Good Reasons To Stay Positive

Australia Agribusiness Monthly

RaboResearch
Food & Agribusiness

Rabobank

September 2022

Commodity Outlook

Rabobank

Grains & Oilseeds	Despite a marginal MOM revision down, we still expect global G&O prices to trade 40%-50% above five-year averages into Q3 2022. Locally, carry-over and growing confidence in another large crop will weigh on prices over harvest.
Dairy	Global dairy markets continued to trend lower in August, as underlying fundamentals turn slightly negative. Early signs of milk supply recovery in the export regions is evident, while demand signals are softening. A key driver of global markets will be Chinese import demand. Rabobank expect softer demand through into 2023.
Beef	Favourable seasonal conditions have meant a drop in cattle numbers through saleyards and, together with falling cattle prices, this has stimulated demand. While supplies are limited, we expect prices to remain strong but we feel further upside is limited.
Sheepmeat	Lamb prices recovered as plants came back online in August. With ongoing favourable conditions in export markets (except lower volumes to China) we believe lamb prices should hold through September before starting to dip as new season lambs arrives.
Cotton	With a tightened, and still risk prone, supply base in 2022/23, and despite a bleak economic outlook, global prices are likely to be lower, but still favourable in 2023, and locally remain above the five-year average.
Wool	An expected decline in economic activity dims the wool price outlook.
Downstream Markets	Food markets remain very dynamic. There are ongoing pressure points across the food supply chain. Which are taking time to recede. Food inflation remains at decade-highs. With the risk of more to come. There are early warning signs of a consumer response to the cost-of-living issues, which will continue to build.
Farm Inputs	Rabobank sees substantial upside risk for global urea prices moving towards the end of 2022, particularly in the wake of natural gas prices reaching a record-high in Europe. This is expected to renew upward pressure on local prices.
FX/Interest Rates	The RBA will have to push more interest rate hikes, likely moving the official cash rate up by at least 0.35 basis points, maybe even another 50 basis points, in early September, with likely more hikes to follow. AUD to remain volatile.
Oil/Freight	Looming economic conditions have softened prices for oil and freight. Brent crude hovered between USD 95-USD 100/bbl this August. Global freight rates continue to decline for most routes while reefer rates remain elevated.

La Niña Alert! Increasing Chance of Above-Average Rainfall for Spring and Summer

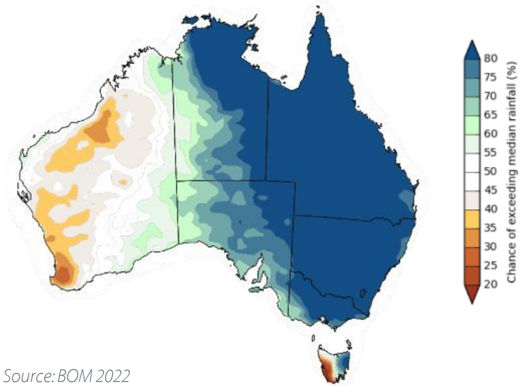
The Bureau of Meteorology (BOM) has raised the ENSO outlook to La Niña alert, with a 70% chance of La Niña developing this spring.

BOM's outlook sees most of Northern, Central, and Eastern Australia with a greater than 80% chance of exceeding median rainfall this spring. However, for Western Australia and western Tasmania, below-average rainfall conditions are expected.

ENSO neutral conditions may end after this winter, with this month's increase to a 70% chance of La Niña returning later this year. Currently, the tropical Pacific remains La Niña-like, favouring above-average rainfall. The Indian Ocean Dipole (IOD) has moved negative this winter, also increasing the chances of above-average winter-spring rainfall.

Rainfall expectations

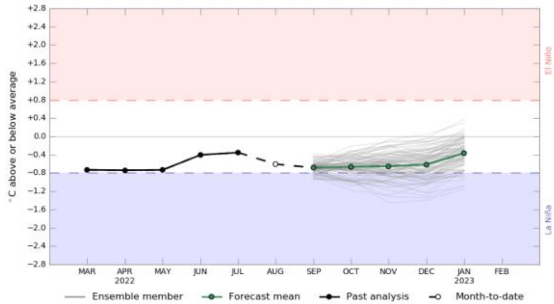
August-October 2022 rainfall outlook



Source: BOM 2022

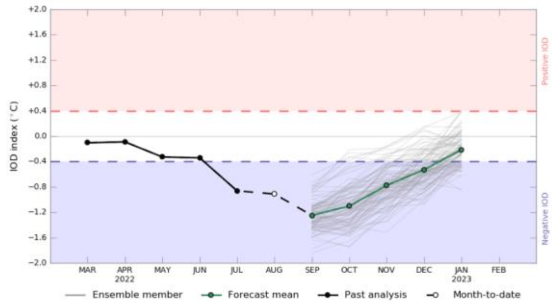
Neutral conditions, but La Niña alert outlook

Monthly sea surface temperature anomalies for the central Pacific Ocean



IOD moved negative this winter

Monthly sea surface temperature anomalies for the Indian Ocean



Plenty of Rainfall for Southern Australia This August

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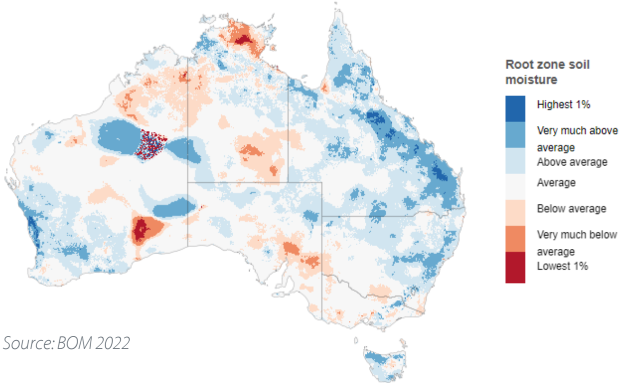
Southern Australia received above average rainfall in August.

The negative IOD has caused above average rain this August, bringing heavy rainfall to Western Australia, South Australia, Tasmania and Victoria. August cold fronts brought further rainfall and cold temperatures to much of Southern Australia and snow to Victoria and New South Wales.

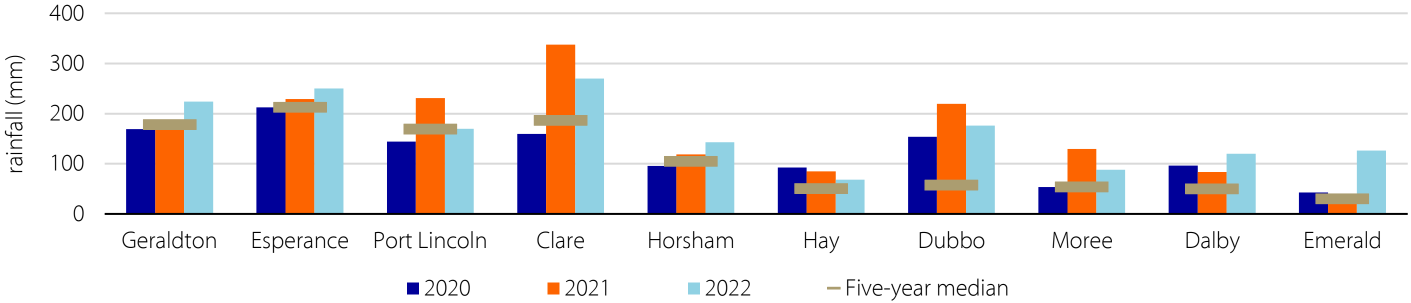
For much of Australia, soil moisture is above average this August with flood risks remaining for Eastern Australia. For tropical north Australia, August was dry following record July rainfall.

