



# Agribusiness Monthly July 2017

*New Zealand*

*Food & Agribusiness Research and Advisory* July 2017



**Rabobank**

# Commodity Outlook



**Dairy**

We expect strong production growth across the new 2017/18 season from New Zealand farmers.



**Beef**

Prices are expected to remain stable through July as the strong NZD is likely to limit any potential price lifts.



**Sheepmeat**

We expect only marginal price lifts over the coming month as processors start to reduce killing capacity.



**Wool**

Wool's auction season closes on a low as Chinese bidders remain uninterested in the coarse wool sector.



**Wine**

Harvest is down as export volumes hold up for now.



**Horticulture**

Domestic retail vegetable prices rose a record 31% in the year ending 31 May as a result of this year's wet autumn.



**Farm Inputs**

Key price fundamentals such as global price, exchange rate, and shipping rates are expected to remain favourable for the next quarter.



**FX**

We look for the New Zealand dollar to soften modestly to around 72 USc by June 2018.



**Oil**

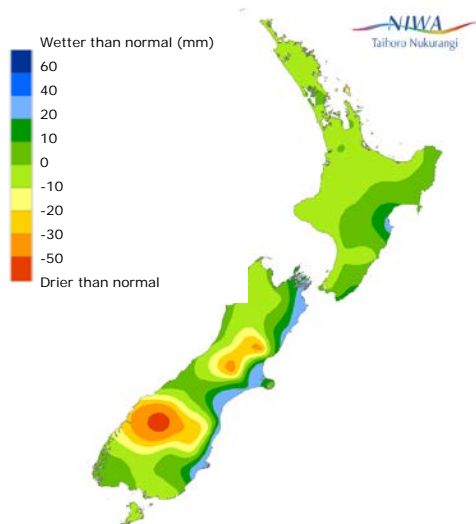
Oil prices are trending downwards as global production grows, undermining OPEC's commitment to production cuts.

# Climate



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## Soil moisture anomaly (mm), 30 June 2017



**NIWA expect there is a high chance temperatures will be above average for most of New Zealand. However, the east and west coasts of the North Island are likely to receive average temperatures until September 2017.**

Rainfall for the three months to September 2017 looks most likely to be in the normal range for most of the country, with the eastern areas of the North Island having a chance of above-normal rainfall through this period.

NIWA has a mixed outlook for soil moisture levels to September 2017. The west of the North Island is likely to be in the near-normal soil moisture range. The east of the North Island is equally likely to be in the normal or above-normal soil moisture range. On the other hand, the bottom of New Zealand is likely to fall within the below-normal soil moisture range through to September 2017.

## What-to-watch

- International guidance suggests that **the Pacific Ocean is now more likely to remain in an ENSO-neutral state (60% chance)** over the next three months.
- **The chance of El Niño conditions developing later in the year through to December 2017 is small, at around 43%.**



# Production Increase for 2017/18

Commodity price improvement in global markets continued through June 2017, underpinned by strong demand for dairy fats. ***Rabobank anticipates the spread in pricing between proteins and fats to continue across much of 2017 and markets to remain elevated but with limited upside.***

Global milk supply taps are slowly being turned on. ***US milk production lifted 1.8% for May 2017 compared to last year, which is the biggest volume of milk produced in the US in a single month.*** This increase in supply growth was driven by more cows (+71,000 head) as well as higher milk yields.

New Zealand milk production for the 2016/17 season closed out just 1.1% lower than last season's production volume. The new 2017/18 milk production season is one month in and ***the national milk supply is expected to return to growth. Fonterra expects milk supply to lift 3% across the season, while Rabobank is anticipating national milk production growth of between 2% to 3%.***

***The EU Commission is developing a program for liquidating the SMP intervention stocks over the coming months.*** The scheme, subject to public consultation over the next few weeks, proposes that the EU Commission would allocate intervention stocks to EU member states interested in organising tenders for their sale, with any financial gains to be used for the purchase of food for the most deprived.

## What to watch

- Chinese dairy imports. With only modest production growth forecast coupled with consumption growth (albeit modest), ***Rabobank expects to see sizeable Chinese import growth in the second half of 2017*** in order to rebalance the market and inventory pipelines.
- Dairy fat substitution. ***With global dairy fat prices continuing to defy gravity, continued high prices raise the question of dairy fat substitution.*** Some end users may be tempted to substitute dairy fats for cheaper vegetable oil alternatives where possible.

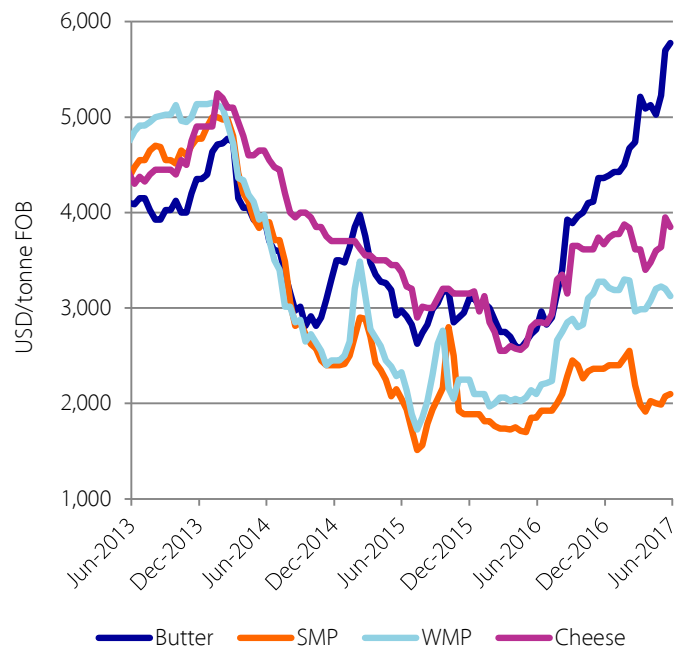
Dairy

# Global Markets Are Stable despite Supply Improving



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## Global dairy prices, 2013-2017



