



Agribusiness Monthly May 2015

New Zealand



Rabobank

Commodity Outlook

Sector	Driver
 <u>Dairy</u>	<p>Global dairy commodity prices eased a further 10% over the past month, as buyers felt no urgency to return to the market. Prices are now 20% to 40% below the same time last year.</p>
 <u>Beef</u>	<p>Farmgate prices have slipped back from the record highs of April (NZD 5.65 kg/cwt). Strong slaughter volumes from both New Zealand and Australia contributed to the easing in farmgate prices.</p>
 <u>Sheepmeat</u>	<p>Farmgate prices dipped below the NZD 5 kg/cwt mark for South Island Lamb as of the middle of May. This is 20% down from the high for the season to date of NZD 6.15 kg/cwt (or \$107.63/head) in November 2014 and 11% down on the same time last year.</p>
 <u>Wool</u>	<p>A reduction in bale offerings—combined with a weaker NZ dollar and solid demand, particularly from China—has helped push price improvements across all major indicators.</p>
 <u>Wine</u>	<p>A second consecutive global wine surplus is estimated in 2014, albeit a smaller one than 2013.</p>
 <u>Fertiliser</u>	<p>Global urea prices remain below year-ago levels, despite rebounding somewhat in late April and early May.</p>
 <u>FX</u>	<p>The RBNZ board is keeping rates steady, but is signalling an easing bias in view of the high NZ dollar.</p>
 <u>Oil</u>	<p>Oil prices rallied in April and early May, despite persistently high global supply and continued stock builds.</p>

Climate

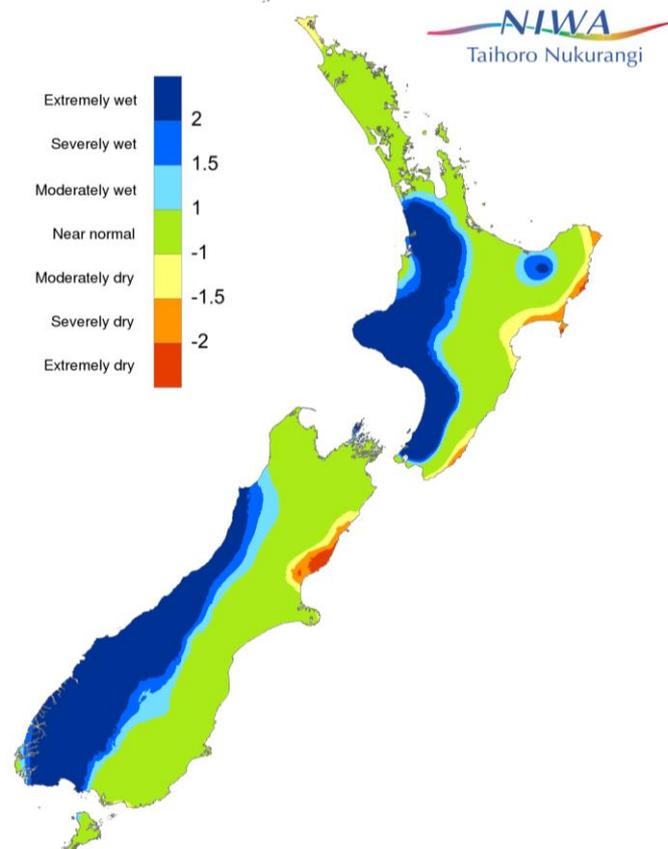
NIWA expects temperatures to be above-average for New Zealand through to July 2015. Nonetheless, the usual cold snaps and frosts will occur in some parts of the country, as the change of seasons progresses.

Normal soil moisture levels are likely for the east of the North Island and the upper South Island, while the east of the South Island and the Far North are equally likely to be in the normal or below-normal soil moisture range from May to July 2015.

Near-normal or below-normal levels of rainfall are likely for the east of the South Island, while the remainder of the country can expect normal rainfall levels.

