Agribusiness Monthly & Covid-19 Update April 2020

Australia

RaboResearch Food & Agribusiness April 2nd, 2020

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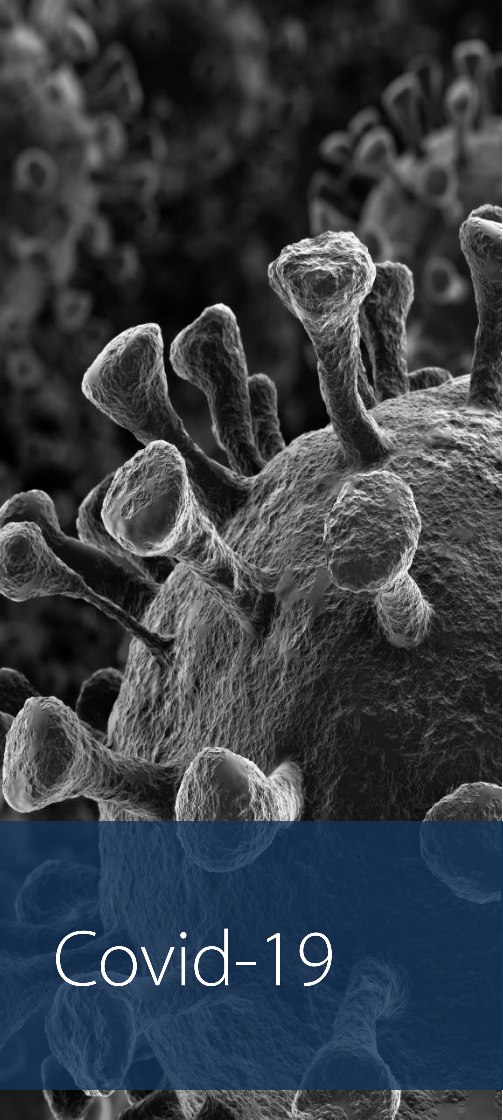
Commodity outlook

Covid-19	The Chinese market has entered the slow recovery process, but the rest of the world is now falling ill. USD prices will fall in many commodities in coming months as panic-buying fades and negative income effects kick in.
Grain & Oilseeds	With higher global pricing and a supportive AUD, we now see APW trading at between AUD 378/tonne (FOB ADL) through to AUD 410/tonne (FOB BNE) in Q4 2020.
Dairy	A significant global consumption pullback will push commodity prices lower.
Beef	Favourable seasons and strong producer demand will continue to support domestic livestock prices.
Sheepmeat	Prices are coming off the boil.
Sugar	Local prices tumbled in March, but are set to regain ground through 2020.
Cotton	World cotton demand is set to dip sharply as a result of the Covid-19 pandemic.
Wool	Downward pressure is starting to show, but exchange rates and China processing provide positive counterbalance.
Wine	Wine exports to China will be down YOY for Jan and Feb 2020, but not by as much as early reports. Rabobank expects sales will continue to slow to all key markets in 2020, and that it will be Q4 before this begins to recover.
Horticulture	Rabobank expects foodservice to be hit hard in the short term, but offset will come from a rise in retail sales.
Farm Inputs	Given the importance of fertiliser to food production, we expect government restrictions on fertiliser production to be limited. However the risk of interruption, either to production or logistics, remains high.
FX	We expect the AUD to trough as low as USc 55 in June before a partial recovery in 2H.
Oil	Prices could take two trajectories in coming months, depending on how the current price war plays out. Regardless, given low demand, we expect the oil market to remain under pressure.



A difficult season now lies ahead

Global demand will be significantly impacted by the pandemic. The damage done to the Chinese market is now apparent. While China currently appears to be in the early stages of recovery, the rest of the world is now falling ill. Global demand will likely weaken significantly in coming months as panic-buying fades, and the negative impacts of reduced incomes across most of the world come to the fore.

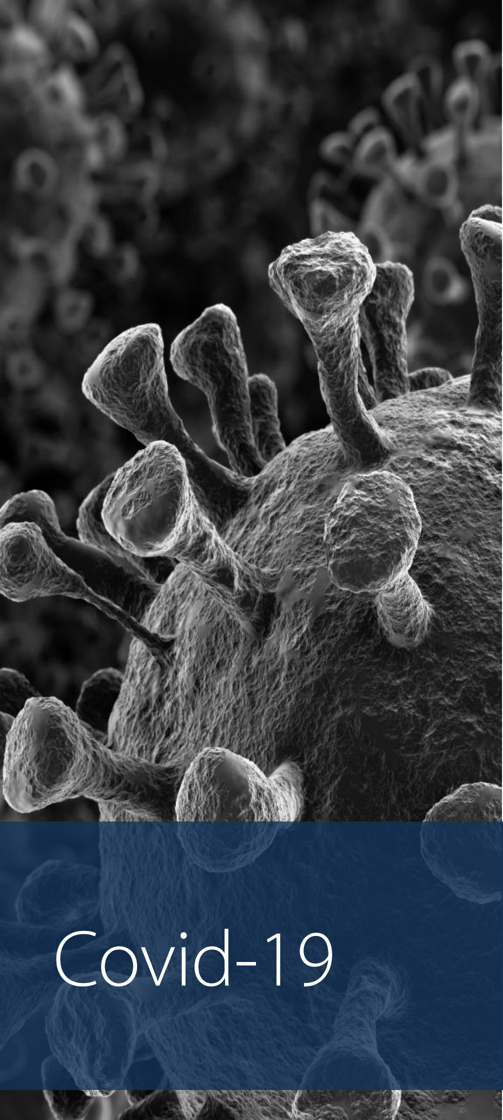
Commodity-specific developments will partly offset the demand problem. Most prominently, we expect that African swine fever (ASF) will further reduce Chinese pork production in 2020. This will keep the animal protein market tighter than would have otherwise been the case. In dairy, the dry end of the 2019/20 season in New Zealand will also partly offset the impact of weaker demand in the near term.

USD prices of most ag commodities have further to fall in Q2 2020. In global ag markets, supply typically fails to adjust quickly to negative demand shocks, resulting in the build-up of inventories. Prices eventually fall in an effort to balance the market – either by clearing excess stock or shutting down supply growth. We expect we will need significant USD price falls in Q2 2020, given the size of the demand shock.

The risk of supply disruption is creating a different dynamic in global G&O markets. Traders are concerned about the potential for disruption to export shipments coming through key ports in Argentina and Brazil, and the threat of export restrictions in the Black Sea region. This is creating a risk premium that will likely take some months to ease.

What to watch

- ***Re-infection in China.*** Our market views are based on the assumption that the virus is now under control in China, and that the country slowly gets back to work and eventually to eating out. Any resurgence of the virus in China as people start to move again would inevitably delay or at least slow this recovery. And the next 3 months will be significantly worse for ag markets if China reinfects as the rest of the world falls ill.



Covid-19

Australian farmers will likely weather the storm

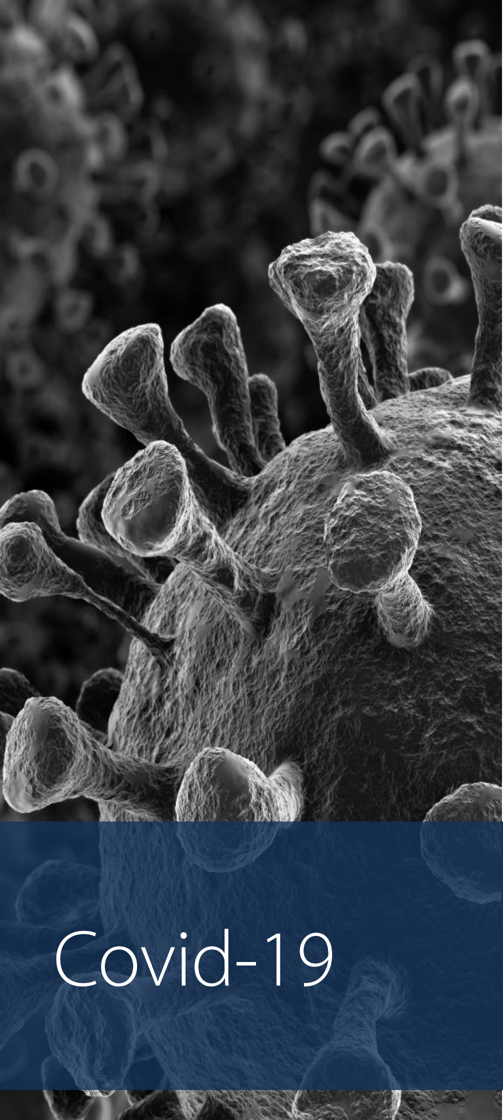
Australian dollar depreciation will provide some shelter from falling prices for Australian producers. The worse the pandemic gets, the lower the AUD will fall, as capital is reinvested in lower risk financial markets like the US and Japan. Significantly, the AUD is likely to be lower than it was during the global financial crisis (the last time we saw a large global economic shock). This will ensure that the contraction in farmgate prices in local currency terms is less than seen on world markets.

Local farmgate prices will also be supported by low incoming local grain stocks and low flock and herd numbers after several years of drought. This is ensuring strong competition for product in the local market from processors downstream. In addition, sheep and beef producers now active in the market again buying stock to rebuild numbers have driven prices to record levels

Last but not least, recent rainfall and the current seasonal outlook suggest that farmers will have a ***decent production season.*** For farmers this will mean better production and, in most cases, better revenue. For those with livestock, it will also help reduce the costs of feeding.

