Loitering headwinds in China

New Zealand agribusiness monthly

RaboResearch Food and Agribusiness

May 2024

Rabobank

Commodity outlooks

Dairy

Rabobank expects improvement – albeit slow – in commodity prices over the remainder of the year thanks to weak milk supply, but the journey will likely be fraught with headwinds from our major market, China.

Beef

With farmgate pricing tracking 10% above five-year averages, the New Zealand winter months are looking favourable for more of the same with US summer grilling season kicking off.

Sheepmeat

High lamb slaughter numbers have been seen over the last weeks of autumn with the suggestion that procurement pressures will bump prices up a notch and the season low has passed.

Farm inputs

Farm input markets remain quiet as demand is soft and supply outputs are steady. On the other hand, high freight prices are negatively impacting further farmgate price reduction.

Interest rate and FX

A sharp rise in unemployment in Q1 gives hope that the RBNZ's dose of economic cod liver oil is working. This month will be a key point of interest. but persistent non-tradeable inflation remains a problem.

Oil and freight

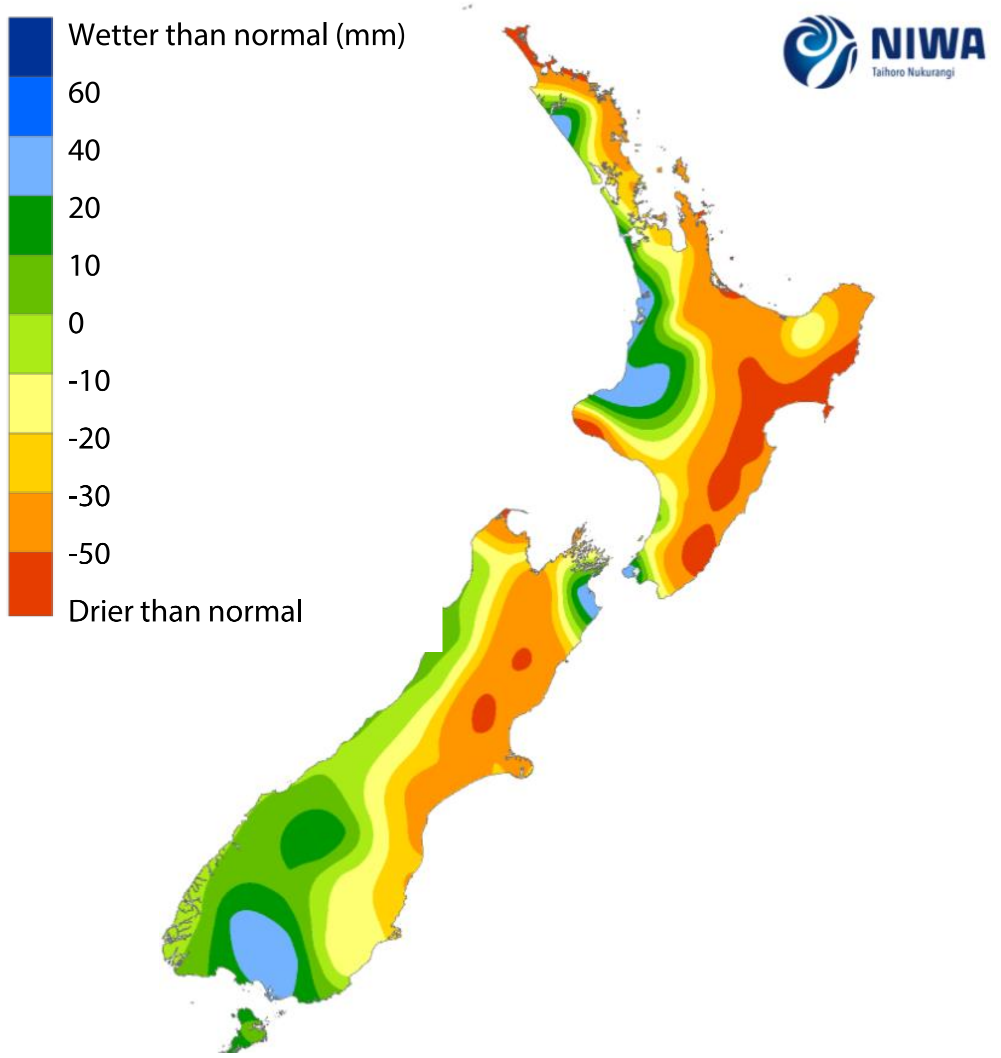
Brent crude oil rose again in April to mark the fourth-straight month of gains, but has since fallen substantially to USD 83/bbl. Slower-than-expected growth in the US and de-escalation in the Middle East pressure prices.

Rabobank

Climate

Cooler temps put a hand brake on pasture growth

Soil moisture anomaly (mm), 4 May 2024



Source: NIWA, Rabobank 2024

El Niño is officially expected to ease to ENSO neutral by the end of May. NIWA summarises that May will feature some quite chilly, southerly quarter winds before we see some milder westerly patterns over June and July. Winter woollies may come out sooner rather than later this year.

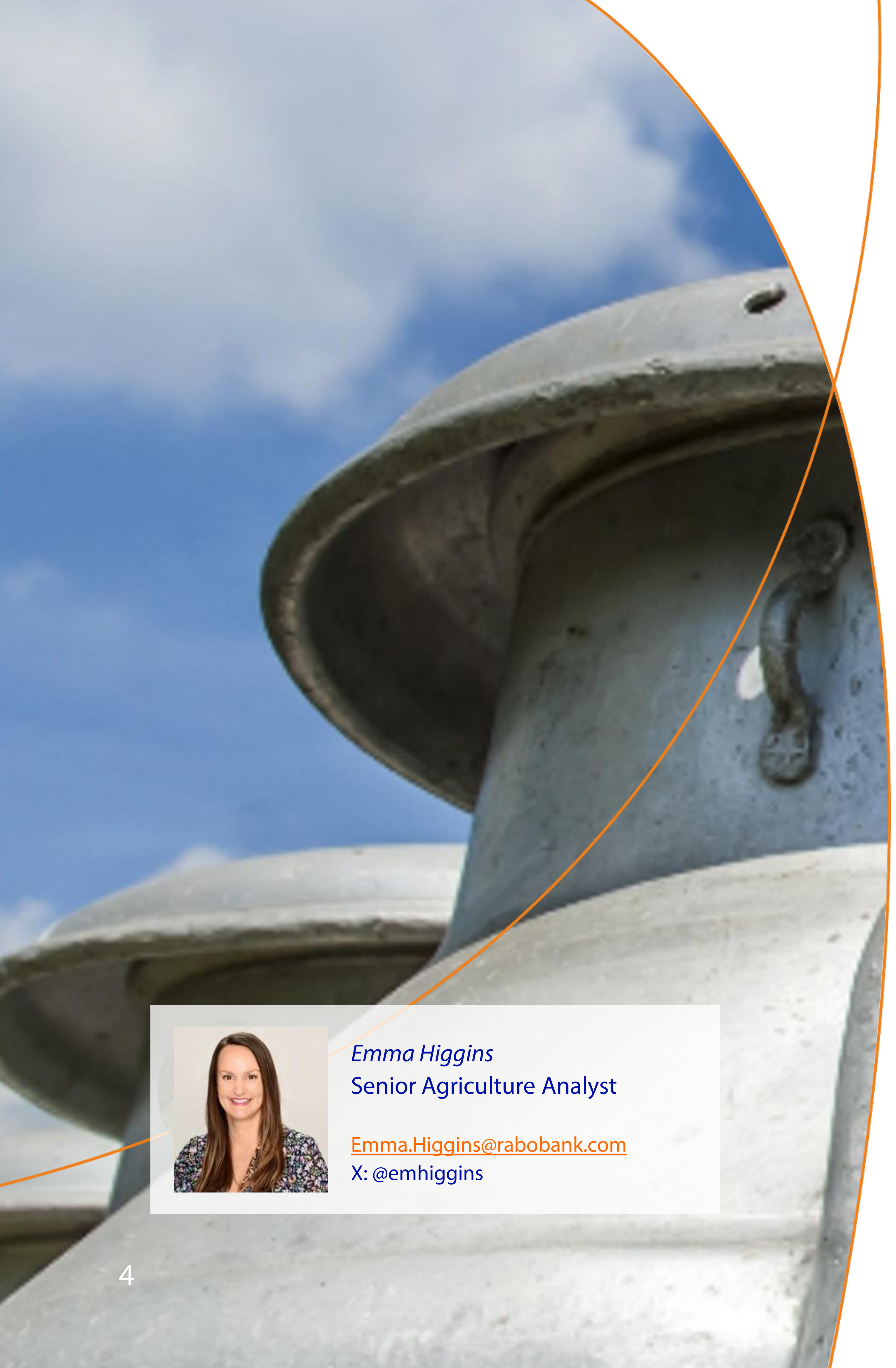
Rainfall predictions suggest rainfall is most likely to be below normal at the top of the North Island as well as the east of the South Island. Rainfall is likely to be near normal in other regions.

