

# *Global Headwinds and Local Price Pressure*

*Australia Agribusiness Monthly*

*July 2022*

**RaboResearch**  
Food & Agribusiness



**Rabobank**

# Commodity Outlook

|                                                                                                                      |                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p><b>Grains &amp; Oilseeds</b></p> | <p>The wheat price outlook remains elevated, but changing ideas on Black Sea production and export volumes will be swing factors for price in coming months, as buyers trade on hopes of lower prices.</p>                                         |
|  <p><b>Dairy</b></p>                 | <p>The new production season has begun with record milk prices across all states, providing an opportunity for profitability despite cost headwinds. Northern Victoria irrigation farmers are starting the year with high opening allocations.</p> |
|  <p><b>Beef</b></p>                  | <p>After a temporary jump in prices following rain in May, young cattle prices have resumed their downward trend from earlier in the year. We expect this to continue until spring when producer buying activity may lift prices.</p>              |
|  <p><b>Sheepmeat</b></p>             | <p>Lamb availability appears to be good with prices not rising through June, unlike last year. Lamb supplies are expected to decline in the coming months, which would support upward price movement, but we do not expect large rises.</p>        |
|  <p><b>Cotton</b></p>                | <p>The 25% MOM global price fall in June won't be the final drop this year. With consumer confidence in key markets signalling slower demand ahead, we now expect local prices below AUD 600/bale in Q4 this year.</p>                             |
|  <p><b>Wool</b></p>                  | <p>The 2022 price outlook is supported by post-Covid consumer spending, but 2023 is looking increasingly gloomy.</p>                                                                                                                               |
|  <p><b>Downstream Markets</b></p>    | <p>Australia's latest retail sales data beat market expectations. Food market sales remain elevated in both channels. Headwinds to consumer discretionary spending continue to strengthen.</p>                                                     |
|  <p><b>Farm Inputs</b></p>           | <p>We expect only limited changes to local fertiliser prices in the near term because of supply chain and logistics costs and lead times, the softer AUD, and local inventory considerations.</p>                                                  |
|  <p><b>FX/Interest Rates</b></p>     | <p>The RBA raised the cash rate by 50 basis points this week to 1.35% and more interest rate hikes are likely through the remainder of this year. We expect the AUD to rise further to 0.75/USD on a 12-month horizon.</p>                         |
|  <p><b>Oil/Freight</b></p>          | <p>While global crude oil prices fell slightly, diesel prices in Australia rose further in June. We see more crude oil price upside through 2022 as global supply tightness should outweigh recession-driven demand concerns.</p>                  |

# Wet Winter for North, Central, and East Australia



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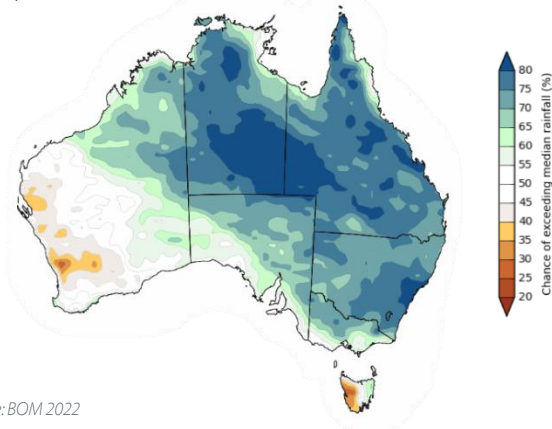
## **The Bureau of Meteorology (BOM) expects a high chance of above-average rainfall for large parts of Australia this winter.**

BOM's outlook sees Northern, Central, and Eastern Australia with a greater than 60% chance of exceeding median rainfall this winter. However, for Western Australia and western Tasmania, average and below-average rainfall conditions are expected, respectively.

ENSO is expected to return to neutral conditions this winter. However, the tropical Pacific remains La Niña-like, favouring above-average rainfall. The Indian Ocean Dipole (IOD) is forecast to move negative over the winter, increasing the chances of above-average winter-spring rainfall. BOM also notes that the accuracy of models is very low during this period.

## **Rainfall expectations**

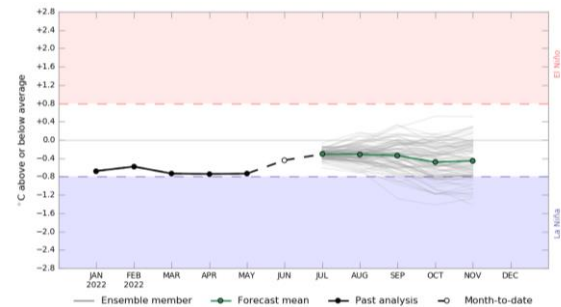
July-September 2022 rainfall outlook



Source: BOM 2022

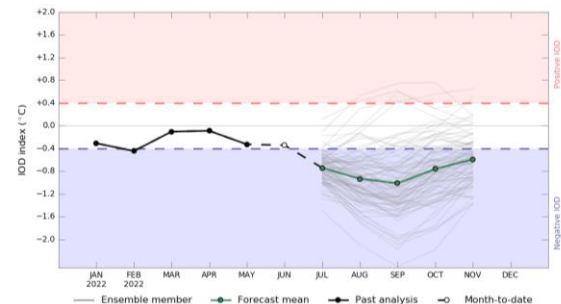
## **Neutral, but La Niña-like conditions to continue**

Monthly sea surface temperature anomalies for the central Pacific Ocean



## **Negative IOD developing**

Monthly sea surface temperature anomalies for the Indian Ocean



# Rainfall Below Average in June After Several Wet Months



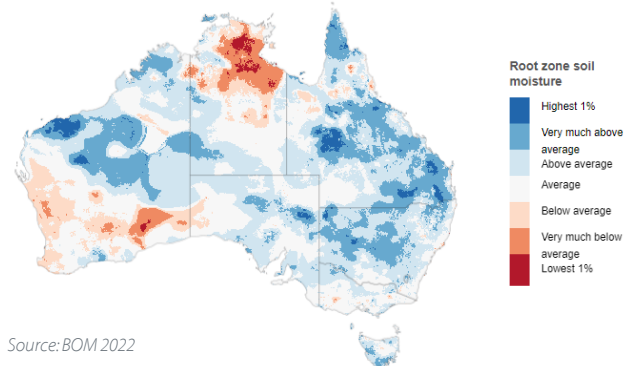
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## After a wet start to the year, rainfall was below average for Australia in June.

Following seven months of above-average rainfall, New South Wales recorded below-average rainfall this June. Queensland, Western Australia, and the Murray-Darling Basin also recorded below-average rainfall.

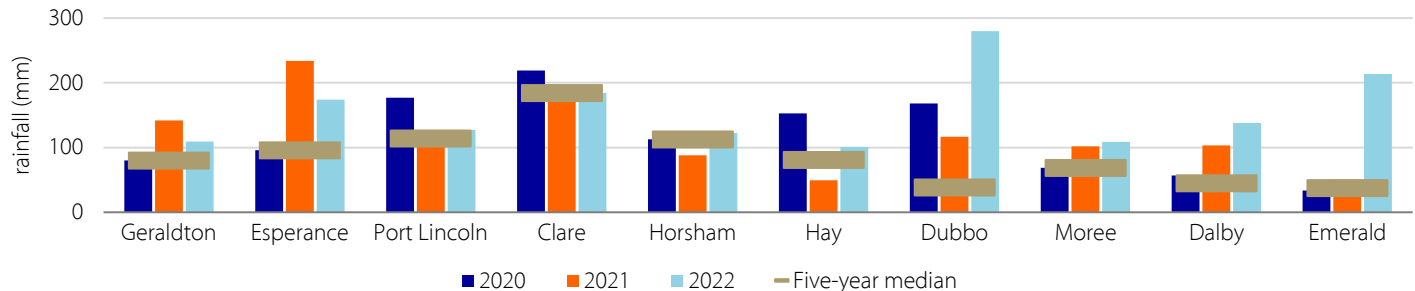
For tropical north Australia, rainfall exceeded dry season averages, with rainfall in the Northern Territory exceeding the June monthly average by over 70%. Victoria and Tasmania rainfall conditions were also above average.