Relative soil moisture, August 2022



Source: BOM 2022

June-August rainfall



Source: BOM 2022

Saying Goodbye to Extremely High Prices

Rabobank Rural Commodity Price Index (Australian dollar based)

After a steep rise in early 2022, the Rabobank Rural Commodity Index peaked in May, and has since declined by 14%. The index is currently at the same level as it was in August 2021, with more decline expected into December until a bottoming out by June 2023.

Following an initial record-breaking price rise in grains & oilseeds prices on the back of the war in Ukraine, global prices have come down notably. Prices for cattle and lamb have also eased as restocking demand softens.

A further easing in local G&O prices due to a large crop, softening in cotton and wool prices due to recessionary concerns and further easing of cattle prices is expected keep the index declining until mid 2023.

With this in mind, margin squeeze is a watching item, especially for cropping sectors.

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).

Price Seesaw Continues

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August was marked by significant volatility in CBOT prices, with dryness in the US, EU and China arresting the slide in prices initiated by the northern hemisphere harvest and the Ukrainian grain export deal. CBOT wheat, corn and soybeans finished mixed, down 3% (to USc 785/bu), up 9% (to USc 669/bu) and down 2% (to USc 1,605/bu) MOM respectively as of August 29.

Rabobank has marginally downgraded its CBOT wheat price forecast so we now see it trading between USc 790/bu to USc 825/bu over the next 12 months, still 40%-50% above average due to another year of below average ending global stocks. Vessels stranded in the Black Sea since the start of the war in Ukraine have continued to depart, but new vessels are reportedly limited to those charted by the United Nations. The environment surrounding the grain deal continues to be volatile and could change at short notice. AU APW1 2022/23 prices have declined 6% MOM. An upcoming large harvest and volumes of wheat estimated to be in carry over and still on-farm on the east coast is expected to limit sustained upside coming into Q4 2022, but there are temporary upside opportunities, e.g. if a Ukrainian grain vessel is attacked.

Rabobank expects CBOT corn to trade between USc 650/bu to USc 635/bu over the next 12 months. Global ending stocks of corn are expected to decline 39m tonnes in 2022/23 YOY according to the USDA. This number may be pushed down more if the European drought further impacts corn yields. Current estimates are for EU corn production to decline 11m tonnes YOY, while some estimates are more negative. Local feed barley 2022/23 prices have declined 12% MOM.

Non-GM canola 2022/23 prices dipped 9% MOM on average across the nation's port zones as large Canadian and Australian crops are becoming 'baked into the cake'. Improved conditions in Canada are expected to see the nation harvest a 20m tonne crop according to the USDA, up 67% YOY. As Canada's harvest wraps up, Australian headers will get rolling to harvest another very large crop. Nationally, non-GM canola is expected to trade on average in the mid AUD 700/tonne range leading into harvest on a track/FIS basis.

Grains & Oilseeds

What to Watch

- ***Reduction in Canada's canola exports to favour AU exports*** – Canadian crush plants intending to supply the US biofuel sector, are currently under construction and will operate in mid-2023. The canola volumes required are expected to be substantial and would cut Canadian exports.
- ***New podcast: Tectonic Grain Shifts (click)*** – structural shifts in world economics and trade are set to bring significant changes to the global grains industry in the coming five to ten years. Together with Global Economics and Markets Strategist Michael Every and Global Grains & Oilseeds Strategist Steve Nicholson, we delve into how the Australian grains industry will be impacted.

Global G&O Prices Continue to Seesaw But Supported by Ongoing Very Tight S&D Position

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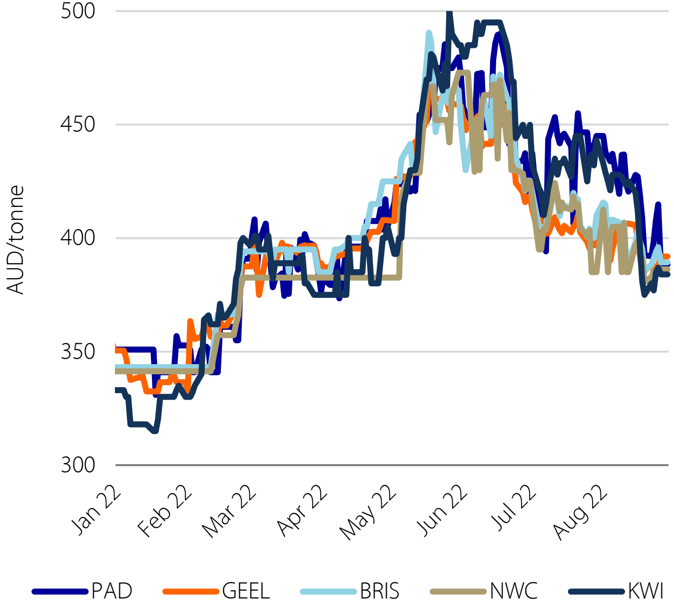
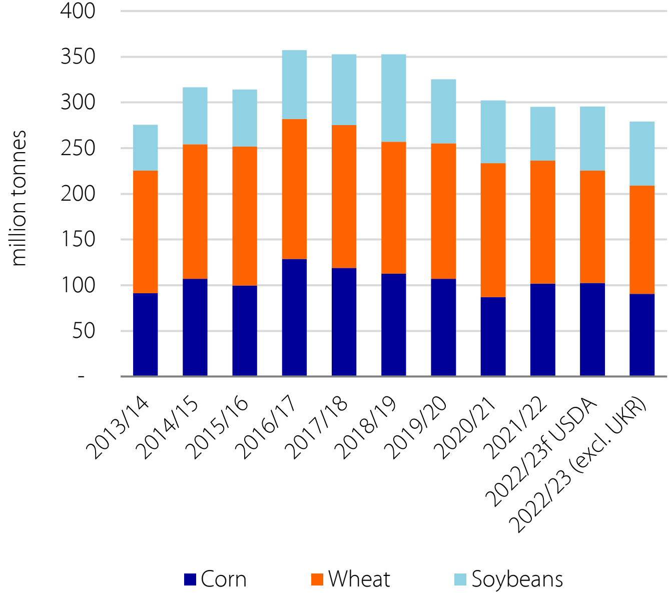
2022/23 APW1 prices ease on global decline and as confidence in local large harvest grows



**Note: All track APW 1 price except for KWI, which is FIS.*
Source: Bloomberg, Rabobank 2022

Global (excl. China) ending stocks expected low for another season, especially if UKR exports are low



Note: China is removed from the global stocks figure due to lack of certainty in estimated numbers and because the vast majority of stocks in China will not be re-exported.
Source: USDA, Rabobank 2022

Commodity Market Weakness Lingers

The Oceania dairy commodity complex continued to trend lower in August. There were modest falls of between 2%-10%, led by milk powders. Since the Q2 2022 peak, commodity prices in USD terms have fallen by between 20-30%. There has been a subtle shift in the underlying market fundamentals. China import demand has slowed as inventories build and demand slows. This period of weaker Chinese import demand is expected to continue into 2023. More broadly, global dairy demand signals are softening. Rising dairy prices in retail and foodservice channels, and cost-of-living pressures, are hampering end-user demand in price-sensitive emerging economies.

Australia's milk supply tanked in the 2022/23 season. National milk production was down 9.2% in June versus the previous year. This led to a 3.9% fall in national milk production for the full 2021/22 season. On a volume basis, this represented a fall of 350m litres. The falls were widespread, with production declines in every state. Ongoing industry consolidation is a key reason for the decline. However, the season was hampered by unfavourable weather and flooding in some regions.

Dairy prices are rising for consumers. Dairy consumers are feeling the pinch from sizeable increases in the cost of products across the dairy aisles. This is happening in local and export markets. Dairy demand will exhibit a level of resilience in the coming months, but some negative volume impacts are starting to emerge.

