Beef up the holidays

Australia agribusiness monthly

RaboResearch Food and Agribusiness

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Rabobank

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This report is based on information available as at 4/12/24

Commodity outlooks

Climate

ENSO remains neutral. Average to above- average rainfall is expected over the summer months.

Sustainability

A study finds widespread issuances of carbon credits for potentially short-lived soil organic carbon (SOC) sequestration, with method amendments proposed.

Wheat and barley

Global prices dropped as Russia's export volume outweighs other countries and sets the price bar for another year. Internal pressures enhance its selling force in the market, and the recent use of unprecedented missiles against Ukraine did not spook the wheat market. Australian feed barley holds surprisingly well for such a large crop in 2024.

Canola

Volatile canola prices were experienced as profit-taking took over the market after hefty gains during the first half of November. The drop in prices is likely to be short-lived as market fundamentals have not changed, and different governments altered export and import duties to protect their markets from further rallies.

Beef

Cattle prices continue to hold amid record production volumes and record exports. Some widespread rain in late October should continue to support producer demand, and lower global beef volumes may see some upside in global prices, but RaboResearch believes price movement will be minimal for the remainder of the year.

Sheepmeat

Finished lamb prices continue to hold as it appears that production volumes are declining. There has been a larger than average number of lambs sold through saleyards as restockers this year, but we are yet to be convinced that these are the numbers that would cause prices to fall when they hit the market.

Wool

Wool prices continue to rise with almost all microns recording positive month-on-month price movements. The market will be closely assessing how Chinese wool demand will be impacted by US trade policies.

Dairy

There has been a shift in direction in China's milk supply growth trajectory. With local farmgate milk prices near 10-year lows, this has triggered herd reductions and farm exits. RaboResearch estimates milk production to be down by more than 5% YOY in the second half of 2024.

Cotton

ICE #2 Cotton declined in early November before clawing back most losses. Mixed US export data partially explains the price volatility. Australian cash prices were spared some of the losses amid a falling Australian dollar.

Consumer foods

The Australian Bureau of Statistics' monthly release of the consumer price index showed food and beverage inflation steady at 3.3% YOY in October. There is some relief for consumers, with the dairy aisle posting 1.8% deflation for the month as a lift in promotions and discounting flows through to checkouts.

Farm inputs

Urea prices declined month-on-month due to weak demand. Meanwhile, potash prices found support in some regions amid the suggestion that the US will impose a tariff on Canadian exports.

Interest rate and FX

RaboResearch has revised the 12-month Australian dollar forecast down to 0.6400 following Donald Trump's election in the US, and three of Australia's big four banks shifted their RBA cash rate forecast to match our prediction of a May cut.

Oil and freight

A ceasefire deal struck between Israel and Lebanon has reduced risk premia in energy markets, while bulk freight rates continue to move lower.

Climate

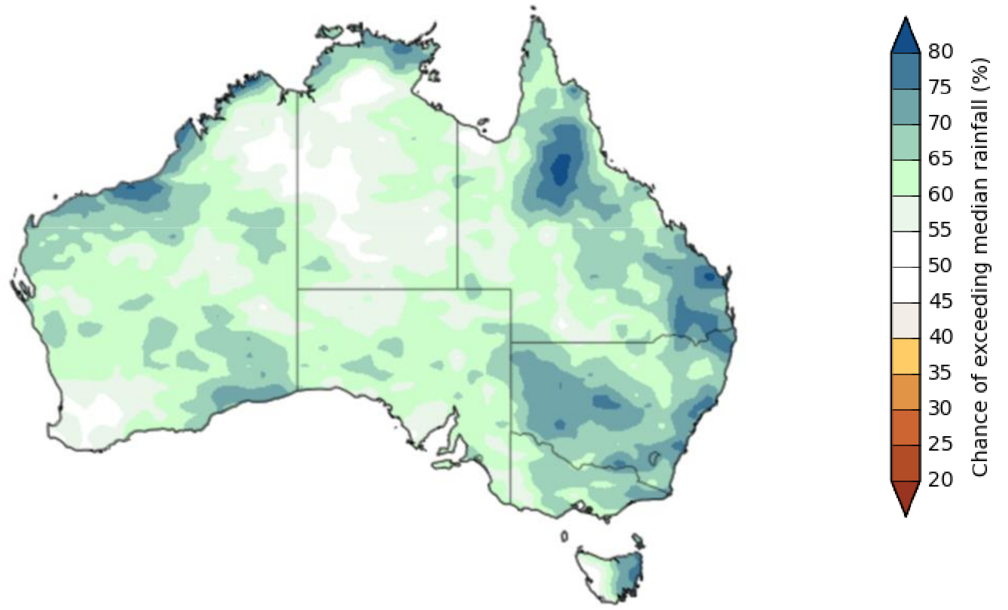
Above-average rainfall expected this summer

El Niño-Southern Oscillation (ENSO) remains neutral, with two of seven international models predicting La Niña thresholds will be met from now through to February. Should a La Niña event develop, it is expected to be weak and short-lived.

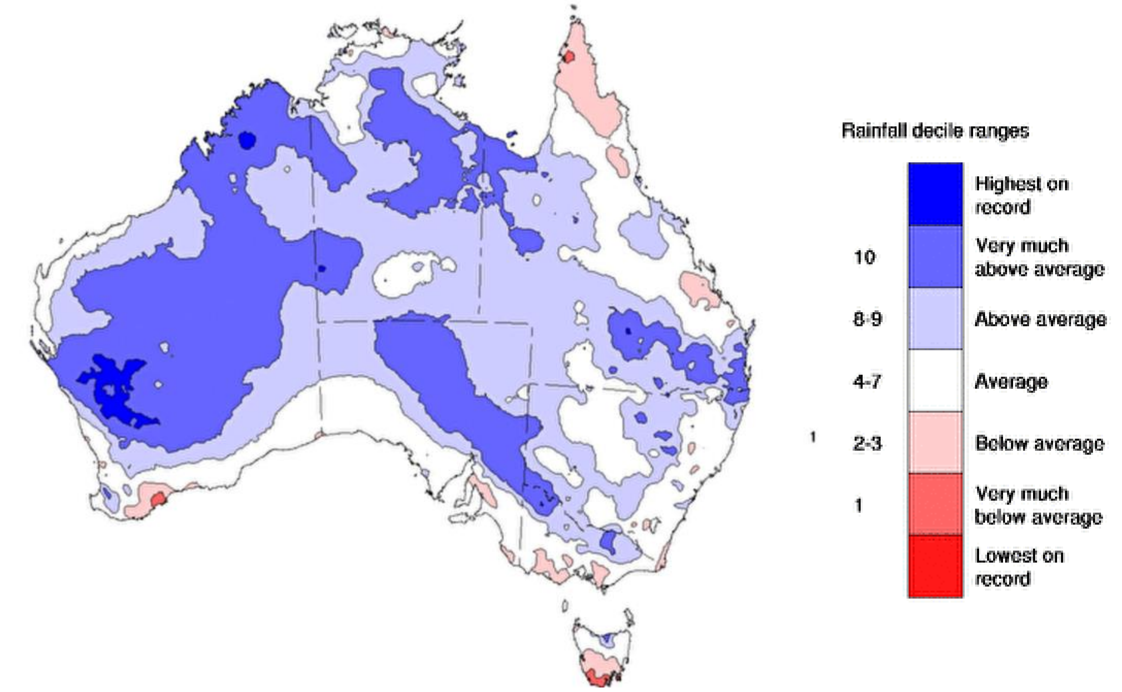
The Indian Ocean Dipole (IOD) index has temporarily exceeded negative IOD thresholds since mid-October. As the index is expected to return to neutral again in December, this will not be classified as a negative IOD event. The recent period of sustained warm sea surface temperatures suggests that climate patterns may not behave as they have in the past. This could affect the ability to predict ENSO and IOD events.

National rainfall in November was 61% above average, with the mean temperature 1.83C above average. The Bureau of Meteorology (BOM) reports that over the next three months, rainfall is likely to be at or above average for most of the continent. Murray-Darling Basin water storage levels decreased over the month of November and are currently at 73% of capacity as of 20 November 2024.

December-February 2024/25 rainfall outlook



Rainfall deciles, November 2024

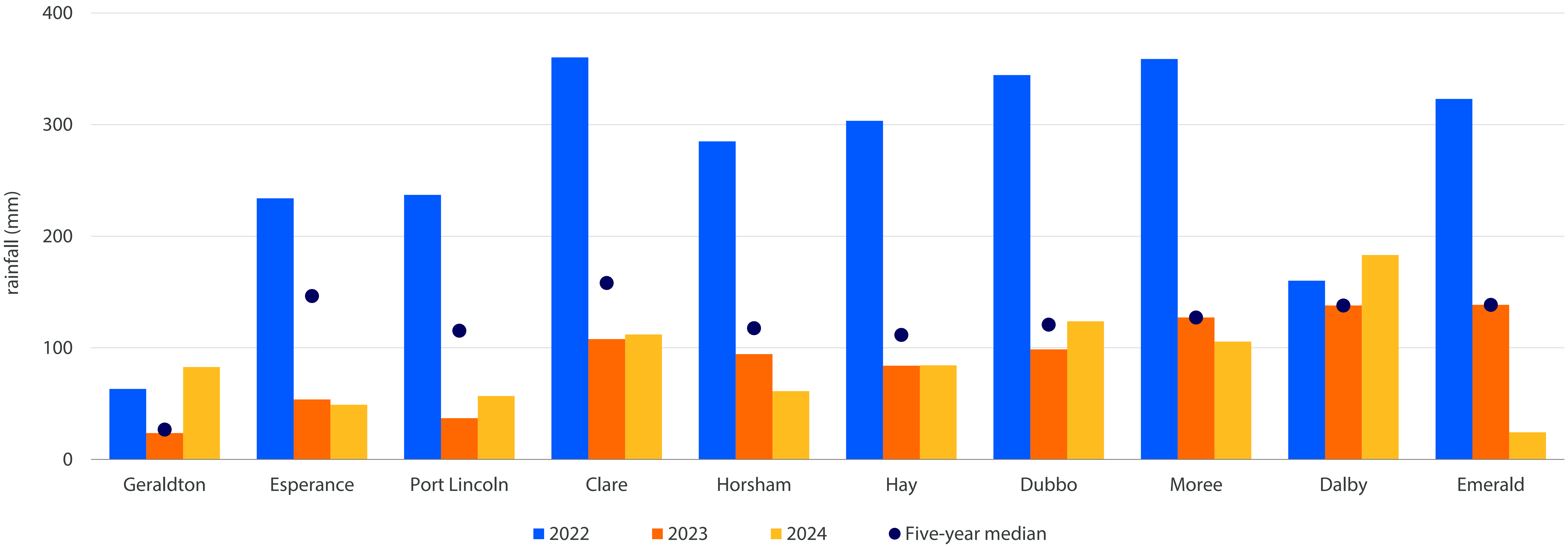


Source: *BOM, RaboResearch 2024*

Climate

Agricultural regions' late season rainfall

Rainfall (September-November)



***Source:** BOM, RaboResearch 2024*

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Sustainability

Making soil carbon credits while the rain falls

New research on soil carbon credits has highlighted concerns about the permanence and additionality of credited sequestration beyond natural climate variability.

The paper "Making soil carbon credits work for climate change mitigation" by Elaine Mitchell and others, published in Carbon Management, examines the effectiveness and credibility of soil carbon credits in achieving real emissions mitigation.

The research looked at the six soil carbon projects that were issued Australian Carbon Credit Units (ACCUs) in 2023 and found that the observed soil organic carbon (SOC) sequestration was mostly attributed to above-average rainfall instead of project interventions.

The credits were issued following a period of unusually high rainfall, and the rates of sequestration seen in the projects significantly exceeded the rates of expected long-term SOC increases in Australia based on the best available science.

The report points to fluctuations occurring in short-lived carbon in the soil, primarily driven by rainfall, while gains in persistent SOC accumulate gradually.

The results highlight potential uncertainty about the persistence of the observed gains over the remainder of the projects' permanence periods.

The study offers policy insights that could support continuing improvements in the robustness of the ACCU scheme and provides two key recommendations for amendments to the soil carbon method. These include extending the minimum measurement period to at least five years and basing short-term crediting on established science-based "reasonable bounds" for expected long-term SOC gains.

If the findings of crediting non-permanent, non-additional sequestration are valid, this may pose a risk to farmers and the carbon industry by compromising the credibility of the crediting scheme.

Potential changes to improve the integrity of the scheme can help to ensure credited SOC sequestration is based on management-driven, rather than climate-driven, outcomes.

What to watch:

- **The government's "nature positive" legislation hits a roadblock –** A potential deal between Labor and the Greens was not progressed after discussions with the Western Australian premier. The legislation would see two new agencies established, including an environmental watchdog and an information agency to manage environmental data.

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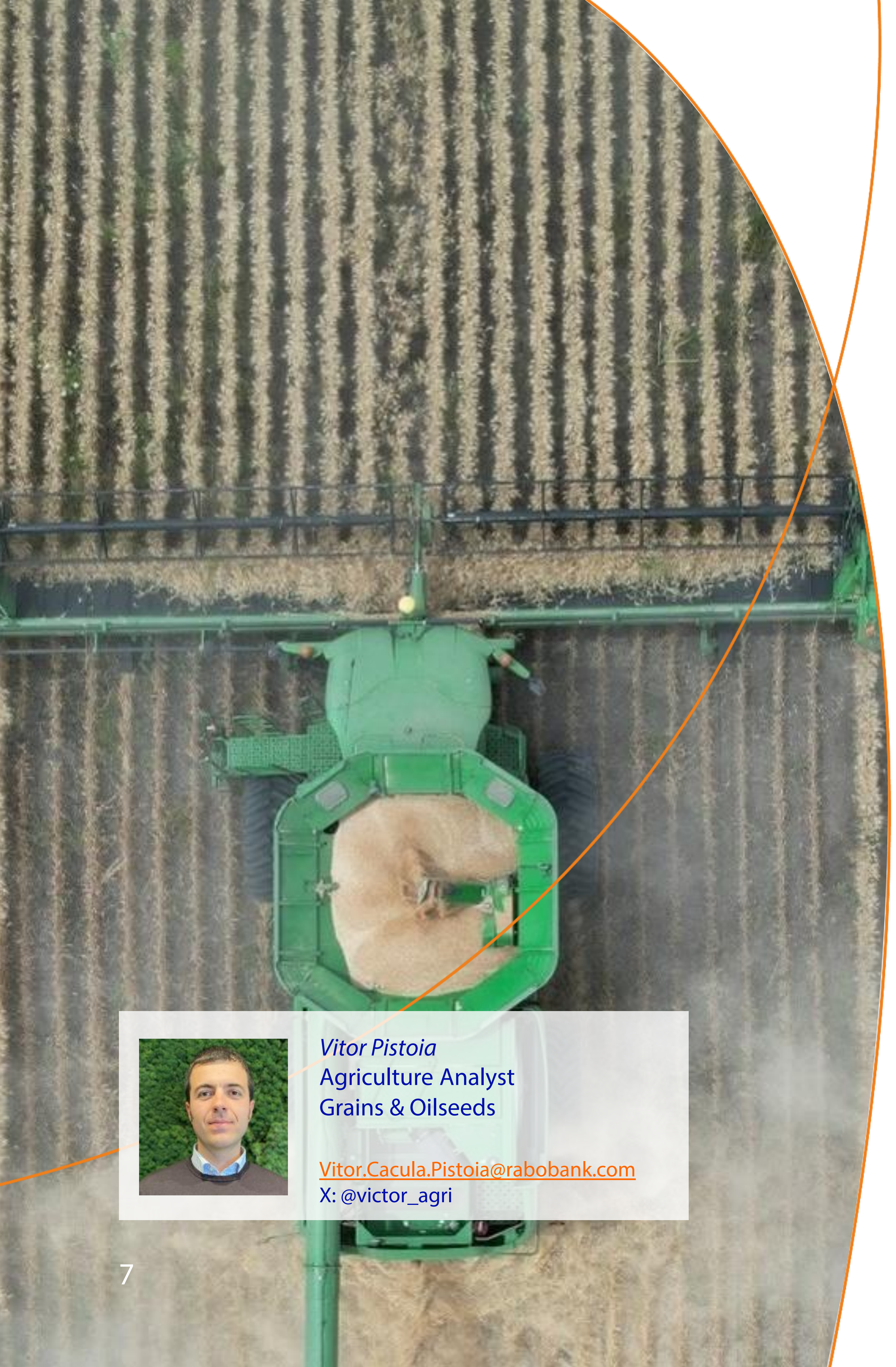

Wheat and barley

Solid supply means price boredom

Another month of depressed prices. The CBOT wheat spot contract dropped 6.3% to AUD 300/tonne, and the Dec 25 CBOT contract fell by 6.1% to AUD 309/tonne. Softening crude oil prices are not helping commodities in general, and the missile attacks between Russia and Ukraine have not brought the risk premium back to the market. In the meantime, Managed Money is increasingly taking bearish positions, expecting CBOT wheat prices to decline, and the falling oilseed meal market, mainly soybean meal, is not helping either. **Day by day, wheat loses competitiveness as a feed component, leaving more and more supply available for the milling industry.** This is one key reason why, despite falling global wheat stocks year-on-year prices have not reacted in the opposite direction, as one would expect when stocks are lower.

