Agribusiness Monthly & Covid-19 Update September 2020

Australia

RaboResearch Food & Agribusiness

3 September 2020

Rabobank

Commodity Outlook

Trade	Australia may have just passed peak exposure to the Chinese market.
Grains & Oilseeds	With AU winter crop renewal now lined up, local cereal prices have plummeted and there is more downside to come.
Dairy	The Oceania milk production season has a solid platform for growth, with an approaching peak.
Beef	Young cattle prices remaining strong.
Sheepmeat	New season lambs leading to softer prices.
Sugar	August crush gets back into gear with strong prospects for September progress.
Cotton	Speculative buying cushions the bearish outlook for Australian cotton prices.
Wool	Challenging times ahead with soft demand for wool.
Wine	The Chinese investigation into alleged dumping of Australian wine brings heightened uncertainty for Australian exporters – Rabobank expects it will be virtually impossible to replicate the value of China in any other market.
Horticulture	Rabobank expects prices for almonds to be subdued for the next two seasons. Also, unresolved border issues may make it difficult to secure enough labour to harvest and pack crops to meet consumer demand.
Farm Inputs	Global prices of urea and phosphate rose last month by 19% and 7%, respectively, in USD terms. We see the factors behind these price rises as being temporary, and expect prices to retreat by the beginning of next year.
FX	We still look for the AUD to soften to USc 65 by the end of February.
Oil	We expect Brent Crude to dip back below USD 40/bbl for the remainder of the year due to weak demand and the prospect of greater supply.

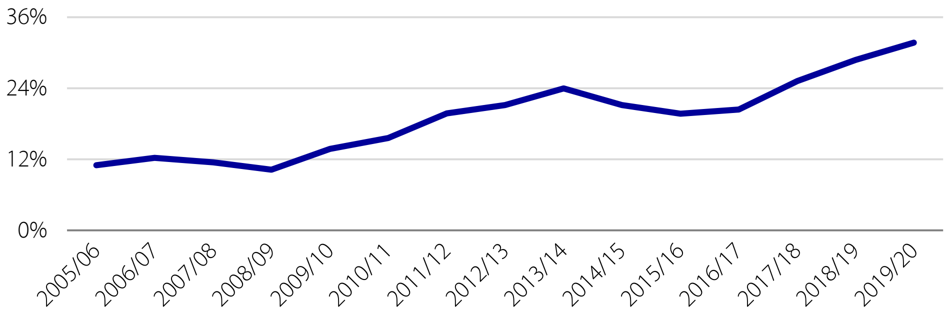
Exports to China Soar, Relations Sour

The exposure of the Australian F&A industry to the Chinese market has reached a new record. Exports of food and agricultural products to China rose by 8% in value terms in the 2019/20 season. As a result, China's share of Australian F&A exports rose to 32% for the 2019/20 period – up from 29% in the prior year and reaching the highest level in the history of the China-Australia trading relationship. We haven't been this exposed to one market since the 1950s, when we were still joined at the hip to the UK. And that was a very different political relationship.

But trade is now suffering as political tensions mount. China has often found reasons to reduce purchases of agricultural products from countries when tensions arise. And, its most senior diplomat in Australia warned over two years ago that if political relations continued to deteriorate, trade could suffer. Eight months into 2020, this is exactly what we are seeing.

Australia has five F&A exports to China that can be worth over a billion dollars in any given year. In 2020, China has, so far, impeded or threatened to impede three of these via the removal of accreditation to supply some beef product lines from certain abattoirs, the imposition of an anti-dumping duty on barley, and now a threat to impose anti-dumping duties on wine also.

Share of Australian F&A exports by value accounted for by China



Source: ABS, MLA, Wine Australia, Rabobank analysis, 2020

Has Australian Ag Reached Peak China Exposure?

2019/20 may prove to be the peak of Australian agriculture's exposure to China for several reasons.

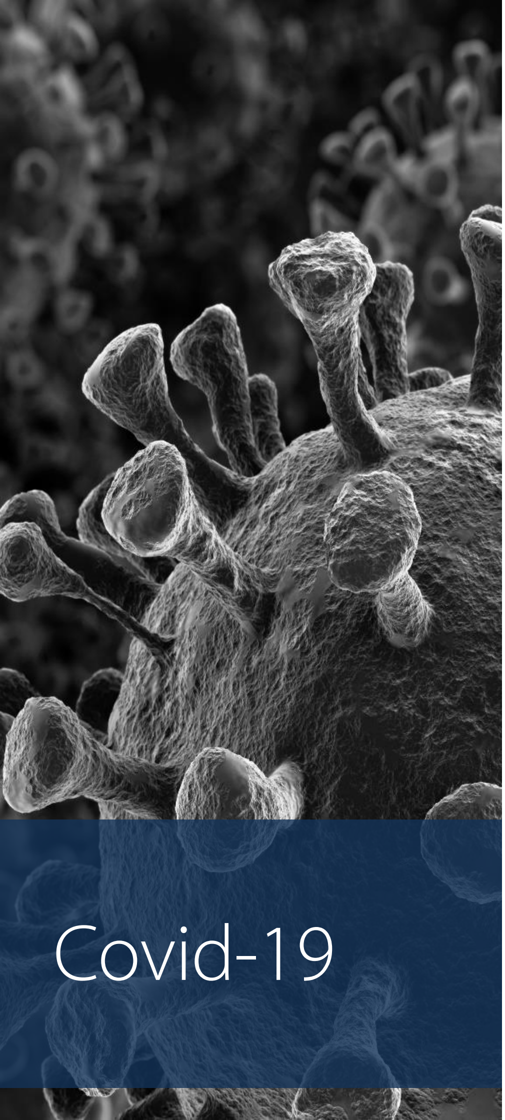
- Firstly, the likely rebound of wheat production this season will see a huge boost to shipments of a product that is typically sold to markets outside of China.
- Secondly, China's anti-dumping duty on barley will likely see most barley exports directed elsewhere for at least the next 12 months.
- Meanwhile, with some rebound in the Chinese pig herd underway, the share of Australia's beef and sheepmeat destined for China may also have peaked.
- As we push into the longer term, regions like Southeast Asia are also expected to play an increasing role in the textile milling industry, which will eventually see the share of Australian cotton sent to China drop off over the medium term.

But the size of the trade flow will be heavily influenced by the politics between the countries and the strategies of buyers and sellers.

The extent of exposure to China and the risks this is bringing may see many industries look to diversify markets in coming years.

The Chinese market is hard to replicate in size, growth, and value. But there are growth opportunities in other markets that Australian exporters can tap into in the coming years, especially if progress is made in improving market access.

The Australian F&A industry has been flexible and adept enough to navigate shifts in its customer base over many decades. This may prove to be the start of the next phase in that journey.



Infections Stabilised in August

After three months of alarming growth, new global infections stabilised in August at around 1.8 million new cases a week.

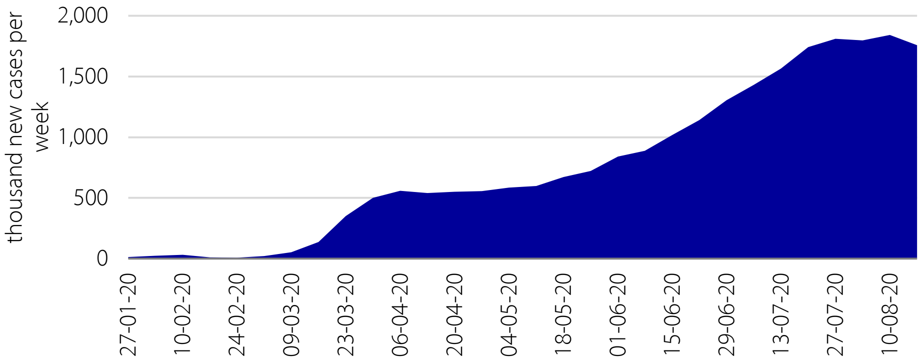
The trend varied across Australia's key F&A markets but was generally positive:

- Infections remained very low in China
- Substantial second waves slowed in Australia, the US, and Japan
- Although, infections rose in the UK, Philippines, Indonesia, and South Korea

But there was no clear trend to relaxing restrictions on movement and eating out through August:

- In Australia, Melbourne remains in stage 4 lockdown until at least September 13
- Stay-at-home orders were reimposed in the Philippines capital, Manila, in early August
- South Korea ramped restrictions back up in late August

