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Australia agribusiness monthly

RaboResearch Food and Agribusiness

April 2024

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Commodity outlooks

Climate

El Niño continues to weaken, with global models predicting the ENSO to return to neutral by May.

Sustainability

Mandatory climate reporting for large Australian companies has been pushed back to at least January 2025. The requirements include scope 3 disclosures and are designed to support assessment and management of climate-related financial risk.

Wheat and barley

Recent announcements of reduced cereal acreage in North America have initiated a partial reversal of bearish price trends. These developments signal potential price upside. Australia's current wheat price positions the country as a more competitive player in the global market.

Canola

The oilseeds market showed price improvements on the back of lower stocks, elevated crude oil prices, and the potential disruption in the oilseed coproduct trade between Russia and the EU.

Beef

Rain through northern Australia provided support for cattle prices. If seasonal conditions remain favourable, we believe prices will remain around current levels for the coming month.

Sheepmeat

Sheepmeat prices have shown healthy improvements in late March and early April as widespread rainfall totals improved producer demand and weekly slaughter numbers fell in late March.

Wool

Wool prices once again remained stagnant and slid marginally in March. Demand is slowly picking up in several markets, but widespread improvement is needed to instigate any price upside.

Dairy

Milk production in Australia continues to show signs of sustained recovery. So far this season, milk supply has increased by 3.1%, with growth across all regions. This trend should continue into 2024/25.

Cotton

Cotton markets globally softened in March, while local prices, as was the case in February, remained stable. Improved consumption forecasts in March boost demand outlook.

Consumer foods

Monthly food inflation for Australia slowed to 3.6% YOY in February 2024. Meanwhile, the latest retail data showed a sluggish performance in the food market.

Farm inputs

Global demand for fertilisers remains subdued, and stocks are starting to build in key production countries. There are no signs of a reversal of this trend in the short and medium term.

Interest rate and FX

The Australian dollar rebounded in March, trading a little above 0.6500 against the US dollar. We expect the Australian dollar to trade within a range for the next few months before moving higher as the US Federal Reserve begins to cut interest rates from the middle of the year.

Oil and freight

Crude oil prices rose in March for the third consecutive month. Concerns over Iranian retaliation for an Israeli missile strike are adding risk premia to prices, resulting in oil prices surpassing USD 90/bbl.

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Climate

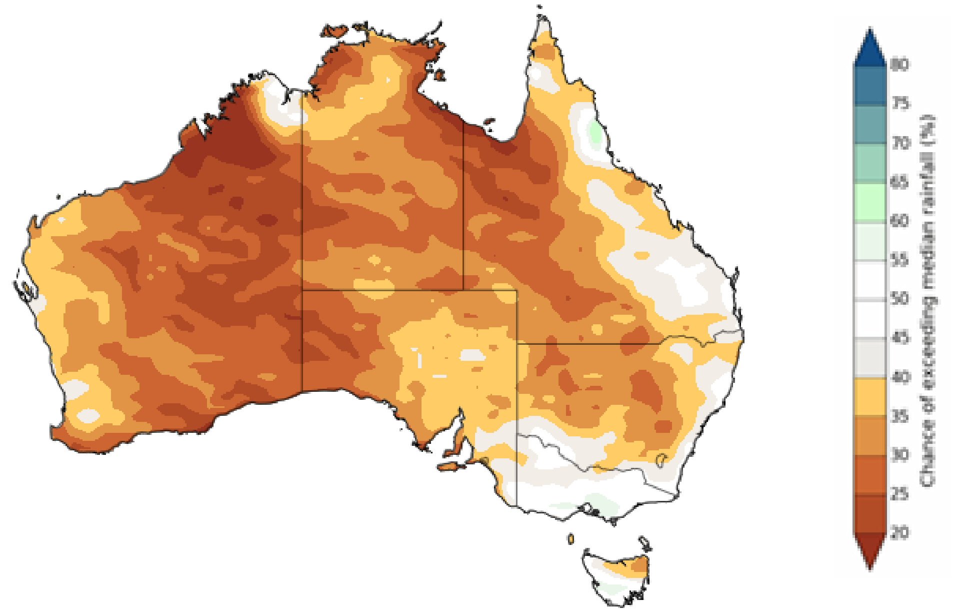
Record warm seas

El Niño is weakening, with international models indicating the ENSO will return to neutral by the end of April. Four out of seven international models are predicting a La Niña by late winter. However, ENSO forecasts have lower accuracy in autumn and record warm ocean temperatures may impact the reliability of model predictions.

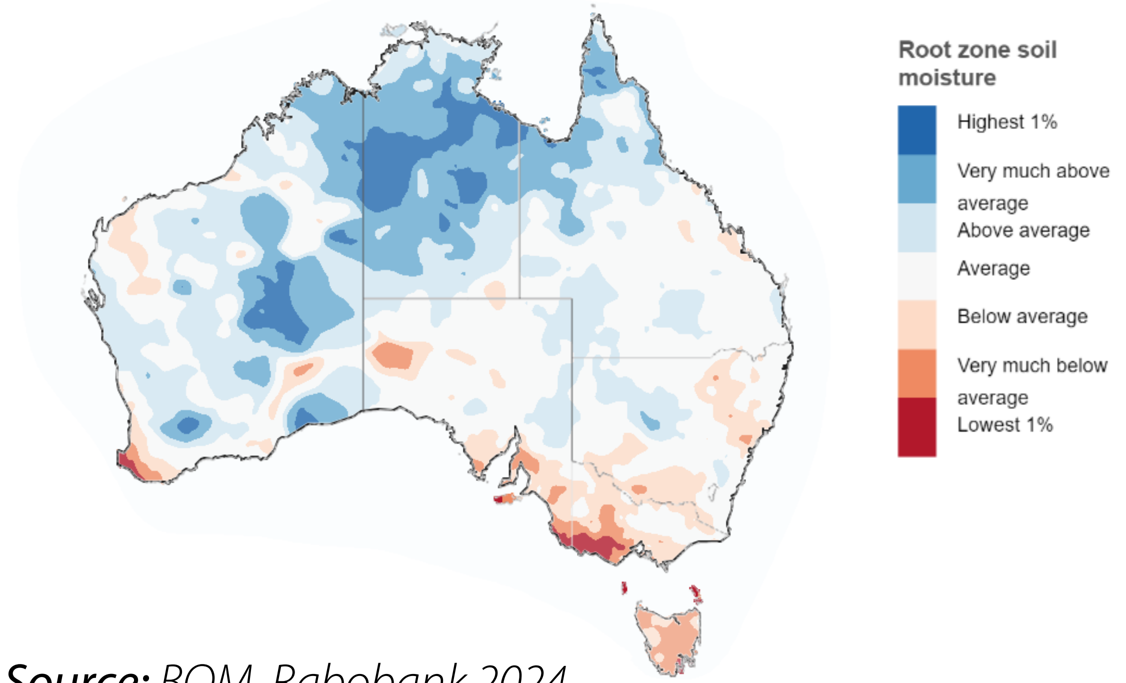
The Indian Ocean Dipole is neutral, and models expect a positive IOD formation in May. National March rainfall was the third wettest on record. The Northern Territory, and Western Australia received over 150% their average rainfall with large falls in central WA. Rainfall was below average for parts of the eastern and southern mainland and across Tasmania.

The BOM reports that the chance of exceeding median rainfall during the April to June period remains moderate to very low (50% or less) for most regions. Water storage levels remain high at 77% for the Murray-Darling Basin.

April-June rainfall outlook



Relative soil moisture, February 2024

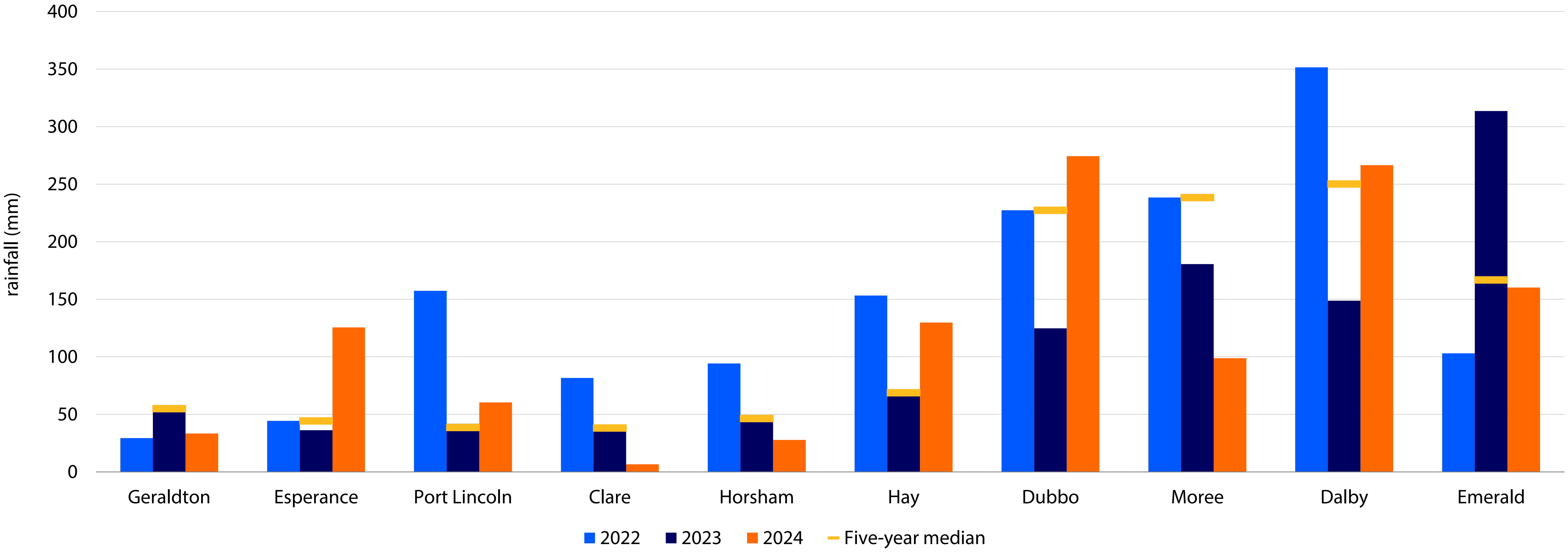


***Source:** BOM, Rabobank 2024*

Climate

Agricultural regions' rainfall – Favourable for some cropping regions ahead of sowing

January-March rainfall



Source: *BOM, Rabobank 2024*

**Esperance measure taken from Esperance Aero station, however this does not necessarily reflect the wider region*

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Sustainability

Mandatory climate reporting for large Australian companies delayed

The Australian government is in the process of implementing mandatory climate reporting. This was originally planned to come into effect for the first group of companies in July 2024, but has been delayed by at least six months to January 2025.

These climate-related financial disclosures are designed to facilitate investment in net-zero transition opportunities and improve the transparency and comparability of corporate climate reporting.

The reporting is being introduced in a staged approach, with reporting requirements first introduced for very large corporations. Although the initial direct impact on agricultural businesses is expected to be limited, the regulation requires companies to report on their scope 3 emissions from their second year of reporting.

The requirement to eventually disclose supply chain climate impacts means that companies outside the scope of the mandatory reporting requirements can be expected to be subjected to information requests from those within scope.

The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* requires eligible entities to prepare a sustainability report, which must be lodged with the Australian Securities & Investments Commission (ASIC) and be made publicly available on the company's website. The Australian Accounting Standards Board (AASB) is developing detailed reporting requirements that are closely aligned with international standards.

Many large Australian corporates have already commenced climate reporting, with nearly 70% of ASX200 companies already voluntarily reporting against the Taskforce for Climate-Related Financial Disclosures (ACSI, 2023).

With the introduction of this reporting, there will be increasing pressure on companies to articulate their ambitions and plans around managing their climate impacts.

What to watch:

- The AASB has released an Exposure Draft of three Australian Sustainability Reporting Standards. These draft standards are generally aligned with the International Sustainability Standards Board (ISSB) but have been localised for the Australian market. Public consultation on these drafts has now closed and once they are finalised they will provide the detailed requirements for the mandatory disclosures.

