

Sunny days ahead as optimism grows

New Zealand agribusiness monthly



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This report is based on information available as at 6/11/24

Commodity outlooks



Dairy

New Zealand milk production is going from strength to strength this season, with spring peak collections likely to match or exceed levels last seen in 2020.



Beef

Farmgate prices have hit a ceiling but are expected to remain well above the five-year average. The US and Japan show big year-on-year increases in total export volumes.



Sheepmeat

The UK market is showing strong demand for lamb, while China shows small signs of improvement in mutton export values.



Farm inputs

Retail urea prices rose by 3% from early September levels, driven by Indian demand pushing international prices higher. Meanwhile, phosphate prices remain elevated as a result of a tight global supply situation.



Interest rate and FX

The RBNZ delivered a 50 basis points cut in October and is likely to implement at least another 50 basis points cut when it meets for the final time this year in November.



Oil and freight

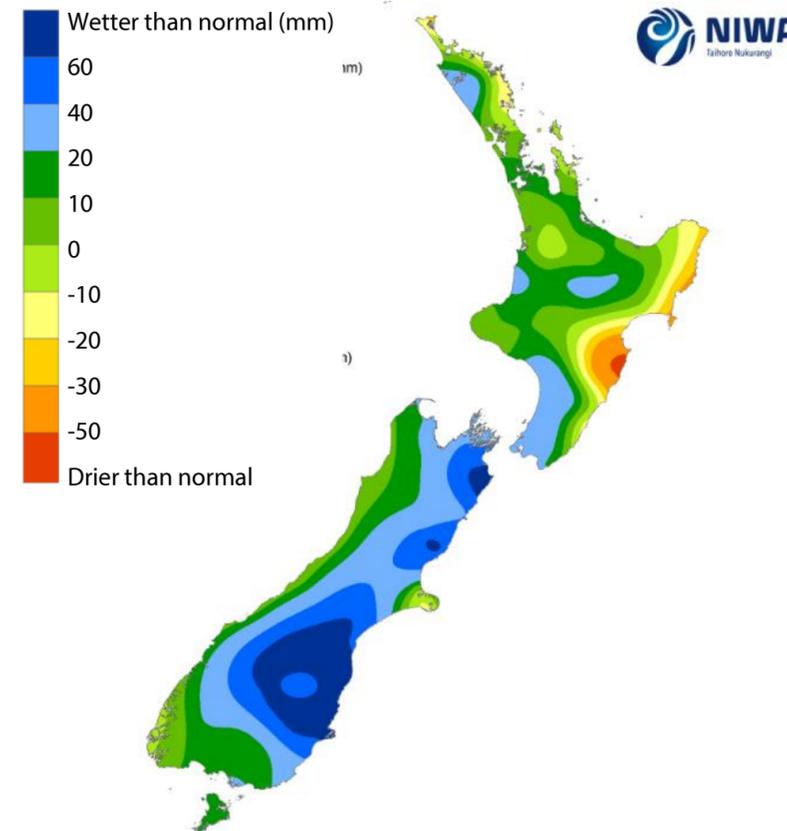
Oil traded in a tight range in October, but the outlook for the rest of the year is likely to be dominated by competing pressures of current market oversupply versus geopolitical risks in the Middle East, which have the potential to materially curtail supply.



Climate

Heat units on the way

Soil moisture anomaly (mm), 2 November 2024



Source: NIWA, RaboResearch 2024

What to watch:

- **Compared to long-term averages, NIWA is predicting more days with temperatures above 25°C.** This may bring the risk of an earlier-than-average summer heat stress for both livestock and crops in affected areas. Maize plantings may benefit from these heat units, however this may be harder on temperate forage crops and ryegrass/clover pastures. Best practice establishment and early management of crops in the coming weeks may be required to proactively manage this risk.

There remains a 50% chance of La Niña development by the end of the year according to the National Institute of Water and Atmospheric Research (NIWA).

While a La Niña pattern typically brings wetter conditions, NIWA have suggested this one is likely to be weak and short-lived. There may be short, intense rain possible in the north of the North Island and eastern areas of both islands. The outlook over the coming months is broadly for normal or below-normal rainfall in other areas. Lower rainfall is more likely in the west and the south, which may be welcome news for those in the lower south island.

Warm temperatures are highly likely to arrive in the coming weeks, with more days above 25°C than average, accompanied by northeasterly winds.

Soil moisture levels from November-January are likely to be near normal in the east of the South Island and west of the North Island, and near normal or below normal elsewhere. Soil moisture at depth continues to be lower in the east of the North Island, which is currently a concern in Hawkes Bay, but normal in the east of the South Island.

Dairy

More milk ahead, but not necessarily in China

October was a mostly positive month for Oceania spot commodity prices as global fundamentals remain balanced. There were gains across the basket of products (excluding SMP) in US dollar terms. Oceania SMP spot prices have decreased from their peak last month, now sitting 10% below the five-year average. Conversely, butter spot prices remain elevated, 26% above the five-year average, holding steady over September.

New Zealand milk production for September has shown a very strong start. The fourth month of the season saw robust milk supply, with growth up by 4.1% YOY on a tonnage basis, and 5.2% YOY on milksolids basis. While milk flows in New Zealand have now passed their peak, the data is yet to be announced. However, it is likely to show extra milk for October compared to the last few seasons, continuing the trend in milk production for the season-to-date.

Across the ditch, the 2024/25 production season is underway. For the month of September 2024, Australian milk production was up 1.4% YOY, with growth in the states of Victoria, New South Wales, and South Australia. **The combined milk production results for August and September for Australia and New Zealand mark the strongest start to a season in more than a decade.**

Production in the Northern Hemisphere is a mixed bag. September milk collections in the US were marginally higher compared to last year, up by 0.1% YOY. Furthermore, August milk production in the US was revised upward to +0.4% YOY, breaking a 13-month streak of lower milk flows. Improved farmgate prices have helped increase milk production, which is expected to grow for the remainder of this calendar year and into 2025. Meanwhile, EU milk production declined by 1.4% YOY in August 2024, with Dutch milk flows pulling back by almost 4% YOY.

What to watch:

- **China milk supply.** Following several years of strong milk supply growth in China, the taps have finally been turned off. The slowdown has come quickly in 2024 and is expected to continue into 2025.
- **October US milk collections.** California has experienced an outbreak of highly pathogenic avian influenza (HPAI) cases over the last month. This may have negatively impacted milk output, which will be confirmed in the October data from this region.



