Approaching the new season with a full head of steam

Australia Agribusiness Monthly

June 2021

RaboResearch
Food & Agribusiness

Rabobank

Commodity Outlook

Commodities	AUD farmgate prices edge up further on tight global markets and depleted local herds. High pricing, and favourable season conditions are seeing the industry approach the start of the 2021/22 season with a full head of steam.
Grains & Oilseeds	Australia is on track for another above average grains harvest so local prices will be down year-on-year, but not out, due to strong global wheat, corn and soybean pricing.
Dairy	All official milk prices have landed with a range of AUD 6.40-AUD 7.00/kgMS.
Beef	Favourable seasons ahead suggest good prices will continue.
Sheepmeat	Lamb prices not expecting a big seasonal jump but remaining strong.
Sugar	Brazilian yields set to determine price outlook, just as the domestic crush kicks in.
Cotton	The USDA confirms a supportive supply and demand for 2021/22, in line with Rabobank's future outlook.
Wool	Improving retail apparel sales provide encouraging signs to support ongoing price improvement.
Downstream Markets	Australian food service recovery outpaced that in China and the US in April, but will slow with Victoria's lockdown.
Farm Inputs	Despite global prices lifting again, we still expect downside ahead for global urea markets in coming months. Due to the time taken for procurement and shipping, we expect that this will be too late for local farmers this winter and spring season.
FX	Rabobank expects the AUD will trade close to its current level against the USD for six or so months, with both economies recovering well.
Oil	Ocean freight prices for dry bulk and container freight continue to trade at record highs. Without any significant government intervention, we expect to see this rate spike continuing into Q1 2022.

Above Average Rainfall Likely for North and East

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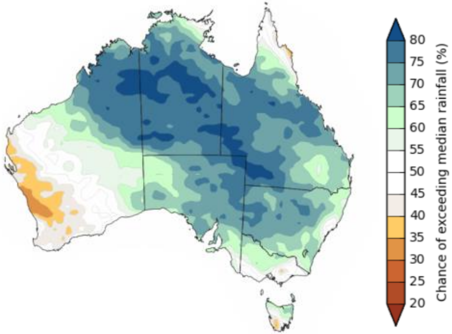
Both major climate drivers, El Niño–Southern Oscillation (ENSO) and the Indian Ocean Dipole (IOD) are currently neutral. The Bureau of Metrology (BOM) expects that ENSO will remain neutral for the foreseeable future. Two out of five international climate models expect that the IOD will cross negative thresholds during winter, however the timing indicated is variable and BOM notes that forecast accuracy during winter is lower than during other times of the year.

The BOM expects that warmer ocean temperatures to Australia's north-east and north west will be the major influences on Australia's climate in the coming three months.

The three-month outlook has improved for Northern and Central Australia

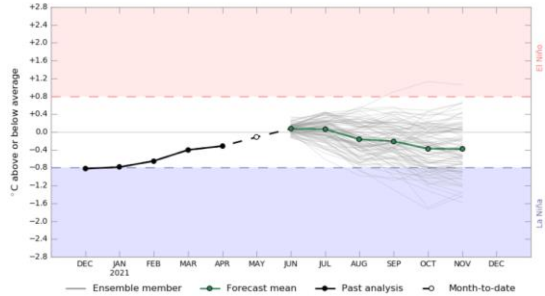
June -August 2021 rainfall outlook



Source: BOM 2021

The outlook for ENSO remains Neutral

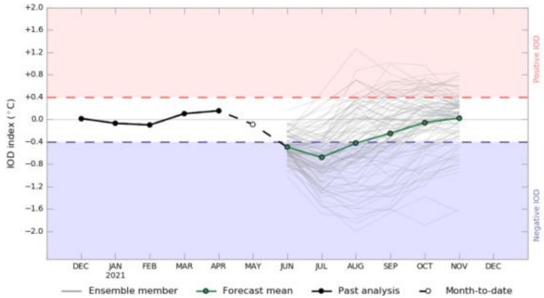
Monthly sea surface temperature anomalies for central Pacific Ocean



Source: BOM 2021

IOD is expected to cross negative thresholds

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2021

South Dry, East and West Wet

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According to the Bureau of Meteorology, autumn rainfall was very much below average for Australia's southern regions, while much of Australia's Western and Eastern Regions received above-average rainfall.

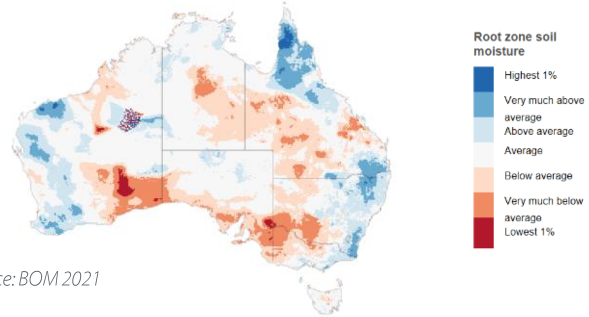
April and May were particularly dry in the south, with less than half of the average rainfall received.

48.6mm was recorded in Geraldton (Eradu) last month, which now has recorded its best autumn rainfall in over ten years.

Water storage levels continue to improve. Storages in the Murray Darling Basin are now sitting at 58% capacity, compared to 39% in May 2020.

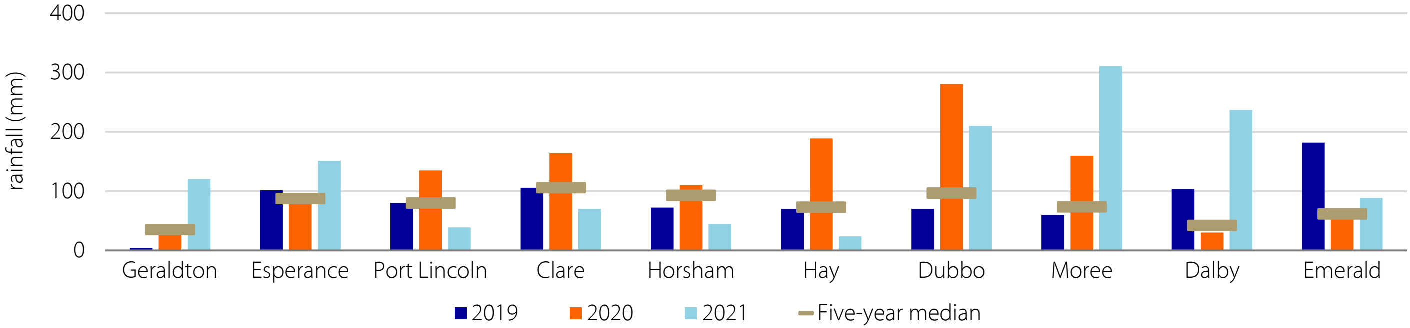
Soil moisture is above average on the East and West Coast

Relative root-zone soil moisture, May 2021



Source: BOM 2021

Three-month rainfall, 1 March-30 May



Source: BOM 2021

AUD Farmgate Prices Edge Up Further on Tight Global Markets and Depleted Local Herds

