Who Is My Customer Now?

Australia Agribusiness Monthly

RaboResearch
Food & Agribusiness

Rabobank

May 2021

Commodity Outlook

Commodities	AUD farmgate prices rose in April as the impact of crop downgrades trumped a stronger local currency. Markets will be volatile in the coming months, with even small shifts in the fundamentals having an exaggerated effect.
Grains & Oilseeds	We expect global wheat prices to soften from current trades but remain high in 2021/22 due to scant stock-building opportunities this year. Only small weather events will yield unwieldy upside in coming months.
Dairy	The first official milk price for 2021/22 has come in earlier and higher than last year.
Beef	Producers were less active in the weaner cattle market during Q1. Are they backing out of the market?
Sheepmeat	As we rebuild the sheep flock, are we changing focus slightly to a greater emphasis on sheepmeat?
Sugar	Early signs point to Brazilian yield issues, making for a particularly volatile outlook.
Cotton	US conditions to dictate prices as local growers gear up for strong 2022 production.
Wool	US apparel sales recover to pre-pandemic levels. The EMI is expected to move to a AUc 1,400-AUc 1,500/kg range in 2021.
Downstream Markets	March data suggests that the channels through which we sell to consumers are reaching a far more normal balance in our key markets at home and abroad. But watch for the 'fine print' on what normal means, and for bumps in the road ahead.
Farm Inputs	We think that global prices of nitrogen and phosphate have largely peaked across the global fertiliser complex, and will continue to ease into Q3.
FX	The AUD rose through April on falling US treasury yields and stronger commodity prices. We expect near-term stabilisation.
Oil	As we approach higher demand during the northern hemisphere summer, we expect Brent Crude will average in the high USD 60s/bbl in the coming months.

Positive Rainfall Outlook for Southern Australia

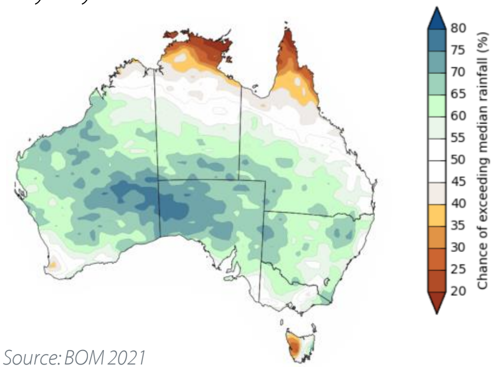
The Bureau of Meteorology (BOM) expects above average rainfall for much of southern Australia – BOM states the chance of exceeding median rainfall is 60%. On a monthly basis, June and July have greatest likelihood of rainfall exceeding the median.

The El Niño–Southern Oscillation (ENSO) and The Indian Ocean Dipole (IOD) are now both in a neutral phase, meaning that local climate drivers have a greater influence over the climate.

Rainfall in Southern regions will support winter crop and pasture establishment, setting farmers up for a strong winter season.

The three-month outlook has improved MOM

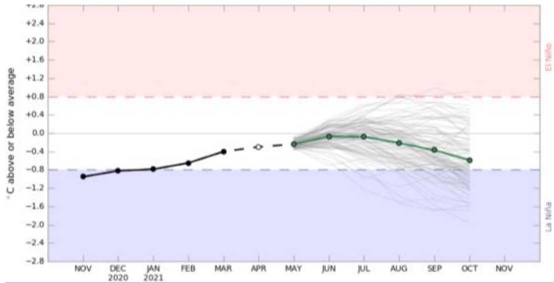
May-July 2021 rainfall outlook



Source: BOM 2021

ENSO is likely to remain neutral for the next six months

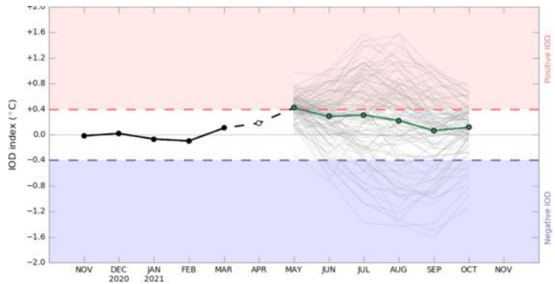
Monthly sea surface temperature anomalies for central Pacific Ocean



Source: BOM, 2021

IOD is edging toward positive thresholds

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2021

Drier April after a Wet Start to the Year

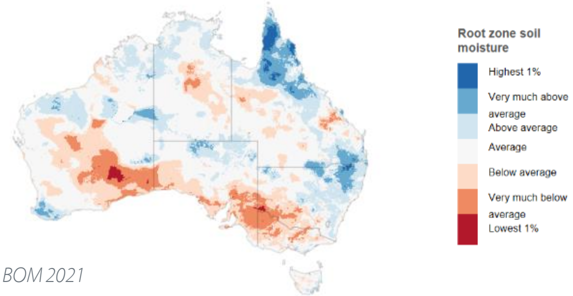
April was a much drier month across a majority of the country than the proceeding three months.

According to the Bureau of Metrology, New South Wales and South Australia experienced one of their driest Aprils on record. This is much less of a problem in NSW, where soil moisture is mostly above average and year-to-date is at its highest point for the last 10 years in some regions. In SA, soil moisture is below-average or worse in most productive ag regions.

Cyclone Seroja left a trail of destruction when it struck the Northern Wheatbelt of WA, damaging major farming infrastructure. A consolation was that farmers received up to 50mm of rainfall which has kick-started their winter sowing.

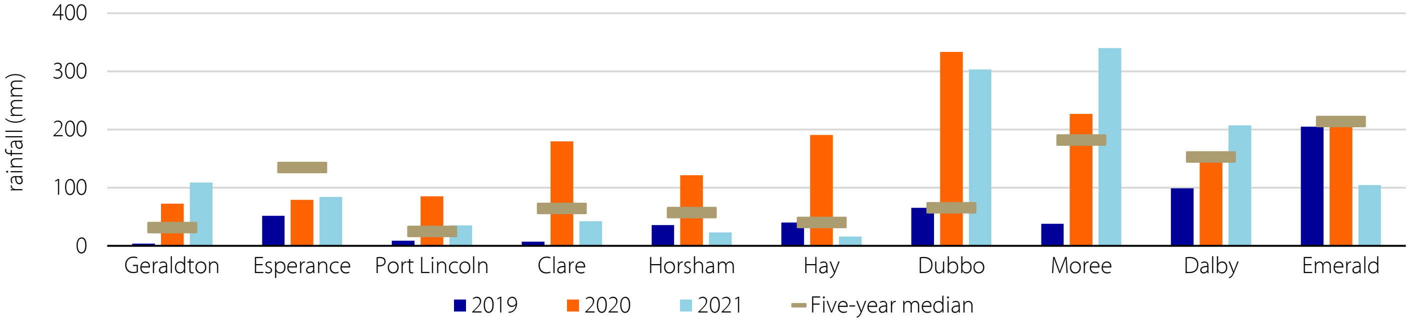
Soil moisture is below average in south-eastern agricultural regions

Relative root-zone soil moisture, May 2021



Source: BOM 2021

Three-month rainfall, 1 Feb-30 Apr



Source: BOM 2021

AUD Farmgate Prices Rise as the Impact of Crop Downgrades Trumps a Stronger Local Currency

