Agribusiness Monthly March 2021

Australia

March 2021

RaboResearch
Food & Agribusiness

Rabobank

Commodity Outlook

Commodities	Rural commodity prices are receiving support from adverse weather in the Northern Hemisphere, stock building and investors backing the reflation trade
Grains & Oilseeds	La Niña-induced dryness and strong Chinese import demand will likely keep global prices firm in coming months
Dairy	A late season commodity rally is starting to flow through to the farmgate
Beef	Lowest male slaughter for 35 years suggests a long way to go for the herd rebuild
Sheepmeat	Slaughter numbers dip again which should support prices for the coming month
Sugar	Trade tightness, weather risk and speculation to generate volatility – at least until Brazil's 2021 harvest
Cotton	Markets ride high through February, while fundamentals keep prices supported into late 2021
Wool	Slow and steady recovery but yet to see real signs of clothing demand picking up
Downstream markets	Channel distortion is likely to persist through 2021, with foodservice sales recovering only slowly at home and abroad
Geopolitics	A survey of RaboResearch analysts finds little optimism that Australia/China tensions will improve in the next five years
Farm Inputs	Global fertiliser markets have erupted so far this year. We expect that supply concerns and higher prices are here to stay until at least mid-late Q2, which may be too late for local growers who begin sowing the winter crop in April
FX	The AUD is likely to remain well-supported around current levels as long as reflation is dominating market attention
Freight	Rabobank expects bulk freight prices to remain firm through 2021. This will improve the competitiveness of Australian exports into Asia. The reverse will apply for destinations in more distant markets

La Niña Ending, Favourable Rainfall Not Over

Rabobank

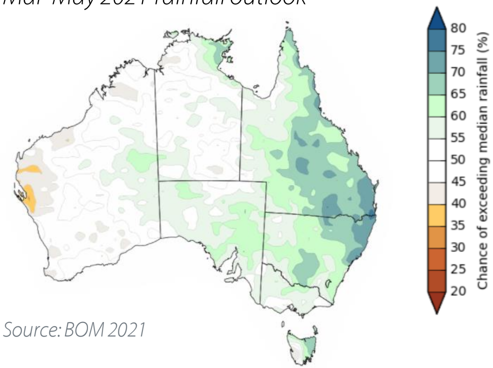
Only 1 out of 7 international climate models expect the El Niño–Southern Oscillation (ENSO) will exceed La Niña thresholds during March, while all models have a neutral ENSO outlook by April.

It doesn't spell the end of the favourable rainfall through. For both March-May, and April-June outlooks, BOM expects a greater than 60% chance of exceeding median rainfall on the East Coast, and a 50% chance elsewhere. BOM rainfall outlook models typically have moderate accuracy at this time of year (March-May).

All major international climate models expect the Indian Ocean Dipole (IOD) will remain neutral, heading toward negative thresholds mid-year, thus holding little impact on Australian weather patterns.

The three-month outlook remains supportive

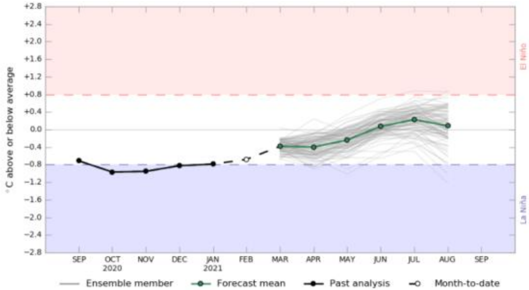
Mar-May 2021 rainfall outlook



Source: BOM 2021

La Niña is drawing to a close

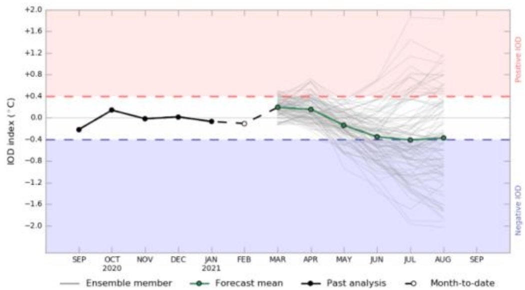
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2021

IOD will remain neutral for foreseeable future

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2021

Healthy Soil Moisture Heading Into New Season

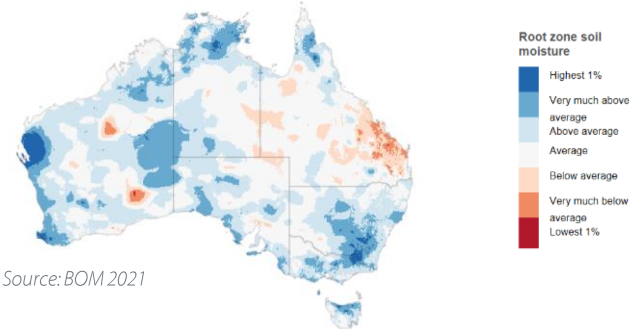
In what is good news for farmers heading into the winter, soil moisture levels have improved during February, and are now average to above-average in most major crop regions.

Most of the Western Australian wheat belt recorded decile 8 rainfall and above, with decile 10 rainfall recorded in some coastal regions. Other major falls included 114mm at Dubbo and 58mm at Moree. Falls in excess of 200mm were recorded in Northern Queensland, while according to the BOM, Tully Sugar Mill recorded 709mm in one week.

Parts of South-East Queensland and Central WA continue to have severe rainfall deficits on a 10-month time period.

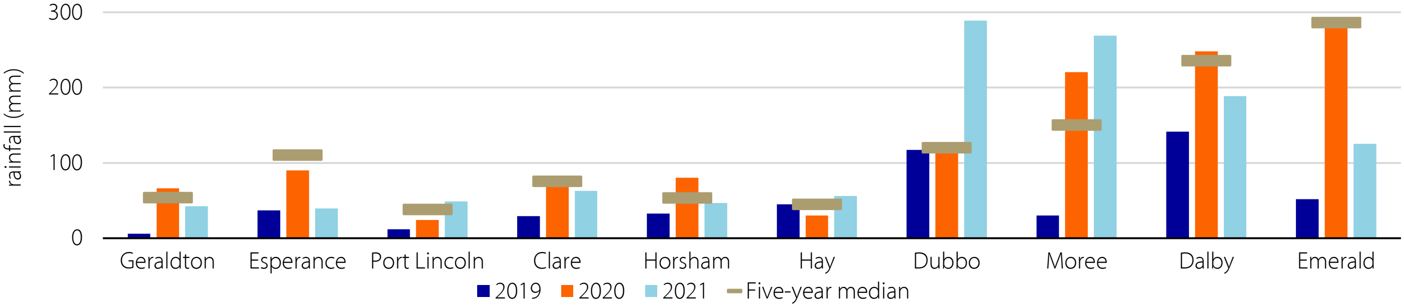
Soil moisture is above average in most major crop regions

Relative root-zone soil moisture, February 2020



Source: BOM 2021

Three-month Rainfall, 1 Dec 2020-28 Feb 2021

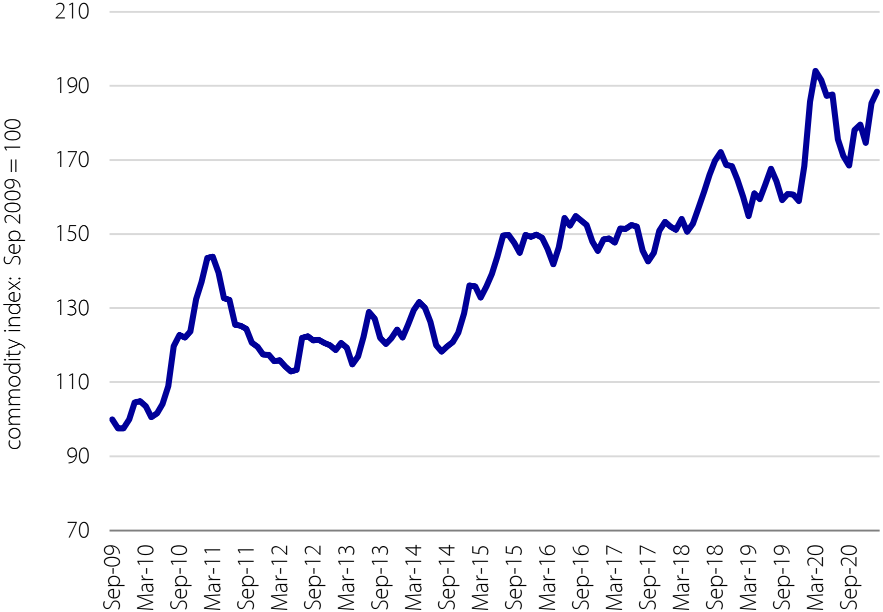


Source: BOM 2021

Australian Rural Commodity Prices Strengthened Further in February

Rabobank

Rabobank Rural Commodity Index (AUD-based)



All commodities included in the index rose or held their ground in February.

