

# *El Niño Has Officially Arrived*

New Zealand Agribusiness Monthly



October 2023

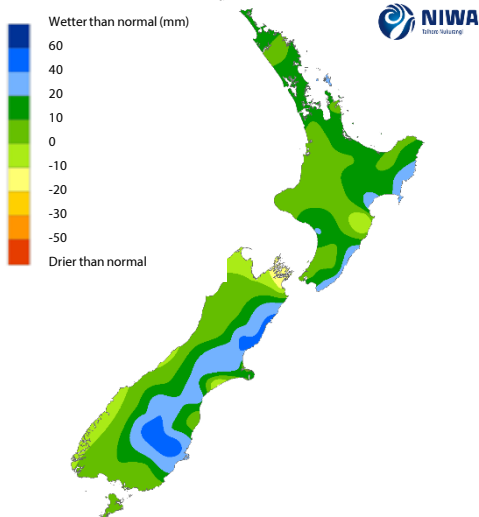
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# October Commodity Outlooks

 <p><i>Dairy</i></p>	Milk supply growth across key export regions is set to remain weak over the remainder of 2023 and into 2024. This should help support dairy commodity prices – and runs the risk of a price whiplash should demand outpace supply.	<a href="#"><u>p. 4-5</u></a>
 <p><i>Beef</i></p>	RaboResearch anticipates schedule prices to be supported by stronger US import prices, which could pull New Zealand prices up over the coming weeks.	<a href="#"><u>p. 6-7</u></a>
 <p><i>Sheepmeat</i></p>	With ongoing high volumes of Australian lambs in the global market and the continued soft demand, prices are expected to continue moving sideways over the coming weeks.	<a href="#"><u>p. 8-9</u></a>
 <p><i>Farm Inputs</i></p>	A new supply and demand balance for fertilisers and agrochemicals could be emerging, bringing the first indications of next season's price range. The outlook remains positive, but energy and currency developments are poised to make things a bit blurry.	<a href="#"><u>p. 10-11</u></a>
 <p><i>FX and Interest Rates</i></p>	The NZD traded largely sideways in September to close the month just below USc 60. Better-than-expected Q2 GDP figures and improving trade numbers saw market expectations of future OCR increases lift during the month, but the RBNZ left rates on hold at 5.50% at the October meeting.	<a href="#"><u>p. 12-13</u></a>
 <p><i>Oil and Freight</i></p>	Crude oil and distillate prices surged in September due to ongoing production cuts, dwindling stocks, and a Russian export ban on diesel. Brent crude prices look set to test USD 100/bbl shortly but may be poised for a bit of a pullback after a period of very strong gains.	<a href="#"><u>p. 14-15</u></a>

# Wild and Windy Through to Christmas 2023

## Soil moisture anomaly (mm), 1 October 2023



Source: NIWA, Rabobank 2023

NIWA anticipates warmer-than-average temperatures are most likely for the east of both Islands until Christmas. The remainder of the country is equally likely to experience near-average or above-average temperatures over the same period.

Above-normal rainfall is likely for the west of the South Island. The north and east of the North Island are likely to have below-normal rainfall. The remainder of the country has a chance of below-normal rainfall through the end of 2023.

Most of the South Island is likely to have near-normal soil moisture through to Christmas except for the top of the South, which has a risk of below-normal soil moisture. The west of the North Island is likely to have either below-normal or near-normal soil moisture. The remainder of the North Island is likely to have below-normal soil moisture through to Christmas.

## What to Watch

- NIWA notes that El Niño conditions will continue through to Christmas 2023.
- Dramatic temperature swings are likely for the country, with warm air from Australia and bitter cold southerlies possible in short succession.
- More westerly winds are likely over the next three months, which raise the risk of prolonged dry spells on both the top and east coasts of both islands.



# A Price Floor Being Established

**A delicate balance of supply and demand persists.** Oceania FOB powder prices held their ground in September 2023 compared to August 2023, with WMP lifting a small 3% MOM. Slowing global milk production will eventually match the tepid demand growth noted in most regions, preventing further price declines.

**New Zealand milk production is shaping up for another below-average peak this season.** Milk flows for the first three months of the 2023/24 season show production is almost 2% behind on a tonnage basis, driven by lower North Island collections.

