Inflation Spiral and Rate Hike

Australia Agribusiness Monthly

May 2022

RaboResearch
Food & Agribusiness

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Commodity Outlook

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A Record-breaking Month	April was a month of records. While strong and partly record-breaking pricing (CBOT corn and CBOT soy oil) benefit farmers, the record fertiliser prices seen in early April and strong energy prices cut into margins. Globally, inflation in many regions has reached its highest point in decades and passing on costs to consumers is getting difficult.
Grains & Oilseeds	The war in Ukraine, dryness in South America, delayed planting in North America, and the continuation of La Niña will keep G&O prices elevated and volatile in coming months. Our 12-month outlook remains supportive.
Dairy	Milk prices are rising in all Australia production regions ahead of the 2022/23 season. The milk supply situation in export regions continues to underwhelm, but there are subtle signs of recovery. Weaker demand appeared globally.
Beef	Timely rains in Queensland may be just enough for cattle prices to level out for a couple of weeks before trending lower again. Labour availability challenges in processing plants are a bottleneck for the slowly growing cattle supply.
Sheepmeat	A separation of markets is on the cards as favourable seasons support sheep and restocker prices, but softer US import prices may see export lamb prices ease slightly.
Cotton	A mid-year correction lower in pricing is still on the cards. From AU cash prices in the AUD 900s/bale in April-May, we expect pricing in the AUD 700s/bale range in Q3 2022.
Wool	Chinese lockdowns, expectations of rapidly rising interest rates in western economies, and the highest inflation levels in decades are expected to weigh on consumer spending moving forward.
Downstream Markets	Consumers need to brace for more food inflation as headline numbers hit decade highs. In Australia it reached 6.7% with the largest contributor being fruit and vegetables. The potential consumer response and volume reduction in food and beverage sales could be more pronounced in emerging markets.
Farm Inputs	Global urea prices have fallen, but we do not expect a sustained, or further, decline unless hostilities cease in Ukraine, something that is considered unlikely in coming months.
FX/Interest Rates	RBA increased the cash rate to 0.35% from a historic low of 0.1%. More rate hikes are expected through 2022. The AUD weakened significantly against the USD and we hold our forecast for the AUD to regain some strength.
Oil/Freight	Oil markets remain tight as the west moves away from Russian supplies, with limited room for supply disruptions. Seasonal higher demand is expected and any relaxations of China's lockdowns could further support prices. Port congestions, especially in Asia, put upside risk on container freight rates.

April, a Month of Records

Inflation in Australia hit its highest level in a decade and in many regions of the world it reached multi-decade highs. RBA reacted with a cash rate hike, with more likely to come.

Australian farmgate dairy prices reached new highs and we see more upside.

Oilseeds hit record pricing: Matif Rapeseed prices (May 2022 contract) hit a record, close to EUR 1,100/tonne, almost triple year-ago prices. ICE Canola, close to USD 1,200/tonne, also hit new records, as did CBOT soybean at USc >1,750/bu. Indonesia's palm oil export ban pushed CBOT soy oil to record highs (May 2022 exceeded USc 90/lb).

CBOT corn hit a new all-time high (May 2022 >USD 8/bu, up 60% YOY) due to fears of missing most of Ukraine's corn exports in 2022/23, plus an early start of the Brazilian dry season and a late start of the US corn planting due to cold weather.

Cotton reached a ten-year high at close to USc >150/lb at ICE, up >60% YOY.

CRU's fertiliser index hit new highs in early April, with prices finally weakening a bit later in the month. Potash, phosphate, and sulphur are close to record levels while urea and ammonia prices weakened in late April following demand uncertainty.

Record container congestion outside of Chinese ports due to Covid lockdowns threaten to push container freight costs even higher, as 20% of the world's container vessels are held up outside of ports, with 27% of those being in China.

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Breaking records

What to Watch

- How much will Australian grain prices follow world market increases for the new crop season?
- Will record dairy prices continue to run even higher? Will we see some more room?
- Fertiliser prices are likely to trade at elevated levels for most of 2022. Near-term volatility is likely, but a substantial downward move will probably only come with falling grain prices.
- How many more RBA interest rate hikes will follow this year?

2022 Highs Hanging On in 2H, and 2023 Still Good

Rabobank Rural Commodity Price Index (AUD based), Sep 2009-Sep 2022f

After steep rises in 2H 2021, the Rabo Rural Commodity Price index growth slowed in Q1 2022, though it still hit a new record in April.

Ongoing strength in global pricing for broadacre cropping commodities, including wheat, cotton, sugar, and canola, supports our Index forecast staying near to these highs in 2H 2022.

A decline in beef prices is the key factor driving our expectations for a drop in 2023, but some softening of crop prices and a strengthened AUD are also behind this. Nevertheless, we forecast rural commodities to remain above pre-June 2021 levels, with strong prices despite some softening from current levels.

Source: Bloomberg, MLA, Rabobank 2022

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).

A Wet, Early Winter for Most Parts of Australia

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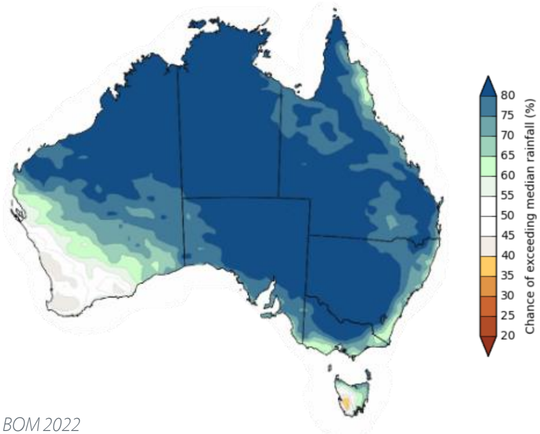
The Bureau of Meteorology (BOM) expects that it will be a wetter than usual start to winter for most of Australia.

BOM's outlook sees large parts of Australia with a greater than 60% chance of exceeding median rainfall from May to July. However, for WA and Tasmania, rains are not expected to be above normal.

While La Niña is likely to end in early winter and return to neutral, 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.

High rainfall expectations

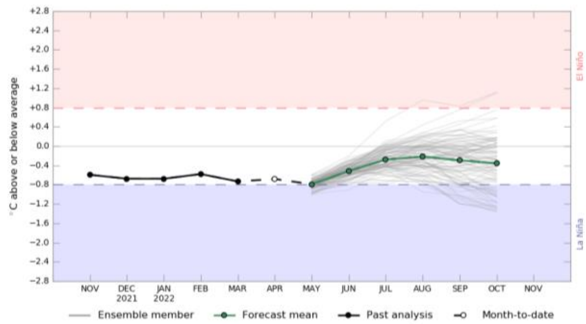
May-July 2022 rainfall outlook



Source: BOM 2022

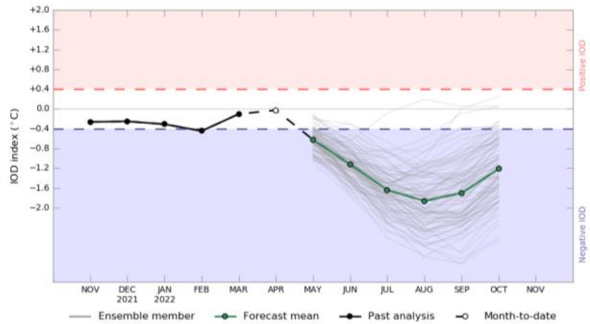
Early winter return to neutral ENSO conditions

Monthly sea surface temperature anomalies for the central Pacific Ocean



IOD forecast to move negative

Monthly sea surface temperature anomalies for the Indian Ocean



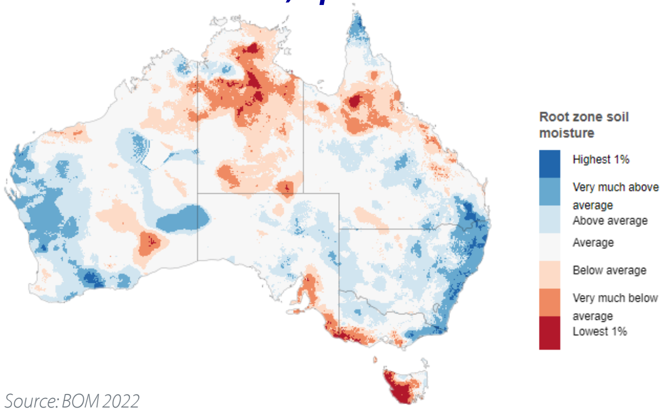
Record Rainfall for Parts of Eastern Australia

Flooding continued in early April on the east coast, while record-breaking rain in Queensland's west provided relief for graziers.