## Relative soil moisture, June 2022



Source: BOM 2022

## April-June rainfall



Source: BOM 2022



# 'Summer of Content' Still Possible

**During June, the S&P GSCI Agriculture Index – a benchmark of global agricultural commodity market performance – dropped more than 15%, including a 20% MOM decline for CBOT Wheat.** The drop in agri commodity prices comes as other asset classes also fell – triggered by interest rate hikes, inflation concerns, and hawkish central bank rhetoric. July opening trading continued the trend.

**Rabobank continues to expect above-average global prices, but has marginally downgraded its forecast for CBOT Wheat to between USc 1050/bu to USc 1080/bu over the next 12 months.** CBOT Wheat's recent decline has been driven by significant fund selling in addition to the Northern Hemisphere harvest starting to come to market, but hopes for the resumption of Ukrainian grain exports through the opening of a Black Sea trade corridor were key. Russia's withdrawal from Snake Island, an important hold in the Black Sea, lifted hopes further as June closed and July opened.

The resumption of Ukrainian Black Sea exports is, however, far from certain. And Northern Hemisphere weather risks are high, with heat wave and La Niña impacts in the US and Europe persisting.

USDA now forecasts Ukrainian wheat production to be 35% lower YOY and Russian production at 80m tonnes, well below the records forecast by local consultants. Changing ideas on Black Sea production and export volumes will be swing factors for price in coming months, as buyers trade on hopes of lower prices while the Northern Hemisphere supply is coming to market.

Many Australian farmers are still battling to get crops planted due to wet conditions, especially in NSW and Qld, but several drier weeks in June allowed an uptick in progress. Central NSW has been impacted most severely. Despite local prices following global some of the way lower this past month, the global outlook continues to support a local pricing 'summer of content.'

NWC APW1 track traded down 7% MOM to AUD 410/tonne in June. **Rabobank's forecast is unchanged: a quarterly average NWC APW1 track price of AUD 428/tonne to AUD 406/tonne by Q4 2022.**

## What to Watch

- **Increasing government trade barriers** – From India's private sector export ban on wheat, to Indonesia's temporary export ban on palm oil, to Russia's export tax (which was recently lowered), an increasing number of governments are intervening in export markets. The more governments intervene, the more volatile and unpredictable grain pricing will become.
- **EU biofuel policy** – Pressure is growing on EU governments to ease mandates for blending biofuels in order to increase the supply of vegetable oils and wheat available for human consumption. If this happens, canola prices could see a substantial decline.



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# Grains & Oilseeds

# Local Wheat Holds Tighter Amid Global Pressure

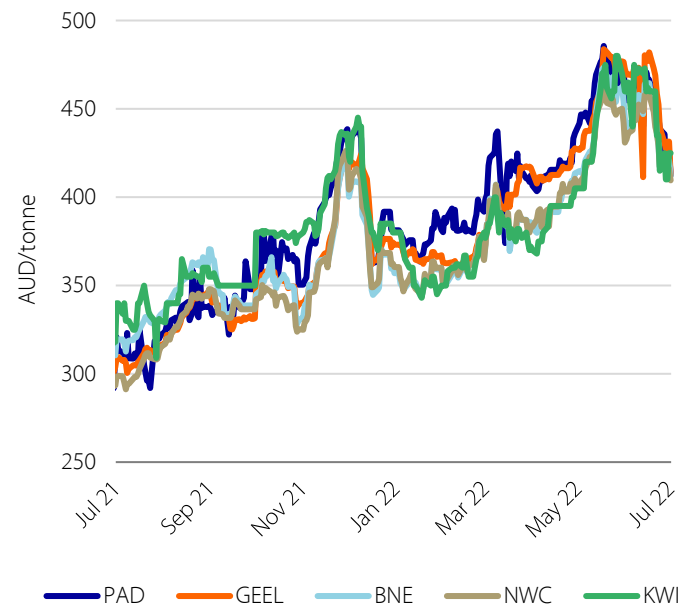


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**S&P Global commodity index took a 15% MOM dive in June on a worsening macroeconomic environment**



**Local wheat prices\* down 10% across port zones, a smaller decline versus the 20% global decline**



Source: Bloomberg, S&P GSCI, Rabobank 2022

\*Notes: All track price except for KWI, which is FIS.  
Source: Bloomberg, Rabobank forecast 22 June 2022

# Profitability Firmly on Cards Again

**Local April milk production numbers were not pretty.** National production was down 6.6% YOY. In total, milk production is down 3.4% for the season with falls in all states except New South Wales. With the new season underway, there are some positive drivers that should support stabilisation in the milk supply in 2022/23.

**Record milk prices in all regions and states will go a long way to ensuring a profitable season.** The flurry of increases in milk prices in the lead-up to 1 July has milk pricing across the export region nudging AUD 10/kgMS. Despite significant cost headwinds, the increase in milk price should ensure a season of profitability – which would be the fourth in a row. Rabobank still cautions farmers to budget on further increases from here.

**Northern Victoria irrigation farmers have a favourable water market for 2022/23.** A combination of good soil moisture, high carryover, and very strong opening allocations across all systems will provide plenty of options for dairy farmers.

**Dairy company margins are feeling some pain.** Record-high milk prices are putting pressure on margins in retail and foodservice businesses. This comes against a backdrop of high costs in other parts of the business. Efforts to pass costs through to consumers will continue.

**The livestock sector in the Netherlands fears heavy politically driven reductions,** as the country needs to reduce nitrogen levels in water and soils. Heavy impacts are likely over the coming years for the dairy sector in the world's third largest dairy export nation.



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## Dairy

### What to Watch

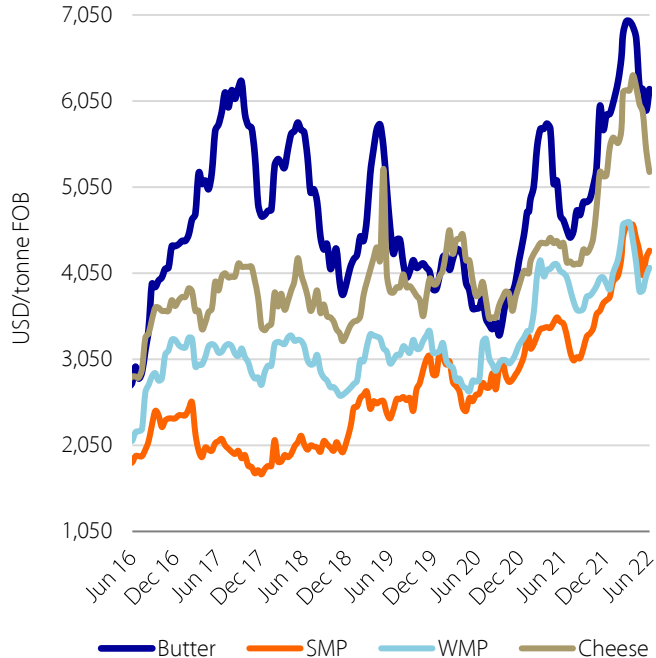
- **The approaching spring flush in New Zealand** – The strength of New Zealand peak milk for the new season will be the first test of global market fundamentals. Last season finished 4.0% lower on a milksolids basis. The initial Rabobank forecasts for the new season (which kicked off 1 June 2022) is for a modest 2% recovery in milk supply.

