

Welcome Spring – We Have Been Waiting!

New Zealand Agribusiness Monthly

September 2022

RaboResearch
Food & Agribusiness



Commodity Outlook



Dairy

Forecast farmgate milk prices have been under pressure as dairy commodity prices have continued to slide for August 2022. We hold our forecast farmgate milk price at NZD 9.00/kgMS for the 2022/23 season.



Beef

The beef schedule is anticipated to remain elevated in line with 2021 pricing this spring, supported by tight global beef supplies and strong demand from China.



Sheepmeat

The spring lamb schedule is forecast to remain strong on the back of high global protein prices. However, the spring pricing peak may not be as pointy as previous seasons.



Farm Inputs

Urea price upside is on the cards.



FX/Interest Rates

Another 50-basis-point hike is expected in October and more is likely to come as also the RBNZ has increased its forecast of the base rate to peak in mid-2023 at 4.1%. NZD remains volatile, but we hold our 12-month target of a slightly strengthening NZD compared to the USD.



Oil/Freight

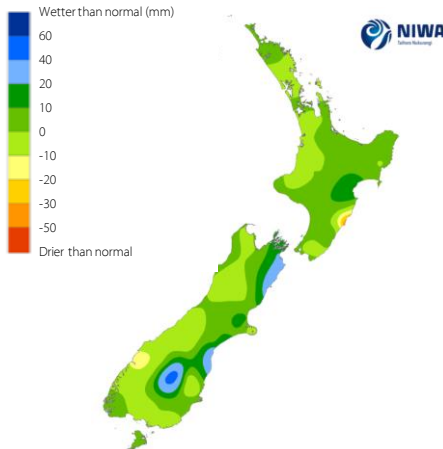
Looming economic conditions have softened prices for oil and freight. Brent crude hovered between USD 95-USD 100/bbl this August. Global freight rates continue to decline for most routes, while reefer rates remain elevated.

Spring Sunshine Welcomed by Farmers



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Soil moisture anomaly (mm), 31 August 2022



Source: NIWA, Rabobank 2022

After a very wet August, NIWA is forecasting Spring to kick into gear in September and for temperatures to be warmer than average across most of the country.

Soil moisture levels are currently ranging from between normal to well above normal across New Zealand, thanks to heavy rainfall through August 2022. NIWA anticipates soil moisture levels to return to near-normal levels over the coming three months.

Rainfall is forecast to move towards drier conditions and is equally likely to be near-normal or below-normal for the west of the North Island, while the east of the South Island is likely to receive near-normal or above-normal levels. The remainder of the country is likely to receive near-normal rainfall through to October 2022.

What to Watch

- Triple Dip – a third summer of La Niña conditions is on its way – a very rare phenomenon. La Niña conditions are expected to ramp up through spring 2022. The country could see warmer temperatures, more sunshine, and less westerly wind than we would normally experience in spring. While dry periods are helpful for soaking up excess moisture, NIWA notes the risk of more dry spells over the period – particularly so in the west of both islands.

A Slow Start to New Season Milk

Commodity prices continued their downhill slide over August 2022. Average monthly USDA prices all moved lower in August 2022 compared to the month prior, led by powders and closely followed by fats. Markets have moved lower in response to inflation concerns, recession fears, and global economic growth doubt. Of the past eleven Global Dairy Trade Events, ten have resulted in the Average Price Index declining. Fonterra has revised their midpoint lower to NZD 9.15/kgMS, down from NZD 9.50/kgMS. RaboResearch holds its forecast for the current 2022/23 season at NZD 9.00/kgMS.

Milk production for July 2022 dropped by almost -6% compared to last year: well below the three-year average of 5% and the first decline since 2013. The first two opening months of the 2022/23 season bring season-so-far collections to 3.2% behind last year. We see lingering impacts from an extended, very dry autumn period in the Waikato, with fickle weather elsewhere – particularly in the North Island. New Zealand milk production growth is expected through the coming Spring flush, but weather risks and excessive rainfall looms large, still.

Global milk production is still struggling to fire on all cylinders. Milk prices are elevated in export regions, but cost headwinds prevail. Some green shoots in production are led by the US, with small growth posted for July. However, EU supply growth is elusive given adverse seasonal conditions and emerging feed shortages. Sluggish EU growth through into 2023 will keep the global supply response in check.