Significant flooding continued during the first week of April on the far east coast, with some parts of Southeast Queensland recording above 100mm for the fourth consecutive month this year. Queensland's central west also welcomed significant rainfall in April with some areas receiving over six times the average April rainfall.

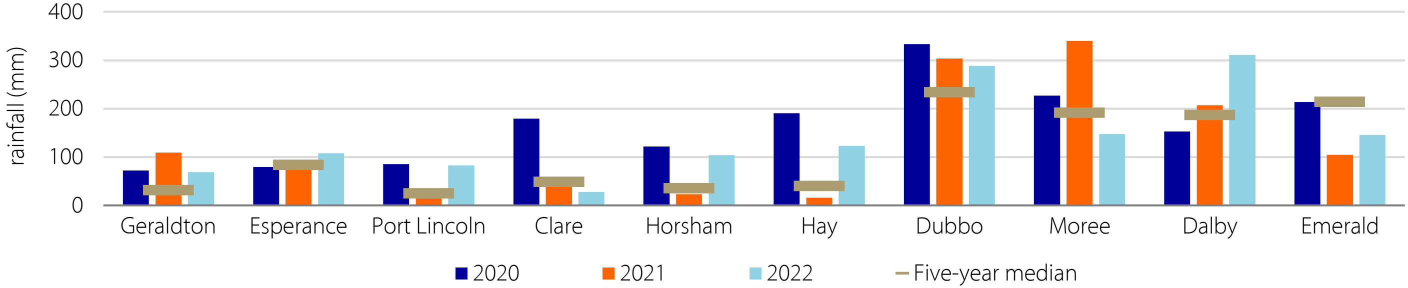
Dry conditions were experienced in Tasmania, central Australia, and along the south coast of the South Australia-Victoria border. In the west, rainfall has been variable across the agricultural region. Esperance and Geraldton areas received greater than average rainfall. Though necessitating some local reseeding of canola, it adds soil moisture for the season.

Relative soil moisture, April 2022



Source: BOM 2022

February-April rainfall



Source: BOM 2022

Black Sea Conflict To Keep Prices High

The war in Ukraine remains the predominant short-term supportive factor in global G&O markets. ***Prices for CBOT wheat, corn, and soybeans are up 7%, 10%, and 6% MOM, respectively, with both corn and soybeans exceeding their all-time highs in late April.*** Along with tight fundamentals driving prices higher, funds have been net buying agricultural commodity futures for seven weeks straight on the back of prolonged inflation concerns.

Rabobank's 12-month CBOT wheat price forecast has been reduced marginally to USc 1,050-USc 1,120/bu. This is due to good outlooks for the Russian crop, but early 2022/23 supply projections can't avoid ongoing tightness in world wheat. A forecast loss of at least 20% of Ukrainian wheat output plus US drought damage will already thwart stocks growth. Current dry La Niña weather patterns are predicted by NOAA to have a 55% chance of persisting into September-November. Russian production, in contrast, is forecast to hit a record of between 84m tonnes to 87m tonnes, but questions still remain over how much can be exported.

We have increased our 12-month CBOT corn forecast marginally this month to between USc 790-USc 825/bu on an almost halted Ukrainian supply, risks around South American dryness, high fertiliser costs, and constrained acreage growth. Price risk will remain skewed to the upside until late July at the earliest, as Brazil's harvest and US pollination near completion.

Local APW1 prices were up 6% MOM on average across AU port zones; feed barley rose 8% MOM; but canola stole the spotlight, up11% MOM. Local prices are expected to continue trailing overseas levels as still-favourable prices prompt farmers to sell off amidst high stocks. We expect local APW1 prices to be sustained at high levels for another quarter and then move towards AUD 360/tonne at harvest. Canola prices are expected to trade above AUD 850/tonne on a 12-month view.

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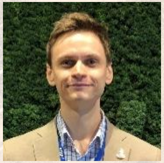

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Grains & Oilseeds

What to Watch

- ***Food price inflation*** – The FAO Food Price Index in March reached its highest level since 1990. Rampant food inflation is a concern for governments, especially in lower income countries. Indonesia's ban on exports of palm oil to contain domestic prices last week is one example. Even though the ban is expected to be temporary, it has added further volatility and strength across vegetable oil markets. As food prices rise, we can expect more government intervention as importing governments seek to build reserves and exporting countries potentially limit exports – both of which will support global prices and more volatility.

Global Wheat Prices To Remain Supported, AU Basis To Remain Negative Unless Dry Returns

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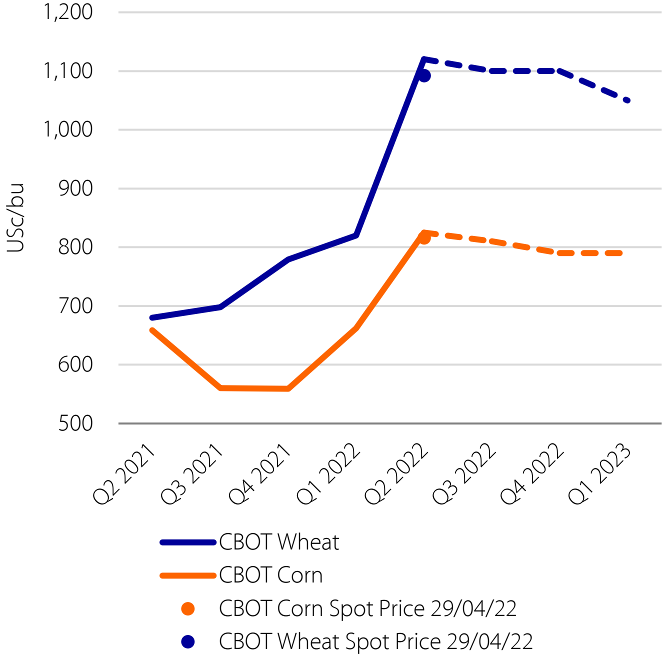
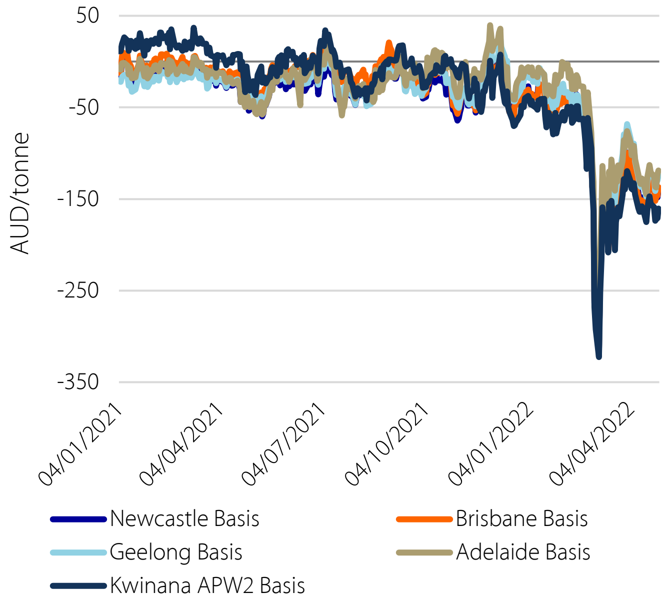
Russia-Ukraine war amid an already tight global balance sheet expected to see prices remain high



Source: Rabobank 2022, forecast 28 April 2022

AU wheat prices continue trading at a large discount to CBOT due to still-large exportable surplus



Note: All prices are Track excluding Kwinana, which is FIS
Source: Bloomberg, Rabobank 2022

Record Price Signals for New Season

Rabobank's initial modelled farmgate milk price for southern Australia in 2022/23 stands at AUD 8.40/kgMS. Published milk price signals for the 2022/23 season in southern Australia are around this level. This means there will be little room for error. With dairy farmers facing a jump in their cost base in 2022/23, farm profitability is still within reach, but margins will be lower in 2022/23 versus the current season. As a result, appropriate cost control and risk management strategies are needed.