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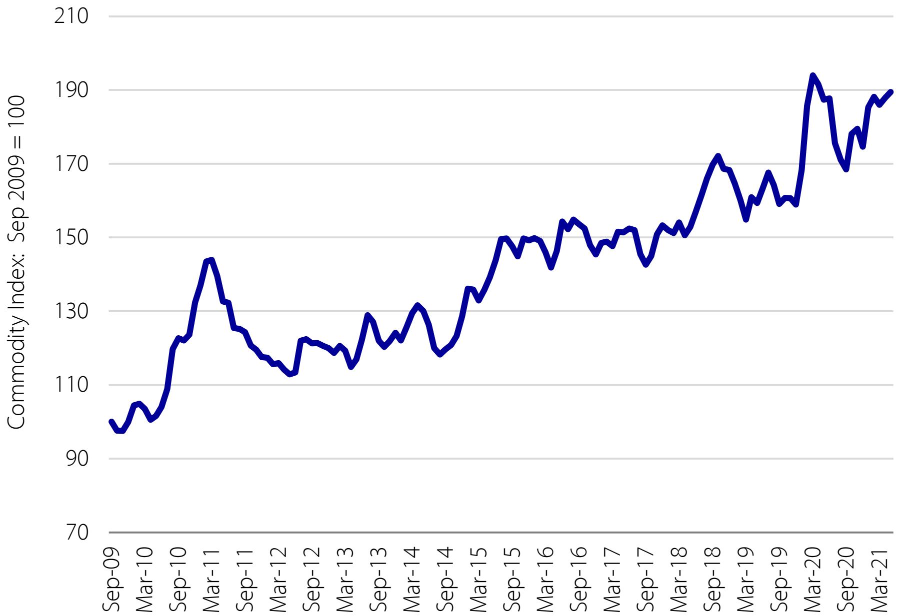
Rabobank Rural Commodity Index (AUD-based)



Our Commodity Index rose 0.8% in May.

The index was driven higher by gains in the price of grains & oilseeds. The complex remains well supported in the face of very low global stocks and dryness in the Northern Hemisphere until May got underway.

Cotton (improved rainfall in Texas) and wool fell close to 2% on April levels. Most other farmgate prices were stable.

The AUD played little role in farmgate price movement through May, closing the month almost exactly where it had started.

The coexistence of high prices and good seasonal conditions is underpinning a profitable 2020/21 season for most Australian farmers, and a sense of optimism as 2021/22 approaches.

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).

Markets Whipsaw Down a Notch

Global wheat markets followed corn markets in May and saw CBOT wheat peak at USc 770/bu before retracing back to USc 660/bu due to an improving outlook for the North American corn crop. We have lowered our wheat price outlook on the upgraded corn outlook and firming expectations for the US wheat crop.

We now forecast ***CBOT wheat to trade down to the USc 640/bu range in Q3 this year and remain near to this out to Q2 2022.*** The potential for more whipsaw movements remains, with tight global wheat stocks and minimal corn stocks rebuilding the continuing theme for 2021/22.

Locally, wheat prices struggled to follow global markets with both old season crop offloading and favourable new crop planting weighing the market. Nationally, prices ended the month around 1% down, though ranging between 0.2% up in South Australia to down 4% in Western Australia.

With the exception of South Australia and western regions of Victoria, winter crop planting is well on its way. With excellent planting conditions, and the possibility that lagging regions will catch up, ***we expect planted area to grow 2% this year***, to come in 8% above the five-year average and within 1% of the record hectares planted in 2016/17.

With exceptional pricing opportunities and good early soil moisture, canola hectares are the biggest mover this season. We forecast a 14% YOY increase to 2.7m hectares, mostly at the expense of barley but also oats, which we expect to be down 6% and 8%, respectively. Wheat is likely to be up 3%, and pulses unchanged YOY.

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Grains & Oilseeds

What to watch

- ***Mice*** - The plague of mice on the east coast continues to be a serious concern. With winter months approaching, we can expect colder temperatures to help bring populations under control. However, the destruction of planted seed and need for replanting and a re-emergence of populations in spring remain real risks.

Grains & Oilseeds

Markets Whipsaw Down a Notch

On the back of these areas and the current seasonal outlook, Australia is on track for another above average production year in 2021/22.

We are currently pencilling in ***28.9m metric tons of wheat, 10m metric tons of barley and 4.1m metric tons of canola***.

With local stocks now replenished post drought and another above-average season in the making, local grain prices will be down YOY. But we expect global dynamics, especially for corn and soybeans will keep them favourable.

Our 12-month Australian grain price forecasts and state-by-state analysis is in our just released 'Future Fields of Gold – AU 2021/22 Plant, Price & Inputs Outlook.

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What to watch

- ***Russian grain export taxes*** – Variable tax levels continue to add uncertainty to the Russian export program. A sharp reduction in the wheat export tax, of around 50% in June has been announced by the Russian Agriculture Ministry, which will coincide with the beginning of their harvest and likely prompt a flood of spots sales.

Production Possibilities Will Weigh on Local Prices

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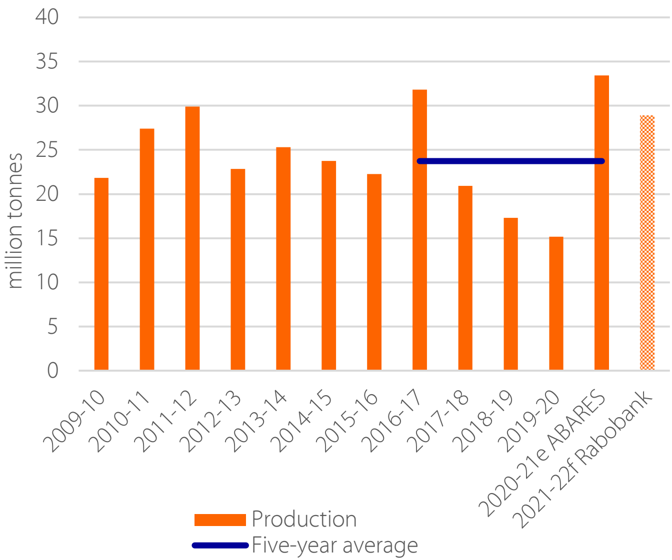
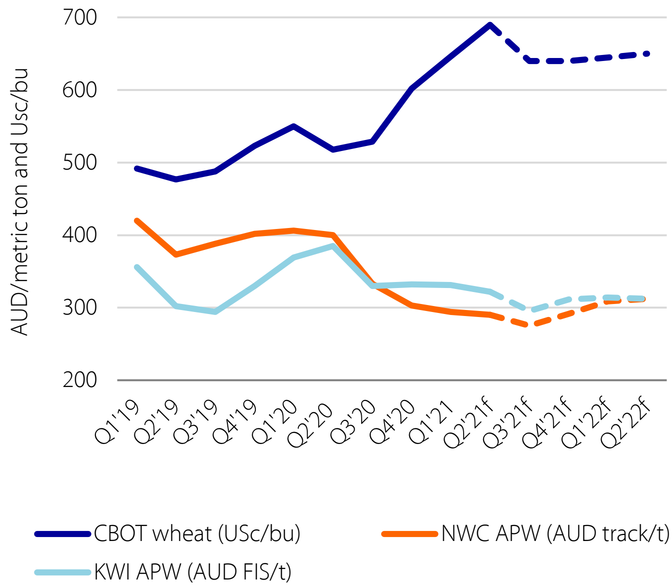
Australia is set for its second consecutive year of above average production and wheat production of 28.9m metric tons



Source: ABARES, Rabobank 2021
e = estimate, f = forecast

But global prices will keep local prices from bottoming out



Source: Bloomberg, Rabobank Forecasts 27 May, 2021

China Imports are Supporting Markets

Global dairy spot markets, for the most part, have been stuck in neutral through May. Oceania origin commodity prices were mostly flat in the quarter, excluding a correction in the butterfat markets. Further upside cannot be ruled out, but the peak is near. An expected softening of Chinese import demand should be enough to trigger a price correction in the dairy complex that is likely to occur in the later stages of 2021.

