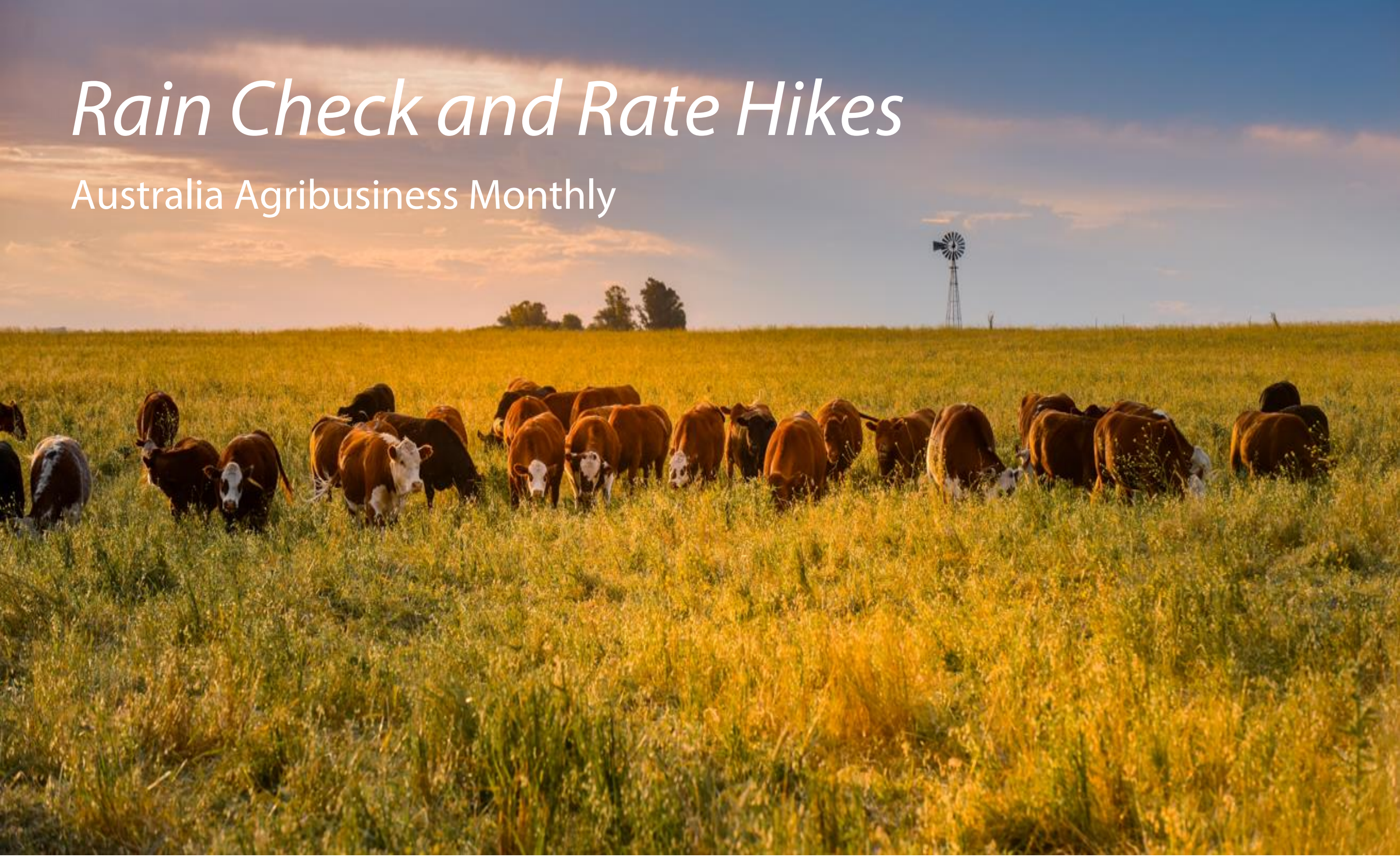
Rain Check and Rate Hikes

Australia Agribusiness Monthly



March 2023

2023 Commodity Outlooks

 Grains & Oilseeds	The discount that Australian track wheat prices have traded compared to global prices has eroded and moved to zero across many port zones. Whether local prices move to premium will depend on whether dryness continues, whether farmers' selling remains restrained, and how much more export capacity is created.	p. 6-7
 Dairy	A weaker tone has settled in across dairy commodity markets. The next phase of the cycle will be heavily influenced by the timing and strength of a return to the market by Chinese buyers. China's reopening is good for commodity markets, but the short-term consumer response remains somewhat uncertain.	p. 8-9
 Beef	Production is on the rise in 2023, as increased cattle inventory becomes productive. Consumer markets will be softer amid slower economic conditions and prices, while remaining historically high, we expect prices to retreat from their record levels and stabilise.	p. 10-11
 Sheepmeat	We expect lamb production to push further into record territory. Softer consumer demand is likely to impact lamb more as a premium-positioned product, but new trade agreements and recovery in China provide possible upside.	p. 12-13
 Cotton	Increasing global consumption in major Chinese markets is a promising sign of increased demand, while potential supply chain disruptions loom on the horizon in the wake of Turkey's devastating earthquake impacting major mills and the textile processing region.	p. 14-15
 Wool	There are positive signs for wool demand, with sales volumes and prices seeing increases throughout February. Retail demand from key major markets continues to grow as consumer spending remains promising.	p. 16-17

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2023 Commodity Outlooks

Consumer Foods	The latest results from the retailers showed food inflation gathered momentum in Q4 2022. Product availability is still an issue flagged by the retailers, as localised supply chain issues linger. Consumers continue to respond to cost-of-living pressures and confidence is weak.	p. 18-19
Farm Inputs	“All quiet in the farm inputs front” is not an Oscar-winning quote but defines the current status. There are expectations among stakeholders of how the needle will move when next-season buying starts, while stocks are building up.	p. 20-21
Interest Rates and FX	Reserve Bank Governor Philip Lowe struck a defiant tone in the testimony that he gave before the parliament in February, highlighting the importance of getting inflation back under control. We expect further 25bp rate hikes in March, April, and May to take the cash rate to 4.10% before pausing in June.	p. 22-23
Energy and Freight	Brent crude prices slid lower again in February as synchronised interest rate tightening globally weighed on the demand outlook. The Baltic Panamax index (a proxy for grain bulk freight) is approaching its pandemic low before a quick rebound.	p. 24-25

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Chance of Above-average Rain Drying up as ENSO Returns to Neutral

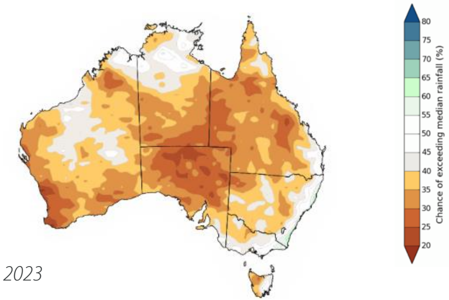
After a very wet 2022 for most of the Australian continent, the Bureau of Meteorology (BOM) expects the influence of major climate drivers to decline in the coming months.

The BOM expects that the El Niño-Southern Oscillation (ENSO) will return to neutral this year, after three consecutive years of La Niña. With none of the seven international climate models currently predicting ENSO to exceed La Niña thresholds during February, rains should keep well below 2022 levels.

The BOM expects the Indian Ocean Dipole (IOD) will remain neutral for the foreseeable future and hold little influence on local weather patterns.

