






# Agribusiness Monthly June 2015

*New Zealand*



**Rabobank**

# Commodity Outlook

Sector	Driver
 <b><u>Dairy</u></b>	Global dairy commodity prices remain weak in a environment of excess supply and sluggish import demand.
 <b><u>Beef</u></b>	Further upside to New Zealand cattle prices is expected in line with the usual seasonal tightening of supply which occurs throughout Q3.
 <b><u>Sheepmeat</u></b>	Weak global sheepmeat demand continues to put downward pressure on farmgate prices, with returns in the South Island the lowest they have been since June 2013.
 <b><u>Wool</u></b>	Continued depreciation of the New Zealand dollar has supported strong demand for New Zealand wool in China, contributing to improvement across all indicators. Just one sale for the season remains to test this strong demand.
 <b><u>Wine</u></b>	The size of the 2015 New Zealand wine grape harvest fell back 27 percent on the prior year.
 <b><u>Fertiliser</u></b>	The outlook for global nutrient benchmark prices remains mostly subdued.
 <b><u>FX</u></b>	The RBNZ board reverses course in June, cutting the cash rate by 25bps to 3.25 percent.
 <b><u>Oil</u></b>	Oil prices have been subdued as the market's focus has shifted back to the global oversupply of crude.

# Climate

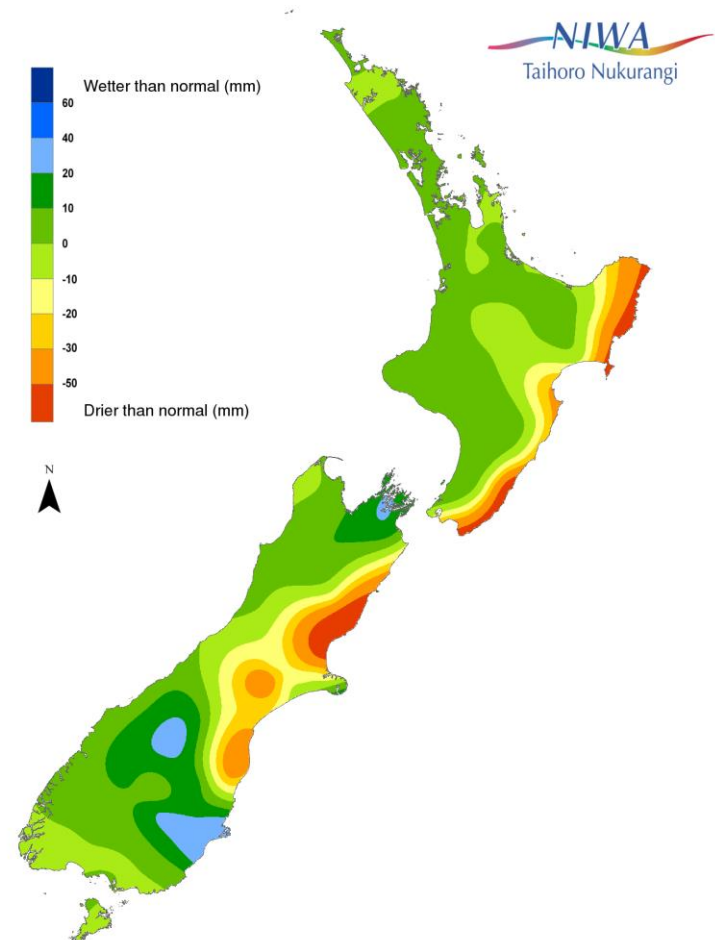
NIWA expects above-average temperatures through to August 2015 for most of New Zealand, except for the north of the North Island, which can expect normal temperatures. Nonetheless, the usual cold snaps and frosts will occur in some parts of the country as winter progresses.

Soil moisture levels are likely to be above normal for the West Coast of the South Island. However, the extremely dry conditions in North Canterbury look set to continue, with NIWA expecting below-normal soil moisture levels in the east of the South Island. The remainder of the country can expect normal soil moisture levels for June to August 2015.