What to watch

- ***The weather!*** Always important in any year, but the arrival of timely rainfall in the next 6 months will be crucial to ensuring Australian farmers don't have to face the combined challenges of COVID-19 and another poor season. So far the outlook remains favourable.



Downside risks on many fronts

Beyond demand and pricing, the sector faces material risks on several other fronts where government, industry, and corporate management will be an important determinant of outcomes:

- availability of agrichemicals;
- availability of picking labour and other seasonal workers; and
- packing houses and processing plant operation.

Significant downside risks (i.e. beyond our base case) to the market include:

- re-infection in China
- a "worse than global financial crisis" global economy in 2020
- high infection rates in regional Australia
- AUD appreciation (while assuming USD world prices fall significantly in 1H as we expect)

RaboResearch will be monitoring these risks closely in the coming weeks and will update clients on any important shifts in our view via your banker, our podcasts, and our monthly report. Please also look out for our dairy and beef seasonal outlooks, which will be released shortly.

What to watch

- ***Can government stimuli offset the income effect of Covid-19?*** It is clear that the shuttering of much of their economies will see personal income fall (and unemployment soar) in many countries in 1H 2020. But the extent to which this will be offset by government stimulus packages (including raising unemployment benefits or paying a large share of the wage to furloughed workers) is still a work in progress. Increased stimulus now will reduce the demand shock in 2020 – but likely to the detriment of the global economy in the longer term.

USD commodity prices have already fallen significantly since the virus rose to prominence

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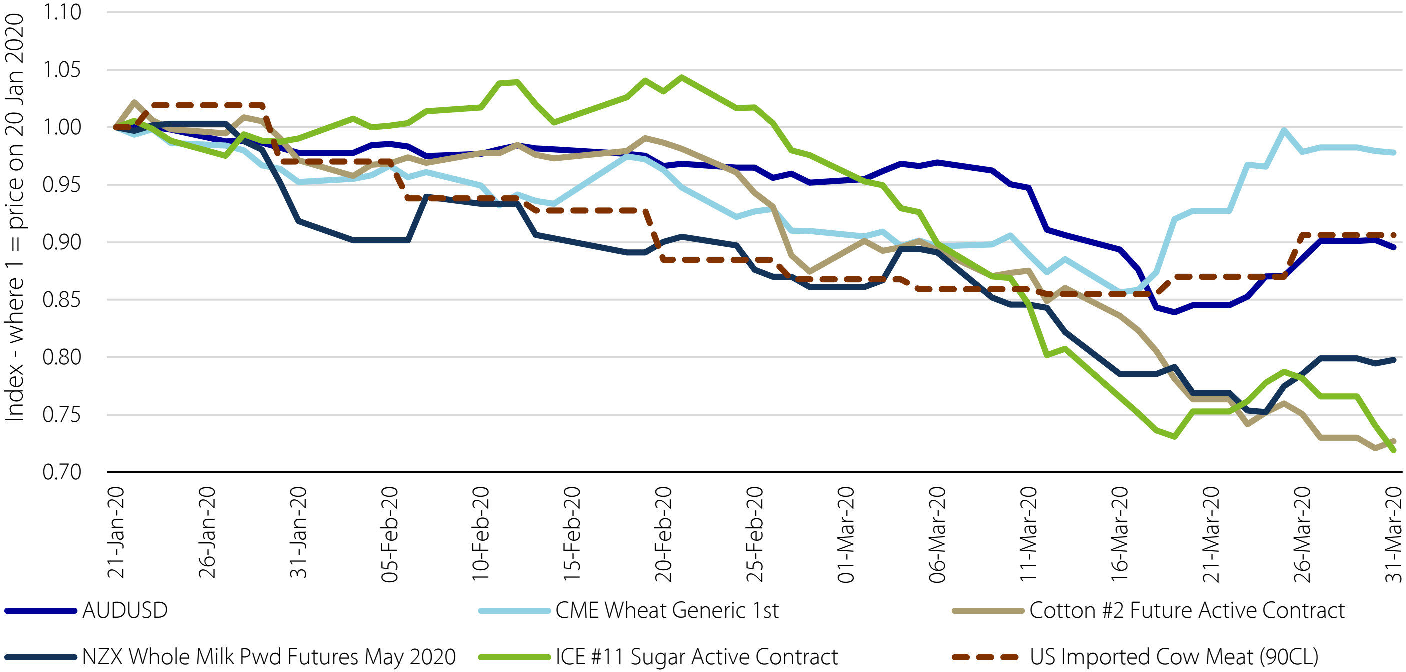
Index of various USD ag commodity prices since 20 January 2020



Source: Bloomberg, Rabobank 2020

Australian rural commodity prices climbed another 5% in March

Rabobank Australian Rural Commodity Index

Source: Rabobank 2020

Note:: Includes wheat, barley, canola, sorghum, beef, lamb, milk, cotton, wool, and sugar. To calculate the index, prices are weighted according to the value share of the commodity in Australian production in any year. Prices are in AUD terms.

Early signs of market improvement in China

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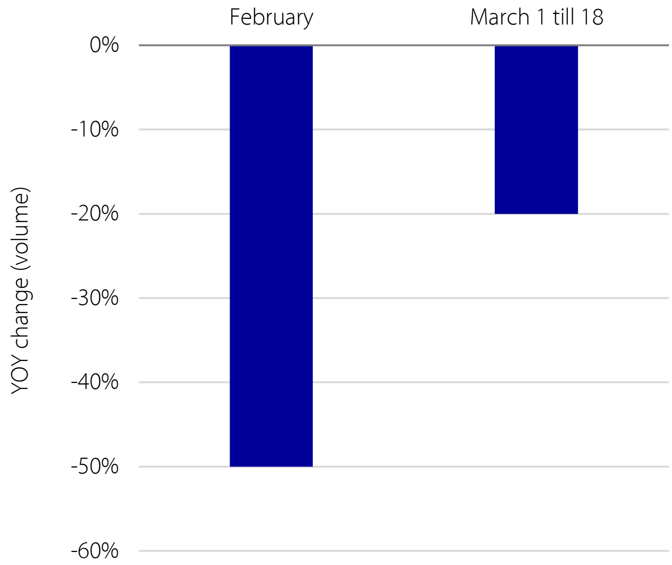
More foodservice stores are reopening, and sales are contracting less

YUM China	30 Jan	23 Mar
Stores closed	30%	5%
Same-store sales YOY	-40% to -50%	-20%

Source: Company statements, 2020

The YOY decline in NZ meat shipments to China slowed in the first three weeks of March 2020*



Source: Statistics NZ, Rabobank
**NZ data is released ahead of Australian data, and is a good reference for red meat markets as NZ supply is less constrained than Australian supply at present*

A forecast to be excited about

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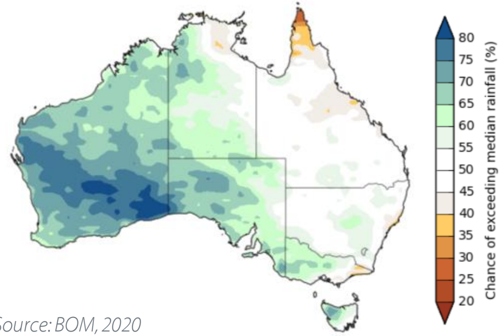
The next three months are likely to be wetter than average in the west and south according to the Bureau of Metrology (BOM). Chances of exceeding median rainfall are highest in Western Australia (65% - 80%).

A stronger north to south sea surface temperature gradient in the eastern Indian ocean, combined with south-westerly winds are likely to drive wetter than average conditions.

A majority (6/8) of international climate models expect El Niño–Southern Oscillation (ENSO) to remain neutral for the next six months. Similarly, most international models forecast the Indian Ocean Dipole (IOD) neutral over the six-month period, although the IOD tends to have little influence on Australia's weather at this time of the year.

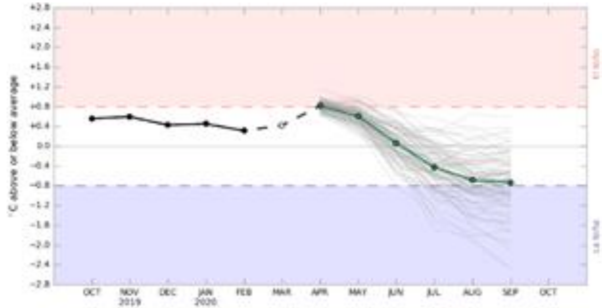
April-June rainfall outlook is positive for western and southern regions



Source: BOM, 2020

ENSO will edge closer to La Niña during spring

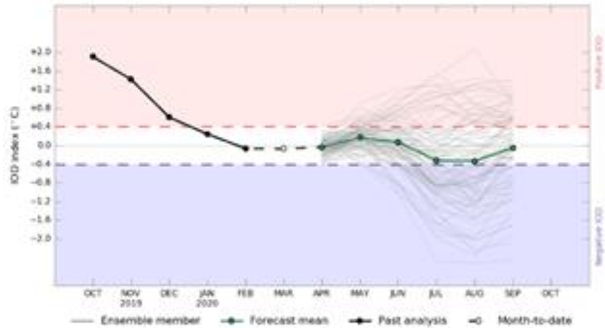
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

IOD may trend toward negative during winter

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM, 2020

Another wet month in drought-affected regions

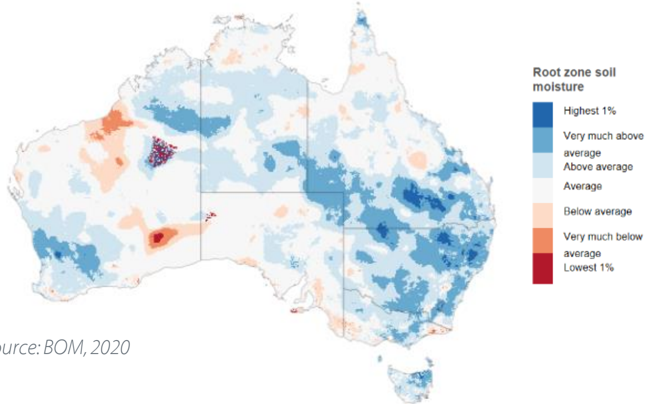
After a wet February, more considerable rainfall was recorded across the eastern states during March. Drought-stricken Moree has so far recorded 307.8mm of rain for the year, 182mm more than the total rainfall accumulated during the whole of 2019. Similarly, Dubbo (241mm YTD vs 211.2mm in 2019), Dalby (250.2mm vs 168.4mm) and Emerald (332mm vs 264mm) are also already ahead of 2019 rainfall totals.

