Agribusiness Monthly & Covid-19 Update November 2020

Australia

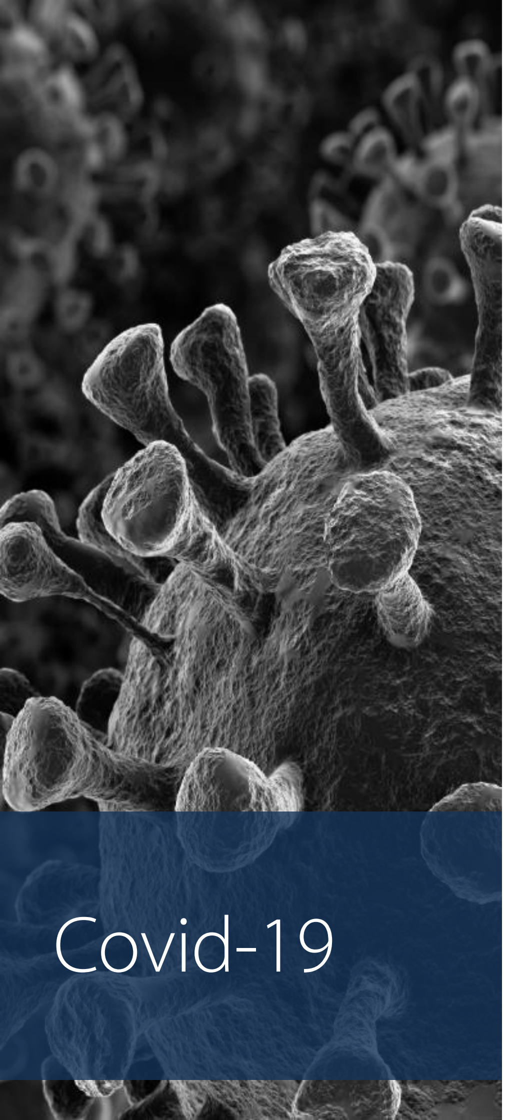
RaboResearch Food & Agribusiness

29 October 2020

Rabobank

Commodity Outlook

Covid-19	Beneath gloomy global headlines, infections are falling and retail sales are rising in most key markets for Australian F&A.
Grains & Oilseeds	A lift in our CBOT wheat forecast to USc 615/bu for Q4 and trading towards USc 580/bu over 1H 2021, means we now expect APW prices to remain near five-year averages during harvest, and likely above during 1H 2021.
Dairy	Milk production across the main exporting regions is in expansion mode.
Beef	Records and rises, cattle market staying strong.
Sheepmeat	Prices briefly set new records but heading back down again with supplies coming on to the market.
Sugar	Global prices break higher in October, but reasons for the rally are forecast to be short-lived.
Cotton	News from China threatens new season trade flows, but impacts appear limited to 2021 basis.
Wool	EMI expected to sit between AUc 1050-1150/kg for the remainder of 2020.
Wine	Rabobank expects China's foodservice channel to continue to recover across Q4 2020.
Horticulture	China's fresh produce imports have flatlined in 2020, but Rabobank expects a return to growth in 2021.
Farm Inputs	Despite global prices of DAP and urea modestly appreciating during October, we have maintained our expectation that the impact of low demand and strong supply capacity, take global benchmarks lower during Q4.
FX	The strong recovery in the Chinese economy is trimming the downside for the AUD: we expect to see it trough at USc 68 by April 2021.
Oil	We see scope for spot crude oil prices to increase modestly in the short term. We expect Brent Crude will reach USD 43/bbl during Q4, before appreciating to USD 45.50/bbl during Q2 2021.



Infections Are Rising Again, but Less So Deaths, and Less So in Our Markets

The growth in new global Covid cases accelerated in October, with the weekly number of new cases reaching a new record late in the month. The increase was almost entirely driven by the US and Europe, where an alarming new wave is accompanying the Northern Hemisphere autumn.

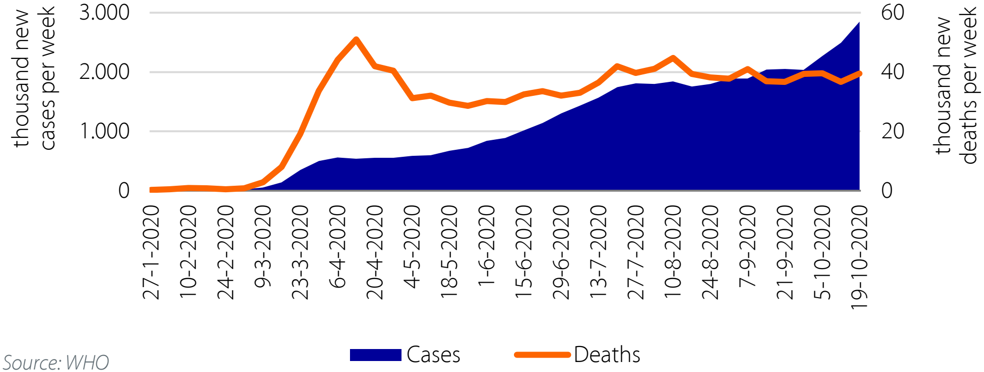
But Australia's key F&A markets have improved from a viral perspective:

- Infections remained very low in China, Australia, Vietnam, Thailand and Singapore.
- Second waves have reduced in Japan, South Korea and the Philippines (and tempered in Indonesia).
- Leaving rising infections in the US and UK as Australian F&A's main immediate concern.

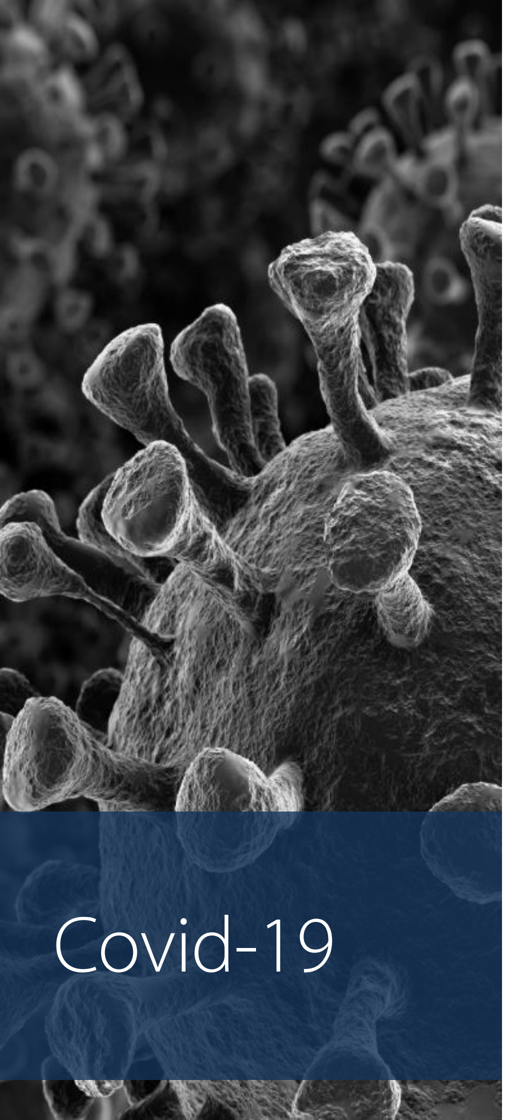
And the lower death rate accompanying this wave has helped avoid national lockdowns so far:

- Restrictions on movement eased during October in Australia, NZ, the Philippines and Indonesia.
- Various parts of the UK imposed new restrictions during the month.
- Lockdown status remained largely unchanged in Japan, South Korea, the US and China.

Global weekly reported new cases of Covid-19 and deaths



Source: WHO



Retail Spending Holds up Despite Waning Government Support

One of the key risk factors we have highlighted in recent months is that consumer spending might be negatively impacted if governments remove the generous support schemes in place for their citizens faster than the real economy takes up the slack.

Governments have rolled back some of this support in recent months. 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.

But so far, retail sales data suggests that consumers still have sufficient funds to spend – and that this picture is improving in many of our major markets:

- Chinese retail sales exceeded prior year levels by 3.3% in September (having only regained year-ago levels in August).
- Australian retail sales fell MOM in September (down 4%) due to the Victorian lockdown, but remained 7% above prior-year levels.
- US retail sales picked up strongly in September (up 6% YOY).
- Retail sales improved MOM in Korea, Japan, Singapore in August and Vietnam in September.

Several factors are likely behind the improving retail sales data;

- Employment is improving in most major markets (though in places like Australia and US, remains a long way short of pre-crisis levels).
- The reduction in government support will take a while to kick in.
- In many countries, its still hard to spend money on services (travel, haircuts, movies, sports events) given restrictions still in place, channelling more of the available funds to retail spending (ranging from cars to food).

The process of switching from government-fuelled spending to consumer-earned spending is not over yet, and it's a transition with considerable risks for the F&A industry. But the transition has started, and so far, so good.

