









Agribusiness Monthly September 2019

Australia



Commodity outlook

 Grains & Oilseeds	We expect local basis to continue to strengthen over the next two months, as the market recognises the downside in Australia's harvest prospects.
 Dairy	The New Zealand spring is the next piece of the puzzle to drive price direction.
 Beef	The BOM's forecast for dry conditions will dampen young cattle prices.
 Sheepmeat	Prices declined as the new season got underway but will we see a new bottom of the market
 Sugar	The industry awaits an Indian export subsidy decision, with higher prices forecast for Q4 2019.
 Cotton	Local basis to keep the industry buoyant this season, despite hefty incoming US supplies.
 Wool	The latest salvo in the US-China trade war will introduce greater uncertainty into the wool market.
 Wine	Australia's premium wine brands will be able to capitalise should the US place tariffs on imported French wines.
 Horticulture	Rabobank expects demand for processed potato products to continue to rise across South-East Asia.
 Fertiliser	Rabobank expects global urea prices to remain firm for the rest of the year, primarily due to demand from India.
 FX	The AUD plummeted in August on rising trade tensions: but there is still further downside.
 Oil	Despite potential further geopolitical impacts, we expect to see Brent crude moving up to average USD 74.50/bbl during Q1 2020.

What you may have missed this month



[Opportunities for Growth in Australian Grain-Fed Beef](#)

Angus Gidley-Baird

[Report](#) | **[Media Release](#)**



[More Smoke, Less Fire: Australian Agricultural Land Price Outlook](#)

Wesley Lefroy

[Report](#) | **[Media Release](#)**



Podcast | [RaboResearch: Australia & New Zealand](#)



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[Heffalumps & Jagulars: Grain Market Implications of the Trade War](#)

Cheryl Kalisch Gordon and
Wesley Lefroy

[The Gloves Come off in the Battle for Milk Supply](#)

Michael Harvey and
Tim Hunt

[To Feed or Not to Feed: Can We Grow Grain-Fed Lamb?](#)

Angus Gidley- Baird

RaboResearch Food & Agri

Our global picks



**[Making Milk Cool Again:
Milk Is in an Era of Flux,
Premiumization, and Self-
Discovery](#)**



**[Podcast: On the Road in
Iowa – Are Grains a Field
of Dreams this Year?](#)**

Another month of below-average rainfall



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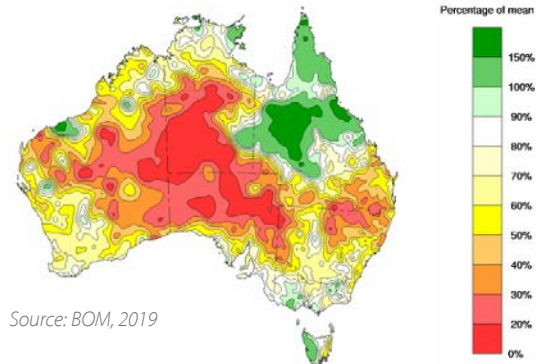
Below-average rainfall was recorded in a large majority of regions across Australia during August*.

A series of cold fronts delivered light, widespread rainfall across south-eastern Australia. Clare recorded 49mm for August*, while Horsham recorded 36mm during the same period.

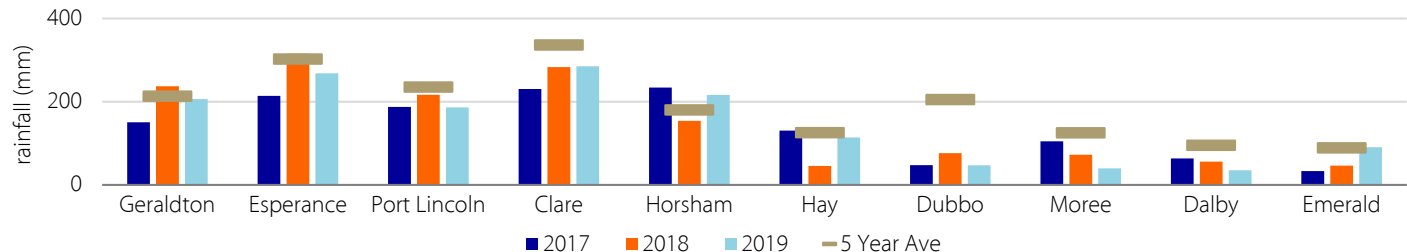
It was more of the same for drought-affected regions, with Moree not registering any rain, and Dubbo only 6.8mm. Moree now has recorded 83mm for the year, compared to 255mm at the same point last year.

Rainfall totals of between 50mm-100mm were recorded across the WA wheatbelt during August*.

Rainfall deficit 1 Jan 2019-20 Aug 2019



Winter growing season rainfall to date (1 Apr 2019-25 Aug 2019)



Source: BOM, Rabobank 2019

*to 25 Aug 2019

Dry outlook underpinned by positive IOD



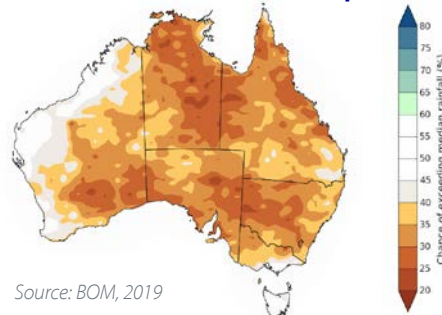
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The latest forecast from the Bureau of Meteorology (BOM) is for below-average rainfall for central and eastern Australia for September to November.

BOM expects the Indian Ocean Dipole (IOD) to remain above positive for the remainder of spring. A positive IOD is typically associated with drier than average conditions for central and southern Australia.

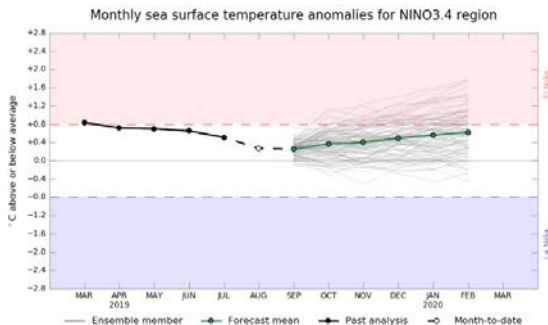
BOM expects El Niño–Southern Oscillation (ENSO) will be neutral for the remainder of the year, and subsequently will have little influence on weather patterns throughout the period.

Three-month outlook, Sept–Nov 2019

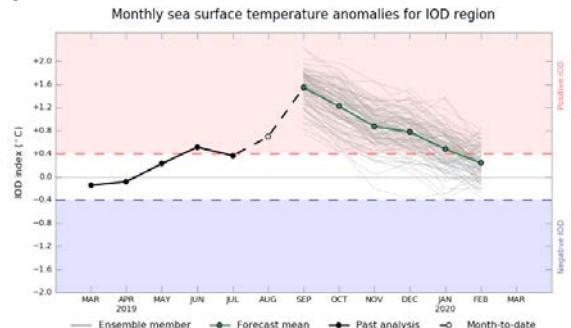


Source: BOM, 2019

El Niño–Southern Oscillation (ENSO) & Indian Ocean Dipole (IOD) Outlook



Source: BOM, 2019



Source: BOM, 2019

Local shifts stave off global decline

Market recognition of increasing downside risk for the AU 2019/20 harvest has delivered support to AU wheat prices over the past month. Prices would otherwise have been pressured lower with CBOT wheat losing another 4.5% as we approach the end of the month. Most forecasters still have over 19m tonnes in mind for the Australian wheat harvest, but our forecast of close to 18m tonnes remains. As such, we expect further basis gains over coming months.

