



Agribusiness Monthly April 2018

New Zealand

Food & Agribusiness Research and Advisory April 2018



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Commodity Outlook



Dairy

The seasonal peak in the Northern Hemisphere looms as a pressure point for the global market in Q2 2018.



Beef

Rabobank expects that the increasing supply of cattle, combined with the persistently high NZD, will put further downward pressure on prices throughout April.



Sheepmeat

Despite the increasing level of supply, sufficient competition in the market will keep schedule prices firm throughout April.



Wool

Improved demand will be important to underpin potential market improvement through 2018.



Wine

The NZ wine industry is unlikely to benefit much from a US/China trade war.



Horticulture

Rising demand in Asia is creating opportunities for NZ avocado growers.



Fertiliser

Nitrogen prices set to remain subdued prior to spring orders.



FX

Rising US central bank rates and a looming trade war with China will negatively affect the NZD/USD cross rate in 2018.



Oil

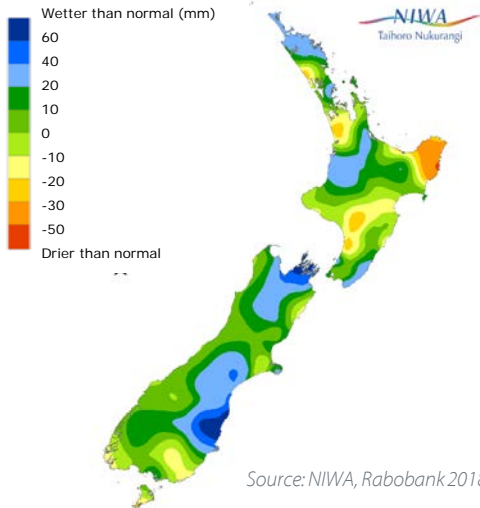
Crude oil price increases 10%, continuing its upward trend, while the BDI plummets following trade war threat.

Climate



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Soil moisture anomaly (mm), 8 April 2018



NIWA are forecasting with high confidence that temperatures will be above average for all regions of New Zealand through to June 2018.

Rainfall totals from April through to June 2018 are expected to be above normal for the north and the east of the North Island, with the west of the South Island more likely to have near normal temperatures. For the rest of the country, rainfall is likely to be near normal (40% chance), or above normal (35%-40%).

NIWA's soil moisture forecasts for April 2018 to June 2018 are variable across New Zealand. The north and east of the North Island and the north of the South Island are expected to have above-normal soil moisture levels. The west of the North Island is likely to have normal (40% chance) or above-normal (40% chance) soil moisture levels, while normal levels are likely for the west and the east of the South Island.

What to watch

- **More rainfall for the North and top of the South Islands** – NIWA notes that despite **La nina conditions** easing, there may be lower airflow pressures than normal over the coming weeks up to June 2018, making significant rainfall events on the North Island and upper South Island more likely.



Less Production Pressure from EU

New Zealand milk production is dropping back on last season, with February 2018 collections behind by 2.2% for the month compared to February 2017. Season-to-date milk production now lags 0.2% behind the prior season. Weather conditions have improved in most key dairying areas over recent weeks and **Rabobank expects total milk production for the full 2017/18 season to land only slightly behind last season, at -1% YOY.**

There is **a risk of emerging downward pressure on global commodity prices over the coming weeks.** While ongoing China and South East Asia purchasing will help, the anticipated seasonal flush in the Northern Hemisphere will weigh on commodity prices over the next few months.

Weaker commodity prices have flowed through to farmgate milk prices in the Northern Hemisphere since the beginning of the year and **more margin pressure in the EU and the US is anticipated across Q2.** Tighter margins will impact Northern Hemisphere milk output over the seasonal peak and **Rabobank expects EU milk production in particular to trend lower throughout the remainder of 2018.**

