



Agribusiness Monthly July 2018

New Zealand

Food & Agribusiness Research and Advisory July 2018



Rabobank

Commodity Outlook



Dairy

Trade wars and the upcoming spring peak in New Zealand clouds short-term market sentiment.



Beef

While the lower NZD/USD, and seasonal decline in cattle supplies will put some upward pressure on prices, Rabobank expects any price increases over the next month to be limited by softening US imported beef prices.



Sheepmeat

Rabobank expects competition for the remaining lamb supply to continue to put some upward pressure on prices, although further upside will be limited by the processors' ability to extract further value from the market.



Wool

Increased exports, in combination with forecast steady production at low levels, should help to support price improvement next season.



Wine

Chinese wine imports continue to grow, with NZ price per litre foremost.



Horticulture

Potential for further competition in the NZ avocado export markets comes from Peru.



Fertiliser

Local prices remain stable this month, against a backdrop of rising global benchmarks and lifting freight rates.



FX

Rabobank maintains a forecast for the NZD of USc 65 by June 2019.



Oil

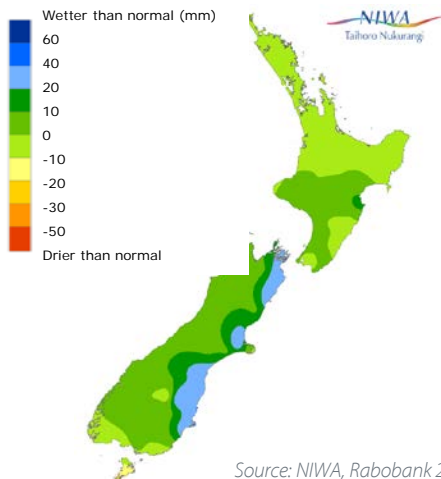
The Crude Oil Price forecast takes another leap, while an upward trend is forecast for the BDI.

Climate



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Soil moisture anomaly (mm), 8 July 2018



Source: NIWA, Rabobank 2018

NIWA are forecasting temperatures to be average or above-average for the North Island and the top of the South Island through to September 2018. The remainder of the country is likely to have average temperatures over the same period.

Rainfall totals from July to September 2018 are equally likely to be near normal or above-normal for the east and the top of the North Island. The remainder of the country is likely to receive normal rainfall across this period, with the West Coast at risk of below-normal rainfall.

NIWA is forecasting the top and east of the North Island is likely to have above-normal soil moisture levels. There is an equal chance of normal or above-normal levels for the west of the North Island and the east of the South Island. The top of the South Island is equally likely to have normal or below-normal soil moisture, while the West Coast is likely to have below-normal soil moisture levels through to September 2018.

What to watch

- ***Heavier rain across the coming weeks.*** The east coast of New Zealand and the north of the North Island may receive some heavy rain events towards the end of this month, as a result of lower than normal air pressure across the north and east of the country.



New Zealand Milk Production Set To Grow

Exceptional milk supply for the final production month of the 2017/18 season saw collections bounce up by 6% for May 2018. As such, **total New Zealand production for the full season landed on par with the prior season at 21.4m tonnes** (+0.1%). This is a very strong result given the prevailing weather challenges in many milk production regions across the last 12 months.

The milk pool for the current 2018/19 season will grow once again – weather permitting. **This season, however, will be the real test for determining the appetite of New Zealand dairy farmers to invest further in expansion.** Uncertainties in the local operating environment will see only modest production growth despite the attractive forecast milk prices. **Rabobank forecasts a milk production growth of 2% for this season.**

Sentiment in global dairy markets has waned in recent weeks amid concerns about trade wars, excess dairy stocks, and a strong finish to New Zealand season. As a result, global dairy commodity prices softened slightly in early July.

However, global market fundamentals have not shifted, suggesting a well-balanced market in the coming months, supported by limited growth in the Northern Hemisphere – but with a watching brief on the New Zealand spring flush. **Rabobank forecasts a farmgate milk price of NZD 6.80kgMS for 2018/19.**

Dairy

What to watch

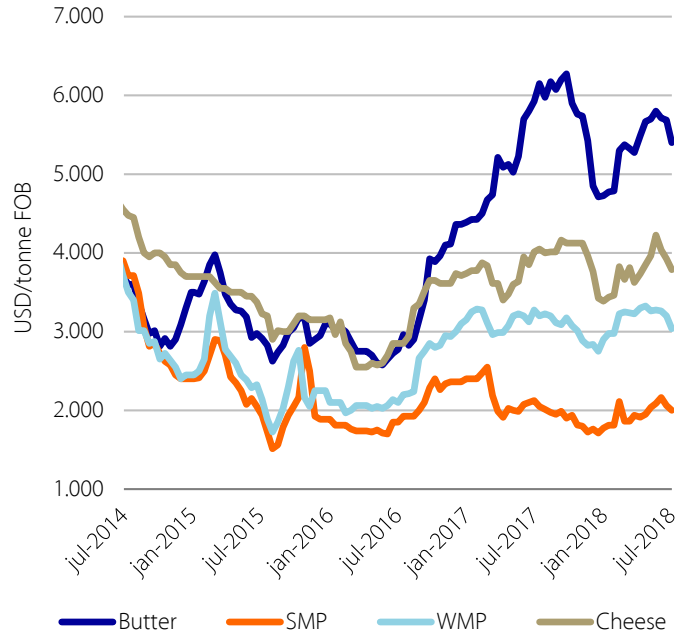
- **Indian exports of SMP.** With stock levels aplenty (except for EU intervention stores on the decline), news from India announcing export intentions for 60,000 tonnes of SMP over the coming six months is the latest announcement to afflict the SMP market. This is a move to alleviate significant Indian SMP stocks, of which currently over 250,000 tonnes has been accumulated. The extent of further downward pressure on SMP prices will depend on how and when this product is shifted into global markets.

