Agribusiness Monthly & Covid-19 Update July 2020

Australia

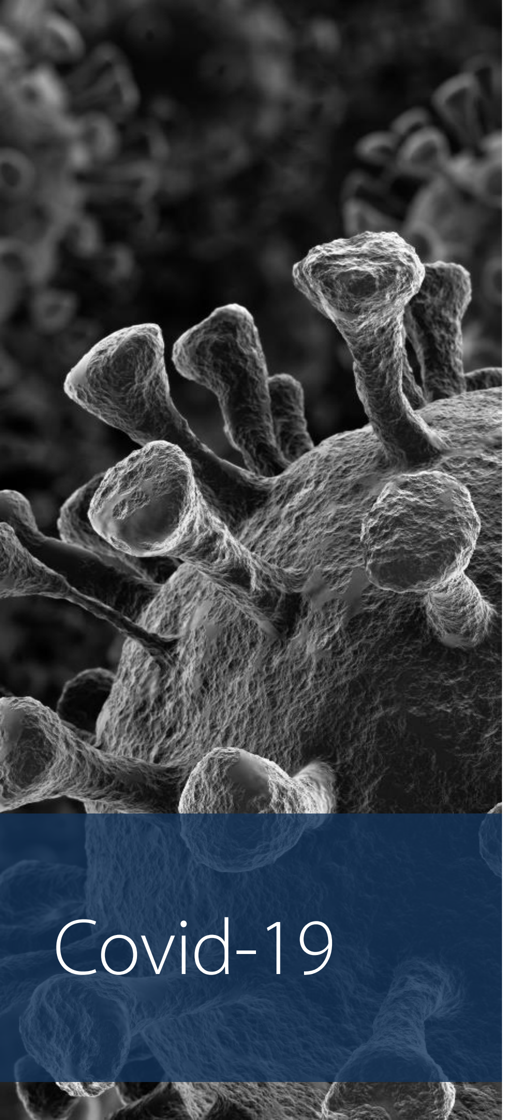
RaboResearch Food & Agribusiness

9 July 2020

Rabobank

Commodity outlook

Covid-19	Infections are on the rise again but ag prices hold firm.
Grains & Oilseeds	Downward pressure on wheat prices as Northern Hemisphere harvests pick up pace, plus diminishing weather risk means we now expect CBOT wheat to trade between 485-495USc/bu in the coming year.
Dairy	Minimum milk price offers for the 2020/21 season provide a solid platform for farmgate profitability.
Beef	Cattle prices expected to remain strong despite easing US import prices.
Sheepmeat	Restockers possibly backing out of lamb market may see prices fall further.
Sugar	Forecast rainfall highlights the possibility of a late-season finish to the 2020 crushing campaign.
Cotton	Rabobank has lowered its local price forecast, amid a darkening global fundamental outlook and ongoing AUD/USD strength.
Wool	Wool prices steady and while a long way to go, retail apparel sales show signs of improvement.
Wine	Rabobank expects recovery in US on-premise channel post 2021.
Horticulture	Rabobank expects competition from Chile to emerge in China for some citrus exports.
Farm Inputs	Below-average prices, favourable seasonal conditions and uninterrupted supply chains will support farmers applying urea this season.
FX	We have tempered our forecast and now expect the AUD to bottom out at USc 64 by Christmas.
Oil	Despite the extra buying seen during June, the fundamentals of the oil market remain weak. We expect prices of Brent Crude to spend 2H '20 trading between USD 30 and USD 40/bbl.



Global infections are again rising

The last month has been a reminder that the virus is not yet on the wane, second waves will occur in some places, and lockdowns will come and go.

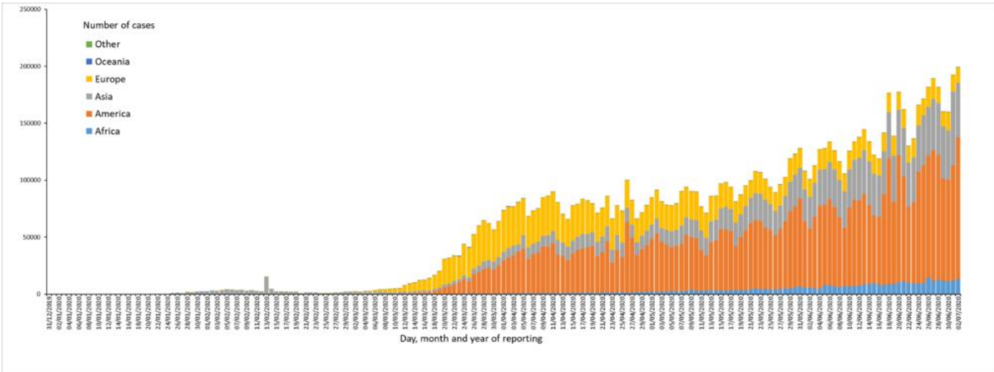
After six weeks of relative stability, global infection rates rose rapidly through June and into early July. By early July, global infections were well-above 200,000 per day, 57% above the levels we were seeing just a month earlier.

In contrast to the trend evident in May, infection rates are rising again in many of Australia's key F&A markets. New outbreaks occurred in cities like Beijing, Leicester and Melbourne, while infection rates rose in 38 US states and in Japan. To what extent this is due to increased testing may be irrelevant for F&A producers. Governments may respond in either case with increased lockdowns.

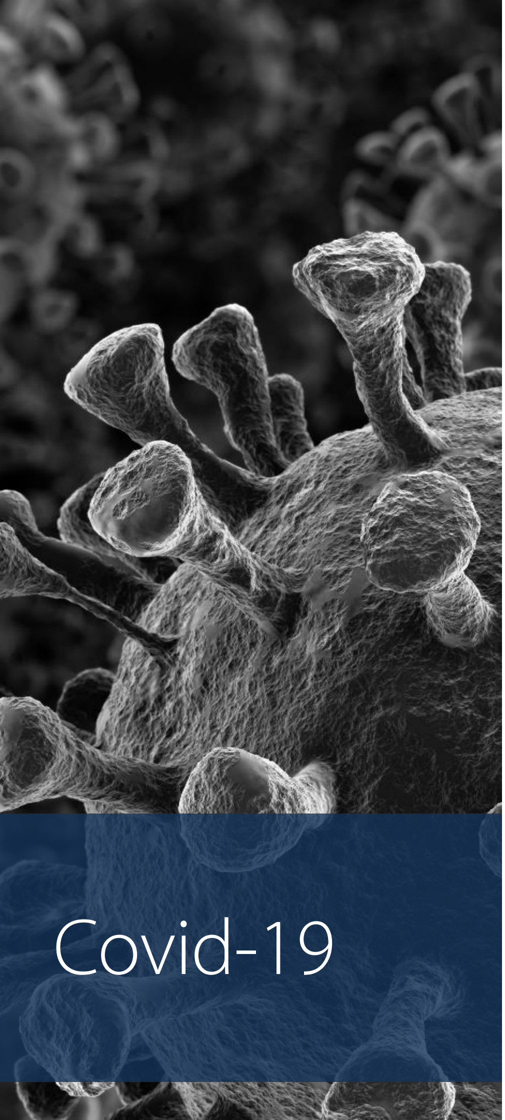
Easing is being delayed, or lockdowns re-introduced, in some cities and states as a result.

While more countries are easing restrictions than reimposing or delaying them, June has reminded us that this will not be one-way traffic.

Daily reported new cases of Covid-19 by continent



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



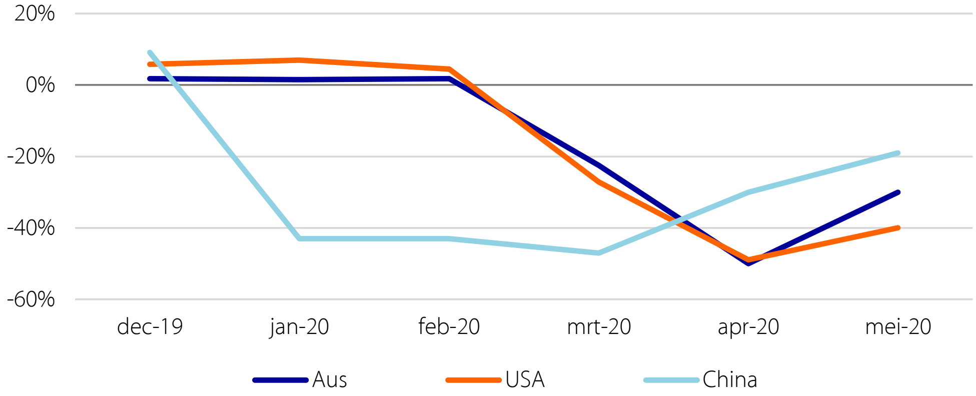
Retail remains strong but foodservice will take a long time to recover

Retail food sales are up through May in China, the US and Australia. People are eating more at home, and in some markets, consumer spending has been supported by generous government support programs.