**China's dairy demand recovery has not, to date, offset strong domestic milk production growth.** RaboResearch anticipate milk supply growth will slow over the remainder of this year and into next, but a complete market rebalance is still a while off.

**RaboResearch has lowered its 2023 milk production forecast for the Big 7 export regions.** Milk supply is likely to grow by just 0.3% YOY in 2023, a downgrade from our earlier expectations of 0.5%. Milk output from the Big 7 for 2024 is likely to climb by just 0.4%, far less than the annual average gain of 1.6% seen between 2010 and 2020.

**RaboResearch believes a possible whiplash effect is growing in probability,** with demand resurgence potentially emerging before global milk output can recover. The risk is, if buyer confidence increases and consumers flock back to procure products en masse, the world may find itself short on milk, providing a firmly bullish runway into 2024.



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## Dairy

### What to Watch

- **Oil prices** – Brent Crude has lifted in recent months, reaching a level in September not seen in ten months. Production cuts in Saudi Arabia have tightened supply availability. Additional gains could support economies in energy-producing nations but would raise costs in other areas, shifting purchasing power and demand trends.

# Is Pricing Whiplash About To Kick In?

Oceania spot dairy commodity prices, Oct 2017-Oct 2023



Source: USDA, Rabobank 2023

# Holding the Five-year Average Line

The AgriHQ North Island bull price continued tracking in line with historical averages for September 2023, with a slight lift above the five-year average emerging by the end of the month. Prices rose from NZD 5.80/kg cwt in late August 2023 to NZD 6.00/kg cwt by late September 2023, in line with the normal price movements at this time of year.

Bull production is down 5% for the season-to-date (through early September 2023). Cow slaughter is up 4%, with a noticeable 10% increase in South Island cow slaughter, season-to-date. Heifer slaughter is also higher by 2%, while steer slaughter remains steady.

US lean trimmings prices have picked up over the last two months, rising from a low in mid-July 2023 of USc 232 to USc 246/lb in late September 2023. US beef stocks – which largely represent imported product – were 10% below the five-year average in August. With this lower inventory, plus imported lean trimmings trading at a large discount to domestically produced US trimmings, we may just be seeing the market correct itself a little. This should provide positive support for NZ prices over the coming weeks.

August 2023 beef exports were higher by 4% YOY, driven by a significant jump in shipments to the US. Exports to the second-largest market for the month were higher by 118% YOY, while values were higher by over 80% YOY. Shipments to China (the largest market for August) were lower by almost 40% YOY for August 2023 by volume. Canada, Japan, Korea, and Taiwan (representing between 8% and 4% market share each) all took higher volumes for the month compared to last year – except for Korea, which was lower by 6% YOY.



