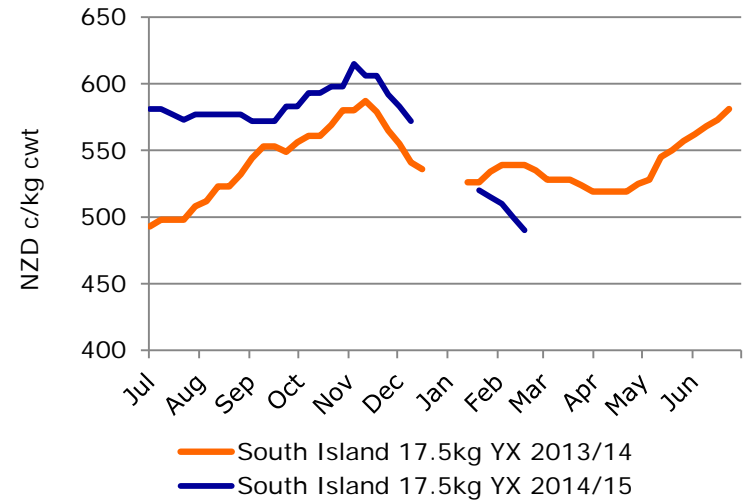
Exports to China increased 12 percent or 15,000 tonnes swt for 2014. However, New Zealand's lucrative high-value European markets declined overall in 2014.

New Zealand Sheepmeat Exports



Source: NZX Agrifax, Statistics New Zealand, Rabobank 2015

New Zealand Lamb (South Island)



Source: NZX Agrifax, Rabobank 2015

What to watch:

- **Dry conditions in New Zealand** are impacting farmgate returns across most of the country, with farmers looking upwards in anticipation of much needed rain.



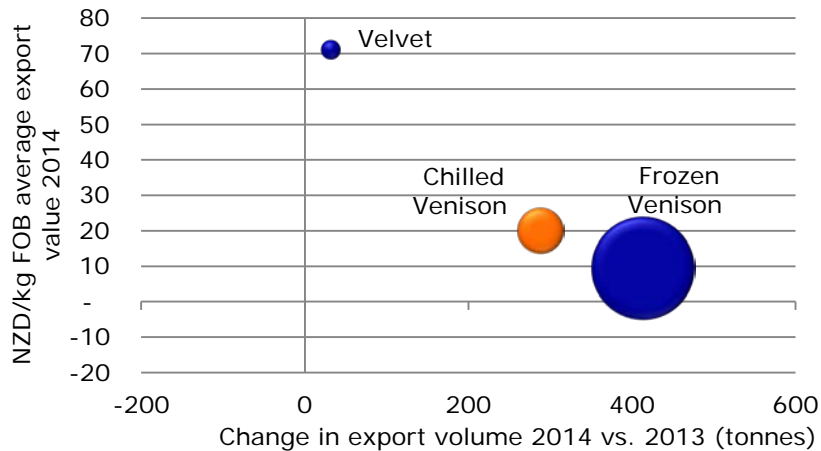
Venison

Market Outlook

Farmgate prices have followed the usual seasonal downward trend in early 2015, with prices in February averaging NZD 6.16/kg cwt—slightly lower than the same time last year.

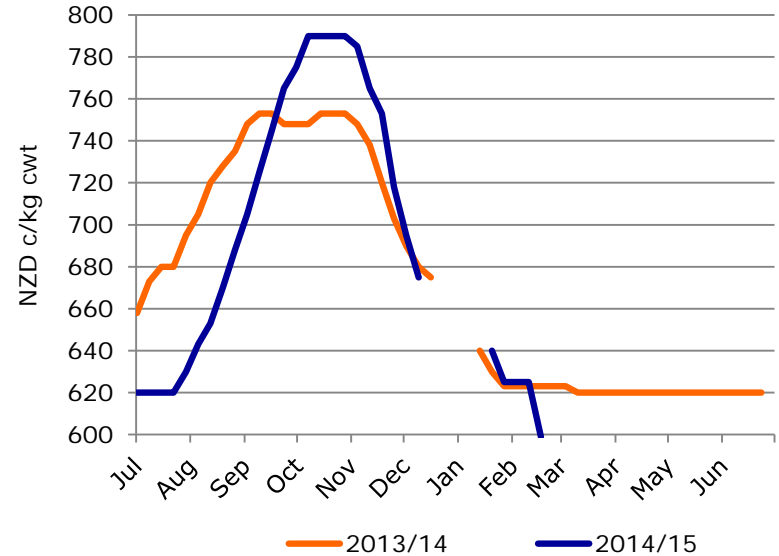
Despite challenging export market conditions, volumes of both chilled and frozen venison increased 13 percent and 3 percent, respectively, on the previous year. However, overall average export returns declined 8 percent YOY, averaging NZD 9.87/kg FOB.

