Back in the game, thanks to rain

Australia agribusiness monthly

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This report is based on information available as at 3/7/2025

Commodity outlooks

Climate

Much needed rains were received in regions in southern Australia experiencing drought, but soil moisture remains below average in many areas. In the coming three months, above-average rainfall is more likely across northern, inland, and some eastern areas.

Sustainability

Australia's red meat industry has moved away from its target of carbon neutrality by 2030, shifting its focus towards reducing emissions intensity and a shift in strategy towards a more pragmatic approach to environmental ambitions.

Wheat and barley

Global wheat prices briefly rose on Middle East tensions, but the strong supply for 2025/26 outweighed it. Concerns about North American spring wheat have lifted high-protein wheat prices. Barley faces pressure from a well-supplied feed market on the back of large corn production coming from the US.

Canola

Geopolitical tensions, biofuel policy shifts, and a crude oil rally drove canola prices higher, while uncertain Canadian crop conditions and concerns over excess meal supply added complexity to the market outlook.

Beef

Cattle prices continue to trend upwards, with strong rises seen in heavy finished steers and cow prices, reflecting the stronger demand for these categories. Prices and volumes are expected to remain high as demand out of the US remains strong, but are there cracks appearing in US consumer demand?

Sheepmeat

Have new record-high lamb prices overcooked the market? Or was it more the case that processors were testing how many lambs remained? We believe that, with lamb numbers dropping, prices will now also ease back down to around the AUD 8/kg mark.

Wool

EMI prices have been stable over the past month, with prices hovering around the AUD 12/kg level. Declining production appears to be offsetting weak global demand.

Cotton

US futures have found strong support over the past 10 days, as production uncertainty is supporting prices. Australian cash prices have recorded more modest price increases as Australian dollar strength is partially offsetting global supply question marks.

Farm inputs

Urea prices have been very volatile over the past month amid the Middle East conflict. Although a ceasefire is now in place, urea prices remain elevated. The market will be closely watching for any further developments.

Dairy

A wave of announcements from dairy companies through June mean that farmgate milk prices for 2025/26 across southern Australia will range between AUD 9.00 to AUD 10.00/kgMS. This represents an increase of around 10% on the final milk prices for the 2024/25 season.

Consumer foods

Monthly food inflation fell below 3% in May. Coffee was among the products that the ABS flagged are causing higher prices in the food basket, while favourable growing conditions helped with lower fresh produce prices.

Interest rate and FX

Inflation and employment data released in June was weaker than expected, prompting several other banks to join RaboResearch in forecasting an RBA rate cut this month. July will also see the expiry of the 90-day pause on US "reciprocal" tariffs.

Oil and freight

The Israel-Iran war caused June to be the most volatile month for crude oil prices since October 2023, but prices finished slightly below where they started the month, and the supply outlook ahead remains very strong.

Climate

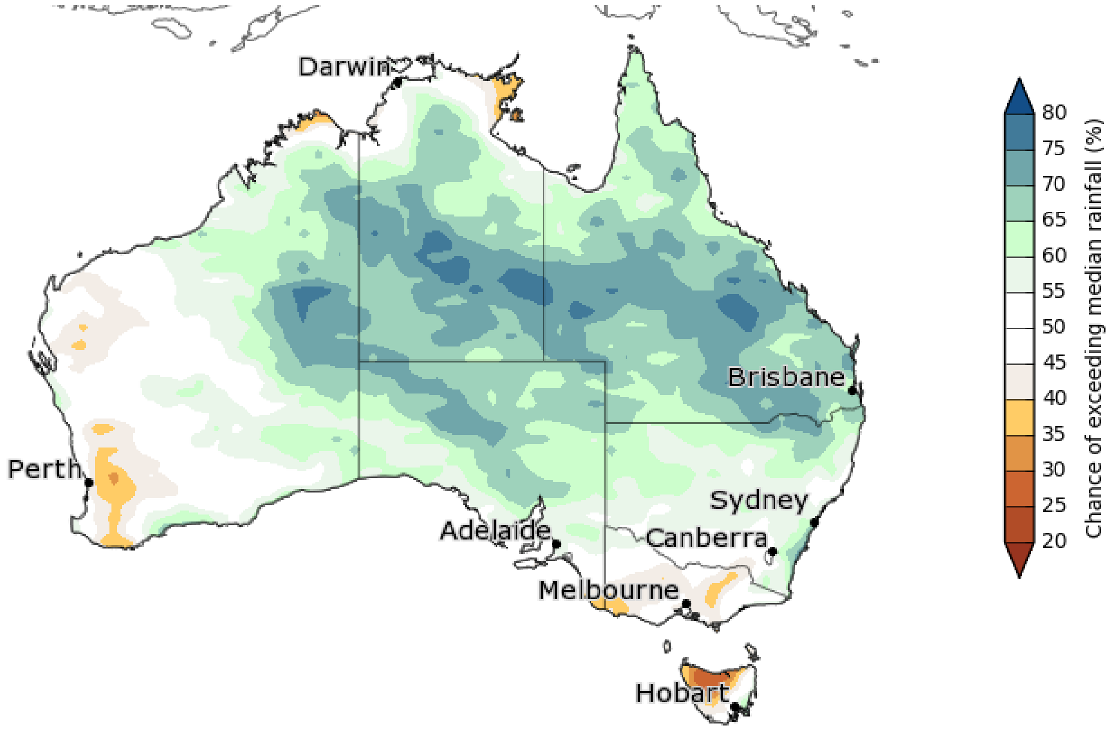
Favourable outlook for the north while challenges persist in the south

June was drier than average for large parts of the country and despite welcome rainfall in the south, long-term rainfall deficiencies continue to persist in some areas. Root zone soil moisture also remains below average in parts of the south, and above average in the north and east.

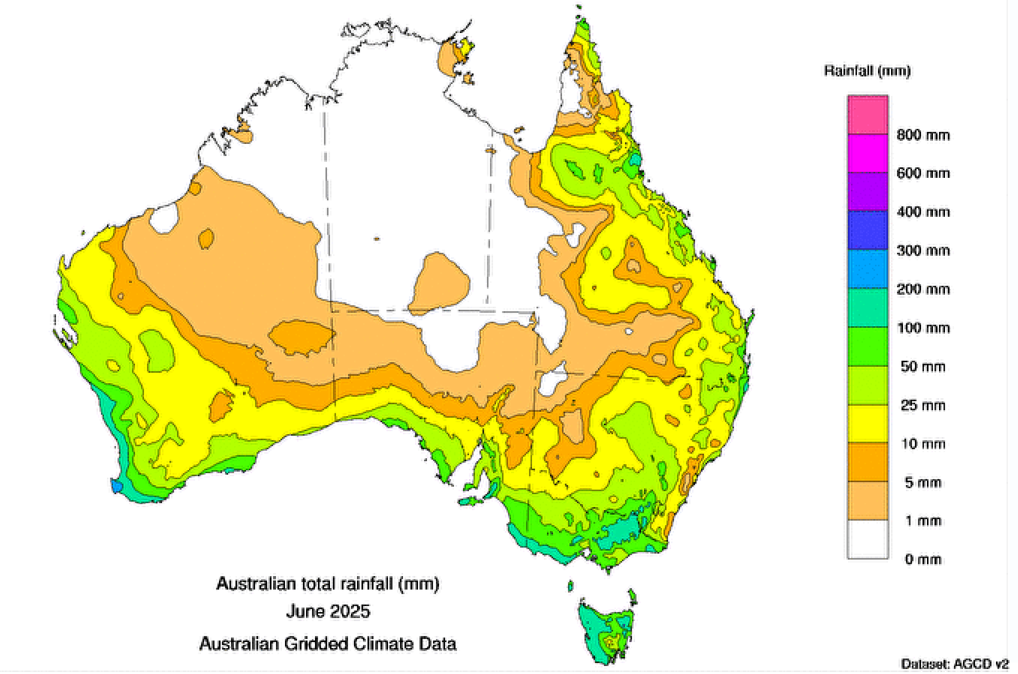
Over the next three months, there are roughly equal chances of rainfall being above, below or near average for southern areas of Australia, while above-average rainfall is more likely across northern, inland and some eastern areas.

Total storages in the Murray Darling Basin are 60% full, down 18% from this time last year.

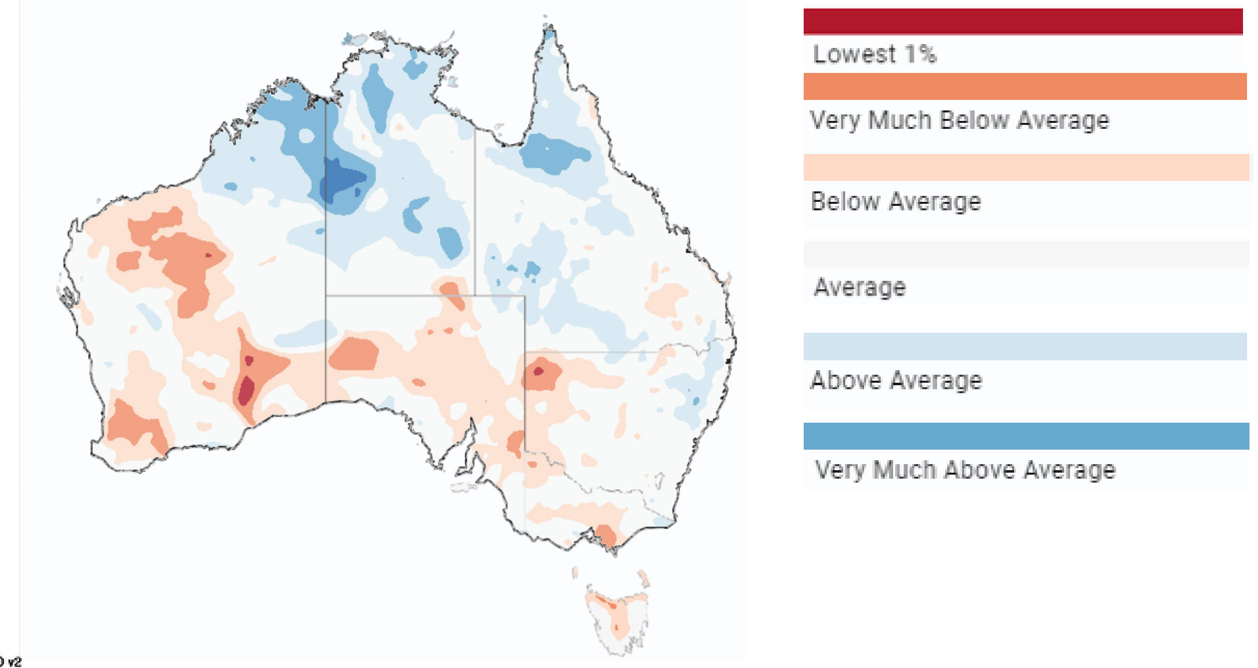
July to September 2025 rainfall outlook



Rainfall, June 2025



Soil moisture as of 29 June 2025



Source: BOM 2025

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Sustainability

Major pivot in industry emissions target

Australia's red meat industry has moved away from its Carbon Neutral 2030 target towards a focus on emissions intensity, signalling a more pragmatic approach to setting industry sustainability ambitions. The Red Meat Advisory Council (RMAC) has released its Red Meat 2030 plan, which outlines plans to focus on reducing emissions intensity.

The industry's Carbon Neutral target was set in 2017. It communicated to global markets and other stakeholders that Australia's red meat industry was proactively engaging in and addressing its environmental footprint.

However, despite reporting in 2024 that a 78% reduction in net emissions had been achieved, this progress was mainly driven by increases in the land-based carbon pool reducing the industry's *net* emissions. **Direct emissions from livestock have remained closely correlated with herd and flock size.**

As work on identifying credible decarbonisation pathways for the agriculture sector has progressed, a shift away from 'carbon neutral' as an end goal within markets has been observed. In the supply chain, many food and agriculture companies have set medium-term greenhouse gas (GHG) reduction targets based on engaging with their suppliers or achieving specific reductions in emissions intensity (emissions per unit of production).

These approaches are intended to enable a more nuanced approach to target setting, which better reflects both the GHG profile of agricultural production and the technological availability and economic feasibility of mitigation options. A focus on emissions intensity also typically aligns more closely with producers' existing objectives connected with optimising efficiency and productivity.

RMAC's 2030 plan also highlights other ongoing environmental focus areas, including coordination of supply chain action, investment in measurement tools, and methane reduction technologies.

Although a specific, quantified emissions intensity target has not yet been announced, the red meat industry's efforts in recent years have highlighted the scale and complexity of the task of emissions reductions as the industry refines its approach to balancing ambition, feasibility, and credibility.

What to watch:

- **The Australian government has adopted a new equation to estimate the feedlot industry's GHG emissions –** Under the new equation, grain-fed cattle emissions are 56% lower than previously estimated. The old formula was based on data from US dairy cows, while the new methodology is based on research by the University of New England and more closely reflects the dietary composition of Australian grain-fed cattle.

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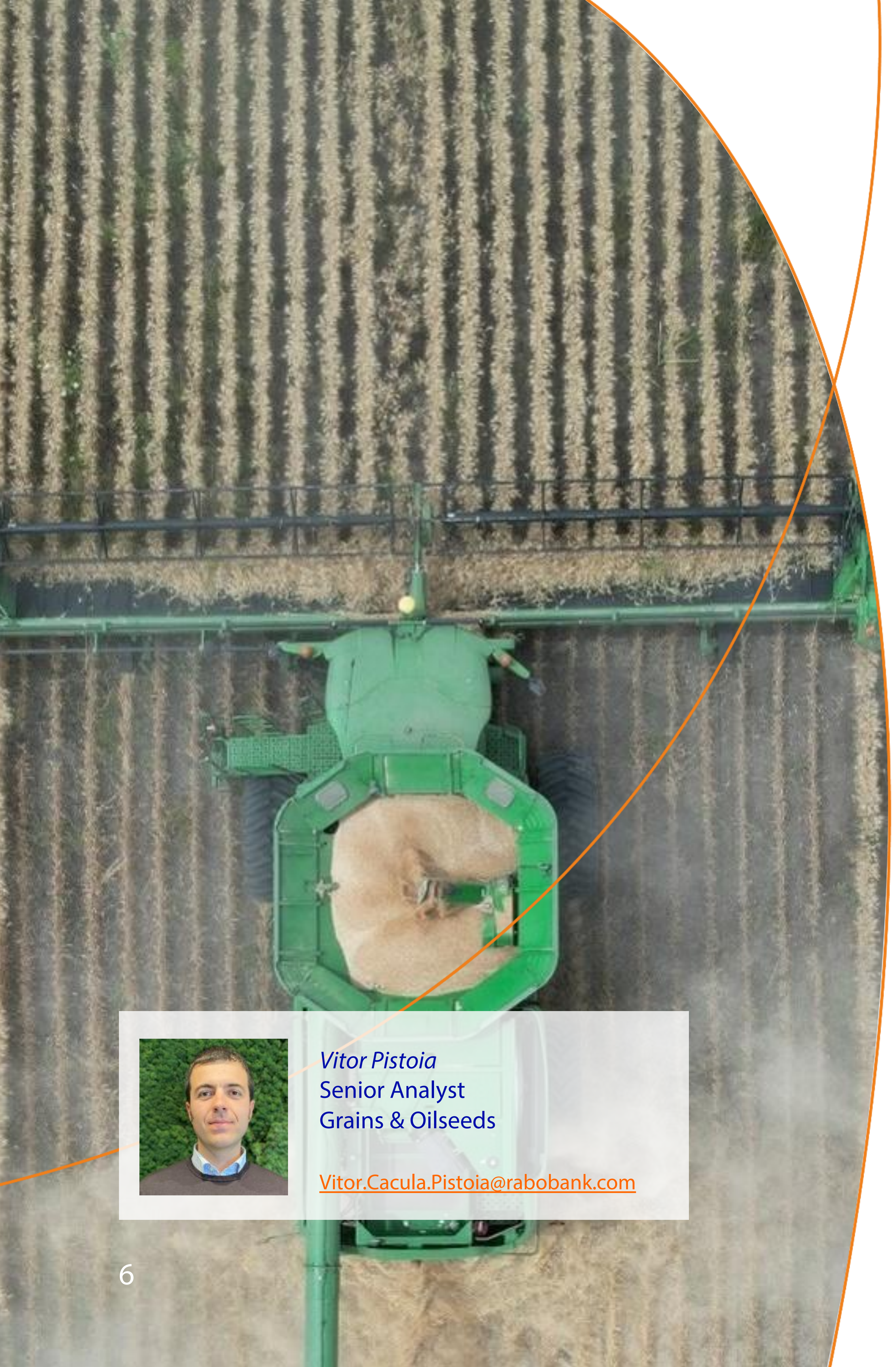

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Wheat and barley

Not many price upside elements left for 2025

The recent Middle East conflicts provided a short-lived boost to global wheat prices while the expected supply for the 2025/26 seasons seems robust, especially in the Black Sea region. Russia's harvest figures keep rising, with most forecasts now sitting between 83m to 85m tonnes, up from earlier projections of 78m to 82m tonnes. Romania is also on track to have a large crop, potentially increasing up to 12m tonnes this season, following 10m tonnes in 2024.

Bearish signals aside, there are a couple of upsides emerging from North America. **The US winter harvest is well underway, but a recent heatwave can bring some price support as spring wheat has a long way ahead**. The same applies for the Canadian prairies, which are also assessing the potential impacts of bushfires. **Both the US spring wheat and Canada's supply have an important share of the high-protein market.**

The barometer for such a scenario can be seen in the price spread between CBOT and Minneapolis wheat exchanges. Minneapolis refers to a hard spring type that has protein content on the 13% to 15% range, usually traded with a premium over CBOT, which is a soft type with protein ranging from 9% to 11%.

