

# *Rebound After Finding the Bottom*

Australia Agribusiness Monthly









April 2023

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# April Commodity Outlooks

|   |  |                          |
|---|--|--------------------------|
|  <p>Grains &amp; Oilseeds</p> | Canola prices rebounded from their oversupply-driven bottom. Planting has started and farmers still hold large 2022 volumes. Local oversupply and saturated European demand mean other export destinations (without premiums offered) have to be sought. US wheat plantings are moving into focus. | <a href="#">p. 6-9</a>   |
|  <p>Dairy</p>                 | Australian milk production is still trending lower, but there are some green shoots. Tasmania is leading the charge by returning to growth to start 2023. Nonetheless, competition for milk will remain strong going forward, due to new season milk pricing.                                      | <a href="#">p. 10-11</a> |
|  <p>Beef</p>                  | Cattle prices may have reached the bottom after dropping dramatically since late last year. Some favourable rain across large parts of Queensland may just slow up cattle coming on the market and support producer demand. Meanwhile, US import prices have continued to rise.                    | <a href="#">p. 12-13</a> |
|  <p>Sheepmeat</p>             | Lamb and mutton prices remain soft with increased volumes on the market and softer consumer demand. Still, we don't expect prices to contract further, as there are few upside factors in the market at the moment.  | <a href="#">p. 14-15</a> |
|  <p>Cotton</p>                | Continued drops to domestic consumption forecasts in key importing countries are holding cotton prices steady through March. Early predictions for next season's crop production are showing strong local production and reduced acreage in the US.  | <a href="#">p. 16-17</a> |
|  <p>Wool</p>                 | Wool prices are holding at current levels due to cash flow restrictions off the back of local logistical bottlenecks. Support from key export markets at current low price levels is reducing price downside while the Chinese manufacturing sector is showing promise for increased demand.       | <a href="#">p. 18-19</a> |

# April Commodity Outlooks



It's been a busy few weeks for local food market data from the Australian Bureau of Statistics. Retail trade showed a marked slowdown in household spending in real terms. This included sluggish food market sales. Meanwhile, the latest monthly read on food inflation showed an 8.0% increase in food and beverages, year-on-year.

[p. 20-21](#)



Despite the start of the Northern Hemisphere cropping season and market movements, global fertiliser prices are still dropping on a weekly basis. This is due to weak demand, as commodity prices are declining, and natural gas prices are trading at pre-Russia-Ukraine war levels.

[p. 22-23](#)



The Australian dollar lost ground in March, but gained most of it back in April. The RBA, as already somewhat signalled in March, did not increase the interest rate further. We may have approached the peak of the rate-hiking cycle and offshore banking troubles weighed on risk sentiment.

[p. 24-25](#)



Brent crude fell by 3.55% in March as offshore bank collapses prompted traders to downgrade estimates of future demand. The Baltic Panamax index (a proxy for grain bulk freight) is approaching its pandemic low before a quick rebound.

[p. 26-27](#)

# ENSO Likely To Enter Its El Niño Era This Year

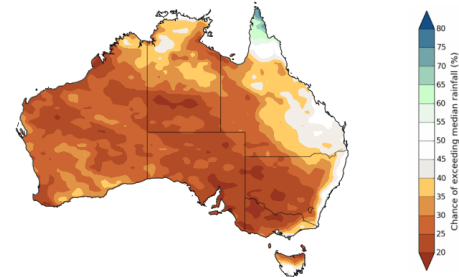
**After a very wet 2022 for most of Australia, the Bureau of Meteorology (BOM) is on watch for a dry year with expectations of potentially entering an El Niño era by May.**

General model guidance suggests the neutral El Niño-Southern Oscillation (ENSO) will continue through autumn this year, but the BOM model indicates the El Niño threshold could be reached by as early as May.

The majority of Indian Ocean Dipole (IOD) models suggest a positive event in the coming months. However, BOM notes the low accuracy of these models when forecasting through autumn.

For April to June, below-median rainfall is likely to very likely (a 60% to greater-than-80% chance) for the majority of Australia.

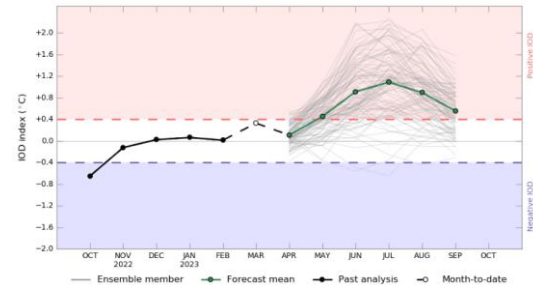
*Low chances of exceeding median rainfall in 1H 2023*  
*April-June rainfall outlook*



Source: BOM 2023

*IOD forecast to become positive in 1H 2023*

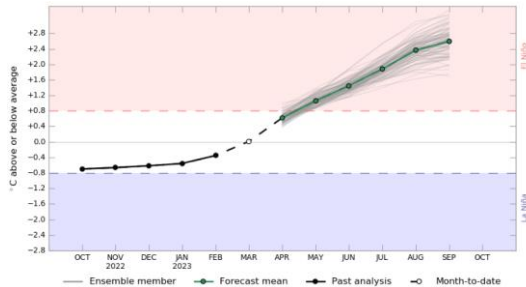
*Monthly sea surface temperature anomalies for Indian Ocean*



Source: BOM 2023

*Risk of ENSO entering El Niño in late 1H 2023*

*Monthly sea surface temperature anomalies for central Pacific Ocean*



Source: BOM 2023

# Tropical Moisture Brought Heavy Rain to Northern Australia

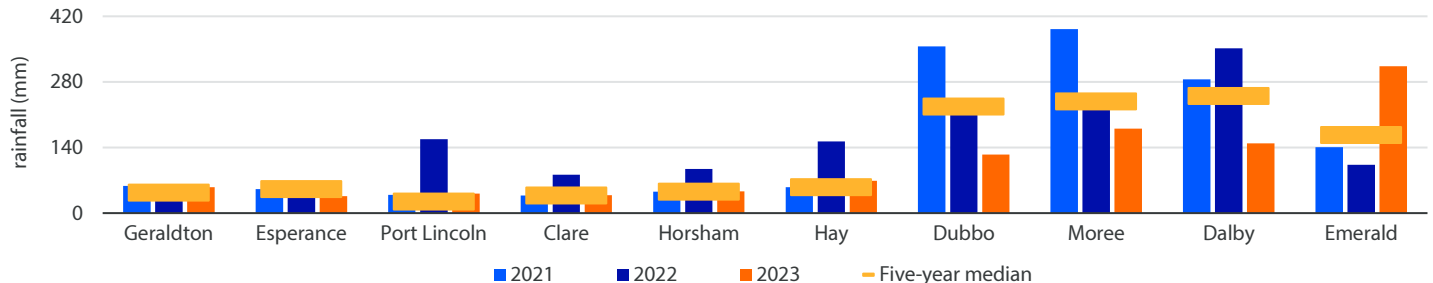
March rainfall was slightly below average (-7%) overall but above average for areas in western, northern, and eastern Australian.

In early March, northern Australia experienced heavy rain and storms, with some areas recording ten-day totals of up to 800mm. This led to severe flooding in regions near rivers in eastern Northern Territory and northwestern Queensland.

Consecutive days of thunderstorms and widespread rainfall brought more rainfall to western, eastern, and southeastern Australia at the end of the month. A few areas in New South Wales recorded their highest March rainfall totals, while some west parts of Western Australia recorded the highest March total rainfall of the past 20 years.

## A drier first quarter in 2023 after record 2022 rainfall

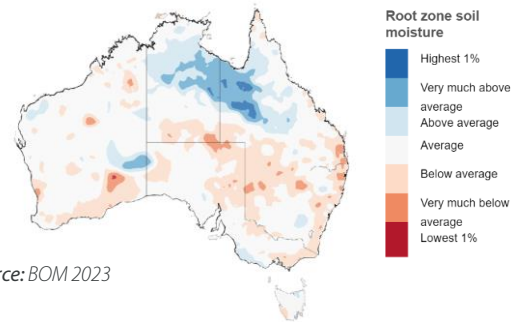
January to March rainfall



Source: BOM 2023

## Soil moisture unevenly distributed across Australia

Relative soil moisture, March 2023



Source: BOM 2023

# Holy Cannoli: Eyes on Canola

**Between 28 February and 30 March, the price of CBOT Wheat remained flat, CBOT Corn increased 3%, and CBOT Soy declined 1%. Canadian ICE Canola prices declined 10% over the same time period, while MATIF Rapeseed dropped 12%.**

Rabobank's 2023 forecast for CBOT Wheat decreased from last month, to between USc 700/bu to USc 730/bu. Large Russian and Ukrainian exports continue to flood markets and suppress prices. The Black Sea grain corridor deal was extended, but only for 60 days, meaning it will need to be renewed right before the Ukrainian harvest.

