Agribusiness Monthly & Covid-19 Update June 2020

Australia

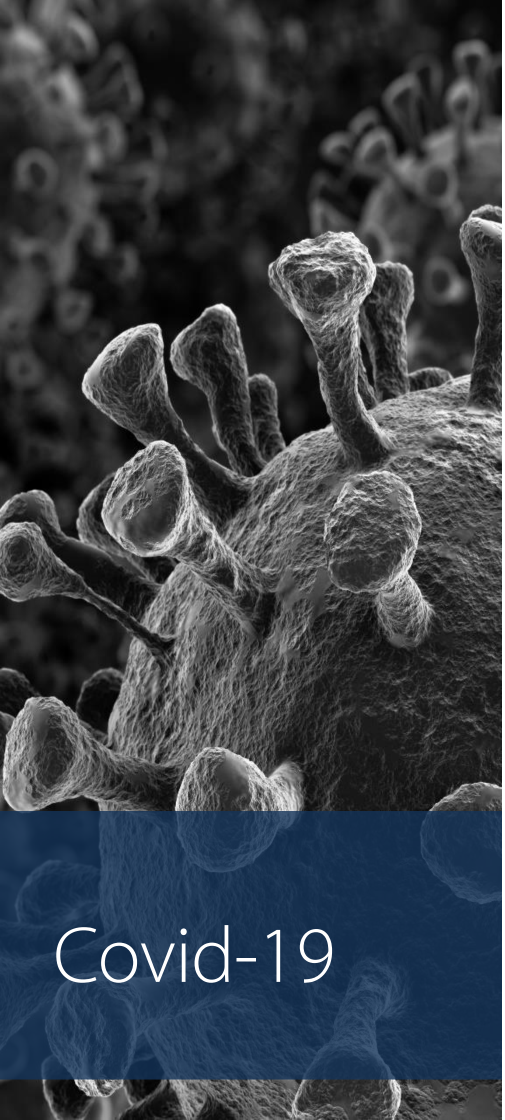
RaboResearch Food & Agribusiness

4 June 2020

Rabobank

Commodity outlook

 Covid-19	What happens when governments leave the market?
 Grains & Oilseeds	A 70% year-on-year increase in Australian wheat production is on the cards.
 Dairy	Official opening prices for the 2020/21 season range between AUD 6.00/kgMS and AUD 7.20/kgMS.
 Beef	Australian cattle prices have defied global markets. But we will see export price pressures as US prices soften.
 Sheepmeat	Australian lamb prices are stable and expected to lift as we head into the traditionally low supply point of the season.
 Sugar	Domestic crush kicks off this month, just as markets sense optimism.
 Cotton	Tough demand outlook builds cotton stocks offshore.
 Wool	We think June will be the low point of the price cycle, as the price of competing fibres rises.
 Wine	The value of shipments to the UK market was unchanged on prior year levels in Q1.
 Horticulture	Australian almond exports to set a record, but Rabobank expects a softening of global almond prices across 2020.
 Farm Inputs	We see further downside ahead for global urea prices during the third quarter.
 FX	We still expect the Australian dollar to retreat, as the reality of economic damage and a rising cold war sinks in.
 Oil	We expect Brent Crude prices will again drop below USD 30/bbl in coming weeks, as risk wears off.



AUD rally and geopolitics spoil an otherwise better month

***In several regards, May was a much better month for Australian agriculture*.** Global prices for many ag commodities rose in US dollar terms. Cotton, sugar, dairy, wool, US-imported beef, and live cattle export prices all closed on June 3 higher than they started May. Support came from government purchasing, disruption to supply chains in competing regions, and a weaker US dollar. Grain was a prominent exception, but offshore prices at least remained largely stable.

Ongoing rain continued to set Australia up for good growing conditions in the 2020/21 season. The planted area for winter crops is well up. Soil moisture is extremely good in most eastern livestock areas, while the southeast dairy industry faces its best start to the season in many years. The BOM is also forecasting above average rainfall through winter across most of the country.

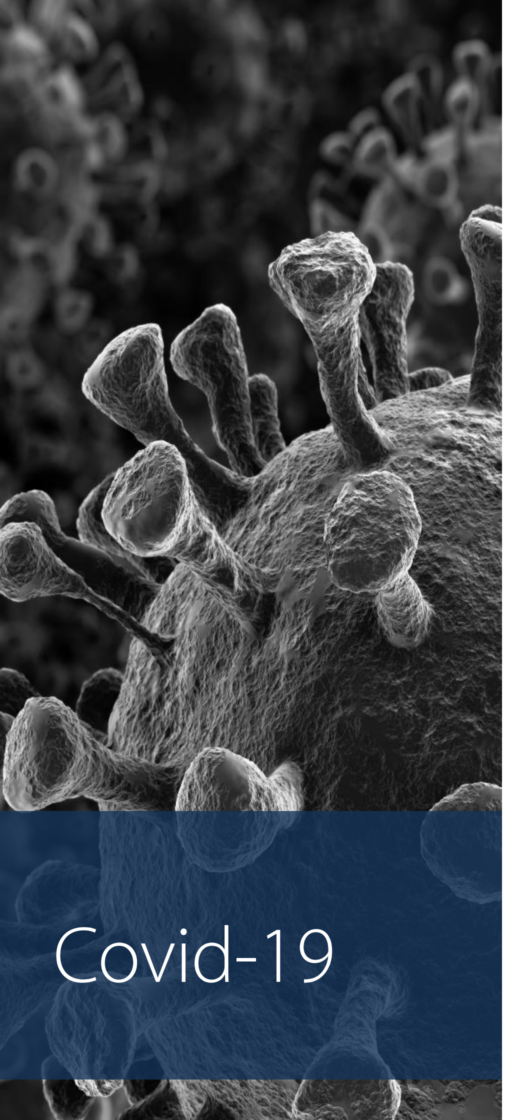
And Australian supply chains remained open. While Covid-19 and shutdowns have made many things harder and/or slower from farm to fork, Australian food supply chains have continued to function well, with the temporary exception of one Victorian meat processing plant. This is in stark contrast to the experience in many countries.

But unfortunately not everything swung the way of Australian farmers. China imposed anti-dumping duties on Australian barley in May, slashing 15% to 20% off local barley prices, and also removed the accreditation for four beef plants to supply various products to its market (with less upstream price impact).

A resurgent AUD (up 8% for the month against the USD, and almost as much on a TWI basis) also stripped much of the gains in USD pricing of key commodities when expressed in local currency terms – with AUD prices level or down as a result.

Finally, geopolitics are again turning against Australia, as the US and China again rattled sabres.

In the worst economic crisis since WWII, Australian agriculture is still faring pretty well when all is considered. Government, industry, and farmers can rightly claim some credit for this through good policy and business management. But with a bit of luck, the last month might have been better still.



Emerging from a state-led market

Seldom in peacetime have governments shaped agricultural markets as much as they have in the first five months of 2020.

In a bid to control the virus's spread, governments have enforced the lockdown of citizens and closure of foodservice industries – heavily impacting demand for ag products. Governments in most countries have then tried to help offset the damage of lockdowns to their citizens by taking on the payment of workers to avoid far greater unemployment – somewhat reducing the impact on ag demand.

In a bid to manage the impacts of all this on farmers' incomes and food security, governments have then intervened heavily in ag markets to:

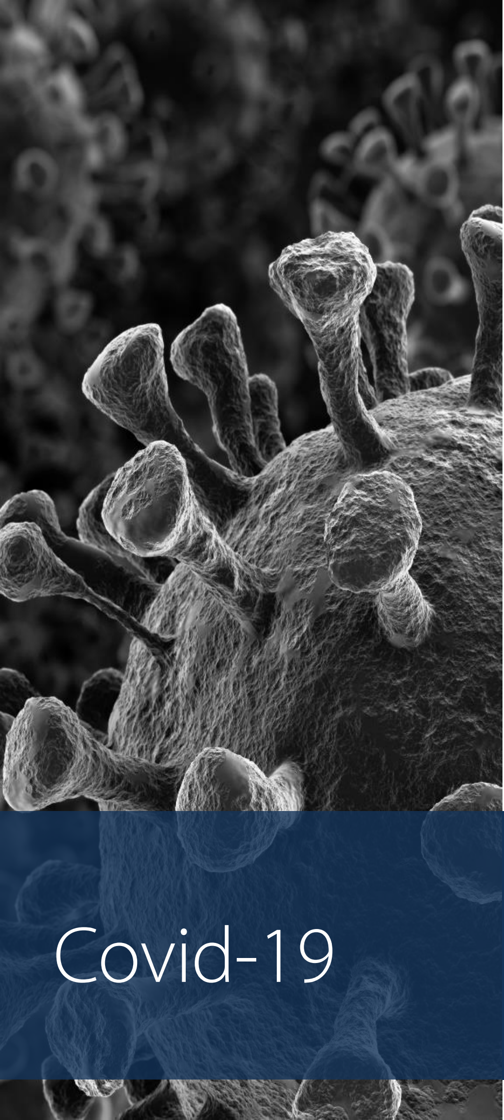
- Procure unwanted product or subsidise its storage;
- Offer direct payments to farmers to offset reduced income;
- Restrict exports to ensure domestic food supplies; and
- Build up large inventories (or direct state-owned companies to do so) of storable commodities to insure against possible supply chain disruptions

Thus, governments have heavily influenced both supply and demand sides of ag markets in the last five months – and hence the pricing for ag commodities.

From June onwards, government involvement in global ag markets will likely start to ease.

Lockdowns are slowly easing in many countries. This will enable the cautious reopening of industries (and hence the need for workers) and foodservice – both positive for food demand. But governments will also start to ease their subsidisation of workers' wages. And there is a real risk that we will find that companies are not able to keep as many workers employed as the government could pay for a few months under their support schemes.

In terms of food policy itself, it is likely that some governments will soon have accumulated the inventories they feel are warranted to ensure food security (if they haven't already) and cease the elevated buying evident through recent months. We are also likely to see pressure on governments to reduce farmer support as budget pressures grow and economies open up, reducing the procurement of unwanted product or storage aid to support pricing. Similarly, those governments in food-surplus regions are starting to ease export restrictions as they become more comfortable that they have adequate food buffers, enabling more product to flow into the world market again.