Back in early March, spot Minneapolis wheat was at AUD 340/tonne and CBOT at AUD 314/tonne, or 7.6% price difference. Now by early July, prices are AUD 342/tonne and 297/tonne, or 13.2% apart. Looking at the broader global picture, the firm supply expectations for this season have done little to prices in the last 30 days. Month over month (MOM), CBOT spot prices declined 2.5% to AUD 297/tonne, and the CBOT December 2025 contract also reduced by 3.6% to AUD 316/tonne. In Australia, the ASX January 2026 contract dropped by 2.3% to AUD 339/tonne.

On the barley front, recent rainfall in the US is pressuring the corn market even further, which dropped 6.7% MOM to AUD 236/tonne. Combined with seasonal improvement in Australia, this has weighed on feed barley. The Geelong port price fell 1.0% MOM to AUD 338/tonne. Price direction is now deeply tied to domestic livestock demand as the market awaits the new harvest.

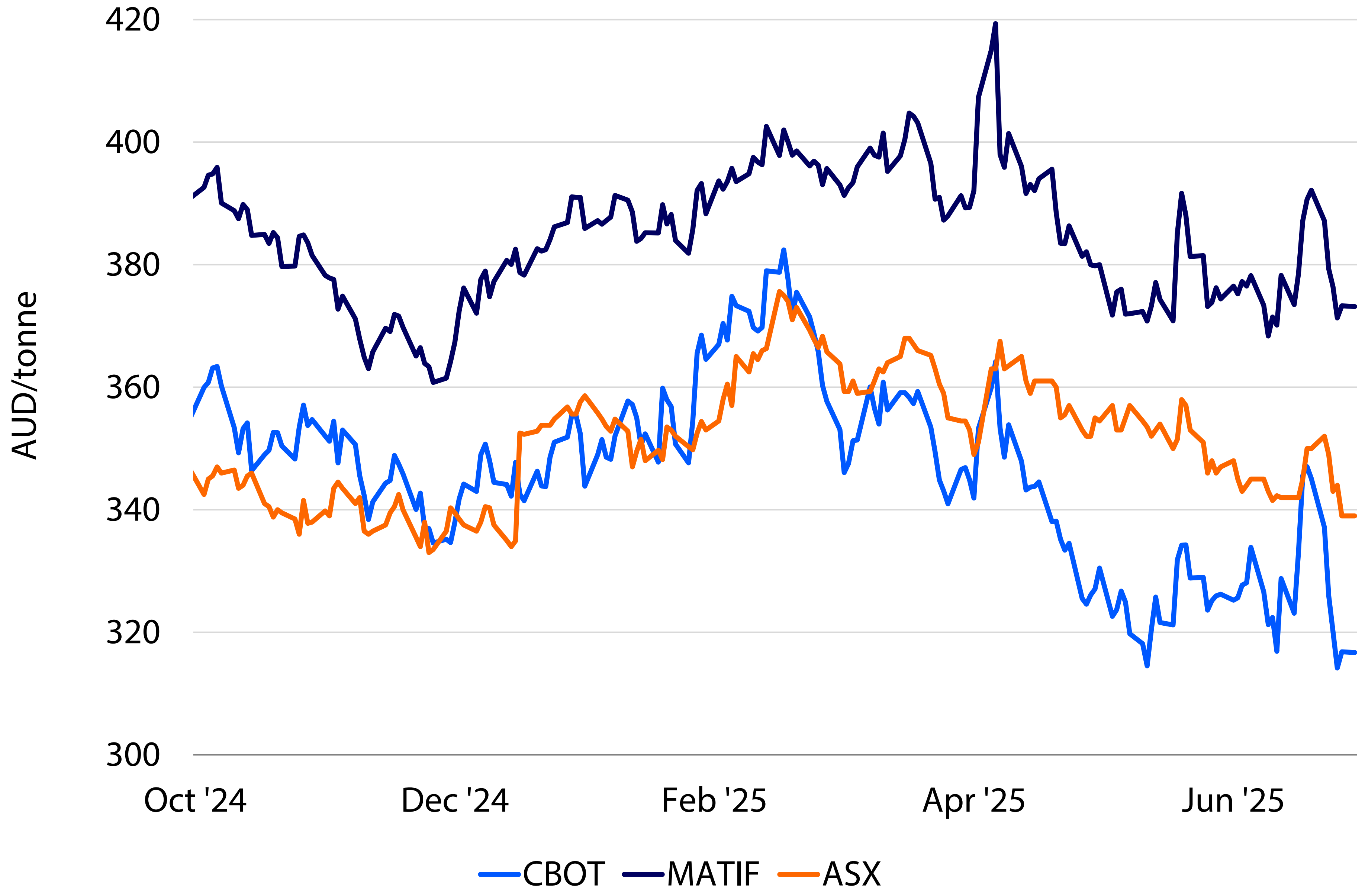
What to watch:

- **North American weather influence on managed money position -** Since mid-May, CBOT SRW wheat's large net short position has shrunk by nearly half, suggesting the market is less bearish in the long term. However, August and September contracts target and lock in lower prices than June and July contracts. Weather conditions over the next 30 days will be crucial in determining whether this trend continues.
- **Pakistan and India clash on water use –** July is typically when the monsoon reaches Pakistan, and this year the rainfall is more critical than ever due to India's decision to not follow the Indus Waters Treaty. Pakistan relies heavily on upstream water flows for crop irrigation.

Wheat and barley

Prices steady as global supply holds, and feed barley loses steam in Australia

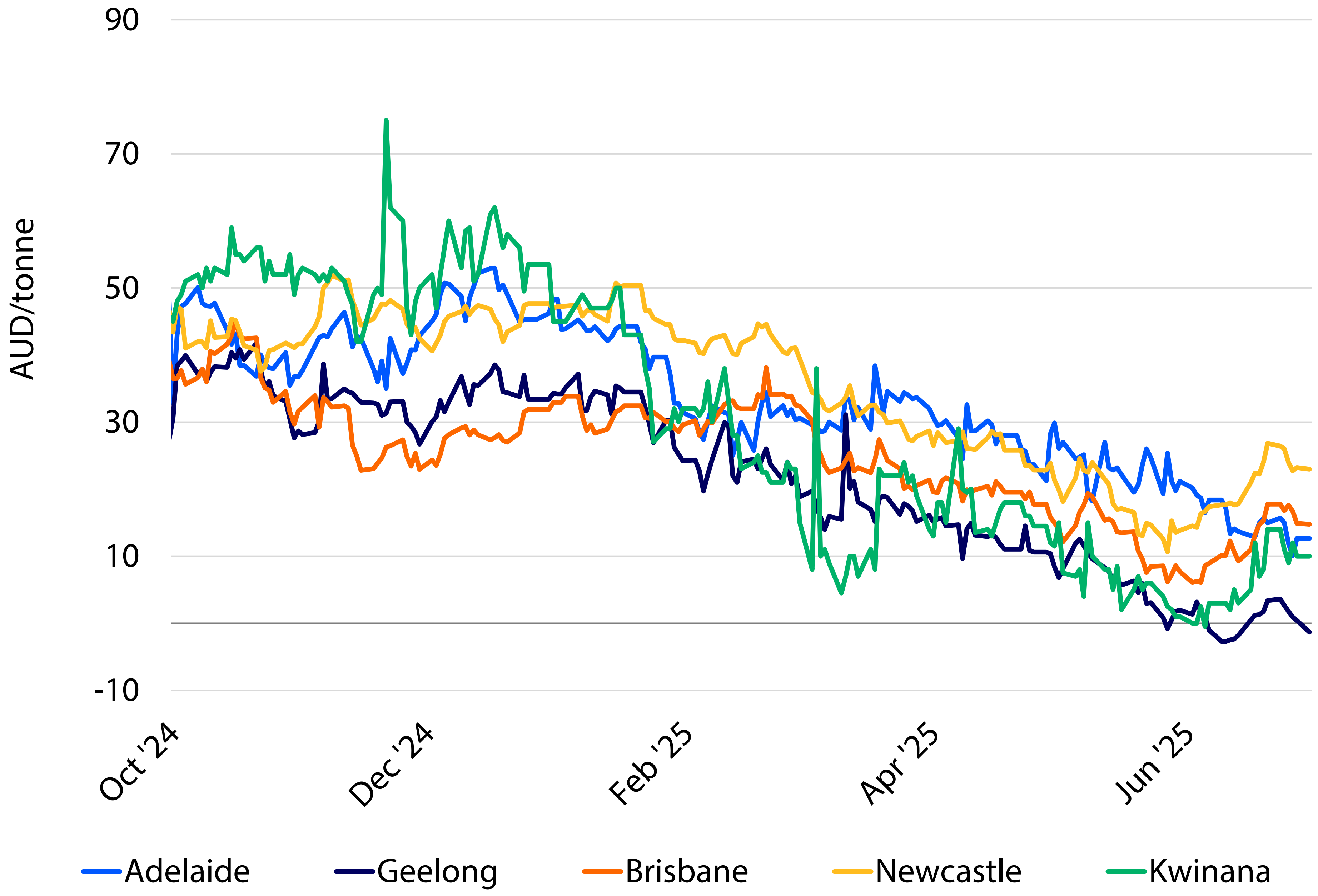
New crop contracts seem to have found a temporary floor as harvest builds up in the Northern Hemisphere



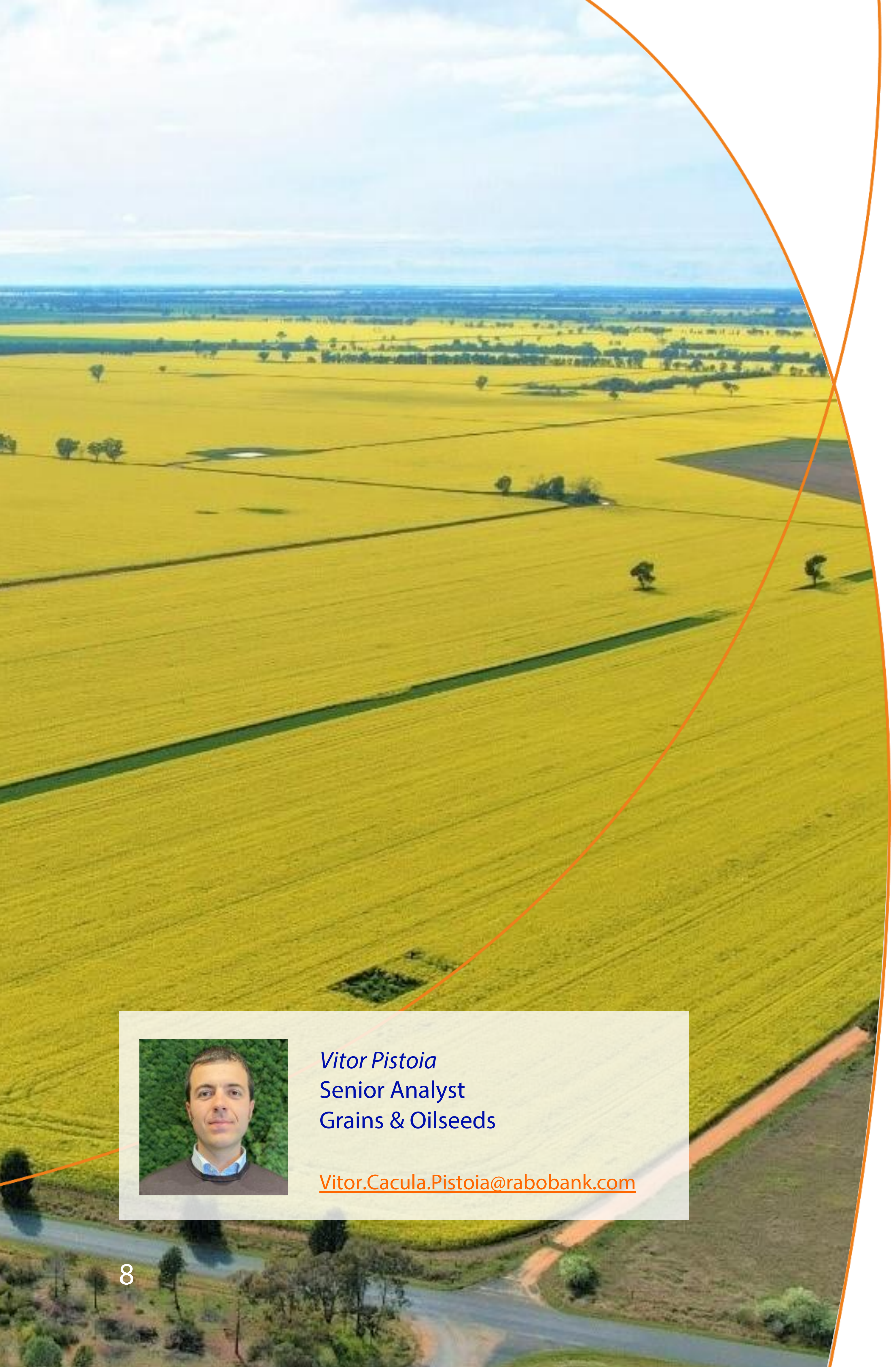
Note: *New crop contracts reflect the ASX January 2026 contract, while CBOT and MATIF reflect the December 2025 contract.*

Source: *Bloomberg, RaboResearch 2025*

As green shoots emerge across Australia's cropping belt, feed barley prices tend to soften relative to APW



Source: *Bloomberg, RaboResearch 2025*



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Canola

Geopolitics and biofuels drove the market higher

Geopolitics and biofuel policy were the latest needle movers in the canola market, despite a largely unchanged outlook for the EU harvest, which remains slightly above 19m tonnes. The mid-June crude oil spike pulled canola prices higher. Month-over-month (MOM) MATIF canola spot prices rose 1.6% to AUD 849/tonne, after peaking at AUD 903 prior to the US strike on Iranian facilities. The Feb/26 contract, a reference for Australia's 2025 harvest, climbed by 3.6% to AUD 880/tonne, after reaching AUD 918/tonne.

Beyond crude oil, another **structural support for the oilseed industry came from the US, following the May inclusion of Canadian canola into the 45Z tax credit framework. The biomass-based biodiesel proposition for 2026 and 2027 surprised to the upside**, triggering a rally in soybean oil and Canadian canola. MOM, the Jan/26 CBOT soybean oil contract jumped 9.5% to AUD 1,791/tonne, while ICE Jan/26 canola remained stable at AUD 786/tonne.

The surge in US biofuel demand tends to favour imports of Canadian oil, assuming tariffs are not in place between Washington and Ottawa. Theoretically, this would also be a tailwind for Australian canola exports, as Canadian crushers are expected to ramp up production in response to the extra demand coming from south of the border, which would reduce the exportable surplus that competes with Australian canola seed. However, **the growing enthusiasm for vegetable oil demand raises a critical question: What will be done to all the soybean and canola meal produced?** There is no easy answer, and prices have taken a hit. CBOT spot soybean meal dropped 10.3% to AUD 374/tonne.

Shifting to a shorter-term view, the Canadian canola crop status is not ideal. Soil moisture levels are low in the eastern parts, and the rainfall outlook points to a small chance of below-average rainfall in the Western regions through August. Forecasts generally range between 18m to 19m tonnes for this year's crop, and any supply reduction would be a tailwind for prices.

