

Winter chills pricing outlooks

New Zealand agribusiness monthly



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Commodity outlooks



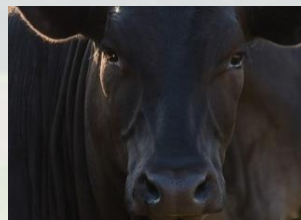
Dairy

Farmgate milk price forecasts are likely to clash with budgets that have little room to move for the new 2024/25 season. Recent commodity price improvement has been helpful but Chinese import demand is likely to wane once again this year.



Farm inputs

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



Beef

Farmgate prices for all cohorts of cattle continue to sit around 10% above five-year averages. Export demand from the US remains strong and the winter outlook is positive for beef pricing.



Interest rate and FX

The RBNZ wrong-footed economists and traders by signalling that interest rates will remain higher for longer at the May policy rate meeting.



Sheepmeat

The needle is moving upward for lamb pricing, with procurement pressures helping. There is upside in export volumes to both the UK and US while China continues to be sluggish.



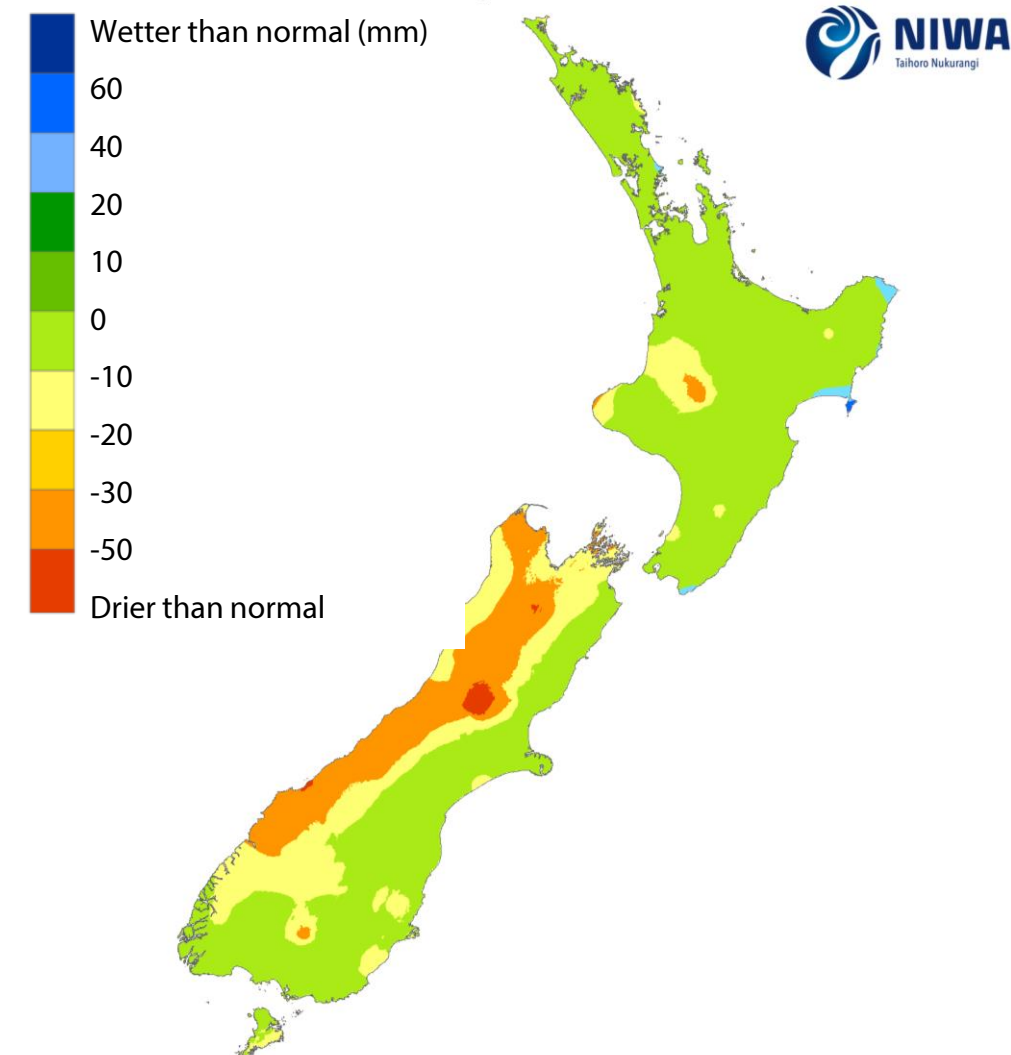
Oil and freight

Crude oil prices in May recorded their first monthly decline of the year. Container freight jumped >50% in May to a new 2024 high, which will make imported goods into New Zealand more expensive.

Climate

Goodbye El Niño, kia ora La Niña

Soil moisture anomaly (mm), 31 May 2024



Source: NIWA, Rabobank 2024

What to watch:

- **El Niño, which has been presiding over our weather conditions for the last eight months has given way to ENSO neutral conditions.** At this stage, there is a 60%-70% change of La Niña developing over our spring.
- **The second week of June.** This is flagged as one to watch for heavy rainfall for the North Island and the top of the South Island.

Some warmer June temperatures could be headed our way to kick us into winter 2024. National Institute of Water and Atmospheric Research (NIWA) notes that temperatures over the coming three months have a chance of being higher than average for the whole country, with only brief cold snaps occurring through winter.

Rainfall predictions from NIWA suggest that the West Coast of the South Island has a chance of higher-than-normal rain over the winter period. The rest of the country is likely to see normal or below rainfall levels through to August 2024.

Soil moisture levels are likely to be near normal for the west coast of both Islands. The remainder of the North Island is likely to have either normal or below normal levels, while most of the remainder of the South Island is likely to see below normal levels through winter.

A word of warning for those looking for rain in the lower North Island and South Island: NIWA note that soil moisture deficits will be “slow to be alleviated.”

Dairy

All eyes on opening price and budget impacts

Fonterra have kicked off the new 2024/25 production season with a second-consecutive milk price forecast midpoint of NZD 8.00/kgMS. This sits slightly below RaboResearch's national breakeven milk price assumptions and will likely provide another season of fiscal constraint for dairy farmers.

Dairy commodity markets have improved over the last month. Butter prices are hovering around 2022 records while prices for powders have lifted from the slump at the end of Q1 2024. Still, global demand settings remain soft and warrant a note of caution – particularly for fat prices.

The key weight on the global dairy market remains our main trading partner: China. We now anticipate softer import demand for 2024 – marking the third-consecutive year of weaker import volumes. Rabobank's forecast are for China's net imports to be 8% lower in 2024 compared to 2023.

Chinese domestic milk production remains a critical factor to consider when assessing farmgate milk price

forecast movement for the season ahead.

The combination of stronger milk production and weaker consumer demand will likely diminish China's domestic deficit to around 11m mt (LME) in 2024.