In September, Foodservice Sales in China Approached Pre-Covid Levels, but Recovery Slowed in the US

Rabobank

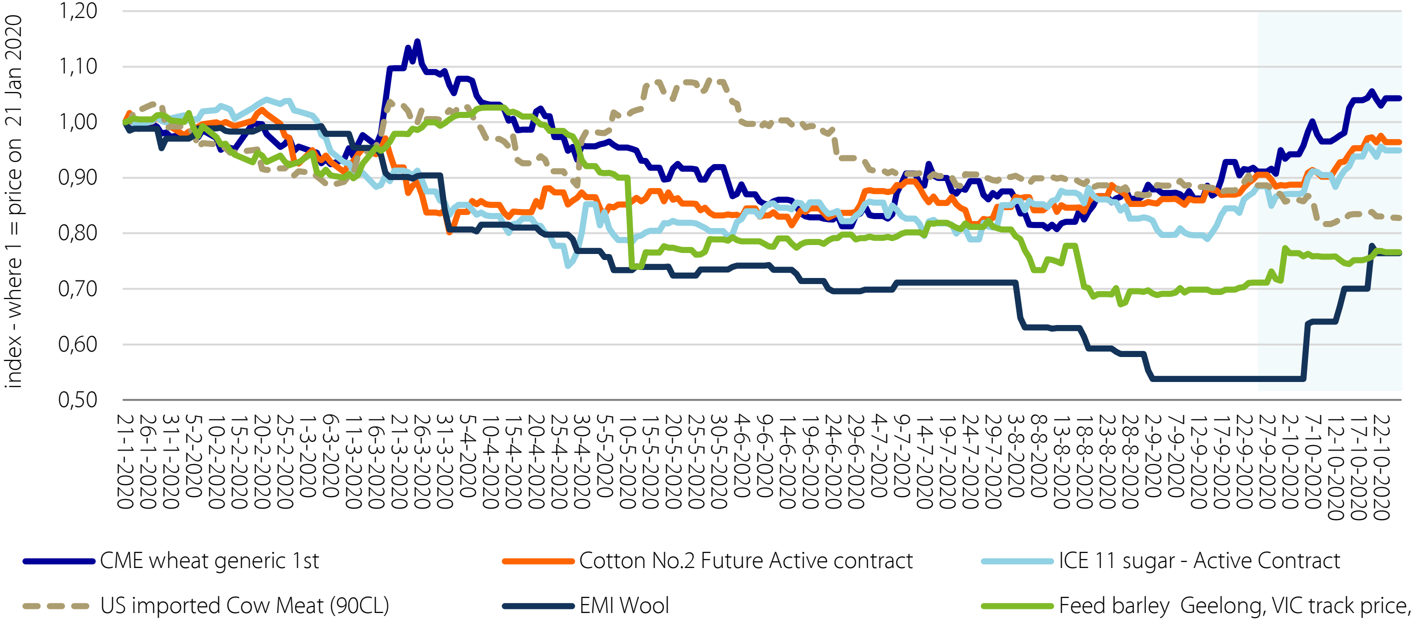
YOY change in food retail and foodservice expenditure in key markets

		Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020
AU	Foodservice	2%	1%	2%	-23%	-50%	-35%	-17%	-12%	-17%	n.A
	Food retail	3%	3%	3%	27%	5%	13%	14%	15%	14%	n.a
US	Foodservice	5%	7%	9%	-28%	-53%	-37%	-23%	-18%	-16%	-14%
	Food retail	2%	2%	8%	27%	13%	14%	11%	13%	10%	11%
China	Foodservice	9%	10%	-70%	-47%	-30%	-19%	-15%	-11%	-7%	-3%
	Food retail	10%	10%	10%	19%	18%	11%	9%	7%	4%	4%
	Real food retail	-8%	-11%	-12%	1%	3%	1%	-2%	-6%	-5%	-4%

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 between 8% and 21% for the period depicted. Foodservice includes cafes, restaurants, and bars. September data is preliminary for the US.

The Best Month of 2020 So Far for Ag Commodities

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



Sources: Bloomberg, Rabobank

A Wet Summer on the Cards

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La Niña conditions are likely to continue until at least the end of February next year, bringing with it an increased likelihood of rainfall across northern, central and eastern Australia.

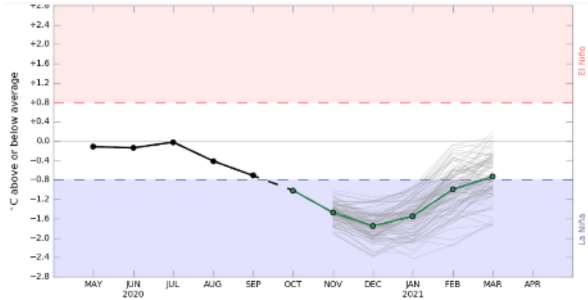
The Bureau of Meteorology (BOM) have indicated that La Niña is likely to continue to strengthen until mid December. About 50% of international climate models indicate this will be a strong La Niña event.

A wet summer will help replenish long-term soil moisture deficiencies on the eastern sea-board. Most significantly, it will support summer crop prospects and pasture production.

BOM has indicated that the chances of a negative Indian Ocean Dipole (IOD) during 2020 has diminished in recent weeks.

La Niña likely to remain until end of summer

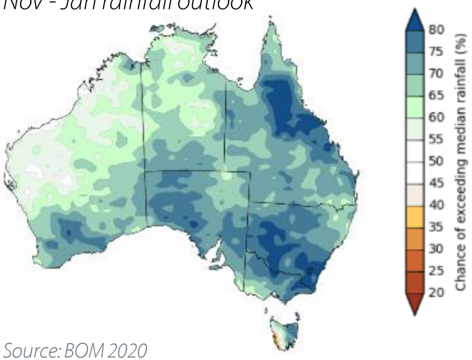
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2020

A wet three-month outlook

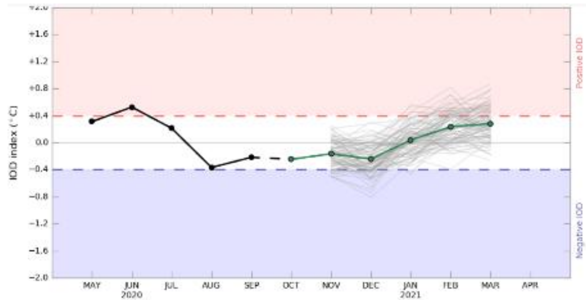
Nov - Jan rainfall outlook



Source: BOM 2020

IOD will remain neutral for foreseeable future

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2020

La Niña Rain Arrived, Not All Good News

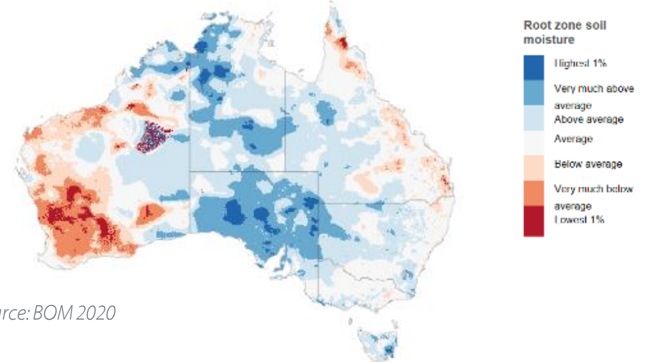
Strong rainfall was recorded across most of the eastern seaboard during October, with more to come in the next seven days.

Falls were most significant across South Australia, Victoria and Southern and Central NSW. Port Lincoln and Clare recorded 73mm month-to-date respectively. 46mm and 48mm were also recorded in Horsham and Dubbo respectively, over the same time period. There were also reports of isolated flooding in southern parts of Victoria.

This rainfall is great news for farmers with green pastures and crops that are still filling grain. However, for some farmers in central and northern NSW, where harvest is approaching full swing, rainfall has damaged crops in isolated areas.

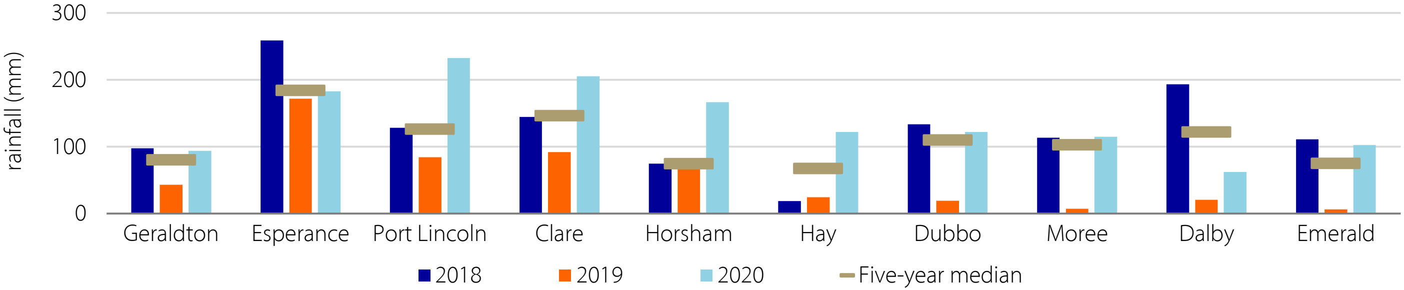
Soil moisture well-below average in WA

Relative root-zone soil moisture, October 2020



Source: BOM 2020

*Three-month rainfall, 1 Aug-25 Oct**



Source: BOM 2020

*rainfall data collected to 25 Oct with significant rain forecast in eastern parts during late October.

