



Agribusiness Monthly

March 2018

New Zealand

Food & Agribusiness Research and Advisory March 2018



Rabobank

Commodity Outlook



Dairy

Short-term rally in Oceania product to be offset by the approaching EU spring peak.



Beef

Tight domestic supplies expected to hold schedule prices firm over coming month, but potential for prices to ease once cow kill increases late March.



Sheepmeat

Rabobank expects procurement pressures to support farmgate prices at current levels throughout March.



Wool

Excess supply still working through the system to keep price improvement subdued.



Wine

Lower taxes may provide some support for consumption in the key US market in 2018, but pricing will also be something to watch as the impact of global supply tightening continues to play out.



Horticulture

First consignment of NZ avocados arrives in China as export season ends with production well down.



Fertiliser

The upward movement of global prices is bringing some price pressure locally, although we expect prices to ease during Q2.



FX

With US monetary policy tightening set to outpace that of NZ over the next 12 months, we continue to expect that the NZD will eventually soften further against the US dollar.



Oil

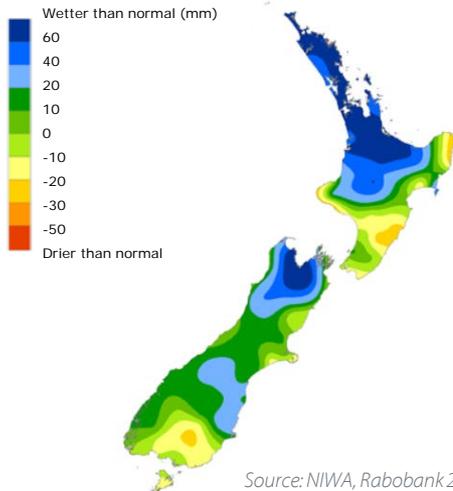
The Crude Oil Price falls 10%, following the plummeting stock market, but quickly resumes upward trend.

Climate



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Soil moisture anomaly (mm), 20 February 2018



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

Rainfall totals from February through to April are expected to be above normal in the North Island and in the north of the South Island. For the rest of the country, there is an equally likely chance that rainfall will be near normal (35-40% chance), or above normal (35-40%).

NIWA's soil moisture forecasts to April 2018 are variable across New Zealand. Soil moisture levels in the north of the North Island are expected to be above normal, and equally likely to be normal (40% chance) or below normal (40% chance) in the west of the South Island. For the remainder of the country, soil moisture levels are equally likely to be normal or above normal.

What to watch

- **Autumn growing conditions** – with many of NZ's drought-affected regions receiving healthy levels of rainfall since the start of the year, feed levels have significantly improved, easing the pressure to de-stock that was evident before Christmas. However, further rainfall is still required in many parts of the country to ensure farmers are able to make sufficient supplementary feed to safely see them through the winter months.



A win With a Wholemilk Powder Uplift

Dry conditions continue to bite in New Zealand as milk production tumbles in January. Latest statistics show milksolids production in January was down 7.2% from a year ago to 194.1m kg. **This means production in New Zealand over the past three months is trailing the corresponding period by 2.7%.** Season-to-date production (in milksolids) stands at 1.356m kgMS (-0.7%).

The drop in milk supply in New Zealand over summer has supported global processing of Oceania product in the short term. Importantly, wholemilk powder (WMP) has been the best performing commodity through this period. **In Rabobank's view this has removed any downside risk to full-year farmgate milk prices for the current season.**

Milk flows in Europe are healthy ahead of the approaching peak production, which is likely to put pressure back on global markets. Latest statistics show milk supplying Europe increased by 4% year-on-year in December.

Importantly, the rate of growth has slowed. December growth followed a 5.9% increase in November and 4.9% in October. Markets will become more lively now that Chinese New Year has come and gone.

What to watch

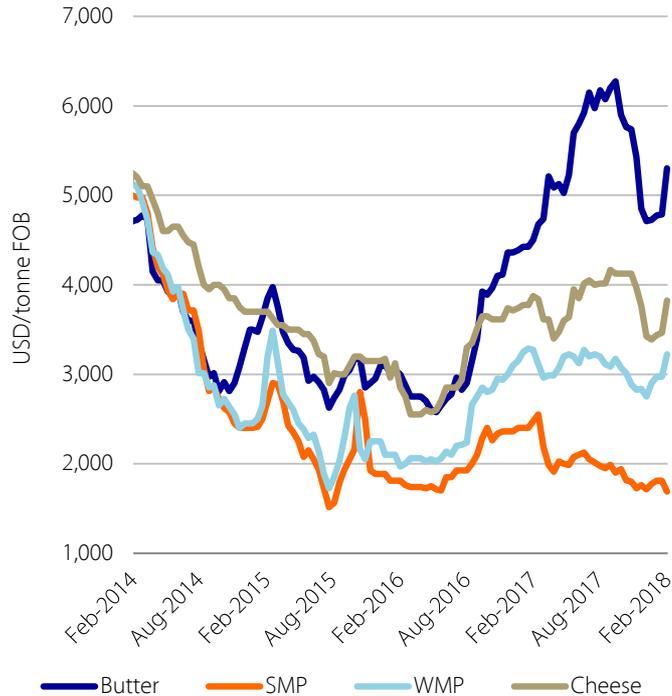
- **Fonterra embraces the A2 concept.** This is a big shift for the New Zealand (and Australian) supply chains, which will take place over many years to come. Milk pools in both countries will be able to reposition into fast-growing and higher returning markets.
- **The long kiss goodbye to SMP stocks.** At the latest tender, the EU Commission managed to sell 4,337t of skim milk powder (SMP) from intervention stores. This was the largest volume sold but a small quantity in the overall scheme.