Thirsty crops in parts of all grain-growing states have reduced market expectations for harvest volumes later this year. Notably, the Grains Industry of Western Australia (GIWA) production report released this month, forecasts the total 2019/20 WA total crop down over 20% YOY, including wheat down 26.6% and barley down 14.5%. Even in Victoria, where the nation's best yields are expected this year, and regions such as the Wimmera still have the potential for one of their best seasons on record, the north west Mallee area of the state is facing increasingly grim prospects for this year's harvest.

The decline in prospects for the nation moved basis up by between 5.5% (ADL) and 100% (KWI) during the period since the end of July. The exception was Geelong, where basis has remained steady and prices fallen 2% with downward global pressure.

Global prices found lower ground again this month due mostly to favourable production news from the US and Russia.

According to the USDA, winter wheat harvesting has nearly caught up to the five-year average and the spring wheat crop 'Good/Excellent' conditions have remained above the five-year average and gained marginally. In addition, and despite 14% of the corn crop being in 'poor/very poor' condition, corn development for the balance of the crop has almost caught up on the five-year average for this stage in the season. Meanwhile Russia's harvest is coming in at yields above previous years, despite in-season concern due to heatwave conditions. The Russian Agriculture Ministry has reported that with 38% of their grain harvested (up 2% YOY for this point of the season), yields are up 2% YOY.



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Grains & Oilseeds

What to Watch

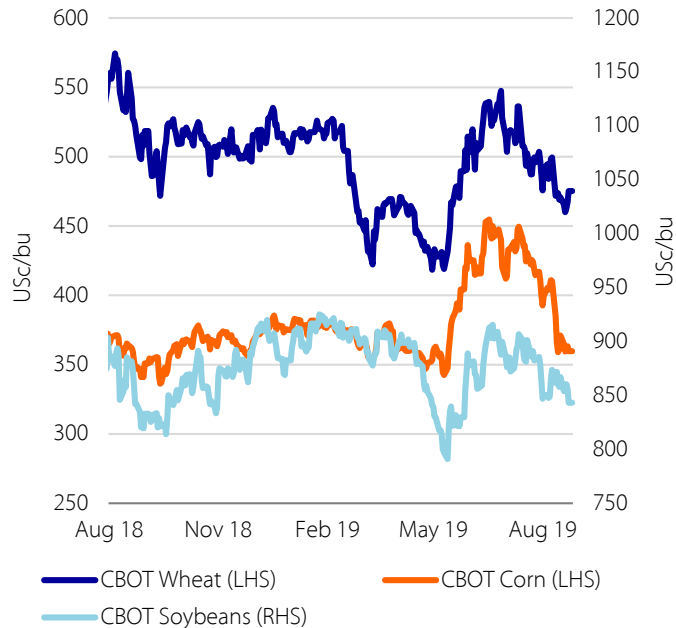
- **Argentinian election** – Argentina's currency reached historic lows this month following the resounding loss of the pro-market incumbent President Macri in the primaries (ahead of the Presidential election to be held in October). The immediate 30% decline in peso value that followed has added to the already competitive position of Argentine wheat in global markets. However the election of the opposition may spell a return to pre-Macri policies, which were not supportive of grains exports (e.g. export quotas & taxes, fixed currency and restricted foreign investment).
- **Hay cutting** – with hay prices still elevated across the east coast of Australia, and crops in many areas hanging in the balance, September will see more than average crop area cut for hay, and significantly more if rain is not received in the next three weeks.

AU basis strengthening offsets global decline



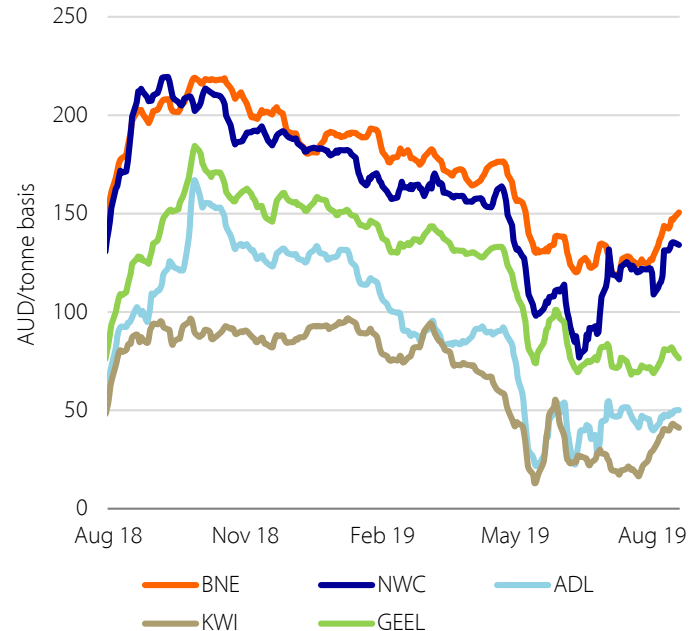
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CBOT wheat and corn fell another 4% and 13%, respectively in August, with improved US crop



Source: Bloomberg, Rabobank 2019

We expect further basis strengthening over the next two months



Source: Bloomberg, Rabobank 2019

* Basis over CBOT wheat

All eyes on New Zealand weather

Global dairy commodity prices remained steady in August. While Oceania butter prices continued to modestly decline, powders found price support across the month of August. Global dairy market fundamentals remain well-balanced. Growth in global milk production remains very modest, while import demand has been robust across a number of key markets. Risks to the global market remain evenly balanced at this point in time. However, weaker macroeconomic settings and growing buy-side stocks remain key downside risks in the short term.

Northern Hemisphere milk flows are underwhelming. US milk production was flat for July 2019, compared to July 2018. This follows two months of lower year-on-year milk flows for May and June, helped by lower cow numbers. Meanwhile, European milk flows have been impacted by intense heat, causing June 2019 milk production to be marginally lower by (-0.1%) year-on-year.

The New Zealand spring peak will be crucial in determining the global balance. Winter conditions have been relatively mild across most dairying areas so far. But with the spring peak rapidly approaching, NIWA's warning that New Zealand could experience plenty of unsettled weather across September and October presents a risk to milk volumes. RaboResearch is forecasting New Zealand milk production to be lower by 1% for the 2019/20 season; but noting that this is heavily dependent on weather conditions over the next few weeks.

A weaker AUD will be a tailwind for export returns. Global markets are supportive of higher milk pricing in Southern export regions. But further weakness in the currency would be a welcome boost – with Rabobank still expecting the AUD to head towards USD 0.65 on a 12-month view.



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Dairy

What to watch

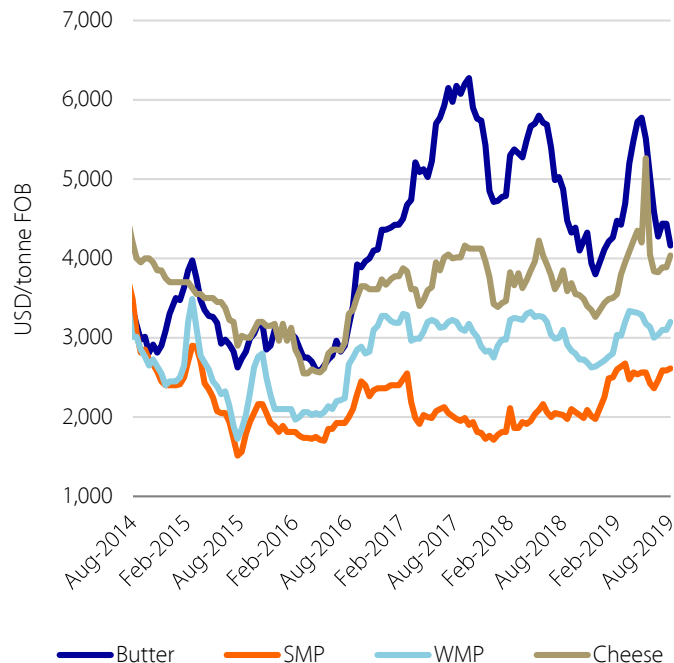
- **Competition red flags in Tasmania.** The ACCC is scheduled to hand down its decision regarding the proposed acquisition of Lion Dairy and Drink's specialty cheese assets by Saputo on September 26. The concern raised was about the erosion of farmgate competition for milk supply under the deal.