Global milk production continues to lose steam, helping to keep commodity price equilibrium. Milk production from the Big 7 exporters has been in collective decline for up to four quarters, beginning in Q3 2023. We anticipate global milk production will expand only modestly against weak comparable numbers from Q3 2024 onwards, to end the 2024 calendar year with supply flat on 2023 volumes.

New Zealand milk supply dropped in April 2024 on both a tonnage and milk solids basis compared to last year. The season-to-April 2024 is now behind -0.5% on a tonnage basis. There are challenges ahead for the new production season, with rainfall required in some areas before temperatures cool too quickly as winter approaches.

What to watch:

Upside – New Zealand milk flows

- Milk production for the 2024/25 season is likely to be moderately stronger, due to expected improved weather and weak comparable values. However, La Niña forecasts could cast a shadow on our primary view.

Downside – Highly pathogenic avian flu

- This is infecting cows in a range of US states. Milk supply has not declined measurably, but the spreading infection remains a key factor to watch from both the supply and consumer demand perspective.



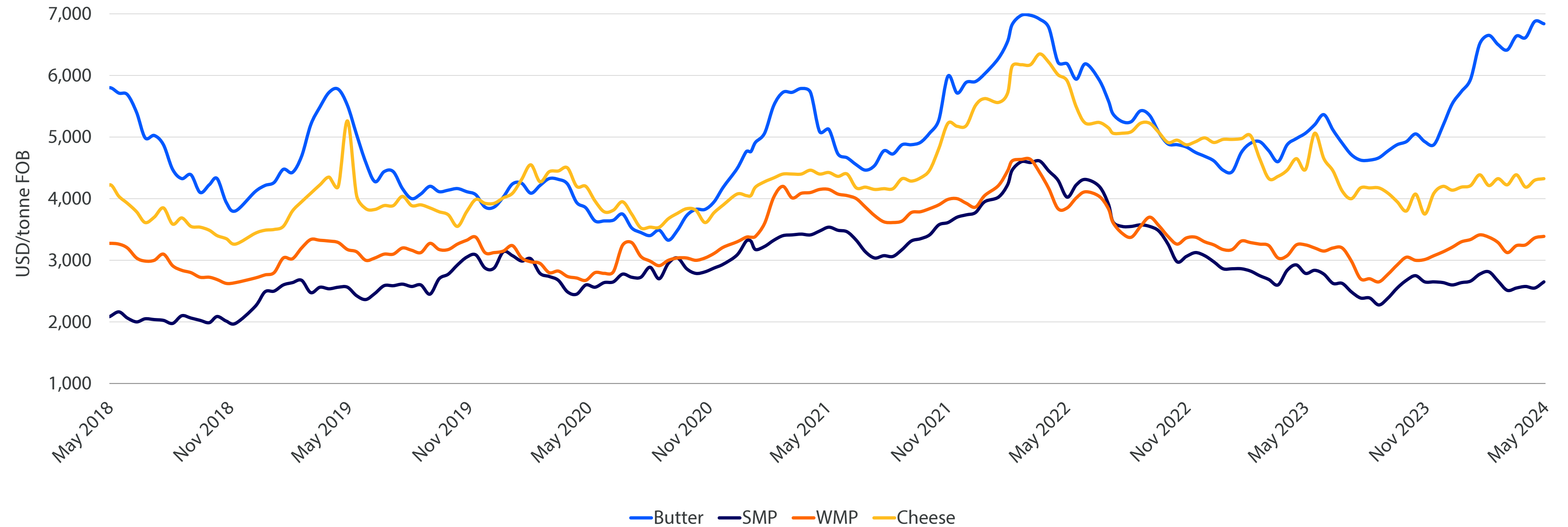
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Dairy

Commodity markets find some resistance following recent upswing

Oceania spot prices for dairy commodities



Source: USDA, Rabobank 2024

Beef

Winter sees prices tick up

As winter settles in, the normal seasonal flow of beef cattle and cull cows off farm has been apparent in New Zealand. NZ Meat Board data suggests peak cow cull has now passed, with national cow cull up 10% in the calendar year until early May 2024. The focus is expected to shift to other cohorts of cattle and the NI bull price continues its +10% theme on five-year average pricing, with the AgriHQ price at NZc 605/kg at the start of June.

Looking at the New Zealand slaughter season to date, which tracks from 1 October to 30 September, **the US is primed to tip the China ship in terms of the value gained from NZ beef.** Season-to-date, the value of beef exported towards US shores sits at NZD 936m, up NZD 203m or 28% YOY. The total value of beef exports to China is sitting at NZD 796m, a drop of 22% YOY.

Year-on-year for the month of April NZ beef exports were up 2.3% by volume to 45,174 tonnes. The big mover in the opposite direction was China, down 21% to 14,347 tonnes with the US taking number one spot with

17,678 tonnes, up 5% YOY. The volume of exports to both Japan and Canada have again performed well in April, with YOY increases of 169% and 239%, respectively. Total value for beef exports YOY was NZD 402.5m, up 1.9 YOY.

RaboResearch anticipates strong beef pricing over the winter months, following both the normal seasonal trends but also driven by global demand, especially over the US summer. There is upside in production out of both Brazil and Australia, adding competition, with a lot of Brazil beef heading into China. Despite this, demand due to fewer cattle in in the US over a key consumption period in this market is likely to steer our farmgate prices to the upside, and to continue above that five-year average price range.