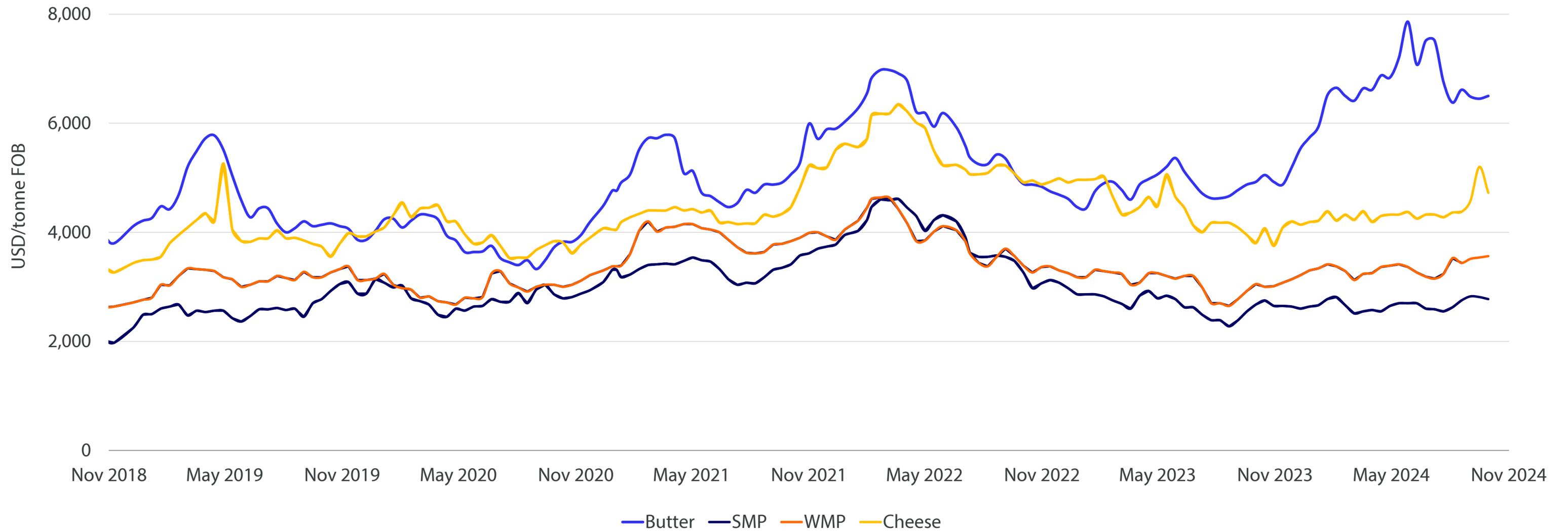
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Dairy

Steady as we go for dairy commodities

Oceania spot prices for dairy commodities



Source: USDA, RaboResearch 2024

Beef

Farmgate pricing starts to settle

Cattle pricing in New Zealand is starting to ease from recent record highs as more spring-finished animals head out the farm gate.

Prices are likely to settle and slightly decline through summer, following a traditional seasonal trend. However, **AgriHQ farmgate pricing still shows returns more than 15% above the five-year average for all cattle.** Even with some easing on the way, the price outlook remains strong and above five-year averages.

When it comes to pasture growth and utilisation for finishing cattle, seasonal conditions vary across the country. Conditions are very good in the upper north but somewhat challenging in the lower south after periods of cold and wet weather. October pricing at the saleyards has eased in some instances by up to NZc 20/kg lwt compared to September. Demand for young stock varies with the conditions.

Data for total beef exports for the October-September 2023/24 period shows a total volume down 2% YOY to 487,000 tonnes. This is up 2% compared to the five-year average. Volumes to the US are up 9% YOY to 180,800 tonnes, while volumes to China are down 22% to 159,300 tonnes. **Increases in export volumes year-on-year were also seen in Japan and Canada,** up 46% and 50% to 35,000 tonnes and 24,400 tonnes, respectively. Japan and Canada are also up 27% and 42% compared to the five-year average volumes. Seasonal beef consumption in Japan increases from November, which bodes well for New Zealand beef, given the upswing in recent volumes to this high value market.

The total head of cattle processed was down 3.6% YOY for the export season to 2.6m head (excluding bobbies).

The exchange rate caused the average export prices for beef to ease in September to NZD 8.94/kg, the lowest level since April. However, overall demand remains strong.



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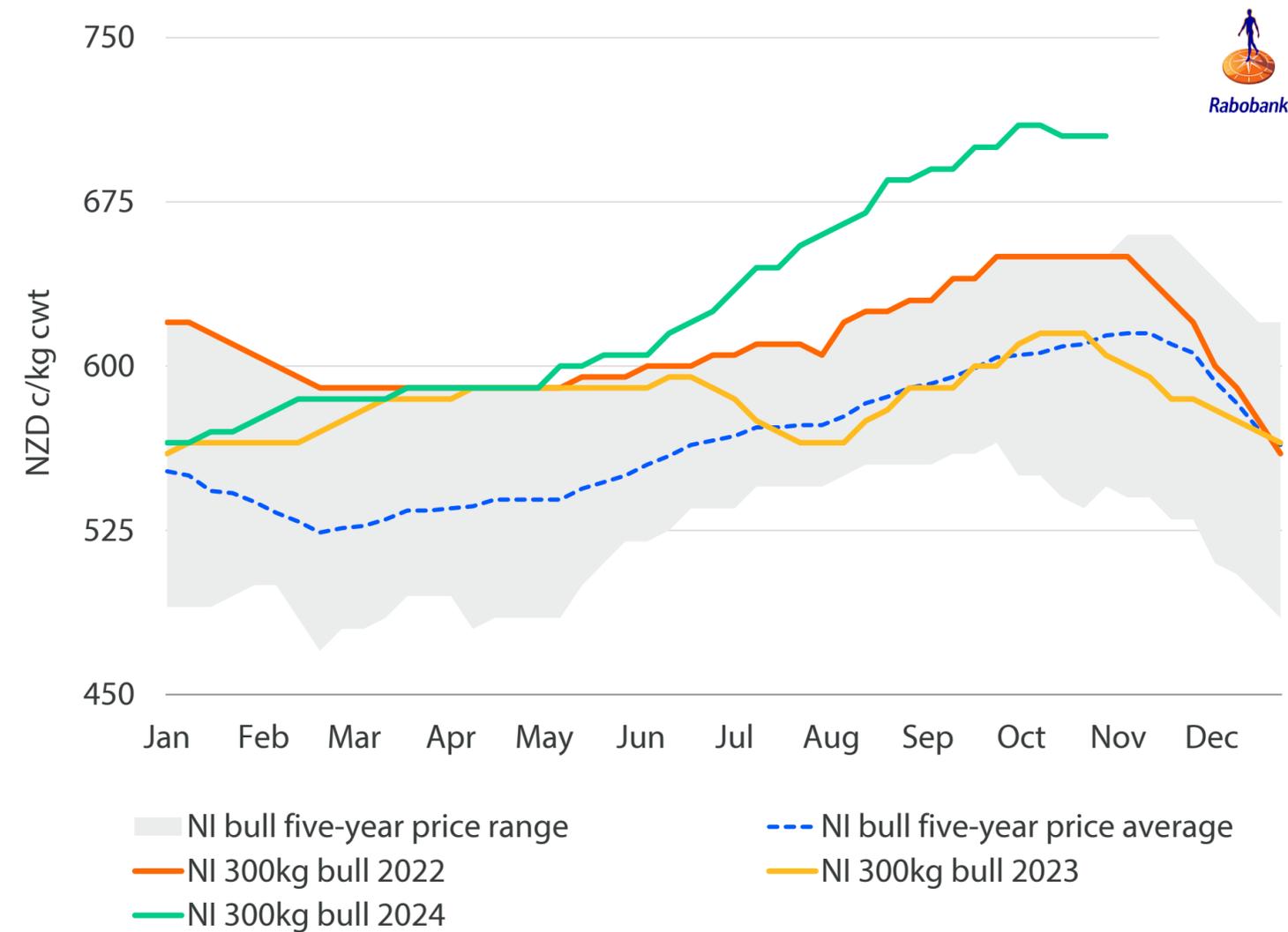
What to watch:

