

Global Supply Chain Mayhem

New Zealand Agribusiness Monthly

May 2022

RaboResearch

Food & Agribusiness



Rabobank

Commodity Outlook



A Record-breaking Month

April was a month of records. While strong and partly record-breaking pricing (CBOT corn and CBOT soy oil) benefit farmers, the record fertiliser prices seen in early April and strong energy prices cut into margins. Globally, inflation in many regions has reached its highest point in decades and passing on costs to consumers is getting difficult.



Dairy

Opening milk price forecasts are around the corner. Despite weak global supply fundamentals, we anticipate a wide range to capture the heightened uncertainties in market conditions. Global dairy commodity prices presented a mixed bag in April 2022 as demand weakened.



Beef

RaboResearch anticipates that the North Island bull price will continue to hold around the current levels in May. Global beef pricing remains strong amidst economic and supply chain pressure in key markets.



Sheepmeat

We anticipate that farmgate sheepmeat pricing will hold steady in May, supported by strong demand from the US. Widespread lockdowns in China will likely impact New Zealand sheepmeat exports in May.



Downstream Markets

Consumers need to brace for more food inflation as headline numbers hit decade highs. The potential consumer response and volume reduction in food and beverage sales could be more pronounced in emerging markets.



Farm Inputs

Global urea prices have fallen but we do not expect a sustained, or further, decline unless hostilities cease in Ukraine, something that is considered unlikely in coming months.



FX/Interest Rates

The NZD has weakened in past weeks against the USD. We maintain a strengthening of the NZD in our forecast, but acknowledge the downside risk of an economic slowdown in China, which would hurt NZ exports. Despite RBNZ raising interest rates in April by 50 basis points to 1.5%, a further hike is expected.



Oil/Freight

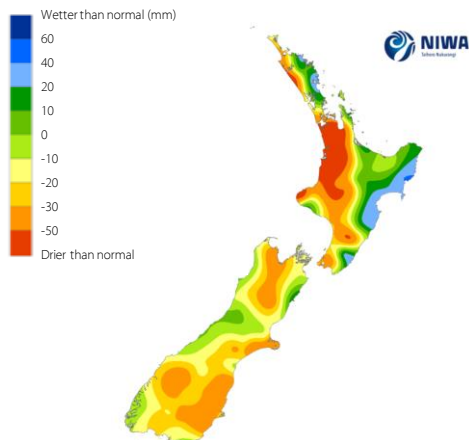
Oil markets remain tight as the west moves away from Russian supplies, with limited room for supply disruptions. Seasonal higher demand is expected and any relaxations of China's lockdowns could further support prices. Port congestions, especially in Asia, put upside risk on container freight rates.

La Niña Still Dominant Across Aotearoa



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Soil moisture anomaly (mm), 1 May 2022



Source: NIWA, Rabobank 2022

Temperatures in May are very likely to be above average across the North Island and west of the South Island, and likely to be near or above average in the north and east of the South Island.

Air pressure is forecast to be higher than normal in the east of New Zealand and lower than normal in the northwest, resulting in more frequent easterly quarter winds than normal. Westerly quarter winds are expected to reduce.

NIWA anticipates that rainfall will be near or below normal in the west of the North Island, and north and east of the South Island. For the remainder of the country, rainfall is likely to be near or above normal in May. Irregular rainfall patterns are likely to continue in May, with the risk of heavy rainfall and flooding.

Soil moisture levels are likely to be below normal in the west of the North Island and near normal in the east of both Islands.

What to watch

- **Marine Heat Wave (MHW) conditions are continuing to delay cooler seasonal temperatures.** Ocean surface temperatures around New Zealand ranged from 0.3°C to 2.7° C above average during April. Warmer temperatures in May will be welcome news for farmers, helping to extend the growing season and set up adequate feed covers for winter.

Global Supply Growth Still Slow

Global dairy commodity prices presented a mixed bag in April 2022, as weaker demand has begun to appear. Export returns for Oceania butter and cheese prices remained at or near record levels but softer powder prices crept through as price resistance started to appear. WMP prices slid over April with main buyer China impacted by lockdowns and additional products offered on the Global Dairy Platform. SMP prices nudged past WMP in April, despite prices softening by the end of that month. The first GDT auction for May showed a clear weaker price trend emerging, centred on a cloudy demand picture amidst reverberations from the pandemic and the Ukraine invasion.

The milk supply situation in export regions continues to underwhelm, supporting the case for farmgate prices to remain elevated compared to the five-year average. New Zealand March milk supplies were lower by almost 2% YOY, turning the run of weaker milk supply growth into an eight-month streak, as a result of weather challenges across most of the season. EU-27 milk production for February moved into positive territory at 0.5% YOY. Milk production titans Germany and France continue to face headwinds with high costs and margin pressure. The UK saw milk production slide by 2.5% for March 2022 YOY. US March milk collections dipped 0.5% behind YOY, while the US dairy herd increased by 15,000 head.