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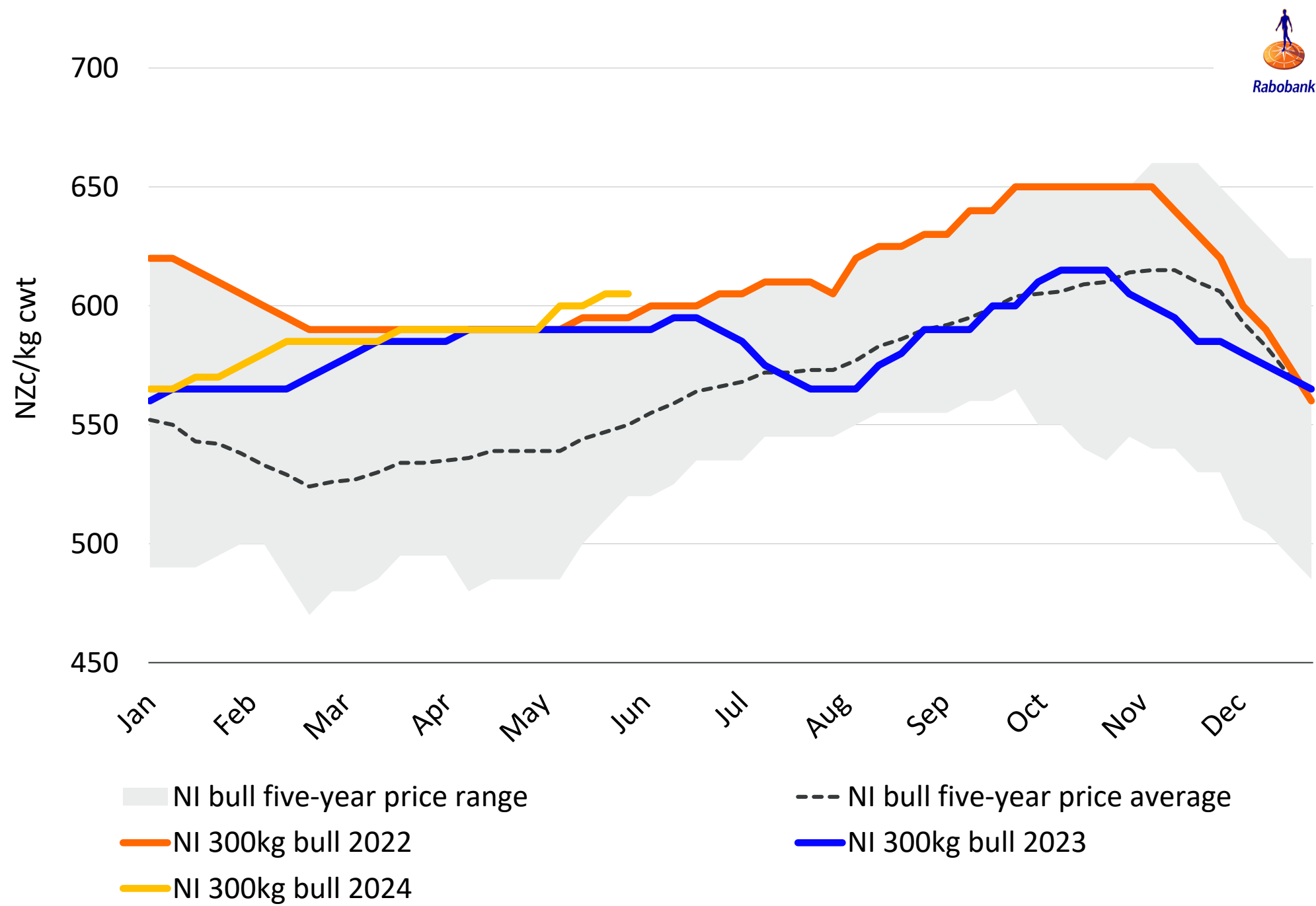
What to watch:

- **Winter in New Zealand**– Pockets of New Zealand have not seen rain early enough before the cooling winter temperatures and lack of sunshine hours began. Meaning winter covers will be lower than desired in these pockets. Tight winter feed budgets may add challenges in the value of the store cattle markets. Because other regions have, in contrast, seen good conditions, there is some movement of store cattle around the country.

Beef

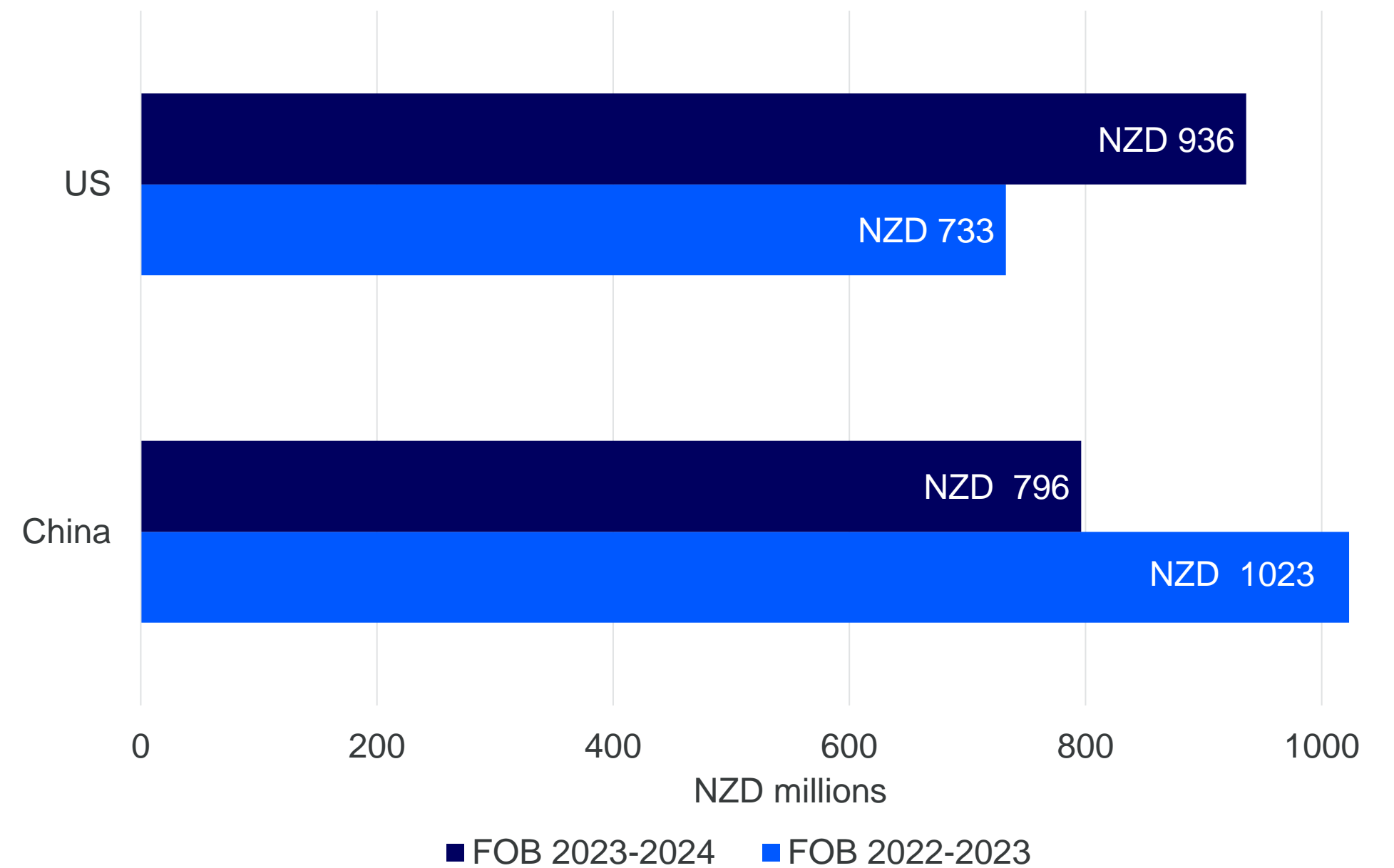
NI bull price jumps above five-year range

AgriHQ North Island bull price



Source: AgriHQ, Rabobank 2024

Value of NZ beef (FOB) 2024 vs. 2023 season-to-date, to the two largest markets (1 Oct -30 April)



Source: Stats NZ, Rabobank 2024

Sheepmeat

UK appetite for New Zealand lamb rekindled

After many months tracking sideways, the AgriHQ SI lamb pricing is starting to see an upswing, with farmgate pricing at NZc 630/kg cwt to start June. This is due to both the usual season trend, on-farm procurement pressures and some higher value export markets taking a bigger role.

