Prices Near the Edge, or on Firm Footing?

Australia Agribusiness Monthly

RaboResearch
Food & Agribusiness

Rabobank

April 2021

Commodity Outlook

Commodities	Farm gate prices of many commodities eased a little in March, but remain encouragingly high by historic standards.
Grains & Oilseeds	Global prices to remain elevated YOY, but softness expected mid-year, during Northern Hemisphere harvest.
Dairy	Rabobank forecasts a full-year milk price of AUD 6.65/kgMS for 2021/22 in the southern export sector.
Beef	Will rain in Queensland push cattle prices higher.
Sheepmeat	Can a lift in US import prices keep lamb prices strong.
Sugar	A deeper 2020/21 global supply deficit adds fundamental support to the outlook.
Cotton	After a quiet March, Rabobank believes market volatility will return again in 1H 2021.
Wool	Optimism about demand improvement to keep prices steady, with possible upside in coming months.
Downstream markets	A year after 'V-day', Chinese food channels remain heavily distorted. We expect only a slow drift to normalization in 2021.
Geopolitics	The toll of tensions with China is becoming clearer. But Australian exports can rise regardless.
Farm Inputs	We expect that global prices will begin to subside in April, initially for urea, before phosphates follow later in Q2. For local farmers acquiring phosphate, relief will be too late for this season.
FX	The AUD has lost ground against a stimulated USD. We expect little further downside for the AUD in the near term, and some strengthening thereafter, as expectations for US inflation prove over-done.
Oil	We expect Brent Crude to stabilize at around the USD 60/bbl level for the remainder of 2021.

La Niña All but Over

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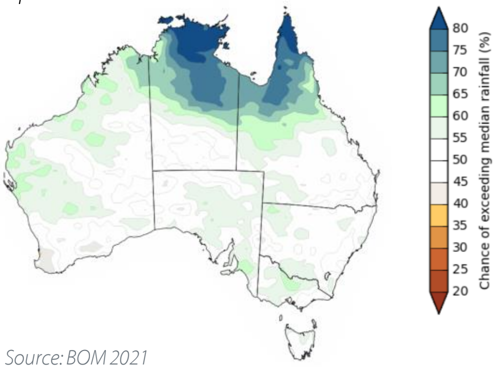
According to the Bureau of Metrology (BOM), oceanic indicators passed neutral thresholds last month. Some atmospheric indicators remain at La Niña levels, which BOM expects may continue to impact the climate in northern and eastern regions.

BOM expects the Indian Ocean Dipole (IOD) to remain neutral until at least June. A majority (3/5) of international forecasting models expect the IOD to move negative in July, however forecasting accuracy is lower at this time of the year. A negative IOD would deliver an increased chance of rain to western and southern regions.

BOM's three-month rainfall outlook favors above-average rainfall in northern regions, most likely during April.

The three-month outlook is largely neutral

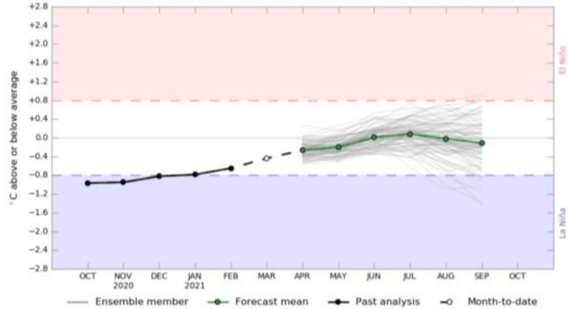
Apr-June 2021 rainfall outlook



Source: BOM 2021

ENSO is now inactive

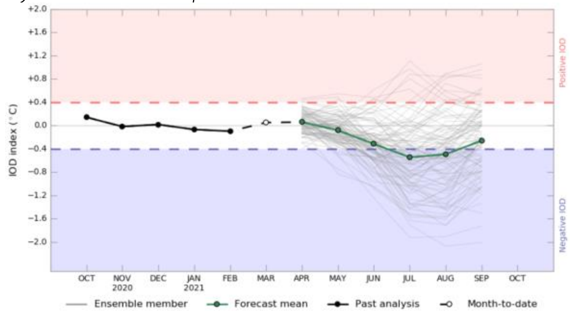
Monthly sea surface temperature anomalies for Central Pacific Ocean



Source: BOM, 2021

IOD will move toward negative thresholds

Monthly sea surface temperature anomalies for Indian Ocean



Source: BOM 2021

Big Rain, Big Flood, Big Soil Moisture

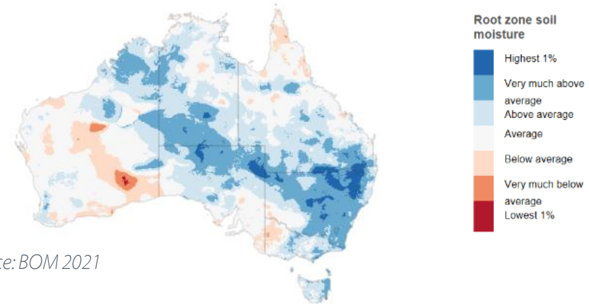
Winter crop farmers across North and Eastern NSW and South Queensland have had all their early season wishes granted, as massive rains deliver top-up early season soil moisture.

Some coastal regions in NSW received over 1 metre of rainfall over a short period, which caused extensive flooding and damage in urban areas. Fruit and vegetable crops on the NSW north coast have been heavily damaged, while some beef and dairy farmers unfortunately have lost stock, fences, sheds, hay and fodder.

Rainfall has been less forthcoming across Vic, SA, and Tasmania, although soil moisture remains average – above average, as winter crop farmers commence planting.

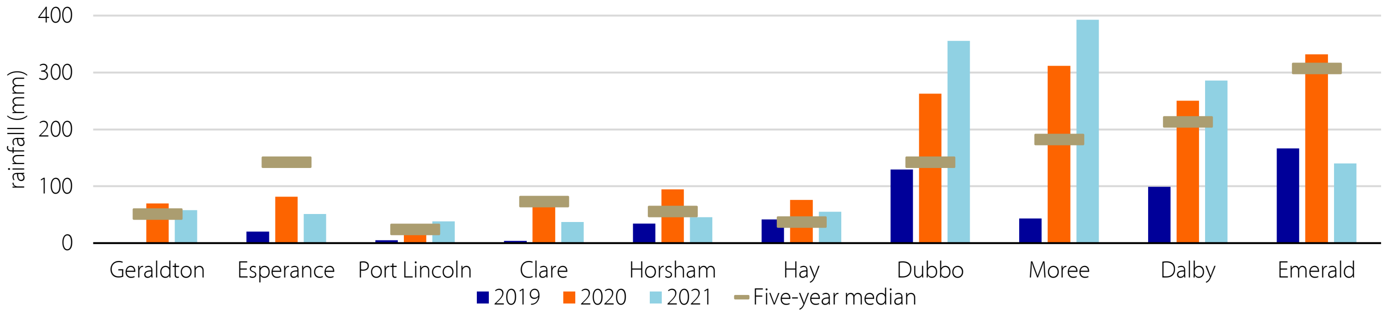
Relative soil moisture is in the highest 1% on record in parts of NSW and Southern QLD

Relative root-zone soil moisture, 30 March 2021



Source: BOM 2021

Three-month rainfall, 1 Jan – 30 March



Source: BOM 2021

AUD farm gate prices ease a little, but remain high by historic standards

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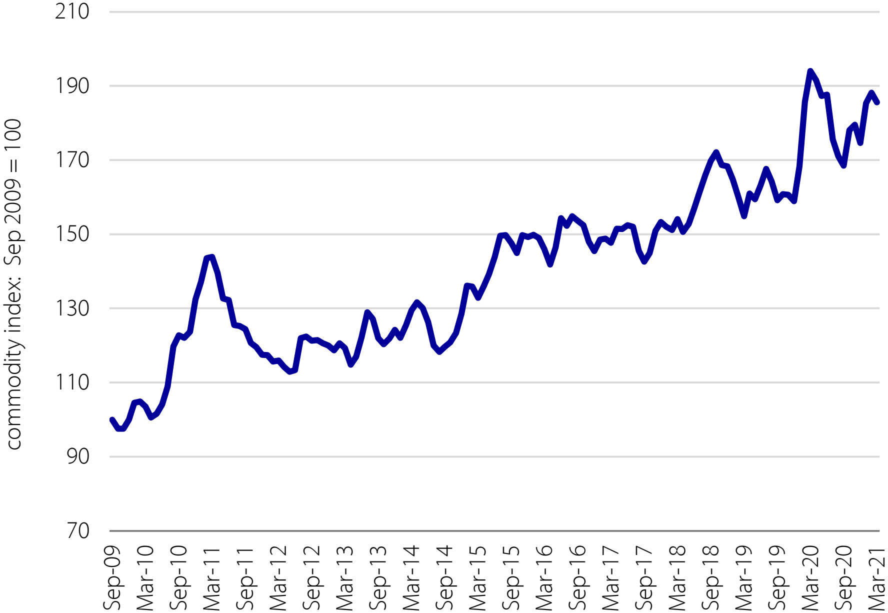
Rabobank Rural Commodity Index (AUD-based)



Despite a falling AUD (in itself supportive for local prices), the farmgate prices of most commodities eased marginally in March in local currency terms.

