

# *Welcome Winter, Please Be Kind*

New Zealand Agribusiness Monthly



June 2023

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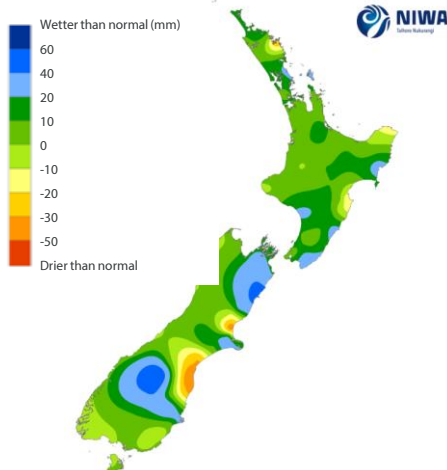
# June Commodity Outlook

 <p><i>Dairy</i></p>	<p>Stronger growth in Chinese milk production, driven by increased yields and herd growth, was a feature for Q1 2023. Milk production is also growing elsewhere in the world – but the pace is starting to slow down.</p>	<p><a href="#">p. 4-5</a></p>
 <p><i>Beef</i></p>	<p>Strong US wholesale beef demand is supporting global beef prices. Although Chinese demand has improved, high inventory levels in China are expected to reduce total imports in Q3. This is not expected to impact New Zealand volumes.</p>	<p><a href="#">p. 6-7</a></p>
 <p><i>Sheepmeat</i></p>	<p>RaboResearch expects lamb and mutton prices to continue to improve through winter, supported by the recovery of China's foodservice sector. Farmers are advised to be wary of processor shutdown periods and the increased number of bobby calves in July and August this year.</p>	<p><a href="#">p. 8-9</a></p>
 <p><i>Farm Inputs</i></p>	<p>The upward correction in urea prices in April all but disappeared in May, and new elements around the natural gas supply in Europe are in place. In the meantime, phosphate and potash kept their bearish trend, waiting for a burst in demand, which might require more time than expected.</p>	<p><a href="#">p. 10-11</a></p>
 <p><i>FX Interest Rates</i></p>	<p>The RBNZ increased the OCR by 25bps to 5.5% in May and also indicated that this was likely to be the last hike in the cycle. The New Zealand dollar has been under pressure, but may now have found a near-term floor, with data showing the trade balance swung to surplus in April.</p>	<p><a href="#">p. 12-13</a></p>
 <p><i>Oil</i></p>	<p>Saudi Arabia announced a new production cut of 1m barrels of oil per day following the June OPEC+ meeting. While this has caused a jump in prices, weaker global growth weighs on demand. The global container shipping market is on track to return to pre-pandemic conditions.</p>	<p><a href="#">p. 14-15</a></p>



# A Wet Start to Winter for Some

## Soil moisture anomaly (mm), 6 June 2023



Source: NIWA, Rabobank 2023

Winter rainfall is likely to be near normal for the north of both islands and the west coast of the South Island. NIWA notes it is likely to be particularly wet for the east of both islands in June, while the top of North Island is equally likely to have normal or below-normal rainfall.

Winter temperatures are likely to be above average in the west of both Islands. Near-average or above-average temperatures are forecast for rest of country through to August 2023.

Soil moisture levels are likely to be near normal for the west of the North Island and north and east of the South Island. Elsewhere is equally likely to have near-normal or above-normal soil moisture over winter.

## What to Watch

- NIWA notes there is a possibility of a strong El Niño event developing by spring.
- Warmer-than-usual sea temperatures in the western Pacific could bring heavy rainfall, snow, and strong winds for June 2023. Higher-than-usual air pressure could see more southwesterly quarter winds by July and August 2023 – raising the possibility of below-normal rainfall for the north and east of both islands.

# All Eyes on Opening Prices

**Fonterra's opening milk price forecast of NZD 8.00/kgMS for the 2023/24 season was broadly in line with Rabobank's expectations** (NZD 8.20/kgMS). A farmgate milk price forecast around these levels means dairy farm profitability will remain a real challenge for many dairy farmers over the coming season. While profitability depends on farming systems and management styles, forecast farmgate milk prices are at or below Rabobank's estimation of average costs of production.

**Global milk production is still growing – but is losing steam.** The prolonged milk production 'recession' of five quarters ended in Q3 2022. Since then, global milk production has been expanding modestly against weak comparable numbers. Our Northern Hemisphere friends are the main drivers of extra milk – namely, the EU and US. Conversely, Australia and South America continue to struggle overall with delivering much extra milk in 1H 2023. Dry weather in South America and parts of Europe remain a watching point – particularly during Q3 2023.