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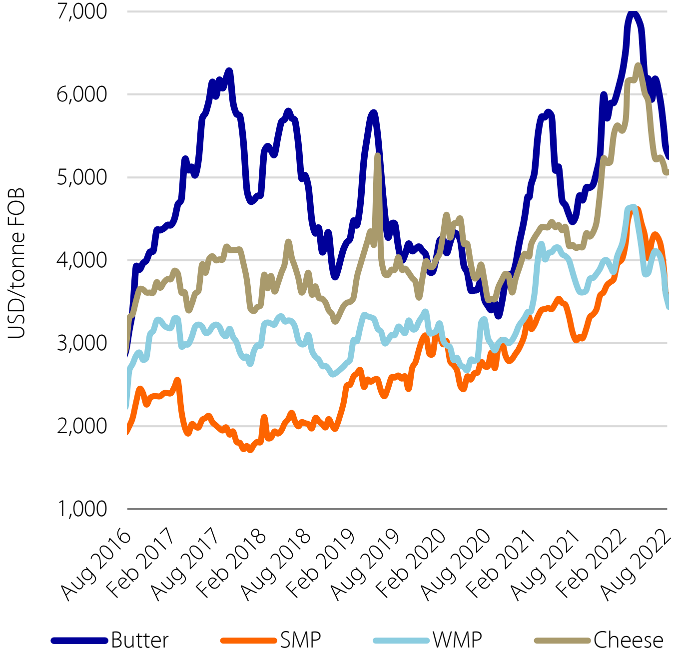
Dairy

What to Watch

- ***New Zealand milk supply*** – The New Zealand spring peak is fast approaching. Rabobank is expecting more milk through the peak this season versus the last season, which was impacted by unfavourable weather. The strength of the peak will influence the global market balance and commodity price direction. Weather risk remains elevated with parts of the country facing excessive rainfall and the season has started slowly.

Milk Production Turns Positive in US

Global dairy prices, Aug 2016-Aug 2022

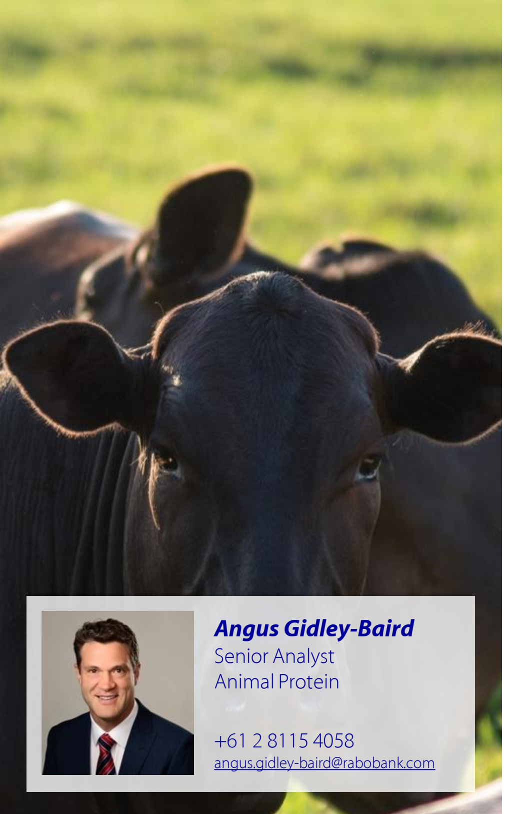


Source: USDA, Rabobank 2022

Production growth key exporting regions

	Latest month	Last three months
EU	-0.6% (June 22)	-0.6%
US	0.2% (July22)	-0.1%
Australia	-9.1% (June 22)	-8.1%
NZ	-5.3% season-to-date in 2022/23.	

Source: Rabobank 2022



Beef

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Limited Cattle Supplies Lift Prices

All cattle prices saw a correction through August after the market dropped in late July. We believe, with cattle prices dropping, opportunistic traders re-entered the market as backgrounding margins became more favourable. Along with the encouraging seasonal conditions and forecasts that meant producers are holding on to cattle and reducing saleable cattle numbers, that was enough to push prices up again. Saleyard numbers in NSW for the first three weeks of August were the lowest in over ten years. ***With stronger prices returning to the market we may see a lift in saleyard cattle numbers in the coming month and as a result prices level off.*** But the drop in saleyard numbers demonstrates that producer demand is still strong and while this remains the case, we expect prices will remain strong.

National slaughter numbers for Q2 were released in August. Total cattle slaughter was steady for Q2 at 1.49m head. Female numbers were down 8% and male numbers were up 7%. ***This is the fourth consecutive quarter where male slaughter numbers have seen year-on-year growth, reflecting the rebuild in the national herd.*** The female proportion of total slaughter rose to 44%. Q2 meat production was up 2%, bringing the year-to-date volume to 906,611 tonnes, almost the same as this time in 2021. For 1H, Queensland production was the same as 2021, while NSW is up 7% and Victoria is down 10%.

July beef exports were down 8% on July 2021 at 74,949 tonnes swt. Volumes to the US and Japan were down 15% and 23% YOY, respectively, while volumes to China and South Korea lifted 2% and 7% YOY respectively. Feeder/slaughter cattle exports dropped 52% YOY in July to their second lowest monthly volume in over five years, with price, disease and availability affecting volumes.

What to Watch

- ***Cattle on feed contract*** – Q2 cattle on feed numbers dropped 6% to 1.19m head from the Q1 records but they remain at high levels, recording the third-highest number of cattle on feed in history. With feeder cattle prices and grain prices easing over recent months, feedlot costs have declined, helping to offset the decline in heavy cattle prices. We believe feedlot demand will remain strong but total fed beef will become a smaller part of the overall production volume as grassfed cattle numbers increase.

Short Supplies Lift Cattle Prices and Feedlot Numbers Contract Slightly

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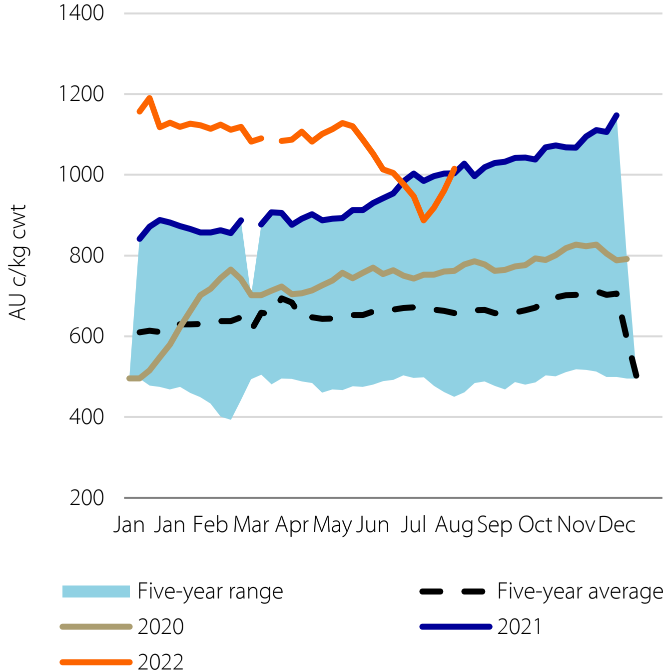
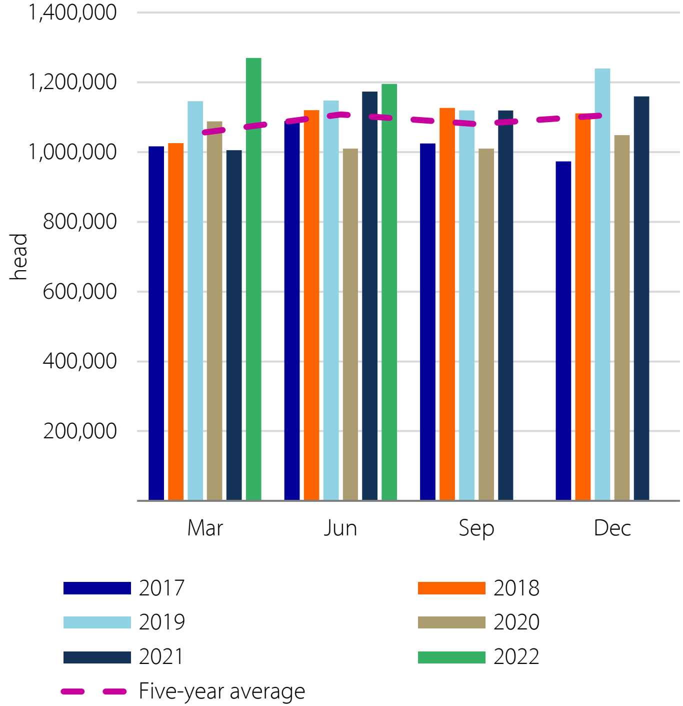
EYCI recovers but expected to stabilise



