



New Zealand Food & Agribusiness - State of Play

Rabobank New Zealand

Briefing for Incoming Ministers

November 2020

Introduction From Our Chief Executive



Dear Minister

Congratulations on your appointment to Cabinet following the general election last month.

Rabobank is proudly New Zealand's only specialist food and agribusiness bank and we look forward to working constructively with you and your Government colleagues over the next three years.

We're part of a large international cooperative group based in the Netherlands. With over 400 staff working from 32 locations across New Zealand, our connections to New Zealand's rural communities run deep.

Our highly regarded global RaboResearch team and our extensive international reach means we can provide comprehensive insights into market issues and trends affecting New Zealand's food and agribusiness sector – both at home and around the world.

For the first time, we have brought these together in a Briefing for Incoming Ministers. We hope you find this informative and I look forward to continuing our engagement with you as we work together in the interests of New Zealand's food producers.



With kind regards

Todd Charteris
Chief Executive Officer
Rabobank New Zealand

NZ Food and Agribusiness – State of Play



Rabobank New Zealand – who we are

As New Zealand's only specialist food and agribusiness bank, Rabobank takes a long-term view of supporting rural clients and larger agribusinesses by working alongside them as a trusted and valued business partner. We are part of an international cooperative group based in the Netherlands, with over 400 staff working from 32 offices around New Zealand. Bringing together our deep connections to the New Zealand rural sector, our specialist research expertise and our extensive international reach, we work closely with farmers, growers and their communities under the global mission of 'Growing a Better World Together.'

Opportunities and challenges

Farmers, growers and other food producers are positively placed to help New Zealand recover from the significant and ongoing challenges generated by the Covid-19 pandemic. However, alongside this opportunity sits a number of risks and challenges. This document provides Ministers with a snapshot of key issues and trends across the food and agribusiness sector, drawing on the latest analysis by Rabobank's research team in New Zealand and around the world.

Impact of Covid-19

Overall, the food and agri sector continues to perform strongly, despite significant disruption from Covid-19. As an essential industry, the sector supports many thousands of permanent and seasonal jobs, generating valuable export earnings at a time when the New Zealand economy and other sectors have slowed with the country's border effectively closed. Global Covid infection rates continue to increase, however less so in a number of New Zealand's key food and agri markets, which provides opportunities for New Zealand (see more detailed references on slide 7).

Commodity prices

The outlook for New Zealand's key agricultural and horticultural commodity prices presents a somewhat mixed picture. Dairy prices remain healthy in the face of global production growth; Rabobank expects farmgate beef prices to soften over coming months; we also see global sheepmeat prices coming under downward pressure; wine exports to key markets continue on a positive trajectory; and we expect a return to growth in China's fresh produce imports in 2021 after they flatlined in 2020.



NZ Food and Agribusiness – State of Play



Rabobank



Seasonal worker shortage in horticulture

With the fruit and produce harvesting seasons fast approaching, we are hearing increasing concerns from our rural clients and staff about an impending acute shortage of seasonal workers in the horticulture and viticulture sectors. Dairy farmers and contractors are also affected. Immigration changes announced by the Government in September were very welcome and will be of assistance. However, growers are telling us further changes are required with respect to accessing Recognised Seasonal Employer (RSE) workers. They are seeking our support as a matter of urgency to prevent considerable losses and associated community costs from quality produce going unpicked. We have written separately to ministers in more detail to elaborate on this issue and to suggest possible ways forward.

Legislation and regulation impacting food and agri

Rabobank takes a close interest in legislation and regulations affecting the food and agribusiness sector. We made submissions last year on freshwater reforms, the Climate Change Response (Zero Carbon) Amendment Bill, and the Farm Debt Mediation Bill. We broadly welcomed these changes, with some caveats around how they could be improved in practice based on feedback from our [client council network](#) – groups of leading clients who meet regularly to discuss solutions to key industry challenges – our wider rural client base and staff. The collective impact of regulatory changes is contributing to stress and wellbeing issues for a number of farmers and growers. We have observed that the collective impact on rural New Zealand of regulatory changes should be considered in their totality, rather than in isolation.

Sustainable food production

Consumers are demanding improved sustainability and environmental performance from their food producers. Supporting sustainable food production is a key aspect of Rabobank's mission of 'Growing a Better World Together'. Under our global sustainability strategy, we're focused on helping clients manage increasing environmental, societal and market risk; and at the same time seize opportunities that a growing population and a scarcity of resources present. For example, we're assisting clients to build a detailed snapshot of the non-financial performance of their businesses – where they're doing well and where there's some room to improve. Rabobank stands ready to work with the Government in this area.