Opening forecasts for the 2022/23 season. With farmers well into establishing new season's budgets, processor opening forecasts for the season beginning 1 June 2022 are eagerly anticipated. The weak supply fundamentals support another profitable farmgate milk price. Yet, the fog of war is clouding forecasts, and with more risk than usual at this time of the cycle, it's likely that there will be a wide variety in opening ranges.

What to Watch

- **Palm oil exports from Indonesia** – Global vegetable oil markets continue to fly high with war and protectionism measures reducing the availability of supply and supporting elevated pricing. Indonesia has recently announced a palm oil export ban, which will help support higher prices for the vegetable oil markets. This will help to limit manufacturers looking to switch from dairy fats to other vegetable substitutes in light of strong dairy prices; but the ban will have a knock-on effect for global food price inflation concerns.



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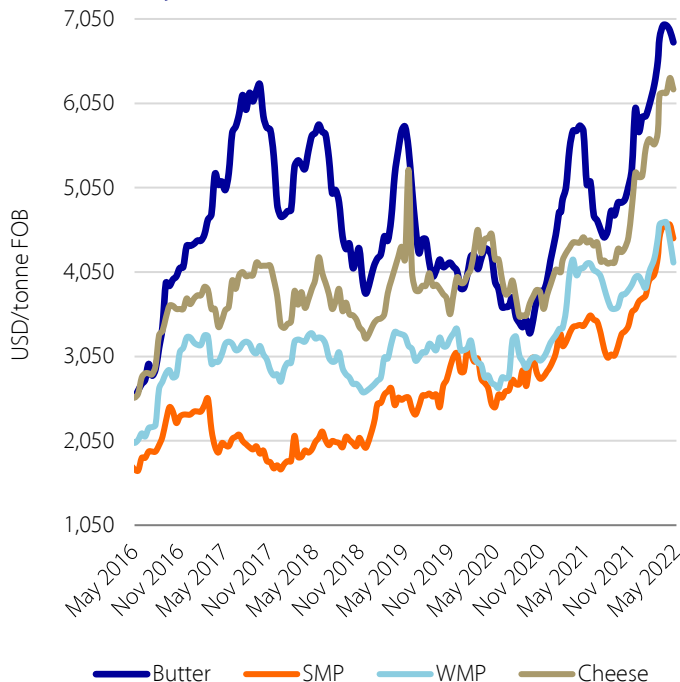
Dairy

Milk Production Remains a Mixed Bag



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Global dairy prices, 2016-2022



Source: USDA, Rabobank 2022

Production growth key exporting regions

	Latest month	Last three months
EU	0.5% (Feb 22)	-0.3%
US	-0.5% (Mar 22)	-1.0%
Australia	-6.1% (Feb 22)	-4.3%
NZ	-3.8% season-to-date (to March 2022)	

Source: Rabobank 2022



China Lockdowns a Concern

Global beef pricing remains strong amidst mounting economic and supply chain pressure in key markets. New Zealand's total beef export earnings hit a new record in March 2022, totalling NZD 470m, up 27% YOY due to high prices and despite export volumes down 11% YOY due to supply chain challenges.

Significant disruptions are impacting supply chains – from processing and shipping, to cold storage and food delivery. New Zealand's March exports to China were down 10% YOY, despite strong local demand and pricing. Around a third of China's population is now impacted by lockdowns. While many consumers are unable to consume beef via foodservice channels, struggles to access beef via retail have also emerged as consumers can't leave their homes to get to supermarkets and online orders are not being reliably delivered. We expect that the volume of beef exported from New Zealand to China will reduce in the coming months as supply chain disruptions and backlogs in China limit import volumes. However, export values are anticipated to remain strong as consumer demand for beef is still high. But if lockdowns are prolonged then consumer confidence could reduce, negatively impacting beef pricing.

The backlog of stock to be processed in New Zealand remains. As of 2 April 2022 (week 26) the national cattle kill was tracking 7.9% behind, with the cow kill furthest behind at -14.9%.

Farmgate pricing remained elevated and held steady in April. The AgriHQ North Island bull price was NZD 5.90/kg cwt throughout April, which is NZc 73 above the five-year average for April. RaboResearch anticipates that the North Island bull price will continue to hold at a similar pricing level in May.



