

Sustaining price momentum into spring

New Zealand agribusiness monthly



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Commodity outlooks



Dairy

Narratives are shifting in dairy markets – from farmgate milk prices, to feed costs, to profitability for farmers across the globe. RaboResearch expects to see a supply response but thinks markets will be able to absorb the additional milk.



Beef

Beef continues its positive run with processor procurement adding further upside to farmgate pricing. The medium-term general market outlook remains strong.



Sheepmeat

The AgriHQ SI lamb price hit NZD 7.70/kg cwt, with processors likely aiming to draw out the last of the old season lambs. Eyes now focus on the green shoots of the new season.



Farm inputs

Month-on-month price movements were modest across fertilisers as uncertainty regarding global demand kept prices trading within a range. On the supply side, China remains absent from the export market and natural gas prices remain volatile.



Interest rate and FX

The RBNZ kicked off its rate cutting cycle in August, but rates remain at restrictive levels. We expect consecutive cuts at the next three meetings before the pace starts to slow in Q2 next year.



Oil and freight

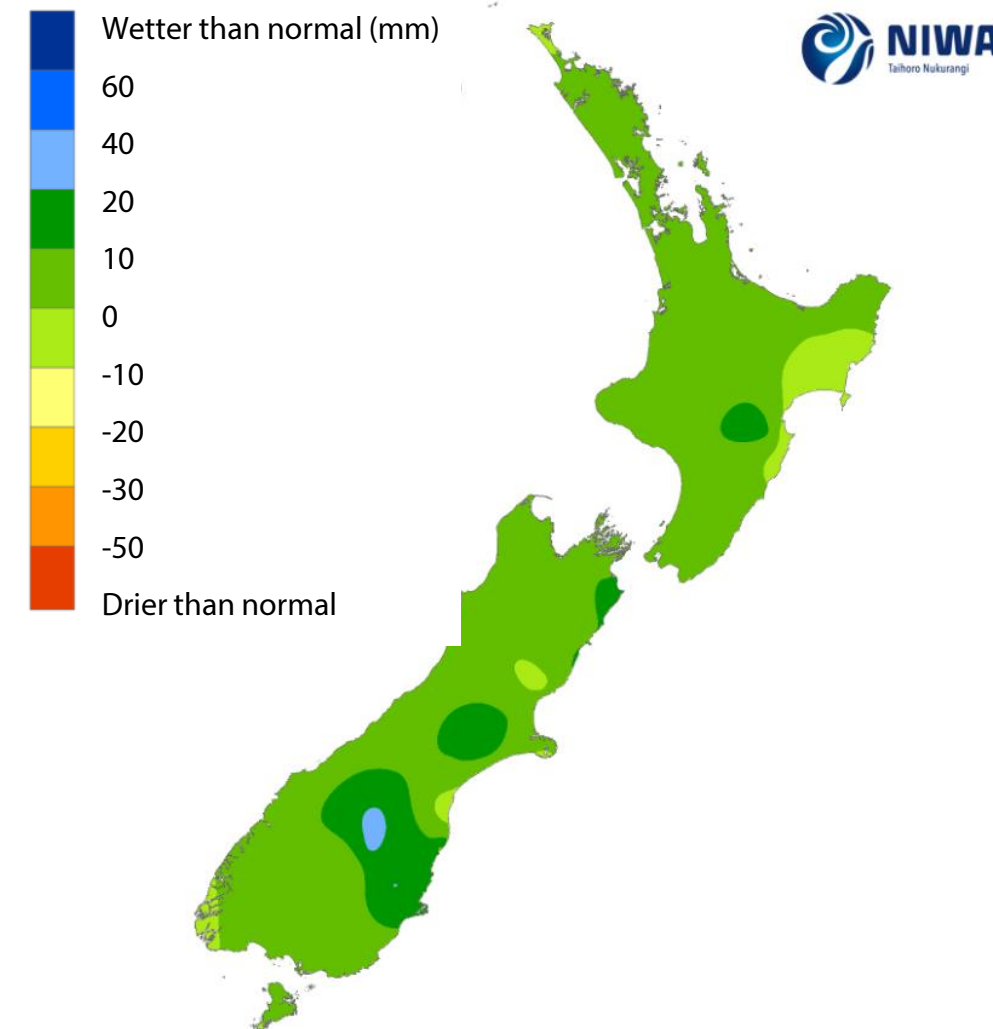
Oil prices continued to moderate in August and could slide further in September as demand shows signs of easing. Seasonal demand patterns are expected to place upward pressure on freight rates in the near term.



Climate

Spring is springing to kick things back into gear

Soil moisture anomaly (mm), 31 August 2024



Source: NIWA, RaboResearch 2024

Unusual spring warmth is possible for over the next three months due to warm air occasionally arriving from our neighbour, Australia.

The National Institute of Water and Atmospheric Research (NIWA) notes that temperatures for the three months to November 2024 are likely to be above average for the top of the North Island and the east coast of both islands, with the rest of the country experiencing either average or above-average temperatures over the period.

Rainfall through to November 2024 is expected to be normal for the top of the North Island. The east coast of both islands is likely to receive either normal or below-normal rainfall. NIWA forecasts the remainder of the country to have either above-normal or normal rainfall levels over the same period.

Soil moisture levels are most likely to be near normal for most of the country through to November.

Some regions in the south have seen lower-than-usual water collections over winter meaning some snow or rain may be welcomed to top reserves up.

What to watch:

- **As temperatures warm with the arrival of spring, there is still a chance of colds snaps** – This is especially the case in the south, which history tells us can still get severe weather or even snow through September.
- **Pasture growth rates are likely to start rapidly increasing by the end of September** – Longer days and warming soil temperatures mean good pasture management practices should be a key focus to set up the rest of spring.

Dairy

Balanced markets helping farmgate milk price forecasts

August brought mostly positive trading conditions to Oceania dairy commodity markets. SMP and cheese spot prices each ended the month marginally higher than the prior month, while WMP spot prices were up 3% YOY. Butter, however, recalibrated back 10% over August 2024 in response to higher prices in the preceding months. Global fundamentals remain well balanced, which is keeping price direction largely neutral.

The New Zealand milk production season is likely to bring a positive result for the full year ending 31 May 2025. The second month of the season, July, saw milk supply hit record levels – albeit early days in the season and a typically a low-output month – with a lift of 8.4% on a tonnage basis.

Conditions in the lead-up to the seasonal peak suggest New Zealand could produce an increase for the month of October – the first since 2020. Markets will be paying close attention to weather conditions.

Milk price forecasts for the current 2024/25 season are lifting. Fonterra has raised its forecast by 50 cents to NZD 8.50/kgMS. Elsewhere around the globe, farmgate milk price improvement has also been welcomed – and needed. While Aussie milk prices are a clear exception, US, Dutch, and Irish prices are up 10% or more since the start of the year.

Global export region milk supply will likely improve by the year's end in response to better margins and (hopefully) better weather. Drought-induced double-digit declines in 1H 2024 for parts of South America look set to improve from 2H 2024. Australian milk supplies appear like they will continue to recover, though feed prices are more volatile with parts of Victoria already experiencing winter dryness. New Zealand's tale of two islands looks set to continue – with the storyline flipped due to improved North Island conditions this season.