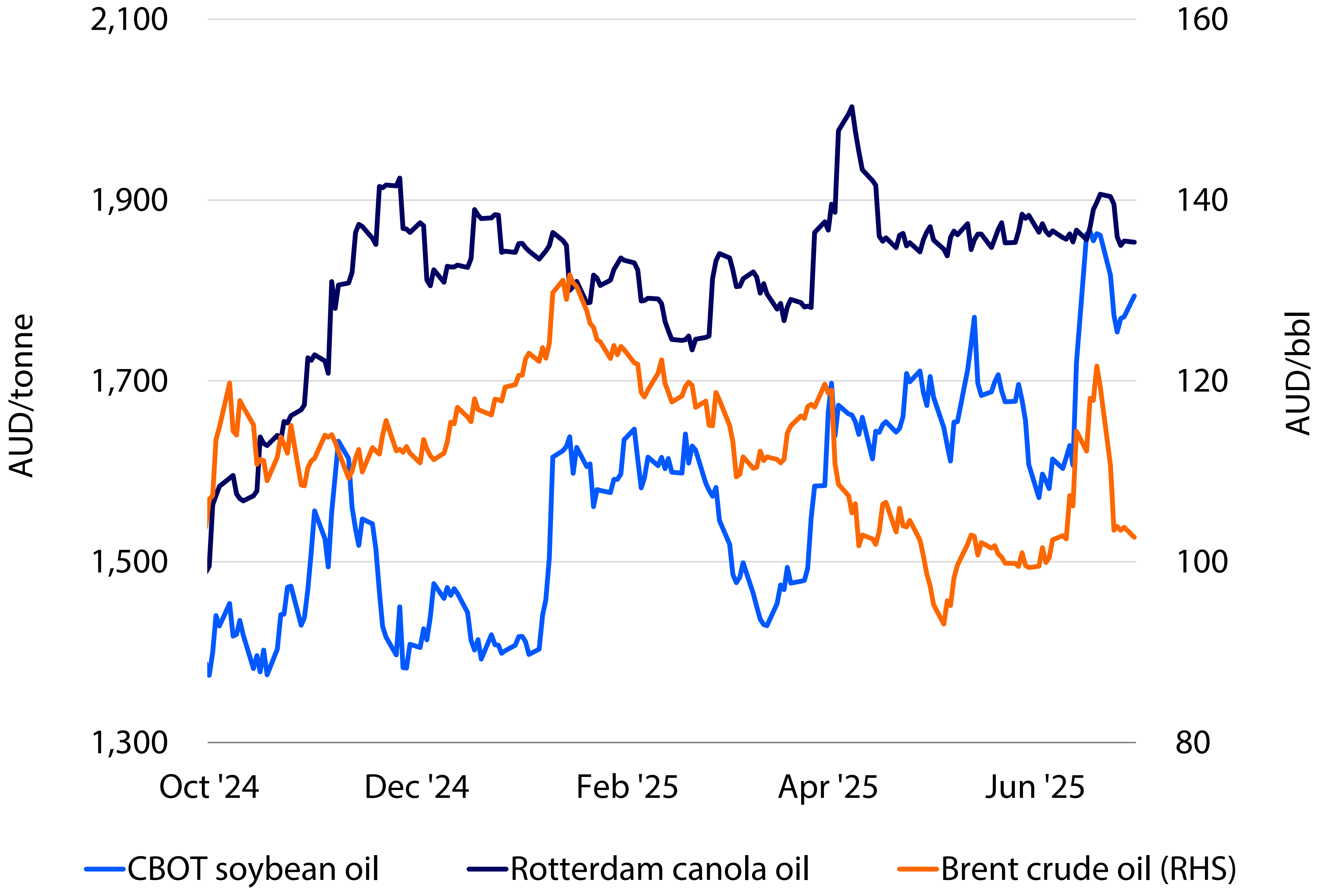
What to watch:

- **Sunflower 2025 crop in Europe and Russia** – The Northern Hemisphere sunflower crop is entering the second half of its cycle, and global production is poised to expand 10% year-over-year, chiefly in the Black Sea region and Europe. If accomplished, this surge in production would translate into additional sunflower oil supply and limit the upside potential for canola prices.
- **EU and Ukraine duties –** As of early June, Ukraine's duty-free access to the EU market expired, and tariff-rate quotas have been reinstated. This means that imports of Ukraine oilseeds are now subject to tariffs. The duty-free concession is part of the EU's broader strategy to manage the economic fallout of the war, and it is expected to be a key topic in upcoming negotiations.

Canola

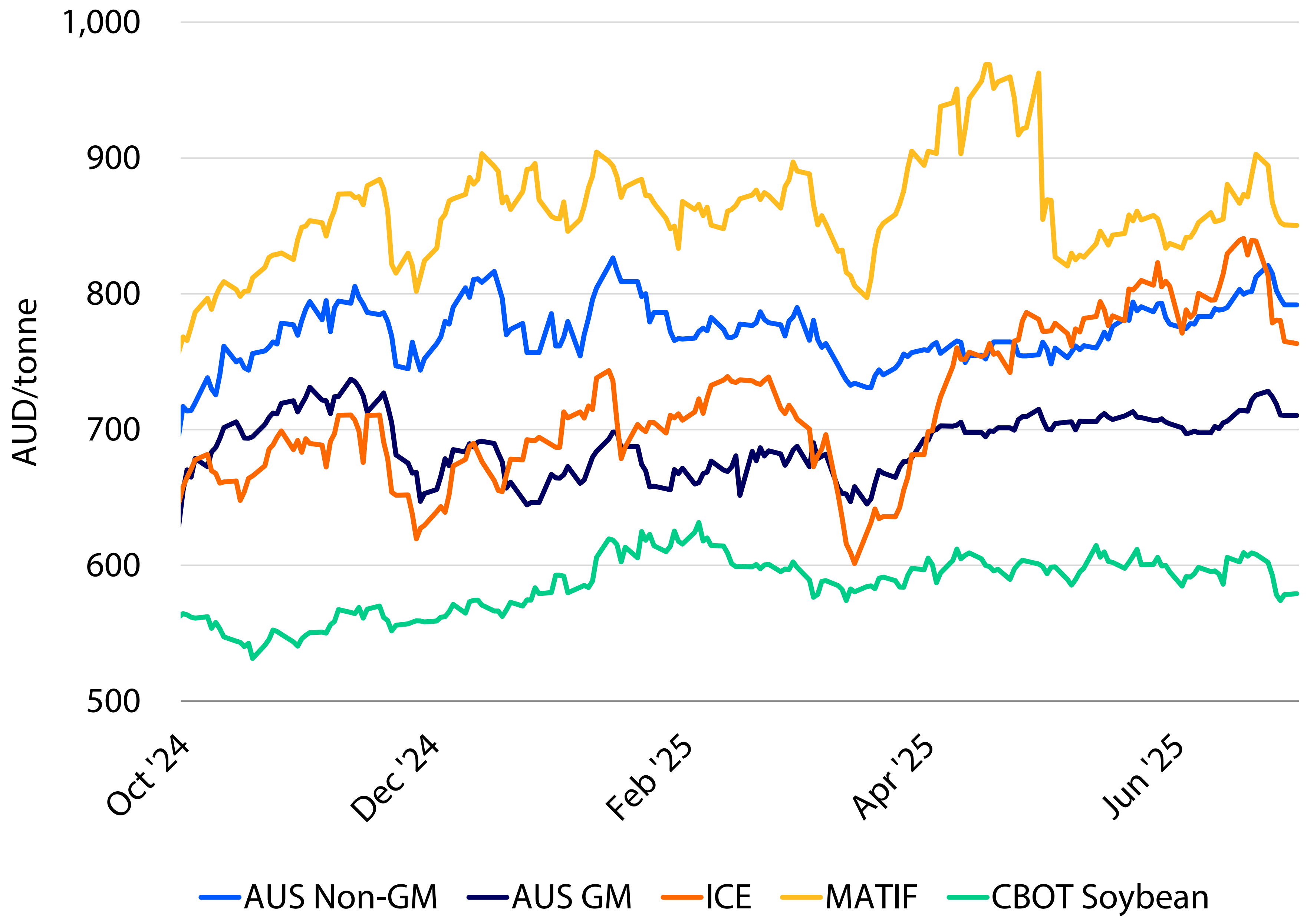
Crude oil shocks and a positive US biofuel proposition

Vegetable oil spot prices have soared on the back of demand increase expectations and crude oil war premium



Source: *Bloomberg, RaboResearch 2025*

Oilseeds prices have also surged in response to rising demand from the US



Note: *Australian prices reflect the average port price.*
Source: *Bloomberg, RaboResearch 2025*

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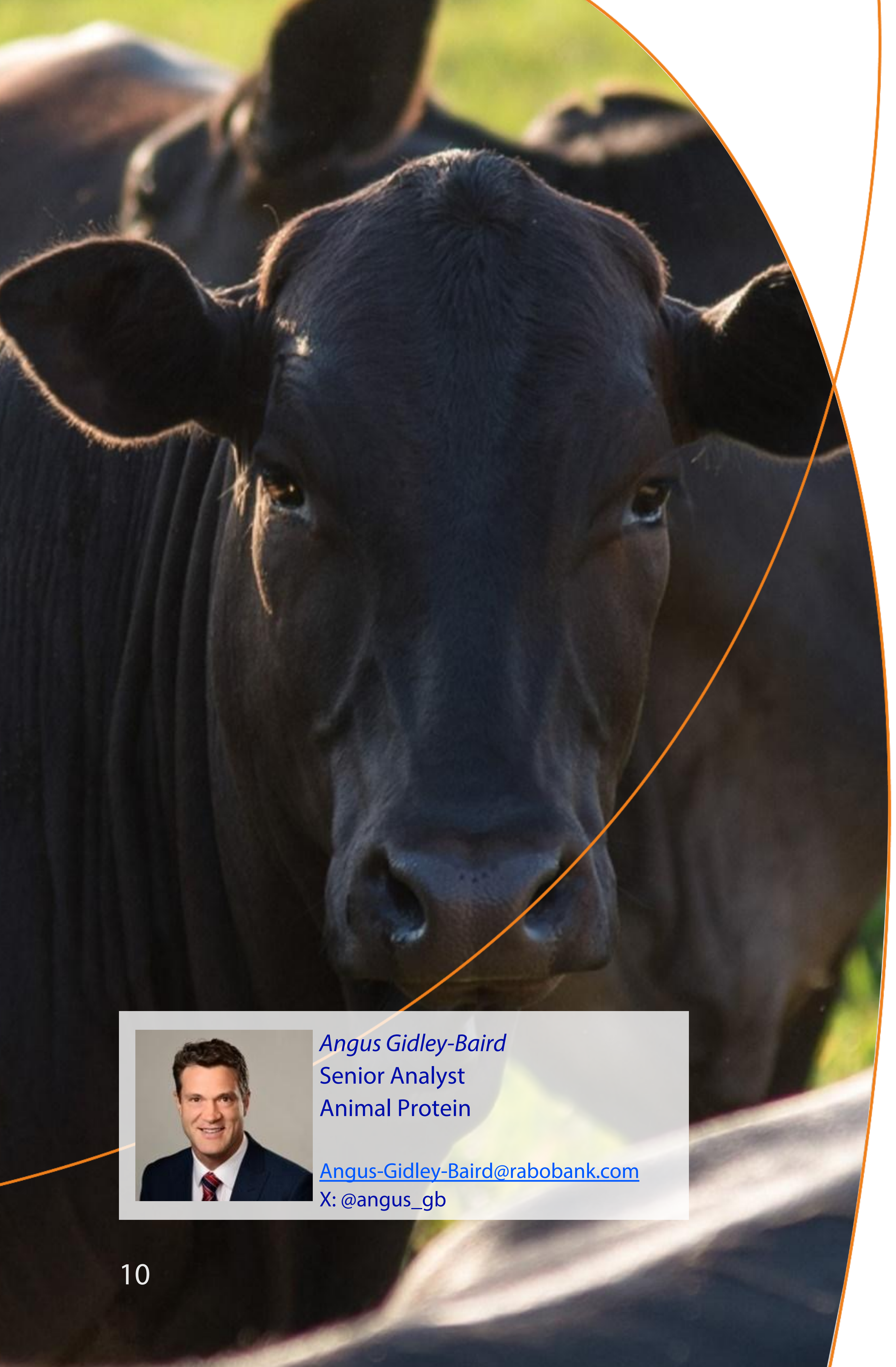

Beef

Cattle numbers remain high, and prices edge higher

The Australian cattle market remained fairly balanced through June, with cattle prices generally flat to slightly rising. In a reflection of the demand and supply points, heavy steer prices rose the most, supported by lower numbers through saleyards. Cow prices also lifted with ongoing demand from the US. Meanwhile replacement heifers and steers saw the smallest rise, with producer demand for restockers not enough to push prices much higher. The national young cattle indictor rose 5% in the month, to AUc 380/kg. Last year, July and August saw cattle prices across all categories rise – up 15%-40% between the beginning of July to the end of August. At the time, there was no significant change in season, change in saleyard or slaughter numbers. US import prices lifted slightly and there was an increase in export volumes to the US as a strong summer grilling demand supported increased US imports. A similar scenario could play out this year, given lower beef supplies in the US for their grilling season. But there could be a few differences. The BOM is forecasting a greater than 50% chance of exceeding average rainfall for much of eastern and northern Australia over the next three months. At the same time, it is difficult to say if US demand is still as strong with some indicators suggesting the US economy is slowing. **Given these conditions, we believe cattle prices will edge higher over the coming months, with the extent of the rise contingent on US demand for beef and on local seasonal conditions.**

National weekly cattle slaughter pushed to the highest point this year and the highest value since late 2019 at 153,442 head for the week ending 20 June. Volumes across all states are up on last year with year-to-date numbers up 11% nationally. Victoria has the largest lift, up 26% for the year-to-date. **We do not expect slaughter numbers to change much as there remains abundant cattle, particularly in northern states. Improved seasonal conditions may see southern slaughter numbers ease slightly.**

Export numbers up to 26 June were showing a continued trend of previous months, with volumes up approximately 15% on 2024. Volumes to the US were up year-on-year, although down slightly on previous months, and volumes to South Korea were also up. Volumes to Japan, while down on last year's volumes, were similar to 2023 volumes.

Australian live cattle export volumes were up 10% in May to 87,080 head with volumes to Indonesia up 24%. Volumes to Vietnam were continuing the trend for the year to be down 38% for the year-to-date. Live export cattle prices out of Darwin were hovering around AUc 340/kg for feeder steers.

What to watch:

- **US grilling season** – Last year, strong US demand amid more limited beef supplies supported strong retail beef prices and increasing beef imports. This year, there are a few more uncertainties in the US economy but beef prices have continued to push higher on the back of ongoing reductions in supply. Will the US beef consumer continue to consume at these higher prices? Q1 sales results of major QSR operators showed a decline in same store sales figures and some US economic data is starting to show a slowing in the economy. A change in consumer incomes is one of the biggest influences on beef consumption. Will we see this year's grilling seasons as strong as last?

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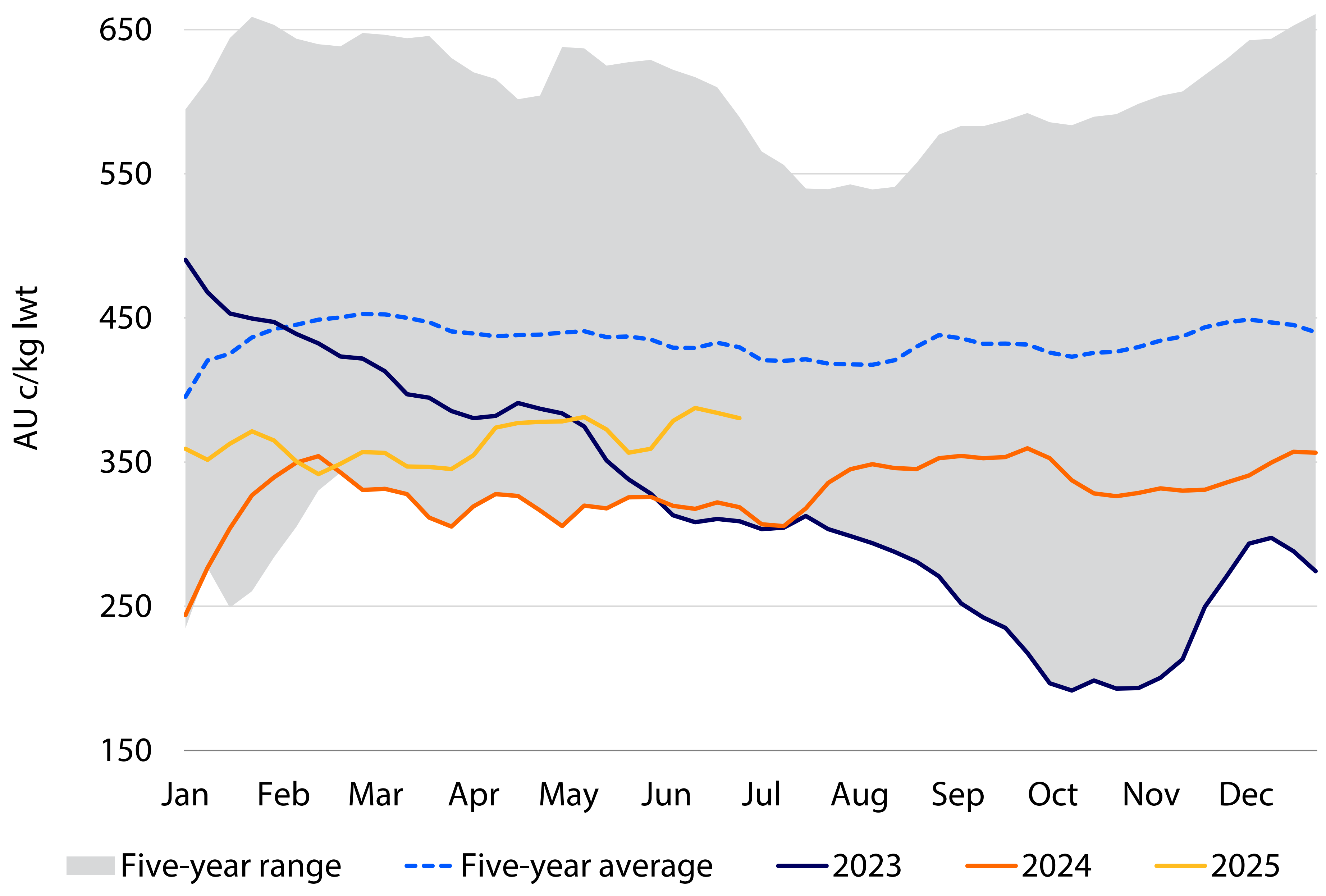
Beef