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Beef

What to Watch

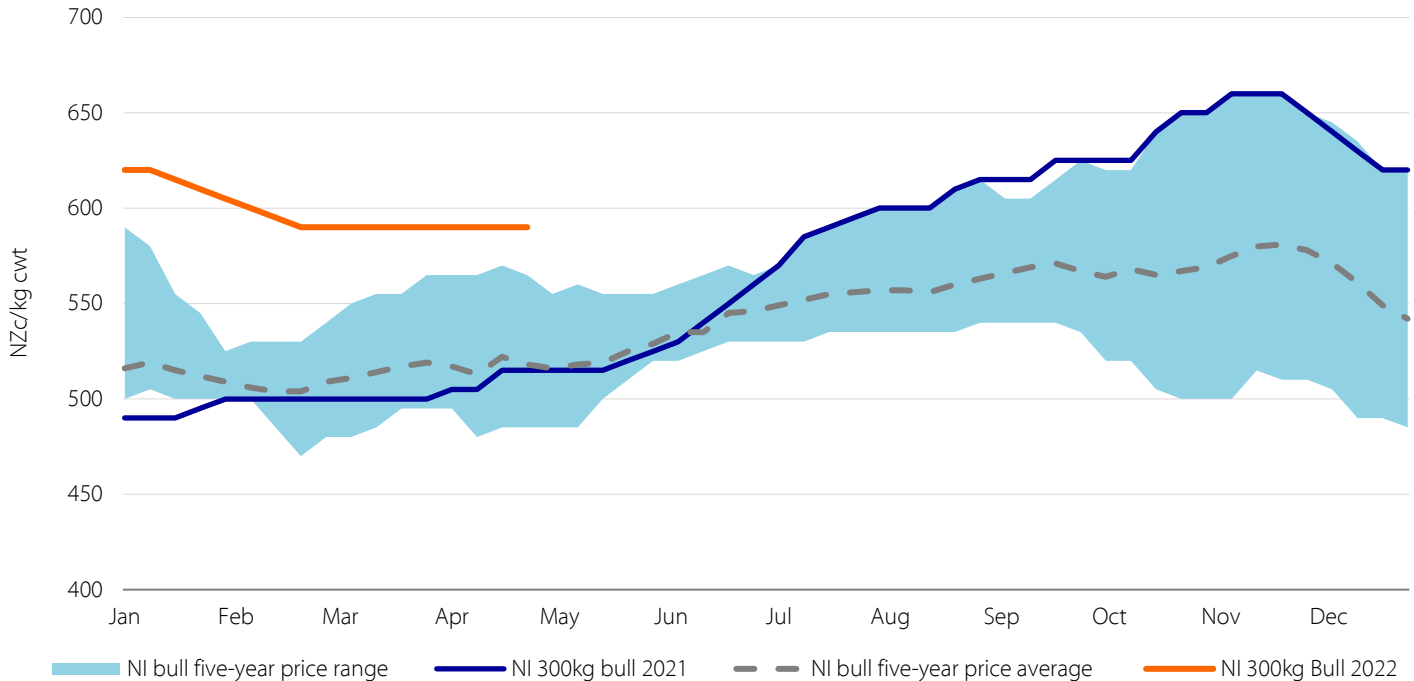
- **New Zealand beef exports to the US continue to decline** – New Zealand beef exports to the US were 18% lower YOY in March, due to supply chain challenges (processing and shipping). However, worsening economic conditions in the US are a risk to consumer demand going forward. Inflation hit a 40-year high at 8.5% in the US in March 2022.

Consumers Still Want Beef



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AgriHQ North Island bull price



Source: AgriHQ, Rabobank 2022

Lamb Logistics Strained

New Zealand sheepmeat export volumes for March were 25% behind the three-year average for the month. Processing delays and supply chain challenges are limiting export volumes. As of 2 April, the national lamb kill for the season was 14.2% behind YOY (1.67m lambs).

Export volumes to the EU-27 countries and UK remain subdued. ADHB has reported that UK lamb consumption for the first 12 weeks of 2022 was down 25.3% YOY. Inflation is driving up the cost of living (CPI hit 7% in March) and impacting demand for lamb. The average price of lamb in March 2022 was 6.9% higher YOY.

On a positive note, exports to the US in March were 47% higher YOY. Strong demand from the US for Easter lamb is an encouraging sign in the lead up to 'grilling season' that the growth in US demand for New Zealand lamb through 2021 is likely to continue. However, with inflation reaching 8.5% in the US in March, consumer willingness to pay could be tested.

The AgriHQ South Island lamb price remained steady at NZD 8.10/kg cwt through April – NZD 1.89 above the five-year average price. Strong demand from key markets continues to underpin high export earnings. Favourable seasonal conditions in Australia are supporting the ongoing recovery of the sheep flock, and the retention of more ewes. This is supporting demand for New Zealand mutton.

RaboResearch anticipates that farmgate lamb and mutton pricing will hold steady in May, supported by US demand. Lockdowns in China are expected to impact export volumes in May.