Emma Higgins
Senior Agricultural Analyst
New Zealand

emma.higgins@rabobank.com

Dairy

What to Watch

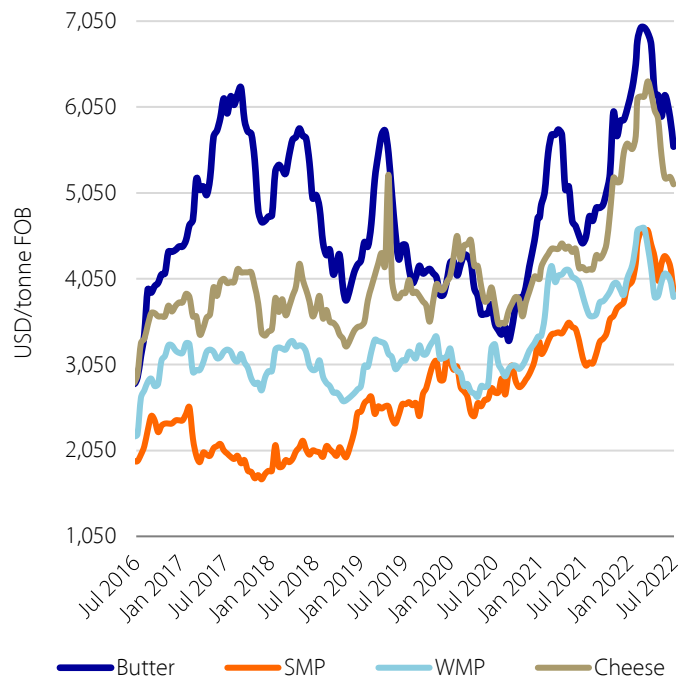
- **Everyone is looking at the China dairy market** – The broader food market was negatively impacted in Q2 2022 on the back of major lockdowns. While restrictions were easing from Q3, government policy is unchanged and the risk for further disruption remains, and economic settings have softened. Rabobank remains cautious around Chinese dairy market fundamentals. We expect the more absent Chinese buyer trend to continue into 2023.

Commodity Prices Still Trending Lower



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Global dairy prices, Aug 2016-Aug 2022



Source: USDA, Rabobank 2022

Production growth key exporting regions

	Latest month	Last three months
EU	-0.6% (June 22)	-0.6%
US	0.2% (July22)	-0.1%
Australia	-9.1% (June 22)	-8.1%
NZ	-5.3% season-to-date in 2022/23.	

Source: Rabobank 2022

Bumper Start to Spring for Beef

The spring outlook for beef demand and farmgate pricing is positive. The AgriHQ North Island bull price lifted further through August to NZD 6.25/kg cwt at the end of the month, which is NZc 0.10 above the schedule price for the same week last year.

RaboResearch anticipates that the New Zealand farmgate beef price will remain elevated in line with 2021 pricing, as the new 2023 season kicks off in October. Pricing is anticipated to be supported by tight global beef supplies and strong demand from China and the US, despite economic headwinds in both markets. Consumers are beginning to trade down beef cuts, increasing their consumption of lower value cuts such as mince. Increased consumption of lower value cuts is good news for exporters because New Zealand is a major exporter of lean trimmings.

New Zealand's beef export volumes continue to track lower than 2021 volumes. In July, beef exports were back 10% YOY, reflecting the lower volumes being produced as a result of processing challenges. As of July 30 (week 43 this season), the national beef kill was behind -5.6% YOY. The bobby calf season kicked off for processors in early August, with the peak period coming to an end in mid-September. Labour shortages, plus more bobby calves coming forward in anticipation of Fonterra's zero on-farm calf disposal mandate from 2023, have both caused increased pressure for processors.

Demand from the US for New Zealand lean trimmings remained softer in July. The US cow herd liquidation is continuing to produce higher volumes of lean trimmings domestically, reducing the need for the US to import trimmings. For the month of July, New Zealand's beef exports to the US fell - 50% YOY. Once the liquidation of the US cow herd slows – weather dependent – demand for New Zealand trimming imports will improve, supporting the farmgate beef price. Exports to China remained steady in July.

What to Watch

- **The spring cattle trading market will crank up in September** – While most of the country is currently battling with wet paddocks, the east coast of the North Island has enjoyed warmer weather that has boosted grass growth and encouraged farmers to seek stock to keep on top of grass. With all signals indicating towards a favourable beef schedule this season, farmers can make trading decisions with some confidence, however, it is important that inflated production costs are accounted for in gross margins.