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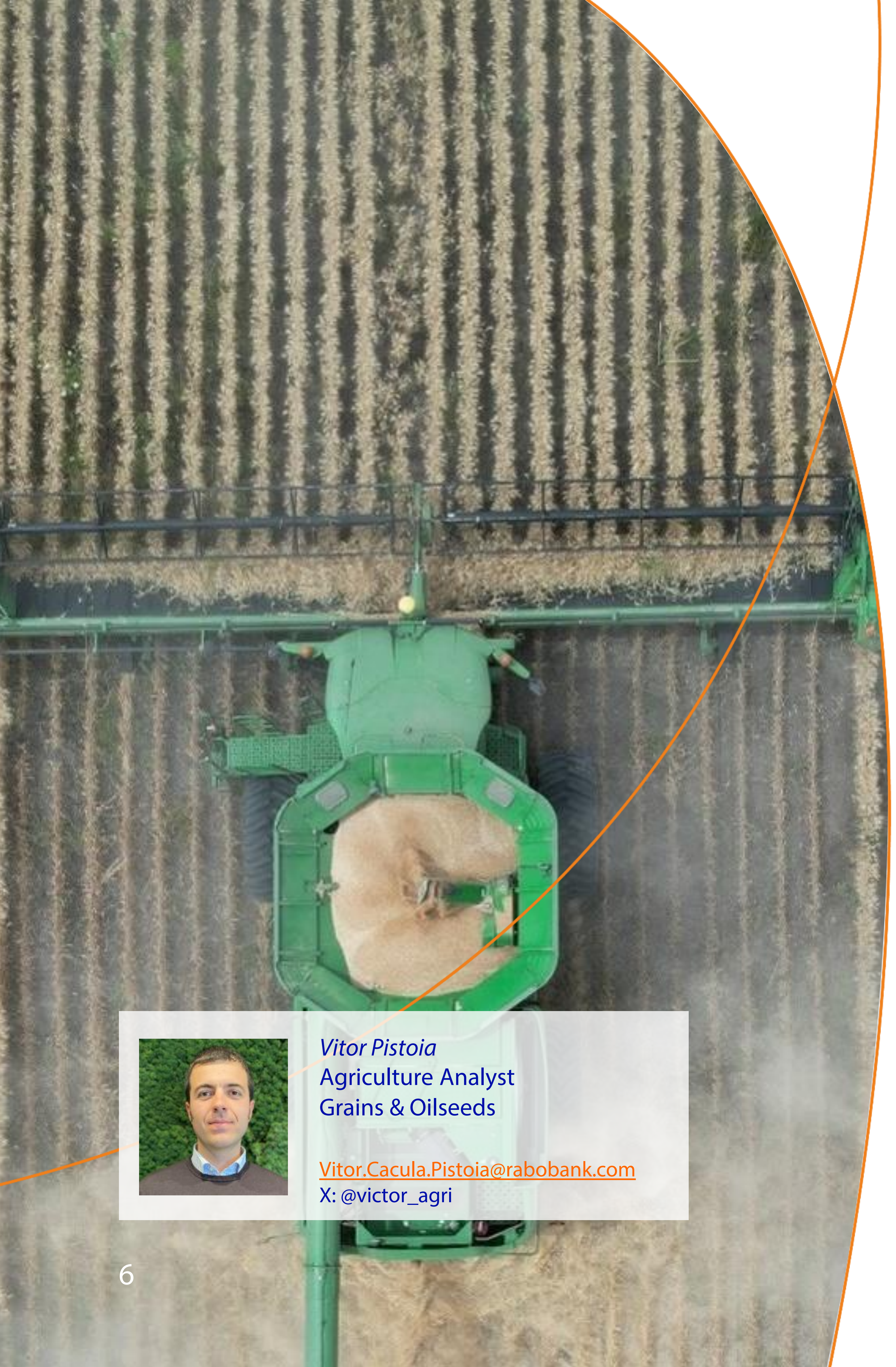

Wheat and barley

Supply tug of war is full on

In the last month, grain and oilseed markets have witnessed a significant slowdown in the widespread price drops that had been occurring since early December 2023. A glimmer of hope emerged from the release of important production statistics figures for key countries. CBOT wheat remained virtually stable during March at USD 316/tonne, Russian wheat experienced a 3.3% drop to USD 315, and Matif recovered 11.3% to USD 337. The Australian APW average fell 1.8% to AUD 342/tonne. **Australian wheat prices are now better positioned to compete in overseas markets than a few months ago. As of late March, APW stands 10.6% above CBOT. In contrast, back in December 2023, the difference was 17.5%.**

Starting with North America's 2024/25 wheat updates, the most important one came from the US Prospective Plantings report, which revealed a 4.2% reduction in the total wheat area, bringing it to about 19.2m hectares. Notably, durum is set to expand and may account for over 4% of the total wheat area. Canadian farmers are also on track to expand durum wheat area by 5%, reaching about 2.5m hectares. This expansion will position durum as 24% of all wheat acreage, totalling 11m hectares. **Globally, farmers are pursuing more valuable wheat grades to safeguard their margins against the large supply from the Black Sea region**. While it is still too early to accurately forecast yields and total production for the season, the weather conditions thus far have been average to good, hinting at the likelihood of another substantial crop.

For feed grains, the announced nearly 5% drop in intended US corn acreage has effectively established a new price floor. **In the last 30 days, CBOT corn prices have surged 7.2%, now standing at AUD 249/tonne. The Australian feed barley average increased by 2.3% to AUD 316/tonne**. On the other hand, the corn crops in Brazil and Argentina are showing promising signs, potentially yielding an additional 7m tonnes YOY, bringing the total to 180m tonnes. Further feed supply will also come from the EU. As fields that could not be sown with winter wheat in late 2023 will now be replaced by spring cereals.

What to watch:

- **Feed production** – On top of the smaller US corn acreage, another challenge looms: yields. Soil moisture conditions are suboptimal in certain regions. This is potentially good news for Australian grain sellers, as reduced US supply could translate into an upward trend in global feed prices.
- **Russian stocks -** In southern Russia, rainfall was insufficient from mid- to late March. This weather pattern could potentially impact grain production. Any reduction in output from the Black Sea region would be favourable for grain prices. Reports suggest that farmers in the region are reluctant to sell at lower prices, and the government is imposing export hurdles on some traders. If these factors persist, it might be a positive development for wheat prices.

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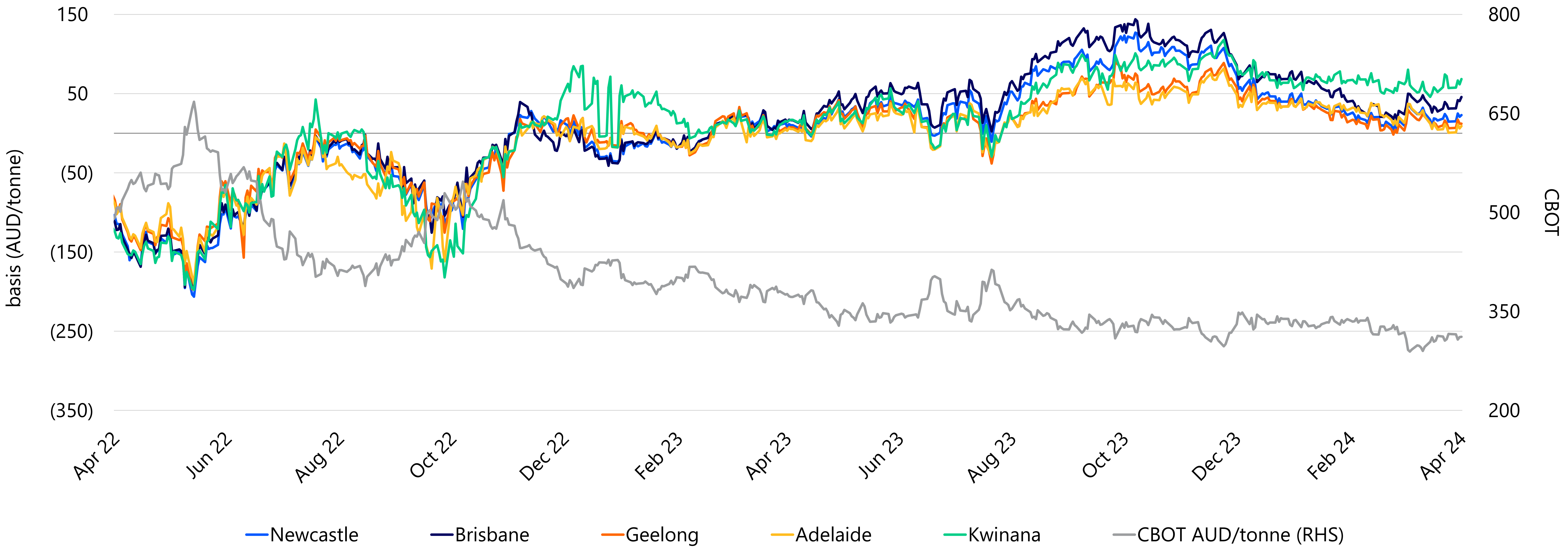
Wheat and barley

Australian wheat regains export competitiveness

A reduced basis should bolster exports, potentially leading to improved farm gate prices in the medium term as stocks shrink



Source: *Bloomberg, Rabobank 2024*

Canola

Lower stocks and import duties

In March, the canola market witnessed positive developments for sellers. ICE increased by 9%, now trading at AUD 709/tonne, Matif rose by 6%, reaching AUD 726/tonne, and Australia's non-GM canola experienced a 5.5% increase, averaging AUD 667/tonne. The national average for GM canola stands at AUD 626/tonne, with a 6% discount. Factors driving the upside are the expected reductions in the global stock-to-use ratio for 2023/24, at 16.9% versus 19.8% for the 22/23 season. A rebound in palm and crude oil markets, of 6.8% and 5.5% respectively, further supports canola prices. Finally, canola meal utilisation in the EU hit a new record, expanding by 13% to 14.4m tonnes during the 2023 calendar year.

Looking forward to the 2024/25 season, Canada's canola area is projected to decrease by over 3%, to 8.6m hectares. Meanwhile, the EU's canola area is set to expand by 5%, reaching 6.2m hectares. These changes may roughly offset each other in terms of acreage, accounting for 0.3m hectares in both directions. However, the weather conditions diverge significantly. Canada experienced a dry winter, whereas many regions in France are grappling with wet conditions. As for Australia`s canola acreage, the clouds hold the key, revealing it in the coming weeks.

The EU's announcement regarding plans to impose import duties on Russian and Belarusian grain and oilseeds could serve as a significant tailwind for canola prices. This is because Russia is a major player in the sunflower supply chain, a natural competitor for canola. Russia is the second largest exporter of sunflower meal, with a 27% market share, equivalent to 2.7m tonnes. On the other side, the EU stands as the biggest importer of sunflower meal, accounting for almost 3m tonnes or roughly 30% of the market. As for sunflower oil, EU imports amount to 16% of the market, while Russia exports 30% of it. If the proposed extra duties materialize, EU canola crushers may find themselves with a larger market to supply, leading to a potential upside in prices. Another unknown is how Russia might circumvent the 50% duties that have been proposed.

What to watch:

- **Geopolitics and tariffs** – The European Commission's proposal to impose tariffs on Russian and Belarusian grain and oilseeds has the potential to be a significant market turning point. However, it could also just be another symbolic move in the ongoing economic battle between the EU and Russia. For now, it is only a proposal, with no immediate direct impact. But if it is implemented, will it achieve the intended effect on trade? Or, in the same way that EU exports to Russian-friendly states, such as Georgia and Kazakhstan, have skyrocketed since 2022, could this new proposal inadvertently lead to a redirection of imports through EU-friendly states?

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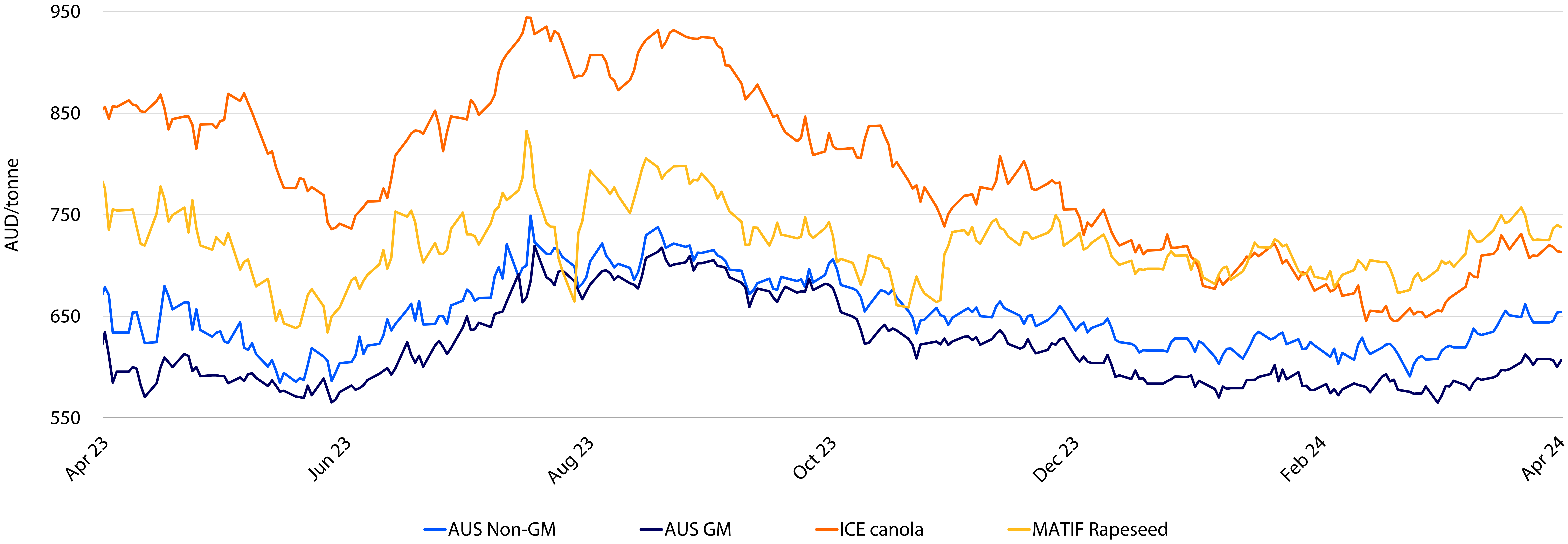
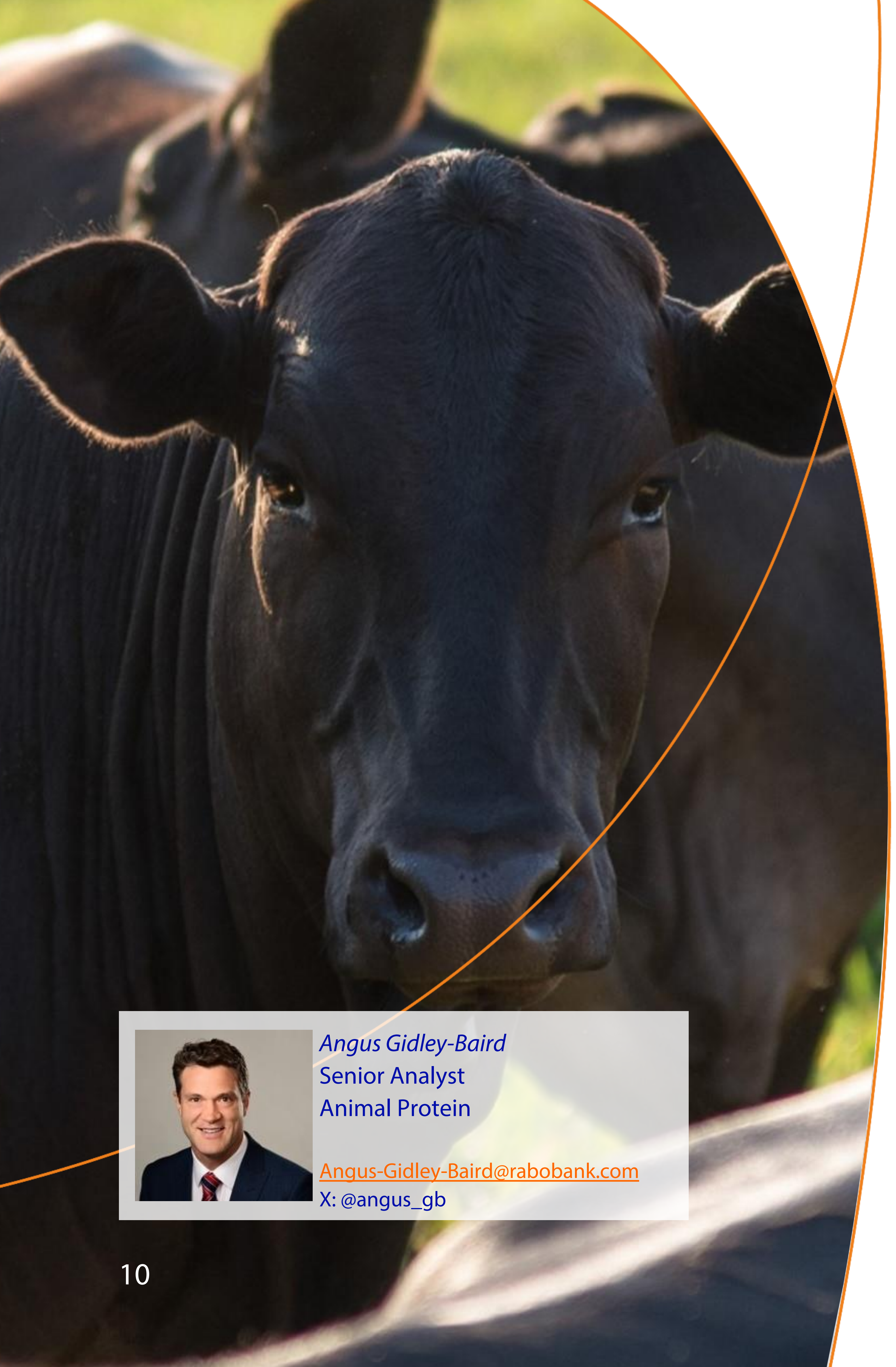
Canola