Low chances of exceeding median rainfall in 1H 2023

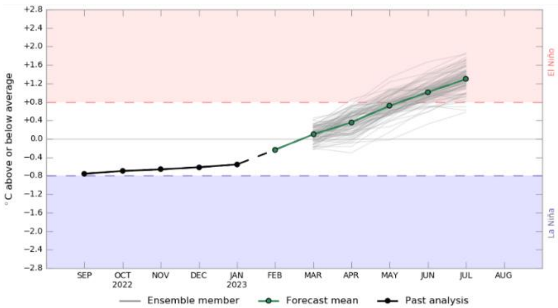
March-May rainfall outlook



Source: *BOM 2023*

ENSO conditions to stay neutral for 1H 2023

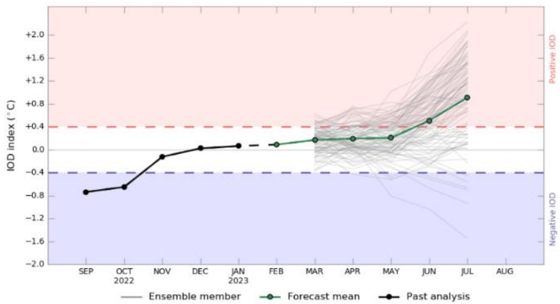
Monthly sea surface temperature anomalies for central Pacific Ocean



Source: *BOM 2023*

IOD is likely to remain neutral during 1H 2023

Monthly sea surface temperature anomalies for Indian Ocean



Source: *BOM 2023*

Record Wet Season for Northern Australia

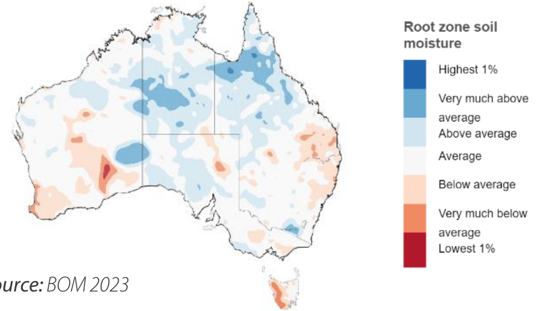
Wet season rainfall has been plentiful in the start of 2023, with January rainfall 35% above the average.

For the large majority of northern Australia, the wet season has brought very much above average rains. However, for southern states dry conditions are settling in as ENSO returns to neutral, with Tasmania experiencing the 15th driest January on record.

Soil moisture remains predominately above average. It is good news for farmers heading into next season, with water storage levels high in the Murray-Darling Basin and high soil moisture for large parts of Australia.

Soil moisture unevenly distributed across Australia

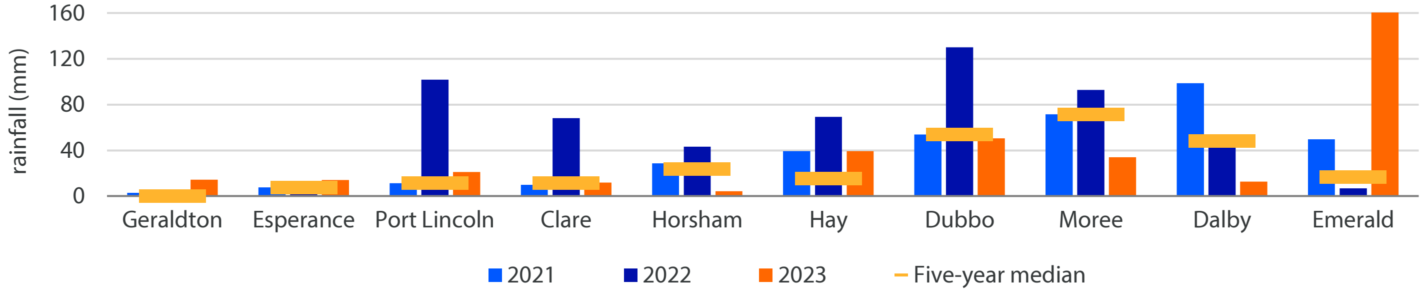
Relative soil moisture, February 2023



Source: BOM 2023

A positive start to 2023 after record 2022 remarkable rainfall

January Rainfall



Source: BOM 2023

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Grains & Oilseeds

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Deviated Markets in Farmers' Favour?

Between January 24 and February 24, prices of CBOT wheat, corn, and soy increased 1%, decreased 2%, and increased 3% respectively. Offshore G&O markets in 2023 are expected to remain notably below average 2022 levels, assuming no major supply shocks arise, for example non-renewal of the Ukraine-Russia grain corridor. Locally, due to three factors, our wheat price discount to overseas levels has trended toward zero and may move to positive territory.

Rabobank's forecast for CBOT wheat in 2023 remains mostly unchanged from last month, between USc 736/bu to USc 785/bu. Large Russian wheat exports, following record production, continue to weigh on markets: July 2022 to mid-February 2023, Russian wheat exports were 22% higher compared to the previous season. Rainfall over US Soft Red Winter Wheat regions (eastern US) has improved the crop outlook, however, Hard Red Winter regions (central US) continue to be dry. Ukraine's wheat exports are flowing, however, between July 2022 and January 2023, they were down a considerable 43% on last season, with priority given to the export of higher value crops.

Rabobank's forecast for CBOT corn, an indicator for global feed markets, is unchanged: from USc 665/bu in Q1 2023 to USc 580/bu by Q4 2023. Demand continues to buckle under high prices, with Chinese corn imports for 2022/23 expected at 18m tonnes, down almost 4m tonnes YOY. Rabobank expects a substantial decline in US fertiliser prices to see fertiliser-hungry corn planted area up 3% in April/May. Due to the scorched and frosted Argentine crop, however, total key export market stocks are unlikely to rebuild this year

Canadian ICE Canola and EU MATIF rapeseed futures traded 4% and 2% higher MOM as of 24 February. EU MATIF rapeseed futures for November delivery are trading similar to spot prices, indicating continued strong demand.

Locally, national APW1 wheat, Feed1 barley and non-GM canola prices traded 3%, 3% and 10% higher MOM as of 24 February. While in recent years we have seen heavily discounted track wheat prices to overseas levels, this discount looks to have disappeared. Moving forward, a combination of a significantly drier BOM outlook, newly built export capacity and reduced farmer selling *may* see that discount move into a premium to overseas levels this year, but not guaranteed. In line with the new drier BOM outlook, our APW1 expectations, for the east coast and SA, have lifted to trade on average between AUD 350 to AUD 390/tonne and Feed1 Barley between AUD 310 to AUD 340/tonne. Prices in WA are likely to trade lower due to their large carryover.

What to Watch

Upside

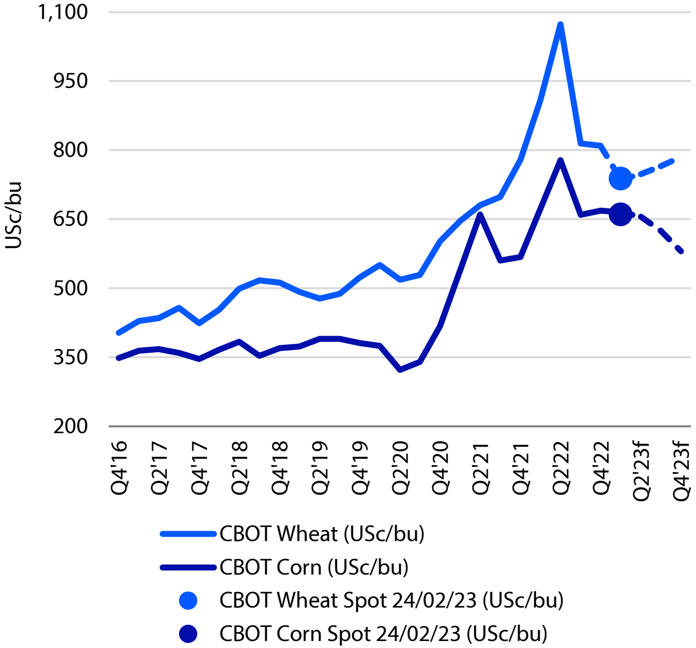
1. The BOM April to June rainfall forecast is substantially down on last year and in parts down even on the average. If this eventuates, we could see market mentality speedily shift from oversupply to a dry year.
2. The Black Sea Grain deal signed by Ukraine and Russia is up for renewal in mid-March. If not renewed, it could result in notable upside.

Downside

1. Seasonal conditions in the US see substantial further improvement in central growing regions.
2. The Ukraine-Russia conflict ends with cropping and export reverting to normal conditions.
3. Russia has another record wheat crop: for now, we assume a crop in the range of 78m to 85m tonnes.