Global weekly reported new cases of Covid-19



Source: European Centre for Disease Prevention and Control August 28, 2020

July Data Showed a Slowdown in Foodservice Recovery in China and the US

Rabobank

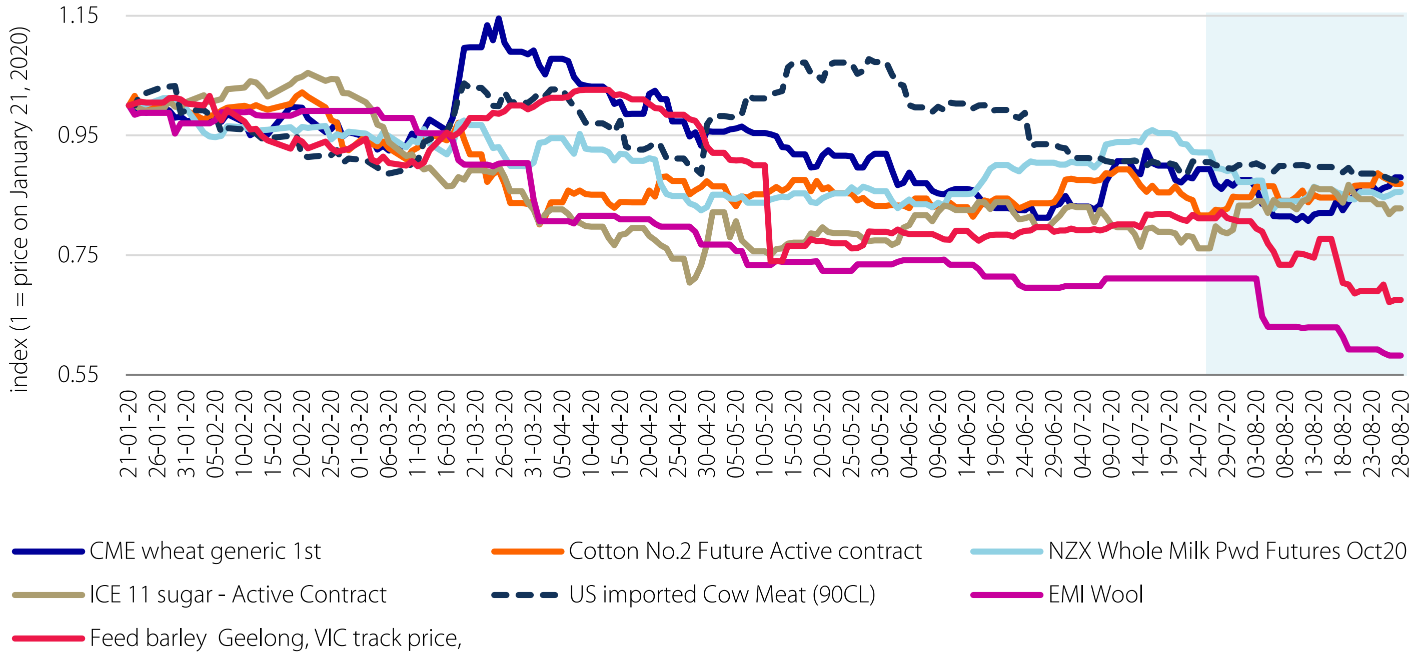
YOY change in food retail and foodservice expenditure in key markets

		Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020
Australia	Foodservice	2%	1%	2%	-23%	-50%	-35%	-17%	n.a
	Food retail	3%	3%	3%	27%	5%	13%	14%	n.a
US	Foodservice	5%	6%	5%	-27%	-52%	-38%	-26%	-19%
	Food retail	2%	2%	4%	29%	12%	15%	12%	11%
China	Foodservice	9%	-43%	-43%	-47%	-30%	-19%	-15%	-11%
	Food retail	10%	10%	10%	19%	18%	11%	9%	7%
	Real food Retail	-8%	-11%	-12%	1%	3%	1%	-2%	-6%

Sources: ABS, US census department, China National Bureau of Statistics, Rabobank analysis 2020
Notes: Chinese January and February data is combined by its statistical agency. Food CPI in July in China was 13%. Foodservice includes cafés, restaurants, and bars in the US and Australia – but not institutional sales (e.g. schools, hospitals). July data is preliminary for the US.

Wool and Barley Prices Slipped Through August – Other Commodity Prices Generally Held Their Levels

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



Sources: Bloomberg, Rabobank 2020

La Niña May Bring a Wet Spring

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During August, the Bureau of Meteorology (BOM) increased its El Niño–Southern Oscillation (ENSO) outlook to La Niña alert, to reflect the increased chances of a La Niña forming this spring.

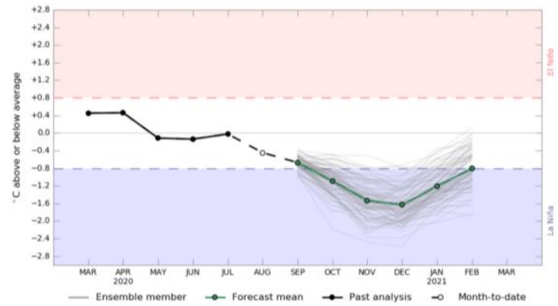
The chance of a La Niña forming is now 70%. Surface waters in the tropical pacific ocean have continued to cool, while trade winds are stronger than average; both these indicators are typical of a La Niña.

More than 50% of the international climate models expect The Indian Ocean Dipole (IOD) to break negative thresholds during October.

La Niña and a negative IOD would bring wetter-than-average conditions to the south and east of Australia. A wet spring will support pasture development and grain fill for the winter crop. However, if wet conditions continue into harvest, it can reduce crop quality.

A 70 percent chance of La Niña

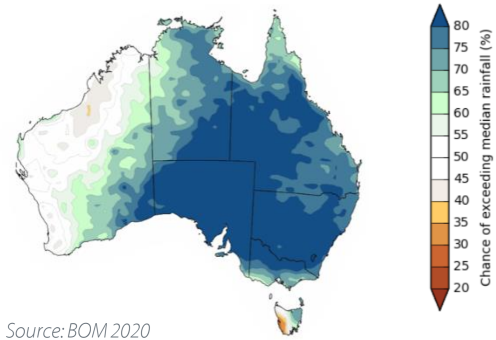
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

Wet conditions ahead for east and south

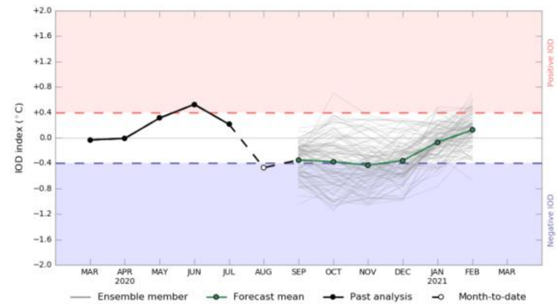
Sep-Nov rainfall outlook



Source: BOM 2020

IOD may break negative thresholds during Sep

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2020

Timely Rain Arrived

Very timely rainfall reached most regions across the country during August. Despite soil moisture levels having improved, some regions remain below average, following a dry couple of months.

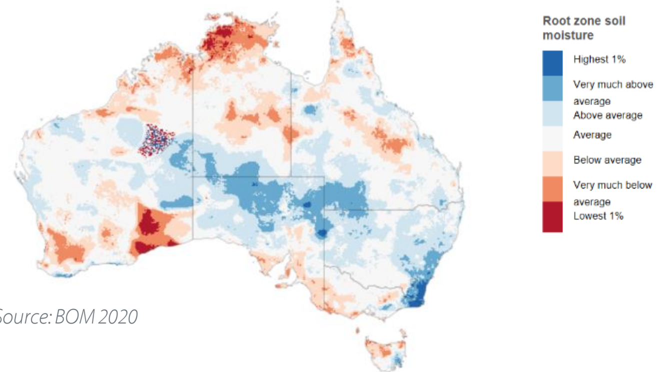
Significant falls were recorded on either side of the country during August. Geraldton (northern WA) recorded 86mm for the month, the highest monthly rainfall since June 2019, while Esperance (SE WA) recorded 110mm.

After a couple of months of low rainfall, Horsham (W VIC) recorded 62mm, while Clare (mid North SA) recorded 75mm.

This rainfall has arrived right at the cusp of an important time in the season. As temperatures increase, moisture is critical to promote pasture growth rates, and grain fill for the winter crop.

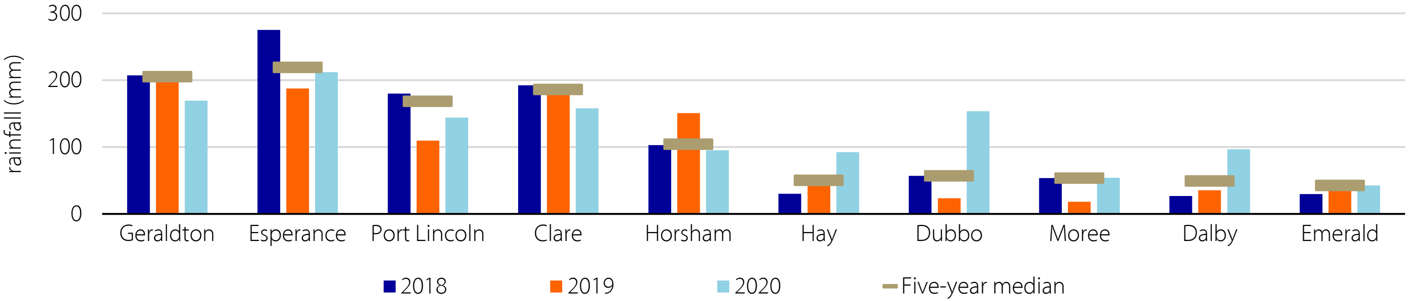
Widespread rain increased soil moisture

Relative root-zone soil moisture, August 2020



Source: BOM 2020

Recorded rainfall, 1 June-30 August



Source: BOM 2020

Grains & Oilseeds

Crunch Month

With Covid-19 limiting crop tour activity this year, more than usual speculation on the size of Russia's spring wheat crop has kept markets guessing, but September will be crunch time on volume as that harvest comes to a close. This swing factor, together with wheat supply from Australia and Argentina, will determine if the USDA's forecast record 766m tonne global wheat crop is realised in 2020/21.