Beef



Genevieve Steven

Agriculture Analyst
New Zealand

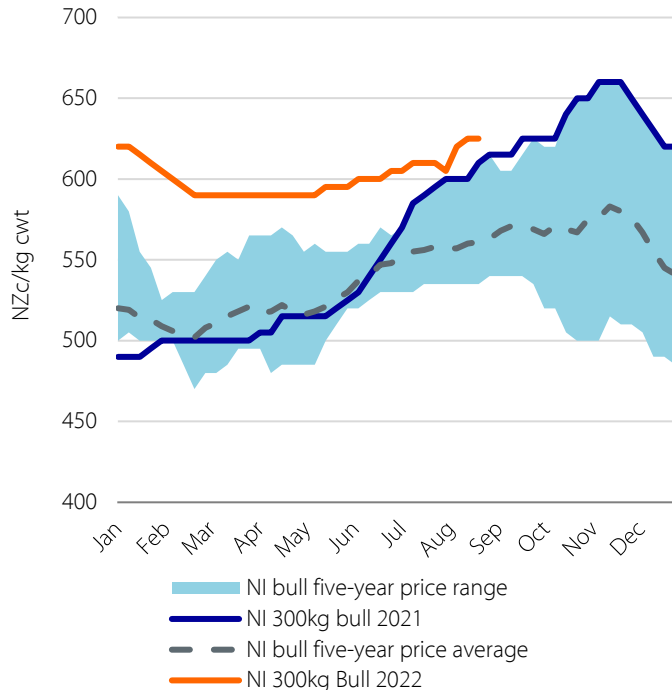
genevieve.steven@rabobank.com

Farmgate Schedule Continues To Uptick

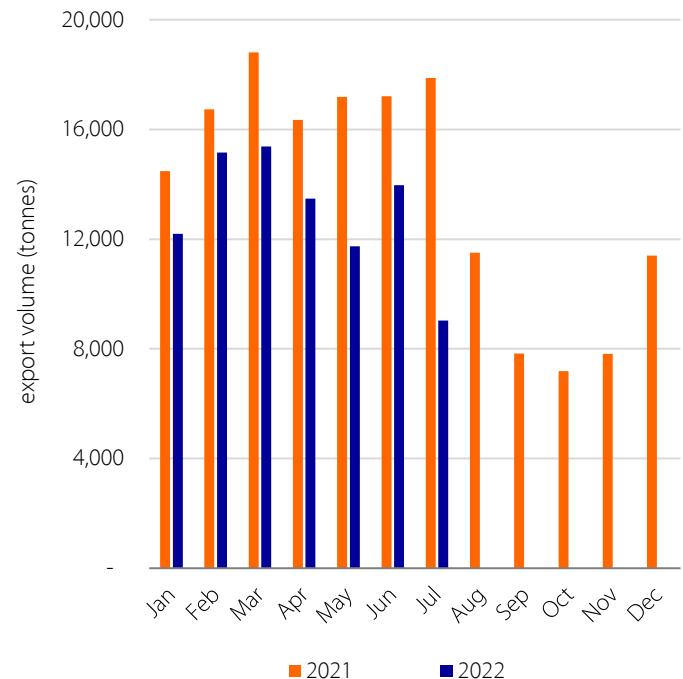


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AgriHQ North Island bull price setting new records



Export volumes to US lagging 2021 volumes



Spring Lambs Arriving

Lambing is well underway in many areas across New Zealand, signalling the beginning of the new season in October. Although it has been a wet start to life for lots of lambs, farmers will be hoping that spring sunshine boosts grass and lamb growth.

The lamb kill remains behind on last year's tallies – as of July 30 (week 43 of the season), the national lamb kill was behind -3.7% or around 600,000 head behind. The final weeks of the bobby kill are likely to add pressure to getting the last of the winter lambs processed in September.

The AgriHQ South Island lamb price has continued to deliver good news, climbing to NZD 9.40/kg cwt at the end of August. Although pricing is still at record high levels, the height of the spring lamb schedule peak is yet to be determined, and may not be far away from current price levels. The July export data showed some encouraging improvements, with export volumes increasing month-on-month compared to June, and total export volumes were 32% higher on July 2021 volumes. Exports to China recovered in July after lockdowns in the first half of the year resulted in lower sheepmeat consumption. But, the average export price to China in July eased by NZc 18 to NZD 7.68/kg FOB, compared to June values.

