Dual risk dynamics, input inflation and weather variability

Australia agribusiness monthly

RaboResearch Food and Agribusiness

June 2026

Rabobank

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This report is based on information available as at 4/6/2026

Commodity outlooks

Climate

Late May rainfall improved conditions across eastern Australia, but Western Australia remained comparatively dry. Despite recent gains, forecasts indicate a high likelihood of below-average rainfall during the growing season, with elevated El Niño risk.

Wheat and barley

The USDA's initial 2026/27 outlook signalled a tighter global grain balance, with lower cereal production and historically low corn stocks, supporting prices. Despite a late-May market pullback driven by macro factors and seasonal pressure, underlying fundamentals remain supportive, pointing to firmer prices ahead.

Canola

Global canola production is rising, but stronger crushing and biofuel demand are absorbing supplies and reducing exports. Prices remain supported as energy markets and policy continue to favour vegetable oils.

Beef

Cattle prices recover the losses over the last couple of months as rainfall across larges parts of the country improves producer sentiment and numbers of cattle through saleyards decline. High cattle inventory continues to support record production and export volumes.

Sheep

Lamb and mutton prices recovered after price drops in late April, early May. Prices continue to remain strong in light of low and declining stock numbers. New production data shows lamb carcass weights reached new records as strong prices encourage producers to grow lambs out longer.

Wool

Wool prices continue to rise in the face of declining supplies. The EMI rose 2% for the month with Coarser microns seeing a larger rise. Ongoing limited supplies are expected to keep prices strong, with the potential for increased buying activity towards the end of the season to push prices higher.

Cotton

US cotton futures have eased back to the mid-70s on improved weather across the US. With US weather conditions stabilising and Brazil exports strong, the market is shifting focus to Eastern Hemisphere supply risks due to a below-average monsoon forecast, supporting a broadly tighter global outlook.

Farm inputs

Input prices remain high and volatile, driven by energy markets, supply constraints, and policy restrictions. Rising costs are eroding farm margins and forcing demand rationing despite only temporary price relief.

Sugar

Sugar prices have declined recently due to oil market volatility and weaker ethanol economics in Brazil, with policy uncertainty shaping production decisions. While higher sugar output may pressure prices, weather risks in Asia and rising biofuel demand could offer some support.

Dairy

Record whey prices continue to dominate global dairy markets settings. Meanwhile, 2026/27 milk pricing in Australia and New Zealand has been announced and is mostly steady with 2025/26 prices, as a recovery in commodity values supports early price signals.

Consumer foods

Food inflation falls to its lowest level since December 2021, but consumers are not out of the woods. Meanwhile, consumer confidence remains in the doldrums

Interest rate and FX

As forecast, the RBA raised the cash rate by 0.25ppts in May to 4.35% – equal to the previous cycle high. There were some further signs of economic slowdown in the month, and the RBA sent some signals that it may be nearing the end of the hiking cycle, but we are maintaining our forecast of an August hike.

Oil and freight

Oil prices fell on peace hopes in late May, but the Strait of Hormuz remains mostly closed and a deal is proving elusive. RaboResearch has changed its baseline forecast for the strait to remain closed until September and raised Q3 and Q4 oil price forecasts to USD 120/bbl and USD 100/bbl, respectively.

Climate

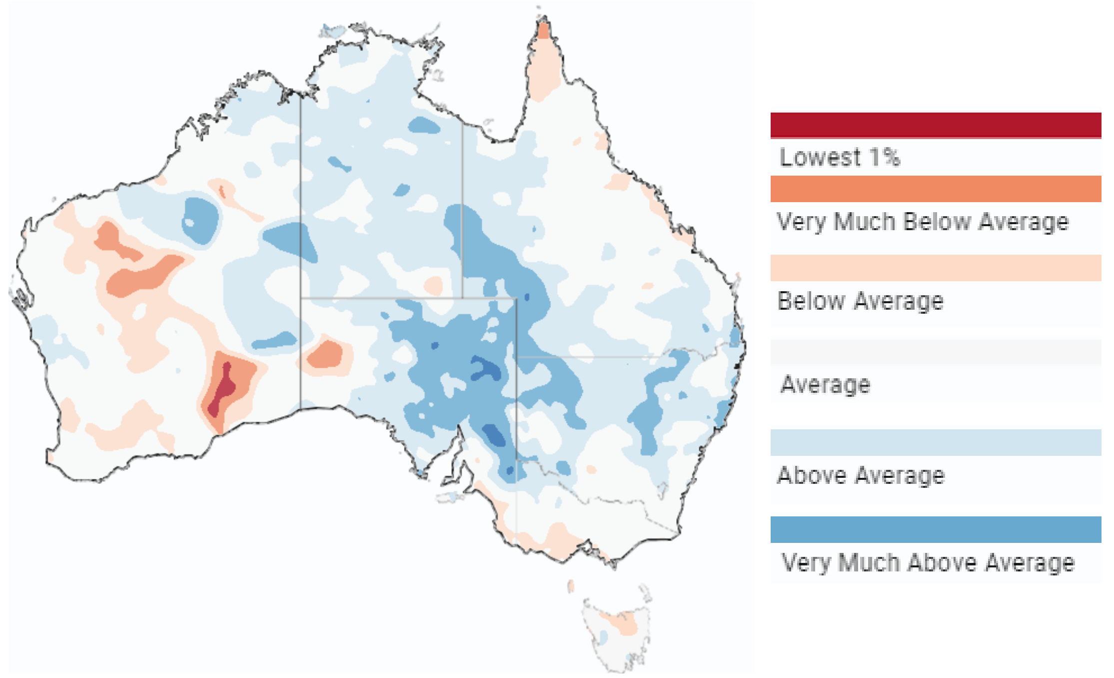
Much-needed relief

Significant rainfall reached southern Queensland and northern New South Wales by late May, which will allow crops to germinate within a satisfactory yield potential window. In Queensland, Dalby recorded 54 mm and St George 32 mm, while south of the border Moree received 99 mm, Walgett 68 mm, Dubbo 136 mm and Orange 101 mm. Rainfall was also favourable across the Riverina and Victoria, extending into South Australia and Tasmania. Western Australia did not receive the good volumes the East Coast did, with most of the wheatbelt receiving 5-25 mm, although Esperance was a notable exception on the upside.

Looking to the near- to medium-term outlook, forecasts point to below-average rainfall across most of the country during the growing season, with models suggesting deficits of 10-50 mm relative to the historical mean. El Niño has not yet been confirmed, as key indicators such as trade winds and cloud cover do not fully align, although the probability remains high.