On 29 November the Russian government announced its wheat export quota for February to June 2025, dramatically cutting it from 29m to 11m tonnes. The market had already priced this in, and recent records do not support a bullish price view. The 2024 Russian export quota was amended after its announcement, highlighting Russia's challenges in implementing export flow and price guidelines that favour both farmers and government budget. **The current official cash rate in Russia, at 21% per annum, incentivises wheat selling, and global buyers are not eager to make long-term commitments given the current market outlook**. The end result is softer prices.

Compared to CBOT, Australian port prices remained relatively stable due to a softening Australian dollar. The biggest drop during November was at the port of Newcastle, down 2.6% MOM to AUD 320/tonne, while Kwinana prices rose by 3.0% to AUD 382/tonne. It is not a coincidence that Newcastle and Brisbane are at the bottom of the wheat price ladder. These regions are showing very strong yields and reports from the ground indicate that the New South Wales crop was not significantly impacted by the late frosts, which could put the national wheat crop at the 30m tonnes mark. **Fortunately, the animal protein sector is strong, and feed demand is providing a good price floor. Despite the large crop, feed barley prices are surprisingly strong compared to the wheat outlook.**

What to watch:

- **India's question marks –** Uncertainty about India's ability to maintain stable wheat prices has returned. Domestic prices have recently reached record highs, and government stocks are around 22m tonnes, compared to a five-year average of 32.5m tonnes. Throughout 2024, the stock traders were permitted to keep has been decreased. This reduction is due to government decisions aimed to boost wheat availability in the market. Wheat sowing is underway, and any weather issues might trigger the government's decision to remove import duties, as seen in December of 2016.

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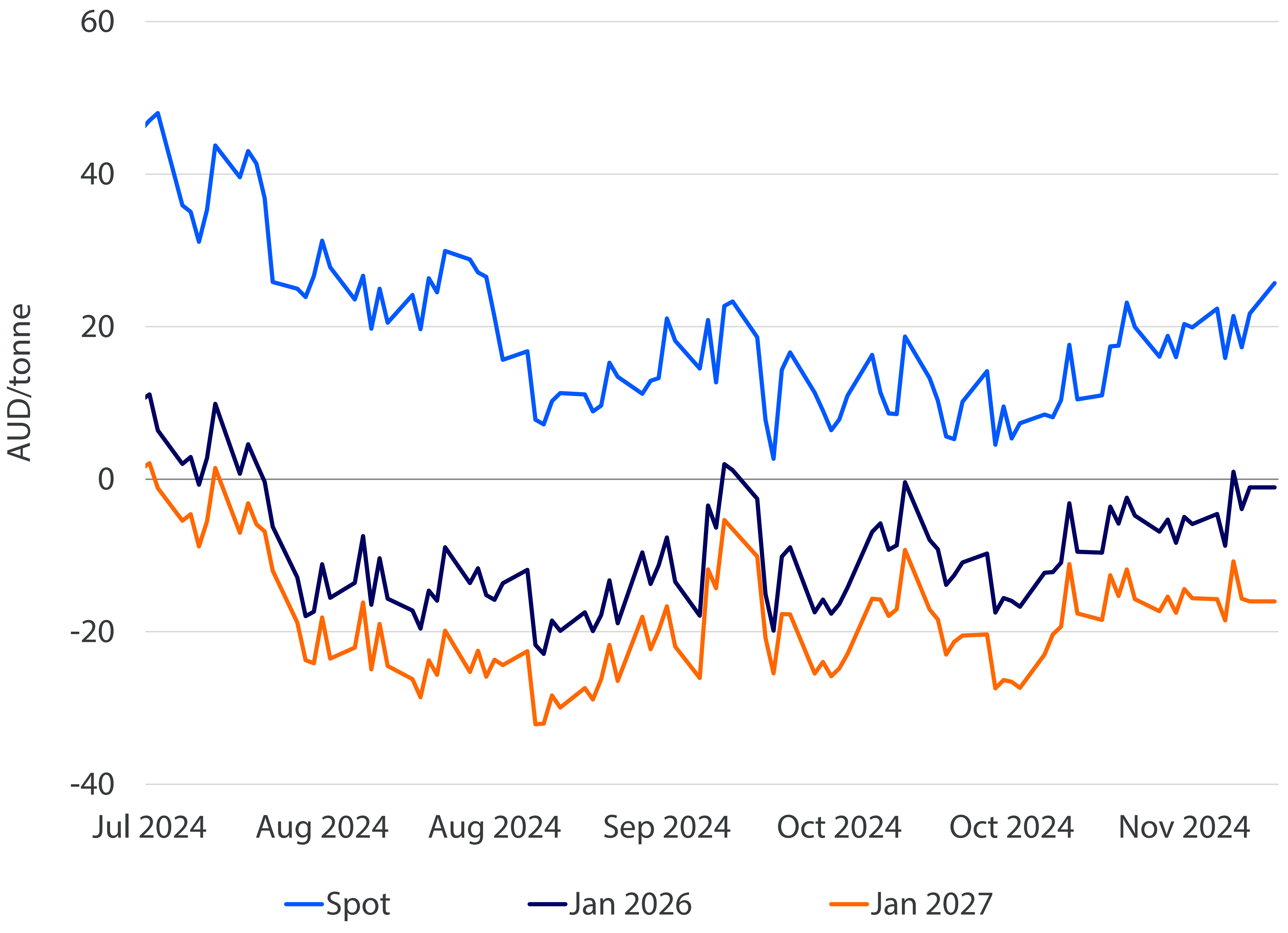
Wheat and barley

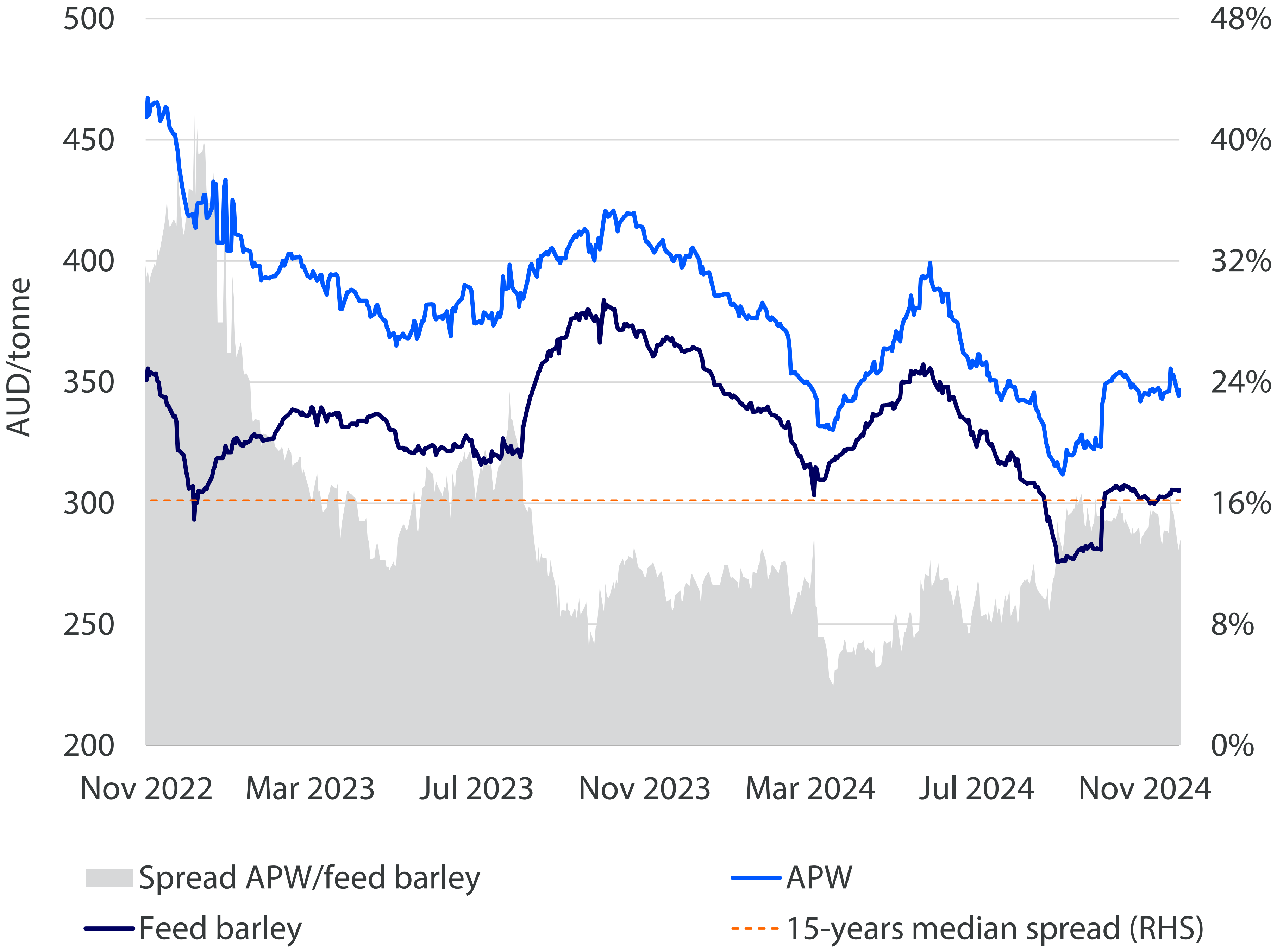
Balancing global bearish trends and local dynamics

ASX-CBOT basis reflects global wheat stability



Source: *Bloomberg, RaboResearch 2024*

Australia's feed barley prices show strength despite large crop size



Source: *Bloomberg, RaboResearch 2024*
Note: *Weighted port price*

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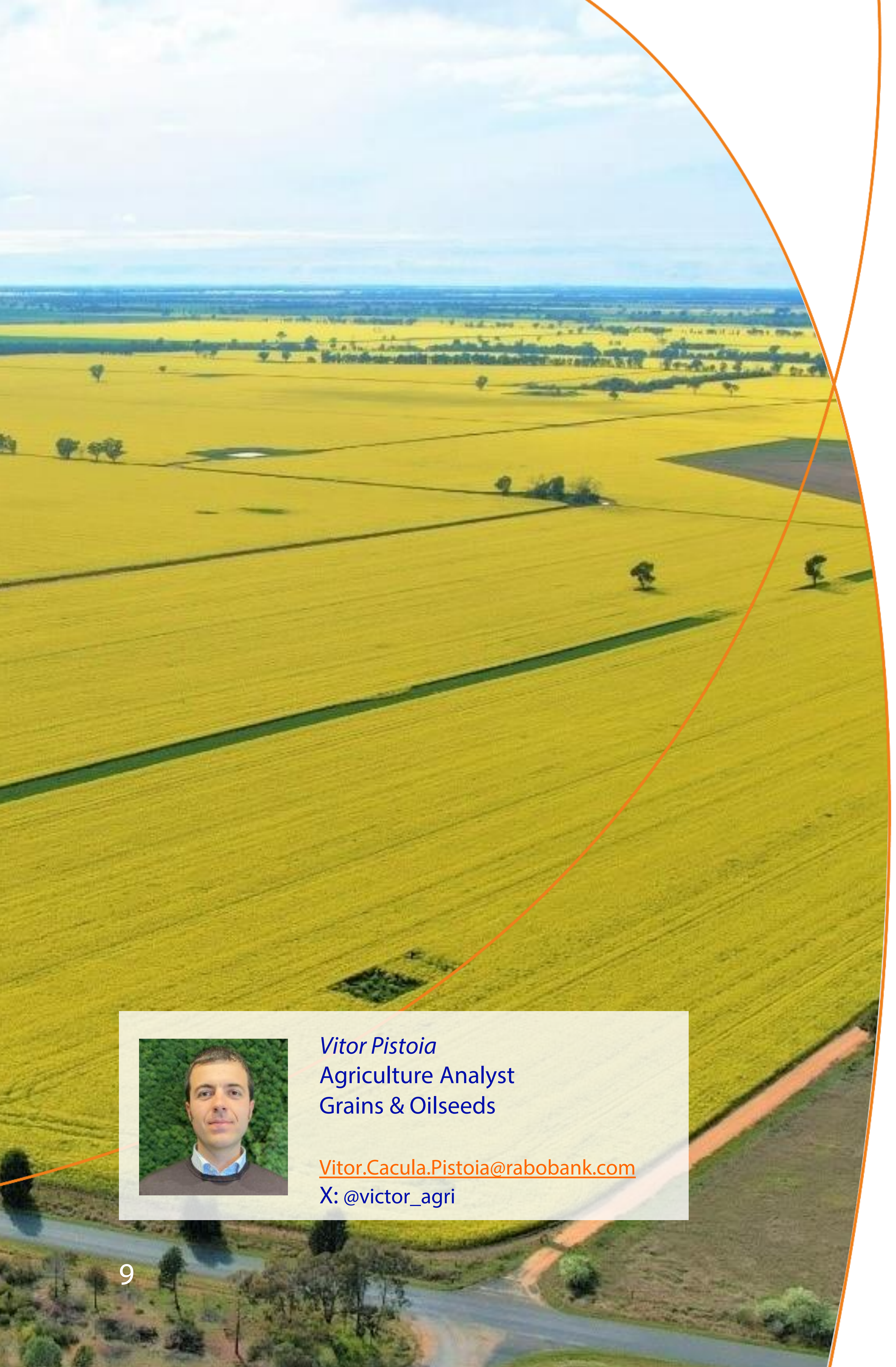

Canola

Volatile prices amid stable and clear fundamentals

November's prices experienced significant volatility. MATIF started the month at AUD 854/tonne, peaked at AUD 884/tonne on 18 November, and closed November at AUD 824/tonne. Between the peak and the lowest point, prices fluctuated by 6.8% and dropped 3.5% over the last 30 days. Some of the main reasons behind this erratic trend include profit-taking and geopolitical factors. The proposed blanket 25% tariffs by the US on Canadian exports raise questions about which country will absorb the canola oil trade volume. In 2023, the US imported 2.9m tonnes of canola oil from Canada, accounting for 91% of Canada's exports. As a result, **ICE canola, representing the global benchmark price for Canada, dropped 9% MOM, closing November at AUD 620/tonne**.

Australian prices mirrored the fluctuations of MATIF and ICE prices. For instance, Geelong non-GM canola fell by 3.7% to AUD 742/tonne, while GM canola dropped by 10.2% to AUD 647/tonne. As highlighted in previous reports, the price spread between non-GM and GM canola is expected to be wider than in previous seasons, as the global GM supply is relatively stable compared to non-GM.