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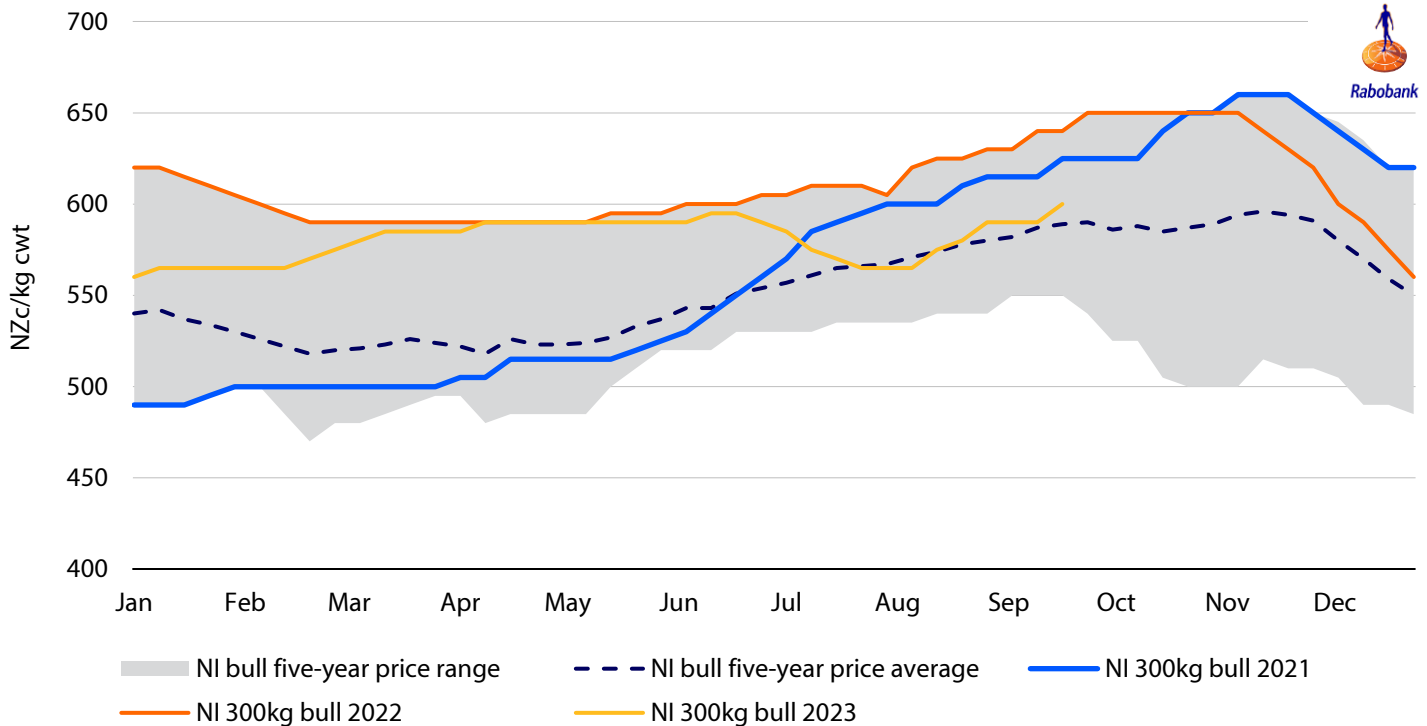
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## Beef

### What to Watch

- **Bobby veal production** – Bobby veal production has been in line with last year's volumes despite the new requirement for all bobby calves to enter the supply chain. This could mean there will be an increase in bull beef production over the coming years as producers make the decision to hold and grow out bobby calves rather than slaughter them at a young age – assuming they are still within the system.

# Rising US Import Prices Help Pull Cattle Prices Up



Source: AgriHQ, Rabobank 2023

# Prices Continuing To Flatline

**With ongoing high volumes of Australian lambs in the global market and continued soft demand, prices are expected to continue moving sideways.** AgriHQ South Island lamb prices continued to track sideways through September 2023 at NZD 6.90/kg cwt. AgriHQ North Island prices saw a slight tick up later in the month to shift the needle back to NZD 7.00/kg cwt – up from NZD 6.95/kg cwt.

**Hogget and mutton slaughter numbers continue to tick close to last year's volumes** for the season-to-September 2023. Lamb slaughter saw a slight uptick over the same time frame.

**China remains our top market, demanding 50% of total New Zealand exports in August**, just 3% lower than this time last year. However, the value of shipments to China plummeted by 25% YOY – proving the impact of this price-setting market. Demand from other key markets remains stronger than this time last year, with respective exports to the US and the UK both significantly higher year-on-year for volume (+28% and +50%) and value (+22% and +20%).

**Across the ditch, sheep slaughter numbers remain historically high**, up 51% YOY and up 17% on the five-year average. The combination of late old-season lambs with the drier conditions and falling prices are leading producers to offload stock earlier.

**In a hint that things are starting to look better in consumer markets**, US prices have lifted slightly in recent months. The average US lamb carcass price in September was 1% higher than the average in August and average lamb retail price was 1.5% higher. Although not dramatic increases, demand from alternative markets to China will be helpful in establishing a firmer price floor in the face of high production volumes emerging from Australia.