**Local canola prices declined 9% MOM on average for a number of reasons.** In 2022, some Australian port track prices for non-GM canola rose to as high as AUD 1,200/tonne at their peaks. This was due to constrained global supply: The 2021 Canadian crop dropped from 19.5m to 13.7m tonnes; EU 2021 production was below average for a third year in a row; and Russia invaded Ukraine, the world's third-largest canola exporter. On the demand side, biofuel policy continued to be very favourable for pricing, with increasing amounts of oilseeds being sucked into biodiesel and renewable diesel across Europe and North America. Then, in mid-2022, Europe rebounded with its largest crop in five years; the Black Sea grain corridor was established in August; Canada started harvesting a 19m tonne crop in September; and by year-end Australia harvested its second 7m+ tonne crop in a row. With greater import options, Europe will likely feel less purchasing urgency for much of this year.



**Dennis Voznesenski**  
Agricultural Analyst  
Grains & Oilseeds

[Dennis.Voznesenski@rabobank.com](mailto:Dennis.Voznesenski@rabobank.com)  
Twitter: @Voz\_Dennis

## Grains & Oilseeds

### What to Watch

#### Upside

1. The BOM April-to-June rainfall forecast shows a very low chance of above-average rainfall in virtually all cropping regions. Still, at present, soil moisture levels remain plentiful across parts of NSW, VIC, and SA.
2. The Black Sea grain corridor deal could end in mid-May, as Russia believes it has only been extended for 60 days.
3. China/WTO news on barley trade resumption should be watched.

# Holy Cannoli (cont'd)

For now, there is simply a lot more canola available globally than at this time last year. While wheat and barley crop prices tend to rise in Australia amid dry conditions, due to increased demand (e.g. in the feed sector), canola has limited local crushing demand (around 1m tonnes) and relies on international markets. If Canada's plans to construct 3m+ tonnes of crushing capacity by early 2024 move ahead, we still expect demand could pick up at the end of this year and into 2024. **If and how much local canola prices decline further will be partially determined by sellers, who still hold large stocks locally.**

Rabobank's forecast for the remainder of 2023, is on average, for SA and the east coast, for APW1 to trade between AUD 340-380/tonne track and F1 Barley between AUD 300-340/tonne track.

**Local sorghum prices have likely risen due to previous poor sorghum production in the US, but also due to strong demand from China.** Due to a wheat import quota, imports of wheat into China are limited, as are Chinese barley imports due to the anti-dumping tariffs on Australian barley (on Friday, the WTO will publish their position on this duty, including whether they will ask China to remove it). How high sorghum prices can rise depends on China's appetite for it and its alcohol production and how sorghum prices compare to local feed grain prices in China. Price parity has likely been reached already.



Dennis Voznesenski  
Agricultural Analyst  
Grains & Oilseeds

[Dennis.Voznesenski@rabobank.com](mailto:Dennis.Voznesenski@rabobank.com)  
Twitter: @Voz\_Dennis

## Grains & Oilseeds

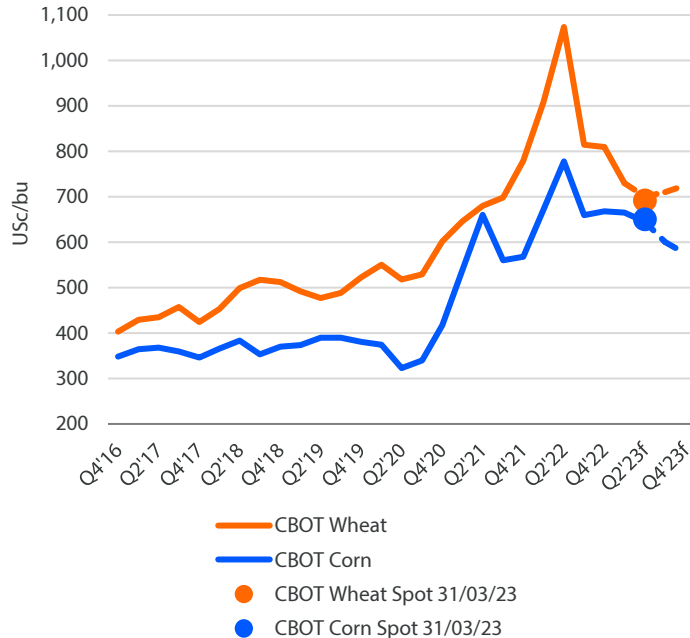
### What to Watch

#### Downside

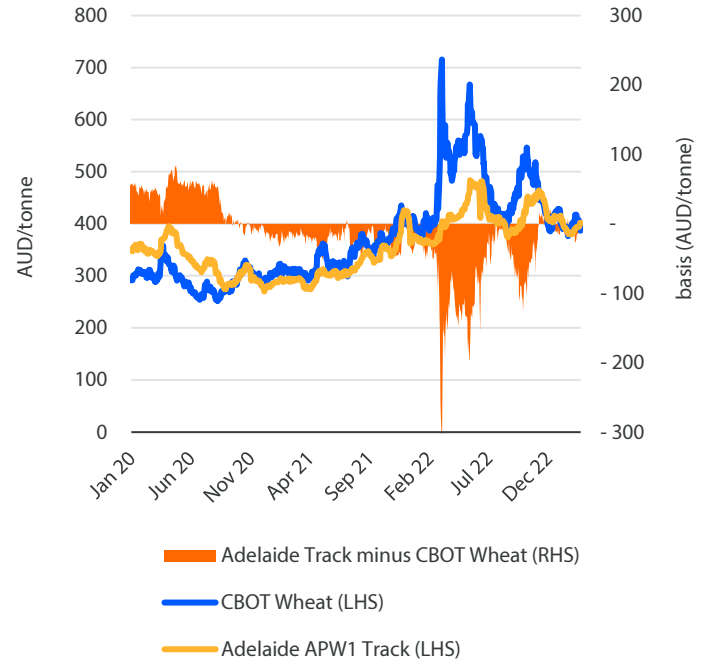
1. *Despite the forecast for drier conditions moving into mid-year in Australia, soil moisture levels remain favourable across the east coast and SA. If Australia sees another above-average crop, its current price premium to overseas may erode.*
2. *The US 2023 acreage outlook for corn is up 4% YOY, with wheat up 9% and sorghum up 2%.*

# Local Wheat Prices Keep Tracking Close to Global

Global prices down versus 2022, but still above historic levels



Local prices slightly above global levels, but for how long?



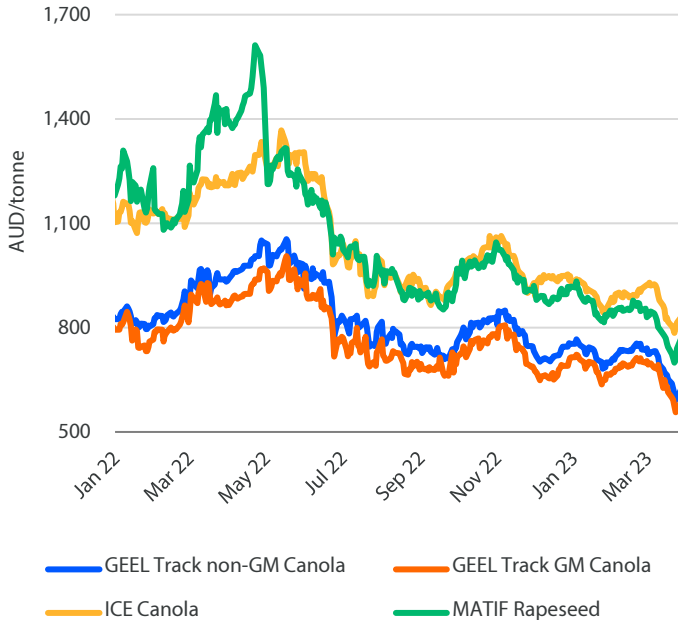
Source: Rabobank 2023 ACMR forecast 28/03/23

Source: Bloomberg, Rabobank 2023

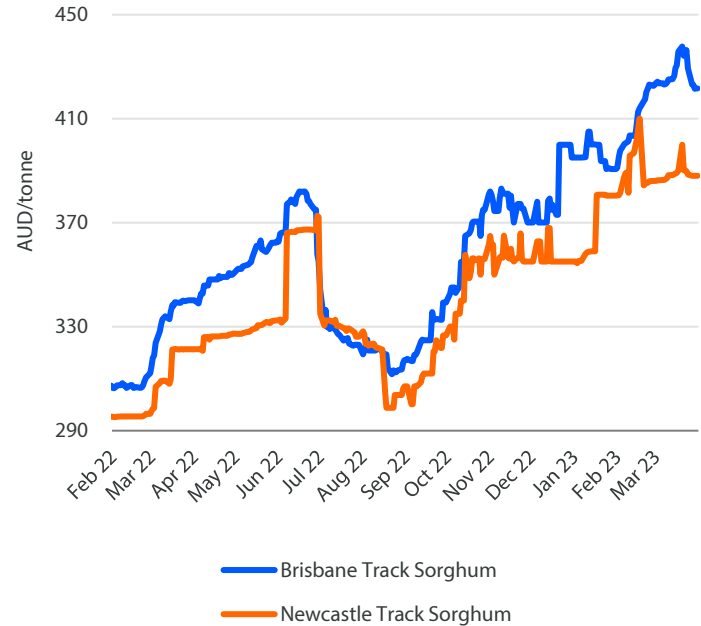


# A Big Month for Canola and Sorghum!

Canola prices dip on local and global supply pressure, but have rebounded from possible bottom



China's sorghum purchasing plus lower US supplies due to drought are pushing prices to higher levels



Source: Bloomberg, Rabobank 2023

Source: Bloomberg, Rabobank 2023

# Milk Supply Is Weak but With Green Shoots

**Australian milk production shrank 5.3% YOY in February.** So far in the 2022/23 season, national milk production is down 6.5% versus the previous season. This equates to a fall of more than 400m litres. The sizeable drop in milk supply is challenging the local supply chain and driving aggressive recruitment and retention strategies from dairy companies.