While strong rainfall has eased the intensity drought in regions, the NSW Department of Primary Industry reports 95.8% of NSW area is still impacted by drought. 14.8% of NSW is still rated in intense drought (down 5% MOM).

A deep surface trough delivered 25-150mm across QLD, NSW and Victoria in the first week of March. On the west coast, monthly totals were lower. A cold front delivered falls of up to 25mm across the wheatbelt mid-month. South Australian farmers missed the major rainfall events, with the highest falls only totaling some 10mm for the month.

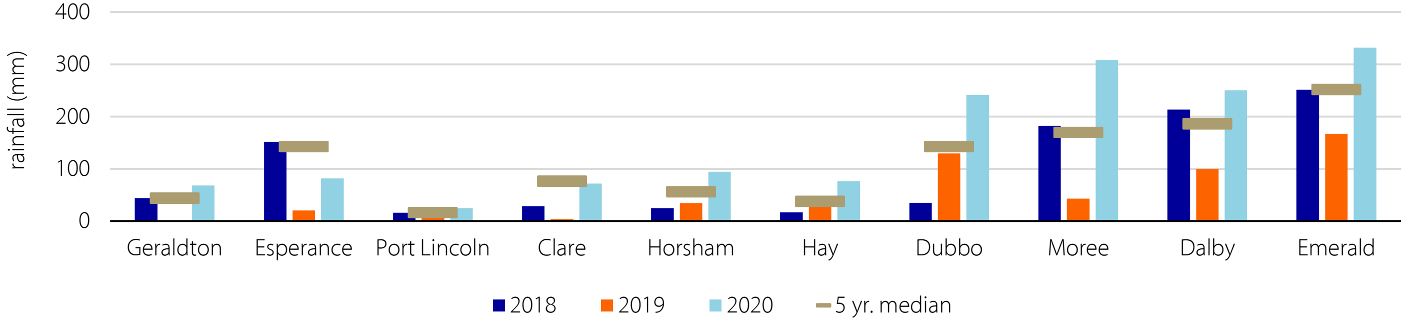
Soil moisture is above average

Relative root-zone soil moisture, March 2020



Source: BOM, 2020

YTD (29 March 2020) recorded rainfall, 2020



Source: BOM, 2020

Wheat follows toilet roll trend

Global wheat prices spent the second half of March making a steep return to the pre-Covid-19 and pre-oil-price-collapse levels of mid-January. We expect continued stockpiling of vital food and feed products including wheat, together with supply chain concerns, to sustain higher prices for the balance of 1H 2020. Any realised supply chain restrictions and weather risk in the northern hemisphere will deliver upside volatility. Non-essential and energy-driven grain markets will be less supported globally, but the AUD will remain supportive of their local pricing.

After trading to five-month lows and sub USc 500/bu in line with global economic markets and a declining global economic outlook, ***CBOT wheat rebounded to recover almost 15%, and be up 8% MOM and 24% YOY***. Sharp increases in retail sales of pasta, noodles, and flour have increased processor requirements and government initiatives, and rumours of them, to secure supply, have created the global grain's version of Australia's toilet-paper shopping run. This has included increased purchasing by governments of importing nations (e.g. Algeria), restrictions on exports by some nations (e.g. Kazakhstani flour, Russian-processed grain products), and talk of potential grain export restrictions (Ukrainian and Russian grains).

Coupled with concerns about production in the Black Sea region, where ongoing dryness and some frost is concerning forecasters, as well as supply concerns in North Africa, we have ***lifted our Q2 CBOT wheat forecast to USc 580/bu***. We expect it will ***soften over the following 12 months as stocks and consumption readjust after the worst of the Covid-19 outbreak passes, but remain above USc 550/bu***.

Australia has the best outlook in several years for winter crop planting, which will start during April. All areas of the cropping belt have above-average soil moisture, except south-west Victoria and South Australia, and all regions have a forecast for an even or greater chance of exceeding median rainfall over the next three months. With the imminent arrival of renewed crop chemical supplies and most farmers reporting adequate supplies, the baseline is being established for increased production YOY, and hopefully a return to average or greater crop volumes. This will of course pressure local basis, but with higher global pricing and a supportive AUD, our local price forecast has lifted, and we now see APW trading at between AUD 378/tonne (FOB ADL) through to AUD 410/tonne (FOB BNE) in Q4 this year.

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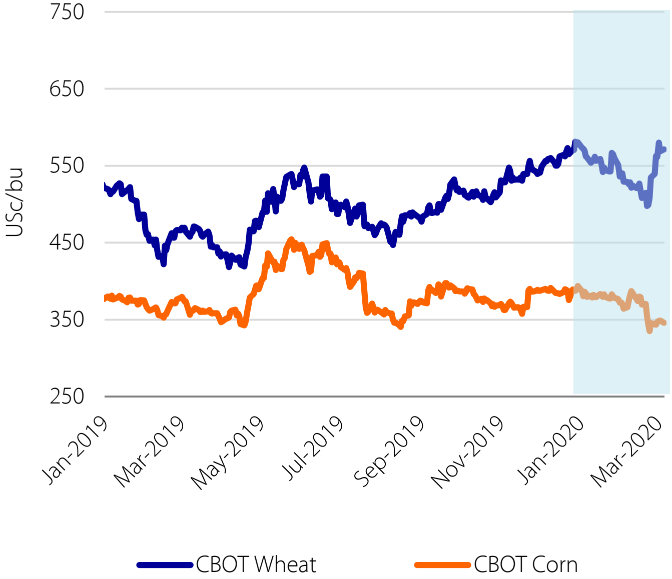
Grains & Oilseeds

What to Watch

- ***North Africa*** – Extended dryness and above-average temperatures in Morocco and parts of Algeria and Tunisia have damaged their durum production prospects. Their increased demand for imports will support durum prices in 2020/21. Meanwhile, locust plagues in and around Africa are a risk to the broader grain supply base in the region.
- ***Sub-continent grain demand –*** The threat of not being able to complete harvesting across the sub-continent due to Covid-19 restrictions on labour movement, plus recently heavy rain during harvest, may prompt greater import requirements. However, this will likely be partially offset by the impact of lower economic activity and lower incomes as Covid-19 fallout hits the region.

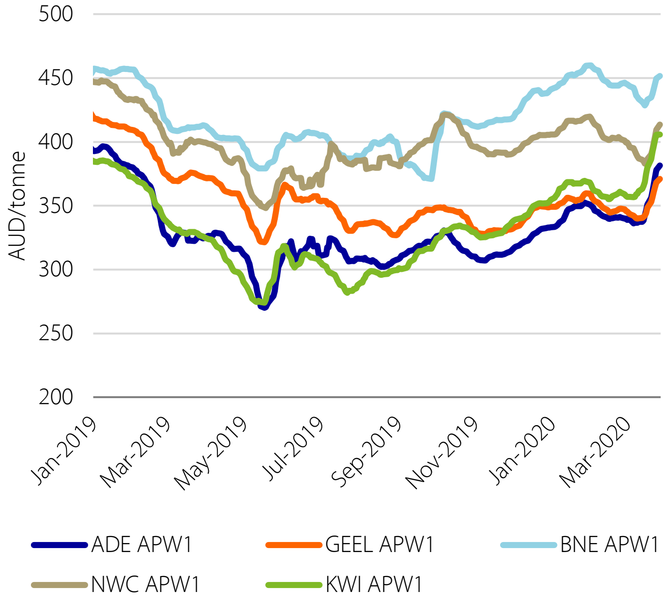
Stockpiling of food staples stops decline

CBOT wheat rebounded during March, while corn lost ground with energy stocks and without the benefit of being among pantry staples



Source: Bloomberg, Rabobank 2020

Higher global prices plus the AUD being 15% lower YOY will keep AU prices above average in 2020



Source: Bloomberg, Rabobank 2020

Milk production recovery continues

Australian milk production continues to show signs of being on the road to recovery. National milk production was higher again in January – despite the impact of bushfires on some regions. Growth is being led by Gippsland and Tasmania. Rabobank is expecting milk production to continue to expand into the 2020/21 season as farmer margins improve.

Global dairy commodity prices continue to drift lower – led by milk powders. There is a shift in global market fundamentals in the pipeline**.** Milk production in many key export regions is leading to a slow build in exportable surpluses. While a rapid drop in New Zealand milk production has provided some price support, the EU spring flush is fast approaching and will test markets from a supply-side dynamic.

A sizeable dairy demand pullback in many parts of the global dairy market is underway. This is driven by the flow-on impacts of Covid-19 management; and the subsequent drop in discretionary spend. In most parts, a bump in retail sales will not be enough to fully offset the drop in foodservice sales.