Warmer-than-normal waters with weaker trade winds are consistent with weak El Niño conditions. Although NIWA's prediction of an El Niño weather pattern developing between now and July 2015 has increased to an 80% chance, further connection between the ocean and the atmosphere is needed in order for El Niño to become established.

SPI Drought Index, 17 April–17 May 2015





Dairy

Market outlook

Global dairy commodity prices eased a further 10% over the past month, as buyers felt no urgency to return to the market. Prices are now 20% to 40% below the same time last year.

Buyers are typically well-stocked or holding off purchasing further supplies, as market fundamentals indicate that price tightening is likely to be some way off.

Milk production continues at robust levels in most parts of the world. EU countries such as Ireland and the Netherlands are now significantly increasing production YOY, unshackled by production quotas.

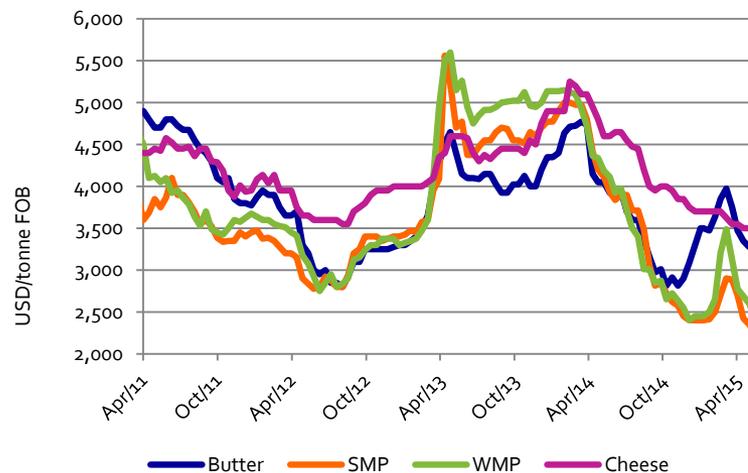
Lower prices and improved economic conditions have stimulated demand growth in some key markets. US cheese and butter demand growth has moved higher through April, amid firmed dairy fat prices in that market.

Fonterra lowered its 2014/15 milk price forecast to NZD 4.50/kgMS as a result of lower commodity prices. The initial milk price forecast for the 2015/16 season will be announced in late May.

What to watch:

- **The spring milk production flush is arriving in the EU**, and milk flows are starting to rise in a post-quota removal marketplace. The strength of domestic EU demand will determine how much of this milk flows onto an already-weak global market.

World dairy prices



Source: USDA, Rabobank, 2015

Production growth in key exporting regions:

	Latest month	Last 3 months
EU	-1.7% (March)	-1.2%
US	1.7% (April)	1.6%
Argentina	-1.85% (March)	-2.6%
Australia	2.9% (March)	4.6%
NZ	+2.5% (est. 11 months to April 2015)	



