

Marching into the new season

New Zealand agribusiness monthly



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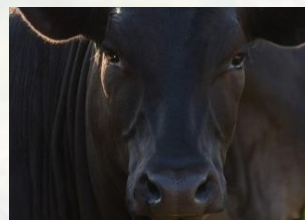
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Commodity outlooks



Dairy

Farmers here in New Zealand as well as in many other export regions have seen a boost to farmgate prices. China, on the other hand, is facing much lower prices, at levels not experienced in over a decade.



Beef

Export volumes were down over August on the back of low supply. Farmgate prices may be getting close to a ceiling, but export values and demand continue to provide an overall positive outlook.



Sheepmeat

Average export values are up while there appear to be very few lambs left out there in the 2023/24 export season. Eyes are now on the 2024/25 season, which starts on 1 October.



Farm inputs

Urea prices rose 4% MOM amid a surprise Indian tender, which boosted the global demand picture. Meanwhile, natural gas shortages in Egypt once again had an upside impact on prices.



Interest rate and FX

The RBNZ will likely cut the official cash rate again in October, but will it be by 0.25% or 0.5%? The New Zealand dollar has had a strong run recently. We see some scope for a pullback in the short term.



Oil and freight

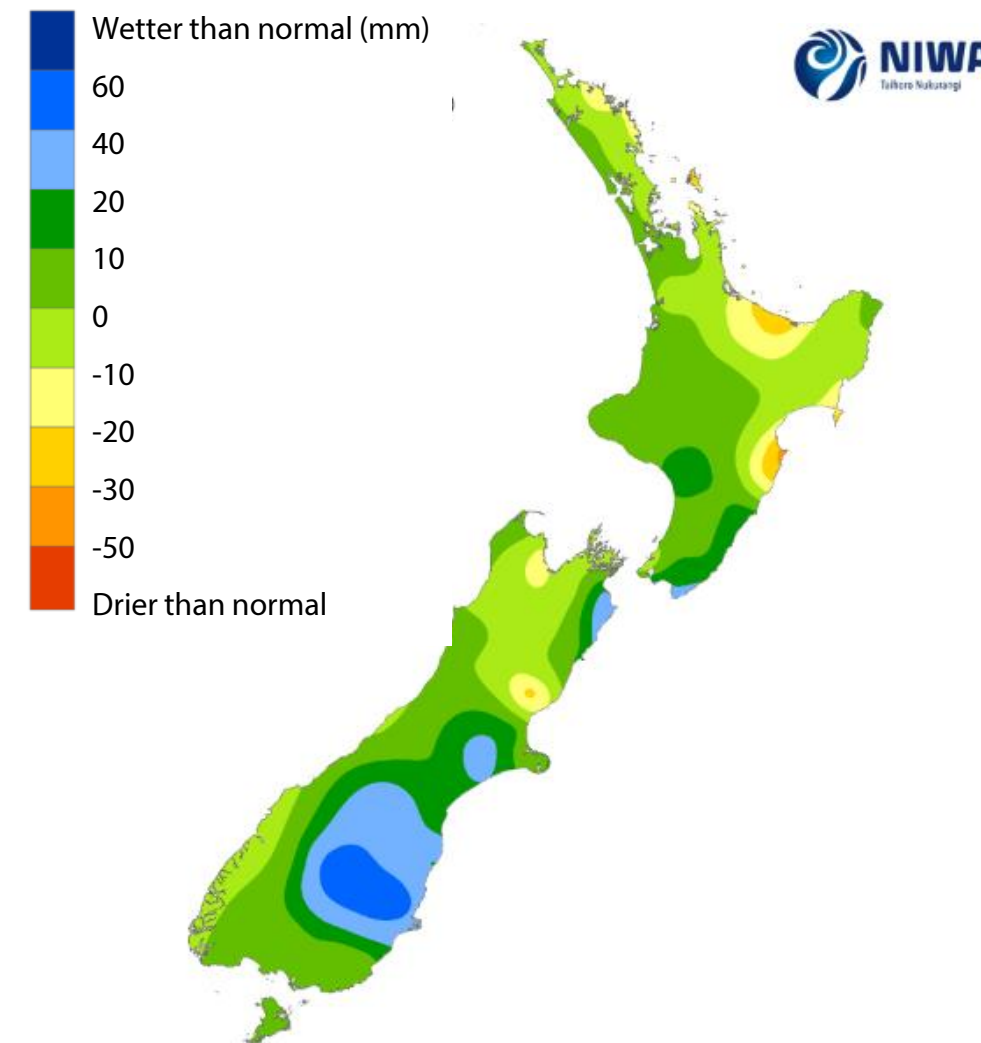
RaboResearch has adjusted its price forecast for Brent Crude down to USD 71/bbl for the final quarter of 2024. The market is tilting into oversupply as weaker demand in the US and China collides with rising output.



Climate

La Niña watch in place

Soil moisture anomaly (mm), 29 September 2024



Source: NIWA, RaboResearch 2024

What to watch:

- **Lower-than-average soil moisture levels in some parts of the east coast of New Zealand are great for spring pasture utilisation and getting crops in.** However, this can increase the risk around later forage supply if rainfall is limited. Aiming for timely planting of crops will go a long way to help mitigate this risk.
- **In wetter parts of the lower South Island, longer days and more sunshine hours add optimism to the later spring period,** with warmer temperatures now on the horizon and plenty of moisture to kick things along.

The National Institute of Water and Atmospheric Research (NIWA) have said a La Niña watch remains in effect for New Zealand with a 60% to 70% chance that this event will officially develop by December.

Overall, near-normal or below-normal rainfall is expected in the west of the country and near normal in other areas. A La Niña-like pattern in coming months would, however, increase the likelihood of low-pressure systems becoming stalled near the country. This could increase the chance of some heavy rainfall events during October.

Temperatures for the three months to end out 2024 are likely to be above average across the country. Some warm air masses coming from our friends across the Tasman may lead to more days above 25 degrees Celsius in November and December as summer arrives.

Soil moisture levels are likely to remain near normal in most regions and below normal in the east of the North Island and the north of the South Island.

Dairy

Farmgate milk price forecasts get a boost for 2024/25

September was a positive month for Oceania spot commodity prices with gains across the basket of products (excluding butter) in US dollar terms. Oceania butter spot prices have fallen from the high-water mark reached in June but remain above the five-year average. Global market fundamentals remain well balanced.

The New Zealand milk production season is well underway, and the numbers have shown a very strong start. The third month of the season, August, saw robust milk supply, with growth higher by 9% YOY on a tonnage basis, and 10% YOY on milksolids basis. Markets will be closely watching the volume produced this October as we hit our seasonal peak, which we anticipate will follow a similar positive trend to the season so far.

Across the ditch, the 2024/25 production season is formally underway. For the month of July, Australian milk production was 1.6% higher YOY.

It was a mixed bag in terms of growth across the states. Production was higher in New South Wales and Victoria but was marginally lower in South Australia and Western Australia. Poor seasonal conditions took a heavy toll on milk flows in Tasmania at the start of the season.

Milk price forecasts for the current 2024/25 season are lifting. Fonterra has raised its forecast by 50 cents to NZD 9.00/kgMS. Elsewhere around the globe, farmgate milk price improvement remains a theme – except for China, which is facing milk price lows not seen in over a decade.