CBOT wheat finished August just over 1% higher over the month, but not without a sharp move lower mid-month in response to an upgraded wheat yield estimate for Russia. Revision lower of EU wheat production, improved export demand, and support from US corn prices following a destructive 'derecho' storm and increasing dryness across the US corn belt have subsequently returned CBOT wheat to its July trading range. Expectations of an increase in Russian export pace and firming of AU production prospects means we continue to ***see CBOT wheat trading between USc 520 and USc 535/bu over the coming year***, a bearish view from the current USc 540 to USc 550/bu.

Locally, eyes will be on temperature gauges hoping that the crunch of frosted crops does not dint prospects. Late July and early August rainfall has halted yield downside in South Australia and Western Australia, while the majority of NSW and Victoria remains on track for above-average yields. This, together with BOM's outlook for a soft finish to the growing season and a higher dollar, plunged APW prices lower by 12%-17% across the country this month. Harvest pressure will take prices lower again without support from a downward dollar correction. We now see ***APW NWC at between AUD 275 and AUD 295/tonne in Q4 this year***.

Non-GM prices are set to continue to trade at above-average premiums to GM prices. The EU's second consecutive '20% below average' canola harvest will lift their import requirement near to last year's record. Australia is in the box seat given that Ukraine's production is 1m tonnes lower YOY and Canada's production is 90% GM. If France's ban on Clearfield canola is given the green light by EU members, this might be more the case.

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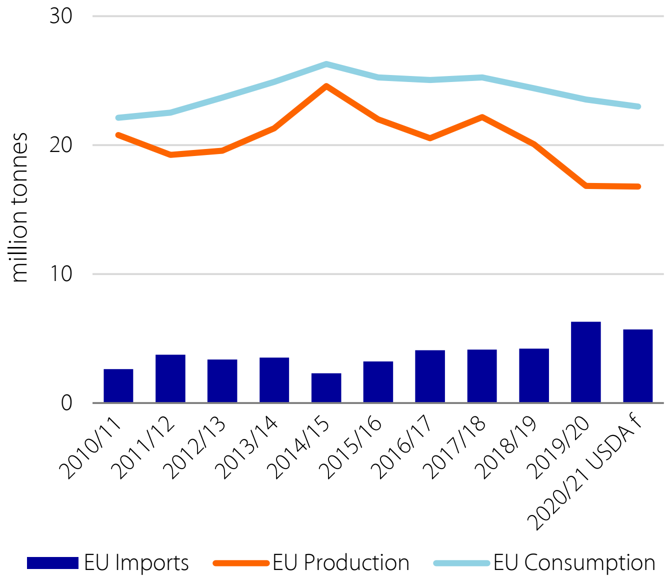
What to Watch

- ***Mice –***Farmers in northern NSW and Southern Qld are watching crops on account of increasing mouse activity. Baiting is ramping up, and some farmers have reported up to 5% yield losses. However, at this stage, losses are isolated and under control, though surveillance is heightened.
- ***CBH barley ban–*** The suspension of CBH barley exports to China due to alleged quarantine pest breeches adds another hurdle to resolving AU barley export challenges, but with an 80.5% tariff already in place, pricing downside will be largely priced in.

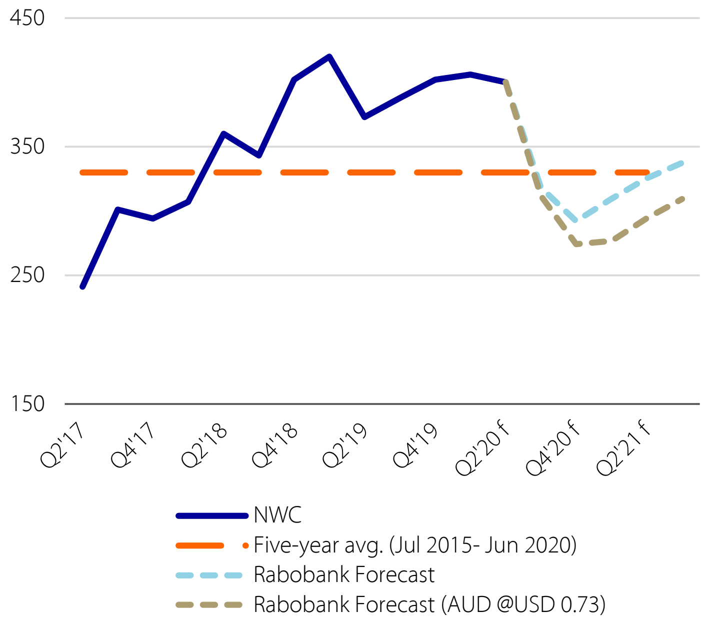
EU Deficits, the Supportive Northern Exposure

Second consecutive canola deficit for the EU will keep the non-GM to GM canola premium above average in 2020/21



Source: USDA, Rabobank 2020

Local factors taking the shine off AU wheat prices that will otherwise be supported by lower EU wheat exports



Source: Bloomberg, Rabobank 2020

Dairy Complex Continues to Drift Lower

Conditions for most of Australia's key dairy production regions remain favourable. The latest outlook from the Bureau of Meteorology is forecasting a wetter-than-average period between September and November for most of the east coast. Meanwhile, purchased feed prices continue to drift lower and strong cull cow pricing continues.

The local dairy market continues to provide a good safety net. Retail sales of dairy products continue to perform well. While the foodservice channel has been hit with a blunt object in the first half of 2020, there are signs to recovery in July and August (excluding in Victoria).

New Zealand milk production has had a solid start to the season. Milk production on solids basis is up 3.8% over the first two months of the season. However, this is on seasonally low volumes. A decent spring flush is still likely in the approaching weeks. Meanwhile, milk production growth has expanded in the US and the EU. Collectively, milk production is expanding across the export engine; albeit at rates below the long-term average.

Commodity markets continue to feel some the downward pressure. The dairy commodity complex was weaker through August. Underlying fundamentals in the market will keep the pressure on over the coming months. However, an ongoing recovery in the foodservice channel should continue to play out and this will be important in keeping markets in balance. Rabobank remains cautious about the health of the global dairy market. Volatility and uncertainty remain front and centre in the outlook for dairy markets.

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What to watch

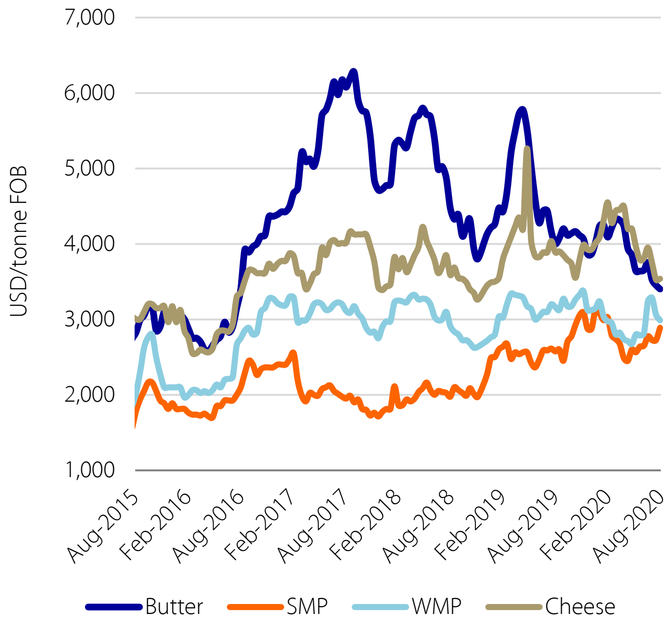
- ***Lion Dairy and Drinks.*** The deal between Kirin and Mengniu for the sale of Lion Dairy and Drinks is not going ahead. Market participants will be eager to see what the next steps are for the business. While it will be business as usual for now, the question will be whether they can find alternative buyers.

Dairy

A Buoyant Start to the Oceania Milk Season

Rabobank

Global dairy prices, 2015-2020

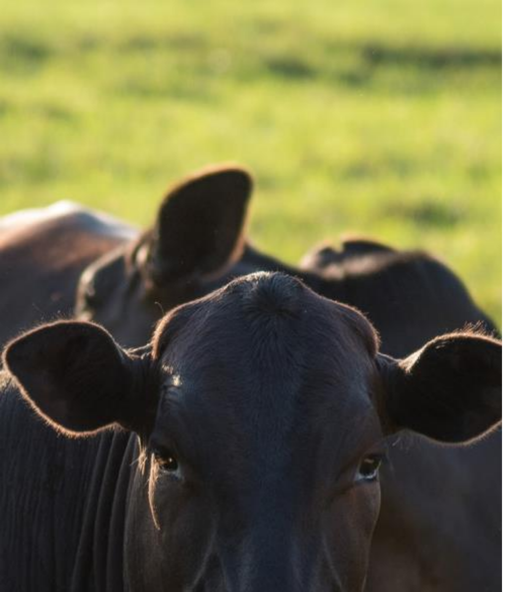


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	*Last three months*
EU	1.3% (June 20)	0.7%
US	1.5% (Jun 20)	0.6%
Australia	6.0% (May 20)	6.5%
NZ	3.8% (2020/21 season-to-date*)	

Source: Rabobank 2020
* June and July only



Young Cattle Prices Staying High

Australian cattle prices continue to live in the rarefied air of record high levels. The EYCI pushed higher in August to finish the month at AUc 778/kg cwt on 20 August. With the forecast of average or above-average rainfall forecast for much of the east coast over the coming months, and with younger cattle prices on average higher in the second half of the year than the first, ***we believe September should continue to see strong prices for young cattle.*** Finished cattle and cow prices also held steady through the month of August. While limited domestic supplies support these prices, global beef markets are a tough marketplace for expensive beef at the moment. Disruptions to trade with China, plus the safeguard measure introduced in July, along with a stronger Australian dollar will all affect the competitiveness of our product in key export markets.