Beef

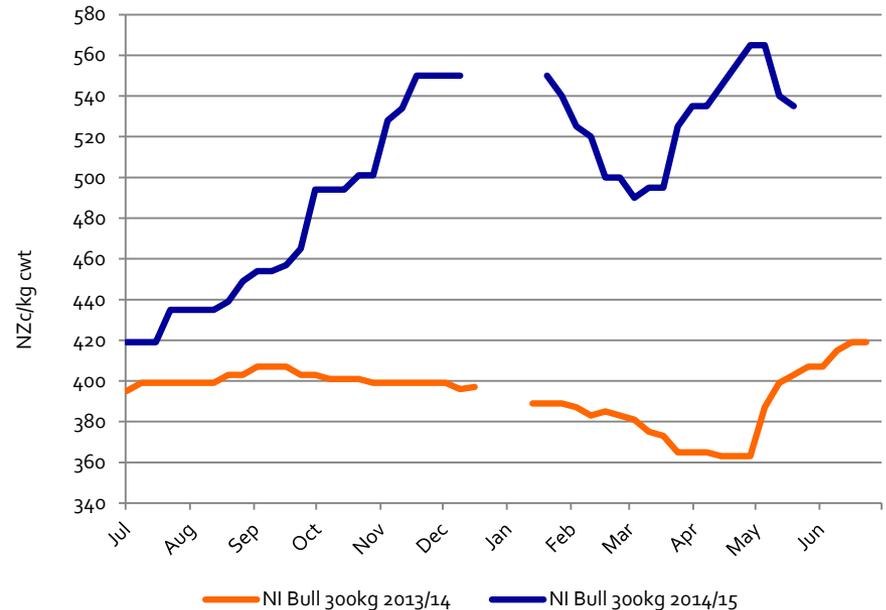
Market outlook

Farmgate prices have slipped back from the record highs of April (NZD 5.65 kg/cwt). Strong slaughter volumes from both New Zealand and Australia have contributed to the easing in farmgate prices. However, farmgate prices are still attractive, with the North Island bull price averaging NZD 5.35 kg/cwt, 33% higher YOY.

Cow slaughter volumes are beginning to level off, with April 2015 numbers only marginally higher than April 2014. However, total beef processing volumes are still 5% higher than last year, with particular increases in heifer (35,222 head) and bull (26,278 head) slaughter numbers.

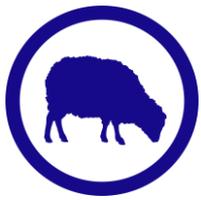
New Zealand exports of beef for March 2015 were up 19% YOY, to 56,185 tonnes swt. Strong demand continues from the US (+19%, or just over 6,600 tonnes) and China (+49%, or 2,500 tonnes). Exports to Canada and the Philippines were also up 41% and 42%, respectively.

North Island Bull Price



What to watch:

Although we are seeing evidence of the US import prices for manufacturing beef soften in the face of high **slaughter volumes in Australia and New Zealand**, demand remains strong and will likely strengthen as the US peak grilling season commences.



Sheepmeat

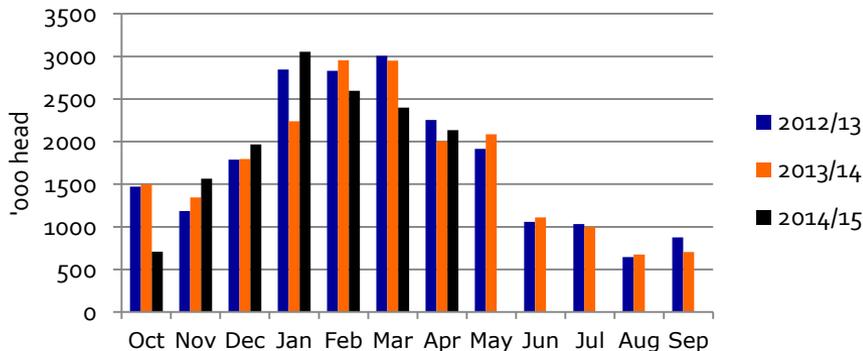
Market outlook

Farmgate prices dipped below the NZD 5 kg/cwt mark for South Island Lamb during May. This is 20% down from the high for the season to date of NZD 6.15 kg/cwt (or NZD 107.63/head) in November 2014 and 11% down on the same time last year.

Lamb processing in April was higher than last year's volumes, with levels 7% ahead YOY—up around 132,000 head. However, slaughter numbers for the season to date (October 2014–April 2015) are around 14.4m head, which is tracking lower than the same period last season by around 353,000 head.