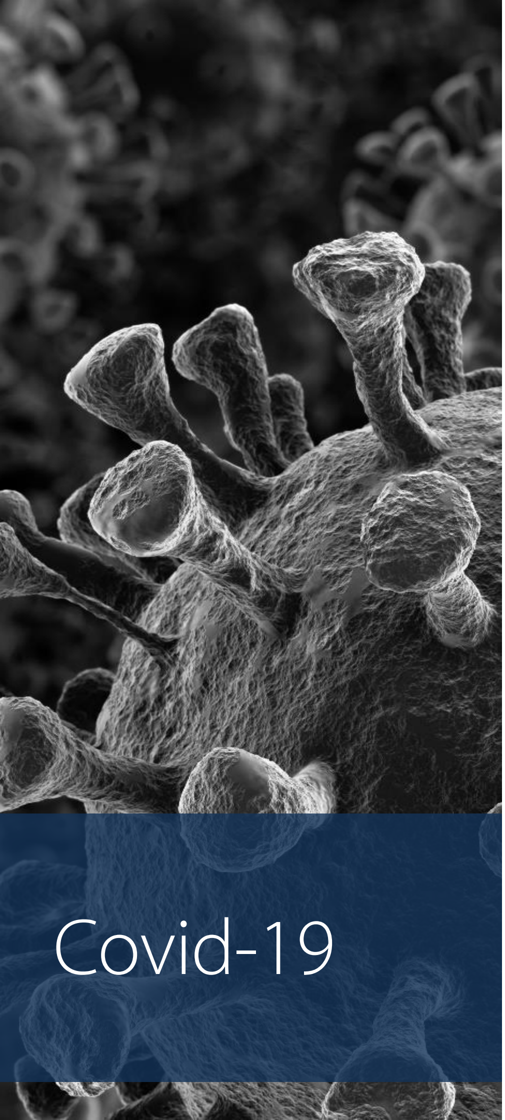
But foodservice remains heavily compromised by restrictions on people movement, the need to maintain social distancing and incomplete opening of restaurants.

China shows us that, even after lockdowns ease, the recovery of foodservice will be slow. In May, Chinese foodservice sales were still 20% below prior year levels. Rabobank expects that it will be September at least until we see the Chinese foodservice sector regain prior year sales. The recovery in the US will be even slower, as the virus is more widespread and there has been greater economic damage to consumers. Even after the global financial crisis, US foodservice took 18 months to recover. And this current crisis is significantly worse.

YOY change in food service sales – key markets



Source: ABS, China NBS, US Census Bureau, Rabobank analysis



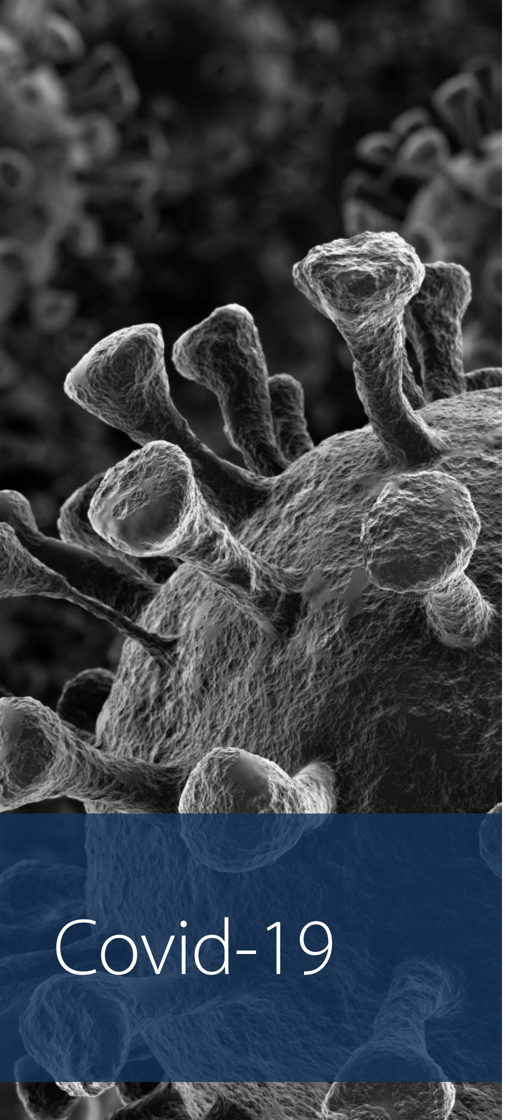
Supply chain disruptions in June were more company and plant specific

One of the features of the crisis so far has been the supply-side shocks. As covered in previous reports, earlier months saw ag supply chains in various regions impacted by labour shortages, processing problems, transport bottlenecks, port slowdowns or even government export bans.

Broad-based supply-side disruptions from Covid-19 dissipated through June. Most notably, the US meat processing industry had returned to more normal operations by the end of the month.

But company or plant-specific disruptions remain common. Following the outbreak of infection at a Beijing wholesale food market, Chinese authorities have become concerned by the (scientifically unproven) potential for the virus to be transported on meat. This led to inspection of imported meat at several ports and banning blocking market access for around 20 plants around the world with known high infection rates of workers. Covid pressures have also helped push Chinese trader, and significant buyer of Australian cotton, Weilin into voluntary administration, causing headaches for growers. Several cases at a Coles distribution centre in Laverton also caused temporary shortages of various fresh and frozen product lines at that retailer's Melbourne stores.

While none of these disruptions have the same breath of impact as those we saw in the market through May, they can still be highly impactful for those supplying these companies or plants. And for those not directly impacted, they are ***a reminder of the heightened risk environment in which businesses operate in 2020 – even in food and agriculture.***



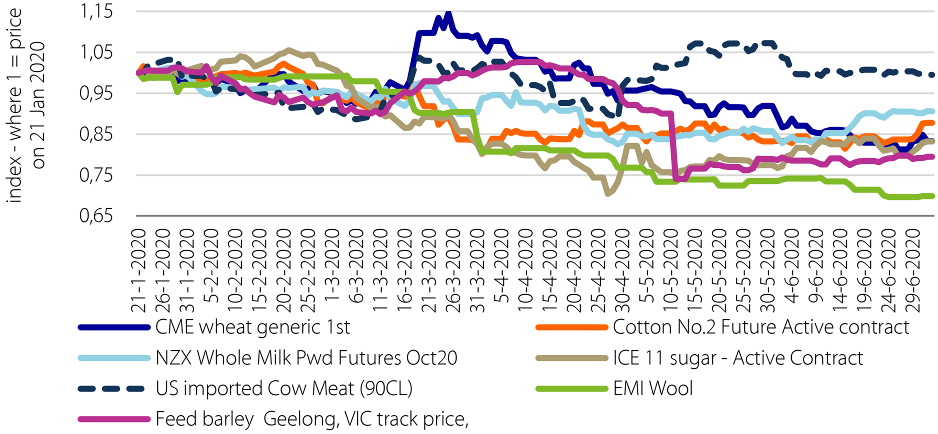
Commodity prices continue to hold

Despite heavily compromised end-consumption of F&A products around the world at the moment, markets for most commodities which Australia exports held their ground through June. For sheep and beef, weak end demand has been offset by supply disruptions in other markets, including ASF (African Swine Fever) in China, US meat processing plant restrictions, and heavy falls in Australian production as the industry restocks after years of drought. Demand for dairy products has been supported by government intervention in the US and the EU.

The combination of government support for consumers, supply-side shocks and market intervention have helped keep USD commodity prices firm. This has underpinned farmgate prices that for most Australian producers remain above breakeven, despite the lack of significant softening in the AUD.

We remain wary of what might happen if government support for consumers and market intervention wanes in coming months. But so far, Australian ag is doing remarkably well in this crisis.

Index of various ag commodity prices in AUD terms since 20 January 2020



Watching for La Niña

Rabobank

The Bureau of Meteorology (BOM) shifted the El Niño–Southern Oscillation (ENSO) outlook to 'La Niña watch' last month.

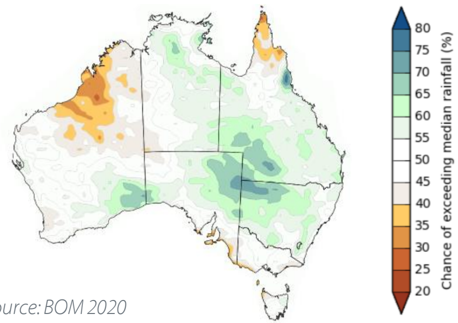
The chance of a La Niña forming this year, is about 50 percent. 3 of the 8 international climate models expect ENSO to break La Niña thresholds during October. La Niña events are associated with above-average spring rainfall in northern, central and eastern Australia.

50 percent of international climate models expect the Indian Ocean Dipole to exceed negative thresholds during October. BOM added that forecasting accuracy is low for this time of the year.

Despite major climate drivers moving more favourably, the three-month rainfall outlook has become less favourable. This is primarily due to the influence of a positive Southern Annular Mode (SAM), which typically brings less rainfall to southwest WA, southern Vic and Tasmania.

A less favourable outlook

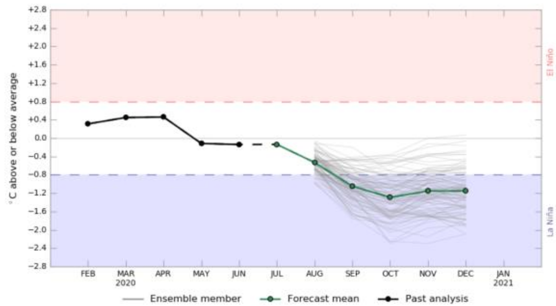
July-September rainfall outlook



Source: BOM 2020

Chances of La Niña during spring have increased

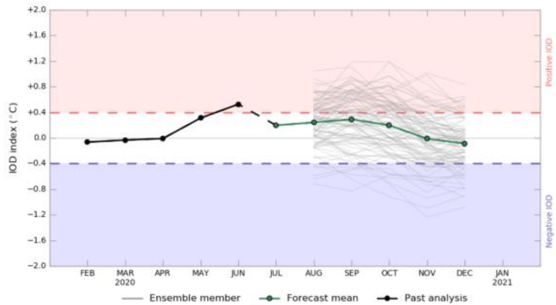
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

A negative IOD may bring above-average rainfall

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2020

Dry June depletes stored soil moisture

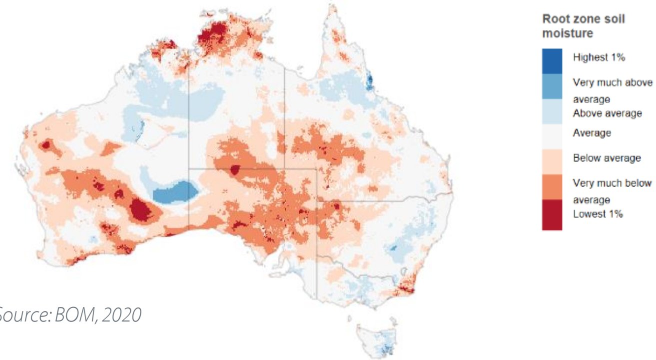
A string of months with above-average rainfall was broken during June, with nearly the whole country recording average to below-average rainfall.