New Zealand Venison Exports



Source: NZX Agrifax, Statistics New Zealand, Rabobank 2015

South Island Stag Prices (NZD kg/cwt)



Source: NZX Agrifax, Rabobank 2015



Wool

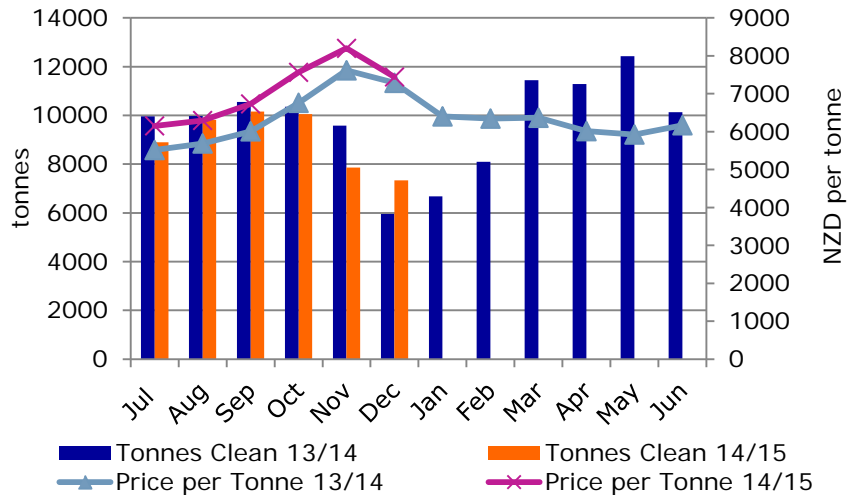
Market Outlook

New Zealand coarse crossbred wool prices continue to trend above the five-year average (09/10-13/14) of NZ 453 c/kg, having averaged NZ 523 c/kg for the current season to date.

Fine crossbreds this season are also outperforming the five-year average, with the indicator 10 percent higher at NZc 556/kg.

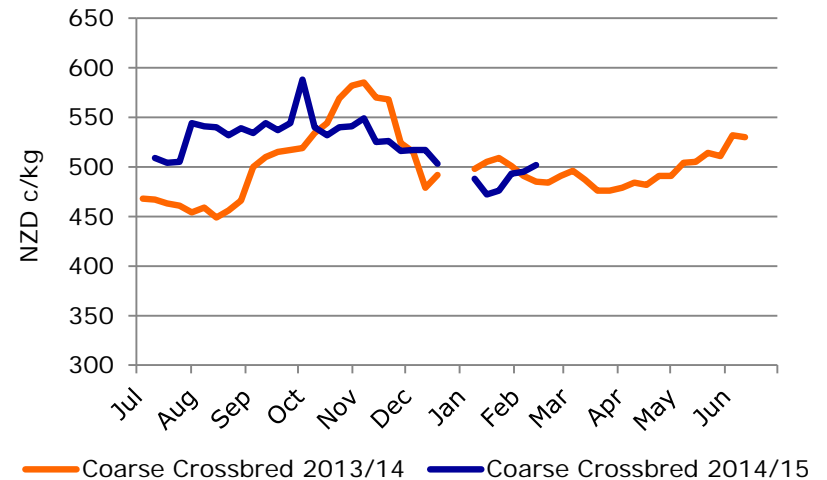
A few strong weeks in the market in NZ have been matched in the Australian auctions with the Australian EMI edging above AUD 1100 c/kg for the first time in two years. Australian crossbreds have continued their strength with the 28 micron indicator at AUD800c/kg levels not seen since 2002.