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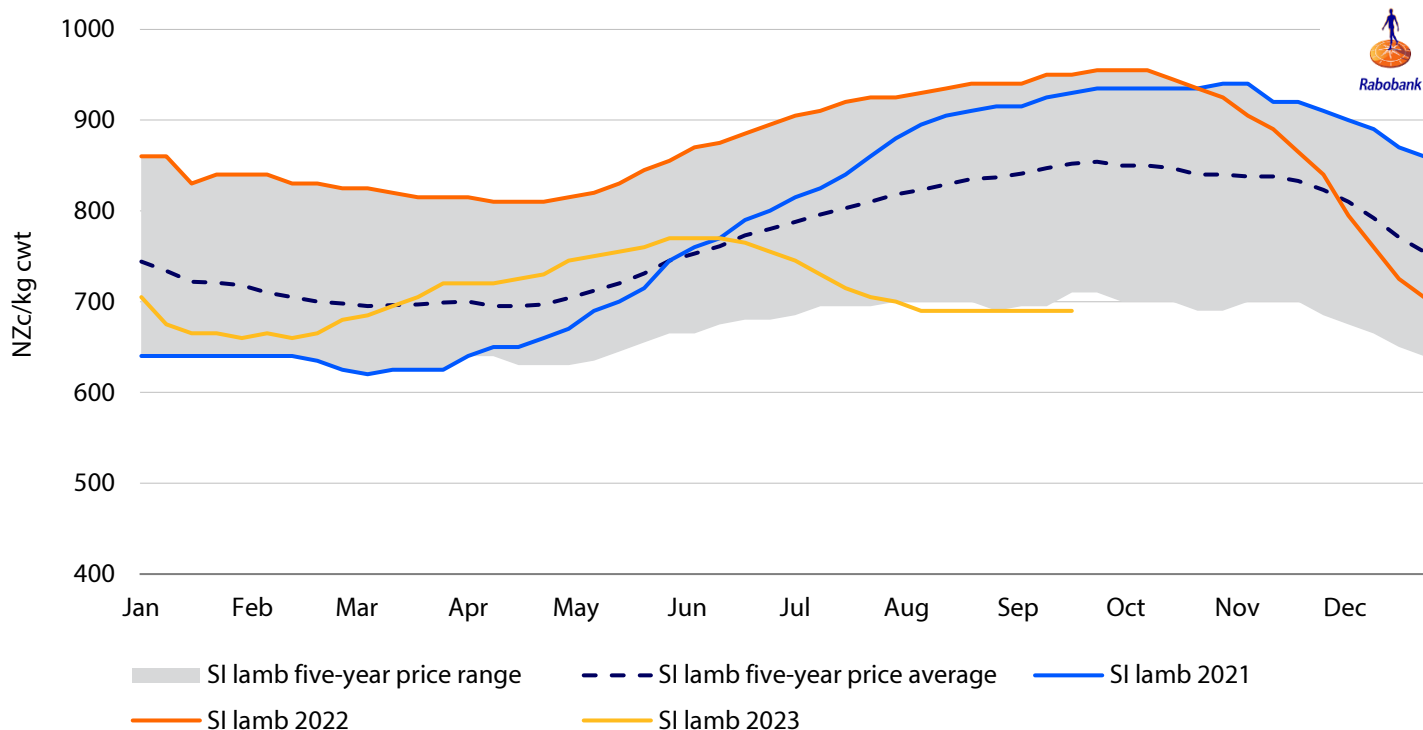
## Sheepmeat

### What to Watch

- **Chinese demand** – Although commentary has suggested that supply chains in Asia are very full, some indications are starting to appear that volumes are starting to move again in the China market. While not large movements, they might just be enough to clear supply chains as we head towards the end of the year and pave the way for increased lamb production to come to market.



# Lacklustre Demand Continues To Mean Soft Lamb Prices



Source: AgriHQ, Rabobank 2023

# Levelling Out Supply and Demand

**As expected, the fertiliser price hike in August was just a price correction within a bigger adjustment of global supply and demand. Month-over-month, the Middle East reference for urea dropped 2.5%, Morocco DAP showed a positive 4.5%, and Canadian potash was virtually steady. The downside for farm inputs is coming from stronger petroleum prices and a weaker Australian dollar.**

