Wet or dry, planting is underway

Australia agribusiness monthly

RaboResearch Food and Agribusiness

May 2024

Rabobank

Commodity outlooks

Climate

El Niño comes to an end, with three global models predicting La Niña by late winter.

Sustainability

Australia's net national emissions have decreased 29% since 2005, mainly driven by the land use, land-use change, and forestry (LULUCF) sector. The agriculture sector's share of total national emissions has grown over this time.

Wheat and barley

May is the key month for determining yields in Europe and the Black Sea's winter wheat varieties. Market volatility is expected as prices will swing according to what the rainfall radar indicates. Australian prices may follow a different trend if the late May rainfall does not come.

Canola

The vegetable oil market is chasing price balance amid an imbalance of oilseed meal and oil demand. This stretches crushers' margins and might cause a larger carryover than initially expected.

Beef

Prices continue to track sideways. Although a forecast of drier conditions in May could see prices ease a little, we believe seasonal forecasts into June and July should continue to support prices at current levels.

Sheepmeat

Lamb prices are starting to split. Slaughter-weight lambs are holding steady while restocker and merino lamb prices have started to drift down again. This could be a positive sign that consumer demand is returning to support slaughter-weight lamb prices.

Wool

Wool prices continue to hold at existing levels amid indications that clothing demand may be on the rise, leading to a lift in industry sentiment.

Dairy

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

Cotton

ICE #2 Cotton futures collapsed to 18-month lows as funds quickly exited their massive net long position over the course of April in anticipation of a strong global 2024/25 supply outlook and sluggish demand.

Consumer foods

The latest retail trade data for March highlighted an ongoing slowdown in Australian household expenditure on food. Quarterly food price inflation moderated in March and should continue this trend in the coming months.

Farm inputs

Farm input markets remain quiet as demand is soft and supply outputs are steady. On the other hand, high freight prices are negatively impacting further farmgate price reduction.

Interest rate and FX

Rabobank has revised its forecast on the RBA cash rate to include two more 25 basis point rate hikes this year, in August and November. We believe that the RBA is at risk of deviating materially from its projected path for inflation and unemployment, making it harder to justify Australia's comparatively low cash rate.

Oil and freight

Brent crude oil rose again in April to mark the fourth-straight month of gains, but has since fallen substantially to USD 83/bbl. Slower-than-expected growth in the US and de-escalation in the Middle East pressure prices.

Climate

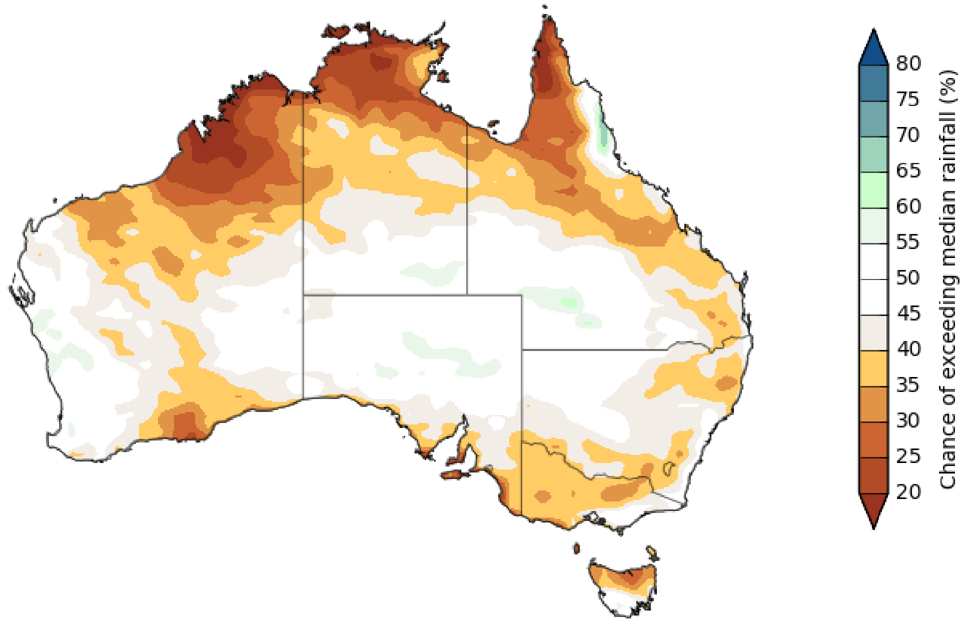
End to El Niño

ENSO returned to neutral in April as sea surface temperatures in the Pacific cool. Three out of seven international models are predicting a La Niña by late winter. Despite this, global sea surface temperatures have been the warmest on record for each month between April 2023 and March 2024, and now April 2024 is tracking above April 2023. This period of unprecedented warm temperatures is impacting the reliability of model predictions.

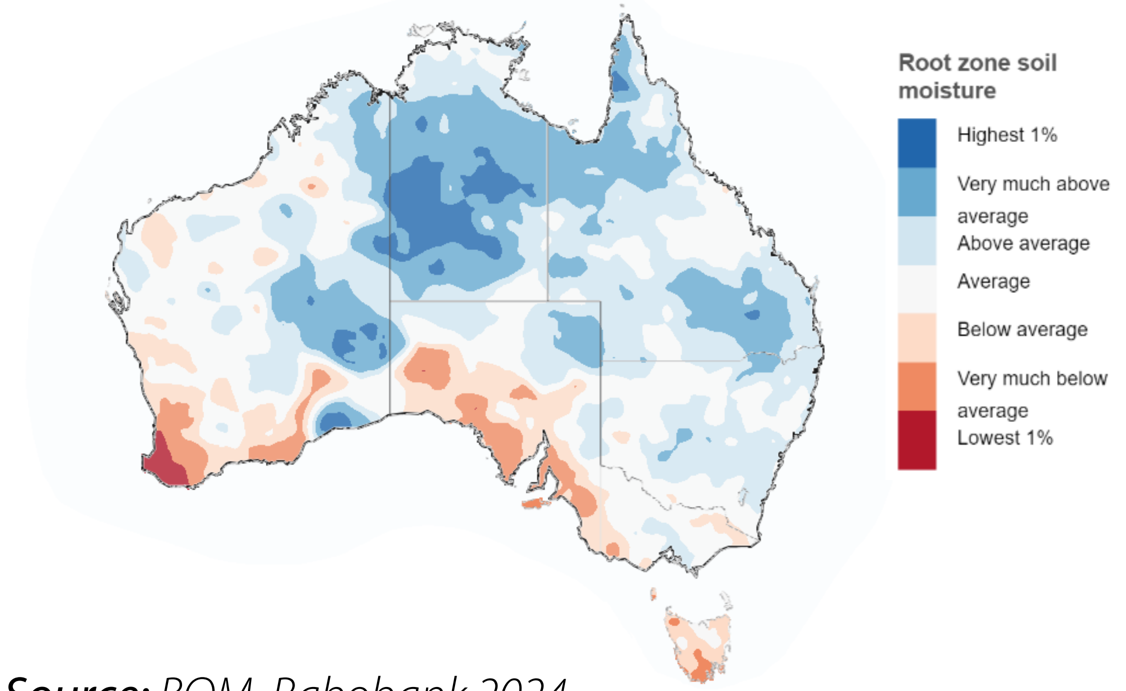
The Indian Ocean Dipole is neutral, and models expect a positive IOD formation in May. National April rainfall was 26% below average. Rainfall was very much below average for South Australia and Western Australia while heavy rainfall fell on the east coast of New South Wales and Queensland's tropical north.

The BOM reports that the chance of exceeding median rainfall during the May to July period remains moderate in most regions and low for northern Australia. Water storage levels remain high but are slowly declining, currently at 75% for the Murray-Darling Basin.

May-July rainfall outlook



Relative soil moisture, April 2024



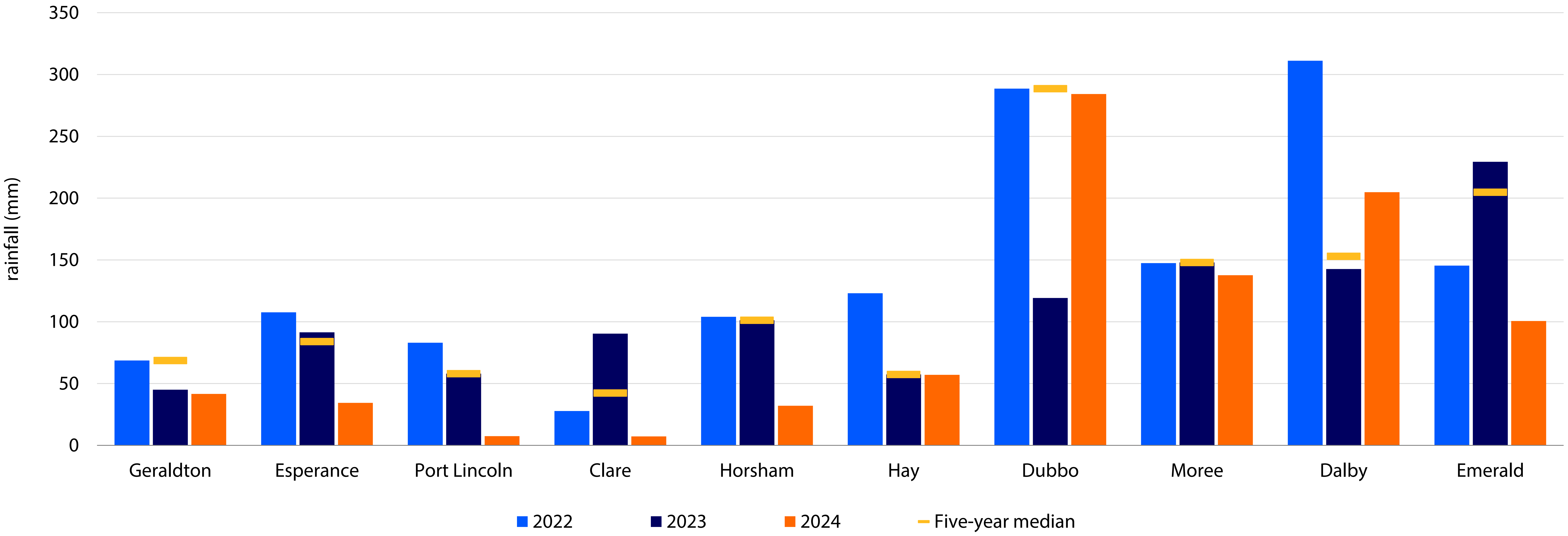
Source: BOM, Rabobank 2024

Rabobank

Climate

Agricultural regions' rainfall – Dry start for Western and South Australia

February-April rainfall



Source: *BOM, Rabobank 2024*

Anna Drake
Sustainability Analyst

Anna.Drake@rabobank.com
X: @itsadrake

Sustainability

Paris progress published

The Australian government has published its National Inventory Report for 2022. This is Australia's second submission of National Greenhouse Accounts under the Paris Agreement.

National net emissions decreased 29% between 2004/05 and 2021/22. Small reductions in net emissions were seen in the energy, agriculture, and waste sectors, but the lion's share of the total reduction came from the land use, land-use change, and forestry (LULUCF) sector, which contributed 92% of the overall reduction. The LULUCF sector's shift from a net source to a net sink of emissions was driven by reductions in land clearing rates and increases in native vegetation in previously cleared forest lands.

Agriculture is the second-largest source of emissions in Australia, behind energy. The relative share of agriculture within net national emissions is also growing, increasing from 14% to 18% between 2004/05 and 2021/22 as the net national footprint shrinks.

Within Australia's agricultural emissions, enteric fermentation by livestock made up 71% of the total. Trends in enteric fermentation emissions mirror herd size, with a small uptick observed in 2021/22 as the reporting data begins to capture the herd recovery.

Current government projections show existing policies that are primarily targeted towards the energy sector have effectively put Australia on track to achieve the legislated 2030 emissions target of 43% below 2005 levels. However, as agriculture's share of national emissions grows and other sectors with relatively lower abatement costs implement decarbonisation measures, **increasing scrutiny can be expected on the agriculture sector to articulate how it is contributing to national medium- and long-term emissions reduction commitments.**

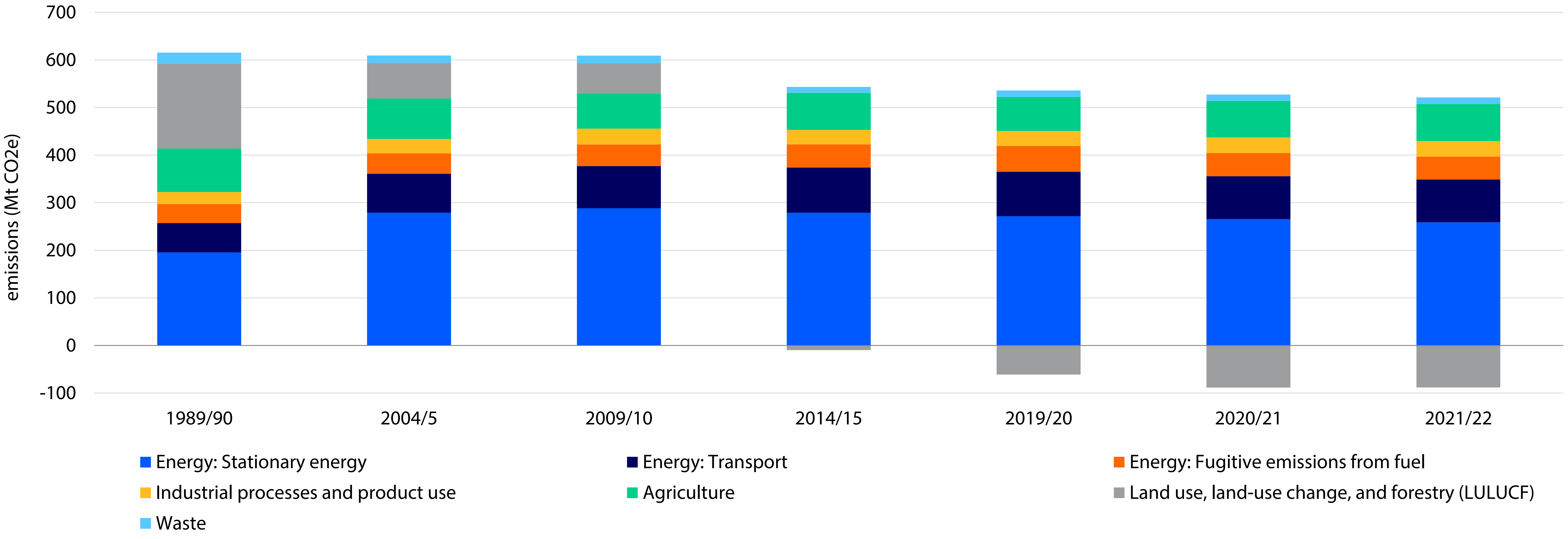
What to watch:

- **The federal budget** – This will be delivered on May 14 and is expected to signal how the government intends to support the agriculture sector to adapt to climate change while also contributing to national emissions reduction targets.
- **New emissions targets** – The Australian government is developing its Net Zero Plan, which will include a new 2035 emissions target. Although the government has stated that it does not intend to set sector-level targets, the Paris Agreement requires the new national emissions reduction target to be more ambitious than the current target of 43% by 2030.