Low to moderate falls were recorded across the country during June. Only parts of southwest WA, high country in Victoria and parts of Tasmania received greater than 100mm during the month.

As a result, soil moisture stocks were depleted on their side of the country. This is of more concern for WA farmers who now have below-average soil moisture, as crops head into flowering and grain-fill. Given the high volume of rain in recent months on eastern cropping regions, soil moisture remains average to above average.

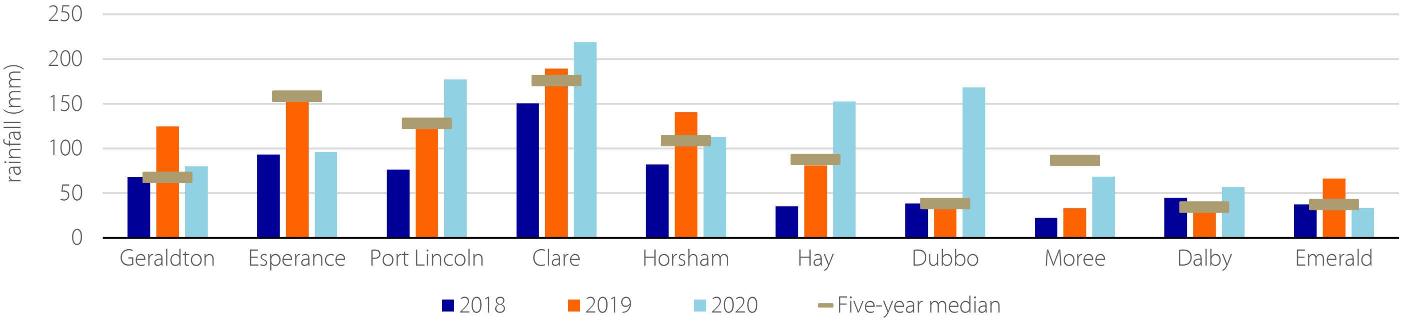
Soil moisture remains favourable

Relative root-zone soil moisture, 31 May 2020



Source: BOM, 2020

1 April – 30 June recorded rainfall, 2020



Source: BOM 2020

Global grains to reach new heights

Northern hemisphere harvest pressure has pushed global wheat prices 5% lower MOM, with demand proving inadequate to keep CBOT prices above USc 500/bu. The passing of key weather risk windows supports global grain production forecasts for 2020/21 that exceed 2.2bn tonnes. This new height in production, together with lacklustre demand growth prospects, has pushed our 12-month grain forecasts lower.

Covid-19-related uncertainty continues to play on global grain and oilseed markets, as does ongoing tête-à-tête in the US-China relationship. However, this month, growing confidence in supply was the major influence on markets. In particular, late May rains halted further downside for EU and Russian winter wheat production. Russian spring wheat will require nearby rainfall to maintain yield prospects, but as it represents only 30% of the total Russian wheat crop, remaining risk is limited. Condition ratings for the US spring and winter wheat crops have been average to above-average and while annual production will be down YOY, conditions have been supportive of meeting market expectations. Australia's outlook for supply recovery continues to support Southern hemisphere supply, despite dryness concerns for Argentina. ***We now expect CBOT wheat to trade between 485-495USc/bu over the coming year.***

CBOT corn prices moved mostly sideways in the sub-USc 340 range, but did open July with a move above USc 340/bu in response to the USDA planted area of corn estimate being revised down an unexpected 5% in their 30 June update. On the demand side, US ethanol production is returning to 78% of last year, and US feed grain demand increasing, as processing plants bring capacity back online, is keeping corn prices off April lows. Despite these demand improvements, Rabobank forecasts ***CBOT corn prices in the range of USc 320 - USc 340/bu through the next 12 months – a decline from last month.***

Locally, wheat prices fell by between 7% (NWC) and 13% (KWI) last month, in line with global decline and declining basis. Conditions in Victoria, South Australia and most of NSW continue to support yield upside, although regions of Western Australia, southern Qld and western NSW will need rain in the next fortnight to avoid yield downgrades. East coast barley markets remain choppy in their 'post-Chinese tariff lower ranges', as buyers reconcile near-term demands with new crop supply firming in the wings. Export zones are, and will continue, to trade flat as demand from international feed markets drives prospects. With our revised lower outlook for global wheat and corn prices, but still with expectations of AUD softening (though to mid USc 60 range rather than our previous low USc 60 range), we now see APW NWC trading at AUD 320/tonne in Q4 this year.

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Grains & Oilseeds

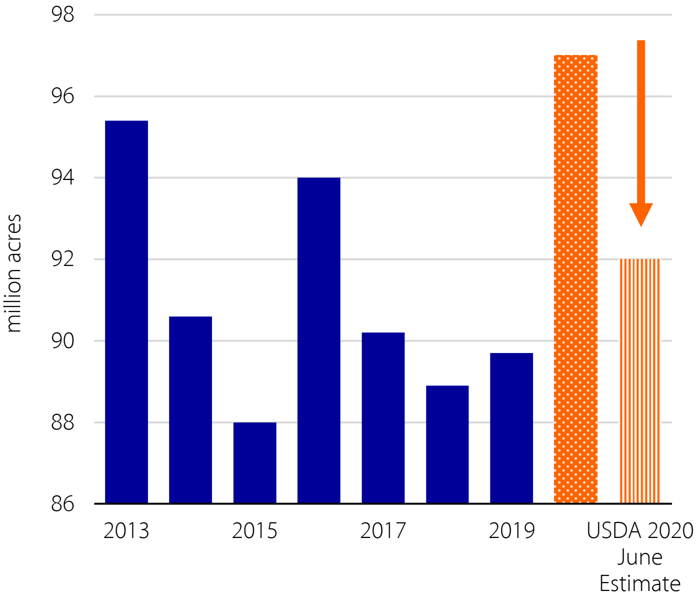
What to Watch

- ***La Niña –*** the chance of La Niña forming is now 50%, and double the average likelihood, according to the Bureau of Meteorology. If the weather system eventuates, it will bring increased rainfall, particularly in central, eastern and northern parts of Australia. In contrast, La Niña typically delivers reduced rainfall to Argentina which the USDA continues to slate for record wheat production, despite already dry conditions.
- ***India lentil tariff reduction –*** India has temporarily reduced its tariff on lentil imports from 33% to 11% until 31 August, meaning we expect local demand to be supported during July. With 2020 Indian lentil production having come in well-below government targets, we don't discount the potential for an extension of the tariff relief on lentils.

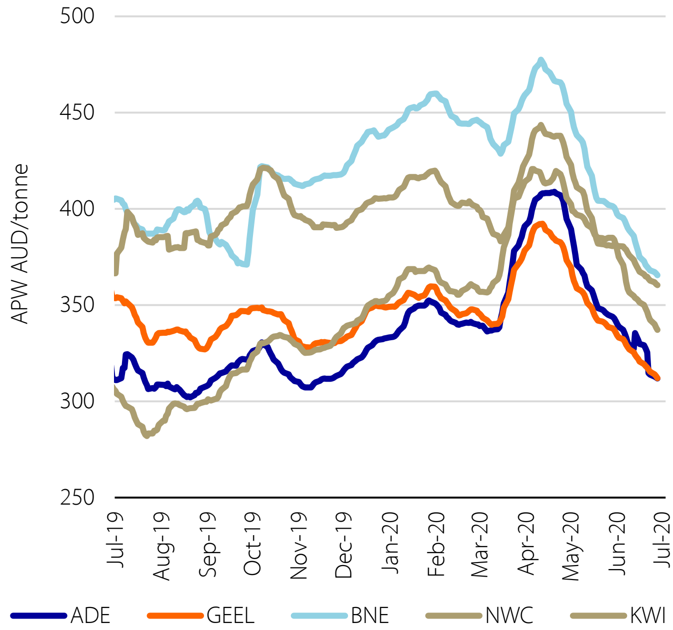
Record tonnes despite surprise US corn decline

Rabobank

USDA surprises with sharply lower 2020/21 US corn acreage estimate in June



Confidence in AU new crop prospects and dampening demand push local prices lower



Source: USDA, Rabobank 2020

Dairy

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Global market risks lay ahead

The recovery in Australian milk production is gathering pace. Healthy price signals and favourable seasonal conditions start to show real benefits. National milk production was 6% higher for the month of May. This brings milk production season-to-date to down just 0.8%. At the end of the spring flush, milk production was down as much as 5%. Rabobank is forecasting milk production to expand by 3.4% in the current season (2020/21).

The Australian dairy sector is well-placed with the 2020/21 season now underway. Most dairy farmers across the southern export regions have started the season with some of the best seasonal conditions they have had for a number of years. Importantly, the climate outlook remains broadly favourable. Trading conditions are also attractive. Dairy farmers will likely see lower purchased feed bills, attractive livestock trading conditions and affordable fertiliser pricing.