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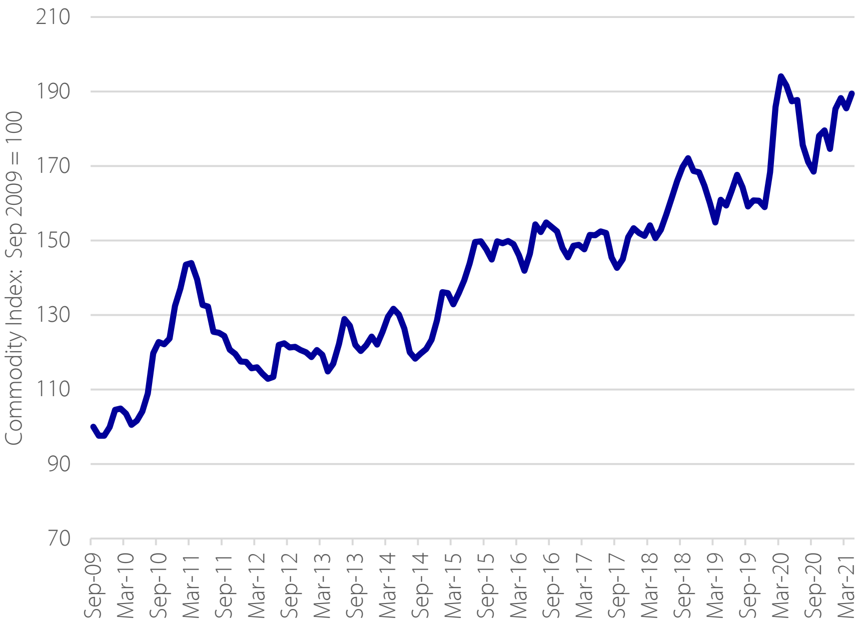
Rabobank Rural Commodity Index (AUD-based)



Our Commodity Index rose 2.1% in April.

Seven of the ten commodities included in the index saw price rises, led by barley and wheat. Severe tightness in global grain stocks means even small seasonal condition downgrades are now moving prices higher with exaggerated volatility.

Beef and sheep prices also pushed further above the exceptionally high prices seen in March.

The rise in farmgate commodity prices came despite a 1.6% rise in the value of the Australian currency itself (usually negative for AUD farmgate prices).

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).

Wee Weather Hits Will Prod Bulls

Agri commodity prices climbed another 15% in April to levels not seen in eight years. ***Severe tightness in global grain stocks means even small seasonal condition downgrades will move prices higher in coming months with exaggerated volatility***. We have lifted our global grain and oilseed price forecasts as production concerns and continuing strong demand mean stocks will not be replenished this year.

For wheat, ***we now forecast CBOT wheat to prevail above USc 700/bu out to Q1 2022,*** staying in the range found in April. Supply this year will be limited in Europe by cold and dry weather that has slowed winter wheat development, by drought that has reduced US and Canadian wheat production prospects, and as a result of stymied Russian exports. Meanwhile, the dramatic corn price rise globally is translating to increased demand for wheat for livestock feed. Local wheat prices didn't go one for one with global gains in April, with currency, high local stocks and 2021/22 season optimism weighing, however we expect global support should mean the 10% gains are maintained in coming months.

On oilseeds, a 6% YOY increase in Brazilian soybean harvest hasn't been enough to stave off upside price pressure for soy prices created by frenzied export programs and falling forecasts for US soybean acreage. Demand from feed, food and biodiesel expansion is driving the soy oil side of the equation, while soymeal is being supported higher by strong US animal protein prices, China feed recovery and limited Brazilian exports. Our forecast for ***CBOT soybeans to trade between Usc 1,400-Usc 1,500/bu for the coming 12 months*** means support for the entire oilseed sector, including canola.

ICE Canola neared CAD 900/mt in late April, up 22% MOM and to heights not seen since 1975. Local prices ended 15% higher MOM, with non-GM canola ending the month around AUD 690/mt (NWC). Strong pricing on the forward market and good root-zone moisture in many areas, particularly in NSW, means expanded canola planting will be a feature of the 2021 Australian winter crop. Global factors will, however, outweigh local production possibilities in keeping Australian canola prices in the AUD 600s/mt out to 2022.

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Grains & Oilseeds

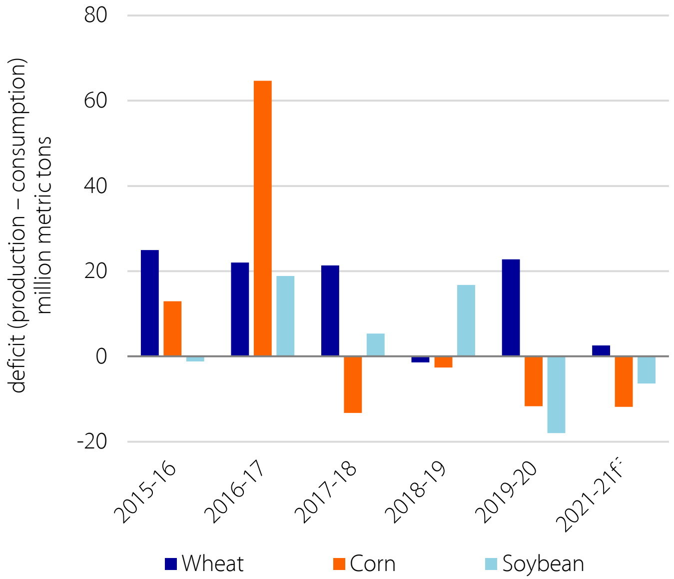
Some Things Old Are New Again in Barley Markets

Saudi Arabia regularly featured as Australian barley's #1 export market in the 2000s, accounting for >40% of total exports in both 2003-04 and 2007-08. With the higher value Chinese barley market (that subsequently relegated Saudi Arabia's importance) no longer an option since prohibitive dumping duties are now in place, Saudi Arabia is moving back to #1. Saudi Arabia accounted for 37% of Australian barley exports in the year to February 2021, up from 0% in 2019-20. Over recent years Saudi policy has encouraged the use of compound feeds, corn and soy, however demand remains due to Bedouin preference for whole barley for livestock feed – something that will stack up even more favourably in high priced corn and soy markets.

Bulls to Run Like Crazy Horses on Weather News

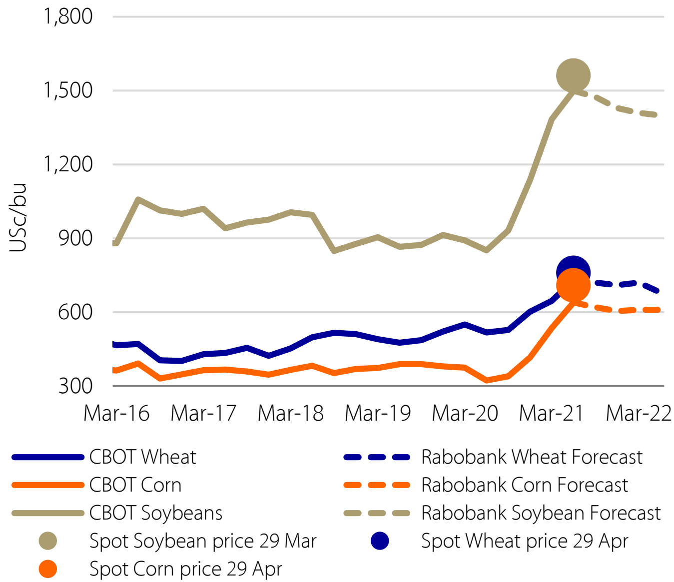
Rabobank

Successive global deficits in corn and soy supply and only a small wheat surplus will keep markets on edge in 2021



Source: USDA, April 2021

Some softening from current trades but staying high, with stock-building scant



Source: Bloomberg, Rabobank Forecasts 29 April, 2021

Global Markets in Holding Pattern

Global commodity prices remained in a holding pattern at elevated levels through April. Chinese purchasing has remained robust fuelled by the rising cost of locally produced milk and ongoing economic recovery against a backdrop of a better-than-expected finish to New Zealand's season. Current pricing is testing buyer appetite for regions outside of China. Rabobank is expecting markets to be nearing a peak with fundamentals to warrant a price correction in 2H 2021.