RaboResearch and Sector Thought Leadership

Rabobank's research and commitment to the NZ food and agri sector

Rabobank's highly regarded research team of around 80 specialist analysts around the world includes three analysts based in New Zealand. They provide detailed insights into market issues and trends affecting New Zealand's food and agribusiness sector. Our commitment to the sector also extends to Rabobank's quarterly Rural Confidence Survey, which paints a detailed picture of farmer and grower confidence and the broader agricultural economy. More recently, we have partnered with food rescue charity KiwiHarvest to raise awareness of the food waste issue among our employees, customers and other stakeholders.

RaboResearch reports

Our research team produces a wide range of regular research reports on issues affecting New Zealand farmers and growers. Recent reports include:

- Growth in **sustainable finance** creating opportunities for NZ agriculture
- Our **Q4 wine quarterly** on rising global demand for NZ wine
- Strong NZ **opportunities for animal proteins in China**
- **Dairy exports to Southeast Asia** set to boom over the next decade
- **The Time for Capital Planning is Nigh** looking at investment requirements in the kiwifruit sector

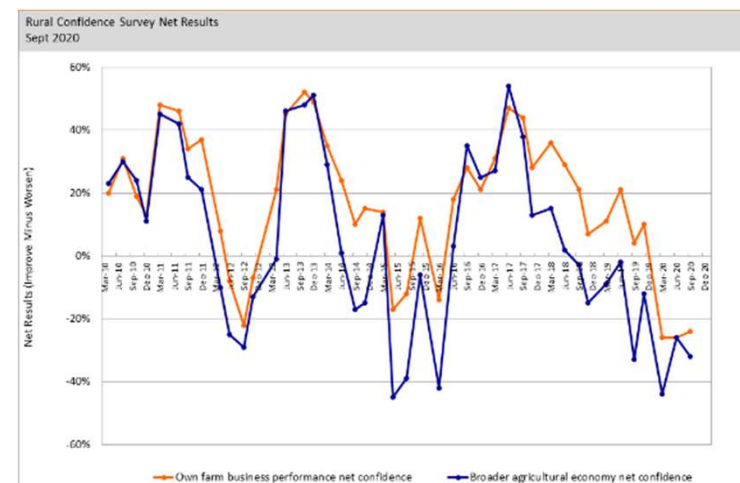
In the coming weeks, RaboResearch will publish reports on global animal proteins, the Q4 Dairy Quarterly and Chinese consumer markets.



KiwiHarvest partnership

Rabobank works with farmers and growers to help them produce food sustainably. As a next step in our sustainability strategy, we've teamed up with **food rescue charity KiwiHarvest**. Engaging our staff in the partnership is a priority through community volunteer days.