Eyes will be on the rain dials those not already blessed with rain on the east coast and top of both Islands. Soil moisture levels are likely to be normal in the west of both islands and below normal in all other regions.

Over the upcoming three winter months, temperatures will likely be near average or above average. The caveat here is that May is likely to be colder than usual before we head into the winter months.

What to watch:

- **Pockets of the east and north of both islands that haven't seen desired autumn rainfall** may be feeling the dry and will need to watch pasture covers heading into winter. It may be challenging if rain hasn't yet arrived, due to rapidly slowing pasture growth on farm. Monitoring stocking rates and covers will be sensible to foresee deficits.
- **Very good growing conditions in the Waikato heading into winter will require monitoring of pasture cover**, so quality can be set up for the all-important spring period.



Dairy

Chinese milk supply growth presents a continued risk

Dairy commodity markets have had mixed performance over the last month. Fat prices recalibrated and USDA prices for powders broadly held ground. Global demand remains weak, and higher Chinese domestic milk production is another factor to consider, suggesting more headwinds to pricing improvement is possible.

Sluggish demand remains a key driver for dairy commodity prices. Low prices in late 2023 and early 2024 provided a great opportunity to replenish stocks, and so with full inventory pipelines, buyers are cautious. Attention is now on seasonal peak milk production in the Northern Hemisphere, and sentiment is shifting in most regions, with purchasing slower at current price levels.

Rabobank has revised its earlier view on China's net imports. We now anticipate a decline of 8% in net import demand in 2024 compared to 2023. The combination of stronger milk production and weaker consumer demand are the main drivers.

Global milk supply remains under pressure. While milk supply growth remains a challenge in most regions, China's production has been revised upwards for 2024, from 2% to 3.2%. Meanwhile, low profitability over the past 12 months has led to a contraction in dairy herds in key regions like the US and South America. Diminished rains in New Zealand, excess rains in Europe, and other weather-related issues in recent weeks have also affected milk output.

New Zealand milk supply dropped in March 2024 on both a tonnage and milk solids basis compared to last year. There are challenges ahead for the new production season, with rainfall required in some areas before temperatures cool too quickly as winter approaches.

Rabobank continues to expect slow price increases over 2024. However, the journey across the remainder of the year to reach longer-term averages will be a bumpy ride given the complex dairy fundamentals and weaker import demand dynamics from our major market, China.

What to watch:

- **US cattle disease** – Highly pathogenic avian influenza (H5N1 strain) continues to be a key factor to watch. HPAI has currently infected cows in nine US states. The disease is primarily symptomatic in older cows, but younger cows are likely also infected but asymptomatic. Milk supply has not declined measurably, but the spreading infection remains a key factor to watch from both the supply and consumer demand perspective.

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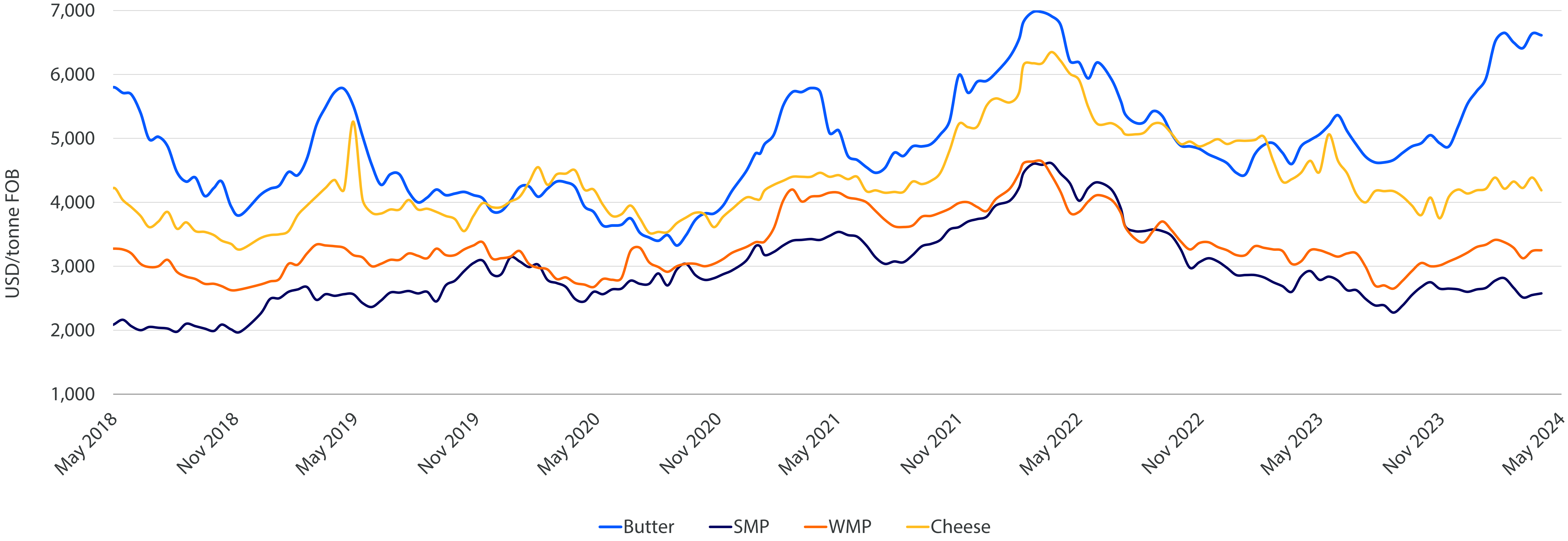
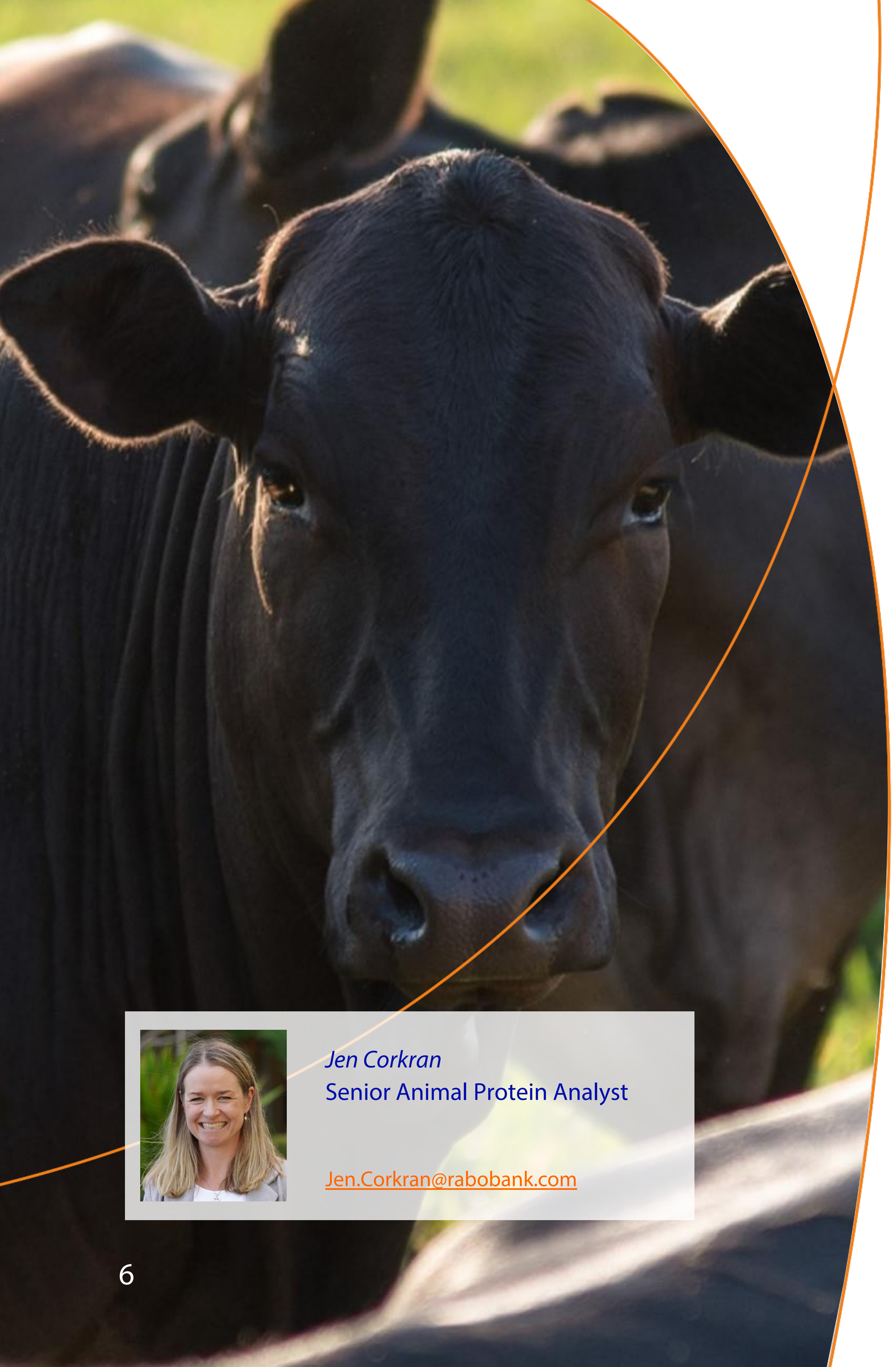
Dairy