Recent market fundamentals have been mixed. Close attention is on Northern Hemisphere milk production seasonal peaks. Growth is mixed with US milk production strong, but European milk flows shaking off the impact of cold weather and its impact of feed availability. Freight costs remain elevated and delays in shipping continue to complicate the market for buyers and sellers.

A bumpy finish to Australia's milk production season continues. Milk production was 1.8% lower year-on-year in March. For the season, national output is 6.9 billion litres, which is 0.7% higher on comparables levels. There has been growth in all states except Western Australia and Queensland.

The first official milk price for the upcoming 2021/22 season has been released. Bulla Dairy Foods has led on milk price and announced a guaranteed minimum price bandwidth (due to quality deductions) of AUD 6.40-AUD 6.90/kgMS for 2021/22. This range is slightly higher on last season's opening bandwidth of AUD 6.30-AUD 6.70/kgMS. This is broadly in line with RaboResearch' s modelled milk price for the upcoming season (at AUD 6.65/kgMS). ***1 June looms large when all official milk prices are released.***

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Dairy

What to Watch

- ***The global pandemic continues to have a substantial impact on dairy consumption.*** However, markets are returning to normal. The recovery in foodservice demand is building on momentum from reduced lockdowns and vaccination rollouts. This is welcome news for mozzarella and processed cheese demand. However, it is not a linear recovery in all markets. The retail channel demand is normalizing. Attention is on foodservice demand in Europe and the US through their seasonal peaks for milk supply in the summer months.

Global Markets Remain in a Holding Pattern

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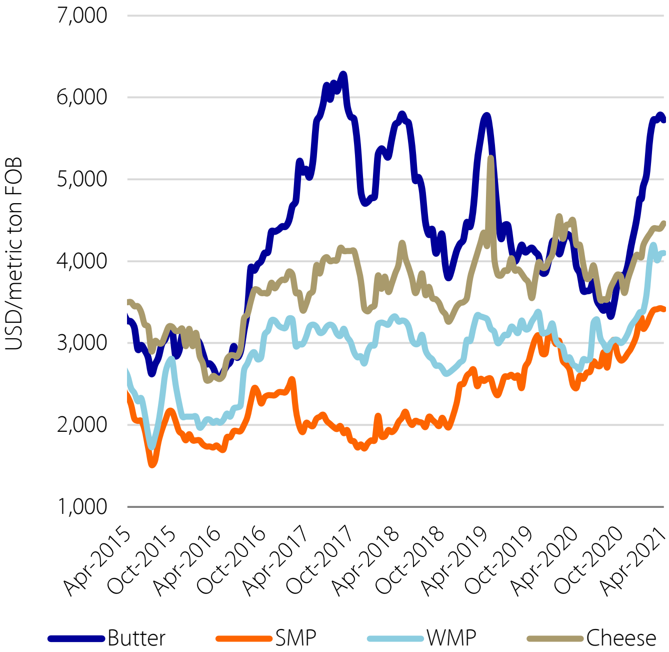
Global dairy prices, 2016 - 2021

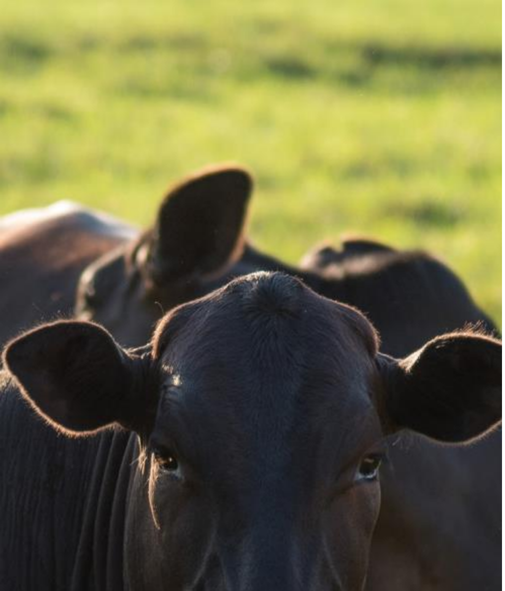


Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	Last three months
EU	-0.6% (Feb 21)	-0.3%
US	1.8% (Mar 21)	2.1%
Australia	-1.8% (Mar 21)	1.5%
NZ	2.1% (2020/21 season-to-date*)	

Source: Rabobank 2021
**June – March only.*
February 2020 data is leap-year adjusted



Customer Shift in Cattle Market

The customer is shifting towards those selling weaner cattle. Amongst the lower numbers of cattle on offer, a more normal balance is returning with feeders taking a more active share of the market and producers dropping back. Compared to 2020 where producers were the largest buyers in the category for many months, the first three months of this year sees them occupy on average 39% of the market compared to feeders at 50%. But producers are still paying the premiums – about 6% above the market average. This continues to support cattle prices and after reaching a new record of AUD 9.10/kg cwt on 20 April the EYCI had dropped back to AUD 8.79 on 28 April. ***Producers generally occupy a large part of the market through until July and without major seasonal change the strong producer demand should continue to support prices until then.***

East coast weekly cattle slaughter remains very low. The four weeks of April were down 30% YOY and down 35% of the five year average.

Reflecting lower production, beef exports also remain low. March exports (83,438 metric tons) were down 11% YOY. But higher prices and different product offering with less cull cows in the system has seen our export customer focus shift slightly. China and the US have dropped their share of total exports to 18% and 15% respectively while Japan is steady at 25% and South Korea has lifted to 18% for the first quarter compared to the same period last year.

Total live cattle exports for March dropped 32% YOY. While numbers to Indonesia increased 4%, volumes to Vietnam dropped to zero

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Beef

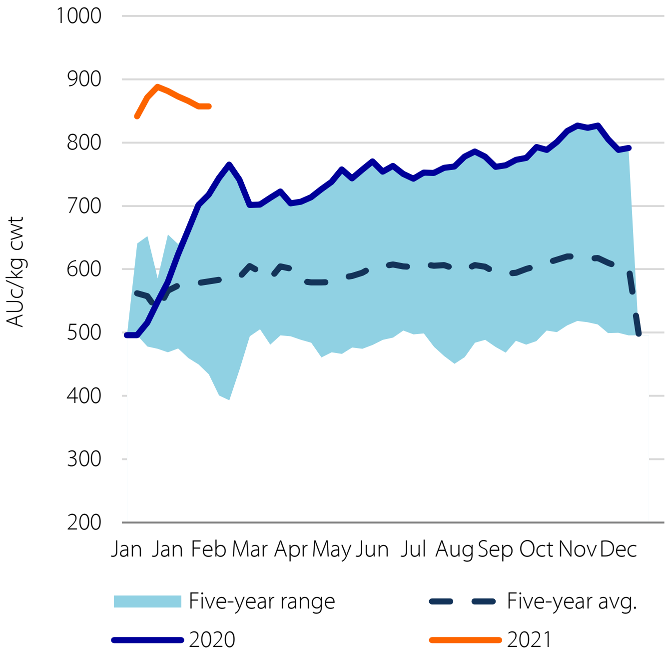
What to Watch

- ***Producer demand*** – Generally producers tend to take a larger share of the weaner market through the months of May to July – in the last five years they have averaged 44% of the market compared to feeders that occupy 42% of the market over these months. While producers are paying on average a 6% premium this producer demand should sustain prices. However, after July the producer share in the market gives way to a feeder buyer market. If this happens we may see prices ease after July.

