Agribusiness Monthly & Covid-19 Update August 2020

Australia

RaboResearch Food & Agribusiness

6 August 2020

Rabobank

Commodity Outlook

Covid-19	Infections are rising, but government support is helping to underpin food consumption.
Grains & Oilseeds	Buyers will be looking to the US – and then Australia and Argentina later in the year – with lower EU and Black Sea supply being realised as harvest rolls on.
Dairy	Pricing pressure starts to build on the dairy commodity complex.
Beef	Prices softening slightly in the wake of Covid-19 impacts. But limited supply is still supporting cattle prices.
Sheepmeat	Prices will stabilise as processors come back online.
Sugar	Wet weather delays harvest, while La Niña threatens further disruption.
Cotton	Tumbling local prices could play a part in determining 2020/21 crop size.
Wool	Some demand upside on the horizon as new season starts, but beware of Chinese cotton stocks.
Wine	Rabobank expects e-commerce to play a prominent part in wine sales recovery.
Horticulture	Rabobank expects resurgence in Covid-19 in both the US and Australia to subdue import demand for products exposed to food service channels across the remainder of 2020.
Farm Inputs	We expect global urea prices to continue to find strength during the second half, supported by procurement in the northern hemisphere ahead of the new season.
FX	The AUD has risen for the fourth straight month: beware of downside risks.
Oil	Recent US dollar weakness and fears of inflation have reignited interest in real assets and inflation hedges such as commodities. If this trend continues to ensue, we expect to see more support for oil prices in the short term.

Global Infections Are Rising Quickly

On 1 August, 263,000 new cases of Covid-19 were registered globally – a 60% increase on the daily rate evident just one month prior.

The trend of infection varies across Australia's key F&A markets:

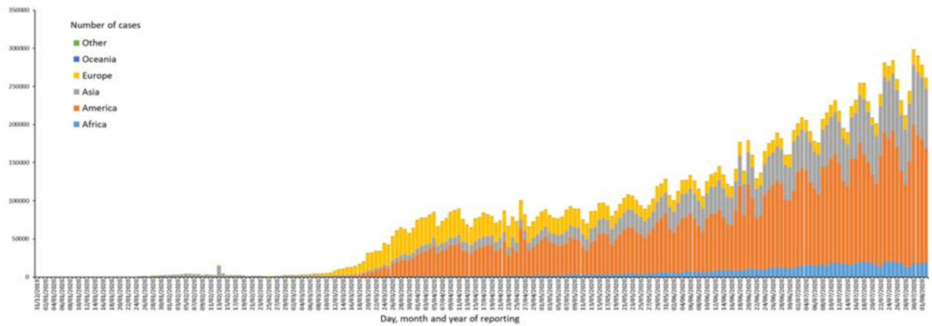
- A large second wave is underway in both Australia and Japan.
- Infections continue to rise in the US, Indonesia, and the Philippines.
- Infections remain generally stable in China, the UK, and South Korea.

Secondary lockdowns are occurring, though mostly at a regional level – a pattern that is likely to be with us through at least the balance of 2020:

- In Australia, Victoria went into stage 4 lockdown at the start of August.
- In the UK, Manchester went into lockdown at the start of August, as Leicester eased its restrictions.
- In the US, California reintroduced sweeping restrictions on businesses (including bars and restaurants) in mid-July.

Politicians in US states, Japan, Indonesia, and the Philippines are facing pressure to introduce new restrictions to combat rising infections.

Daily reported new cases of Covid-19 by continent



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

Consumers Have Been Shielded From an Economic Disaster

The crater that shutdowns left in the global economy is now visible in the rear-view mirror. In July, we learned that the US, EU, and Singapore economies contracted in Q2 by 33%, 12%,and 41% YOY, respectively (and likely 25% in Japan).

Consumers in wealthy countries have been largely shielded from this disaster by governments. Unprecedented fiscal spending has kept unemployment much lower than otherwise would have been the case, boosted unemployment cheques, and granted bonuses to many lower earners. This has helped keep retail spending on food high.

Government support programmes are being extended in many countries, but in some cases at reduced rates. In Australia, the Jobkeeper scheme was rolled out for another six months, but at lower rates. In the US, a Covid-19 stimulus bill remains locked in Congress, with Republicans pushing for reduced payments.

We are likely past the worst of the GDP contraction, but unemployment in most countries wont peak until late 2020, as these schemes are in many cases softened faster than the underlying economy improves.

Australia's F&A industry needs to be prepared for that eventuality.

A different story is playing out in China. First in and first out of the virus, China's economy actually returned to growth in Q2 (up 3.2% YOY). Growth was driven by heavy government stimulus, rising industrial production, and stronger exports. But consumers are lagging behind the recovery of the broader economy. With sentiment still weak, retail sales were still below prior-year levels in June.

June Data Showed a Slowdown in the Recovery of Foodservice in China

Rabobank

Year-on-year change in food retail and foodservice expenditure in key markets*

		Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020
Australia	Foodservice	2%	1%	2%	-23%	-50%	-35%	-17%
	Food retail	3%	3%	3%	27%	5%	13%	14%
US	Foodservice	5%	6%	5%	-27%	-52%	-38%	-26%
	Food retail	2%	2%	4%	29%	12%	15%	12%
China	Foodservice	9%	-43%	-43%	-47%	-30%	-19%	-15%
	Food retail	10%	10%	10%	19%	18%	11%	9%

Source: ABS, U.S. Census Bureau, National Bureau of Statistics of China, Rabobank 2020
** not inflation-adjusted (Chinese food CPI was 11% in June. 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). June data is preliminary for the US and Australia.*

Commodity Prices Hold, As Supply Issues and Government Stimulus Help Underpin Markets

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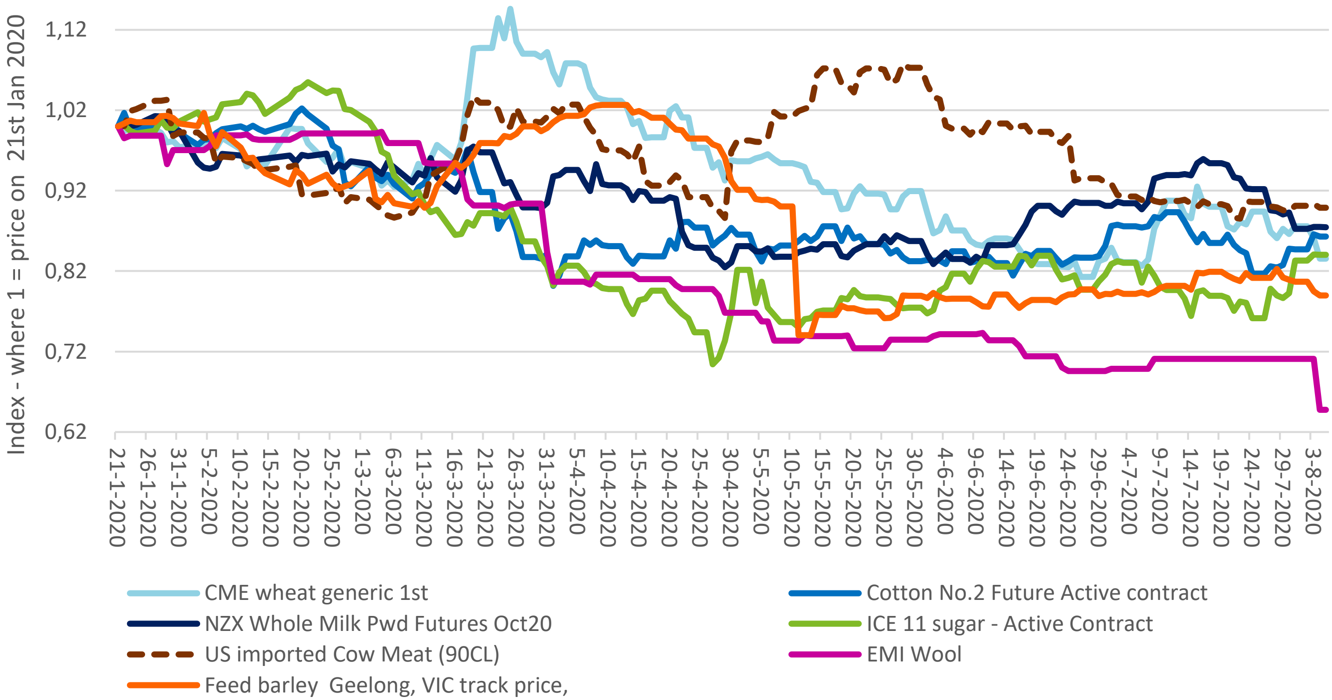
Index of various ag commodity prices in AUD terms since 20 January 2020



Source: Bloomberg, Rabobank 2020

Probability of La Niña Has Risen

Five (of eight) international forecasting models expect the El Niño–Southern Oscillation (ENSO) to break La Niña thresholds by the end of spring. The probability of a La Niña during spring is now 75%.

