

# *Steaks are high for Christmas 2024*

*New Zealand agribusiness monthly*





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This report is based on information available as at 4/12/24

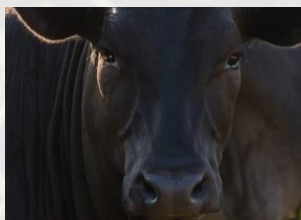


# Commodity outlooks



## Dairy

With commodity prices lifting and margins improving for most farmers in the main exporting regions, more money for dairy producers is likely to lead to higher milk production in 2025.



## Beef

Beef prices remain stable and strong despite seasonal expectations. Total export volumes are up 2%, and average export value for October surged higher.



## Sheepmeat

Farmgate prices are stronger than expected, while lamb numbers coming in to start the 2024/25 season are down, impacting overall supply and exports.



## Farm inputs

Retail urea prices were unchanged month-on-month, although we did see some movement in international markets. Potash prices found strong support, while urea prices declined.



## Interest rate and FX

RaboResearch has revised the 12-month New Zealand dollar forecast down to 0.5600 following the re-election of Donald Trump to the US Presidency. We currently expect the RBNZ to cut rates by 0.25ppts in February, but they could go bigger...



## Oil and freight

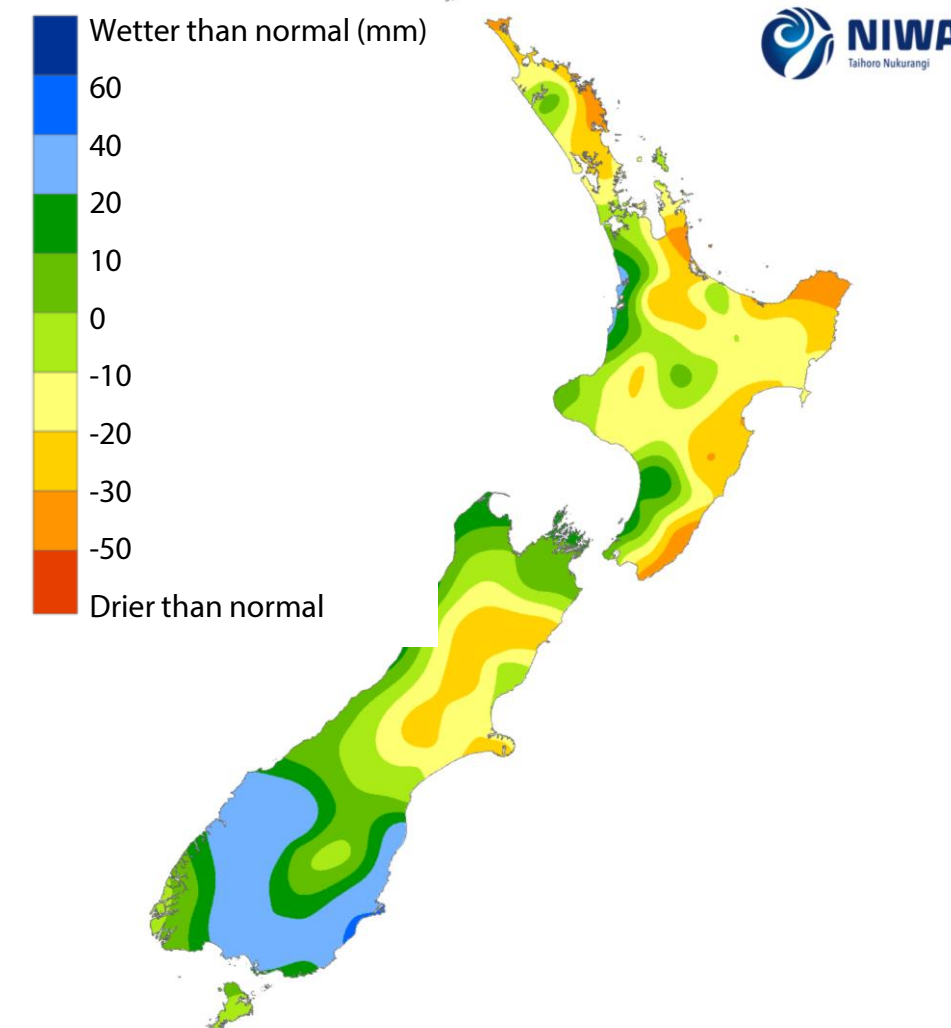
A ceasefire deal struck between Israel and Lebanon has reduced risk premia in energy markets, while bulk freight rates continue to move lower.



# Climate

## La Niña conditions are likely, official or not

*Soil moisture anomaly (mm), 1 December 2024*



A La Niña watch is in effect, and regardless of an official declaration, the National Institute of Water and Atmospheric Research (NIWA) suggests that La Niña-like weather patterns are likely to occur over the New Zealand summer.

Early to mid-December may see strong westerly winds and a chance of heavy rainfall events in western regions. If a typical La Niña pattern occurs, increased north-easterly winds are expected. Fortunately, for those in the north and east of the North Island, more frequent rain events are anticipated from early January.

Coastal sea surface temperatures are above average, which may lead to marine heat waves – good news for holiday-makers but potentially challenging for farmers.

Soil moisture levels and river flows are expected to be near or below normal across regions, with below-normal levels in the north of the North Island. Due to recent dryness, soil moisture at depth remains below normal in the east of the North Island and pockets of the upper South.

*Source: NIWA, RaboResearch 2024*

### *What to watch:*

- **Watch out for heat waves this summer, stemming from elevated and above-average sea surface temperatures.** Some regions having experienced some early heat already, with Hawkes Bay reportedly already having ticked off a 30-degree day, while humidity in northern North Island regions made a sweaty entrance in late November.



# Dairy

## A period of prosperity ahead, driving milk supply

**November was a positive month for Oceania** spot commodity prices, with all major commodities moving upward across the month. **Firmer commodity prices have flowed through to dairy farmer's milk checks in export regions.** Local farmgate prices have improved considerably in 2H 2024, with benchmark local currency prices lifting from about 10% to 20% since midyear. Farmers in New Zealand and parts of Europe are nearing 2022 record highs for farmgate prices.

**Dairy farm margins continue to improve in most export regions.** Affordable feed costs and minimal weather disruptions or improved climate are supporting milk supply growth. South America has also seen a recovery in milk production, especially in Argentina, where output was hit hardest in 1H 2024.

**Milk supply growth is turning positive from the major exporting regions around the globe.** We forecast a 0.8% YOY gain in Q4 2024, an acceleration from the 0.1% growth achieved in Q3 2024.

This puts 2024 volumes at 323.1m tonnes, on par with the prior year but still below 2021's peak of 323.6m tonnes.

**Across the ditch, Australian milk production looks like the seasonal peak will deliver modest growth** versus the previous year. However, some unfavourable seasonal conditions in some key regions will remain a drag on growth.

**Here in New Zealand, milk supply for the peak month of October saw a leap of over 2% YOY**, bringing milk collections for the season so far to 4.2% YOY.

**Food market performance remains mixed, but there is cause for optimism for demand in 2025.** As 2024 draws to a close, the foodservice channels remain sluggish. However, promotional efforts are underway to help drive foot traffic. Retail dairy inflation remains mixed across major markets. The broad retail demand picture is that consumers are trading down and occasionally reducing purchases. A meaningful lift in incomes and consumer confidence are required to spur dairy demand to more normal settings.