Prices received support from rising USD prices offshore over adverse weather in the Northern Hemisphere, stock building and investors backing the reflation trade.

This proved sufficient to overcome the rising value of the AUD.

Fibres led the charge, with wool and cotton up 11% and 7% respectively during the month.

Sugar and sorghum also posted large gains.

The coexistence of high prices and good seasonal conditions is underpinning a profitable 2020/21 season for most Australian farmers.

Source: Bloomberg, MLA, Rabobank 2021

Note: Index is comprised of local prices for wheat, barley, canola, sorghum, beef, lamb, dairy, wool, sugar and cotton, expressed in Australian currency and weighted according to their share of the value of production of Australian farmers (using the sum of the value of these products as the denominator).

La Niña & China to Support Prices

The continued effect of La Niña upending weather in key producing regions and strong Chinese import demand is expected to hold G&O prices firm. Global markets have continued north over Feb, with CBOT wheat, corn and soybeans posting month-to-date gains of 1%, 1% and 3%, respectively.

Rabobank's 2021 CBOT wheat forecast is broadly maintained between USc 630-USc 660/bu on damage from freezing temperatures in the US and the possibility of La Niña-induced dryness continuing to cause damage to crops through to the US harvest in June. Going forward, the market will be quite sensitive to any potential further downgrade to crops currently growing, especially in the US and EU. ***But if these crops develop well, we might see some global price downside as they come in mid-year. Therefore, the CBOT price forecast for mid-year has been marginally reduced.***

In local wheat markets, APW1 Newcastle track is currently trading just below AUD 300/metric ton, and due to a strengthening AUD, Rabobank has marginally reduced its 2021 forecast to AUD 295-AUD 325/metric ton. Strong export demand is supporting prices well, especially considering ABARES lifted its national 2020/21 wheat forecast by 7% to a record 33.3m metric tons. While east coast APW1 prices are down on average 20% YOY, they are up 35% versus February 2017, the last time we had a comparable size crop. Sustained AUD strengthening above our 2021 forecast rate, USc 0.77-USc 0.79, will mean downside for prices.

Record world demand and seven-year low US stocks have raised price risks for CBOT corn, now expected by Rabobank to trade between USc 500-USc 550/bu in 2021. China, caught between a structural deficit in corn and surging prices, is expected to buy nearly 45m mt of feed grain (+250% YOY) this year, including 30m mt of corn (+430% YOY), making it the pre-eminent global importer, and singlehandedly raising world trade by ~15%. Further world buying or a recovery in US ethanol demand could tip the scale to scarcity. This spells good news for local AU farmers as strong global prices will indirectly prop up the local barley market, despite Chinese tariffs.

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What to Watch

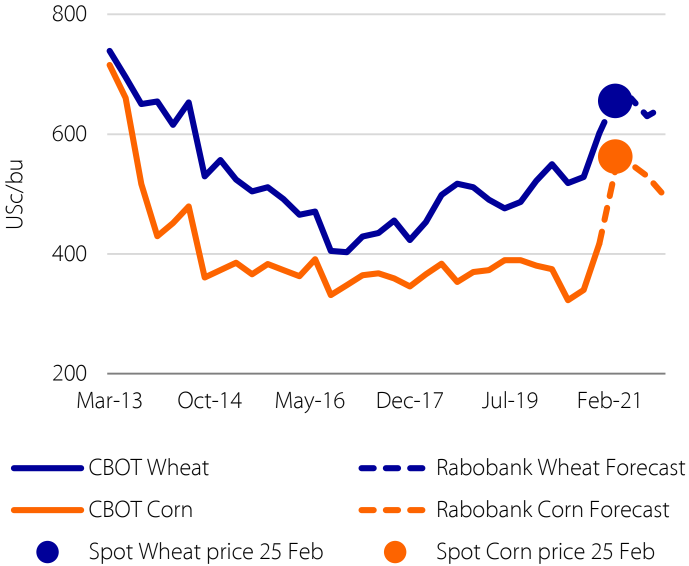
- ***Record Canola prices*** – In WA, Kwinana GM canola is trading +6% YOY (FIS), while non-GM canola is trading +15% YOY, both at or near-record territory. A combination of strong Chinese demand, low stocks in the EU and Canada and poor production prospects have boosted prices to record levels.
- ***2021/22 seasonal outlook –*** The Australia Bureau of meteorology continues to forecast that La Niña will keep east coast rainfall above average from March throughout autumn. This spells great news for soil moisture levels coming into planting in April. If this outlook continues, we may again be in a position of a above-average crop and strong prices, bolstered by dry conditions in the Americas.

Grains & Oilseeds

The Year of Ox Starts With a Bull Market

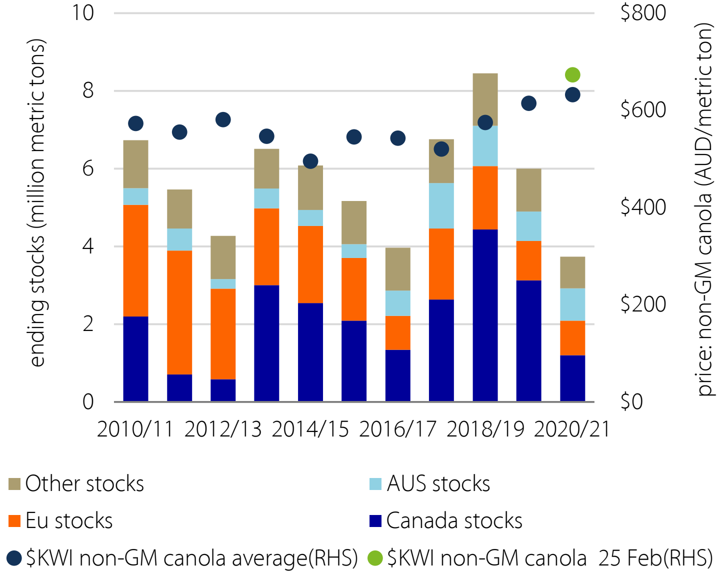
Rabobank

La Niña-induced dryness and strong Chinese import demand expected to keep prices up YOY in 2021



Source: Bloomberg, Rabobank forecast 25/02/2021

Strong Chinese demand, low EU/CAN stocks and poor EU production prospects to support canola prices



Source: USDA, Bloomberg, Rabobank Forecast 26/10/2020

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Dairy

Commodity Markets Heating Up

Milk production growth has somewhat stalled. National milk production declined in the final quarter of 2020. Wetter-than-usual conditions affected some regions. A low national herd remains the hard constraint holding back milk supply growth. Nonetheless, Australian milk production was 3.3% higher in January 2021 versus January 2020, which was somewhat impacted by bushfires. This takes season-to-date milk production to 5.7bn litres, which is 1% higher on the same period last season. Rabobank expects milk production to finish the season flat with last year.

There is some late season heat in the commodity market, driven by several forces. Shipping delays have been a key driver of the rally in global pricing as buyers scramble for short-term cover in anticipation of delays getting product to market. Meanwhile, we are between the Southern Hemisphere and Northern Hemisphere supply curves and there have been weather-related concerns in all parts, resulting in milk production undeforming expectation.

It has taken time, but the commodity rally is starting to reach the farmgate. A couple of Australian dairy companies have announced increases to prices paid to suppliers in the southern export region. These are some of the first increases for the season.