Sluggish foodservice foot traffic remains a factor to watch. In many economies around the world, foodservice performance is sluggish as consumers cope with cost-of-living pressures. This is driving foot traffic lower and could have a negative impact on dairy demand for products such as cheese.

What to watch:

- **EU milk production** – Eyes remain on the EU in terms of milk production. A blue tongue outbreak is creating some uncertainty around potential milk production losses, and weather risks also linger in the background, which could dent milk volumes.



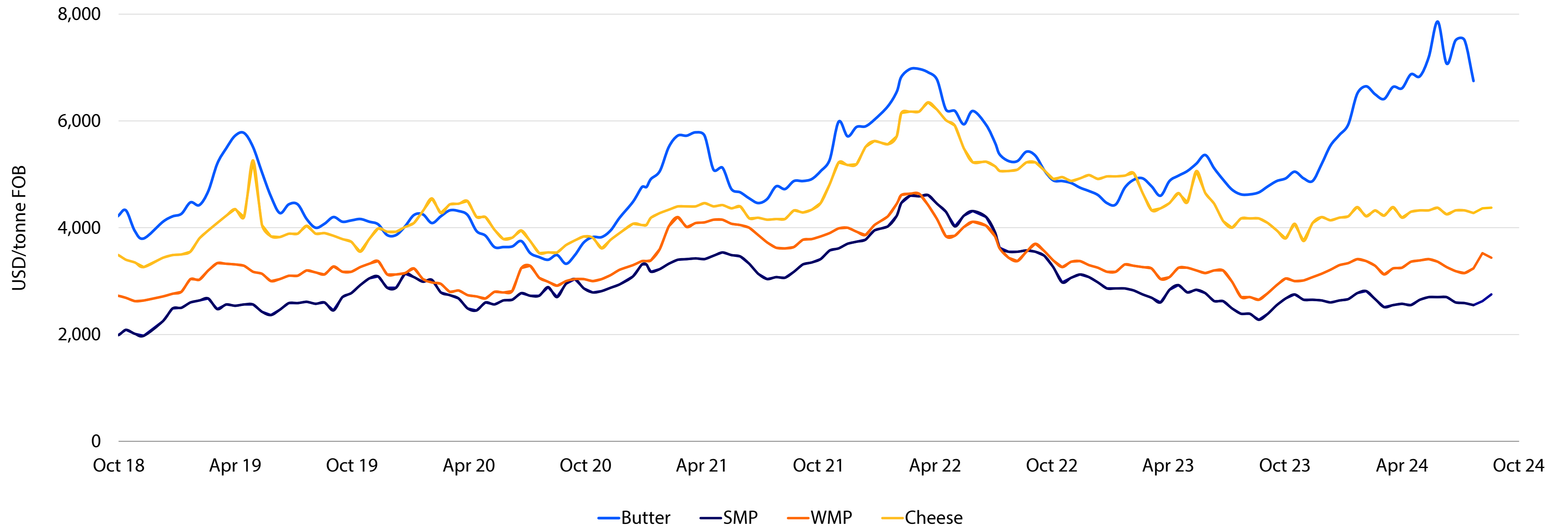
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Dairy

Steady as we go for dairy commodities

Oceania spot prices for dairy commodities



Source: USDA, RaboResearch 2024

Beef

Volumes down while demand remains strong

Farmgate prices for prime beef cattle in New Zealand may have reached the seasonal peak, with talk of reductions likely from here on in. Bull beef prices continue to hold for now, with the AgriHQ NI bull price at NZD 7.00/kg cwt before premiums (at the end of September). Bull pricing may also start to reduce over coming weeks as more animals come forward.

Weekly slaughter numbers for bull beef since May have been below the last two years' levels, indicative of fewer animals out there. Thus, although export demand is positive, the strong farmgate pricing remains driven, in reasonable part, by low numbers coming in. New Zealand Meat Board data shows national bull kill down 18% YOY in the four weeks to end August, total beef production nationally was down 10% over those same weeks.

Export volumes were down for August, mirroring the lower slaughter numbers. Total beef export volume for August was 30,700 tonnes, down 25% YOY, with average export values up by 14% to NZD 9.32/kg FOB.

For August, average export values to the US were strong, up 25% YOY to 10.67/kg FOB. RaboResearch now expects the US market to reduce import volumes slightly, as seasonal demand starts to drop. The current strong US dollar exchange rate, at around 63 cents to the New Zealand dollar, doesn't play in the favour of our exporters.

Chinese demand remains sluggish, with August import volumes of New Zealand beef down 55% YOY to just 6,675 tonnes. This trend looks likely to continue in the medium term as the US continues to surge ahead of China for New Zealand beef exports in both volume and value for 2024, year-to-date.

Bobby calves processed in the calendar are down by 2% YTD in the North Island and up by 1% in the South Island. This is perhaps indicative of slightly more beef calves being reared in the North Island.

Even with a drop in schedule prices ahead, RaboResearch expects beef prices to remain strong, above five-year averages in the medium term.



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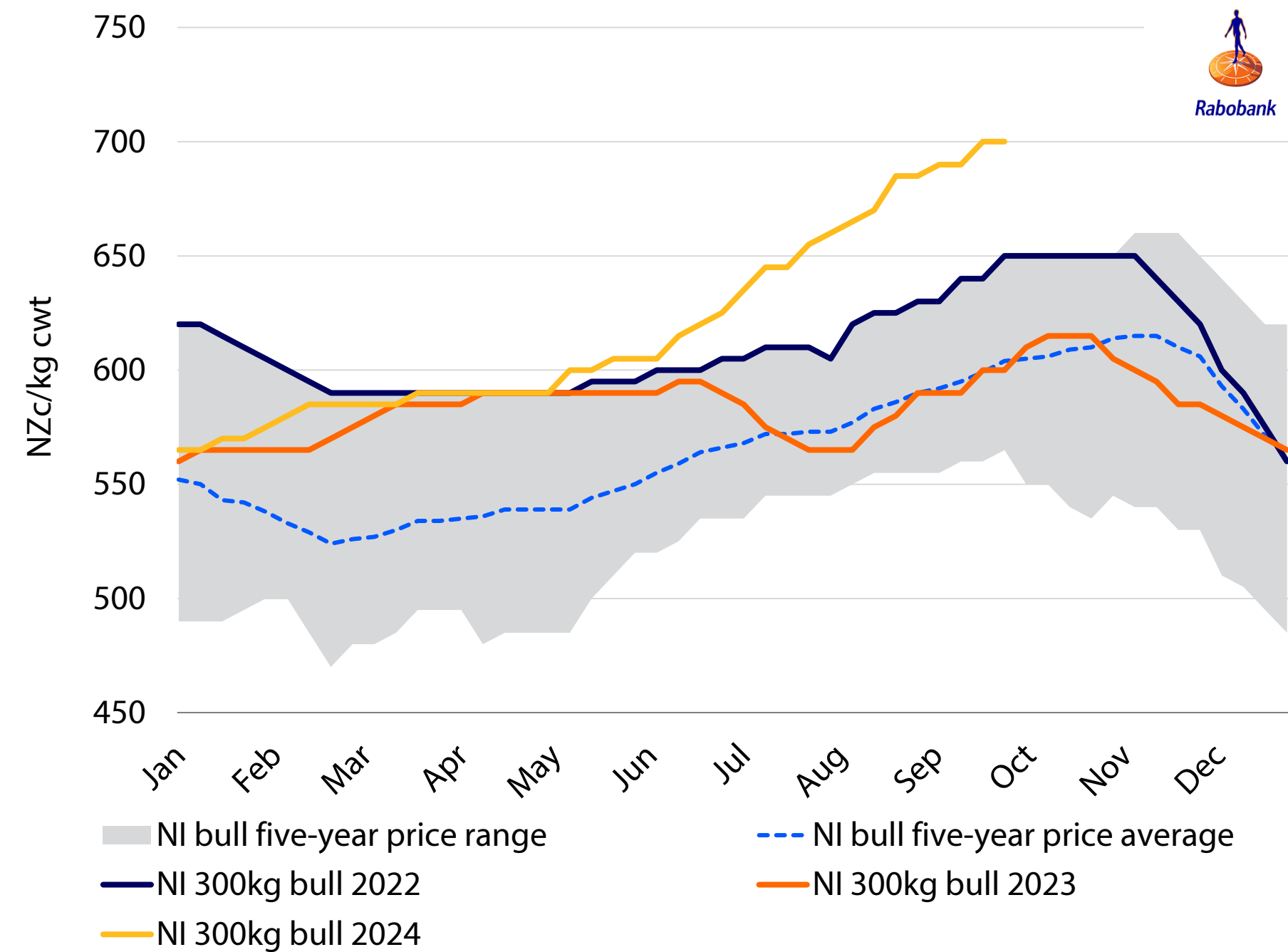
What to watch:

