



Agribusiness Monthly March 2016

New Zealand



Rabobank

Commodity Outlook

Sector	Driver
 <u>Dairy</u>	Despite dry conditions across much of New Zealand for February 2016, milk production across the country rose around 4% for the month as a result of weaker comparables, following last year's drought.
 <u>Beef</u>	Farmgate beef prices should gradually improve heading into Q2, with a pick-up in seasonal demand from the US.
 <u>Sheepmeat</u>	A supply shortage of lambs is looming. Prices should begin to improve moving into Q2.
 <u>Wool</u>	Although coming back off the market highs in late 2015, prices remain strong in the coarse and fine crossbred markets.
 <u>Wine</u>	The US wine market grows strongly, becoming NZ wine's largest export market in 2015.
 <u>Fertiliser</u>	Farmer margin pressure continues to lead to subdued global nutrient demand, but New Zealand retail prices fall again.
 <u>FX</u>	The RBNZ cuts rates in the face of a weak global environment, weak inflation and a stubborn NZ dollar.
 <u>Oil</u>	Global freight rates continue to feel severe pressure from weakening demand and excess supply.

Climate

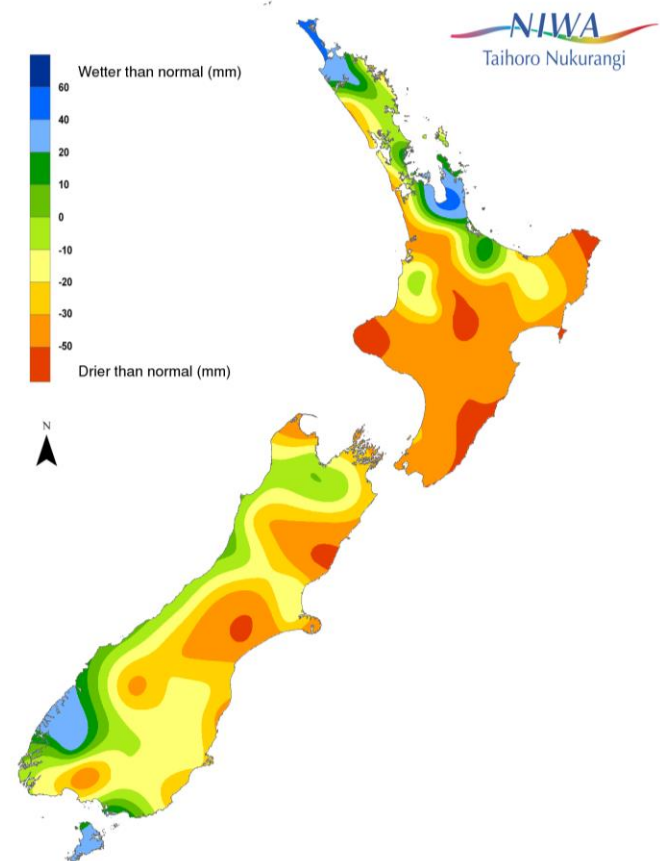
Temperatures look set to be warmer than usual through to May 2016, although cold snaps can still be expected in cooler parts of the country.

Rainfall is expected in the normal range for both the top of North Island and the west coast of the South Island through May 2016. The remainder of the North Island has a chance of below-normal rainfall to May, while the remainder of the South island can expect normal or above-normal rainfall levels for the same period.

Soil moisture levels have a chance of being below normal for the whole of the North Island, as well as the east coast of the South Island, through to May 2016. The upper South Island has a chance of above-average soil moisture for autumn.

International guidance indicates that El Niño conditions will most likely weaken to neutral levels by the end of autumn 2016. There is a 56% chance that these neutral conditions will persist through to spring, with a 49% chance for La Niña conditions over the same period.

Soil moisture anomaly (mm), 15 March 2016



Source: NIWA, Rabobank, 2016



Dairy

Market outlook

Despite dry conditions across much of New Zealand for February 2016, milk production across the country rose around 4% for the month as a result of weaker comparables, following last year's drought. However, production remains -2% season-to-date.

All eyes will be looking to the skies, with the weather playing a key role in how the tail end of the season shapes milk production over the coming weeks.

Fonterra's revision of the 2015/16 forecast farmgate milk price, from NZD 4.15/kgMS to NZD 3.90/kgMS, is further illustration that the global dairy market continues to be overly unbalanced.

