Agribusiness Monthly & Covid-19 Update October 2020

Australia

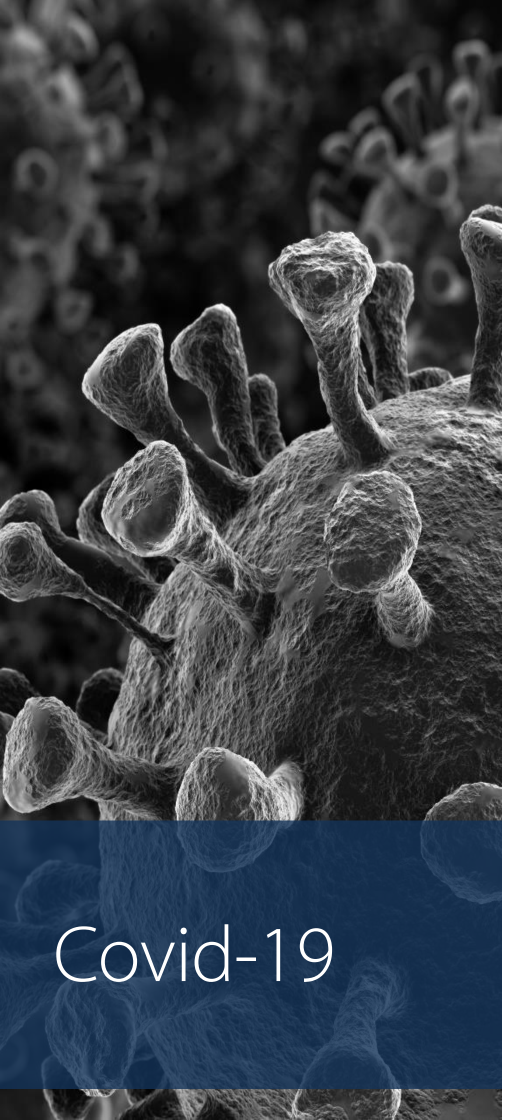
RaboResearch Food & Agribusiness

1 October 2020

Rabobank

Commodity Outlook

Covid-19	After stabilising through August, global daily infections started to rise again in September. The increase was most notable in the US and Europe, raising concerns of a strong second wave as the Northern Hemisphere progresses through autumn/winter
Grains & Oilseeds	Global wheat price outlook raised to USc 535/bu for Q4 2020, but local harvest pressure will burden AU wheat prices for the balance of 2020.
Dairy	Widespread growth in milk production to continue through spring months
Beef	Young cattle prices keep powering on
Sheepmeat	Lamb prices defy the seasonal trend and start rising
Sugar	Strong Brazilian production and a 1.5% YOY fall in global 2019/20 consumption keeps sugar markets well-supplied
Cotton	Early signs of returning clothing retail sales adds optimism to the demand outlook for cotton
Wool	Stronger Chinese and US apparel sales to support wool buying sentiment and current prices
Wine	Rabobank expects US wine inventory could change from one of surplus to a more balanced position if wildfires cause significant smoke taint to US wines
Horticulture	Rabobank expects New Zealand to compete for labour from the Pacific Islands if borders re-open
Farm Inputs	We expect the drivers behind recent fertiliser price rises to weaken in coming months. Subsequently, prices across the global fertiliser complex will return to a low price environment by the beginning of 2021
FX	We expect the AUD to fall to USc 68 by the end of March 2021, as we see investors reduce their expectations for global growth, commodity prices soften further, and risk appetite continues to wane
Oil	Due to the poor macro and oil market fundamentals, we have maintained our bearish outlook for Brent Crude oil. Rabobank expects prices to drop below USD 40/bbl during Q4 2020



Infections Are Rising Again

After stabilising through August, global daily infections started to rise again in September. The increase was most notable in the US and Europe, raising concerns of a strong second wave as the Northern Hemisphere progresses through autumn/winter.

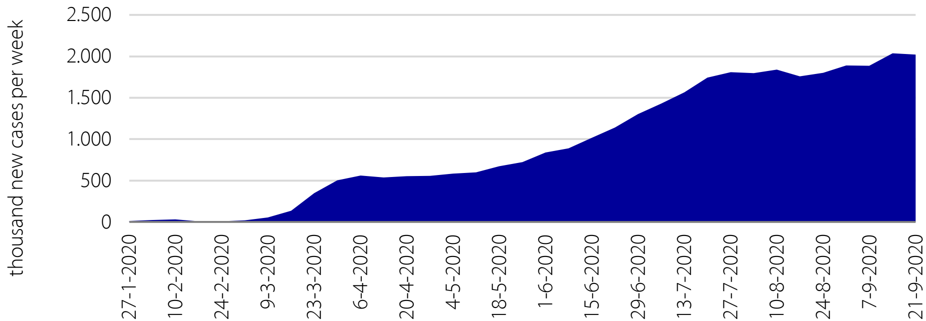
Australia's key F&A markets remain better placed than most from a virus perspective:

- Infections remained very low in China, while new cases have been slashed in Australia.
- Large second waves have been reduced in Japan and South Korea, and tempered in the Philippines.
- Though infections rose in the UK, US and Indonesia.

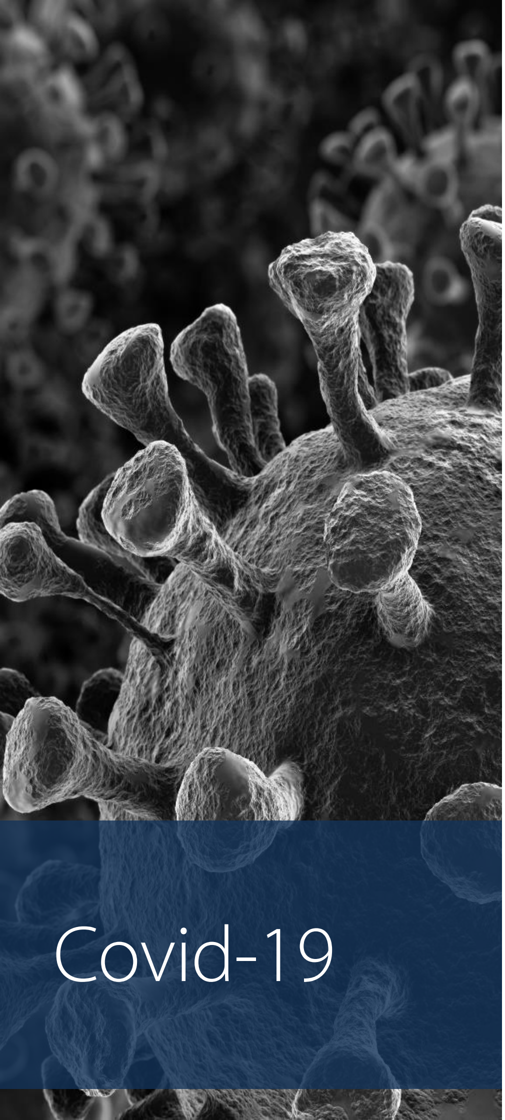
But there was no clear trend to relaxing restrictions on movement and eating out:

- New York City will restart indoor dining from early October (at 25% capacity), Florida is increasing allowable restaurant capacity utilisation, while Indiana has moved to 100% utilisation.
- Some restrictions on eating out were relaxed in South Korea during the month.
- But Manila remained under lockdown for the whole of September.
- While Jakarta was placed under lockdown again from September 14.

Global weekly reported new cases of Covid-19



Source: WHO 2020



Economies Are Improving, but Consumer Support Is Waning

Economic activity continues to improve month-on-month, though outside of China it remains well short of pre-Covid levels.

There is mounting evidence of how important government support schemes have been to consumers. The OECD estimates that in May 50 million jobs across the OECD were supported by job retention schemes: 10 times as many as through the global financial crisis. The ANU estimated that the Jobkeeper and Jobseeker schemes reduced Australian poverty on pre-crisis levels by 32%. And the US Covid assistance schemes put an additional USD 600 per week into the pockets of the unemployed, doubling or more the incomes of many,

Consumer support has been important in underpinning sales of food and beverages through the crisis.

Government support schemes are now starting to be reduced in many countries. The US assistance package expired on 31 July and has not been renewed. Australia's Jobkeeper and Jobseeker schemes have been extended but at reduced rates. And the UK job retention scheme will be extended for another six months from November, but at reduced levels.

If support schemes are reduced faster than the rate of economic recovery, sales of food and beverages will come under pressure through Q4. When reporting June quarter earnings, many publicly-listed food companies noted the importance of being prepared for a slow recovery in economies and consumer spending. This includes for many a focus on price, value and affordability as consumers trade down and private label competition increases.

Australia's food and beverage remains a good place to be through this crisis. Infection rates and economic activity are doing better in its key markets than elsewhere. It has kept its supply chains open, while some countries have stumbled. And it primarily sells staple items to consumers who have been well-supported by governments. But there are still downside risks on the road ahead.