A sustained upward price movement, potentially

Australian prices are receiving tailwinds from lower EU stocks, and geopolitics could reinforce them



Source: *Bloomberg, Rabobank 2024*



Beef

Rain brings price support once again

Just like we've seen for the last 18 months, rainfall in late March has once again boosted producer sentiment and provided support for Australian cattle prices. While southern WA remained dry and until late in March, NSW and Victoria also saw limited rainfall. However, significant rains have fallen across the NT and Queensland. As such, the price movement has not been as large as previous periods where rain was more widespread. After dropping to AUc 572/kg in mid-March, the EYCI rose to AUc 600c/kg by the end of the month. Other cattle classes price movements were mixed, with restocker cattle and feeder steers easing, while heavy steer prices lifted 2.3% through the month. **The rain in the north should provide good feed going into winter and if the southern areas continue to get a favourable autumn break we believe producer sentiment will be sufficient to hold prices around the current range for the next month.**

Weekly slaughter numbers show a 12% increase for the month of March compared to February. Strong volumes early in the month offset the reduced numbers at the end of the month due to the shorter weeks, with Easter falling earlier in the year. Year-to-date volumes (end of March) are up 12% on the same period in 2023.

Beef exports continue to increase reflecting the higher production volumes. March volumes were up 8% YOY and year-to-date volumes are up 25%. Volumes to Japan are looking more encouraging, up 25% YOY, while volumes to China contracted 17% YOY in March, although they remain up 8% YTD. While volumes to both markets would benefit from reduced US export volumes, it could also be a signal that Japan, having reduced its inventory levels, is not trading more current stocks, while China is starting to take action to reduce volumes. Australian live cattle exports were picking up in March when a suspected case of botulism caused the suspension of the export license for one export yard. We believe that if the matter is confirmed to be botulism, trade should return to normal.

What to watch:

- **US lean trimmings prices** – Domestically produced US lean trimmings hit an all-time high in late March at USD 3.34/lb, having risen 31% since the beginning of the year. The curious thing is that US beef cow slaughter, while declining, is not yet at its lowest level and import volumes from Australia, New Zealand and Brazil have been very strong in Q1. It may be that this is the jump in US prices we have all been expecting (albeit earlier than expected), or it could just be the US market getting spooked as they head into their summer grilling season with declining production. Either way, it puts the spread between US domestic and imported trimmings prices to some of the highest levels in history, which should be a positive influence on Australian export prices.

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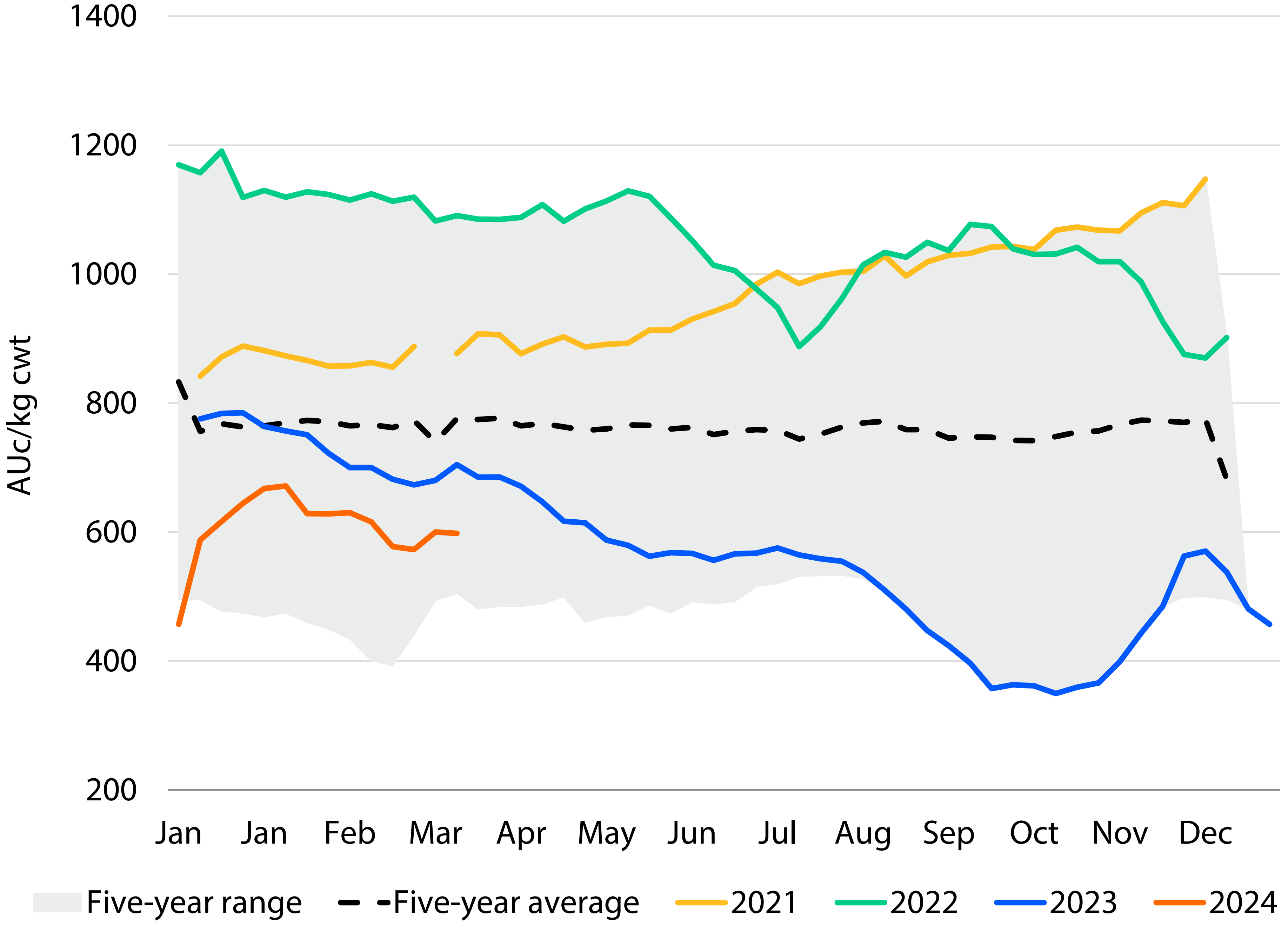
Beef

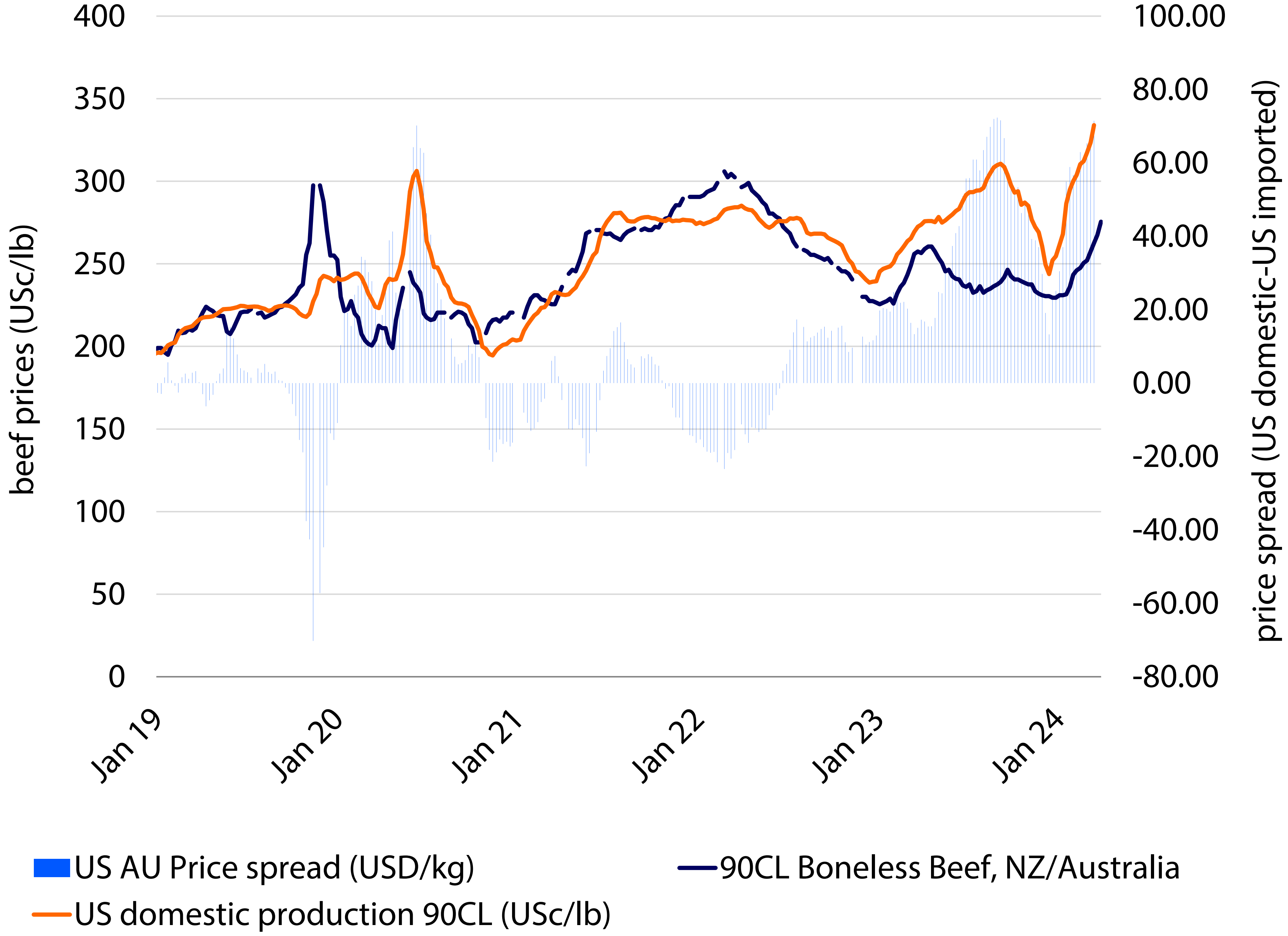
Rain provides some support for Australian cattle prices, while US lean trimmings prices break records

EYCI receives a boost from some rain



Source: *MLA, Rabobank 2024*

US domestic lean trimmings hits record levels



Source: *MLA, USDA, Rabobank 2024*

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Sheepmeat

Elevated supply leads to slight fall in lamb prices

Lamb and mutton markets in the second half of March saw improvements in prices after several months of softening, primarily across lamb indicators. Due to this recent rise, prices returned and exceeded levels seen at the start of the month. As of 7 April trade and heavy lambs were priced at AUD 6.39/kg and AUD 6.53/kg, respectively, representing a 6% MOM increase for the latter. Merino lambs climbed AUc 12, while light and restocker lambs both climbed around AUc 25 for the month. **Rainfall across the east coast within the last week is likely to boost producer confidence, with restocker and trade indicators likely to benefit.** Mutton prices saw an 8% increase MOM up to AUD 2.71/kg, which was driven by an AUc 30 increase in the last week, pushing prices well above those seen in late 2023.

