Changing economic tides

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RaboResearch Food and Agribusiness

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Commodity outlooks

Climate

July rainfall was plentiful for most agricultural growing regions, but not without exceptions. ENSO remains neutral, with four global models predicting La Niña by October, which could bring additional beneficial rains to Australia later in the season.

Sustainability

The role of carbon offsets in voluntary corporate emissions target setting is uncertain as the Science Based Targets initiative revises its Corporate Net-Zero Standard in response to scope 3 challenges. Further details to be released in Q4 2024.

Wheat and barley

The global bearish trend continues despite Europe experiencing a wet harvest. Russia's crop outlook has improved and Egypt's tender set the wheat price benchmark lower. The good development so far in some local growing regions is putting additional pressure on Australian wheat prices.

Canola

The wet season is taking a toll on the EU canola crop, and tariffs and anti-dumping decisions are likely to push stocks to a tight position if imports do not increase year-on-year Due to its supply chain characteristics, EU imports will focus on non-GM canola, potentially supporting prices by early 2025.

Beef

Cattle prices rose through July with cows and heavy steers showing the largest rise, but encouragingly the young cattle prices also rose as the US market starts to have an impact across all cattle categories. We believe this should continue into coming months.

Sheepmeat

After strong rises through June and July, there was a slight correction in the market in late July. We believe this might reflect the availability of finished lambs and as we move into the new season we might see these prices contract a little further.

Wool

Wool prices remained flat heading into the winter recess. With little change expected on the demand side of the market, we don't believe there will be much movement in prices when the market returns.

Dairy

July was a mostly quiet month for global dairy commodity markets. Global fundamentals remain well-balanced. With the Northern Hemisphere spring flush now passed, focus shifts to the approaching New Zealand season to help shape future price direction.

Cotton

July was another disappointing month for cotton markets, with ICE #2 Cotton futures and Australian cash markets moving lower. Funds continued to extend their large net-short position last month on ICE #2 Cotton futures. However, potential crop issues in Texas are creating room for short covering.

Consumer foods

The latest data released by the ABS for the June quarter showed a continued moderation in the reported Australian food inflation. The rate of inflation is still tracking above the ten-year average, and the risk of a spike in prices across certain categories still lies ahead.

Farm inputs

Global urea demand has been subdued, with limited buyer activity in Brazil and Europe. However, supply constraints, particularly in China and Egypt, remain a concern.

Interest rate and FX

Benign inflation in Q2 has allowed the market to breathe a sigh of relief as the prospect of further rate hikes recedes. The Australian dollar has been under pressure recently but is still expected to recover some ground in the months ahead as the US Federal Reserve begins to cut interest rates and the RBA holds firm.

Oil and freight

Brent crude lost most of the June gains over the course of July, but heightened tensions between Israel and Iran pose a near-term risk of higher prices. Container freight rates remain elevated due to port congestion.

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Climate

So far, so good, but not without exceptions.

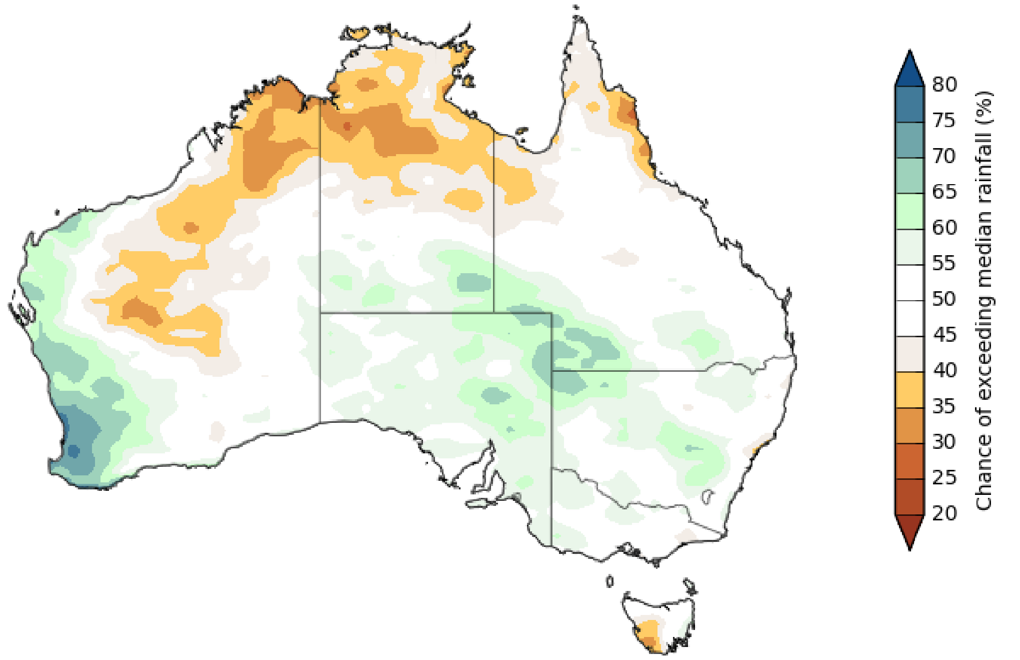
ENSO remains in neutral, with potential for La Niña to develop in late 2024. A slowdown in the cooling of sea surface temperatures has pushed out the development timeline, with four out of seven international models predicting a La Niña by October. Record warm sea surface temperatures from April 2023 to June 2024 have resulted in an unprecedented pattern of sea surface temperatures, affecting the ability to predict ENSO and IOD events.

The Indian Ocean Dipole (IOD) is neutral, and three out of five climate models expect the IOD to reach negative levels from September. However, model accuracy is low at this time of year.

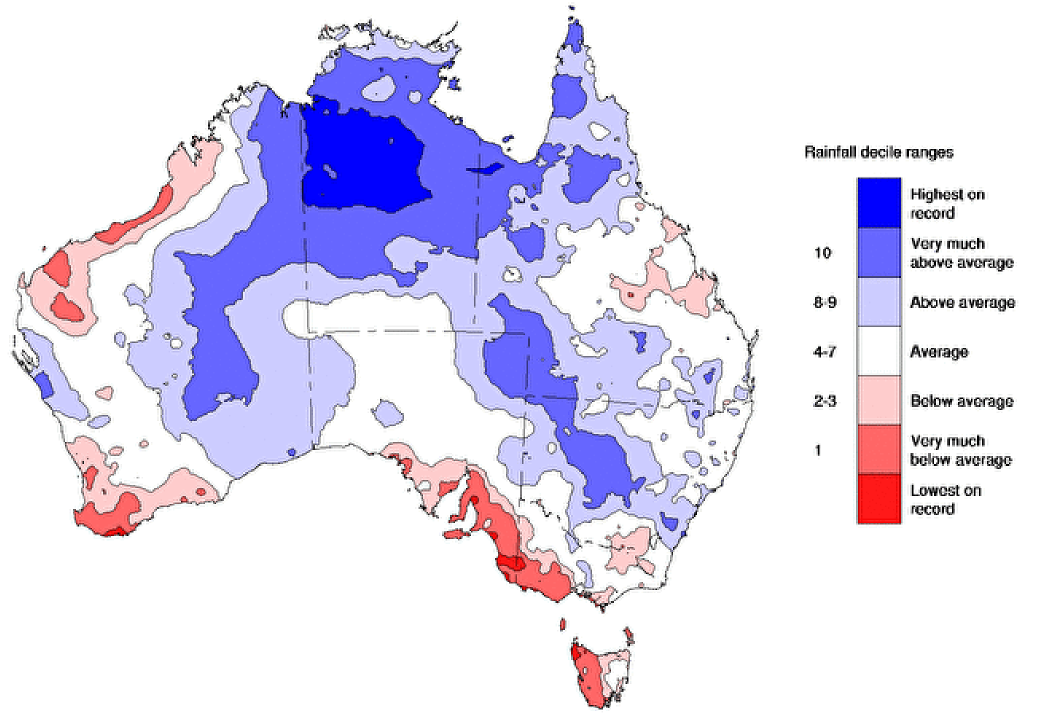
National rainfall in July was 7.4% below average. Rainfall was below average for south-eastern Australia and Western Australia, while there was unseasonal rain in central Australia. Southeast Western Australia, southeast South Australia and southwest Victoria still need plenty rainfall in the months ahead to catch up with the rest of the growing regions.

The Bureau of Meteorology (BOM) reports that over the next three months rainfall is likely to be within the typical range for most of the nation, with an increased chance of above-average rainfall along the coast of Western Australia. Murray Darling Basin water storage levels have increased over the month of July and are currently at 81% of capacity as of 31 July 2024.

August-October 2024 rainfall outlook



Rainfall deciles, January - July 2024

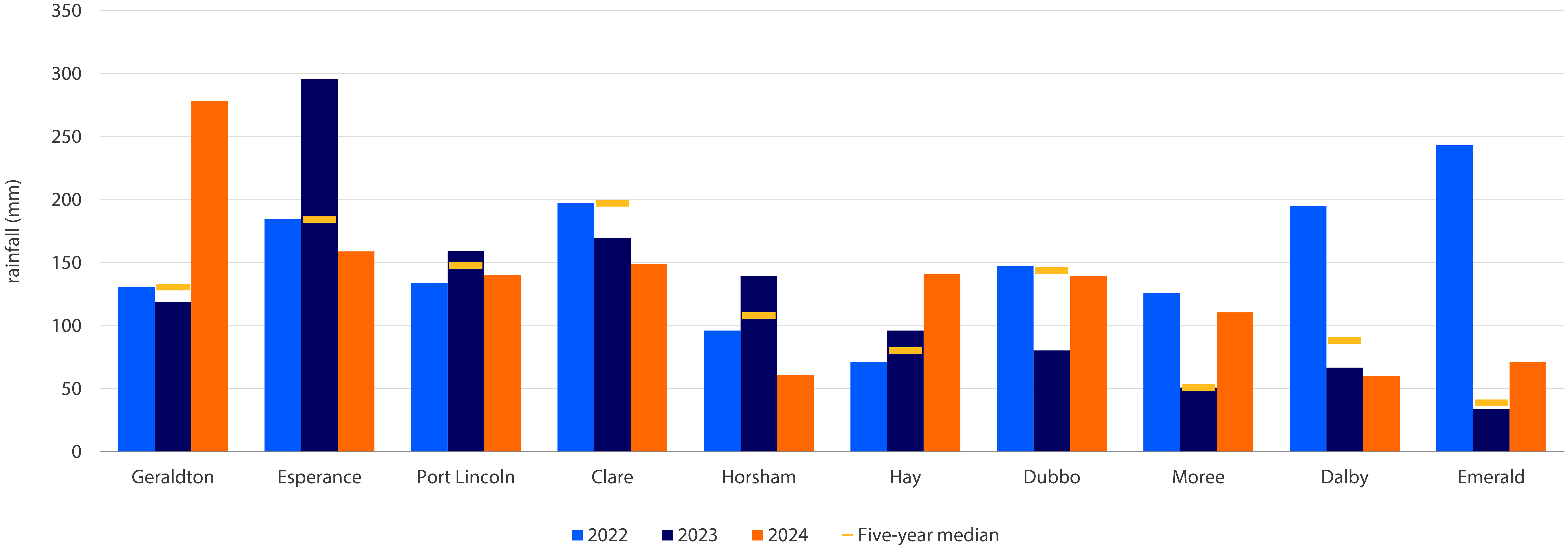


Source: *BOM, RaboResearch 2024*

Climate

Agricultural regions' rainfall – July brings plentiful rainfall for most growing regions

May-July rainfall



Source: *BOM, RaboResearch 2024*

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Sustainability

Are carbon offsets on the out?

The leading voluntary climate target setting body, the Science Based Targets initiative (SBTi), has released information setting out their thinking on potential changes to their scope 3 (value chain emissions) target setting approach.

The SBTi currently requires companies to reduce emissions through direct action within their value chains and does not allow purchasing of carbon credits to count toward target progress. However, in April 2024 they received reported backlash after signalling a potential expansion in the use of credits as part of upcoming revisions to their Corporate Net-Zero Standard (CNZS).

Scope 3 emissions reduction targets cover indirect emissions in a company's value chain and extend the responsibility for climate impacts beyond direct operations. Implementing scope 3 targets presents challenges including those around measurement, target boundaries and levels of influence on mitigation.

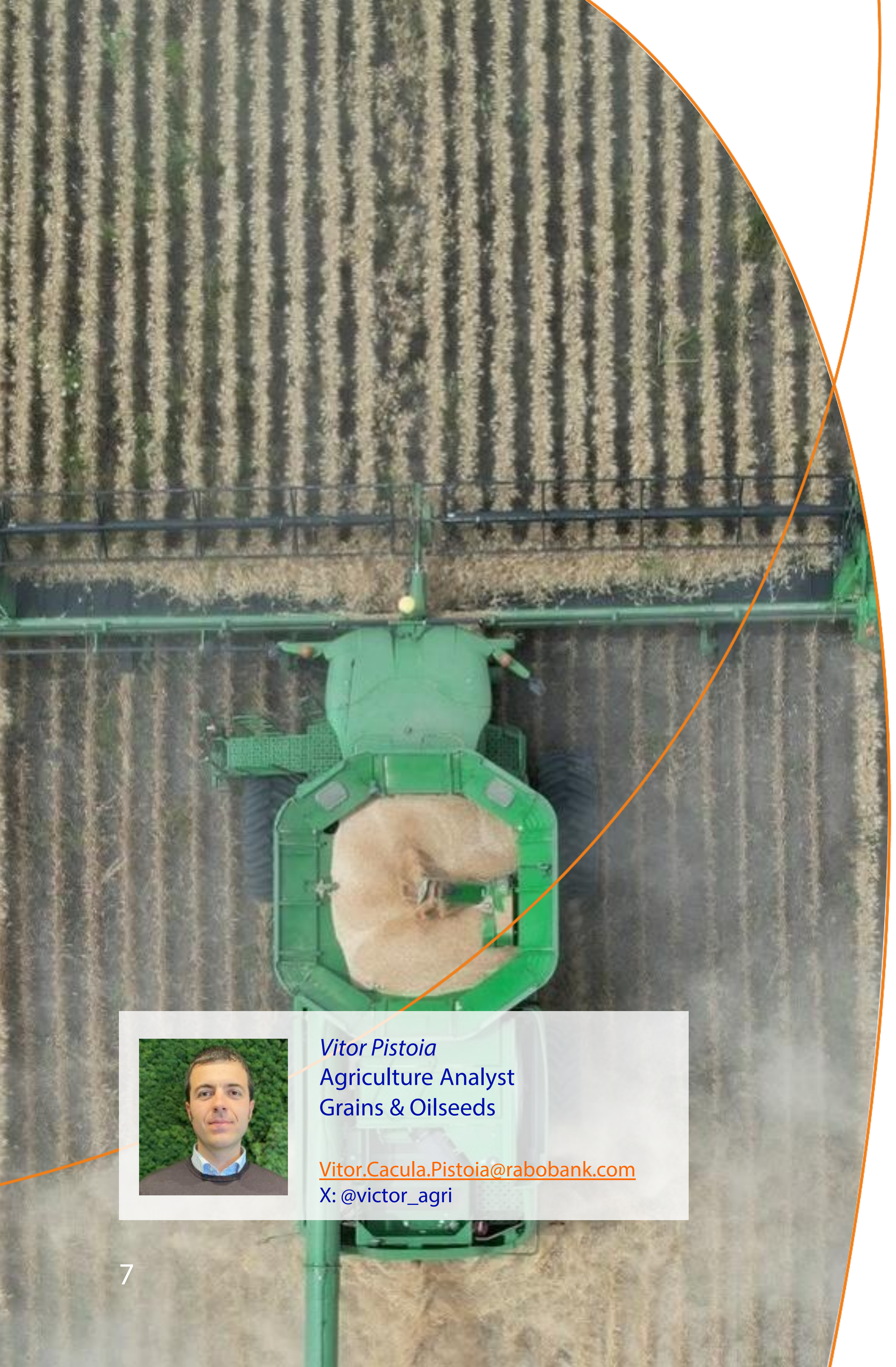
The SBTi's discussion paper explores scenarios where environmental attribute certificates, including carbon credits, may be used in a science-based target setting context, including commodity certificates from value chain activities. This effectively describes crediting insetting, which involves quantifying greenhouse gas mitigation claims occurring within a value chain. **This could be relevant for agricultural supply chains by potentially allowing buyers to demonstrate that their sourced commodities meet emissions standards.**

The SBTi also published a review on the effectiveness of carbon credits, with mixed results reported and the promise of clearer conclusions in the next stage of the process.