Global supply growth across the major export regions has also been stuck in neutral. The European flush has largely been lackluster. However, US milk production remains in high gear, and New Zealand has delivered a strong finish to the 2020/21 season. Supply growth has been positive in South America, but rising feed costs and inflation are expected to temper year-on year growth in 2H 2021.

Australian milk production has expanded by 0.7% season-to-date (as of March). However, March production declined year-on-year across most of the Southern export region. According to the latest seasonal outlook from the Bureau of Meteorology, winter (June to August) rainfall is likely to be above average across most of the major dairying regions. Conditions remain in place for healthy profit margins for Australia's dairy farmers again in 2021/22.

All dairy companies have announced official minimum milk prices for the 2021/22 season. They range between AUD 6.40-AUD 7.00/kgMS across the export sector. Rabobank has revised higher the forecast full-year milk price to AUD 6.90/kgMS for 2021/22.

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Dairy

What to watch

- ***China continues to drive global trade.*** China's healthy appetite for imports is visible in the early months of 2021 and has been the primary pillar of price support. Rabobank is still expecting softer year-on-year import volumes in the second half of 2021, and this remains the key demand determinant shaping commodity dairy prices into 2022.

Global Market Remains Range-Bound

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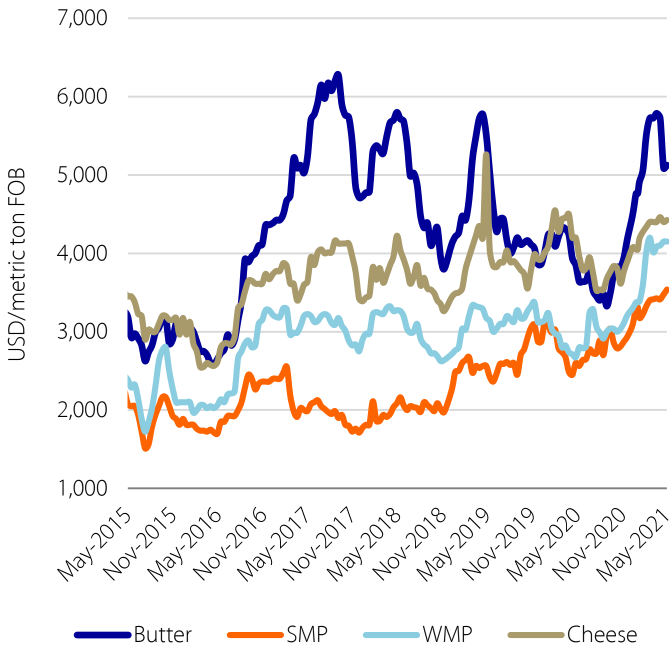
Global dairy prices, 2015-2021

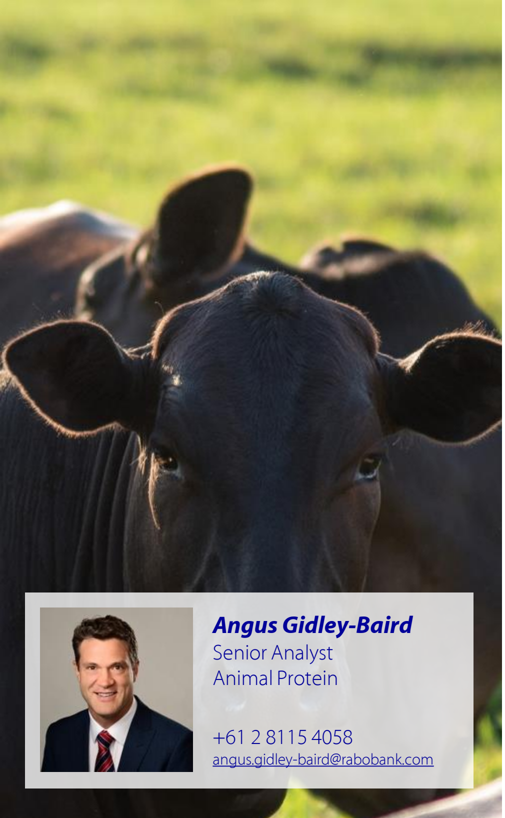


Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	Last three months
EU	0.8% (Mar 21)	-0.2%
US	3.3% (Apr 21)	1.4%
Australia	-1.8% (Mar 21)	1.5%
NZ	2.7% (2020/21 season-to-date*)	

Source: Rabobank 2021
June to April only.
February 2020 data is leap-year adjusted



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Beef

Strong Prices to Continue

Cattle prices continued to trade strongly through the month of April. Price spreads reflect the ongoing limited numbers of finished cattle and strong restocker demand. Saleyard prices posted strong premiums over ‘over the hooks’ prices, trade heifers traded at a premium to trade steers and lighter stock traded at a strong premium to finished and feeder cattle. The EYCI has traded in a narrow band around AUc 900/kg for most of May, finishing at AUc 891/kg cwt on 28 May. ***With the three-month rainfall forecast of average to above average rainfall between July and August, cattle prices supported by lack of numbers and producer demand are expected to remain strong through June.***

National slaughter numbers for Q1 were released in May, showing total cattle slaughter was down 27% year-on-year to 1.413m head. Female proportion of slaughter was at 45% reflecting the rebuild in process. Slaughter weights were at their highest ever point (313kg cwt) which meant production volumes (down 22%) didn’t see the same decline. East coast weekly cattle slaughter for May was down 21% YOY and down 28% on the five-year average.

April beef exports (72,502 metric tons swt) were down 22% year-on-year and down 11% on the five-year average. Volumes to Japan, US and China continue to be down (23%, 23% and 55%, respectively) while South Korea is up 14% and, encouragingly, volumes to the Middle East are up 13% after declining for much of last year. US import prices continue to track higher – currently 27% higher (in USD) than the five-year average – given strong US consumer demand.

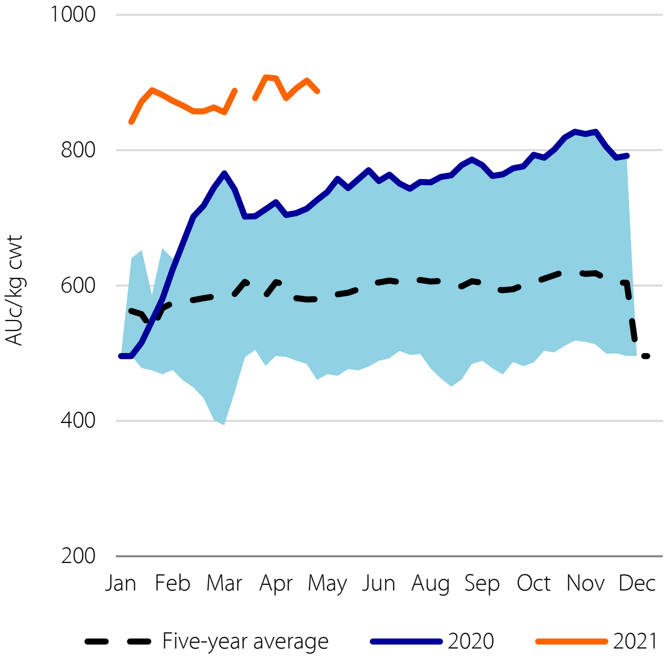
Total live cattle exports for April dropped 36% YOY. While numbers to Indonesia increased 7%, volumes to Vietnam dropped 78% YOY.