Rabobank is expecting global dairy prices (in USD terms) to trade lower in the coming months. A recovery will take time and a material lift in prices may not happen until 2021.

A weaker currency will play a vital role moving forward. A significant depreciation in recent weeks will do much of the heavy lifting to support export returns and subsequently farmgate price moving into the 2020/21 season**.**

Trading conditions for dairy farmers look favourable moving forward. Late summer rainfall has been welcomed by a number of key regions. The outlook from the Bureau of Meteorology is for an average autumn rainfall. This bodes well for home-grown feed. At the same time, feed bills are off-record highs and dairy farmers will be hoping to further weakness in the coming months.

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Dairy

What to watch

- ***New season price signals from Lactalis Dairy Australia.*** In announcing a step-up to their current southern Australian farmgate milk price, they also provided guidance ahead of 2020/21. While official opening prices are expected on 1 June 2020, they have indicated that an opening price of more than AUD 7.00/kgMS is likely. This would be welcome news for suppliers – and supported by their consumer brand business.

More milk is coming – all eyes on Europe peak

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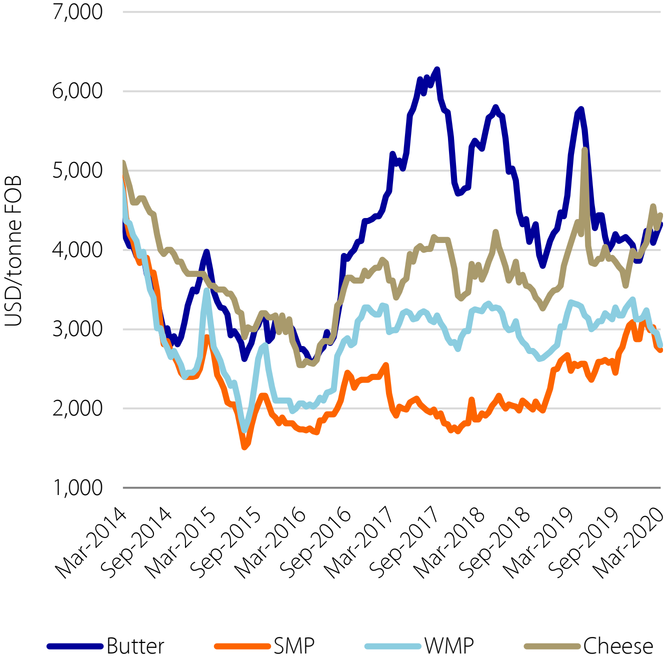
Global dairy prices, 2014 - 2020

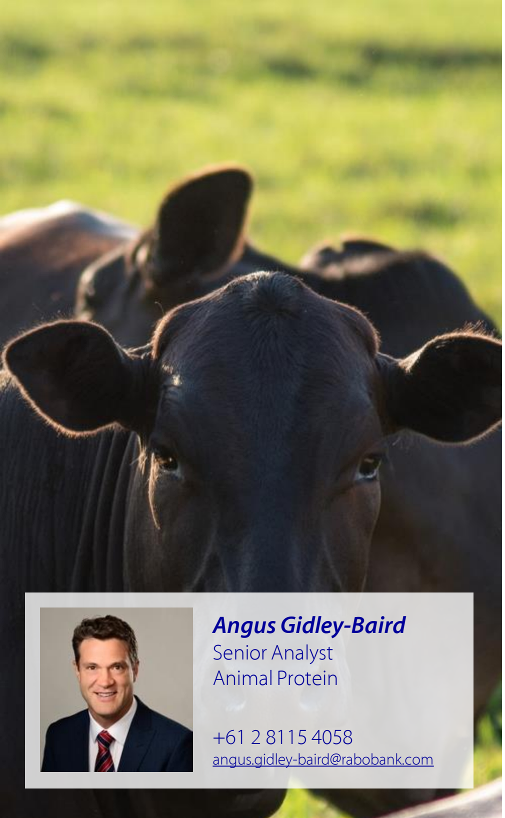


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	*Last three months*
EU	1.4% (Jan 20)	1.1%
US	1.7%* (Feb 20)	1.1%
Australia	0.5% (Jan 20)	-1.0%
NZ	-0.8%* (2019/20 season to February 2020)	

Source: Rabobank 2020
** Adjusted for leap year*



Prices dip after restocking flurry

After reaching new records, prices dipped in late March as seasonal conditions in Queensland started to dry out, suggesting a less positive end to the wet season than one would have hoped for. The EYCI hit a new record on 12 March reaching AUD 7.65/kg cwt before starting to drift lower. Most young stock and cow categories also reached a peak in mid-March before dropping. But reflecting that it was a producer-driven market, the medium and heavy cattle for slaughter remained fir`m amid the short supply. Australian cattle prices have been insulated from the impacts of Covid-19 to date. But with the next three-month rainfall forecast for Queensland and NSW to be average, a number of weaner sales taking place, and the overbearing negative sentiment in global economies, ***we expect prices to ease further over the month of April – particularly for younger lighter stock.***

Eastern states' weekly cattle slaughter figures continued to decline through February and March. For the first four weeks of March 2020, slaughter numbers were 20% below the five-year average and 8.5% below levels in 2017 (the lowest number in the last five years). Monthly national slaughter data for January showed a 6% increase on January 2019 as dry conditions were continuing to force producers to offload stock before the change in season put a stop to the slaughter.

February beef exports were starting to show signs of the restricted trade following Covid-19 outbreaks in China. While total exports were down 2%, exports to China were down 12% for the month of February. Exports to South Korea, another country affected early by Covid-19, were down 5%. ***With lower slaughter volumes and Covid-19 affecting global economies, we expect export volumes to remain low in the coming months***. Live cattle export numbers for the YTD (February) were up 6%, with Vietnam continuing their strong growth, up 157%, while Indonesia was down 21%. Numbers out of Townsville continue to exceed numbers out of Darwin.

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Beef

What to watch

- ***Covid-19*** – As Covid-19 spreads across the globe, the restrictions on public gatherings and the wider economic effects will impact the Australian beef industry in different ways. Prices of Australian exports to the US will be one to watch. On the one hand, we expect reduced foodservice demand and increased retail to have negative impact, as larger volumes of Australian beef go into foodservice. However, people trading down to cheaper cuts, such as burgers in quick-service restaurants would favour Australian exports to the US. Despite dropping most of the year, the US imported lean beef price lifted in mid-March.

Australian cattle prices drop from record levels while US import prices lift

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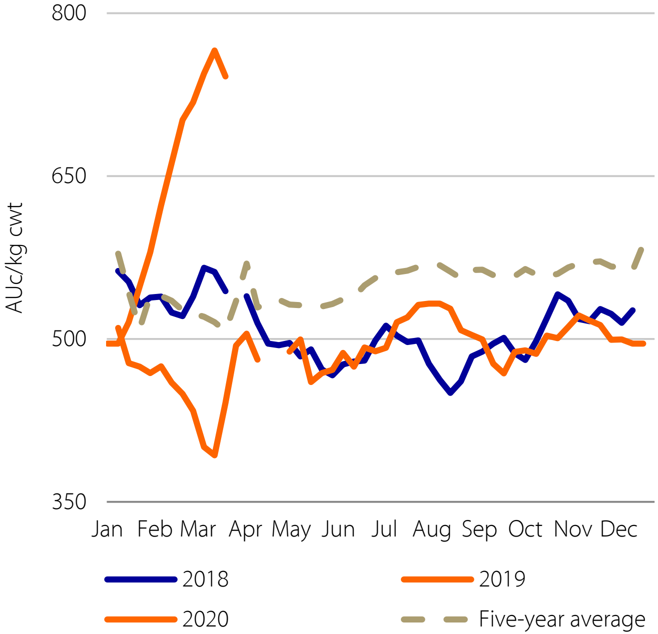
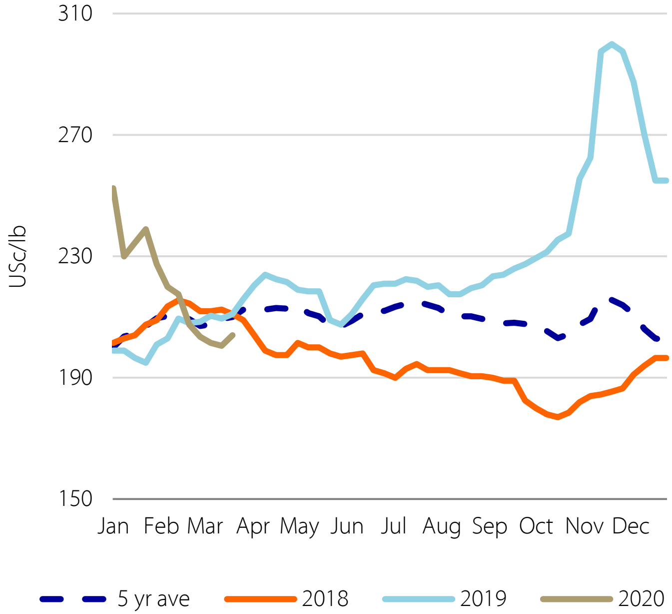
The EYCI breaks a new record but is now falling from that peak



Source: MLA, Rabobank 2020

After sliding for most of the year, the US imported 90CL cow meat price lifted mid March



Source: MLA, Rabobank 2020

Prices coming off the boil

After reaching a peak in the second week of March, prices for all classes of lamb and sheep have fallen. The ESTLI reached AUD 9.62/kg cwt on 5 March before dipping to AUD 9.41/kg cwt on 19 March (Covid-19 limitations mean MLA is not currently reporting the ESTLI). Despite the falls, all prices continue to remain strong, well above last year and the five-year average. ***With continuing disruptions to markets and the pessimistic global economic outlook as a result of Covid-19, plus a possible lift in finished lamb availability after recent rains, we expect prices will continue to fall through the month of April.***

Eastern states' weekly slaughter numbers show lamb slaughter is down 14% for the first four weeks of March compared to 2019 and sheep slaughter is down 43%. Although lower than last year, lamb slaughter in week 13 recovered and was close to the five-year average for that week. Sheep slaughter remains below the five-year average. Lamb slaughter numbers (2.85m head) in January were down 8% while sheep numbers (932,000 head) were up 13%.

