Tariffs start to impact markets

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Rabobank

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This report is based on information available as at 6/03/2025

Commodity outlooks

Climate

The BOM expects ENSO to remain in neutral to July 2025. The low soil moisture situation in the major cropping regions is poised to improve, while below-average rainfall is expected in Queensland following a recent period of heavy rains.

Sustainability

Two big agricultural commodity offtakers are doubling down on their climate commitments. These efforts reflect a focus on improving competitiveness and strengthening customer relationships by defining sustainability goals that offer clear returns and a solid business case.

Wheat and barley

Global wheat prices have fluctuated due to weather and geopolitical events. Cold spells, increased US wheat area and potential peace talks in Ukraine contributed to a bearish trend, ultimately leading to a decline in CBOT prices. In the meantime, Australian prices improved as the harvest season has concluded.

Canola

The vegetable oil market recalculates supply and demand balances as global policy changes and tariffs lead to price corrections. The North America soybean and canola cropping area for 2025/26 is expected to influence the market, which is already worrisome given geopolitics.

Beef

Cattle prices continue to hold steady, with some upside for heavy and finished cattle, off the back of stronger US import prices. Meanwhile good seasonal conditions support steady restocker cattle prices, but high cattle inventories will limit upside.

Sheepmeat

Trade and heavy export lambs continue to perform well as US import prices rise heading into a peak demand period at Easter. Store stock prices are holding, but unless there is a significant improvement in southern seasonal conditions, we do not expect much upside for these categories.

Wool

The Eastern Market Indicator and the Western Market Indicator are both trading at similar levels to one month ago. The big question going forward is the extent to which Chinese import demand will be impacted by US tariffs on China.

Cotton

ICE #2 Cotton futures declined 3.9% MOM as funds maintain their enormous net-short position. Although anticipated lower US production should help tighten the global supply and demand balance sheet, the market currently appears oversupplied.

Farm inputs

Urea and phosphate prices remain elevated as supply issues persist. According to our affordability index, nitrogen and phosphate prices have reached unaffordable levels in many countries, which should help curb global demand.

Dairy

Firmer commodity market returns are starting to flow to the farmgate, with recent increases in farmgate prices in southern Australia. There is growing optimism that more farmgate price increases are ahead in 2025.

Consumer foods

Coles had a stronger December 2024 quarter versus its major competitor in terms of same-store sales growth. Monthly food inflation ticked higher in February, driven by some higher fresh produce prices.

Interest rate and FX

In February, the RBA finally delivered an interest rate cut, and the Australian dollar finished just a touch lower than it started. RaboResearch forecasts two more 0.25ppt cuts from the RBA this year, and more weakness ahead for the currency.

Oil and freight

Geopolitical risks are the only remaining upside risk for energy prices, and containerised freight rates are falling again. RaboResearch projects Brent crude oil will average USD 70/bbl in 2025.

Climate

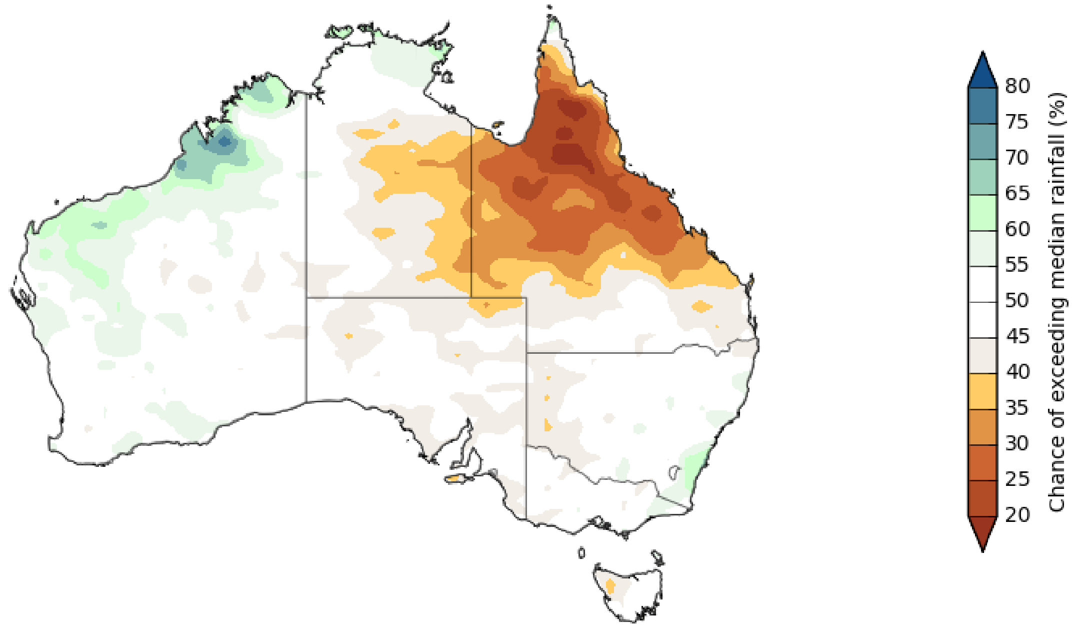
Neutral ENSO expected until July

Australian sea surface temperatures (SSTs) during January 2025 were the warmest on record, however El Niño-Southern Oscillation (ENSO) remains neutral. Australia's Bureau of Meteorology (BOM) and other international models have a neutral ENSO outlook from March to at least July 2025. The Indian Ocean Dipole remains in neutral, while the Southern Annular Mode is currently negative and expected to return to neutral.

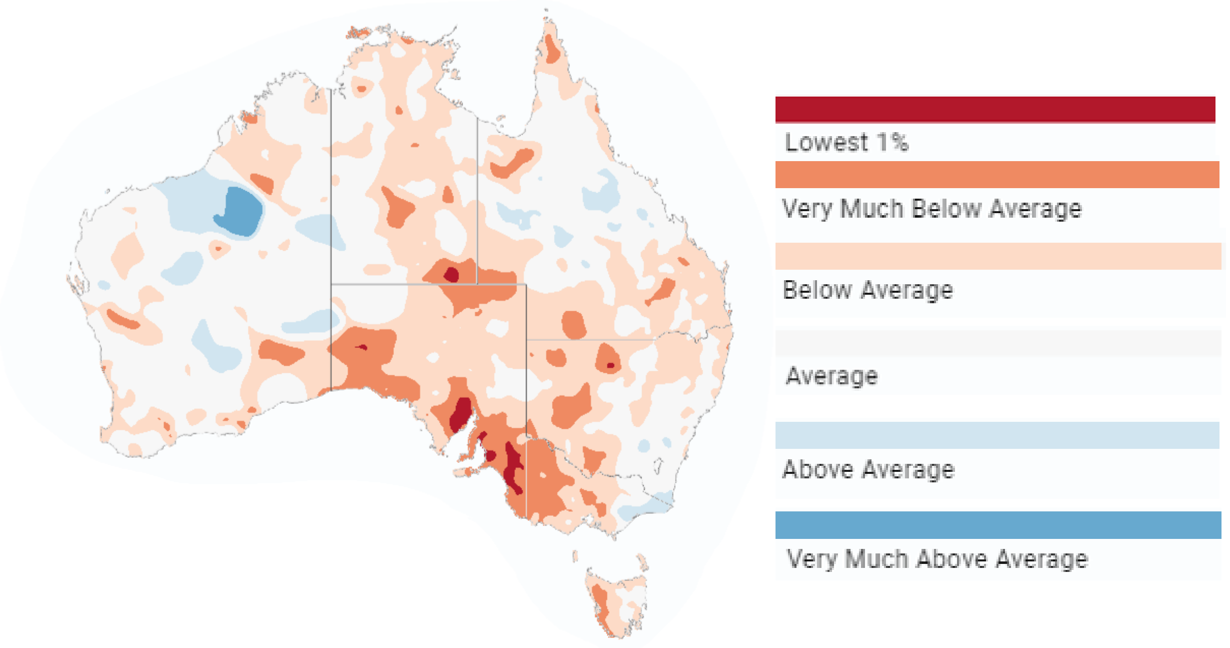
February brought heavy rainfall to northern Queensland and northern Western Australia. However, summer rainfall has been below average for most cropping regions. This has contributed to below-average soil moisture levels across most of the cropping areas along Australia's southern shores, namely in South Australia, Tasmania, and western Victoria, according to the BOM.

The BOM forecasts autumn temperatures to be warmer than average across Australia. **Rainfall is expected to be in the typical range across much of southern Australia from March to May,** with below-average rainfall expected in Queensland. Murray-Darling Basin water storage levels decreased to 62% of capacity as of 12 February 2025, a 7% decline from the previous month.

March to May 2025 rainfall outlook



Soil moisture, as of 2 March 2025



Source: *BOM, RaboResearch 2025*

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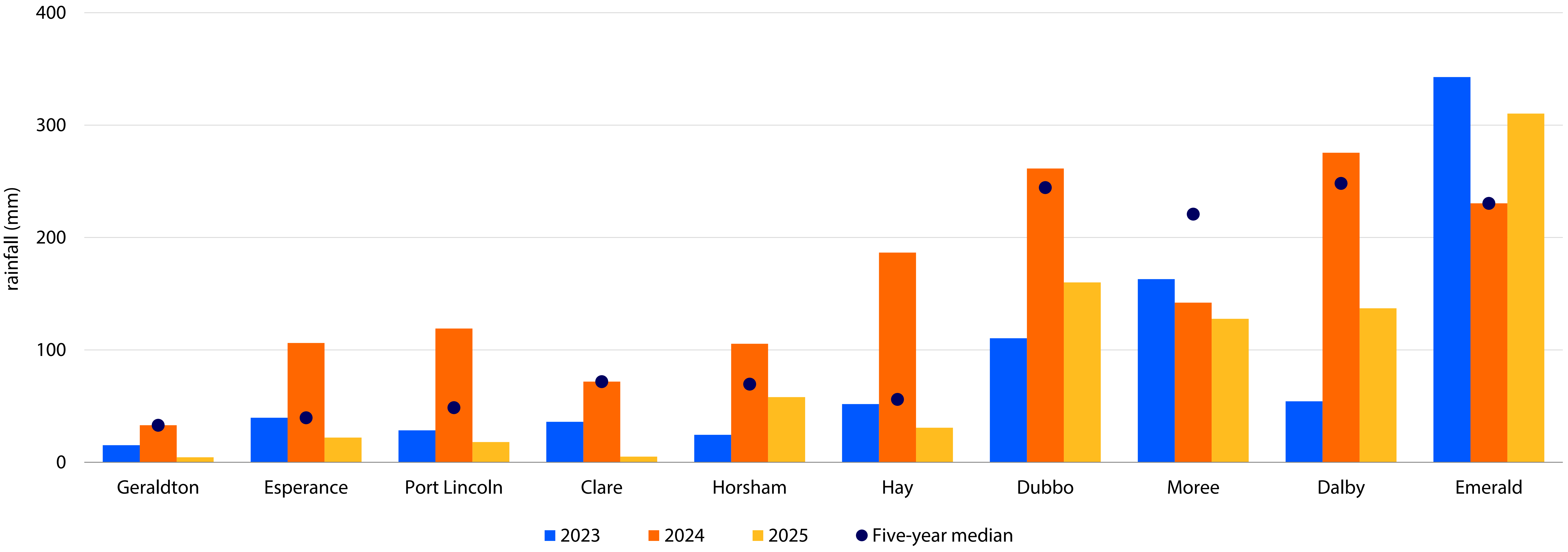
Climate

Summer rainfall declines year-on-year

Rainfall (December – February)



Source: *BOM, RaboResearch 2025*

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Sustainability

The path forward is emerging

It's becoming clearer how certain food and agriculture companies are proceeding in an increasingly polarised landscape, with two big players doubling down on their climate goals. These developments highlight a strategic focus on supporting supply security and prioritising sustainability-related goals that offer a solid business case.

In New Zealand, dairy cooperative Fonterra has announced **new funding incentives connected with on-farm emissions reductions.** The cooperative will introduce a payment system for farms that meet certain emissions-related criteria.

This includes a new payment under Fonterra's Co-operative Difference framework of 1-5 cents per kg of milk solids for farms that meet framework criteria and have farming emissions lower than the co-op's baseline year. There will also be an Emissions Incentive payment of 10 to 25 cents per kg of milk solids for farms that meet framework criteria and have an emissions footprint around 30% lower than the average farm. This Emissions Incentive payment is funded by separate agreements with Mars and Nestlé.

US multinational **Archer Daniels Midland (ADM) has announced its intention to stand by its climate commitments, despite some other US companies scaling back their environmental commitments** following reduced national climate ambition under the new Trump administration. ADM has committed to reduce its scope 3 emissions by 25% by 2035, with a strong focus on supporting the adoption of sustainable agricultural practices to help achieve this goal.

Strategically, **these initiatives reflect a growing emphasis on using sustainability goals to help secure supply and deliver tangible returns.**

For Fonterra, the new funding and incentives may not only help reduce emissions but also strengthen relationships with customers who value reduced greenhouse gas emissions footprints. This approach supports Fonterra to remain competitive while meeting market access expectations and complying with reporting obligations.

Similarly, ADM's objectives can help achieve alignment with consumer-facing brands, ensuring they remain resilient in a rapidly changing regulatory environment.

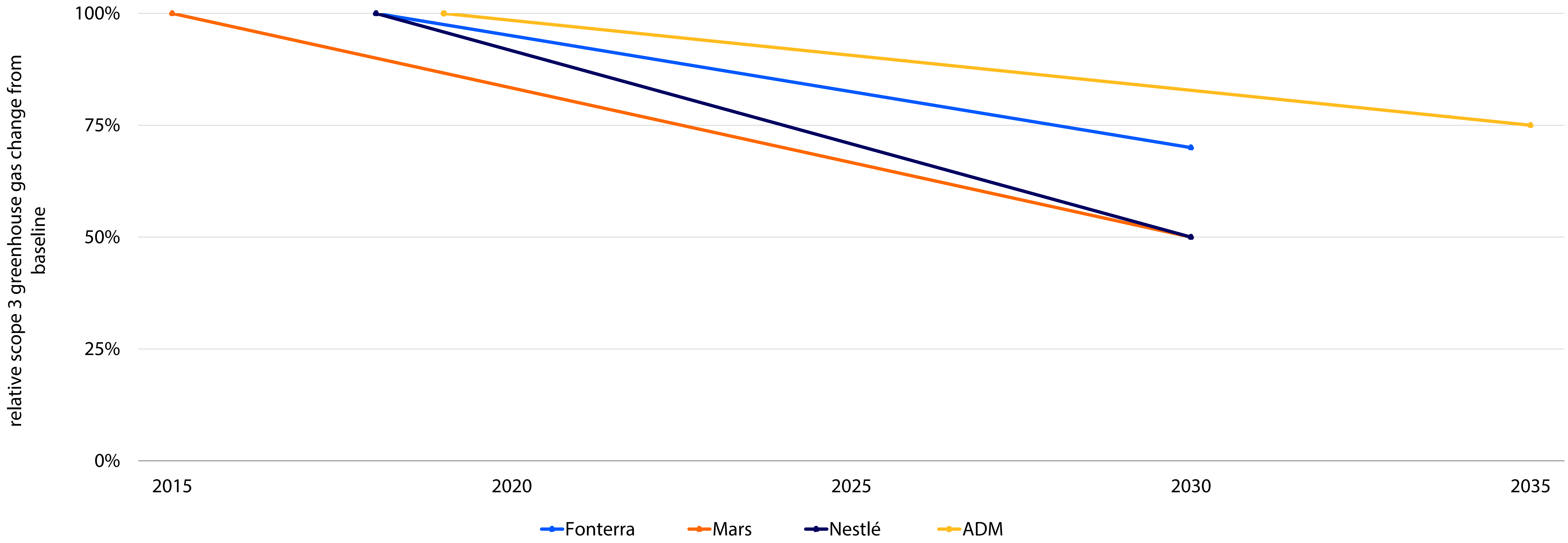
What to watch:

- **The European Union is planning to simplify its climate reporting rules –** Recognising the cost burden associated with reporting, there is a push to reduce requirements. This could potentially cut reporting obligations, legal liabilities, and the number of companies in scope, as well as delay new reporting standards.

