

# ***Agribusiness Monthly July 2021***

***New Zealand***

***July 2021***

**RaboResearch**  
Food & Agribusiness



# Commodity Outlook



## Dairy

New Zealand milk flows hit a new record for the 2020/21 season based on good weather and strong prices. We expect a similar volume of milk for the 2021/22 season.



## Beef

Beef returns are riding high on the imported US beef price, and RaboResearch anticipate this will help keep prices at the farmgate elevated over July.



## Sheepmeat

Demand for sheepmeat remains robust in key New Zealand export markets, buoying returns locally.



## Farm Inputs

Global fertiliser markets found yet another gear in June, with most prices in the nutrient complex increasing between 5% and 20%. Rabobank anticipates high local prices are here to stay for the remainder of winter and spring, with further upside possible if local supply tightens.



## FX

Rabobank's outlook remains unchanged. It is Rabobank's expectation that the New Zealand dollar will recover to the USc 74 range over the six-month outlook, where Rabobank expects it should remain on a 12-month view.



## Oil

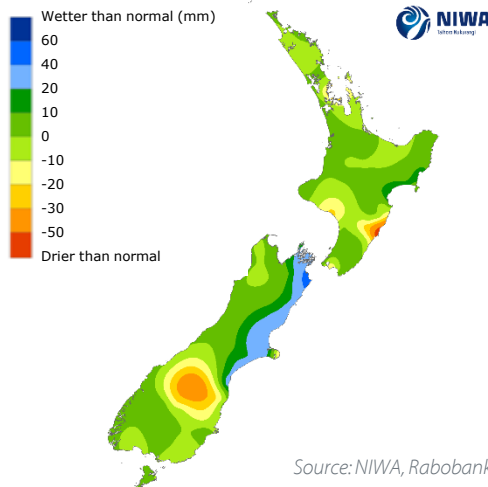
Brent crude prices have continued to increase through June, supported by ongoing investment in commodity markets. We maintain a neutral to bullish view moving forward and expect the Crude Oil price to remain in the low USD 70s/bbl to year-end.

# A Potentially Warm but Volatile Winter



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## Soil moisture anomaly (mm), 27 June 2021



NIWA is forecasting above-average temperatures for most of the South Island across the winter months. The North Island is equally likely to receive above-average or near-average temperatures over the coming three months according to NIWA's latest forecast.

Rainfall levels are anticipated by NIWA to be near-normal for the top of the North Island, and the north and east coast of the South Island. The east of the North Island is likely to receive either near-normal or above-normal rainfall. The west of both Islands are likely to receive below-normal or near-normal rainfall levels through the winter period of 2021.

NIWA is forecasting near-normal or below-normal soil moisture levels in both the north and east of the North Island, as well as most of the South Island. The rest of the country is forecast to have near-normal soil moisture levels through to August 2021.

## What to watch

- **Hold on to your hats! A volatile few weeks could be ahead on the weather front.** NIWA notes that a cold snap at the end of June 2021 is likely to be shortly followed by much milder conditions over the first week of July 2021.



# Milk Flows Spiked Higher in 2020/21

**Dairy commodity prices were mostly softer through June 2021.** Falls were minimal across the complex and prices are still trading at elevated level when compared to year-ago levels. The New Zealand dollar was weaker in June compared to the month prior – good news for dairy exporters. Markets are awaiting the New Zealand season to get underway over the coming months.

**Final New Zealand milk production numbers are in for the 2020/21 season.** May 2021 milk flows bounced 7.6% higher than last year on a tonnage basis, driven by a combination of high milk price forecasts, supportive weather and low comparables from last year's drought in the North Island. This brings the full season production through to 31 May 2021 to 22.3m metric tons – a lift of almost 3% on the prior season and the highest volume of milk produced in New Zealand. Rabobank forecasts milk production for the new 2021/22 season to be marginally higher on the assumption that Q4 2021 milk flows will surpass 2020 volumes.