The combination of lower slaughter numbers and the trade disruptions caused by Covid-19 are starting to show in sheepmeat exports. Mutton exports were down 15% YOY in February and while there were large increases in volumes to the US (up 39%), volumes to China dropped 63%. Lamb exports were down 3% YOY in February with the Middle East dropping 23%. Although exports to China showed a 10% increase YOY, February 2019 was a relatively low export volume month. Comparing exports in February to January 2020 shows a 28% drop in volumes to China, reflecting the lower demand due to foodservice shutdowns in China as a result of Covid-19. ***Lower oil prices and slower economic conditions are likely to have a large impact on Australian exports of lamb, given its premium positioning and as its key markets are the Middle East, the US, and China.***

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Sheepmeat

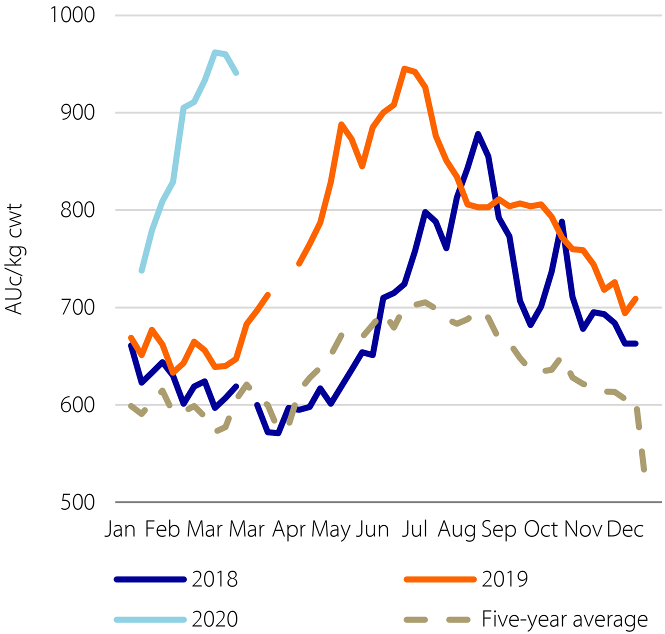
What to watch

- ***Covid19 –*** As Covid-19 spreads around the world, the resulting economic and foodservice disruptions will impact the Australian sheepmeat sector in different ways. With a strong focus on the foodservice market in the US (approximately 60% of Australian lamb imports are consumed in foodservice) and a heavy weighting in fine dining, we expect Australian lamb exports to the US to come under downward price pressure over the coming months. After lifting in February, the US import price in USD for Australian lamb dropped 8% in March (as of 23 March). A lower Australian dollar has helped offset this drop to some degree.

Domestic lamb prices start to fall as US import prices dip

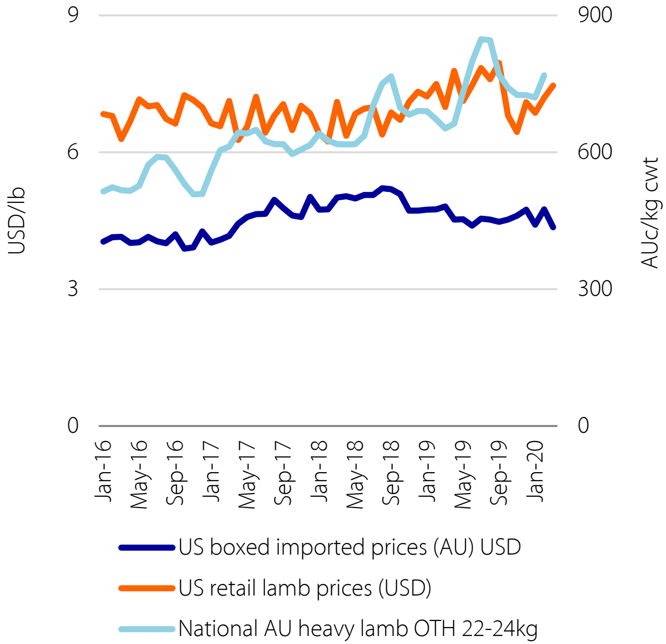
Rabobank

Eastern States Trade Lamb Indicator dips after reaching a new record



Source: MLA, Rabobank 2020

US lamb import prices for AU product dip despite retail prices increasing



Source: DA, Rabobank 2020

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Sugar

Prices slip as prospects improve

Global prices fell sharply through March, as the fallout from OPEC – and subsequent USD 30/bbl selloff in crude oil – drove the ICE #11 21% lower MOM. The close correlation between oil and sugar comes ahead of Brazil's incoming CS crushing season, where mills produce either sugar or ethanol. Low oil prices substantially reduce the incentives for ethanol output, encouraging a large swing from ethanol to sugar in Brazil's product mix this year – Rabobank forecasts a 45% sugar mix, up from 34.5% last year. While world sugar prices are set to remain subdued, pending movement in the oil markets, ongoing weakness in the AUD/USD rate should insulate prices in AUD terms. Rabobank forecasts prices to average AUD 470/tonne in Q2 2020.

Yield prospects remain strong for Australia's 2020 cane crop, with ample rainfall (600-800mm recorded YTD) across the region of Mackay, the Burdekin, and further north through the wet tropics. These conditions have promoted widespread cane growth, improving yield prospects for the incoming 2020 crush. Rabobank forecasts a stabilisation in area in 2020 and, assuming higher YOY cane yields, the 2020 cane crop is forecast at 31m tonnes - suggesting 4.2-4.3m tonnes in raw sugar production. However, weather risks remain ahead of the crush in June, such as a tropical cyclone or a flood event in North Queensland.

Covid-19 will marginally impact world sugar consumption in 2019/20, as countries severely hit by the virus observe a small erosion in demand. This is forecast to drive flat demand globally in 2019/20, instead of a 1% growth otherwise. That said, we believe losses in foodservice demand could be offset by an increase in retail and people eating more sugary and processed foods during hard economic times - more 'normal' demand growth should therefore return in 2020/21

What to watch

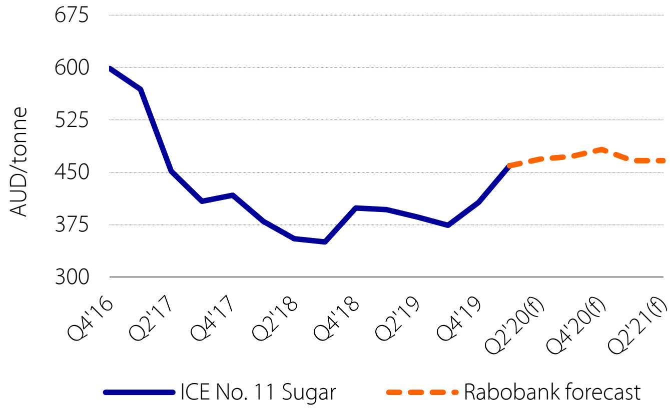
- ***Oil prices, and their subsequent impact on Brazilian ethanol, are the biggest short-term influence on sugar.*** A return by Russia and Saudi Arabia to the negotiating table could drive significant price upside, especially as we forecast a 6.7m-tonne sugar supply deficit in 2019/20.
- ***The impact of the Covid-19 pandemic is yet to be fully realised.*** While Rabobank expects some erosion to 2019/20 demand prospects, there could be future disruption to trade and shipping – logistical bottlenecks and delays in ports and borders are a real possibility.

Yield prospects remain strong for Australia's 2020 cane crop, following ample YTD rainfall

Rabobank

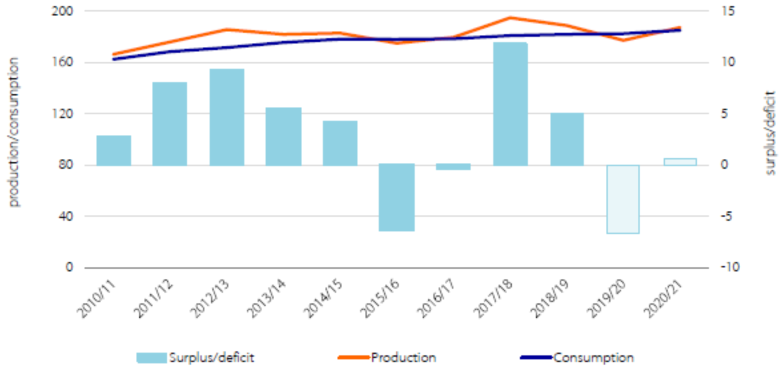
The fall in world markets is offset by AUD/USD weakness, keeping prices near 470 AUD/tonne

	unit	Q3'19	Q4'19	Q1'20(f)	Q2'20(f)	Q3'20(f)	Q4'20(f)	Q1'21(f)	Q2'21(f)
ICE #11	USc/lb	11.6	12.5	13.6	11.7	12.0	12.7	12.7	12.7
AUD/USD		0.69	0.68	0.65	0.55	0.56	0.58	0.60	0.60
Sugar	AUD/t	374	407	460	469	472	483	467	467



Source: Bloomberg, Rabobank 2020

Rabobank forecasts a 6.7m tonne 2019/20 global deficit and a small global surplus in 2020/21



Source: F.O Licht, Rabobank 2020

A small erosion in world consumption, primarily due to Covid-19, is forecast to drive flat demand globally in 2019/20, instead of a 1% growth otherwise.