This drop in prices tends to be short-lived when considering the overall oilseeds market. The supply and demand fundamentals have remained virtually unchanged in recent weeks, with the few changes being more bullish than bearish. For instance, Russia announced an increase in the export duty on sunflower oil, from about AUD 43/tonne to AUD 137/tonne, a more than threefold hike. Meanwhile, Turkey reduced its sunflower seed import duty to support its crushing industry, from 8% to zero for up to 1m tonnes, and from 27% to 12% for volumes above that. Additionally, Bangladesh lowered import duties on vegetable oils, including soybean and palm oil, from 15% to 10% in an effort to curb food inflation. **These decisions represent only a fraction of the global trade in oilseeds and coproducts, but they also indicate a well-supported market. Geopolitics will be the major factor influencing canola prices during the antipodean summer.**

What to watch:

- **Europe and Black Sea winter weather –** The weather forecast for the next few months is not promising for growers in these regions of the Northern Hemisphere. Winter temperatures are expected to be up to 2C above average, which might prompt an early start in crop growth, increasing the risk of damage from a late cold spell. This could lead to potential price increases, given the already tight stocks of canola and sunflower.

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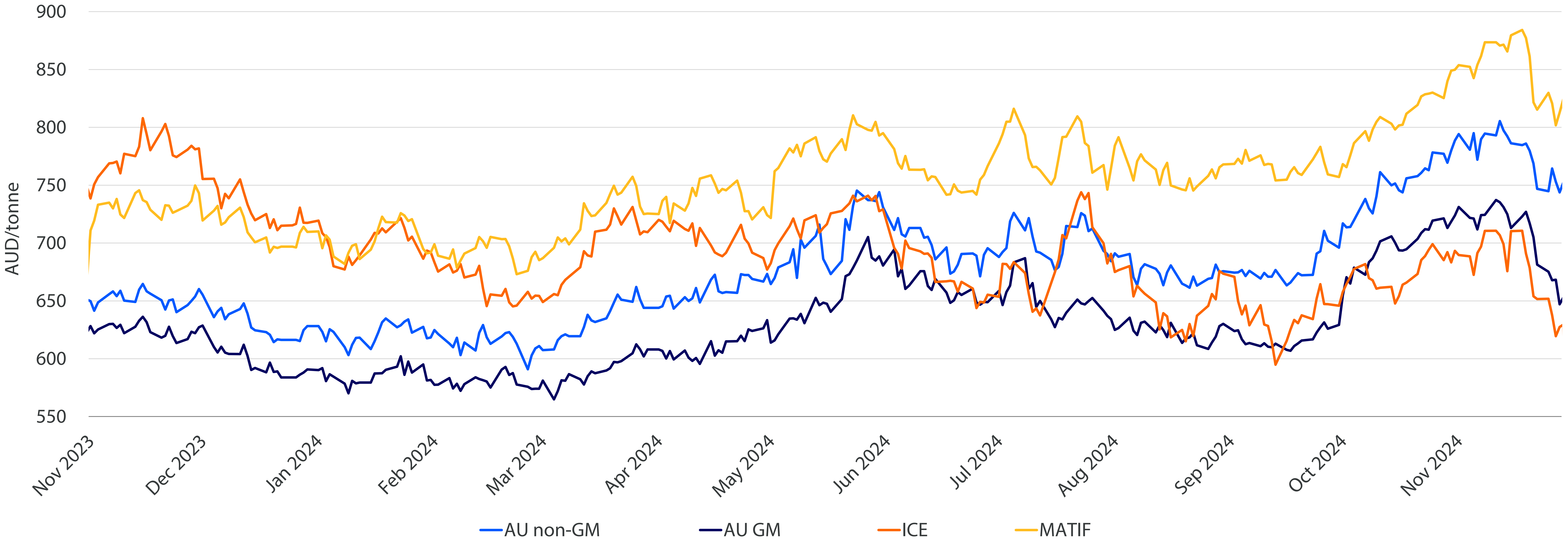
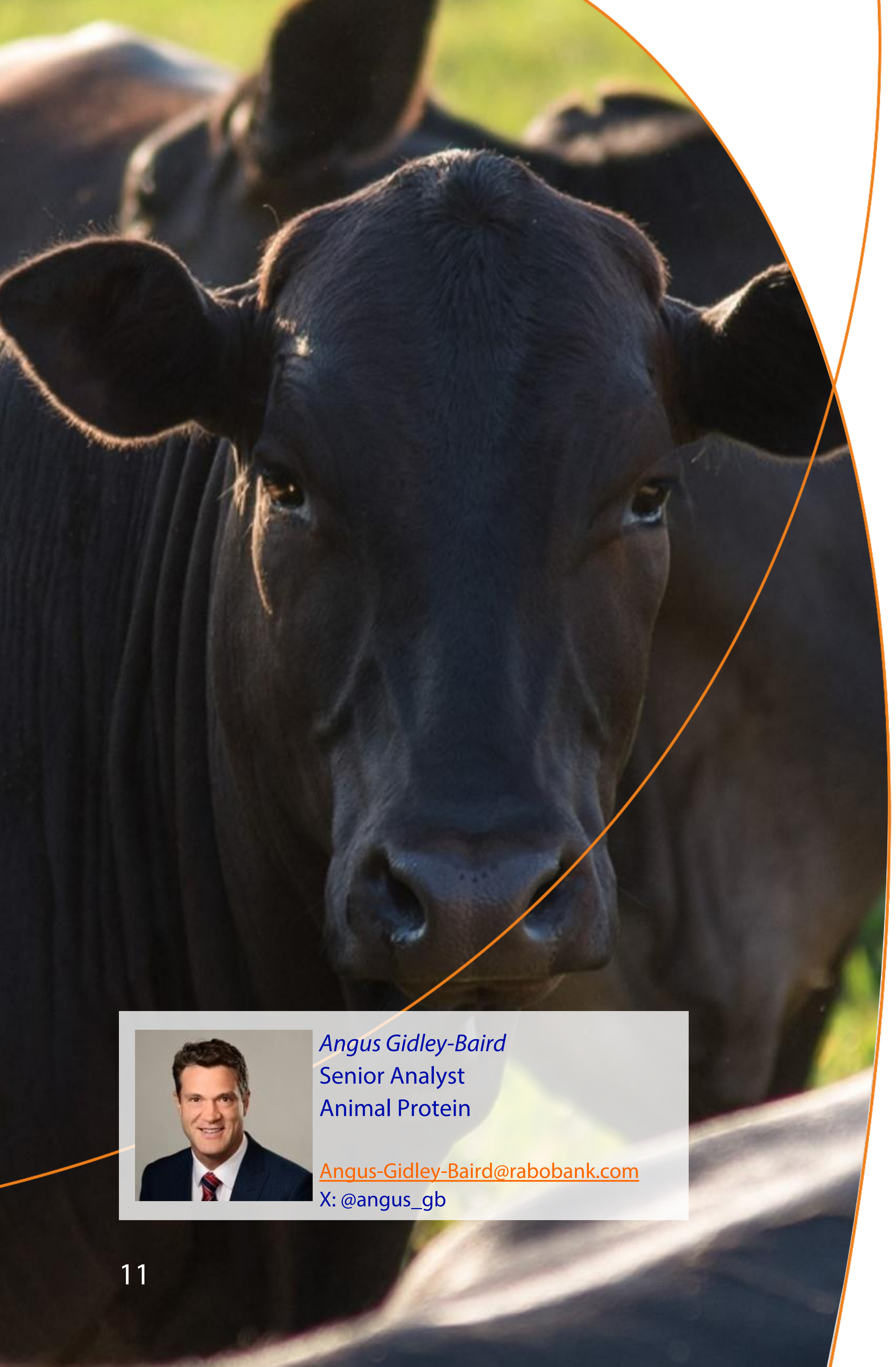
Canola

Price oscillation amid a positive trend

Stable canola supply and demand fundamentals in November



Note: *Australian prices are the average port price for canola.*
Source: *Bloomberg, RaboResearch 2024*



Beef

Record production leading to record exports

Australian saleyard cattle prices remained relatively unchanged through November. Heavy steers were down 1.2% from the end of October. Meanwhile, younger restocking type animals saw an increase, with replacement heifers up 9.4% MOM compared to the end of October. The EYCI was at AUc 636/kg on 30 November, almost unchanged from a month earlier. **We believe the cattle market is reasonably balanced at the moment, with no strong upside or downside to price movement. Favorable rains in late November should support producer demand and may push restocking prices slightly higher. Meanwhile, contracting global supplies may give reason for some upside in global markets, but we believe price moments will be limited at this stage before the end of the year.**

Q3 production data released in mid November, showed cattle slaughter volumes up 17% YOY, taking the total cattle slaughter for the year to date to 6.17m, up 19% YOY. Male slaughter numbers were up 10%, and female slaughter numbers were up 25% compared to Q3 2023. The female proportion of total slaughter was 52%, marking the sixth straight quarter above 47% – the conventional divide between herd liquidation and growth. Despite this high proportion of females, RaboResearch does not believe we are in a liquidation phase. Rather, it is reflective of a larger, stable, more productive herd. Total beef production set a new record in Q3 at 695,691tonnes cwt despite slaughter numbers being 9% below the record set in 2014. Weekly cattle slaughter is sitting just over 145,000 head, bringing the year-to-date slaughter up 14% on the same time last year.

October export volumes reached a new record at 130,048 tonnes swt, surpassing the previous record set in July. The US continues to take the lion's share with 29% of exports, followed by Japan with 19%, although we are starting to see volumes to Japan drop again. Volumes to China saw their eighth consecutive year-on-year contraction in October. Although live exports were up 17% for the year to date (October), they were down 40% compared to 2023 volumes.

What to watch:

- **Global trade and China** – The next couple of months will be interesting for global beef trade and China. Brazilian production is contracting, trade quotas are being reset, and buying for the Chinese Lunar New Year is in full stride. While Chinese demand remains weak, the reduced volume of Brazilian beef in the market due to their production decline, along with renewed opportunities for Brazil to send beef to the US under a new quota trade year, may lead to a contraction in volumes to China during one of their key buying periods – Lunar New Year. It will be interesting to see if demand in China is strong enough to push global beef prices higher.

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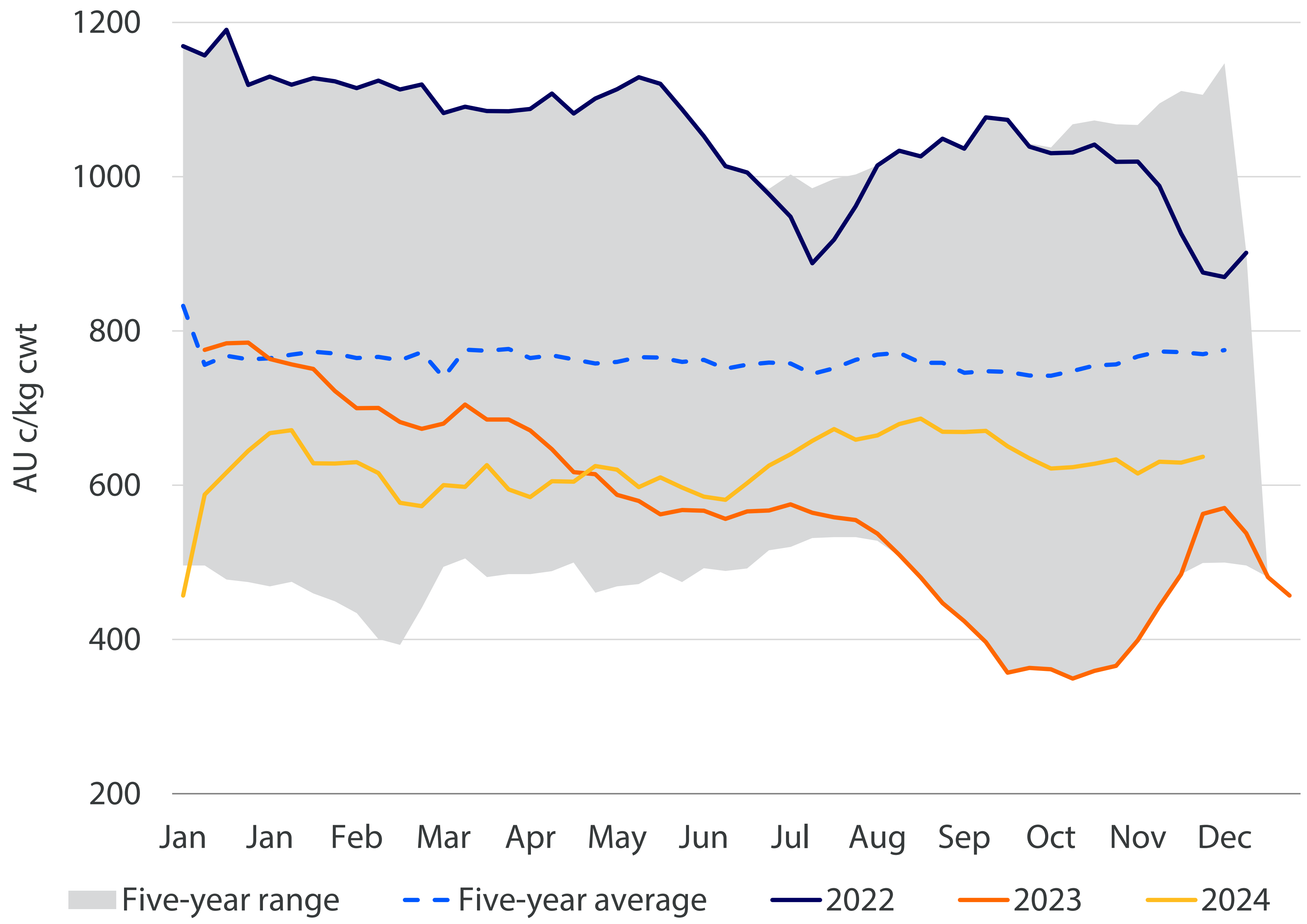
Beef

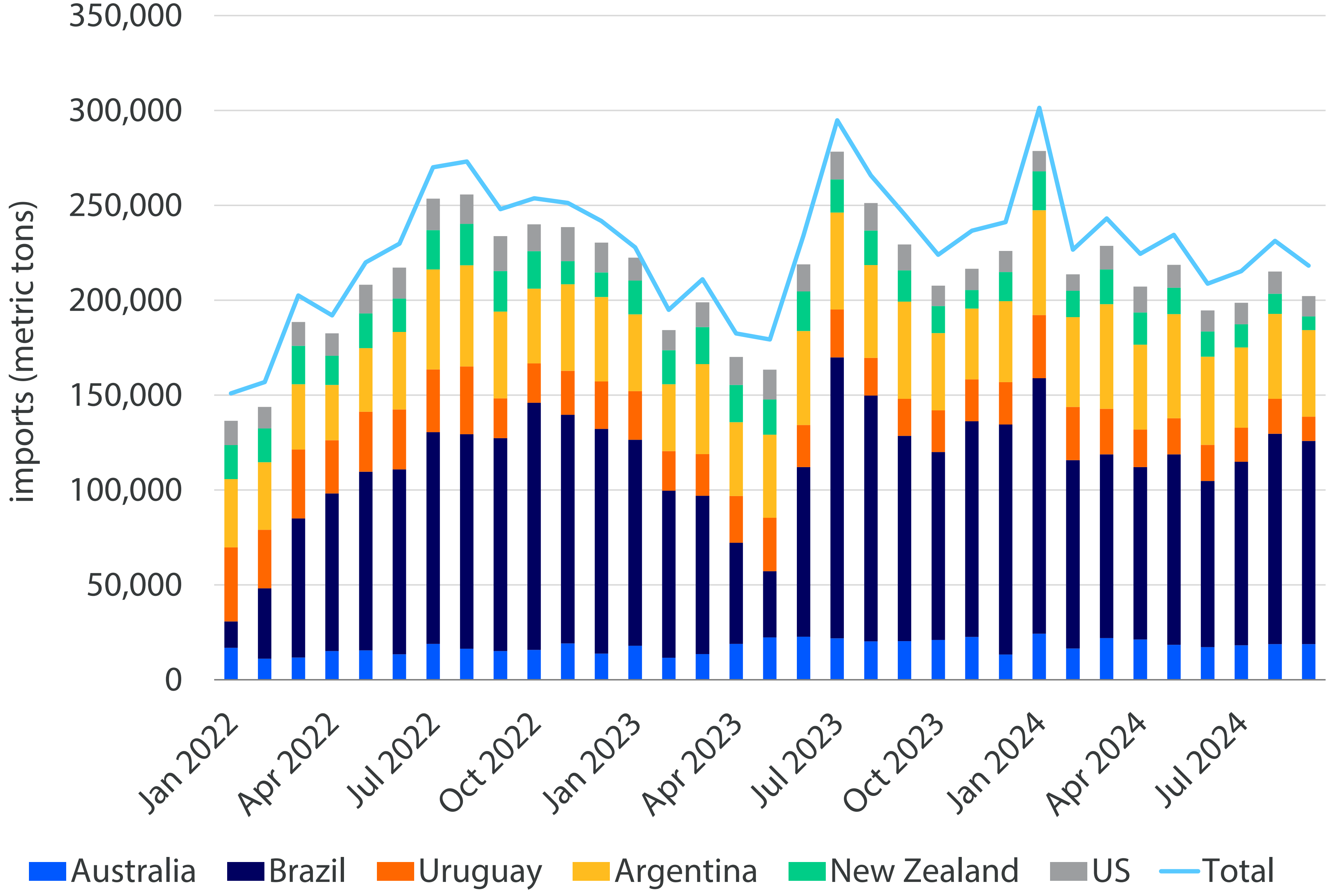
Australian cattle prices hold amid record production, meanwhile eyes turn to China in the new year

EYCI continues tracking sideways



Source: *MLA, RaboResearch 2024*

Chinese imports up 3% YTD: Will they increase for Lunar New Year?



