

Beef is red meat's golden goose

New Zealand agribusiness monthly



Disclaimer

Please read the disclaimer below prior to reviewing this publication.

This publication has been prepared by Rabobank New Zealand Limited and Coöperatieve Rabobank U.A. (New Zealand Branch) (Incorporated in the Netherlands) (collectively referred to as 'Rabobank New Zealand'). It is for general information purposes only. The publication is not professional advice and does not take into account an individual's personal circumstances. It should not be relied upon for any financial or strategic decisions. You should obtain independent financial advice before making any financial decisions. While the information and opinions contained in this publication are based on sources believed to be reliable at the time of publication, no representation or warranty either expressed or implied, is made as to their accuracy or completeness of the contents of this publication. All opinions contained in this publication are subject to change without notice. Rabobank make no assurance that future results or events will be consistent with the opinions, forecasts or estimates in this publication. Rabobank New Zealand accepts no liability whatsoever for any direct, indirect, consequential or other loss or damage howsoever arising from the use of this publication or its content, including in relation to any errors or omissions in the publication.. This publication must not be reproduced or distributed without the prior written consent of Rabobank New Zealand. © 2024 Rabobank New Zealand Limited and Coöperatieve Rabobank U.A. (New Zealand Branch) (Incorporated in the Netherlands). All Rights Reserved

Commodity outlooks



Dairy

Butter prices soared to new heights in June 2024, driven by lacklustre milk supplies and steady demand. This is good news for New Zealand dairy farmers – but possibly not for the wallets of butter lovers.



Beef

Export values reached their highest level since 2022. Beef looks set to remain the golden goose of the red meat sector for 2024.



Sheepmeat

China remains king for export volumes, but greater year-on-year value from the EU-27, the UK, and the US is helping support farmgate prices. Lamb export values in May reached the highest point of 2024 to date.



Farm inputs

China export restrictions, Houthi shipping attacks in the Red Sea, and the procurement period in South America are expected to lift global fertiliser prices. On the other hand, the agrochemical industry is dealing with high inventory numbers that have no exit route in the short term.



Interest rate and FX

New Zealand exited recession in the first quarter of the year, but resurgent growth and poor productivity raise the likelihood of a longer wait for rate cuts.



Oil and freight

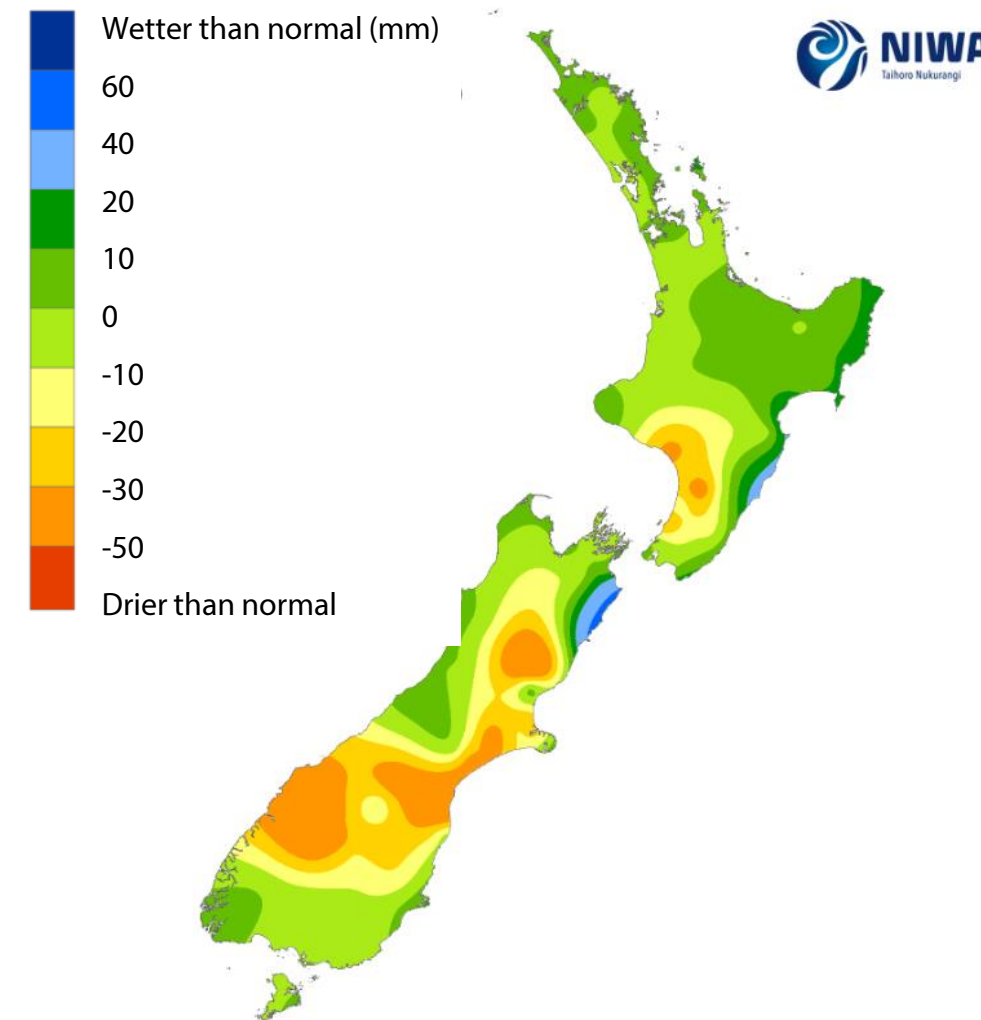
Brent crude oil rose by more than 5% in June to post the fifth monthly gain of the year. Containerised freight rates continue to be pressured upwards by port congestion and capacity constraints.



Climate

It's shaping up to be a warm, wet winter

Soil moisture anomaly (mm), 31 May 2024



It was a warmer start to winter in the North Island. Record-breaking warmth for the month of June was reached in Hastings, with a temperature of almost 26 degrees Celsius.

The country is likely to have either near-average or above-average temperatures through to September 2024. Early July could see some occasional cold snaps eventuate, with the National Institute of Water and Atmospheric Research (NIWA) suggesting there may be fewer frosts and warmer-than-average soil temperatures.

Rainfall through to September 2024 is likely to be normal for the North Island, with either near-normal or above-normal rainfall for the west and north of the South Island. NIWA has flagged that mid-July 2024 could bring heavy rainfall to some regions.

Soil moisture levels are most likely to be near normal in the east of both islands and west of the South Island. For the rest of the country, NIWA anticipates either near-normal or below-normal soil moisture in all remaining regions.

Source: NIWA, Rabobank 2024

What to watch:

- **NIWA notes that there is a 60% to 70% chance that spring 2024 will bring another La Niña.** Typically, New Zealand tends to have more northeasterly winds in a La Niña, bringing with them more rain to northeastern parts of the North Island, with less rainfall in the South Islands, west coast, and lower areas. La Niña weather patterns generally feature warmer-than-average air and sea temperatures for the country.

Dairy

Butter commodity prices have surged to new heights

The Oceania spot butter price hit a record high in June 2024 surging past USD 7,000/tonne FOB for the first time. The Oceania butter price has now surged 42% higher since the start of the year.

Behind these soaring butter prices is a combination of supply and demand fundamentals for dairy fat and cream. Sluggish milk supply growth in the Northern Hemisphere during the seasonal flush is limiting surplus milk available for manufacturing. New Zealand is now into its milk production hiatus, helping to curb supply in the short term. Inventories in international supply chains are not excessive, leaving spot purchasing vulnerable. Furthermore, there is a seasonal increase in demand for fat products, like ice cream, in the Northern Hemisphere at this time of the year.