Covid-19 clobbers demand

World cotton demand is set to dip sharply as a result of the Covid-19 pandemic – our early estimates suggest a 3% YOY fall in 2020, although we shouldn't rule out a similar demand fall of 11% YOY as recorded during the global financial crisis. This decline comes amid clothing retailers worldwide being forced to close amid national lockdowns, restricting textile sales and, in turn, cotton demand. Furthermore, a looming global recession will be secondary in limiting demand in the short-term. Historically, demand for Australian cotton has tended to remain strong as/when global demand falls (during the global financial crisis, for example). But new Southern-hemisphere competition from Brazil now makes Australia's position more vulnerable.

With these factors looming, the ICE #2 futures market has fallen 24% since early February to the lowest level since April 2009. AUD/USD weakness and strong basis have insulated this fall at home, where prices have dipped 9% over the same period. Looking ahead, Rabobank has cut its forecasts for both the ICE #2 and the AUD/USD, which translates into forecasts of AUD 550/bale in Q2 2020 before AUD 565/bale in late 2020. Basis is also set to reduce over the period, owing to improved 2020/21 production prospects locally.

Early Australian production prospects in 2020/21 suggest a 1.5m bale crop, assuming few changes to the current conditions across NSW and southern Queensland. However, further winter rainfall could sharply increase this figure ahead of spring plantings. Elsewhere in the world, the US is likely to cut 2020 acres by some 10% as crop margins diminish. However, production in both Brazil and India is unlikely to fall as weaker respective currencies buoy grower returns.

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Cotton

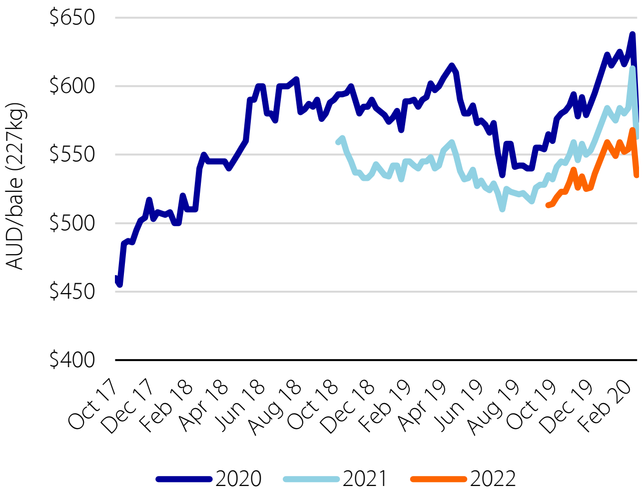
What to watch

- ***The impact of the Covid-19 pandemic is yet to be fully realised.*** While cotton demand will fall victim to the virus, there could be future disruption to trade and shipping - logistical bottlenecks, delays at ports and borders, and factory/mill closures are a real possibility.
- ***The AUD rate has been particularly important in insulating local prices against falls in global commodity markets.*** Future movement in the AUD/USD rate will likely have a large impact on grower returns.

World cotton demand is set to dip sharply as a result of the Covid-19 pandemic

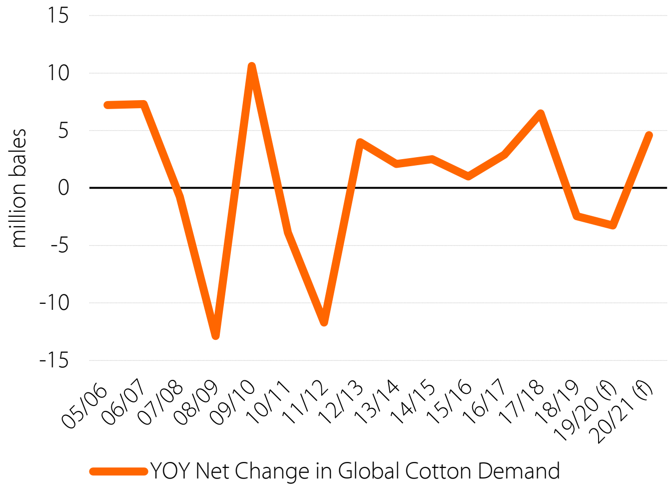
Rabobank

Domestic prices fall sharply in late February – Rabobank expects a recovery in coming months



Source: Bloomberg, Rabobank 2020

Global demand is set to contract 3% in 2019/20, although a larger contraction is very possible



Source: USDA, Rabobank 2020

Early Australian production prospects in 2020/21 suggest a 1.5m bale crop, but future winter rainfall could sharply improve this figure.

Wool rides through Covid-19 pandemic relatively unscathed

The wool market has been relatively constant for the past month, despite expected disruptions to supply chains with factory closures and logistics issues associated with Covid-19. Early reports of factory closures in China over the extended Lunar new year holiday suggested that there may be reduced Chinese buying activity through February. But more recently, Chinese buyers and top makers have once again been active at auctions, suggesting any disruptions may have passed. The EMI finished the month of February at AUc 1581/kg after commencing the month at AUc 1548/kg. Declining cotton prices and possible reductions in Chinese consumer sentiment are being balanced by the lower stocks after reduced Chinese imports in 2019 in our wool price modelling. ***When sales resume (expected week commencing 2 March), the market is expected to continue its steady trend.***

Wool test data for February show that 11% fewer bales were tested in February compared to 2019 with a 10.3% drop in greasy weight and a 2% drop in yield. Those figures bring the bales tested (1.15m) YTD down 6.1% and greasy weight (205,847 tonnes) down 5.7%. The expected offerings for the next couple of sales are expected to continue the down trend on previous years.

Export volumes for the month of December (21.9m kg) were 13% down on December 2018 volumes. Exports to China saw a large drop of 15%, while volume to India increased 28%. YTD (Dec) export volumes are down 15.4%. Chinese total wool imports finished the calendar year down 34% from 369,000 tonnes in 2018 to 275,000 tonnes in 2019.

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Wool

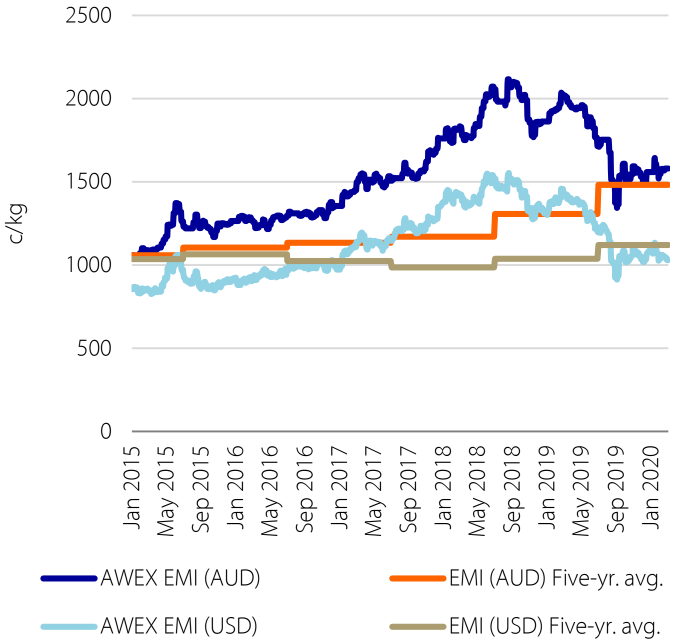
What to watch

- ***Australian currency*** – While it appears that the wool market has escaped major disruption as a result of Covid-19, there remains the broader economic impact and the possible influence on Australia's exchange rate. In a potentially positive outcome for the wool industry, the high exposure of Australia to China and the world market may see the Australian dollar weaken further against the US dollar.

Wool prices remain steady despite Covid-19

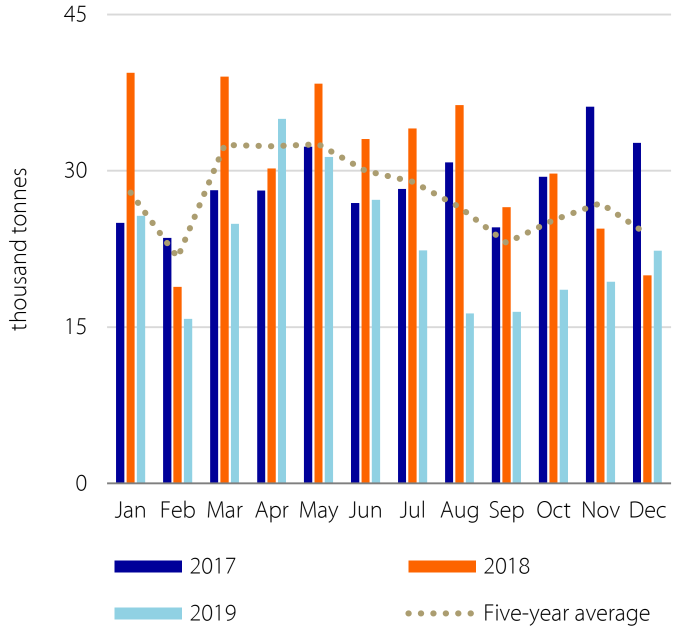
Rabobank

EMI still holding well at just above the five-year average



Source: Bloomberg, Rabobank 2020

Chinese total wool imports recovering from lows in 2019



Source: National Bureau of Statistics China, Rabobank 2020

Market disruption spreads

Exports to China will have slowed, but not by as much as some reports.