Source: *China Customs, RaboResearch 2024*

Sheepmeat

Slaughter numbers rise, but lamb production declines

Although fluctuating slightly throughout the month, most lamb saleyard prices have ended November close to where they were at the end of October. Mutton prices were the big mover, up 17% to AUc365/kg at the end of the month. The National Trade Lamb Indicator was at AUc 817/kg for the week ending 1 December, down 0.3% from one month earlier. The volume of restocker lambs through the yards appears to have reached the annual peak in late November, but prices have continued an upward trend since September. This may reflect a lift in producer demand, driven by ongoing high finished lamb prices, the availability of crop stubbles, and better rainfall in northern Victoria and parts of New South Wales in November. **Trade lamb prices remain higher than RaboResearch projections, possibly due to expectations of more limited supplies. The next couple of months will test the market to see if there are fewer lambs or if they are simply taking longer to finish. We believe there could still be some lambs to come, but we are not yet convinced that the volumes will be sufficient to cause prices to drop.**

The Q3 production numbers, released in mid-November, showed lamb slaughter volumes down 4% compared to the same period in 2023, while sheep slaughter was up 28%. A decline in average lamb slaughter weight resulted in production volumes falling by 7%. Weekly lamb slaughter numbers rose back above 450,000 head in late November for the first time since July. Sheep slaughter numbers remain historically high, pushing through 250,000 head for the first time in over ten years.

October export volumes reflect the declining lamb production, with volumes down 13% YOY. Exports to the Middle East and China were down 18% and 38% respectively, while volumes to the US were up 18% YOY.

What to watch:

- **Lamb slaughter numbers** – Although weekly lamb slaughter numbers are creeping back up to levels seen earlier in the year, Q3 production and export volumes suggest that weights might be dropping and production may be declining. This would support the current aggressive pricing for finished and heavy lambs – above AUc 800/kg – as processors try to attract more lambs to market to make up volume. But are there many more lambs available? Restocker lamb numbers through saleyards are up 30% for the three months to September compared to last year. Is this a sign that there could still be more lambs to come?

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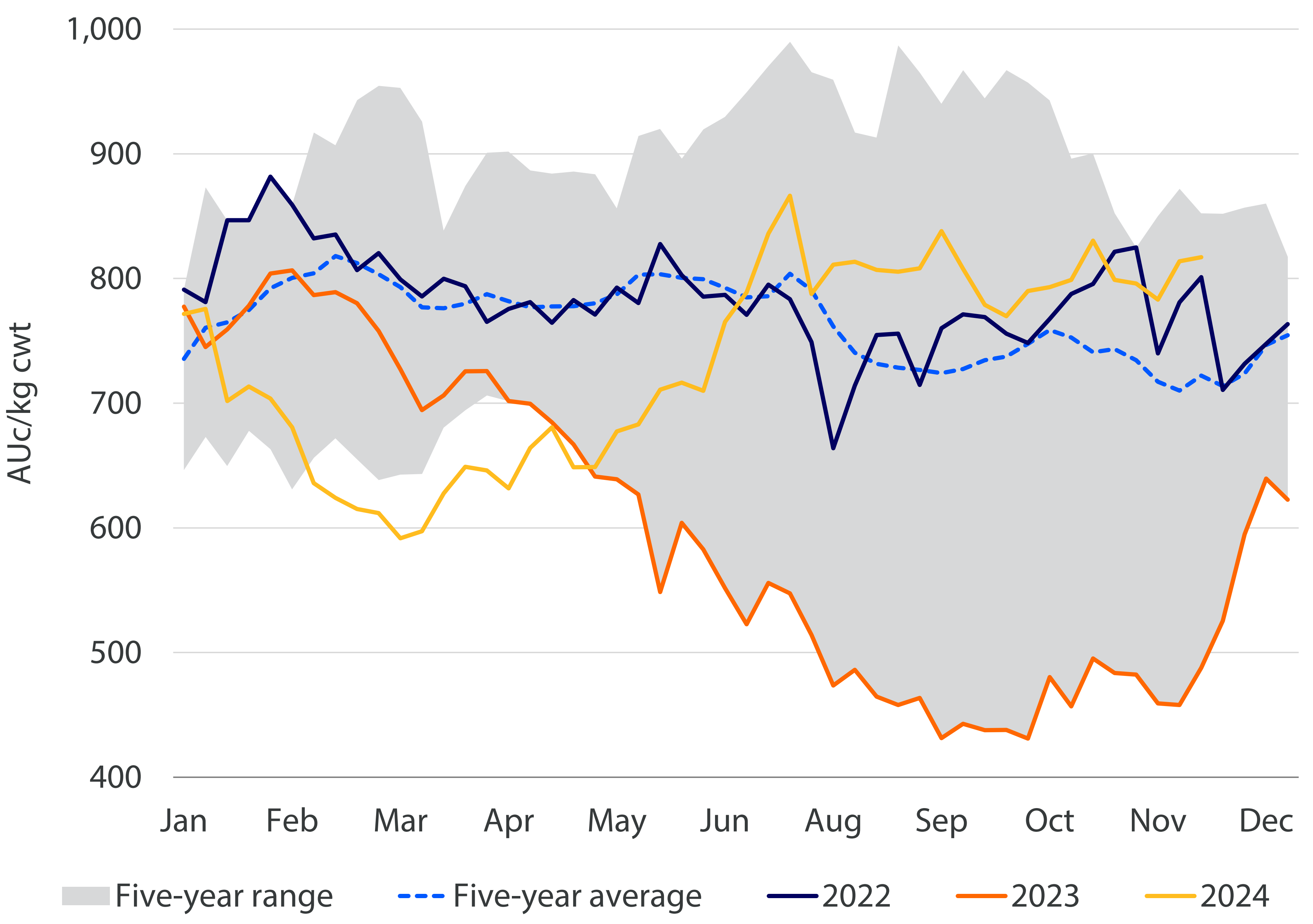
Sheepmeat

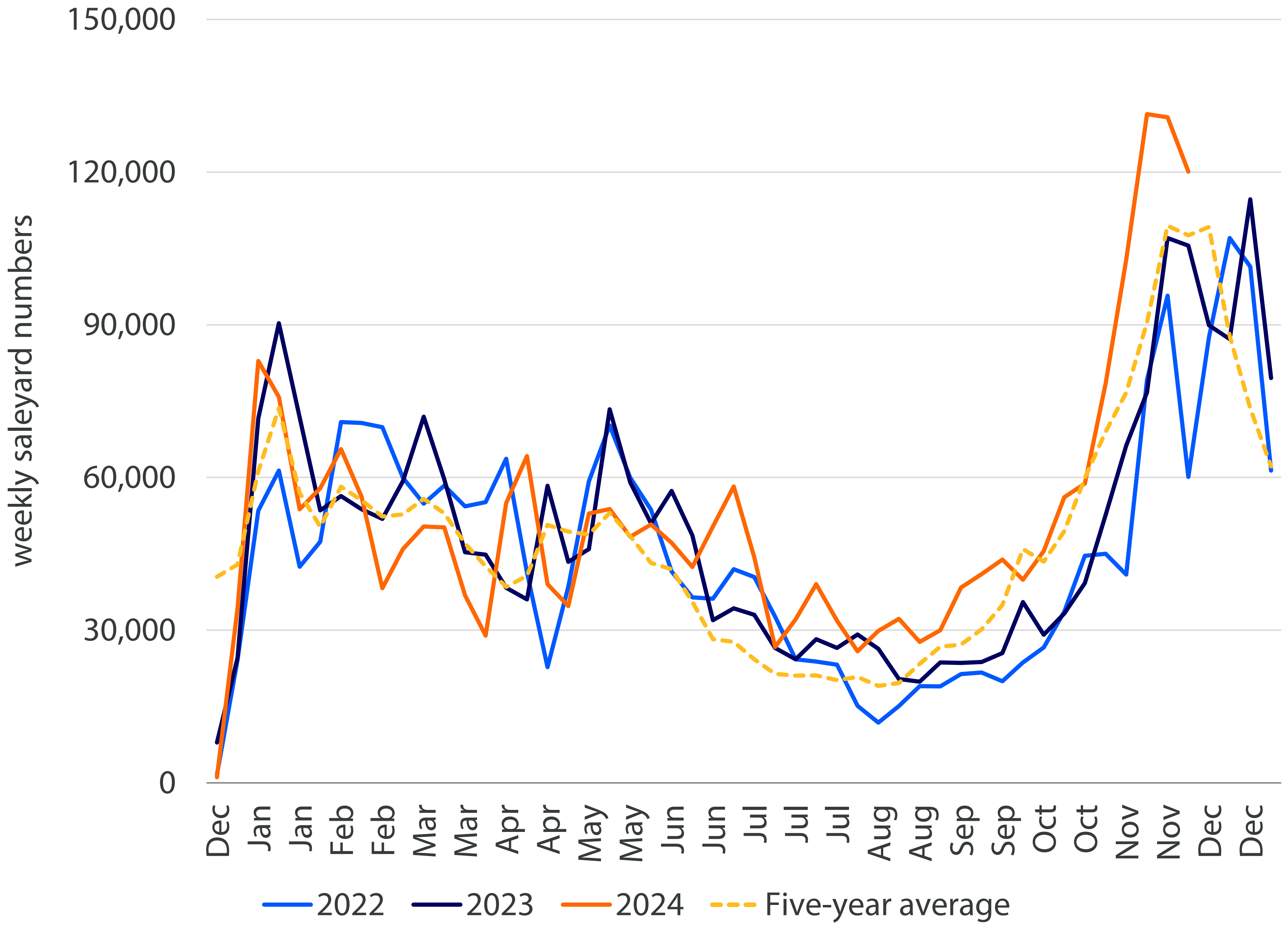
Lamb prices continue to hold but are there more lambs to come?

NTLI holds around 800 as lamb numbers lift



Source: MLA, RaboResearch 2024

Restocker lamb numbers through saleyards up 30%



Source: MLA, RaboResearch 2024

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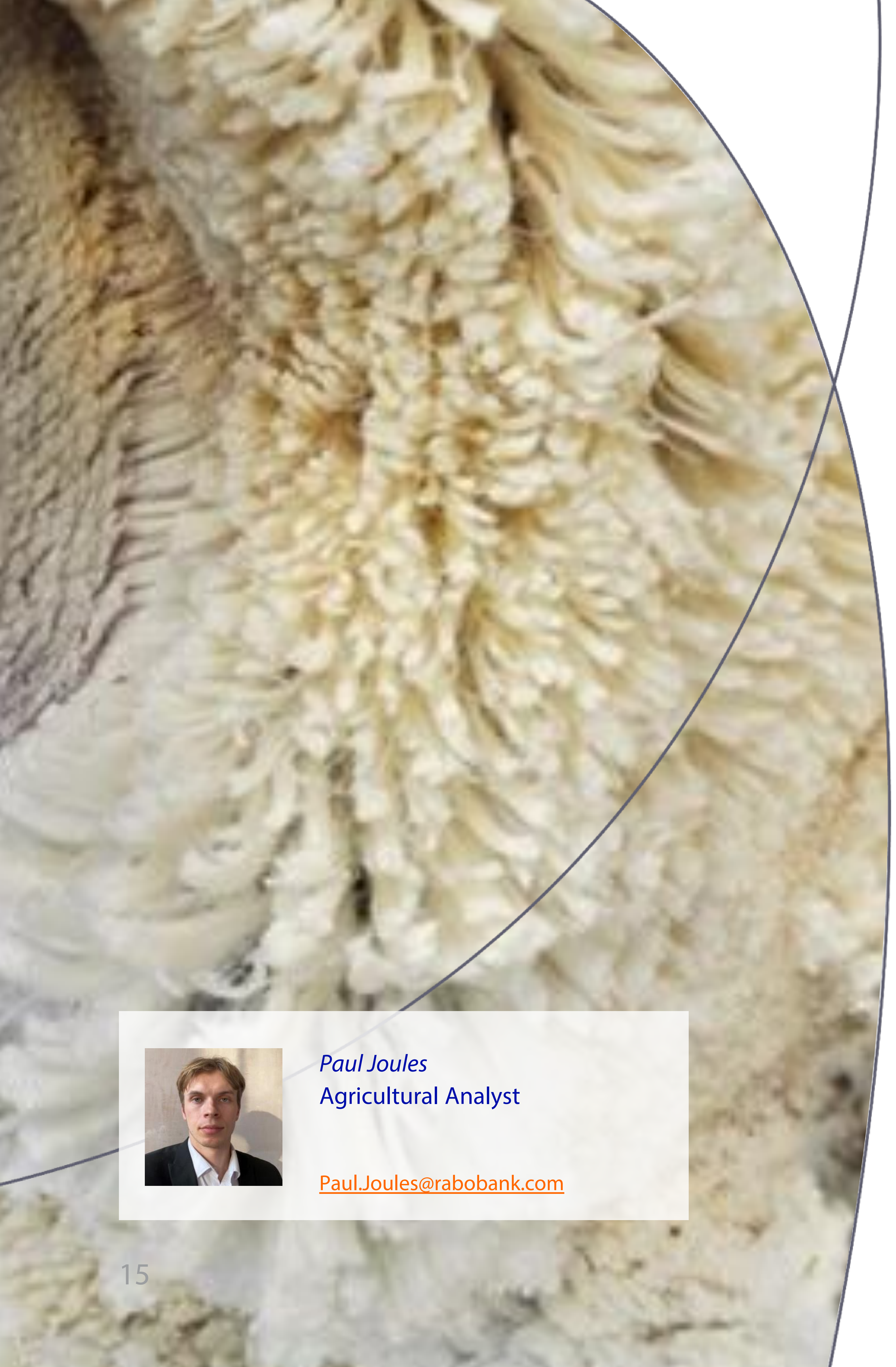

Wool

Another positive month for wool prices

Wool prices continued their steady rise from recent lows. The Eastern Market Indicator (EMI) rose 1.4% MOM. The Western Market Indicator (WMI) also recorded a positive result, rising 1.9% within the same period (prices correct as of November 29). In terms of micron price movement, 21 and 30 microns recorded the largest monthly gains, having both risen 3.6%. Other strong performers included 23 microns (+3.4%), 17 microns (+2.9%), and 18 microns (+2.2%). In fact, the only micron that declined month-on-month was 32, which was down 0.5%.