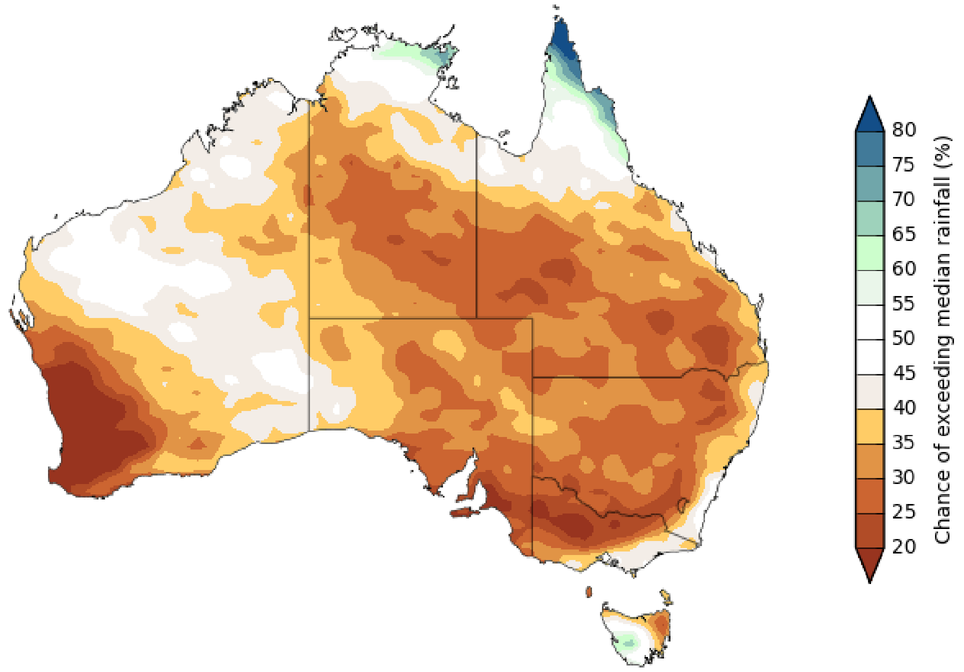
As a result, the Bureau of Meteorology indicates a 60-80% chance that rainfall from June to August will be below the historical median across much of Australia.

Root zone soil moisture



Note: *As of 31 May 2026*
Source: *BOM*

June to August chance of exceeding median rainfall



Note: *As of 28 May 2026*
Source: *BOM*

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Wheat and barley

USDA cuts tighten markets

On 12 May, the USDA released its first outlook for the 2026/27 season, surprising the market on the upside due to sizeable reductions on production and stocks. **Globally, wheat production is expected to be down 25m tonnes year-over-year to 819m tonnes, which may still be too optimistic in face of weather issues taking place in key producing regions**. Corn also surprised, with global production trimmed by 17m tonnes and endings stocks by 19m tonnes year-over-year, supported by a surge in consumption of 13m tonnes, particularly from biofuel production in Brazil. **Global corn stocks are poised to sit around 277m tonnes, the lowest level since 2014.**

These developments are consistent with the key drivers observed so far this year: **Weather problems in the US, Eastern Europe and Australia, alongside elevated production costs that are constraining planted area and fertiliser use**. On the back of the report, prices responded to the tighter outlook, with wheat reaching the upper limit of its daily price movement. In Australian dollar terms, CBOT nearby contract wheat rose 3.0% MOM to AUD 346/tonne on the day the report was published, with MATIF recording a more pronounced decline, falling 8.5% to approximately AUD 312/tonne.

However, by late May, grain markets lost steam. A broad sell-off in long positions in futures markets occurred, driven by expectations of easing geopolitical tensions around the Strait of Hormuz, which put downward pressure on crude oil prices, alongside typical seasonal harvest pressure. This price movement represents a temporary reversal within the broader bullish trend established for the year and reflects normal market behaviour, as prices rarely move in a straight line, even during periods of strong upward momentum. From a 30-day perspective, CBOT showed a marginal move up to AUD 319/tonne, and MATIF wheat jumped 9.6% to AUD 342/tonne on the back of dryness worries across Europe. In Australia, port prices showed erratic behaviour due to rainfall distribution, with Kwinana APW flat during May at AUD 357/tonne and Newcastle falling 8.5% to AUD 351/tonne.

Looking ahead, market fundamentals remain supportive. The 2026 season is expected to produce lower grain volumes compared with recent years, resulting in a tighter global supply-demand balance and, consequently, better underlying price support.

What to watch:

- **Wheat harvest updates –** Over the coming weeks, harvest will begin across the Northern Hemisphere, providing much greater visibility on the extent of production downside this year, particularly the impact of the dry spring on US wheat. This is important not only for overall wheat supply, but also for high-protein wheat availability, which is already under pressure due to elevated nitrogen costs globally.
- **Russian rouble trajectory –** The Russian rouble has appreciated by 9.1% year-to-date against the USD, compressing margins for grain producers and traders. This may weigh on new crop exports from July, as market participants could be reluctant to sell wheat at lower prices and instead wait for more favourable pricing.

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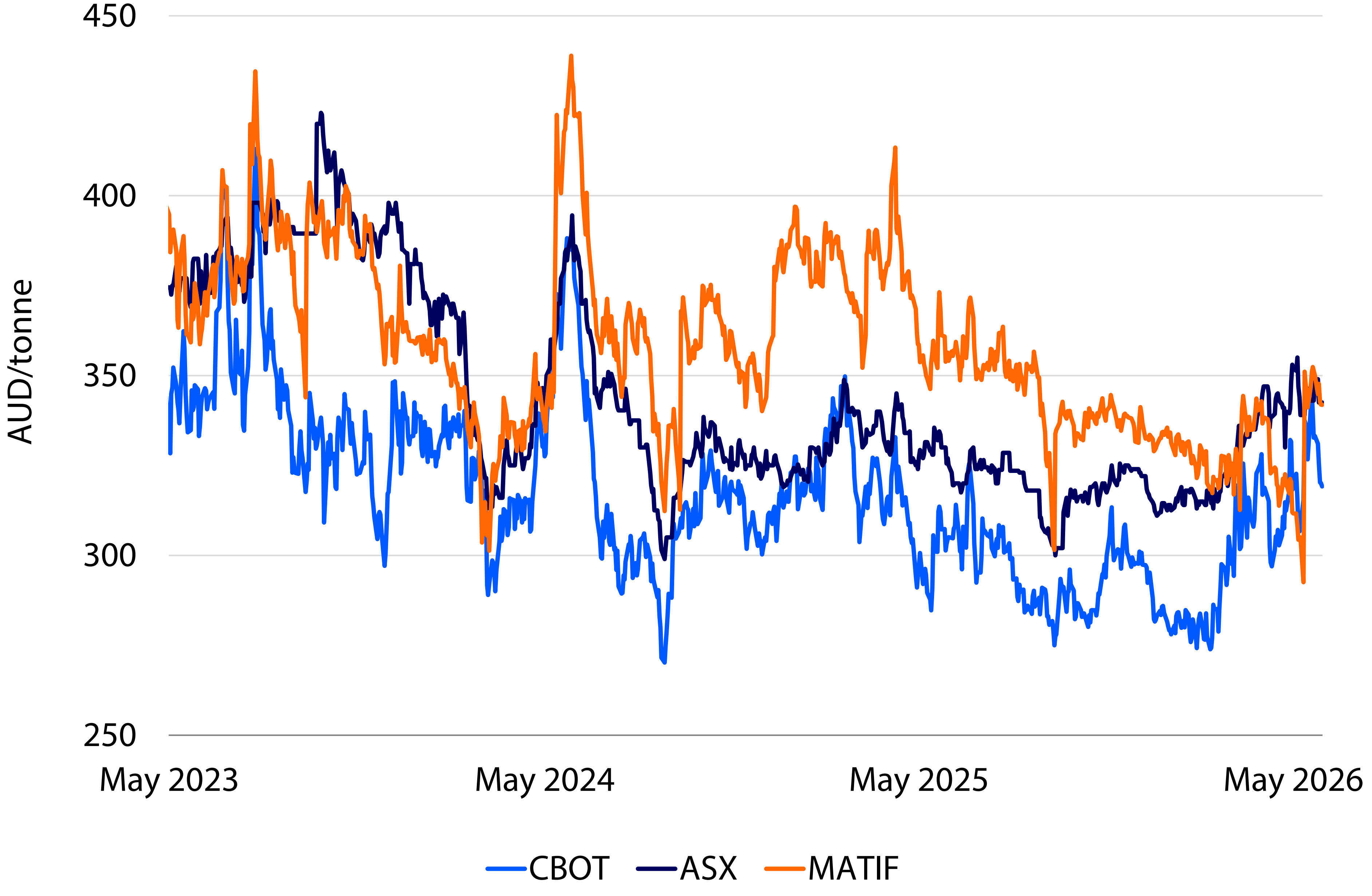
Wheat and barley