Commodity markets find some resistance following recent upswing

Oceania spot prices for dairy commodities



Source: USDA, Rabobank 2024



Beef

A different month, the same good news story

It's a similar tale this month for the beef story, with farmgate prices continuing to track steady and no change in the AgriHQ NI bull price at NZD 590/kg cwt. This pricing continues to track around10% higher than the five-year average over the same weeks of April.

Cull cows being sent for slaughter were still slower than usual in March, according to the New Zealand Meat Board slaughter data, tracking around 3% behind last March nationally. Pricing in this cohort is still sitting above five-year average levels, with AgriHQ indications around NZD 400/kg cwt for North Island manufacturing cows. April's cull cow offloading period of will appear in the data soon as room is made to build pasture covers before winter and pricing remains strong.

Year-to-date, total exports of beef meat from January to March 2024 are up by 5% YOY at just over 133,000 tonnes, and up by 3% in value. In volume terms, shipments to China are down 8% at 51,650 tonnes. The upswing trend to other destinations has continued with exports to the US now up 14% YTD, Japan up 41%, and Canada up 60% compared to the same period last year. These markets have also moved the dial for increased value per kg/cwt compared to last year.

Although still 35% higher than the five-year average, the US domestic 90CL trimmings price has normalized slightly after last month's reported highs. While this was somewhat anticipated, Rabobank's view is that elevated demand is a reflection of "panic buying" rather than true demand. US cattle on feed numbers on 1 March 2024 suggest there are likely now large numbers of cattle over the 120-day-fed mark, with a normal finishing time of around 180 days. This supports increased demand for lean trimmings imports for the US grilling season .

All our data metrics bode well as we head into the summer grilling season in the US. We continue to be grateful and optimistic for the outlook for beef in 2024. The US will be a market worth shipping New Zealand beef to in months to come.

What to watch:

- **Other export markets** – The strength of other export markets for New Zealand beef means there is optimism that all our eggs aren't in the China market. Both Brazil and Australian beef production levels are high at present. Brazil is now paying a 26.4% tariff to get its beef into the US as low demand from its usual biggest buyer (China) is a global challenge. Thus far, demand for New Zealand's grass-fed product looks likely to remain strong in other export markets outside of China but it pays to keep an eye on production in other countries too.

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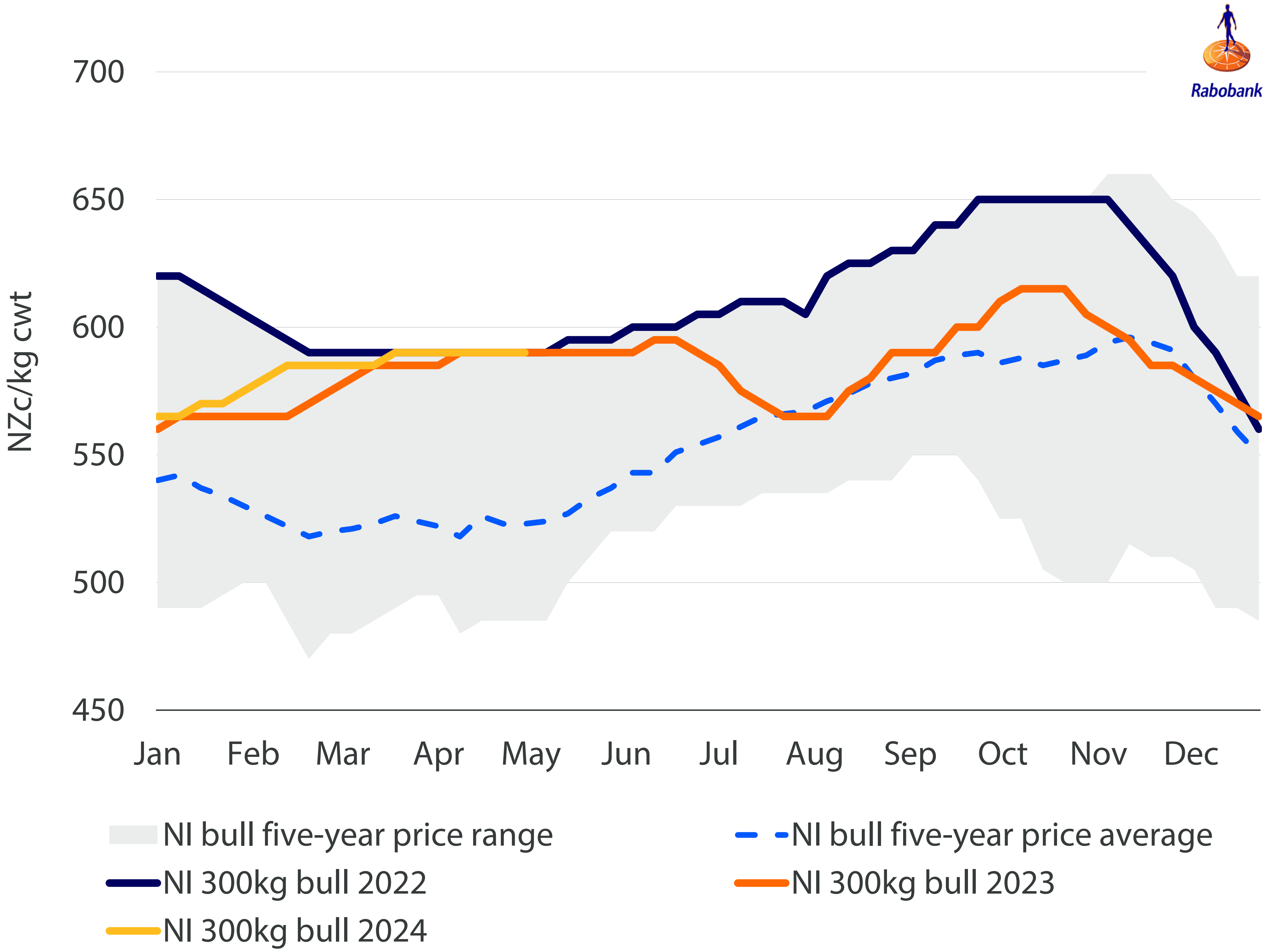
Beef

