Autumn outlook remains positive

Australia agribusiness monthly

RaboResearch Food and Agribusiness

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Rabobank

Commodity outlooks

Climate

El Niño continues to weaken, and cooling in the Pacific Ocean is also expected to continue with global models predicting the ENSO to return to neutral by May.

Wheat and barley

The market remains bearish on the back of large crop volumes from the Black Sea region and soft feed demand, pushing exporter prices closer to parity despite geopolitics challenges.

Canola

Soft global demand for oilseed meal is affecting crushers' margins, though there is hope for better prices as the carryover glut fades away and EU 2024 production is forecast to fall.

Beef

The market has found balance. If seasonal conditions remain favourable, we think this balance will remain for the coming month, although increasing cattle supplies pose a downside risk.

Sheepmeat

After a strong rally in recent months, prices softened in February as elevated slaughter numbers hamper further upside. Production figures from 2023 show record lamb volumes hit the market.

Wool

Wool prices slid marginally throughout February with the demand outlook remaining bearish as retail sales growth flatlined in key markets. Wool volumes hitting the market fell throughout the month.

Dairy

Global milk supply growth continues to struggle, with 2H 2023 seeing weaker year-over-year production from the key exporting regions. A return to production expansion will take time and is not expected until 2H 2024.

Cotton

Cotton markets are seeing an ICE #2 price rally, but local prices remain around the AUD 700/bale mark. Tight US global supplies in 1H 2024 may get a boost with the improving US supply outlook for the 2024/25 season.

Consumer foods

Fresh data releases provide glimpses into the performance of the Australian food market. Australian households face some challenges, which are impacting performance, but better times lay ahead.

Farm inputs

Bearish grain and oilseed markets keep pressuring farm inputs worldwide, skewing the balance towards supply even further and increasing the potential for further price reductions in Australia.

Interest rate and FX

The Australian dollar fell by a little over 1% in February as financial markets pared back bets on early rate cuts in the US. We expect the AUD/USD exchange rate to approach 0.70 over the next 12 months.

Oil and freight

Crude oil prices pushed higher again in February and diesel prices were also firmer. We see potential for a short-term pullback in March before prices rally further into the second half of the year.

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Climate

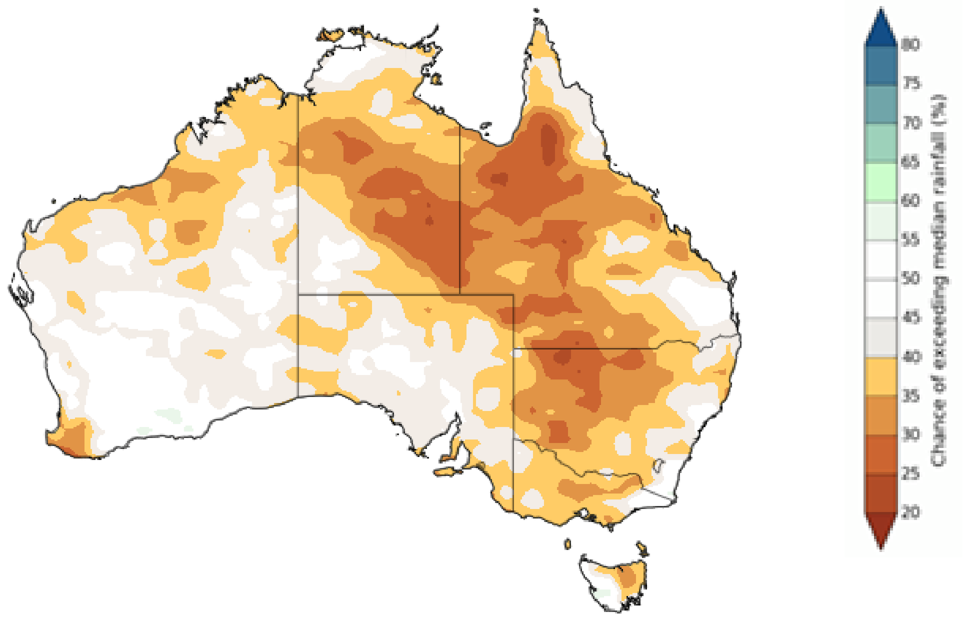
El Niño on the out

El Niño is weakening, with cooling in the Pacific Ocean expected to continue and international models indicating the ENSO will return to neutral in April or May. Historically, around 50% of El Niño events have been followed by a neutral year, with 40% to 50% followed by La Niña. However, significantly warmer ocean temperatures may impact the prediction of future events based on historical activity.

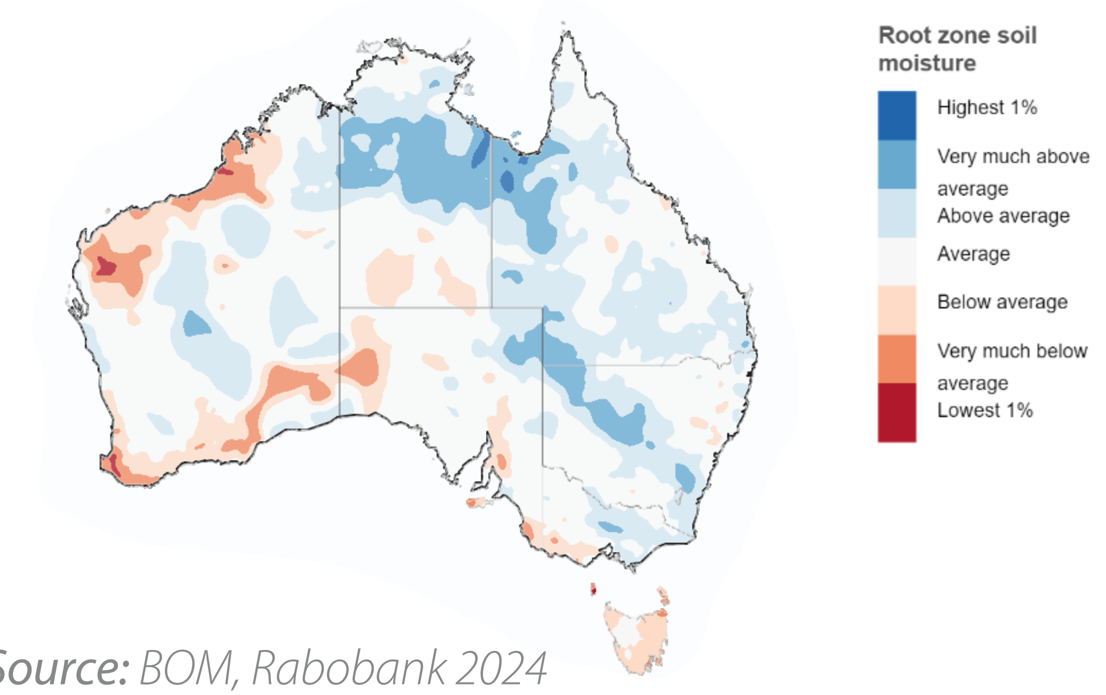
The Indian Ocean Dipole is neutral and is expected to remain neutral until at least April. February was the fourth warmest on record. Parts of northern and eastern Australia received above-average rainfall, and rainfall was below average for parts of the western and southern mainland and across Tasmania.

The chance of exceeding median rainfall during the March to May period remains moderate to very low (50% or less) for most regions. Water storage levels remain high at 83% for the Murray-Darling Basin.

March-May rainfall outlook



Relative soil moisture, February 2024

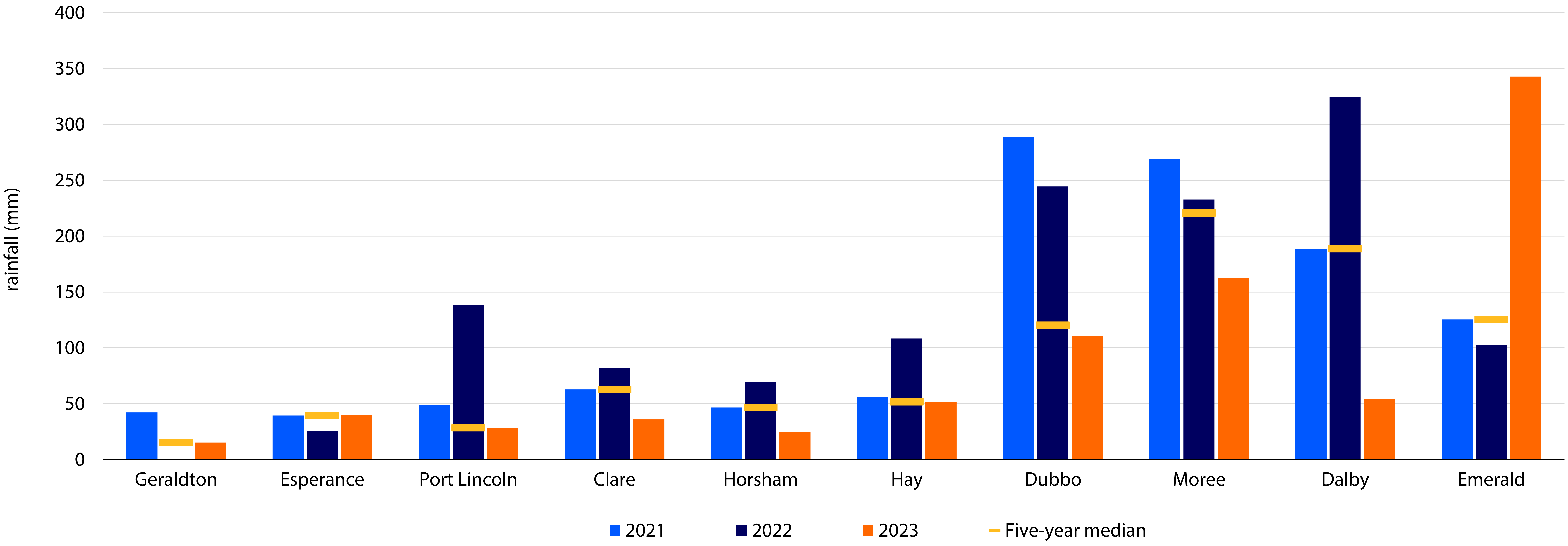


Source: BOM, Rabobank 2024

Climate

Agriculture regions rainfall

Summer (Dec 2023-Feb 2024) rainfall mostly below five-year median



Source: BOM, Rabobank 2024

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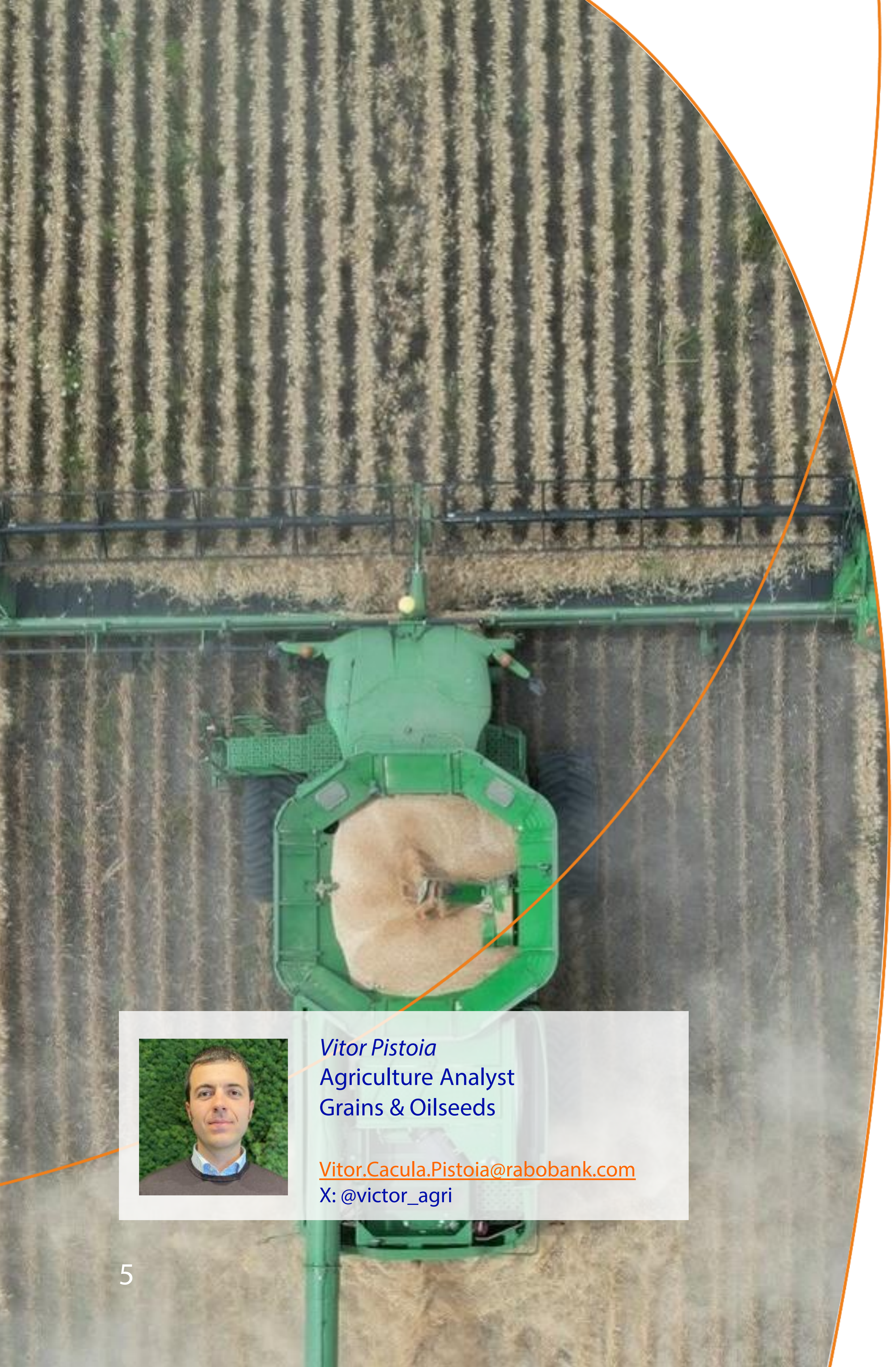


Wheat and barley

All quiet in the Northern Hemisphere, so far

With a large 2024/25 wheat crop expected in the Northern Hemisphere, we expect the current depressed prices to continue. Russia keeps exporting about 3.5m tonnes of wheat each month, setting the bar for global prices. During February 2024, Russian FOB reference dropped 9% to AUD 330/tonne. The Black Sea grains may continue to serve as the North Star for wheat prices due to the warmer start of the season, with some regions experiencing temperatures 2 degrees Celsius above average during the December to February period. This allows farmers to top-dress their crops earlier, potentially leading to a positive impact on yield.

On a potentially bullish note, warmer conditions are also present in many parts of the US and Canadian prairies, which are experiencing dryness and a lack of ice and snow cover. This increases the risk of damage from late frost. While it is still too early to predict any potential price increase, it is something to monitor.

In Australia, the national average APW port price has decreased by 7% MOM, to AUD 350/tonne. The spread versus CBOT also reduced. Current local prices are "just" 10% higher, which is well below the 27% seen in November 2023 before the late rainfall on east coast.

Despite robust exports to China, the situation for barley is similar. **In 2023, barley exports amounted to 8.3m tonnes, with 36% destined for the Chinese market. In February 2024, the average price of malting barley decreased by 5% to AUD 323/tonne, while the price of feed barley decreased by 6% to AUD 317/tonne.** Headwinds for barley prices include a recovery in local sorghum production and a large carryover of corn in the US. CBOT Corn prices decreased by 8% MOM. Additional pressure on corn prices is coming from Brazil and Argentina, which are experiencing average to good weather conditions. The motto for the coming weeks is cheap feed grains. This is only likely to change if dryness arises mid-year in key Northern Hemisphere production regions.