The outcome of the revisions to the CNZS are anticipated to clarify the extent of direct mitigation expected from value chains covered by these targets. Potential impacts on voluntary carbon credit markets can also be anticipated if restrictions on the use of offsets dampen overall demand.

What to watch:

- **The SBTi's draft revised Corporate Net-Zero Standard to be released in Q4 2024** – The draft will indicate how the SBTi plans to put its updated scope 3 approach into practice. It is expected to offer a more nuanced and sophisticated approach to scope 3 target setting that aims to address the implementation barriers faced by companies, while also maintaining a high level of scientific integrity.



Wheat and barley

Wheat market faces downward pressure from global harvests

July was another month of falling prices. The CBOT wheat spot contract dropped 6.5% to AUD 301/tonne and the Dec 24 CBOT contract fell by 9.1%, reaching AUD 314/tonne. In Europe, despite many reports of poor grain quality, MATIF also lost traction. Spot contract figures decreased by 4.3% MOM to AUD 365/tonne, and the Dec 24 contract showed a decrease of 4.4%, to AUD 376/tonne.

Such substantial drops amid a wet EU harvest are mainly attributed to a surprising recovery in Russia's wheat crop – with forecasts now pointing toward 85m tonnes – and Egypt's tender. Egypt is a key reference for tenders due to its proximity to the Black Sea and the EU, and because it imports roughly 6% of all wheat traded globally. The recent tender showed Black Sea FOB prices at roughly AUD 335/tonne.

Parallel to these changes in the wheat market, the outlook for the US corn crop remains on track for very strong yields, potentially the highest yields in history, which would lead to a recovery in global corn stocks. This growing abundance of feed grain is negatively impacting the wheat markets, as feed millers can substitute wheat for corn. Despite a reduction in wheat stocks, the available volume might be sufficient to keep millers supplied at relatively low prices.

Australia's ASX wheat spot contract also fell month-on-month, and is now at AUD 337/tonne, a 2.7% drop. The Jan 25 future contract dropped 5.3% to AUD 335/ tonne, leading to a downward correction for basis. Besides global market's influences, Australian prices are also under pressure from sluggish export volumes. April-to-June wheat exports totalled 4.7m tonnes combined, substantially lower than the five-year median of 7.5m tonnes for the same period.

This is currently putting a cap on local prices and could become another obstacle to farmgate price improvement moving forward if La Niña develops and/or the Australian dollar rises versus the US dollar by year-end, as RaboResearch is currently forecasting.

What to watch:

- **La Niña -** The potential for La Niña by late spring, coupled with the current favourable crop conditions in New South Wales, parts of Victoria, and parts of Western Australia, supports Australia's crop production. Historically, seasons with above-average yields have seen the basis erode, causing local prices to trade at a discount relative to CBOT prices, which are already experiencing downward pressure.
- **Strengthening of the Australian dollar –** With the Australian dollar trading close to USD 0.65 and a flat CBOT Dec 24 price of USD 5.56/bushel (as of 1 August closing), every 1% increase in the currency up to AUD USD 0.7, could result in Australian wheat prices falling by an average of AUD 4.5/tonne.

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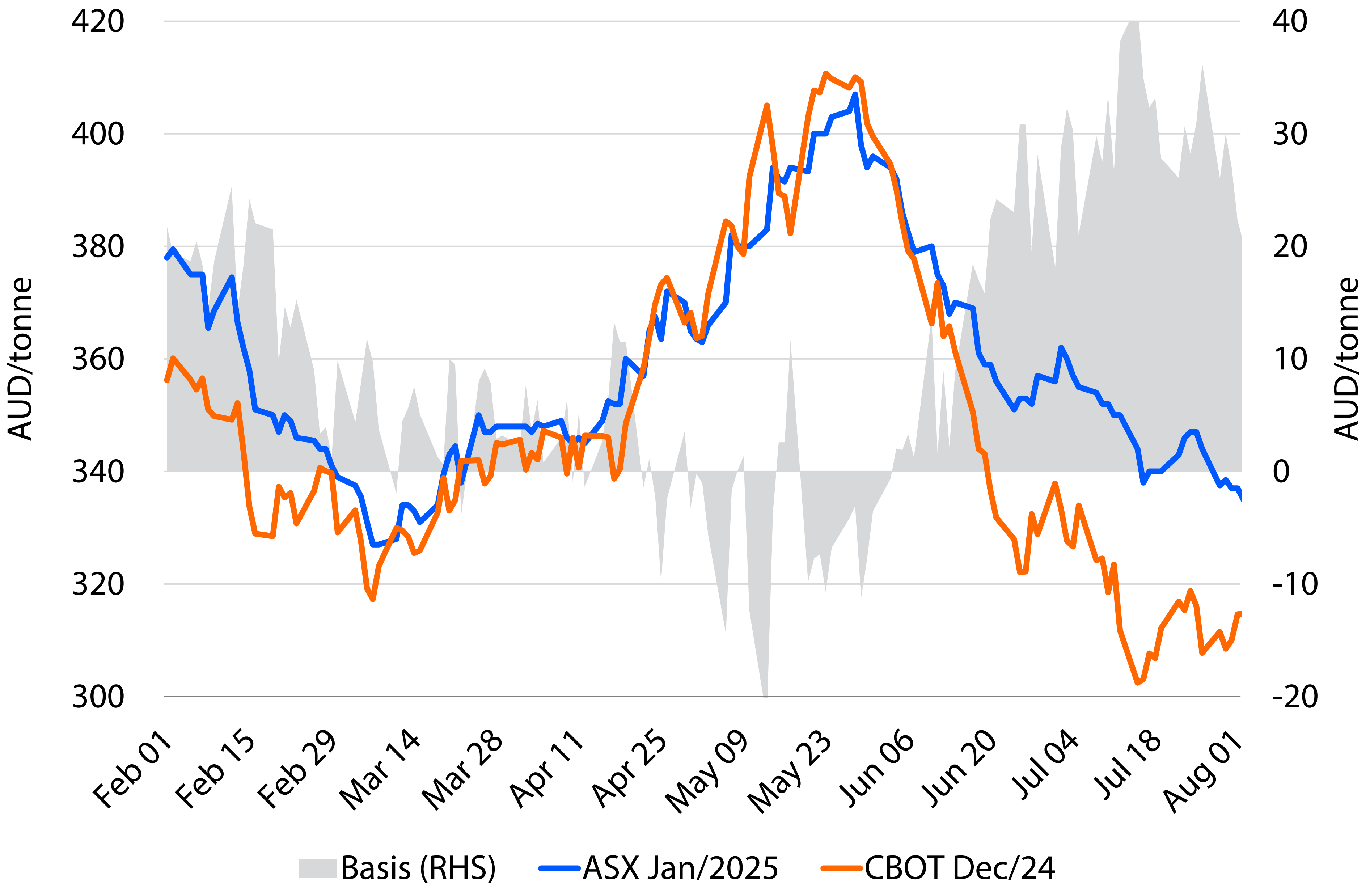
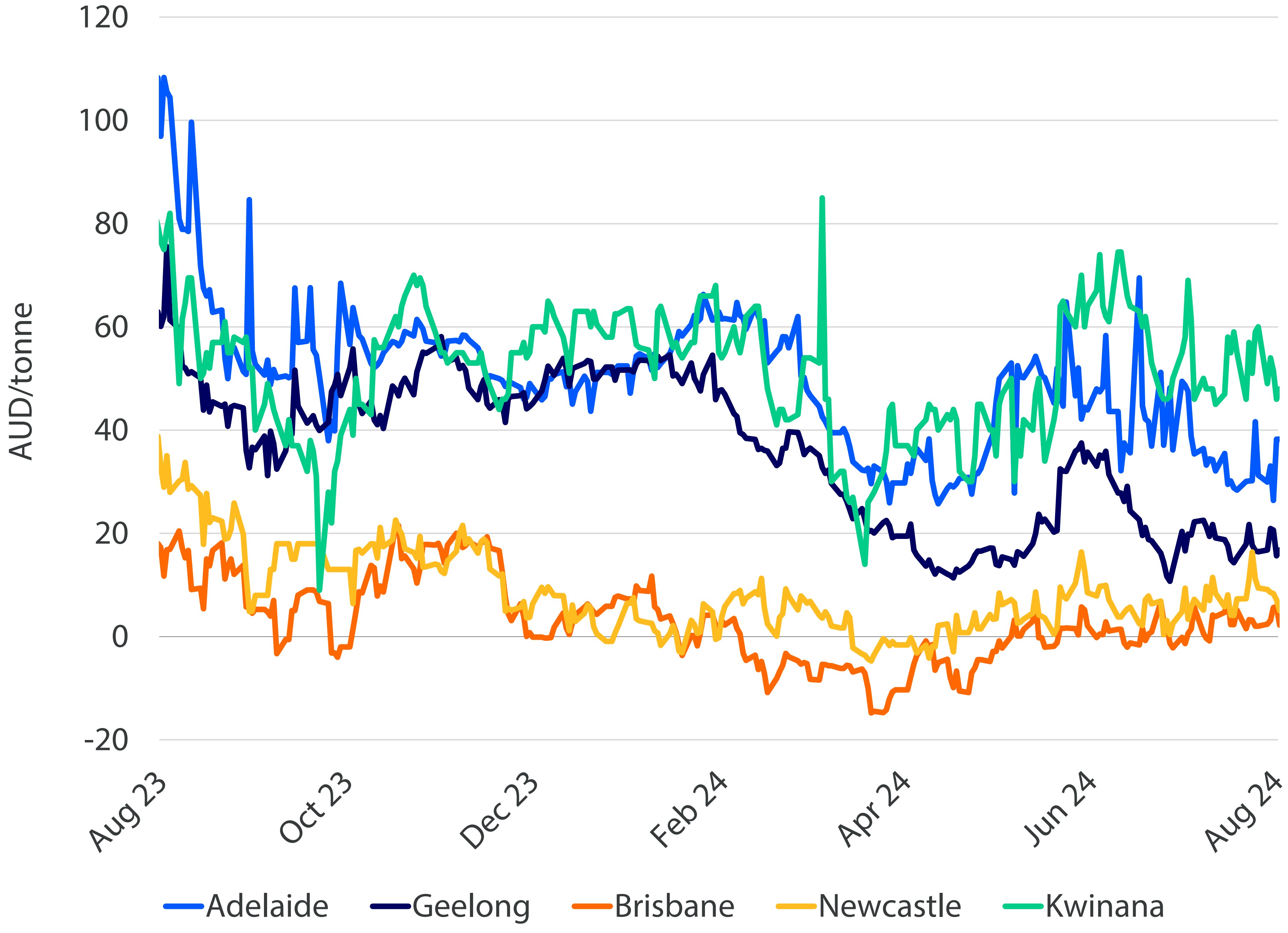
Wheat and barley

A potential upside in Australian wheat crop starts to pressure local prices

Despite the AUD weakening in recent weeks, ASX wheat did not move up



Lower feed barley discount versus APW as wheat softens



Source: *Bloomberg, RaboResearch 2024*

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Canola

Rising sun for EU imports

Europe's canola harvest is underway, and as expected for this time of the year, prices are seasonally softer. MATIF spot prices dropped 3.1% MOM to AUD 784/tonne, and Feb 25 future contracts fell 5.1% to AUD 786/tonne. Conversely, ICE spot prices increased 1.8% MOM to AUD 675/tonne and the Jan 25 future contracts dropped 1.6% to AUD 684/tonne. The differing price directions are mainly due to a potential downgrade in Canada's canola crop following a recent heat wave that pushed temperatures above 32C for five days or more in the prairies, negatively impacting crop performance.

In July, Australian port prices showed interesting behaviour. While non-GM prices were virtually stable across the country, with the biggest drop in Kwinana at -0.7% to AUD 755/tonne, GM canola prices moved significantly. Kwinana prices fell 9% to AUD 669/tonne, and Newcastle prices dropped 4.6% to AUD 590/tonne. **The driving force behind these changes is the demand for canola from Europe, mainly for Non-GM.**

Using the last five-year average yield and the figures published in the July JRS MARS Bulletin as reference, the EU 2024/25 season might see a shortfall of 0.41m tonnes of canola and 0.39m tonnes of sunflower. This shortfall will likely increase EU import volumes year-on-year. In the 2023/24 season, imports were already at 5.7m tonnes of canola and 0.8m tonnes of sunflower. Considering the 50% tariffs on oilseeds and coproducts imported from Russia and Belarus, the EU needs to find alternative sources. The EU would need to import an additional 1.1m tonnes of canola and 1.3m tonnes of sunflower to meet its demand. This raises the question of which exporters can supply these volumes.

The traditional top three suppliers are Australia, Canada, and Ukraine. Ukraine faced a dry season, with forecasts ranging from 3.7m to 3.9m tonnes, versus 4.6m tonnes in the previous season. Canada has a larger carryover year-on-year and is expected to harvest an above-average crop in the coming weeks. However, Canadian supply is dominated by GM canola, while the EU generally favours non-GM products. Therefore, Australian exports may be well-placed to replenish European stocks by early 2025.