- **National bobby slaughter numbers for the spring season to 5 October sit 3.6% behind the 2023 head count** (4.4% behind for the North Island). These extra dairy-beef weaners will start to appear in saleyards from now onward, and there is ample optimism in beef in the medium term as the US heads into a herd rebuild, increasing demand for imports over the next two to three years.

Beef

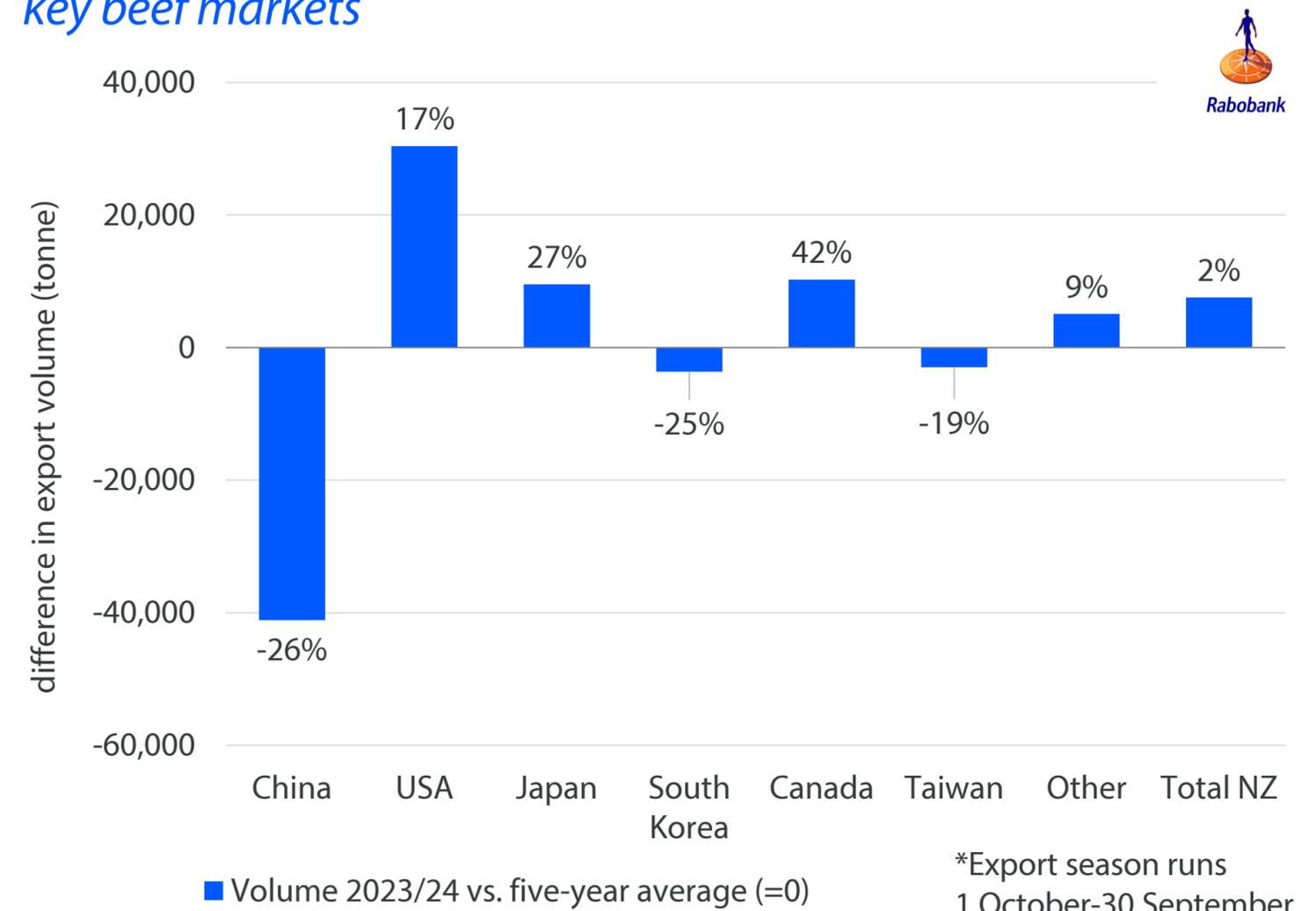
US, Japan, and Canada lead in 2023/24 beef export volume increases

North Island bull price continues a strong run



Source: AgriHQ, RaboResearch 2024

Comparing 2023/24 export volumes with five-year averages in key beef markets



Source: Stats NZ, RaboResearch 2024

Sheepmeat

Spring brings renewed optimism for sheepmeat market

After a tough 18+ months, there is now an air of optimism in the sheepmeat market as we hit the start of the 2024/25 export season. Average export values continue their upward march with lamb at NZD 11.83/kg cwt for September. However, the overall flow of processed sheepmeat was slow in September, with total export volumes down 16% YOY to 16,200 tonnes.

With eyes firmly on new season lambs, the final slaughter tally for the 12 months to 28 September 2024 was close to 18.35m head, up 1.8% on the 2022/23 season. Mutton numbers came in at nearly 3.1m head, down 6% on last season.

With fewer ewes, slightly lower lambing percentages, and severe weather affecting the hub of the lower South Island during lambing, lamb numbers for the 2024/25 export season are likely to fall short of the 2023/24 tally. There is a possibility of processing fewer than 17m head.

Exports to China for Chinese New Year celebrations need to be shipped by mid-November. Chinese New Year is a vital consumption period for mutton and reflects the market's positive outlook. The good news is that average export values of mutton to China have steadily improved over the past months (to September), a trend we hope will continue into the 2024/25 export season.

The UK and EU markets for lamb are also showing positive signs, mainly driven by low domestic inventory, particularly in the UK. Year-on-year for the export season (October-September) UK volumes for lamb are up 54% to close to 40,000 tonnes, realising NZD 373m (up 47% YOY). EU volumes are also up 9%, to nearly 56,000 tonnes. September-October marks the end of Christmas chilled trade for our exporters, with September exports to the UK up 37% and to the EU up 12%.

