

Agribusiness Monthly & Covid-19 Update October 2020

New Zealand

RaboResearch Food & Agribusiness

1 October 2020

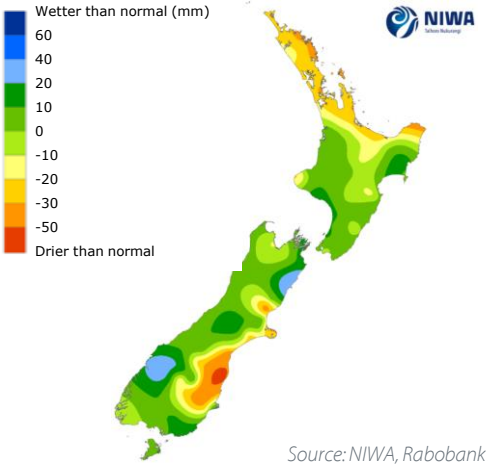
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Commodity Outlook

 Covid-19	Daily infections on the rise again, but NZ's key F&A markets doing better than most
 Dairy	Milk supply growth in exporting regions will pressure prices in the near term
 Beef	Rabobank expects prices to hold while seasonal supplies are tight, but will potentially come under pressure from the end of October as supplies lift
 Sheepmeat	Rabobank expects procurement pressure to underpin prices into October, but pricing will follow traditional seasonal trends once new season lamb supplies increase
 Wine	Rabobank expects US wine inventory could change from one of surplus to a more balanced position if wildfires cause significant smoke taint to US wines
 Horticulture	Rabobank expects an average European apple harvest will be good news for New Zealand, and that demand will remain high for RSE workers
 Farm Inputs	We expect the drivers behind recent fertiliser price rises will weaken in coming months. Subsequently, we expect prices across the global fertiliser complex will return to the low price environment by the beginning of 2021
 FX	We expect the NZD to fall to USc 64 by the end of March 2021, as we see investors reduce their expectations for global growth and risk appetite continues to wane
 Oil	Due to the poor macro and oil market fundamentals, we have maintained our bearish outlook for Brent Crude oil. We expect prices to drop before the USD 40/bbl barrier during Q4

Climate

Soil moisture anomaly (mm), 26 September 2020



Source: NIWA, Rabobank 2020

NIWA is forecasting that temperatures through to November 2020 are likely to be above-average for all of New Zealand.

Rainfall over the spring months is most likely to be near-normal for the east of the North Island. There is an equal chance of near-normal or above-normal rainfall for the north of the North Island. For the remainder of the country, rainfall is equally likely to be near-normal or below-normal through to November.

NIWA is forecasting that soil moisture levels are likely to be below-normal in both the west and east of the South Island for the September-November period. The east coast of the North Island is likely to have near-normal soil moisture through to November. The remainder of the country is expected to have near-normal or below-normal soil moisture levels.

What to watch

- ***La Niña conditions :*** MetService note that La Niña conditions are established in the tropical Pacific Ocean and La Niña weather patterns are likely to continue across spring and into summer. Moderate La Niña conditions are anticipated to continue over spring and into the summer months. This could result in below-normal rainfall over the South Island, more easterly winds across the top of the North Island (along with above-normal summer and autumn rainfall), and less westerly winds over the lower North Island. Over the coming weeks, October is likely to see more frequent spring westerlies.



Covid-19

Infections Are Rising Again

After stabilising through August, global daily infections started to rise again in September. The increase was most notable in the US and Europe, raising concerns of a strong second wave as the Northern Hemisphere progresses through autumn/winter.

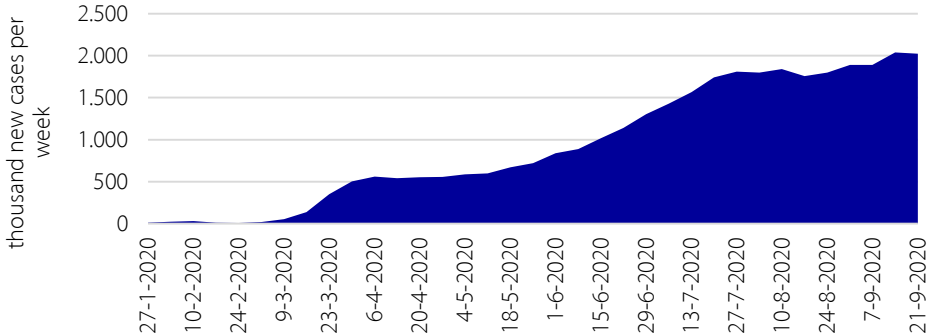
NZ's key F&A markets remain better placed than most from a virus perspective:

- Infections remained very low in China, while new cases have been slashed in Australia.
- Large second waves have been reduced in Japan and South Korea, and tempered in the Philippines.
- Though infections rose in the UK, US and Indonesia.

But there was no clear trend to relaxing restrictions on movement and eating out:

- New York City will restart indoor dining from early October (at 25% capacity), Florida is increasing allowable restaurant capacity utilisation while Indiana has moved to 100% utilisation.
- Some restrictions on eating out were relaxed in South Korea during the month.
- But Manila remained under lockdown for the whole of September.
- While Jakarta was placed under lockdown again from September 14.

Global weekly reported new cases of COVID-19



Source: WHO



Covid-19

Economies Are Improving, but Consumer Support Is Waning

Economic activity continues to improve month-on-month, though outside of China it remains well short of pre-Covid levels.

There is mounting evidence of how important government support schemes have been to consumers. The OECD estimates that in May 50m jobs across the OECD were supported by job retention schemes: 10 times as many as through the global financial crisis. The ANU estimated that the Jobkeeper and Jobseeker schemes reduced Australian poverty on pre-crisis levels by 32%. And the US Covid assistance schemes put an additional USD 600 per week into the pockets of the unemployed, doubling or more the incomes of many.

Consumer support has been important in underpinning sales of food and beverages through the crisis.

Government support schemes are now starting to be reduced in many countries. The US assistance package expired on 31 July and has not been renewed. Australia's Jobkeeper and Jobseeker schemes have been extended but at reduced rates. And the UK job retention scheme will be extended for another six months from November, but at reduced levels.