### What to watch:

- **The US dollar.** Following the US election, the US dollar has strengthened. RaboResearch anticipates a NZD/USD trading range between 0.56 and 0.59 over the next 12 months. The US dollar strength could have trade implications for dairy exporters and importers experiencing currency weakness.
- **Impacts on consumer spending following China's stimulus packages.** Stimulus measures so far appear unlikely to address the primary drivers of dairy consumption recovery. A boost to household income and the restoration of consumer confidence are still needed.



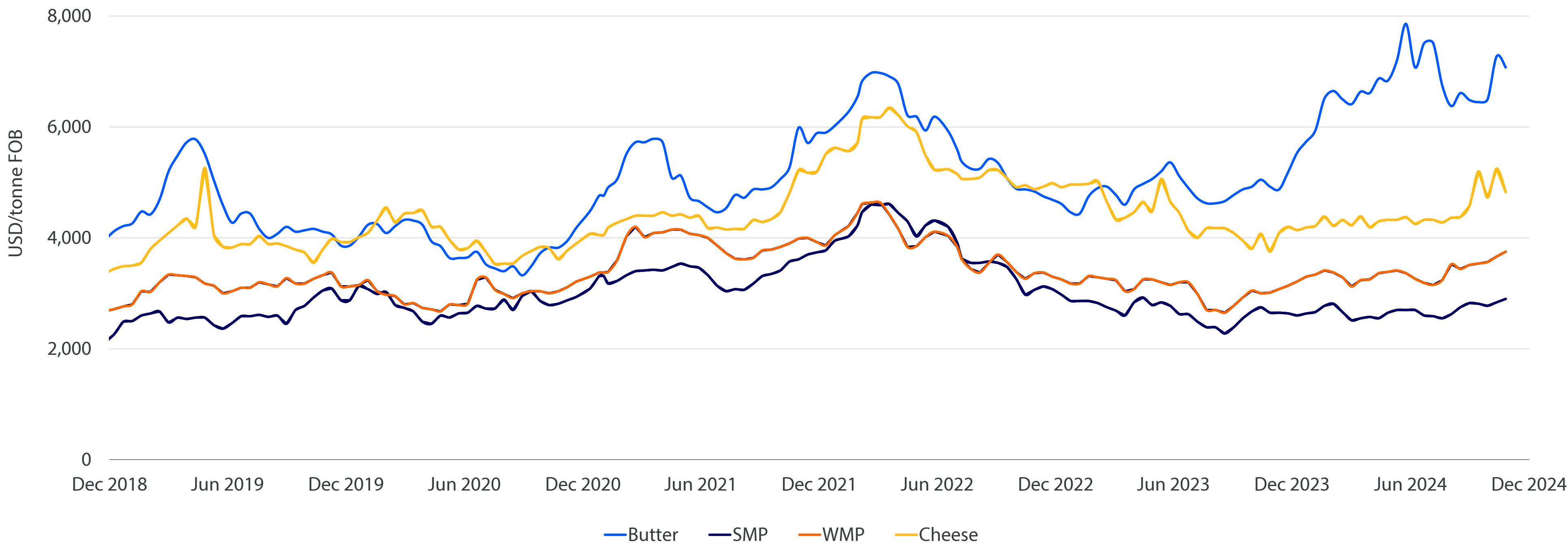
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# Dairy

Let the good times roll

Oceania spot prices for dairy commodities



Source: USDA, RaboResearch 2024



# Beef

## A strong spring continues into summer

**Beef pricing in New Zealand continues to be stable and tracking sideways, despite seasonal norms that may expect to see a decline in farmgate pricing anytime from now on.** Heading into December, the AgriHQ North Island Bull price hit a NZD 7.20/kg cwt high, while export values continue to sit well above 2023 year-on-year values.

**New Zealand Meat Board numbers in the five weeks to early November show total national beef kill down 9% YOY, with national bull numbers down nearly 23%.** Numbers are likely to start flowing toward the end of the year, and with this, an expected slowdown in farmgate pricing, albeit from a very high price level.

**In most regions, there is good early-summer pasture supply. However, Hawkes Bay is starting to experience dry conditions.** This has meant there has been little pressure for producers to offload beef in high numbers to date, and stock flows out of Hawkes Bay have options.

Australian supply of beef in Q4 of 2024 is expected to be pushing new records, while New Zealand, in contrast is showing a declining production forecast heading into 2025 compared to 2024 volumes. This is largely due to fewer beef calves from the dairy industry being reared in the past two years.

**Beef export values in October showed a healthy uptick to an average export value of NZD 9.32/kg FOB compared to NZD 8.63/kg in October 2023.** The weaker New Zealand dollar has played a role here, alongside a 19% YOY increase in (higher value) chilled beef volumes versus October 2023.

Total export volumes were up 2% YOY for October to 26,908 tonnes, with China very slightly bumping the US in total volumes for the first time since March 2024, taking a 29% share of exports at 7,919 tonnes. Total export value to the US won out at NZD 84m versus NZD 56m to China.

### What to watch:

- **Happenings in the US will be one to watch over coming months, both in terms of local beef supply and import demand as well as the wider political situation.** The US beef herd liquidation has stopped, but local heifer retention report remains low with historically high prices being offered. There also remains a concern of further drought in some beef regions in the US, which will slow the herd rebuild. The effect of geopolitics on the New Zealand dollar and US exchange rate is seeing upside for our export values at present, and this volatility is one to keep an eye on.