**Signs of weakening dairy demand are spreading across some markets.** The cumulative effects of high food price inflation over the past 24 months, in most cases significantly higher than salary growth, along with slowing economic activity in 2023 (under tight monetary conditions) have translated into slower dairy demand in developed and emerging markets.

**Chinese milk production growth continues while imports decline.** Data from China's National Bureau of Statistics shows that milk production increased by 8.5% in Q1 2023. Farm expansions and continued gains in milk yields are driving domestic milk production higher.

## What to Watch

- **China's market rebalancing** – In China, dairy demand recovery has not, to date, offset strong domestic milk production growth. The challenge here is that milk supply may take longer than previously forecast to respond to weakening milk prices and comparatively higher feed costs. Rabobank does not expect a reversal in farmgate milk prices to occur quickly. As has been the case since the current commodity market downturn began, a China re-entry into global markets is key to any price rally.



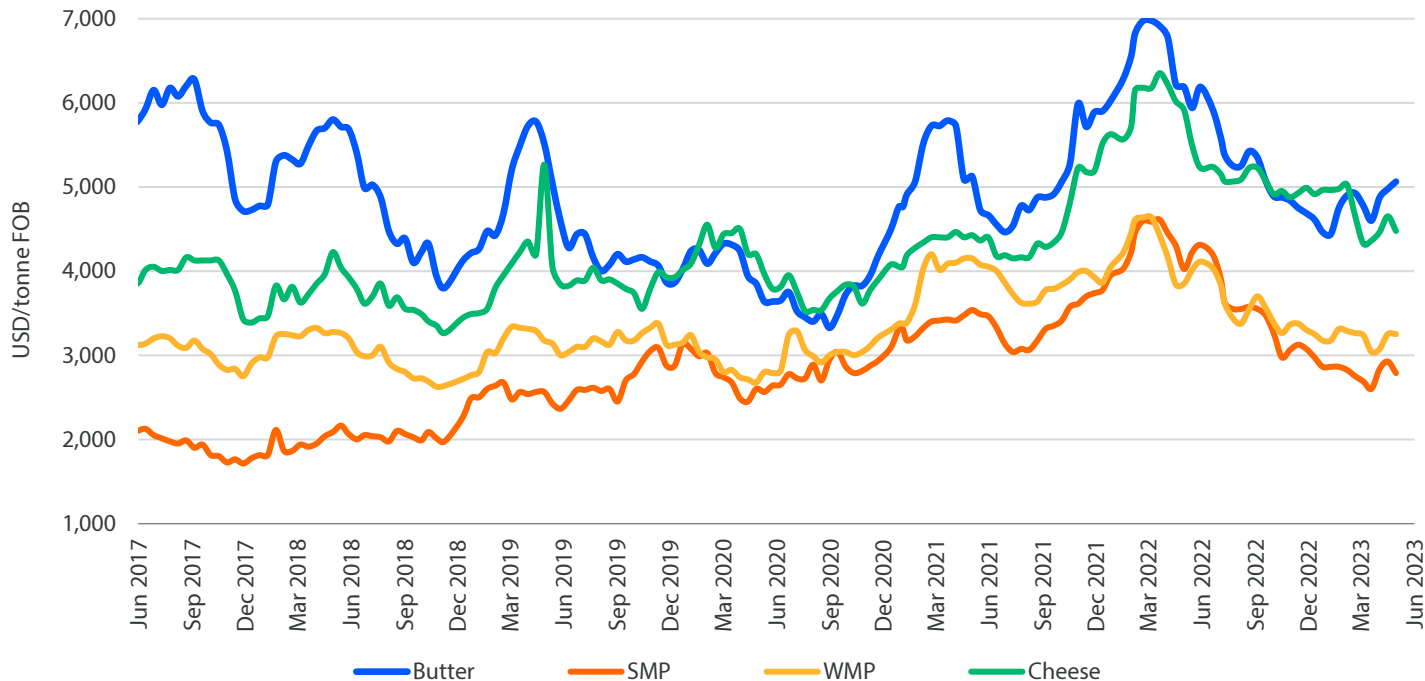
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# Dairy

# Mixed Results Across Dairy Complex in May

Oceania spot dairy commodity prices, June 2017–June 2023



Source: USDA, Rabobank 2023

# Store Market Performing Strongly

**The store cattle market has gone from strength to strength, supported by a bank of feed across the country.** In the North Island, average store cattle prices in May were 8.33% higher compared to last year, with the price of R1 Friesian bulls lifting 16.42% (or 56c) year-on-year to NZD 3.90/kg lwt. The AgriHQ North Island bull price averaged NZD 5.90/kg cwt in May, up 12.38% compared to the five-year-average, and only 0.67% behind compared to May last year. As processors come towards the end of the cull cows, space is opening up for prime stock. The damage caused by Cyclone Gabrielle is continuing to impact kill numbers in the North Island. The latest data shows that for the season to date (end of April), the North Island is behind on total cattle processed by 1.5%, and the South Island is ahead 9.6% for the same period, compared to last season.