Weather risks to supply remain in 2H 2019



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Global dairy prices, 2014-2019

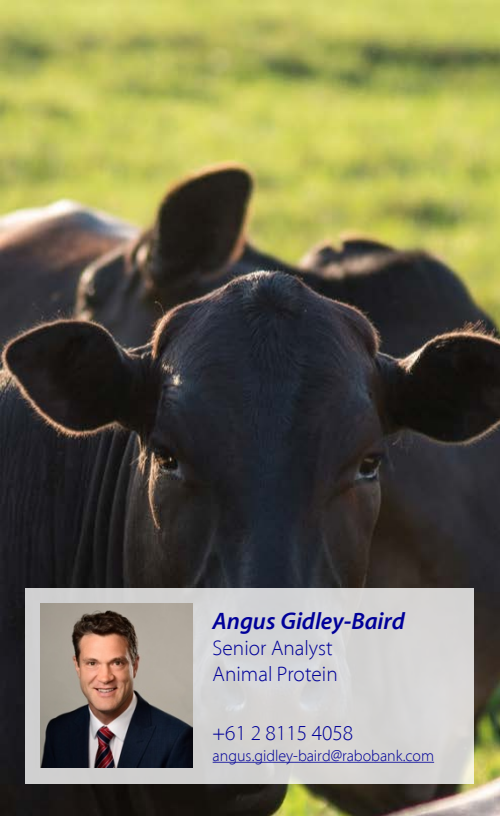


Source: USDA, Rabobank 2019

Production growth key exporting regions

	Latest month	Last three months
EU	-0.1% (June 19)	0.5%
US	0.0% (May 19)	-0.2%
Australia	-13.6% (May 19)	-12.4%
NZ	2.2% (2018/19 season final)	

Source: Rabobank 2019



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Beef

Young cattle prices feel the heat

The wind was taken out of producers' sails in early August which saw young cattle prices fall. The BOM forecast only a very low chance of receiving average rainfall over the next three months for much of eastern Australia. As a result, the EYCI saw its biggest decline for the year, dropping 4.5% in three weeks to AUD 5.08/kg cwt on 22 August. Restocker cattle prices have also dropped. Meanwhile heavy and finished cattle prices remained firm. ***Young cattle prices traditionally track higher in 2H but with the forecast of low rainfall across such a large area of eastern Australia, producer demand and therefore prices are expected to remain subdued over the coming month.*** September will be critical for many areas needing rain to stimulate spring growth and build a feedbase before heading into summer.

June slaughter volumes (708,900 head) were up 3% on June 2018. Females continue to represent 58% of the total slaughter, while female slaughter for the year-to-date (June) is up 14% and male slaughter is down 6% on the same period last year. Indicative slaughter numbers for July and August show numbers continuing to remain above 2018 levels. Cattle yardings edged above the five-year average in late July before dropping back down again later in August.

July beef exports (114,965 tonnes swt) were up 9% YOY. Reflecting the higher slaughter, total volumes for the year-to-date in July were up 7% on the same period in 2018. Australia triggered the safeguard level (172,400 tonnes) for exports to China in August, meaning tariffs returned to their pre-FTA level – in most cases this doubled the tariffs. While causing temporary disruptions, we do not expect this to have a large impact on trade volumes for the remainder of the year. Live export volumes for the year to date (July) are up 18% with strong numbers to Indonesia, up 25% YTD.

What to watch

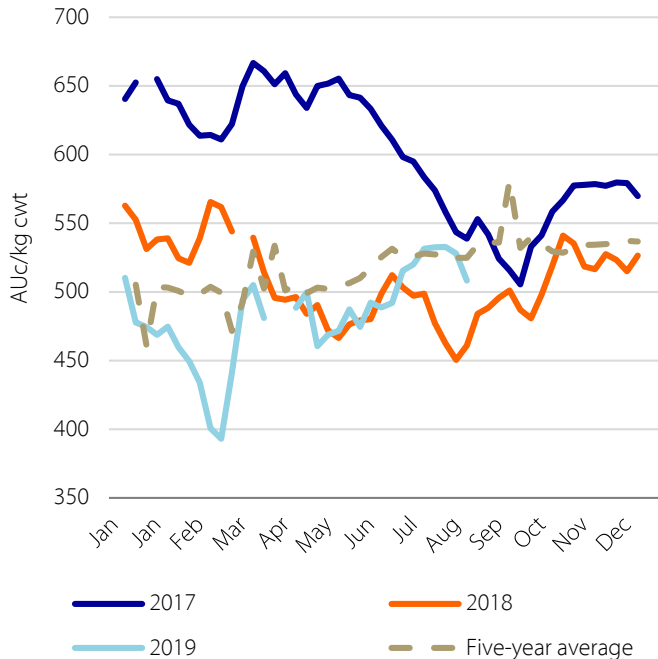
- **Grain-fed finished cattle prices** – Despite concerns about availability of cattle, the number of cattle on feed during Q2 again posted a record, rising to 1.15m. Taking a look at finished grain-fed cattle prices could explain why. 100-day grain-fed cattle prices are now at record levels, surpassing prices seen at the peak of the market in 2016. The price spread between feeder and fed cattle prices are also at some of their highest levels.

Young cattle prices turn south, while finished cattle prices continue to rise



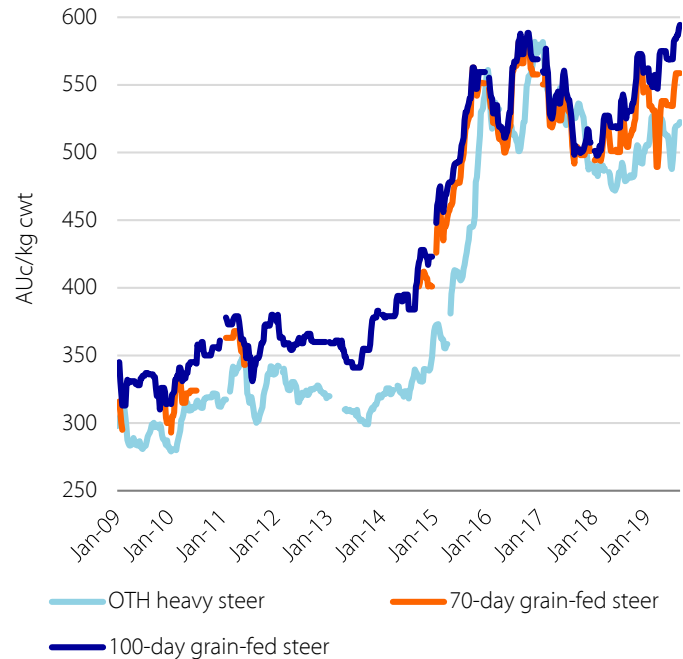
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After drifting up, the EYCI turns south again



Source: MLA, Rabobank 2019

100-day grain-fed cattle prices at record levels



Source: MLA, Rabobank 2019

Prices follow normal seasonal decline

All classes of sheep saw prices decline through August, following the normal seasonal trend as the new season commences. Restocker/feeder lambs saw the biggest drop of 14% in the last two weeks compared to other classes that dropped 4-5%, increasing the price spread between lighter lambs and heavy finished lambs. After reaching record levels in mid July, the ESTLI followed the normal seasonal decline through late July and into August to sit at AUD 8.06/kg cwt on 22 August. US retail lamb prices continued to remain strong through July, and Australian lamb import prices to the US – while off their highs in March – continue to remain strong, further supported by a depreciating Australian dollar. ***These positive global price drivers, plus strong demand from China are expected to support Australian lamb prices. While new season lambs will cause prices to drop, we expect that with lower lambing rates and poor fodder availability, prices could bottom out in late September at around AUD 7.0/kg cwt.***

Lamb slaughter for June (1.46m head) was down 23% year-on-year and sheep slaughter (481,000 head) was down 15% year-on-year. Indicative numbers for lambs, show some of the lowest slaughter volumes for the month of August since 2011.