**Elsewhere, milk production growth numbers coming through from key export regions are mixed.** The United States dairy industry has put the foot on the gas. Milk production jumped 4.6% in May, underpinned by herd expansion. Meanwhile, Australian milk flows have been stuck in neutral with April 2021 production flat on last year. In contrast, the EU peak has now passed and was mostly underwhelming, with April flows dipping into negative territory YOY (-1%).



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## Dairy

### What to watch

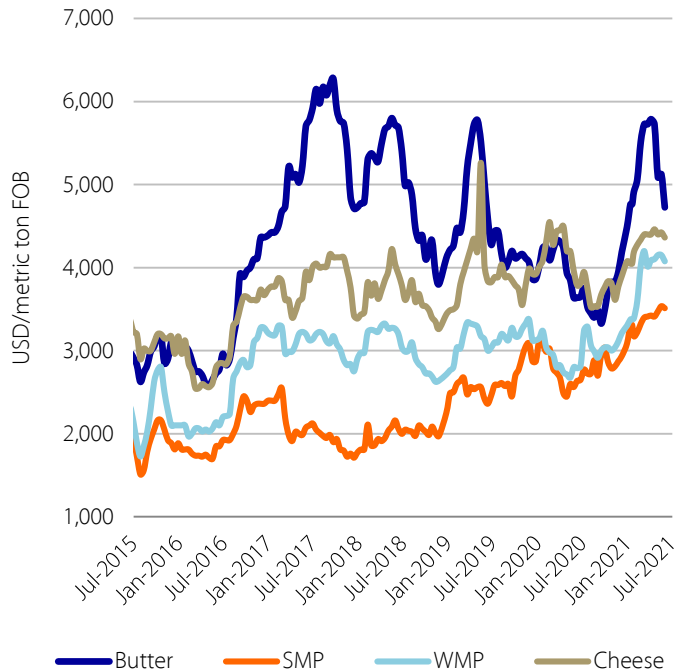
- **China continues to drive global trade.** China's healthy appetite for imports are visible in the early months of 2021 and has been the primary pillar of price support. Rabobank is still expecting softer year-on-year import volumes in the second half of 2021, and this remains the key demand determinant shaping commodity dairy prices into 2022.

# Global Market Eases Back Slightly



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## Global dairy prices, 2015-2021



## Production growth key exporting regions

	Latest month	Last three months
<b>EU</b>	1.0% (Apr 21)	-0.77%
<b>US</b>	4.6% (May 21)	3.4%
<b>Australia</b>	0.0% (Apr 21)	-0.8%
<b>NZ</b>	2.9% (2020/21 season)	

Source: USDA, Rabobank 2021

Source: Rabobank 2021  
February 2020 data is leap-year adjusted

# Beef Prices Riding Imported Highs

***RaboResearch expects farmgate prices to lift over July, with a strong US market helping to drive returns at the farmgate. However, shipping firmly remains an issue and is taking some of the shine away from historic high imported beef prices.***

***Records continue to be broken across the ditch in Australia, with cattle prices remaining exceptionally strong*** and the EYCI rising to a new record in late June 2021. These dynamics are driven by limited supplies as the herd rebuild and strong local procurement competition continue. These circumstances were reflected in the export volumes for April 2021, which were lower by 22% YOY and down 25% on the five-year average.

***These dynamics have flowed through to higher farmgate price movements here in New Zealand.*** As at the end of June, the AgriHQ North Island bull price was NZD 5.60/kg cwt, with the AgriHQ South Island bull price sitting fractionally lower at NZD 5.20/kg cwt. The jump on last month's prices is largely driven by a strong imported beef price, which has trended significantly higher than the five-year average, with the imported 95CL price well ahead of last year.

***New Zealand export volumes were the lowest for the month of May over the past five years.*** New Zealand shipped 44,000 metric tons of product offshore in May 2021, which was 4% lower than this time last year, and 9% down on 2019 volumes. Shipments to China for May 2021 were noticeably lower than 2020 (22% lower), while the US was only 1% higher YOY.