Dairy

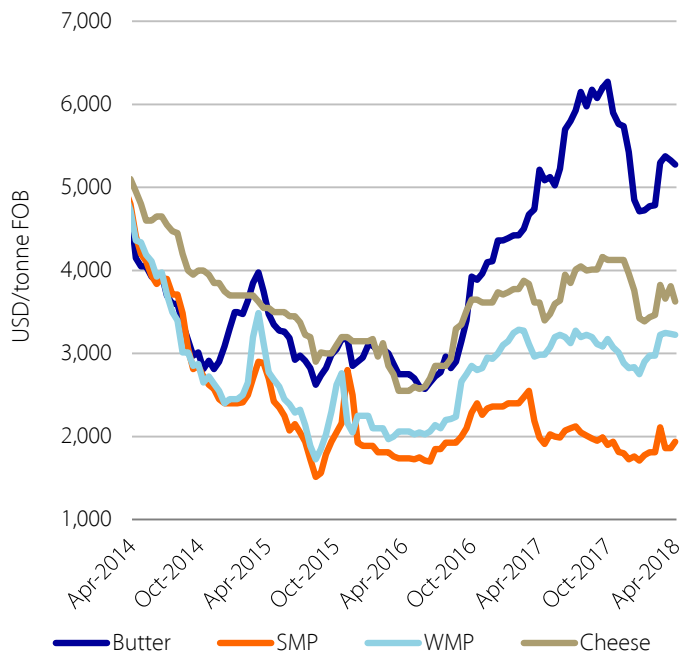
What to watch

- **Opening forecasts for next season (2018/19).** Speculation is building and processors may choose to be conservative given global risks, with announcements expected over the coming weeks.
- **EU stockpile of skim milk powder.** The large stockpile of SMP stocks remains a constant watching brief. The European Commission has tweaked the intervention system this season to prevent a further build-up, meaning all eyes are on where EU milk solids will end up in the near term.

Export Engine Starting to Cool Off



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Source: USDA, Rabobank 2018

Production growth key exporting regions

	Latest month	Last three months
EU	3.7 (January)	4.4%
US	1.8% (February)	1.8%
Australia	3.5% (February)	3.5%
NZ	-0.2% (season-to-date at 28 February 2018)	

Source: Rabobank 2018



Beef

Prices Ease as Cow Supply Increases

Prices came back slightly over the last month as the seasonal lift in cow supply eased some of the procurement pressure that had been supporting prices earlier in the year. As at the start of April, the North Island bull price is 4% lower MOM, averaging NZD 5.20/kg cwt, with the South Island bull price down 1% MOM, averaging NZD 5.15/kg cwt. While the South Island bull price is still ahead of where it was at this stage last year (+3%), the North Island bull price is now down 8% YOY.

With the autumn cow kill kicking into gear in late March, the increased supply of cattle has reduced available killing space and consequently, processors have dropped schedule prices across all classes. **This situation is expected to continue throughout April.** However, B+LNZ's recently released 'Mid-Season Update' reinforces Rabobank's earlier predictions that total supply for the 2017/18 season will be relatively tight, with export beef production expected to drop 1.3%.

New Zealand beef exports to China continue to perform strongly, with both export volumes and values through Oct-Feb well up on the same period last season (+27% and +29% respectively). While China's recent announcement that it intends to impose a 25% tariff on US beef imports may create some opportunities to further increase New Zealand's exports to China, **any overall benefit is likely to be limited if the US looks to redirect its beef exports into other common Asian markets, such as South Korea and Japan.**

Rabobank expects that the increasing supply of cattle available for slaughter over the next month, combined with the persistently high NZD, will continue to put further downward pressure on prices throughout April, with further easing of schedule prices likely.