Milk and canola were exceptions, with modest increases for the month.

Despite a general softening, prices remained at high levels – with the index itself not far off record levels.

Markets remained buoyed by adverse weather in the Northern Hemisphere, stock building and investors backing the reflation trade.

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).

Are High Ag Land Prices Sustainable?

Rabobank expects that 2020 would have been the sixth straight year for land price growth, which according to ABARES data, is an increase of 41% nationally over the six-year period. While price growth has been sharp, and strong, we expect prices are sustainable at these levels, with a downward correction very unlikely.

In the short term, the fundamentals of the land market remain extremely strong. We have identified that there are three main drivers of land prices, being (1) interest rates, (2) productivity (output and costs) and (3) commodity prices. The explanatory power of these variables varies by production type. For example, for cropping lands, these three variables achieved an r^2=0.87 with land prices over the last 30 years.

Over the past six years, nationally, these fundamentals have been the most supportive they have been over the last 30 years. The cost of funding remains at the lowest point on record, the Rabobank Commodity Price index remains at its highest point on record, and production levels in 2020 were well-above average.

With a medium-term lens, a key question remains. Have land prices over-shot productivity? According to analysis we completed with Digital Agriculture Services (DAS), the price per unit of productivity (NPP) had nearly doubled in some regions, from 2012 to 2019, indicating that prices have been growing much faster than productivity.

Theoretically, if the price of land has outstripped productivity growth, it may imply land is over-valued. However, ***it is important to recognise that pure returns aren't the only reason for buying.*** For example, in many regions, large farmers now border each other, and are willing to pay a premium (~20-40% higher than market) to unlock economies of scale. Similarly, buyers can place value on risk diversification, or make purchases for succession reasons, which can cause the price to deviate from the productivity of the land. These factors support the sustainability of higher prices in the medium term.

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Feature

Could we see a downward correction?

Rabobank sees a downward correction in the next 12 months as very unlikely. Past downward corrections have been associated with two scenarios. Firstly, a rise in Ag land prices on weak underlying fundamentals. For example, during a drought, prices can actually increase, as supply contracts much faster than demand, after which we would expect to see a gradual downward correction. Secondly, a large shock to a combination of prices, production or interest rates, may also cause a downward correction. Given these two scenarios, and strong current underlying fundamentals, we see either of these scenarios evolving in the next 12 months as very unlikely.

Global Prices to Remain Elevated

The global price surge lost momentum last month, as La Niña weather worries eased in North America, and the main South American harvest window continued to edge closer. CBOT wheat prices eased 5%, corn and soybeans were largely unchanged at +1% MOM.

Rabobank's 2021 CBOT wheat forecast has been reduced to USc 615-USc 640/bu on improved conditions in the US, Western Europe and Black Sea. Looking ahead, we still see positive price drivers – especially Chinese feed wheat demand, which the USDA expects to rise 89% YOY in 2020/21. Weather will be important for the Northern Hemisphere spring and is likely to cause volatility as stocks tighten. That, coupled with increased speculative interest in markets and high corn and soybean prices, leads us to believe any sell-off in wheat will be limited.

Improved seasonal conditions, overseas and locally, have led Rabobank to reduce its 2021 Newcastle track APW1 forecast to AUD 285-AUD 315/metric ton. Australian prices followed overseas markets lower last month, with APW1 Newcastle down 6%, currently at AUD 278/metric ton. Once-in-a-century east coast rainfall has cemented soil moisture profiles coming into winter crop planting in most east coast regions, but caused some quality issues for not yet harvested sorghum in northern NSW. While dry parts of Queensland found reprieve, Western VIC missed out. Export and local feed demand is expected to remain firm, but above-average east coast grain stocks stored on farm will limit big upside moves in price.

Insatiable Chinese feed demand and low stocks in key exporting markets has led us to ***increase our 2021 CBOT corn forecast to USc 510-USc 550/bu.*** Corn has flowed out of US silos to meet rising global, and specifically Chinese, feed demand. Despite recent ASF outbreaks causing 3%-5% MOM declines between Dec'20-Feb'21, the Chinese hog heard is estimated up 10%-15% YOY, with further growth expected. Despite anti-dumping tariffs on Australian barley, local prices will continue benefiting indirectly from a global shortfall of feed grains and continued local demand.

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Grains & Oilseeds

Are canola prices too high?

- ***Global prices reached record highs in March, driven by tight supplies of canola, and more broadly, a deficit across the whole oilseed complex. While the current situation is severe, once new Northern Hemisphere crops come online, prices are expected to soften. For EU rapeseed, delivery prices for August and November are trading at a ~A$100/tonne discount to the nearby May delivery contract. Locally, prices never reached offshore frothy highs due to our near record harvest, therefore, while offshore declines will be felt in Australia, the already discounted local price may mean that the impact from overseas will be softened.***

Tight Stocks to Keep Global Prices up YOY

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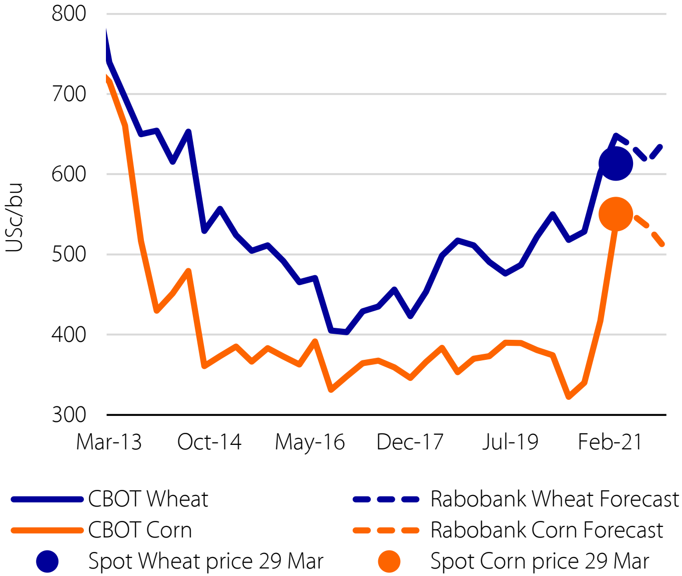
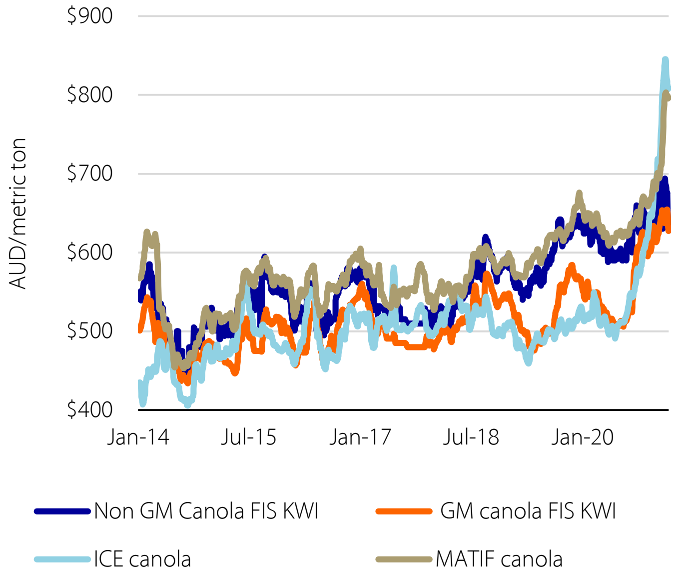
Easing La Niña worries in the Northern Hemisphere, and advancing South American crops, soften prices



Source: Bloomberg, Rabobank forecast 25/03/2021

Tight global oilseed stocks and strong demand boosts rapeseed prices; Aussie prices lag behind



Source: Bloomberg, Rabobank 2021

Milk Prices Moving Higher

Trade logistics are leading to a scramble for product and adding to commodity price rallies. Concerns about container availability are contributing to a rush on product, driving prices higher during Oceania's off-season.