Global Sentiment Weakens Amid Trade Friction



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Dairy commodity export prices



Source: USDA, Rabobank 2018

Production growth key exporting regions

	Latest month	Last three months
EU	0.7% (Apr)	1.3%
US	0.8% (May)	0.8%
Australia	2.5% (May)	3.0%
NZ	0.1% (2017/18 season final)	

Source: Rabobank 2018



Beef

Falling Dollar Supports Prices

The continued depreciation of the NZD/USD, combined with the seasonal reduction in cattle kill numbers, lead to a marginal increase in schedule prices during June. As at the start of July, the North Island bull price is 1% higher MOM, averaging NZD 5.30/kg cwt, with the South Island bull price up 3% MOM, averaging NZD 5.05/kg cwt.

The NZD/USD has fallen 3.5% since the start of June, dropping below 0.68 for the first time since June 2016. ***A weaker New Zealand dollar has helped to offset softer US imported beef prices, which are starting to trend downwards as supplies of US domestic beef production increase.***

The end of New Zealand's cow kill season traditionally provides some upward pressure on US imported beef prices, as available import supplies tighten. ***However, any jump in prices this season is likely to be limited by the increased supply coming out of Australia, with drought conditions in key cattle-producing regions forcing an increase in cow slaughter rates.***

Peak kill has passed for the season and ***New Zealand's total production for 2017/18 is on track for the first season-on-season increase since 2014/15***, with total beef slaughter currently sitting 7% ahead where it was at this stage last season. Available cattle supply will now drop off through to the season end (30 September), with prime cattle making up the bulk of the remaining kill.

While the lower NZD/USD and seasonal decline in cattle supplies will put some upward pressure on prices, Rabobank expects any price increases over the next month to be limited by softening US imported beef prices.