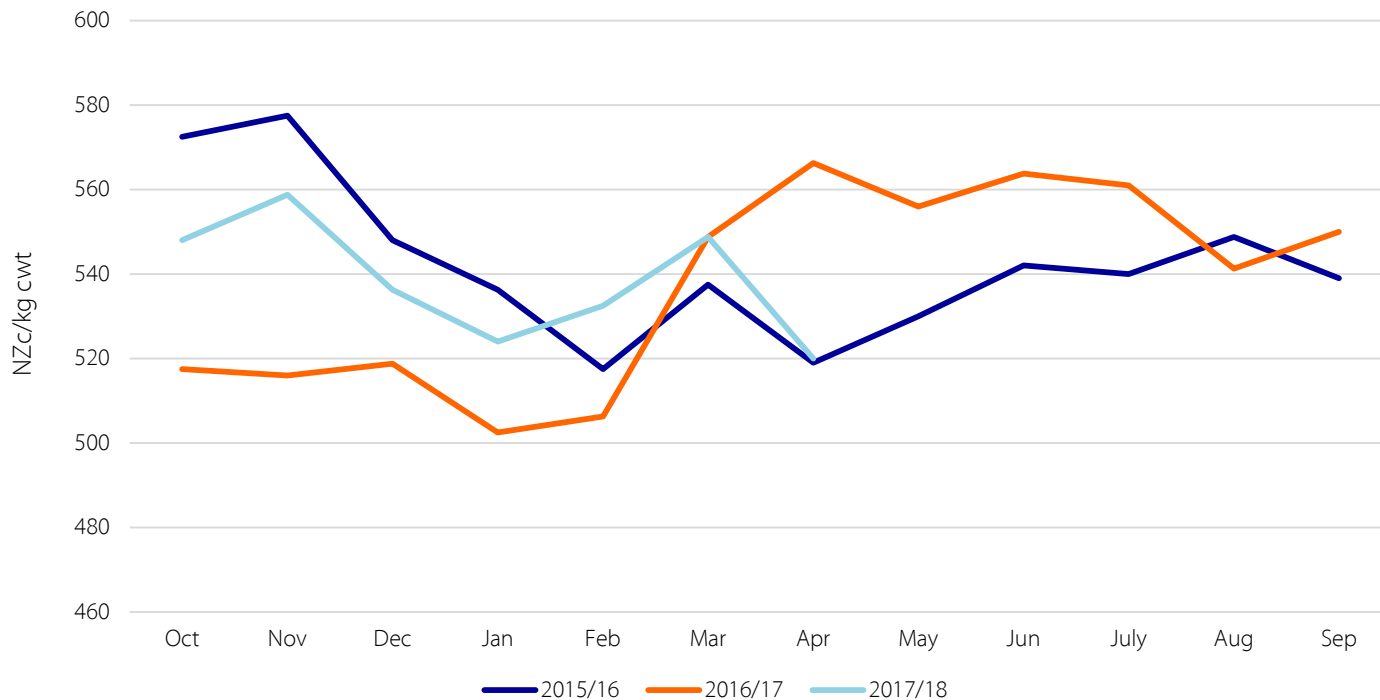
What to watch

- **New Zealand Exports to Japan** – As of 1 April, Japan's temporary tariff on frozen beef products was lifted, and New Zealand's tariff rate has dropped from 50% back down to 36%. Australia's FTA with Japan ensures it still maintains a tariff advantage over New Zealand (and every other exporter), with a rate of 27%. New Zealand's beef export receipts to Japan dropped 17% YOY while the temporary tariff rate was in force. Given that much of this product has since been redirected into other high value Asian markets, exporters are not expected to immediately rush back into the Japanese market.

North Island Bull Price



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Source: NZX AgriHQ, Rabobank 2018

A close-up photograph of a sheep's head, showing its white, curly wool and a pink ear tag. The sheep is looking slightly to the right.

Sheepmeat

Competition Pushes Prices Higher

Competition among processors for lambs available for slaughter has pushed schedule prices back over the NZD 7 threshold. As of the start of April, the North Island slaughter price averaged NZD 7.10/kg cwt (2% higher MOM), while South Island lamb averaged NZD 7.05/kg cwt (3% higher MOM). Prices continue to sit well above last season's pricing, with the average slaughter price for North and South Island lambs up 25% and 31% YOY, respectively.

The high volume of lambs killed prior to Christmas (due to dry conditions in many regions), combined with good growing conditions through Feb-Mar, has made sourcing sufficient supply a challenge for processors over this period. This has forced processors to rise schedule prices to draw lambs off farm. While the number of lambs processed between Oct-Dec was up 13% YOY, as of 10 March, New Zealand's YTD lamb kill had actually fallen behind last season by 1%, showing just how tight supply was through Jan-Mar. However, in recent weeks supply has started to lift again, and Rabobank expects the rate of slaughter to increase progressively throughout April.

B+LNZ's 'Mid-Season Update' highlights just how strong the 2017/18 season has been for New Zealand lamb exports, with **export receipts for the season predicted to surpass NZD 3bn for the first time.** While export volumes are expected to remain steady, the average value received per tonne is estimated to increase by 14% on last season.

Despite the increasing level of supply, there remains sufficient competition in the market to ensure schedule prices can remain firm throughout April.

What to watch

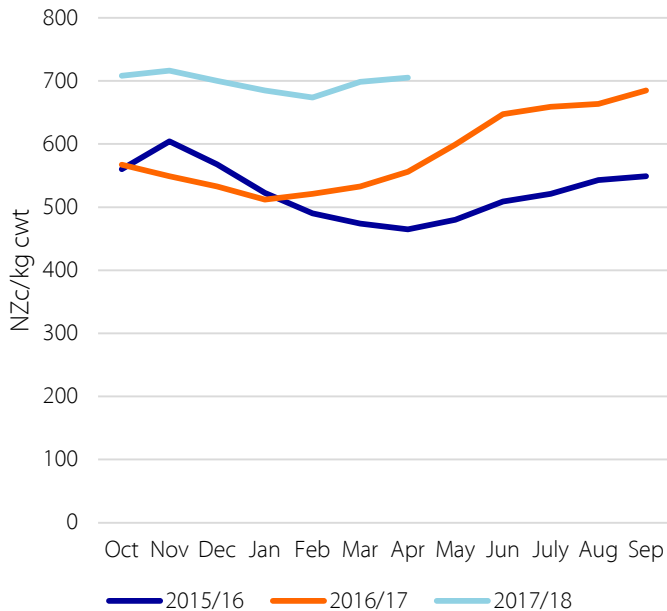
- **Cooling weather conditions** – Now that autumn is well and truly upon us and temperatures are starting to fall across the country, weather patterns over the next month could significantly impact the flow of lambs to the works. Any rapid deterioration in conditions is likely to push farmers to reduce on-farm stock levels, increasing the supply of lambs available for slaughter.