Reflecting lower slaughter volumes, July lamb exports (18,238 tonnes swt) were down 16% on 2018 volumes, and mutton export volumes (7,299 tonnes swt) were down 29% on 2018 volumes. Year-to-date (July) volumes to the Middle East have dropped 9%, while volumes to China are up 19% and the US up 6%.



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Sheepmeat

What to watch

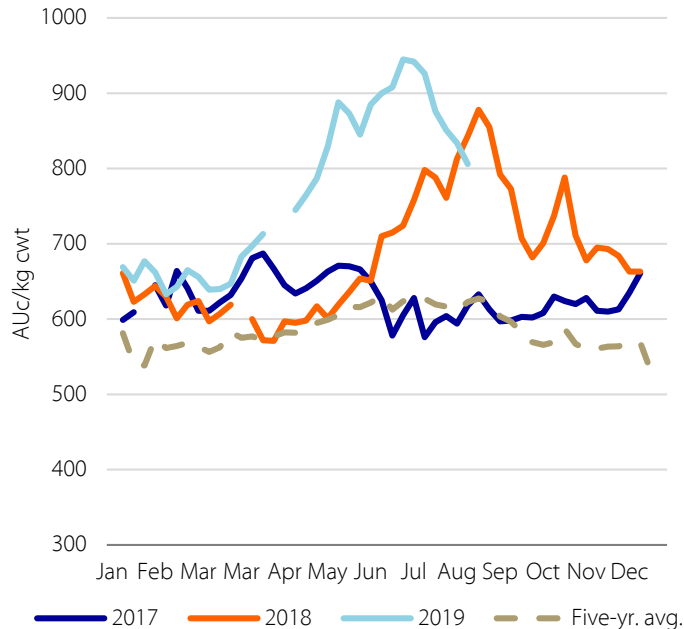
- **Bottom of the market** – Over the last five years, trade lamb prices have fairly consistently dropped about 80% from the high point in the months of June to August to the low points from September to November. Applying the same decline in prices from the highs achieved in mid-July this year would suggest trade lamb prices should bottom out at AUD 7.55/kg. Strong export markets and limited domestic supplies of lambs would suggest such strong prices could be possible, but the challenge will be whether slaughter numbers and prices have a deleterious impact on processor demand.

Prices decline, but will we get a new bottom of the market?



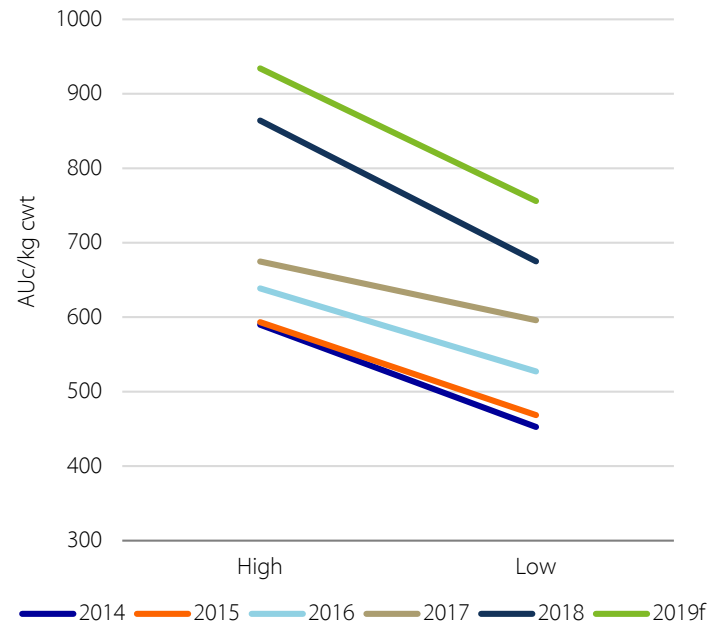
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Eastern States Trade Lamb Indicator coming back to earth



Source: MLA, Rabobank 2019

Trade lamb prices drop 80% from the high point to the low point in the season



Source: DA, Rabobank 2019

Harvest cranks up

National harvest pace gained momentum through August, with 36.1% of national cane crushed as of 18 August. However, the pace of crush is now 7% behind last season – following a wet start – with 3.3m tonnes harvested YTD. Average CCS remains relatively strong at 13.06 vs. 2018's 13.4 value – Rabobank maintains full-season sugar output at 4.4m tonnes. Looking ahead, the three-month forecast maintains dryness across Northern & Central Queensland, which should maintain harvest pace in the short-term.

Low prices continue to plague the sugar industry, with spot prices remaining stubborn at AUD 375/tonne. This has been predominately futures-led, with the ICE #11 dipping to contract lows on October 2019 at below USc 11.5/lb. However, AUD depreciation – now at 67 vs. USD – has muted the sell-off domestically. Looking ahead, Rabobank remains bullish with prices expected to reach AUD 430/tonne by Q4 2019. However, prices in the three-month period will remain under pressure from Thai and Indian sugar oversupply. The impact of 2019/20 production cuts in India, Thailand and the EU – coupled with a max ethanol Brazilian season – should drive prices higher into early 2020. For India, the million dollar question remains – how many million tonnes of exports will be subsidised in the coming season? Expectations are between 3.5m-5m tonnes.

Shareholders of Mackay Sugar Limited (MSL) voted convincingly to support a recapitalisation deal with Nordzucker AG, the German sugar manufacturer on 29 July. The move provides certainty to growers and shareholders linked to the firm, with Nordzucker acquiring 70% of share capital in MSL.



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Sugar

What to watch

- **Indian export subsidies for next season are expected to be announced in the coming weeks.** Expectations are between 3.5m-5m tonnes, although the ISMA has lobbied for 7m tonnes. This announcement could have significant impact on the outlook – expect volatility.
- **The Brazilian real, currently at 4 vs. the USD, is keeping pressure on the ICE #11 price.** Weakness in the BRL, alongside with potential weakness in the energy market, could mount further pressure on global sugar prices.

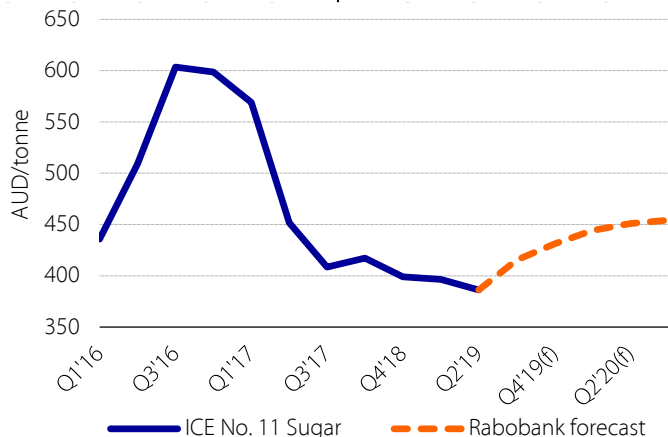
ICE #11 dips to contract lows for October, with AUD weakness muting the impact at home