What to watch:

- **China's anti-subsidy probe into some dairy imports from the EU** – While we understand the initial scope of the investigation is limited to some cheese, milk, and cream products from certain EU regions, Australian exporters caught up in trade war crossfires recently will testify that such investigations can linger longer or extend wider than initially suggested. If additional tariffs are implemented, it is likely that Oceania- and UK-sourced products will displace less-competitively priced European products.



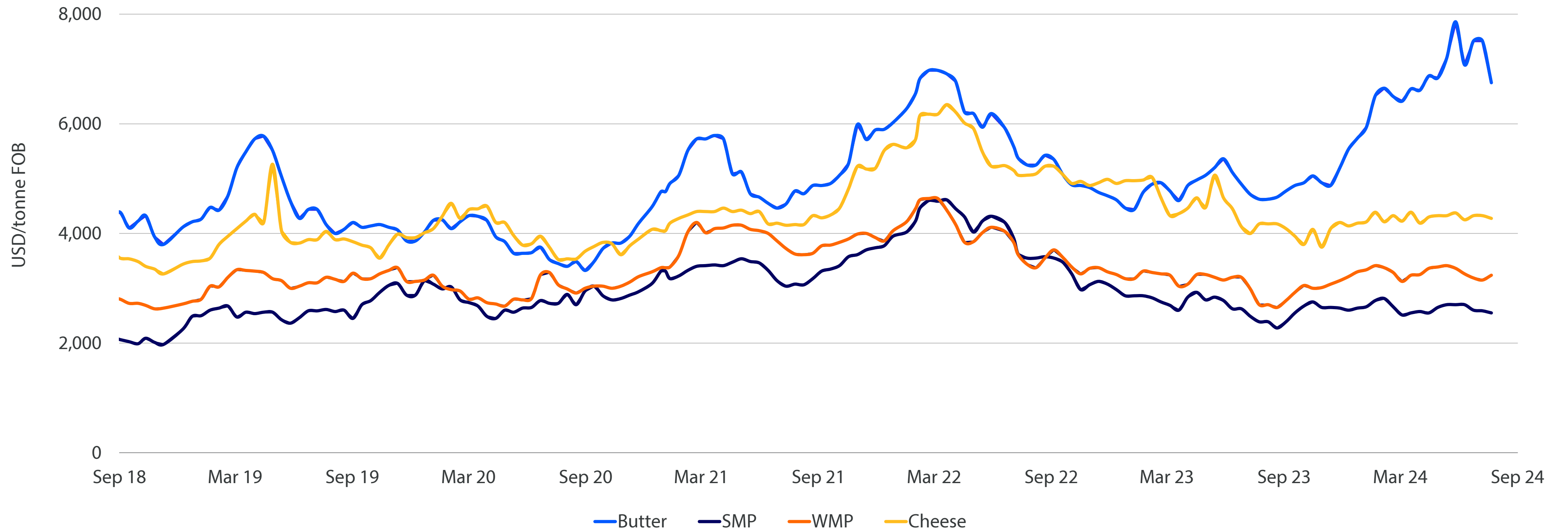
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Dairy

Steady as we go for dairy commodities

Oceania spot prices for dairy commodities



Source: USDA, RaboResearch 2024

Beef

Processors struggling for numbers over winter

As farmgate prices soar ever higher, the winter cattle market in New Zealand is seeing shortages emerge, especially in prime beef. Processor procurement pressure is driving some of the farmgate price as winter continues. Farmgate prices for all cohorts of cattle are sitting up to 21% higher than the five-year average.

For the four weeks to 3 August, national prime steer and heifer slaughter numbers were down 17% YOY a piece while national bull beef numbers were down 35%. These lower slaughter figures are somewhat a reflection of current lower cattle numbers in New Zealand.

Demand for store cattle is strong and continues, given the expectations of above-average beef pricing in the medium term. R1 cattle are seemingly the most sought-after cohort in terms of pricing.

July export volumes reflected the lower beef slaughter numbers with total volumes down 14% YOY to just under 39,000 tonnes. The US market continues to

lead the way in both volume and value, taking nearly half of this volume, at 16,607 tonnes.

Volumes to both China and the US were down for July, year-on-year, but the value of US exports was up by just over NZD 10m to NZD 165.1m, indicating the continuing strong demand here. This has been a theme in 2024.

Chinese demand is still sluggish for red meat exports, and average export values remain flat. Beef volumes to China for July were down by 6,500 tonnes YOY to 9,563 tonnes with value down by 46% YOY to NZD 65.2m.

The bobby kill is well underway, with slaughter numbers in the four weeks to 3 August down 7% compared to the same weeks last year. There may be more dairy beef being reared. This will be something to watch as numbers become clearer in weeks to come.

Overall, beef continues to perform well, and prices look set to remain above average in the medium term.

What to watch:

- **If the China demand ship starts to turn around, even slightly, there may be more positive upside in beef pricing –** However, at this stage there is unlikely to be a rapid improvement in the value of exports to China in the medium term. Because New Zealand also exports a lot of beef to the US, this market is becoming the North Star. It will likely guide prices for New Zealand beef over the next two years as the US enters a beef herd rebuilding phase.



