

# *New Zealand Food & Agribusiness – State of Play*

Rabobank New Zealand Briefing for Incoming Ministers  
November 2023



**Rabobank**

*“Somehow, we need to turn the tide of a top-down [policy] mentality and drive it from the bottom up again, so that farmers are empowered and in control with full support from every interested party – including the Government. Today we struggle to get engagement and sentiment is very negative, which is a real shame. It’s an opportunity lost to help drive productive change.”*

***Feedback from a Rabobank rural client***



# Rabobank New Zealand

## Who we are and what we do

### *New Zealand's only specialist food and agribusiness bank*

New Zealand earns much of its way in the world through our primary producers. As this country's only specialist food and agribusiness bank, Rabobank's commitment to the sector starts with our close one-on-one relationship with our clients, helping them manage the many opportunities and challenges coming their way.

Building on our deep global connections and our strong local networks, we also work constructively with policymakers by providing thought leadership on behalf of our business and our clients. In addition to publishing research papers on the sustainable food transition, in recent years we've made submissions on several important policy issues through the eyes of our clients.

Rabobank was set up in the Netherlands 125 years ago as a cooperative - by farmers, for farmers. Today we operate in 37 countries and we're among the world's 30 largest financial institutions. With a single focus in New Zealand on food and agribusiness, we're committed to supporting Kiwi farmers, growers and food producers.

We have more than 500 New Zealand employees working from 27 offices in places like Ashburton, Pukekohe and Feilding, and from our purpose-built head office in Hamilton, which opened in late 2021. Our people are proud of the communities in which they live and work.

Rabobank takes a long-term view of the rural sector through the economic cycles. We work closely with our clients, supporting them to achieve their business goals and realise opportunities in areas such as sustainability, climate change and freshwater regulations.

Importantly, every dollar of profit from our New Zealand business to date has stayed in this country, supporting Kiwi farmers and growers and financing our continued growth in the local market.



# *Our strong commitment to rural communities*

## **Guided by our mission: Growing a Better New Zealand Together**

Rabobank is deeply committed to supporting New Zealand's rural communities. We strongly believe that our cooperative mindset – working alongside our clients, partners and other stakeholders over the long haul – is the best way to tackle our societal, economic and ecological challenges.

Our established network of Client Councils across New Zealand makes a significant contribution in this respect, providing valuable grassroots feedback from our clients and rural communities, along with making a meaningful input into our business strategy.

Our employees are deeply committed to their communities through volunteer days, community partnerships and sponsorships. For example:

- Rabobank has partnered with food rescue charity KiwiHarvest. It rescues up to 200,000 kg of perfectly good food every month that would otherwise end up in landfills and delivers it to families and communities in need.
- Our four regional Client Councils support a number of community projects. They include Surfing for Farmers, which supports the mental wellbeing of farmers by getting them off their farm and into the surf through the summer months.
- Rabobank sponsors the Agribusiness in Schools Programme. There are now over 3000 secondary students at more than 100 schools around the country studying agribusiness, encouraging and preparing them for possible careers in the sector.
- Rabobank has supported food education charity Garden to Table to launch a new teaching resource providing money management skills to New Zealand school children. The resource is available free of charge to all primary, intermediate and secondary schools.



# *Sector opportunities and challenges*

## **Farmers and growers are well-placed to lead economic recovery**

New Zealand's world-leading farmers, growers and food producers are strongly placed to help lead the country's economic recovery over the coming years. The sector demonstrated during the COVID-19 pandemic its resilience and adaptability during times of adversity. In the interests of helping to tackle some of the biggest opportunities and challenges, over the next few pages we set out issues our clients tell us are front of mind for them. This includes a summary of the most recent food and agribusiness sector analysis by Rabobank's research team.