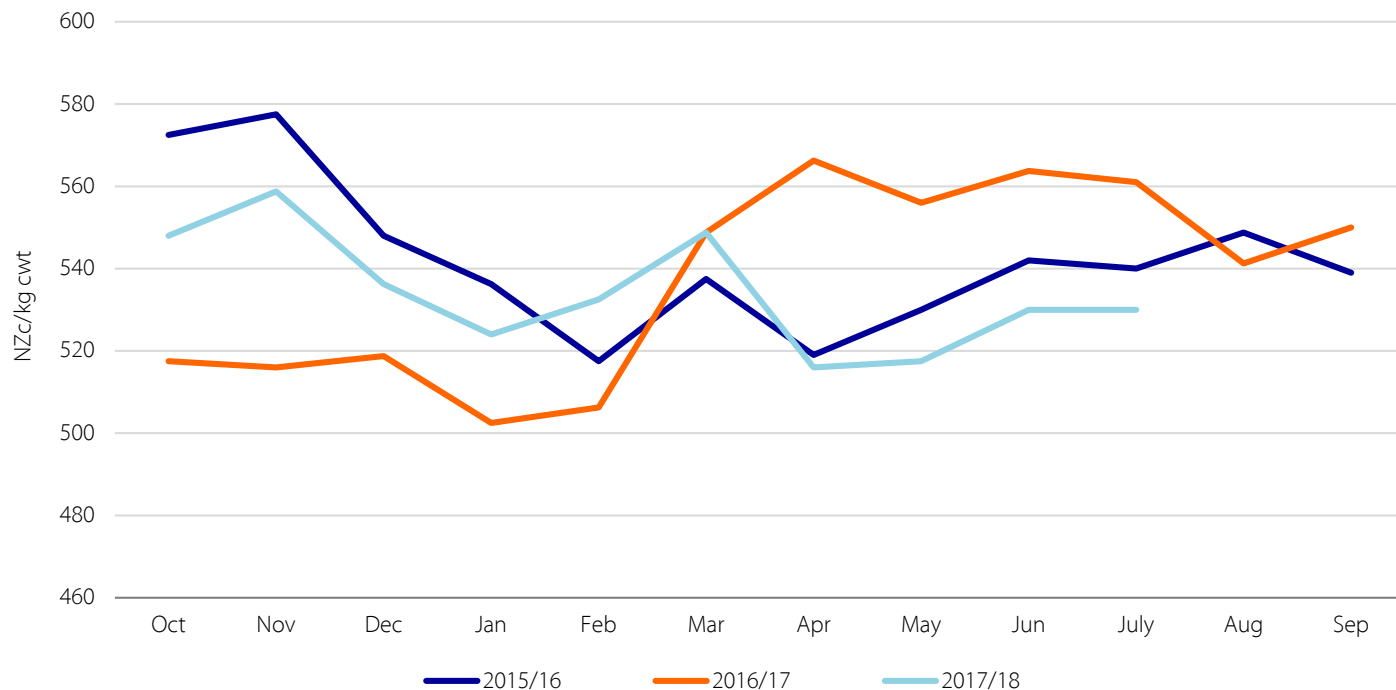
What to watch

- ***New Zealand beef herd numbers*** – The Ministry for Primary Industries recently released the 'Situation and Outlook for Primary Industries June 2018' report, highlighting that New Zealand's beef cattle herd increased year-on-year as at June 2017 for the first time since 2006. As of 30 June 2017, New Zealand's beef cattle herd numbers 3.62m (up from 3.53m on 30 June 2016). The increase is largely the result of the improved confidence of beef farmers to invest in rebuilding their herd numbers following multiple seasons of strong farmgate returns.

North Island Bull Price



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A close-up photograph of a sheep's head, showing its eye, ear, and thick, curly wool. The sheep is looking slightly to the left.

Exports, Demand and Prices All Up!

Strong global demand, in conjunction with local procurement competition for declining supplies, ensured schedule prices continued to lift throughout June. As of the start of July, the slaughter price in the North Island averaged NZD 7.85/kg cwt (4% higher MOM), while South Island lamb averaged NZD 7.70/kg cwt (5% higher MOM).

New Zealand exported 35,620 tonnes of lamb in May, up 21% on volumes exported in May 2016. Despite the increased volume, ***average export values surged to NZD 10,199 per tonne (up 8% on May 2016).*** ***China continues to lead market demand, taking approximately 40% of New Zealand's May exports.*** The US is another market that is providing strong returns for New Zealand exporters, with US lamb export receipts surpassing NZD 40m for the first time.

Australian exports have also lifted sharply over this period, with ongoing drought conditions forcing many farmers to destock, leading to record kill numbers. The apparent ease at which the global lamb markets have been able to absorb this extra volume from New Zealand and Australia indicates global demand for lamb remains very strong.

New Zealand's domestic lamb supplies will remain tight through the remainder of the 2017/18 season (30 September), ***maintaining the normal level of procurement competition traditionally experienced at this point in the season.***

Rabobank expects competition for the remaining lamb supply to continue to put some upward pressure on prices. However, further upside will be limited by the processors ability to extract further value from the market.

Sheepmeat

What to watch

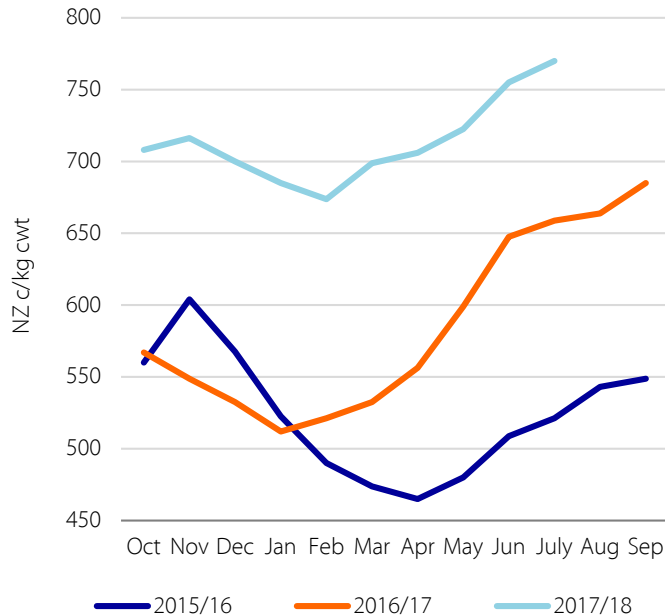
- ***Proposed Beef and Lamb NZ (B+LNZ) levy increase*** – B+LNZ has proposed an increase in levies on sheepmeat by NZc 10 (to NZc 70 per head), and beef by NZc 80 (to NZD 5.20). It is proposed that the additional levies would be invested in the international activation of the Taste Pure Nature origin brand and the 'Red Meat Story', helping the sector lift its environmental performance and reputation, telling the farmer story better, and strengthening B+LNZ's capability to address biosecurity risks. Consultation on the proposed increases closed on 13 July 2018. Farmers will be notified of B+LNZ's Board decision mid-August and, if adopted, the changes would take effect from 1 October 2018.