In the nitrogenous fertiliser market, Indian tenders and Chinese export caps have been moving the needle. India surprised the market with consecutive urea tenders, but the volumes and prices are way below expectations. **India's September tender offer was 3.6m tonnes, but only 0.5 million have been procured, and the price was also slightly lower than the original expectation. There is a new open tender of 1.5m tonnes set for November deliveries.** To give perspective, these two tenders account for nearly 4% of global urea trade. Another price supportive indicator is that a share of Chinese urea exports has been curtailed through inspection certificate cancellations. This means **local stocks of urea should increase as an attempt to curb food inflation, as happened to phosphate in 2022.**

The agrochemical front is mirroring the fertiliser market but with a substantial lag. **Comparing a basket of herbicides, fungicides, and insecticides, Chinese prices dropped by 30% YOY.** This already can be seen at the farmgate level, especially for more in-demand products like glyphosate. The good news is that there is more to come on the consumer level, and next season should have a much better cost structure, at least for fertilisers and agrochemicals.

## What to Watch

- **El Niño impacts in South America** – If heat waves in central Brazil continue, they could push the soybean seeding period further to the end of the year, impacting the corn seeding that usually starts by January, straight after the soybean harvest. This could create a snowball effect of delays, reducing corn area. This, in turn, could lead to a lack of Brazilian demand for farm inputs by the end of the year, which could benefit Oceania procurement for the 2024 season. Brazil is responsible for 17% of the global fertiliser imports.

## Farm Inputs

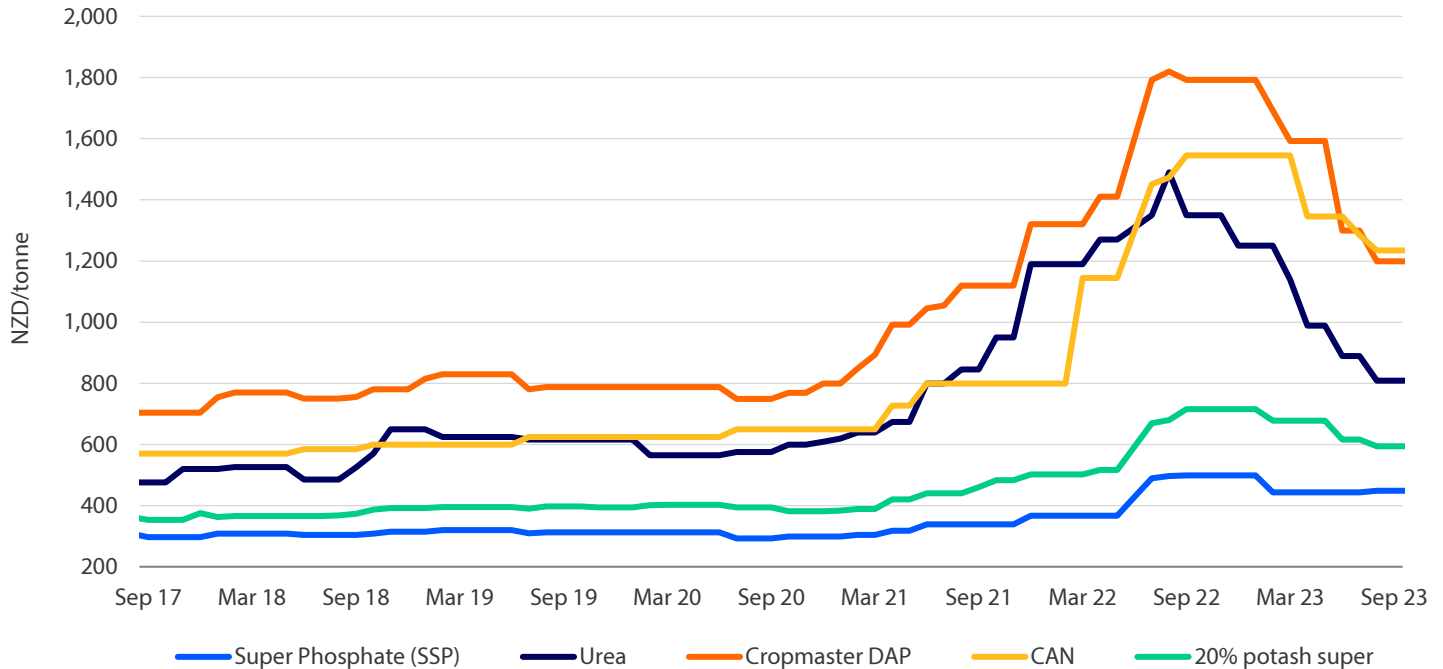


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# The New Normal, at Least for Now