August Data Showed a Slowdown in the Recovery of Foodservice 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	Aug 2020
Aust.	Foodservice	2%	1%	2%	-23%	-50%	-35%	-17%	-12%	na
	Food retail	3%	3%	3%	27%	5%	13%	14%	15%	na
US	Foodservice	5%	6%	5%	-27%	-52%	-38%	-26%	-19%	-15%
	Food retail	2%	2%	4%	29%	12%	15%	12%	11%	10%
China	Foodservice	9%	10%	-70%	-47%	-30%	-19%	-15%	-11%	-7%
	Food retail	10%	10%	10%	19%	18%	11%	9%	7%	4%
	Food retail adjusted for inflation	-8%	-11%	-12%	1%	3%	1%	-2%	-6%	-7%

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

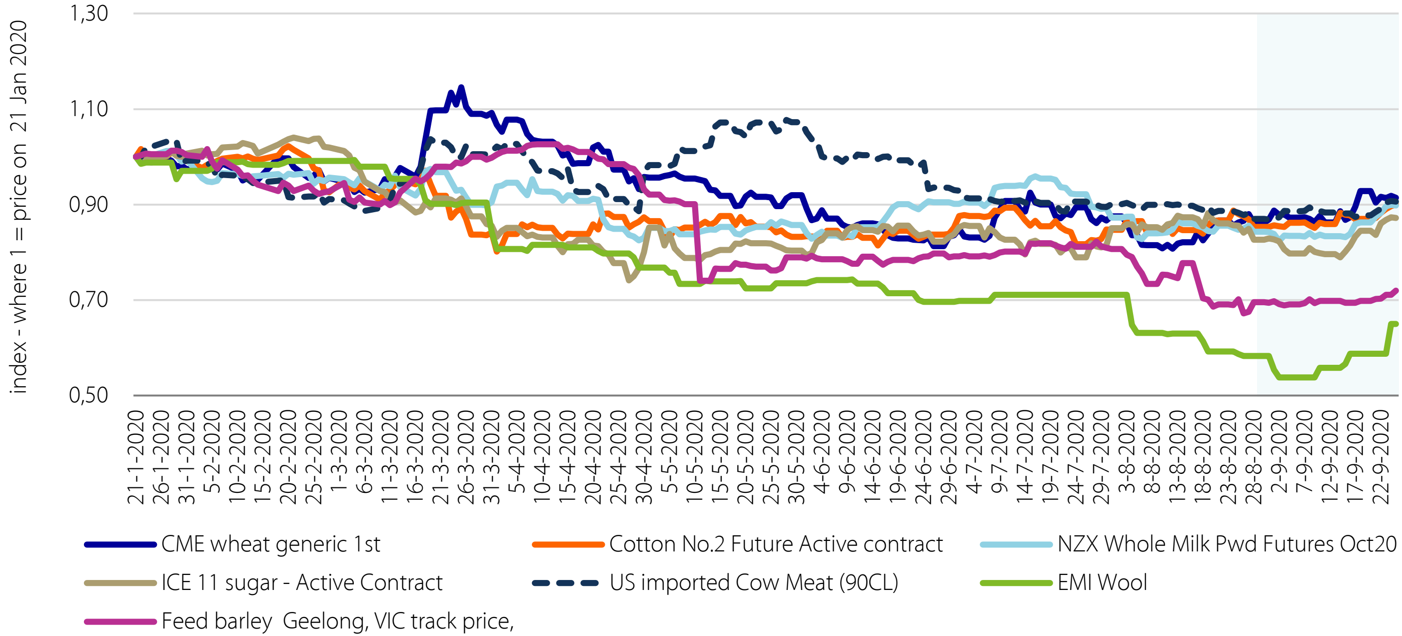
Notes: Food retail adjusted for inflation reports the YOY change in sales after removing inflation. In China, food price inflation has been running above 10% for the period depicted. Foodservice includes cafes, restaurants, and bars – but not institutional sales (e.g. schools, hospitals). August data is preliminary for the US.

A Better Month for Ag Commodities, With Falling AUD Lifting Prices in Local Currency Terms

Rabobank

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

Ag Commodities Index (AUD terms) since Covid-19



Sources: Bloomberg, Rabobank

La Niña Declared!

The Bureau of Meteorology (BOM) has declared a La Niña is now active in the Pacific Ocean.

According to BOM, all eight international climate models expect La Niña conditions to continue until January 2021, with five of the eight models expecting La Niña to continue until at least February.

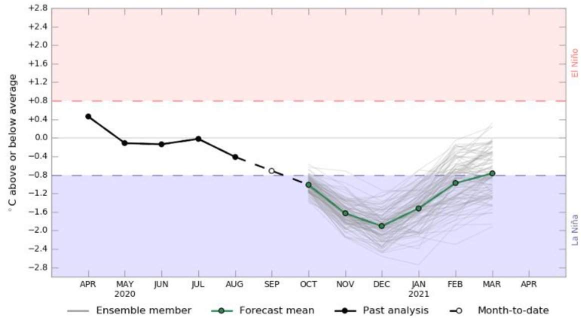
As a result, the chances of exceeding median rainfall over the next three months are elevated in the east and south.

BOM's outlook for the Indian Ocean Dipole (IOD) remains neutral.

Wet and cool conditions will support pasture growth and grain fill. However, once crops begin to turn, rainfall and cool weather will be detrimental to grain quality and harvesting conditions.

Sea surface temperatures below La Niña threshold

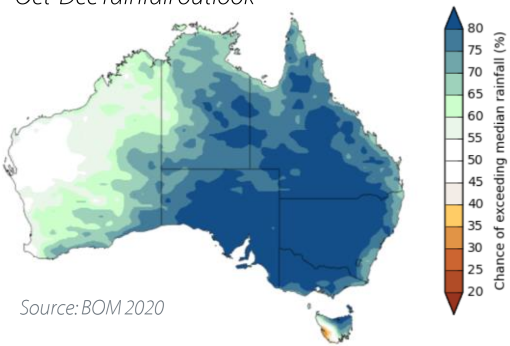
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

A high chance of wet conditions remain for east and south

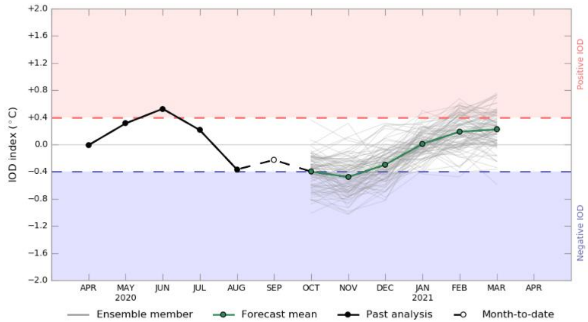
Oct-Dec rainfall outlook



Source: BOM 2020

IOD will move back toward neutral

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2020

A Month of Mixed Fortunes

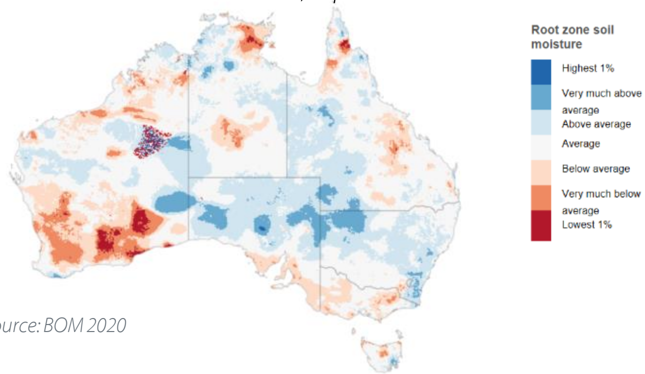
September was a month of mixed rainfall fortunes across the country. Soil moisture has largely remained stable month on month.

Following years of drought, the almost 'best case' season has continued to play out across NSW, with rain continuing to fall in Hay (25mm), Dubbo (47.4mm), and Moree (31mm) during September. Dubbo has recorded 336.6mm this growing season (Apr-Sep), compared to 58mm over the same period last year.

It was a dry month for the northern Wheatbelt in WA – Geraldton recorded 5mm for the month. It was a similar story in southeastern QLD, with Dalby only recording 1.6mm for the month. According to BOM, soil moisture remains average to above average in the region.

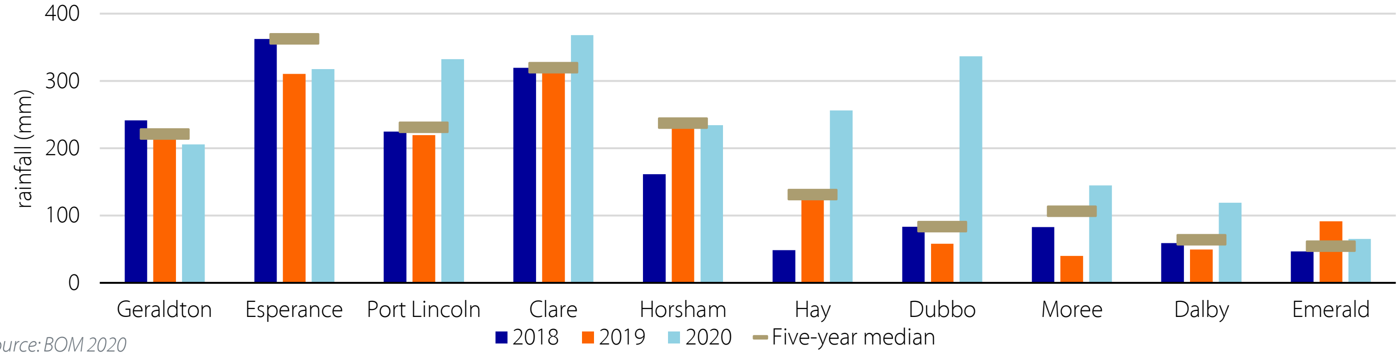
Soil moisture has remained largely stable

Relative root-zone soil moisture, September2020



Source: BOM 2020

Growing season rainfall, 1 Apr-27 Sep



Source: BOM 2020

Cheryl Kalisch Gordon
Senior Analyst
Grains & Oilseeds

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

Grains & Oilseeds

Dryness Fuelling Rally

Dryness across Argentina and the Black Sea region for their winter wheat planting programme supported global wheat markets in September. CBOT Wheat finished September up just 1%, in the high USc 540/bu range, after some end-of-month fund selling and a strengthening USD.