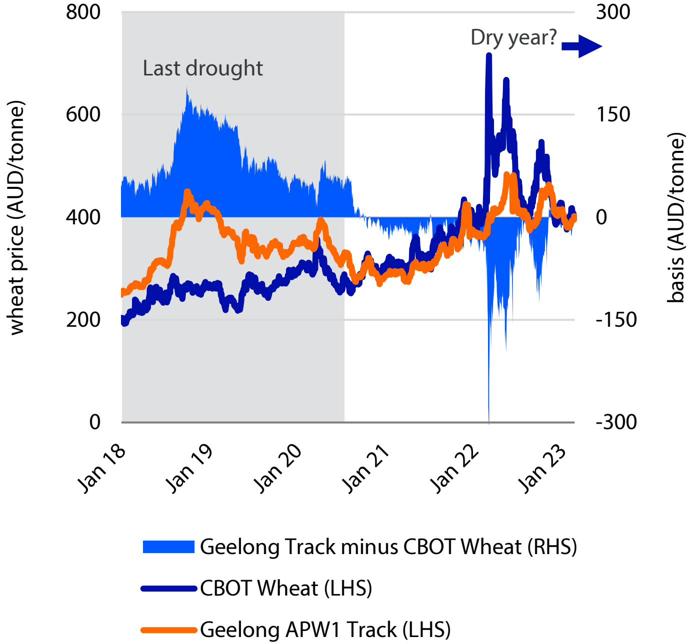
Dryness Severity, Export Capacity Expansion, and Farmer Selling To Determine Deviation

Global prices expected to remain below last year's levels but still historically high (quarterly average prices)



Source: *Rabobank 2023 ACMR forecast 23/02/23*

Local APW1 track prices converging with CBOT wheat. Is it sticking around? Let's see how BOM's forecast plays out



Source: *Bloomberg, Rabobank 2023*

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Local Milk Supply Still Shrinking

Dairy commodity markets were weaker again in February 2023. This is a sustained downturn in the commodity basket. Since peaking in Q2 2022, spot prices have fallen between 20% to 40% depending on the product. The weaker fundamentals are expected to keep a lid on any price recovery in the near term.

Milk production growth outside of Australia is gaining momentum. A return to growth is being led by the Northern Hemisphere. The latest numbers are showing solid growth across most of the European Union. Milk production is expanding in the US and South America. Meanwhile milk production is growing modestly in New Zealand on a milk-solids basis. The impact of Cyclone Gabrielle is still to flow through. The strength in milk supply across the approaching seasonal peaks in the Northern Hemisphere is a key watch.

The impacts of adverse weather and industry consolidation continue to plague milk production. At the halfway point of the 2022/23 season, milk production is trailing last season by 7.1% and currently standing at 4.5bn litres. It will be a slow turnaround, but there are some green shoots. Milk production has fallen in all regions YTD, but the rate of decline has slowed in some regions.

Many dairy farmers will enter autumn with good feed reserves. The availability of irrigation water and supplementary feed (after a decent 2022/23 winter crop) is good news as preparations begin for next season. There are some issues around fodder availability, the cost of purchased feed remains elevated. Fertiliser prices are heading back to more normal farmgate price levels.

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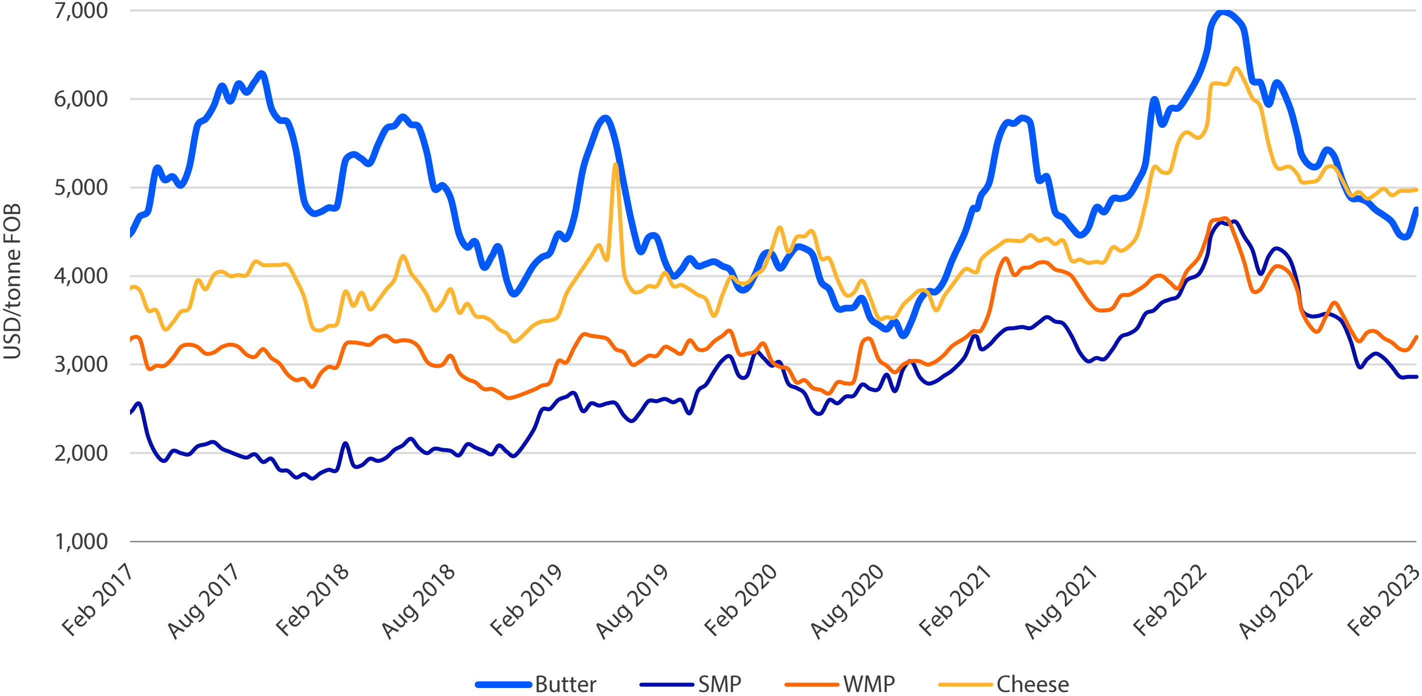
Dairy

What to Watch

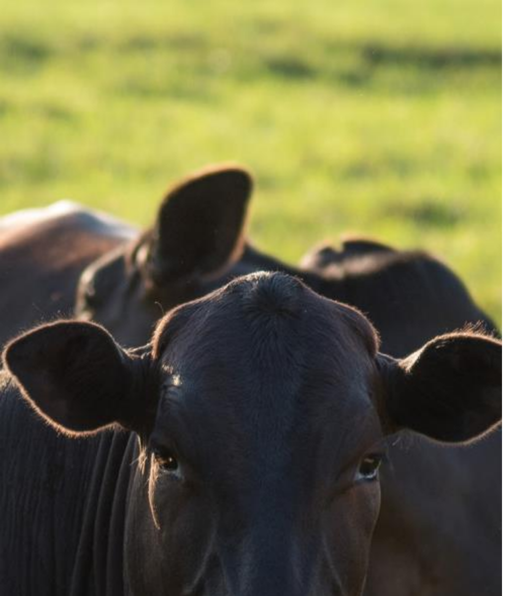
- **Trading down** – Consumer prices for dairy products have risen in all channels. In some instances, the rate of inflation is at record levels. This is driving shifts in consumer behaviour. Dairy consumption will continue to show a level of resilience in most major dairy markets. However, there are growing signs of volume declines. Consumers will remain thrifty for a period of time given the cost-of-living pressures still flowing through the economy.
- New Zealand's flood impact on dairy . For an initial assessment read our NZ Monthly report.