East coast weekly cattle slaughter for the four weeks ending 21 August was down 25% YOY, with Queensland slaughter numbers down 31%. Victorian slaughter numbers were down 32% with plants operating under limited capacity due to Covid-19 restrictions. National cattle slaughter (612,000 head) for the month of June was down 14% YOY and the lowest volume for the calendar year 2020.

Beef export volumes in July (88,786 tonnes swt) dropped 23% YOY. Volumes to major markets of China, Japan and South Korea dropped 56%, 24% and 14% respectively. Volumes to the US were steady compared to July 2019. Beef availability and prices, licence suspensions, and safeguard quota tariffs are taking a toll on Australian exports to China. In the month of July, when Australian exports to China declined, China imported 16% more beef MOM with increases from Brazil (up 25% MOM) and Argentina (up 40% MOM). Australia's live export volumes were down 36% in July with volumes to Indonesia down 48% YOY, but Vietnam up 46%. Live export prices have remained steady over the month of August at AUc 355/kg for light steers out of Darwin.

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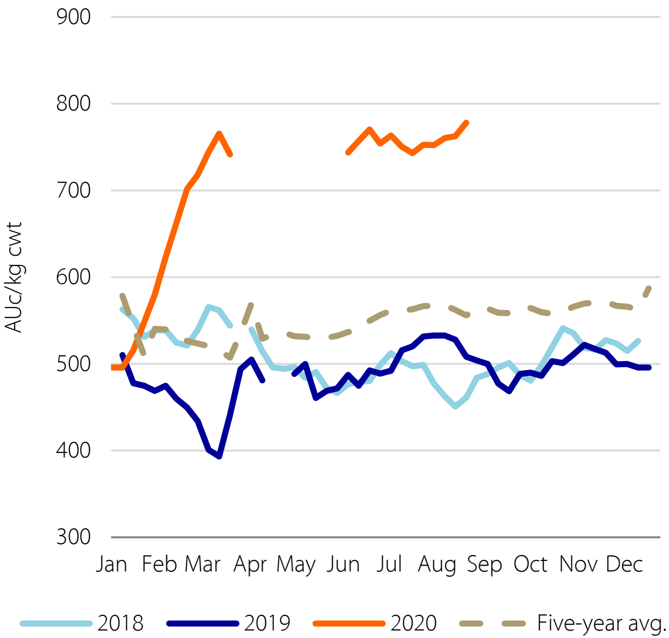
Beef

What to watch

- ***Feeder prices*** – Strong grain-fed finished cattle prices and a falling feed price has afforded feedlots the ability to keep paying high feeder cattle prices. Current grain-fed steer prices and grain prices are providing a good margin for feedlots for those cattle purchased 100 days ago – based on a 100-day feed programme. While uncertainty exists in export markets for grain-fed beef, softening grain prices as we head towards the 2020 winter crop harvest will support feedlots continuing to pay strong prices for feeder cattle.

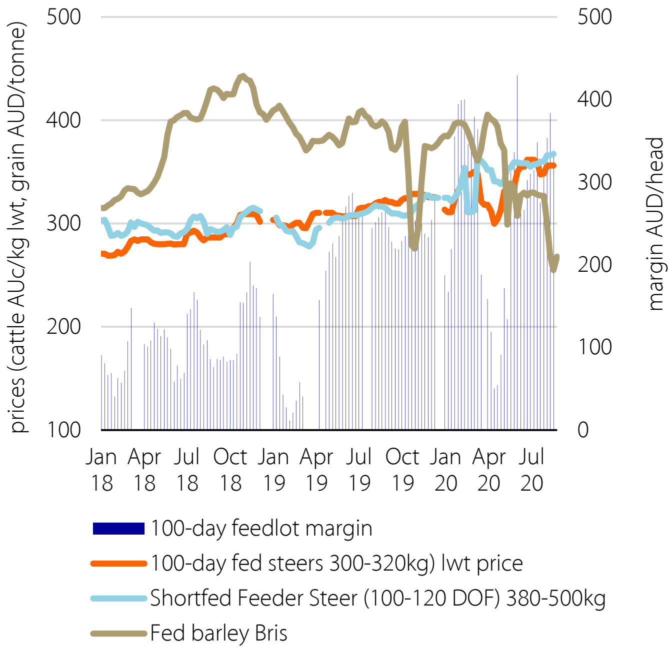
The EYCI Continues to Set New Records While Softening Grain Prices Help Feedlots

The EYCI continuing to push for new records



Source: MLA, Rabobank 2020

Falling grain prices offset higher feeder costs to maintain feeder margin



Source: MLA, Bloomberg, Rabobank 2020

New Season Lambs and Soft Global Markets Push Prices Lower

Lamb prices have continued their fall from record highs. August saw the ESTLI drop 15% in the four weeks to 20 August to AUc 641/kg cwt. All categories of sheep saw prices fall, although mutton and restocker lambs fared slightly better with smaller declines. The price spread between restocker and heavy lambs still indicates a demand for younger stock, but with grid prices falling less than saleyard prices through the month we might be starting to see producer/restocker demand ease off. ***With new season lambs coming on to the market, softer global markets and reduced foodservice trade, we expect there may be more downward price pressure over the coming month.***

Eastern states weekly lamb slaughter numbers were up 6% for the four weeks ending 21 August compared to 2019. NSW and SA saw strong lifts – up 12% and 68% respectively, as lambs were shifted away from capacity constrained Victorian plants (down 10%). National lamb slaughter numbers for June (1.49m head) were up 2% on 2019. While early in the season, the lift in slaughter numbers could be the indication that larger volumes of new season lambs will be available earlier in the year following good feed availability. Balancing this volume of new lambs with limited Victorian processing capacity and subdued markets is going to be a challenge for the market.

Lamb exports in July (18,432 tonnes swt) were similar to levels in 2019. We continue to see volumes to the Middle East lower than last year (down 16%), although they have improved a little. Volumes to the US were up 51%, which might be an encouraging sign that the US market is recovering.

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Sheepmeat

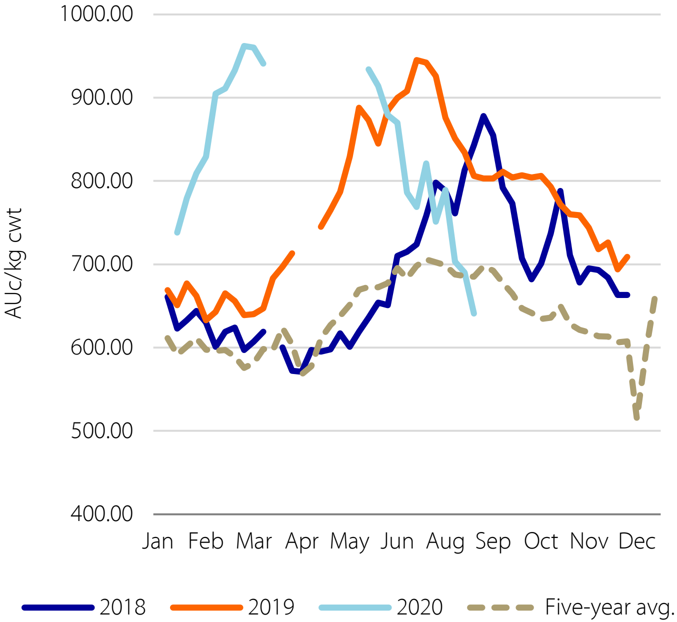
What to watch

- ***Mutton trade –*** While falling prices across the board are not encouraging, we can see that mutton prices are faring a little better than lamb prices. The spread between heavy lambs (22kg-24kg) and heavy sheep (24kgs+) is at some of the lowest levels in 10 years. The ability to move cheaper sheepmeat in the current period of reduced foodservice and slower economic conditions may be slightly favouring the cheaper livestock.