## ***What to watch***

- ***Argentina's export suspension.*** Argentina will remove the export suspension that was imposed on 20 May. The ban will remain in place for half carcasses and some cuts popular in Argentina. Those cuts that can be exported will be limited to 50% of 2020 volumes.



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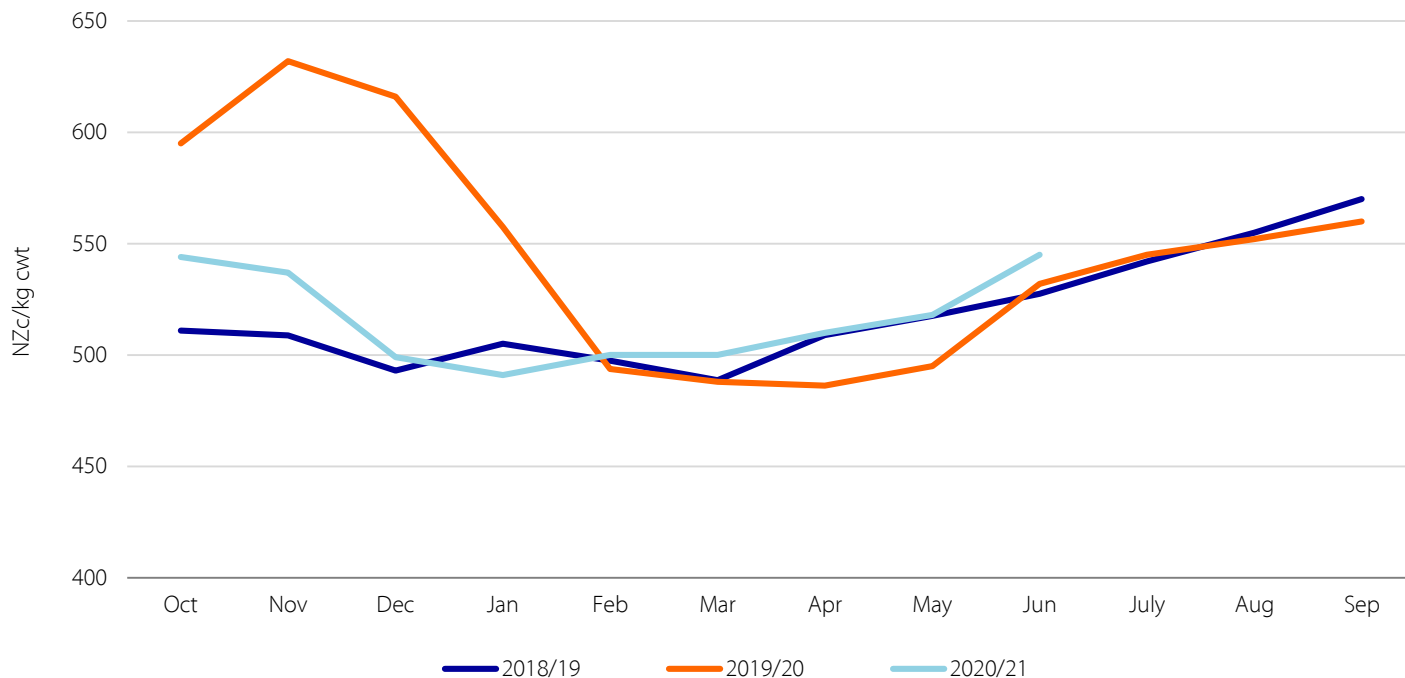
# Beef

# North Island Bull Price



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## North Island Bull Price



Source: AgriHQ, Rabobank 2021

# Farmgate Returns Heating Up

***RaboResearch expects continued demand from key markets as we move through the winter months here in New Zealand, and we anticipated this will lift prices through July.***

***Farmgate prices have seen a jump over the month, in line with seasonal tightening of product availability.*** As of the end of June 2021, AgriHQ reported prices have cracked the NZD 8.00/kg cwt mark. The North Island averaged NZD 8.10/kg cwt – a lift of 13% on the same week last year – while South Island lamb averaged NZD 8.00/kg cwt, leaping 18% compared to the same week in 2020.