The recent weakness in the Australian dollar is likely providing a lift for demand. However, what is also potentially contributing to recent price action is more positivity surrounding downstream demand. In Europe, consumer confidence continues to rise, and we're beginning to see improving consumer sentiment filter into sales data, with EU retail sales data rising 2.8% YOY in September.

The big question mark surrounding wool demand is the risk of tariff for China, which could impact import demand going forward. On the positive side, Chinese retail sales rose 4,8% in October. Although this is a positive sign for the domestic market, the main risk relates to exports, particularly to the US market, which could be affected by the recent US election results. That being said, the US is only one of a number of trading partners for Chinese clothing. **The performance of trade with other regions and China's success in stimulating domestic demand will also be key factors in determining wool demand.**

In terms of the most recent Australian export data, the ABS figures were fairly disappointing, with Chinese volumes down 32.7% YOY in September, and Indian volumes down 38.1%. **However, weak export volumes have been an ongoing theme, and in our view the recent weak demand is largely priced in.** In fact, the market appears to be steadily rising from the price floor hit a couple of months ago, with the EMI recovering by 5.1% from September lows.

What to watch:

- **Trade relations between the US and China will, of course, be a pivotal watch point for the wool market,** as this could have implications for Chinese wool demand.
- **It's will also be important to keep an eye on retail sales data within key consumption regions, such as Europe**. Further strong data could provide support for wool prices.

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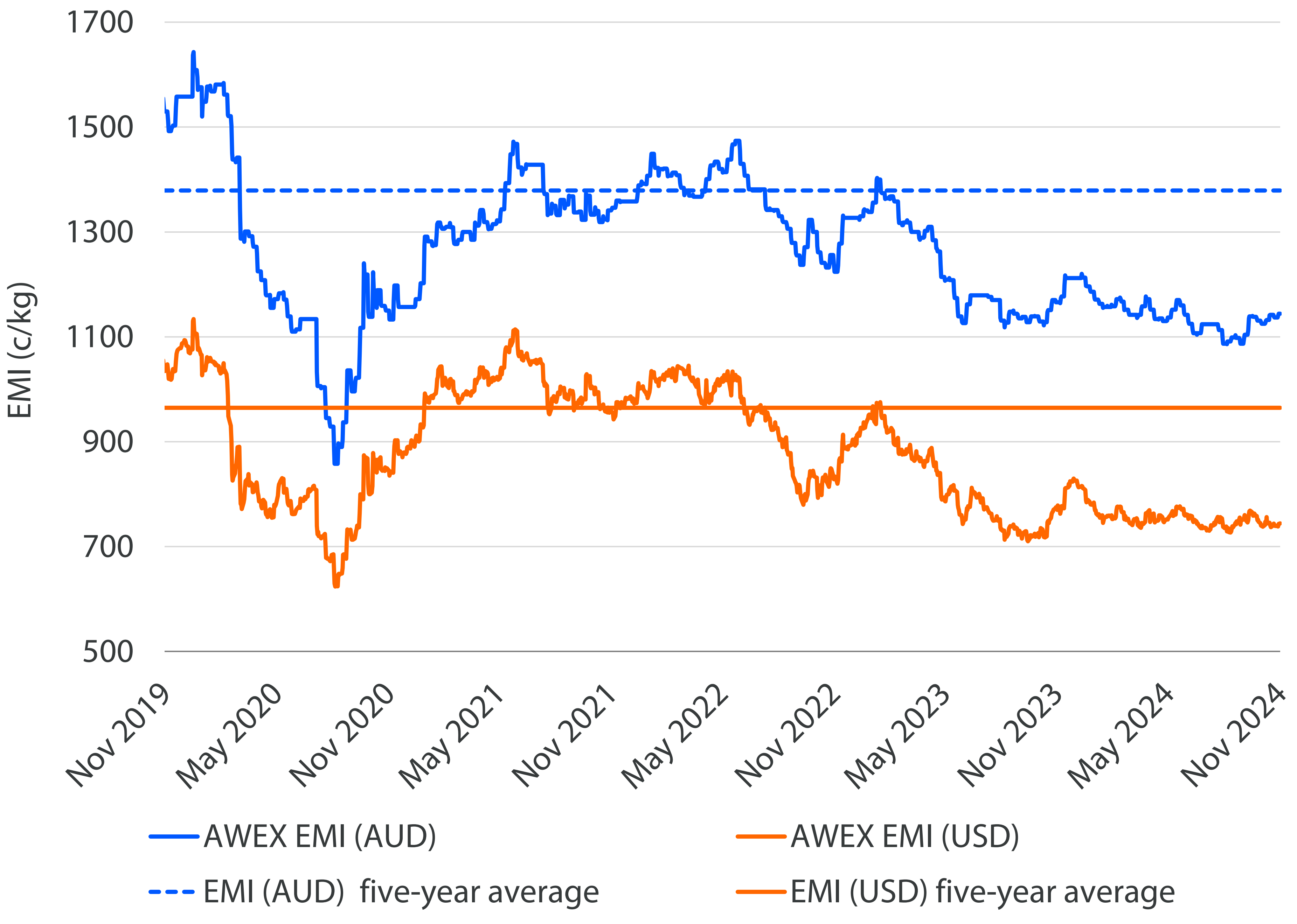
Wool

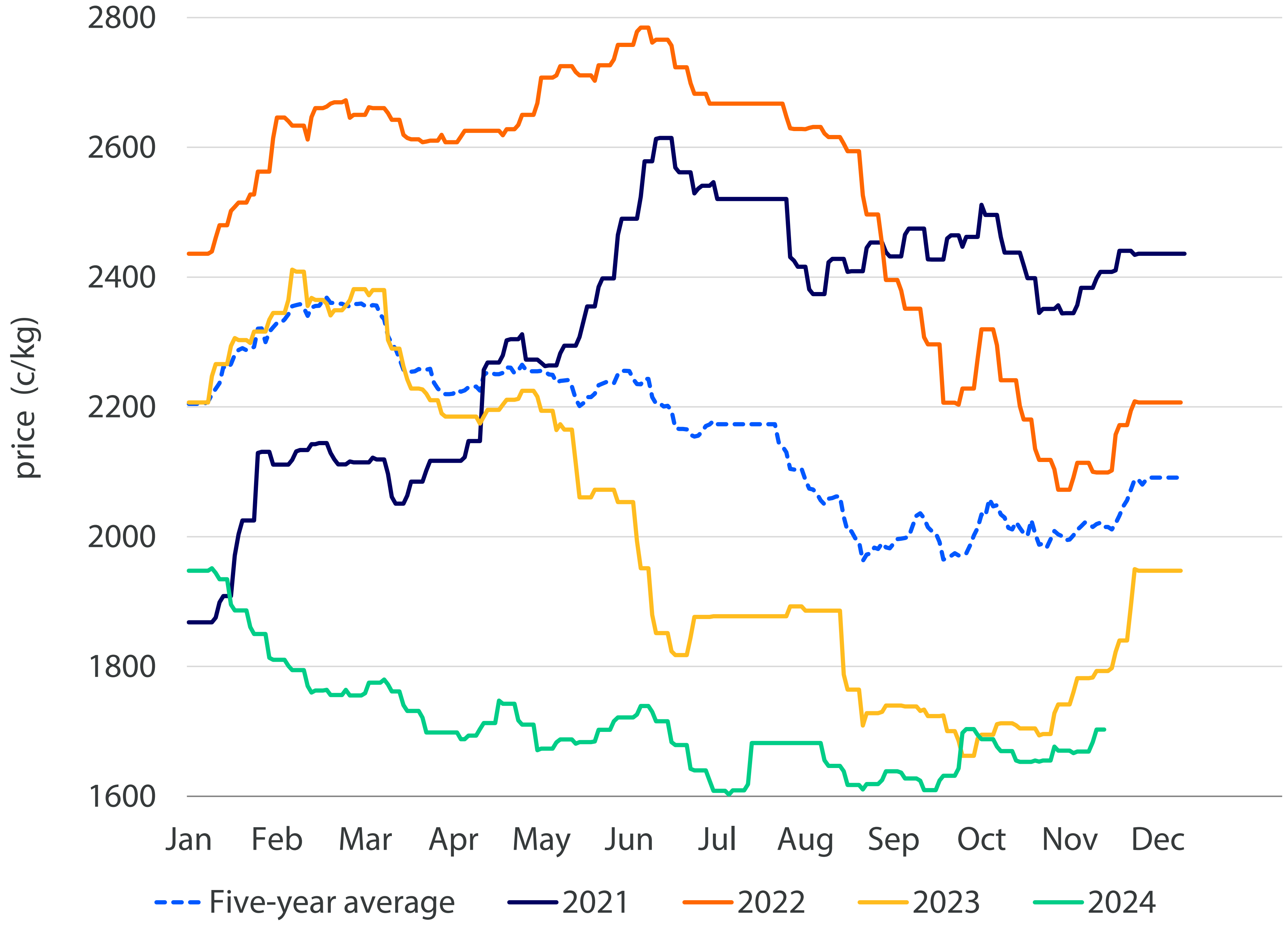
It was another month of modest gains for wool prices, with almost all microns recording MOM increases

EMI prices have risen over 5% from September lows



Source: *Bloomberg, RaboResearch 2024*

17 micron prices rose 2.9% MOM



Source: *Bloomberg, RaboResearch 2024*

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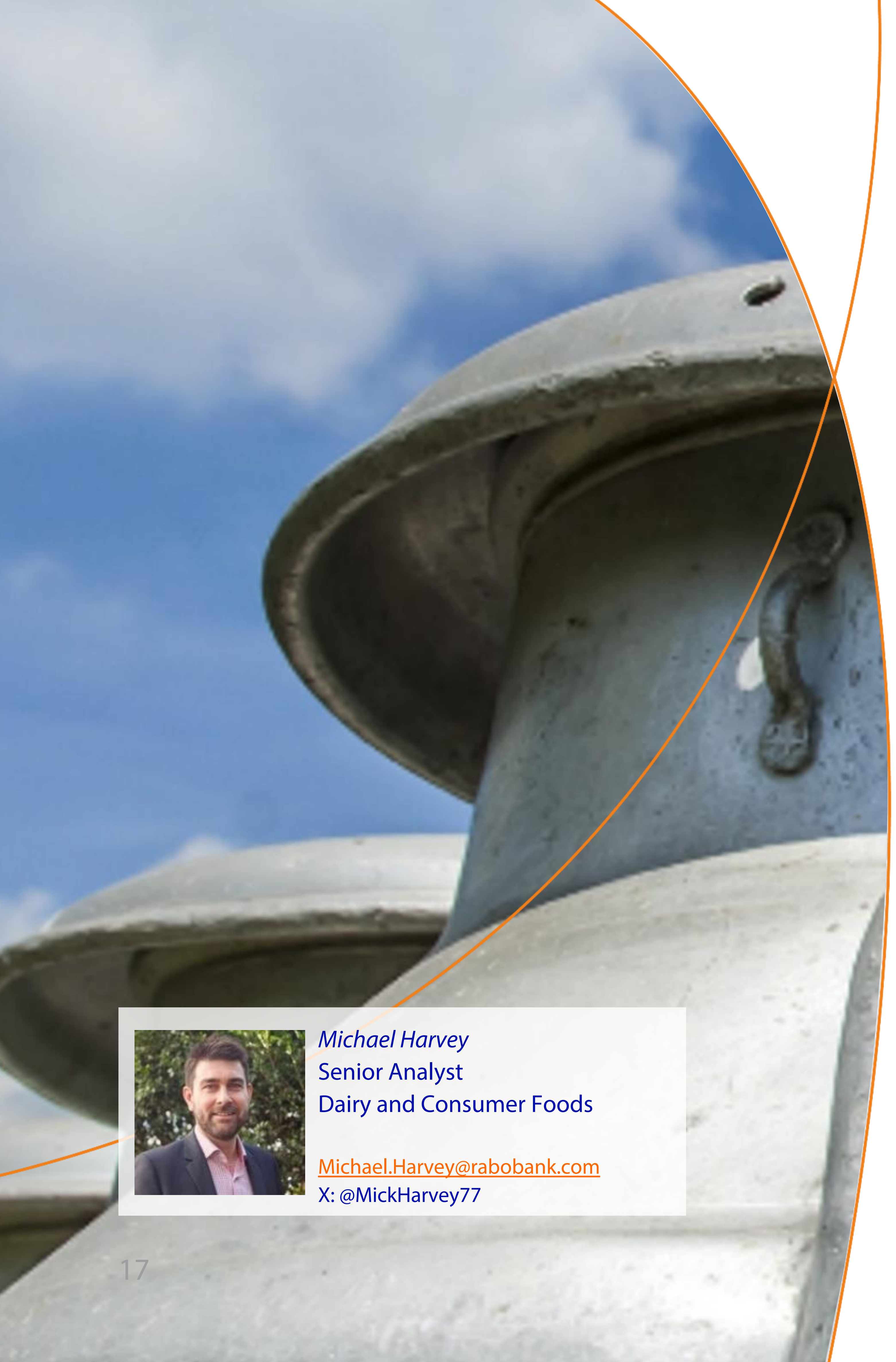

Dairy

A turning point for milk supply in export regions and China

Farmgate milk prices are trending higher. Across the global feed complex, there are no significant issues for dairy producers, with mostly favourable prices and availability. The combination of rising milk prices and affordable feed mean dairy farm margins have improved and will likely expand further in 2025.

Milk supply growth has turned positive across many of the major exporting regions. RaboResearch forecasts a 0.8% YOY gain in Q4 2024, an acceleration from the 0.1% growth achieved in Q3 2024. This puts 2024 volumes at 323.1m tonnes, on par with the prior year. Milk production momentum will continue through 2025, supported by better farmgate margins. RaboResearch forecasts 2025 production to be 0.8% YOY higher.

Global dairy fundamentals remain mostly balanced moving into 2025. There are more milk and dairy products in the pipeline, and dairy demand should also improve in 2025. China has made significant progress in rebalancing stocks and RaboResearch sees the current dairy commodity prices supporting improved farm margins through 2025.

New Zealand milk supply for the 2024/25 season is likely to see the biggest increase in growth volumes since the 2020/21 season. Latest data shows season-to-October 2024 production is 4.2% YOY higher on a milksolids basis.

Fonterra's farmgate milk price forecast mid-point has lifted to NZD 9.50/kgMS for the 2024/25 season. This is 31% higher than this time last year and is the second-highest milk price forecast (on a nominal basis) in Fonterra's history.

Australian milk production is 1.7% YOY higher in the 2024/25 season so far (to October), equating to an additional 50m litres of milk. More broadly, milk production showed mixed results across the production regions. Growth is underpinned by strong seasons in eastern Victoria and the northern Victoria/southern North South Wales regions.

Australian consumers are seeing some relief in dairy product prices. According to the Australian Bureau of Statistics' consumer price index data, signs of deflation are emerging.

What to watch:

Upside – Disease impacts on Northern Hemisphere milk supply

- Management of disease outbreaks continues across Europe and the US. Highly pathogenic avian influenza continues to spread in dairy cow herds across parts of the US, including California, which accounts for 18% of US milk production.

Downside – Sluggish foodservice channels

- As 2024 draws to a close, the foodservice channels remain sluggish in the lead-up to the Christmas and New Year period. This is an important channel for cheese and butter. However, promotional efforts are underway to help drive foot traffic.

