

# *Riding the Rollercoaster of Returns*

New Zealand Agribusiness Monthly



September 2023

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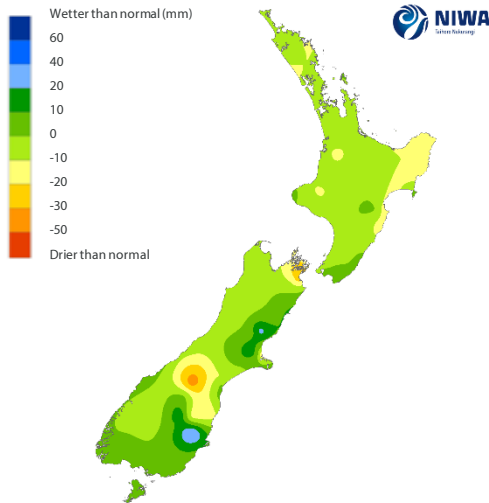
# September Commodity Outlooks

 <p><i>Dairy</i></p>	<p>There were further falls in commodity prices in August. Weakness in the dairy complex has set in for now and patience is required for the Chinese market to rebalance. On a positive note, for commodity prices, milk supply growth across key export regions is losing steam as milk prices fall and weather risks linger.</p>	<p><a href="#"><u>p. 4-5</u></a></p>
 <p><i>Beef</i></p>	<p>RaboResearch anticipates schedule prices to follow the normal seasonal trend upwards, tracking close to the five-year average as production seasonally declines.</p>	<p><a href="#"><u>p. 6-7</u></a></p>
 <p><i>Sheepmeat</i></p>	<p>Softer demand from key markets and full supply chains remain the theme underpinning prices for lamb in the weeks ahead. Tough market settings may limit price upside at a time when schedule prices are generally hitting their peak.</p>	<p><a href="#"><u>p. 8-9</u></a></p>
 <p><i>Farm Inputs</i></p>	<p>Fertiliser references had a relevant upward correction in August, but this is likely to be short-lived. There is no strong competition for cargo as Northern Hemisphere players are focussing on harvest. This upside is a sign that global oversupply is coming to an end and that supply and demand should rebalance in a few months' time.</p>	<p><a href="#"><u>p. 10-11</u></a></p>
 <p><i>FX and Interest Rates</i></p>	<p>The NZD dropped by almost 3% in August as markets worry about softening demand from China. Inflation concerns remain, but we don't expect the RBNZ to raise rates any further.</p>	<p><a href="#"><u>p. 12-13</u></a></p>
 <p><i>Oil and Freight</i></p>	<p>Crude oil prices continue to lift as economic resilience in the US and signs of extended production cuts from OPEC further exacerbate the supply/demand imbalance in markets. Diesel prices continue to rise relative to crude oil.</p>	<p><a href="#"><u>p. 14-15</u></a></p>



# A Mixed Bag of Weather for Spring 2023

## Soil moisture anomaly (mm), 3 September 2023



Source: NIWA, Rabobank 2023

NIWA anticipates the next three months could hold a chance of warmer-than-average temperatures for much of the country, with the top and west of the North Island more likely to have near-average temperatures over this period. NIWA also flag that spring conditions could bring a mixed package, with more southwesterly winds bringing the odd cold blast, in addition to incidents of warmer air arriving from Australia, particularly for the east of both Islands.

Near-normal or above-normal rainfall is possible for the west of the South Island. The remainder of the country is likely to have below-normal rainfall through to November 2023.

Areas of the South Island are likely to have near-normal soil moisture through to November. The top and the east of the North Island has a chance of below-normal soil moisture. The remainder of the North Island is likely to have below-normal or near-normal soil moisture levels through to November 2023.

## What to Watch

- NIWA notes that the conditions required to officially classify El Niño for New Zealand may be reached this month.
- For horticulture growers in Northland, Auckland, Waikato, the Bay of Plenty, Central North Island, Whanganui and Manawatū, NIWA have mentioned prevailing areas of high pressure may bring the chance of some unseasonal frosts.
- For farmers in Canterbury and East Otago, NIWA notes that rainfall is most likely to be below normal through to November 2023, with more westerly winds likely to bring drier than usual conditions from the second half of this month.

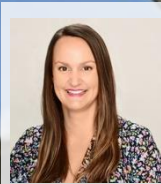
# Milk Supply Growth Under Pressure

**Attention remains laser-focussed on both supply and demand from China.** Supply growth is still evident – but showing signs of slowing – while demand remains sluggish. While the triggers for a rebalancing within the Chinese dairy industry are at play, the severity of the economic headwinds and the length of the lull in Chinese economic growth are shrouded in uncertainty. Patience will be required in the weeks ahead, with a full market rebalancing unlikely in the near term.