If support schemes are reduced faster than the rate of economic recovery, sales of food and beverages will come under pressure through Q4. When reporting June quarter earnings, many publicly-listed food companies noted the importance of being prepared for a slow recovery in economies and consumer spending. This includes for many a focus on price, value and affordability as consumers trade down and private label competition increases.

NZ's food and beverage remains a good place to be through this crisis. Infection rates and economic activity are doing better in its key markets than elsewhere. It has kept its supply chains open while some countries have stumbled. And it primarily sells staple items to consumers who have been well-supported by governments. But there are still downside risks on the road ahead.

August Data Showed a Slowdown in the Recovery of Food Service in China and the US

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YOY change in food retail and foodservice expenditure in key markets

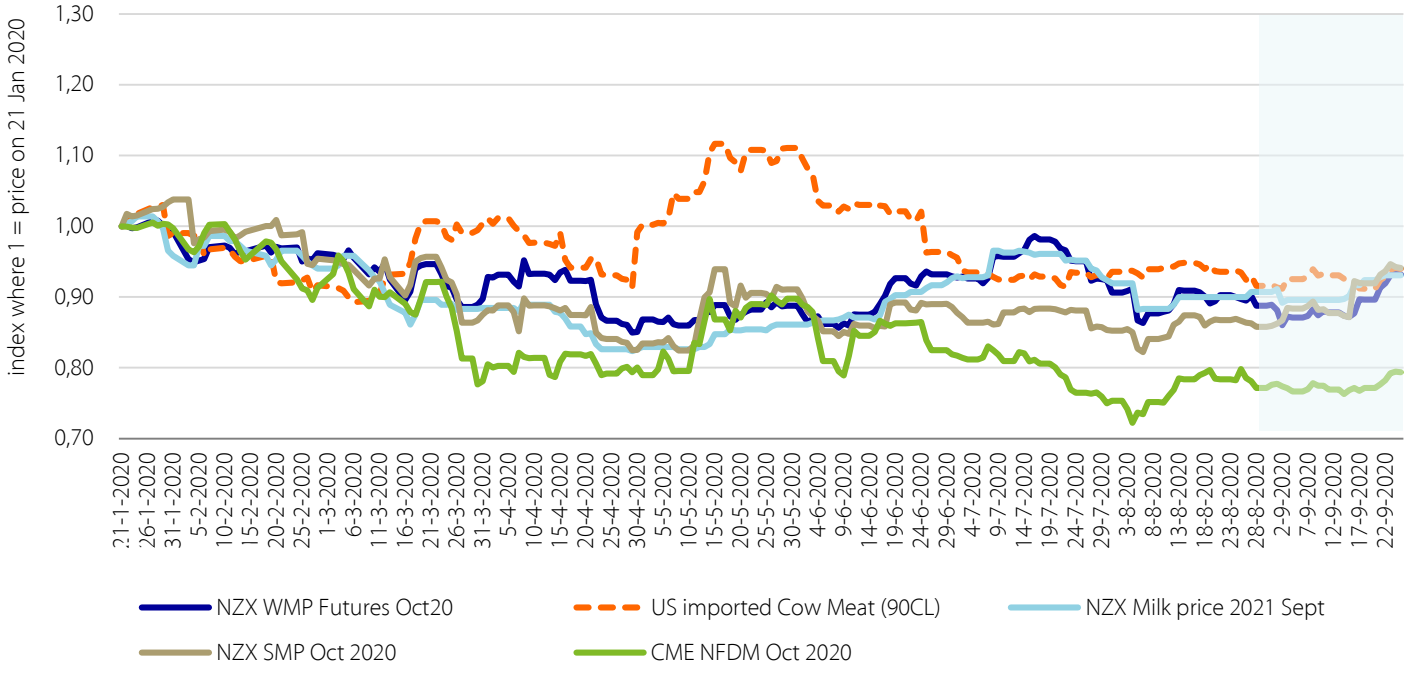
		Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020
Aust.	Foodservice	2%	1%	2%	-23%	-50%	-35%	-17%	-12%	na
	Food retail	3%	3%	3%	27%	5%	13%	14%	15%	na
US	Foodservice	5%	6%	5%	-27%	-52%	-38%	-26%	-19%	-15%
	Food retail	2%	2%	4%	29%	12%	15%	12%	11%	10%
China	Foodservice	9%	10%	-70%	-47%	-30%	-19%	-15%	-11%	-7%
	Food retail	10%	10%	10%	19%	18%	11%	9%	7%	4%
	Food Retail adjusted for inflation	-8%	-11%	-12%	1%	3%	1%	-2%	-6%	-7%

Sources: ABS, US census department, China National Bureau of Statistics, Rabobank analysis
Notes: Food retail adjusted for inflation reports the YOY change in sales after removing inflation. In China, food price inflation has been running above 10% for the period depicted. Foodservice includes cafes, restaurants, and bars – but not institutional sales (e.g. schools, hospitals). August data is preliminary for the US.

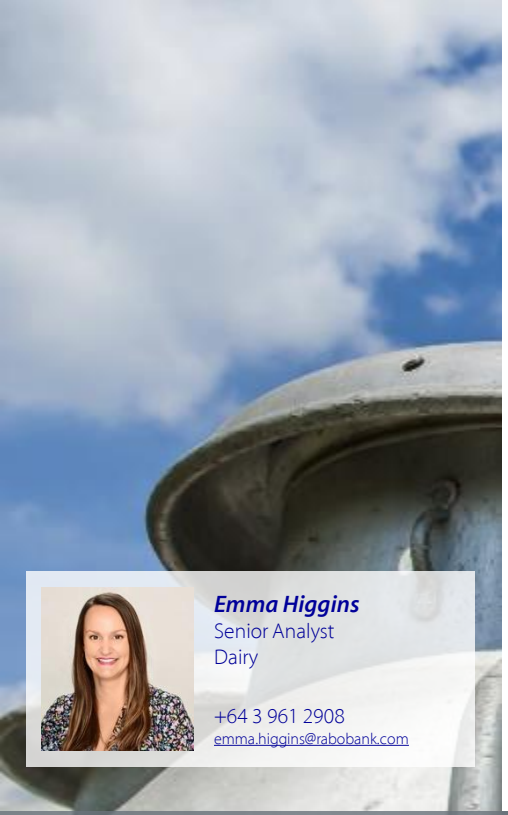
A Better Month for Ag Commodities, With Falling NZD Lifting Prices in Local Currency Terms

Rabobank

Index of various ag commodity prices in NZD terms since 20 January 2020



Sources: Bloomberg, Rabobank



Emma Higgins
Senior Analyst
Dairy

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

Dairy

A Buoyant Start to the New Season

The third month of the new season has seen another leap in milk flows – but the latest spring blast could dampen record growth expectations for October production. New Zealand milk production for the 2020/21 season boosted 4.7% higher than the previous August on a milksolids basis. Total milk flows are ahead of last season by 4.5% on a milksolids basis. At this stage, Rabobank is anticipating milk volumes to grow up to 2% YOY for the full 2020/21 season.