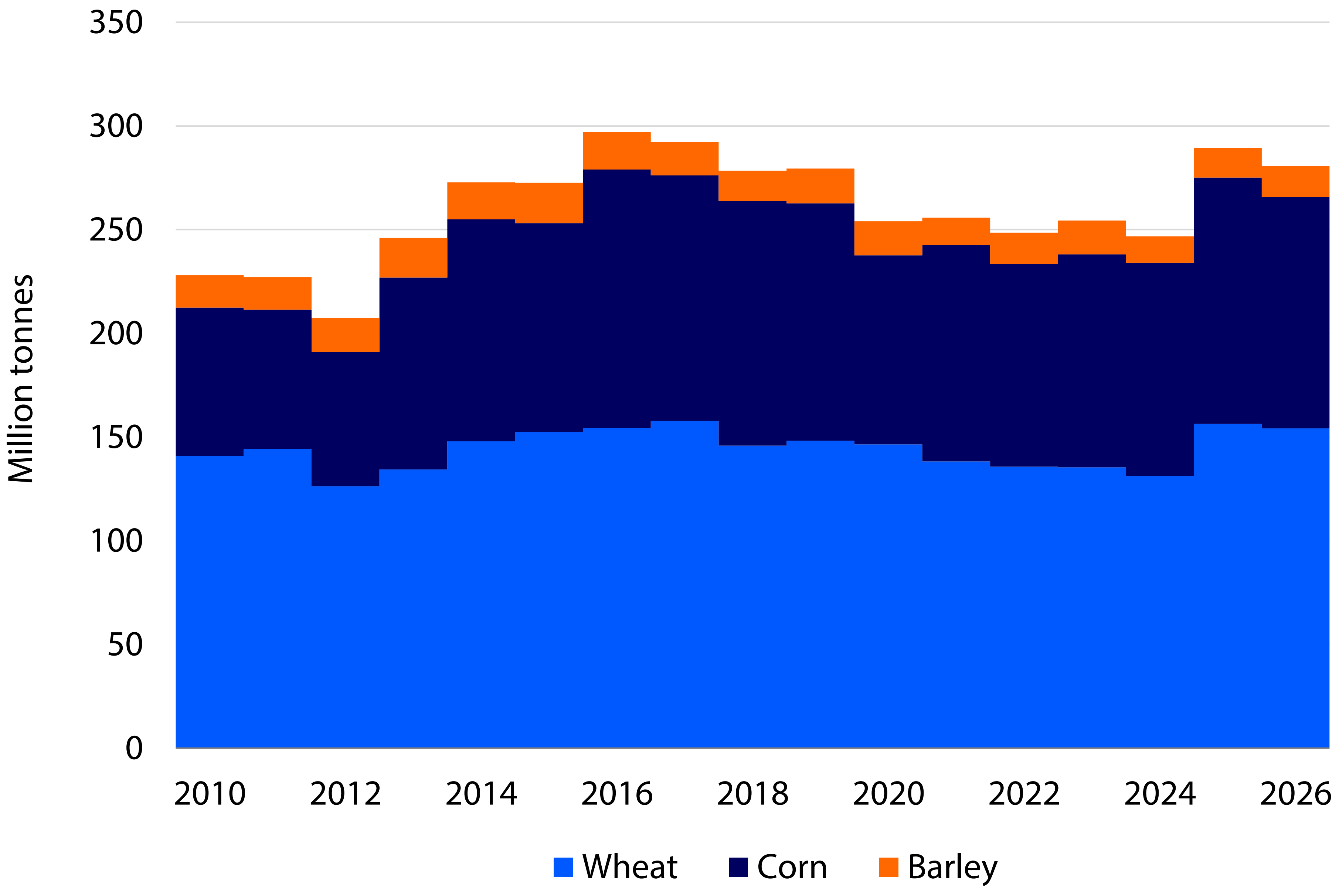
Temporary price adjustment amid an upward trend

Cereals prices continue their positive price trajectory as weather and surging input price headwinds lead to…



Source: *Bloomberg, RaboResearch 2026*

… falling global ending stocks for major grain types outside China



Source: *USDA, RaboResearch 2026*

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Canola

Rising crush offsets production growth

Global canola supply is expanding, but rising demand is likely to keep stocks broadly stable year-over-year. **World production is forecast at around 86m tonnes, up about 12%, while crush is expected near 81m tonnes, a 4% increase year-over-year,** reflecting stronger consumption in Canada, the EU, Russia and India. As Europe is set to harvest around 21m tonnes on the back of larger area (slightly above the 2025 season despite dryness impacting some yields) global trade is expected to decline by around 2m tonnes year-over-year to about 19m tonnes, capping price upside.

Looking to Australia's competitors, **Ukraine's crop is projected at around 3.3m tonnes, down 11% year-on-year, limiting export flows**. European supply remains adequate for current demand but still relies on imports, particularly if yields weaken further. In Canada, the season began with delayed planting due to cold and wet conditions across the prairies. Progress remains behind last year, although improved soil moisture supports crop establishment. Stocks are still elevated following high Chinese tariffs in 2025, but the outlook is shifting. Crush is running at record levels and is expected to increase further in 2026/27, driven by strong margins, expanding capacity, and firm US demand for canola oil. As a result, more supply is absorbed domestically, supporting Canadian prices.

These regional dynamics are reflected in nearby futures. Year-to-date, ICE canola has risen 20.5% to AUD 776/tonne, while MATIF has gained 7.3% to AUD 857/tonne. In Australia, Kwinana GM canola has increased 16.7%, while Geelong non-GM rose 8.7%. **As a result, the GM/non-GM premium, which averaged AUD 72/tonne in Q1/26, has narrowed to AUD 51/tonne in May.**

Biofuel policy continues to drive global demand. Vegetable oil consumption is rising by around 8m tonnes year-on-year, with growth concentrated in the US as biodiesel and HVO production expand under policy support. Blending mandates in Southeast Asia are also increasing, with Indonesia and Malaysia raising targets.

Geopolitical disruptions around the Strait of Hormuz are tightening energy markets, supporting biofuel demand and crush margins, reinforcing expectations for continued upward pressure on oilseed prices, as the disruptions already caused to supply chains will require months to unwind.

