

Unpacking the colours of autumn

New Zealand agribusiness monthly



Commodity outlooks



Dairy

Elusive milk supply remains a theme, outside of Oceania, helping to set a commodity price floor. Rabobank expects dairy commodity prices to remain range-bound at or near current levels in the near term.



Beef

Demand from the US continues to drive some of the positive pricing, and this trend is likely to continue through this year. Cull cows are starting to hit the market now after a subdued start.



Sheepmeat

There has been positive export demand from some higher-value markets outside of China. The UK is seeing low domestic production, driving demand.



Farm inputs

Global demand for fertilisers remains subdued, and stocks are starting to build in key production countries. There are no signs of a reversal of this trend in the short and medium term.



Interest rate and FX

The New Zealand dollar lost more ground against the US dollar in March following confirmation that New Zealand was in recession at the end of last year. We expect the New Zealand dollar to rally up to 0.6400 on a 12-month view.



Oil and freight

Crude oil prices rose in March for the third consecutive month. Concerns over Iranian retaliation for an Israeli missile strike are adding risk premia to prices, resulting in oil prices USD 90/bbl.

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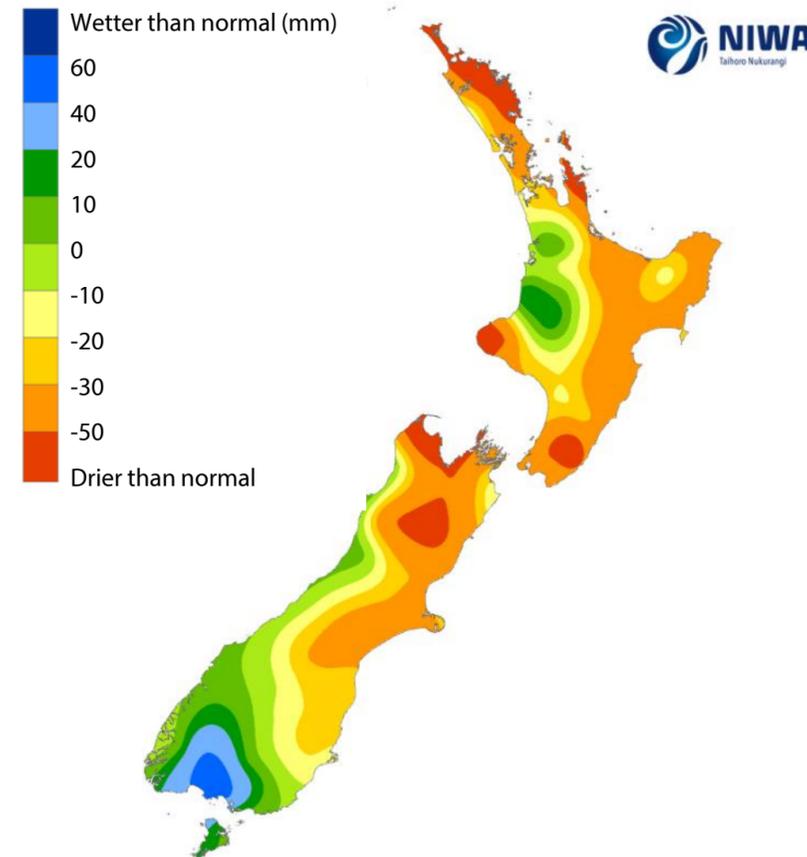
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Climate

The shorter days and cooler nights begin

Soil moisture anomaly (mm), 7 April 2024



Source: NIWA, Rabobank 2024

What to watch:

- **A windy autumn with some cold snaps?** Autumn 2024 has the potential to see an increased frequency of south-westerly winds, which could see colder air masses sit over New Zealand at times and lead to some frosty nights and mornings.
- **Cooler nights coming in early are a positive sign to say goodbye to fungal spores and insect pests** on the farm, but will also slow down pasture growth in some areas that are affected by the late dry. Preparation with on-farm supplement may be required.

As autumn continues into April, NIWA forecasts that conditions are likely to be drier than normal before rainfall chances increase toward the middle and end of the month.

El Niño is expected to ease to ENSO and be neutral by June 2024, and until then higher-pressure systems may continue to bring more wind than normal, especially in the North Island.

Rainfall volumes heading through mid-late autumn are expected to be near normal for the west of the North Island, normal to above normal in the west of the South Island and normal to below normal for other regions (to June 2024).

Soil moisture levels are currently drier than normal in some areas, especially eastern and likely to be near normal in the west of both islands and below normal in other regions as we head toward June.

Dairy

Milk supply growth remains elusive outside of Oceania

Dairy commodity markets have softened through March 2024 against a backdrop of slightly weaker global fundamentals. The dairy complex had staged a recent rally since the bottom of the market in Q3 2023. Nonetheless, all dairy products except butter were softer in March 2024 and remain at or below five-year averages.

Rabobank expects dairy commodity prices to remain range-bound at or near current levels in the near term.

Sluggish demand remains a key driver for dairy commodity prices. Better times lie ahead for dairy demand in many economies. However, the speed of recovery will be critical to how new season's milk prices will shape up. Dairy demand is generally still sluggish and if this remains the case for longer than expected, global markets will be susceptible to softness in commodity prices – despite a weak global supply backdrop.

Local milk production in Oceania remains in positive territory. New Zealand milk production was 2.8% higher

in February (leap year adjusted) on a milksolids basis. While Australian milk production grew by 5% in February (leap year adjusted), bringing season-to-date milk production to 5.95bn litres. This represents a lift of 2.5% on the same period last year (or 180m litres).

Global milk supply remains constrained outside of Oceania. US milk production was 1.3% lower in February (leap year adjusted) marking the eighth consecutive weaker year-on-year decline. EU milk production was down slightly in volume for January 2024 compared to the prior period. All eyes are on the Northern Hemisphere seasonal peak in the months ahead.

Softer local feed markets is welcomed news for Kiwi dairy farmers. Ample local supply here, as well as in Australia, are helping to keep feed prices lower compared to last year.

What to watch:

US cattle disease

- Avian Influenza HPAI (H5N1 strain) has been found in US dairy cattle in multiple states. At this stage, it is not expected to lead to any major supply shock for the US industry, which is the third largest exporter (but experts are closely monitoring the risk to short-term dairy demand).



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Dairy

Commodity markets find some resistance following recent upswing

Oceania spot prices for dairy commodities



Source: USDA, Rabobank 2024



Beef

Cooler temperatures arrive but plenty of heat in beef

Farmgate beef prices continue to track well as we move into Q2 2024. Demand from the US continues to drive some of the positive pricing for New Zealand farmers and this trend is likely to continue through this year. The AgriHQ NI bull price has held steady over the past few weeks around NZDc 590/kg cwt, which is 10% above the five-year average for the same week last year.