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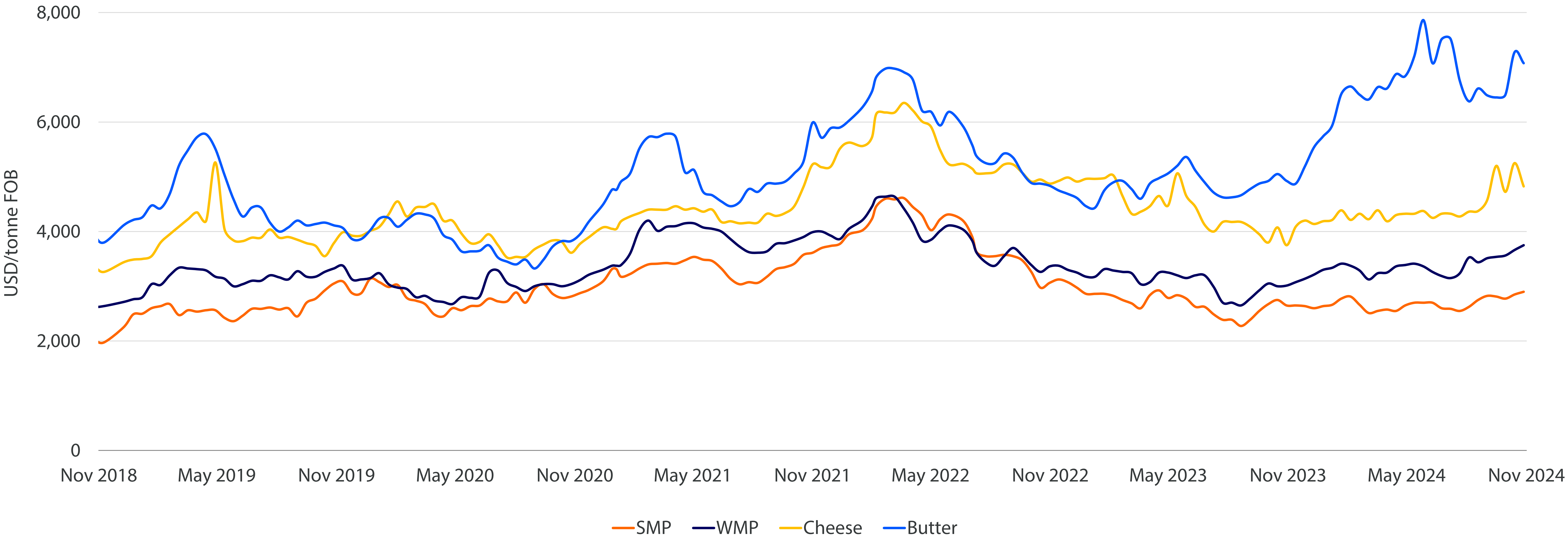
Dairy

November sees strengthened dairy commodity prices

Oceania spot prices for dairy commodities



Source: *USDA, RaboResearch 2024*

Cotton

ICE #2 cotton futures partially claw back some losses

ICE #2 Cotton futures are currently trading modestly above the psychologically important USc 70/lb level (March 2025 contract). Despite a partial recovery in the second half of November, futures were still down 1.3% MOM. Similarly, Australian cash prices weakened, with 2026 prices down 0.5% MOM (prices correct as of 29 November).

US weekly sales data likely played a role in early November price weakness. Earlier in the month we saw some weak trade data come out of the US. However, this was followed by a recovery in US sales the following week, with sales hitting a marketing year high for the week ending 14 November. This partially explains ICE clawing back some of the losses accumulated earlier in the month.

Although the US dollar rally has been a drag for ICE #2 Cotton futures, the subsequent decline in the Australian dollar helped spare Australian cash prices from some of the weakness seen in ICE futures. Looking forward, RaboResearch has recently adjusted its AUD/USD forecast on a 12-month view, now anticipating the AUD to modestly decline over this timeframe. The rationale behind our change is the anticipated impact of Donald Trump's re-election on the US dollar, alongside our expectations on interest rate differentials. For ICE futures, a stronger US dollar will likely limit major upside given US export competitiveness faces a currency disadvantage. Assuming our FX outlook materializes, we could see some US demand shift to Australia, which would help support our basis in 2025. Nevertheless, mammoth Brazilian supplies will likely cap major Australian cash price upside.

The other factor likely influencing recent price weakness is looming US tariffs. This could potentially impact US cotton exports to China. On the one hand, it could be argued this might benefit Australian trade in the short term as it could fill the assumed drop-off in US-China trade. However, there is also the risk that Australia could get drawn into the trade war.

What to watch:

- **The market will be closely watching how speculators react to recent US dollar strength.** Managed Money made a significant net sale during the week ending 19 November. Further large fund moves have the potential to result in price fluctuations in both ICE and Australian cash markets.

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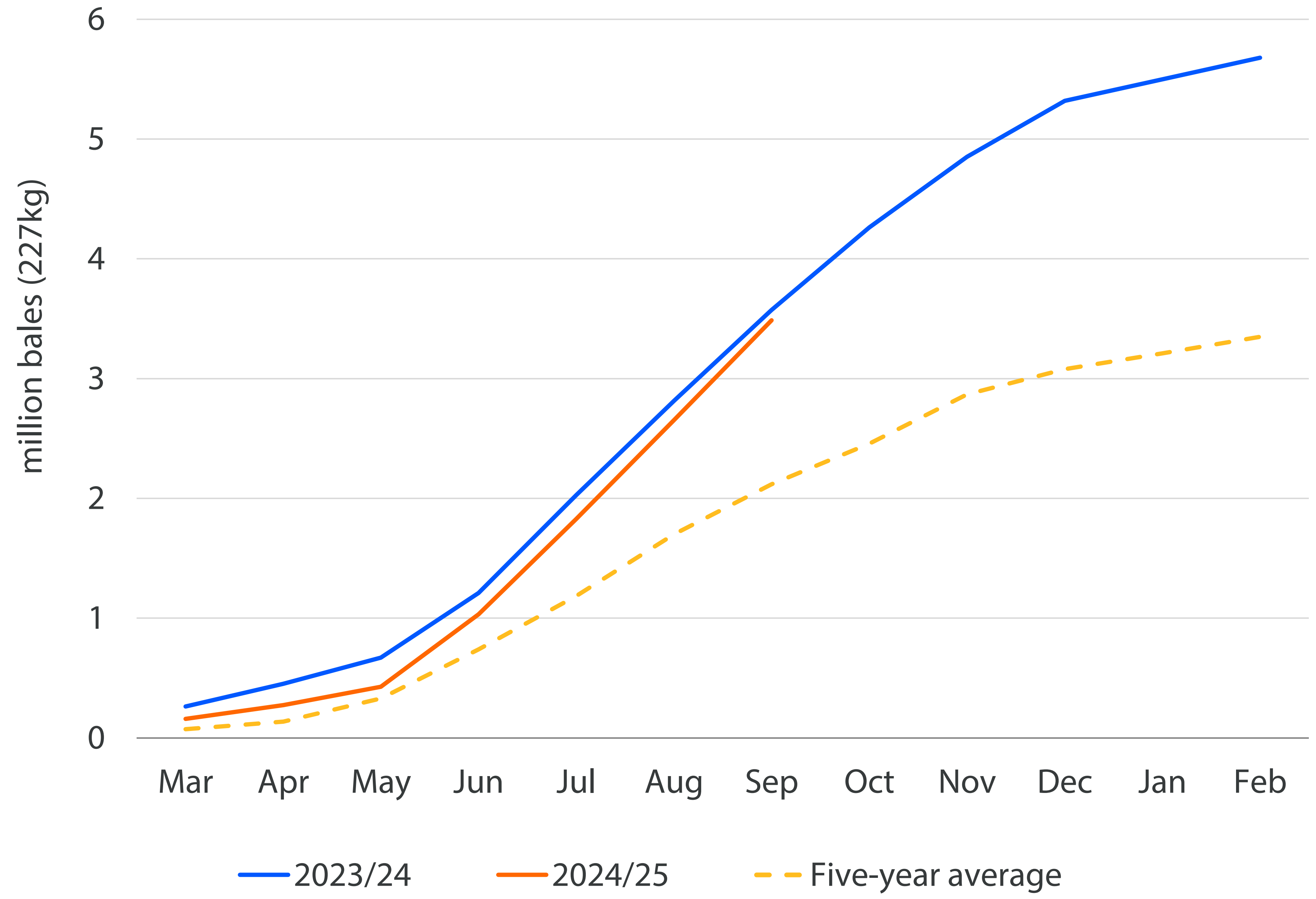
Cotton

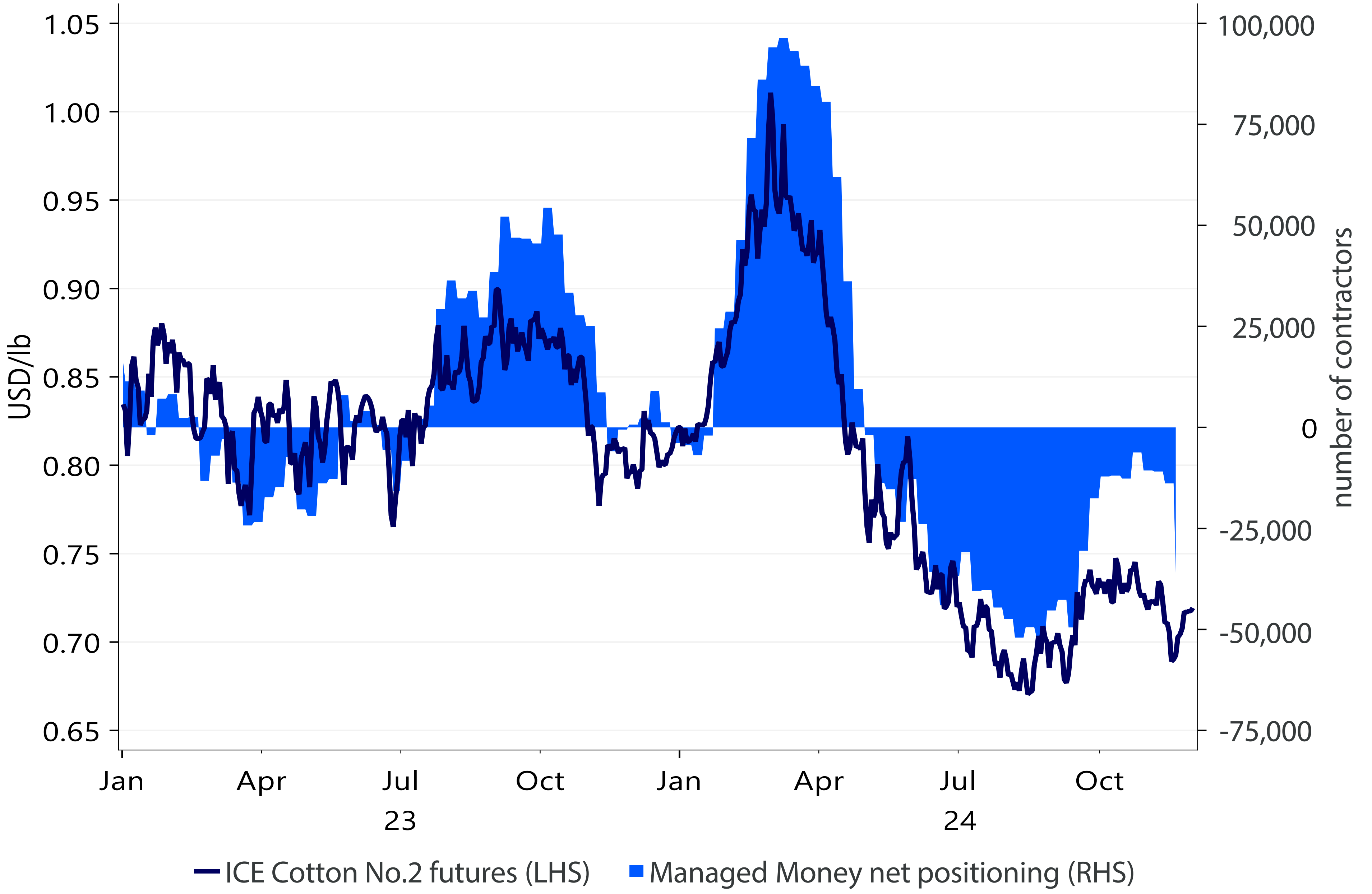
ICE #2 Cotton futures have been volatile over the past month, with prices whipsawing in recent weeks

Australian cotton exports have been performing well, providing support for Australian cash prices



Source: ABS, RaboResearch 2024

Fund have moved away from their record net short on ICE #2 Cotton in recent months



Source: CFTC, Bloomberg, RaboResearch 2024

Consumer foods

Monthly food inflation steady in October

Monthly food inflation was steady in October based on the Australian Bureau of Statistics (ABS) Consumer Price Index. Food and beverage inflation was 3.3% YOY higher, which was steady with the rate of growth in September.

Of note, dairy deflation gained pace with prices 1.8% YOY lower. This is the result of more frequent promotions and discounts in private label offerings for milk and cheese.

Fresh produce posted an 8.5% YOY increase in prices. The ABS attributed the higher fruit and vegetable pricing to lower supply for avocados, berries, and vegetables such as cucumber and broccoli.

The Australian economy has passed the peak of wage inflation for this cycle. For the September 2024 quarter, Australia's Wage Price Index (WPI) showed a 3.5% YOY increase. This was a slight decrease from the 4.1% growth recorded in the June quarter.

According to seasonally adjusted ABS monthly retail trade data, total retail turnover rose 0.6% in October 2024 This compared to 0.1% growth in September. The weakest sector was clothing, footwear and personal accessory retailing.

Looking into the food market performance, the gradual recovery in foodservice continued in October. The sector posted a third consecutive year-on-year growth in October, of 2.3%.

This took some shine off the food retail performance, but food retail is still outpacing foodservice as it has for much of 2024.

The pace of growth in food retail slowed in October and was 2.6% YOY higher for the month. This led to total food market trade rising 2.6% in October, which was marginally lower than in September (+2.9%), but still below the rate of food inflation.

Australian consumer confidence as measured by the ANZ-Roy Morgan Consumer Confidence report, fell in the last week of November. Confidence among Australian consumers has ground higher of multi-year lows but is still subdued. The leading issue continues to be concerns around personal finances.

What to watch:

A Chinese consumer response to recent stimulus.

- The performance of the Chinese consumer market has been sluggish for many food and beverage companies this year. Weak consumer sentiment is leading to a soft spending in the consumer foods channels. The stimulus announced so far has been significant, and there may be more stimulus measures going forward. Markets now watch to see if they materially improve the Chinese consumer.