**Markets are watching for signs of how New Zealand milk production is shaping up in the run-up to the spring peak flows.** Milk flows for the first two months of the 2023/24 season show production is 1.3% behind on a tonnage basis. This season will be a tale of two islands, with the North Island broadly on struggle street thanks to tough weather conditions affecting grass growth, while the South Island is shaping up well ahead of the spring flush.

**Global milk production flows are beginning to show signs of a major slowdown ahead.** In the Northern Hemisphere fewer cows and lower yields mean that US output will struggle to match last year's growth rates in the second half of 2023. EU volumes are anticipated to flatten out – or even drop – over the coming months against strong prior-year comparables.

**Milk production growth in the Big-7 export regions is likely to only splutter ahead into 2024,** well below the 1.6% annual average growth rate from 2010-2020. This poses an upside price risk to dairy commodity prices as we move through the 2023/24 season.



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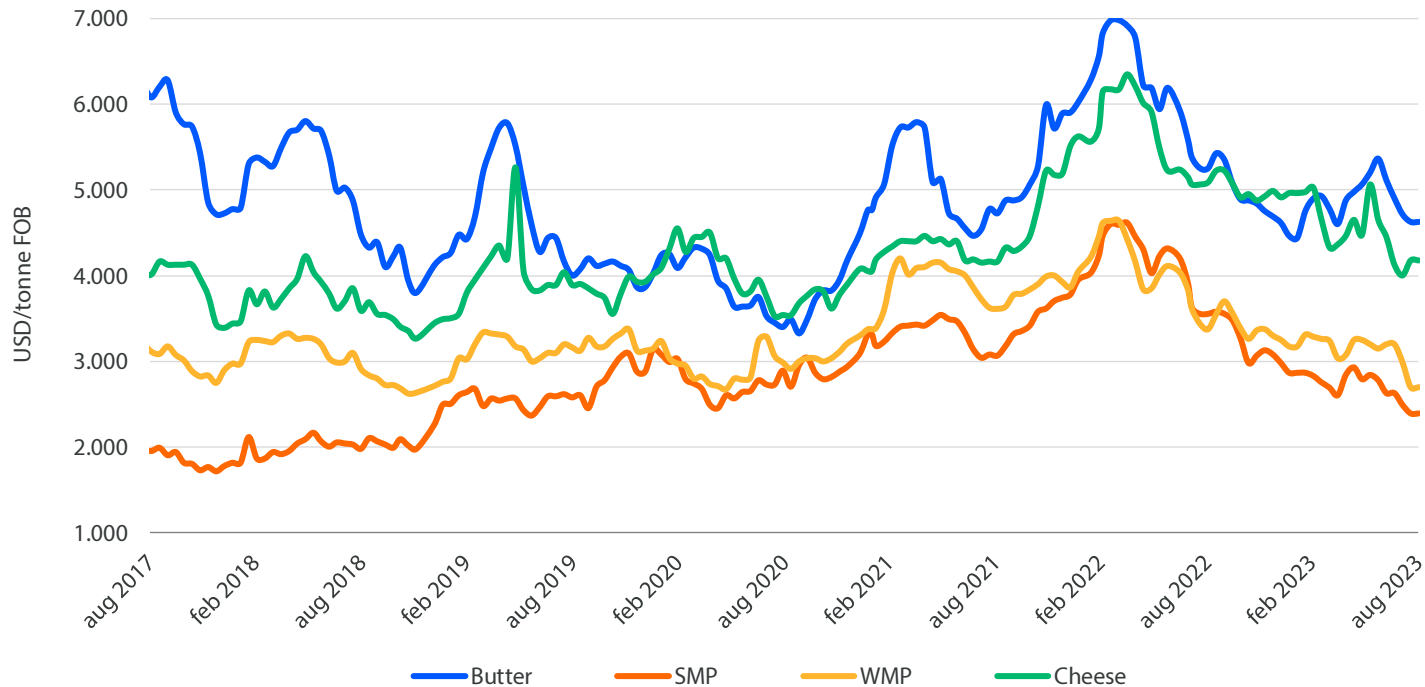
## Dairy

### What to Watch

- **El Niño's wrath (or lack thereof):** Conditions for El Niño are brewing, bringing with it risk of upending milk production in key parts of the world. A significant departure from normal weather patterns, especially here in New Zealand, could markedly shift production expectations and move markets with it.