Some reasonable pockets of late summer dry have showed up through March. Notably in parts of the South Island and lower eastern North Island, which has meant more movement of stocks toward sale yards and cull dairy heading off farm – a bit later than in a “normal” year. Slaughter shortages have somewhat eased because of this and short weeks like Easter help balancing things out. New Zealand Meat Board numbers suggest that this slaughter season (since 1 October 2023) is now largely in line with last year’s total beef kill nationally. Cull cow numbers are still down around 3% and bull numbers are down 4% YOY for the season, both of which may catch up in coming weeks.

The US domestic 90CL trimmings price has skyrocketed to hit a record weekly average in March of USD 336/lb. This increase seems to be somewhat driven by retail demand and the low domestic throughput. Meanwhile, New Zealand’s exports to the US have seen a 33% YOY growth. Although China is still willing to accept volume, the value of exports to China is down by 13% YOY. With the US beef herd at low levels and US beef imports and domestic kill struggling to keep up with demand, we anticipate that the trend of New Zealand beef being used for filling burgers in the US will persist throughout 2024. Prime beef pricing is currently sitting very similar to bull and there are anecdotal rumours suggesting increased demand for grass-fed beef in the US over the coming months. Overall, beef exports from New Zealand have shown positive growth, with a 7% increase in value and an 8% increase in volume year-on-year up to the end of February 2024.

Exports have once again shown the tip toward the US. Overall, New Zealand beef markets remain optimistic for 2024, and it seems likely to be the golden goose in the red meat sector for 2024.

What to watch:

- **Cooling temperatures, shorter days and dry conditions in some regions** have the potential to provide some challenge in terms of on-farm feed supply. Shorter days and rapidly dropping temperatures before rain arrives can cause pasture growth rates to quickly drop. Maize silage appears in good supply for anyone needing supplement, providing a safety blanket here, but there may be a rush to process culls cows and “to finish” beef cattle before the winter days really set in.



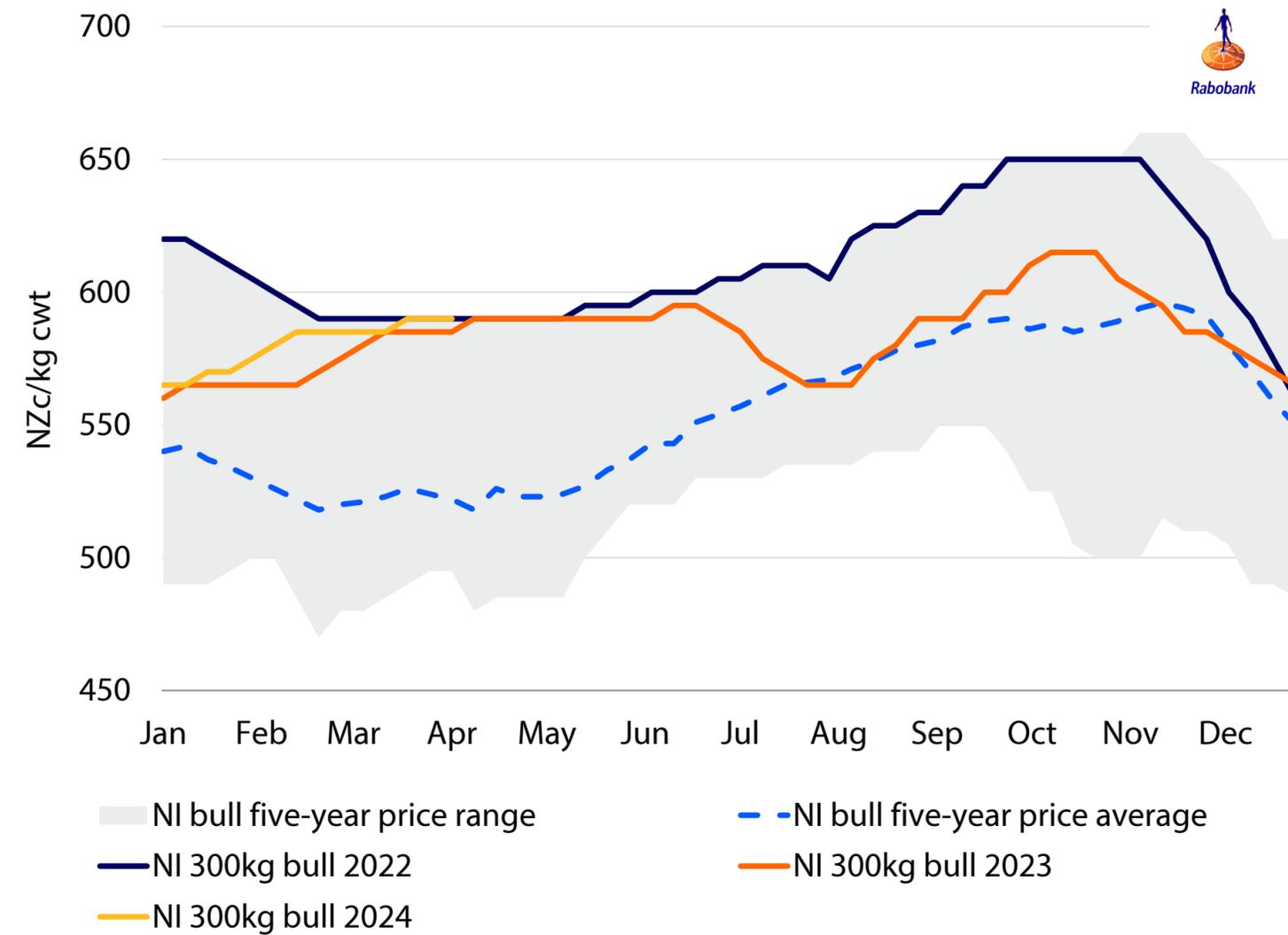
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Beef