Net impacts will likely be negative

The net impact of governments leaving global ag markets depends largely on whether the demand improvement from easing lockdowns offsets all the phasing out of all other measures they have taken that have been price supportive.

For many commodities, we think it will be a negative net impact, with the reduced role of government exposing suppliers to the reality that global markets are generally well-supplied given that economies remain extremely weak yet production has continued to hold up well. This would mean there is still more price downside to come.

The experience will vary by commodity. And we are keenly aware of the complexity of these markets right now (and in coming months) and the potential for other scenarios to evolve.

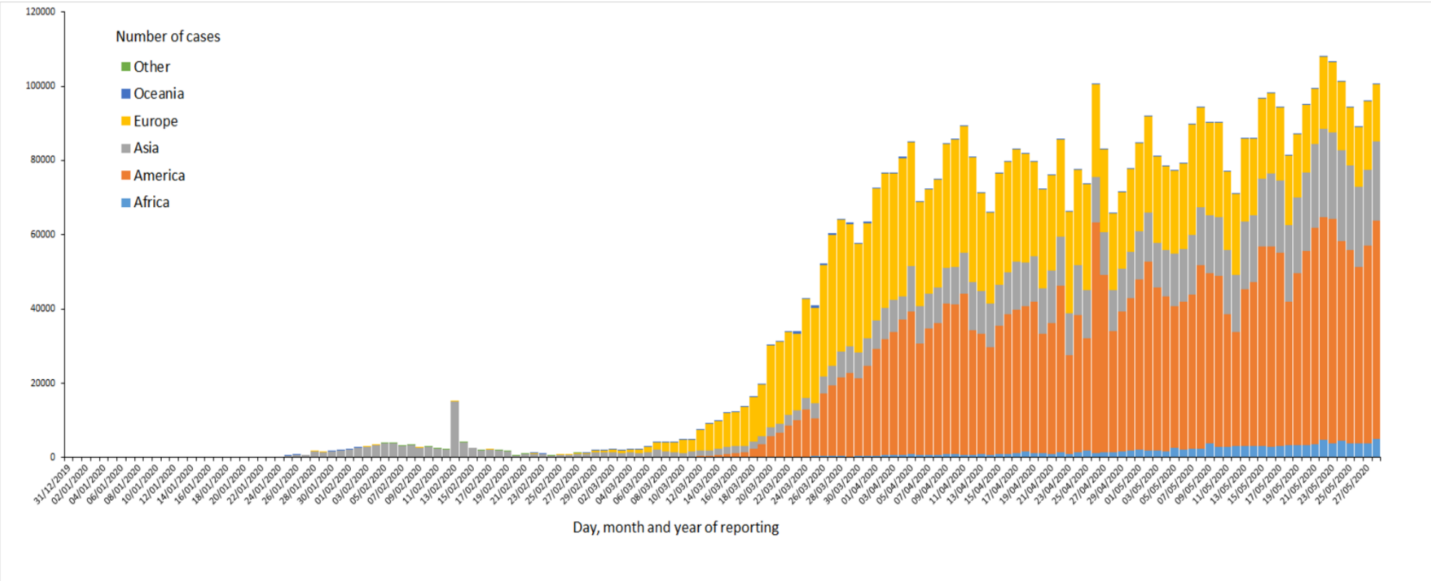
But what we do feel confident in stating is that governments will soon be reducing their involvement in our markets – and that means a different ball game for all those left.

What to watch

- ***Chinese buying of all commodities.*** China boosted imports of a wide range of ag products in the first five months of 2020 – in many cases, beyond what we believe their immediate market needs to be. From infant formula ingredients to staple grains, the government has encouraged companies to stock product to ensure food security in case of further supply chain disruptions offshore. The government has also taken advantage of low prices to rebuild depleted stockpiles of cotton. But during the last decade, we have, at times, seen China simply buy too much, overestimating its own domestic requirements. Whether recent purchasing is strategic or misled, we watch to see if China becomes less active in coming months.

Global daily infections show little sign of decline

Daily reported new cases of Covid-19 by continent

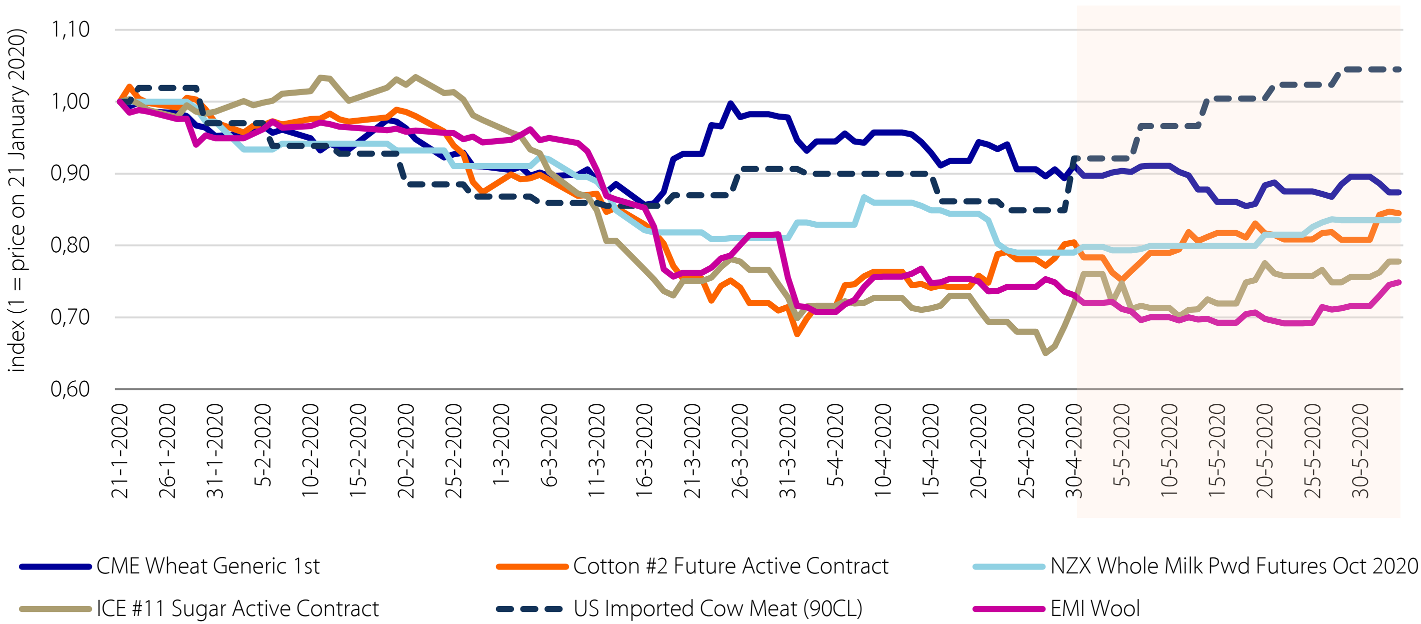


Source: European Centre for Disease Prevention and Control, 29 May 2020

US dollar prices for many ag commodities rose through May

Rabobank

Index of various USD ag commodity prices since 21 January 2020



Source: Bloomberg, Rabobank 2020

Spending on food was severely depressed in key markets through April

Rabobank

YOY change in food retail and foodservice expenditure in key markets

		Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020
Australia	Foodservice	2%	1%	2%	-23%	-50%
	Food retail	3%	3%	3%	27%	6%
	Sum food	3%	2%	3%	14%	-9%
USA	Foodservice	6%	7%	4%	-27%	-49%
	Food retail	3%	2%	2%	27%	10%
	Sum food	5%	4%	3%	0%	-19%
China	Foodservice	9%	-43%	-43%	-47%	-30%
	Food retail	10%	10%	10%	19%	18%
	Sum food					

Sources: ABS, US census department, China National Bureau of Statistics, Rabobank analysis

Notes: not inflation-adjusted (Chinese food CPI is circa 11% through Q1). Chinese January and February data is combined by its statistical agency. Foodservice includes cafes, restaurants, and bars in the US and Australia – but not institutional sales (e.g. schools, hospitals).

ENSO will move toward La Niña threshold

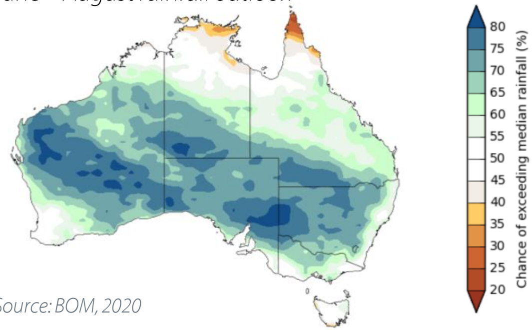
The consensus of global climate models is that the El Niño–Southern Oscillation (ENSO) will move toward the La Niña threshold during spring. Only two of the eight models forecast thresholds to be exceeded during September and a third during October.

This is good news for farmers in eastern and central Australia looking for above-average rainfall to bolster pasture growth and fill grain ahead of harvest and the summer period. The Bureau of Meteorology (BOM) have noted in their forecast that model accuracy is weaker at this time of the year.

The Indian Ocean Dipole (IOD) is currently neutral. A majority of models expect a negative IOD will form during winter, which may support above-average rainfall in southern regions during winter and spring. Similar to ENSO, forecasting accuracy is low at this time of the year, with a wide range of trajectories forecast by the climate models.