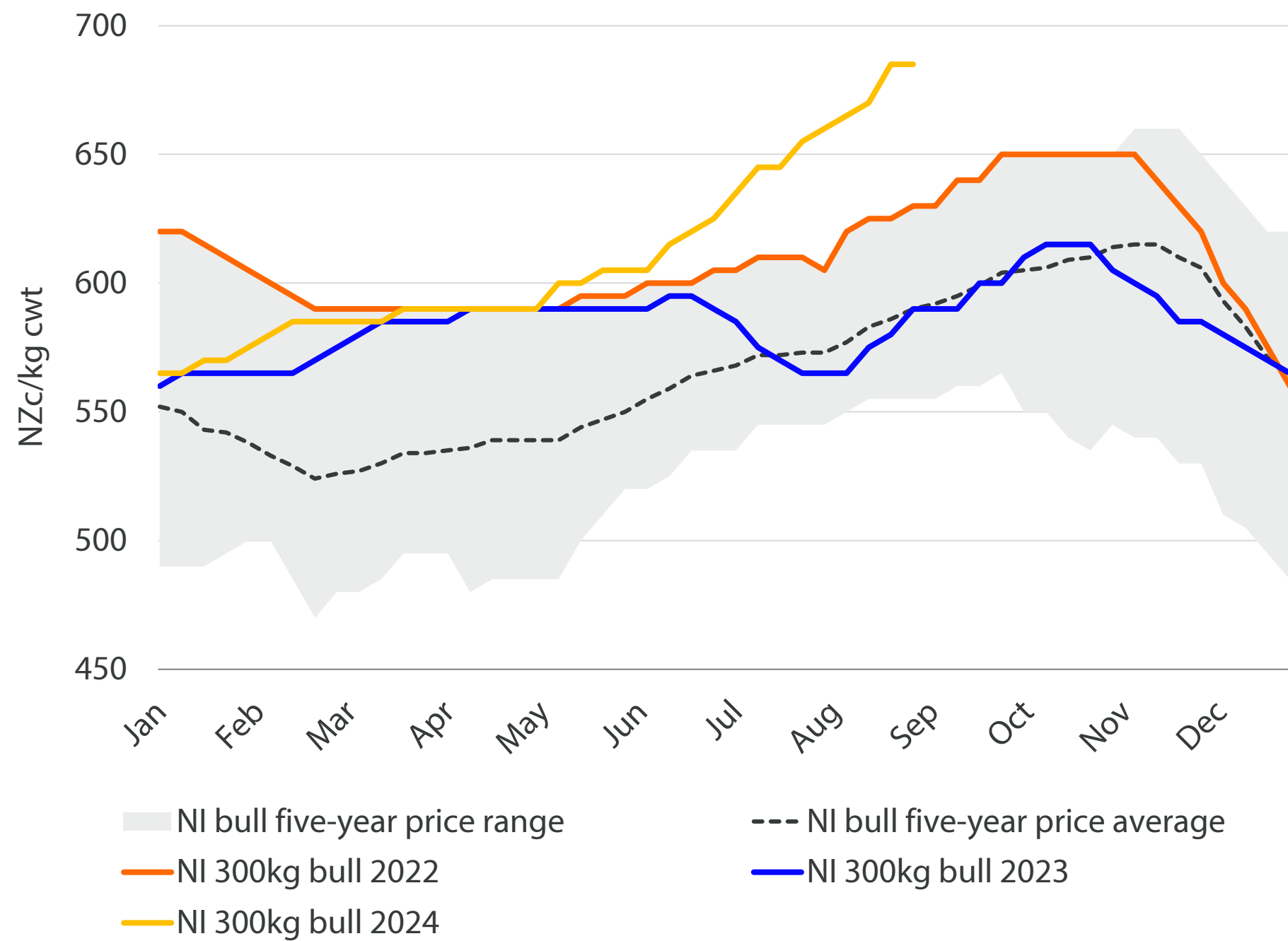
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Beef

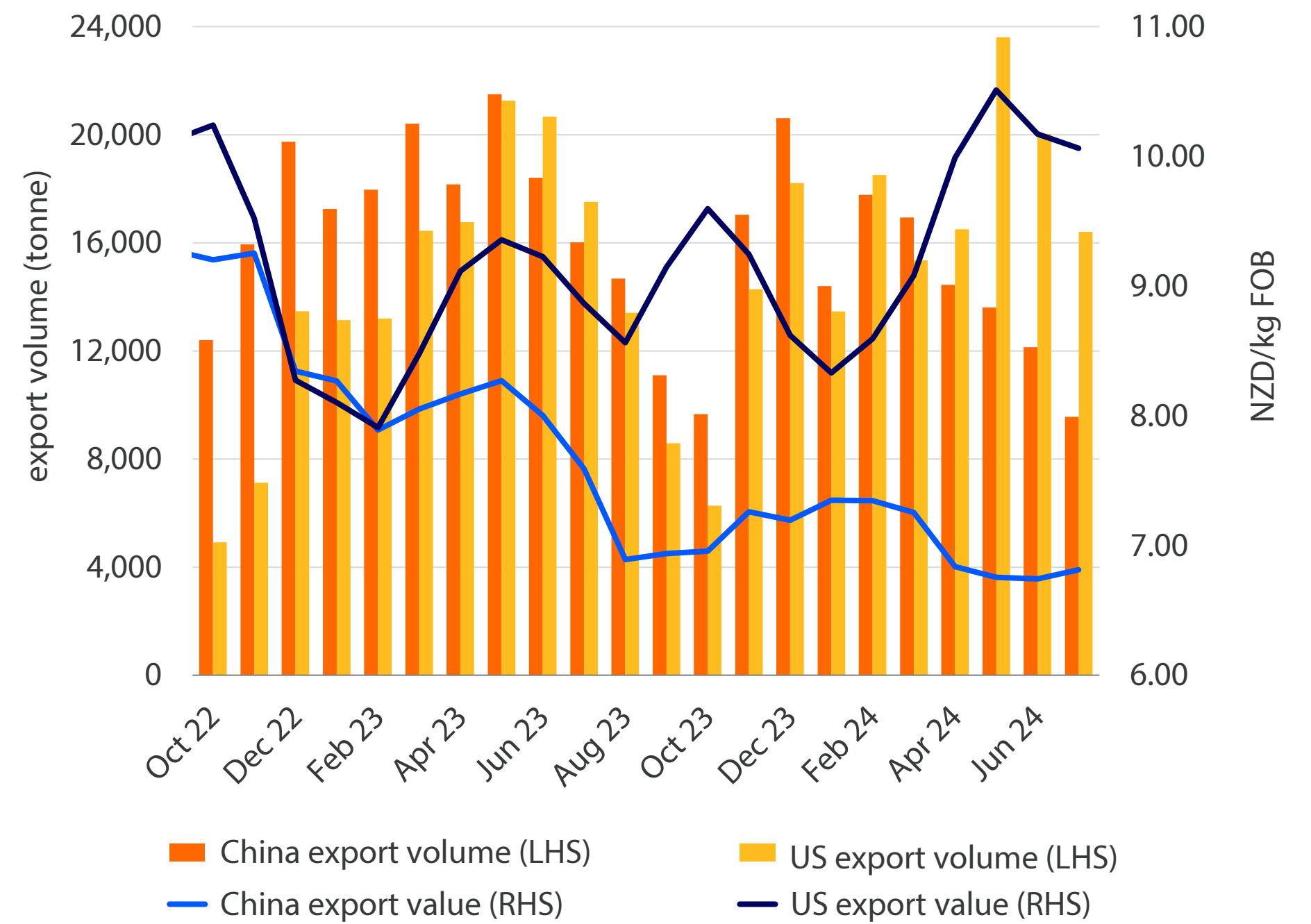
A differing tale of volume and value for New Zealand's two largest beef markets

AgriHQ North Island bull price well above five-year average



Source: AgriHQ, RaboResearch 2024

A gap in average export value remains for China and the US



Source: Stats NZ, RaboResearch 2024

Sheepmeat

Farmgate prices creep up as new season approaches

The South Island lamb price continues its upward trend, now back within the five-year average range at NZD 7.70/kg cwt to start September.

Lamb slaughter numbers in the six weeks to early August were down 35% on the same weeks of 2023. Processor procurement pressure is driving some of this pricing to draw the last lambs out. But the average export value is now heading in an upward direction, which is good news as producers eye the 2024/25 season.

The total value of sheepmeat exports for July 2024 was up 5.4% YOY to NZD 255.7m. Total sheepmeat export volumes in July 2024 were up 8% versus July 2023, with higher mutton exports largely making up the difference in volume.

Higher-value export markets for lamb continue to take additional export volumes compared to last year, helping to drive up average export values, and thus future farmgate pricing. The UK, the EU-27, and the US, the three biggest markets for lamb after China, are leading the charge as exporters look to diversify volumes away from China.