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Sheepmeat

What to Watch

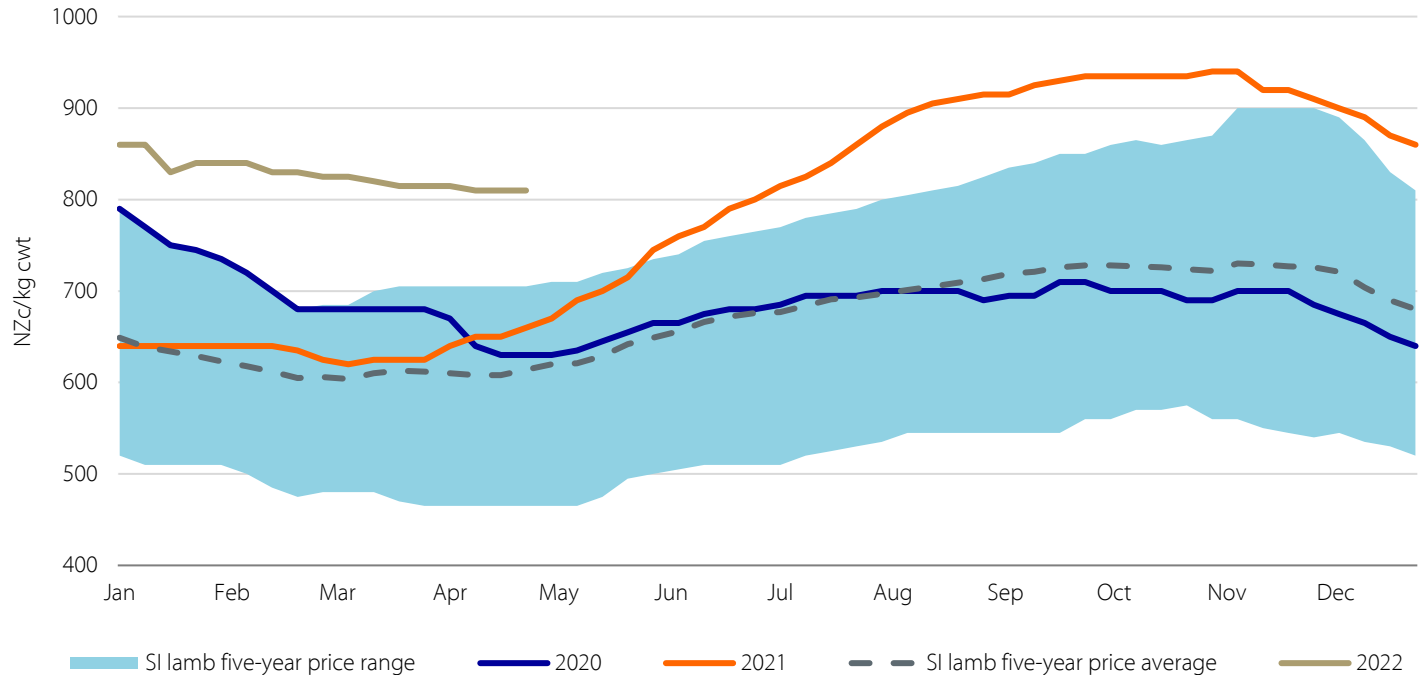
- **China's management of Covid** – With widespread lockdowns currently in China, the key question is: how long will they last? A significant downside price risk remains if Chinese lockdowns continue for months as opposed to weeks, with a risk of lingering impacts on the Chinese economy. We will be monitoring the situation closely, particularly in the lead up to the winter months when sheepmeat consumption is highest.

Lamb Holding, but Headwinds Brewing



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AgriHQ South Island lamb price



Source: AgriHQ, Rabobank 2022

Bracing for More Inflation

Food inflation sequentially increased in the recent quarter to March 2022.

Headline food and beverage inflation reached 6.7%. This was part of a broader spike in inflation across the New Zealand economy. ***It was broad-based food inflation.*** The largest contributor was fruit and vegetables. However, a jump in the price across the meat and dairy aisles was also evident.

Consumers need to brace for more pain. Food inflation will remain elevated in the approaching quarters, as several of the forces driving food prices higher will still be impacting the food system. These include high input costs, distribution, and raw materials. There is more upside potential in packaged food and in out-of-home channels.

A close eye is now on how consumers respond. Consumer purchasing power is under pressure given wider cost-of-living pressures. This poses a downside risk to the sales performance of discretionary categories. On the flip side, affordable offerings can perform well. Food and beverage companies will be looking towards innovation as an instrument to improve consumer value.