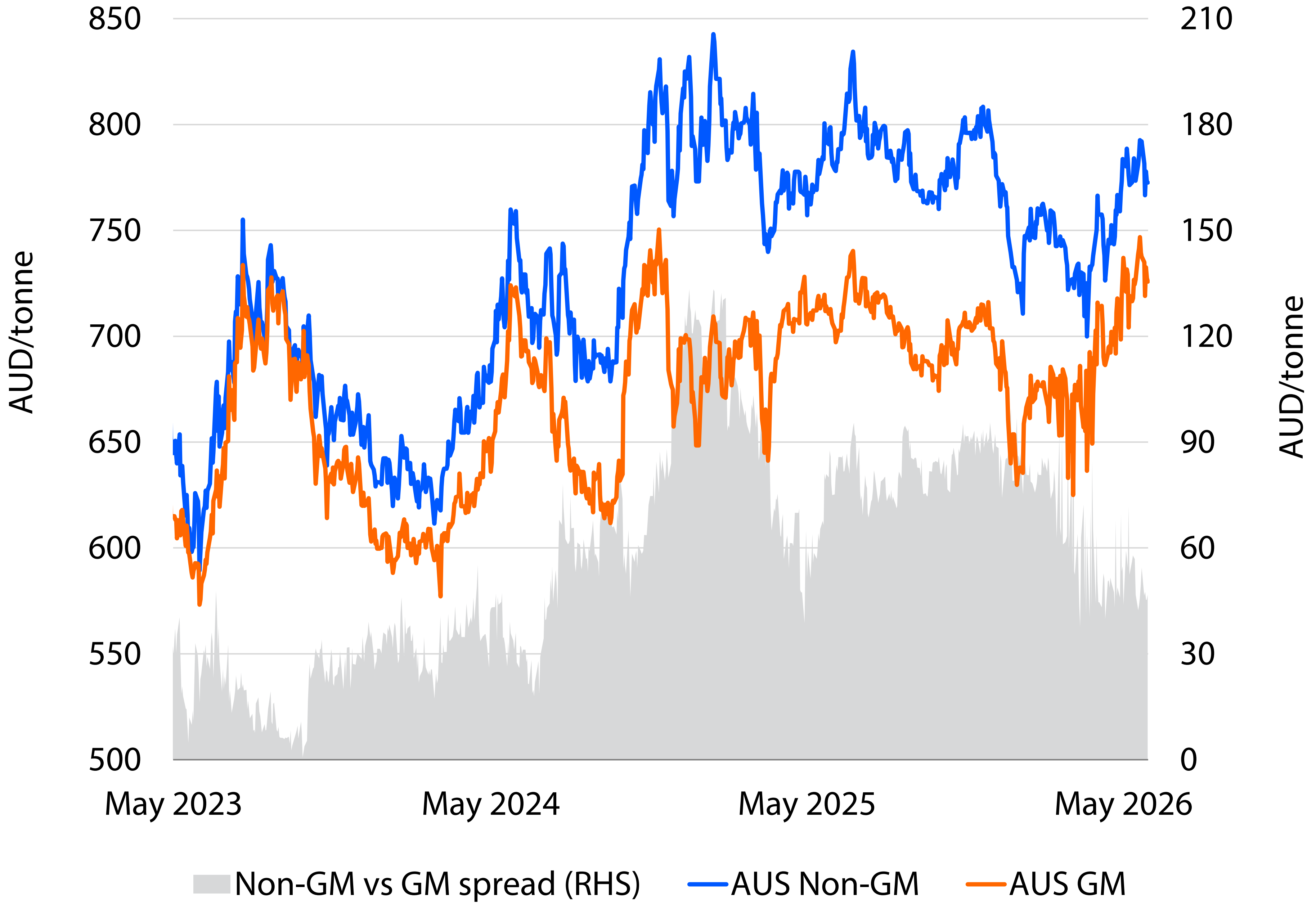
What to watch:

- **El Niño status –** Rainfall deficits are forecast in Southeast Asia in the coming months, while El Niño has not yet been officially confirmed. Persistent dryness can reduce palm output, tightening vegetable oil supply alongside higher biofuel blending mandates. This can lift prices and indirectly support canola values through stronger vegetable oil spreads.
- **Farm inputs prices –** South America is preparing for the next summer crop, and fertiliser and fuel prices are likely to remain elevated for the rest of the year. This may encourage producers to expand soybean area, as nitrogen fertiliser is not required, intensifying competition with canola and lowering the oilseeds price baseline.

Canola

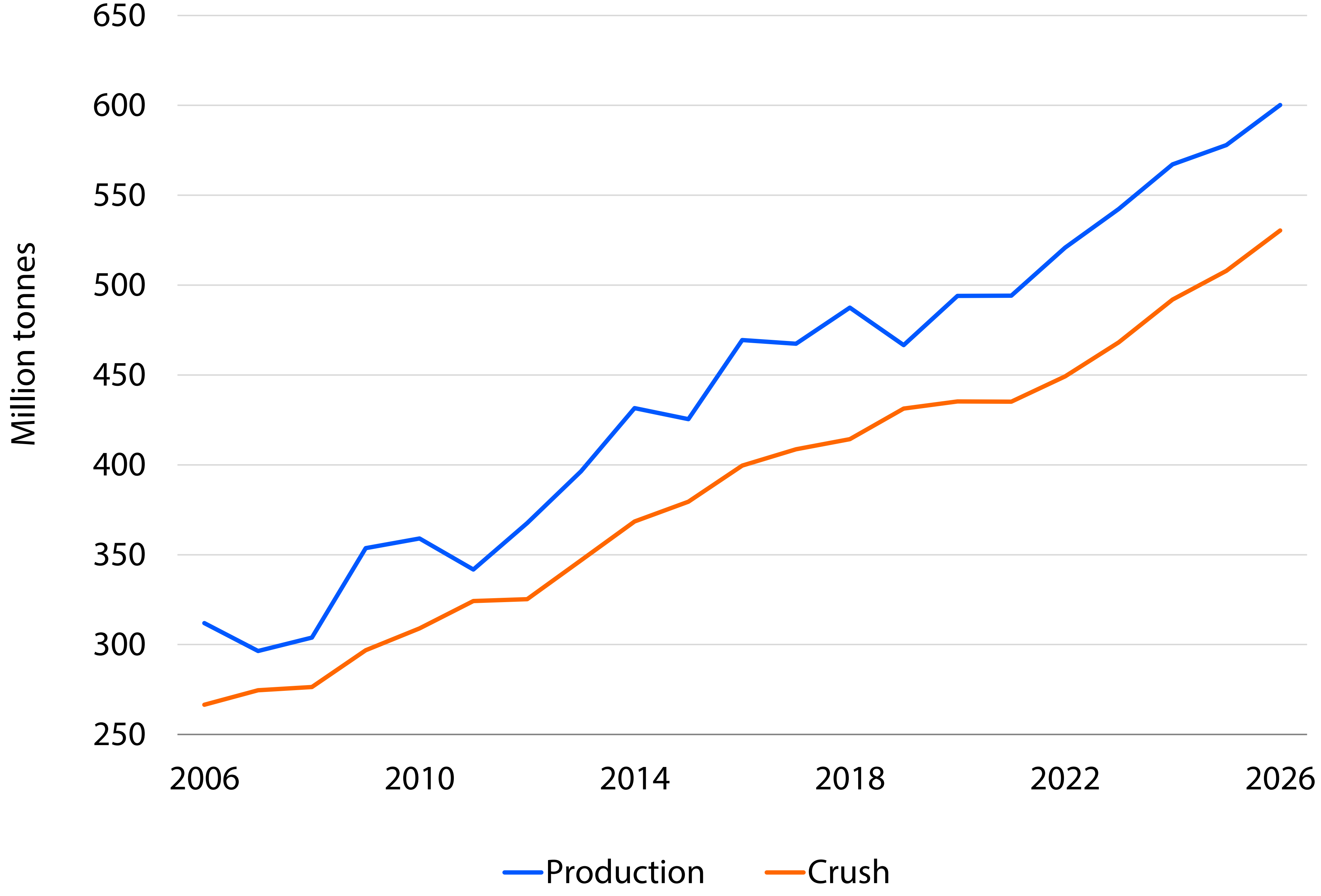
Markets adapt to shifting geopolitical and trade configurations