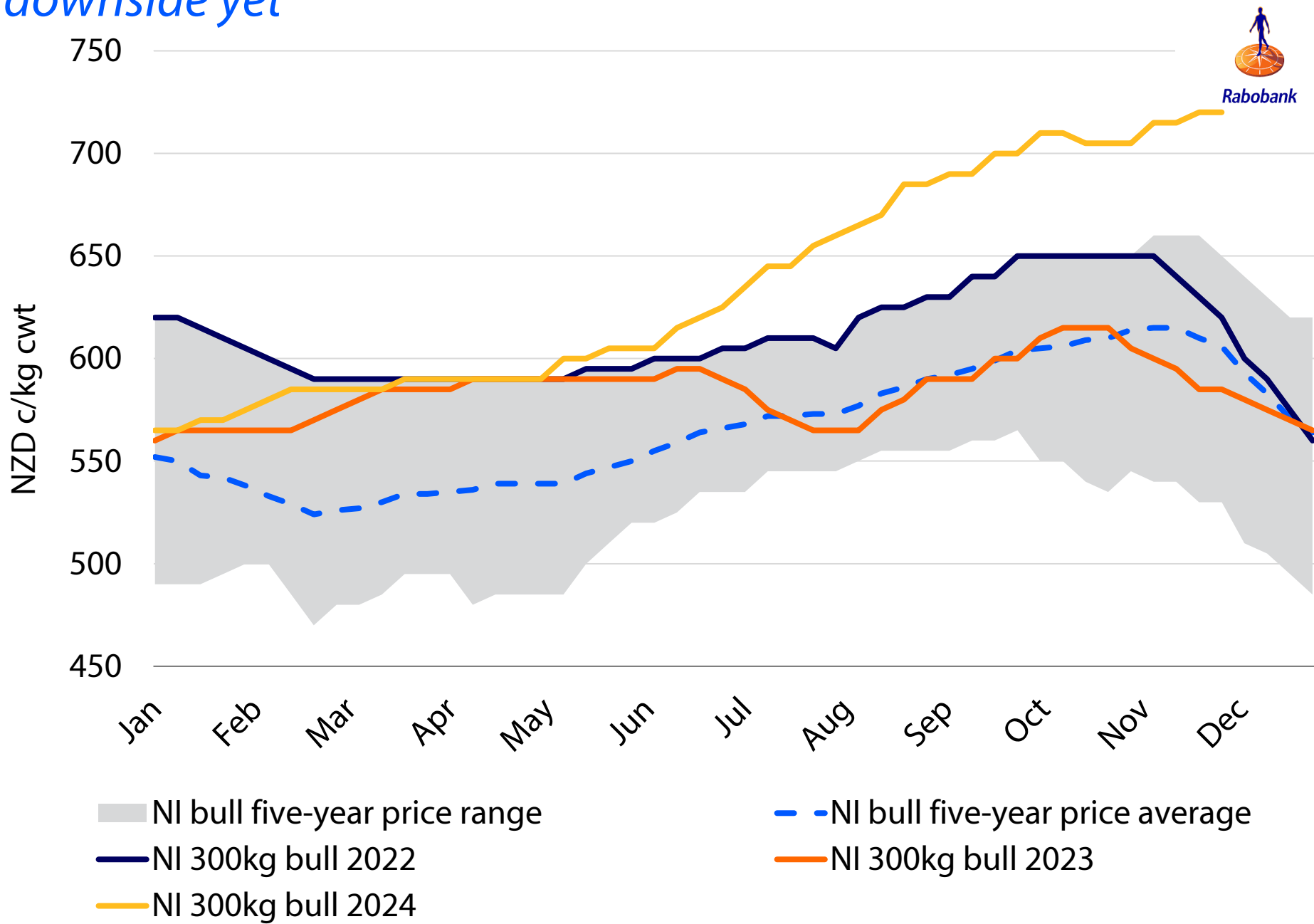
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# Beef

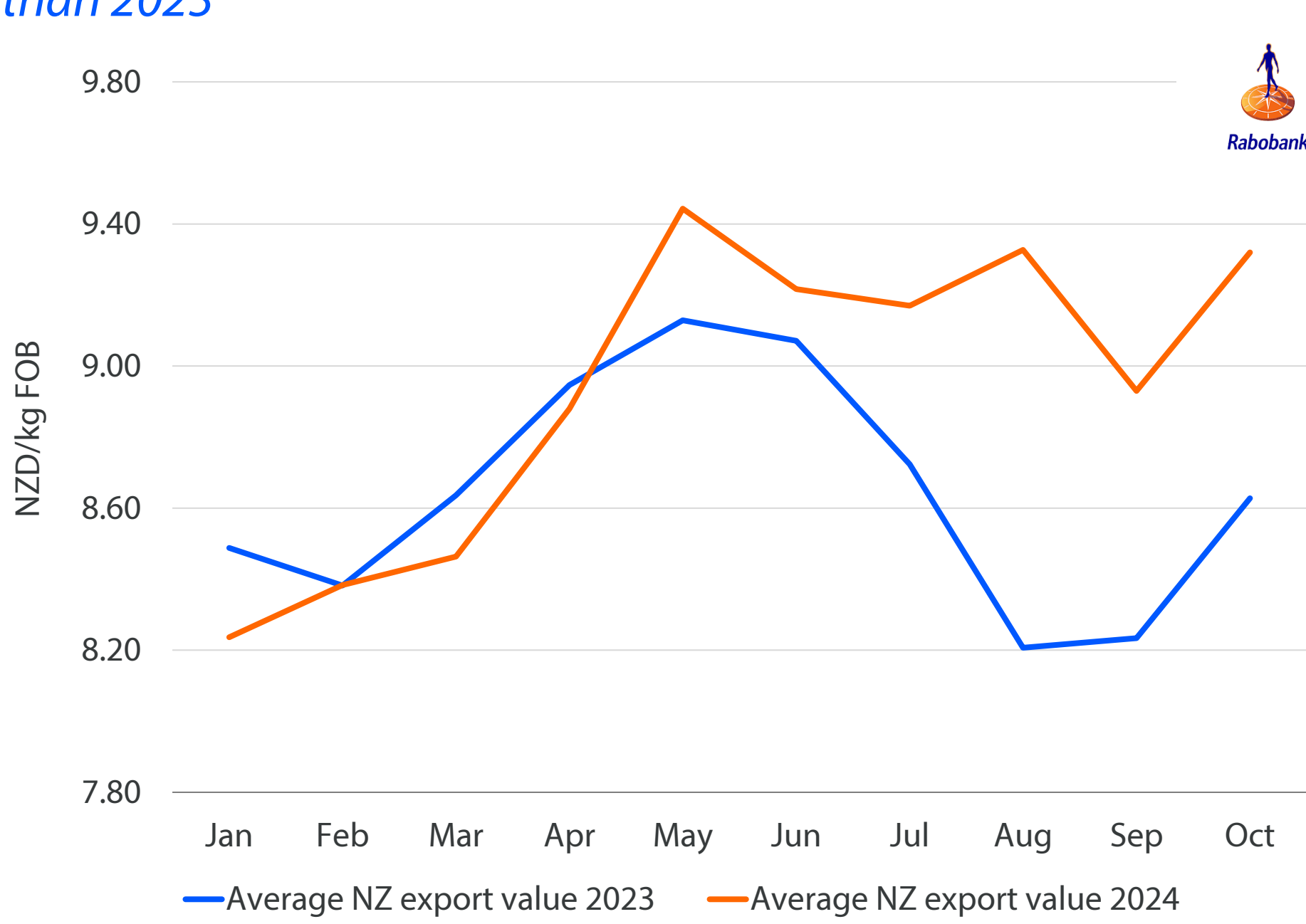
## Export values sore from mid-2024

North Island bull price continues a strong run, with no downside yet



Source: AgriHQ, RaboResearch 2024

2024 Beef export values lift into October, trending much higher than 2023



Source: Stats NZ, RaboResearch 2024



# Sheepmeat

## New season pricing tracking well so far

**Farmgate lamb prices are holding up stronger than expected as the first few weeks in the 2024/25 export season pass by.** Early December AgriHQ pricing has been hovering around NZD 8.00 /kg cwt to NZD 8.10/kg cwt nationally for lamb. The average export value for lamb over October remains more than NZD 0.50/kg cwt greater than October 2023, in signals that bode for optimism.

**The first five weeks of the new export season have seen just shy of 1.6m head of lamb heading off to processors, nationally.** This is 12% YOY behind the same period in the previous year. The theme of fewer lambs around, particularly in the South Island, is forecast to continue throughout the current export season. Nationally, lamb numbers are predicted to be up to 800,000 head behind 2023/24 seasonal numbers.

As spring turns to summer, weaning is occurring across the North Island, which will be closely followed in the South. The market for the bulk of store lambs around the country, sees pricing anywhere from NZD 3.40/kg lwt in the North

Island to a close to NZD 4.00/kg lwt in the South Island. With strong pasture supply in many regions, the pockets in eastern parts of the North Island that are starting to feel the dry are in turn seeing slightly less demand for store lambs locally and, in some cases, more challenges in weaning weights.