Weekly slaughter volumes for both sheep and lamb are again not showing any sign of respite. Weekly lamb slaughter numbers as of 22 March are up 26% YTD on 2023 numbers, with the most recent week seeing lamb numbers climb above 500,000 head for the first time. While increases in Victoria drove this growth after a lighter week prior, total monthly slaughter numbers are only up 1%, indicating we are maintaining slaughter volumes despite the spike in late March. Weekly sheep slaughter numbers throughout March hovered between 181,000 to 202,000 head, climbing 5% MOM. Volumes have declined in recent weeks, with WA sheep slaughter numbers continuing to fall, while Victoria saw a 16% drop in the most recent week. **With both lamb and sheep slaughter numbers well above average, Q1 production numbers are expected to build on last year's record levels.**

Export volumes remain above 2023 levels as Australia looks to offload the large volumes. Lamb exports increased 22% YOY for March to 30,707 tonnes swt, while mutton exports fell slightly, down 6% YOY to 20,263 tonnes. China's sheepmeat imports fell 7% and 37% for lamb and mutton respectively in March, while the US market continued its improvement with mutton volumes climbing 35% YOY in March and lamb volumes up 52%, with the last two months both showing the largest monthly exports into the US since June 2021.

What to watch:

- **East coast conditions** – Early April has brought about widespread rain across much of the east coast. This has come at an opportune time, with many regions needing a substantial fall to kick-start autumn production growth. As such, we have seen strong weekly improvements across all indicators, primarily the restocker market as improved producer activity helps boost the market outlook.

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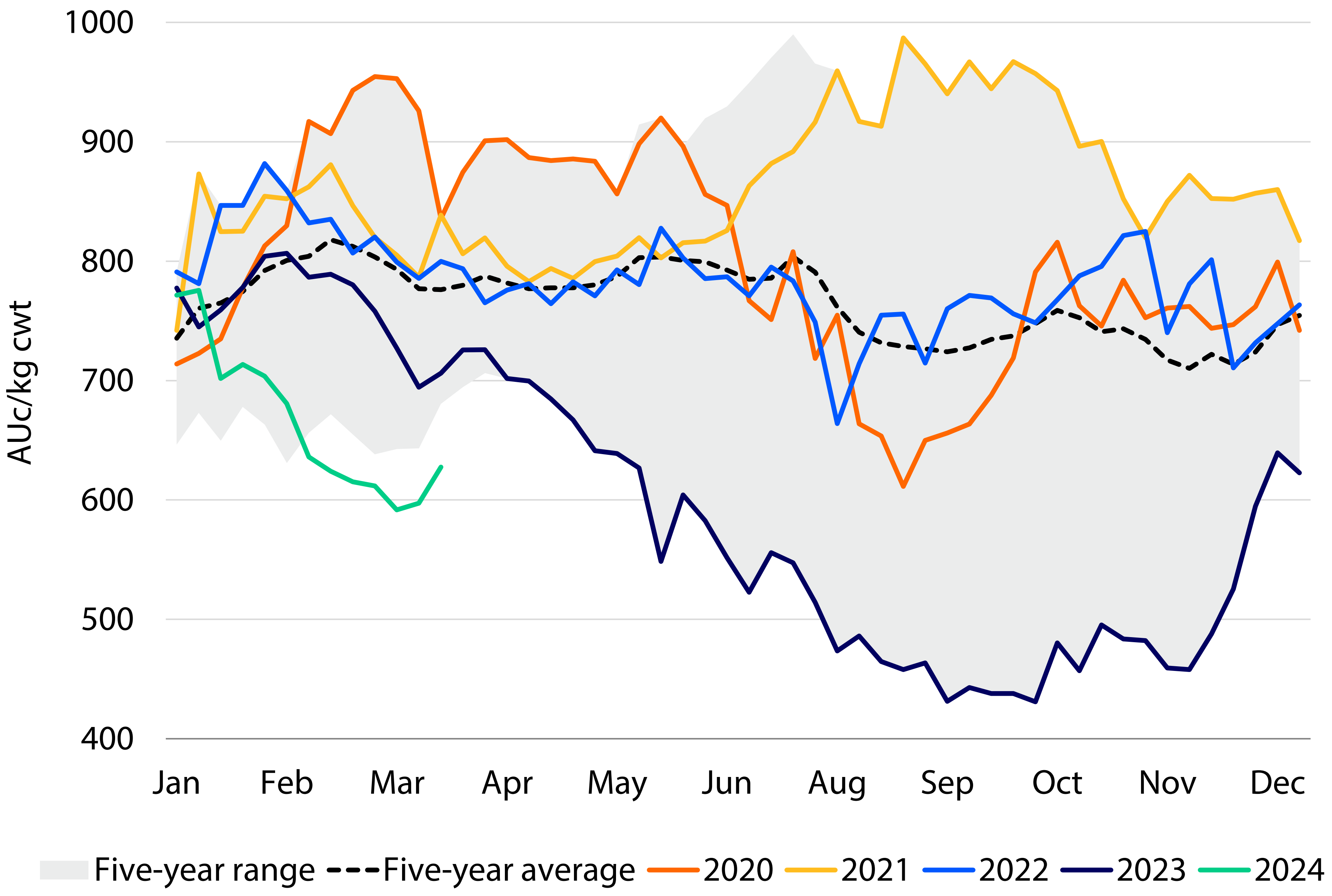
Sheepmeat

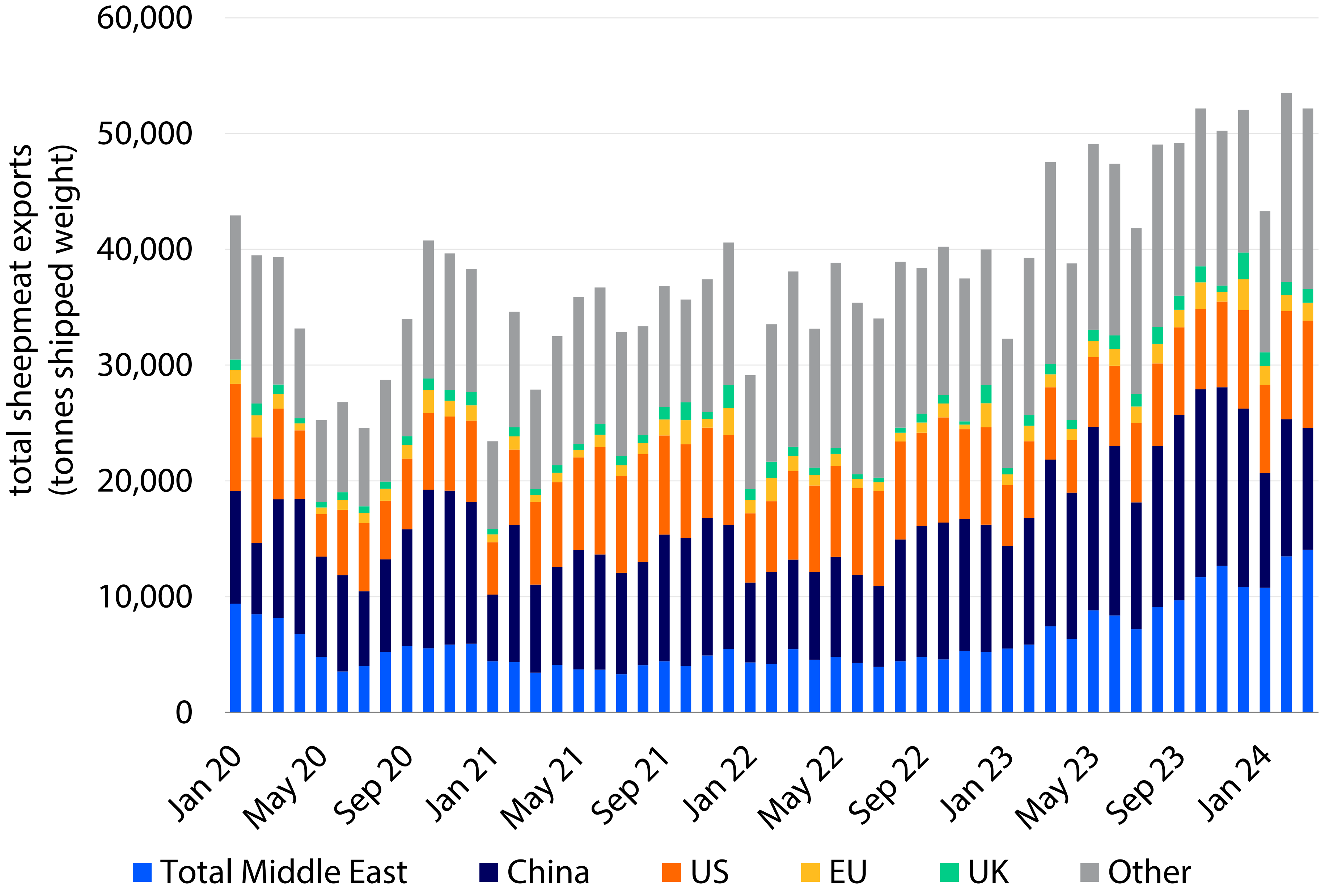
Improved conditions across the east coast production regions provide price improvements

Eastern States Trade Lamb Indicator (ESTLI) climbed toward the back end of March



Source: *MLA, Rabobank 2024*

Lamb export growth slows while mutton export volumes contract year-on-year in March



Source: *DAFF, Rabobank 2024*

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Wool

Minimal price movement as market demand remains soft

There is again little to report for price movement in the wool market for March as prices maintain a marginal downward trajectory. The Eastern Market Indicator (EMI) finished the month at AUc 1,142/kg, down 1% MOM. Across microns, the fine classes saw the most movement, with 17- and 18-micron wool falling AUc 57 and AUc 42, respectively. The coarse microns fell 2% to 3% for the 28. While the trend for the 20- to 23-micron ranges has held steady, we saw a slight fall in March which pretty well removed the slight improvements seen in February. The 19- and 20-micron classes as of 3 April were trading at AUc 1400/kg and AUc 1,332/kg, respectively.

Demand from key retail markets is showing signs of improvement in multiple areas, while others are still trying to get back on a growth trajectory. As in January, US retail sales continued their resurgence, with retail clothing sales up 4.6% YOY. We saw growth in both Japan and locally in Australia, with 2.5% and 4% YOY growth respectively. The UK market remains a weaker market as it struggles to climb back into a position of year-on-year growth in retail sales. February saw sales fall 1.9% YOY, which although a slight improvement on January, is the third month in a row of contracting sales.

Australia's wool volumes coming to market continue to remain below the five-year average, with East Coast volumes down 8%. National wool tested volumes for March saw a 22% decrease YOY, dropping to 30,350 tonnes greasy weight off the back of a 12% fall in February. Victoria volumes fell 21%, SA and NSW fell 16% and 19% respectively, while WA volumes saw a 25% YOY drop. With production totals expected to remain stable this year and the demand outlooks set to improve later in the year, producers may be holding on to additional stock and driving these falls.

What to watch:

- **Producer stockpiling** – Wool tested volumes continue to sit below 2023 levels, with a sizeable correction in wool hitting the market evident. While the elevated sheep slaughter numbers will have an impact on these volumes we believe the current factor driving this is the weak market dynamics encouraging producers to hold wool on farm as they wait for improvements. If prices continue to hold, we expect to see testing volumes fall, but the question will be at what point will producers need to offload volumes.

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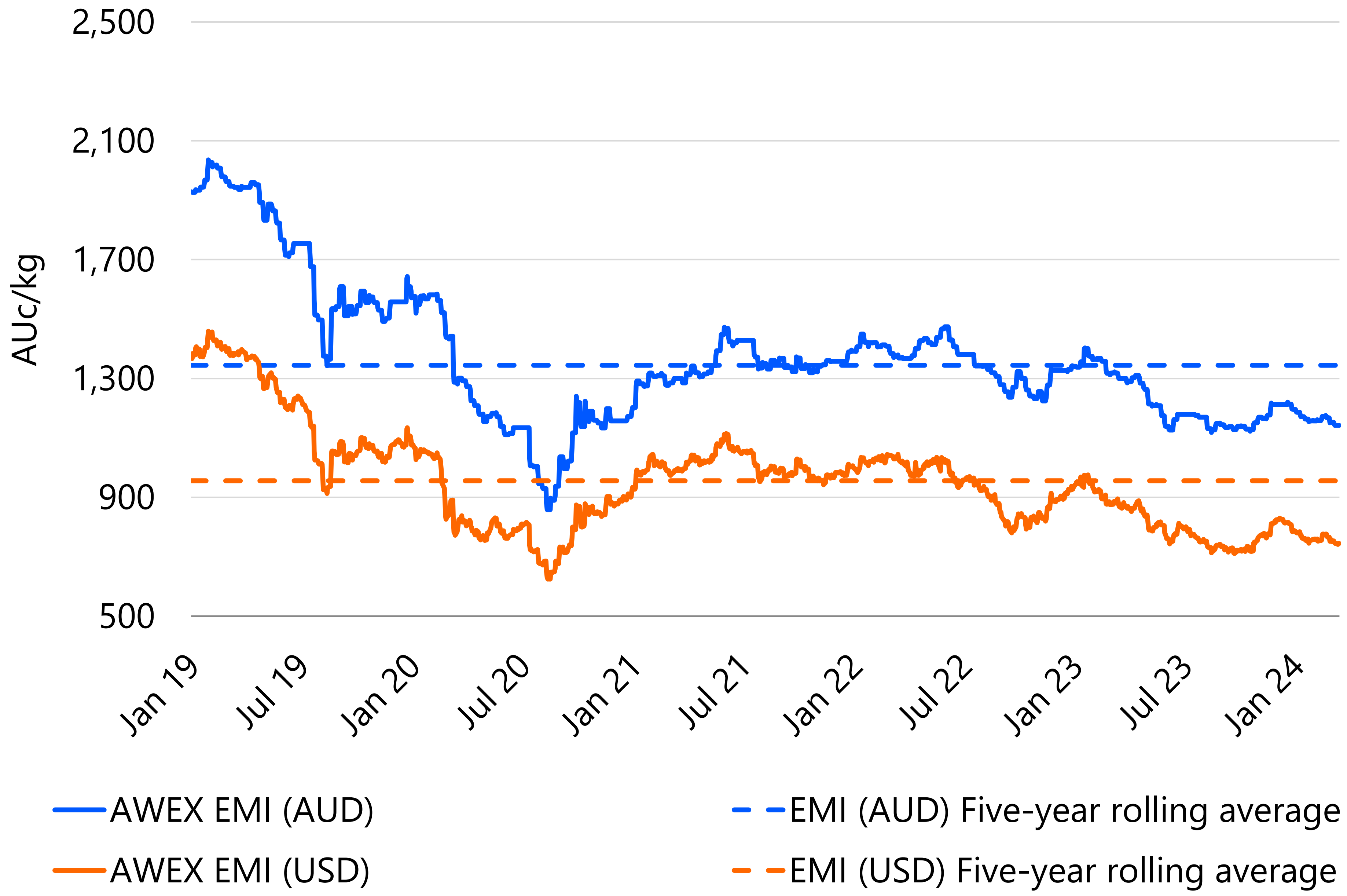
Wool