Butter pricing is outperforming the broader dairy complex. In June 2024, spot prices (in USD terms) for the other main dairy commodities were flat to slightly higher. SMP is particularly languishing behind other dairy

commodities, lingering over 10% behind five-year average prices.

For farmers, this is good news. Butter prices are one of the reference commodity products which make up Fonterra's farmgate milk price calculation.

Consumers should prepare for the potential for some sticker shock in supermarket aisles. Given New Zealand retail prices are set periodically, and with reference to global commodity price trends, consumers potentially need to brace for higher prices of butter and coproducts such as cream at the checkout.

For food and bakery manufacturers, the rapidly rising butter price will pose a headache for procurement budgets and could see a shuffle in the ingredients list.

Global milk supplies remain underwhelming, which should help support dairy commodity pricing broadly – but New Zealand is about to swing into full production soon.

What to watch:

Upside – New Zealand milk flows

- On a milksolids basis, New Zealand production grew by just 0.2% for the 2023/24 production season (adjusted for leap year). Markets are now eagerly awaiting the strength (or otherwise) of the approaching spring flush.

Downside – China imports

- China's import volumes in 2024 have been soft so far. This is not surprising, but until there is a meaningful lift in China's import demand, global markets are likely to remain well-balanced with prices range-bound at current levels.



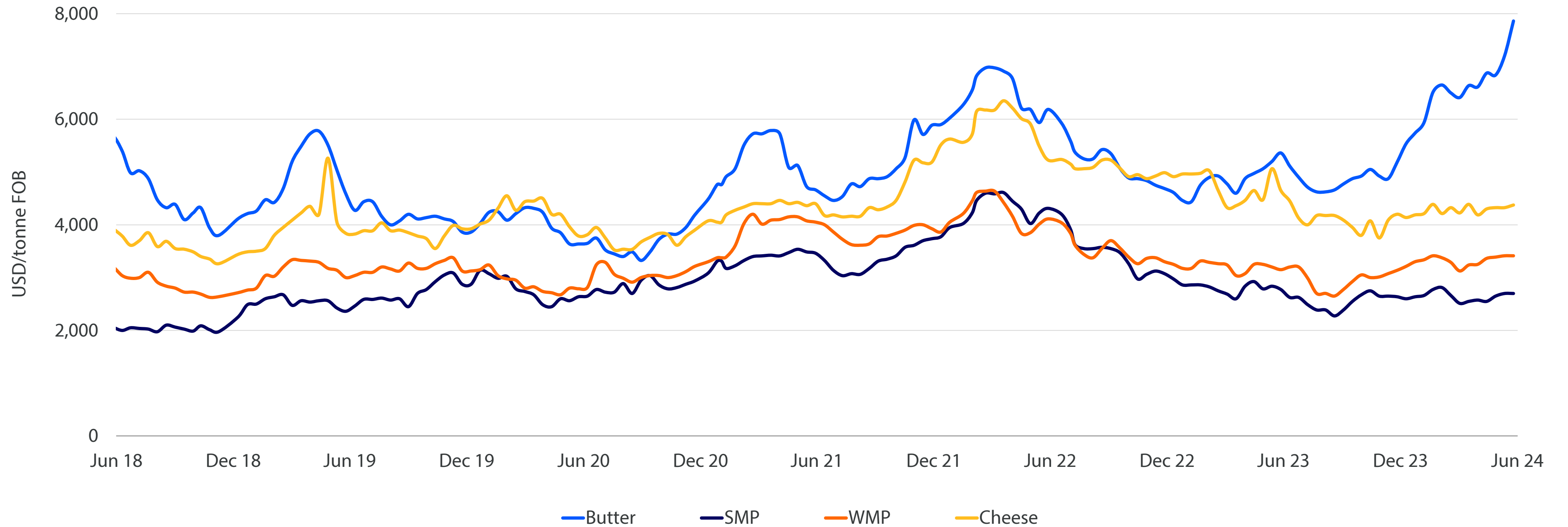
Emma Higgins
Senior Agriculture Analyst

Emma.Higgins@rabobank.com
X: @emhiggins

Dairy

Markets are feeling “butter” than ever

Oceania spot prices for dairy commodities



Source: USDA, Rabobank 2024

Beef

Strong beef pricing likely to continue

Both procurement pressure and a strengthening pull in certain export markets are driving positive beef farmgate prices this winter. Average export values reached NZD 9.44/kg FOB in May 2024, the highest seen since the 2022 calendar year. The AgriHQ NI bull price sat at NZc 625/kg cwt at the end of June and prime pricing NZc 5/kg cwt above this.

Looking at conditions on farm, rain has fallen widely across New Zealand in the past two weeks, with **some eastern North Island areas receiving more rain than desired.** Other parts of the country saw good, steady rain to help dry conditions. Where conditions aren't too wet under foot and there is some good cattle feed around, farmers have the option for winter liveweight gains. Wet areas around New Zealand may face the winter feed utilisation challenge.

Beef shipments to the US dominated New Zealand exports by value for the month of May, up 31% YOY in value (to NZD 261m) with volume up 17% to just under

25,000 tonnes.

Contrasting this is China's soft demand, which saw exports drop 33% YOY in volume to 14,400 tonnes in May and 45% in value to NZD 97.8m. The US has now moved ahead as the largest market for New Zealand beef by both volume and value for this season to date.

Beef exports to Japan surged ahead compared to May 2023 with volume up 164% to 5,500 tonnes. Total season-to-date volumes are also well up for Canada (+25%) and Taiwan (+79%).

Looking to our competition, both Australia and Brazil are still producing and exporting in large volumes. However, with more than one market performing well for New Zealand beef exports and the lower exposure to China, RaboResearch forecasts New Zealand farmgate beef pricing to remain strong in coming months.

What to watch:

- **Beef numbers in New Zealand into the new season** – With calving starting now in the dairy industry and beef pricing strong, there may be a trend towards more young stock or bull calves reared that are destined for the beef herd. Although calf rearing numbers are often hard to forecast, anecdotal chatter suggests milk powder pricing (for calf rearing) may be more competitive in 2024/25, which may also mean more young stock are raised with the future in mind.