Total sheepmeat exports in October were down 3% YOY in volume to 25,071 tonnes, in line with fewer lamb numbers.

**China still well and truly owns the total volumes of sheepmeat exports, at just over 14,000 tonnes for October, however the EU came in number one for value** at NZD 85.4m versus China's NZD 79.4m. The EU is up 37% and China down 16% YOY in total export value. Part of the driving factor in EU markets is likely to be the lower sheep numbers in the UK (and the EU itself), meaning more product is required to be sourced from New Zealand, heading into the Northern Hemisphere winter.



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### What to watch:

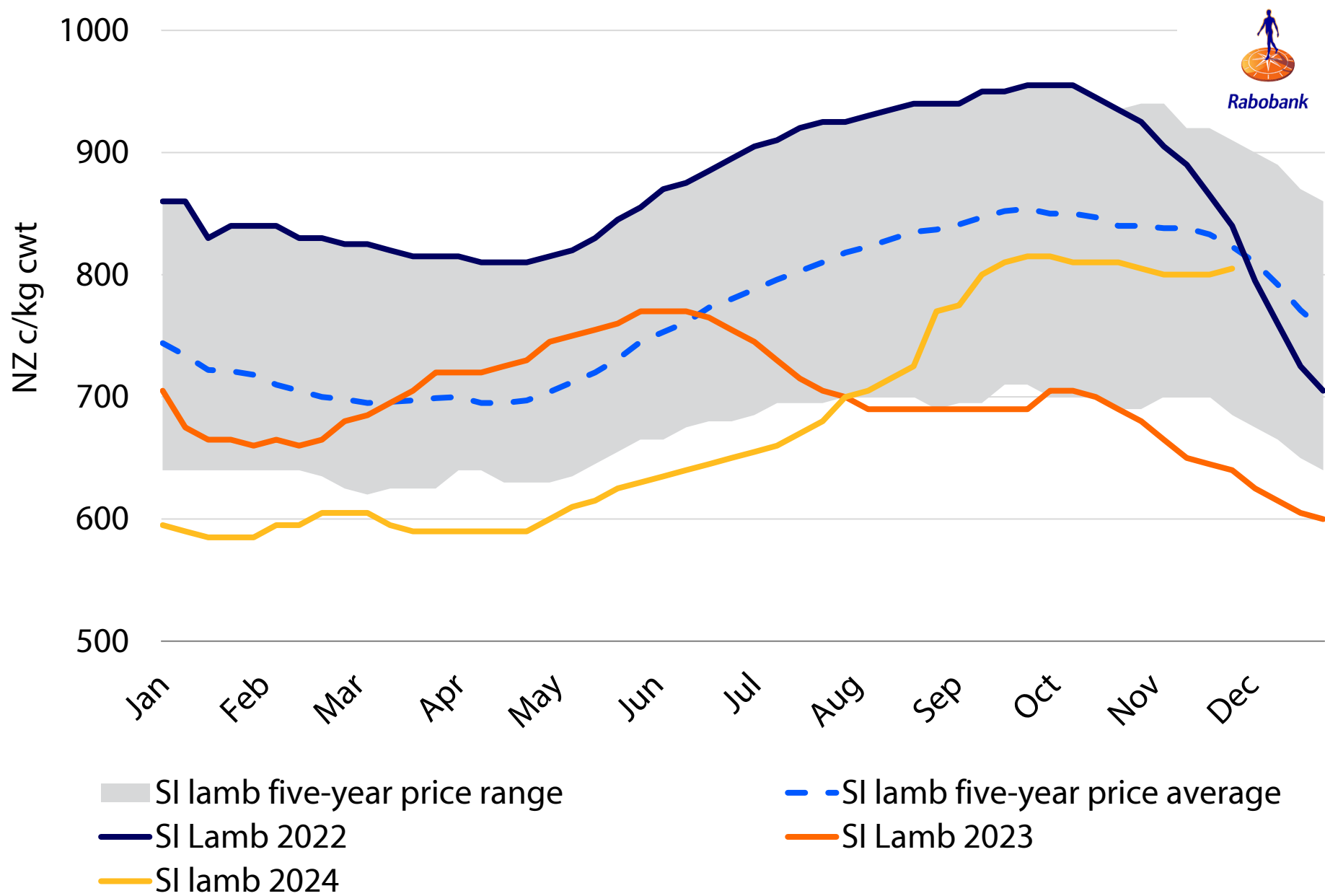
- **Are we starting to see signs of improvement in sheepmeat volumes to China?** It may be a bit early to tell. However, the improved proportionate volumes in frozen lamb sent into China (versus other markets) for the month of October – indicative of Chinese New Year demand - may be a good omen for the sheepmeat demand from China in general into 2025. We will wait and see. However, this bodes well for bidding up prices through the new season, since China remains an important volume market for sheepmeat in New Zealand.



# Sheepmeat

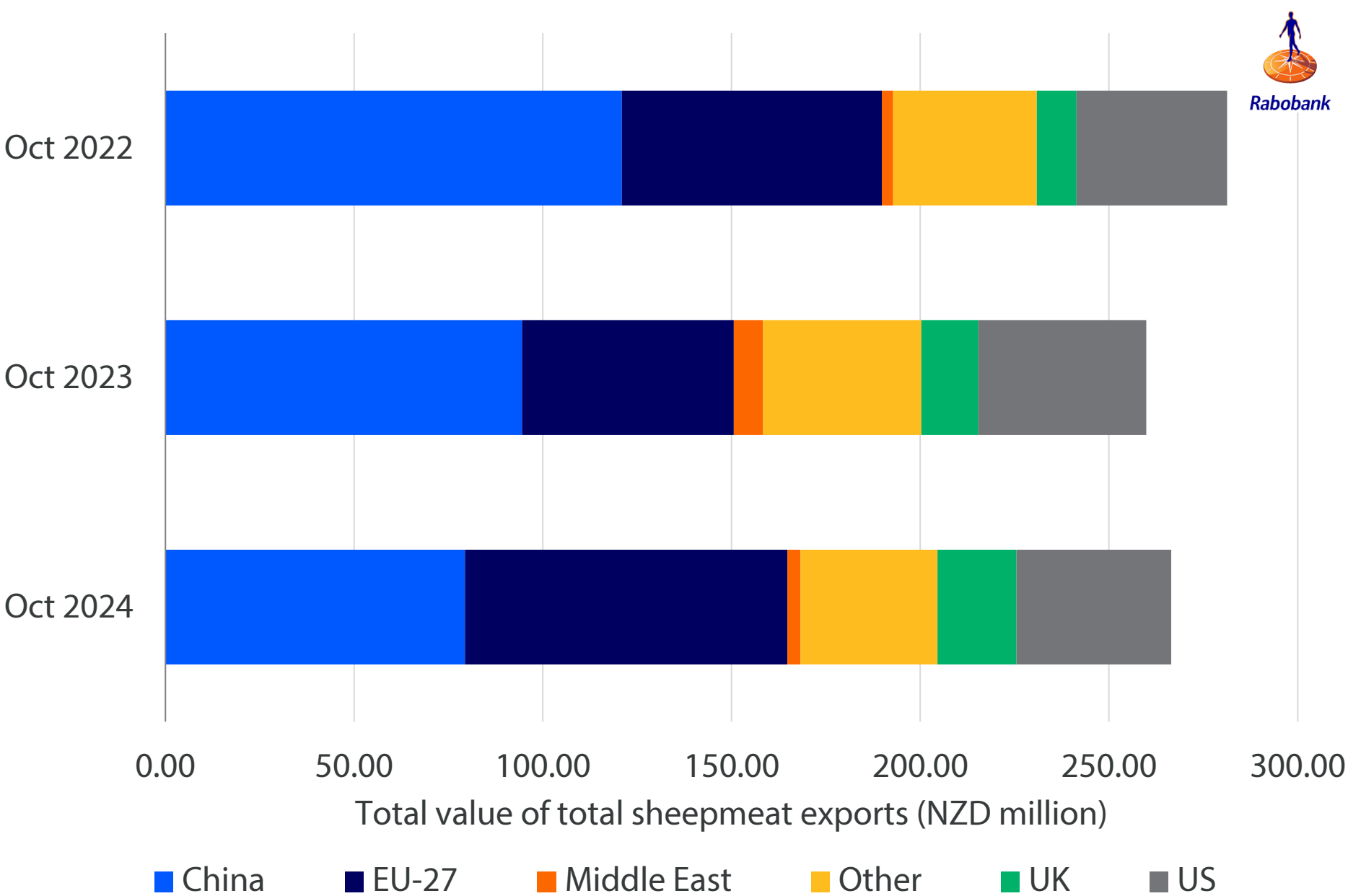
Lamb price holding steady at or above NZD 8.00/kg cwt as summer begins