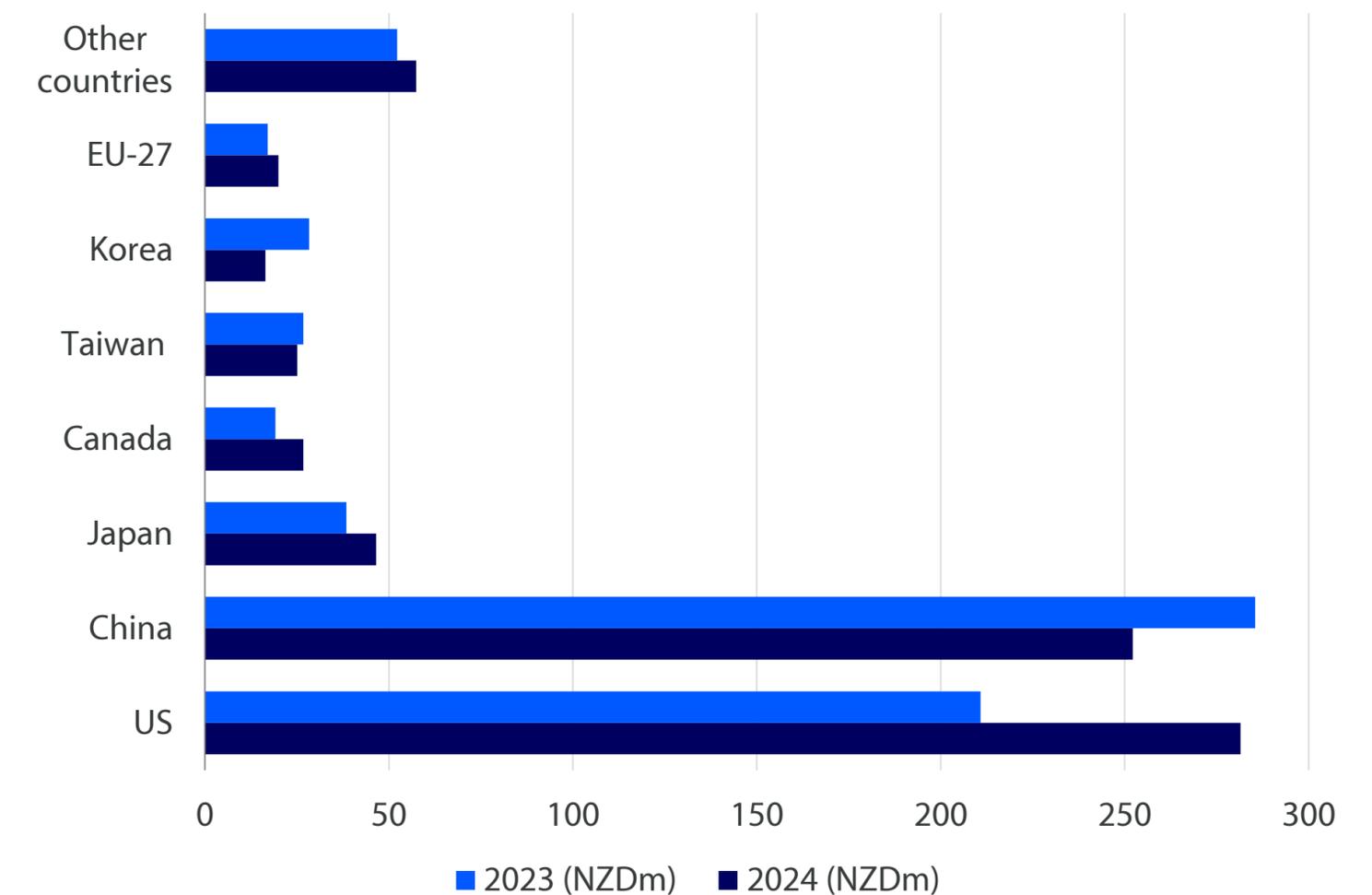
Export demand is strong for most markets to start the year

AgriHQ North Island bull price



Source: AgriHQ, Rabobank 2024

Export market value for NZ beef – Jan-Feb 2023 vs. 2024 (FOB, NZDm)



Source: Stats NZ, Rabobank 2024

Sheepmeat

Love for lamb for Valentine's Day in the UK

Markets have remained reasonably steady for lamb pricing through March, albeit at a lower level than anyone would like with the AgriHQ SI lamb price at NZDc 590/kg cwt. Autumnal change will see numbers heading off farm, with processors seemingly able to keep up at this stage.

Comparing December-February total exports year-on-year, we see positive signs for markets outside of China. Volumes of sheepmeat exports increased by 2% to the UK (to 9% of total) and by 1% to the US (to 8% of total), with the EU-27 holding steady at 15%. Comparing December-February totals year-on-year, 52% of sheep meat went to China versus 59% last year, and value dropped from 40% to 32%. Total sheepmeat value/kg FOB to China has decreased from NZD 645 to NZD 513, indicating continued soft demand. The percentage of value to other markets has increased by 1% YOY to 3% of the total average export value across all markets. However, average totals can still improve with the three-month average at NZD 836/kg cwt compared to last year's NZD 944/kg cwt. We watch and wait.

A point of interest to start 2024 is the UK domestic sheepmeat market. News from the UK indicates that the

female breeding flock is at its lowest levels since records began in 1996 and currently estimated kill is down between 5% to 8% YOY (to Easter). This tight supply is driving farmgate prices for UK farmers, with sheepmeat prices rising into March by 20p to 50p/week. Consumption of lamb in the UK was also up over Valentine's Day (!), Easter, and Eid al-Fitr - driving demand. This bodes the question of whether New Zealand can capitalise on lower UK sheepmeat production in 2024, in terms of UK and EU-27 markets. Imports of sheepmeat into the UK are predicted by the Agriculture and Horticulture Development Board (AHDB) to be up around 4%, and given that the UK sends roughly 50% of its sheep exports to France, could we help with that market, where more value is also realised for quality lamb?

Slaughter numbers for lamb to 9 March for the season show both SI and NI lamb kill 4% ahead of last season at just over 5.1m and just under 4m head respectively, but for the month of February numbers are back by around 8% versus the five-year average. Australia, having had some record kill weeks, continues to add competition. Now is the time to stay positive and look to the spring.

What to watch:

- **UK and the EU-27** - With the sun starting to set on the 2023/24 lamb kill season, is there a hope that the higher value UK and EU markets can positively impact lamb pricing for late 2024 and into 2025? The jury is still out here, but this situation presents an opportunity to add value to our sustainable and highly nutritious New Zealand product. Tariff free quotas to both markets have lagged behind longer-term averages in the most recent years, yet we hear demand locally is strong and domestic supply down – so what can we do and what should we do?