## NZ local fertiliser prices




Source: Ravensdown, Rabobank 2023

# What Recession?

**The New Zealand dollar ended September a little over US\$ 59.5, which is pretty much where it began.** The currency had a monthly trading range of US\$ 1.5 that saw a low of NZD/USD 0.5850 early in the month and a relief rally to finish. September did bring some good news for the economy. The Q2 national accounts released on 21 September showed that growth for the quarter dramatically exceeded expectations, coming in at 0.9% versus a consensus forecast of 0.4%. What's more, the negative result for Q1 was revised up to zero and the -0.7% recorded in Q4 of last year was revised up to -0.5%. That means that New Zealand narrowly escaped a technical recession, which is defined as two consecutive quarters of contracting GDP.

**Faster-than-expected growth can be a double-edged sword, though.** The strong GDP figures, in combination with the weak currency and rising energy prices around the world, have seen the implied probability of further increases in the OCR move from 40% at the start of the month to more than 100% at the end. That means that markets have now fully priced in another lift in the OCR by May of 2024, although the RBNZ chose to leave rates unchanged in October. Futures markets recording a higher probability of rate hikes doesn't necessarily mean that those hikes will eventuate (we have not changed our forecast that 5.5% is the top of the cycle), but it does suggest that the risk is increasing.

**There was some encouraging data on the trade front released in September.** New Zealand's trade deficit narrowed in August, and the current account deficit narrowed in Q2. That's progress in the right direction, but headwinds remain. Whoever wins the election on 14 October will need to hit the ground running to get New Zealand's twin deficits (current account and fiscal deficit) back into shape. A narrower trade deficit would take the pressure off currency and interest rates.



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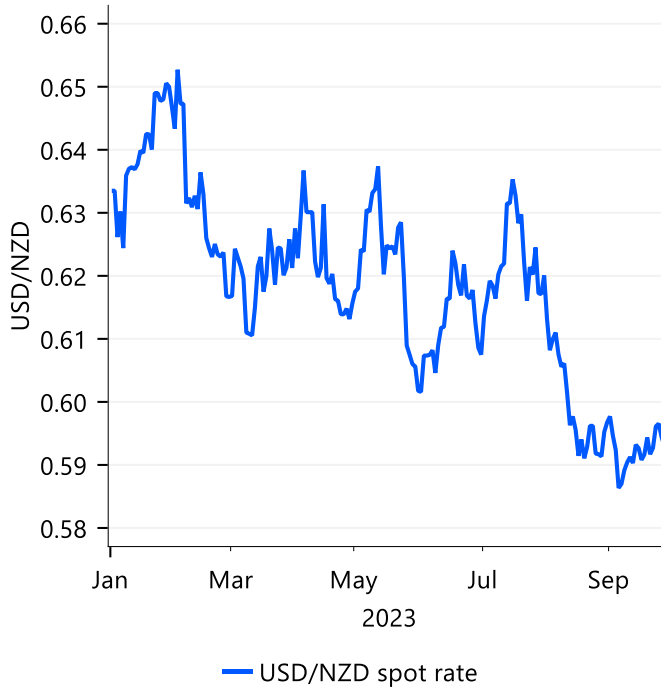
## Interest Rates & FX

### What to Watch:

- **Q3 CPI Inflation Report** – Released on 17 October.
- **National election** – 14 October.