Across the Tasman, Australian milk supply is also ramping up. July kicked off the new season with growth of 2.9%, with only Queensland not posting year-on-year growth. ***The spring flush will peak in October, and Australia is on track for its best flush in three seasons.*** Rabobank forecasts milk production to expand by 2.8% in 2020/21, bringing national milk production back above 9bn litres**.**

Milk production growth across the major export engines began in Q2 2020 and is forecast to continue expanding into 2021: a feat not matched since 2018. Sequential improvements are observed in foodservice as more regions have come out of lockdown, while retail dairy sales show early signs of deceleration. With the forecast milk production growth over the next 12 months, and consumption that will take time to recover, Rabobank expects the global market fundamentals to remain weak into Q2 2021.

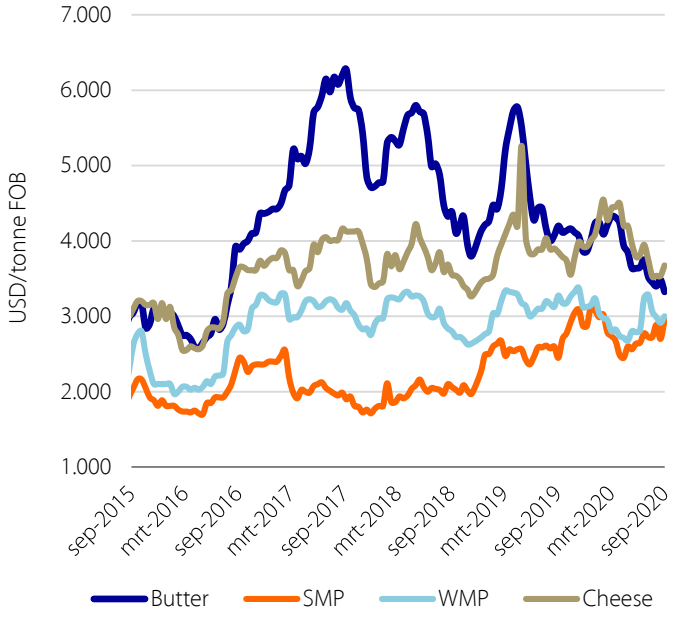
What to watch

- ***Record Oceania milk flows.*** Australia is on track for a bumper spring flush. In New Zealand, pasture conditions over the next couple of weeks will determine whether New Zealand's milk flows will hit a new record in October. Soil moisture levels in the Waikato and the impact of late spring snow in Southland will be the needle movers.

Milk Production Growth Beating Expectation

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Global dairy prices, 2015 - 2020

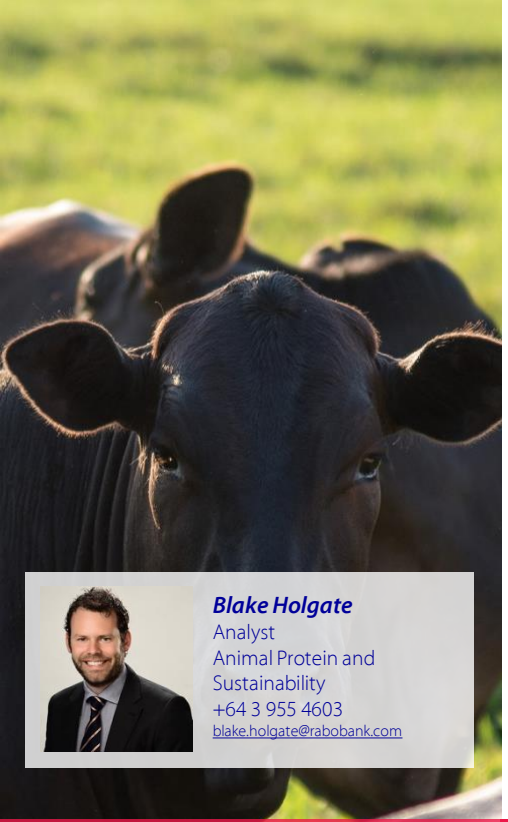


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	*Last three months*
EU	1.3% (June 20)	0.7%
US	1.8% (Aug 20)	1.5%
Australia	2.9% (July 20)	4.7%
NZ	4.8% (2020/21 season-to-date*)	

Source: Rabobank 2020
** June-August only*



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

Tight Supplies Holding Prices Steady

RaboResearch expects farmgate prices to hold at current levels, while seasonal supplies remain tight, but will potentially start to come under downward pressure from the end of October as supplies start lifting.

South Island farmgate prices continued to strengthen through September on the back of limited supplies. The greater balance between processor demand and cattle supplies in the North Island saw prices there remain largely steady over the last month. As at the end of September, the North Island bull price was NZD 5.60/kg cwt, up 1% MOM, with the South Island bull price sitting at NZD 5.15/kg cwt, up 3% MOM.

Average export returns held firm for the month of August, at NZD 8.04/kg (up 1% MOM). However, returns are now starting to fall behind the levels achieved last year, when strong demand from China as a result of African Swine Fever drove export prices to record levels over the second half of 2019. RaboResearch expects this gap will continue to widen until at least the end of 2020, due to the ongoing impact of Covid-19-restrictions on the foodservice sector, as well as deteriorating economic conditions in many key markets negatively affecting global beef demand.