Sustainability

Focus on food and agriculture value chain emissions persists, driven by strategic and competitive pressures

Scope 3 greenhouse gas reduction targets drive emissions initiatives back to the farmgate



Source: *Company reports, RaboResearch 2025*

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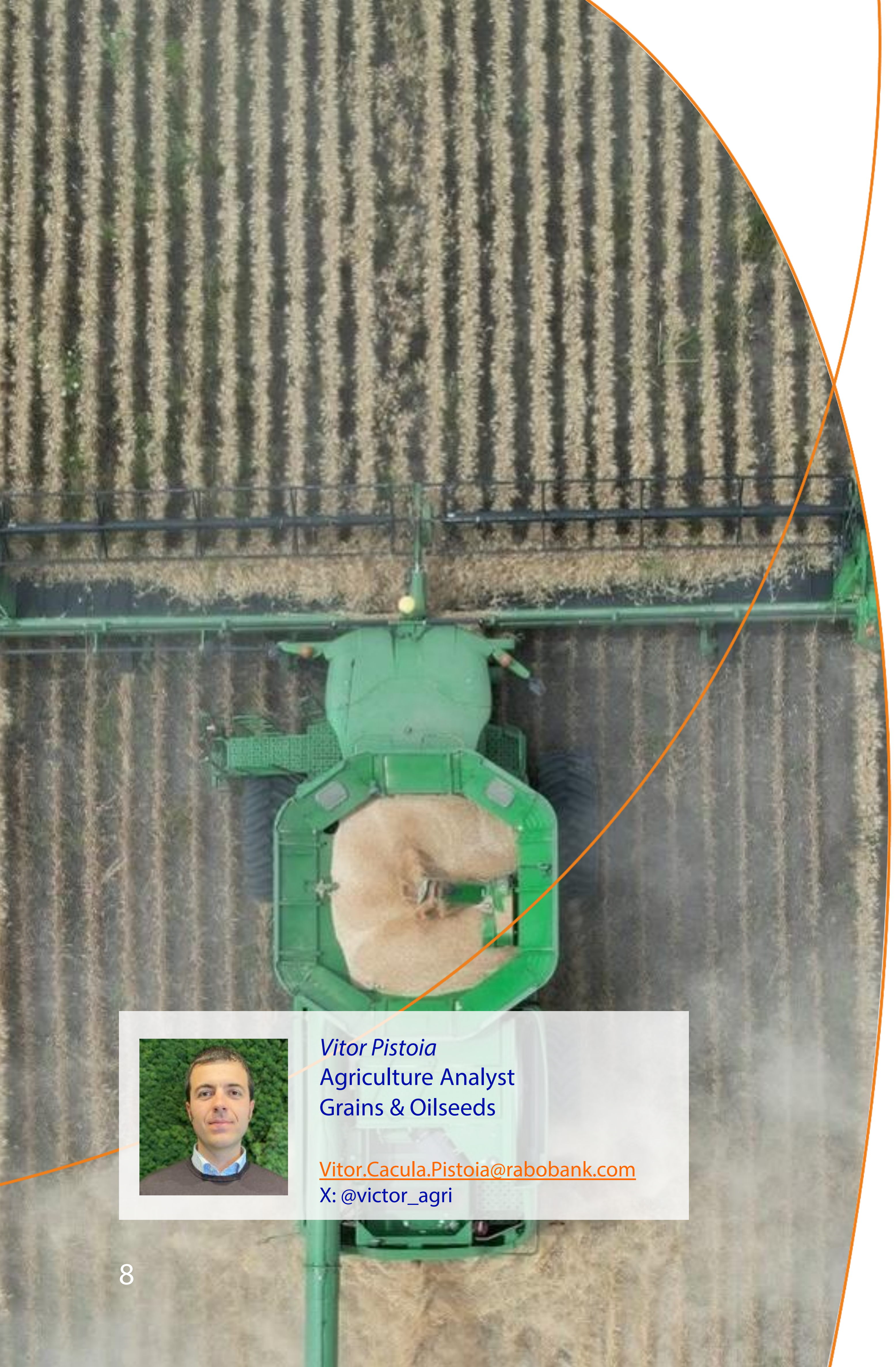

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Wheat and barley

A busy month

Over the past 30 days, global wheat prices have been influenced by both weather and geopolitical events, sending mixed signals to the market. The main positive signal came from simultaneous cold spells in the US and Black Sea wheat regions, which alarmed the market and pushed prices up as winter wheat crops faced harsher conditions jeopardising new crop supply.

Conversely, the USDA's report on the US 2025 grain and oilseed outlook indicated a potential 2% increase in wheat area, up to 19m hectares. This, along with geopolitical developments, contributed to ending the bullish trend in CBOT prices that began in late January. **A meeting in Saudi Arabia between US and Russian diplomats discussed a potential deal to end the war in Ukraine**. If signed, a peace or ceasefire deal would mean lower exporting costs for Black Sea countries. With a "guarantee" that missile strikes would no longer be a risk, shipping and insurance costs could decrease, reducing wheat prices globally.

As a result, the CBOT March 2025 contract closed February at USD 5.37/bushel, a 5.1% drop from the month's opening quote and a 10.9% decline from its recent peak of USD 6.03/bushel. The December 2025 contract also fell by 2.9% over the month, closing February at USD 6.04/bushel.

In Australia, despite the global fluctuations, many wheat port prices improved. Using APW as a reference, prices at Geelong, Brisbane, Newcastle, and Kembla ports increased between 2.6% and 4.6% during February. Additionally, the ASX January 2026 contract, which was AUD 12/tonne below the CBOT December 2025 contract on 3 February, rose to AUD 6/tonne above it by 28 February. **This suggests that harvest price pressure may be easing, and Australia's wheat volumes are gaining traction in the global market.**

For the 2024/25 export year, Australia's share of global exports is expected to rise to 12%, or 25m tonnes, compared to a 25-year average of 11.3%. With global wheat stocks under pressure, Australia is one of the few countries with a growing exportable surplus year-on-year, which supports the long-term price outlook.

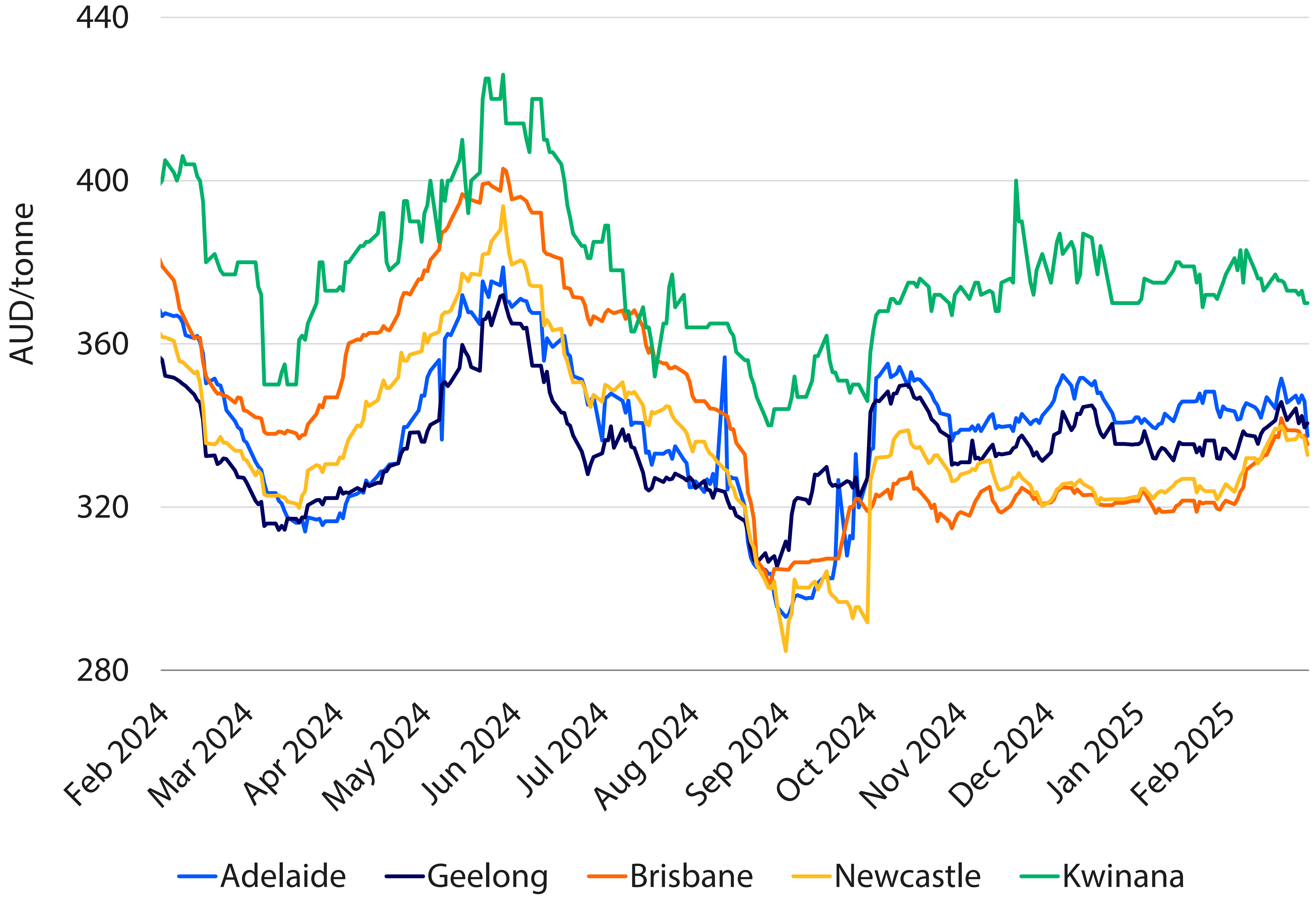
What to watch:

- **Black Sea weather –** In March the growing season will start in Russia and Ukraine. Snow cover and soil moisture levels are far from ideal, making the crops and the market more susceptible to bad weather. The price rally in May 2024 is an example of how quick the market reacts to weather changes, which is important for old and new crop marketing decisions.
- **US planting intentions -** Released on 31 March will show the projected US soybeans and corn area for 2025.
- **EU wheat crop ratings and spring barley sowing –** The current wheat outlook assumes EU wheat production will recover by at least 10% YOY, following last season's problems of excessive moisture in the west and dry conditions further east. If weather does not support better yields this year, prices may react to the upside. Spring barley is expected to contribute to a higher share of total barely output this year, putting extra pressure on sowing pace.

Wheat and barley

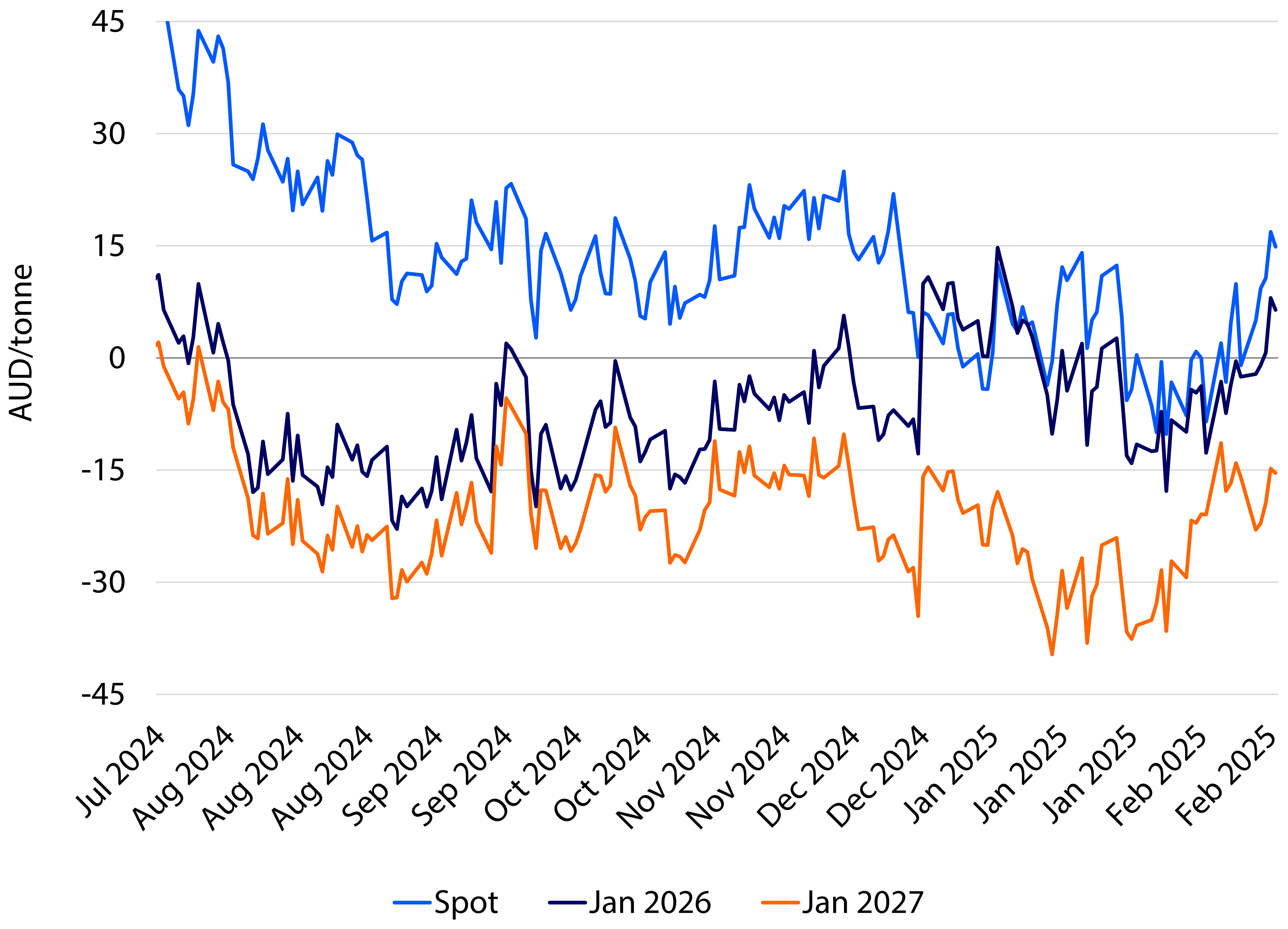
Despite global volatility, Australian wheat prices show resilience

Australian spot port prices for APW have improved over the last month



Source: *Bloomberg, RaboResearch 2025*

ASX contracts gained traction versus CBOT



Source: *Bloomberg, RaboResearch 2025*

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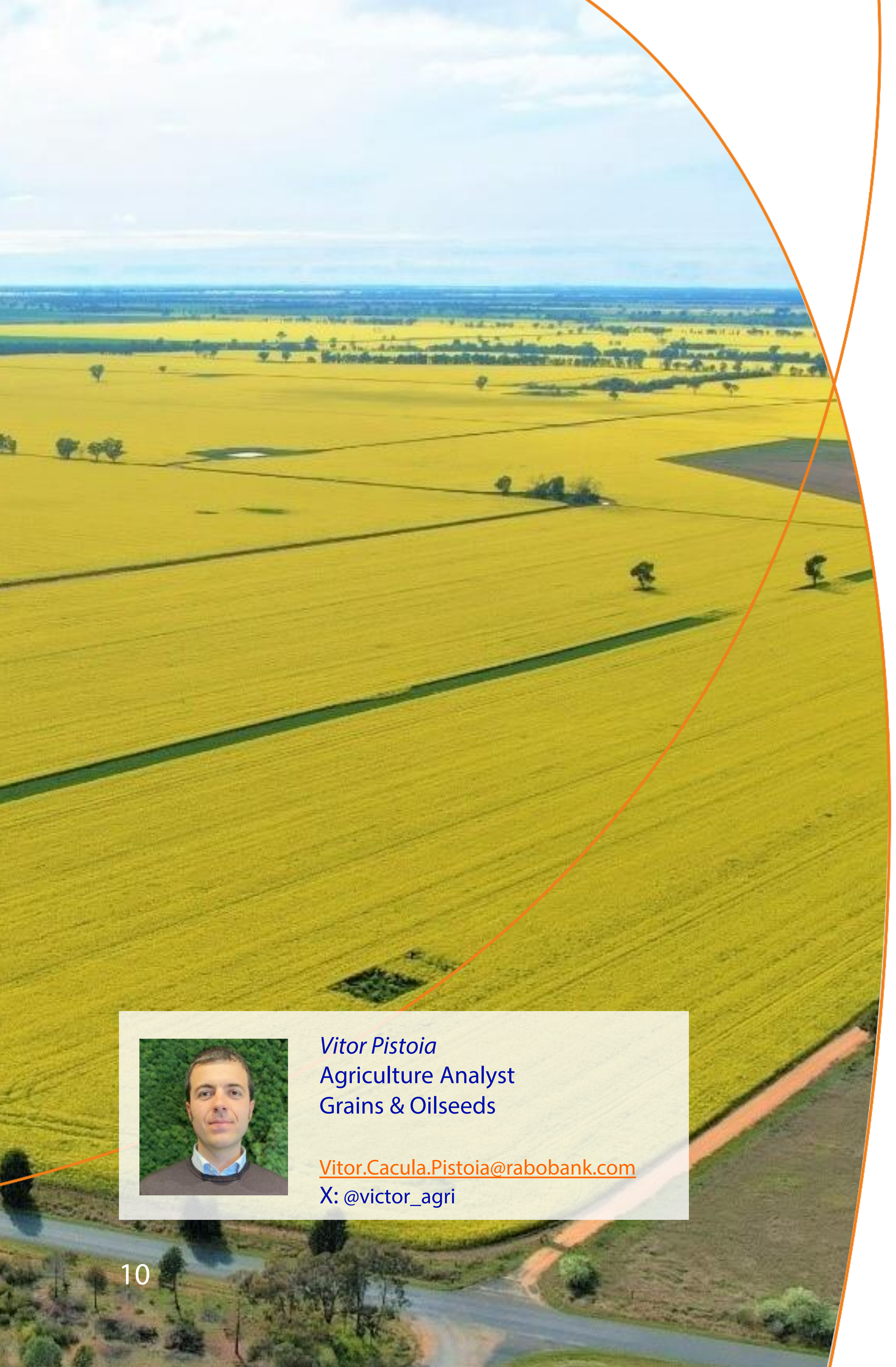

Canola

Tariffs, geopolitics, and biodiesel are shaping canola price trends

For vegetable oil stakeholders, February has been a month of recalculating supply and demand balances. Key developments include Brazil suspending the increase to a 15% biodiesel blend in diesel, Indonesia announcing it will subsidise only a share of its 40% biodiesel blending mandate, and the EU becoming a net exporter of biodiesel for Q4 2024. Additionally, the **US president hinted at earlier-than-expected duties on Canadian imports, Brent crude oil prices softened, Brazil is on track to harvest a record soybean crop at around 170m tonnes and the price of palm oil remains higher than that of soybeans**, a situation that has been uncommon over the past decade. **As a result, the end game for global oilseeds prices has been erratic. CBOT May 2025 soy prices dropped 2.9% in the last 30 days, Canada's ICE January 2026 contract rose by 1.5% to AUD 729/tonne, and the Euronext February 2026 rapeseed contract improved by 2.8% to AUD 834/tonne.** The anticipated trend of more commoditised oilseeds like soybeans encountering challenges, while specialised ones, like non-GM canola receive better support, is unfolding.