### *General conditions and outlook*

There is little doubt that conditions are currently challenging for farmers and growers, with most forecasters predicting this situation to continue for the foreseeable future. The sector is experiencing lower prices for many commodities (further details are set out later in this document), rising input costs both on and off farm, a sluggish domestic economy and, in parts of the North Island, significant challenges around recovery from extreme weather events. In this environment, our clients are looking for some certainty around policy settings and relief from administrative demands imposed by policymakers in Wellington, so they can focus on what they do best – farming and growing. At the same time, the rural sector is keen to work alongside the Government to find workable and enduring solutions to the challenges facing the rural sector.

### *Rural confidence at a low ebb this year*

The conditions and outlook described above have been reflected in Rabobank's quarterly Rural Confidence Survey for the past year or so. Sentiment remains deeply in negative territory due to a wide-ranging mix of farmer concerns, including falling commodity prices, rising input costs and government policy. The latest Rural Confidence Survey for the September quarter showed farmer confidence in the broader agricultural economy at a record low, with a net confidence reading of -72 per cent. It was the lowest reading in our survey's 20-year history. Farmers were also pessimistic about the prospects for their own farm businesses over the next 12 months.



# Sector opportunities and challenges

## Getting the balance right in meeting our sustainability commitments

All New Zealanders need to play their part in meeting our climate commitments. At the same time, we must ensure that our agricultural sector continues to underpin the economy and helps to feed and clothe a growing world population. Rabobank believes that policies to sustainably reduce greenhouse emissions need to consider economic and social sustainability alongside the environment.

### *Increasing food production while reducing emissions*

Reducing carbon emissions while increasing food production to ensure global food security is shaping as the challenge of our age.

In July this year, we published our second white paper *The great New Zealand balancing act*, looking at how New Zealand maintains an appropriate balance between a strong economy, food security, reducing emissions from agricultural activity and, at the same time, protecting the health, wellbeing and vitality of our rural communities. This followed our first white paper in 2022 *Steering into the food transition*, which mapped out the high-level issues and terrain in this critical debate for New Zealand agriculture.

We see these papers as important next steps in working constructively with policymakers on behalf of our clients and the wider agriculture sector, as we look to grapple with these challenges and the opportunities sitting alongside them. For our own part, earlier this year Rabobank New Zealand issued its first Sustainability Progress Report, ahead of more formal sustainability reporting from 2024. The report demonstrates how our work in New Zealand is supporting Rabobank's global commitments.

### *Founding shareholder in Centre for Climate Action joint venture*

We wanted to make a practical contribution to helping our clients and the wider food and agribusiness sector meet challenges around climate change and sustainable food production. So, Rabobank New Zealand became a founding shareholder in the Centre for Climate Action private-public joint venture – now in the market as AgriZeroNZ. It is focused on helping farmers reduce sector emissions through accelerating research and development, and commercialising technology.



# *Our research and specialist sector reports*

## Rabobank's research commitment to the food and agribusiness sector

Rabobank's highly regarded research team of around 70 specialist analysts around the world includes two 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 extends to Rabobank's quarterly Rural Confidence Survey, our partnership with food rescue charity KiwiHarvest and our Rabo Community Fund which draws on profits from our New Zealand business to support a range of initiatives that benefit rural communities.

*Rabobank KiwiHarvest food waste research* - As part of our partnership with food rescue charity KiwiHarvest, we have published annual research about New Zealanders' attitudes and habits around food waste. Our 2023 report shows annual household food waste is worth \$3.2 billion – enough to feed around 688,000 New Zealanders a year.

*RaboResearch reports* - Our research team produces a range of reports and podcasts on issues affecting New Zealand farmers and growers. Our recent reports include:

*Dairy Quarterly report for September* - With a full rebalance of the Chinese dairy market not expected in the near term, dairy farmers in New Zealand and around the globe will need to manage through more financial pain in the months ahead.

*Beef Quarterly report for November* - Beef markets around the world – other than the US – are seeing softer consumer demand, with global cattle prices now split into two distinct groups: those in North America and Europe, and those in the rest of the world.