Premium Lamb Prices Drop While Cheaper Mutton Cuts Fare a Little Better

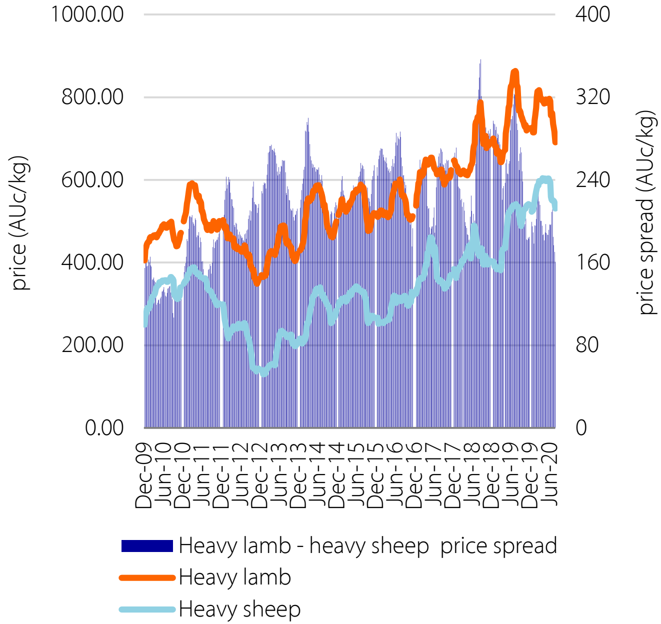
Rabobank

ESTLI continues to slide as new season lambs hit the market



Source: MLA, Rabobank 2020

Heavy lamb/mutton price spread shrinks with cheaper meat that is easier to move



Source: MLA, Rabobank 2020

Sugar

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Speculative Support

Domestic crush has jumped back into gear in August, as drier weather allows harvest operations to continue at pace, particularly in the Herbert & Burdekin region. At forecast 38% of cane crushed nationally, 2020 sits largely in line with 2019. Furthermore, ASMC figures show 1.45m-1.55m tonne weekly cane crush totals in the second half of August, comparable with the peak weeks in 2019. The major regions show consistent pace, between 39%-34% complete, with Northern Queensland leading the way. Looking ahead, the Bureau of Meteorology's September outlook suggests a 50-60% chance of above-average rainfall for Northern Queensland – allowing for harvest to continue. However, the three-month outlook threatens rainfall - as does the threat of a 2020 La Niña.

Global prices have remained elevated amid short-term demand, and heavy speculative buying. Rabobank maintains a bearish outlook, forecasting AUD 370-AUD 380/tonne in 2H 2020 before climbing above AUD 400/tonne in 2021. It's interesting to note that speculators (Managed Money), as of 18 August, hold the most bullish position since February – when ICE #11 prices touched USc 15/lb. Still, we maintain a bearish fundamental view on heavy Brazilian production, ongoing Indian exports and a 1% YOY decline in 2019/20 world sugar consumption.

India's government confirms increased cane prices for growers in 2020/21. As growers receive a higher cane price, the government may also need to address future export subsidies and/or the minimum sugar price (MSP) – both of which will help to determine 2020/21 Indian exports. Rabobank expects 6m-7m tonnes of export subsidies in 2020/21 (versus 6m in 2019/20), with reports in the ongoing WTO dispute not ready until Q2 2021. Indian exports are likely to compete with Australian raws and will weigh on the global price. On the production side, India's 2020/21 crop looks particularly promising - forecast at 33.5m tonnes, up 16% YOY.

What to watch

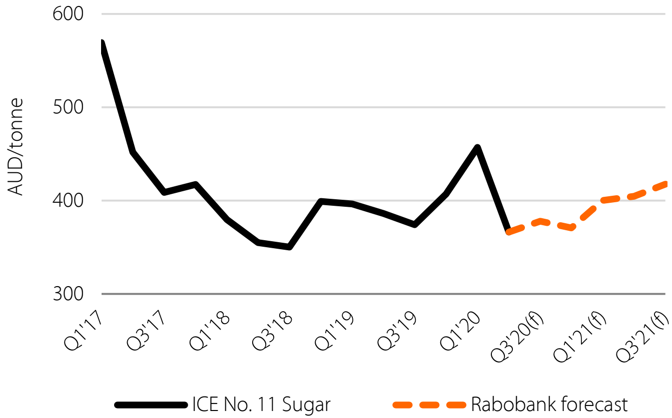
- ***While speculative forces hold up prices in the short term, their behaviour is notoriously fickle.*** This short-term money can disappear as quickly as it emerges – often spooked by headlines and/or fundamentals – which risks ICE #11 volatility in the coming months.
- ***The latest ENSO Outlook now sits at La Niña alert,*** meaning that the chance of a La Niña forming in 2020 has increased to near 70%. La Niña years can bring an unwanted wet end to the domestic crushing season.

Domestic Crush Jumps Back Into Gear in August, as Dry Weather Allows the Harvest To Gain Pace

Rabobank

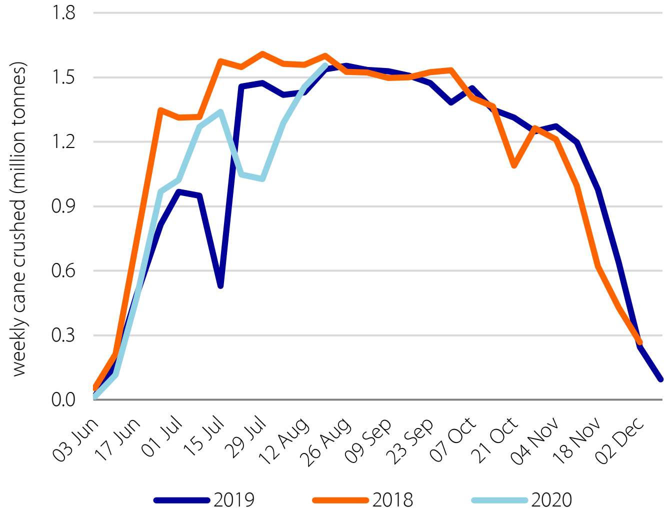
Rabobank holds a bearish short-term view, with prices rising back to AUD 400/tonne in 2021

	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	12.0	11.5	11.8	12.0	12.5
AUD/USD		0.68	0.66	0.66	0.70	0.68	0.65	0.65	0.66
Sugar	AUD/t	407	457	366	378	371	400	405	418



Source: Bloomberg, Rabobank 2020

Weekly cane crush recovers in August, particularly in the Herbert & Burdekin regions



Source: ASMC, Rabobank 2020

Speculators (Managed Money), as of 18 August, hold the most bullish position since February – when ICE #11 prices touched USc 15/lb. We note speculative buying across several soft commodities.

Finding a Floor

The cotton market appears to have found a floor in August, with 2020 prices trading in the AUD 475-AUD 485/bale region – 2021 values are closer to AUD 500/bale. This value is mostly in line with our price forecast, albeit for different reasons. Rabobank projects ICE #2 futures weakness and AUD/USD weakness, as opposed to ICE #2 strength and AUD strength currently seen. However, Rabobank does forecast a dip in Q4 2020 values, towards AUD 450/bale, as US supplies come online. Late this month (30 September) US sanctions will be placed on China's Xinjiang Production and Construction Corps (XPCC) – a major producer of domestic Chinese cotton – citing human rights abuses. The full impact of this is uncertain, but it highlights the importance of fibre provenance and traceability.

Speculative buying has emerged across the ICE #2 Cotton market through August, as well as other soft commodity markets. Non-Commercial participants (also know as speculators), as of 18 August, held the most bullish market position since October 2018. These are unlikely to be fundamental driven – especially against the largest YOY demand fall on record – but instead a likely inflation hedge given recent USD weakness. A similar trend is noted across other soft commodity markets, namely coffee and sugar futures.

The USDA's August WASDE emphasised a heavy fundamental outlook. A record 2020/21 US yield forecast, coupled with 24% abandonment, provided an 18m bale forecast crop plus the fourth consecutive year of domestic stock building. Globally, 2019/20 stocks are forecast to reach five-year highs, with further expansion forecast in 2020/21. In both cases, stock expansion is almost entirely outside of China, making for a particularly crowded export space. Rabobank forecasts that 2020/21 global production will need to fall 5% YOY (vs. USDA at 4%) in order to keep world stocks manageable – a factor requiring lower prices in the medium-term.

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Cotton

What to watch

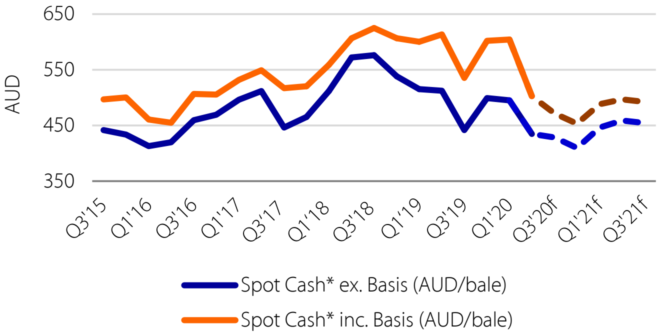
- ***Rabobank released its ten-year outlook for Australian cotton in August, entitled Opportunity Awaits for the 'Bolled' and Brave.*** The in-depth report looks at future demand, opportunity for expansion and the role of social license in the coming decade. Look out for the report in your inbox, or touch base with your local Rabobank representative for a copy.
- ***The impact of Hurricane Laura in the southern US.*** For cotton, the damage appears limited by a fast deterioration in the hurricane's strength and a relatively low level of open bolls. Still, we continue to monitor isolated damage – the US hurricane season is not yet over!