Global dairy commodity prices presented a mixed bag in April 2022, as weaker demand has begun to appear. Export returns for Oceania butter and cheese prices remained at or near record levels but softer powder prices crept through as price resistance started to appear. WMP prices slid over April with main buyer China impacted by lockdowns and additional products offered on the Global Dairy Platform. SMP prices nudged past WMP in April, despite prices softening by the end of April.

The milk supply situation in export regions continues to underwhelm, but with subtle signs of recovery. New Zealand March milk supplies were lower by almost 2% YOY, turning the run of weaker milk supply growth into an eight-month streak, as a result of weather challenges across most of the season. EU-27 milk production for February moved into positive territory at 0.5% YOY. US March milk collections dipped 0.5% behind YOY, while the US dairy herd increased by 15,000 head.

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Dairy

What to Watch

- ***Palm oil exports from Indonesia*** – Global vegetable oil markets continue to fly high with war and protectionism measures reducing the availability of supply and supporting elevated pricing. Indonesia has recently announced a palm oil export ban, which will help support higher prices for the vegetable oil markets. This will help to limit manufacturers looking to switch from dairy fats to other vegetable substitutes in light of strong dairy prices; but the ban will have a knock-on effect for global food price inflation concerns.

Milk Production Remains a Mixed Bag

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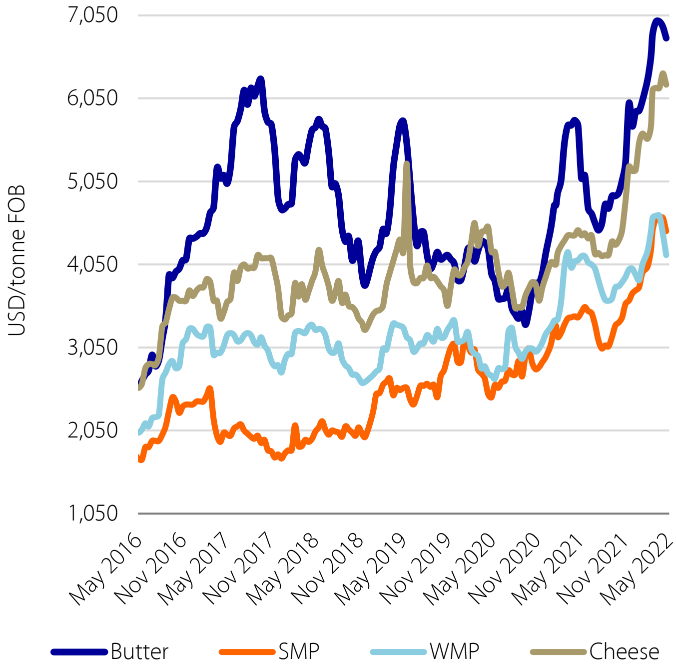
Global dairy prices, 2016-2022



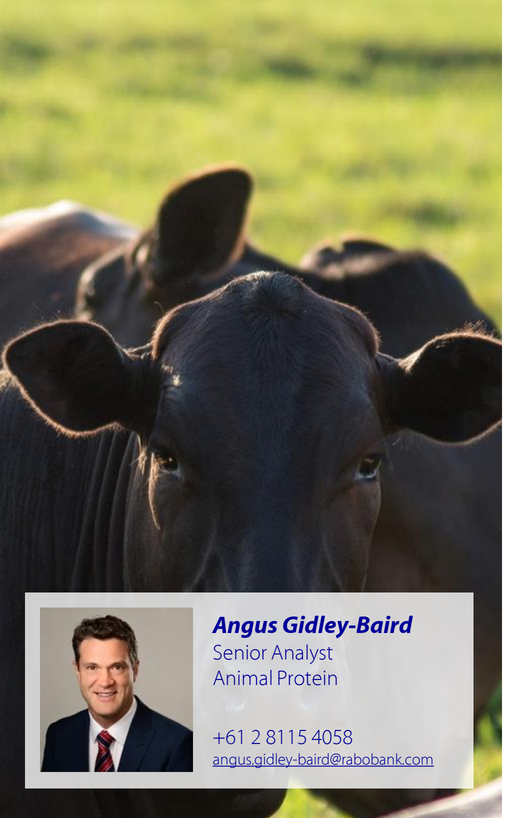
Source: USDA, Rabobank 2022

Production growth key exporting regions

	Latest month	*Last three months*
EU	0.5% (Feb 22)	-0.3%
US	-0.5% (Mar 22)	-1.0%
Australia	-6.1% (Feb 22)	-4.3%
NZ	-3.8% season-to-date (to March 2022)	

Source: Rabobank 2022

Queensland Rain Saves the Bacon



Queensland rain saves the bacon – or beef. After reporting last month of dry conditions in the north and our expectations that there would be more lighter, young cattle hitting the market that would cause prices to ease, rain has fallen across large parts of central Queensland. Although not necessarily season breaking, it may just allow some pasture growth going into winter that will encourage producers to hold or possibly even pick up some additional cattle. The EYCI flattened out between 21 and 29 April to sit at AUc 1,087/kg cwt. ***The rain in central Queensland may just be enough to stop the slide downwards for a couple of weeks before we believe the EYCI will continue on its easing trend.***

East coast weekly cattle slaughter numbers dipped in mid April (down to the mid 70,000s) due to the shorter processing weeks, but overall, for the four weeks ending 23 April, volumes were 2% down on last year's numbers. This reflects the ongoing challenges with labour availability in processing plants, despite what we believe to be a slowly growing cattle supply. Numbers in Victoria are down 18% while numbers in Queensland are up 1% YOY.

Beef export volumes (74,348 tonnes swt) were down 11% YOY in March, reflecting the lower production volumes. Volumes across all major markets were down, but volumes to South Korea have not seen as much of a decline. Exports to South Korea for March were down 4% on the five-year average, compared to the US where volumes are down 42% on the five-year average. Volumes to the US are more a result of lower supply, as strong US import prices (2.99USc/lb) reflect the ongoing strong beef demand in the US.

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What to Watch

- ***US cow liquidation process*** – US cow slaughter numbers have continued to rise and are at historic highs – like the peaks last seen in 2011 and 2012. The subsequent drop in cow and beef supplies in the US through 2013 and 2014 saw beef prices rise and imported Australian lean trimming jump 50% in nine months. Although beef prices are already high, the US liquidation should see continued support for Australian export prices.