October 2024 AgriHQ South Island lamb price tracking sideways well above 2023 levels



Source: AgriHQ, RaboResearch 2024

China adding less and Europe adding more to total October export value year-on-year



Source: StatsNZ, RaboResearch 2024



# Farm inputs

## Fertilizer prices moved out of sync in November

**Urea prices (FOB bulk Middle East netbacks) declined by 3.4% in NZD terms (as of 28 November).** Prices weakened as a consequence of limited signs of demand. The poor demand may be a consequence of buyers waiting for prices to come down. However, natural gas prices remain at elevated levels, and RaboResearch has recently revised its European natural gas forecast upward, expecting supplies to tighten as Europe tapers off from Russian natural gas. Meanwhile, the situation in the Middle East will likely keep a risk premium in markets. Because of this, RaboResearch sees limited downside in urea prices from current levels.

In stark contrast, potash prices found strong support, rising 3.4% MOM in NZD terms, which puts prices back up to July levels. Chinese, European, and Asian markets found support amid news that the US may impose tariffs on Canadian exports (Canada is the world's largest potash producer). This seemingly spooked the market. US importers may have to shift their supply chains away from Canada, which could

increase demand for potash from other key regions such as Russia and Belarus. Another factor that has likely helped push potash prices up is recent strong demand from India. However, stock levels are fairly good, so we do not anticipate a surge in demand from this key importer.

One factor that may prove a headwind for farm input procurement in the coming months is recent FX movements. The so-called "Trump trade" has resulted in a stronger US dollar and a subsequently softer Australian dollar. RaboResearch has recently revised its Australian dollar forecast lower and anticipates the currency to decline modestly from current levels over the next 12-months. Because of this, importers will be feeling the pinch, and this will likely be reflected in retail pricing.

### What to watch:

- **The potential impacts of Trump's policies will be front and centre for some farm inputs.** If the US is to impose a large tariff on Canadian trade, we could see a shift in demand.
- **Another factor to keep a close eye on is the war in the Middle East,** and the potential implications further escalation could have on urea prices.



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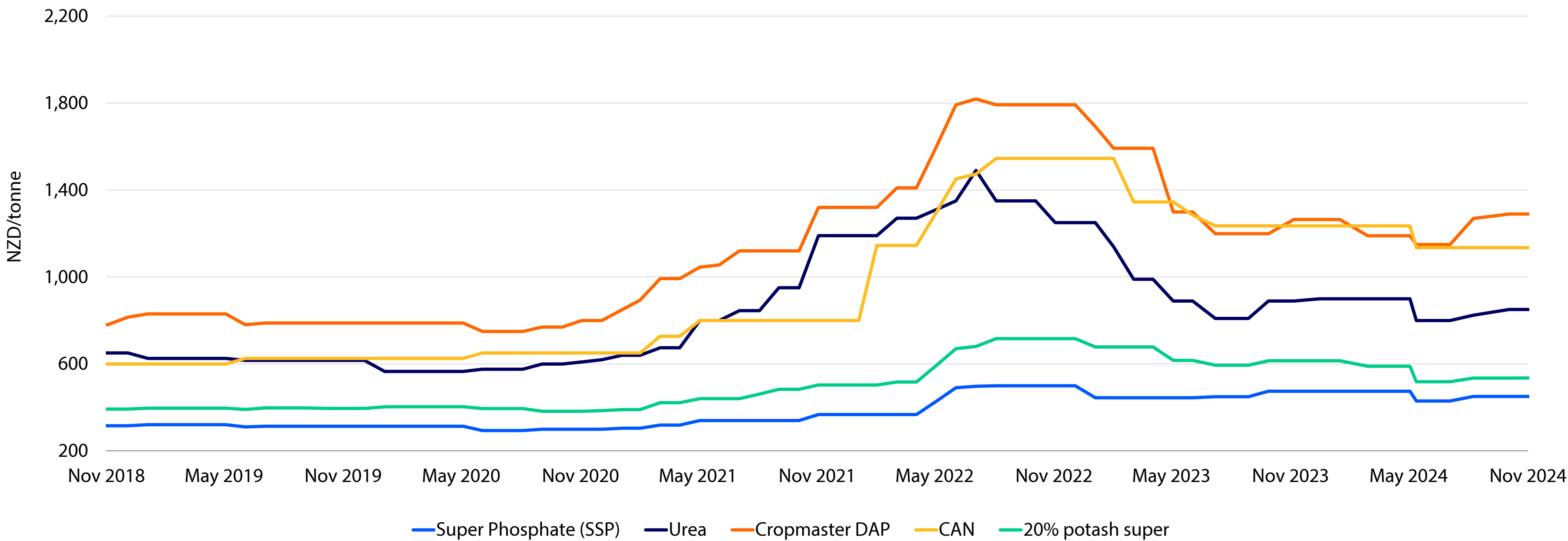
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# Farm inputs

Retail prices were largely flat month-on-month

Although NZ retail prices were flat, we did see some movement on the international market with potash prices rising



Source: Ravensdown, RaboResearch 2024



# Interest rate and FX

## Finding its level

**The RBNZ delivered another 0.5 percentage point cut to the official cash rate (OCR) in November, in line with the expectations of RaboResearch.**

The OCR now stands at 4.25%, and if the comments of RBNZ Governor Adrian Orr in his press conference on the day of the decision are anything to go by, we could see another jumbo cut when the RBNZ next meets in February.

RaboResearch currently has a 0.25ppt cut pencilled in as our forecast for that meeting. A lot can happen over the Christmas break, and with signs that the New Zealand economy is improving and plenty of uncertainty surrounding the incoming administration in the US, we're holding to that forecast for the time being.