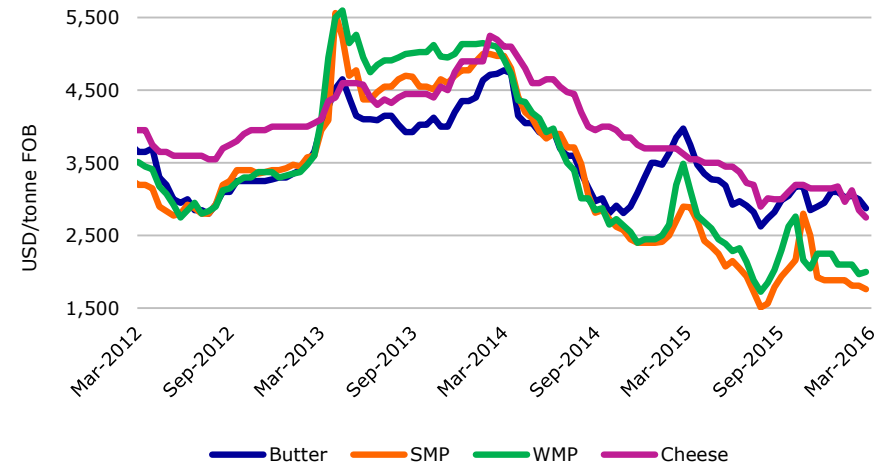
Milk supply growth in Europe continues to run ahead of expectations, which is a major factor. But the ongoing trade ban with Russia and subdued Chinese import volumes are not helping the market balance.

Following growth of more than 2% in 2016 (but up 3.2% from April, when quotas were abolished), the EU post-quota surge in milk production has continued into 2016, with January volumes up 4.4%.

What to watch:

- The European Commission has announced an increase in intervention volumes. Markets will be watching how big the **stock build through the seasonal peak** is and how the **subsequent drawdown** is managed.
- Dutch dairy giant FrieslandCampina cut its guaranteed price for milk for March 2016 by 3.5%; meanwhile, European dairy producers are being warned of **further price falls**.

Global dairy prices, Mar 2012-Mar 2016



Source: USDA, Rabobank, 2016

Production growth in key exporting regions:

	Latest month	Last three months
EU	4.4% (Jan)	5.0%
US	0.3% (Jan)	0.6%
Australia	-3.8% (Jan)	-3.8%
NZ	-2% (est. season to February 2016)	



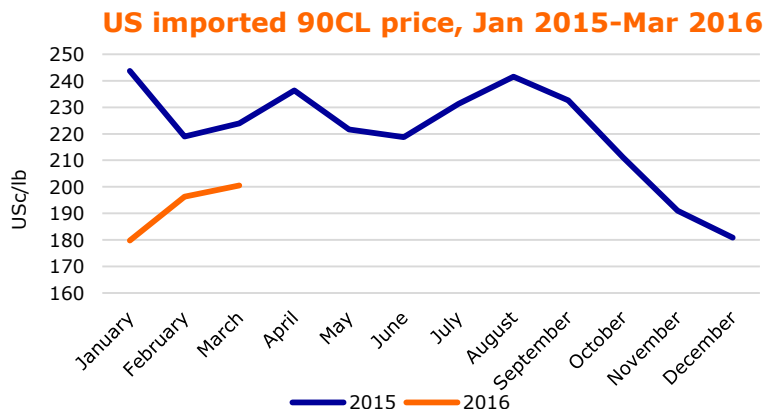
Beef

Market outlook

New Zealand farmgate beef prices have increased through February 2016 and into the first week of March 2016, after reaching a low point of NZD 5.05/kg cwt at the beginning of February. The gradual price improvement comes as a result of reduced supply from Australia and some increased demand from the US, as that market approaches the grilling season in Q2.