What to watch:

- **New Zealand sheep numbers reported by Beef + Lamb New Zealand in its annual stock survey dropped by 4.3% YOY to 23.3m** – This decline is attributed to land-use change and drought in some pockets over the past 18 months. However, with ewe numbers estimated around 14.4m (-2.9% YOY) and slightly lower lambing percentages compared to 2023 expected this year, there will likely be a ripple effect for lamb numbers in the 2024/25 season, which may put some pressure on the supply chain.

The EU-27 again was the most valuable market for sheepmeat, bringing in NZD 63.3m, up 25% on July 2023. Meanwhile, exports to the UK took a huge leap. July volumes were 4,078 tonnes, up 92% YOY, representing a 95% upswing in value, reaching NZD 40.2m.

With good, free trade access for New Zealand, the UK and the EU-27 markets offer healthy green shoots for the value of lamb exports heading into the new season. Wildcards around shipping costs will be something to watch in the high-cost new normal faced by producers and exporters alike.

China continues to have sluggish demand, with total volumes of New Zealand sheepmeat imported in July down 16% YOY to 9,980 tonnes with value down 28% to 51.8m.

China remains vital for taking volume of lower-value cuts, flaps, and mutton. For lamb at least, New Zealand can start to lean into some other markets to add value to the export dollar. Finding markets for taking volume of lower-value cuts remain a challenge.



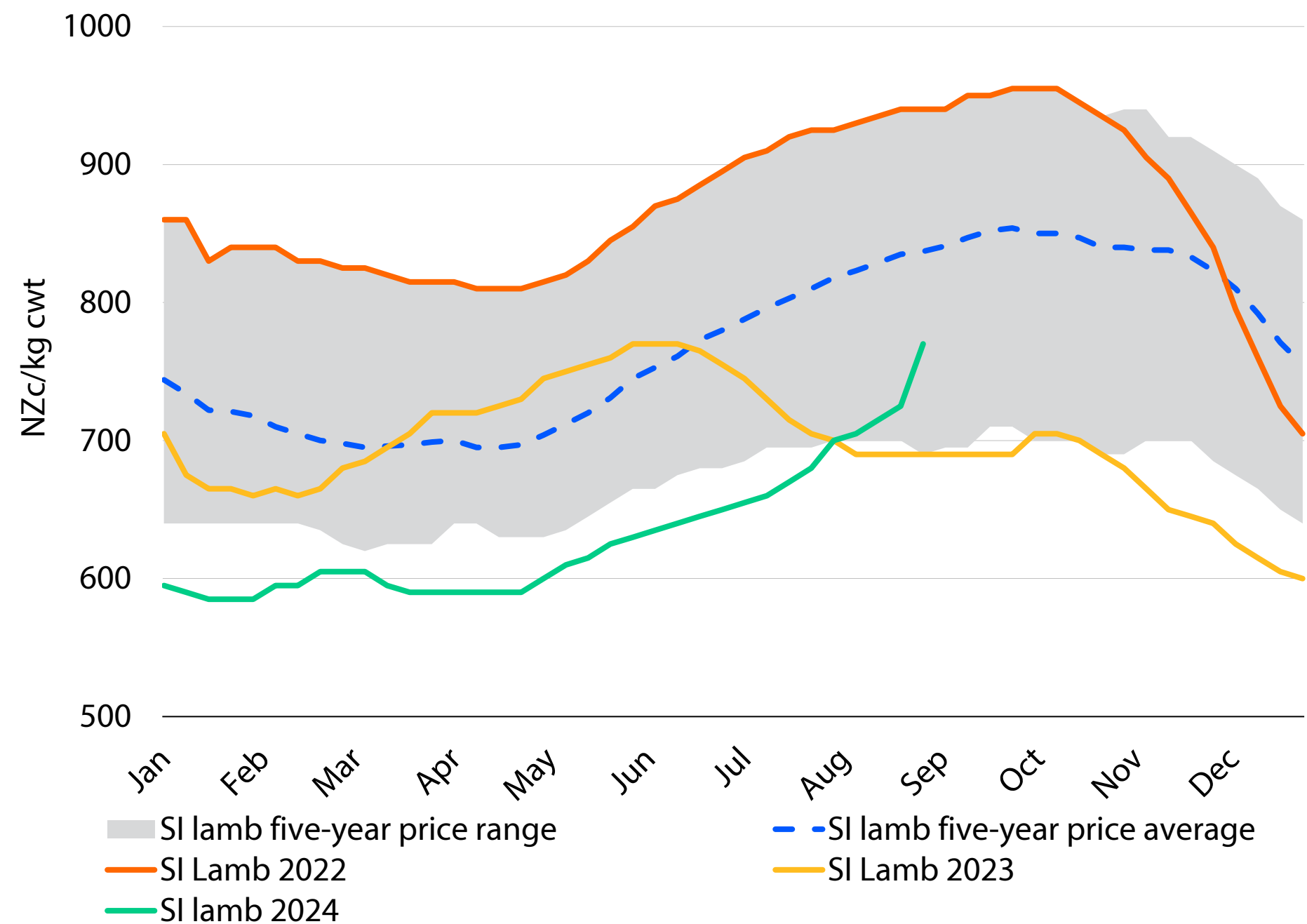
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Sheepmeat

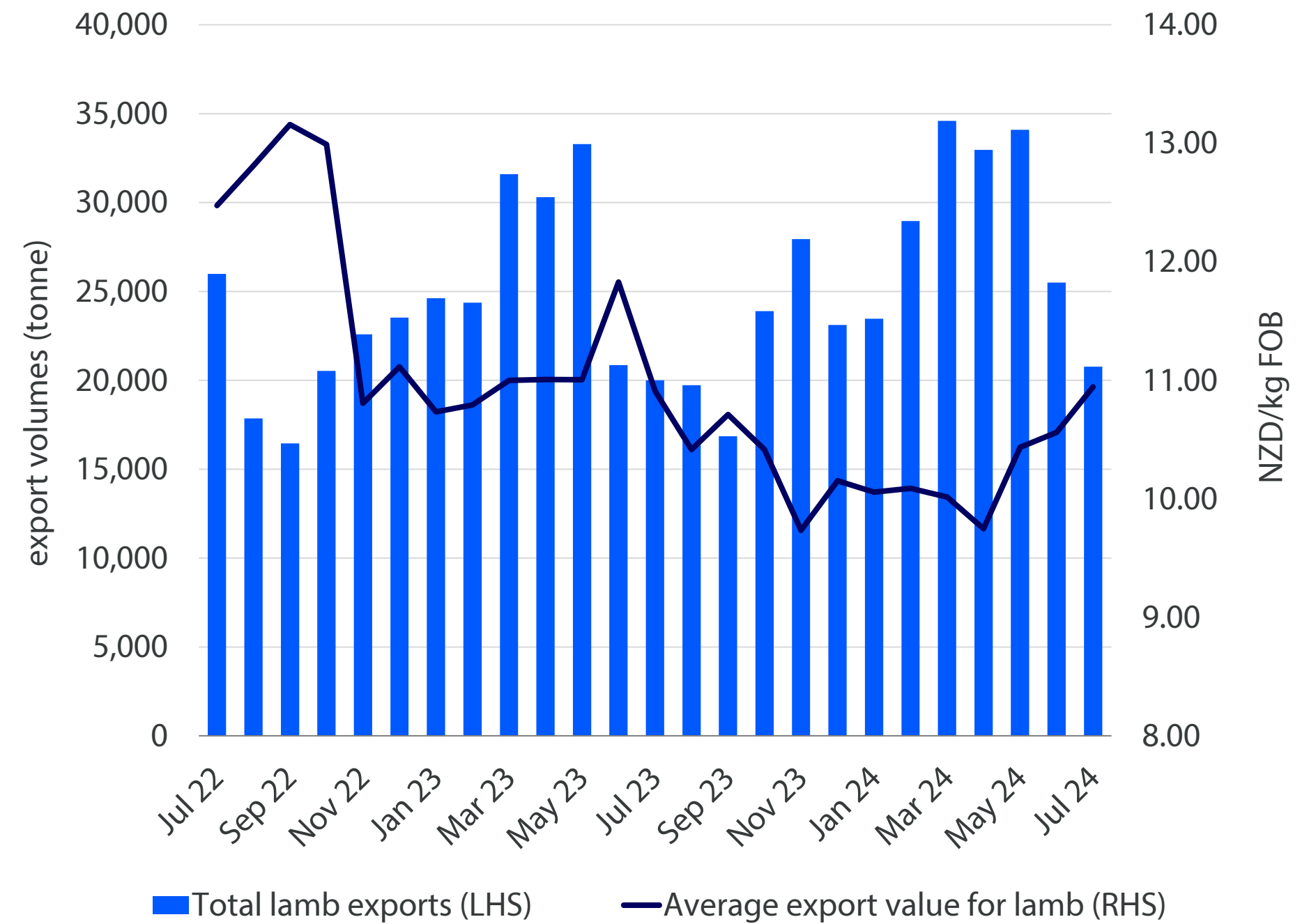
Average export value for lamb slowly increasing