Cattle on feed drop but remain historically high



**Note: Breakeven price based on purchased data price*
Source: MLA, ALIC, RBA, Rabobank 2022

Prices Steady Before Seasonal Dip

Trade and export lamb prices have lifted after the drop in prices in late July. The ESTLI recovered 17% from the low to sit at AUD 7.44/kg on 18 August. Mutton, restocker and merino lambs also lifted off the back of a general market improvement but have subsequently fallen again reflecting a weaker restocker buying activity. The drop in prices in late July is believed to be a result of scheduled maintenance shutdowns in some plants leading to less buying activity. ***With plants back up and running and ongoing favourable export markets, prices are expected to trade at current levels through September before easing in October as new season lambs start to hit the market.***

Q2 national production data was released in August, showing that lamb slaughter for Q2 was up 2% compared to 2021 and sheep slaughter was up 42%. In the first half of the year, slaughter numbers are up 28% and 1% for sheep and lambs respectively. NSW and SA have seen significant rises in sheep slaughter, up 77% and 241% respectively, while Victorian sheep slaughter is only up 4%. Eastern states weekly lamb slaughter numbers dropped below 300,000 head in mid July, reflecting plant shutdowns. Numbers for the week ending 19 August were back up over 360,000 head.

Lamb exports for the month of July (25,178 tonnes swt) were the same as 2021. Volumes to the Middle East continue to show an incremental gain (5% YOY) while volumes to China remain down (down 30% YOY) given the ongoing challenges with lockdowns and reduced foodservice sales. Volumes to the US were down 7% year on year but still remain historically high and 36% above the five year average.

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Sheepmeat

What to Watch

- ***Seasonal supply of lambs*** – East coast weekly lamb slaughter numbers through August are tracking at 10-year highs. Is this reflecting an overall increase in lamb availability or a delay to lamb finishing? For four weeks of August, lamb slaughter numbers averaged 13% up on the five-year average, compared to April when they were 3% below the five-year average. Delays to cropping operations and slower lamb growth rates are suggested to have pushed lambs later into the season. We also see in the MLA/AWI survey that lambs on hand in June this year were up 10%.

Lamb Prices Recover Some Ground as Slaughter Numbers Come Back Online

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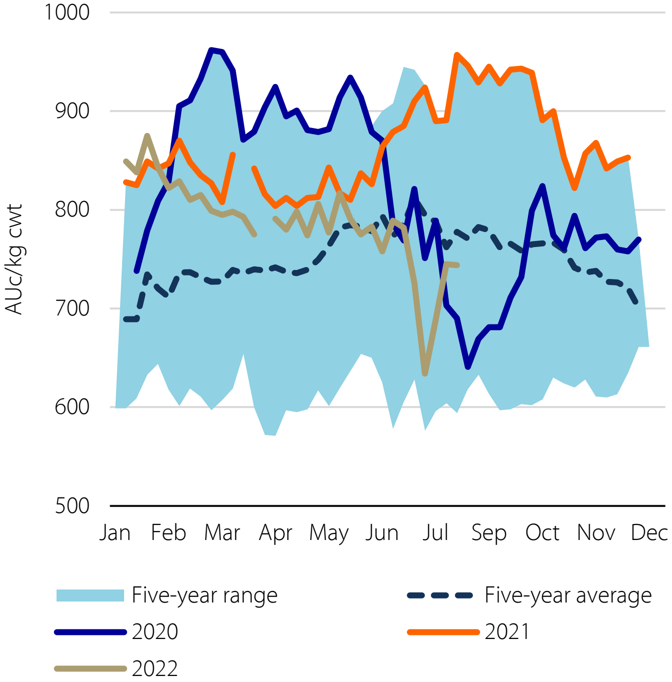
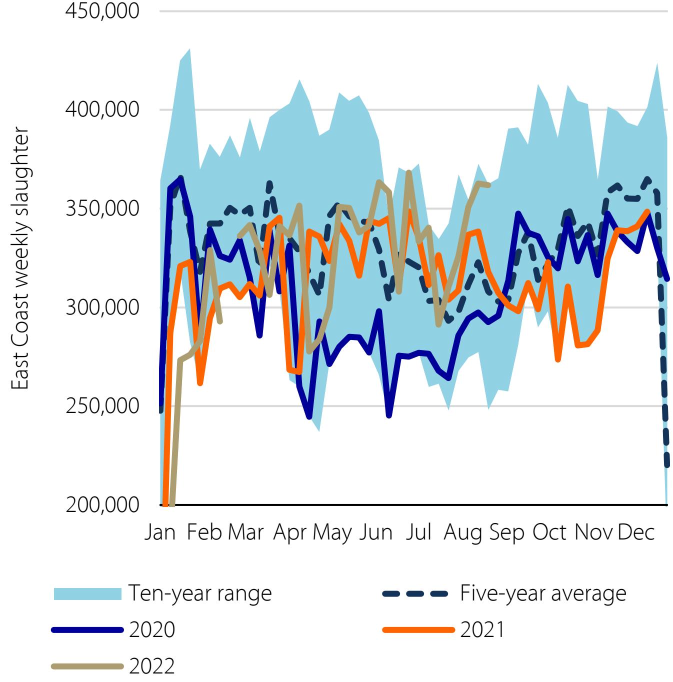
ESTLI recovers



Lamb slaughter numbers breaking new ground



Source: MLA, Rabobank 2022

Lower Supply & Demand Risks at Play

The USDA's August update for US 2022/23 cotton production did deliver the price upside anticipated. ***ICE #2 Cotton finished August up almost 16% for the month, after the USDA slashed almost 3m bales, and more than the industry expected, from their latest forecast for 2022/23 production.*** This means the market is now trading with expectations of almost 5m fewer US bales YOY, and expectations for total global production this year to be only 1m bales higher YOY, but within 1% of five-year average production. But its also trading on a lower consumption outlook.

Staying within 1% of global five-year average production relies on no further downgrades for the US crop. But, we're moving towards their hurricane season – this is likely to be less of a concern for the drought-affected Texas regions, where hot, dry conditions mean the harvest has started ahead of time and is likely to be finished promptly – but it is a material risk for the regions where production is reportedly the best in years, namely North Carolina, Georgia, Florida, Alabama and Mississippi.

It also relies on Pakistan's imminent cotton harvest (late Sept- December) coming in within 5% of its five-year average, when the country's cotton regions have been hit with their second, or perhaps worst, flood event in recorded history, as well as Brazil having larger crop YOY despite the crop still being months from planting.

And it also relies on ***Australia's next crop, which will start being planted in a month, being another large one. Most of the of the pieces of the puzzle are in place to support 5.5m bales, or higher,*** however we'll be watching if ongoing rainfall and cooler La Niña conditions prevent growers hitting their planting windows on time and/or challenging plant establishment. The late run of the 2021/22 harvest has also shortened the window for ground preparation in some regions.