Softer Tone to Commodity Markets Sets In

Oceania spot dairy commodity prices, Jan 2017–Feb 2023



Source: *USDA, Rabobank 2023*



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Beef

Prices Levelling Out

Cattle prices settling at a new level. Our models suggest that current prices should be more sustainable for all operators in the supply chain given the current market conditions, and most cattle classes appear to have levelled out after the drop through late last year and January. Although feeder steers and young restocking cattle continued to drop (down 5% to 9%) through February. Cattle on feed numbers for Q4 2022 showed an 8% increase on Q3 numbers. Although they remain well below the highs of Q1, reflecting a softer demand for longer-fed beef products and caution among retailers not to overstock supply chains. Restocker-to-heavy steer price spreads continue to narrow toward longer-term levels, consistent with a general tempering of herd-rebuilding activities. **With good rain in Queensland in January and February, it might just be enough to stimulate some Queensland producers to become active in the market and support prices at current levels.**

National cattle slaughter was up 1% YOY in Q4 last year, bringing the total for the year to 5.85m, a 2% decline on 2021 volumes. Volumes in NSW lifted 3% and WA lifted 14% YOY, while volumes in Queensland and Victoria dropped 4% and 6% respectively. **East coast weekly slaughter volumes in February were above 100,000 head/week indicating a larger number of slaughter weight cattle are starting to fill out the market.**

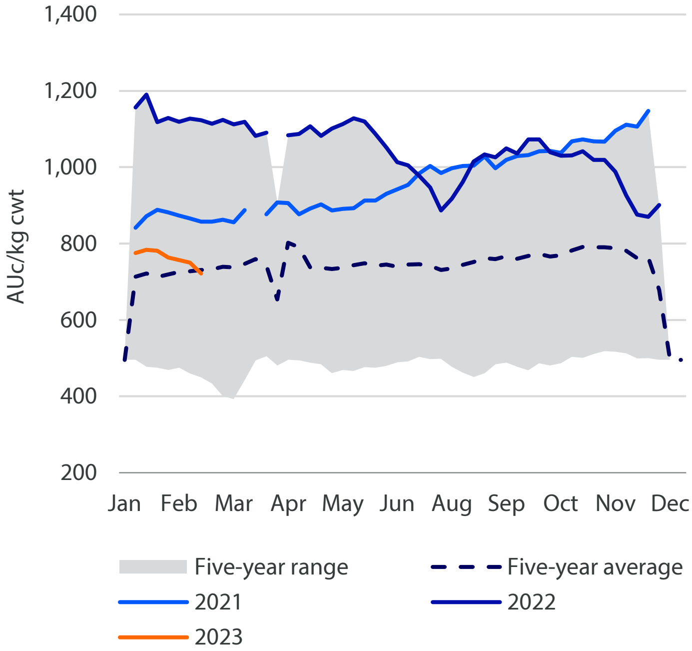
Exports in January lifted 19% to 51,471mt swt following the larger slaughter months of December and January compared to the previous years. **Volumes to all major markets were up, including a 20% rise in volumes to China, possibly reflecting an improvement in foodservice sales following the relaxation of Covid-19 restrictions.** Live cattle exports were down 40% YOY in January with volumes to Indonesia down 40% YOY at some of the lowest volumes in years.

What to Watch

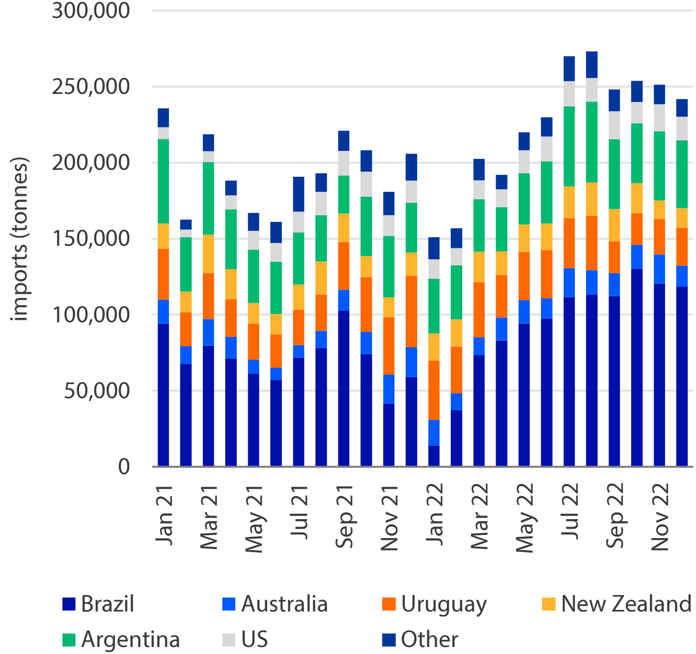
- **Brazil announces atypical BSE case** – Brazil voluntarily suspended beef trade with China on 23 February following the announcement of another atypical BSE case. A similar case occurred in late 2021 and while Australia had less beef available then, we did see a lift in volumes sent to China. Although this will be a positive market influence for Australia with China needing to source beef from other suppliers, we do not expect it to have a large impact on Australia's cattle market. The expectation that trade could resume relatively quickly and high stock levels in China will temper the disruption.

Cattle Prices Levelling Out as Brazil Confirms Another Atypical BSE Case

EYCI levelling out as market rebalances



Previous BSE case in Brazil (Sep 2021-Dec 2021) saw a large drop in Chinese beef imports



Source: *MLA, ABS, Rabobank 2023*

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Sheepmeat

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Softer Markets as Supply Lifts

Lamb prices have been volatile as they find a new balance. Trade lambs are hovering around the five-year average, with heavy lambs performing better and restocking and merino lambs weaker than the five-year average. It is clear that the market has shifted from being producer driven to now being determined by meat trade and consumer markets. With larger numbers of lambs in the market it also means processors can be picky. Quality heavy lambs are still in demand, while lighter lambs and mutton are not getting much attention. **With larger lamb numbers in the system and delays to finishing, we expect prices could be softer over the coming month – particularly out of spec lambs and mutton.**

Lamb slaughter numbers for Q4 2022 were 8% higher, bringing the total lamb slaughter for 2022 to 21.4m head and a 3% increase. Sheep slaughter numbers for 2022 were 6.6m head, a 14% increase on 2021. Weekly lamb slaughter numbers continue to remain strong – up 9% for the first three weeks in February on the same period in 2022. **Anecdotal reports suggest seasonal conditions have delayed lamb finishing again this year, and we expect to see larger volumes of lambs to carry through until later in the season.**

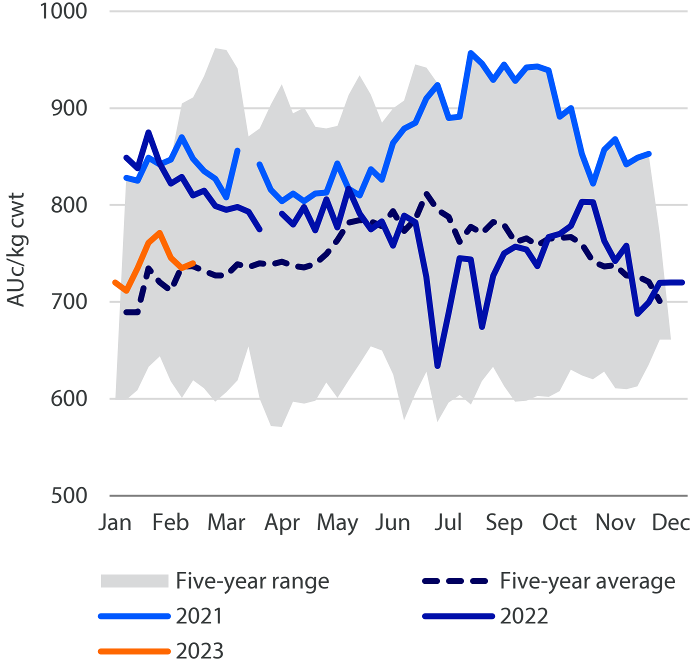
Lamb exports for January 2023 increased 7% YOY to 18,189mt swt. Volumes to key markets of China and the Middle East lifted 30% and 37% YOY, respectively, while volumes to the US contracted 17%. Mutton exports for January lifted 22% YOY to 13,532mt swt. The increasing volumes to China may be a reflection of the opening up of the Chinese market after the lifting of Covid-19 lockdown restrictions late last year. With China generally increasing sheepmeat imports through the first half of the year as they head to winter, this is a good starting point with recovering demand.