Rainfalls are likely to be normal or below normal for all of New Zealand, except for the West Coast of the South Island, which is more likely to receive normal rainfalls to August 2015.

El Niño weather patterns are now underway in the tropical Pacific. There is a 90 percent chance for the El Niño conditions to continue to August 2015 and NIWA predicts that the likelihood of the El Niño persisting or strengthening going into spring is also very high (above 80 percent).

## Soil Moisture Anomaly (mm), 16 June 2015





# Dairy

## Market Outlook

Global dairy commodity prices remain weak in an environment of excess supply and sluggish import demand.

Production in key export regions rose above year-ago levels in April as weather improved and EU quotas were removed, enabling producers to respond to what remained profitable prices in many regions.

In the face of ongoing demand weakness in China and Russia, other buyers stepped in to take most of this additional production, though buy-side stocks are now large.

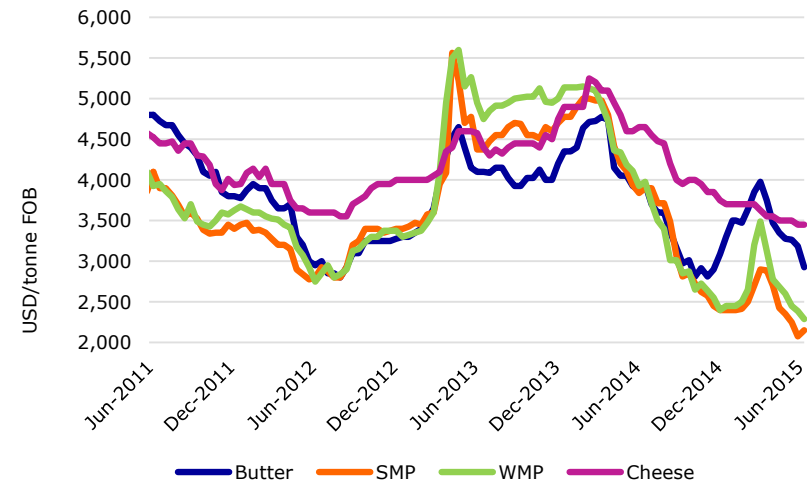
Rabobank expects that the deterioration of market fundamentals will push back the recovery phase for international prices at least until early 2016.

2015/16 opening milk price forecasts by processors in New Zealand range from NZD 4.70 to NZD 5.60/kg MS, an unusually wide range that reflects differing views of the timing for international price recovery and varying returns to different product lines.

### What to watch:

- **Retail prices for dairy products are falling in many economies in line with lower global prices.** Markets will be paying close attention to the impact this has on consumer demand.

## World Dairy Prices



Source: USDA, Rabobank, 2015

### Production growth in key exporting regions:

	Latest month	Last 3 months
<b>EU</b>	0.8% (April)	-0.8%
<b>US</b>	1.8% (April)	1.5%
<b>Argentina</b>	5.5% (April)	0.8%
<b>Australia</b>	2.9% (April)	4.6%
<b>NZ</b>	12% (Estimate for May)	7%