What to watch:

- **The next chapters in the EU-China trade war** – The EU published a pre-disclosure document indicating that anti-dumping duties will be imposed on Chinese biodiesel suppliers up to 36.4% starting mid-August. The exact import volume that may be affected is still unclear, but overall imports of vegetable and animal fats-derived products total 1.1m tonnes for the 2023/24 year. Consequently, European crushers' margins are expected to improve, boosting their importing appetite.
- **The Canadian harvest -** The harvest process has started in the southern regions of Canada, and will give a better understanding of the impact of heat waves on the crops. Canada is expected to contribute at least 18m tonnes to the global output of 86m tonnes, accounting for 21%.

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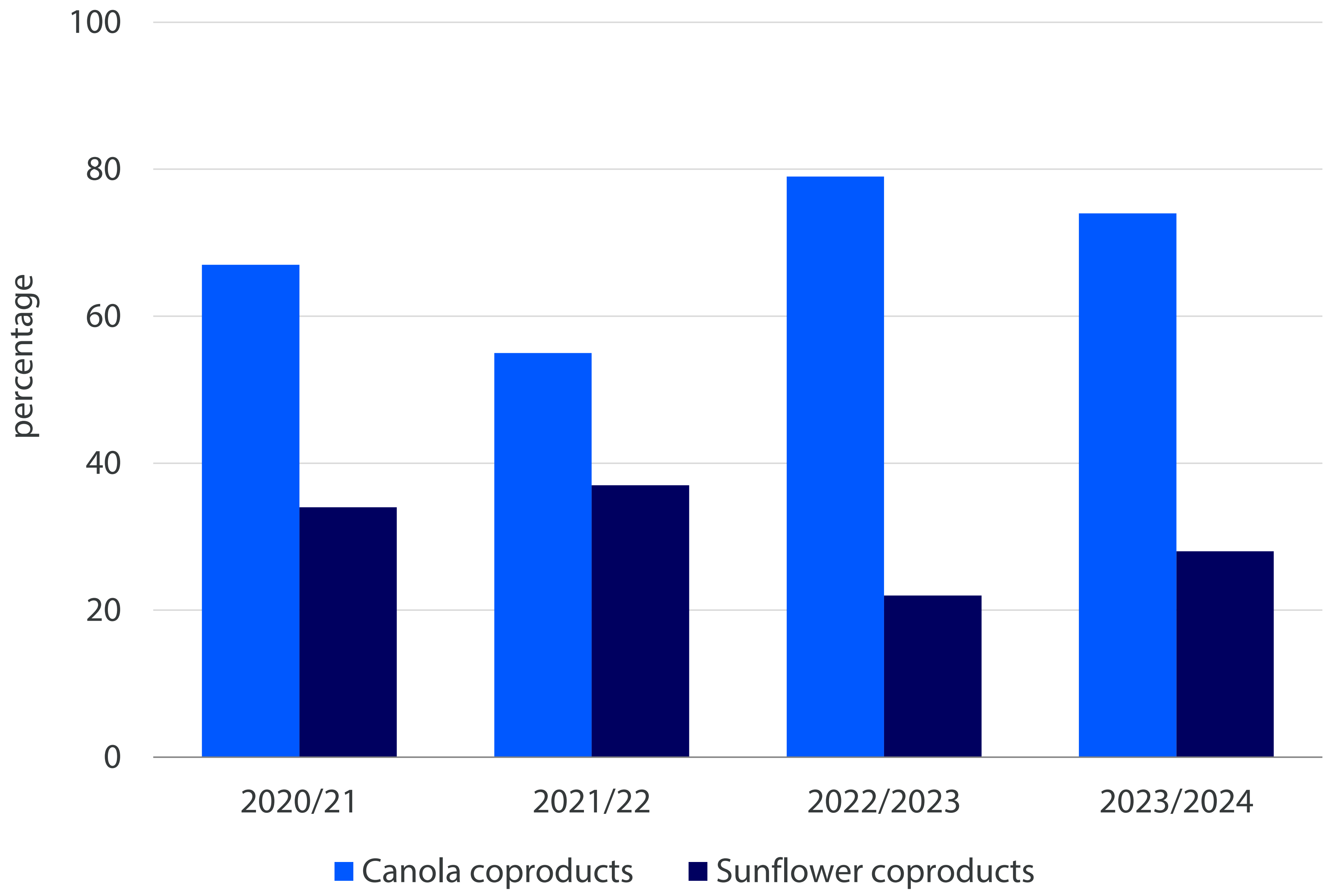
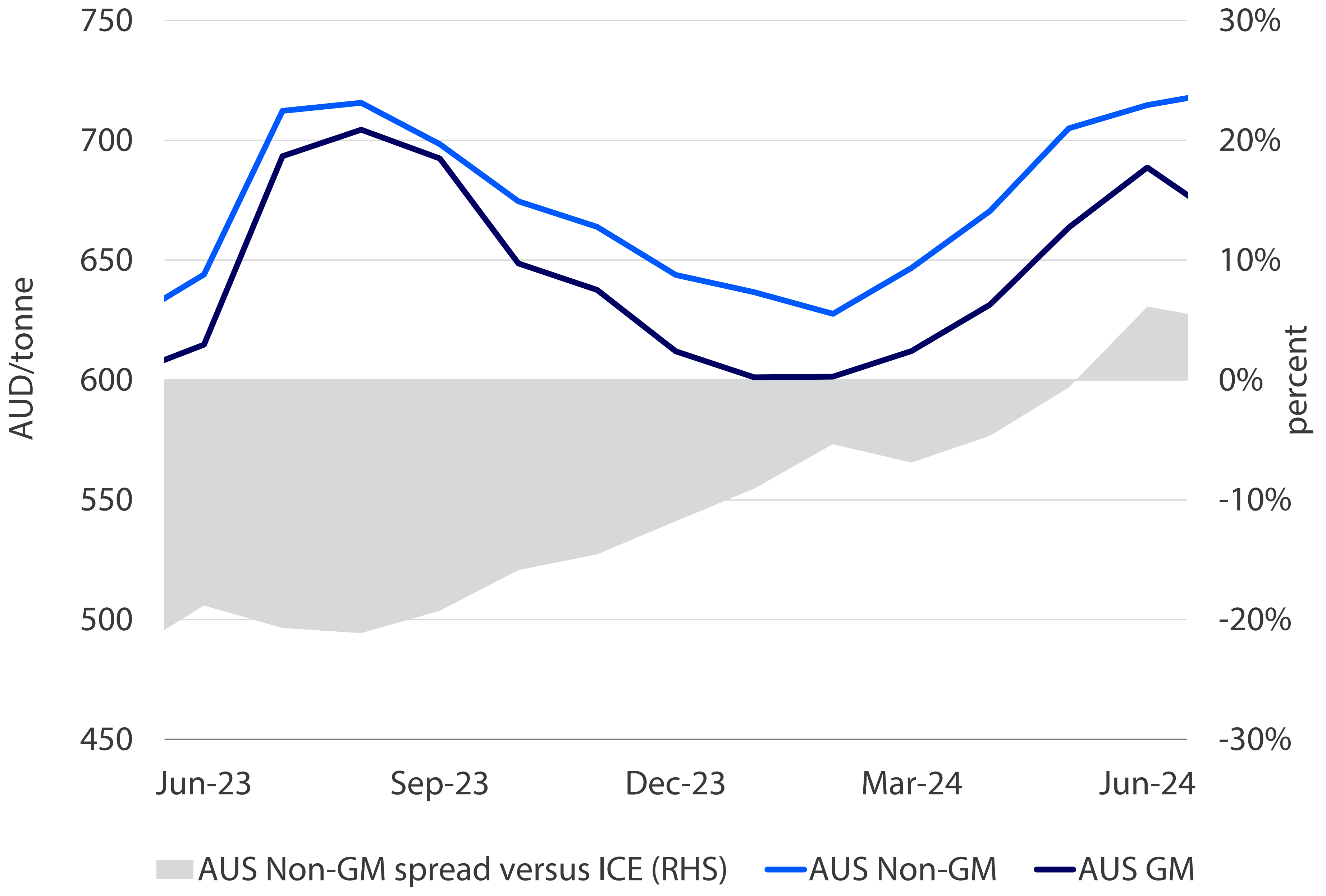
Canola

A poor EU canola crop and trade wars will shift the price difference between GM and non-GM canola

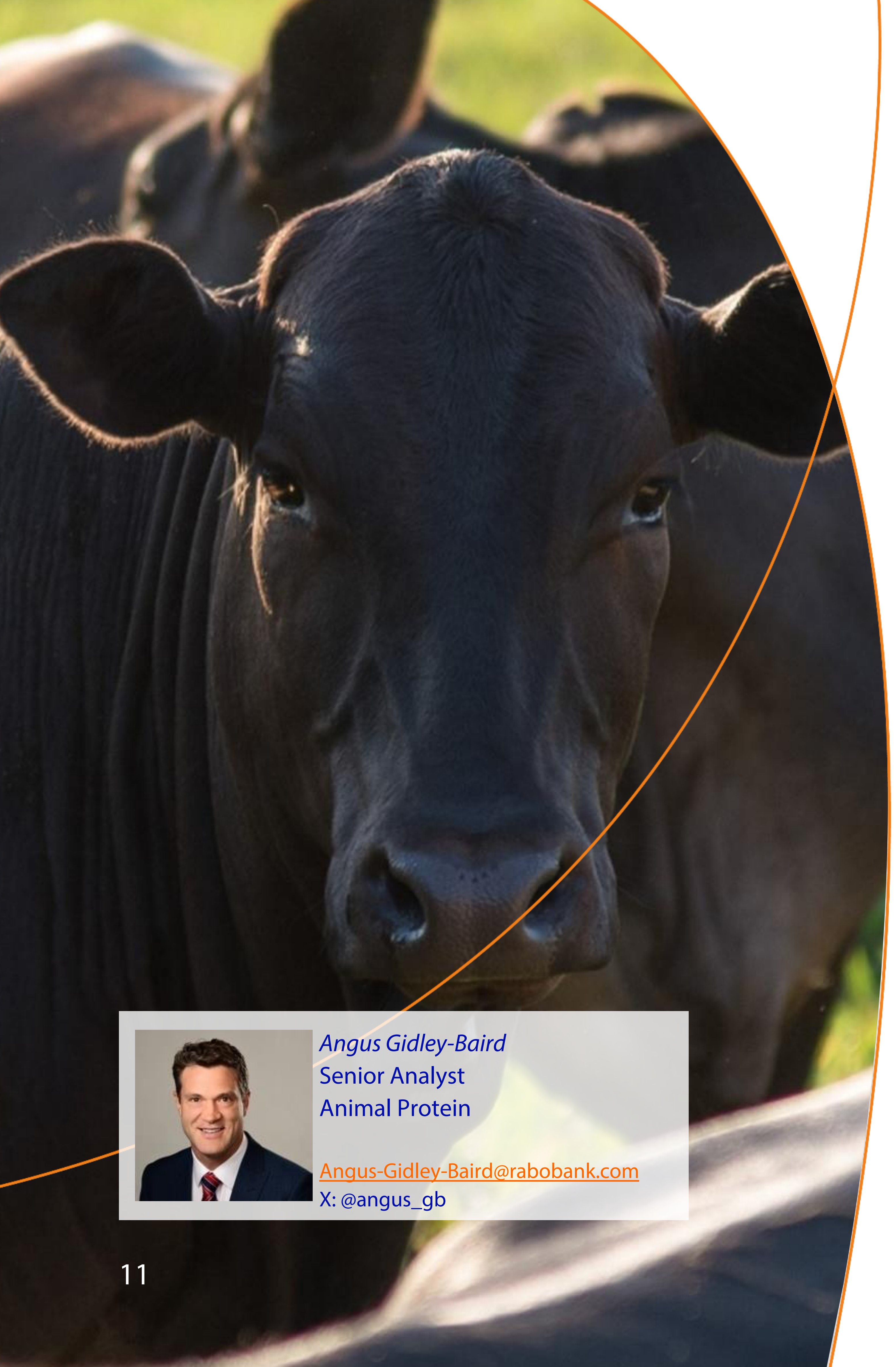
The share of EU imports from Russia and Belarus in recent seasons suggests that EU procurement will increase YOY



Monthly weighted canola port prices point to strong demand for non-GM oilseeds



Source: *Bloomberg, European Commission, RaboResearch 2024*



Beef

Young cattle prices start to reflect rising US import prices

All Australian cattle prices trended up through the month of July, with heavy steer and cow prices showing the strongest growth. National saleyard cow prices rose 32% in the month of July, reaching 337c/kg on 29 July. We believe this strength is reflecting the demand from the US, with US import prices up 25% since the beginning of the year, sitting at USD 2.91/lb on 26 July. The weaker restocking cattle prices reflect the softer demand from restockers given the large numbers of cattle on farm. The EYCI rose 12% through the month of July, rising to 657c/kg on 28 July, 16% higher than the same time last year. **We don't see much change in the current situation over the next couple of months and therefore expect cattle prices to continue their trend upward, with cows and finished cattle showing slightly stronger rises.**

Weekly cattle slaughter showed a slight (1%) increase for the month of July compared to June. Weekly slaughter hovered around the 140,000 head level for the month, which is 18% above the average weekly slaughter for July 2023.

Australian beef export volumes hit a new record in the month of July. Up 34% YOY, the 129,998-tonne swt was the largest volume ever sent in July. This volume eclipsed the previous record of 123,464 tonnes set in May 2015 when Australia slaughtered over 9m head of cattle. Our forecast for 2024 slaughter is for just under 8m head. The higher exports reflect the higher slaughter weight of cattle – up about 13% – and lower domestic consumption, down about 4%. Export volumes to Japan are the highest since March 2020, volumes to the US are the highest since December 2015, and volumes to South Korea are the highest on record. Meanwhile volumes to China continue to be lower than last year with July volumes down 3% YOY. It is encouraging to see the global market able to accommodate such large numbers and domestic cattle prices remaining buoyant.

Live cattle export volumes were up 37% YOY for the month of June. Volumes to Indonesia were up 77% YOY, marking the second-highest volume exported so far this year.

What to watch:

- **US weekly cow slaughter** – US cow slaughter for the year-to-date (20 July) is down 14%. We believe this decline is likely due to reduced numbers in the system from sustained cow slaughter rather than any rebuild activity. Cow slaughter typically increases again in September as producers sell down cattle in preparation for winter. It will be interesting to see if producers increase sale numbers or, given the shortage of cattle in the system, hold on to breeding cows. This decision will impact the availability of domestic lean trimmings and, in turn, the demand for imported lean trimmings and what importers are willing to pay for that imported product.