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Downstream Markets

What to Watch

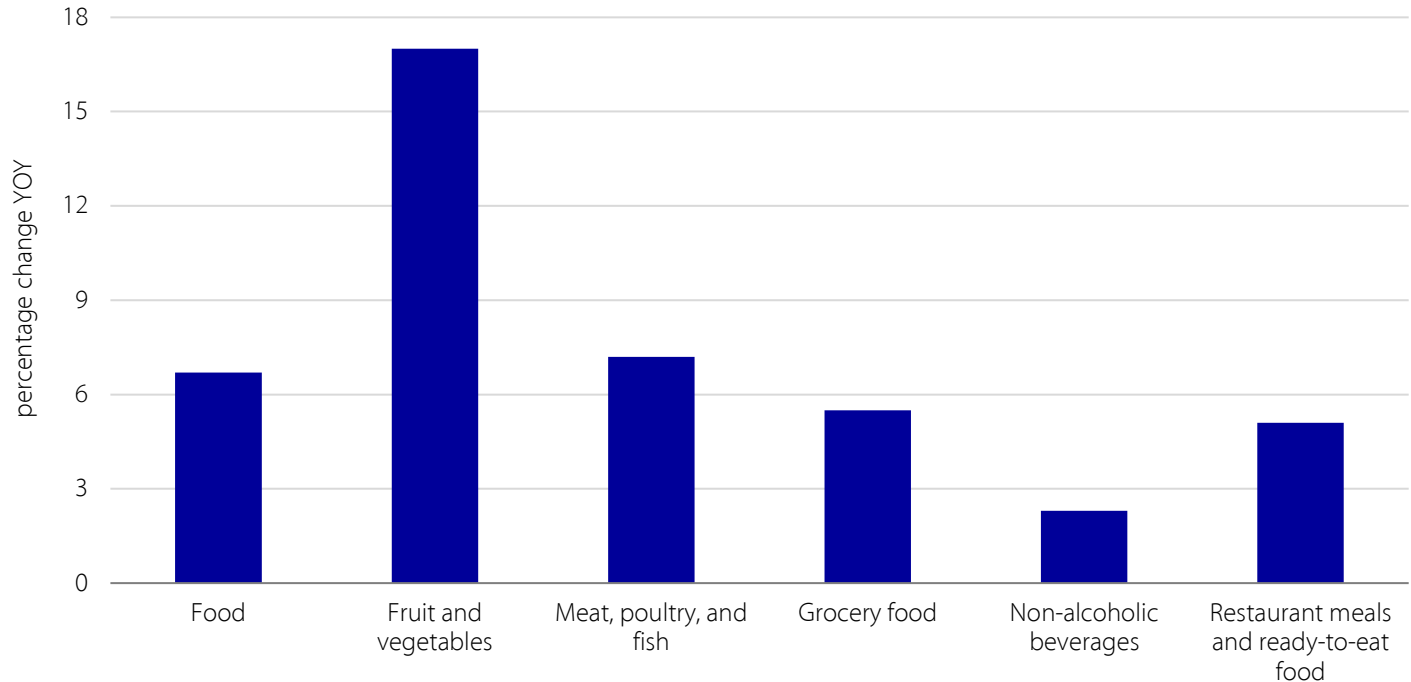
- ***Global food inflation*** – This is not only a New Zealand story. Households all around the world are facing cost-of-living pressures and higher food costs. The potential consumer response and volume reduction in food and beverage sales could be more pronounced in emerging markets – particularly in key export destinations in Asia.

Broad-based Food Inflation in New Zealand



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Consumer price index, March 2022



Sources: Stats.govt.nz, Rabobank 2022



No Sustained Reprieve From High Prices

The ongoing war in Ukraine and sanctions on Belarus and Russia continue to be the main drivers of volatility in fertiliser markets. Global prices for potash and phosphate, in AUD equivalent terms, rose 10.2% and 10.1%, respectively, during April. Overseas urea prices declined 25% MOM but the decline is expected to be temporary.

The continued flow of fertiliser exports from Russian ports to 'friendly' countries and a smaller than expected Indian IPL tender have moved global urea prices down from their March high. ***We do not expect a sustained, or further, decline in urea prices*** unless hostilities cease in Ukraine, something that is considered unlikely in coming months. High energy prices are likely to keep urea prices trading in elevated ranges over the course of the year.

Potash prices continue to be supported due to the world's large trade reliance on Belarus and Russia. Potash purchased prior to the war continues to flow from Russia to South America. However, shipments from Belarus are stymied following the loss of access to the port of Klaipėda in Lithuania earlier in the year as a result of EU and US sanctioning Belarus. Russian export shipments are likely to continue, but payment difficulties due to western sanctions and high freight costs may disrupt flows. We expect further potash price upside for the next few months, with any downward momentum driven by demand destruction.

Phosphate prices are expected to see further upside in 1H 2022. Any downside in 2H 2022 prices will depend on whether China re-enters the market or demand destruction comes into play.

Agrochemical prices have likely peaked but are expected to remain elevated through 2022.

What to Watch

- ***Russia stops gas supply to Europe*** – On 27 April, Russia cut off natural gas flows to Poland and Bulgaria after they refused to make payments in Rubles. Polish sources say that fertiliser production has continued undisturbed. Bulgaria, on the other hand, appears more vulnerable due to insufficient LNG import infrastructure. If more EU countries are cut off, those countries will face higher gas and, consequently, urea prices and will need to cut back on application. If the EU decides to sanction Russian oil and gas, we will also see upward price pressure for urea.