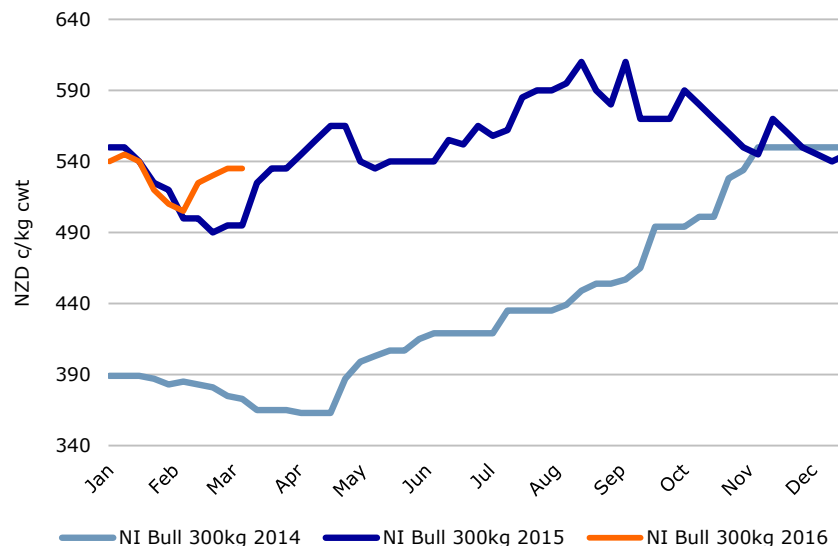
Total cattle slaughter for January 2016 was down 19% YOY, as a result of strong slaughter numbers in 2015, resulting from the dry seasonal conditions and the low dairy price environment.

New Zealand exports finished the 2015 calendar year 12% higher than the previous year, at 449,836 tonnes swt, with the overall increase underpinned by surging beef and veal production volumes (up 5%, or 33,188 tonnes swt). The US (224,412 tonnes) accounted for 50% of overall New Zealand exports in 2015, while China (74,496 tonnes) accounted for 17% of volumes.



Source: MLA, Rabobank, 2016

North Island Bull Price, Jan 2014-Mar 2016



Source: NZX Agrifax, Rabobank, 2016

What to watch:

Earlier seasonal cow culling, as dairy farmers look to further trim herds and cull non-performing cows as a result of the low dairy price environment. Strong competition for store cattle is underpinning very strong prices.



Sheepmeat

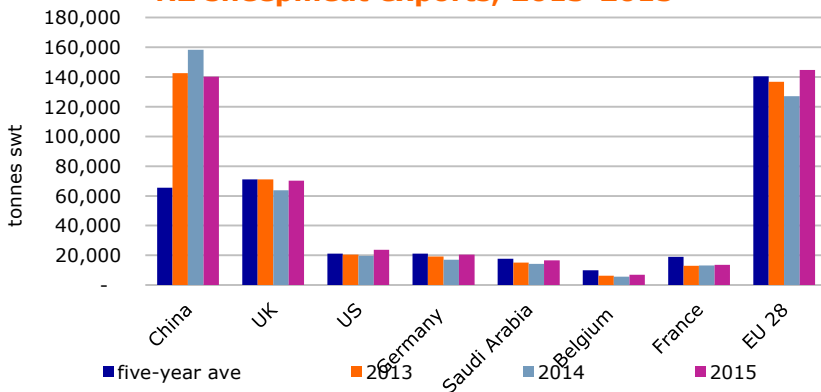
Market outlook

Farmgate prices have generally trended lower since the start of the year, sitting at NZD 4.80/kg cwt as of early March—4% lower YOY. Sluggish demand from key markets such as China and the UK remains a key driver to lower farmgate returns.

As expected, January lamb slaughter volumes were down 21% MOM, given the dry conditions in December and November, and 45% compared to January 2015. With the Easter chill trade now over, processing numbers are likely to continue to trend downwards, although producers in some regions are increasing carcase weights to take advantage of high feed levels.