What to Watch

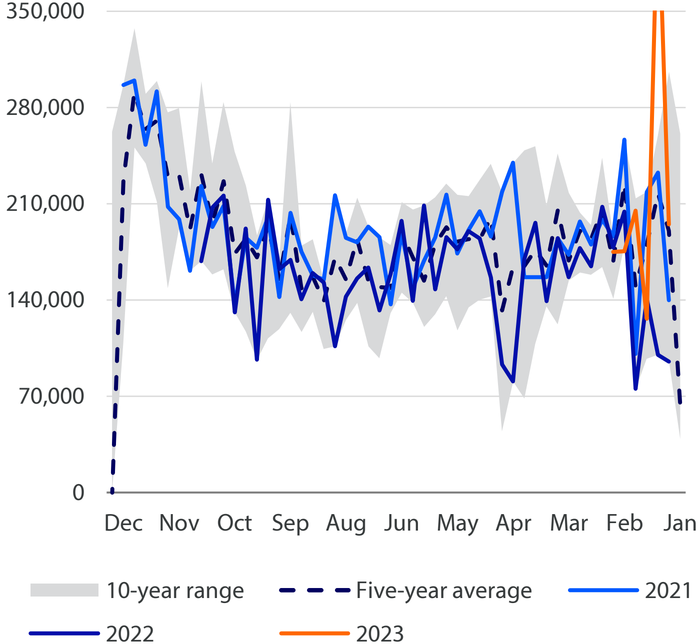
- **Lamb volumes in the market** – Anecdotal reports suggest seasonal conditions have delayed lamb finishing. In 2021, the number of lambs sold through saleyards picked up in February – Victorian numbers rose above the five-year average – as slower growing conditions prevented lambs being finished at normal times. Suggestions are that this season may be the same, and with already larger numbers of lambs in the market this may cause some softness in the months to come.

Lamb Prices Softer Amid Larger Numbers of Lambs Hitting the Market

ESTLI flat to softer as delayed lamb numbers hit the market



Lamb slaughter and production expected to continue pushing into record territory



Source: MLA, ABS, Rabobank 2023

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Cotton

Demand: A Tale of Two Sides

February saw ICE #2 Cotton prices hover around the mid USc 80/lb before dropping slightly toward the end of February, finishing at 82.25 USc/lb, which marks a 6% drop MOM as of 23 February. Pricing has certainly steadied to open the year, with the recent slight price drop in part due to the strengthening US dollar detracting importers from the market. Another factor weighing on demand flows is the recent, devastating earthquake in Turkey, which impacted the country's major mills and textile processing region. The damage to infrastructure and logistics could see significant disruptions impact their domestic consumption, which is forecast at 8m bales, of which imports account for 4.3m bales.

Global consumption estimates continue to fall, with USDA 2022/23 estimates dropping a further 200,000 bales. The focus here is squarely on Pakistan, the third largest global consumer of cotton, which has now seen 2022/23 estimates drop 21% YOY to its lowest level in 21 years. This comes alongside sliding production forecasts, sitting at an almost 40-year low of 3.9m bales, coupled with the inability of mills to maintain capacity through imports due to the recent spike in depreciation value of the Pakistani rupee. On the flip side, China has seen the first month of increased consumption forecast since the start of the 2022/23 season with an additional 500,000 bales added.

Locally, demand has shown positive signs throughout February with improved export volumes, a result of increased supply chain flow. USDA has subsequently marginally increased Australia's estimated export trade volumes for 2022/23. Australian production is also on track with Central/Northern NSW and Southern Queensland, after experiencing cooler conditions that led to a slow start, seeing warmer conditions throughout February driving improved crop development. Dryland acreage in Southern Queensland will be looking for rainfall soon. The Northern Territory, on the other hand, has seen strong rainfall totals throughout the growing period and is well placed for a good season.

What to Watch:

Upside

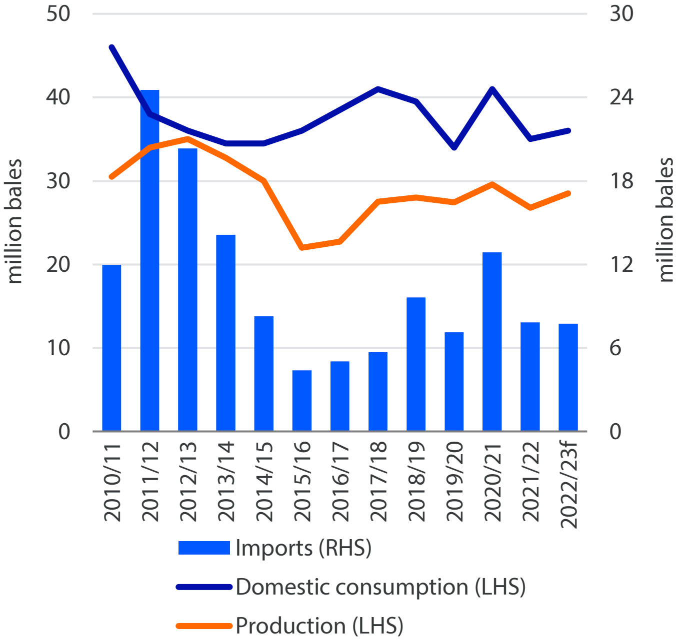
1. Further increased consumption as a result of China's relaxation of Covid-19 policies.
2. India's production forecast faces further yield reductions.
3. Increased export volumes into China as trade relationships improve.

Downside

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

Demand Outlook Looking To Improve Following Subdued Market in Late 2022

Increase in Chinese domestic consumption off the back of a sharp fall in 2021/22 a promising sign for demand



Source: USDA, Rabobank 2023

ICE #2 Cotton prices rising slightly after mid-February dip toward USc 80/lb

Source: Bloomberg, Rabobank 2023

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Demand Driving Positive Market

The first two months of the year have seen early growth in wool prices, with the Eastern Market Indicator reaching AUc 1364/kg as of February 24, up 3% on opening 2023 prices. We saw stronger market activity drive prices up to above AUc 1,400/kg in early February, with the EMI hitting a seven-month high. This was driven by increased trading appetite from Chinese mills lifting sales, with 21 micron receiving the most attention as China looked to focus on quantity. Prices softened across the board for fine microns toward the end of the month as volumes of wool on offer increased, but interest is expected to remain high. While remaining in the lowest decile, coarse wool prices gradually improved in February, with 28 micron up 5% MOM to AUc 359/kg.

Wool demand is continuing to pick up, with woollen suit import volumes increasing across the major global players: the US and France. December 2022 import volumes in the US and France both saw increases of 17% and 43% YOY, respectively, with the US sitting above pre-Covid volumes. Australian superfine wool sales reflected this. Italy showed strong competition within the market during February. Positive demand growth was further highlighted through improved retail apparel sales. The US saw January retail sales grow 7% YOY and is currently sitting 15% above pre-Covid levels. This considerable growth was also experienced across 27 other major markets, with the retail apparel sales in the UK and Japan increasing 18% and 8% YOY, respectively. This indicates that consumers are still spending despite inflationary pressure and will continue to drive supply chain flow as demand remains promising.

Wool testing volumes are off to a strong start in January, finishing at 27,204 tonnes as flock size increases and favourable conditions drive rising numbers. All states saw increases in wool testing volumes, with the major production areas of NSW and Victoria up 24% and 34%, respectively. Continuing on from strong growth in 2022, Queensland and Tasmania again continued their upward trajectory, increasing volumes by 65% and 82% YOY, respectively.