*RaboTalk Growing our Future podcast series* - RaboTalk's podcast series equips farmers and growers with the knowledge to support resilient farming systems into the future. Using insights gathered from New Zealand and across the world, Rabobank's team of experts offer informed opinions and healthy discussion on the future of farming, and how to adapt farm strategies and systems to ensure New Zealand farmers thrive in a fast-changing world.

# November commodity outlooks



The dairy commodity market has shown some signs of life. Lower prices are offering international buyers an opportunity to procure raw materials at attractive prices. The milk supply outlook in key production regions is looking less favourable, which is providing price support.



Beef prices are likely to track along the five-year average mark over the coming month off the back of anticipation that US prices will remain strong.



With farmgate prices hitting seasonal peaks, all eyes are firmly on Chinese demand as the country heads into the buying period for the Lunar New Year.



For farmers, the overall beneficial outlook for farm inputs is still in place despite the Israel-Hamas conflict. The situation could be better for farmers' 2024 budgets, and currency and energy costs are risks to watch.



Third quarter inflation was much lower than expected, which has dampened the prospect of any further increases in the official cash rate. As a result of lowered interest rate expectations, the New Zealand dollar was sold heavily in October and is now trading a little above USc 58.



Crude oil prices fell slightly in October despite the outbreak of war between Israel and Hamas. If the war spreads to draw in Iran, we see a worst-case scenario where prices could hit USD 150/bbl. Containerised freight rates cooled further in October and reliability picked up.



## Hope ahead for Christmas?

**There were some positive signs for Oceania dairy exporters in October, with commodity prices generally firmer.** Oceania FOB powder prices rallied more than 10% for the month on the back of less favourable milk production signals in New Zealand. Butter prices also firmed through the month, but cheese prices fell again in October as a weak US wholesale market dragged prices lower.

**Grey clouds continue to build over the production outlook in New Zealand.** For the key month of September, milk production was 0.4% below the same month last year on a volume basis (but higher on a milk solids basis). This means that the volume of production for the season-to-date is trailing the previous season by 1%. Challenging seasonal conditions in the North Island have been the culprit.

**In contrast, the milk production outlook in Australia has started the spring season in better shape and is translating into modest growth.** For September, production was 1.5% higher than last year and is 1.5% higher season-to-date. Surprisingly, Victoria is a laggard for growth with Northern Victoria and Western Victoria still trailing behind.

**The outlook for milk supply offshore softens.** US milk production has been in decline for the past few months, with a smaller herd driving the slowdown. Nonetheless, the USDA has recently upgraded the outlook for the full year of 2023. Across Europe, milk supply growth remains sluggish. In key export regions in Europe, farmgate prices are showing signs of stabilisation.

### What to watch

#### Dairy

**Signs of El Niño taking hold** – Every El Niño weather pattern is different. This makes it difficult to predict its impact on farming regions. MPI and NIWA have produced a drought forecasting tool to help farmers and growers better prepare for drought periods.



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## Seasonal supply supporting prices

**Good news for beef producers:** The AgriHQ North Island bull price rose a small but steady 2% over the four weeks to 27 October to NZD 6.15/kg. This rise in prices has been stronger than average for this time of year. Prices, after being close to average back in September, are now 5% higher than the five-year average. US imported lean trimmings prices rose through September but have flatlined and dropped slightly in US dollar terms since late September 2023. Meanwhile, the continued rise in New Zealand prices may reflect the seasonally lower volumes of cows and bulls in the system and the desire of processors to attract numbers with the anticipation of the US prices remaining strong. **That being the case, we could expect prices to continue tracking above the five-year average over the coming month.**

**Total beef slaughter volumes for the full 2022/23 production season (ending 30 September) were largely similar to the prior period.** Provisional New Zealand Meat Board export slaughter data show bull slaughter (500,360) was down 5% while steer slaughter (645,437) was flat for the 2022/23 season versus last season. Heifer slaughter (522,099) was up 2% and cow slaughter (993,992) was up 3%. Higher cow slaughter in the South Island reflects weaker milk prices and harder herd culling.