Rabobank's revised farmgate milk price forecasts stands at AUD 6.35/kgMS for 2020/21. Official minimum prices have been released by all dairy companies, with offers ranging between AUD 6.10/kgMS and AUD 7.20/kgMS across the southern export region, highlighting the range of business models and recruitment and retention strategies at play across the sector.

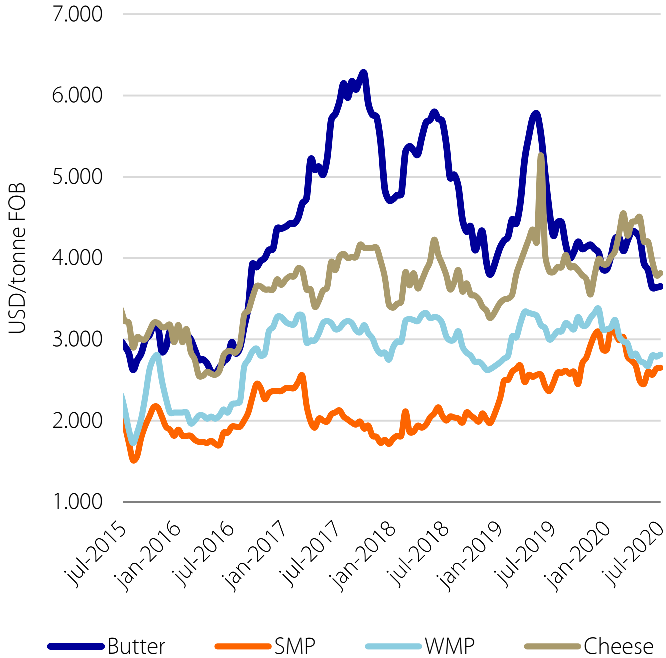
There are still global risk ahead for dairy exporters. Many dairy markets are still dealing with imbalances from demand destruction due to government lockdowns. The heightened retail sales and lower foodservice sales will begin to converge, returning to a more normal balance, but it will take time. Once government aid and market support slows, market fundamentals will again take hold in a slower economy that will take time to heal from the pandemic's economic damage. Inventory build will put downward pressure on dairy product prices in the months ahead due to the combination of heightened levels of stocks and competition for reduced import demand.

What to watch

- ***Price risk sitting in export books.*** The domestic market is a good safety net for the industry. The dairy companies have announced stronger-than-expected minimum price offers. But the industry is still largely bound by global market forces and there are clear headwinds for the export sector ahead of the seasonal peak in milk production.

Resilient production growth across export regions

Global dairy prices, 2015-2020

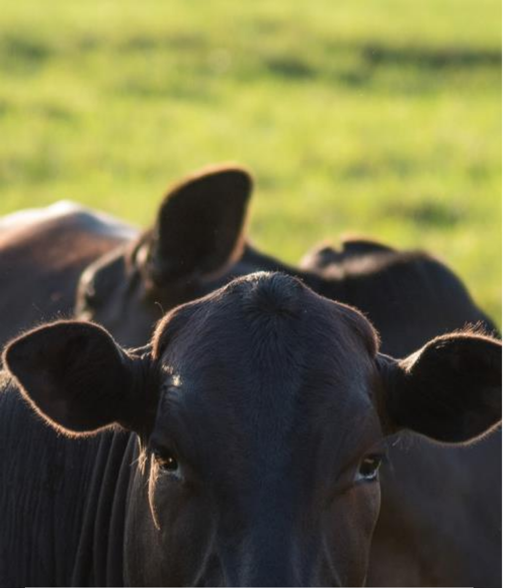


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	*Last three months*
EU	0.4% (Apr 20)	1.1%*
US	-1.1% (May 20)	0.9%
Australia	6.0% (May 20)	6.5%
NZ	0.4% (2019/20 full season)	

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



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Beef

Cattle prices staying high

After the resumption of saleyard reporting, the EYCI continues to reflect limited cattle numbers and strong demand from producers. The restocker portion of the purchasers buying cattle that make up the EYCI has jumped to 46% in June, the highest proportion since July 2017. The EYCI was AUD 7.63/kg cwt on 2 July. All other cattle categories continued to experience strong prices through June but we saw US import prices fall following the drop in US domestic beef prices and the return to more normal processing volumes. ***While seasons continue to remain favourable, we believe strong producer demand and limited cattle supplies will continue to keep cattle prices high. However, with US production back online and US import prices dropping back towards pre Covid-19 levels, easing US import prices might start to work their way back up the supply chain.***

East coast weekly cattle slaughter numbers continue to be very low. The weekly slaughter numbers for May and June, with no volume over 130,000 head, are some of the lowest consecutive volumes seen since 2016. Female cattle slaughter in Queensland and NSW now represents 34% of the total cattle slaughter with female slaughter volumes down 20% for the year-to-date (end June). National monthly slaughter for April was up 2%, as April 2019 was a lower volume. Year-to-date national cattle slaughter is down 2%.

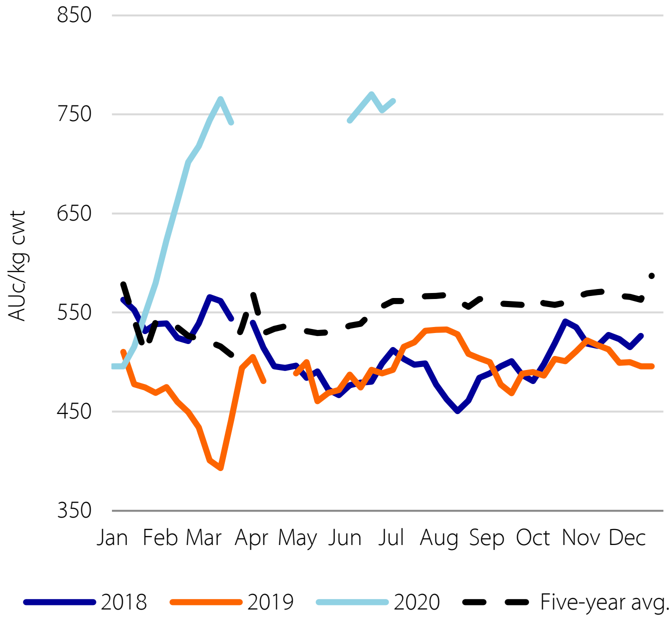
May beef export volumes, reflecting the lower slaughter numbers, were down 7% year-on-year. Volumes to Japan and the US were down 12%, respectively, while exports to China were up 6% and to South Korea up 2% year-on-year. Live cattle exports were down 14% in May year-on-year, with volumes to Indonesia down 25%, although volumes to Vietnam were up 14%. Live cattle export prices out of Darwin to Indonesia (AUD 3.40/kg lwt) have lifted to some of the highest levels for this time of year. The Indonesia-Australia trade agreement entered into force on 5 July, reducing the tariff on live cattle from 5% to 0% which will help importers.

What to watch

- ***China safeguard trigger*** – Australia reached the safeguard trigger for beef under the 2015 Chinese trade agreement (179,687 tonnes) at the beginning of July, and tariffs will increase from 4.8% to 12% (for most cuts). This now brings us back into line with the other major exporters that don't have trade agreements. We reached the safeguard trigger in August last year but due to demand from China we continued to export record volumes. We expect export volumes to China (recognising there are other limitations) to continue to remain strong.

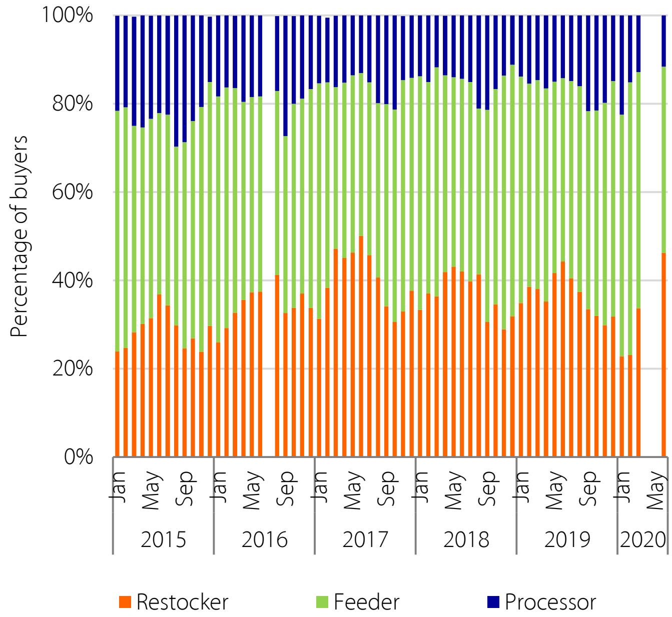
Producers continue to dominate buying and keep Australian cattle prices high

The EYCI continues to trade in rarified air after recording took a small break



Source: MLA, Rabobank 2020

Restockers dominate the young cattle (EYCI) market



Source: MLA, Rabobank 2020

Sheepmeat

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Prices come off the boil. Is restocking buying activity slowing?

Lamb prices have taken a tumble through June. The Eastern States Trade Lamb Indicator fell 15% since the beginning of June to AUD 7.86/kg cwt on 2 July. Price drops occurred across all saleyard sold lambs and sheep. However, OTH prices saw a much smaller decline over the month, suggesting that producer demand, rather than processor demand, has eased off. In mid February, saleyard prices for heavy lambs were trading at a premium of AUD 1.41/kg over OTH prices. That premium has now dropped to AUc 30/kg. ***Although seasonal conditions remain favourable, the drop in saleyard prices might just signal that producer demand is easing off and therefore prices might retreat to more sustainable levels.*** Looking at previous years (2017, 2018, 2019), there was generally a five- to six-month period between prices rising and returning to pre-peak levels. We are now into our sixth month since prices started rising in January, and restocking demand may have run its course.