What to watch:

- **North American dryness** – Market participants are desperate for any sign of a price trend reversal. The current weather forecast may offer clues, albeit vague. The odds of a La Niña event after August are now above 70%, and some US and Canadian regions are already dry, and spring wheat and corn planting hasn't even started. April marks the start of corn planting in the US, and a slight decrease in corn acreage and an increase in soybean and cotton area is likely. In Australia, east coast soil moisture, according to ABARES, should lead to a higher planted area. Greater acreage combined with a potential La Niña event mean the 2024/25 winter crop might reach 51m tonnes for all crops, up 9% YOY.

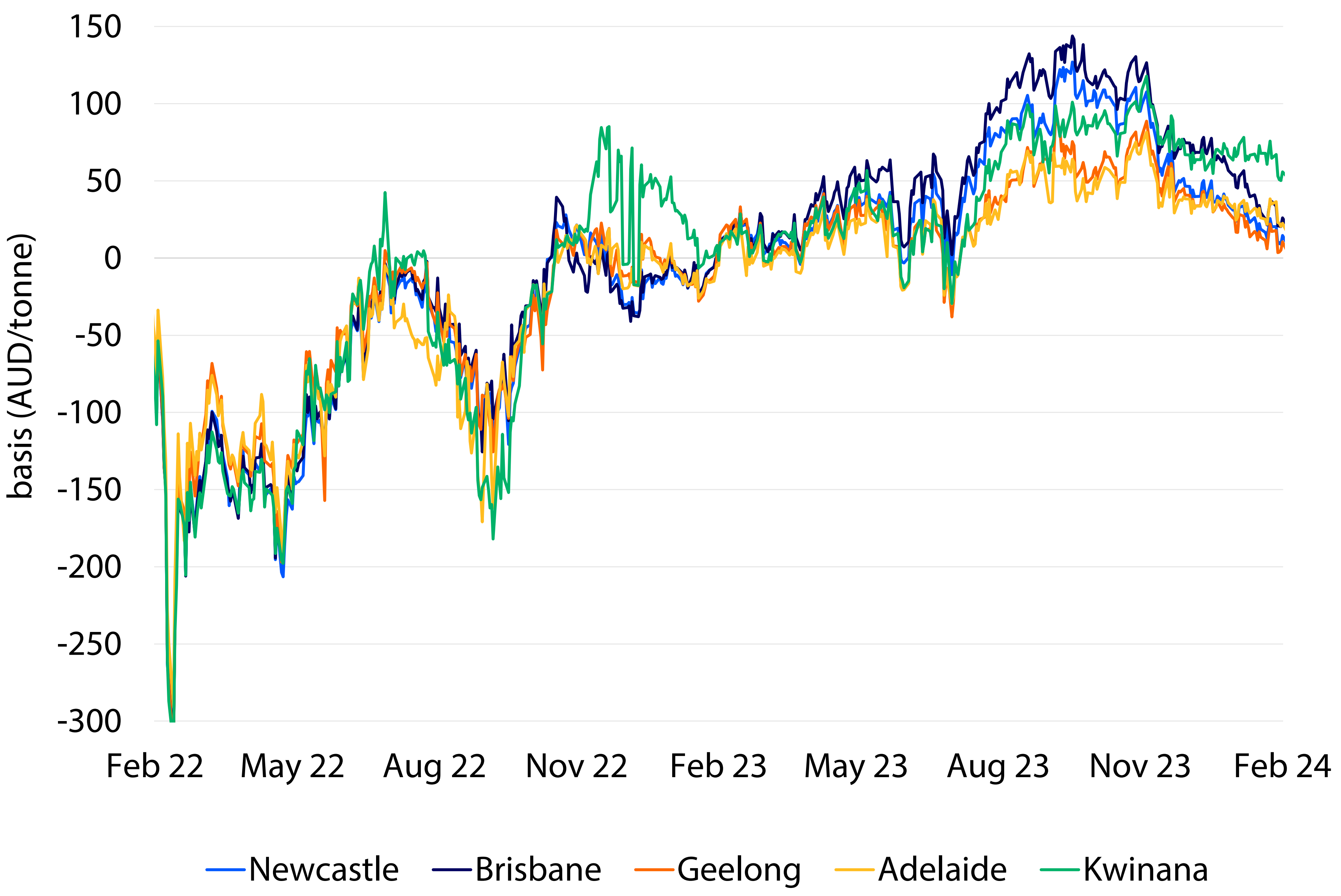
Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

Wheat and barley

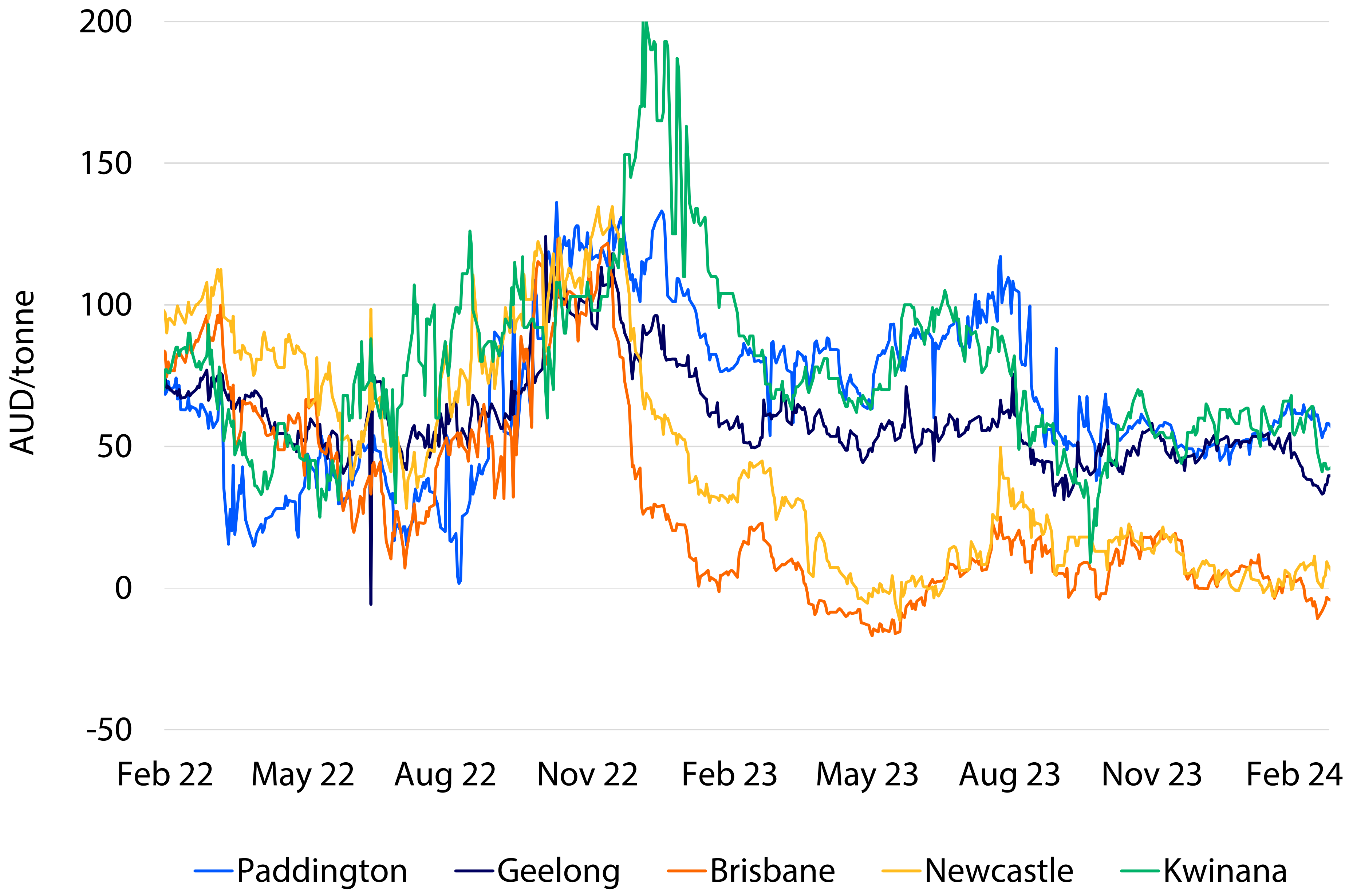
Price spread of Australian to CBOT wheat is down and might fall further, especially if La Niña chances increase

Soft demand is squeezing wheat prices, while large Russian supply continues to push the bar down



Source: Bloomberg, Rabobank 2024

The current spread between feed barley and APW should remain in place until the seeding period starts for winter crops



Source: Bloomberg, Rabobank 2024

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Canola

Crushing the carryover

Despite the global appetite for vegetable oil, the demand for meal is not keeping up, which is curbing oilseed processing margins. Additionally, the ongoing soybean harvest in South America should prevent any global price upside in the short term. However, the market is not all doom and gloom.

The current global oilseed meal glut is caused by poor animal feed demand, especially in China, and accelerated sunflower crushing in the EU and Black Sea region. Both elements might fade away, or at least have a diminished impact on price by mid-2024. The ongoing Chinese sow herd liquidation is expected to lead to a recovery in pork prices and, in turn, expand demand for feed. Further, global ending stocks of sunflower are poised to decrease by up to 25% YOY, prompting EU crusher to increase the share of canola in their mix. **Outside the EU and the Black Sea region, the only viable supplier to Europe seems to be Australia, as the cost of crossing the Panama Canal remains high**, removing most Canadian canola from the list of options. The North American exporter will therefore remain a key competitor in the Asian markets, especially in Japan and South Korea.

In terms of price, local prices dropped by an average of 2.6% in February, to AUD 594/tonne for non-GM at South Australia and east coast ports, and to AUD 655/tonne for Kwinana. The spread between coasts formed by late October 2023 because of production drawbacks in Western Australia and Red Sea logistics bottlenecks. **For instance, a vessel originating from Kwinana takes five days less to reach Germany compared to one originating from Geelong.** On the international front, Canadian canola reference price dropped 4% MOM, MATIF dropped by 2%, and CBOT Soybeans fell by 6%. The only vegetable oil that gained value was palm oil, which appreciated by 4% in India.

What to watch:

- **Indian and Canadian weather** – The two countries are at different but critical stages of the canola cycle. In India, the harvest starts by late February, and canola production is expected to recover, reaching 11.5m tonnes, 6.5% higher YOY. India not only produces about 15% of global canola but also imports 18% of palm oil. Thus, any production failure has the capacity to significantly impact the global market. In Canada, the soil is still too cold for seeding to begin, and many parts of the country, especially in the western prairies, are experiencing dry conditions.

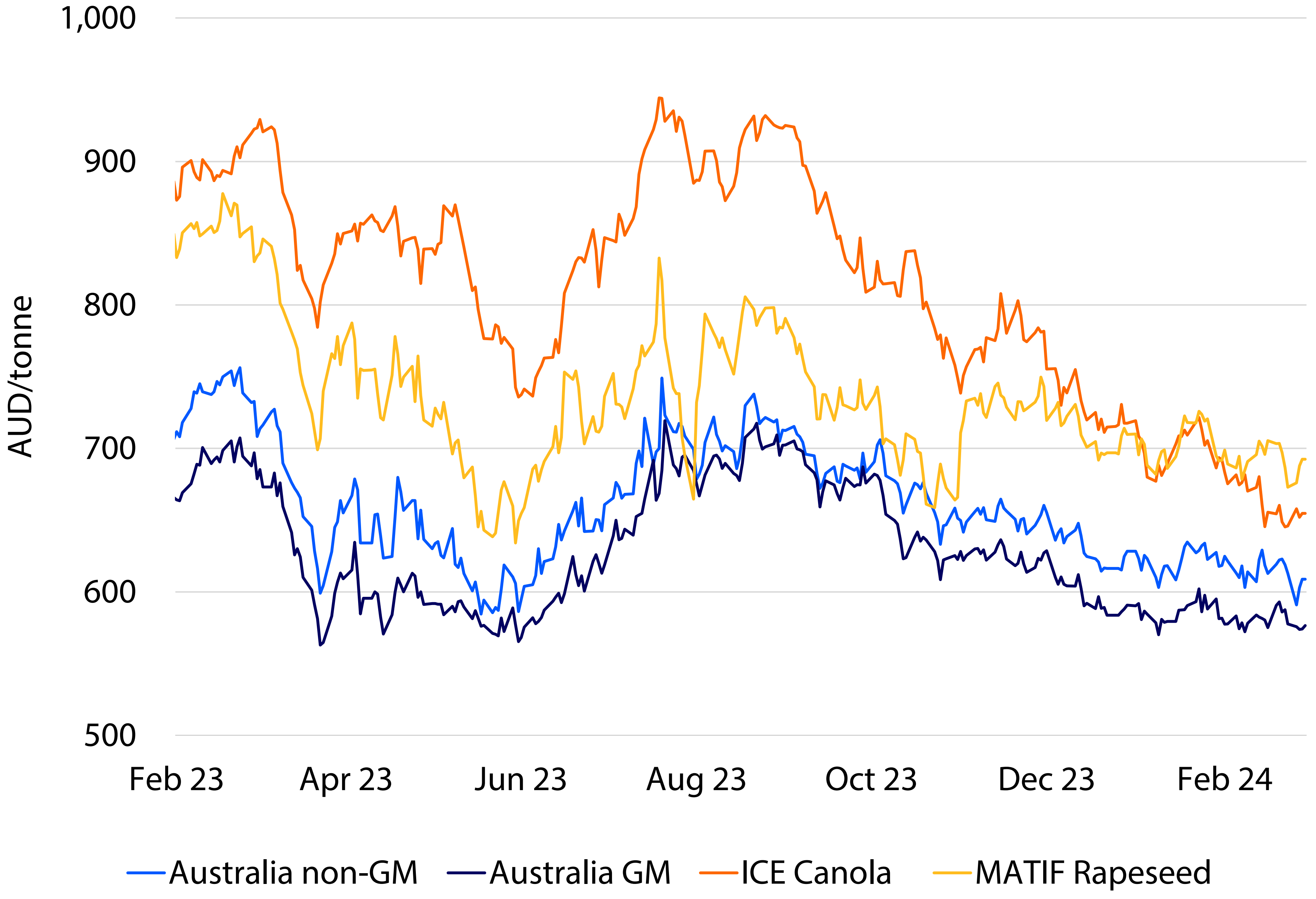
Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