To 4 May, national lamb slaughter numbers for the kill season are now tracking 7% ahead at just over 13.2m, according the NZ Meat Board. Long-term slaughter data now suggests a sharp downward trend in bookings from early June until the new season lambs begin and talk now moves to scanning and the new 2024/25 season ahead.

Lining up with the slaughter numbers, **total exports of lamb in April were up 8% YOY to 32,741 tonnes.** Exports of all New Zealand sheepmeat in April were 37,057 tonnes, 1.9% lower than April 2023. Calendar-year-to-date, the value of our sheepmeat exports are down by NZD 102.4m, echoing the challenge in this sector for the 2023/24 season. The average export value for lamb for the 2023/24 kill season (Oct-Sep) to the end of April sits at NZD 10.03/kg

FOB vs. NZD 11.16/kg FOB for the same months of the 2022/23 season. This is a sign of the softer export market value, especially out of key market China, which takes around half of frozen lamb exports.

Export markets for both total sheepmeat and lamb tell an interesting tale for April 2024. Good news comes from the UK for our lamb markets, up 73% by volume (to 4602 tonnes) with a value of NZD 41.5m (up 38% YOY). The US jumped on board with volumes of lamb up 51% YOY and an extra NZD 15.2m in export value. Total volumes of all sheepmeat to China are down by 27% YOY to 16,081 tonnes with a drop of NZD 69m in value (lamb volumes are down 17% to 12,965 tonnes, with value down NZD 44m). China only equated for 26% of total sheepmeat exports by value for April 2024, down from a 40% slice of the value pie in April 2023.

RaboResearch expects the upward trend in lamb pricing to continue over winter, following seasonal trend. Eyes will be on the hope of pricing sneaking back into the five-year average range before the new season lamb kill begins.

What to watch:

- **Monitoring export markets beyond China remains crucial for the remainder of 2024 and into the new season lamb come spring.** The value derived from these 'other' markets – the UK, the US and the EU27 – is substantial and adding diversity of markets during periods of volatility is advantageous to the future outlook for sheepmeat as a whole, adding opportunity to gain the true value from what we are producing.



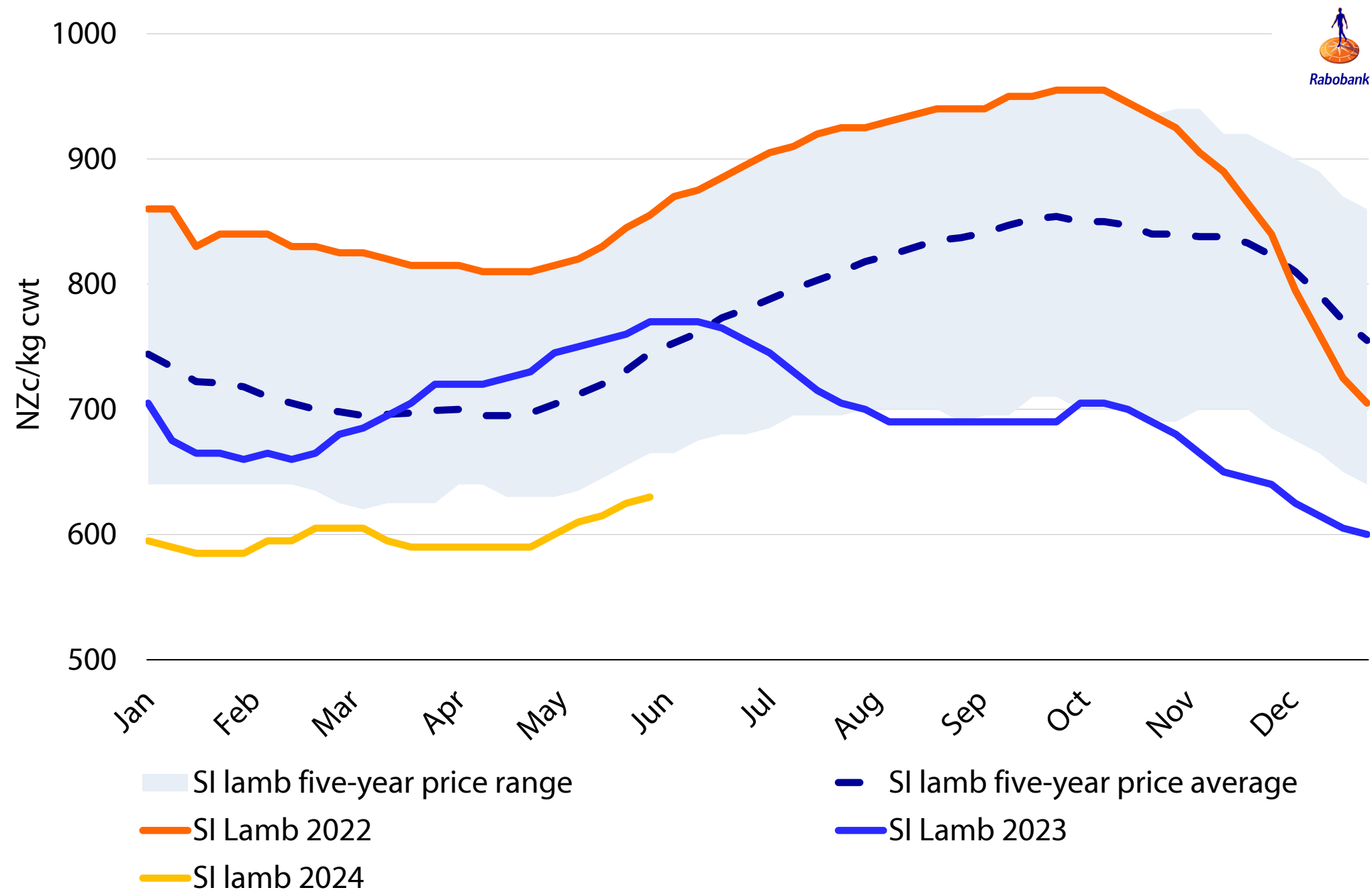
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Sheepmeat