AgriHQ South Island lamb price surpasses winter 2023 levels



Source: AgriHQ, RaboResearch 2024

Lamb export values are slowly trending up



Source: Stats NZ, RaboResearch 2024

Farm inputs

Global demand remains a question mark

DAP prices found support in August as signs of increased demand pushed prices higher. In mid-August, it was announced that India agreed a deal to import 500,000 tonnes of Moroccan DAP. This led to a USD 13/tonne increase MOM in Middle East spot netbacks.

For urea, the demand picture is less clear. The key questions are: When will India reenter the market, and how large will its tender be? If the tender is larger than the market is anticipating, we could see price volatility upon the announcement. That being said, outside of the potential of a large Indian tender, global urea demand continues to look weak, and given that prices for grains and oilseeds (among other agri commodities) continue to slide lower, we're unlikely to see major alterations to the current tepid global demand outlook in the short and medium term. This is likely to keep a lid on price rallies.

In terms of urea supply, China remains largely absent from the export market, and there continues to be little indication regarding its return. The other talking point is Egypt, as it

continues to struggle with natural gas issues. Although most plants are back in operation, the potential for blackouts remain.

One of the key risks for urea pricing going forward is volatile natural gas prices. TTF natural gas prices have risen sharply over the past couple of months. However, we don't expect to see major upside from current levels over the next 12 months, given high inventory levels and the trend of warmer winters. Ultimately, this means urea prices are unlikely to be pushed notably higher by natural gas rallies.



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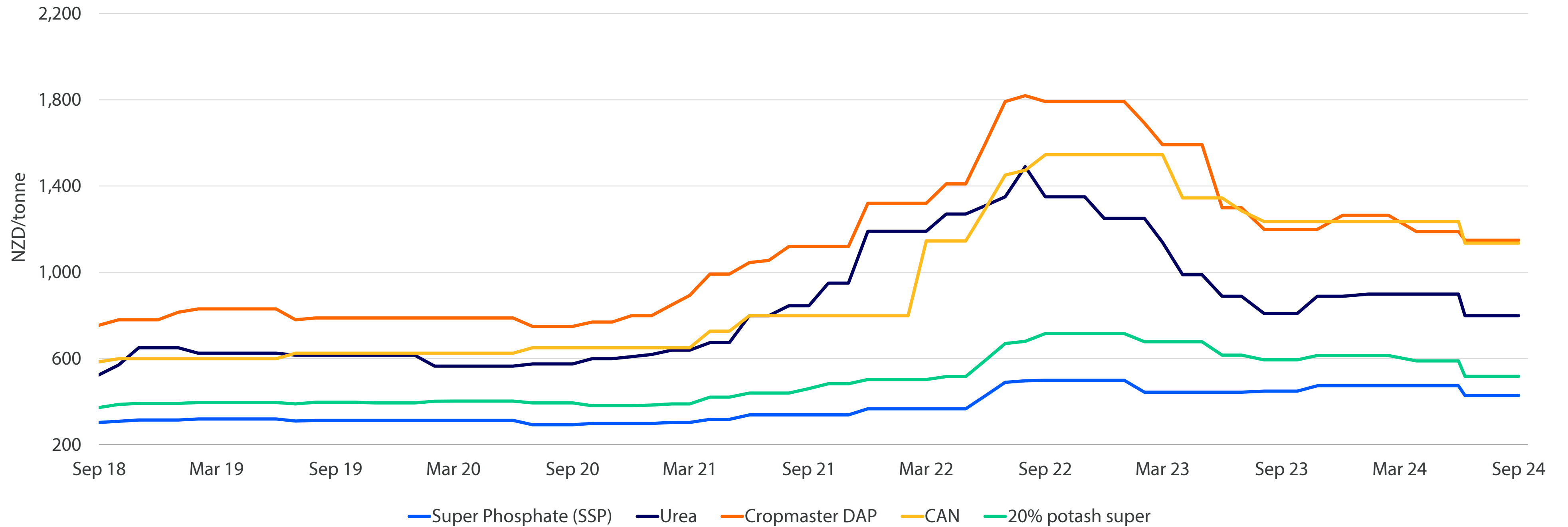
What to watch:

- **India entering the urea market** – The biggest potential driver for price to keep an eye on in this month whether we see a big urea tender from India. This could potentially cause volatility within urea markets in the short and medium term.
- **Chinese urea exports** – The other factor to keep an eye on is Chinese urea exports. There is no indication of when China will return to the market, so this remains an unknown.

Farm inputs

The global demand picture continues to look unclear while some supply constraints remain

NZ fertiliser prices were once again unchanged MOM



Source: CRU, RaboResearch 2024

Interest rate and FX

Missed it by that much

The RBNZ delivered a much-anticipated cut to the official cash rate (OCR) in August, providing welcome relief to businesses and households feeling the pressure of high interest rates.

Regular readers will be aware that here at RaboResearch we had been forecasting an August rate cut since as far back as November last year, but early last month we pushed back our forecast by one meeting on suspicions that the RBNZ would want to see more progress on non-tradeable inflation. In the end we “missed it by that much,” but we’re encouraged to have been so close to the pin from so far out.