Canola

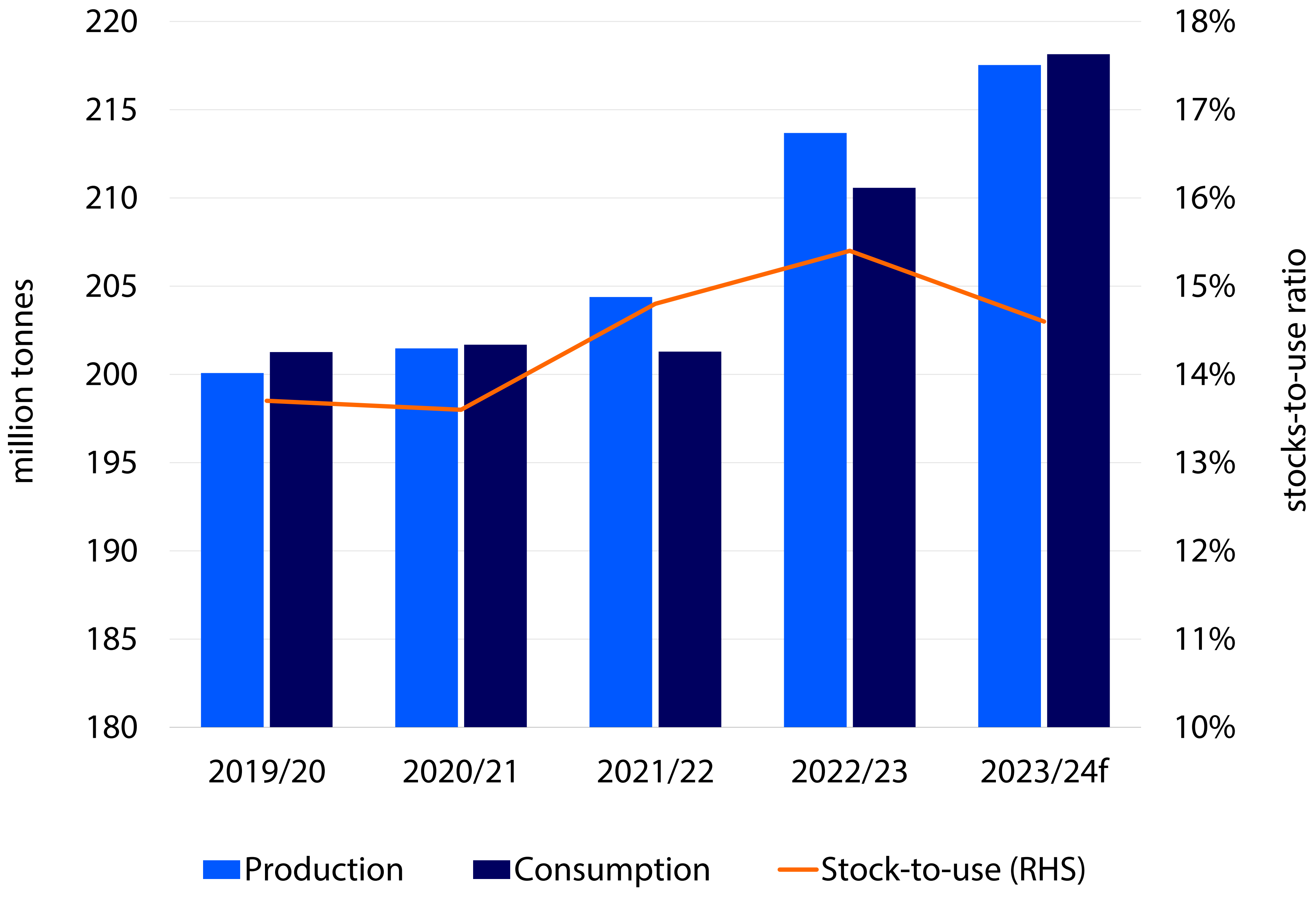
Poor global animal feed demand is pressuring oil meal prices, impacting oilseed prices

The Australian canola price spread has reduced compared to Canada and EU reference prices



Source: Bloomberg, Rabobank 2024

Global vegetable oil demand is poised to increase year-on-year; the current crop year might finish with a deficit



Source: Oil World, Rabobank 2024

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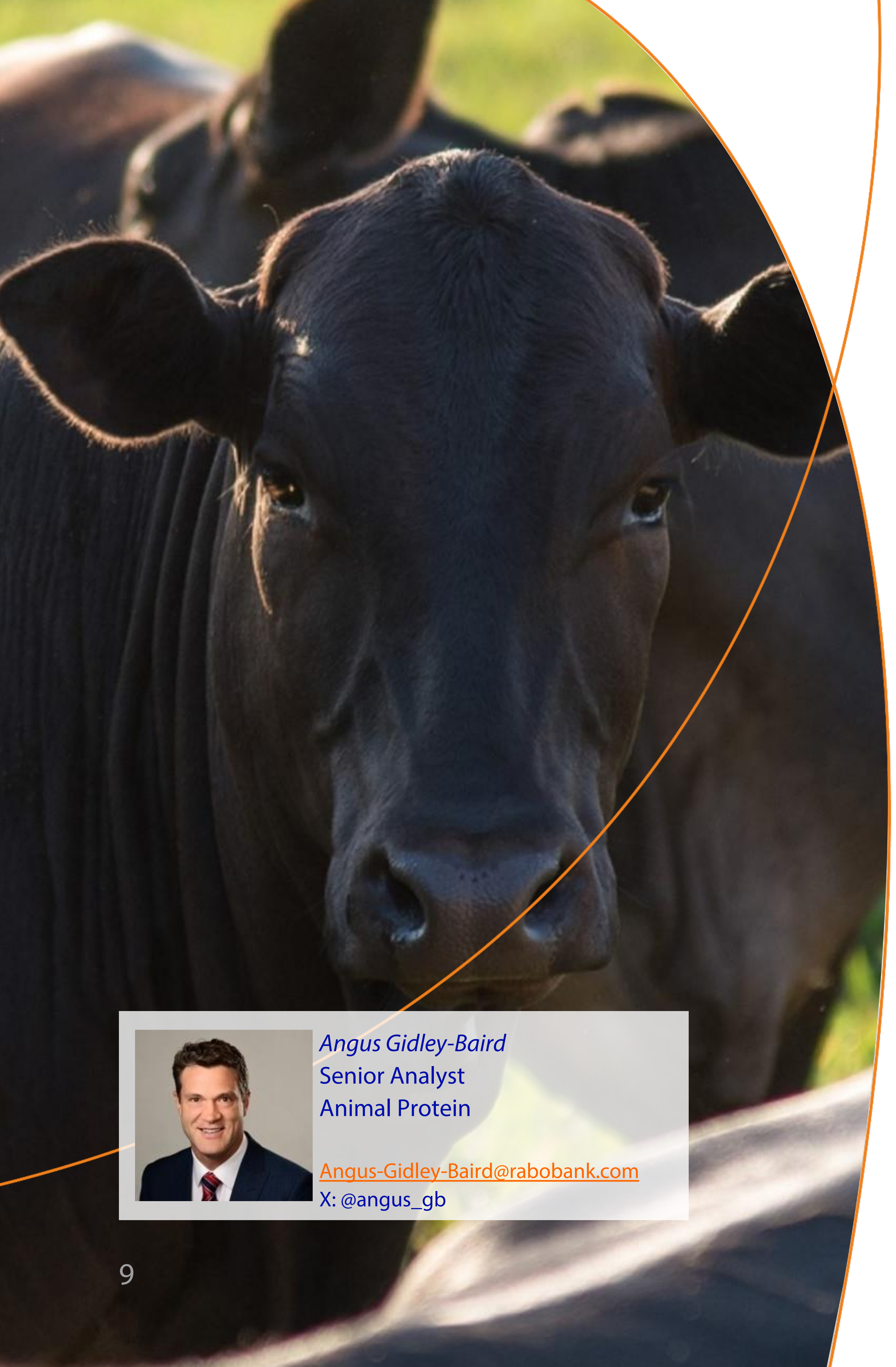


Beef

Steady as she goes

Cattle prices were stable for the last couple of weeks of February. The national saleyard restocker steer price traded between AUc 360 and AUc 376/kg from 18 February to 3 March after peaking at AUc 391/kg on 11 February. Restocker steer and heifer numbers going through saleyards are at some of the highest levels we have seen in the last 10 years, but good seasonal conditions are giving producers confidence and prices are holding. Producers are still paying a premium, but this gap has narrowed in recent weeks suggesting producer demand for restocking cattle is easing. Feeder cattle have followed a similar trend and were trading at AUc 335/kg on 3 March. **We believe prices are at a more balanced level given all the forces in the market at the moment, and we expected them to continue to trade around the current range for the next month.**

ABS quarterly production volumes were released in mid February. **Total cattle slaughter for 2023 was up 20% at 7.03m head.** Average slaughter weight was down slightly at 314kg, leading to a production increase of 18% reaching 2.2m tonnes. The proportion of females in total cattle slaughter has been high for the last three quarters, with Q4 numbers again over 47%, which may be an indication of cattle liquidation. However, I am not convinced. We continue to see male slaughter numbers rise, reflecting the overall increase in cattle availability, and the female proportion has not yet pushed to the highs of 2014 or 2019. I believe the data reflects the higher livestock numbers, less restocking activity, and some of the older cows cycling through the market.

Beef exports continue to increase. January volumes were up 47% YOY and February volumes look to be up about 33%. Encouragingly, volumes to Japan are recovering – up 43% YOY for February – following the reduction in meat inventory levels late last year. Exports to the US also remain strong, with volumes up 83% YOY for February and imported trimmings prices up 5%.

What to watch:

- **Upcoming northern cattle muster and weaner sales in the south** – With the market nicely balanced currently, the risk of a strong northern muster and increased weaner sales in the south could see a large number of young stock enter the market over the coming months. Male and female restocker cattle numbers through saleyards are already at their highest levels in the last 10 years. While seasonal conditions remain favourable, we believe producers should be able to accommodate these numbers – with maybe a little softening in prices. But if seasonal conditions deteriorate, such a large number of young stock could depress prices.

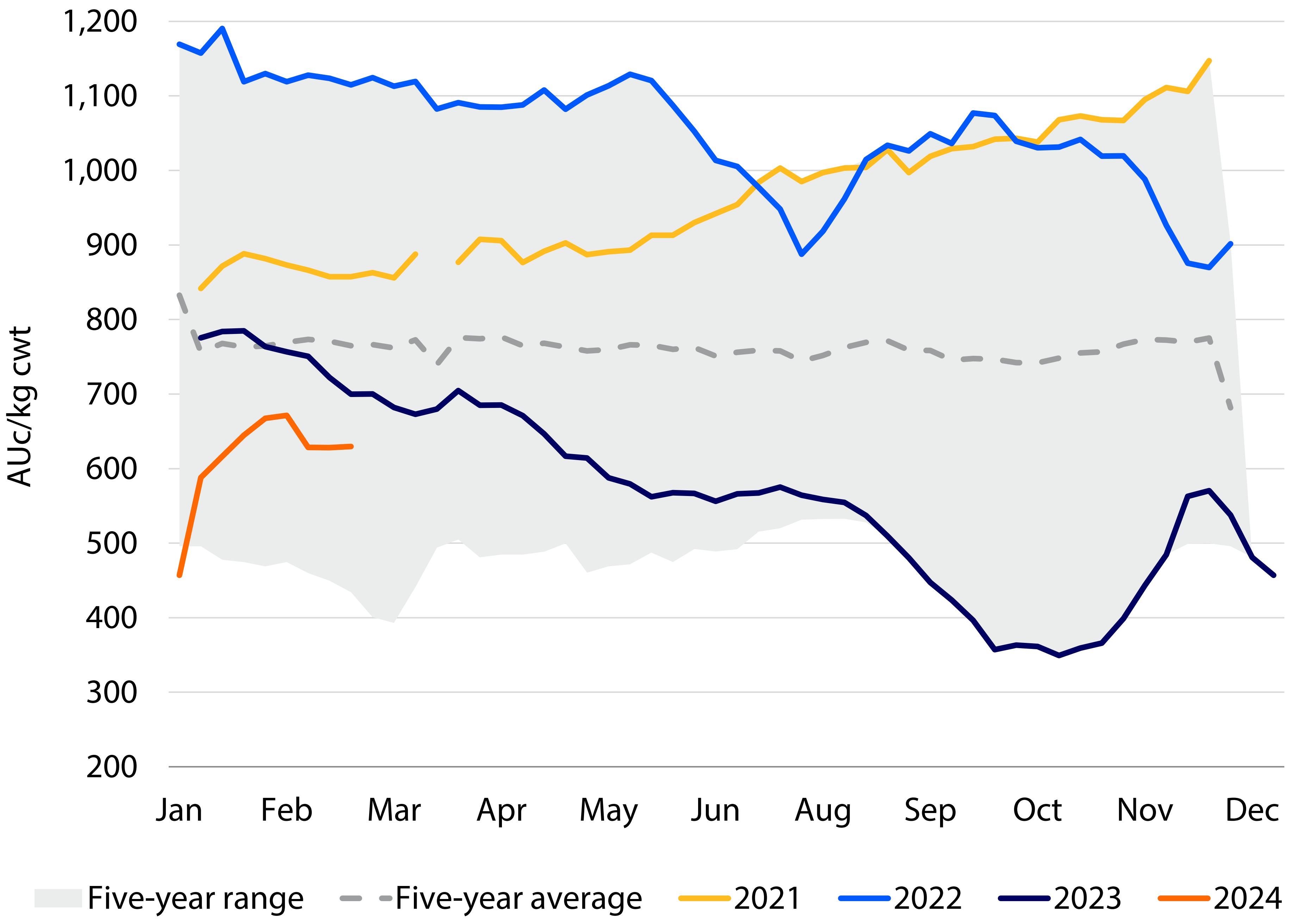
Angus Gidley-Baird
Senior Analyst
Animal Protein

Angus-Gidley-Baird@rabobank.com
X: @angus_gb

Beef

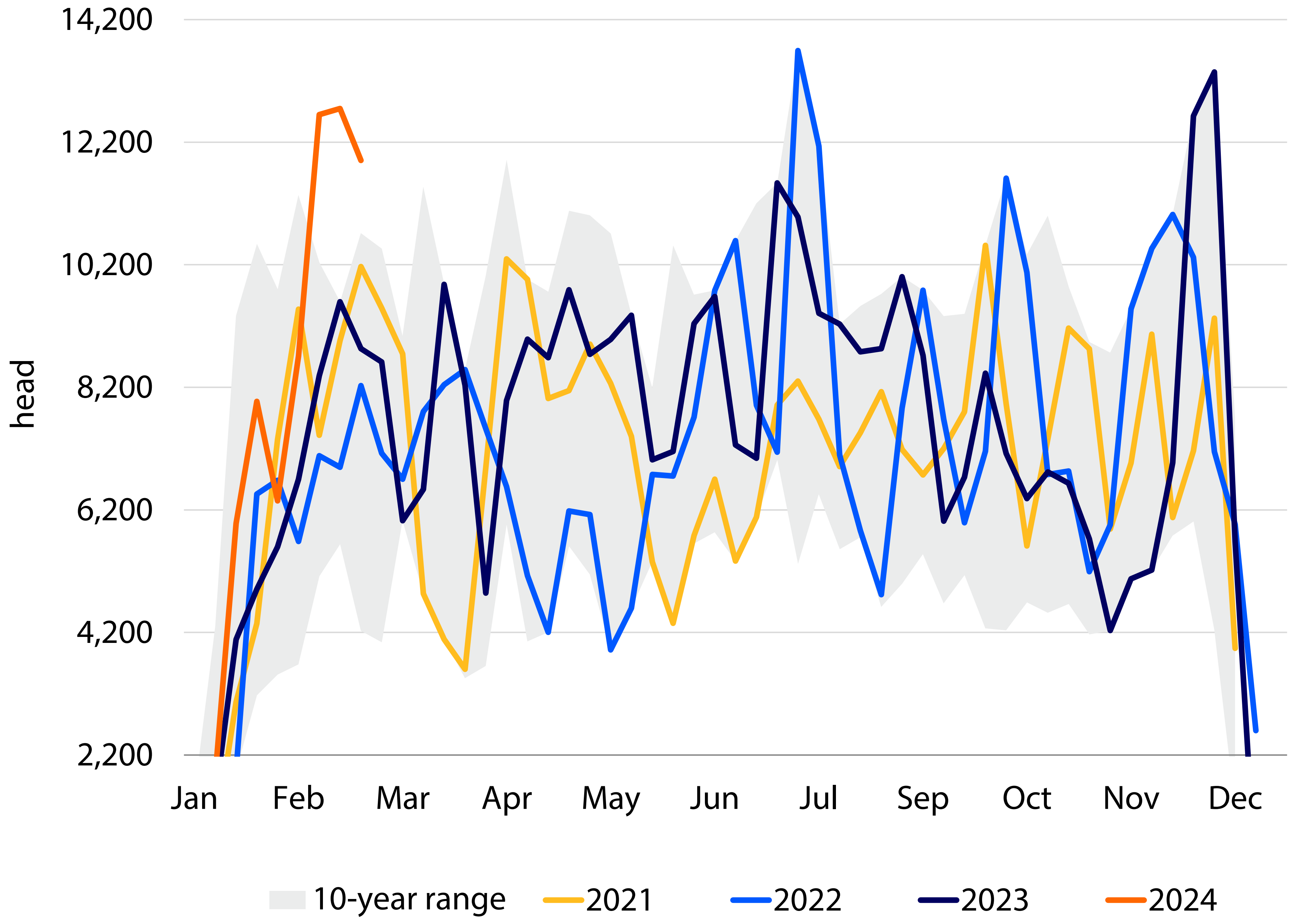
Steady as she goes for cattle markets, but cattle numbers starting to rise

EYCI levelling out



Source: MLA, Rabobank 2024

National saleyard numbers for restocker steers at historical highs



Source: MLA, Rabobank 2024

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Sheepmeat

Elevated supply leads to slight fall in lamb prices

Prices for lamb indicators softened slightly in February but remain well above levels seen prior to November 2023. By the end of February, light lambs were sitting around AUD 5.40/kg, having dropped AUD 1/kg MOM, down 16%. The restocker/feeder, trade, and heavy lamb indicators fell in the AUc 78 to AUc 93 range, while merino lambs showed greater resilience, falling AUc 27. Mutton prices fell through the month alongside the other indicators but saw an increase before ending the month around AUD 2.75/kg, a 7% decrease MOM. The rallies seen at the back end of 2023 have eased as drier conditions in some regions and the natural seasonal influx of lambs fill the market.