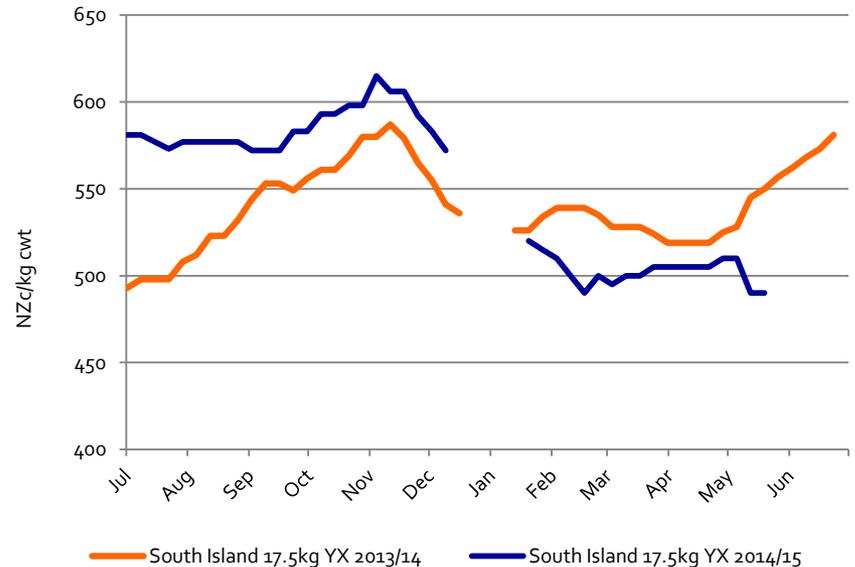
Weak demand from China persists, with shipments down 17% (or 4,200 tonnes swt), while exports to the UK were also down 4% (or 415 tonnes) YOY. However, exports to the US were up 7% YOY: a result of strong demand from the hospitality sector.

Lamb slaughter



Source: Stats NZ, Rabobank, 2015

New Zealand Lamb (South Island)



Source: NZX Agrifax, Rabobank, 2015

What to watch:

- **Pressure on farmgate prices may yet continue, given the slowdown in demand from our major sheepmeat markets.** We are in uncharted territory with the Chinese slowdown, and as a result, it is unclear how things will play out in the short term.



Wool

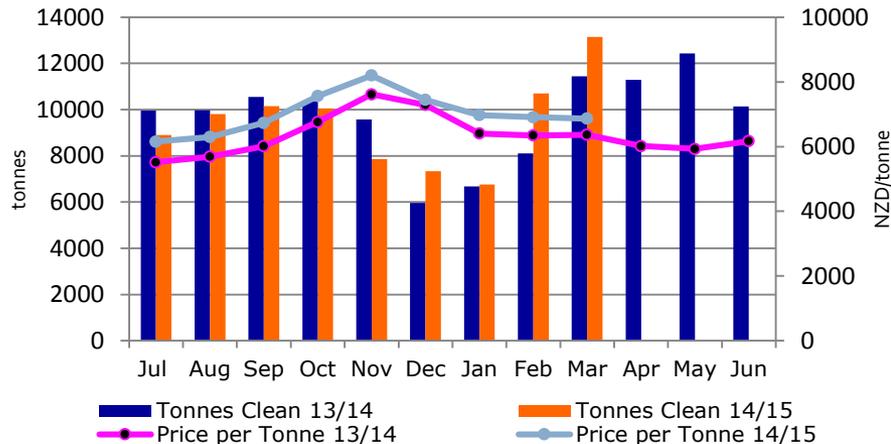
Market outlook

Bale numbers offered at NZ auctions have been down 13% YOY compared with the corresponding sale weeks in 2013/14. YTD volumes are down 5%.

This reduction in bale offerings—combined with a weaker NZD and solid demand, particularly from China—has helped push price improvements across the fine and coarse crossbred indicators, as well as the lambswool indicator, which hit another new season high in late May.