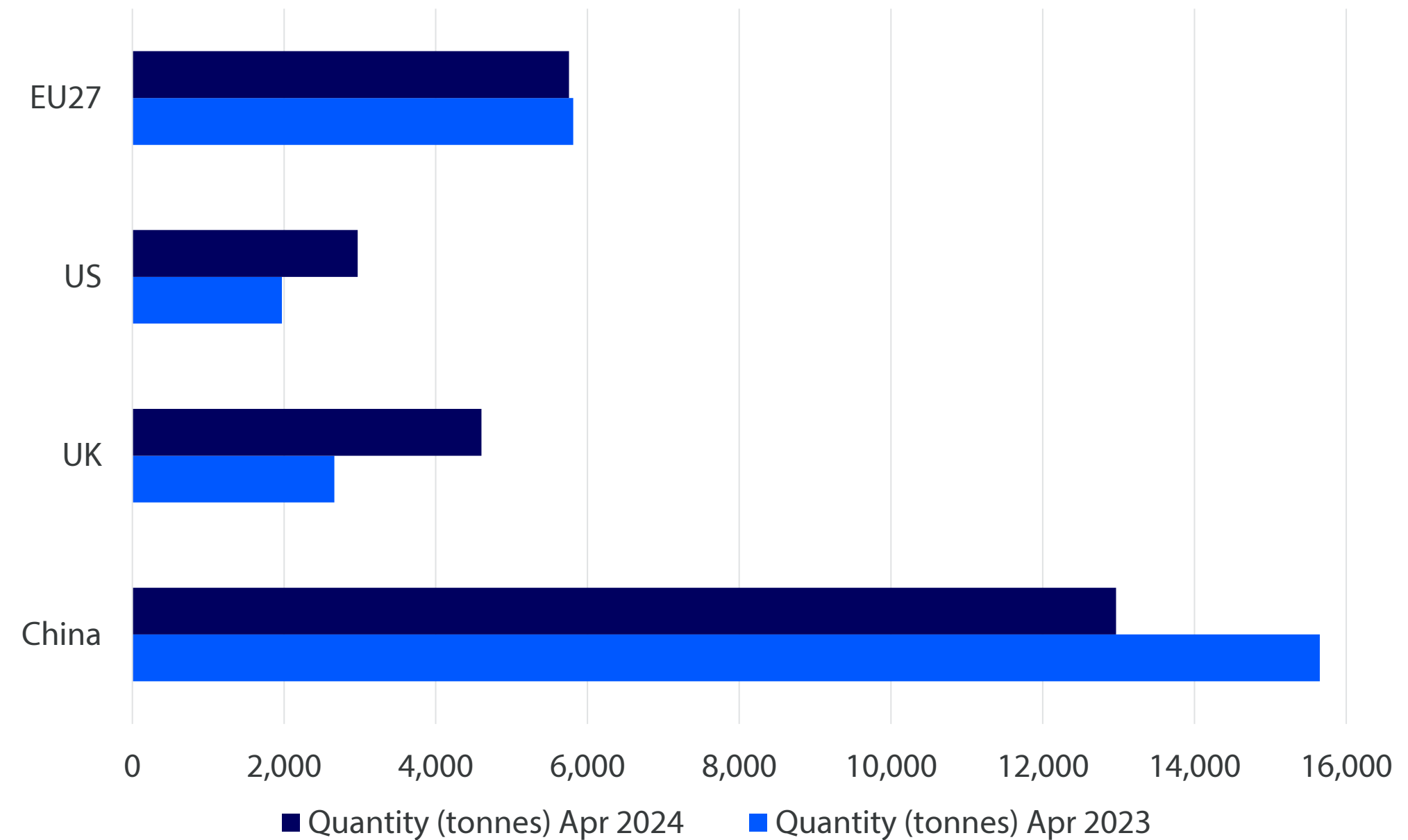
Winter sees the steady upswing for lamb pricing

AgriHQ South Island lamb price



Source: AgriHQ, Rabobank 2024

Top New Zealand export destinations for lamb by volume, April 2024 vs. April 2023



Source: Stats NZ, Rabobank 2024

Farm inputs

A rally in container shipping rates could impact prices

For fertilisers, May was a relatively quiet month on the global front. Ammonium Nitrate FOB Baltic Sea Spot was fairly flat month-on-month, and subpar demand will likely keep it that way in the short term. UAN-30 prices in France also remained weak with very limited transactions taking place in recent weeks. US nitrate prices stabilised over the past couple of weeks following a decline earlier in the month amid waning demand.

In late April, Russia announced the extension of its fertiliser export quotas, which will run from 1 June to 30 November. The new quota is for 19.7mt of fertiliser, of which 12.4mt is nitrogenous fertilisers that should not limit global availability much.

Australian demand at present remains fairly muted. However, the devastating flooding in Brazil's Rio Grande do Sul state could provide a boost for demand as soil nutrients are suffering there. According to industry data, Brazil will import around 135,000 tonnes in May.

One factor which may impact FOB fertiliser prices in Oceania is global container rates. The WCI index increased 56% in May, surpassing the previous 2024 high of late January. The risk premium can largely be explained by a combination of continued shipping delays/diversions amid the ongoing Red Sea crisis and concerns regarding a US-China trade war.

Australia and New Zealand remain sensitive to global nitrogen pricing given parts of both countries have experienced adverse weather, which has resulted in less purchasing than normal, meaning more buying is still to come especially as rains in WA and SA might improve farmer confidence there.

What to watch:

- Keep an eye out for Brazilian demand in the coming weeks amid the ongoing flooding. This has potential to impact global markets.
- We expect shipping rates to be highly volatile amid the ongoing Red Sea crisis, which could have repercussions for farmgate fertiliser prices.



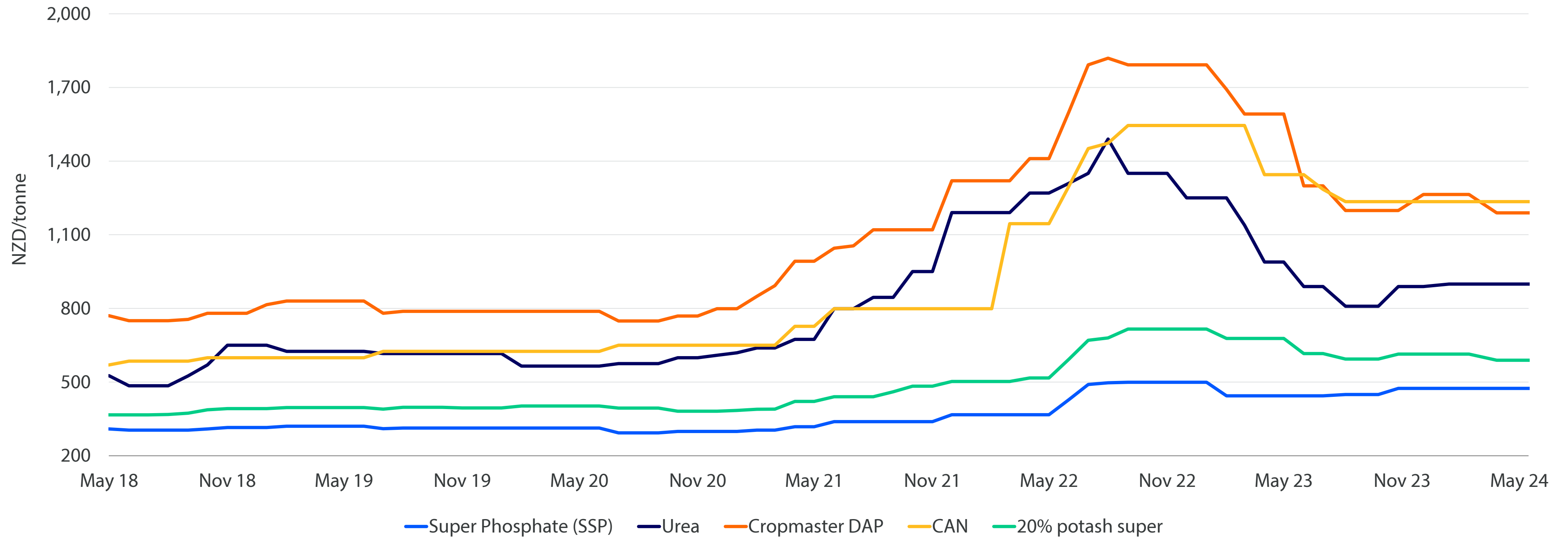
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Farm inputs

