Agribusiness Monthly & Covid-19 Update May 2020

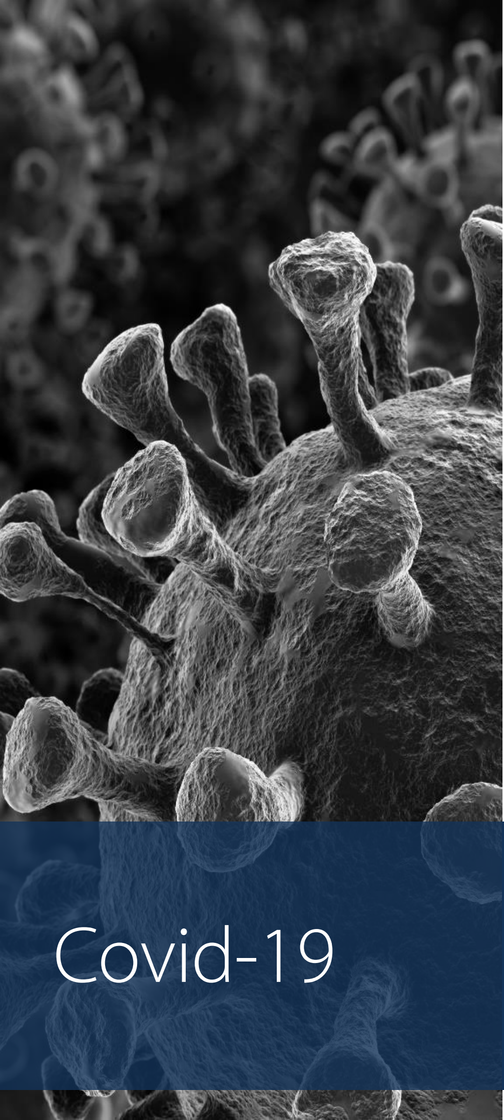
Australia

RaboResearch Food & Agribusiness 7 May 2020

Rabobank

Commodity outlook

 Covid-19	A tough month lies ahead, as panic buying passes and income effects come to the fore.
 Grain & Oilseeds	Lower corn prices will weigh on CBOT wheat. This, together with generally sound global wheat production prospects, has prompted us to revise our 12-month CBOT wheat price range to USc 525 to USc 534/bu.
 Dairy	Rabobank is forecasting a Southern Export Milk Price of AUD 5.70/kgMS in the 2020/21 season.
 Beef	Prices are levelling out after correcting from market highs.
 Sheepmeat	Prices to lift slightly as we head into winter and supplies become more limited.
 Sugar	Brazilian output is set to mount price pressure throughout the local crush.
 Cotton	Cotton faces a challenging outlook as spinning mills feel the squeeze.
 Wool	Dramatic drops in clothing apparel sales mean wool prices drift lower.
 Wine	Rabobank expects a rise in inventory in the US and Europe to create a more competitive landscape across 2020.
 Horticulture	Rabobank expects risks remain for export volumes and prices across the balance of 2020.
 Farm Inputs	We expect global price benchmarks for fertiliser will continue to remain at historically low levels (USD terms) for at least the three months ahead.
 FX	We expect the AUD to fall to USc 60 within three months and stay thereabouts through Q3 2020.
 Oil	Our expectation is that Brent crude oil will trade at USD 31.25/bbl at the end of June, before climbing to USD 43/bbl at year end.



Lockdowns have sapped the world economy

While China has gotten well, much of the rest of the world remains ill. At global level, reported daily new infection rates have stabilised since the start of April, but not yet fallen below the range of 70,000 to 80,000 cases per day.

Some countries are relaxing restrictions, but much of the world is under lockdown. and some key regions may yet have the worst ahead of them.

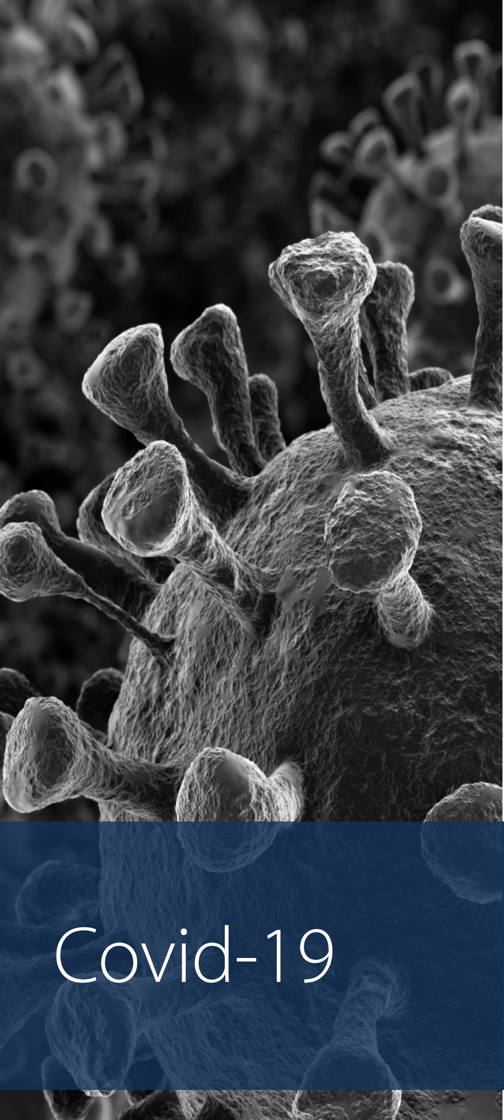
The economic damage from lockdowns is becoming evident. Recent data releases have made for alarming reading:

- The Chinese, US, and EU economies shrank by 6.8%, 4.8%, and 3.8%, respectively, in Q1. For the latter two, Q2 will be far worse.
- 30 million US workers filed for unemployment benefits in the last six weeks.
- US retail sales fell 9% in March in seasonally adjusted MOM terms.
- South Korean exports (a bellwether for global trade) fell 24% YOY in the first three weeks of April.

Rabobank now forecasts a severe global recession and slow recovery. We anticipate that the world economy will contract 2.6% YOY in 2020, with every market that Australian F&A producers service effectively in recession in 1H. While Q2 2020 will likely be the low point, as lockdowns ease from thereon, the recovery is likely to be slow. Besides China, India, and South Korea, economic growth in 2021is likely to prove insufficient in most key economies to offset the declines of 2020.

What to watch

- ***Will infection rates rise as lockdowns ease?*** China, so far, seems to have achieved an easing of restrictions on people's movements without waves of reinfection. But Singapore shows that initial stabilisation of infection rates can revert to sharp rises. Our forecasts assume that the world is able to transition out of lockdown without significant reinfections. The economic recovery will be weaker and delayed if that isn't the case.



F&A demand has taken a hit, sending USD commodity prices down

The Chinese market is improving each month, but remains extremely poor by the prior year's standards. Most foodservice outlets are now open, but sales are constrained by social distance rules imposed by either regulators, operators or citizens themselves. Yum! Brands, China's preeminent food service operator, reported that same-store sales were still down 10% below prior-year levels in late April, Starbucks, also with a large footprint in China, expects a 25%-35% YOY sales contraction this quarter.

Sales in other offshore markets were boosted by pantry stocking in March. In the US, expenditure on all food fell just 0.6% in March MOM, as a 27% decline in spending on eating out was offset by a 26% rise in retail sales.

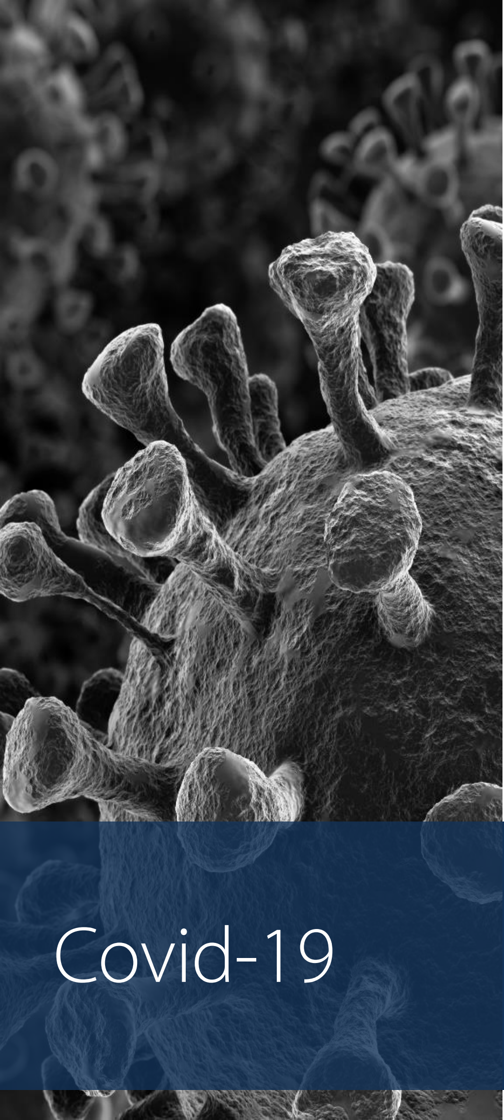
But the support from pantry stocking had passed by mid-April, leaving producers exposed to the full extent of foodservice declines. Processors in many markets have also struggled to reorient from the depressed foodservice channel to busy retail sales, due to limitations of factories, labelling, or distribution.

As demand has softened, USD commodity prices in offshore markets have fallen significantly in the last month. USD commodity prices of key agriculture products have now fallen 10% to 30% since the crisis started. Sugar has been hardest hit, with the impact of weaker demand exacerbated by falling oil prices, increasing the amount of cane that will be diverted from ethanol to sugar in Brazil this year. Wool and cotton have also been hit hard, with declining clothing sales (off 55% YOY in US stores in March) taking their toll.

The AUD has rallied in the last month, exacerbating offshore price declines in local currency terms.

What to watch

- ***A Chinese consumer boycott.*** In late April, China's ambassador to Australia warned that consumers in his home country may boycott Australian products (specifically calling out beef and wine) if the Australian government continued to push for an independent inquiry into the origins of Covid-19. South Korean companies can attest to the heavy impact of such a boycott. Following the South Korean decision to build an anti-missile defence system in 2017, South Korean companies saw a slump in sales of cars, cosmetics, and TV shows and a precipitous drop in traffic at South Korean supermarket chains in China.



Domestic market conditions have been much better

Pantry stocking brought a Covid-19-induced surge in retail food sales in March and April. Coles and Woolworths both reported exceptional food sales growth in Q1. Woolworths reported 11.1% and 13.7% growth in food sales for the quarter in Australia and New Zealand, respectively.

But the boost from pantry stocking has now past and will be reversed at some stage. Coles and Woolworths both reported that trading conditions had started to return to 'a new normal' by late April and specifically mentioned quieter trading periods over the Easter and ANZAC periods.