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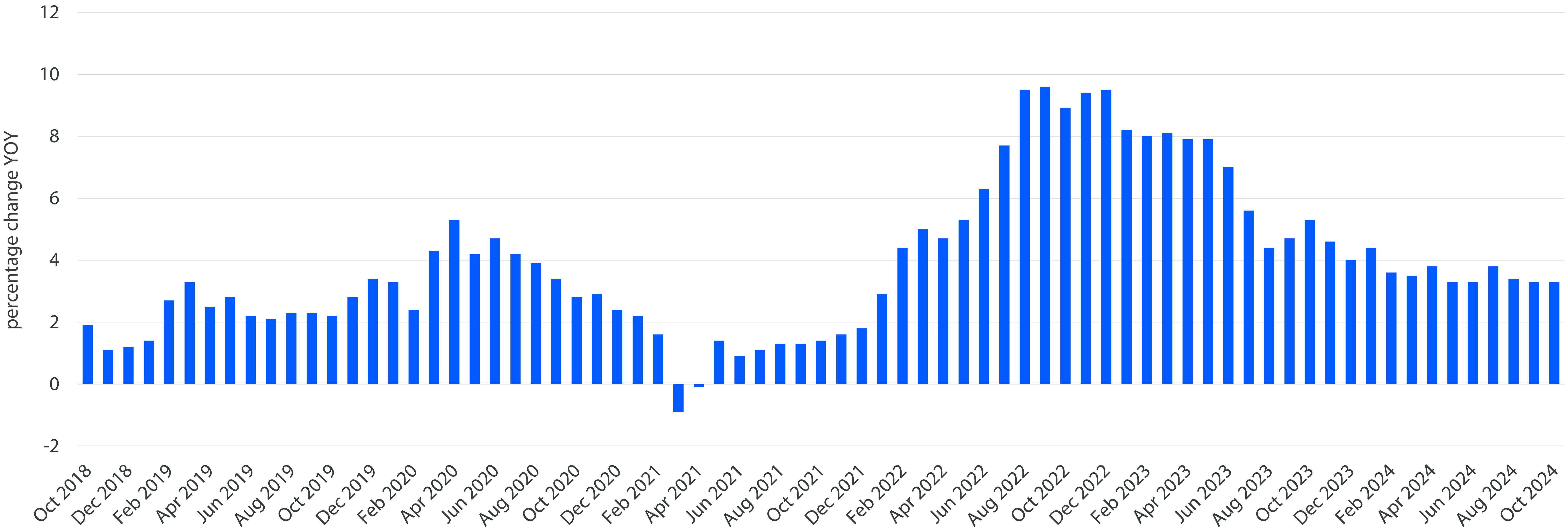
Consumer foods

Deflation in dairy, but headline food inflation remains steady in October year-on-year

Monthly food and beverage inflation, percentage change from corresponding quarter of previous year



Source: ABS, RaboResearch 2024

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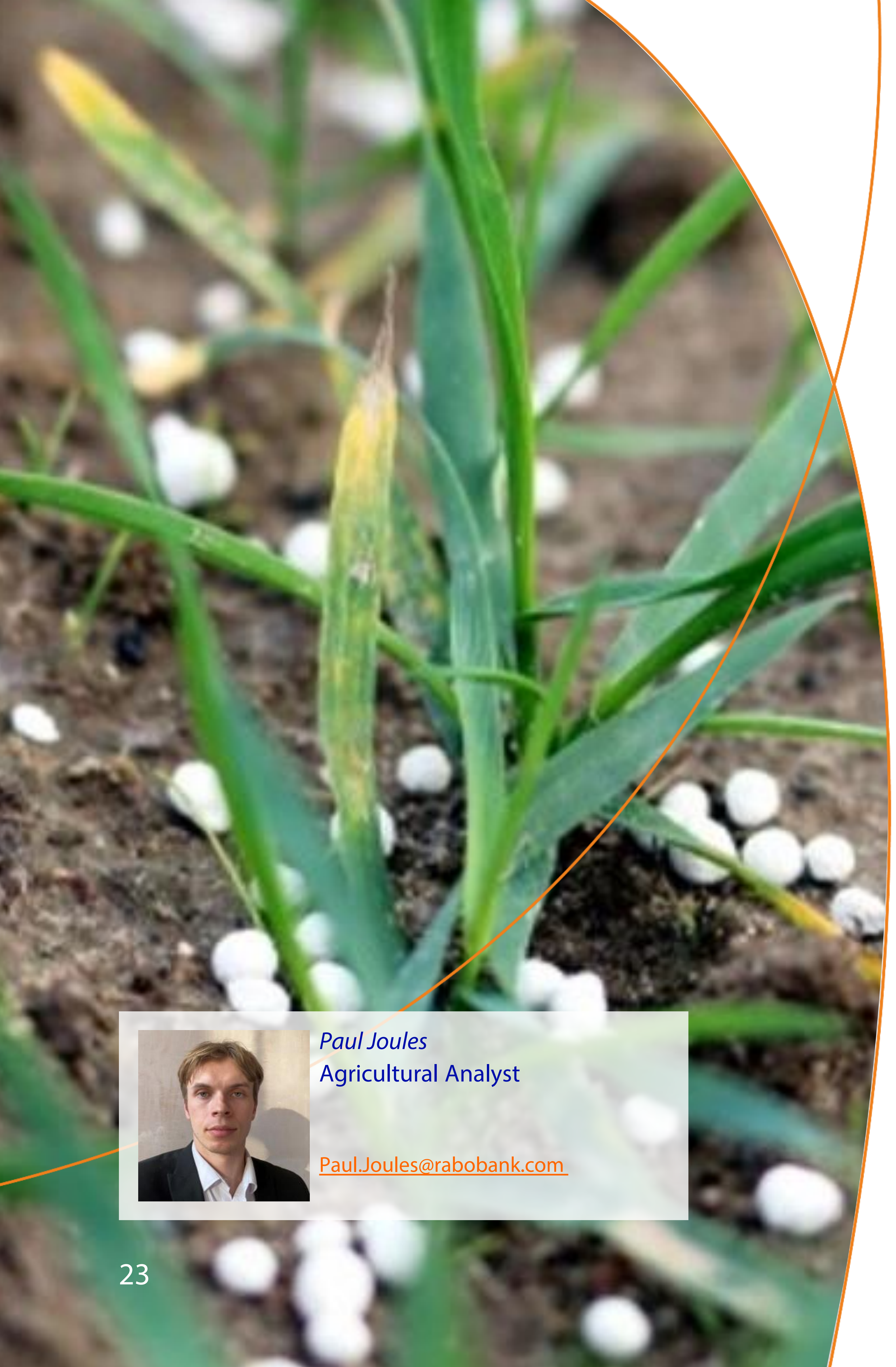

Farm inputs

Fertilizer prices moved out of sync in November

Urea prices (FOB bulk Middle East netbacks) declined by 3.3% MOM to reach AUD 494/tonne (as of 28 November). Prices weakened as a consequence of limited signs of demand. The poor demand picture may be a consequence of buyers waiting for prices to come down. However, natural gas prices remain at elevated levels, and RaboResearch has recently revised its European natural gas forecast upward, expecting supplies to tighten as Europe tapers off from Russian natural gas. Meanwhile, the situation in the Middle East will likely keep a risk premium in markets. Because of this, RaboResearch sees limited downside in urea prices from current levels.

In stark contrast, potash prices found strong support, rising 3.4% MOM to AUD 424/tonne, which puts prices back up to July levels. Chinese, European, and Asian markets found support amid news that the US may impose tariffs on Canadian exports (Canada is the world's largest potash producer). This seemingly spooked the market. US importers may have to shift their supply chains away from Canada, which could increase demand for potash from other key regions such as Russia and Belarus. Another factor that has likely helped push potash prices up is recent strong demand from India. However, stock levels are fairly good, so we do not anticipate a surge in demand from this key importer.

One factor that may prove a headwind for farm input procurement in the coming months is recent FX movements. The so-called "Trump trade" has resulted in a stronger US dollar and a subsequently softer Australian dollar. RaboResearch has recently revised its Australian dollar forecast lower and anticipates the currency to decline modestly from current levels over the next 12-months. Because of this, importers will be feeling the pinch, and this will likely be reflected in retail pricing.

What to watch:

- **The potential impacts of Trump's policies will be front and centre for some farm inputs.** If the US is to impose a large tariff on Canadian trade, we could see a shift in demand.
- **Another factor to keep a close eye on is the war in the Middle East,** and the potential implications further escalation could have on urea prices.

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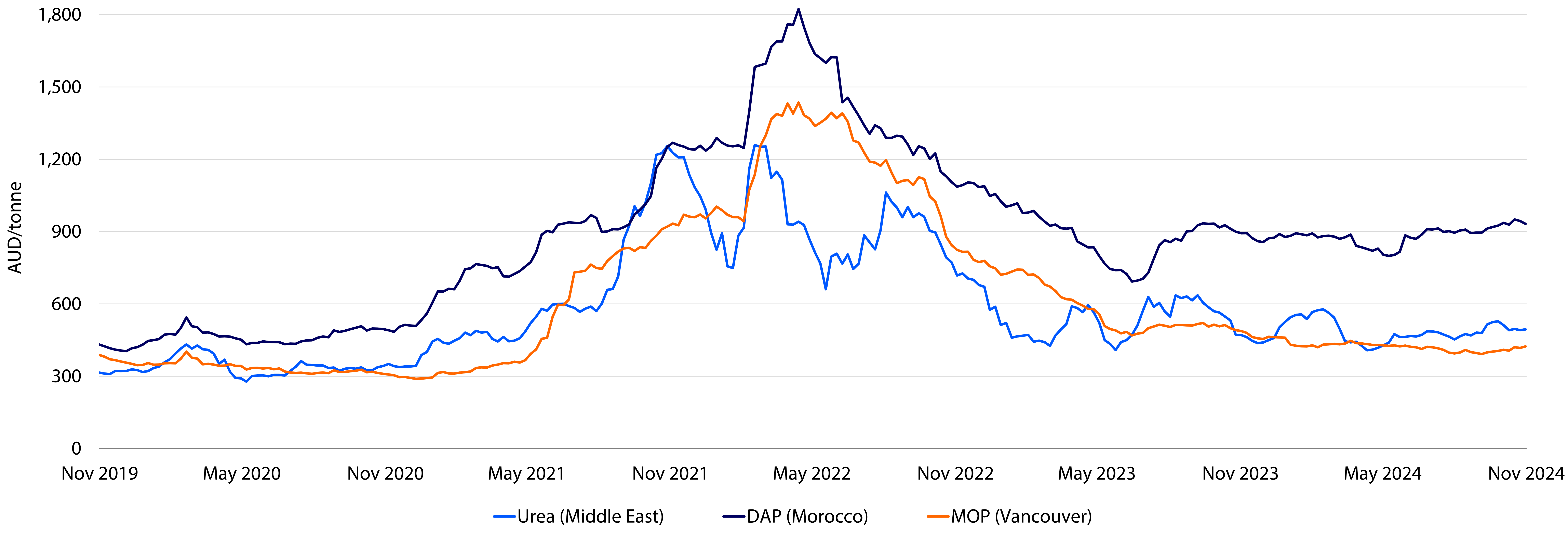
Farm inputs

Potash prices rose month-on-month, while urea prices declined

Urea prices declined MOM amid demand side weakness



Source: *CRU, RaboResearch 2024*

Interest rate and FX

The US dollar knocks the Australian dollar down a peg or two

The Australian dollar declined for a second month in a row in November, following October's 4.8% drop with a 1.05% fall.

The spot Australian dollar was trading just a shade over 0.6500 against the US dollar at market close on the final day of the month. The Australian dollar is not alone in losing ground against the US dollar, a stronger US Dollar has been a broad global theme following the re-election of Donald Trump to the US Presidency.

Traders are betting that Trump's policies will re-ignite inflation in the US, which would require the US Federal Reserve to hold interest rates higher than they might otherwise do, and higher interest rates tend to be supportive of the US dollar. There is also a broad perception in markets that if Trump's policy of imposing universal tariffs is successful in reducing the US trade deficit, US dollars would suddenly become more scarce. Other countries need US dollars to pay for their imports, so a reduced supply courtesy of a smaller US trade deficit suggests a higher value for the American currency.

We have recently lowered our forecast on the Australian dollar to 0.6400 on a 12-month time horizon.

The outlook for interest rates in Australia is little changed over the last month. The October jobs figures, which arrived in November, finally broke the six-month run of much stronger-than-expected employment growth, but the unemployment rate held at the very low level of 4.1%, so there is nothing flashing red in the labour market currently to prompt the RBA to cut.

The consumer price index for October showed annual price growth of 2.1%. That's the same as the figure for September and marks the third-straight month of inflation inside the RBA's 2% to 3% target range. Unfortunately, the figures are somewhat flattered by temporary government subsidies, and the underlying inflation measure favoured by the RBA rose from 3.2% to 3.5% in the month.

We think that the RBA will not be cutting until May next year, and three of Australia's four major banks have now joined us in this view after pushing back their own forecasts of the first cut from February.

What to watch:

- **RBA cash rate decision, 10 December** – The last RBA policy rate decision for the year. No change to the cash rate is expected this time, but we might get some additional guidance from the bank on whether the next meeting in February of 2025 could see a rate cut considered.
- **November labour force report, 12 December** – Labour market data continues to be a key data point for policy decisions on interest rates. A lift in the unemployment rate would add weight to arguments to cut earlier.

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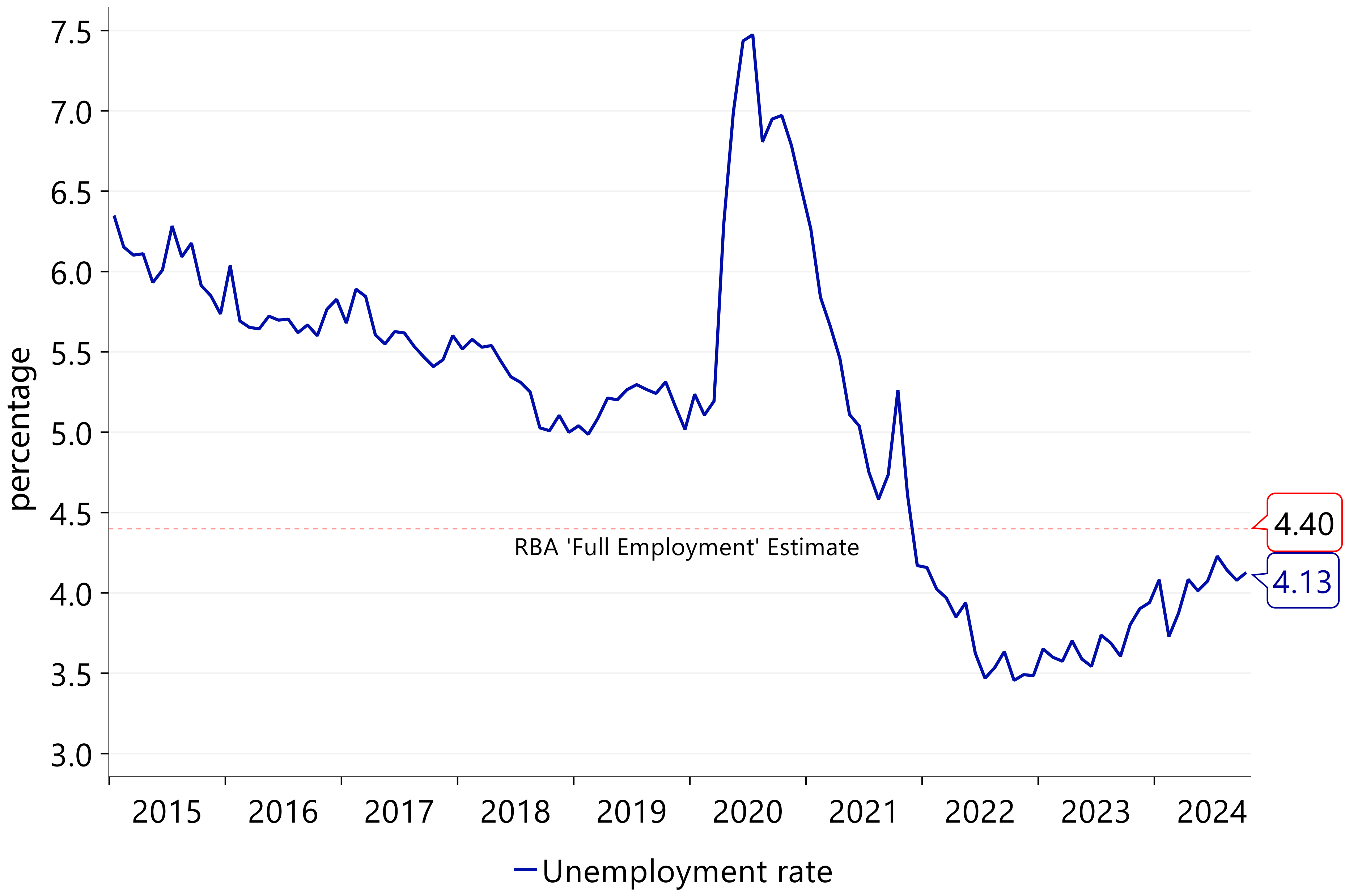
Interest rate and FX