Price stability is 2024's middle name, so far

NZ prices are reflecting global comfortable stocks and subdued demand



Source: CRU, Rabobank 2024

Interest rate and FX

Wrong-footed

At the May RBNZ meeting, Governor Adrian Orr again demonstrated why New Zealand's central bank has a reputation for surprising financial markets.

Professional traders and market economists (including yours truly!) had been expecting the RBNZ to execute a 'dovish pivot' in May, whereby they would indicate that interest rate cuts may arrive earlier than previously indicated as New Zealand's economic indicators rapidly deteriorate.

Instead, the RBNZ went the other way and suggested that the first rate cut won't arrive until the second half of 2025, and that the prospect of a further rate hike cannot be entirely ruled out! Indeed, Governor Orr indicated that the RBNZ considered raising the OCR in May but decided to hold fire and wait for more data.

So, why did the economics fraternity get it so wrong? The answer to that question lays with productivity. New Zealand has effectively been in recession since the final

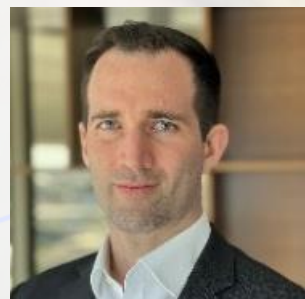
quarter of 2022, but the RBNZ believes that monetary policy must continue to restrain demand because growth in the supply side of the economy has been weaker than previously thought.

New Zealand's poor productivity performance means that the 'speed limit' of the economy is lower than might have otherwise been the case, and that demand needs to be curtailed for longer to allow supply to catch up. Needless to say, this is a painful process that will result in job losses and business failures as the RBNZ seeks to force workers and firms to improve their processes and focus only on the most productive activities.

Consequently, productivity growth will be an important variable to watch in the quarters ahead. The RBNZ will want to see businesses investing in productivity-enhancing capital, and households directing more of their income into savings (which funds business investment) rather than consumption.

What to watch:

- **Q1 national accounts, 20 June** – GDP growth data for the first quarter will be the key economic release of the month. We are expecting a rebound in growth in the quarter but, as noted above, growth in productivity and household savings will be key variables to watch for clues on what the RBNZ might do in the months ahead.



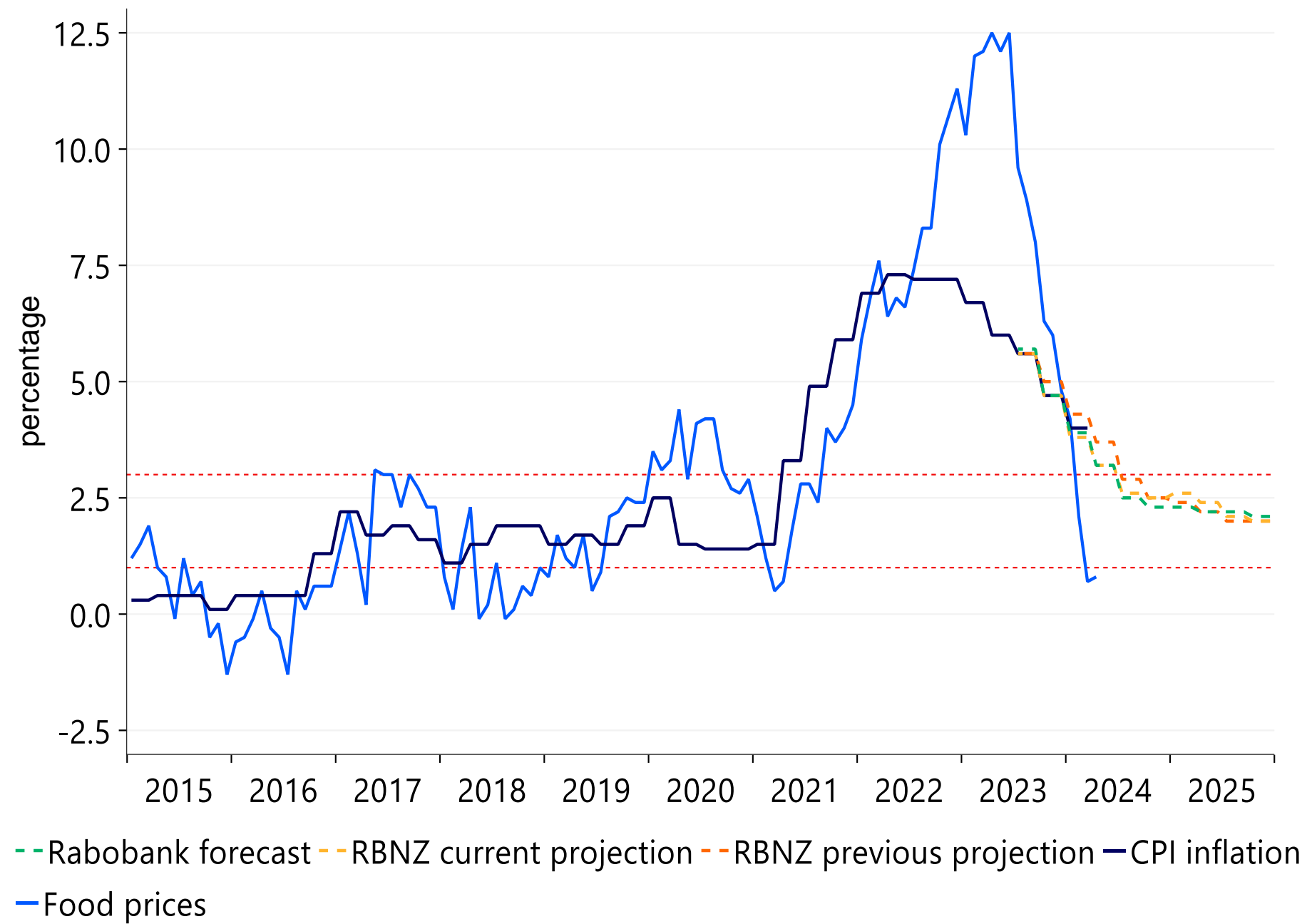
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Interest rate and FX