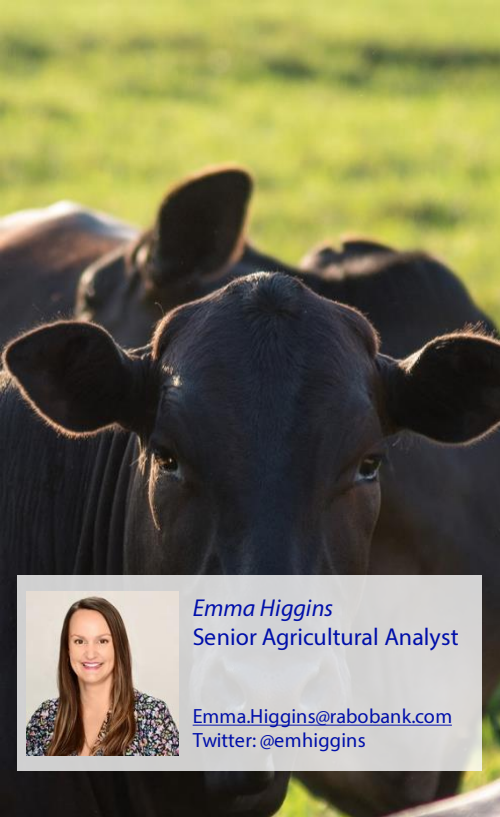
# Weak Fundamentals Linger in Dairy Markets

Oceania spot dairy commodity prices, Aug 2017- Aug 2023



Source: USDA, Rabobank 2023

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# Beef

## Back to Five-year Average Prices

After slipping through July, farmgate beef prices started tracking up again in August 2023. NI bull prices pulled into line with the five-year average and followed a more normal seasonal trend, lifting 2.6% between 4 August and 25 August to NZD 5.80/kg. North Island store prices rose slightly in late August – R1 Friesian bulls were up 3% to NZD 3.65/kg for the month – while South Island store prices remained flat for most of August. **With New Zealand bull production declining in line with the normal seasonal trend, and the price of US imported lean trimmings showing signs of lifting, schedule prices should follow the normal seasonal trend up over the coming months and track close to the five-year-average.**

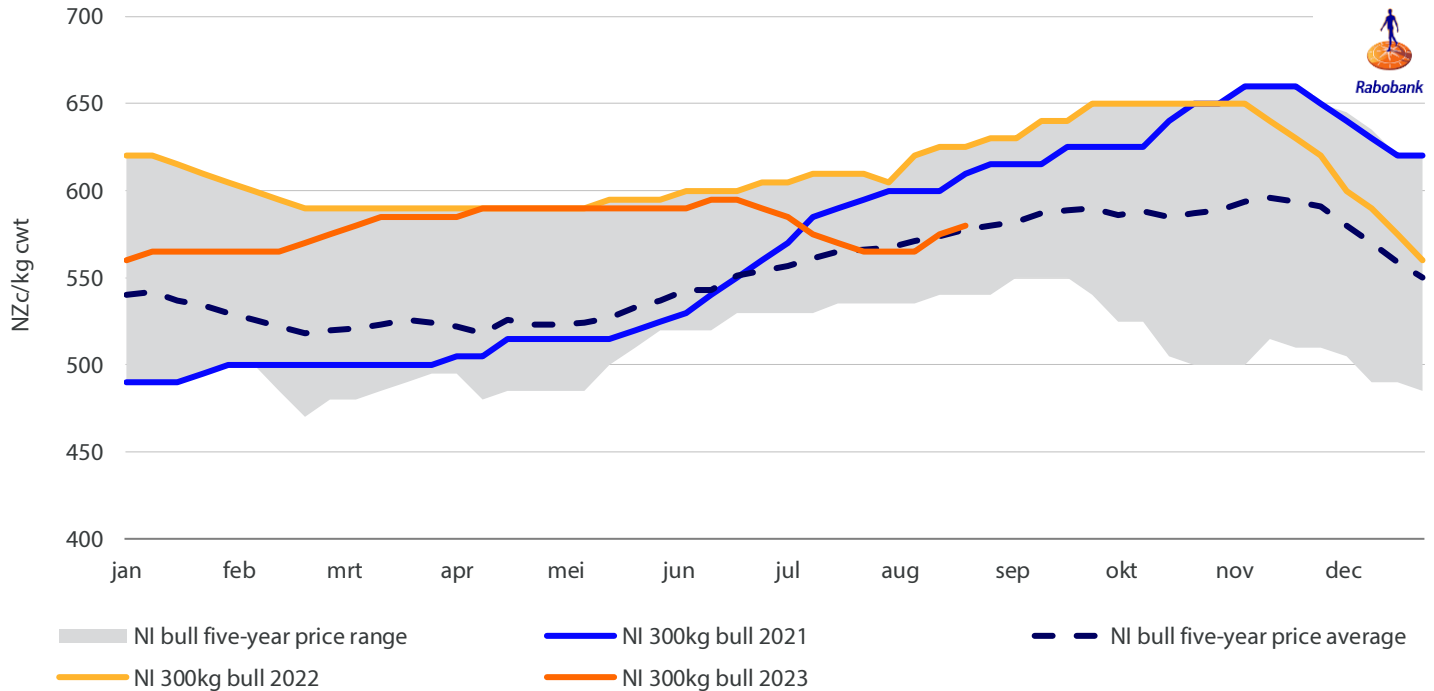
Production volumes for all categories of cattle are close to last year's levels and in line with seasonal trends. For the four weeks to week 45 (12 August) cow production was down 6% and heifer production was down 8% compared to the same period in the 2021/22 season. Steer production was down 6% and bull production was down 18%. However, we believe that these differences in male production are more a result of higher slaughter earlier in the season. Season-to-date volumes show steer production down 1% on last year and bull production down 5%. Season-to-date cow slaughter is up 5%.