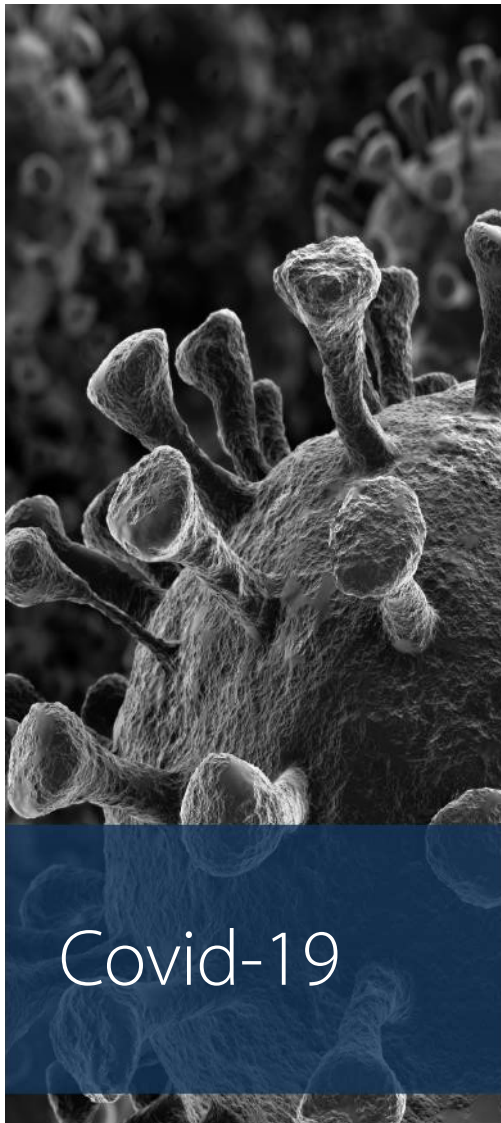
Rabobank Rural Confidence Survey



The latest **Rabobank Rural Confidence Survey** showed New Zealand farmer confidence falling marginally in the third quarter and remaining in negative territory. Expectations for the broader agricultural economy fell sharply among sheep and beef farmers, but were up among dairy farmers and horticulturalists. Conducted since 2003, the Survey is administered by independent research agency TNS, interviewing a panel of approximately 450 farmers each quarter.

Commodity Outlook

 Covid-19	Beneath gloomy global headlines, infections are falling and retail sales are rising in most key markets for NZ F&A.
 Dairy	Robust Chinese demand is underpinning Oceania prices – but this also presents downside risk with elevated stocks and growing local milk supplies.
 Beef	RaboResearch expects farmgate prices to soften over the coming months as supplies start lifting against the backdrop of weakening returns for manufacturing beef from the US market.
 Sheepmeat	Prices will come under normal downward pressure as new season lamb supplies start increasing. However, improving market signals indicate a likely easing of prices rather than a sharp correction.
 Wine	Rabobank expects retail demand for wine to remain in place across 2020.
 Horticulture	China's fresh produce imports have flatlined in 2020, but Rabobank expects a return to growth in 2021.
 Farm Inputs	Despite global prices of DAP and urea modestly appreciating during October, we still expect that the impact of low demand and strong supply capacity will take global benchmarks lower during Q4.
 FX	The strong recovery in the Chinese economy is trimming the downside for the NZD: we expect to see it trough at USc 64 by April 2021.
 Oil	We see scope for spot crude oil prices to increase modestly in the short term. We expect Brent Crude will reach USD 43/bbl during Q4, before appreciating to USD 45.50/bbl during Q2 2021.



Infections Are Rising Again, but Less So Deaths, and Less So in Our Markets

The growth in new global Covid-19 cases accelerated in October, with the weekly number of new cases reaching a new record late in the month. The increase was almost entirely driven by the US and Europe, where an alarming new wave is accompanying the Northern Hemisphere autumn.

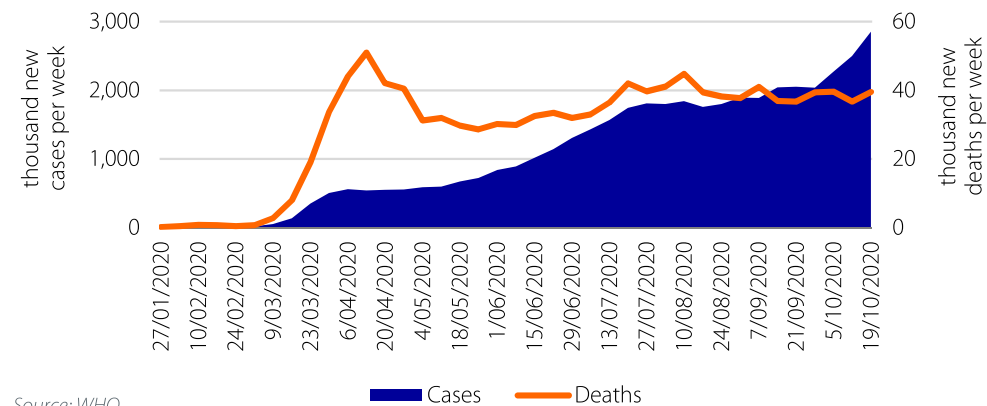
But New Zealand's key F&A markets have improved from a viral perspective:

- Infections remained very low in China, Australia, Vietnam, Thailand and Singapore.
- Second waves have reduced in Japan, South Korea and the Philippines (and tempered in Indonesia).
- Leaving rising infections in the US and UK as New Zealand F&A's main immediate concern.