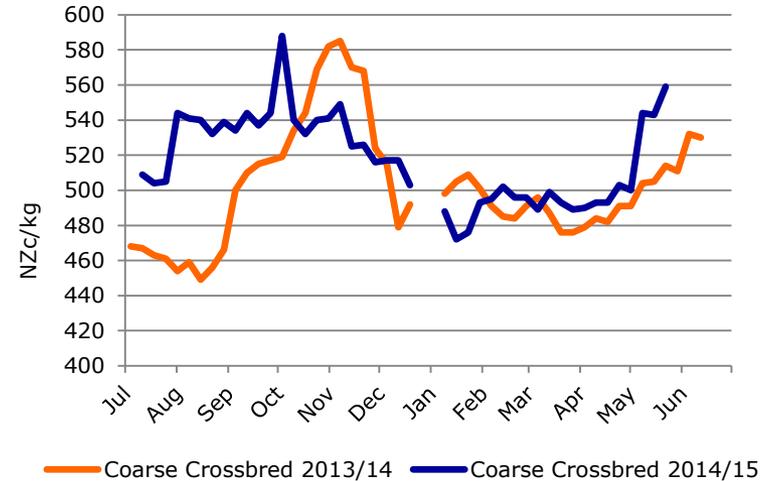
The market strength has been even greater across the Tasman, with the EMI strengthening some 6% over the past month. This has propelled the indicator to AUC 1,240/kg clean, its highest level since 2012. In US dollar terms, gains have been even stronger, up 15% MOM.

NZ exports continue to rise



Source: Stats NZ, Rabobank, 2015

NZ Coarse Crossbred wool prices



Source: Bloomberg, Rabobank, 2015

What to watch:

- Bale numbers offered through the auction system.** While normally slowing as the season moves towards its close, the improved prices in recent weeks may attract some stronger offerings, as has occurred in Australia.



Wine

Market outlook

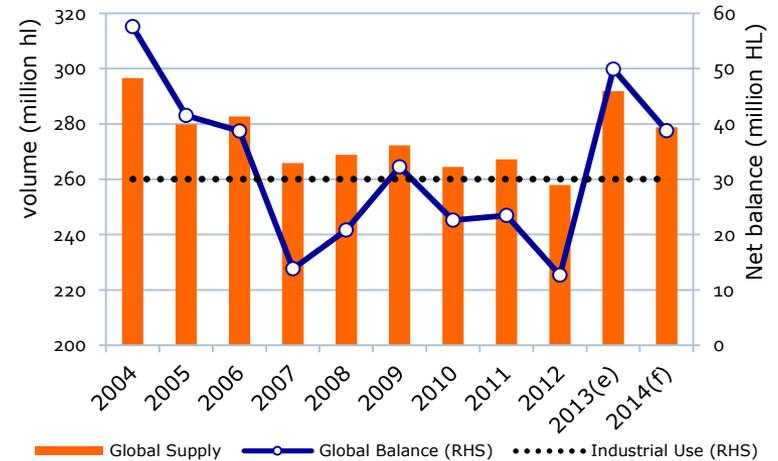
New Zealand wine export volumes increased by 8% in the year to March 2015, surpassing 200m litres for the first time in history. Export shipments in the month of March grew by 16% versus the same month last year, with the share of bulk wine shipments in the export mix continuing to decline, while still remaining at an elevated level.

On a market-by-market basis, growth in annual export volumes to the Australian market continued to pick up in March, stimulated by the decline in the Australian dollar. In other major markets, the strong growth in exports to the US and Canada has begun to ease somewhat in recent months.

An estimate of the global wine supply-and-demand balance in 2014 was recently released by the International Organisation of Vine and Wine (OIV). Constructed at a very high level, the data still provides valuable background to global industry dynamics and the broader competitive landscape at a time when surplus supply exists in the global market.

All in all, a second consecutive surplus was recorded in 2014, albeit a smaller surplus than in the preceding year. Global wine consumption is estimated to have fallen modestly by 1%, while global wine supply is estimated to have fallen by nearly 5%. The countries largely behind the fall in supply were Italy (-17%), Spain (-6%) and Chile (-18%).

Global wine supply-demand, 2004-2014



Source: OIV, 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 rebalance their inventory holdings and recover some pricing power in global markets.