New Zealand Wool Exports - All Wool



Source: Beef and Lamb New Zealand, Rabobank 2015

NZ Coarse Crossbred Wool Prices



Source: Bloomberg, Rabobank 2015

What to watch:

- Gong Xi Fa Cai** – This week marks the kickoff of the Chinese New Year celebrations, as we head into the year of the sheep. Chinese mill activity will slow over the period.



Wine

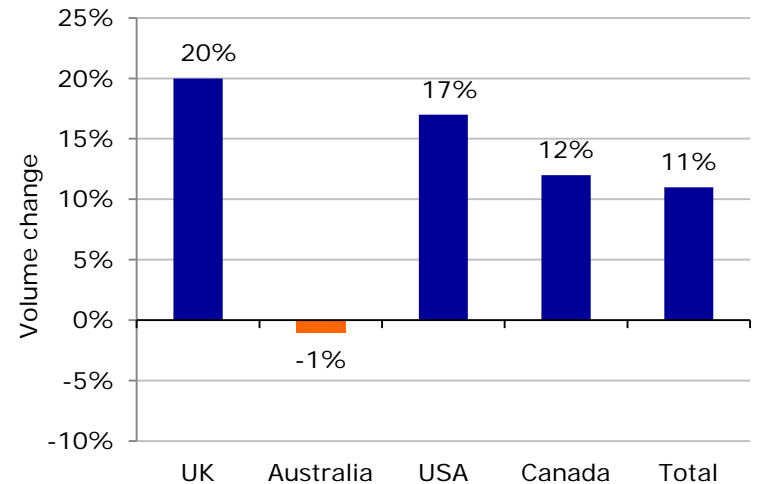
Market Outlook

New Zealand wine export volumes finished 2014 11 percent higher than in 2013. Above-average growth was recorded across all major markets, with the notable exception of Australia, where volumes fell by 1 percent over the course of the year.

Wine exports surged ahead in the month of December 2014, with total volumes 40 percent higher than in the same month one year earlier. Bulk wine shipments more than doubled in the month, as wine companies hurriedly moved to clear inventories in the lead up to the 2015 harvest.

Expectations are for a smaller harvest in 2015 than the record crop in 2014. Nevertheless, there appears to be limited scope for average wine grape prices to rise in 2015, with more than ample carryover stocks and the resilient NZD likely to moderate demand from wine companies in the near term.

Change in NZ wine exports to major markets, 2014



Source: NZ Winegrowers, Rabobank 2015

What to watch:

- Moves are afoot by the Winemakers' Federation of Australia to rescind the **Wine Equalisation Tax rebate** currently extended to New Zealand wine suppliers in the Australian market. If successful, the Australian market would become much less attractive to smaller New Zealand wine producers.



Fertiliser

Market Outlook

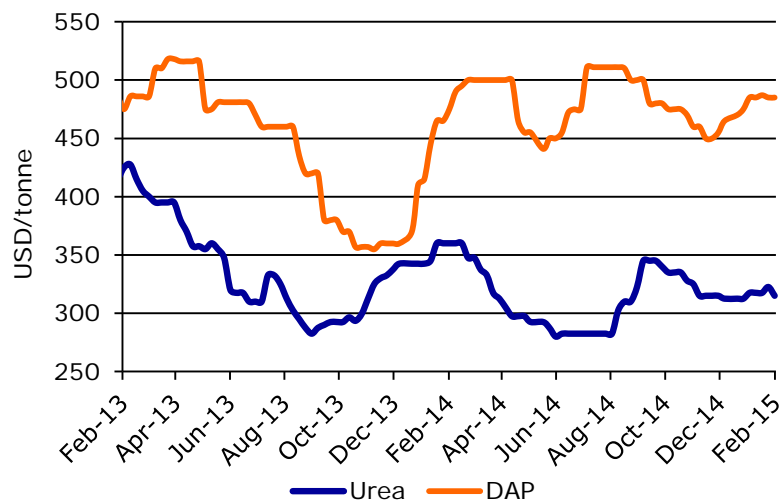
Global urea markets remain well balanced, with few signs of any major price spike likely. In 2014, China exported a record 13.6 million tonnes of urea. Volumes in 2015 are likely to surpass that record and keep markets well supplied.

Global phosphate markets remain relatively quiet; but in March, the buying season will begin for two large import markets—India and Brazil. This should provide some support for global markets.