Large areas of Europe and the Black Sea region are facing severe moisture deficits amidst its winter wheat planting programme. In Ukraine, this is coupled with little rainfall forecast in the coming weeks, making the planting outlook a concern. This, together with dryness in Argentina's wheat growing regions, has added attention on Australia's export potential to fill orders.

Australia's September rainfall has been delivering the finishing touches to the east coast's stellar season to date, so much so that Australia's capacity to fill in northern hemisphere supply gaps is looking near assured. This rain may be the critical factor that underscores ABARE's September forecast for a 28.9m tonne wheat, 11.2m tonne barley and 3.4m tonne canola crop. Lodging may even be a risk in some regions, with yields and crop biomass pushing records set in 2016/17. Frost and snow reports in the last weekend of September may have damaged yield prospects but early indications suggest this was isolated. September weather patterns conducive to improving yield have not been forthcoming for Western Australia so this will be the key swing state in our final production forecast for this year's Australian winter crop – ***to be released 19 October***.

On balance, and despite Australia's recovery tracking well, we have ***lifted our CBOT Wheat forecast to USc 535/bu for Q4 2020 and from this to USc 550/bu over 2021.***

This global lift will be important in keeping Australian prices from drifting lower amidst strong harvest pressure. Our current outlook is for ***APW track to trade between AUD 275/tonne ADL to AUD 300/tonne KWI over the quarter ahead.***

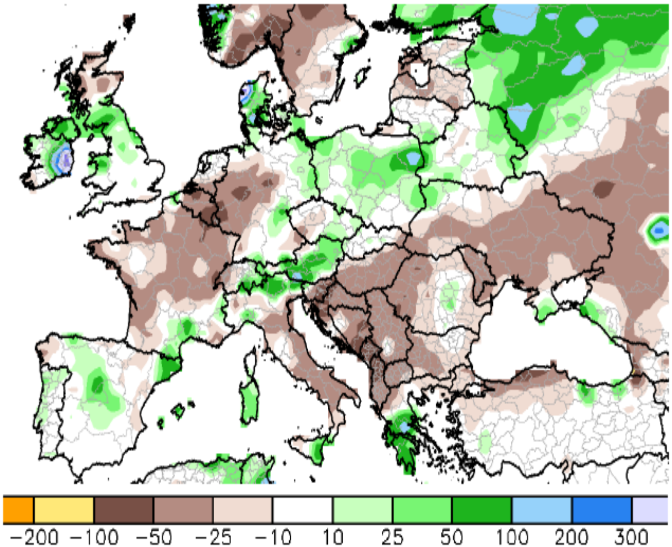
What to Watch

- ***Export quota restrictions*** – strengthening wheat prices for Black Sea ports, which may threaten local food price rises, could trigger export restrictions and higher global wheat values.
- ***Indian lentil tariffs*** – have again been reduced to 10% until October 31. An above-average monsoon this year is supporting a favourable outlook for the Indian Rabi harvest and so a reversion to the 30% tariff before AU new crop becomes available. Indian CPI remains high however, driven in part by higher pulse prices so tariffs could again be reduced.

Northern Dryness Continues to Support Pricing

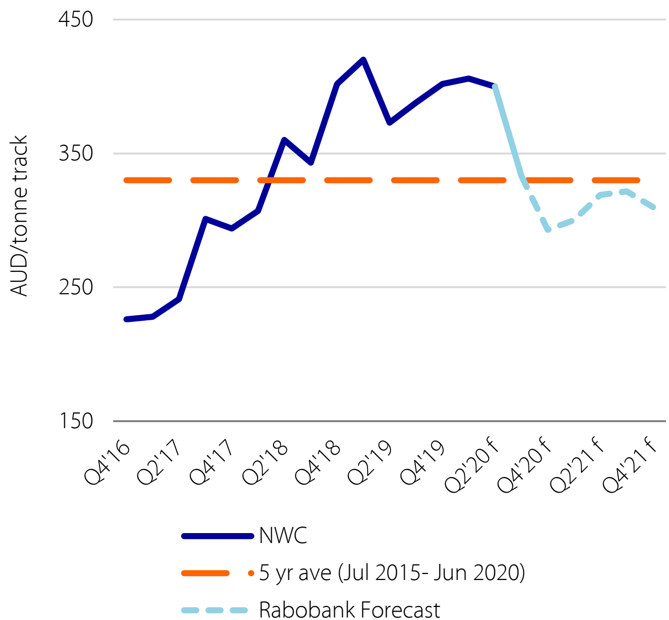
Rabobank

With the driest autumn in nine years and little rain forecast, Ukraine, in particular, is facing challenges for its winter wheat crop (30-day historic rainfall anomaly (mm)



Source: NOAA 2020

Global wheat prices raised, but harvest pressure will burden AU wheat prices in Q4 2020



Source: Bloomberg, Rabobank 2020

Milk Supply Gets a Spring in Its Step

Australian milk production for June was 4.1% higher year-on-year. This brings a close to the 2019/20 season, with national production down marginally to 8.775bn litres.

Encouragingly, there is widespread growth in production across the sector. July kicked off the new season with growth of 2.9% and only Queensland did not post year-on-year growth. ***The spring flush will peak in October, and Australia is on track for its best flush in three seasons.*** Rabobank forecasts milk production to expand by 2.8% in 2020/21, bringing national milk production back above 9bn liters. Rabobank's latest rural confidence survey highlights Australian dairy farmer confidence levels are upbeat and there is a notable lift in intentions for investment/expansion.

In New Zealand, the third month of the new season has seen another solid rise in milk flows. New Zealand milk production for the 2020/21 season boosted 4.7% higher than the previous August on a milksolids basis. Total milk flows are ahead of last season by 4.5% on a milksolids basis. The relatively mild weather over the middle of winter for much of the major milk-producing regions has supported early season milk production. Rabobank is anticipating another small lift in milk volumes for the full 2020/21 season.

Milk production growth across the major export engines began in Q2 2020 and is forecast to continue expanding into 2021, a feat not matched since 2018. Sequential improvements are observed in foodservice as more regions have come out of lockdown while retail dairy sales show early signs of deceleration. With the forecast milk production growth over the next 12 months, and consumption that will take time to recover, Rabobank expects the global market fundamentals to remain weak into Q2 2021.

Michael Harvey
Senior Analyst
Dairy

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

Dairy

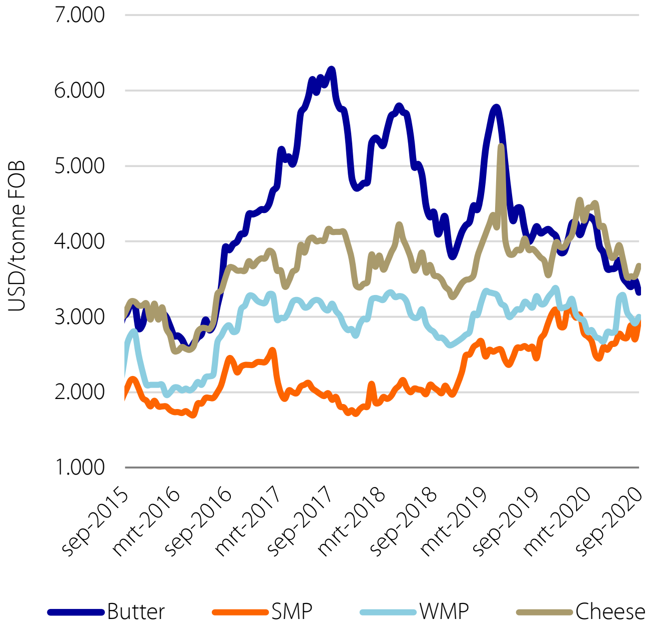
What to watch

- ***All eyes on China.*** With New Zealand's milk flows about to ramp up towards peak production, Chinese buying demand will remain critical to soaking up large volumes. We maintain our view that there is some risk of softer Chinese import demand over the coming months as higher domestic production and inventories collide with weaker end-user demand.