Solid US demand for manufacturing beef, combined with softening Chinese export prices, continues to see NZ exporters direct an increasing proportion of beef into the US market. Export volumes to US for the month of August were up 96% YOY, while export volumes to China for August were down 30% YOY.

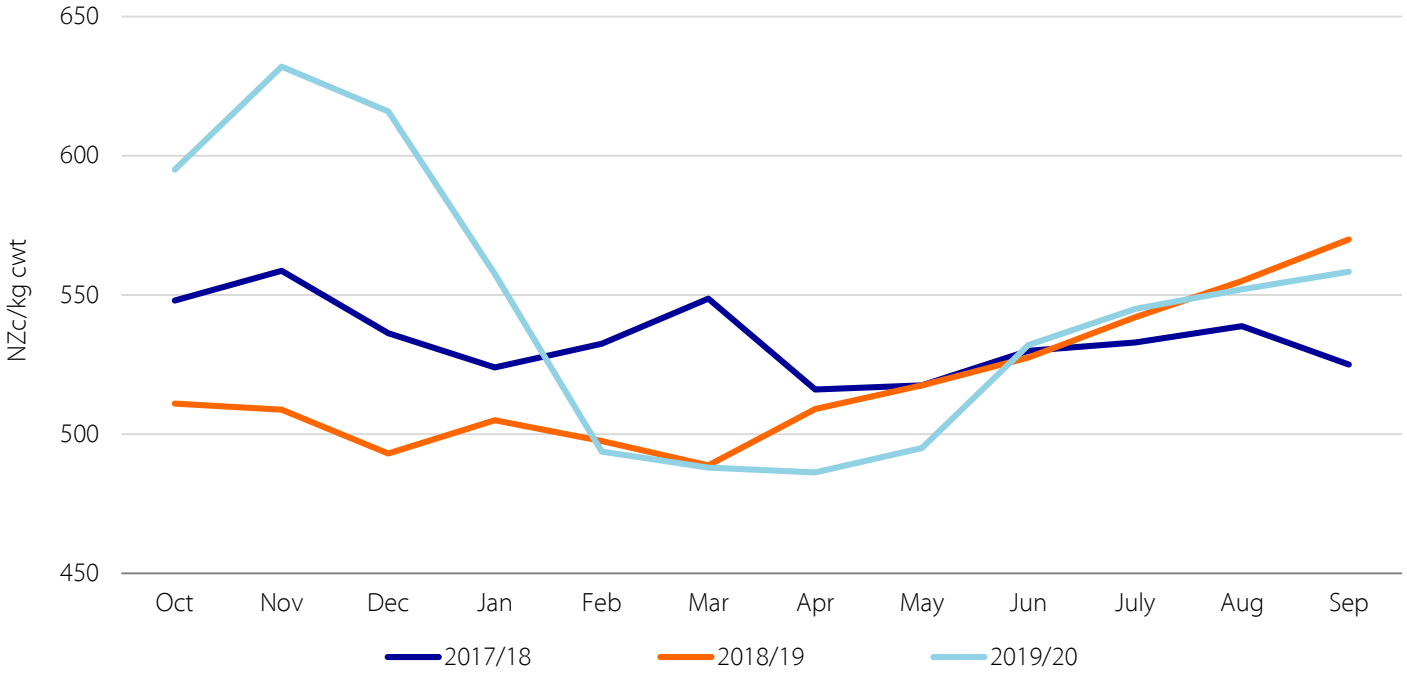
With just over a month of kill data reported for the 2019/20 season, NZ's season-to-date cattle kill is up 1.3% YOY (as of 29 August).

Beef

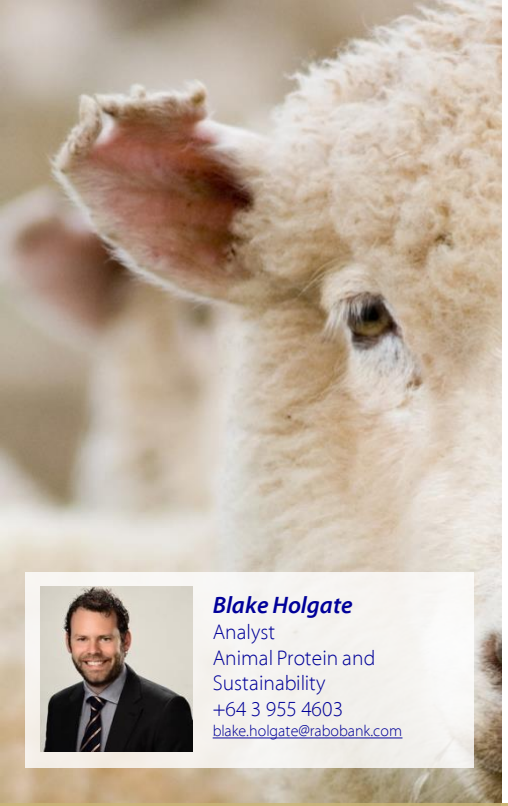
What to watch

- ***Resumption of live cattle exports*** – under regulation approved by Cabinet on 21 September, the Director-General of the Ministry for Primary Industries (MPI) will have the discretion to approve live cattle exports of cattle from 24 October, subject to any conditions considered necessary. This effectively lifts the temporary live export suspension put in place immediately following the tragic sinking of the Gulf Livestock 1 in early September. MPI has launched an independent review into the tragedy which could have potential implications for how live cattle exports are regulated in the future.

North Island Bull Price



Source: AgriHQ, Rabobank 2020



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

Procurement Underpinning Prices

RaboResearch expects procurement pressure to continue underpinning farmgate prices into October. However, prices will follow traditional seasonal patterns once new season lamb supplies increase, with prices likely to start softening towards the end of the month.

There was minimal price movement through September, although procurement competition in some parts of the country did see small farmgate price lifts in certain regions. As of the end of September, the price in the North Island averaged NZD 7.20/kg cwt (-1% MOM), while South Island lamb averaged NZD 7.10/kg cwt (+1% MOM).

Farmgate prices in both islands start the 2020/21 season down 16% on last seasons opening prices as uncharacteristically flat pricing through the winter months has seen farmgate prices falling well-below the levels experienced last year.