Prices Find a Floor in August, but Weakness to Come in Q4 2020

Rabobank

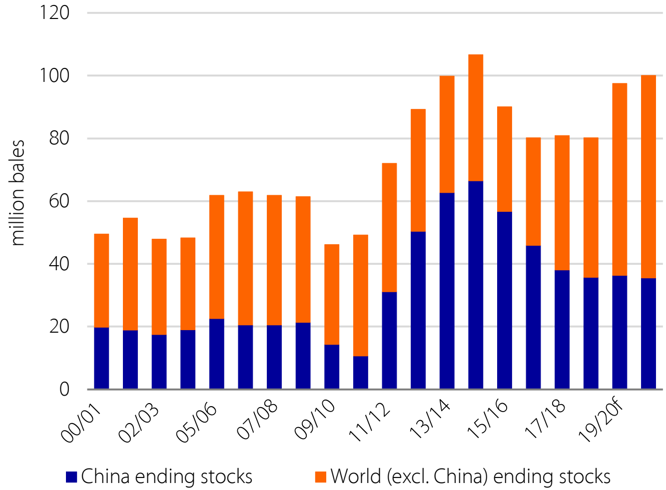
Prices forecast below AUD 500/bale in the 12-month period, the result of a weaker ICE #2 and local basis

	unit	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE #2	USc/lb	65	57	60	56	58	60	60
AUD/USD		0.66	0.65	0.70	0.68	0.65	0.65	0.66
Basis	Pts/lb	1436	887	600	600	550	500	500
AU ex. Basis	AUD/bale	495	435	429	409	446	459	455
AU inc. Basis	AUD/bale	604	502	471	453	488	497	492



Source: Bloomberg, Rabobank 2020

World cotton stocks to expand +20% in 2019/20, and further in 2020/21 – mostly outside China



Source: US Census Bureau, Rabobank 2020
**YOY change - 2020 vs. 2019*

Speculative buying has emerged across the ICE #2 Cotton market through August, providing price support. We note this trend across several other soft commodity markets, including coffee and sugar.

Challenging Times Ahead

The resumption of trade after the winter recess saw prices decline sharply. In the first week after resuming, the EMI dropped 11% to AUc 1,006/kg before dropping a further 12% to AUc 883/kg as of the 1st of September. Finer wool fared comparatively better than course wool. Since the 1st of August, 17 micron saw a decline of 16% while 30 micron wool declined 33%. ***A winding back of government income assistance globally and high unemployment is expected to weigh on discretionary spending, and we cannot see any strong signals that prices will start recovering in the next month.***

The EU and US continued to see improvements in apparel demand through July, with both posting their best YOY result since the beginning of the pandemic. But the recovery in US sales appears to be losing momentum. MOM growth in apparel was only 12%, much smaller than the 78% jump in June. The slowing of momentum reflects US consumer confidence, which also saw a sharp slowdown in recovery. Furthermore, Chinese apparel sales in July showed a 2.5% decline YOY. This follows June, where sales almost recovered to pre-Covid levels. With Chinese apparel sales posting a decline MOM and Chinese consumer confidence figures yet to show a recovery, there is an increasing likelihood that a sustained recovery in Chinese discretionary spend may take longer than initially thought.

National data for August shows the weight of wool tested down 20% YOY as of 31 August. June wool export volumes (18.9m kg) were up 4.5% on 2019. China's share of Australian exports in June stayed stable MOM at 92%. The rise in exports came from 19 and lower micron (+13.2% YOY) and 24-27 micron (+17.8% YOY). Total 2019/20 wool exports ended 16% lower YOY by weight, and 35% lower by value. China's share of total 2019/20 exports increased 2.7% YOY.

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Wool

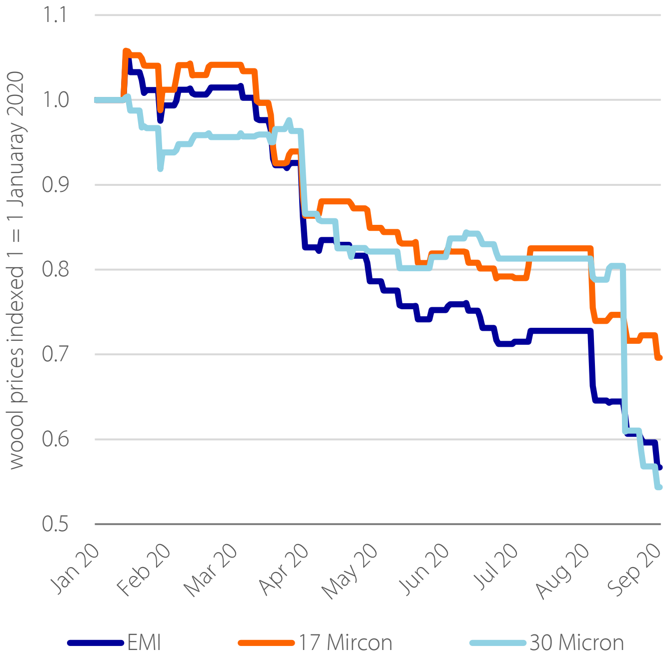
What to watch

- ***Chinese consumer confidence –*** China has been one of the few markets globally to not show a recovery in consumer confidence since feeling the impact of Covid-19. From its peak in December 2019 to June, Chinese consumer confidence has dropped by almost 11%. A significant proportion of Australia's wool exports are destined for the domestic Chinese consumer market. It is critical that Chinese consumer confidence and discretionary spend show sustained signs of recovery to create a positive influence on Australian wool prices.

Wool Prices and Chinese Consumer Confidence Down

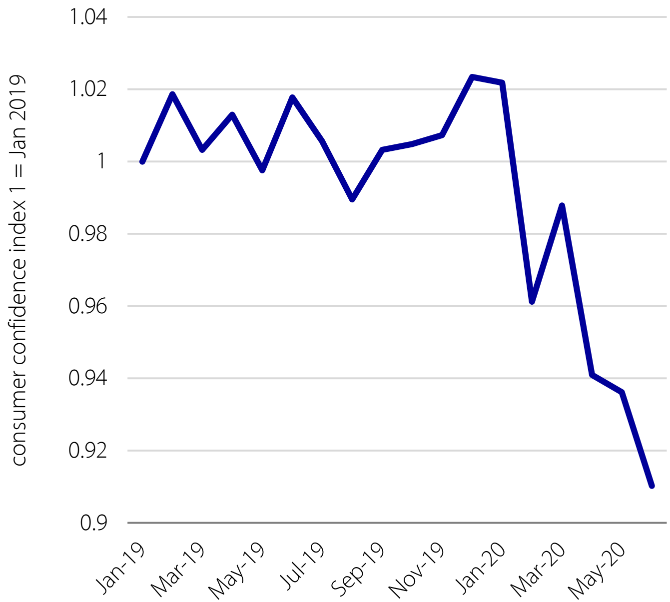
Rabobank

Finer micron wool not seeing the same falls as coarser wool in 2020

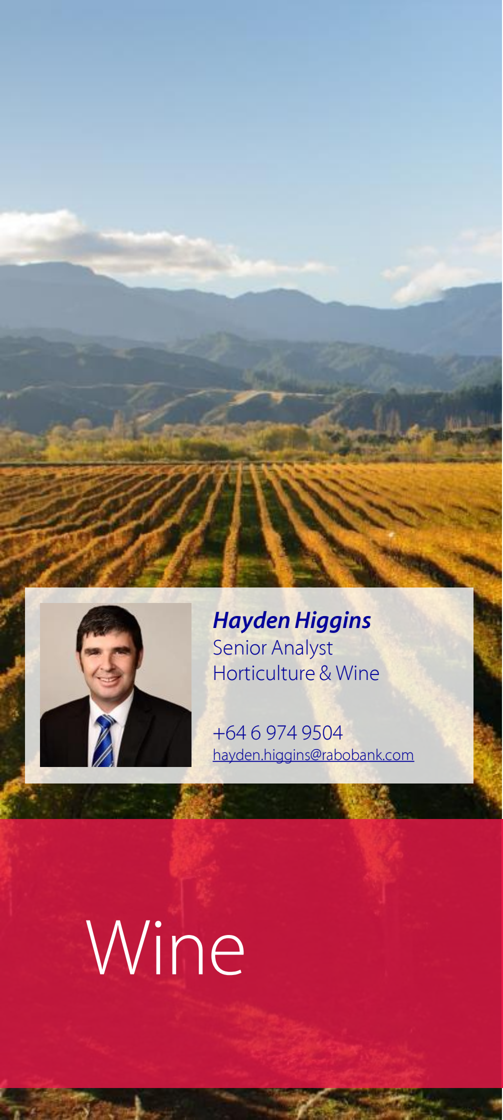


Source: Bloomberg, Rabobank 2020

Chinese consumer confidence is yet to show an improvement this year



Source: Bloomberg, Rabobank 2020



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Wine

Not So Subtle Shift in the Breeze

The launch of an investigation by China into the alleged dumping of Australian wine by Australian exporters to China comes at a critical point for Australia.

The recovery of China's food service channel, which was slower in June than Rabobank expected, remains important for Australian exports to China. Our current view is that the foodservice channel in China will not fully recover before Q4 2020. Meanwhile, the investigation sets a different tone for recovery in Australia's most important wine market.