A close eye on food price inflation in the months ahead is warranted. Higher commodity prices will begin flowing through supply chains, eventually reaching consumers. Promotions will likely return to retail outlets, as brands and retailers will once again need to compete for consumers. But, in a still fragile economy, consumers may experience some sticker shock and become more price sensitive with their food budget.

Milk prices have moved higher across dairy export regions on the back of firmer commodity prices. In March, there were some further lifts in milk prices from Australian dairy companies. As is often the case, given its heavy export commodity focus, New Zealand dairy farmers ride the rollercoaster and are seeing big lifts in farmgate prices. Rabobank forecasts a full-year milk price of AUD 6.65/kgMS for 2021/22 in the southern export sector. Nonetheless, the production outlook remains subdued, with rising feed costs a rising risk to farmgate margins.

Attention is focused on the Northern Hemisphere flush in the coming months. Rabobank forecasts a 1.1% increase in milk production across the Big-7 dairy-producing regions in 2021. This is a decrease compared to the 1.6% YOY increase in 2020 and represents a modest tightening of supply.

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What to watch

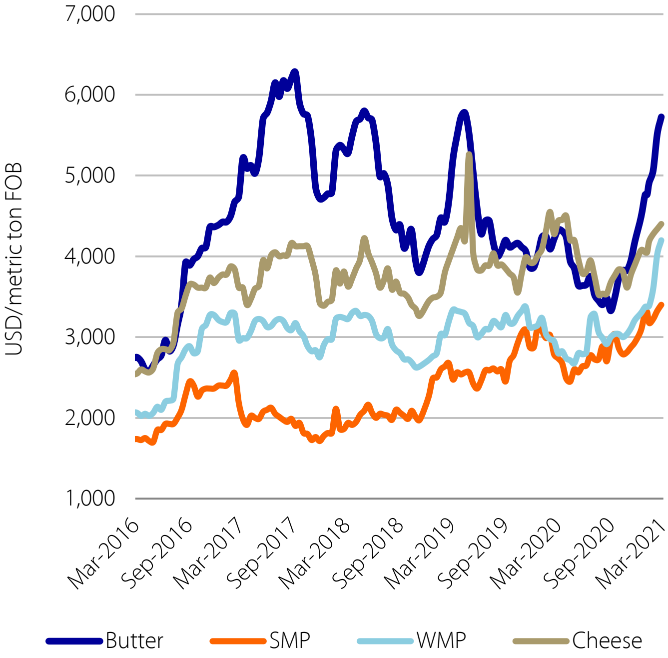
- ***The timeliness and strength of the autumn break is an important feature for the Australian dairy industry. By late March, some dairying regions had received good rainfalls. The Bureau of Meteorology expects average rainfall through to May. However, there are some dairying regions grappling with floods, which take time to recover from.***

Dairy

Heat in the Market To Continue Through Q2

Rabobank

Global dairy prices, 2016-2021

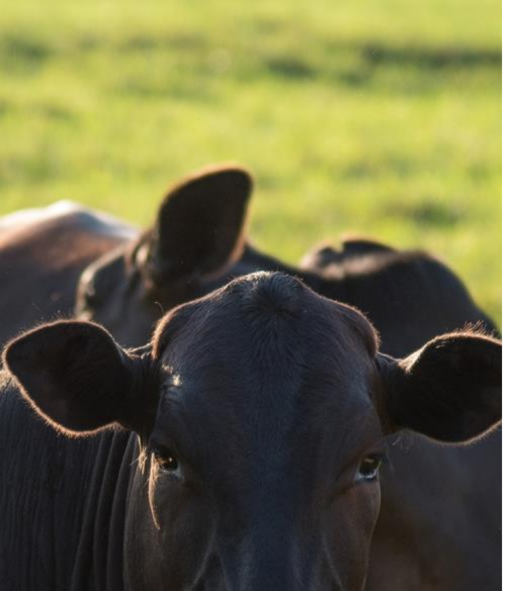


Source: USDA, Rabobank 2021

Production growth key exporting regions

	Latest month	***Last three months***
EU	-0.9% (Jan 21)	0.2%
US	2.0% (Feb 21)	2.3%
Australia	3.3% (Jan 21)	0.6%
NZ	1.4% (2020/21 season-to-date*)	

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



Rain Lifts Prices Again

After easing through February and early March, rain and wet paddocks have restricted supplies and reinvigorated producer demand, pushing cattle prices higher. On March 29, the EYCI had jumped to AUD 8.96/kg, a new record. Widespread rain, along with very low livestock inventory, have seen saleyard numbers drop to the lowest levels in over 10 years. NSW has been below the 10-year range for most of 2021, while Queensland, with drier seasons, has been close to the five-year average until a drop in mid March. ***While rain and limited livestock supplies should continue to support high cattle prices, it is difficult to see prices increasing much higher.***

East coast weekly cattle slaughter for the four weeks of March was 15% below the same period in 2020. NSW (down 15%), Vic (down 35%) and SA (down 36%) were the largest reductions YOY. For the first 12 weeks of the year, we have seen weekly slaughter numbers above 100,000 only twice. The five-year average for this time of year is 147,500 cattle per week.

Beef export volumes remain low, reflecting the low production volumes. February figures were down 28% on 2020 levels. Volumes to the US (down 50%), China (down 30%) and Japan (down 25%) saw large drops while South Korea was only down 7%. US import prices continue to remain good, sitting at USD 2.25/lb, up 10% on the five-year average for this time of year.

February live export numbers were down 45% YOY with drops to Indonesia (down 33%) and Vietnam (down 15%). Live export prices remain high but prices traditionally dip in late March as the northern musters start and cattle supplies pick up. ***The recent rain may delay these musters and allow prices to remain high a little longer***.

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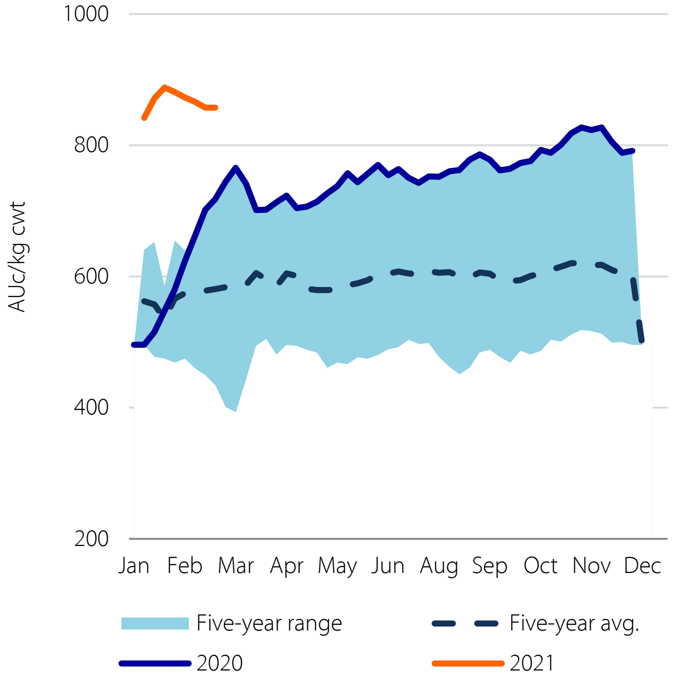
Beef

What to watch

- ***Queensland producer demand*** – For many parts of Queensland, the rain received through March was the first decent rain of the summer. While late in the season, it does provide some relief. The question is how Queensland producers will react. If rain provides enough pasture growth, we may see Australia's biggest cattle state hold more cattle and look to restock, keeping prices very high for the next couple of months. On the other hand, if pasture growth is slow, we may see Queensland demand and cattle prices ease.