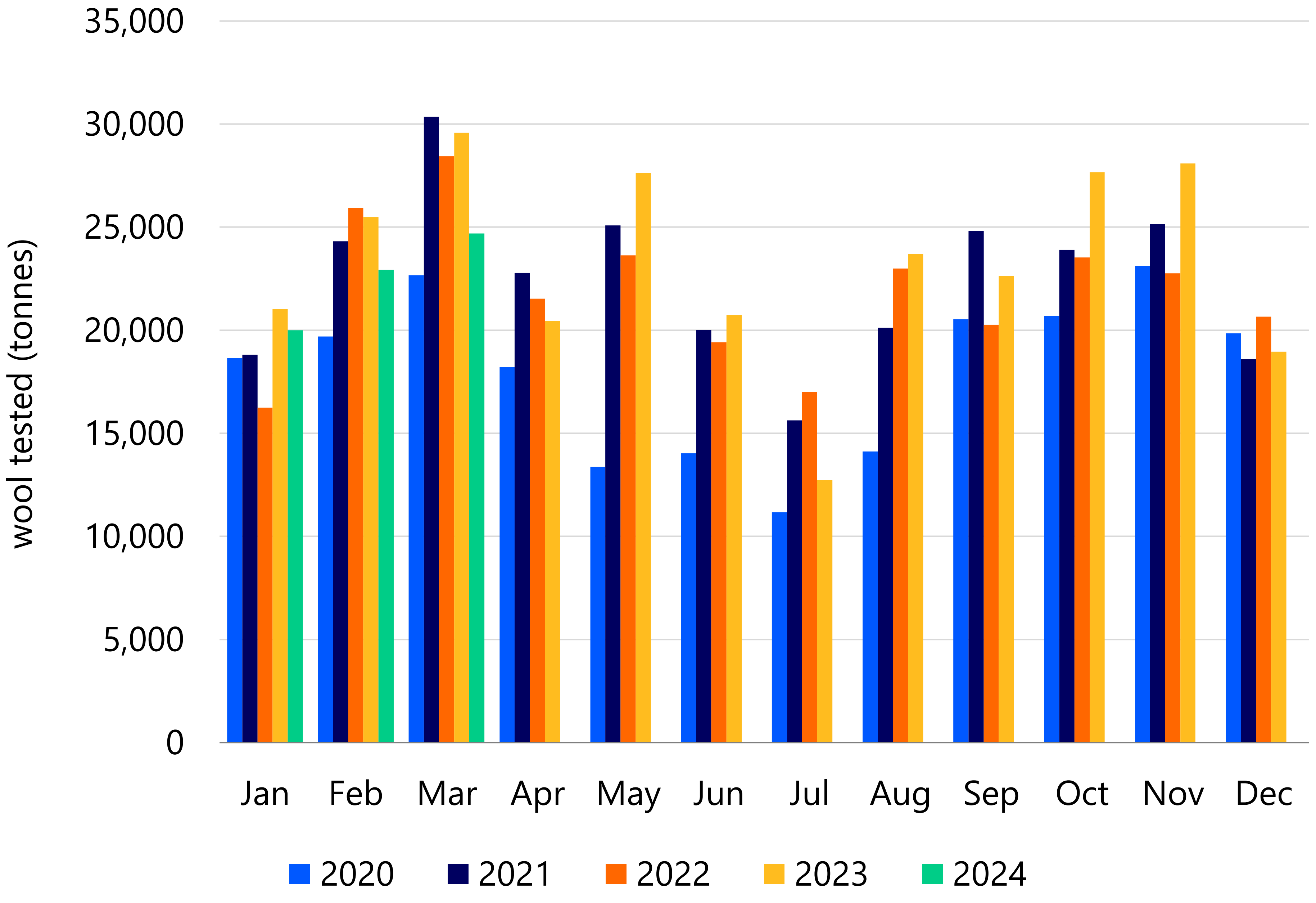
Market once again showing minimal signs of change

Australian EMI continues on the same trajectory, slightly down at the end of March



Source: *Bloomberg, Rabobank 2024*

Wool tested volumes falling behind 2023 levels as strong slaughter numbers and weakening prices take their toll



Source: *AWTA, Rabobank 2024*

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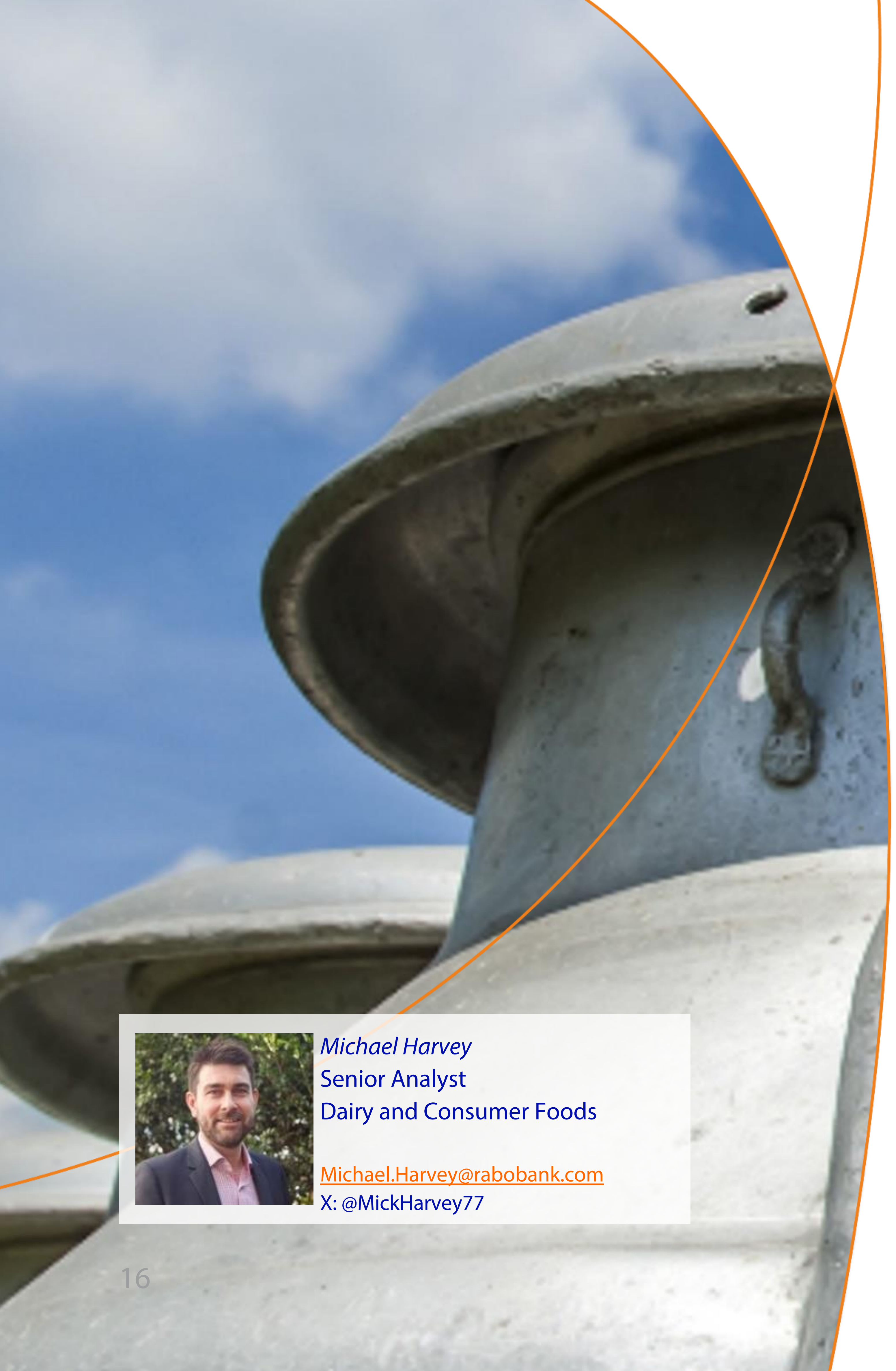

Dairy

Local milk supply recovery continues

Local milk production continues to recover. Australian milk production grew by 5% in February (leap year adjusted), bringing season-to-date milk production to 5.95bn litres. This represents a lift of 2.5% on the same period last year (or 180m litres).

Dairy commodity markets have softened through March 2024 against a backdrop of slightly weaker global fundamentals. The dairy complex had staged a recent rally since the bottom in the market in Q3 2023. Nonetheless, all dairy products except butter were softer in March 2024 and remain at or below five–year averages.

Rabobank expects dairy commodity prices to remain range-bound at or near current levels in the near term.

A decent autumn break over Easter was recorded across much of southeast Australia and was welcome news for dairy farmers. The latest rainfall outlook is for average to below-average rainfall between April and June.

Softer local feed markets are also welcomed news for Australian dairy farmers. Ample local supply and softer global prices are helping push feed prices lower. The outlook remains favourable for feed buyers moving into the new milk production season.

Global milk supply remains constrained. US milk production was 1.3% lower in February (leap year adjusted) marking the eighth consecutive weaker year-on-year decline. EU milk production was down slightly in volume for January.

However, there are bright spots outside of Australia. New Zealand milk production was 2.8% higher in February (leap year adjusted) on a milksolids basis.

All eyes are on the Northern Hemisphere seasonal peak in the months ahead.

What to watch:

Upside – US cattle disease

- Avian Influenza HPAI (H5N1 strain) has been found in US dairy cattle in multiple states. At this stage, it is not expected to lead to any major supply shock for the US industry, which is the third largest exporter (but experts are closely monitoring the risk to short-term dairy demand).

Downside – sluggish demand

- Better times lay ahead for dairy demand in many economies. However, the speed of recovery will be critical. Dairy demand is generally still sluggish, and if this remains the case for longer than expected, global markets will be susceptible to softness in commodity prices.

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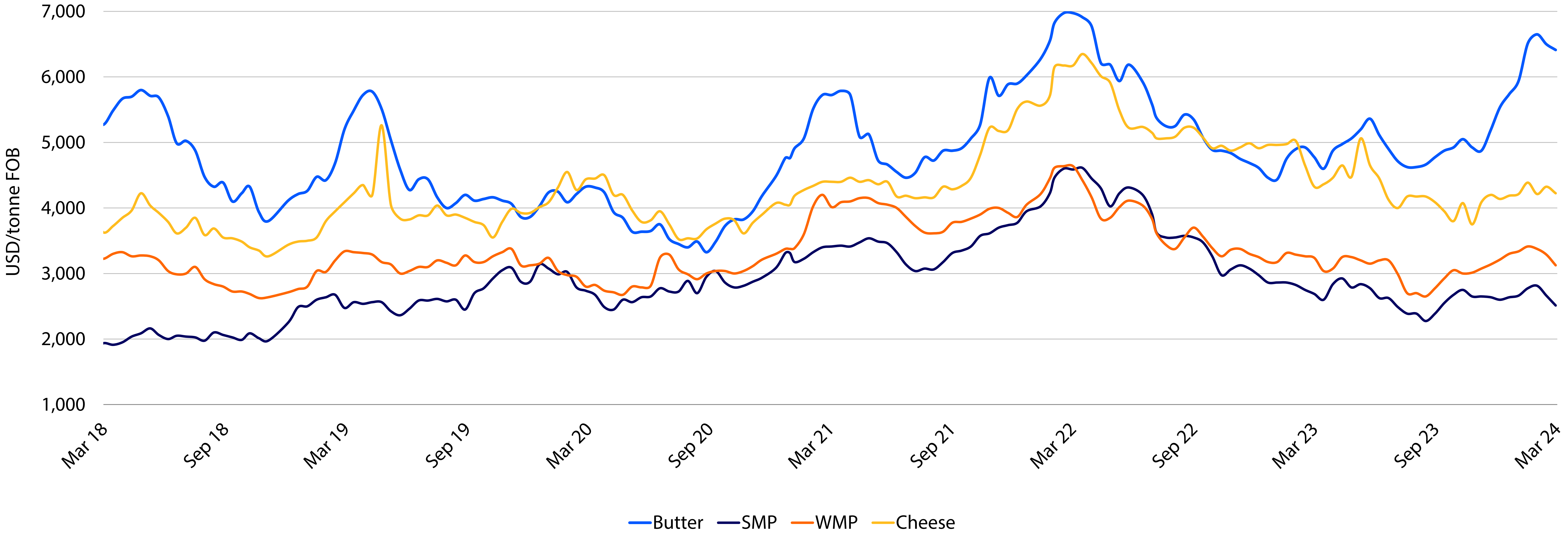
Dairy

Commodity markets find some resistance following recent upswing

Oceania spot prices for dairy commodities



Source: *USDA, Rabobank 2024*

Cotton

Global market softens slightly, while levels hold locally

After a considerable rally throughout February and into early March, cotton prices have begun to soften. ICE #2 cotton prices, after climbing to USc 99.28/lb in the first week of March, have since seen prices recede back toward the USc 90/lb level now sitting at USc 90.98/lb as of 3 April, down 7% MOM. However, given local prices remained steady during the recent ICE #2 rally, we expect them to resist the recent ICE #2 fall and hold above the AUD 680/bale mark. This suggests that the global market is returning to where we believe prices should be – a strong indicator of this is the December contract, which is at USc 85/lb.