A favourable rainfall outlook for inland areas

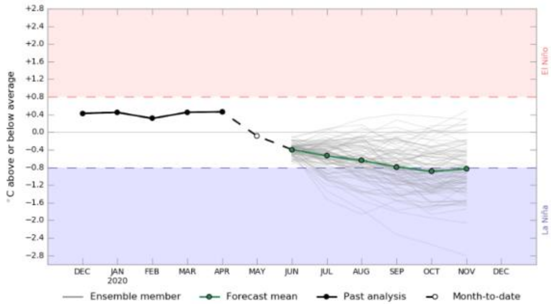
June – August rainfall outlook



Source: BOM, 2020

ENSO is currently neutral

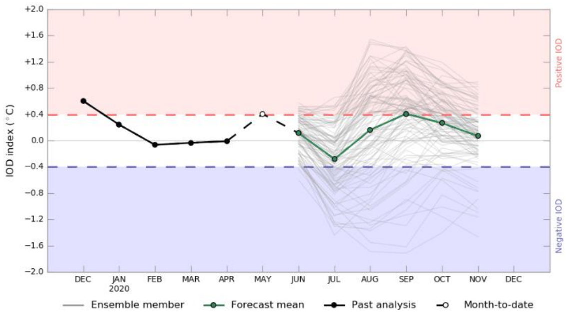
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

A negative IOD may bring above-average rainfall

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM, 2020

Average rainfall, east and west

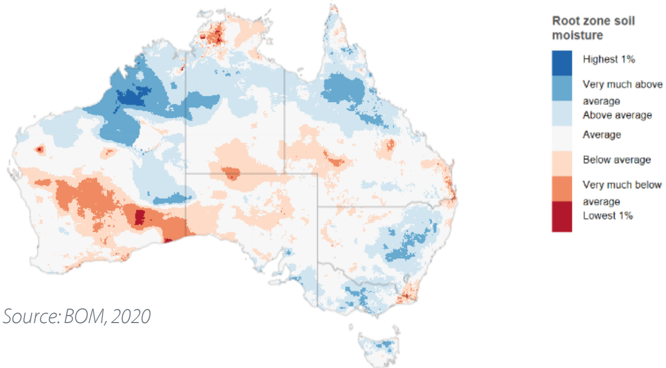
Average rainfall was recorded on either side of the country during May. This rainfall ensured above-average soil moisture levels in the east were maintained, and elevated soil moisture in the WA Wheatbelt to average.

In WA, the rainfall was the by-product of an atrocious windstorm that caused widespread damage and erosion, forcing many farmers to re-sow crops.

Only moderate falls were recorded across eastern and southern states during May. While drought-affected regions in NSW have been overjoyed with heavy rainfall over the last three months, there are regions in southern QLD that have been less fortunate and remain affected by drought.

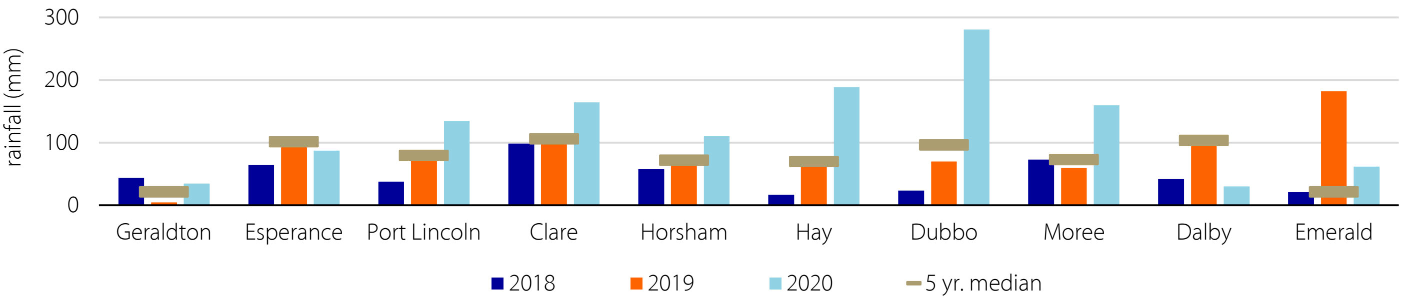
Soil moisture remains favourable

Relative root-zone soil moisture, 31 May 2020



Source: BOM, 2020

1 March – 31 May recorded rainfall, 2020



Source: BOM, 2020

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Grains & Oilseeds

Local supply renewal on its way

Global wheat prices prices finished mostly unchanged in May, down 0.14%, as improved Southern Hemisphere growing conditions balanced out drier weather in the EU and Black Sea. Easing global restrictions and gaining oil prices supported increased ethanol production this month, with corn prices following suit. We maintain the view that CBOT wheat prices will trade between USc 525/bu and USc 534/bu over the next 12 months.

A 12.8% rally in US ethanol prices in May supported a 4.6% MOM rise in global corn prices. Global feed demand continues to fluctuate, with US beef and hog processing facilities slowly reopening capacity, but Covid-19 outbreaks in Brazil prompting the temporary shutdown of some beef and poultry processors. On the supply side, US corn planting is more than 88% complete, 5% ahead of schedule and supportive of the USDA's forecast for 2020/21 production to rise 17% YOY and broach 400m tonnes for the first time in history. With the potential for an almost 60% YOY increase in 2020/21 year-ending US corn stocks, the upside that renewed feed and ethanol demand might bring as Covid-19 restrictions ease is not expected to be sufficient to move prices from their currently low range. Weaker demand expectations and stronger supply prospects have led us to ***downgrade our CBOT corn forecast for the next 12 months to the USc 320/bu to USc 340/bu range.***

Small yield downgrades for EU and Black Sea cropping-region wheat have curtailed wheat price downside this month, while improved YOY crop forecasts for Argentina and Australia have weighed on further gains. In Rabobank's just released Australian 2020/21 Winter Crop Outlook, we forecast national wheat area to be up 33% YOY in 2020/21, driven by a 63% YOY increase in wheat hectares in east coast cropping regions, and the potential for a nearly 70% YOY increase in national wheat production.

Domestically, local prices softened on the Chinese government's implementation of a dumping margin (up to 73.6%) and subsidy margin (up to 6.9%) on Australian barley, a stronger Australian dollar (up 3.7% MOM), and increasing expectations for the Australian 2020/21 harvest. Malting barley prices are down around 14% MOM, while feed prices are down 12% to 18% MOM. Sharply lower barley prices pulled down wheat, with FED1 prices down an average of 8% MOM, while APW1 is down an average of 6% MOM. Rabobank continues to see the Australian dollar softening towards USc 60 over the balance of the year, which will be critical in supporting local grain prices as local supply is renewed.

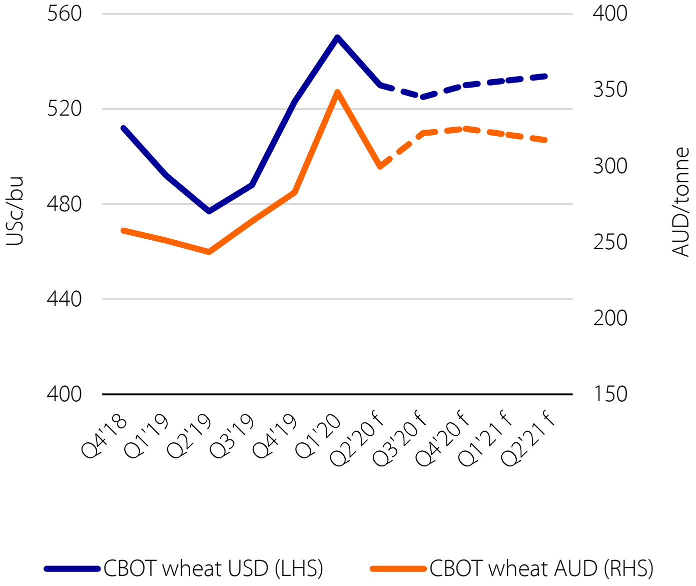
What to Watch

- ***India –*** Covid-19 containment and outbreak impacts remain a hugely uncertain factor for India, but underlying supply and demand should support greater pulse imports in 2020 and (potentially) the impetus to lower barriers to pulse trade. Australian Prime Minister Scott Morrison and Indian Prime Minister Narendra Modi are expected to have a virtual meeting on 4 June. The meeting is set to focus on developing reliable supply chains in key strategic sectors and, potentially, discussions on agricultural exports, including barley and hopefully pulses.
- ***US weather –*** As US planting nears completion in most areas, we enter the typically weather-driven period for corn and wheat pricing. Volatility on the back of unseasonal dryness and heat or late cold flurries can be expected.

Global outlook to help offset local decline

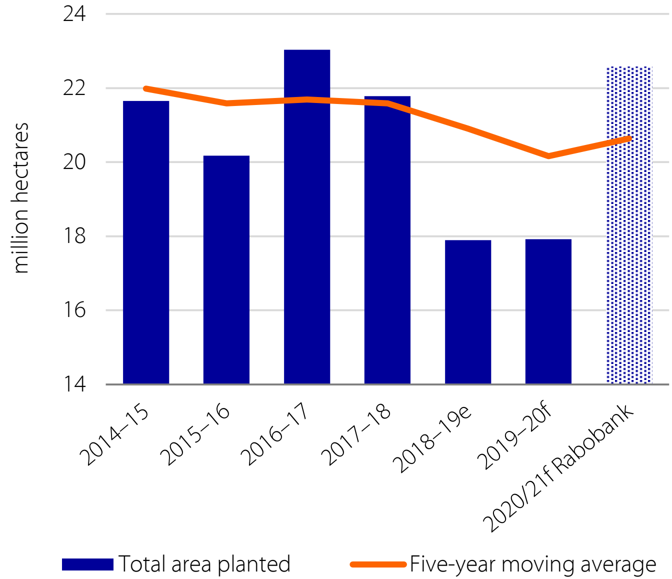
Rabobank

Steady global wheat prices and softer Australian dollar will help stave off pricing pressure from renewed local supply



Source: Bloomberg, Rabobank forecasts 28 May 2020

A 26% YOY increase in planted hectares supports production 'Movin' On Up' in 2020 & prices movin' down



Source: ABARES, Rabobank 2020

Dairy

Lower milk prices, market risks remain

Australia's milk production recovery in the southern export pool is set to continue. Milk production was up 6.7% in April year-on-year bringing season-to-date milk production to 7.5bn litres, down 1.6% year-on-year. Growth is led by exceptionally strong gains in Tasmania and Gippsland, both recording double-digit growth in recent months. ***Rabobank is forecasting milk production to finish at 8.7bn litres, which would represent a decline of just 0.7% year-on-year.*** Favourable seasonal conditions will be supportive of milk production growth continuing in the 2020/21 season. ***Rabobank is forecasting milk production to expand by 3.4% in the 2020/21 season, albeit against low comparables.***

Oceania commodity prices have continued to remain relatively buoyant despite weak global market fundamentals. In May, Oceania commodity prices were marginally down versus the previous month for all products except skim milk powder. Oceania product pricing has been supported by a number of factors, including product availability winding down seasonally and a short-term lift in import purchases from buyers in offshore markets. ***Rabobank remains cautious about global market price settings ahead of the 2020/21 seasonal peak in production. Looking at local market conditions, with government restrictions being eased and outlets being reopened, food and beverage companies (dairy included) will be welcoming signs of improvement in trading conditions through foodservice channels.*** However, the broad expectation is that recovery will be slow against the backdrop of weak economic settings and rising unemployment and underemployment.