Milk Production Growth Beating Expectations

Rabobank

Global dairy prices, 2015-2020

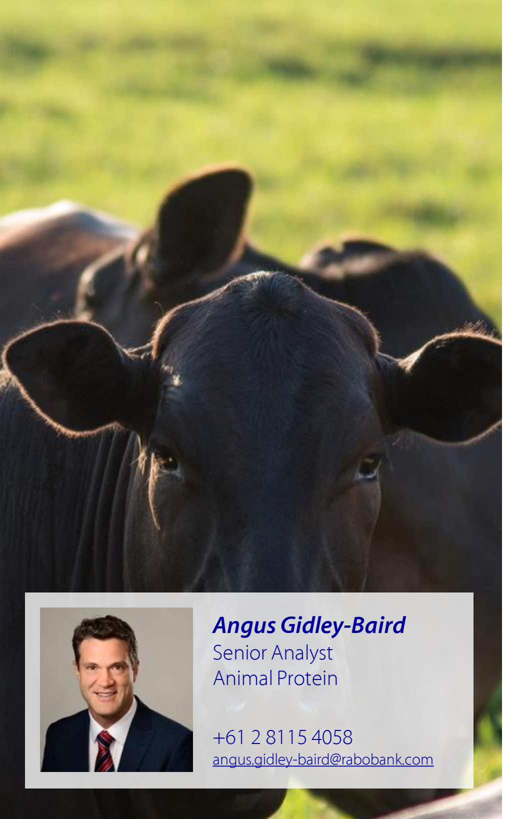


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	Last three months
EU	1.3% (June 20)	0.7%
US	1.8% (Aug 20)	1.5%
Australia	2.9% (July 20)	4.7%
NZ	4.8% (2020/21 season-to-date*)	

Source: Rabobank 2020
* June-August only



Angus Gidley-Baird
Senior Analyst
Animal Protein

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

Beef

No Stopping Young Cattle Prices

Favourable seasons and strong producer demand continue to keep cattle prices high. After easing slightly in early September, the EYCI lifted again in the second half of the month to AUc 773/kg on 25 September. Other cattle classes also remained strong and even heavier finished cattle prices that eased in late August stabilised through mid September. Reflecting the strong producer demand for young cattle the price spread between restocker steers and heavy steers is now up around the record levels seen in late 2016 – around AUc 80/kg. With the forecast of average or above-average rainfall forecast for much of the east coast over the coming months ***we believe October should continue to see strong prices for young cattle.***

East coast weekly cattle slaughter for the four weeks ending 18 September was down 29% YOY and down 24% on the five-year average. Queensland and Victorian numbers were down the most, down 34% and 33% respectively. After spending a large part of the year to date up close to 50% of total slaughter numbers, the proportion of females in the Queensland and NSW total slaughter dropped to 42% in the week ending 18 September.

Beef export volumes in August (78,021 tonnes swt) dropped 27% YOY – the largest YOY drop so far this year. Volumes to Japan and the US were down 19% and 12% respectively, and volumes to China were down 55% YOY. Australia's drop in volumes to China are even more stark considering Chinese total beef imports are up 42% for the first seven months of the year. Argentina and Brazil are supplying the bulk of the increase with their export volumes up 139% and 45%, respectively.

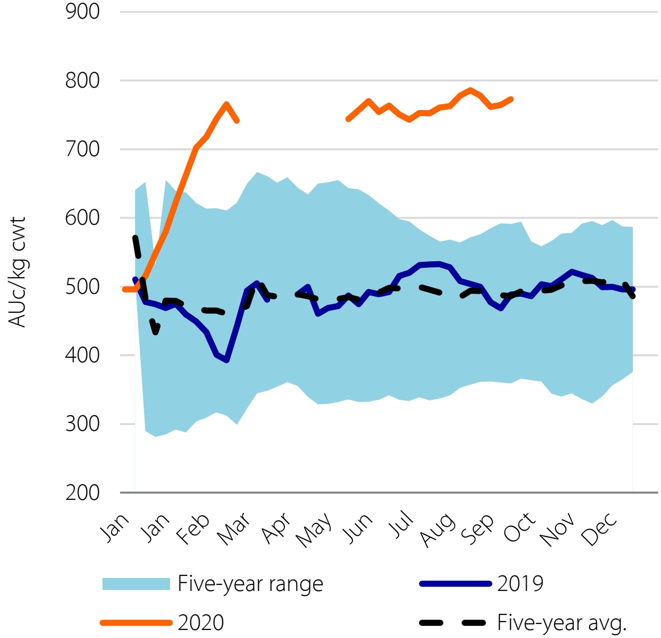
Live export volumes to Indonesia for August were down 15% YOY. Volumes to Vietnam were down 33% YOY – only the second time this year we have seen a YOY decline – and less than half the volume sent in June. Prices for light steers out of Darwin remained steady at AUc 355/kg.

What to watch

- ***Beef finding room on Chinese retail shelves*** – in the first eight months of 2020 we have seen beef retail prices increase faster than wholesale prices, indicating that demand from retail consumers is increasingly strong. Interestingly, while Australia's overall beef exports to China are down 16% for the first eight months of the year, exports of chilled beef were up 45%. Such numbers suggest that more Australian beef is finding its way into the massive Chinese retail market.

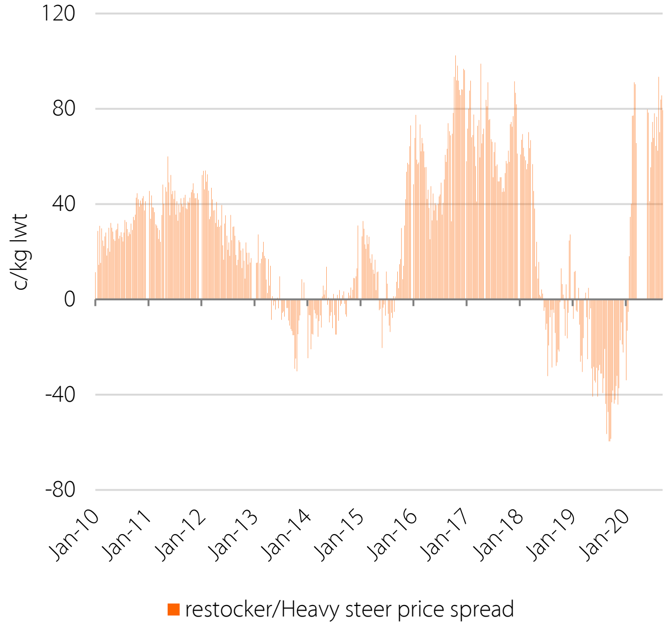
EYCI Still in Rarefied Air and Pushing Spread To Finished Cattle Higher

The EYCI staying strong



Source: MLA, Rabobank 2020

Producer demand driving huge price spread between restocker steers and heavy steers



Source: MLA, Bloomberg, Rabobank 2020

Lamb Prices Lift in Defiance of Normal Trend

Angus Gidley-Baird
Senior Analyst
Animal Protein

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

In a possible indication of supplies becoming limited again and increased producer buying activity, we have seen OTH lamb prices stabilise and saleyard prices lift in the last weeks of September after falling for the previous three months. We have seen the price spread between OTH and saleyard prices for trade lambs (18kg-20kg) widen as saleyard prices lift faster than OTH prices. Since 20 August, when the ESTLI had fallen to AUc 641/kg cwt it has been increasing, and was at AUc 711c/kg cwt on 17 September. This is at odds with normal market behaviour at this time of year when prices generally fall with increasing lamb volumes. ***While increased capacity in Victorian abattoirs and good seasons driving producer demand may see some support for prices, we believe that prices will remain soft through October.***

After lifting through early September, the eastern states weekly lamb slaughter numbers fell back in the week ending 18 September. For the four weeks ending 18 September, eastern states weekly slaughter was up 5% on the same period last year but down 2% on the five-year average. A week-on-week increase in slaughter in Victoria (up 4%) was not enough to offset drops in SA and NSW – down 18% and 5%, respectively.

August lamb export volumes (19,239 tonnes swt) lifted 9% YOY, reflecting the higher slaughter volumes through July compared with last year. Volumes to the US have increased dramatically, up 48% YOY, while volumes to China have slipped to be 17% below August 2019.

Sheepmeat

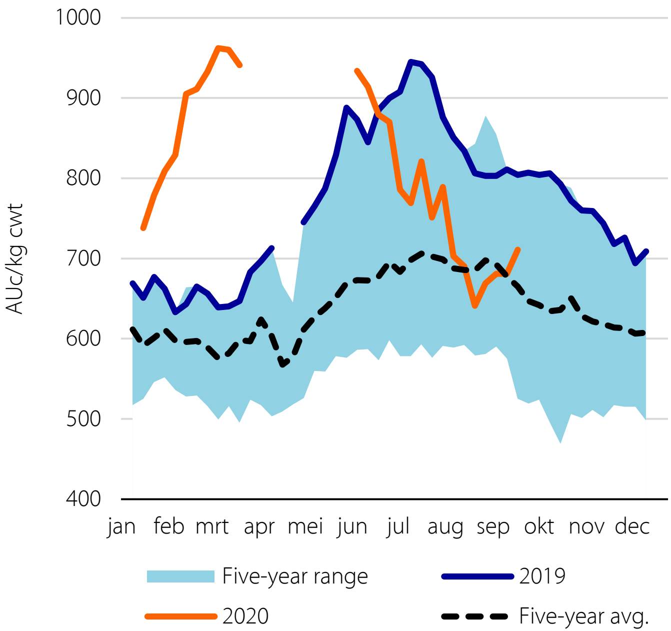
What to watch

- ***Easing restrictions in Victoria –*** there are encouraging signs that slaughter restrictions in Victorian abattoirs will be eased under the state's roadmap to recovery. Victorian slaughter numbers for the months of August and September (up to 18 Sept) have been down 5% compared to the same period last year. Meanwhile SA and NSW numbers have been 13% and 15% higher in the same period. Although limited stock numbers may not allow for large jumps on production, the increased capacity may support increased buying competition.