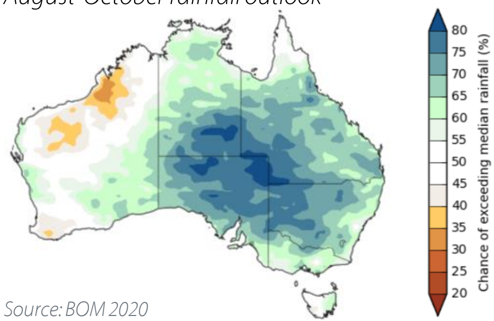
All surveyed models are expecting the Central Pacific Ocean to continue to cool in coming months. The Bureau of Meteorology (BOM) indicates that, even if La Niña thresholds are not met, parts of Australia may still feel some influences of a La Niña weather pattern. This includes above-average spring rainfall in eastern, northern, and southern Australia.

Two of six surveyed models are forecasting a negative Indian Ocean Dipole (IOD) during September and October.

As a result of the climate drivers mentioned above, the three-month rainfall outlook has improved month-on-month.

A dramatically improved outlook

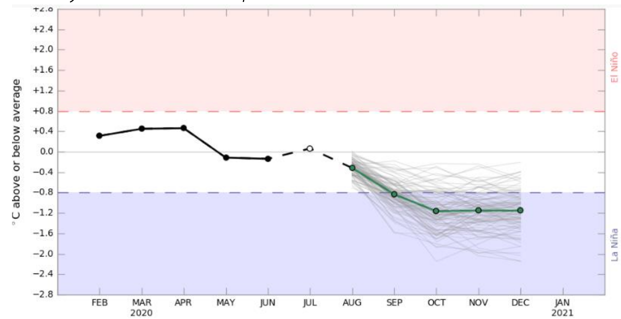
August-October rainfall outlook



Source: BOM 2020

Now a 75% chance of La Niña during spring

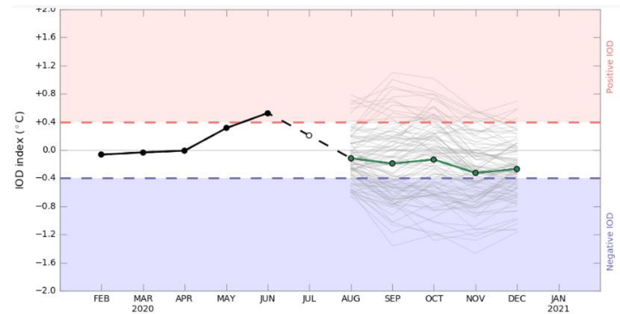
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

Change of negative IOD is below 40%

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2020

Another Month of Dwindling Soil Moisture

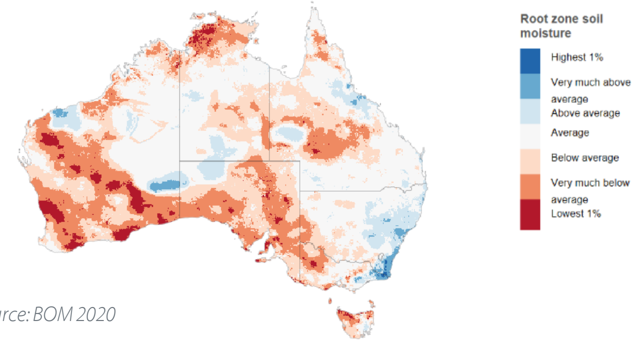
Following a dry June, below-average rainfall fell across most of Southern Australia during July. Consecutive dry months have depleted to 'very much below average' in parts of South and Western Australia.

While conditions are on the dry side and spring rainfall would be very welcome, this season certainly isn't a write-off for farmers in WA and SA. Moderate falls have ensured crops and pastures can continue to grow.

Rain continued to tumble in most drought-affected regions in the east. Dubbo received another 82mm during July, taking the tally to 513mm for the year. Year-to-date, this is ahead of 2016, when the rainfall tally reached 916mm.

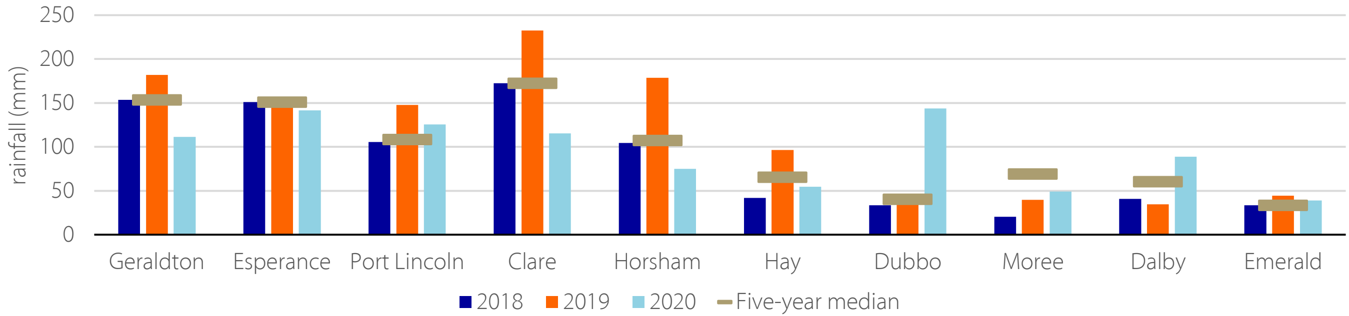
Lack of rain bites soil moisture in West and South

Relative root-zone soil moisture, August 2020



Source: BOM 2020

Recorded rainfall, 1 May-31 July



Source: BOM 2020

Grains & Oilseeds

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Attention Moving South

Lower EU wheat supply and a mixed picture in the Black Sea Strong has moved CBOT wheat prices 8% higher MOM, to 531USc/bu. Local wheat price gains were limited by a firming Australian dollar and, as we pass the midpoint of the 2020/21 season, growing confidence in expected harvest volumes.

As northern hemisphere headers roll, lower yields are being realised in parts of the Black Sea region and Europe due to dry periods during the growing season. Lower supply combined with a strengthening Euro will see markets looking to alternative supply prospects in coming months. In the near term this will favour US supply, especially with a softer currency, and so we have lifted our outlook for ***CBOT wheat into the 517-525USc/bu range for the next 12 months.*** In the mid-term, buyers will be looking south.

Argentina's wheat crop, though still mid-planting, is forecast 1 mmt higher this year. With reports that Brazil, Argentina's #1 wheat export market, is on track for a bumper harvest, Argentine wheat should be readily available as 2020 becomes 2021. Australia's wheat production outlook continues to be good but with dryness in some regions during June and early July, ***we have revised our 2020/21 wheat production estimate lower, to 25 million tonnes***. This remains up 64% YOY, 16% above the 5 year average and 5% above the 10 year average.

Australian milling wheat prices followed international markets this month despite a stronger AUD, with APW1 up between 1% (BNE) and 9% (ADL) MOM. Feed wheat prices in Adelaide and Geelong rose sharply MOM on late season demand covering. With our upward revision for global wheat and AUD softening expected to around 65USc, we now see ***APW and F1 track NWC trading at AUD320/tonne and AUD242 respectively in Q4***.

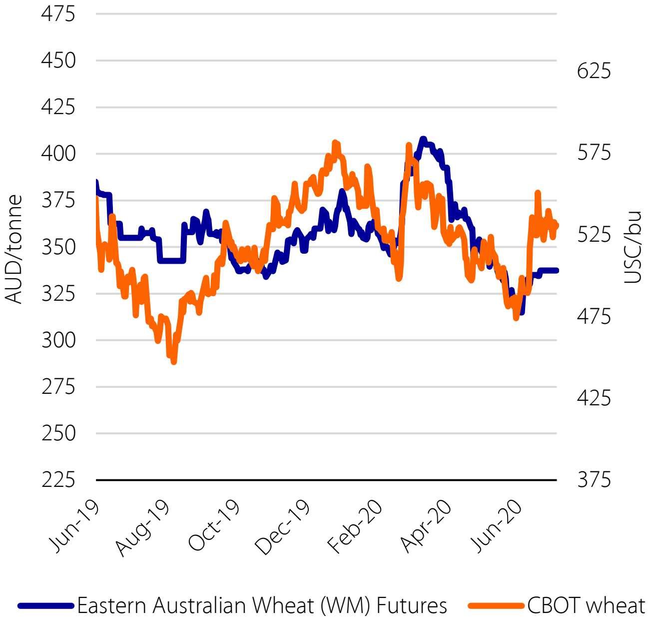
What to watch

- ***China floods -*** while wheat and corn harvests are mostly finished and unscathed by recent flooding in central and southern China, hog rebuilding may be slowed in affected areas. Flooding may have increased African Swine fever spread, increased culling, and consequently could slow feed demand recovery
- ***La Nina*** – With an increasing chance of a La Nina weather pattern establishing in Australia, so too is a softer crop finish. Softer finishes typically support yield gains, but with the tradeoff being a lower proportion of the crop making the higher protein hard wheat grade.