Rabobank expects that wine sales to China will have slowed significantly YOY. But we estimate that, based on ABS reporting, the value of wine exports to China lifted by around 72% YOY. Therefore, the total volume of exports to China was likely to also have risen, so sales across the period January to February 2020 will be down, but not by 90% (see chart on next slide). We do expect sales to China to continue to be subdued across Q2 and Q3 in 2020. Chinese consumers will need to emerge from the initial containment measures and regain confidence to return to foodservice channels. We also expect there will be a focus on reduction of inventory already in China, so it will be late Q3 or early Q4 2020 before we see a return to import demand from China.

As Covid-19 continues to spread across the globe, it is now creating significant issues in our other key export markets the UK and the US. While the level of foodservice sales in the US and the UK are not as high as in China, we are seeing on-premise sales shut down in those markets as well. There is to some degree an offset, with consumers purchasing more wine to consume at home, but there are layers to this style of purchasing. Consumers tend to spend more money on wine at on-premise locations, so these attract premium wines. When dining at home, unless it is a special occasion, consumers tend to drink less premium wine. With containment measures restricting home entertaining in the short term, the uplift in retail is likely to favour value wines over premium wines. Wineries and wine clubs are reporting increased sales, but there will be an element of stockpiling here, so the time period between orders is likely to extend and re-ordering will be sporadic.

For a broader overview of the global beverage market currently, listen to our podcast [Covid-19: How each region is dealing with the crisis.]

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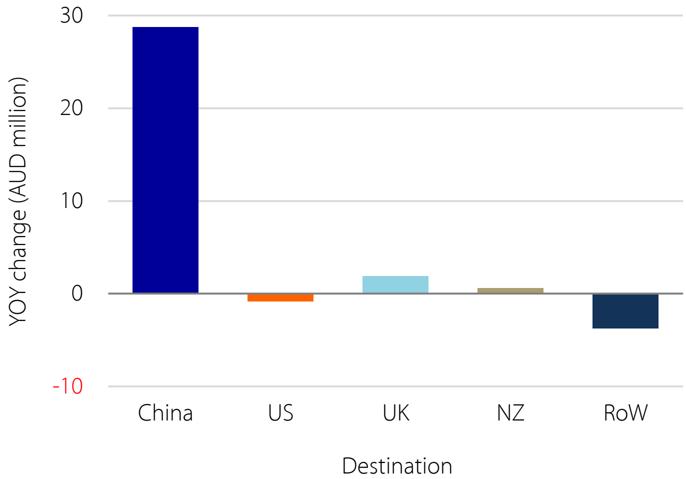
Wine

What to watch

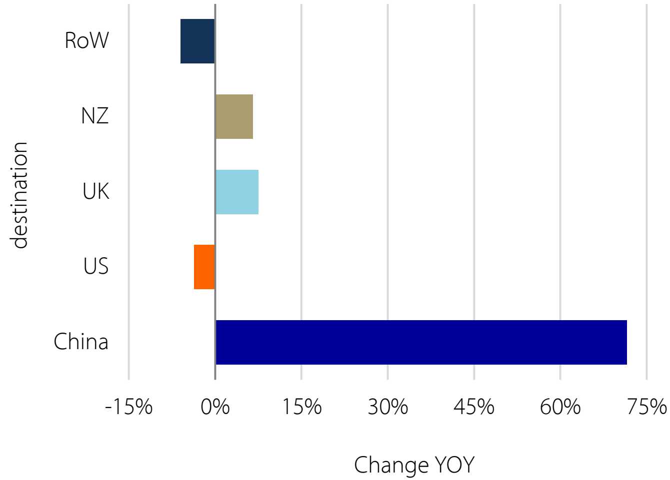
- ***Force majeure clauses –*** Covid-19 is now a significant issue in all of Australia's key wine export markets. Australia domestic sales will also be put under pressure from Covid-19. Participants across the supply chain should check (if they have not already) whether force majeure clauses exist within their off-take, supply, or other agreements.

Total exports to China down, but not out

Estimated Australian wine exports January 2020, value



Estimated Australian wine exports January 2020, value



Source: ABS, Rabobank 2020

Even in the event that there were no exports of wine to China during February 2020, the combined reduction in value for January and February would be around 24% YOY at most. This is still significant but not as material as some reports early in the Covid-19 crisis.

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Horticulture

Foodservice is the hardest channel

As containment measures continue to be implemented in response to the Covid-19 spread, those with exposure to foodservice channels face the most immediate impacts.

Covid-19 brings different challenges depending on the product group and markets. Those who are domestic-focused have, to date, been shielded from export markets where foodservice has been shut or is shutting down. But these players are more highly exposed to domestic factors and have no offset afforded to exporters, from a depreciating AUD, where markets have remained open and foodservice is not a factor. Forecasting direct impact by product group and channel is subjective. But we can look to shares into the foodservice channel to get a sense of what is at stake.

Historically in Australia, foodservice channels for fresh produce have proved to be resilient to economic downturns, but this will be different. Hort Innovations have just released data on fresh produce sales to foodservice, indicating in the year to June 2019 that wholesale value was around AUD 1.8bn or 17% of estimated total wholesale value (balance to retail). The impact of Australia's containment measures on foodservice channels will depend on the extent and duration of the shutdown. But we do not expect the downside impacts to be linear to the length of shutdown. There will be some offset via an expected rise in consumption from both retail sales, as consumers are restricted to home-cooking, combined with a rise in demand for food kit meals.

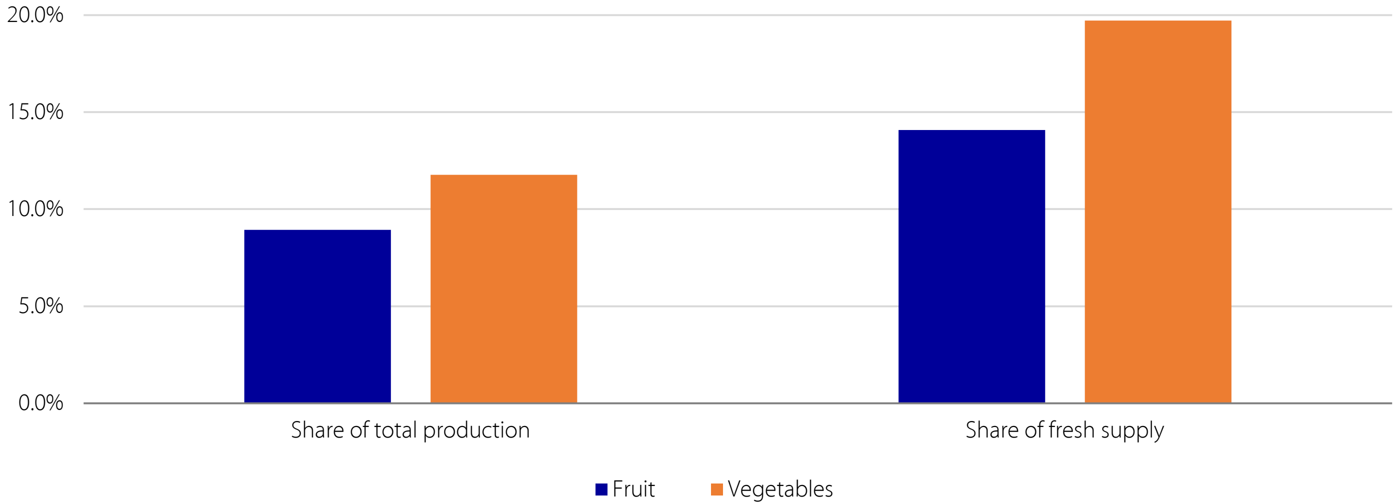
Turning to exports, in the absence of any Australian export data for February we look to New Zealand. February saw a 14% YOY rise by value for fruit and vegetable exports to China. This period is past the fresh cherry import window, showing demand was still in place in China for fresh produce at that time.

What to watch

- ***Force majeure clauses –*** Covid-19 is now a significant issue in many of Australia's horticulture export markets, and is also becoming more material at home. Whether in foodservice, retail or wholesale channels, sector participants across the supply chain should check (if they have not already) whether force majeure clauses exist within their agreements.

Covid-19: Fresh supply exposure to foodservice

Estimated Australian exposure to domestic foodservice (volume) 2018-19



Source: Hort Innovation, Rabobank 2020

When processing volumes are removed from total production, a clearer view of the share of exposure to fresh supply food service channels is observed.

Restrictions mount pressure on trade

Global input supply chains remain operational despite the growing pressure from Covid-19-related containment measures. To date, restrictions have led to a small number of production cuts and port closures. Given the importance of fertiliser to food production, we expect government restrictions on fertiliser production to be limited. However, the risk of greater interruption, either to production or logistics, remains high.

Global price benchmarks for both phosphate and urea peaked in mid-March, before retreating 8% and 6% (in USD terms) respectively. For urea, this was the highest price point since November 2018.

Phosphate prices moved higher in response to reduced production in China (China is the world's largest exporter of phosphates – 30% of which is produced in Hubei province). Phosphate production across China has now restarted. The further resumption of capacity overcoming weeks will reduce the climb in global prices, if not offset by production cuts elsewhere.

International urea prices have moved higher in response to a new Indian tender and increased procurement in Europe. Chinese production was disrupted by Covid-19 containment measures but 80% is back up and running.

Locally, prices have moved higher off the back of panic buying and a plummeting AUD. Local farmers can expect to pay more than they budgeted for fertiliser this season, due our expectations for a sustained lower AUD and the possibility of further global production cuts.