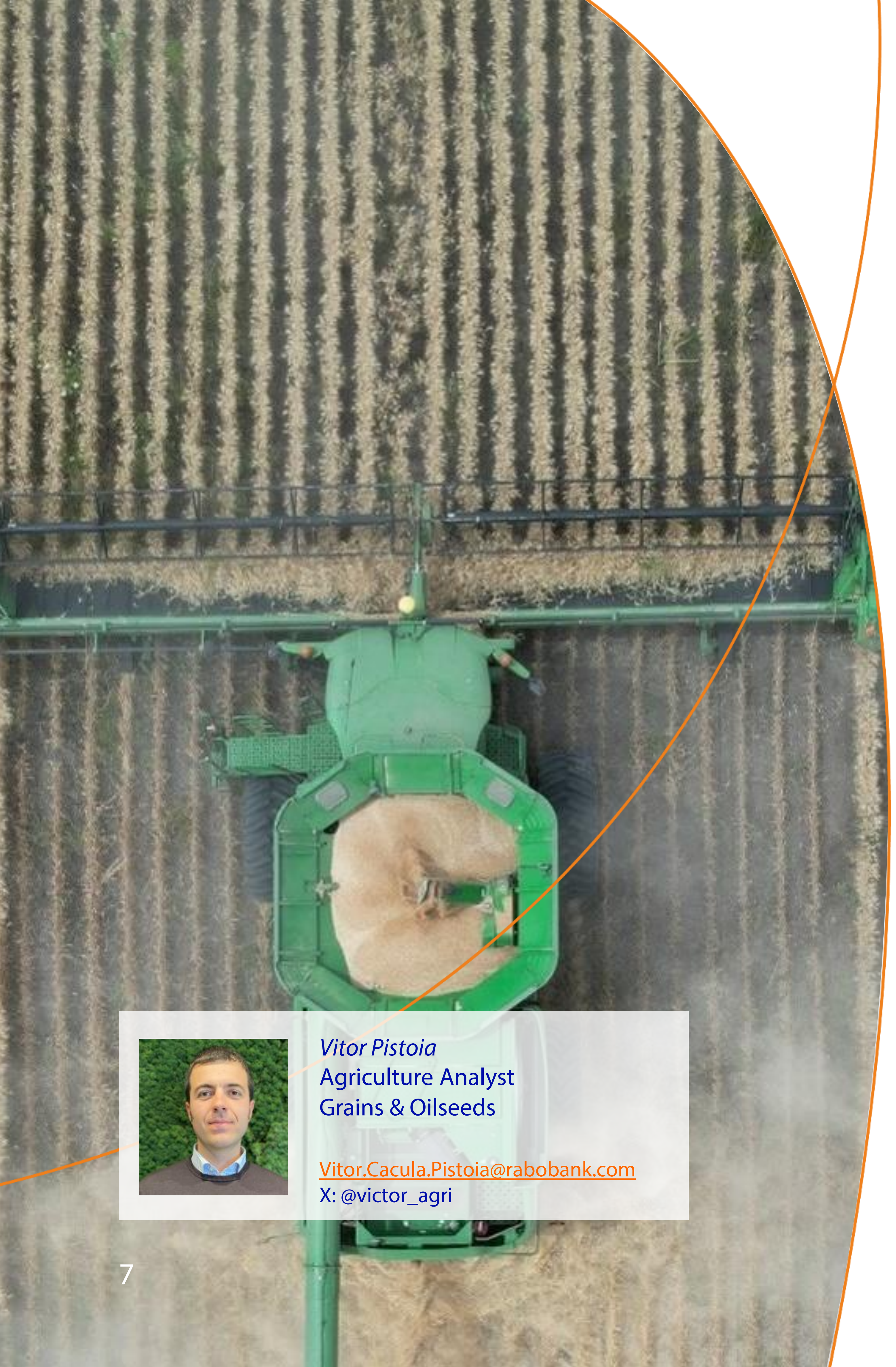
Sustainability

National emissions reporting shows agriculture's share of national emissions is on the rise

Land use, land-use change, and forestry is the main contributor to Australia's 29% reduction in national net emissions since 2004/05



Source: *DCCEEW National Inventory Report 2022, Rabobank 2024*



Wheat and barley

Forecasts and scenarios

Wheat prices saw a big swing from March to April on the back of weather concerns in Russia, Ukraine, and the US. These three countries produce roughly 21% and export 41% of all wheat globally. The CBOT Wheat front-month contract rose in April by 4.4%, to a level equivalent to USD 328/tonne. The 2024 December contract rose 5.7%, as of 1 May. At the same time, with wetter-than-usual northern European conditions, the MATIF Wheat spot market grew only 0.7% and Russian spot prices rose 1.9%. **Markets will remain volatile while Northern Hemisphere spring seeding continues. May is the defining month for winter grain yields.**

Down Under, ASX wheat spot reference prices rose 6% to AUD 345/tonne, putting the basis versus CBOT at AUD 17/tonne, or 5%. The basis value was above 12% for four of the last eight years. The January 2025 future contract is up 4.3% over the last 30 days, now at AUD 363/tonne, virtually equal to CBOT December 2024. **This means Australian wheat prices are competitive compared to CBOT.** How will these prices evolve during the Australian seeding period?

Assuming the early May rainfall forecast materialises in the Russian and North American wheat belts, the CBOT spot price could drop to USD 325/tonne. If not, the price has room to rally up to USD 350/tonne. On the Australian side, the rainfall forecast for May is not bad, showing volumes from 10 to 50mm for the majority of the Wheatbelt area. The problem is the time frame, with most of the forecast projected for the second half of May. Australian prices will show some resistance to overseas volatility until then. If the rainfall comes, a low-basis scenario is likely. Otherwise, ASX will go higher, but not by much. There are old crop volumes still to market that are acting as a price lid. **APW has a big range to float in the coming weeks, from AUD 340 to AUD 390/tonne. The more rain that comes, here and overseas, the lower the price tends to be.**

What to watch:

- **Barley prices** – Feed barley prices improved more compared to wheat in the last weeks, indicating that feed demand is building up. Compared to the national APW average, the feed barley basis is just -8%, with a long-term average of -12%. Compared to CBOT Corn, Australian feed barley is showing a positive basis of 47% versus a long-term average of 32%. This is due to Western and South Australian dryness. If improved rains arrive in May, price drops are expected.
- **Dryness in Russia –** Russian wheat crop estimates are slowly starting to shrink, but for now are still above 90m tonnes.
- **USDA 2024/25 production forecast –** On May 10, the USDA will release its first forecast for 2024/25, which can drive price volatility.

Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

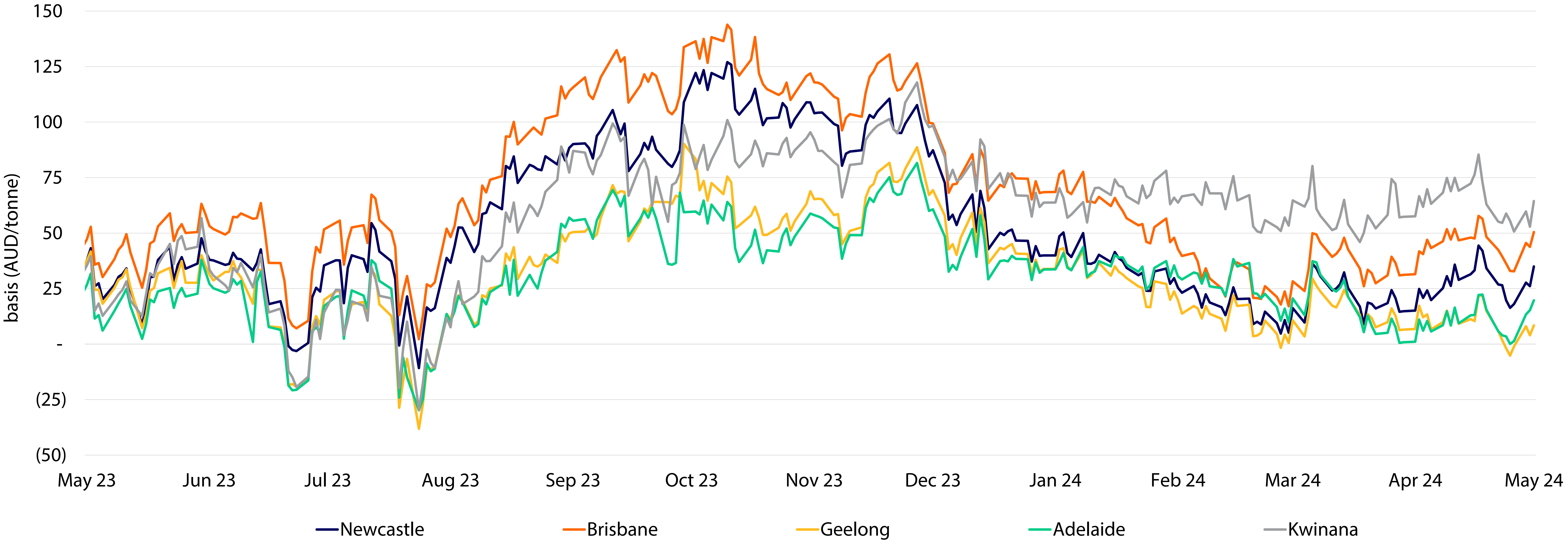
Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

Rabobank

Wheat and barley

Australian prices are still following global volatility

Wheat basis prices have room to grow if dryness persists in May



Source: *Bloomberg, Rabobank 2024*

Rabobank

Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

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

Canola

Seeding the wheel of fortune

During April, canola prices were battered from all directions. ICE spot prices dropped 3.5%, now at AUD 683/tonne, MATIF remained virtually stable at AUD 722/tonne, and Australia's non-GM canola average shows AUD 679/tonne, increasing by 3.7% in the last 30 days. The spread compared to GM varieties is at AUD 43/tonne. The elements causing this erratic behaviour across markets are mixed weather conditions in Europe, a drop in price for vegetable oil and crude oil, concerns about Canada and Australia's seeding, and how large of a carryover will be around.

Not only did Brent crude oil prices drop 3% during April, but soybean oil fell 12%, and palm oil spot prices were down 10%. The oilseeds complex is trying to understand how big the year-over-year ending stocks increase might be, especially the amount for each crop. Soybeans are poised to rise by 11m tonnes YOY, but the canola and sunflower figures are not clear. They could drop from 1m to 2m tonnes each, depending on weather conditions.

While seeds are going to ground, the global canola export market has become a bit softer. In Q1, the top 5 canola-exporting countries sold 18% less canola, a reduction of 0.8m tonnes YOY. This could lead to a larger carryover than initially expected, mainly in Canada. This greater carryover could potentially offset an eventual drop in acreage due to dryness.

Looking ahead, market volatility is expected. **The Australian and Canadian crops need more rainfall to be sown on time or run the risk to lose area. Both countries account for about 23m tonnes – or 30% – of global canola output. The balance of bulls and bears points to some price upside, though we expect no exciting price swings.** Germany, the second-largest canola producer in the EU, is experiencing a period of very high soil moisture, which could encourage more demand. On the other hand, oilseed crushers' margins in Europe are under pressure from tepid meal demand, likely curtailing more price increases.

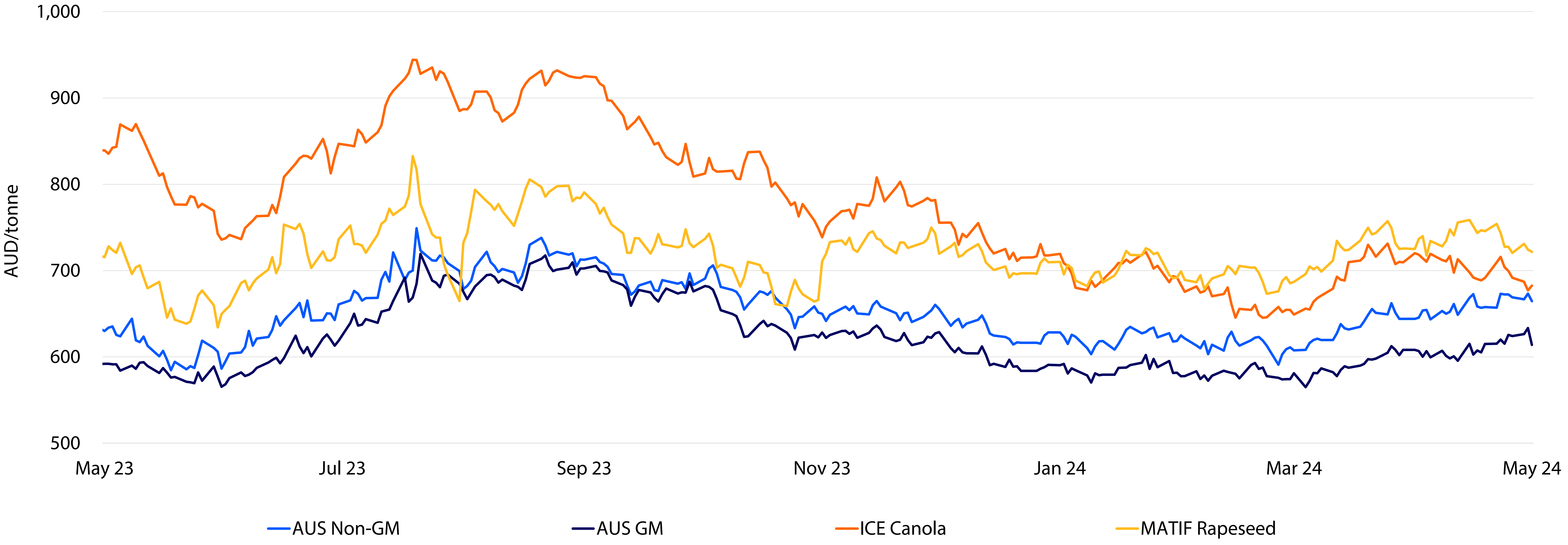
What to watch:

- **Canadian soil moisture** – Seeding has started in Canada, and the subsoil moisture is not great. Snowfall during winter was poor, which will make the crop more dependent on in-season rainfall. Normally snow and off-season rain account for up to 50% of crop water availability, depending on the region and weather conditions. This will expose canola prices to more volatility.