What to watch

- ***Argentina’s export suspension*** – On 20 May, Argentina suspended beef exports for 30 days. Argentina currently represents 22% of China’s beef imports. The suspensions will cause some disruption, but with a finite timeframe, we believe the disruption will be minimised and benefits to Australia will be limited. A decision by the Argentine government on whether any further measures are put in place will be the key to how this might play out in the future.

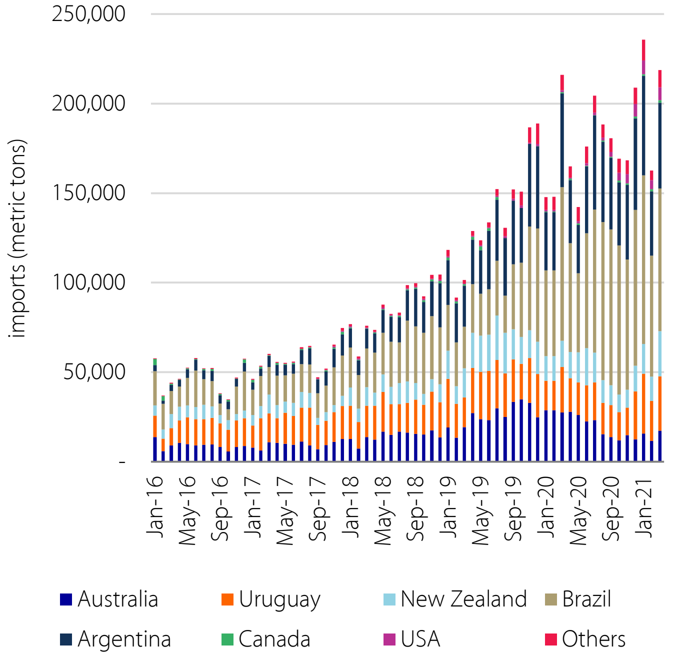
Strong Australian Cattle Prices Continue while Argentina stops Exports

The EYCI remains strong



Source: MLA, Rabobank 2021

Argentina contributes 22% to China's beef imports



Source: BOABC Boyar, Rabobank 2021

Lamb Prices to Remain Strong

Lamb prices have remained relatively steady as we move into the historically higher-priced period of the season. The price spread between heavy lambs and restocker lambs has narrowed through April and into May with prices for restocker lambs dropping slightly more than heavy lamb prices. The ESTLI has traded relatively flat through May and sat at AUc 813/kg cwt on 28 May. Saleyard prices historically increase through the months of May and June. ***With saleyard and slaughter numbers stronger than last year and with global markets still recovering, upward price pressure is expected to be less this year and we believe the market will follow a similar path to 2020 where prices remained high through to June before commencing their seasonal decline. That said, favourable seasonal conditions should continue to support producer demand which will put a floor in the market.***

National lamb slaughter for Q1 was down 10% year-on-year to 4.9m head. Sheep slaughter was also down 39%. East coast lamb slaughter for the month of May was up 17% year-on-year. The contrast with Q1 is explained by stronger numbers in 2021 and a large drop in lamb slaughter in Q2 2020.

May Lamb export volumes dropped 4% to 21,801 metric tons swt. Volumes to the Middle East and China continue to decline – down 34% and 33% respectively on last year – while volumes to the US are up 17%. US import prices continue to rise with one of our largest cut by volume – chilled shortloins – rising by 7% from the end of April to the end of May. Sheep live export numbers are down 40% for the first four months of the year.

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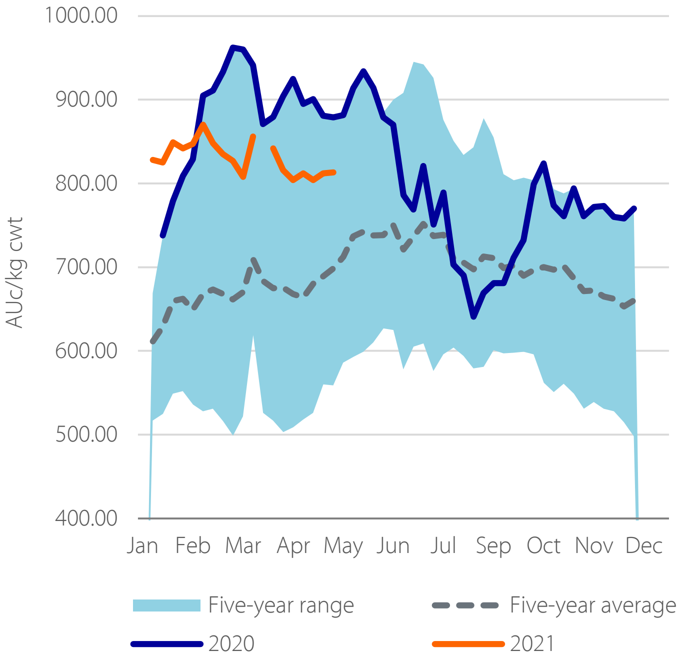
Sheepmeat

What to watch

- ***Interstate lamb trade –*** Victorian lamb saleyard numbers have seen some of the highest levels in 10 years through May, while NSW is closer to the five-year average. On the other hand, Victorian lamb slaughter numbers are 8% below the five-year average while NSW lamb slaughter is 7% above the five-year average. This possibly reflects Victorian producers taking advantage of a strong saleyard price premium and NSW abattoirs being the aggressive buyers given lower availability of lambs in NSW.

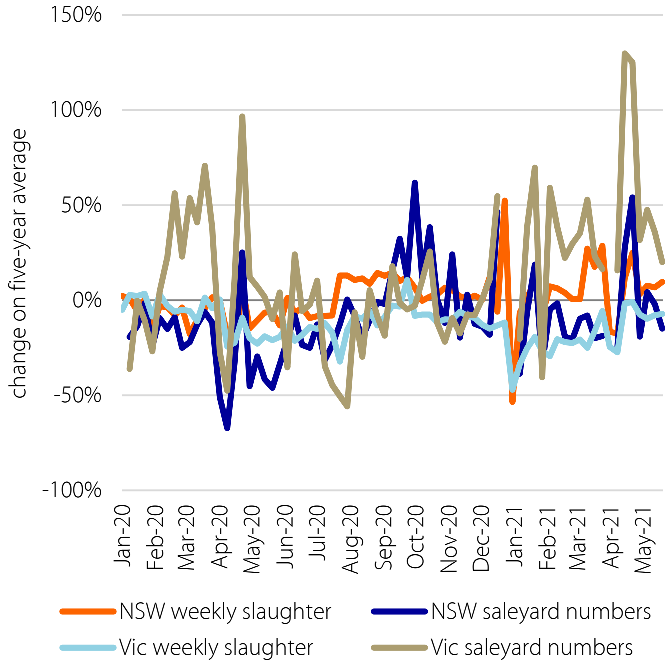
Prices Remain Strong, Victorian Lambs Look Like they are Heading North

ESTLI staying steady



Source: MLA, Rabobank 2021

Victorian saleyard and NSW slaughter numbers up



Source: MLA Rabobank 2021

Sugar

Taking a Breather

The ICE #11 stopped for breath through May, as speculators made haste for the exit door. Speculators sold 17,654 lots in the week ending 18 May, with Brazil's UNICA reporting a better-than-expected crush through 1H May – at 41m metric tons. Sugar content in Brazil's CS was also strong, suggesting that the impact of dryness on Brazilian yields – currently down 12.3% YOY – may be offset partly by sugar content. Furthermore, Brazil's ethanol market is softening as the harvest gets underway.