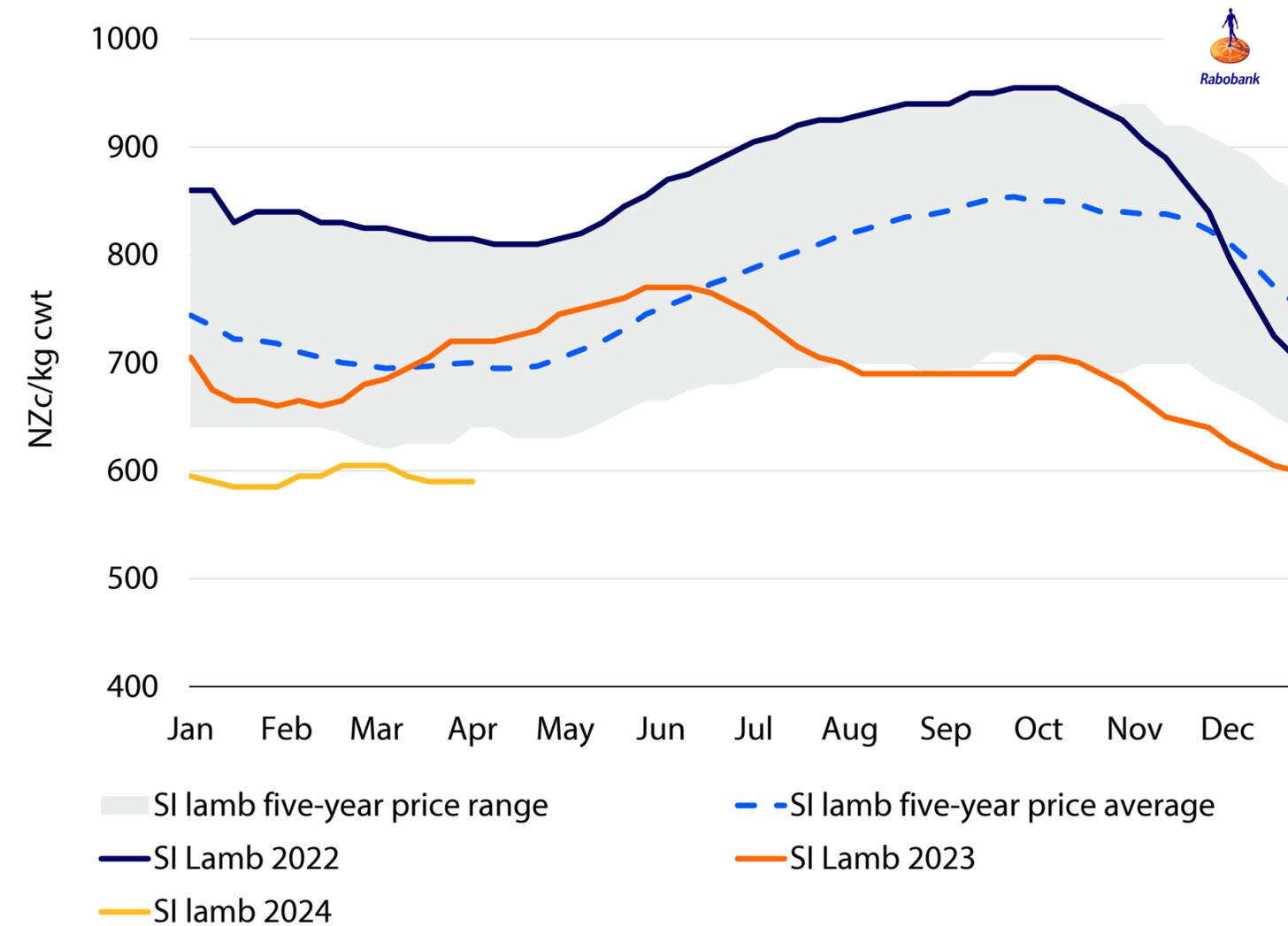
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Sheepmeat

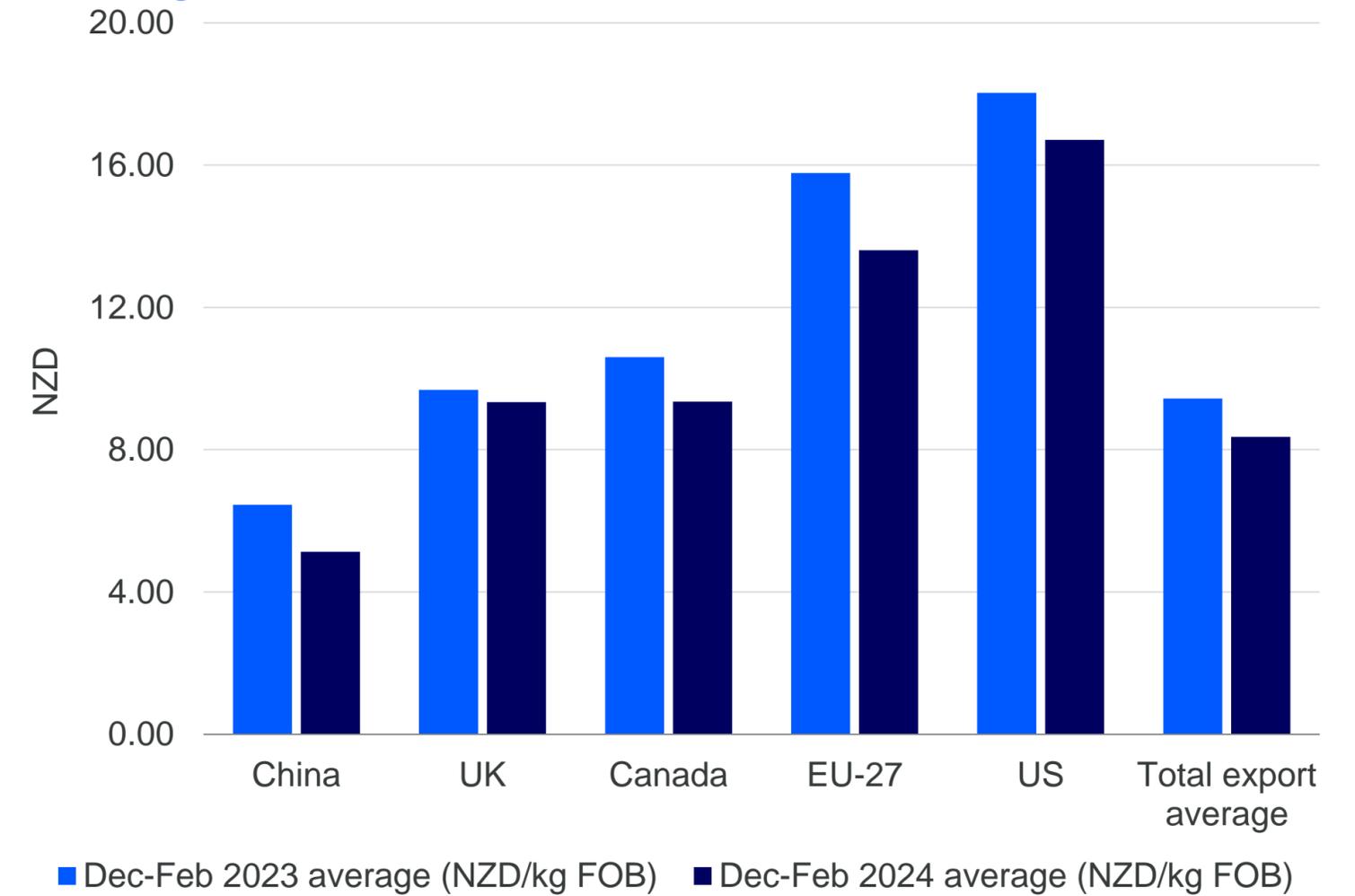
Export value lags behind the summer of 2023

AgriHQ South Island lamb price



Source: AgriHQ, Rabobank 2024

Value of (total) sheep meat exports to top markets (Dec-Feb) YOY (NZD/kg FOB)



Source: Stats NZ, Rabobank 2024

Farm inputs

Fertiliser stocks are on the path of recovery

In the last weeks of March global trade discussions revolved around expectations regarding Chinese exports of nitrogen and phosphorus fertilisers. While the export of nitrogen remains uncertain, there is clarity regarding phosphorus fertiliser exports. The overall outlook appears favourable for end users. Additionally, India's urea tender has established a bearish foundation for the coming months.