# Beef

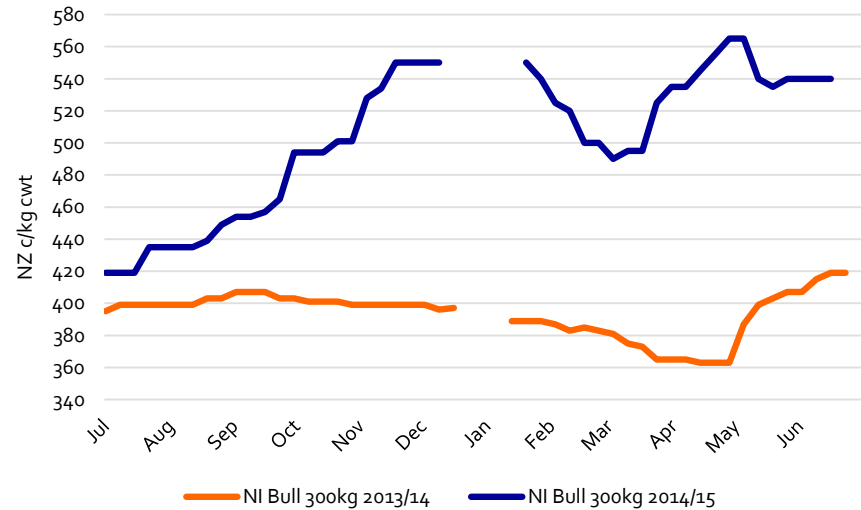
## Market Outlook

Farmgate prices came under pressure in May and into June, due to high supplies from New Zealand and continued high volumes from Australia. Nonetheless, prices sit 30 percent higher than the same week last year (week of June 8), averaging NZD 5.40 kg/cwt. Further upside to cattle prices is expected in line with the usual seasonal tightening of supply which occurs throughout Q3.

Slaughter volumes for May and into June look set to be around similar levels to last year, after large volumes of stock have already been processed year to date. Total cattle slaughter for the processing year (Oct to Apr) sits 11 percent higher YOY, at 1.64 million head.

Exports to the US continue to dominate overall shipments, with April exports reaching 21,451 tonnes swt, up 3 percent YOY. Total exports were steady compared to April last year, at just under 40,000 tonnes swt, with volumes for the year to date (Jan to Apr) up 8 percent YOY, to 177,344 tonnes swt.

## North Island Bull Price



Source: NZX Agrifax, Rabobank, 2015

### What to watch:

**The spread between domestic and imported 90CL prices** (currently around 80 cents/lb) should narrow as New Zealand supply tightens moving into Q3.



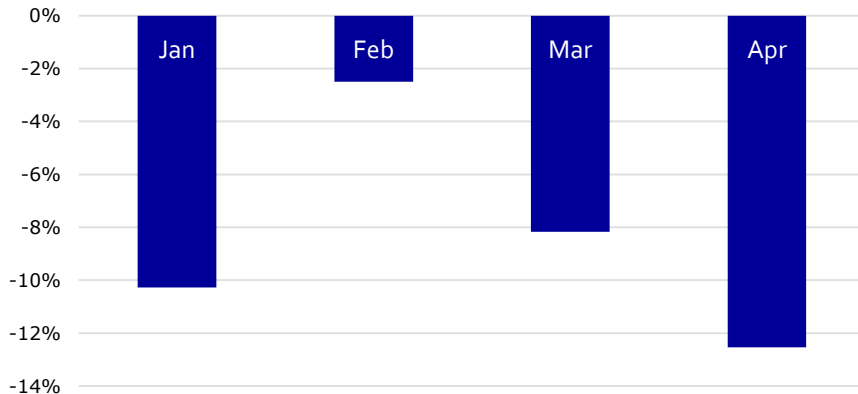
# Sheepmeat

## Market Outlook

Weak global demand continues to put downward pressure on farmgate prices, with returns in the South Island the lowest they have been since June 2013. The South Island lamb price as at the middle of June averaged 16 percent lower YOY, at NZD 4.80 kg/cwt, although returns are slightly higher in the North Island, averaging NZD 5.25 kg/cwt.