Dairy

Dry in New Zealand Driving a Short-Term Rally



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Source: USDA, Rabobank 2018

Production growth key exporting regions

| | Latest month | Last three months |
|------------------|---|-------------------|
| EU | 4.0 (December) | 4.9% |
| US | 1.7% (January) | 1.2% |
| Australia | 3.9% (January) | 3.5% |
| NZ | -0.7% (season-to-date at 31 January 2018) | |

Source: Rabobank 2018



Beef

Tight Supplies Edge Prices Higher

Procurement pressure pushed prices up towards the end of February with recent rainfall slowing the supply of cattle available for slaughter. As at the start of March, the North Island bull price is 3% higher MOM, averaging NZD 5.40/kg cwt (2% higher YOY), while the South Island bull price is up 2% MOM, averaging NZD 5.20/kg cwt (6% higher YOY).

Dry conditions in a number of key cattle-producing regions late in 2017 forced many farmers to kill stock earlier than anticipated, resulting in a significant lift in production for Q1 of the 2017/18 season (Oct-Dec). New Zealand's total beef slaughter for the quarter was up 15.5% on the same quarter in 2016. However, rainfall since January has eased the pressure to kill stock, resulting in a slowdown in supply. Given Rabobank's expected New Zealand's total beef production for 2017/18 to be similar to 2016/17 levels, the available supply for the remainder of this season will be down compared to last season (B+LNZ have estimated there are 4.7% fewer cattle available for the rest of the season). **This should ensure there is a degree of procurement pressure supporting prices over the short term.**

US imported beef prices have moved up steadily since the start of 2017 (in part due to the reduced supply of NZ) and are now sitting 3% above the five-year average for this time of year. Unfortunately the continued strengthening of the NZ dollar against the US dollar since the start of December has limited the impact of these lifts on farmgate prices.

Rabobank expects tight domestic supplies to hold schedule prices firm over the next month, however, there is some potential downside for schedule prices once the cow supply increases from late March onwards.

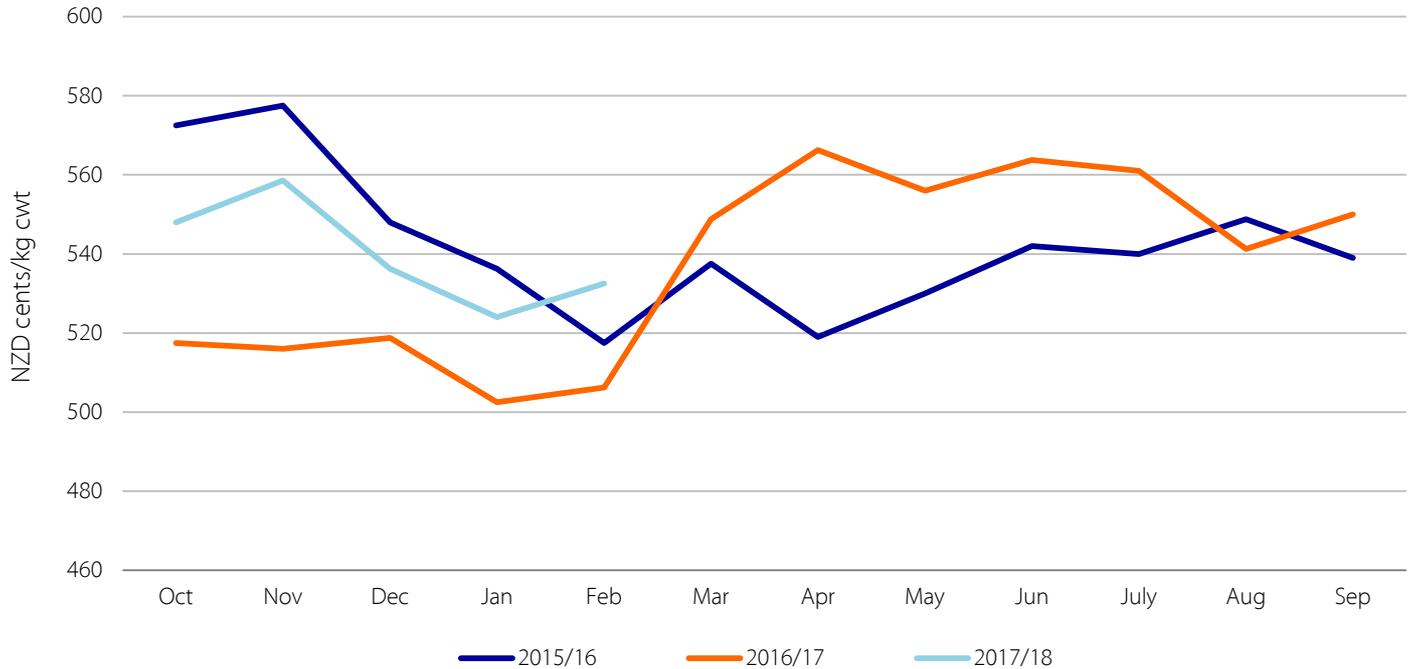
What to watch

- **Drought conditions in the US** – Currently there are 27 states showing various signs of drought stress. The cow population of those 27 states is 31.4m head, 76% of the US cow population. If these regions do not receive rainfall over the coming months (as they enter their spring rainy season), there is potential they will be forced to start liquidating some of their cow population, increasing the supply of domestic lean beef and therefore reducing the demand for imported beef from countries like NZ.