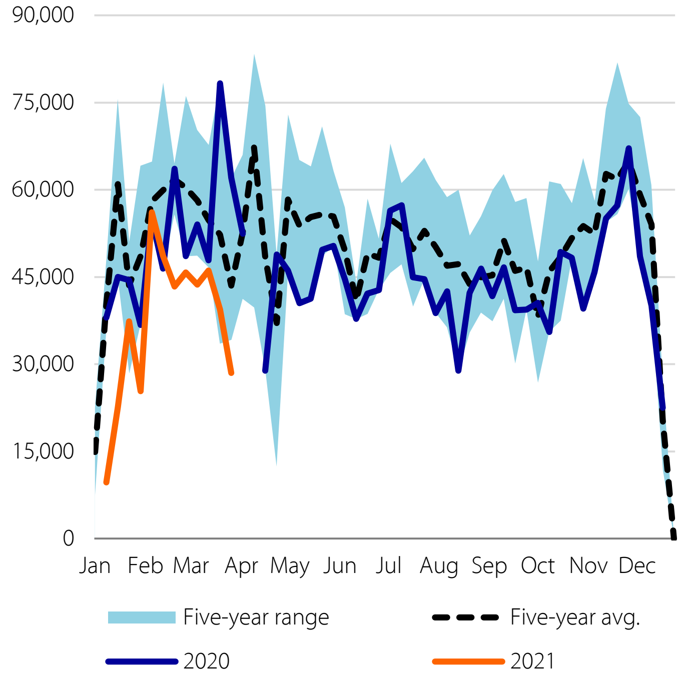
Rain Allows Producers to Hold Cattle and Prices Lift

The EYCI lifts off the back of widespread rain

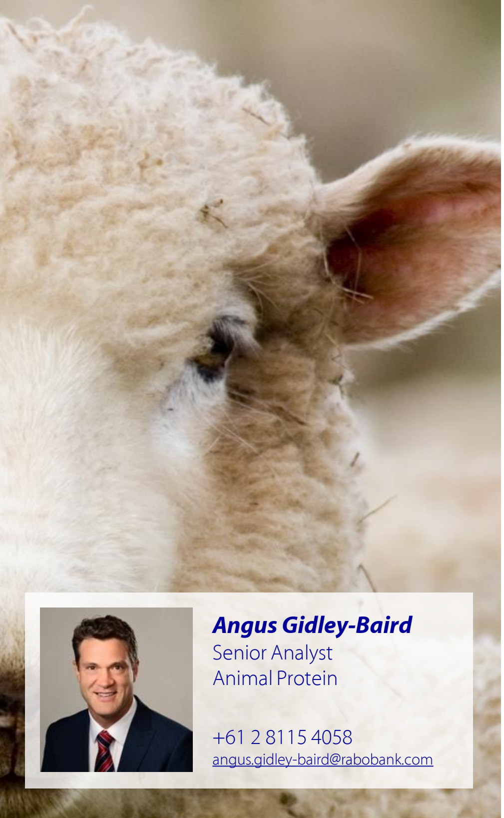


Source: MLA, Rabobank 2021

Weekly saleyard numbers hit a low point



Source: MLA, Rabobank 2021



Signs of Improvement in the US

US lamb prices are showing signs of life after declining or remaining static for much of 2020. This increase in price will help support local Australian lamb prices. Australian lamb prices have continued to trade in a relatively narrow band since January, with the ESTLI bumping around AUD 8.40/kg. The ESTLI was sitting at AUD 8.27/kg on 11 March. Restocking activity continues to be evident with the price spread between restocker lambs and heavy lambs at some of the highest levels we have seen. Although the price spread between heavy lambs and merino lambs is not as large, suggesting favor away from wool production. ***If the improvement in the US market, and strong export volumes to China continue, together with the ongoing limited numbers of lambs available, we expect prices to remain at similar levels through the month of April and into May.***

Lamb slaughter numbers lifted slightly in March. The eastern states weekly slaughter numbers for the four weeks in March showed a 7% increase month-on-month. Despite the rise, numbers remain low, with March 2021 numbers down 1% on March 2020, and down 11% on the five-year average. NSW is responsible for much of the increase, with lamb slaughter up 23% year-on-year and up 11% on the five-year average***. Such numbers, in contrast to other states, suggests the possibility that many merino breeders have concentrated on lamb production through 2020, rather than rebuilding flocks.***

Lamb exports in February (21,607 metric tons swt) continued to show the impacts of lower production, down 9% year-on-year. Interestingly exports to China jumped – up 48% year-on-year and we saw the highest volume of lamb ever exported to China in February.

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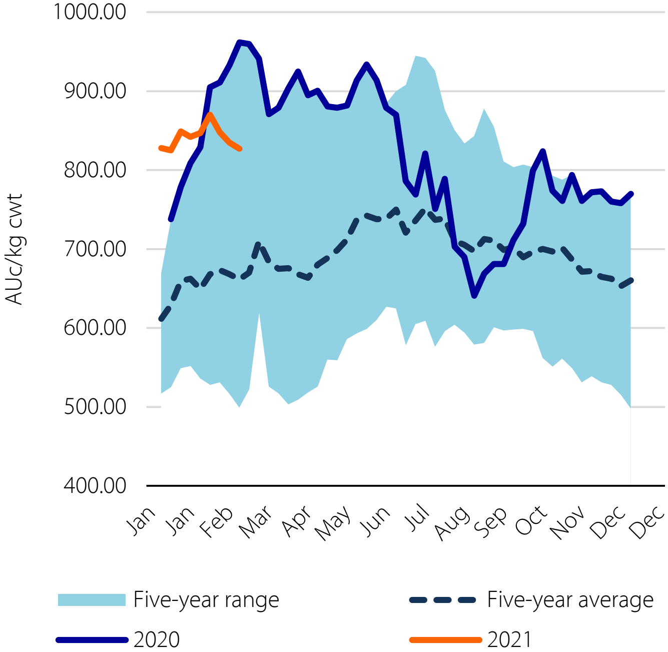
Sheepmeat

What to watch

- ***US lamb demand –*** Easter is traditionally the high point of the season for US lamb demand. Despite US foodservice figures showing a 17% contraction YOY for February, US imported lamb prices are showing some signs of life. The average imported Australian rack price (in USD) for March is up 4% on February, which is the first real increase since prices began to fall in 2019. With US government stimulus packages and the Covid vaccine being rolled out, lamb demand may start to recover, which would support ongoing strong Australian lamb prices.

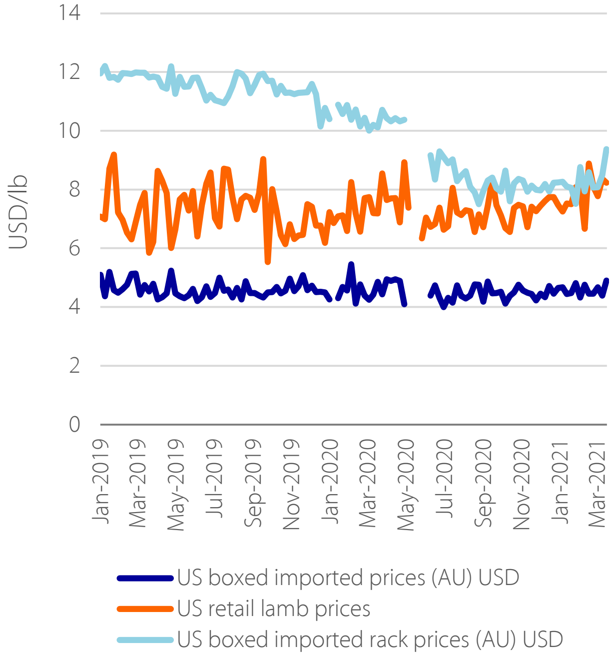
Signs of Improvement in the US To Keep Lamb Prices Firm

ESTLI staying steady



Source: MLA, Rabobank 2021

US lamb demand starting to pick up



Source: USDA Rabobank 2021

Sugar

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Deepening Deficit

Rabobank projects a deeper 2.8m metric ton global deficit in 2020/21, up from a 0.3m metric ton deficit predicted previously. The deeper deficit projection follows Asian harvest data, which showed both Indian and Thai cane output at the lower end of expectations. While price support is believed to be led by trade and speculation, this fundamental tightening adds fuel to an already bullish fire. Looking further ahead into 2021/22, Rabobank's early projections indicates a 1.5m mtrv surplus, as production increases across Thailand and Europe among others. Read more in our latest Q1 2021 Sugar Quarterly report.

March rainfall across the East Coast has provided most sugar regions with a dose of moisture. While favourable, these regions will now be in want of some sunny days to drive cane growth ahead of the June crush. The Bureau of Meteorology highlights a drier pattern emerging through large parts of Queensland in the one-month period – the far north region could be in store for additional moisture. With plenty of time for cane to develop, Rabobank holds a cautious early season cane forecast of 31m metric tons – similar to the 2020 crop.