Chinese buying power could see further downside. The Chinese renminbi fell to its lowest point in two years in August against the USD. Rabobank forecasts that the strengthening of the USD, combined with the slowing of the Chinese economy, is going to see the USD/CNY cross soften to trade around USD 6.80 by the end of this year. Reduced Chinese buying power is an implication of a weaker currency and could negatively impact New Zealand sheepmeat export earnings.

RaboResearch is anticipating that the lamb schedule will be elevated though spring, supported by high animal protein prices globally. Increasing lamb production and exports from Australia, plus mounting economic challenges in China, Europe and the US, are still tangible risks that could cause farmgate prices to ease. We will be monitoring these factors closely.



Genevieve Steven

Agriculture Analyst
New Zealand

genevieve.steven@rabobank.com

Sheepmeat

What to Watch

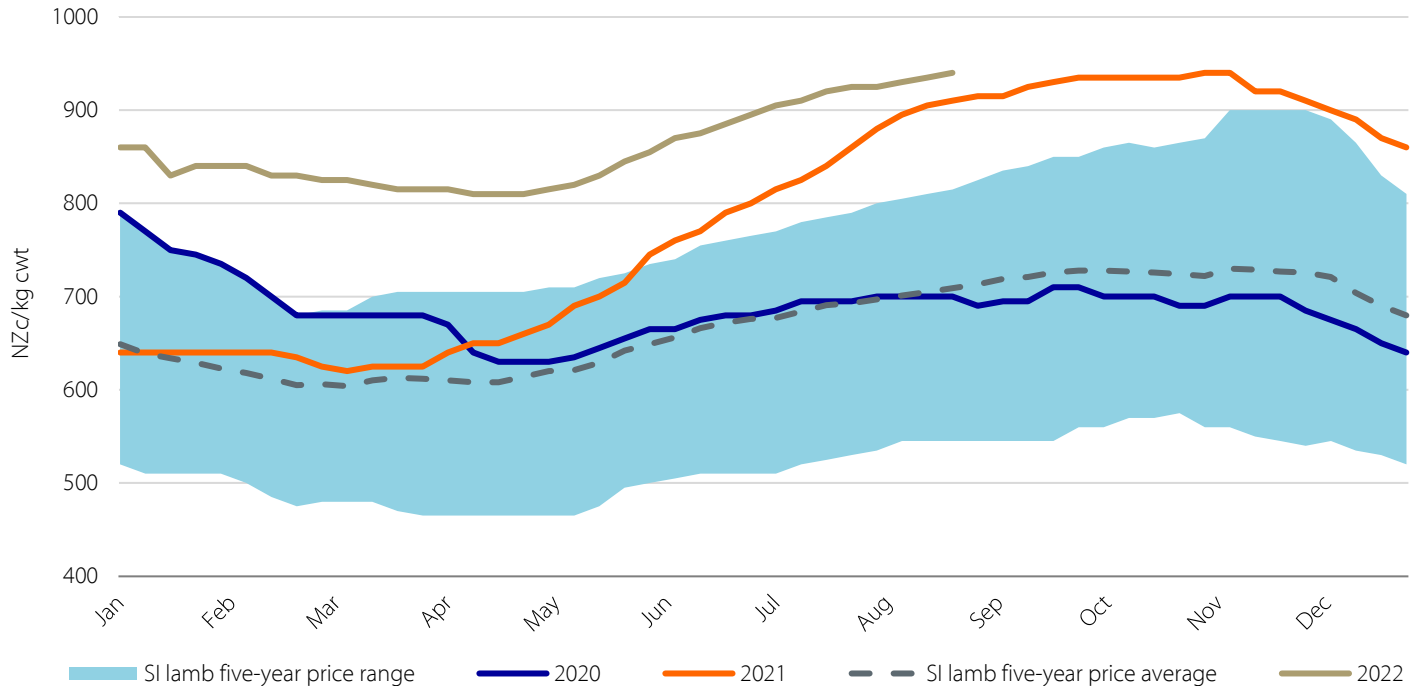
- **Higher parasite load in pastures and stock** – After wet, warm conditions in many areas this winter, farmers need to be wary of parasite burden in both ewes and young stock. It is best practise to work with a vet to do faecal egg count tests and to develop an animal health plan suited to the farm system and drench history. Keeping on top of parasites is important for optimising lamb growth rates and finishing stock earlier in the season to take advantage of higher lamb schedule prices.

Where Will the Schedule Peak?



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AgriHQ South Island lamb price still tracking up



Further Upside for Urea Possible

As of August 16, local New Zealand prices for urea increased 10% MOM, while Super Phosphate increased 1% and 20% super potash increased 1% MOM.