Since the start of the conflict around the Strait of Hormuz, Australian GM canola prices have risen more than non-GM



Note: *Australian prices refer to the port price average.*
Source: *Bloomberg, RaboResearch 2026*

Crushing growth in major oilseeds has outpaced production in recent years, supporting prices



Note: *'Major oilseeds' refers to soybean, canola and sunflower*
Source: *USDA, RaboResearch 2026*

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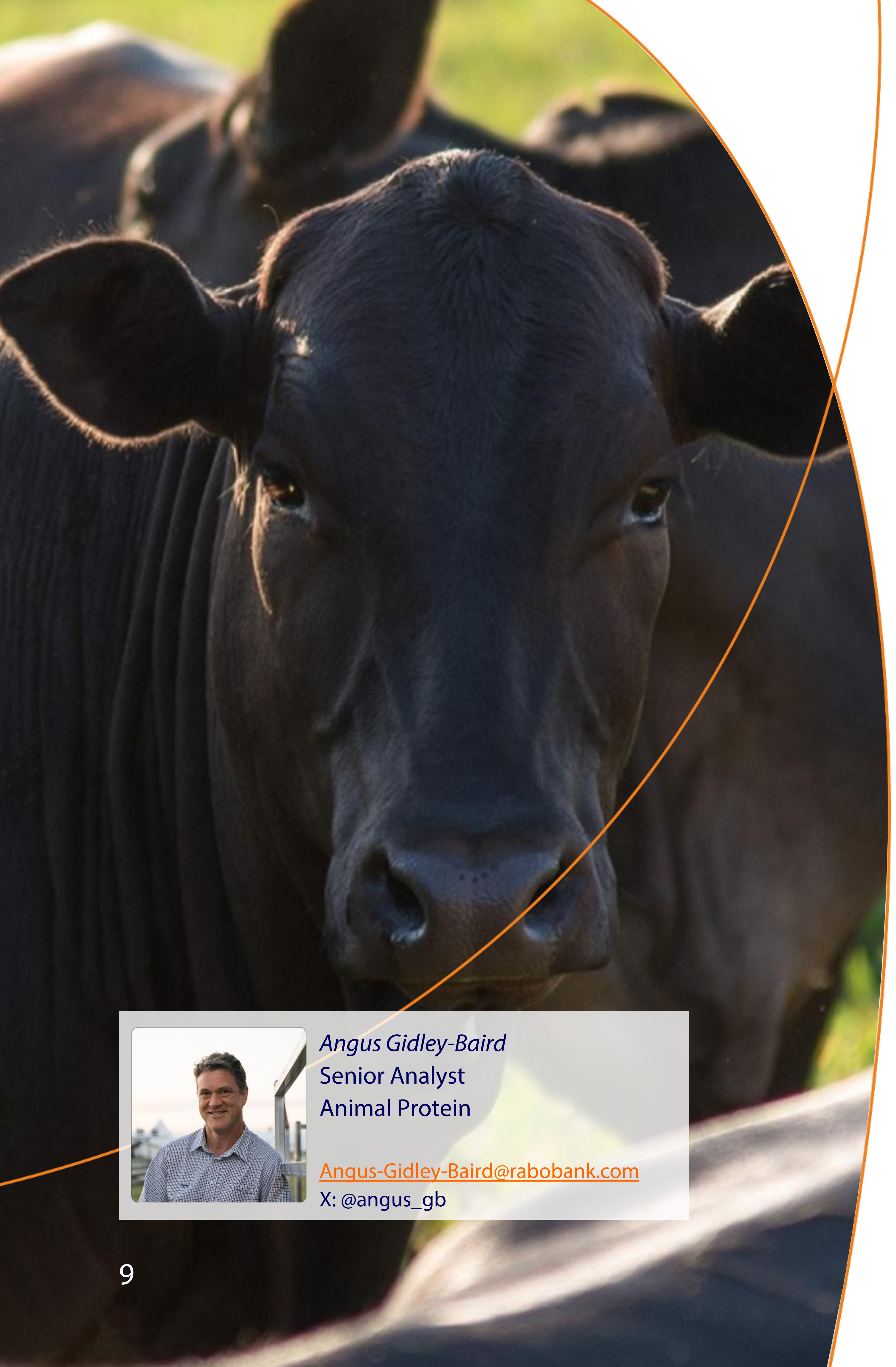

Beef

Market recovers as saleyard numbers decline

Cattle prices across all categories recovered through May after dropping in the previous six weeks. Prices are now close to the highs experienced in the first three months of the year. Corresponding to the rise in cattle prices has been a drop in saleyard cattle numbers – particularly in NSW following the elevated numbers in March and April driven by drier seasonal conditions. The national saleyard feeder steer price was sitting at AUD 4.86/kg at the end of May, 29% higher than the same period last year and 8% up in the month. The National Young Cattle Indicator was AUD 5.03/kg on 31 May, up 30% YOY and close to the highest price for the year. **With favourable rainfalls across parts of NT, Queensland, NSW and SA through May that will lift producer confidence, together with the reduction in cattle moving through saleyards, we believe prices will level out and remain at levels similar to late May prices for the next couple of months.**

The Australian Bureau of Statistics released Q1 slaughter and production figures in May. Total cattle slaughter was up 6% compared to Q1 in 2025. Male slaughter was up 5% and female slaughter was up 7%, with the female slaughter proportion being 53%. This slaughter number is higher than the forecast for the year (a 2% increase), but Q1 tends to be the smaller of the quarters for slaughter and we don't suspect (season contingent) that we will see the same increases across the year. Average slaughter weights were up 1% bringing production volumes up 8%. This was the highest Q1 slaughter volume in history and the highest Q1 production volume, reflecting the ongoing high inventory. At 53%, female slaughter percentages still suggests we are liquidating the herd. Female slaughter has been above 50% for two years now – we've only seen longer in the 2018-2020 period. **While RaboResearch does not believe this high female slaughter rate is an indication of herd liquidation, the time it has been above 50% does raise questions about the age profile of the breeding herd and potential implications if dry seasons do force the sale of increased numbers of cattle.** Weekly slaughter volumes pushed to the highest level this year at the end of May – over 166,000 head – continuing to reflect the ongoing high inventory numbers. National saleyard numbers have dropped back to around 75,000 head after the highs of over 100,000 head in March and April.