***Demand for New Zealand lamb from key international markets remains healthy.*** Total NZ shipments of lamb were fractionally higher for May 2021 (+1%) than May 2020 and flat compared to 2019 volumes. China remains firmly our lead export market, absorbing more than half of NZ lamb exports for May 2021. EU demand also remains sound, taking over 20% of lamb shipments for May 2021 – vaccination programmes continue their roll-out, and foodservice operations are gearing back up for the European summer holidays. It is a similar situation for the US, with May 2021 NZ lamb exports to the US up 24% on 2019 volumes and significantly higher than 2020 Covid-19-impacted volumes.

***RaboResearch sees favourable farmgate returns over the coming months.*** We anticipate steady demand from our key trading partner, China, particularly in light of lower volumes from Australia as producers there continue their quest to rebuild breeding flocks.



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## Sheepmeat

### What to watch

- ***Beef + Lamb New Zealand sheepmeat and beef levy referendum.*** Voting is closing soon on Beef + Lamb's referendum. If you're eligible, make sure you have your say. Get your postal vote in by 6 July or do it online by midday 9 July. More information about this here: <https://beeflambnz.com/referendum>

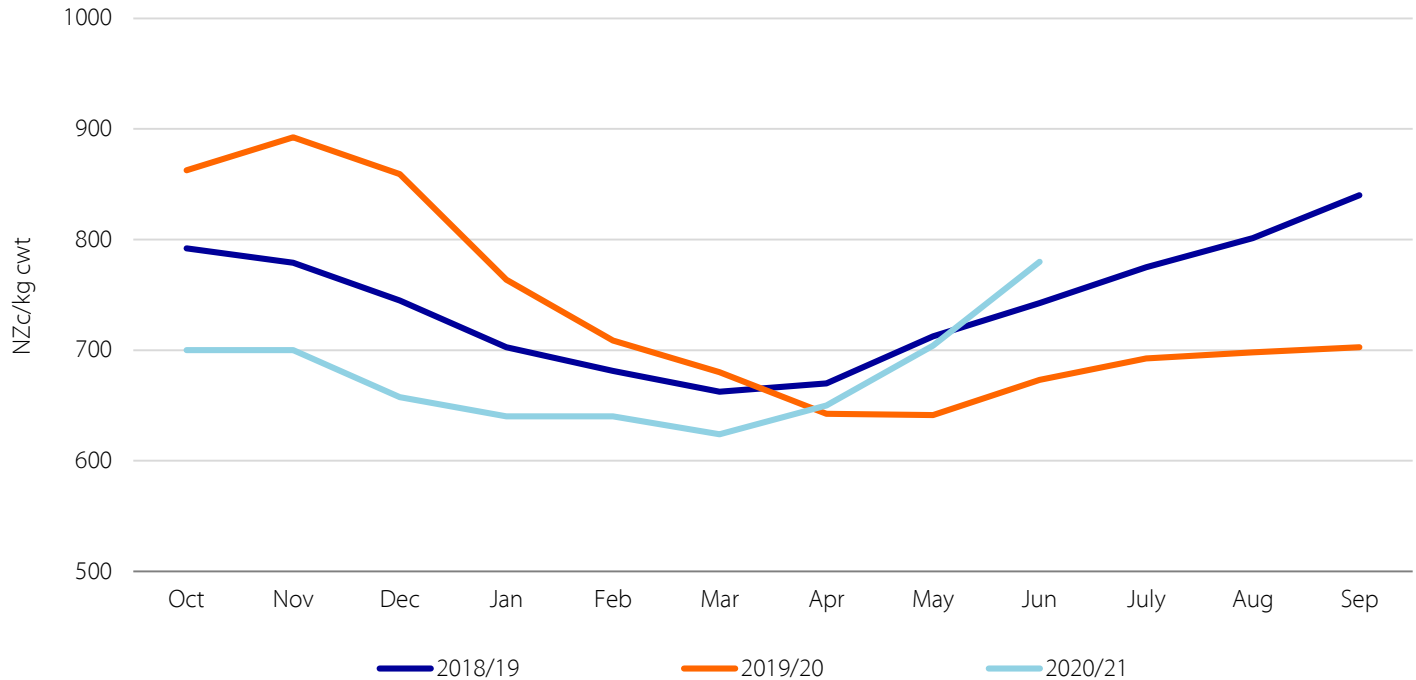


# South Island Lamb Price



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## South Island Lamb Price



Source: AgriHQ, Rabobank 2021