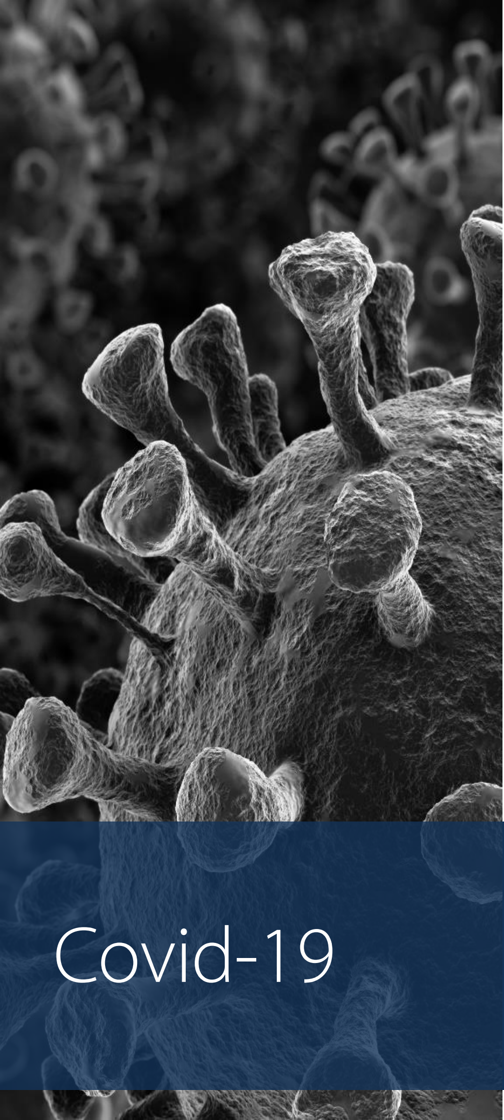
The industry has largely managed to keep farm input supply lines open.

Meanwhile, downstream processing and distribution have continued to operate largely uninterrupted. Notwithstanding some exceptions, between temporary workers, backpackers (who were granted visa extensions), and people returning to rural areas from the city, labour has largely been available for picking crops, keeping packing and processing factories running and trucks moving. So far, the outbreak of infection at a meat processing plant in Victoria in early May has been the only significant disruption.

The experience of the US meat processing industry is a salient reminder of what can occur if the virus is not well managed. Delayed and less stringent government restrictions on people's movements have led to higher rates of infection in regional areas in the US. As of early May, the US pork and beef processing industries were operating at less than 75% of capacity due to plant closures, factory spacing, and labour shortages. This has depressed livestock prices for farmers and sent retail prices soaring.

What to watch

- ***Australia's reputation as a reliable supplier of food and fibre***. Since the crisis started, a range of offshore F&A industries have suffered severe processing closures (USA), struggled to get product out of ports (Brazil and Argentina), and threatened to (or actually have) restrict exports of food to offshore customers. To date, Australia has been a model of how to navigate a crisis, keeping plants open, supply chains running, and product exported to offshore buyers as required. The industry has kept food on the tables for Australians, retained jobs for employees, and earned valuable export dollars. The industry has every chance of emerging from this crisis with its reputation enhanced both at home and abroad.



It's early days, but Australian farmers will likely weather this storm

We are still in the early stages of the Covid-19 market journey. Lockdowns will start to ease in many countries in coming months, but that will likely be a gradual process. And while people will be more able to move about, we will start to see the income effect of lower pay, reduced working hours, and high unemployment hit food and beverage sales.

But Rabobank expects the AUD to fall again in coming months, providing some offset to falling offshore prices. The recent rally in the AUD has been driven by a wave of optimism over the prospects for the global economy that we feel is overdone. We expect the AUD to shift lower as expectations are reset following economic data releases through May and June.

In some cases, Australian producers are benefiting from missteps offshore. Many competing regions have seen shortages of picking labour, plant disruptions, port bottlenecks, and export restrictions – all of which have kept markets, like wheat and beef, tighter than otherwise might have been the case.

Local farmgate prices will also be supported by low local grain stocks and low flock and herd numbers after several years of drought. This will ensure strong competition for product in the local market.

Importantly, most regions also look set to see a significant improvement in seasonal conditions for 2020/21, compared to the prior year. This increases the likelihood that Australian farmers will enjoy a far better production year and reduced per unit costs of that production, helping to ease the challenge of lower commodity pricing.

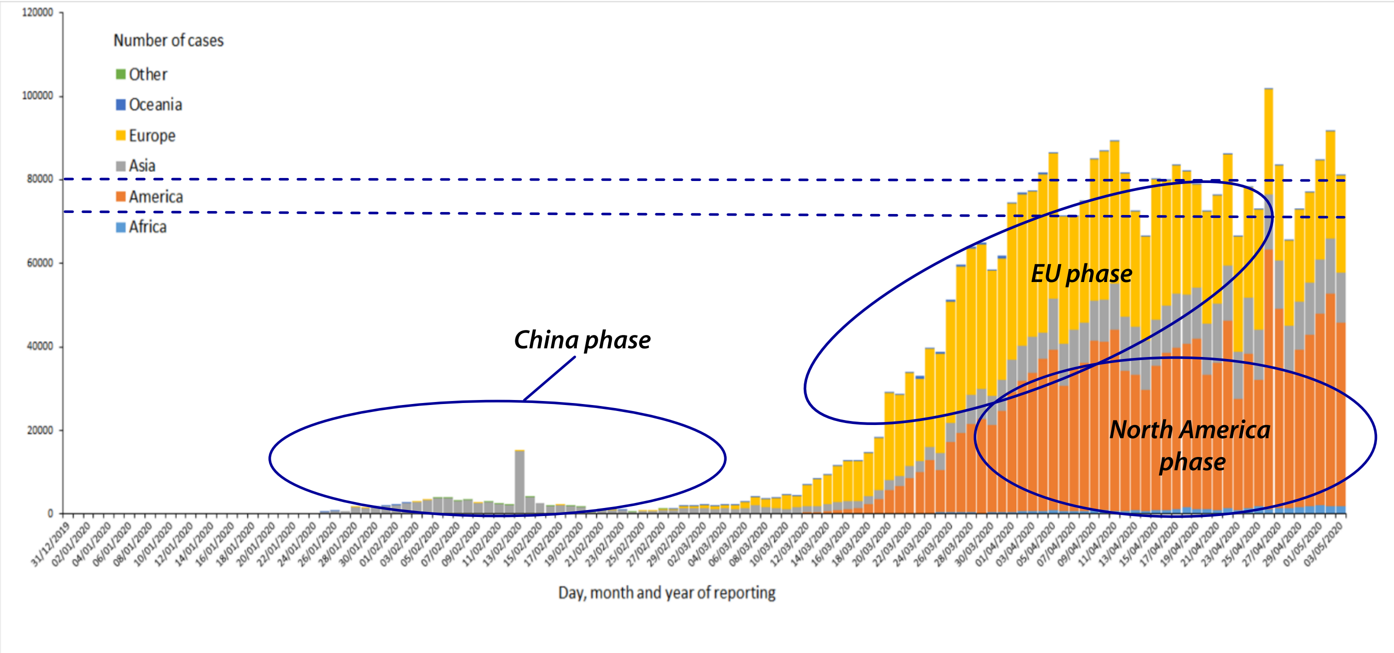
What to watch

- While we continue to watch for ***supply chain disruption***, we consider it likely that Australian supply chains will hold up though this crisis, ensuring farmers have access to crucial inputs as well as downstream markets. Outside of some regional shortages, farmers have been able to access sufficient herbicides and fertiliser to be confident in planting and managing the winter crop. Downstream supply chains remain harder and more costly than usual to navigate, but very much operational.

Global infection rate stabilising, but not falling

Rabobank

Reported daily new cases of Covid-19 by continent

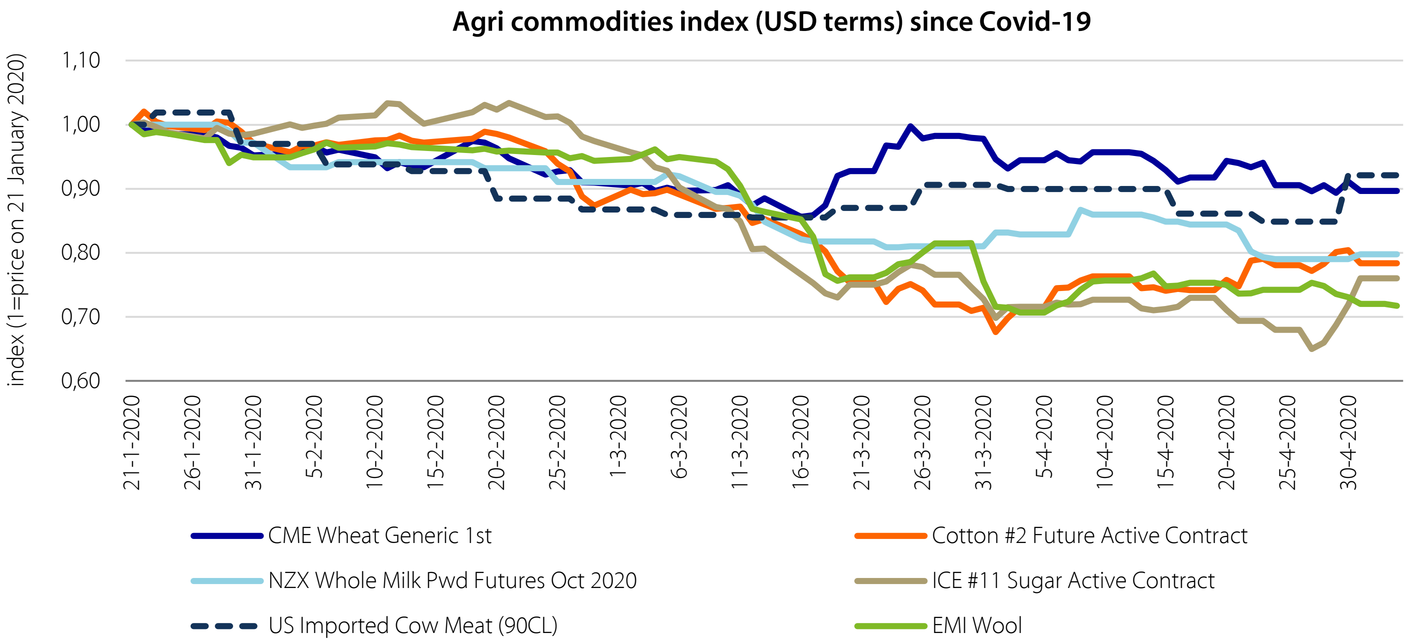


Source: European Centre for Disease Prevention and Control, 4 May 2020

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

Rabobank

Index of various USD agri commodity prices since 21 January 2020



Source: Bloomberg, Rabobank 2020

The Chinese market continues to improve each month but remains well below prior year

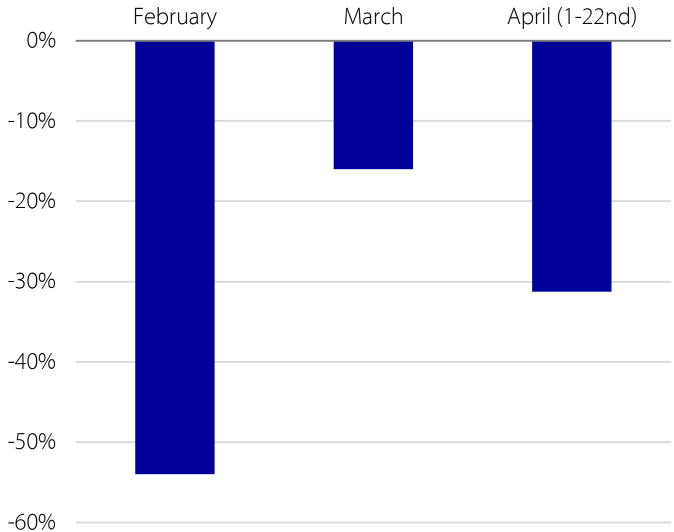
Rabobank

More foodservice stores are reopening, and the contraction of sales is diminishing. But a 10% YOY decline in late April is still a huge problem.