ABS released the 2023 lamb and sheep production totals. Lamb production reached a record 599,461 tonnes, up 12% YOY. Victoria saw a significant 18% increase in lamb production, with average carcase weights sitting just above 24kg before falling to 22.9kg in Q4. **Sheep production climbed 42% YOY to 246,300 tonnes** with NSW and WA increasing 53% and 56%, respectively, while Victoria saw production jump 24%. Carcase weights climbed from 24.1kg in Q2 to 26.1kg in Q4 2023. These significant increases were driven by elevated inventory levels and the dry conditions. The April to September period showed the largest jumps, as producer confidence for retaining stock on farm was low.

The elevated supply continued into 2024 with February numbers climbing for both lamb and sheep. Weekly lamb slaughter volumes increased 20% YOY and showed an 8% lift on January totals. Numbers topped 475,000 head at the start of the month before softening slightly to 450,000 head in the week of 23 February. Weekly sheep slaughter numbers were also strong, increasing 6% YOY and 15% MOM. Elevated lamb volumes, particularly out of Victoria and southern NSW, are a result of strong seasonal conditions leading to producers holding a larger of portion of lambs into 2024. These volumes are expected to soften heading into March and return closer to 2023 totals.

What to watch:

- **The US lamb market** – 2023 saw Australian lamb export volumes to the US fall 16% YOY as US demand for lamb fell. Given that lamb is viewed as a more premium product in the US market, consumption suffered as consumers looked to tighten their spending. As conditions appear to be improving, Australian exports to the US got off to a strong start in 2024, up 42% in January and on track for a 28% increase in February. If this growth remains, it will provide an opportunity to absorb the high volume of Australian lamb expected to hit the market over the next few months.

Edward McGeoch
Associate Analyst
Agriculture Commodities

Edward.Mcgeoch@rabobank.com
X: @mcgeochedward

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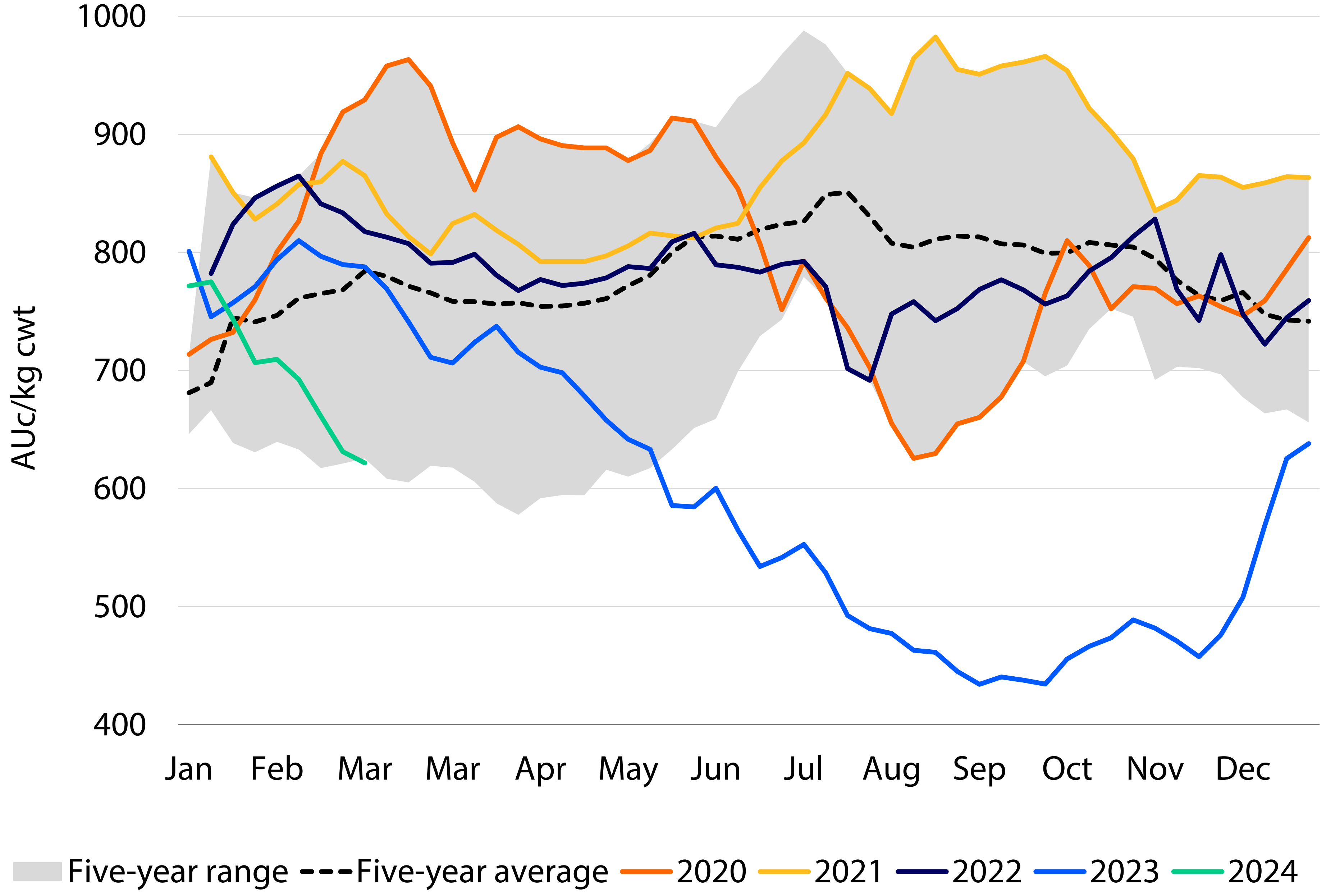
Sheepmeat

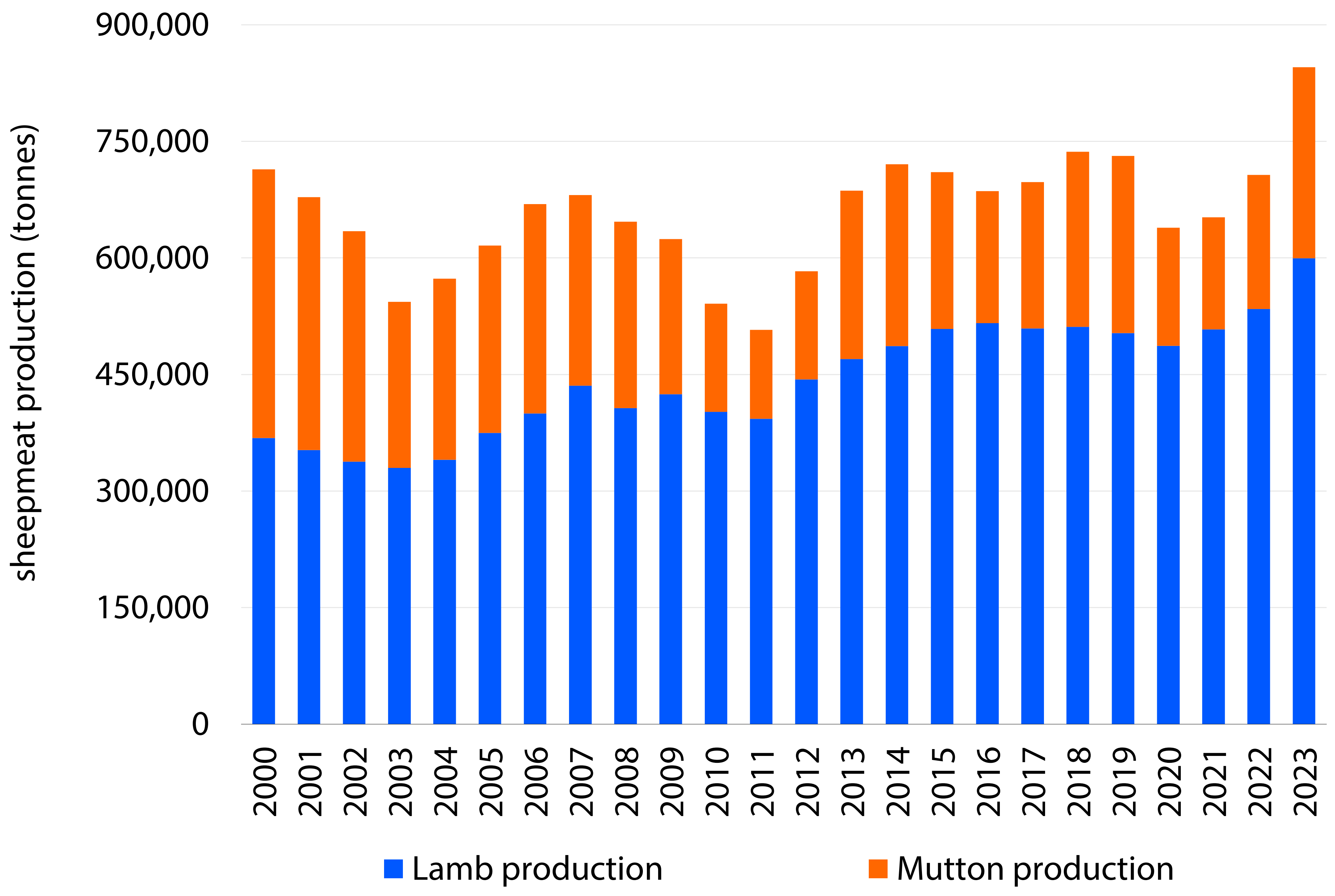
Elevated supply continues to suppress prices

Eastern States Trade Lamb Indicator (ESTLI) fell below AUc 650/kg during February



Source: MLA, Rabobank 2024

Record lamb volumes after significant increase in slaughter during 2023



Source: ABS, Rabobank 2024

Wool

Minimal price movement as market demand remains soft

Wool prices showed little movement during February, falling slightly as global demand remained consistent with recent months. The Eastern Market Indicator (EMI) finished the month at AUc 1,158/kg, a 1% fall MOM. Across microns, the fine classes saw the most movement, with 17- and 18-micron wool falling AUc 55 and AUc 71, respectively, bringing 17 microns to AUc 1,756/kg. Like in recent months, prices for the 20-, 21-, and 23-micron classes indicated a demand floor has been reached, with prices climbing AUc 13, 3, and 16, respectively. Coarser wool remained stable and despite an AUc 20 increase for 30-micron wool, prices remain at historically low levels.

Demand from key retail markets continues to paint a bearish picture with year-on-year growth across most markets falling in January. The US is currently the most promising market with retail clothing sales showing 1.4% YOY growth in January. However, the concern for the global demand picture is that year-on-year retail clothing sales growth in the UK, Australia, and Japan was down -2.9%, -4.2%, and -3.5%, respectively. These reductions continued the contracting trend seen in December for the UK and Japan, reflecting the continued macroeconomic challenges many economies are facing and the slowdown in consumers' discretionary spending.

Australia's wool volumes coming to market continue to remain close to the five-year average. Wool tested volumes for February saw a 12% decrease YOY, dropping to 29,927 tonnes greasy weight off the back of a 3% fall in January. Victoria volumes fell 5.6%, SA and WA fell 10%, and NSW volumes saw an 18% YOY drop. With production totals expected to remain stable this year and demand outlooks set to improve later in the year, producers may be holding on to additional stock and partly accounting for these falls.

What to watch:

- **Wool exports** – December wool volumes saw a welcomed lift in export totals, hitting 34,724 tonnes. Once again, China drove the increase, which amounted to 39% YOY and was the largest monthly growth for the year, doubling January 2023's 16% increase. With retail sales performing well in late 2023, if these volumes continue, it would provide a demand floor for wool volumes. However, demand improvement in key export destinations for Chinese products remains key for overall demand improvement.