**Total beef export volumes in April increased 6% year-on-year, with equal volumes of beef exported to China and the US.** Shipment volumes were supported by improved Chinese demand and very strong US consumer demand. The level of demand for high quality beef in the US is exceeding expectations and supporting elevated local prices. While local US beef supplies are starting to decline, it is consumer demand that is driving prices and import demand for beef. As the US heads into the summer grilling season, this will provide further pricing support for high quality beef.

**RaboResearch anticipates beef schedules through winter will track 2022 pricing.** Strong US wholesale demand and a recovering Chinese foodservice sector will provide price support. However, high current inventory levels in China are something to watch. RaboResearch expects that Chinese beef imports will likely soften in Q2 and decline in Q3.

## What to Watch

- In the US, an atypical case of Bovine Spongiform Encephalopathy (BSE) was announced on the 19<sup>th</sup> May. It is not anticipated that it will lead to any trade disruptions as the animal hadn't entered a slaughter channel. However, it will be interesting to see how China responds. When an atypical case was found in Brazil in February 2023, exports were suspended to China to the end of March.



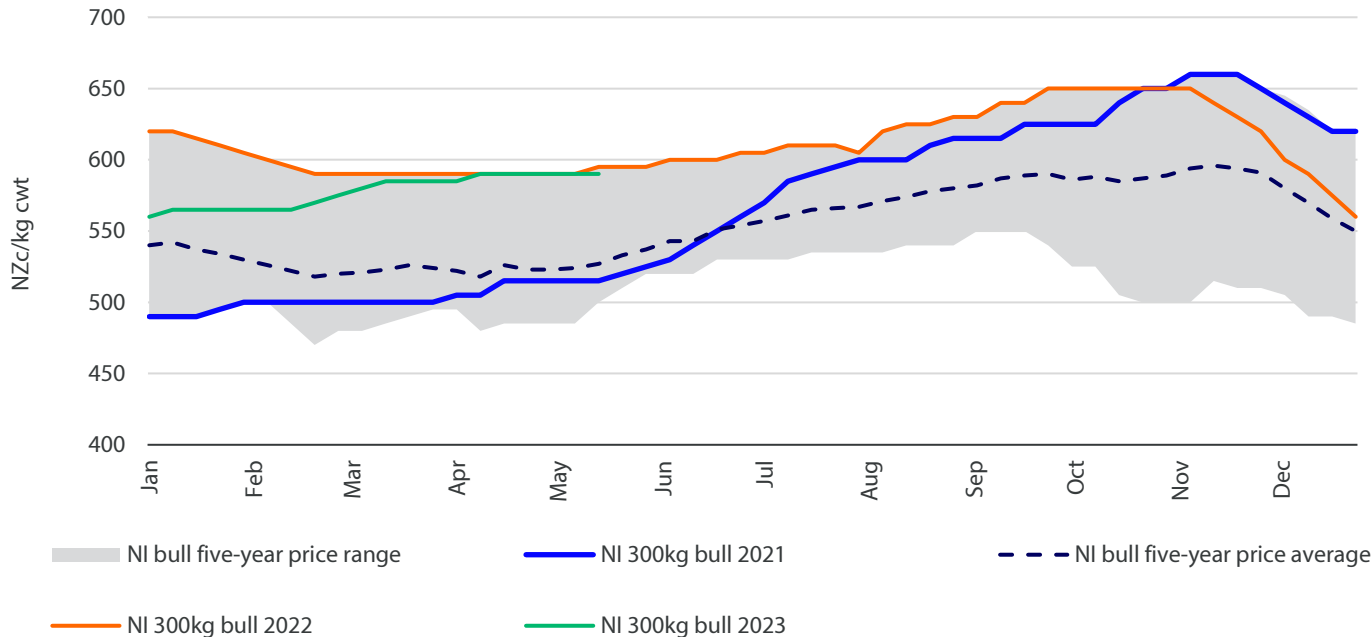
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# Beef