Producer Demand Supports Prices but Are Producers Backing Out of the Market?

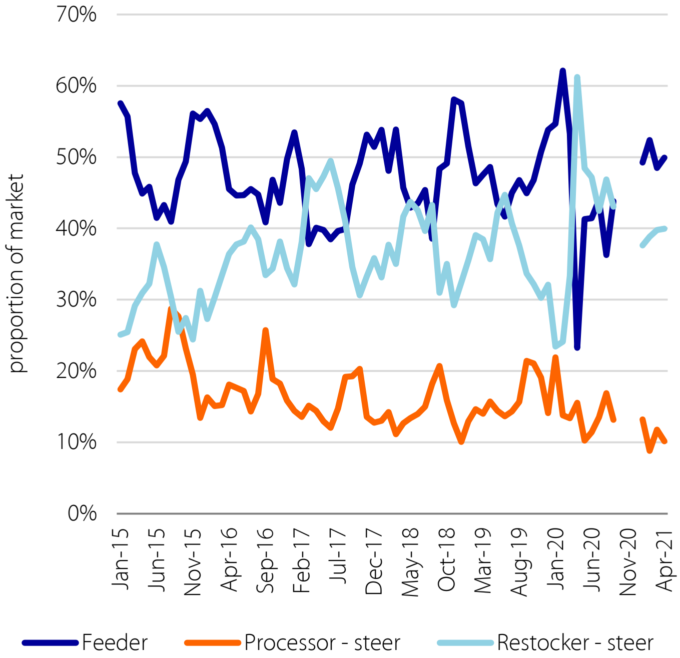
Rabobank

The EYCI lifts off the back of widespread rain



Source: MLA, Rabobank 2021

Feeders take a bigger share of the EYCI market



Source: MLA, Rabobank 2021

Sheepmeat

We Are Rebuilding, but With What?

In a possible indication that the Australian sheep flock demographic is changing, we are seeing very strong premiums for restocking lambs over merino lambs, suggesting a favour for meat production over wool. For sheep producers this leads to diverse market options and a possible shift in customer focus.

May is the month lamb prices traditionally start increasing as supplies drop off through winter. ***While we believe prices will lift slightly over the winter months, with the slightly higher slaughter numbers and softer global markets this year, we are not expecting the large increases that were experienced in 2018 and 2019.***

After dipping for the shorter weeks around Easter, lamb slaughter numbers for the east coast have picked up again. The four weeks of April are 7% higher than the same period last year and at the end of April numbers were tracking just above the five year average. The lift after Easter is contrary to what happened last year when numbers stayed low. Sheep slaughter continues to remain below the five-year average, although it lifted slightly in April to now be slightly higher than this time last year.

Lamb export volumes (22,662 metric tons swt) dropped 10% in March. Volumes to China dropped 19% YOY for March after jumping 48% YOY in February. On the other hand volumes to the US increased 10% YOY and posted the largest volume in 12 months. US lamb import prices have also seen a lift since the beginning of this year suggesting the recovering foodservice sales are starting to flow into lamb demand.

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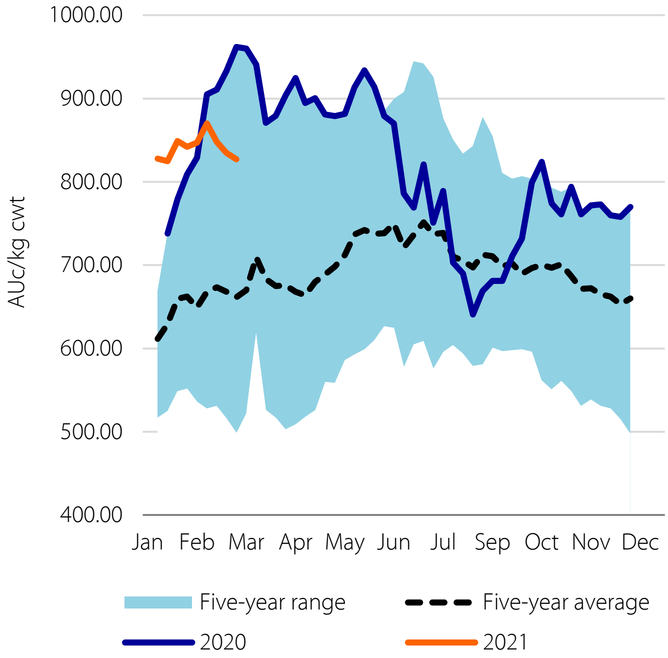
What to Watch

- ***Changing flock composition –*** The premium for restocker lambs over merino lambs has been at the highest levels we have seen in the last ten years. In the last six months the average premium for restocker lambs over merino lambs has averaged 117c/kg. This compares to the five year average of 62c/kg. Strong sheepmeat prices and pasture availability is encouraging producers to look at a short term opportunity in sheepmeat production over a longer term investment in wool production.

Prices Steady but Is the Sheep Flock Changing?

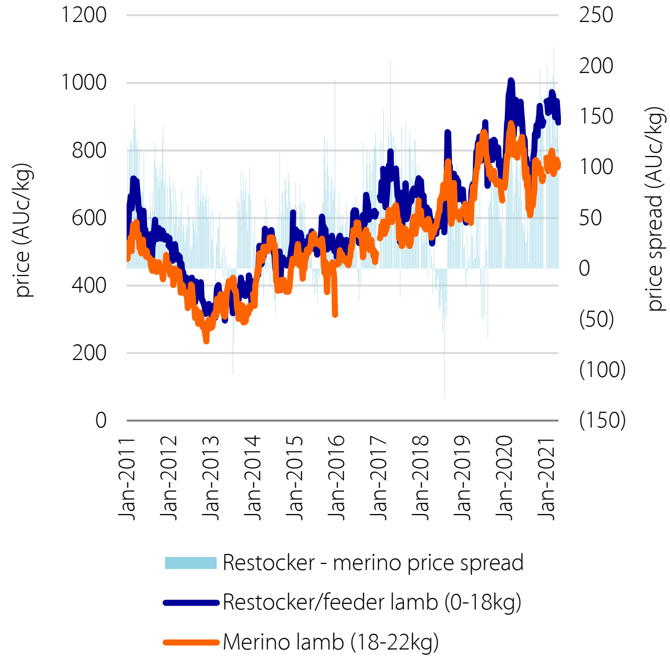
Rabobank

ESTLI staying steady



Source: MLA, Rabobank 2021

Restocker lambs fetch big premiums over merinos



Source: USDA Rabobank 2021

Sugar

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Manic April

International sugar prices surged to 17 USc/lb through April, on the back of early Brazilian yield results, potential frost-damage in Europe, and broader commodity support. The surge took 2021 prices above AUD 500/metric ton for a short period, before quickly settling. The first half of April results from Brazil's UNICA showed Centre-South yields down 31% YOY. While yield results are early – just 16 metric tons of cane have been harvested, against a projected 575 metric ton crop – the outlook is not favourable. Some commentators have cut seasonal cane estimates to below 550 metric tons. In short, the world is relying on Brazilian exports in 2021 amid a 2.8 metric ton global supply deficit – this news makes traders jittery. Rabobank forecasts prices between AUD 440-AUD 450/metric ton through 2021, with volatility providing opportunities through the season.

Indian export commitments exceed 5 metric tons, as COVID-19 infections sweep through the nation. This figure comes closer to the 6 metric ton target subsidised by the Indian government. Rabobank anticipates that India's 'second wave' could mute the nation's sugar consumption recovery, as cane harvest reaches it's final stages – some 29 metric tons of sugar was produced to the 15 April.