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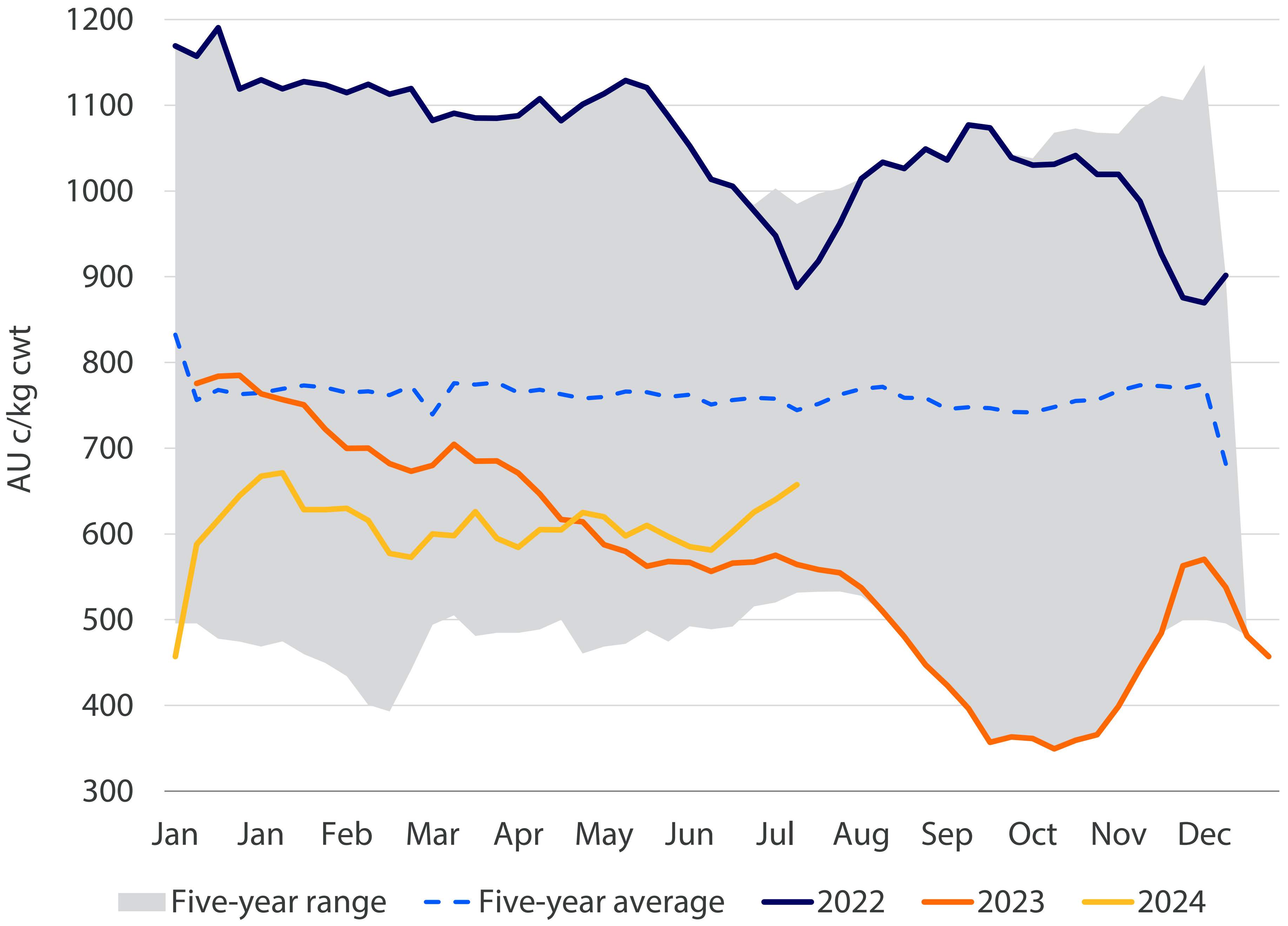
Beef

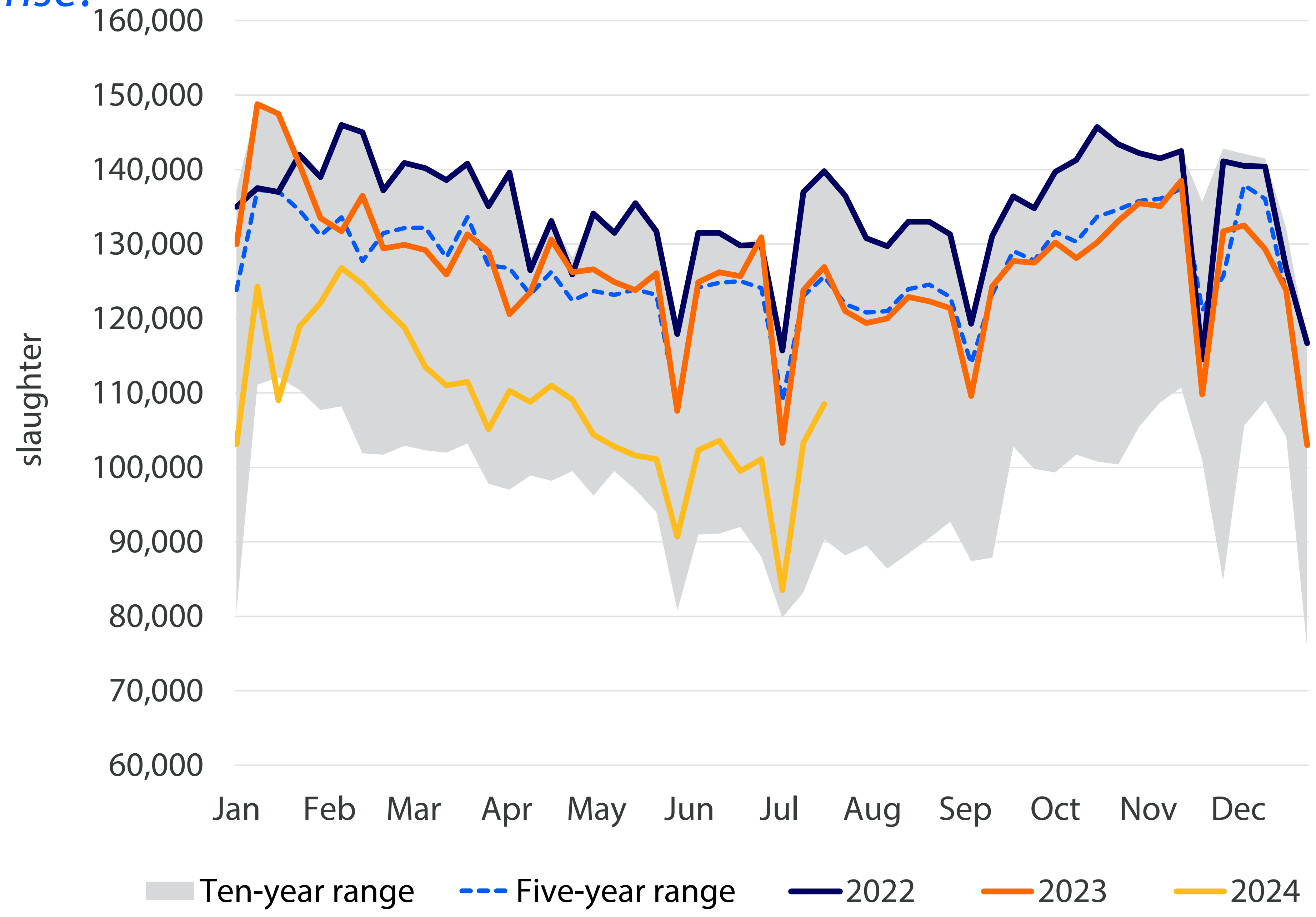
Young cattle prices start to rise as US cow slaughter hits the low for the year

EYCI starts to lift



Source: *MLA, RaboResearch 2024*

US weekly cow slaughter down 16%; will it follow a seasonal rise?



Source: *USDA, RaboResearch 2024*

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Sheepmeat

New season lamb numbers the key for prices

Last month, we questioned whether lamb numbers were starting to run out given what appeared to be a late season push in prices. Although weekly slaughter numbers don't necessarily tell us what is in the paddocks, the contraction in prices in late July may suggest that we are close to the end of last season's lambs. Finished lambs – both trade and export – continued to perform strongly through July, rising 11% and 13% respectively over the month. Mutton and merino prices also saw a strong lift, up 27% and 16% respectively. The exception was restocker/feeder lambs, which showed only a small rise. The current state of the season and future prospects may simply be tempering demand from restocker lamb buyers. The national trade lamb indicator finished July at 825c/kg. **Our current modelling, given the numbers of lambs in the system and relatively soft export markets, suggests prices at the end of July were higher than historical relationships would suggest. That being the case, we think lamb prices could drop a little over the coming month, toward what we believe to be a price more reflective of conditions, around 700c/kg.**

Weekly lamb slaughter numbers followed the normal seasonal trend and were lower in July, down 6% on numbers in June. However, they continued to remain at record levels. Sheep slaughter was also lower, down 20% on June numbers, but like lamb they also remain historically high.

Lamb export volumes continue to increase with July volumes up 21% YOY at 33,590 tonnes swt. Volumes to the Middle East were up 101% in July with some of the largest volumes we have ever sent to the Middle East. Volumes to the US were up 31% YOY in July while volumes to China were down 17%, reflecting the ongoing weak consumer demand.

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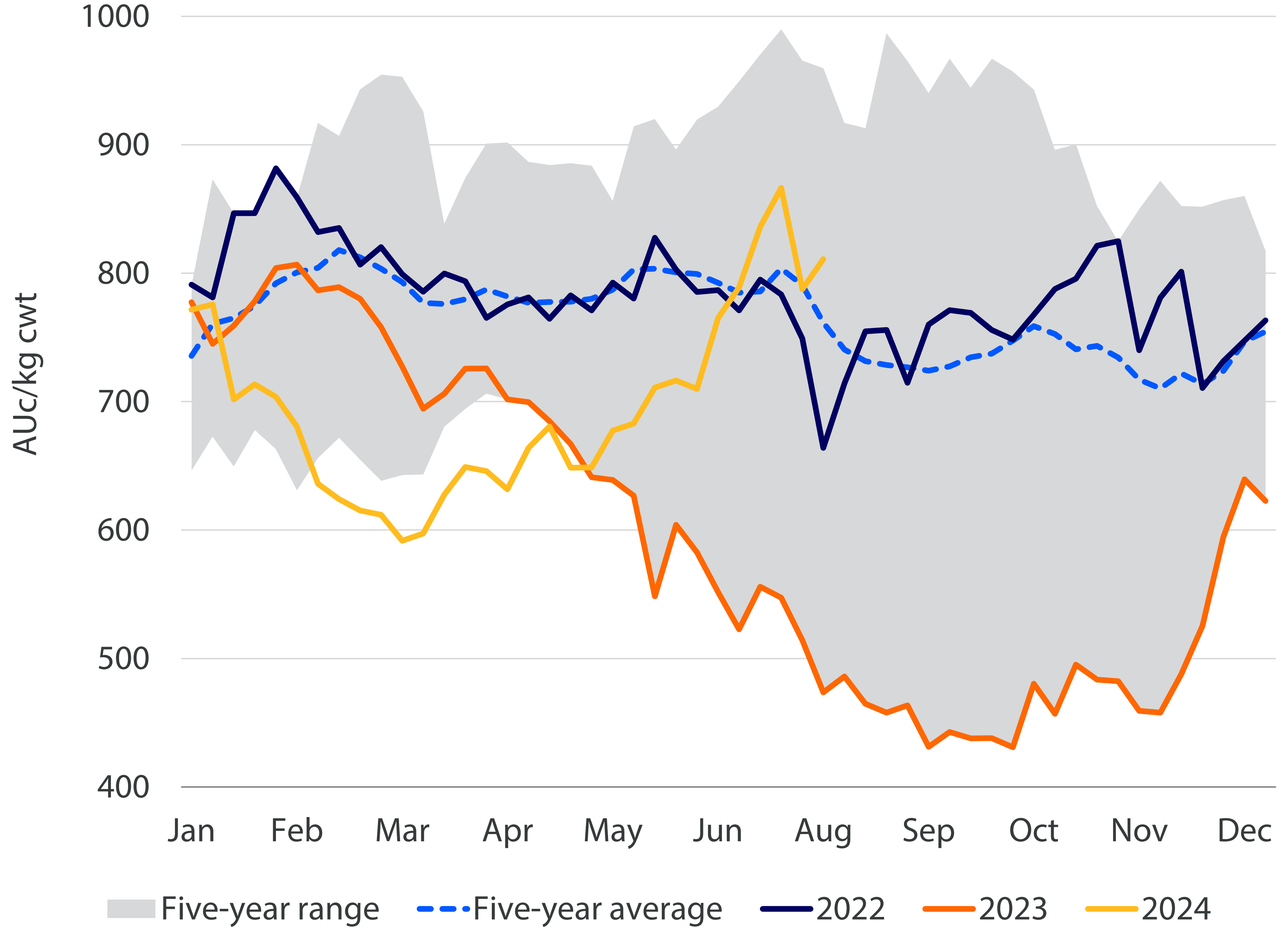
What to watch:

- **New season lamb numbers** – After the elevated lamb prices in mid-July, it looks like we are now heading into new season lambs. With elevated sheep slaughter for most of the last 12 months potentially meaning a reduction in the breeding flock and poor seasonal conditions affecting marking rates, we might see a slower start to the season with fewer lambs available. If fewer numbers are available this should provide support for prices.