There are some positive signs on the horizon. Tasmania is leading the charge, with the state now posting year-on-year growth for the season. Western Australia posted year-on-year growth in February for the first time this season.

**Global commodity markets continued to soften in March.** There were falls across all products except butter. Cheese markets were the worst performing, falling 13% in March alone. Global pressures coming from weaker cheese pricing out of the Northern Hemisphere are the main driver. All products are now between 30% to 40% lower than at the same time last year.

A much softer ingredient and commodity basket to start new season milk pricing in Australia is expected to have some dampening affect on milk pricing as the 1 June deadline looms large.

**Offshore milk prices are continuing to tumble.** In New Zealand, Fonterra have trimmed the payout range for 2022/23 again, this time by NZc 20. The new forecast range is now NZD 8 to NZD 8.60/kgMS, with a midpoint of NZD 8.30/kgMS (AUD 7.76/kgMS).

Farm margins in New Zealand are tight due to cost headwinds. In response, Fonterra has adjusted their Advance Rate Schedule to support cash flow.



*Michael Harvey*  
Senior Analyst  
Dairy and Consumer Foods

[Michael.Harvey@rabobank.com](mailto:Michael.Harvey@rabobank.com)  
Twitter: @MickHarvey77

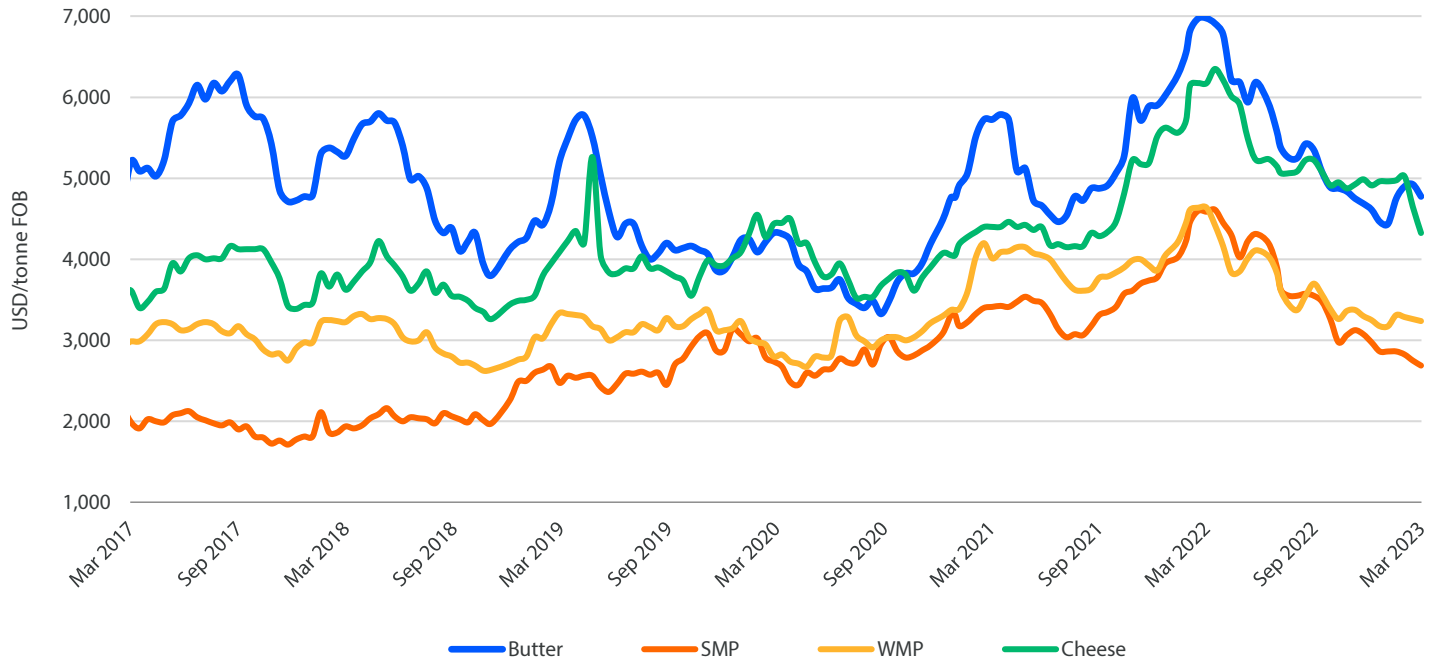
## Dairy

### What to Watch

- **The Northern Hemisphere peak** – The seasonal milk curves will reach a peak in the Northern Hemisphere in the coming months. Surplus milk could add further pressure on global prices. Leading in, milk supply is warming up in both the EU and the US. In the US, the dairy herd is growing and leading to modest growth year-on-year. Unfavourable weather is holding back growth in California. In Europe, milk production expanded year-on-year in January and appears to be accelerating heading into the peak.

# Cheese Hit Hard in March 2023

Oceania spot dairy commodity prices, March 2017-March 2023



Source: USDA, Rabobank 2023



*Angus Gidley-Baird*  
Senior Analyst  
Animal Protein

[Angus-Gidley-Baird@rabobank.com](#)  
[Twitter: @angus\\_gb](#)

# Beef

## Is This the Bottom?

Cattle prices continued to fall through March, but last week there were signs that the market may have reached the bottom. Heavy steer prices remained steady between 23 March and 30 March (at AUD 3.17/kg) while processor cow prices rose, as did feeder steer prices (to AUD 3.52/kg). The EYCI lifted slightly to AUD 6.79/kg on 30 March. Restocker steers were the odd ones out, continuing to fall through the end of March. Less favourable trading conditions for backgrounders still carrying expensive cattle from Q3 last year may explain this softer demand. **US import prices are trending up and, together with rainfall across much of eastern Australia that should support autumn pasture growth, this should support cattle prices and possibly lead to a slight lift in coming months.**

East coast weekly slaughter volumes in March hovered around the 110,000 head per week mark. Numbers have been fairly consistently above 100,000 head since January, reflecting increased cattle supplies, but they remain 6% below the five-year average, suggesting we have not created an oversupply yet. According to NLRs data, the female proportion of the Queensland numbers remains in the low 30s while NSW numbers have pushed toward 50%, suggesting herd rebuilding is still going on in Queensland but is likely over in NSW.

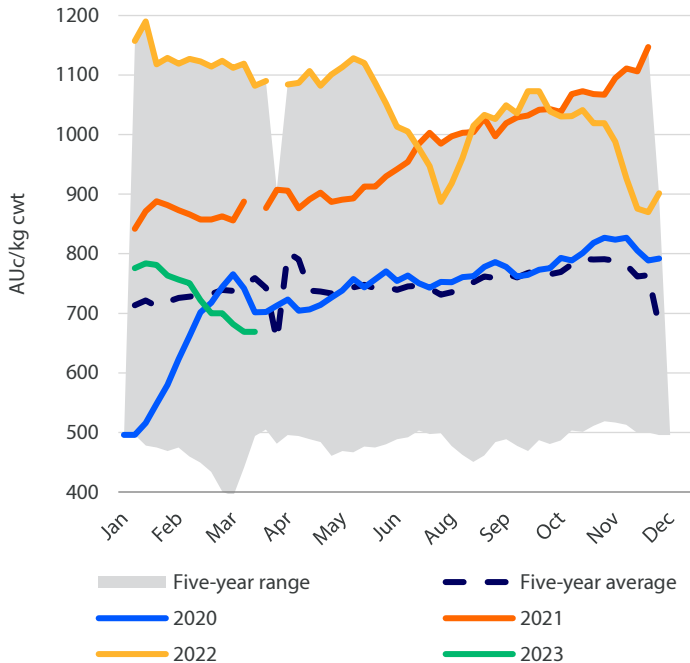
Exports in February were up 18% to 70,379 tonnes swt, reflecting the higher volumes of cattle and slaughter numbers. All major markets saw a rise in volumes compared to 2022. Brazil regained access to China after the atypical BSE case caused the suspension of trade in late February. Live cattle exports rose slightly in February compared to January numbers, but they remain well below volumes from 2022. February exports to Indonesia are down 42% on 2022 volumes.