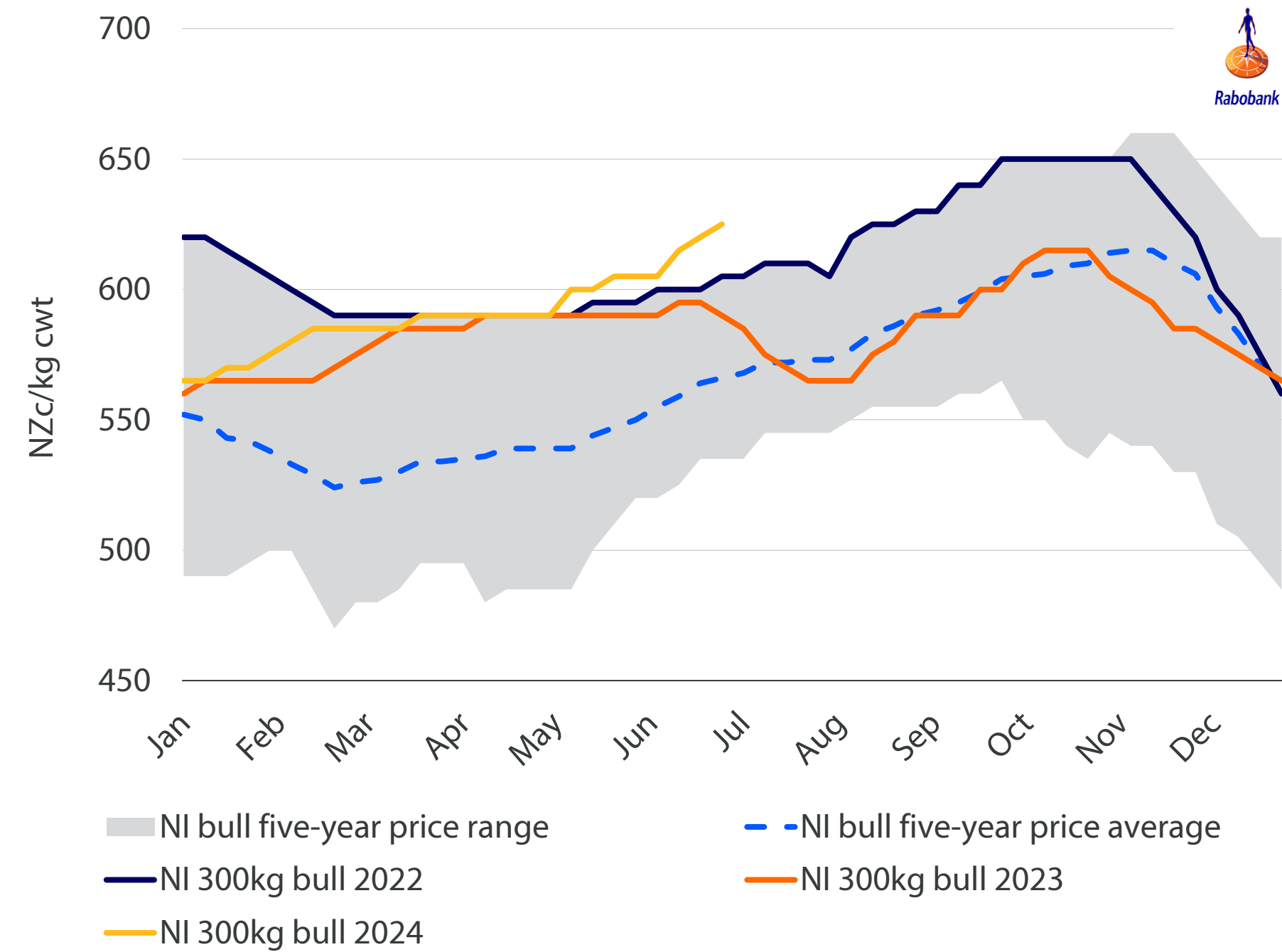
Jen Corkran
Senior Animal Protein Analyst

Jen.Corkran@rabobank.com

Beef

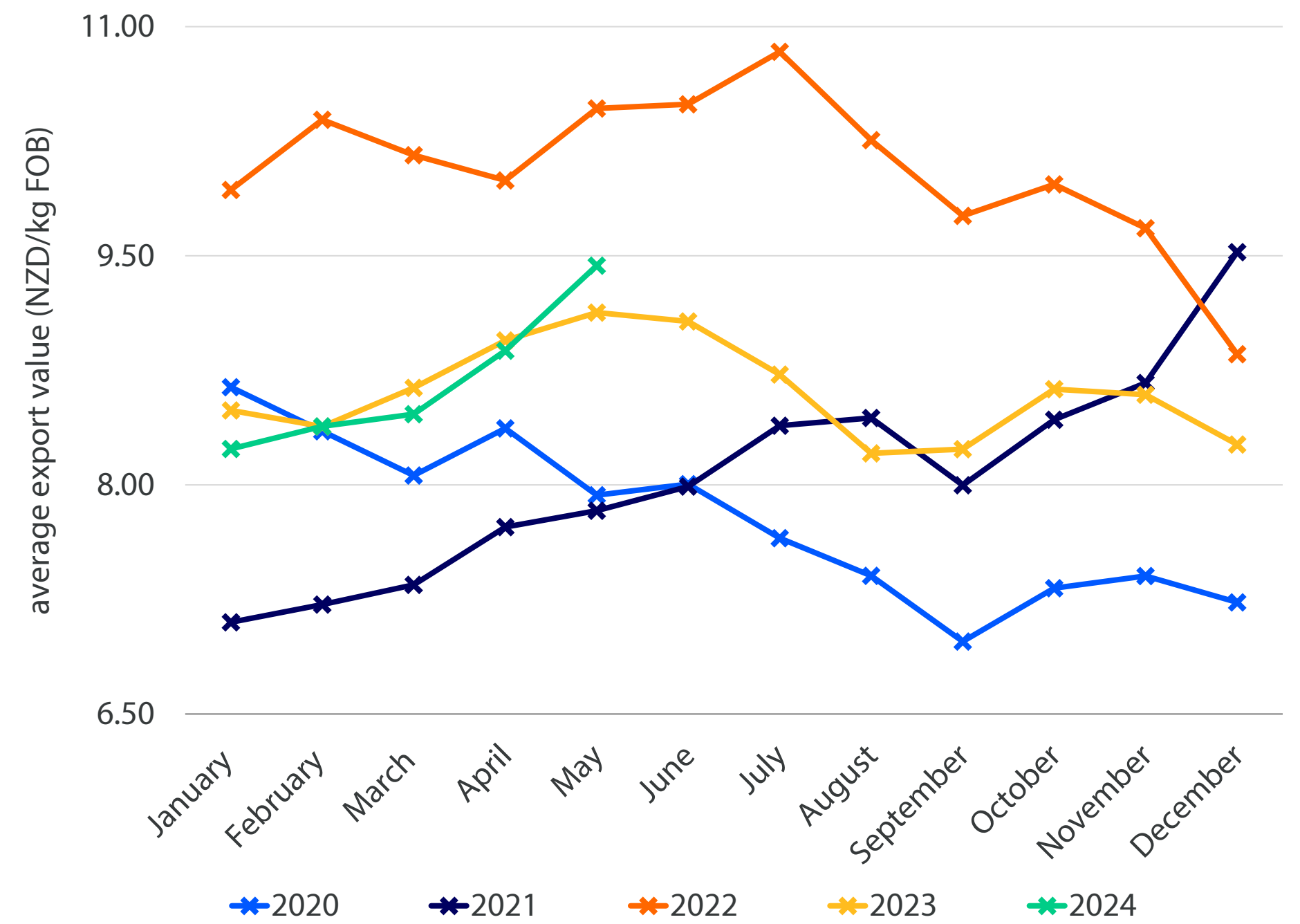
Export values reach highest point since 2022

AgriHQ North Island bull price



Source: AgriHQ, Rabobank 2024

Average export value for NZ beef, 2020-2024



Source: Stats NZ, Rabobank 2024

Sheepmeat

Mid-winter rally wins

There's some good news for export values – and there may be more good news in months to come. Average export values for lamb were NZD 10.42/kg FOB for the month of May, the highest year-to-date values and the highest seen since September/October 2023. Perhaps some more positivity is on the horizon with lamb and mutton prices following a pleasing trend upwards as winter settles in – albeit still below the five-year average range. AgriHQ pricing for SI lamb is sitting at NZc 650/kg cwt and SI mutton pushing towards NZc 300/kg cwt.