# Rapid Falls in Oceania Milk Supply Continue



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## Global dairy prices, 2016-2022



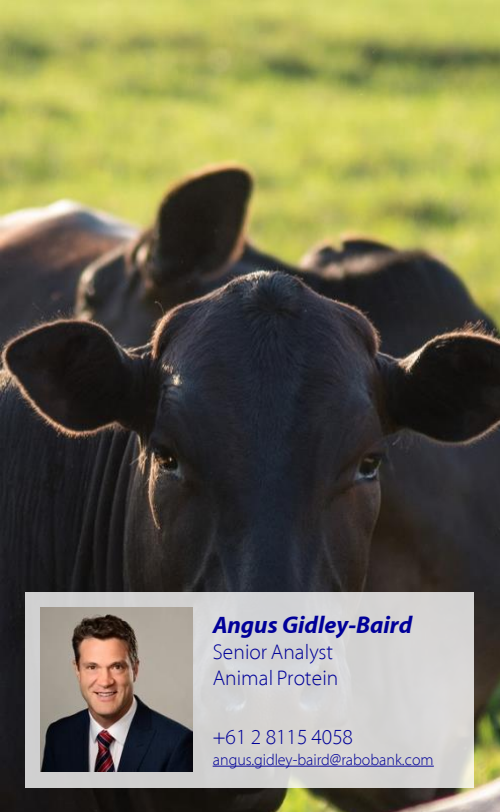
Source: USDA, Rabobank 2022

## Production growth key exporting regions

|                  | Latest month                       | Last three months |
|------------------|------------------------------------|-------------------|
| <b>EU</b>        | -1.6% (Feb 22)                     | -0.6%             |
| <b>US</b>        | -0.7% (May 22)                     | -0.7%             |
| <b>Australia</b> | -6.6% (Apr 22)                     | -5.9%             |
| <b>NZ</b>        | -4.1% for the 2021/22 full season. |                   |

Source: Rabobank 2022





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# No Need To Panic Yet

The EYCI started heading down again after peaking in early June following some widespread rain across Queensland. Despite it falling 10% in June there is no need to panic: Effectively, it is returning to the downward trendline that we had seen between February and May. Most other cattle classes saw a drop in prices through June, following the EYCI trend, although heavier cattle were more stable – heavy and medium steer prices only fell 1% – and feeder cattle dropped 5% to AUc 541/kg. With more rain through the Northern Territory and Queensland in early July there may be another slight lift in young cattle prices. However, it is likely that this is too late, with producers already having made their decision to sell or hold stock. As a result, **we believe that young cattle prices will continue to drift down over the coming months before the spring break leads to any possible further buying activity.**

East coast weekly slaughter numbers hit their highest volume for 2022 in week 26 (ending 24 June) at 97,253 head. Western Australian numbers also lifted to 2,485 head but remain at the levels seen earlier in the year.

May beef exports (79,995 tonnes swt) were up 5% YOY – the first time in eight months that we have seen a year-on-year increase and only the second time in over two years. Although it is too early to call a rise in production, given the ongoing limitations with processing capacity, it does reflect that the market has turned and cattle supplies and beef production are on the increase. Volumes to Japan saw a big increase (+85% MOM) after a very low volume in April. Other major markets were stable. May live feeder/slaughter export volumes were down 41% at 45,056 head, continuing the trend we have seen through the year so far.

## What to Watch

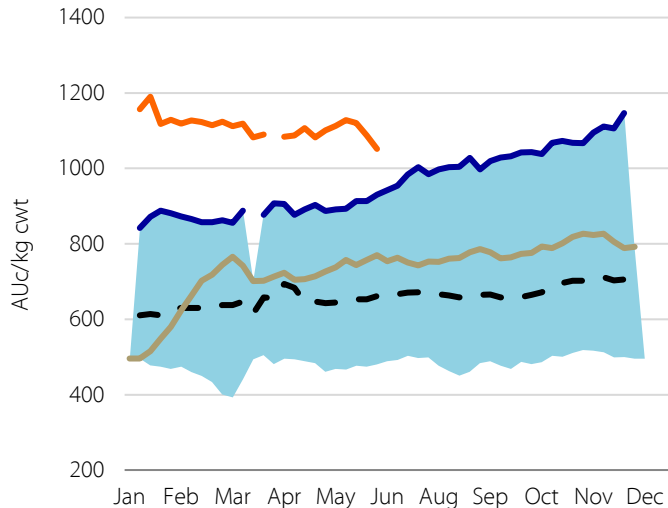
- **Global beef markets remain strong** – In US dollar terms, most of Australia's beef export markets have remained strong for the first half of 2022, although the US imported lean trimmings market has eased a little. A stronger Australian dollar in March had an impact on Australian export beef pricing. However, with the dollar retreating to the low AUc 70 range, we have seen export beef prices (in AUD terms) pick up again. While partly a reflection of the low export volumes, this pricing will continue to support finished cattle prices.

# Beef

# Weaner Prices Drop Back to the Declining Trend but Export Prices Remain Strong

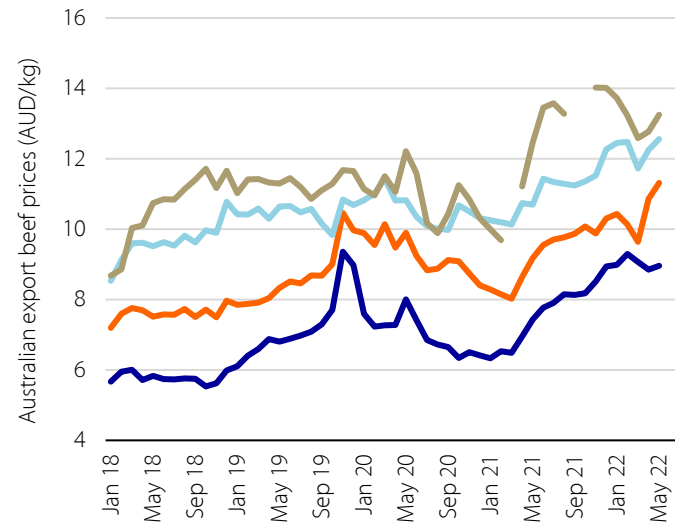


**EQCI heads down again after a brief respite**



- Five-year range
- - - Five-year average
- 2020
- 2021
- 2022

**Import prices remain strong, supported by a weaker AUD**



- US imported Australian cow meat trimmings (90CL)
- Japan imported frozen Australian trimmings (80CL)
- Japan imported frozen Australian brisket
- Korean imported wholesale Australian chuck roll

# A More Subdued Winter Price Rise

Lamb prices continue to hold around the AUc 750/kg to AUc 800/kg mark as countervailing pressures of rising lamb numbers, processing capacity restraints, favourable seasons, and ongoing strong global markets influence the market. Trade and heavy lambs (-4%) are holding their prices better than restocker and merino lambs, which are down 6% and 9%, respectively, over the month of June. Mutton prices also dropped late in the month following a rise through May and early June.