### What to Watch

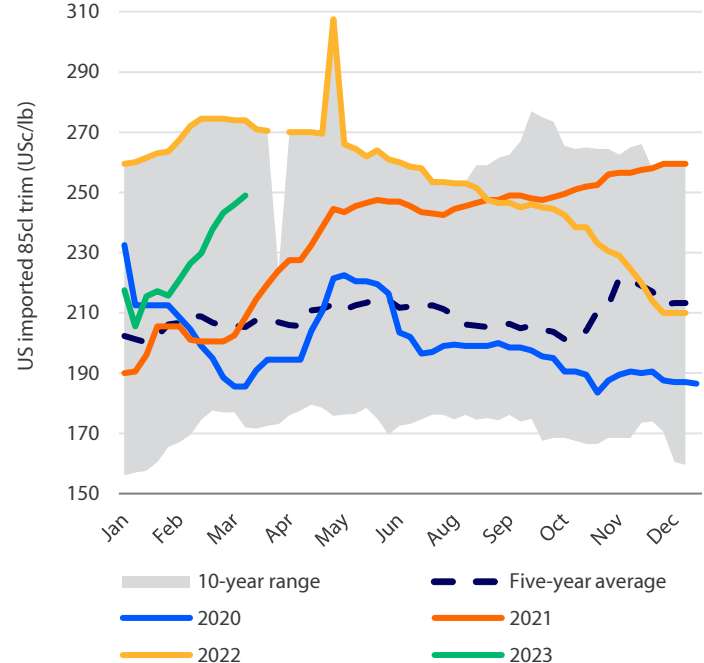
- **US import prices lift** – After spending most of 2022 declining, US import prices have jumped up in 2023. While seasonal conditions have not improved enough to call the US in herd rebuild, female slaughter has dropped (down 11% in February) and cattle inventory, feedyard inventories, and feeder cattle supplies are all declining. Such strong price rises this early in the contractionary phase are a little unexpected, but they do create an interesting platform for the coming months.

# Will We See Australian Cattle Prices Level Out as US Import Prices Rise?

EYCI levelling out as market rebalances



US import prices jump back up to high levels



Source: MLA, ABS, Rabobank 2023

# Sheepmeat Prices Remain Soft


March was not kind to lamb or mutton prices. Most categories saw prices fall with light, restocking, and merino lambs seeing the largest falls, in the order of 12% to 15% between 2 March and 2 April. Mutton prices also fell toward mid-March before recovering late in the month. Prices are currently at some of their lowest levels in three years. Given heavy lambs are performing the best, one has to assume that domestic market conditions – both domestic retail and domestic producer demand – are weak at the moment, with the global market supporting heavy lamb prices. **Despite favourable seasonal conditions, the volume of lambs in the market and softer demand conditions lead us to believe there is not a lot of upside to prices in the coming month. Still, we don't believe prices will drop any further.**

**Weekly slaughter numbers show lamb slaughter tracking very close to the five-year average, while sheep slaughter is up about 35%**, with higher volumes of sheep in SA and WA – up 55% and 87%, respectively, on the five-year average for March. The delayed lamb finishing we expected this year has not seen a big change in slaughter volumes to date. Victorian numbers have been reasonably consistent for much of the year with a slight dip in late March. NSW numbers were lower through most of March before picking up at the end of the month. However, softer prices suggest these volumes still exist and may play into the market in the coming months.

Lamb exports (22,769 tonnes swt) were up 10% YOY in February and mutton exports (15,592 tonnes swt) were up 37%, reflecting the higher slaughter volumes. While all major markets saw increased volumes, the Middle East performed particularly well, with lamb volumes up 33% and mutton volumes up 50% YOY.

## What to Watch

- **Middle East market recovery** – Lamb and mutton export volumes to the Middle East improved last year – up 12% on the historically low-volume year of 2021. For the first two months of 2023 volumes are up 33% on 2022 volumes. Economic activity in many Middle Eastern countries has improved since 2020, but as in other regions, consumers face high inflation and rising interest rates. Growing these markets will be important to spread Australia's market concentration risk.



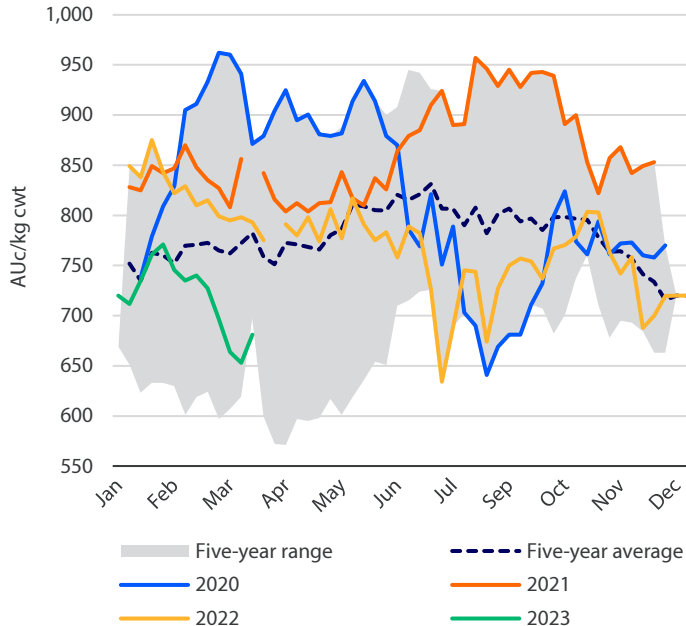
*Angus Gidley-Baird*  
Senior Analyst  
Animal Protein

[Angus-Gidley-](#)  
[Baird@rabobank.com](mailto:Baird@rabobank.com)  
Twitter: @angus\_gb

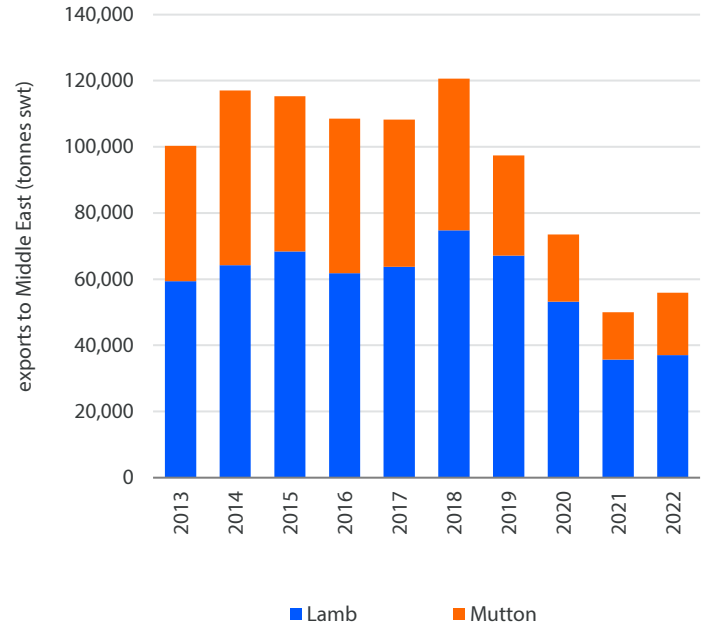
# Sheepmeat

# Lamb Prices Remain Soft, but Encouraging Signs With Volumes to Middle East Increasing

ESTLI, like other lamb and mutton prices, are tracking below the five-year average



Sheepmeat exports to the Middle East starting to recover



Source: MLA, ABS, Rabobank 2023

# Prices Feeling Demand Squeeze

March saw ICE #2 Cotton prices slide below USc 80/lb, hitting USc 77/lb before bouncing back at the end of the month and finishing at USc 82.76/lb, marking 2% MOM drop as of 30 March. Demand is certainly weighing on prices as they continue to trade within an almost range-bound market. A softening economic market outlook provides minimal upward price support while prices below USc 80/lb provide stronger margins for mills, encouraging export activity. Economic uncertainty amid rising inflation and interest rates, coupled with major banking concerns, are also not providing any favours to boost the outlook.

**Global trade continues to decline with the USDA dropping its 2022/23 forecast by 800,000 bales MOM in March as a result of lower consumption from major importers Bangladesh, Pakistan, Indonesia, and Turkey.** This estimate signifies a six-year low. However, while demand continues to follow this downward trend, with declining consumption in key markets, supply side disruptions have provided some support, with softer export volumes out of Brazil and Argentina. Combining weaker demand with production increases – as China and Australia’s forecasts show them offsetting the continued drop in India’s crop estimates – we are seeing the stocks-to-use ratio climb above the five-year average to 83%, a 3% increase MOM. Surprisingly, retail sales in the US show consumer spending holding steady and increasing in value for both January and February, up 8% and 4% YOY, respectively, albeit on lower import volumes.

**The USDA has released early 2023/24 Australian cotton production forecasts, showing a 5% increase to 5.8m bales, matching the 2021/22 record production total.** The USDA’s recent prospective plantings report has US 2023 cotton planted area falling 18% to 11.3m acres, with Arizona as the only state showing an increase in plantings.