North Island Bull Price



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Strong Prices Keep Rolling On

A lack of lambs available for slaughter, combined with solid ongoing demand from key export markets, saw positive pricing levels persist through February. As of the start of March, the slaughter price in the North Island averaged NZD 6.95/kg cwt (1% higher MOM), while South Island lamb averaged NZD 6.85/kg cwt (1% higher MOM). Prices remain well up on where they were at this stage last season, with the average slaughter price for North and South Island lambs up 30% and 32% YOY respectively.

B+LNZ export data reveals just how strong the start to the 2017/18 season has been for lamb exports, with the value of NZ lamb exports for Oct-Jan up 39% (NZD 961m) on the same period last season. Of note, the average value received per tonne is 17% ahead of last season, despite export volumes increasing (up 13% YTD), indicating that demand from end-users in NZ's major export markets remains strong. While two key export windows have now closed (Chinese New Year, and chilled Easter production), exporters are reporting that demand for NZ lamb remains robust across all markets (with the exception of the UK where demand for frozen cuts is still weak).

As with cattle, dry conditions early in the season saw a high proportion of NZ's 2017/18 lamb production processed in Q1 (up 13% on Q1 2016/17). This is one factor supporting current schedule prices and these competitive pressures are likely to continue throughout the remainder of the 2017/18 season.

Rabobank expects schedule prices to remain strong over the next month as processors seek to source sufficient stock to full processing capacity .

What to watch

- **Chinese demand for mutton** – There has been a significant lift in demand from China for NZ mutton, with the value of NZ's mutton exports to China from Oct-Jan up 136% (NZD 163m) on the same period last season. In January, China accounted for 73% of NZ's total mutton exports. This is one of the main reasons why mutton prices are so strong, with the schedule prices averaging NZD 4.70/kg cwt, up 48% YOY.

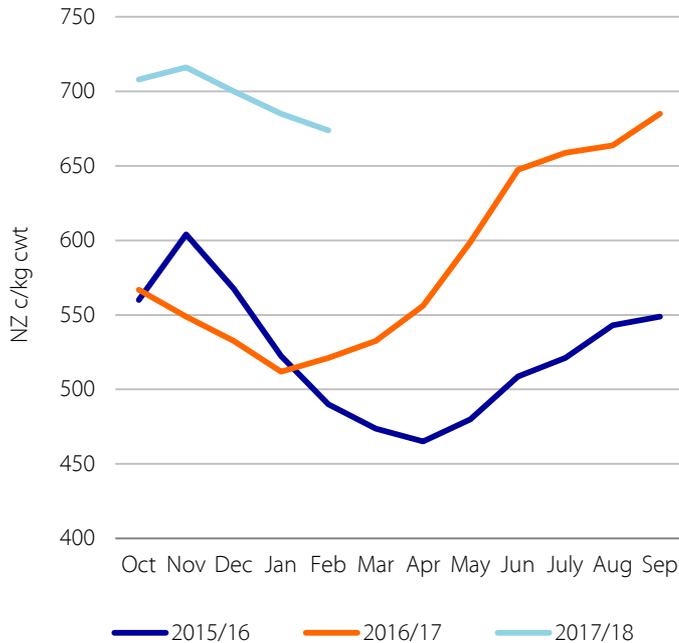
Sheepmeat

South Island Lamb Price and NZ Lamb Slaughter

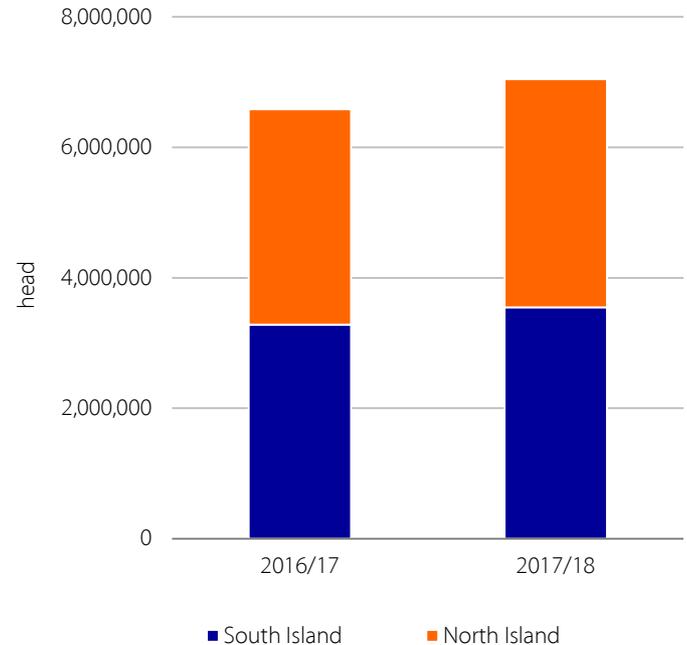


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South Island Lamb Price



New Zealand Lamb Slaughter (YTD – 27th Jan)



Source: NZX AgriHQ, Rabobank 2018

Source: NZ Meat Board, Rabobank 2018



Wool

Prices Steady but Volumes up

New Zealand coarse wool prices remain under pressure, with the indicator just touching over NZC 300/kg in mid February. Importantly though, both clearance rates and wool offered have been much stronger compared with last season and are helping to move through the volume of wool accumulated in stocks last year.