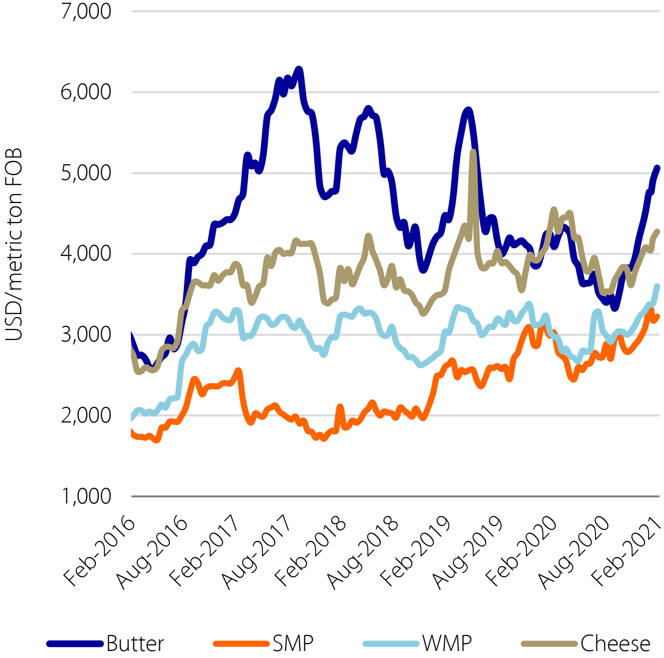
Several factors have been holding back farmgate returns from moving higher until now. Minimum prices announced on June 1 were elevated, and for much of the season, the Australian dollar has appreciated at a faster rate than the key commodities in USD-terms for Australia – namely cheese and skim milk powder.

What to watch

- ***Global outlook.*** Australia is entering the final quarter of the season. The current rally, if sustained, will be welcome news for dairy farmers ahead of the 2021/22 season. The current rally will reach a peak. There will be some price correction. The question is when? The global outlook looks relatively well-balanced and should support a soft landing.

A More Modest Supply Picture Supporting Markets

Global dairy prices, 2016-2021

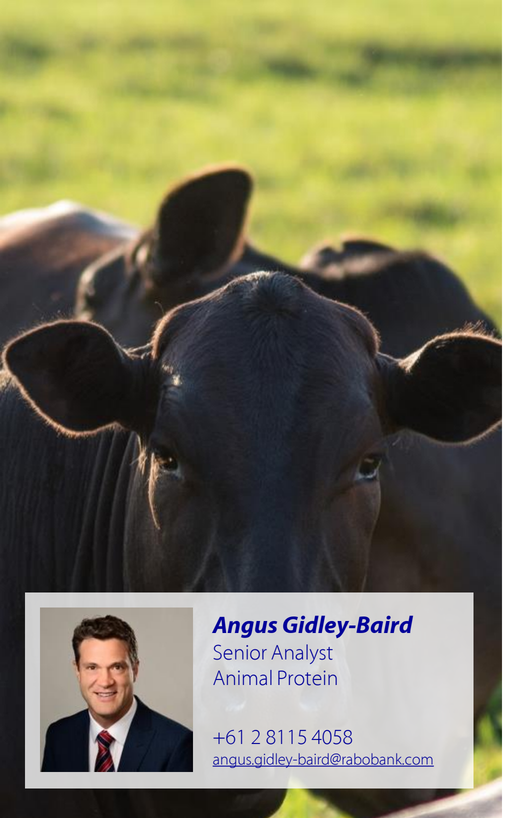


Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	*Last three months*
EU	0.4% (Dec 20)	1.0%
US	1.6% (Jan 21)	2.5%
Australia	3.3% (Jan 21)	0.6%
NZ	0.8% (2020/21 season-to-date*)	

Source: Rabobank 2021
** June-Jan only*



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Beef

Prices Strong but Signs of Easing

Cattle prices continue to remain strong. Some easing in saleyard prices while OTH prices remain strong, suggests producer demand might be waning. Prices for most cattle classes continue to remain above the highest point reached last year, with feeder cattle continuing to trade above AUD 4.50/kg, although younger cattle - as seen in the EYCI - started to trend down through February to AUD 8.66/kg on 18 February. A drop in saleyard numbers through February, which should support prices, also backs up the theory that producer demand is waning. ***With producer demand waning, prices are expected to continue softening. However, limited cattle supplies should continue to mean prices remain high.***

2020 cattle slaughter was down 16% at 7.15m head. The female proportion dropped to 48% in Q4 reflecting the herd rebuilding process. East Coast weekly cattle slaughter for the four weeks of February were 30% below the same period in 2020. Seasonal conditions improved in February last year and we saw slaughter numbers drop through March. Currently, 2021 is tracking below 2020 levels but it will be interesting to compare March numbers.

Beef export volumes for January were down 37% on 2020 levels. All markets saw significant declines compared to January 2020 – Japan down 32%, the US down 55%, China down 56% and South Korea down 16%. Global prices remain good – the US imported lean trimmings (90cl) price (USD 2.28/lb) is currently higher than it has been in the last five years.

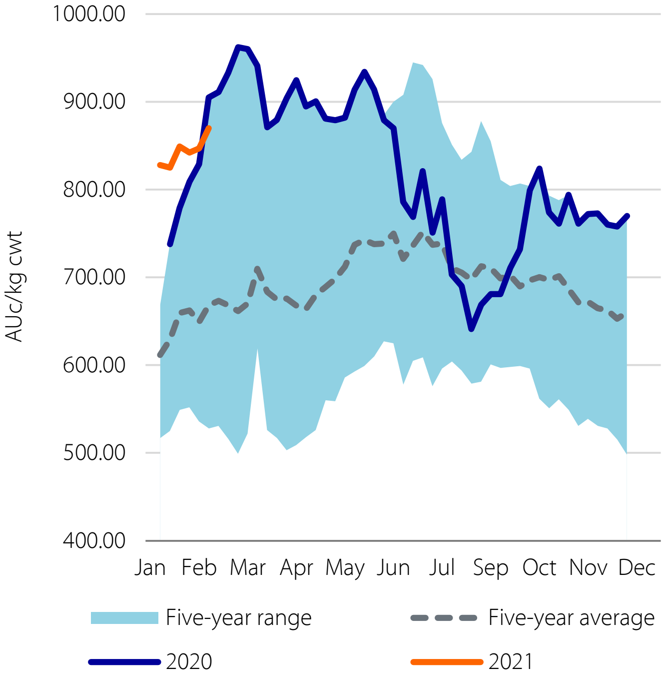
Live export numbers are down, with total exports for January down 11% YOY. Encouragingly, exports to Indonesia are up 16%, while volumes to Vietnam are down 54%. Live export prices continue to remain very high but are expected to ease through March and April.

What to watch

- ***The lowest male cattle slaughter for 35 years*** – Q4 2020 male cattle slaughter was the lowest quarterly figure in 34 years. The low volume of male cattle continued the trend from Q2 and Q3, making 2020 the lowest male slaughter in 35 years. While lower slaughter numbers may reflect producers taking advantage of better seasons to grow out cattle, it also shows how low the breeding herd was two years earlier. Such low numbers could suggest the breeding cattle inventory is lower than estimated.