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Wool

What to Watch:

Upside

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

Downside

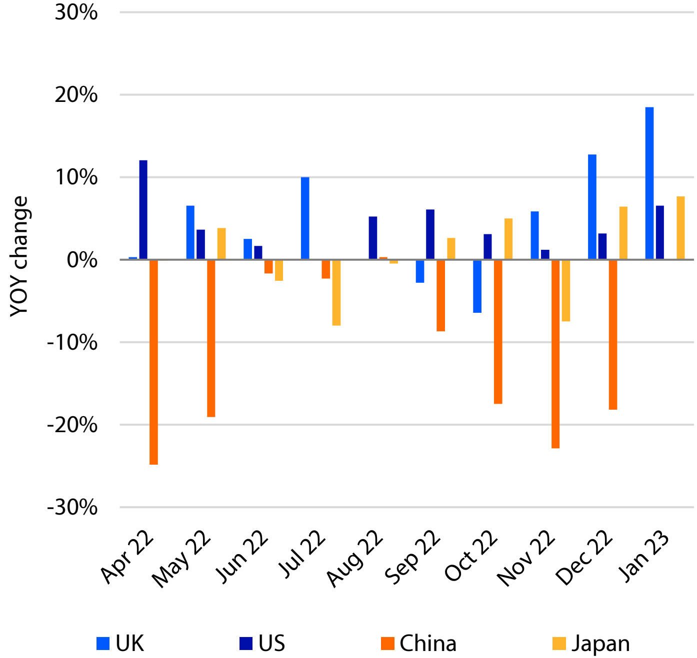
1. Consumer sentiment softens amid recessionary fears in major markets.
2. Container availability declines.

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

Australian EMI climbing after late 2022 price dip

***Source:** Bloomberg, Rabobank 2023*

Retail sales growth increasing across major markets to open 2023



***Source:** Trade Map, Rabobank 2023*

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Deeper Trading Down To Come

Australian retailers flagged product availability as an ongoing issue. Local supply chain issues are still causing delays across the food system. This includes issues around labour availability, raw materials and pallets. These product availability issues are forcing consumers to trade into long-life and frozen products.

No real surprises on the food inflation numbers. Both Coles and Woolworths reported food inflation in their businesses above 7% for Q4 2023, which were both higher than the previous quarter. They are anticipating food inflation to moderate from a Q2 2023 peak.

Consumers are increasingly becoming more value orientated. Not surprisingly, the retailers are reportedly seeing a sizeable shift in purchasing behaviours from shoppers. This trend began last year, but with cost-of-living pressures still building, more and more households are trading down/trading out of certain products and categories. Campaigns around capping further price increases are now being rolled out.

Real income squeeze to linger through 1H 2023. Looking back, the December inflation number was stronger than expected. In addition, December labour data disappointed with a larger than expected drop in employment. This was capped off with the 2022 Wage Price Index (WPI) growing by 3.3% for the year, much below the inflation rate. This reinforces the real income squeeze for Australian households. In these current settings, consumer confidence is expected to remain soft.

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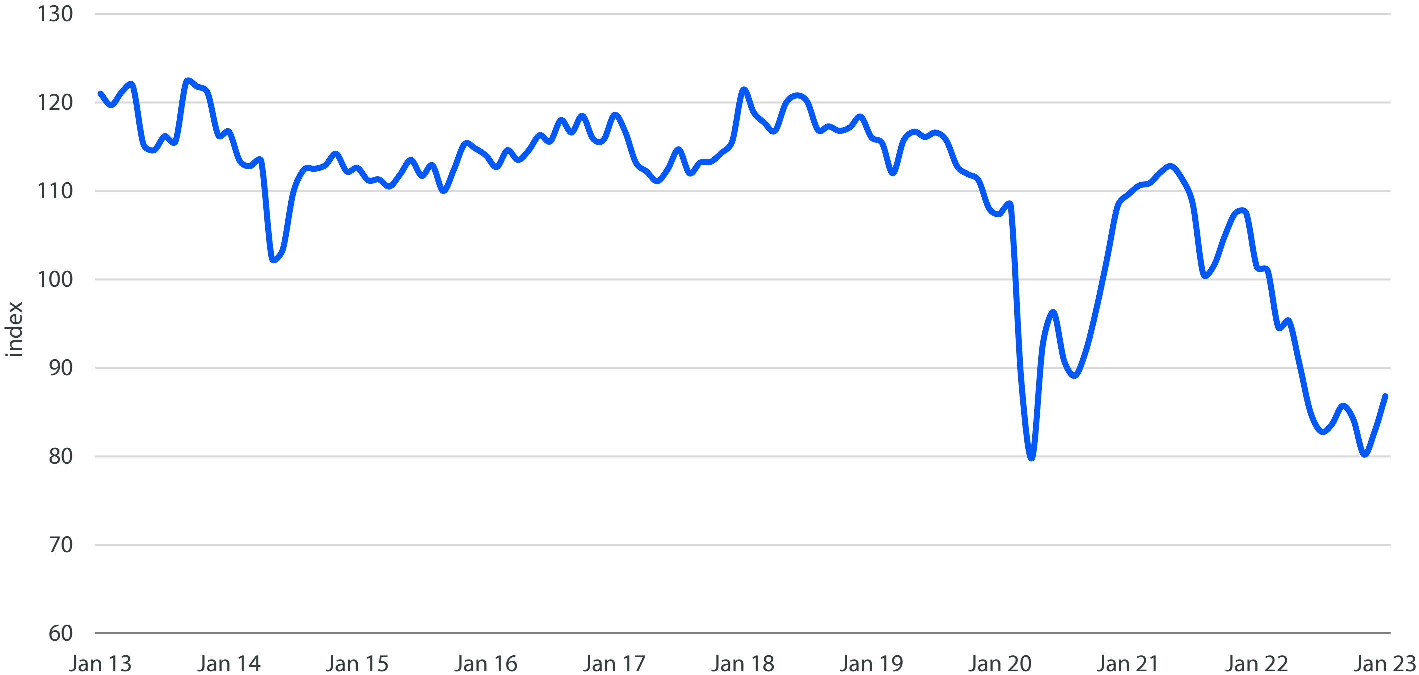
Consumer Foods

What to Watch

- **China reopening** – The Chinese consumer food market is on a pathway to recovery now that there has been a shift in policy around Covid-19. The food market is enjoying a resumption of more normal services. Food and beverage companies enjoyed a much better Chinese New Year holiday period (but still well below pre-pandemic levels). However, there is a level of caution around consumer behaviour post-holiday period. This coupled with softer consumer confidence will still weigh on discretionary spending in the near term.

Consumer Confidence Remains Sluggish

ANZ Roy Morgan Consumer Confidence rating



Sources: *Roy Morgan, ANZ, Rabobank 2023*

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Farm Inputs

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Temporary Stalemate

The fertiliser market is currently stuck in a stalemate between buyers and sellers. The downward price trend is continuing (except for potash), and offers are struggling to find markets. The reason for this is the uncertainty, or caution, about how prices will behave after the spring buying period kicks off in the Northern Hemisphere and volumes start rolling again.

For early 2023, the supply-and-demand seesaw is favouring global stocks of fertilisers, as companies' 2022 performance reports confirm. For instance, the Moroccan OCP Group (a state-owned phosphate rock producer that has the mineral monopoly and exports 30% of global phosphate fertilisers) reported a marketed volume of 5.5m tonnes, over 45% down compared to the 2021 mark of 9.9m tonnes. And capacity is believed to be operating at 50%. Expanding the analysis to other nutrients and countries, the general picture is similar to some extent. **Another indication of the standoff comes from some of the inputs for fertiliser production.** The price of phosphoric acid, which is used to produce MAP/DAP, is down 10% QOQ in North Africa. Sulphuric acid, also used for phosphate fertilisers and ammonium sulphate, is down 95% in China since its peak in Q2 2022 and now stands at AUD 11/tonne versus the AUD 218/tonne record.