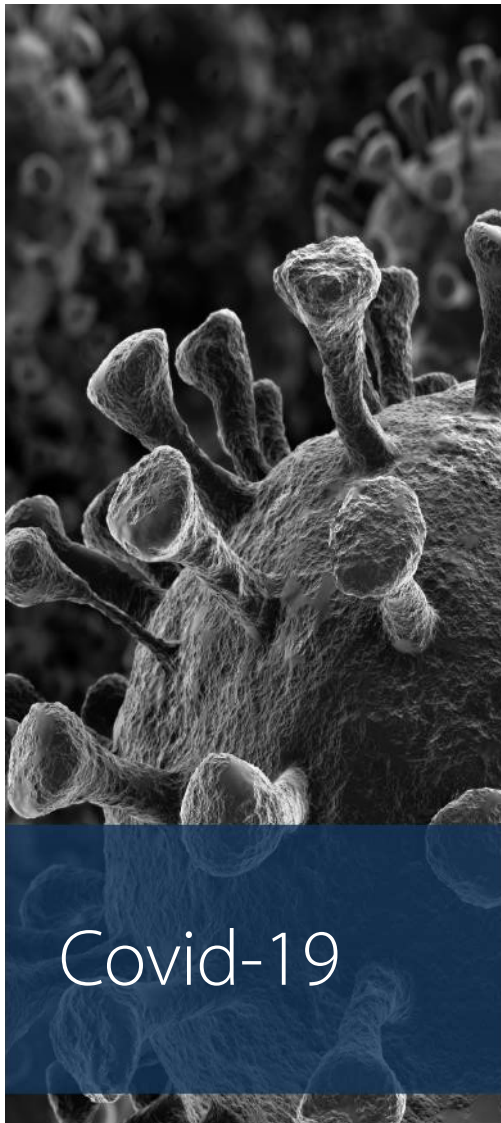
And the lower death rate accompanying this wave has helped avoid national lockdowns so far:

- Restrictions on movement eased during October in Australia, NZ, the Philippines and Indonesia.
- Various parts of the UK imposed new restrictions during the month.
- Lockdown status remained largely unchanged in Japan, South Korea, the US and China.

Global weekly reported new cases of Covid-19 and deaths



Source: WHO



Retail Spending Holds up Despite Support Schemes Being Removed

One of the key risk factors we have highlighted in recent months is that consumer spending might be negatively impacted if governments remove the generous support schemes in place for their citizens faster than the real economy takes up the slack.

Governments have rolled back some of this support in recent months. The US assistance package expired on 31 July and has not been renewed. Australia's Jobkeeper and Jobseeker schemes have been extended but at reduced rates. And the UK's job retention scheme will be extended for another six months from November, but at reduced levels.

But so far, retail sales data suggests that consumers still have sufficient funds to spend – and that this picture is improving in many of our major markets:

- Chinese retail sales exceeded prior year levels by 3.3% in September (having only regained year-ago levels in August).
- Australian retail sales fell MOM in September (down 4%) due to the Victorian lockdown, but remained 7% above prior-year levels.
- US retail sales picked up strongly in September (up 6% YOY).
- Retail sales improved MOM in Korea, Japan, Singapore in August and Vietnam in September.

Several factors are likely behind the improving retail sales data;

- Employment is improving in most major markets (though in places like Australia and US it remains a long way short of pre-crisis levels).
- The reduction in government support will take a while to kick in.
- In many countries, it's still hard to spend money on services (travel, haircuts, movies, sports events) given restrictions still in place, channelling more of the available funds to retail spending (ranging from cars to food).

The process of switching from government-fuelled spending to consumer-earned spending is not over yet, and it's a transition with considerable risks for the F&A industry. But the transition has started, and so far, so good.



Emma Higgins
Senior Analyst
Dairy

+64 3 961 2908
emma.higgins@rabobank.com

Dairy

La Niña: A Short-Term Risk to Supply

Milk flows continue to grow this season, compared to last year – but fickle spring weather has reduced the growth rate. New Zealand milk production for September 2020 bounced 1.7% higher on a tonnage basis compared to the previous September. Total milk flows are ahead of last season by 2.9%. For now, Rabobank still anticipates milk volumes to grow up to 2% YOY for the full 2020/21 season. However, milk supply growth through to Christmas could further slow with the strengthening La Niña conditions, which presents a downside risk to this forecast via drier soil moisture levels for inland and eastern coastal areas of New Zealand.

Elsewhere around the globe, production volumes are also strong. South American production, including Argentina, Chile, and Uruguay, is tracking ahead for the calendar year to August 2020. US supplies lifted 2.3% for September 2020 YOY, as yields and cow numbers both lifted compared to a year ago. Australian milk supplies bounced 3.5% YOY for August 2020, while European milk collections were flat for August 2020 YOY.