The ICE #11 Raw Sugar Price is forecast to trade close to USc 15/lb through 2021. ***This, coupled with Rabobank's AUD/USD forecast, translates to an AUD 430-AUD 410/metric ton domestic swap price***. In our view, there are significant limits to further downside. For one, India's export parity – at near USc 15/lb – marks a point below which point India's willingness to export reduces. Furthermore, Brazil's ethanol parity sits at USc 13.5-USc 14/lb. The world needs this sugar from these regions and, as a result, must be willing to pay above these levels. Still, these levels are not set in stone. We're monitoring Brent crude prices, the BRL/USD, freight rates and government policy – all of which could adjust these parity levels.

What to watch

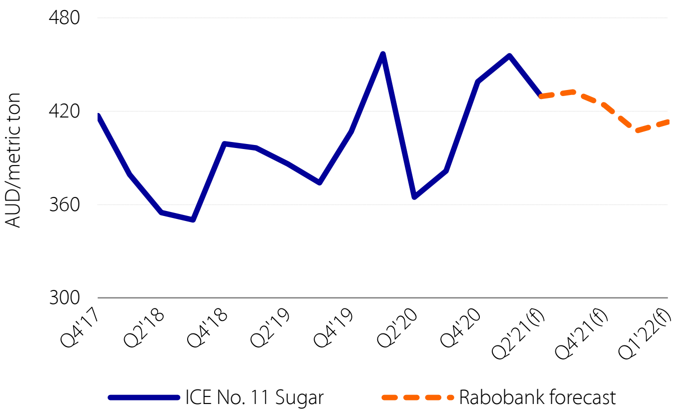
- ***Drier-than-normal weather persists across Brazil, ahead of the crush in April.*** February's rainfall was significantly below average levels in many cane regions. The ongoing dryness raises concerns of a late start to the crush and, potentially, lower cane yields.
- ***Container freight rates across the world – particularly in Asia – have reached astronomical levels.*** This is causing some disruption to Indian exports, particularly white sugar, which is slowing shipments and supporting the white premium.

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

Rabobank

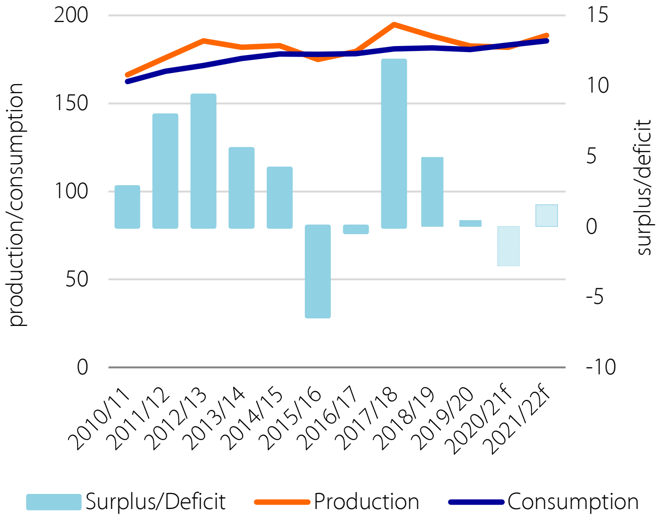
Rabobank forecasts domestic sugar prices between AUD 430-AUD 410/metric ton through 2021

	unit	Q3'20	Q4'20	Q1'21	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)	Q1'22(f)
ICE #11	USc/lb	12.4	14.6	16.0	15.0	15.3	15.0	14.6	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	429	432	424	407	413



Source: Bloomberg, Rabobank 2021

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



Source: Rabobank, 2021

Looking further ahead into 2021/22, Rabobank's early projections indicate a 1.5m mtrv surplus as production increases across Thailand and Europe, among others.

Blessing and a Curse

Recent rainfall across large parts of NSW and Southern Queensland come as a blessing and a curse. The curse is the impact on the current 2021 crop, with early planted crops beginning to see bolls open. Rainfall on these open bolls has the capacity to impact fibre quality – especially if the fibre stays wet – and is also likely to delay picking operations. However, later planted crops – with bolls still closed – should see benefits from recent moisture. The blessing comes for the 2022 crop – potential inflows into both public and on-farm storages should provide irrigation water, and grower confidence, for 2022.

March turned out to be a quieter month for world cotton markets. However, Rabobank believes that market volatility could rear its head at any time again in 1H 2021. There are two reasons for this: 1) the push-and-pull between speculators and unfixed mill persists on old crop contracts. And 2) southern US dryness remains a key risk for upcoming cotton plantings and abandonment, which could threaten further erosion of US stocks. As a result, Rabobank forecasts 2021 domestic prices in the AUD 570-AUD 535/bale region. This accounts for AUD/USD strength and weak seasonal basis.

Australian cotton trade to China has slumped dramatically since late 2020. With monthly 2020/21 cotton exports averaging 40,830 bales through to November, according to ABS data, this has fallen to just 2,000-3,000 monthly bales in December and January. In percentage terms, China took 58% of our 2020/21 exports pre-announcement but are now taking just 3%-5% following the restrictions. It's interesting to note that overall export volumes have remained strong, with nations such as Vietnam, Turkey, Indonesia and Bangladesh picking up the slack.

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Cotton

What to watch

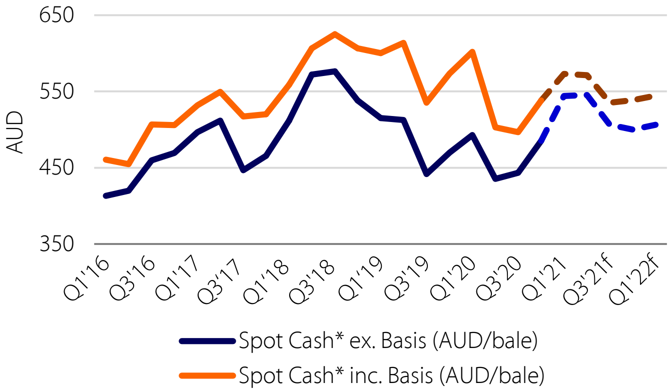
- ***March 31st marks the release of the USDA's Prospective Plantings report – the first insight into spring planting intentions.*** Given strong prices across soybeans, corn, cotton and others, there is much debate on what crops could 'win' acres. Rabobank expects cotton area to remain steady at 12m acres. A lower area than this is likely to drive support in the ICE #2 market.
- ***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.

Despite a Quiet March, Market Volatility Could Rear Its Head at Any Time Again in 1H 2021

Rabobank

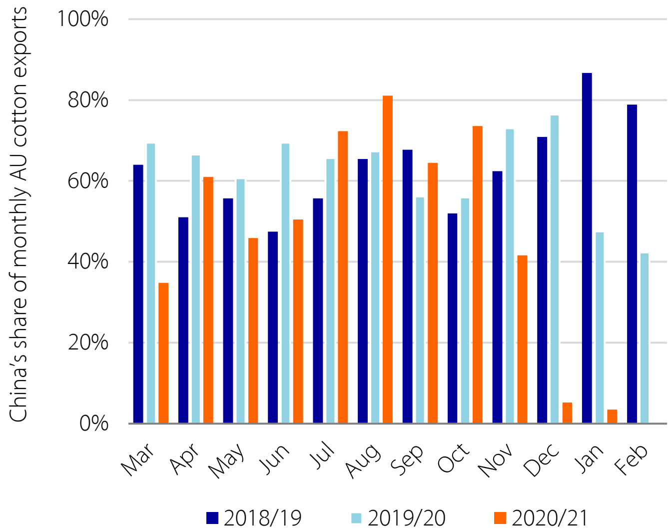
Prices forecast near AUD 570/bale through Q2 2021, before dipping marginally later in the year

	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**	**79**	**78**	**80**	**82**
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**



Source: Bloomberg, Rabobank 2021

Following trade tensions, China is taking just 3%-



Source: ABS, Rabobank 2021

Australian cotton trade to China has slumped dramatically since late 2020. However, overall export volumes have remained strong with nations such as Vietnam, Turkey, Indonesia and Bangladesh picking up the slack.