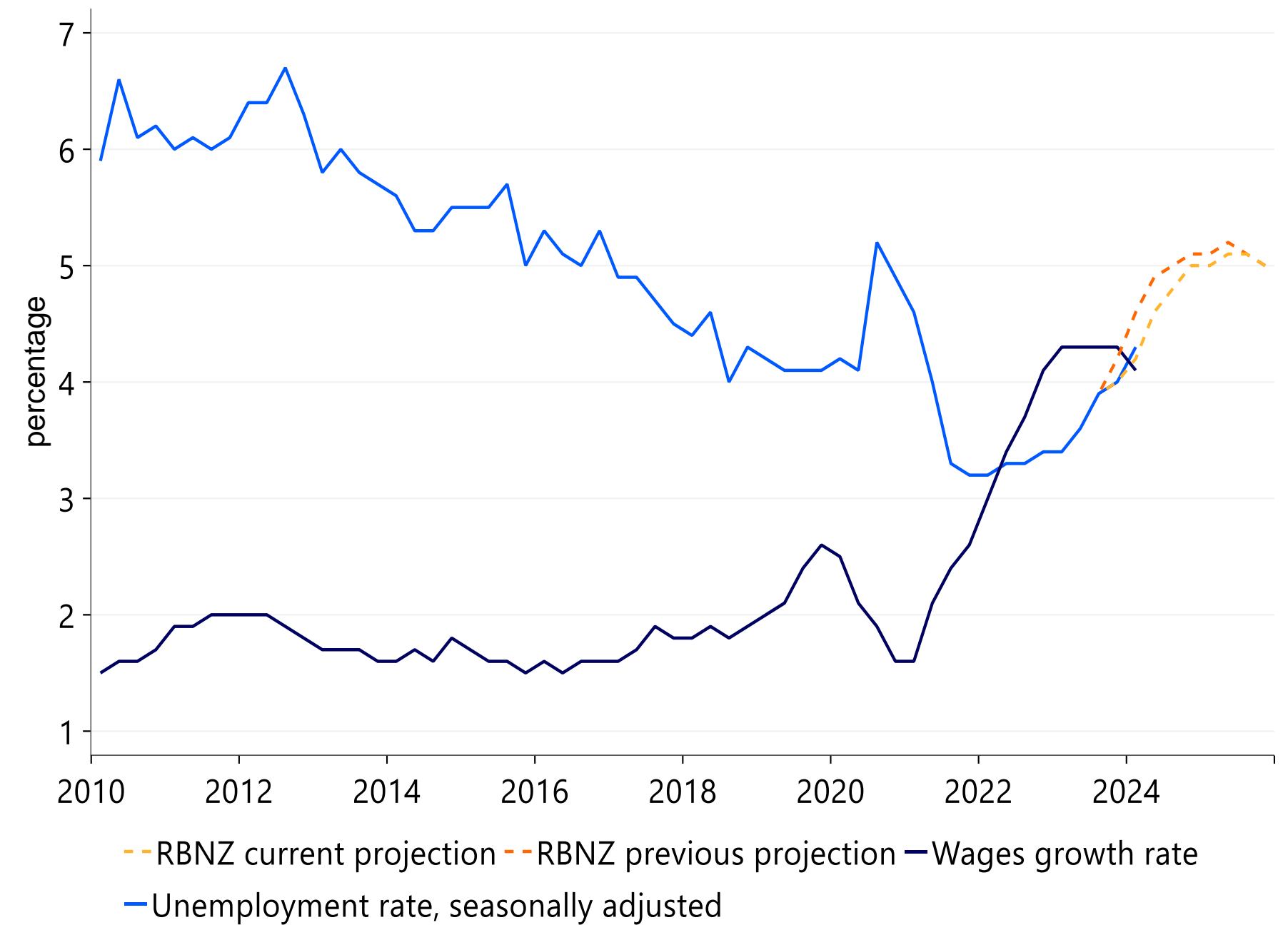
A longer, harder road than first thought

New Zealand inflation indicators



Source: Macrobond, Stats NZ, RBNZ, Rabobank 2024

New Zealand labour market indicators



Source: Macrobond, Stats NZ, RBNZ, Rabobank 2024

Oil and freight

Finally, some good news as oil prices ease

Brent crude recorded its first monthly loss of the year in May. The active futures contract closed the month down 5.26% to USD 81.11/bbl as soggy economic data from the US and disagreement between producers over further production cuts took momentum out of the market.

Rabobank's energy analysts expect crude prices might experience further weakness in the short term, with prices in the high 70s to be tested. Over a longer timeframe, we remain relatively bullish as we expect production in the US to deteriorate and interest rate cuts in key markets to drive increased demand.

Diesel prices also remained under pressure in May.

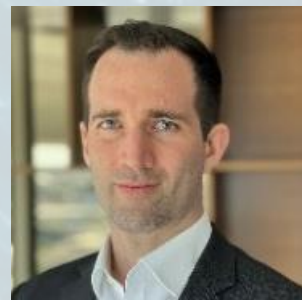
Freight: As global and regional trade demand recovers, congestion arises at key ports in Asia and the Western Mediterranean. This drives up global freight rates as vessels get tied up due to congestion. Global freight rates

normalised earlier this year after the initial shock from the Red Sea situation but are now reaching a tipping point again. Vessels are forced into blank sailing at congested ports, further shrinking the available vessel capacity that is already tight from re-routing the Red Sea. We do expect the congestion to slowly resolve and vessel capacity to expand as new vessels come online throughout the year, but the currently tight capacity leaves hardly any room for future disruptions. Watch out for volatility.

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.

What to watch:

- Will rains improve the Panama canal reduced shipping capacity and pressure container freight rates?
- Can Brent crude oil break below USD 80/bbl and remain there?