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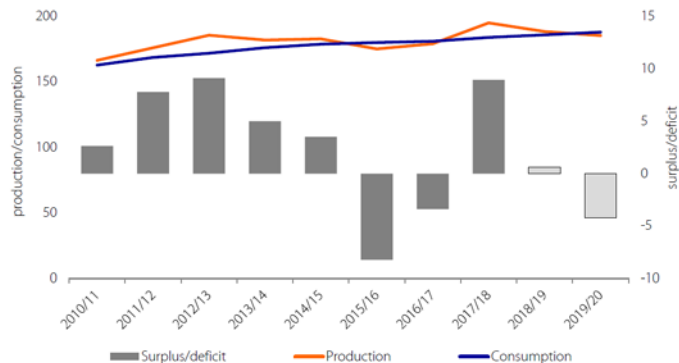
ICE #11 upside & AUD depreciation drive upside for sugar prices in AUD/tonne terms

unit	Q4'18	Q1'19	Q2'19	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)	Q3'20(f)
ICE #11 US\$/lb	13.0	12.8	12.3	13.0	13.3	13.5	13.5	13.6
AUD/USD	0.72	0.71	0.70	0.69	0.68	0.67	0.66	0.66
Sugar AUD/t	399	396	386	415	431	444	451	454



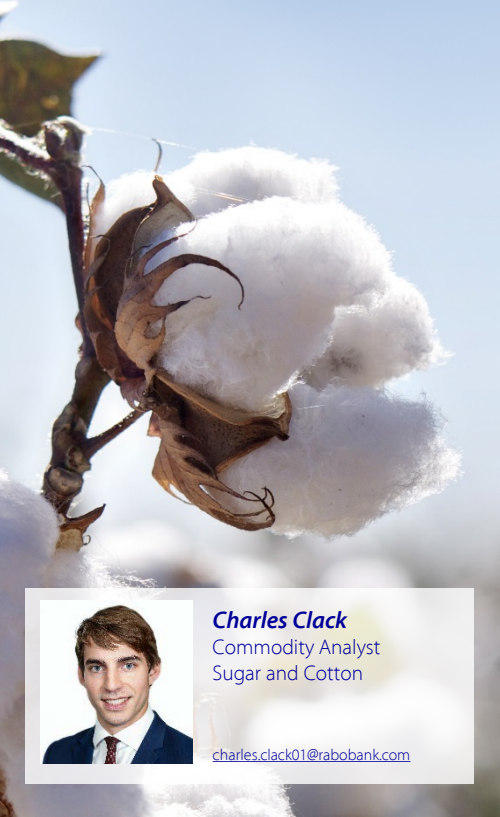
Source: Bloomberg, Rabobank 2019

Rabobank forecasts a small (0.6m) tonne surplus in 2018/29, followed by a 4.2m tonne global deficit



Source: FO Licht, Rabobank 2019

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Pinch of salt

Australian cash values set to resist futures pressure, as bears, bears, and more bears pile into ICE #2

Cotton futures. The ICE #2 dipped to below USc 60/lb this month, as further trade jitters and strong production prospects increased pressure on the US exchange. However, the market is failing to price in any weather or production risks – hence Rabobank's modest bullish price outlook. Interestingly, the impact has been muted in Australia following a surge in 2019 crop basis – now at 1,300 points, to provide a AUD 535/bale price. Given the strength of Chinese demand, and global weather/acreage risks, the price downside appears limited for now. However, Rabobank highlights that the AUD 530-AUD 570/bale price range is forecast through the remainder of 2019.

China takes the #1 spot for Australian exports through 2019 – winning by a country mile. From January to June 2019, China accounted for 893,000 bales of Australian exports – that's 73% of cotton exports YTD valued at AUD 590m. This compares to 611,000 bales in 2018 – 50% of exports. This popularity is undoubtedly trade-war driven as China secures non-US supplies – a positive force for domestic basis and one set to continue. However, with lower export availability head – following the east coast drought – it will be a challenge for Australia to maintain market share into China amid Brazil's recent record cotton crop and 6m bale export surplus. Strong quality, reliable supply and lower freight should remain an advantage, but must these days seem to rest on geopolitics...

Incoming US supplies will be big, but perhaps not as large as initially thought. Rabobank's recent US cotton tour travelled through the key regions of West Texas and the Mississippi Delta, where lower-than-expected acres were coupled with late developing crops. Continued good weather could allow for crops to catch-up, although risks remain of an early frost or hurricane. However, planting issues – stemming from the wet spring – will have a material impact on 2019/20 output. Rabobank forecasts a big US crop – 20 to 22 bales – but we remain cautious, and are taking USDA forecasts with a pinch of salt. Either way, the world's #1 exporter will be building significant stocks.

What to watch

- ***Futures prices below the USc 57/lb see the US loan programme kick in,*** a government scheme which assists growers in financing crop storage to allow better opportunities for marketing. This supports prices at current levels – at least in the short term – but also means there could be stacks of US cotton to sell later in the 2019/20 season.
- ***Confidence in the Australian 2019/20 crop remains poor, with increasing talk around a sub 1m bale 2019/20 crop.*** The lack of rainfall in Southern Queensland and across NSW makes a sub-1m bale 2020 crop increasingly likely.

Cotton

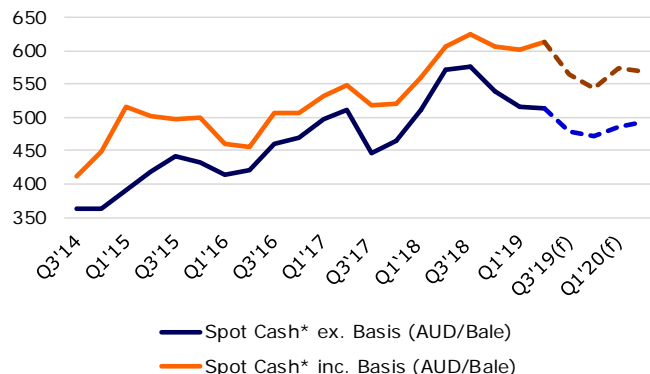
Australian cash values resist futures pressure, as more bears pile into ICE #2 Cotton futures



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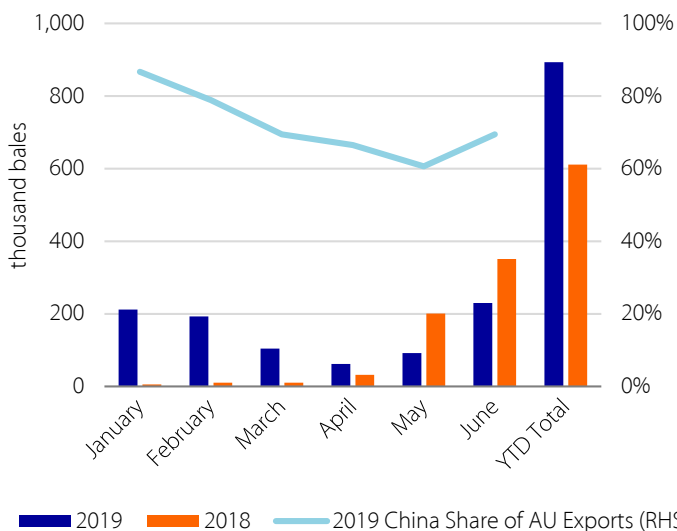
Rabobank's local forecast maintained, with prices forecast in a AUD 530-AUD 570/bale range in 2019

	unit	Q1'19	Q2'19	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)	Q3'20(f)
ICE #2	USc/lb	73	71	66	64	65	65	66
AUD/USD		0.71	0.69	0.69	0.68	0.67	0.66	0.66
Basis	Pts/lb	1214	1394	1200	1000	1200	1000	800
AU ex. Basis	AUD/bale	515	513	478	471	485	492	500
AU inc. Basis	AUD/bale	600	614	565	544	575	568	561



Source: Bloomberg, Rabobank 2019

Chinese YTD purchases of Australian cotton reach near 900,000 bales, amid the US-China trade war



Source: ABS, Rabobank 2019

Rabobank's recent US cotton tour travelled through the key regions of West Texas and the Mississippi Delta, where lower-than-expected acres where coupled with late developing crops – a major risk factor to the global outlook.