# Bull Prices Expected To Remain Steady in Winter

Strong beef demand supporting AgriHQ North Island bull price



Source: AgriHQ, Stats NZ, Rabobank 2023

# Lambs in No Rush To Leave Pasture

**The supply of lambs to the slaughter board in New Zealand has been slow throughout May** – but it is starting to pick up. Farmers have been holding onto lambs for longer due to plentiful amounts of feed on-farm. Retaining lambs for longer has enabled farmers to achieve heavier weights and the margins needed. The AgriHQ South Island lamb price averaged NZD 7.50/kg cwt in May, a 2% lift on April 2023 prices – but 12% behind the schedule price in May 2022. Like cattle, farmers are paying more for store lambs due to high feed levels. In May, the average store lamb price was 7% higher month-on-month. As a percentage of the schedule, South Island store lamb prices averaged 51% of the schedule in May – the ratio was 44% in May 2022.

**No change in New Zealand export volumes in April year-on-year.** Volumes were flat, underpinned by three short processing weeks and softer demand from New Zealand's key markets. While volumes to China lifted 27% year-on-year for the month, the economy and foodservice sector in China are still slowly awakening post covid restrictions. Export volumes to the UK were back 43% year-on-year as that market remains subdued. RaboResearch expects that the UK and Europe will remain weaker lamb markets through 2023, with both forecast to only achieve GDP growth of 0.6% in 2023. Lamb exports to the US are also under pressure, as the economy starts to slow. In addition to unsteady market conditions, the rebuild of the Australian flock is resulting in increased lamb availability in the global market, competing with New Zealand in China and the US.

**RaboResearch anticipates that the lamb schedule will continue to slowly improve through winter.** The ongoing repairs to boundary fences damaged during Cyclone Gabrielle will soon enable farmers in the Hawkes Bay to bring their lambs in to count, filling data gaps with respect to how many lambs are still out there. Similarly, the reopening of the Napier-Wairoa Road has been positive allowing more lambs access to the market, evidenced by a boost in the store lamb tallies.

## What to Watch

- The first of the bobby calves are expected to hit processors in the North from mid-June. Beef + Lamb NZ have estimated that a total of 17.3m lambs will be slaughtered this season. As at the end of April, a total of 11.4m lambs have been processed, indicating that a further 5.9m lambs are yet to be processed. Farmers are advised to keep in mind processor maintenance shut down periods and a larger forecast bobby calf kill this year.



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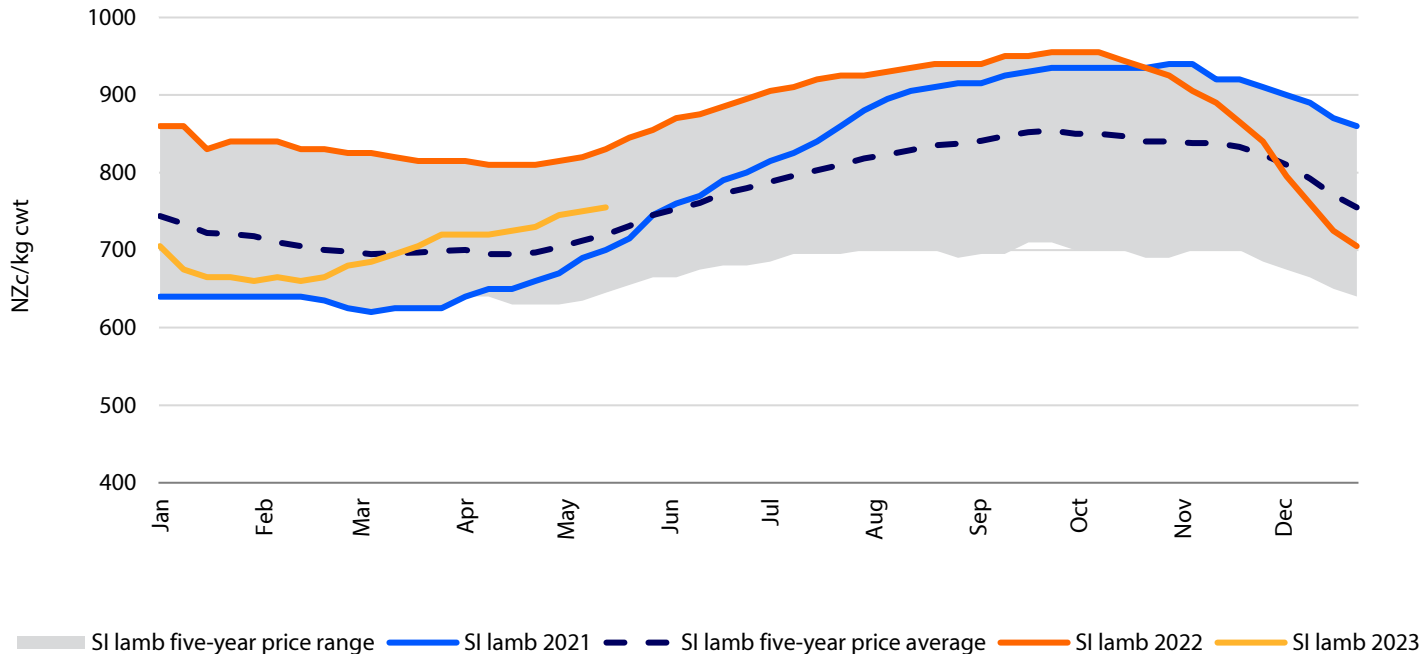
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# Sheepmeat