South Island Lamb Price and NZ Lamb Slaughter

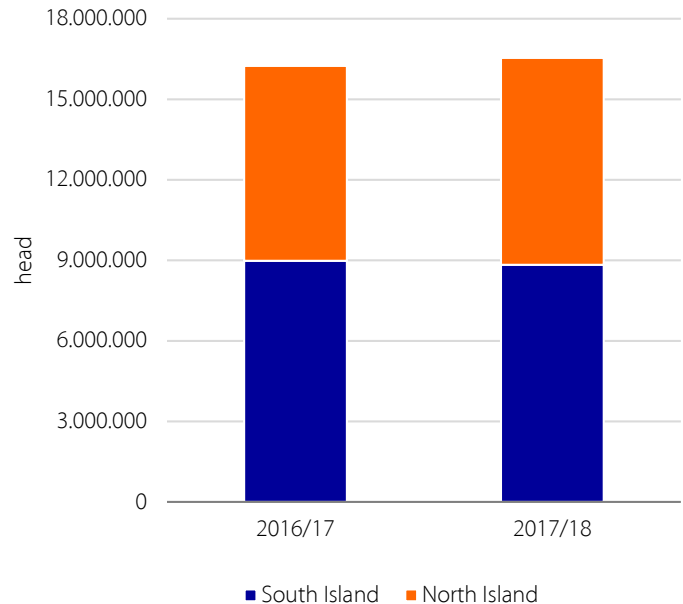


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South Island lamb price



New Zealand lamb slaughter (YTD-June)



Source: NZX AgriHQ, Rabobank 2018

Source: NZ Meat Board, Rabobank 2018



Wool

Steady End To The 2017/18 Season

The 2017/18 selling season has come to a close, with the coarse crossbred market, while certainly improved from the early months of the season, quite subdued and steady through the final few sales. As eyes now turn to the 2018/19 season, the improving – albeit slowly – Chinese demand for broad wool will be the key driver for the crossbred market.

Broker reports have indicated that good types of second shears and coarse crossbred have been selling well, but lesser quality types have struggled across both North and South Island sales. Clearance in June was down on the relatively strong performance in May. However, positively for the 2018/19 outlook, clearance rates in New Zealand have lifted the bales sold at auction some 37% compared with last year, helping to alleviate some of the stock pressure accumulated in the 2016/17 season.

Supporting this is the 20% lift in New Zealand's wool exports for the season to May 2018. Although a big year-on-year gain, export volumes still trail 2015/16 (June-May) shipments by 14%. ***Increased exports, in combination with steady production at historically low levels – which is forecast by the Ministry of Primary Industries to remain at current low levels – should help to support price improvement next season.***

On the other hand, wool finer than 28 micron has performed strongly and offers for both 27 and 28 micron wool made some strong gains in the later South Island sales. The market in Australia was electric through May and June, capping off a season that saw the Australian Eastern Market Indicator rise 35% YOY.

What to watch

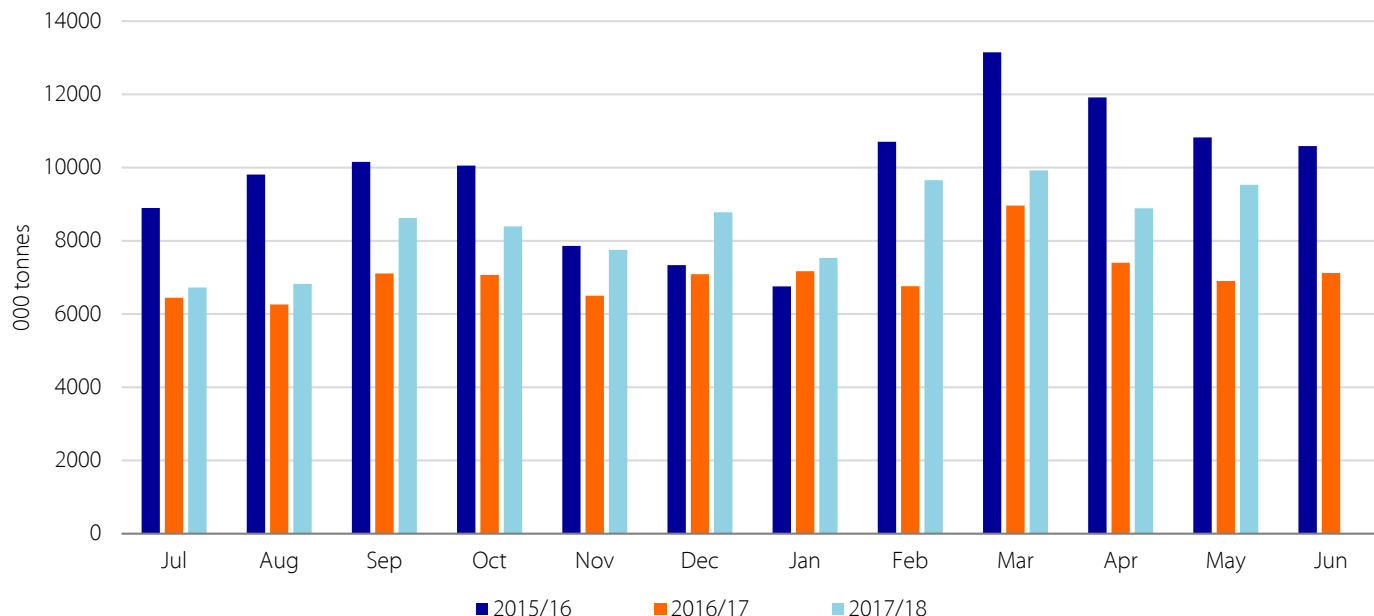
- The US-China trade relationship has been dealt a genuine blow with threats and now tariffs for USD 34bn worth of Chinese imported goods to the US. While neither wool, nor apparel and textiles have been implicated specifically, the breakdown of this trade relationship does pose a risk to the stability of overall trade, and the US is a major importer of wool apparel and carpets from China.