Rabobank sees upside price risk for global urea prices moving into the end of the year, particularly in the wake of natural gas prices reaching a record-high in Europe and plant closures announced in the United Kingdom, Poland and Lithuania in recent weeks. Meanwhile, in China, a downturn in electricity produced via hydropower due to water shortages is resulting in power restrictions for urea plants. Reduced production coupled with export controls is hampering chances of increased export flows. Northern Hemisphere heating needs are also on the radar as Q3 turns into Q4. These factors mean the cost of gas, and therefore ammonia production, will likely lift.

The combination of potash exports still heading out of Russia and rumours of sizeable stocks in North and South America adds to our view of a downward trend in potash prices moving into the end of the year. At the meeting of the Joint Coordination Centre in Istanbul, established for the safe shipment of grain from the Black Sea, the UN Secretary-General Antonia Guterres said this month that Russian fertiliser must be able to reach world markets unimpeded. Russian exports of fertiliser, including potash, are expected to come down marginally YOY but still remain strong.

Phosphate prices are similarly expected to trend down moving into the end of 2022 due to larger than expected supplies in North and South America, and despite strict export controls out of China. The concern for higher prices would come in the second half of 2023 if retailers destock due to the current surplus.



Dennis Voznesenski
Agricultural Analyst, Grains
& Oilseeds, and Wool

dennis.voznenski@rabobank.com
Twitter: @Voz_Dennis



Cheryl Kalisch Gordon
Senior Commodities Analyst

cheryl.kalischgordon@rabobank.com
Twitter: @kalischgordon

Farm Inputs

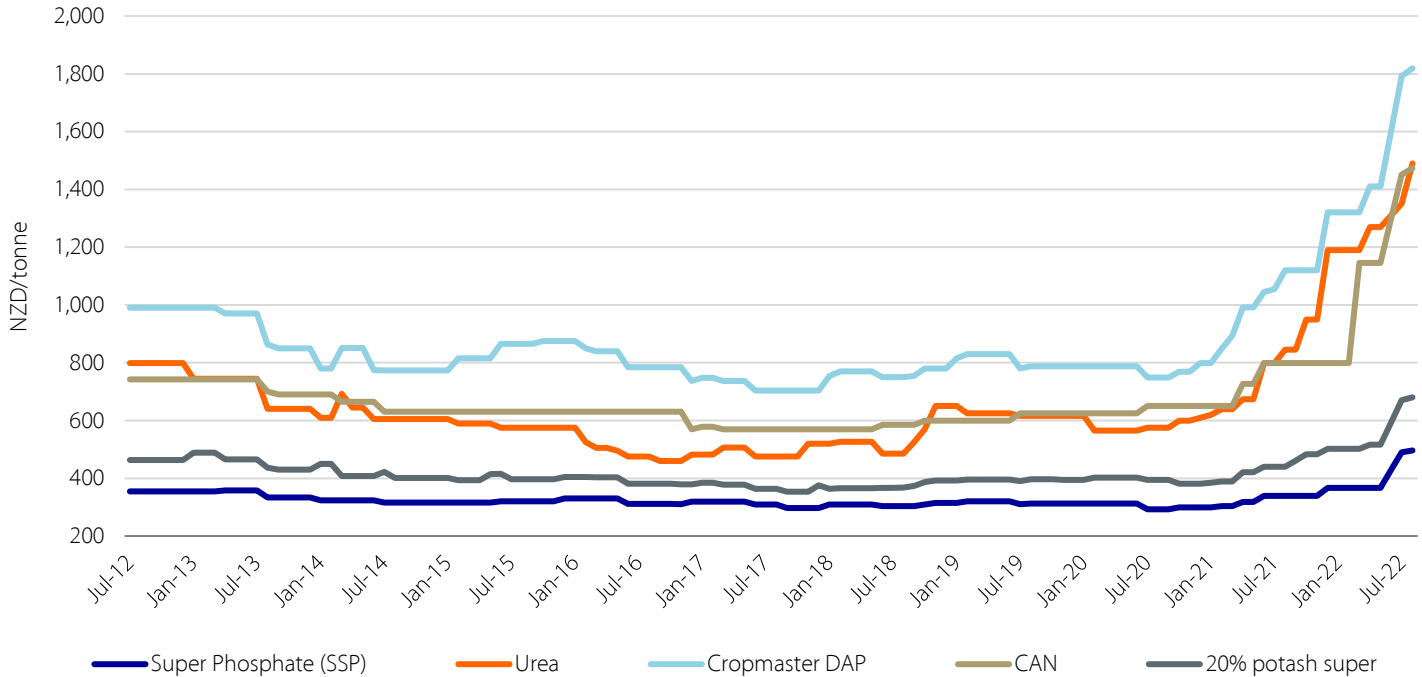
What to Watch

- **Agri-chemical prices** – In Q3 2022, China's agrochemical industry saw a production capacity expansion. As a consequence, domestic Chinese prices have already declined, and we expect that to flow into local markets. The glyphosate Free-On-Board price at Chinese ports fell from over USD 12,000/tonne in the beginning of the year to just over USD 8,000/tonne on August 18 according to BAIINFO. However, the recent rationing of energy in China due to shortages is likely to slow the rate of decline.