***Unlike last year, we have not seen lamb prices rise yet, suggesting there are sufficient supplies of lambs in the market at the moment. We believe this will restrain upside price movement as we move into late winter.***

East coast weekly lamb slaughter has been gradually trending up since early in the year. In week 26 (ending 24 June) it reached 368,271 head after a slower previous week due to the public holiday. This volume matches the highest volume for this time of year seen in the last 10 years. Despite ongoing challenges with labour in processing facilities, it reflects the recovery of the Australian lamb industry after the drought. Western Australian lamb slaughter numbers are also tracking ahead of 2021 volumes in late June.

Reflecting the higher production volumes, exports for the month of May (26,691 tonnes swt) were up 3% YOY – the highest volume since June 2021. Volumes to the Middle East and the US were up 6% and 9%, respectively, while volumes to China were down 40% YOY. Volumes to China are believed to be suffering following ongoing lockdowns in China and restricted foodservice operations.



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## Sheepmeat

### What to Watch

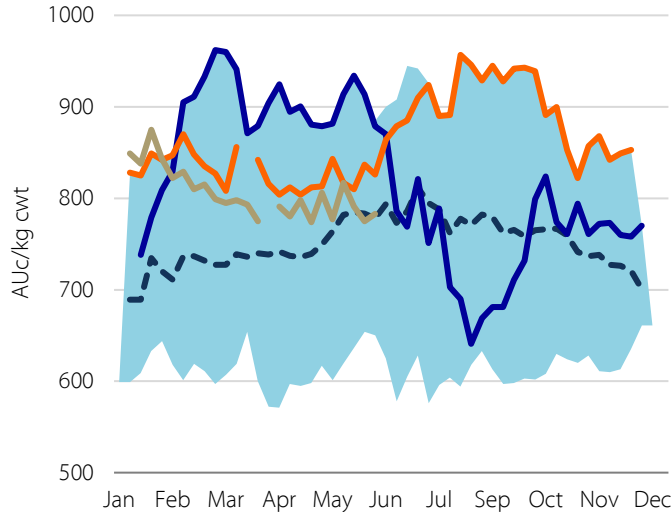
- **Availability of lambs** – Favourable seasonal conditions and retention of ewes have seen lamb numbers increase (see above commentary on lamb slaughter numbers). But will there be the usual decline in volumes as we move through the late winter months? Victoria in particular sees lamb volumes traditionally decline from June onward. Last year, however, numbers increased into July and didn't really fall until August before reaching a low point in October. We haven't seen prices move up yet like last year, suggesting we are not starting to run short yet.

# Lamb Prices Bumping Along as Lamb Supplies Lift



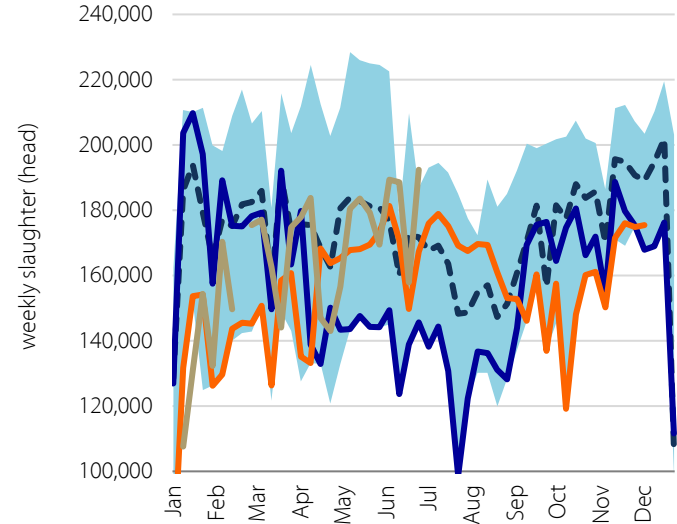
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**ESTLI a bit bumpy but holding steady**



■ Five-year range      - - - Five-year average  
■ 2020                      ■ 2021  
■ 2022

**Victorian lamb slaughter hitting 10-year highs**



■ Ten-year range      - - - Five-year average  
■ 2020                      ■ 2021  
■ 2022

# ...And Drop It Certainly Did

**Almost as close as we could get to mid-year, global cotton prices took their anticipated step down: The 26% move lower during June is dramatic**, but it hides the fact that this happened within just two days in the last week of June. The exit of speculative funds in line with nervousness across other asset classes – driven by growing concern for the economic outlook as well as the closing out of July contracts – coincided with a bang. **Local cash prices ended June 15% lower for the month, and below AUD 800/bale, with a pickup in local basis offsetting greater losses.**

Despite US Memorial Day rains disappointing for the dry cotton regions of west Texas and Oklahoma, USDA acreage estimates released at the end of June showed a 2% increase from their March report, and 2% above average trade expectations. This doesn't mean, however, that the USDA is all rosy on US cotton harvest for 2023 – their area harvested forecast supports abandonment to the tune of 27% (versus an average of 13%). In the context of softening global demand, the number of acres left unharvested will be a key price support in the market until Q4.

**With the June price drop, and despite concerns about the US crop, global markets have reassessed their outlook lower.** The market expectation is that prices will drop below USc 100/lb by December on their way down to the low USc 90/lb range in Q2 2023. In our minds, there was already enough downside at play for that type of outlook before June. So, with fresh June news regarding the global outlook, the market is unlikely to have accounted for enough downside into mid-2023, nor early enough. **We're now expecting local AU prices below AUD 600/bale by Q4 this year.**

June delivered a much needed window of clearer weather to allow AU harvest progress. But for many it wasn't long, or dry, enough **and so a lengthy harvest and quality downgrades are still ahead.** **While some yields are impressive, the cooler summer means closer-to-average yields in many areas.**

## What to Watch

- **Energy prices** – These will continue to be a supportive factor for cotton in the global fibre mix, given how sensitive man-made fibre prices are to fossil fuel prices. We currently see global oil prices moving higher by about 20% to 25% over the balance of the year, and then maintaining most of those gains in 2023. We don't discount the challenge this presents to disposable income and consumer purchasing, but within the fibre market, this will support cotton's competitiveness.