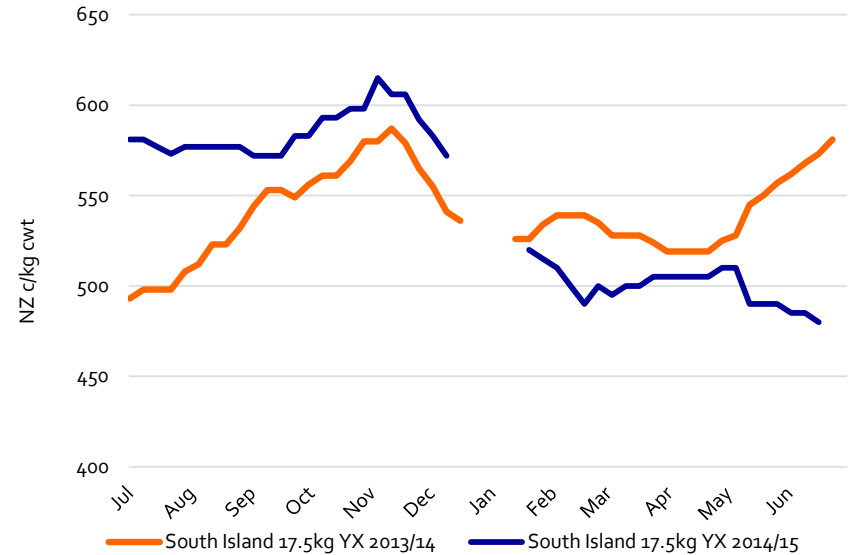
Total sheepmeat exports in April fell 13 percent compared to the same last month, at 37,832 tonnes swt. Exports to the US (1,859 tonnes swt) increased 2 percent YOY, while shipments to China (14,646 tonnes swt) and the EU (12,889 tonnes swt) fell 16 percent and 3 percent, respectively, YOY. Average export returns in April remained relatively steady, averaging NZD 7.12/kg FOB.

## Change in Total New Zealand Export Volumes YOY



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 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

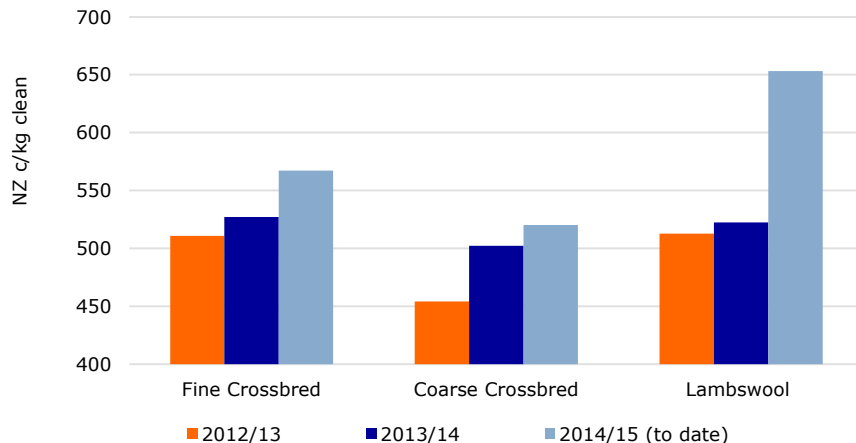
## Market Outlook

The continued depreciation of the New Zealand dollar and strong demand from China has supported the wool market in New Zealand this month, with the fine crossbred and lambswool indicators reaching season highs. The lambswool indicator is now up 39 percent YOY, with an 11 percent gain this month.

The market is mirroring the strong gains seen across the Tasman, where the Australian EMI has reached a four-year high. Strong demand for wool types feeding into the woollen processing system kept Australian crossbred and merino carding prices at record highs throughout the month.

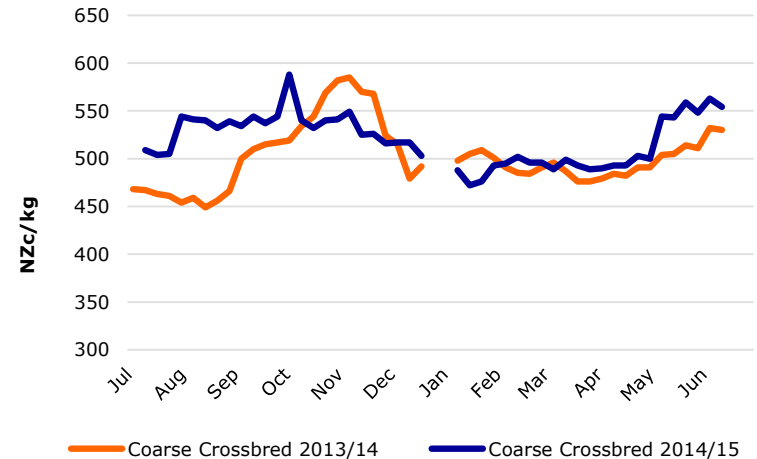
Despite lower volumes through the auction system, down 5 percent YOY, wool exports have increased almost 3 percent from July to April. The value of exports has increased some 10.5 percent compared with last year, reflecting higher prices across all types.