In India, the government announced that the export subsidy for remaining sales (approx. 0.3m metric tons of the 6m metric ton allowance) will fall by one-third, to INR 4,000/metric ton. The small volume means there will be little impact on Indian flows and international prices – however, it does indicate that the government is looking to reduce subsidies. This is an important factor for the 2021/22 season. Early expectations for the 2021/22 Indian crop are excellent, with good water availability and forecasts of a normal monsoon. That said, over 2m metric tons of cane could be diverted by mills into ethanol next season.

Domestic cane through the dry tropics and Burdekin region shows real potential, although yields are forecast slightly lower YOY. Conditions appear favourable for cane, with further rainfall forecast for the North Queensland coast in late June. Rabobank forecasts a 30m-31m metric ton 2021 cane crop, while the ASMC forecasts 29.96m metric tons of cane in Queensland. Growers will be gearing up for the crush starting in June.

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What to watch

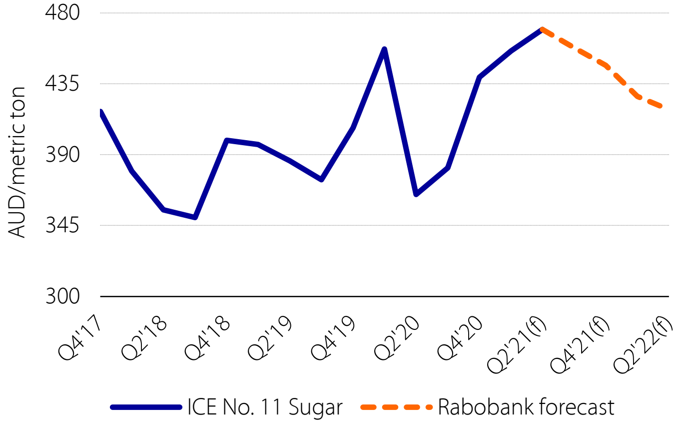
- ***India's export parity has now risen to USc 16-USc 17/lb, marking a level below which prices are unlikely to fall.*** A key part of the 2021/22 price outlook will be the level of support India provides to sugar exports. Rabobank expects this to be lower YOY, or perhaps even eliminated completely – a supportive factor for the ICE #11 is realised.
- ***Brazil will continue to be a key focus, with Europe and Thailand also closely monitored.*** Thai output is set to reach 90m metric tons, up from 67m, which is likely to pressure regional premiums.

Rabobank Forecasts 30m-31m Metric Ton 2021 Domestic Cane Crop, as Crush Starts in June

Rabobank

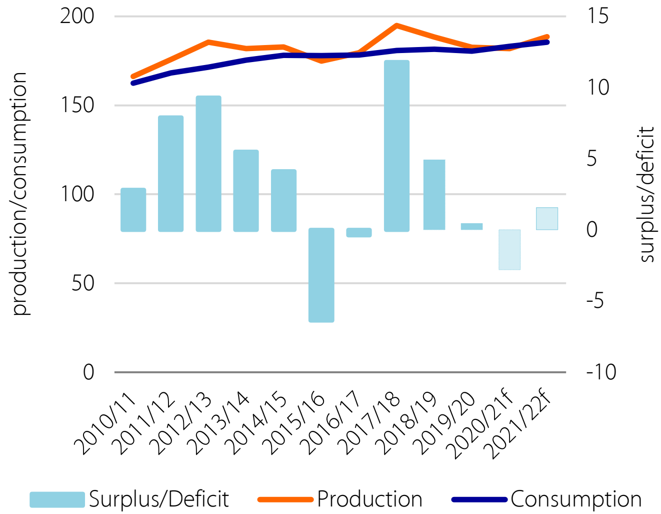
Rabobank forecasts domestic sugar prices at between AUD 450-AUD 470/mt through 2021

	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	16.4	16.2	15.8	15.3	15.0
AUD/USD		0.71	0.73	0.77	0.77	0.78	0.78	0.79	0.79
Sugar	AUD/t	382	439	456	470	458	447	427	419



Source: Bloomberg, Rabobank 2021

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



Source: Rabobank 2021

Domestic cane through the dry tropics and Burdekin region shows real potential, although yields are forecast slightly lower YOY. Further rainfall is forecast for the North Queensland coast in late June.

Calming Nerves

Rainfall across West Texas eases jittery market nerves, driving a consolidation in global prices. This rain has helped to alleviate some drought conditions, as plantings reach 40% complete in America's #1 production state. Still, here at home, 2021 cash prices remain above the AUD 540/bale level. Rabobank notes several factors – fundamentals, seasonal risk and demand – which remain supportive of prices above USc 80/lb, and forecasts prices between AUD 540 and AUD 580/bale in the coming 12-month period.

The USDA's May WASDE provided a largely supportive outlook for 2021/22. The release projected a 2% YOY fall in 2021/22 global stocks, with World excluding China stocks forecast to remain stable. Over in the US, some 12m 2021/22 new crop acres are set to produce 17m bales – up 17% YOY, but marginally lower than Rabobank's 17.2m bale projection. This encapsulates a 20% abandonment rate, and results in the lowest US stocks for five years. In Rabobank's view, the 2021/22 balance sheet is undoubtedly bullish – while global stocks remain more-or-less stable, falling US inventories (the world's largest exporter) and a 3% YOY recovery in demand will maintain both price support and volatility.

Picking across Northern Australia begins this week, starting with dryland cotton near Katherine in the Northern Territory. A recent visit to this region observed relatively strong yields with estimates ranging between 4-7 bales/ha. Optimism for a cotton industry in the region is rightly placed, especially with the development of gin capacity next season. This will cut grower freight costs substantially and provide sustainable gross margins. Still, Rabobank notes several seasonal challenges unique to the region.

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Cotton

What to watch

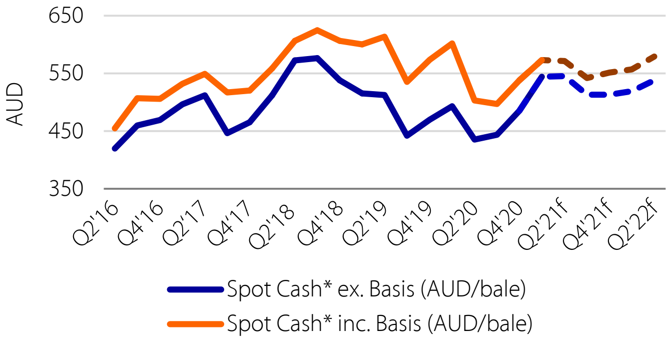
- ***Rainfall across West Texas has calmed market nerves, at least for now.*** However, the extent to which it can reverse +18% abandonment projections are limited. Furthermore, a 12m US acre projection could still decline – since March 2021, the new crop CBOT Soybeans and CBOT Corn have both climbed around 12%, with ICE Cotton failing to keep up (up approx. 5%).
- ***Picking has now reached down into Southern NSW, with promising yield results.*** However, quality is reported to be compromised in some areas after a mild season and a number of cloudy days.