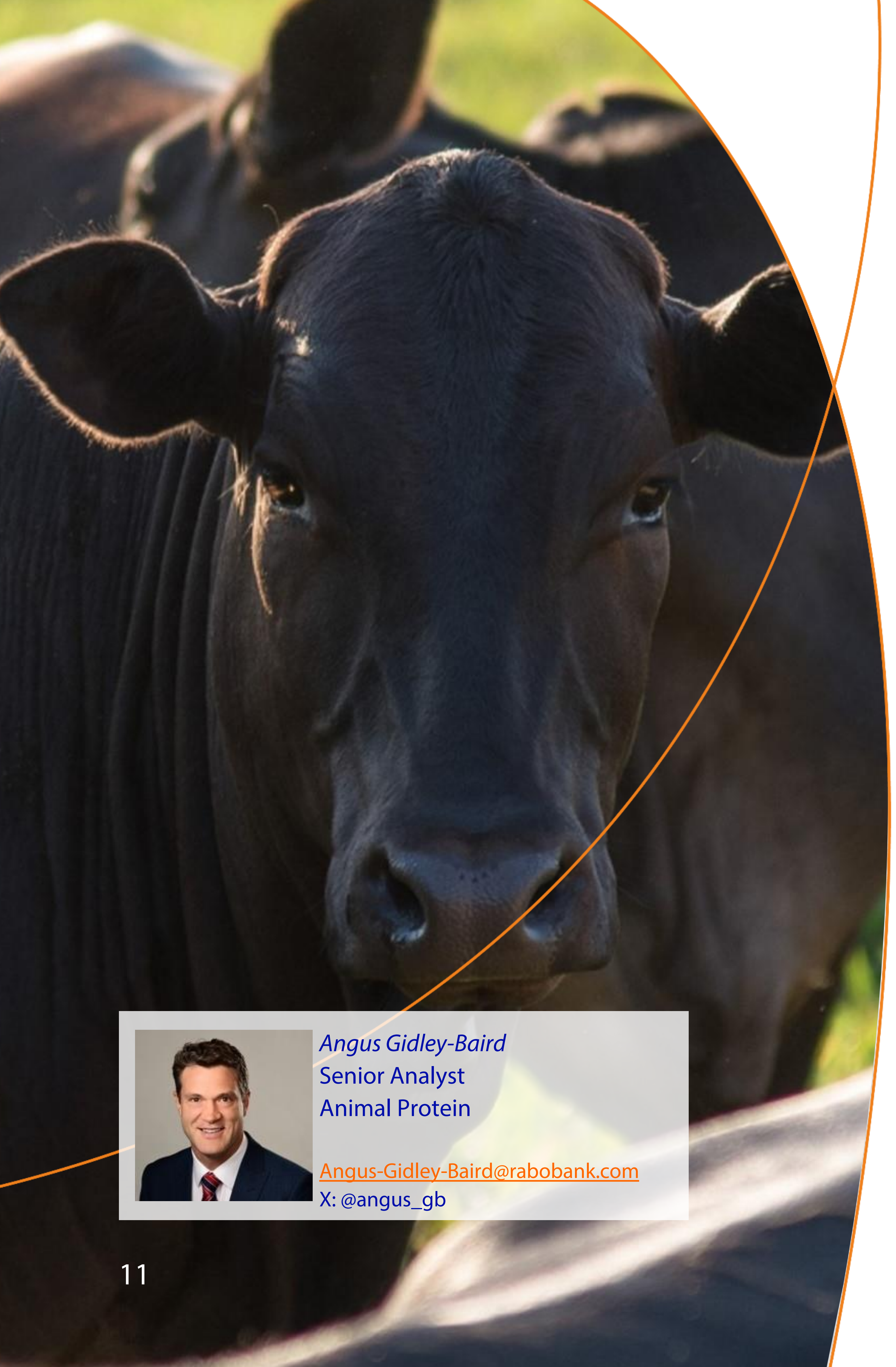
Canola

A rainfall and price seesaw

European crops are on track to achieve good yields, so Canadian conditions will move the needle in the short term



Source: *Bloomberg, Rabobank 2024*



Beef

Welcome to beef week – the market stays steady

As Beef Australia 2024 is underway in Rockhampton, the cattle market is holding steady. The EYCI traded between AUc 582/kg and AUc 626/kg for the month of April. Feeder cattle and restocker cattle prices remained relatively steady through the month, similar to the EYCI. Feeder cattle were AUc 318/kg on 28 March. Processor cow prices, after jumping early in the month, retracted to fall back into line with the downward trend they have been following most of the year. For the first time since the beginning of the year they fell below AUc 200/kg. This is interesting, given the high US imported lean trimmings price, but as a saleyard price, it may just reflect less buying interest at the yards as cattle are being delivered directly to abattoirs. **The BOM is forecasting May rainfall to be likely below median for much of Australia, and with a few more cattle on the market as the northern Queensland first round musters take place, we may see cattle prices ease a little through May. But with favourable seasonal conditions forecast into winter, we expect prices will continue to track around current levels.**

Weekly slaughter numbers bounced around in April given the shorter weeks due to Easter and Anzac Day. Year-to-date slaughter volumes are up 15% on last year as of the end of April. Western Australia numbers are up 22%, reflecting a higher turnoff given drier conditions. Queensland and New South Wales female slaughter numbers are up 34% and 28%, respectively. We believe this reflects the higher number of cattle in the system rather than any herd liquidation.

Beef exports for April were up 46% YOY with volumes to Japan, the US, and South Korea up by 43%, 117%, and 16%, respectively, while volumes to China were down 11%. Live cattle exports for the month of March were up 84% YOY with a large jump in volumes to Indonesia, up 115% YOY. Live cattle exports year-to-date are up 59% as of March, with Indonesia up 54%.

What to watch:

- **Exports to US start to lift** – With increased volumes of Australian beef production and record-high US lean trimmings prices, Australian beef exports to the US have started to lift. Although we still believe the US herd rebuild is yet to come, the declining US production volumes are providing an opportunity for increased Australian exports to the US. Volumes in April were higher than in April of 2014 – the second-highest beef export year in the last 20 years. While we believe there remains capacity to increase volumes further, it is encouraging to see Australian export volumes increasing given our increased production.

Angus Gidley-Baird
Senior Analyst
Animal Protein

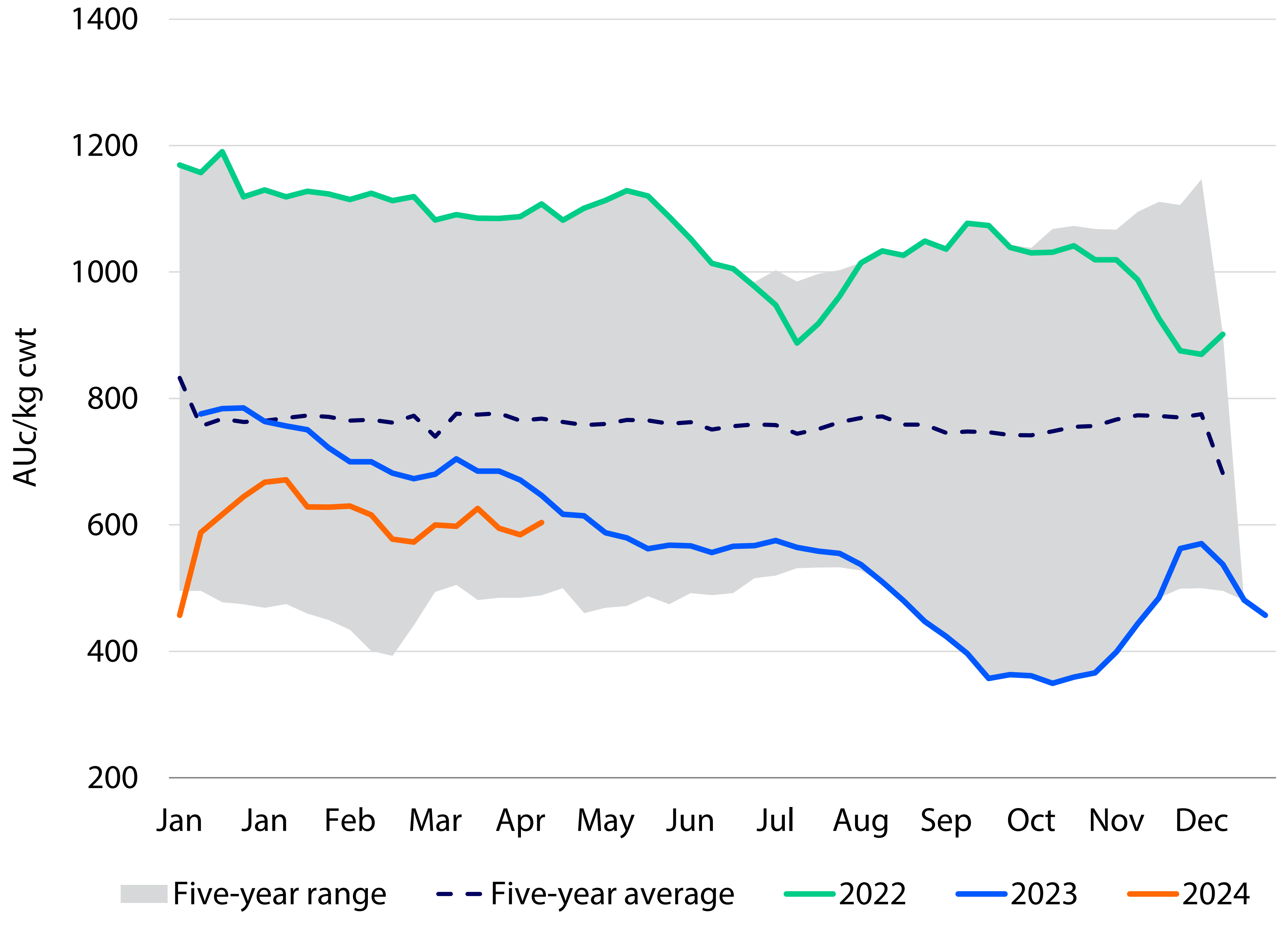
Angus-Gidley-Baird@rabobank.com
X: @angus_gb

Rabobank

Beef

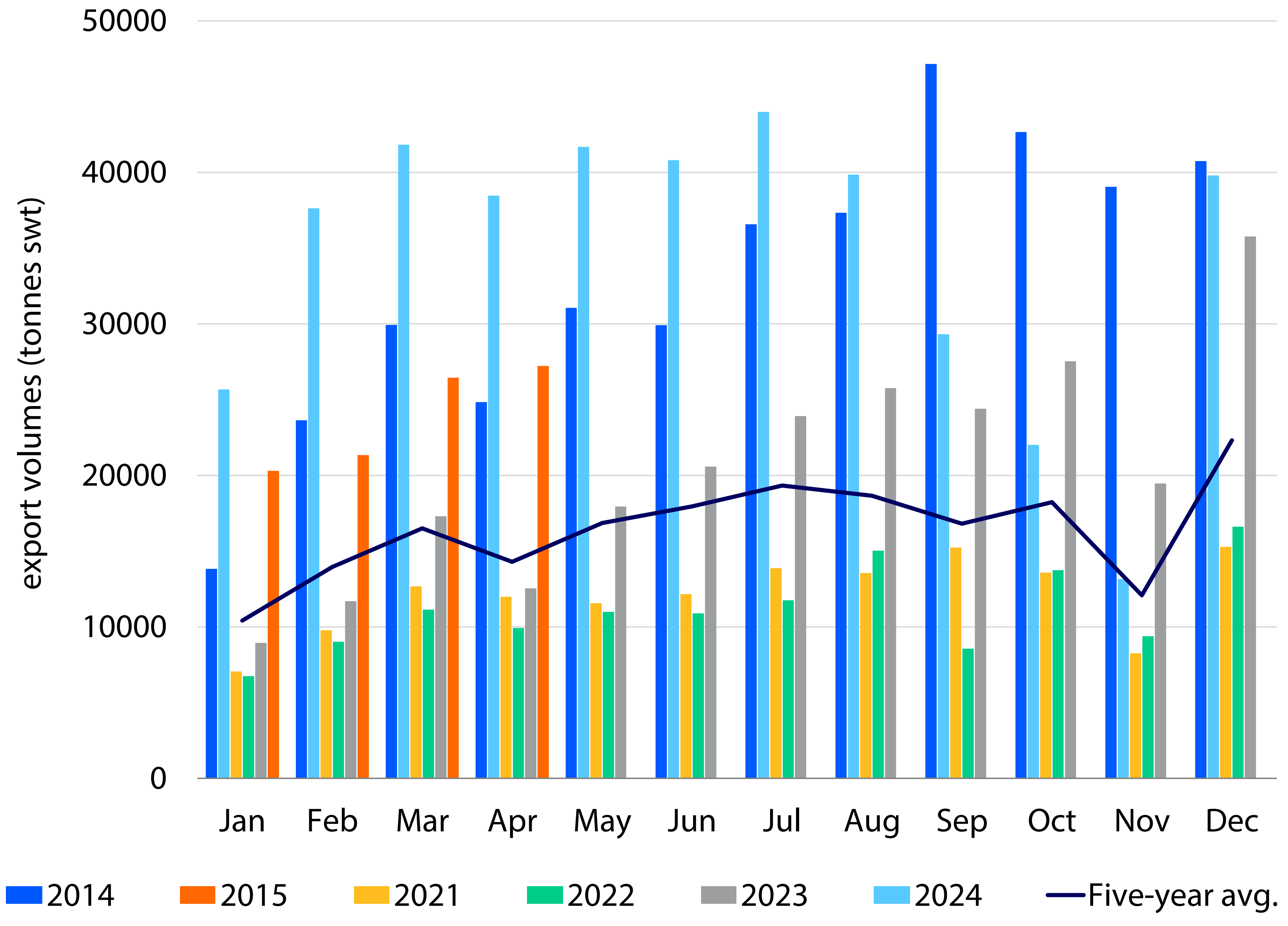
Seasonal conditions continue to support Australian cattle prices, while exports to the US start to lift