Edward McGeoch  
Associate Analyst  
Agriculture Commodities

[Edward.Mcgeoch@rabobank.com](mailto:Edward.Mcgeoch@rabobank.com)  
Twitter: @mcgeochedward

## Cotton

### What to Watch:

#### Upside

1. Further increased consumption as a result of China’s relaxation of Covid-19 policies.
2. India’s production forecast, which faces further yield reductions.
3. Increased export volumes into China as trade relationships improve.

#### Downside

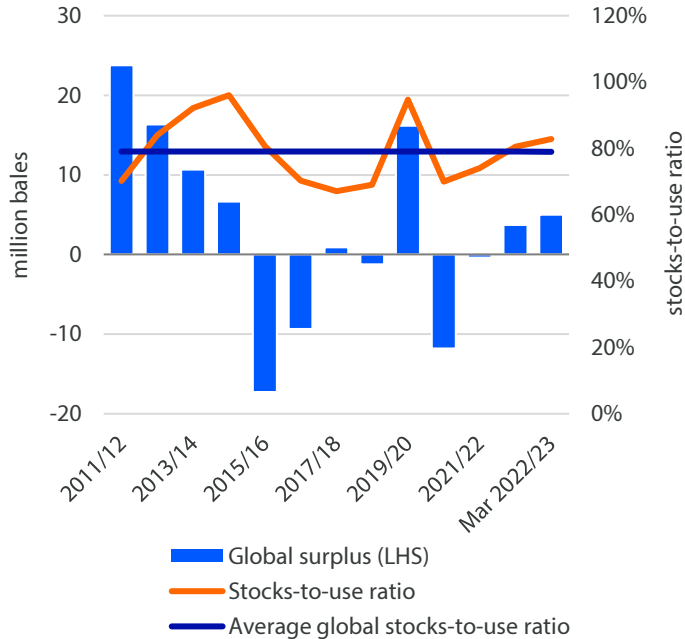
1. The strengthening of the US dollar.
2. High input costs for lint reducing demand as consumption remains quiet.



# Global Cotton Stocks Continue To Rise as Economic Uncertainty Negates Positive Demand Shift

Demand continues to slide with an increased global surplus not supporting upward price shifts

ICE #2 Cotton prices slid slightly before climbing to USc low-80s/lb, as prices trade relatively range-bound



Source: USDA, Rabobank 2023

Source: Bloomberg, Rabobank 2023

# Softening Prices Clipping Market

**The wool market has flattened after the promising start to the year. The Eastern Market Indicator dropping 3% MOM to AUc 1,322/kg as of 30 March, putting it on par with opening 2023 prices.** Prices did lift slightly in the last week of the month after sliding AUc 50/kg in the weeks prior. This movement was felt across both fine and coarse wool classes with 17 and 28 microns dropping 6% MOM. The rest, except 23 micron, which saw prices hold steady throughout the month, fell between 1% and 4%. This downward shift highlights the current challenge exporters face with congested processing logistics pushing out shipping times. Ultimately, we are seeing cash flow restrictions filtering to the sales floor. The recent confidence dips following recent banking troubles is hampering upside. But we are thankfully seeing support at current low levels as demand continues to keep business returning to the market. Improvement in logistics for wool containerisation in the coming months will be one factor to watch.

**The Chinese textile manufacturing outlook is showing early signs of promise after China's latest manufacturing purchasing managers index (PMI) release last month.** The PMI indicates China's manufacturing and service sector activity. In February, the index jumped well above forecast levels, with manufacturing growing at its fastest pace in over a decade. This is a promising sign after the relaxation of Covid lockdowns and increased activity in late 2022, and it bodes well for wool consumption. February wool imports to China were up 18% YOY.

**Locally, wool testing volumes for March finished at 37,633 tonnes with February and March numbers sitting on par with 2022 levels.** Queensland, after falling off in February saw March volume growth of 42% YOY while Tasmania saw its ninth consecutive month of growth, up 55% YOY. Along the east coast, NSW and VIC remain on par with 2022 levels while SA and WA have dropped off 15% and 4% YOY, respectively.

*Edward McGeoch*  
Associate Analyst  
Agriculture Commodities

[Edward.Mcgeoch@rabobank.com](mailto:Edward.Mcgeoch@rabobank.com)  
Twitter: @mcgeochedward

## Wool

### *What to Watch:*

#### *Upside*

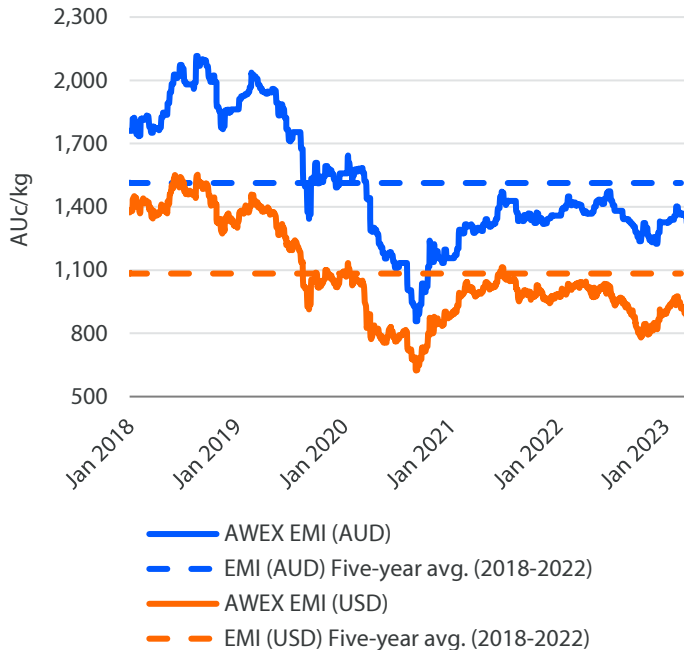
1. The Australia-India Economic Cooperation and Trade Agreement eliminating wool tariffs on exports.
2. Continued retail sales growth in major markets.

#### *Downside*

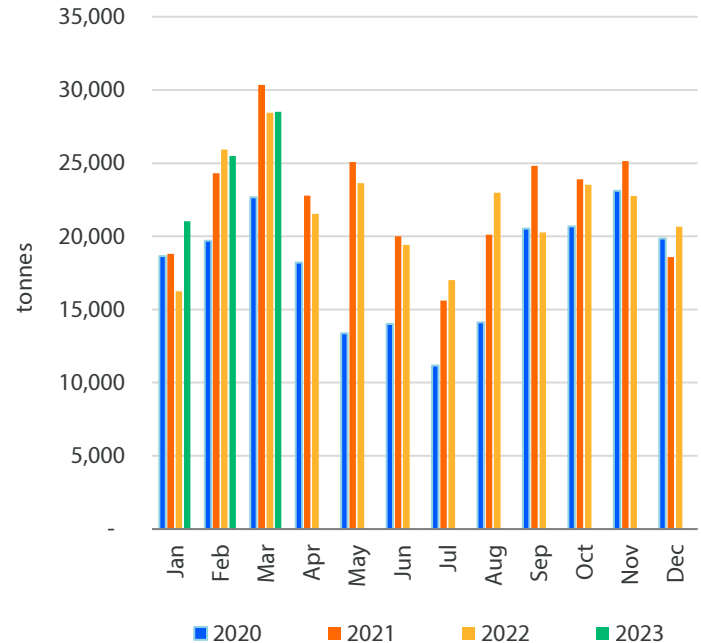
1. Softening consumer sentiment amid recessionary fears in major markets.
2. Export shipping logistics remaining hamstrung, pushing timings out.

# Wool Demand Off to Encouraging Start in 2023 on the Back of Healthy February Wool Sales

Australian EMI softened in March before slight rally to close out the month



East coast (QLD,NSW,VIC,SA) wool testing volumes on par with 2022 levels to open the year



Source: Bloomberg, Rabobank 2023

Source: TradeMap, Rabobank 2023

# Aussie Food Inflation Slows

**The February Consumer Price Index (CPI) was 6.8% higher YOY. This was lower than the previous month's data of 7.4%.** The quarterly read on inflation (due in late April) remains the principal measure, but there will be some comfort for households that the peak has likely passed. Inflation in the housing and transport sectors are still pressuring Australian consumers.

**Food inflation also remains a key culprit in the high inflation.** Food and non-alcoholic beverage inflation came in at 8.0% in February compared to February 2022. The dairy and bread/cereal aisles are still posting double-digit rates and remain a pain point for consumers. On a positive note, the price of meat and seafood continues to drift lower. Fresh produce inflation was mostly stable.

**A consumer spending pullback is becoming more evident.** The latest retail trade data from the ABS pegged retail sales up 0.2% MOM in February. Retail sales have been mostly flat since late 2022. Australian households are struggling with rapidly rising interest rates and a spike in cost of living.

Looking at food market performance, food retail sales rose 0.2% and foodservice sales rose 0.5%. When considering retail price inflation and population growth, the underlying story is one of an overall contraction in household spending on food.