The looming tariffs around key exporters and importers are expected to continue pressuring the market throughout 2025. The European Commission's recent decision to impose anti-dumping duties on Chinese biodiesel imports highlights the geopolitical influences on grain and oilseed markets. These final duties can reach up to 35.6%. This is good news for Australian canola exports, as European crushers are expected to have more room to market their products, relying on Australia as a key supplier. Furthermore, a **fair share of the usual imports that the EU relies on to meet its demand, such as Ukraine's sunflower and canola, have been frontloaded following strong crushing margins in late 2024.**

In Australia, the average port price for non-GM canola grew by 3.1% to AUD 811/tonne, while the GM canola port average also grew by 4.2% to AUD 705/tonne. The export volumes for Q4 2024 are marginally up compared to the same period one year ago, by 52,000 tonnes. In total, 1.55m tonnes of the last harvest have already been exported. Of the top 5 importing countries so far, only Pakistan is not in Europe, with the EU being the destination for 80.4% of exports.

What to watch:

- **USDA updates –** On 31 March, the USDA will publish its grain stocks and prospective plantings reports. The latter document could significantly impact markets, as it may confirm the early estimates that US farmers will plant 1.2m hectares less of soybeans year-on-year, reducing the total to 33.9m for the 2025/26 season. The more hectares that drop from sowing expectations, the more favourable the market tends to be for oilseeds, in a global context where tariffs are changing the way agricultural markets operate.
- **Canadian prairies weather –** Canada is expected to reduce its canola area by 0.4m hectares for the 2025/26 season due to US tariffs and price pressure from abundant soybean supply. The estimated 8.5m hectares to be sown might experience a warmer-than-usual spring, with rainfall volumes aligned with historical averages.

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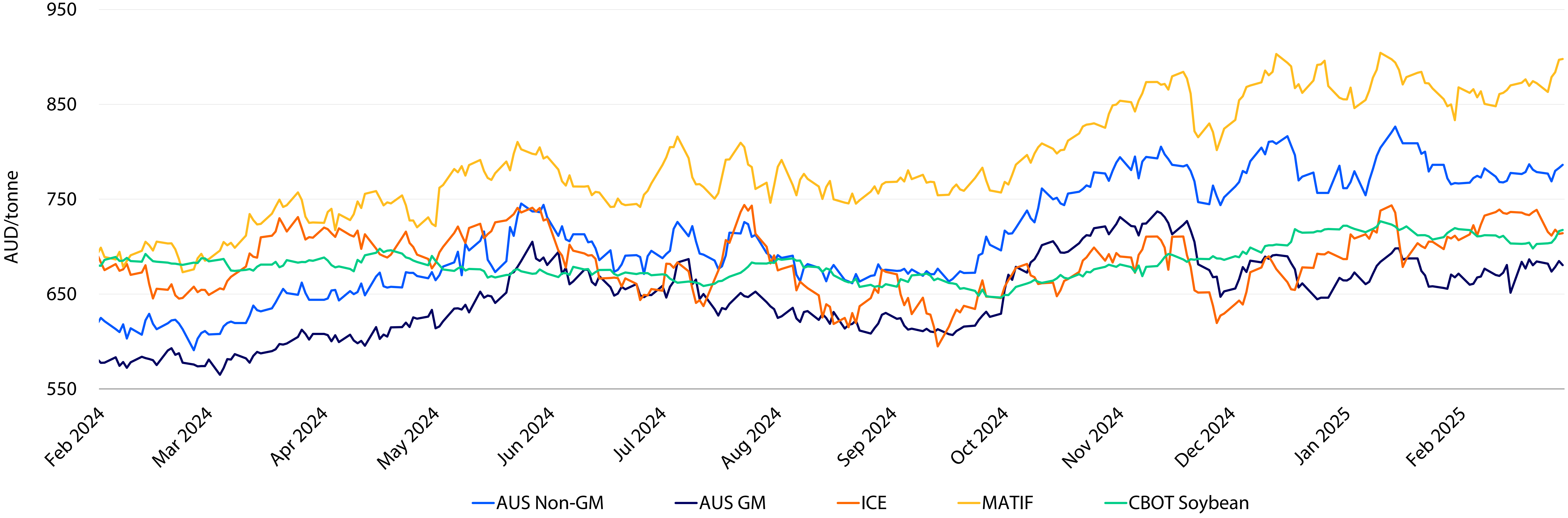
Canola

A hierarchised oilseeds market is underway for 2025

Small improvements for canola prices, while soybeans remain under pressure from tariffs and record crop in Brazil



Note: *Australian prices reflect the average port price for canola.*
Source: *Bloomberg, RaboResearch 2025*

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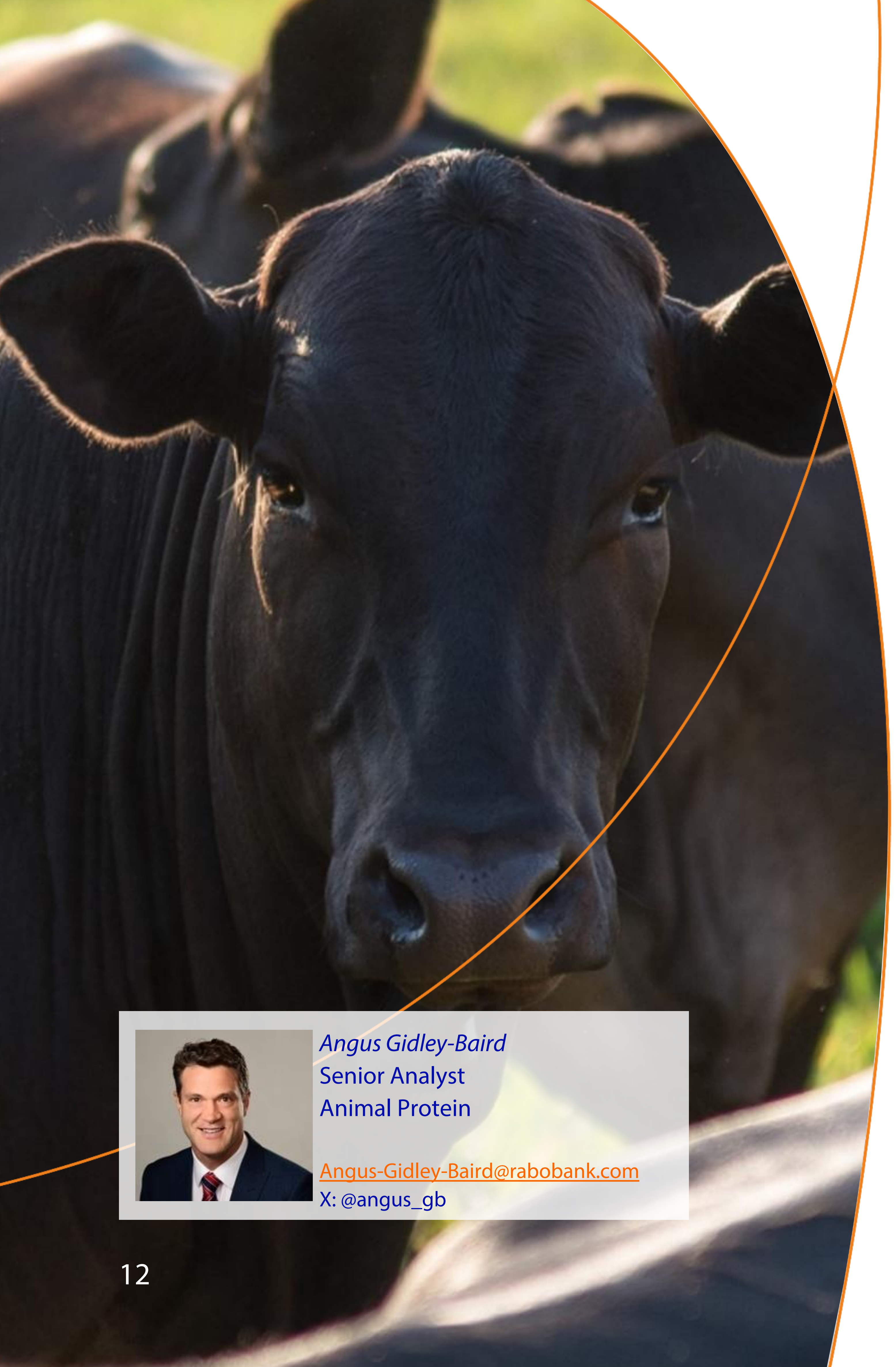

Beef

Prices holding with slaughter-ready stock seeing upside

Saleyard prices for most cattle edged slightly higher toward the end of February. Young cattle (weaner, restocker, and feeder cattle) are tracking close to 2024 prices, while heavier older cattle (heavy steers and cows) are up 23% on last year's prices. The NYCI was at 350c/kg lwt on 3 March. There is a lower number of heavy finished steers moving through saleyards at the moment, down 23% on the same period last year. This could reflect the drier conditions in southern states. Heavy steer numbers in Victorian saleyards are down 41% to this time last year, and numbers through Queensland yards are also down 35% on last year. **With lower numbers of older or finished cattle we expect these cattle prices to rise slightly over the coming months. Stronger global beef prices – the US imported lean trimmings price is 22% higher than this time last year – will also support these slaughter-ready cattle prices. Meanwhile, good seasonal conditions across most areas of the country are expected to keep young cattle prices relatively steady.**

National weekly cattle slaughter numbers are tracking close to levels seen at the end of 2024 – around 140,000 to 145,000 head. Despite the first couple of months of 2024 having lower volumes than the rest of the year, slaughter volumes in Queensland and Victoria are up 23% and 34% respectively for the year to date, slightly higher than in 2H 2024. **With ongoing high volumes of cattle inventory and expected favourable seasonal conditions, we anticipate weekly slaughter numbers to remain at current levels over the coming month.** Official production data from the Australian Bureau of Statistics (ABS) released in mid-February shows that 2024 cattle slaughter numbers were up 16% YOY for Q4 and up 18% for the year at 8.3m head. Production volumes finished the year up 16% at 2.57m tonnes – setting a new record and surpassing the previous record in 2015 by 17,000 tonnes. Females continued to make up a large proportion of the total slaughter, 52% in Q4. That was the third consecutive quarter over 50%. While such a high proportion usually indicates herd liquidation, RaboResearch believes this reflects a younger, more fertile herd with a higher turnover of females.

Higher production required higher exports in 2024, with volumes up 24% compared to 2023. The US became the biggest market, with volumes up 60% YOY, accounting for 29% of export volumes. Asian markets were softer, with volumes to China contracting by 6% YOY. Preliminary data for February shows that volumes remain strong, up 14% for the year to date.

What to watch:

- **Indonesian imports of bovine product** – Indonesian imports of bovine products declined by 14% in 2024, with a 60% reduction in Indian buffalo imports. Virtually no Indian buffalo was exported to Indonesia during the first six months of 2024. This period also saw some of the highest per unit export values of Indian buffalo – over USD 3/kg. Indonesian news sources report that the government is looking to import buffalo meat, but they have observed the increased prices of Indian buffalo. The most recent prices from India, as of November 2024, show average export values rising again. These higher prices may support ongoing higher volumes of Australian cattle entering the Indonesian market.

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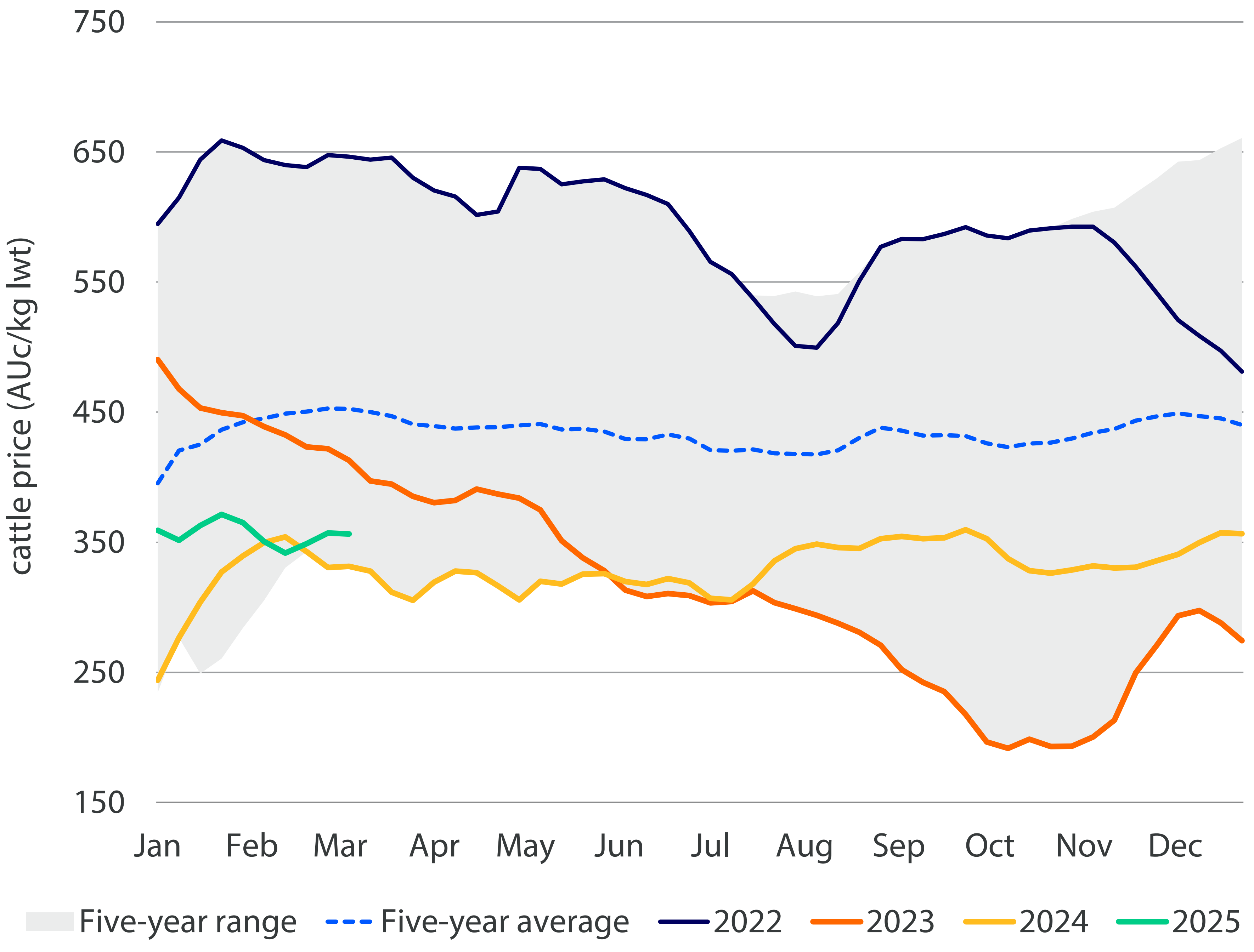
Beef