Wool

Taking a Breather

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Animal Protein, Grains & Oilseeds

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Despite larger volumes coming on to the market through the first months of the year, wool prices have held up pretty well. After posting modest gains for the year to March, prices have "taken a breather" this month and are hovering just under AUc 1300/kg. The EMI has operated within about 20 cents of the average (AUc 1296/kg) for the month of March, finishing at 1285c/kg on 29 March. Finer micron premiums dropped a little through March after their gains in January. With vaccination rollout progressing, the future for apparel sales is looking more positive, however we are yet to see it transpire into retail sales figures. ***Given the market's ability to accommodate larger volumes through February and March, we believe the optimism about demand improvement in the supply chain should keep prices steady with possible modest upside as we progress through the coming months.***

National wool tested data for March shows the number of bales tested (188,619) is up 9.9% YOY. Yield, vegetative matter and micron are all up on last year, reflecting the improved season and better feed availability. Wool exports for the month of January were down 20.6% YOY in volume terms and down 35.1% in value terms given the lower prices experienced this year compared to last year.

Retail apparel sales showed mixed results in February data. In the US, retail apparel sales rose 7.5% MOM, but remained down 15% YOY. In the UK, where Covid restrictions are in place in multiple regions, retail sales fell nearly 18% and are down 52% YOY. US woollen suit imports were up 5% MOM but far from pre-pandemic highs, with Japanese imports largely unchanged MOM.

What to watch

- ***Disruptions to freight –*** Prices for containerised freight have escalated worldwide, primarily due to a geographical misallocation. Increased volumes of containers are situated in Europe and the US, while they are needed back in Asia, and the recent Suez Canal debacle only added to troubles. For wool exporters, access to containers has become reduced, freight times have been extended, and access to financing more difficult. Rabobank forecasts high container rates to continue until at least Q3 2021.

Challenges With Supply Channels Cause Exports To Drop and Prices Take a Breather

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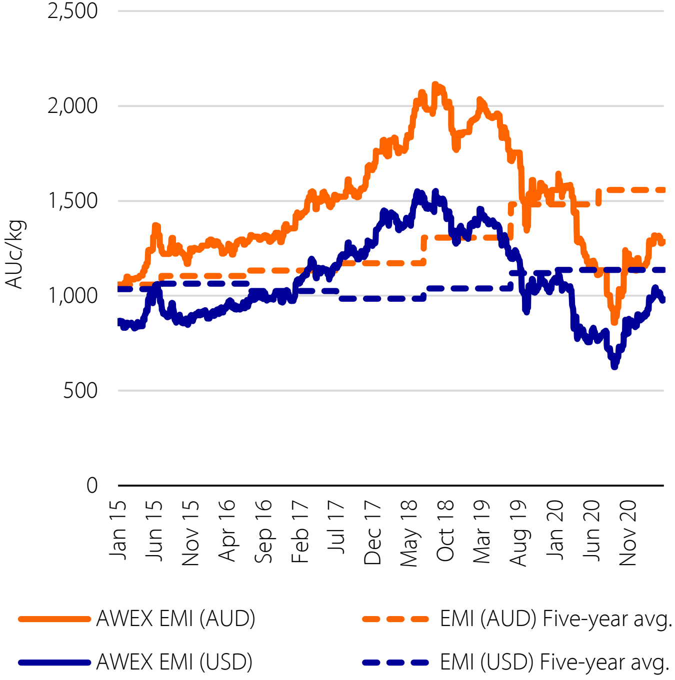
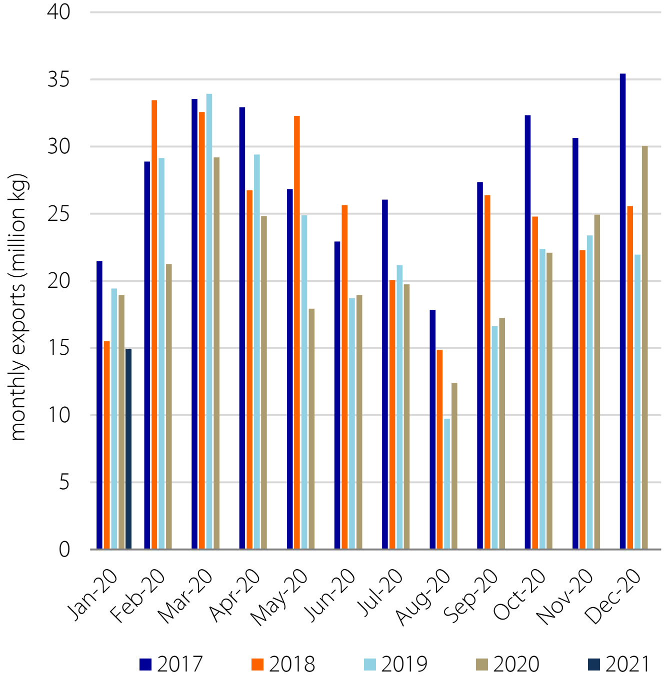
EMI treading water



Source: Bloomberg, Rabobank 2021

Australian January wool exports drop



Source: ABS, Rabobank 2021

Downstream markets

A Year After 'V-Day,' Chinese Channels Remain Heavily Distorted

January/February data were a wake-up call for those reading economic headlines and thinking that, a year after the arrival of the virus, all might be back to normal in China.

Chinese food retail sales continued to perform strongly. Consumers spent 11% more in Jan/Feb than a year prior period – and 22% more than in the same period of 2019.

But the foodservice channel is struggling to recover anything like its former health. The 69% YOY growth in Jan/Feb sales sounds spectacular, but leaves sales still 4% short of the same period of 2019. And remember, this was a channel that pre-pandemic was growing at double-digit annual rates. Early 2021 sales appeared to be constrained by travel restrictions imposed during the Spring Festival period, sluggish consumer confidence and tight management of discretionary spending.

The stalling of the recovery of China's foodservice channel is not ideal for those selling beef, lamb, cheese and seafood into this market. Though it remains a lot better than the same channel in the US and EU.

Of course, Australian exporters of wine, crustaceans and barley have bigger problems: with their shipments into the Chinese market effectively barred at present – irrespective of retail and foodservice demand.

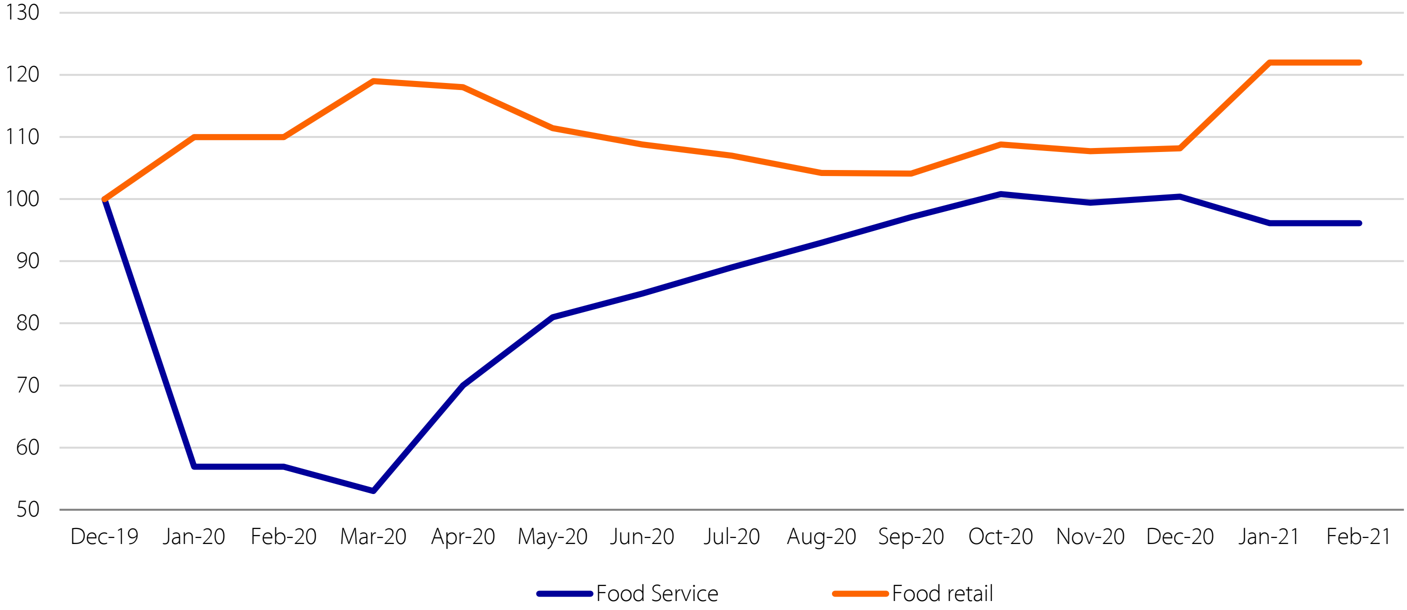
What to watch

- ***The appetite of Chinese consumers to spend.*** We expect lingering economic effects of the pandemic will constrain growth in the Chinese foodservice sector. Overall, foodservice sales will likely struggle to fully regain pre-crisis levels in 2021. But QSRs and cafés are likely in a better position than full-service restaurants, given cheaper offerings and the ability to provide takeout and delivery. For a more detailed view of the outlook for food service in China and other regions, see our March 2021 report: What's on the Menu