Source: USDA, Rabobank 2017

## Production growth of key exporting regions

	Latest month	Last three months
<b>EU</b>	0.5% (April)	-0.3%
<b>US</b>	2.0% (April)	2.0%
<b>Australia</b>	-2.8% (May)	-4.7%
<b>NZ</b>	-1% (2016/17 full season)	

Source: Rabobank 2017



# Beef

## Stable Winter Pricing Continues

***Strong cattle prices continued through June, sitting slightly ahead of where they were at this time last year.*** At the start of July, the North Island bull price averaged NZD 5.65/kg cwt (1% higher MOM and 4% higher YOY). The South Island bull price averaged NZD 5.20/kg cwt (1% higher MOM and 6% higher YOY).

***Total beef slaughter numbers are still behind on last season.*** Despite a significant increase in the number of cows killed during May, New Zealand's season-to-date cow kill is still down 17%, leading to overall beef slaughter numbers being back 8%.

***Recent global beef market disruptions are unlikely to have an immediate impact on New Zealand cattle prices.*** While the US suspension of Brazilian beef imports, a new trade agreement between the US and China, and a proposed ban on slaughter in India may have long-term implications for global beef trade, these developments are not expected to have any material impact on New Zealand's beef exports in the short term.

The ***New Zealand dollar continued to appreciate against the US dollar during June***, and sat just below USD 0.73 as at 10<sup>th</sup> July.

The strengthening New Zealand dollar is likely to limit any potential lifts in farmgate prices over the coming month, with ***prices expected to remain steady through July.***

### What to watch

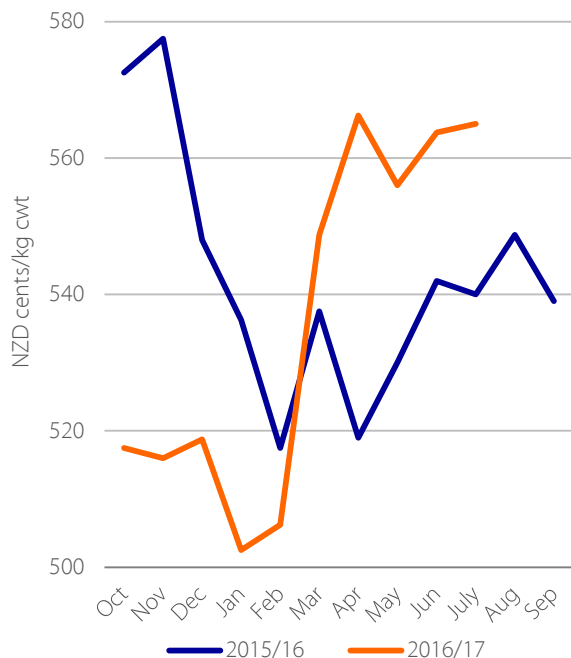
- **US suspension of Brazilian beef imports.** In late June, the USDA imposed a ban on all Brazilian beef imports into the US. While it is still uncertain exactly why the USDA have suspended imports, the Brazilian beef industry will be keen to regain access as soon as possible to limit any potential reputational damage with consumers. Brazilian beef exports to the US for the first four months of 2017 totaled 21,470 tonnes, while New Zealand beef exports to the US over the same period totaled 91,140 tonnes.

# North Island Beef Price and New Zealand Beef Slaughter



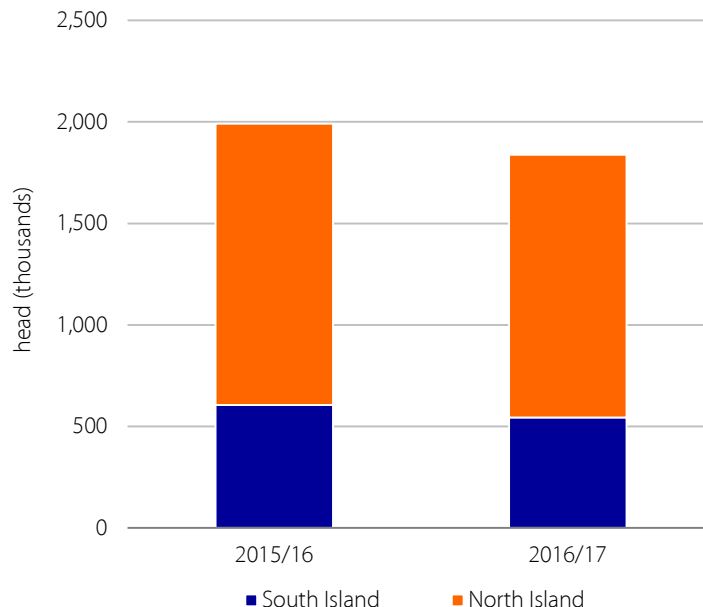
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**North Island Bull Price, 2015/16-2016/17**



Source: NZX AgriHQ, Rabobank 2017

**New Zealand Export Beef Slaughter (YTD as of 3 June), 2015/16-2016/17**



Source: NZ Meat Board, Rabobank 2017





# Lamb Prices Continue to Push Higher

**Farmgate prices continued to rise over the last month but at a subdued pace, as domestic supply tightens through winter.** As of early July, the slaughter price in the North Island averaged NZD 6.65/kg cwt, while South Island lamb averaged NZD 6.50/kg cwt. For the North Island, this is up 4% MOM and 24% YOY, while South Island prices are up 2% MOM and 27% YOY.