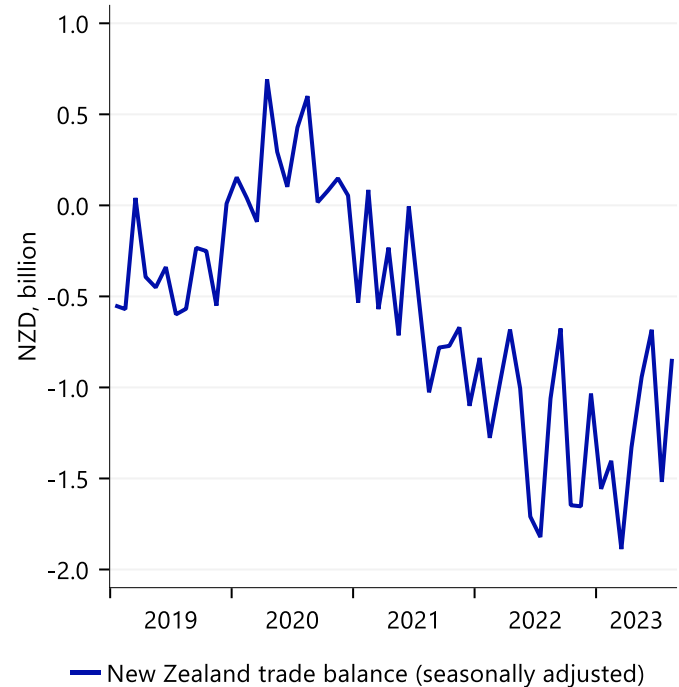
# Trade Performance Shows Signs of Improving

*The NZD traded sideways during September*



Source: Macrobond, Rabobank 2023

*New Zealand's trade deficit has narrowed*



Source: Macrobond, Rabobank 2023



# Crude oil prices surge

**Brent crude rose to fresh ten-month highs in September, briefly touching USD 97.69/bbl.**

This means that prices are up by almost 10% since the end of August as production cuts from OPEC+ producers and dwindling reserves in the US put further pressure on an already tight market. Our energy experts predict that Brent Crude will test the USD 100/bbl level in the coming months and could consolidate above that level in early 2024, but in the short term there is potential for a bit of a pullback in an over-bought market.

**Diesel prices also rose substantially due to constraints in global refining capacity and a decision by the Russian government to ban diesel exports.** That ban is designed to put maximum pressure on the West but may be short-lived as storage capacity in Russia is limited. Our expectation is that any removal of the ban will be done in stages, with cargoes allowed to flow to India, China, and Turkey before being sent to European markets.

**Estimated emissions surcharges were announced in August by major ocean carriers.**

Emissions surcharges will be applied from 1 January 2024 to vessels travelling to, from, or between EU ports. Ocean carriers will need to purchase emissions allowances on the EU carbon market to pay for their emissions (currently around EUR 80 per tonne of CO<sub>2</sub>). This means an additional cost for shippers. In 2024 the surcharges will be still relatively small, but the surcharges will significantly increase in line with the share of emissions that ocean carriers must pay for: 40% in 2024, 70% in 2025, and 100% from 2026 onwards. Furthermore, emission surcharges also depend on how prices in the EU carbon market develop and on ocean carriers' uptake of low-emission fuels.

**The Baltic Panamax index (a proxy for grain bulk freight) continues to fluctuate** around the lower end of the spectrum. Seasonal rate hikes started to take off in August, but we do not expect further significant increases.




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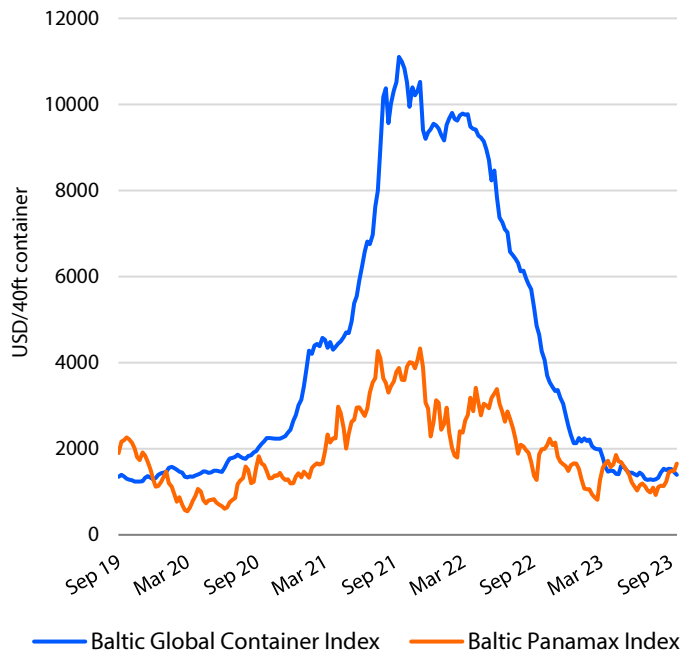
# Oil & Freight