Wool Exports Show Improvement



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2017/18 volumes shipped up 20% on 2016/17 June-May, but still lag volumes exported in 2015/16



Source: Beef & Lamb NZ, 2018



China Growth Continues With Pace

Over the period **from 2010 to 2017, Chinese wine import growth leapt 161%**, or the equivalent of over 460,000 tonnes, and CAGR for the period of 43%. **Total Chinese wine imports grew by 17% for 2017**, with five countries accounting for over 90% of import growth. France and Australia led the pack, collectively responsible for 50% of import growth.

Importantly, the value of Chinese wine imports has also lifted over the last seven years, with 2017 Chinese wine import values at **USD 2.7bn – almost USD 2bn higher than 2010**. Again, France and Australia accounted for the majority at collectively over 65% of total value, at USD 1.8bn.

While New Zealand wine represented just 1% of Chinese imports by volume for 2017, by value per litre New Zealand wine punches well-above its weight at around USD 10.70/litre. This is double the value per litre of Australian wine imports into China and is the highest value of Chinese imported wine in 2017 (albeit small volumes).

Wine is a category in China that is affected by the seasonality of sales. The fundamental reason is that Chinese consumers do not tend to drink wine on a daily basis. The impact of this for exporters to China, is that during the months of March and April, imported wines compete with heavy promotions of domestic wines. At this time of the year, wine importers seek low-priced wines.

Wine

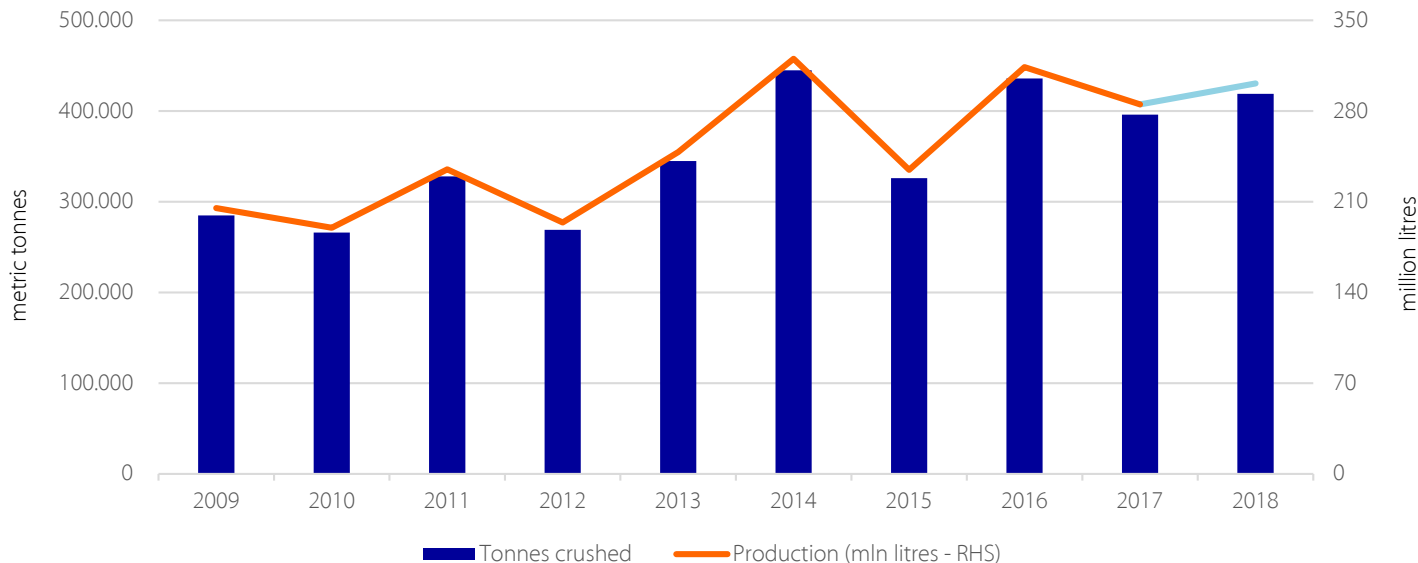
What to watch

- ***Understanding Chinese per capita wine consumption*** – evaluation of actual wine consumption within China and distinguishing between consumption of domestically-produced wine versus imported wine is complex. As China continues to significantly grow wine imports, exporters seeking to expand in this market need to clearly understand the demand-side story.

2018 New Zealand Vintage Up On 2017



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Source: NZ Winegrowers, Statistics NZ, Rabobank 2018

Vintage 2018 increased by 5.81% YOY in tonnes (LHS). Rabobank forecasts the 2018 production at 301.4m litres (blue line, RHS).



Peru Continues To Grow Avocado Exports and Chase New Markets

Peru continues to grow its avocado production and export markets. ***Since 2011, Peru avocado exports have growth from around 15m trays to over 44m in 2017. This is a CAGR of 20.3% or absolute growth of over 200%.*** The main markets remain Netherlands, Spain, the US and the UK.