Yum China	*30 Jan*	*Mid-Feb*	*23 Mar*	*28 Apr*
Stores closed	30%	35%	5%	1%
Same store sales YOY	-40% to -50%		-20%	-10%*

Source: Company statements
** Month to date*

The YOY decline in NZ meat shipments to China has shown only partial improvement (though processing restrictions also play a role)

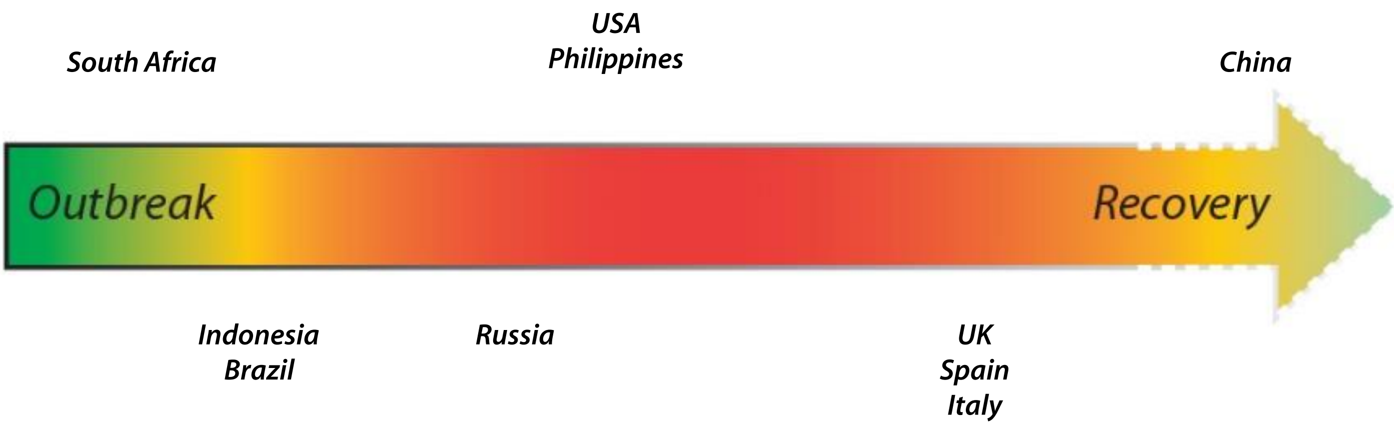


Source: Statistics NZ, Rabobank
**NZ data is released ahead of Australian data, and is a good reference for red meat markets as NZ supply is less constrained than Australian supply at present*

Countries are at very different stages of the Covid-19 journey

Rabobank

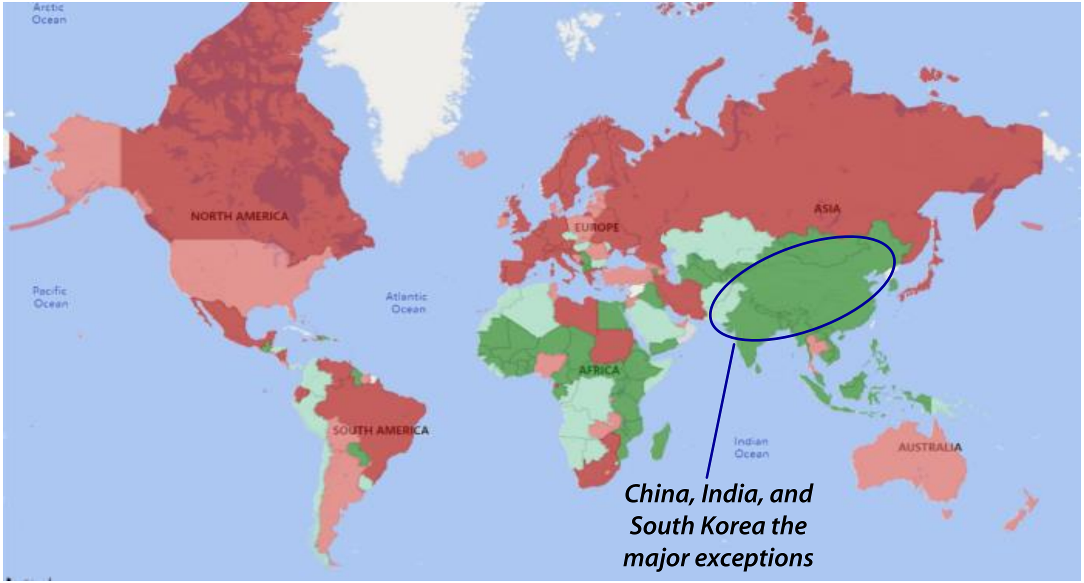
Unilever depiction of consumer market status as of late April



Source: Unilever earnings presentation, 23 April 2020, Rabobank reformatting

For most economies, the 2021 recovery will be insufficient to offset the 2020 fall

Net two-year GDP growth 2020 and 2021 (IMF forecasts)



Legend

Net two-year growth (2020 and 2021)

	Above 2%
	0 to +2%
	Flat
	0 to -2%
	Below -2%

Source: IMF projections 9 April 2020, Rabobank analysis

Positive signs for a wet winter and spring

Rabobank

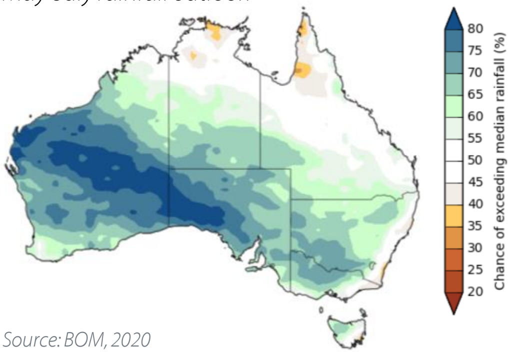
Conditions in both the Indian and Pacific oceans increasingly favour above-average rainfall this winter and spring.

The Bureau of Meteorology's (BOM) six-month outlook for the El Niño–Southern Oscillation (ENSO) is that neutral conditions will persist over winter, before moving toward La Niña during spring. While BOM rates the chance of La Niña less than 50%, it will bring optimism for farmers, who will be looking for a wet spring to fill grain heads and bulk up pasture ahead of the harvest and the summer.

The Indian Ocean Dipole (IOD) is currently neutral. While BOM expects a negative IOD to form during the winter, the IOD forecasting accuracy is low at this time of the year. A negative IOD may bring above-average winter/spring rainfall to southern Australia.

High chance of exceeding median rainfall in the west

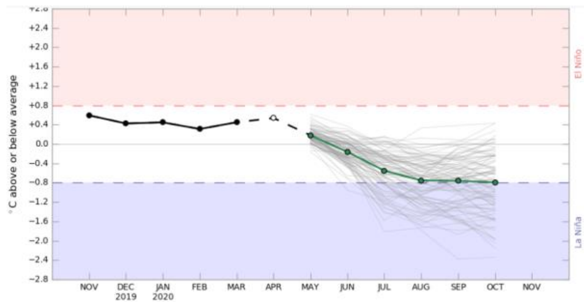
May-July rainfall outlook



Source: BOM, 2020

Increased likelihood of La Niña during spring

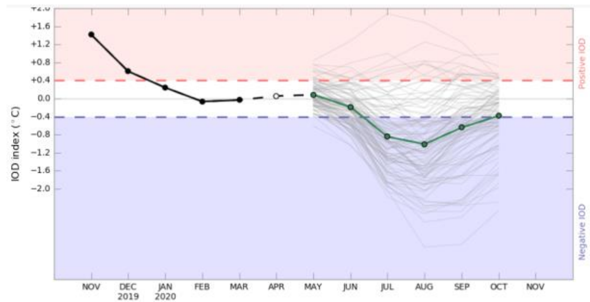
Monthly sea surface temperature anomalies for central Pacific Ocean



Source: BOM, 2020

Negative IOD may form during winter

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM, 2020

Reversal of fortunes

Compared to recent years, rainfall fortunes have been reversed for farmers in the eastern states, who are now planting winter crops in above-average to very much above-average soil moisture. ***In contrast, farmers in Western Australia are now planting crops in below-average to very much below-average soil moisture.***

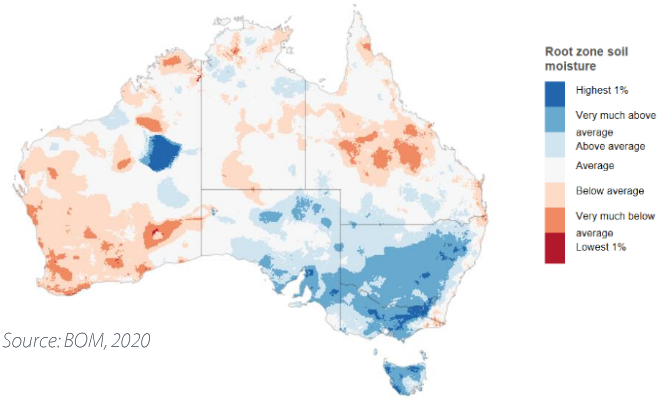
Rainfall again persisted during April in most drought-affected regions. Dubbo recorded another 106mm last month, to take the yearly total to 369mm.

While three-month rainfall is about average across the WA wheat belt, much of that rain fell in February. Soil moisture has now dried up considerably.

Last month, maximum temperatures were above-average to very much above-average in WA, NT, and QLD and average to below-average in southeastern states.

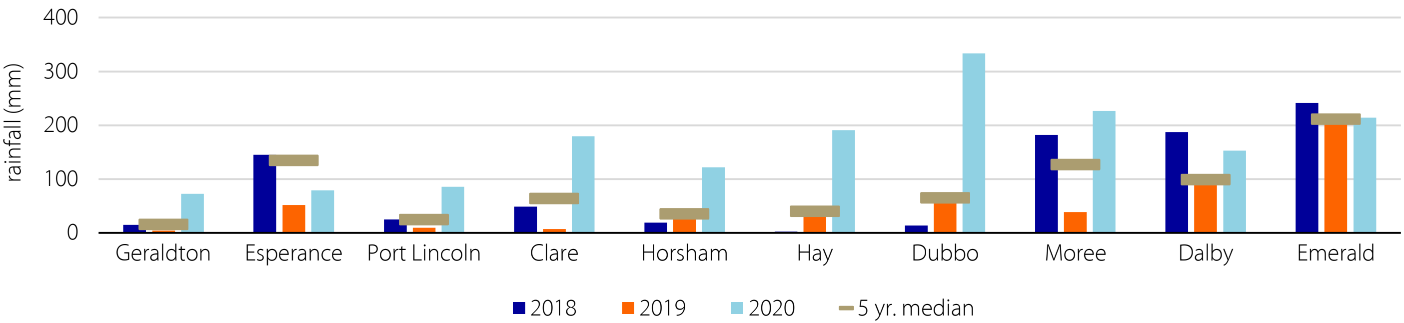
Soil moisture is below average in WA

Relative root-zone soil moisture, May 2020



Source: BOM, 2020

February-April recorded rainfall, 2020



Source: BOM, 2020

Wheat immunity wanes

Global wheat prices fell nearly 7% during April as frenzied buying slowed and the weight of evaporated US corn demand spilled into the wheat market. The relative immunity afforded to food staples in a risk-off world is bearing out, with wheat prices still up 26% YOY and only down 5% from the top of the year. Firming global production outlooks and the softening of post-stockpiling demand have, however, prompted us to lower our CBOT wheat forecast.