The risk of weather pushing global cotton production below five-year average production means ICE #2 is expected to remain just above USc 100/bu out to the end of 2022, and while we see it falling from there in 2023 as Brazil's crop comes to market and as the risk of global economic downturn reduced demand, ***staying above USc 85/lb to mid 2023 is anticipated.***

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Cotton

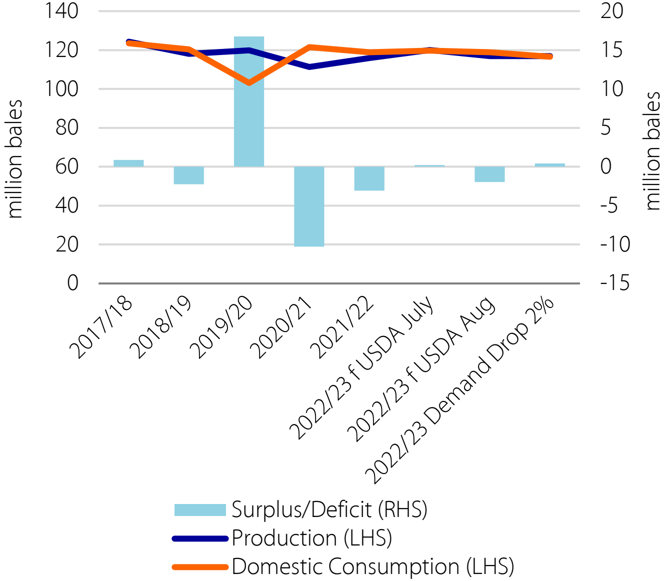
What to Watch

- ***Farm input costs*** – Higher cotton prices, together with the greater certainty of production delivered by irrigation – especially when irrigation costs are likely to be lower and at a lower cost – should deliver good, though lower YOY margins in 2022/23 due to increased input costs. However, there is additional upside risk from current prices, especially for Urea, and potentially also for agri-chemicals if manufacturing is curtailed in China due to drought induced power shortages.

Falling Demand Due to Economic Woes Could Deliver Surplus, Despite Supply Challenges

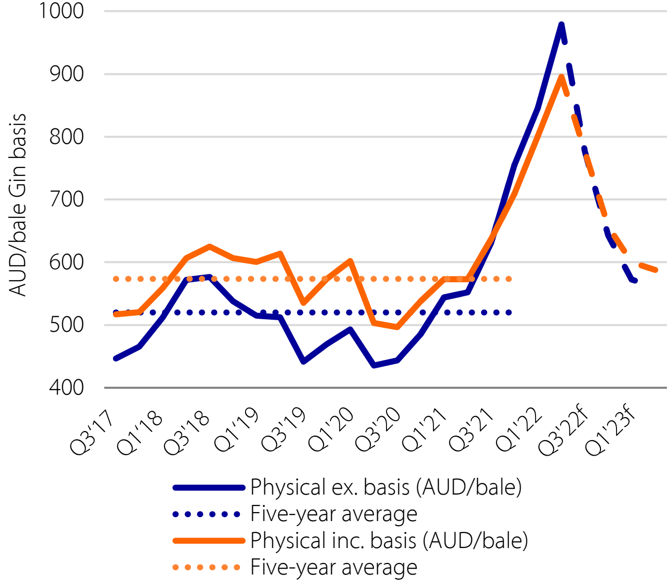
Rabobank

A <2% drop in the current consumption outlook would push global supply into surplus in cotton in 2022/23



Source: USDA, Rabobank 2022

Above-average AU cotton prices are expected into mid 2023, despite demand slowing



Source: Bloomberg, Cotton Compass, Rabobank 2022

With a tightened, and still risk prone, supply base in 2022/23, but a bleak economic outlook, global prices are expected to be lower but still favourable in 2023, and locally remain above the five-year average.

Upside Drivers Difficult To Come By

Prices eased across most micron ranges over August, as global economic prospects declined and interest rates rose to tame inflation. EMI traded 3% lower MOM as of 25 August.

Rabobank's base case forecast is for the Chinese economy to grow a mere 2.8% in 2022 and 5% in 2023, versus 8.1% in 2021. The latest June data for Chinese consumer confidence shows an index value of 89, 27% down since the start of the year, and the lowest since recordkeeping began in 2000. While a partial recovery in consumer confidence is expected post lockdown, the risk of further lockdowns is very real and will keep consumer confidence and demand very volatile. In July, Chinese retail apparel sales were up 2.7% compared to pre-pandemic July 2019, but when adjusted for inflation since 2019, sales have gone backward.

The University of Michigan's US Consumer Sentiment Index increased 7% in August, the first notable rise since declines started in the second half of 2021. However, with Rabobank forecasting US GDP growth to slow to 0.4% in 2023, and with a recession not unlikely, consumer confidence is expected to struggle to see sustained recovery. US retail apparel sales in July remained strong, 16% above pre-pandemic July 2019 data, but when adjusted for inflation only 7% higher. With the economy slowing and interest rates rising, a YOY decline in retail apparel sales in the US could be seen in 2023. US woollen suit import volumes have remained strong for another month, only 12% lower vs 2019 levels. However, some of this demand may be related to larger than usual retailer purchases to avoid supply chain disruptions from Chinese lockdowns as opposed to consumer demand. Looking into 2023, an EMI range of 1100-1200 AUc/kg would not be unrealistic given the current economic environment.

National wool tested data for August as of 25 August was 22,875 tonnes, down 7% YOY. June national wool exports were 32.7m kg, up 8.5% YOY, with 79% heading to China.

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Wool

What to Watch

- ***Demand centre shift?*** – when the latest June Chinese consumer confidence figures are input into the Rabobank EMI forecasting model, the modelled EMI comes out significantly below current market levels. Since actual prices are still holding up, this may indicate that a growing proportion of the wool demand coming from China is for processing and further export as opposed to the Chinese domestic market. This may become increasingly the case if China reinstates lockdowns. This means that it will be increasingly important to watch economic conditions in the rest of the world as an indicator of price direction as opposed to focusing on Chinese domestic demand.

Prices Ease as Global Macro Factors Weigh on Longer-term Outlook

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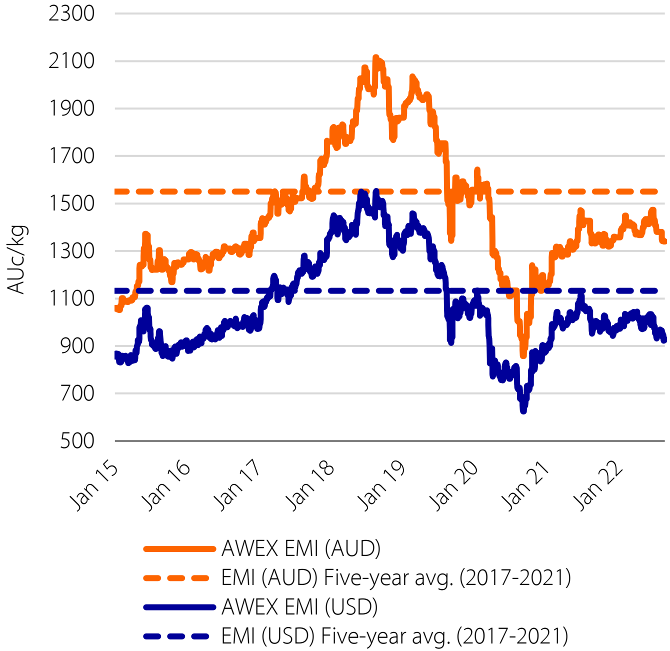
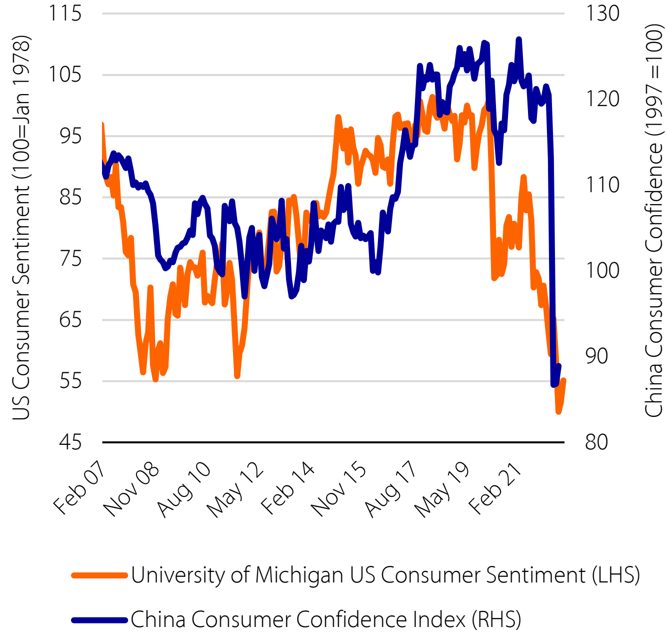
Slowing global economic conditions spell trouble for wool price outlook