Lamb Prices Rise After 3 Months of Falls, Slaughter Numbers Start To Rise

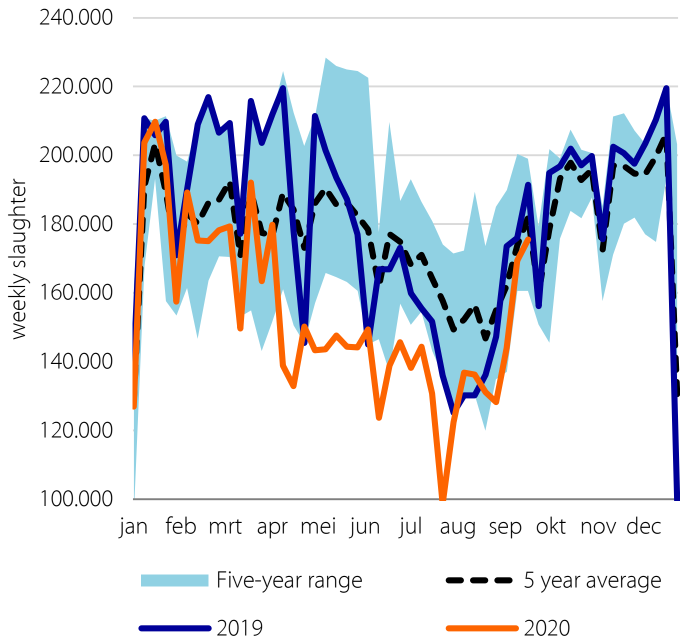
Rabobank

ESTLI defies the market trend to lift after three months of falls



Source: MLA, Rabobank 2020

Victorian slaughter numbers lifting despite the Covid-19 restrictions in place



Source: MLA, Rabobank 2020

Sugar

Charles Clack
Commodity Analyst
Sugar and Cotton

charles.clack01@rabobank.com

Hopes Diminish for Global Deficit

Rabobank's latest Q3 Sugar Quarterly forecasts a 1m tonne 2019/20 global deficit (Oct-Sep), down from 4.3m tonnes in Q2 2020, following a particularly strong 2020 Brazilian harvest and a 1.5% YOY fall in 2019/20 global consumption. Looking to 2020/21, Rabobank anticipates a small 0.2m tonne global surplus as production recoveries – forecast in India, the EU and the NAFTA area – exceed a 1.9% YOY rise in global consumption.

Our projections for a shallow 2019/20 deficit, coupled with a small 2020/21 surplus, point to a well-supplied sugar market in the 12-month period. As such, we forecast raw prices to trade within a quarterly USc 11-USc 13/lb range – constrained to the downside by Brazil's ethanol parity, and to the upside by India's export parity. Accounting for AUD/USD depreciation, ***Rabobank forecasts domestic sugar prices at AUD 370/tonne in Q4 2020 – rising to AUD 410/tonne by Q3 2021.***

The 2020 crush roars past the halfway mark, with 62% of national cane cut as of 27 September, according to ASMC data. Weekly crushing totals exceeded 1.5m tonnes in September, matching the peak volumes versus previous seasons. Still, a lower crush in late July and early August - due to rainfall - puts the crush almost ten-percentage points behind 2018. Regional progress has widened sharply, with areas reporting harvest between 52%-87% complete. And while cane yields prove strong, national average CCS continues to disappoint at 13.36 versus 13.68 in 2019 – likely the result of sporadic rainfall, and a mild winter season. Stronger +14 CCS results are noted in the Central, Southern and Burdekin regions, with lower results in the North and NSW. Rabobank forecasts 4.3m-4.4m tonnes of sugar output (raw value) in 2020, from 31m tonnes of cane.

What to watch

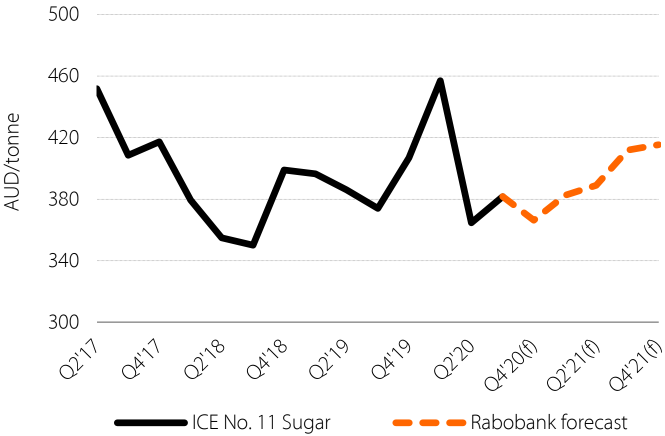
- ***Rabobank's short-term outlook rests on two major factors:*** 1) the harvests of cane and beet worldwide in Q4 2020, and 2) the role of demand in Q4 2020, as pandemic-driven consumption falls begin to appear in the trade.
- ***The latest ENSO Outlook now sits at La Niña 'active',*** meaning that a La Niña is now present in 2020. La Niña years can bring an unwanted wet end to the domestic crushing season – BOM notes a particularly wet outlook for October.

A Smaller 1m Tonne 2019/20 Deficit Keeps the World Balance Well-Supplied for Longer

Rabobank

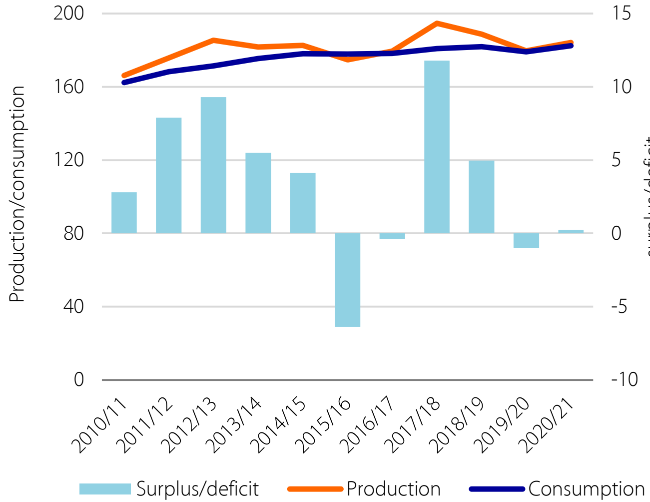
Rabobank holds a bearish short-term view, with prices rising back to AUD 400/tonne in 2H 2021

	unit	Q1'20	Q2'20	Q3'20	Q4'20(f)	Q1'21(f)	Q2'21(f)	Q3'21(f)	Q4'21(f)
ICE #11	USc/lb	13.6	10.9	12.4	11.8	11.8	12.0	12.7	13.0
AUD/USD		0.66	0.66	0.71	0.71	0.68	0.68	0.68	0.69
Sugar	AUD/t	457	365	382	366	383	389	412	415



Source: Bloomberg, Rabobank 2020

Strong output and a 1.5% YOY fall in consumption, cuts Rabobank's 2019/20 global deficit forecast



Source: FO Licht, Rabobank 2020

Rabobank's short-term outlook rests on: 1) the harvests of cane and beet worldwide in Q4 2020, and 2) the role of demand in Q4 2020, as pandemic-driven consumption falls begin to appear in the trade.

Over the Hump?

Rabobank notes an emerging recovery in clothing and apparel retail sales worldwide (in value terms) – July Chinese sales returned close to 2019 levels, while Australian monthly sales were up 3.5% YOY. US and UK August clothing sales remain 25%-30% behind 2019 August figures. This trend supports our view for a 9% YOY recovery in 2020/21 global demand, following a sharp 13% YOY fall in 2019/20. Still, we emphasise that a 40% YOY rise in world ex. China 2019/20 stocks – mostly held at exporter origins – will keep short-term supplies heavy. Rabobank anticipates a slow upside in domestic prices – from ***a forecast AUD 465-470/bale in Q4 2020 to AUD 520/bale 12-months later***. This follows strength in both the ICE #2 and local basis, coupled with depreciation in the AUD/USD.

Hurricanes Laura and Sally made landfall in the Southern US this month. Laura made landfall in Louisiana, bringing heavy rainfall and strong winds but lacked the strength forecast – closed bolls protected the fibre. Sally was more troublesome, bringing drenching rainfall across the southeast with bolls 47% open nationally. While assessments are being made, Rabobank believes Sally's damage could bring the 2020 crop to sub-17m bales – meaning little-to-no US stock-building in the coming season. The heavy and late rainfall will also threaten quality issues for affected crops – a factor which should assist future Australian fibre premiums.

China has emerged as a significant buyer early in the 2020/21 season, starting the marketing-year with 2.4m bales of US commitments (40% of total US sales) – the largest in recent history. Rabobank notes the need for China to import 9m bales this season, in order to prevent stock erosion (assuming consumption recovers 9% YOY). This is a huge appetite by global standards, and we believe geopolitics will play a part in how these purchases continue.