## Average NZ Wool Prices



Source: NZWSI, Rabobank, 2015

## NZ Coarse Crossbred Wool Prices



Source: NZWSI, Rabobank, 2015

### What to watch:

- The momentum leading into the recess.** As the season draws to a close, the bale offerings have weakened with the sale on 18 June cancelled. How the market finishes out the year in the final sale and indeed commences 2015/16 will put the underlying demand to the test.



# Wine

## Market Outlook

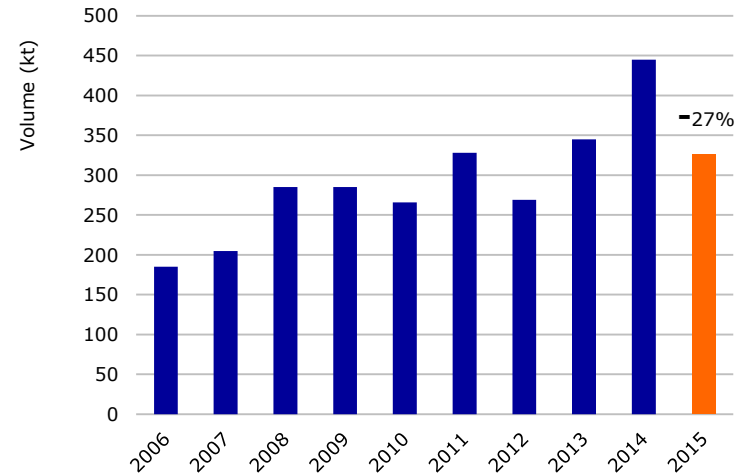
New Zealand wine exports increased by 8 percent in volume and 6 percent in value in the year to April 2015. Export shipments in the month of April grew by 19 percent in volume and 12 percent in value versus the same month last year.

Despite continued strong growth in New Zealand exports, the relative share of the 2014 Sauvignon Blanc harvest that has been exported by this time of the year is tracking significantly behind prior years. Sauvignon Blanc export volumes have grown by 9 percent in the year to April 2015, while the fastest-growing variety in the export markets is Pinot Gris, up by 21 percent over the past year to overtake Chardonnay as New Zealand's third most exported variety.

New Zealand Winegrowers recently announced its preliminary estimate of the size of the 2015 wine grape harvest. Estimated at 326,000 tonnes, this year's harvest is 27 percent down on the prior year's record harvest. This is roughly in line with the 2011 harvest, back when exports were more than 20 percent lower than they are today.

Wine company stock levels surged following the large jump in the size of the 2014 wine harvest. However, it seems as though that inventory will come in handy to maintain supply to global markets now that the 2015 harvest has come in as light as it has.

## New Zealand Wine Grape Harvest, 2006-2015



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





# Fertiliser

## Market Outlook

Global urea markets remain subdued, with minimal upside to prices likely. High global inventories are the main reason.

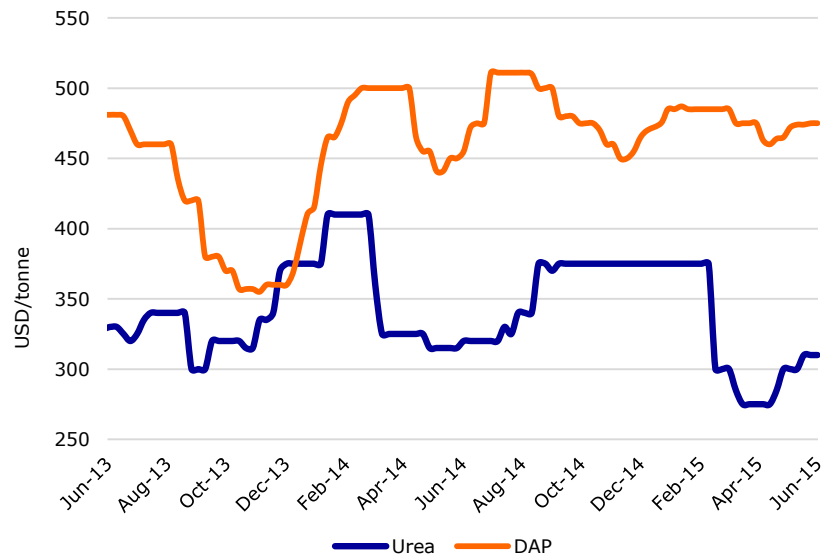
Demand across key import markets is sluggish. This will likely keep global benchmark prices in check.