Sales to countries in Asia have risen significantly, from below 1% in 2011 or 23,000 trays, to 4% in 2017 or 1.8m trays over the same period.

Of particular interest to New Zealand growers will be how Peru, and others such as Chile and Mexico, pursue new markets under free trade deals they have negotiated. Peru is already an established exporter to China – a relatively new market for NZ – and has this year begun exports to India, with the first sea freight shipment due to arrive in early July 2018.

Peru recently hosted South Korean officials to continue work on satisfying phytosanitary requirements for entry into South Korea. South Korea, and other Asian markets, are a focus for NZ avocado exporters as part of a diversification strategy away from Australia, which comes off the back of Australia's domestic production growth and other Southern Hemisphere producers seeking market access into Australia.

What to watch

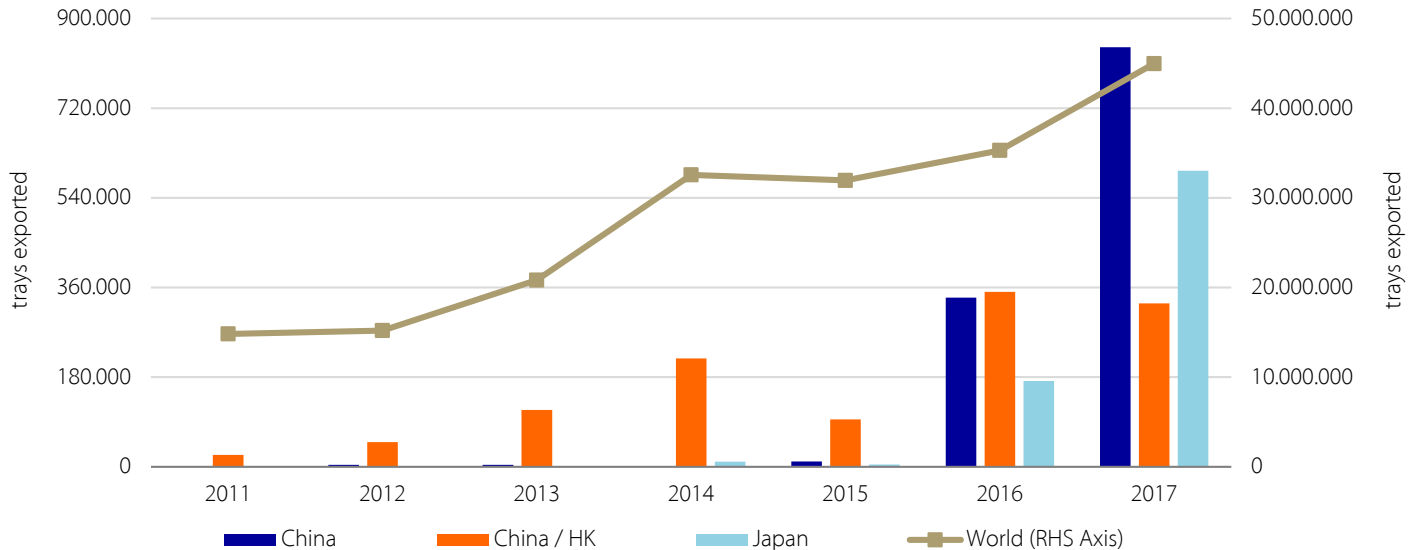
- ***Continued evolution of packaging to meet consumer trends.*** While supermarkets and other retailers seek to reduce single-use plastic bags, consumer focus is also turning to packaging of food products. Consumers have driven demand for single-serve, convenience products – all of which require individual packaging. How consumers will drive continued demand for these products, but with more environmentally sustainable packaging, will be important for producers to understand.

Horticulture

Peru Avocado Exports to Key Asian Markets and World



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Source: UN Comtrade, Rabobank 2018.

A significant rise in both avocado production and exports, with absolute growth of over 30m export trays for the period 2011-2017.



Fertiliser

Global DAP and Urea Price Rise Not Over

Global prices have largely been stagnant since the start of the year. However, while there was some price movement across the fertiliser complex during June 2018, these are yet to flow through to the local New Zealand market.

Global price rises were most noticeable in the urea market. ***Global urea prices lifted some 12%, sitting at USD 280/tonne ex Middle East FOB in early July 2018.*** Geo-political factors are playing into higher urea prices, with market concerns about limited supply from Iran given revised US sanctions. China's absence from the export market has also played into the short-term availability of supply.

DAP also continued its upward trend, with DAP ex US Gulf closing the month at USD 420/tonne, up 2% MOM. DAP is now up USD 83/tonne ex US Gulf since September 2017. Pushing prices higher is improving demand as global crop prices have firmed. Compounding this increase in demand is the high price of raw materials such as phosphoric acid. ***Once northern hemisphere winter crop demands have been filled during Q3, Rabobank expects global prices to ease ahead of Q1 2019, before demand for the northern hemisphere spring crop commences.***

Global potash benchmarks remained stable during June. The Chinese potash contract, which acts to set the price floor for the proceeding 12 months, has been delayed.