Another win for sheepmeat producers: Saleyard store pricing for lamb has increased with the renewed positive pricing potential for early spring lamb schedules along with procurement pressure from farmers incentivized to hold numbers on farm. Prices paid in both islands took an upward leap by NZc 10 to NZc 30/kg lwt, although, as winter knuckles in, this demand may slow by August.

Total slaughter numbers for lamb nationally sat at just over 14.7m to 1 June 2024, 8% ahead of last year. In Rabobank's view, the bulk of the lamb flock is now

processed. Meanwhile, the mutton kill is tracking 6% behind last year thanks to weaker prices. With lamb slaughter numbers slowing at this point in the season, procurement pressure from processors and export demand are adding some positive upside to schedules.

In May, export volumes to China still led the way for New Zealand lamb at 12,900 tonnes. However, this figure represents a 26% decline compared to May last year. Total export value for lamb to China is down NZD 59m YOY with mutton down NZD 20.6m compared to the same period last year. EU-27 and UK exports continue to perform well for lamb volumes: up 25% and 38% YOY in May, respectively, with the EU-27 taking close to 7,000 tonnes, and the UK at 5,300 tonnes. Other big players for lamb exports this May were Canada, Japan, and Saudi Arabia by both volume and value. Demand from these markets outside of China is helpful for farmgate price resilience.

Demand from the EU-27, the UK, and the US for New Zealand lamb has positive potential for the 2024/25 season.

What to watch:

- **Scanning results** – Reports of early scanning results from farmers around New Zealand range anywhere from “in line with last year” to “10 to 15 percentage points back,” depending on location with the varied tupping conditions we saw around New Zealand in early 2024. Some reports suggest dry numbers are holding steady but scanned singles are higher compared to last year. This could reduce total lambing percentages but might also hold the potential for more early lambs to slaughter later in the year.



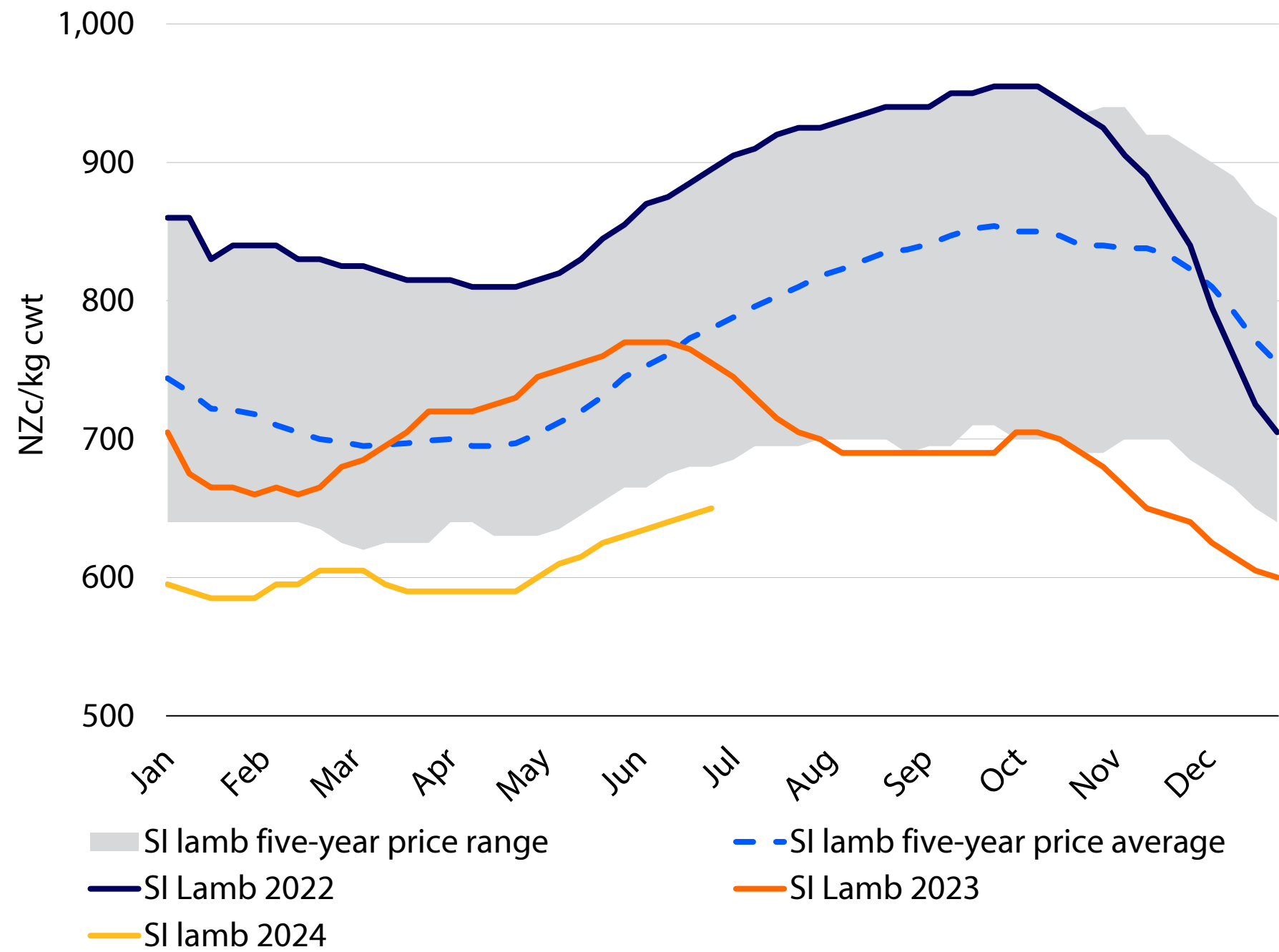
Jen Corkran
Senior Animal Protein Analyst