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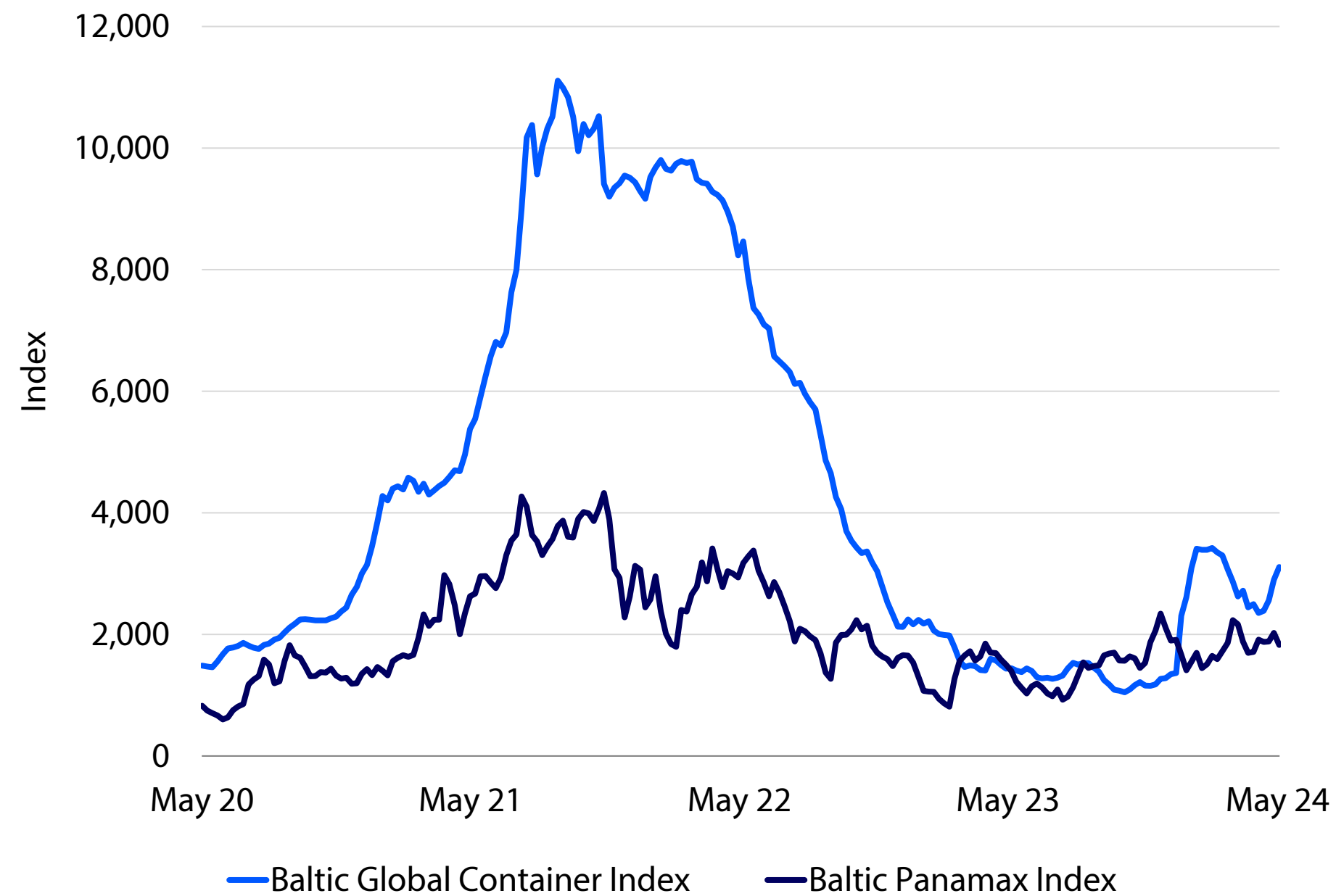
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Oil and freight

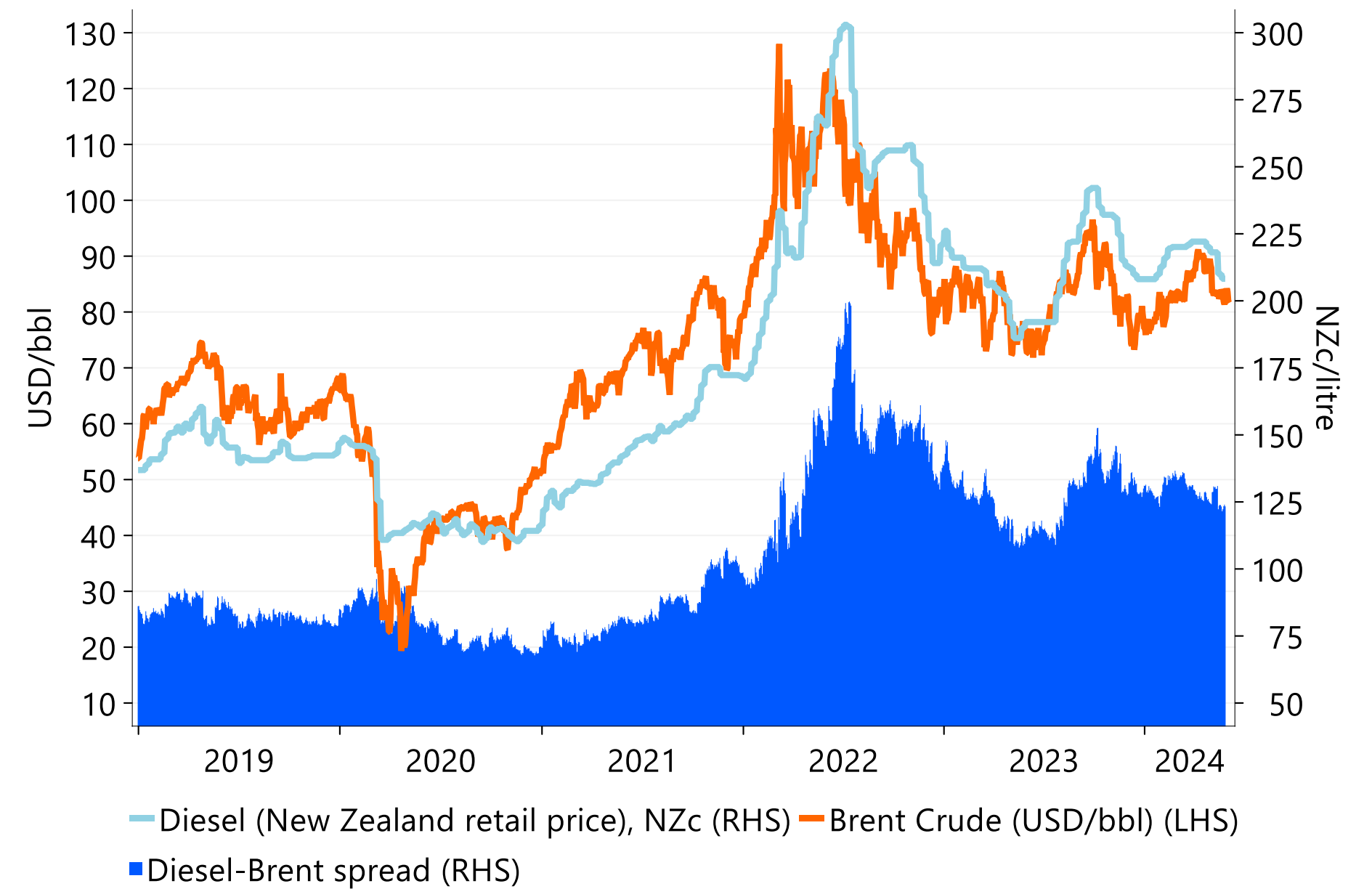
Container rates jump 50% in May, and diesel prices eased following crude pricing

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

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