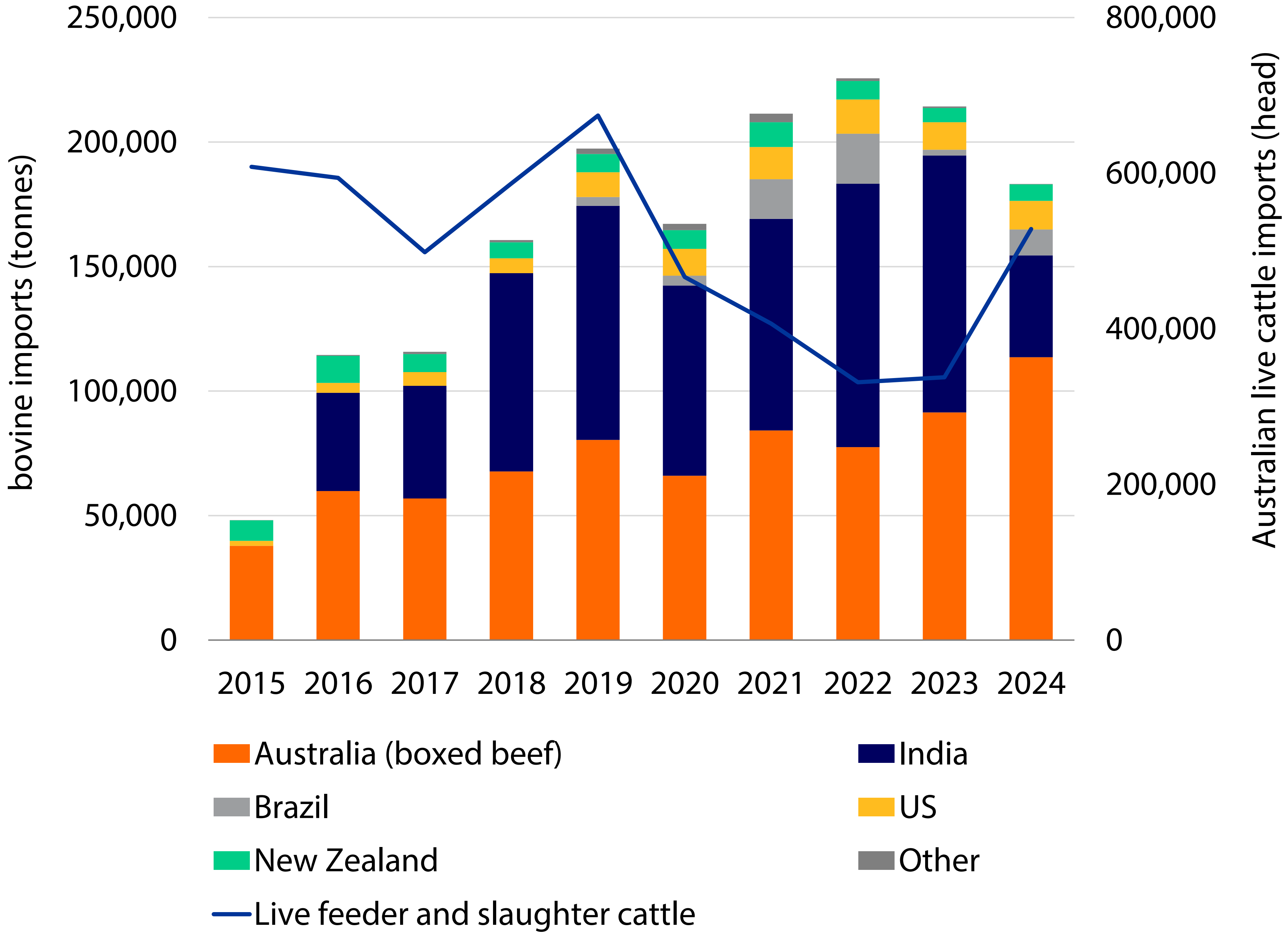
Australian cattle prices continue to hold, live cattle export volumes lift

NYCI continues to remain steady



Source: *MLA, RaboResearch 2025*

Indonesian live cattle imports rise as bovine imports drop



Source: *ITC trade map, DAFF, RaboResearch 2025*

Sheepmeat

Prices steady, but finished stock performing better

National lamb and mutton prices rose slightly at the end of February. Finished lambs (trade and heavy export lambs) are at or above the five-year average, indicating good end markets for lamb. Meanwhile lighter, restocker, and merino lambs – although higher than last year – are still below the five-year average, suggesting that producer appetite to restock or build numbers is not strong. Ongoing dry conditions in southern Australia are believed to be impacting this producer demand. The national trade lamb indicator was at AUc 783/kg cwt on 3 March. **With seasonal conditions in southern areas expected to be average over the coming month we do not anticipate a big rise in producer demand to lift restocker-type lambs much higher; rather, they will likely remain at current levels. We expect supplies of finished lambs to start declining, and with stronger US prices we believe there will be some upward movement in finished lamb prices over the coming months.**

Weekly national lamb slaughter numbers were around 500,000 head for much of February, which are some of the highest volumes in history. For the first eight weeks of the year, lamb slaughter numbers are the same as in 2024. While numbers have improved, we did see a significant drop in the proportion of heavier lambs (24.1kg to 26kg) going through the yards in November and December. While the proportion has risen in early 2025 back to more normal levels, the poorer seasons in southern areas would suggest lambs are possibly lighter than usual. Weekly sheep slaughter numbers are up 13% for the first eight weeks of the year, with Tasmania and Western Australia seeing the biggest increases, up 40% and 29% respectively.

Lamb export volumes in January were down 4% on January 2024 volumes, and preliminary numbers for February show volumes contracted 2% YOY. This reduction is believed to be a result of reduced lamb production. Volumes for the year to date to the US are up 8%, while volumes to the Middle East have contracted 18%. The year 2024 was a record year for lamb exports to the Middle East and the US. Mutton exports started the year strongly, up 2% for the first two months of the year, reflecting the high sheep slaughter numbers.

What to watch:

- **US imported lamb prices lift** – The price of Australian lamb imported into the US is sitting about 30% higher than the same period last year. A weaker Australian dollar is contributing to this increase, but import prices in US dollars are also higher than a year ago. Very strong consumer demand for red meat in the US has pushed beef retail prices to record highs, which may be influencing lamb prices as well. Easter is traditionally a strong period for lamb sales in the US, so it will be interesting to see if this recent rise in prices has been driven by this seasonal consumption or if there is a longer-term factor at play, such as high beef prices.

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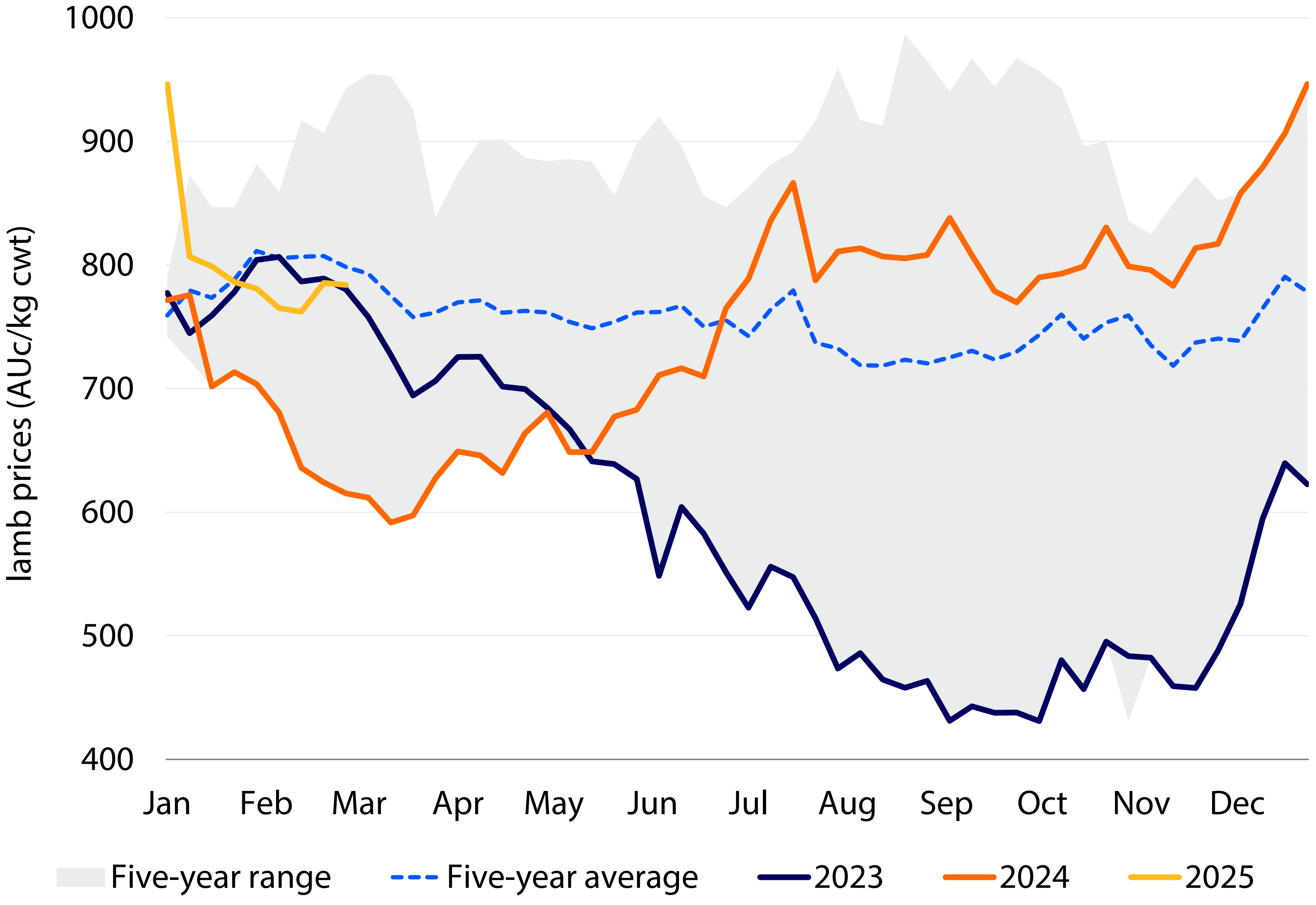
Sheepmeat

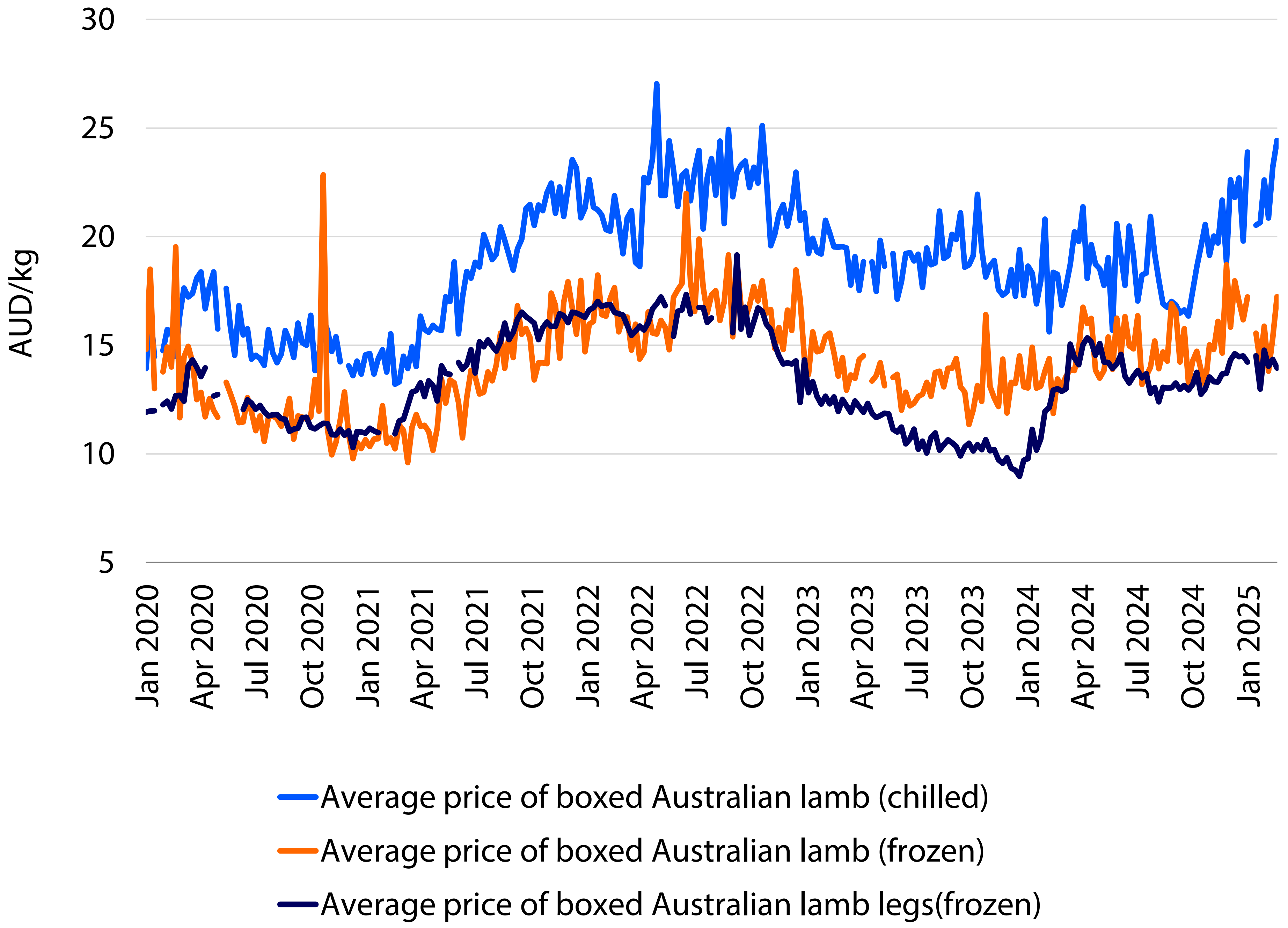
Lamb prices tracking close to five-year average, US import prices trending higher

National Trade Lamb Indicator (NTLI) tracks close to the five- year average



Source: MLA, RaboResearch 2025

US imported Australian lamb prices are trending higher



Source: USDA, RaboResearch 2025

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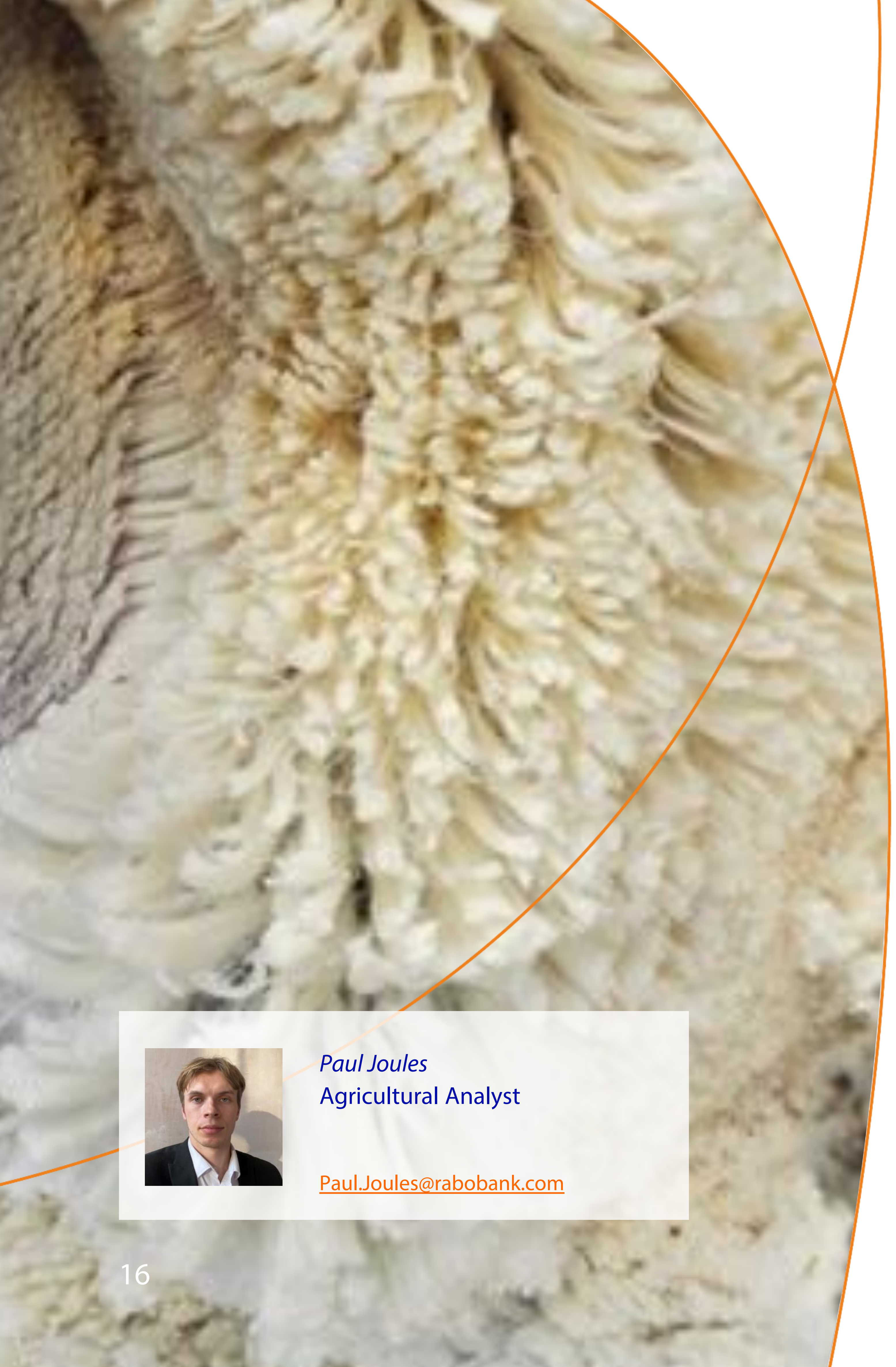

Wool

Chinese demand remains the big question mark for wool

The Eastern Market Indicator is currently trading around the same levels as last month at AUc 1,195/kg. Meanwhile, the Western Market Indicator is also at a similar level at AUc 1,359/kg. Over the past 30 days, both indicators traded with volatility, with prices finding upward momentum in early February, declining mid-month, and then rising again toward the end of the month, likely influenced by FX volatility. Since September, price momentum has undoubtedly shifted, with prices now up 8.3% over the past six months.