Healthy farm profitability this season within the New Zealand dairy sector will support fertiliser demand, placing some upward pressure on prices ahead of spring.

What to watch

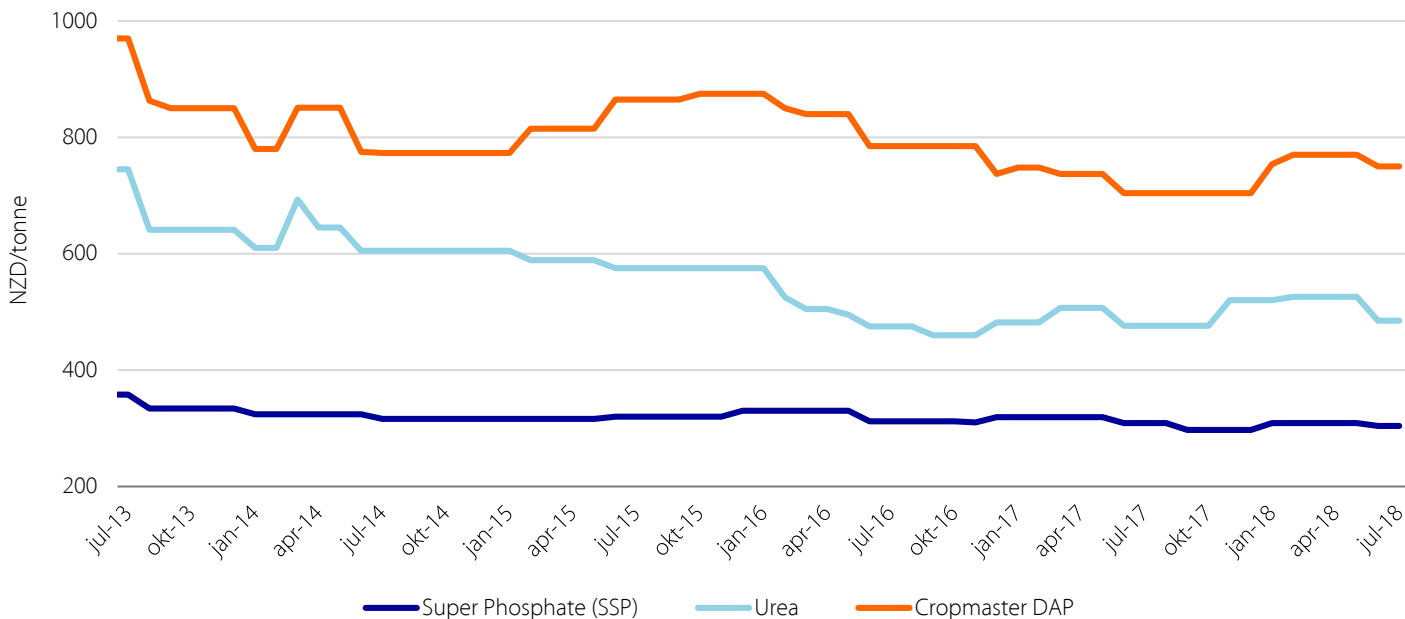
- ***Shipping rates.*** Aside from a slowing supply of new shipping capacity, rising bunker fuel costs are increasing ocean freight costs. The Baltic Dry Index, a measure of ocean freight costs, has been trending upward since February 2016, and is now at a three-month high. In addition to global benchmark prices, lifting freight rates will add upward pressure to local fertiliser prices.

Local Prices Stable Month-On-Month



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Local reported prices





NZ Dollar Slides Further in June

After treading ground in May, ***the NZD resumed its slide against the USD in June, losing USc 2.5 during the month.*** As Americans were toasting 4 July, NZ exporters were celebrating a currency that had fallen below USc 68: its lowest level in two years.

In the US, as anticipated, the Fed raised the target range for the federal funds rate to 1.75%-2.00%, from 1.50%-1.75% in June – the second rate hike this year. For now ***we are sticking with our expectations that there will be one more US rate hike this year (likely September).*** We are more sanguine about the outlook for the US economy as it pushes into 2019 than many commentators, and for now expect no rate hike in the first half of that year.

The case for any increase in central bank rates in NZ is far weaker.

The sharp depreciation of the NZD through June has brought the value of the currency closer to our previous ***12-month forecast rate of USc 65*** far sooner than we had anticipated. But for now, we hold this 12-month forecast.

FX

What to watch

- ***The Chinese RMB.*** Unusually, the PBOC allowed the Chinese currency to depreciate significantly against the USD through June, rather than carefully managing movements. The RMB dropped 3.5% against the US dollar in just a few weeks, as weaker domestic economic data and concerns over the impacts of a trade war came to bear. If the RMB continues to weaken in coming months, it will partly offset the benefit of increased export competitiveness for NZ producers – as Chinese purchasing power wanes.