# China Supporting Lamb Schedule Currently

AgriHQ South Island lamb price above five-year average



Source: AgriHQ, Stats NZ, Rabobank 2023

# Back in the Doldrums

**Nitrogen prices are back on a downward trend following the bearish correction for natural gas and the completion of the bulk of the US crop. The May hiccup is over and the story for phosphate and potash remains the same: global oversupply or feeble demand. Depending on what side you're on.**

European manufacturers current face a much better situation for natural gas sources than six months ago. Storage levels are high, around 60% of capacity, this time of year when demand is weaker, and there are attempts to expand imports of seaborne Russian gas via the Baltic Sea. This is leading to market correction and a bearish forecast until October. European nitrogen fertiliser manufacturers downstream are reflecting this in their prices, as ammonia prices can represent 70% of urea production costs. The situation may appear to have been resolved for the moment, but plant curtailments are underway. Around 8% of global urea exports have been mothballed due to energy price hikes compared to 2021 figures. And they will continue so as long as profitability is tested by market volatility. Another expectation that could end up in the bin is the improvement in demand for phosphate and potash fertilisers by late 2023. The recovery in fertiliser affordability is clear and undeniable, but so far not enough to bring application rates back to pre-Covid and pre-Black Sea crisis levels. It is likely that that will be the case in 2024.

**We are still in the aftermath of Covid and Black Sea conflict shocks and it is unclear who holds the ace.**

## What to Watch

- **Grains and oilseeds prices** – The coming weeks will be crucial in determining the demand from South America for the 2023/24 summer crop. Soybean prices are offsetting the massive yields in Brazil and are not prompting Argentine farmers who have been hit hard by drought.
- **Russian ammonia exports** – In order to keep the grain corridor agreement valid, the Russian government demands that ammonia be allowed to pass through a pipeline to the Pivdennyi port in the Odesa region, and that the Swift banking system ban on the Russian Agricultural Bank be reversed.



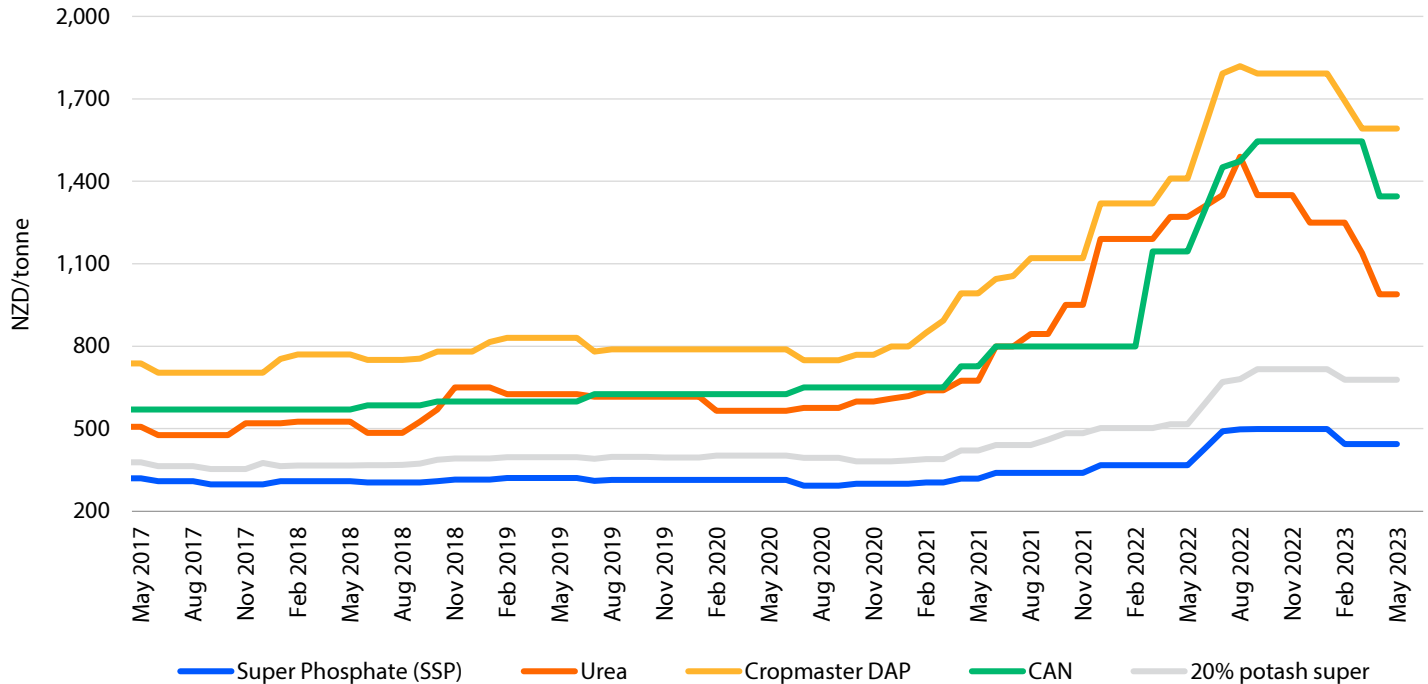
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# Farm Inputs