The global potash market remains mostly stable. Chinese contract negotiations remained stalled. The conclusion of these negotiations will provide guidance to global pricing, but may be a few more weeks away.

While global pricing remains mostly stable for the key nutrients, a falling NZD against the USD is putting some upward pressure on landed prices for end-users.

Global Fertiliser Prices



Source: Bloomberg, Rabobank 2015



FX

Market Developments

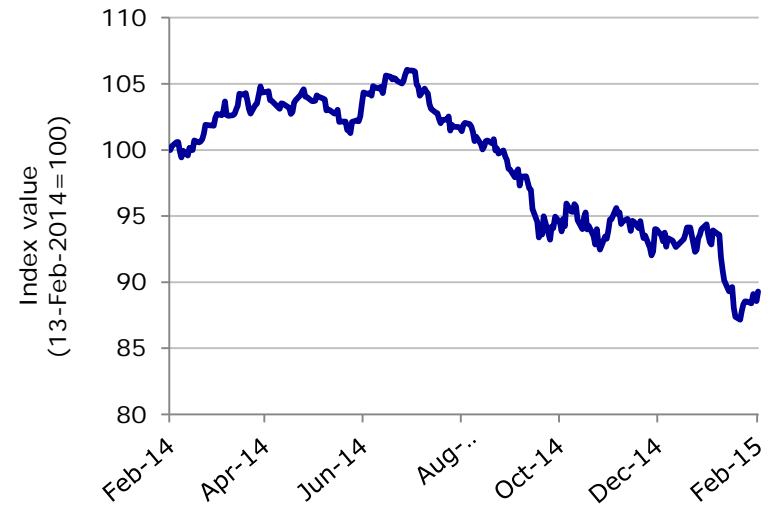
The Reserve Bank of New Zealand (RBNZ) elected to leave the official cash rate unchanged at 3.5 percent at its meeting on 29 January 2015, with the Governor clearly voicing to the market that the RBNZ has done away with its hawkish bias and that it expects to “keep the official cash rate on hold for some time.”

Overall, domestic economic fundamentals remain positive, with above trend output growth generating ongoing improvement in labour market conditions, while wage growth and consumer price pressures remain well in check.

Key risks to the outlook remain the slowdown in Chinese economic growth and the future path of dairy prices as they relate to domestic incomes and household spending. Given these risks, the RBNZ is more than mindful of applying any upward pressure to the NZD.

We forecast NZD/USD falling towards 0.68 on a 12-month view. This reflects 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 USD.

NZD/USD – 12 month price movement



Source: RBA, Rabobank 2015

What to watch:

- **The timing of the first US interest rate hike.** Questions remain around when the US economy will be ready to accommodate higher interest rates. If this is sooner rather than later, the NZD may depreciate more sharply against the USD in 2015.



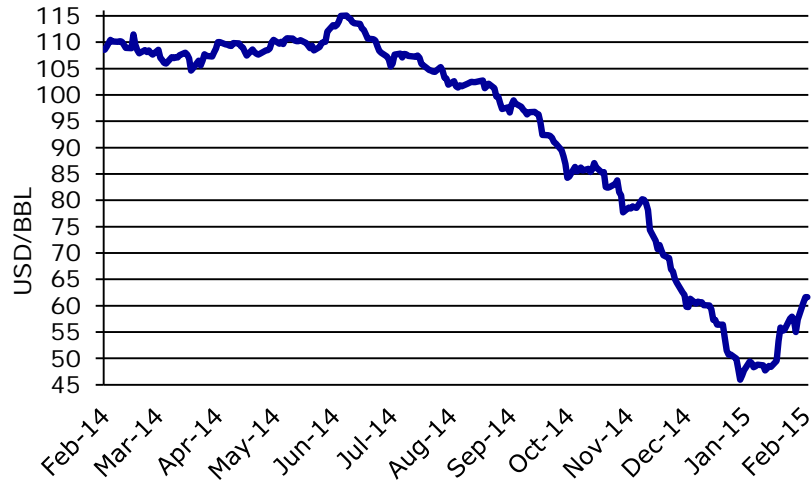
Oil and Freight

Market Outlook

Oil prices have rebounded somewhat in recent weeks, although building global stockpiles look set to prevent any major price recovery.