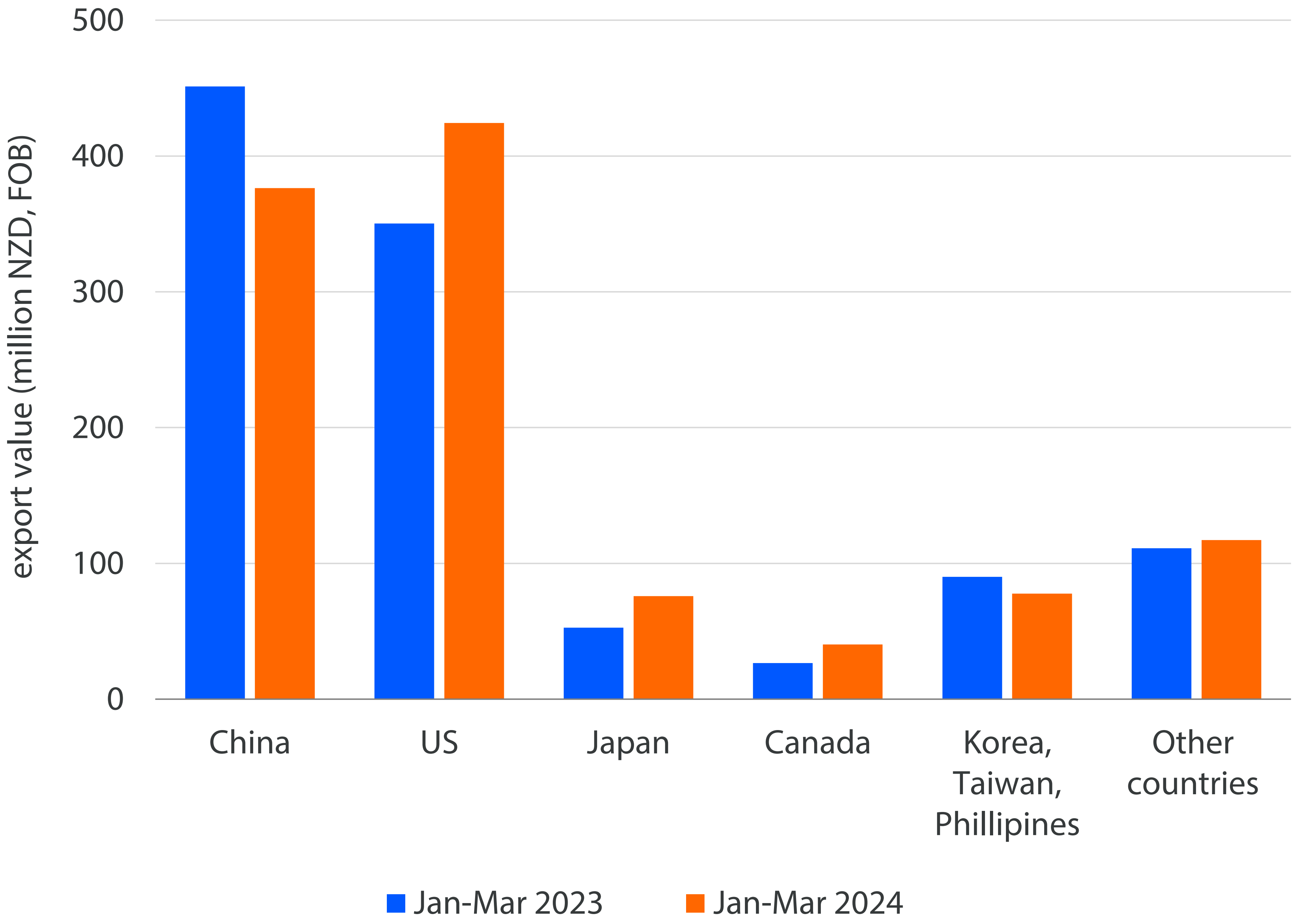
Steady and holding with overall export volumes up

AgriHQ North Island bull price



Source: AgriHQ, Rabobank 2024

Export market value for New Zealand beef



Source: Stats NZ, Rabobank 2024

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Sheepmeat

Supply shortages may help drive pricing this winter

Farmgate pricing held steady through April with the AgriHQ price sitting at NZc 590/kg cwt for South Island lamb. At the time of writing, the **AgriHQ SI lamb price is at NZc 600/kg cwt and likely to continue to rise slowly.** This will see NZc 610 for South Island lamb by mid-May and North Island pricing edging towards NZc 630. This is largely due to procurement pressures that the data suggests will occur over coming months, rather than export demand upside.

Slaughter numbers for the kill season nationally are now tracking 6.2% ahead of 2023, to 6 April 2024. With the good early summer growing conditions around New Zealand and the option to put weight on lambs, the run-of-numbers finished later, as was forecast. Pockets of late autumn dry then led to higher numbers sent off before the inevitable winter slowdown in pasture and animal growth.

Total exports of New Zealand sheepmeat in March 2024 were similar to March 2023 numbers at just over 48,000 tonnes, with lamb making up just over 38,000 tonnes of these exports – the highest March lamb production since 2021. China took just under half of total volumes (compared to 60% last year), amounting to almost 30% of the year's value (compared to 41% last year). Better-performing markets included the US, up 5% by value, and the UK, up 3%. Shipments to "other" countries were up 6% in terms of value FOB. Canada and Saudi Arabia among the bigger "other" players. The lower NZD/USD helps the US market as they head into "grilling" season, which generally increases protein purchases. The lingering point of conversation is the interest from export markets other than China as the price-setting China mothership takes its time to turn around.

Australian sheepmeat production continues to track high and at record levels. Meat and Livestock Australia data from across the ditch show year-to-date lamb slaughter numbers in Australia are up 25% as of the end of April. Rabobank anticipates that the highest seasonal slaughter rate for 2024 has been reached.

Indications are that we have passed the low point of farmgate prices here in New Zealand. We will eagerly watch the line swing upward. The big question is: How high will prices goes, and how quickly we will see this correction?

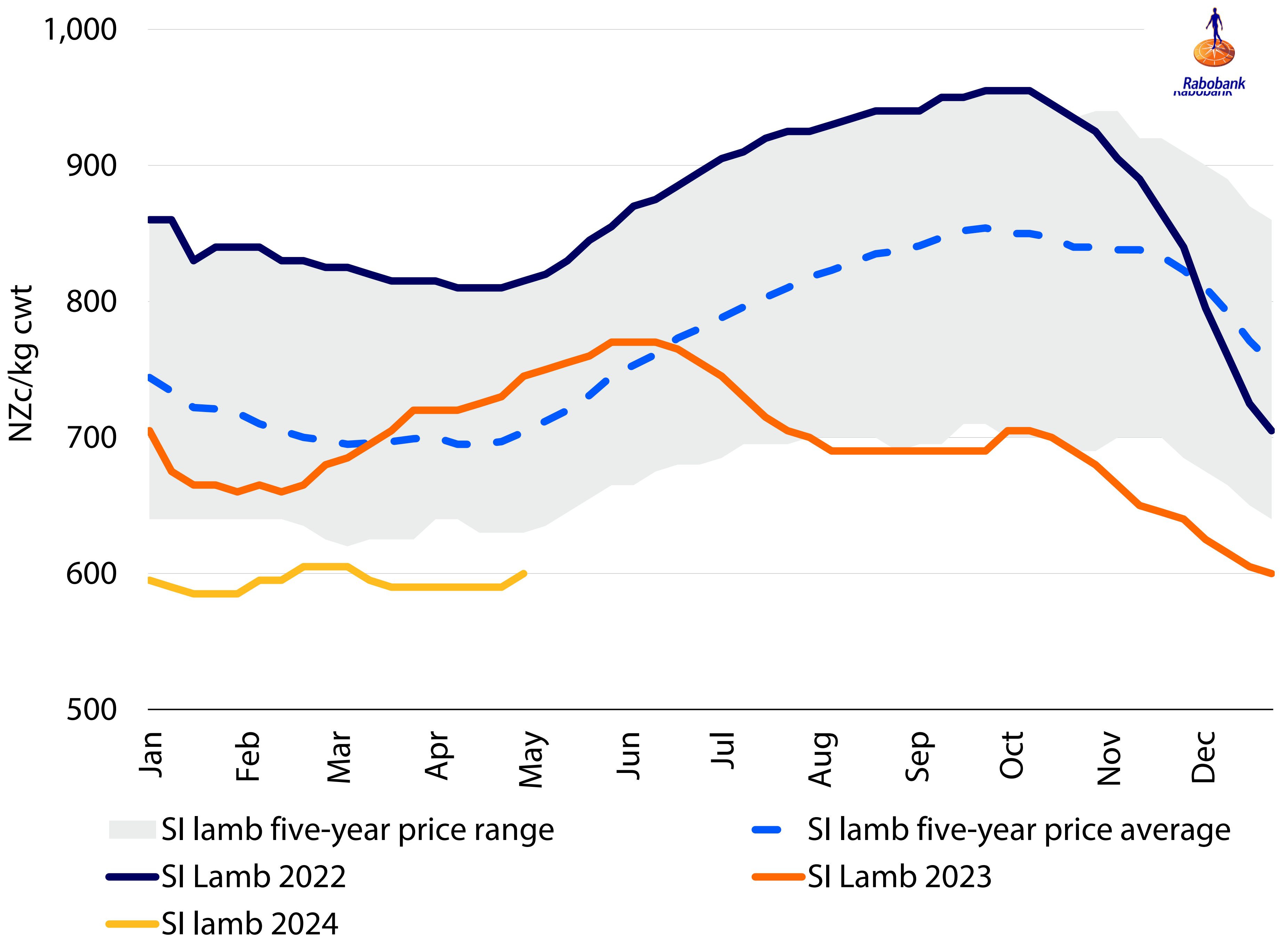
What to watch:

- **Lamb numbers and procurement pressures over winter months** – Talk has now moved to lamb procurement pressures over the winter months, with total lamb slaughter up by nearly 400,000 head (season to date) in the South Island until 6 April. Procurement of animals will drive positive pricing in the coming weeks, but the recovery is likely to be slow with all eyes on export markets outside of China.