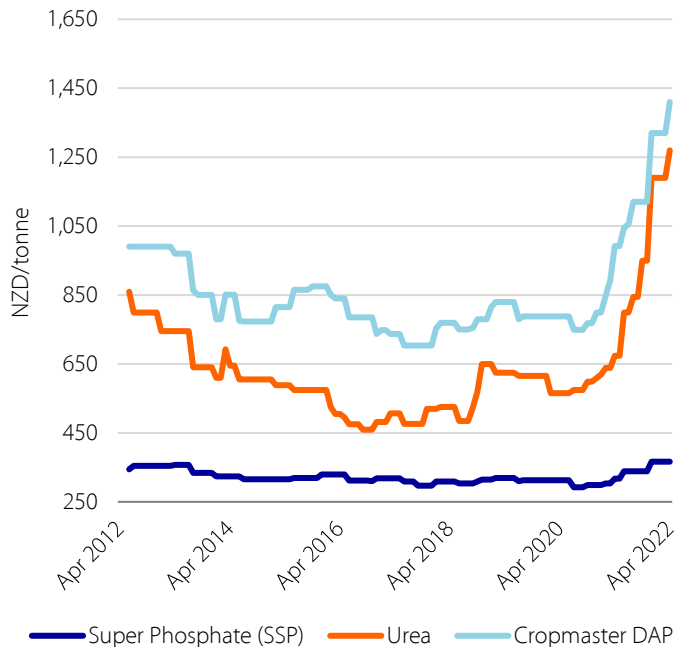
Farm Inputs

New Zealand Fertiliser Prices Keep Rising

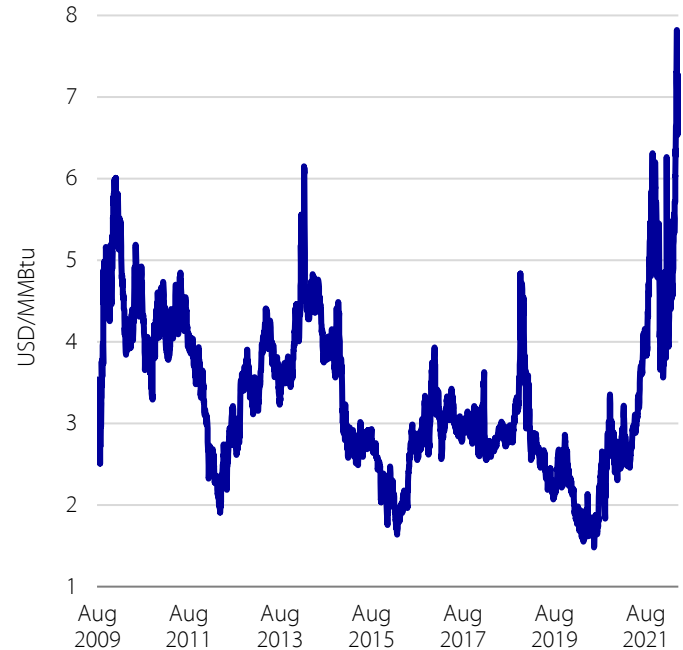


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Local reported retail fertiliser prices



High natural gas prices are expected to prevent sustained movement to lower urea prices globally



Note: Generic 1st Natural Gas Price Future – NY Mercantile Exchange
Source: Bloomberg, Rabobank 2022

Further Tightening

The NZD currently trades at US\$ 0.65, lower than a month ago when the NZD stood at 0.69. For now we maintain our outlook for the NZD to trade at 0.70 on a three-month view.

- The Reserve Bank of New Zealand (RBNZ) decided to accelerate the pace of monetary tightening and increased interest rates by 50 basis points to 1.5% in April.
- By doing this, the central bank hopes to grant themselves some extra flexibility in light of global disruptions in supply chains and volatility in commodity markets as a result of Covid-19 lockdowns in China and the war in Ukraine.
- As such, the RBNZ hopes to mute the risk of rising inflation expectations. The RBNZ monetary policy committee notes that they remain committed to preventing high inflation from becoming entrenched. In short: expect more interest rate hikes.
- ***In the meantime, the domestic economy shows strong performance.*** Despite strong current growth, the future might be more clouded. Consumer confidence regressed over the past few months indicating a potential slowdown in consumption. Unemployment is below its sustainable level, which means labour shortages could impact business.
- The combination of these growth constraints, higher prices, and higher interest rates ***dampens the economic outlook for the second half of the year.***



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What to Watch:

- The NZD remains one of the better-performing G10 currencies in the year to date. That said, it lost a lot of traction through April, despite another rate hike from the RBNZ.
- Slower Chinese growth is a headwind for NZ's economic outlook, in view of the strong trade links between the two countries. A weaker outlook for China, and (by implication) for world growth, also supports the view that the safe haven USD could be stronger for longer. Our current forecast suggests scope for a move back towards US\$ 70 by the end of this year.
- More RBNZ rate hikes are to be expected.