## *What to Watch:*

- **US Department of Energy weekly inventory reports** on 5, 13, 19, and 26 October.
- **OPEC Monthly Oil Market Report** – 12 October

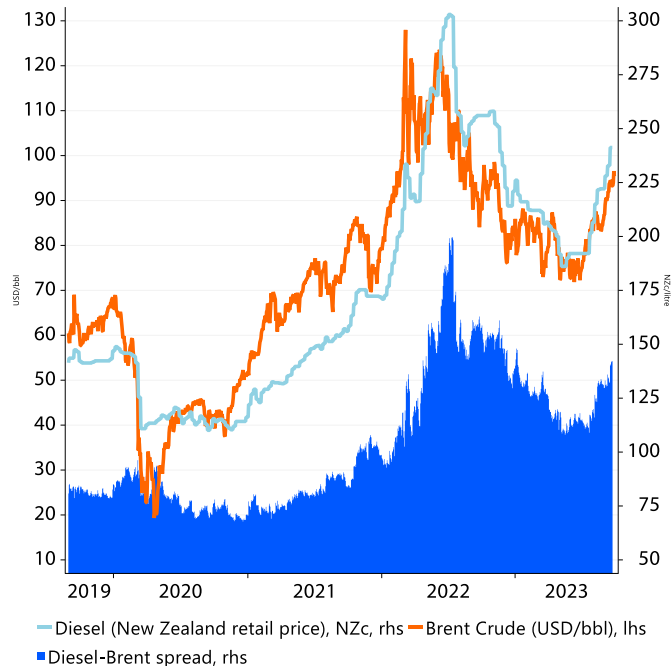
# Crude Oil on the Rise

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



Source: Baltic Exchange, Bloomberg, Rabobank 2023

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



Source: Macrobond, Rabobank 2023

# Agri Price Dashboard

30/09/2023	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▼	542	570	896
CBOT soybean	USc/bushel	▼	1,275	1,382	1,411
CBOT corn	USc/bushel	▲	477	470	670
Australian ASX EC Wheat Track	AUD/tonne	▲	414	391	441
Non-GM Canola Newcastle Track	AUD/tonne	▼	675	700	720
Feed Barley F1 Geelong Track	AUD/tonne	▲	347	340	326
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	357	492	1,074
Feeder Steer	AUc/kg lwt	▼	288	304	567
North Island Bull 300kg	NZc/kg cwt	▼	0	580	650
South Island Bull 300kg	NZc/kg cwt	▼	0	530	625
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	445	461	737
<b>Oceanic Dairy Markets</b>					
Butter	USD/tonne FOB	▲	4,775	4,625	5,425
Skim Milk Powder	USD/tonne FOB	•	2,388	2,388	3,575
Whole Milk Powder	USD/tonne FOB	▲	2,775	2,700	3,550
Cheddar	USD/tonne FOB	▼	4,088	4,175	5,225

Source: Bloomberg, MLA, Rabobank 2023

# Agri Price Dashboard

30/09/2023	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	98.9	97.0	107
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	86.9	87.1	87
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▲	26.3	25.5	18.4
ICE Sugar No.11 (AUD)	AUD/tonne	▲	907	876	571
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▼	1,135	1,136	1,255
<b>Fertiliser</b>					
Urea Granular (Middle East)	USD/tonne FOB	•	383	383	648
DAP (US Gulf)	USD/tonne FOB	▲	570	550	755
<b>Other</b>					
Baltic Panamax Index	1000=1985	▲	1,701	1,498	2,063
Brent Crude Oil	USD/bbl	▲	95	85	88
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.644	0.648	0.650
NZD	vs. USD	▲	0.600	0.597	0.573
RBA Official Cash Rate	%	•	4.10	4.10	2.35
NZRB Official Cash Rate	%	•	5.50	5.50	3.00

Source: Bloomberg, MLA, Rabobank 2023

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