Despite a changing global trade landscape, Australia's sugar customers appear relatively consistent. Latest ABARES data shows that South Korea, Indonesia and Japan held the lions share of 2019/20 exports, totalling 57%. China remains a small buyer of Australian sugar – holding 7% export share in 2019/20 – which is expected to continue amid geopolitical tension. Interestingly, Rabobank notes that smaller importing nations – labelled as 'other countries' - made up 29% of overall exports in 2019/20, the largest share on record.

What to Watch

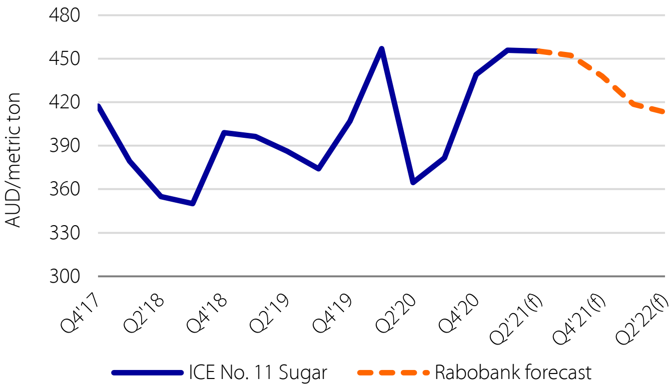
- ***When it comes to price direction, all eyes will be on Brazil's ongoing conditions and harvest results.*** February´s rainfall was significantly below average levels in many cane regions. The ongoing dryness raises concerns of a late start to the crush and, potentially, lower cane yields.
- ***India's export parity remains at around USc 15/lb, marking a level below which prices are unlikely to fall.*** Below this price, Indian exporters lose incentive to export – so importers need to pay above this level through 2021 for sugar shipments to remain available.

All Eyes Are on Brazil's Upcoming Crop, as Seasonal Dryness Cuts Yields

Rabobank

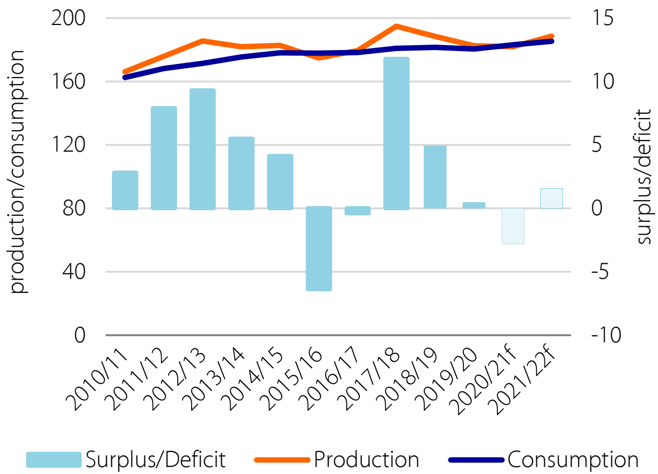
Rabobank forecasts domestic sugar prices between AUD 440 and AUD 450/metric ton through 2021

	unit	Q3'20	Q4'20	Q1'21	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)	Q2'22(f)
ICE #11	USc/lb	12.4	14.6	16.0	15.9	16.0	15.5	15.0	14.8
AUD/USD		0.71	0.73	0.77	0.77	0.78	0.78	0.79	0.79
Sugar	AUD/t	382	439	456	455	452	438	419	413



Source: Bloomberg, Rabobank 2021

Rabobank projects a deeper 2.8m metric ton global deficit in 2020/21, up from 0.3m metric tons



Source: Rabobank, 2021

Latest ABARES data shows that South Korea, Indonesia and Japan held the lion's share of 2019/20 exports, totalling 57%. China remains a small buyer of Australian sugar – holding 7% export share in 2019/20 .

Cotton

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Getting Stuck Into the Pick

Picking is well and truly underway here at home, as growers gear up to bring in the 2020 crop. Early yield results suggest a marginally larger 2021 crop, possibly over 2.7m bales. Looking ahead to 2022, some growers may feel the stars have aligned – decent water allocations, full on-farm storages and AUD +540/bale prices should secure production in the 3.8m-4m bale region. A global consumption recovery, coupled with the impact of La Niña overseas, suggests a continuation in strong domestic prices – Rabobank forecasts between AUD 540 and AUD 580/bale in the coming 12-month period.

Attention now turns to US plantings, and the extent to which 12m acres could be realised. As of April 25, the US had planted 13% of cotton versus the 11% average. Leading the charge were Arizona and California – at 57% and 29% planted respectively – but all eyes remain on the 18% in Texas, above the 14% state average. Drought in West Texas currently ranges heavily from zero to exceptional according to NOAA, with chances of below-average rainfall in the 14-day period. This situation makes a second-consecutive year of US stock erosion very likely, taking stocks to five-year lows. The upcoming hurricane season will only add to the seasonal weather risk.

Following a slump in Australia-China cotton trade since late 2020, Rabobank notes that smaller importers – namely Vietnam, Turkey, Indonesia and Bangladesh – have emerged as larger customers. Through the 2021/22 season, larger volumes of Australian cotton will need to be marketed and it remains to be seen whether the smaller importer nations will pick up the full slack following China's departure. Rabobank forecasts weak domestic basis while China avoids purchasing Australian cotton.

What to Watch

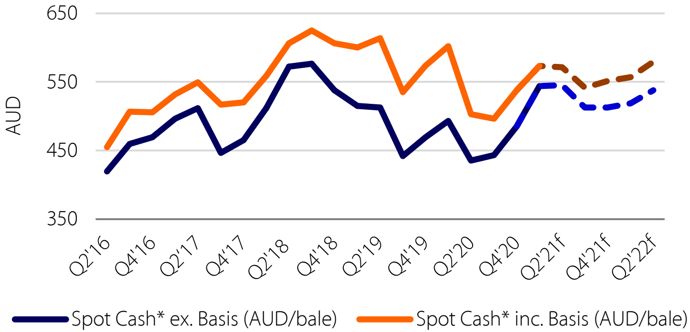
- ***With 57% of US planted acres, all eyes will be on West Texas crop conditions in the short-term.*** Even with average conditions, Rabobank expects US stocks to erode by 0.7m bales. However, current dryness could exacerbate this issue – cutting supply further and subsequently supporting the international market.
- ***The return of widespread Covid-19 infections in both India and Bangladesh, raises questions over recent demand urgency.*** Reports suggest domestic manufacturing has slowed amid this recent wave, impacting national textile industries and short-term fibre demand.

A Global Consumption Recovery and La Niña Overseas Suggest Strong Domestic Prices

Rabobank

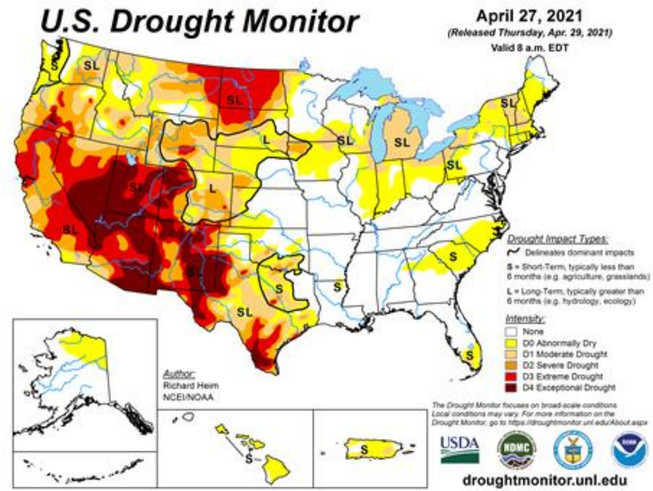
Prices forecast between AUD 540 and AUD 580/bale through the coming 12-month period

	unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
ICE #2	USc/lb	63	71	84	84	80	80	82	85
AUD/USD		0.71	0.73	0.77	0.77	0.78	0.78	0.79	0.79
Basis	Pts/lb	762	771	450	400	450	600	600	650
AU ex. Basis	AUD/bale	443	485	544	545	513	513	519	538
AU inc. Basis	AUD/bale	497	538	573	571	542	551	557	579



Source: Bloomberg, Rabobank 2021

West Texas drought threatens further erosion of US stocks in the 2021/22 season



Source: CPC, NOAA 2021

Looking ahead to 2022, some growers may feel that the stars have aligned – decent water allocations, full on-farm storages and AUD +540/bale prices should secure production in the 3.8m-4m bale region.