Overall there has been a 25% lift in the bales of wool offered at auction this season to date, and a 40% lift in the bales sold.

Exports in the first half of the 2017/18 season are also reflecting the improved demand with 16.5% more wool shipped compared with a year prior. China is, as discussed, the main driver of the increase with 27% more wool being sent this season to date, however solid gains in India and the UK are also encouraging. Australia, although remaining a relatively small market saw a lift of 70% in volumes over the six months to December.

This improved demand is important to underpin potential price improvement through 2018 as the stocks accumulated in 2016/17 make their way to market.

Beyond the broader end of the market, lambs wool has maintained much of its early 2018 improvement to prices and the outlook remains constructive through the season. Fine wool has continued to go from strength to strength. In Australia the 16 micron indicator pushed through AUc 3,000/kg clean for the first time in mid February.

What to watch

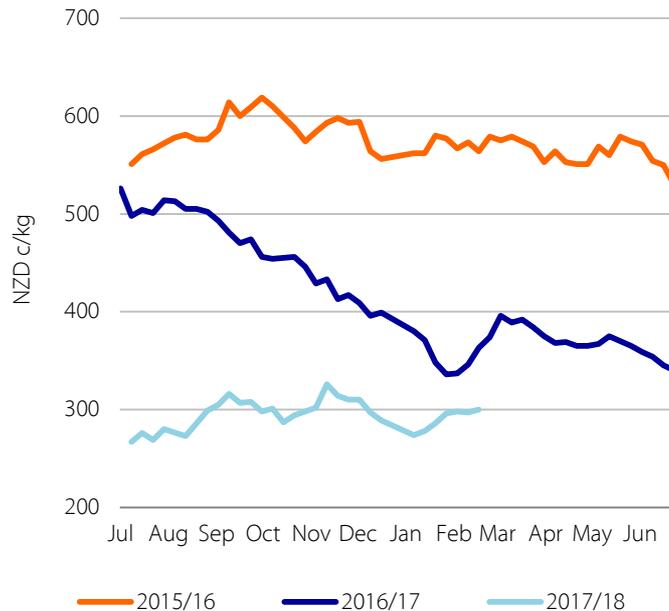
- Another supportive factor for the wool market as it clears through this excess volume is the rise in synthetic prices through the last 6-12 months. This will assist NZ coarse wool's competitiveness with potential substitutes. How those synthetic prices fare in the coming months will be an important factor to watch.

Improved Exports Helping to Clear NZ Stocks

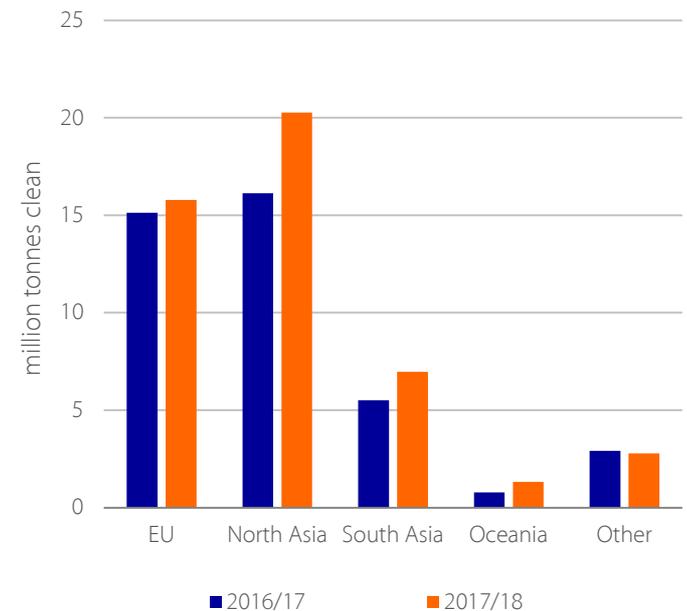


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Coarse Crossbred Indicator



China and India driving the lift in export volumes this season to date



Source: NZWSI, Beef and Lamb New Zealand Rabobank 2017



Eyes on US Wine Consumption

In a world where wine consumption growth is a bit hard to come by, producers around the world will be keeping a keen eye on the US market in 2018.

US wine consumption growth slowed to 1.3% in 2017, according to *bw166*. This growth rate is well below the average velocity of the market evident in the last decade, though there have been other years in which growth was even slower.

Several sources suggest that consumption growth was generally better in the first half of the year, though it was generally somewhat choppy month to month.

It may be somewhat early to call if this slowdown is permanent. Past years have seen consumption growth slow, only to then bounce back again. It is important also to note that 2H 2017 saw some one-off interruptions to trade (including hurricanes in Texas and Florida).

Consumption in 2018 will also be somewhat dependent on how affluent consumers' tax returns are affected by the new Trump tax regime. Assuming that consumers fared better on their tax returns this year, this may provide some impetus to improved wine consumption.