The USDA's March report highlights a marginal 150,000 bale improvement to the global production estimate. Alongside this, we saw global consumption expectations increase 500,000 bales, which has pushed domestic use totals to on par with supply volumes for the season. Consumption growth was driven by increases in China and India - a positive indicator of improving demand as we head further into the year and closer to improved consumption in key global economies.

Australia's cotton exports for February totalled 186,000 bales. This takes the cumulative Australian 2023/24 season total to 5.72m bales, which is a slight increase on 2022/23 levels and our highest annual export total to date. February totals were down on the previous year. However, this was in part due to the increases in global prices, which led to increased caution with exporters pushing out volumes. In February, Vietnam remained the primary export destination accounting for 27% of exports, while China received 22%. For the 2023/24 marketing year (March to February), the top three export destinations were Vietnam (34%), China (21%), and Indonesia (12%). Given the falling production outlook for this season, export volumes are expected to drop in the 2024/25 season after three years of increases.

What to watch:

- **Brazilian exports** – The US has long been the major exporter of cotton into the global market, but we are seeing a shift toward greater Brazilian competition in key markets. With Brazil sitting on the largest stock in its history and looking at another strong production year, Brazilian exports have been extremely strong during March, and are expected to remain so.

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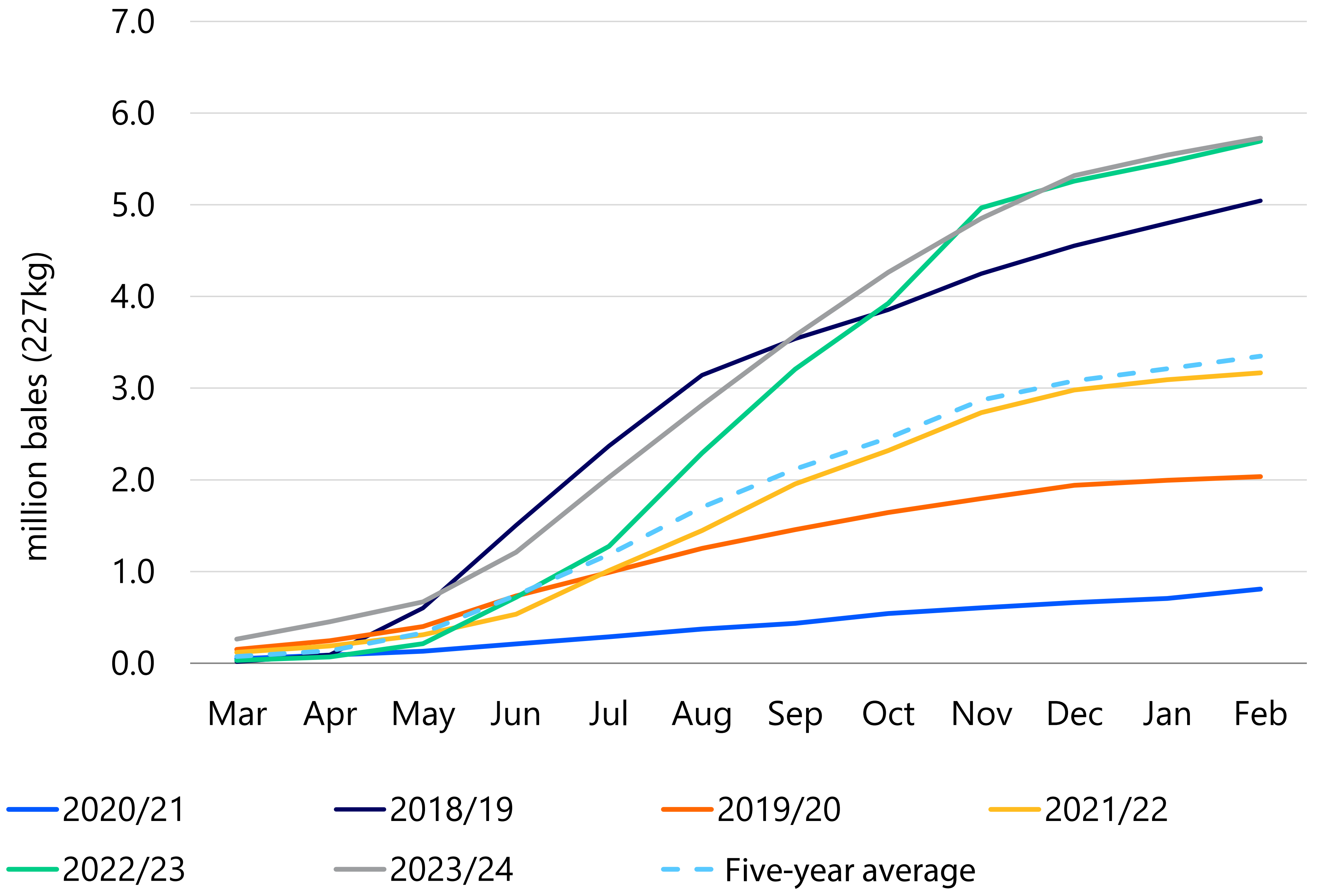
Cotton

Prices return amid quiet month for global supply and demand estimate updates

ICE #2 cotton prices softened during March, following several months of rallies to open 2024

***Source:** Bloomberg, Rabobank 2024*

Australian cotton exports for the 2023/24 marketing year climb marginally year-on-year, finishing well above the five-year average



***Source:** ABS, Rabobank 2024*

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Consumer foods

Basket size continues to fall in local food market spending

The monthly CPI indicator for all groups rose 3.4% in the 12 months to February. Inflation has fallen steadily, but remains above the target.

Meanwhile, monthly food inflation slowed to 3.6% YOY in February 2024. There was disinflation across most categories, and some consumers welcomed deflation in fresh produce and meat.

Australian consumer confidence levels remain in the doldrums. The latest sentiment read from Westpac showed that high inflation and interest rates fears are still weighing on consumers. Growing concerns around the near-term economic outlook are also a feature.

It is not all bad news for Australian consumers. The labour market remains tight and there interest rate relief is expected later this year, along with pending tax cuts.

The price of cocoa and the potential impact on consumer prices for chocolate have grabbed the global media attention. Cocoa contracts have tripled in the past 12 months and are now in unchartered territory.

Rabobank is expecting cocoa prices to stay higher for longer due to systemic barriers to West Africa supply response.

Retail prices for chocolate are already much higher than they were after a period of price increase, but with more price increases looming, the chocolate confectionery category will come under pressure.

The February retail trade figures showed food retail sales fell by 0.1% in seasonally adjusted terms, as food basket size contracted. Foodservice performed slightly better, experiencing a 0.5% rise for the month. This growth was partially influenced by the trend of consumers gradually returning to foodservice.

What to watch:

- **Shrinkflation –** Consumers may notice that certain products have been reduced in size. This is a common strategy from food and beverage companies to help keep products at certain pricing points. This is not the only lever companies are pulling behind the scenes to cope with inflationary issues. Companies will also be adjusting trade and marketing product spend, as well as looking at product mix and recipes.

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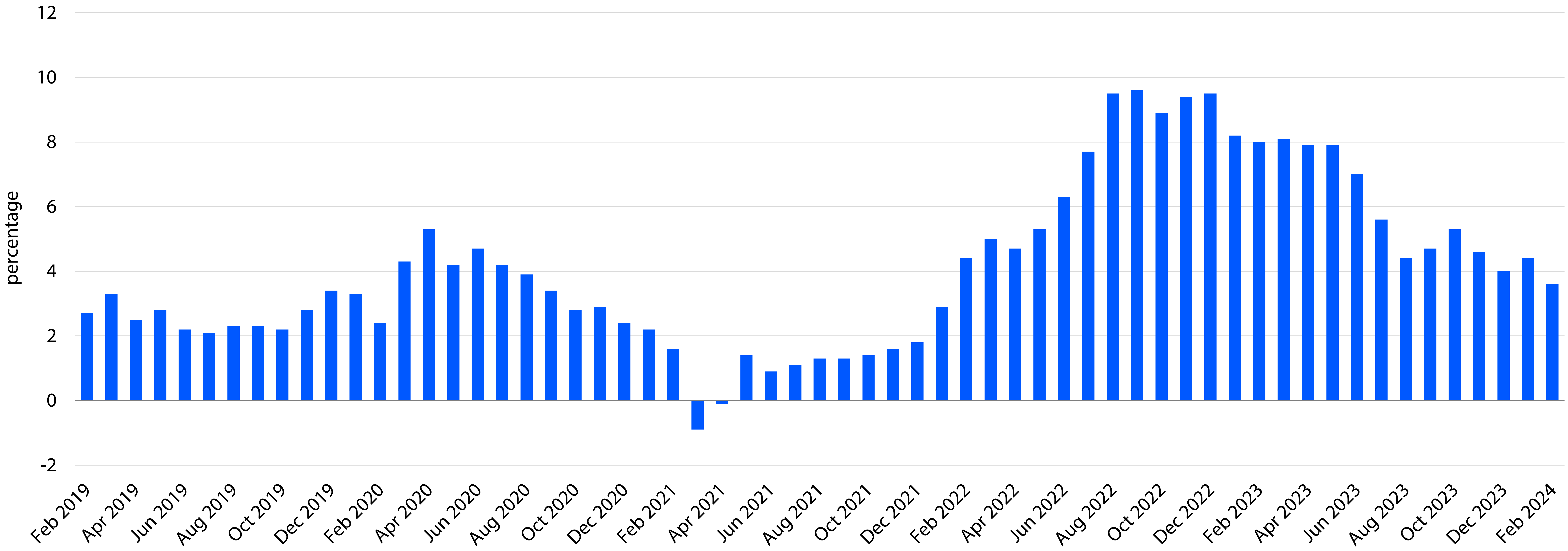
Consumer foods

The gradual decline of food inflation continues

Monthly food inflation, percentage change from corresponding month of the previous year



***Source:** ABS, Rabobank 2024*

Farm inputs

Fertiliser stocks are on the path to recovery

In the last weeks of March global trade discussions revolved around expectations regarding Chinese exports of nitrogen and phosphorus fertilisers. While the export of nitrogen remains uncertain, there is clarity regarding phosphorus fertiliser exports. The overall outlook appears favourable for end users. Additionally, India's urea tender has established a bearish foundation for the coming months.

The Chinese export quotas of phosphorus fertilisers have now been set at a maximum of 7m tonnes, 5m for DAP, and 2m for MAP. The decision mirrors the 2023 figures and signifies a 27% recovery versus 2022 export volumes, which were the lowest exports in the past five years. Since early November 2023, exports have been suspended in an effort to exert downward pressure on local fertiliser prices. As a result, DAP source from Morocco has been steady, hovering around USD 600/tonne FOB level. **The outlook for the next five months suggests a potential drop of up to 15%. Unfortunately, this timing may be too late for winter crops and pasture. However, there remains hope that the adjustment will align with spring and summer demand.**

Currently Chinese nitrogen fertiliser manufacturing is operating at a significantly higher pace compared to the same period last year, approaching 200,000 tonnes per day. However, there is a critical factor at play: the lack of clarity regarding government-defined quotas. Some official guidance is expected by mid-May. Without this clarity, the only foreseeable outcome is the accumulation of surplus stocks, exerting a bearish pressure on the market, potentially impacting the next two to four months.

In late March India's urea tender revealed a market with ample stocks and an anticipation of lower prices. By early March, the initial expectation hovered around AUD 560/tonne, including cost and freight. However, the lowest offer was AUD 515, which is 8% lower than expected.

These developments bode well for those planning to purchase inputs in the next four to five months, whether they require phosphorus or nitrogen sources.

What to watch:

- **Fertiliser feedstocks** – The price of natural gas is forecast to remain neutral for the coming months. However, there are critical factors to consider. The European stock levels are above the five-year average for late winter, which suggests that prices may ease slightly. The challenge lies in the reliance on storage facilities in western Ukraine. Unfortunately, these are under attack by Russian forces. If these attacks continue and lead to temporary closures, Europe could face a situation of insufficient stocks even before the next winter season (end of 2024). Maintaining stable stocks and prices becomes tricky under such circumstances. Geopolitical tensions at Europe's doorstep and a fragile economy add complexity.