South Island Lamb Price and NZ Lamb Slaughter

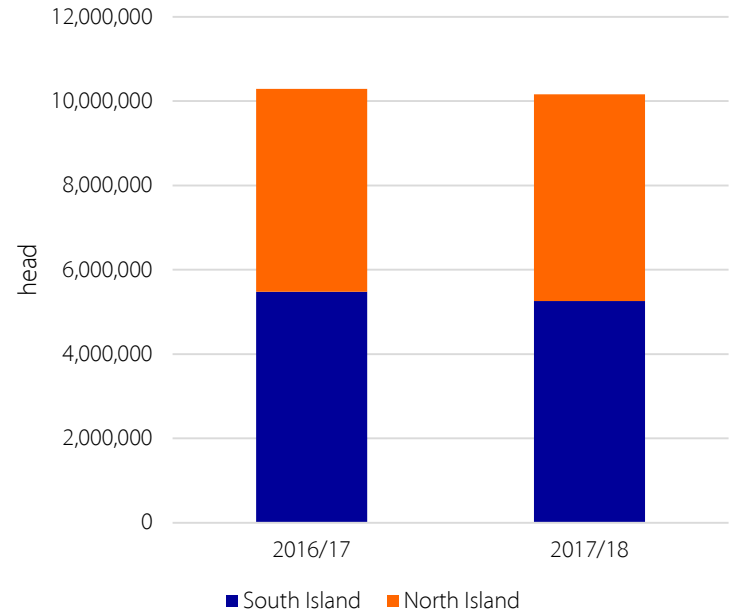


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South Island Lamb Price



New Zealand Lamb Slaughter (YTD – 10 Mar)



Source: NZX AgriHQ, Rabobank 2018

Source: NZ Meat Board, Rabobank 2018



Wool

Coarse Wool Flat

New Zealand coarse wool prices were flat through the month in March at just over the NZc 300/kg clean mark. The most recent South Island sale just saw a little softening in the market, almost across the board for all wool types, retracing some of the gains made at earlier March sales.

The market holding through the month with such strong volumes on offer remains a positive point for the outlook. Season-to-date 42% more bales have been sold at auction than in 2016/17.

Exports also continue to reflect the increase in demand for NZ wool with 18.5% more wool (tonnes clean) exported season-to-date. In fact, the almost 10 thousand tonnes clean exported in the month of February was the highest monthly volume shipped since April 2016.

This improved demand is important for underpinning potential market improvement through 2018 as the excess supply is consumed.

The 2-speed wool market continues, however, with merino types still showing very solid price strength. While the market in Australia eased slightly through March, at NZc 1,772/kg clean, the Australian Eastern Market Indicator remains historically strong.

What to watch

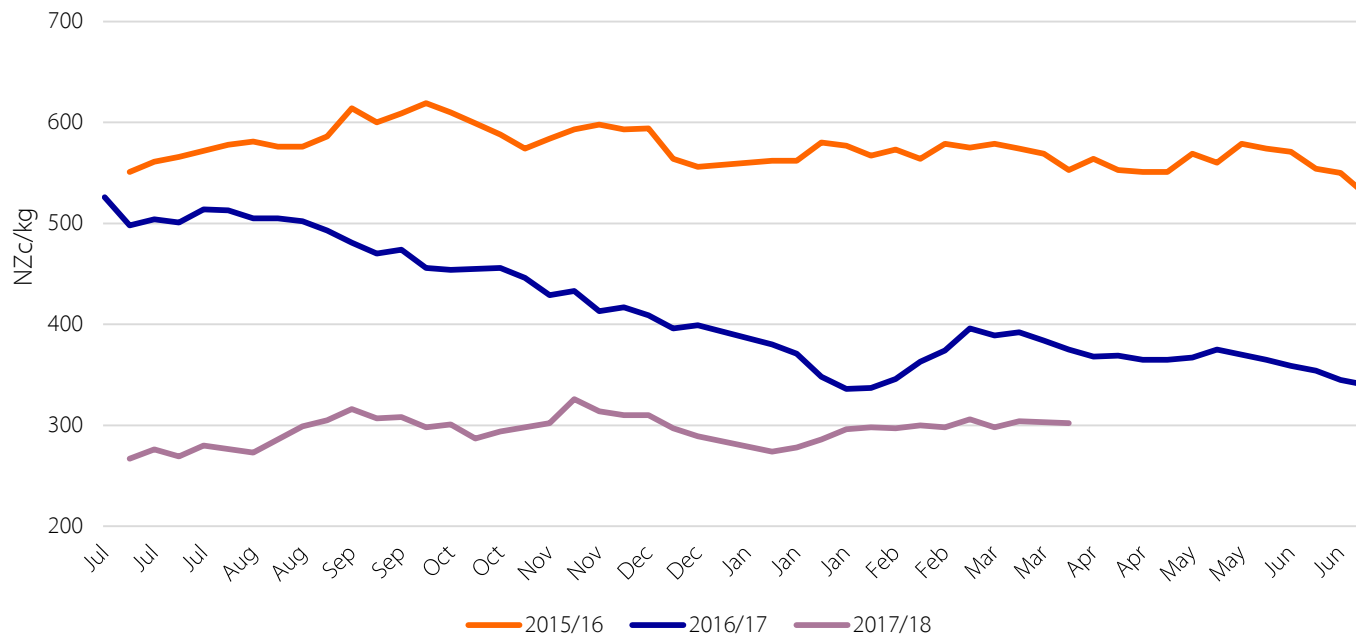
- Wool has not been directly affected yet in the escalating tariff war between China and the US. Cotton was included in China's most recent announcement, but so far, apparel imports into the US have not been mentioned. This should be watched in the coming months, as uncertainty over apparel exports for China could have negative implications for textile production.