# Slow and Steady

## NZ local fertiliser prices



Source: Ravensdown, Rabobank 2023


# All Done

**The RBNZ increased the OCR by 25bps to 5.5% in May, in line with Rabobank's forecast.**

Pleasingly, the RBNZ also indicated that this was likely to be the last hike in the cycle, which was also our view, but one that had come under challenge in the weeks ahead of the rates decision as several local banks increased their predictions on the terminal cash rate. The rationale behind this was that elevated net inward migration figures over the first quarter of the year (approximately 12,000 arrivals per month) and a stronger spending impulse from the recent budget would add to inflationary pressures, but the RBNZ struck down these ideas in their Monetary Policy Statement by suggesting that the budget actually reduces government consumption over time while the immigration numbers are expected to moderate later in the year.

The New Zealand Dollar was sold off sharply as traders again found themselves incorrectly positioned ahead of an RBNZ decision. The currency has been under pressure because of the weakening outlook for the economy and the deteriorating trade balance, but may now have found a near-term floor as data showed the trade balance swung to surplus in April, supported by services exports like tourism and education while higher interest rates crimped demand for imports.

On the negative side, goods trade is expected to remain under pressure in the months ahead as prices and volumes for some of New Zealand's key commodity exports continue to face headwinds. The aftereffects of the Auckland floods and Cyclone Gabrielle are also still working their way through the economy, with government investment spending picking up in the short term to replace the capital stock destroyed by these events. We expect that this will present a short-term boost to inflation, but that price growth will fall quickly toward the end of this year as the economy slows and unemployment starts to rise.



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## Interest Rates & FX

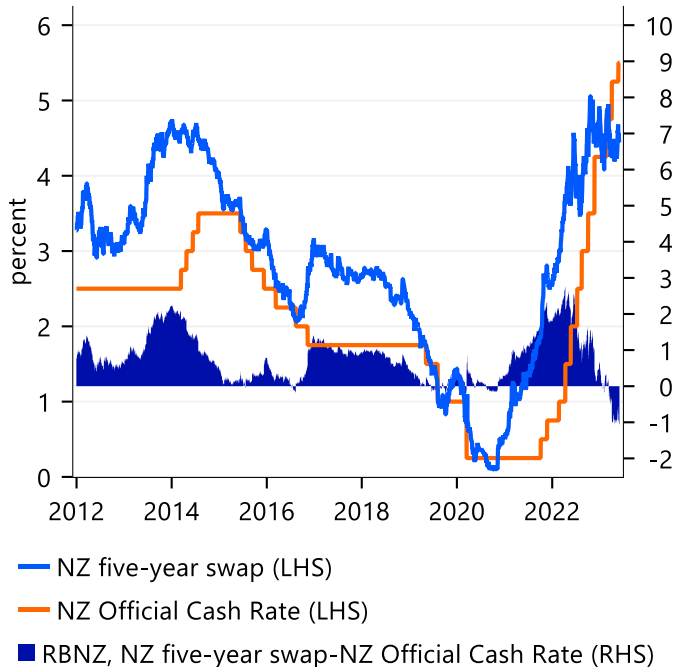
### What to Watch:

