Seasonal conditions on the improve

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Rabobank

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This report is based on information available as at 7/8/2025

Commodity outlooks

Climate
There was a meaningful improvement in seasonal conditions in July. According to the Bureau of Meteorology, key regions in South Australia and Victoria received significant rainfall, bolstering the outlook in these areas. The forecast is favourable for rainfall in the next three months.

Wheat and barley
Wheat prices softened in July as favourable harvests in the Northern Hemisphere eased supply concerns. Trade deals and record US corn forecasts added pressure to the competitiveness of Australia's feed and milling grain.

Canola
Strong global supply and stable canola harvests in Europe and Canada are keeping oilseed prices steady. Moving forward, geopolitical developments could reshape trade flows and influence price direction.

Beef
Cattle prices continue to edge higher with cull cow prices leading the charge supported by US demand for lean trim. This demand could increase in the coming months due to the additional tariffs imposed on Brazil, which would provide ongoing support for Australian cattle prices.

Sheepmeat
Lamb availability remains uncertain. After reaching record levels, RaboResearch believes finished lamb prices have reached their seasonal peak. With slaughter numbers contracting, prices will ease as processors adjust their kill volumes.

Wool
Wool prices found good support month-on-month amid weakness of the Australian dollar. However, the latest data from the Australian Bureau of Statistics (ABS) was disappointing.

Cotton
US futures continue to track lower as concerns around US production ease and the Brazilian harvest is firmly underway. Recent weakness in the Australian dollar is likely shielding Australian cash prices from some of the downward pressure.

Farm inputs
Fertiliser prices continued to track higher in July, with urea leading the way (+11% MOM). Despite easing tensions in the Middle East, global supply and demand remains tight, particularly in the urea and phosphate markets.

Dairy
Commodity prices were mostly weaker across the dairy complex through July. Fundamentals have shifted gear slightly, with milk supply growth accelerating across major production regions, supported by high milk prices, affordable feed, and a bounce back from disease outbreaks.

Consumer foods
Australian food inflation moderated in Q2. Food prices rose 3% YOY, compared to 3.2% in the previous quarter. This rate remains above long-term average. While retail sales bounced in June, the foodservice channel was sluggish.

Interest rate and FX
The RBA held the cash rate unchanged in July, but a cut in August is likely after a benign inflation report. The US has confirmed that Australia will continue to face the 10% minimum reciprocal tariff rate.

Oil and freight
Oil prices lifted for a third consecutive month in July, as US president Donald Trump threatened secondary sanctions against buyers of Russian exports (including oil) should Russian president Vladimir Putin fail to agree to a ceasefire in Ukraine. Trump has given Putin less than two weeks to agree to terms.

Climate

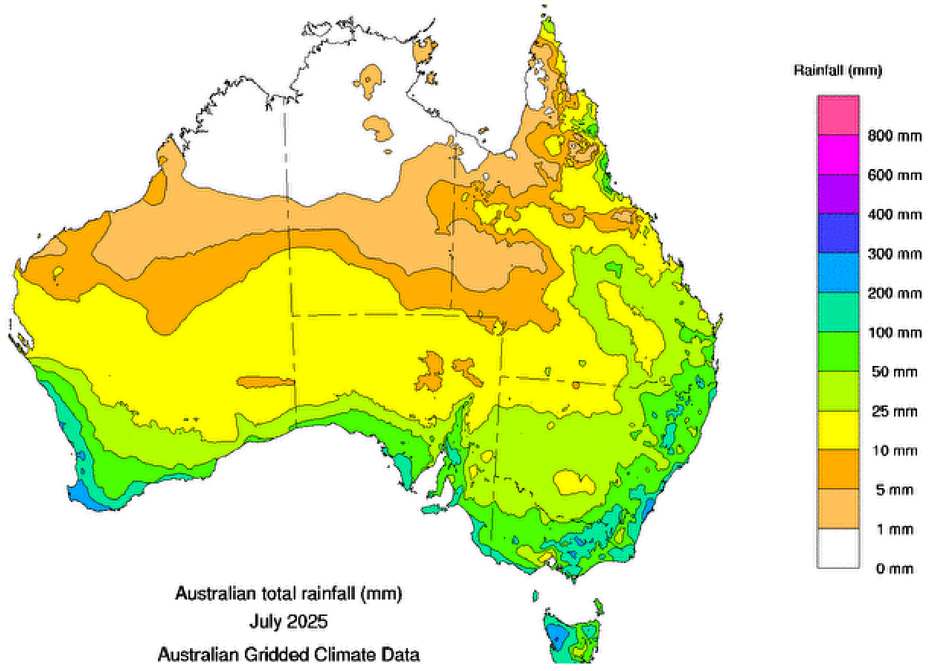
Seasonal conditions improved in July

There was a meaningful improvement in seasonal conditions in July. According to the Bureau of Meteorology (BOM), key regions in South Australia and Victoria received significant rainfall bolstering the outlook in these regions.

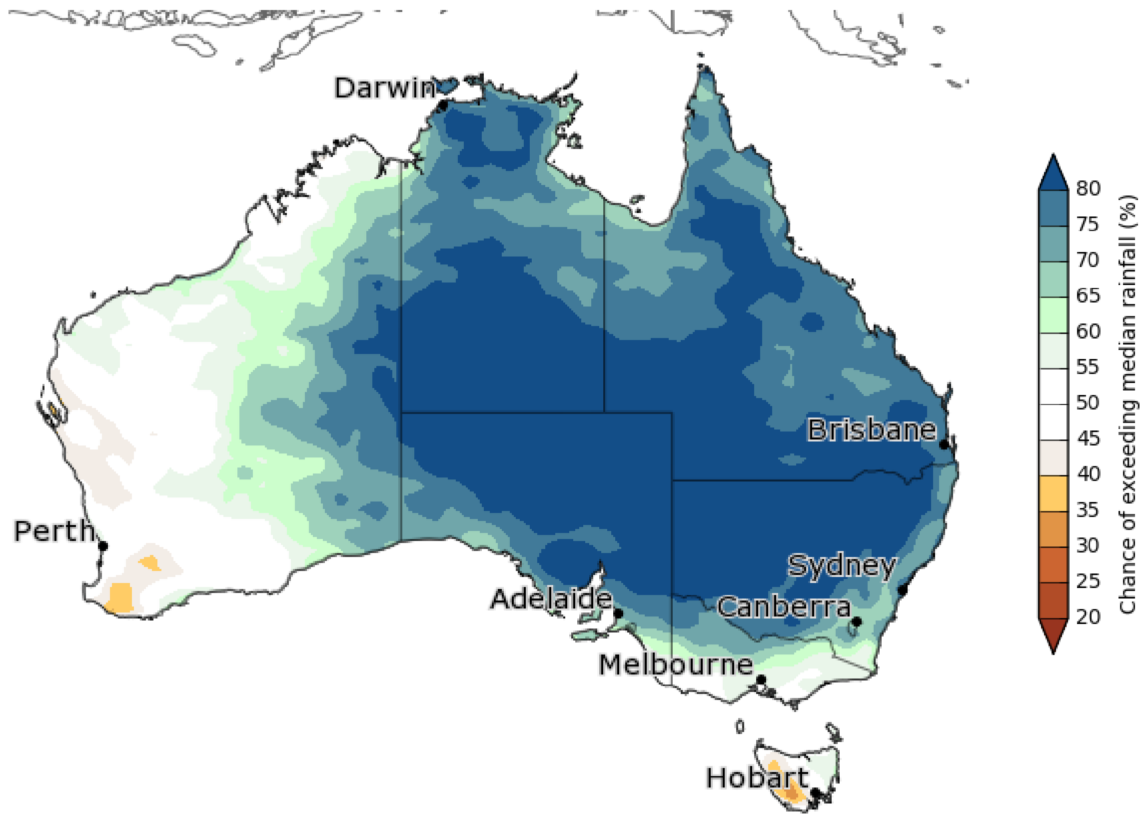
The BOM August to October forecast is favourable for rainfall in the three months period for most of the mainland. This is welcome news for the sector.

The widespread rainfall has improved the subsoil moisture profiles across many parts of the country.

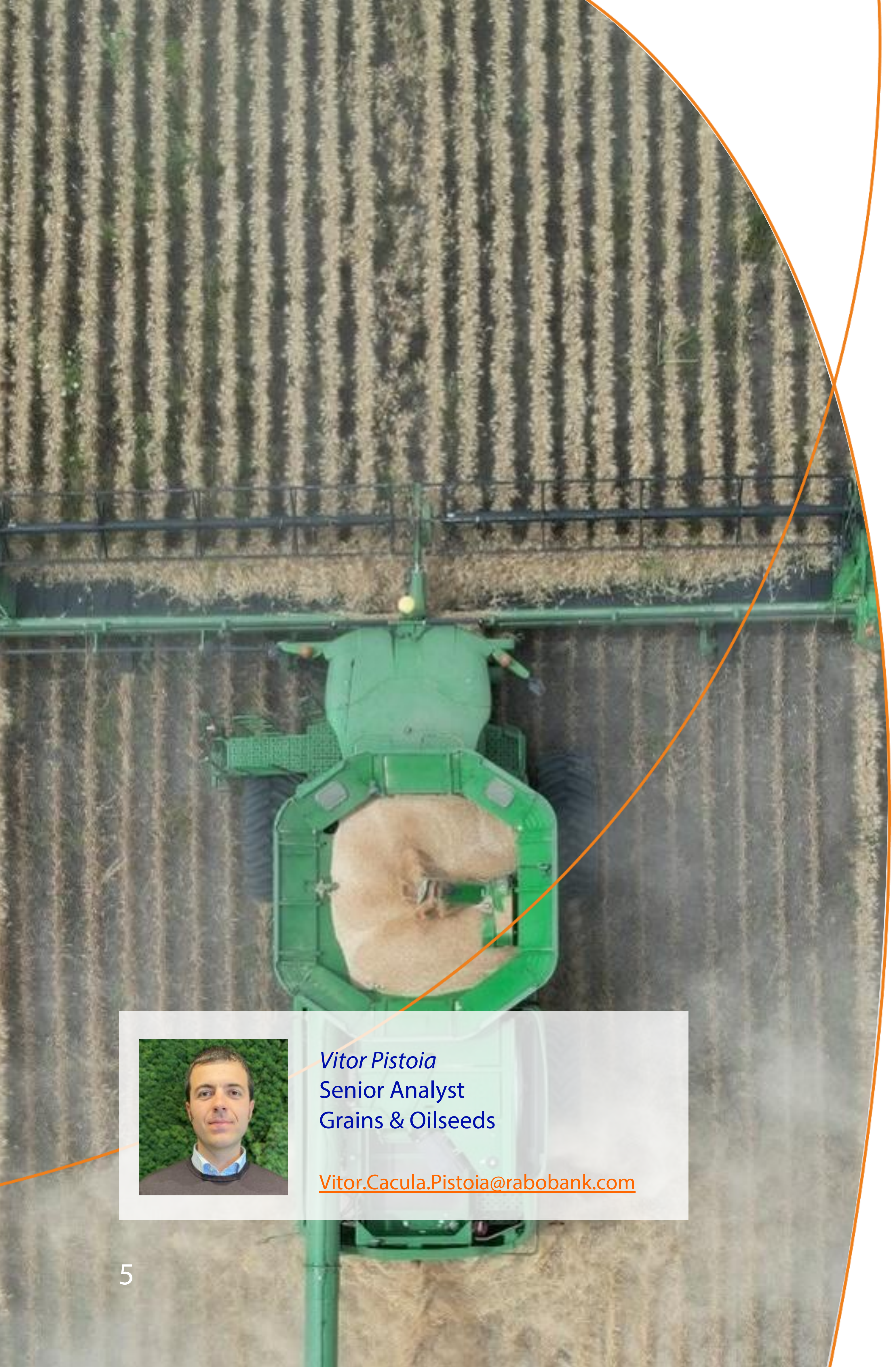
Rainfall, July 2025



August to October 2025 rainfall outlook



Source: *BOM 2025*



Wheat and barley

Northern Hemisphere harvest weighs on prices

Wheat prices eased in July as Northern Hemisphere harvests progressed well and supply concerns faded. **Timely rainfall and cooler temperatures supported spring wheat grain filling in both the US and Canada.** As a result, the Minneapolis Dec/25 futures contract fell 4.9% MOM to AUD 338/tonne. In Europe, harvesting advanced without significant changes in total production. The MATIF Dec/25 contract declined 1.9% MOM to AUD 362/tonne, further pressured by Russia's decision to remove its export duty. With little incentive to hold grain, **Russian farmers are expected to keep markets well supplied through 2H 2025.** Locally, the ASX Jan/26 contract followed the global downturn, falling 1.5% MOM to AUD 334/tonne.

Barley and other feed grains face additional headwinds from a projected record US corn crop of 399m tonnes in 2025 – potentially 10m tonnes above the 2023 record. Recovery in EU corn and barley crops this year adds to the bearish tone. CBOT spot corn fell 6.6% MOM to AUD 218/tonne, which hinders Australian feed barley export potential. For instance, **Geelong spot feed barley at AUD 321/tonne is 47% above CBOT corn on a FOB basis – a decile 7 price spread by historical comparison.**

The global cereals outlook remains clear: **Ample supply is expected in the coming months, and prices are unlikely to rise unless there is a major new shift in fundamentals**. On the geopolitical front, trade agreements between Asian nations and the US could erode Australia's market share in the region. Indonesia signed a memory of understanding to import 1m tonnes of US wheat annually, and Bangladesh has followed suit with an agreement for 0.7m tonnes – both aimed at easing tariffs. While Bangladesh is a minor wheat market for Australia, Indonesia is a key buyer, accounting for over 15% of total wheat exports between 2020 and 2024.

Another consequence of trade deals is seen in grain processing. A UK wheat bioethanol plant is set to close, reportedly losing GBP 3m per month, as the UK shifts to importing cheaper US ethanol following the UK–US trade deal signed in May. **Any drop in demand is unwelcome news for an already well-supplied global wheat market, with implications for Australian exports.**

What to watch:

- **Australia's rainfall -** After a very late season break in South Australia and Victoria, July brought above-average rainfall, replenishing soil moisture across most regions. If forecasts for continued rainfall in the eastern states and South Australia hold, Australia's national wheat crop could exceed 32m tonnes, adding further supply to an already pressured global market.
- **Russian wheat exports and sabotage –** Russia introduced stricter controls on foreign vessels entering its ports following sabotage incidents involving Russian oil tankers. While this is expected to cause minor delays in grain loading and exports, the situation could escalate quickly as the war in Ukraine continues and both sides seek new ways to harm each other.