Beef export volumes for July (52,043 tonnes) were up 8% compared to 2022. July export volumes to the US are up 109% YOY, while shipments to China are down 27% YOY. However, congestion in global supply chains and competition from Australian product has put downward pressure on prices. Per unit export values are down 18.6% in July compared to July 2022, with values to China dropping 26.7% and values to the US down 14%.

### What to Watch

- **Extra supply from the dairy industry** – Current bobby calf production is tracking just behind levels seen last year, despite processor requirements and softer milk prices. However, with weaker farmgate forecasts for dairy farmers, a 'no-free-rider' policy is likely to be strictly applied to many dairy farmers, meaning higher and earlier seasonal dairy culling will be likely. This is particularly the case if farmgate beef prices remain firm.

# Bull Prices Pull Into Line With Average



Source: AgriHQ, Rabobank 2023

# Prices Bouncing Along the Bottom?

Lamb prices stabilised through August, although they remain at historically low levels. A consistent theme remains soft demand from key markets and full supply chains.

The average price for August (NZD 6.96/kg) was down 25% for the North Island and 26% for the South Island compared to the same period last year. These prices are slightly below farmgate prices in 2020 and are the lowest experienced in the last five years. However, at NZD 6.95/kg, lamb prices received here in New Zealand are higher than those received by farmers in Australia. Australian lamb prices, when converted, are the equivalent of around NZD 3.25/kg to NZD 4.35/kg.

Lamb production for the season to date (week 45) is down 1%, while mutton production is down 9%.

Sheepmeat exports in July 2023 are down 25% YOY to 26,767 tonnes. Although lower than 2022 volumes, they are more in line with 2021 volumes and represent the low part of the season as volumes bottom in September. Sheepmeat shipments to China in July plummeted 30% YOY to 12,754 tonnes, while US exports were higher by 18% YOY to 2,862 tonnes, and volumes to the UK were back by over 20% to 2,469 tonnes.

Interlinked to farmgate returns and lower export volumes is the leap in Australian sheepmeat volumes to China in July – up a significant 57% YOY. With large Australian volumes looking for a home, the cheaper price point – USD 4.35/kg compared to NZ exports at USD 4.62/kg – is providing tougher competition in these market settings. Export values for all New Zealand sheepmeat exports dropped 10% YOY to NZD 9.51/kg.