**May saw a significant lift in the number of lambs processed** compared to the same month last year (an approximate 10% increase). However, the cumulative season-to-date lamb kill is down 6%.

**Mutton prices have continued to strengthen** over the last month (up 4% MOM) and are now sitting up almost 70% YOY.

There are **signs in-market prices for some cuts may have peaked** with wholesale prices for UK Legs dropping 7% over the month of June. French Rack prices remained stable (1% increase).

With processors starting to reduce capacity to match reduced supply, easing procurement pressures, and the NZD continuing to strengthen, **Rabobank expects to see only marginal lifts in schedule prices over the next month.**

## Sheepmeat

### What to watch

- **Chilled meat exports to China.** On 30 June, it was announced that the first export consignment of chilled meat had left New Zealand's shores bound for China as part of a six-month trial. This marks a significant step towards enabling permanent access. It is predicted that chilled meat exports into China could receive a premium of up to 60% over frozen meat exports .

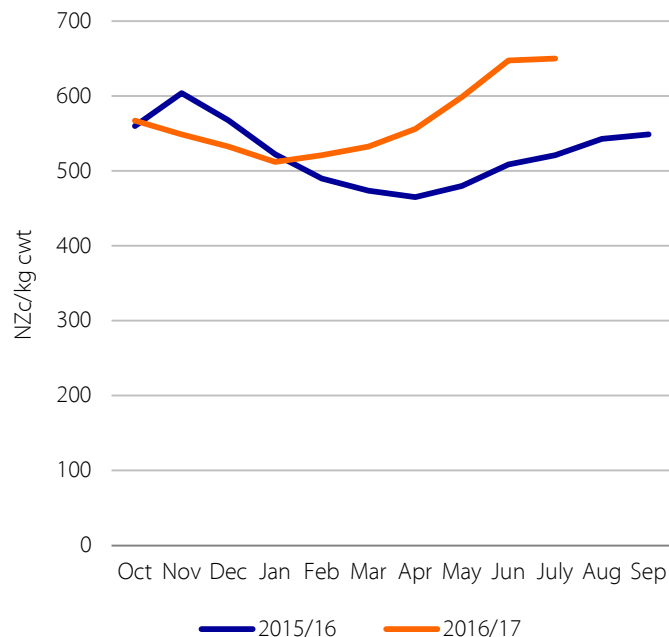


# South Island Lamb Price and New Zealand Lamb Slaughter

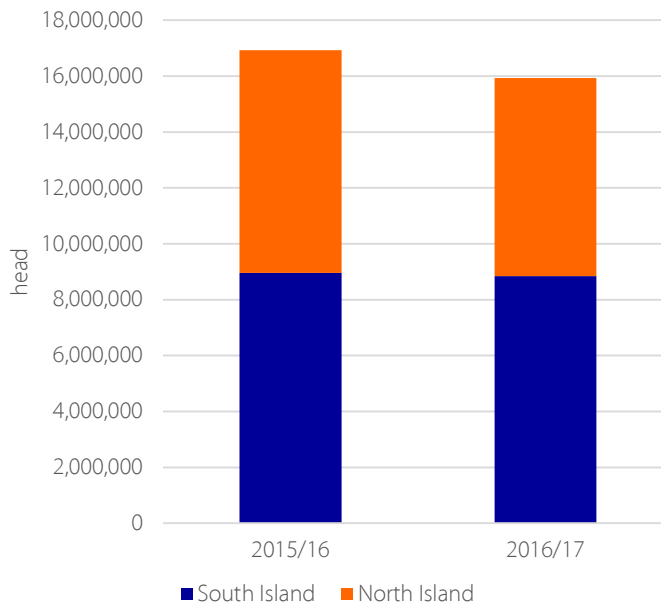


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**South Island Lamb Price, 2015/16-2016/17**



**New Zealand Lamb Slaughter (YTD – 3 June), 2015/16-2016/17**



Source: NZX AgriHQ, Rabobank 2017

Source: NZ Meat Board, Rabobank 2017



Wool

# Wool's Woes Worsen

***The 2016/17 wool season is showing no sign of improvement as it draws to a close.*** Prices fell in the final auction week between 1% and 3% across all types. Buyers' ability to be selective at auction saw fleeces with high vegetable matter content or colour readings worst affected. A strengthening New Zealand dollar also contributed to the squeeze of sluggish bidding activity.

***Present prices are well below sustainable levels.*** The coarse crossbred indicator, at NZc 340/kg, is around 35% lower than this time last year. The YOY differential is slightly smaller for the fine crossbred indicator, presently 30% lower YOY at NZc 395/kg. High pass-in rates are seeing unsold stocks accumulate quickly in wool stores.

***Exports of New Zealand wool to China have declined 37% through 2016-17.*** Uruguay and the United Kingdom are also struggling to command Chinese buyer attention. However, Australian wool volumes into China have grown considerably in the same period. This disparity between coarse and fine producers reflects clothing being the only exception to China's overall trend of decreasing export of wool products. Wool garment exports have boomed 144% higher YOY to April, with the majority of growth in emerging markets in Nigeria, Saudi Arabia, India, and Taiwan.