Jen.Corkran@rabobank.com

Sheepmeat

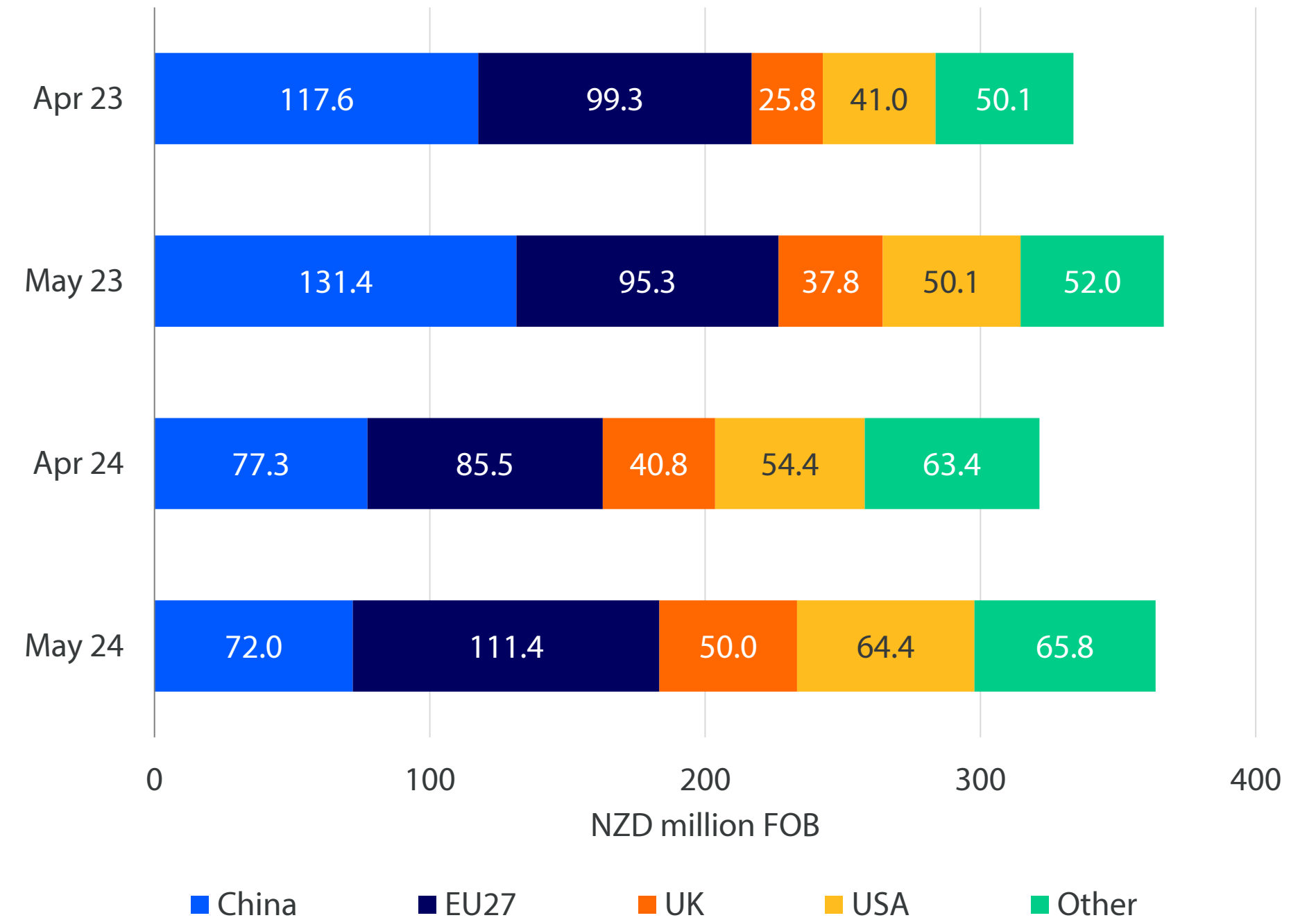
China export values drop as other countries step it up

AgriHQ South Island lamb price



Source: AgriHQ, Rabobank 2024

April and May lamb exports by total value, 2023 vs. 2024



Source: Stats NZ, Rabobank 2024

Farm inputs

China's urea export restrictions push prices higher

Urea prices ticked higher in June. Recent price action has turned more bullish, and one factor that will likely continue to provide support is China. The country has placed further restrictions on urea exports. Initially the expectation was for exports to resume in August but it's now unclear how long the halt will last.

One factor you would expect to add some downward pressure to global pricing is Egyptian plants, which are now back online. The news is a boost to global supply, especially given uncertainty regarding how long the disruptions would last.

Last month we highlighted the risk of rising container shipping rates, which could result in higher farmgate prices for farm inputs. So far in June, the WCI shipping index has continued its dramatic rise and is now trading at levels not seen since September 2022. The ongoing Red Sea crisis is continuing to absorb capacity, and the Houthis are intensifying their attacks (as visible in the most recent

drone/missile attack in mid-June). Meanwhile, port congestion remains a problem across several regions.

From an agrochemical standpoint, companies across Asia, South America, and North America continue to face the challenge of high inventories. The surge in grain and oilseed pricing during 2022, which was a consequence of the outbreak of the Russia-Ukraine war alongside three consecutive La Niña events, initially boosted demand. However, the situation has since changed. G&O prices have fallen dramatically as global supply woes subsided. Meanwhile, product price inflation has intensified the decline in farmers' operating margins. This has led to a buildup of high-priced inventory, which will take time and new strategies to destock. This will likely be an ongoing issue throughout 2024 and early 2025 and will have an impact on farmgate prices. Under macroeconomic inflationary pressures, there is not much room to maneuver both high stocks and positive margins.

What to watch:

- **Chinese urea exports** – The timing of when China will resume urea exports is pivotal for the global balance sheet and could have a significant impact on farmgate pricing.
- **Container shipping rates** – The Red Sea crisis alongside port congestion across several different regions is causing the WCI index to sharply rise. The situation must be closely watched, as FOB values will likely continue to be very volatile.



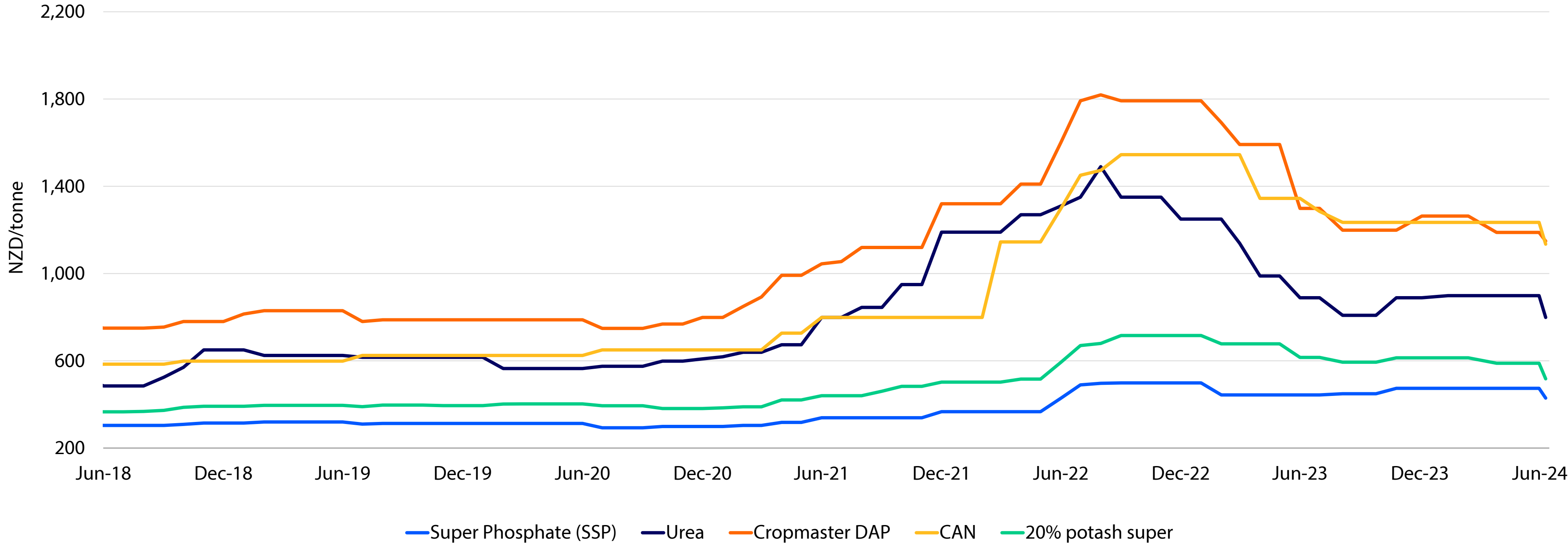
Paul Joules
Agricultural Analyst

Paul.Joules@rabobank.com

Farm inputs

The recent price drop is not expected to become a downward trend

NZ prices might bounce back in the coming weeks as global supply gets choppy



Source: CRU, Rabobank 2024

Interest rate and FX

Some good news?

New Zealand is officially out of recession, after Stats NZ figures showed that the economy grew by 0.2% in the first quarter of the year. While that is good news, it is a bit of a double-edged sword because if demand is recovering, the argument for earlier cuts to the OCR is somewhat diminished.