What to watch:

- **The size of the UK sheep flock will be one to watch over the next 12 to 24 months** – Female hogget numbers are reported to be at all-time lows, coming from a smaller pool of breeding ewes throughout the UK. According to AHDB data, lamb slaughter in the calendar year to the end of September is down 7.9% YOY. With domestic pricing up GBP 0.40 to GBP 0.80/kg cwt YOY in recent weeks, due to a lack of supply, imports of lamb from New Zealand may benefit in both volume and value due to the smaller local supply over the 2024/25 and into the 2025/26 export seasons.



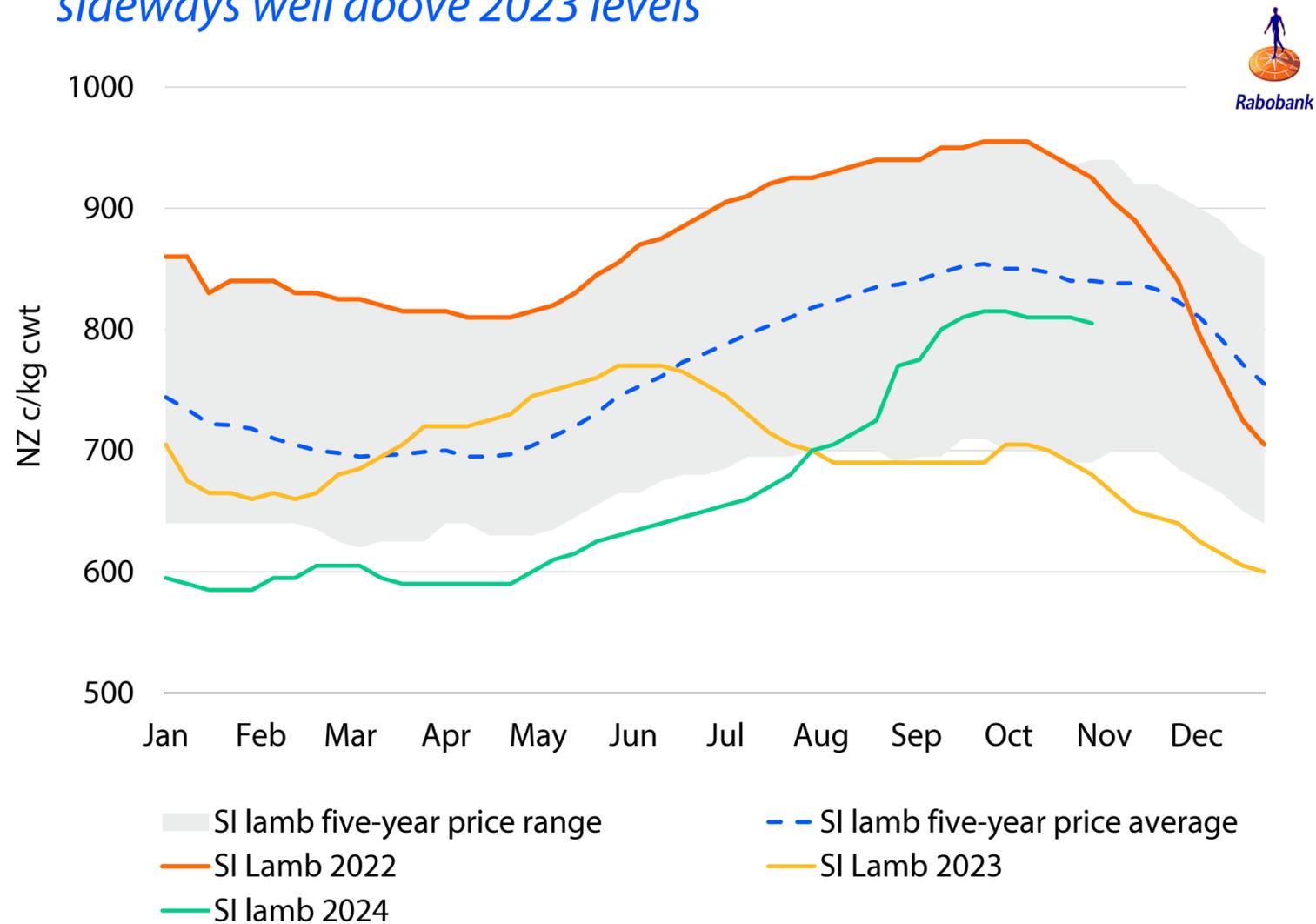
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Sheepmeat

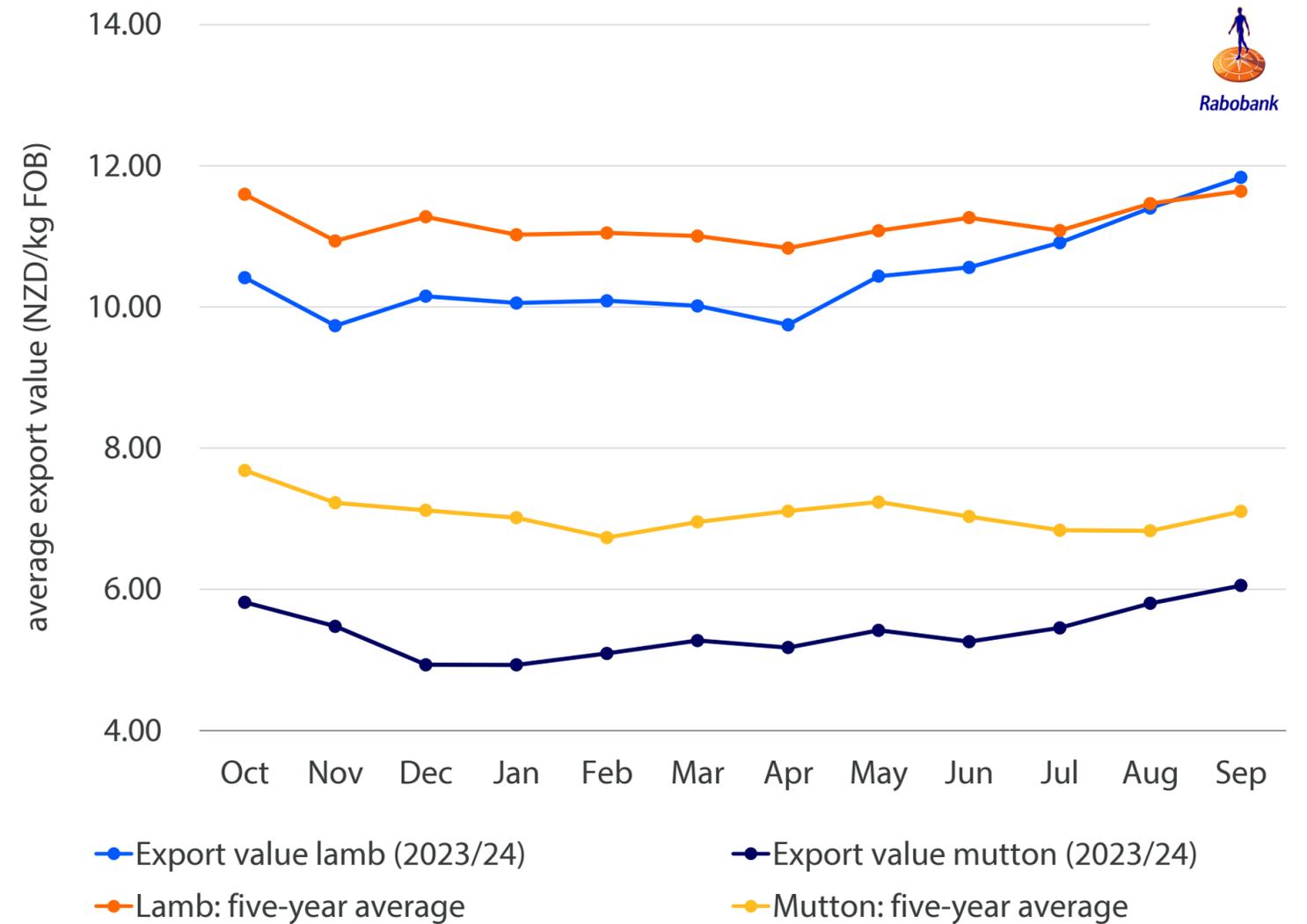
Farmgate prices holding for now and positive signs into the new season