- **US port strikes on the East Coast are scheduled to start on 1 October** – This may add challenges for some importers in the US in coming weeks. Although it is difficult to predict what this may mean for New Zealand exports to the US, this may be something to keep an eye on, as it has the potential to increase shipping costs and/or cause delays and uncertainty.

Beef

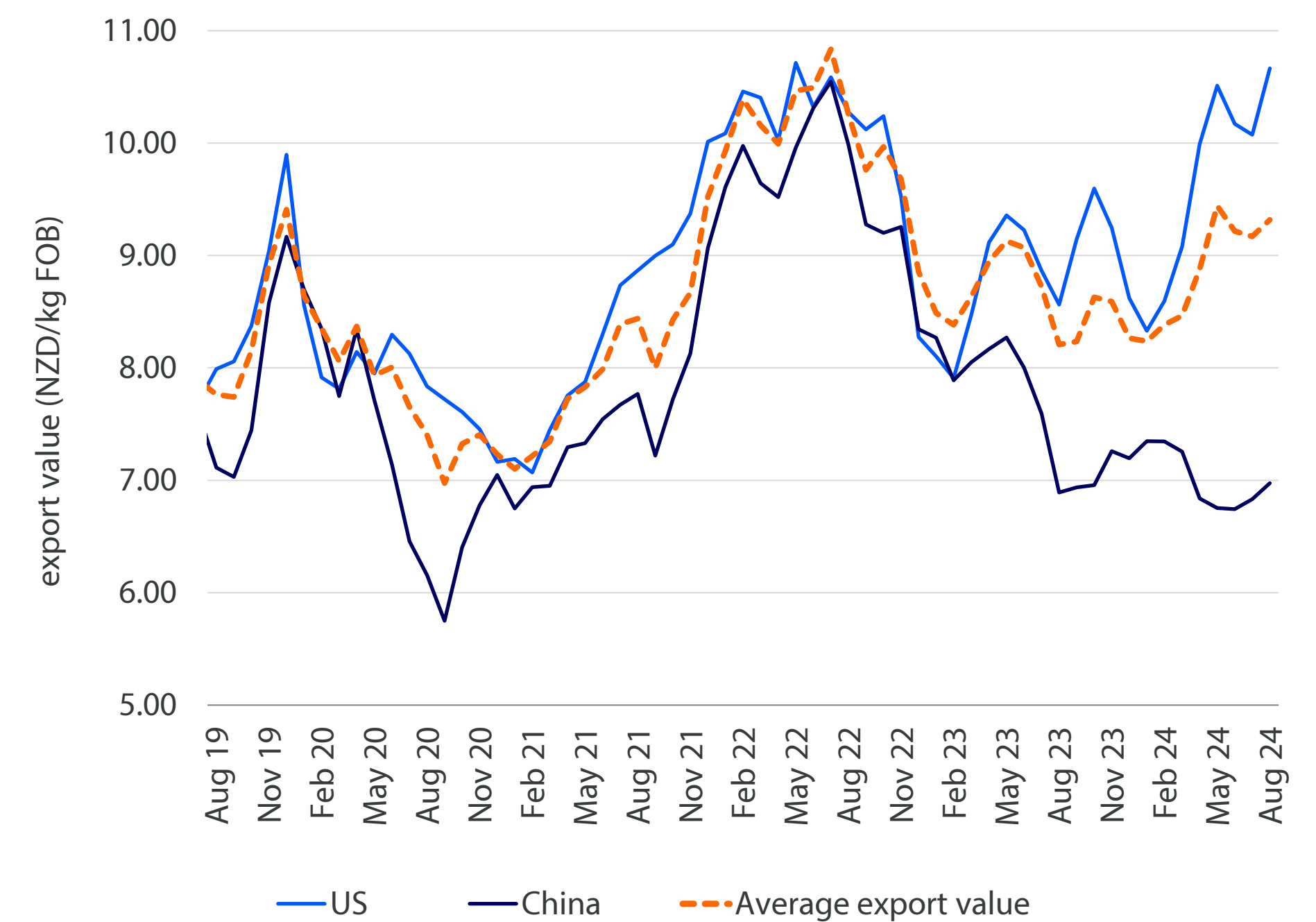
The AgriHQ NI bull price hit NZD 7.00/kg cwt in September

North Island bull price starts to track sideways



Source: AgriHQ, RaboResearch 2024

Average export values trending up, driven by US market



Source: Stats NZ, RaboResearch 2024

Sheepmeat

Average export value up but sheep numbers down

The average export value for sheepmeat in August was up 8% YOY to NZD 10.12/kg. This was driven by some of the smaller players in our export markets, as China remains soft for all red meat, in a theme likely to continue.

Current farmgate prices for lamb are around NZD 8.00+/kg cwt. However, a significant part of this is likely due to procurement competition among processors, with very few old season lambs left to come in.

Slaughter numbers for lamb were down significantly through August versus the last two years over the same period. The total national kill tipped over 17m head to the week ending 31 August, with just four weeks left in the 2023/24 export season (to 30 September). National lamb slaughter was down 22% YOY for the month of August. Despite this, total lamb slaughter (head of lamb) is up 2.6% for the 2023/24 export season to date versus 2022/23.

With lower recent slaughter numbers, it follows that total volumes of sheepmeat for August were down 33% YOY to 16,800 tonnes. All markets took less volume, year-

on-year, except for the US, where export volumes were up 2% to 2,283 tonnes. Although the US is a smaller player for New Zealand lamb, the export value to this market averages above NZD 17.00/kg FOB with mainly higher-value, bone-in lamb (i.e., frenched racks). The average export value for total lamb exports in August was NZD 11.51/kg FOB, the highest price since June 2023.