Global Urea Low Not Long Enough To Translate to Local Relief



NZ local prices



Source: Ravensdown, Rabobank 2022

Two or Three More Hikes in 2022?!

Another RBNZ 50-basis-point cash rate hike – to 3.5% – is likely in early October. The NZD remained volatile and rather low at close to USc 0.62 as the temporary move to USc 0.65 could not be sustained. We expect a move towards USc 0.66 within 12 months.

- ***As expected on 17 August, the RBNZ hiked 50bps, taking the official cash rate up to 3%.*** The Reserve Bank showed no sign of backing off, adding that monetary conditions needed to continue to tighten until they are confident there is sufficient spending to bring inflation back within its 1%-3% target range. Indeed, they remain “resolute in achieving the Monetary Policy Remit.”
- ***The RBNZ forecast is now that the base rate peaks around 4.1% in mid-2023, up from 3.9% previously forecast.***
- ***The five-year swap rate has maintained its ~100 basis point difference to the cash rate and moved slightly higher again closer to 4.5% after a temporary low of ~3.5% earlier in August.***
- ***Our 12-month forecast of NZD/USD 0.66 is still a little below the five-year average*** for the currency pair and well-below longer-term averages. USD strength is likely to prevail in the short term. We expect USD strength to turn around on a six-month timeframe, allowing NZD/USD to recover to 0.64 within six months and to 0.66 within 12 months.



Stefan Vogel
General Manager
RaboResearch AU & NZ

stefan.vogel@rabobank.com

Interest Rate & FX

What to Watch:

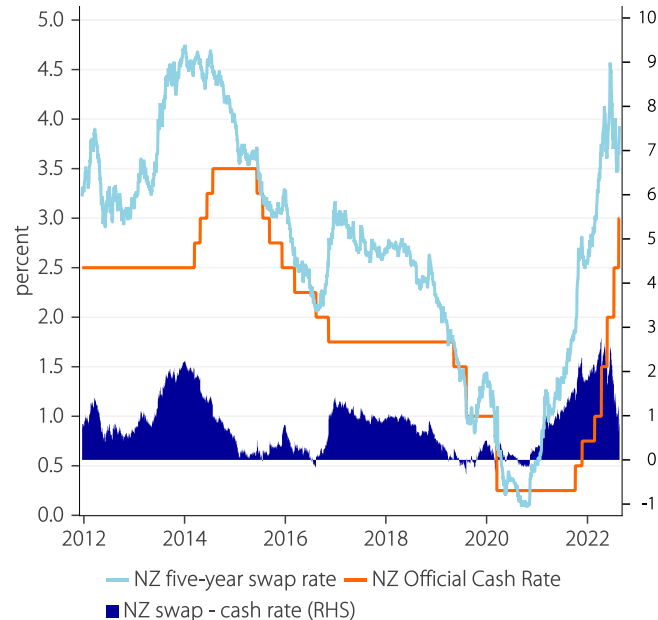
- ***5 October*** – The RBNZ will likely hike the cash rate 50 basis points to 3.5%.
- ***23 November*** – likely another 25 or 50 basis points, which would bring the cash rate close to the RBNZ forecast of a 4.1% peak.
- Short-term USD strength, but a recovery of the NZD towards USc 0.66 within 12 months.