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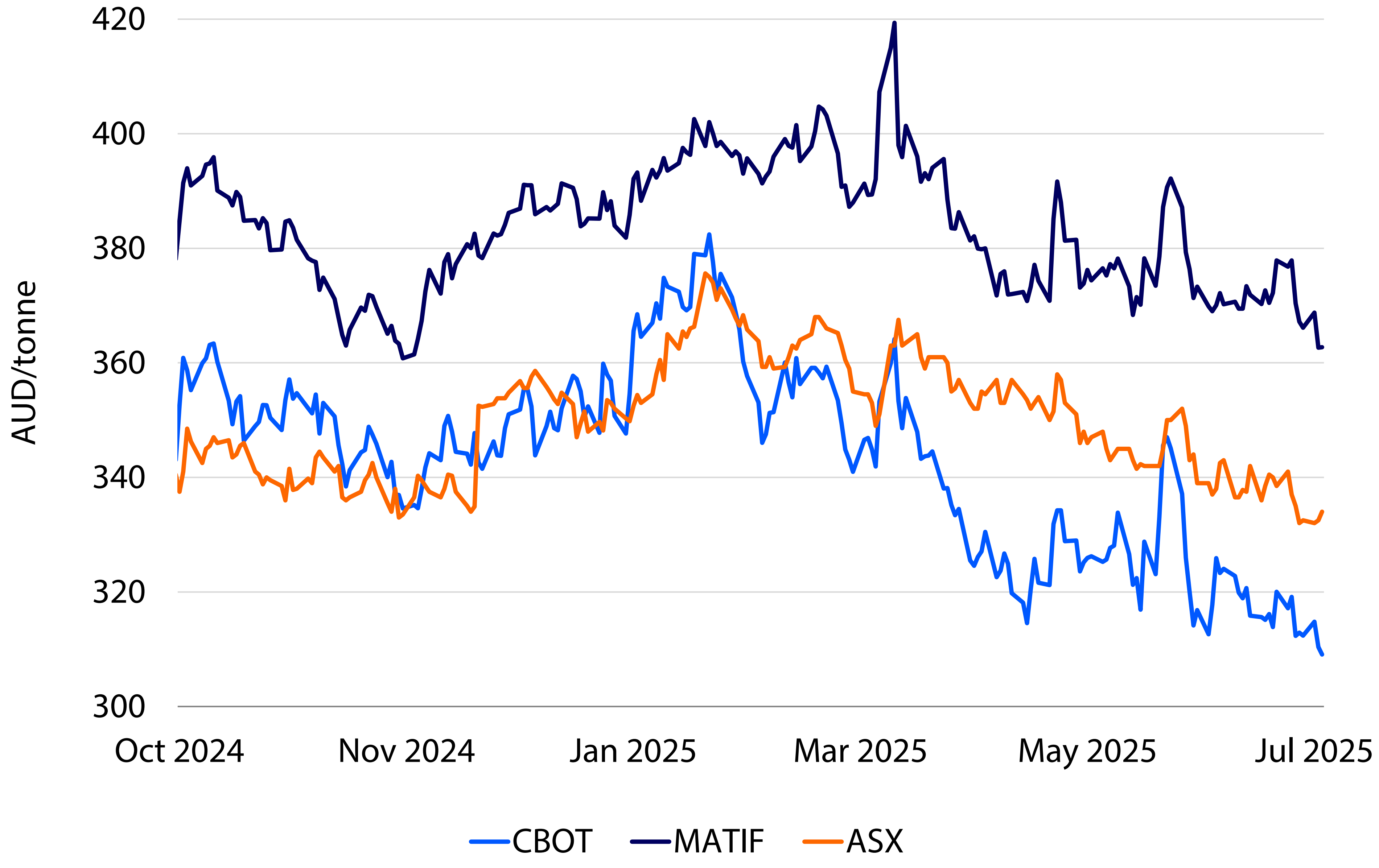
Wheat and barley

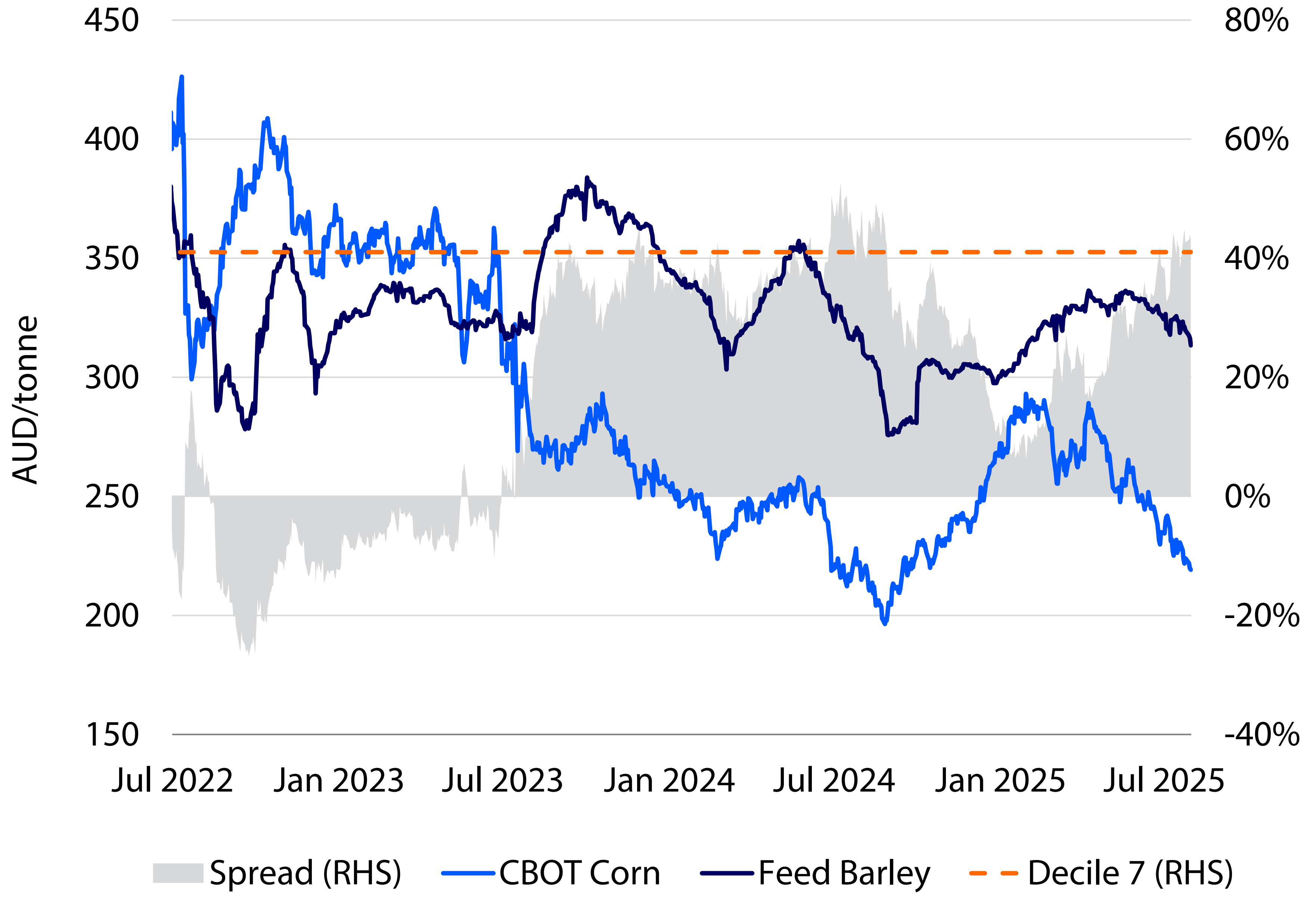
Prices under pressure from a strong supply outlook

New crop contracts continue to fall as the outlook points to a well-supplied market

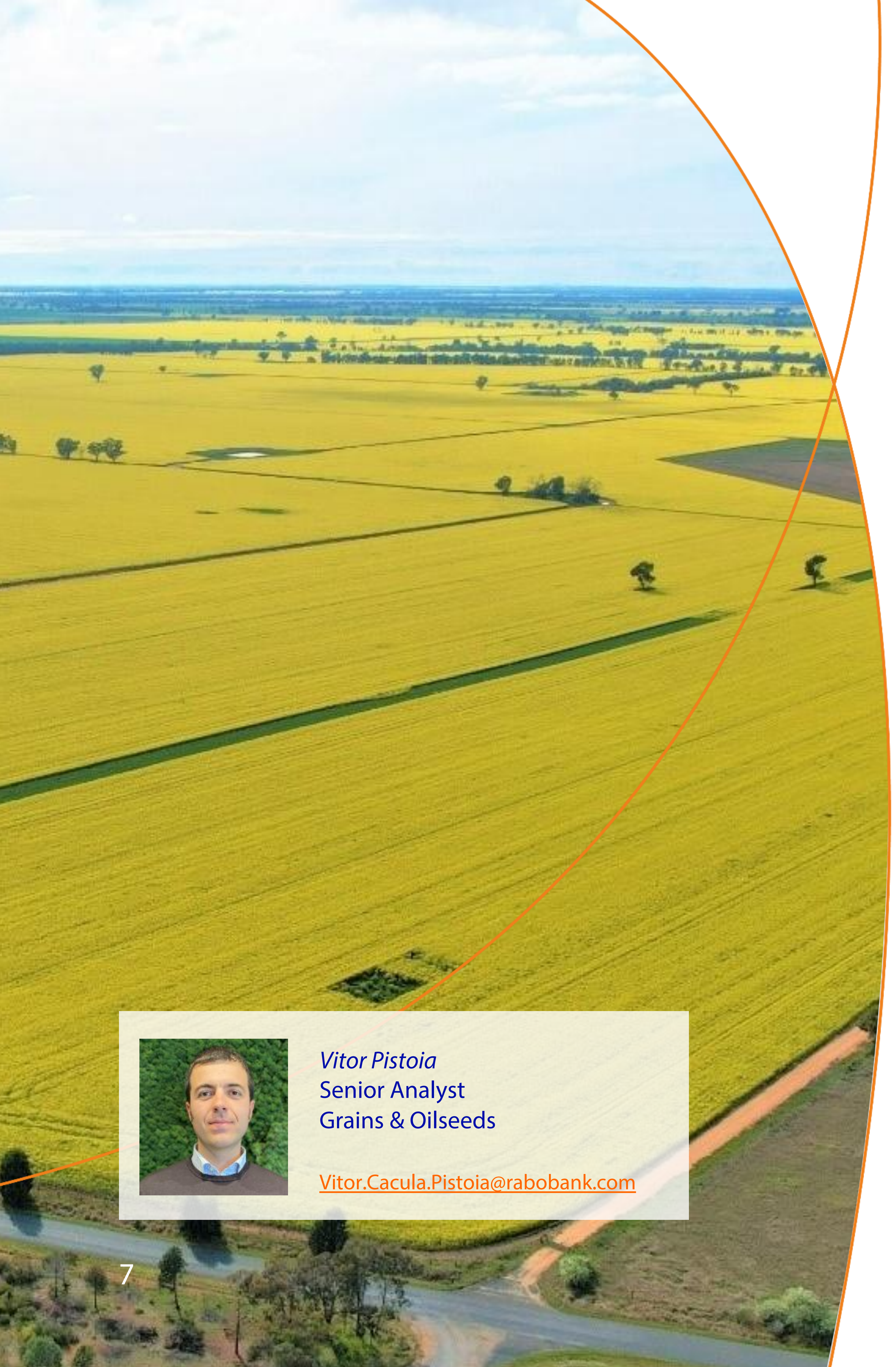


Note: *New crop contracts reflect the ASX January 2026 contract, while CBOT and MATIF reflect the December 2025 contract.*
Source: *Bloomberg, RaboResearch 2025*

Feed barley prices would need to fall significantly to remain competitive with CBOT corn



Note: *Feed barley prices represent the port price weighted average across all states.*
Source: *Bloomberg, RaboResearch 2025*



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Canola

Despite all, 2025/26 supply appears solid

The canola harvest is underway in Europe with no major drawbacks, and total supply estimated at around 19.0m tonnes – 1.2m tonnes above the five-year average. In Canada, crop conditions are holding up well following improved rainfall in late July. While the 2025 crop may be 0.6m tonnes short of the five-year average of 18.4m tonnes, the latest Agriculture and Agri-Food Canada report stated that "canola exports reported by the Canadian Grain Commission are outpacing last year by 51% with steady producer deliveries, indicating there is still inventory being moved off-farm." This could offset the supply shortfall this year. With key canola producers holding sizeable crops and replenishing their stocks, prices have been relatively stable over the past 30 days. The **MATIF Feb/26 contract fell by just 0.4% to AUD 868/tonne**, while the ICE Mar/26 contract dropped by 1.2% to AUD 799/tonne.

Despite strong demand for soybean oil – driven by rising US biofuel mandates – ample global soybean stocks and the prospect of another large US crop continue to weigh on oilseed prices globally. **Given this solid oversupply outlook, price movements in the coming months are expected to be heavily influenced by geopolitics.**

In early July, during the Australian prime minister's visit to China, it was announced that **China would ease canola import requirements and accept five trial shipments** with screenings capped at 1.0%. No further updates have followed, and Australian prices have continued to track global trends. For instance, Geelong non-GM canola dropped 3.4% to AUD 724/tonne during July. Still, this development highlights how quickly trade dynamics can shift with diplomatic moves. Opening the Chinese market could prove a major support factor for Australia. In 2024, China imported 6.4m tonnes of canola seed, 96% of which came from Canada. Meanwhile, Australia exported 51% of its 6.2m tonnes to non-European destinations. **While global trade flows are not easily redirected by handshakes, 2025 has already shown that unexpected decisions can reshape markets and influence prices.**

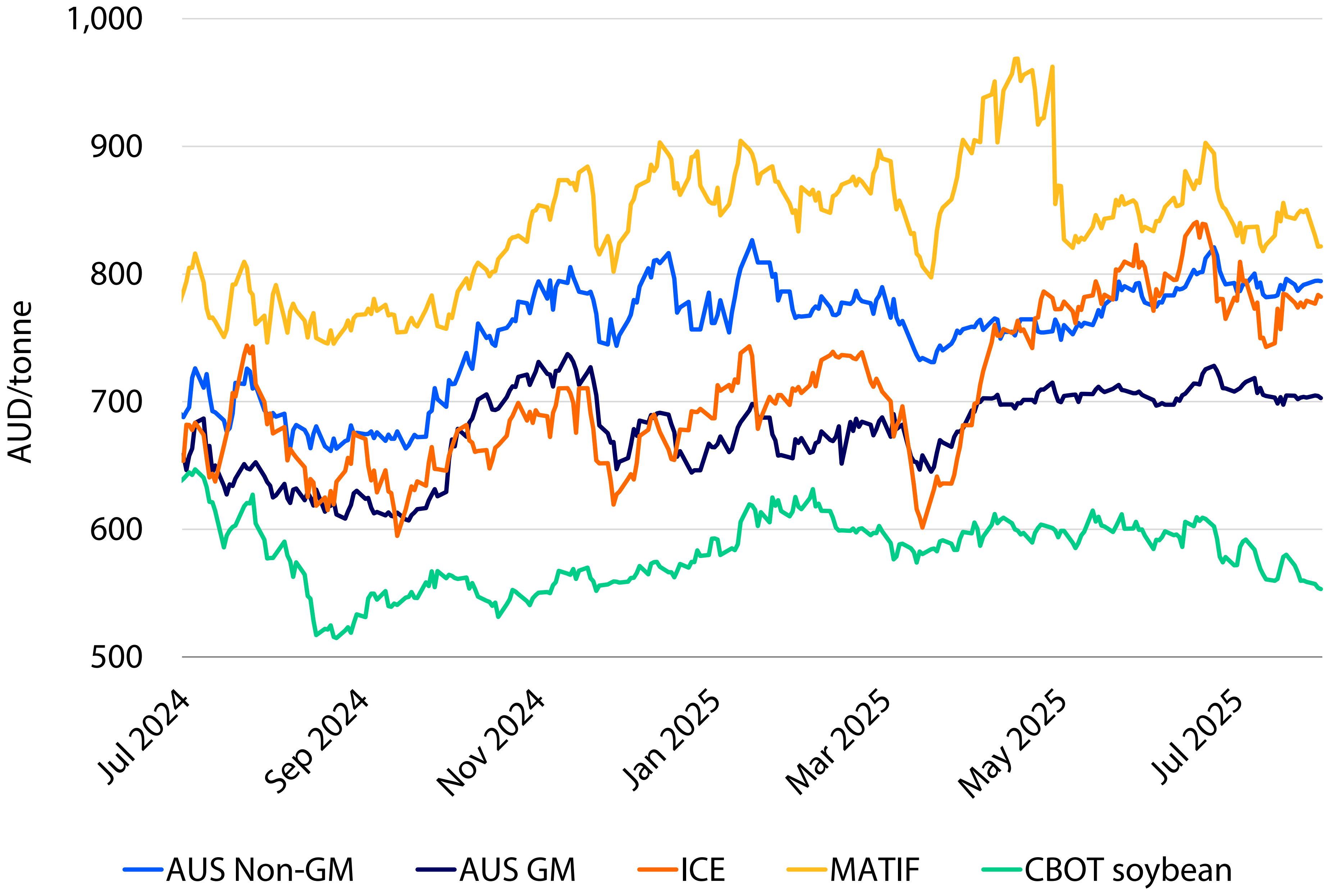
What to watch:

- **Black Sea dryness and locusts –** Hot and dry conditions in south-east Ukraine, southern Russia, and Bulgaria are threatening sunflower yields, and Ukrainian farmers face added pressure from locust swarms, which are damaging crops. EU sunflower crushing typically ranges between 5m tonnes and 6m tonnes annually, forming a key part of the region's vegetable oil supply.
- **Canada's harvest kick off –** Although Canada's official 2025/26 canola forecast stands at 17.8m tonnes, late July rainfall and cooler temperatures could give yields a last-minute boost, with some models pointing to nearly 19m tonnes. This would more than offset Ukraine's expected 0.7m tonne year-on-year decline.