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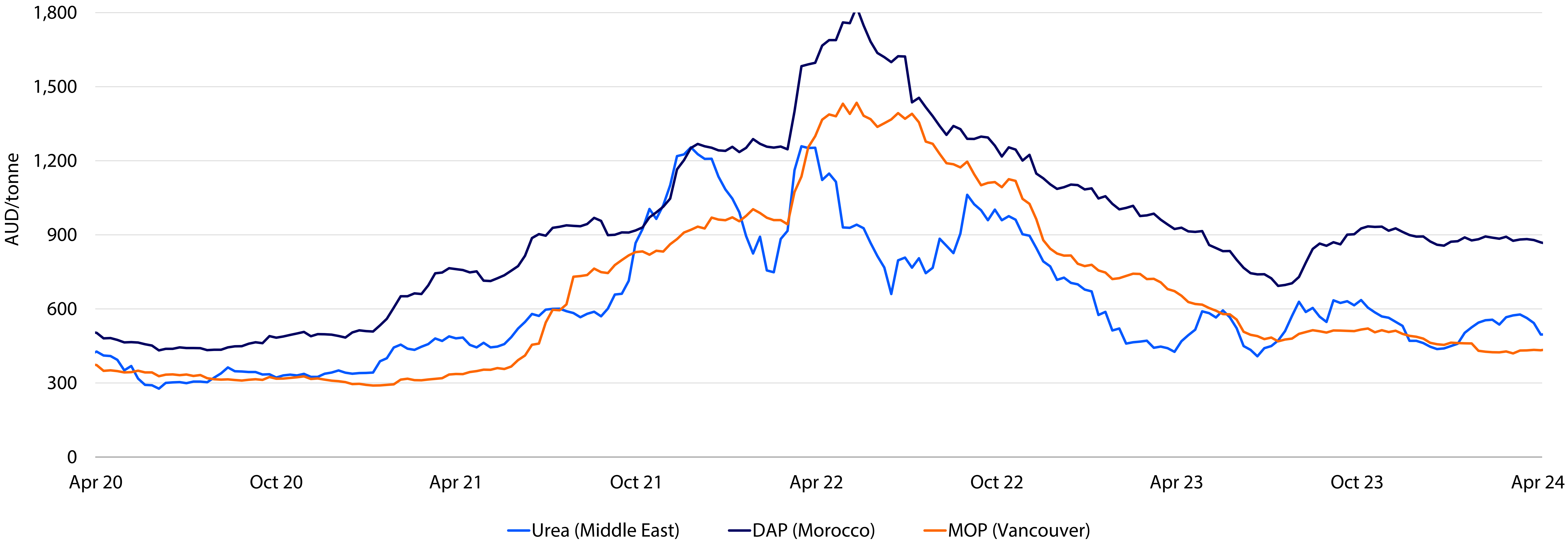
Farm inputs

Prices remain under pressure

The soft demand and steady production result in an oversupply situation



Source: *CRU, Rabobank 2024*

Interest rate and FX

Resilience

The RBA's tough talk in February that "a further increase in interest rates cannot be ruled out" was watered down in March. In the press release following the decision to leave the cash rate unchanged last month, the RBA Board dropped that line and replaced it with "the Board isn't ruling anything in or out".

That is precisely the sort of change of tone that we flagged in our 'What to watch' section last month, and it gives us a little more conviction in our forecast that the RBA will not be raising the cash rate any further.

Two days after the RBA's decision, the ABS released the labour force report for February. This was another item that we flagged as something to watch, and for good reason. Employment growth in February was 116,500 against expectations of just 40,000. This was the largest monthly gain since November 2021. As a result, the unemployment rate fell from 4.1% to 3.7%. That's not far off the 50-year low of 3.5% that we achieved in 2022 and 2023.

That's great news if you're looking for work, but it creates a bit of a headache for the RBA, because they want to see the jobs market soften and the unemployment rate closer to 4.5%, so that wages aren't aggressively bid up by firms competing to attract scarce workers. Wages growth in Australia has substantially outpaced productivity since the onset of the pandemic, which means that the labour cost of each additional unit of output has been rising sharply. This makes it very difficult to get inflation back to 2.5% on a sustained basis, so the RBA will be hoping that the strong jobs report was a one-off.

The Australian dollar rose slightly in March to close the month at 0.6521 against the US dollar. We expect the Australian dollar to continue to trade around this level until the US Federal Reserve begins cutting interest rates from June onward. We expect that to be the catalyst for a lift toward 0.70 on a 12-month view.

What to watch:

- **March Labour Force Report, 18 April** – The RBA will be wanting to see a soft report after strong job gains in February. The unemployment rate is likely to lift closer to 4%, but strong hiring could lift the Australian dollar and put pressure on the RBA to raise interest rates again.
- **First Quarter CPI Inflation Report, 24 April** – The quarterly inflation report is always one of the most important data releases for Australia, because it is the economic variable that the RBA is solving for when it adjusts interest rates. Expect a moderate lift from the 0.6% QOQ figure recorded in Q4, but the YOY rate should drop due to base effects.

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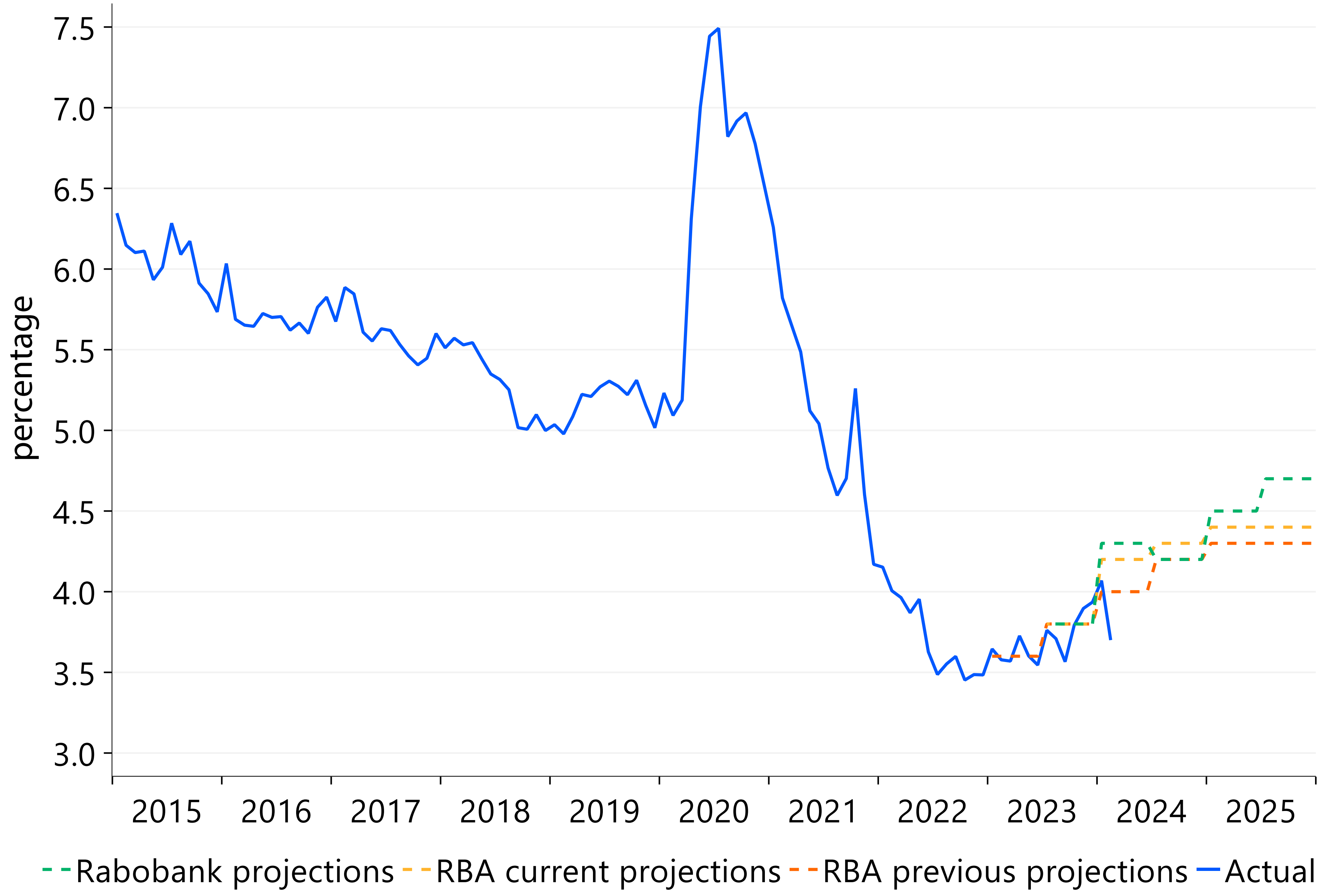
Rabobank

Interest rate and FX

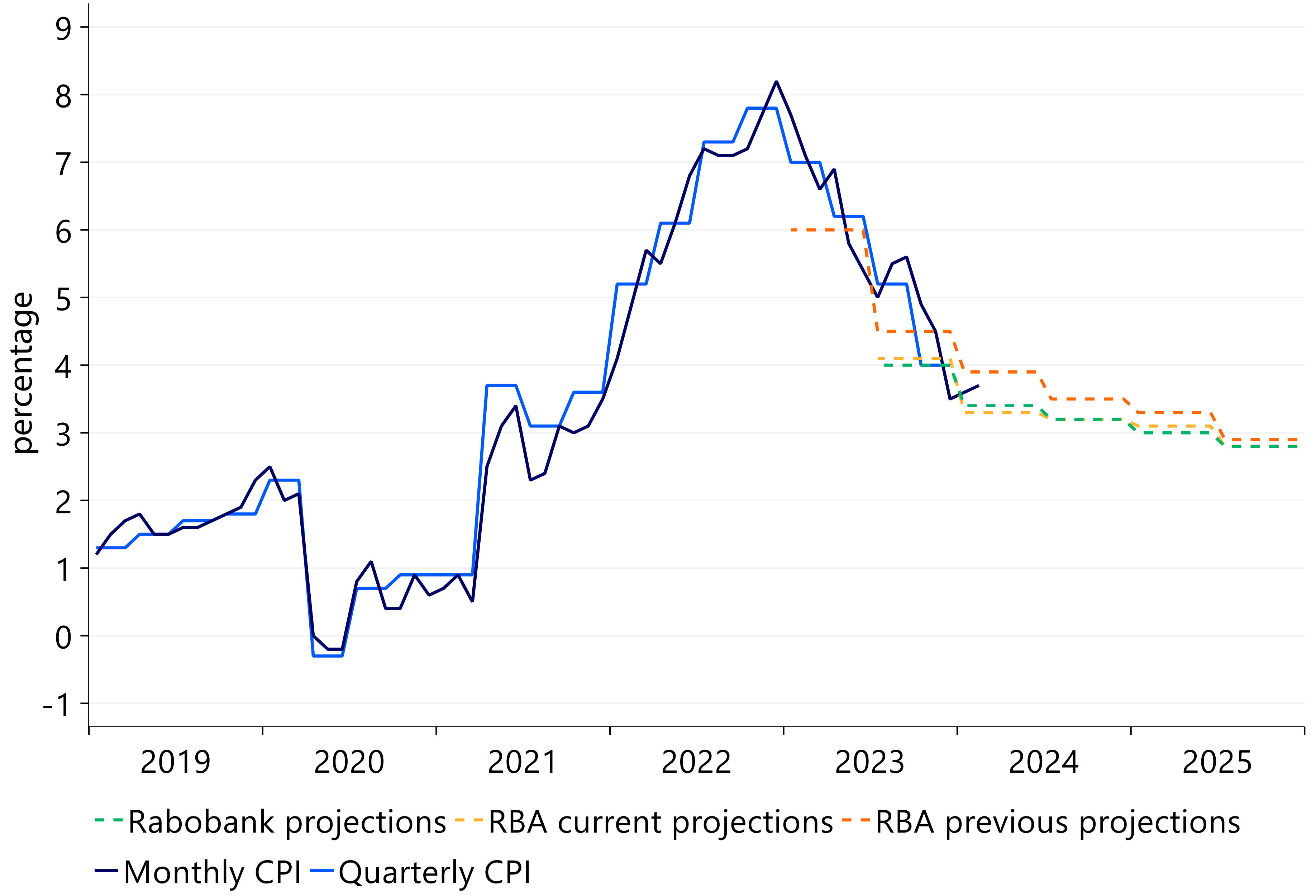
Unemployment dipped much more than expected in February

Australian labour force indicators



Source: *Macrobond, ABS, RBA, Rabobank 2024*

Australian inflation indicators



Source: *Macrobond, ABS, RBA, Rabobank 2024*

Rabobank

Oil and freight

Momentum building

Brent crude prices rose by 4.62% in March for the third consecutive month. Prices have lifted even further in the first few trading days of April after an Israeli air strike on a consular building in Syria killed a senior Iranian commander of the Islamic Revolutionary Guards Corps. Iran has vowed to retaliate, heightening concerns that the Israel-Hamas war could spread and impede energy flows through the Strait of Hormuz.

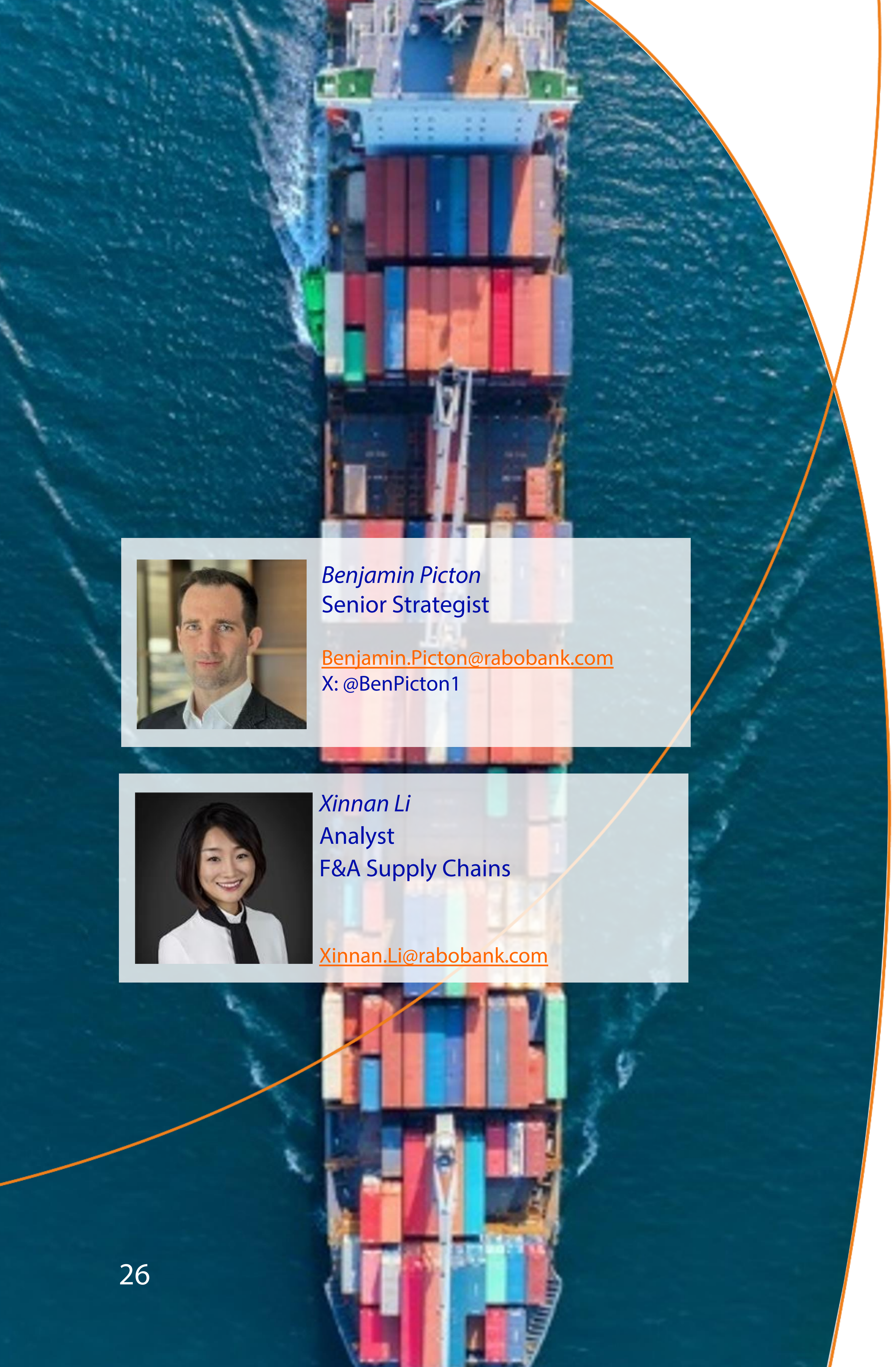
Diesel terminal gate prices in Australia defied the rising crude oil price in March to moderate slightly. **Diesel prices might play a bit of catch up in April as Ukrainian air strikes on Russian refineries take refining capacity out of the world market** and improving growth in the US and China add to demand for transport fuels.