Commodity prices remain healthy in the face of global milk production growth. Broad-based demand is underpinning the strength of Oceania commodity prices, with robust Chinese buying particularly supporting WMP prices above the USD 3,000/tonne threshold.

What to watch

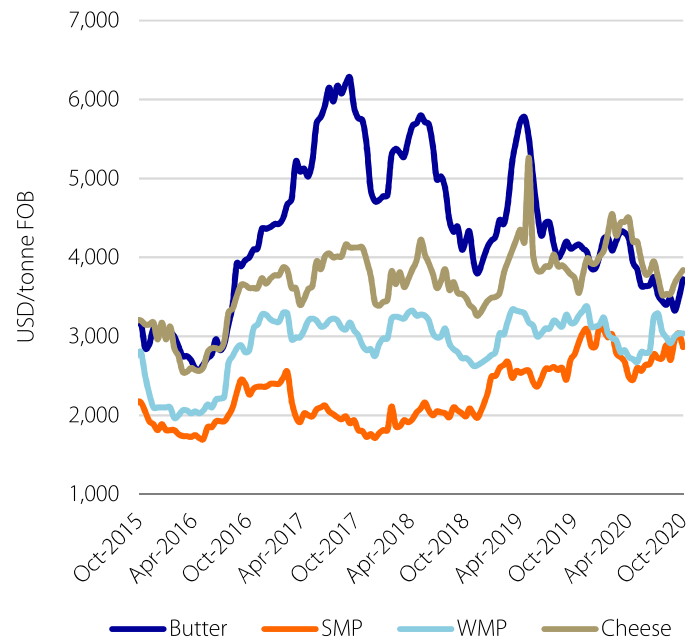
- ***Chinese buying activity*** – Chinese milk production is buoyant, and stock levels are elevated compared to recent years.
- Whether Chinese buyers decide to stock up further or choose to destock over the next 12 months will be a key driver of commodity price volatility.

Milk Production Growth Exceeds Expectations



Rabobank

Global dairy prices, 2015-2020

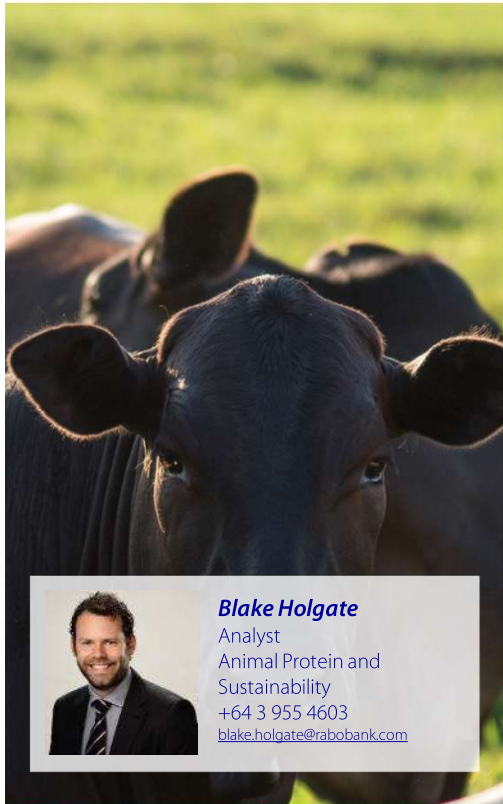


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	Last three months
EU	2.0% (Jul 20)	1.3%
US	2.3% (Sep 20)	2.0%
Australia	3.5% (Aug 20)	3.5%
NZ	2.9% (2020/21 season-to-date*)	

Source: Rabobank 2020
*June-September only



Blake Holgate
Analyst
Animal Protein and
Sustainability
+64 3 955 4603
blake.holgate@rabobank.com

Beef

Prices to Soften as Supplies Lift

Rabobank expects farmgate prices to soften over the coming months as supplies lift against a backdrop of weakening returns for manufacturing beef from the US market. The impact of climate conditions and feed availability on supply flows out to the end of the year will heavily influence the exact timing and scale of pending price drops.

Farmgate prices began to fall across all cattle classes in the last month as higher-than-normal supplies for this point in the season saw an easing of the procurement pressure that had underpinned prices through recent months. As of the end of October, the North Island bull price was NZD 5.40/kg cwt, down 4% MOM, with the South Island bull price sitting at NZD 5.10/kg cwt, down 1% MOM.