While the RBNZ continued to deliver on monetary easing we saw the New Zealand dollar fall against the US dollar for the second month in a row. The US dollar has been strengthening against most major currencies as markets

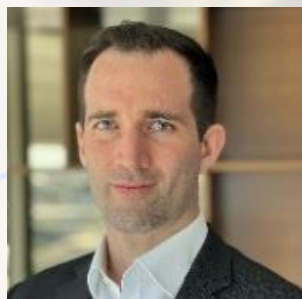
come to terms with the likely policy stance of a second Trump Presidency. Donald Trump's commitments to cut taxes, impose universal import tariffs and maintain high rates of spending on social security and defence have raised concerns (not least among RaboResearch!) of a resurgence in inflation in the US. That could mean that the US Federal Reserve has less room to reduce interest rates than it otherwise would, thereby leading to an appreciation in the US dollar.

Trump's tariff policies have also been factoring in bets on a stronger US dollar in another way: If tariffs are successful in reducing the US trade deficit, there will be fewer dollars making their way into the hands of other nations, and therefore fewer dollars to purchase our imports with. This implies a lower NZD/USD exchange rate.

**RaboResearch has recently revised down the forecasts on NZD/USD. We now expect the exchange rate to reach 0.5600 on a 12-month view.**

### What to watch:

- **NZ Q3 National Accounts, 19 December** – After the economy contracted by 0.2% in Q2, the Q3 data will confirm whether or not the New Zealand economy was in a technical recession in the middle of the year. The RBNZ is expecting a quarterly result of -0.2%, whereas RaboResearch is a little more optimistic and is forecasting -0.1%. A better result would take the pressure off the RBNZ to deliver a big cut to the OCR in February.



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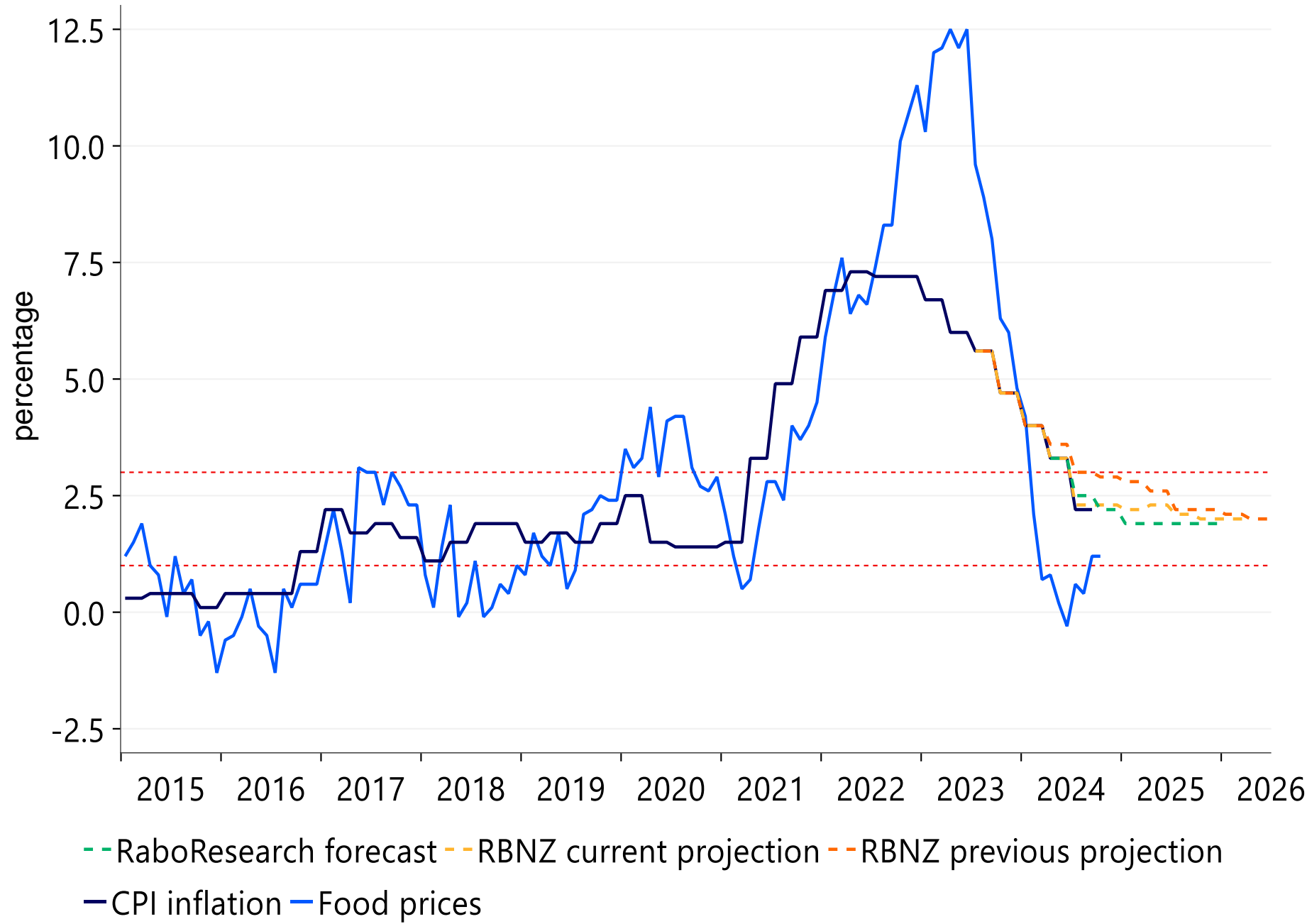
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# Interest rate and FX