Beef

Some Support for Drifting Weaner Prices as US Cow Slaughter Hits Record Levels

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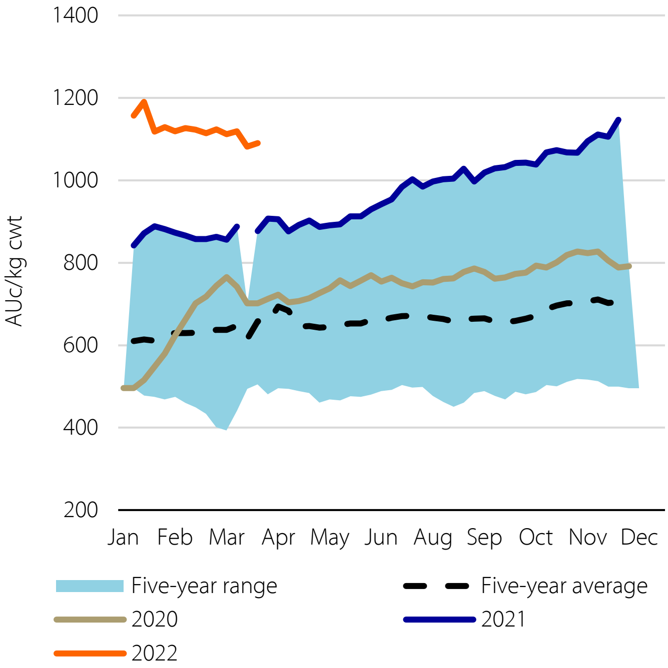
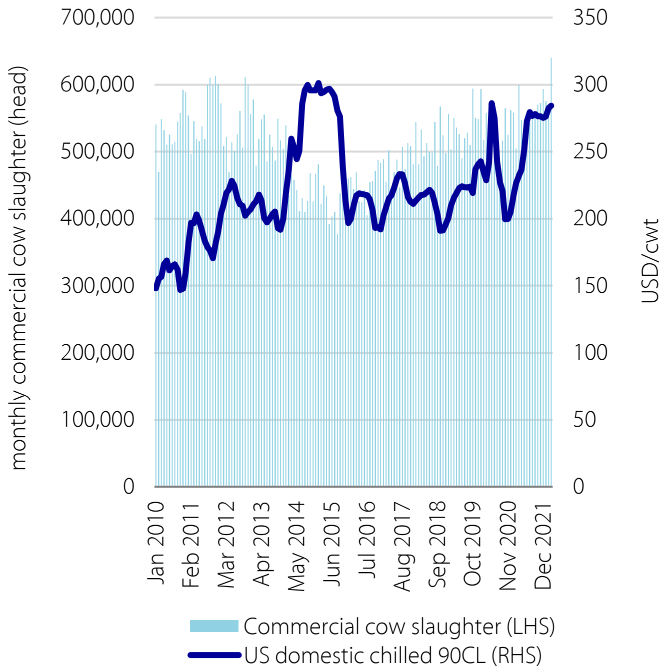
EYCI held up with some Queensland rain



US cow slaughter at historic highs



Source: MLA, USDA, Rabobank 2022

Possible Softening of Export Prices

Lamb prices continue to track at very similar levels to 2021. The ESTLI was at AUc 791/kg cwt for the week ending 21 April, 2% below the same time in 2021. Mutton and restocker/feeder lambs saw a jump in prices (6% and 12%, respectively) in the week ending 21 April, an indication of ongoing favourable seasons and limited livestock, with producers looking to take on more sheep as we head into winter months. ***The favourable seasonal outlook could see good demand for sheep and restocker type lambs supporting their prices. However, softening US import prices may see a little bit of weakness in trade and export lamb prices over the coming months that may result in them drifting lower.*** Trade and export lambs generally trend higher through May into June, but there may be limited upside this year.

Prior to the short slaughter weeks around Easter, east coast weekly lamb slaughter numbers confidently pushed above the five-year average for the first time this year, as we start to see the fruition of the flock rebuild. East coast weekly slaughter numbers were 3% above the same period last year for the month of April and only 3% behind the five-year average. The recovery is particularly evident in NSW where slaughter numbers are 7% up on the five-year average.

Australian lamb exports (24,450 tonnes swt) reflected the stronger production numbers and were up 8% YOY for the month of March. The Middle East market saw its first year-on-year increase (9%) in 26 months and only the second rise in 35 months. Although there is a long way to go before recovering to previous levels, this is the first positive sign for exports to the Middle East in over two years. Volumes to the US (6,866 tonnes swt) were also strong, recording the fifth highest volume in history.

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Sheepmeat

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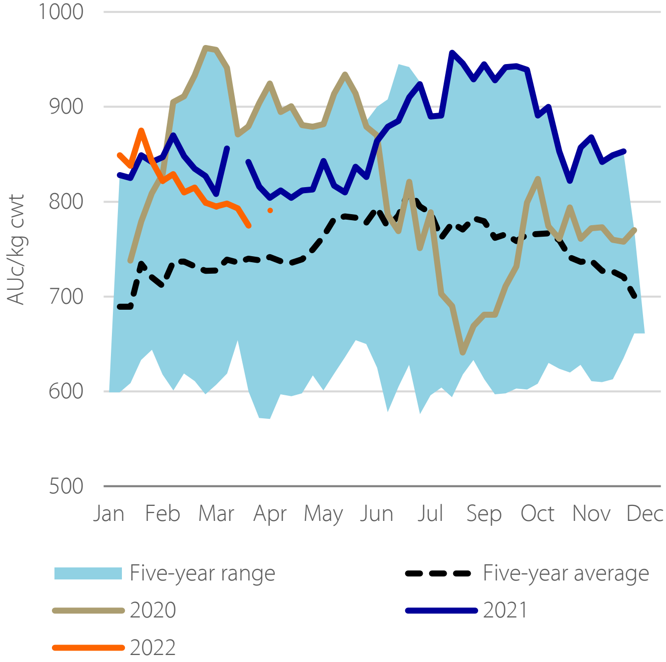
- ***US lamb demand*** – Australian lamb exports to the US have been strong in 2022, supported by the rising and then record prices through 2021 and into 2022. But now that we have passed the peak lamb consumption period at Easter, US imported lamb prices have started to ease. While the average price for frozen imports is still 41% higher than the same time last year, they are down 14% from the peak in late January. Rising costs in the US and inflationary pressures may see consumers drift away from lamb, given its more premium positioning, but the market is far from collapsing at the moment.

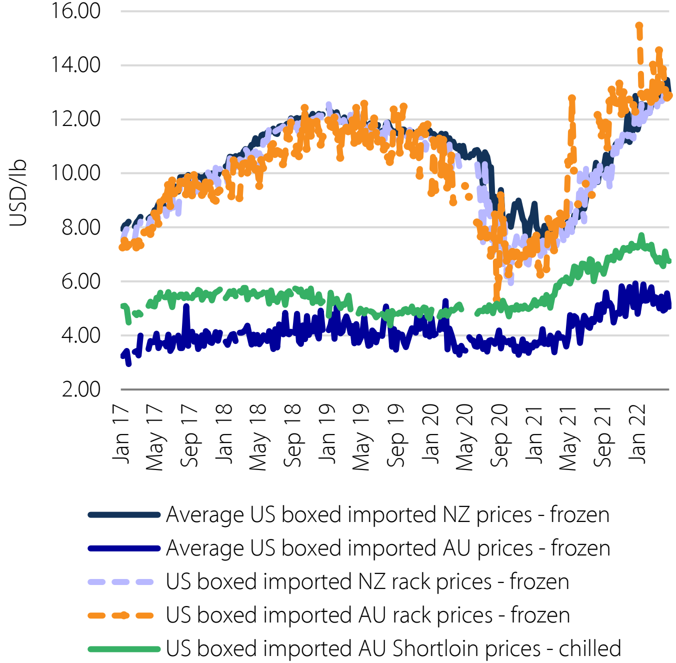
Softening US Import Prices May See Australian Export Lamb Prices Ease

Rabobank

ESTLI just lagging 2021 prices



US imported lamb prices starting to soften



Source: MLA, USDA, Rabobank 2022

Cotton

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Commitments Keeping Highs for Now

April delivered another month of gains for cotton markets – nearby ***ICE #2 finished the month above USc 150/lb for another 12.5% lift after last month's 15% MOM gain.*** Speculative money is taking the nearby higher, while US drought concerns are keeping the broader market supported. Drying in Brazil is also a factor being assessed in the supply outlook.

As we open May, there is still a net of 60,000 on-call contracts for the July ICE #2 contract. This means as we move towards July, mills will need to buy futures to fix their prices. This large net on-call position has brought speculative money into the market ahead of the fixing, taking the market higher. There may still be some upside on this, but we expect a sell-off of speculative money at some point in the next six weeks.