Economic growth in the year to March was just 0.3%, underscoring the tough time that New Zealand has been through. Continued demand-side restraint (courtesy of the 5.5% OCR) is allowing the supply side of the economy to “catch up,” which will help to ensure sustainably low inflation in the future.

Agriculture, forestry, and fishing grew by 0.4% in the first quarter of the year, and New Zealand’s trade performance continued to recover from the very weak performance exhibited in 2023 (helped by improved commodity prices and the resumption of tourism). While these are encouraging signs, much more progress will be needed before improvements are reflected in business sentiment.

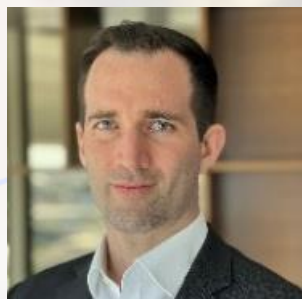
Forward indicators suggest that the economy will remain weak in the months ahead, so any continued recovery is likely to be very gradual. The Performance of Services Index for June fell to the lowest reading outside of lockdown in the history of the survey. Even worse than the readings recorded during the 2007-2008 global financial crisis.

We have long held the belief that the RBNZ will be cutting rates earlier than their latest guidance of mid-next year. **Our forecast for the first rate cut to arrive in August of this year remains unchanged, but there is now a substantial risk that this is too early.**

There are plenty of indicators that the labour market is poised to deteriorate more quickly and that inflation will drop off substantially towards the end of this year, but the RBNZ will be wary of recent upticks in inflation offshore (in Australia and Canada, for instance) and may want to ensure that the job is really done before providing rate relief.

What to watch:

- **The RBNZ’s OCR decision** – 10 July.
- **Q2 quarterly CPI inflation report** – 17 July.



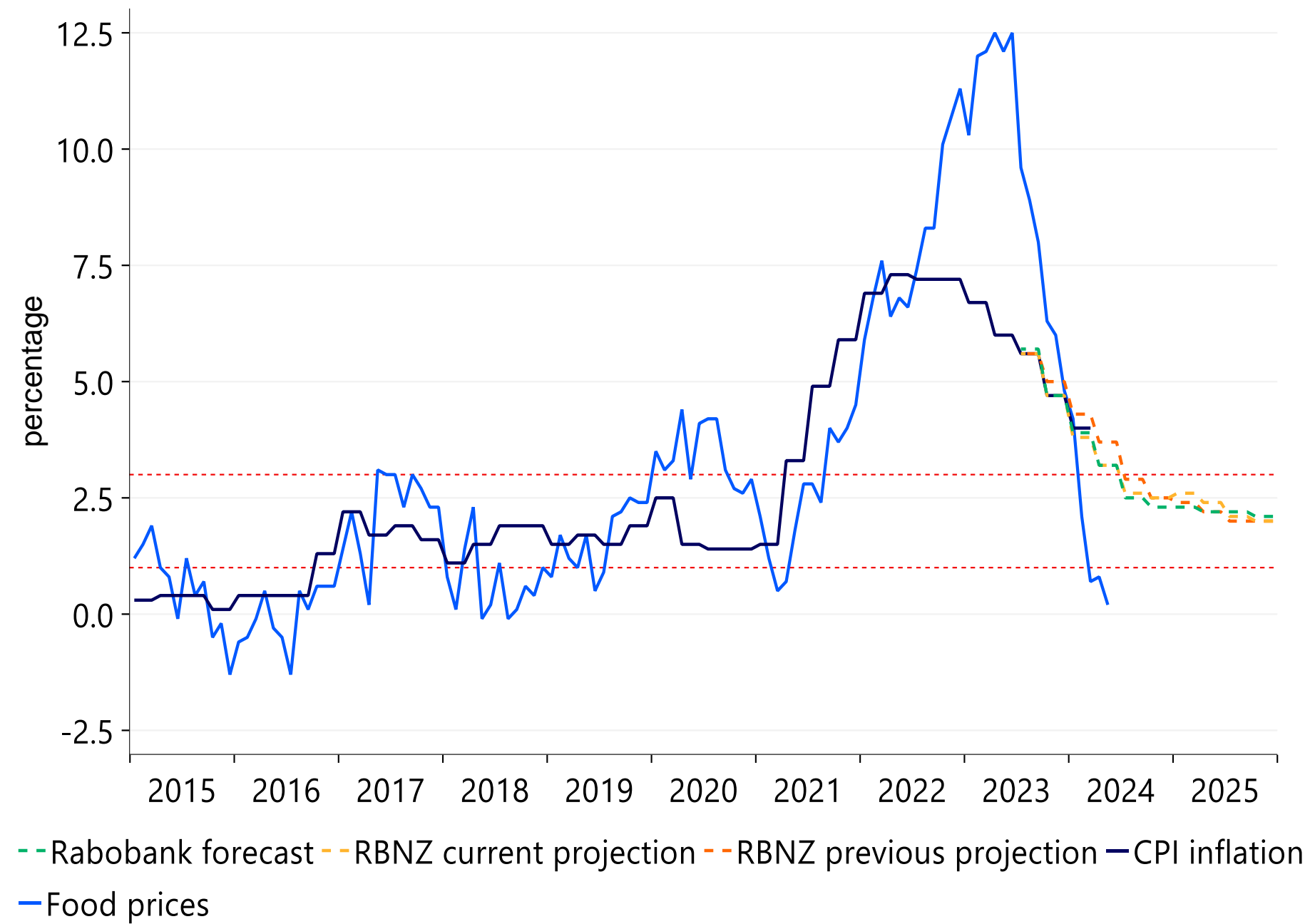
Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Interest rate and FX