Sheepmeat

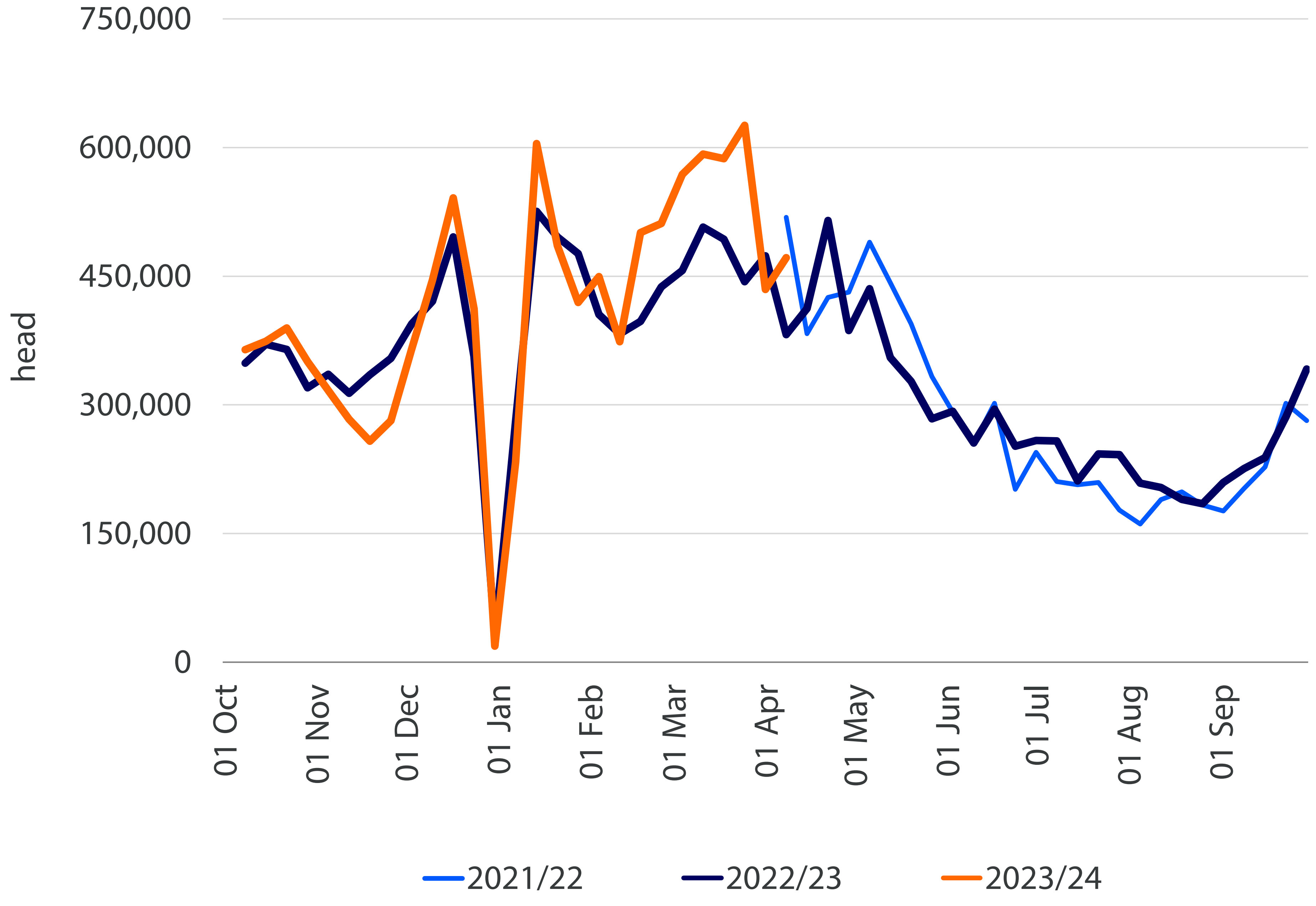
Export value lags behind the summer of 2023

AgriHQ South Island lamb price



Source: *AgriHQ, Rabobank 2024*

National lamb weekly slaughter numbers for the kill season (to 6 April 2024)



Source: *New Zealand Meat Board, Rabobank 2024*

Farm inputs

No price headwinds or tailwinds

On the fertiliser front, many markets are in mid-season. No big price movements have been reported, nor have elements that could change the short-term price doldrum outlook. One country that could cause some price movement is India, though the urea stocks are reported to be comfortably at the 10m-tonne mark. Other potential price-supporting factors that have not materialised relate to China. The government there has further reduced exporting certificates' validation period, from 60 days to 30. The previous reduction to 60 days was made in November 23, leading to a 95% YOY reduction in Q1 2024 exports. The Middle East spot reference price dropped 14% during April and is now at USD 430/tonne. Since November 2023, the price has dropped 24%.

The higher output of phosphate fertilisers did impact the market. Morocco DAP prices dropped 4% during April and is now at USD 838/tonne, and Indian importers are experiencing negative margins. In the coming weeks, no price upside is expected, even from South America, which is replenishing its stocks. The recent announcement of higher US duties on Morocco DAP/MAP – an increase from 2.12% to 14.2%. The impact of these duties is yet to be assessed.

The farm input price stagnation also encompass agrochemicals. The Chinese ex-works prices for key products reduced by 2.4% in the last 30 days, aggravating already stressed manufacturers' margins. To put it into perspective, a basket of 12 active ingredients composed of herbicides, insecticides, and fungicides is showing prices 36% lower than the January 2020 level. We do not expect the overproduction to be resolved any time soon, even if grains and oilseeds were to experience a widespread positive price cycle.

One might be wondering why farm input prices have not reduced much. We see this as the cost to do business. **Despite the reduction in the price of raw materials, like natural gas, in recent months, other prices have remained steady, like freight and interest rates. As farm input supply chains are long and complex, they are more resilient to price swings.**

What to watch:

- **Container rates and the Panama Canal** – Recent announcements could bring farmgate price reductions down the road. The global container index dropped 30% since its November hikes as the Middle East shipping issues are being circumnavigated and global trade finds its way. Further cost relief comes from Panama. The Panama Canal Authority announced it will slowly increase the transit to 31 vessels per day by mid-May and 32 by June. At the peak of the recent drought, the transit numbers were slashed to 24.

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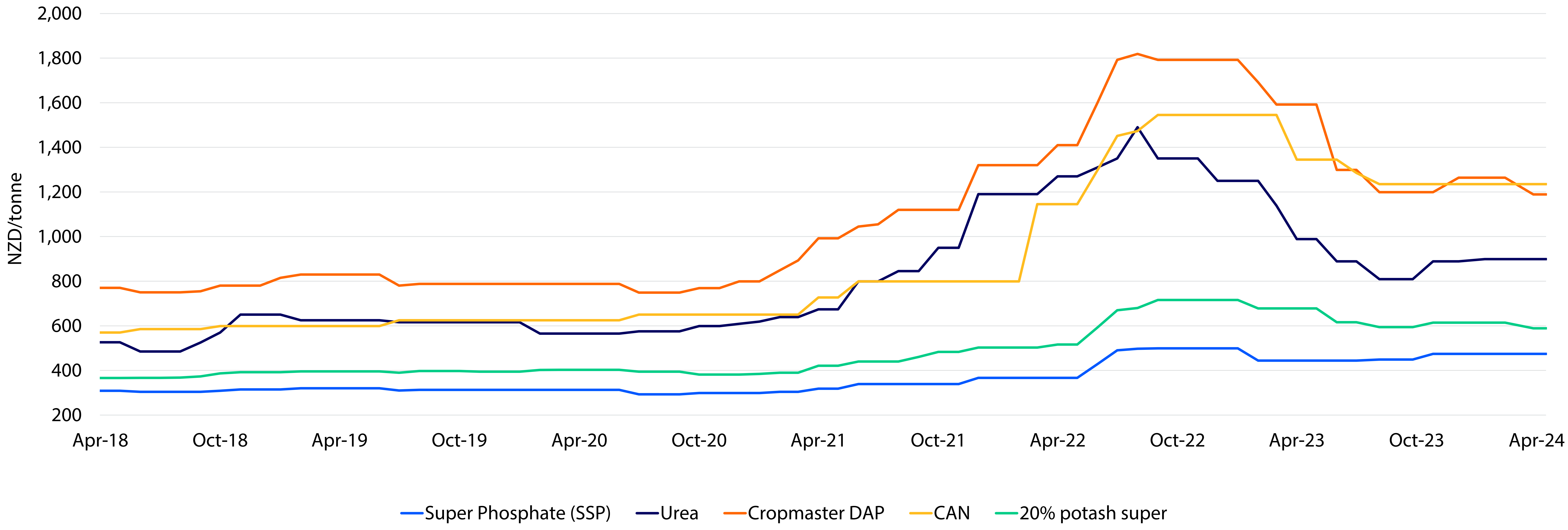
Farm inputs

Sluggish market underway

The fertiliser market is entering a calm period until the next procurement cycle starts in South America



Source: *Ravensdown, Rabobank 2024*

Interest rate and FX

All according to plan, but the plan hurts

Early this month we saw confirmation that the labour market has begun to soften more quickly. Figures reported on 1 May showed the unemployment rate picking up to 4.3% in the first quarter of the year, even as the participation rate experienced a sharp drop in Q1 2024 to 71.5% from 71.9% in Q4 2023.