This means we still expect a mid-year correction lower in global prices. However, the worst drought on record in the US is keeping the outlook for 2H 2022 supported. Markets are keenly watching for a wide rain band that is forecast for the eastern half of the US over the next week. Still, the extent of current dryness, and a petering out of expectations for rain as it moves west, means we do not think there will be enough in it to fundamentally change concerns for high abandonment of the US cotton crop in 2022/23. Dryness in Brazil in March that assisted cotton planting has extended through April. It is now introducing concern for production in central regions.

Australian cash cotton prices moved above AUD 950/bale this month. A falling dollar added to global gains. An anticipated reversion higher for the AUD and a global mid-year drop means ***we see local cash prices finding their way into the AUD 700s/bale in Q3 2022.*** Sodden paddocks and tight availability of cotton pickers is challenging the progress of the AU harvest. Cotton is, however, now coming to market with reports of between 15% to 50% picked across the various regions. Due to the cooler growing season, yields so far are around average rather than above it.

What to Watch

- ***Global economic growth*** – During April, the IMF updated its global growth projections. Incorporating the impact of the Ukraine War and inflation, the IMF has revised its previous expectations lower to 3.6 % in both 2022 and 2023. This is down from 6.1% in 2021, though above the pre-Covid ten-year average of 2.9%. Cotton consumption has historically moved in step with global growth, so this does not auger well for the growth in cotton consumption in coming years.

Worst US Drought on Record Likely To Keep Floor in Cotton Market After Mid-year Drop

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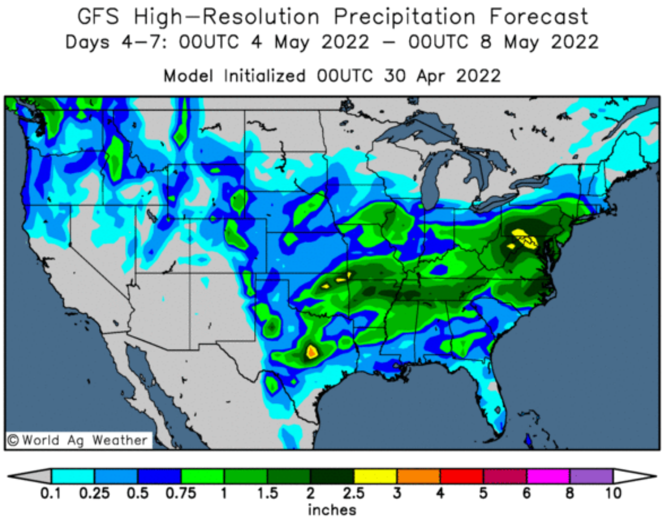
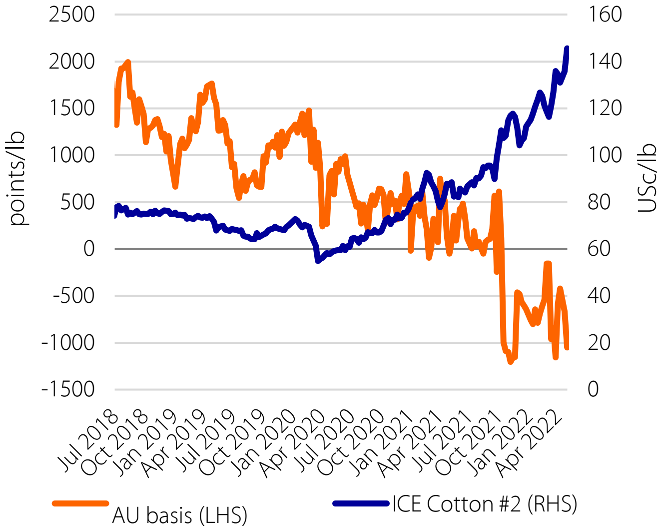
US cotton hopes for early May rain, amidst worst drought on record, not expected to go far enough



Source: US Drought Monitor, April 2022

Negative AU basis is taking cream off ICE #2 highs, but moderation of both is expected mid-year



Source: Cotton Compass, Rabobank 2022

Australian cash prices broached AUD 950/bale in April. Strength in pricing is expected to continue in the near term, but softening into the AUD 700s/bale in Q3 2022 is expected.

Consumer Spending To Ease

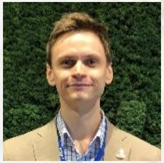
Chinese lockdowns, expectations of rapidly rising interest rates in western economies and the highest inflation levels in decades are expected to weigh on consumer spending moving forward. This is expected to result in the EMI trading between AUc 1,300/kg to AUc 1,400/kg for the remainder of 2022, down from the predicted AUc 1,350/kg to AUc 1,500/kg last month.

Chinese consumer confidence is expected to experience a hit by mid-year before recovering as lockdown measures are eased. While we do not expect the full 10% drop seen between January 2020 and June 2020, part of that drop will be experienced. The main drivers will be strict lockdowns in addition to an expected slowing of global economic growth.

2022 Chinese wool imports are expected down 5% to10% YOY, but not the full 15% YOY decline seen in 2020. The impact of logistical constraints for processing will compound reduced domestic demand for apparel. However, stronger demand outside of China compared to 2020 will drive the Chinese government to keep manufacturing running where possible through the lockdown.

US retail apparel sales are expected to continue exceeding pre-pandemic 2019 levels through the year, but at a slower pace. The 'sugar hit' to retail apparel sales from accumulated savings during Covid-19 is expect to cease by year-end, hampered by rising interest rates and inflation. The result will be a return to the long-term slower growth trend in sales.

February 2022 Australia wool export volumes reached 30.4m kg, up 19.4% YOY. April national wool tested data stood at 27.8m kg down 26% MOM and down 6% YOY.



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Wool

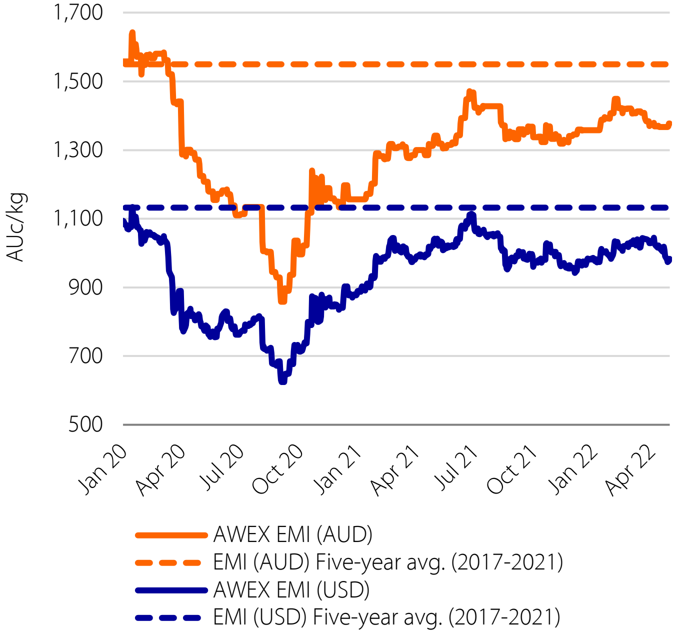
What to Watch

- ***Inflation 'spinning' out of control*** – Not only are interest rates expected to reduce disposable income for consumers, but so is increasingly high inflation. The more inflation increases, particularly food price inflation, the less disposable income is left for other less critical goods, like apparel, and particularly woollen apparel. US inflation hit 8.5% in March, the highest since 1981.
- ***Container problem to extend into 2023*** – Due to the slowdown at Chinese ports, elevated prices and the low availability of containers are expected to flow into 2023.