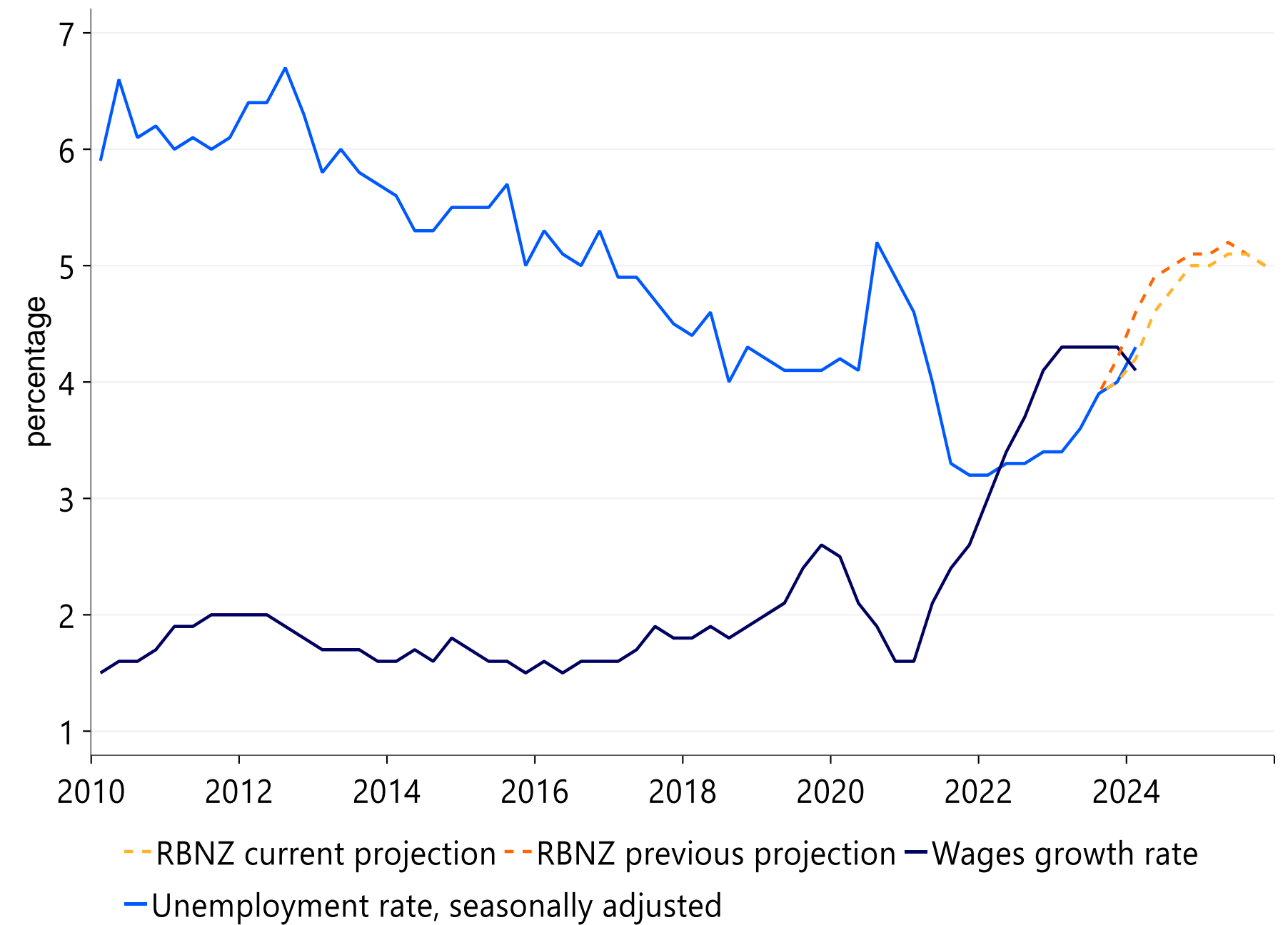
Still on track

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

Crude rallied again in June

Brent crude rebounded by more than 5% in June despite carrying weak momentum over from May.

Prices dipped early in the month after OPEC+ confirmed that it would be extending production cuts but failed to announce any further cuts to output.

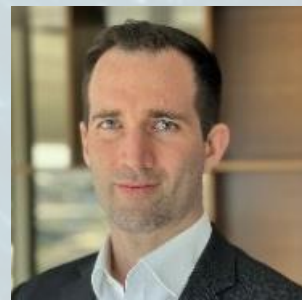
Front-month Brent crude futures closed June at USD 85/bbl, but we see limited upside in the near term as the US driving season has gotten off to a sluggish start and demand signals out of China appear to be reasonably weak.

Over the longer term we remain bullish. Our energy analysts believe that prices will trend higher from Q3 onwards as US production begins to wind back.

Ocean container rates continue to surge higher on the back of port congestions in Asia and capacity

constraints. The capacity constraints may even spill over to break-bulk vessels as some shippers are exploring the option of moving containers onto break-bulk ships. Container rates around the globe at the end of June had surged over 200% compared to the same period last year, led by routes originating in Asia. Shipping rates for Asia destinations are largely not impacted yet but, as we saw during the pandemic, the rates and availability of these routes may be impacted later if rate gaps continue to grow. Schedule reliability continued to be challenged as a result of the port congestion as well.

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



Benjamin Picton
Senior Market Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1



Xinnan Li
Analyst
F&A Supply Chains

Xinnan.Li@rabobank.com

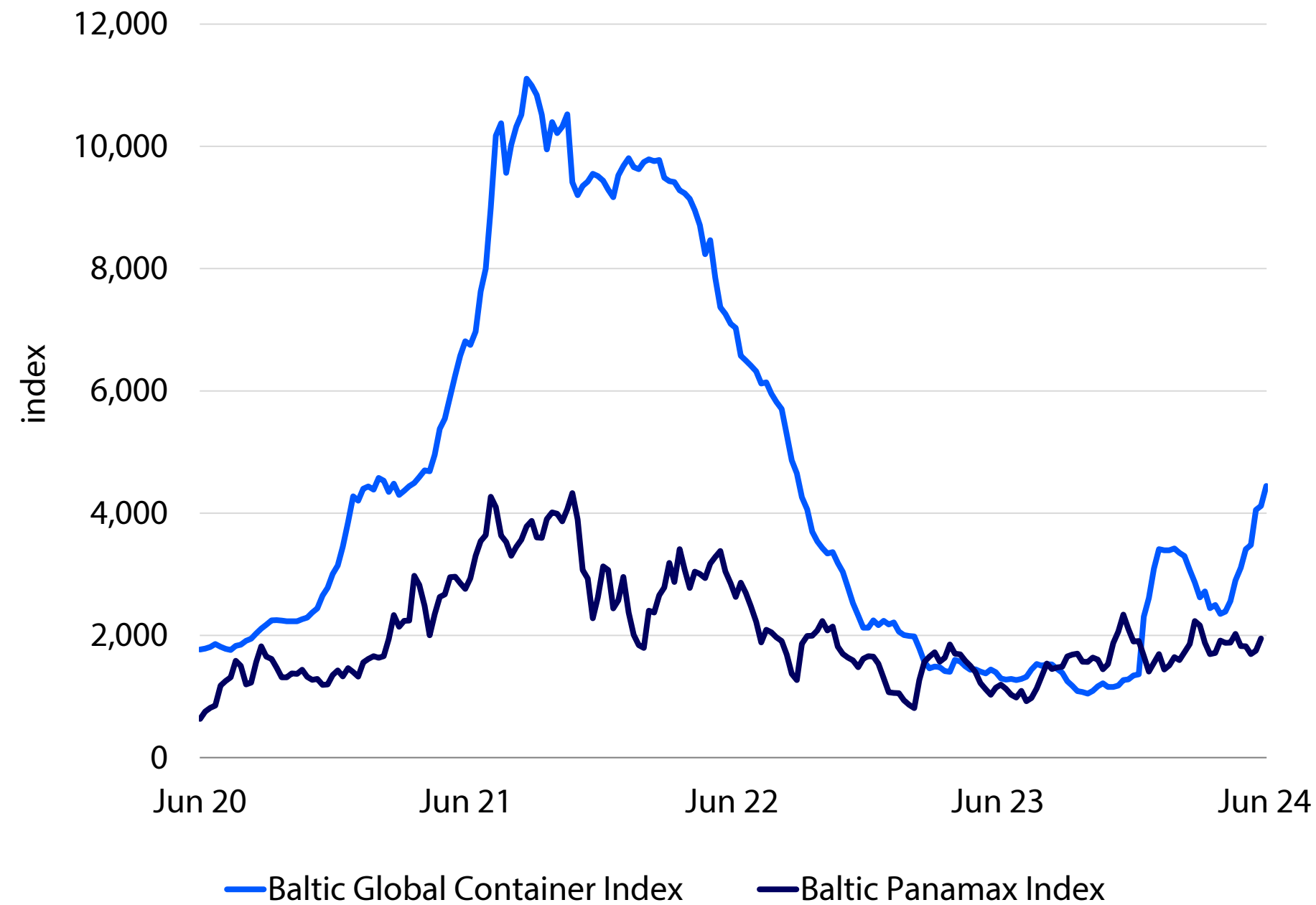
What to watch:

- **US Department of Energy inventory reports** – To be released on 5, 12, 19, and 25 July.