Slaughter volumes continue to remain low. Eastern states weekly slaughter numbers for the month of June show lamb slaughter was down 8% and sheep slaughter was down 47% on the same period last year. National slaughter numbers for the month of April show lamb slaughter (1.58m head) was down 14% and sheep slaughter (411,000 head) was down 38%.

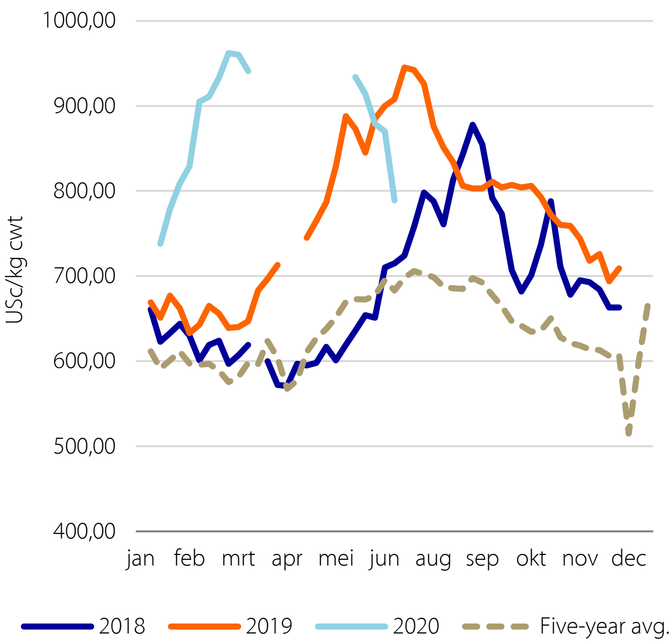
Lamb exports continue to track lower following reduced production. Total lamb exports for the month of May were down 39% year-on-year, with large drops in most markets. Volumes to the Middle East were down 50%, China down 22%, and the US down 33% year-on-year.

What to watch

- ***US import prices –*** The reduced foodservice trade in the US as a result of Covid-19 shutdowns is now starting to show in Australian exported lamb prices. Cuts more likely to be destined for the foodservice trade have seen a larger fall in prices than other cuts. For example, racks have fallen 11% since the beginning of March. While the average US import price for Australian lamb has only dropped 2% in that period, changes in cut values will affect the overall value of the carcass.

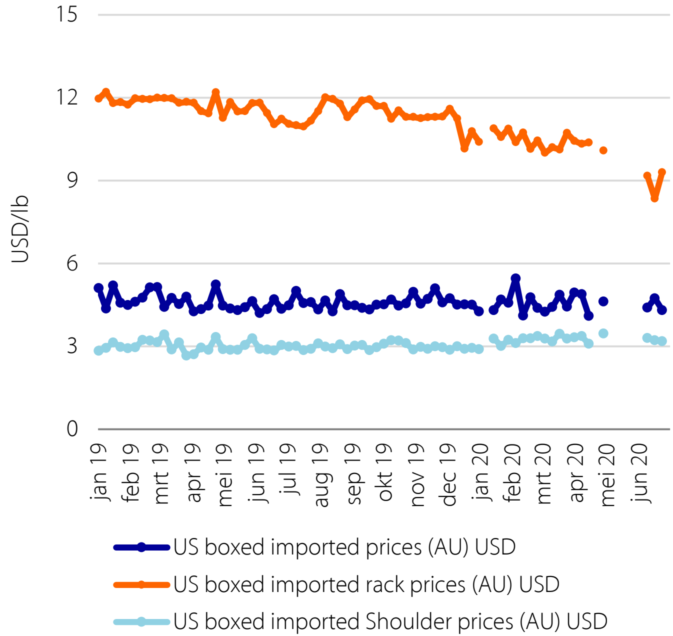
Lamb prices drop from their peak, as weaker foodservice trade softens US import prices

ESTLI takes a tumble from its lofty heights



Source: MLA, Rabobank 2020

US-imported lamb rack prices have dropped with reduced foodservice trade



Source: USDA, Rabobank 2020

Early rains delay play

A 4.3m tonne global deficit is now forecast by Rabobank in 2019/20, a reduction from our 6.7m tonne forecast. This follows a reduction in our 2019/20 global consumption forecasts following Covid-19. We estimate a flat to a 1% decline in consumption due to the effects of restrictions and lower consumer confidence, particularly in countries such as India, Indonesia and Brazil. For the 2020/21 season, Rabobank forecasts a shift back to a small global surplus of 0.85m tonnes due to a 1.7% YOY recovery in global consumption.

Early June saw the start of the 2020 crushing campaign, with almost 5% of national harvest complete as of 28 June – according to the ASMC. Mills are operational across Northern & Central Queensland and the Herbert/Burdekin region. Still, wet weather delays dampened early progress in the Tully, Herbert and Burdekin areas – the campaign is currently just 1.6% behind last season, yet 41% behind 2018. An above-normal three-month rainfall outlook is forecast for coastal Queensland – according to the BOM – which raises the possibility of a late-season finish. ***Rabobank forecasts Australian 2020 cane production to reach 31m tonnes,*** up 1m tonne YOY, with sugar production forecast to reach 4.3m-4.4m tonnes. However, early-season CCS – at 11.86 as of 28 June, versus 12.33 in 2019 – is particularly low, but is anticipated to improve.

Rabobank forecasts local sugar prices to improve towards AUD 415/tonne by Q1 2021, following a bearish short-term ICE #11 view (USc 10.5/lb in Q3 2020). However, these levels do not account for higher 2020 regional premiums which should benefit seasonal grower margins. Elevated premiums follow a deepening 2019/20 Asian supply deficit and, as a result, strong demand prospects in Australia's major export markets – namely South Korea, Japan, Indonesia. Thai sugar premiums, for example, currently sit 200pts-300pts above the global futures market.

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Sugar

What to watch

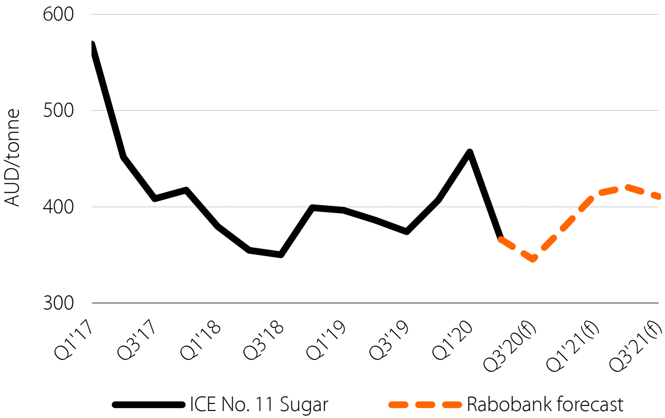
- ***In June, Rabobank released its latest fundamental forecasts and expectations in its Q2 Sugar Quarterly,*** including updates on Australia, Brazil and major players in Asia and around the world. You can access the latest Q2 Sugar Quarterly here.
- ***The renewal of 2020/21 Indian export subsidies appears likely***, with a decision expected this quarter. India's export subsidies will likely return as an influential price factor in 2020/21, as fundamentals switch to a small global surplus and exports become more competitive.

Rabobank estimates a flat to a 1% decline in global consumption as a result of Covid-19

Rabobank

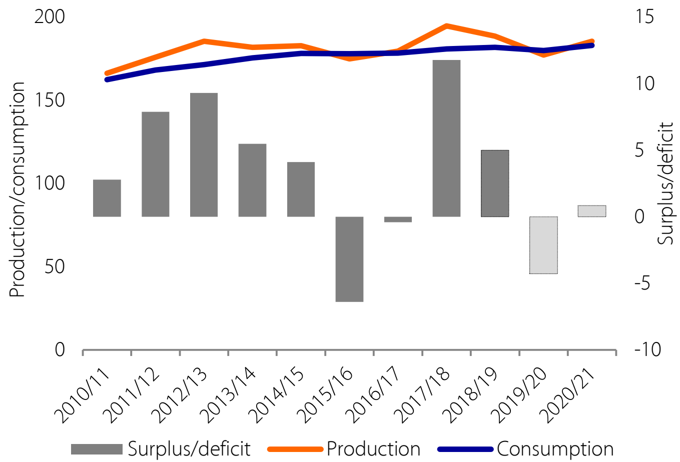
Rabobank holds a bearish short-term view, with prices rising towards AUD 420/tonne by mid 2021

	unit	Q4'19	Q1'20	Q2'20	Q3'20(f)	Q4'20(f)	Q1'21(f)	Q2'21(f)	Q3'21(f)
ICE #11	USc/lb	12.5	13.6	10.9	10.5	11.0	12.0	12.2	12.3
AUD/USD		0.68	0.66	0.66	0.67	0.64	0.64	0.64	0.66
Sugar	AUD/t	407	457	366	346	379	413	420	411



Source: Bloomberg, Rabobank 2020

Rabobank forecasts a 4.3m tonne 2019/20 global deficit and a small global surplus in 2020/21



Source: FO Licht, Rabobank 2020

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Demand hangs by a thread

Demand destruction continues to linger in the fibre supply chain, with UK clothing sales down 63% YOY in May, Chinese April clothing sales falling 18.5% lower YOY (although now recovering), while April clothing and apparel sales in Australia fell 65% YOY. As a result, the USDA now forecasts a 15% YOY fall in global cotton consumption – the largest fall on record. Stress is already felt in the physical trade, with delivery deferrals reported and export sales flat-lining. In the US, for instance, non-China export sales have grown just 3% since late March. Given lower consumption, Rabobank anticipates 2019/20 stocks to build sharply at export origins – all origins except Australia, due to the 12-year low in 2020 production. Still, there is light at the end of the tunnel – as Covid-19 restrictions lift, we forecast 2020/21 global demand to grow 8% YOY. The start of a slow, but sure, demand recovery.