EMI Outlook Dampened by Strict Chinese Lockdowns, Inflation, and Rising Interest Rates

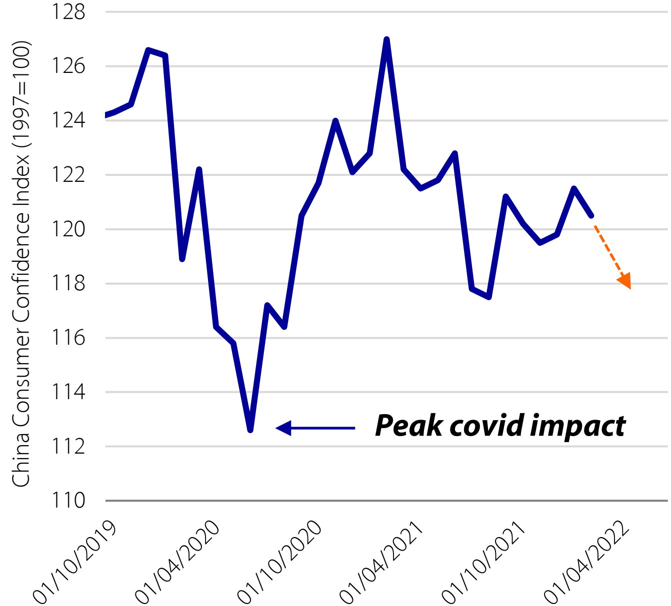
Rabobank

EMI stagnates over March and readies for bad news from China's lockdown nightmare



Source: Bloomberg, Rabobank 2022

Chinese consumer confidence in for a wild ride in coming months?



Source: National Bureau of Statistics, Rabobank 2022

Bracing for More Inflation

Food inflation increased sequentially in the recent quarter through March 2022. Headline food and beverage inflation reached 4.3% – the highest quarterly increase since 2011. This was part of a broader spike in inflation across the Australian economy. ***It was broad-based food inflation.*** The largest contributor was fruit and vegetables. However, a jump in the price across the meat and dairy aisles was also evident.

A confluence of local and global factors is causing food inflation. The floods in Queensland and New South Wales contributed to the inflation in fresh produce. Meanwhile, the rising price of raw materials, high cost of inputs, labour availability issues, and the rising cost of freight and distribution, continue as cost headwinds in the food system.

Consumers need to brace for more pain. Food inflation will remain elevated in the approaching quarters, as several of the forces driving food prices higher will still be impacting the food system. These include high costs of inputs, distribution, and raw materials. There is more upside potential in packaged food and in out-of-home channels. More favourable growing conditions could provide some relief for fruit and vegetables.

A close eye is now on how consumers respond. Consumer purchasing power is under pressure given wider cost-of-living pressures. This poses a downside risk to the sales performance of discretionary categories. On the flip side, affordable offerings can perform well. Food and beverage companies will be looking towards innovation as an instrument to improve consumer value.

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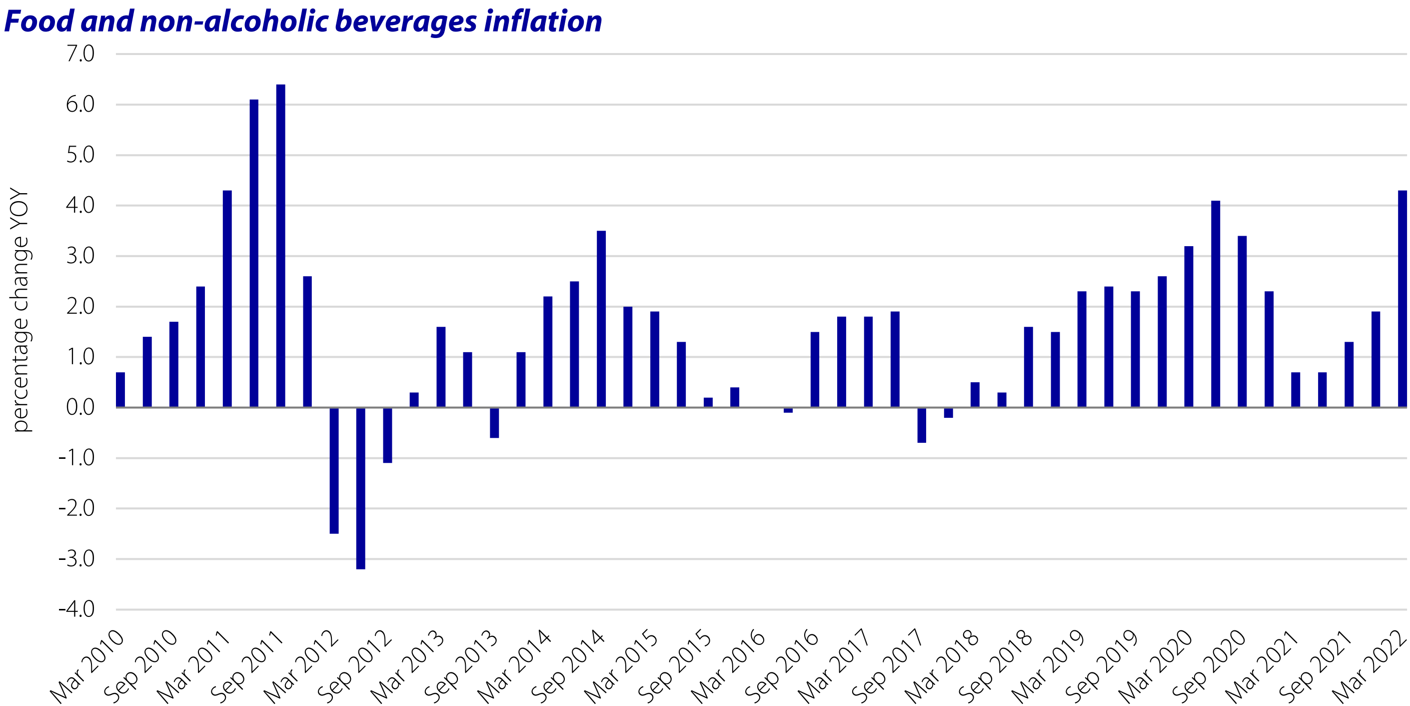
Downstream Markets

What to Watch

- ***Global food inflation*** – This is not only an Australia story. Households all around the world are facing cost-of-living pressures and higher food costs. The potential consumer response and volume reduction in food and beverage sales could be more pronounced in emerging markets – particularly in key export destinations in Asia.

Food Inflation Hits a Decade High



Sources: Australian Bureau of Statistics, Rabobank 2022

Farm Inputs

No Sustained Reprieve From High Prices

The ongoing war in Ukraine and sanctions on Belarus and Russia continue to be the main drivers of volatility in fertiliser markets. Global prices for potash and phosphate, in AUD equivalent terms, rose 10.2% and 10.1%, respectively, during April. Overseas urea prices declined 25% MOM but the decline is expected to be temporary.

The continued flow of fertiliser exports from Russian ports to 'friendly' countries and a smaller than expected Indian IPL tender have moved global urea prices down from their March high. ***We do not expect a sustained, or further, decline in urea prices*** unless hostilities cease in Ukraine, something that is considered unlikely in coming months. High energy prices are likely to keep urea prices trading in elevated ranges over the course of the year.

Potash prices continue to be supported due to the world's large trade reliance on Belarus and Russia. Potash purchased prior to the war continues to flow from Russia to South America. However, shipments from Belarus are stymied following the loss of access to the port of Klaipėda in Lithuania earlier in the year as a result of EU and US sanctioning Belarus. Russian export shipments are likely to continue, but payment difficulties due to western sanctions and high freight costs may disrupt flows. We expect further potash price upside for the next few months, with any downward momentum driven by demand destruction.

Phosphate prices are expected to see further upside in 1H 2022. Any downside in 2H 2022 prices will depend on whether China re-enters the market or demand destruction comes into play.

Agrochemical prices have likely peaked but are expected to remain elevated through 2022.