There were some encouraging signs for export returns in August, with average lamb export values for the month increasing MOM (+8%) for the first time since February. The increase was predominately driven by seasonally low levels of available export supplies combined with increasing volumes of higher value chilled lamb exports. However, it does provides an important boost for exporters before NZ lamb production starts in earnest from November.

Market demand for chilled lamb and cuts predominately sold through retail channels remains solid, with pricing for these products generally holding firm. Moving higher-value foodservice-oriented cuts continues to be a challenge, with inventories of these products continuing to accumulate.

Sheepmeat

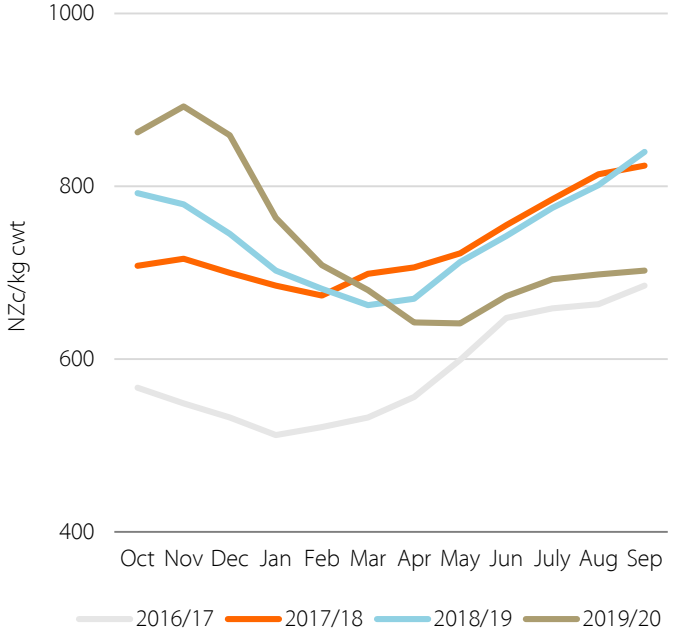
What to watch

- ***Drop in 2020 NZ lamb crop –*** NZ's lamb crop for spring 2020 is forecast to be down 4.2% (980,000 head) compared to spring 2019 according to Beef+Lamb NZ's latest Stock Number Survey report. Lower total sheep numbers (-2.3% for the year to 30 June), combined with poor climatic conditions and feed shortages during mating were cited as the main reasons for the drop. While spring lambing conditions will ultimately determine final numbers for the 2020/21 season, the long-term trend of contracting NZ lamb supplies looks set to continue for another season.

South Island Lamb Price and NZ Lamb Slaughter

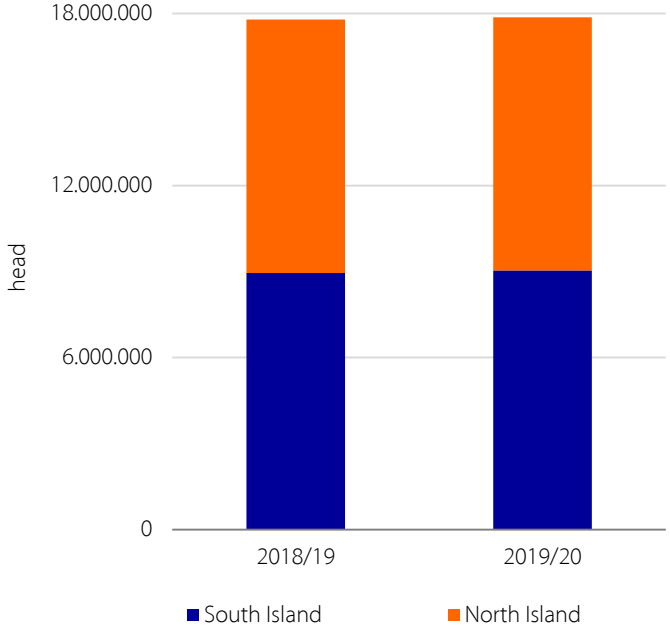
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South Island Lamb Price

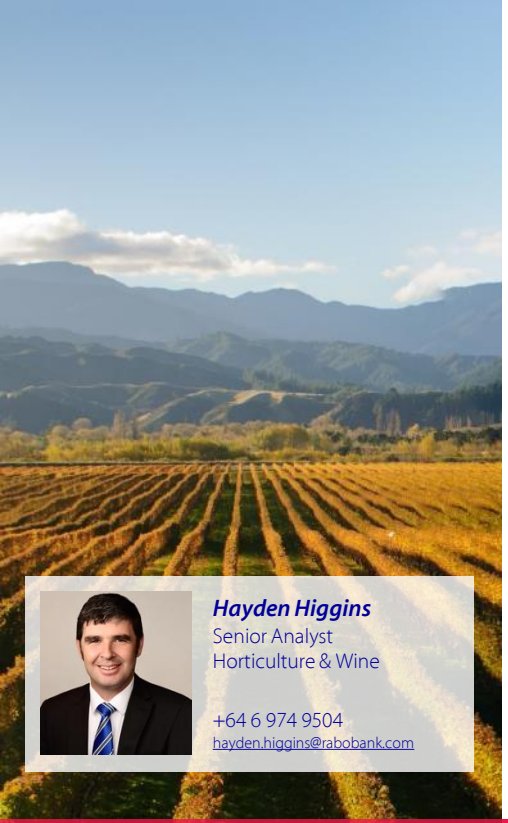


Source: AgriHQ, Rabobank 2020

New Zealand lamb total slaughter (as of 29 August)



Source: NZ Meat Board, Rabobank 2020



Hayden Higgins
Senior Analyst
Horticulture & Wine

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

Wine

Pendulum Swings in the US

The US wine industry is facing a looming potential material impact to its 2020 vintage from the wildfires that have been raging across California, Washington and Oregon states. The US was sitting on an excess inventory of wine, but the possibility of smoke taint could turn the balance.

While it is too early to understand the full extent of potential smoke taint, the wildfires are sure to have an impact. Reports are of a backlog of testing delaying results and causing some wineries to be cautious about accepting grapes. This is leading to wineries purchasing parcels of bulk wine from prior vintages to meet supply programmes. This brings the possibility that if a material impact to the 2020 US vintage were to occur, it could lead to a drawdown on existing inventory. This would help to solve excess supply – an issue the US wine industry already faced prior to Covid.