Official opening price offers have been announced by dairy companies for the 2020/21 season, with a range of AUD 6.00/kgMS to AUD 7.20/kgMS. Given the ongoing uncertainty associated with Covid-19 and its implications, there is a level of caution. Favourable seasonal conditions and relief of purchased feed (and irrigation water) will support profitability next season.

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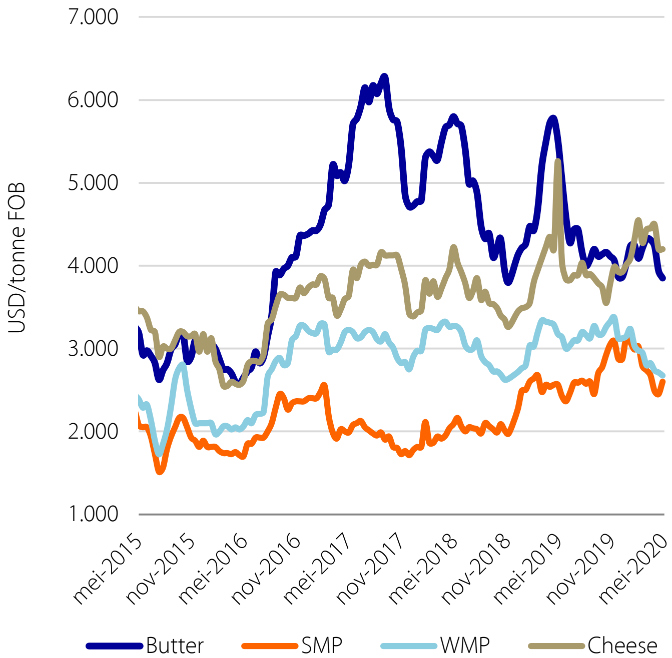
What to watch

- ***The annual milk migration.*** With a new season about to get underway, there is always intrigue about the movement of milk between regions and among dairy processors. This year's milk migration is set against a backdrop of a Code of Conduct, a return to growth in the milk pool across Southern Australia, and further expansion of milk deficits in the drinking milk regions.

Modest growth through Northern Hemisphere peak

Rabobank

Global dairy prices, 2015 - 2020



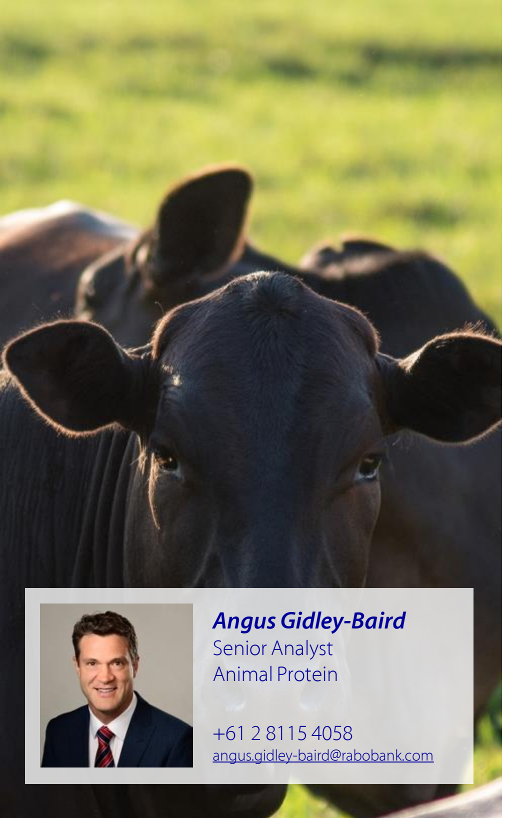
Source: USDA, Rabobank 2020

Production growth in key exporting regions

	Latest month	Last three months
EU	1.2% (Mar 20)*	1.4%*
US	1.4% (Apr 20)	2.0%*
Australia	6.4% (April 20)	6.0%*
NZ	-0.2%* (2019/20 season to April 2020)*	

Source: Rabobank 2020

* February data is adjusted for leap year



Cattle prices continue to defy global beef markets

Australian cattle prices are defying global beef trends, as limited numbers continue to support local cattle prices. Over the hooks prices for trade steers (240kg to 260kg cwt) rose 6% through the month of May, finishing at AUc 564.9/kg. While a lift in US import prices is supporting export prices, ongoing limitations in restaurant trade in domestic and international markets would still place downward pressure on the overall carcase value. ***With the expectation that US import prices will start to ease as their beef prices contract from the peak, we believe Australian cattle prices might also ease through June, although limited supplies will continue to keep prices high.***

Slaughter levels continue to track well below 2019. East coast weekly slaughter totals for the month of May were down 13.7% from the same period in 2019. Male slaughter for Queensland and NSW was down 9% and female slaughter down 16%. News that a large processor would shut for one week from 1 June illustrates the pressure in the system at the moment. Limited cattle, high cattle prices, and uncertainty in beef markets creates profit margin pressures in the processing space.

April beef exports were down 6% year on year. Volumes to the US and South Korea were down 28% and 13%, respectively, while volumes to China picked up again (up 15% YOY) as Covid-19 restrictions were relaxed. Live cattle exports followed the drop in March with another 1% fall YOY in April. Volumes to Vietnam dropped considerably month on month and year on year, while volumes to Indonesia remained steady. Live export cattle prices lifted through the month.

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Beef

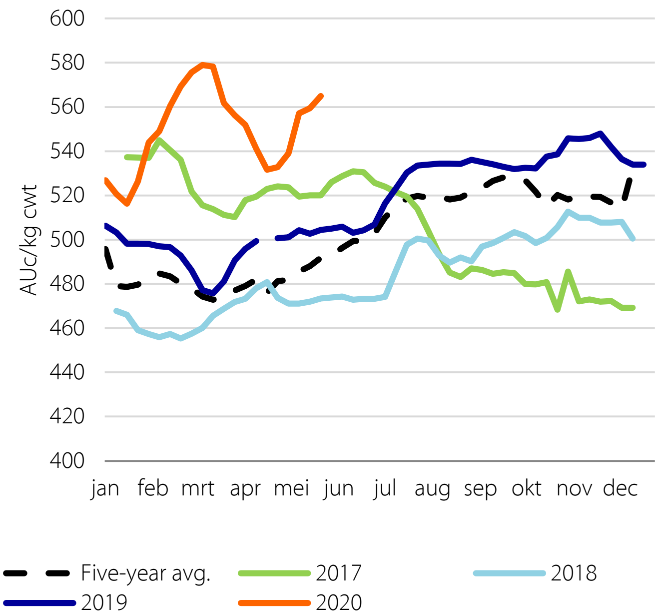
What to watch

- ***Declining US meat prices*** – After rocketing to record levels in mid-May, US beef prices are now starting to drop from their peak with the return to more normal production volumes. The US cutout value dropped 11% from 21 to 28 May. Although lean trimmings prices (both domestic and imported) had not declined in the same week, we expect that lean trimmings prices will start to fall with falling cutout values in the coming weeks, which will put downward pressure on Australia's export prices.

Australian cattle prices dragged higher, but US market starts to see beef prices fall

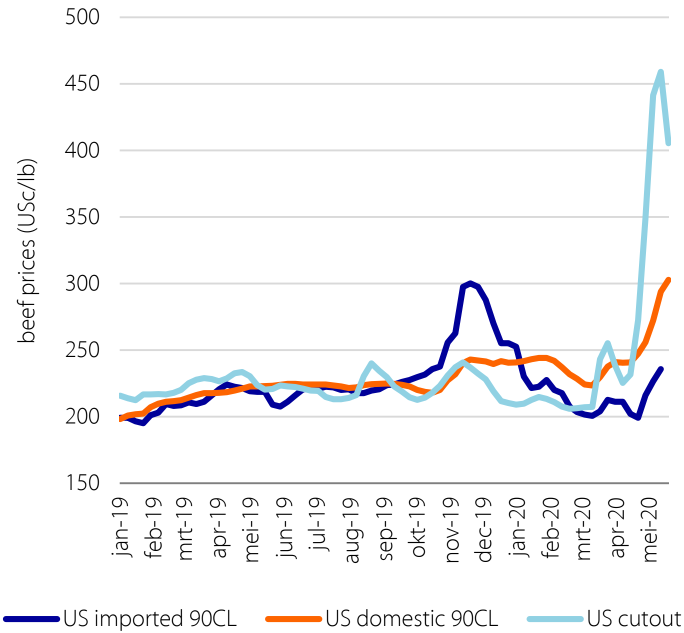
Rabobank

The OTH trade steer (240kg-260kg) price defying the odds



Source: MLA, Rabobank 2020

US cutout value starts to drop with the return of beef supplies



Source: DA, Rabobank 2020

Prices to lift slightly through winter

Lamb prices remained relatively steady through the month of May. Moving into June normally marks the point of price rises as winter supplies become very limited. However, with the existing low stock numbers and some uncertainty in consumer markets, processors may take the opportunity to book in maintenance and reduce throughput over the coming months, relieving some of the demand and therefore limiting the price upside through winter. The average US import price continued to remain relatively stable for the month of May, supporting Australian prices. However, disruptions to foodservice trade have meant some prices have increased, such as leg prices (up 6%), while other prices have declined, such as racks (down 13%) year on year. ***We expect Australian lamb prices will rise slightly over the coming months, following a normal seasonal trend, but the rate of increase will be tempered by the high starting price and any reduced capacity at plants.***

Slaughter volumes continue to remain very low. Eastern states weekly slaughter numbers for the month of May show lamb slaughter was down 23% and sheep slaughter was down 50% on the same period last year. We do not expect these numbers to change until the incoming lamb drop for 2020 starts to flow through the system.