A Year After the Arrival of the Virus, the Chinese Market Remains Distorted

Rabobank

China food channel sales index (where each month of 2019 = 100 for that period)



Sources: China National Bureau of Statistics, Rabobank analysis

The Toll of Tensions Is Clear, but Total Exports Are up Regardless

The impact of formal and informal barriers erected to Australian product by China is starting to become apparent. Shipments of barley, wine and crustaceans slowed to just AUD 8m in January 2021, down from AUD 278m a year prior. Large volumes of meat, wool and dairy continue to flow between the countries. And December saw a record shipment of wheat. But total Australian F&A exports to China are well down from their peaks.

Relations between Australia and China deteriorated even further through March. Senior Australian officials again condemned Chinese actions in the South China Sea and its treatment of muslims in Xinjiang. Chinese officials objected when Australia granted a visa to a Hong Kong pro-democracy advocate and jibed that Manus Island was referred to as a concentration camp.

In late March, Australia's ambassador to Beijing was reported to have told the Australian China Business Council that "You've just got to imagine that, unexpectedly, you may lose your China market for no good reason other than Beijing has decided to send a message to Canberra".

Thankfully for now, total Australian F&A exports are on the rise regardless. Some exporters are succeeding in pivoting away from China, world markets remain buoyant and Australia has a bumper crop to sell.

Geopolitics

What to watch

- ***The great pivot.*** Australian exporters have so far had varying success in replacing lost sales to China. With a tight global market, commoditised product and recovery of domestic supply, barley exports actually rose YOY in January 2021, with Saudi Arabia and Thailand taking up much of the slack left by China. The equation has proved harder for wine and crustaceans, as we recently covered on Rabo TV [RaboTV (rabobank.com.au)]

Politics and Reduced Local Herds Take their Toll on Australian Exports to China

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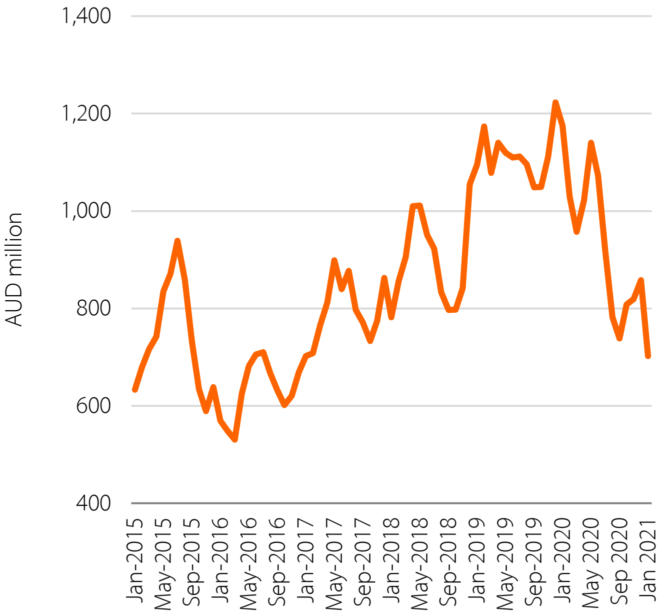
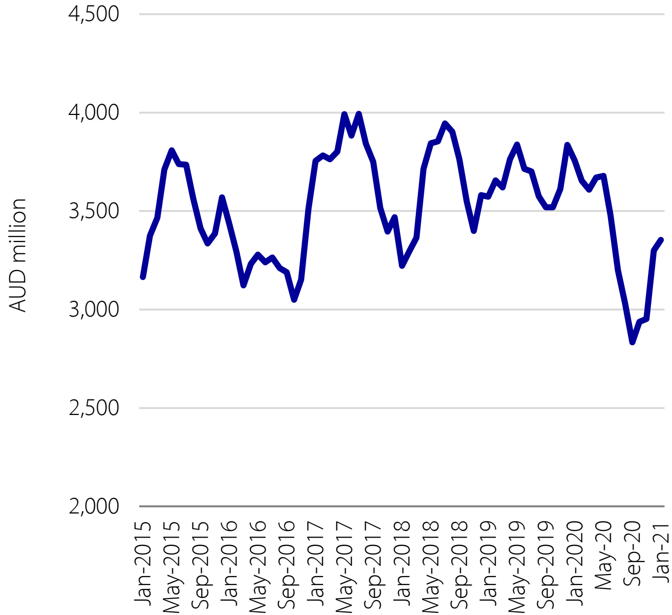
Australian F&A Exports to China (three-month average)



Australian F&A Exports to World (three-month average)



Source: ABS, Rabobank 2021

Global Price Relief May Be Too Late

Global fertiliser markets continue to be gripped by what can only be described as a perfect storm. We expect that global prices will begin to subside in April, initially for urea, before phosphates follow later in Q2. For local farmers acquiring phosphate, relief will be too late for this season.

Through March, three factors have continued to drive global prices to new highs. Strong prices of global grains and oilseeds have incentivised farmers in key regions to buy-up ahead of spring planting in the Northern Hemisphere. Secondly, prices of some raw materials have increased. For example, natural gas, used for the production of urea is trading 5%-15% above the five-year average, while coal, also used in the production of some urea, is also trading well-above the five-year average. Finally, global freight prices continue to be a thorn in the side of importers. High demand and logistical disruption is continuing to push prices for both container and bulk ocean higher, which is adding as much as 5% to the cost of the product, between ports.

Global phosphate prices have increased most significantly. Most global phosphate benchmarks have now nearly doubled (in USD terms) compared to 12 months ago. DAP ex US Gulf has now increased some 45% this year, in part due to the countervailing duties published by the US Department of Commerce. They have published countervailing duties as high as 47.05 percent against phosphate fertiliser from Morocco and Russia.

We are now heading into the key period for local urea imports – on average 63% of yearly urea imports reach our shores between April to May. In the face of global higher prices, and higher freight rates, local farmers can expect to pay higher prices for urea this season. We do expect global prices will ease from April to June, but this may be too late for this importing period

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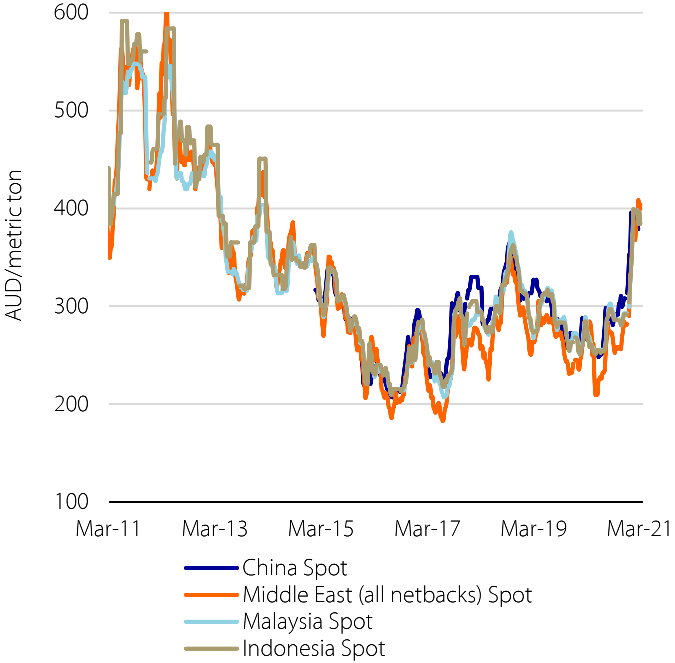
Fertiliser