High levels of domestic supplies saw US imported beef prices weaken over the last month. With NZ export supplies set to lift from their current seasonal lows, there is potential for further downward pressure on US prices in the coming months. An important counter to increasing supplies could be Chinese demand, which helped to force prices to record levels at this stage last year. However, that dynamic is unlikely to occur this year, with strong competition from South American beef exporters currently reducing China's need for NZ beef imports.

Average NZ beef export returns for the month of September were unchanged from August, at NZD 8.03/kg. There has been very little movement in average export values since March. This would indicate NZ beef exports have been generally resilient to Covid-19 market disruptions to date, but the true test of market resilience will come when NZ export supplies meaningfully lift from December onwards.

What to watch

- ***NZ's 2020/21 beef production*** – B+L NZ's "New Season Outlook 2020-21" forecasts domestic beef production for the coming season at 661,000 tonnes. This is essentially unchanged from 2019/20, with a marginal decrease in cattle processed to be offset by a small increase in carcase weights. This should ensure overall competition for supplies remains at levels similar to this season, although climate and seasonal factors will see normal fluctuations in procurement competition throughout the season.



Blake Holgate
Analyst
Animal Protein and
Sustainability
+64 3 955 4603
blake.holgate@rabobank.com

Sheepmeat

Prices to Ease Rather Than Correct

Rabobank expects farmgate prices to come under downward pressure over the next month, as is normal at this stage of the year, as new season lamb supplies start to come forward in increasing volumes. However, improving market signals increasingly indicate a likely easing of prices out to the end of the year, rather than any sharp corrections.

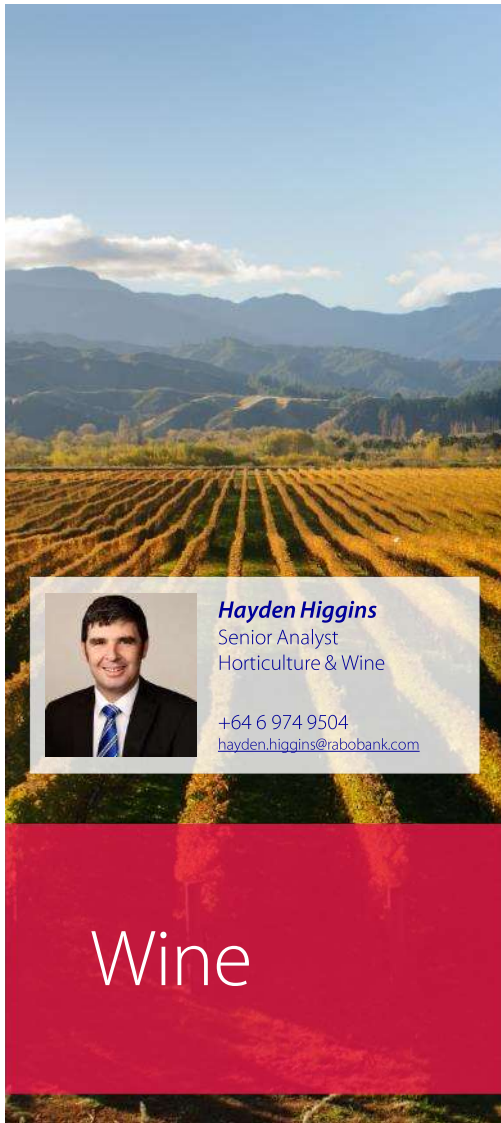
Farmgate prices remained largely unchanged over the last month, continuing the uncharacteristically flat trend that has seen very little pricing movement since June. Over the winter period, the procurement pressure that traditionally pushes prices up as lamb supplies drop off has effectively been offset by deteriorating market conditions. As of the end of October, the price in the North Island averaged NZD 7.20/kg cwt (unchanged MOM), while South Island lamb averaged NZD 7.00/kg cwt (-1% MOM).

September export data revealed some positive signs about market resilience, as greater volumes of NZ lamb exports start to hit the global market. Export volumes to the key markets of China, the UK, EU, and US were all up MOM, with the average value received by NZ exporters in each market either holding or lifting. While this is encouraging, overall average export returns for September were still down 10% YOY, at NZD 10.67/kg. This is 3% above the five-year average for the month.

Looking forward, farmgate pricing into the new year will be heavily influenced by demand from China over the coming months, as buyers build inventory for the Chinese New Year period, and by the impact of a potential second Covid-19 wave on demand from Europe and the US.