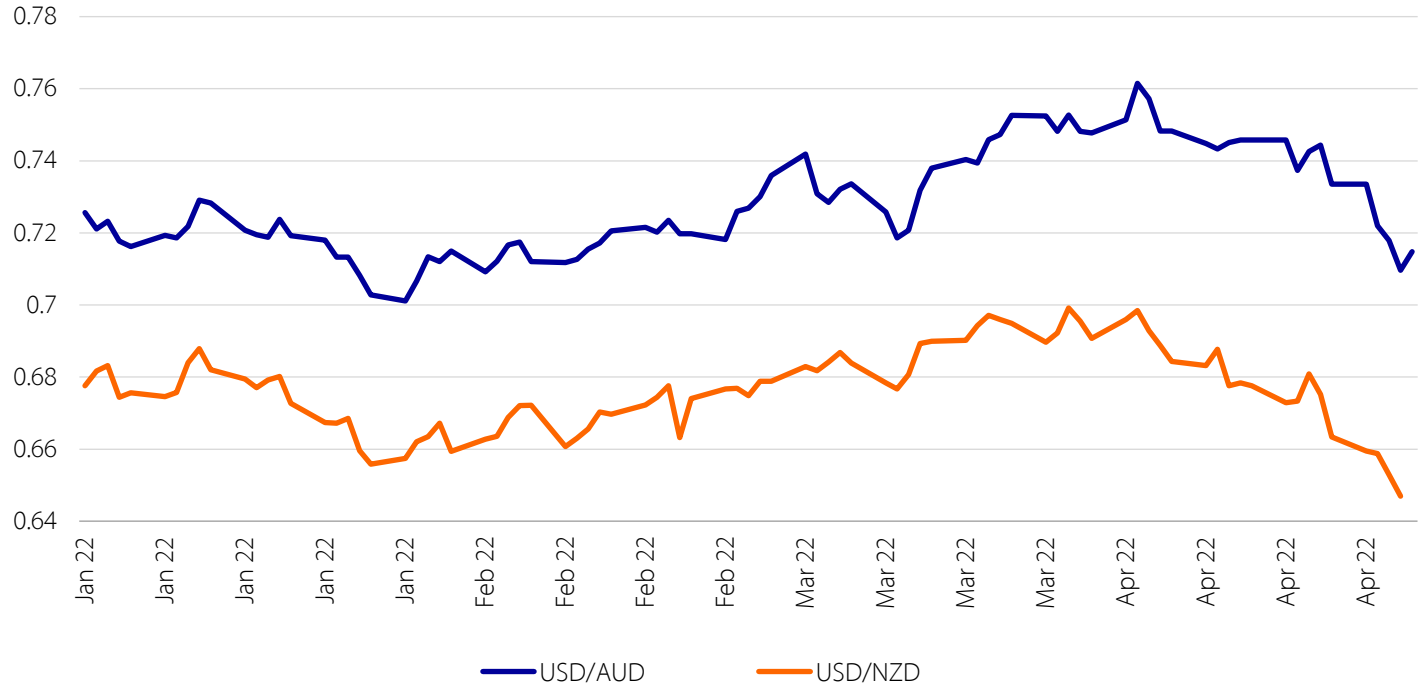
FX

NZD Lost Some Ground in Recent Weeks



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NZD and AUD both lost ground against USD in April 2022



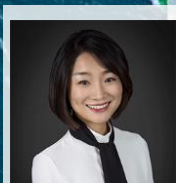
Source: Bloomberg, Rabobank 2022

Oil Price Strength Expected To Continue

After a choppy month, global oil prices are heading into May with positive momentum. The continued price strength is noteworthy as it occurs despite heavy Covid lockdowns in China, the world's largest oil importer. The inevitable easing of these strict measures in China could unleash significant pent up demand in the coming months. Global oil supplies are tight and with the west pushing away from Russian oil imports, the tightness is likely to continue. The high-demand summer period in the northern hemisphere is fast approaching. New Zealand energy prices, a key farm input cost, will remain volatile in a mix of tight global supply, geopolitics, and demand uncertainty.

Global container rates continued to hold steady, as China's Covid-19 lockdowns impacted export manufacturing volume and its domestic transportation. Containers started to pile up in the Port of Shanghai, after being offloaded from carriers but not picked up by truckers. Goods in reefers are especially at risk due to their limited shelf-life and time sensitivity. Globally, one in five containers is stuck in port congestions, with over a quarter of these in Chinese ports.

In contrast to dry container rates, global refrigerated containers (reefer) rates are expected to continue increasing throughout 2022. This upward trend is mainly due to the imbalance of reefer equipment: they are not positioned where needed. Of the total of 3.5m reefer TEUs (20-foot equivalent unit) worldwide, nearly a third are currently stuck in Asia, mainly in China. There are huge deficits in major exporting regions, including South America (-670,000 TEUs), Southern Africa (-100,000 TEUs), and Oceania (-220,000 TEUs).