In terms of micron price movement, although we did see some volatility along the way, prices finished around the same level as 30 days ago, except for 21-micron, which increased by 4%. There was some variation in finer micron prices, with 17-micron rising by 0.8%, 18-micron falling by 0.8%, and 19-micron up 1% MOM.

US President Trump's recent announcement of an additional 10% tariff on Chinese imports (on top of the 10% levied earlier last month) could have repercussions for wool markets in 2025. That said, it is not yet clear to what extent this will impact China's raw wool demand. Australia's 2024 wool exports are 13.6% below 2023 levels, and this declining inventory could continue to support demand in the coming months, despite potential headwinds from US-imposed tariffs on China's clothing and textile industry. Another key question is whether China's fiscal stimulus package will successfully boost domestic demand. If successful, it could help offset the assumed decline in the US-China trade flow for downstream wool products.

The risk of a US-China trade war may have contributed to considerably weaker Australian wool exports in December 2024. ABS data shows volumes were down over 35% compared to the same period last year. Other buyers, such as India (-8.6% YOY), Czechia (-41.7%), and Italy (-10.2%), also saw notable declines.

Tariffs aside, the fundamentals are supportive of price and help explain recent upward price movements. On the one hand, the Australian dollar remains weak, and RaboResearch anticipates the AUD/USD exchange rate to fall to 0.61 over the next 12 months, which should continue to support exports. Meanwhile, the projected drop in supply appears to be rebalancing the supply and demand outlook during a period of weaker global demand.

What to watch:

- **The news that the US will impose a further 10% tariff on Chinese goods has the potential to impact Chinese wool demand,** and the market will be watching the situation closely.
- **Looking at downstream demand, Italy's inflation data rose by 1.7% MOM amid rising energy costs.** This could have a knock-on effect on consumer spending, and the market will be assessing the overall impacts on clothing sales.
- In 2018, tariffs led to higher clothing prices being passed on to consumers in the US by some brands. This time, the economic pressures are much greater, and it could have a larger impact on consumer spending.

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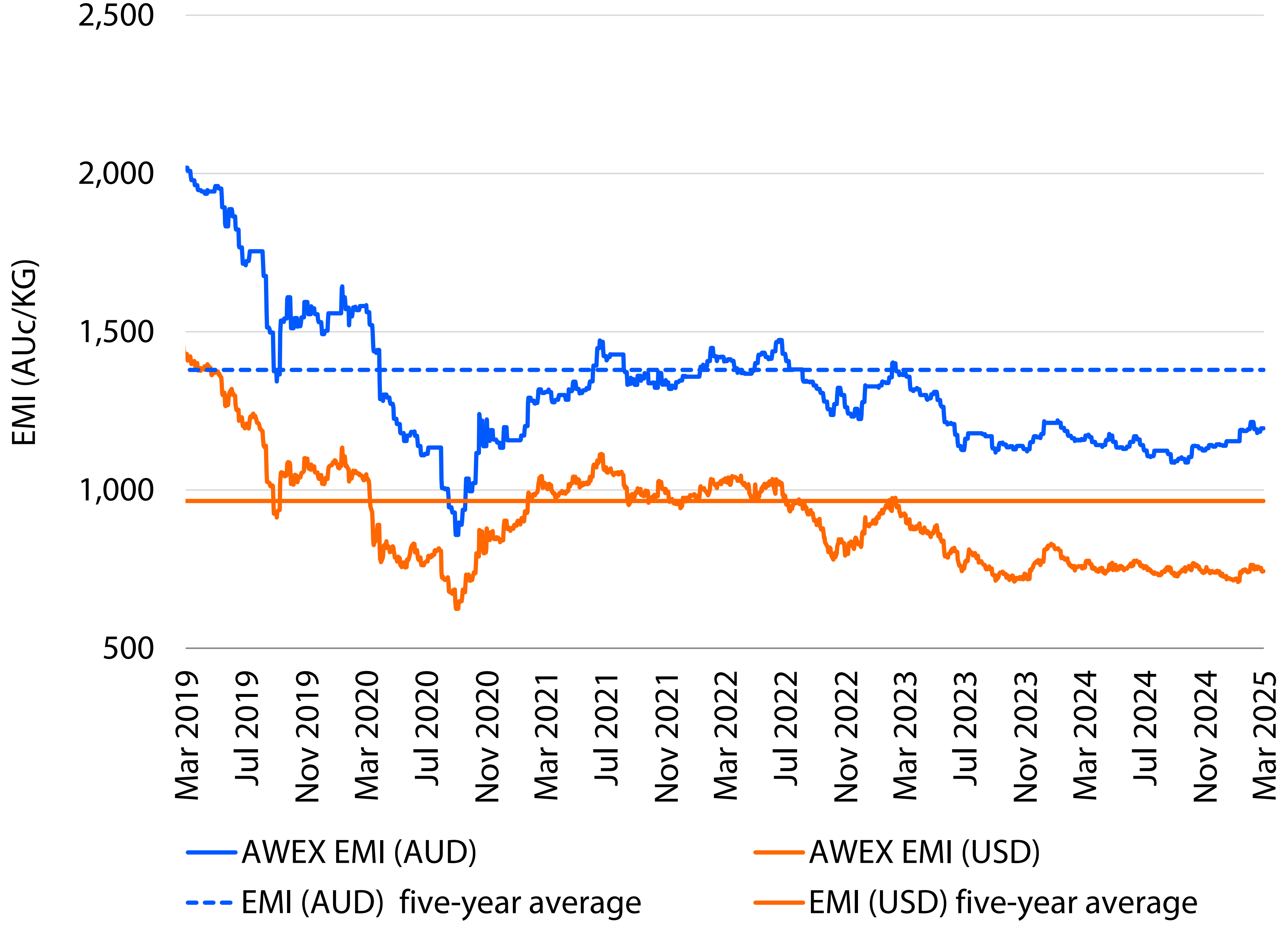
Wool

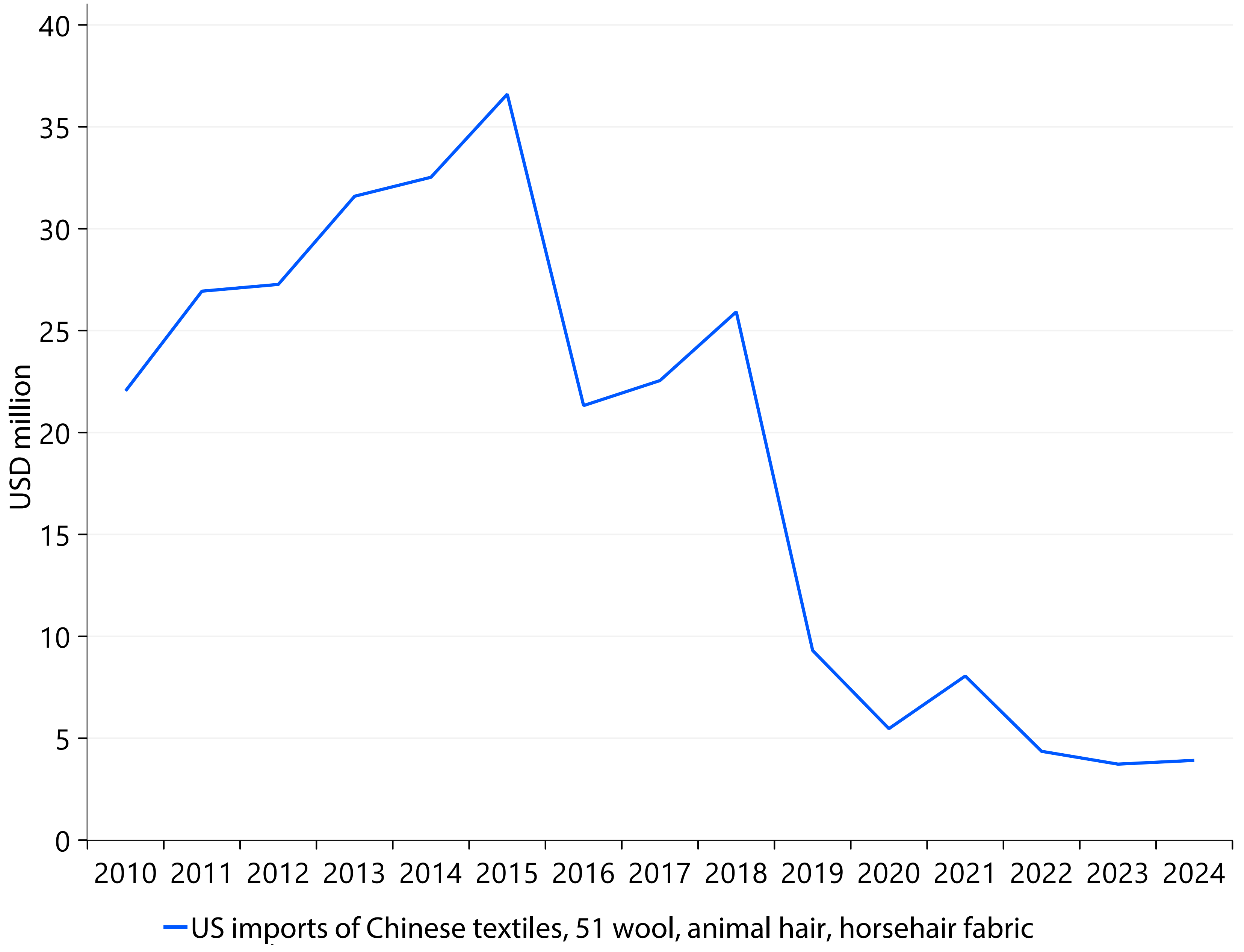
Wool prices have found strong support in recent months due to the weakness of the Australian dollar and a tightening production outlook

EMI prices have risen 3.2% YOY



Source: *Bloomberg, RaboResearch 2025*

The last time the US imposed tariffs on China, there was a sharp decline in China-US wool trade



Source: *Macrobond, RaboResearch 2025*

Cotton

ICE #2 Cotton futures decline month-on-month

Australian cash prices declined month-on-month, pushing prices comfortably below the AUD 600/bale level. The benchmark ICE #2 Cotton contract also lost some ground, having declined 3.9% MOM.

The news of the US imposing an additional 10% tariff on Chinese goods appears to be a drag on markets, as this clearly has potential to impact consumer demand of clothing and textiles. The fast-evolving situation regarding US trade policies under the new Trump administration will likely keep the cotton market on its toes, and we expect prices to remain sensitive to any sudden changes that could impact clothing and textiles.

Despite many negative stories surrounding cotton markets, an anticipated decline in US production may help cap potential downside for Australian producers. The US National Cotton Council has pegged US acreage at 9.56m acres, representing a 14.5% YOY decline. Looking at the performance of CBOT Corn, CBOT Soybeans, and ICE #2 Cotton futures contracts, it is clear that cotton has been the worst performer over the past 12 months, which helps to explain the anticipated drop in US acreage. Additionally, Texas weather is far from ideal due to limited soil moisture, so depending on how the weather develops, production estimates could move lower.

RaboResearch has highlighted the massive net-short position held by Managed Money on ICE #2 Cotton futures for some time, with the net short position now at a record high. While speculators may be comfortable in their shorts given 2024/25 supplies and stock levels are at five-year highs, further downgrades to US production could prompt some short-covering. However, a weak Brazilian real and an anticipated strong export program will likely cap any major upside, as Brazilian export growth will likely offset most of the assumed US acreage loss. Looking forward, the market will be closely watching speculatory activity on US futures, as this could have a pronounced impact on futures pricing in the coming months.

What to watch:

- **The record net-short position held by Managed Money is a potential source for upside**, but the market needs to see the well-supplied global balance sheet tighten. Texas weather is one potential source for volatility and should be monitored closely in the coming month.
- **We've seen the Australian dollar gain against the US dollar in recent weeks, but given macroeconomic uncertainty, we could well see further FX changes, which would impact Australian cash prices.** RaboResearch holds the view that the AUD/USD exchange rate will remain weak over the next 12 months, with the rate expected to be around 0.61 by Q4 2025 – this should continue to help prop up cash prices.

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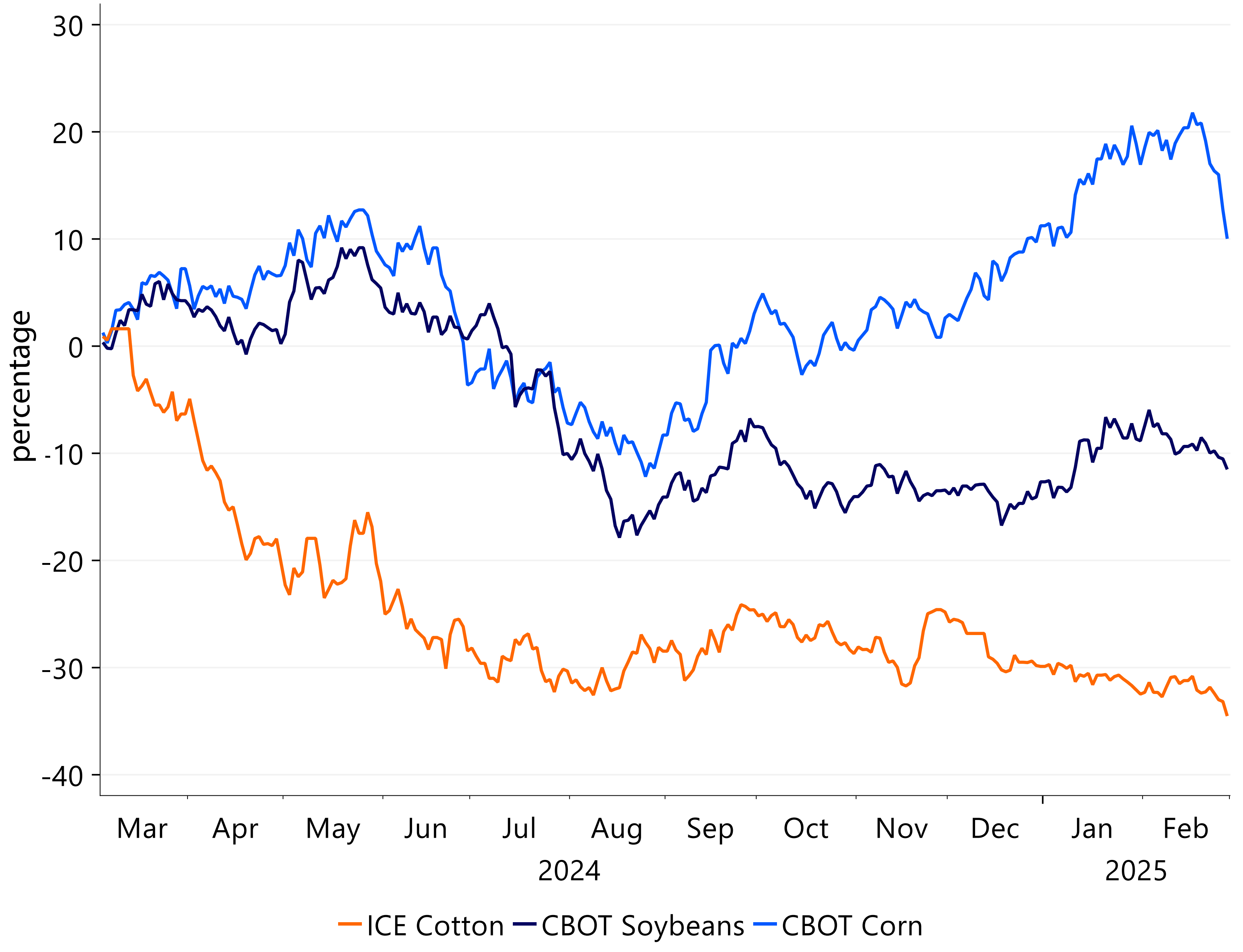
Cotton