*Michael Harvey*  
Senior Analyst  
Dairy and Consumer Foods

[Michael.Harvey@rabobank.com](mailto:Michael.Harvey@rabobank.com)  
Twitter: @MickHarvey77



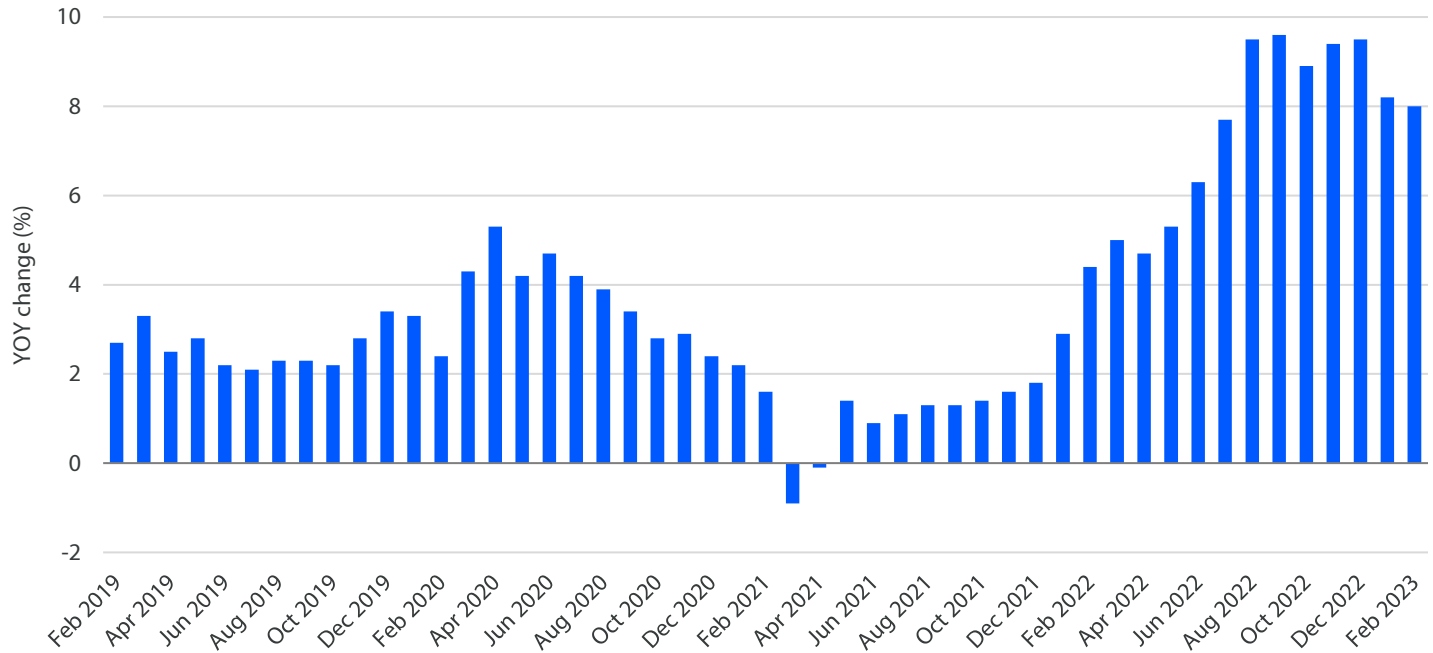
## Consumer Foods

### What to Watch

- **The real income squeeze** – Australia has passed peak inflation. Food inflation is also nearing a peak. However, there remains lingering risk to the food inflation story as weather and supply chain risks linger. For Australian consumers, peak inflation is good news. However, the real income squeeze remains very real. Until wage inflation is closely aligned with the rate of inflation, expect spending on discretionary items to remain soft, including trading down in food categories.

# Food Inflation Remains a Culprit of Inflation

Australian Monthly Consumer Price Index, food and non-alcoholic beverages\*



\*Note: Original (not seasonally adjusted)

Source: ABS, Rabobank 2023

# Questions Behind Feeble Demand

**With planting kicking off across the globe, why are fertiliser prices still dropping? Farmers have important choices to make.**

One of them is how much fertiliser to apply. Weather uncertainty is one factor, though the likely El Niño conditions by the end of Q2 2023 will not necessarily have a straightforward effect on fertilising decisions. At the same time, both farming commodity and fertiliser prices are fluctuating significantly on a global scale, creating questions marks for decision-makers and business managers. **Urea prices dropped 22% MOM in January, 9% in February, and 9% in March, for a total decline of 36% in Q1 2023. DAP showed a similar though lesser fall, dropping 8%, 4%, and 5% MOM per respective month, totalling a 15% drop.** For farm inputs, one of the main causes is that natural gas prices for manufacturers are 'stable,' compared to 2022's volatility. The **short-term contract for Dutch TTF natural gas is down 48% since 1 January 2023, to EUR low-40s/MWh**, with a forecast trade value of around EUR 60/MWh for Nov 23. This is 50% less than the Nov 22 value and under one-fifth of the Aug 22 peak. The price surges from the Russia-Ukraine war are gone. There are few signs, if any, of nitrogen fertiliser prices bouncing back soon.

Another decision for cropping operators is when to buy top-dressing nitrogen. Hopefully more international price cuts will arrive in Oceania. However, this partially delayed demand could generate sudden imbalances locally if those in need of more stocks rush to the market all at once.



**Vitor Pistoia**  
Agriculture Analyst  
Farm Inputs

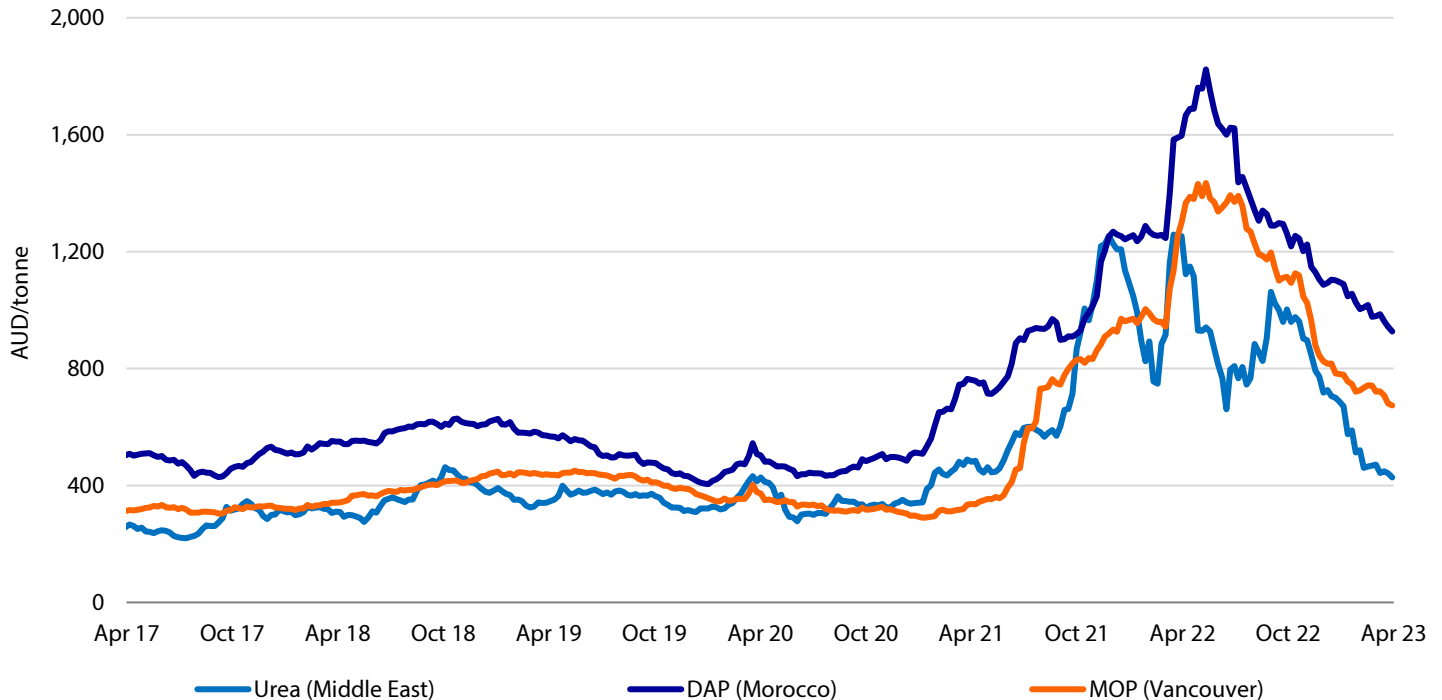
[Vitor.Cacula.Pistoia@rabobank.com](mailto:Vitor.Cacula.Pistoia@rabobank.com)  
Twitter: @victor\_agri

## Farm Inputs

### *What to Watch:*

- 1. "Global financial health"** – The local price could be even lower if currency is not going down as well, led by banking failures.
- 2. Weather in the Northern Hemisphere** – All eyes are on Northern Hemisphere weather conditions and initial crop development. The cropping area outlook is strong, but the weather isn't in some regions, holding back some demand for the moment.