Canola

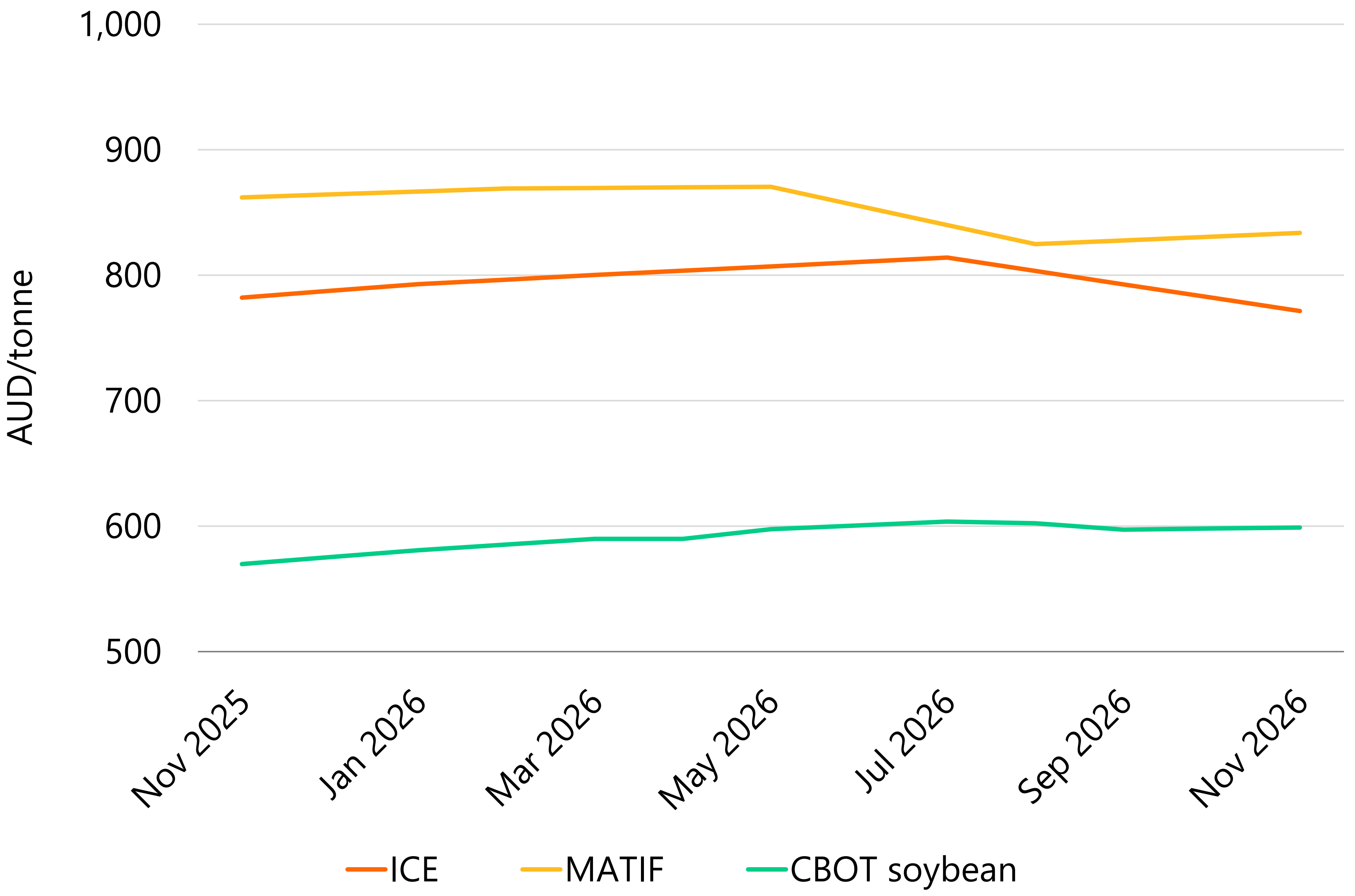
Rangebound spot and future oilseeds prices globally

As the Northern Hemisphere harvest progresses, spot prices tend to remain range-bound…



Note: *Australian prices reflect the weighted average across all states.*
Source: *Bloomberg, RaboResearch 2025*

… mirroring 2026 futures contracts, which are showing only a modest carry for Australia's 2025 crop marketing period



Source: *Bloomberg, RaboResearch 2025*

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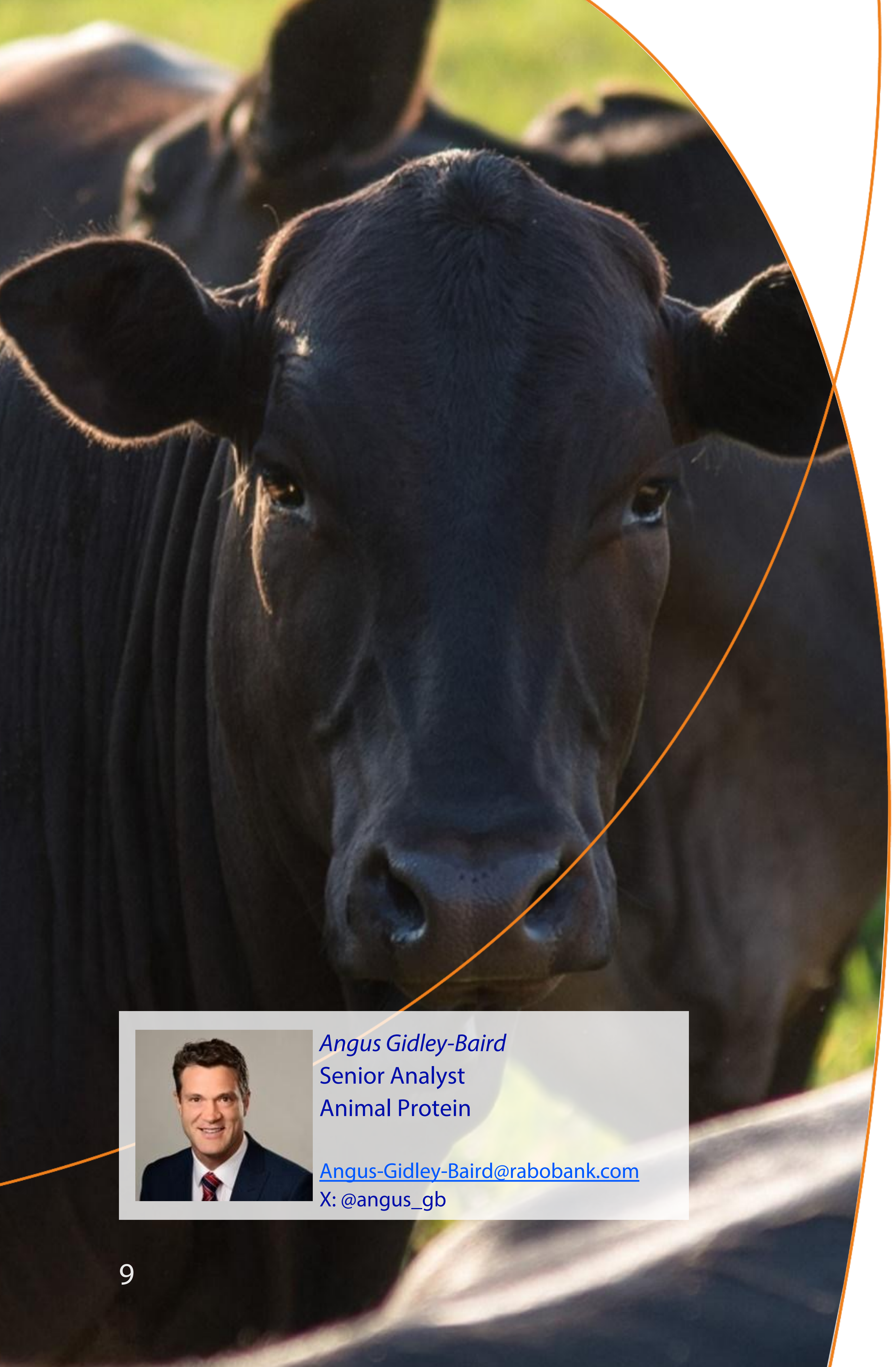

Beef

Domestic market steadily improving, all eyes on the US

National cattle prices continue to trend upward with feeder steer and processor cow prices leading the way. Processor cow prices – no doubt reflecting the US demand for lean trim – have moved above AUc 350/kg, now exceeding feeder cattle prices from two months ago. With the US now imposing a 50 % tariff on Brazil (in addition to the 26.4% most-favoured-nation tariff), there is the possibility that US import prices for lean trim will rise further, potentially driving increased demand for processor cows. The normal drop in Australian cull dairy cow slaughter will also tighten domestic lean trim supply. The national young cattle indicator was at AUc 432/kg on 31 July – up 13% MOM. **With favourable rainfall forecasts for much of the country over the coming months, and good pasture biomass volumes in most cattle areas – although pasture growth may be more limited in some areas – RaboResearch believes cattle prices will continue to edge higher over the coming months, with processor cow prices likely showing the strongest gains.**

National weekly cattle slaughter continues to trend along slightly above 150,000 head per week. **RaboResearch does not expect slaughter numbers to change much in the near term, given the abundant cattle supply, particularly in northern states.**

Export volumes (150,435t swt) set a new monthly record in July – a substantial 12% increase on the previous record set in June, capitalizing on the record beef production volumes. However, such high volumes bring Australia close to triggering several trade agreement safeguards. According to industry reports, the safeguard for China (208,300 tonnes) was reached in late July, allowing China to impose the 12% most-favoured-nation tariff on Australian beef imports. At current export rates, safeguard thresholds for South Korea (192,206 tonnes) and the US (449,482 tonnes) are also likely to come into play in the coming months. Although importing countries have limited alternative sources for beef, triggering these safeguards could increase the cost of Australian product and potentially disrupt processing demand as exporters try and manage volumes into export markets.

What to watch:

- **US lean trim import prices** – In late July the US imposed a new 40% tariff on Brazil, adding to the 10% tariff introduced in April. According to industry sources, this is in addition to the existing 26.5% most-favoured-nation tariff imposed under the existing trade arrangements, bringing the total tariff on Brazilian beef going to the US to 76.5%. This level is believed to make the Brazilian product cost-prohibitive in the US market, potentially opening up further opportunities for Australian beef. The challenge lies in the limited ability for Australia to increase exports, and the safeguard threshold (449,482 tonnes,) which Australia is approaching. Beyond this threshold higher tariffs may apply. Another factor is how much Brazilian beef is currently in storage in the US, which may be released in the coming weeks, and whether other South American countries will be called upon to meet US demand.

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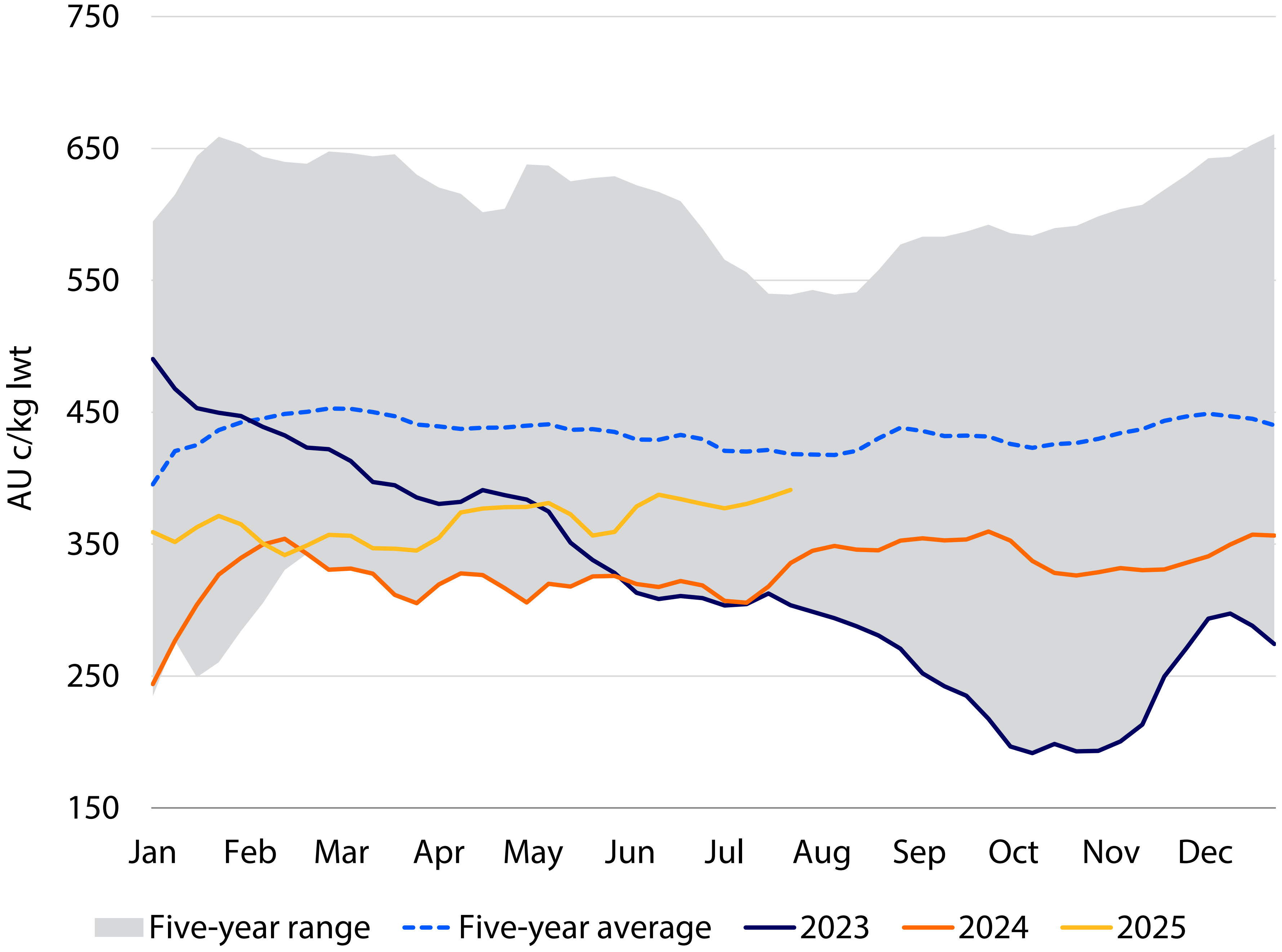
Beef