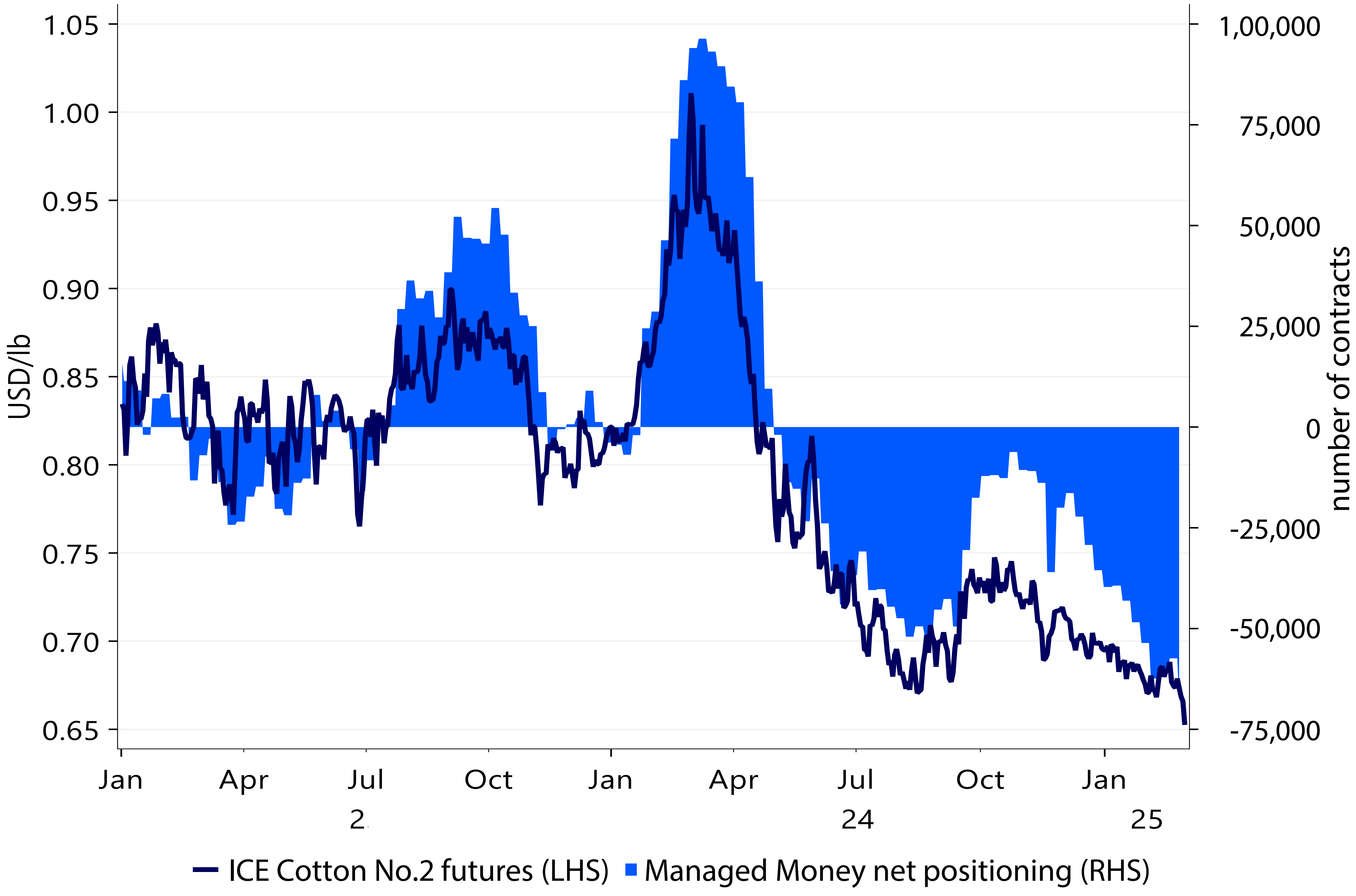
ICE #2 Cotton futures decline due to a well-supplied market, but can an anticipated lower US crop curb downside?

Compared to soy and corn futures, cotton prices have performed the worst over the past year



Source: *Macrobond, RaboResearch 2025*

Funds have once again extended their net-short position in recent weeks due to global oversupply



Source: *CFTC, Bloomberg, RaboResearch 2025*

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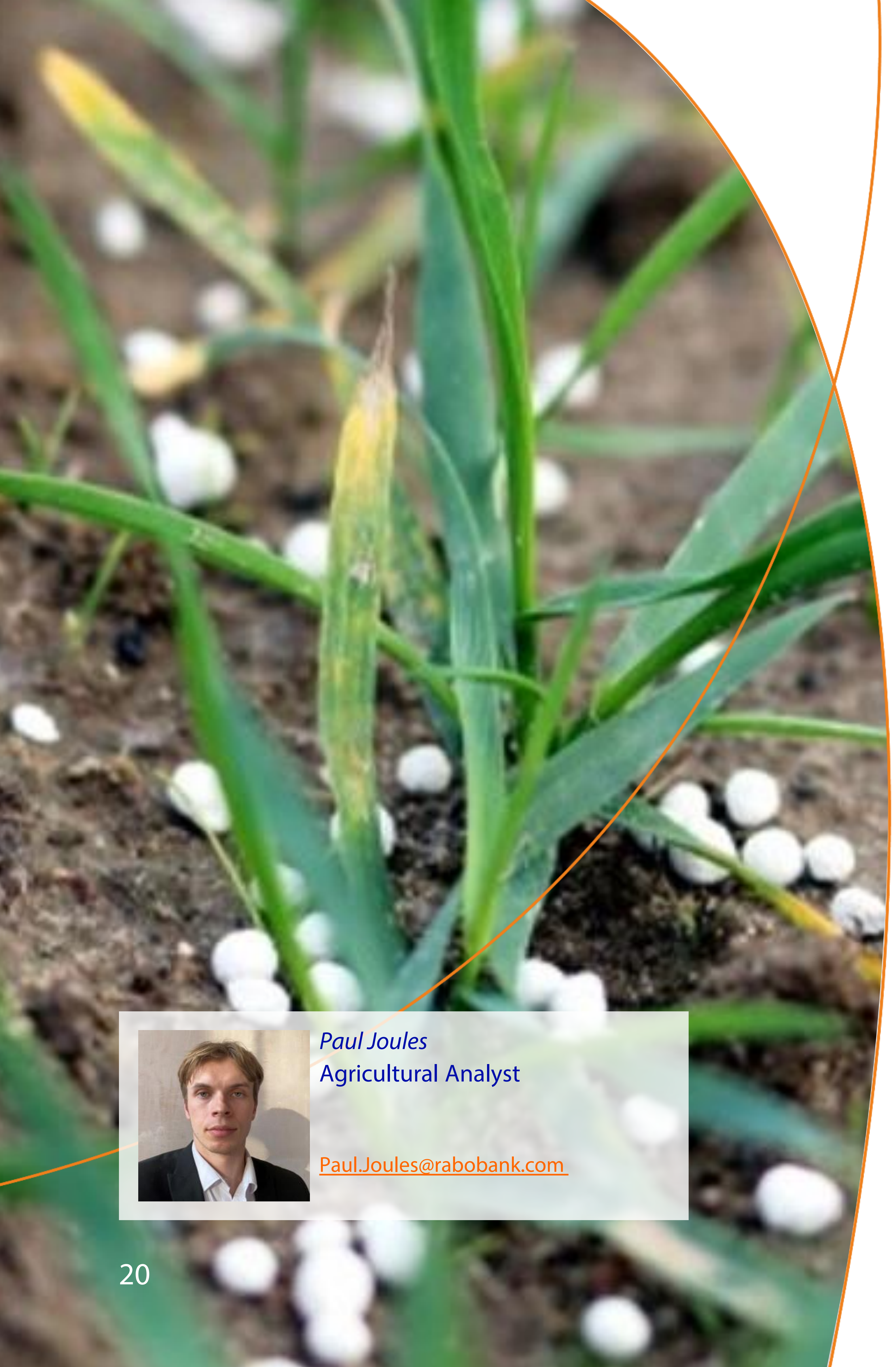

Farm inputs

Urea supply headwinds persist

Over the past six weeks, prices for urea (+6.6%), phosphate (+3.4%), and potash (+3.3%) have risen in Australian dollar terms. Despite the Australian dollar gaining slightly against the US dollar recently, Australia continues to face currency headwinds impacting fertilizer procurement. The Australian dollar has fallen by 6.3% YOY, contributing to the price increases seen across fertilizers over the same period: urea (+13.7%), phosphates (+10.8%), and potash (+10.4%). RaboResearch anticipates the AUD/USD exchange rate to fall to around USD 0.61 over the next 12 months, suggesting continued challenges for importers, which likely limits major downside in the near term.

Supply-side issues continue to impact many fertilizer markets, with urea and phosphate markets experiencing the most supply issues. For urea, In regions such as Iran and Egypt, gas shortages have significantly disrupted urea production, as natural gas is a crucial feedstock for the process. The market is currently assessing the extent of the shortage. A return to normal production would help loosen a tight global supply picture, but prolonged weaker production would do the opposite, likely causing price volatility in the coming months. In Iran, supplies may come back online in the coming weeks amid improving weather, which should lower domestic gas demand. Meanwhile, China remains virtually absent from the fertilizer export market due to lower domestic prices, with no indication of when it will return.

On the demand side, a delay to India's latest urea tender helped cap recent upside. However, given low domestic stocks and lower production levels in February compared to last year, further demand is likely in the near future.

For phosphates, prices appear to be stuck in a higher-for-longer range due to limited global availability, preventing downside. However, affordability within key agricultural regions remains low, preventing prices from rising further. Renewed demand from India due to low inventory is noted. Potash prices rose modestly month-over-month amid Indonesian tenders and Chinese demand. However, major upside is not expected given the healthy global supply picture.

What to watch:

- **India's urea tendering activity.** The agricultural powerhouse stalled the latest tender. However, a return to the market in the coming months, could further tighten the global balance sheet.
- **For agrochemicals, it remains unclear how much the increase in containerised shipping rates will offset retailers' efforts to work through high-priced inventory.** The most likely outcome appears to be fairly limited price movement.

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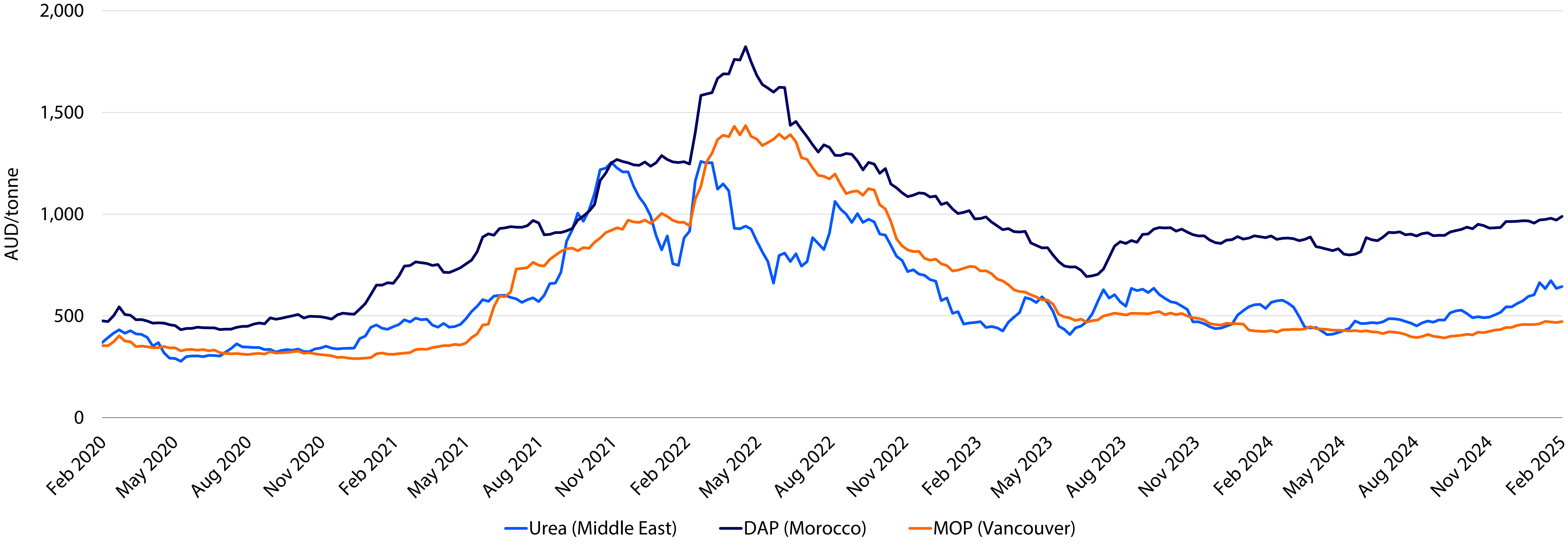
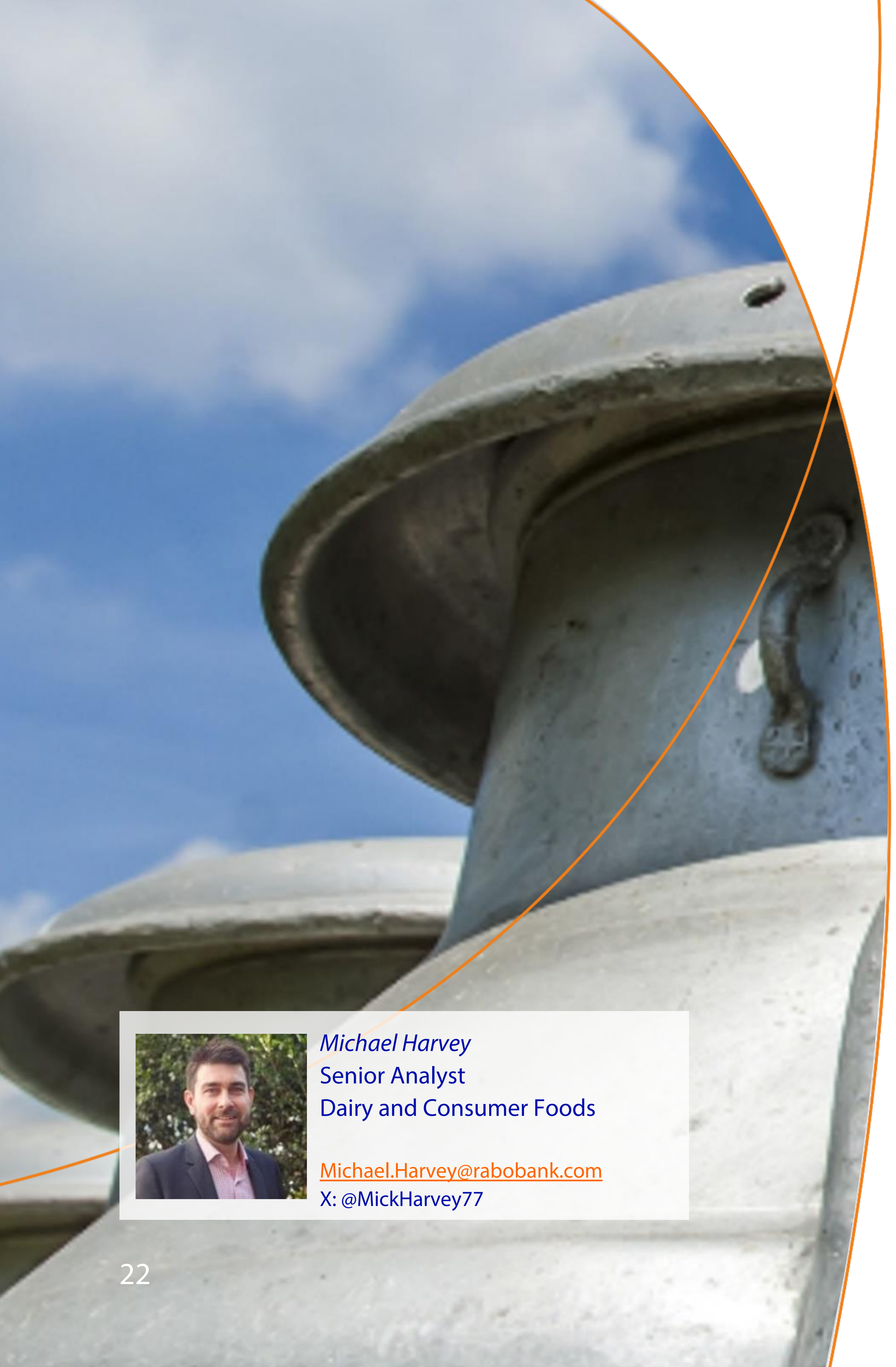
Farm inputs

Supply-side issues continue to keep urea and phosphate prices elevated

China remains virtually absent from the urea export market, while elevated natural gas prices keep the cost of production high



Source: *CRU, RaboResearch 2025*



Dairy

Local farmgate milk prices slowly climbing higher

Milk supply across the major export regions is poised for modest growth in 2025, driven by steady supply expansion and export demand amid evolving trade dynamics. RaboResearch expects milk production in the Big 7 export regions to expand by 0.8% YOY.

Australian milk production began to decline in late 2024. By January 2025, it was down 2.6% YOY. However, after seven months of the season, milk production is 0.4% higher YOY. The outlook for local milk production heading into the seasonal spring peak and the 2025/26 season will be heavily dependent on rainfall and seasonal conditions.

In contrast, milk supply growth in China has changed trajectory. Milk production dropped in 2024 following several consecutive years of significant expansion.

Milk production in Australia is weak in Western Victoria and Tasmania but remains strong in eastern and northern Victoria and New South Wales. The softer export heifer market to China means farmers who have feed availability and surplus heifers have increased herd numbers.