Aussie Wheat Prices try to follow CBOT higher

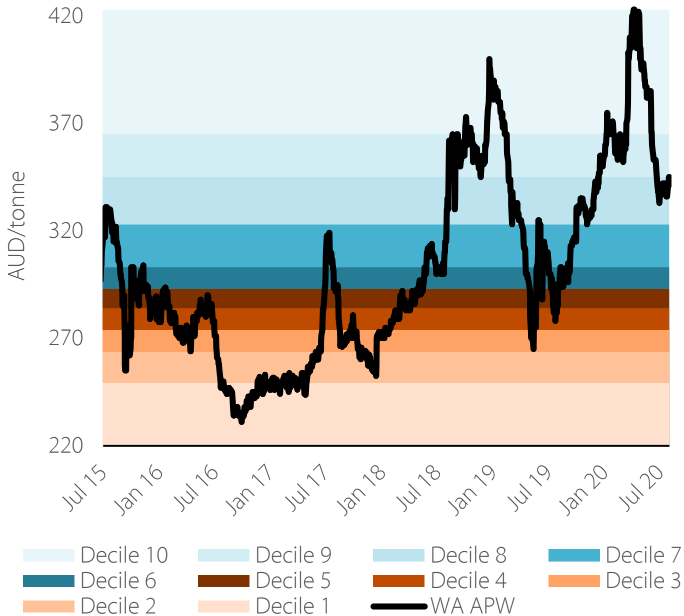
Rabobank

… but a stronger AUD and firming local prospects curtailed the rise



Source: Bloomberg, Rabobank 2020

WA APW Decile 8 pricing set to stay for Q4 2020, with AUD correction and CBOT revision higher



Source: Bloomberg, Rabobank 2020

Buoyant Milk Supply Outlook

Australian milk production expanded by 6% in May. National milk production was marginally down (0.6%) season-to-date. The national milk pool is on track to finish flat, with last season at 8.7bn litres. Rabobank is forecasting milk production to expand by more than 3% in 2020/21. Tasmania and Gippsland remain the engines of growth, but improvement in milk supply is emerging in other regions.

Despite a dry July, the seasonal outlook remains broadly favourable. The latest outlook from the Bureau of Meteorology is forecasting a wetter-than-average period between August and October for most of the major dairy production regions on the east coast.

The Resource Manager for northern Victoria announced updates to the 2020/21 seasonal determinations. There were small lifts in high-reliability water shares across the major systems, but irrigators will be welcoming rain in the coming weeks over the catchments.

Global dairy commodity prices have been holding up well for Oceania exporters. Dairy commodity markets have performed better than expected vs. Rabobank forecasts. However, weakness in dairy product pricing has gained velocity in a number of markets in early August. Short-term pipeline filing and gradual recovery in food markets hit by Covid-19 shutdowns are supportive of the markets.

Rabobank remains cautious about dairy commodity pricing (in USD terms in the months ahead). Weak macroeconomic settings and underlying supply-and-demand fundamentals remain headwinds for global dairy market pricing. With the New Zealand season about to hit its straps, all eyes will be fixed on China's import demand.

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What to watch

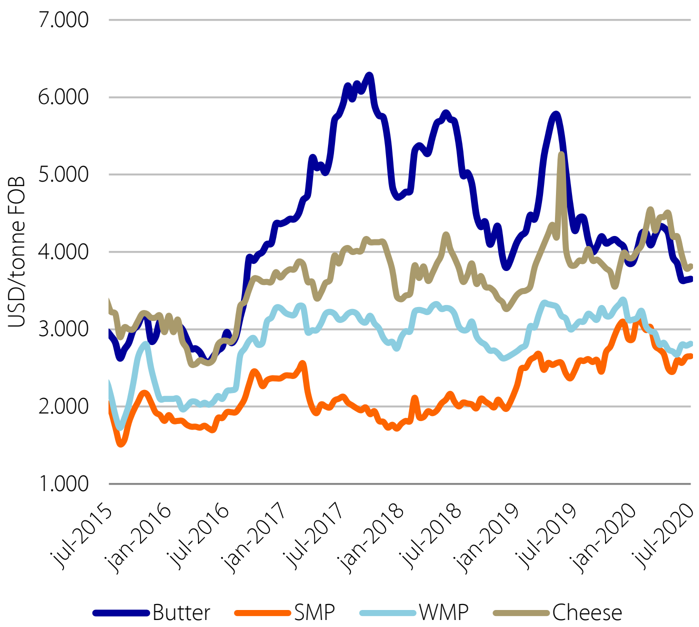
- ***Australian dollar exchange rate.*** The local currency has been buoyant on the back of recent weakening in the US dollar. Some of the major banks are now expecting the Australian dollar to strengthen further, which is not what dairy exporters will be wanting.

Dairy

Dairy Price Volatility Rearing Its Head Again

Rabobank

Global dairy prices, 2015-2020

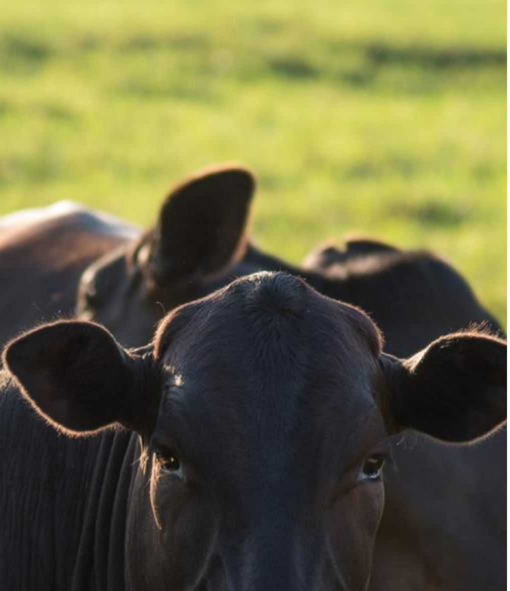


Source: USDA, Rabobank 2020

Production growth, key exporting regions*

	Latest month	*Last three months*
EU	0.4% (May 20)	0.8%
US	0.5% (Jun 20)	0.4%
Australia	6.0% (May 20)	6.5%
NZ	0.4% (2019/20 full season)	

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



High Cattle Prices Softening Slightly

Cattle prices continue to remain very strong, although easing slightly. The EYCI finished the month at AUc 752/kg cwt on 31 July. Over the hooks, prices for finished steers and grainfed eased lower through the month, suggesting the softer demand from Covid-19 is starting to impact the cattle market. Import prices (in USD) of the major markets of Japan, South Korea, and the US eased through the month of June, although the US market showed some improvement through July. ***We believe August will see cattle prices drift slightly lower as Covid-19 continues to weigh on global demand, but limited cattle supplies will keep local cattle prices strong.***

National cattle slaughter (645,000 head) for the month of May (645,000 head) was down 18% YOY. Year-to-date national slaughter is down 6% for the first five months of the year. East coast weekly cattle slaughter for the four weeks ending 24 July was down 20% YOY, as cattle numbers continue to be limited through the winter months. This has also been reflected in saleyard numbers, with volumes of cattle going through saleyards down 13% for the year to date (25 July).

Beef export volumes in June (96,496 tonnes swt) were down 4% YOY. We saw large volumes to the US up 31% YOY, while volumes to Japan were down 18%, and volumes to China were down 25%. Although the US is showing signs of recovery – particularly in the quick-service restaurant trade – it is unclear if the large volumes in June were a result of the shortages of domestic US beef production through May, or a result of the US production system coming back online and needing more lean trimmings. It will be interesting to see Chinese beef imports for the month of July following the triggering of the safeguard and the increase in tariff. We don't believe it will affect volumes to any great extent, given limited Australian production and continued demand from China as a result of African swine fever, even with the impact of Covid-19 on demand.

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What to watch

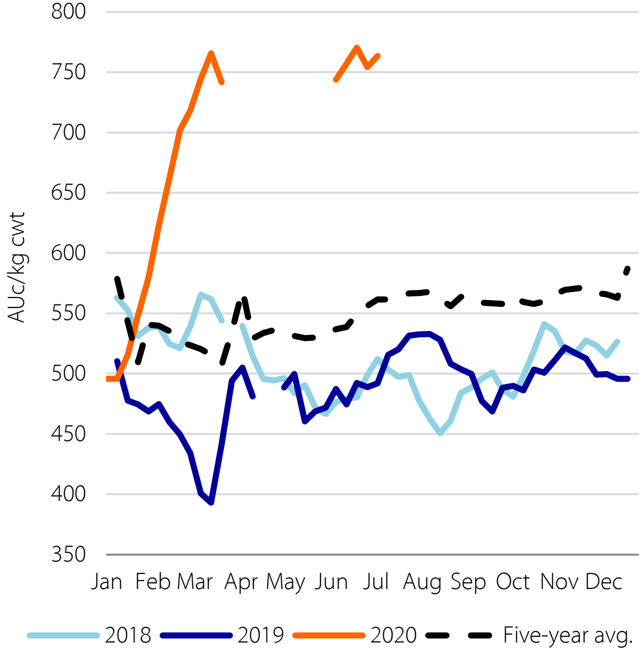
- ***Female slaughter*** – The proportion of females in the national slaughter number has remained above 50% in 2020, reaching 56% in May, despite improved seasonal conditions. Following the previous drought, the proportion of females dropped to 41% in Jan 2017. Are producers not holding on to females, or are processors looking for females to sell into a manufacturing beef market? Trade heifers are currently at a 14-cent premium to trade steers. With the general lack of cattle and better-performing quick-service restaurant trade, there might be more incentive to have leaner cattle going through the works at the moment.