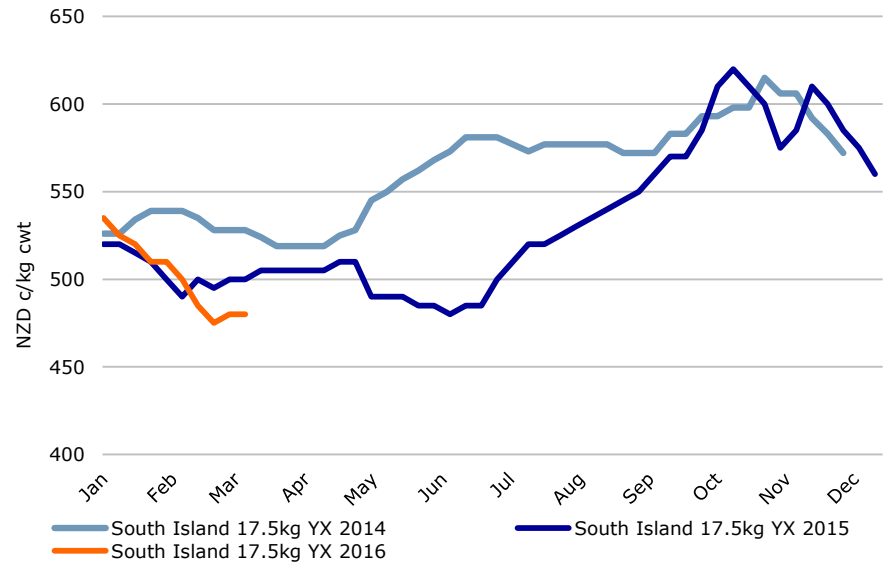
Total sheepmeat exports finished on a high in December, at 39,650 tonnes swt, up 9% YOY, given the increase in processing levels. However, average export returns declined slightly over the same time, to average NZD 6.90/kg/FOB. Average returns in China (NZD 4.68kg/FOB) declined 9% YOY.

NZ sheepmeat exports, 2013-2015



Source: Stats NZ, Rabobank, 2016

New Zealand Lamb (South Island), Jan 2014-Mar 2016



Source: NZX Agrifax, NZ Farmer, Rabobank, 2016

What to watch:

Supply shortage of lambs looming. For most of the processing season, lamb slaughter volumes have been tracking either ahead or just below year-ago levels. This suggests lamb supplies will contract significantly moving forward, particularly in the second half of the year.



Wool

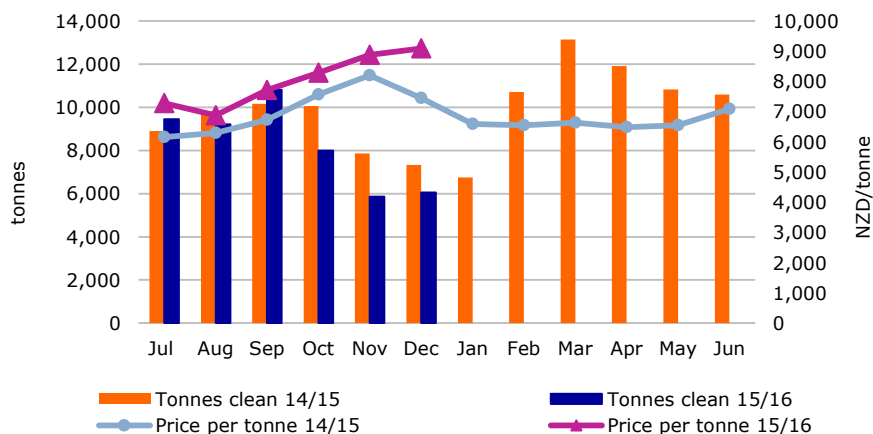
Market outlook

Although coming back off the market highs in late 2015, prices remain strong in the coarse and fine crossbred markets. The coarse crossbred indicator has averaged NZc 571/kg clean season-to-date, almost 10% ahead of 2014/15's average.

The value of NZ wool exports has been boosted by the weakened NZ dollar in the first half of the 2015/16 season, up 2.3% in value, despite an almost 9% fall in volume. Fine X-Bred and Medium wool have seen the greatest gains in NZD/tonne FOB, rising 12% and 29%, respectively, YOY. This is consistent with the price strength for those types in the Australian market.

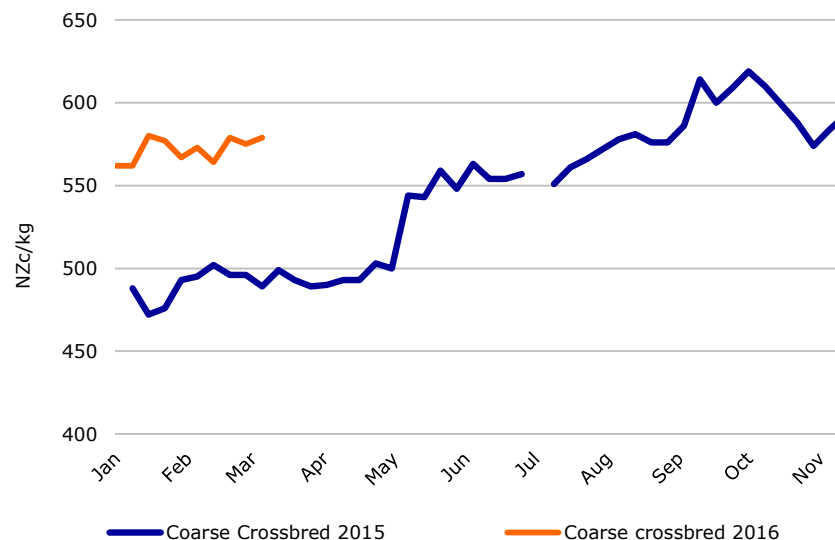
Lambswool will be keenly watched in 2016, following a stellar year for prices in 2014/15. While the indicator has come back as greater volumes and coarser wool have arrived at auction, the average for this season-to-date sits at NZc 721/kg clean, 10% above the average indicator for 2014/15.