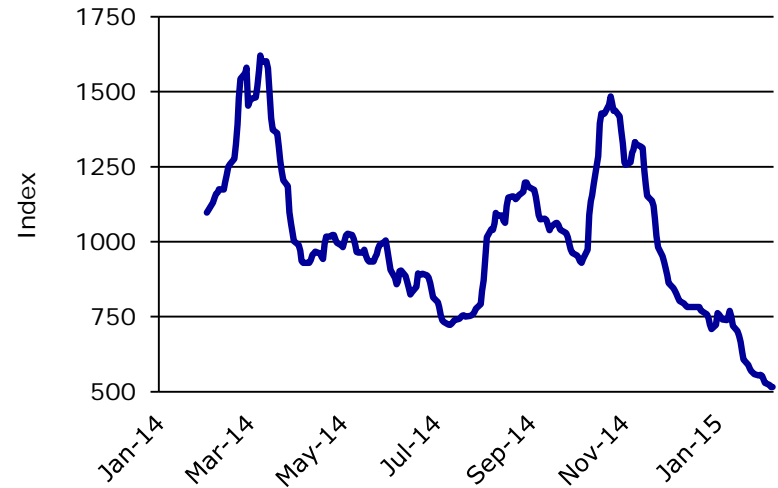
The Baltic Dry Index is at three-decade lows on the back of sluggish global economic growth and excess supply, with little signs of a recovery in the short term.

Brent Oil



Source: Bloomberg, Rabobank 2015

Baltic Dry Index



Source: Bloomberg, Rabobank 2015

Dashboard

As of 18/02/2015	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USD c/bushel	▲	535	533	587
CBOT soybeans	USD c/bushel	▲	1,008	991	1,323
CBOT corn	USD c/bushel	▲	390	380	440
Australian ASX EC Wheat	AUD/tonne	▼	299	301	285
Australian Canola	AUD/tonne	▲	496	488	538
Beef markets					
Eastern Young Cattle Indicator	AUD c/kg cwt	▲	443	442	289
Feeder Steer	AUD c/kg lwt	▲	248	239	172
North Island Bull 300kg	NZD c/kg cwt	▼	500	550	385
South Island Bull 300kg	NZD c/kg cwt	▼	450	500	389
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUD c/kg cwt	▼	543	548	480
North Island Lamb 17.5kg YX	NZD c/kg cwt	▼	500	557	552
South Island Lamb 17.5kg YX	NZD c/kg cwt	▼	490	520	539
Venison markets					
North Island Stag	NZD c/kg cwt	▼	606	640	620
South Island Stag	NZD c/kg cwt	▼	599	640	623
Dairy Markets					
Butter	USD/tonne FOB	▲	3,850	3,475	4,713
Skim Milk Powder	USD/tonne FOB	▲	2,700	2,413	5,000
Whole Milk Powder	USD/tonne FOB	▼	3,200	3,475	5,125
Cheddar	USD/tonne FOB	▲	3,700	3,475	5,250

Dashboard

As of 18/02/2015	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USD c/lb	▲	70	67	95
ICE No.2 NY Futures (nearby contract)	USD c/lb	▲	63.8	59.49	88.37
Sugar markets					
ICE Sugar No.11	USD c/lb	▼	15.1	15.4	15.8
ICE Sugar No.11 (AUD)	AUD/tonne	▲	427	412	386
Wool markets					
Australian Eastern Market Indicator	AUD c/kg	▲	1,087	1,054	1,098
NZ Coarse Crossbred Indicator	NZD c/kg	▲	502	472	485
NZ Fine Crossbred indicator	NZD c/kg	▲	553	518	502
Fertiliser					
Urea	USD/tonne FOB	•	375	375	315
DAP	USD/tonne FOB	▼	460	475	357
Potash	USD/tonne FOB	▲	306	287	332
Other					
Baltic Dry Index	1000=1985	▼	516	749	1,085
Brent Crude Oil	USD/bbl	▲	62	47	109
Economics/currency					
AUD	vs. USD	▼	0.782	0.822	0.903
NZD	vs. USD	▼	0.754	0.783	0.832
RBA Official Cash Rate	%	▼	2.25	2.50	2.50
NZRB Official Cash Rate	%	•	3.50	3.50	2.50

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