Charles Clack
Commodity Analyst
Sugar and Cotton

charles.clack01@rabobank.com

Cotton

What to watch

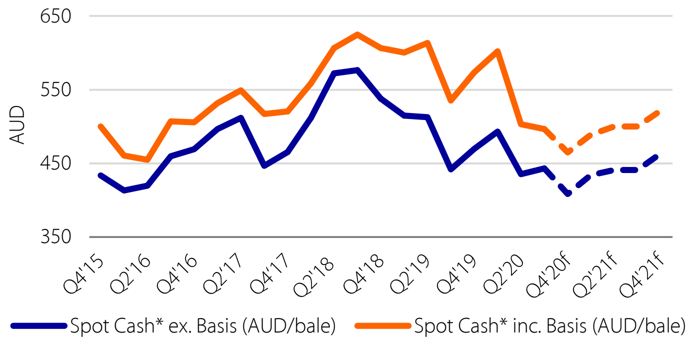
- ***Speculative trading in soft commodity markets continues to drive volatility.*** Funds have bought considerable numbers of contracts in grains, oilseeds, sugar, cotton etc. While these are supporting markets for now, a swift exit would drive a dip in USD-denominated futures.
- ***La Niña remains a key talking point for growers ahead of 2020/21 season plantings.*** La Niña has been declared 'active' by BOM, now in-line with the US's NOAA La Niña declaration. This brings chances of higher rainfall through the summer crop season, as well as dry weather across the southern US.

Looking Up – Signs of Recovering Clothing Retail Sales Point to an Improved 2021 Outlook

Rabobank

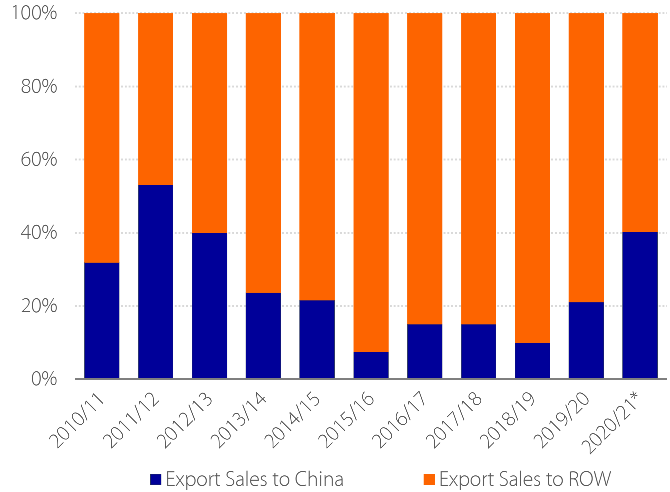
Prices forecast to rise above AUD 500/bale through 2021, the result of ICE #2 strength & AUD weakness

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
ICE #2	USc/lb	57	63	58	59	60	60	64
AUD/USD		0.66	0.71	0.71	0.68	0.68	0.68	0.69
Basis	Pts/lb	887	762	800	750	800	800	800
AU ex. Basis	AUD/bale	435	443	408	434	441	441	464
AU inc. Basis	AUD/bale	503	497	465	489	500	500	522



Source: Bloomberg, Rabobank 2020

China emerges as a majority buyer (40%) of US 2020/21 export sales, with a 9m bale import appetite



Source: USDA, Rabobank 2020
**2020/21 season-to-date share*

Rabobank notes an emerging recovery in clothing and apparel retail sales worldwide (in value terms) – July Chinese sales returned close to 2019 levels, while Australian monthly sales were up 3.5% YOY

A Good Start to the Recovery

The wool industry breathed a sigh of relief in late September as wool prices stopped falling and started to rise. The EMI finished at AUc 1014/kg on 30 September, 9% higher MOM, and 18% higher compared to its month low. All microns rose over the past two weeks, with finer microns seeing the strongest recovery. ***Improving Chinese and US apparel sales are expected to support wool buying sentiment and prices in the coming month, while prospects of stringent EU lockdowns and consequently lower EU apparel sales will likely limit further upside.***

Apparel sales continued their upward trend in August. Retail sales in China finished up 12% MOM, even exceeding August 2019 levels by 2.4%. In the US, apparel sales finished up 7% MOM, but still remained notably lower than August 2019(-24%). Woollen suit imports have also started showing signs of recovery. The latest July figures showed woollen suit imports rising strongly in Japan, up 18% MOM, and up 1% MOM in the US. While July was a good improvement, imports in both of these major markets still remain below July 2019, down 43% YOY and 78% YOY, respectively.

National wool tested data for September shows the weight of wool tested up 2.1% YOY (24.7mkg). Compared to September 2019, wool tested increased the most in the 20.6 to 21.5 Micron range (+0.89mkg) and declined the most in the 16.6 to 17.5 micron range (-0.41mkg).

Australian July wool export volumes rose 4.2% MOM(19.8mkg), driven by stronger demand out of India and Europe (particularly Czech Republic and Italy). At the same time, export exposure to China declined to 88% in July but still remained above Jul-2019 (76%). Exports of courser 28+ micron wool rose notably (57% MOM and 49% YOY). Globally (excl. Australia) exports also rose in July. South Africa, another major exporter, saw export volumes rise 19% MOM, driven similarly by stronger buying out of Europe, particularly from the Czech Republic and Bulgaria.

Dennis Voznesenski
Associate Analyst
Animal Protein

Dennis.voznesenski@rabobank.com

Wool

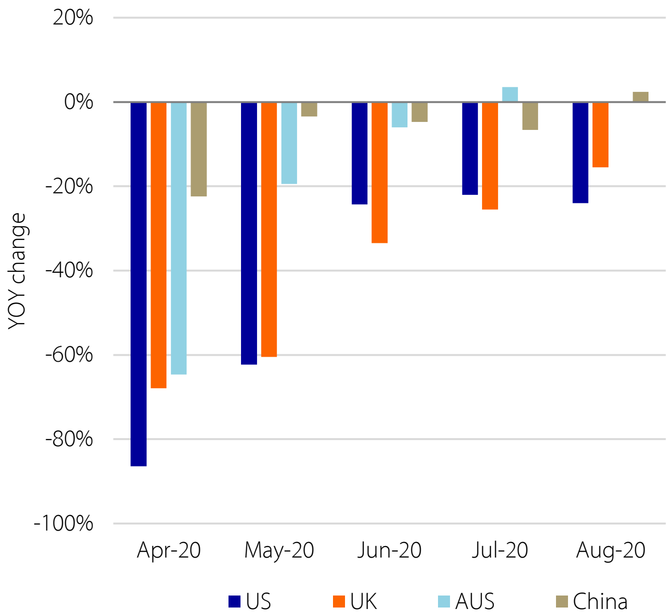
What to watch

- ***European lockdowns & clothing sales –*** Retail sales data from March-May 2020 showed the catastrophic impact lockdowns have on apparel sales. If the September rise in EU Covid-19 cases results in a reintroduction of similarly stringent lockdown measures, apparel sales would be expected to suffer. Lower sales and stock backlog would prompt European retailers to reduce or pushback future apparel orders, and consequently dampen the prices offered for wool by Chinese processors.

Sales and Imports of Apparel See Positive Signs but New EU Lockdowns to Weigh on Recovery

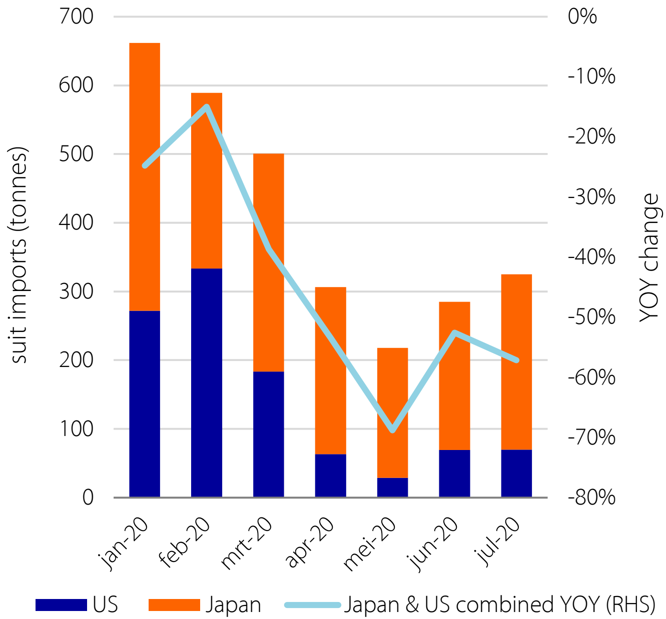
Rabobank

August retail apparel sales in China back in the black. US improved MOM, still down YOY

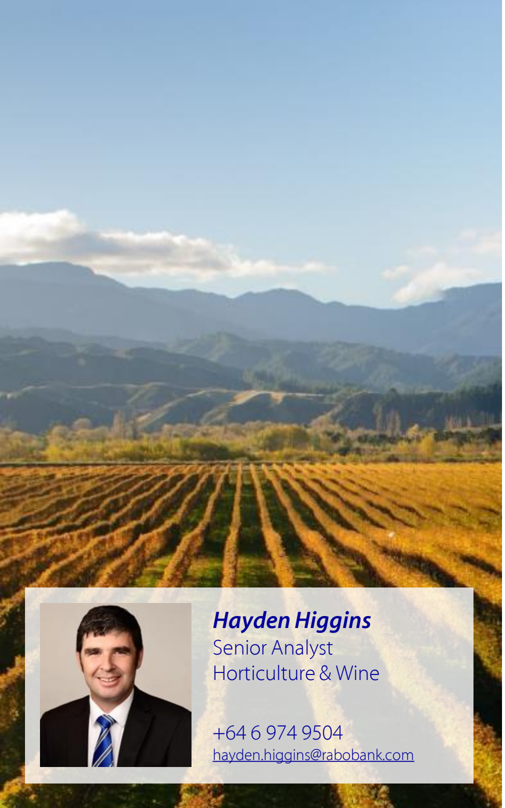


Source: US Census Bureau, NBSC, UKNS, ABS, Rabobank 2020

Japanese and US woolen suit imports rise MOM, but remain sharply below 2019 levels



Source: US Census Bureau, Japanese Ministry of Finance, Rabobank 2020



Hayden Higgins
Senior Analyst
Horticulture & Wine

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

Wine

Pendulum Swings in the US

The US wine industry is facing a looming threat to its 2020 vintage from the wildfires that have been occurring across California, Washington and Oregon states. The US was sitting on an excess inventory of wine but the potential issue of smoke taint could turn the balance.