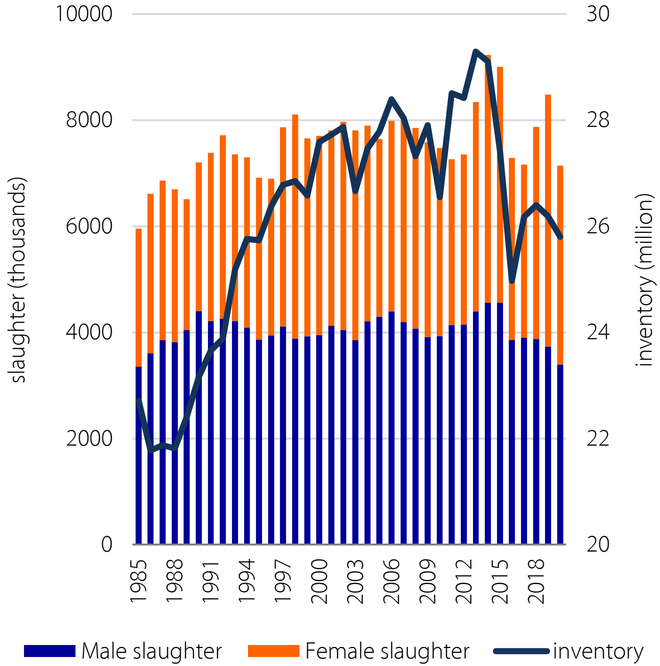
The EYCI Starts To Wane. Lowest Male Slaughter in 35 Years

The EYCI showing signs of easing



Source: MLA, Rabobank 2021

Male slaughter numbers lowest in 35 years



Source: MLA, Bloomberg, Rabobank 2021

Strong Start To the Year for Lambs

It seems lamb prices have started 2021 where they finished off in 2020 – at new record prices. Lamb slaughter for the beginning of 2021 is even lower than last year, and despite yarding being close the to five-year average, processors are having to pay to attract numbers. The ETLI was sitting at AUD 8.70/kg on 18 February – a new record for that time of year. With premiums being paid through the saleyard and price spreads in favour of younger lighter lambs, there appears to still be some strong producer demand supporting the market, along with the limited supplies. ***Seasonal price trends have gone out the window in the last couple of years but we believe with ongoing limited lamb supplies and retained producer demand, prices will stay firm over the coming months.***

Lamb slaughter in 2020 was down 8% on 2019 numbers at 19.9m head. NSW and WA saw the largest drops in slaughter, down 13% and 24%, respectively. Average carcass weights for the year (24.49 kg) lifted 5% off the back of better seasons, resulting in total production down 3% at 486,884 metric tons. East Coast weekly slaughter numbers for the months of January and February show lamb slaughter was down 21% and 7.5%, respectively, on the same time in 2020.

January lamb exports (13,595 metric tons swt) were down 42% compared to 2020 levels and down 33% compared to the five-year average. Volumes to the Middle East were down 52%, China down 60%, and the US down 30%. Some positive signs were seen in global markets at the end of last year, with US imported Australian lamb prices stabilising. US imported Australian rack prices dropped from USD 12/lb in early 2019 to USD 8/lb in September 2020, where they sat for the remainder of the year before showing signs of lifting in February.

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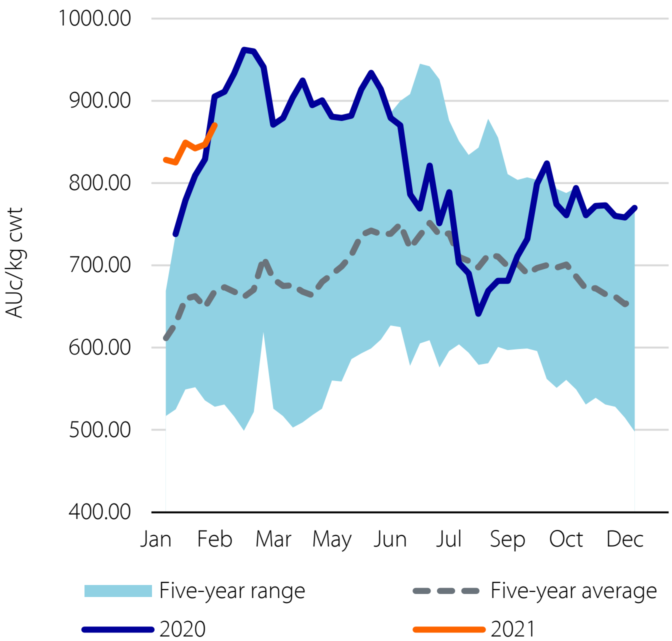
Sheepmeat

What to watch

- ***Lamb availability –*** Lower slaughter numbers in January and February suggest producers may have taken advantage of strong prices and favorable seasonal conditions at the end of 2020 and finished lambs early or potentially taken the decision to retain them in their flock. Reports that shearers were being offered well-above award levels to shear lambs over the summer may also indicate a willingness to get lambs to market. This may create a gap in supply heading into autumn which could see prices remain high.

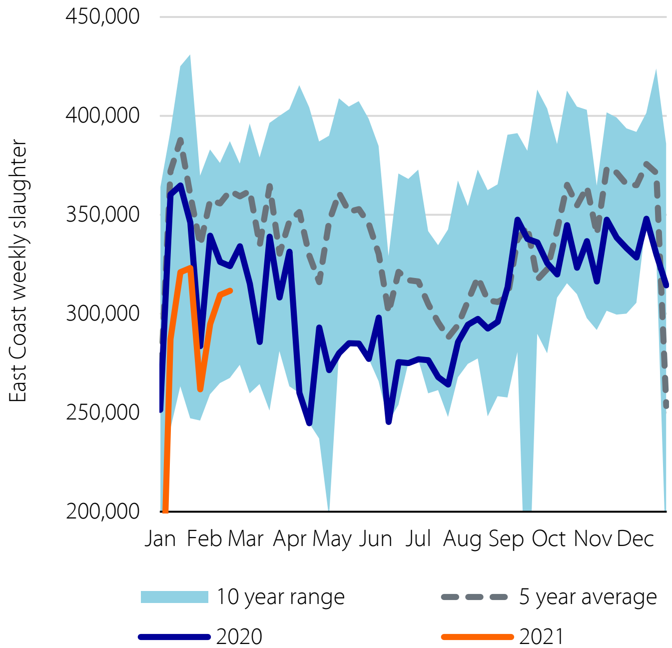
The highs and lows of the lamb market – prices high, slaughter low

ESTLI starts the year strongly



Source: MLA, Rabobank 2021

Lamb slaughter starts the year on a low note



Source: MLA, Rabobank 2021

Global Trade Tightness

Raw sugar makes fresh new highs above USc 18/lb, as a combination of weather risk and physical trade tightness sparks a bullish surge. Drier-than-normal weather across Brazil's Centre South region likely means a late harvest start, and also increases concerns over 2021 yields. What's more, the ongoing rise in domestic ethanol prices – with a ethanol parity at USc 14.5/lb – may also pressure future sugar output. Rabobank forecasts world sugar consumption to recover to pre-pandemic levels in 2020/21 – up 1.7% YOY – and, as Brazilian new crop output increasingly comes into question, markets are uneasy.

Tightness in the world container market has spilled over into sugar, with Indian white exports slowing down. Following months of uncertainty and speculation over subsidies, Indian exports are struggling to move amid jaw-dropping rises in container freight. While stocks of Indian sugar are adequate, these trade issues help to tighten the world sugar export supply – particularly white sugar – at least in the short-term. Rabobank expects trade and container tightness to resolve steadily in coming months, but not before adding price volatility to the ICE #11.

Closer to home, growing conditions provide a mixed bag for the 2021 outlook. Good seasonal rainfall in the wet tropics has been met with fewer sunny days. Further south, the Bureau of Meteorology notes emerging dryness since the start of 2021 – the short-term outlook holds a cautious outlook for rainfall in Queensland. With much still to play for, Rabobank holds an early season cane forecast of 31m metric tons – similar to the 2020 crop.

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What to watch

- ***Speculative forces are helping to hold up prices in the short term.*** While the bullish sentiment is underpinned by fundamentals, speculative trading is likely to generate volatility through markets until more certainty is granted around world supply and trade.
- ***The Thai crush is ending early for the second-consecutive year,*** following another growing season challenged by drought. However, strong domestic prices and water availability could see Thai production recover some 60% YOY next season – towards 100m metric tons of cane.