Beef

Prices Remain High, But So Do Female Slaughter Rates

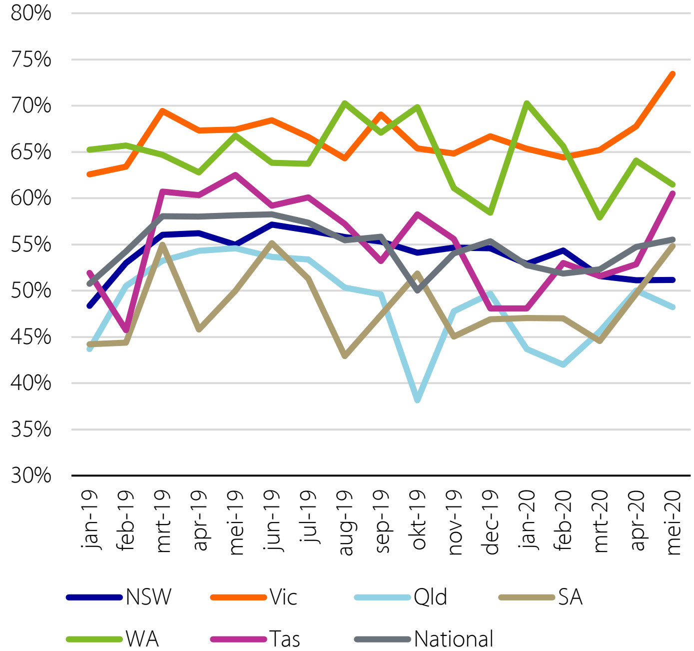
Rabobank

The EYCI remains strong, reflecting limited supplies and strong demand

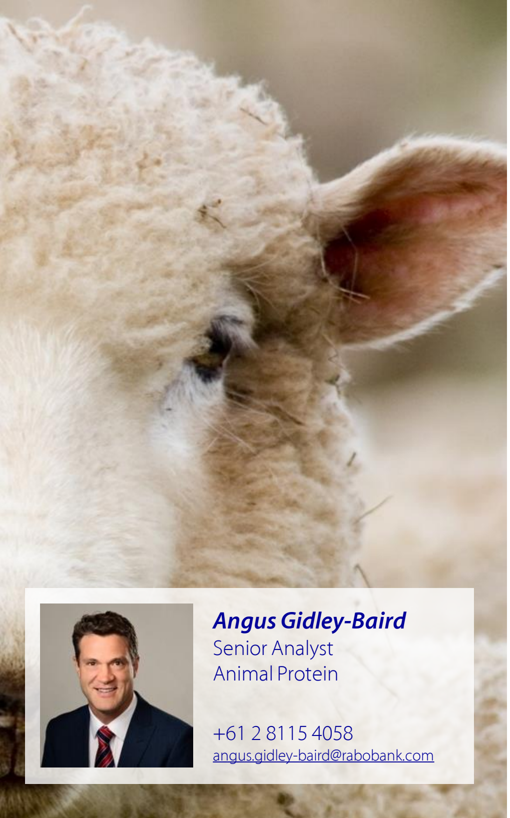


Source: MLA, Rabobank 2020

The female slaughter rate has not seen the normal dip associated with restocking



Source: MLA, Rabobank 2020



Sheepmeat

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Reopening Processing Facilities Should See Prices Stabilise

In a situation more in line with the onset of new-season lambs, we have seen lamb prices tumble over the last month. While still remaining historically high and above the five-year average, it looks like the seasonal price drop has come one to two months early. The Eastern States Trade Lamb Indicator fell 13% between the end of June and the end of July, and was sitting at AUc 751/kg cwt on 23 July – although it was showing some signs of a slight lift in the last week of July. Closure of three processing facilities in Victoria in July would have been the main cause for the drop in prices. ***With two plants reopening at the end of July, prices should stabilise, but we will be starting to see new-season lambs, which will result in more downward price pressure.***

National lamb slaughter for May (1.45m) was down 33% YOY, and sheep slaughter (326,000) was down 50% YOY. But Eastern States weekly slaughter numbers show lamb slaughter was 2% higher for the last four weeks of July than the same period last year, although sheep slaughter remains well down (57%). A combination of old-season lambs that are still available and new lambs coming online earlier, following good growing seasons, may be enough to see volumes a little higher than last year.

Lamb export volumes in June (19,706 tonnes swt) were down 4% YOY. Volumes to the US increased 17% YOY. Likewise, China saw a small increase (up 5%), while the Middle East continues to see lower volumes (down 27% YOY).

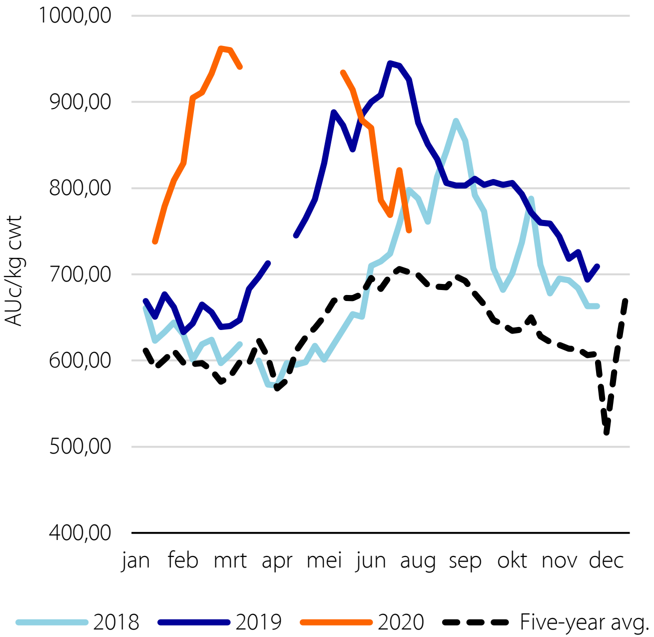
What to watch

- ***New-season lamb numbers –*** Generally, we don't see the new-season lamb volumes flow into the market until September. Month-on-month changes in lamb slaughter show that, for the last five years, August slaughter is lower than July volumes, but September volumes are all higher. 2019 was an exception, with higher volumes in August than in July. With improved seasonal conditions, we might see increased volumes of lambs become available earlier this year.

Lamb Prices Drop From Their Peak, As Weaker Foodservice Trade Softens US Import Prices

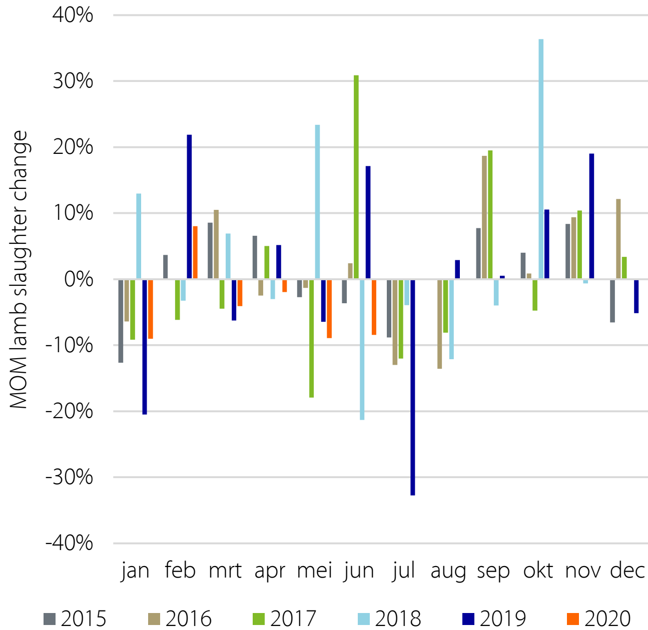
Rabobank

ESTLI takes a tumble from its lofty heights

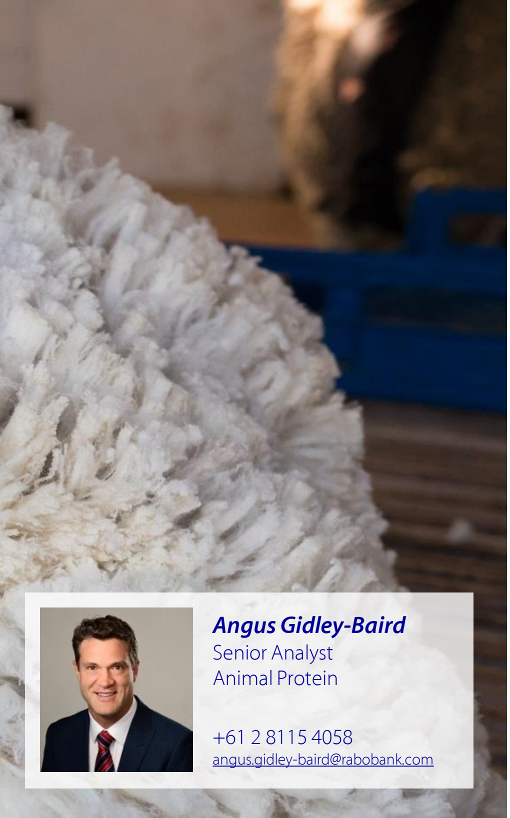


Source: MLA, Rabobank 2020

Lamb slaughter generally starts to increase in September



Source: MLA, Rabobank 2020



Prices move lower despite recovery

Wool prices posted a marginal gain in the last trading week of July, however, the market resumed sharply lower following the winter recess. The EMI last traded at AUc 1,033/kg on 4 August, down 7.3% from July 1^{st}. Between July 1^{st} and August 4^{th}, the largest declines have been concentrated in finer wool, with 19 micron falling 10.5%, and 20 micron falling 8.7%. Higher micron wool faired better, with 28 micron declining 7% while 25 micron actually rose 2.5%. Despite the price decline, the fundamentals of demand appear to be improving from the COVID-19 lows. June retail clothing sales data showed strong improvements. China's retail sales were down only 0.1% YOY, while the US increased from -64% YOY in May to -24% YOY in June. The UK similarly saw June sales rise, from -61% YOY in May to -34% in June – also a notable improvement. Sales of premium discretionary goods saw a rebound in June, particularly in China, where 'revenge spending' saw sales of some product categories exceed June 2019 levels. ***We maintain our view for the EMI to gradually improve over the coming months, moving toward ~AUc 1,200/kg by December 2020.***