Market for Coarse Wool Remains Flat



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Coarse Crossbred Indicator





Could NZ Wine Benefit from a US-China Trade War?

With the 2018 harvest nearing completion and indicators suggesting a volume similar to the 2017 harvest of 396,000 tonnes, industry focus will naturally begin to drift towards domestic and global consumer markets.

The current escalating trade dispute between the US and China raises questions about opportunities for other New World wine producers with China, especially after China's implementation of a 15% increase on existing tariffs on 5 categories of wine imports from the US (on 2 April), ***which reportedly places tariffs of up to 67% on bottled US wine.***

The emerging trade war between China and the US is unlikely to present any significant short-term opportunities for New Zealand.

The US doesn't ship much wine to China. In 2017, it shipped USD 79m/14.2m litres of wine to China, or, 5.1 % and 3.4%, respectively, of all US wine exports for the year. The more material US market in that part of the world is Hong Kong, representing US imports of USD 119m/9.4m litres for the same period (reflecting a higher volume of premium wine entering that market).

China is not a significant market for NZ wine (USD 27.9m export receipts/2.6m litres and 2.33%/1.03% respectively for 2017 exports), but it is a significant market for Australian wine (USD 456m/25.2% total export receipts in 2017).

What to watch

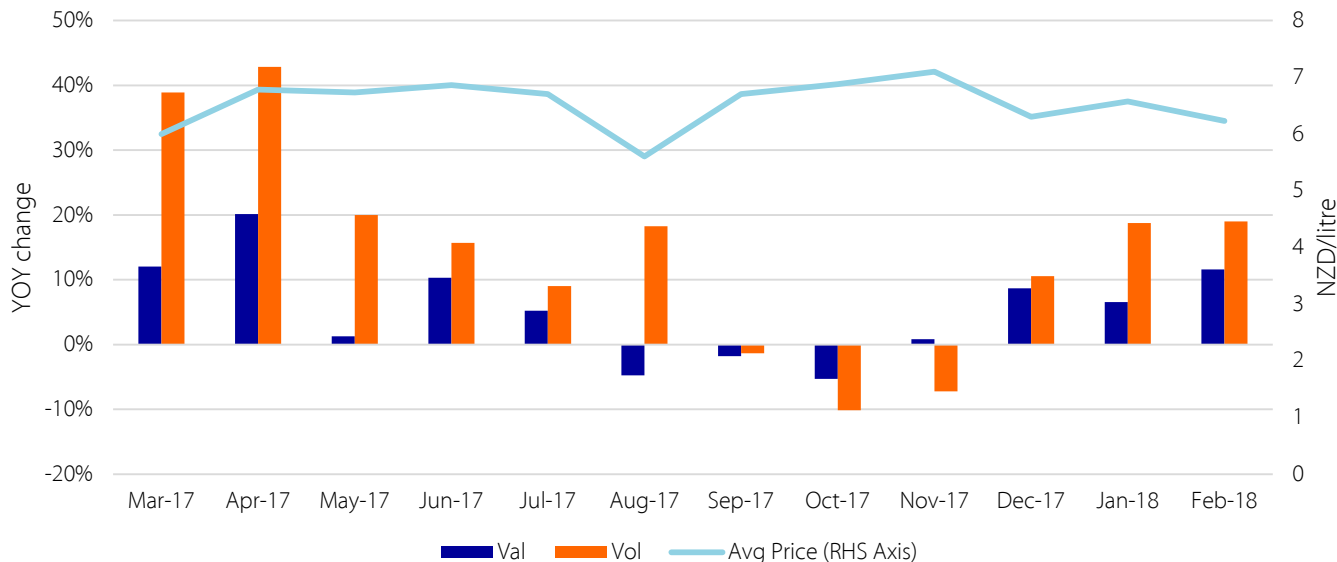
- ***The Hong Kong/China border.*** Cross-border trade between China and Hong Kong is opaque. Exporters will be watching for an increase in US wines to Hong Kong, and if so, how China chooses to react.

Wine

Total NZ Value and Volume Export Growth Continues



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Source: Stats NZ, Rabobank 2018

Following the trend reversal set in December 2017, the volume and value of NZ wine exports continued to rise YOY above prior levels through to February 2018. The average price per litre has continued to drop YOY for the same period.