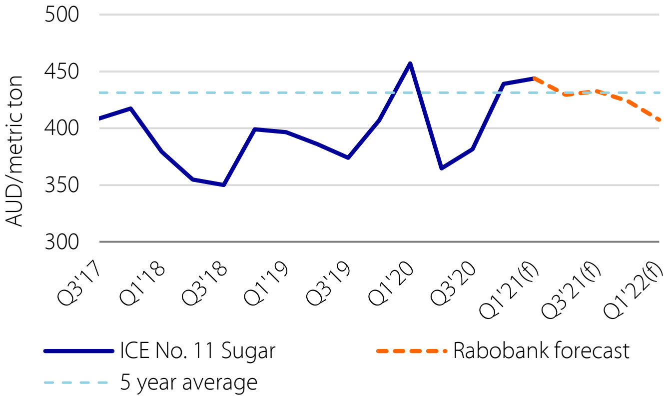
Sugar

Raw Sugar Makes Fresh New Highs, Above USc 18/lb, on Weather Risk and Trade Tightness

Rabobank

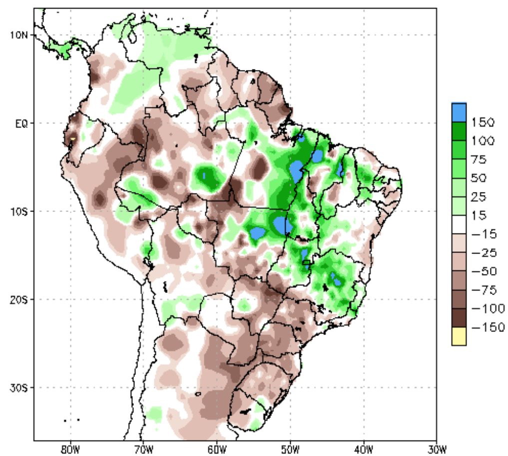
Rabobank forecasts domestic sugar prices at between AUD 425-AUD 445/metric ton through 2021

	unit	Q2'20	Q3'20	Q4'20	Q1'21(f)	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)
ICE #11	USc/lb	13.6	12.4	14.6	15.5	15.0	15.3	15.0	14.6
AUD/USD		0.66	0.71	0.73	0.77	0.77	0.78	0.78	0.79
Sugar	AUD/t	457	382	439	444	429	432	424	407



Source: Bloomberg, Rabobank 2021

Dryness across Brazil's CS raises concerns over future sugar supply (precip. anomaly, mm, 13-27 Feb)



Source: NOAA, CPC, 2021

While the bullish sentiment is underpinned by fundamentals, speculative trading is likely to price volatility through markets until more certainty is granted around world supply and trade.

Cotton

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Riding High

February became a wild ride for cotton, as international prices broke new highs above USc 90/lb – the highest since 2018. USD weakness, demand urgency and a large number of mill contracts with prices 'unfixed' were the major factors, as fundamentals took a back seat. Rabobank expects these factors to persist, driving volatility on 'old crop' contracts (until July 2021) with a AUD 575-AUD 580/bale forecast. That said, fundamentals still appear positive into late 2021 with both recovering world demand and limited 2021 US acreage. Rabobank forecasts 2H 2021 domestic prices in the AUD 530-AUD 535/bale region, despite AUD/USD strength and relatively weak seasonal basis.

Picking across Queensland and NSW will soon be in full flow, bringing in 2.4-2.5m bales in 2021 production. Crop development varies heavily by region, with parts of Southern Queensland lacking moisture, while overcast days in Southern NSW may compromise quality – time will tell. The Bureau of Meteorology notes potential above-average rainfall across NSW and Southern Queensland through March, followed by a drier, more picking-friendly pattern out towards June.

Late-year price direction is set to be dictated by US 2021 acres and production. Strong 2021 acreage rises are anticipated for both corn and soybeans, but cotton is more uncertain. Using high and low acreage scenarios for the US 2021 season, Rabobank notes a strong likelihood of further US stock erosion in 2021/22 – varying between 100,000 and 1m bales, assuming historical norms for both yields and abandonment. Both scenarios take US stocks to five-year lows and suggest tightness in the US balance sheet.

What to watch

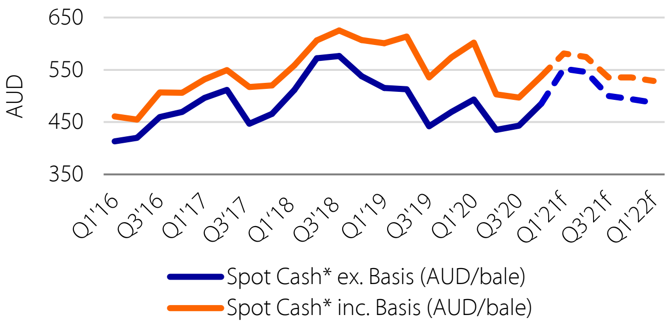
- ***Australian cotton basis remains under pressure from poor Chinese buying interest.*** This comes despite ongoing business with South-East Asian markets. For Brazilian growers – where trade with the world's largest importer continues – basis has risen steadily through 2021.
- ***World demand is bouncing back strongly in 2020/21, with expectations for further growth in 2021/22.*** With Covid-19 vaccinations being rolled out worldwide, and even fewer restrictions, an increase in consumer confidence is improving short-term cotton demand.

Prices Reach AUD 600/bale, despite AUD/USD Strength and Weakness in Basis

Rabobank

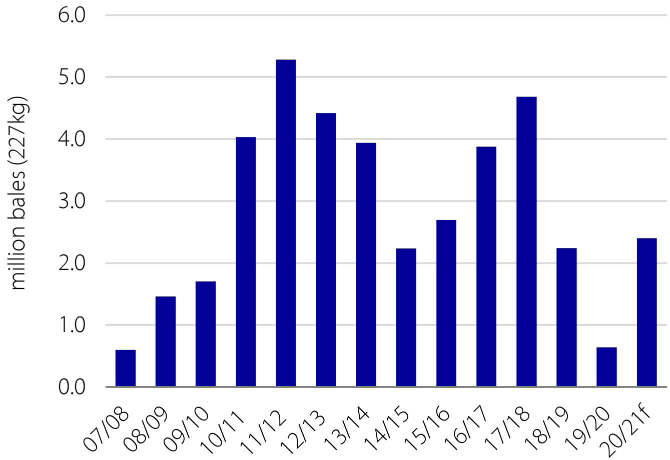
Prices forecast near AUD 580/bale through 1H 2021, before dipping marginally later in the year

	unit	Q2'20	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
ICE #2	USc/lb	57	63	71	85	84	78	77	77
AUD/USD		0.66	0.71	0.73	0.77	0.77	0.78	0.78	0.79
Basis	Pts/lb	887	762	771	450	450	550	650	650
AU ex. Basis	AUD/bale	435	443	485	552	545	500	494	487
AU inc. Basis	AUD/bale	503	497	538	581	575	535	535	528



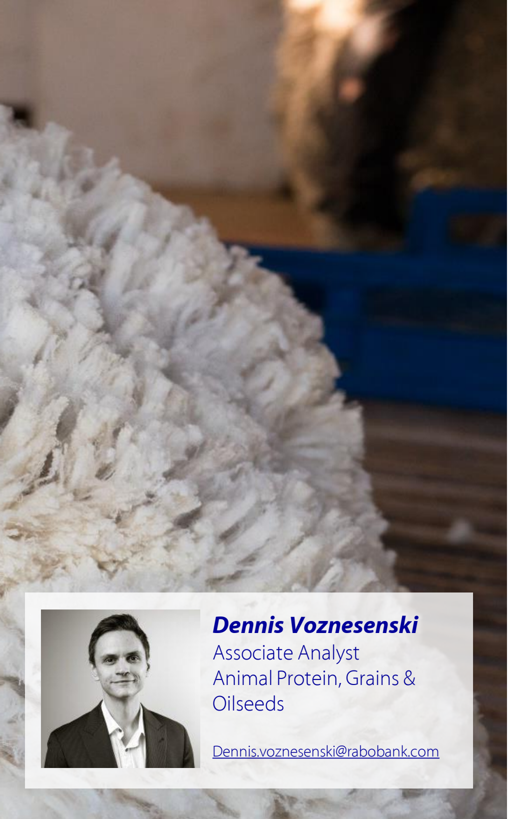
Source: Bloomberg, Rabobank 2021

Domestic cotton production is set to recover to 2.4m-2.5m bales in 2021, as picking gets underway



Source: ABARES, Rabobank 2021

USD weakness, demand urgency, and a large number of mill contracts with prices 'unfixed' were major factors in the February price rise, as fundamentals took a back seat.