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## Sheepmeat

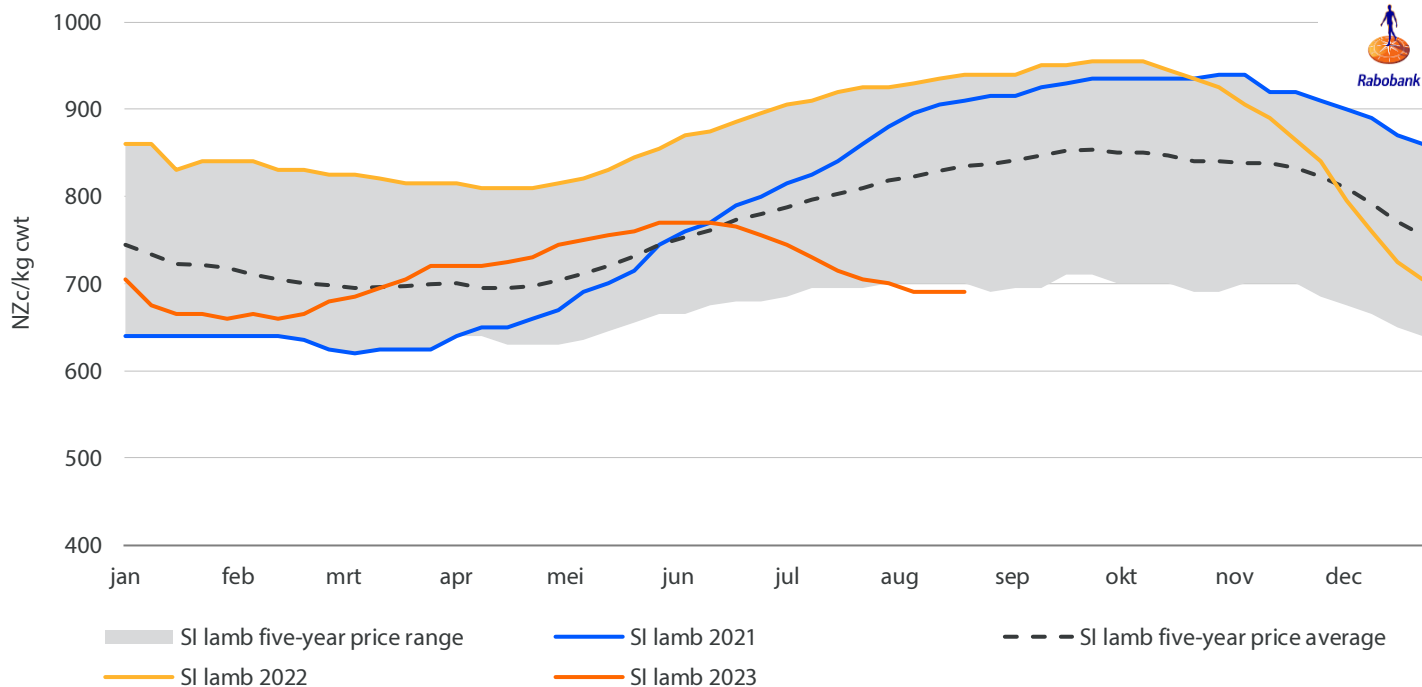
### What to Watch

- **Seasonal change** – Last year, early August marked the bottom of the season, with the lowest production volume for the season being recorded on 8 August. Will it be the same this year or will the bottom be hit a little later? If this is the bottom – and we have seen lamb production for July 2023 higher than last year – adding more lambs to a competitive and slow global market may limit price upside at a time in the season when schedule prices are generally hitting their peak.



# Lamb Prices Low but Levelling Out

South Island lamb prices track along the lowest levels in five years



Source: AgriHQ, Rabobank 2023

# The Storm Before the Calm

August was the first month since the Russian invasion of Ukraine in February 2022 that all three fertiliser price references showed a positive movement. Nitrogen rose as much as 7.4% MOM, but closed at -7%. Phosphate is up a robust 17% and potash is up 1.5%. The catalyst is strong demand from South America, mainly Brazil.

However, this surge is likely to be temporary. The planting season is in sight for South America and retailers are expected to step out of the market soon. Other markets showing sluggish activity are Europe and North America. A further bearish example was the urea tender in India at the beginning of August. Some suppliers were able to offer the commodity up to 10% cheaper than initial expectations of USD 400/tonne. **There was also significant participation from Chinese suppliers in this tender. This is an indication that China may also increase its participation in the nitrogen market, following the new regulations for phosphate earlier in the year.** To illustrate this, from January to July 2023, Chinese exports of urea were 1.3m tonnes, compared to 0.9m tonnes for the same period in 2022. For DAP, Chinese exports in the first seven months of 2023 were 2.9m tonnes, compared to 1.6m tonnes in 2022.

**Another pressure on nitrogen fertiliser prices comes from natural gas. So far, the fears of shortages are over.** Storage replenishment in Europe is on track to meet winter demand and this is reflected in its spot price. It is 43% lower than in January 2023, and at the same level as in July 2021. The bad news for farm inputs procurement comes from the currency side.