The conclusion of contract negotiations in India and China mean the world market price is now mostly settled for the time being.

### What to watch:

- Indian demand is subdued as buyers wait for direction of their currency and for monsoon rains.
- Brazilian demand is also subdued as inventories are high.  
**An increase in buying activity across India and Brazil will impact global markets.**
- With subdued global prices, movements in currency will drive the price for local buyers.

## Global Fertiliser Prices



Source: Bloomberg, Rabobank, 2015



FX

## Market Outlook

The Reserve Bank of New Zealand (RBNZ) reversed course on interest rates at its meeting on 11 June 2015, electing to cut the official cash rate by 25bps to 3.25 percent. 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.

New Zealand GDP growth slowed in the March 2015 quarter, estimated at 0.2 percent versus the prior quarter and 2.6 percent versus the same quarter last year, providing further context to the RBNZ's earlier decision to cut interest rates. Economic activity was in part weighed down by weaker production from the agriculture, forestry and fishing sector (-1.4 percent QOQ), which in large part stemmed from lower milk production. The decline in growth in business capital investment also continued in the March quarter (-1.9 percent QOQ), reflecting recent evidence of a fall in business confidence from what have been historically high levels.

The recent reversal in the fortunes of the USD 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 0.67 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 New Zealand dollar against a backdrop of an improving US economy and stronger US dollar.



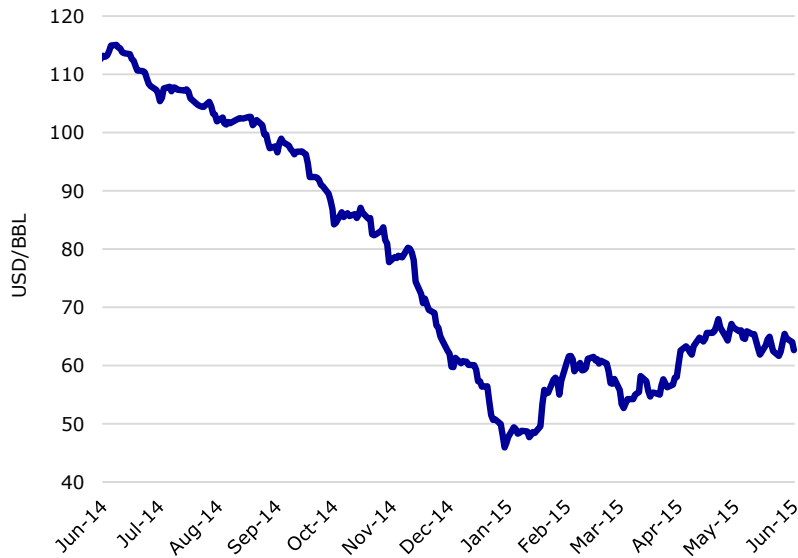
# Oil & Freight

## Market Outlook

Oil prices have been subdued as the market's focus has shifted back to the global oversupply of crude.