Stocking Up Price Highs

Global grain markets have continued north this month, with CBOT wheat, corn and soybeans posting month to date gains of 11.2%, 11.4% and 6.6% respectively. This puts wheat prices at their highest since 2014, with dryness concerns coinciding with ferocious buying.

Some regions of Russia and the US have received rainfall, and winter wheat planting progress has improved in both regions, but large areas remain dry, threatening adequate crop establishment before winter. Meanwhile, the Rosario exchange in Argentina has downgraded its crop forecast by 6% to 17m mt with dry weather during recent months damaging yield prospects.

Coinciding with these supply concerns are Covid-19 concerns so that governments continue to favour stock-building to avert the possibility of a food crisis and to quell domestic food price inflation. China and Pakistan, which have seen double-digit food price growth since March, have been particularly active, while Turkey has suspended its import tariffs on wheat (as well as barley and corn) until the end of the year. With both strong purchasing and uncertainty regarding 2020/21 supply, we have ***lifted our CBOT wheat forecast to USc 615/bu for Q4 and trading towards USc 580/bu over 1H 2021.***

Our winter crop harvest has begun, with efforts focussed on getting tonnes in the bin ahead of forecast wet periods. ***We expect a 63% YOY production increase to 47.4m tonnes***, 12% over the five-year average, and just 16% below 2016/17's record. This will include 28.8m mt of wheat, 11m mt of barley, 3.3m mt of canola, 1.5m mt of oats and 2.7m mt of pulses. Heavy storms this past week, especially in northern NSW/southern Qld, have taken the shine off yields for some and downgraded quality for more.

Despite the national supply recovery, and due to global support, our outlook is for ***APW to remain near to five-year average prices during harvest, and likely above during 1H 2021,*** but lower grade prices will suffer as rain-induced downgrades add to what will already be a barley-heavy feedgrain complex.

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Grains & Oilseeds

What to Watch

- ***Barley prices*** – will continue to take leads from wheat and corn prices globally, however will also be influenced by the storage plans of AU farmers. With expanded on-farm storage capacity and the lowest interest rates in history, barley stocks will grow and be key to limiting harvest pressure on price.
- ***Quality downgrades –*** The BOM continues to forecast an above 50% chance of exceeding median rainfall during November and December for most of Australia's winter cropping regions. Early harvest progress has already been interrupted by rain and losses incurred. Ongoing rain events will lead to further quality downgrades, and an opening of spreads from feedgrains to higher grade wheats.

Australia: We're Back!

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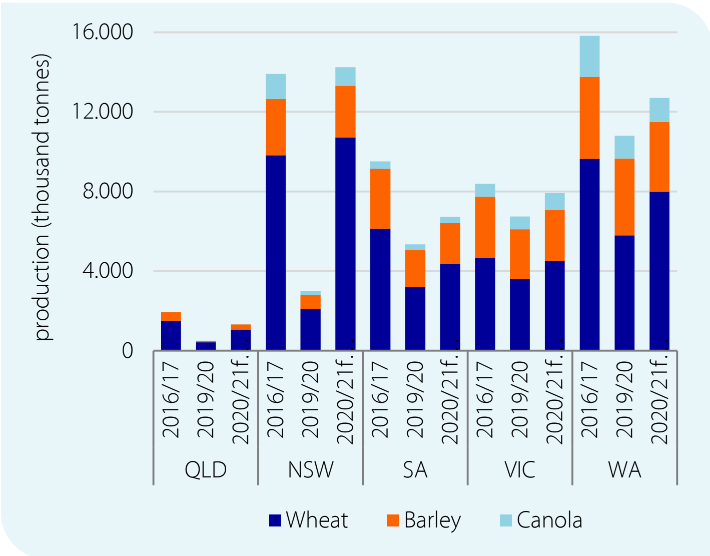
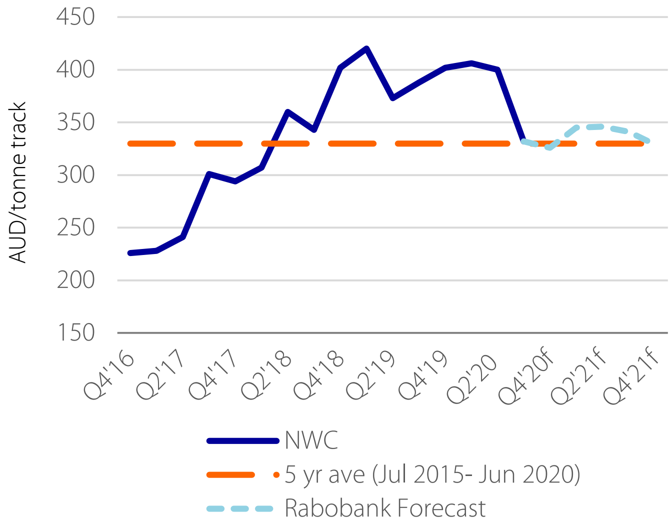
Australia is back! We forecast a 63% YOY increase in winter crop production, led by a 366% YOY increase for NSW and YOY increases elsewhere



Source: ABARES, Rabobank 2020

Source: Rabobank "Down Under Back Over" Australian 2020/21 Winter Crop Production Forecast, 2020

Despite a dramatic supply recovery, Australian wheat prices will be supported by global dynamics



Source: Bloomberg, Rabobank Forecast 26/10/2020

Dairy

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A Boost to Farm Profitability

Consecutive season of strong Victoria dairy farm profitability is on the cards. The latest results from the Victoria Dairy Farm Monitor Project confirmed good profitability in 2019/20. The state average EBIT reached AUD 1.68/kgMS in 2019/20. This was up from just AUD 0.25/kgMS in 2018/19. Victorian dairy farmers will be looking for a similar result in the current season. While milk prices are likely to be lower, feed bills will be lower again. Interestingly, the National Dairy Plan has outlined a target of AUD 1.50/kgMS.

Better seasonal conditions begin to bear fruit for Australian milk production. Australian milk production expanded by 3.2% over the first two months of the new season (July/August). There continues to be widespread growth across the industry. So far this season, all states, excluding Queensland, have seen milk production grow. Milk production remains on track to surpass 9bn litres in 2020/21. The National Dairy Plan has set a target to reach 9.6bn litres by 2024/25.

There have been positive results for Australian dairy exporters. Commodity prices have remained relatively buoyant ahead of the key selling season and despite a solid start to the New Zealand season. Import demand has supportive prices as supply chains are restocked and consumer demand recovers. There are risks ahead for global markets, namely uncertain demand growth and expansion in milk supply.

What to watch

- ***A feeling of Déjà vu.*** Once again the industry is waiting on the outcome of the sale process for Lion Dairy and Drinks. Once again, according to the media reports, the front runners are Bega Cheese and Saputo Dairy Australia. The Australian Competition and Consumer Commission (ACCC) has commenced an informal review to assess the impact of a proposed Saputo acquisition.

Export Engine is in Expansion Mode

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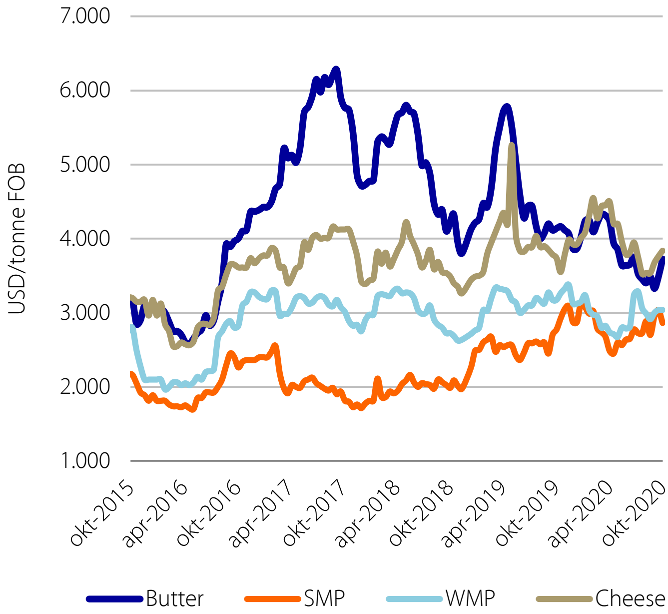
Global dairy prices, 2015 - 2020