Prices plummet

After a momentary rise at the beginning of the season, prices have dropped dramatically since the start of August, to the lowest levels since June 2017. Experiencing the biggest drop in the space of one month for the last ten years, the EMI fell 14% and was AUc 1497/kg on 23 August. Most finer wools saw prices fall, 23-25 micron were steady and coarser wools also fell. A depreciation in the Australian dollar saw prices in US dollar terms drop 16%. Much of the drop in prices has been attributed to the uncertainty generated by the China-US trade wars and the proposed imposition of additional US tariffs on Chinese manufactured clothing. Indications on the 23 August that those announced tariffs could increase further will add to this uncertainty.

Wool test data shows that for the season-to-date (incomplete August numbers) the volume of bales tested at 182,761 is down 26.6%. This reflects lower sheep numbers and ongoing dry conditions. AWI released the update of their 2019/20 forecast on 26 August. The Wool Production Forecasting Committee expects a 5% decline in wool production for 2019/20 to 285m kg greasy. This follows an estimated decline in 2018/19 production of 12.1% from 2017/18 levels. The main driver in the reduction in production is the reduction in sheep numbers with the forecast number of sheep shorn dropping to the lowest on record at 68.2m in 2019/20.

Reflecting lower production, wool exports for the 2018/19 season to June were down 14.6% to 288.98m kg. Exports to China made up 78% of the total and were down 15.1% and exports to India were down 15.1%. Stronger prices meant that, despite large falls in volumes, the value of exports for 2018/19 only dropped 1.8%, with drops in value to China of 3% but increases in the value of exports to India of 9.6%.



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What to watch

- **China wool imports** – The months of August, September and October are lower volume import months for China. Lower Chinese imports may result in lower Chinese buying activity and little price support for current falling Australian wool prices.

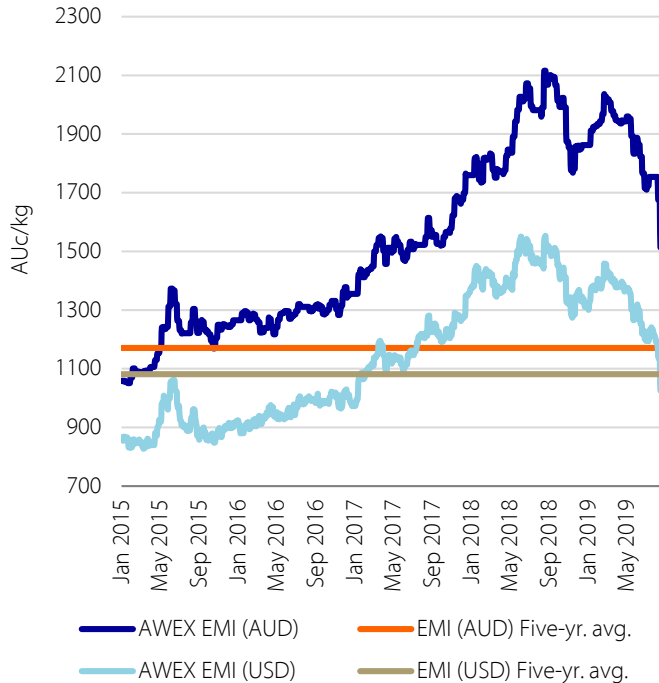
Wool

Wool prices drop as Chinese imports head into lower volume months



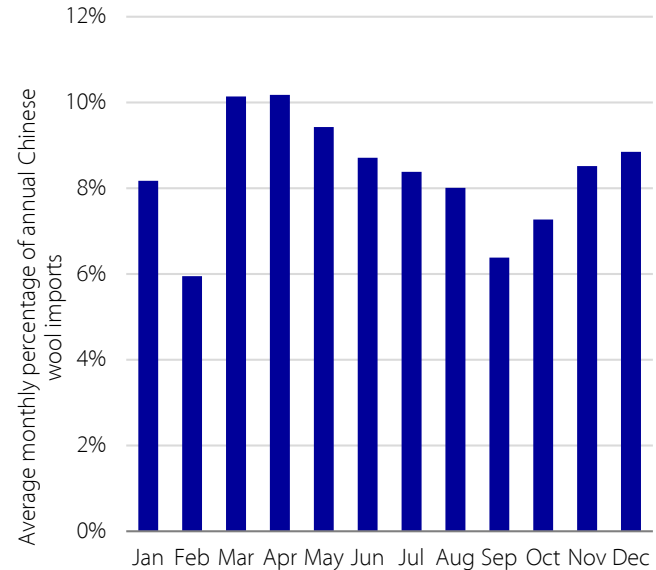
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EMI drops 13% since the start of the season



Source: Bloomberg, Rabobank 2019

Average monthly distribution of Chinese wool imports (2009-2018)



Source: Bloomberg, Rabobank 2019

High stakes for French wine in US

US president Donald Trump has threatened to impose up to a 100% tariff on French wine imports into the US, which would have a material impact on French wines. They already hold the highest average value per litre by some margin and a doubling of value could materially alter the demand-side equation for France. Rabobank expects this to create opportunities for premium Australian wines to capitalise on market positioning at the unfortunate expense of the French.

US imports of French wine over the year to June 2019 were worth around USD 2.2bn, with an imported price of around USD 11.52/ litre. New Zealand wines hold the next highest ranking in value per litre, at around USD 6.26/litre with Australian wines averaging USD 2.39/litre.

Reportedly, President Trump believes looks are more important than taste when it comes to wine, and US wines “look better” than French wines. Flavour, structure, quality and origin of a wine are all key components consumers seek out and will pay a premium for. French wines have earned a reputation on these and many other attributes to achieve the highest value of any imported wines in the US, perhaps indicating that taste is more important than looks.

A doubling of the value of imported French wine could have big implications for demand for French wine in the US and this comes at a time when French wines are also losing ground to Australia wines in China. ***Rabobank believes that if the US does implement increased tariffs, and of this magnitude, then Australia’s premium red wines will be well-placed to compete*** for consumers who may be too price sensitive to persevere with French wines and seek quality alternative products.



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Wine

What to watch

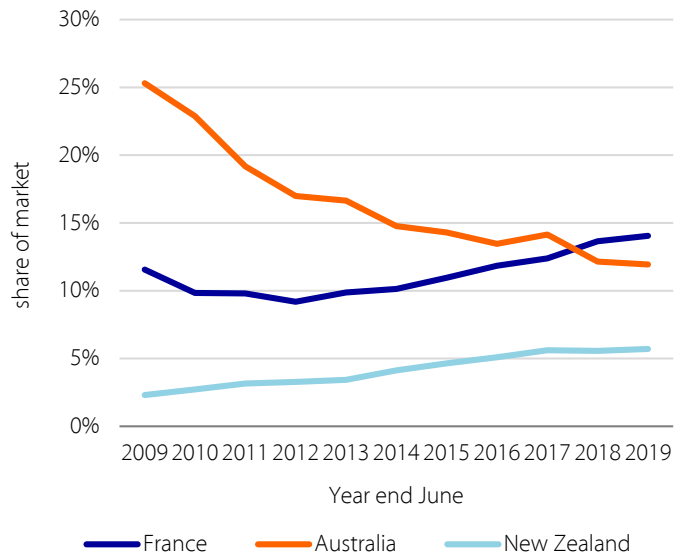
- **French Vintage for 2019** - Recent reports from the French Ministry for Agriculture are estimating a vintage that is below the five-year average and between 43m-46m hectolitres due to variable weather patterns across France – from heatwaves to frost at critical times.