Slow and Steady

After changing direction in late 2020, the wool market has generally been on a slow improve through the first months of 2021, with some comforting signs of things to come. On 26 February, the EMI was trading at AUc 1306/kg, up 9% on January. All microns saw improvements, with 19 and 20 micron making up some of the ground they lost to the superfines through the month of January. However, premiums for 17 and 18 micron still sit at some of the highest levels we've seen in 10 years. ***Rabobank expects recovery in global consumer demand to lift wool prices in 2021. We still expect the Eastern Market Indicator to trade between AUc 1300 and AUc 1500c/kg in 2021.***

National wool tested data for February shows the number of bales are up 16.5% YOY. There is a slight lift in yield to 64.2% and micron to 21.3, reflecting better seasons through 2020. Wool exports for the month of December were up 39.7%, driven by a large increase in exports to China, up 61% compared to 2019.

Increased outbreaks of Covid-19 and more lockdowns through the northern hemisphere winter had an impact on global clothing retails sales through late 2020 and into 2021. Retail sales in Japan and the US declined in January - undoing much of the gains through December – and remain below December 2019 levels. While December figures for China showed sales back on par with December 2019, updated January figures had not been released at time of publication.

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Wool

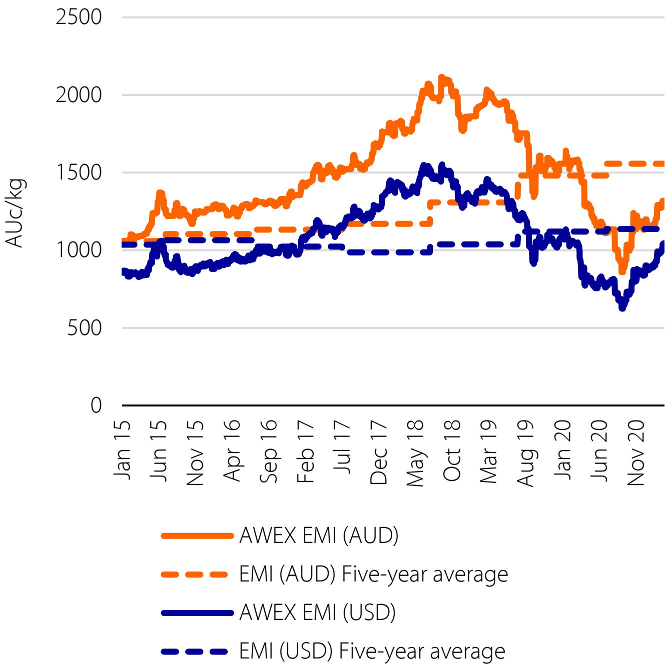
What to watch

- ***Chinese wool demand –*** Chinese wool imports are weighted to higher volumes in Q3 in preparation for the northern hemisphere winter fashion season later in the calendar year. With transport times this supports Chinese buying action through February and March. With current retail sales still below 2019 levels in most major consumer countries, current buying activity may just reflect the normal seasonal buying pattern and we may yet have to wait before confidence returns to the market.

Wool Prices Steadily Recovering With Firm Chinese Demand

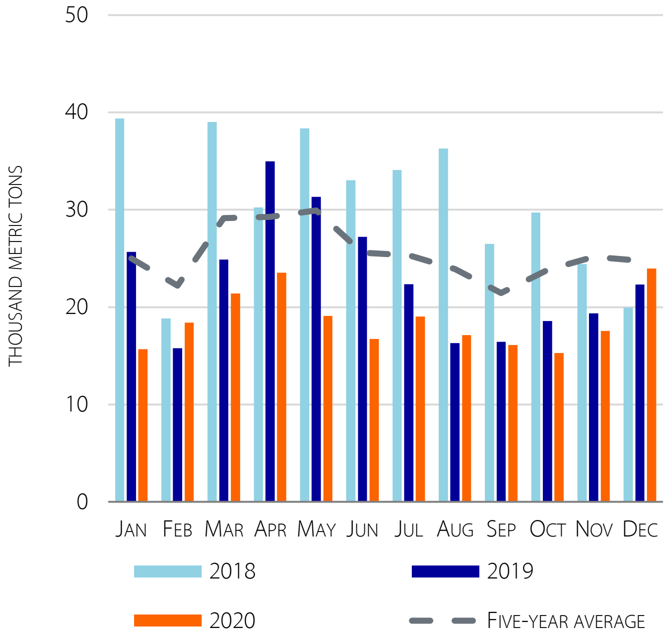
Rabobank

EMI breaks through AUc 1200/kg in October



Source: Bloomberg, Rabobank 2021

Chinese wool imports weighted to Q2



Source: China Customs, Rabobank 2021

Government Stimulus Underpins Retail But Foodservice Still Struggles

Australian food and beverage producers continue to benefit from hefty government stimulus. US personal disposable income in January jumped 11% over prior month levels due to generous stimulus spending. An additional USD 1.9 trillion stimulus bill passed the US house in late February, and now awaits senate treatment. As McDonald's noted in their latest earnings call, its difficult to know how healthy consumer finances will be when this stimulus wears off, but for now it, and other food companies, are benefitting considerably.

Food retail sales remained buoyed by lifestyle changes and stimulus. Preliminary data shows food retail sales in January were up YOY by 11% in Australia and 7% in the US.

But a year after initial outbreaks, the foodservice sector is struggling to recover to pre-Covid levels. The nascent recovery of US foodservice sales was snuffed out in Dec/Jan by further lockdowns, while in the UK, the channel has been reeling (see next slide).

Channel distortion is likely to persist through 2021. Sporadic lockdowns are likely to bedevil attempts to revive restaurants and cafes in many markets through 1H 2020, until vaccines gain traction. But shifts in consumer lifestyles are likely to take still longer to unwind, with normalisation not likely to appear this year.

Downstream markets

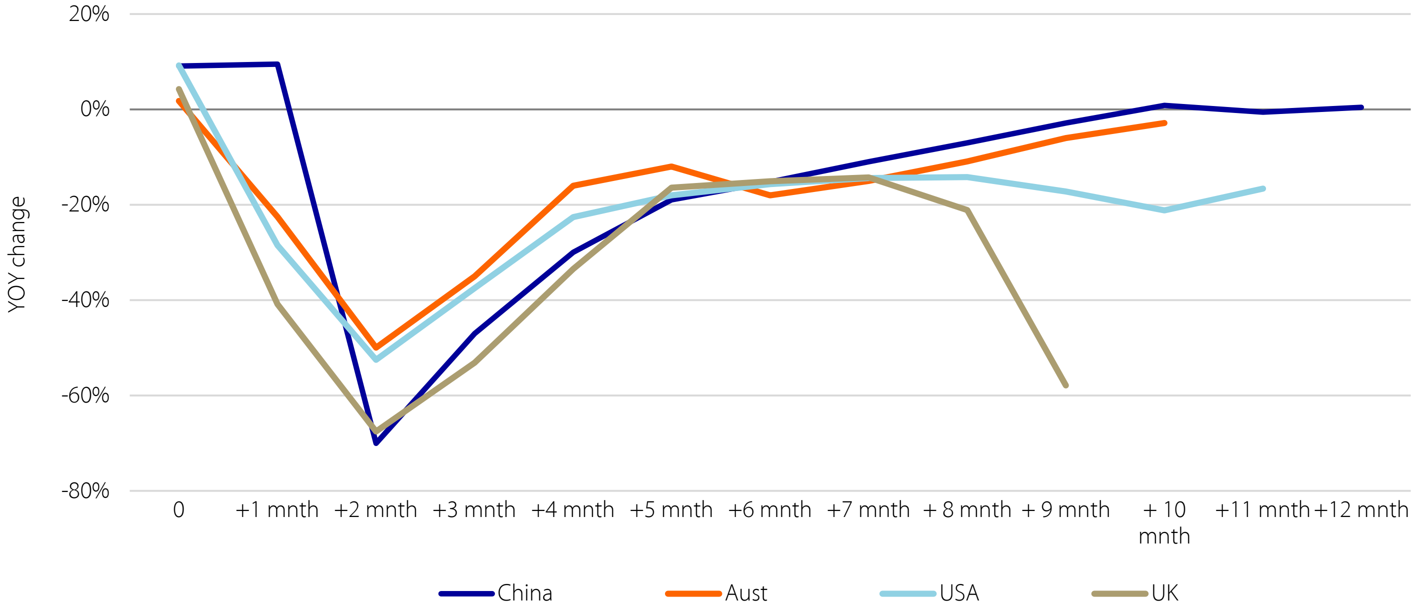
What to watch

- ***Progress on the Biden stimulus package.*** The food industry will be hoping for only a limited haircut as it passes through the senate, and for a speedy implementation.
- ***The delicate transfer from government support to real economics.*** The Australian government will be the next to test the water. On April 1, 2021, 1.3m citizens on Jobseeker will see their benefits cut by AUD 100 per fortnight.