The state of the real economy in New Zealand more than justifies the removal of some of the restrictiveness of interest rates. Inflation is not fully defeated yet, but the RBNZ will need to cut many more times just to get the OCR to a level that it deems “neutral” (that is, neither adding to or subtracting from inflationary pressures). Since changes in interest rates take a long time to be felt

in the real economy, we have been of the view that the RBNZ would be justified in cutting sooner rather than later.

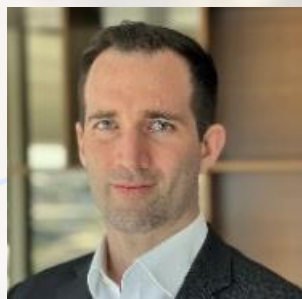
Now that the cutting cycle has officially begun, the big question is: How quickly will it progress? Our view is that the RBNZ will deliver three more 0.25 percentage point cuts at successive meetings (October, November, and February), before slowing the pace of rate reductions in Q2 2025.

Some lingering inflation risks are still present in the economy and the labour market has so far proved to be remarkably resilient to very weak economic growth. **Consequently, we expect the cutting cycle to be steady but unpanicked, with the OCR ultimately reaching 3.50% in early 2026.**

We remain bullish on the prospects for the New Zealand dollar and are forecasting it to hit 0.6500 against the US dollar on a 12-month view.

What to watch:

- **Q2 National Accounts report, to be released 19 September** – Economic growth has been very weak in New Zealand, with a several technical recession recorded. We expect growth of -0.2% in Q2 to be followed up with negative quarters in Q3 and Q4, marking another technical recession.



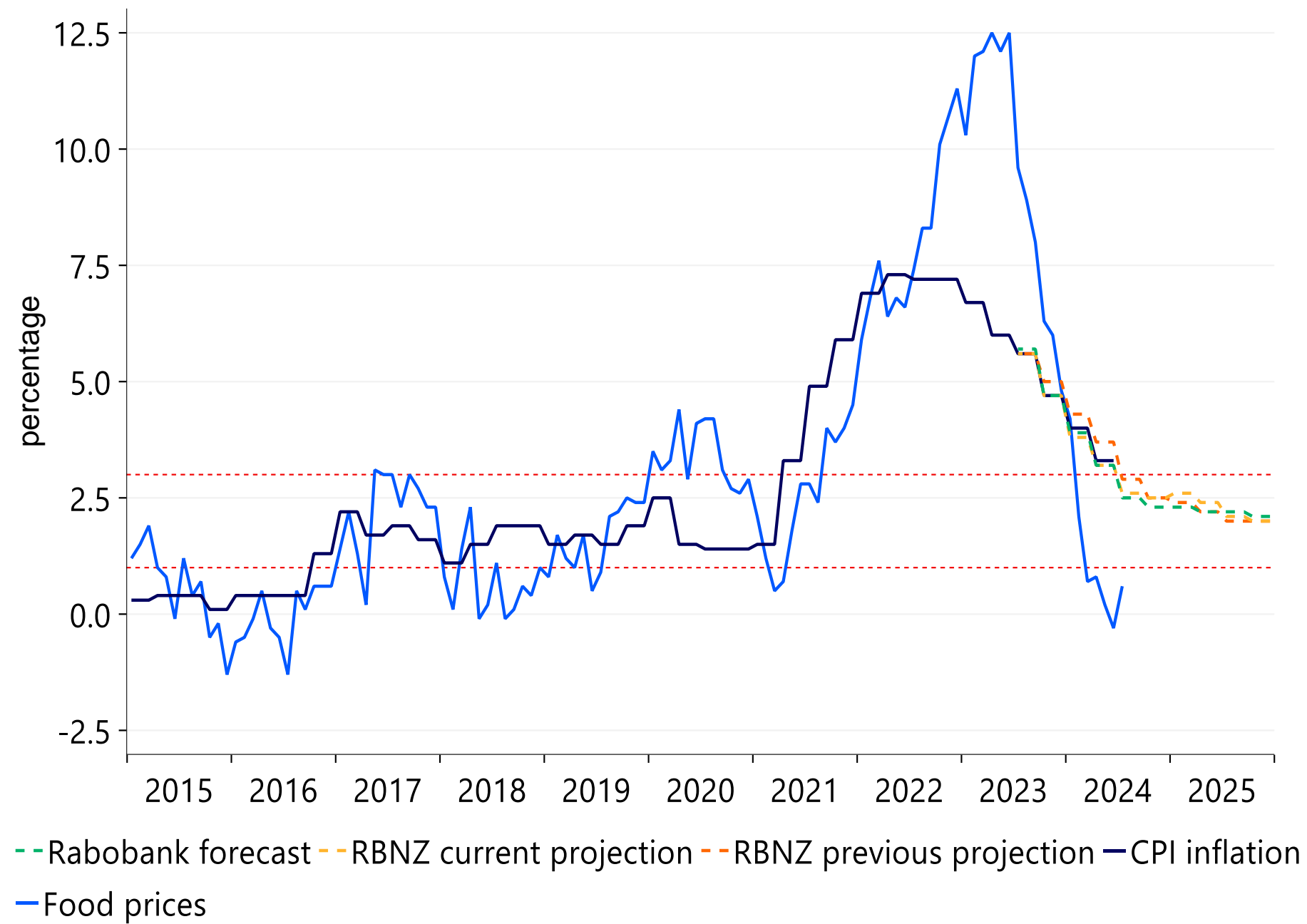
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Interest rate and FX