Retail Apparel Sales Fully Recover

Continued strength in the apparel market, and processor confidence, pushed the EMI to AUc 1342/kg at the end of April, up 4% MOM. The EMI has rebounded since its 2020 troughs, up 56% since May 2020, but remains 40% below 2018 highs. This month saw prices for 17-19 micron ranges increase 4%-10% MOM, while prices for 20 micron wool and higher stayed flat to down. Rabobank's forecast is for the EMI to gradually move towards the AUc1400-1500/kg range and stay there for the remainder of 2021.

March US retail apparel sales were not only more than double 2020 levels, but actually exceeded levels set in March of 2019 by an entire 6%. Furthermore, in US dollar terms, Chinese apparel sales exceeded pre-pandemic levels, with March 2021 sales 3% higher than in March 2019. Consumer confidence also continued to rise in large apparel markets. Bloomberg's weekly US consumer comfort index shows April up almost 60% since its low in May of 2020, and only 12% below it's pre-pandemic highs. Large EU economies are also recovering, with Germany's consumer confidence only 5% below pre-pandemic levels.

The return to the office remains sluggish around the world and suit imports are a clear illustration. US woollen suit imports reached a new high since the start of covid, but remain ~2/3 below February 2020 levels. In Japan and France, the situation is better, with suit imports only 30% and 50% below pre-pandemic February 2020 levels respectively.

Australian greasy wool exports in February 2021 were at 27.4m kg, a rise on the previous month(14.9m kg) and February 2020 (21.3m kg). China's total imports of wool for March was 26.4m kg, a sharp rise on February(14.9m kg) and March 2020 (21.4m kg).

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Wool

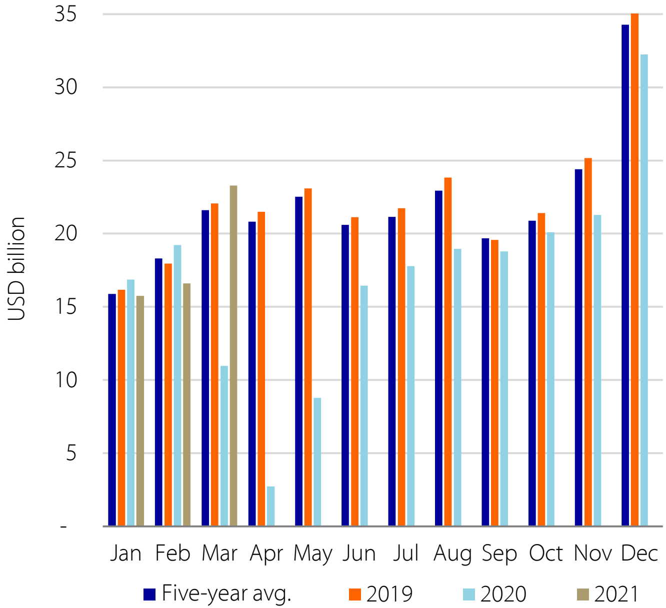
What to watch

- ***Is China still our main customer -*** China's share of Australian wool exports sat at 88% in March, up on the 79% seen last year. The majority of the world's early-stage (and capital intensive) wool processing infrastructure continues to be based in China. We do not expect a shift away from China in the short term, as any move will require considerable resources and time. But developments will need to be watched to ensure the industry is on the front foot to new market opportunities and diversification.

US Apparel Sales Recover to Pre-Pandemic Levels. EMI at Highest Level Since March 2020

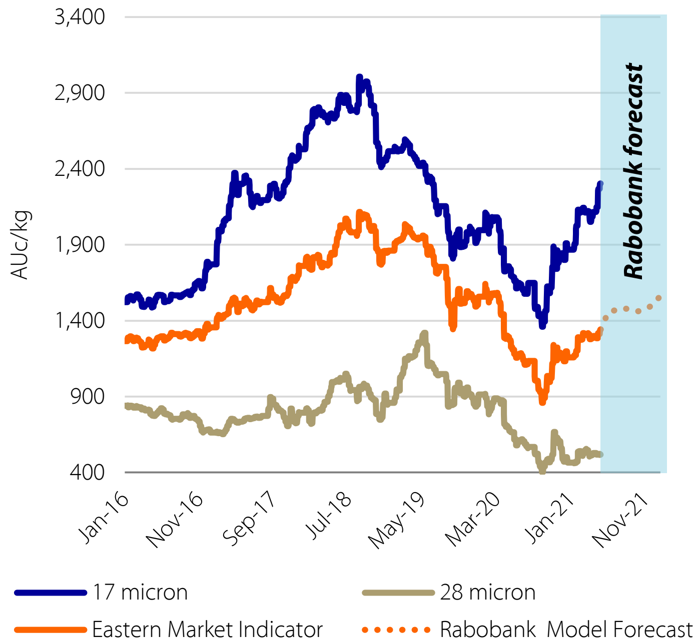
Rabobank

US retail fully recovers and exceeds pre-pandemic levels by 6% (vs. March 2019)



Source: Bloomberg, Rabobank 2021

EMI increased 4% in April and is forecast to move towards AUc 1,400 to AUc 1,500/kg in 2021



Source: Bloomberg, Rabobank 2021

Downstream Markets

Approaching Normal

March data suggests that the channels through which we sell to consumers are reaching a far more normal balance in our key markets at home and abroad. Preliminary data suggests that foodservice sales were at or above pre crisis levels in all of Australia, US and China for the first time. As consumers shift some of their purchasing to restaurants and cafes, we also saw some of the heat coming out of retail.

The experience was also reflected in the recent earnings statements of major food companies for the March quarter. McDonald's, Yum Brands and Starbucks are all close to, or exceeding, the sales they saw in same quarter of 2019, while we saw less growth in retail-oriented companies like Kraft Heinz.

The pathway towards normalisation has been different between markets. In Australia and China, infection control has reduced the frequency and breadth of lockdowns, allowed increased mobility, and improved consumer confidence to socialise. The removal of the requirement to wear masks in Victorian supermarkets also appears to have boosted traffic. In the US, the rapid progress of vaccinations and the Biden stimulus plan have had much the same effect. Starbucks reckoned there was a rise in mobility and increased desire to connect as vaccinations hit the 3m-4m mark during the quarter.

Normalisation is reflected in more than just the balance of retail and foodservice. Coles gave a succinct summary of some of the important aspects of normalisation in the Australian market. Customers are returning to CBDs and shopping centres. Increased shopping in person helps impulse lines, convenience stores sales, and food-to-go. And, once more, Sunday is the dominant period for sales.

'Normal' Comes With Fine Print

The recovery story is less good in other markets: Europe especially remains heavily distorted, with markets like France, Germany, Spain and Italy still really tough for foodservice. McDonald's noted that dining-in is still impossible in 50% of their European restaurants.