With a good harvest expected in Europe, government support programmes are being implemented to assist with controlling wine inventory via increased distilling of wine stocks for industrial usage.

With the European harvest underway and excess inventory already in place due to Covid issues, related to subdued on-premise sales across Europe, industrial wine manufacture is being used to address at least part of the inventory problem. Distilled wine is used for products such as wine spirits, brandies, vinegars and alcohol for other products, such as sanitisers.

At home, the recent news of relaxation of rules for working visas will be welcome news, but challenges may still present themselves.

The potential pool of labour for the viticulture sector has widened with the announcement of converting working holiday visas to a Supplementary Seasonal Employment. However this does not capture people currently located outside of New Zealand that would normally return for vintage 2021.

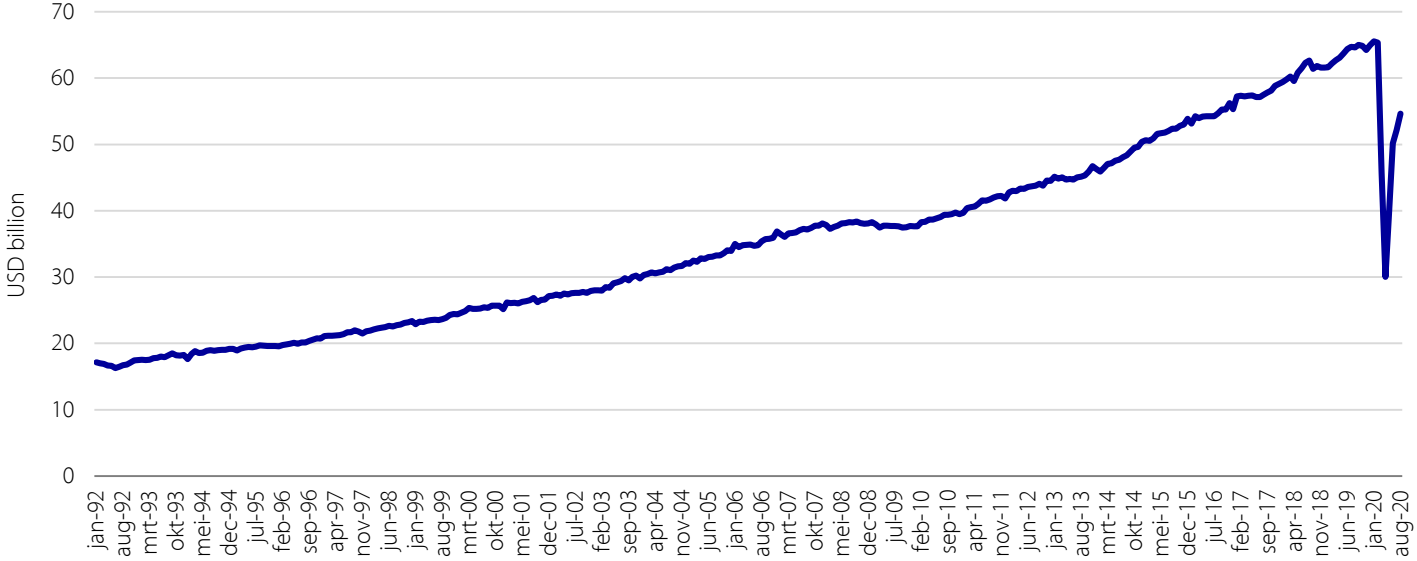
What to watch

- ***A little bit less French Champagne in 2020 –*** A good crop in the Champagne region is leading to restrictive harvesting due to Covid impacts on sales, to constrain volumes and keep inventory under control to protect brands and price positioning.

Signs of Recovery Emerge in US Foodservice

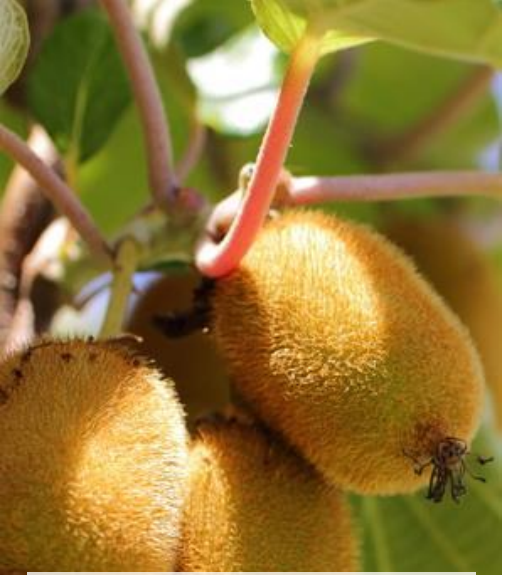
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US foodservices and drinking places, monthly sales



Source: US Census Bureau, Rabobank 2020

After the steepest decline in 30 years across Q1 and Q2 2020, a slow recovery in US foodservices and drinking places sales is evident. The scope and length of various US state shutdowns is evident – a YOY reduction of USD 100bn in sales between February and August 2020.





Hayden Higgins
Senior Analyst
Horticulture & Wine

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

Horticulture

A Steady State for Europe

With the European apple harvest underway, crop quality is generally reported as good, with expectations of volumes across the board similar to 2019 – which will be pleasing news for New Zealand exporters.

Early estimates have the European apple harvest aligned to 2019, with supply from some key countries such as Poland and Italy forecast to be up, with France forecast down. But, Poland reports that while its crop could rise by 10%, quality was impacted by earlier seasonal weather events meaning that the pack-out ratio could be lower – impacting total fresh supply with more destined for processing.

New Zealand fresh apple exports overall have performed ahead of 2019, including to Europe, but with a slight softening in price as the season has progressed.

New Zealand's apple exports to Europe this year have been up in both volume and value but with a slight softening in the average local market prices per kg. This has largely been offset by a depreciated NZD against the euro. With an eye to 2021, the absence of a large European crop will be positive news for New Zealand's exporters.