Total lamb exports in the month of April were down 18% year on year, and mutton exports were down 31%. This reduction in export volumes is in line with the reduced slaughter numbers. We saw a drop in volumes to the US (down 12% YOY), a result of restricted trade due to Covid-19, but the Chinese market remains strong, with volumes increasing 6% YOY. Live sheep exports have also been down in 2020. Volumes for the first four months of the year are down 19% on 2019 volumes. With WA making up the bulk of exports, it has seen the same percentage drop in volumes for the first four months.

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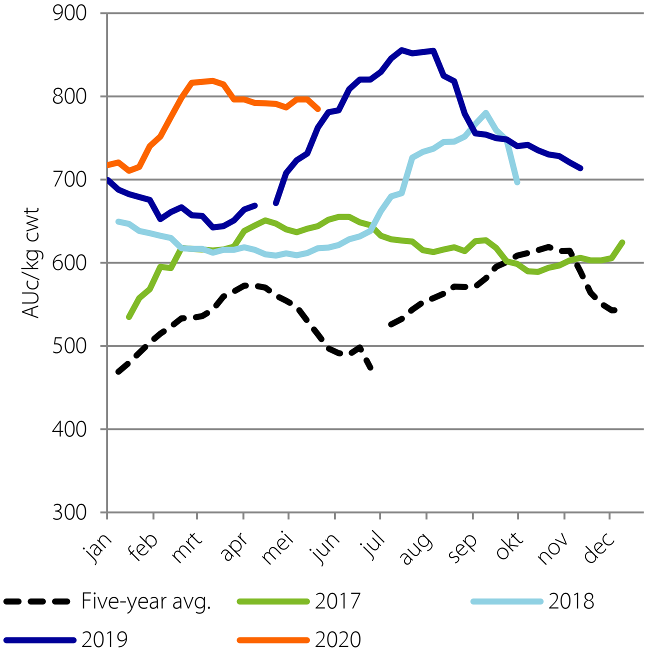
Sheepmeat

What to watch

- ***Processing facilities –*** With high lamb prices, reduced livestock numbers, and uncertainty in global markets, we may see some processing facilities temporarily reduce throughput or close for maintenance over the coming months. This may take some pressure off rising lamb prices, although we believe it would not lead to any large reductions in prices.

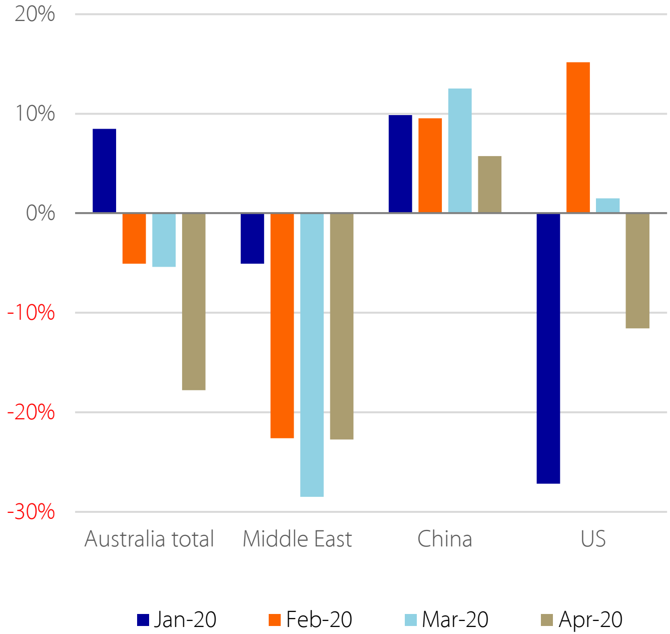
Domestic lamb prices stable heading into the traditionally low supply period of winter

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



Source: MLA, Rabobank 2020

Lamb export volumes to the Middle East and US are down, China is up



Source: MLA, Rabobank 2020

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Sugar

Cane crushing commences

Global prices reached above the USc11/lb mark in May, trading to AUD 360 to AUD 370/tonne levels. Strength in the energy markets, coupled with speculative buying, assisted the market higher. However, declining consumption growth and heavy Brazilian output capped the upside. ***Rabobank forecasts local prices to trade from AUD 350/tonne to AUD 400/tonne through 2020,*** as the fundamentals still point to a 6.7m tonne global supply deficit in the 2019/20 season. Global weather risks are also developing in Thailand, Brazil, and the European Union.

The first mills open in early June to commence the 2020 domestic crush. Cane looks promising after periodic seasonal rainfall across the northeastern coast, although the crop is slightly behind (1 to 2 weeks) in places. Harvest rainfall disruption remains a key risk, with BOM's three-month outlook suggesting above-average precipitation. Rabobank continues to forecast a 31m tonne cane crop, suggesting 4.2m to 4.3m tonnes in raw sugar production.

Early Brazilian Centre/South crush data, courtesy of UNICA, highlights a 45.8% sugar mix season to date as of 1 May. This marks a substantial 15 point rise YOY, while season-to-date crush was up almost 20% YOY as dry conditions prevailed – Rabobank forecasts Brazilian sugar production to increase 7m tonnes YOY in 2020. While dryness is positive for the near-term crush and ATR, it risks lower yields later in the season. Markets will be keeping a close eye on signs of a slowing Brazilian crush, lower yields, or logistical issues – all of which could provide global price support. The latter is of particular concern, where the Port of Santos (accommodating 75% domestic sugar exports) risks congestion amid strong sugar demand, a record soybean crop, and, sadly, increasing domestic cases of Covid-19.

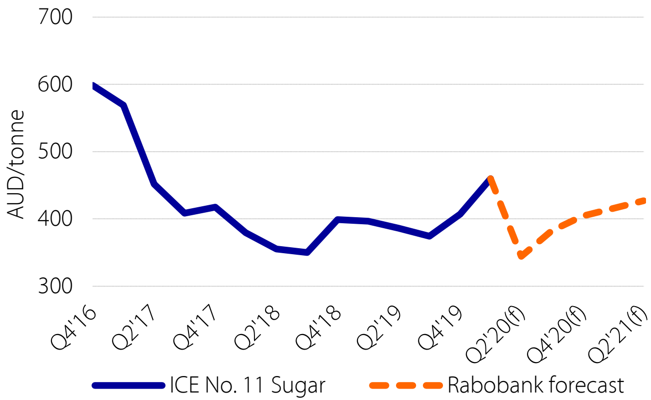
What to watch

- ***A decline in 2020 global sugar consumption is becoming more accepted,*** as countries hit hardest by Covid-19 lockdowns report the impacts on sugar use. Rabobank will revisit our global consumption outlook in the Q2 2020 Sugar Quarterly, released later this month.
- ***Tightness remains in the white sugar market***, amid firm demand and supply issues in several origins (Thailand, India, EU etc.). Physical raw premiums in East Asia are also strong (200pts to 300 pts), which could spell good news for Australian exports.

Strength in the energy markets, coupled with speculative buying, assisted the market higher

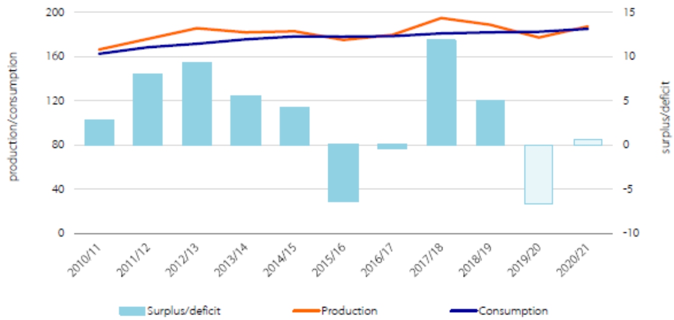
Rabobank forecasts a rise in prices towards AUD 400/tonne by late 2020

	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	10	10.4	11.0	11.5	12.0
AUD/USD		0.69	0.68	0.65	0.64	0.60	0.60	0.61	0.62
Sugar	AUD/t	374	407	460	344	382	404	416	427



Source: Bloomberg, Rabobank 2020

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



Source: FO Licht, Rabobank 2020

Harvest rainfall disruption remains a key risk to the domestic cane crush, with BOM's three-month outlook suggesting above-average precipitation

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Cotton

Covid-19 keeps pressure on price

National Covid-19 lockdowns keep cotton demand prospects particularly soft, with the US Census Bureau reporting monthly US April 2020 clothing store sales down 89% YOY. This impact is now starting to reach up the supply chain, with current weak Southeast Asian import demand and a reported halt of 75% of Brazil's textile operations. Furthermore, without Chinese sales in the week ending 14 May, US exports would have faced net weekly cancellations – Bangladesh, Thailand, Japan, Mexico, and other importers were reporting cancellations. Rabobank maintains a bearish short-term view, forecasting the ICE #2 at USc 55/lb in Q3 2020, before rising gently towards USc 60/lb by early 2021.

With forecast depreciation in the AUD/USD rate, Rabobank holds a local forecast of AUD 500/bale in Q2 2020 – rising towards AUD 530/bale by late 2020. This assumes a weaker 0.6 AUD/USD rate through 2H 2020. Furthermore, we continue to anticipate weaker premiums in late 2020, amid a production recovery in the 2021 crop prospects (towards 1.5m to 2m bales) and building stocks within export origins – namely the US, Brazil, and West Africa. Despite a slow start to the picking season, 2019/20 cash trade and exports are underway, albeit at a much slower rate YOY given the 630,000 to 640,000 bale crop.