The USDA's May WASDE Provided a Largely Supportive Outlook for 2021/22

Rabobank

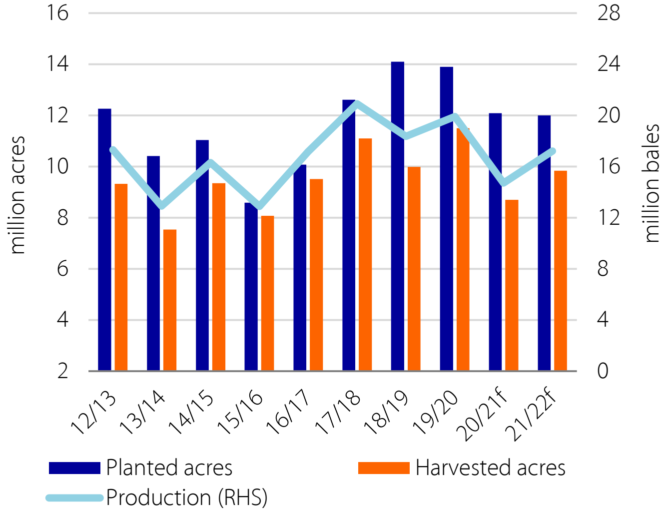
Prices forecast between AUD 540 and AUD 580/bale through the coming 12-month period

	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

Over in the US, some 12m 2021/22 new crop acres are set to produce 17m bales – up 17% YOY



Source: USDA, Rabobank 2021

Rabobank notes several factors – fundamentals, seasonal risk and demand – which remain supportive of prices above USc 80/lb, and forecasts prices between AUD 540 and AUD 580/bale in the coming 12-month period.

Wool

Micron Prices are Doing Just 'Fine'

Super-fine wool micron prices have left coarser wool behind, recovering the price drops from last year and now exceeding prices from early 2020. Meanwhile the medium wools, although they have recovered, have not seen the same rise in prices. 17 micron wools have risen 69% since the low in September 2020, compared to 48% for 20 micron wool, demonstrating strong demand from the knitwear and close-to-skin sectors. The Eastern Market Indicator was down a marginal 1.1% over May, finishing at AUc 1320/kg. ***Improving apparel sales in key end markets, and the associated improvement in processor sentiment, means we are still predicting the EMI to trade towards the AUc 1400-AUc 1500/kg range through 2021.***

Demand indicators for wool are positive almost across the board. US retail apparel sales are 3.4% higher in April this year than in 2019, and over 700% higher than the lows reached during the main pandemic period of April 2020. The situation is similar in China, with retail apparel sales up 2.5% on pre-pandemic April 2019 figures. In the UK, sales are still below pre-pandemic levels, albeit marginally (-6.2% vs April 2019). US woollen suit imports hit their new pandemic high in March data, with volume up 14% MOM, but remain 74% below 2019 pre-pandemic levels.

National wool tested for May was 29,053 metric tons, up 64% YOY and up 17% on the five-year average. Australian wool exports in March were 36m kg, up 29% on March 2020 and up 32% since February 2021. China made up the largest export share, at 85%, down from February's 88%.

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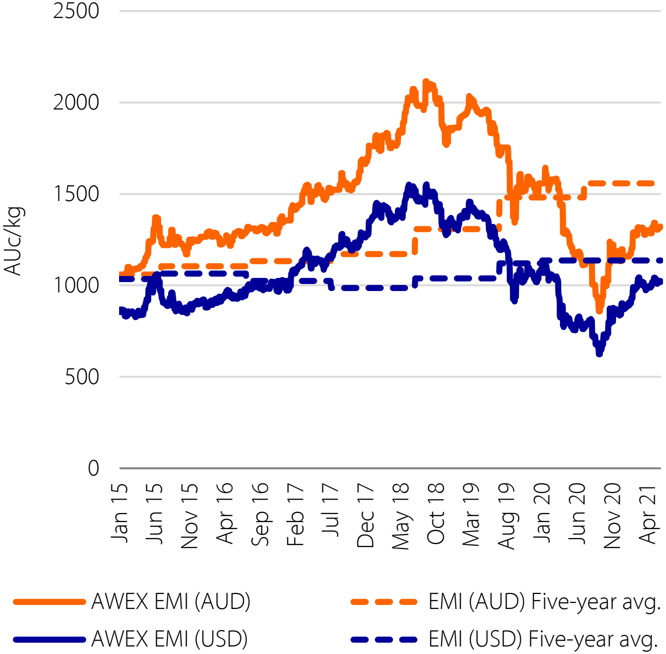
What to watch

- ***Cotton prices –*** Cotton prices have a positive relationship to wool in Rabobank's wool price model, with moves in cotton commonly associated with similar directional moves in wool. Global cotton prices declined by 6% over May to USc 82c/lb on increased rainfall across West Texas, a key US cotton-growing region. However, Rabobank still sees supportive factors to keep ICE cotton up above USc 80/lb in 2021.

Wool Prices Continue to Edge up but Cotton Prices Slipped in May

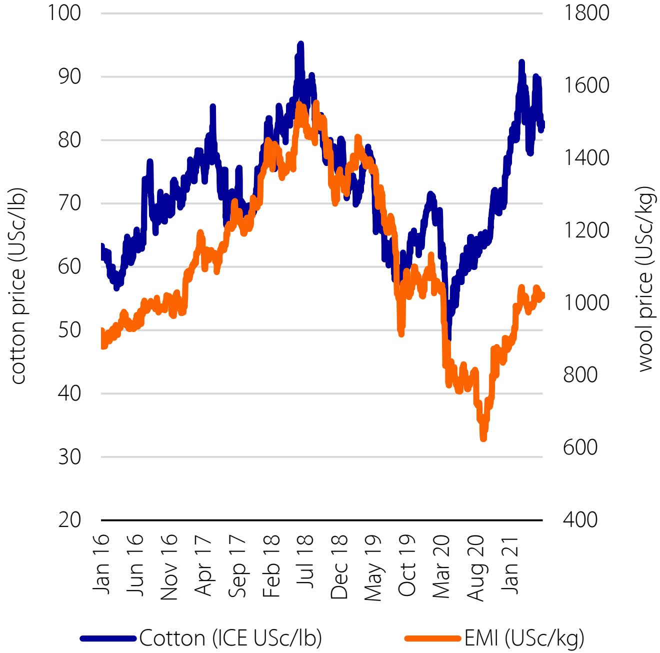
Rabobank

EMI lifting very slowly



Source: Bloomberg, Rabobank 2021

Cotton prices drop in May



Source: Bloomberg, Rabobank 2021

Downstream Markets

Australian Foodservice Recovery Outpacing That in the US or China

The Australian food market remained on a solid growth path in April. Seasonally-adjusted sales climbed in both retail and foodservice channels. Both were well above pre-pandemic levels, and the split between them was back to normal too (with 25% of our spend on food again devoted to eating out and takeaway). Foodservice sales have been buoyed by the increased mobility, confidence and incomes being enjoyed by consumers, and the improved ability of operators to adapt to the Covid restrictions that do remain.

Astonishingly, as at April the recovery in the Australian foodservice sector was progressing faster than in China and the US. Chinese foodservice sales regained pre-Covid levels quicker than any market we track, regaining prior year levels in October 2020. But channel activity appears to have stagnated since. By April 2021, Chinese foodservice sales were only 2% up on the levels seen two years prior, compared to 6% in Australia. The sluggish Chinese market reflects two realities. Despite the rapid growth in GDP, consumers were financially impacted by the Covid downturn of 2020 and remain cautious. And despite very low infection levels, some Chinese consumers appear reluctant to eat out as much as they used to. Some regions still socially encourage eating at home.