Lower taxes may provide some support for US wine consumption in 2018, but **pricing will also be something to watch as the impact of global supply tightening continues to play out.**

What to watch

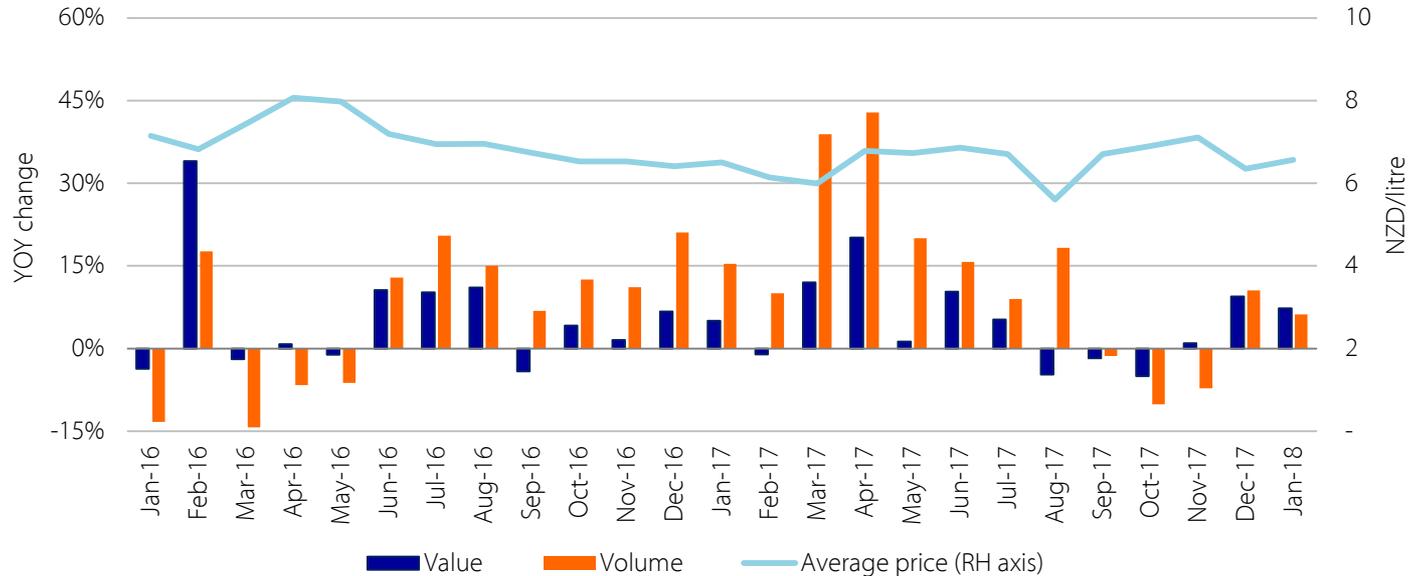
- **NZ exports to the US market.** The US accounted for 27% of the volume of NZ wine exports in 2017, but shipments were down 5% on 2016 levels. Exporters will be hoping that domestic US consumption holds up, and that the small contraction in the 2017 US crush will provide further support for additional product in 2018.

Wine

Exports Return to Growth (for now)



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Source: Stats NZ, Rabobank 2018

After contracting for four months, the volume and value of NZ wine exports rose above prior year levels in December 2017 and January 2018.



NZ Avocados Touch Down in China

New Zealand's first air-freighted consignment of avocados landed in China at the start of February. The consignment followed the signing of a protocol on phytosanitary requirements between New Zealand and China last November, followed by a technical audit of New Zealand's regulatory system for exporting avocados by Chinese officials in January. New Zealand is just the fourth country to be granted access, behind Mexico, Peru and Chile. **China is seen by the sector as a potentially significant market for premium quality, larger-sized New Zealand avocados.**

With New Zealand's export avocado harvest already completed, and the local harvest nearly finished, **this seasons production will be well down on the levels achieved last season, with Avocados New Zealand expecting total avocado tray numbers to be 3.59 million, compared to 7.88 million in the previous season.** Some decline in production was expected with avocados growing better in alternate years.

By contrast, **early signs are that this years kiwifruit harvest will produce a bumper crop once harvesting begins in April.** Hot weather conditions experienced in major producing regions over summer are expected to result in large volumes of both green and gold kiwifruit. While ex-cyclone Gita did cause some damage to crops in the upper South Island, only 4% of Zespri's SunGold variety are grown in this region so the impact on overall produced figures will not be significant.

Zespri have stated that they expect total NZ volumes this season to increase by around 123 million trays over last years production.

What to watch

- **Japanese stink bug invasion** – a Japanese bulk carrier was forced to leave NZ waters late February after MPI found nearly 600 stink bugs, 12 of them alive, on board. This is the fourth Japanese bulk carrier that has been ordered to leave by MPI. It is widely acknowledged that a stink bug incursion could have a devastating impact on NZ agriculture, particularly for the horticultural sector. A recently released New Zealand Institute of Economic Research report estimates a stink bug incursion would result in horticulture export values falling by NZD 2bn and NZD 4.2bn by 2038.