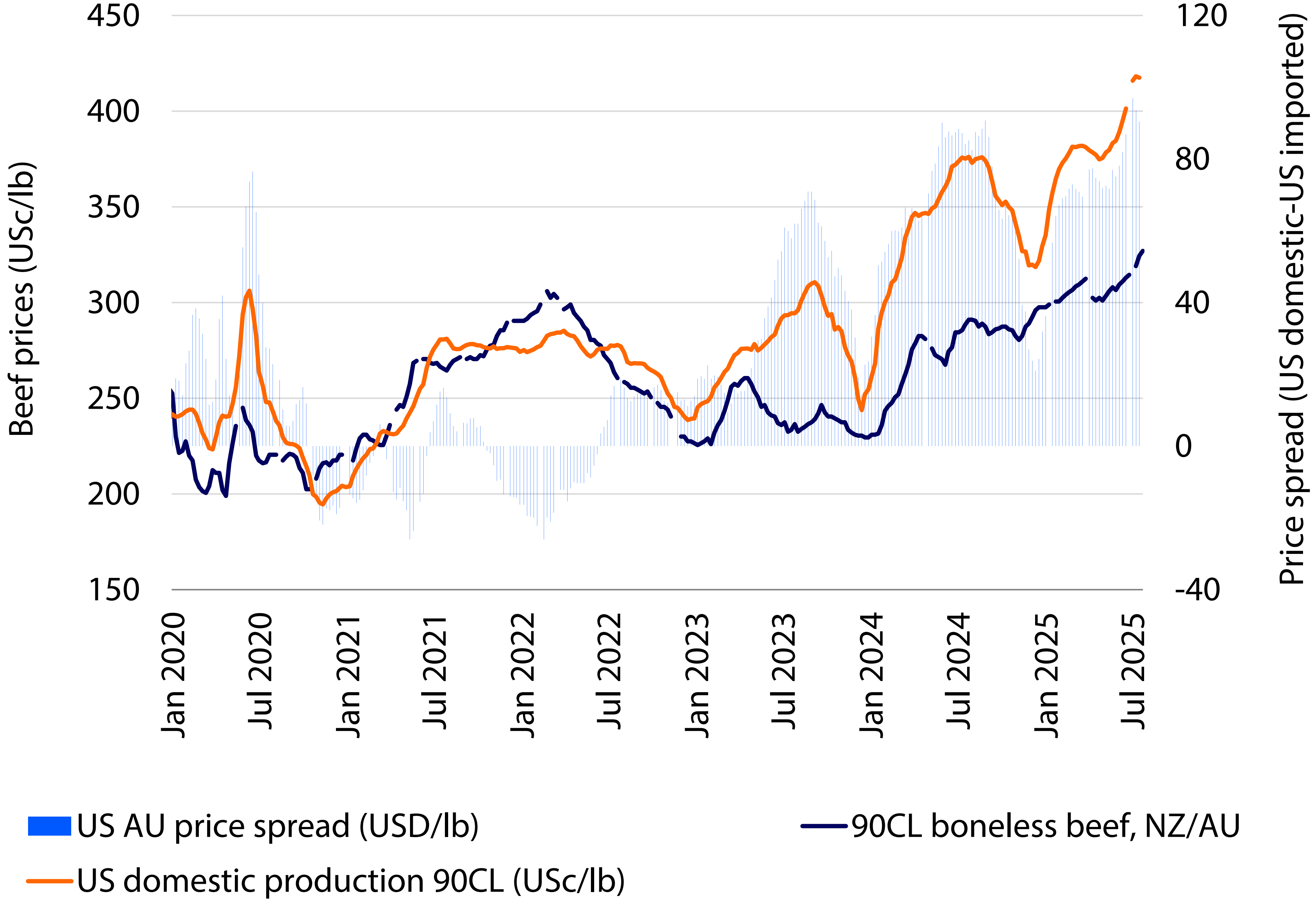
Australian cattle prices continue to trend upward as opportunities open up in the US market

NYCI continues to edge higher



Source: *MLA, RaboResearch 2025*

Reduced Brazilian beef may see prices for imported Australian beef lift



Source: *USDA, RaboResearch 2025*

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Sheepmeat

Prices to ease as lamb supplies start to decline

National lamb and sheep prices have continued their rise to stratospheric levels. Trade and heavy lambs reached record levels, with many other categories very close to record highs. Trade and heavy lambs were up 44% and 40%, respectively in early August compared to the same time last year. This puts them at record highs of AUc 1190/kg and AUc 1171/kg, respectively, on 27 July. Meanwhile, mutton, restocker and merino lambs are close to the records set back in 2020, when the flock was in a rebuild phase. However, RaboResearch doesn't believe that we are in a rebuild phase as such, although recent rainfall across parts of southern Australia over the last month is more promising. More likely, the price surge is due to a shortage of lambs in the market and processors' desire to keep plants operating at high volumes. The record price for lambs paid in July was AUD 454 for lambs weighing between 85kg and 105kg – it's more important to keep the kilos running through the plants. What happens next with lamb prices will largely depend on processor decisions around plant processing throughput. Thomas Foods International (TFI) dropped a shift from its Lobethal plant in late July. If others follow suit, this would reduce processor buying activity and ease pressure on the market. **In that case, prices may respond similarly to 2019, when they dropped 30% between late July and December. On the other hand, if processors keep operating at full capacity and chasing lambs, prices could behave like last year, when they dropped less than 10% between late July and September** and then held steady through to year-end.

Both lamb and sheep slaughter have dropped dramatically since May. Weekly lamb slaughter is down from around 500,000 head to 370,000 in the last week of July. Sheep slaughter similarly fell from just under 200,000 per week to a low of 68,000 in late July – although it had lifted slightly in the last week of July. **While the data is difficult to interpret, RaboResearch believes these numbers more accurately reflect the current state of the flock and are likely to hold at these levels through August and into September.**

What to watch:

- **New season lambs** – A key uncertainty remains: how significant will any correction in lamb numbers be this new season. Over the past 18 months, Australia has slaughtered some of the highest volumes of sheep since the early 2000s. While there have been changes in flock composition and seasonal impacts on conception, fertility, and lamb survivability, it is hard not to expect a smaller lamb drop this season. Indications from Victoria suggest that, although ewe numbers are lower and fertility rates may have been down – with fewer twins – the conception rates and lamb survivability have improved. The question is whether this increased survivability will be enough to offset the lower sheep numbers and reduced fertility? We also need to keep an eye on seasonal conditions and feed availability. At present, conditions suggest that finishing lambs may take a little longer, although they may have got a head start by being singles rather than twins. There is still so much to unfold over the next couple of months.

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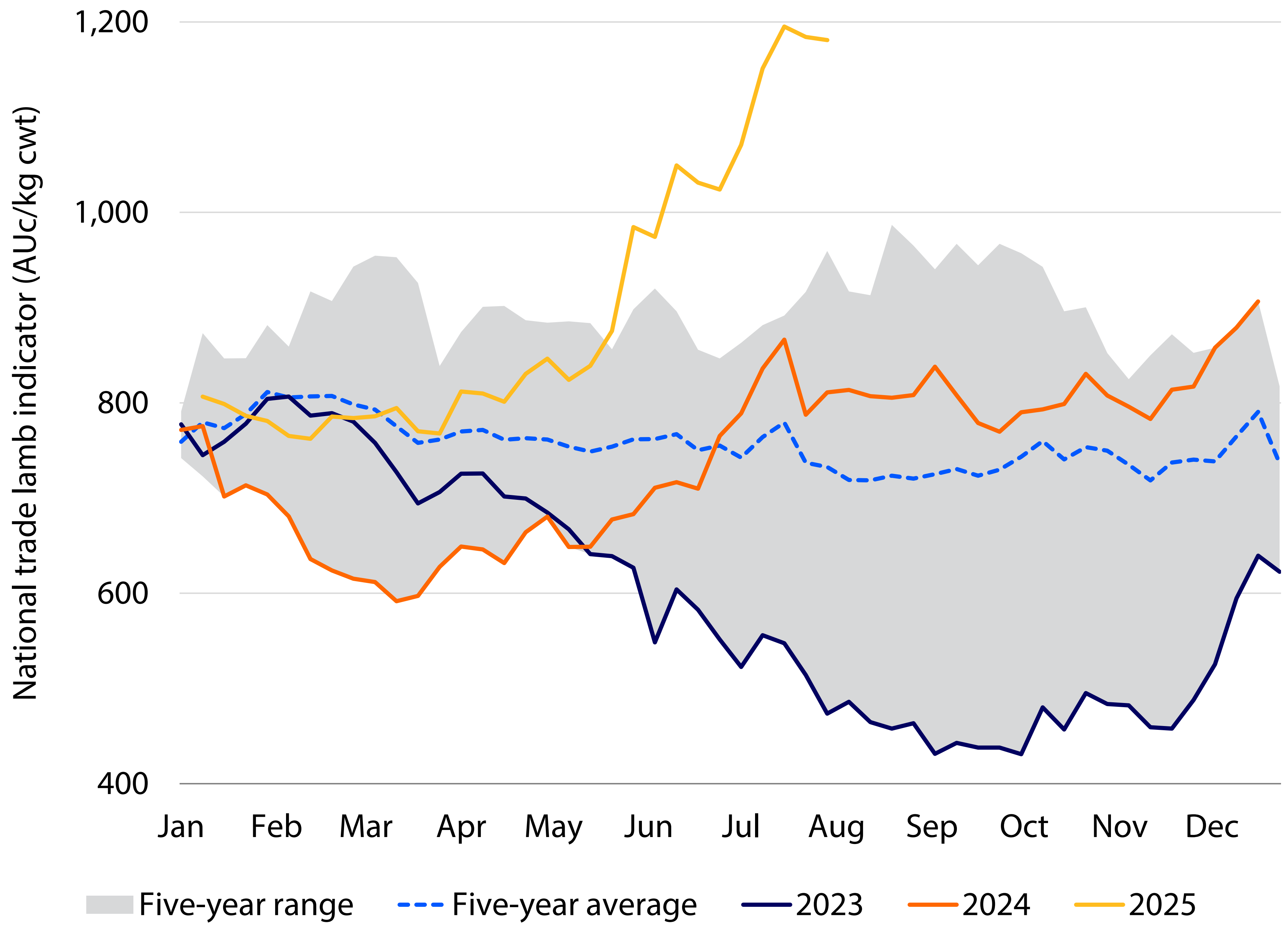
Sheepmeat

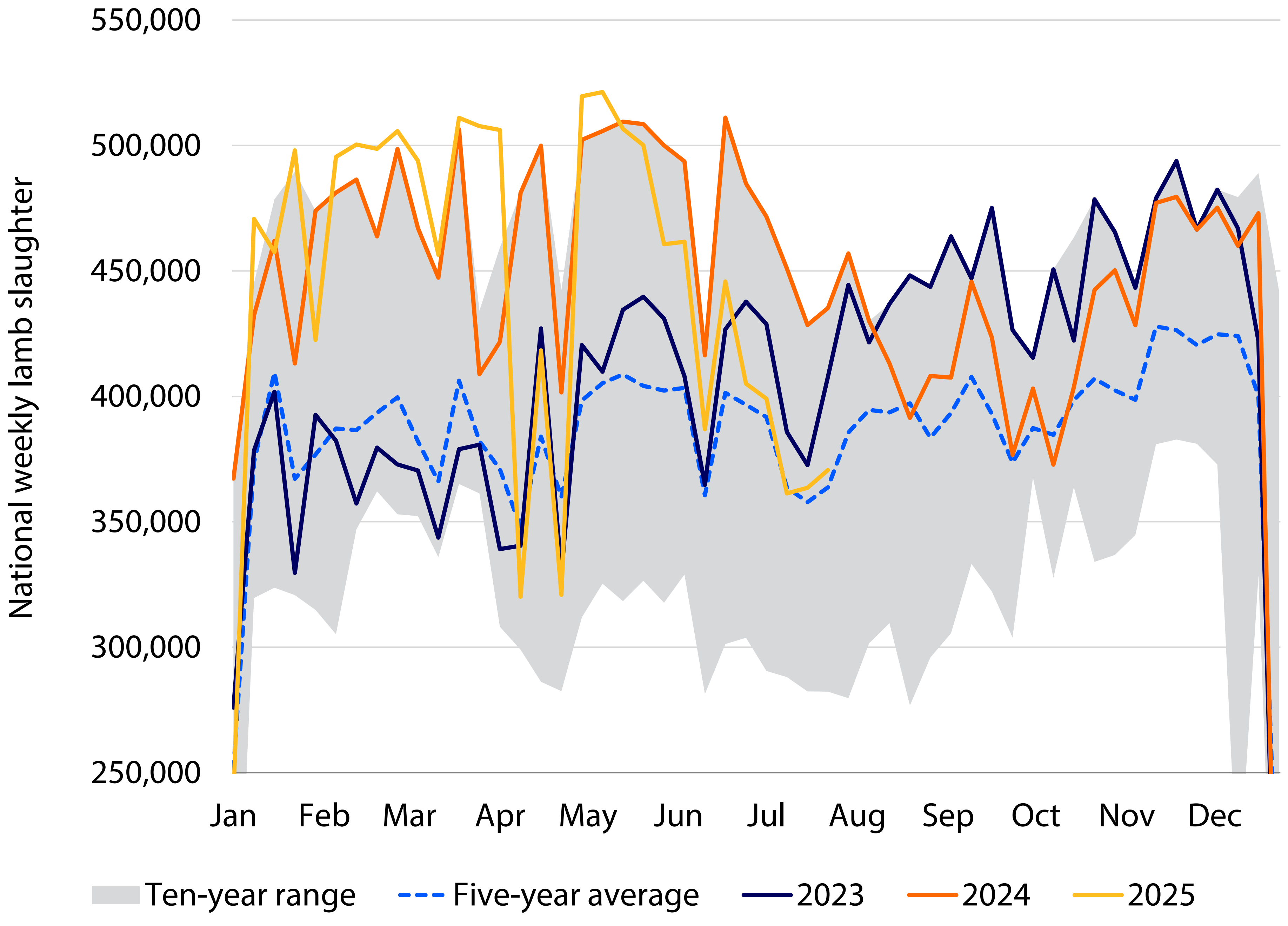
Lamb prices set new records as lamb supplies start to shrink

Another month, another record for the NTLI

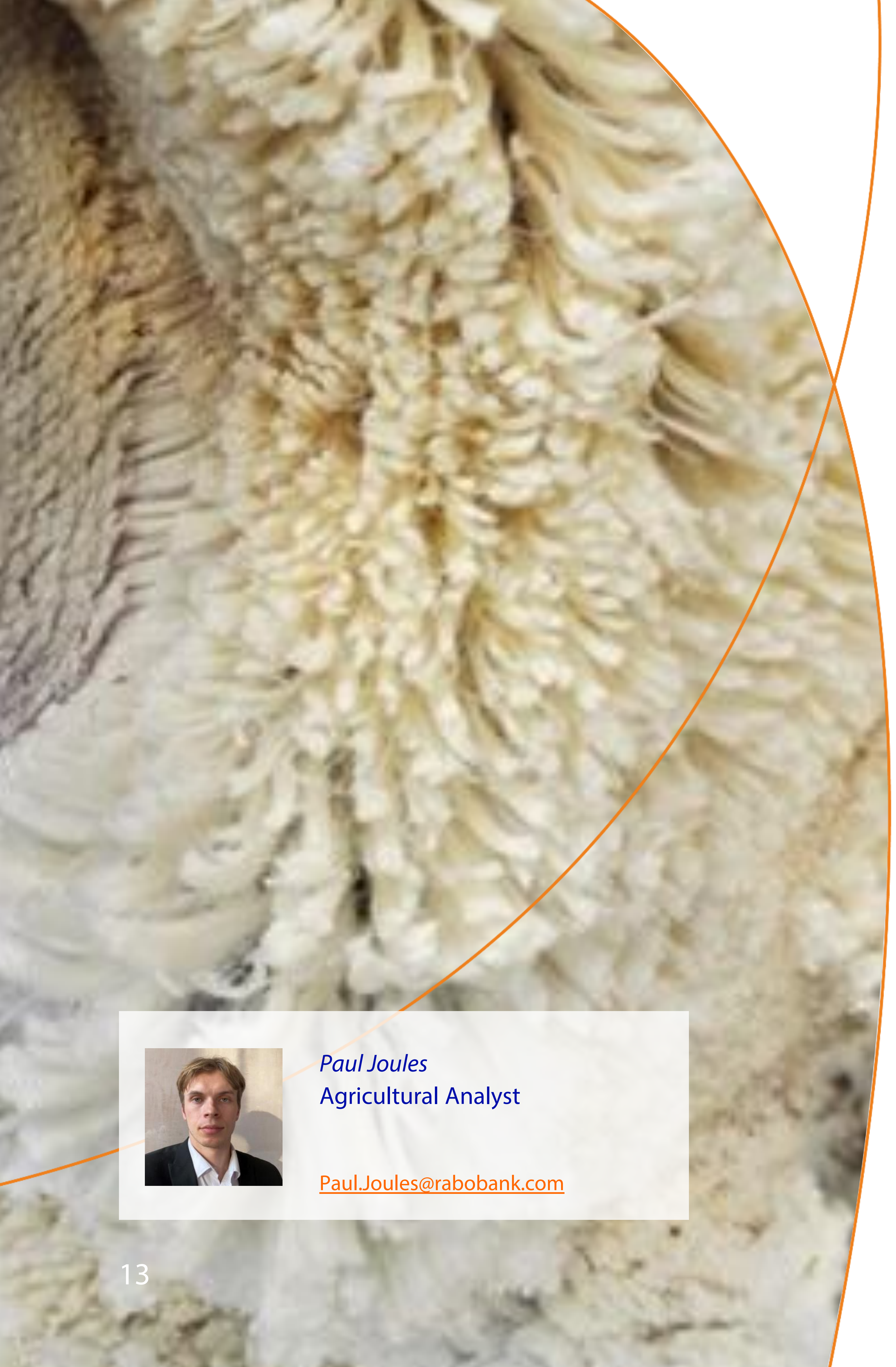


Source: *MLA, RaboResearch 2025*

Lamb supplies start to contract



Source: *MLA, RaboResearch 2025*



Wool

Wool prices edge higher as the Australian dollar falls

For wool markets, price movements have been positive over the past 30 days, with the Eastern Market Indicator reaching the AUD 12.4/kg level (+2.5% MOM). Meanwhile, the Western Market Indicator held relatively steady around the AUD 13.7/kg level. The weakness in the Australian dollar likely contributed to this recent price action, with the AUD/USD cross down 1.6% MOM – helping to garner interest from international buyers.