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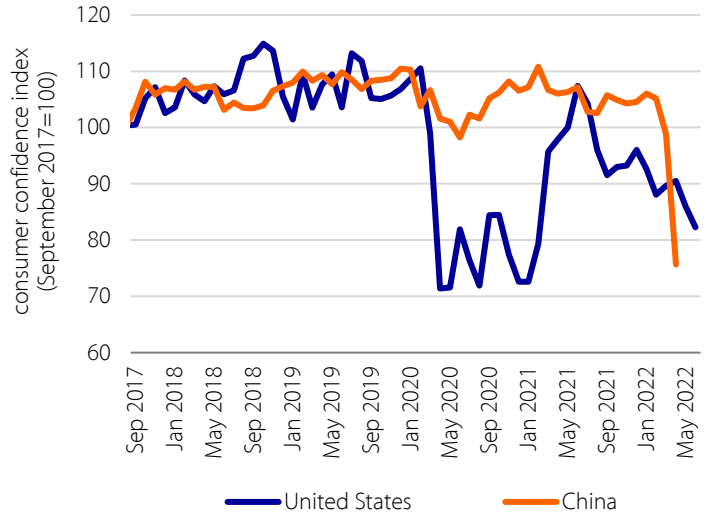
# Cotton



# Falling Confidence Damages Cotton Pricing Outlook

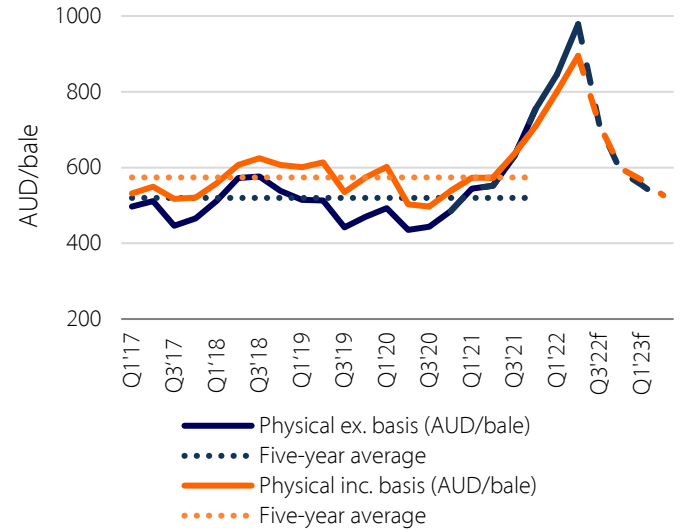


**Plummeting consumer confidence in global markets: a red light for the cotton price outlook**



Source: Macrobond, Rabobank 2022

**A return to the five-year average trading range in mid-2023 is now on the cards**



Source: Bloomberg, Cotton Compass, Rabobank, June 2022

**With increasing signs of challenged economic conditions in key global markets, we have further reduced our outlook for local cotton prices. We now expect trading in the five-year average pricing range by mid-2023.**

# Storm Clouds Gather Momentum

**Prices peaked in mid-June before declining by the month's end. The EMI finished mostly unchanged month-on-month, with only 20 and 21 micron seeing notable rises, of 4% and 7%, respectively. Waning demand prompted the end-of-month correction, driven by reports of a fire at a large Chinese wool processor in Zhejiang and a general worsening of the economic outlook. While pricing in 2022 should still be supported by post-Covid apparel demand recovery, the outlook for 2023 is growing dimmer.**

Consumer confidence and sentiment – the canary in the coal mine for demand – declined substantially. The main drivers have been China's archaic and widespread lockdowns, and rapidly rising inflation and interest rates in the US. Indicators in both countries are now the lowest since record keeping began for the University of Michigan US Index of Consumer Sentiment (1978) and China's Consumer Confidence Index (1997) reported by the National Bureau of Statistics.

US retail apparel sales in May were 18.5% above pre-pandemic May 2019 levels, and up 6% YOY. In China, May retail apparel sales were below pre-pandemic 2019 levels for the second month in a row. Sales were down 8% on May 2019 and down 19% YOY. Chinese retail apparel sales are likely to see a notable jump, at least momentarily, if lockdowns are lifted in the near future.

Woollen suit import volumes in the US, Japan, and France were all up substantially year-on-year – up 162%, 7%, and 91%, respectively. However, progression toward the pre-Covid levels of 2019 has plateaued. In the US and France woollen suit import volumes are stuck one-third below pre-Covid levels while Japan is stuck two-thirds below pre-Covid levels.

April national wool exports were 30.7m kg, up 8% YOY, with 85% heading to China.

## What to Watch

- **China market access** – In late June, NATO, an intergovernmental military alliance led by the US and supported by Australia, declared China as a security threat, and called it out for its strategic partnership with Russia. The continued divide between west (including Australia) and east (China and Russia) could impact Australia's wool trade from two directions. The West could sanction China's exports, including apparel, and demand for Australian wool would decline. Or China, of its own accord, could decide to ban exports – though this is less likely, due to the financial impact on its processing industry. At this point, neither is in motion, but it's important to watch these players.



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# Wool

# Consumer Confidence: the Canary in the Coal Mine for Future Demand

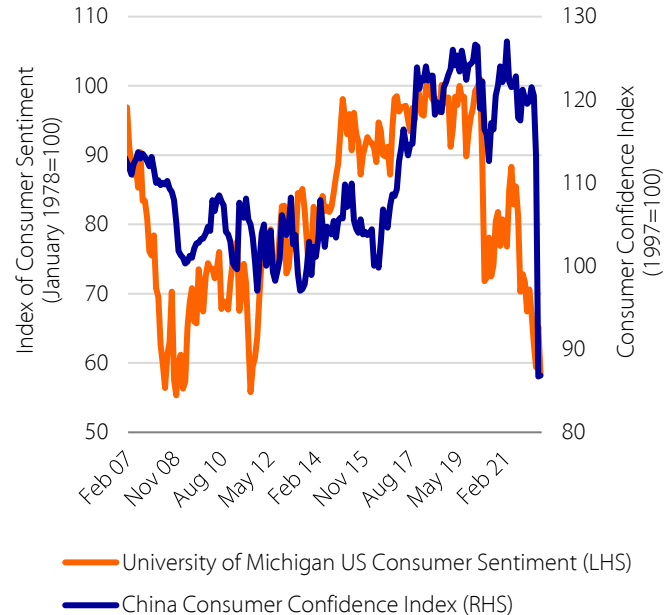


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**EMI peaked in mind June before declining on reduced demand at auctions**



**Consumer sentiment and confidence fall to lowest on record in US and China**



Source: National Bureau of Statistics of China, University of Michigan, Rabobank 2022

# Consumer Spending Headwinds Strengthen

**May retail sales data for Australia largely beat expectations.** Total sales in May were 0.9% higher MOM. This was better than markets expected. On a year-on-year comparison, inflation is continuing to provide good momentum for total retail sales growth with a 10.4% lift in May 2022 versus May 2021.

**Food markets continue to perform strongly.** The combined turnover of food retail and foodservice was 8.6% higher YOY. Foodservice is doing much of the heavy lifting. In May, foodservice sales were up 16.2% YOY.

**However, the broader cost of living headwinds are strengthening.** The next consumer price index (CPI) print numbers for Australia are due in late July. The broad expectation is that the results will be higher again for the June quarter versus March results. In fact, local inflation is not likely to peak until late 2022. Consumers locally and globally clearly need to brace for more cost-of-living pressures. Food inflation will remain a key pillar in this story.