# Fertiliser Found Another Gear

***Global fertiliser markets found yet another gear in June, with most prices across the nutrient complex increasing between 5% and 20%. For the remainder of winter and spring, we expect high local prices to stay, with further upside possible if local supply tightens.***

Locally, urea prices have increased across the country, with DAP prices breaking the NZD 1,000/metric ton barrier, while local urea prices are sitting at NZD 799/metric ton for the first time since December 2012. In our view, these price rises are justified, as they are driven by a sustained increase in global prices and record shipping prices. With the time for procurement and importing taken into account, it is unlikely that local farmers will see any price relief this winter/spring application period, even if some declines are seen in the global market.

Globally, urea prices increased by between 10% and 20%. During June, India floated another import tender which, according to CRU, which attracted offers totalling a whopping 1.814m metric tons. Early monsoonal rains have further highlighted the need for imports in India.

In potash markets, in somewhat of a 'warning', the EU slapped sanctions on some types Belarusian potash production. Although 80% of Belarus potash exports will be unaffected, this has contributed to a lift in global potash prices.



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## Fertiliser

### What to Watch

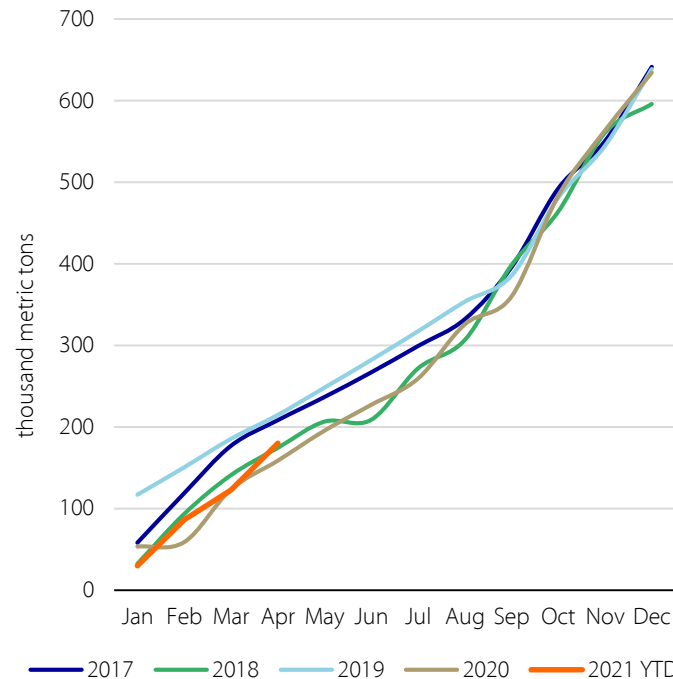
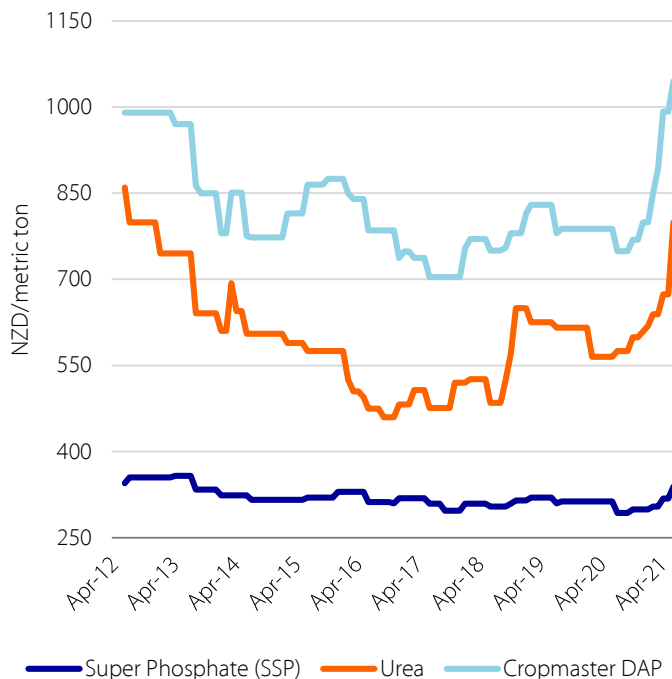
- **Local supplies are a growing risk:** While the latest data shows that local imports to the end of April are in line with previous years, supply chains continue to operate under significant pressure due to strong global demand and limited shipping availability. If local imports are interrupted, we may see local prices increase sharply again and/or supplies not available in time for the spring.