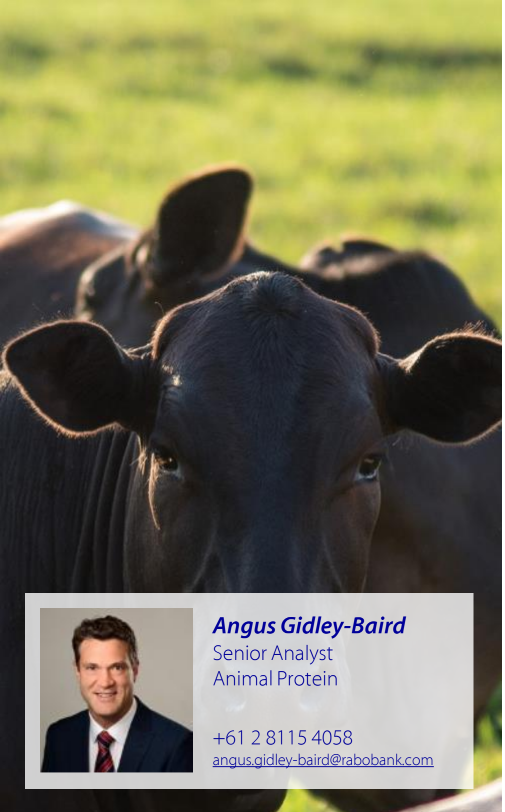


Source: USDA, Rabobank 2020

Production growth key exporting regions

	Latest month	Last three months
EU	2.0% (June 20)	1.3%
US	2.3% (Sept 20)	2.0%
Australia	3.5% (Aug 20)	3.2%
NZ	2.9% (2020/21 season-to-date*)	

Source: Rabobank 2020
* June-September only



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Beef

Records and Rises Across the Board

Cattle prices continue to remain high in light of limited supplies and strong producer demand. Cattle prices across all classes showed a rise from mid-September to mid-October, with cow prices seeing some of the strongest gains. The EYCI rose again, setting a new record of AUc 793/kg on 8 October. Finished cattle prices rose, as did grainfed cattle, continuing to support feedlot margins, despite higher feeder cattle prices. With rain across much of the east coast – including areas of central Queensland – and more on the forecast we now might be seeing the commencement of rebuilding the breeding herd. ***This is expected to keep cow and restocker-type cattle prices elevated for the coming month.***

East coast weekly cattle slaughter for the four weeks ending 16 October was down 32% YOY and down 24% on the five-year average. Weekly east coast cattle slaughter for the week ending 16 October was 108,783 head. Female cattle slaughter numbers for Queensland are down 42% YOY.

Beef export volumes for September (72,619t swt) are down 31% YOY. Volumes dropped to all major markets, with China volumes down 64% YOY as pressure of limited supplies, higher prices and competition from South American suppliers (Australia doesn't have its trade agreement tariff advantage) take their toll. The US import price for lean cow meat (USc 200/lb) has dropped to its lowest levels since April, although it is still just above the five year (2014-18) average price. US domestic lean trimmings prices have dropped over the last month, pressuring imported prices.

Live export volumes to Indonesia for September (490,861 head) were down 10% YOY. Volumes to Vietnam (18,149 head) were down 29% YOY. Prices for light steers out of Darwin remained steady at AUc 355/kg, although indications are that with limited cattle supplies, ***live export prices might be about to start their normal seasonal rise into the end of the year.***

What to watch

- ***Have we now started the rebuild*** – After dropping to 42% of the total slaughter in the week ending 18 September, female slaughter numbers have remained below 45% of the total for Queensland and NSW weekly slaughter for the last month. This value is more in the range associated with herd rebuilding, although not as low as previous recovery years of 2017 and 2011. Generally, the low point of female slaughter corresponds to the high point in the EYCI, with prices easing from that point onwards.

The EYCI Breaks Another Record and Female Slaughter Numbers Drop

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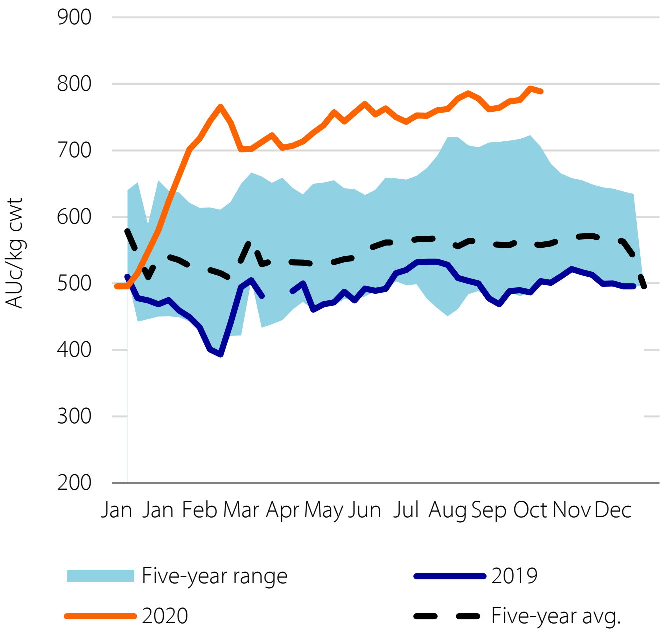
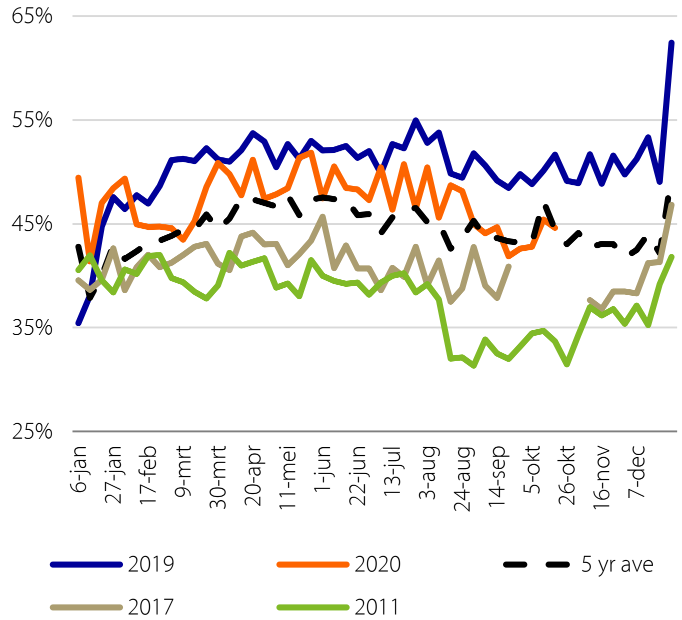
The EYCI breaking new records



Source: MLA, Rabobank 2020

Are we now starting the rebuild? – proportion of females in total slaughter drops



Source: MLA, Bloomberg, Rabobank 2020

Lamb Prices Follow 2018 Trend up … and Now Down

After rising for much of September, trade and export lambs took a turn in the second week of October. The ESTLI reached a record on 10 October for this time of year, trading at AUc 824/kg, before dipping back to AUc 774/kg on 17 October. A similar price spike at this time of year was seen in 2018 when we saw per unit export values to China and other countries lift briefly. With sheepmeat generally more heavily consumed in winter months in China, the lift in prices through September is believed to reflect stronger Chinese buying activity in preparation for winter months. ***While the easing of restrictions in Victoria will support the domestic foodservice market, with the ongoing increase in supply as new lambs come to market, we expect prices to ease over the coming month.***

Lamb slaughter numbers continue to show a recovering flock, with numbers tracking close to the five-year average. After dipping slightly through September into October, the east coast weekly lamb slaughter for the week ending 16 October (344,755 head) was down 2% YOY. For the last four weeks ending 16 October, lamb slaughter was down 1% on 2019 and down 4% on the five-year average. Sheep slaughter continues to remain low at 40% below 2019 for the same period.

Lamb exports for September (21,854t swt) were up 7% YOY, with strong volume increases to the US (up 25%). Volumes to the Middle East have also recovered and are now only 4% behind 2019 volumes for September. This is compared to the 50% drop in volumes to the Middle East seen in May.

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Sheepmeat

What to watch

- ***To feed or not to feed –*** With lower grain prices and better grain availability, many of the lamb feed yards constructed during the drought may be brought back into action to finish lambs. The price spread between heavy lambs and restocker/feeder lambs has narrowed to levels last seen in 2017, suggesting an uptick in demand for these lighter lambs. While everyone will need to test the economics of feeding lambs, this season will be different, with strong pasture availability and potentially softer export markets as northern hemisphere countries face increasing numbers of Covid-19 cases and further possible lockdowns.