NZ Dollar Slides Further in June



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NZ/US dollar Cross Rate





Turm'oil'

Brent Crude oil prices dropped down to USD 73.44/bbl in the first half of June, before staging a recovery to where it currently sits at USD 77.70/bbl, up 1% MOM. ***The lift in oil prices at the end of June came in the aftermath of the 22 June OPEC meeting, which resulted in an agreement to boost oil production.*** The decision for an increase in production was due to the likelihood that Iranian production will slow in light of new sanctions from the US, pushing for all countries to end Iranian oil imports. The decision was also made given that Venezuelan production continues to decrease.

Nonetheless, there is still scepticism as to how quickly production will increase, given that only a number of countries have the ability to increase production. Saudi Arabia has indicated that it will increase production by 11m bpd in July, and Russia will increase production by at least 200,000 bpd. Moving forward, world oil demand is likely to decrease as global growth momentum slows. However, production is forecast to fall more quickly, which argues for higher prices. ***Rabobank's forecast for an average price for Brent Crude has been lifted from USD 71/bbl to USD 78.33/bbl for the remainder of 2018.***

The Baltic Dry Index surged 48% since the beginning of July. The Index rose 522 points to 1622 points, due to intensifying demand for larger ships to cart ore to China as it ramps up iron ore imports.

High oil prices are increasing fuel costs for freight companies, which will contribute to an upward trend in oil prices moving forward.

What to watch

- ***Fighting in Libya.*** Political parties in Libya are fighting over control of their vast oil wealth, which has led to a 450,000 bpd decrease in production since 14 June. If production continues to decrease, then it will apply upward pressure to crude oil prices.

Oil &
Freight

Baltic Dry Index Surges



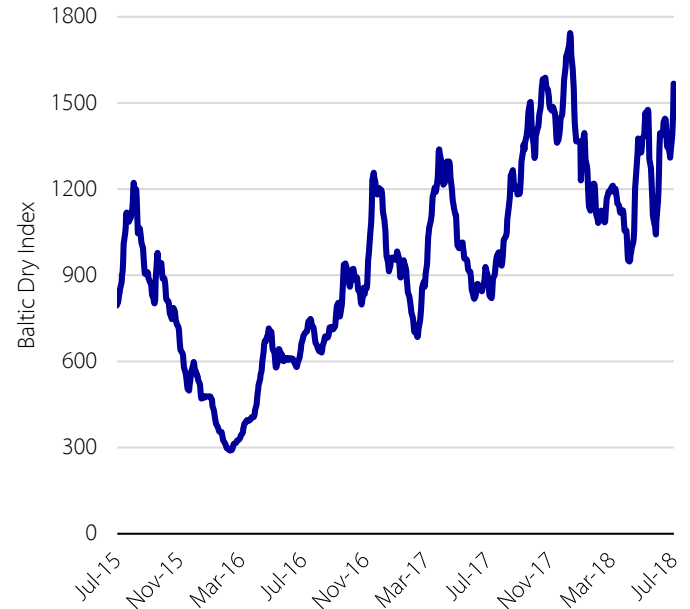
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Brent Crude Oil, July 2015 to July 2018



Source: AIP, Bloomberg, Rabobank 2018

Baltic Dry Index, July 2015 to July 2018



Source: Bloomberg, Rabobank 2018

Agri Price Dashboard

As of 1/06/2018	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	480	523	519
CBOT soybeans	USc/bushel	▼	849	1,021	981
CBOT corn	USc/bushel	▼	338	392	380
Australian ASX EC Wheat	AUD/tonne	▼	322	328	306
Australian Canola	AUD/tonne	▼	529	531	497
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	0	467	611
Feeder Steer	AUc/kg lwt	▲	285	266	340
North Island Bull 300kg	NZc/kg cwt	▲	530	525	565
South Island Bull 300kg	NZc/kg cwt	▲	505	490	500
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	710	595	578
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	785	755	665
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	770	735	650
Venison markets					
North Island Stag	NZc/kg cwt	▲	1,080	1,060	865
South Island Stag	NZc/kg cwt	•	1,110	1,110	910
Dairy Markets					
Butter	USD/tonne FOB	▼	5,688	5,800	5,925
Skim Milk Powder	USD/tonne FOB	▼	2,063	2,088	2,125
Whole Milk Powder	USD/tonne FOB	▼	3,200	3,275	3,275
Cheddar	USD/tonne FOB	▼	3,925	4,225	4,013

Agri Price Dashboard

As of 1/06/2018	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	94	101	84
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	84.5	93.3	75.0
Sugar markets					
ICE Sugar No.11	USc/lb	▼	11.56	12.52	13.92
ICE Sugar No.11 (AUD)	AUD/tonne	▼	347	365	405
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	2,056	2,027	1,524
NZ Coarse Crossbred Indicator	NZc/kg	▼	341	346	340
Fertiliser					
Urea	USD/tonne FOB	▲	280	250	192
DAP	USD/tonne FOB	▲	420	410	345
Other					
Baltic Dry Index	1000=1985	▲	1,422	1,156	829
Brent Crude Oil	USD/bbl	▲	77	77	48
Economics/currency					
AUD	vs. USD	▼	0.734	0.757	0.759
NZD	vs. USD	▼	0.672	0.698	0.728
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	•	1.75	1.75	1.75

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