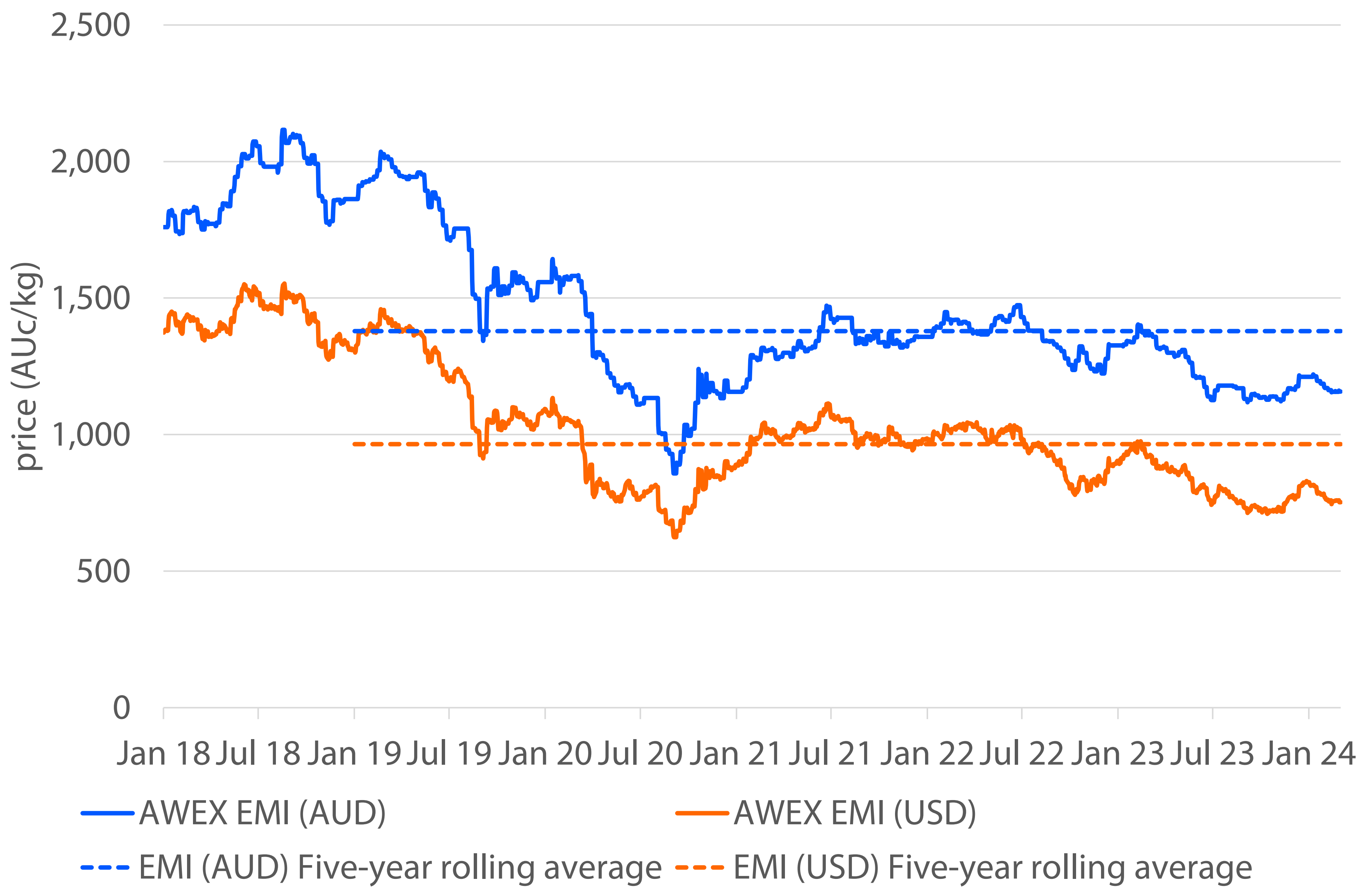
Edward McGeoch
Associate Analyst
Agriculture Commodities

Edward.Mcgeoch@rabobank.com
X: @mcgeochedward

Wool

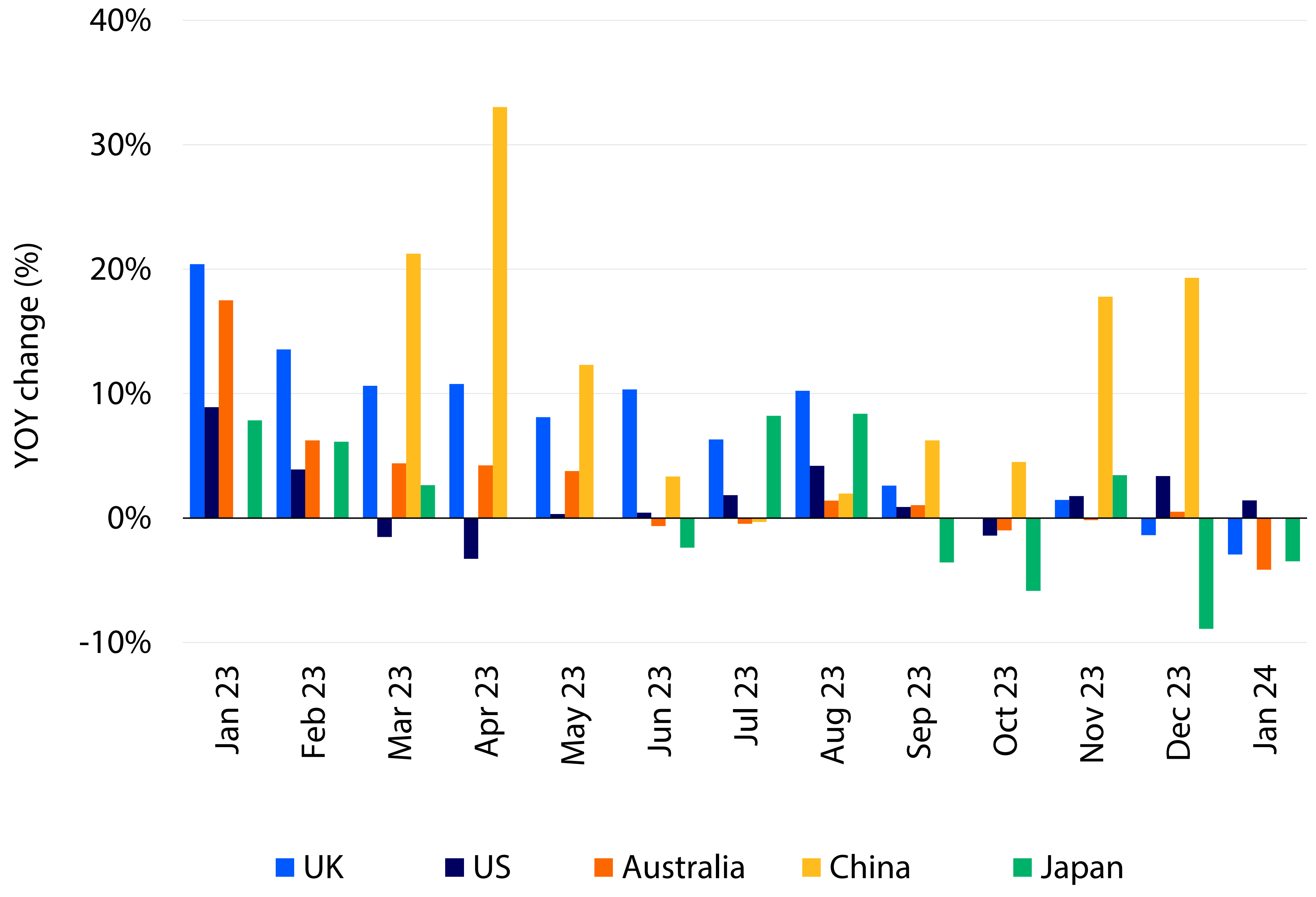
Wool prices try to maintain current levels despite bearish demand

Australian EMI slides marginally as demand indicators showing little signs of short-term improvement



Source: Bloomberg, Rabobank 2024

Retail sales growth falling in several key economies as challenging macroeconomic conditions persist



Source: Bloomberg, Rabobank 2024

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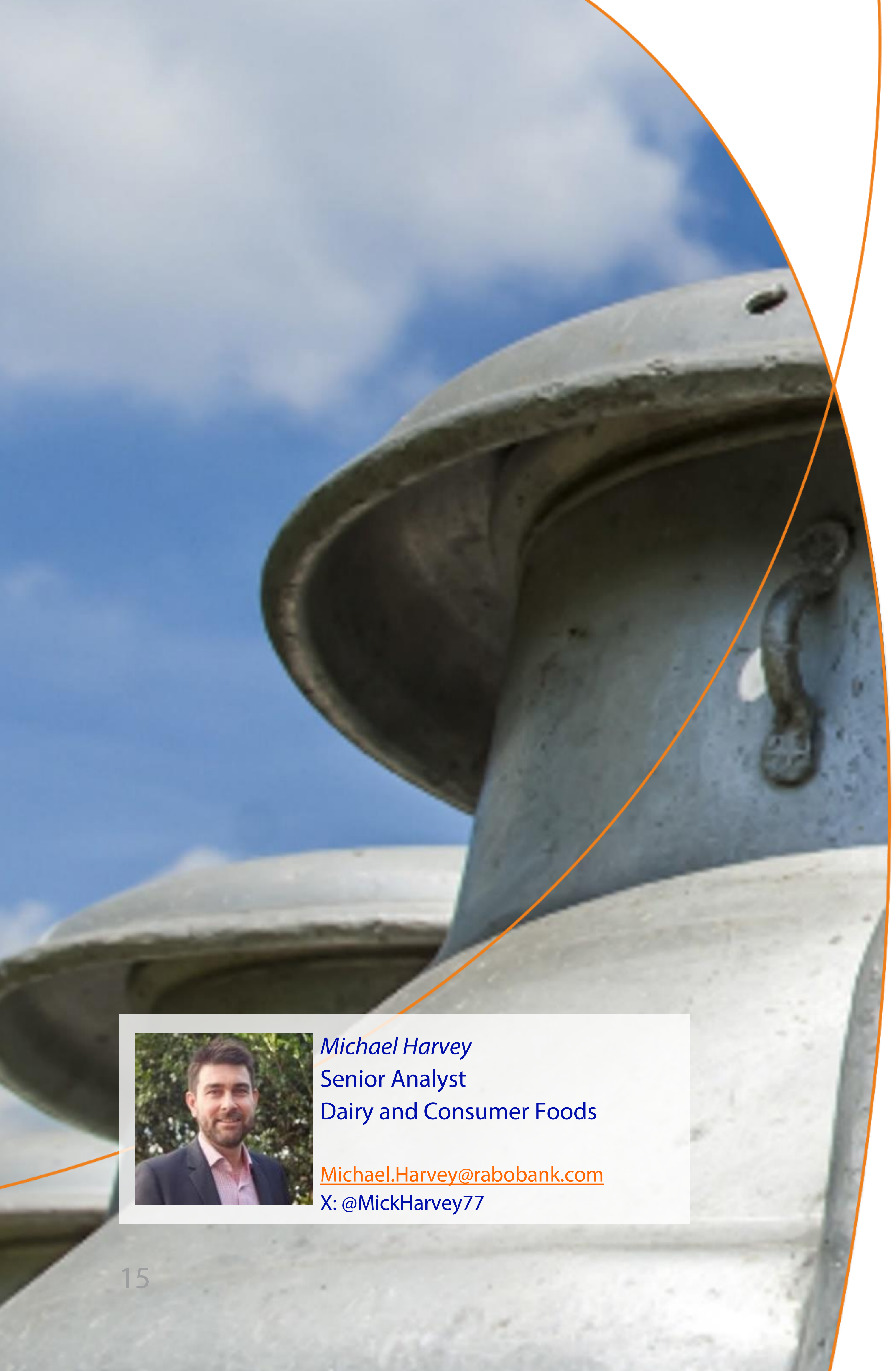

Michael Harvey
Senior Analyst
Dairy and Consumer Foods

Michael.Harvey@rabobank.com
X: @MickHarvey77

Dairy

There are bright spots on the horizon for improved global dairy prices

Improved dairy commodity prices are on the horizon in most regions throughout 2024, as most products recover from the lows noted toward the end of 2023.

Higher dairy commodity prices will translate into firmer farmgate milk prices in all regions. This is a welcome relief for farmers who struggled to achieve profitability in 2023.

The recent equilibrium between weaker supply matched by weaker demand will slowly shift throughout 2024, with prices moving to the upside as milk production continues to struggle but demand subtly improves.

In Rabobank's view, slow but steady price increases for most dairy commodities will materialise in the coming months. A return to 2022 price levels is unlikely.

Fonterra's forecast milk price for the 2023/24 season has improved to NZD 7.80/kgMS. This new forecast midpoint is a 16% gain on the lowest farmgate forecast announced earlier in the season.

Australian milk production was firing on all cylinders over halfway into the season. There has been widespread growth in milk supply across all dairying regions due to favourable seasonal conditions and good farmgate margins. Milk production reached 5.35bn litres from July to January, up 2.5% YOY.

Australian dairy exports were under pressure in the first six months of the season. Volumes were 8.5% lower than last year, with significant declines for milk, whole milk powder, and butteroil.

As milk supply grows into the new season, additional milk will be directed to manufacturing and potentially exports.

What to watch:

Upside – A China import revival

- As always, all eyes remain focussed in China. Retail and foodservice sales showed strength through the Lunar New Year. While this is a positive development, we believe it's too early to call it a trend.

Downside – Northern Hemisphere seasonal peaks

- While milk supplies remain lower in key areas, including in the EU and the US, as the spring flush approaches, components/milk solids are increasing too.

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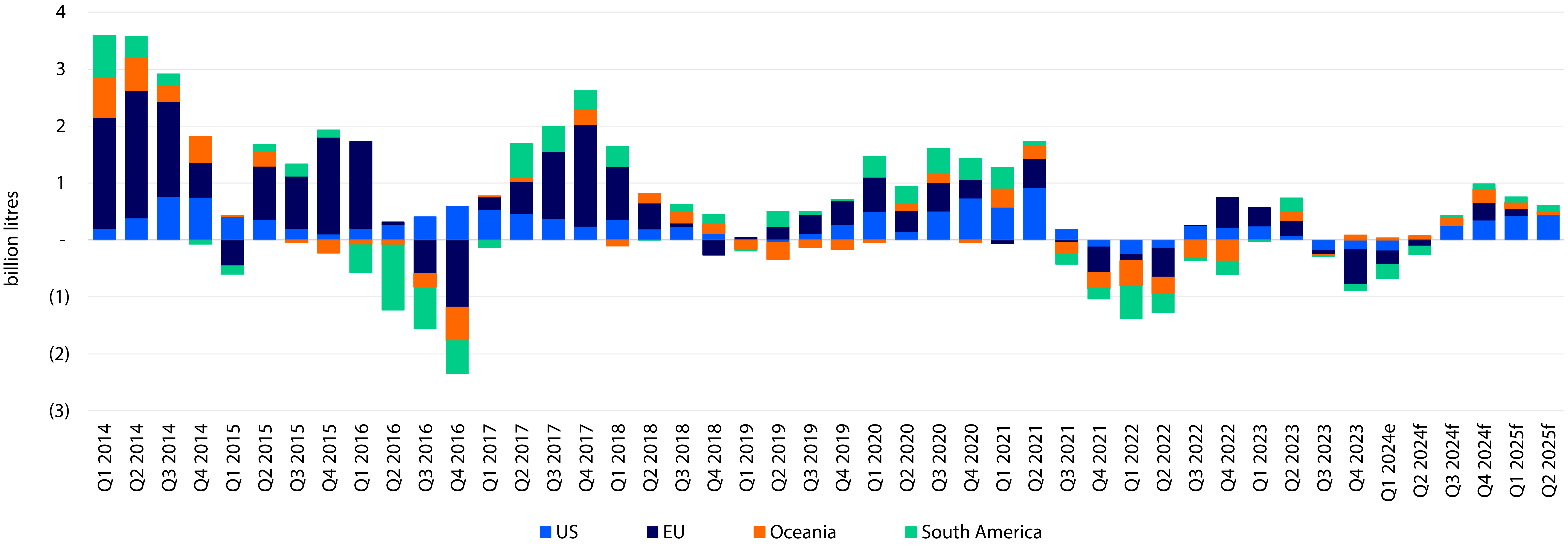
Dairy

Milk supply growth continues to struggle; a return to expansion will take time

Milk production growth, Big 7 exporters (actual and Rabobank forecast), 2014-2025f*



**Note: Big 7 includes the EU-27, the US, New Zealand, Australia, Brazil, Argentina, and Uruguay.*

Source: Big 7 government industry agencies, Rabobank 2024

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Cotton

Market pounces despite improving supply outlook

February provided an interesting shift in the market as a speculative rally pushed nearby cotton prices up. ICE #2 Cotton prices jumped above the USc 100/lb mark in late February, finishing the month at USc 101.56/lb, a 21% increase MOM. Despite ICE Cotton prices climbing over 15 cents, there has been little shift in local prices, which hover around the AUD 700/bale mark. Merchants are cautious to sell, given the falling US stocks.