National wool tested data for July shows the weight of wool tested down 14.4% YOY. Wool tested saw declines across the majority of microns year-on-year, with the largest declines in the 16.6-17.5 and17.6-18.5 micron ranges – falling by 2,419 and 3,712 bales test, respectively, YOY.

May wool export volumes (17.9m kg) were down 27% on 2019. China's share of total Australian exports rose to 92% in May, up 10% YOY, with other markets struggling to contain Covid-19 outbreaks. Exports of 19 micron and below proved to be the most resilient category during the crisis, with exports falling only 16% YOY in May. Higher micron wool faired worse. The 24-27 micron category fell 24% YOY, while 20-23 and 28+ micron ranges both fell 40% YOY in May.

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What to watch

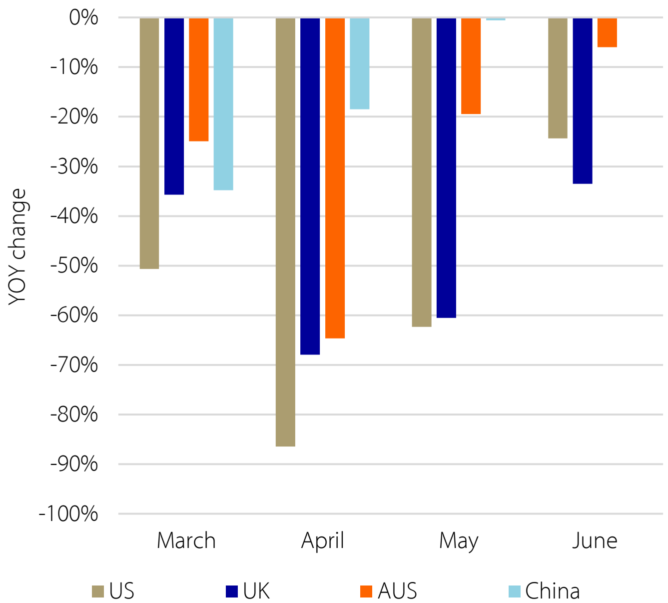
- ***Large Chinese cotton stocks on the way –*** As part of the US-China phase one trade deal, China is rumoured to have purchased substantial quantities of US cotton in recent months. Since these large purchases were prompted by the phase one agreement – as opposed to genuine demand from Chinese clothing manufacturers – stocks are expected to swell. Higher cotton stocks should translate into lower domestic prices and may cause some substitution away from wool.

Wool

Apparel Demand Makes a Recovery, Reliance on China Grows

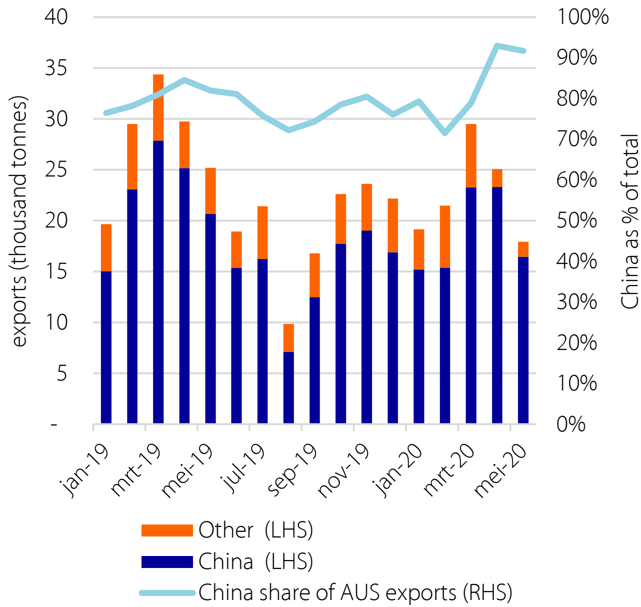
Rabobank

June retail apparel sales bounce back, China leads recovery



Source: Bloomberg, Rabobank 2020

May wool exports down 29% YOY, reliance on China grows



Source: Bloomberg, Rabobank 2020

Sugar

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Rain, Rain, Go Away…

July rainfall across Queensland's north-eastern coast has become a menace for crushing operations. While the rain itself delayed harvest operations in late July, the subsequent wet paddocks remain a challenge for harvest into August – particularly in the North, Central, Herbert, and Burdekin regions. Latest ASMC data showed a sharp 22% WOW dip in weekly cane crush amid this challenging weather – YTD 2020 crushing completion is down 3.4 percentage points vs. 2019. According to BOM, this week (commencing 3 August) brings an 80% chance of higher-than-average rainfall, while longer-term outlooks (one- and three-month) also appear wet.

Rabobank maintains a bearish forecast on local sugar prices, with expectations for prices to trade beneath AUD 400/tonne in 2020, before improving toward AUD 410/tonne by mid-2021. The price outlook stems predominately from bearish ICE #11 Raw Sugar expectations, as southern hemisphere new-crop supplies rise and demand comes under pressure from Covid-19. Rabobank expects a 1% YOY fall in 2019/20 global consumption. India's ~USc 12/lb export parity is forecast to limit upside as, beyond this level, additional Indian exports become viable. However, Q3 2020 changes to India's minimum sugar price and export policy will likely adjust this influence.

A build-up of raw sugar stocks has emerged in Brazil, following an exceptionally strong start to the 2020 CS harvest, an early 2020 soybean harvest, and subsequent pressure on domestic logistical capacity. Dry weather and a strong 46.7% YTD sugar mix have driven 16.3m tonnes of Brazilian CS sugar production as of 16 July – up 50% YOY. Rabobank expects better Brazilian sugar flows in the short to medium term – June sugar exports reached 3m tonnes, up 100% YOY. This should allow the vessel line-up to ease and new crop inventories to flow, pending demand – a bearish price risk for Australia as we look toward late 2020.

What to watch

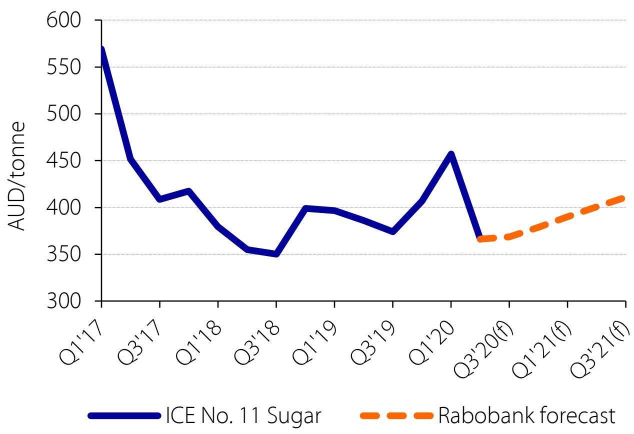
- ***The latest ENSO Outlook now sits at La Niña watch,*** meaning that the chance of a La Niña forming in 2020 has increased to near 50% – twice the normal likelihood, but no guarantee. La Niña years can bring an unwanted wet end to the domestic crushing season.
- ***Rabobank expects a 5% YOY fall in the Thai 2020/21 crop***, which follows a 40% drop in production in 2019/20. This is likely to increase the sugar deficit in Asia – a major sugar consumer – and, subsequently, additional imports from Australia, Brazil, and India.