# Is There More Relief for Farmers Ahead?



Source: CRU, Bloomberg, Rabobank 2023

Source: CRU, Rabobank 2023

# Peak Season?

**The RBA did not increase the official cash rate earlier this week, halting what has been the quickest-ever increase in the Australian interest rate at every RBA meeting since May 2022. The Aussie dollar lost ground in the month of March as the RBA had already signalled that they could be approaching the summit of the rate-hiking cycle and offshore banking troubles weighed on risk sentiment.** The Australian dollar closed the month 0.65% lower at 0.6685, after hitting a low of 0.6565 on 10 March. The month's low coincided with the collapse of Silicon Valley Bank in the US. SVB went down after depositors lost confidence in the solvency of the bank and withdrew funds en masse. The subsequent failure of Signature Bank in New York for similar reasons fanned investor fears of wider banking market contagion and saw risk-sensitive currencies like the Australian dollar punished and safe havens like the yen and US dollar bought up instead.

In its April statement, the RBA justified not having moved the interest rate with the fact that the impact on inflation of interest rate increases take time to be felt. They also feel that the "monthly CPI indicator suggests that inflation has peaked in Australia. Goods price inflation is expected to moderate over the months ahead due to global developments and softer demand in Australia." Still, RBA's "Board expects that some further tightening of monetary policy may well be needed to ensure that inflation returns to target. The decision to hold interest rates steady this month provides the Board with more time to assess the state of the economy and the outlook, in an environment of considerable uncertainty."

Data to watch in April will be the monthly CPI inflation figures due out on 26 April. This will be the critical number for informing whether the RBA resumes the hiking cycle at the May meeting or keeps rates at 3.60% for another month.



*Benjamin Picton*  
Senior Strategist

[Benjamin.picton@rabobank.com](mailto:Benjamin.picton@rabobank.com)  
Twitter: @BenPicton1

## Interest Rate & FX

### What to Watch

#### Upside

- A strong quarterly inflation figure on 26 April should see gains in the Australian dollar as markets price in higher probability of a May rate hike.

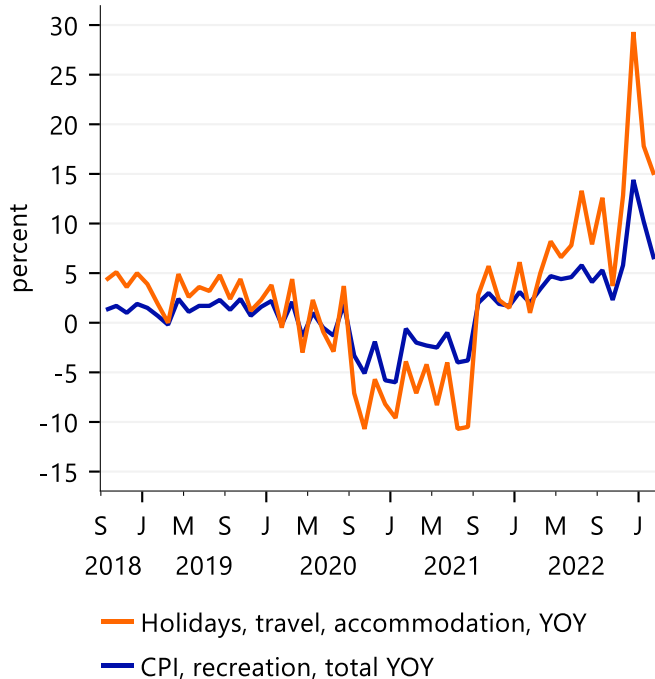
#### Downside

- Signs of further instability in offshore banking markets would be a negative influence for risk assets like the Australian dollar.

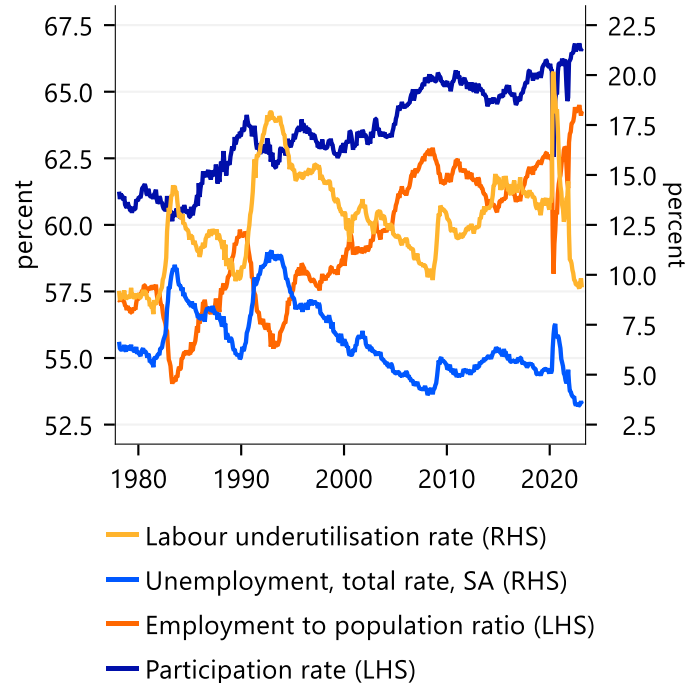


# Past the Peak, but Still Tight...

*Inflation in discretionary items is surging*



*Australia's labour market is historically strong*



Source: Macrobond, Rabobank 2023

Source: Macrobond, Rabobank 2023

# Reefer Rates Slowly Decreasing

**Front month Brent crude futures closed down 3.55% for the month of March.** The fall was largely driven by market jitters on the back of the recent bank collapses in the US and comments from the US energy secretary that it could take years to refill the Strategic Petroleum Reserve after the Biden administration ran it down to its lowest level since 1983 to pressure oil prices lower in 2022.

**Reefer container freight rates of most trade lanes have decreased in Q1 2023.** Compared to Q4 2022, Drewry reports a global average decrease of 11%, from USD 6,475 to USD 5,790 per 40ft container. The levels of decrease vary widely across trade lanes: down 3% for Oceania to Asia, 25% for Oceania to Europe, and 19% for South America to Asia/Europe. The downward trend has become clear, yet the pace of decrease is expected to be slow, as was the pace of increase in 2021 and 2022. With regard to the annual global average of reefer container rates, analysts expect a decline of between 10% to 15% this year. The supply side expects a growth of 3.5% for the global reefer plug capacity on vessels and 1.5% for the total number of active reefer containers. On the demand side, ocean refrigerated volumes are likely to stay resilient against the current challenging economic situation and grow at 1.0% throughout 2023. Regarding dry container freight rates, which already stand around pre-pandemic levels, a limited rebound is expected in the coming quarters with China's re-opening and destocking by retailers in Europe and the US.

**The Baltic Panamax index (a proxy for grain bulk freight) has seen a strong rebound in the last four weeks to Q4 2022 levels.** The rebound was supported by recovering Chinese demand and positive news from Ukraine's Black Sea Grain Initiative. The Black Sea deal was extended for at least 60 days, until mid-May. As the global economy enters turbulent waters, we expect the Panamax index to fluctuate around the lower end of the spectrum.




*Benjamin Picton*  
Senior Strategist

[Benjamin.picton@rabobank.com](mailto:Benjamin.picton@rabobank.com)  
Twitter: @BenPicton1



*Xinnan Li*  
Analyst  
F&A Supply Chains

[xinnan.li@rabobank.com](mailto:xinnan.li@rabobank.com)



*Viet Nguyen*  
Analyst  
F&A Supply Chains

[Viet.Nguyen@rabobank.com](mailto:Viet.Nguyen@rabobank.com)

## Oil & Freight

### What to Watch

#### Upside

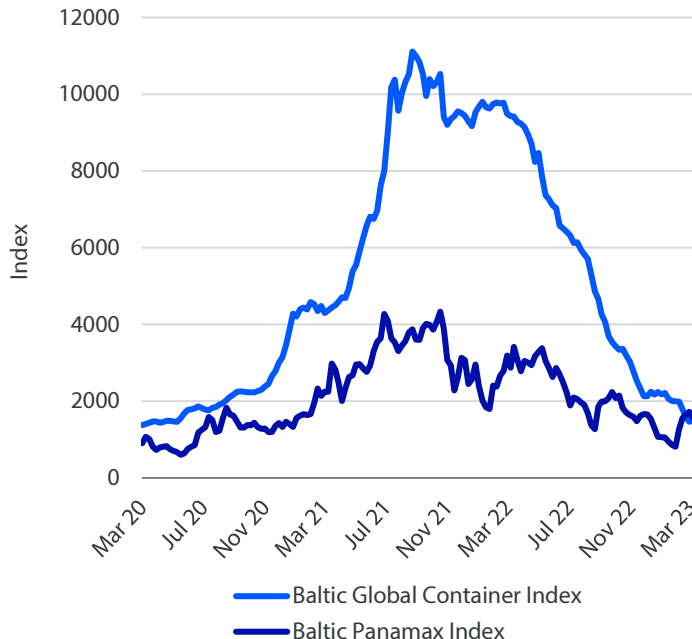
- OPEC's recently announced oil production cuts of 1.15 million barrels/day will put further pressure on an already tight oil market. We expect prices to be well supported as a result.