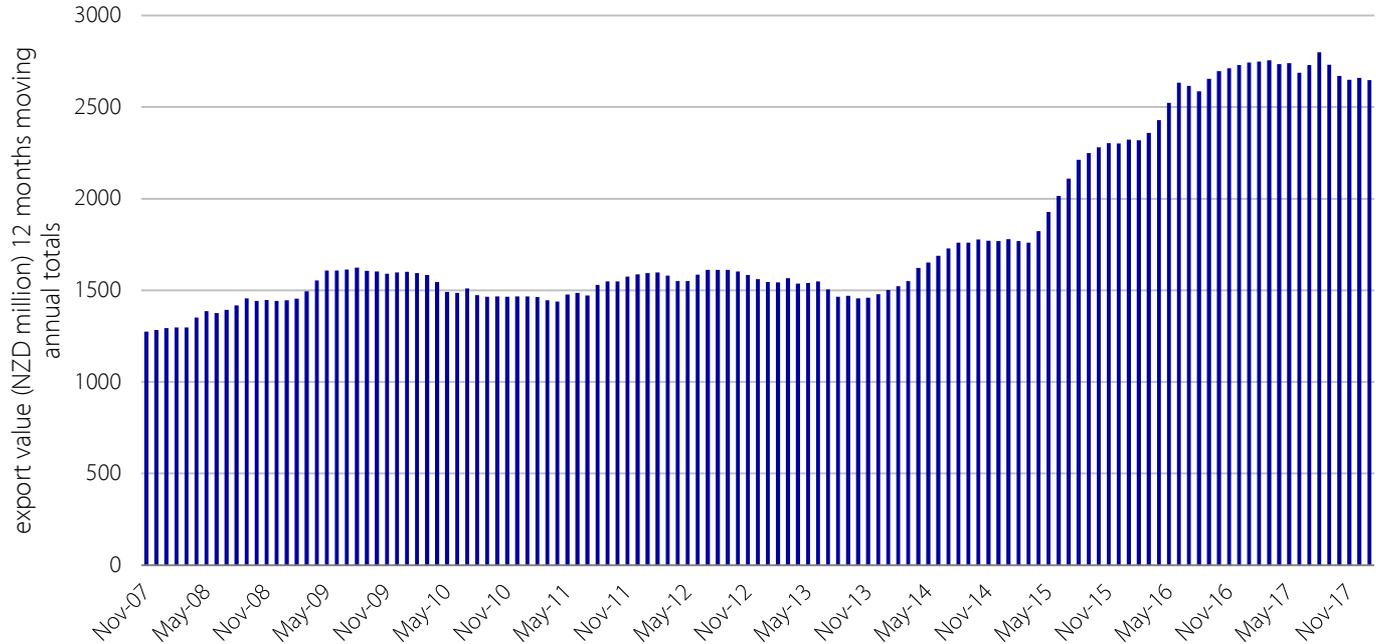
Horticulture



Stable Fruit Exports Continue into Early 2018



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Local Prices Feeling Upward Pressure

Global phosphate and urea prices are making somewhat of a short-term recovery so far in 2018, with DAP FOB US Gulf closing February at USD 410/tonne, its highest point in two years. Urea prices have also been on an upward trend so far in 2018, however the rise is less pronounced following the price shocks in 2H 2017. Rising global prices have also flowed through locally, DAP has increased NZD 65/t since December, closing February at NZD 770/tonne. Urea has also been rising since October, closing February at NZD 526/tonne.

Global phosphate prices have been supported by a number of factors, most distinctly the higher costs of raw materials, including sulphur, ammonia and phosphoric acid. During Q2, sulphur and ammonia are both forecast to fall, and new planned supply is expected from Saudi Arabia and Morocco. These forces will act to bring prices back to more accurately reflect the demand and supply fundamentals, which still point to an oversupplied market and a continuing low price environment.

A hiccup in US urea supply as acted to support prices, with three of the major plants having to delay new production due to major issues. As a result, US import demand has risen significantly, bringing some upward price pressure on markets outside of the US. Future prospects hinge on when US domestic production returns to normal, which is now expected beyond Q1. Chinese imports are expected not be a factor in H1 2018, although the return of Indian demand to the market could act to increase prices. **Although some short-term volatility in demand and supply will influence prices, market commentators expect prices to trend downwards into 2H 2018.**

What to watch

- For New Zealand farmers, rising freight rates are disadvantageous to local prices. New Zealand relies heavily on imports, for both product and raw materials for manufacturing. Upward pressure on freight markets is being applied by a rising crude oil price and falling amount of new shipping capacity coming online.