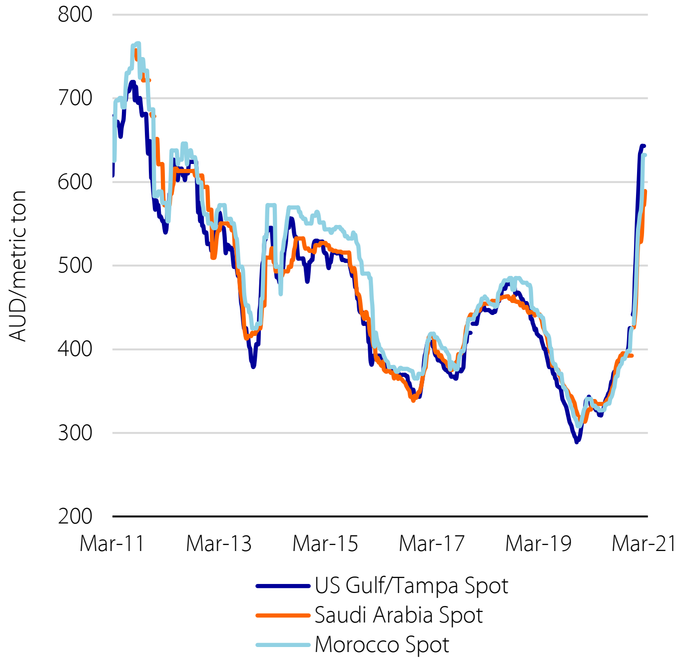
Are prices sustainable at these levels?

- After trading at 10-year lows in 2020, global fertilizer prices have made a sharp recovery. We expect prices will ease in mid-late Q2, primarily due to the ***easing of Northern Hemisphere demand.*** The Northern Hemisphere spring one of the peak times for global fertiliser demand. Once procurement is complete for this crop, we expect global prices will ease, although it may take several months to flow through to local markets.

AUD-Adjusted Global DAP Price Is Now the Highest Since 2012

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





Source: CRU, Rabobank 2021

Rates & FX

Stimulated USD on the Rise

The AUD weakened against the USD during March. Having opened the month close to USc 78 it closed just under USc 76 on 30 March.

Much of the movement can be attributed to the strength of the USD, which rose against many currencies: with the USD broad index up almost 3% for the month.

The USD was pushed higher on the approval of more stimulus spending, rising vaccination rates and encouraging early economic data for March. Congress passed the USD 1.9 trillion stimulus bill on March 11th – freeing up the government to inject funds worth around 8.5% of the size of the economy into the economy. This in turn led the Federal Open Market Committee to upgrade their 2021 forecasts for both economic growth (to 6.5%) and inflation (to 2.4%). While most officials still don't expect to raise interest rates till 2023: some investors are betting on more inflation, and earlier interest rate hikes than the Federal Reserve envisages, and hence a stronger USD. Weekly US jobless claims fell in late March to the lowest level since the pandemic, adding to the sense that the US economy is recovering faster than many expected.

Rabobank is less convinced than the market about the prospects for an inflation overshoot and early rate hike. And with commodity prices expected to remain firm, we expect the AUD to avoid major downside from here. ***RaboResearch expects the AUD to tap in at USc 79 by Q1 2022.***

What to watch

- ***Near-term US inflation*** (April/May) is likely to rise significantly as the weak early pandemic figures drop out of the 12-month calculation and the rapid ascent of commodities prices feeds into the pricing of goods. If inflationary pressure proves sustained, the USD will push higher than we anticipate. But we see this unlikely, given slack in the US labor market and the erosion of US real incomes given the lack of upward wage growth. We look for inflation to ease through 2H 2021, and with it some of the support for the USD.

AUD Falls Against the USD as Optimism Regarding US Recovery Gains Traction

Rabobank

Australian currency against the US dollar

Source: RBA, Rabobank 2020

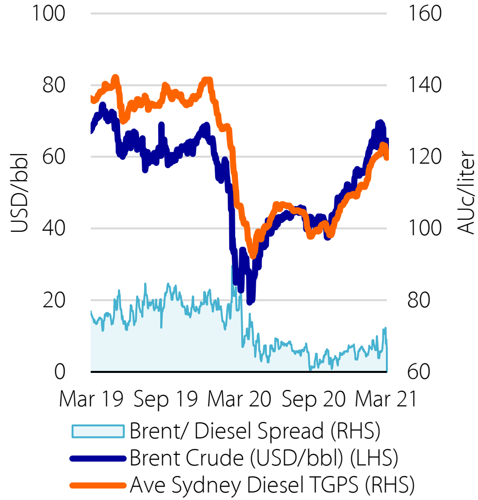
Lower Brent Crude Prices Ahead

We expect Brent Crude to stabilize at the USD 60/bbl level for the remainder of 2021.

It has been a volatile couple of weeks in oil markets, with renewed lockdowns in France and Italy tempering the narrative of a near-term fuel demand recovery. In recent weeks, investments toward commodity indexes have been slowing, as investors reassess and rebalance commodity allocations. We expect travel-related demand to increase this summer, although markets are well supplied in the near term.

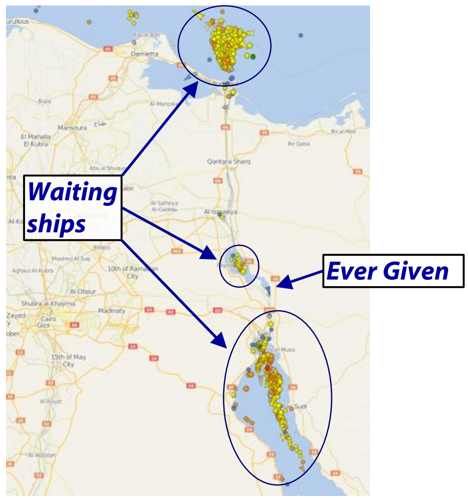
Global freight issues continued to compound late in March, with the 400m long ship 'Ever Given' wedged in the Suez Canal, for a week, blocking the major trade route. Shortly before being freed, 400 vessels were waiting for the ship to be dislodged, which may cause further delays to freight movement and port logistics.

Brent Crude Oil & Average Sydney Diesel, 29 Mar 2019-29 Mar 2021



Source: AIP, Bloomberg, Rabobank 2021

Suez Canal vessel locations, March 28, 2021



Source: Vessel finder, Rabobank 2021

Agri Price Dashboard

As of 29/03/2021	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	613	644	570
CBOT soybean	USc/bushel	▲	1,399	1,393	882
CBOT corn	USc/bushel	▲	549	548	341
Australian ASX EC Wheat	AUD/tonne	▼	277	297	390
Non-GM Canola Newcastle	AUD/tonne	▼	599	600	641
Feed Barley F1 Geelong	AUD/tonne	▼	228	239	302
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	888	857	704
Feeder Steer	AUc/kg lwt	▼	440	445	375
North Island Bull 300kg	NZc/kg cwt	•	500	500	495
South Island Bull 300kg	NZc/kg cwt	▼	450	460	465
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	827	848	941
North Island Lamb 17.5kg YX	NZc/kg cwt	•	655	655	700
South Island Lamb 17.5kg YX	NZc/kg cwt	•	625	625	680
Venison markets					
North Island Stag	NZc/kg cwt	▼	520	530	700
South Island Stag	NZc/kg cwt	▼	535	545	700
Dairy Markets					
Butter	USD/tonne FOB	▲	5,725	5,063	4,325
Skim Milk Powder	USD/tonne FOB	▲	3,400	3,225	2,738
Whole Milk Powder	USD/tonne FOB	▲	4,200	3,600	2,800
Cheddar	USD/tonne FOB	▲	4,400	4,275	4,438

Agri Price Dashboard

As of 29/03/2021	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	85.1	94.4	61
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	80.3	90.3	51
Sugar markets					
ICE Sugar No.11	USc/lb	▼	15.2	16.2	10.73
ICE Sugar No.11 (AUD)	AUD/tonne	▼	439	460	407
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,285	1,306	1,442
Fertiliser					
Urea	USD/tonne FOB	▼	357	375	262
DAP	USD/tonne FOB	•	580	580	310
Other					
Baltic Dry Index	1000=1985	▲	2,178	1,651	548
Brent Crude Oil	USD/bbl	▼	63.52	63.69	23
Economics/currency					
AUD	vs. USD	▼	0.76	0.78	0.62
NZD	vs. USD	▼	0.70	0.73	0.60
RBA Official Cash Rate	%	•	0.10	0.10	0.25
NZRB Official Cash Rate	%	•	0.25	0.25	0.25

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