The latest ABS Australian export data (for May) was disappointing. Exports fell 27.6% MOM, with exports to China down a whopping 30% MOM. This puts year-to-date exports down 11.8% YOY, and exports to China down 11.6% YOY. Exports to India declined a much more modest 3% MOM in May. The only positives to take from the report were year-on-year increases in exports to Italy (+19.4%) and Czechia (+122.4%).

With a three-week recess now underway for Australian auctions (until 18 August), demand prior to the break appeared relatively strong. Given international exports are down, recent buying activity may reflect international buyers needing to replenish inventory ahead of the break. Hand-to-mouth buying has certainly been a theme of the past 12 months, with buyers seemingly happy to draw down wool stocks; however, this could result in stronger buying later in the year.

The big uncertainty remains Chinese demand, with the health of the Chinese economy playing a key role. Recent Chinese manufacturing data surprised analysts, showing a contraction in July month-on-month. This may be linked to tariff uncertainty, as some US orders could be redirected to other countries.

What to watch:

- **Chinese economic data will be key to keep an eye on, as will Australian dollar volatility.** Both factors will heavily influence wool markets.

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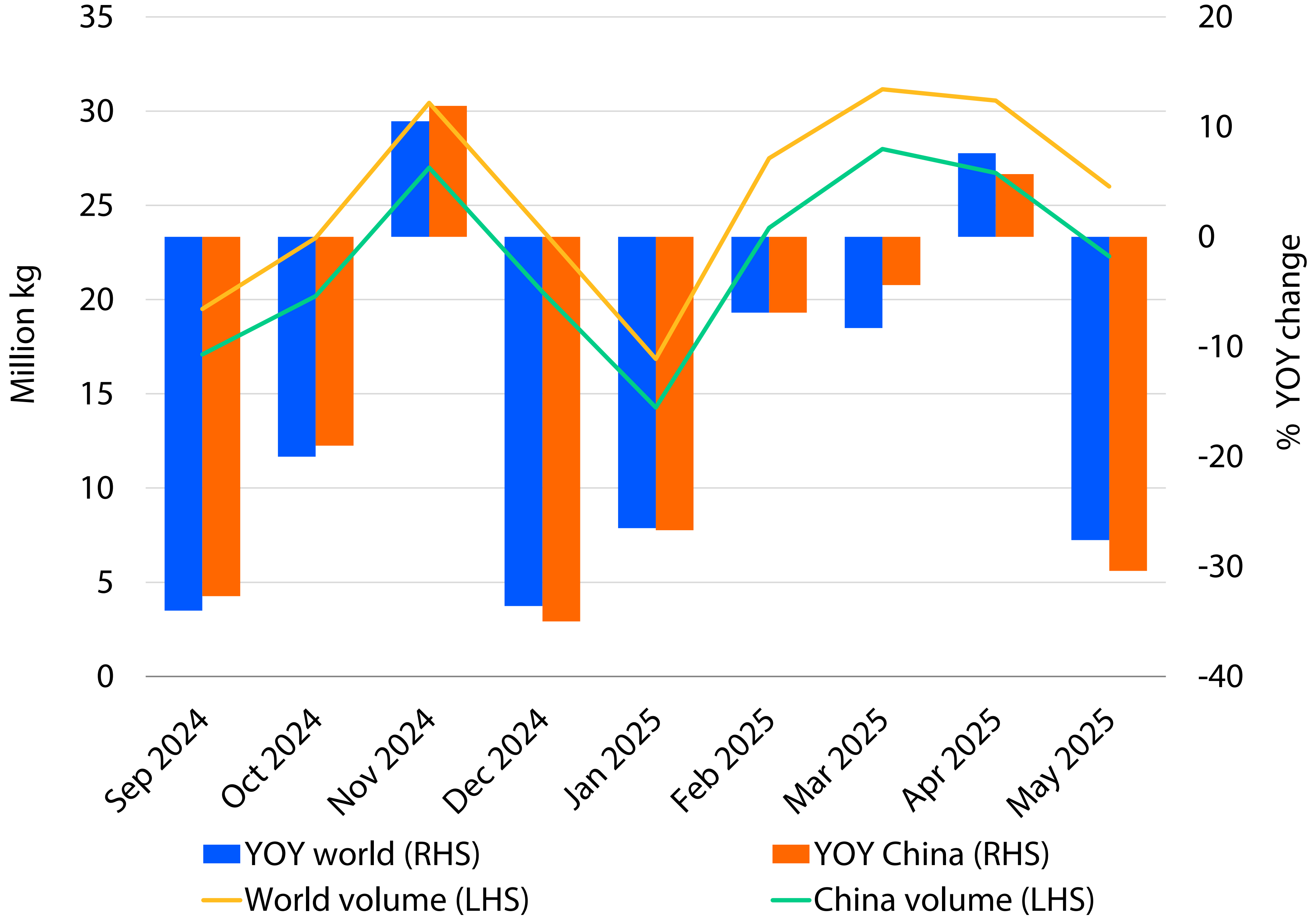
Wool

Australian dollar weakness supports wool prices in July

EMI prices push higher month-on-month

Source: Macrobond, RaboResearch 2025

May was a disappointing month for Australian wool exports (volumes exported)



Source: Macrobond, RaboResearch 2025

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Cotton

US cotton futures continue to track lower

Australian cash cotton prices remain under pressure, trading well below AUD 600/bale, as global supply continues to weigh on the market. ICE #2 Cotton futures declined by 2.8% MOM.

Earlier concerns around US production have eased, with the USDA's acreage report surprising to the upside for cotton. Weather conditions have also improved, with only 3% of the US cotton crop currently experiencing drought – the lowest level since 2019. However, US weather will remain a key factor in the coming months, with crop conditions closely watched as a potential swing factor for global supply. **In Brazil, the cotton harvest is progressing, with around 15% of the crop already collected.** Yields are strong, and output is expected to reach a record high. With robust Brazilian production and improving US prospects, the global market appears well supplied – barring any major weather disruptions.

On the demand side, uncertainty continues to cloud the outlook. While US production is no longer the main source of volatility, trade policy – particularly tariff concerns – is influencing sentiment. Many importers have adopted a cautious, hand-to-mouth purchasing approach. US clothing and textile demand remains a major driver of global cotton consumption, with significant volumes of finished cotton-containing products flowing from China to the US. Although trade negotiations between the US and China appear to be progressing, a permanent agreement has yet to materialise. Greater clarity could encourage international buyers to build inventories, supporting demand. For now, Chinese import demand remains weak year-on-year, likely due to strong domestic production and ongoing trade uncertainty.

Currency movements are another key factor for Australian prices. RaboResearch expects the AUD/USD exchange rate to appreciate over the next 12 months, potentially reaching USD 0.68 by year-end. A stronger Australian dollar could act as a headwind for local cotton prices.

What to watch:

- **Speculative fund positioning is influencing prices. Funds have held net short positions in US cotton futures for over a year –** an unusually long duration. Although these positions have been halved in recent months, they remain large enough to trigger a short-covering rally if a major catalyst emerges.
- **US weather will continue to be a source of volatility in the coming months.** While few areas are currently experiencing drought, a period of adverse weather in the next couple of months could still limit yield potential.

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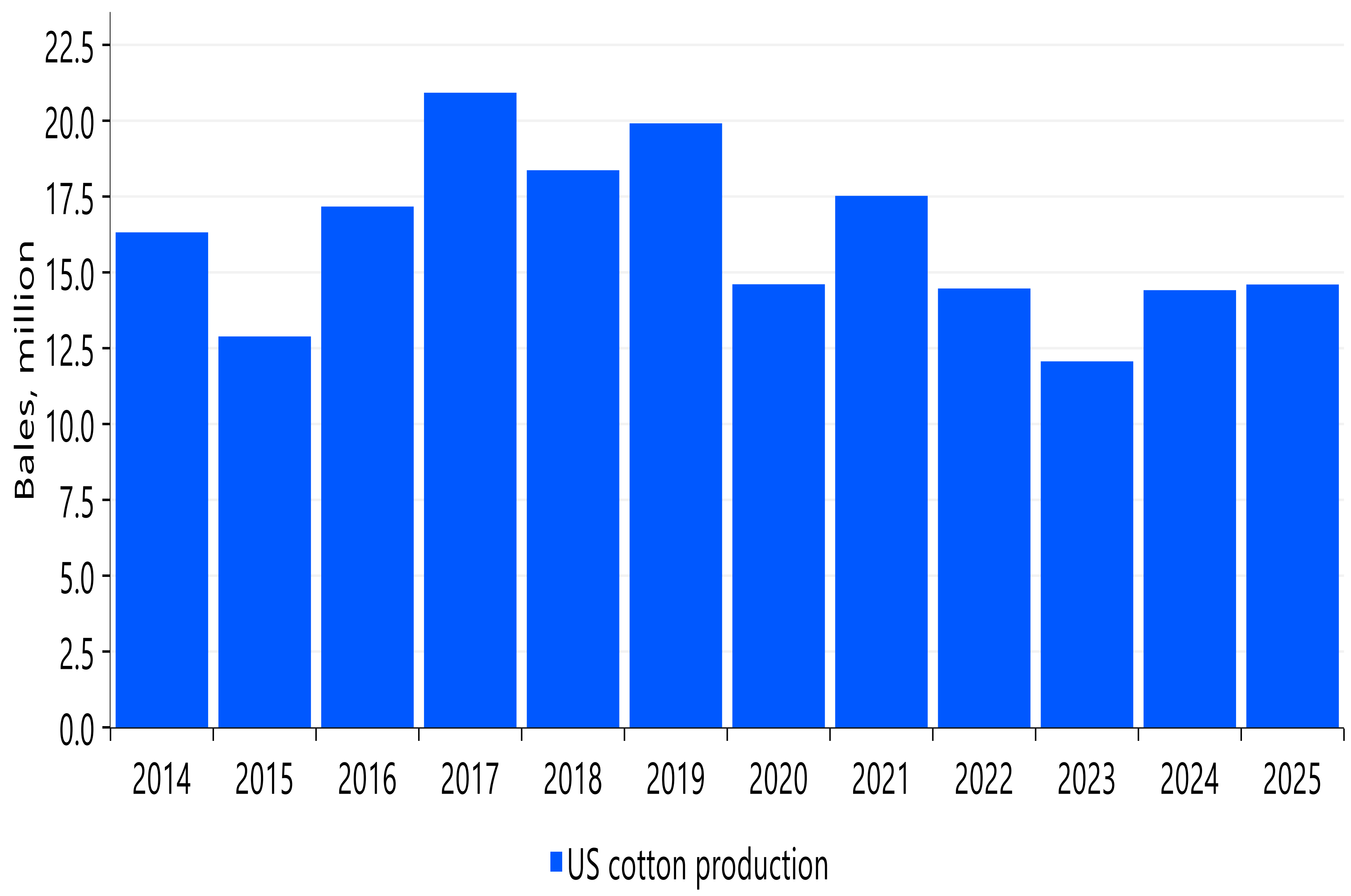
Cotton

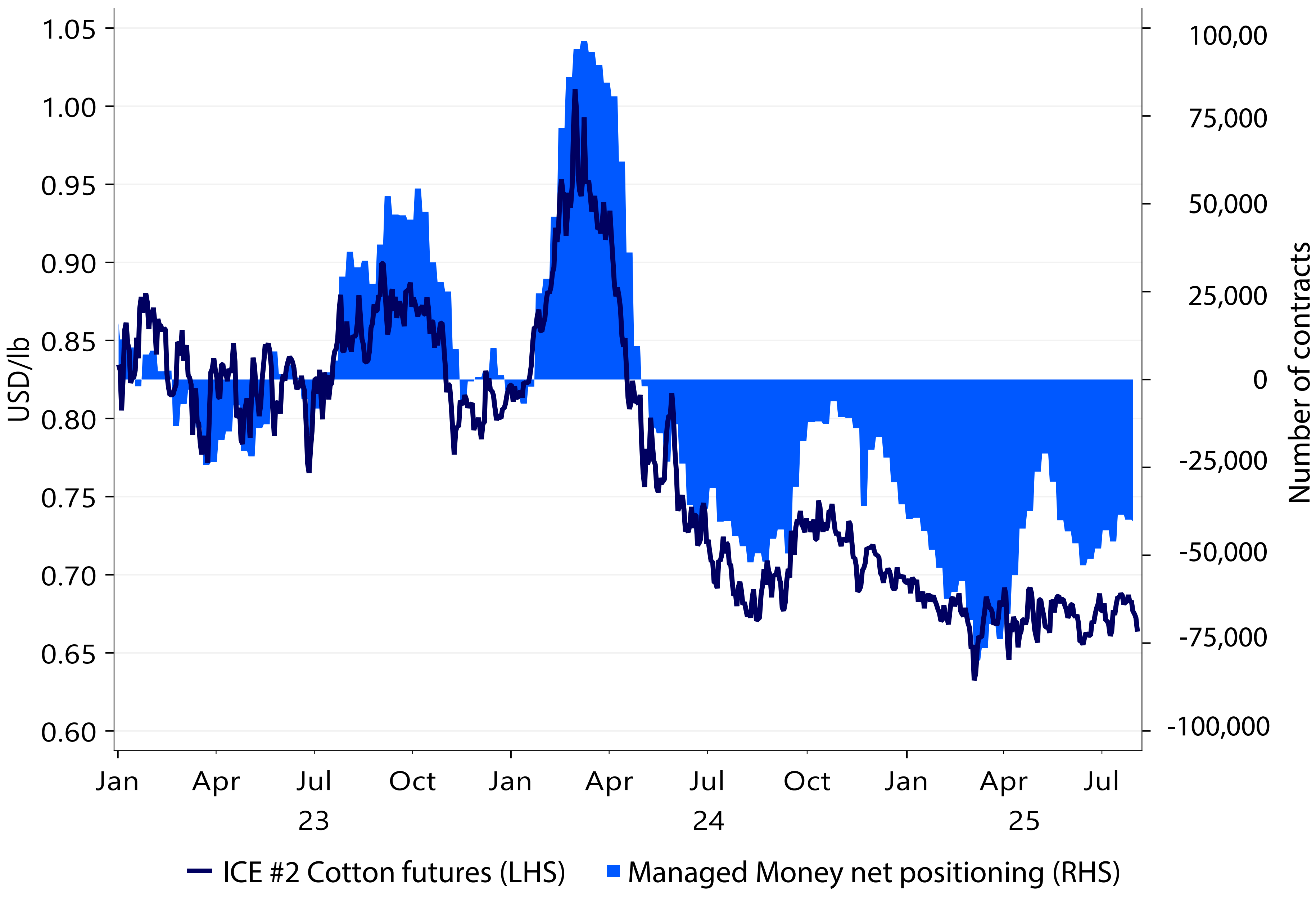
US futures decline amid an improving US outlook