CBOT corn was under pressure in April, as US demand continued to disappear, and it ended the month down almost 20% year to date. A swathe of US ethanol producers cut or suspended production, due to negative ethanol margins brought on by record-low oil prices, and a significant proportion of US beef and hog processing capacity is suspended due to Covid-19, which has resulted in mass livestock slaughtering and reduced demand for feed corn. On top of these factors, the prospects of Covid-19-induced lower import demand from Southeast Asia, strong competition from South America, and expectations for increased year-on-year US corn planting are adding to our ***downgrade of CBOT corn from a USc 360 to USc 375/bu range over the coming 12 months to USc 328 to USc 345/bu.***

Lower corn prices will weigh on CBOT wheat. That, together with generally sound global wheat production prospects, has prompted us to ***revise our 12-month CBOT wheat price range to USc 525 to USc 534/bu.*** This is a 6% downgrade from last month, but still sees prices trading 4% up YOY over the year ahead. The bleak corn price outlook also presents an additional bearish factor in an already bearish barley market outlook.

The immunity afforded to local wheat prices by a significantly softer AUD during the earlier stages of the Covid-19 global upheaval has also weakened. APW prices have fallen 3% to 4% since mid-April, as the AUD moved above USc 63 and then beyond USc 65. Rabobank expects the AUD will move back towards USc 60 and see out the year around this level. This doesn't deliver the immunity that a previously forecast USc 55 Australian dollar would have, but supports our revised outlook for APW to trade between AUD 320/tonne (ADL) and AUD 385/tonne (BNE) .

The arrival of the best season-opening rains of several years during April, supported by incoming soil moisture and widespread planting activity, has lowered new crop price expectations, especially for barley. Notwithstanding this favourable start in many regions, large parts of Western Australia remain dry and without near-term rainfall prospects, and Queensland cropping regions have favourable sub-soil moisture but are in need of rain to enable planting.

Cheryl Kalisch Gordon
Senior Analyst
Grains & Oilseeds

+61 2 6363 5900
cheryl.kalisch-gordon@rabobank.com

Grains & Oilseeds

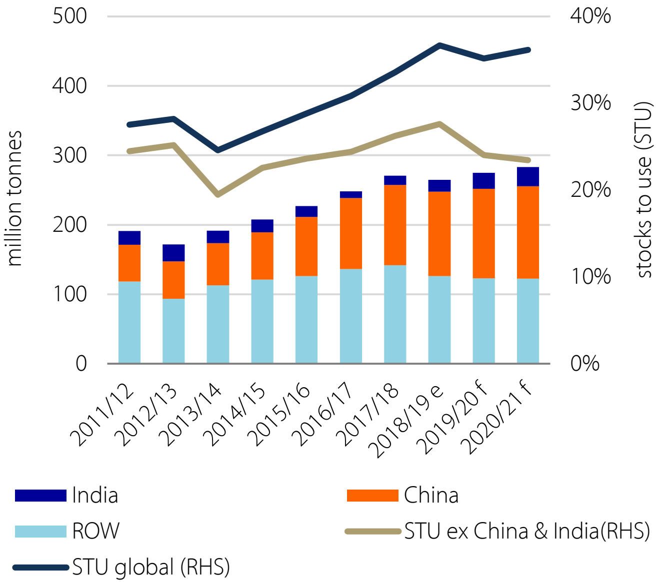
What to Watch

- ***Canola demand*** – Enhanced demand for home cooking oils is lifting local and global demand for Australian canola oil. Playing against this demand lift is the challenging outlook for EU demand for Australian canola – biodiesel margins have been crushed by lower oil prices.
- ***Winter crop outlook–*** Industry estimates for Australia's 2020/21 wheat production currently range from 23 million tonnes through to 28 million tonnes – anywhere between the ten-year average and approaching 20% above the ten-year average. Rabobank's Winter Crop Outlook, with our forecasts for 2020/21 production and the hectares planted by crop type and region, will be released on ***1 June 2020***.

Wheat fundamentals undermined by corn

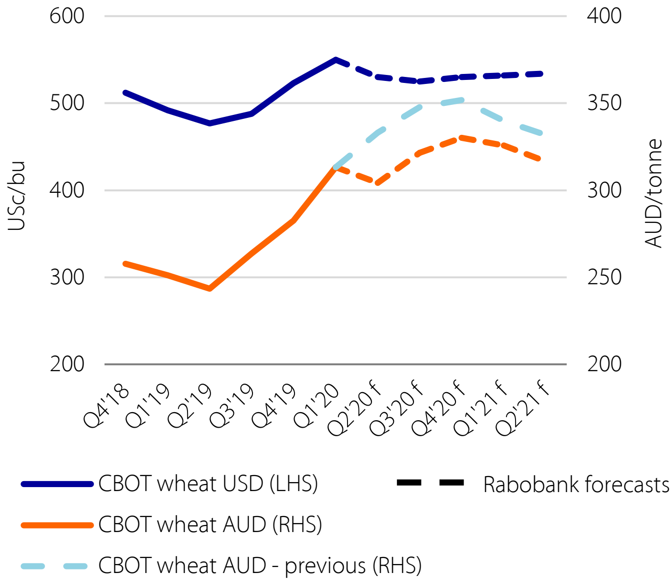
Rabobank

Flat to declining stocks outlook outside of China and India supports higher wheat prices in 2020/21



Source: IGC, Rabobank 2020

Corn and softening of post-stockpiling demand weigh CBOT wheat down, but AUD outlook to keep Aussie wheat supported



Source: Bloomberg, Rabobank 2020

Dairy

Lower milk prices on the cards in 2020/21

Australia's milk production recovery gained pace in March. National milk production was 7.1% higher for the month. This brings milk production growth for the first quarter of 2020 to 3.4%. The recovery is being led by Eastern Victoria and Tasmania, where there has been double-digit growth. Improving seasonal conditions and record-high milk prices continue to support the recovery across these southern production regions.

Global dairy market fundamentals continue to worsen, led by sizeable imbalances emerging in the Northern Hemisphere. Milk supply growth has continued to gather pace across much of the export engine in the first quarter of 2020. All eyes are on the milk flows in the Northern Hemisphere export regions ahead of their upcoming seasonal peaks. Most recent monthly data for both Europe and the United States has come in above expectations. ***Meanwhile, foodservice channels remain shutdown in many major dairy markets, leading to an aggregate drop in dairy consumption.***

Rabobank has forecast an annual average Southern Export Milk Price of AUD 5.70/kgMS for the 2020/21 season. This is based on Rabobank's most current annual commodity price forecasts (in USD terms) for the upcoming season and a currency assumption of AUD 0.57. It excludes retention and recruitment premiums, which will be a prominent feature again next season.

There is still cause for optimism for the sector. While Rabobank's milk price forecast is a decline from pricing in the current season, a favourable outlook for seasonal conditions, good livestock trading conditions, and lower feed costs will support farmgate margins.

Australia's local dairy market is providing a safety net. There has been a spike in retail sales of dairy products in the first quarter of 2020. However, retailers have advised that consumer behaviour returned to more normal levels by the Easter trading period. Australia is heading towards its first recession in a long time, and this will have the impact of slowing down discretionary dairy purchasing to a degree.

What to watch

- ***The Australian dollar rollercoaster.*** In recent weeks, the Australian dollar has bounced back from recent lows. This is not what dairy exporters want to see. Nonetheless, Rabobank expects the currency to be vulnerable to further falls in the coming months. A silver lining for export returns is that the currency will likely be much lower than what it was the last time we saw similar commodity pricing cycles in USD terms.

Michael Harvey
Senior Analyst
Dairy

+61 3 9940 8407
michael.harvey@rabobank.com

Milk production growth gaining pace

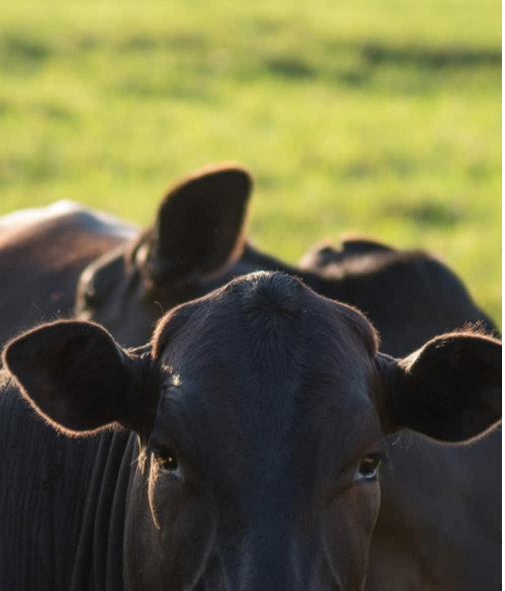
Global dairy prices, 2014-2020

Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	Last three months
EU	1.3% (Feb 20)*	1.4%*
US	2.2% (Mar 20)	1.8%*
Australia	7.1% (Mar 20)	3.8%*
NZ	-0.6%* (2019/20 season to March 2020)*	

Source: Rabobank 2020
** February data is adjusted for leap year*



Prices level out after correcting from highs

The reporting of the EYCI is temporarily suspended, due to Covid-19 restrictions. Over-the-hooks prices for trade steers (240kg to 260kg cwt) dropped from AUc 556.29/kg at the beginning of April, to AUc 531.68/kg, before rising to AUc 532.71/kg. The spike in demand in late March resulting from panic buying in domestic retail stores pushed prices higher, but supply chains have now recovered. The closure of restaurants and disruptions in global markets have subsequently placed downward pressure on beef prices. ***The recent lift in cattle prices – despite a difficult trading environment – gives an indication that the limited cattle supplies are balancing some of the uncertainty and disruption caused by Covid-19, and we expect prices to be more stable through May.***

Eastern states' weekly cattle slaughter figures lifted after slower weeks around the Easter break. Slaughter volumes for the last four weeks of April were down 2% YOY, and year-to-date slaughter is down 8% on 2019 volumes. Monthly national slaughter volumes for February were down 8% YOY.

Total March beef exports were down 8% YOY. Although, with a large reduction in slaughter, this drop is interpreted more as a reflection of reduced supply than of Covid-19 impacts. However, a redistribution among markets is more a reflection of Covid-19 impacts. Exports to China and South Korea were down 11% and 12%, respectively, while volumes to the US were down 29% YOY. On the other hand, exports to Japan were up 16%. Live cattle exports for March were down 16%, with volumes to Indonesia down 41%, while volumes to Vietnam were up 66%.

Angus Gidley-Baird
Senior Analyst
Animal Protein

+61 2 8115 4058
angus.gidley-baird@rabobank.com

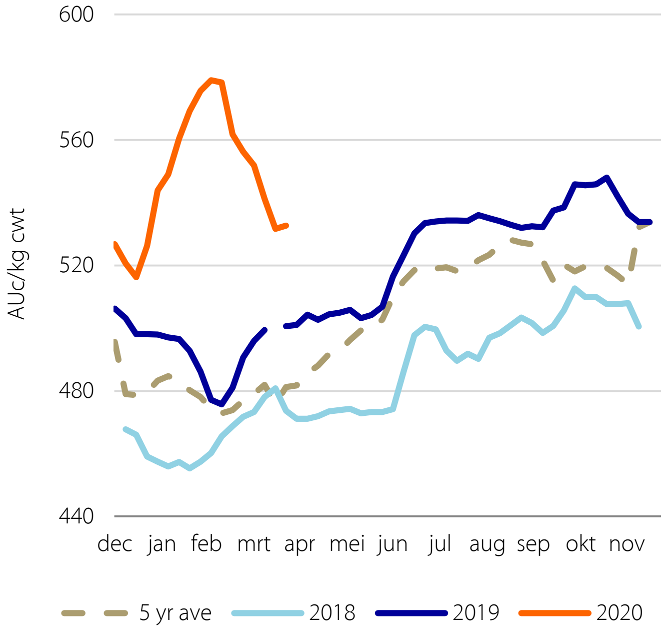
Beef

What to watch

- ***Covid-19*** – As some jurisdictions start looking to relax Covid-19 movement restrictions, consumer attitudes towards returning to 'normality' will be critical to the recovery of foodservice. A Datassential report showed that most Americans will go back to eating in restaurants but that they will take cues from trusted health sources, and they will be looking for reductions in new cases, widespread testing, and development of a vaccine before venturing out.