We expect that pivoting supply to other key markets and replicating the value of sales to China will be extremely difficult – exporters will temper the rate of exports and have tolerance to quite a high level of tariffs before exports are switched out.

Given the average value per litre across our key export markets (see graph on next slide), switching out exports from China to other countries and recuperating the same value will be virtually impossible in the current Covid-19 environment. A significant tariff would need to be applied to lower the average value per litre to match the likes of the US or the UK and encourage exporters to change channels and at the same time potentially undo years of brand-building efforts.

US imports have risen to satisfy retail demand, but largely in the bulk arena, with packaged volumes down – but Australia is weathering this change well.

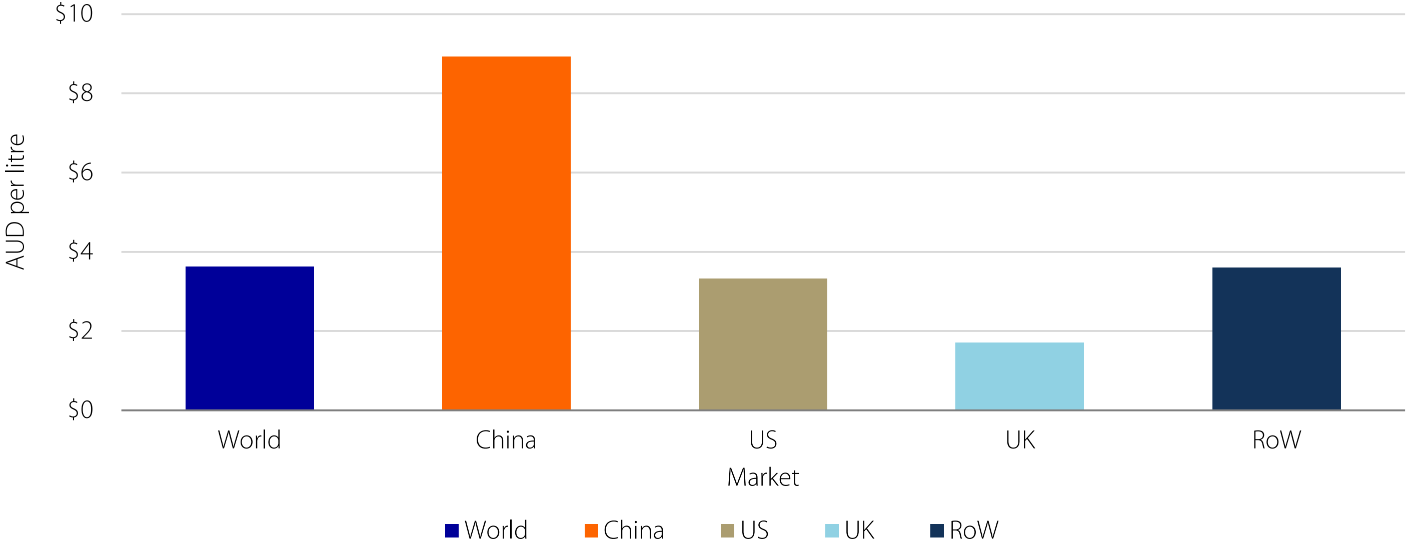
For Australia, packaged exports to the US are actually up slightly YOY for the six months to June 2020. Encouragingly, values per litre are also up over the period, for both bulk and packaged exports. This is running against the trend for overall wine imports into the US, calendar-year-to-date. On a positive note, a gradual recovery was observed in US retail sales for food restaurants and bars in June and July 2020.

What to watch

- ***Mobile pest surveillance –*** The launch of a second-generation pest detection unit, Sentinel 2, for trials in vegetable crops in Langhorne also has relevance for the wine sector. Not only does it enable detection of insects but also pathogens such as botrytis powdery mildew.

China Market Value Clear

Australian wine exports, average value by key market



Source: Wine Australia, Rabobank 2020

Average export values per litre to China are nearly threefold the average to all markets.

Records, Pricing, and Border Pressure

Australian horticultural exports look set to reach a new peak for the 2020 export year, ending June, for value (see graph on the next slide).

Australian horticulture exports for the eleven months to May 2020, are flat by volume but up by value YOY. Led by fruits and nuts, the standout categories were fresh grapes and the combined citrus and tree nut categories respectively. But, tree nuts experienced more subdued growth than previous years influenced by YOY reductions in sales to China – in particular for almonds as import demand slowed.

A large forecast 2020 US almond crop and higher US inventories are expected to weigh on Australian almond prices across 2020 and 2021.

Almond production in the US is set to hit 1.38m tonnes in 2020, a record crop and following a superb growing season and historical growth in bearing area coming into full production. When combined with an increased closing inventory from the 2019-20 US crop, this will put downwards price pressure on US almond prices in the 2020-21 export year – which will flow into Australian export prices. Rabobank expects that US prices have may have seen the bottom, with prices at historical lows. But with the recent continued rise in US planted area and the impact of Covid-19 on both logistics and demand in some key markets, Rabobank expects prices to remain subdued for a couple of seasons.

We expect that demand for Australian horticultural produce remains robust over 2020 and into 2021, but delivering supply to meet this may be difficult if border issues remain unresolved.

Question marks remain over the availability of labour for next season's harvest and for critical jobs leading into that period. If issues remain unresolved, this may influence the ability to meet that demand.

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Horticulture

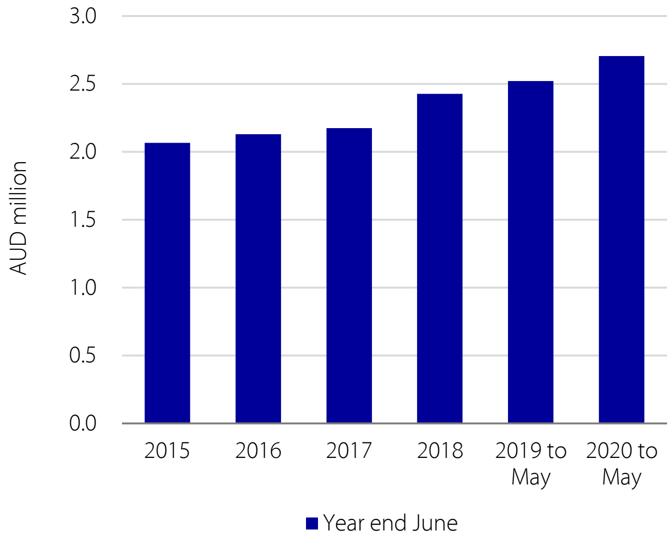
What to watch

- ***Temperate berry varieties –*** Horticulture Innovations Australia are seeking partners in Australia for further trials of new temperate strawberry varieties, for a Mediterranean-type climate. The trials will run for up to two years to ensure commercialisation will be achievable.

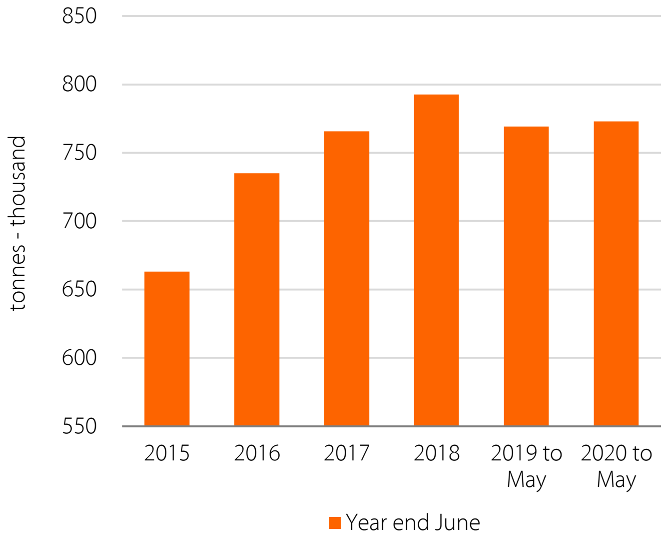
Australian Horticultural Exports Up Year-to-Date

Rabobank

Australian horticultural exports, by value



Australian horticultural exports, by volume



Source: Trade Map, Rabobank 2020

Australia looks set to break through a new record for horticultural export receipts in 2020.

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Farm Inputs

Global Bounce Only Temporary

Global prices of urea and phosphate rose last month by 19% and 7%, respectively, in USD terms. We see the factors behind these price rises as being temporary, and expect prices to retreat by the beginning of next year.

Demand for DAP across major markets, including Brazil, India and the US has lifted prices. This has been amplified in the US by Mosaic's decision to seek countervailing duties against Moroccan and Russian phosphate importers. As a result, imports into the US have declined, and supplies have tightened. We expect prices to decline toward the end of the year, in line with seasonal demand.

New tenders from India continue to be the primary driver of global urea prices. Two tenders in July were followed by two even larger tenders during August, which lifted prices across most global benchmarks. Due to political tensions on the border between China and India, Chinese suppliers may be exempt, or have limited participation in future tenders. This may result in urea from China trading at a slight discount to urea from other sources until the tensions are resolved.

Due to seasonal demand, we expect there may be more upside for global urea prices during Q3, then decline during Q4, in line with seasonal demand.

In the immediate term, local urea prices will be primarily driven by local demand. If we see a large spike in local demand, and/or supply disruption, local prices may quickly swell.