Sheepmeat

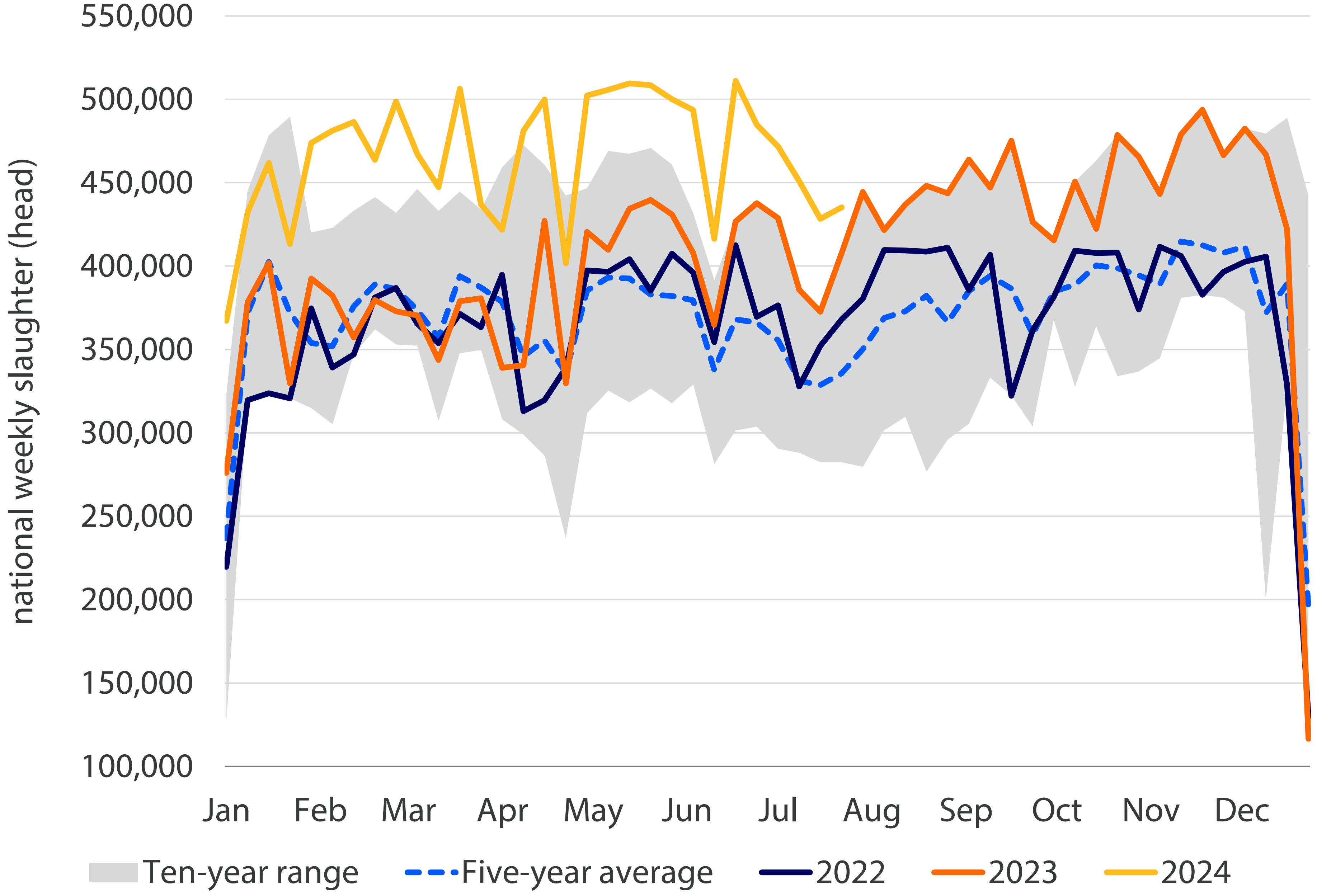
A slight correction in prices suggests we might be into new season lambs but how many are there?

After a strong run up the NTLI corrects slightly



Source: MLA, RaboResearch 2024

Lamb slaughter remains high, how many new season lambs are around?



Source: MLA, RaboResearch 2024

Wool

Prices steady, slowly following other fibres down

Australian wool prices entered the winter recess in a stable state, having shown very little movement since the start of the 2024/25 season at the beginning of July. The Eastern Market Indicator (EMI) was AUc 1124/kg on 24 July, the week the market shut for the recess. This was down 0.1% on the end of June, and down less than 5% compared to July 2023. The Western Market Indicator (WMI) stood at 1254/kg on 24 July. Compared to movements in other fibres, the wool market has been relatively stable, although following a similar downward trend. Since the beginning of the year, acrylonitrile and cotton prices had lifted 9% and 23% respectively, but are now 12% and 16% lower than on 1 January (in USD terms). Wool prices, on the other hand, did not see the same lift but currently sit 11% below the start of the year. This gradual drift down in prices may reflect weak consumer demand and a lack of buyer purchasing activity in the fibre market. **While the winter recess may allow for a temporary reduction in supply chain volumes, we do not foresee any lift in demand that would lead to prices rising in the near future.**

Wool tested volumes for July were up 11% compared to volumes in July 2023. The additional sale weeks in July may have encouraged more wool to market. We will be watching the wool tested volumes over the coming months, given the elevated sheep slaughter numbers seen since late 2023 would suggest that wool production should start to decline.

Wool export volumes increased 12% YOY for the month of May, with 35.9m kg exported. Despite the increased volume, the value of exports remained the same as in May 2023, with the per unit export value dropping 10%. China remains the largest market, accounting for 89% of exports, up from the 83% in May 2023. The proportion of the clip going to India and Europe dropped. By micron, 50% of exports were less than 19 micron, and 37% were between 20 and 23 micron. This represents a slight increase in the proportion of exports under 19 micron, which was 46% of exports in May 2023.

What to watch:

- **Chinese economic activity** – With China being the largest destination for Australia's raw wool, but also a large end customer of apparel, consumer purchasing activity in this market can have strong influence on the wool market. In mid-July, Chinese Q2 economic activity data was released, showing a slower-than-expected rate of GDP growth – 4.8% compared to a target of 5%. Such numbers suggest a weaker Chinese economy, which does not bode well for future consumer activity.

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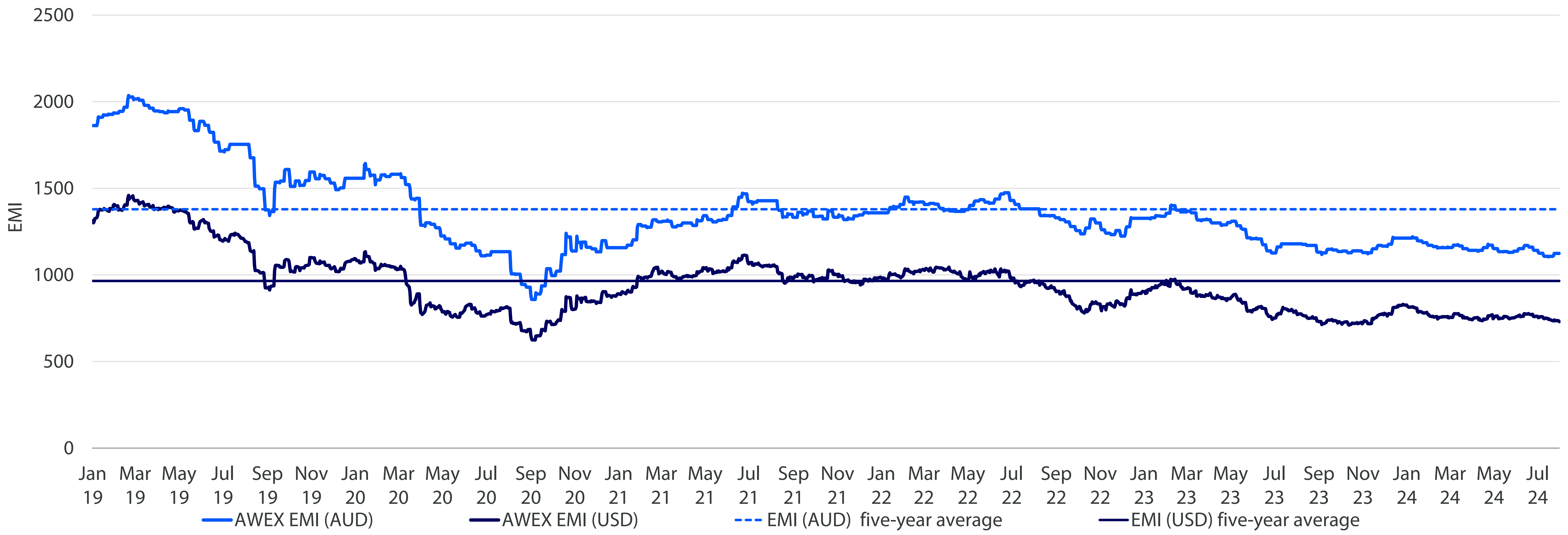
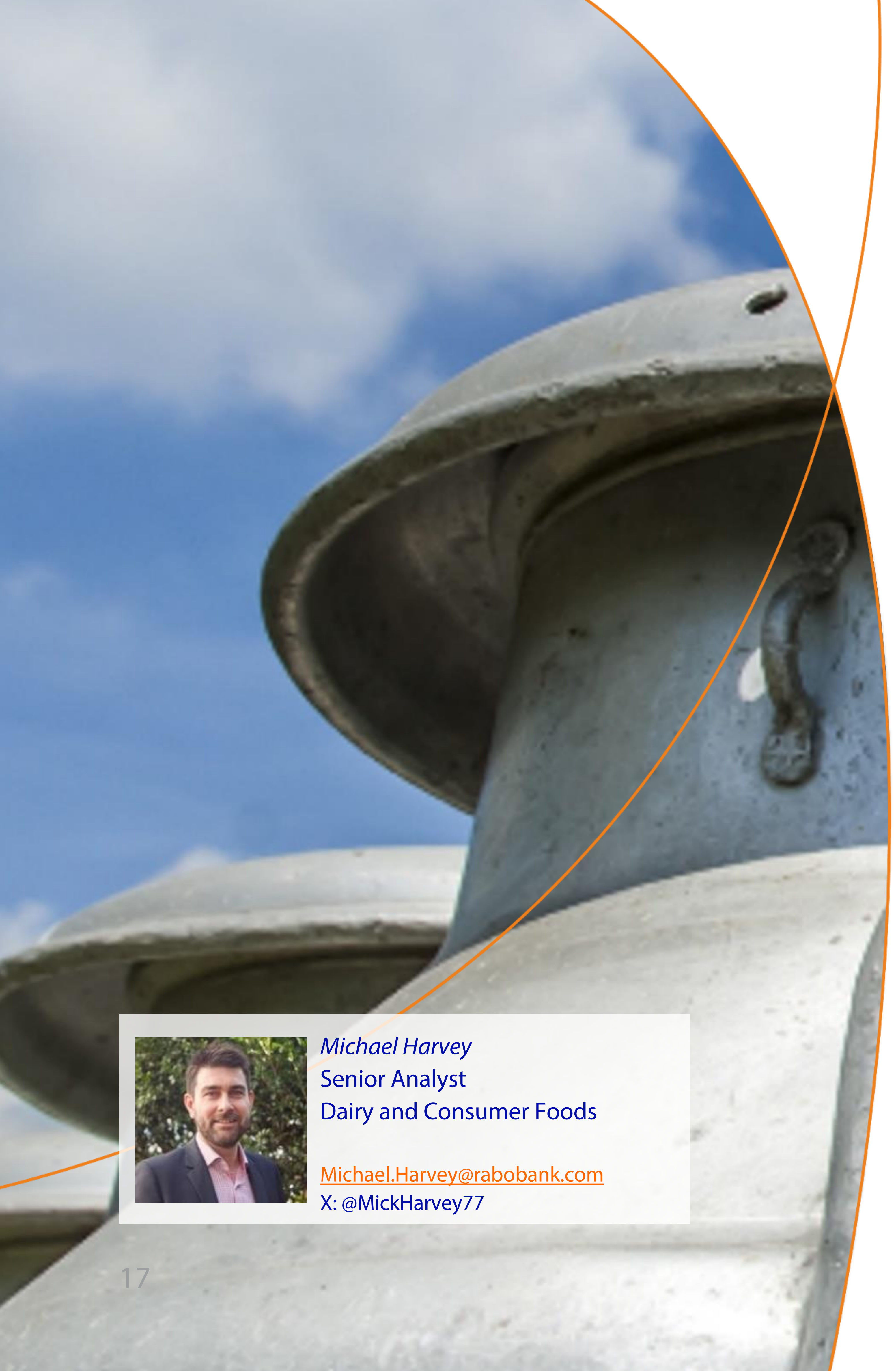
Wool

Prices maintain stable pattern in lead up to winter recess

Australian EMI continues the steady state



Source: *Bloomberg, RaboResearch 2024*



Dairy

Widespread lift in local milk production continues

July was a mostly quiet month for Oceania dairy commodity markets. Across the product complex, spot prices closed the month marginally lower. The global fundamentals remain well balanced, which is keeping price direction largely neutral.

Inflation in the local supermarket dairy aisles continues to slow. In the latest quarterly CPI numbers from the ABS, year-on-year inflation for milk and cheese was tracking at less than 3% for the June quarter. This was the lowest rate of dairy product inflation since 2021.

Local milk supply continues to recover well in 2023/24. At the end of May, national milk production is 3% higher than the same period the previous season (at 7.8bn litres). This represents an increase of 230m litres of milk.

Milk supply growth has been widespread, with growth in all states and regions so far, excluding only western Victoria. On a percentage increase basis, New South Wales leads the charge.

Australia's export volumes have shown mixed results so far this season. On a tonnage basis, exports are -1.2% YOY for the period July 2023 to May 2024. The biggest declines have been in liquid milk and whole milk powder.

In contrast, cheese, butter and skim milk powder (SMP) have been the best performing products

The total trade value for Australian dairy exports for the period have totalled AUD 3.3bn representing a -4.3% fall on the corresponding period.

The New Zealand milk production season has had a mixed start. June, typically a low-output month, saw a 2.2% decrease on a milksolids basis. Production has been down in five of the first six months of the calendar year.

Less favourable seasonal conditions in the South Island are the main factor.

Markets will be paying close attention to weather conditions as the New Zealand seasonal peak looms large on the horizon.

What to watch:

Upside – AUD softness

- The Australian dollar has been underperforming against the US dollar in recent weeks amid growing concerns around the weakness of the Chinese economy and the subsequent impact on commodities and the Australian economy. This has the potential to boost US dollar dairy export returns if currency depreciation sets in.

Downside – Dairy demand

- In many economies there are signs of improving dairy demand. Equally, there are indicators showing the recovery is patchy and, by some measurements, still sluggish, but there is a general industry expectation that demand conditions will continue to improve in the coming months.

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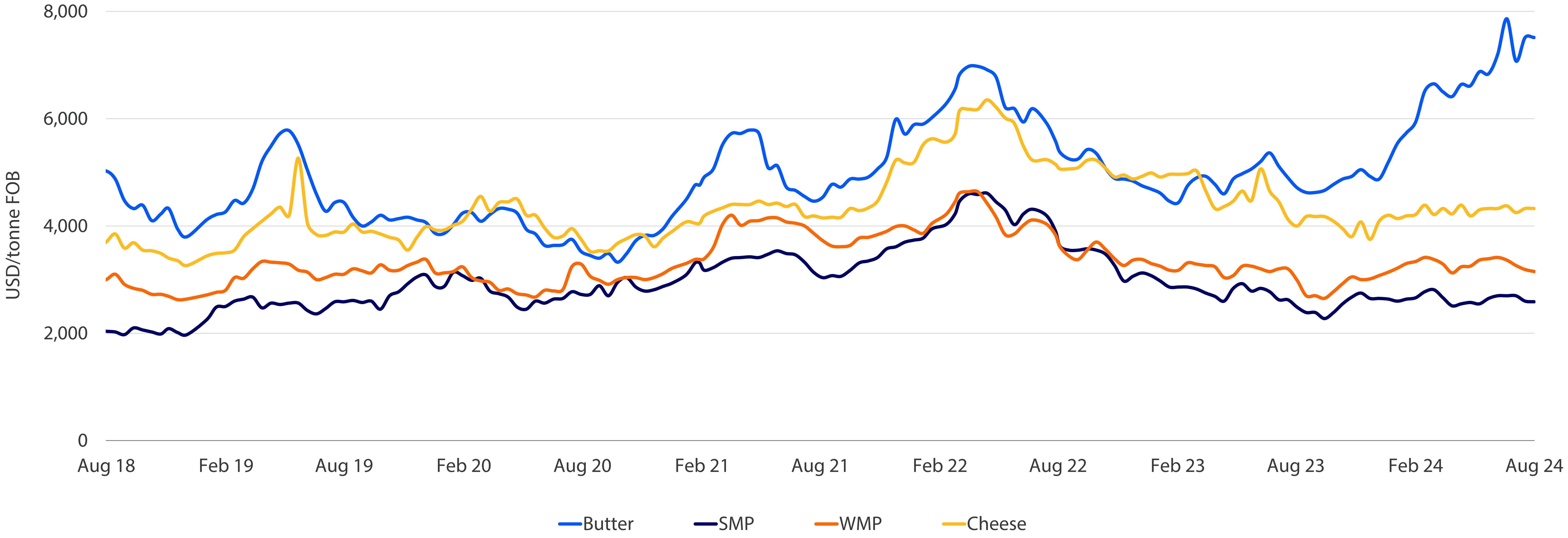
Dairy

Steady as we go for dairy commodity pricing

Oceania spot prices for dairy commodities



Source: *USDA, RaboResearch 2024*

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Cotton

ICE #2 Cotton futures continue to slide lower

Cotton markets continued to slide lower in July, with the ICE #2 Cotton Dec 24 contract dropping 6.9% to finish around USc 68/lb (as at 1 August). Subsequently, cash markets in Australia also weakened, with 2024 prices considerably under the AUD 600/bale mark.