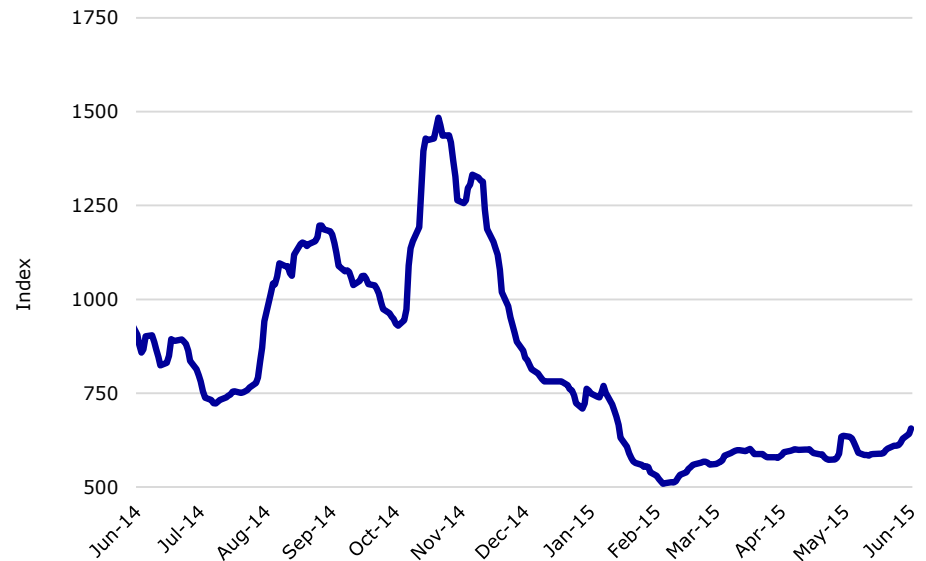
Global freight rates continue to be dragged lower by slowing Chinese economic growth.

### Brent Oil



Source: Bloomberg, Rabobank, 2015

### Baltic Dry Index



# Agri Price Dashboard

As of 22/06/2015	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▼	488	513	585
CBOT soybeans	USc/bushel	▲	978	941	1,416
CBOT corn	USc/bushel	▼	358	360	453
Australian ASX EC Wheat	AUD/tonne	▲	300	293	297
Australian Canola	AUD/tonne	▲	525	493	486
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	501	489	332
Feeder Steer	AUc/kg lwt	▼	260	266	182
North Island Bull 300kg	NZc/kg cwt	▲	540	535	419
South Island Bull 300kg	NZc/kg cwt	•	510	510	374
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	573	575	577
North Island Lamb 17.5kg YX	NZc/kg cwt	•	525	525	588
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	480	490	573
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	▲	650	645	613
South Island Stag	NZc/kg cwt	▲	628	625	620
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▼	2,925	3,263	3,875
Skim Milk Powder	USD/tonne FOB	▼	2,150	2,250	3,838
Whole Milk Powder	USD/tonne FOB	▼	2,288	3,263	3,925
Cheddar	USD/tonne FOB	▲	3,450	3,263	4,650

# Agri Price Dashboard

As of 22/06/2015	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▼	72	72	91
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	64.08	64.15	88.16
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▼	11.3	12.6	17.9
ICE Sugar No.11 (AUD)	AUD/tonne	▼	318	352	421
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▲	1,320	1,240	1,021
NZ Coarse Crossbred Indicator	NZc/kg	▲	554	543	530
NZ Fine Crossbred indicator	NZc/kg	▲	653	619	563
<b>Fertiliser</b>					
Urea	USD/tonne FOB	▲	315	300	320
DAP	USD/tonne FOB	▲	474	472	455
Potash	USD/tonne FOB	▲	307	305	287
<b>Other</b>					
Baltic Dry Index	1000=1985	▲	773	606	904
Brent Crude Oil	USD/bbl	▼	64	65	115
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.780	0.788	0.939
NZD	vs. USD	▼	0.693	0.731	0.870
RBA Official Cash Rate	%	•	2.00	2.00	2.50
NZRB Official Cash Rate	%	▼	3.25	3.50	3.25

# 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)

**Hayley Moynihan**

Director of Dairy Research, New Zealand and Asia  
+64 3 961 2907  
[Hayley.Moynihan@rabobank.com](mailto:Hayley.Moynihan@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)

**Roselle Pera**

Business Co-ordinator  
+61 2 8115 4157  
[Roselle.Pera@rabobank.com](mailto:Roselle.Pera@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 ©