Much at stake for French wine

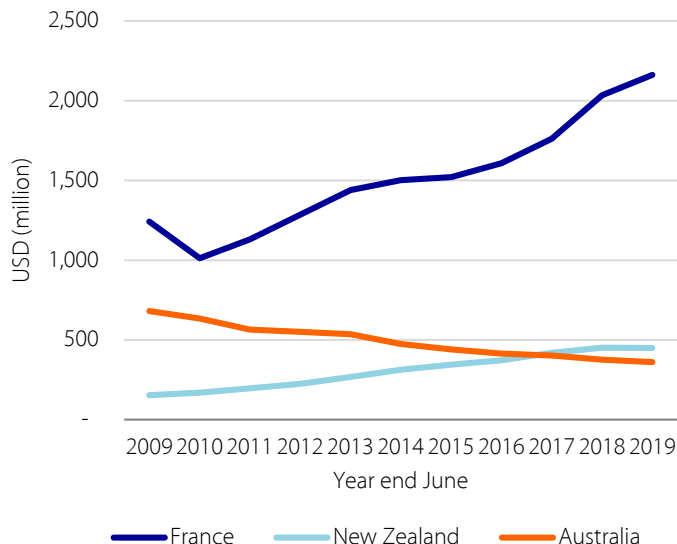


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Share of US wine imports, volume



US wine imports, value



Source: USDA, Rabobank 2019

The value of US imports of French wine is significant in the US market.

Would you like fries with that

Australian processed potato exports rose across the 2019 export year. New Zealand has been the recipient of much of this product, but China has also provided an opportunity with increasing demand for Australian product. Further market opportunity exists, with rising demand across SE Asia, but prices may moderate.

New Zealand's imports for processed potatoes have increased across the 2019 year to June, with Australian product meeting that demand. New Zealand consistently imports around 16,000-18,000 tonnes annually and while not a large demand market overall, it has consistently been the main destination for Australian processed potatoes. However, over the course of the 2019 export year, China has begun to feature more strongly in export statistics.

It's not only China that is seeing increasing demand to import processed potatoes however, as other South-east Asian countries continue to import more product. Key growth markets over the five years to 2018 have been the Philippines, Thailand and Indonesia, who alongside China have all shown double digit CAGR for import volumes over the period.

Just as we see rising demand for grinding beef across Asia, as diets change towards western, QSR-type meals we expect to see this have benefits also for exporters via continued rising demand for processed potato products. But there are signs that price growth is moderating, as volumes rise in some of these markets.



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Horticulture

What to watch

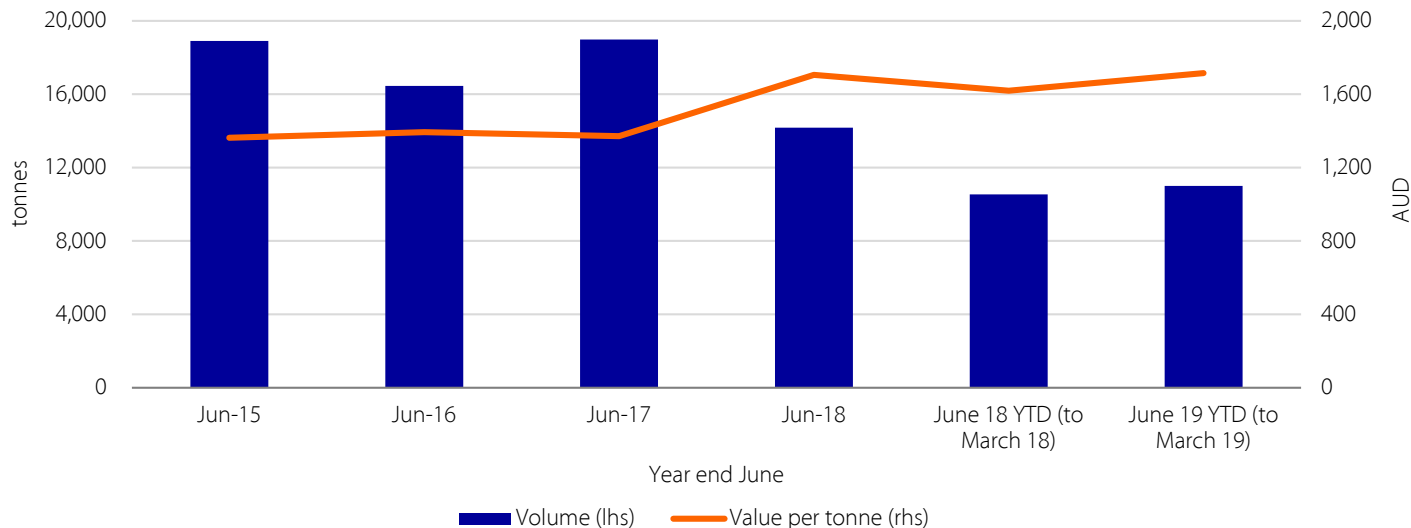
- ***Where the US places its processed potato products*** – The US has historically been the largest supplier of processed potatoes products to China. Continuing trade tensions may see a re-direction into other Asian markets for processed potatoes if they become more favourable. With Australian processed potatoes not being materially exposed to many of these markets, this may provide an opportunity for increased Australian exports into China.

Fries are on the menu



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Australian processed potato exports



Source: Trade Map, Infoshare, Rabobank 2019
HS code 20041

Exports of processed potato products rise slightly YOY by volume and value with increased New Zealand imports.

Firm outlook for global urea

Rabobank expects global urea prices to remain firm for the rest of the year, primarily due to the anticipation of continuing demand from India.

Despite FOB prices ex Middle East falling some 9 percent during August, to USD 265/tonne, global urea prices remain near the highest point for five years during the August period.

Demand originating from India has been the dominant driver of the global urea market over recent months. We expect that demand from India will continue late into the year, due to the late arrival of the monsoon.

Global phosphate prices continued to slide during August, a trend that began in October 2018. DAP ex US Gulf FOB, fell to USD 326/tonne at the end of August, down 26% over the past 11 months.

The global phosphate market continues to be weighed down by oversupply and poor demand. Looking ahead, we expect prices to remain under pressure in coming months, albeit nearing a price floor, with demand support coming ahead of the Northern hemisphere winter crop planting.



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Farm Inputs

What to Watch

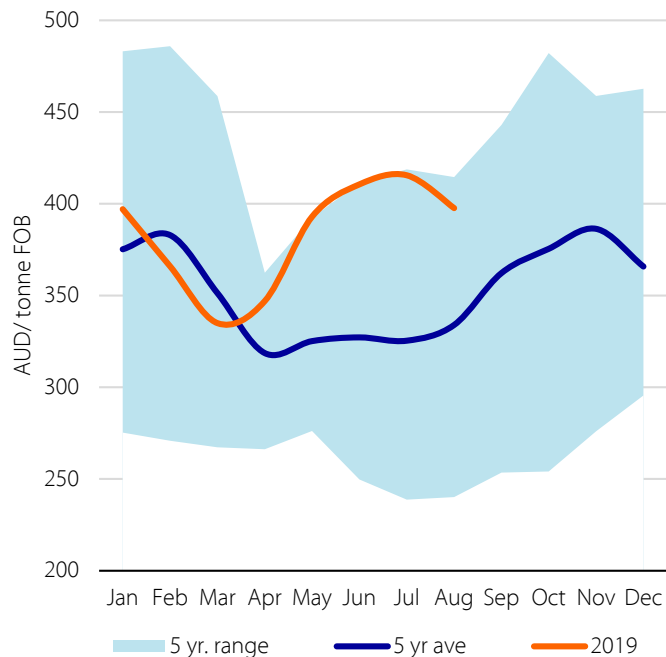
- **Landmark acquisition of RuralCo** – The Australian Competition and Consumer Commission (ACCC) has announced that it will not be opposing the acquisition of RuralCo by Nutrien, the parent company of Landmark. The decision from the ACCC is subject to Nutrien divesting three rural stores, in Broome (WA), Hughenden (QLD) and Alice Springs (NT). The final hurdle for the acquisition is approval from the Foreign Investment Review Board (FIRB). Changes to store make-up have not been announced, and are likely to be conducted on a region by region basis.