The RSE scheme and access to more people via this channel remains important

Some sectors that require high labour inputs for picking and packing are also ones that contribute the majority of horticulture export receipts (see chart on next slide). Like with the viticulture sector, the potential pool of labour has widened with the proposed conversion of working holiday visas to Supplementary Seasonal Employment visas. However, we expect that demand will remain high for additional RSE workers.

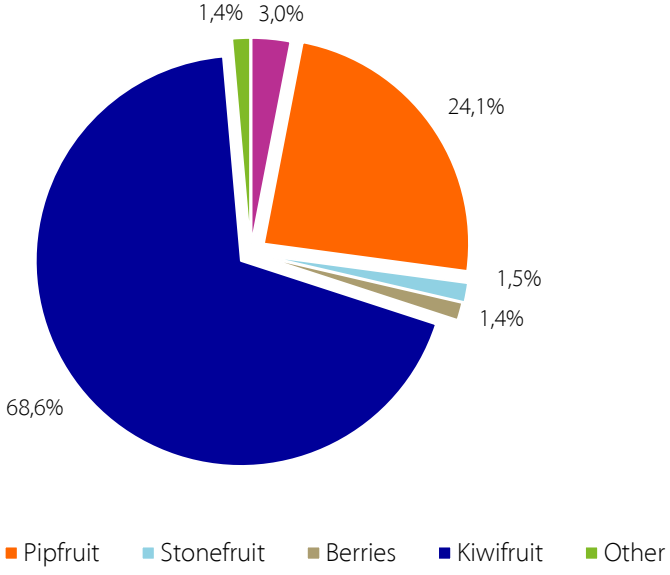
What to watch

- ***Big investment into urban farming –*** European company Infarm has recently announced a successful capital raising of USD 170m over the Covid-19 period. The funds will be utilised to support expansion of its indoor farming footprint to a projected 465,000 square meters of facilities across Europe, North America and Europe by 2025. This is a significant additional investment into a food production system seeking to offer consumers an alternative source of fresh produce.

Five Categories, 98 Percent of Value

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Share of New Zealand Fruit and Nut in NZD fob export receipts, year-end June 2020



Source: Statistics NZ, Rabobank 2020

Some of the high labour input sectors are also the largest contributors to total export receipts.



Wes Lefroy
Agricultural Analyst

+61 2 8115 2008
wesley.lefroy@rabobank.com

Low Price Environment to Resume

We expect the drivers behind recent fertiliser price rises will weaken in coming months. Subsequently, we expect prices across the global fertiliser complex will return to the low price environment by the beginning of 2021.

Seasonal purchasing, in particular from India and Brazil, has been the driver of prices of both phosphate and nitrogen in recent months. Since mid June, prices of urea ex. Middle East have increased 23 percent, while DAP ex US Gulf has climbed 15 percent in USD terms. While prices have risen, they remain low in historical terms. After trading well-below the previous 10-year price low for the majority of 2020, only now has DAP ex US Gulf risen above the previous 10-year low (USD terms). Urea prices have continued to trade below the 10-year average.

According to CRU, Indian fertiliser sales have increased by 42 percent this year, supported by positive seasonal conditions. Demand for imports was strengthened by Covid-19 related restrictions, which caused some domestic production to operate below capacity.

Seasonal demand will continue to support urea prices prior to the Northern Hemisphere winter. After which, we expect to see global benchmarks again fall to the levels recorded mid year.

The outlook for phosphate is more complex. In June, Mosaic applied to the US Department of Commerce (DoC) and the US International Trade Commission for duties to be placed on US phosphate imports. As a result, imports have slowed, and US DAP prices have increased relative to global benchmarks. We expect prices will continue to trade above global benchmarks, until the final determination is made, by Feb 4, 2021 at the latest.

Outside the US, we expect phosphate prices will stabilise during Q4 as Indian stocks build, before prices fall into the new year.

Farm Inputs

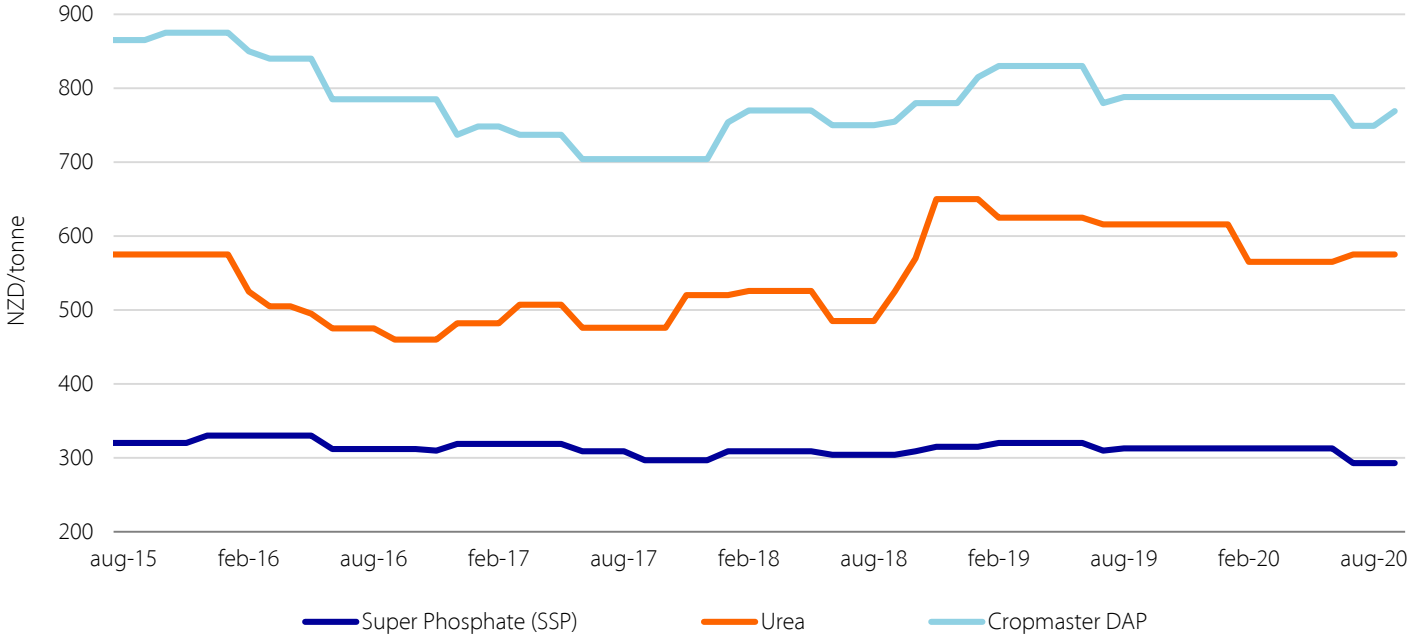
What to watch

- ***Data Sharing–*** ***(Click here for Article)*** Farmers are going to receive a growing number of requests to share data from governments and companies, who are increasingly relying on data analysis for policymaking and strategy. Consequently, it is critical farmers and companies think deeply about how to find a pathway of mutual value that will benefit all parties involved. Covid-19 has taught us some important lessons about data sharing and how we can achieve this pathway of mutual value.