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



Source: AgriHQ, RaboResearch 2024

Average export values heading in the right direction



Source: StatsNZ, RaboResearch 2024

Farm inputs

Urea prices rise month-on-month, while phosphate prices remain elevated

It was a volatile month for fertiliser markets, with urea, phosphate, and potash prices all rising from early October levels.

Recent US dollar strength is certainly playing a key role in influencing prices, as the NZD/USD exchange rate is now down 2.8% MOM. Currency volatility can be expected in the coming weeks given the approaching US election – this could translate into dollar-denominated farm input price volatility.

Retail urea prices rose by 3% in October (as of 31 October) to reach NZD 850/tonne – a level not seen since May. We can partially attribute rising domestic urea prices to the weakening New Zealand dollar. We can also attribute this price action to the expectation that India will return to the market with another tender, following recent purchases. Looking forward, the short-term market direction will likely be influenced by India's purchasing activities – given that India's domestic sales are up, and production is down year-on-year, Indian import demand could be strong.

In China, domestic prices continue to ease. Nevertheless, China remains absent from the export market. There is still no indication on when it will return to the export market, but 2024 seems unlikely.

For phosphates, retail prices remained flat month-on-month. However, prices are still elevated, reflecting the tight global supply situation. Adding to the supply issues, there have also been some production and shipping issues in the US as a result of the recent hurricane. **As with urea prices, Indian demand will be a key influence on short- to medium-term price action. On the supply side, there's little evidence to suggest any improvement for now, so downside over the coming months seems limited.**

What to watch:

- **The market will be closely watching India.** If we see further signs of rising demand from this key buyer, prices could continue to rise. Another factor to monitor is the NZD/USD currency fluctuations. The New Zealand dollar has weakened this month, and with the US elections approaching, we could well see further volatility.



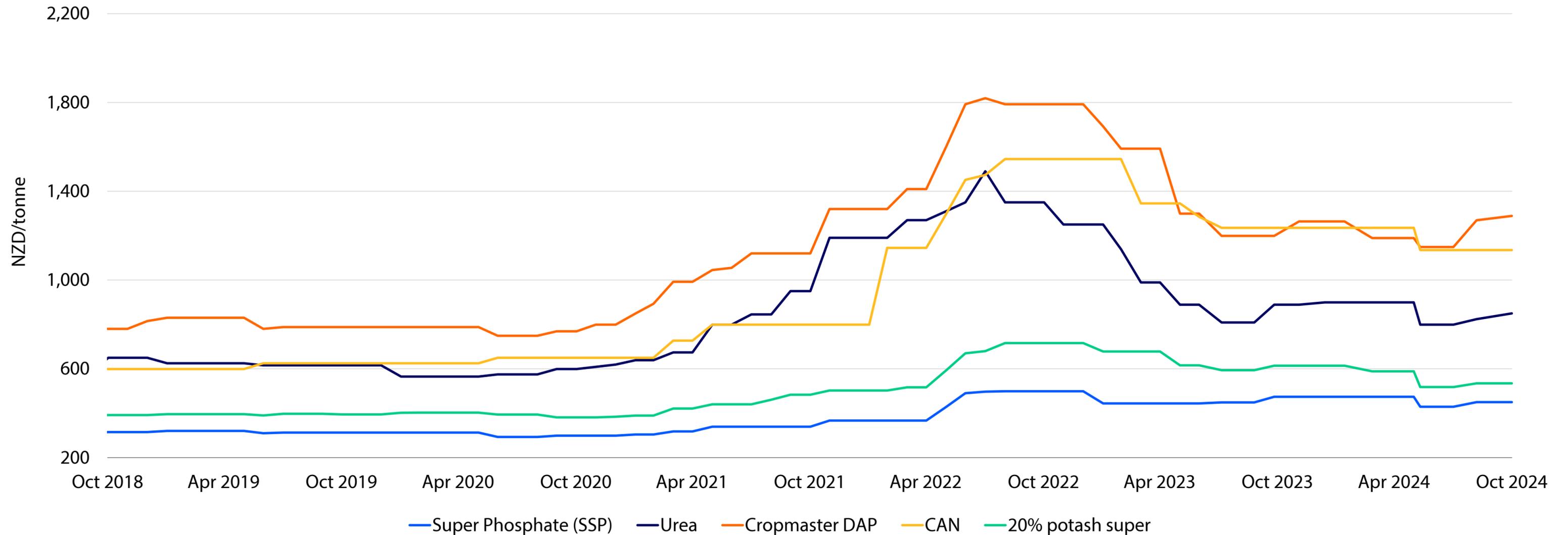
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Farm inputs

Urea and DAP retail prices rise month-on-month

Urea prices have increased due to strong Indian demand and a rising US dollar



Source: CRU, RaboResearch 2024

Interest rate and FX

Finding its level

In October, the RBNZ intensified its rate cuts, cutting the official cash rate (OCR) by half a percentage point to 4.75%.

There is now just one more RBNZ meeting remaining in 2024, scheduled for 27 November, with a long layover until the next meeting on 19 February next year. With the OCR still at a clearly restrictive level, traders are weighing up whether the RBNZ will implement another 50-basis-point cut or even contemplate a 75-basis-point reduction.

The futures market has fully priced in a 50-basis-point cut, while the implied probability of a larger cut is around one-third at time of writing.