While it is too early to understand the full extent of potential smoke taint, the wildfires are sure to have an impact. Reports are of a backlog of testing delaying results and causing some wineries to be cautious about accepting grapes. This is leading to wineries purchasing parcels of bulk wine from prior vintages to meet supply programmes. This brings the possibility that a material impact to the 2020 US vintage could lead to a drawdown on existing inventory, solving excess supply, an issue the US wine industries already faced prior to Covid-19.

Signs of a slow recovery for foodservice and drinking establishments are emerging in the US. What can be observed is the magnitude of the impact to the foodservice sector from Covid-19. During the GFC period, monthly sales largely flattened (see chart on next slide), but the scope and length of various US state pandemic shutdowns is evident – a YOY reduction of USD 100bn in sales between February and August 2020.

With a good harvest anticipated in Europe, expect to see government support programmes to assist with controlling wine inventory via increased distilling of wine stocks for industrial usage. With the European harvest underway and excess inventory already in place, due to Covid-19 issues related to subdued European premise sales, industrial wine manufacture is being used to address at least part of the inventory problem. Distilled wine is used for products such as wine spirits, brandies, vinegars and alcohol for other products, such as sanitisers

What to watch

- ***A little bit less French Champagne in 2020 –*** A slowdown in sales, led by Covid-19, has seen restrictive harvest measures being introduced in France's Champagne region, despite an otherwise good seasonal crop. This is an effort to constrain volumes and keep inventory under control, protecting both brands and price positioning.

Signs of Recovery Emerge in US Foodservice

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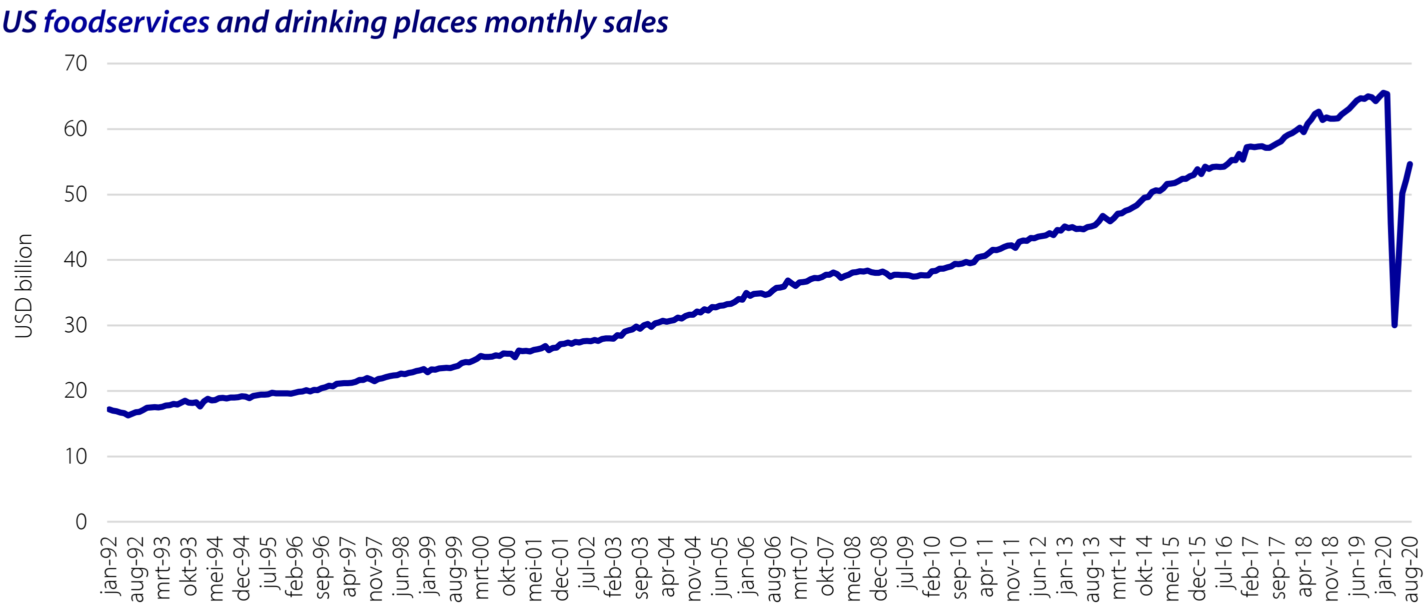


Source: US Census Bureau, Rabobank 2020

After the steepest decline in 30 years across Q1 and Q2 2020, a slow recovery in US foodservices and drinking places sales is evident

A Little Bit Nuts

The overall value of nut exports reduced in the twelve months to June 2020, but some categories fare better than the average when they are split from the pack.

Total export receipts for the combined nut category for Australia were down by around 4 percent for the12 months to June 2020. But, sales to the calendar year end June are not always aligned with marketing years – the almond sector being an example. Sales for almonds were down by around 3 percent in value terms in the year to June, but for the actual marketing year ended March, total sales receipts were up significantly on the year prior by around 42 percent.

Macadamias experience a strong surge in sales to China for the year end June 2020 (see chart).

The increase in sales to China saw a shift of volumes from markets such as Vietnam and Japan.

But the overall sales value was down by around 6 percent YOY in AUD terms for the period. Sales in Q1 and Q2 to China did slow down on the year prior with the large lift in sales coming in 2H 2019.

Like New Zealand, Australia is facing a pending labour force shortfall for seasonal harvest jobs– which sees demand for pacific island workers remain high despite moves to fill the gaps.

New Zealand is grappling with how to solve pending labour shortages for their upcoming harvest seasons. The New Zealand government has made changes to visa rules meaning a wider pool of people is available. But New Zealand, like Australia, is still pushing for easing of border restrictions for access to seasonal employees. We expect demand from New Zealand will remain strong for pacific island workers to fill skills gaps and so will continue to compete with Australia, if borders open up.

Hayden Higgins
Senior Analyst
Horticulture & Wine

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

Horticulture

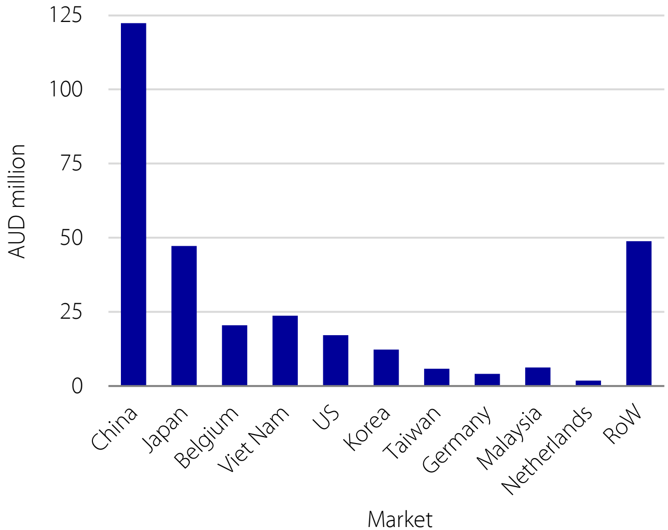
What to watch

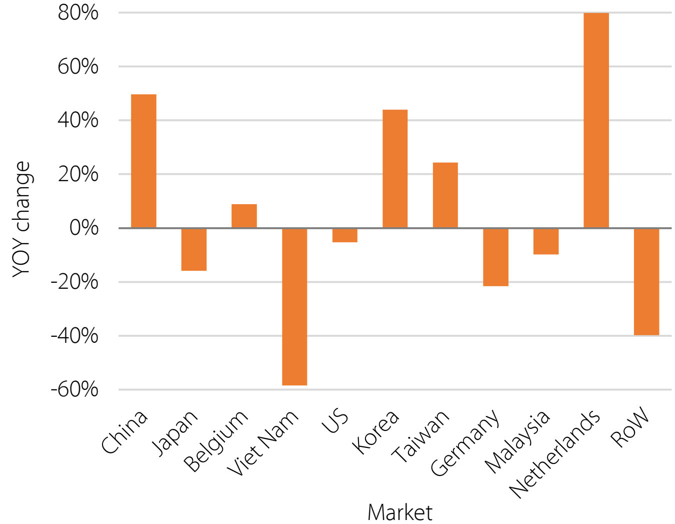
- ***Big investment into urban farming –*** European company Infarm has recently announced a successful capital raising of USD 170m over the Covid-19 period. The funds will be utilised to support expansion of its indoor farming footprint to a projected 465,000 square meters of facilities across Europe, North America and Europe by 2025. This is a significant additional investment into a food production system seeking to offer consumers an alternative source of fresh produce.

Big Market Shift to China

Rabobank

Australian macadamia export value year-end June 2020 (combined in-shell and shelled)





Source: Trade Map, Rabobank 2020

Chinese demand for the year to June 2020 pulls macadamia sales from other markets to the tune of around AUD 40m.