A Small Increase in Local DAP Prices

Rabobank

Local NZ reported retail prices



Source: Ravensdown, Rabobank 2020



NZD Finally Gets a Covid Haircut

After a sustained rally lasting five months, the ***NZD finally fell against the USD in September on rising concerns over the direction of the virus and US and EU economies.*** It was worth USc 65.9 on September 30, down USc 1.5 for the month.

Investors around the world appeared unnerved by the resurgence of infection rates in the US and parts of Europe, increasing concerns that a significant second wave and associated lockdowns will accompany the Northern Hemisphere autumn/winter period. US equity markets fell, as virus concerns were added to increasing uncertainty as we approach the November election. There is also a rising fear that we will see further delay in the passing of a Covid stimulus bill (with the last one expiring on 31 July) as Congress turns its attention to replacing a High Court judge.

Domestically, the Reserve Bank of NZ announced on September 23 that it would hold the OCR at 0.25 percent but continue with its Large Scale Asset Purchase Programme up to NZD 100bn to further lower household and business borrowing rates. ***The Reserve Bank also noted its progress with its ability to deploy additional monetary instruments if required*** (which would further weaken the currency).

Despite its recent fall, the NZD remains only marginally below pre-crisis levels***. We expect the NZD to fall to USc 64 by the end of March 2021*** as we see investors adjust downwards their expectations for global growth, and risk appetite continues to wane as geopolitics deteriorate.

Rates & FX

What to watch

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

The NZD/USD falls as USD Swoons

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NZ currency against the US dollar



Source: RBA, Rabobank 2020



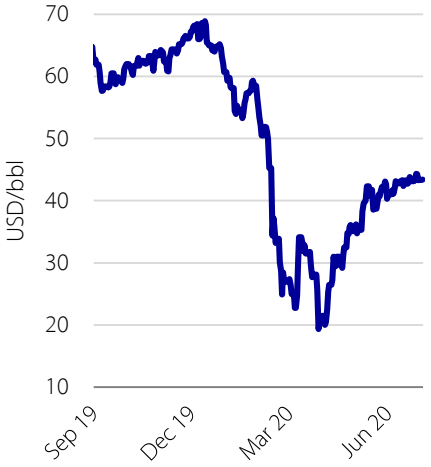
Oil & Freight

Volatility Ahead

Due to the poor macro and oil market fundamentals, we have maintained our bearish outlook for Brent Crude oil. We expect prices to drop below the USD 40/bbl barrier during Q4.

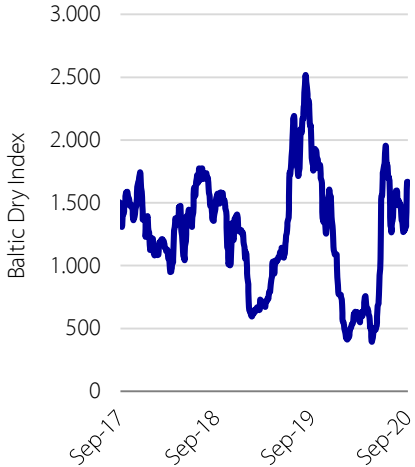
'Speculative selling' has been the major influence on Brent Crude prices over the last month. In one week in mid-September, large money managers sold a combined 125,000 contracts of oil futures. In comparison, the largest number of contracts sold at the height of the Covid-19 crash was under 100,000. This prompted the Saudi Arabian Energy Minister to issue a stark warning, placing 'short' sellers on notice, indicating that any attempt to put oil prices lower would be met with strong resistance. Looking forward, due to bearish market factors, we expect to see further speculative oil selling in the weeks ahead. On the flipside, the increased number of OPEC+ meetings is likely to lead to increased market volatility.

Brent Crude Oil,
25 Sept 2019 – 25 Sept 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index,
28 Sept 2018– 28 Sept 2020



Source: Bloomberg, Rabobank 2020



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RaboResearch Food & Agribusiness Australia and New Zealand

Tim Hunt
Head of Food & Agribusiness Research and Advisory, Australia and New Zealand
+61 3 9940 8406
Tim.Hunt@Rabobank.com

Angus Gidley-Baird
Senior Analyst – Animal Protein
+ 61 2 8115 4058
Angus.Gidley-Baird@rabobank.com

Michael Harvey
Senior Analyst – Dairy
+61 3 9940 8407
Michael.Harvey@rabobank.com

Cheryl Kalisch Gordon
Senior Analyst – Grains & Oilseeds
+61 2 6363 5900
Cheryl.KalischGordon@rabobank.com

Hayden Higgins
Senior Analyst – Horticulture and Wine
+64 6 974 9504
Hayden.Higgins@rabobank.com

Wes Lefroy
Agricultural Analyst
+61 2 8115 2008
Wesley.Lefroy@rabobank.com

Emma Higgins
Senior Analyst – Dairy
+64 3 961 2908
Emma.Higgins@rabobank.com

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

Charlie Clack
Commodity Analyst
+61 2 8115 2471
Charles.Clack01@rabobank.com

Dennis Voznesenski
Associate Analyst
+61 2 8115 3920
Dennis.Voznesenski@rabobank.com

Catherine Keo
Business Coordinator
+61 2 8115 4154
Catherine.Keo@rabobank.com

Rabobank New Zealand
Nearest branch call 0800 500 933
www.rabobank.co.nz



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