We expect the RBNZ to deliver a 50-basis-point cut in November and then begin to slow the pace of monetary easing next year. Our updated forecast projects an OCR of 3.25% by August of 2025. However, the path of the OCR is highly uncertain, and the RBNZ could move a little more quickly than we expect.

There is also a high degree of uncertainty about how quickly the New Zealand economy will respond to a lower OCR. In October, new business confidence figures were published, confirming that New Zealand firms are now more optimistic than at any point since 2014.

Consumer confidence has also been rising, although it still has some way to go before optimists outweigh pessimists. If the trend continues, we would expect households to begin to save less and spend more, as a lower OCR helps to raise household disposable incomes.

A key point of uncertainty for the outlook of the New Zealand economy is the unemployment rate. The RBNZ projects that it will reach 5.4% in the middle of next year before declining back to 4.5% in 2027. Once unemployment starts rising quickly, it can be difficult to stop, which is an argument in favour of the RBNZ moving more quickly to lower interest rates to a neutral level.

What to watch:

- **RBNZ OCR policy rate meeting, 27 November** – The last policy rate meeting for the year. The decision is likely to be between a 50 basis point cut or a 75 basis points cut. Market pricing favours the smaller cut, but the long layover until the next meeting in February could sway the RBNZ toward more easing.



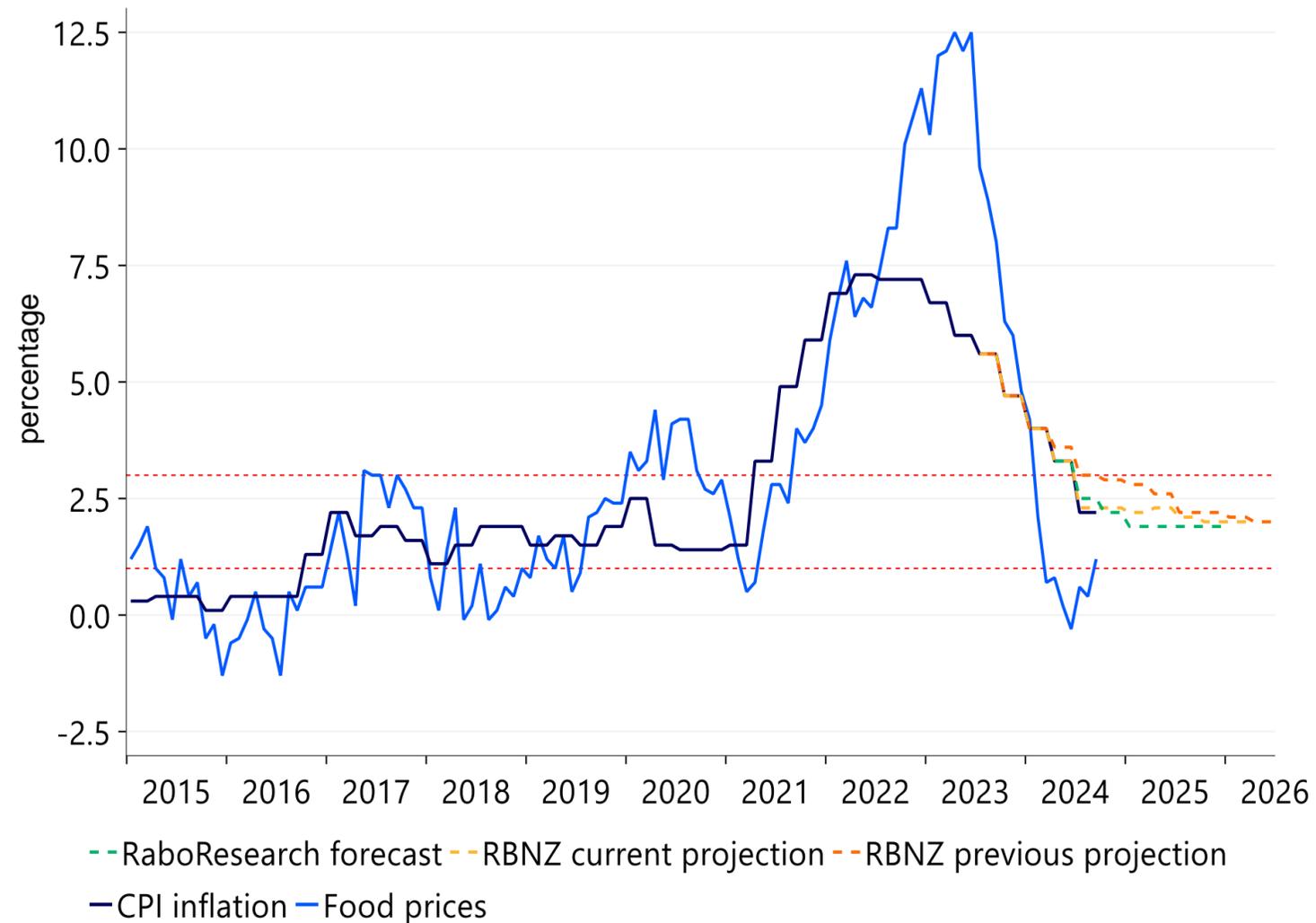
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Interest rate and FX