July Rainfall Becomes a Menace for 2020 Crushing Operations in North Queensland

Rabobank

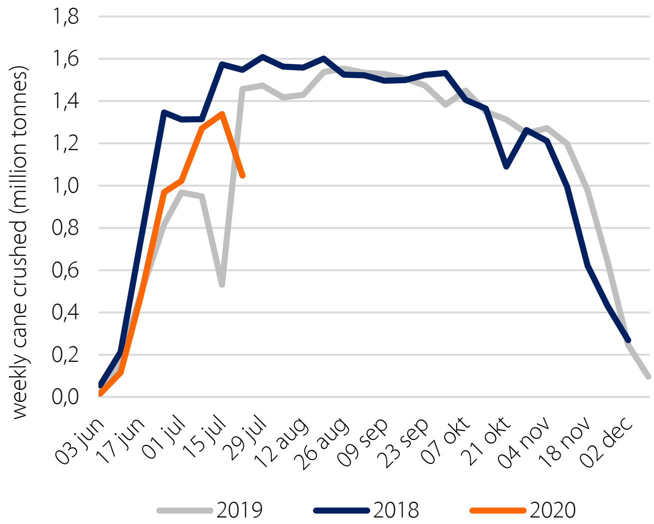
Rabobank holds a bearish short-term view, with prices rising toward AUD 410/tonne by mid-2021

	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	11.2	11.0	11.5	12.0	12.3
AUD/USD		0.68	0.66	0.66	0.67	0.64	0.65	0.66	0.66
Sugar	AUD/t	407	457	366	369	379	390	401	411



Source: Bloomberg, Rabobank 2020

Weekly cane crush dipped sharply in late July, amid wet weather delays to harvesting operations



Source: BOM 2020

The latest ENSO Outlook now sits at La Niña watch, meaning that the chance of a La Niña forming in 2020 has increased to near 50% – twice the normal likelihood, but no guarantee.

Basis Over a Barrel

A triple whammy of weakening local basis, falling ICE #2 Cotton prices, and AUD/USD strength played havoc with cotton prices through July – the spot cash price reached AUD 475/bale for the first time since mid-2016. 2020 crop basis (vs. December 2020 ICE #2 contract) dipped below 600 points – down from June levels near 1000 points – as unsold bales re-enter the spot market. These bales largely stem from the administration of trader Weilin, being previously forward-sold. For futures, fresh US-China tensions and US export sale cancellations sparked the move lower toward USc 60/lb, with US demand still hugely exposed to Chinese purchases. Looking ahead, Rabobank forecasts a challenging outlook, with soft global demand and building stocks at origin, keeping prices between AUD 460/bale and AUD 480/bale through 2020.

A challenging price outlook could play a part in 2020/21 plantings. With sub-AUD 500/bale forecast into late 2020, Rabobank highlights that relative crop margins could play a greater part in determining cotton acreage come Q4 2020. Rabobank previously cited a 2020/21 output recovery to near 2.1m bales, given additional year-on-year water availability, but this may now come under pressure on a pricing/economic perspective. While difficult to quantify the impact on 2020/21 area, we have adjusted our local basis forecast marginally higher into 2021.

Apparel and clothing sales show early signs of recovery, with the US and UK seeing June clothing store sales reach back to 77% and 66%, respectively, of pre-Covid-19 February 2020 levels. This compares to 14% and 34% in April 2020, at the peak of the pandemic. In China, clothing & textile sales have almost recovered to pre-Covid-19 levels. At face value, these figures are encouraging, but, in our view, are not yet fresh cotton demand. Moreover, a 6% MOM fall in polyester fibre prices does little to stimulate cotton use. Rabobank forecasts a 9% YOY global demand recovery in 2020/21, and we do not expect a full pre-Covid-19 global demand recovery until 2021/22.

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Cotton

What to watch

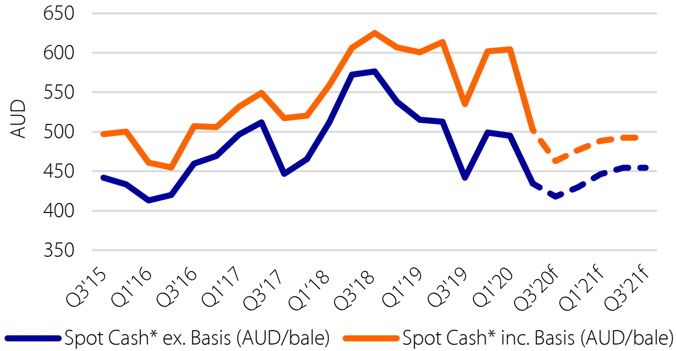
- ***With the US growing season underway, market volatility can flare up based on US crop and weather conditions.*** Rabobank continues to monitor drought in the Texas panhandle – likely reducing the US 2020 crop to 18m bales – with hurricane season not too far away.
- ***In mid-August, Rabobank will be releasing a ten-year outlook for Australian cotton.*** The analysis centres around three topics: 1) future demand for Australian cotton, 2) future domestic production prospects, and 3) cotton's social licence to operate. Look out for the report in your inbox, or touch base with your local Rabobank representative later this month.

Triple Whammy of Weakening Local Basis, Falling ICE #2 Cotton, and AUD strength

Rabobank

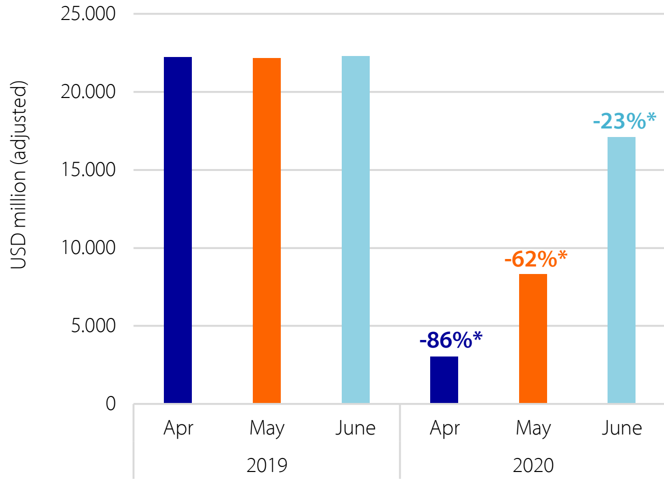
Prices forecast to trade below AUD 500/bale in 2H 2020 – the result of a weaker ICE #2 and local basis

	unit	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE #2	USc/lb	65	57	56	55	58	60	60
AUD/USD		0.66	0.65	0.67	0.64	0.65	0.66	0.66
Basis	Pts/lb	1436	887	600	600	550	500	500
AU ex. Basis	AUD/bale	495	435	418	430	446	455	455
AU inc. Basis	AUD/bale	604	502	463	477	488	492	492



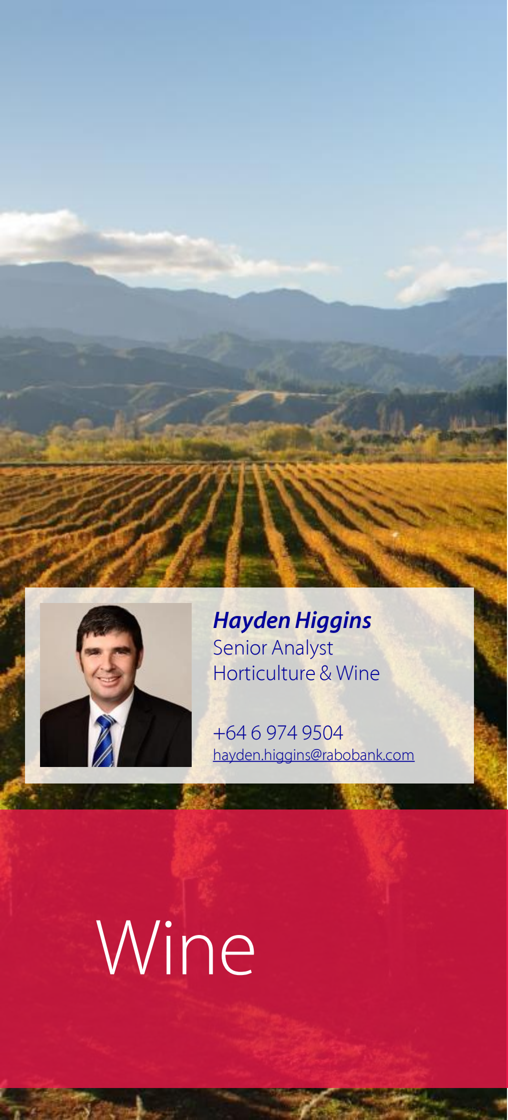
Source: Bloomberg, Rabobank 2020

US estimated store retail sales 2019 vs. 2020, clothing and clothing accessory products



Source: U.S. Census Bureau, Rabobank 2020
** YOY change, 2020 vs. 2019*

With the US growing season underway, market volatility can flare up based on US crop and weather conditions. Rabobank continues to monitor drought in the Texas panhandle, while hurricane season is not too far away.



Wine

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E-Commerce Sales Should Rise

E-commerce will have assisted some wineries to offset reduced foodservice sales in recent months. We expect this channel to have greater prominence as we move forward.

Many wineries, especially smaller domestic players, will have pivoted more of their sales into their e-commerce platforms in the current environment – for those that have them. Sales growth into this channel in Australia has been subdued in recent years. We expect that – as the Australian wine sector looks to recover from Covid-19 impacts and while border restrictions remain in place – more investment into commerce platforms will occur.

For those seeking to either create or expand their e-commerce strategies, there are four key steps that we believe should be followed: obtain the market data, on-board the tech and build capability, educate all stakeholders, and delegate across operations. Our latest Wine Quarterly provides an in-depth view. While largely US-focused, the learnings will be relevant to Australian exporters to the US wanting to understand how the US market landscape is expected to change. And the learnings will be relevant to Australian wineries seeking to develop their own e-commerce platforms or strategies.

The overall value of wine exports continued to slow year-on-year for the 12 months to May. Bucking the trend have been sales to the UK, having risen for the 12 months, as well as across the Covid-19 period.