Rabobank has lowered its local price forecast, amid a darkening fundamental outlook and AUD/USD strength. Most significant is our bearish ICE #2 Cotton forecast to USc 54/lb in Q3 2020, amid building 2019/20 world stocks and falling export demand, which will be compounded by a stronger 0.64 six-month AUD/USD forecast. Furthermore, a more crowded export market will pressure – but not eliminate – local basis premiums, certainly from 1H 2020 highs (+1000 pts). Rabobank forecasts sub-AUD 500/bale spot prices in 2020, rising back towards AUD 500/bale by Q2 2021.

2020/21 exports start at a snail's pace, amid a small crop and demand concerns. Season-to-date exports, from March, reached 123,840 bales - down 69% YOY and just a third of the five-year average. Interestingly, China's share of domestic purchases have fallen to 47% this season – down from 555-65% from the two seasons prior. Vietnam, Indonesia and Japan have stepped in on the demand side, taking a 49% share between them to start the 2020 export season.

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Cotton

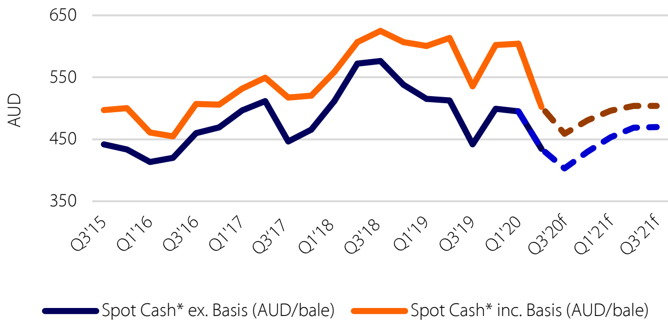
What to watch

- ***Rainfall will be front-of-mind for growers in coming months***, as attention turns to 2020/21 season planting. Central NSW looks to benefit from a wetter-than-normal outlook, according the BOM's August to October climate outlook.
- ***China continues to purchase vast volumes of US cotton,*** as part of its trade deal obligations – a major factor supporting the ICE #2. However, volatile relations between these two superpowers brings into question whether these cotton supplies will ever be shipped.

Covid-19 demand destruction lingers, driving up global cotton stocks in 2019/20

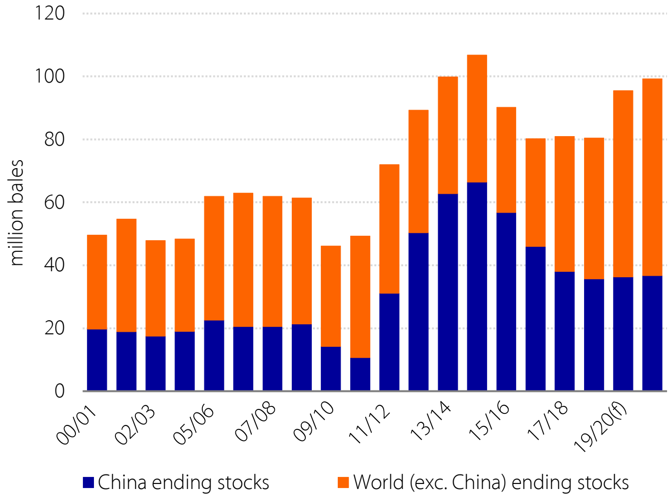
Prices forecast to trade below AUD 500/bale in 2H 2020, primarily the result of a weaker ICE #2 market

	unit	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE #2	USc/lb	65	57	54	55	58	60	62
AUD/USD		0.66	0.65	0.67	0.64	0.64	0.64	0.66
Basis	Pts/lb	1436	887	750	650	550	450	450
AU ex. Basis	AUD/bale	495	435	403	430	453	469	470
AU inc. Basis	AUD/bale	604	502	459	480	496	504	504



Source: Bloomberg, Rabobank 2020

Global stocks are set to expand +20% in 2019/20, as lower demand sees inventories build at origin



Source: USDA, Rabobank 2020

China continues to purchase vast volumes of US cotton, as part of its trade deal obligations – a major factor supporting the ICE #2. However, volatile relations between these superpowers could disrupt this trend.

Wool prices steady

Wool prices continued their decline over June. The EMI started at AUc 1183/kg on 5 June and drifted down 5.8% to AUc 1114/kg by 1 July. The end of June saw the lowest EMI price (AUc 1110/kg) since April 2015. Prices across all microns declined, with falls relatively evenly distributed across fine and coarse wool. The sharpest decline was observed in 25 micron wool, recording a 9% MOM fall. The May retail apparel sales data shows marked improvements on previous months. Although not back to pre-Covid-19 levels they do provide some comfort as the Northern Hemisphere prepares for the winter fashion season. ***Looking to the month ahead, we see the EMI hovering around AUc 1100/kg before starting a slow recovery in August.***

Wool test data for June showed the weight of wool tested was up 4.4% for the month on 2019 levels but this was off the back of a very low month in April. The total wool tested for the 2019/20 year was 1.65m bales, down 7.4% on the previous year. Generally, wool test data across all microns was down in 2019/20, although 13.5 micron and finer volumes were up and 19.6-20.5 micron was steady. 22.6-23.5 micron saw the largest drop, with bales tested down 20.5%.

May wool export volumes (17.9m kg) were down 27% on 2019 volumes, as reduced production meant less wool available but also lower prices meant some producers withholding wool from sale. China increased its dominance of the export market, accounting for 92% of total exports. Although not taking larger volumes, China's growth in market share is accounted for by reduced exports to other countries such as India, Italy and the Czech Republic where May volumes were down 85%, 52%, and 98% respectively year-on-year.

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Wool

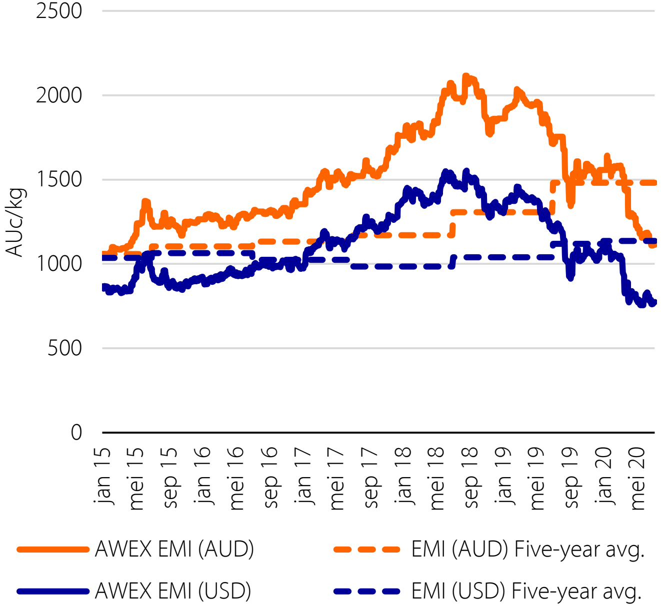
What to watch

- ***Apparel sales on the up*** – May retail apparel sales show strong improvements in China (-0.6% YOY, up from -19% in April), Australia (-19% YOY vs -65% in April) and US (-63% YOY vs -87% in April). As lockdowns ease, we expect retail sales to continue improving. However, we do not expect sales to return to pre-Covid levels as deteriorating economic conditions continue to weigh on consumer sentiment, especially for spending on non-discretionary items such as wool clothing.

Wool prices steady as apparel sales show signs of recovery

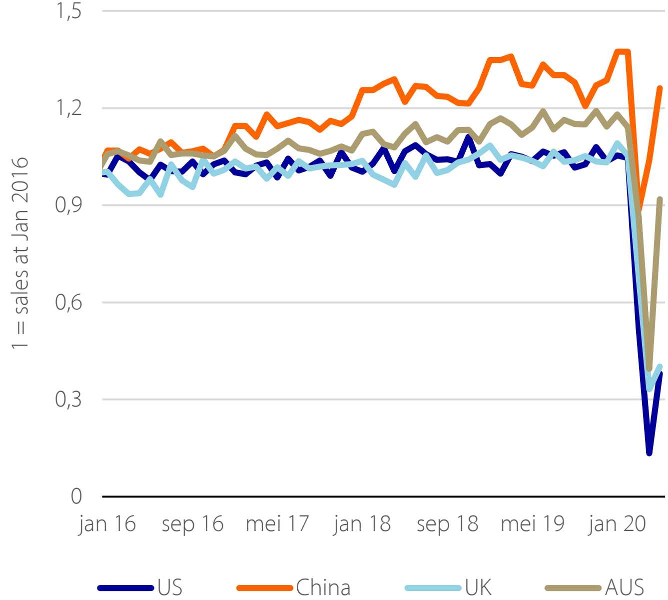
Rabobank

EMI looks to be stabilising at low AUc 1100/kg



Source: Bloomberg, Rabobank 2020

Apparel sales bounce back in China and Australia but US and UK show weaker recovery



Source: Bloomberg, Rabobank 2020

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A Mixed Case In 2020

The influence of Covid-19 on Chinese wine demand is becoming clearer as we move through 2020, with the impacts pronounced in February through to April.

We estimate that total Chinese wine imports across the period from January to April 2020 dropped by around 50m litres, or 24 percent, YOY from all sources. Australia was not immune but others, such as Chile, experienced greater declines. After a spike in sales in January leading into Chinese New Year, looking at alcohol export values for Australia for the period February to April, we estimate the reduction in sales value to China is around 35 percent YOY.

But it's not all bad news

Sales to the US and the UK over the same period have been positive with a slight YOY uptick in AUD values for exports, with sales to New Zealand flat YOY.