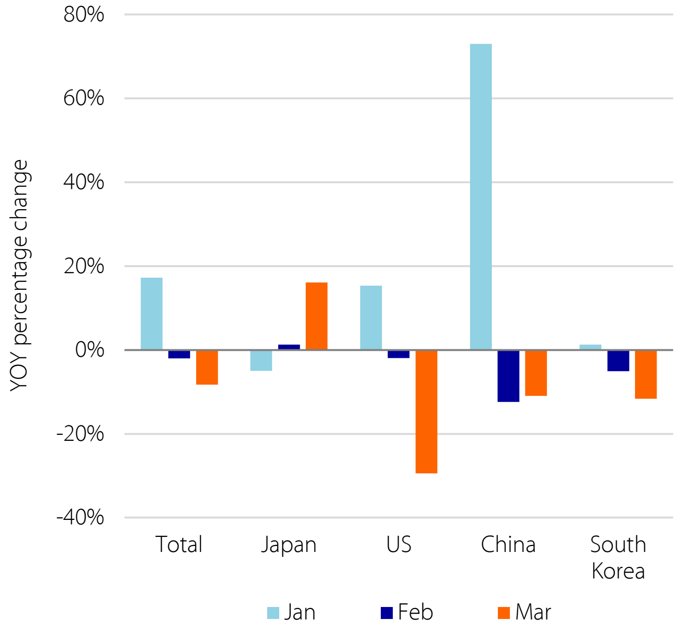
Australian cattle prices level out after dropping from highs

The OTH trade steer price lifts slightly after dropping for most of the month

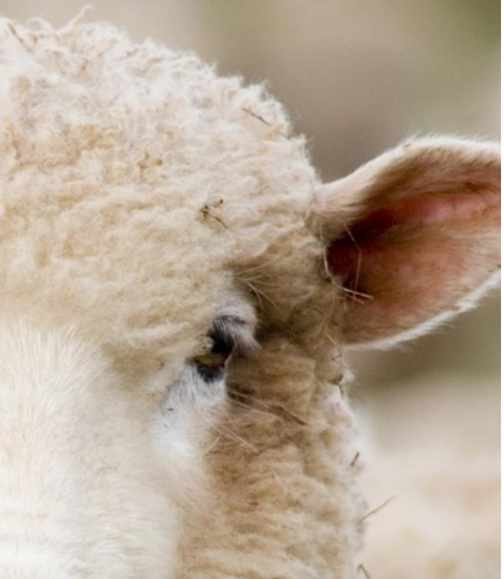


Source: MLA, Rabobank 2020

Beef export market destinations show impacts of Covid-19 and reduced slaughter volumes



Source: DA, Rabobank 2020



Prices to lift slightly heading into winter

The reporting of the ESTLI is temporarily suspended, due to Covid-19 restrictions. After easing through March, over-the-hooks prices for lambs remained relatively steady through April. The heavy trade lamb (20kg to 22kg) price traded within AUc 5 for the month of April, finishing at AUc 791.13/kg. We would normally expect prices to start rising in May, with reduced supply through the winter months. ***We still believe this trend will play out in 2020. However, starting at a much higher level, we believe the potential upside will be more limited and potentially later in the month, particularly given market disruptions from Covid-19.***

Eastern states' weekly slaughter numbers show lamb slaughter is down 18% YOY for the four weeks of April, and sheep slaughter is down 37%. The cumulative lamb slaughter for the year to date up to week 17 is down 12%. ABS reported monthly lamb slaughter (at 1.78m head) for the month of February was down 6%, and sheep slaughter (at 736,000 head) was down 21%.

Total lamb exports in the month of March were down 5% YOY, and mutton exports were down 15%. Strangely, mutton exports to the US were up 45%, while exports to China were down 41% YOY. On the other hand, lamb exports to China were up 13%, while exports to the US were stable. The Middle East has seen large reductions in lamb exports, with a 10% reduction in 2019 and a 19% reduction in volumes for the year to date. Economic growth in the Middle East was -0.8% last year, and the IMF forecast it to drop to -4% this year. With lower oil prices, travel restrictions, and the foodservice impacts of Covid-19, demand out of the Middle East is expected to be soft in 2020.

Angus Gidley-Baird
Senior Analyst
Animal Protein

+61 2 8115 4058
angus.gidley-baird@rabobank.com

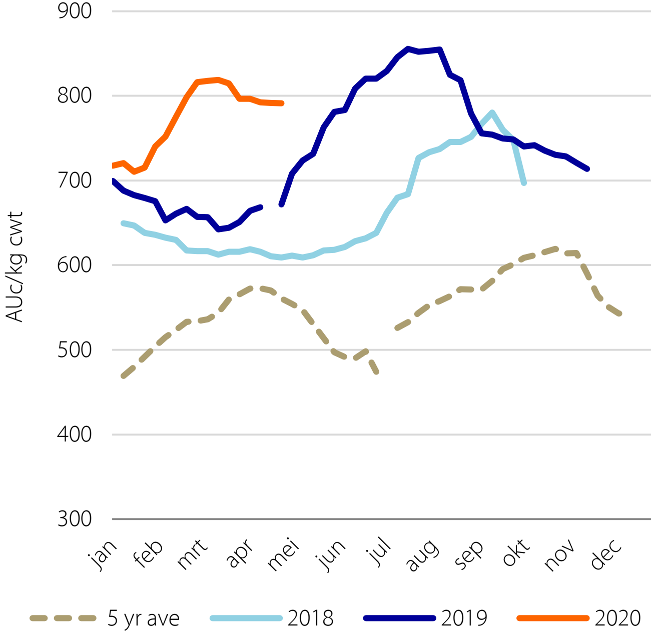
What to watch

- ***Availability of lambs and seasonal price rises –*** Traditionally, the winter months have seen higher prices for lambs, given more limited supplies. Indications are that prices will again rise through the winter months, with prices probably in line with last year's – some July contracts have been quoted on the order of AUc 800 to AUc 900/kg. The test will be how limited supplies are and what fallout there is from Covid-19 disruptions.

Sheepmeat

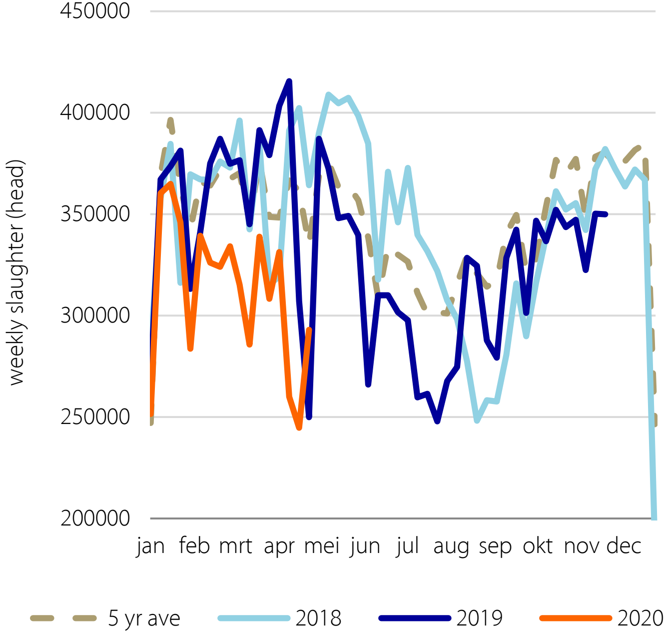
Domestic lamb prices stable on the back of low slaughter numbers

Heavy trade lamb prices stable before expected rise in the middle of the year



Source: MLA, Rabobank 2020

Lamb slaughter levels down 12% for the year to date



Source: MLA, Rabobank 2020

Sugar

A bumpy road ahead

April saw local sugar prices trade in a broad AUD 65/tonne range, as trader anxiety drove the ICE #11 to 13-year lows before recovering. Tremendous oil market volatility and a record raw delivery on the May 2020 ICE #11 contract kept the market nervous. However, the fundamental outlook remains similar MOM, with Brazil forecast to maximise 2020 sugar output – producing an additional +7m tonnes of raws YOY. This, coupled with substantial BRL/USD weakness, is forecast to keep pressure on global prices in the 12-month period – ***Rabobank forecasts local prices to trade upwards from AUD 350/tonne to AUD 420/tonne*** over the period. However, we identify several major risk factors: 1) potential government support for Brazil's ethanol sector; 2) continued strong demand for white sugar; and 3) depreciation in the AUD/USD. The realisation of one, or all, of these factors would spell a more positive outlook for Australian growers.

Early June marks the start of the 2020 crush, with mills opening from 2 June and continuing through the month. Despite the outbreak of Covid-19, no disruptions or delays are anticipated, given the high automation and mechanisation of both harvesting and milling. Harvest rainfall disruption is more likely, with BOM's June outlook suggesting above-average precipitation. Rabobank continues to forecast a 31m tonne cane crop in 2020 – despite a positive start to the year, Queensland's northeastern coast has experienced below-average seasonal rainfall.

Australian raw exports well-paced amid Covid-19 trade disruptions. Indonesia's sharply increased raw import appetite, coupled with sharply reduced Thai output and slow Indian exports, puts Australian sugar in a strong position to meet Asian demand. However, while demand exists, prices will still need to contend with Brazilian offers in order to remain competitive. Nearby demand strength is also noted in white sugar, with refinery margins (on paper) at USD +100/tonne.

Charles Clack
Commodity Analyst
Sugar and Cotton

charles.clack01@rabobank.com

What to watch

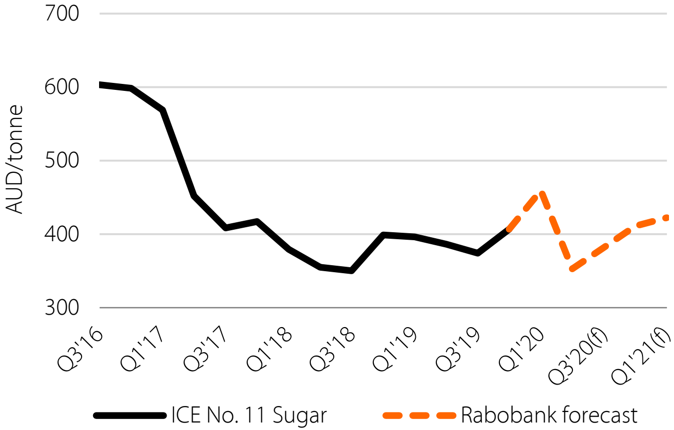
- ***The prospect of falling 2020 global sugar consumption is raising concerns.*** Estimates vary widely, and it is both too early and too uncertain to draw conclusions. Rabobank expects 2020 global consumption to stay flat YOY, with Australia well-placed from an export perspective.
- ***The WTO stated that it could take until mid-2021 before any settlement panel reports on the dispute over India's export subsidies.*** This timeline is not out of character for WTO trade disputes – it took three years for EU wrongdoing on sugar policy to be concluded in 2005.