Freight rates have adjusted downward after the initial shock from the Red Sea conflict, although vessel passage through the Suez Canal remains severely limited. Conflicts and forced vessel re-routes are likely to persist into the second half of 2024, although new vessel and container capacity coming online should help alleviate capacity constraints. We expect 2024 to continue to be marked by volatility, driven by global events, uncertainties stemming from the US election, possible labour-related disruptions, such as the East Coast port labour contract negotiations in September, and possible weather or climate change-related disruptions.

The Baltic Panamax index (a proxy for grain bulk freight) fell for the second week in a row after a mild recovery, as volume growth has diminished out of east Australia and remained flat out of South Africa into April.

What to watch:

- **US Department of Energy inventories data** – Due out on 11, 18 and 25 April. Inventories data will be an important gauge of the supply/demand balance in the US energy market.



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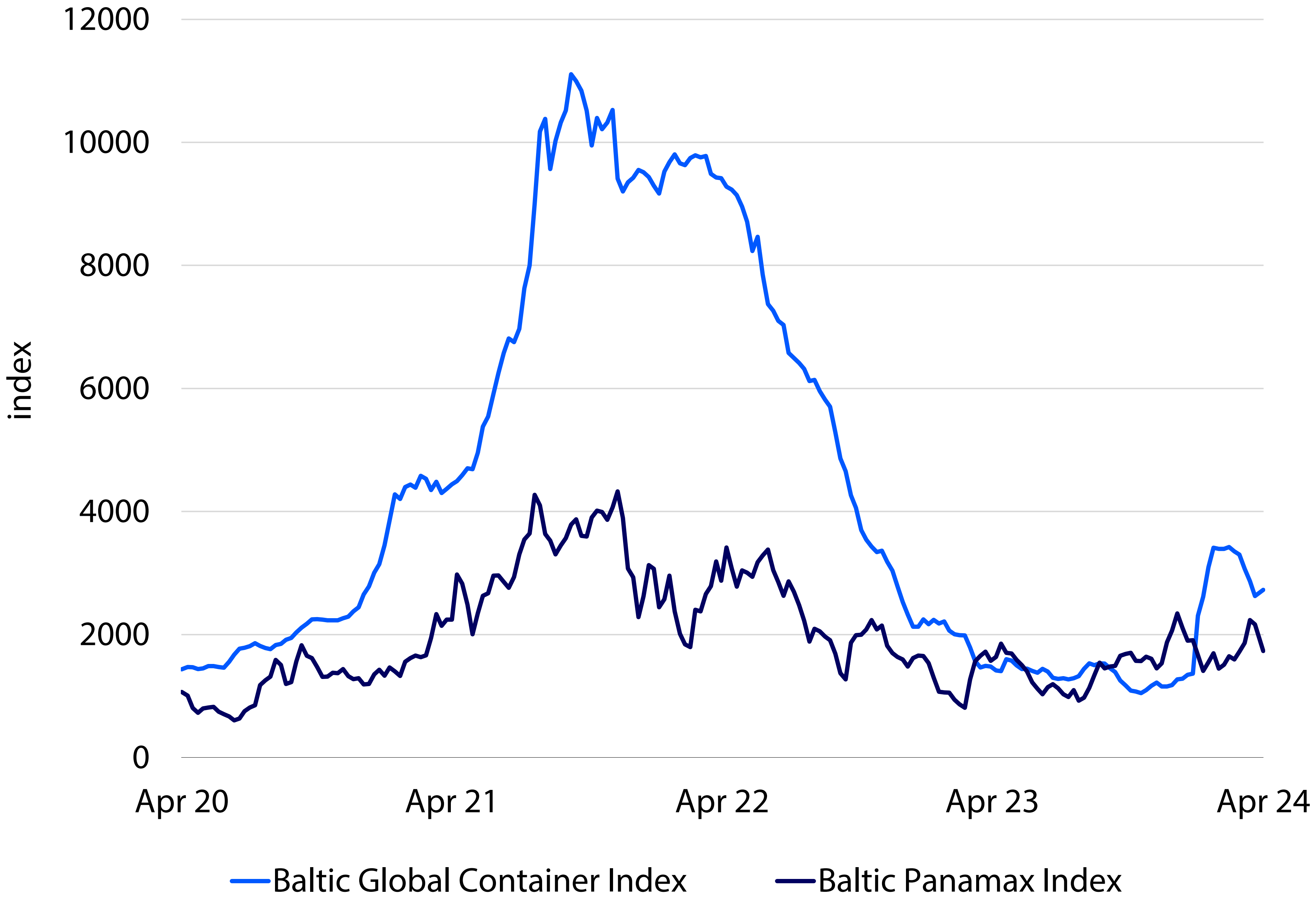
Oil and freight

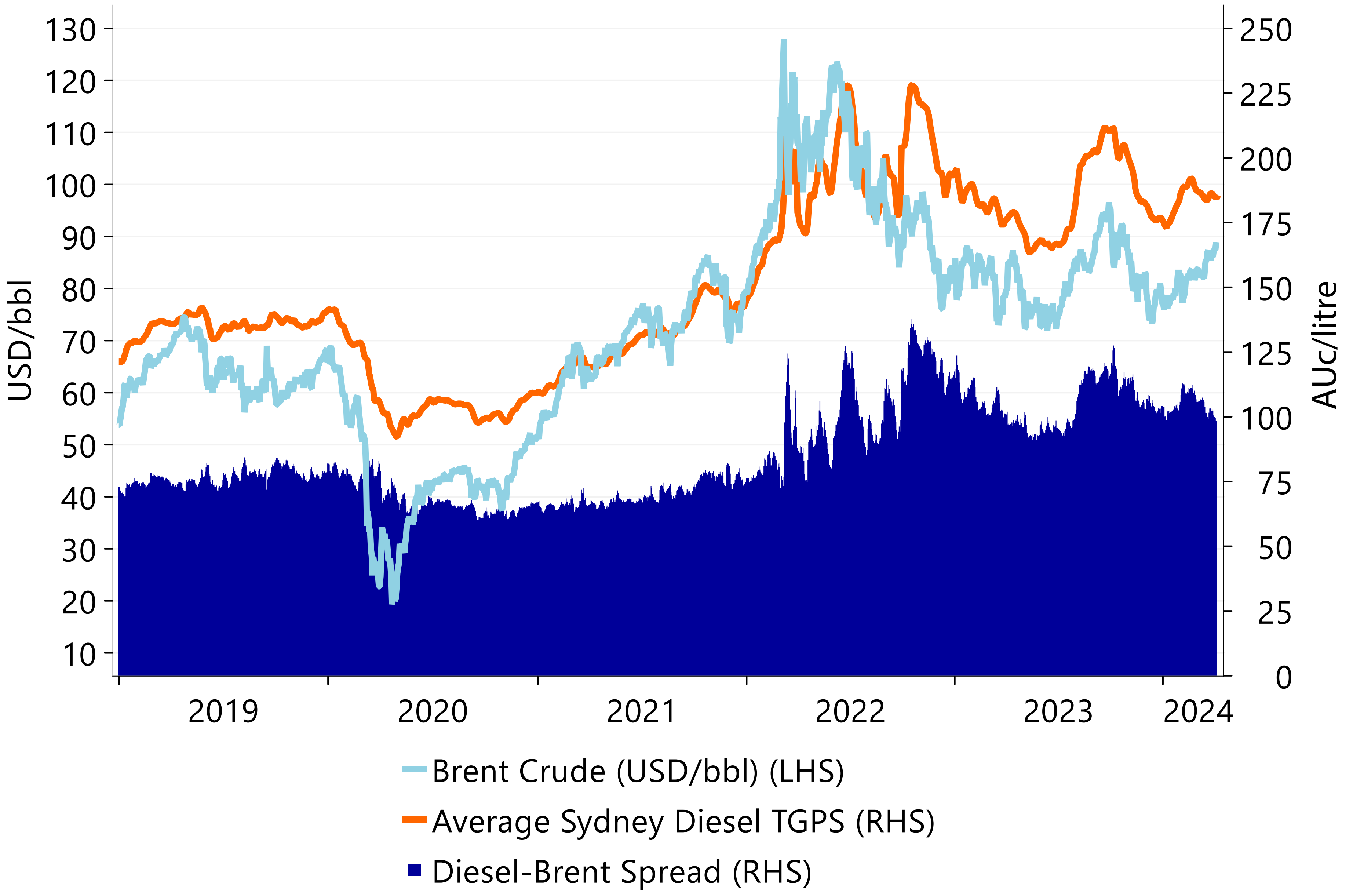
Diesel/crude spread widens as prices rise

Baltic Panamax Index and Dry Container Index, Apr 2020-Apr 2024



Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

Brent crude versus Sydney diesel prices, 2019-2024



Source: *Macrobond, ICE Exchange, AIP, Rabobank 2024*

Agri price dashboard

10/04/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	*USc/bushel*	▲	*558*	*538*	*680*
CBOT soybean	*USc/bushel*	▲	*1,175*	*1,165*	*1,504*
CBOT corn	*USc/bushel*	▲	*431*	*428*	*656*
Australian ASX EC Wheat Track	*AUD/tonne*	▲	*326*	*314*	*387*
Non-GM Canola Newcastle Track	*AUD/tonne*	▲	*641*	*609*	*661*
Feed Barley F1 Geelong Track	*AUD/tonne*	▲	*311*	*288*	*331*
Beef markets					
Eastern Young Cattle Indicator	*AUc/kg cwt*	▲	*622*	*601*	*680*
Feeder Steer	*AUc/kg lwt*	▼	*316*	*332*	*356*
North Island Bull 300kg	*NZc/kg cwt*	▲	*590*	*585*	*585*
South Island Bull 300kg	*NZc/kg cwt*	▼	*535*	*540*	*525*
Sheepmeat markets					
Eastern States Trade Lamb Indicator	*AUc/kg cwt*	▲	*628*	*612*	*726*
North Island Lamb 17.5kg YX	*NZc/kg cwt*	▲	*615*	*610*	*730*
South Island Lamb 17.5kg YX	*NZc/kg cwt*	▼	*590*	*605*	*720*
Venison markets					
North Island Stag	*NZc/kg cwt*	▼	*860*	*870*	*885*
South Island Stag	*NZc/kg cwt*	▼	*850*	*865*	*880*
Oceanic Dairy Markets					
Butter	*USD/tonne FOB*	▼	*6,413*	*6,650*	*4,775*
Skim Milk Powder	*USD/tonne FOB*	▼	*2,513*	*2,813*	*2,688*
Whole Milk Powder	*USD/tonne FOB*	▼	*3,125*	*3,375*	*3,238*
Cheddar	*USD/tonne FOB*	▲	*4,225*	*4,213*	*4,325*

Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

Agri price dashboard

10/04/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	*USc/lb*	▼	*92.0*	*101.6*	*96*
ICE No.2 NY Futures (nearby contract)	*USc/lb*	▼	*86.0*	*95.1*	*82*
Sugar markets					
ICE Sugar No.11	*USc/lb*	▼	*21.5*	*22.0*	*24.1*
ICE Sugar No.11 (AUD)	*AUD/tonne*	▼	*703*	*723*	*680*
Wool markets					
Australian Eastern Market Indicator	*AUc/kg*	▼	*1,136*	*1,172*	*1,300*
Fertiliser					
Urea Granular (Middle East)	*USD/tonne FOB*	▼	*330*	*378*	*300*
DAP (US Gulf)	*USD/tonne FOB*	•	*570*	*570*	*610*
Other					
Baltic Panamax Index	*1000=1985*	▼	*1,667*	*1,893*	*1,812*
Brent Crude Oil	*USD/bbl*	▲	*89*	*82*	*87*
Economics/currency					
AUD	*vs. USD*	▲	*0.663*	*0.661*	*0.669*
NZD	*vs. USD*	▼	*0.607*	*0.617*	*0.621*
RBA Official Cash Rate	*%*	•	*4.35*	*4.35*	*3.60*
NZRB Official Cash Rate	*%*	•	*5.50*	*5.50*	*5.25*

Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

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