EYCI holding steady



Source: *MLA, Rabobank 2024*

Export volumes to the US starting to increase



Source: *DAFF, Rabobank 2024*

Rabobank

Sheepmeat

Demand may just be returning to the lamb market

Sheepmeat prices appear to be taking two slightly difference paths. Finished slaughter-weight lambs – trade and export – are holding relatively steady while light, restocker, and merino lamb prices have seen a fall. Trade lambs finished April at AUc 646/kg while restocker lambs fell 12% through the month to AUc 478/kg. Historically, prices of slaughter-weight lambs trend up through the months of May to July, although they didn't last year on the back of weak demand. Prices for non-slaughter-weight lambs are generally flat through the months of May and June, but in recent years they have fallen. For the week of 28 April the heavy/restocker lamb price spread jumped to the high end of the range, possibly providing some business opportunities for those with feed available. **Although we don't believe demand has fully recovered, we think it may have improved just enough to see slaughter-weight lamb prices rise slightly for the next month. But with large numbers of stock around, we may see prices for other lamb categories remain stable or slip as winter arrives.**

Weekly slaughter volumes bounced around in April due to the shorter weeks with the Easter and Anzac Day holidays. Year-to-date numbers continue to show high volumes with numbers as of the end of April up 25% versus the same period last year. Tasmanian and Victorian numbers in particular are up 45% and 34%, respectively. Sheep slaughter is up 15% for the year-to-date. Sheep slaughter numbers generally trend down from March onwards. Last year they were high until late June, and they have been high this year so far, suggesting we may continue to see large volumes for another month or so.

With increased production, lamb and mutton export volumes were higher in April, up 41% and 20%, respectively, on last year. Volumes to the US and the Middle East are exceptionally strong, recording the highest-ever volume of exports in the first four months of the year. With US import prices steady at the moment, these volumes may just be an indication that some markets are looking better, although we still have large volumes of lambs to work through.

What to watch:

- **East coast/west coast spread** – Dry conditions in Western Australia have seen west coast lamb and sheep prices not experience the same recovery as the east coast prices this year. The spread between Western Australia prices and east coast prices has opened up to historically high levels. The price spread between a Western Australian and a Victorian restocker lamb was over AUD 60/head in April. Despite this spread, we have not heard of large volumes of sheep heading east – possibly due to the high numbers already on farm in the east and full kill schedules.

Angus Gidley-Baird
Senior Analyst
Animal Protein

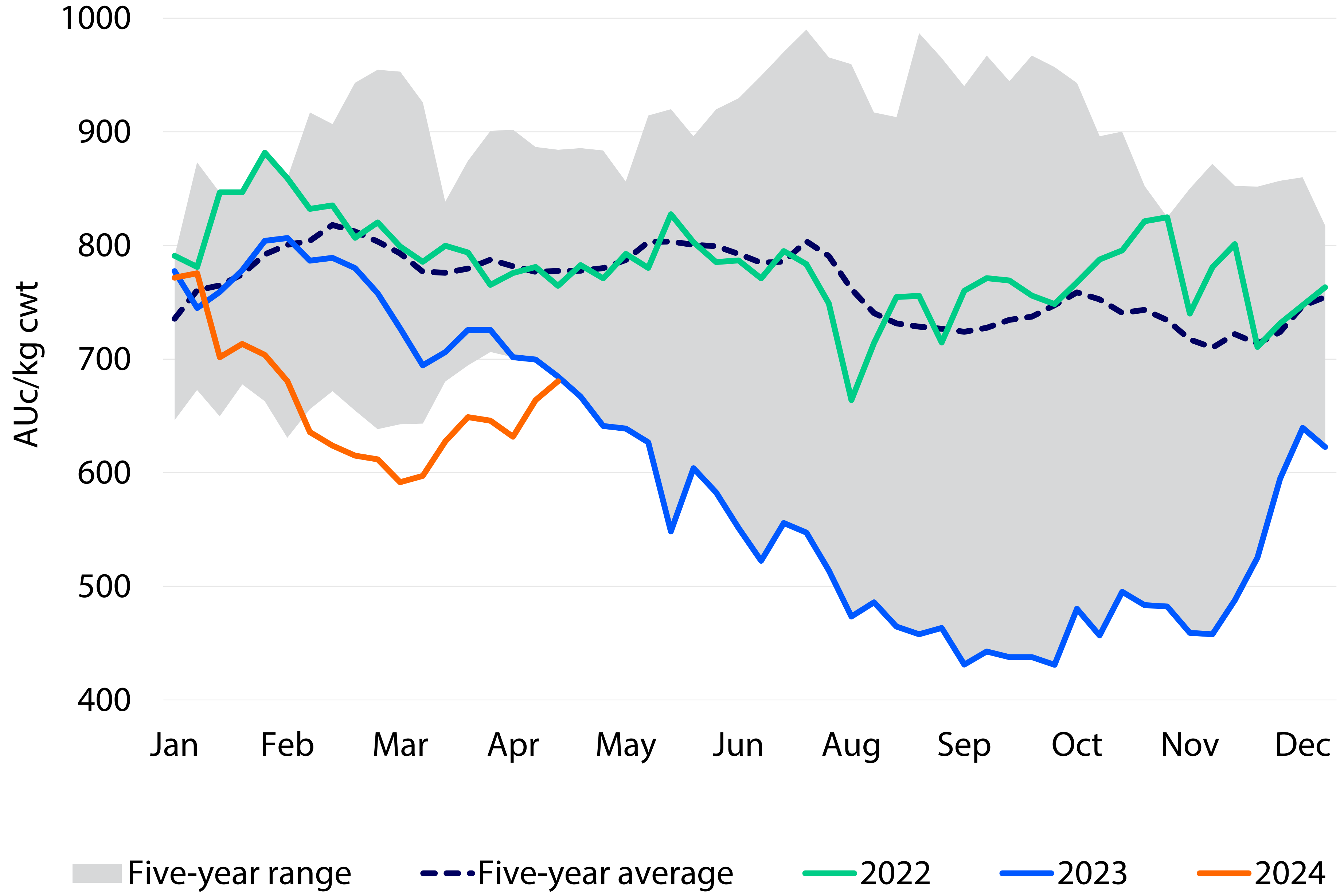
Angus-Gidley-Baird@rabobank.com
X: @angus_gb

Rabobank

Sheepmeat

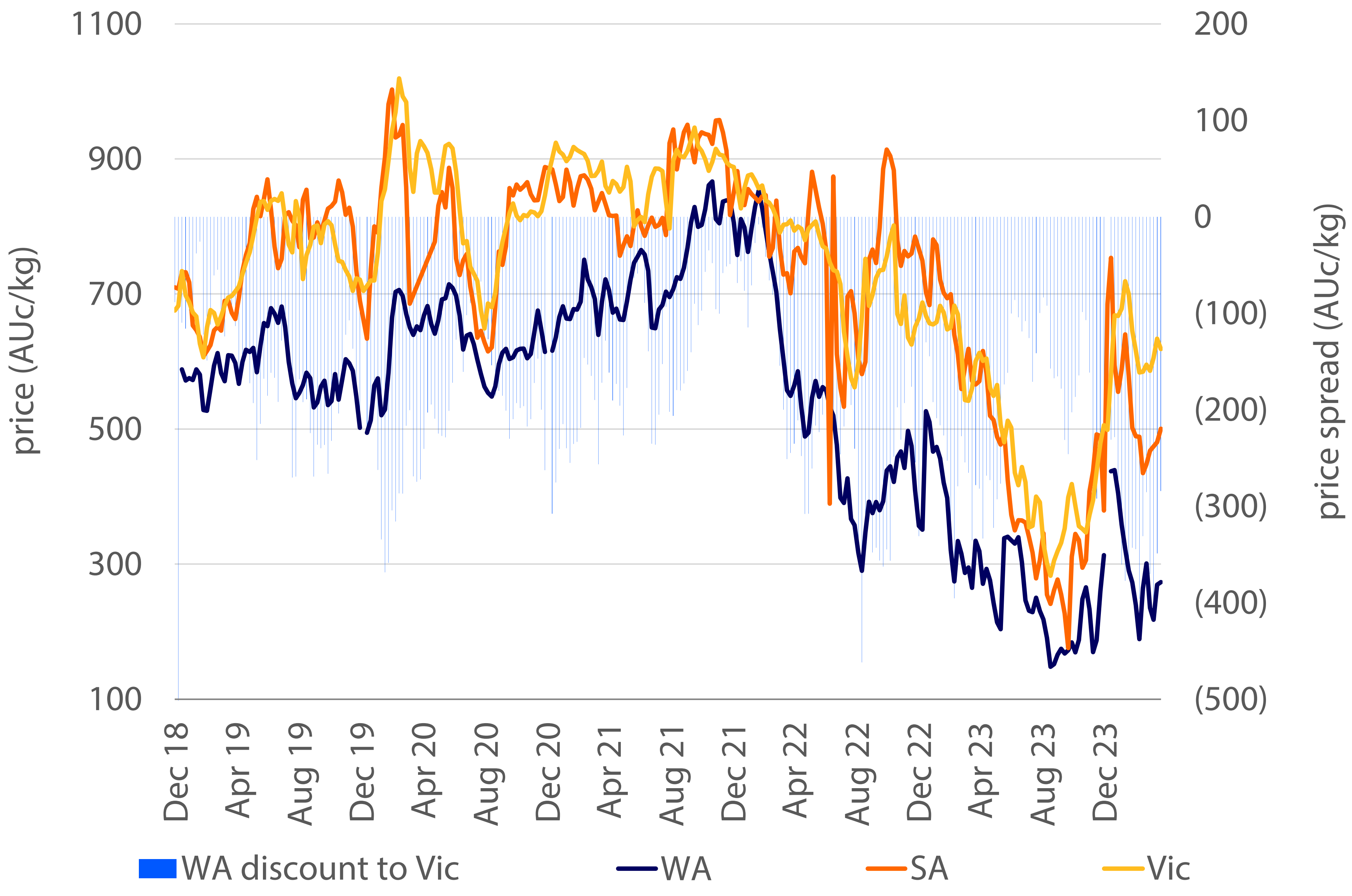
Slaughter-weight lamb prices lift while dry conditions in Western Australia lead to a large spread between east and west

Eastern States Trade Lamb Indicator (ESTLI) recovers to year-ago levels



Source: MLA, Rabobank 2024

Low Western Australia prices result in increased restocker lamb price spread with the east



Source: MLA, Rabobank 2024

Wool

Minimal price movement as clothing sales suggest improvement

Australian wool prices have remained relatively steady through the month of April. At AUc 1152/kg, the EMI as of 6 May was 1% higher than at the start of April. All wool microns followed a similar path, rising between 1% and 3% over the course of the month. The International Wool Textile Organisation congress was held in Adelaide in early May. According to some attendees, it sounds like there was a more positive feeling across the industry, with some green shoots starting to show.

Key retail clothing and footwear sales data has shown some positive signs of improvement. US, and Japanese clothing sales figures showed year-on-year growth of 5%, and 3%, respectively, for the month of February when considered in US dollars. These are some of the strongest figures in the last five years. But it is not consistent across all regions, with the UK clothing and footwear sales dropping 5% YOY in February.

Australian wool tested volumes lifted 4% in April from March to 31,674 tonnes greasy weight. This is the highest volume tested in April in over 10 years. It brings the total volume tested for the season to 284,669 tonnes, down 1% on the 2022/23 season. The AWI Australian Wool Production Forecasting committee released their latest production forecast in April. For the 2023/24 season, the committee projects shorn wool production to be 324m kg greasy, a 1% drop on the previous season. The largest drops in production are projected in Western Australia and Tasmania, down 8.3% and 8.8%, respectively, with New South Wales and South Australia projected to have the largest growth, up 2.7% and 3.4%, respectively. They also projected that production for the 2024/25 season would be down 5.8% to 306m kg greasy.

What to watch:

- **Wool production forecast to drop 1%** – The latest Australian Wool Production Forecasting Committee forecast for the 2023/24 season is calling for a 1% drop in shorn wool production year-over-year. The main cause cited was a 2.2% drop in cut per head while the number of sheep shorn is forecast to rise slightly by 0.1%. The AWPFC forecast for 2024/25 season is for a 6% drop in sheep numbers shorn, leading to a 5.8% drop in wool production year-over-year.