Global DAP continued to slide



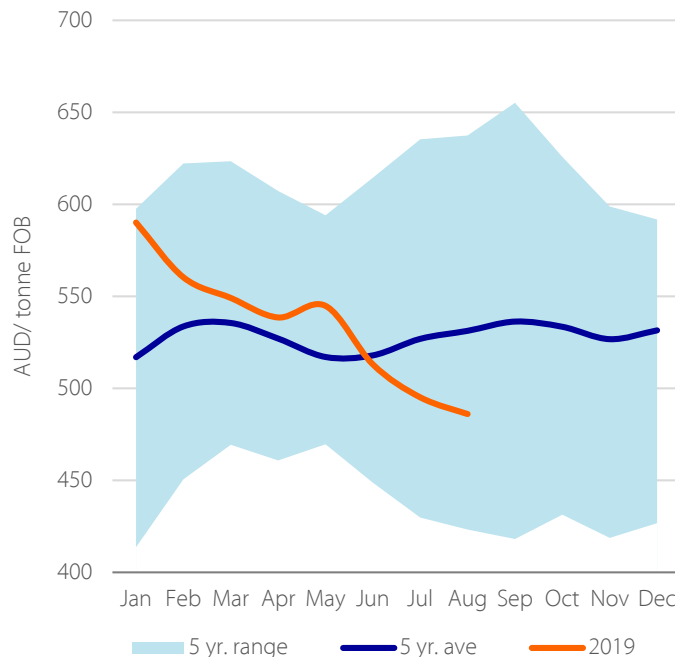
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AUD-adjusted Middle East Urea FOB Prices



Source: Bloomberg, Rabobank 2019

AUD-adjusted US Gulf DAP FOB Prices



Source: Bloomberg, Rabobank 2019

AUD plummets, but downside remains

We maintain our forecast for the AUD to reach USc 66 within 12 months. Luckily for exporters, it will fall less against the Chinese Yuan.

The AUD fell USc 2.5 against the US dollar in the month to 26 August, to reach just under USc 67 – its lowest level since March 2009. The slump in the AUD accompanied falling local and global stock markets (as investors exited riskier assets) and surging bond yields and record gold prices (reflecting the flight of capital to safer investments). Investor concerns stemmed from a combination of poor economic data and a significant escalation in the US/China trade war. In a tumultuous month, Trump and China both ratcheted up tariffs to new highs. China allowed its currency to devalue, and ordered SOEs to stop buying US agricultural products. Trump 'ordered' American companies to "immediately start looking for alternatives to China". Meanwhile, ongoing protests in Hong Kong raised concerns of how much worse things could still get if China opts for heavy-handed intervention and the US responds with yet more sanctions.

Despite the sharp fall in the AUD through August, we still see further downside. We still hold the view that the RBA will cut rates further than the US over the rest of 2019. And with geopolitical tensions assumed to stay high, and the global economy continuing to slow, ***Rabobank forecasts the AUD to hit USc 66 by August 2020.***



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FX

What to watch

- **AUD/CNY.** China has let its currency fall against the US dollar since Trump imposed another round of tariffs on 1 August. The market has jumped on this. By 26 August, the CNY had fallen 4% against the US dollar.
- A weaker CNY makes Chinese exports more competitive, but reduces China's ability to buy imports. Thankfully for Australian exporters, the reliance of the Australian economy on China means that any fall in the CNY against the dollar tends to trigger a fall in the AUD/USD rate also. Rabobank expects the AUD /CNY to change little over the next 12 months as a result.

AUD registers its heaviest monthly fall against the dollar in 2019



Australian/US dollar cross rate



Source: RBA, Rabobank 2019

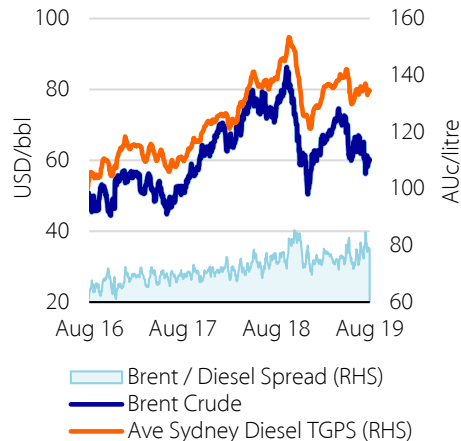


Upside ahead despite geo-political storm

For the first time, the US-China trade war hit the oil market this month, with China targeting US crude imports as a part of its latest round of retaliatory tariffs. Despite this, we see upside in the market. We expect to see Brent crude moving up to average USD 74.50/bbl during Q1 2020.

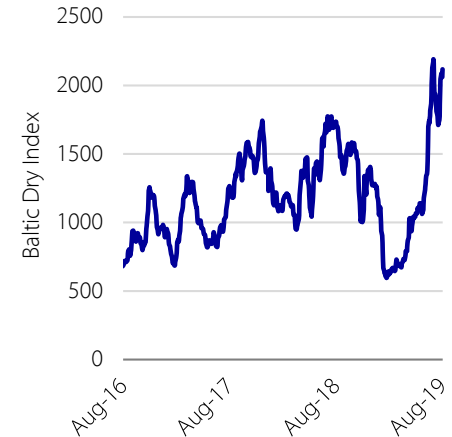
Geopolitics aside, the fundamentals of the Brent crude remains strong. Ahead of the IMO 2020 shipping fuel change, we are already seeing an increase in demand. In response to this extra demand, Saudi Arabia will maintain their aggressive supply management, which will act to keep balances tight. The wildcard remains the US-China trade war. Any further escalation will continue to impact market sentiment.

***Brent Crude Oil & Average Sydney Diesel
Aug 2016-Aug 2019***



Source: AIP, Bloomberg, Rabobank 2019

Baltic Dry Index, Aug 2016-Aug 2019



Source: Bloomberg, Rabobank 2019

Agri price dashboard

As of 26/08/2019	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	475	496	515
CBOT soybean	USc/bushel	▼	843	883	842
CBOT corn	USc/bushel	▼	360	415	349
Australian ASX EC Wheat	AUD/tonne	▼	326	338	353
Non-GM Canola Newcastle	AUD/tonne	▲	590	586	599
Feed Barley F1 Geelong	AUD/tonne	▼	311	321	395
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	508	532	461
Feeder Steer	AUc/kg lwt	▲	305	300	263
North Island Bull 300kg	NZc/kg cwt	▲	560	545	540
South Island Bull 300kg	NZc/kg cwt	▲	530	510	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	806	926	843
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	835	805	830
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	810	780	815
Venison markets					
North Island Stag	NZc/kg cwt	▲	910	900	1,120
South Island Stag	NZc/kg cwt	•	885	885	1,140
Dairy Markets					
Butter	USD/tonne FOB	▼	4,163	4,438	4,875
Skim Milk Powder	USD/tonne FOB	▲	2,613	2,588	2,025
Whole Milk Powder	USD/tonne FOB	▲	3,200	3,100	3,100
Cheddar	USD/tonne FOB	▲	4,038	3,888	3,850

Agri price dashboard

As of 26/08/2019	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	70	75	91
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	58	64	82
Sugar markets					
ICE Sugar No.11	USc/lb	▼	11.47	12.02	10.23
ICE Sugar No.11 (AUD)	AUD/tonne	▼	378	383	352
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,497	1,754	2,068
Fertiliser					
Urea	USD/tonne FOB	▼	265	290	295
DAP	USD/tonne FOB	▼	326	340	439
Other					
Baltic Dry Index	1000=1985	▲	2,168	1,937	1,697
Brent Crude Oil	USD/bbl	▼	58	63	76
Economics/currency					
AUD	vs. USD	▼	0.670	0.691	0.733
NZD	vs. USD	▼	0.635	0.664	0.667
RBA Official Cash Rate	%	•	1.00	1.00	1.50
NZRB Official Cash Rate	%	▼	1.00	1.50	1.75

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