The USDA's February global production estimates saw a marginal fall of 350,000 bales. This indicated no major shift in global supply as the reduction results from an adjustment of USDA's estimate for Australia, which is now better aligned with local expectations of approximately 4.8m bales. The USDA also released their cotton outlook containing the first production projection for the 2024/25 season. Early estimates indicate global production will lift 3%, driven by the US drought recovery. Crops should increase more than 20% YOY, reaching 16m bales off the back of improvements in both planted area and abandonment rates. This will lead to production exceeding consumption, resulting in further increases in global stocks. Consumption levels remained steady, and forecasts remain similar to 2022/23 levels given subdued global demand.

Australia's cotton exports for December totalled 482,302 bales. This takes the cumulative Australian 2023/24 season total to 5.3m bales, which is a 1.4% increase on 2022/23 levels. Vietnam accounted for 36% of December exports while China remained a key destination with 28%. Southeast Asia remains the key market, with Bangladesh and Indonesia taking 13% and 12%, respectively. The outlook for Australia's cotton exports does remain strong. Chinese imports through to the 2024/25 season are expected to remain high as China's production is expected to decline.

What to watch:

- **Mill activity** – Given the strong price rally, spinning mill consumption will remain important. Given that inventories have fallen throughout 2023, mills will have an increased need to purchase cotton, despite the current price point. This could prove beneficial for non-US markets, including Australia, with increased demand cotton from these markets presenting themselves.

Edward McGeoch
Associate Analyst
Agriculture Commodities

Edward.Mcgeoch@rabobank.com
X: @mcgeochedward

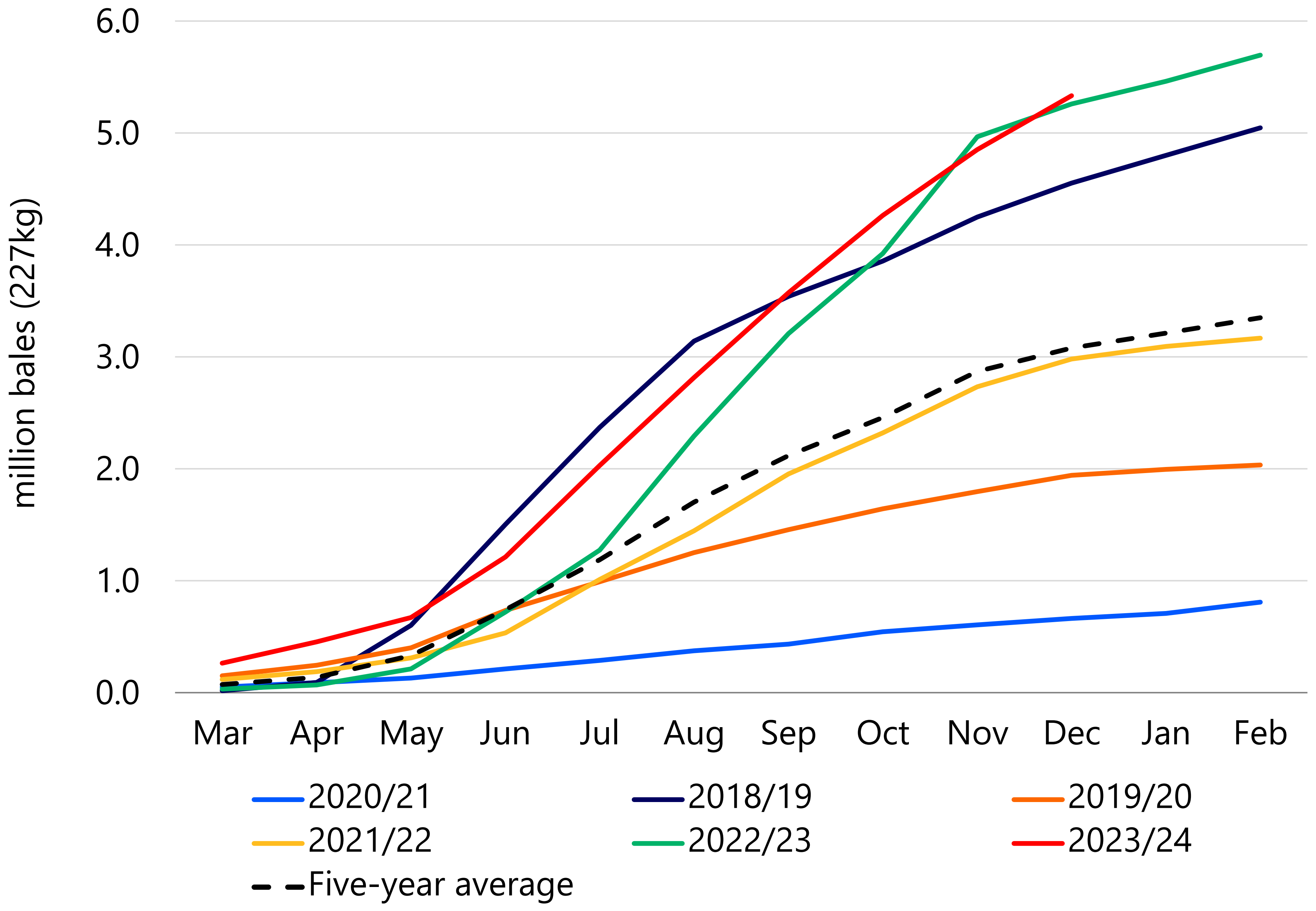
Cotton

Prices pushed higher due to tightening US stocks, which will continue to remain a factor in coming months

ICE #2 Cotton pushed above the USc 100/lb mark in February, but prices late in the season don't reflect this

Source: Bloomberg, Rabobank 2024

Australian cotton exports remain elevated and are expected to continue to sit well above the five-year average



Source: ABS, Rabobank 2024

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Consumer foods

Monthly inflation data shows inflation moderating

The latest monthly read on food inflation from the ABS highlighted that, while food inflation is moderating, it is not linear across the main food and beverage categories. For January, food and beverage inflation posted a 4.4% increase over January 2023. This was slightly higher than the previous month's 4% but well down from the September 2022 peak of 9.6%.

Deflation occurred in fruit, breakfast cereals, red meat, and seafood, but inflation remains sticky in packaged foods, including cooking oils, snacks, and cheese.

The major retailers have announced half-yearly results for 2024, which is a good opportunity to get a glimpse into the performance of the local food market. A shift by consumers to in-home meal consumption is ongoing as households wind back discretionary spending. The results also highlighted an ongoing shift to long-life products.

Both Woolworths and Coles showed price inflation in supermarkets (excluding tobacco) was broadly in line with the ABS numbers and results confirmed that there is ongoing deflation in fresh produce and meat.

Packaged food inflation rates are moderating but remain high overall, with Woolworths noting that the volume of cost increase requests from suppliers has slowed but is still above pre-pandemic levels.

Overall, average basket size is smaller, as highlighted by both retailers posting a slowdown in comparable stores' sales against a backdrop of strong population and a shift to in-home dining which would be underpinning volume growth of retail performance. For both these retailers there was modest (EBIT) margin improvement in 1H 2024.

Meanwhile, the latest retail trade data from ABS painted a slightly bleak picture of total food expenditure. Total spend in food retail and foodservice slowed sequentially in January 2024 on a year-on-year comparison. The year-on-year increase in combined food spend was 2.1% higher in January 2024 versus January 2023, the slowest increase in three years.

What to watch:

- **There are still bright spots ahead for Australian consumers –** Wages are increasing, the labour market is still tight, and there are both tax cuts and interest rates cuts on the horizon. Nonetheless, it will take a combination of these to lift consumer confidence levels. While the latest pulse on consumer sentiment has recovered from 2023 lows, it is still very much in the doldrums.

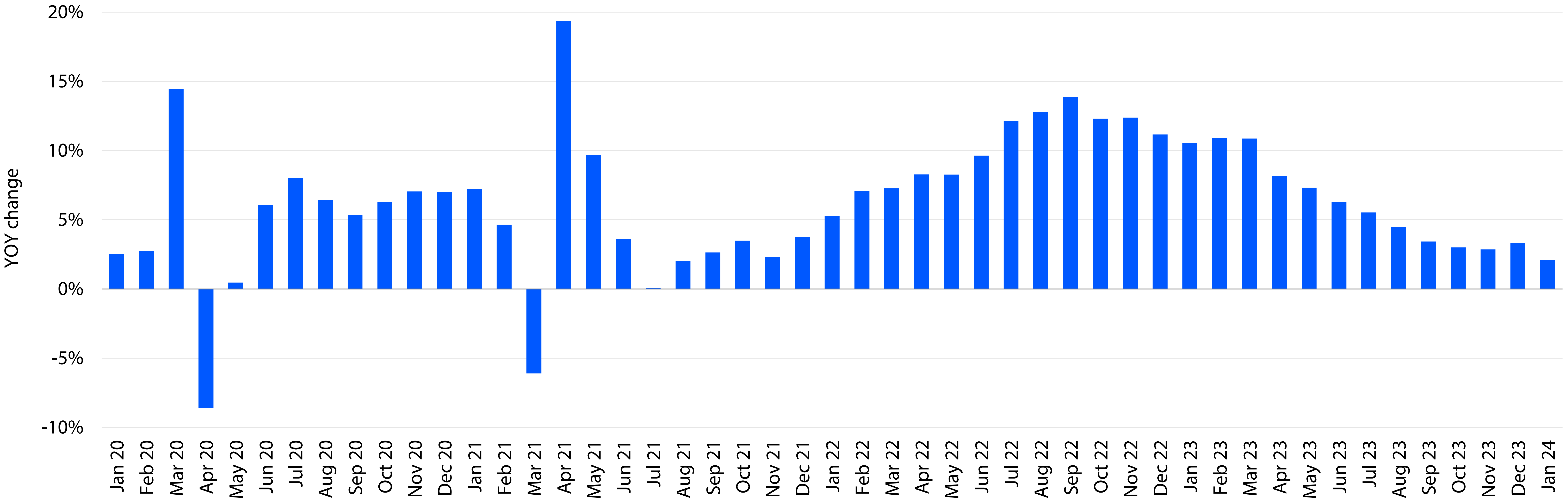
Michael Harvey
Senior Analyst
Dairy and Consumer Foods

Michael.Harvey@rabobank.com
X: @MickHarvey77

Consumer foods

Basket size continues to fall in food and beverage spending

Australia retail trade, retail and foodservice combined



Note: *Not adjusted for inflation*
Source: *ABS, Rabobank 2024*

Farm inputs

Soft demand "freezes" global prices

The global farm inputs market is facing pressure on two fronts: steady supply and lack of demand. So far, prices have not increased substantially as they usually do during the Northern Hemisphere procurement period. If attacks on Red Sea shipping do not escalate further, we can expect some farm input price reductions at the farmgate in the coming weeks and months.

The first two months of 2024 saw international phosphate fertiliser prices virtually stable. The DAP reference price in Morocco dropped only USD 15/tonne in the period. The glut supply may even get bigger now that Chinese authorities have confirmed their 2024 export quotas for DAP and MAP, which combined add up to 7m tonnes, roughly the same as in 2023. Another sign of excessive fertiliser supply came from Canada, with Mosaic announcing the curtailment of one of its potash mines. The Colonsay mine has the potential to produce 1.3m tonnes each year, almost 3% of global potash exports. As of late February, potash prices have not been negatively impacted by this decision. The nitrogen sector is also facing lacklustre demand, both for ammonia and final products, such as urea. The hand-to-mouth trend is still in place and no price uplift is expected in the coming weeks.

The silver lining is the bearish market for grains and oilseeds worldwide. Due to decreasing prices, many producers are delaying purchasing farm inputs and reassessing their crop rotations. **Increasing chances of a La Niña weather event by mid-2024, which can lead to crop failures in the Americas, has also boosted this behaviour recently.** This can be a bullish factor for grains and oilseeds and, thus, for nitrogen demand, but it is still too soon to move the fertilizer price needle.

What to watch:

- **The Red Sea** – The image of the slowly sinking vessel Rubymar, which carried fertilisers, half of its hull already below the waterline, worsened the situation for exporters and the shipping industry. This event will likely increase insurance costs for ships going anywhere near the Red Sea, a key exporting region for fertiliser and energy. Houthi rebel attacks in the Red Sea have already pushed many container shipping vessels around the Horn of Africa, increasing costs and altering routes. We are not – yet – at the same level of disruption experienced during the Covid-19 pandemic, though the attacks are certainly affecting trade.

Vitor Pistoia
Agriculture Analyst
Farm Inputs

Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

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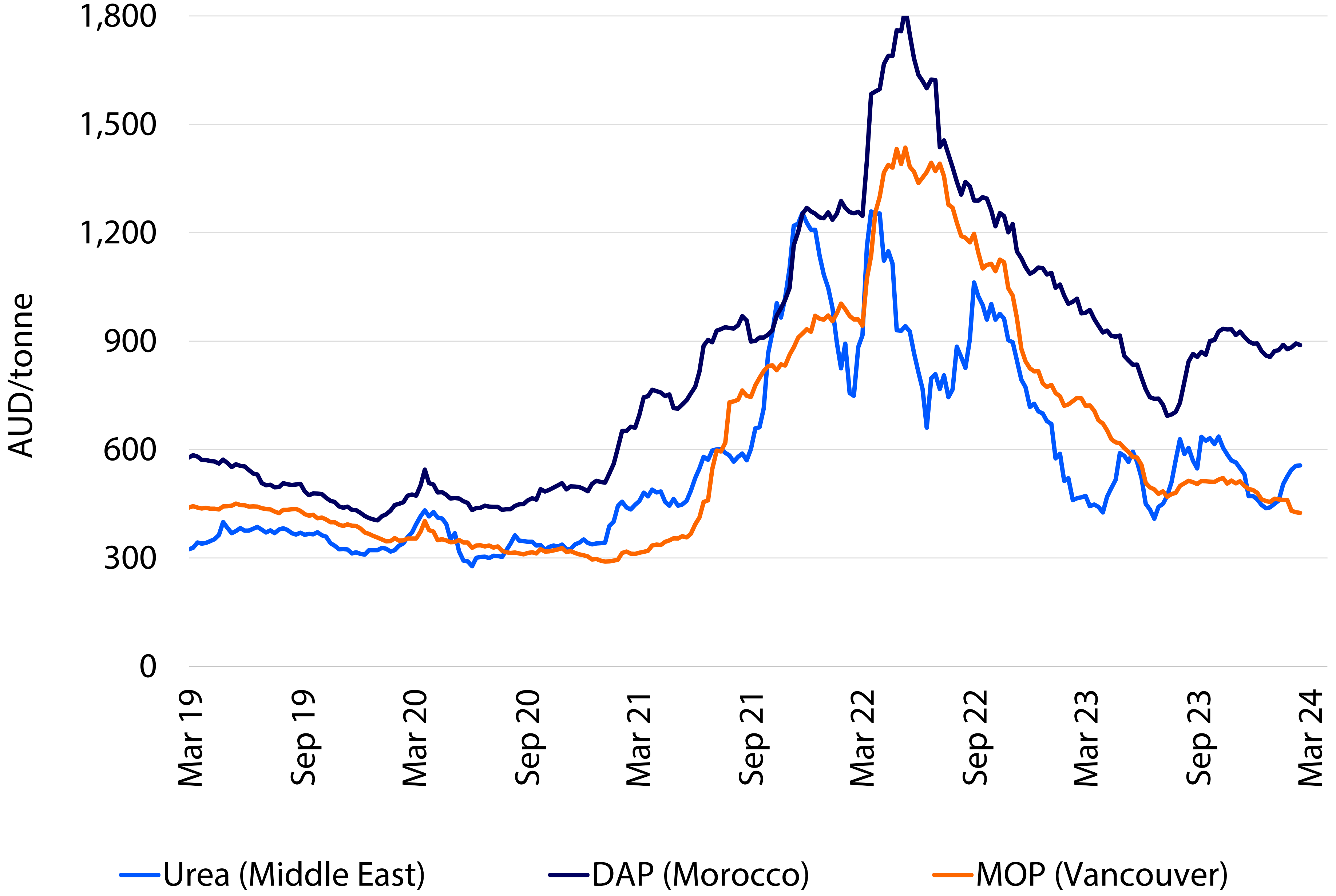
Farm inputs