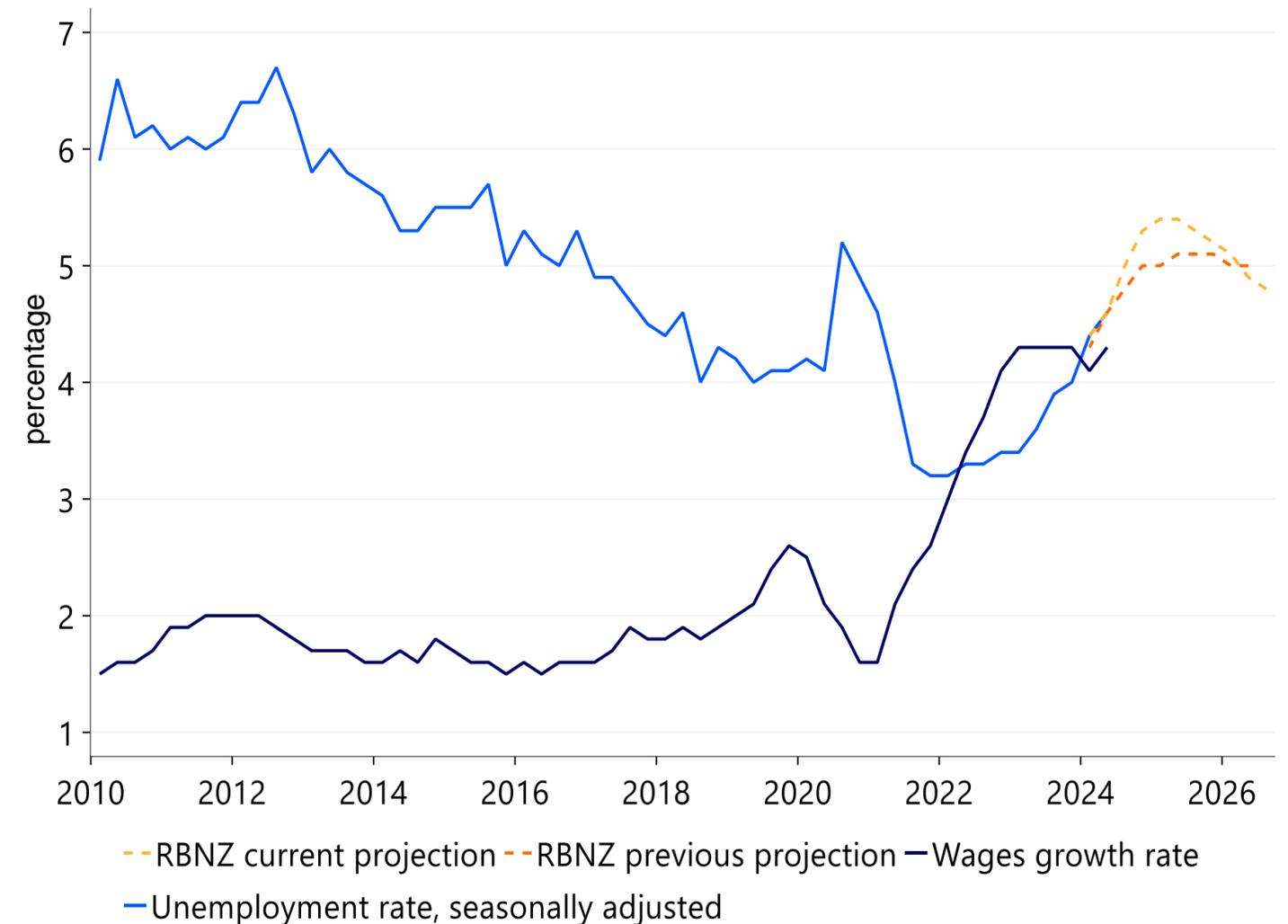
Seeking to soften the landing

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

Push and pull on the supply side

Brent crude recorded its first monthly gain since June in October. Prices were up 1.89% to USD 72.81/bbl, a gain of around USD 1.35/bbl since the beginning of the month.

The Middle East continues to play a significant role in risk determinations for energy pricing. The region accounts for approximately 30% of global oil production, and interruptions to supply from the ongoing back-and-forth strikes between Israel and Iran have the potential to significantly impact prices.

Given these risks, our energy analysts suggest that traders have been reluctant to bet heavily on lower oil prices, despite signs that the market is currently in a state of oversupply and is likely to remain so in 2025.

In December, the 180,000 barrel/day production cuts agreed by OPEC+ producers are due to expire. This should mean that quite a bit more oil will be entering a market where demand is already looking tepid, as the US and Chinese economies show continued signs of slowdown.

Temporary labour agreements were reached at the US East and Gulf Coasts after a three-day strike, but many issues must be resolved by 15 January 2025. One key issue is port automation, which further threatens port operations. Automation is essential to improve efficiency and reduce congestion. With US ports experiencing high labour costs and low productivity, continued modernisation is likely, despite pressure from labour unions against automation. US ports are modernising, though at a slower rate than their peers in Asia and Europe. Schedule reliability across global ports continues to be challenged, recovering to around 60% from the pandemic low of 35%, but far behind the pre-pandemic normal of 80%. Congestion and the dislocation/shortage of containers continues to threaten the normality of global shipping.

The Baltic Panamax index (a proxy for grain bulk freight) is trending downward, with the index dropping 16.4% in October from the previous month. Bulk shipping is under negative pressure across vessel types due to weak demand.

What to watch:

- **Middle East tensions** – Iran has vowed severe retaliation to recent Israeli strikes. This back-and-forth cycle of attacks increases the risk of escalating the conflict that could lead to strikes on Iranian oil infrastructure, thereby interrupting supplies flowing to global markets.



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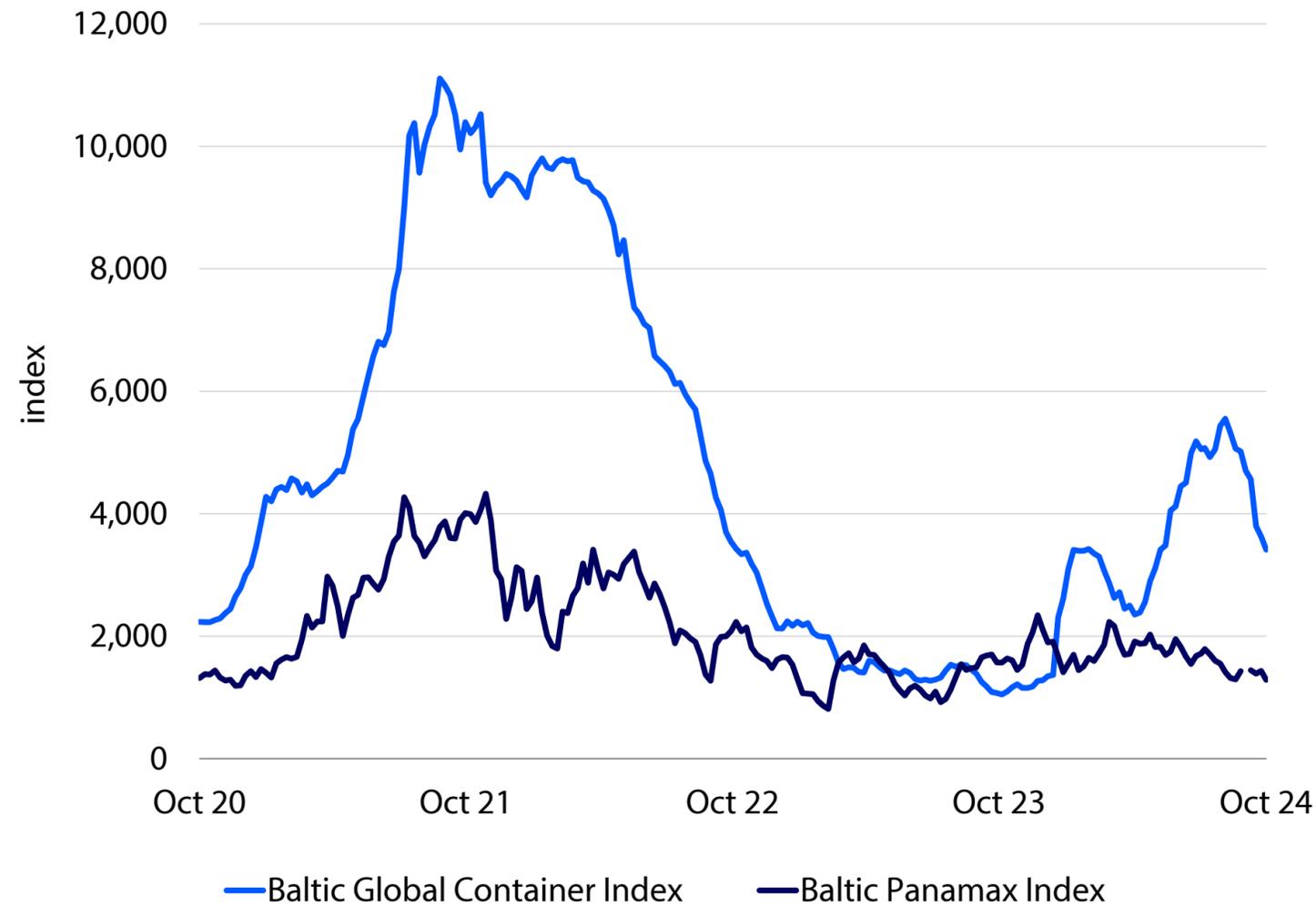
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Oil and freight