Lamb Prices Briefly Back in Record Territory as Restocker/Feeder Lamb Demand Rises

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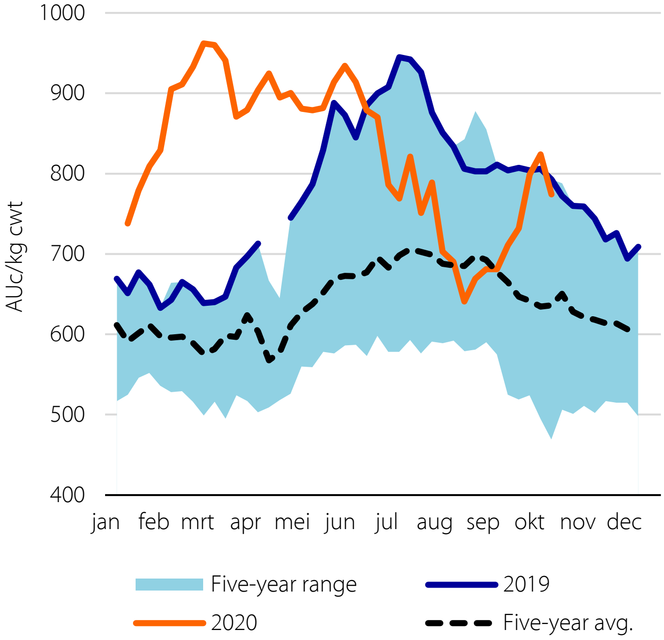
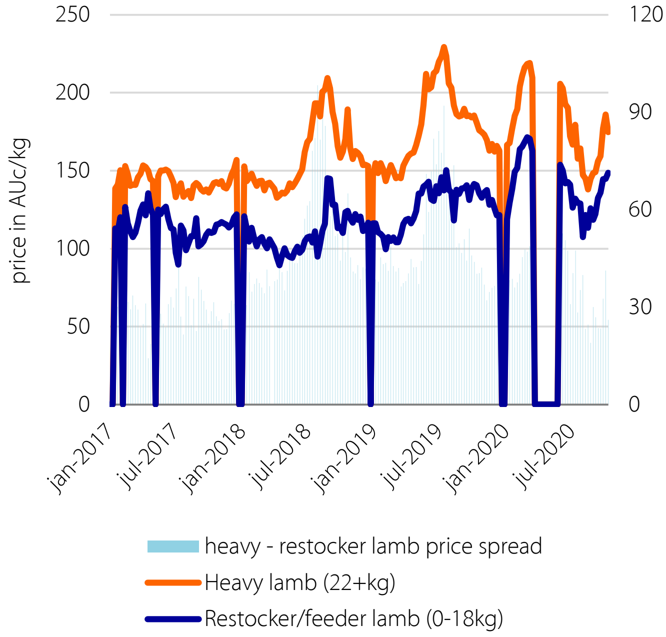
ESTLI briefly back into record territory again



Source: MLA, Rabobank 2020

Demand for restocker/feeder lambs picking up as price spread to heavy lamb declines



Source: MLA, Rabobank 2020

Prices Breaking Ground

Global prices surged through October, charging above USc 14.5/lb for the first time since February 2020. In AUD terms, this has meant nearby swap prices breaking AUD 450/tonne versus the AUD 405/tonne 12-month average. Interestingly, the fundamentals have barely changed – Rabobank continues to forecast heavy global supplies and a fall in 2019/20 global demand, as per our Q3 Sugar Quarterly report. In particular, Brazil's harvest (as of 1 October) is up 46% YOY with exports up 77% to August 2020. Rabobank believes Indian sugar policy and market speculation are both key to the recent rally – both are short-term drivers. As such, we now forecast prices to average AUD 422/tonne in Q4 2020, but hold a more modest AUD 415/tonne forecast in late 2021.

A delay in India's announcement on 2020/21 export subsidies has allowed prices to rally. Through 2020, the flow of 6m tonnes of Indian exports – viable at USc 13-USc 13.5/lb with government subsidies – have largely kept a 'lid' on global prices. However, the renewal of these subsidies in 2020/21 has not yet been announced. In Rabobank's view, this has effectively lifted the 'lid' on short-term global prices. However, Rabobank still expects these subsidies to be announced in Q4 2020 ahead of the Indian harvest – without it, Indian domestic prices would collapse. Moreover, speculators now hold the largest bullish position since November 2016 – when prices were +USc 20/lb – which has provided significant price support, but also threatens future volatility.

Australia's 2020 crush maintains pace, having reached 76% complete in late October. This pace remains largely in line with 2019, with strong weekly crush totals of +1.4m tonnes reported. Harvest pace ranges from 73% complete in NSW, compared to 80% in Southern Queensland. Rabobank notes the potential for a widespread harvest slowdown in late October, with BOM forecasting a +80% chance of above-average rainfall for the Queensland entire eastern coast.

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What to watch

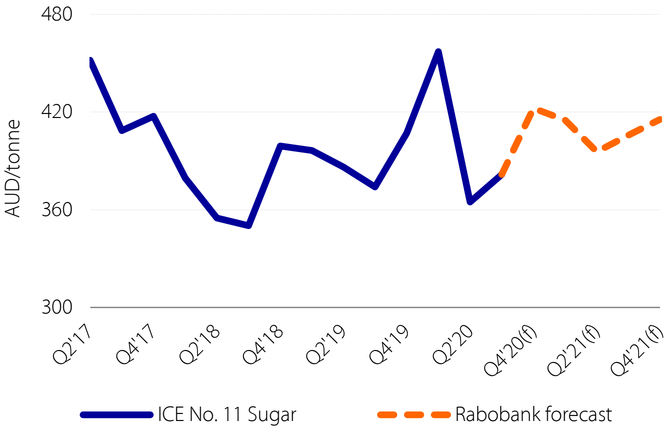
- ***The emergence of La Niña in late 2020.*** The confirmation of a La Niña event in 2020/21 risks unwanted wet weather slowing the 2020 crush. Heavy rainfall forecast in late October may be a sign of things to come.
- ***Dryness in Brazil raises concerns for future cane production,*** although this will only be observed in Brazil's 2021 crop. Still, January rainfall could relieve the negative impact of current dryness – markets will be monitoring this closely in coming months.

Sugar

Global Price Charge Above USc 14.5/lb, the Highest Level Since February 2020

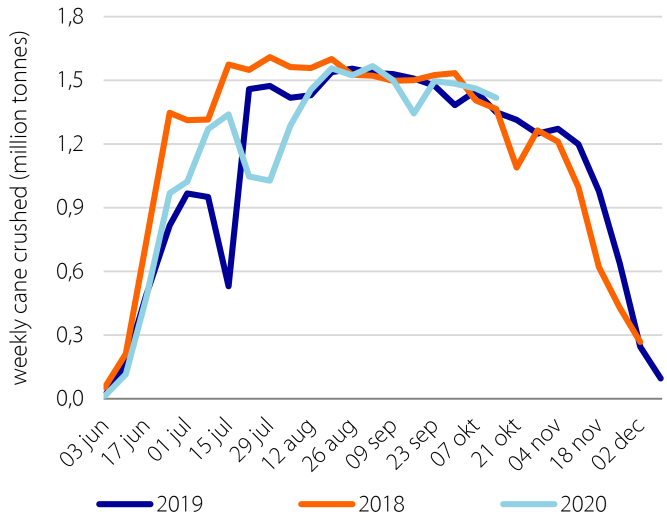
Rabobank holds a supportive short-term view, prior to the announcement of Indian export subsidies

	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	13.6	12.8	12.2	12.7	13.0
AUD/USD		0.66	0.66	0.71	0.71	0.68	0.68	0.69	0.69
Sugar	AUD/t	457	365	382	422	415	396	406	415



Source: Bloomberg, Rabobank 2020

Australia's 2020 crush maintains a good pace, having reached 76% complete in late October



Source: ASMC, Rabobank 2020

The renewal of Indian subsidies in 2020/21 has not yet been announced, effectively lifting the 'lid' on short-term global prices. However, Rabobank expects an announcement in Q4 2020, ahead of the Indian harvest

Cotton

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What Pandemic?

October observed a surge in cotton prices, both at home and abroad, reaching within a whisker of pre-pandemic levels. It's difficult to pin down the exact reason, instead Rabobank notes a combination of recovering global mill demand, US hurricane damage, heavy Chinese imports (of US cotton), and ongoing speculative buying. And while Covid infection rates rise, governments are aggressively resisting the strict lockdowns of 1H 2020. As a result, we anticipate the worst of Covid-led cotton demand destruction to be behind us. Rabobank's price forecast has been revised higher in October, albeit bearish at spot levels due to substantial 2020/21 exportable stocks globally. We forecast prices to trade between AUD 500/bale and AUD 550/bale in the 12-month period, rising steadily over the year.

Strength in US export sales convey an ongoing recovery in import demand. While China remains the single-largest buyer of US cotton in 2020/21 (~40%), we note buying from a large range of importers – Bangladesh, Vietnam, Indonesia, Mexico, and Pakistan, to name a few. In our view, this signifies that recovering retail sales are flowing through to the processing sector.

News emerged in October that China's domestic mills are being actively discouraged to buy Australian cotton, as Chinese processing recovers post lockdown. Still, the full extent of the news remains unclear – will Chinese spinners lower Australian purchases, or avoid them completely? The news raises concerns for the 2021/22 crop, given China has made up 60%-65% of exports in recent seasons. The loss of Chinese demand is likely to inflict a premium (basis) penalty for domestic bales. In Rabobank's view, Australia will need to deepen future trade with Southeast Asia – a region with a growing import appetite almost twice the size of China's. Not only would it aid short-term demand, but also better position Australian cotton for future demand – as per Rabobank's 10-year outlook, titled 'Opportunity Awaits the 'Bolled' and Brave'.