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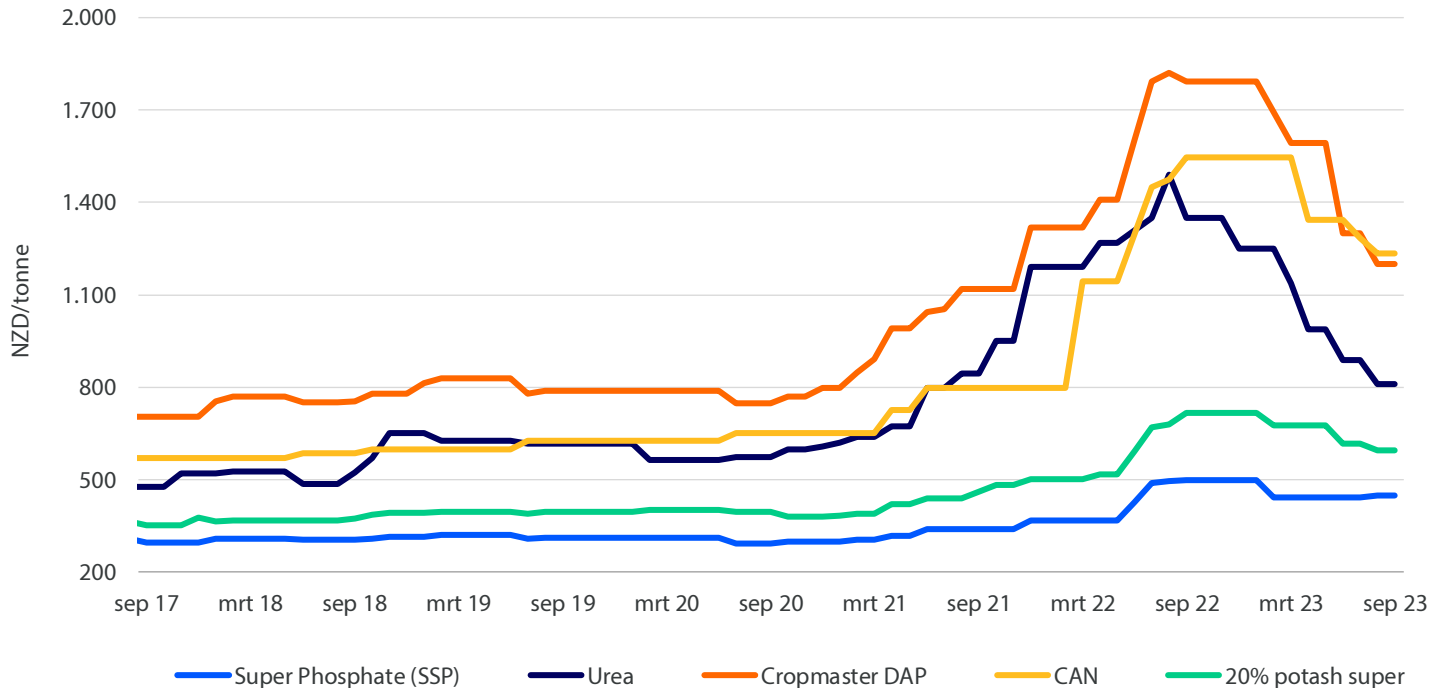
## Farm Inputs

### What to Watch

- The global supply of fertiliser and its raw materials has some potential downsides. The Saudi state-owned mining company, Ma'aden is experiencing technical issues with one of its ammonia production sites, which are expected to be resolved by mid-September. In addition, a relevant share of Australia's exports of liquefied natural gas (LNG) is at stake following tough negotiations between unions and LNG plants. Strikes have been planned for the first week of September. Australia accounts for 11% of global LNG exports.

# Finally, the Drop

## NZ local fertiliser prices



Source: Ravensdown, Rabobank 2023


# Dollar Dramas

**The NZD fell by almost 3% in August as concerns over the Chinese economy impacted the outlook for commodity exports.** The NZD opened the month at 0.6209 before closing the month at just 0.5967, making it one of the worst performing major currencies over the period.

A slowing of activity in China is making itself felt for many countries that send a large volume of exports to the Middle Kingdom. Recent Chinese trade data has shown a substantial fall in imports and Purchasing Managers Index figures have also confirmed softening in both manufacturing and services sectors of the economy. That paints a picture of softer demand for goods shipped into China from overseas and probably goes some way to explaining the softening in prices that we have seen recently.

The lower NZD could cause some problems for the RBNZ, as a weaker currency makes imports more expensive and therefore causes the country to start importing inflation from abroad. The International Monetary Fund recently warned that the RBNZ may need to increase rates further if the government is not successful in cutting the budget deficit by as much as it is expecting. This is certainly a possibility given that tax receipts have been running well below estimates for several months now, implying a larger than expected deficit. As a result, we have seen the implied probability of another rate hike slowly creeping up in futures markets.

That said, at Rabobank we don't expect any further increases to the OCR. The sharp slowdown in consumption that we are now witnessing, along with an expected softening in the labour market and perhaps a slightly tighter fiscal stance if the National Party wins the October election (as polls currently predict), all point to the RBNZ remaining on hold.



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## Interest Rates & FX

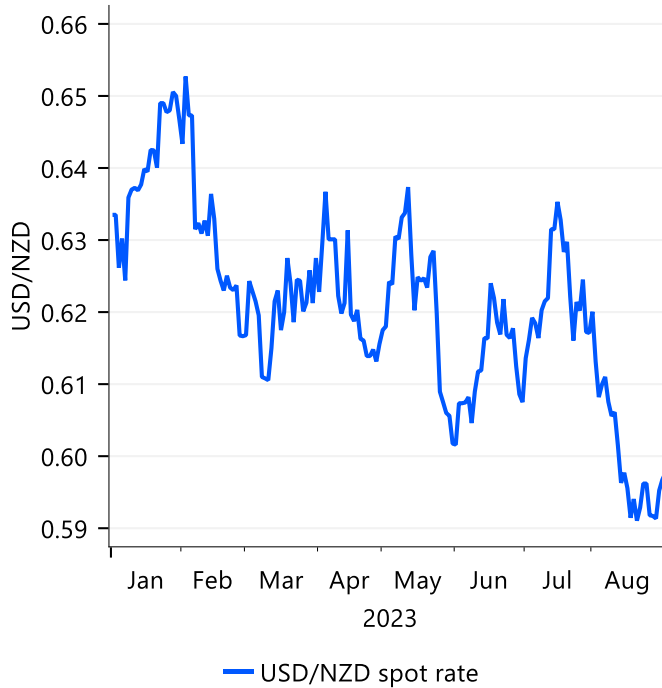
### What to Watch:

- **Food Prices** – Released on 13 September.
- **Q2 GDP Growth** – Released on 21 September. Rabobank forecasts growth of 0.3% in the quarter, a rebound from the -0.1% recorded in Q1 and confirmation that the technical recession has officially concluded.