US cotton output is expected to be marginally higher year-on-year in 2025



Source: *Macrobond, RaboResearch 2025*

Despite recent selling, funds continue to hold a sizeable net-short position



Source: *Macrobond, RaboResearch 2025*

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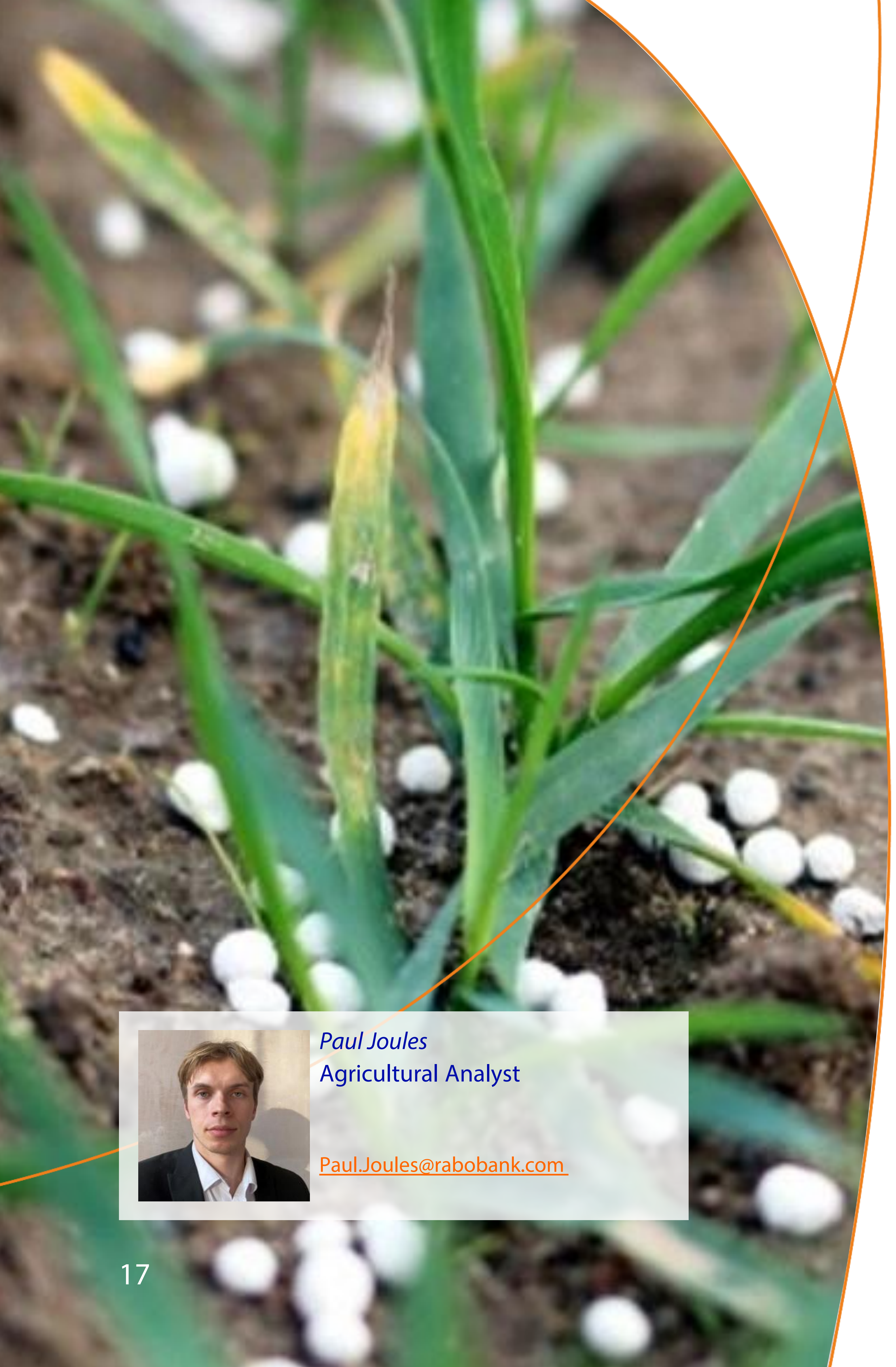

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Farm inputs

Urea prices continue to rise

With Middle East tensions seemingly in the rear-view mirror following recent de-escalation, market attention has shifted back to global supply and demand. Despite the Israel-Iran ceasefire, fertiliser pr ices continue to rise with urea prices up 11% MOM. Meanwhile, DAP prices rose 6% MOM, and potash prices were up a more modest 2% MOM.

India's urea demand appears to be pushing prices higher. The key fertiliser buyer has been active in the import market so far this year, following lower-than-normal domestic production and robust demand. There is speculation that it could seek additional volumes in the coming months, given that stock levels remain weak on a year-on-year basis – potentially tightening the global supply picture further. However, if India holds off, purchasing prices could decline from current levels, especially as the other major buyer, Brazil, remains relatively quiet in terms of imports and amid poor affordability within the country.

One positive on the urea front is the reintroduction of Chinese exports. Although a quota has been set on exports, we are still likely to see good volumes exit the country, which will partially help to alleviate some of the global supply-side issues. Another positive from a production standpoint is that natural gas prices have declined around 12% (TTF contract) following the ceasefire news. That said, natural gas prices now appear to be stabilising at current levels, supported by strong Asian demand.

As for phosphates, signs of price relief remain limited, as tight global supplies continue to push prices higher. Although Chinese exports are expected, uncertainty around the quota is adding to supply-side concerns. Indian demand for phosphates has also been strong, mirroring it's appetite for urea, and further exacerbating the supply-side constraints.

Currency strength could prove to be a positive in the coming months. RaboResearch forecasts the AUD/USD cross to rise to USD 0.68 on a 12-month view. Should this prevail, it may help ease prices of imported fertiliser.

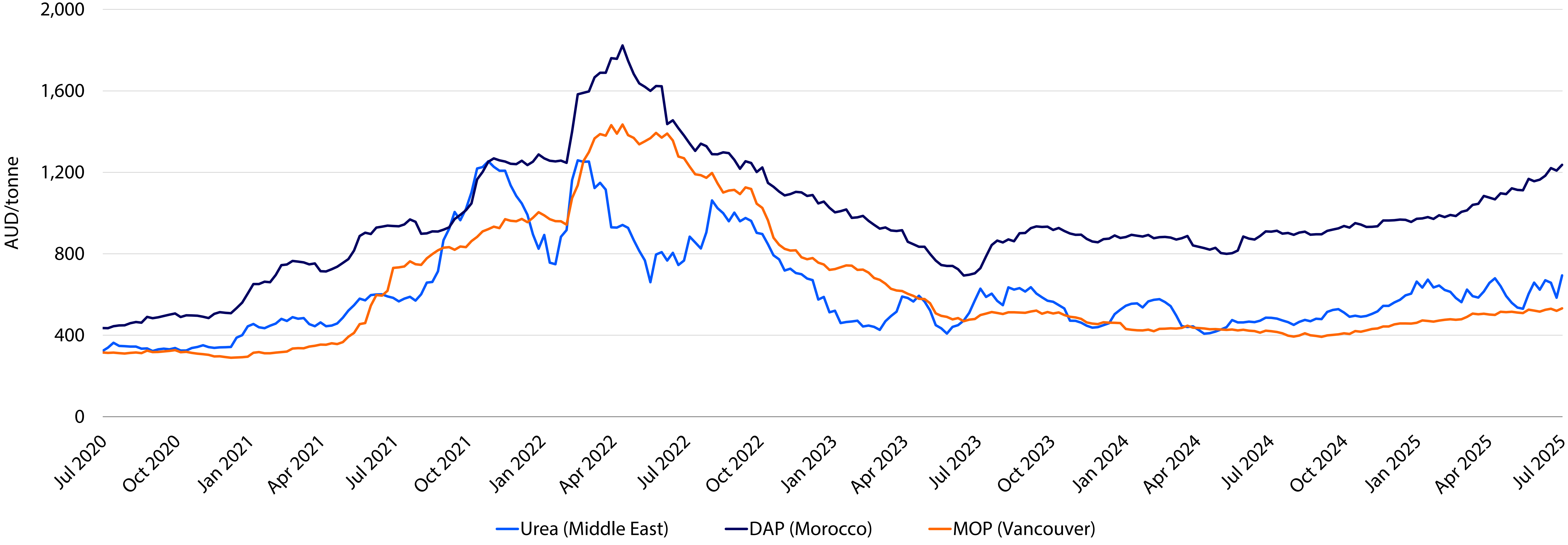
What to watch:

- **China's export policy: Any adjustments to urea and phosphate export quotas could cause volatility.** Another key factor to keep an eye on is whether India returns to the import market in the coming months – this would tighten global supplies further.

Farm inputs

Urea prices rally 11% MOM amid strong global demand

Despite easing tensions in the Middle East, fertiliser prices continue to rise amid tight global supply and demand



Source: *CRU, RaboResearch 2025*

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Dairy

Global milk production growth gains momentum

Weaker commodity pricing was evident across the dairy complex in July 2025. According to USDA data, Oceania spot prices feel between -1% and -7%, with whole milk powder the only product to defy the trend, remaining unchanged. While spot butter prices drifted lower from previously lofty highs, fat prices remain well above long-term averages.

Milk production growth is gaining pace across most major dairy export regions. This growth is supported by high milk prices, affordable purchased feed, and recovery in regions previously impacted by disease outbreaks.

In the US, June milk production surged 3.3% YOY, marking the strongest increase since May 2021. May's milk output, initially reported as a 1.6% YOY gain, was revised upward to 2.3% – a significant adjustment. A steadily expanding herd and easily achievable milk-per-cow gains, partly due to last year's avian influenza impact, are driving volumes.

In Europe, milk production has recently turned positive. Production has rebounded in Ireland, and there are signs of recovery in European regions impacted by bluetongue disease last year.

The New Zealand season is off to a strong start. According to the Dairy Companies Association of New Zealand (DCANZ), New Zealand production on a milk solids basis increased 17.8% YOY in June 2025, although this is against a weak 2024 comparative. However, volumes remain seasonally low at this time of the year.

In Australia, milk production is trending lower. National volumes were down 3.8% in May versus the previous year, bringing the season-to-date production down 0.4%. There have been sizeable declines in Tasmania, South Australia, and Western Victoria.

Drinking milk sales in Australia remain sluggish. The latest data from Dairy Australia show national volumes are down 2% so far in the 2024/25 season (to April), representing a fall of 40m litres. Sales declined across all drinking milk formats.

What to watch:

- **Corporate activity is heating up –** The Australian Competition and Consumer Commission (ACCC) has confirmed it will not oppose Lactalis's proposed acquisition of Fonterra's consumer, dairy ingredients and food service businesses. Meanwhile, according to media reports, the ACCC will also commence a public review into Bega Cheese's potential acquisition.
- Recently, Sydney-based private equity firm Anacacia Capital acquired a majority stake in Melbourne-based Procal Dairies.

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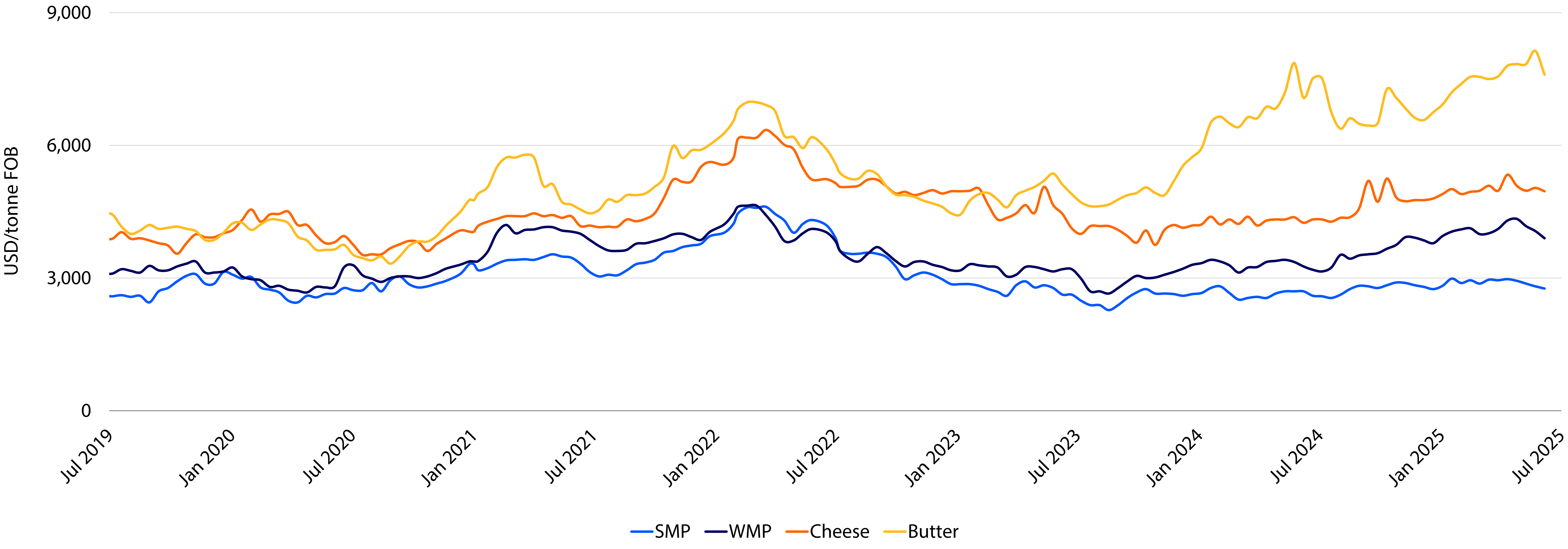
Dairy

Modest falls across the dairy complex in July

Oceania spot prices for dairy commodities



Source: *USDA, RaboResearch 2025*

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Consumer foods

Food inflation eases, foodservice sales remain soft

Annual food price inflation slowed to 3% in Q2 2025, according to the latest CPI data from the ABS. This is down from 3.2% YOY recorded in Q1 2025. Inflation in the out-of-home foodservice category was stable at 2.7% when measured on a yearly basis.

Food price inflation was still running above the 10-year average.

Egg prices rose significantly, with the rate of increase accelerating to 19.1% YOY. Cooking oils, cereal products, and seafood were the only three categories to post deflation for the quarter on a year-on-year basis.

Fruit and vegetable prices rose 4.6% in the 12 months to Q2, reflecting more stable seasonal growing conditions.

Consumers will also be watching the snacking and confectionery category with prices up 5.5% in the past 12 months. This was driven by chocolate manufacturers passing through higher input costs, particularly for cocoa.

Australian retail sales rose 1.2% in June 2025, according to seasonally adjusted data from the ABS. Retail sales have accelerated slowly over the past three months. However, it was a mixed result in food markets.

Food retail sales rose 0.9% in June 2025 (versus May 2025) while foodservice sales fell -0.4% for the same period amid reduced discretionary spending.

Aldi has officially launched online grocery shopping in Australia for the first time, starting with a trial in Canberra in July 2025. They are teaming up with DoorDash to handle logistics and delivery. This marks a shift in Aldi's traditional model and could shake up the competitive landscape dominated by Coles and Woolworths, which have invested heavily in fulfilment centres.

In online grocery, pain points for consumers often include product range, shelf life of delivered goods, and the ability to successfully fulfil orders.

Australian consumer sentiment has improved slightly. The Westpac-Melbourne Institute Consumer Sentiment Index rose by 0.6% to 93.1 in July, up from 92.6 in June.

Despite the uptick, sentiment remains well below the neutral level of 100, indicating continued pessimism among consumers. The modest rise came despite disappointment that the Reserve Bank of Australia (RBA) did not cut rates further in July.

What to watch:

- **Higher butter prices on the cards?** Global butter prices remain very high. Australia is nowadays a net importer of butter. While consumers are paying more for butter and other cooking oils than a few years go, there is a risk that butter prices could rise even further.