Nor does regaining pre-crisis sales levels really mean 'normal' in all cases. Chinese catering sales are back above pre-crisis levels. But this channel used to grow at double digit rates heading into the crisis: its two-year growth rate to March 2021 was an annualised 2%. And pre-crisis growth rates in that market look a long way off!

Major Covid-driven disruptions may now be behind us in the key Australian, Chinese and US markets, but we are still likely to see bumps ahead.

Things to watch for that may impact the rate of recovery in coming months include: a lull in foodservice spend after consumers rush to eat out in the first months after lockdowns ease; the likelihood of localised lockdowns in response to local viral flare ups; the diversion of more consumer spending to the service sectors (tourism, entertainment, sports) as crowd restrictions ease; and the waning of the US stimulus impact as the year progresses.

Downstream Markets

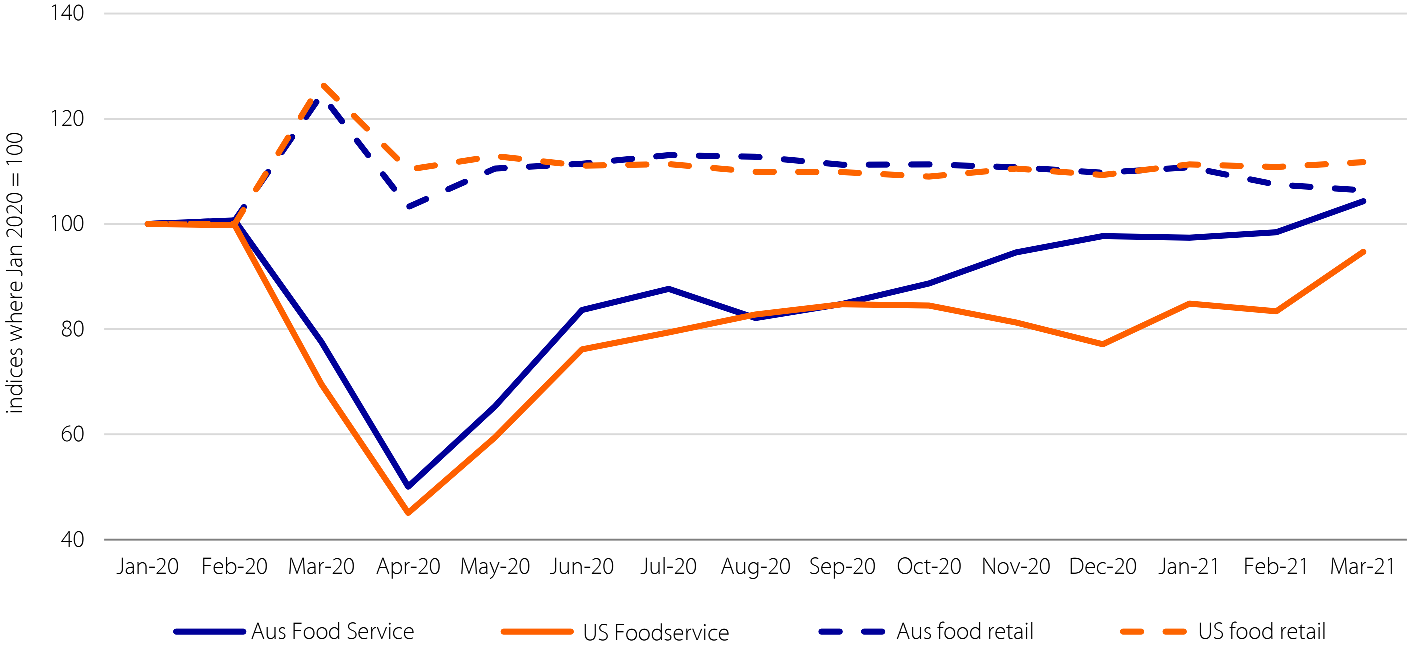
What to Watch

- ***Misleading interpretation of data!*** The extraordinary distortion of markets in the first half of 2020 makes for some eye-watering statistics on YOY growth for the early months of 2021. A 95% YOY growth in Chinese foodservice sales in March sounds like the boom to end all booms – but it is only just exceeding the impact of the 47% YOY contraction seen in March 2020. And prelimary data, suggesting a 15% YOY fall in Australian food retail sales in March doesn't constitute a disaster – its just hard to replicate the pantry stuffing we saw 12 months prior. Be careful out there!

March Data Suggested We Are Approaching Normal in Some of Australia's Key Markets

Rabobank

Australia and US markets: food sales via retail and foodservice channels



Sources: US Census Bureau, ABS
Notes: March 2021 data are preliminary. All data are seasonally adjusted.

Fertiliser

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Global Price Declines in Sight

We expect that global prices of nitrogen and phosphate have now largely peaked across the global fertiliser complex, and will continue to ease into Q3. While this is good news for local farmers, prices will take a number of months to flow through to the farmgate.

Global urea benchmarks fell between 1% and 5% during April, primarily due to northern hemisphere demand easing as planting progressed. In USD terms, global prices are at the highest point since 2014, although when converted to AUD, global urea prices were at a similar level to April 2018 and April 2020.

Late in the month, India issued a new tender for an unspecified amount of urea, which caused a marginal price bounce in some regions, although we expect this to be short-lived. With good supplies of urea available globally, we don't foresee any supply-side price rallies in coming months.

It was a slightly more mixed result for global phosphate benchmarks during April, with prices in most regions trading between -2 and +4 % for the month. With many domestic markets in the northern hemisphere now supplied, major producers will shift their focus to exports, which supports our view of lower prices in the coming months.

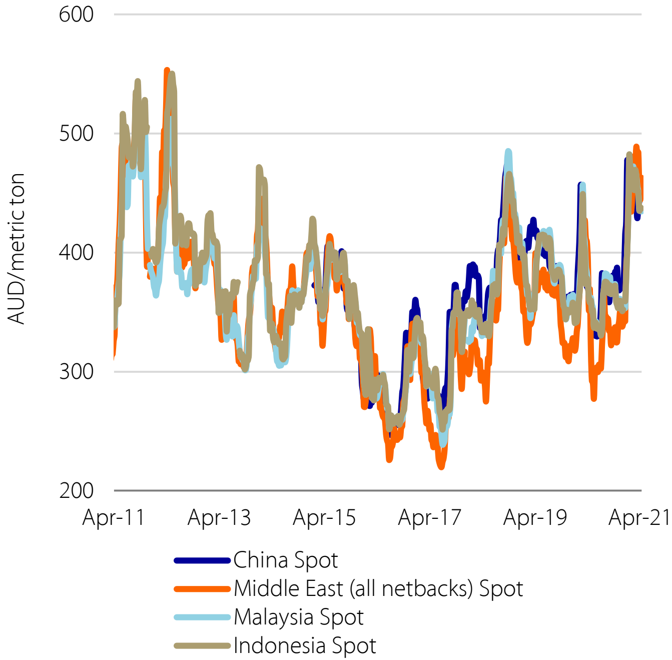
We are now in the peak time for urea imports – on average 64% of annual Australian urea imports hits our shores from April to July, ahead of the winter and spring application. Global supply chains remain heavily clogged with strong demand for commodities flowing through to shipping demand. Prices on some routes have doubled, and even tripled compared to three months ago. We estimate that this is resulting in a ~5% price increase to fertiliser at the farmgate.