Beef export volumes for September were lower by 5% YOY. Volumes to China declined by close to 30%, and value dropped by a significant 46% compared to September 2022. However, shipments to the US jumped by 35% to 8,884 tonnes. Similarly, values were higher by 22% YOY, the result of US drought easing and corresponding domestic beef production dropping. This is the fourth month in a row when we have seen a fall in volumes to China and a rise to the US, reflecting slower consumer demand in China and stronger demand in the US.

### What to watch

#### Beef

**Chinese demand** – Chinese Lunar New Year is slightly later this year, on 10 February 2024. After the 2023 new year failed to generate the expected jump in sales, this Lunar New Year period will be an important bellwether for setting expectations of Chinese appetite. The next couple of months will be a key buying time for Chinese buyers. However, with large amounts of product in store and a slow consumer market, demand may be soft, particularly if shortages in the US mean global prices are higher.



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## Sheepmeat

# Prices flatlining, eyes on China

**Not much good news over the month of October for lamb prices, unfortunately.** The slight lift in farmgate prices exhibited over September and into October had disappeared by the end of last month, with the AgriHQ SI lamb price dropping back down below NZD 7/kg on 27 October 2023. Farmgate prices are now 25% lower than this time last year, and almost 20% below the five-year average when comparing the same week's prices received. Plainly stated, prices continue to hover at levels similar to 2020: some of the lowest farmgate prices received over the last 10 years.

**We have reached the usual point in time when farmgate prices have seasonally peaked and new season lambs are about to come online.** US import prices are holding for now and fortunately, Australian production growth appears to have moderated. Still, all eyes are firmly on demand from China as it heads into the buying period for the Lunar new year.

**The final production tallies are in for the 2022/23 season (ending 30 September 2023).** Provisional New Zealand Meat Board export slaughter data for the 2022/23 season shows lamb slaughter (17.7m) was steady versus 2021/22 volumes. Lamb slaughter was lower in the first half of the season – tracking below the five-year average, before lifting in the second half of the season. Mutton slaughter (3.2m) was down 9% with the South Island experiencing the largest fall with a reduction of 12%.

**Sheepmeat export data reUpdreflects the challenging market conditions in China.** Shipments for September 2023 were higher by 2% YOY. Export receipts received were lower by 17% over the same period, driven by the weaker value of shipments to China and the US – down 11% and 15%, respectively, compared to last September.

## What to watch

### Sheepmeat

**Australian production** – Rain through southern parts of Australia in early October might just be enough to give producers the confidence to hold sheep and look for store lambs to fatten. The number of lambs and sheep on the market dropped 6% for the four weeks to 20 October compared to the four weeks prior, and sheep slaughter has fallen back in line with the five-year average. If this continues, it may be enough to reduce global supplies and support prices.



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# Setting up 2024 budget

The farm inputs price structure in Q4 2023 will have a heavy impact on farmers' budgets next season. This is due to retailers' procurement time frame, which can be several months long for some products.

On the fertiliser side, we expect price stability with a small bearish potential for major overseas exporters, assuming the Israel-Hamas war does not disrupt supply chains or boost crude oil prices. For the next five months, we forecast international urea prices to be down 11% in US dollar terms compared to the period between November 2022 and March 2023, with DAP prices down 26% and potash down 41%. **This is a very encouraging outlook for farmers. However, currency and energy costs will adversely impact farmers' input budgets.** Given the exchange rate, the declines in New Zealand dollar terms are "only" 4%, 19%, and 35%, respectively, for urea, DAP, and potash. The diesel terminal gate price is another headwind that will make operations more costly.