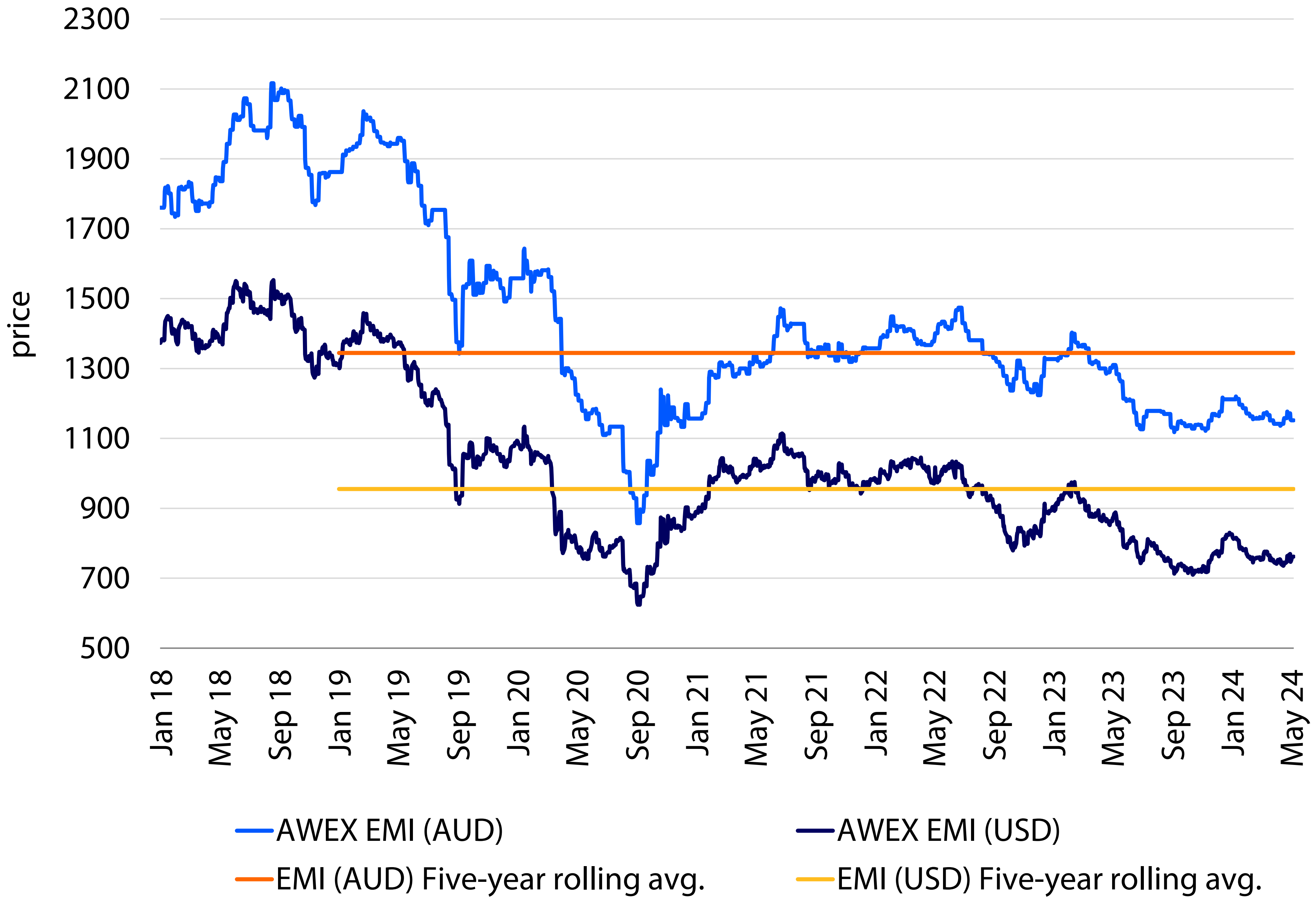
Angus Gidley-Baird
Senior Analyst
Animal Protein

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

Wool

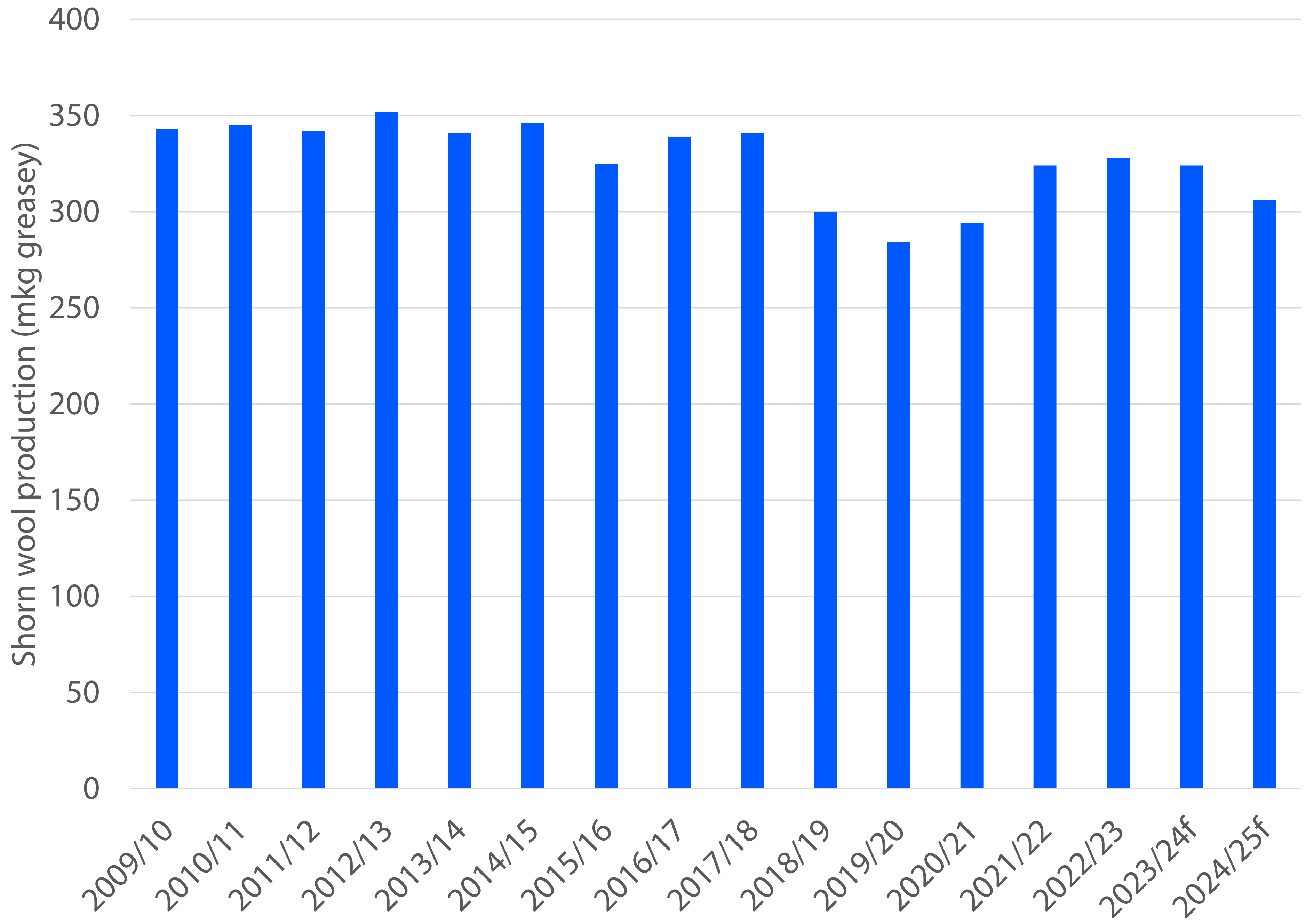
Market holding with latest production forecast indicating a contraction

Australian EMI continues to track sideways



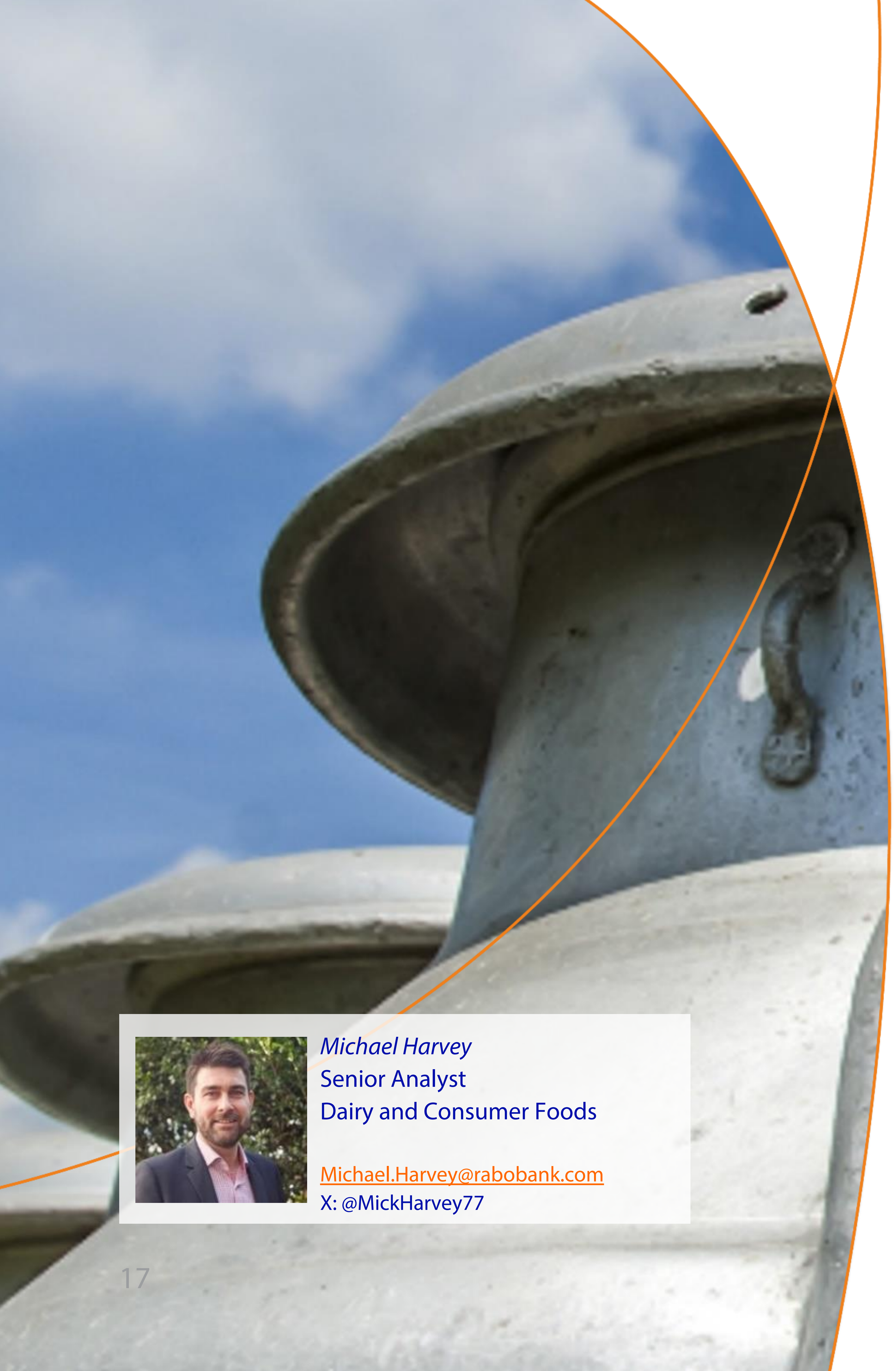
Source: *Bloomberg, Rabobank 2024*

Wool production forecast to drop 1% in 2023/24 season



Source: *AWI, Rabobank 2024*

Rabobank



Dairy

Softer global fundamentals lurk in the background

Australian milk production has expanded this season. At the end of March, national production was 3.1% higher YOY with growth across all regions. However, dry conditions are taking a toll in western Victoria. The rate of growth has slowed recently, and while production is expected to grow next season, it will likely be at a more modest rate.

The recovery in global milk commodity markets that began with an upswing in late 2023 and early 2024 has cooled slightly in Q2 2024. But with global demand weaker and higher domestic milk production limiting Chinese imports, the evidence so far suggests the recovery could face some additional headwinds.

While milk supply growth remains a challenge in most dairy export regions, China's production has been revised upwards for 2024, from 2% to 3.2%. This reflects higher-than-anticipated output – a lagging effect of the last round of dairy expansions from 2019 to 2022.

Global dairy demand recovery signals are mixed, and consumers' purchasing power remains under pressure. While unemployment remains close to record lows in most large markets, consumer sentiment is gloomier than anticipated. Inflation remains above target in most countries, and high interest rates continue to pressure debts and consumer spending. Chinese consumption remains subdued on the back of a weak job market and low consumer confidence, despite stronger sales earlier in the year during the Lunar New Year period.

In its quarterly price review, Saputo Dairy Australia held milk pricing steady for 2023/24. **It also provided forward guidance, proposing guaranteed milk prices in southern Australia be in the range of AUD 7.80 and 8.00/kgMS for the 2024/25 season (equivalent to ~61cpl based on Victoria milk composition).**

What to watch:

Upside – Europe milk flows

- Across key parts of Europe, prolonged wet conditions are causing delays in field work and tempering milk volumes as the seasonal peak approaches.

Downside – Still waiting on China

- China's annual net dairy imports are expected to be 8% lower in 2024 compared to 2023. The combination of stronger milk production and weaker consumer demand will likely diminish the domestic deficit.