#### Downside

- Looming global economic conditions could impact global trade and thus ocean container and bulk shipping conditions.

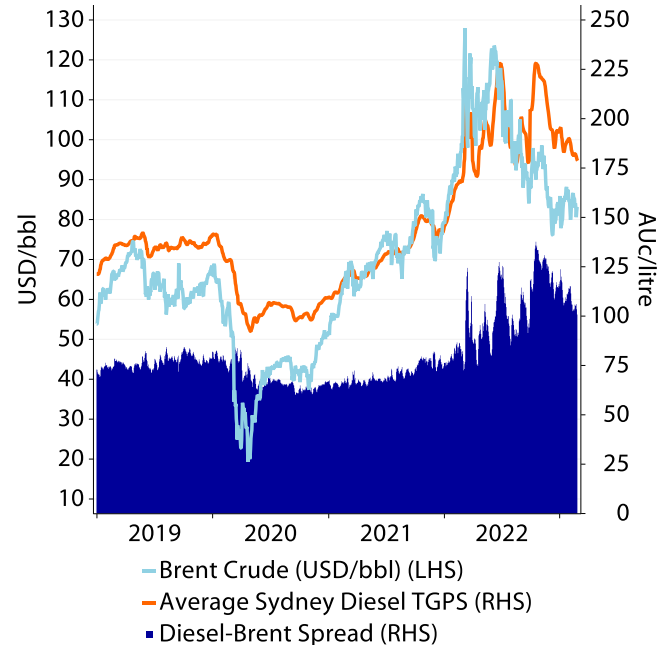
# Prices Fall on Uncertain Global Outlook

Baltic Panamax Index and Dry Container Index, Mar 2020-Mar 2023



Source: Baltic Exchange, Bloomberg, Rabobank 2023

Brent Crude Oil and average Sydney Diesel, Jan 2019-Feb 2023



Source: Macrobond, Rabobank 2023

# Agri Price Dashboard

|                                     | 31/03/2023 | Unit          | MOM | Current | Last month | Last year |
|-------------------------------------|------------|---------------|-----|---------|------------|-----------|
| <b>Grains &amp; oilseeds</b>        |            |               |     |         |            |           |
| CBOT wheat                          |            | USc/bushel    | ▲   | 692     | 692        | 1,006     |
| CBOT soybean                        |            | USc/bushel    | ▲   | 1,506   | 1,491      | 1,618     |
| CBOT corn                           |            | USc/bushel    | ▲   | 661     | 630        | 749       |
| Australian ASX EC Wheat Track       |            | AUD/tonne     | ▲   | 391     | 387        | 400       |
| Non-GM Canola Newcastle Track       |            | AUD/tonne     | ▼   | 668     | 736        | 921       |
| Feed Barley F1 Geelong Track        |            | AUD/tonne     | ▼   | 326     | 338        | 348       |
| <b>Beef markets</b>                 |            |               |     |         |            |           |
| Eastern Young Cattle Indicator      |            | AUc/kg cwt    | ▼   | 680     | 711        | 1,082     |
| Feeder Steer                        |            | AUc/kg lwt    | ▼   | 353     | 376        | 583       |
| North Island Bull 300kg             |            | NZc/kg cwt    | ▲   | 585     | 570        | 590       |
| South Island Bull 300kg             |            | NZc/kg cwt    | ▲   | 525     | 510        | 575       |
| <b>Sheepmeat markets</b>            |            |               |     |         |            |           |
| Eastern States Trade Lamb Indicator |            | AUc/kg cwt    | ▼   | 681     | 740        | 793       |
| North Island Lamb 17.5kg YX         |            | NZc/kg cwt    | ▲   | 730     | 705        | 830       |
| South Island Lamb 17.5kg YX         |            | NZc/kg cwt    | ▲   | 720     | 665        | 815       |
| <b>Venison markets</b>              |            |               |     |         |            |           |
| North Island Stag                   |            | NZc/kg cwt    | •   | 885     | 885        | 795       |
| South Island Stag                   |            | NZc/kg cwt    | ▼   | 880     | 885        | 800       |
| <b>Oceanic Dairy Markets</b>        |            |               |     |         |            |           |
| Butter                              |            | USD/tonne FOB | ▲   | 4,775   | 4,750      | 6,975     |
| Skim Milk Powder                    |            | USD/tonne FOB | ▼   | 2,688   | 2,863      | 4,600     |
| Whole Milk Powder                   |            | USD/tonne FOB | ▼   | 3,238   | 3,313      | 4,638     |
| Cheddar                             |            | USD/tonne FOB | ▼   | 4,325   | 4,975      | 6,175     |

Source: Bloomberg, MLA, Rabobank 2023

# Agri Price Dashboard

|                                       | 31/03/2023 | Unit          | MOM | Current | Last month | Last year |
|---------------------------------------|------------|---------------|-----|---------|------------|-----------|
| <b>Cotton markets</b>                 |            |               |     |         |            |           |
| Cotlook A Index                       |            | USc/lb        | ▼   | 97.6    | 99.4       | 157       |
| ICE No.2 NY Futures (nearby contract) |            | USc/lb        | ▼   | 82.8    | 84.2       | 136       |
| <b>Sugar markets</b>                  |            |               |     |         |            |           |
| ICE Sugar No.11                       |            | USc/lb        | ▲   | 22.3    | 22.1       | 19.5      |
| ICE Sugar No.11 (AUD)                 |            | AUD/tonne     | ▲   | 734     | 658        | 551       |
| <b>Wool markets</b>                   |            |               |     |         |            |           |
| Australian Eastern Market Indicator   |            | AUc/kg        | ▼   | 1,318   | 1,367      | 1,375     |
| <b>Fertiliser</b>                     |            |               |     |         |            |           |
| Urea Granular (Middle East)           |            | USD/tonne FOB | ▼   | 303     | 338        | 995       |
| DAP (US Gulf)                         |            | USD/tonne FOB | ▼   | 635     | 650        | 1,025     |
| <b>Other</b>                          |            |               |     |         |            |           |
| Baltic Panamax Index                  |            | 1000=1985     | ▲   | 1,635   | 1,421      | 3,141     |
| Brent Crude Oil                       |            | USD/bbl       | ▼   | 80      | 84         | 108       |
| <b>Economics/currency</b>             |            |               |     |         |            |           |
| AUD                                   |            | vs. USD       | ▼   | 0.669   | 0.673      | 0.748     |
| NZD                                   |            | vs. USD       | ▲   | 0.626   | 0.619      | 0.695     |
| RBA Official Cash Rate                |            | %             | ▲   | 3.60    | 3.35       | 0.10      |
| NZRB Official Cash Rate               |            | %             | •   | 4.75    | 4.75       | 1.00      |

Source: Bloomberg, MLA, Rabobank 2023

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# Meet our RaboResearch Food & Agribusiness Australia and New Zealand team



## Stefan Vogel

Head of Food & Agribusiness  
Research and Advisory, Australia  
and New Zealand  
+61 460 734 578  
[Stefan.Vogel@rabobank.com](mailto:Stefan.Vogel@rabobank.com)



## Emma Higgins

Senior Agriculture Analyst  
+64 27 600 5549  
[Emma.Higgins@rabobank.com](mailto:Emma.Higgins@rabobank.com)  
@emhiggins



## Genevieve Steven

Agriculture Analyst  
+64 02 139 4585  
[Genevieve.Steven@rabobank.com](mailto:Genevieve.Steven@rabobank.com)  
@gevesteven



## Angus Gidley-Baird

Senior Animal Protein Analyst  
+ 61 424 266 909  
[Angus.Gidley-Baird@rabobank.com](mailto:Angus.Gidley-Baird@rabobank.com)  
@angus\_gb



## Dennis Voznesenski

Agriculture Analyst  
+61 438 595 314  
[Dennis.Voznesenski@rabobank.com](mailto:Dennis.Voznesenski@rabobank.com)  
@Voz\_Dennis



## Pia Piggott

Associate Analyst  
+61 460 734 578  
[Pia.Piggott@rabobank.com](mailto:Pia.Piggott@rabobank.com)  
@piapiggott



## Michael Harvey

Senior Dairy & Consumer Foods  
Analyst  
+61 409 488 485  
[Michael.Harvey@rabobank.com](mailto:Michael.Harvey@rabobank.com)  
@MickHarvey77



## Vítor Caçula Pistóia

Agriculture Analyst  
+61 473 862 667  
[Vitor.Cacula.Pistoia@rabobank.com](mailto:Vitor.Cacula.Pistoia@rabobank.com)  
@victor\_agri



## Edward McGeoch

Associate Analyst  
+61 418 273 123  
[Edward.McGeoch@rabobank.com](mailto:Edward.McGeoch@rabobank.com)  
@mcgeochEdward



## Benjamin Picton

Senior Market Strategist  
+61 408 571 012  
[Ben.Picton@rabobank.com](mailto:Ben.Picton@rabobank.com)



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