The Chinese export quotas of phosphorus fertilisers have now been set at a maximum of 7m tonnes, 5m for DAP, and 2m for MAP. The decision mirrors the 2023 figures and signifies a 27% recovery versus 2022 export volumes, which were the lowest exports in the past five years. Since early November 2023, exports have been suspended in an effort to exert downward pressure on local fertiliser prices. As a result, DAP sourced from Morocco has been steady, hovering around USD 600/tonne FOB level. **The outlook for the next five months suggests a potential drop of up to 15%. Unfortunately, this timing may be too late for winter crops and pasture. However, there remains hope that the adjustment will align with spring and summer demand.**

Currently Chinese nitrogen fertiliser manufacturing is operating at a significantly higher pace compared to the same period last year, approaching 200,000 tonnes per day. However, there is a critical factor at play: the lack of clarity regarding government-defined quotas. Some official guidance is expected by mid-May. Without this clarity, the only foreseeable outcome is the accumulation of surplus stocks, exerting a bearish pressure on the market, potentially impacting the next two to four months.

In late March India's urea tender revealed a market with ample stocks and an anticipation of lower prices. By early March, the initial expectation hovered around AUD 560/tonne, including cost and freight. However, the lowest offer was AUD 515, which is 8% lower than expected.

These developments bode well for those planning to purchase inputs in the next four to five months, whether they require phosphorus or nitrogen sources.

What to watch:

- **Fertiliser feedstocks** – The price of natural gas is forecast to remain neutral for the next months. However, there are critical factors to consider. The European stock levels are above the five-year average for late winter, which suggests that prices may ease slightly. The challenge lies in the reliance on storage facilities in western Ukraine. Unfortunately, these are under attack by Russian forces. If these attacks continue and lead to temporary closures, Europe could face a situation of insufficient stocks even before the next winter season (end of 2024). Maintaining stable stocks and prices becomes tricky under such circumstances. Geopolitical tensions at Europe's doorstep and a fragile economy add complexity.



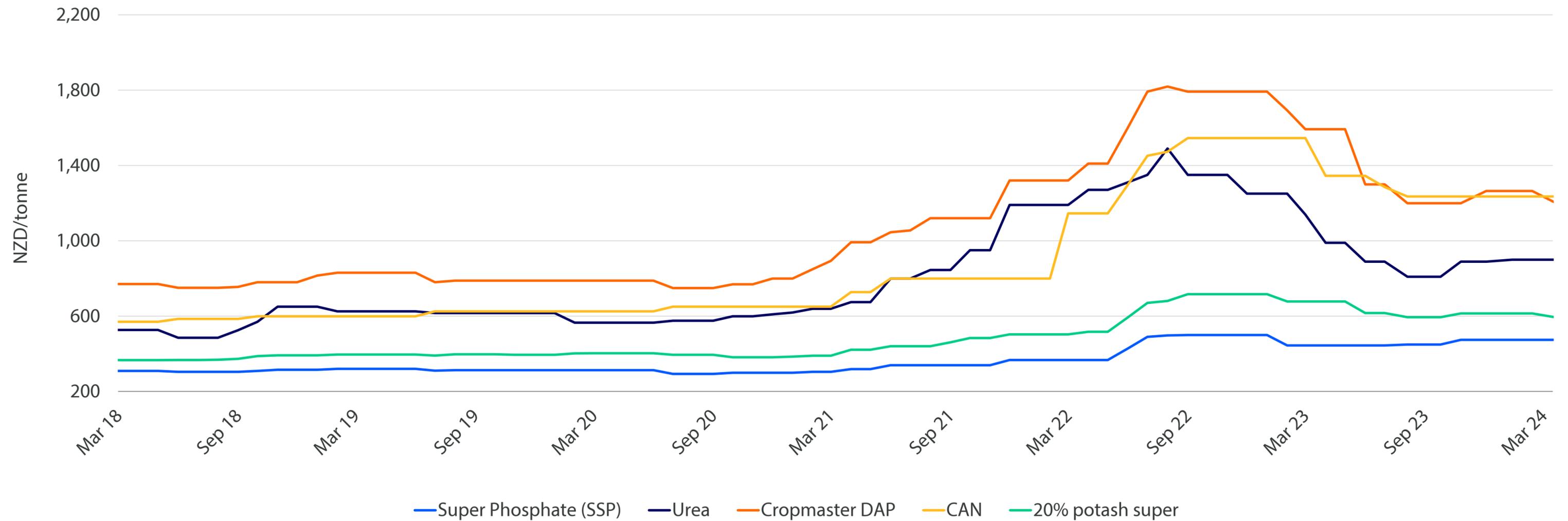
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Farm inputs

Prices remain under pressure

The soft demand and steady production result in an oversupply situation



Source: Ravensdown, Rabobank 2024

Interest rate and FX

Rate cuts coming into view?

Last month we saw confirmation that the New Zealand economy shrank in Q4 2023. That is the second consecutive quarter of contraction, which means that New Zealand was technically in recession at the end of last year.

There were actually two recessions in New Zealand in 2023, because an earlier downward revision to growth data for prior quarters saw negative prints in both Q4 2022 and Q1 2023.

This isn't much of a surprise; the RBNZ had been warning that it expected New Zealand to enter recession because it would be needed to cool domestic demand enough for the supply side of the economy to catch up and growth in prices to slow down.

The government released its Budget Policy Statement in late March, ahead of the Budget 2024 to be delivered on 30 May. **The statement notes that the economic outlook has "deteriorated significantly" since the Half Year Economic and Fiscal Update in December.** This is

in large part due to the downward revisions to prior gross domestic product (GDP) readings, which means that the economy is not as big or as productive as previously thought.

This sounds bad, but the silver lining of an economy turning over more slowly is that it is less likely to generate inflation, and that the cuts to the official cash rate (OCR) that we have been expecting to begin in August of this year are becoming more probable.