Source: Bloomberg, Rabobank 2022

How much will Chinese consumer confidence rebound following the Covid-lockdown lows?



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

Downstream Markets

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Food Inflation Still a Key Issue

The latest earnings updates from the major retailers provided some interesting insights into the Australian food market. The operating environment remained challenging for the food system, with labour availability, supply chain disruption and cost headwinds key issues. At the same time, there was a reported ongoing return to pre-pandemic shopping behaviours with larger baskets per shop and weekend shops more preferred.

At the same time, there were ongoing signs of customers responding to high food prices and cost of living pressures. This played out in terms of consumers favouring long-life categories such as canned and frozen products and more affordable protein. The retailers warn that requests for price increases from suppliers remain elevated and are unlikely to peak until Q4 2022.

Australia's total retail trade gained momentum in July, as the rising price impacts continued to materialise. Total retail turnover was 1.3% higher month-on-month and 16.% higher versus July 2021.

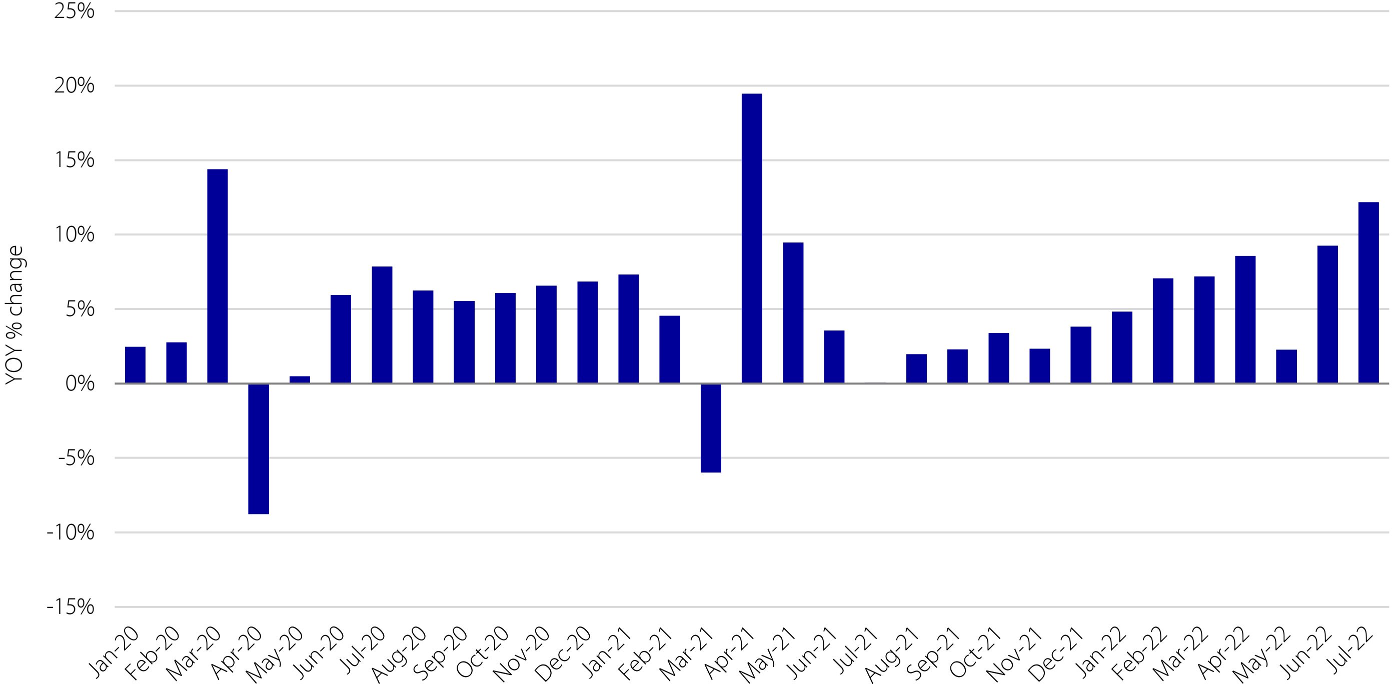
Performance in the food market also showed signs of consumer impacts. Food retail turnover rose 1.2% in July 2022 month-on-month; noting that the previous two winter periods were impacted by lockdowns. This was an improvement from the previous month. Food retail turnover remains elevated and was 3.2% higher in July 2022 compared to July 2021. Foodservice turnover was 1.8% higher in July versus the previous month and 16.5% higher year-on-year. In all, total food turnover remained resilient and was 12.2% higher year-on-year

What to Watch

- ***Australian consumer confidence*** – Confidence levels among Australian households has fallen sharply from 2021 peaks. Confidence measurements in some instances have not fallen to the depths seen at the start of the global pandemic. A very tight labour market is providing some support. Nonetheless, interest rates are still rising and there is lingering concern around weaker housing market conditions, which will impact confidence moving forward.

Food Sales Holding Up For Now

Combined turnover in Australian food markets



Sources: ABS, Rabobank 2022

Farm Inputs

Strong Signs of Urea Price Hikes

Overseas prices for urea increased 11% in the month to August 18, while phosphate and potash both eased, 5% and 7% MOM respectively.

Rabobank sees substantial upside price risk for urea moving into the end of 2022, particularly in the wake of natural gas prices reaching a record-high in Europe and a slew of ammonia plant curtailments in the last two weeks as a consequence. Industry reports are that operations in over one-third and possibly even over half of European ammonia plants has been curtailed. Meanwhile in China, a downturn in electricity produced via hydropower due to water shortages is resulting in power restrictions for urea plants. Reduced production, coupled with export controls is hampering chances of increased export flows from China. Northern hemisphere heating needs are also on the radar as Q3 turns into Q4. This means the cost of gas, and therefore ammonia production, will likely lift.

The combination of potash exports still heading out of Russia and rumours of sizeable stocks in North and South America adds to our view of a downward trend in potash prices moving into the end of the year. At the meeting of the Joint Coordination Centre in Istanbul, established for the safe shipment of grain from the Black Sea, the UN Secretary-General Antonia Guterres said this month that Russian fertiliser must be able to reach world markets unimpeded. Russian exports of fertiliser, including potash, are expected to be down only marginally YOY.

Phosphate prices are similarly expected to trend down moving into the end of 2022 due to larger than expected supplies in North and South America, and despite strict export controls out of China. The concern for higher prices would come in the second half of 2023 if the supply chain runs down stocks due to the current surplus, resulting in short supplies.