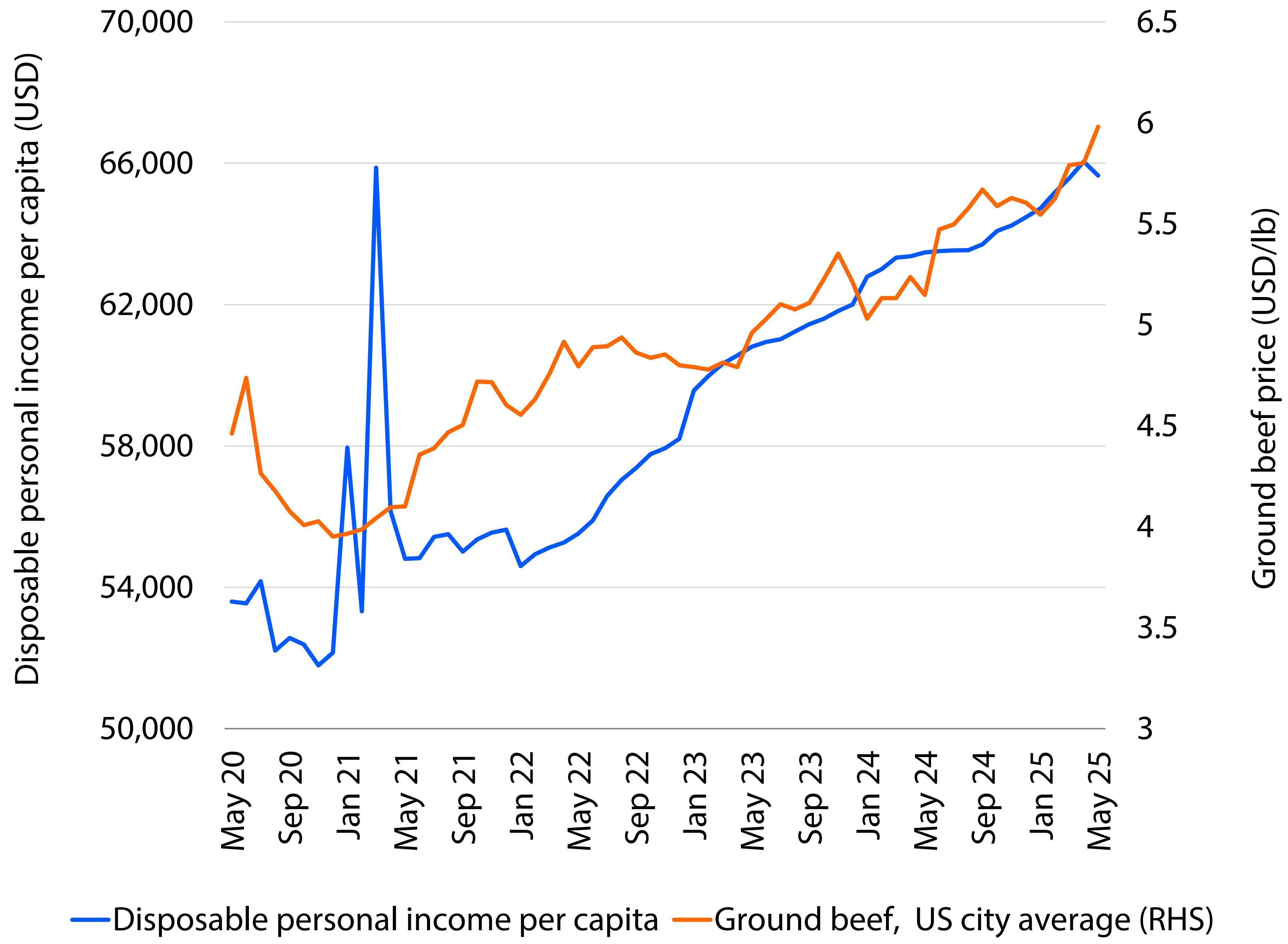
Australian cattle prices continue trending up as US retail prices continue rising

NYCI eases slightly in June but continues its trend upward



Source: MLA, RaboResearch 2025

US retail beef price keeps climbing but will incomes follow?



Source: USDA, BLS, RaboResearch 2025

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Sheepmeat

Prices to ease as lamb supplies start to decline

They say nothing kills high prices like high prices. With new record highs in the lamb market – the national trade lamb indicator reached AUc 1049/kg on 12 June – has the market over-cooked itself and will this lead to a drop in prices? We don't believe it is a case of the market over-heating, but rather processors testing the water on how many lambs remain available. The questions we have been asking for the last couple of months around how many lambs are left and will there be in the new season still remains. This price spike might have just been the processors testing the numbers to see how many there are and what that will mean for their future kill schedules. There was nothing on the demand or supply side that suggested such a large jump in prices should have occurred. **That being the case, with a slightly better read on lamb availability, we believe prices will now ease through the next couple of months – similar to the pattern in 2019 – and head back towards AUc 800/kg.**

National weekly lamb slaughter numbers remain high but unlike early May where weekly numbers were at record levels (over 500,000 head), for the week ending 20 June, the weekly lamb slaughter was 445,800 head – down 14%. Last year slaughter numbers recovered after the June long weekend before declining. This year, it looks like the long weekend was part way into the decline – similar to what we saw in 2019. If we follow the 2019 trend it would mean a 37% reduction in weekly slaughter numbers from early May to early August, taking 2025 August weekly slaughter to about 330,000 head a week. National sheep slaughter has also started a downward trend although it has not dropped as far as lamb volumes. Sheep slaughter is down 7% compared to the volumes in early May. Goat slaughter has also picked up in 2025 (up 23% YTD) and numbers post the June long weekend are higher than before the long weekend. The smaller reduction in sheep slaughter and higher goat slaughter suggests processors are seeking alternatives to keep chains full as lamb numbers drop.

June export volumes (up to 26 June) suggest a reduction in lamb export volumes for the month, down compared to May volumes and down compared to June 2024 volumes. The reduction in volumes would be in line with a reduction in lamb slaughter volumes.

What to watch:

- **EU and UK demand** – Following on from comments last month about availability of New Zealand lamb, the demand out of the EU and UK is currently very strong and drawing up more Australian lamb exports. Although together they only represent 9% of total exports, Australian exports to the EU+UK are up 67% for the first five months of 2025. At over 19,000t swt for the first five months of 2025 it is already the largest volume to these market in the last 30 years. But for the 12 weeks to 18 May, UK retail lamb prices are up 5.1% and volume consumed is down 8.8%, UK lamb production is up 3% YTD. Things don't quite add up, but it is definitely a market to keep an eye on, and it may prove to be valuable if Australian lamb slaughter weights this year are lower due to poor seasonal conditions.

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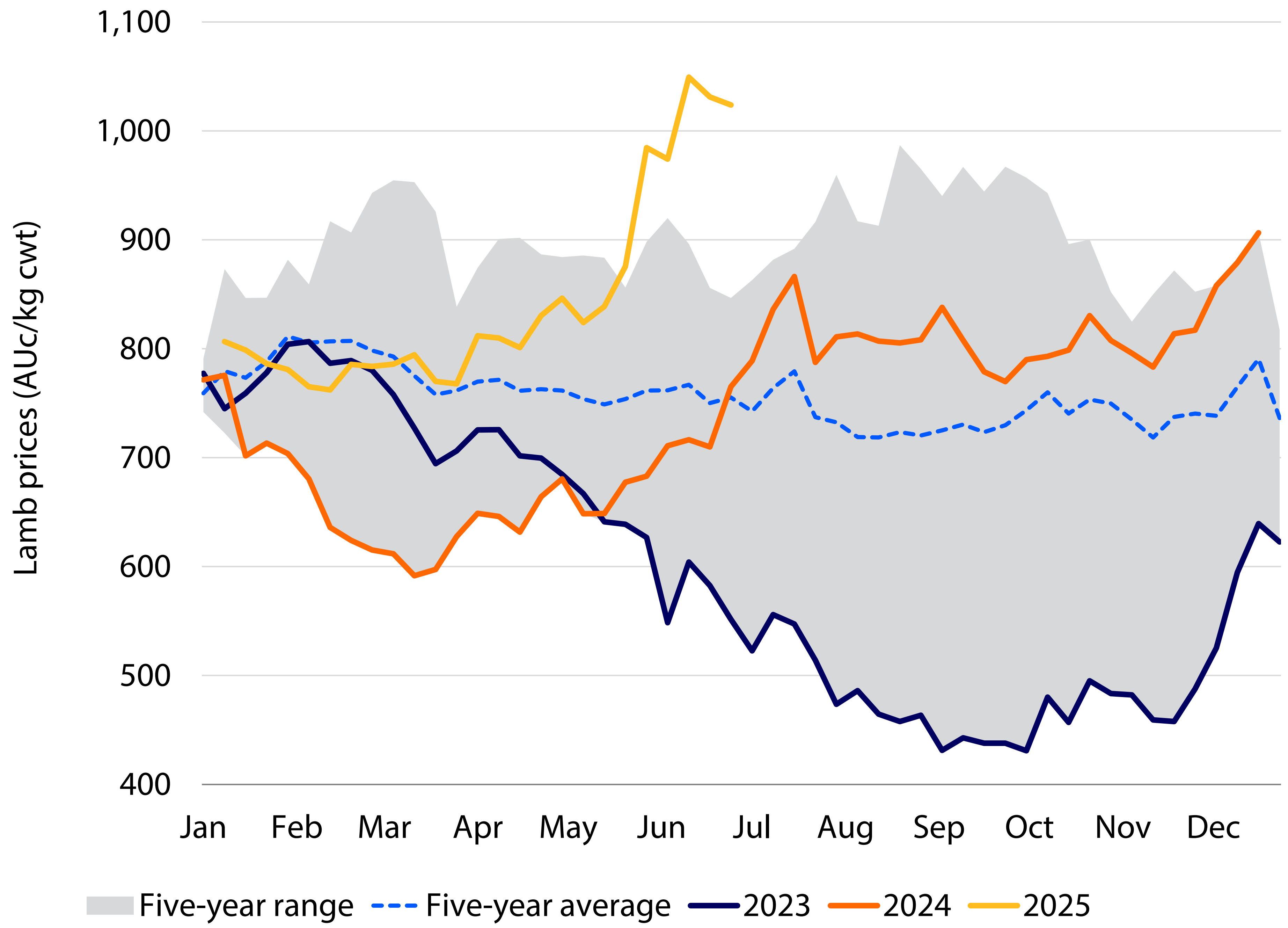
Sheepmeat

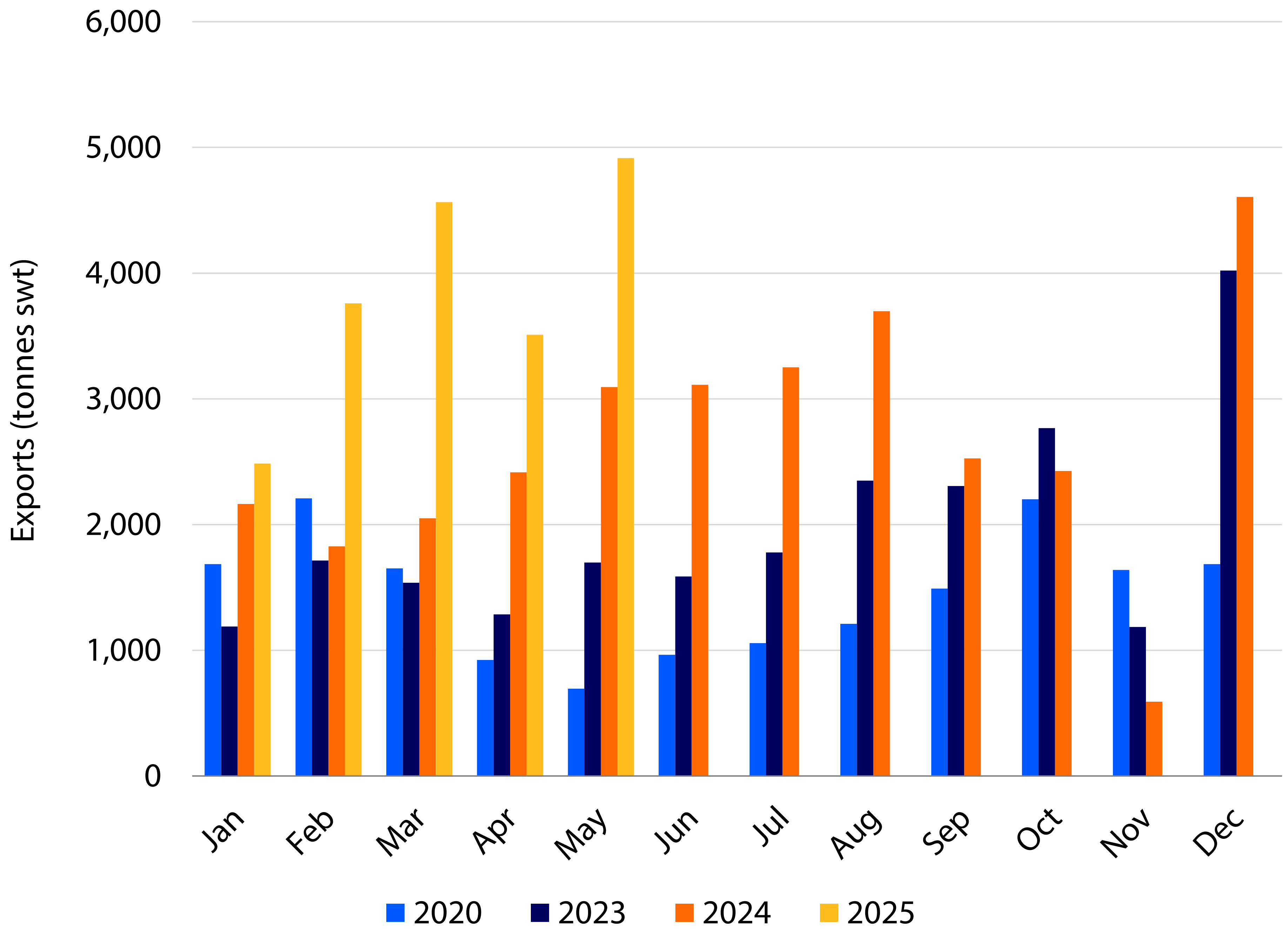
Lamb prices set new records as exports to Europe and UK set historical highs

National Trade Lamb Indicator (NTLI) sets a new record



Source: *MLA, RaboResearch 2025*

Australian lamb exports to the EU and UK historically high



Source: *DAFF, RaboResearch 2025*

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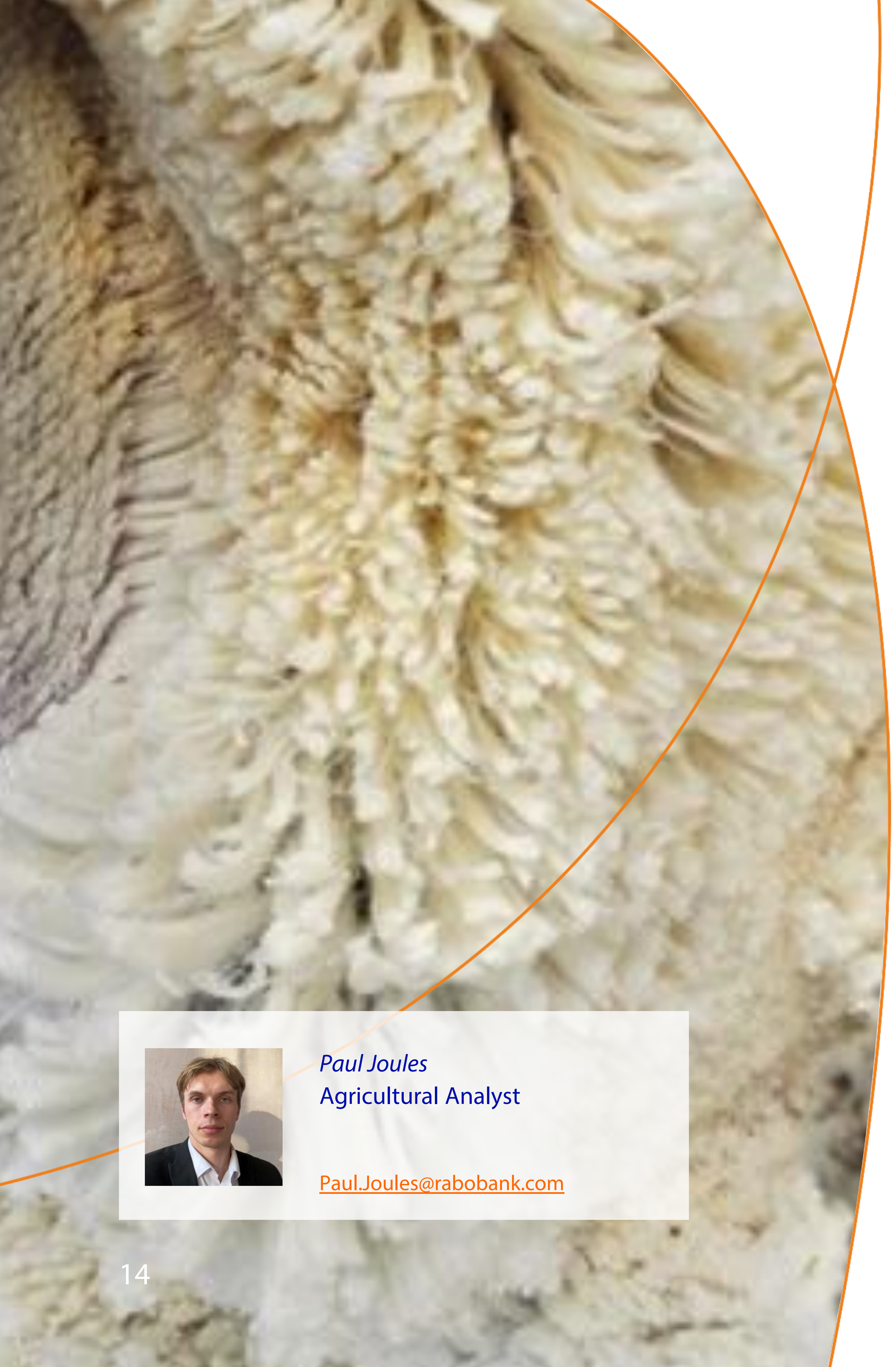

Wool

EMI prices hold steady month-on-month

For wool markets, prices held relatively steady over the past 30 days with the Eastern Market Indicator trading around the AUD 12/kg level and the Western Market Indicator trading around the AUD 13.54/kg level. Limited market movement is likely a consequence of the Australian dollar stabilizing around current levels, following a period of volatility.