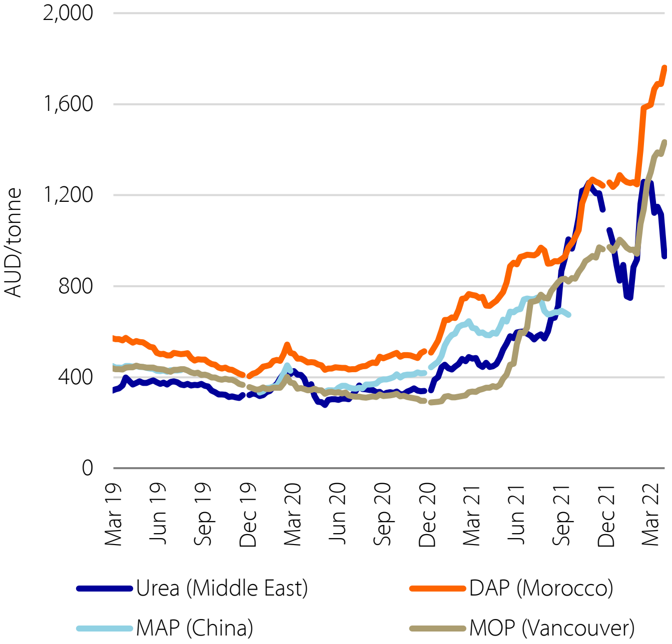
What to Watch

- ***Russia stops gas supply to Europe*** – On 27 April, Russia cut off natural gas flows to Poland and Bulgaria after they refused to make payments in rubles. Polish sources say that fertiliser production has continued undisrupted. Bulgaria, on the other hand, appears more vulnerable due to insufficient LNG import infrastructure. If more EU countries are cut off, those countries will face higher gas and, consequently, urea prices and will need to cut back on application. If the EU decides to sanction Russian oil and gas, we will also see upward price pressure for urea.

P & K Prices Rise, While N Takes a Breather in April

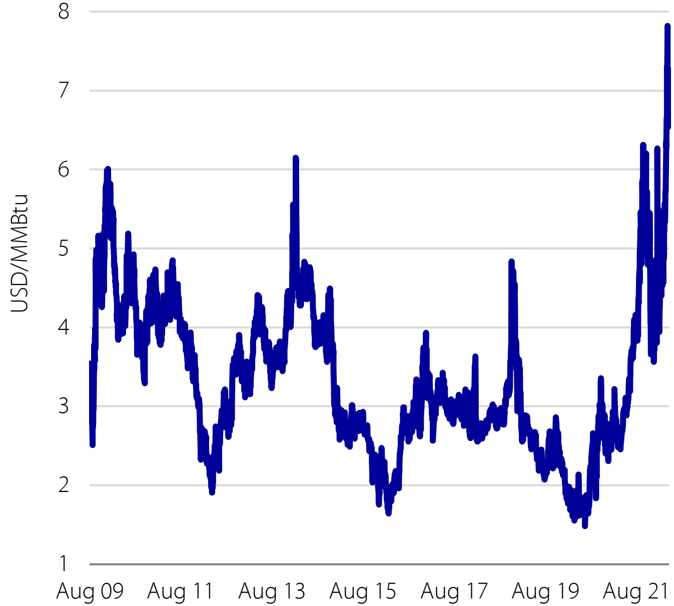
Rabobank

AUD-adjusted global fertiliser prices (FOB)



Source: CRU, Rabobank 2022

High natural gas prices are expected to prevent sustained movement to lower urea prices



Note: Generic 1st Natural Gas Price Future – NY Mercantile Exchange
Source: Bloomberg, Rabobank 2022

Inflation Here To Stay? Cash Rate Increase!

The AUD is currently trading at USc 71.50, which is lower than the USc 74.9 of a month ago. For now, our AUD/USD forecast remains at 0.76 to a three-month view and we expect a move towards 0.77 in six months.

- In early May, the Reserve Bank of Australia (RBA) increased interest rates from the historically low 0.1% to 0.35%. The market expectation is for further cash rate hikes.
- Inflation in the March quarter turned out to be much higher than projected, at 5.1% actual vs. 4.5% projected. Trimmed mean inflation (which excludes large price rises and falls) increased from 2.6% to 3.7%, which is higher than the RBA's 2% to 3% inflation target.
- Moreover, there is a risk of a prolonged period of inflation. The producer price index isn't on a downward trajectory yet, and the RBA's commodity price index is also at its peak of the last five years (*see figure on next slide*). This opens the door for second order effects, in which producers pass on the higher input costs to consumers in the form of price increases.
- As a result, consumer confidence has fallen off a cliff in recent weeks due to higher inflation expectations and the fear of decreasing purchasing power.
- Furthermore, the global growth outlook is worsening due to high inflation and Covid-19-related lockdowns in China, which are expected to shake global supply chains and constrain demand from China. These factors will lead to weaker demand for commodities from Australia.

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FX

What to Watch:

- ***The currency pair saw quite a ride last week.*** Nevertheless, we maintain that the AUD/USD can shift higher in the coming months. This view is based on the improvement in Australia's terms of trade, which stems from higher energy prices linked to the Russia/Ukraine war.
- The main downside risk to our FX outlook are increasing fears of an economic slowdown in China. Lower economic growth in China would hurt Australian exports, which would undermine the value of the AUD. Furthermore, a slowdown in China would strengthen the value of safe haven currency USD.
- Look for RBA interest rate hikes with the market expecting a rate of 2.5% by year-end.

Risks of Prolonged Period of High Inflation

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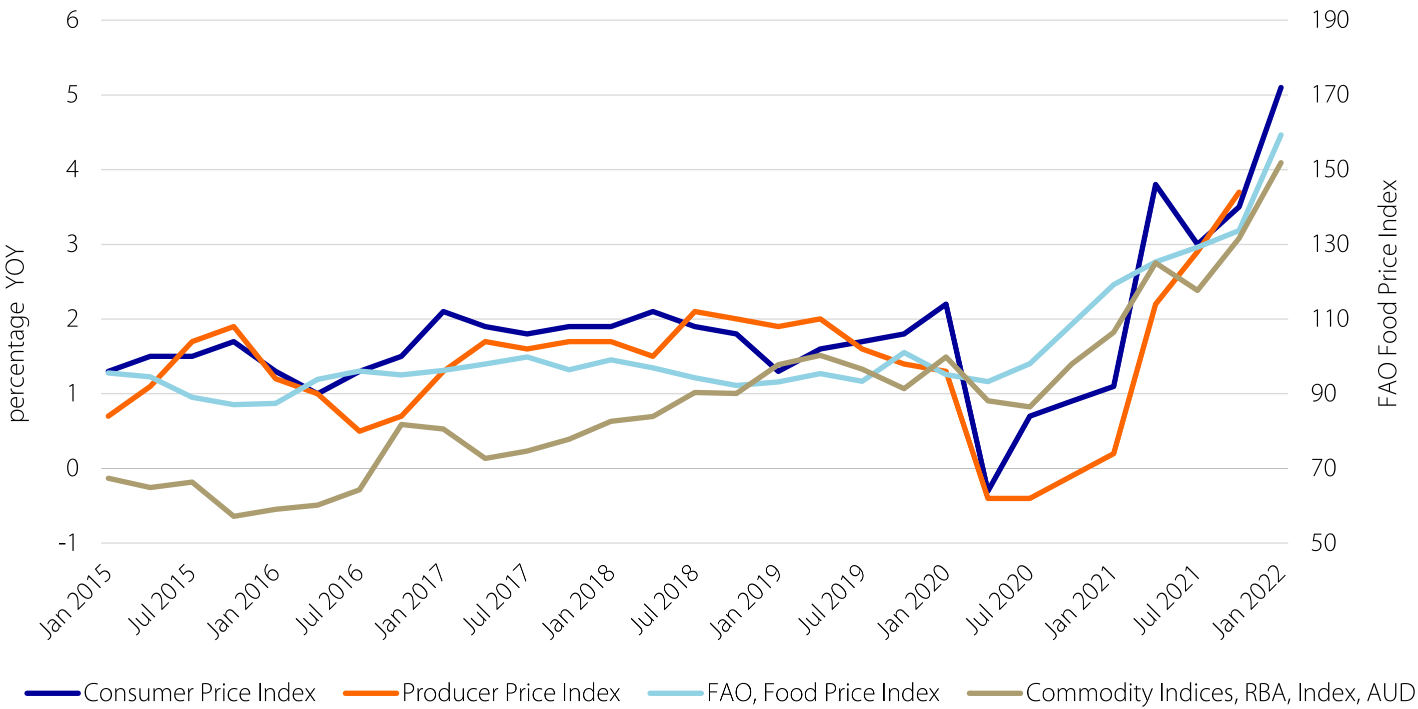