# Local DAP Has Broken NZD 1,000/Metric Ton



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**NZ Local Reported Retail Prices (left) & Local Urea Imports (Right)**





# No Avoiding June Twist & Shakeout

***Despite the relatively hawkish sentiment of the RBNZ, the New Zealand dollar was not immune to the mid-June FX market shakeout. The New Zealand dollar lost 2.5% against the US dollar over the month, trading at US\$ 70.07 on June 28.***

In a marked 'twist' to its previous prevailing view that inflationary pressures would be transitory, in the June 15 FOMC meeting, Chair Powell warned that "inflation could turn out to be higher and more persistent". In response to this more hawkish tone, an abrupt re-adjustment to asset positions led to a sharp rally in the USD, and fall in commodity currencies like the CAD, AUD and NZD.

***However, the shakeout for the NZD would likely have been greater, without key hawkish announcements from the RBNZ during June and better-than-expected domestic GDP data.***

RBNZ resumed publishing its Cash Rate forecasts this month, which showed a first 25 bp hike in Q3 2022. This was coupled with the release of much stronger than expected Q1 GDP data for New Zealand at 1.6% QOQ vs. a median expectations of 0.5% QOQ.

***Rabobank's outlook remains unchanged, with expectations for the New Zealand dollar to recover to the US\$ 74 range over the six-month outlook, where Rabobank expects it should remain on a 12-month view.***

## ***What to Watch***

- ***GDP data*** – With Q1 GDP coming in more than 1% higher than median expectations for the quarter, speculation as to whether the RBNZ would be prepared to adjust some of its cautious language at its July 12 meeting and bring forward their first Cash Rate hike, is increasing.

# Rates & FX

# USD Strength Shook Out Commodity Currencies Like the AUD, NZD and CAD in June



## ***NZ currency against the US dollar***







## Oil & Freight

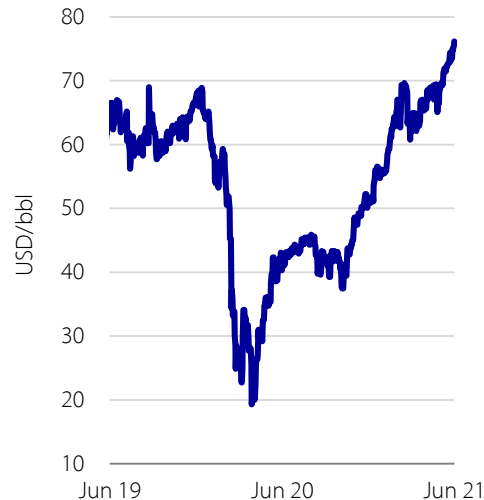
# Throttle Still on for Brent Crude

***Brent crude prices have continued to increase through June, supported by ongoing investment in commodity markets. We maintain our bullish view moving forward and expect Crude Oil to remain in the low USD 70s/bbl toward year-end.***