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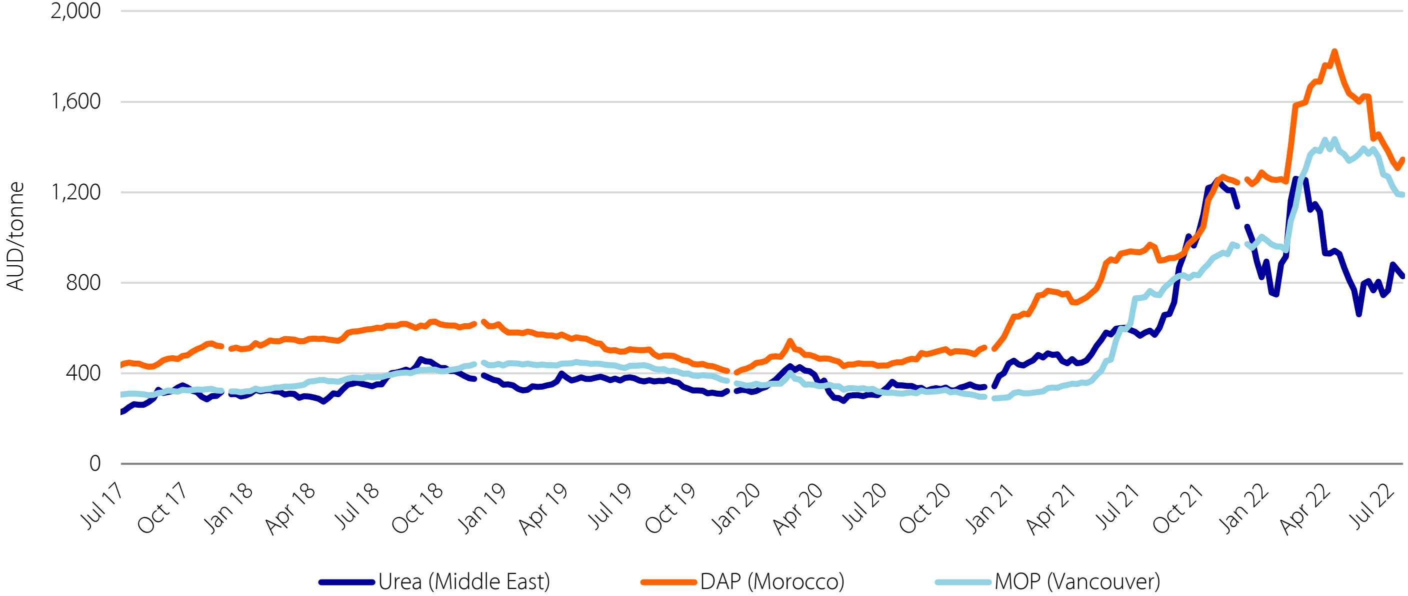
What to Watch

- ***Agri-chemical prices*** – In Q3 2022, China's agrochemical industry saw a production capacity expansion. As a consequence, domestic Chinese prices have already declined, and we expect that to flow into local markets. Theglyphosate Free-On-Board price at Chinese ports fell from over USD 12,000/tonne in the beginning of the year to just over USD 8,000/tonne on August 18, according to BAIINFO. However, the recent rationing of energy in China due to shortages is likely to slow the rate of decline.

Global Urea Price Moves Higher July/August, With More Expected To Follow

Rabobank

AUD-adjusted global fertiliser prices



Sources: CRU, Rabobank, 2022

Rabobank sees substantial upside risk for global urea prices moving towards the end of 2022, particularly in the wake of natural gas prices reaching a record-high in Europe. This is expected to renew upward pressure on local prices.

Interest Rate & FX

Fourth Rate Hike This Year, With More To Follow

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Even a highly likely additional 35 to 50-basis-point hike in early September will still not be enough to bring inflation back into the target range and more interest rate hikes are to be expected. The AUD remains volatile and it could not sustain the temporary strength against the USD seen earlier in August.

- ***RBA continues to warn Australians to prepare for more interest rate increases.***
- The gap between the cash rate at 1.85% and the ***five-year swap***, has increased to >200 basis points as the swap rose from an early August low of <3.2% to almost 4% again now.
- ***The market remains sceptical that the RBA's interest rate hikes can stop inflation soon.*** For example the ASX 30 Day Interbank Cash Rate Futures also rose again from <3% for December 2022 in early August to 3.2% at the point of writing. In early August, the futures peaked at 3.2% by May 2023, but have since also moved above 3.9% for July 2023.
- ***Australian GDP growth*** is forecast by the Central Bank at 3.24% over 2022 and to slow to around 1.75% over both 2023 and 2024.
- ***USD strength prevails*** and while the AUD briefly recovered earlier in August, it now again trades below the 0.70 level against the USD. AUD/USD to trade close to 0.70 on a one- to three-month horizon and to move towards 0.74 within 12 months.

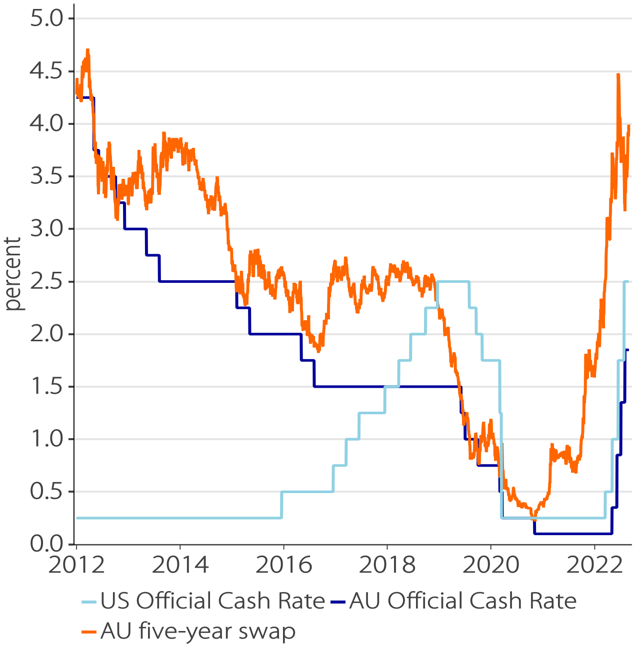
What to Watch

- ***AUD to remain volatile*** – We estimate a recovery to 0.74/USD on a 12-month horizon, but in the short-term USD strength is likely to dominate
- ***The RBA will have to push more interest rate hikes,*** moving the official cash rate in early September up by 35 to 50 basis points, with even more hikes likely to follow.

Interest Rates: August Cash Rate Increase Will Be Followed by More Hikes in 2022

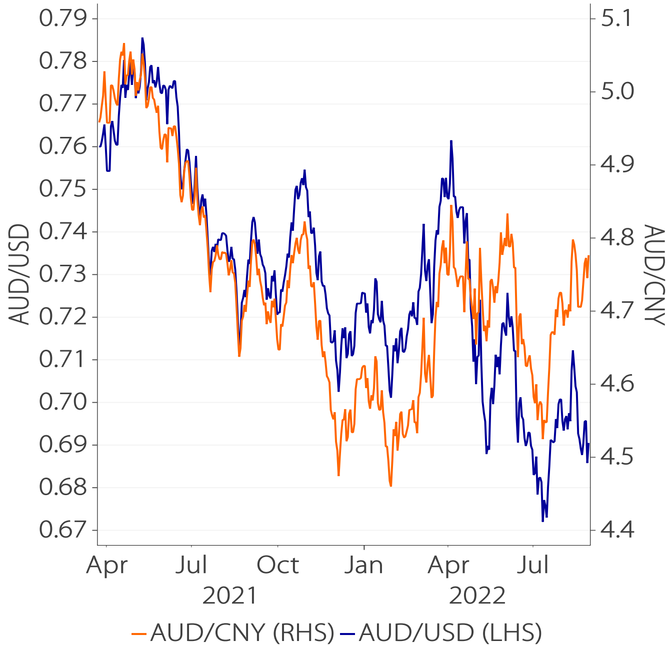
Rabobank

The AU five-year swap is rising again in late August and more cash rate hikes are expected