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## Downstream Markets

### What to Watch

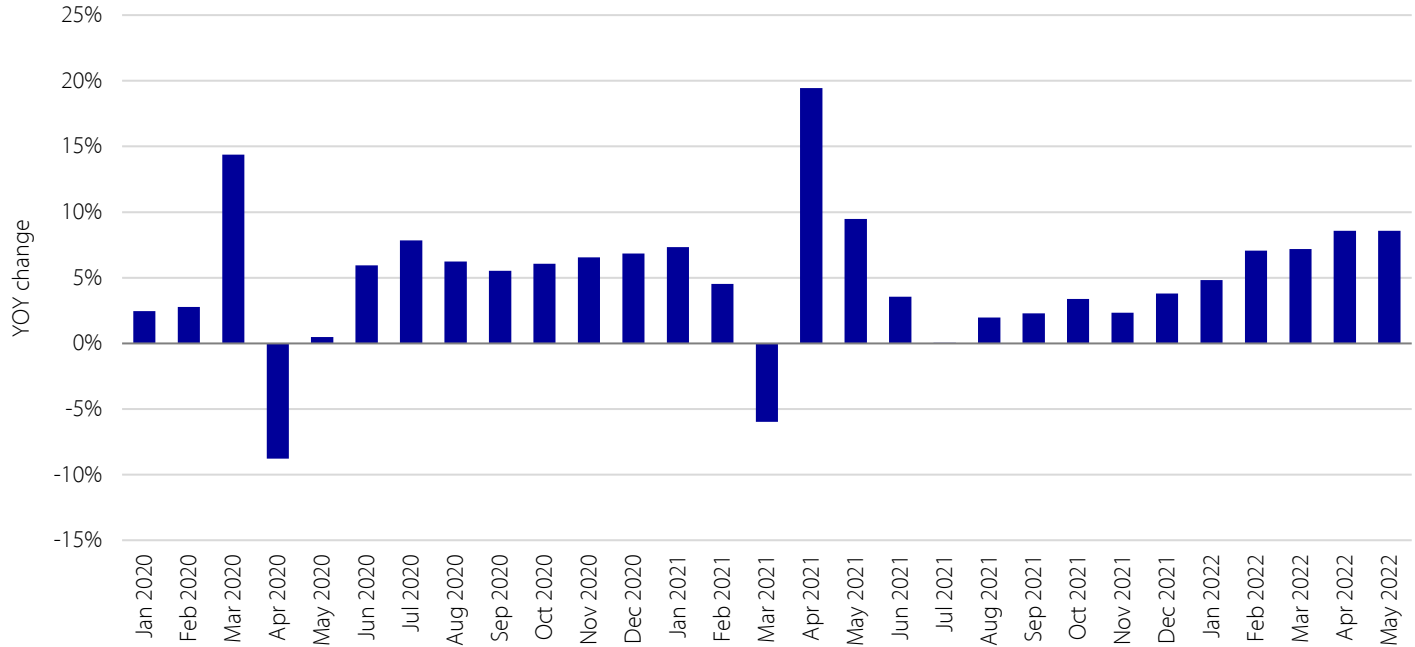
- **Recession risks rising** – Lifting the gaze beyond the Australian consumer market, there is plenty of risk to consumer spending in many economies. Rabobank now has a recession baked into our economic forecasts for both the Eurozone and US economies for next year. There are also heavy economic concerns for emerging economies in Asia and what that means for exports of food from Australia.

# Another Strong Increase in Food Sales in May



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## Australian retail trade, food, and foodservice sales combined





# Can AU Catch Global Price Declines?

**Global fertiliser prices edged higher as June closed but are still 36% (urea) and 4% (MOP) lower than H1 2022 highs.** Seasonal lows in Northern Hemisphere use, some dust settling after initial market fears as Russia invaded Ukraine, a little new capacity coming online/supply constraints being loosened, and falling commodity prices have removed some support from crop nutrient markets.

Despite a substantial decline, global urea prices remain more than 100% above their 2019/20 five-year average, and **N fertilisers have already seen a lift from June lows and might soon face more upward price pressure.** This would likely be driven by energy prices and a seasonal uptick in demand as Northern Hemisphere regions start to stock up toward the end of their summer.

**Phosphorous prices are also off highs but more falls could be expected if China resumes its full export capacity.** This could theoretically happen in the next three months when China is past its own peak domestic use.

**Meanwhile, potash prices have the potential to fall further.** Reports are that Brazil has ample supplies and North America is at capacity with concerns from some that there is an excess in the farm inputs supply channel.

Around the grounds reports reveal urea prices in Australia have come off highs, but did not even come close to following global to their 10-month lows in mid-June. We expect only limited price changes in the near term because of supply chain and logistics costs and lead times, the softer AUD, and local inventory considerations. **Local prices are expected to face continued volatility over the next half year, but we see chances for softening N, P, and K prices later in 2H 2022 and early 2023.**

## What to Watch

- **EU turning off the Russian gas tap in H2 2022** – This will mean higher prices for gas, and in turn, N fertiliser production costs. As the EU is a significant N fertiliser producer, this will keep support in the global market and likely cause a re-tightening of supplies in coming months. However, the decision to turn off the gas tap is fraught with political uncertainty within the EU, so we can expect dramatic volatility as negotiations proceed. With some of the other price supports now tempered, we are less likely to see sustained global urea prices move toward the highs of November 2021 and March this year.



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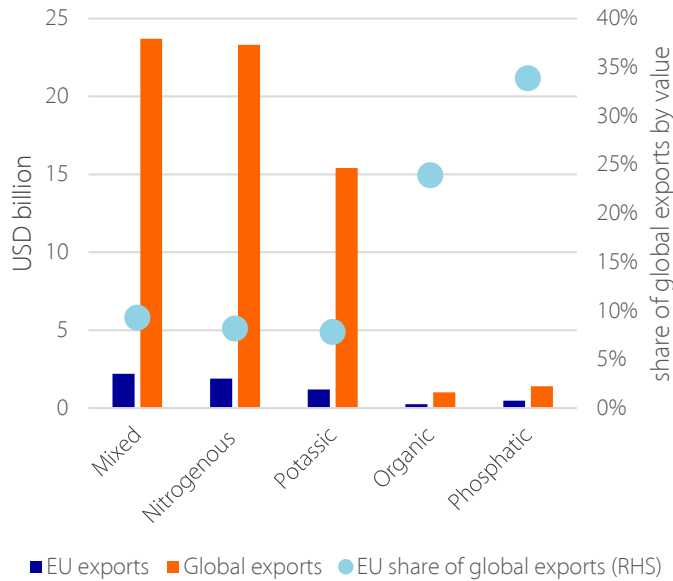
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# Farm Inputs

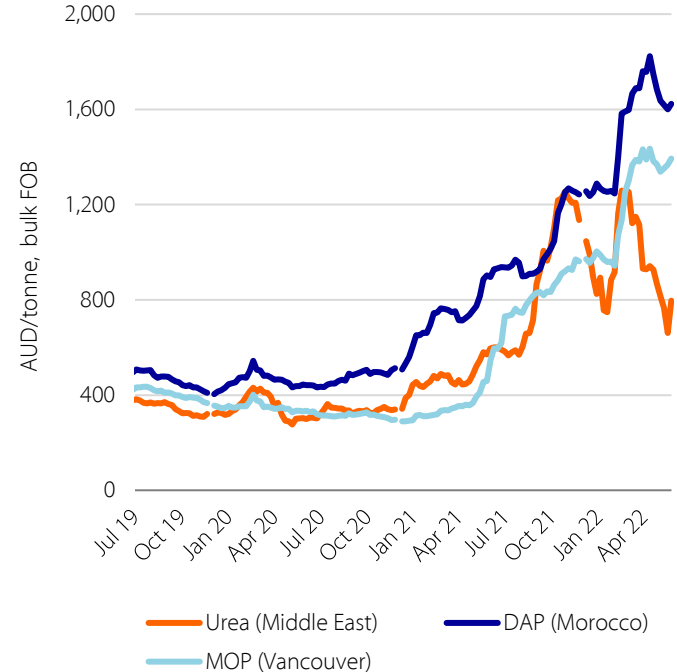
# EU Gas Policy Will Keep Fertiliser Markets on Edge