In terms of micron movements, the finer microns were largely rangebound month-on-month barring 19 micron, which was down 2.4% MOM, and 20 micron which was down 1.8% MOM. We did however see some sharp movements for medium microns, with 28 micron rising 7.6% MOM, and 30 up 4.4% MOM.

In terms of exports, the latest data (which is for the month of August) showed Australian wool trade was down 9.6% on a YOY basis in April. The primary driver behind this was an 8.9% drop in Chinese volumes. Australia's second-largest buyer, India, recorded a much more modest 2.5% drop YOY. Italy (-18.4%), Czechia (21.8%) and Korea (34.6%) were also down notably YOY. The only positives from the trade data were modest increases from smaller buyers, such as the UK and the United Arab Emirates.

Trump recently stated that the US has signed a trade deal with China. If this materialises, it would be a positive development for both the wool and cotton markets, as steps toward improved US–China relations are supportive of Chinese economic growth and beneficial for the textile industry. From a Chinese demand standpoint, the worst-case scenario would involve severe barriers to US–China trade, which could lead to a decline in demand for Australian wool and cotton.

In other news, the AWI released its strategic plan leading into 2028. Some of the key takeaways from the report include increased investment in demand creation – specifically targeting regions such as the Americas and Europe.

What to watch:

- **In recent days, Trump has stated that the US has signed a trade deal with China.** This is good news for Chinese cotton/wool demand. However, markets will be closely assessing the terms of this deal.

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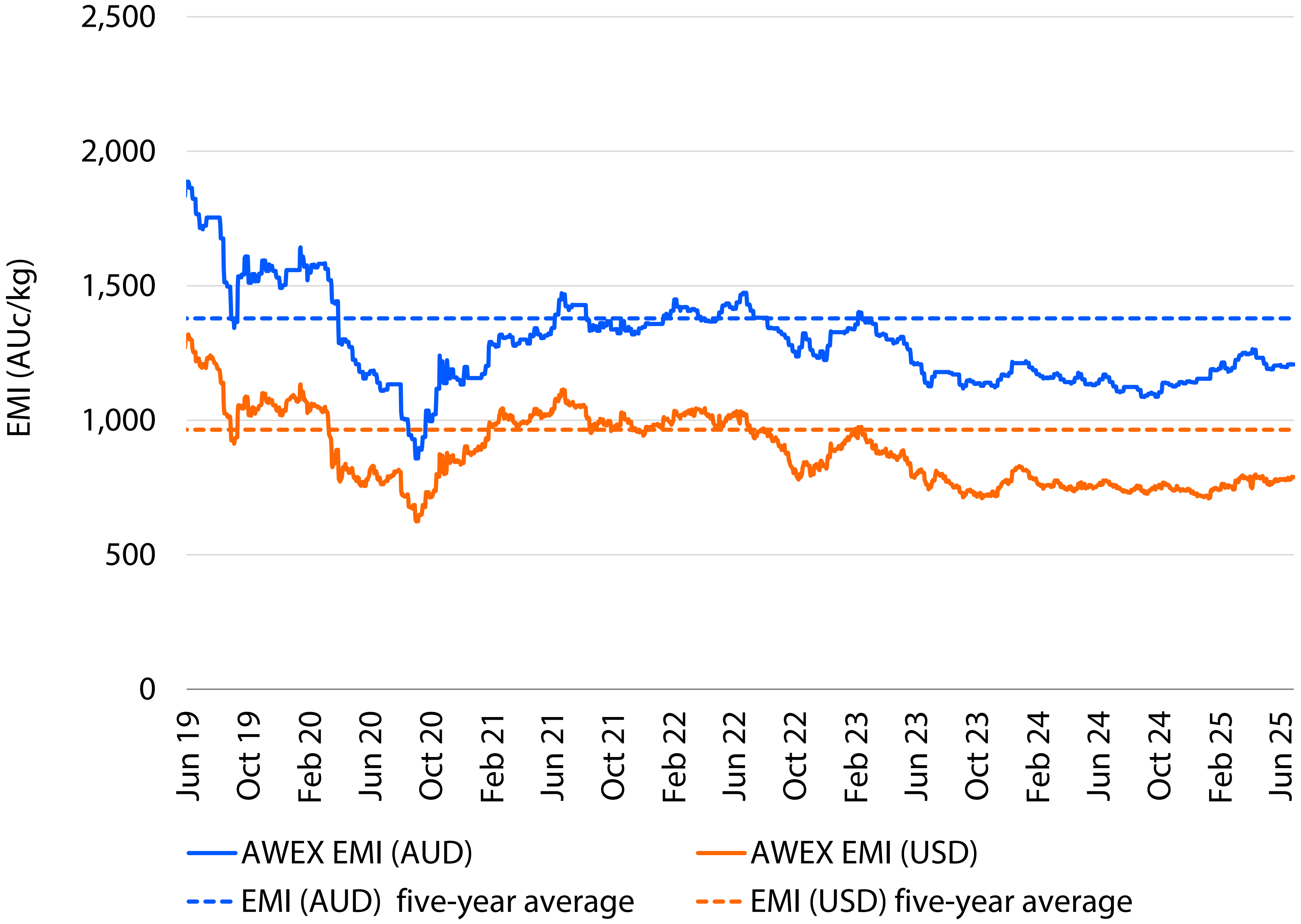
Wool

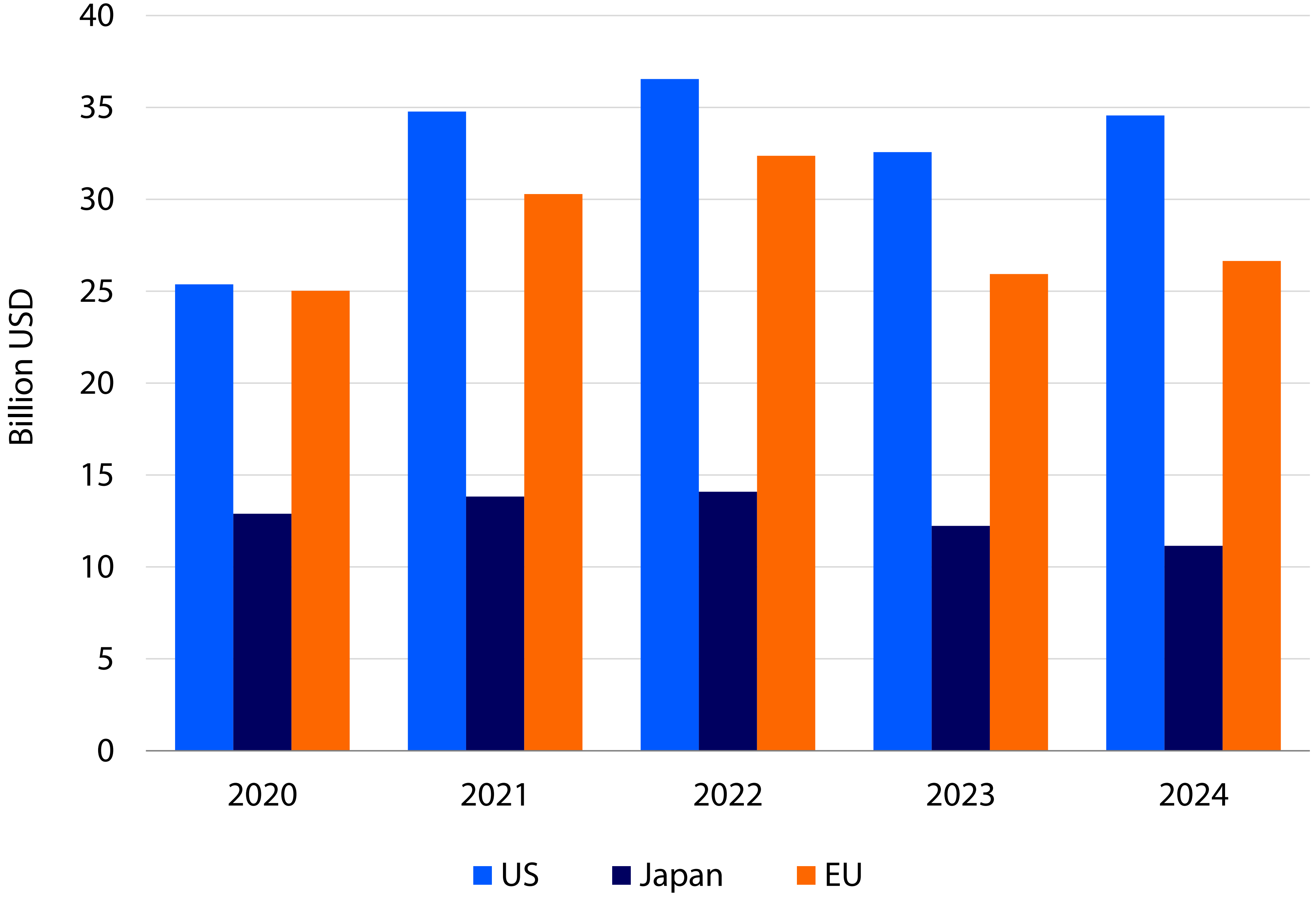
Wool prices appear to have stabilised around current levels as declining production offsets weak demand

EMI prices hold steady over June around the AUD 12/kg level



Source: *Bloomberg, RaboResearch 2025*

Chinese clothing and apparel exports: The US is a critical destination



Source: *Macrobond, RaboResearch 2025*

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Cotton

US cotton futures hit near two-month high

ICE #2 Cotton futures rose by 2% month-on-month, finishing around USc 69/lb, following a sharp rally over the past 10 days. US futures are approaching the USc 70/lb level – a price not seen since April.

Recent price movements appear to be driven by a mix of fundamental factors. On the supply side, uncertainty around US production is offering some support for prices, with limited rainfall across the Delta region. Disappointing weather conditions in the US could increase the abandonment rate.

Another positive for the market came from Trump's announcement that a trade deal with China has been agreed. Although the framework of the deal remains unclear, a perceived thaw in US-China relations could support Chinese cotton demand. Notably, Chinese cotton imports were exceptionally low in May – at least a 10-year low. While this can partly be attributed to high stock levels, ongoing US-China trade tensions have clearly raised concerns among buyers and dampened demand. If the trade deal supports Chinese textile and apparel exports to the US, we could see a rebound in Chinese cotton imports, which would help bolster global demand.

Meanwhile, Australian cash prices rose modestly but remain below AUD 575/bale for the 2026 crop. The relatively muted response to global supply and demand fundamentals can be partly attributed to the strength of the Australian dollar, which has offset some of the upward price pressure.

Funds continue to hold a sizeable net short position in ICE #2 Cotton futures. While speculators typically maintain a net short stance, they have now been net-short for the past 14 months – a record duration. Could issues with the US crop, combined with easing US-China tensions, finally be enough to trigger short-covering and support prices? Possibly. However, strong crop prospects in Brazil may limit any significant shift in market sentiment among speculators.

What to watch:

- **US production forecasts in the coming week may be a source of market volatility –** recent dryness could lead to a cut in official estimates, which would be supportive for prices.
- **Cotton futures will likely remain sensitive to any new insights into the framework of the US-China trade deal –** particularly those related to Chinese clothing and apparel exports to the US, and US cotton exports to China.

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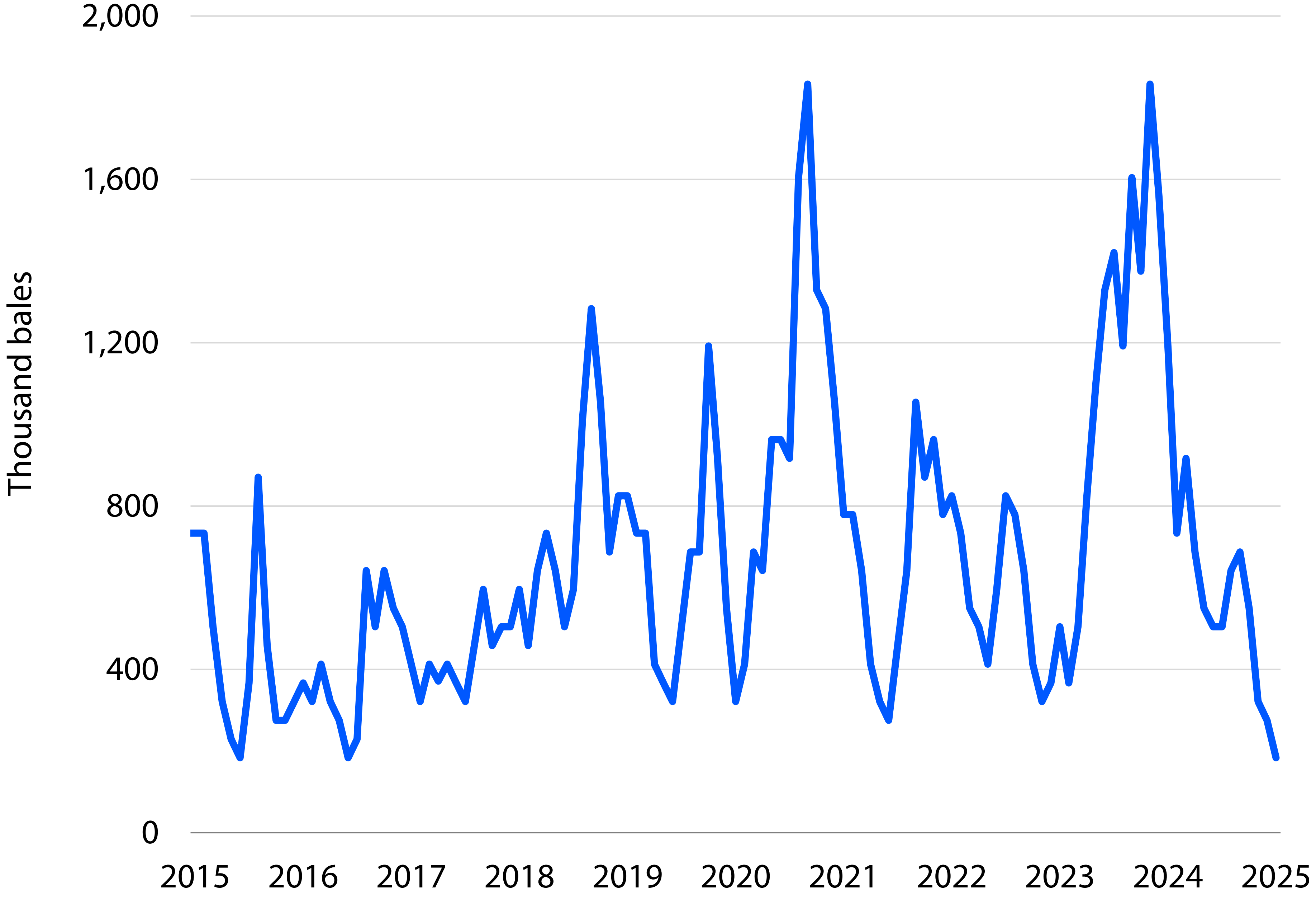
Cotton

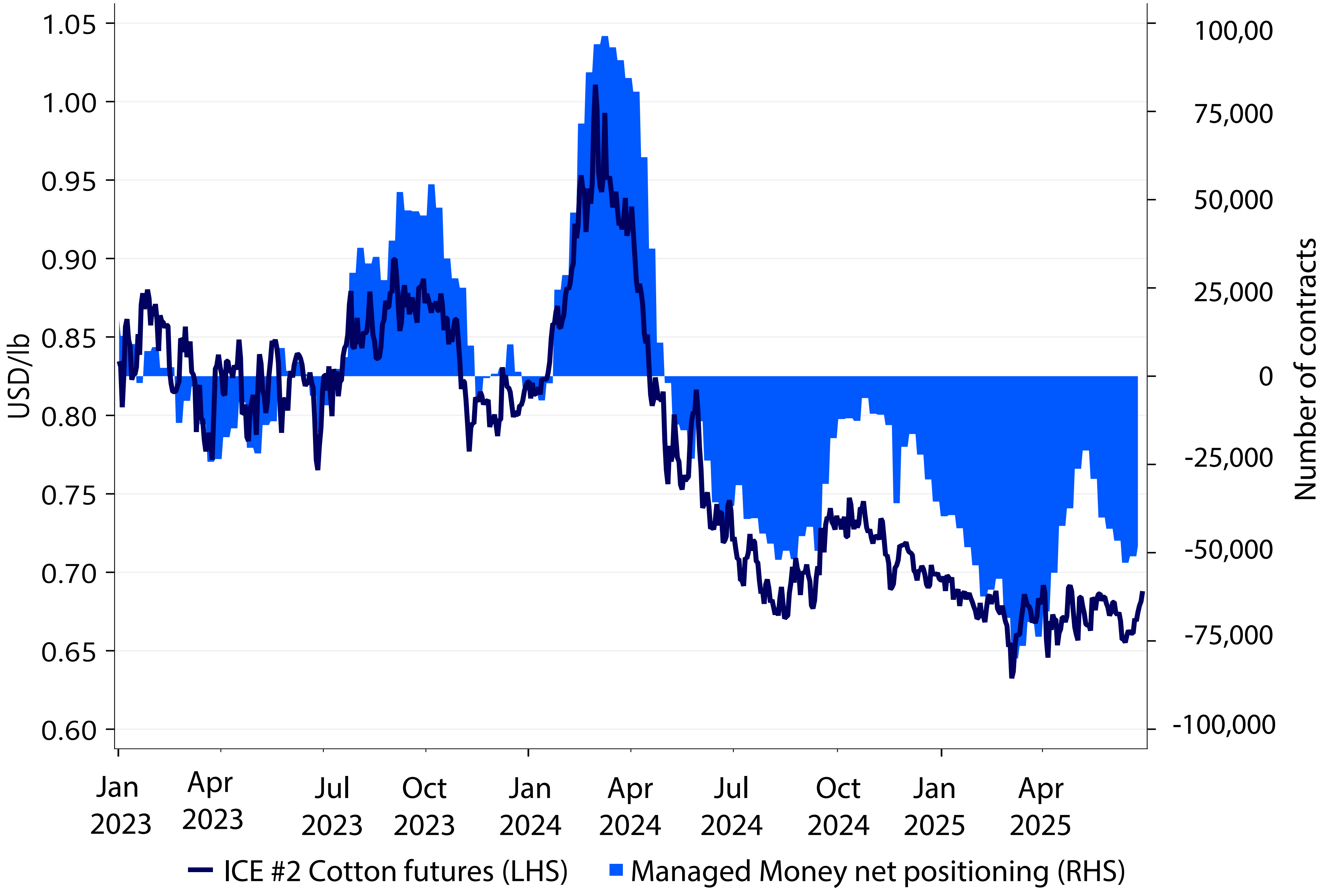
US futures have rallied over the past week with US crop issues in focus