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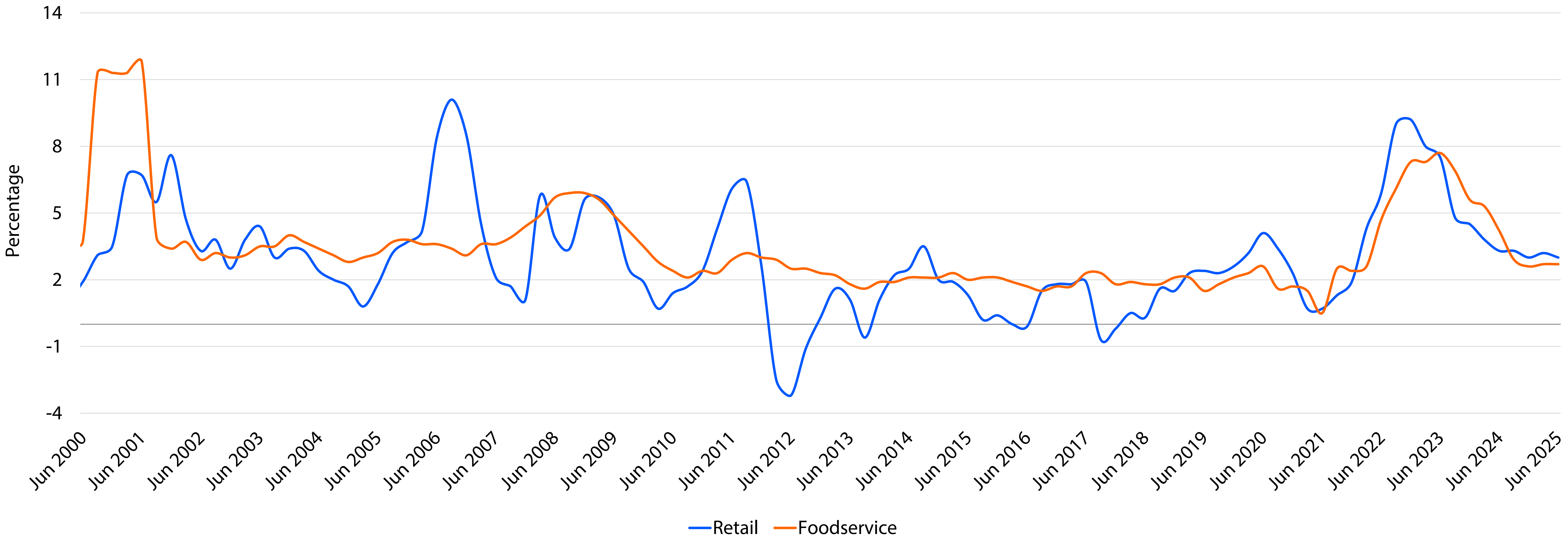
Consumer foods

Monthly food and beverage inflation below 3% in May

Australian quarterly food CPI, percentage change from corresponding month of previous year



Source: *ABS, RaboResearch 2025*

Interest rate and FX

Delayed gratification

The Reserve Bank of Australia (RBA) delivered a surprise in July by keeping the cash rate unchanged at 3.85%. In her press conference, RBA Governor Bullock said that the decision to hold in July was a question of "timing, not direction", and indicated that the RBA was likely to cut the cash rate in August if the Q2 inflation rate was broadly in line with the RBA's projections published in May.

Pleasingly, the Q2 inflation figures were in line with the RBA's projections, which should clear the path for a 0.25ppt reduction to the cash rate in August.

July also saw new developments on the trade front. The US extended its timeline for the implementing "reciprocal" tariffs to 1 August and concluded new trade agreements with the EU, Japan, Vietnam, Indonesia, the Philippines, and South Korea. Those agreements include reduced tariff rates for goods entering the US that are lower than those announced on 2 April, but they still represent a significant increase compared to the rates that were in place prior to that announcement.

An executive order signed by President Trump on 31 July confirmed that Australian exporters would continue to face the minimum 10% baseline tariff. While zero tariff would be preferable, 10% is a relatively good outcome compared to New Zealand, which has seen its rate increase to 15%.

Comparatively high tariff rates in Asia could have knock-on effects for Australia, as affected countries may face pressure on their exports and overall economic growth. Slower growth in Asia could lead to reduced demand for Australian imports, potentially dampening domestic economic growth.

Additionally, agreements signed by some Asian countries to purchase more agricultural and energy products from the US introduce the risk that Australian goods may be displaced from traditional export markets and redirected to less lucrative destinations.

What to watch:

- **RBA cash rate decision, 12 August** – At the time of writing, the futures market implies a 100% probability of a 0.25ppt rate cut in August. That was also the case in July, when the RBA opted to leave the cash rate unchanged. However, this time around the RBA has clearly signalled its intention to cut if the Q2 inflation report was in line with its projections (it was).
- **ABS wage price index, 13 August** – In a case of poor timing, the Q2 wage price index is due the day after the RBA decision. Wages growth is a useful barometer of labour market tightness. Weaker growth could point to further rate cuts ahead.

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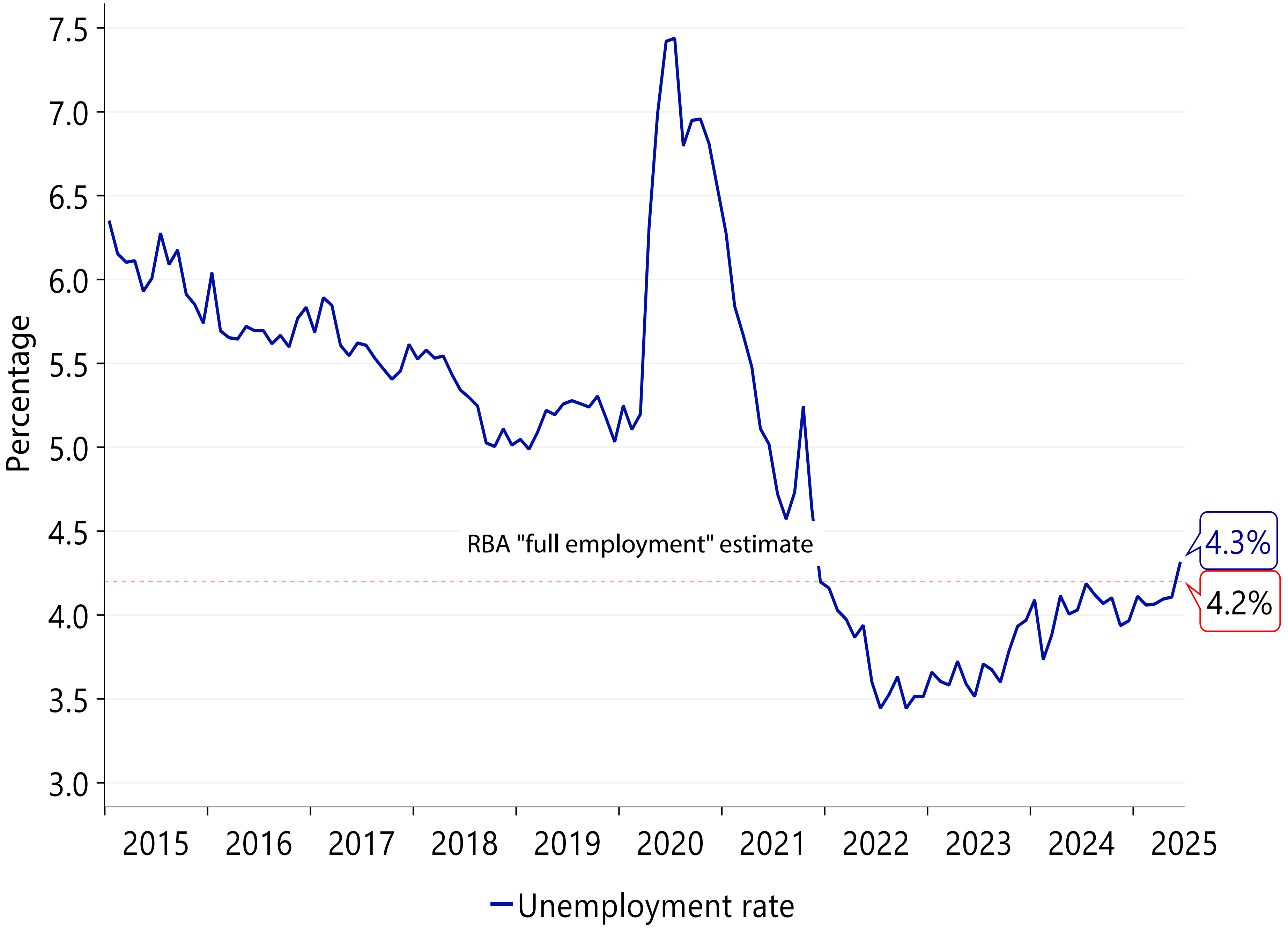
Interest rate and FX

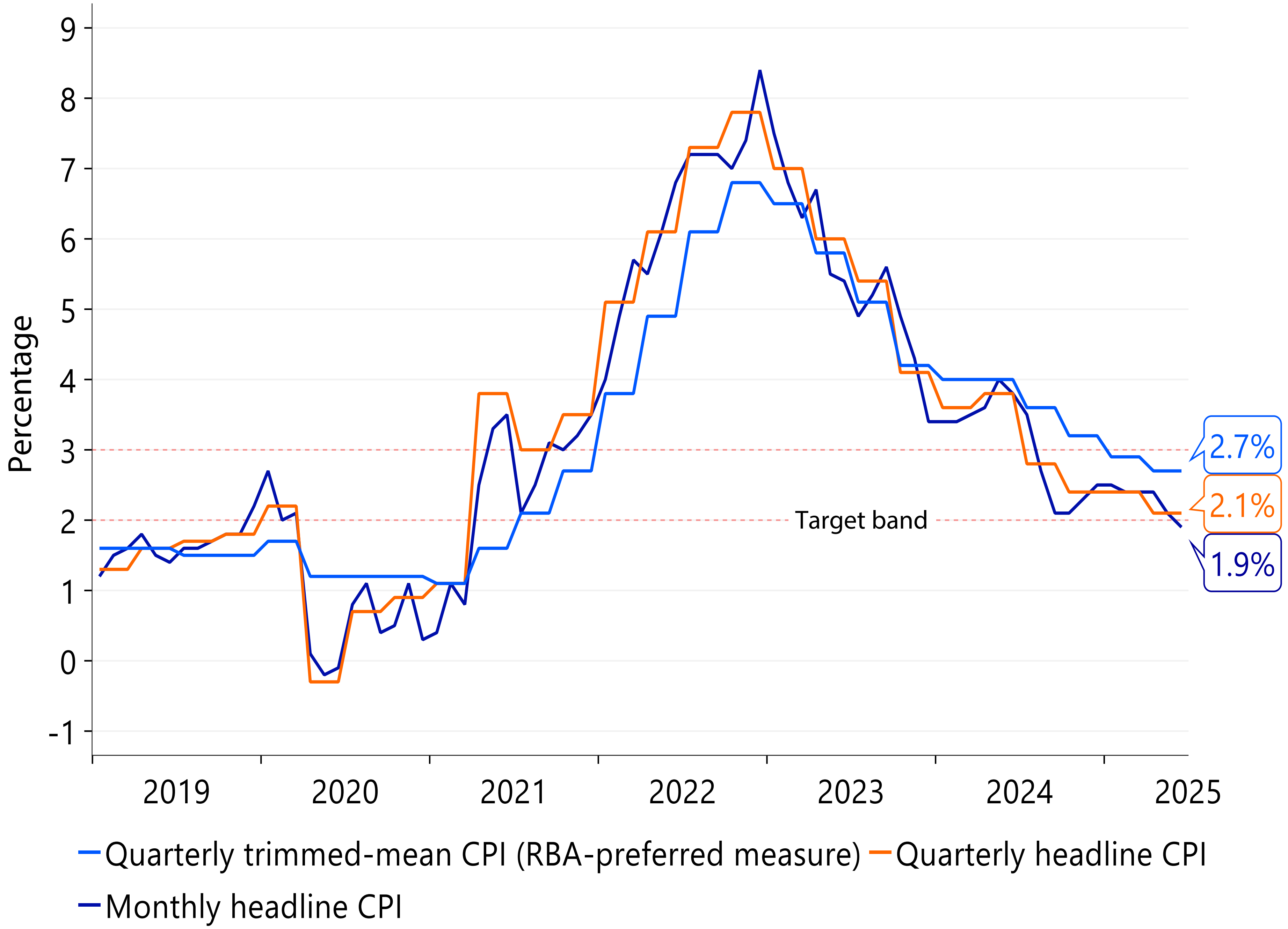
One measure of inflation is now below target

Australian labour force indicators, 2015-2025



Source: Macrobond, ABS, RaboResearch 2025

Australian inflation indicators, 2019-2025



Source: Macrobond, ABS, RBA, RaboResearch 2025

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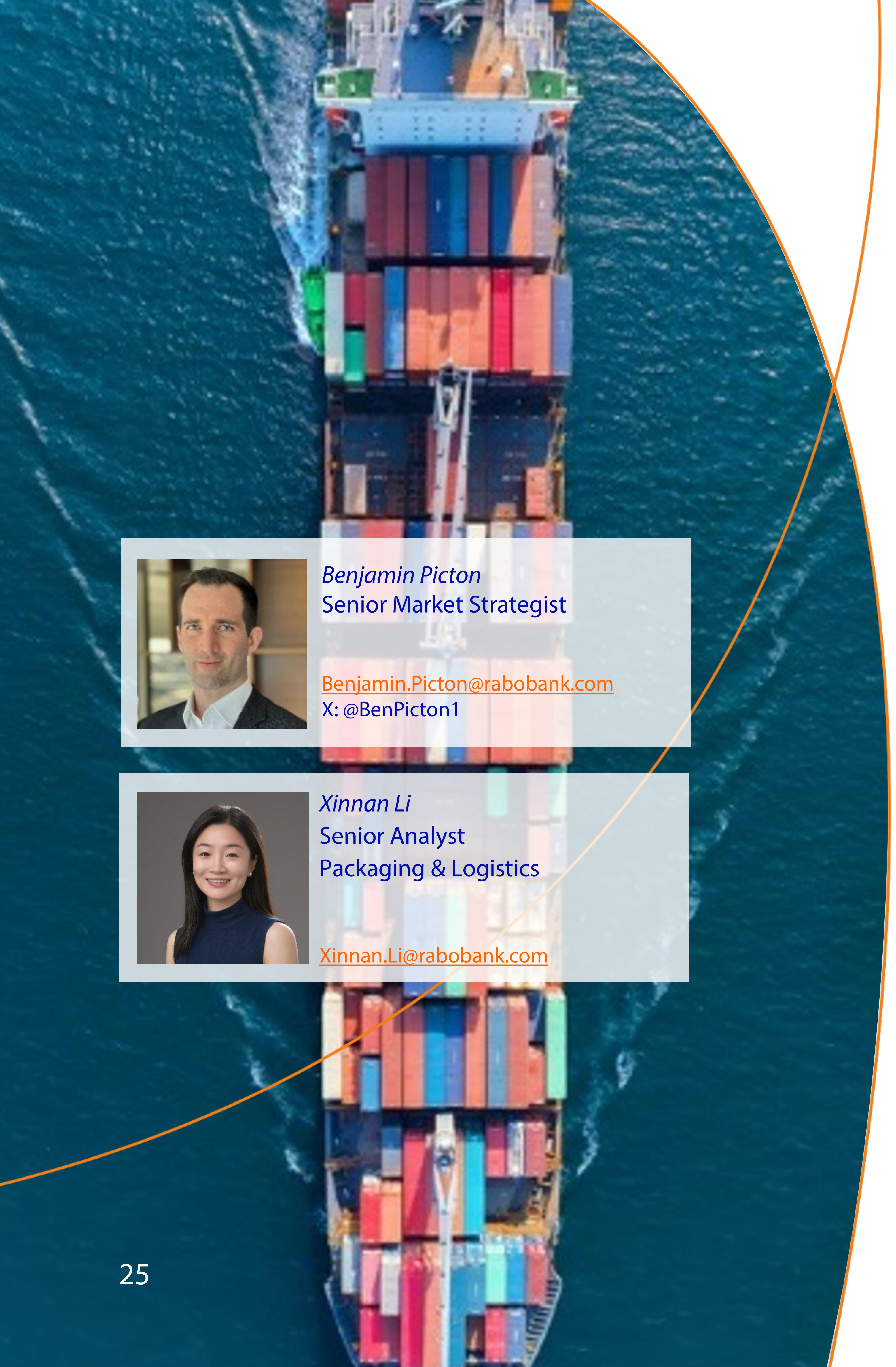

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Oil and freight

Secondary sanctions threat drives prices higher

Brent crude closed July 7.28% higher at USD 72.53/bbl, marking the third consecutive month of rising prices – despite the Israel-Iran ceasefire.