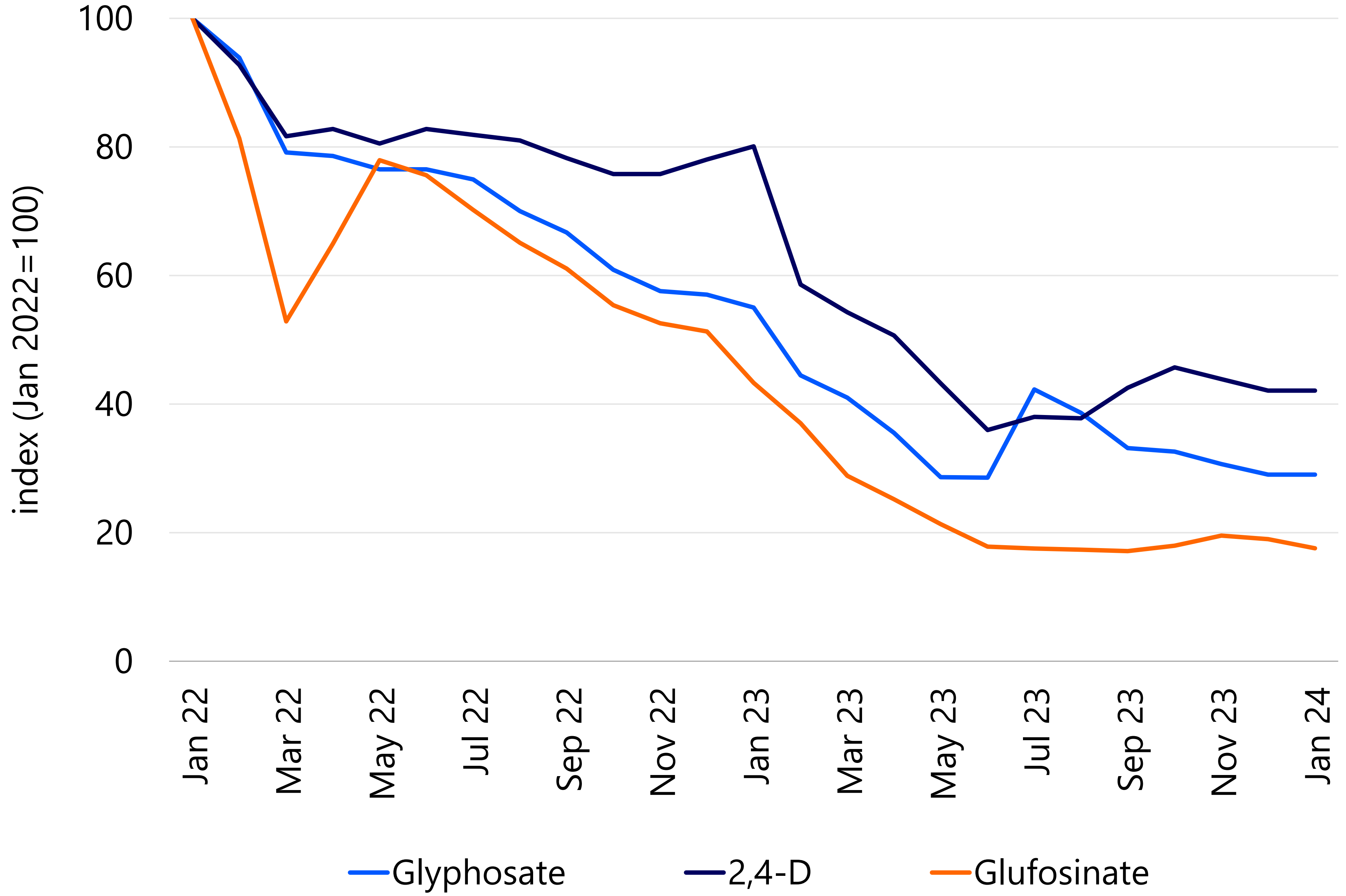
No upside factors on the horizon

In early 2024, key exporters' prices are muted due to lack of strong demand



Source: CRU, Rabobank 2024

Chinese agrochemical prices are subdued following soft demand and increasing supply over the last couple of years



Source: AgriBusiness Global, Rabobank 2024

Interest rate and FX

Staying the course

The RBA left the cash rate unchanged in February, but warned that “a further increase in interest rates cannot be ruled out.” The RBA is keeping their options open because most of the progress on lowering inflation so far has come from international effects, while home-grown inflationary pressures remain stubborn.

The risk is that the helpful offshore effects begin to disappear while inflation generated at home fails to fall quickly enough to offset their loss. That scenario has become more likely due to the ongoing disruptions to shipping in the Red Sea, which our analysts in Europe believe will add between 0.1 and 1.8 percentage points to inflation, contingent upon how long the disruptions persist.

The inflationary effect here in Australia would likely be less, but with the RBA having been less aggressive than other central banks in raising interest rates, the tolerance for upside inflation surprises ought to be small. **We continue to expect that the RBA will not raise rates further,** and that the first cut of a small easing cycle will arrive in November this year.

The Australian dollar fell by more than a percentage point in February to close the month at 0.6497 against the US dollar. This means that the Australian dolalr has fallen by more than 3 US cents for the year to-date, providing welcome support to export prices.

We expect the Australian dollar to gain ground later in the year as the US Federal Reserve begins to cut rates from June and Australia maintains its strong budget and trade surplus position. A faster rate cutting cycle in the US relative to Australia should see capital flow into higher-yielding Australian assets.

We therefore forecast AUD/USD to reach 0.7000 on a 12-month view.

What to watch:

- **RBA cash rate decision, 19 March** – We don’t expect any change to the cash rate at this meeting, but any changes in tone from the central bank will be important for guiding our thinking on the future path of rates and the currency.
- **February Labour Force Report, 21 March** – Unemployment rose faster than expected in January, adding to perceptions that the economy is softening sufficiently quickly for the RBA to not have to raise rates further. The February report will be an important update on how labour markets respond to higher rates and a general slowdown in the world economy.

Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

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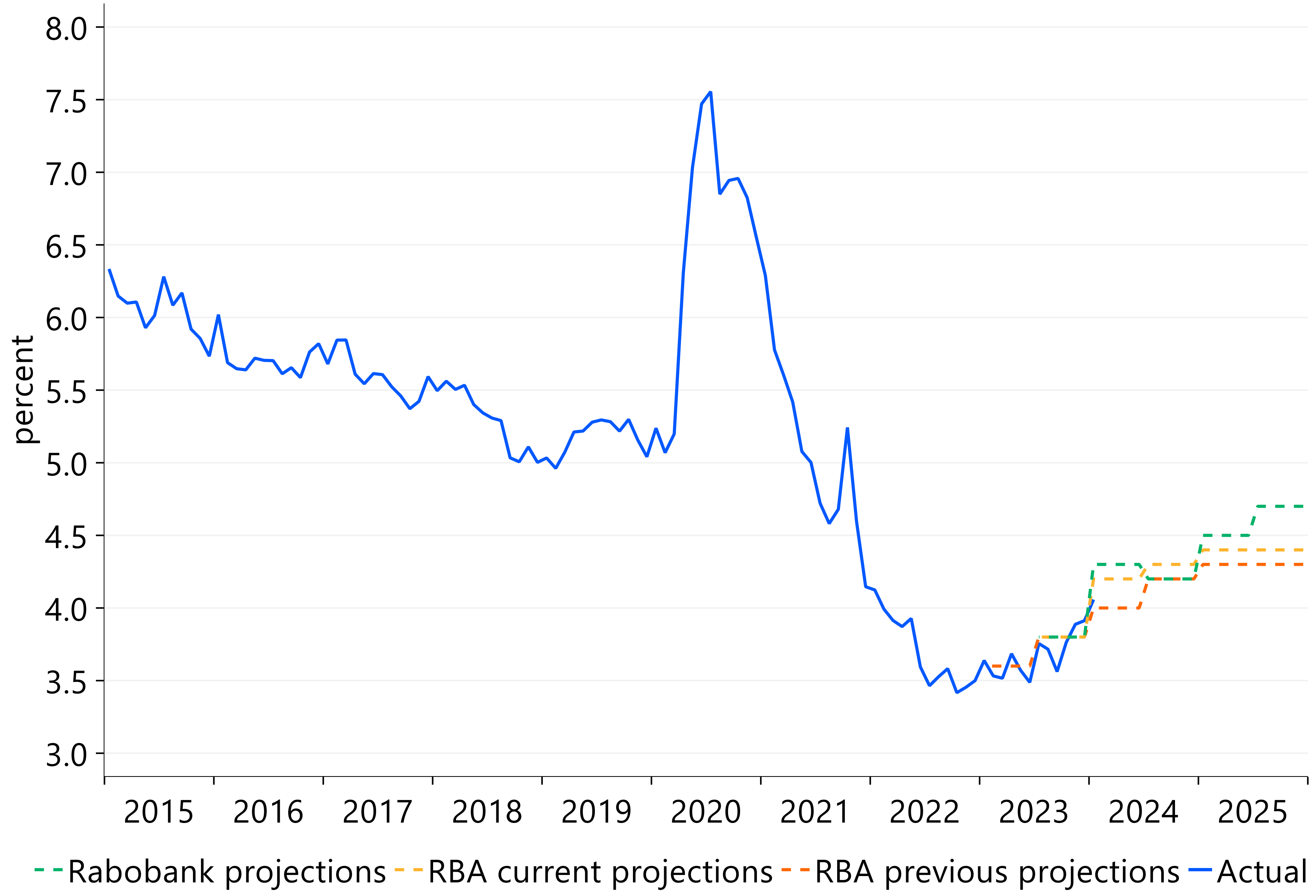
Interest rate and FX

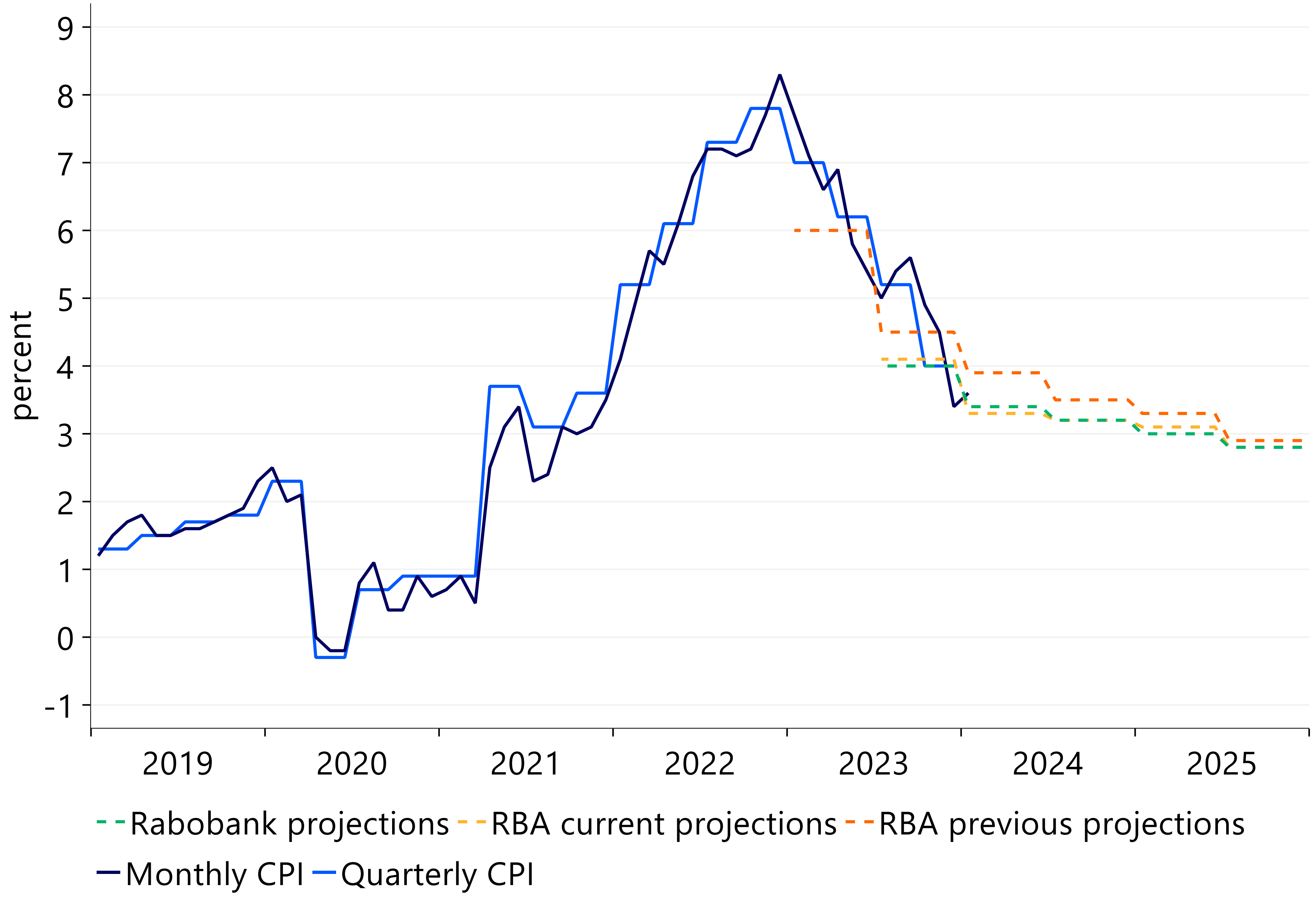
Unemployment and inflation are both ahead of the RBA's schedule