Beef export volumes for May show total volumes increased 18% YOY with large increases to the US, up 23% YOY, and South Korea, up 72% YOY. This is a new monthly record to South Korea and the highest US monthly export volume since 2014. Volumes to China were up 14% with Australia surpassing 90% of the allocated 205,000 tonne quota in early June.

What to watch:

- **US grilling season heats up –** As we head into the Northern Hemisphere summer months, the US grilling season starts to heat up. The ongoing limited supply of beef and strong consumer demand has seen choice cutout values (wholesale carcass price) rise 7.6% YOY to USD 3.92/lb and lean (90CL) trim prices rise 20% YOY to USD 4.60/lb. However, already high retail prices are creating resistance, limiting the ability of processors to pass through the higher cattle and beef prices leading to tighter margins. Australian lean trim price to the US is 20% higher than the same period last year but it has eased slightly in the last month to USD 3.68/lb. The next couple of months will be interesting to watch as limited US supplies, a cautious but strong US demand outlook and potential increased volumes from Brazil influence this market.

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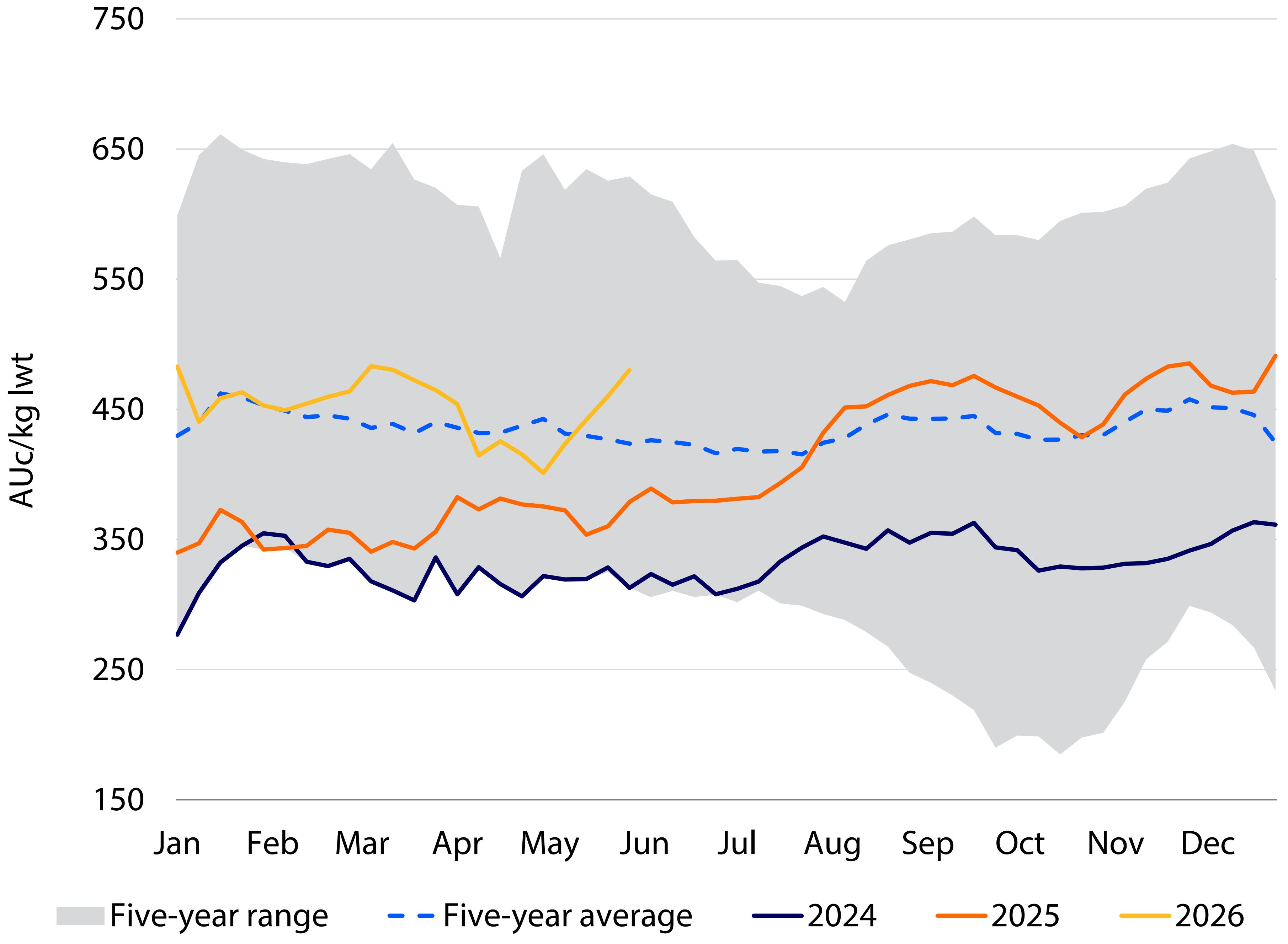
Beef

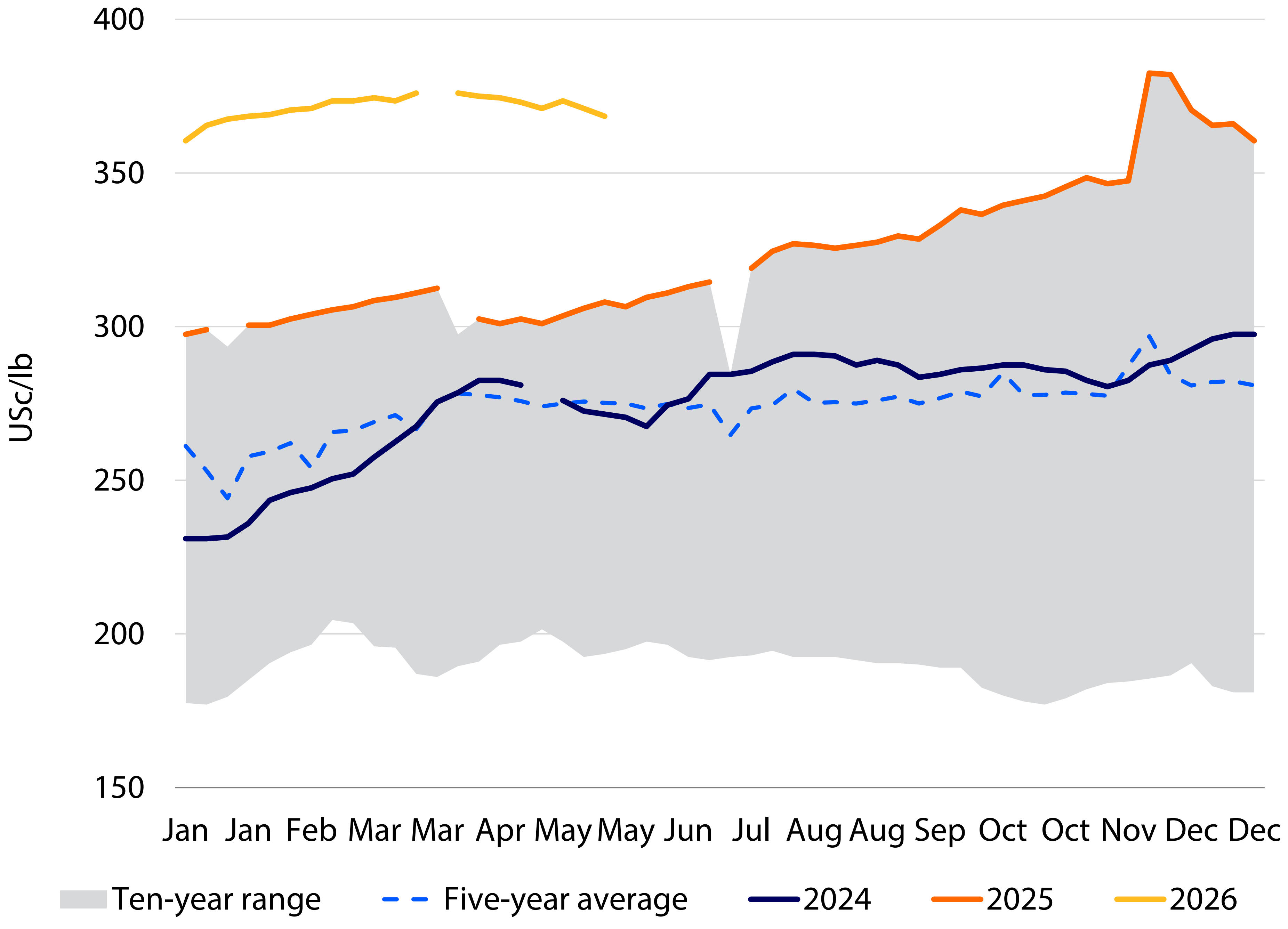
Australian cattle prices recover lost ground but US import prices ease