***Until China's wool stocks deplete, crossbred wool prices cannot recover.*** No other market has the capacity to absorb the volumes that diminished Chinese interest has left.

## What to watch

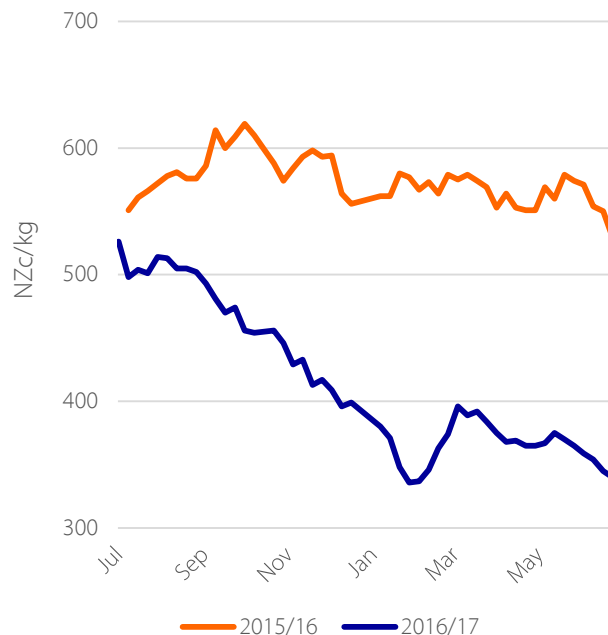
- ***2016-17 export volumes into South Asia have increased by 2,000 tonnes compared to the previous season,*** being the only export market to grow this year. The Indian textile industry has grown at 10% per annum from 2013 to 2016, led by bedding and home décor products, and is predicted to double in size within 10 years. While South Asia took less than a third of the New Zealand wool of its northern neighbours, it should provide some continued demand for coarse wool.

# Wool's Season Closes on a Low

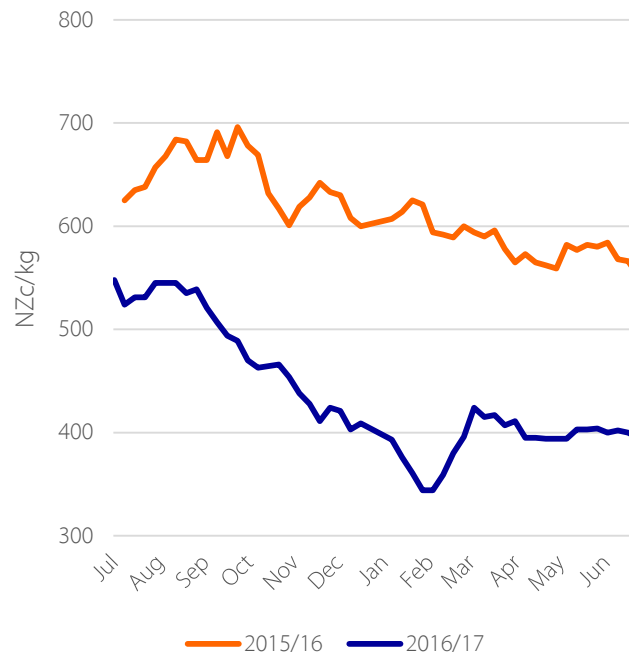


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## Coarse Crossbred Indicator



## Fine Crossbred Indicator





# Harvest Down as Export Volumes Hold up for Now

The official New Zealand Winegrowers vintage survey released in mid-June put the **2017 grape harvest at 396,000 tonnes, down 9% on the prior year**. Adverse weather was the main culprit.

Among the key production regions, Marlborough production was off 6%, with much greater falls registered in Hawkes Bay (-22%) and Nelson (-15%),

The industry continues to capitalise on strong demand conditions to ship out the prior year's record crop. The volume of **New Zealand wine export volumes for May rose 20% YOY**.

**But the value of outgoing shipments for May only grew 1% YOY** as the average price of wine exports slipped below the exceptional levels seen a year prior.

The average value of wine exported from New Zealand came in at NZD 6.73/litre in May.

**The shift to bulk wine and falling value of the British pound have been significant contributors to falling average exports values.**

## What to watch

- The **NZD/GBP** is likely to see considerable volatility in the coming 12 months, as Britain's central bank juggles how to manage a strengthening economy with the uncertainty caused by a minority government and Brexit negotiations.