Chinese total cotton imports have been exceptionally weak, but signs of improving US-China relations could boost this



Source: *Macrobond, RaboResearch 2025*

Following a period of net buying, funds have shifted into a net selling period in recent weeks



Source: *Macrobond, RaboResearch 2025*

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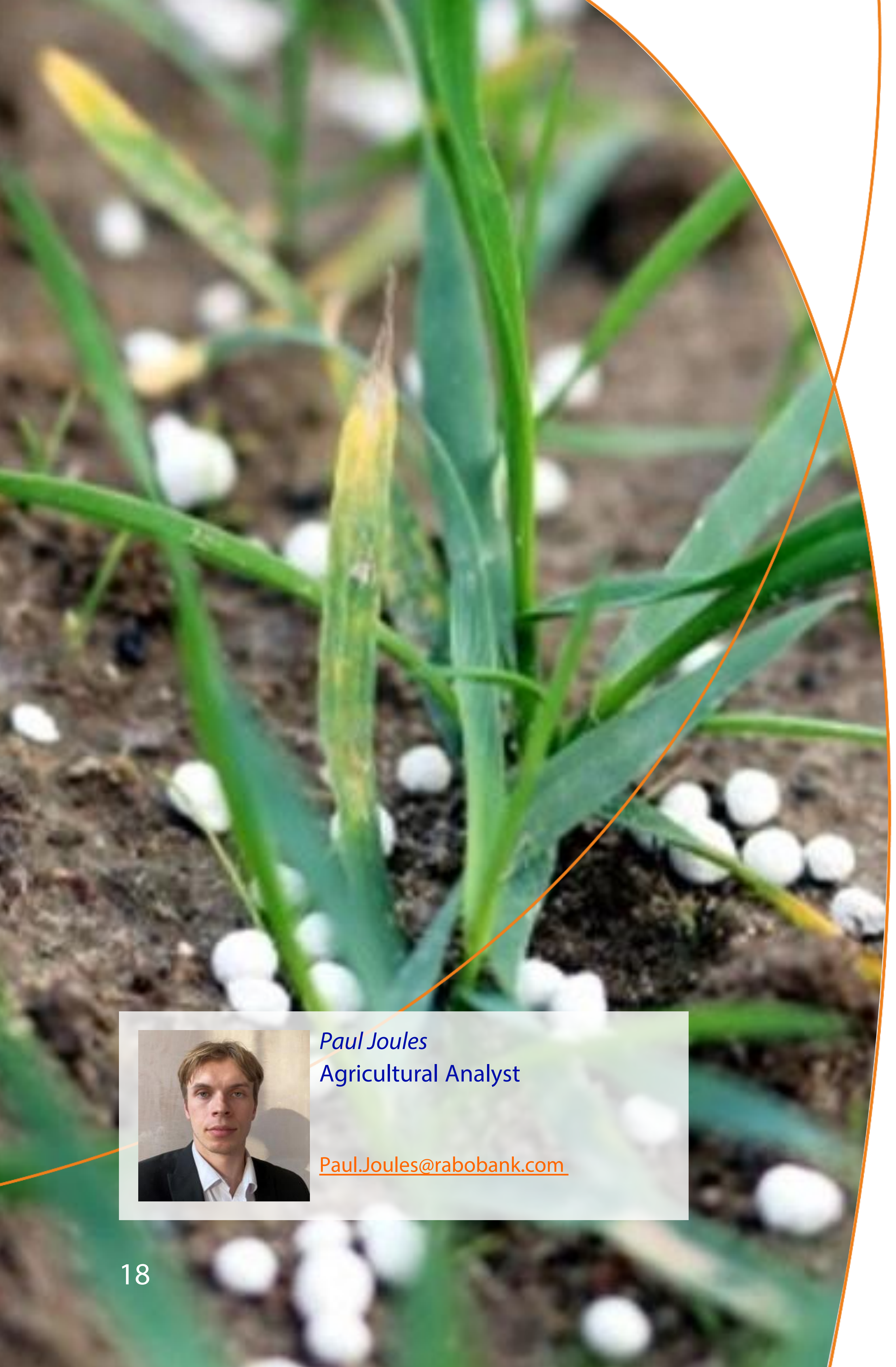

Farm inputs

Urea prices in focus following Middle East flare-up

The key development this month was the escalation of conflict in the Middle East, which had a notable impact on urea markets. The broader region, including Egypt, accounts for around 45% of global urea exports. Much of this trade depends on the Strait of Hormuz – a critical maritime chokepoint. Iran's parliamentary vote to close the Strait sparked market panic, but vessels have continued to pass through. Given Iran's own reliance on the Strait for oil exports, as well as that of neighbouring countries, a full closure remains unlikely.

A more positive turn came with the US-brokered ceasefire between Israel and Iran. This eased market tensions, and urea prices have since pulled back from the highs seen earlier in the month – although still remain higher than pre-war levels. If the ceasefire holds – still a big "if," given early violations – it's likely prices will return to pre-conflict levels, with market focus shifting back to global supply and demand fundamentals.

The war directly disrupted production in two major exporting countries: Iran (third-largest globally) and Egypt (fourth largest). Iran's output was halted due to damage to gas fields, while Egypt's supply was affected by Israel cutting off gas exports. If peace holds, both nations are expected to resume production soon, which would help stabilise global supply.

Before the conflict intensified, global urea supply was already showing signs of recovery. China recently announced its return to the export market after an 18-month hiatus. While export volumes will be capped, the additional supply is welcome amid ongoing uncertainty.

As far as Australia is concerned, the country is heavily reliant on urea imports, so any international supply shock directly translates into higher domestic prices. Fortunately, import volumes were stronger than average earlier in the year, providing a buffer. However, if the ceasefire fails to hold, prices in Australia are still likely to remain highly sensitive.

What to watch:

- **All eyes remain on the Middle East after a volatile fortnight.** Urea prices in AUD terms spiked sharply, with comments on the ground suggesting a AUD 100/tonne jump in some regions. Markets will be watching closely for any signs of renewed hostilities.

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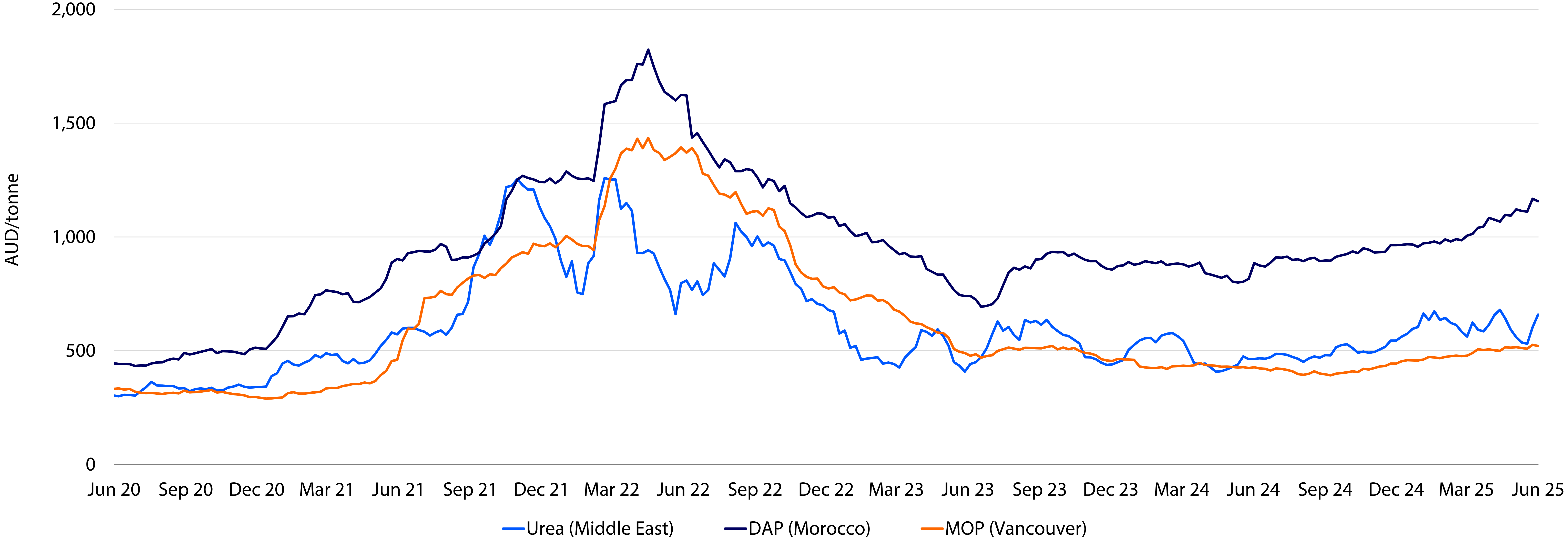
Farm inputs

Phosphate and urea prices continue to track higher amid global supply uncertainty

Urea prices have been particularly volatile in recent weeks amid Middle East conflict escalation



Source: *CRU, RaboResearch 2025*

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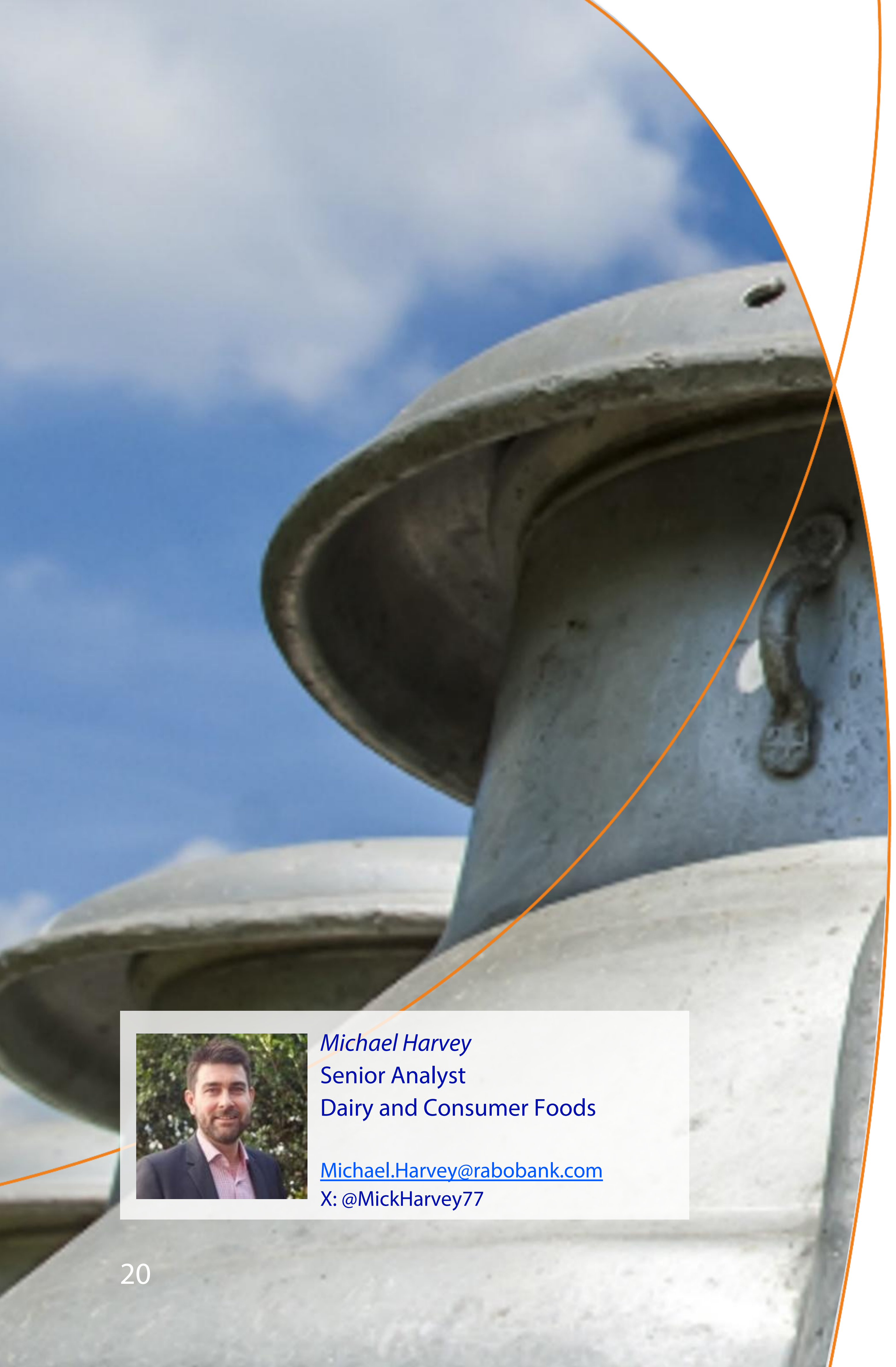

Dairy

Mixed results in the local milk supply story

Milk prices for the 2025/26 season will start at least 10% higher than the previous season across the southern export region. June was a busy month, with a wave of milk price announcements as the dairy companies jostle for position in a competitive market for milk supply.

Excluding fresh milk contracts, the bandwidth for milk prices ranges between AUD 9.00-AUD 10.00/kgMS.

Australian milk production continues to trend lower as unfavourable seasonal conditions in a range of production regions drag milk supply lower. May milk production was 3.8% lower year-on-year.

This brings national production for the period to May down 0.4%, which represents a decline of 31 million litres. On a volume basis, the biggest fall has been in Western Victoria with production down 4.5% season-to-date. This has been partially offset by milk supply growth in Northern and Eastern Victoria, up 2.9% and 1.7%, respectively.

Dairy cow culling remains high across the country. The latest data from Dairy Australia shows that national volumes are 6% higher season-to-date (to May). The average price is much higher with an average price 37% higher season-to-date.

Milk retail price inflation across Australian grocery aisles continued in May. According to the monthly CPI data from the ABS, dairy prices recorded 0.1% inflation in May 2025 versus prior year. The watch will be whether there will be further price inflation with record high commodity prices for butter and higher local farmgate prices lingering in the background.

The global market is entering a period of mild milk supply expansion across most major export regions. RaboResearch estimates output from the Big-7 dairy exporting regions to grow by 1.1% in Q2 2025 and accelerate to 1.4% growth in Q3 2025. This would mark the strongest quarterly increase since Q1 2021.

What to watch:

- **US dairy export uncertainty –** US milk production is expanding and 2025 will mark the first year of annual growth since 2021. In the background, the continually evolving trade and tariff situation has led to uncertainty across the export sector.
- **China market balance –** Milk production volume is forecast to decline by 2.8% in 2025. Weaker-than-expected demand and a higher exports volume will lead to an almost flat 2025 net dairy import volume.