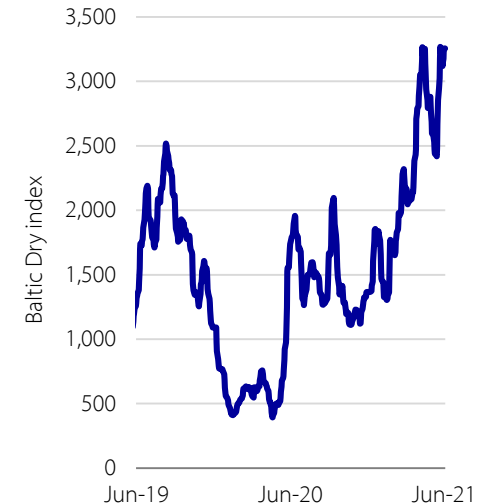
Brent crude prices continue to be fuelled by a number of factors. At the beginning of June, OPEC+ announced that it sees tight oil markets moving forward, as oil demand recovers as key cities and regions continue to open and vaccination rates continue to rise. Secondly, money continues to pour into alternative asset classes. We see this money is generally from longer-term investors, with multi-year horizons in mind in terms of asset allocation decisions. In our view, this will support Brent Crude prices.

The Baltic Dry Index, an indicator of Ocean Freight Prices, increased 27% during June.

***Brent Crude Oil, June 2019-June 2021***



***Baltic Dry Index, June 28, 2021***



# Agri Price Dashboard

As of 28/06/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	637	664	521
CBOT soybean	USc/bushel	▼	1,330	1,531	841
CBOT corn	USc/bushel	▼	637	657	326
Australian ASX EC Wheat	AUD/tonne	▼	293	308	350
Non-GM Canola Newcastle	AUD/tonne	▼	702	718	678
Feed Barley F1 Geelong	AUD/tonne	▲	256	253	240
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	930	891	704
Feeder Steer	AUc/kg lwt	▲	471	456	388
North Island Bull 300kg	NZc/kg cwt	▲	550	520	510
South Island Bull 300kg	NZc/kg cwt	▲	510	470	445
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	837	843	914
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	800	750	670
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	790	715	655
Venison markets					
North Island Stag	NZc/kg cwt	•	550	550	550
South Island Stag	NZc/kg cwt	▲	560	545	550
Dairy Markets					
Butter	USD/tonne FOB	▼	4,725	5,125	3,850
Skim Milk Powder	USD/tonne FOB	▼	3,513	3,538	2,600
Whole Milk Powder	USD/tonne FOB	▼	4,075	4,150	2,675
Cheddar	USD/tonne FOB	▼	4,363	4,425	4,200

# Agri Price Dashboard

As of 28/06/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	96.0	89.7	65
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	86.4	82.1	58
Sugar markets					
ICE Sugar No.11	USc/lb	▼	16.9	17.4	10.91
ICE Sugar No.11 (AUD)	AUD/tonne	▲	503	497	380
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,468	1,320	1,172
Fertiliser					
Urea	USD/tonne FOB	▲	450	390	218
DAP	USD/tonne FOB	▲	650	583	301
Other					
Baltic Dry Index	1000=1985	▲	3,255	2,596	504
Brent Crude Oil	USD/bbl	▲	76	70	35
Economics/currency					
AUD	vs. USD	▼	0.76	0.77	0.67
NZD	vs. USD	▼	0.707	0.725	0.62
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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