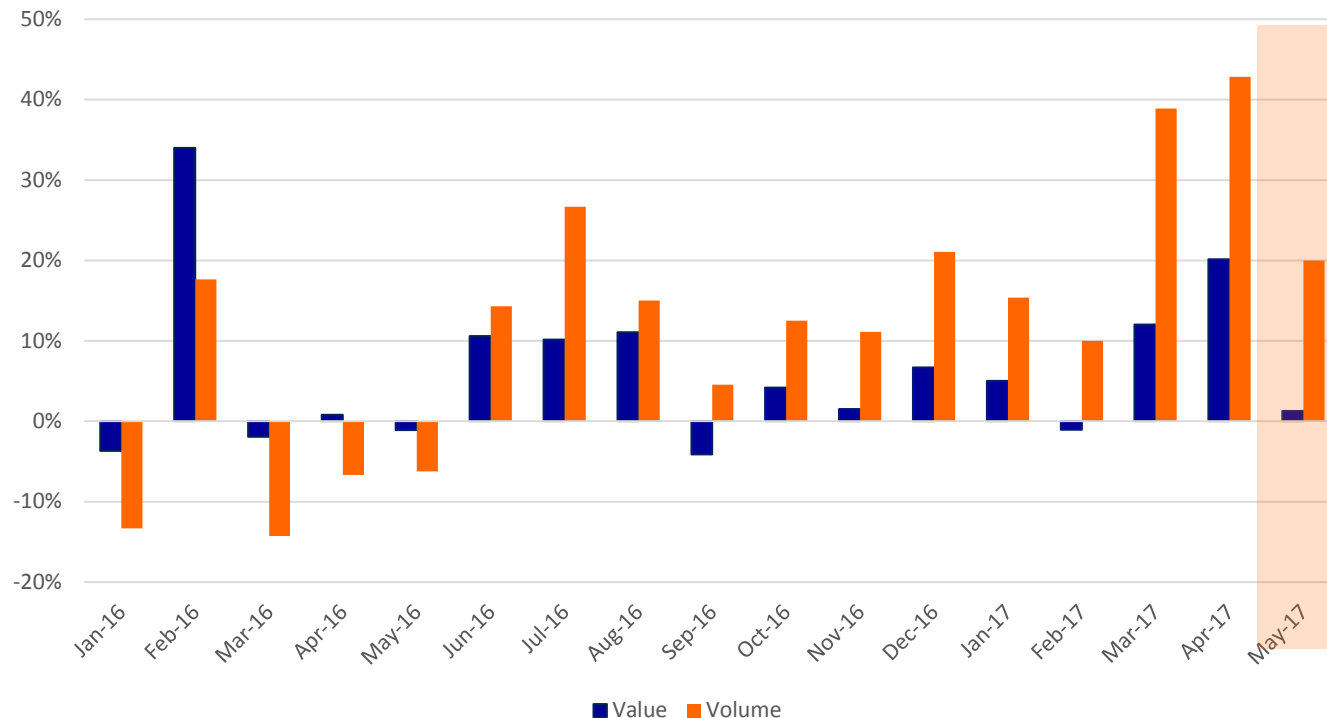
Wine

# Wine Export Growth Eases in May



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**YOY Growth in NZ Wine Exports by Volume and Value, Jan 2016 – May 2017**



Source: Statistics NZ, Rabobank 2017



# Record Increase in Vegetable Prices

New Zealand statistics show that **domestic retail prices for vegetables rose 31% in the year ending May 31. This is the largest annual increase for vegetables on record**, pushing vegetable prices to their highest level in almost six years. The price increase is the result of this year's wet autumn, which contrasts with warmer-than-usual weather and cheaper prices last year.

**Fruit retail prices fell 5.7%** over the same period.

Overall, total fresh and processed **vegetable export revenue was up slightly in the year to June 2017**. While export volumes did fall, this was offset by the higher prices received for onions and squash.

**Tight green fruit supply, and growing SunGold demand, sees Zespri struggle to meet global market demand.** Inconsistent pollination last spring, combined with this season's later harvest, has seen the supply of green fruit trays drop from 83m last year to just 69m this season. **However, 55m trays of SunGold were harvested as the demand for this higher-value fruit continues to grow**, mainly driven by China, where sales volumes increased 50% last year and 40% this year.

**Exports of avocados reached record levels for both volume and value**, with export volumes expected to reach 4.8m trays and values to reach NZD148m in the year ending June 2017.

## What to watch

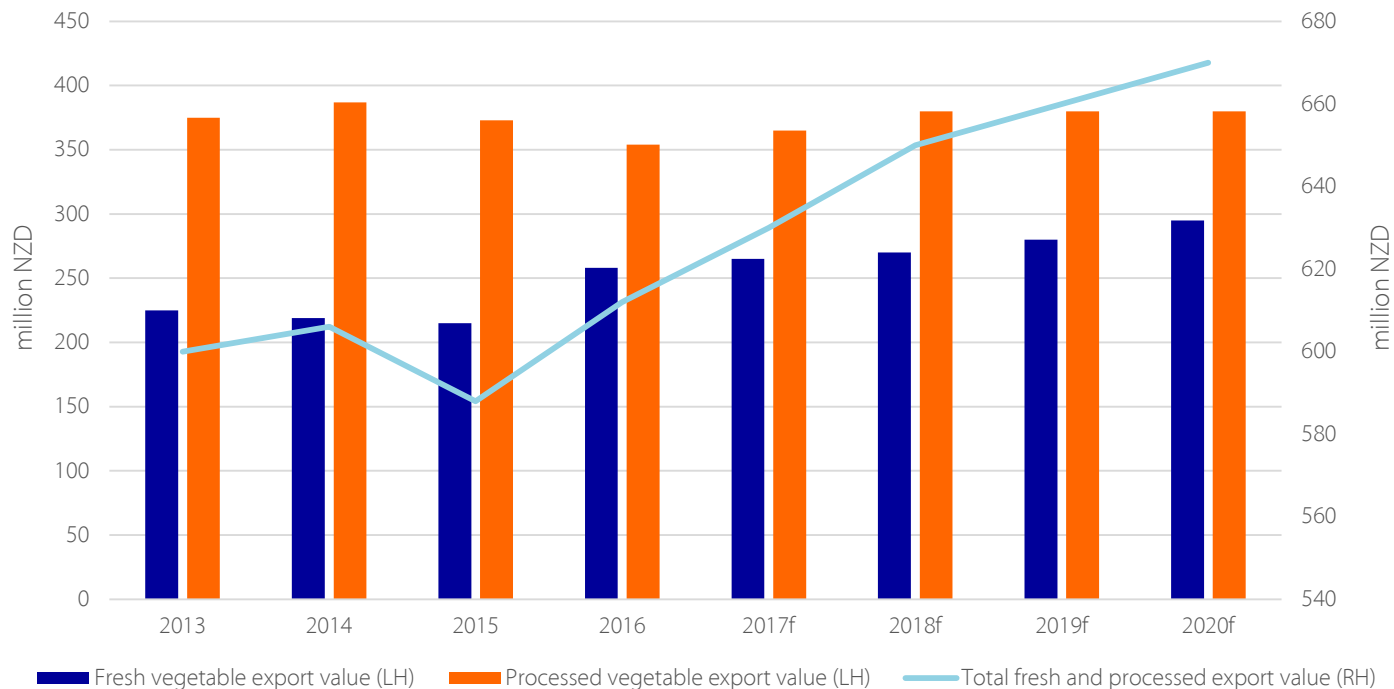
- **Kiwifruit Claim group vs the government.** On 7 August, the High Court at Wellington will begin hearing the case of 212 growers who claim the government's biosecurity failures lead to the 2010 PSA outbreak, adversely affecting their kiwifruit businesses. The case is expected to run for 13 weeks.