**As well as covering large domestic demand, the EU is a net exporter of fertilisers, including N fertilisers, 2020**



**AUD-adjusted global fertiliser prices**



# Another 50 Basis Point Cash Rate Rise in July – and More To Come

**More interest rate hikes are to be expected in 2022, as RBA works to fight inflation. The 50 basis point hikes in June and July are still not anywhere enough. AUD slipped in July again below 0.70 against the USD and we forecast 0.73 by the end of 2022 and 0.75 on a 12-month horizon.**

- **RBA continues to warn Australians to prepare for more interest rate increases**, but insists that the path of these hikes will be guided by incoming data.
- **RBA is in a better position than various other central banks.** Unlike the ECB, there is no fragmentation risk to consider. In contrast to the issues faced by the Fed in the US, domestically generated inflation in Australia has had less of a chance to gain a foothold. Headline inflation at 5.1% YOY is more moderate than in most other parts of the G10.
- The gap between the cash rate at 1.35% and the **five-year swap**, which dropped below 4%, has narrowed with the July rate hike. ASX 30 Day Interbank Cash Rate Futures stand at 3.02% for December 2022 and at 3.5% for May 2023.
- Higher interest rates in Australia are already having an impact on house prices, but not so much on agricultural land values.
- The **AUD** recently dropped below the 0.70 level against the USD. While the AUD/USD can creep higher, the AUD is likely to be sensitive to risks regarding Chinese economic output and to broader concerns regarding slowing global growth.



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## Interest rate & FX

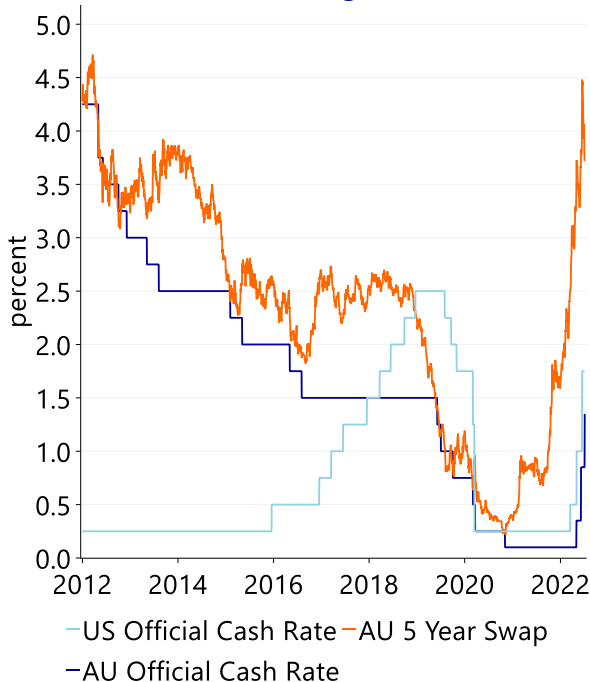
### What to Watch

- **AUD to rise further** – We estimate it will reach 0.75/USD on a 12-month horizon.
- **Australia's RBA will have to push more interest rate hikes** – We estimate more cash rate increases through the remainder of this year.

# Interest Rates: July Cash Rate Increase Not Enough – More Hikes Will Have To Follow

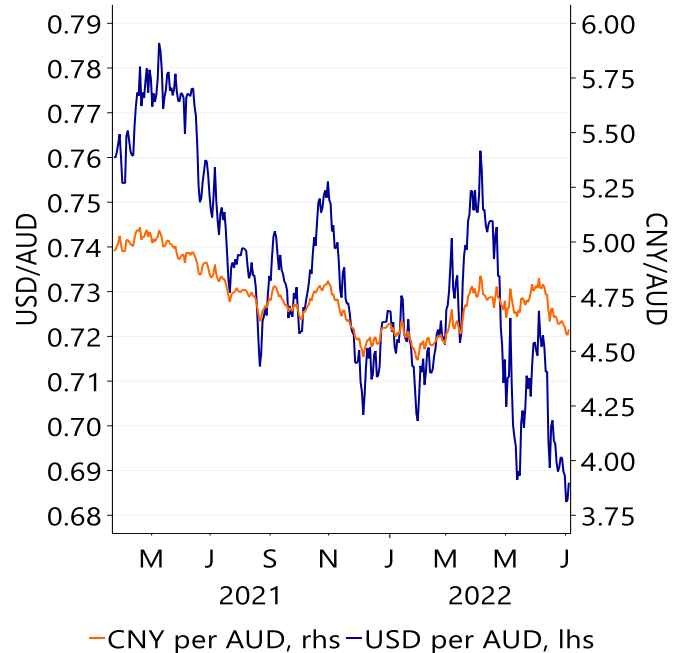


**AU cash rate still well below five-year swap, which saw another boost following the massive US hike**



Source: Macrobond, Rabobank 2022

**The AUD has recovered well above 0.7 against the USD in June; we hold a 0.74 target for 1H 2023**



Source: Macrobond, Rabobank 2022

# High Energy Costs To Continue

**Crude oil faced a volatile month, but has been gaining back strength recently.** Trading well above USD 120/bbl, Brent crude oil in early June reached one of the highest levels since 2015. However, with global recession concerns driven by steep interest rate hikes in several key economies of the world, crude prices were pressured down about 15% from the early June highs. We expect continued volatility at a high price level and tight global supply to outweigh recession-driven demand concerns, with Brent moving potentially toward USD 140/bbl by the end of the year. Diesel prices globally rose even more strongly this year than crude prices due to an ongoing global shortage of refining capacity as well as seasonal summer demand in the Northern Hemisphere.

**Global ocean container rates have passed the 2021 peak and are expected to find a 'new normal' over the next 12 months.** Spot rates are falling for most major trade lanes, except the trans-Atlantic one from Europe to North America, due to strong market demand and port congestion. However, the normalised contract rates are expected to stay significantly higher than pre-pandemic levels due to four structural factors: 1) heightened inflation and all-time low consumer confidence, 2) imbalanced global trade flows removing container capacity from network circulation, 3) geopolitical uncertainties bringing increased risks to the sector, and 4) growing operational costs from energy and sustainability regulations. The first factor exerts negative pressure on ocean rates, while the other three create upward pressure.

**The Baltic Panamax index (a proxy for grain bulk freight) dropped by 25% in the month of June** from recent peaks in March and May. Global economic recession concerns are putting commodities and bulk freight rates under pressure.