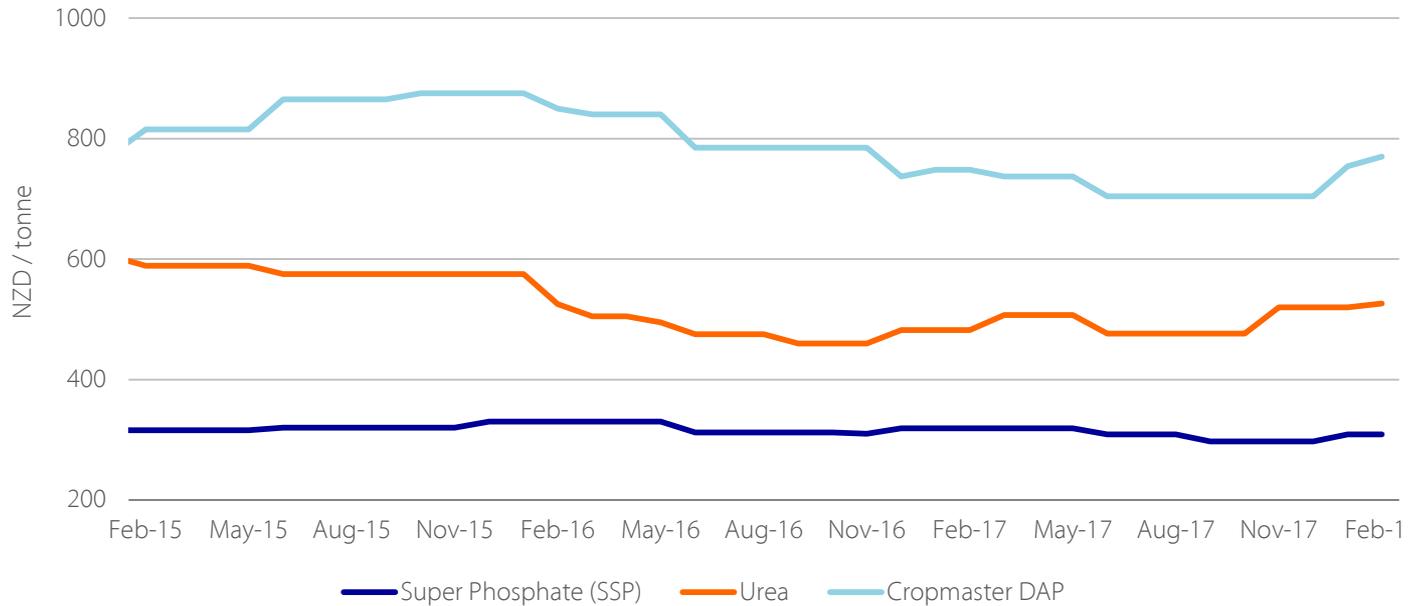
Fertiliser

Expectation of Falling DAP Prices Remains



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Reported local retail prices





NZD Softens as US Gets Hawkish

NZD lost 1 cent against the US dollar in February, essentially reversing the rally seen in January. The currency was worth USc 72.1 on the first day of March.

Much of the change was driven by the hawkish tone of the first statement by the new Governor of the US Federal Reserve. Mr Powell noted that his “personal outlook for the economy has strengthened since December” with data that “will in my case add some confidence to my view that inflation is moving up to target”. Among the reasons he gave for his optimism were the continuing strength in the labour market, a fiscal impulse and the global economic expansion. The futures market responded to these comments by increasing the implied odds of an increase in rate hikes in all quarters of 2018.

Rabobank anticipates a 25bps hike in US Fed funds in the next three months (from its starting base of 1.50 in February), followed by another within 12 months.

The NZ domestic situation appears more stable. The RBNZ left its overnight cash rate unchanged in February at 1.75 percent. And a larger than expected trade deficit in January further reduced expectations of near-term hikes. The RBA in February noted that “monetary policy will remain accommodative for a considerable period.”

With US monetary policy tightening set to outpace that of NZ over the next 12 months, **we continue to expect that the NZD will eventually soften further against the US dollar.** After trading around current levels over the next six months, we expect the NZD to fall to USc 68 by March 2019.

What to watch

- **Rising trade tensions between the US and China.** In late February, the US imposed further duties on imported aluminium. The new sanctions were announced just as China sent an envoy to the US to discuss the trade relationship between the two countries. An escalation of tensions would cause volatility in financial and currency markets in coming months.

FX

NZ Dollar Reverses January Rally



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NZ/US dollar Cross Rate





Oil Falls on a Slippery Slope

The Brent Crude price appreciated significantly in 2H 2017, breaking US\$ 70/bbl in mid/late January 2018, for the first time since the collapse in prices in 2014. Driving the rise is continued tightening of supply, and the likelihood of increasing global growth increasing oil demand. The issue of tightening supply remains at the centre of attention for industry commentators and remains a key factor for the oil price outlook. Compliance by OPEC/non-OPEC countries has so far been strong, however the temptation for non compliance is rising given the strength of prices relative to the last 12 months.

Oil markets were spooked during early February following the Dow Jones falling over 1000pts on 5 February. What followed was a 10 percent fall in the oil price, before stabilising to finish the month sitting at USD 66.56/bbl.

Freight rates have been trending upwards since February 2016, when rates were at their lowest ever recorded. **This upward trend was halted in December, however this is considered seasonal.** Traditionally, rates are much lower between January and Chinese new year, as imports to China of coal and iron ore are slower. Moving into Q2, the upward trend in rates is expected to continue, driven by movements of spring wheat in the northern hemisphere. In the medium term, increasing costs of bunker fuel (closely related to crude oil price) and a tightening of the global freight balance, mainly driven by a slowing of new shipping capacity, will contribute to increasing rates.

What to watch

- A joint technical committee of OPEC and Non-OPEC countries have concluded that the market is re-balancing at a much faster rate than expected. Prior estimates expected that the market would be balanced by Q3 and the very earliest but now looks like the market will be seen as balanced between Q2 and Q3. The speed at which the market re-balances will re-play heavily into future supply agreements between OPEC and non-OPEC countries.