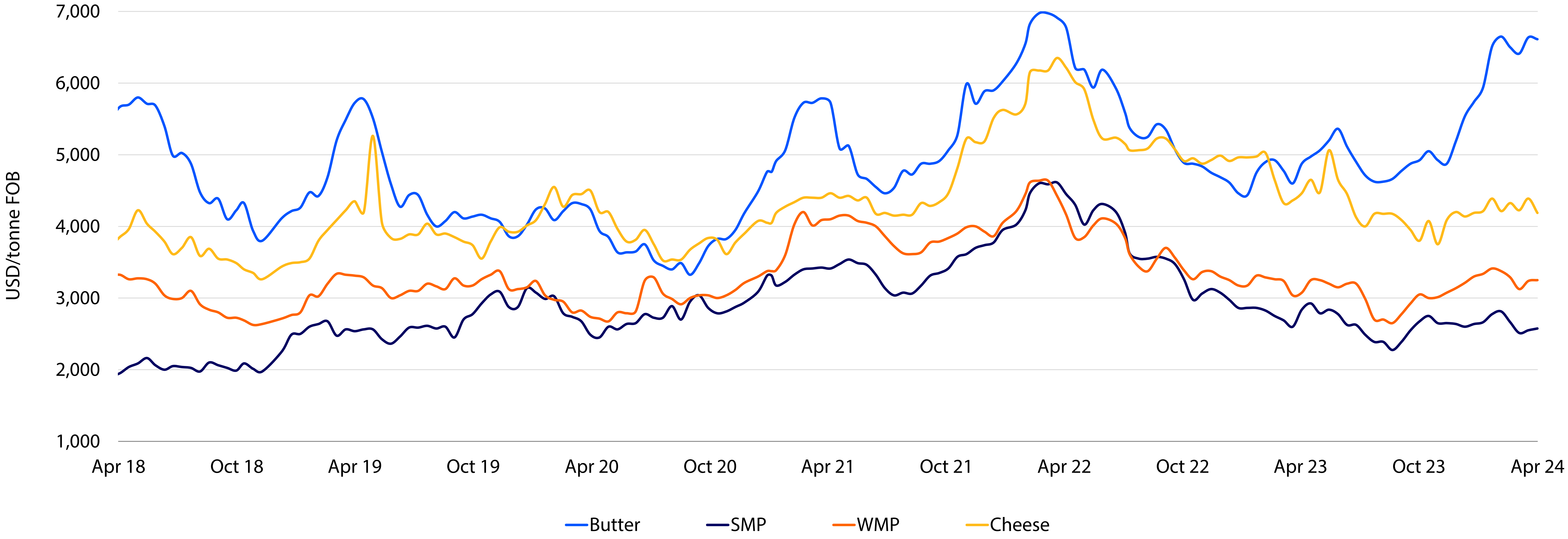
Michael Harvey
Senior Analyst
Dairy and Consumer Foods

Michael.Harvey@rabobank.com
X: @MickHarvey77

Dairy

The recovery in global commodity markets appears to have stalled for now

Oceania spot prices for dairy commodities



Source: *USDA, Rabobank 2024*

Cotton

Futures collapsed to 18-month lows as funds exit their longs

ICE #2 Cotton futures collapsed massively since early April to 18-months lows. The Q1 2024 recovery from levels around USc 80/lb to well above USc 90/lb could not be sustained. The price rally coincided with cotton planting decisions in key producing regions. In the US, in particular, the combination of such strong cotton values and rather subdued corn and soybean prices might pull more acres into cotton for the 2024 crop than the 4% YOY increase the USDA predicted in its March Prospective Planting report, which pegged 2024 cotton plantings at 10.7m acres. Weather so far has been favourable in key US cotton areas, and, as of late April, only 8% of cotton areas were in regions with moderate drought, down from almost 40% in severe to extreme drought last year. Over 15% of US cotton has already been planted with the planting period continuing for another six weeks. In its April WASDE report, the USDA did not make many changes to the global and US balance sheet for 2023/24 other than marginally tightening global ending stocks. On 10 May, the USDA will release its first supply and demand forecast for 2024/25, which can drive price volatility.

Speculators at ICE NY piled up a massive net long position in Q1 2024 and, over the course of April, almost completely exited it again. Such a quick exit of money caused the heavy fall in futures prices. Funds focus on the changing fundamentals for cotton. The current season, which saw heavy drought-related production losses in the US, is closing. The focus is now turning to what, for now, seems to be a well-supplied 2024/25 season that likely will continue to battle sluggish demand amid poor global economic conditions.

Global economic conditions remain subdued, which makes us question whether the needed rise in demand can be achieved to absorb the expected significantly larger 2024/25 US and global cotton production. In our opinion, demand needs to rise year-on-year to allow for prices to stabilise or even improve back into the old ICE #2 price range.

What to watch:

- **USDA forecast –** On 10 May, the USDA will release its first forecast for 2024/25 season. This could drive price volatility.
- **ICE NY Funds –** Watch funds' activity at ICE NY following a heavy cut of their net long positions.
- **Weather during US planting and the Brazilian harvest** – How will US plantings progress over the next six weeks, and what will the Brazilian harvest results be?

Stefan Vogel
General Manager
Australia and New Zealand

Stefan.Vogel01@rabobank.com

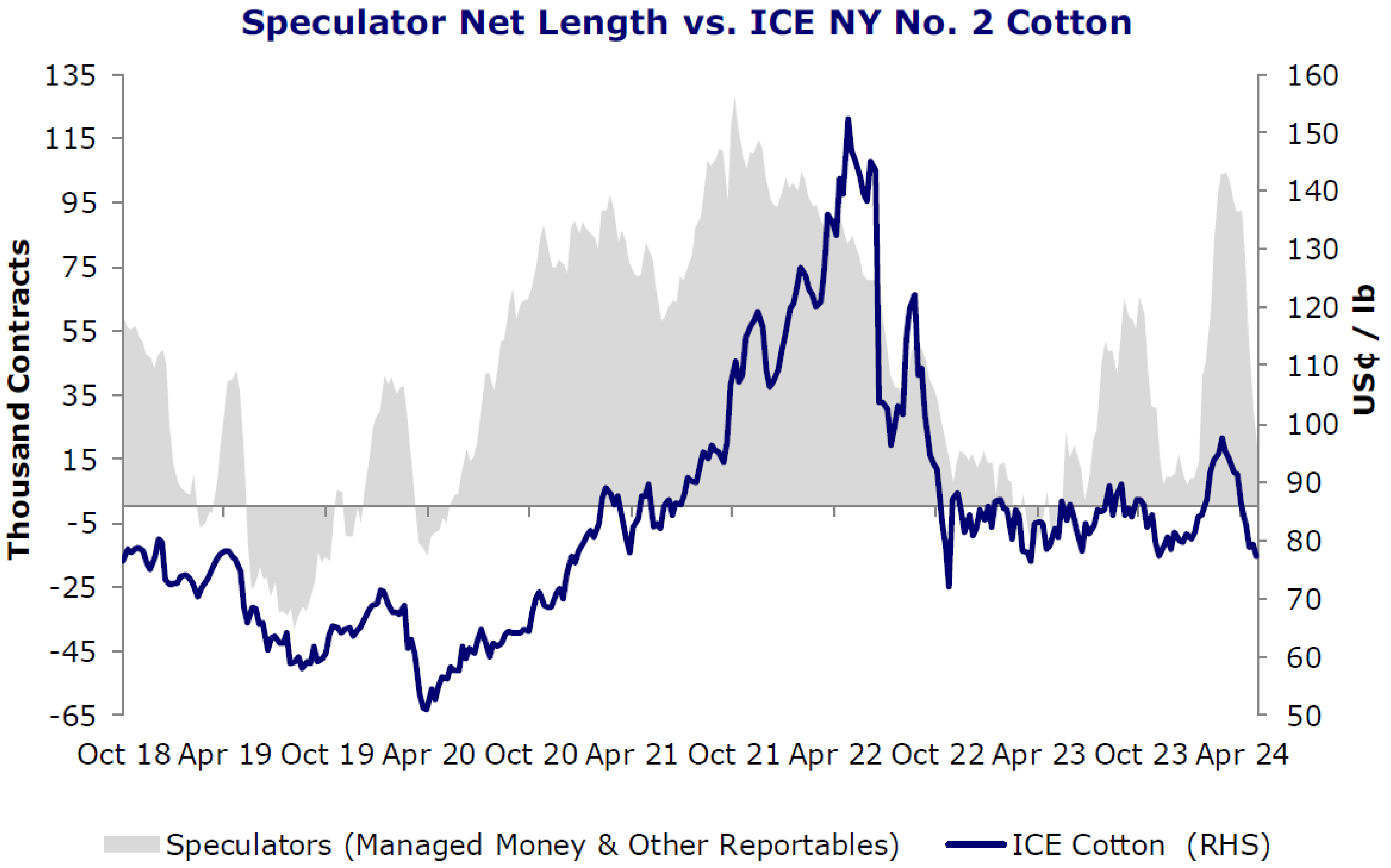
Cotton

Futures fell below the 18-month range as a strong 2024/25 supply outlook met sluggish demand

ICE #2 Cotton prices collapsed since early April, hitting the lowest point in 18 months as speculators cut their net long positions

Source: *Bloomberg, Rabobank 2024*

Speculators at ICE NY severely cut their substantial net long position in April, driving prices lower



Source: *Bloomberg, Rabobank 2024*

Rabobank

Consumer foods

Moderating food inflation, but also smaller food baskets

Quarterly food inflation moderated in the March quarter, bringing some welcome news for Australian consumers. Food prices rose 3.8% for the quarter when compared to the same period last year. This was the slowest rate of inflation since December 2021.

There was deflation in fruit, red meat, and lamb (and goat). In fact, it was the biggest year-on-year decline (-16.8%) in the lamb category recorded since 1975.

Inflation in foodservice channels also moderated in the quarter but was still tracking higher (+6.6%) versus the same quarter last year.

The rate of food inflation should continue to moderate moving forward, but the fresh produce category can be volatile and prone to local supply disruptions.

The latest retail trade data from the ABS showed that food retail spending rose 0.9% in March compared to March 2023, in seasonally adjusted terms. In contrast, foodservice spending fell 0.2% in March, in seasonally adjusted terms.

The combined result showed that total food spending continued to moderate. In nominal terms, the total spend on food was 1.9% higher in March 2024 versus March 2023. However, this number is not adjusted for inflation and is despite strong population growth, highlighting the smaller food basket.

The March quarter results for local retailers provides a further glimpse into the consumer market. Coles Supermarkets recorded 4.2% comparable sales growth (supported by Easter trade) in the quarter while inflation (excluding tobacco) was 1.9%, helped by lower prices for apples, avocados, and meat. The company noted improved product availability was also driving sales growth with internal metrics nudging pre-pandemic levels.

Woolworths' comparable sales performance in the Australian food retail business only grew 1.1% QOQ the quarter, citing weak consumer sentiment and a heavy focus on private label and promotion purchases.

What to watch:

- **China's foodservice performance** – The latest round of earnings updates from some global quick-service restaurants (QSRs) provided a glimpse into the performance of these brands in the Chinese market. Given the softer economic settings, some of the companies did report a mild slump in Chinese foodservice performance when assessing same-store sales growth.

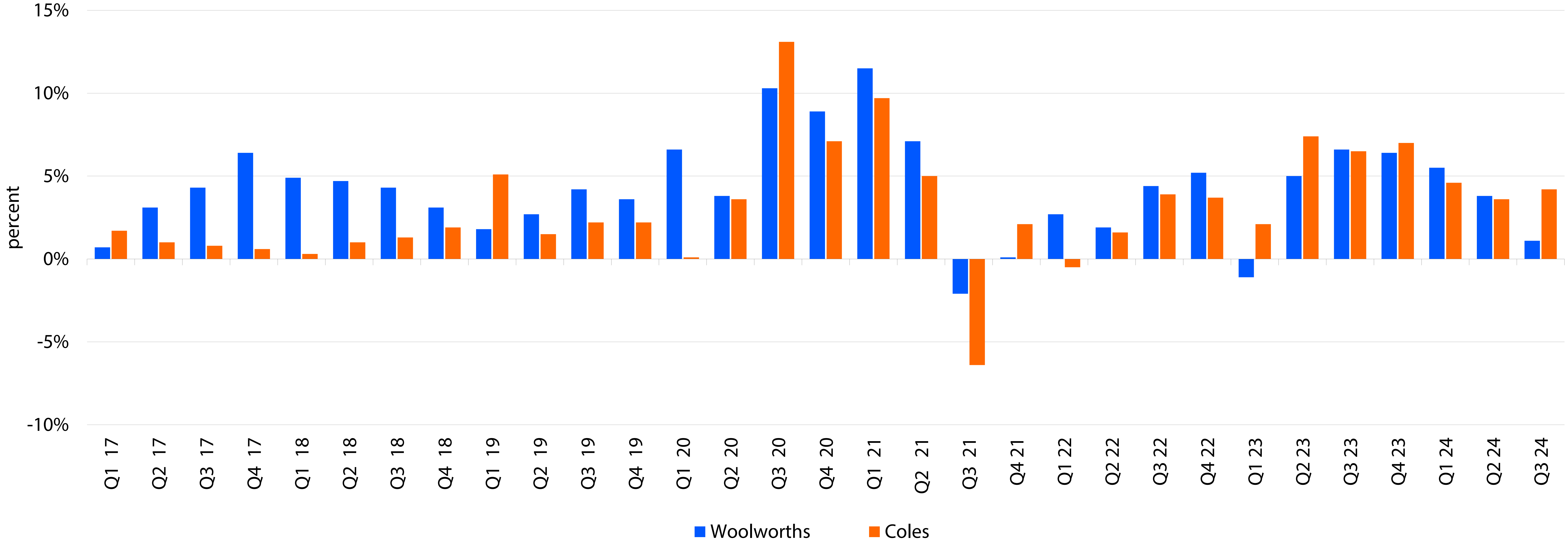
Michael Harvey
Senior Analyst
Dairy and Consumer Foods

Michael.Harvey@rabobank.com
X: @MickHarvey77

Consumer foods

Mixed results from the major retailers in March 2024 quarter trading

Comparable quarterly sales growth, Australian food segments, Woolworths and Coles



Source: *Company reports, Rabobank 2024*

Rabobank

Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

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

Farm inputs

No price headwinds or tailwinds

On the fertiliser front, many markets are in mid-season. No big price movements have been reported, nor have elements that could change the short-term price doldrum outlook. One country that could cause some price movement is India, though the urea stocks are reported to be comfortably at the 10m-tonne mark. Other potential price-supporting factors that have not materialised relate to China. The government there has further reduced exporting certificates' validation period, from 60 days to 30. The previous reduction to 60 days was made in November 23, leading to a 95% YOY reduction in Q1 2024 exports. The Middle East spot reference price dropped 14% during April and is now at USD 430/tonne. Since November 2023, the price has dropped 24%.

The higher output of phosphate fertilisers did impact the market. Morocco DAP prices dropped 4% during April and is now at USD 838/tonne, and Indian importers are experiencing negative margins. In the coming weeks, no price upside is expected, even from South America, which is replenishing its stocks. The recent announcement of higher US duties on Morocco DAP/MAP – an increase from 2.12% to 14.2%. The impact of these duties is yet to be assessed.

The farm input price stagnation also encompass agrochemicals. The Chinese ex-works prices for key products reduced by 2.4% in the last 30 days, aggravating already stressed manufacturers' margins. To put it into perspective, a basket of 12 active ingredients composed of herbicides, insecticides, and fungicides is showing prices 36% lower than the January 2020 level. We do not expect the overproduction to be resolved any time soon, even if grains and oilseeds were to experience a widespread positive price cycle.