Australia's world export share is set to fall sharply in 2019/20, as drought-stricken production limits volumes offered on the global market. Australia is forecast to make up 3% of global exports this season, according to the USDA, versus 9% as per the ten-year average. Unsurprisingly, Brazil will gain the lion's share of this, and also the US to a lesser extent. Still, the loss of market share in tough seasons is not new. Historically, Australia bounces back from falls in market share in the following two to three seasons, as occurred from the 1987/88 and 2007/08 seasons.

What to watch

- ***China has been buying vast volumes of US cotton,*** likely as part of its obligations under the US-China trade deal. This has been supporting the ICE #2 in recent weeks, but much uncertainty surrounds purchases, especially given the current geopolitical environment.
- ***Brazilian logistics appear vulnerable to a bottleneck in the short term***, amid 95% of cotton exports heading through a single port, Santos. Delays, cancellations, or bottlenecks in Brazil as new crop flows emerge from September would support global prices.

National Covid-19 lockdowns keep cotton demand prospects particularly soft

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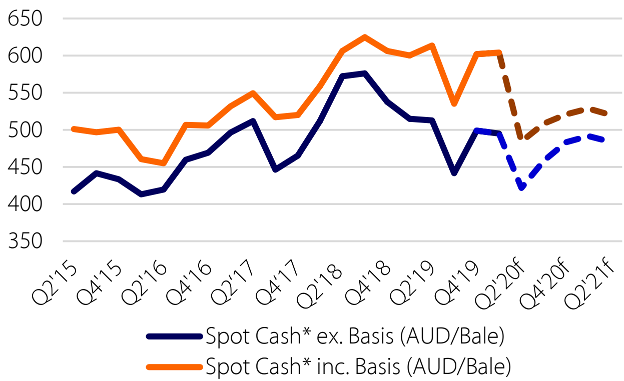
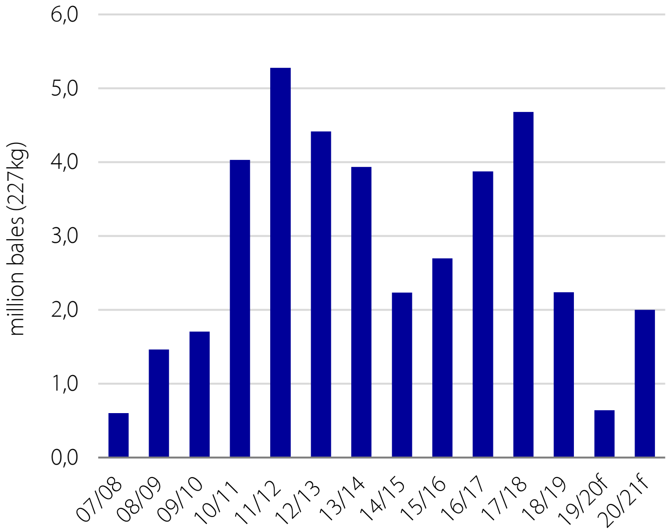
Prices forecast to average AUD 500/bale in Q2 2020, before rising steadily towards AUD 530/bale

	unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
ICE #2	USc/lb	68	65	54	55	58	60	60
AUD/USD		0.69	0.66	0.64	0.60	0.60	0.61	0.62
Basis	Pts/lb	1410	1436	800	600	450	450	450
AU ex. Basis	AUD/bale	499	495	422	458	483	492	484
AU inc. Basis	AUD/bale	602	604	484	508	521	529	520



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

Brazilian logistics appear vulnerable as 95% of cotton exports head through a single port - Santos. Delays, cancellations, or bottlenecks here as new crop flows emerge from September would support global prices.

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Wool

Prices continue drifting lower, but signs of recovery on the horizon

Wool prices drifted lower again through the month of May. The EMI started at AUc 1208/kg on 5 May and finished at AUc 1170/kg on 27 May. The low point of the month (at AUc 1155/kg) was the lowest price (in Australian dollars) in five years and 24% below the five-year average. Finer wools performed better with 17, 18, and 19 micron prices experiencing smaller declines than 21 micron. While the retail market remains soft, there are signs of recovery appearing. If confidence starts to recover, clothing orders placed for 2021 may start to see the wool market stabilise, and ***we believe that June may be the low point in the market before starting a slow recovery.***

Wool test data for May showed the number of bales tested was down 28.5% on 2019 levels. The total wool tested for the year to date is down 8%, at 1.56m bales. The Australian Wool Production Forecast report released in April estimated that 2019/20 wool production would decline 6.3%, to 281m kg greasy. The first forecast for the 2020/21 year estimates that, despite a rise in the clip per head to 4.21kg, the reduction in sheep numbers would mean production will fall a further 1.6%, to 276m kg greasy.

March wool export volumes were down 14% on 2019 volumes. Volumes to China were down 16.3%. Interestingly, volumes to India increased 9.2% year on year. With shutdowns in India commencing in late March, export volumes to India are expected to drop through the months of April and May.

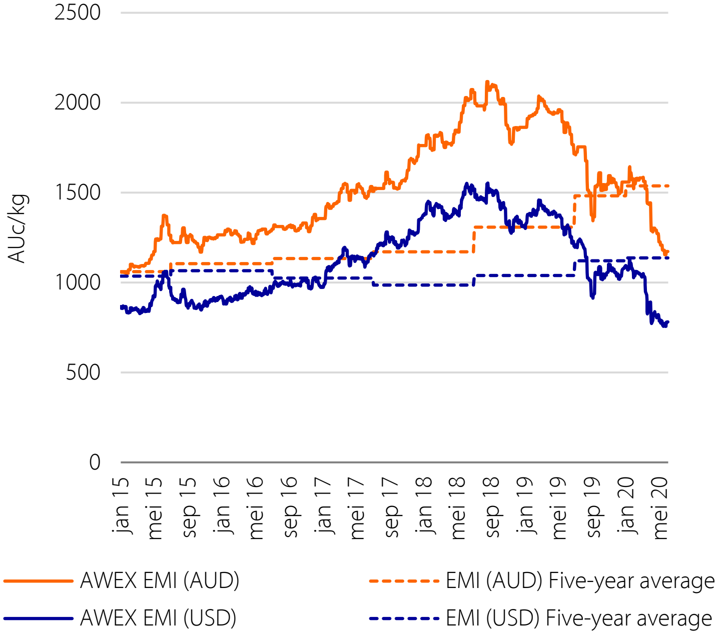
What to watch

- ***Other textile prices start to move up*** – Despite the ongoing challenges with Covid-19, reduced retail sales, and slowing economy, there may be some positive news with the price of cotton and oil (as a main ingredient in synthetics) rising through May. With wool prices still falling, the spread between wool and the other two commodities is now at some of the lowest levels in 10 years, which may encourage fabric manufacturers back towards wool.

Wool prices drifting lower, but competing fibres have seen prices rise

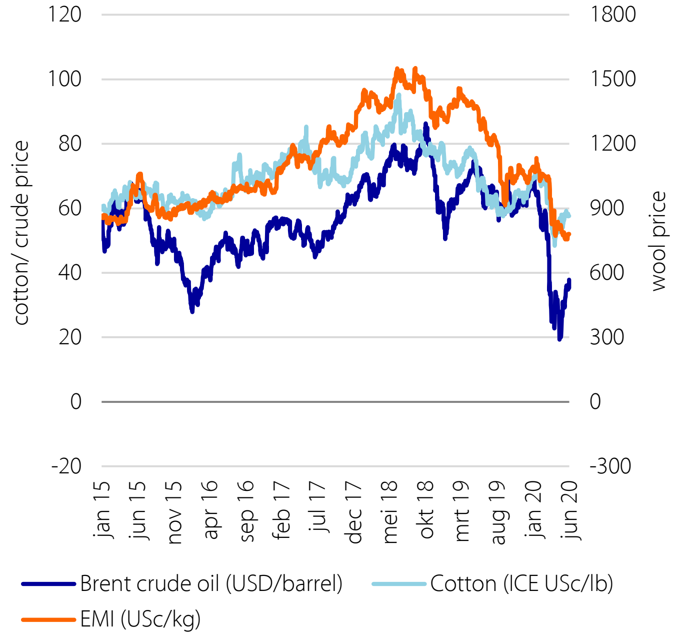
Rabobank

EMI drifts lower through May



Source: Bloomberg, Rabobank 2020

Oil and cotton prices lift, could wool be next?



Source: Bloomberg, Rabobank 2020

Q1 closes with some clarity

Early reports suggest a vintage in the vicinity of 1.4m to 1.5m tonnes for Australia.

The midpoint of the estimated range for the 2020 Australian vintage is equivalent to a 16% reduction of tonnage both year over year and against the ten-year average to 2019. As alluded to in our May Agribusiness Monthly, this brings both positive and negative impacts for the sector in 2020.

Despite a YOY decline in exports to the UK in Q1 2020, Australian wines took a larger market share by value in the UK than the previous year, with currency depreciation cushioning export prices.

Australian bulk and packaged exports to the UK declined YOY in Q1 2020, both in value and in volume. In local currency terms, the total value of wine imports into the UK dropped by around 14% YOY. But, on a positive note, Australia captured a higher share of the market in British pound value terms (around 1% YOY), as others, such as France, Italy and Spain, lost market share. Collectively, seven countries account for almost 85% of UK supply (refer to chart).

In the UK market, imports of New Zealand wine grew over the period YOY (in both value and volume for packaged and bulk). The export price per litre for New Zealand wine to the UK increased in local currency terms, even when depreciation of the New Zealand dollar is accounted for. By comparison, Australian FOB export value per litre rose YOY for both bulk and packaged exports, but when the impact of currency depreciation against the British pound is taken out, the market price remained neutral.

We expect a softening of the Australian dollar to occur across the balance of 2020 against key export market currencies, which will support FOB export values.