Demand Growth For Avocados in Asia Good For NZ Growers

Similar to the apple industry in NZ, the avocado industry has diversified its fresh markets over the past 10 years. **In 2006/07 NZ and Australia accounted for 97% of fresh volume of sales (51% and 46%, respectively).** Growing demand from Asia is driving this market diversification **(NZ exports collectively up 72% from 2015/16).**

While NZ and Australia are still the main markets for fresh volume of sales (2016/17 89% (32% and 57%, respectively)), **Korea represents significant y/y growth in total avocado imports** (up an estimated 140% or 600,000 trays in 2017/18 from prior year). Korean market value increased by an estimated 158% or USD 19 million over the same period. **NZ avocado exports to Korea have grown from 35,000 trays in 2011/12 to 171,000 trays in 2016/17, dropping back to 145,000 trays in 2017/18 (+314% over the period).**

The industry expects New Zealand's export avocado crop for 2018/19 to **be up on the 3.59m trays in the previous season, because** the crop is biennial. The growing influence of markets in Asia, driven by rising consumer demand and the opening up of other markets like China (see 'Agribusiness Monthly Feb 2018'), represents an opportunity for **further market diversification to support the forecast increased volumes in coming years from significant ongoing and new NZ orchard developments.**

What to watch

- **Labour shortages** – The ongoing documented shortage of skilled permanent staff and seasonal workers to help with harvest is beginning to bite. What is important for growers across all sectors to consider is not only the current shortage but the likelihood of this worsening over the coming years as volume growth across sectors such as avocados, pipfruit, and kiwifruit occurs. Also, competition for labour from other non-horticultural sectors is likely to increase both wage and supply pressures. Planning for the future for labour is an important priority for all participants.

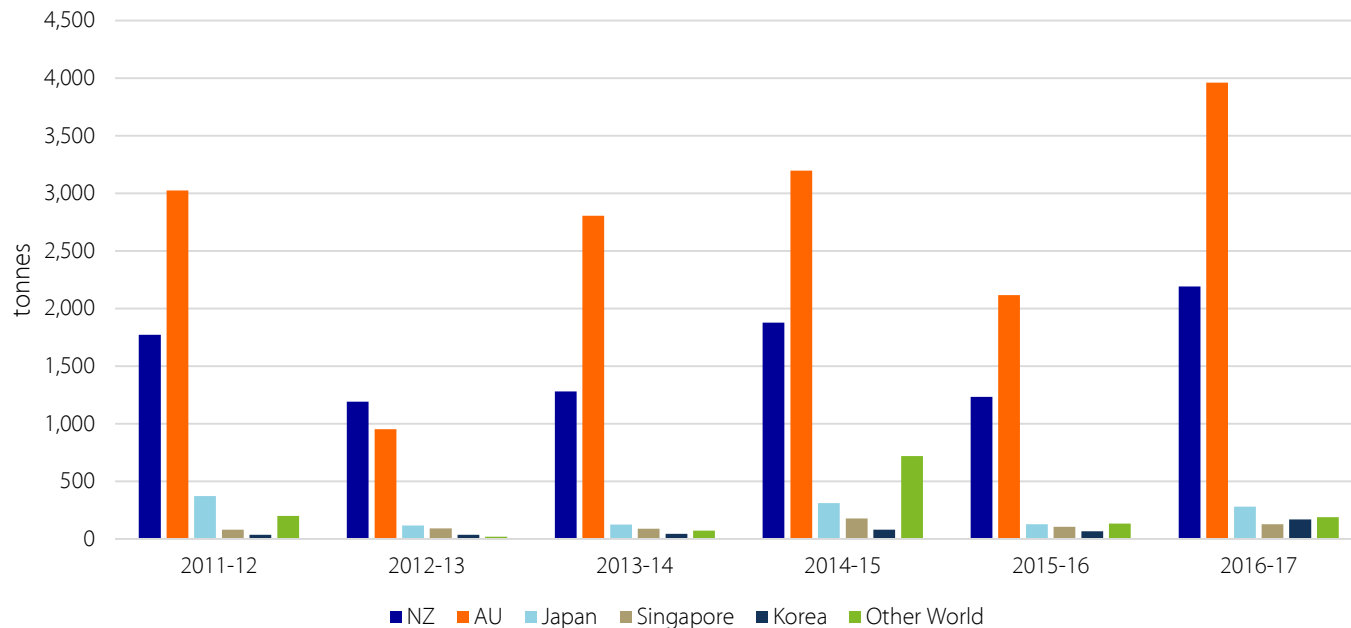
Horticulture



NZ Fresh Avocado Sales Markets



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Source: NZ Avocado Association, Stats NZ, Rabobank 2018



Nitrogen Stable Ahead of Spring Peak

The peak importing and application months for urea are almost upon us. **The global urea market was relatively subdued during March, closing at 255 USD/tonne ex Middle East, down 4% MOM.**

As expected, a new tender out of India was announced during March. While the size of the tender hasn't yet been made public, Rabobank forecasts that the lower demand and higher supply at this time of the year will mean that the impact of this tender on pricing will be minimal, unlike the tender that swelled prices in August 2017. Three major urea plants in the US have somewhat overcome the major production issues seen in February. The plants have returned to production, albeit below capacity, which also plays into our bearish outlook for urea prices.