The US food service market saw a 3% growth over the two years to April 2021.

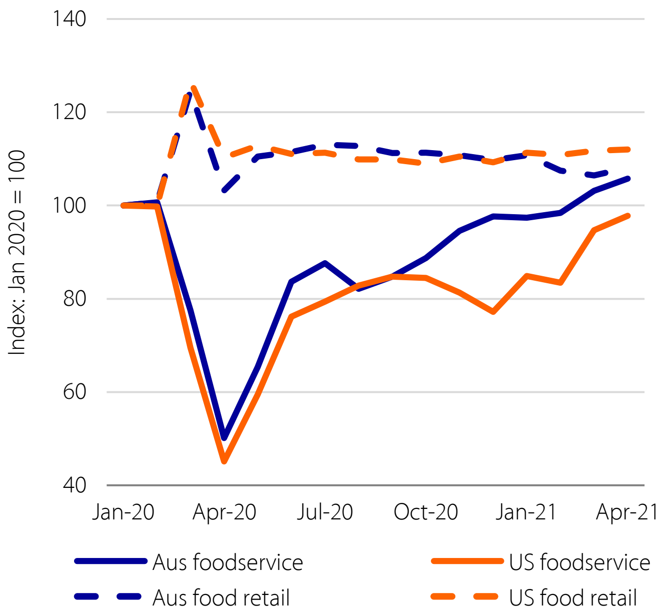
What to Watch

- ***Bumps in the road to recovery!*** Readers will recall that last month we noted that there will be bumps as we travel the road to recovery of food markets – including the likelihood of localised lockdowns in response to local viral flare ups. Following a new cluster of infections, Victoria was locked down again on 28th May for at least 14 days. Accounting for 24% of Australian foodservice spend, even a 14 day Victorian lockdown will likely snuff out any improvement in Australian foodservice sales in May and June (on April levels). A reminder that the virus will remain in control of the rate of recovery until countries are well vaccinated.

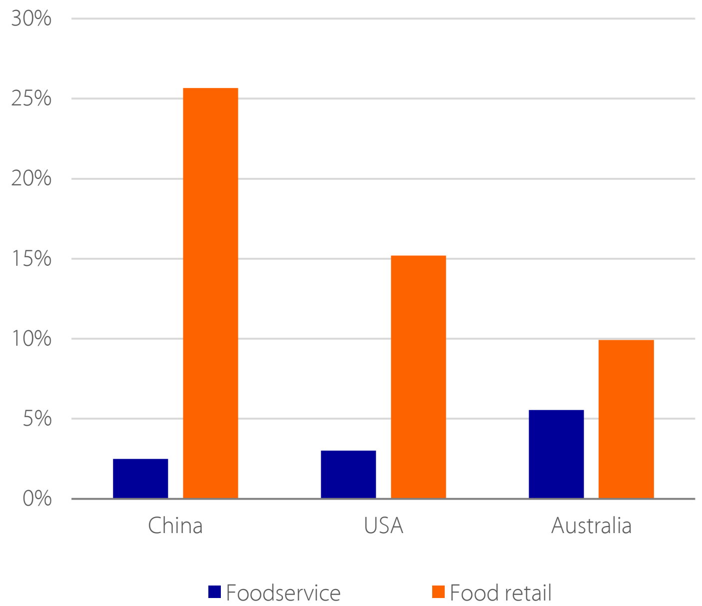
Australian Food Channel Split Returned To Normal In April, With Foodservice Recovery Now Outpacing That of China

Rabobank

Australia and US markets: Indices of seasonally-adjusted monthly sales since crisis



Australia, US and China: April 2021 sales v April 2019 sales by channel



Sources: US Census Bureau, ABS, Chinese National Bureau of Statistics
Notes: April 2021 data are preliminary. All data are seasonally adjusted.

Fertiliser

Global Demand Keeps on Giving

Despite global prices lifting again, we still expect downside ahead for global urea markets in coming months. Due to the time taken for procurement and shipping, we expect that this will be too late for local farmers this winter and spring season.

Locally, as we move further into winter and closer to spring, global markets will have a reduced influence on local prices, with local demand and supply (imports) becoming the primary influences. Very early indications are that supplies will be adequate; the latest trade data (March) indicates that local imports had exceeded 500,000 mt for the first quarter, well ahead of the previous four years. Soil moisture is well above average in most cropping regions. If this continues, it will support ongoing demand.

Global prices for urea kicked upwards again this month, as most global benchmarks increased by 15% during May. In USD-terms, global prices are now the highest they have been since January 2014. India featured heavily again on the demand side, with another tender being issued mid-month. This demand is soaking up much of the available supplies from major exporters. For example, according to IHS Markit, Chinese urea exports for April 2021 were nearly five times the level recorded in April 2020.

Looking forward, we maintain our view that global urea prices will ease during the southern winter, however the timing of this is dependent on two factors. First, the participation of India in the global market, and second, weather in major northern hemisphere cropping regions, which will determine demand for nitrogen during the top-dressing window.

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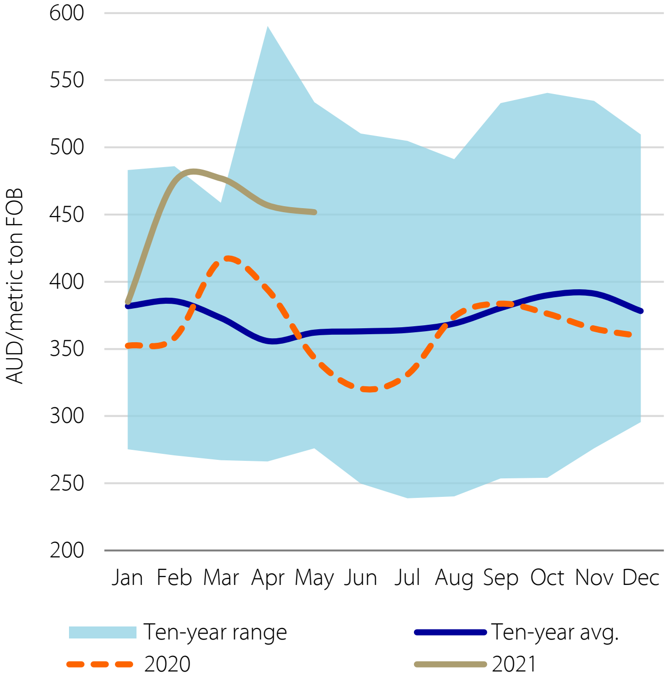
What to Watch

- ***Ocean freight disruption:*** Ocean freight prices remain at record highs, which on some trade routes, is adding up to 5% in product cost at the farmgate. We don't expect this situation easing any time soon, with vessel fleet growth at a record low and shipping demand very high. A clogged supply chain will force local importers to take a longer lead-time, and give less ability to react to spikes in demand.