What to watch

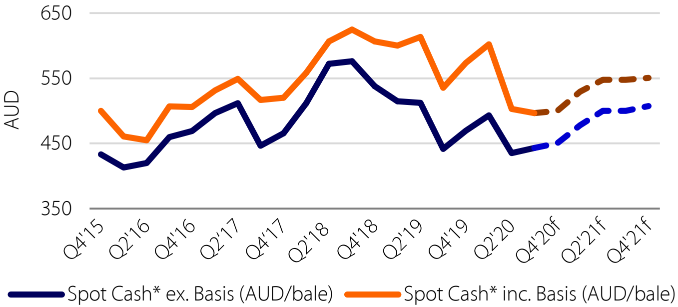
- ***China confirmed intentions to purchase domestic Xinjiang cotton for state reserves.*** Set to happen between December 2020 and March 2021, expectations are for 2.2m bales to be purchased. A return to stockpiling is likely to increase the need for Chinese imports – while Australia may not be able to exploit this market, it will likely keep global prices supported.
- ***Australian plantings are underway for the 2021 summer crop.*** Rabobank notes a broad recovery in new cotton acreage versus 2020 – look out for our upcoming 2021 cotton crop estimate next month.

Rabobank's Price Forecast Revised Higher in October, Albeit Bearish at Spot Levels

Rabobank

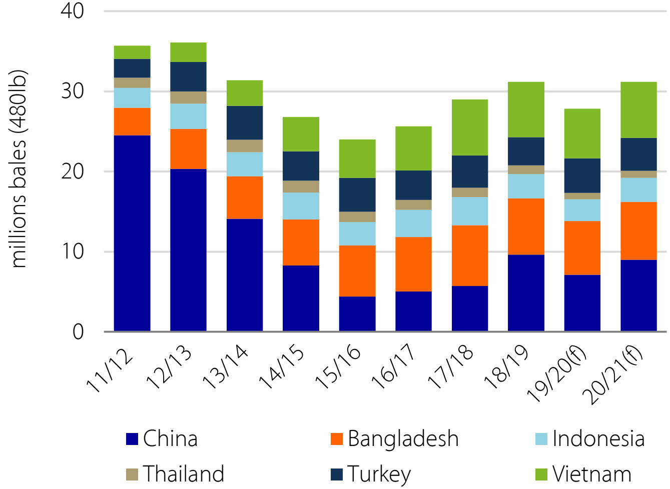
Prices forecast to trade between AUD 500-AUD 550/bale through 2021; largely the result of ICE #2 strength

	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	0.68	0.65	0.65	0.66	0.67
Basis	Pts/lb	887	762	700	650	700	700	700
AU ex. Basis	AUD/bale	435	443	424	454	459	455	478
AU inc. Basis	AUD/bale	503	497	475	504	512	508	530



Source: Bloomberg, Rabobank 2020

China set to be the world's largest single 2020/21 importer, but large appetites exist across SE Asia



Source: USDA, Rabobank 2020

News emerged in October that China's domestic mills are being actively discouraged to buy Australian cotton, as Chinese processing recovers post lockdown

… And We're Back!

The wool industry is bustling with enthusiasm after another strong run up in prices. On 27 October, the EMI traded at AUc 1148/kg, up over 11% MOM, but a slight retrace from the 22 October high. All microns saw notable improvements, with 17 micron and finer seeing the largest absolute gains. ***We still believe the EMI will sit between Auc 1050-1150/kg for the remainder of 2020 as global apparel demand continues to recover. Reduced US government stimulus payments and new EU lockdowns are expected to limit a full recovery in apparel sales.***

Apparel sales saw another strong recovery in September. Chinese retail sales finished up 16% MOM, and up 5.2% YOY, far ahead of other markets. US apparel sales also improved, lifting to be 12% down YOY, the best result since Covid-19 started. UK clothing sales rose marginally in September, the last month prior to new restrictions. Latest US and Japanese woollen suit import data shows a 28% and 2% MOM rise in August, respectively. The improvement is welcome news, however, both markets remain down markedly YOY (-76% US, -40% JPN). ***While the recovery for suits has been slow, US imports of woollen sportswear has made a stunning recovery back to 2019 levels in light of increased time spent working from home.***

Australian August wool export volumes were up 46% YOY (12.4m kg), and China's share of Australian exports declined to 81%, the lowest level since March 2020. During 2020, China's dependence on Australia increased. Australia's proportion of Chinese wool imports increased to 65%, nearly 15% above the five-year average, while South Africa and NZ saw declines.

National wool tested data as of 28 October shows the weight of wool tested down 31% YOY (22.8m kg). Compared to October 2019, wool tested increased the most in the 17.6 to 18.5 Micron range (+2.3m kg) and declined the most in the 21.6 to 22.5 micron range (-0.2m kg).

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Wool

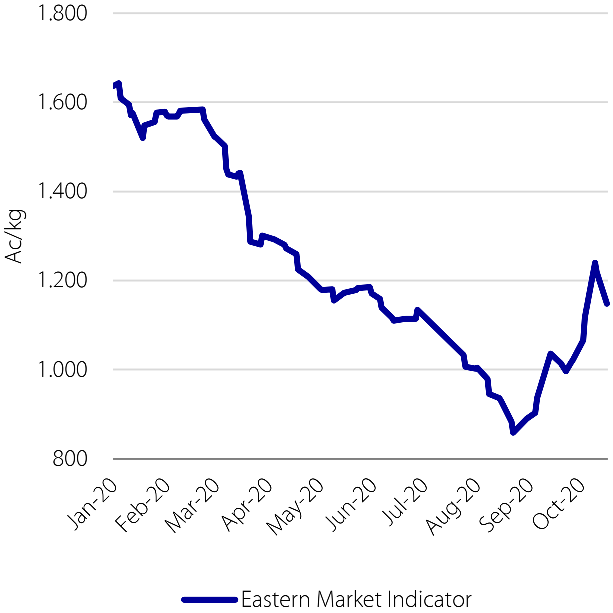
What to watch

- ***US stimulus payments and waning consumer sentiment –*** following a reduction in government stimulus payments to citizens in August and September, several US consumer confidence indexes peaked. Mid-October data already shows declines of up to 5% MOM, with confidence down approximately 30% YTD. The decline is a sobering reminder of how dependent consumers are at this point on government support. If further support packages are not passed in Washington, we may see a slowing in the recovery of apparel sales and consequently less enthusiasm from Chinese processors to bid up wool prices further.

Wool Prices Make Strong Gains Over October. Sportswear Helps Drive Renewed Demand.

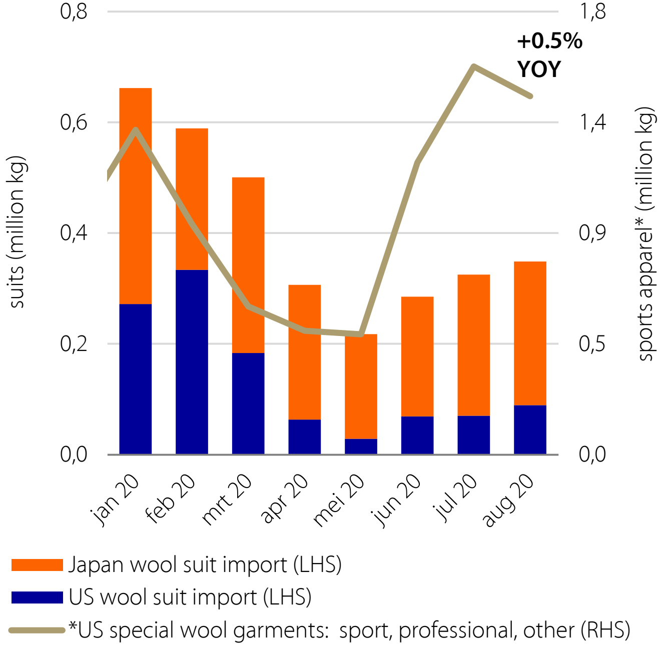
Rabobank

EMI breaks though AUc 1200/kg in October



Source: Bloomberg, Rabobank 2020

Work from home during Covid-19 sparks recovery in US demand for woolen sportswear



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

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Surprising Market Dynamic

Chinese wine imports have continued to shrink YOY in the eight months to August 2020.

Total Chinese wine imports have continued to reduce in both value and volume across 2020 by almost a third year-to-date, respectively, compared to 2019 (please see the map on the next slide). Australia is down in both value and volume of export to China, as are all other key exporters – some, such as Chile and the US, are down by over 40 percent YOY. Bucking this trend is Argentina whose exports to China rose by over 400 percent YOY for volume but at a much lower price point than in 2019.

But, Australia has fared better than others.

Even in a downwards trading environment positive outcomes can exist – and in this case they favour Australia. Australian wines have grown their share of the total market in China, clearly the number one supplier by value and volume. It has also achieved this at a rising price point per litre.

The pandemic has put pressure on many key global exporters – bar one.

It is by no means plain sailing in global wine markets, with most key exporting nations feeling a pinch across 2020 – barring New Zealand which is experiencing strong growth. For a more comprehensive view of export markets, refer to our latest Wine Quarterly.

China's foodservice sector is beginning to show signs of recovery .

Signs of recovery continue in China's foodservice channels and we expect growth to continue leading into Q4 2020. This still needs to transfer into full-service restaurants and subsequently into demand for increased wine imports, but the early signs will be positive news for wine exporters.