The EU continues to be strong value market for New Zealand sheepmeat with an average export value of NZD 16.00/kg FOB. New Zealand shipped 2,600 tonnes (of mainly frozen lamb) to this market in August, helping pull the average up despite lower total volumes heading over.

Chinese demand remained relatively soft in August, with average export values down 6% YOY to NZD 5.40/kg and a 45% drop in volumes to 6,771 tonnes. There may be pricing improvement in coming months, as importers begin sourcing volumes for Chinese New Year.

Eyes are now very much focused on the 2024/25 export season, from 1 October.

What to watch:

- **Sheep numbers in New Zealand** – One thing is already clear: There won't be as many lambs around as in the 2023/24 season. Scanning results suggest higher in-lamb single rates in the North Island, which may mean an earlier kill in this region. Weather conditions in the lower South Island have added to stress and losses at lambing, while earlier dry conditions further up the South Island added to the challenge.



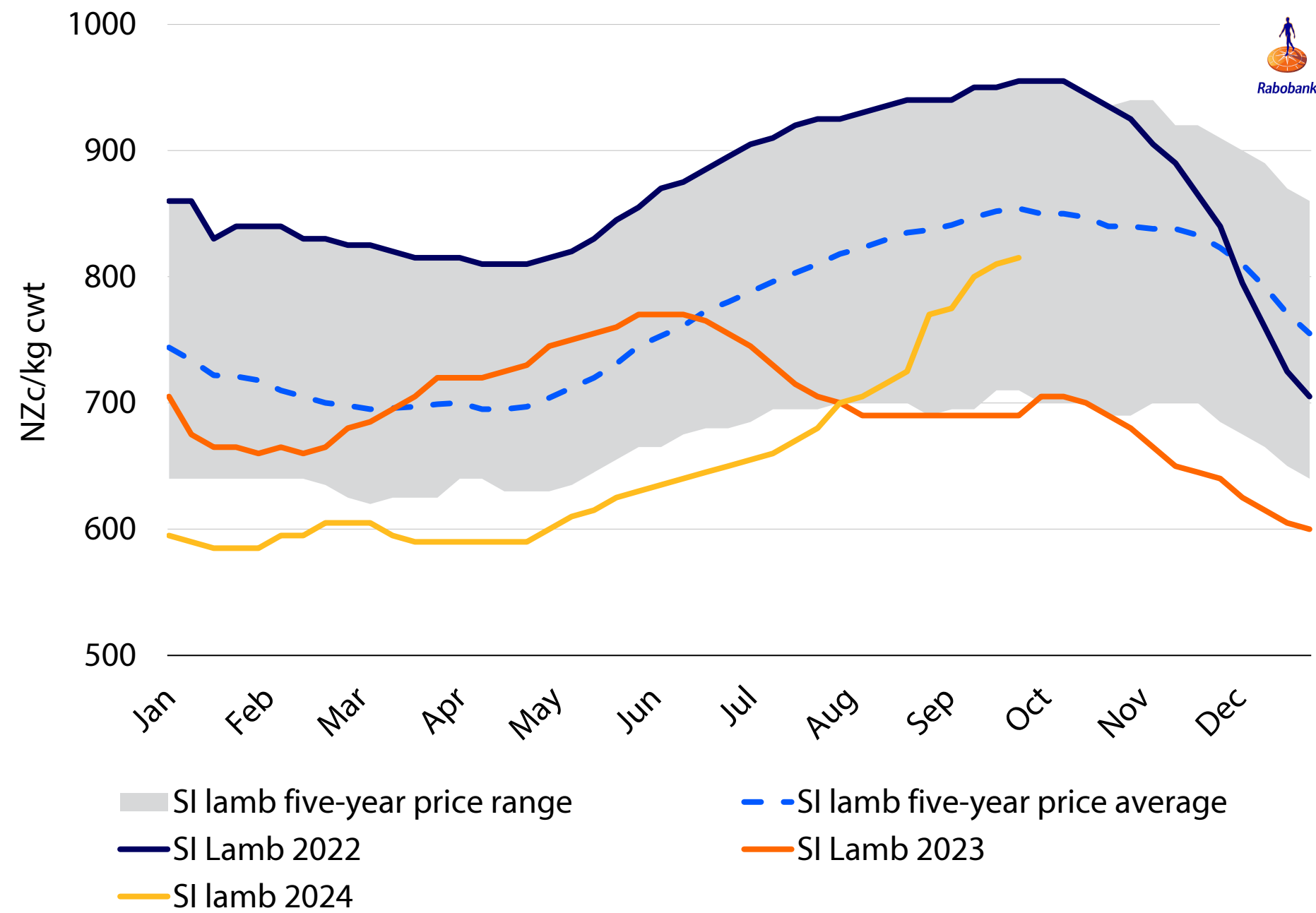
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Sheepmeat

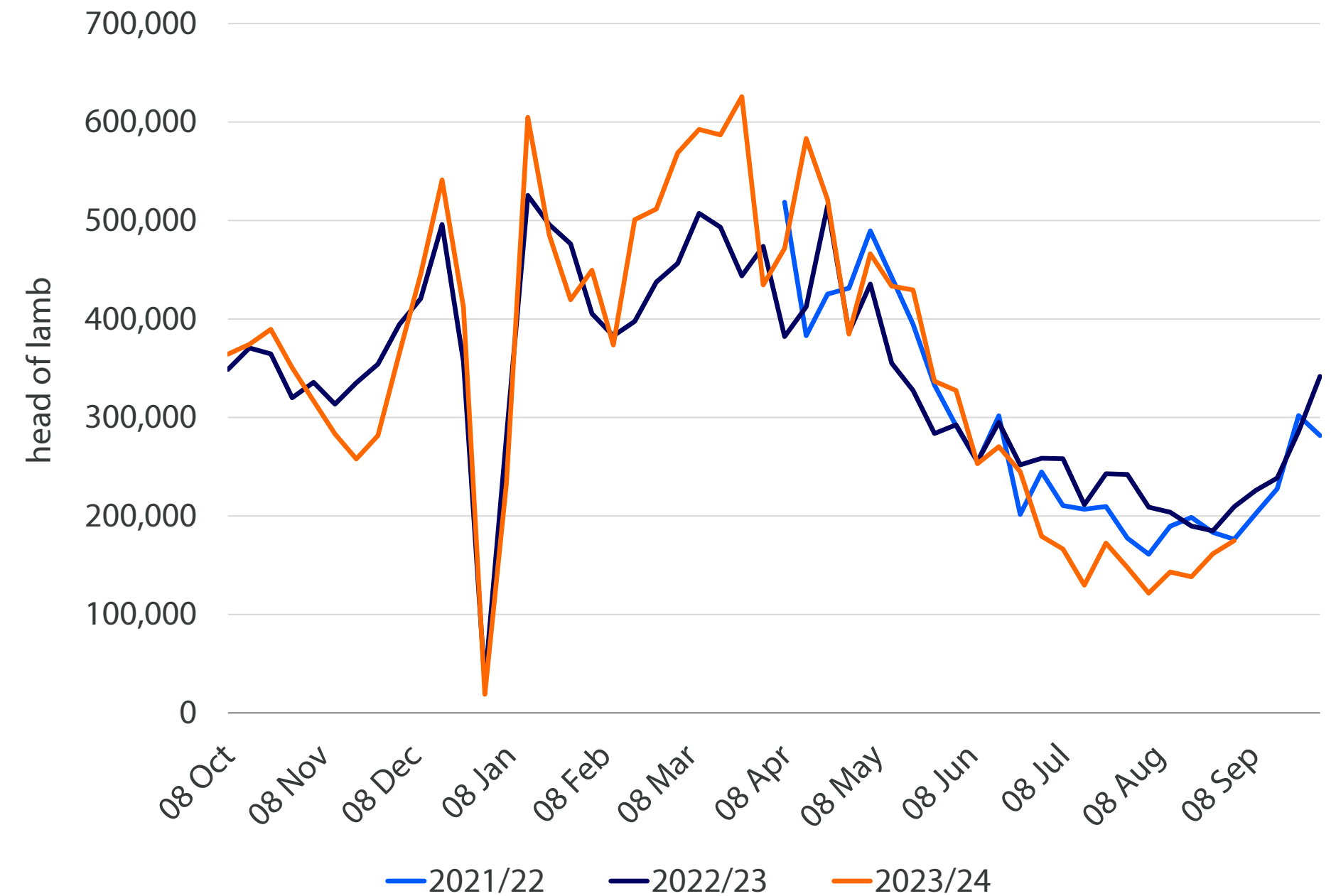
Only a few lambs around to end the 2023/24 export season