NZ wool exports, Jul 2014-Dec 2015



Source: NZ Beef & Lamb, Rabobank, 2016

NZ coarse crossbred wool prices, Jan 2015-Mar 2016



Source: NZWSI, Rabobank, 2015

What to watch:

- **Competing fibre prices** have reached multi-year lows in recent months. With record cotton stocks and uncertain Chinese policy, along with sustained low oil prices, pressure is likely to remain on these competing markets.



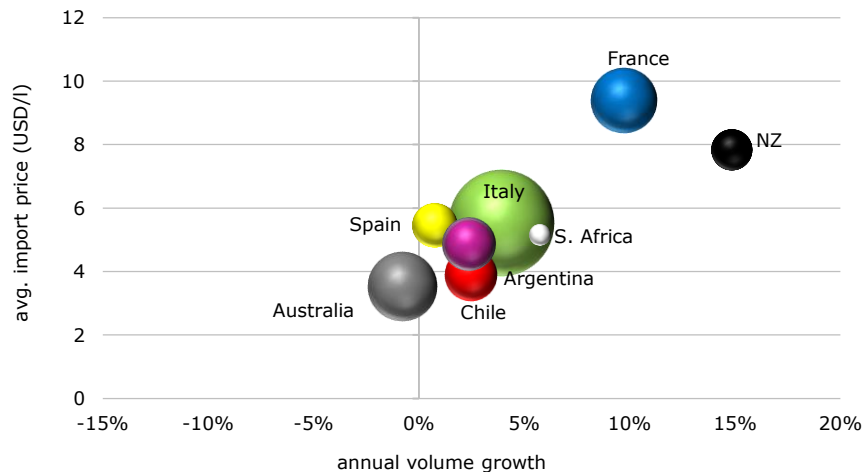
Wine

Market outlook

New Zealand wine exports increased by 8.5% in volume, to 142.1 ML, and 13.6% in value, to NZD 1.536bn FOB, in 2015. Outside of sauvignon blanc, export of New Zealand's second- and third-most popular wine varieties performed strongly, with pinot noir volumes growing by 11% and pinot gris volumes growing by 14% over the course of the year.

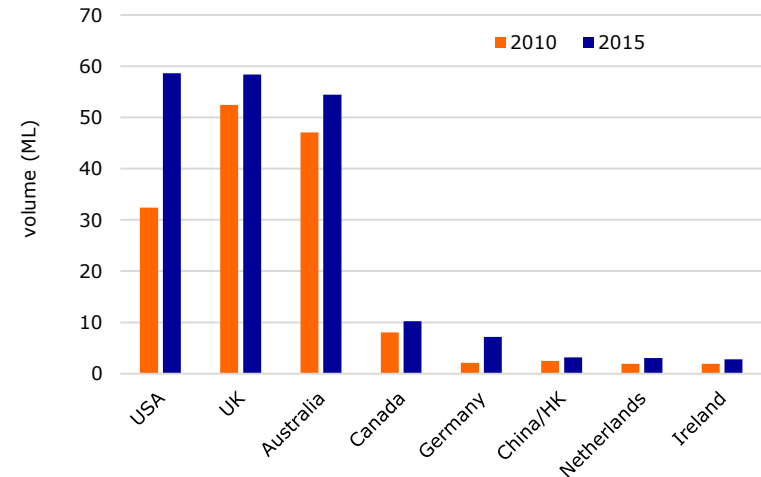
As anticipated, the US market has just eclipsed the UK market as New Zealand wine's largest export destination, a remarkable growth story which has seen this market grow by 81% in volume over the past five years. The stronger US dollar has helped most wine exporters to the US in 2015; however, NZ wines continue to outperform.