# Horticulture

# Vegetable Export Volumes and Value, 2013-2020f



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Source: Statistics NZ, MPI, Rabobank 2017





# Local Prices near Five-Year Lows

Low trading activity and low prices in global fertiliser markets continued throughout June. The end of the buying season in the northern hemisphere, regional holidays, and religious festivals accounted for the subdued activity, although ultimately the **global demand-supply balance is keeping prices low and relatively steady for the moment.**

**A bearish market view is consistent across the nutrient complex.** Urea prices remained stable throughout June and are expected to remain so in the near term. Phosphate buyers are holding off purchases, anticipating weaker prices as new capacity comes online in Q4 2017. Negotiations for the Chinese potash contract are taking longer than anticipated, with differing price views between importers and producers stalling a settlement date.

Lower global pricing continued to flow through to farmgate prices. **Locally, urea fell below the 500 NZD mark in June**, marginally above the five-year lows seen in October 2016. **Local DAP and Potash prices also fell to new five-year lows.** Local demand, and subsequently farmgate pricing, hinges on purchasing behaviour of dairy farmers ahead of the spring peak.

Key price fundamentals such as **global price, exchange rate, and shipping rates are expected to remain favourable for the next quarter**, helping farmers meet spring demands.

## What to watch

- **Amazon's acquisition of Whole Foods** and with it the ability to directly access consumer grocery data builds an interesting opportunity for data flow from the consumer back up the chain to the producer, ultimately improving farmers' ability to make data-driven production decisions.

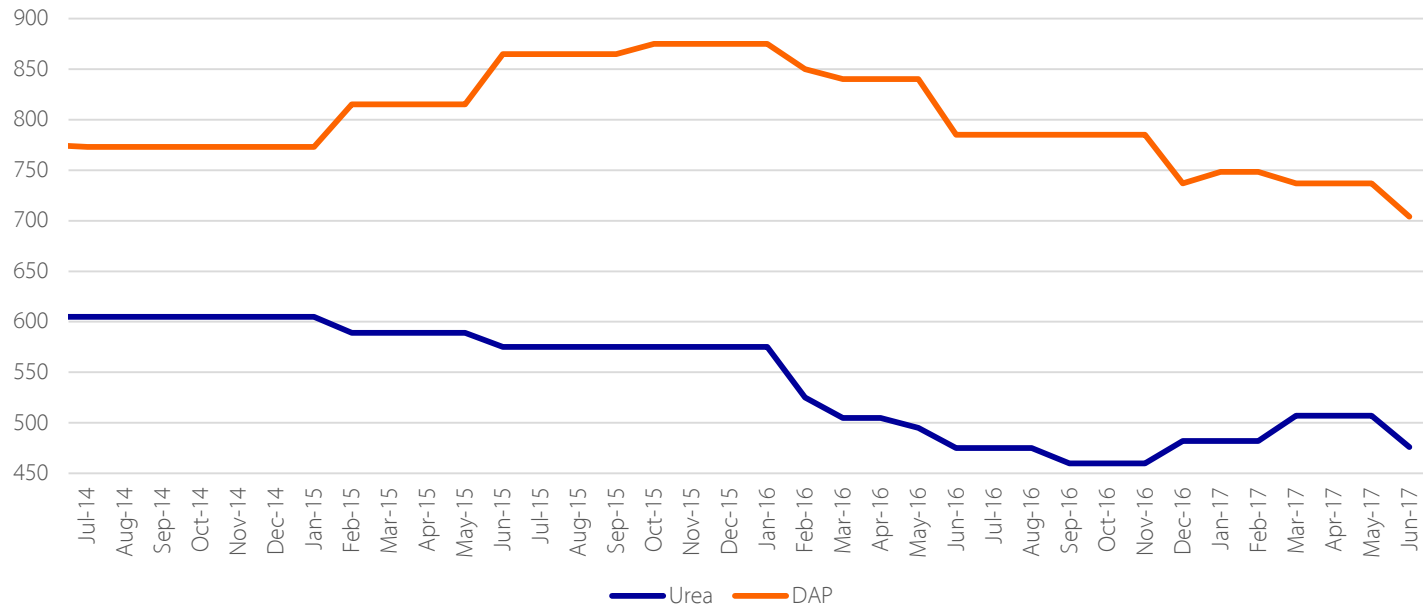
## Farm Inputs

# Prices Fall as Spring Peak Approaches



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**Reported monthly local retail Urea and DAP prices (NZD/tonne) , July 2014 – June 2017**



Source: Ravensdown, Rabobank 2017

*Drivers of local retail prices, including global benchmarks, exchange rate, and shipping rates, are expected to remain favourable for end users.*



# Central Banks Signal Tightening

In what appears like a coordinated initiative, in the closing days of June ***the central bankers of the Eurozone, UK, and Canada all signalled that monetary policy tightening was likely to become necessary*** before too long. With the US already lifting interest rates, markets began to contemplate the potential for the end of a period of exceptionally cheap money.