The US market has shown some signs of recovery, but future Covid-19 outbreaks and containment measures will make a return to growth in on-premise a moving target.

The US market is of course squarely in the sights of long-term planning for value growth for Australia, seeking a larger share of the all-important premium US wine market. This channel has obviously been very disrupted and the strategies that existed prior to Covid-19 for the US will need to evolve.

In the US wine market, retail continues to capture lost on-premise sales, but not all. The rise in sales via large format retail will not be reflective of total sales channel changes across all retail. We expect the return to growth in the on-premise channel to not occur until post 2021 – refer to our latest wine quarterly for a more in-depth view on the US premium wine market.

Wine

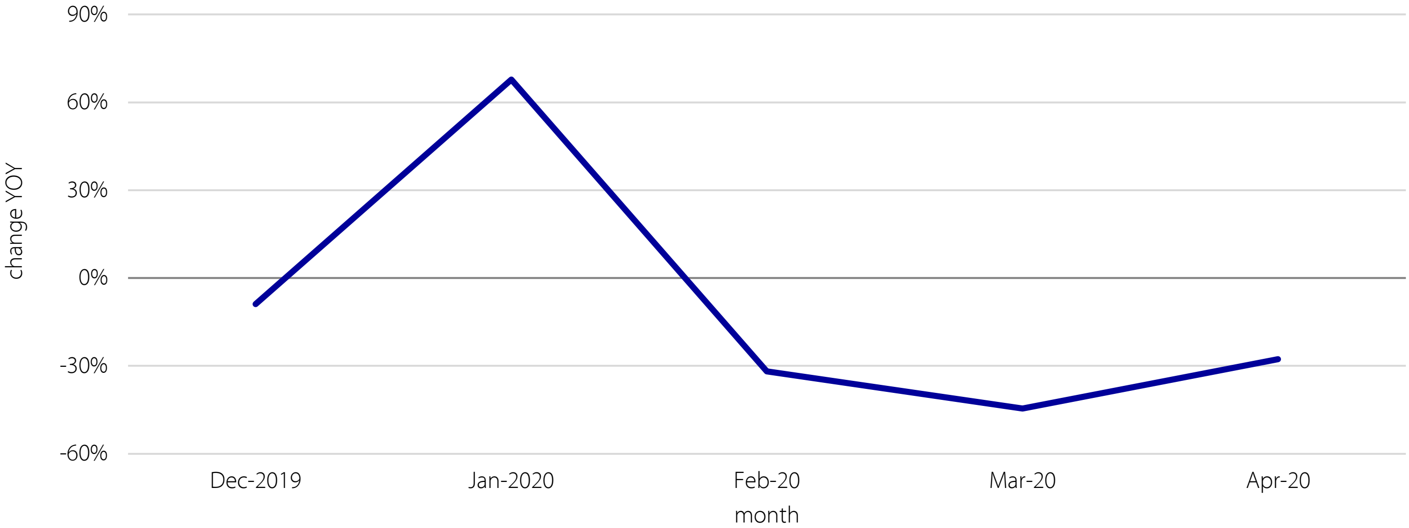
What to watch

- ***Opening up, then closing down again, of US markets –*** Recent re-opening of restaurants and bars in states such as Florida and Texas showed positive early signs of recovery for US on-premise sales. Resurgence of Covid-19 and reimplementation of containment measures could reverse this.

Covid-19 Impact Becomes Clearer For China

Rabobank

Estimated Australian wine exports to China, YOY fob AUD value change



Source: ABS, Rabobank 2020

After an uptick in sales early in 2020, the impact of Covid-19 through to April takes the shine off.

Horticulture

Heading for An Export High

Australian horticultural exports, by value, look on track to rise to a new level over the export year to June 2020

As at April 2020, exports of fruit, vegetables and tree nuts are running around 14 percent ahead of the same period in 2019, at around AUD 3.5bn. Even accounting for the disruption caused in the early part of 2020, total exports to the Chinese market have risen by around 40 percent YOY, with almond exports a key influence to this figure. A significant rise in export values YOY will be pleasing for the fresh vegetable sector.

Chile has commenced exports of citrus to China with recent clearance to that market

Under new market access terms, the first shipments of citrus fruit have been sent from Chile to China. Chile is already a competitor for Australia in some citrus categories and markets, such as Japan. The largest market for Chile remains the US, but China will be an attractive new market for the Chilean sector - Citrus imports into China have more than doubled every year by volume since 2014.

China has also been seeking exporter registrations

New Zealand exporters have recently been asked by Chinese authorities to provide a register of processing facilities linked to exports of horticultural products to China. The expectation is that China will be seeking these from other trading partners as well. At this juncture, it is not proposed these registers are to be used for border clearance.

What to watch

- ***Second wave of Covid-19 in China –*** Any major secondary disease outbreak will bring further disruption to the supply chain and economy – this could spill into neighbouring trading partners, impacting two-way trade with China and impeding economic recovery. This brings potential downside price risks to fresh produce exports.

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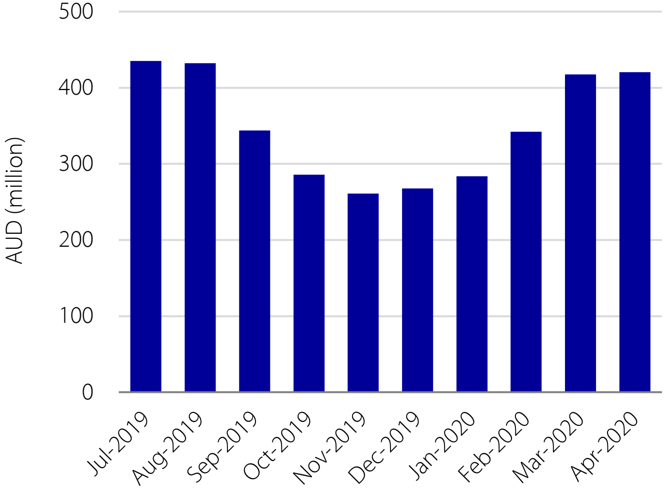
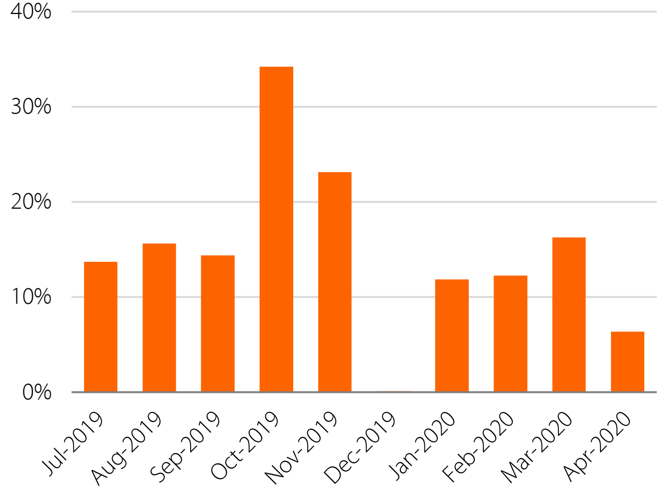
Exporters Benefit From Good Demand

Total Australian horticulture exports, value 2020 marketing YTD



All horticulture exports, YOY change value AUD



Source: ABS, Trade Map, Rabobank 2020

Fresh vegetable exports have been a strong contributor to the above results, up 21 percent YOY for the period.

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Farm Inputs

Full steam ahead for urea applications

Below-average prices, favourable seasonal conditions and uninterrupted supply chains, will support farmers applying urea this season.

Global urea benchmarks continue to trade well-below the 10-year average, driven by factors both on the demand and supply side.

On the supply side, the cost of raw materials has fallen, in line with other global energy benchmarks due to Covid-19-related factors. Natural Gas (NG1 – NYM, USD/mmbtu) is down 29 percent YOY, while thermal coal (ZCE, USD/mt) is down 20 percent YOY. Similarly, global demand for urea has been underwhelming, particularly in the US where the increase in planted acres is much less than previously expected, following major floods in 2019.

A key driver of global prices moving forward will be the activity of India and China in the global market. Indian suppliers will reduce dependency on global supplies this year, as domestic production ramps up. We expect prices to somewhat recover during Q3, due to seasonal demand from the Northern Hemisphere. However, any price increase will be tempered by an increase in Chinese exports.

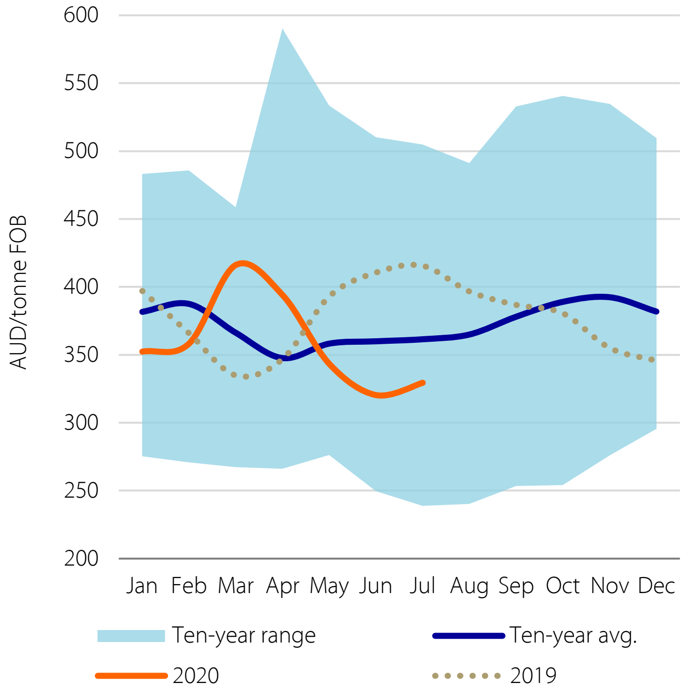
While disadvantageous for local exporters, an increase in the local dollar has supported purchasing power during the peak importing season. However, AUD does remain historically weak, against the USD, hence global urea prices are trading much closer to the 10-year average in local currency terms, than in USD terms.