Australian labour force indicators



Source: Macrobond, ABS, RBA, Rabobank 2024

Australian inflation indicators



Source: Macrobond, ABS, RBA, Rabobank 2024

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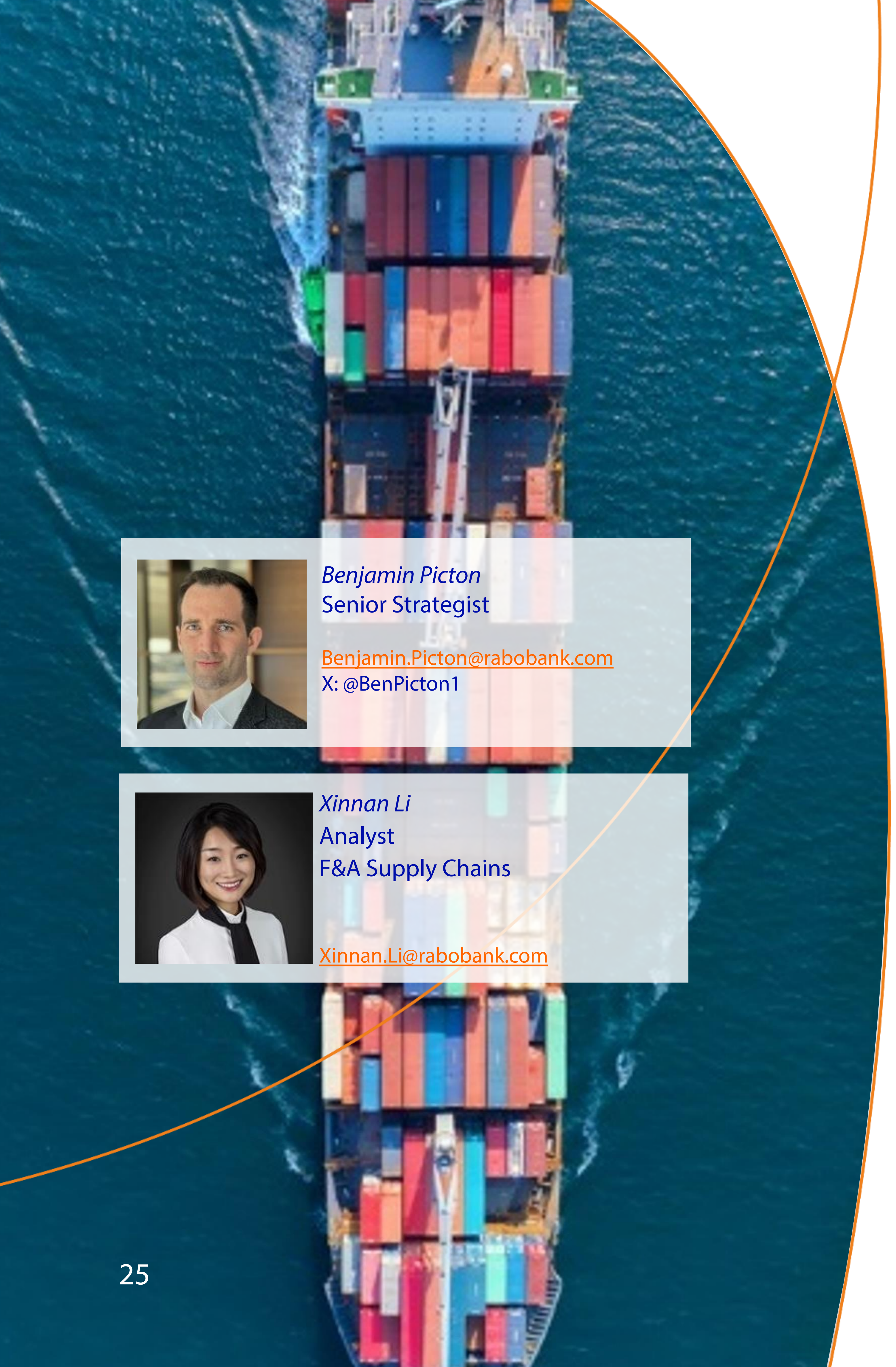


Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Xinnan Li
Analyst
F&A Supply Chains

Xinnan.Li@rabobank.com

Oil and freight

Pushing higher

Crude oil prices finished February around 2% higher as traders added extra risk premiums for the war in the Middle East and factored in ongoing supply cuts from OPEC+ exporters. **We see some scope for a short-term pullback before prices move to USD 83/bbl in Q2, USD 86/bbl in Q3, and USD 87.50/bbl in Q4.**

Diesel prices have been rising strongly as low inventories and reduced refining capacity have created unwelcome scarcity for middle-distillate transport fuels. These pressures may begin to abate as further refining runs are added, but the prospect of higher demand due to US rate cuts in the middle of the year could put further upward pressure on prices.

Deep-sea connectivity of Australia continues to decline in 2023 according to maritime consultancy MDS Transmodal. Annual container capacity fell 14% YOY in Q4 2023 while the number of vessel services was reduced by 11% during the same period. This happens amid delays and reroutes caused by port labour union negotiations, a soft global economy, and capacity reduction due to the Red Sea conflict and the Panama Canal draft reduction.

The Red Sea conflict is expected to reduce the global effective capacity by 4% to 9% according to Drewry, possibly towards the end of 2024, while drought in the Panama Canal is expected to carry on into 2025. We expect 2024 to be another year marked by volatility.

The Baltic Panamax index (a proxy for grain bulk freight) shows signs of mild increases, driven by demand for other vessel categories and expectations of China's economic recovery.

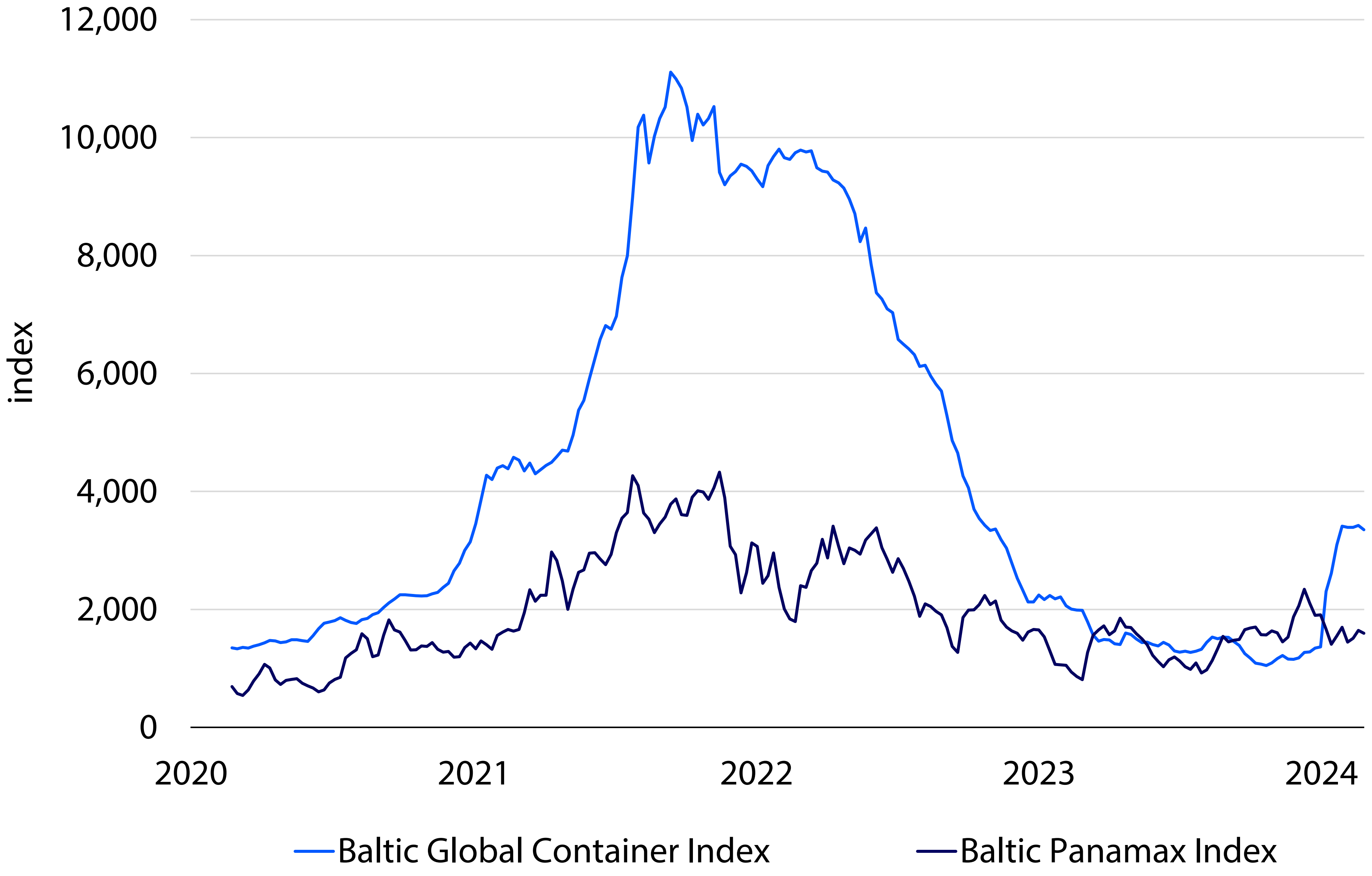
What to watch:

- **US Federal Reserve meeting, 21 March** – The Fed's March meeting ought to give markets further direction on the timeline for rate cuts in the US. Lower interest rates imply greater disposable income, and therefore stronger demand for transport fuels and goods imports.
- Will **dry bulk freight rates** continue their recent upward movement? Can container freight resist further upside?

Oil and freight

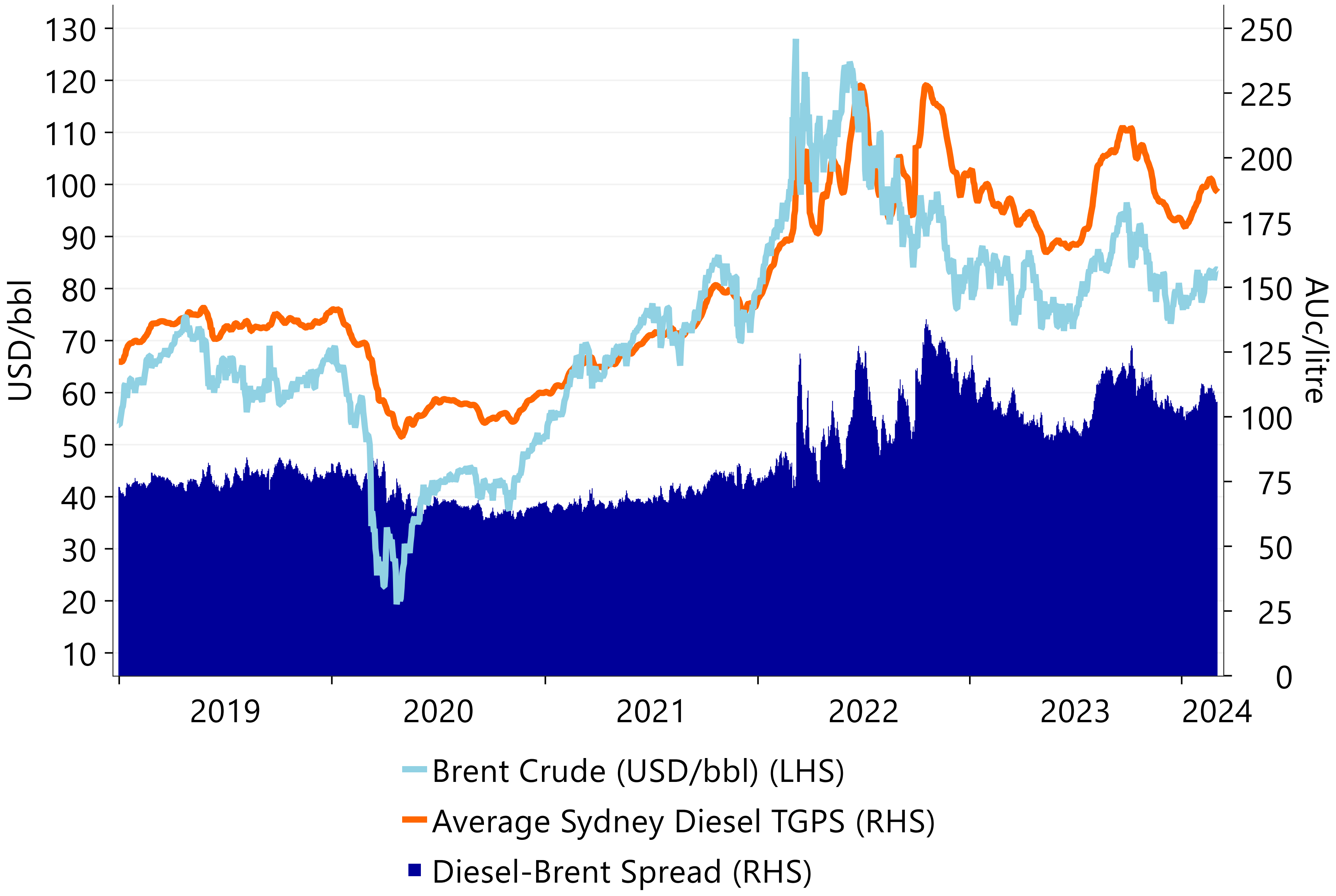
Diesel/crude spread widens as prices rise

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



Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

Brent crude vs. Sydney diesel prices, 2019-2024



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

Agri price dashboard

01/03/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	560	595	701
CBOT soybean	USc/bushel	▼	1,143	1,222	1,520
CBOT corn	USc/bushel	▼	412	448	638
Australian ASX EC Wheat Track	AUD/tonne	▼	326	367	387
Non-GM Canola Newcastle Track	AUD/tonne	▼	592	593	716
Feed Barley F1 Geelong Track	AUD/tonne	▼	291	309	336
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	630	656	700
Feeder Steer	AUc/kg lwt	▲	334	333	380
North Island Bull 300kg	NZc/kg cwt	▲	585	570	570
South Island Bull 300kg	NZc/kg cwt	▲	540	530	510
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	631	707	788
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,650	5,738	4,750
Skim Milk Powder	USD/tonne FOB	▲	2,813	2,638	2,863
Whole Milk Powder	USD/tonne FOB	▲	3,375	3,300	3,313
Cheddar	USD/tonne FOB	▲	4,213	4,188	4,975

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

01/03/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	106.0	93.7	100
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	97.6	85.2	83
Sugar markets					
ICE Sugar No.11	USc/lb	▼	21.1	24.1	20.3
ICE Sugar No.11 (AUD)	AUD/tonne	▼	712	780	611
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,158	1,171	1,368
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	378	358	338
DAP (US Gulf)	USD/tonne FOB	•	570	570	650
Other					
Baltic Panamax Index	1000=1985	▲	1,723	1,566	1,556
Brent Crude Oil	USD/bbl	▲	84	82	85
Economics/currency					
AUD	vs. USD	▼	0.653	0.657	0.673
NZD	vs. USD	▼	0.611	0.612	0.622
RBA Official Cash Rate	%	•	4.35	4.35	3.35
NZRB Official Cash Rate	%	•	5.50	5.50	4.75

Source: Baltic Exchange, Bloomberg, Rabobank 2024

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Meet our RaboResearch Food & Agribusiness Australia and New Zealand team

Stefan Vogel
General Manager, RaboResearch Australia and New Zealand
+61 419 782 452
Stefan.Vogel@rabobank.com

Angus Gidley-Baird
Senior Animal Protein Analyst
+ 61 424 266 909
Angus.Gidley-Baird@rabobank.com
X @angus_gb

Ben Picton
Senior Strategist
+61 408 571 012
Benjamin.Picton@rabobank.com
X BenPicton1

Emma Higgins
Senior Agriculture Analyst
+64 27 600 5549
Emma.Higgins@rabobank.com
X @emhiggins

Jen Corkran
Senior Animal Protein Analyst
+64 21 2412 139
Jen.Corkran@rabobank.com

Michael Harvey
Senior Dairy & Consumer Foods Analyst
+61 409 488 485
Michael.Harvey@rabobank.com
X @MickHarvey77

Anna Drake
Sustainability Analyst
+61 437 772 949
Anna.Drake@rabobank.com

Edward McGeoch
Associate Analyst
+61 418 273 123
Edward.McGeoch@rabobank.com
X @mcgeochedward

Pia Piggott
Associate Analyst
+61 460 734 578
Pia.Piggott@rabobank.com
X@piapiggott

Vítor Caçula Pistóia
Agriculture Analyst
+61 473 862 667
Vitor.Cacula.Pistoia@rabobank.com
X @victor_agri

Rabobank Australia Nearest branch call 1800 025 484 | www.rabobank.com.au