A Year Into the Pandemic, Foodservice Is Struggling To Even Regain Prior-Year Levels

Rabobank

YOY change foodservice sales after national Covid-19 outbreaks



Sources: ABS, US census department, China National Bureau of Statistics, Rabobank analysis
.Note: 0 = Dec for China, Feb for all other markets

Geopolitics

Tensions With China Aren't Abating

The political relationship between Australia and China deteriorated as 2020 progressed, and has seen no improvement in the first two months of 2021. Trade has suffered.

A key question for all Australian ag exporters (and indirectly for all of Australian F&A) is "will the trade situation improve, stay the same or deteriorate in future?"

We asked 13 analysts across our research team to assign probabilities to four scenarios over the next five years (we think five years is the minimum timeframe our clients should be thinking about when assessing investment and strategy). The results are charted overleaf, and include:

- On average, our analysts expect the current situation (i.e China buys only selectively from Australia) is by far the most likely (at 53% probability).
- On average, they feel things are likely to get worse than get better.
- But on average they assign only a 7% probability to the scenario that China will stop buying all F&A products from Australia in the next five years.
- Interestingly, the average view of those based in Australia/NZ is not much different from those based in China.
- And the spread of analysts views is reasonably narrow. For example, only one analyst thinks that the normalisation of trade is the most likely scenario over the next five years.

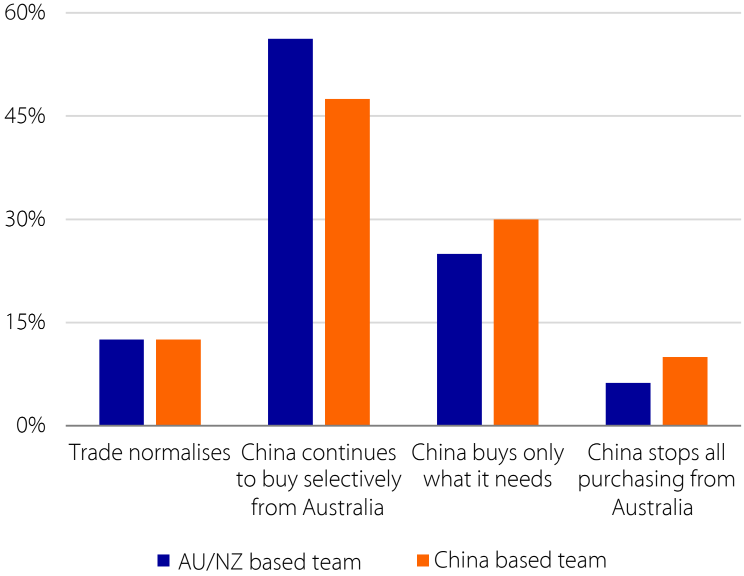
What to watch

- ***Events locked-in that loom as sources of additional tension.*** In July, the Australian Parliamentary Joint committee is due to report on its investigation into foreign interference into Australian universities. The Australian government has also committed its navy to sail through the south China sea alongside those of the UK, US and Japan in coming months. Neither is likely to please China.

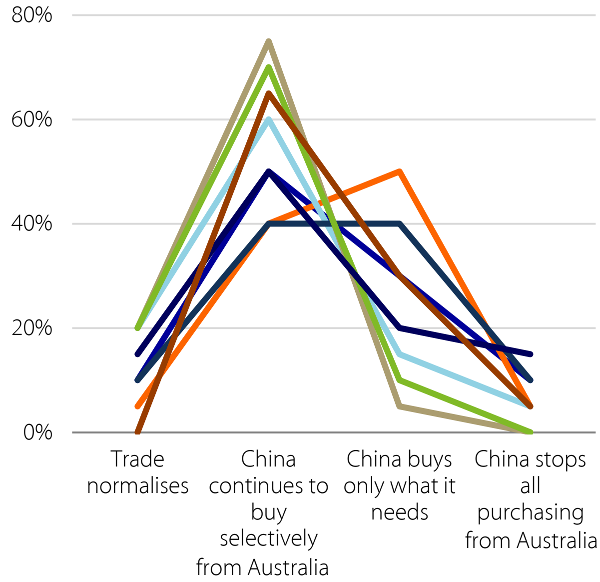
Tensions With China Unlikely to Improve

Rabobank

Rabobank analysts – average probability assignment to four scenarios over the next five years



Spread between analysts



Source: Rabobank 2021
Note: Survey of 14 analysts across Australia, NZ and China conducted in mid February 2021

Global Price Spike Here for 1H 2021

Global fertiliser markets have taken-off so far this year. We expect that supply concerns and higher prices are here to stay until at least mid-late Q2, which may be too late for local growers sowing the winter crop in April.

In late January, prices for major CBOT grains and oilseeds climbed to their highest point since 2014. Improved fertiliser affordability has prompted farmers in many key regions to buy up.

On the supply side too, a number of factors have contributed to the spike. Most significantly, the US Department of Commerce has published countervailing duties as high as 47.05 percent against phosphate fertiliser from Morocco and Russia, following a petition filed last June. This has caused US domestic prices to rise faster than other international benchmarks.

Added fuel to the fire is the fact that Chinese phosphate exporters have faced rising costs of raw materials and tight domestic supply. China's share of our MAP (mono-ammonium phosphate) imports has been increasing year-on-year since 2017, to 64 percent in 2020.

In addition, Q1 is typically quieter for international imports compared with other times of the year, so the unexpected high demand has caught some suppliers on the hop, with scheduled maintenance impacting their production levels. Some global suppliers are now fully booked until April, and others unclear on the next available cargo.

All of these factors leave Australian growers, who are mostly reliant on the global market for phosphate supplies, in a precarious position ahead of the new season. We don't expect any supply issues for growers with existing contracts, however, those without should be in close contact with their suppliers.

In the coming months, we expect global production utilization rates will lift, and Northern Hemisphere demand will decline. As a result, we expect phosphate prices will move more favorably, mid-late Q2.