Oil &
Freight

Freight Rates to Continue Upward



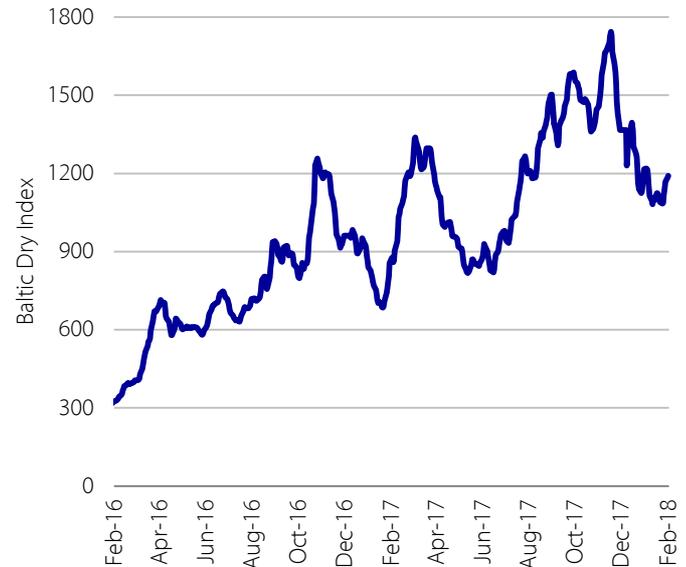
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Brent Crude Oil
February 2017 to February 2018



Source: AIP, Bloomberg, Rabobank 2018

Baltic Dry Index,
February 2016 to February 2018



Source: Bloomberg, Rabobank 2018

Agri Price Dashboard

| As of 28/1/2018 | Unit | MOM | Current | Last month | Last year |
|-------------------------------------|---------------|-----|---------|------------|-----------|
| Grains & oilseeds | | | | | |
| CBOT wheat | USc/bushel | ▲ | 462 | 452 | 419 |
| CBOT soybeans | USc/bushel | ▲ | 1,034 | 996 | 1,011 |
| CBOT corn | USc/bushel | ▲ | 369 | 362 | 360 |
| Australian ASX EC Wheat | AUD/tonne | ▲ | 270 | 266 | |
| Australian Canola | AUD/tonne | ▲ | 517 | 508 | 535 |
| Beef markets | | | | | |
| Eastern Young Cattle Indicator | AUc/kg cwt | ▼ | 526 | 540 | 620 |
| Feeder Steer | AUc/kg lwt | ▼ | 281 | 287 | 334 |
| North Island Bull 300kg | NZc/kg cwt | ▲ | 540 | 525 | 535 |
| South Island Bull 300kg | NZc/kg cwt | ▼ | 510 | 520 | 500 |
| Sheepmeat markets | | | | | |
| Eastern States Trade Lamb Indicator | AUc/kg cwt | ▼ | 619 | 633 | 641 |
| North Island Lamb 17.5kg YX | NZc/kg cwt | ▲ | 695 | 690 | 540 |
| South Island Lamb 17.5kg YX | NZc/kg cwt | ▲ | 685 | 675 | 520 |
| Venison markets | | | | | |
| North Island Stag | NZc/kg cwt | ▲ | 1,030 | 1,015 | 800 |
| South Island Stag | NZc/kg cwt | ▲ | 1,080 | 1,070 | 815 |
| Dairy Markets | | | | | |
| Butter | USD/tonne FOB | ▲ | 5,300 | 4,775 | 4,500 |
| Skim Milk Powder | USD/tonne FOB | ▼ | 1,690 | 1,813 | 2,475 |
| Whole Milk Powder | USD/tonne FOB | ▲ | 3,225 | 2,975 | 3,275 |
| Cheddar | USD/tonne FOB | ▲ | 3,825 | 3,438 | 3,875 |

Agri Price Dashboard

| As of 28/1/2018 | Unit | MOM | Current | Last month | Last year |
|---------------------------------------|---------------|-----|---------|------------|-----------|
| Cotton markets | | | | | |
| Cotlook A Index | USc/lb | ▲ | 91 | 88 | 85 |
| ICE No.2 NY Futures (nearby contract) | USc/lb | ▲ | 81.0 | 77.3 | 75.0 |
| Sugar markets | | | | | |
| ICE Sugar No.11 | USc/lb | ▲ | 13.66 | 13.23 | 19.09 |
| ICE Sugar No.11 (AUD) | AUD/tonne | ▲ | 384 | 362 | 548 |
| Wool markets | | | | | |
| Australian Eastern Market Indicator | AUc/kg | ▲ | 1,820 | 1,734 | 1,449 |
| NZ Coarse Crossbred Indicator | NZc/kg | ▲ | 300 | 286 | 363 |
| Fertiliser | | | | | |
| Urea | USD/tonne FOB | ▲ | 265 | 250 | 270 |
| DAP | USD/tonne FOB | ▲ | 410 | 395 | 370 |
| Other | | | | | |
| Baltic Dry Index | 1000=1985 | ▲ | 1,191 | 1,152 | 878 |
| Brent Crude Oil | USD/bbl | ▼ | 67 | 69 | 56 |
| Economics/currency | | | | | |
| AUD | vs. USD | ▼ | 0.785 | 0.806 | 0.767 |
| NZD | vs. USD | ▼ | 0.728 | 0.737 | 0.720 |
| RBA Official Cash Rate | % | • | 1.50 | 1.50 | 1.50 |
| NZRB Official Cash Rate | % | • | 1.75 | 1.75 | 1.75 |

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