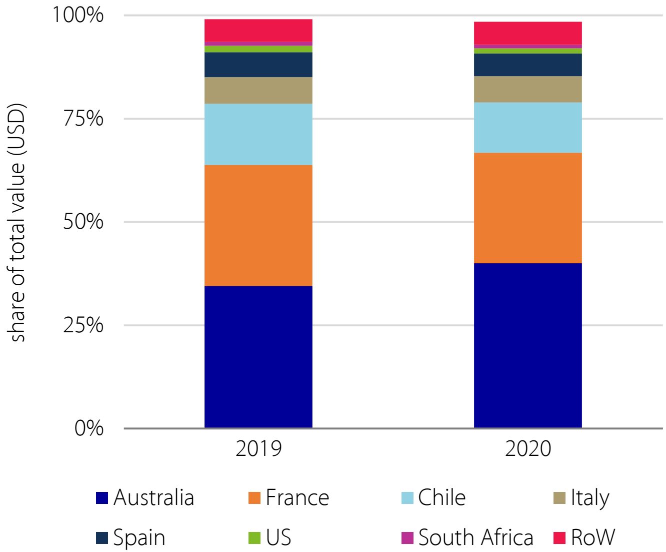
Wine

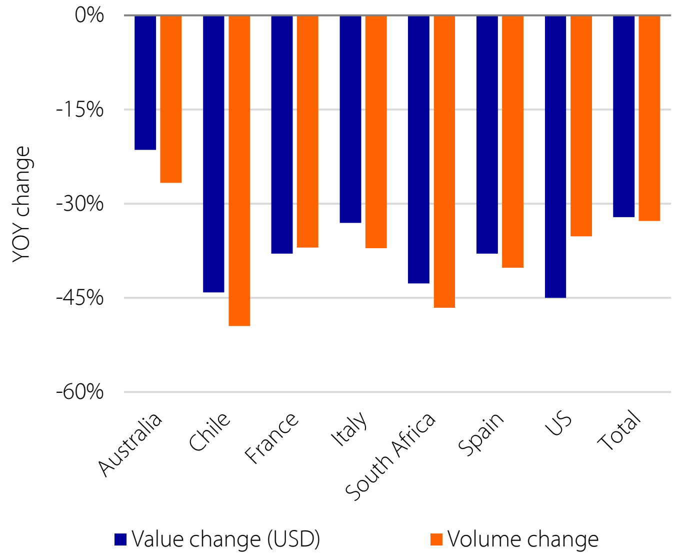
What to watch

- ***Brexit*** ***–*** The clock continues to tick down for the UK and the EU. While Rabobank expects a deal to be reached, even if a very thin one, the risk of a no-deal Brexit rises as the 31 December 2020 deadline approaches with no definitive resolution in sight. Keeping abreast of this will be important for planning UK shipments.

Australia Down, But Definitely Not Out

Chinese wine imports YTD January to August, 2019 vs. 2020





Source: China Customs, Rabobank 2020

Australia's market share of Chinese wine imports has risen YOY vs 2019, YTD.

China's Imports Flatline

Demand for imports of fresh produce has remained resilient in key horticulture import markets.

Demand has remained resilient overall during the pandemic to date in the US and the EU 28, two of the world's key import markets and important also for Australia as export markets. Respectively, import growth in USD terms for each has risen at 3 percent, which is positive in the light of foodservice shutdowns and economic impacts in these economies.

While not going into negative territory, China's imports of fresh produce have stalled across 2020 YTD to July. But, we expect that it will return to growth in 2021.

After growing by 24 percent YOY for the seven months from January to July in 2019, compared to 2018, over the same period in 2020, import values were neutral with the prior year (refer to chart). We expect import demand for fresh produce to return to growth in 2021 albeit at a slower rate than historically, as China's economy continues to recover from Covid-19. We expect that e-commerce sales will play an ever increasing role in sales of fresh produce in China, also moving forward. To read more on this, look out for our soon to be released report looking at e-commerce channels for fresh produce in China.

Australia's exports to China have fallen by 20 percent by value YOY over the same period.

A strong YOY increase in the value of table grape exports to China, up by 25 percent, was not enough to arrest declines in other key categories. Sales of combined citrus and tree nut categories declined enough to contribute to a total YOY reduction in horticulture exports of AUD 140m.

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Horticulture

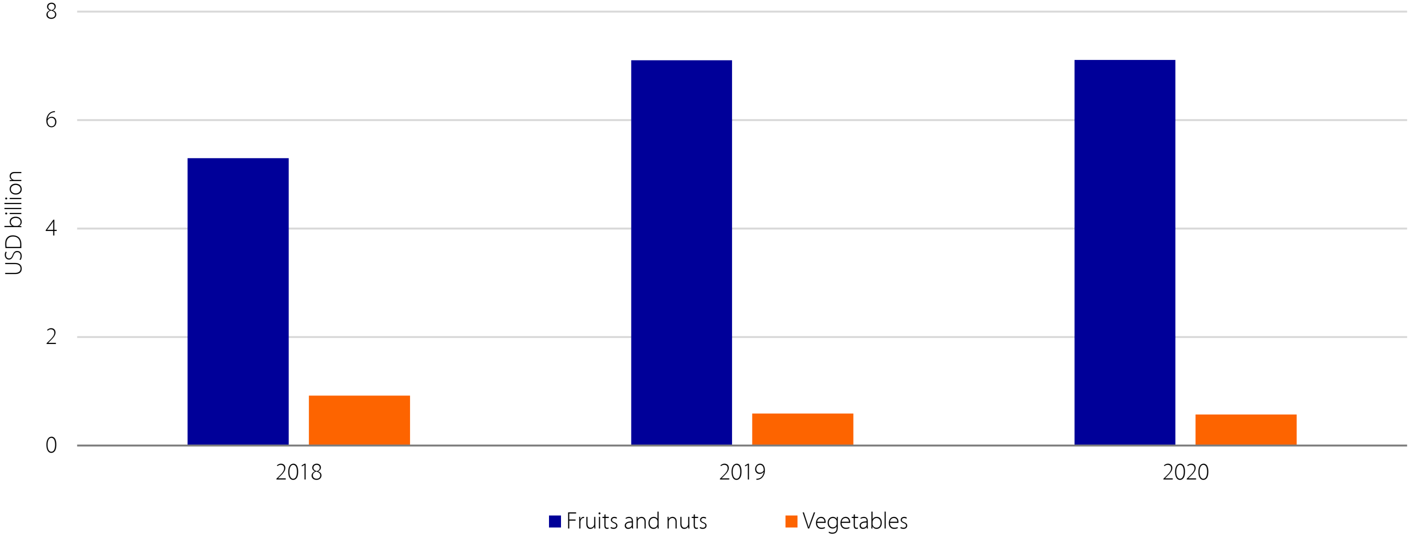
What to watch

- ***Competition with Peruvian citrus bound for Thailand –*** While not Australia's largest export market, Thailand is still important for citrus at around seven percent of citrus exports by value. Peruvian exporters are finalising protocols for market access, and Peru exports in a similar window to Australian exporters to Thailand.

Pandemic Stalls Chinese Import Growth

Rabobank

Chinese horticultural produce imports year-to-date (January to July)



Source: Trade Map, Rabobank 2020

Chinese imports of fresh produce by value have been neutral YOY compared to 2019.

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Farm Inputs

Bearish Global Outlook Maintained

Despite global prices of DAP and urea modestly appreciating during October, we have maintained our expectation that the impact of low demand and strong supply capacity, take global benchmarks lower during Q4.

While largely stagnant during October, urea ex. Middle East FOB is now 27% above the level it was in June. Strong Indian import demand, following a healthy monsoon, has been the primary driver of price rises.

We expect global prices to begin to ease during November in line with seasonal demand from the northern hemisphere.

Global prices of DAP have appreciated strongly in most major global markets in recent months; prices of DAP ex US Gulf are now at a 12-month high (US-terms). There's been strong demand in India, and Brazil, while Mosaic's duty petition against Russian/Moroccan phosphates in the US have supported prices higher.

We expect prices will begin to ease during Q4, as demand begins to seasonally decline in India and Brazil. Furthermore, according to CRU, new DAP import deals have been signed in the US with Australia, Saudi Arabia, Mexico, Jordan and Egypt. This will help somewhat alleviate tight supply.