September 2024 farmgate pricing far exceeding 2023 levels



Source: AgriHQ, RaboResearch 2024

Weekly national slaughter numbers for lamb were lower over winter



Source: New Zealand Meat Board, RaboResearch 2024

Farm inputs

Urea prices push higher amid India's urea tender

Retail urea prices rose 3.1% from early-August levels to NZD 824/tonne. We previously highlighted the risk that India could come back to the market and push prices higher, and its recent surprise tender did just that, with international prices also rising in September. Despite the uptick in demand, we don't expect to see significant upside from current levels in the short term. Other key buyers, such as Europe and Brazil, remain quiet in the market. However, demand is expected to increase, which could provide price support.

Recent supply-side issues also provided price support in September. Natural gas shortages in Egypt resulted in production slumps earlier in the year, and once again the country is experiencing natural gas issues amid a drop in domestic supplies. Egypt's reliance on natural gas imports will likely continue to pose questions around urea production reliance going forward. This supports our recent six-month forecast, which calls for modestly higher prices.

The other point of note is China, as it remains absent from the export market. Although Chinese domestic prices are declining as inventories build, it remains unclear when we will see exports resume. For now, China's absence, plus the issues in Egypt and fresh demand from India, will likely limit downside. Although Brazilian imports have been fairly muted of late, there is the expectation that demand will pick up ahead of the safrinha crop planting. If demand turns out to be stronger than anticipated, then prices could continue to creep up in 2024.

Super phosphate (SSP) retail prices rose 4.9% from early August levels to NZD 450/tonne. Prices continue to remain stuck in a range above the historical average, and recent Indian purchases and limited global supplies are resulting in a tight global supply and demand outlook. Although there are limited signs of the fundamental situation improving over the next six months, expectations that the New Zealand dollar will strengthen should provide a small amount of price relief for farmers.

What to watch:

- **Egypt will be a key factor to keep an eye on for urea supplies** – The return of natural gas issues has spooked the market. Prices could push higher should this persist.
- **Indian and Brazilian demand are key factors to keep a close eye on** – Further surprises on the demand side will likely lead to sharp price volatility.



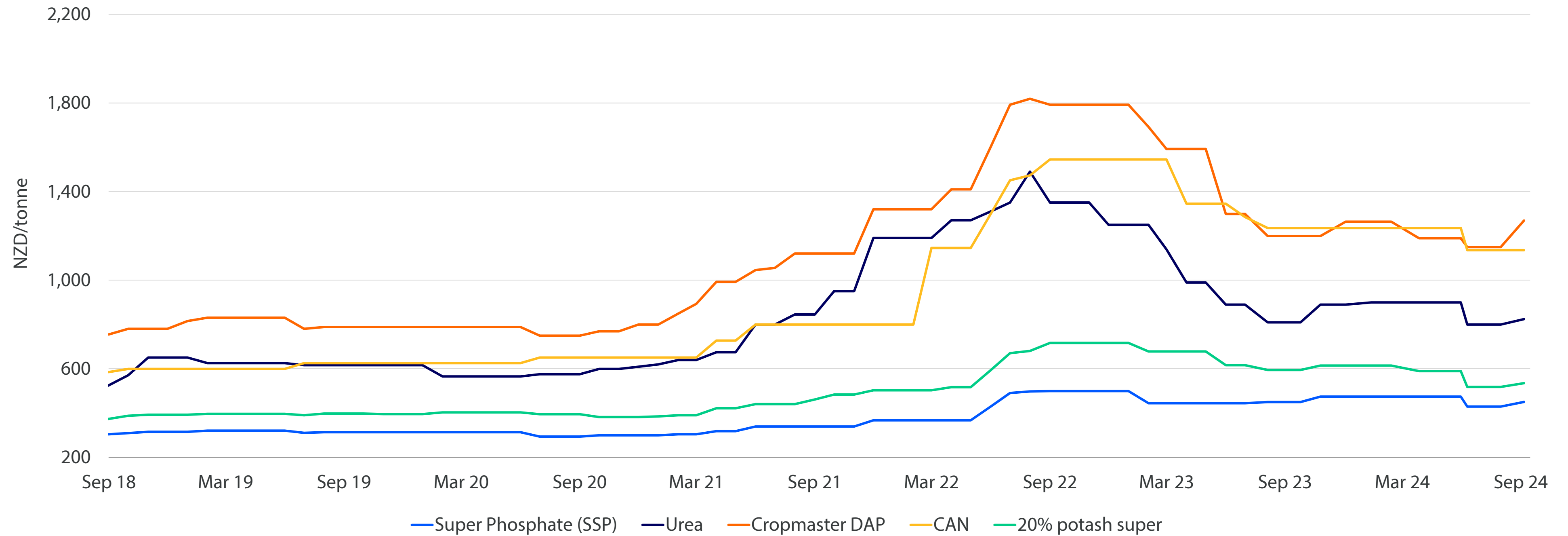
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Farm inputs

DAP, Urea, SSP, and potash retail prices all rose from early August levels

Retail prices moved higher in September for many fertilisers, following months of flat prices



Source: CRU, RaboResearch 2024

Interest rate and FX

Going down, but how fast?

New Zealand's economy contracted by 0.2% in the second quarter of the year, in line with RaboResearch's forecasts but less than was expected by the RBNZ and most other banks.

It would be wrong to characterise the result as "good," but it's fair to say that it was better than expected. Despite that, the futures market is still predicting a very rapid pace of interest rate cuts from the RBNZ over the remainder of 2024, which may have something to do with the RBNZ's expectation that the economy will contract again in Q3. That would mark a third technical recession.

As of 30 September, futures implied a year-end official cash rate (OCR) of 4.35%, or more than three-and-a-half more 25 basis point cuts from the RBNZ. Since there are only two more RBNZ meetings left this year, this suggests that professional interest rate traders see a strong likelihood that the RBNZ will cut by half a percentage point during at least one of these meetings, and maybe even at both!