Source: Bloomberg, Rabobank 2022

Oil & Freight

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Reefer Container Rates Are Still Going Up

After a choppy month, global oil prices are heading into May with positive momentum. The continued price strength is noteworthy as it occurs despite heavy Covid lockdowns in China, the world's largest oil importer. The inevitable easing of these strict measures in China could unleash significant pent up demand in the coming months. Global oil supplies are tight and with the west pushing away from Russian oil imports, the tightness is likely to continue. The high-demand summer period in the northern hemisphere is fast approaching. Australian energy prices, a key farm input cost, will remain volatile in a mix of tight global supply, geopolitics, and demand uncertainty.

Global container rates continued to hold steady, as China's Covid-19 lockdowns impacted export manufacturing volume and its domestic transportation. Containers started to pile up in the Port of Shanghai, after being offloaded from carriers but not picked up by truckers. Goods in reefers are especially at risk due to their limited shelf-life and time sensitivity. Globally, one in five containers is stuck in port congestions, with over a quarter of these in Chinese ports.

In contrast to dry container rates, global refrigerated containers (reefer) rates are expected to continue increasing throughout 2022. This upward trend is mainly due to the imbalance of reefer equipment: they are not positioned where needed. Of the total of 3.5m reefer TEUs (20-foot equivalent unit) worldwide, nearly a third are currently stuck in Asia, mainly in China. At the same time, there are huge deficits in major exporting regions, including South America (-670,000 TEUs), Southern Africa (-100,000 TEUs), and Oceania (-220,000 TEUs).

The Baltic Panamax index (a proxy for grain bulk freight) stabilized more in recent weeks at an elevated level, but remains below the high levels seen in first weeks of Russia's invasion of Ukraine.

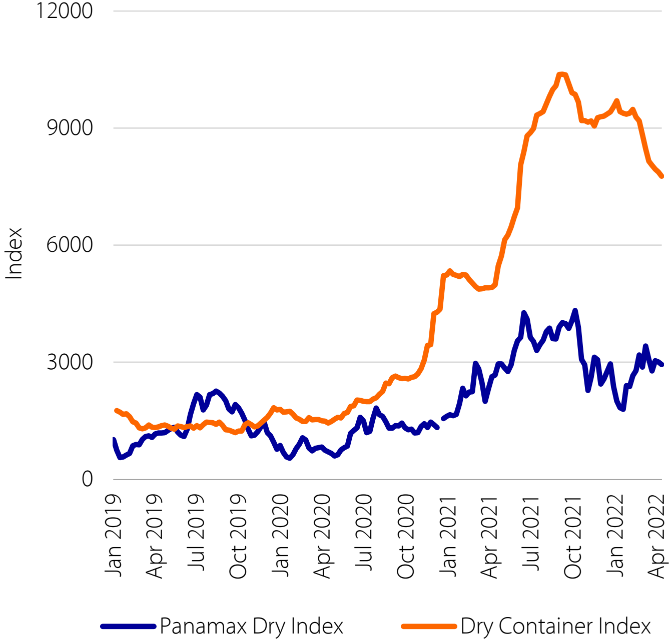
What to Watch

- ***Oil markets globally remain tight*** – As the west moves away from Russian supplies there remains limited room for supply disruptions. High northern hemisphere demand coupled with potential relaxations of China's lockdowns elevate upside price risk.
- ***Port congestions, especially in Asia, put upside risk on dry and reefer container freight rates.***

Oil Prices Have Reached Record Highs

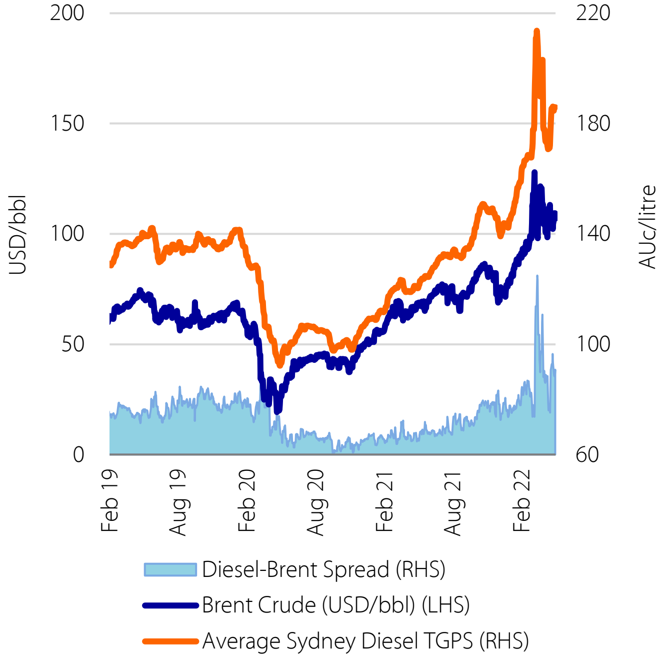
Rabobank

Baltic Panamax Index & Dry Container Index, Apr 2019-Apr 2022



Source: Bloomberg, Rabobank 2022

Brent Crude Oil & Average Sydney Diesel, Apr 2019-Apr 2022



Source: AIP, Bloomberg, Rabobank 2022

Agri Price Dashboard

29/04/2022	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	1,044	1,006	738
CBOT soybean	USc/bushel	▲	1,708	1,618	1,543
CBOT corn	USc/bushel	▲	818	749	702
Australian ASX EC Wheat Track	AUD/tonne	▲	410	400	304
Non-GM Canola Newcastle Track	AUD/tonne	▲	994	921	687
Feed Barley F1 Geelong Track	AUD/tonne	▲	376	348	242
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	1,088	1,082	877
Feeder Steer	AUc/kg lwt	▼	562	583	455
North Island Bull 300kg	NZc/kg cwt	•	590	590	515
South Island Bull 300kg	NZc/kg cwt	▼	565	575	460
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▼	791	793	812
North Island Lamb 17.5kg YX	NZc/kg cwt	•	830	830	695
South Island Lamb 17.5kg YX	NZc/kg cwt	•	815	815	660
Venison markets					
North Island Stag	NZc/kg cwt	•	795	795	520
South Island Stag	NZc/kg cwt	•	800	800	535
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,775	6,975	5,788
Skim Milk Powder	USD/tonne FOB	▼	4,450	4,600	3,425
Whole Milk Powder	USD/tonne FOB	▼	4,163	4,638	4,088
Cheddar	USD/tonne FOB	▲	6,213	6,175	4,400

Agri Price Dashboard

29/04/2022	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	166.1	156.6	95
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	152.3	135.7	86
Sugar markets					
ICE Sugar No.11	USc/lb	▼	19.4	19.5	17.08
ICE Sugar No.11 (AUD)	AUD/tonne	▲	598	569	435
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,377	1,375	1,342
Fertiliser					
Urea	USD/tonne FOB	▼	725	1,000	350
DAP	USD/tonne FOB	▲	1,240	1,050	580
Other					
Baltic Panamax Index	1000=1985	▼	2,938	3,141	2,643
Brent Crude Oil	USD/bbl	▲	109	108	69
Economics/currency					
AUD	vs. USD	▼	0.706	0.748	0.777
NZD	vs. USD	▼	0.646	0.695	0.724
RBA Official Cash Rate	%	•	0.10	0.10	0.10
NZRB Official Cash Rate	%	▲	1.50	1.00	0.25

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