Australian wine exports to all key markets have reduced in value across the period February to May, with the exception of the UK, up by over 15% YOY. Sales into the US have largely also held up well, in spite of the impact of Covid-19 on the US. Both statistics point to continued strong demand at retail in the UK and US, with Australian exporters being able to meet that demand.

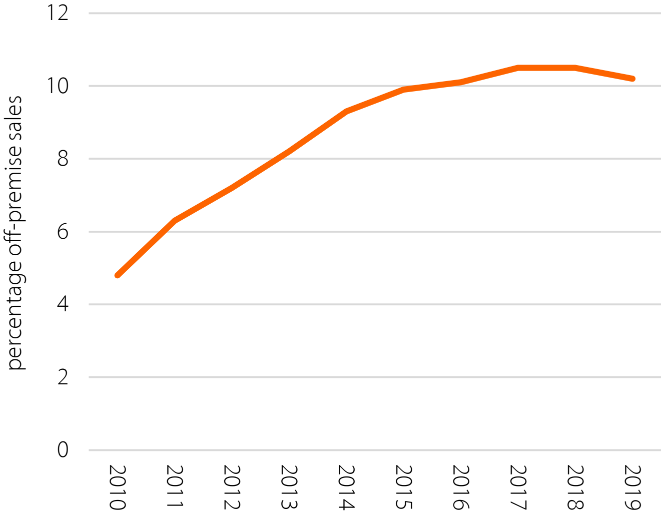
What to watch

- ***M&A activity –*** Trends in mergers and acquisitions are currently favouring businesses that can complement a digital or an e-commerce strategy. Expect to see more activity in this area.

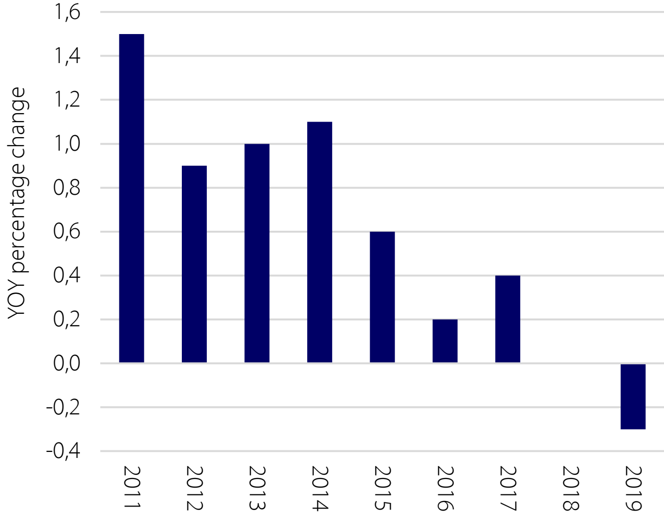
E-Commerce Sales Expected to Rise

Rabobank

E-commerce share of off-trade sales in Australia, volume



Yearly change in e-commerce off-trade wine sales in Australia, volume



Source: Euromonitor, Rabobank 2020

Despite a slowdown of growth in recent years, we expect Covid-19 to drive a return to growth in the e-commerce channel for wine sales in Australia.

Covid-19 Brings a Second Bite

US imports of fresh produce have been hammered in Q2 2020, as Covid-19 continues to disrupt.

US imports slowed significantly year-on-year for fresh produce across the second quarter of 2020, as Covid-19 impacts become more obvious with large-scale foodservice shutdowns across the US. Large drops have occurred for traditional partners from South and Central America in particular. China also sees a reduction year-on-year, with a double impact of Covid-19, as well as the ongoing trade war with the US playing out at the same period. Moving forward, we expect US import demand to remain subdued over the balance of 2020, while foodservice remains disrupted.

The total value of Australia's imports of fresh produce has continued to rise year-on-year over the 11 months to May 2020, by around 7%.

Over the same period, imports from New Zealand – Australia's second-largest source of fresh produce after the US – rose in value by a similar amount, while imports from the US declined slightly. Over the period February to May 2020, Australian imports of New Zealand fresh produce rose by over 17% YOY, as retail demand increased with foodservice disruption, with imports from the US up by around 7% over the same period.

With the resurgence of Covid-19 cases in Australia, potential for a softening of import demand exists for products exposed to foodservice channels. But this creates opportunity for products that have good retail access, as home consumption will again rise.

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Horticulture

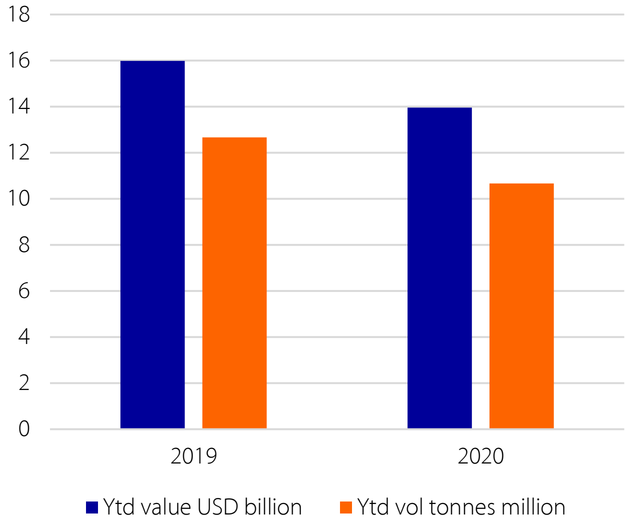
What to watch

- ***Commercialised varieties of fruit to meet climate challenges –*** New Zealand Plant and Food Research, in conjunction with Spanish counterparts, has commercially released HOT84A1 for testing – a variety of apple bred to better cope with high temperatures. Licenced trials are being carried out in New Zealand, Australia, South Africa, Europe, and the UK.

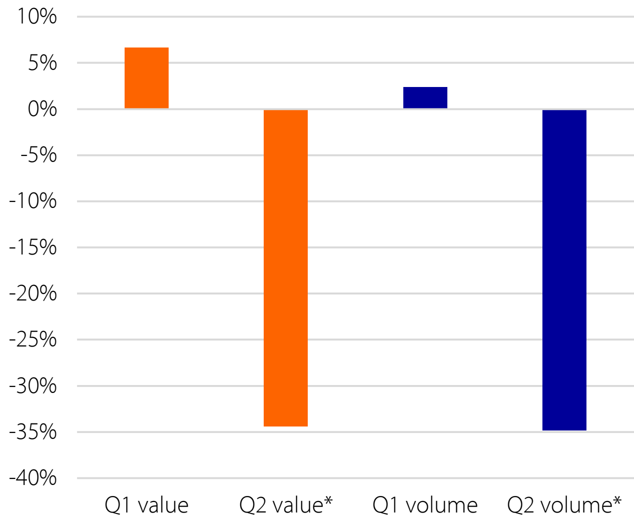
Big Drop in US Horticulture Produce Imports

Rabobank

US horticulture produce imports Q1 and Q2*



US horticulture produce imports YOY change



** Q2 is April and May only*

Source: USDA, Rabobank 2020

The impact of Covid-19 on US imports of fresh produce became evident in Q2 2020.

Farm Inputs

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Global Urea Bounce Only Short-Term

We expect global urea prices to continue to find strength during the second half, supported by procurement in the northern hemisphere ahead of the new season. We do expect, however, that prices will remain below the ten average in USD terms.

Global urea and phosphate has found some upward movement in recent weeks, up 9% (ex. Middle East FOB) and 6% (ex. US GULF FOB), respectively, in USD terms.

For urea, this has primarily been driven by multiple new tenders from India, where domestic demand resulting from the good Kharif season is outweighing increases in domestic production.

Global phosphate prices have been supported by a decision from US-based producer Mosaic to seek countervailing duties against phosphate imports into the US from Russia and Morocco. Otherwise, relatively low prices and tight availability have supported demand slightly higher across both North and South America.

Looking forward, we expect prices to continue to remain favourable for farmers across the global nutrient complex. While we do expect urea prices to increase during the second half, this lift is not likely to take prices above the ten-year average in USD terms. This uplift will be in response to procurement ahead of planting in the northern hemisphere.

The short-term direction of the global phosphate market will be determined by the outcome of the investigation requested by Mosaic. If we see a duty placed on Moroccan and Russian phosphate imports into the US, US import demand will be shifted to other origins. Beyond the end of the year, the fundamentals of the market remain weak, which will continue to support a low-price environment.