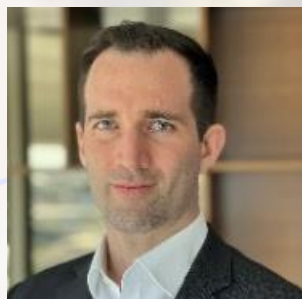
The US Federal Reserve cut its benchmark interest rate by half a percentage point in September to begin the easing cycle in the United States with a bang. The aggressive US rate cut could prompt the RBNZ to act with a little more urgency, because the faster pace of rate cuts in the US has caused the New Zealand dollar to appreciate sharply against the US dollar.

The New Zealand dollar rose more than 1.5% in September after gaining more than 5% in August. It is trading well above USc 63 at the moment, but we see some scope for a pullback over the course of October before a likely resumption in the currency's upward march in the final months of the year. Our 12-month forecast is for the New Zealand dollar to reach USc 65.

We expect that the RBNZ will deliver a steady pace of interest rate cuts. However, with growth a little more resilient than expected, key commodity prices rising, and measures of consumer confidence showing improvement, we see limited potential for a series of large, emergency-style cuts.

What to watch:

- **RBNZ OCR policy rate meeting, 9 October** – The RBNZ is likely to cut the OCR at this meeting, but will it be by 25 basis points or 50? We think the former, but market pricing is suggestive of a larger cut.
- **Stats NZ's Q3 CPI inflation report, 16 October** – The Q3 inflation report could see inflation falling back into the 1% to 3% target band. This report will be influential for determining the speed of rate cuts. The "non-tradeable" component will be especially closely watched.



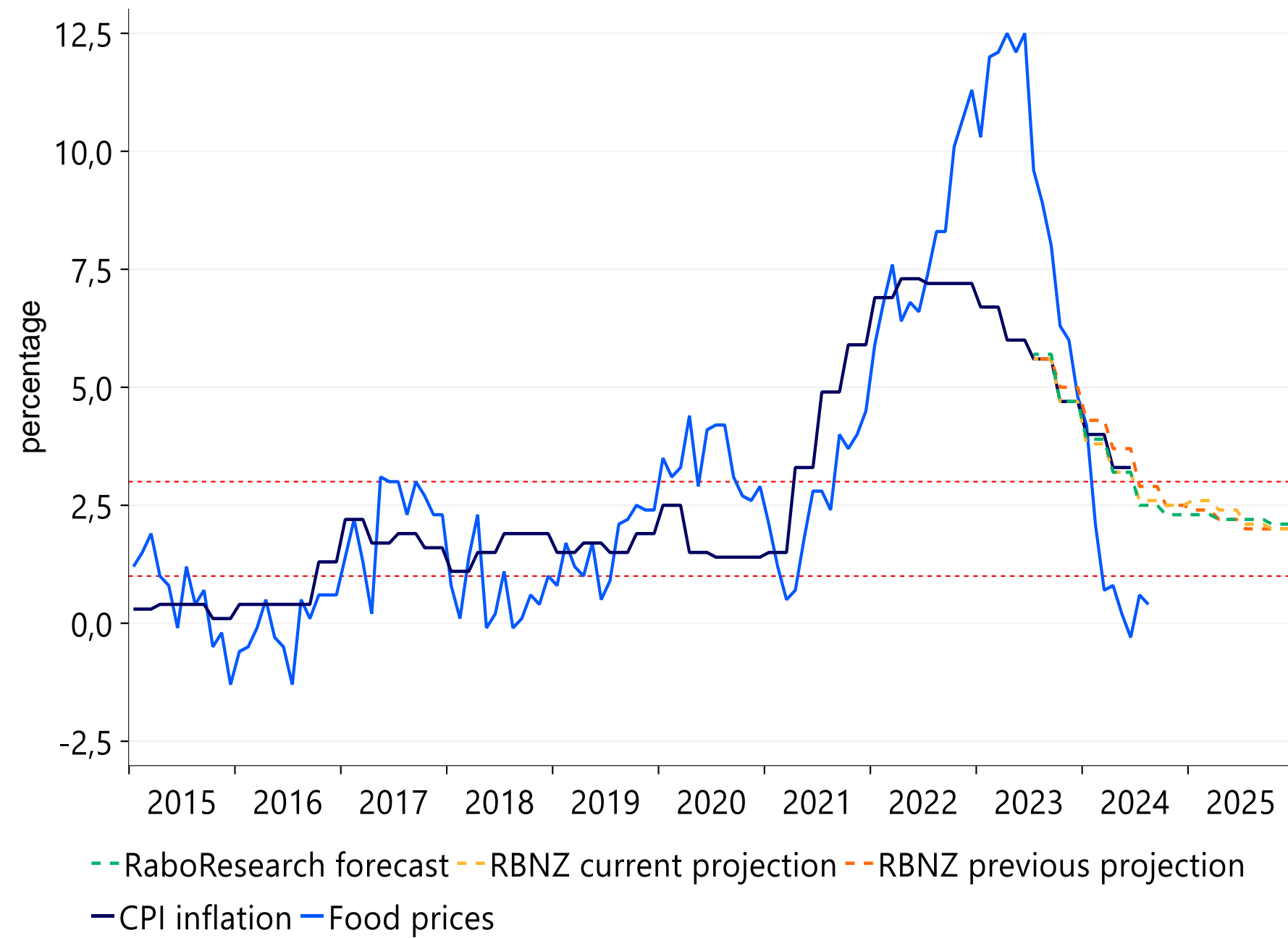
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Interest rate and FX