A corollary of this is a weaker currency. The New Zealand dollar underperformed most peers during March to close the month 1.76% lower at 0.5980 against the US dollar. We expect that the New Zealand dollar is poised to stage a recovery over the months ahead as we move through the worst of the economic downturn and markets begin to look toward brighter days ahead.

The prospect of rate cuts in the US from June onward should provide a boost to the New Zealand dollar.

What to watch:

- **RBNZ OCR Decision, 10 April** – No change in the OCR is expected at the April meeting, but it will be an opportunity to gauge whether the RBNZ's view on the future path for interest rates has shifted since the release of the Q4 GDP data.



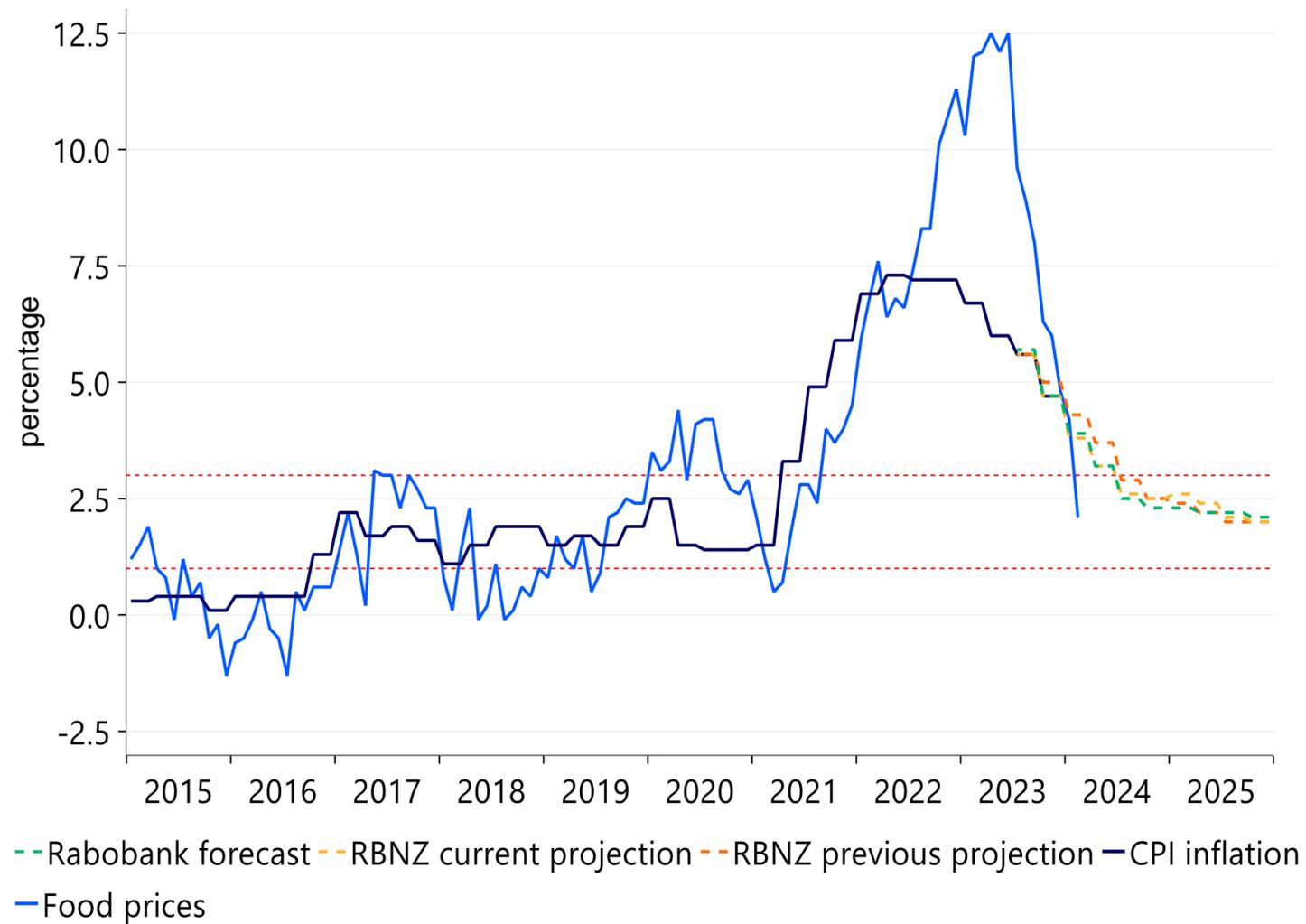
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Interest rate and FX

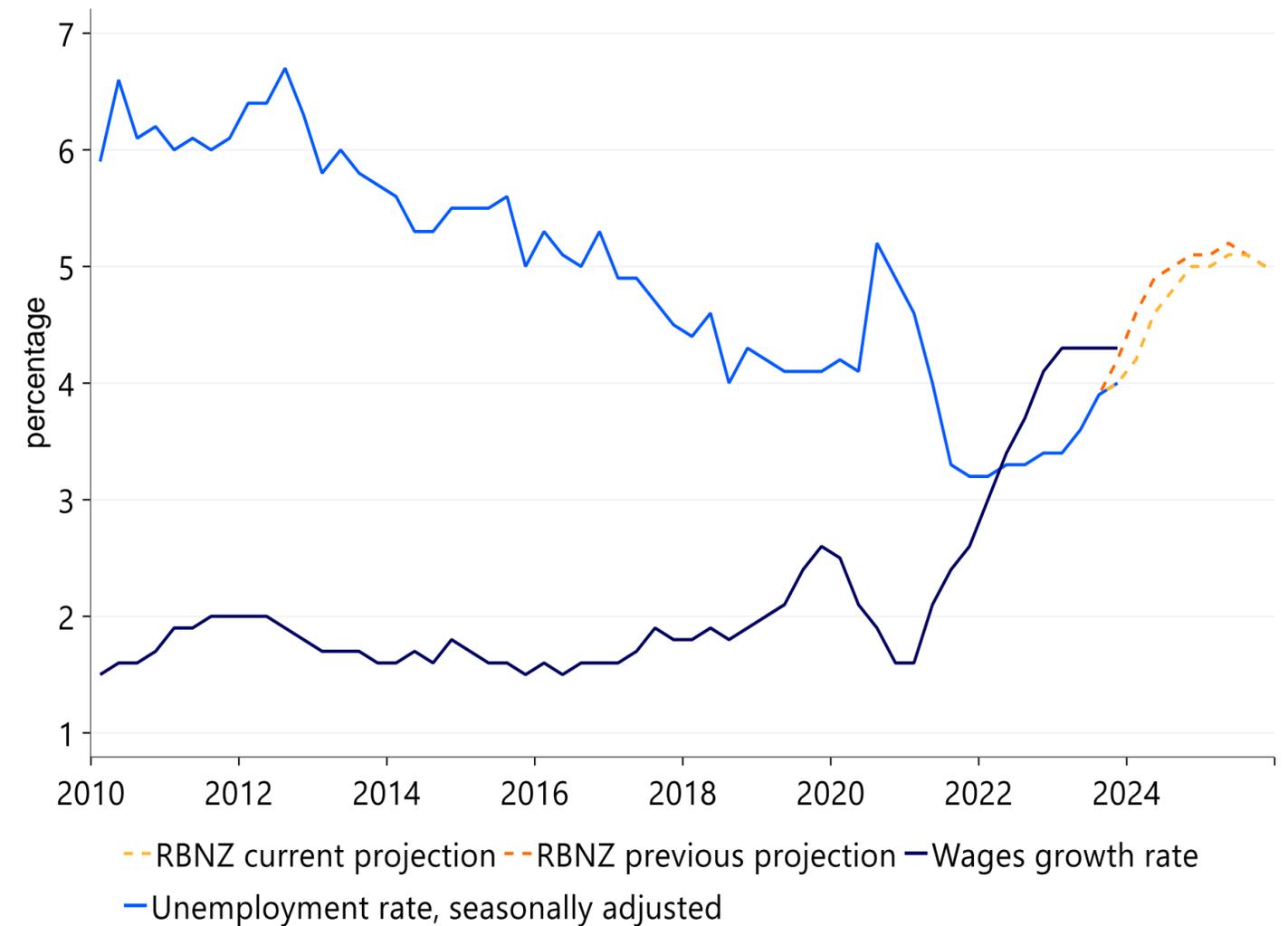
Food prices fall sharply as wage growth plateaus