Fertiliser

Market outlook

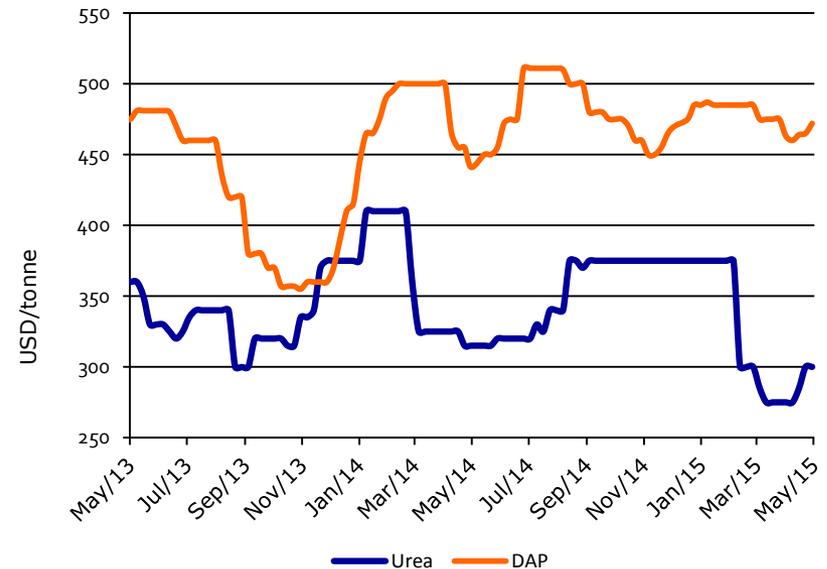
Global urea prices remain below year-ago levels, despite rebounding somewhat in late April and early May.

India recently announced changes to their urea subsidy policy, with the focus shifting to replacing urea imports with higher domestic production.

Global potash benchmark prices remain stable. The potash market looks set for firming prices towards the end of Q2, as demand from India and China will likely push prices higher.

Phosphate prices remain largely steady and are similar to year-ago levels.

Global fertiliser prices



Source: Bloomberg, Rabobank, 2015

What to watch:

- Brazilian farmers appear to be delaying fertilizer purchases as a result of currency rate fluctuations. How much the currency continues to fluctuate and how quickly they enter the market will impact fertilizer prices.
- **Attention is on the Indian monsoon**, as it will impact demand levels for fertilizer.



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 30 April 2015. In a departure from past statements, the Governor signalled an easing bias in their policy stance, commenting that: *"It would be appropriate to lower the OCR if demand weakens, and wage and price-setting outcomes settle at levels lower than is consistent with the inflation target."*

The high level of the New Zealand dollar continues to weigh on the mind of the RBNZ—both from the perspective of its impact on foreign earnings, as well as its deflationary impact on consumer prices in the economy. The Consumer Price Index increased only 0.1% in Q1 2015 versus the corresponding period last year, with the price of tradeable goods (especially petrol) falling 2.8% over the period.

The recent reversal in the fortunes of the US dollar are believed to be relatively short-lived. The mood in financial markets around the exact timing of the anticipated move by the US Federal Reserve to raise interest rates remains fickle. This is likely to continue to translate into heightened volatility in currency markets, until such time as more confidence can be gained in the strength of US economic data.

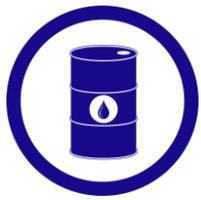
NZD/USD: 12-month price movement



Source: RBNZ, Rabobank, 2015

What to watch:

- **We forecast NZD/USD falling towards 0.70 on a 12-month view.** Weak commodity prices, ongoing signs of slower economic growth in China and signs of an 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 rallied through April and early May, despite persistently high global supply and continued stock builds. Interestingly, US shale oil production showed its first sign of slowing in response to the softer pricing environment, although OPEC production lifted.

The Baltic Dry Index remains at near-record low levels, despite lifting slightly through the early stages of May.