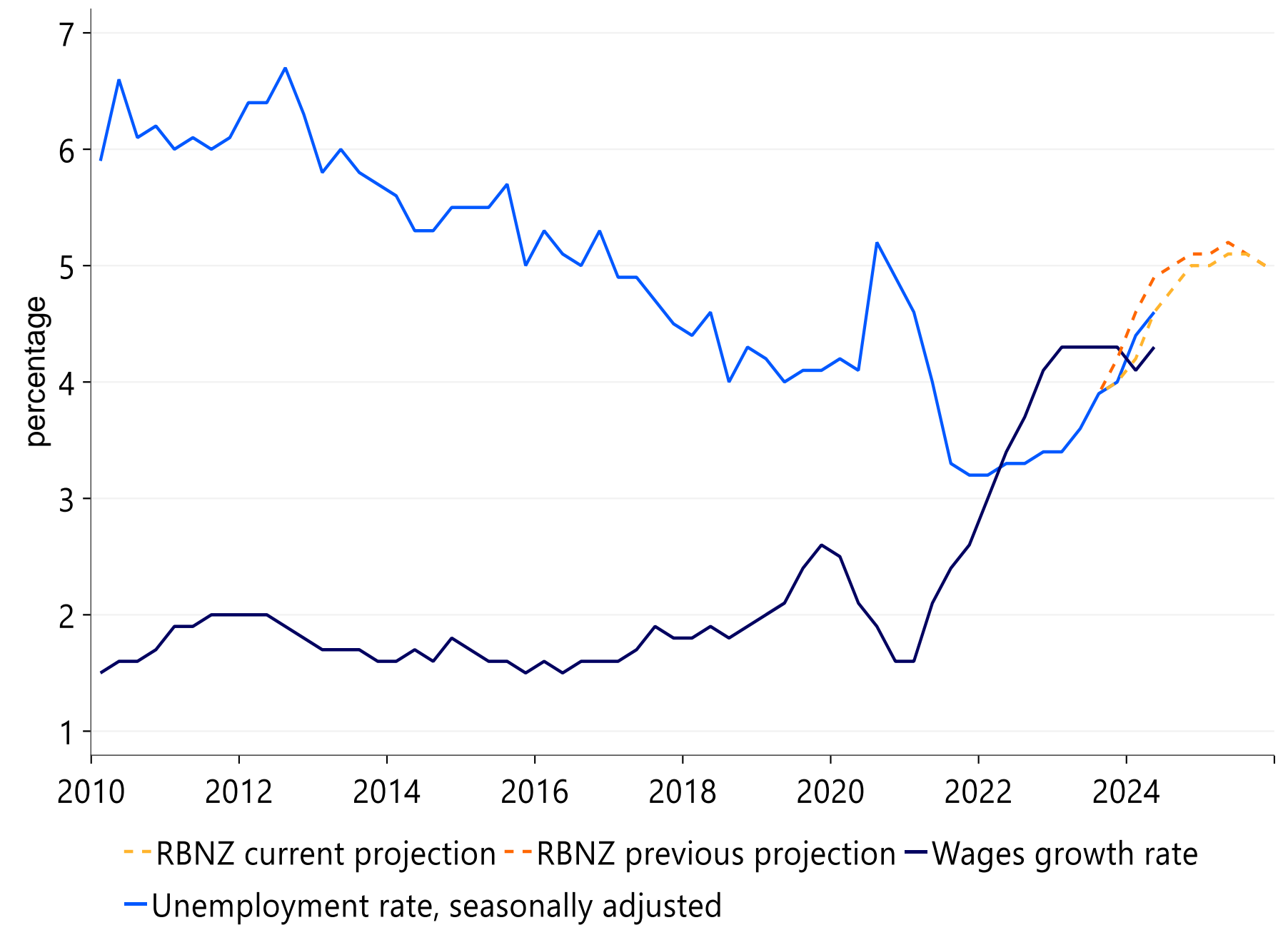
Is another recession coming?

New Zealand inflation indicators, 2015-2025f



Source: Macrobond, Stats NZ, RBNZ, RaboResearch 2024

New Zealand labour market indicators, 2010-2025f



Source: Macrobond, Stats NZ, RBNZ, RaboResearch 2024

Oil and freight

Crude markets tilting into oversupply

Benchmark Brent crude prices fell 1.7% MOM, despite an increase in the intensity of the conflict in the Middle East – which sparked a price spike on 1 October.

Prices briefly dipped below USD 69/bbl at one point before recovering most of their month-on-month losses amid recent Iranian missile strikes on Israel, which instigated a rally. Nonetheless, prices remain weaker than levels seen in August due to a burgeoning oversupply of crude oil in the market.

RR recently revised our forecasts for 2025 from a balanced market to a daily oversupply of 700,000 barrels.

Weakening demand out of the US and China has been met with strong supplies out of the US and OPEC+ members, some of whom appear to have exceeded voluntary caps on supply that will be expiring in December.

During September, Saudi Arabia abandoned its unofficial USD 100/bbl price target, suggesting that the kingdom will seek to pump more oil to regain lost market share.

What to watch:

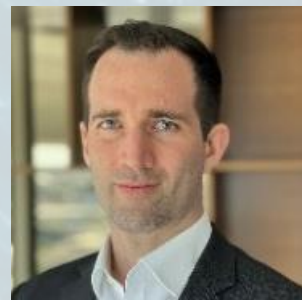
- **Middle East tensions** – Middle East tensions have heightened further following the assassination of Hezbollah leader Hassan Nasrallah. Energy markets have little risk premia built into pricing, so there is still potential for prices to shoot higher if energy flows out of the region are significantly impeded.
- **Chinese economic data** – The “bazooka” stimulus announced by China in September is designed to provide a boost to growth. This has the potential to pressure oil prices higher, since weak Chinese growth has been a major bearish influence.

Strong electric vehicle take-up in China continues to be a structurally bearish influence on oil prices. **RaboResearch expects Brent crude to average USD 71/bbl in the final quarter of 2024.**

Labour disruptions continue to impact supply chain reliability across key ports. Labour union negotiations for dockworkers at US East and Gulf Coast container terminals could seriously impact schedule reliability as we head into the holiday season. A strike is possible as early as 1 October. Shippers are looking at cargo diversion options along the West Coast, which would add additional costs and delays from congestion and additional inland transportation.

On the reefer side, while prices (on a blended contract and spot price basis) are staying deflated, equipment shortages could become imminent as we head into the peak season for shipping perishables.

The Baltic Panamax index (a proxy for grain bulk freight) seems to have stabilised over the last month around sub-2000 levels as the market lacked near-term momentum..



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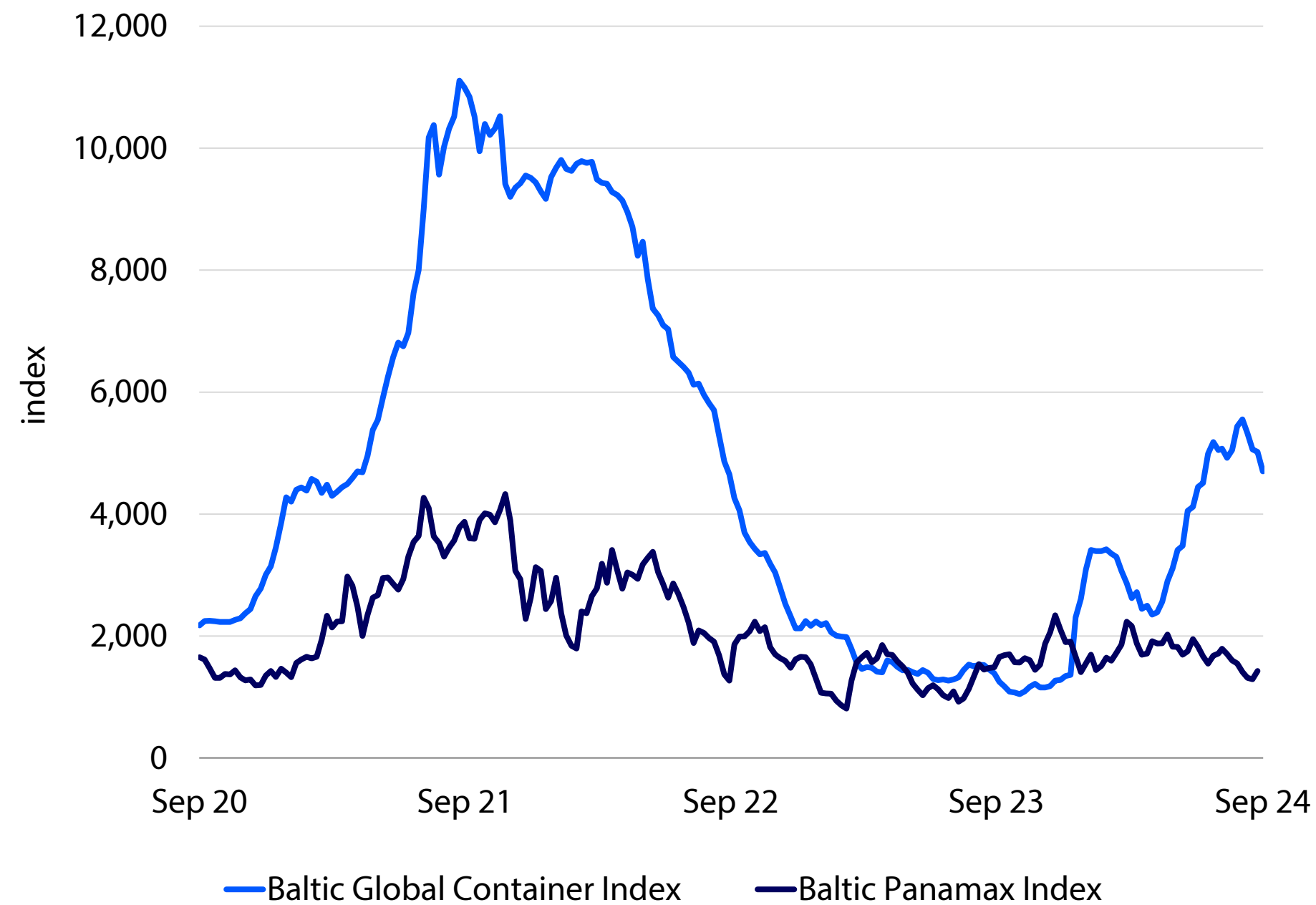
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Oil and freight