Official Cash Rate Expected To Continue To Rise Further



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The NZ Official Cash Rate is at 3% and the spread to the five-year swap rate has narrowed to ~100bp



NZD and AUD remained volatile and did not sustain the temporary strength shown earlier in August



Container Shipping Prices Continue To Fall, Yet a Potential Rise of Bulk Dry Index



Stefan Vogel

General Manager
RaboResearch AU & NZ

stefan.vogel@rabobank.com



Xinnan Li

Analyst – F&A Supply Chains

xinnan.li@rabobank.com



Viet Nguyen

Analyst – F&A Supply Chains

viet.nguyen@rabobank.com

Crude oil prices sunk from their June peak as economic outlook weighs on sentiment. Brent crude oil hovered between USD 95-USD 100/bbl this August. Slowing economic growth and softened driving demand in the Northern Hemisphere summer season has eased demand this past month. Soaring natural gas and electricity prices could incentivise switching to oil, keeping a floor on prices and demand for the rest of 2022. OPEC+ is agreeing to raise the supply target by just 100 kb/d for September but have recently began to speak about managing volatility in prices and adjusting the rate of the new production increases. Notably, worldwide inventories of diesel remain at multi-decade lows while the continued uncertainty of Russia's future oil exports and risk of supply shocks will continue to support prices.

Global ocean container rates continues decline on most routes, except for Europe-North America due to strong demand and port congestions at both sides. In contrast to dry container rates, global reefer rates (spot and contract combined as assessed by Drewry) are expected to surge another 9% over the previous quarter in Q3 2022 before normalizing. Imbalanced reefer containers and port congestions continued to contribute to the upward trend, in addition to seasonality. We expect reefer rates to stabilise in Q4 2022 and even mildly contract during 2023 with easing of supply chain issues and a general recessive environment. Even with correction, reefer rates are likely to stay at higher than pre-pandemic levels.

The Baltic Panamax index (a proxy for grain bulk freight) continued a downward trend, declining another 40.4% MOM in August. Although the decline started in May, it was exacerbated by the recent weak Chinese economic data, plummeting the dry bulk indexes across vessel sizes. In the next twelve months, bulk carrier rates will likely go hand-in-hand with global economic data.

What to Watch

- **Oil markets globally remain tight** – Despite falling USD 30/bbl from June peaks this past month, demand is expected to rise with increased fuel switching. Supply is improving but remains at risk of disruptions as the West moves away from Russian supplies.
- **Looming global economic conditions** to impact global trade and thus ocean container and bulk shipping conditions.