A falling participation rate generally helps to keep the unemployment rate low because it's easier to find a job if there are fewer people to compete with. But the Q1 figures showed that Kiwi businesses didn't just reduce the pace of hiring, they actually cut the overall headcount.

This tells us that the ongoing recession is now biting hard, and that the RBNZ has done enough to ensure that the demand side of the economy is sufficiently restrained to bring things back into balance and get price growth under control.

Nevertheless, inflation remains too high, and domestically generated, non-tradeable inflation is a particular concern after it rose by more than expected in Q1 (1.6% versus the 1.3% consensus forecast).

It is Rabobank's expectation that the economic downturn that New Zealand is currently experiencing will prove sufficient to bend home-grown inflation back down to sustainable levels. Consequently, we still believe that the RBNZ will be cutting rates this year.

Our current forecast is for the first cut to arrive in August, with a follow-up cut in November. We're holding to this timing for now, but the strong tradeable inflation number does introduce a risk that August might be too optimistic and the RBNZ will be forced to hold fire for longer.

The New Zealand dollar has been under quite a bit of pressure lately due to low growth and rising unemployment. We expect that it will begin to strengthen around mid-year and head back to USc 64 in 12 months' time.

What to watch:

- **RBNZ Official Cash Rate decision, 22 May** – No change in the OCR is expected at the May meeting, but the associated Monetary Policy Statement and public comments from Adrian Orr will be a useful insight to the RBNZ's thinking on future rate moves.
- **The national budget, 30 May** – Nicola Willis will hand down the coalition government's first budget, which will include sweeping spending cuts and trimming of public services. National have promised to deliver income tax relief, but whether the tax cuts will be exactly what was promised leading into the election remains an open question.

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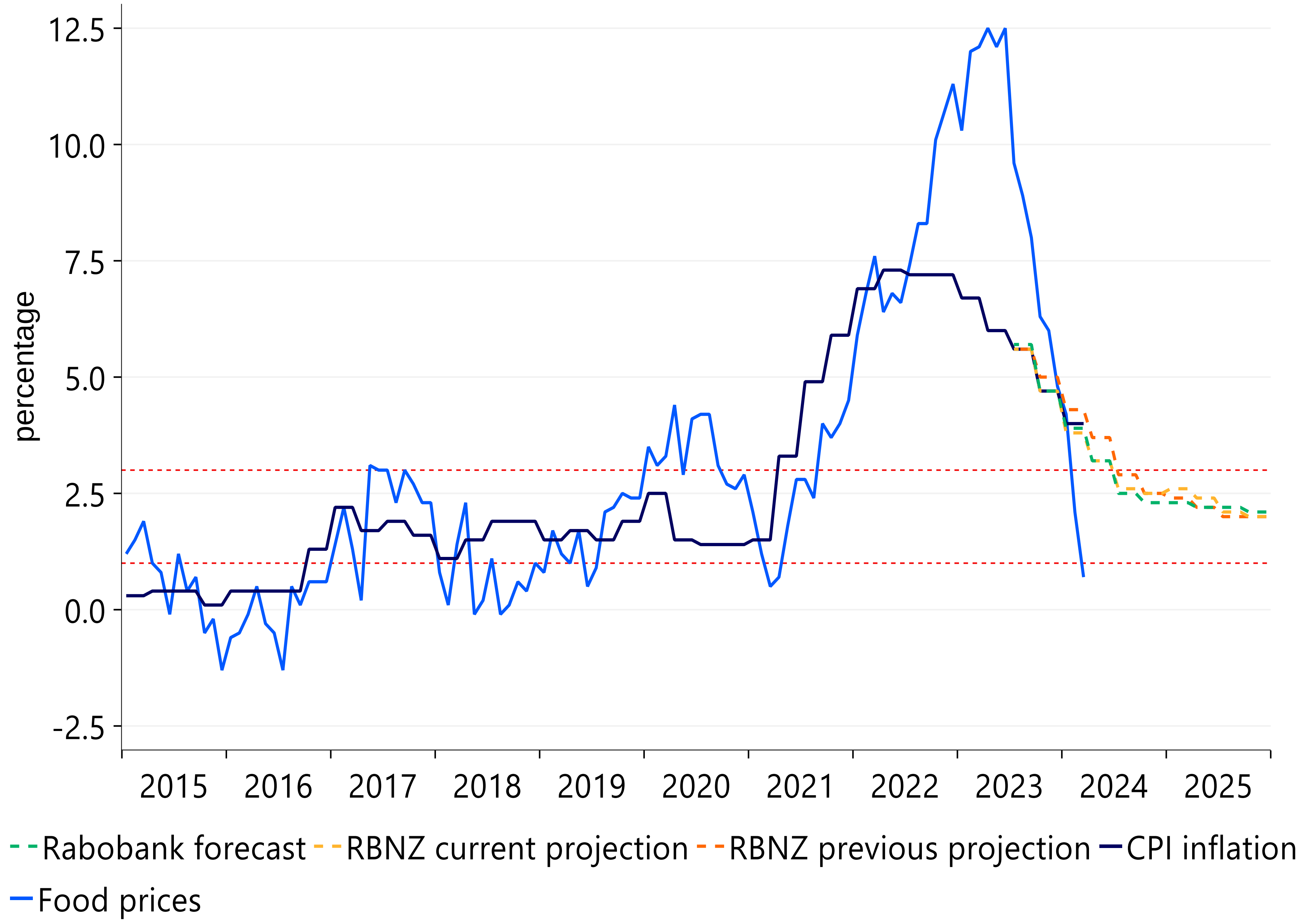
Interest rate and FX

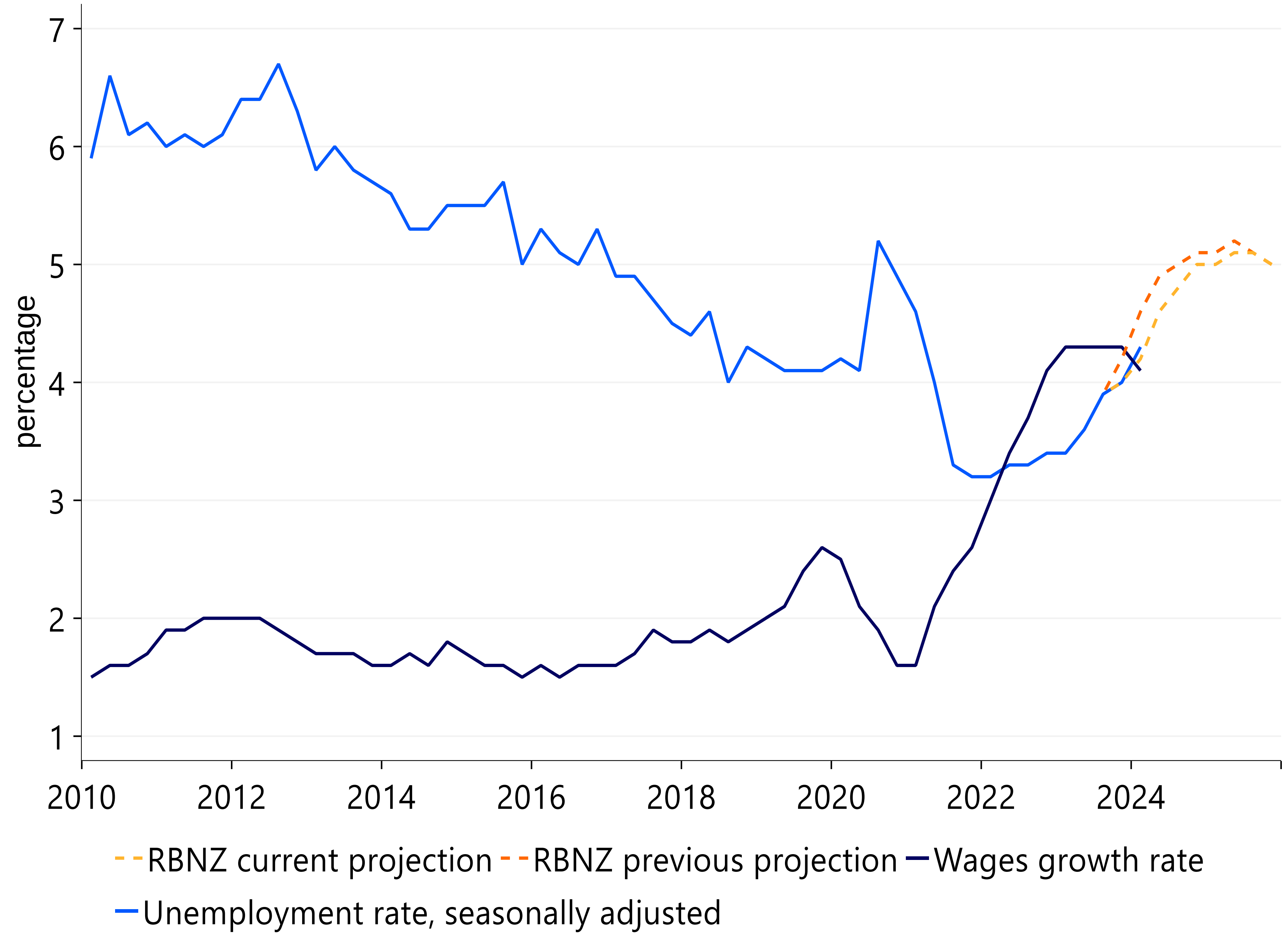
Everything on track?