However, the decline was not as sharp as ICE futures, partially due to the recent AUD weakness against the US dollar.

At present, 31% of the Texas crop is rated either poor or very poor. This is certainly a concern, and the market will be paying close attention to weather maps in the coming weeks. The 6-10 day outlook has improved, and one would expect conditions to follow.

Nevertheless, weather can quickly change, and we expect the market to remain sensitive to any changes in the Texas crop outlook. That being said, national US prospects look generally good, with only 11% of the cotton area sitting in a state of drought. Therefore, the USDA's 17m bale estimate for 2024/25 seems reasonable for now.

As previously noted, funds are playing a major role in the recent market downturn. Over the past four CFTC weeks, Managed Money have extended their net-short position by 16,569 lots, bringing the total net-short to a record 47,441 lots.

Whenever funds are historically short, markets are susceptible to short covering.

Although fundamentals are largely bearish, the ongoing weather issues in Texas have the potential to trigger a change in speculative sentiment.

For Australian producers, one of the key risks going forward is the expectation of a record Brazilian crop in 2024/25 (the USDA estimate 16.7m bales).

With another season of large exports anticipated for Brazil, staying competitive will be a challenge – this will be even more of a task should the AUD push substantially higher.

What to watch:

- **Crop conditions in Texas will be a key factor to keep an eye on,** major changes could result in alterations to the US balance sheet.
- **Fund positioning will be crucial to monitor.** After a flurry of aggressive selling, will we finally see a change in sentiment in August?

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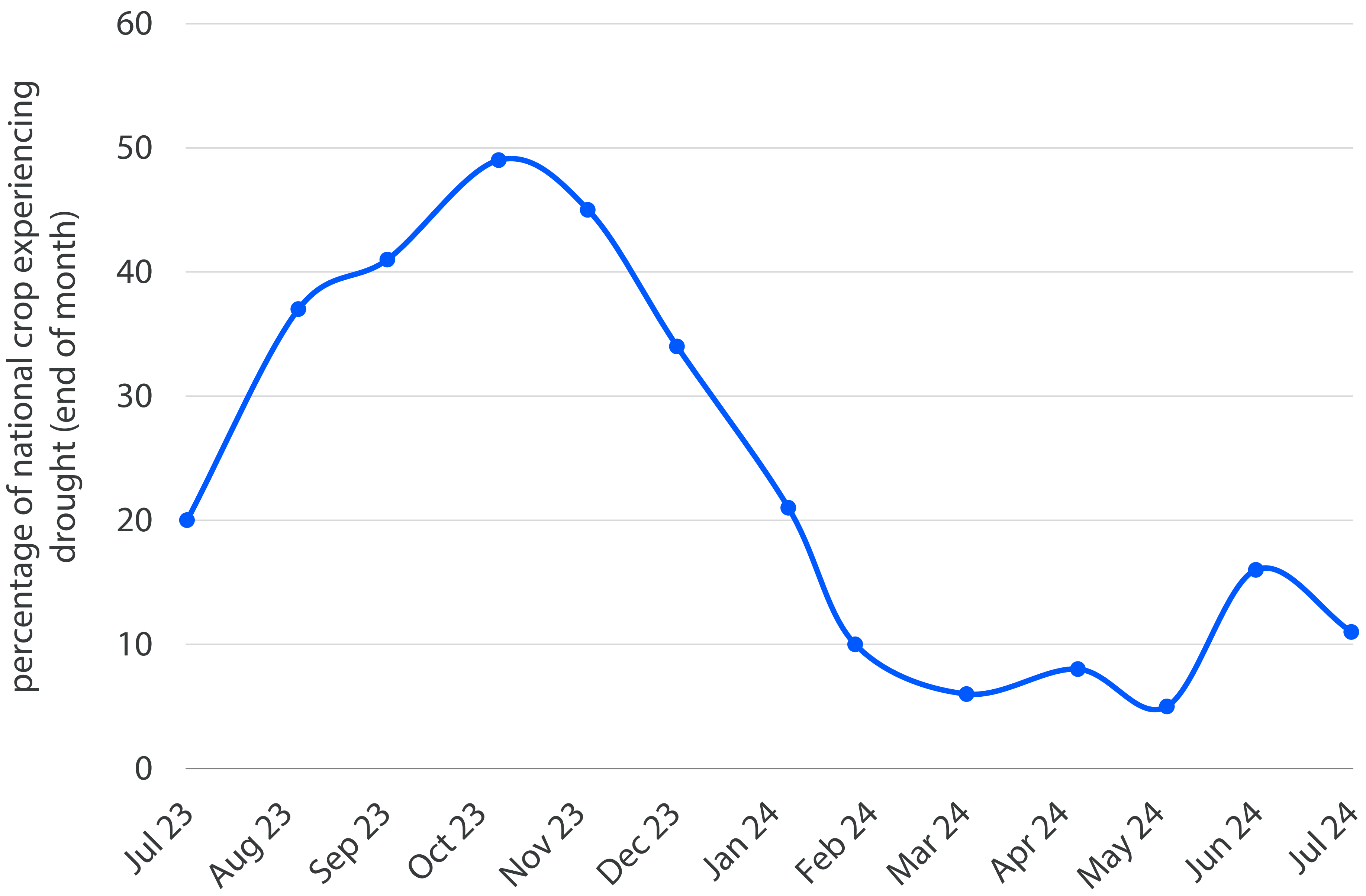
Cotton

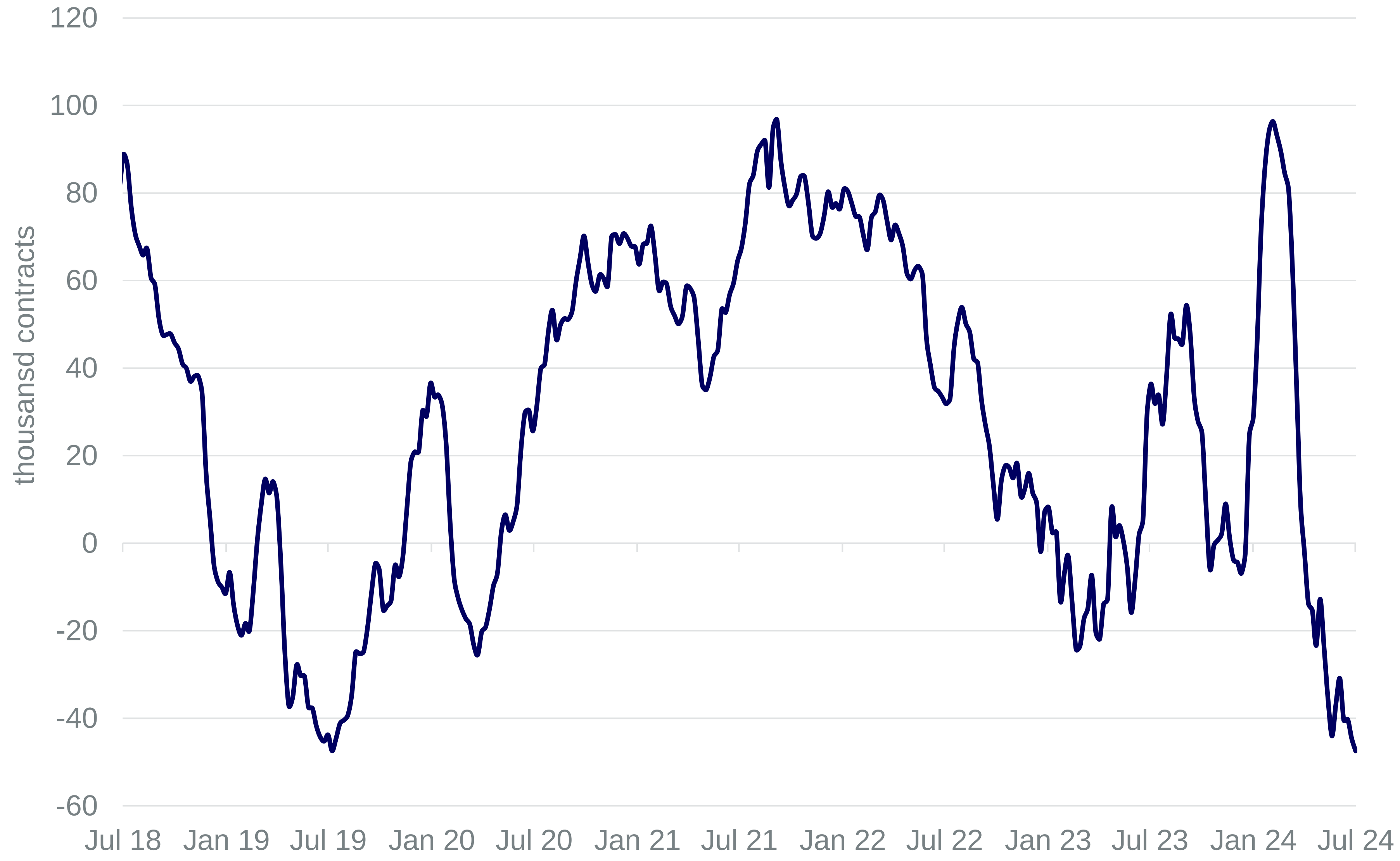
24/25 season fundamentals are bearish amid a bumper Brazilian crop and an anticipated US recovery

The percentage of the US cotton crop experiencing drought has notably reduced YOY



***Source:** USDA, RaboResearch 2024*

Managed Money set a record net-short position on #ICE 2 Cotton futures last week



***Source:** CFTC, Bloomberg, RaboResearch 2024*

Consumer foods

Mixed inflation results inside the food basket

In the June 2024 quarter, overall annual food price inflation was 3.3%, down from 3.8% in the March quarter. This is the lowest quarterly food price inflation since December 2021.

There were mixed results inside the food basket. There was a general slowdown in the rate of inflation across most key categories including dairy, bakery, cereals, and spreads. However, some pressure points remained for consumers, with cooking oils standing out as inflation rose back to 11.5%.

Fresh produce also saw higher inflation, with fruit and vegetable prices up 4.7% and 3.0% respectively compared to 12 months ago, due to poor weather.

All meat items saw price declines from 12 months ago, except pork, poultry, and seafood.

There may still be some "sticker shock" for consumers ahead. We would expect to see retail prices for red meat rise a little as higher livestock prices work their way through the supply chain, and there is some "upside risk" in relation to egg prices if the bird flu outbreak worsens.

A key watch in the September quarter CPI data would be fresh produce, which will be impacted by the growing conditions through winter. For the chocolate/confectionary category, there may also be some price pressure ahead, with higher global cocoa and sugar prices still flowing through.

Australia's total spend on food remained sluggish in June. The combined retail trade spend on food retail and foodservice was 2.5% higher in June 2024 on a year-on-year comparison. This is not adjusted for inflation.

What to watch:

- **A further bounce in Australian consumer confidence?** Australian consumer confidence levels, as measured by the Westpac–Melbourne Institute Consumer Sentiment, have risen from the 2023 lows in 2024. However, sentiment remains weak by historical standards due to household budget pressures and expectations of further interest rate rises. If there is a shift in expectations around the RBA and potential for further rate rises, this could spark a further rise in consumer confidence.

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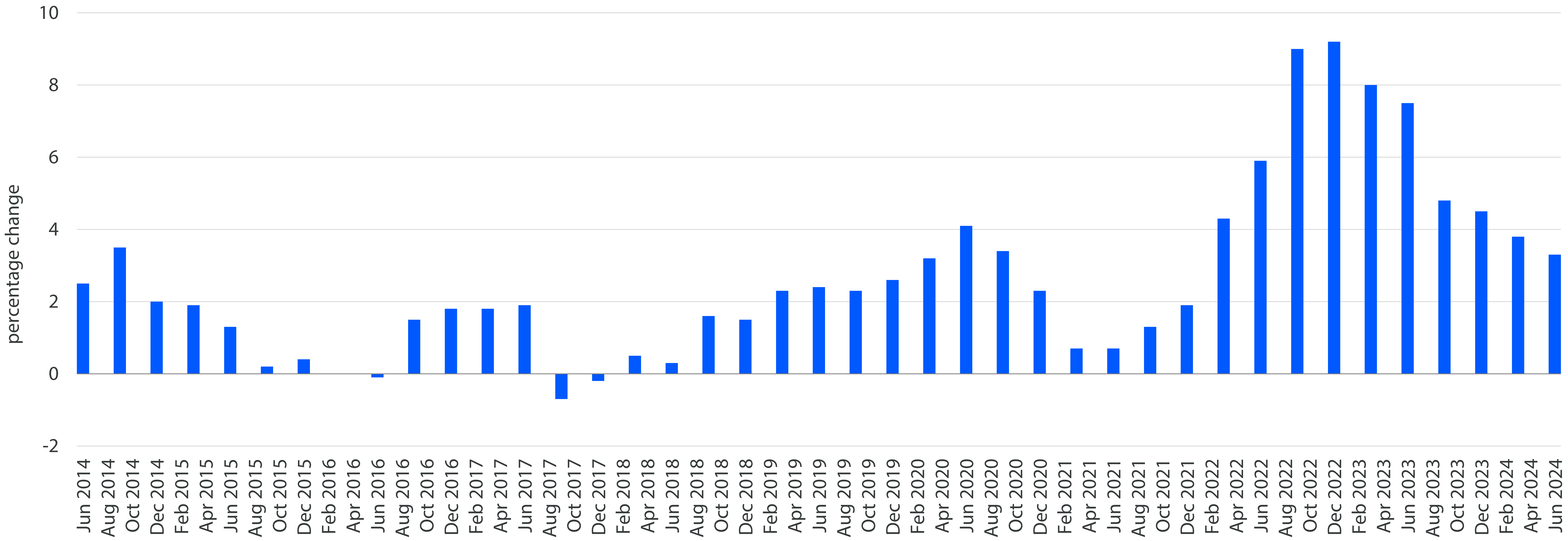
Consumer foods