The hot streak for phosphate prices ended in early April and prices have been rising since August. In early April, DAP sits at USD 411/tonne ex US Gulf. The cost of raw materials such as ammonia and sulphur are under downward pressure, which, together with the lower phosphate demand and higher supply we expect in Q2, will keep prices subdued.

With the agreement of the Chinese and Indian contracts, the critical period for potash prices is also coming up; these prices act as a benchmark price for spot markets. MOP ex Vancouver has been increasing very steadily since October, but has only risen 2 per cent YTD.

Ahead of orders for the New Zealand spring, lower freight rates are contributing to favourable prices.

Fertiliser

What to watch

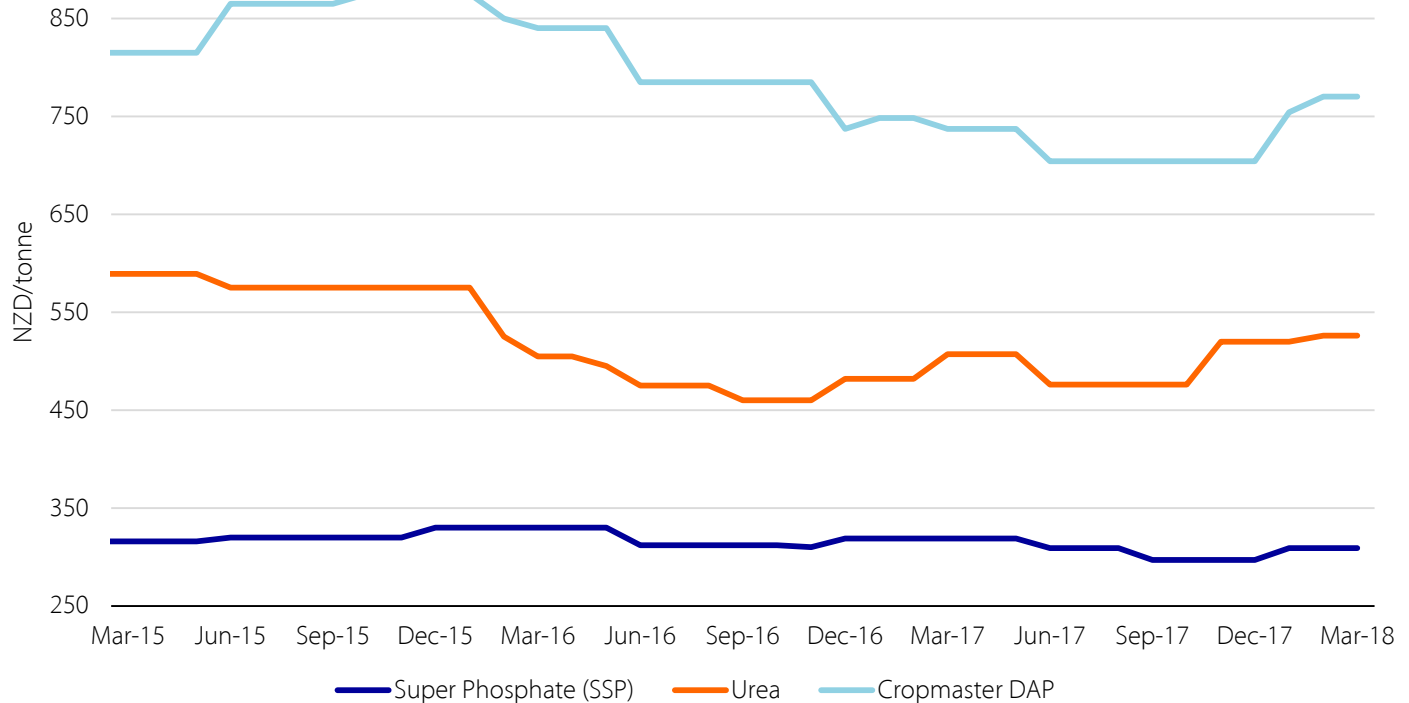
US Planting – Rabobank only expects a marginal change in planted soybean hectares for this season following the announcement by China of a possible 25% tariff on soybean imports from the US. Should the composition of the US crop be significantly altered, it would likely change the fundamentals of the fertiliser market, resulting in an increase in demand for nitrogen and a fall in phosphate consumption.

Local Market Remains Subdued



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Reported Local Retail Prices





NZD Rises Marginally

The NZD rose marginally against the USD in March/early April. The currency was worth USc 73.69 early on 11 April. The strengthening currency came despite rising trade tensions between the US and China and marginally weaker dairy prices on the 4 April GDT auction.