New Zealand inflation indicators

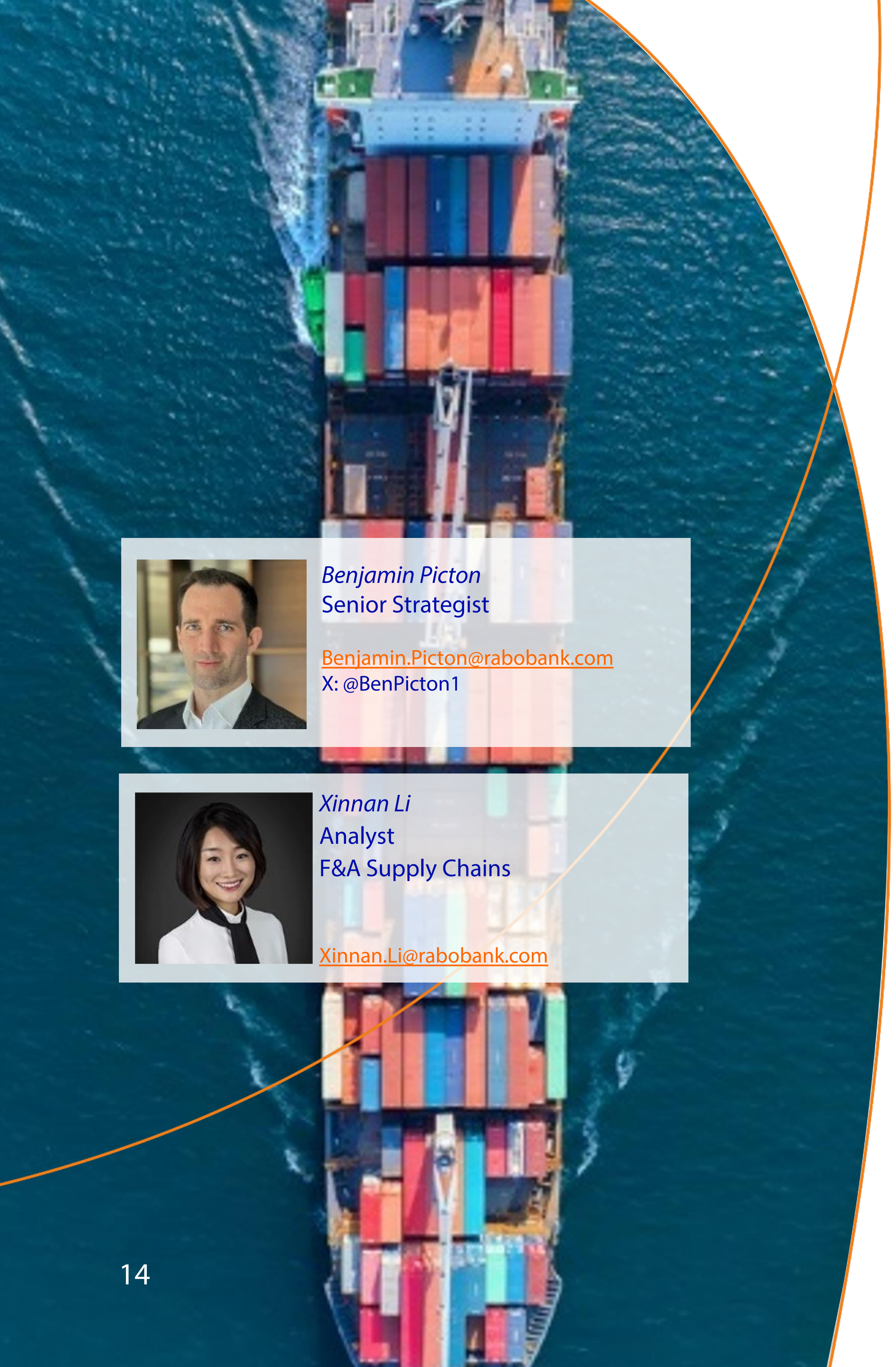


Source: Macrobond, Stats NZ, RBNZ, Rabobank 2024

New Zealand labour market indicators



Source: Macrobond, Stats NZ, RBNZ, Rabobank 2024



Oil and freight

Finally, some good news

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Brent crude prices finished higher in April, marking the fourth-straight month of rising prices. Happily, the gain was short-lived, and we are currently seeing prices near USD 83/bbl. Our analysts are expecting the market to test the USD 82/bbl level.

Prices had been rising due to increased risk premiums owing to the conflict in the Middle East, but things seem to have cooled down there for the time being. Weaker-than-expected GDP growth for the US in Q1 helped prices lower as traders factored in a feebler demand outlook. However, we still think prices are headed higher over the longer term due to OPEC+ production cuts, growing demand in India, and our doubts that the US can sustain current rates of production into the back end of the year.

Hotter weather in Europe this year is likely to again impact refinery uptime, creating import demand for refined products (diesel, etc.), while Ukrainian drone attacks on Russian refineries add further tightness to world markets.

Global trade showed a significant recovery in Q1 2024 compared to a year ago, as shipping companies forecast better-than-expected results for 2024. Going forward, ocean capacity growth will likely outpace demand with a substantial amount of fleet in the order book, even in the presence of the Red Sea conflict. The Panama Canal has also finally started increasing draft restrictions and gradually allowing more transits. This helps alleviate schedule and rate pressure around the region. With volatility in mind, we expect manageable ocean container freight rates for 2024.

The Baltic Panamax index (a proxy for grain bulk freight) has generally been on an upward trajectory for the last 12 months, as global trade volumes have been largely recovering across the Pacific and Atlantic.