What to watch

- **Sharp drop in lamb export receipts** – B+L NZ forecast NZ's lamb export receipts for the coming season to drop below NZD 3bn for the first time since the 2016/17 season. B+L NZ's "New Season Outlook 2020-21" forecasts total lamb receipts to decline 14.8%, to NZD 2.94bn. This is driven by both a drop in export volumes (-6.8%), due to a reduced lamb crop, and a fall in average export returns (-9.3%) resulting from weaker market conditions.



Hayden Higgins
Senior Analyst
Horticulture & Wine

+64 6 974 9504
hayden.higgins@rabobank.com

Wine

It's Still Game On

Retail demand for wine in key markets drives New Zealand wine exports on an upward trajectory.

Exports to all key markets for the calendar year to August 2020 continue to be positive, despite the pandemic's impact on foodservice channels, with demand from retail remaining very strong. Exports for both the calendar year to date and export year to date are running ahead of prior year comparables. Rabobank expects that the demand from retail channels will continue across the final quarter of 2020, as foodservice channels remain disrupted in the face of rising Covid-19 case numbers in the Northern Hemisphere.

But not all boats are sailing a similar pattern. The pandemic has put pressure on many key global exporters.

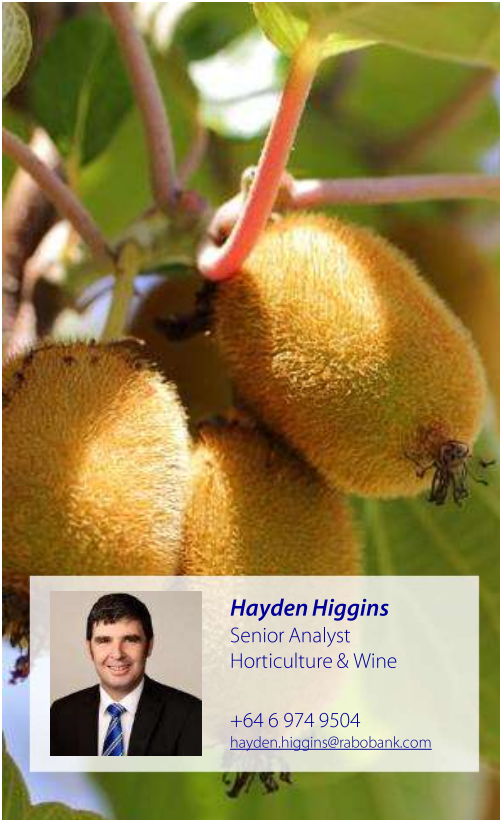
It is by no means plain sailing in global wine markets, with most key exporting nations feeling a pinch across 2020 – barring New Zealand, who is experiencing strong growth. For a more comprehensive view of export markets, refer to our latest [Wine Quarterly](#).

Labour challenges are not restricted to New Zealand – European vineyards and wineries face similar hurdles, due to the pandemic.

Key growing regions in Italy, Spain, and France are reporting a good-quality vintage, but not a large crop. The labour-supply pressures seen in New Zealand are also proving a challenge in Europe, with border restrictions limiting worker availability during harvest.

What to watch

- ***Brexit*** – The clock continues to tick down for the UK and the EU to part ways. While Rabobank expects a deal to be reached, even if a very thin one, the risk of a no-deal Brexit rises as the 31 December 2020 deadline approaches with no definitive resolution in sight. Keeping abreast of this will be important for planning UK shipments.



Hayden Higgins
Senior Analyst
Horticulture & Wine

+64 6 974 9504
hayden.higgins@rabobank.com

Horticulture

China's Imports Flatline

Demand for fresh produce imports has remained resilient in key horticulture import markets.

Fresh produce demand in the US and the EU-28, two of the world's key import markets as well as significant New Zealand export markets, has remained resilient overall during the pandemic. Import growth (in USD terms) for each has risen by 3%, which is positive in light of the foodservice shutdowns and economic impacts in these economies.

The growing value of China's fresh produce imports has stalled across 2020 YTD. We expect that it will return to growth in 2021.

After growing by 24% from January to July 2019 compared to the same period in 2018, import values for the seven-month period in 2020 were neutral YOY. We expect demand for fresh produce to return to growth in 2021, albeit at a slower-than-historical rate, as China's economy continues to recover from Covid-19. Moving forward, we also expect that e-commerce sales will play an ever increasing role in sales of fresh produce in China. To read more on this, look for our soon-to-be released report examining e-commerce channels for fresh produce in China.