What to watch

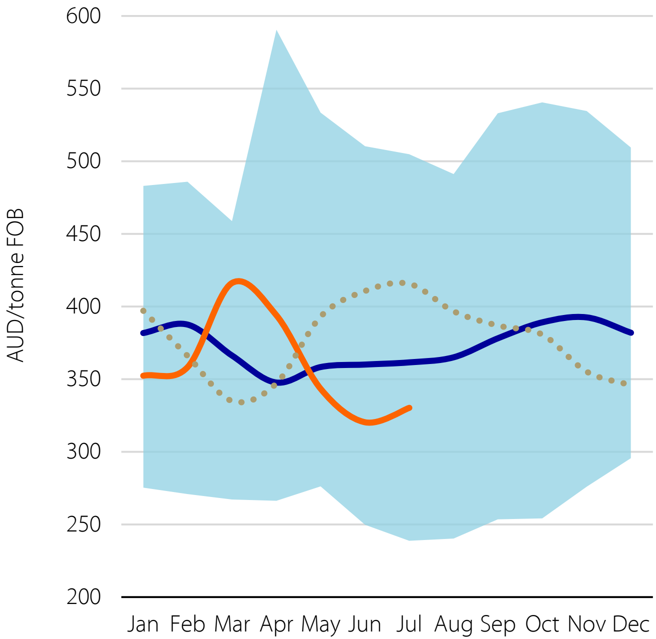
Local currency impacts – The AUD has continued to accelerate, increasing the purchasing power of local importers. As of early August, the AUD was USc 72.1 – above pre-crisis levels.

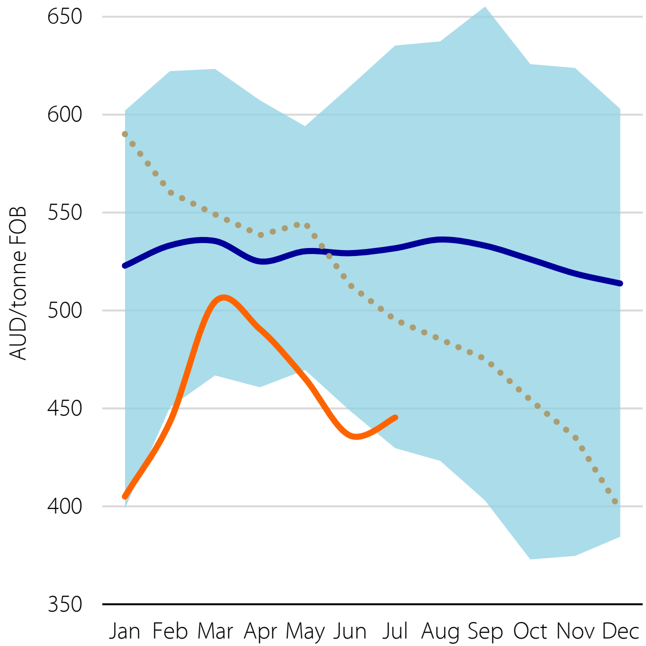
We maintain our forecast that the AUD will reach USc 64 by the end of the year. At current prices, that equates to ~AUD 50/tonne FOB of phosphate, making currency an important factor when considering phosphate contracts for next season.

A Stronger AUD Has Reduced the Impact of Global Price Rises

Rabobank

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





Ten-year range | Ten-year avg. | 2020 | 2019

Source: Bloomberg, Rabobank 2020

Source: Bloomberg, Rabobank 2020

Rates & FX

AUD Rise Accelerates, But Risks Remain

The AUD rise accelerated in July, with the currency gaining over 3 US cents against the USD from the end of June to 30 July. At USc 72.1, it was USc 3.5 above pre-crisis levels.

In contrast to the Mar-May period, ***most of the movement in the AUD/USD rate through June and July can be explained by a weakening USD.*** The USD fell almost 4% against a broad index of currencies in July (and only 3% against the AUD). The AUD closed the month weaker against the EUR and the GBP.

Investors seem to question the safe-haven status of the US market through July. Infection rates are rising to alarming levels. The improvement in the job market looks to have stalled, and Congress (as at 4 August) had not been able to agree on a Covid-19 relief bill extension (after the previous support package expired on 31 July). At the end of July, the US Fed extended its USD liquidity swap lines and its FIMA repo facility through 31 March, and extended a range of special lending facilities through 31 December. This underlines that the Fed is not expecting a monetary policy reversal anytime soon. According to the Fed Chair, the FOMC is not even thinking of raising rates.

Domestically, the AUD received support from comments made by the RBA mid-month. The Governor stated that the currency was broadly in line with fundamentals, suggested more QE was unlikely unless we see substantially higher bonds years three years out, and that negative interest rates were extraordinarily unlikely. Iron ore prices also remained strong as China ramps up infrastructure spending.

Looking ahead, ***we remain keenly aware of the potential for currency markets to shift direction and drive the AUD/USD down again***. More large stimuli will be required in other countries, and the China/US cold war will worsen. Domestically, Victoria's lockdown will damage the economy further. We still look for the AUD to soften to USc 64 by the end of year.

What to watch

- ***Can the US Congress agree on a new Covid-19 relief bill?*** Under the bill that expired on 31 July, unemployed Americans (of which there are around 30 million at present) were receiving a weekly USD 600 boost to the usual unemployment cheque. If Democrats and Republicans are not able to soon cut a deal, we will see a huge reduction in the income of poorer Americans, reduced consumer spending, and further damage to the prospects for economic improvement in 2H 2020.

AUD Rise Accelerates as USD Swoons

Australian currency against the US dollar

Source: RBA, Rabobank 2020

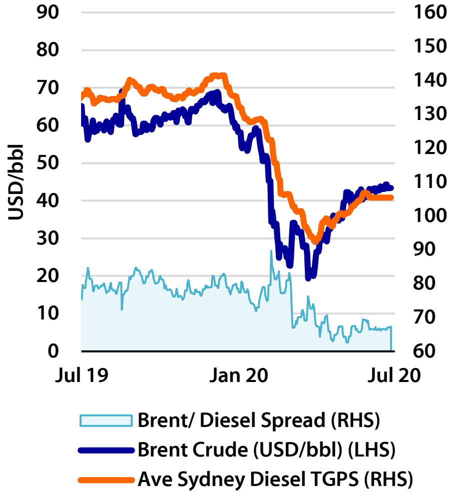
Oil & Freight

Real Asset Attraction

The recent US dollar weakness, coupled with fears of inflation, has reignited interest in real assets and inflation hedges such as commodities. If this trend continues to ensue, we expect to see more support for oil prices in the short term.

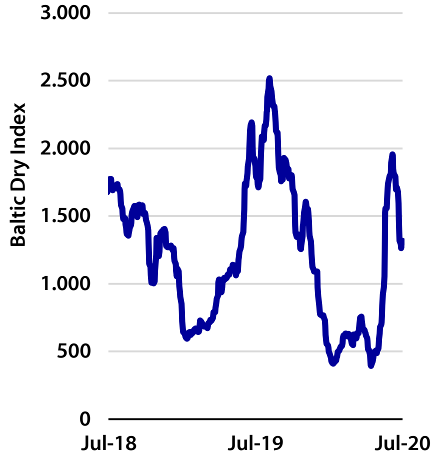
While we continue to view the oil market fundamentals as poor, the fundamentals are not the key driver of market prices in the short term. A softer dollar has caused risk assets to get bid up, on the back of massive stimulus programmes. Despite this short-term activity which has supported prices, warning signs continue to flash in the distance. Firstly, US-China relations continue to deteriorate and will continue to be a source of volatility in the market. Secondly, it is worth noting that oil returns historically turn negative in the second half of the year, which may indicate there are some strengthening headwinds in the back half of the year.

Brent Crude Oil & Average Sydney Diesel, 31 July 2019–31 July 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, 31 July 2018–31 July 2020



Agri Price Dashboard

As of 31/07/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	532	490	487
CBOT soybean	USc/bushel	▲	896	884	864
CBOT corn	USc/bushel	▼	317	339	400
Australian ASX EC Wheat	AUD/tonne	▲	295	286	335
Non-GM Canola Newcastle	AUD/tonne	▼	601	646	575
Feed Barley F1 Geelong	AUD/tonne	▲	245	240	326
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	752	755	530
Feeder Steer	AUc/kg lwt	▲	392	392	308
North Island Bull 300kg	NZc/kg cwt	▲	545	540	550
South Island Bull 300kg	NZc/kg cwt	▲	470	465	525
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	753	870	926
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	720	715	815
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	695	680	785
Venison markets					
North Island Stag	NZc/kg cwt	▲	610	605	900
South Island Stag	NZc/kg cwt	▲	610	605	885
Dairy Markets					
Butter	USD/tonne FOB	▲	3,750	3,638	4,438
Skim Milk Powder	USD/tonne FOB	▲	2,775	2,638	2,588
Whole Milk Powder	USD/tonne FOB	▲	3,243	2,788	3,100
Cheddar	USD/tonne FOB	▲	3,950	3,788	3,888

Agri Price Dashboard

As of 31/07/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	66.6	68.0	75
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	62.8	61.0	63
Sugar markets					
ICE Sugar No.11	USc/lb	▲	12.1	11.8	12.21
ICE Sugar No.11 (AUD)	AUD/tonne	▼	370	382	441
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,134	1,110	1,754
Fertiliser					
Urea	USD/tonne FOB	▲	235	227	290
DAP	USD/tonne FOB	▲	313	307	340
Other					
Baltic Dry Index	1000=1985	▼	1,348	1,799	1,868
Brent Crude Oil	USD/bbl	▲	43	41	65
Economics/currency					
AUD	vs. USD	▲	0.72	0.69	0.68
NZD	vs. USD	▲	0.67	0.65	0.66
RBA Official Cash Rate	%	•	0.25	0.25	1.00
NZRB Official Cash Rate	%	•	0.25	0.25	1.50

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