The market has been rallying on the back of threats from Donald Trump that the US would impose secondary sanctions on buyers of Russian exports (including energy products) if Vladimir Putin fails to agree to a ceasefire in Ukraine.

Trump's threatened sanctions would impose 100% tariffs on buyers of Russian crude, effectively removing Russian supply from the market and crippling Russia's ability to finance its war effort.

India and China, both major buyers of Russian energy products, would be particularly hard-hit by such sanctions.

Trump indicated that he was shortening the deadline for Putin to agree to a ceasefire to "10 to 12 days," which would expire in the second week of August.

Trans-Pacific carriers continued to cut capacity as US importers frontloaded cargo ahead of the 1 August tariff deadline. This led to a temporary spike in volumes, but demand is expected to drop sharply in the coming months due to bloated inventories and ongoing tariff uncertainty. The Asia-Europe trade saw strong peak-season demand, but congestion at North European ports forced carriers such as the Mediterranean Shipping Company (MSC) to adjust port calls. Renewed attacks on commercial ships in the Red Sea pushed ships toward longer transits via the Cape of Good Hope again, further disrupting schedules. Meanwhile, MSC continues to expand its US East Coast-Oceania service with a new direct weekly service.

The Baltic Panamax index (a proxy for grain bulk freight) has continued its recovery since March. However, US tariffs may negatively impact demand, potentially weakening the index.

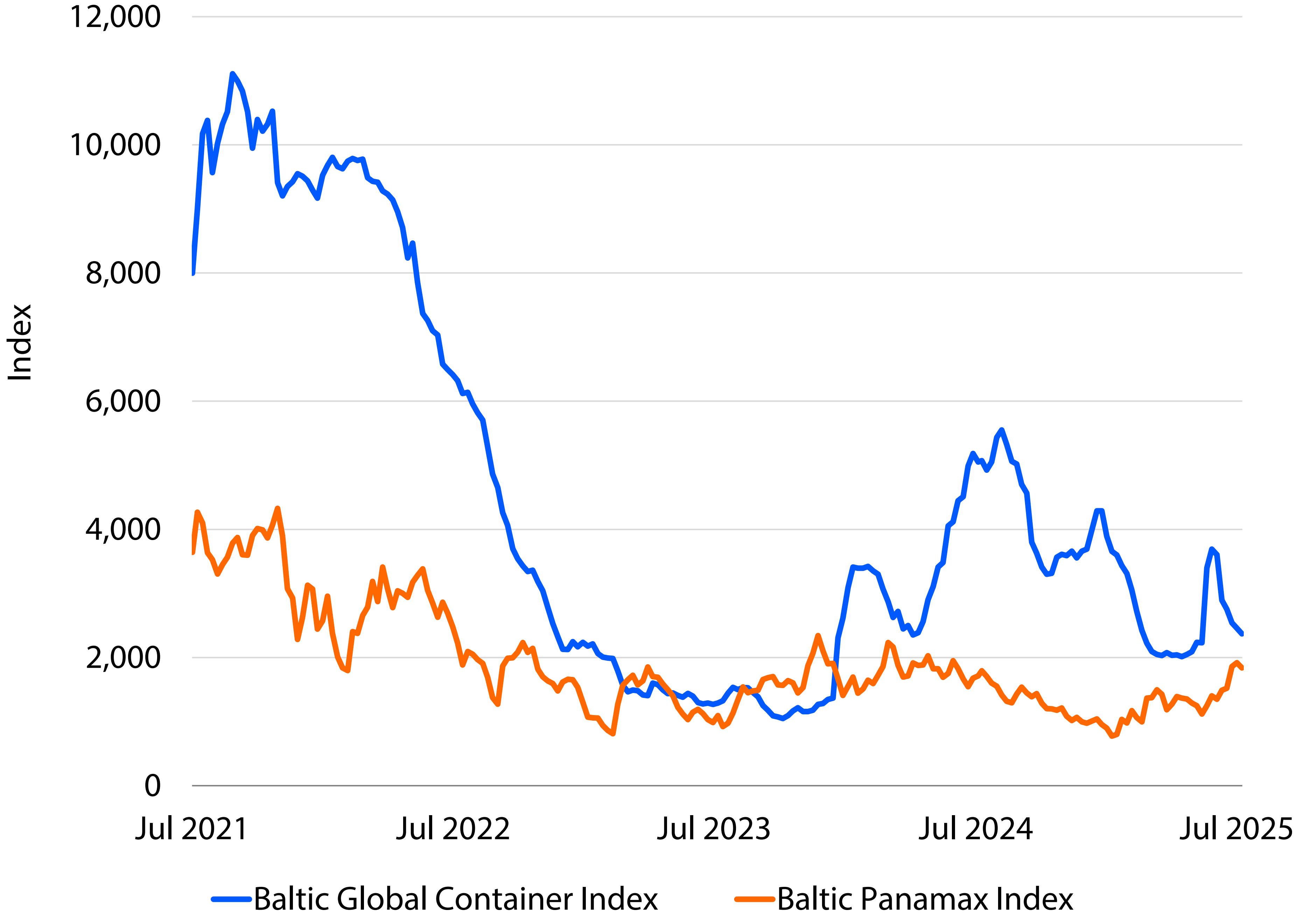
What to watch:

- **US secondary sanctions**– Donald Trump's deadline for Vladimir Putin to reach a ceasefire agreement with Ukraine has been brought forward to the end of the second week of August. While there is a good chance the deadline may be extended, if Trump stays true to his word and imposes sanctions, we expect sharp volatility in oil markets.

Oil and freight

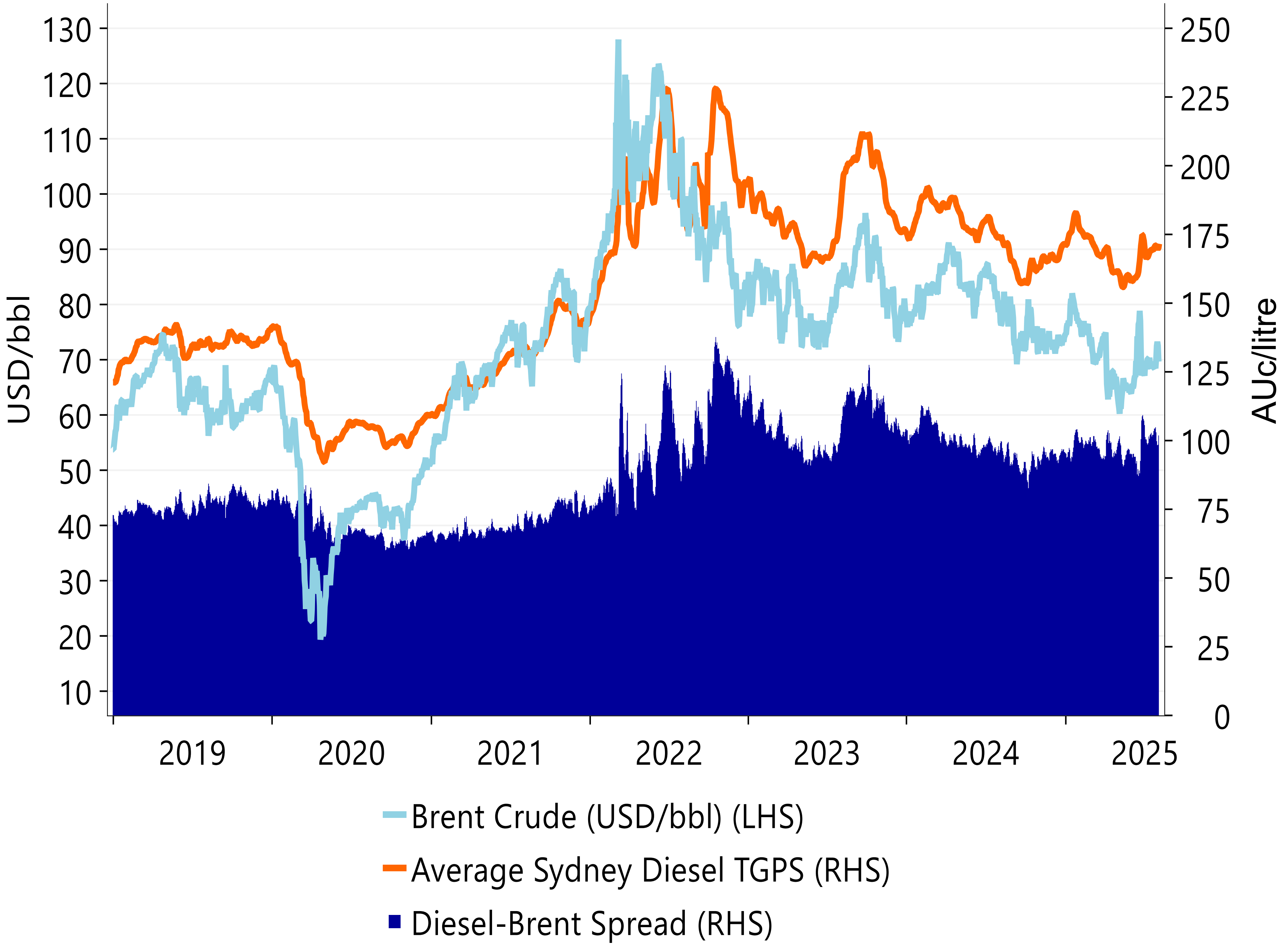
Brace for volatility around the August sanctions deadline

Baltic Panamax Index and Dry Container Index, Jul 2021- Jul 2025



Source: *Baltic Exchange, Bloomberg, RaboResearch 2025*

Brent crude versus Sydney diesel prices, 2019-2025



Source: *Macrobond, ICE Exchange, AIP, RaboResearch 2025*

Agri price dashboard

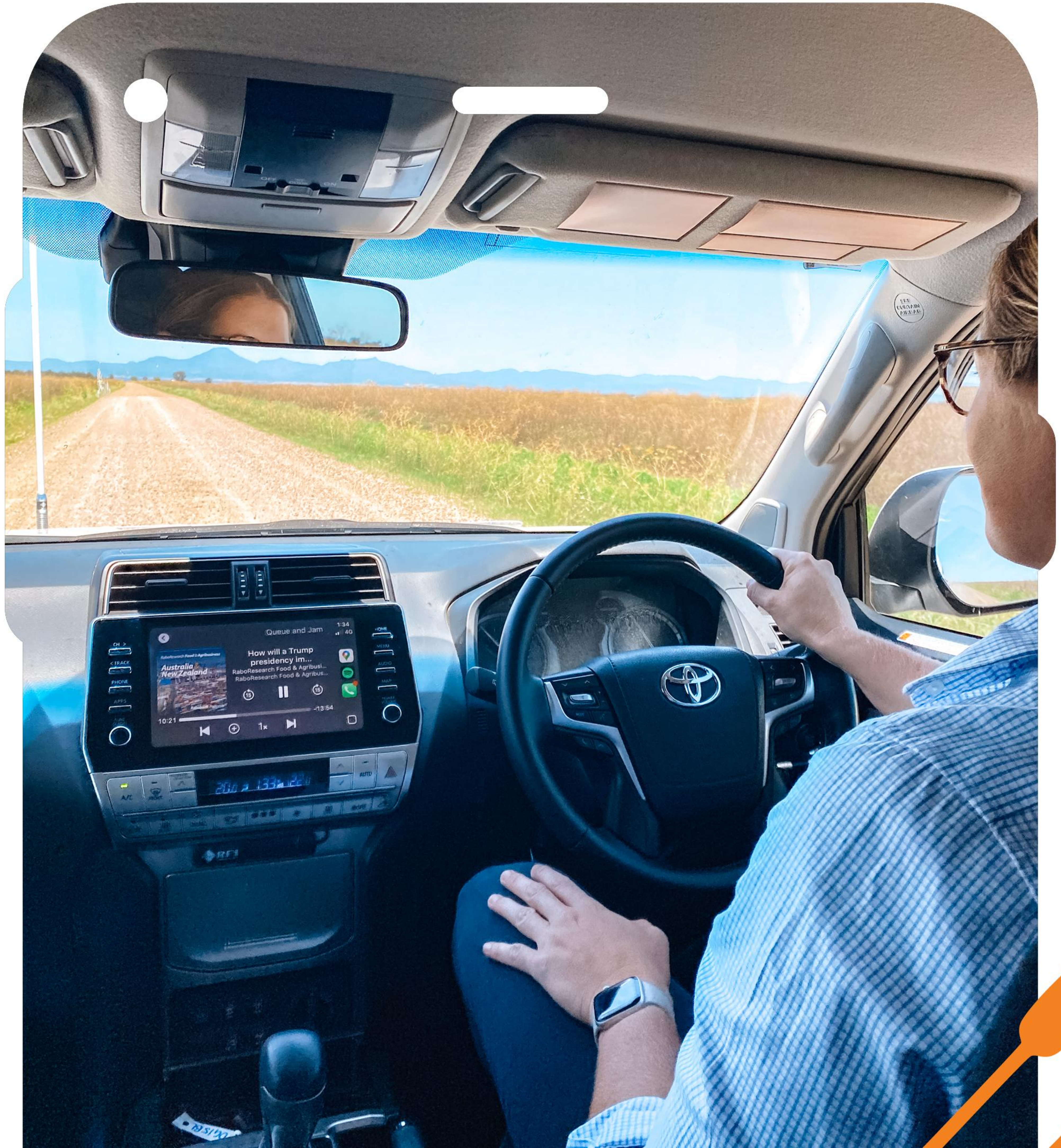
31/07/2025	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	523	537	532
CBOT soybean	USc/bushel	▼	962	1,025	1,022
CBOT corn	USc/bushel	▼	394	420	382
Australian ASX EC Wheat Track	AUD/tonne	▼	324	324	338
Non-GM Canola Newcastle Track	AUD/tonne	▲	754	753	672
Feed Barley F1 Geelong Track	AUD/tonne	▼	319	334	310
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	800	719	673
Feeder Steer	AUc/kg lwt	▲	430	394	349
North Island Bull 300kg	NZc/kg cwt	▲	830	825	655
South Island Bull 300kg	NZc/kg cwt	▲	765	755	590
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	1,188	1,029	713
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	975	955	680
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	980	950	680
Venison markets					
North Island Stag	NZc/kg cwt	▲	970	950	860
South Island Stag	NZc/kg cwt	▲	955	940	855
Oceanic dairy markets					
Butter	USD/tonne FOB	▼	7,563	8,138	7,513
Skim Milk Powder	USD/tonne FOB	•	2,813	2,813	2,600
Whole Milk Powder	USD/tonne FOB	•	4,063	4,063	3,188
Cheddar	USD/tonne FOB	▼	4,713	5,038	4,325

Source: *Baltic Exchange, Bloomberg, RaboResearch 2025*

Agri price dashboard

31/07/2025	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	78.0	78.9	80
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	65.6	66.3	67
Sugar markets					
ICE Sugar No.11	USc/lb	▲	16.4	15.7	18.5
ICE Sugar No.11 (AUD)	AUD/tonne	▲	562	526	602
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,239	1,210	1,124
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	493	502	343
DAP (US Gulf)	USD/tonne FOB	▲	750	720	550
Other					
Baltic Panamax Index	1000=1985	▲	1,659	1,500	1,713
Brent Crude Oil	USD/bbl	▲	73	67	80
Economics/currency					
AUD	vs. USD	▼	0.643	0.658	0.650
NZD	vs. USD	▼	0.589	0.610	0.595
RBA Official Cash Rate	%	•	3.85	3.85	4.35
NZRB Official Cash Rate	%	•	3.25	3.25	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2025



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