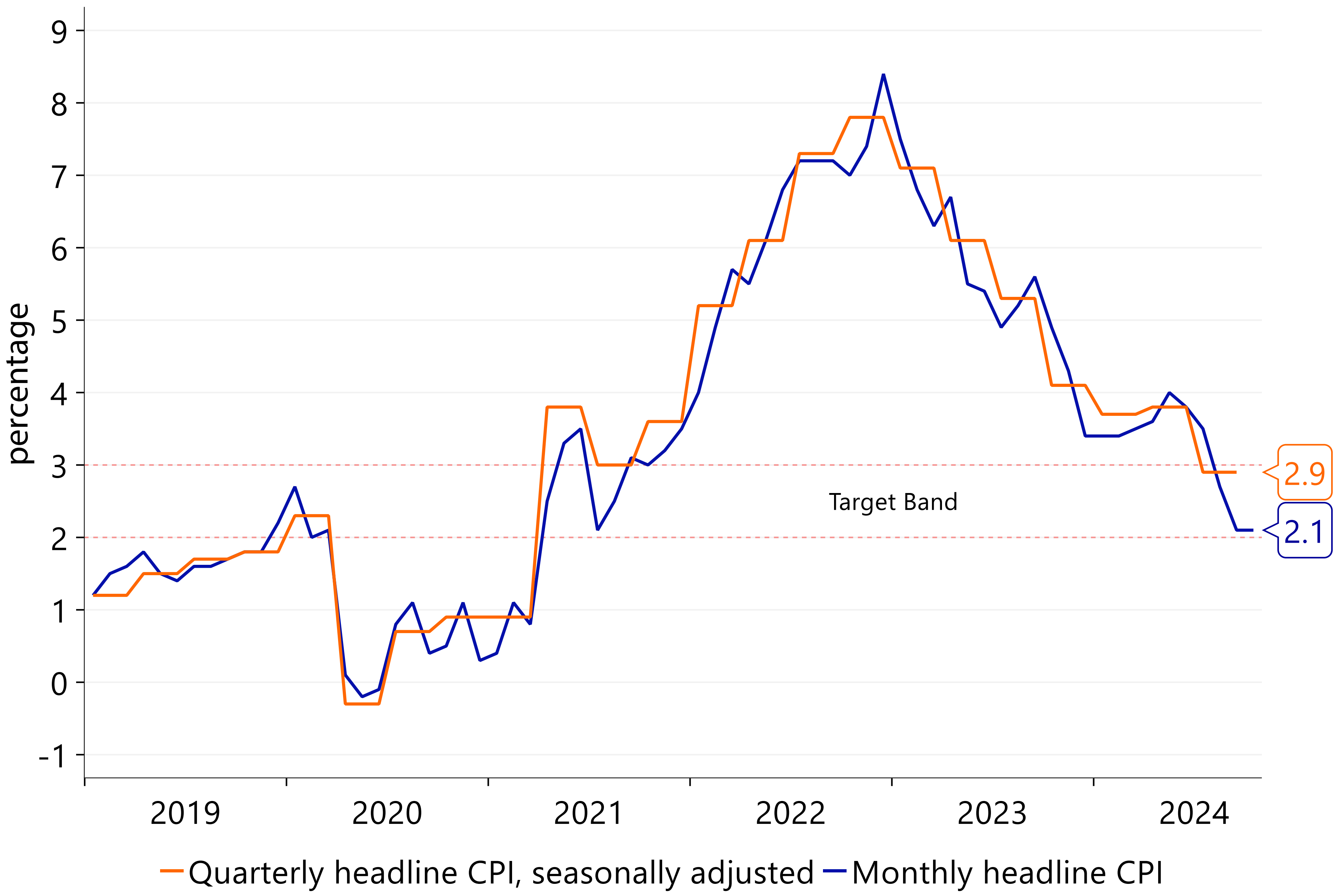
Inflation back at target, at least superficially

Australian labour force indicators, 2015-2024



Source: Macrobond, ABS, RaboResearch 2024

Australian inflation indicators, 2019-2024



Source: Macrobond, ABS, RBA, RaboResearch 2024

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Oil and freight

Ceasefire in Lebanon reduces oil risk premia

Crude oil resumed its downward trajectory in November after a brief hiatus in October. The active Brent crude contract was down 0.84% in the month to close at USD 71.84/bbl.

A 60-day ceasefire agreement struck between Israel and Hezbollah was perhaps the most significant news for energy prices during the month. The agreement was confirmed in the final week of the month, during which crude prices fell on four out of the five trading days (the exception being the Thanksgiving holiday on 28 November).

With some risk premium now discounted out of the price, crude is currently trading just above RaboResearch's USD 71/bbl forecast for the final quarter of this year. We expect further price falls in 2025 as oversupply in world markets is met by weak demand from China and the US, where the pace of economic growth appears to be slowing.

Container rates started to move upward ahead of Trump taking office as President of the US and an early Chinese New Year in 2025. The global container index jumped by 8%, led by Asia to Europe/Mediterranean and Asia to North America routes. Retailers are preparing for the new reality of Trump's possible universal tariffs, especially tariffs on Chinese imports. In addition, the 2025 Chinese New Year will come early, with the country shutting down and stopping trade activities for seven days beginning 29 January 2025. We will likely see a temporary surge of container prices in the remainder of the year. Potential tariffs will be damaging to the global trade, adding negative pressure onto container rates.

The Baltic Panamax index (a proxy for grain bulk freight) is trending downward, reaching new lows in over 15 months. Chinese grains and oilseed buyers rushed to secure volume from the US in case of potential trade restrictions or tariffs, although not enough to turn the market sentiment around.

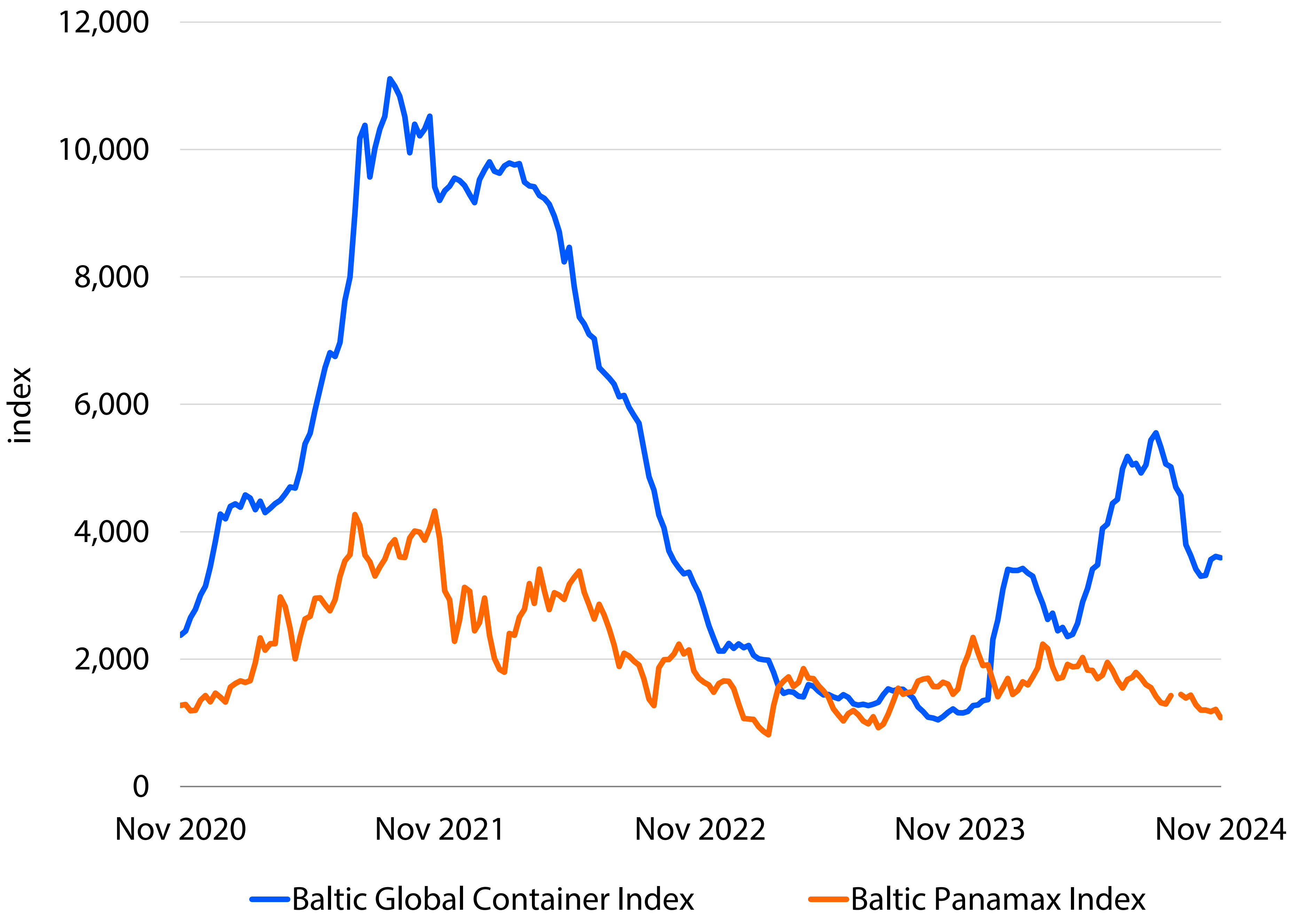
What to watch:

- **US Department of Energy crude oil and distillates inventory reports in December:** 5, 12, 19, and 27 December.

Oil and freight

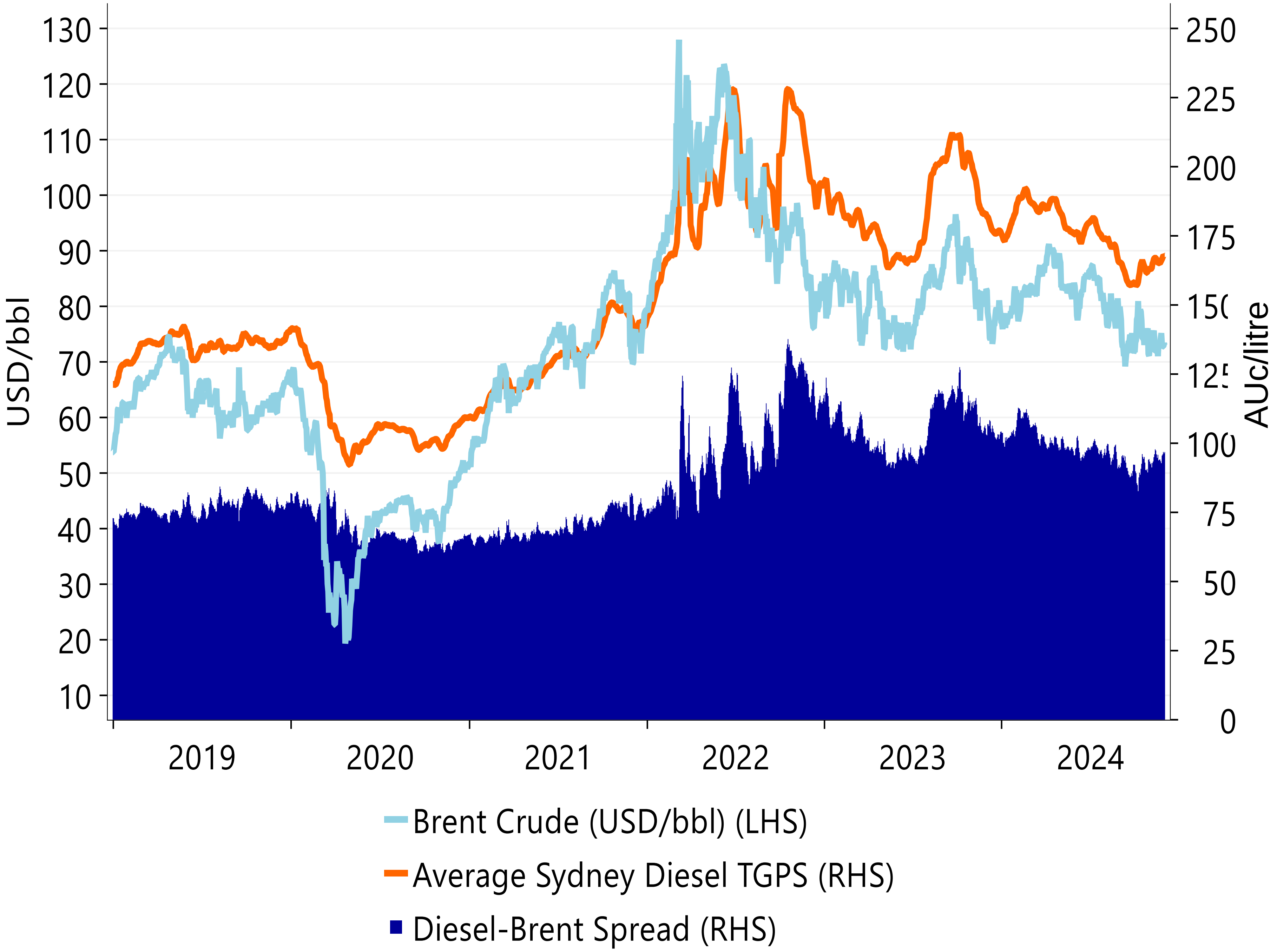
Bulk freight prices grind lower, but container rates remain stubborn

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



Source: *Baltic Exchange, Bloomberg, RaboResearch 2024*

Brent crude versus Sydney diesel prices, 2019-2024



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

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Agri price dashboard

4/12/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	537	569	616
CBOT soybean	USc/bushel	▲	992	987	1,296
CBOT corn	USc/bushel	▲	423	417	465
Australian ASX EC Wheat Track	AUD/tonne	▲	329	326	395
Non-GM Canola Newcastle Track	AUD/tonne	▼	736	761	628
Feed Barley F1 Geelong Track	AUD/tonne	▲	304	301	339
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	662	631	572
Feeder Steer	AUc/kg lwt	▲	347	341	284
North Island Bull 300kg	NZc/kg cwt	▲	720	705	585
South Island Bull 300kg	NZc/kg cwt	▲	685	670	540
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	817	799	508
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	810	795	635
South Island Lamb 17.5kg YX	NZc/kg cwt	•	805	805	640
Venison markets					
North Island Stag	NZc/kg cwt	▼	945	980	880
South Island Stag	NZc/kg cwt	▼	930	950	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	7,075	6,500	4,925
Skim Milk Powder	USD/tonne FOB	▲	2,900	2,775	2,650
Whole Milk Powder	USD/tonne FOB	▲	3,750	3,563	3,013
Cheddar	USD/tonne FOB	▲	4,825	4,725	3,750

***Source:** Baltic Exchange, Bloomberg, RaboResearch 2024*

Agri price dashboard

4/12/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	82.3	82.2	90
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	72.7	69.9	79
Sugar markets					
ICE Sugar No.11	USc/lb	▼	21.4	21.9	23.0
ICE Sugar No.11 (AUD)	AUD/tonne	▼	727	734	735
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,145	1,125	1,174
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	346	365	386
DAP (US Gulf)	USD/tonne FOB	•	610	610	570
Other					
Baltic Panamax Index	1000=1985	▼	1,009	1,195	2,311
Brent Crude Oil	USD/bbl	▼	74	75	74
Economics/currency					
AUD	vs. USD	▼	0.648	0.659	0.655
NZD	vs. USD	▼	0.588	0.597	0.614
RBA Official Cash Rate	%	•	4.35	4.35	4.35
NZRB Official Cash Rate	%	▼	4.25	4.75	5.50

***Source:** Baltic Exchange, Bloomberg, RaboResearch 2024*

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