While keen to act before any inflation genie is released from the bottle, ***central bankers will need to approach any shift in monetary policy extremely carefully***. Wages remain stagnant in many countries, while declining productivity in the OECD and China makes it harder to generate wage growth. Inflation is still falling short of targets in many regions. Meantime, debt loads carried in many countries remain extremely high, meaning that rate hikes have considerable potential to cause damage.

The ***NZD rose 2.2 cents against the Greenback in June***, to close the month at 73.06 USc, before softening to 72.74 USc by 10<sup>th</sup> July. The Reserve Bank of New Zealand kept rates on hold at 1.75% in late June, saying it expected monetary policy to remain accommodative for a considerable period. Nonetheless, markets seem to have interpreted a positive tone in the phrasing of the statements from the meeting.

With our 12-month horizon now rolling into June 2018, we see potential for one more US rate rise late in the period. With NZ rates less likely to rise, we look for ***the New Zealand dollar to soften modestly to around 72 USc by June 2018*** as a result of these dynamics.

## What to watch

- ***Wage growth***. A more hawkish tone from many central banks is predicated mainly on the expected arrival of inflationary pressure as their economies pick up and capacity utilisation rises. But until real wage growth is evident, we are unlikely to see too much action in any monetary policy tightening phase.

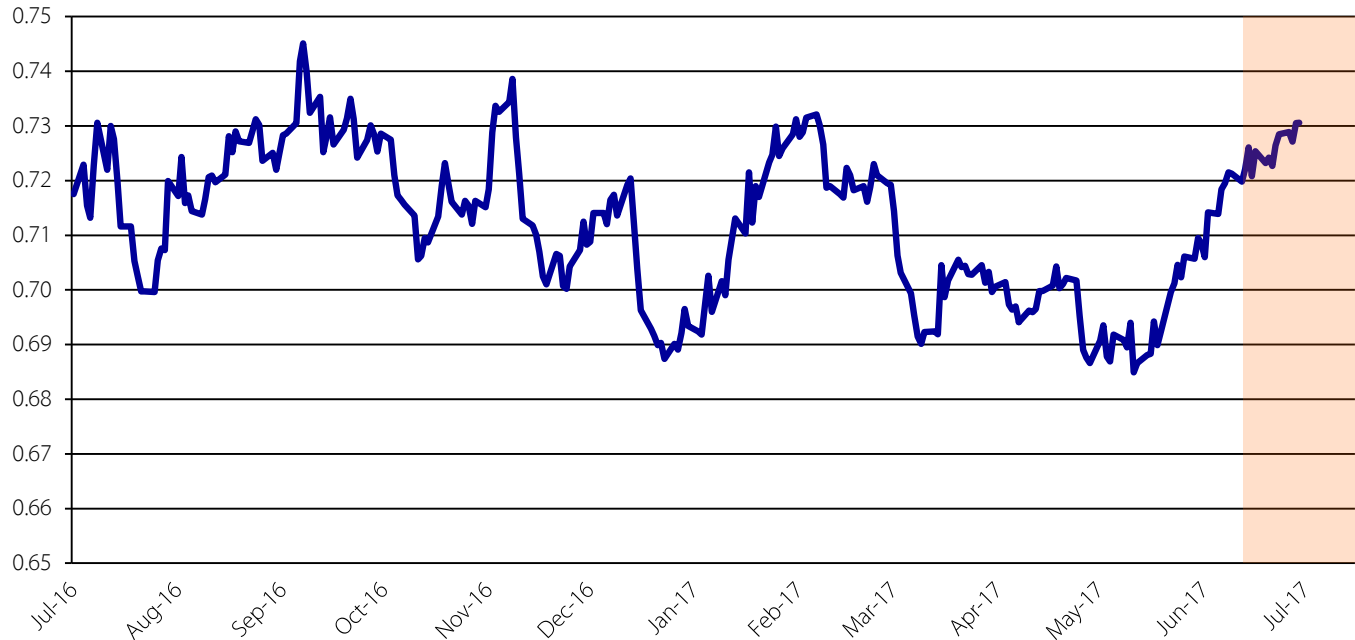
FX

# New Zealand Dollar up again



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***New Zealand/US dollar cross rate, July 2016 – July 2017***



Source: RBA, Rabobank 2017



# Oil Facing A Global Glut

***The oil market has suffered the largest 1H price fall in two decades.*** Traditionally a period of price rises, the first half 2017 has seen crude fall 20% since February with only brief rallies. Brent crude is at USD 47.31/bbl at the time of writing, making small gains on June's low of USD 44.82/bbl.

***Oil's major players are left with few tools to increase prices*** as investors remain unmoved by OPEC's production cuts. With rising production in exempt nations Nigeria and Libya, and the US shale resurgence now at 9.35m barrels per day, any OPEC reductions are being more than offset by the global supply.

***Diesel retail prices are now at their lowest levels since August 2016.*** The price reductions through June have been twice as big as those seen in the oil market, reducing fuel company margins.