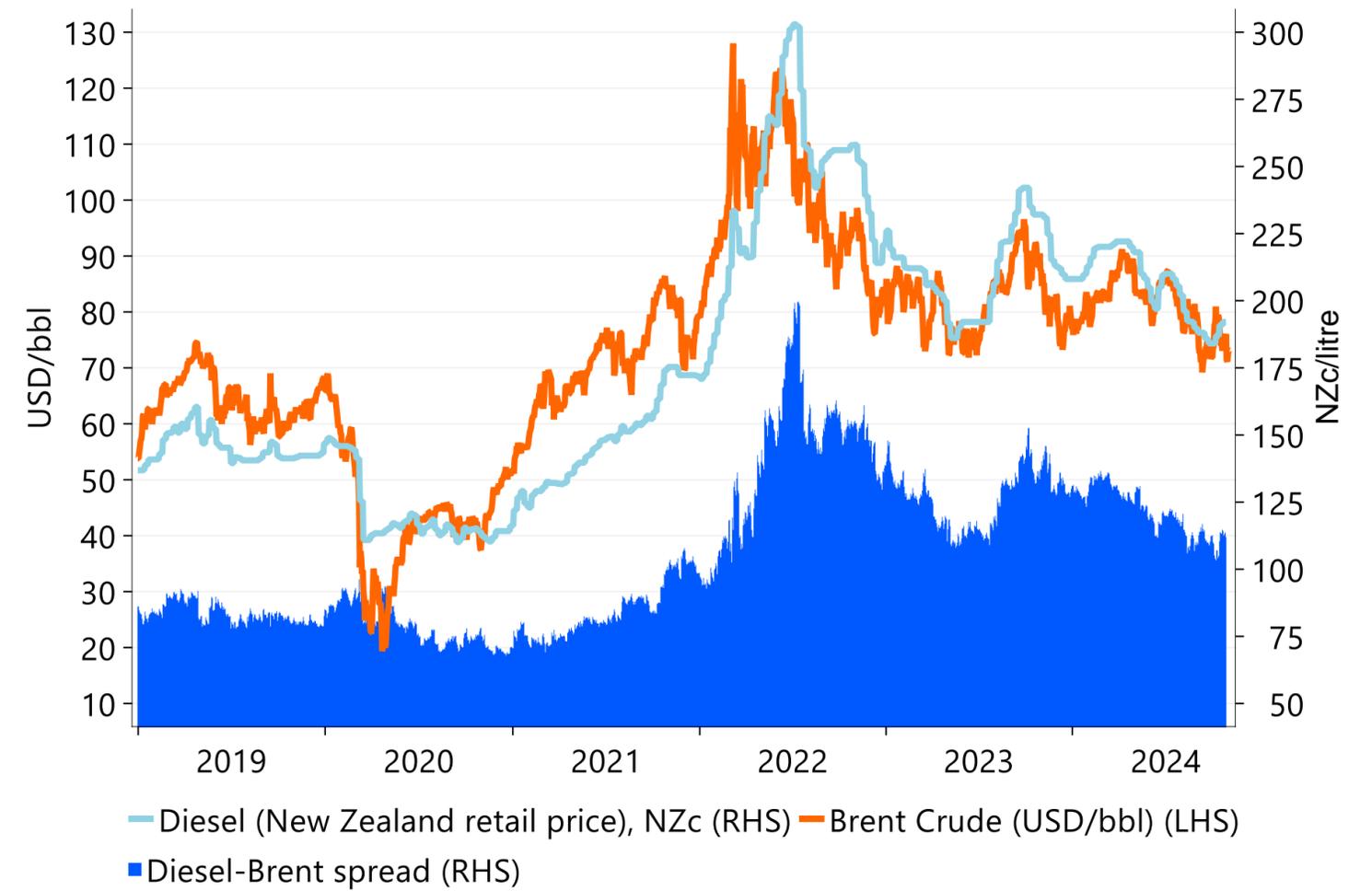
Prices continue to slide

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

01/11/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	568	615	573
CBOT soybean	USc/bushel	▼	983	1,056	1,328
CBOT corn	USc/bushel	▼	415	433	477
Australian ASX EC Wheat Track	AUD/tonne	▼	326	331	383
Non-GM Canola Newcastle Track	AUD/tonne	▲	772	707	648
Feed Barley F1 Geelong Track	AUD/tonne	▼	303	306	334
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	634	638	366
Feeder Steer	AUc/kg lwt	▼	339	358	205
North Island Bull 300kg	NZc/kg cwt	▲	705	700	605
South Island Bull 300kg	NZc/kg cwt	▲	670	645	550
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	830	770	487
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	795	780	670
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	805	815	680
Venison markets					
North Island Stag	NZc/kg cwt	•	980	980	880
South Island Stag	NZc/kg cwt	▲	950	935	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,500	6,488	4,925
Skim Milk Powder	USD/tonne FOB	▼	2,775	2,825	2,675
Whole Milk Powder	USD/tonne FOB	▲	3,563	3,513	3,050
Cheddar	USD/tonne FOB	▲	4,725	4,575	3,800

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

01/11/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	81.7	84.9	92
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	70.2	73.2	80
Sugar markets					
ICE Sugar No.11	USc/lb	▼	22.1	22.7	27.8
ICE Sugar No.11 (AUD)	AUD/tonne	▲	742	726	830
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,125	1,104	1,129
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	365	353	386
DAP (US Gulf)	USD/tonne FOB	•	610	610	570
Other					
Baltic Panamax Index	1000=1985	▼	1,199	1,364	1,448
Brent Crude Oil	USD/bbl	▼	73	74	85
Economics/currency					
AUD	vs. USD	▼	0.656	0.689	0.651
NZD	vs. USD	▼	0.596	0.626	0.600
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	▼	4.75	5.25	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

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