Brent oil



Source: Bloomberg, Rabobank, 2015

Baltic Dry Index



Agri Price Dashboard

As of 21/05/2015	Unit	MOM	Current	Last month	Last year
Grains & Oilseeds					
CBOT Wheat	USc/bu	▲	513	499	671
CBOT Soybeans	USc/bu	▼	941	978	1,470
CBOT Corn	USc/bu	▼	360	378	474
Australian ASX EC Wheat	AUD/tonne	▲	293	291	318
Australian Canola	AUD/tonne	▲	493	490	504
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	489	440	329
Feeder Steer	AUc/kg lwt	▲	266	242	182
North Island Bull 300kg	NZc/kg cwt	▼	535	555	403
South Island Bull 300kg	NZc/kg cwt	▲	510	495	364
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	543	516	572
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	525	515	566
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	490	505	550
Venison markets					
North Island Stag	NZc/kg cwt	▲	645	635	613
South Island Stag	NZc/kg cwt	▲	625	623	620
Dairy markets					
Butter	USD/tonne FOB	▼	3,263	3,350	3,925
Skim Milk Powder	USD/tonne FOB	▼	2,250	2,425	3,938
Whole Milk Powder	USD/tonne FOB	▼	2,450	3,350	4,113
Cheddar	USD/tonne FOB	▲	3,500	3,350	4,600

Agri Price Dashboard

As of 21/05/2015	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	73	70	92
ICE #2 NY Futures (nearby contract)	USc/lb	▲	64.15	63.04	89
Sugar markets					
ICE Sugar #11	USc/lb	▼	12.6	12.7	17.6
ICE Sugar #11 (AUD)	AUD/tonne	▼	352	362	419
Wool markets					
Australian Eastern Market Indicator	AUC/kg	▲	1,240	1,130	1,020
NZ Coarse Crossbred Indicator	NZc/kg	▲	559	503	514
NZ Fine Crossbred indicator	NZc/kg	▲	631	570	542
Fertiliser					
Urea	USD/tonne FOB	▲	300	275	315
DAP	USD/tonne FOB	▲	472	463	441
Potash	USD/tonne FOB	▲	307	305	287
Other					
Baltic Dry Index	1000=1985	▲	606	598	1,010
Brent Crude Oil	USD/bbl	▲	65	63	110
Economics/currency					
AUD	vs. USD	▲	0.788	0.773	0.924
NZD	vs. USD	▼	0.731	0.766	0.857
RBA Official Cash Rate	%	▼	2.00	2.25	2.50
NZRB Official Cash Rate	%	•	3.50	3.50	3.00

Food & Agribusiness Research and Advisory

Luke Chandler

General Manager, Food & Agribusiness Research & Advisory, Australia & New Zealand
+61 2 8115 2217
Luke.Chandler@rabobank.com

Hayley Moynihan

Director of Dairy Research, New Zealand and Asia
+64 3 961 2907
Hayley.Moynihan@rabobank.com

Michael Harvey

Senior Analyst - Dairy & Farm Inputs
+61 3 9940 8407
Michael.Harvey@rabobank.com

Marc Soccio

Senior Analyst – Wine, Horticulture & Rural Economics
+61 3 9940 8437
Marc.Soccio@rabobank.com

Graydon Chong

Senior Analyst - Grains & Oilseeds
+61 2 8115 4091
Graydon.Chong@rabobank.com

Angus Gidley-Baird

Senior Analyst - Animal Proteins
+ 61 2 8115 4058
Angus.Gidley-Baird@rabobank.com

Matthew Costello

Analyst - Animal Proteins
+61 2 8115 2233
Matthew.Costello@rabobank.com

Georgia Twomey

Commodity Analyst
+61 2 8115 2446
Georgia.Twomey@rabobank.com

Emma Higgins

Research Analyst
+64 3 961 2908
Emma.Higgins@rabobank.com

Roselle Pera

Business Co-ordinator
+61 2 8115 4157
Roselle.Pera@rabobank.com

Ben Larkin

Agricultural Analyst
+61 2 8115 2741
Ben.Larkin@rabobank.com

Rabobank New Zealand

Nearest branch call 0800 722 622
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 ©