Source: Macrobond, Rabobank 2022

The AUD did not sustain the recovery above 0.7 against the USD in August



Source: Macrobond, Rabobank 2022

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Oil & Freight

Container Shipping Prices Continue To Fall, Yet a Potential Rise of Bulk Dry Index

Crude oil prices sunk from a June peak, as economic outlook weighs on sentiment. Brent crude oil hovered between USD 95-USD 100/bbl this August. Slowing economic growth and softened driving demand in the Northern Hemisphere summer season has eased demand this past month. Soaring natural gas and electricity prices could incentivise switching to oil, keeping a floor on prices and demand for the rest of 2022. OPEC+ is agreeing to raise the supply target by just 100 kb/d for September but have recently begun to speak about managing volatility in prices and adjusting the rate of the new production increases. Notably, worldwide inventories of diesel remain at multi-decade lows, while the continued uncertainty of Russia's future oil exports and risk of supply shocks will continue to support prices.

Global ocean rates continue decline across most routes with the exception of Europe-North America due to strong demand and port congestions at both sides. In contrast to dry container rates, global reefer rates (spot and contract combined as assessed by Drewry) are expected to surge another 9% over the previous quarter in Q3 2022 before normalizing. Imbalanced reefer containers and port congestions continued to contribute to the upward trend, in addition to seasonality. We expect reefer rates to stabilise in Q4 2022 and even mildly contract during 2023 with easing of supply chain issues and a general recessive environment. Even with correction, reefer rates are likely to stay at higher than pre-pandemic levels.

The Baltic Panamax index (a proxy for grain bulk freight) continued a downward trend, declining another 40.4% MOM in August. Though the decline started in May, it was exacerbated by recent weak Chinese economic data, plummeting the dry bulk indexes across vessel sizes. In the next twelve months, bulk carrier rates will likely go hand in hand with global economic data.

What to Watch

- ***Oil markets globally remain tight*** – Despite falling USD 30/bbl from June peaks this past month, demand is expected to rise with increased fuel switching. Supply is improving but remains at risk of disruptions as the West moves away from Russian supplies.
- ***Looming global economic conditions*** to impact global trade and thus ocean container and bulk shipping conditions.

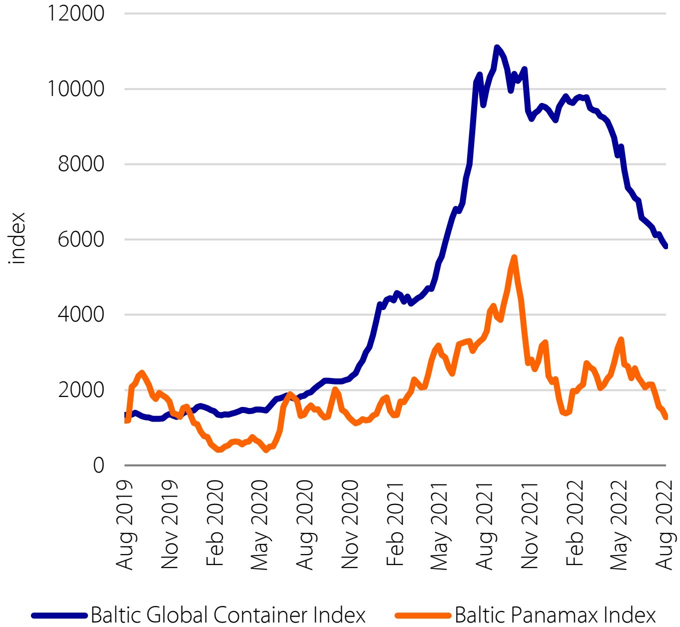
Source: AIP, Bloomberg, Rabobank 2022

Source: Bloomberg, Rabobank 2022

Slight Recovery in Australian Diesel This August

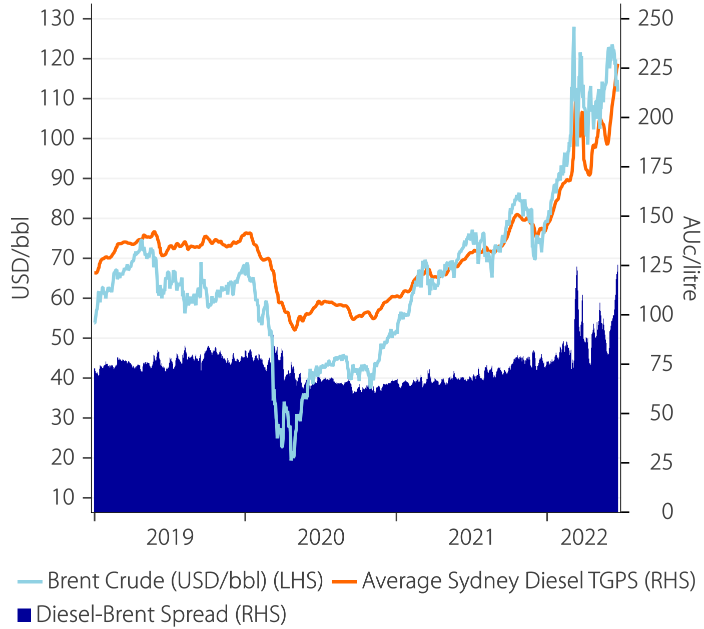
Rabobank

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



Source: Baltic Exchange, Bloomberg, Rabobank 2022

Brent Crude Oil and Average Sydney Diesel, Jan 2019-Aug 2022



Source: Macrobond, Rabobank 2022

Agri Price Dashboard

29/08/2022	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	791	808	709
CBOT soybean	USc/bushel	▼	1,610	1,637	1,305
CBOT corn	USc/bushel	▲	674	616	540
Australian ASX EC Wheat Track	AUD/tonne	▼	405	410	360
Non-GM Canola Newcastle Track	AUD/tonne	▼	719	769	866
Feed Barley F1 Geelong Track	AUD/tonne	▼	319	362	271
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	1,034	888	1,029
Feeder Steer	AUc/kg lwt	▲	518	488	530
North Island Bull 300kg	NZc/kg cwt	▲	630	605	615
South Island Bull 300kg	NZc/kg cwt	▲	615	605	590
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	744	634	946
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	940	920	925
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	940	925	915
Venison markets					
North Island Stag	NZc/kg cwt	▲	825	805	640
South Island Stag	NZc/kg cwt	▲	840	820	630
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	5,250	5,588	4,775
Skim Milk Powder	USD/tonne FOB	▼	3,550	3,913	3,075
Whole Milk Powder	USD/tonne FOB	▼	3,438	3,838	3,625
Cheddar	USD/tonne FOB	▼	5,063	5,150	4,163

Agri Price Dashboard

29/08/2022	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	132.3	131.4	104
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	122.1	103.1	96
Sugar markets					
ICE Sugar No.11	USc/lb	▲	18.5	17.5	20.2
ICE Sugar No.11 (AUD)	AUD/tonne	▲	595	554	564
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,342	1,381	1,350
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	600	545	485
DAP (US Gulf)	USD/tonne FOB	•	925	925	660
Other					
Baltic Panamax Index	1000=1985	▼	1,372	2,051	3,874
Brent Crude Oil	USD/bbl	▼	102	110	73
Economics/currency					
AUD	vs. USD	▼	0.684	0.699	0.730
NZD	vs. USD	▼	0.610	0.628	0.700
RBA Official Cash Rate	%	▲	1.85	1.35	0.10
NZRB Official Cash Rate	%	▲	3.00	2.50	0.25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