NYCI recovers lost ground



Source: *MLA, RaboResearch 2026*

US import prices ease but still at record levels



Source: *USDA, RaboResearch 2026*

Sheepmeat

Prices remain high as numbers continue to decline

Sheep prices lifted at the end of May after dropping through April and into May. Most lamb and sheep categories showed an overall increase across the month with mutton and merino lamb showing the largest increase – up 6.1% and 5.3% respectively to AUD 8.14/kg and AUD 11.06/kg. Saleyard numbers of both merino and mutton remain historically low, supporting prices, but a stronger wool market and more favourable seasonal conditions in sheep producing areas may be interesting to some restocking activities. The national trade lamb indicator finished May at AUD 11.85/kg, up marginally for the month and 26% higher than the same period in 2025. Traditionally, the months of June and July are the high points of the season for lamb and mutton prices before they start dropping with the onset of new season lambs on the market. However, **given the current record prices for this time of year it is difficult to see prices rising much further over the coming months, although we do expect them to remain around current levels.**

The Australian Bureau of Statistics released their Q1 production data in May showing sheep slaughter was down 32% and lamb slaughter was down 15% on Q1 in 2025. The largest drop in sheep slaughter was in WA, down 52% to 296,900 head for the quarter. This is the second-lowest number since 2022 and after a period of higher volumes it reflects the reduction in WA sheep flock but also could indicate that the liquidation of sheep numbers is coming to an end. Lamb slaughter weights lifted 6% to 25.84kg, the highest lamb slaughter weight in history. **Strong prices with favourable grids supporting heavier lambs, and low grain prices are believed to have encouraged a greater number of lambs to be finished on grain, pushing weights higher**. NSW and SA have the heaviest lamb carcasses at 27kg. MLA weekly slaughter numbers show lamb numbers are down 12% for the year-to-date and sheep slaughter is down 30%.

Lamb export volumes for May were down 24% YOY at 27,875 tonnes swt, continuing the declining trend in volumes off the back of reduced production. Volumes to the Middle East are down 51% YOY but have lifted from the low volumes exported in March. Volumes to China and the US are down 5% each as both markets remain strong in the face of declining Australian supplies..

What to watch:

- **Is there such thing as too big? Carcass weights break new records –** With limited lamb numbers and a strong US market, we have seen processor grids move to accepting much heavier lamb weights. This, along with lower grain prices have supported grain finishing lambs and heavier carcass weights. Q1 lamb carcass weights were at record levels at 25.84kg with SA recording an average of 27.32kg. In a low inventory environment, the higher carcass weights support more kilos of meat being processed but does it change the overall product mix for customers? While payments are made on AUc/kg, weight will be a key profit driver but does the lamb industry need to look at the longer-term consequences?

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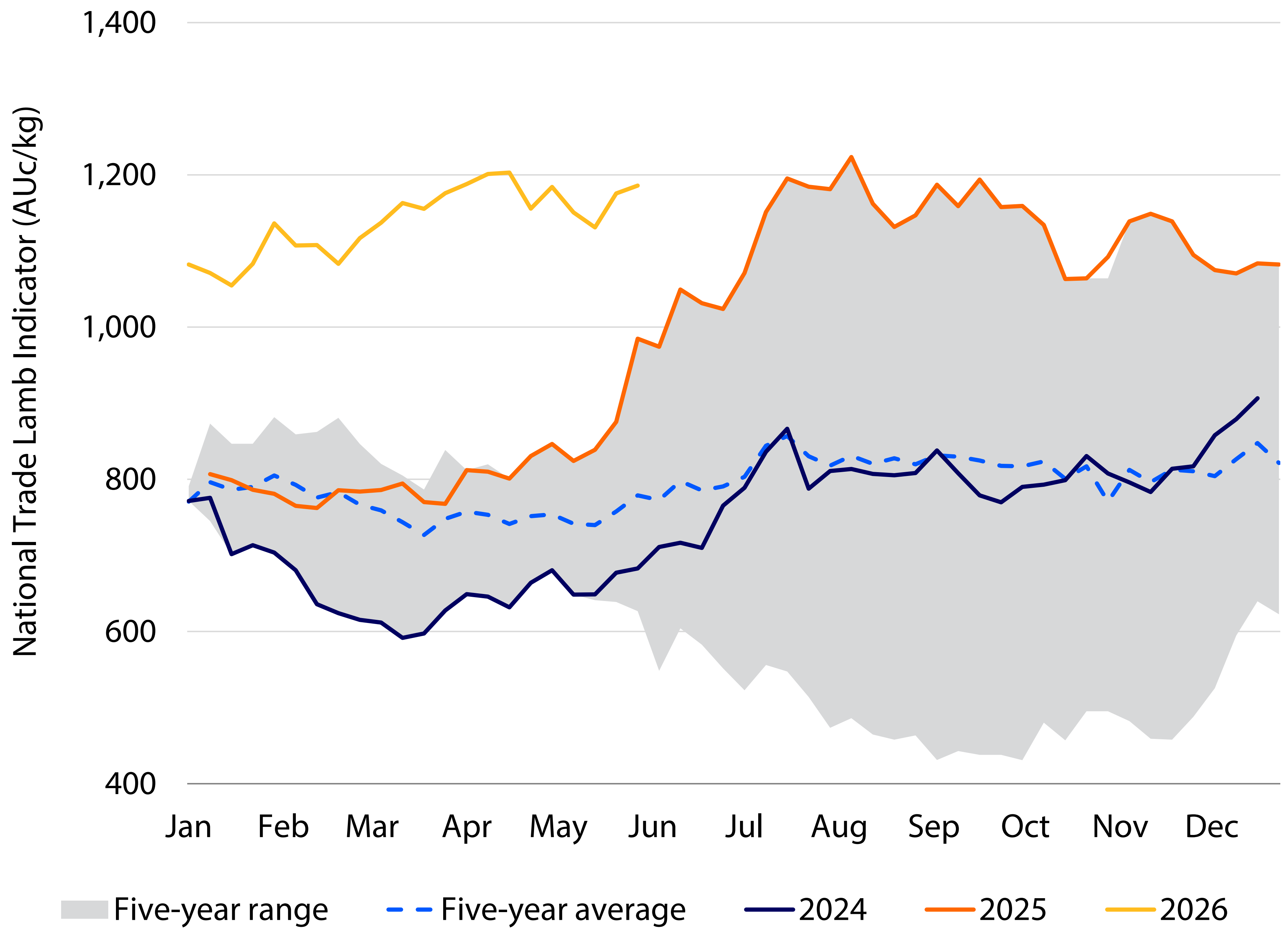
Sheepmeat