Oil and freight

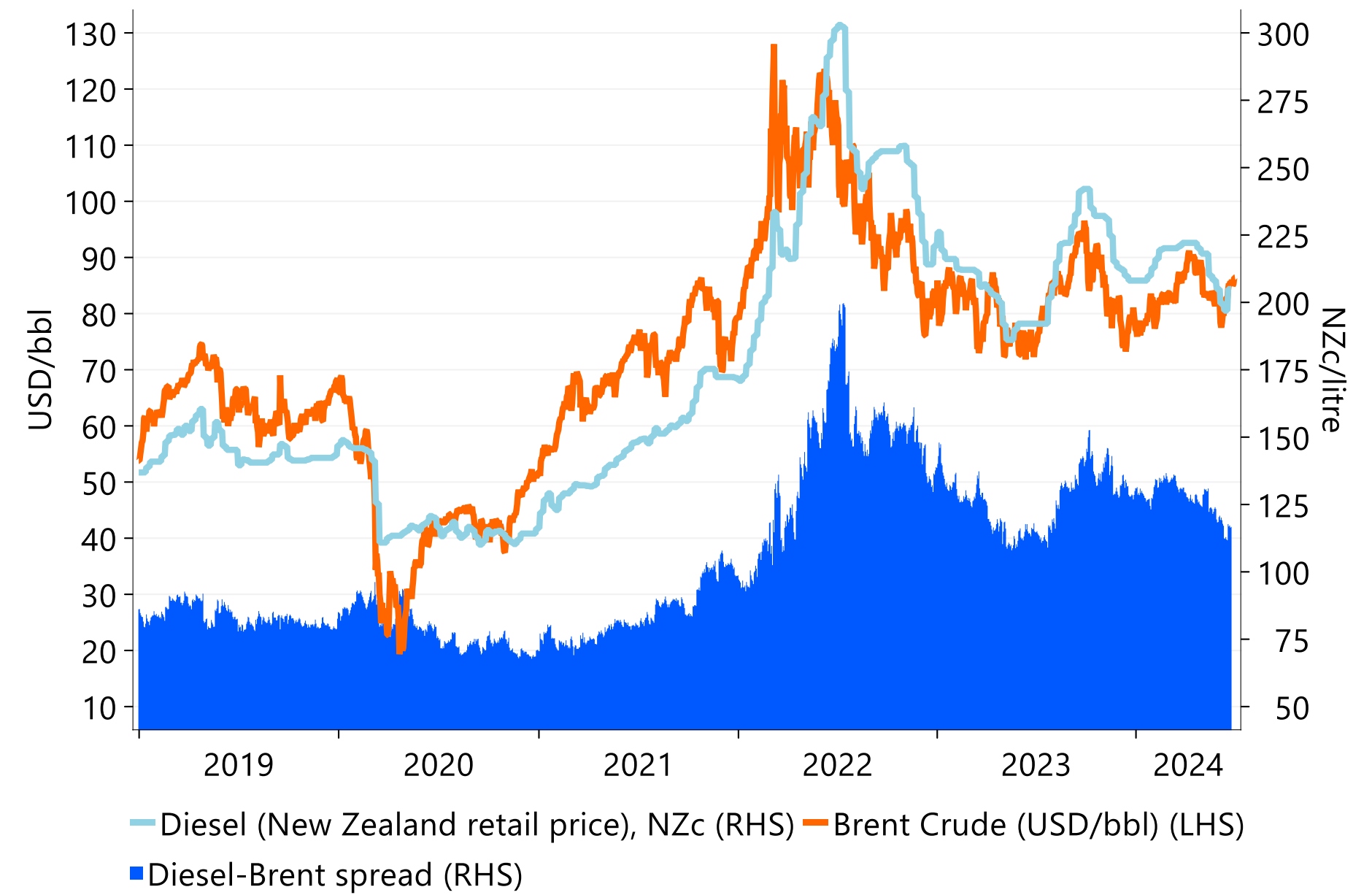
Crude oil resumes its upward march

Baltic Panamax Index and Dry Container Index, June 2020-June 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

30/05/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	684	585	611
CBOT soybean	USc/bushel	▲	1,216	1,146	1,330
CBOT corn	USc/bushel	▲	455	440	593
Australian ASX EC Wheat Track	AUD/tonne	▲	385	341	379
Non-GM Canola Newcastle Track	AUD/tonne	▼	641	657	596
Feed Barley F1 Geelong Track	AUD/tonne	▲	334	322	323
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	597	599	580
Feeder Steer	AUc/kg lwt	•	318	318	324
North Island Bull 300kg	NZc/kg cwt	▲	605	590	590
South Island Bull 300kg	NZc/kg cwt	▲	545	535	540
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	681	664	627
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	630	615	755
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	625	590	760
Venison markets					
North Island Stag	NZc/kg cwt	•	860	860	885
South Island Stag	NZc/kg cwt	•	850	850	885
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,838	6,613	5,063
Skim Milk Powder	USD/tonne FOB	▲	2,650	2,575	2,788
Whole Milk Powder	USD/tonne FOB	▲	3,388	3,250	3,250
Cheddar	USD/tonne FOB	▲	4,325	4,188	4,475

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

30/05/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	89.6	88.3	94
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	81.1	77.9	86
Sugar markets					
ICE Sugar No.11	USc/lb	▼	18.4	19.7	24.9
ICE Sugar No.11 (AUD)	AUD/tonne	▼	612	661	748
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,137	1,154	1,209
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	303	293	328
DAP (US Gulf)	USD/tonne FOB	•	570	570	520
Other					
Baltic Panamax Index	1000=1985	▼	1,762	1,845	1,030
Brent Crude Oil	USD/bbl	▼	84	88	74
Economics/currency					
AUD	vs. USD	▲	0.661	0.647	0.657
NZD	vs. USD	▲	0.611	0.589	0.607
RBA Official Cash Rate	%	•	4.35	4.35	3.85
NZRB Official Cash Rate	%	•	5.50	5.50	5.50

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Keep Up to Date With the Latest Food & Agribusiness Insights



Tune in to our RaboResearch Podcast series



Make our insights your advantage



Meet our RaboResearch Food & Agribusiness Australia and New Zealand team



Stefan Vogel

General Manager, RaboResearch
Australia and New Zealand
+61 419 782 452
Stefan.Vogel@rabobank.com



Angus Gidley-Baird

Senior Animal Protein Analyst
+ 61 424 266 909
Angus.Gidley-Baird@rabobank.com
X @angus_gb



Ben Picton

Senior Market Strategist
+61 408 571 012
Benjamin.Picton@rabobank.com
X BenPicton1



Emma Higgins

Senior Agriculture Analyst
+64 27 600 5549
Emma.Higgins@rabobank.com
X @emhiggins



Jen Corkran

Senior Animal Protein Analyst
+64 21 2412 139
Jen.Corkran@rabobank.com



Michael Harvey

Senior Dairy & Consumer Foods Analyst
+61 409 488 485
Michael.Harvey@rabobank.com
X @MickHarvey77



Anna Drake

Sustainability Analyst
+61 437 772 949
Anna.Drake@rabobank.com



Pia Piggott

Analyst
+61 460 734 578
Pia.Piggott@rabobank.com
X @piapiggott



Vítor Caçula Pistóia

Agriculture Analyst
+61 473 862 667
Vitor.Cacula.Pistoia@rabobank.com
X @victor_agri



Paul Joules

Agriculture Analyst
Paul.Joules@rabobank.com