Kiwifruit has been a clear winner during the pandemic.

With kiwifruit shipments now largely complete, the allure of New Zealand kiwifruit's characteristics to global consumers has become ever more evident across 2020, based upon pricing received. FOB value (in NZD terms) for the export year to August is up by 8% YOY.

What to watch

- ***Kiwifruit vine disease in Italy*** – New Zealand kiwifruit growers will be keeping a watchful eye on developments related to a disease in Italy with the capacity to cause significant vine damage. While it has reportedly been observed in Italy since 2012, ongoing research into its origins and any control methods is occurring.



Rates & FX

NZD Stabilises Through October

After falling substantially in September, the **NZD stabilised against the USD in October**. It was worth USc 66.9 on October 28, up half a cent for the month.

While the recovery is uneven and dependent on the virus, the global economy is recovering from the severe contraction evident in the first half of the year.

On the wrong side of that uneven recovery is likely to be the US and EU – where an alarming autumn resurgence of the virus will impact economic recovery through the balance of 2020 – and hence the prospects for world GDP. In the US, there are also signs that employment growth is slowing and there are questions about when another Covid assistance package will be implemented.

China sits of the other side of the ledger. Its economy expanded by 4.9% above prior year levels in the three months to September. Importantly, the driver of Chinese economic growth has broadened beyond the surge in industrial production to now include consumer spending, with retail sales up above prior year levels for the first time in September (to be up 3.3% YOY).

The early recovery in the Chinese economy should help New Zealand back into economic expansion, and hence reduce the likely downside in the NZD/USD rate in the next 12 months.

Nonetheless, **we expect the NZD to fall to USc 64 cents by the end of April 2021** as we see investors adjust their expectations for global growth downwards and risk appetite continues to wane.

What to watch

- **Secondary lockdowns in the US and EU**. The Northern Hemisphere is entering the traditional flu season with rising rates of Covid infections in recent weeks. Governments may need to reimpose significant lockdowns to address rising infections through this period. If they do, watch for the market to factor in reduced economic growth expectations, falling risk appetite and more downward pressure on the NZD/USD cross rate.



Farm Inputs

Bearish Global Outlook Maintained

Despite global prices of (DAP) and urea modestly appreciating during October, we have maintained our expectation that the impact of low demand and strong supply capacity take global benchmarks lower during Q4.

While largely stagnant during October, urea ex. Middle East FOB is now 27% above the level it was in June. Strong Indian import demand, following a healthy monsoon, has been the primary driver of price rises.

We expect global prices to begin to ease during November, in line with seasonal demand from the northern hemisphere.

Global prices of DAP have appreciated strongly in most major global markets in recent months; prices of DAP ex US Gulf are now at a 12-month high (US terms). There has been strong demand in India and Brazil, while Mosaic's duty petition against Russian/Moroccan phosphates in the US have supported prices higher.

We expect prices will begin to ease during Q4, as demand begins to seasonally decline in India and Brazil. Furthermore, according to CRU, new DAP import deals have been signed in the US with Australia, Saudi Arabia, Mexico, Jordan and Egypt. This will help somewhat alleviate tight supply.

In USD terms, global benchmarks of urea and DAP continue to remain below the ten-year average. We expect a relatively weak NZD will continue to offset some of the benefits of local prices for at least the next six months. We expect the NZD to decline to USc 64 by the end of April 2021.

What to watch

- ***Chinese urea production*** – In recent months, the Chinese government has paused imports of Australian coal. Chinese urea producers will now need to find an alternative source of high-quality coal, either domestically, or from other producers such as Mongolia. With Chinese domestic coal prices now on the way up following a major decline as a result of Covid-19, this may add price pressure to Chinese urea production and impact participation in the export market.



This document is issued by a Rabobank Group member. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by any Rabobank Group member to enter into a transaction. This information is not professional advice and has not been prepared to be used as the basis for, and should not be used as the basis for, any financial or strategic decisions. This information is general in nature only and does not take into account an individual's personal circumstances. All opinions expressed in this document are subject to change without notice. No Rabobank Group member accepts any liability whatsoever for any direct, indirect, consequential or other loss or damage howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of a Rabobank Group member. By accepting this document you agree to be bound by the foregoing restrictions. All copyright is reserved © 2020