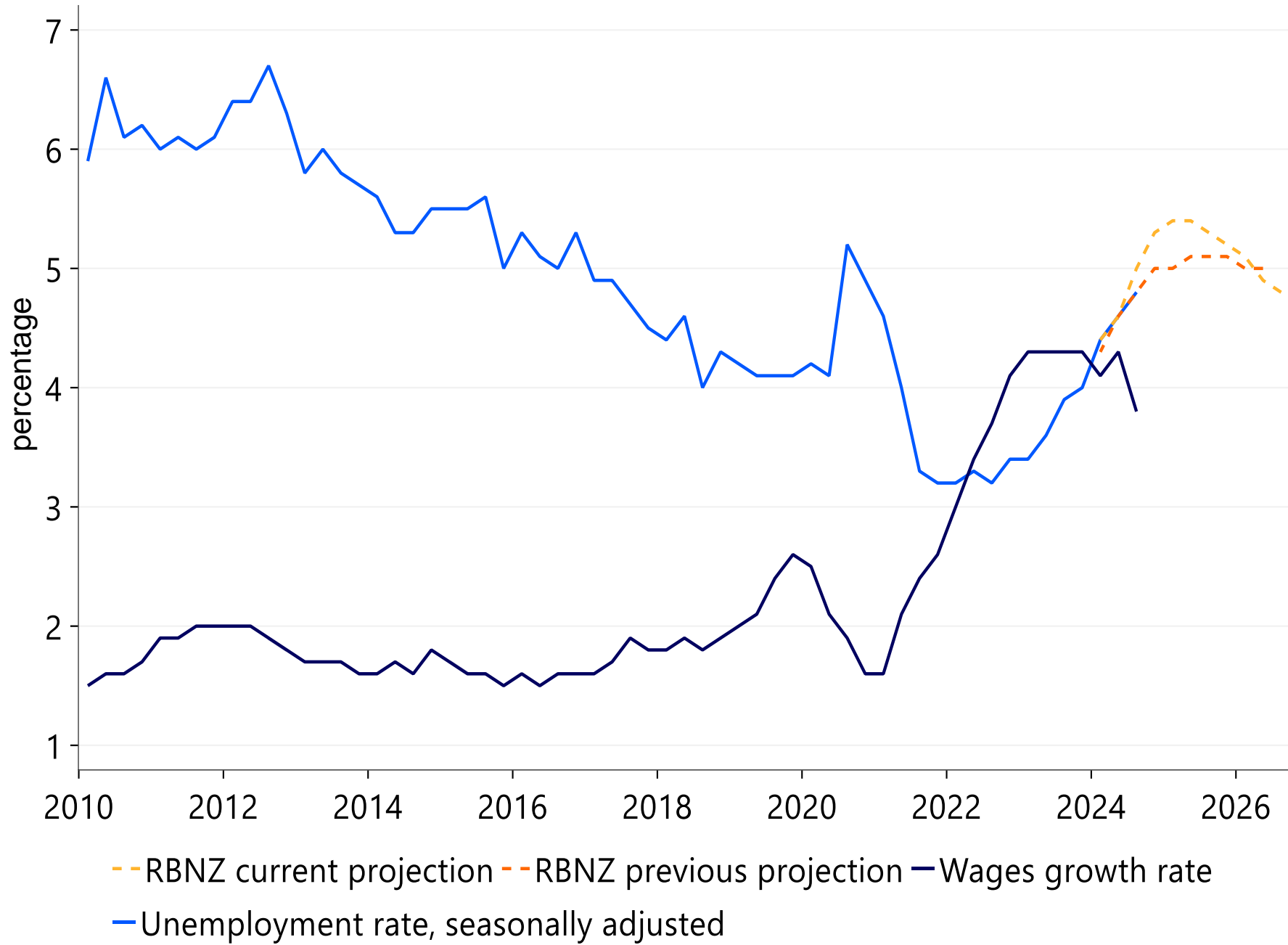
Everything on track?

New Zealand inflation indicators, 2015-2025f



Source: Macrobond, Stats NZ, RBNZ, RaboResearch 2024

New Zealand labour market indicators, 2010-2025f



Source: Macrobond, Stats NZ, RBNZ, RaboResearch 2024



# Oil and freight

## Ceasefire in Lebanon reduces crude oil risk premia

**Crude oil resumed its downward trajectory in November after a brief hiatus in October. The active Brent crude contract was down 0.84% in the month to close at USD 71.84/bbl.**

A 60-day ceasefire agreement struck between Israel and Hezbollah was perhaps the most significant news for energy prices during the month. The agreement was confirmed in the final week of the month, during which crude prices fell on four out of the five trading days (the exception being the Thanksgiving holiday on 28 November).

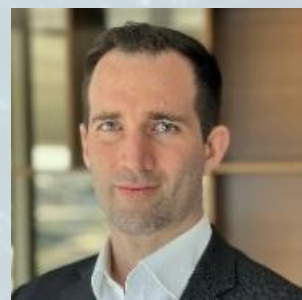
With some risk premium now discounted out of the price, crude is currently trading just above RaboResearch's USD 71/bbl forecast for the final quarter of this year. We expect further price falls in 2025 as oversupply in world markets is met by weak demand from China and the US, where the pace of economic growth appears to be slowing. **Container rates started to move upward ahead of Trump taking office bbl. as President of the US and an early Chinese**

**New Year in 2025.** The global container index jumped by 8%, led by Asia to Europe/Mediterranean and Asia to North America routes. Retailers are preparing for the new reality of Trump's possible universal tariffs, especially tariffs on Chinese imports. In addition, the 2025 Chinese New Year will come early, with the country shutting down and stopping trade activities for seven days beginning 29 January 2025. We will likely see a temporary surge of container prices in the remainder of the year. Potential tariffs will be damaging to the global trade, adding negative pressure onto container rates.

**The Baltic Panamax index (a proxy for grain bulk freight) is trending downward,** reaching new lows in over 15 months. Chinese grains and oilseed buyers rushed to secure volume from the US in case of potential trade restrictions or tariffs, although not enough to turn the market sentiment around.

### What to watch:

- **US Department of Energy crude oil and distillates inventory reports in December: 5, 12, 19, and 27 December.**



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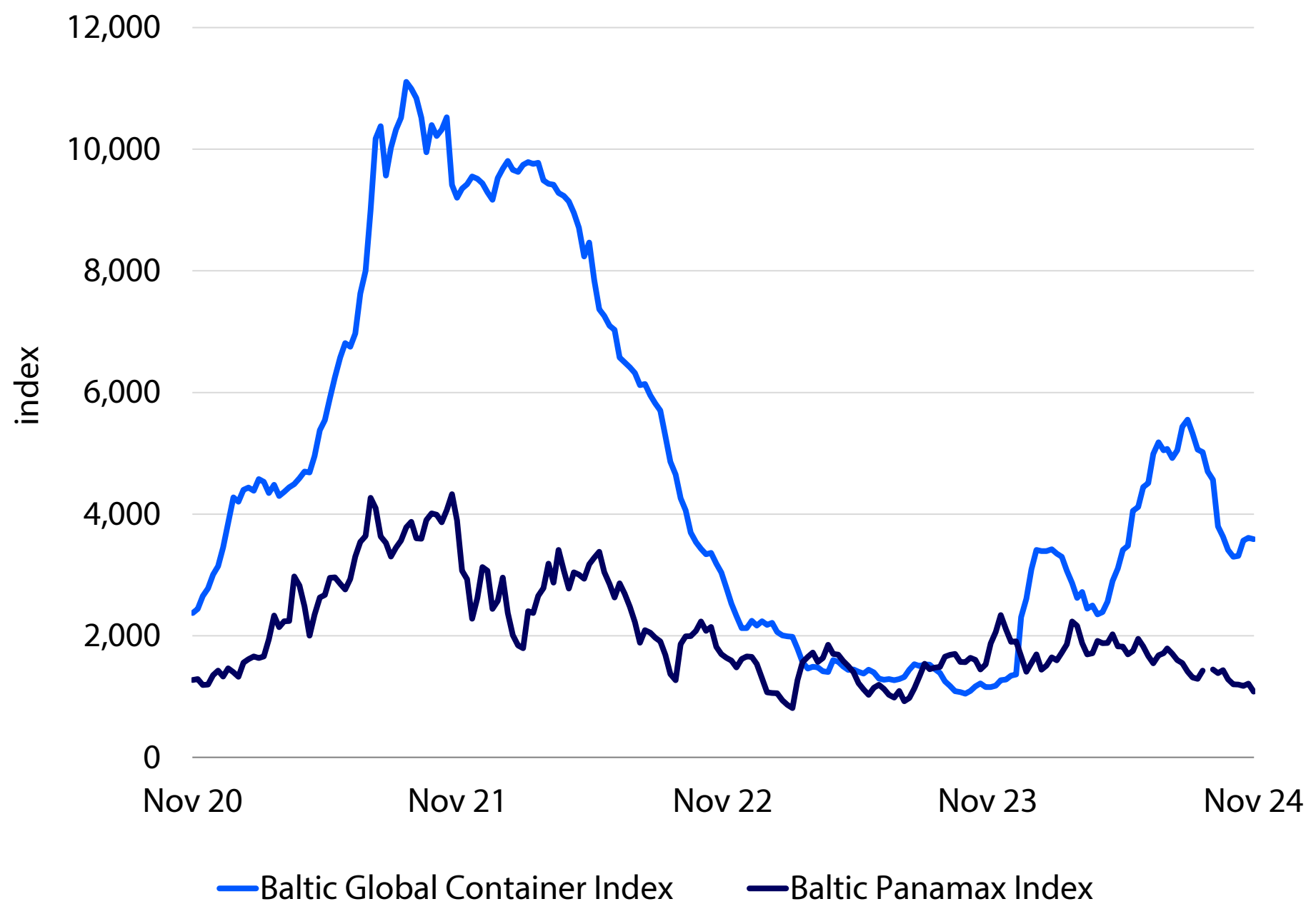
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# Oil and freight