***The Baltic Dry Index (BDI) has been under pressure for the most part of June*** as the northern hemisphere summer approaches. Shipping demand tapers with less demand for raw materials, particularly those for construction as hot weather slows activity. There has been weakness in hire rates for all BDI component ships, but an upturn later in the month stems from a longer term pick-up in Panamax bookings and a regroup of Capesize rates.

***Rates have improved dramatically compared to last year.*** Twelve-month and six-month rates have hit highs of USD 12,650 and USD 14,000 per day respectively, doubling the USD 6,300 and USD 7,000 daily for the same period in 2016. While these rates are encouraging, overcapacity pressures loom with 142 new Panamaxes entering the fleet in 2017.

## ***What to watch***

- ***Political tensions are rising in a number of oil-producing nations***, but this is not pushing oil prices higher as would be expected. A faith in the ability of US shale to meet any supply shortages is neutralising the impact, reducing the link between political unrest and oil price premiums.

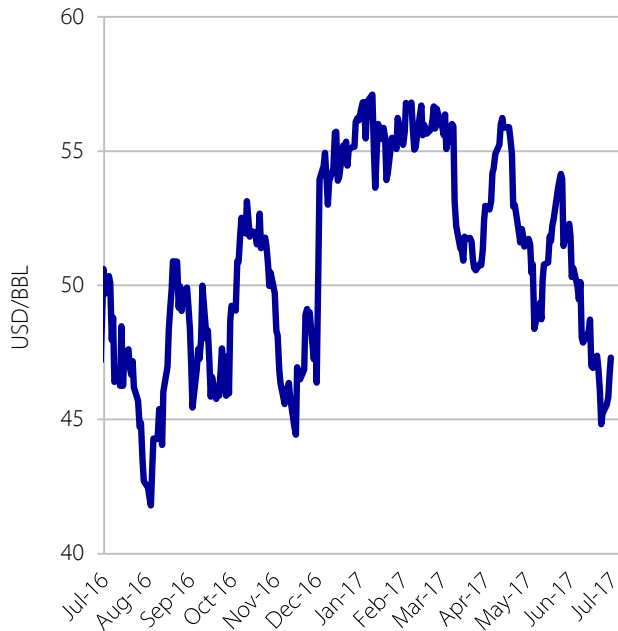
Oil &  
Freight

# Oil & Freight down with Over-Supply



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**Brent Crude Oil, July 2016 – July 2017**



Source: Bloomberg, Rabobank 2017

**Baltic Dry Index, July 2016 – July 2017**



Source: Bloomberg, Rabobank 2017

# Agri Price Dashboard

As of 10/07/2017	Unit		MOM	Current	Last month	Last year
Grains & oilseeds						
CBOT wheat	USc/bushel		▲	515	446	421
CBOT soybeans	USc/bushel		▲	1,016	942	1,090
CBOT corn	USc/bushel		▲	388	388	350
Australian ASX EC Wheat	AUD/tonne		▲	302	259	235
Australian Canola	AUD/tonne		▲	497	494	484
Beef markets						
Eastern Young Cattle Indicator	AUc/kg cwt		▼	611	643	658
Feeder Steer	AUc/kg lwt		▼	340	346	358
North Island Bull 300kg	NZc/kg cwt		▲	565	560	540
South Island Bull 300kg	NZc/kg cwt		▲	520	515	490
Sheepmeat markets						
Eastern States Trade Lamb Indicator	AUc/kg cwt		▼	578	670	618
North Island Lamb 17.5kg YX	NZc/kg cwt		▲	665	640	535
South Island Lamb 17.5kg YX	NZc/kg cwt		▲	650	640	510
Venison markets						
North Island Stag	NZc/kg cwt		▲	865	396	770
South Island Stag	NZc/kg cwt		▲	910	845	770
Dairy Markets						
Butter	USD/tonne FOB		▲	5,775	5,700	2,775
Skim Milk Powder	USD/tonne FOB		▲	2,100	2,075	1,850
Whole Milk Powder	USD/tonne FOB		▼	3,125	3,200	2,100
Cheddar	USD/tonne FOB		▼	3,850	3,950	2,850



# Agri Price Dashboard

As of 10/07/2017	Unit		MOM	Current	Last month	Last year
Cotton markets						
Cotlook A Index	USc/lb		▼	85	87	76
ICE No.2 NY Futures (nearby contract)	USc/lb		▼	75.3	75.69	65.92
Sugar markets						
ICE Sugar No.11	USc/lb		▼	14.2	14.3	19.6
ICE Sugar No.11 (AUD)	AUD/tonne		▼	410	418	570
Wool markets						
Australian Eastern Market Indicator	AUc/kg		▲	1,524	1,478	1,320
NZ Coarse Crossbred Indicator	NZc/kg		▼	340	359	529
NZ Fine Crossbred indicator	NZc/kg		▼	395	400	552
Fertiliser						
Urea	USD/tonne FOB		▼	190	205	195
DAP	USD/tonne FOB		▼	344	355	345
Potash	USD/tonne FOB		▲	236	232	315
Other						
Baltic Dry Index	1000=1985		▼	822	849	703
Brent Crude Oil	USD/bbl		▼	48	50	49
Economics/currency						
AUD	vs. USD		▲	0.760	0.753	0.757
NZD	vs. USD		▲	0.727	0.721	0.731
RBA Official Cash Rate	%		•	1.50	1.50	1.75
NZRB Official Cash Rate	%		•	1.75	1.75	2.25

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