Covid-19 has caused disruption to agrochemical production and logistics in China. This has added burden to the supply chain, which was already under pressure due to a large decrease in Chinese production during 2018 and 2019. This has added an estimated three- to five-week delay on stock coming into Australia. The feedback we are receiving is that Chinese production has restarted and logistics chains are starting to move supply out of China, which will help to assist address shortages.

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Farm Inputs

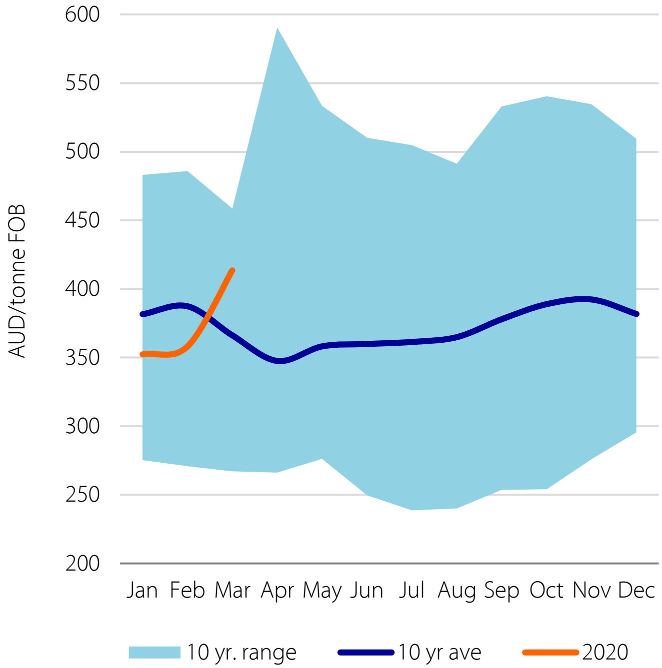
What to Watch

- ***Currency*** – A depreciating currency can have a significant impact on local prices. From February to March, the AUD fell 10 cents against the USD, an increase of ~AUD 70/tonne of DAP. We expect weakness in the local currency to be sustained, averaging below USc 60 for the next 12 months.
- ***Availability of inputs – Farmers*** should be in regular communication with (1) their suppliers about availability and (2) their agronomists about plan B and plan C should inputs (agrochemical and fertiliser) not arrive in time.

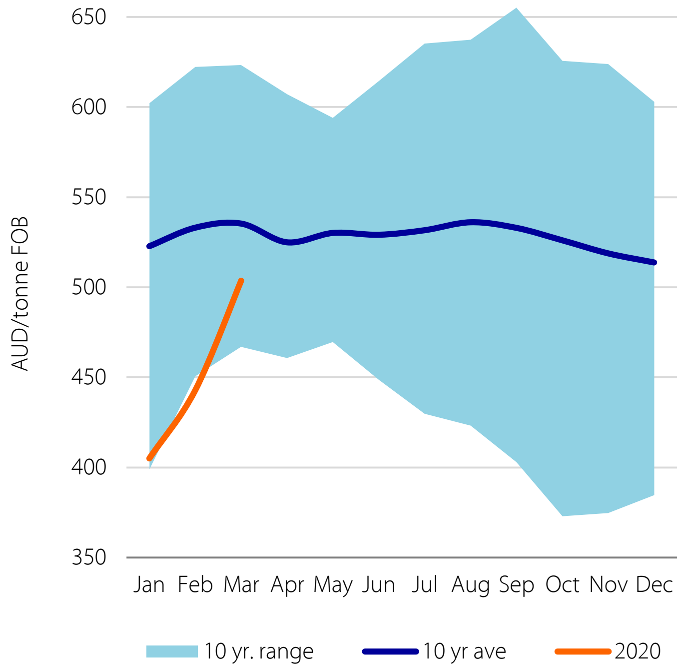
Currency weakness accelerated price rise

Rabobank

AUD-adjusted FOB global fertiliser prices, Urea ex. Middle East (left) & DAP ex. US Gulf (right)



Source: Bloomberg, Rabobank 2020



Source: Bloomberg, Rabobank 2020

Rates & FX

The AUD has shed 11% of its value, more to come

We expect the AUD to trough as low as USc 55 in June before a partial recovery in 2H.

As anticipated, the AUD was hammered as Covid-19 became a global pandemic. The AUD lost almost 4 cents against the USD in March, closing the month at 61.7 cents. It is now 11% lower than pre-crisis levels.

The Australian dollar is being traded as a proxy for Chinese economic prospects and global risk. Both worsened significantly during March. By the end of the month, billions of people were in lockdown, with non-essential industries grinding to a halt in many countries. The IMF warned that the economic fallout in 2020 would be at least as bad as during the Global Financial Crisis.

Central banks cut rates on both sides of the Pacific as the virus spread. The US Fed cut its rates by 50bps on 3 March then by 100bps in mid-March – effectively lowering it to zero – and announced quantitative easing. The Reserve Bank of Australia announced two rate cuts of 25bps during the same month – reducing the OCR to 25 bps – and also commenced quantitative easing.

The fate of the AUD will be heavily influenced by the direction of the virus from here. We are factoring in at least three months of lockdown in much of the global economy, which will likely push the AUD down to around 55 cents by June. The AUD may pick up somewhat in 2H as economies start to splutter back to life, but we look for it to only reach USD 60 cents in 12 months time.

What to watch

- ***The value of the AUD versus those of key importers and competing exporters.*** Most Australian farmers will welcome a falling AUD/USD rate, as it improves the local currency translation of any prevailing world price. Just as important, the AUD is down almost as far on a Trade Weighted Index basis, helping to ensure our buyers can afford our products. And, in the third leg of the trifecta, the AUD is also lower against most competing agri exporters – helping to keep us competitive in world markets.

Covid-19's silver lining for Australian exporters

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020

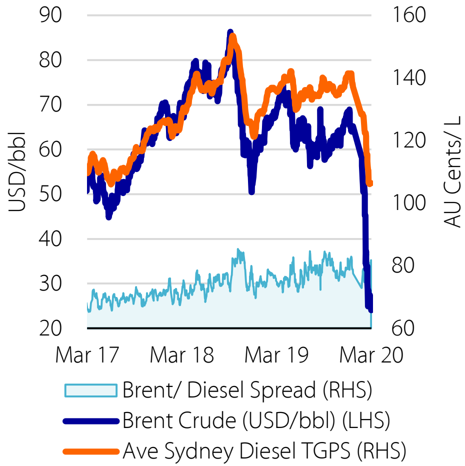
Price pressure here to stay

While we expect demand to stay at historic lows, prices could take two trajectories in coming months, depending on how the current price war plays out. Given low demand, in either scenario we expect the oil market to remain under pressure.

The downward spiral in oil prices started in early march. Russia's unwillingness to participate in deeper supply cuts resulted in the OPEC+ alliance breaking down. As a result, Saudi Arabia promised to increase supply from 9.7mb/d to 12.3mb/d, beginning in April. At the time of writing, there had been no meaningful supply increase from Saudi Arabia to date, or any other suppliers.

Our base case is for the price war to end in the not too distant future given the political pressure building on Saudi Arabia and the poor optics of destabilising markets during a global pandemic. If the price war persists though, then the price outlook is far worse and all bets are off as to how low crude oil can go.

Brent Crude Oil & Average Sydney Diesel Mar 2017- Mar 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, Mar 2017-Mar 2020

Source: Bloomberg, Rabobank 2020

Agri Price Dashboard

As of 30/03/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	571	529	458
CBOT soybean	USc/bushel	▼	882	884	884
CBOT corn	USc/bushel	▼	346	367	357
Australian ASX EC Wheat	AUD/tonne	▲	350	321	326
Non-GM Canola Newcastle	AUD/tonne	▼	640.8	641.7	593
Feed Barley F1 Geelong	AUD/tonne	▲	304	282	345
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	704	718	494
Feeder Steer	AUc/kg lwt	▼	375	383	280
North Island Bull 300kg	NZc/kg cwt	▲	495	470	495
South Island Bull 300kg	NZc/kg cwt	•	465	465	470
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	910	933	683
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	700	690	705
South Island Lamb 17.5kg YX	NZc/kg cwt	•	680	680	670
Venison markets					
North Island Stag	NZc/kg cwt	▼	700	780	920
South Island Stag	NZc/kg cwt	▼	700	780	915
Dairy Markets					
Butter	USD/tonne FOB	▲	4,325	4,088	5,200
Skim Milk Powder	USD/tonne FOB	▼	2,738	3,025	2,475
Whole Milk Powder	USD/tonne FOB	▼	2,800	2,975	3,338
Cheddar	USD/tonne FOB	▼	4,438	4,550	4,088

Agri Price Dashboard

As of 30/03/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	62.8	71.4	85
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	51.3	61.6	78
Sugar markets					
ICE Sugar No.11	USc/lb	▼	11.1	14.5	12.53
ICE Sugar No.11 (AUD)	AUD/tonne	▼	398	478	432
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,442	1,581	1,947
Fertiliser					
Urea	USD/tonne FOB	▲	262	245	237
DAP	USD/tonne FOB	▼	310	312	383
Other					
Baltic Dry Index	1000=1985	▲	556	535	689
Brent Crude Oil	USD/bbl	▼	24	51	68
Economics/currency					
AUD	vs. USD	▼	0.61	0.65	0.71
NZD	vs. USD	▼	0.60	0.62	0.68
RBA Official Cash Rate (03/03/2020)	%	▼	0.25	0.75	1.50
NZRB Official Cash Rate	%	▼	0.25	1.00	1.75

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