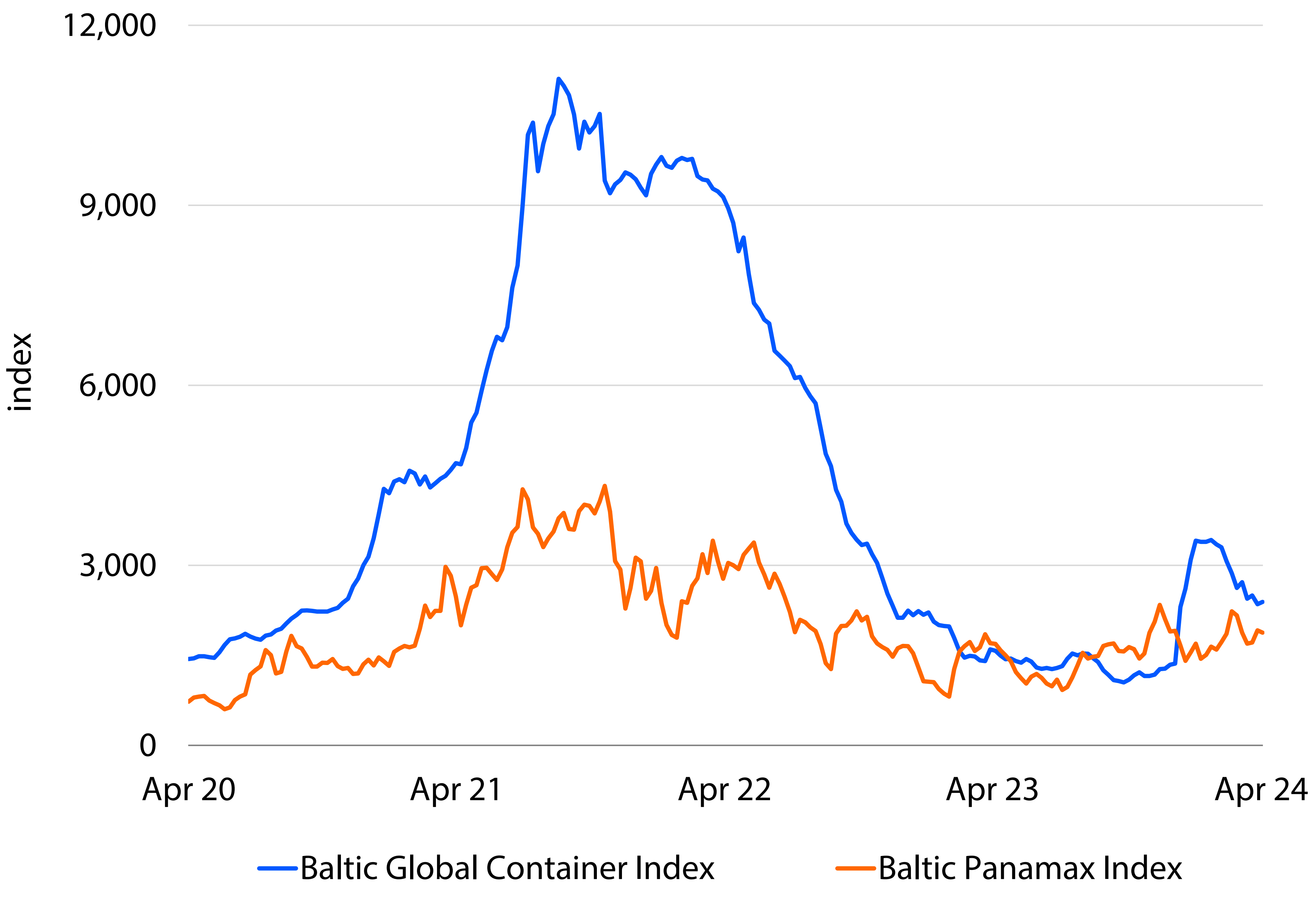
What to watch:

- **OPEC+ Monthly Report, 14 May.**
- **US Q1 GDP second reading, 30 May** – Any upward revision to growth would likely see an extra bid under energy prices due to perceptions of stronger demand.

Oil and freight

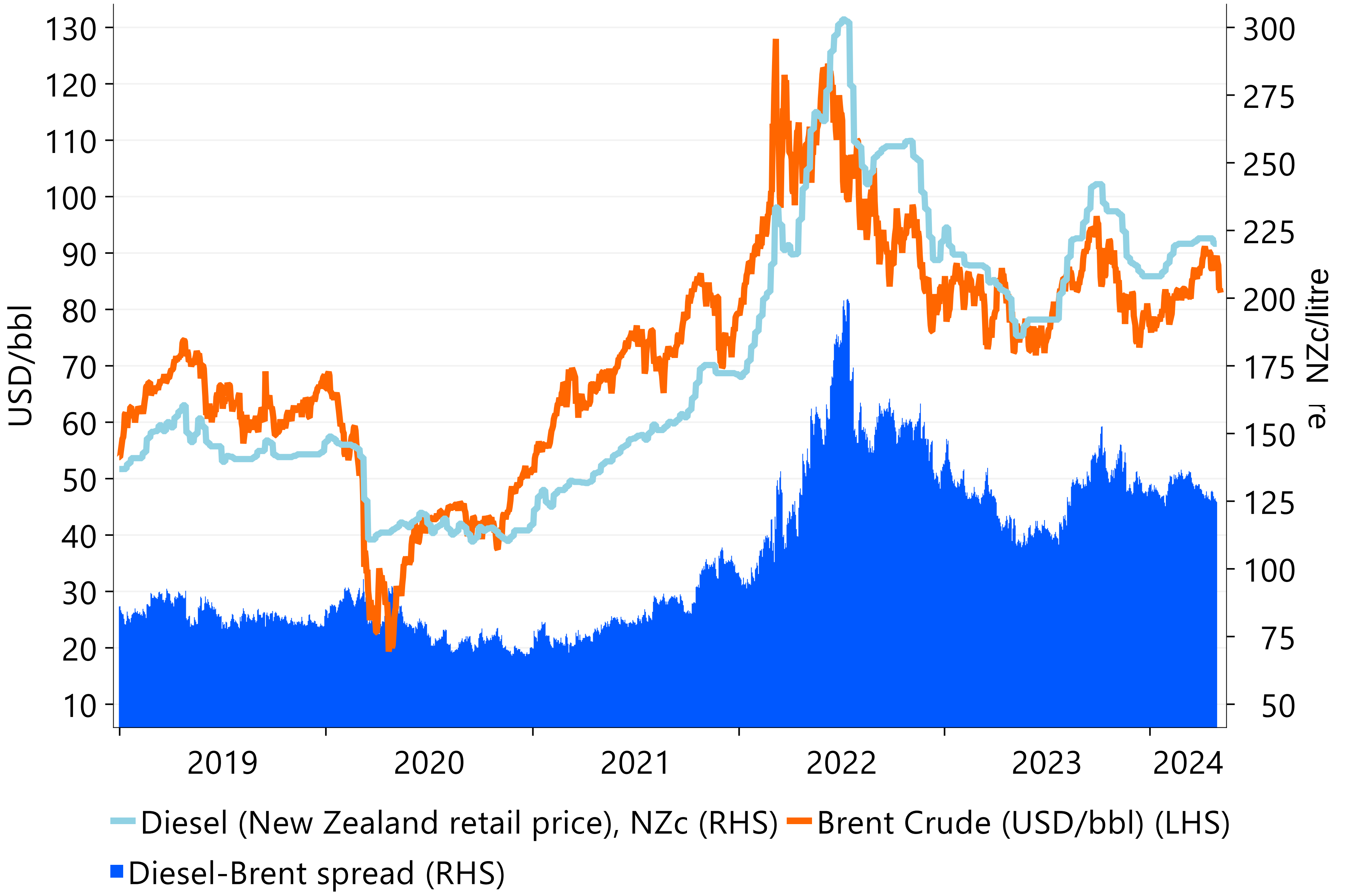
Container rates continue to fall, but bulk rates are slowly grinding higher

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*

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Agri price dashboard

3/05/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	606	556	647
CBOT soybean	USc/bushel	▲	1,202	1,182	1,469
CBOT corn	USc/bushel	▲	447	432	653
Australian ASX EC Wheat Track	AUD/tonne	▲	350	329	375
Non-GM Canola Newcastle Track	AUD/tonne	▲	661	639	617
Feed Barley F1 Geelong Track	AUD/tonne	▲	325	306	317
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	604	594	647
Feeder Steer	AUc/kg lwt	▲	318	316	360
North Island Bull 300kg	NZc/kg cwt	•	590	590	590
South Island Bull 300kg	NZc/kg cwt	•	535	535	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	664	628	685
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	620	610	745
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	600	590	745
Venison markets					
North Island Stag	NZc/kg cwt	▼	860	865	885
South Island Stag	NZc/kg cwt	▼	850	855	885
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,613	6,413	4,875
Skim Milk Powder	USD/tonne FOB	▲	2,575	2,513	2,838
Whole Milk Powder	USD/tonne FOB	▲	3,250	3,125	3,075
Cheddar	USD/tonne FOB	▼	4,188	4,225	4,463

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

3/05/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	83.3	95.7	94
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	77.4	89.0	82
Sugar markets					
ICE Sugar No.11	USc/lb	▼	19.3	22.2	26.3
ICE Sugar No.11 (AUD)	AUD/tonne	▼	643	733	740
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,152	1,142	1,310
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	285	375	331
DAP (US Gulf)	USD/tonne FOB	•	570	570	550
Other					
Baltic Panamax Index	1000=1985	▲	1,884	1,772	1,501
Brent Crude Oil	USD/bbl	▼	83	89	75
Economics/currency					
AUD	vs. USD	▲	0.661	0.657	0.675
NZD	vs. USD	▲	0.601	0.601	0.629
RBA Official Cash Rate	%	•	4.35	4.35	3.85
NZRB Official Cash Rate	%	•	5.50	5.50	5.25

Source: Baltic Exchange, Bloomberg, Rabobank 2024

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