- **1<sup>st</sup> Quarter National Accounts** – Due on 15 June
- **Trade balance data** – Due on 22 June



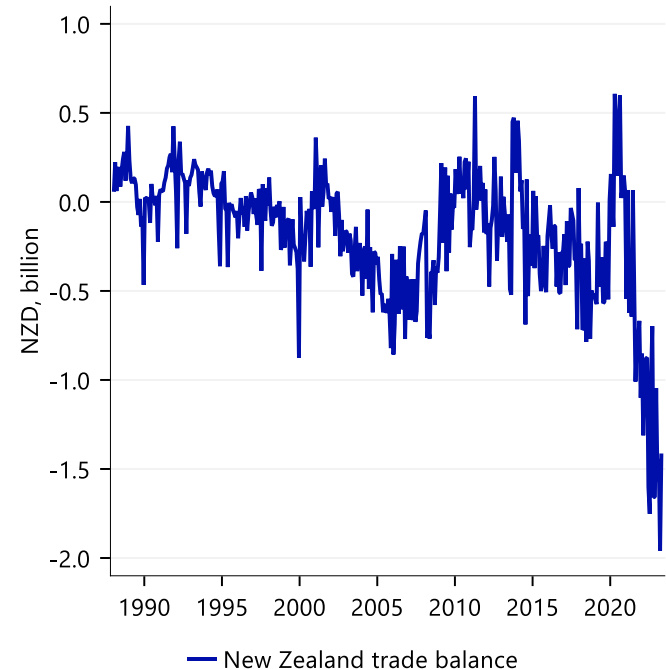
# RBNZ Says Rates Have Peaked

*The RBNZ has indicated that the hiking cycle is over*



Source: Macrobond, Rabobank 2023

*NZ's trade balance needs to continue improving*



Source: Macrobond, Rabobank 2023

# Is the Global Container Shipping Market Back to Normal?



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**Oil futures fell 11% in May, even as OPEC+ cuts took effect, prompting Saudi Arabia's announcement over the weekend of an additional output cut of 1m barrels per day beginning in July.** While prices jumped on the news, concerns around depressed oil demand remain with the slowdown of the global economy. China's reopening may be running out of steam, while questions remain about the possibility of a US recession in the second half of the year.

**Dry container shipping rates saw signs of recovery in April 2023.** After nine months of continuous downward trend, dry container freight rates have started to rise slightly, as reported by various rate tracking platforms. Surcharges like the general rate increase (GRI) will also likely be implemented in addition to the base rate. This upward trend is most noticeable on routes from China to the US due to increased export volumes over the past month. It is still too early to say whether this is a first sign of bottoming out, or what the pace of recovery may be. Many factors, especially geopolitical tensions, can alter the direction.

The slow downward trend in reefer container freight rates will continue. The Q1 2023 average reefer rate is only 5% higher than that of Q1 2022. The global reefer rate index is expected to decrease 10% to 15% this year compared to 2022.

**The rebound of the Baltic Panamax index (a proxy for grain bulk freight) continues as major global economies recover.** As the Chinese demand picks up and the Black Sea Grain Initiative continues smoothly, the index may bottom out in the near term. However, as the global economy enters turbulent waters, we expect the Baltic Panamax index to fluctuate around the lower end of the spectrum.

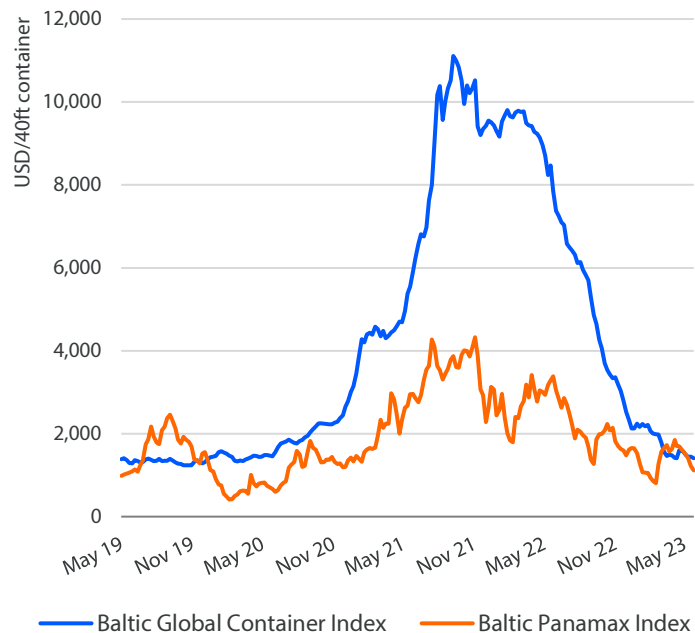
## Oil & Freight

### What to Watch

- Oil demand in 2H 2023 to hinge on growth in jet fuel demand from China.
- Will weaker economic growth continue downtrend in container rates?