We expect to see the NZD soften against the USD over the next 12 months.

Monetary policy will likely tighten more in the US than in NZ. At this stage our baseline scenario assumes three US hikes in total this year. But, if confidence among Fed officials in the US economy continues to grow and inflationary pressure increases, the trajectory of US interest rates could steepen.

Moreover, rising trade tensions between the US and China negatively affect the NZD/USD cross rate. A protectionist stance by the US is likely to impact the US growth outlook. On face value, this is a negative factor for the USD. A US-China trade war could have significant implications for world growth. This would likely favour the USD versus a broad range of currencies, including the NZD.

After trading around current levels over the next six months, we expect the **NZD to fall to USc 68 by Mar 2019.**

What to watch

- **Trade tensions between the US and China.** While a concessionary speech by President Xi on April 10 calmed markets, we may not have seen the end of this. Any re-escalation of tensions would cause volatility in financial and currency markets in coming months.

FX

NZ Dollar Holds up Despite Rising Trade Tensions



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NZ/US dollar Cross Rate



Source: RBA, Rabobank 2018



Oil & Freight

Geopolitical Risks Looming Large

Following the price slump in early February, **Brent Crude finished March at USD 70.2 /bbl up 10 % MOM.** Geopolitical risks continue to play into oil prices, as the risk of a trade war between the US and China looms large. Saudi Arabia also reported that it intercepted missiles fired from Yemen during March. Compliance with the agreed production cuts from OPEC/non-OPEC countries also remains high. A potential long-term pact between Saudi Arabia and Russia is on the cards, which would result in greater long-term stability in the oil market.

We anticipate that over the coming months oil prices will continue to trade at around USD 68/bbl, before edging closer to USD 63/bbl in Q1 2019. The basis for this forecast is continued compliance of OPEC countries and 1%-2% growth in global demand.

The Baltic Dry Index has fallen 18% since the beginning of March to an eight-month low.

The Index has fallen 219 points and currently sits at 948 points, driven by fears that a China-US trade dispute could turn into a full-blown trade war. A decline in activity along the iron-ore trade routes between China and Australia/Brazil has also contributed to a decrease in the index. A decrease in the index reflects a decrease in demand for tanker ships in comparison to supply.

Spring wheat movements in the Northern Hemisphere could lead to an upward trend in the coming months, but in the long term, fears of a trade war could reduce trading activity in the Pacific region, creating downward pressure on the Baltic Dry Index.

What to watch

- **Trade wars** – If the volume of trade falls, freight rates will head towards a new low. Ultimately, low freight rates decrease the competitiveness of exports into near markets, while increasing competitiveness in markets comparatively further away.

Freight Rates a Sinking Ship?



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Brent Crude Oil
February 2017 to February 2018



Source: AIP, Bloomberg, Rabobank 2018

Baltic Dry Index,
April 2016 to April 2018



Source: Bloomberg, Rabobank 2018

Agri Price Dashboard

As of 4/4/2018	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	456	492	427
CBOT soybeans	USc/bushel	▼	1,015	1,061	938
CBOT corn	USc/bushel	▲	381	377	363
Australian ASX EC Wheat	AUD/tonne	▼	270	280	
Australian Canola	AUD/tonne	▼	511	520	529
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	539	539	664
Feeder Steer	AUc/kg lwt	▲	293	290	344
North Island Bull 300kg	NZc/kg cwt	▼	520	540	565
South Island Bull 300kg	NZc/kg cwt	▼	510	520	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	619	624	654
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	710	695	575
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	705	685	540
Venison markets					
North Island Stag	NZc/kg cwt	▲	1,045	1,030	810
South Island Stag	NZc/kg cwt	▲	1,100	1,080	850
Dairy Markets					
Butter	USD/tonne FOB	▼	5,275	5,300	5,213
Skim Milk Powder	USD/tonne FOB	▼	1,938	2,113	1,988
Whole Milk Powder	USD/tonne FOB	•	3,225	3,225	2,988
Cheddar	USD/tonne FOB	▼	3,625	3,825	3,613

Agri Price Dashboard

As of 4/4/2018	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	•	91	91	86
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	79.6	82.7	74.9
Sugar markets					
ICE Sugar No.11	USc/lb	▼	12.27	13.42	16.16
ICE Sugar No.11 (AUD)	AUD/tonne	▼	351	381	471
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,772	1,830	1,502
NZ Coarse Crossbred Indicator	NZc/kg	•	300	300	368
Fertiliser					
Urea	USD/tonne FOB	▼	255	265	212
DAP	USD/tonne FOB	▲	411	410	375
Other					
Baltic Dry Index	1000=1985	▼	977	1,207	1,255
Brent Crude Oil	USD/bbl	▲	68	64	54
Economics/currency					
AUD	vs. USD	▼	0.772	0.776	0.757
NZD	vs. USD	▲	0.731	0.724	0.697
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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