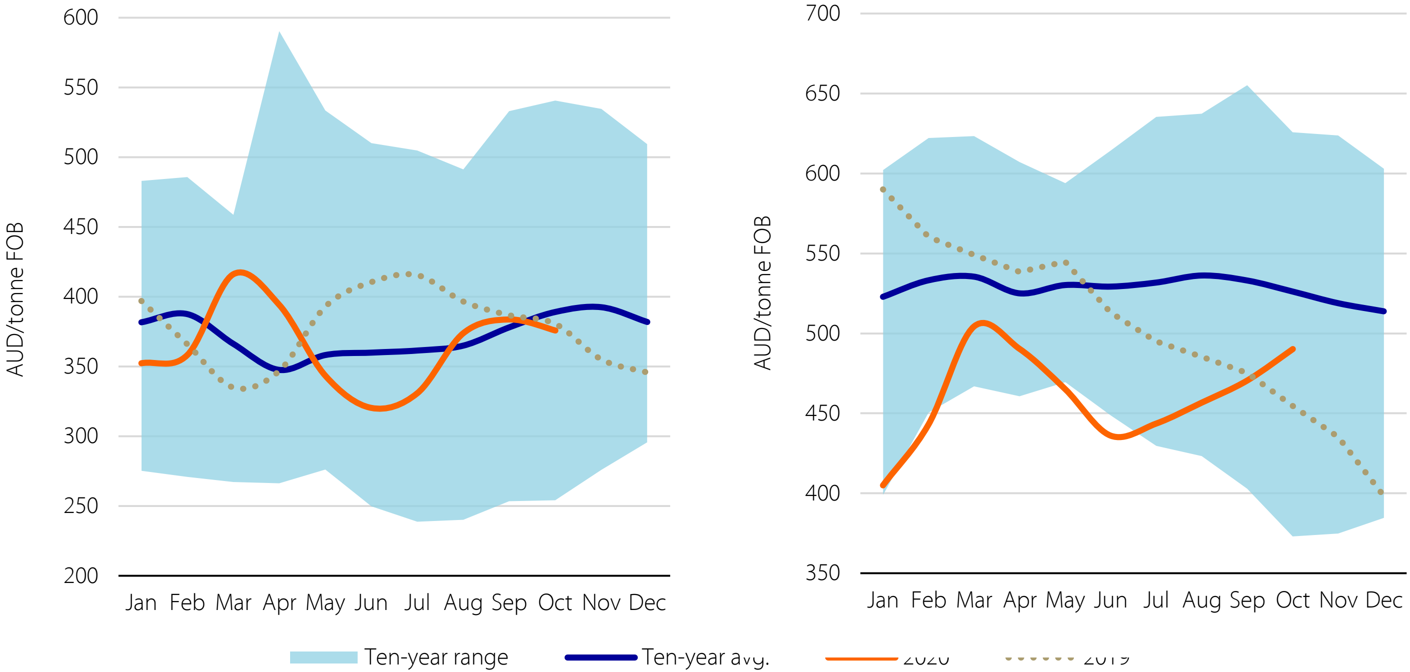
In USD terms, global benchmarks of urea and DAP continue to remain below the ten-year average. We expect a relatively weak AUD will continue to offset some of the benefits of local prices for at least the next six months. We expect the AUD to decline to USc 68 by the end of April 2021.

What to watch

- ***Chinese urea production –*** In recent months, the Chinese government has paused imports of Australian coal. Chinese urea producers will now need to find an alternative source of high-quality coal, either domestically, or from other producers such as Mongolia. With Chinese domestic coal prices now on the way up following a major decline as a result of Covid-19, this may add price pressure to Chinese urea production and impact participation in the export market.

Relatively Weak AUD Continues to Partially Offset Low Global Prices

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 Directionless Through October

Markets seemed to struggle to decide on the value of the Australian dollar through October: Its high and low point against the USD varied by more than USc 2. It was trading at USc 71.1 on October 28, marginally down on where it had opened the month.

At its October 6 meeting, the RBA decided to keep its policy settings unchanged. While noting that recovery was uneven and dependent on the virus, it wrote that the global economy was recovering from the severe contraction evident in the first half of the year.

On the wrong side of that uneven recovery is likely to be the US and EU – where an alarming autumn resurgence of the virus will impact economic recovery through the balance of 2020 – and hence the prospects for world GDP. In the US, there are also signs that employment growth is slowing and questions over when another Covid assistance package will be implemented.

China sits of the other side of the ledger. Its economy expanded by 4.9% above prior year levels in the three months to September. Importantly, the driver of Chinese economic growth has broadened beyond the surge in industrial production to now include consumer spending, with retail sales up above prior year levels for the first time in September (to be up 3.3% YOY).

Providing it can maintain access to the Chinese market, the early recovery in the Chinese economy should help pull Australia back into economic expansion, and hence reduce the likely downside in the AUD/USD rate in the next 12 months.

Nonetheless, we expect the AUD to fall to Usc 68 by the end of April 2021 as we see investors lower expectations for global growth, commodity prices soften, and risk appetite waning.

What to watch

- ***3 November RBA meeting.*** *The RBA last reduced the OCR on 20 March (to its current 0.25%). Recent signs of softening in the domestic economy (in part due to the Victorian lockdown) and concerns over a softening global economic have brought a significant chance of another rate cut in early November. A cut would likely push the AUD down further against the dollar.*

AUD closes in late Oct much where it started the month

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020

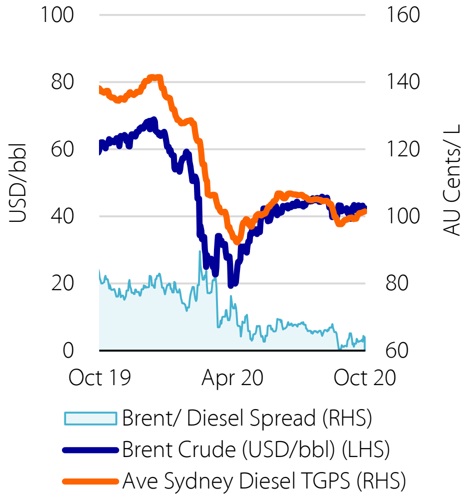
Modest Rise Ahead

We see scope for spot crude oil prices to increase modestly in the short term. We expect Brent Crude will reach USD 43/bbl during Q4, before appreciating to USD 45.50/bbl during Q2 2021.

As we get into the winter months in the northern hemisphere, we expect that distillate demand for heating will increase. Recent data shows us that the distillate surplus in the US has began to shrink. Although the fundamentals of the market remain challenged, we expect the worst is behind us.

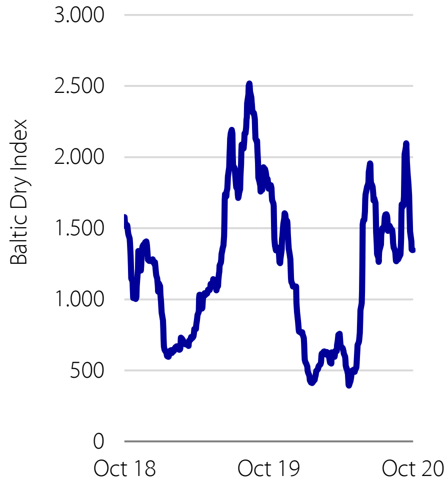
Furthermore, it would not surprise us if OPEC+ decides to delay the next round of tapering scheduled for January, which would support prices of Brent Crude.

Brent Crude Oil & Average Sydney Diesel, 23 Oct 2019 – 23 Oct 2020



Source: AIP, Bloomberg, Rabobank 2020

Baltic Dry Index, 23 Oct 2018– 23 Oct 2020



Source: Bloomberg, Rabobank 2020

Agri Price Dashboard

As of 26/10/2020	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	633	544	518
CBOT soybean	USc/bushel	▲	1,084	1,003	920
CBOT corn	USc/bushel	▲	419	365	387
Australian ASX EC Wheat	AUD/tonne	▲	329	300	338
Non-GM Canola Newcastle	AUD/tonne	▲	608	578	641
Feed Barley F1 Geelong	AUD/tonne	▲	233	216	281
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	801	774	501
Feeder Steer	AUc/kg lwt	▲	411	398	292
North Island Bull 300kg	NZc/kg cwt	▼	540	560	600
South Island Bull 300kg	NZc/kg cwt	▼	510	515	575
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	774	732	772
North Island Lamb 17.5kg YX	NZc/kg cwt	•	720	720	870
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	700	710	860
Venison markets					
North Island Stag	NZc/kg cwt	•	620	620	960
South Island Stag	NZc/kg cwt	▲	665	660	960
Dairy Markets					
Butter	USD/tonne FOB	▲	3,725	3,325	4,138
Skim Milk Powder	USD/tonne FOB	▼	2,863	2,950	2,775
Whole Milk Powder	USD/tonne FOB	▲	3,038	3,000	3,175
Cheddar	USD/tonne FOB	▲	3,838	3,675	3,738

Agri Price Dashboard

As of 26/10/2020	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	77.8	70.8	75
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	71.3	64.7	65
Sugar markets					
ICE Sugar No.11	USc/lb	▲	14.7	13.0	12.35
ICE Sugar No.11 (AUD)	AUD/tonne	▲	455	424	432
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,219	1,014	1,545
Fertiliser					
Urea	USD/tonne FOB	▲	267	265	259
DAP	USD/tonne FOB	▲	355	340	308
Other					
Baltic Dry Index	1000=1985	▼	1,415	1,667	1,801
Brent Crude Oil	USD/bbl	▼	41.77	41.92	62
Economics/currency					
AUD	vs. USD	▲	0.71	0.70	0.68
NZD	vs. USD	▲	0.67	0.65	0.63
RBA Official Cash Rate	%	•	0.25	0.25	0.75
NZRB Official Cash Rate	%	•	0.25	0.25	1.00

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