Lowest quarterly read on food inflation since December 2021

Quarterly food inflation, percentage change from corresponding quarter of previous year



Source: ABS, RaboResearch 2024

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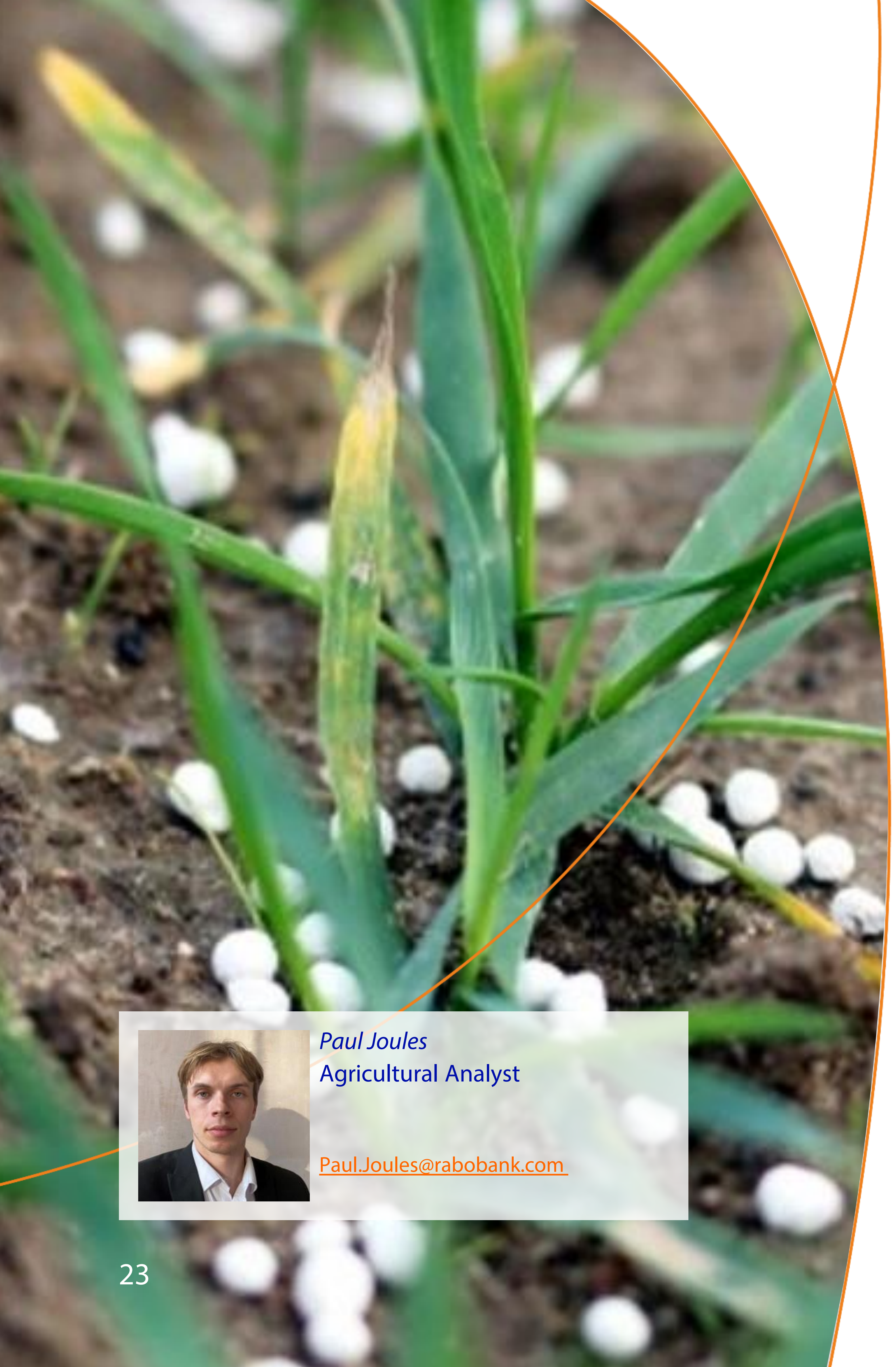

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Farm inputs

Demand weakness keeps urea prices in a range

In recent weeks import demand across the global urea market has been tepid, especially in key markets such as Brazil and Europe. As a result, global prices have largely traded sideways.

Although for now, weak demand will likely put a cap on gains in the short term, there are some clear supply-side risks.

Firstly, China's export restrictions on urea continue. What adds uncertainty to market dynamics is the fact that it's unclear if/when exactly China will shift policy and revert to more "normal" export levels. Although, given that China's domestic stocks are still low, this is unlikely to happen any time soon.

Secondly, Egypt is continuing to experience natural gas issues, and although supply is picking up, it is not back to full capacity. This means that should global demand recover quicker than expected, these supply constraints will become more apparent, and global prices could potentially rally.

India has been relatively quiet on the international market, but if it returns to the market that could signal that demand is beginning to pick up again. There's also an industry expectation that Brazilian buyers are likely to re-enter the market following a quiet spell, which could support prices in the coming months.

The other factor that is impacting Australian import prices is the continuation of high container shipping rates. The World Container Index increased 9% MOM in July, which now puts the index 230% higher year-on-year. Signs of de-escalation in the Red Sea are limited, although Asian port congestion does appear to be partially improving, which may help to ease rates somewhat.

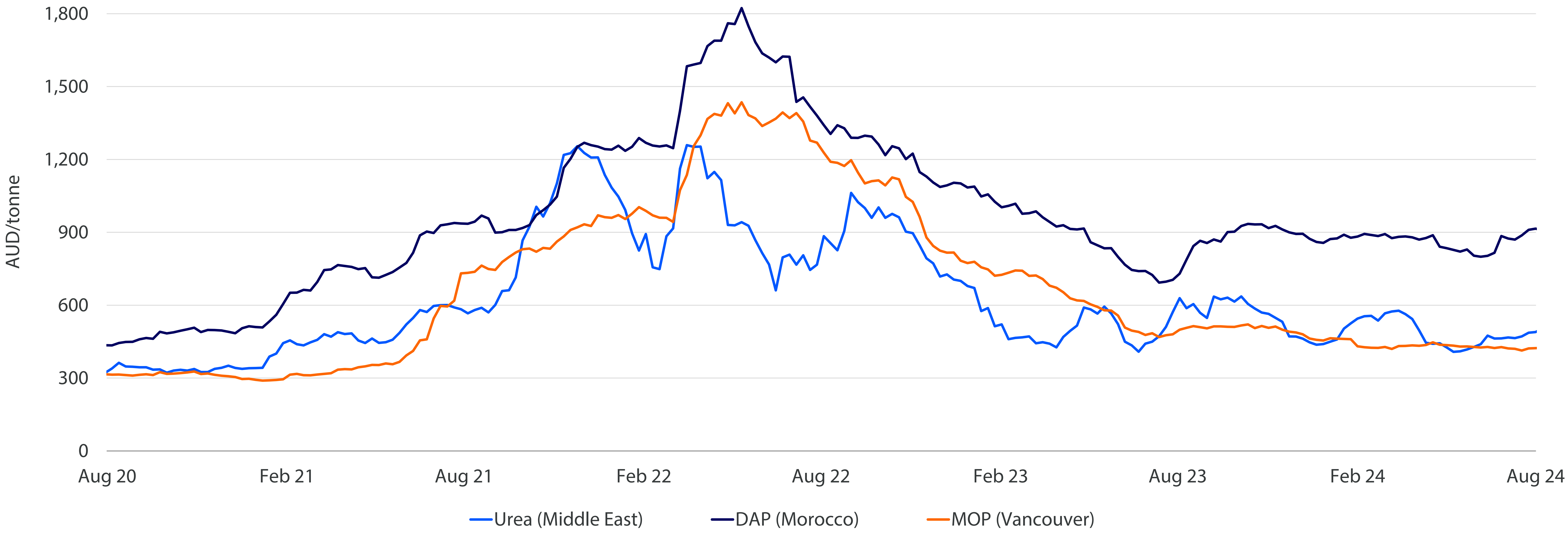
What to watch:

- **The Red Sea crisis** and port congestion in Asia will be key for the future direction of container shipping rates. These freight rates will continue to impact local Australian FOB pricing.
- **China's export restrictions, and their duration,** will also become an important component of global markets in the coming months, especially if there is a change in policy direction.

Farm inputs

Urea prices caught between demand weakness and supply constraints

Global urea demand has been flat in recent weeks, preventing prices from pushing higher



Source: *CRU, RaboResearch 2024*

Rabobank

Interest rate and FX

Sighs of relief

The all-important Q2 2024 CPI inflation report showed core inflation lower than expected, reducing the likelihood of another rate hike for the time being.

Surveyed economists were expecting a core inflation reading of 1% in Q2 2024, but the actual figure was 0.8%, in-line with the RBA's forecast. Particularly encouraging for the central bank was that there were signs of good progress on services inflation, which has been a major challenge to date.

While services inflation was markedly lower, goods inflation rose for the first time in nine months, likely due to the Red Sea shipping disruptions and associated spikes in freight rates.

While the inflation fight is certainly far from won (core inflation was still 3.9%, well above the RBA's 2.5% target) an inflation reading in line with the RBA's expectations, progress on services inflation, and the RBA's reluctance to tighten monetary policy further make the prospect of a rate hike this year seem unlikely.

Consequently, we have revised our forecast on the RBA cash rate to no longer include further hikes to the cash rate, but we don't expect a rate cut until well into 2025.

The relatively benign Q2 2024 inflation report and further signs of economic weakness in China conspired to push the value of the Australian dollar around 1.9% lower over the course of July, closing the month at USc 65.4. The softer tone in the Australian dollar is welcome news for exporters, but RaboResearch still expects that the Australian dollar will strengthen in the months ahead as the US Federal Reserve is expected to begin delivering cuts to the official Fed Funds rate.

What to watch:

- **July Labour Force Survey, released 15 August**– Employment growth has surprised on the upside for the last three months in a row, but the unemployment rate has been gradually grinding higher as growth in the labour force exceeds growth in employment. The tightness in the labour force is an important consideration for interest rates and the strength of the currency.
- **July retail turnover report, released 30 August** – The July retail turnover report will be an important indicator of the strength of household consumption and the first measurement following the introduction of the Stage 3 tax cuts on 1 July.

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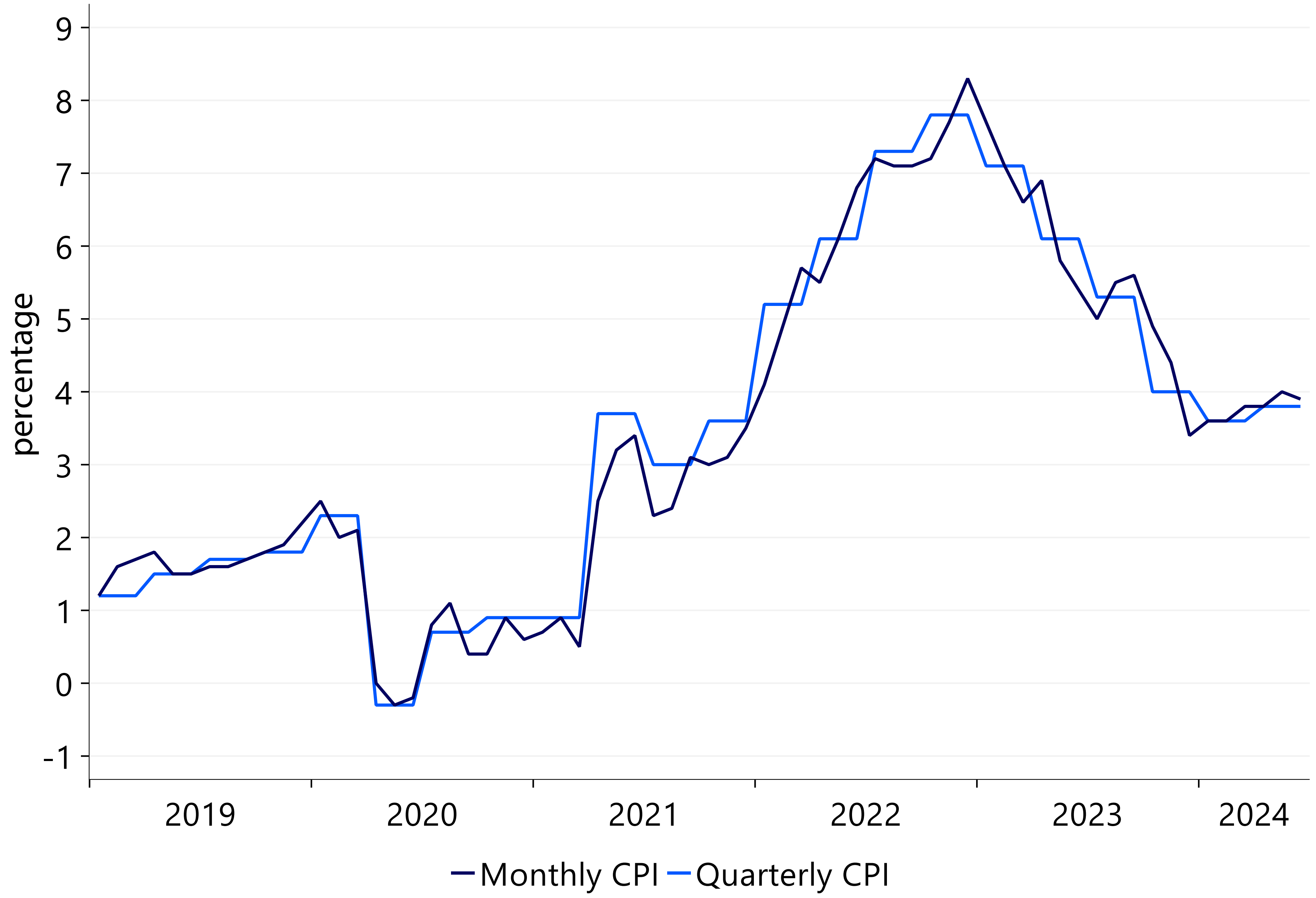
Interest rate and FX