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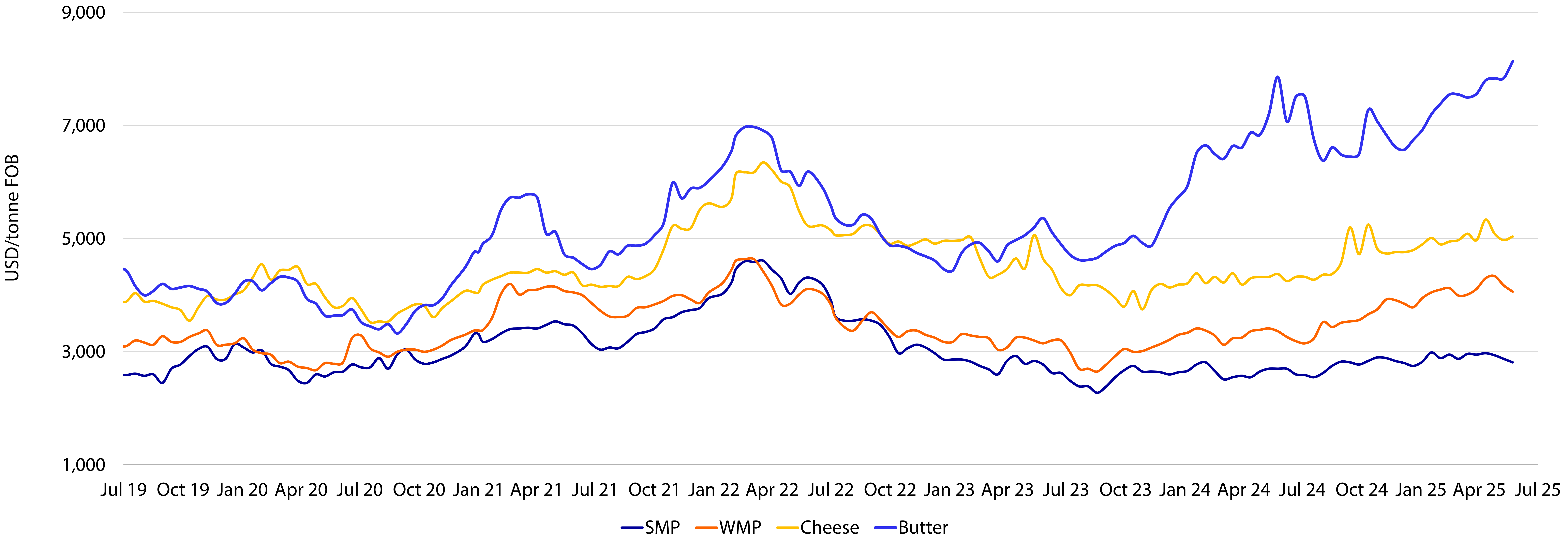
Dairy

Butter prices continue to defy gravity amid tight supply

Oceania spot prices for dairy commodities



Source: *USDA, RaboResearch 2025*

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Consumer foods

Food inflation posted consecutive months of a slowdown

According to the latest monthly CPI data from the ABS, food and non-alcoholic beverage inflation eased to 2.9% in May from 3.1% in April. Fruit and vegetable prices rose 2.8% annually, down from 6.1%, with fruit prices falling 2.7% in May due to cheaper mandarins, oranges, avocados, and apples. Non-alcoholic beverages rose 5.2% over the year, driven by an 8.3% increase in coffee, tea, and cocoa, with coffee prices impacted by poor weather in key growing regions.

According to ANZ-Roy Morgan Australian Consumer Confidence, Australian consumer confidence rose by 1.3 points to 86.7 ahead of EOFY, driven by strong retail activity and improved personal financial outlooks. The "time to buy a major item" sentiment hit its highest since April 2022, while short-term economic confidence dipped slightly. Inflation expectations eased to 4.7%.

In the March quarter of 2025, Australian household wealth rose by 0.8% (AUD 137.1 billion), mainly driven by a 1.2% increase in residential property values. House prices continued their upward trend, rising 0.7%, although annual growth slowed to 4.2%. Household borrowing grew by 1.4%, slightly offsetting wealth gains, while deposits increased by 1.7%, contributing positively.

Superannuation assets declined by 0.4% due to global market uncertainty, marking the first drop since 2022. The RBA's February rate cut helped ease mortgage costs, with another cut in May expected to further influence housing and credit trends.

Some recent earnings announcements confirmed a challenging consumer environment in Australia but with signs of green shoots.

Collins Foods reported same-store-sales growth in 2H 2025 (ending April 2025) of 0.6% for their KFC Australia platform. This was an improvement on -0.1% same-store-sales growth in 1H 2025. This was the strongest result across their global platforms. According to the results, there had been improvement in the first eight weeks (+1.6%) of the new fiscal year.

The company also reported some improvement in margin performance on the back of deflation in key inputs, namely poultry and potatoes.

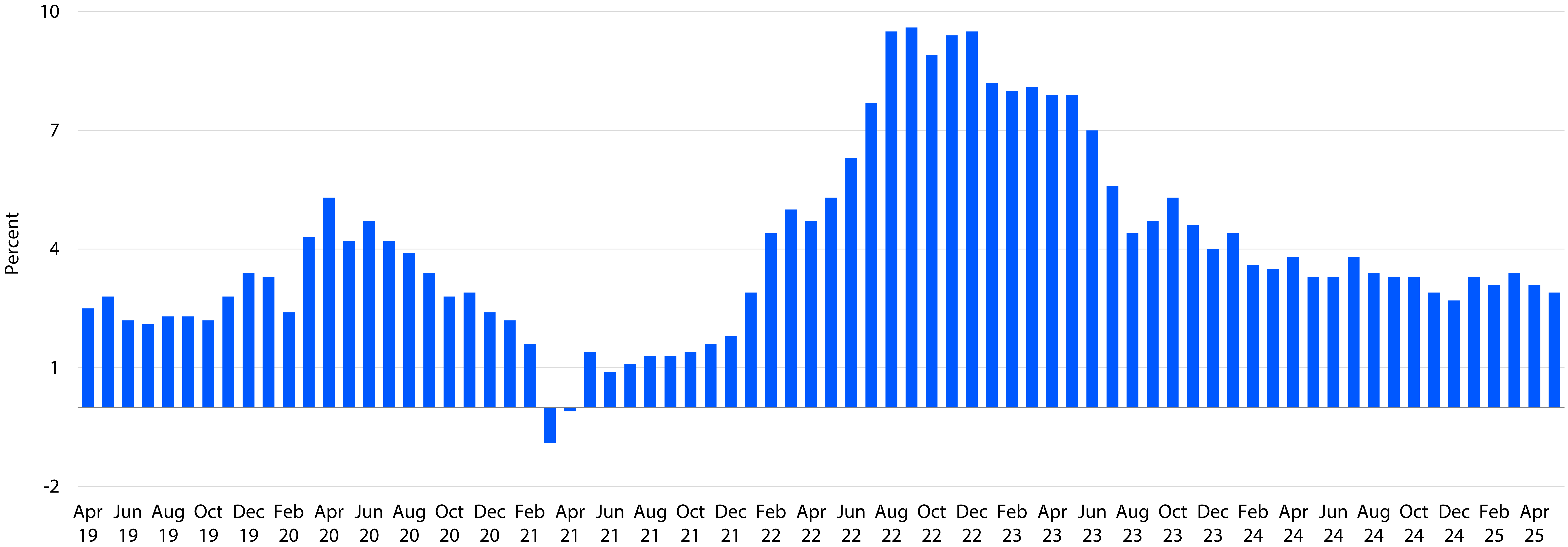
What to watch:

- **More interest rate relief to come –** With Rabobank forecasting rate cuts by the RBA in July, August, November, and February, mortgage holders across Australia can expect sustained relief from cost-of-living pressures. This easing in monetary policy is also set to bolster discretionary spending as we head into 2026.

Consumer foods

Monthly food and beverage inflation below 3% in May

Australian monthly CPI, percentage change from corresponding month of previous year, food and non-alcoholic beverages



Source: *ABS, RaboResearch 2025*

Rabobank

Interest rate and FX

Liberation Day 2.0

Last month we noted that we had updated our forecast on the RBA cash rate to include cuts in July, August, November and February.

When we made this prediction not many banks were expecting a rate cut in July, and almost none of our peers were forecasting a cash rate as low as 2.85%. Pleasingly, a cut in July is now close to being the consensus view among bank economists, and at least one of the four major Australian banks has joined us in forecasting a 2.85% cash rate in February.

There were two data releases in June that firmed up expectations of further cuts. Firstly, the May labour force report showed employment *falling* by 2,500 instead of rising by 21,000 as expected. Secondly, the May inflation report showed annual price growth eased to 2.1%, versus expectations of around 2.3%.

For the latter, it is important to remember that the RBA's target band for inflation is 2%-3%, so May's figures suggest that we are at risk of overshooting the inflation target.

Taken together with the gradual uptrend in Australia's unemployment rate and economic growth running well below the trend level, this suggests that the RBA has latitude to reduce interest rates further.

Importantly, the US' 90-day pause on the implementation of "reciprocal" tariffs is due to end on July 9th, creating fresh growth headwinds and perhaps adding an additional reason to cut the cash rate.

The US has recently ceased trade negotiations with Canada after the latter imposed a digital services tax on American tech companies, and has threatened to double tariffs on Spain after they balked at agreeing to NATO's new 5% defence spending target.

Uncomfortably, Australia places non-tariff barriers on American tech and is also resisting US calls to increase defence spending. Could Australia end up facing a higher tariff rate than the 10% minimum announced on April 2nd? Don't rule it out entirely.

What to watch:

- **Expiry of the 90-day pause on "reciprocal" tariffs, 9 July** – This is a major point of interest, with substantial implications for global growth and inflation. Will Australia continue to pay the 10% minimum tariff rate? Can a better deal be cut? Or might the US take a dim view of Australia's reluctance to increase defence spending and restrictions on US tech companies and apply a higher rate?

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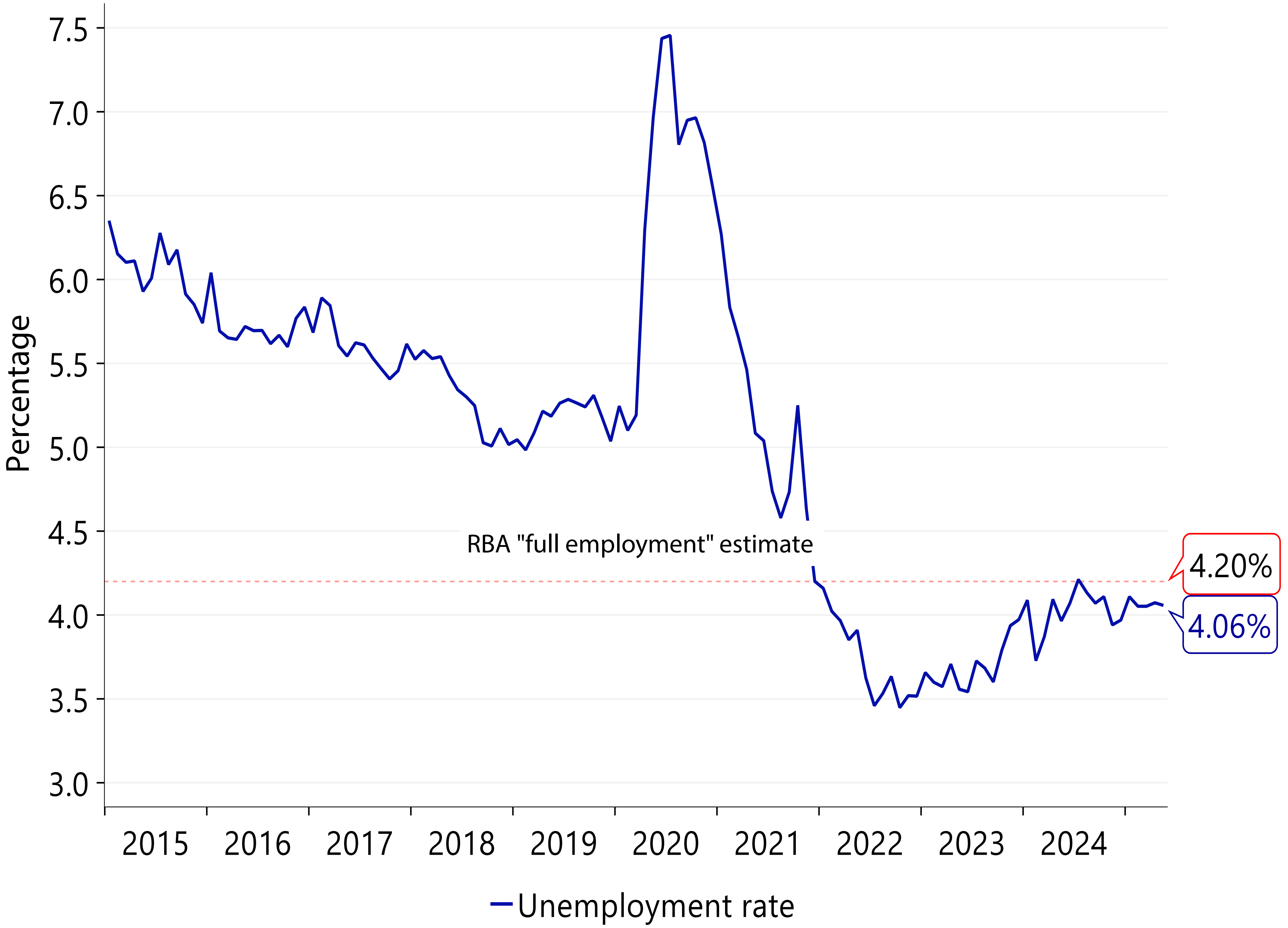
Interest rate and FX

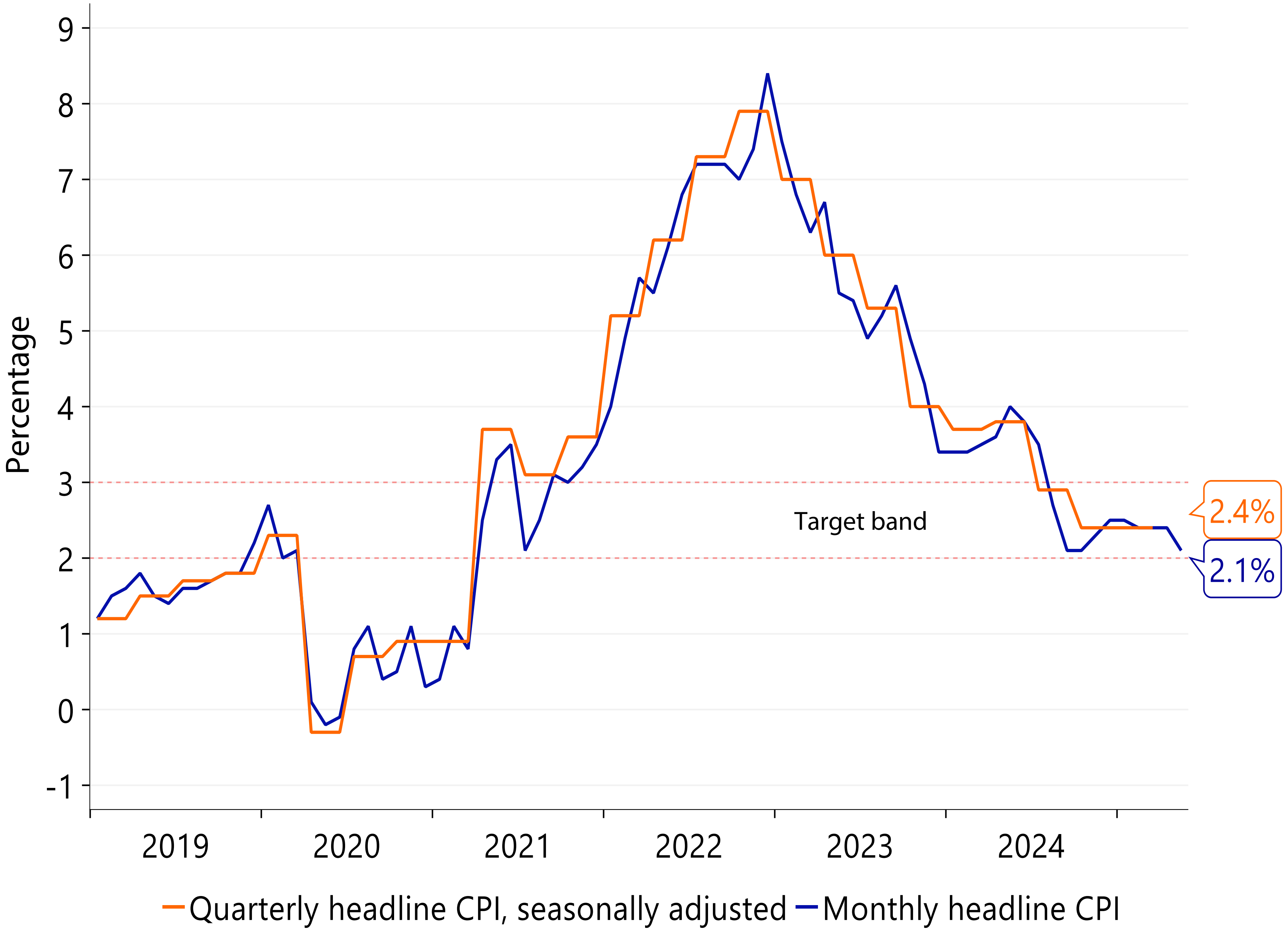
At risk of overshooting?