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Oil & Freight

What to Watch

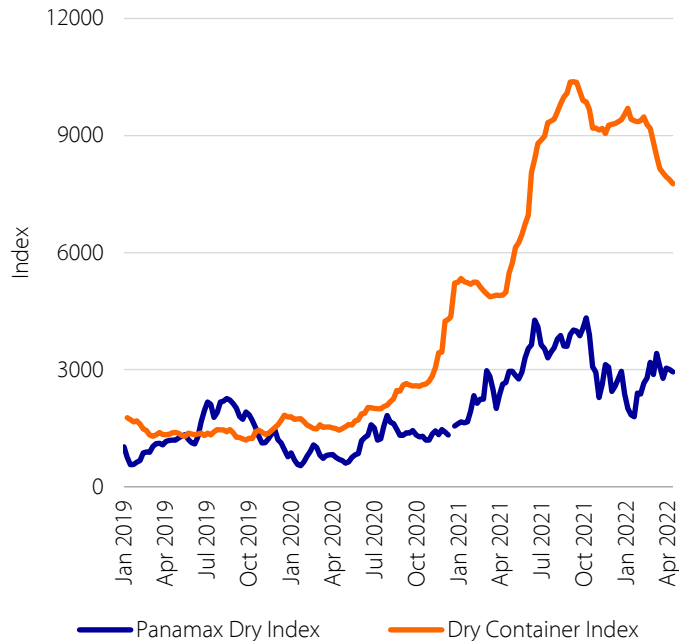
- **Oil markets globally remain tight** – As the west moves away from Russian supplies there remains limited room for supply disruptions. High northern hemisphere demand coupled with potential relaxations of China's lockdowns elevate upside price risk.
- **Port congestions, especially in Asia, put upside risk on dry and reefer container freight rates.**

Oil Prices Have Reached Record Highs

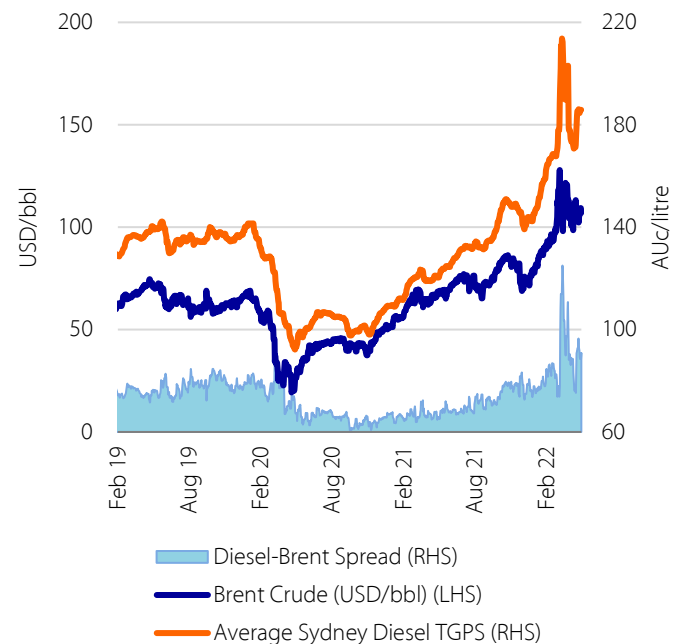


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Baltic Panamax Index & Dry Container Index, Apr 2019-Apr 2022



Brent Crude Oil & Average Sydney Diesel, Apr 2019-Apr 2022



Agri Price Dashboard

29/04/2022	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	1,044	1,006	738
CBOT soybean	USc/bushel	▲	1,708	1,618	1,543
CBOT corn	USc/bushel	▲	818	749	702
Australian ASX EC Wheat Track	AUD/tonne	▲	410	400	304
Non-GM Canola Newcastle Track	AUD/tonne	▲	994	921	687
Feed Barley F1 Geelong Track	AUD/tonne	▲	376	348	242
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	1,088	1,082	877
Feeder Steer	AUc/kg lwt	▼	562	583	455
North Island Bull 300kg	NZc/kg cwt	•	590	590	515
South Island Bull 300kg	NZc/kg cwt	▼	565	575	460
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	791	793	812
North Island Lamb 17.5kg YX	NZc/kg cwt	•	830	830	695
South Island Lamb 17.5kg YX	NZc/kg cwt	•	815	815	660
Venison markets					
North Island Stag	NZc/kg cwt	•	795	795	520
South Island Stag	NZc/kg cwt	•	800	800	535
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,775	6,975	5,788
Skim Milk Powder	USD/tonne FOB	▼	4,450	4,600	3,425
Whole Milk Powder	USD/tonne FOB	▼	4,163	4,638	4,088
Cheddar	USD/tonne FOB	▲	6,213	6,175	4,400

Agri Price Dashboard

29/04/2022	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	166.1	156.6	95
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	152.3	135.7	86
Sugar markets					
ICE Sugar No.11	USc/lb	▼	19.4	19.5	17.08
ICE Sugar No.11 (AUD)	AUD/tonne	▲	598	569	435
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,377	1,375	1,342
Fertiliser					
Urea	USD/tonne FOB	▼	725	1,000	350
DAP	USD/tonne FOB	▲	1,240	1,050	580
Other					
Baltic Panamax Index	1000=198.5	▼	2,938	3,141	2,643
Brent Crude Oil	USD/bbl	▲	109	108	69
Economics/currency					
AUD	vs. USD	▼	0.706	0.748	0.777
NZD	vs. USD	▼	0.646	0.695	0.724
RBA Official Cash Rate	%	•	0.10	0.10	0.10
NZRB Official Cash Rate	%	▲	1.50	1.00	0.25

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