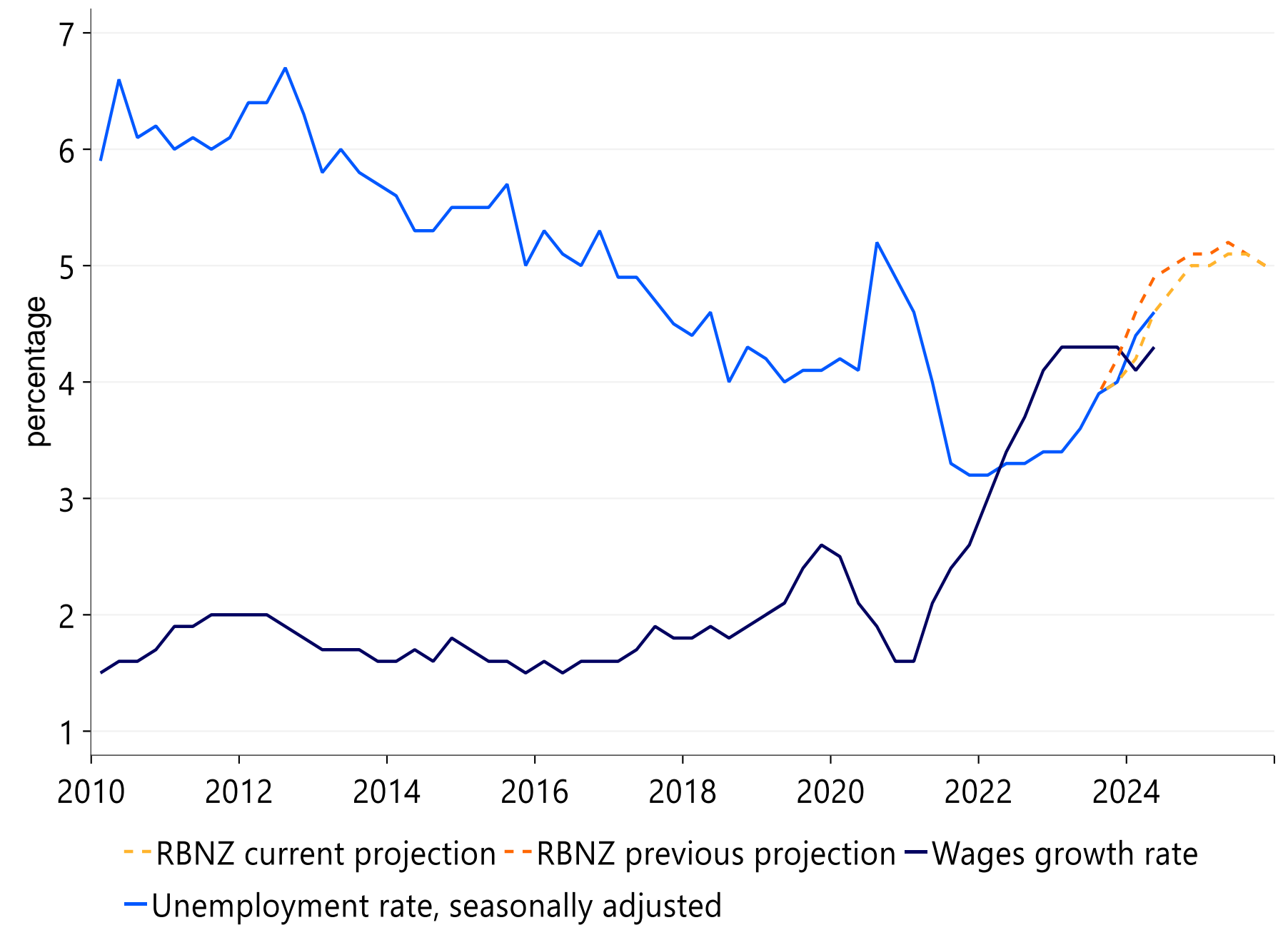
RBNZ to catch the falling inflation knife

New Zealand inflation indicators



Source: Macrobond, Stats NZ, RBNZ, RaboResearch 2024

New Zealand labour market indicators



Source: Macrobond, Stats NZ, RBNZ, RaboResearch 2024

Oil and freight

Crude and diesel prices continue to fall

Benchmark Brent crude oil prices fell for a second straight month in August, closing the month at USD 78.80/bbl.

A soft demand outlook continues to weigh on prices as Chinese growth stutters, the United States continues to exhibit signs of economic slowdown, and risks of supply interruptions in the Middle East appear modest.

US supply growth has slowed and OPEC+ producers are planning to increase supply in Q4 of this year, when the voluntary production cuts agreed to in July will be tapered. Questions are now being asked about the market's capacity to absorb that increased supply.

BloombergNEF released its road fuel outlook in August, suggesting that continued strong take-up of electric vehicles in China, Europe, and California could help to see road fuel demand peak as early as 2027. The market is already swinging into oversupply, so demand destruction courtesy of EV take-up would provide a bearish influence.

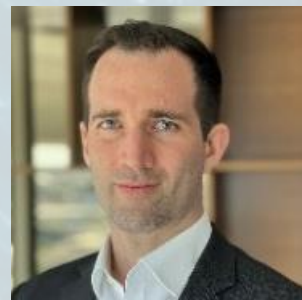
As shippers and carriers prepare for the peak holiday season, moderate demand increases lead to continued inflation in pricing. Though there may be a temporary softening of demand during the Northern Hemisphere summer, increased seasonal demand leading into the holiday period will soon be felt, especially for outbound lanes from Asia. This will, in turn, have a ripple effect on other routes globally, impacting container availability and pricing.

As of 12 August, only 0.6% of the global fleet was idle, including the 2m 20ft equivalent units (TEU) of new capacity that entered the market this year. Another 1m TEU of capacity is planned to come online during the remainder of 2024 and 2m TEU during 2025. This will provide a buffer for any short-term disruptions, help relieve capacity constraints before the Red Sea situation resolves, and push the global market into overcapacity afterward.

The Baltic Panamax index (a proxy for grain bulk freight) seems to have stabilised in the recent month around sub-2,000 levels, as the market lacks near-term momentum.

What to watch:

- **US Federal Reserve** – The Fed is widely expected to begin cutting interest rates in September, with some suggestions that it may begin with a supersized 50bp cut. Chairman Jerome Powell's comments on the state of the economy will be worth paying attention to, as they may contain clues about the demand outlook for transport fuels.



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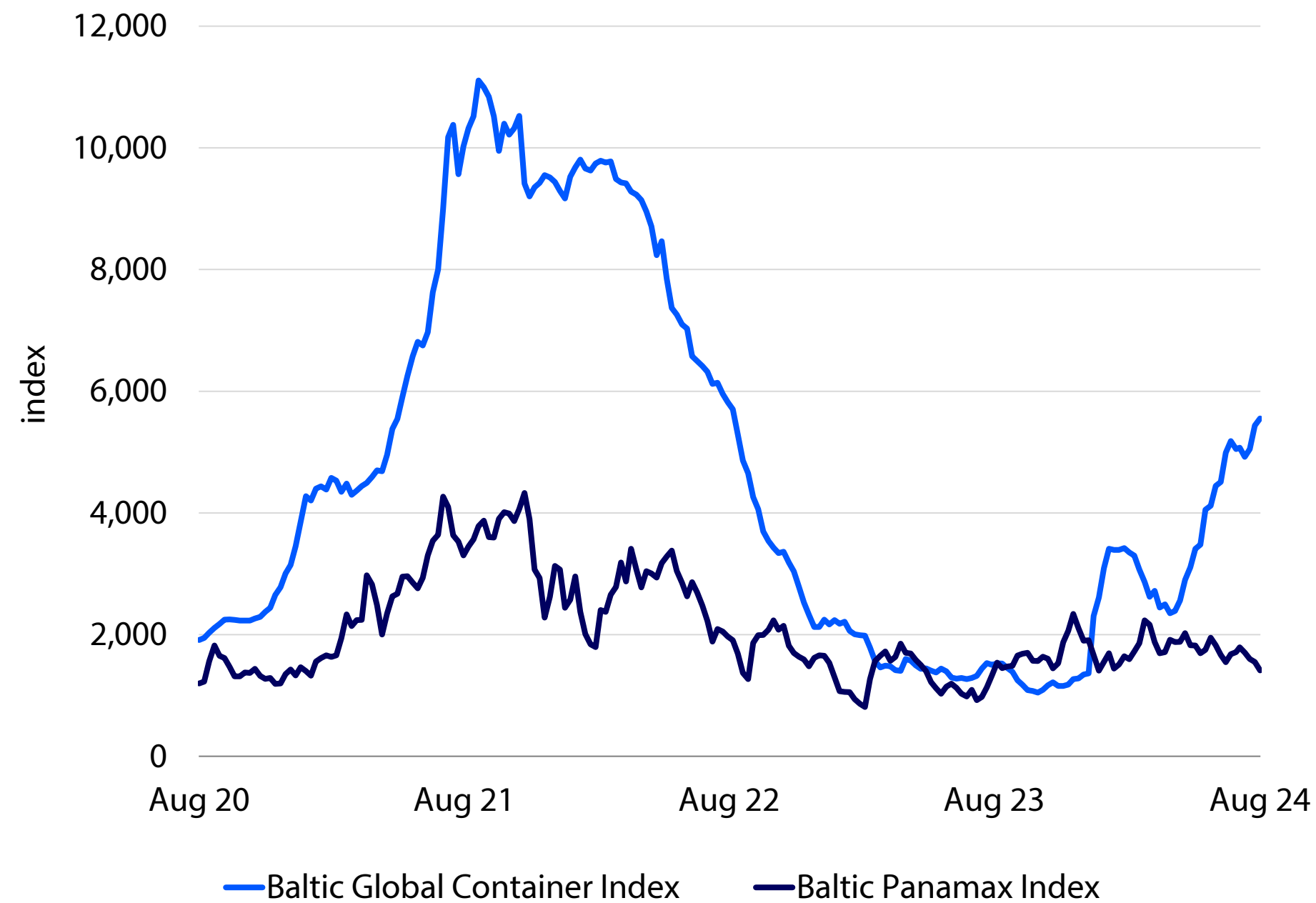
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Oil and freight