New Zealand inflation indicators



Source: Macrobond, Stats NZ, RBNZ, Rabobank 2024

New Zealand labour market indicators



Source: Macrobond, Stats NZ, RBNZ, Rabobank 2024

Oil and freight

Pushing higher

Brent crude prices rose by 4.62% in March for the third consecutive month. Prices have lifted even further in the first few trading days of April after an Israeli air strike on a consular building in Syria killed a senior Iranian commander of the Islamic Revolutionary Guards Corps. Iran has vowed to retaliate, heightening concerns that the Israel-Hamas war could spread and impede energy flows through the Strait of Hormuz.

Diesel terminal gate prices in Australia defied the rising crude oil price in March to moderate slightly. **Diesel prices might play a bit of catch up in April as Ukrainian air strikes on Russian refineries take refining capacity out of the world market** and improving growth in the US and China add to demand for transport fuels.

Freight rates have adjusted downward after the initial shock from the Red Sea conflict, although vessel passage through the Suez Canal remains severely limited. Conflicts and forced vessel re-routes are likely to persist into the second half of 2024, although new vessel and container capacity coming online should help alleviate capacity constraints. We expect 2024 to continue to be marked by volatility, driven by global events, uncertainties stemming from the US election, possible labour-related disruptions, such as the East Coast port labour contract negotiations in September, and possible weather or climate change-related disruptions.

The Baltic Panamax index (a proxy for grain bulk freight) fell for the second week in a row after a mild recovery, as volume growth has diminished out of east Australia and remained flat out of South Africa into April.



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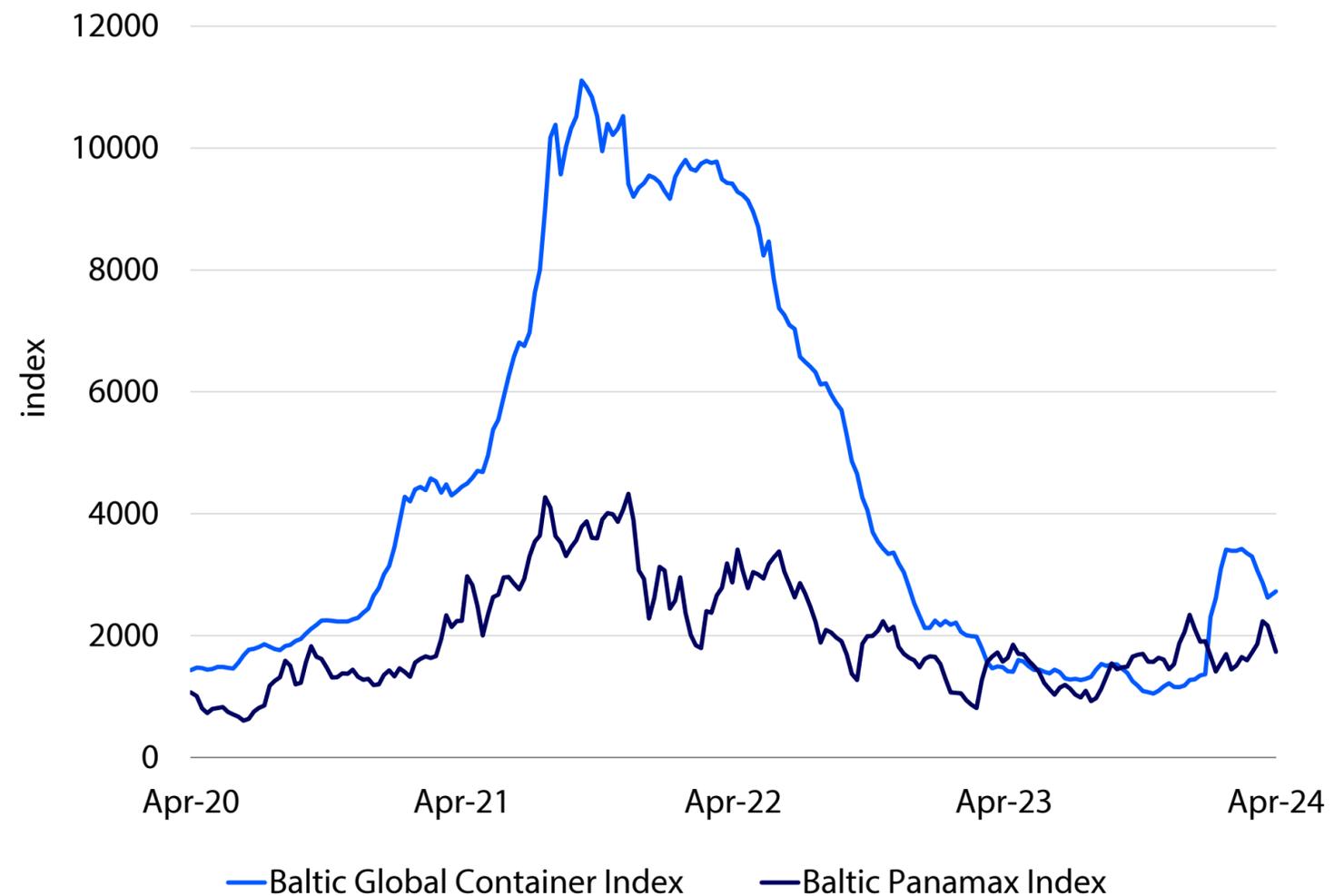
What to watch:

- **US Department of Energy inventories data** – Due out on 11, 18 and 25 April. Inventories data will be an important gauge of the supply/demand balance in the US energy market.