Dairy companies have announced some small increases in farmgate milk prices in the southern export region in recent weeks. Australian dairy farm margins are poised to benefit from improving farmgate prices through 2025, high commodity returns, and a softer currency.

Australian dairy exports had a very strong year in 2024. With slightly more farmgate milk supply and higher export returns, volumes were higher across the main dairy commodities. Of the two largest volume trade flows, cheese exports jumped 30% and skim milk powder exports lifted 27% YOY.

Australia imported slightly fewer dairy products in 2024 compared to the previous year. Annual volumes were down between 7% and 12% across cheese, butter, and milk powders.

What to watch:

Upside – Improving demand

- There are ongoing signals that global dairy demand is gradually improving. Key indicators suggest a recovery in foodservice channels and improved consumer demand in emerging markets.

Downside – Dairy deflation

- The latest monthly consumer price index shows food inflation remains sticky. However, dairy products were the only food category to record annual declines.

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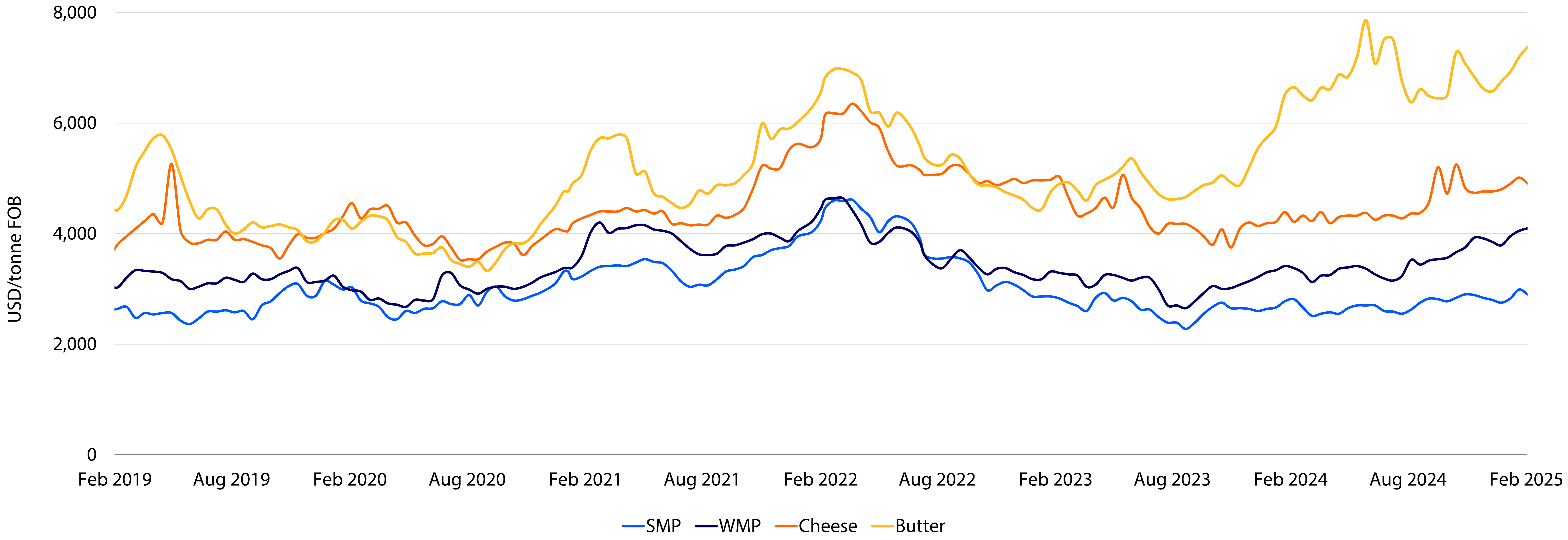
Dairy

Commodity prices grinding higher to start the year

Oceania spot prices for dairy commodities



Source: *USDA, RaboResearch 2025*

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Consumer foods

Monthly food inflation edged higher in January 2025

Food and beverage prices edged higher in January 2025. The latest monthly inflation data from the ABS shows that food and beverage inflation rose 3.3% in the 12 months to January, following a 2.7% rise in the 12 months to December. The main contributor to higher food prices was a 7% YOY increase in fruit and vegetable prices in January.

According to ABS, there was a rise in prices for avocados, mangos, cucumbers, asparagus, and tomatoes. In contrast, only the dairy aisles recorded any deflation, with prices falling by 0.4% YOY.

The latest earnings results from the major retailers provided a glimpse into the food market's performance. Coles had a strong quarter with comparable store sales growth of 4.2% in the December 2024 quarter. This compared to Woolworths, which reported same store growth of 1.1% for the quarter.

Woolworths' softer performance was attributed to industrial action and subsequent supply chain disruptions during the period.

Both retailers are focussing on investment in pricing and promotional activity. This will require ongoing trade spend from food and beverage suppliers and indicates that cost-of-living pressures persist despite some mortgage rate relief and slight improvements in consumer confidence. Woolworths specifically noted that food spend was declining as a proportion of household spend.

Supermarket own brands and exclusive brands are performing well. According to the supermarket results, own brands grew ahead of overall sales growth in the quarter, particularly in the long-life categories.

Australian confidence received a much-needed boost from the Reserve Bank of Australia's (RBA) first interest rate cut. According to the ANZ-Roy Morgan Consumer Confidence survey, Australian consumer confidence improved by 4.7 points to 89.8 at the end of February 2025.

This confidence metric is now at its highest since May 2022, and inflation expectations are at their lowest since August 2021.

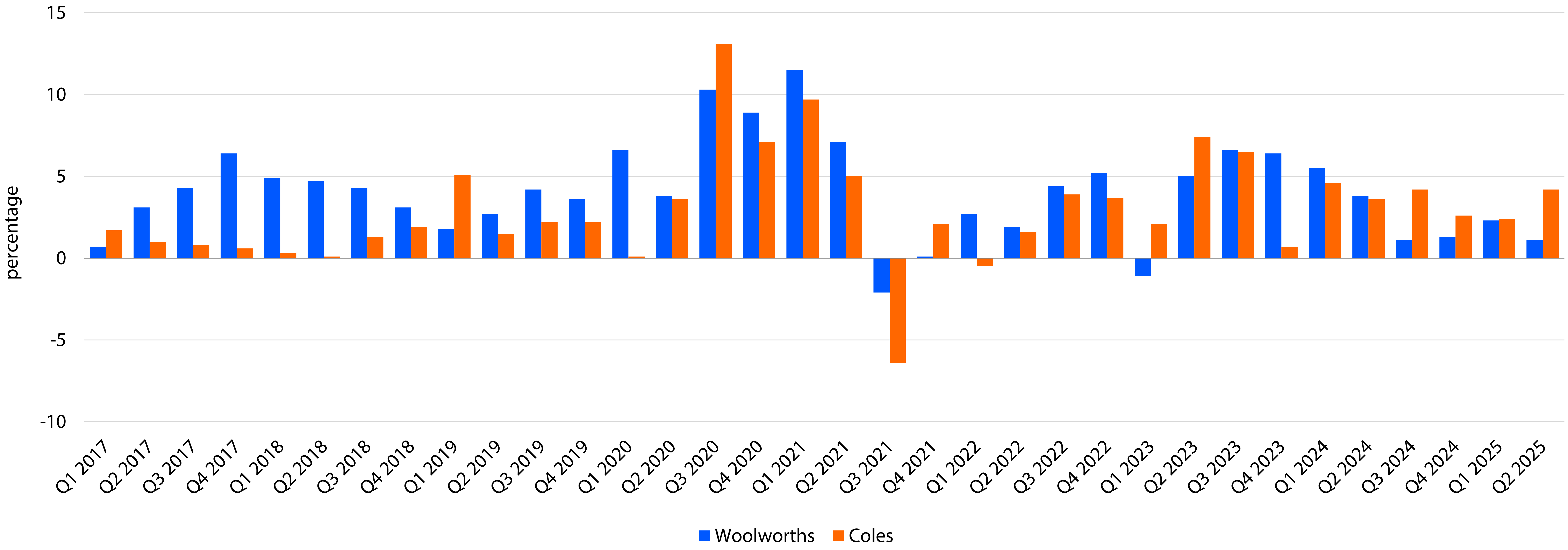
What to watch:

- **Quick service restaurant battleground**
  The battle for consumer spend in the foodservice channel is heating up quickly. A handful of global and local quick service restaurant (QSR) brands have announced plans for store rollouts over the coming years.

Consumer foods

Supermarket battle heating up

Comparable store sales growth, Australian supermarkets, Coles and Woolworths



Source: *Company reports, RaboResearch 2025*

Rabobank

Interest rate and FX

Curb your enthusiasm

The RBA cut the cash rate by 0.25ppts in February to 4.10%. This was in line with RaboResearch's forecast, as detailed in last month's Agribusiness outlook.

While the RBA has now joined other central banks around the world in easing monetary policy, Governor Michele Bullock noted in her press conference that the Board is likely to emphasise caution in the months ahead.

Australia's strong labour market remains a point of uncertainty for the inflation outlook. With an election due to be called any day now, we are already seeing significant new spending commitments from both sides of federal politics that could lift growth in aggregate demand.

When aggregate demand exceeds aggregate supply, inflation is the result, and the RBA typically responds by setting interest rates higher than it might otherwise do.

On the other hand, there are substantial risks that growth in demand may end up being slower than expected. Private capital expenditure figures for the final quarter of 2024, released in late February, were lower than most analysts had forecast. This suggests that **Australia's slow economic growth and uncertainties in the international outlook may be discouraging businesses from investing.**

At the same time, we have recently seen further tariff announcements from US President Trump. He has said that he will impose an additional 10% tariff on imports from China, and that tariffs on Mexico and Canada announced in February will go ahead as planned.

Those tariffs are likely to negatively impact global growth and Chinese demand for Australia's mineral and energy exports. Consequently, the AUD/USD exchange rate finished February a little weaker at just over 0.62.

We continue to forecast the AUD to hit 0.60 around mid-year and expect the RBA to deliver two more 0.25ppt rate cuts in 2025 (May and August) to take the cash rate down to 3.60%.

What to watch:

- **ABS February labour force report, 20 March** – Australia's strong labour market is one of the main obstacles to lowering interest rates. If the unemployment rate deteriorates, the RBA may accelerate the pace of rate cuts.
- **ABS February CPI inflation report, 26 March** – The monthly inflation indicators for February will provide an important update on inflation pressures in the economy. Recent readings have shown inflation back at target. Lower inflation raises the probability of rate cuts, while an unexpectedly high inflation figure could prompt the RBA to delay easing.

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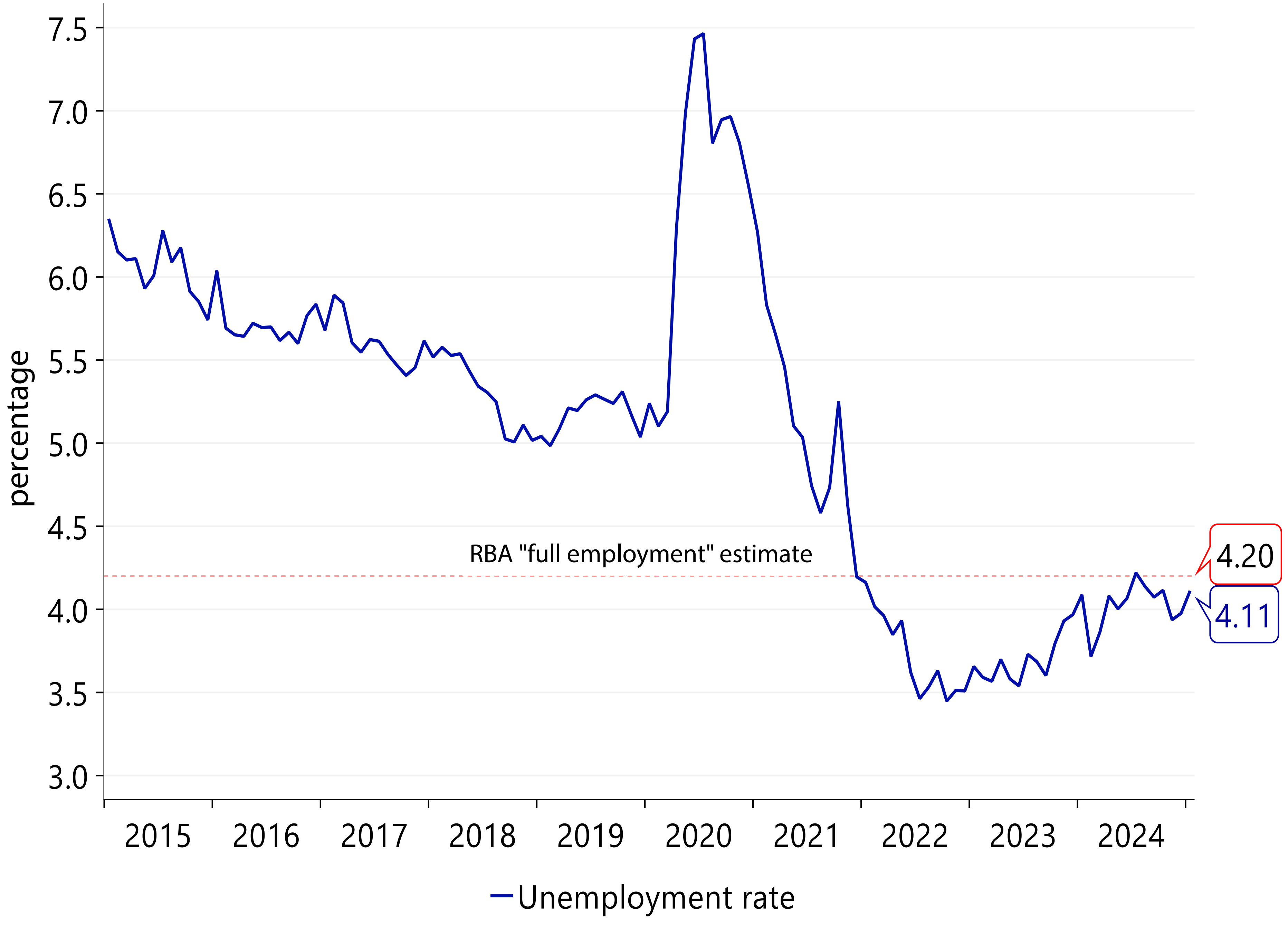
Interest rate and FX

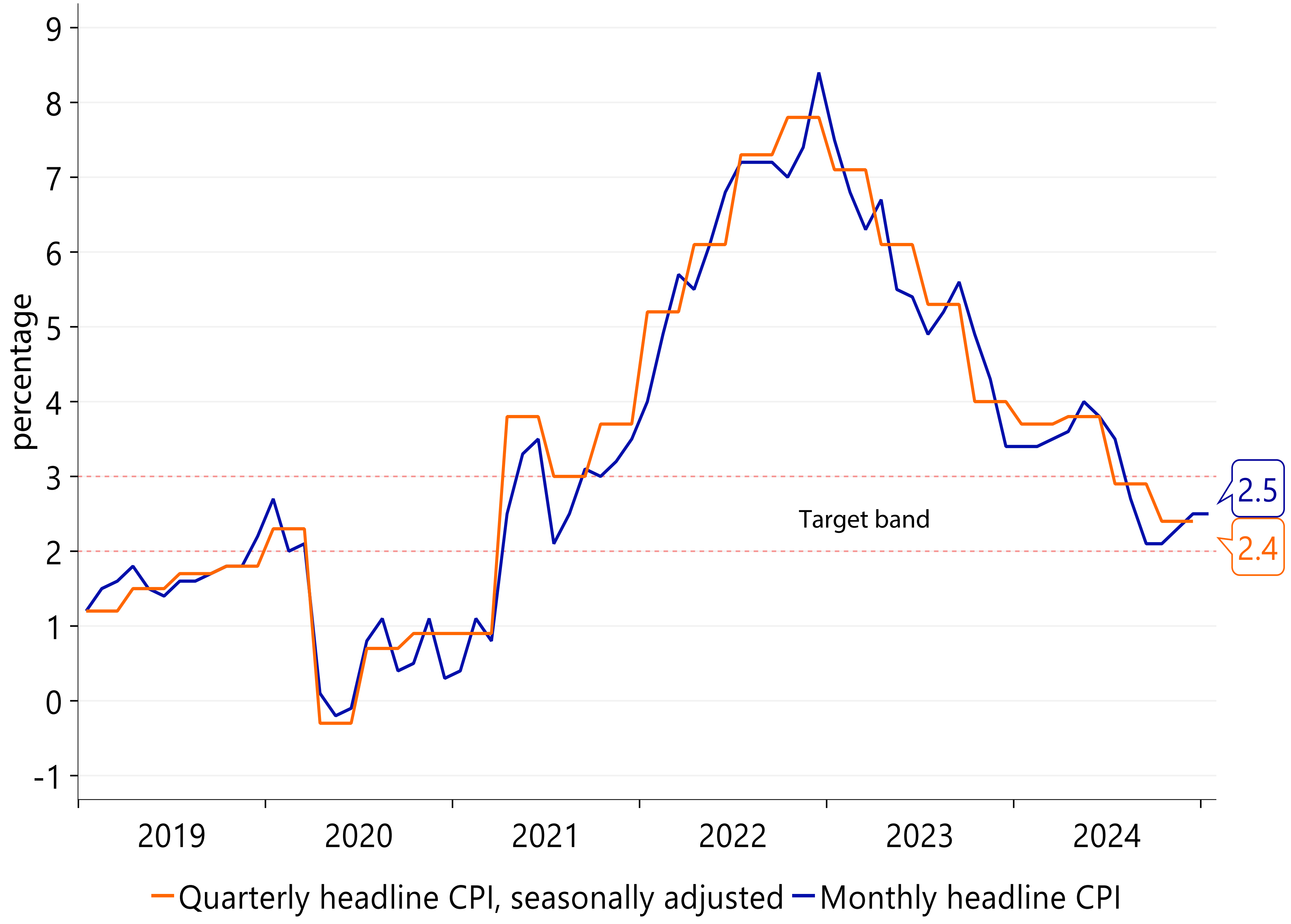
Converging to target, but the central bank remains cautious