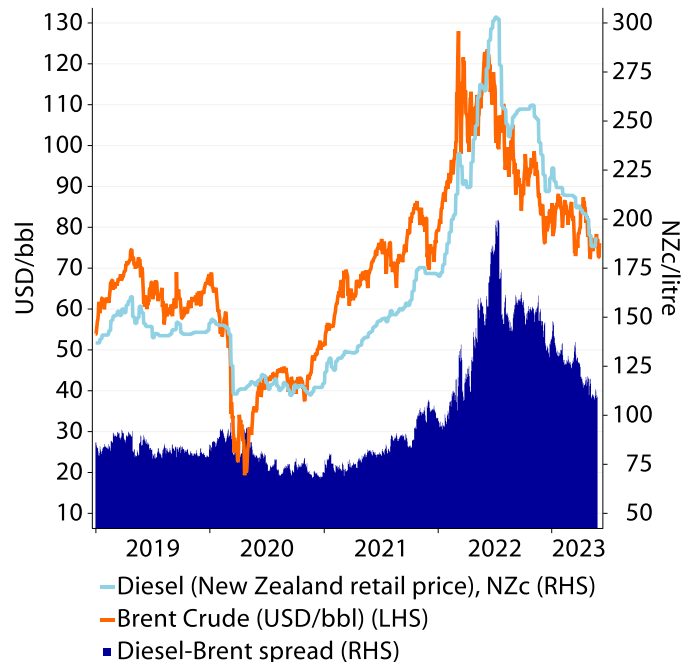
# Prices Still Under Pressure

*Baltic Panamax Index and Dry Container Index,  
May 2019 -May 2023*



Source: Baltic Exchange, Bloomberg, Rabobank 2023

*Brent Crude Oil and New Zealand retail diesel,  
Jan 2019-June 2023*



Source: Macrobond, Rabobank 2023

# Agri Price Dashboard

1/06/2023	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▲	611	604	1,041
CBOT soybean	USc/bushel	▼	1,330	1,455	1,690
CBOT corn	USc/bushel	▼	593	640	731
Australian ASX EC Wheat Track	AUD/tonne	▲	379	375	466
Non-GM Canola Newcastle Track	AUD/tonne	▼	596	620	900
Feed Barley F1 Geelong Track	AUD/tonne	▼	323	324	426
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	580	672	1,130
Feeder Steer	AUc/kg lwt	▼	316	360	568
North Island Bull 300kg	NZc/kg cwt	•	590	590	595
South Island Bull 300kg	NZc/kg cwt	▲	540	530	575
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	540	670	777
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	755	735	855
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	760	730	855
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	•	885	885	795
South Island Stag	NZc/kg cwt	•	885	885	800
<b>Oceanic Dairy Markets</b>					
Butter	USD/tonne FOB	▲	5,063	4,875	6,188
Skim Milk Powder	USD/tonne FOB	▼	2,788	2,838	4,025
Whole Milk Powder	USD/tonne FOB	▲	3,250	3,075	3,850
Cheddar	USD/tonne FOB	▲	4,475	4,463	5,913

Source: Bloomberg, MLA, Rabobank 2023



# Agri Price Dashboard

1/06/2023	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	93.8	93.2	157
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	86.4	79.5	136
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▼	24.9	25.5	19.4
ICE Sugar No.11 (AUD)	AUD/tonne	▼	835	849	582
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▼	1,209	1,302	1,414
<b>Fertiliser</b>					
Urea Granular (Middle East)	USD/tonne FOB	▼	328	331	688
DAP (US Gulf)	USD/tonne FOB	▼	520	610	1,090
<b>Other</b>					
Baltic Panamax Index	1000=1985	▼	1,030	1,586	2,851
Brent Crude Oil	USD/bbl	▼	74	79	116
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.657	0.663	0.718
NZD	vs. USD	▼	0.607	0.617	0.648
RBA Official Cash Rate	%	▲	3.85	3.60	0.35
NZRB Official Cash Rate	%	▲	5.50	5.25	2.00

Source: Bloomberg, MLA, Rabobank 2023

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