One might be wondering why farm input prices have not reduced much. We see this as the cost to do business. **Despite the reduction in the price of raw materials, like natural gas, in recent months, other prices have remained steady, like freight and interest rates. As farm input supply chains are long and complex, they are more resilient to price swings.**

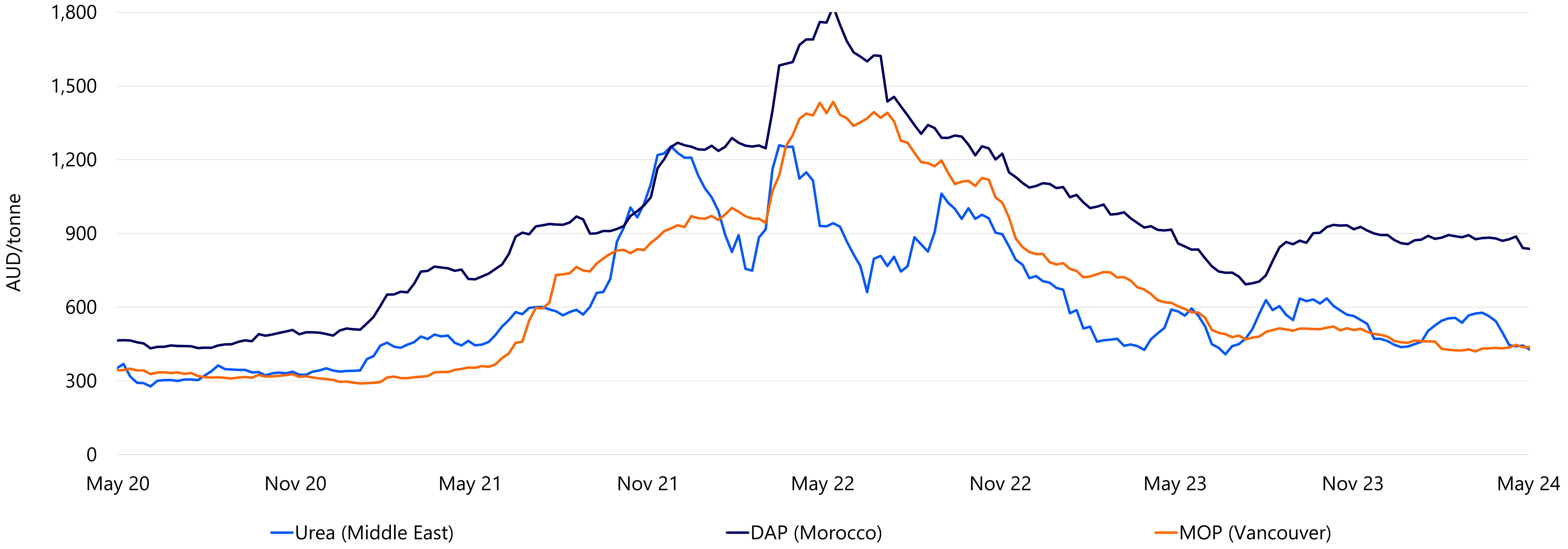
What to watch:

- **Container rates and the Panama Canal** – Recent announcements could bring farmgate price reductions down the road. The global container index dropped 30% since its November hikes as the Middle East shipping issues are being circumnavigated and global trade finds its way. Further cost relief comes from Panama. The Panama Canal Authority announced it will slowly increase the transit to 31 vessels per day by mid-May and 32 by June. At the peak of the recent drought, the transit numbers were slashed to 24.

Farm inputs

Sluggish market underway

The fertiliser market has entered a calm period, which could last until the next procurement cycle starts in South America



Source: *CRU, Rabobank 2024*

Rabobank

Interest rate and FX

Resurgence prompts revision

Rabobank has updated its forecast for the RBA cash rate to include two more rate hikes this year, a 0.25 percentage point lift in August, and another in November. The change in forecast has been prompted by recent signs that the RBA is not on track to return inflation to target in the time frame it has set for itself and indications that economic conditions may be about to make the inflation fight a little more difficult.

The very strong February jobs report was followed up with a more lacklustre report for March, where the ABS confirmed that the economy shed 6,600 jobs and the unemployment rate rose 1 tick to 3.8%. That sounds weak, but it comes after an upwardly revised addition of 117,600 jobs in February, and the RBA was expecting unemployment to be around 4% by now. In our view, it's now clear that the labour market is proving more resilient than anticipated.

Following the March jobs report, we saw the Q1 CPI inflation report, which was also not in line with the RBA's projected path. Inflation in the quarter rose to 1% from just 0.6% in Q4 of last year, putting the year-on-year rate at 3.6% on the headline reading and 4% for the RBA's preferred trimmed-mean measurement.

The RBA is expecting headline inflation to be 3.3% by June and trimmed-mean inflation to be 3.6%. It now appears very unlikely that either will prove to be the case. This suggests that current monetary policy settings that Governor Bullock described as "*slightly* restrictive" need to shift to be more restrictive, as is the case in most other advanced economies.

The path ahead is likely to prove difficult for the RBA as real wages are rising, credit growth is accelerating, business indicators are robust, productivity growth remains weak, and inflation is rising in the US.

While this remains the case, we expect that it will be difficult to return inflation to 2.5% with a cash rate in the low 4% region.

What to watch:

- **Federal budget, 14 May** – The treasurer has previously telegraphed a shift away from a sole focus on inflation to a more growth-oriented budget this year. This could prove to be the last budget before the next federal election, upping the temptation to spend, even as inflation remains a problem. The RBA will be hoping for further restraint from Jim Chalmers.
- **Q1 Wage Price Index, 15 May** – The Wage Price Index is a key number for determining demand pressures in the economy. The RBA believes wage growth has already peaked at 4.2%. If we see growth pushing above that level in Q1 it will be a flashing red light for the RBA's forecasts on the inflation trajectory.

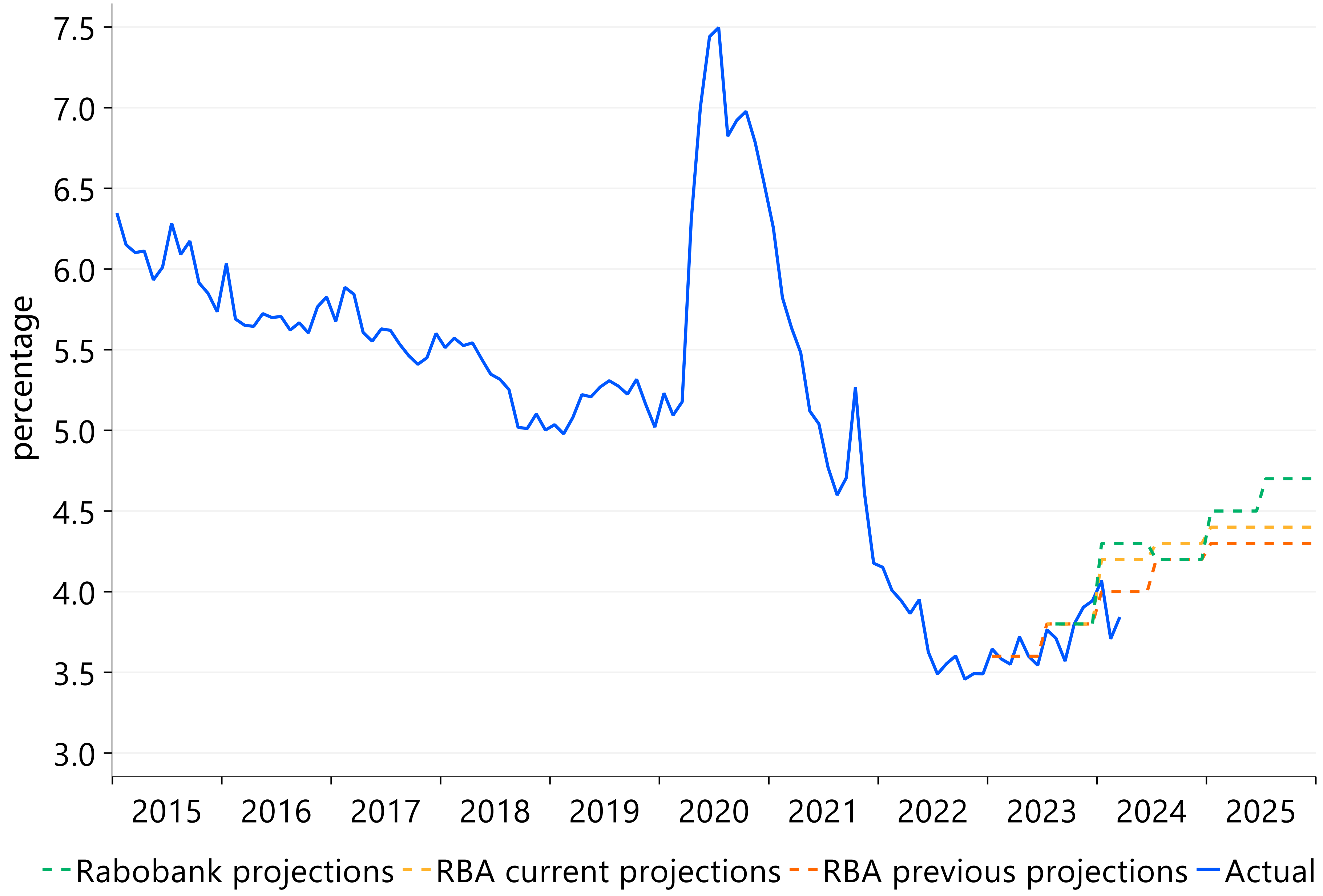
Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Interest rate and FX

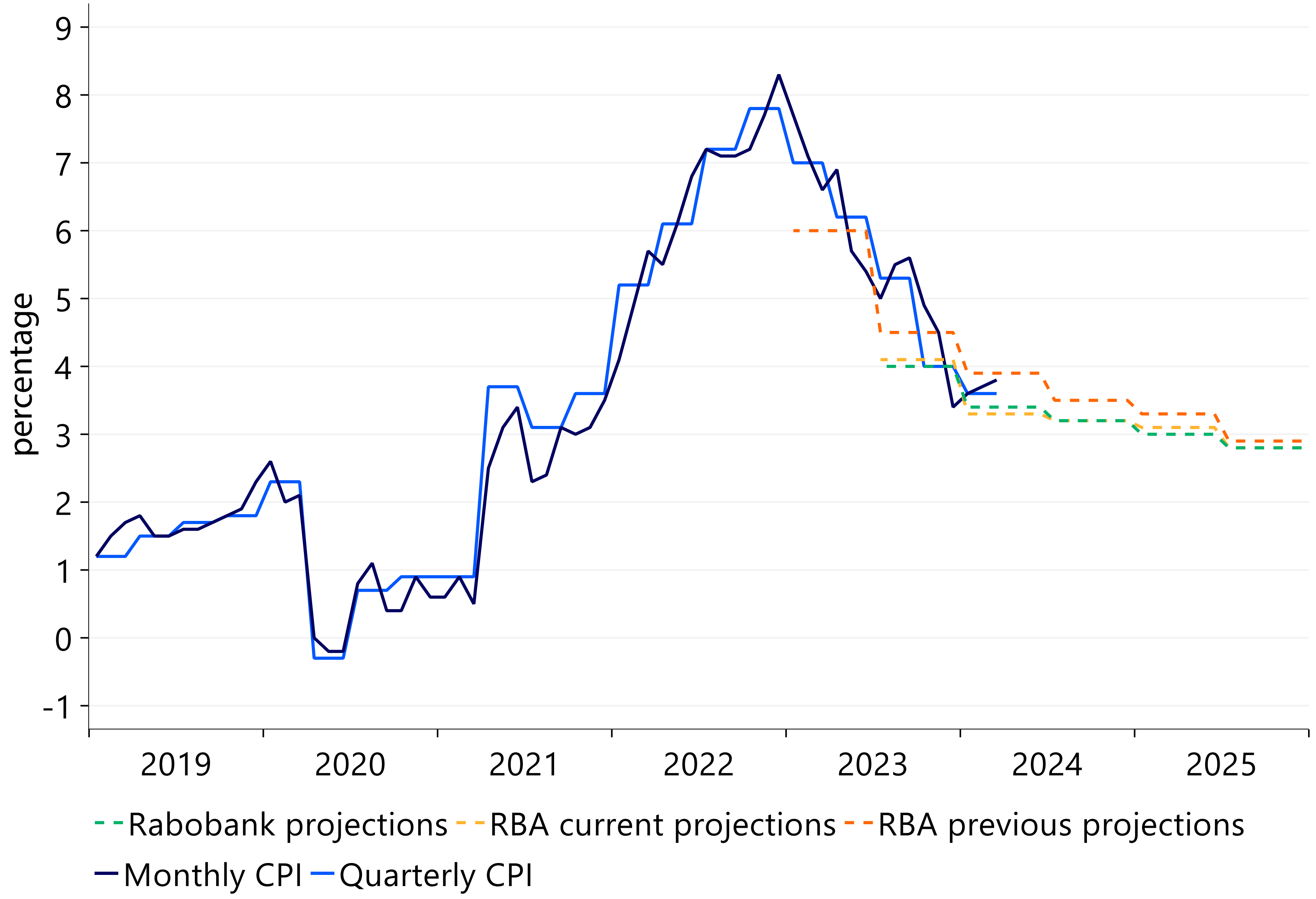
Unemployment too low and inflation too high?