An inflation reprieve in Q2, but the job is far from done

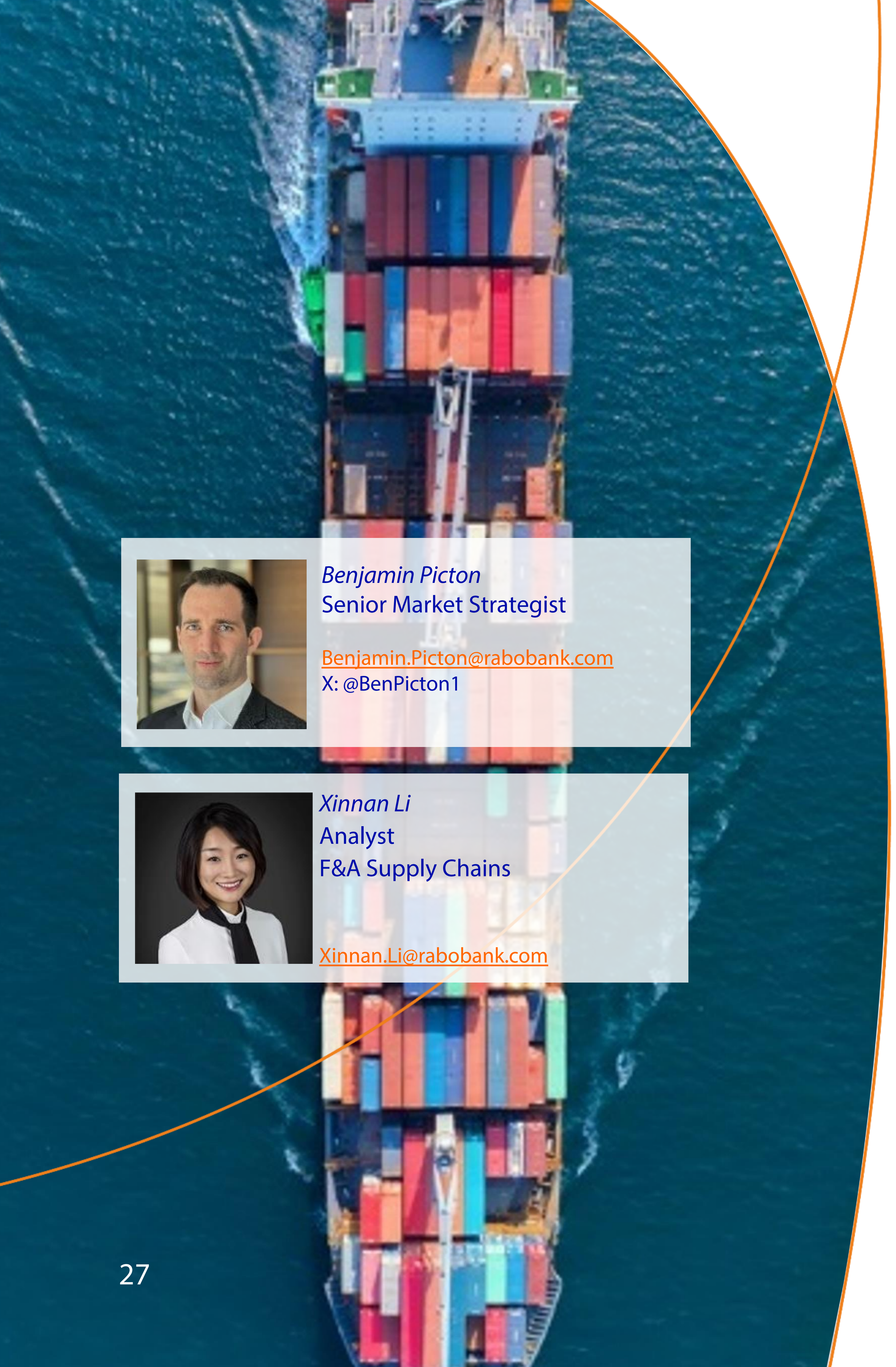
Australian labour force indicators

Source: Macrobond, ABS, RaboResearch 2024

Australian inflation indicators



Source: Macrobond, ABS, RBA, RaboResearch 2024



Oil and freight

Crude reverses June gains

Brent crude lost most of the June gains in July, closing the month at USD 80.84/bbl. Lower-than-expected economic growth for China in Q2, along with weak economic data for the US, weighed on the outlook for demand during the month.

We expect that the near-term supply/demand dynamics will keep downward pressure on crude oil and refined product prices as OPEC looks to gradually restore production. However, the prospect of lower US production toward year end keeps us bullish on a more medium-term basis.

A key risk for oil prices is the potential escalation of the conflict between Israel and Hamas/Hezbollah/Iran, following the assassination of Hamas' top political leader in Tehran and a senior Hezbollah commander in Beirut.

Port congestions in Asia continue to impact container availability and pricing, although the worst may soon be behind us. According to Kuehne + Nagel, the total capacity of ocean containers has grown by 10.4% over the past 12 months. However, much of this capacity was absorbed by re-routing due to congestion in the Red Sea and Asian ports in recent months.

The industry expects impacts from the Red Sea conflict to last throughout 2024, and port congestion to start easing in August, suggesting continued tight, but slowly relieving market conditions for the remainder of the year. Global volume is recovering, driven by sustained household consumption and inventory rebuild. However, carrier profitability suffered from volatile costs.

The Baltic Panamax index (a proxy for grain bulk freight) seems to have stabilised around sub-2000 levels in the last month, as the market lacks near-term momentum.

What to watch:

- **Middle East tensions**– In response to the assassination of two senior figures from Hamas and Hezbollah, Iran and its allies have vowed retaliation. Israel has also made it clear that they will repay in kind to any significant attack against them. The heightened tensions in the region present a key near-term risk to prices in the energy complex.

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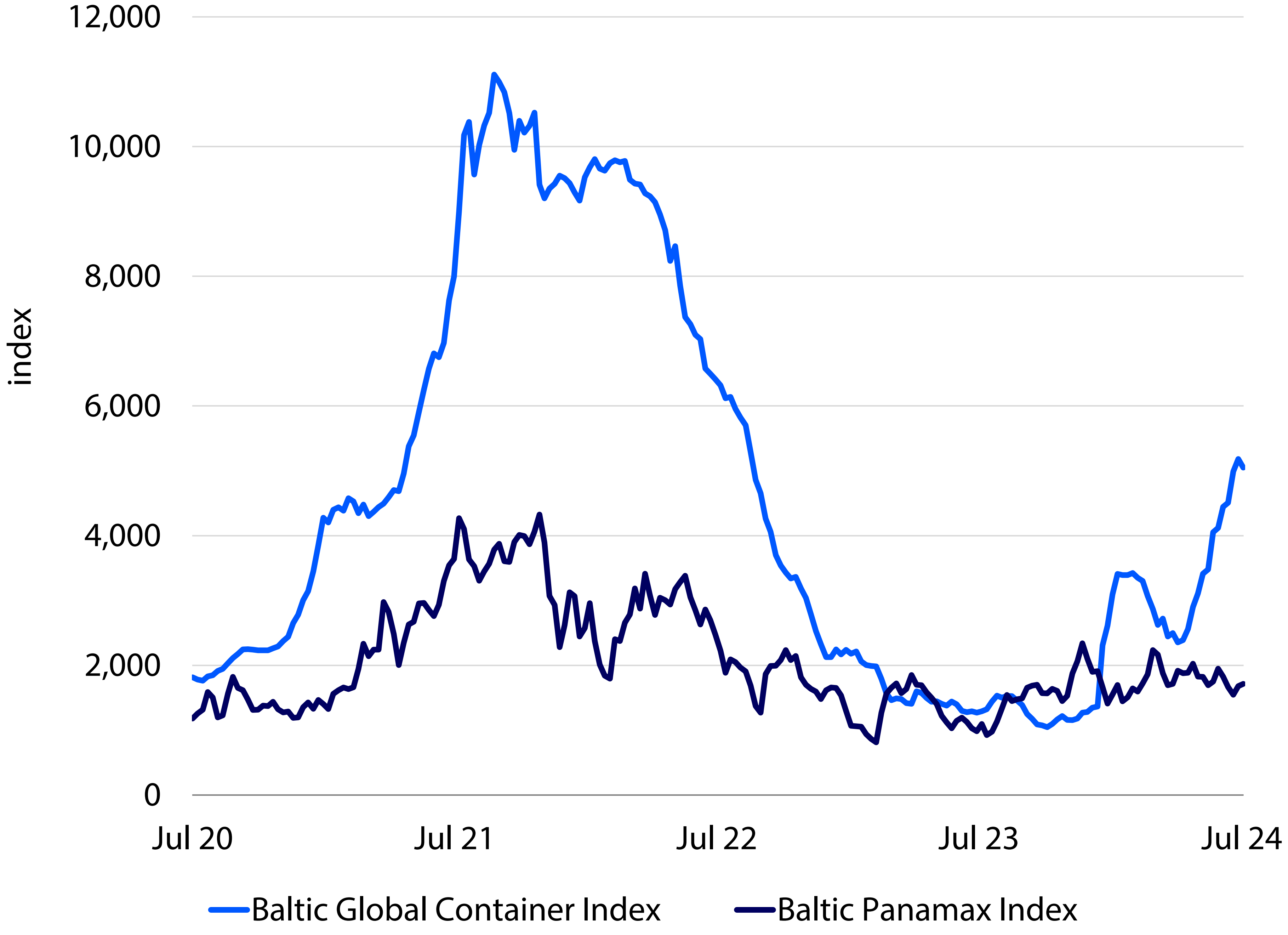
Oil and freight

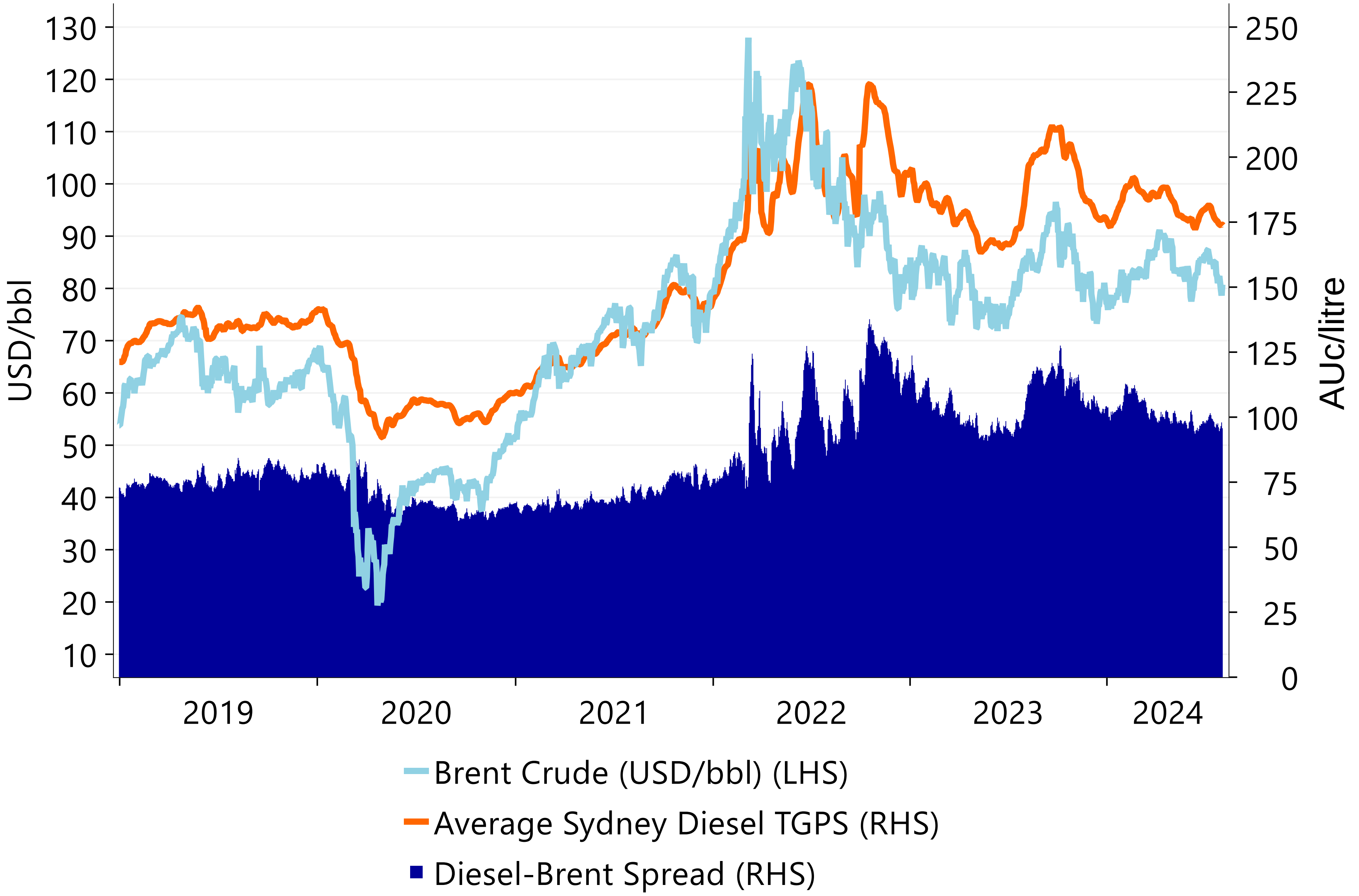
Supply shocks?

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



Source: *Baltic Exchange, Bloomberg, RaboResearch 2024*

Brent crude versus Sydney diesel prices, 2019-2024



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

Agri price dashboard

7/08/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	545	553	635
CBOT soybean	USc/bushel	▼	1,021	1,174	1,432
CBOT corn	USc/bushel	▼	387	396	481
Australian ASX EC Wheat Track	AUD/tonne	▼	330	348	399
Non-GM Canola Newcastle Track	AUD/tonne	▼	648	718	694
Feed Barley F1 Geelong Track	AUD/tonne	▼	307	318	329
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	668	606	558
Feeder Steer	AUc/kg lwt	▲	349	321	321
North Island Bull 300kg	NZc/kg cwt	▲	660	635	565
South Island Bull 300kg	NZc/kg cwt	▲	600	570	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	825	777	486
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	690	660	700
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	700	655	700
Venison markets					
North Island Stag	NZc/kg cwt	•	860	860	875
South Island Stag	NZc/kg cwt	▲	860	855	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	7,513	7,075	4,713
Skim Milk Powder	USD/tonne FOB	▼	2,588	2,700	2,488
Whole Milk Powder	USD/tonne FOB	▼	3,150	3,263	2,988
Cheddar	USD/tonne FOB	▲	4,325	4,250	4,000

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

7/08/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	79.6	81.5	96
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	66.2	67.3	86
Sugar markets					
ICE Sugar No.11	USc/lb	▼	17.9	20.1	23.7
ICE Sugar No.11 (AUD)	AUD/tonne	▼	603	659	723
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,124	1,125	1,176
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	343	353	400
DAP (US Gulf)	USD/tonne FOB	•	550	550	480
Other					
Baltic Panamax Index	1000=1985	▲	1,697	1,531	1,233
Brent Crude Oil	USD/bbl	▼	76	86	88
Economics/currency					
AUD	vs. USD	▼	0.653	0.674	0.653
NZD	vs. USD	▼	0.599	0.613	0.605
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	•	5.50	5.50	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

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