The input prices doldrum, however, may not last too long, as evidenced by agrochemicals. Since prices peaked in late 2021, they have shown a gradual reduction, and some are now stabilised, such as the Chinese glyphosate 62% concentration reference, which dropped by over 40%. For this input, the price has been hovering around the same mark – AUD 5,200/tonne – for the last four months.

Contrary to chess rules, market participants will not say "good game" and shake hands after a temporary stalemate or a draw. Post-Covid volatility is still around, and the farm inputs needle will move again. The recent currency dip was not enough to counter international fertiliser prices in AUD terms.

Market factors to Watch:

Upside

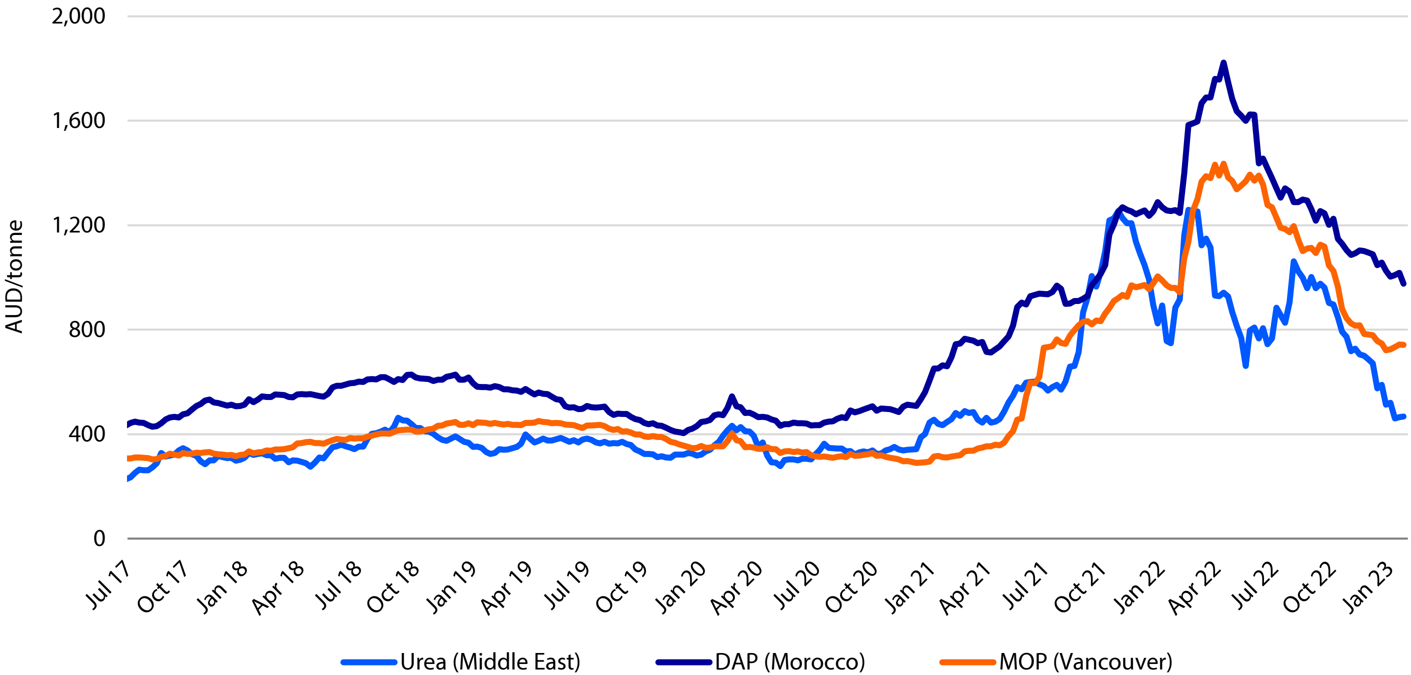
1. A natural gas supply restriction in Europe if the spring offensive does take place in the Black Sea conflict.
2. Good weather conditions support growth in cropping acreage in North America.

Downside

1. If the effects of drought intensify in Argentina, they could cause further demand destruction for the coming winter season.

Heading Toward Pre-Covid Levels?

AUD-adjusted monthly global fertiliser prices



Source: *CRU, Rabobank 2023*

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Little Aussie Battler

Reserve Bank Governor Philip Lowe struck a defiant tone in the testimony that he gave before the parliament in February, highlighting the importance of getting inflation back under control. The Governor noted that inflation is "corrosive", that it destroys the value of savings and wages, and that it makes it difficult for businesses to plan for the future. Lowe's testimony came a week after the release of the February Statement on Monetary Policy, which detailed the RBA's prediction that inflation peaked in the final quarter of 2022 and that growth will moderate to 1.5% for 2023. The Reserve Bank is trying to tread a "narrow path" between raising rates high enough to get inflation under control, but not so high as to tip the economy into recession and hurt households struggling under heavy debt loads. **We expect further 25bp rate hikes in March, April, and May to take the cash rate to 4.1% before pausing in June.** We see some upside risk of further hikes later in the year.

The AUD has shed more than two cents of value against the USD since the start of February as markets have priced in higher-for-longer interest rates in the US. The AUD was not alone in recording losses for the month. The 'Big Dollar' (USD) gained against nine out of ten G10 currencies as a slew of labour market indicators painted a more optimistic picture of US economic resilience, while inflation numbers remained stubbornly high. A divergence has opened up between US and local data after Australia recorded net job losses in both December and January, and weaker than expected wages growth in Q4 2022. This has brought forward some of the softness that we expected to see in the AUD closer to the middle of the year, but we remain optimistic on the prospects for the currency toward the end of the year as the US rate hiking cycle nears its end and the probability of recession rises. **We see AUD/USD reaching 0.75 on a twelve-month view.**

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Interest Rate & FX

What to Watch

Upside

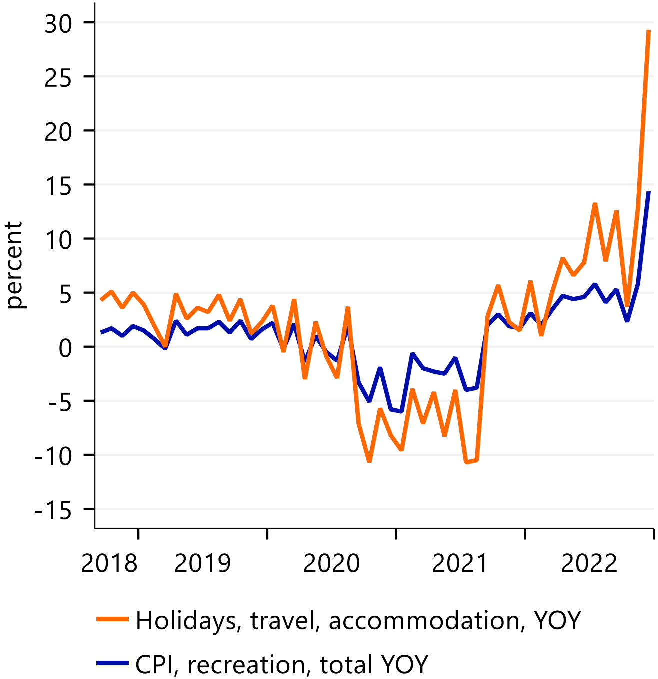
- Improvement in labour market data released in March could see the AUD regain some of the ground it lost in February.

Downside

- Falling demand for Australia's commodity exports – while synchronised rate tightening around the world crimps economic activity – presents downside risks to the AUD.