Australian labour force indicators



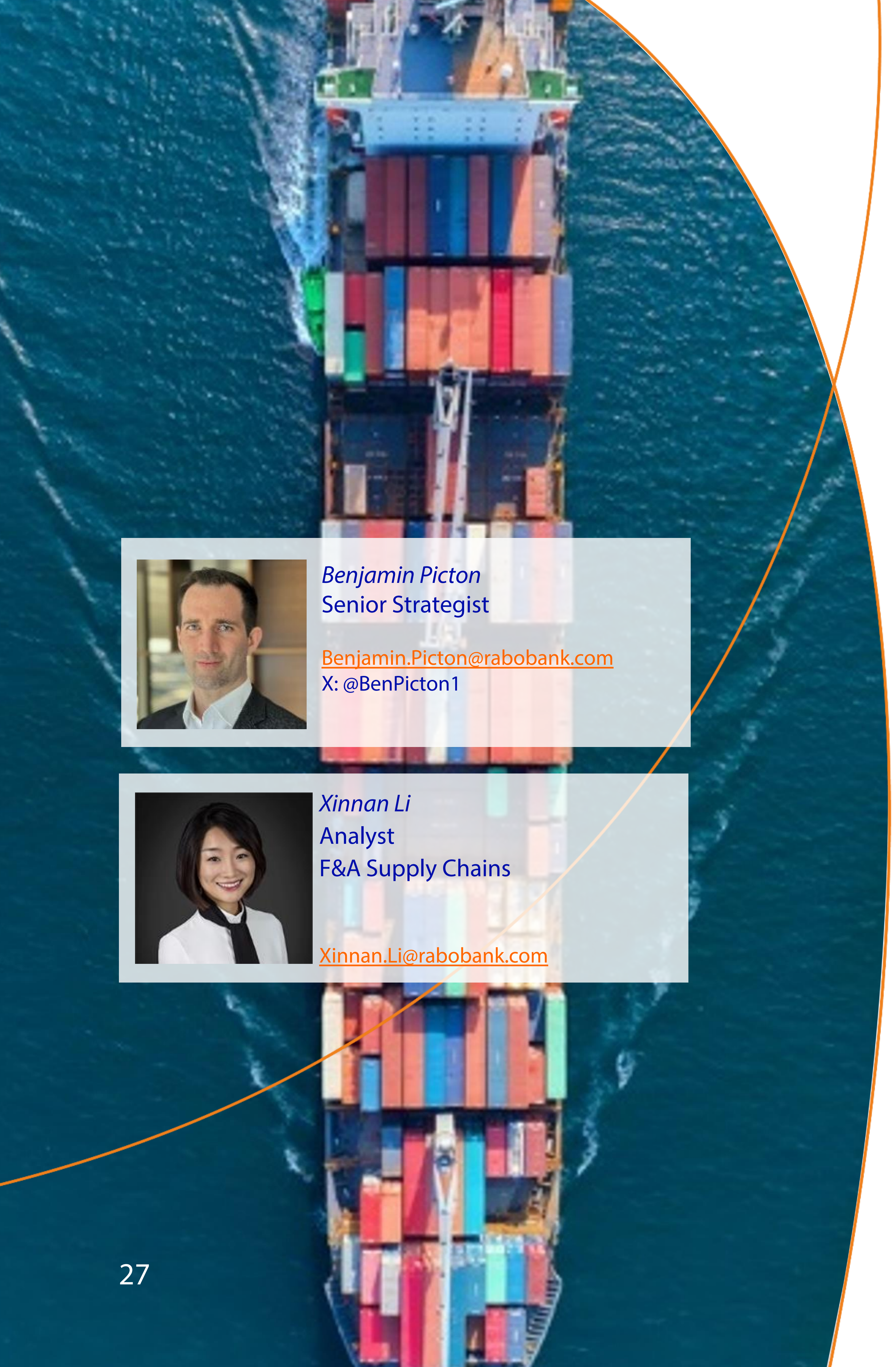
Source: Macrobond, ABS, RBA, Rabobank 2024

Australian inflation indicators



Source: Macrobond, ABS, RBA, Rabobank 2024

Rabobank



Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Xinnan Li
Analyst
F&A Supply Chains

Xinnan.Li@rabobank.com

Oil and freight

Finally, some good news

Brent crude prices finished higher in April, marking the fourth-straight month of rising prices. Happily, the gain was short-lived, and we are currently seeing prices near USD 83/bbl. Our analysts are expecting the market to test the USD 82/bbl level.

Prices had been rising due to increased risk premiums owing to the conflict in the Middle East, but things seem to have cooled down there for the time being. Weaker-than-expected GDP growth for the US in Q1 helped prices lower as traders factored in a feebler demand outlook. However, we still think prices are headed higher over the longer term due to OPEC+ production cuts, growing demand in India, and our doubts that the US can sustain current rates of production into the back end of the year.

Hotter weather in Europe this year is likely to again impact refinery uptime, creating import demand for refined products (diesel, etc.), while Ukrainian drone attacks on Russian refineries add further tightness to world markets.

Global trade showed a significant recovery in Q1 2024 compared to a year ago, as shipping companies forecast better-than-expected results for 2024. Going forward, ocean capacity growth will likely outpace demand with a substantial amount of fleet in the order book, even in the presence of the Red Sea conflict. The Panama Canal has also finally started increasing draft restrictions and gradually allowing more transits. This helps alleviate schedule and rate pressure around the region. With volatility in mind, we expect manageable ocean container freight rates for 2024.

The Baltic Panamax index (a proxy for grain bulk freight) has generally been on an upward trajectory for the last 12 months, as global trade volumes have been largely recovering across the Pacific and Atlantic.

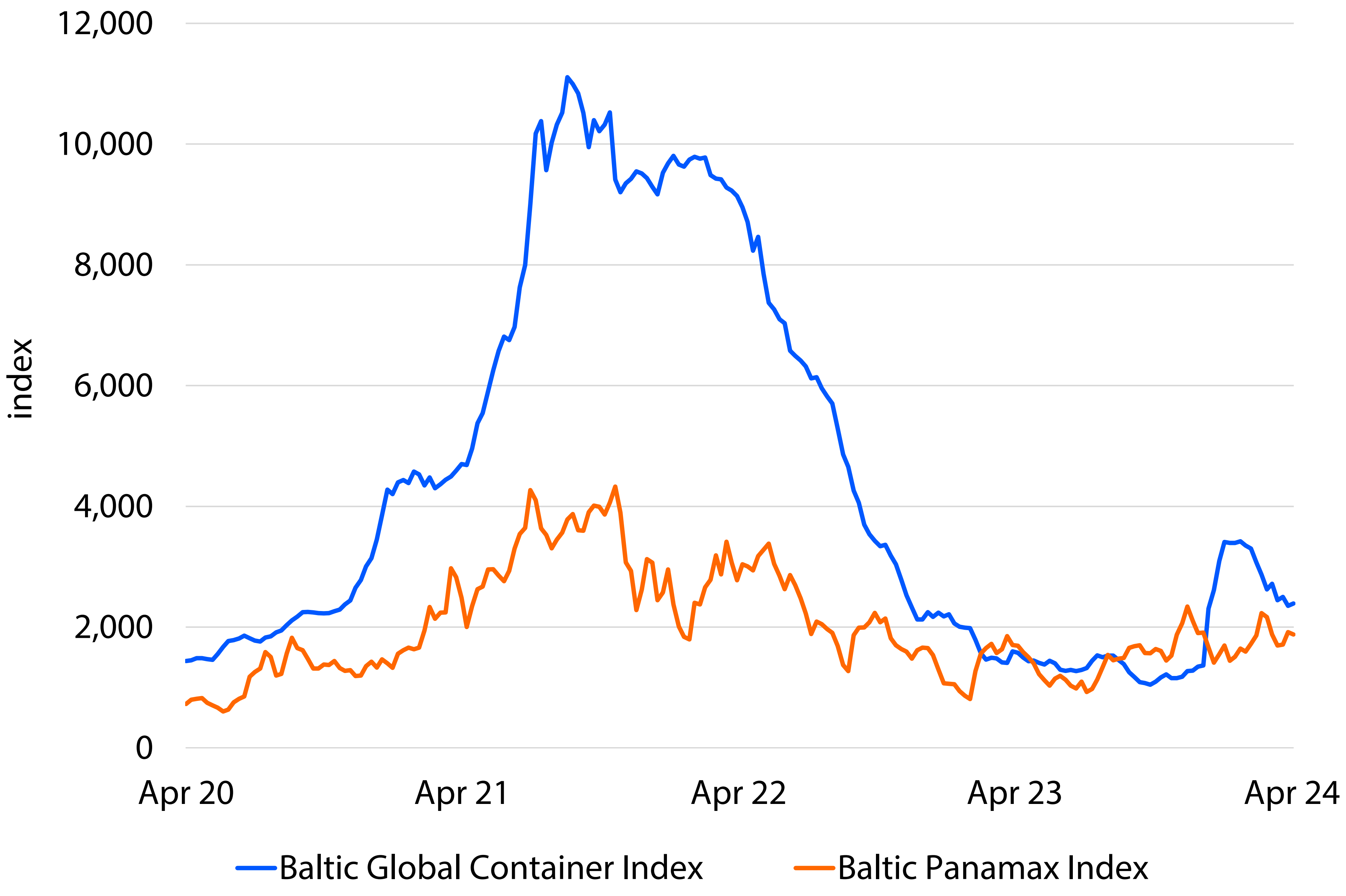
What to watch:

- **OPEC+ Monthly Report, 14 May.**
- **US Q1 GDP second reading, 30 May** – Any upward revision to growth would likely see an extra bid under energy prices due to perceptions of stronger demand.

Oil and freight

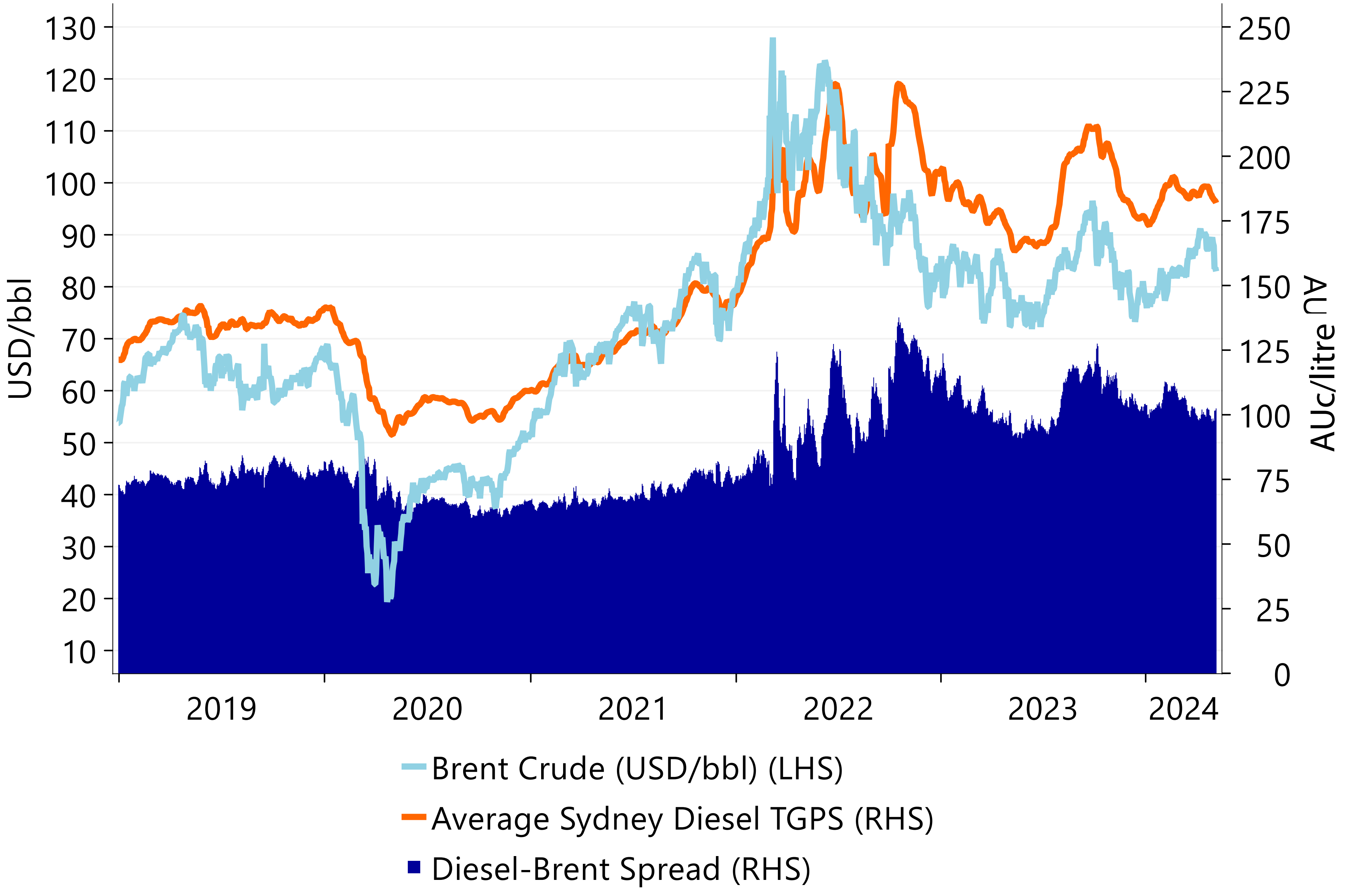
Container rates continue to fall, but bulk rates are slowly grinding higher

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

3/05/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	606	556	647
CBOT soybean	USc/bushel	▲	1,202	1,182	1,469
CBOT corn	USc/bushel	▲	447	432	653
Australian ASX EC Wheat Track	AUD/tonne	▲	350	329	375
Non-GM Canola Newcastle Track	AUD/tonne	▲	661	639	617
Feed Barley F1 Geelong Track	AUD/tonne	▲	325	306	317
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	604	594	647
Feeder Steer	AUc/kg lwt	▲	318	316	360
North Island Bull 300kg	NZc/kg cwt	•	590	590	590
South Island Bull 300kg	NZc/kg cwt	•	535	535	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	664	628	685
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	620	610	745
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	600	590	745
Venison markets					
North Island Stag	NZc/kg cwt	▼	860	865	885
South Island Stag	NZc/kg cwt	▼	850	855	885
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,613	6,413	4,875
Skim Milk Powder	USD/tonne FOB	▲	2,575	2,513	2,838
Whole Milk Powder	USD/tonne FOB	▲	3,250	3,125	3,075
Cheddar	USD/tonne FOB	▼	4,188	4,225	4,463

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

3/05/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	83.3	95.7	94
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	77.4	89.0	82
Sugar markets					
ICE Sugar No.11	USc/lb	▼	19.3	22.2	26.3
ICE Sugar No.11 (AUD)	AUD/tonne	▼	643	733	740
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,152	1,142	1,310
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	285	375	331
DAP (US Gulf)	USD/tonne FOB	•	570	570	550
Other					
Baltic Panamax Index	1000=1985	▲	1,884	1,772	1,501
Brent Crude Oil	USD/bbl	▼	83	89	75
Economics/currency					
AUD	vs. USD	▲	0.661	0.657	0.675
NZD	vs. USD	▲	0.601	0.601	0.629
RBA Official Cash Rate	%	•	4.35	4.35	3.85
NZRB Official Cash Rate	%	•	5.50	5.50	5.25

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Keep Up to Date With the Latest Food & Agribusiness Insights

Tune in to our RaboResearch Podcast series

Make our insights your advantage

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

Pia Piggott
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

Rabobank