Source: AIP, Bloomberg, Rabobank 2022

Source: Bloomberg, Rabobank 2022

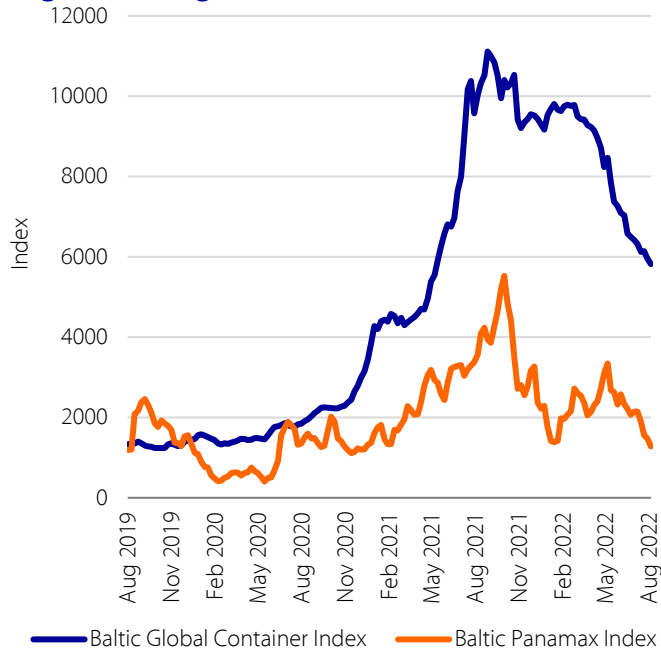
Oil &
Freight

New Zealand Diesel Falls Back, But Remains Expensive

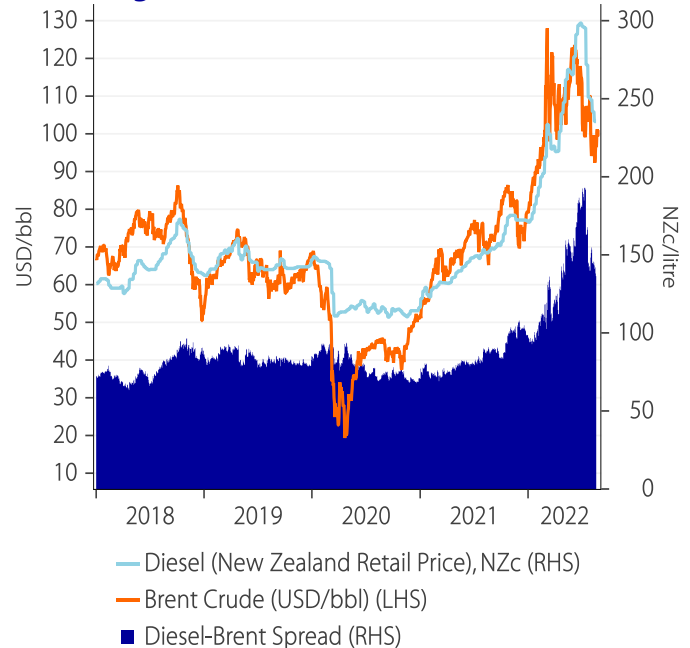


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Baltic Panamax Index & Dry Container Index, Aug 2019 - Aug 2022



Brent Crude Oil and New Zealand Retail Diesel, 2019-August 2022



Agri Price Dashboard

29/08/2022	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	791	808	709
CBOT soybean	USc/bushel	▼	1,610	1,637	1,305
CBOT corn	USc/bushel	▲	674	616	540
Australian ASX EC Wheat Track	AUD/tonne	▼	405	410	360
Non-GM Canola Newcastle Track	AUD/tonne	▼	719	769	866
Feed Barley F1 Geelong Track	AUD/tonne	▼	319	362	271
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	1,034	888	1,029
Feeder Steer	AUc/kg lwt	▲	518	488	530
North Island Bull 300kg	NZc/kg cwt	▲	630	605	615
South Island Bull 300kg	NZc/kg cwt	▲	615	605	590
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	744	634	946
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	940	920	925
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	940	925	915
Venison markets					
North Island Stag	NZc/kg cwt	▲	825	805	640
South Island Stag	NZc/kg cwt	▲	840	820	630
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	5,250	5,588	4,775
Skim Milk Powder	USD/tonne FOB	▼	3,550	3,913	3,075
Whole Milk Powder	USD/tonne FOB	▼	3,438	3,838	3,625
Cheddar	USD/tonne FOB	▼	5,063	5,150	4,163

Agri Price Dashboard

29/08/2022	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	132.3	131.4	104
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	122.1	103.1	96
Sugar markets					
ICE Sugar No.11	USc/lb	▲	18.5	17.5	20.2
ICE Sugar No.11 (AUD)	AUD/tonne	▲	595	554	564
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,342	1,381	1,350
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	600	545	485
DAP (US Gulf)	USD/tonne FOB	•	925	925	660
Other					
Baltic Panamax Index	1000=1985	▼	1,372	2,051	3,874
Brent Crude Oil	USD/bbl	▼	102	110	73
Economics/currency					
AUD	vs. USD	▼	0.684	0.699	0.730
NZD	vs. USD	▼	0.610	0.628	0.700
RBA Official Cash Rate	%	▲	1.85	1.35	0.10
NZRB Official Cash Rate	%	▲	3.00	2.50	0.25

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Meet Our RaboResearch Food & Agribusiness Australia and New Zealand Team



Stefan Vogel

*Head of Food & Agribusiness
Research and Advisory, Australia
and New Zealand*
+61 460 734 578
Stefan.Vogel@rabobank.com



Cheryl Kalisch Gordon

Senior Commodities Analyst
+61 412 419 209
Cheryl.KalischGordon@rabobank.com
🐦 @kalischgordon



Genevieve Steven

Agriculture Analyst
+64 02 139 4585
Genevieve.Steven@rabobank.com
🐦 @gevesteven



Angus Gidley-Baird

Senior Animal Protein Analyst
+ 61 424 266 909
Angus.Gidley-Baird@rabobank.com
🐦 @angus_gb



Pia Piggott

Associate Analyst
+61 460 734 578
Pia.Piggott@rabobank.com
🐦 @piapiggott



Dennis Voznesenski

Agriculture Analyst
+61 438 595 314
Dennis.Voznesenski@rabobank.com
🐦 @Voz_Dennis



Michael Harvey

*Senior Dairy & Consumer Foods
Analyst*
+61 409 488 485
Michael.Harvey@rabobank.com
🐦 @MickHarvey77



Emma Higgins

Senior Agriculture Analyst
+64 27 600 5549
Emma.Higgins@rabobank.com
🐦 @emhiggins



Catherine Keo

Business Coordinator
+64 418 404 237
Catherine.Keo@rabobank.com

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