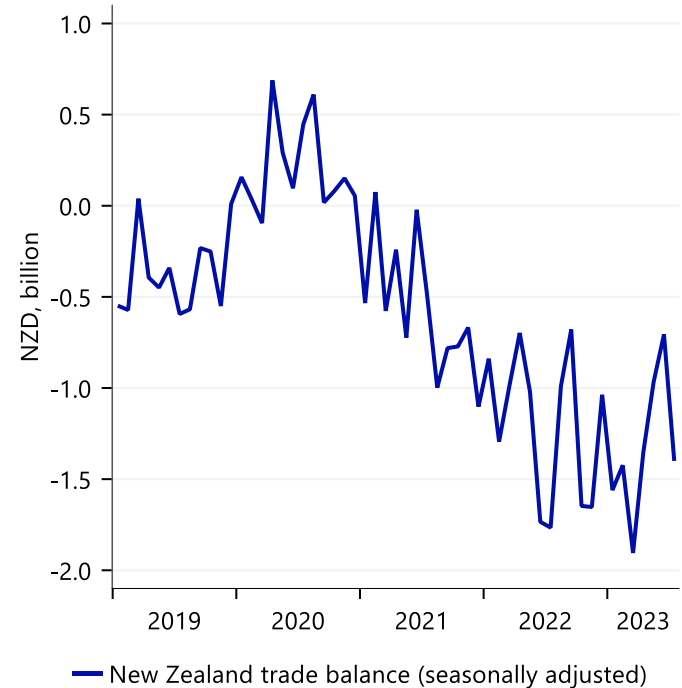
# Fall of NZD Good for Trade

*NZD hit hard by slowing Chinese growth concerns...*



Source: Macrobond, Rabobank 2023

*...but the lower exchange rate will help to support trade*



Source: Macrobond, Rabobank 2023

# Extended Drought in Panama Canal Causes Shipping Delays and Cost Increases

**Brent crude futures managed to recover by almost 2.5% in August, sending prices up to USD 87/bbl.** News of further production cuts from OPEC+ leaders Russia and Saudi Arabia helped support the market, as did continued firm economic data from the US at the start of the month. Crude prices saw a strong rally on the last day of August after a benign inflation report suggested that overall price growth in the US is trending toward the US Federal Reserve's 2% target, and that the Fed therefore may not need to increase the official interest rate any further.

Markets were also supported by news of a military coup in Gabon following the election results. The military officers seized control of the oil-exporting nation, raising concerns about the impact on continued supply.

**The current congestion at the Panama Canal due to prolonged drought has not yet had a significant impact on agricultural trade.** [We expect temporary relief in September](#), which is a month of low activity. If the drought persists, the backlog of vessels waiting to pass the canal is expected to grow again in October, as Q4 is usually the busiest quarter for the canal and also for agricultural trade. Delays and resulting cost increases would be felt most acutely by US grains and oilseeds and fresh fruit exports from the west coast of South America, particularly Peruvian blueberries.

**The Baltic Panamax index (a proxy for grain bulk freight) continues to fluctuate** around the lower end of the spectrum as capacity frees up and the global economy enters turbulent waters. The Panama Canal congestion has only resulted in temporary price hikes.

## What to Watch:

- US Department of Energy weekly inventory reports on 8, 14, 21, and 28 September will give an updated picture of available supply in energy markets.
- The US Federal Reserve's official interest rate decision on 21 September will be an important data point for the demand outlook.




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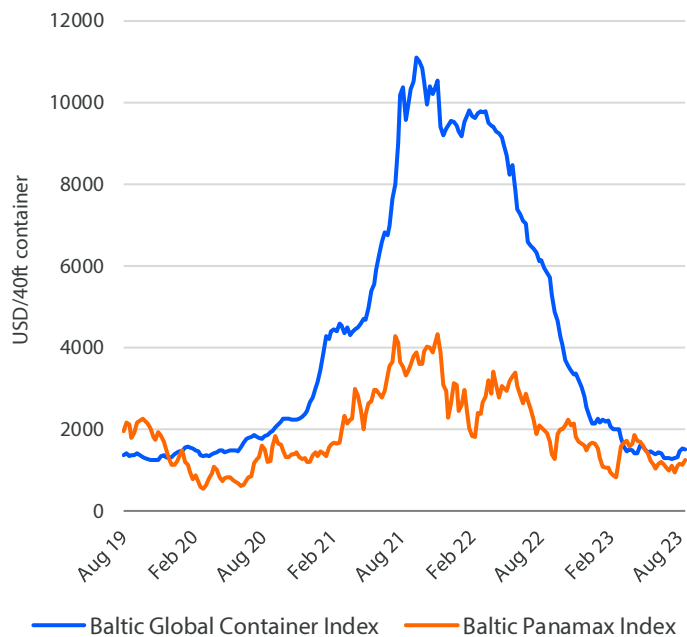
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# Oil & Freight