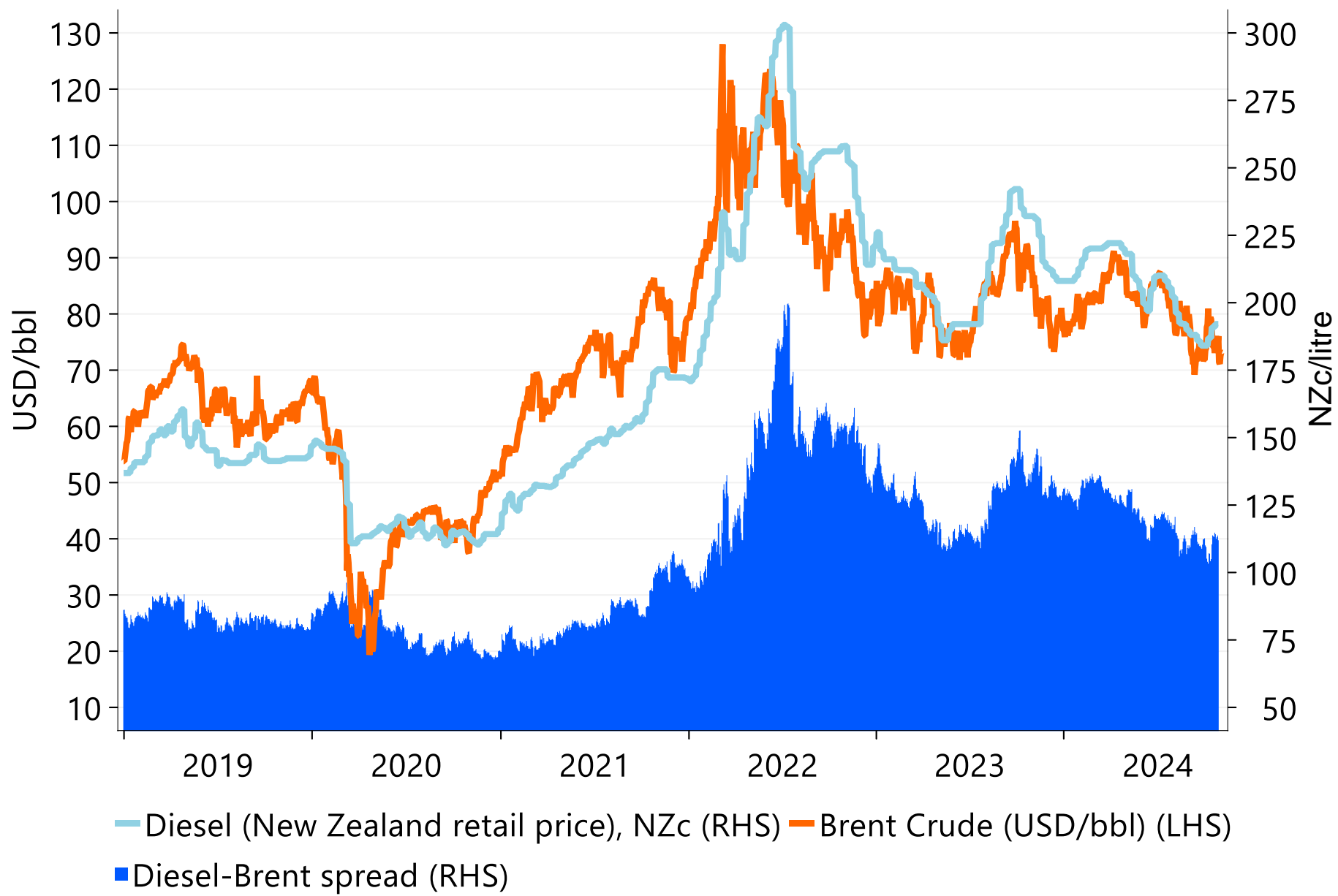
Bulk freight rates continue to slide, but container rates remain stubborn

Baltic Panamax Index and Dry Container Index, Nov 2020-Nov 2024



Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Brent crude versus New Zealand diesel prices, 2019-2024



Source: Macrobond, NZ Ministry of Business, ICE Exchange, RaboResearch 2024



# Agri price dashboard

4/12/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	537	569	616
CBOT soybean	USc/bushel	▲	992	987	1,296
CBOT corn	USc/bushel	▲	423	417	465
Australian ASX EC Wheat Track	AUD/tonne	▲	329	326	395
Non-GM Canola Newcastle Track	AUD/tonne	▼	736	761	628
Feed Barley F1 Geelong Track	AUD/tonne	▲	304	301	339
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	662	631	572
Feeder Steer	AUc/kg lwt	▲	347	341	284
North Island Bull 300kg	NZc/kg cwt	▲	720	705	585
South Island Bull 300kg	NZc/kg cwt	▲	685	670	540
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	817	799	508
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	810	795	635
South Island Lamb 17.5kg YX	NZc/kg cwt	•	805	805	640
Venison markets					
North Island Stag	NZc/kg cwt	▼	945	980	880
South Island Stag	NZc/kg cwt	▼	930	950	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	7,075	6,500	4,925
Skim Milk Powder	USD/tonne FOB	▲	2,900	2,775	2,650
Whole Milk Powder	USD/tonne FOB	▲	3,750	3,563	3,013
Cheddar	USD/tonne FOB	▲	4,825	4,725	3,750

Source: Baltic Exchange, Bloomberg, RaboResearch 2024



# Agri price dashboard

4/12/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	82.3	82.2	90
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	72.7	69.9	79
Sugar markets					
ICE Sugar No.11	USc/lb	▼	21.4	21.9	23.0
ICE Sugar No.11 (AUD)	AUD/tonne	▼	727	734	735
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,145	1,125	1,174
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	346	365	386
DAP (US Gulf)	USD/tonne FOB	•	610	610	570
Other					
Baltic Panamax Index	1000=1985	▼	1,009	1,195	2,311
Brent Crude Oil	USD/bbl	▼	74	75	74
Economics/currency					
AUD	vs. USD	▼	0.648	0.659	0.655
NZD	vs. USD	▼	0.588	0.597	0.614
RBA Official Cash Rate	%	•	4.35	4.35	4.35
NZRB Official Cash Rate	%	▼	4.25	4.75	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024



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