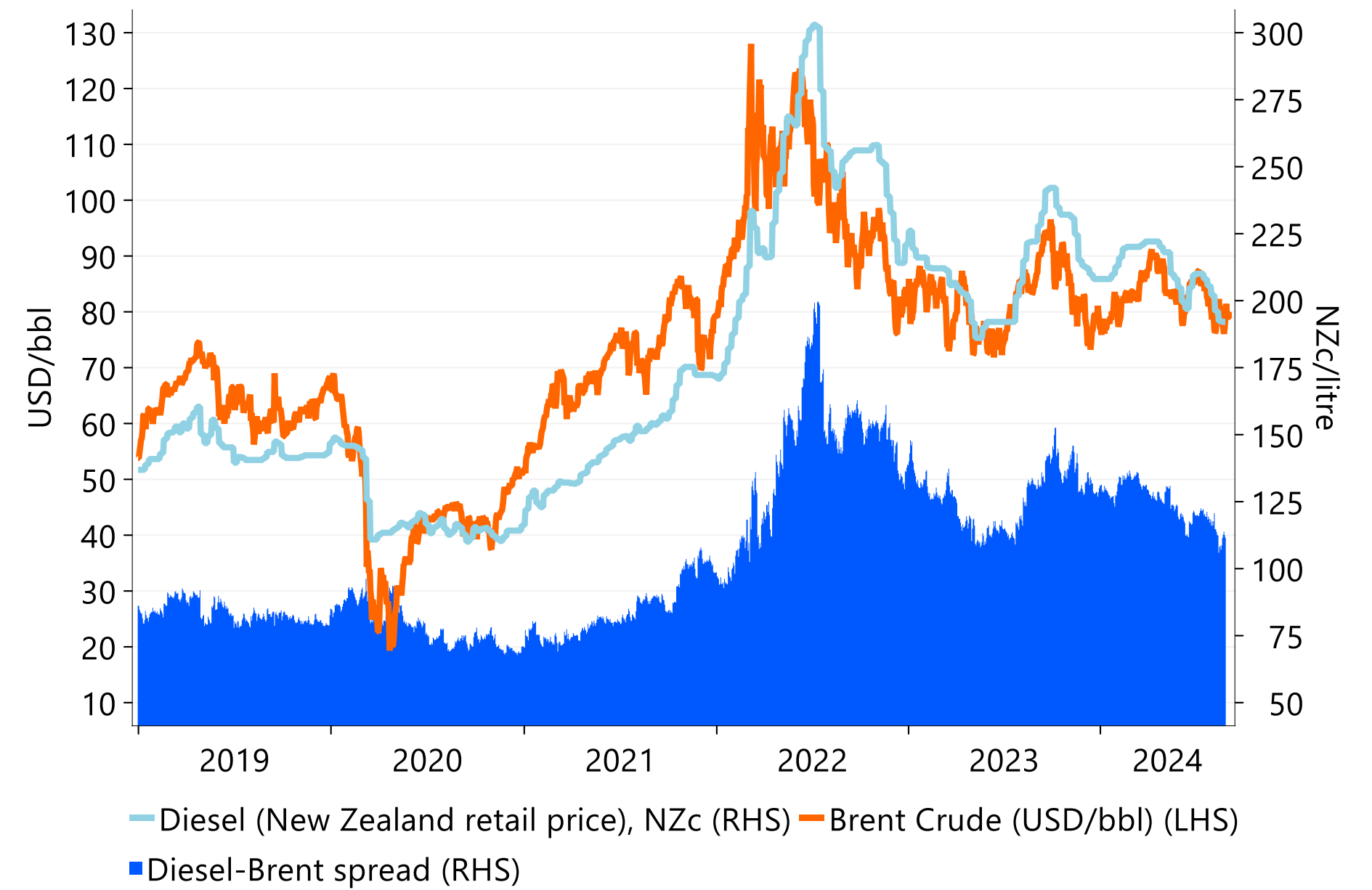
Energy prices continue to slide while seasonal demand pushes container rates higher

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

04/09/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	552	540	581
CBOT soybean	USc/bushel	▼	997	1,044	1,360
CBOT corn	USc/bushel	▼	386	391	472
Australian ASX EC Wheat Track	AUD/tonne	▼	310	330	390
Non-GM Canola Newcastle Track	AUD/tonne	▼	648	670	690
Feed Barley F1 Geelong Track	AUD/tonne	▼	285	310	345
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	676	671	461
Feeder Steer	AUc/kg lwt	▲	369	359	288
North Island Bull 300kg	NZc/kg cwt	▲	685	660	590
South Island Bull 300kg	NZc/kg cwt	▲	625	600	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	810	801	443
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	740	690	695
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	770	700	690
Venison markets					
North Island Stag	NZc/kg cwt	▲	980	860	880
South Island Stag	NZc/kg cwt	▲	925	860	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,378	7,513	4,625
Skim Milk Powder	USD/tonne FOB	▲	2,625	2,588	2,388
Whole Milk Powder	USD/tonne FOB	▲	3,525	3,150	2,700
Cheddar	USD/tonne FOB	▲	4,363	4,325	4,175

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

04/09/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	81.2	79.6	99
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	70.8	66.6	86
Sugar markets					
ICE Sugar No.11	USc/lb	▲	19.5	18.1	26.2
ICE Sugar No.11 (AUD)	AUD/tonne	▲	641	613	798
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,086	1,124	1,127
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	•	343	343	383
DAP (US Gulf)	USD/tonne FOB	•	550	550	550
Other					
Baltic Panamax Index	1000=1985	▼	1,305	1,697	1,466
Brent Crude Oil	USD/bbl	▼	74	76	91
Economics/currency					
AUD	vs. USD	▲	0.671	0.650	0.638
NZD	vs. USD	▲	0.618	0.594	0.587
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	•	5.50	5.50	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

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