Oil and freight

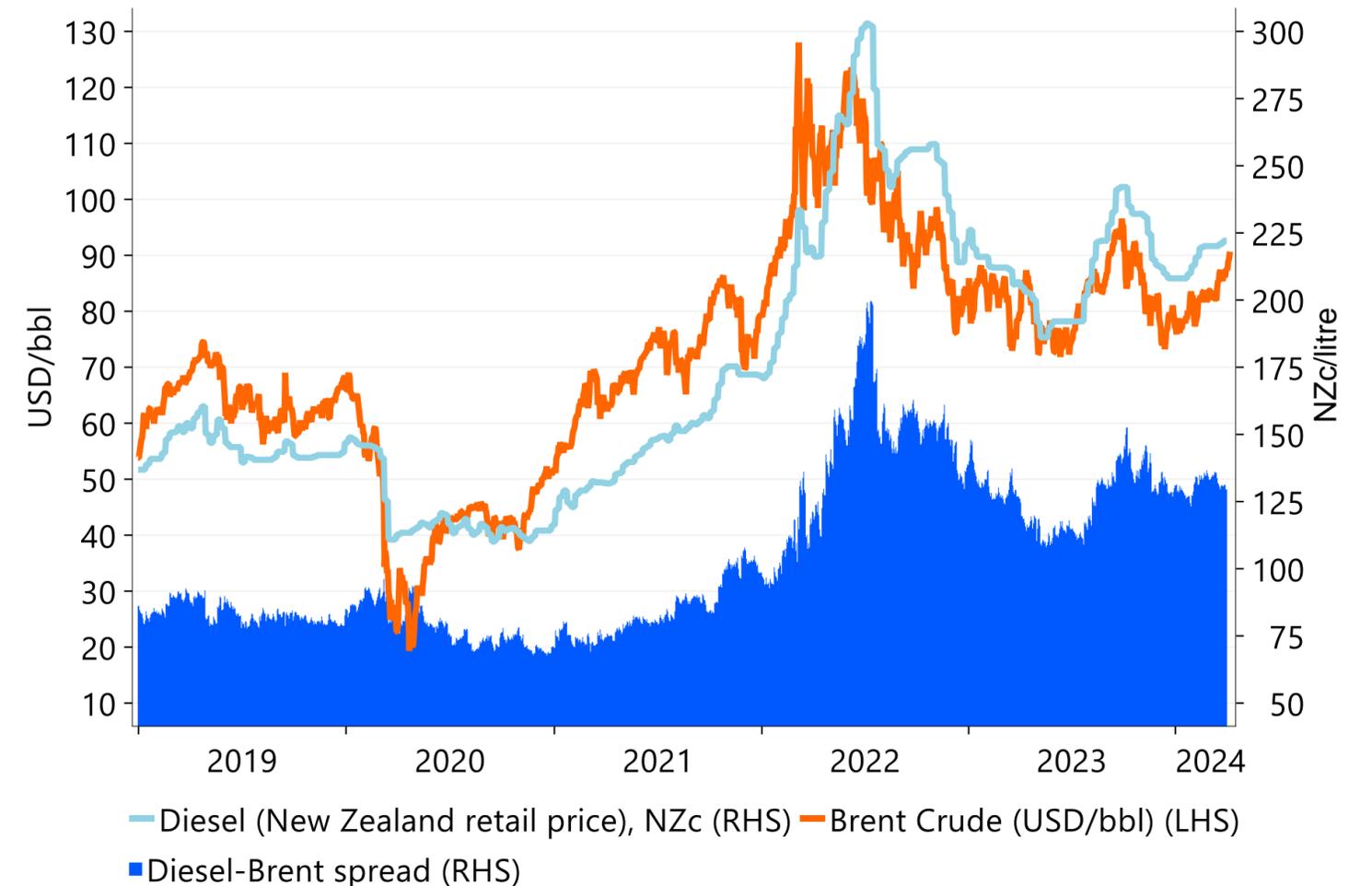
Diesel/crude spread widens as prices rise

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



Source: Baltic Exchange, Bloomberg, Rabobank 2024

Brent crude versus New Zealand diesel prices, 2019-2024



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

Agri price dashboard

10/04/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	558	538	680
CBOT soybean	USc/bushel	▲	1,175	1,165	1,504
CBOT corn	USc/bushel	▲	431	428	656
Australian ASX EC Wheat Track	AUD/tonne	▲	326	314	387
Non-GM Canola Newcastle Track	AUD/tonne	▲	641	609	661
Feed Barley F1 Geelong Track	AUD/tonne	▲	311	288	331
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	622	601	680
Feeder Steer	AUc/kg lwt	▼	316	332	356
North Island Bull 300kg	NZc/kg cwt	▲	590	585	585
South Island Bull 300kg	NZc/kg cwt	▼	535	540	525
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	628	612	726
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	615	610	730
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	590	605	720
Venison markets					
North Island Stag	NZc/kg cwt	▼	860	870	885
South Island Stag	NZc/kg cwt	▼	850	865	880
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,413	6,650	4,775
Skim Milk Powder	USD/tonne FOB	▼	2,513	2,813	2,688
Whole Milk Powder	USD/tonne FOB	▼	3,125	3,375	3,238
Cheddar	USD/tonne FOB	▲	4,225	4,213	4,325

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

10/04/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	92.0	101.6	96
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	86.0	95.1	82
Sugar markets					
ICE Sugar No.11	USc/lb	▼	21.5	22.0	24.1
ICE Sugar No.11 (AUD)	AUD/tonne	▼	703	723	680
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,136	1,172	1,300
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	330	378	300
DAP (US Gulf)	USD/tonne FOB	•	570	570	610
Other					
Baltic Panamax Index	1000=1985	▼	1,667	1,893	1,812
Brent Crude Oil	USD/bbl	▲	89	82	87
Economics/currency					
AUD	vs. USD	▲	0.663	0.661	0.669
NZD	vs. USD	▼	0.607	0.617	0.621
RBA Official Cash Rate	%	•	4.35	4.35	3.60
NZRB Official Cash Rate	%	•	5.50	5.50	5.25

Source: Baltic Exchange, Bloomberg, Rabobank 2024

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