## What to Watch

- **Oil prices to remain volatile but at high levels** – Tight supply is likely to outweigh demand concerns. We forecast continued price increases through 2022, growing potentially by about 25% toward USD 140/bbl by the end of the year.
- **Port congestions, especially in Asia, put upside risk on container freight rates.**
- **The Russia-Ukraine war will continue to be a major factor in oil and freight prices.**



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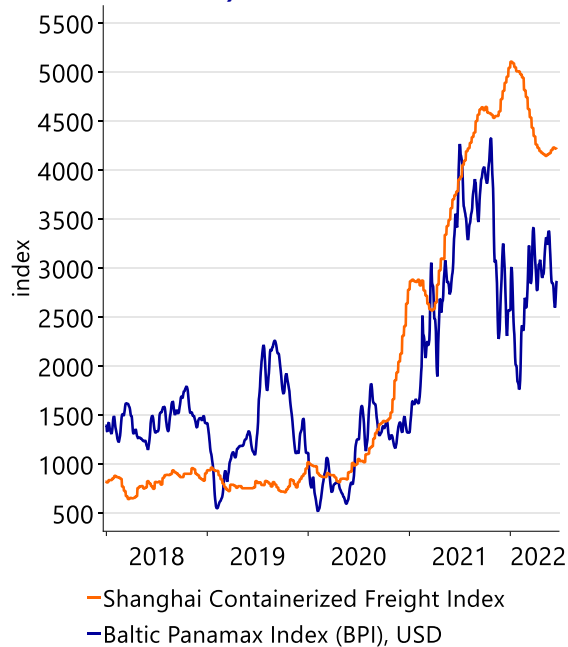
Oil &  
Freight



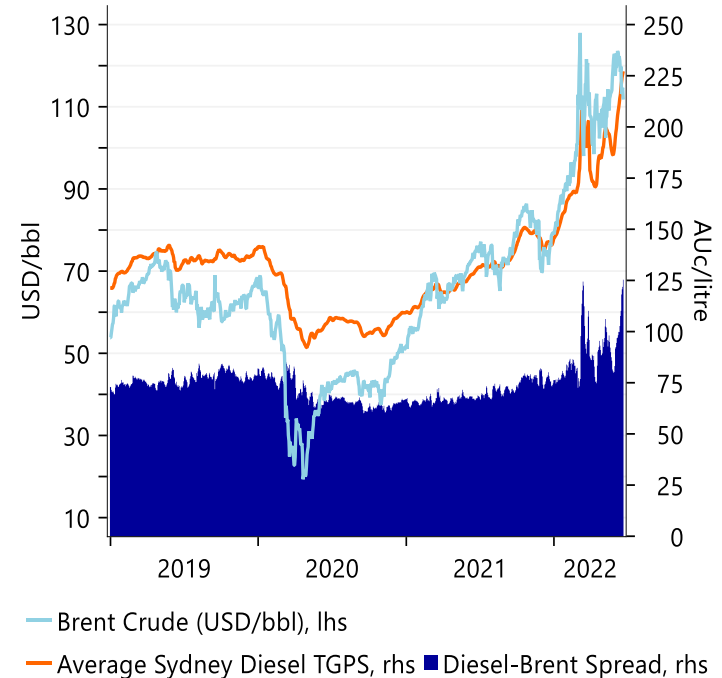
# Australian Diesel Hits New Highs, While Container Freight Should Face More Pressure



**Baltic Panamax Index and Shanghai Dry Container Index, 2018-June 2022**



**Brent Crude Oil and Average Sydney Diesel, 2019-June 2022**



# Agri Price Dashboard

|                                     | 30/06/2022 | Unit          | MOM | Current | Last month | Last year |
|-------------------------------------|------------|---------------|-----|---------|------------|-----------|
| <b>Grains &amp; oilseeds</b>        |            |               |     |         |            |           |
| CBOT wheat                          |            | USc/bushel    | ▼   | 869     | 1,158      | 672       |
| CBOT soybean                        |            | USc/bushel    | ▼   | 1,675   | 1,732      | 1,450     |
| CBOT corn                           |            | USc/bushel    | ▼   | 744     | 777        | 720       |
| Australian ASX EC Wheat Track       |            | AUD/tonne     | ▼   | 418     | 466        | 292       |
| Non-GM Canola Newcastle Track       |            | AUD/tonne     | ▼   | 801     | 921        | 740       |
| Feed Barley F1 Geelong Track        |            | AUD/tonne     | ▼   | 380     | 430        | 257       |
| <b>Beef markets</b>                 |            |               |     |         |            |           |
| Eastern Young Cattle Indicator      |            | AUc/kg cwt    | ▼   | 1,014   | 1,110      | 942       |
| Feeder Steer                        |            | AUc/kg lwt    | ▼   | 542     | 568        | 476       |
| North Island Bull 300kg             |            | NZc/kg cwt    | ▲   | 605     | 595        | 560       |
| South Island Bull 300kg             |            | NZc/kg cwt    | ▲   | 590     | 575        | 515       |
| <b>Sheepmeat markets</b>            |            |               |     |         |            |           |
| Eastern States Trade Lamb Indicator |            | AUc/kg cwt    | ▲   | 783     | 777        | 930       |
| North Island Lamb 17.5kg YX         |            | NZc/kg cwt    | ▲   | 890     | 855        | 810       |
| South Island Lamb 17.5kg YX         |            | NZc/kg cwt    | ▲   | 895     | 855        | 800       |
| <b>Venison markets</b>              |            |               |     |         |            |           |
| North Island Stag                   |            | NZc/kg cwt    | •   | 795     | 795        | 550       |
| South Island Stag                   |            | NZc/kg cwt    | ▲   | 805     | 800        | 560       |
| <b>Oceanic Dairy Markets</b>        |            |               |     |         |            |           |
| Butter                              |            | USD/tonne FOB | •   | 6,188   | 6,188      | 4,663     |
| Skim Milk Powder                    |            | USD/tonne FOB | ▲   | 4,313   | 4,025      | 3,463     |
| Whole Milk Powder                   |            | USD/tonne FOB | ▲   | 4,112   | 3,850      | 4,050     |
| Cheddar                             |            | USD/tonne FOB | ▼   | 5,225   | 5,913      | 4,400     |

# Agri Price Dashboard

|                                       | 30/06/2022 | Unit          | MOM | Current | Last month | Last year |
|---------------------------------------|------------|---------------|-----|---------|------------|-----------|
| <b>Cotton markets</b>                 |            |               |     |         |            |           |
| Cotlook A Index                       |            | USc/lb        | ▼   | 139.3   | 157.5      | 97        |
| ICE No.2 NY Futures (nearby contract) |            | USc/lb        | ▼   | 103.9   | 139.4      | 84        |
| <b>Sugar markets</b>                  |            |               |     |         |            |           |
| ICE Sugar No.11                       |            | USc/lb        | ▼   | 18.8    | 19.6       | 17.6      |
| ICE Sugar No.11 (AUD)                 |            | AUD/tonne     | ▼   | 591     | 605        | 473       |
| <b>Wool markets</b>                   |            |               |     |         |            |           |
| Australian Eastern Market Indicator   |            | AUc/kg        | ▲   | 1,430   | 1,420      | 1,423     |
| <b>Fertiliser</b>                     |            |               |     |         |            |           |
| Urea Granular (Middle East)           |            | USD/tonne FOB | •   | 690     | 690        | 450       |
| DAP (US Gulf)                         |            | USD/tonne FOB | ▼   | 1,000   | 1,100      | 650       |
| <b>Other</b>                          |            |               |     |         |            |           |
| Baltic Panamax Index                  |            | 1000=1985     | ▼   | 2,485   | 2,944      | 4,119     |
| Brent Crude Oil                       |            | USD/bbl       | ▼   | 115     | 122        | 75        |
| <b>Economics/currency</b>             |            |               |     |         |            |           |
| AUD                                   |            | vs. USD       | ▼   | 0.690   | 0.720      | 0.750     |
| NZD                                   |            | vs. USD       | ▼   | 0.624   | 0.656      | 0.698     |
| RBA Official Cash Rate                |            | %             | ▲   | 0.85    | 0.35       | 0.10      |
| NZRB Official Cash Rate               |            | %             | •   | 2.00    | 2.00       | 0.25      |

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