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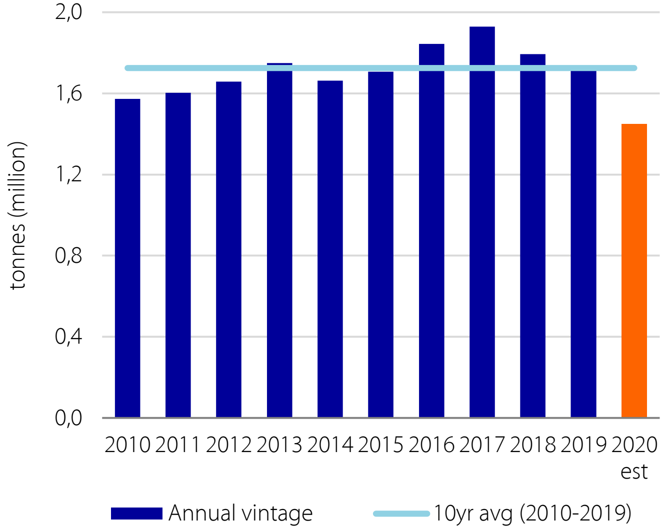
Wine

What to watch

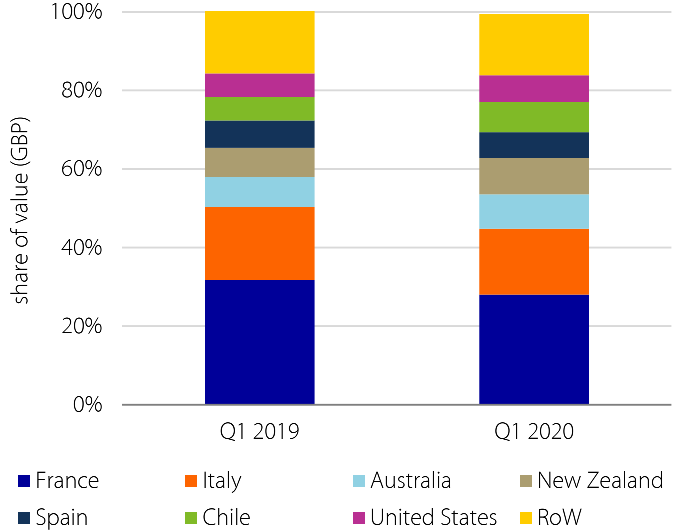
- ***Retail wine sales data across Q2 –*** A key signal of future export pricing will come from retail sales value and volume across the first two quarters of 2020 in all key markets.

Down but certainly not out

Australian wine grape production



UK wine imports: market share by supplier



Source: Wine Australia, AGW, HM Customs, Rabobank 2020

Early industry estimates forecast a 2020 Australian vintage in the vicinity of 1.4m to 1.5m tonnes for 2020. And in the UK, the deck chairs have shifted in Q1 2020 for key suppliers.

Almonds to set export record

Australian almond exports will set a record for value and volume for the export year ending February 2020. This stellar result reflects rising production volume out of Australia and strong market demand flowing into export receipts. While we expect global almond prices to soften in 2020, the sector remains well-positioned.

We expect that the value of Australian exports will be above AUD 750m (+43% YOY) for the export year ending February 2020, a record for not only the sector, but for a horticultural export from Australia in an export year. Volume has also hit a new high at almost 77,000 tonnes kernel weight equivalent (+26% YOY). This is a result reflective of not only rising volumes of Australian production from developments over recent years, but strong global demand. A larger-than-expected 2019 crop in the US put some downward pressure on almond prices in Q1 2020. A 3bn lb Californian crop is currently forecast for 2020 (+20% YOY). If accurate, this will bring further softening to global export prices across 2020 and into 2021. Support will be afforded by an expected depreciation in the Australian dollar against the US dollar. Further, Australia remains well-positioned to compete with Californian almond growers.

Overall, Australian fresh produce exports have risen year on year in the nine months to March 2020, but have softened in Q1 2020 vs. the prior year.

The total Australian dollar value of fruit and tree nut exports has grown by around 13% YOY, with some exports, such as tree nuts, grapes, and citrus in particular, performing very well. When looking at Q1 2020 vs. Q1 2019, some of these categories have seen a reduction is sales YOY, highlighting impacts from market disruptions related to Covid-19. Table grapes have bucked this trend amid market disruptions, with sales in Australian dollar terms up by around 10% YOY in Q1.

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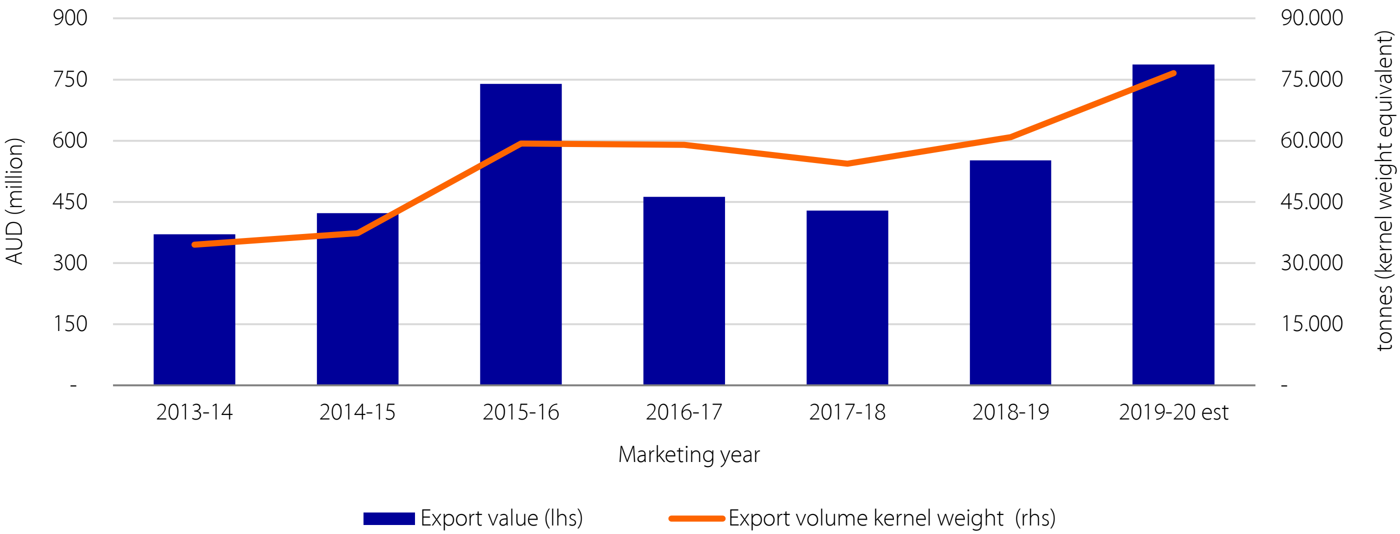
Horticulture

What to watch

- ***US trade policy –*** Whether the phase-one trade deal between the US and China is implemented still remains unclear. Officials from both countries have reportedly committed to the implementation, but political tensions bring uncertainty.

Almonds crack export ceiling

Australian almond exports



Source: ABA, ITS, Rabobank 2020

Almond exports beat the prior value peak against a backdrop of strong demand as volumes rose from increasing Australian production.

Farm Inputs

Further downside ahead for urea

Due to low input costs, increased production in India, and increased exports from China, we expect there is further downside ahead for global urea prices during the third quarter. This may take some global benchmarks below the lowest recorded price in the last ten years (in US dollar terms).

Globally, nitrogen prices did see some upside, due to the expansion of corn acreage in the US and uncertainty surrounding Covid-19. Those gains have now been lost (as of end of May) – in US dollar terms, Urea ex. Middle East was at the lowest point since August 2017.

We expect Indian suppliers will increase production this year, which will reduce their dependency on imports. Even so, we expect increased Chinese exports will feature on the global market this year, which will keep international benchmarks closely aligned to Chinese port prices.

Other factors beyond global benchmarks are likely to influence farmgate prices this winter. Firstly, we expect the AUD/USD rate to depreciate in the coming months, which may lead to an increase in local prices. Secondly, with improved conditions across the board, further winter/spring rainfall will accelerate demand for applications, which may create some isolated shortages and push up prices as a result.

We expect global phosphate prices will continue to trade at or near ten-year lows for at least the next six months. Due to heavy supply and increased capacity, DAP (ex. US Gulf) has been trading at ten-year lows since July 2019. At the end of May, DAP ex. US Gulf was USD 301/tonne, USD 44/tonne below the previous ten-year low (for June).

We will release our complete global fertiliser outlook in June.

What to Watch

- ***Covid-19 supply chain risk*** – Fertiliser has been classified as an essential product in many geographies across the globe, and as a result, there have been few disruptions in the supply chain. According to CRU, as at the end of May, about 9.6% of global DAP and 2.7% of urea production was idle, centred in India and, to a lesser extent, Jordan. Any Covid-19-related interruption to freight may impact availability of urea during winter/spring, especially for orders at short notice. Shortages caused by freight interruptions may cause local prices and basis to sharply increase.