June marks the start of the 2020 crush, with 31m tonnes of cane forecast to be harvested

Rabobank

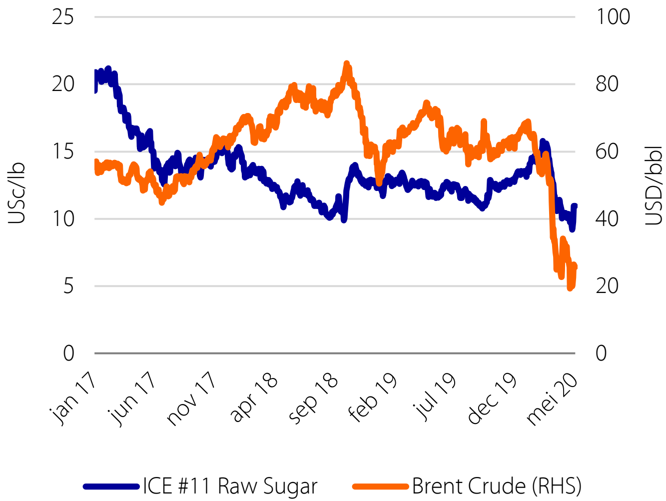
Rabobank forecasts a rise in prices towards AUD 420/tonne, amid tough market conditions

	unit	Q3'19	Q4'19	Q1'20	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	9.6	10.4	11.0	11.3	11.5
AUD/USD		0.69	0.68	0.65	0.60	0.60	0.59	0.59	0.62
Sugar	AUD/t	374	407	460	353	382	411	422	409



Source: Bloomberg, Rabobank 2020

The sharp fall in oil prices drives global sugar to historical lows, as Brazil ramps up production



Source: Bloomberg, Rabobank 2020

The WTO stated that it could take until mid-2021 before any settlement panel reports on the dispute over India's export subsidies.

Supply chain pressure builds

World cotton consumption is forecast to fall 11% YOY, as the impacts of Covid-19 hit demand. Rabobank sees three key drivers: 1) national closure of retail and clothing stores during lockdowns (US April apparel sales fell 54.5% MOM); 2) slowing operations at ports, mills, and factories; and 3) an oncoming 2020 global recession set to cut purchases of 'non-essential' items. Already, nearby export cancellations for the 2020 season have begun to emerge, as pressure piles on Asian mills, with retailers cancelling clothing orders – a Bangladesh association (BGMEA) claims USD 3.2bn of garment retail orders have been suspended or cancelled. This pressure is likely to build further on mills in the short term as lockdowns persist. As a result, Rabobank is forecasting the ICE #2 to trade below USc 60/lb through 2020.

2020 picking is underway in earnest across the east coast, after a difficult, drought-stricken season. Amid just 630,000 to 650,000 bales of production, 2020 will go down as a 12-year low in terms of Australian output. Furthermore, there have been concerns around compromised quality amid pre-harvest rainfall. That said, this additional MOM rainfall is welcomed by those looking toward the 2021 pick – Rabobank has increased its 2020/21crop forecast to 2m bales, with the potential to rise further in the event of additional winter precipitation.

Local prices are forecast to average AUD 500/bale in Q2 2020, before rising steadily towards AUD 550/bale by Q4 2020. The nearby weakness stems from ICE #2 weakness and a 0.60 AUD/USD rate, as well as poorer YOY seasonal basis. Weaker local premiums are forecast amid a recovery in 2021 crop prospects, coupled with a more competitive export environment – as global demand falls, the export market is set to become increasingly crowded. This will likely put greater pressure on price, over quality, which will also increase the importance of competitor currencies – particularly the USD, BRL, and INR.

Charles Clack
Commodity Analyst
Sugar and Cotton

charles.clack01@rabobank.com

Cotton

What to watch

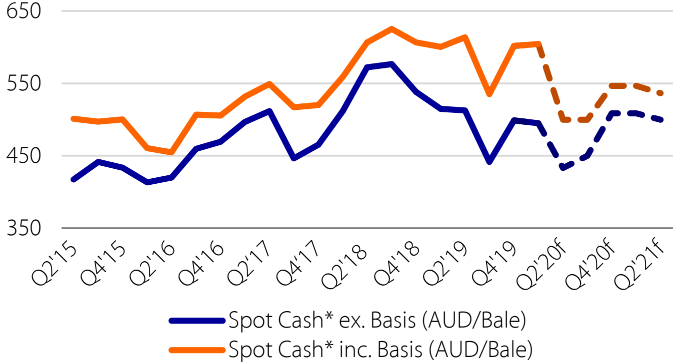
- ***Rumours that China could purchase 4.6m bales of US cotton are circling.*** These stocks would be destined for state reserves and meet part of China's obligations under the two-year US-China trade deal. This volume of trade would drive significant price volatility if realised.
- ***Significant weakness in oil markets could lead to a sharp, prolonged drop in synthetic fibre prices.*** Improved competitiveness of man-made fibres could see cotton lose additional market share to synthetics, especially as consumer incomes come under increasing pressure.

Significant pressure piles on Asian mills, with retailers cancelling clothing orders

Rabobank

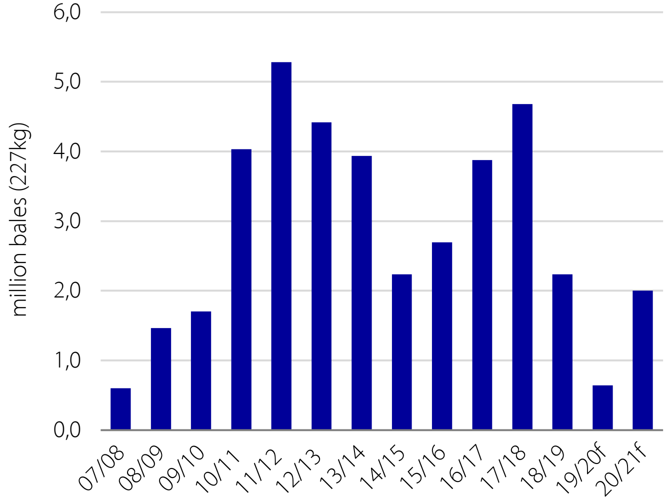
Prices forecast to average AUD 500/bale in Q2 2020, before rising steadily towards AUD 550/bale

	unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
ICE #2	USc/lb	68	65	52	54	60	60	62
AUD/USD		0.69	0.66	0.60	0.60	0.59	0.59	0.62
Basis	Pts/lb	1410	1436	800	600	450	450	450
AU ex. Basis	AUD/bale	499	495	433	450	508	508	500
AU inc. Basis	AUD/bale	602	604	500	500	547	547	536



Source: Bloomberg, Rabobank 2020

2019/20 production hits a 12-year low, before a forecast recovery in 2020/21 cotton output



Source: ABARES, Rabobank 2020

Rumours that China could purchase 4.6m bales of US cotton are circling. These stocks would be destined for state reserves and meet part of China's obligations under the two-year US-China trade deal.

Market continues to drift lower in light of reduced demand

Wool prices drifted slightly lower through the month of April. With sales continuing through Easter week, the EMI rose through the first half of the month before slipping back to finish the month at AUc 1225/kg. The recovery of the Australian dollar back up to USc 65 didn't help prices fall in Australian dollar terms. Prices (in AUD terms) are now trading at levels not seen since 2016. South African wool sales returned under restricted conditions in the week commencing 20 April, and on 1 May, they resumed normal trading. ***Our modelling indicates that wool prices could fall further over the coming month, and with indications of the reduced retail sales as a result of Covid-19, this appears likely.***

It is encouraging to see some big names (Adidas, H&M Group, Ralph Lauren, Under Armour, and VF Corporation) and Australian brands (Kmart Australia, Target Australia) sign up to the "Covid-19: Action in the Global Garment Industry". This initiative aims to help manufacturers to survive the economic disruption of Covid-19 through a range of measures, including paying manufacturers for finished goods. Through this action, it may be possible to avoid major market disruption.

Wool test data for April shows the number of bales tested was down 8.4% on 2019 levels. Total wool tested for the year to date is down 6.2%, at 1.46m bales. February wool export volumes were down 26.6% YOY, with China suffering a 32.9% drop in volumes. Volumes to the Czech Republic jumped 16.5%, and volumes to India jumped 23.8%, while Italy and South Korea also saw large drops.

Angus Gidley-Baird
Senior Analyst
Animal Protein

+61 2 8115 4058
angus.gidley-baird@rabobank.com

Wool

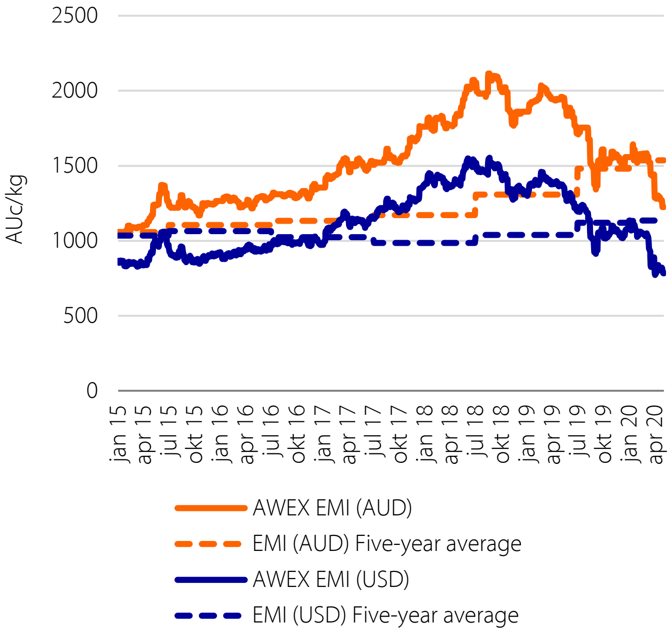
What to watch

- ***Covid-19*** – The impact of Covid-19 and the slowing of global economies were always expected to have a significant impact on clothing sales and demand for textiles. Data shows US clothing apparel sales were down 54.5% in April, compared to 2019, and down 37.5%, compared to April 2009 after the global financial crisis. While some restrictions of Covid-19 are starting to be relaxed, consumer confidence and economic conditions will influence shoppers' return to clothing purchases.

Wool prices drifting lower as retail sales figures show dramatic reductions in apparel sales

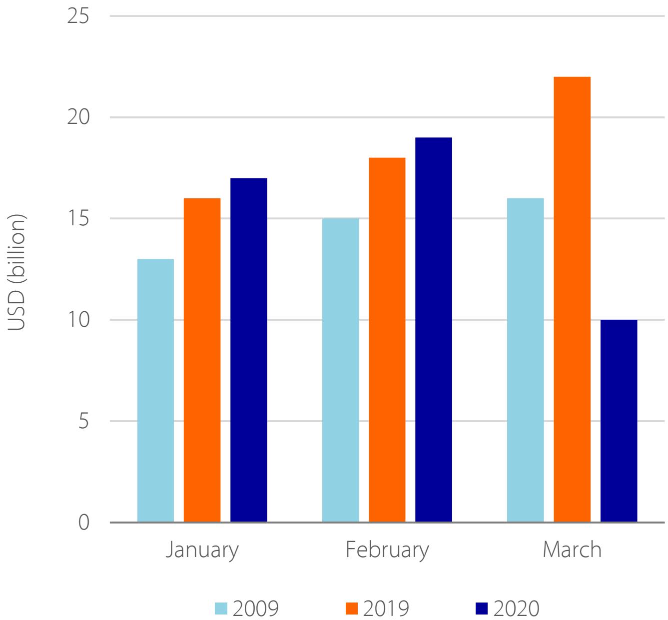
Rabobank

EMI drifts lower through April, not helped by an appreciating AUD



Source: Bloomberg, Rabobank 2020

US retail clothing and clothing accessories sales drop dramatically in March



Source: Bloomberg, Rabobank 2020

Q1 2020 feels early Covid-19 impact

Unsurprisingly, export sales of Australian wines into key export markets declined YOY across Q1. Volume share continued to grow along with value. But the impacts of Covid-19 on Australia's wine exports have yet to make themselves fully felt.