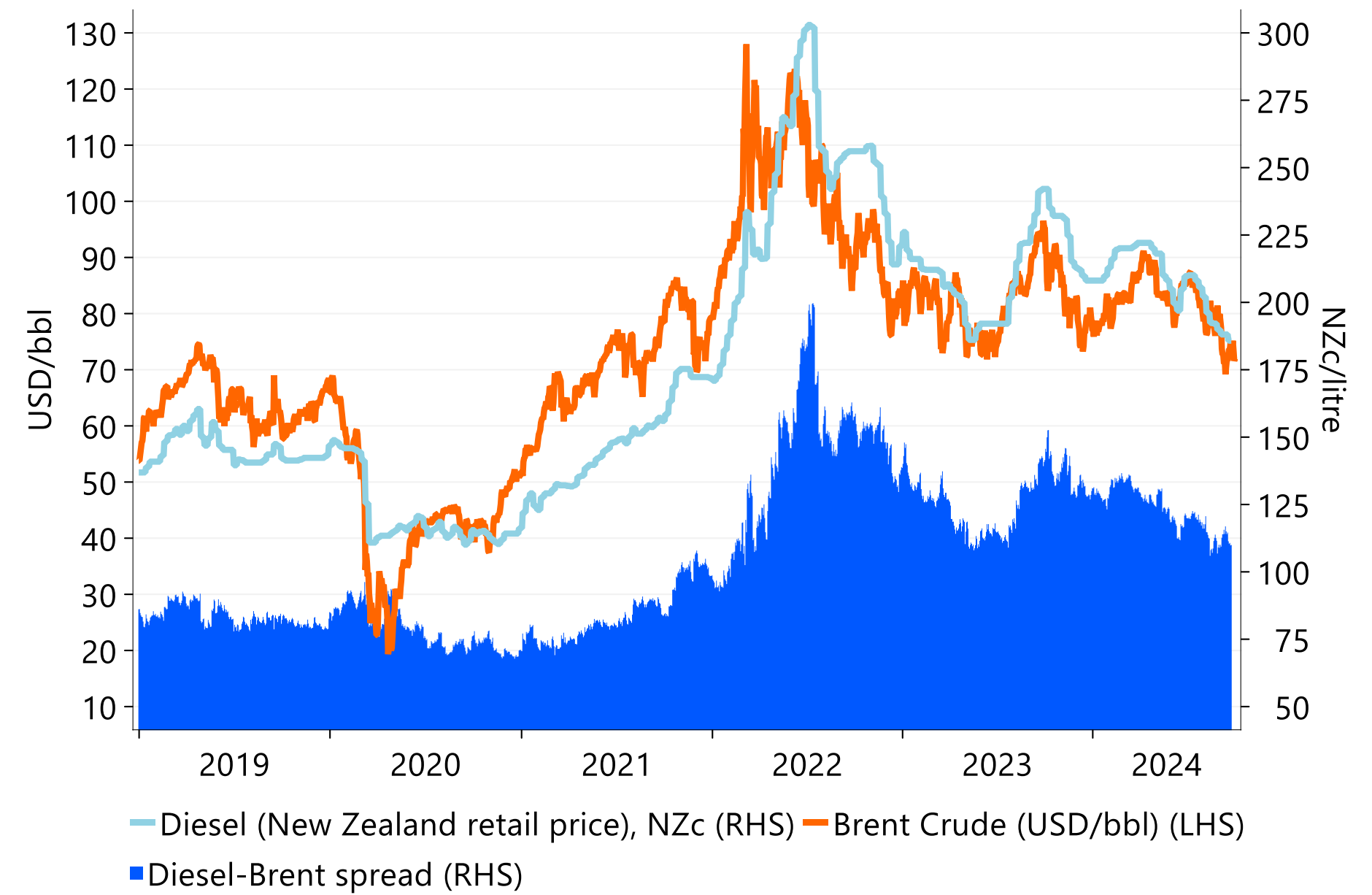
Energy prices continue to fall as the market enters oversupply

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

27/09/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	580	514	542
CBOT soybean	USc/bushel	▲	1,066	959	1,275
CBOT corn	USc/bushel	▲	418	365	477
Australian ASX EC Wheat Track	AUD/tonne	▲	332	305	414
Non-GM Canola Newcastle Track	AUD/tonne	▲	710	665	675
Feed Barley F1 Geelong Track	AUD/tonne	▲	295	293	347
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	650	686	357
Feeder Steer	AUc/kg lwt	▼	369	371	240
North Island Bull 300kg	NZc/kg cwt	▲	700	685	600
South Island Bull 300kg	NZc/kg cwt	▲	645	615	555
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	810	807	437
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	780	730	710
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	815	725	690
Venison markets					
North Island Stag	NZc/kg cwt	▲	980	965	880
South Island Stag	NZc/kg cwt	▲	935	925	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,613	6,750	4,775
Skim Milk Powder	USD/tonne FOB	▲	2,750	2,550	2,388
Whole Milk Powder	USD/tonne FOB	▲	3,438	3,238	2,775
Cheddar	USD/tonne FOB	▲	4,375	4,275	4,088

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

27/09/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	84.7	81.5	99
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	73.5	68.7	87
Sugar markets					
ICE Sugar No.11	USc/lb	▲	22.8	19.5	26.3
ICE Sugar No.11 (AUD)	AUD/tonne	▲	723	645	815
Wool markets					
Australian Eastern Market Indicator	AUc/kg	•	1,087	1,087	1,135
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	353	343	383
DAP (US Gulf)	USD/tonne FOB	▲	610	550	570
Other					
Baltic Panamax Index	1000=1985	▲	1,446	1,350	1,701
Brent Crude Oil	USD/bbl	▼	72	79	95
Economics/currency					
AUD	vs. USD	▲	0.690	0.679	0.644
NZD	vs. USD	▲	0.634	0.624	0.600
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	•	5.25	5.25	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

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