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Fertiliser

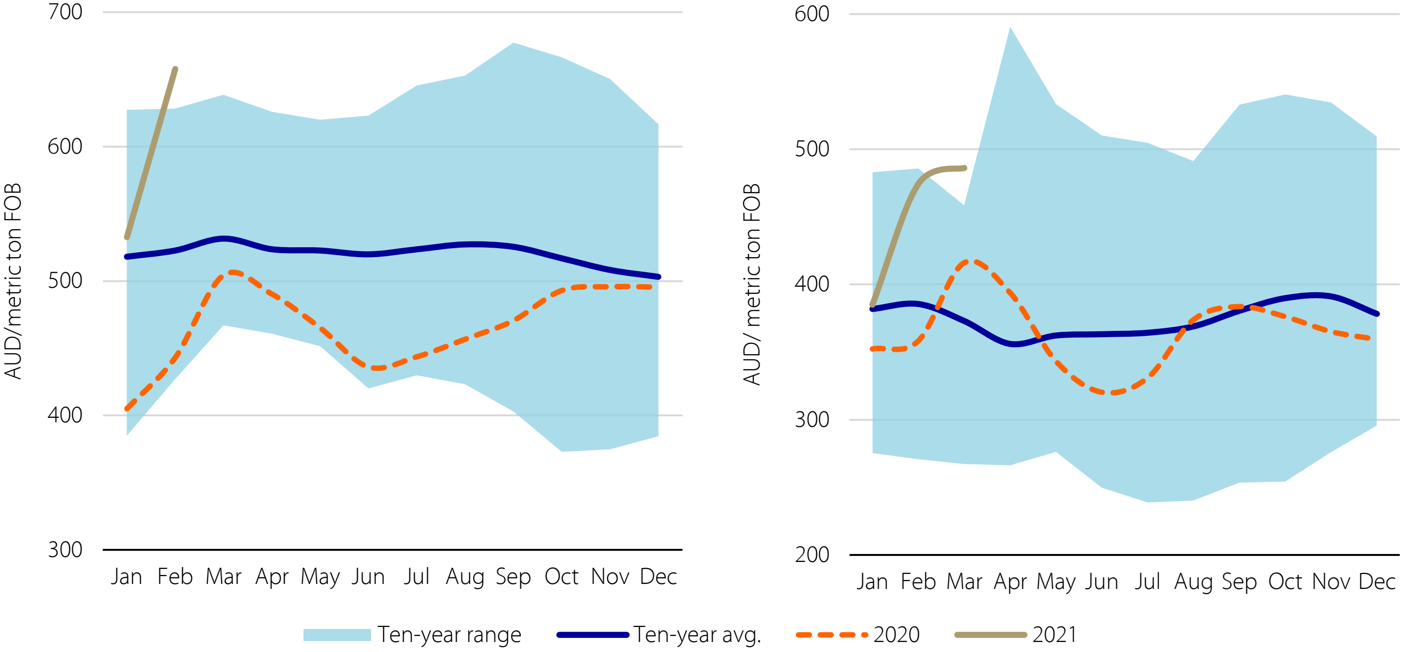
What to Watch

- ***Australian dollar –*** The AUD remains historically weak, below the 10-year average of USc 83, impacting importers' purchasing power. In AUD terms, US Gulf DAP has reached its highest February price in 10 years, although it remains below that mark in USD terms. We expect the AUD will remain in the high USc 70 for 2021.
- ***Bulk Freight –*** Panamax dry bulk prices hit 10-year highs in February 2021, due to strong demand for vessels, and adverse weather in the northern hemisphere. A further rise in freight prices would further impact local fertiliser prices.

A Historically-Weak AUD Continues to Impact Importers' Purchasing Power

Rabobank

AUD-adjusted global FOB prices (monthly avg.), US GULF DAP (left) and Middle East Urea (right)



Source: Bloomberg, Rabobank 2021

Rates & FX

The Trend Isn't the RBA's Friend

The reflation trade and the associated increase in commodity prices has led to a surge in the value of commodity currencies including the AUD. On a three-month view the AUD has gained over 5% versus the USD. This period has seen the rally in iron ore continue, copper reach multi-year highs, while oil has returned to pre-pandemic levels. Insofar as the RBA is still a long way from achieving its goals on inflation and employment, currency strength is clearly not a desired outcome for the central bank. Governor Lowe has been candid with his view that in capping bond yields, QE can have an impact on slowing demand for the AUD from overseas investors. In a speech in mid-February, Assistant RBA Governor Kent stated that the policy measures taken by the RBA since the start of the crisis "have placed, and continue to place, downward pressure on the Australian dollar, including the extension of the bond purchase program announced in February."

The strength of the AUD raises the question of what else, if anything, the RBA can do to subdue the impact of the reflation trade on the currency .

While the RBA is likely to be able to manufacture a slightly softer tone in the value of AUD/USD in early March, ***the AUD is likely to remain well-supported around current levels as long as reflation is dominating market attention.***

RaboResearch expects the AUD to tap in at USc 79 by Q1 2022.

What to watch

- Speculation has appeared that ***the central bank could tweak the size of its asset purchase programme again.*** Such talk could temper the outlook for AUD/USD, particularly as AUD/USD nears the psychologically important 0.80 level. The implications of the PM's statement in January, that the country is not "running a blank cheque budget" may also throw the baton back to monetary policy support going forward, and justify a continued dovish tone from the RBA.

AUD Closes February Higher, Despite a Late Month Slip Driven by a Global Asset Market Fall

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020

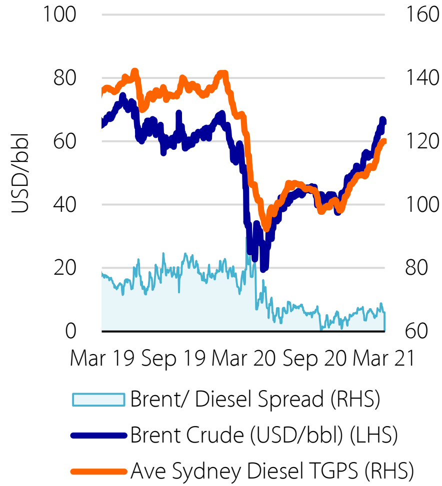
Bulk Freight To Remain Firm

Rabobank expects bulk freight prices to remain firm through 2021. Australian bulk exporters will enjoy a more competitive cost base for shipping into Asia versus key competitors, however, the reverse will apply for destinations in more distant markets.

As GDP recovers in 2021, demand is expected to outstrip new bulk freight supply coming online. The prices for bulk freight have risen due to strong demand for G&O exported to China from the Americas, high demand for vessels exporting out of the Black Sea, firm metals trade and unfavourable seasonal conditions delaying loading/unloading in multiple regions.

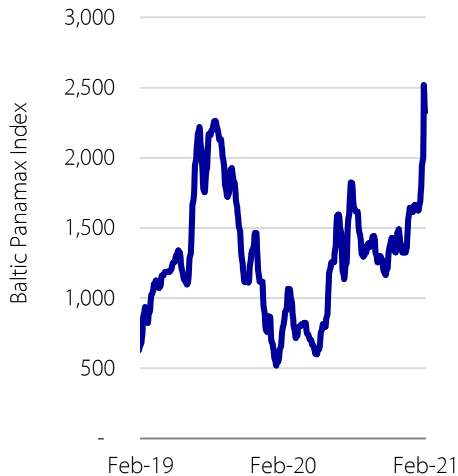
Similarly, we expect that the growth of Brent Crude prices will begin to curtail in coming weeks with prices trading near USD 60/bbl for the remainder of 2021. You can read our complete outlook for Brent Crude here (Page 13).

Brent Crude Oil & Average Sydney Diesel, 1 Mar 2019-1 Mar 2021



Source: AIP, Bloomberg, Rabobank 2021

Baltic Panamax Index, 26 Feb 2019-26 Feb 2021



Source: Bloomberg, Rabobank 2021

Agri Price Dashboard

As of 01/03/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	655	651	526
CBOT soybean	USc/bushel	▲	1,405	1,365	891
CBOT corn	USc/bushel	▲	556	549	375
Australian ASX EC Wheat	AUD/tonne	▼	296	298	353
Non-GM Canola Newcastle	AUD/tonne	▼	600	637	641
Feed Barley F1 Geelong	AUD/tonne	▼	240	247	287
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	873	863	731
Feeder Steer	AUc/kg lwt	▼	445	457	383
North Island Bull 300kg	NZc/kg cwt	•	500	500	480
South Island Bull 300kg	NZc/kg cwt	•	460	460	465
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	866	888	933
North Island Lamb 17.5kg YX	NZc/kg cwt	▼	650	660	690
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	625	640	680
Venison markets					
North Island Stag	NZc/kg cwt	•	530	530	780
South Island Stag	NZc/kg cwt	▼	545	550	780
Dairy Markets					
Butter	USD/tonne FOB	▲	5,063	4,763	4,088
Skim Milk Powder	USD/tonne FOB	▼	3,225	3,313	3,025
Whole Milk Powder	USD/tonne FOB	▲	3,600	3,375	2,975
Cheddar	USD/tonne FOB	▲	4,275	4,050	4,550

Agri Price Dashboard

As of 01/03/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	95.1	87.4	70
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	87.8	80.0	63
Sugar markets					
ICE Sugar No.11	USc/lb	▲	17.5	16.2	13.81
ICE Sugar No.11 (AUD)	AUD/tonne	▲	470	443	472
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,306	1,291	1,581
Fertiliser					
Urea	USD/tonne FOB	▲	375	340	245
DAP	USD/tonne FOB	▲	580	460	312
Other					
Baltic Dry Index	1000=1985	▲	1,675	1,444	539
Brent Crude Oil	USD/bbl	▲	66.13	56.35	52
Economics/currency					
AUD	vs. USD	▲	0.77	0.76	0.65
NZD	vs. USD	▲	0.72	0.72	0.63
RBA Official Cash Rate	%	•	0.10	0.10	0.75
NZRB Official Cash Rate	%	•	0.25	0.25	1.00

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