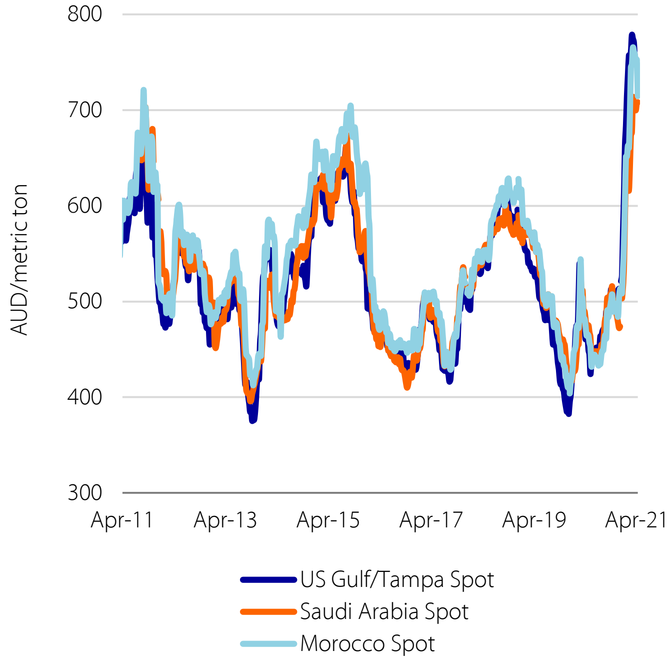
What to Watch

- ***Global supply chains*** remain under heavy stress, due to strong global demand for commodities, and little expansion in shipping capacity. According to Refinitiv (Reuters) dry bulk capacity is only estimated to increase by 2% in 2021, and 0.8% in 2022, compared with 3.2% in 2020 and 4.1% in 2019. The Baltic Dry Index, which is an indicator of global shipping prices, is currently at an 11-year high.

Global Prices Have Eased Very Slightly in the Last Month

AUD-adjusted global FOB prices (weekly avg.), urea (left) and DAP(right)





Source: CRU, Rabobank 2021

FX

AUD Rises on Falling US Treasury Yields and Stronger Commodities

The AUD rose 1.6 cents against the US dollar in April, and was trading at USc 77.15 on May 5. The USD itself retreated against most currencies during the month, on the back of a softening in treasury yields. Yet the AUD also received supporting from rising commodity prices – especially iron ore and copper.

We expect the AUD to trade around USc 77 in the coming months before a modest rise towards USc 79, 12 months from now.

The dovish position of the RBA is unlikely to change for some time. Since the start of the pandemic, the Australian economy has fared relatively better than many of its peers. By the end of last year it had recovered to close to pre-pandemic levels and employment is now higher than levels that prevailed at the end of 2019. That said, the RBA has noted that wage growth has slowed to a greater extent and has been more subdued than in other countries. This implies that the shock of the crisis has been fed through to a change in hours worked and in wages rather than in overall employment.

Despite the RBA's relatively positive outlook for the domestic recovery, it expects that it will take time to reduce spare capacity and bring down the unemployment rate further. The RBA has also noted that wage growth has slowed and has been more subdued than in other countries.

What to watch

- ***Australia's trade balance.*** The recent strong balance of trade could lull investors into a false sense of security. The strength of this data, however, is in part due to a weaker profile in imports. Lower imports can usually be associated with weaker consumer confidence. Going forward, it is reasonable to assume that trade issues will be throwing up plenty of hurdles for the AUD. Officials from DFAT reported at a March hearing in Canberra that, once data regarding iron ore is removed, the value of Australian trade with China has dropped by 40% for most industries.

AUD Rises Against the USD on Falling US Treasury Yields and Stronger Commodity Prices

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2021

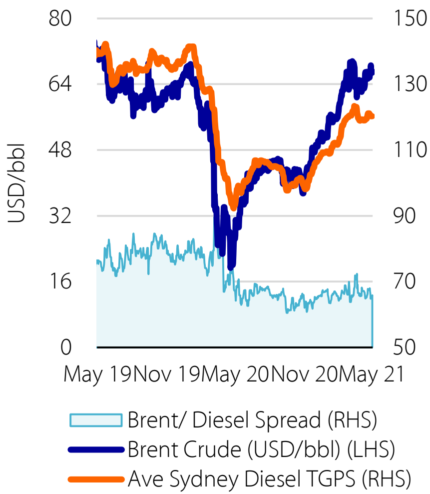
Market Bulls Are Back

We've improved our outlook for Brent crude oil in recent weeks, as we approach higher demand during the northern hemisphere summer. We expect Brent Crude will average in the high USD 60s/bbl in coming months.

We expect that government stimulus programs, as well has high personal savings rates, will lead to some strong demand for fuel over the northern summer. On the supply side, we expect a recent decision by OPEC+ will add meaningful volumes to the market. Importantly, volumes will remain well below pre-pandemic levels for the foreseeable future, and are likely to be more than offset by upcoming demand increases.

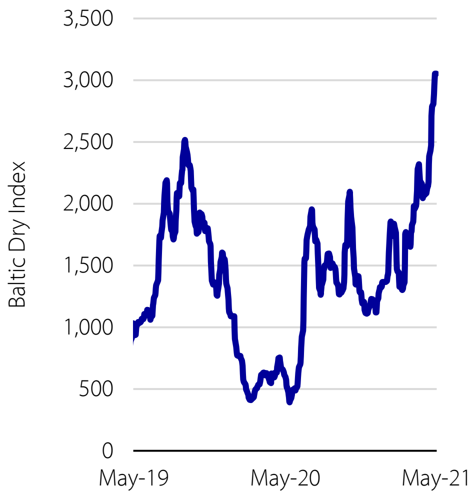
Global ocean freight prices continue to increase, to an eleven-year high at the end of April. This has primarily been a result of strong demand for commodities, and limited expansion of the dry bulk fleet.

Brent Crude Oil & Average Sydney Diesel, May 2019-May 2021



Source: AIP, Bloomberg, Rabobank 2021

Baltic Dry Index, May 3 2021



Source: Bloomberg, Rabobank 2021

Agri Price Dashboard

As of 30/04/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	743	602	520
CBOT soybean	USc/bushel	▲	1,571	1,367	832
CBOT corn	USc/bushel	▲	740	539	305
Australian ASX EC Wheat	AUD/tonne	▲	303	280	385
Non-GM Canola Newcastle	AUD/tonne	▲	696	600	681
Feed Barley F1 Geelong	AUD/tonne	▲	243	228	292
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	908	884	704
Feeder Steer	AUc/kg lwt	▲	460	454	359
North Island Bull 300kg	NZc/kg cwt	▲	515	500	485
South Island Bull 300kg	NZc/kg cwt	▲	460	450	435
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	826	856	895
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	695	655	645
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	660	625	630
Venison markets					
North Island Stag	NZc/kg cwt	•	520	520	700
South Island Stag	NZc/kg cwt	•	535	535	700
Dairy Markets					
Butter	USD/tonne FOB	•	5,725	5,725	4,238
Skim Milk Powder	USD/tonne FOB	▲	3,413	3,400	2,488
Whole Milk Powder	USD/tonne FOB	▼	4,100	4,200	2,738
Cheddar	USD/tonne FOB	▲	4,463	4,400	4,500

Agri Price Dashboard

As of 30/04/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	91.9	87.2	65
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	87.4	80.6	58
Sugar markets					
ICE Sugar No.11	USc/lb	▲	17.4	14.9	9.76
ICE Sugar No.11 (AUD)	AUD/tonne	▲	485	431	370
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,342	1,294	1,225
Fertiliser					
Urea	USD/tonne FOB	▼	350	357	242
DAP	USD/tonne FOB	•	580	580	310
Other					
Baltic Dry Index	1000=1985	▲	3,053	2,103	643
Brent Crude Oil	USD/bbl	▲	67	64	23
Economics/currency					
AUD	vs. USD	▲	0.77	0.76	0.66
NZD	vs. USD	▲	0.72	0.70	0.61
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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