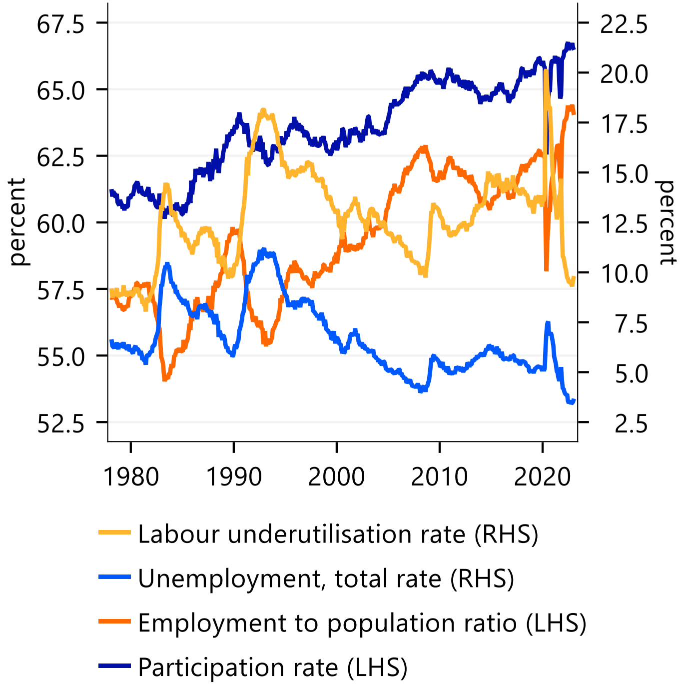
A Full Head of Steam

Inflation in discretionary items is surging



Source: *Macrobond, Rabobank 2023*

Australia's labour market is historically strong



Source: *Macrobond, Rabobank 2023*

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Oil & Freight

Container Shipping Market Enters the Period of Structural Changes

Brent crude prices slid lower again in February as synchronised interest rate tightening globally weighed on the demand outlook. Diesel terminal gate pricing also fell during the month, but the effect was moderated somewhat by tightening spreads between European and Asian diesel pricing. We expect diesel pricing to be supported by structural imbalances in global refining capacity.

The strong position of ocean carriers in contract negotiations is likely to change. One factor contributing to such strong positions of ocean carriers is their shipping alliances (2M, THE, Ocean). Such alliances allow carriers to effectively manage capacity for cost reduction and stable returns. Mass blank sailings when demand falls have been implemented in the past years. Therefore, the breakup of the 2M alliance (Maersk and MSC together account for approximately 30% to 35% market share) announced on 25 January 2023 is expected to trigger structural changes, especially as the sector goes through its down cycle of overcapacity. Possible consequences include carriers seeking new alliance partners or another round of M&A competing for market share partly enabled by aggressive pricing. Such changes could benefit shippers in terms of freight costs, however, in the long term, shippers need to align their strategies with those of their freight logistics partners to ensure stable supply chains.

The Baltic Panamax index (a proxy for grain bulk freight) is approaching its pandemic low before a quick rebound. We are now at the one-year mark of Russia's invasion of Ukraine, where Ukraine's grain export declined by two-thirds. Along with weak bulk shipments in another category (mostly non-food) and weak Chinese demand, this led to a prolonged depression of the dry bulk index, possibly with a soft rebound at the end of Q2.

What to Watch

Upside

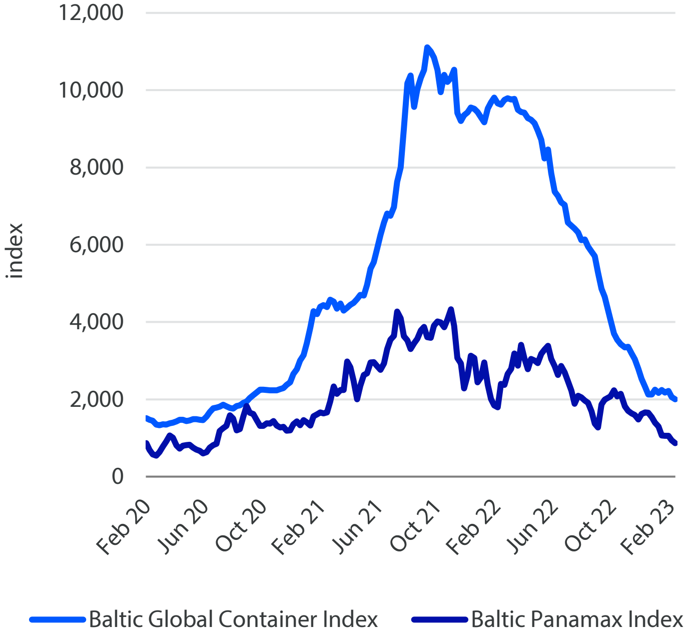
- Oil markets remain tight globally. As the west moves away from Russian supplies there remains limited room for supply disruptions.
- Relaxation of China's lockdowns elevate upside price risk.

Downside

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

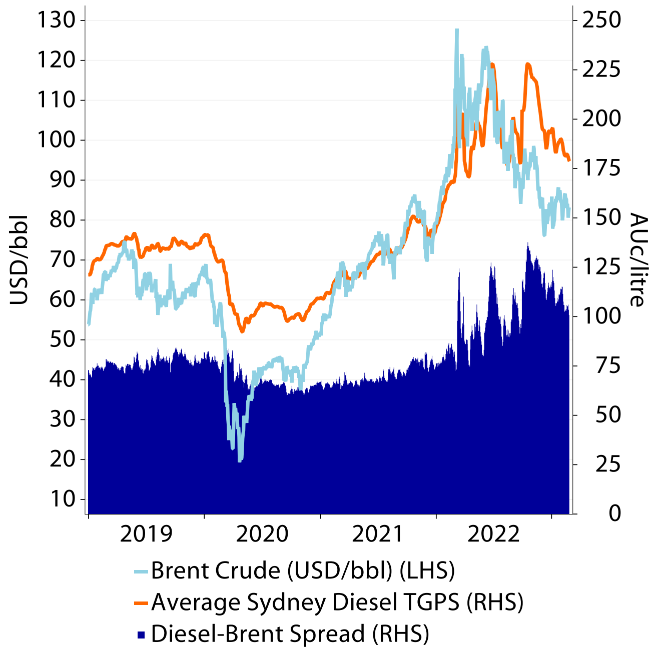
Prices Declining but Diesel Resilient

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



Source: *Baltic Exchange, Bloomberg, Rabobank 2023*

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



Source: *Macrobond, Rabobank 2023*

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Agri Price Dashboard

24/02/2023	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	708	735	926
CBOT soybean	USc/bushel	▲	1,529	1,489	1,662
CBOT corn	USc/bushel	▼	650	677	695
Australian ASX EC Wheat Track	AUD/tonne	▲	394	371	385
Non-GM Canola Newcastle Track	AUD/tonne	▲	737	675	864
Feed Barley F1 Geelong Track	AUD/tonne	▲	341	323	301
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	722	781	1,124
Feeder Steer	AUc/kg lwt	▼	376	394	587
North Island Bull 300kg	NZc/kg cwt	•	565	565	590
South Island Bull 300kg	NZc/kg cwt	▼	505	510	585
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	740	735	810
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	700	695	835
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	660	665	830
Venison markets					
North Island Stag	NZc/kg cwt	▼	885	890	775
South Island Stag	NZc/kg cwt	▼	890	900	775
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	5,090	4,463	6,275
Skim Milk Powder	USD/tonne FOB	▲	3,385	2,863	4,025
Whole Milk Powder	USD/tonne FOB	▲	3,482	3,175	4,213
Cheddar	USD/tonne FOB	▲	5,043	4,963	5,563

Source: *Bloomberg, MLA, Rabobank 2023*

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Agri Price Dashboard

24/02/2023	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	97.4	102.5	137
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	85.1	86.2	123
Sugar markets					
ICE Sugar No.11	USc/lb	▲	21.3	19.9	18.3
ICE Sugar No.11 (AUD)	AUD/tonne	▲	645	583	538
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,364	1,339	1,421
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	338	433	574
DAP (US Gulf)	USD/tonne FOB	•	650	650	854
Other					
Baltic Panamax Index	1000=1985	▲	1,271	1,035	2,689
Brent Crude Oil	USD/bbl	▼	83	86	99
Economics/currency					
AUD	vs. USD	▼	0.67	0.70	0.716
NZD	vs. USD	▼	0.62	0.65	0.669
RBA Official Cash Rate	%	▲	3.35	3.10	0.10
NZRB Official Cash Rate	%	▲	4.75	4.25	1.00

Source: *Bloomberg, MLA, Rabobank 2023*

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