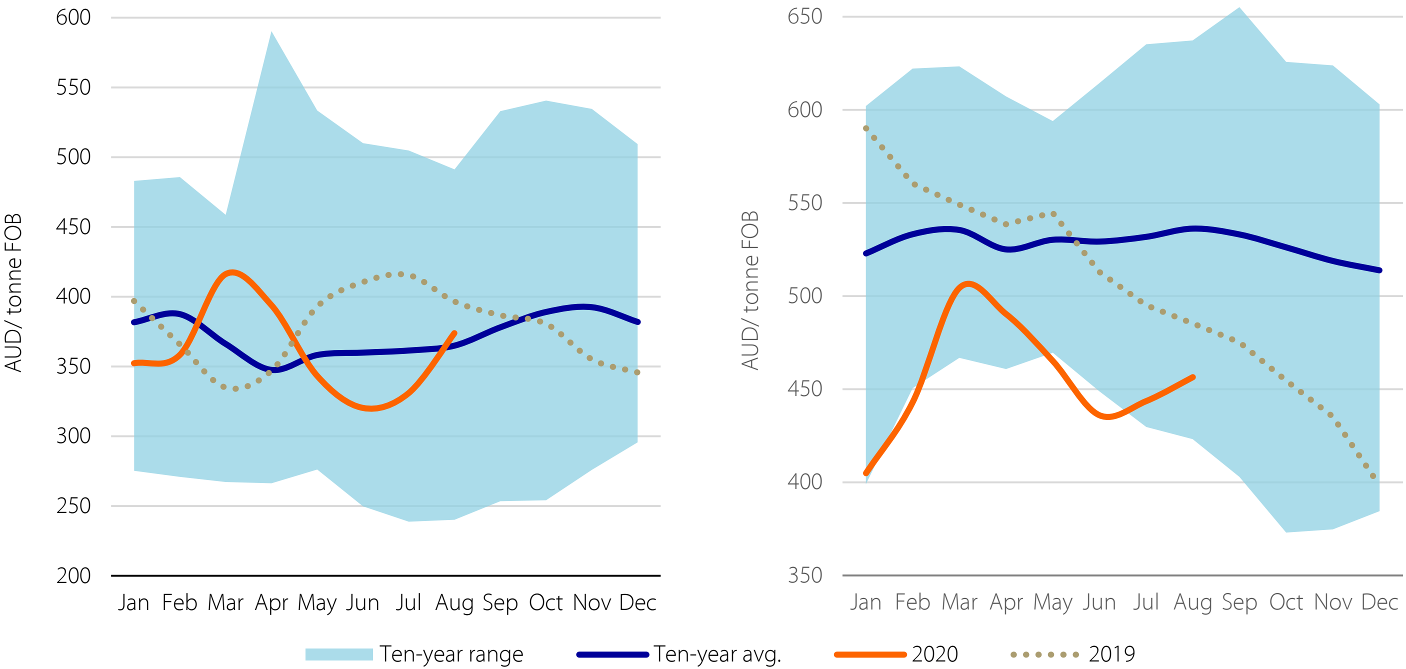
What to watch

- ***Local Currency –*** The AUD remained above USc 71 during August. We expect that the local currency will weaken in coming months and will trade at USc 65 by the end of February next year. This will make global fertiliser more expensive in local terms, and is therefore an important consideration for importers and farmers considering purchases for next season.

AUD-Adjusted Urea Back Above Average

Rabobank

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

AUD Rises Again, But Risks Remain

The AUD rose another 2 cents against the USD in August. At USc 73.7 on August 31, it was 5 cents above pre crisis levels and above its five-year average.

In rough terms, ***about half of the movement in the AUD/USD rate through August can be explained by a weakening USD.*** The USD fell another 1.2% against a broad index of currencies in August (and only 2.2% against the AUD).

The US has been pushed down against a range of currencies due to concerns over the damage that the virus has done to the economy, real yields on 10 year treasury bonds continuing into negative territory and (for now) a declining need for a safe haven market for investment. The Fed also relaxed its inflation target, adding to market expectations that interest rates will remain low for a long time..

Meanwhile, the AUD is buoyed by rising optimism over the Chinese economic recovery and further rise in the risk appetite of investors. Pundits appeared to have pushed aside the worsening political tensions between Australia and China during the month. RBA monetary policy also seems more disciplined than elsewhere, with the RBA in early September keeping rates on hold, voicing no concern over the rising AUD and still expressing no interest in negative rates.

Looking ahead, ***we remain keenly aware of the potential for currency markets to shift direction and drive the AUD/USD down again***. The global economy will likely disappoint 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 65 by the end of February.

Rates & FX

What to watch

- ***Political tensions between Australia and China.*** The AUD has been rising since March, in part due to the expectation that Australia will benefit economically from the early recovery of the Chinese economy. This expectation is despite China so far in 2020 warning its tourists not to visit Australia, students not to study there and impeding trade in barley, beef and wine. Tensions can only run so high before investors will start to question how much of the Chinese recovery Australian industry will be allowed to participate in. Watch for the AUD to fall if we cross that line.

AUD Rises Through August on China's Coat-Tails

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020

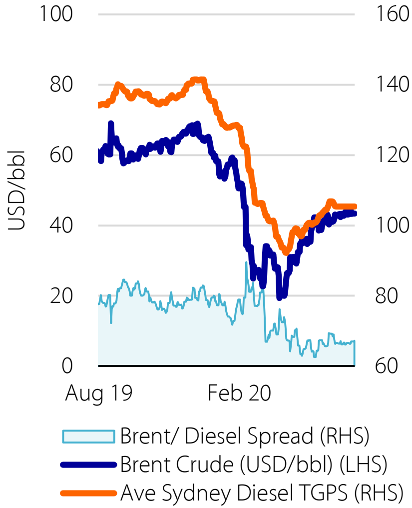
Oil & Freight

Low Prices to Remain

Looking forward, the impact of weak demand and the threat of even more supply on oil prices will continue to be somewhat offset by macro-economic factors. Nevertheless, we expect Brent Crude to dip back below USD 40/bbl for the remainder of the year.

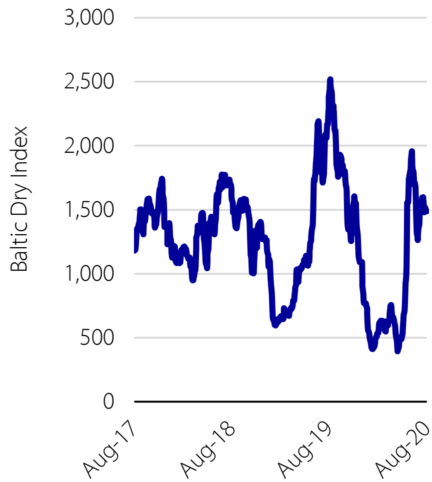
The oil market has been finely balanced since June, trading in a narrow range. Initially, we saw interest from retail investors support prices, however that has weakened in recent weeks. More recently, it's been a sharply weaker US dollar, rising inflation fears and a heavy financial stimulus that has supported prices, as investors have moved to commodities and real assets for diversification purposes.

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



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, 31 Aug 2018–31 Aug 2020



Source: Bloomberg, Rabobank 2020

Agri Price Dashboard

As of 31/08/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	539	531	451
CBOT soybean	USc/bushel	▲	951	898	857
CBOT corn	USc/bushel	▲	346	316	358
Australian ASX EC Wheat	AUD/tonne	▼	286	291	334
Non-GM Canola Newcastle	AUD/tonne	▼	582	601	593
Feed Barley F1 Geelong	AUD/tonne	▼	211	245	289
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	786	752	504
Feeder Steer	AUc/kg lwt	▼	391	392	289
North Island Bull 300kg	NZc/kg cwt	▲	555	545	560
South Island Bull 300kg	NZc/kg cwt	▲	500	470	545
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	641	789	803
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	725	720	840
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	700	695	815
Venison markets					
North Island Stag	NZc/kg cwt	▲	620	610	910
South Island Stag	NZc/kg cwt	▲	630	610	885
Dairy Markets					
Butter	USD/tonne FOB	▼	3,400	3,525	4,000
Skim Milk Powder	USD/tonne FOB	▲	2,888	2,725	2,575
Whole Milk Powder	USD/tonne FOB	▼	2,988	3,288	3,163
Cheddar	USD/tonne FOB	▼	3,538	3,750	3,888

Agri Price Dashboard

As of 31/08/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	71.1	68.6	70
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	64.4	62.3	59
Sugar markets					
ICE Sugar No.11	USc/lb	▼	12.6	12.6	11.14
ICE Sugar No.11 (AUD)	AUD/tonne	▼	377	390	417
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	929	1,134	1,375
Fertiliser					
Urea	USD/tonne FOB	▲	280	255	265
DAP	USD/tonne FOB	▲	340	313	326
Other					
Baltic Dry Index	1000=1985	▲	1,488	1,350	2,378
Brent Crude Oil	USD/bbl	▲	46	43	60
Economics/currency					
AUD	vs. USD	▲	0.74	0.71	0.67
NZD	vs. USD	▲	0.67	0.66	0.63
RBA Official Cash Rate	%	•	0.25	0.25	1.00
NZRB Official Cash Rate	%	•	0.25	0.25	1.00

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