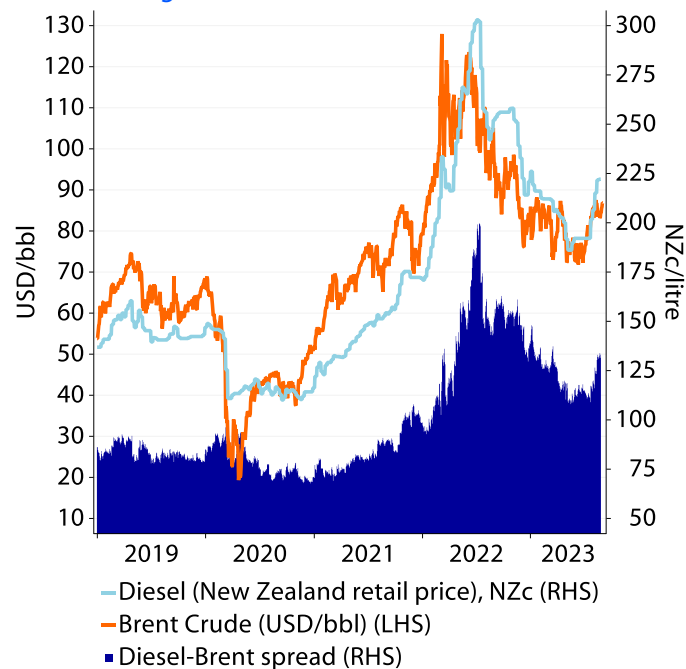
# Crude Oil on the Rise

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



Source: Baltic Exchange, Bloomberg, Rabobank 2023

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



Source: Macrobond, Rabobank 2023

# Agri Price Dashboard

31/08/2023	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USc/bushel	▼	573	666	809
CBOT soybean	USc/bushel	▼	1,360	1,446	1,508
CBOT corn	USc/bushel	▼	461	504	674
Australian ASX EC Wheat Track	AUD/tonne	▼	390	395	397
Non-GM Canola Newcastle Track	AUD/tonne	▲	690	680	704
Feed Barley F1 Geelong Track	AUD/tonne	▲	338	318	320
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	480	564	1,024
Feeder Steer	AUc/kg lwt	▼	304	321	527
North Island Bull 300kg	NZc/kg cwt	▲	580	565	630
South Island Bull 300kg	NZc/kg cwt	▼	530	535	615
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	461	493	674
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	695	705	940
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	690	705	940
<b>Venison markets</b>					
North Island Stag	NZc/kg cwt	▲	880	875	825
South Island Stag	NZc/kg cwt	•	875	875	840
<b>Oceanic Dairy Markets</b>					
Butter	USD/tonne FOB	▼	4,625	4,900	5,250
Skim Milk Powder	USD/tonne FOB	▼	2,388	2,625	3,550
Whole Milk Powder	USD/tonne FOB	▼	2,700	3,200	3,438
Cheddar	USD/tonne FOB	▲	4,175	4,125	5,063

Source: Bloomberg, MLA, Rabobank 2023



# Agri Price Dashboard

31/08/2023	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USc/lb	▲	98.0	94.9	131
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	88.1	85.4	118
<b>Sugar markets</b>					
ICE Sugar No.11	USc/lb	▲	25.1	24.1	17.9
ICE Sugar No.11 (AUD)	AUD/tonne	▲	852	791	552
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUc/kg	▼	1,131	1,179	1,330
<b>Fertiliser</b>					
Urea Granular (Middle East)	USD/tonne FOB	▼	383	400	580
DAP (US Gulf)	USD/tonne FOB	▲	550	470	918
<b>Other</b>					
Baltic Panamax Index	1000=1985	▲	1,503	996	1,217
Brent Crude Oil	USD/bbl	▲	87	86	96
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.648	0.672	0.684
NZD	vs. USD	▼	0.597	0.621	0.612
RBA Official Cash Rate	%	•	4.10	4.10	1.85
NZRB Official Cash Rate	%	•	5.50	5.50	3.00

Source: Bloomberg, MLA, Rabobank 2023

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