Australian labour force indicators, 2015-2024



Source: Macrobond, ABS, RaboResearch 2025

Australian inflation indicators, 2019-2024



Source: Macrobond, ABS, RBA, RaboResearch 2025

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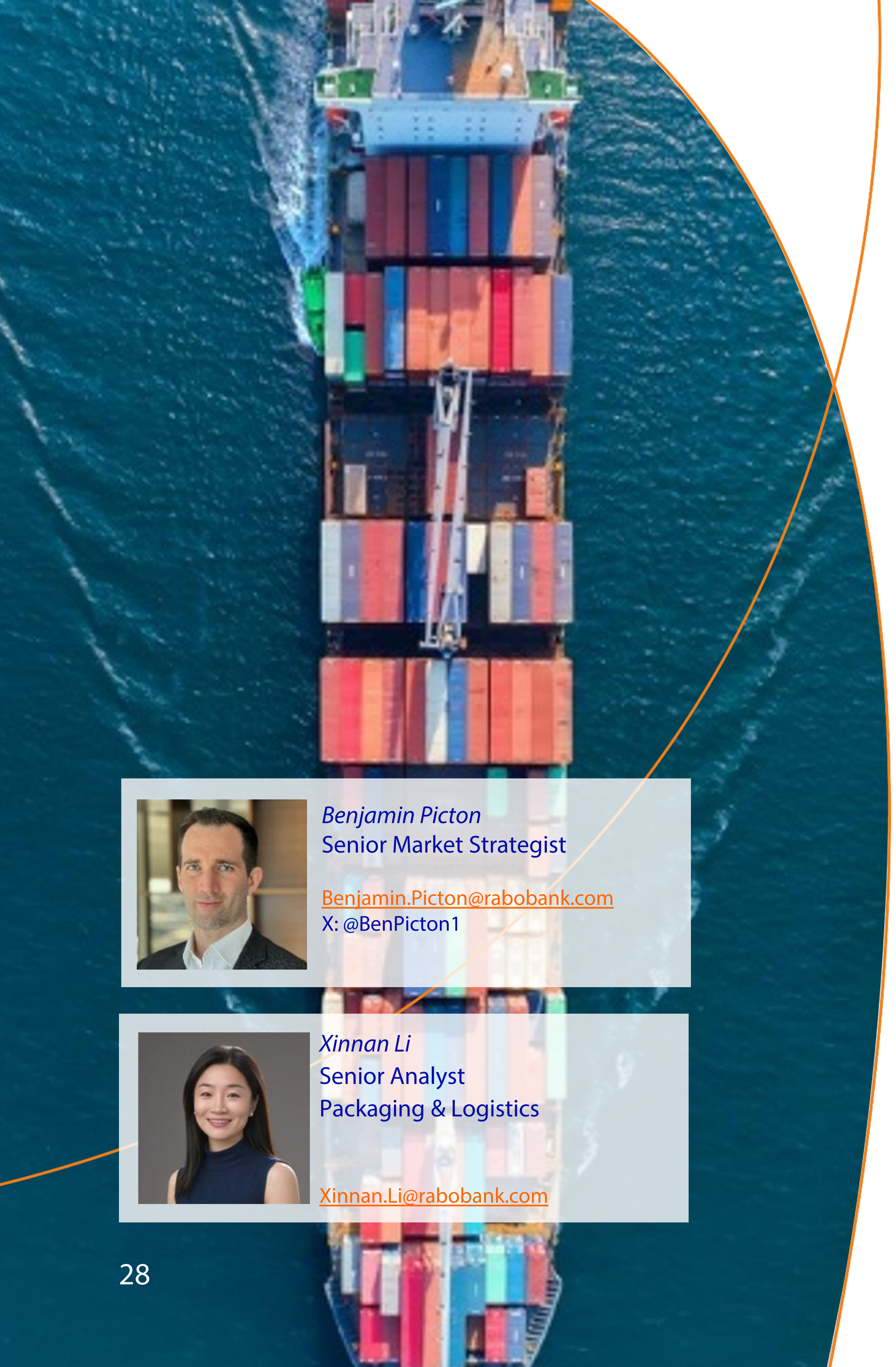

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Oil and freight

Range-bound, at least for now

Brent crude oil prices have remained fairly range-bound since August of 2024, trading between USD 69/bbl and USD 81/bbl.

RaboResearch's energy analysts see geopolitical risks as the only factor that could push prices higher. However, the influence of these risks is waning for two main reasons. Firstly, there are growing hopes for a peace deal in Ukraine, which could lead to the lifting of sanctions on Russia. Secondly, the ceasefire between Israel and Hamas, although fragile, is holding.

Supply is abundant, and likely to become more abundant if President Trump is successful in providing incentives for US producers to "dill, baby, drill!". In the meantime, demand remains weak as global economic growth lags and China continues its rapid transition to electric vehicles.

OPEC+ has delayed the expiry of agreed production cuts, but eventually, those extra barrels will return to the world market, putting more downward pressure on prices.

RaboResearch forecasts Brent crude prices to average USD 70/bbl in 2025.

The US Trade Representative shared details about a proposal aimed at addressing China's dominance in the maritime and shipbuilding sectors. Key points include charging up to USD 1.5m for every US port call by a Chinese-built ship. Any ship operator with a single Chinese-built ship or a single order at a Chinese yard could face a new US port fee of USD 500,000 per call for all of its vessels. Carriers are considering splitting their fleet based on its relationship with China. The proposal is pending approval by President Trump. The administration is also scrutinizing control of the Panama Canal, not ruling out using military forces.

Capacity from Asia to the west coast of South America has doubled in three years. Carriers are rapidly adding capacity to meet demand.

The Baltic Panamax index (a proxy for grain bulk freight) is at its lowest in almost two years due to sluggish demand across all vessel sizes. Seasonal factors, such as slow movement ahead of Lunar New Year, contribute to this, but recovery is expected after February.

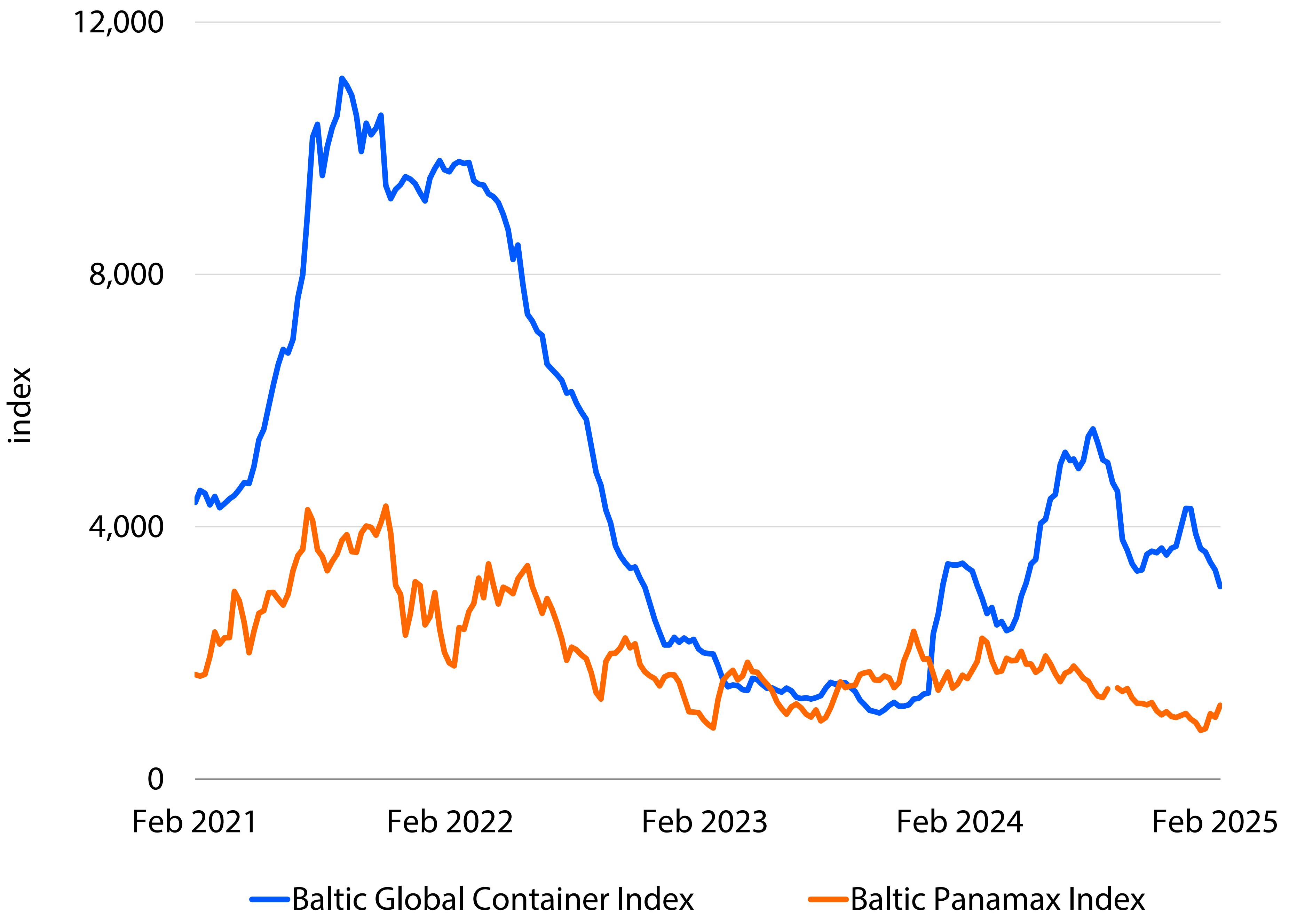
What to watch:

- **Ukraine ceasefire negotiations**– Negotiations for a ceasefire in the war between Russia and Ukraine remain ongoing and could pose further downside risk to energy prices if successful.

Oil and freight

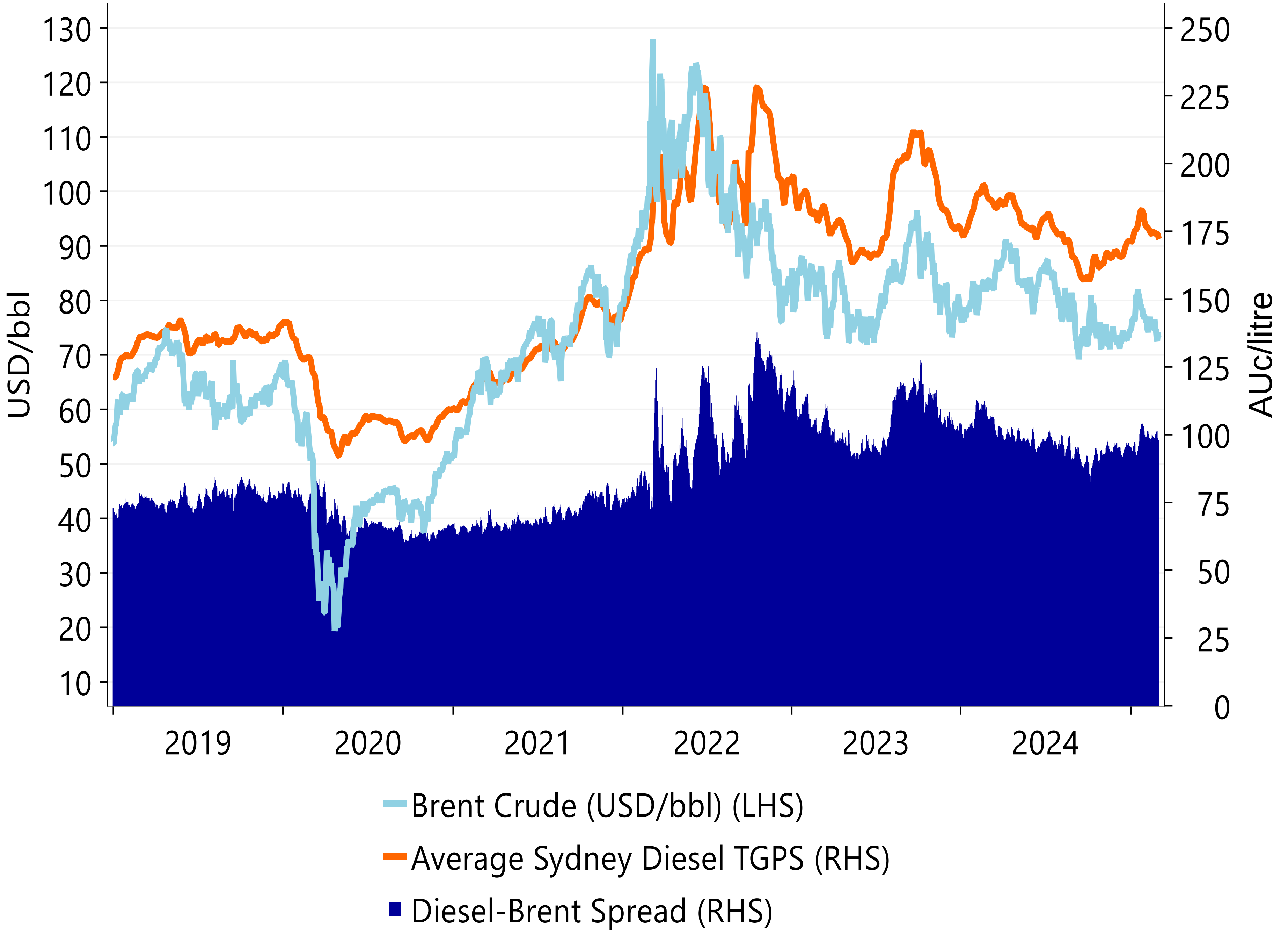
Containerised freight rates on their way back down

Baltic Panamax Index and Dry Container Index, Feb 2021-Feb 2025



Source: *Baltic Exchange, Bloomberg, RaboResearch 2025*

Brent crude versus Sydney diesel prices, 2019-2024



Source: *Macrobond, ICE, AIP, RaboResearch 2025*

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Agri price dashboard

21/02/2025	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	532	554	574
CBOT soybean	USc/bushel	▼	998	1,056	574
CBOT corn	USc/bushel	▼	440	484	574
Australian ASX EC Wheat Track	AUD/tonne	▲	340	330	574
Non-GM Canola Newcastle Track	AUD/tonne	▼	743	766	574
Feed Barley F1 Geelong Track	AUD/tonne	▲	319	305	574
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	652	683	628
Feeder Steer	AUc/kg lwt	▼	349	385	355
North Island Bull 300kg	NZc/kg cwt	▲	735	720	585
South Island Bull 300kg	NZc/kg cwt	▲	700	690	540
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	764	798	636
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	820	800	610
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	800	785	605
Venison markets					
North Island Stag	NZc/kg cwt	•	920	920	865
South Island Stag	NZc/kg cwt	▲	915	910	870
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	7,200	6,750	6,513
Skim Milk Powder	USD/tonne FOB	▲	2,988	2,750	2,775
Whole Milk Powder	USD/tonne FOB	▲	4,050	3,788	3,413
Cheddar	USD/tonne FOB	▲	5,013	4,800	4,388

Source: Baltic Exchange, Bloomberg, RaboResearch 2025

Agri price dashboard

21/02/2025	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	76.0	78.1	102
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	64.1	67.1	95
Sugar markets					
ICE Sugar No.11	USc/lb	▲	18.2	18.2	22.6
ICE Sugar No.11 (AUD)	AUD/tonne	▲	645	600	710
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,195	1,186	1,157
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	445	395	378
DAP (US Gulf)	USD/tonne FOB	•	615	615	570
Other					
Baltic Panamax Index	1000=1985	▲	1,045	843	1,595
Brent Crude Oil	USD/bbl	▼	72	79	82
Economics/currency					
AUD	vs. USD	▼	0.623	0.627	0.656
NZD	vs. USD	▼	0.562	0.567	0.620
RBA Official Cash Rate	%	▼	4.10	4.35	4.35
NZRB Official Cash Rate	%	▼	3.75	4.25	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2025

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