US bottled wine imports, 2015



Source: Gomberg Fredrikson, Rabobank, 2016

New Zealand wine exports, 2010 vs. 2015



Source: NZ Winegrowers, Rabobank, 2016

What to watch:

- **The 2016 harvest** is now underway, and early expectations are for a larger harvest than the very short 2015 crop—but not so large as the record 2014 crop.
- **A quality crop** of this magnitude would help to fuel growing export markets, while not weighing on them too heavily, and placing undue pressure on pricing and profitability.



Fertiliser

Market outlook

Global crop markets continued to be weighed down by excessive stocks. This is leading to a global slowdown in fertiliser demand.

For global urea markets, prices have bounced slightly in recent weeks, but growing inventories in Chinese ports will guard against any major spikes in the short term.

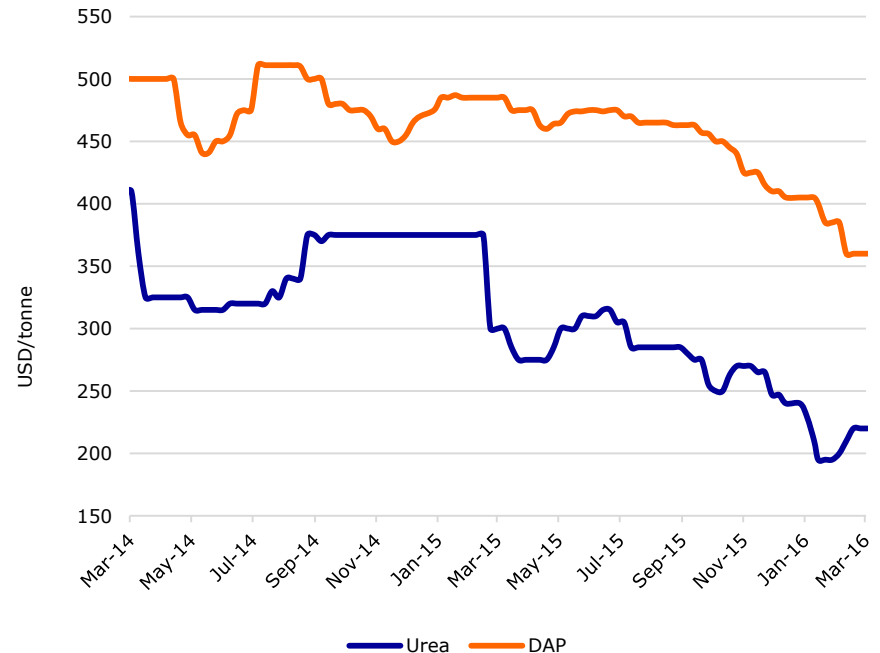
A period of stability has continued across global phosphate markets. Export supply from China will keep the markets well-balanced in the short term.

Global potash prices are range-bound. Recent production cuts, in the face of globally low prices and oversupply, could potentially add some upward pressure to prices.

What to watch:

- The critical **Autumn purchasing and application period is approaching** and weak global prices will be welcome relief for end-users.