**For agrochemicals, the story is brighter, but also tricky.** Many products have a long shelf life, meaning they not only can be stored on farms, but also in retailers' and manufacturers' sheds. Hence, we must look more at price records rather than forecasts. In that sense, using October 2021 as a reference, many active ingredients are showing a 50% reduction or more in price. The same arguments about currency and freight offsetting are valid, but it is important to mention the shelf-life effect. **This is to say: To be able to secure supply with lower prices, it is first necessary to use the old stock.** To illustrate, in the last 24 months, the international price of glyphosate dropped 67%.

## What to watch

### Farm inputs

**The Israel-Hamas war** – The recent outbreak of violence in the region is taking place far from the Israeli mines, and no port activity has been suspended so far. Israel accounts for 8% of global phosphate exports and 6% of potash. It is also especially active in specialty fertilisers, like hydroponic solution ingredients. Not only is the fertiliser supply under threat, but also crude oil and natural gas and, thus, nitrogenous fertilisers. Egypt is a heavy player in this sector. A conflict escalation involving Egypt would flip the market.



## *Coming in for landing*

**Third quarter inflation for New Zealand was lower than expected at 5.6% YOY.** That compares to a consensus forecast of 5.9%, and the RBNZ's forecast of 6% that was made in the August Monetary Policy Statement.

So, after we had confirmation last month that New Zealand was doing better than many thought on economic growth, we now know that it is also doing better than we thought on fighting inflation.

That's great news for Kiwis who had been concerned that the RBNZ might deliver another rate hike or two. We've been saying for some time that we believe the OCR has peaked at 5.5%, but the futures market had been gradually pricing in more hikes.

The day before the inflation numbers were released, the futures market was suggesting that there was a 4 in 5 chance of another rate hike by April next year. As of today, that probability has fallen to just 1 in 3.

The lower inflation figures saw the New Zealand dollar come in for some punishment during October. The currency fell as low as 0.5774 after opening the month at 0.6004. At time of writing, the currency is dealing around 0.5815.

The sharp falls in the New Zealand dollar and the continued high rates of net inward migration are providing support to the economy, even as individual consumers remain under pressure and New Zealand's trade performance gradually recovers from its very weak position.

Can the economy manage a soft landing where inflation returns to the 1% to 3% target without a recession? It seems like the odds that it can are increasing.



# Shipping schedule reliability improving

**Brent Crude prices moderated in October, despite the war between Israel and Hamas.** Brent was trading around USD 89.25/bbl at the end of the month after opening the month at USD 92.18/bbl. There has been some compression in crude prices and prices for distillates, which means that gasoline and diesel became a little cheaper relative to crude during the month.

If the Israel-Hamas conflict remains contained to Gaza, we don't expect it to be a major driver of prices. However, if the war expands to draw in regional players like Iran, there is a worst-case scenario where we could see crude prices hit USD 150/bbl.

**Amid low demand and excess inventory, the global shipping schedule reliability index has improved significantly but is still well below pre-pandemic levels.** Global schedule reliability (the percentage of container ships that arrived on time) reached 63.2% in August 2023, but is still steps away from the pre-pandemic 80%. This is due to weather events, one-off incidents, and the supply chain gradually being sorted out. As labour agreements have finally been achieved across US and Canadian west coast ports, reliable operations are expected for the near future for transpacific shipments. Forecasts for US retail imports have been downgraded due to excess inventory through January 2024, suggesting continued improvements in capacity availability and schedule reliability. Regarding container shipping rates, no significant changes are expected for the rest of this year.

Currently the impact of Israel-Hamas war on ocean shipping is limited, yet disruptions, extra costs, and longer shipping times can be expected if the war escalates.

**The Baltic Panamax index (a proxy for grain bulk freight) continues to fluctuate** around the lower end of the spectrum. Seasonal rate hikes started in July and August, but we do not expect further significant increases.

## Oil and freight



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