The influence of Covid-19 on China is clearly reflected in the Australian wine export data for February and March 2020 (see chart). A gradual reopening of foodservice channels is underway in China, but the flow on to wine will take time. IWSR also points to a slow emergence of foodservice channel growth, as consumers are cautious about returning to eating out. Also, IWSR expects that Chinese government restrictions on group dining and dish sharing means banquets will take time to gain favour again with consumers. The recovery of foodservice will remain key to clearing inventory.

A large reduction in consumption in Spain and Italy during lockdown will lead to increased inventories in those markets. With a period of 'catch-up drinking' considered unlikely once containment measures ease, this product will need to find a home over the balance of 2020. Combined with high inventory levels of premium Californian wine in the US, we expect competition in key export markets will intensify in the next six months.

A lower vintage 2020 harvest is perhaps a double-edged sword. On the back of continued drought, high water prices, and the impact of bushfires, total 2020 harvest volume is expected to be down YOY. A trifecta of challenges presents itself in this scenario. A higher vintage would have reversed the continued drawdown on Australian inventory observed over the past three years. But, with a challenging trading period ahead in the next 12 months, a rise in inventory could have proved problematic. We expect sales to slow, so increased inventory would lift working capital requirements. But, for some, less volume to sell where markets remain favourable will impact liquidity across 2020.

Hayden Higgins
Senior Analyst
Horticulture & Wine

+64 6 974 9504
hayden.higgins@rabobank.com

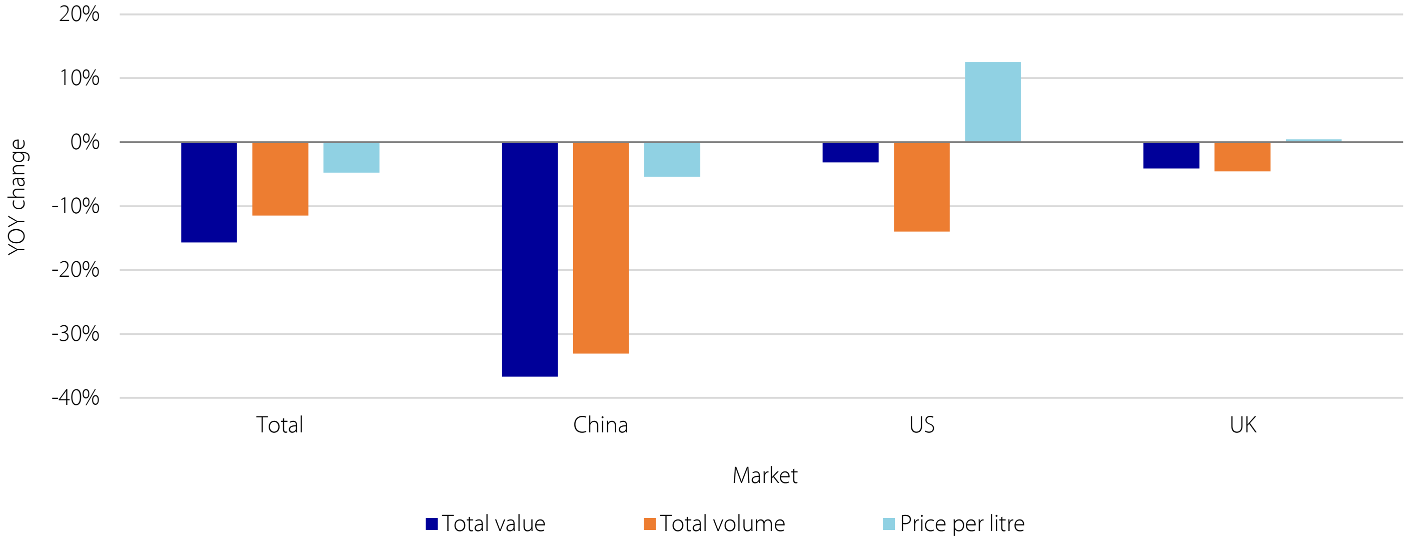
Wine

What to watch

- ***Opportunity in online sales*** **–** Many consumers, including baby boomers who liked traditional brick-and-mortar shopping, have transitioned to online shopping under Covid-19 restrictions. How sticky this transition will be in a post-Covid-19 world under a 'new normal' is yet to be seen. But, we expect more consumers to shop this way in the future, creating a broader customer base for wineries.

Impact of Covid-19 flows through Q1

Combined February and March Australian wine exports YOY, 2020 vs. 2019



Source: Wine Australia, Rabobank 2020

The impact of Chinese imports of Australian wine during the peak Covid-19 months is evident. Across Q1, total volumes of Australian wine imported by China were down 21% and total value was down by 14%. The China data skews the total Australian figures, but the trend for Q1 was still negative, though by much lower percentages.

Uncertainty remains for 2020

Australian horticulture export receipts were up YOY for the first two months of 2020. China has shown a surprising increase in imports of fresh produce, but not all traditional partners have benefited. Rabobank sees short-term changes in Southeast Asian and Indian snacking markets.

Vegetables outperformed fruits and tree nuts in the Australian export stakes for the first time in recent years. Export data for January and February 2020 showed a YOY slowdown in Australian fruit and nut export receipts, largely linked to table grapes impacted by Indonesian trade barriers and some slowdown in tree nut sales (excl. almonds).

Rabobank's latest report on the Southeast Asian and Indian snacking markets highlights three consumer patterns in 2020 that will have relevance for Australian nut exporters. We expect consumers to seek more healthy snacks, including those with nuts. We expect consumers to seek value as well as brands they trust. We think the long-term growth fundamentals of these snacking markets remain sound.

Chinese imports remained in growth mode at a macro level in Q1 2020 through China's peak Covid-19 period, but some key suppliers felt the Covid-19 impacts. China continued to grow its fresh produce imports. But some of its closer trading partners, like the Philippines and Thailand, experienced a reduction in sales across the quarter, as border and supply chain disruptions played out.

Key risks still remain offshore. As covered in our earlier Agribusiness Monthlies in 2020, we still see the risk of supply chain disruptions in offshore markets influencing prices and/or volumes in 2020. A resurgent AUD, when combined with our April forecast of steeper declines in the global economy, leads us to maintain our view that the prospect of softening export prices across 2020 remains a risk.

Hayden Higgins
Senior Analyst
Horticulture & Wine

+64 6 974 9504
hayden.higgins@rabobank.com

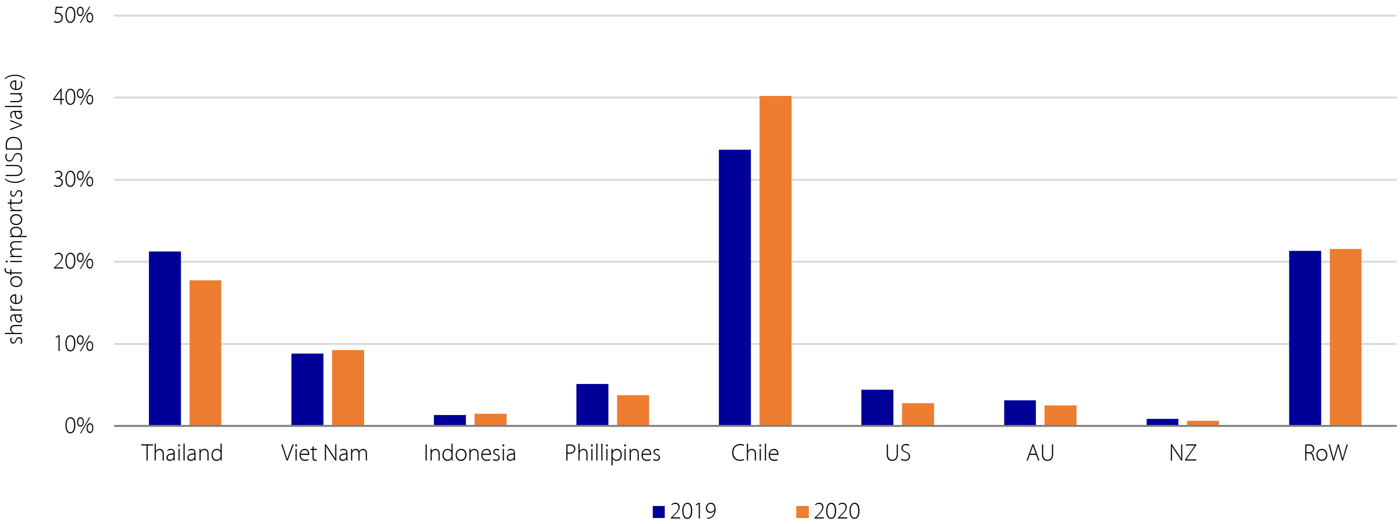
Horticulture

What to watch

- ***Channel shift –*** Consumers in Asian countries are signalling a desire to eat at home more with a greater willingness to use online ordering for fresh produce. Alignment with distributors and retailers in these markets that can support this will help to diversify consumer reach in these markets.

Chinese fresh produce imports rise during Q1

Market share of Chinese fruit, vegetable, and nut imports by supplier, Q1 2019 vs. Q1 2020



Source: China Customs, Rabobank 2020

Largely driven by increased imports from Chile in Q1, the overall value of Chinese fresh produce and nut imports rose YOY. The biggest lift came in March (+8%), compared to January and February combined (+2%).

Covid-19 interruption risk lingers on

We expect global price benchmarks for fertiliser will continue to remain at historically low levels (USD terms) for at least the three months ahead. While global prices of urea have now fallen below pre-Covid-19 levels, the risk of interruption to local and global supply chains and/or production remains. Interruption and currency movements are likely to be the most significant influences on the market in the short term.

Global input supply chains continue to operate with little interruption. Most of the Covid-19-related interruption is in India, where lockdown has been extended for another 21 days. CRU estimates (as of 30 April) that about 9.6% of global DAP production and 2.7% of global urea production was currently shutdown in India (incl. Jordan for DAP). See our latest article 'Covid-19 Casts Shadow Over Fertiliser and Crop Protection Supply Chains' for more details.

In USD terms, prices for urea ex. Middle East (FOB) have now retreated below pre-Covid levels, falling 12% MOM, to USD 230/tonne. This is now the lowest value since December 2017. Global phosphate benchmarks have also fallen, down 12% MOM. Heavy stocks and growing export availability will help to keep a cap on prices in the next three months and soften the impact of any Covid-19-related disruption to production or logistics.

This month, China signed a new potash contract some USD 70/tonne below the previous contract and only slightly above the lowest contract price in the last decade. This will act as a price indicator for the next 12 months and help suppliers to reduce large stocks of potash.

Locally, we are in the midst of the key importing time for urea. On average, 60% of our yearly imports of urea arrive on Australian shores during the April-July window. In a scenario where there was an interruption to production and logistics in Qatar and/or Saudi Arabia (Australia's two largest sources for urea imports), sufficient alternative urea would be available from China, Indonesia, and Malaysia, with whom we also have a strong trading history.