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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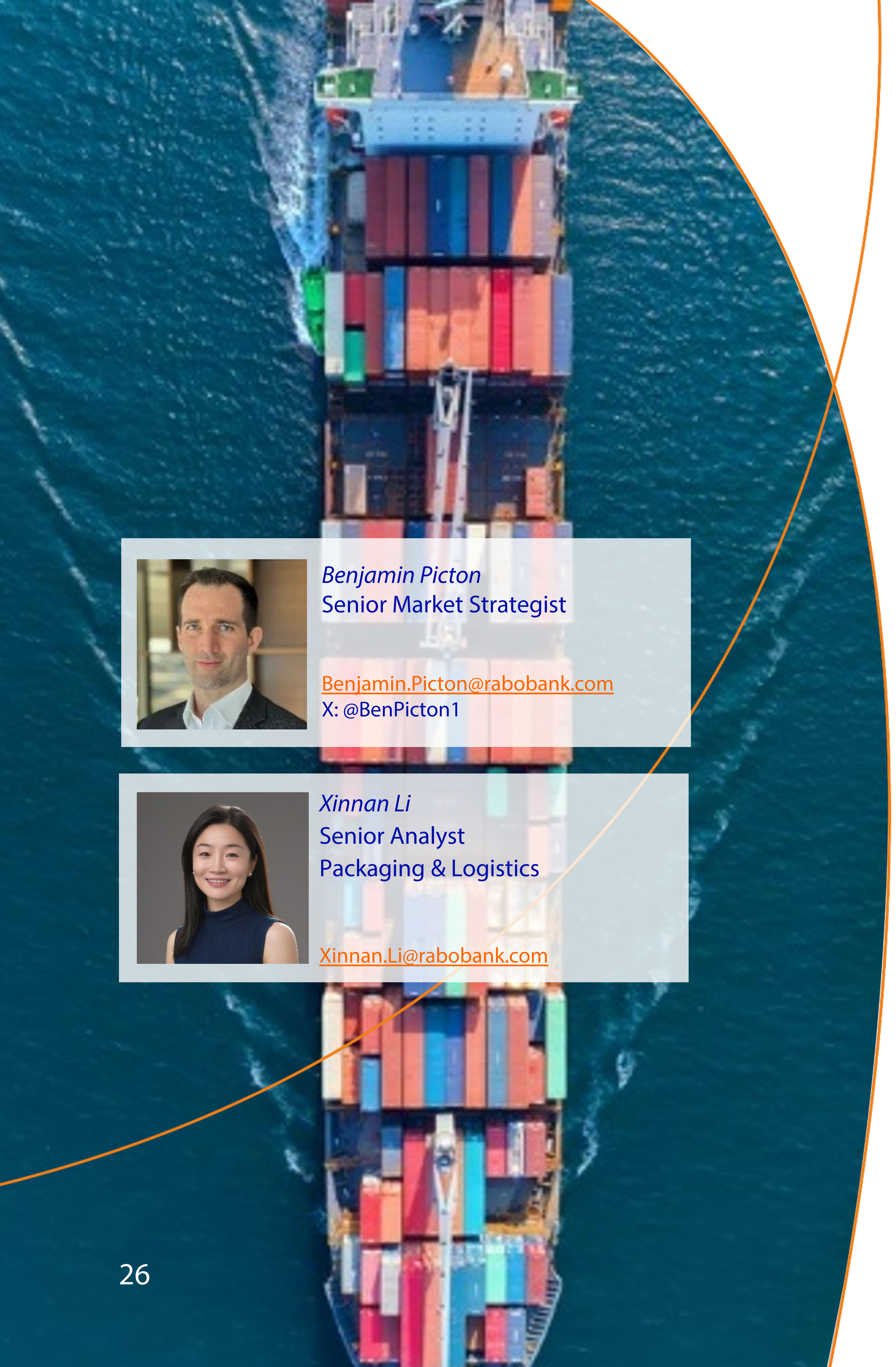

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Oil and freight

King volatility

June was the most volatile month for oil prices since October 2023. The Israel-Iran war saw prices trade in a range of more than USD 18/bbl.

Ultimately, prices closed the month slightly lower than where they started as threats of disruption to Middle Eastern oil and gas supplies subside.

The world continues to grapple with a weak outlook for demand, perhaps even more so now that the US' "reciprocal" tariffs are set to take effect from July 9th. Meanwhile, the supply side of the equation continues to look very strong and OPEC+ producers are expected to add even more barrels to the market in the months ahead.

Container freight rates have almost doubled from their more than one-year low once the hefty US-China tariffs were paused as confidence in rather strong global trade returned. Combined with the Israel-Iran war, this kept the Baltic container index volatile. RaboResearch expects continued volatility as geopolitical uncertainty remains high.

The Baltic Panamax index (a proxy for grain bulk freight) has continued its impressive recovery, doubling from its bottom in late January 2025. Limited updates on US tariffs, NATO's 5% defence expenditure commitment, and progress in the US-China trade negotiations, support confidence in US and global exports of bulk commodities.

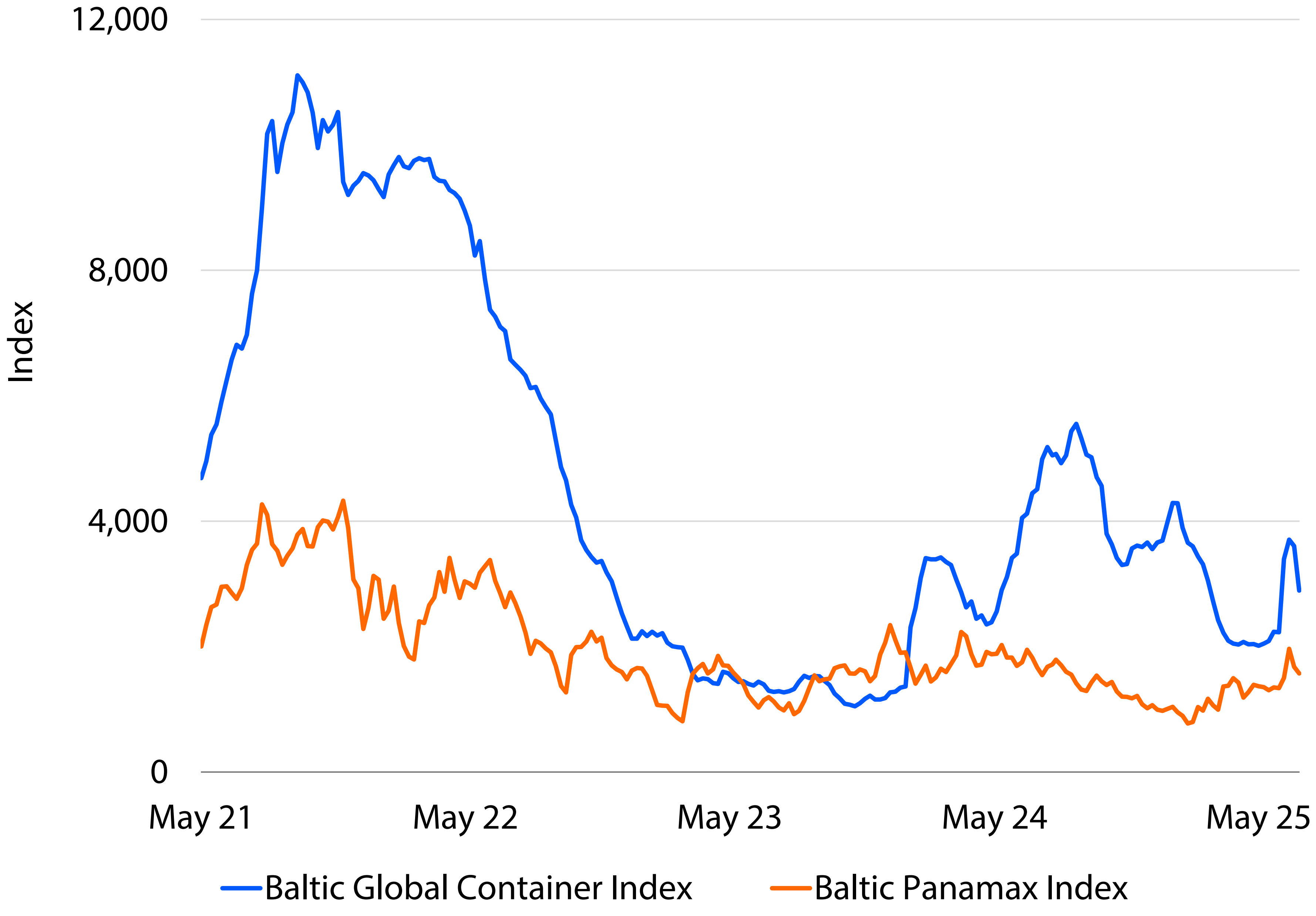
What to watch:

- **Expiry of the 90-day pause on "reciprocal" tariffs, 9 July** – The imposition of tariffs is likely to slow down global growth, thereby presenting another headwind to demand for transport fuels. Energy markets will likely be particularly attuned to details of any trade deals, or changes to tariff rates already announced.
- **US-China trade deal outcome** and whether a return to exorbitantly high tariffs can be avoided

Oil and freight

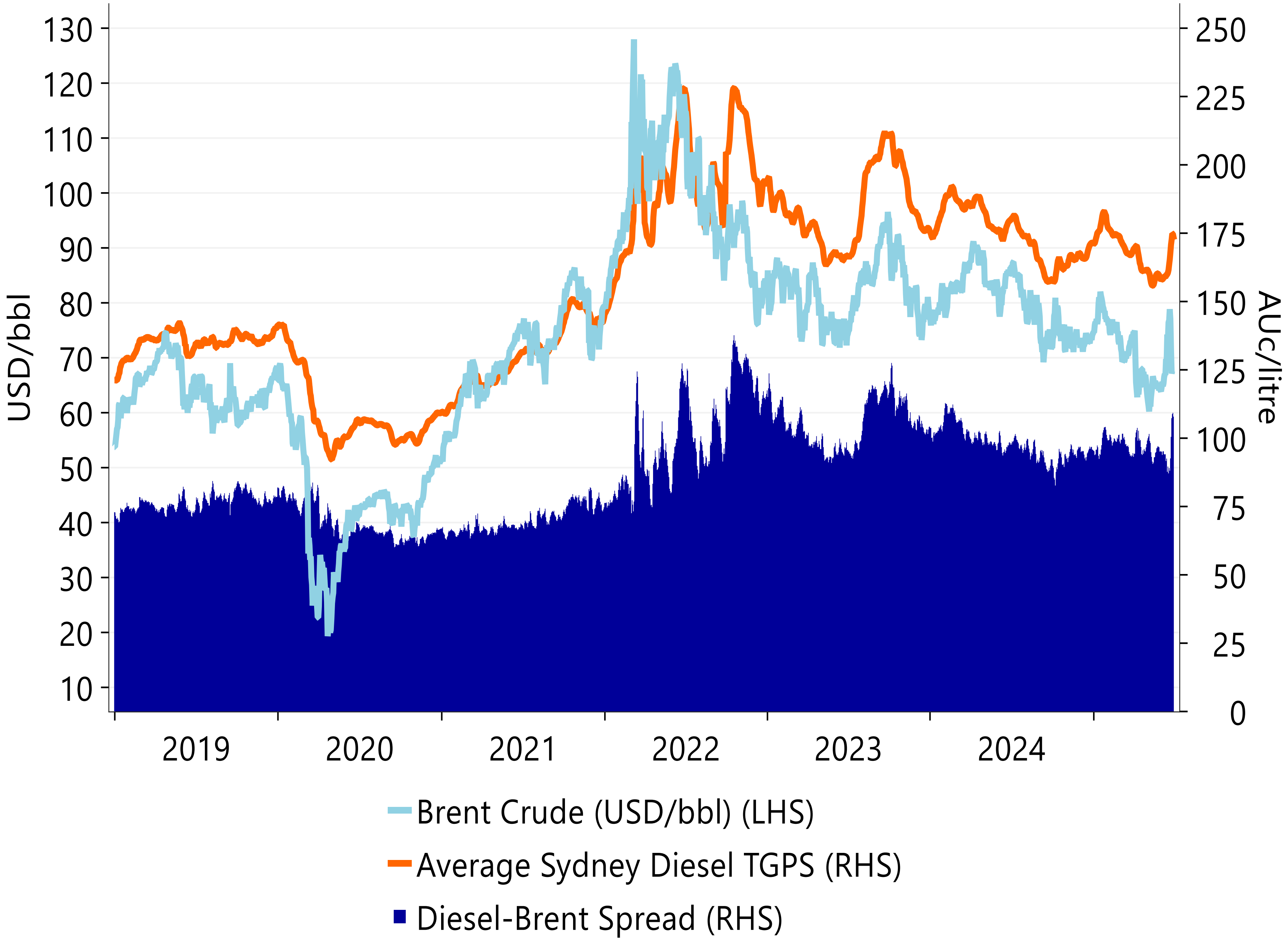
Price pressures subside with peace in the Middle East

Baltic Panamax Index and Dry Container Index, May 2021-June 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

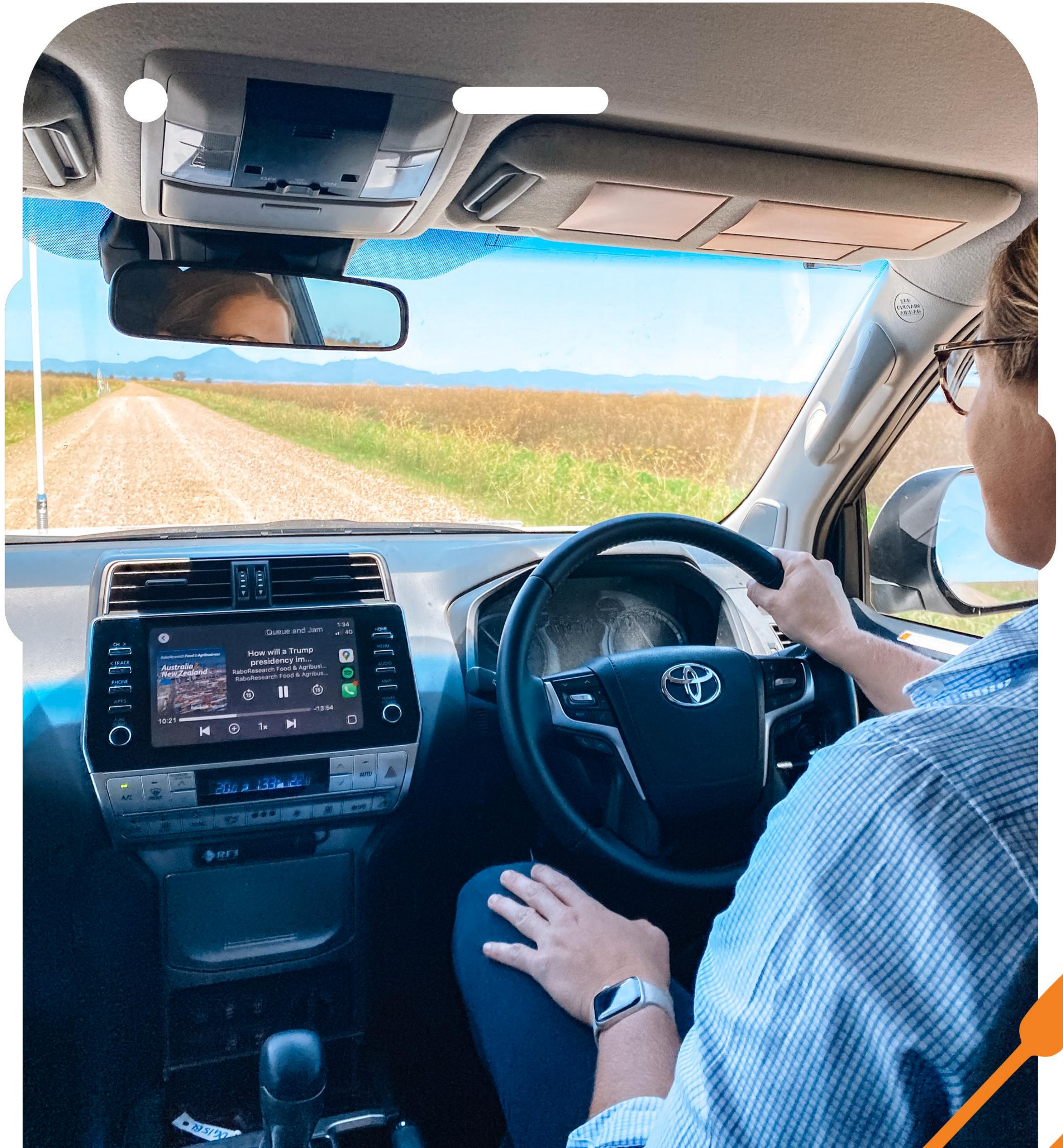
27/06/2025	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	525	530	554
CBOT soybean	USc/bushel	▼	1,028	1,049	554
CBOT corn	USc/bushel	▼	418	451	554
Australian ASX EC Wheat Track	AUD/tonne	▼	324	326	554
Non-GM Canola Newcastle Track	AUD/tonne	▼	764	791	554
Feed Barley F1 Geelong Track	AUD/tonne	▼	338	339	554
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	704	734	581
Feeder Steer	AUc/kg lwt	•	390	390	329
North Island Bull 300kg	NZc/kg cwt	▲	825	790	625
South Island Bull 300kg	NZc/kg cwt	▲	755	725	560
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	•	837	837	713
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	955	910	650
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	950	890	650
Venison markets					
North Island Stag	NZc/kg cwt	▲	950	930	860
South Island Stag	NZc/kg cwt	▲	940	920	855
Oceanic dairy markets					
Butter	USD/tonne FOB	▲	8,138	7,838	7,863
Skim Milk Powder	USD/tonne FOB	▼	2,813	2,938	2,700
Whole Milk Powder	USD/tonne FOB	▼	4,063	4,338	3,363
Cheddar	USD/tonne FOB	▼	5,038	5,088	4,375

Source: Baltic Exchange, Bloomberg, RaboResearch 2025

Agri price dashboard

27/06/2025	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	79.7	78.0	85
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	67.5	65.3	70
Sugar markets					
ICE Sugar No.11	USc/lb	▼	15.8	16.9	20.3
ICE Sugar No.11 (AUD)	AUD/tonne	▼	564	587	617
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,207	1,204	1,142
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	502	395	353
DAP (US Gulf)	USD/tonne FOB	▲	720	695	550
Other					
Baltic Panamax Index	1000=1985	▲	1,490	1,169	1,667
Brent Crude Oil	USD/bbl	▲	68	65	86
Economics/currency					
AUD	vs. USD	▲	0.653	0.643	0.667
NZD	vs. USD	▲	0.606	0.597	0.609
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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