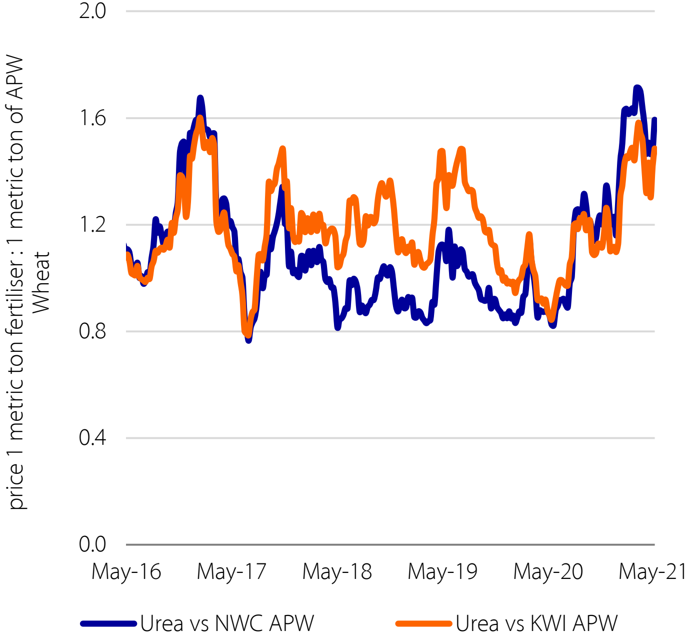
Global Urea Prices Have Risen Faster Than Local Grains Prices, Which May Eat Into Margins

Rabobank

AUD-adjusted global Middle East Urea FOB prices urea (left), Urea affordability (right)



Source: CRU, Rabobank 2021



**AUD-adjusted global fertilizer prices, excludes fertilizer freight. Middle East Urea*
Source: Bloomberg, Rabobank 2021
Source: Bloomberg, Rabobank 2021

FX

Solid Economy to Underpin AUD

Rabobank expects the AUD will trade close to its current level against the USD for six or so months before strengthening towards USc 79 twelve months from now.

The AUD will likely remain underpinned by an economy that continues to perform well. The last month has brought a highly stimulatory federal budget, followed by the announcement of record exports and strong retail sales growth at home in April. Despite the end of the jobkeeper subsidy there was only a minor fall in the number of people in jobs in April.

But despite the evident growth in the Australian economy, meaningful wage growth remains absent: with data for Q1 showing progress in private sector wages offset by the lowest growth in public sector wages on record. It is unlikely that the labor market will be tight enough for some years to generate sustainable wage growth traditionally needed to get inflation above the 2%-3% RBA target. As such, we have little argument with the ***RBAs view that the OCR is not likely to rise till 2024 at the earliest.***

The US economy is also performing well. After surging in March, US consumer spending rose again (if modestly) in April, as rising vaccinations rates helped underpin confidence to spend savings accumulated in the last year (thanks to the help of the US government). Jobless claims also fell in late May to a new post pandemic low, while Biden pitched for more stimulus spending in his fiscal 2021 budget. The unleashing of consumer spending, rising commodity prices and supply bottlenecks drove US inflation higher in April. We expect this to be transitory and see no interest rate hike in the coming 12 months at least.

What to watch

- ***US asset purchase tapering.*** The minutes of the US FOMC meeting on April 27-28 revealed that a number of participants suggested that if the economy continued to make rapid progress toward the Committee’s goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases. The last time it did this, in 2013, financial markets were spooked. Hopefully the process goes smoother this time.

AUD Stable Through May as US and Australian Economies Both Continue To Perform Well

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2021

Freight Prices Stuck on High Seas

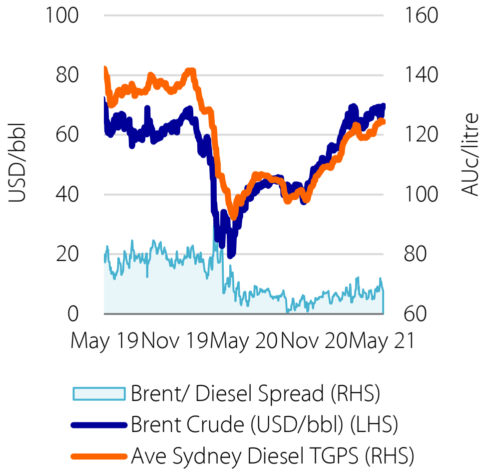
Ocean freight prices for dry bulk and container freight continue to trade at record highs. Without any significant government intervention, we expect to see this rate spike continuing into Q1 2022.

Global shipping remains heavily congested. For dry bulk freight, demand has been primarily driven by the commodity boom. On the supply side, net fleet growth is at its lowest point since 1995.

Similarly for containers, capacity is not up with demand and containers remain unevenly distributed across the globe. Container turn-around times have dramatically increased, to the point that some carriers are now adding congestion levies to cover warehousing and waiting costs.

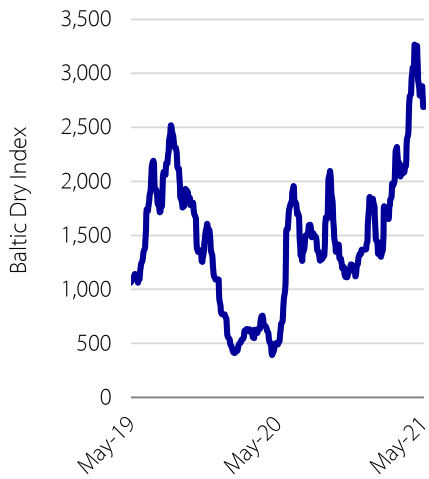
Oil prices continue to firm, as travel begins to increase. We expect Brent Crude will remain around the 70-71 BSD/bbl mark for the remainder of 2021.

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



Source: AIP, Bloomberg, Rabobank 2021

Baltic Dry Index, May 28 2021



Source: Bloomberg, Rabobank 2021

Agri Price Dashboard

As of 31/05/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	664	743	521
CBOT soybean	USc/bushel	▼	1,531	1,571	841
CBOT corn	USc/bushel	▼	657	740	326
Australian ASX EC Wheat	AUD/tonne	▲	308	303	350
Non-GM Canola Newcastle	AUD/tonne	▲	718	696	678
Feed Barley F1 Geelong	AUD/tonne	▲	253	243	240
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	886	877	704
Feeder Steer	AUc/kg lwt	▼	452	455	388
North Island Bull 300kg	NZc/kg cwt	▲	525	515	510
South Island Bull 300kg	NZc/kg cwt	▲	470	460	445
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	831	812	914
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	770	695	670
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	745	660	655
Venison markets					
North Island Stag	NZc/kg cwt	▲	550	520	550
South Island Stag	NZc/kg cwt	▲	550	535	550
Dairy Markets					
Butter	USD/tonne FOB	▼	5,125	5,725	3,850
Skim Milk Powder	USD/tonne FOB	▲	3,538	3,413	2,600
Whole Milk Powder	USD/tonne FOB	▲	4,150	4,100	2,675
Cheddar	USD/tonne FOB	▼	4,425	4,463	4,200

Agri Price Dashboard

As of 31/05/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	89.7	91.9	65
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	82.1	87.4	58
Sugar markets					
ICE Sugar No.11	USc/lb	▼	17.4	17.4	10.91
ICE Sugar No.11 (AUD)	AUD/tonne	▲	496	485	379
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,320	1,342	1,172
Fertiliser					
Urea	USD/tonne FOB	▲	390	350	218
DAP	USD/tonne FOB	▲	583	580	301
Other					
Baltic Dry Index	1000=1985	▼	2,596	3,053	504
Brent Crude Oil	USD/bbl	▲	69	67	35
Economics/currency					
AUD	vs. USD	▼	0.77	0.77	0.67
NZD	vs. USD	▲	0.725	0.716	0.62
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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