Wes Lefroy
Agricultural Analyst

+61 2 8115 2008
wesley.lefroy@rabobank.com

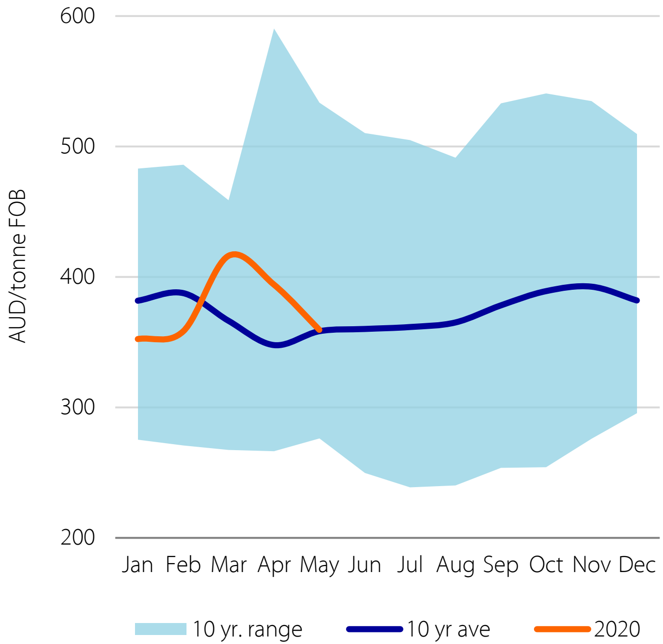
Farm Inputs

What to Watch

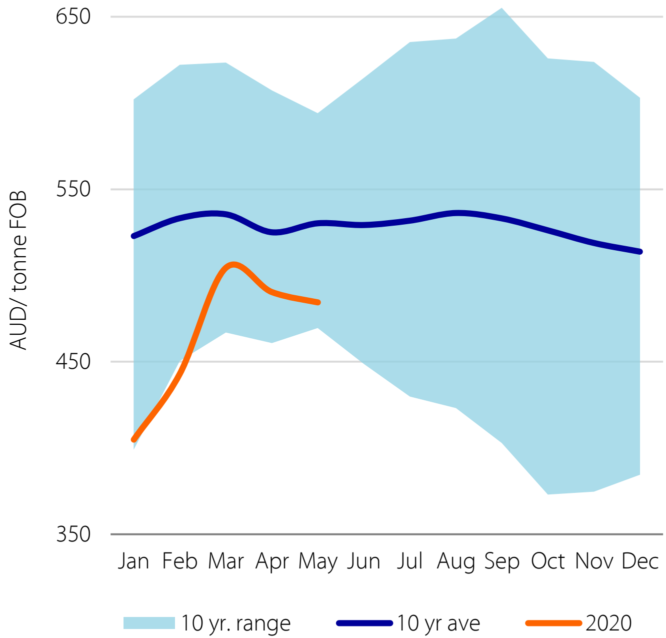
- ***Currency*** – The AUD found some strength during April, reflecting the decreased market volatility compared with the prior month. While a stronger currency is a thorn in the side of exporters, for importers it increases purchasing power. While global benchmarks for fertiliser are at or near ten-year lows, in USD terms, a historically weak AUD is offsetting some of the benefits. Last week, we increased our forecast for the AUD to USc 60 at the end of the next three months, up 7% on our previous forecast. This equates to a AUD 37/tonne saving.

Prices dip due to stronger currency and reduced volatility

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



Source: Bloomberg, Rabobank 2020



Source: Bloomberg, Rabobank 2020

AUD bounce likely to prove temporary

We expect the AUD to fall to USc 60 within three months and stay thereabouts through Q3 2020.

As outlined last month on this page, the Australian dollar is being traded as a proxy for Chinese economic prospects and global risk. As both these turned sour in Q1, the AUD plummeted, bottoming out at just over USc 57 on 19 March. But a shift in mood has since driven a rally in the AUD, driving it back up to USc 64.34 on 6 May.

Several factors have underpinned this wave of optimism: signs that the Chinese economy is recovering, while avoiding reinfection; signs that Australia itself has stabilized the virus at low infection levels and can now start to go back to work; and a rally in the US equities market, buoying a sense of investor optimism.

But we find it difficult to be optimistic about the outlook for the AUD. The Chinese economy is likely recovering slower than most think. Data, such as electricity usage and public-transport use, suggests that activity remains piecemeal. The IMF is forecasting growth for the year of just 1.2%. This will have significant impacts on Australia commodity exports (and their prices). And although the RBA has managed to tone down the size of its weekly bond purchases already, this is a policy that is set to remain in place for some time, and low rates will remain in place for even longer.

The AUD remains highly susceptible to deterioration of global risk sentiment, which we expect to see.

Rates & FX

What to watch

- ***The resurgence of the US-China trade war.*** *President Trump is openly considering the imposition of further tariffs on products it imports from China and other punitive measures, as compensation for what he sees as a coronavirus crisis of Chinese origins. A resurgence of hostilities will negatively impact Chinese economic prospects (and with it Australia's) and depress risk appetite.*

The AUD bounce is a pain for local exporters

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020

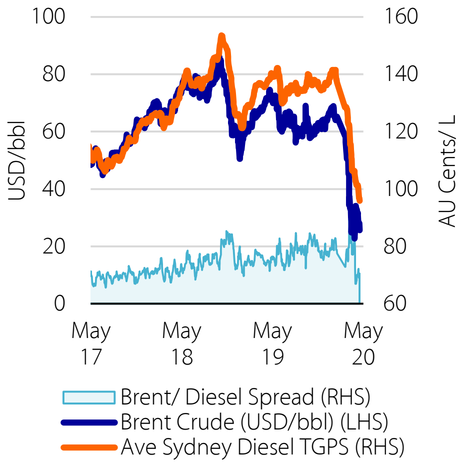
Supply burden here to stay

We expect poor demand and heavy supplies will keep oil prices suppressed until at least year end. Our expectation is that Brent crude oil will trade at USD 31.25/bbl before climbing to USD 43/bbl at year end. This is good news for local farmers who are paying historically low diesel prices.

April was a historic month for oil markets and futures trading, given the unprecedented trading action that resulted in oil prices settling in negative territory for the first time in history. On 20 April, the spot May-20 NYMEX WTI (US oil benchmark) collapsed on the penultimate trading day prior to its expiration and settled at an unbelievable USD -37.63/bbl. In our view, this historic move was largely the result of a technical squeeze related to contract expiration and the nuances of exchange contract specifications.

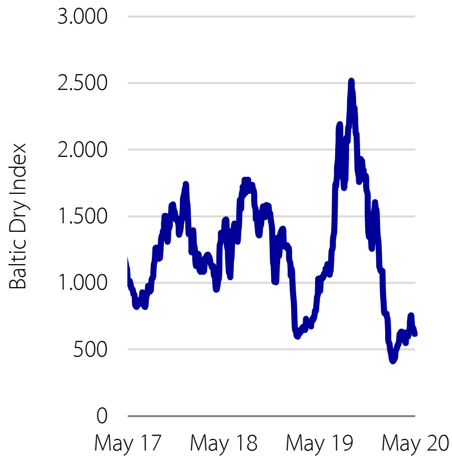
We don't expect negative oil prices to happen again soon. Many brokers and clearing houses are restricting trading in nearby crude contract. We have also seen some meaningful changes to the structure of oil ETFs and investor products, which will reduce the risk that a similar technical squeeze may happen again.

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



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, May 2017-May 2020



Source: Bloomberg, Rabobank 2020

Podcasts

Want to keep up-to-date with the latest food & agribusiness insights?

Make our insights your advantage – Stay ahead of developments in your industry by subscribing to our podcast channel on your favourite podcast app.

Our podcasts are a fast and easy way to engage with our latest research findings and industry developments, right on your phone.

Most Apple devices have the Podcasts app pre-installed – if not, you can find it in the ***App Store***. On Android devices, Stitcher and TuneIn Radio are popular podcast apps.

Here's how to access our podcasts:

- Simply ***search*** for "Rabobank" in your podcast app
- ***Click*** on our food & agribusiness podcast channel
- Hit ***subscribe***!

Agri Price Dashboard

As of 04/05/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	516	549	471
CBOT soybean	USc/bushel	▼	847	854	907
CBOT corn	USc/bushel	▼	309	331	365
Australian ASX EC Wheat	AUD/tonne	▼	311	340	324
Non-GM Canola Newcastle	AUD/tonne	▲	677.8	643.1	592
Feed Barley F1 Geelong	AUD/tonne	▼	280	308	345
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	Not reported	704	505
Feeder Steer	AUc/kg lwt	▲	Not reported	375	287
North Island Bull 300kg	NZc/kg cwt	▼	485	495	500
South Island Bull 300kg	NZc/kg cwt	▼	435	465	470
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	Not reported	910	697
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	645	700	710
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	630	680	670
Venison markets					
North Island Stag	NZc/kg cwt	•	700	700	910
South Island Stag	NZc/kg cwt	•	700	700	905
Dairy Markets					
Butter	USD/tonne FOB	▼	4,238	4,325	5,200
Skim Milk Powder	USD/tonne FOB	▼	2,488	2,738	2,475
Whole Milk Powder	USD/tonne FOB	▼	2,738	2,800	3,338
Cheddar	USD/tonne FOB	▲	4,500	4,438	4,088

Agri Price Dashboard

As of 04/05/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	66.8	60.8	87
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	56.6	51.0	77
Sugar markets					
ICE Sugar No.11	USc/lb	▲	11.0	10.3	12.71
ICE Sugar No.11 (AUD)	AUD/tonne	▼	379	380	438
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,225	1,287	1,943
Fertiliser					
Urea	USD/tonne FOB	▼	230	262	265
DAP	USD/tonne FOB	▲	310	307	383
Other					
Baltic Dry Index	1000=1985	▲	617	616	699
Brent Crude Oil	USD/bbl	▼	26	34	69
Economics/currency					
AUD	vs. USD	▲	0.64	0.60	0.71
NZD	vs. USD	▲	0.60	0.59	0.68
RBA Official Cash Rate (03/03/2020)	%	•	0.25	0.25	1.50
NZRB Official Cash Rate	%	•	0.25	0.25	1.75

RaboResearch Food & Agribusiness Australia and New Zealand

Tim Hunt
Head of Food & Agribusiness Research and Advisory, Australia and New Zealand
+61 3 9940 8406
Tim.Hunt@Rabobank.com

Angus Gidley-Baird
Senior Analyst – Animal Protein
+ 61 2 8115 4058
Angus.Gidley-Baird@rabobank.com

Michael Harvey
Senior Analyst – Dairy
+61 3 9940 8407
Michael.Harvey@rabobank.com

Cheryl Kalisch Gordon
Senior Analyst – Grains & Oilseeds
+61 2 6363 5900
Cheryl.KalischGordon@rabobank.com

Hayden Higgins
Senior Analyst – Horticulture and Wine
+64 6 974 9504
Hayden.Higgins@rabobank.com

Wes Lefroy
Agricultural Analyst
+61 2 8115 2008
Wesley.Lefroy@rabobank.com

Emma Higgins
Analyst – Dairy
+64 3 961 2908
Emma.Higgins@rabobank.com

Blake Holgate
Analyst – Animal Protein and Sustainability
+64 3 955 4603
Blake.Holgate@rabobank.com

Charlie Clack
Commodity Analyst
+61 2 8115 2471
Charles.Clack01@rabobank.com

Dennis Voznesenski
Associate Analyst
+61 2 8115 3920
Dennis.Voznesenski@rabobank.com

Catherine Keo
Business Coordinator
+61 2 8115 4154
Catherine.Keo@rabobank.com

Rabobank Australia
Nearest branch call 1300 30 30 33
www.rabobank.com.au