Global fertiliser prices, Mar 2014-Mar 2016



Source: Bloomberg, Rabobank, 2016

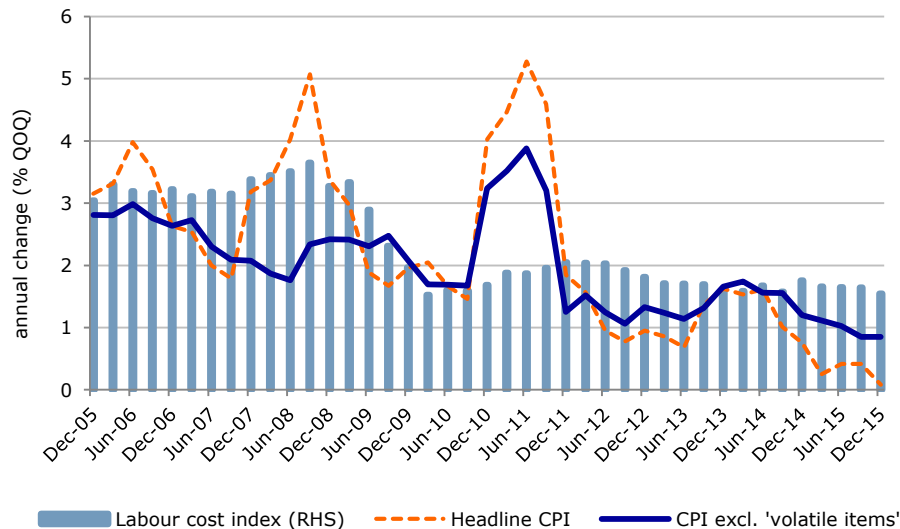


FX

Market outlook

The Reserve Bank of New Zealand (RBNZ) elected to lower the official cash rate by 25 bps, to 2.25%, at its meeting on 10 March 2016. Weakness in the global economy, the fall in consumer price inflation to period lows in Q4 2015 and a stubborn NZ dollar are clearly causing consternation at the RBNZ, leading it to push the cash rate down to its lowest level since being introduced in March 1999. The decision immediately caused the NZ dollar to fall, but support remains, and the RBNZ hasn't ruled out further action, should the recent rebound in risk appetite prevent the NZ dollar from falling.

NZ wages and CPI growth, Dec 2005-Dec 2015



Source: Statistics NZ, Rabobank, 2016

NZD/USD: 12-month price movement, Mar 2015-Mar 2016



Source: RBNZ, Rabobank, 2016

What to watch:

- **We forecast NZD/USD falling towards 0.61 on a 12-month view.** Weak commodity prices, ongoing signs of slower economic growth in China and the easing bias from the RBNZ are expected to weigh on the NZ dollar as we look past the recent rebound in global risk appetite.



Oil & Freight

Market outlook

The recent rally in oil prices appears short-lived, as oversupply concerns re-emerge as a major bear factor on market sentiment.

Global freight rates continue to feel severe pressure from weakening demand and excess supply.

Brent Crude Oil, Mar 2015-Mar 2016



Baltic Dry Index, Mar 2015-Mar 2016



Agri Price Dashboard

As of 16 March 2016	Unit	MOM	Current	Last month	Last year
Grains & Oilseeds					
CBOT Wheat	USc/bu	▲	477	464	514
CBOT Soybeans	USc/bu	▲	892	880	969
CBOT Corn	USc/bu	▲	369	363	379
Australian ASX EC Wheat	AUD/tonne	▼	276	285	306
Australian Canola	AUD/tonne	▼	511	537	483
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	590	605	423
Feeder Steer	AUc/kg lwt	▼	317	320	238
North Island Bull 300kg	NZc/kg cwt	▲	535	505	495
South Island Bull 300kg	NZc/kg cwt	▲	470	460	455
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	499	536	516
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	490	505	515
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	480	500	500
Venison markets					
North Island Stag	NZc/kg cwt	▲	730	700	640
South Island Stag	NZc/kg cwt	▲	730	710	625
Dairy markets					
Butter	USD/tonne FOB	▼	2,875	3,050	3,975
Skim Milk Powder	USD/tonne FOB	▼	1,763	1,813	2,900
Whole Milk Powder	USD/tonne FOB	▼	2,000	2,100	3,488
Cheddar	USD/tonne FOB	▼	2,750	3,125	3,625

Agri Price Dashboard

As of 16 March 2016	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	66	66	68
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	58.24	59.85	60.49
Sugar markets					
ICE Sugar No.11	USc/lb	▲	15.3	13.2	12.9
ICE Sugar No.11 (AUD)	AUD/tonne	▲	453	410	372
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,223	1,273	1,092
NZ Coarse Crossbred Indicator	NZc/kg	▲	579	573	499
NZ Fine Crossbred indicator	NZc/kg	▼	590	592	549
Fertiliser					
Urea	USD/tonne FOB	▲	220	200	300
DAP	USD/tonne FOB	▼	360	385	485
Potash	USD/tonne FOB	▼	238	260	319
Other					
Baltic Dry Index	1000=1985	▲	396	301	564
Brent Crude Oil	USD/bbl	▲	39	34	56
Economics/currency					
AUD	vs. USD	▲	0.746	0.711	0.764
NZD	vs. USD	▲	0.660	0.658	0.737
RBA Official Cash Rate	%	•	2.00	2.00	2.25
NZRB Official Cash Rate	%	▼	2.25	2.50	3.50

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