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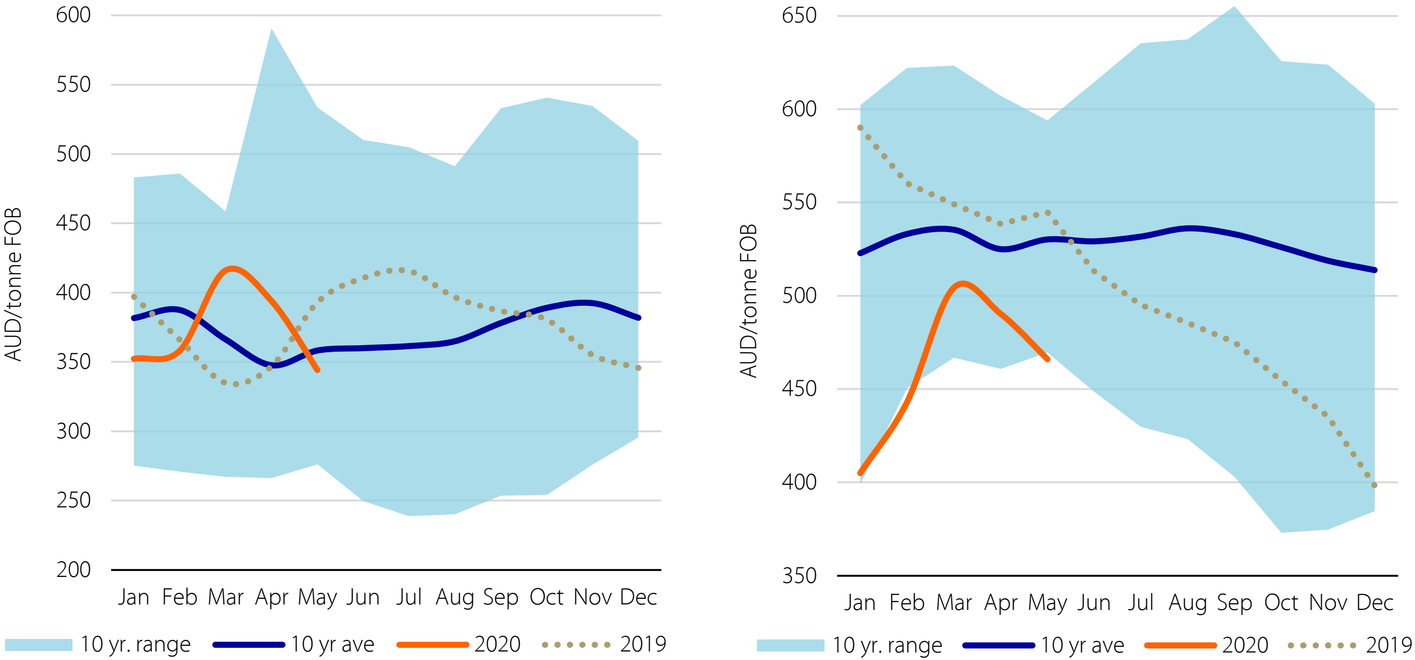
Urea has returned below average

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



Source: Bloomberg, Rabobank 2020

Source: Bloomberg, Rabobank 2020

The Australian dollar – pin up for wishful thinking

The Australian dollar rose a staggering 7% against the greenback between May 1 and June 3. At USc 69.4 it was by then 1% higher than pre-crisis levels.

The Australian dollar appears to have been ***pushed higher by a combination of optimism regarding the global economic outlook, the injection of liquidity into markets by Central Banks, rising investor risk appetite, and a rally in the price of Australia's leading export product.***

Optimism and rising risk appetite appeared to accompany the continued easing of lockdowns in many countries. Along with a resurgent Australian dollar, this helped drive the Dow Jones index up 9% during May and saw the yield on ten-year US treasury bonds rise seven basis points.

The price of iron ore (around 15% of all Australian exports by value) also rallied to again push above USD 100/tonne. Prices have been pushed up by a combination of strong Chinese purchasing and hopes that this will be sustained by further Chinese infrastructure programs and fears of disruption to Brazilian supply as the virus spreads through that country.

Rabobank remains ill at ease with the extent of the optimism, declining concern for risk, and forecasts of a strong rebound in the Chinese economy.

The Covid-19 virus is yet to peak, secondary infection waves are quite likely, the cold war between the US and China looks set to ratchet up further over Hong Kong, and China's economy will continue to struggle in the face of a weak global demand for its exports.

As these realities become apparent to the market***, we expect the Australian dollar to fall to USc 60 within three months before starting to slowly appreciate in 2021.***

Rates & FX

What to watch

- ***US response to China's imposition of national security law on Hong Kong.*** There is a significant chance that the US will impose sanctions on China after that country crossed what the US regards as a 'red line' and effectively ended the autonomy of Hong Kong last week. Another escalation of steadily rising hostilities will negatively impact Chinese economic prospects (and with it Australia's) and depress risk appetite.

Australian dollar rallies on optimism and iron ore price rise

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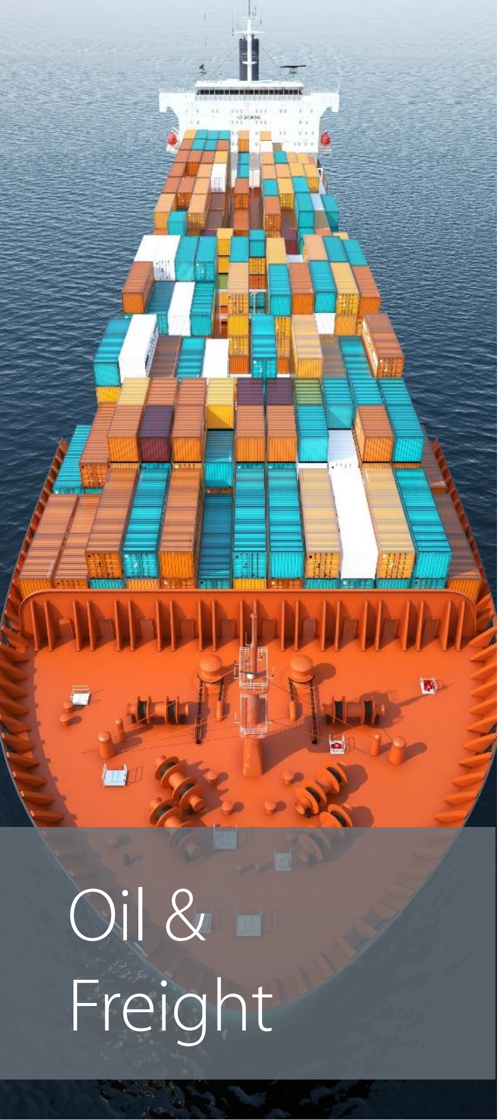
Australian currency against the US dollar

Source: RBA, Rabobank 2020



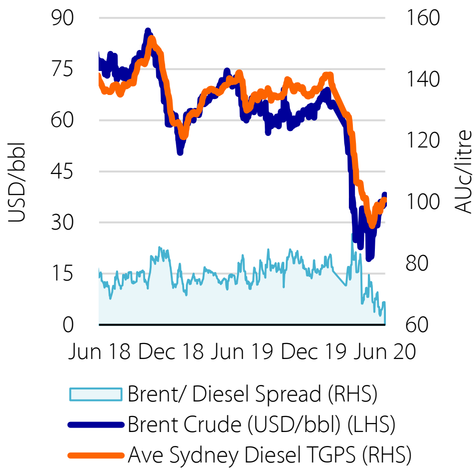
USD 30/bbl here to stay

We expect Brent Crude prices will again drop below USD 30/bbl in the coming weeks, as risk wears off and markets again reflect the heavy supplies across the globe.

A speculator-led rally has brought some upward movement to crude oil prices in recent weeks. This rally was somewhat tempered by heavy stocks that continue to weigh down global markets. In late May, crude oil stocks in the US Gulf region hit the highest on record, largely thanks to a large uptick in Saudi imports resulting from the short-lived price war in early April.

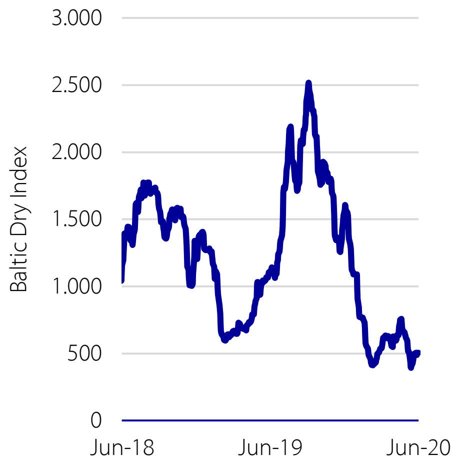
In our view, the market has been artificially propped up by speculator buying, as market volatility subsided from the extreme levels of March and early April. Given the large inventories and waning buying pressure, we expect to see USD 30/bbl again being tested in the coming weeks.

Brent Crude Oil & Average Sydney Diesel June 2018-June 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, June 2018-June 2020



Source: Bloomberg, Rabobank 2020

Agri Price Dashboard

As of 01/06/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	521	522	520
CBOT soybean	USc/bushel	▼	841	847	879
CBOT corn	USc/bushel	▲	326	312	424
Australian ASX EC Wheat	AUD/tonne	▼	306	310	339
Non-GM Canola Newcastle	AUD/tonne	▲	678.0	677.8	580
Feed Barley F1 Geelong	AUD/tonne	▼	240	280	362
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	NA	Not reported	Not reported	480
Feeder Steer	AUc/kg lwt	NA	Not reported	Not reported	283
North Island Bull 300kg	NZc/kg cwt	▲	510	485	520
South Island Bull 300kg	NZc/kg cwt	▲	445	435	490
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	NA	Not reported	Not reported	888
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	670	645	770
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	655	630	730
Venison markets					
North Island Stag	NZc/kg cwt	▼	550	700	880
South Island Stag	NZc/kg cwt	▼	550	700	895
Dairy Markets					
Butter	USD/tonne FOB	▼	3,850	4,238	5,513
Skim Milk Powder	USD/tonne FOB	▲	2,600	2,488	2,563
Whole Milk Powder	USD/tonne FOB	▼	2,675	2,738	3,175
Cheddar	USD/tonne FOB	▼	4,200	4,500	5,263

Agri Price Dashboard

As of 01/06/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	65.5	66.8	79
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	57.6	56.6	69
Sugar markets					
ICE Sugar No.11	USc/lb	▼	10.9	11.0	12.19
ICE Sugar No.11 (AUD)	AUD/tonne	▼	361	377	430
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,172	1,225	1,887
Fertiliser					
Urea	USD/tonne FOB	▼	218	230	285
DAP	USD/tonne FOB	▼	301	310	365
Other					
Baltic Dry Index	1000=1985	▼	504	617	1,103
Brent Crude Oil	USD/bbl	▲	38	26	61
Economics/currency					
AUD	vs. USD	▲	0.67	0.64	0.70
NZD	vs. USD	▲	0.62	0.61	0.66
RBA Official Cash Rate (03/03/2020)	%	•	0.25	0.25	1.50
NZRB Official Cash Rate	%	•	0.25	0.25	1.50

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