What to Watch

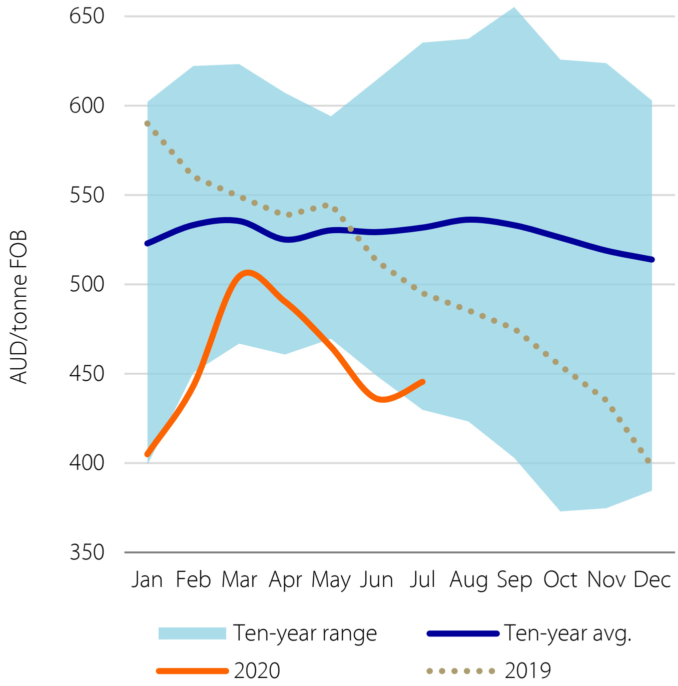
- ***Thailand ban on Paraquat and Chlorpyrifos -*** Thailand has now banned the use, import and production of Paraquat and Chlorpyrifos. For imported products, the maximum residue limit (MRL) tolerance is now zero.
- ***Omethoate ban on canola destined for EU*** - Omethoate (Le Mat®) has has been added to the list of chemicals that Australian farmers will need to report on to maintain their EU International Sustainability and Carbon Certification (ISCC). At this stage, the requirement is that Australian farmers establish/commit to phasing out use by 2023, or not have access to a) ISCC premiums and/or b) the European market.

DAP prices remain near 10-year lows

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

Rates & FX

AUD downside this year is shrinking

The AUD rose another 2% against the US dollar from end of May to 4 July. At USc 69.4, it is now 1% above pre crisis levels.

The AUD has clearly outperformed our expectations through the second quarter.

There is plenty to be concerned about when assessing the health of the Australian economy. A sudden Covid-9 flare up again in Victoria, necessitating partial lockdown in Melbourne and fresh inter-state travel restrictions, underlines how fragile the return to 'economic normality' still is. So does the threat from China to boycott Australian tourism and universities when the international border eventually reopens – a situation potentially set to escalate further over Hong Kong. Employment levels plunged in June and the RBA is also preparing for what is dubbed "a delayed but inevitable rise in business failures in the coming months".

But the AUD continues to be pushed higher by a combination of optimism regarding the global economic outlook, rising investor risk appetite, strong iron ore prices (as China boosts spending on infrastructure and supply out of Brazil is disrupted) and an earlier reduction in infection rates in Australia compared with many other countries..

Rabobank expects global optimism to be tested in the coming months and expects risk appetites to wane. 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.

Nonetheless, we have softened our expectation for the damage this will cause to the AUD. And now expect ***the AUD to bottom out at USc 64 by Christmas, in our 12-month forecast.***

What to watch

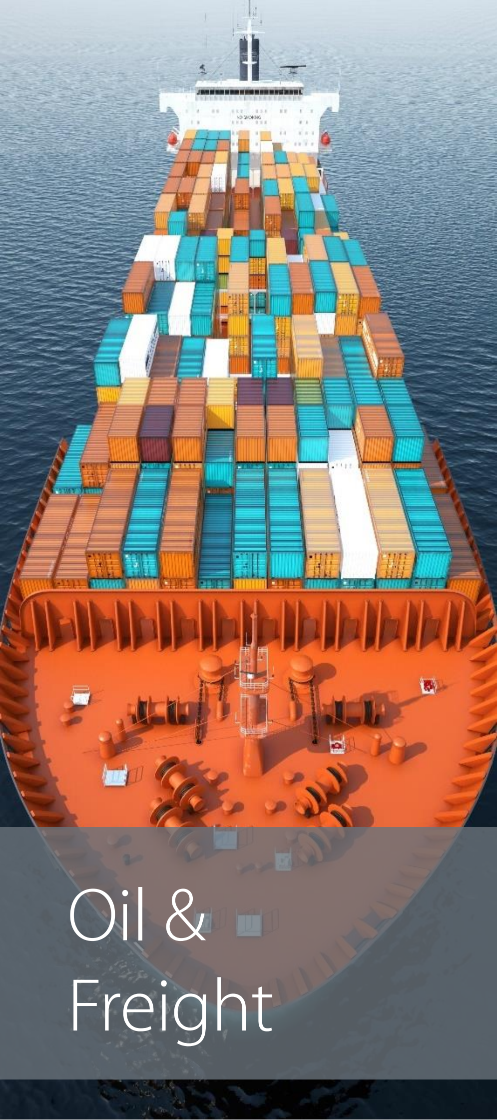
- ***Whether rising infections in many US states necessitate further lockdowns***. At the time of writing, infection rates are rising again in 38 US states. Opening up is being paused in 13 states and partially reversed in six others (including California and Texas). A significant renewal of restrictions on people movement in the US in coming months would endanger its nascent economic recovery, and likely depress the USD against the AUD. Get well soon, America!

AUD edges higher on optimism and declining risk concerns

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020



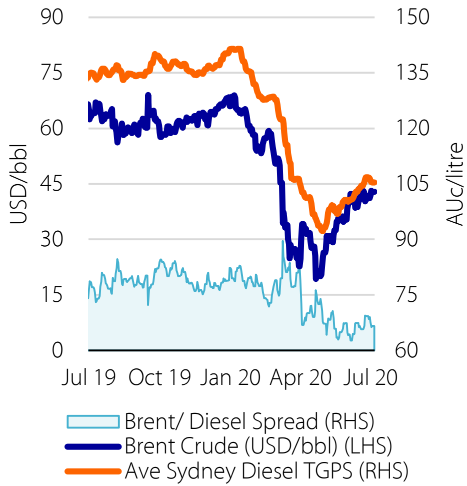
We expect Brent to slip again

Despite the extra buying that we saw during June, the fundamentals of the oil market remain weak. We expect prices of Brent Crude to spend 2H '20 trading between US 30 and USD 40/bbl.

It has been a volatile few weeks in global oil markets, primarily driven by an influx of retail investors entering the market. However in late June, the oil complex lost some steam as price movements again started to reflect swelling inventories. We expect high inventories to continue to weigh on the market during the second half of 2020. However, we are mindful not too be overly bearish, given the volume of central bank support pumping through global financial markets.

The Baltic Dry Index, the global indicator of ocean freight prices, increased 300% during June, due to strong iron ore demand.

Brent Crude Oil & Average Sydney Diesel July 2019 - July 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, July 2018-July 2020

Source: Bloomberg, Rabobank 2020

Agri Price Dashboard

As of 06/07/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	490	515	519
CBOT soybean	USc/bushel	▲	893	868	872
CBOT corn	USc/bushel	▲	343	331	434
Australian ASX EC Wheat	AUD/tonne	▼	291	303	327
Non-GM Canola Newcastle	AUD/tonne	▼	645	668	581
Feed Barley F1 Geelong	AUD/tonne	▲	240	239	351
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	NA	764	Not reported	492
Feeder Steer	AUc/kg lwt	NA	392	Not reported	293
North Island Bull 300kg	NZc/kg cwt	▲	540	520	535
South Island Bull 300kg	NZc/kg cwt	▲	465	445	510
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	NA	836	Not reported	908
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	715	685	785
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	680	665	765
Venison markets					
North Island Stag	NZc/kg cwt	▲	605	545	900
South Island Stag	NZc/kg cwt	▲	605	545	895
Dairy Markets					
Butter	USD/tonne FOB	•	3,638	3,638	4,275
Skim Milk Powder	USD/tonne FOB	▲	2,638	2,563	2,463
Whole Milk Powder	USD/tonne FOB	▼	2,788	2,800	3,038
Cheddar	USD/tonne FOB	▼	3,788	3,963	3,825

Agri Price Dashboard

As of 06/07/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	70.7	67.5	78
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	63.1	61.8	63
Sugar markets					
ICE Sugar No.11	USc/lb	▲	12.2	12.0	12.36
ICE Sugar No.11 (AUD)	AUD/tonne	▲	389	382	432
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,114	1,183	1,723
Fertiliser					
Urea	USD/tonne FOB	▲	230	215	290
DAP	USD/tonne FOB	▲	311	295	353
Other					
Baltic Dry Index	1000=1985	▲	1,894	679	1,740
Brent Crude Oil	USD/bbl	▲	43	42	64
Economics/currency					
AUD	vs. USD	▼	0.69	0.70	0.70
NZD	vs. USD	▲	0.65	0.65	0.66
RBA Official Cash Rate (03/03/2020)	%	•	0.25	0.25	1.00
NZRB Official Cash Rate	%	•	0.25	0.25	1.50

Podcasts

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