Low Price Environment to Resume

We expect the drivers behind recent fertiliser price rises will weaken in coming months. Subsequently, we expect prices across the global fertiliser complex to return to a low price environment by the beginning of 2021.

Seasonal purchasing, in particular from India and Brazil, has been the driver of prices of both phosphate and nitrogen in recent months. Since mid June, prices of urea ex. Middle East have increased 23 percent, while DAP ex US Gulf has climbed 15 percent in USD terms. While prices have risen, they remain low in historical terms. After trading well-below the previous 10-year price low for the majority of 2020, only now has DAP ex US Gulf risen above the previous 10-year low (USD terms). Urea prices have continued to trade below the 10-year average.

According to CRU, Indian fertiliser sales have increased 42 percent this year, supported by positive seasonal conditions. Demand for imports was strengthened by Covid-19-related restrictions, which caused some domestic production to operate below capacity.

Seasonal demand will continue to support urea prices prior to the Northern Hemisphere winter. After which, we expect to see global benchmarks again fall to the levels recorded mid year.

The outlook for phosphate is more complex. In June, Mosaic applied to US Department of Commerce (DoC) and the US International Trade Commission for duties to be placed on US phosphate imports. As a result, imports have slowed, and US DAP prices have increased relative to global benchmarks. We expect prices will continue to trade above global benchmarks, until the final determination is made, by Feb 4, 2021 at the latest.

Outside the US, we expect phosphate prices will stabilise during Q4 as Indian stocks build, before prices fall into the new year.

Wes Lefroy
Agricultural Analyst

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

Farm Inputs

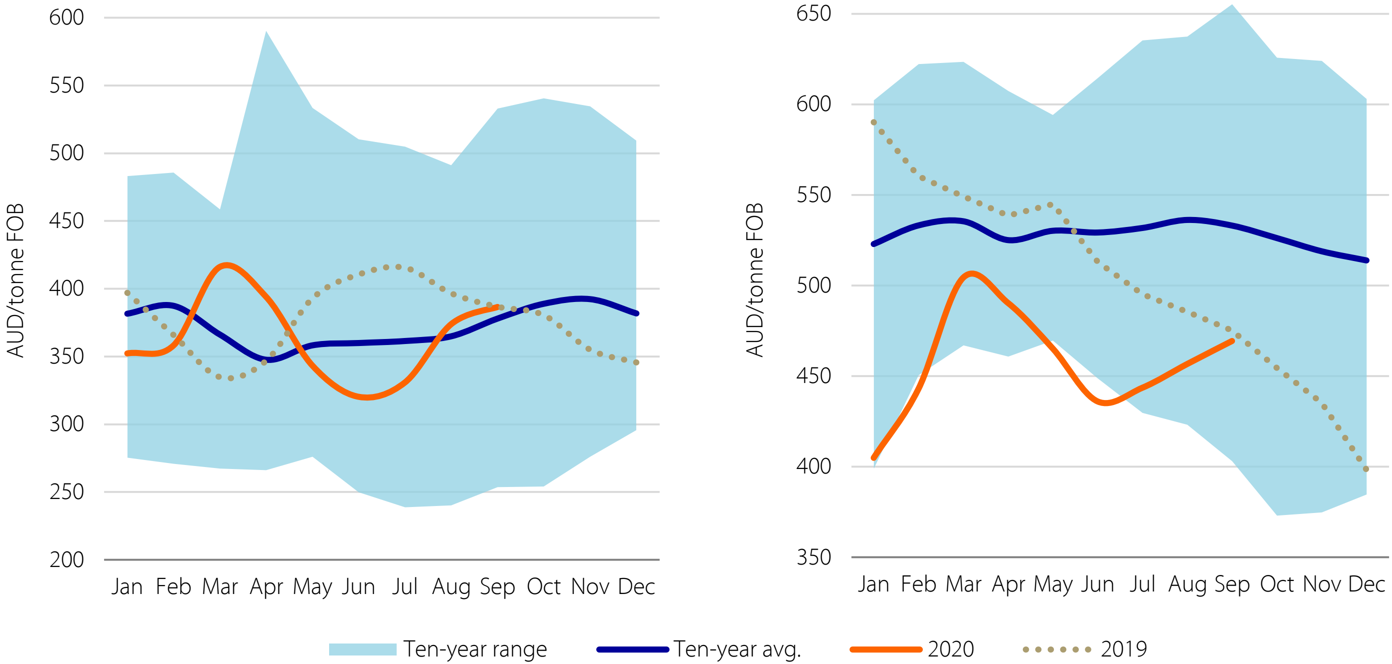
What to watch

- ***Data Sharing–*** ***(Click here for Article)*** farmers are going to receive a growing number of requests to share data from governments and companies, who are increasingly relying on data analysis for policymaking and strategy. Consequently, it is critical farmers and companies think deeply about how to find a pathway of mutual value that will benefit all parties involved. Covid-19 has taught us some important lessons about data sharing and how we can achieve this pathway of mutual value.

Urea and Phosphate Prices at 2019 Levels

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

Rates & FX

AUD Finally Gets a Covid Haircut

After a sustained rally lasting five months, the ***AUD finally fell against the USD in September on rising concerns over the direction of the virus, US and EU economies, and softer commodity prices.*** It was worth just under USc 71.3 on September 30th, down USc 2.5 for the month.

Investors around the world appeared unnerved by the resurgence of infection rates in the US and parts of Europe, increasing concerns that a significant second wave and associated lockdowns will accompany the Northern Hemisphere autumn/winter period. US equity markets fell, as virus concerns were added to increasing uncertainty as we approach the November election. There is also a rising fear that we will see further delay in the passing of a Covid stimulus bill (with the last one expiring on 31 July) as Congress turns its attention to replacing a High Court judge.

Despite the apparent strength of the Chinese economic recovery, concerns over the global growth outlook and risk of sentiment drove a ***significant fall in the prices of key minerals*** that Australia exports, such as iron ore, gold and copper late in the month

Meanwhile, currency traders sold the AUD down after a ***speech late in the month by a senior official at the RBA that the Bank was considering various options – including negative rates and currency intervention – to meet its inflation and employment goals.***

Despite its recent fall, the AUD remains above its pre-crisis levels***. We expect the AUD to fall to USc 68 by the end of March 2021*** as we see investors adjust downwards their expectations for global growth, commodity prices soften further, and risk appetite continues to wane as geopolitics deteriorate.

What to watch

- ***2 October RBA meeting.*** The RBA last reduced the OCR on 20 March (to its current 0.25%). Six board meetings have come and gone since with no further movement. But recent signs of softening in the domestic economy (in part due to the Victorian lockdown) and concerns over a softening global economy, have brought a significant chance of a rate cut in early October. A cut would likely push the AUD down further against the dollar.

AUD Pushed Down by Rising Concerns Over Global Economy and Geopolitical Risk

Rabobank

Australian currency against the US dollar

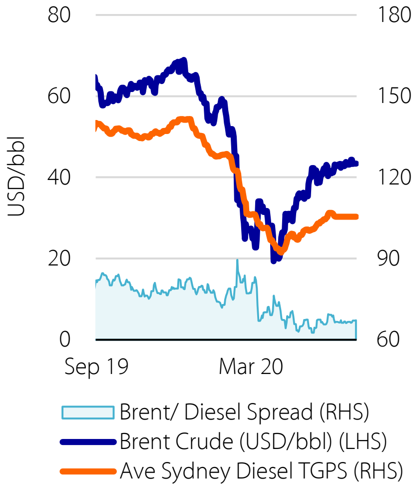
Source: RBA, Rabobank 2020

Volatility Ahead

Due to the poor macro and oil market fundamentals, we have maintained our bearish outlook for Brent Crude oil. We expect prices to drop below the USD 40/bbl barrier during Q4.

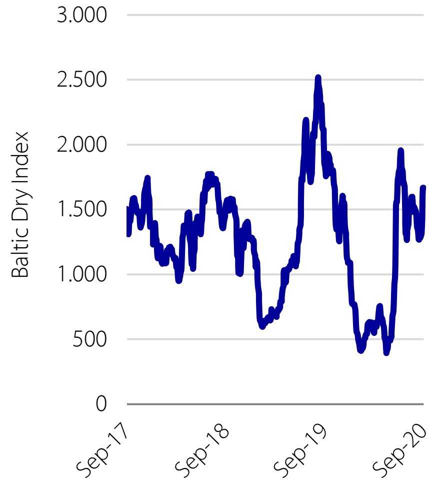
'Speculative selling' has been the major influence on Brent Crude prices over the last month. In one week in mid-September, large money managers sold a combined 125,000 contracts of oil futures. In comparison, the largest number of contracts sold at the height of the Covid-19 crash was under 100,000. This prompted the Saudi Arabian Energy Minister to issue a stark warning, placing 'short' sellers on notice, indicating that any attempt to put oil prices lower would be met with strong resistance. Looking forward, due to bearish market factors, we expect to see further speculative oil selling in the weeks ahead. On the flipside, the increased number of OPEC+ meetings is likely to lead to increased market volatility.

Brent Crude Oil & Average Sydney Diesel, 25 Sept 2019 – 25 Sept 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, 28 Sept 2018– 28 Sept 2020



Source: Bloomberg, Rabobank 2020

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RaboResearch Food & Agribusiness Australia and New Zealand

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

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

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

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

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

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

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

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

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

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

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

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