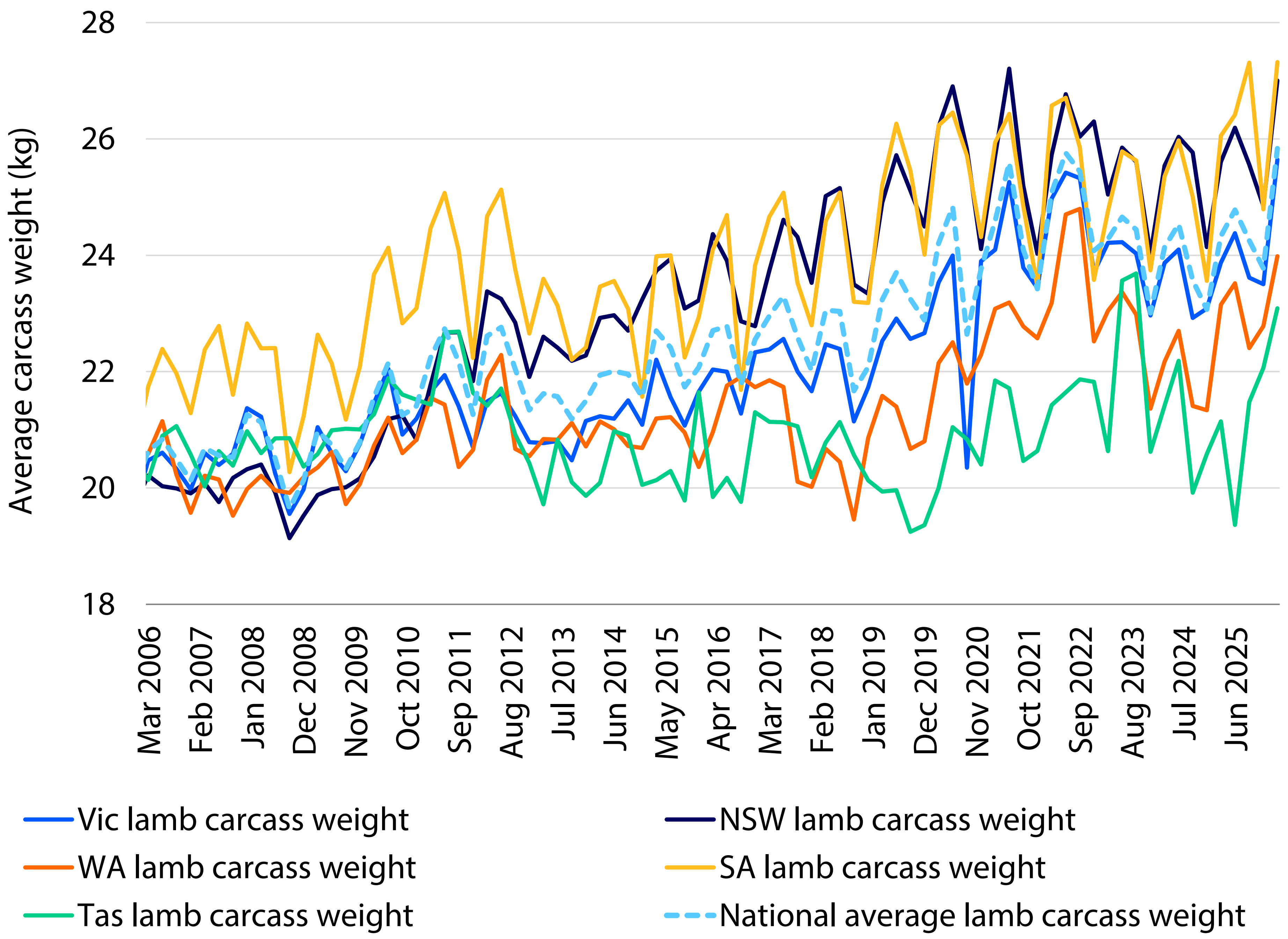
Lamb prices remain strong as we head to lower slaughter months

National Trade Lamb Indicator (NTLI) remains elevated



Source: *MLA, RaboResearch 2026*

May/June generally the point of seasonal lamb decline



Source: *ABS, RaboResearch 2026*

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Wool

Wool prices continue to track up as supplies continue to drop

Wool prices continue to perform strongly, with all microns less than 21 sitting in the top decile, with 18 and 19 micron prices sitting at the highest levels in the last 10 years. Microns above 21 are generally around the seventh decile. All microns apart from the 20 and 21 categories saw a lift in prices through May, with the coarser micros seeing a larger lift – 25 micron jumped 17% through the month to AUD 11.97/kg. Meanwhile 17 and 18 microns remain above AUD 25.00/kg – 60% above the same time last year. On 29 May, the EMI sat at AUD 19.34/kg, 2% higher for the month and 60% higher than the same time last year. **With ongoing limited supplies of wool, and as we head towards the end of the selling season, RaboResearch believes wool prices could continue trending up over the coming month.**

Wool production volumes remain low. Wool offering in the week ending 28 May was just 25,370 bales – the lowest volume since July 2025 (apart from the week ending 6 May) and up 6% on the same time last year. With strong prices, the pass in rate was just 1.3%. AWTA wool testing data shows that for the month of May, the volume of wool tested was down 4% on May 2025, continuing the declining trend we have seen all year. Overall, wool tested volumes for the 2025/26 year to May are down 8% YOY. This corresponds to the April Australian Wool Production Forecasting Committee projections that estimated the 2025/26 wool production would be down 8.8% compared to 2024/25. Interestingly, the Committee forecast that of all the states, WA and Vic would have the smallest reduction in production – down only 4.2% and 3.9%, respectively – despite the commentary about reduced sheep flock numbers. On the other hand, the largest reductions are forecast in SA and NSW, down 16.5% and 10.4% respectively.

Australian wool export numbers continue to reflect the decline in production, with volumes down 9.4% for the season-to-date (month ended March). Volumes to India have seen a smaller reduction (down 1.8%) compared to other major markets of China (down 7.1%) and Italy (down 4.9%).

What to watch:

- **End of season wool buying –** As the wool season approaches its year-end and we head towards the winter recess, there may be some increased buying activity as mills look to secure supplies. The limited availability of wool may also increase buying activity in the lead up to the market closure. Current wool volumes remain low with the year-to-date wool testing volumes down 8% and we have seen a gradual decline – down from a peak of 48,598 bales in late February – in the number of bales offered. End of year buying activity will be a good indication of the volumes in the supply chain and projections for demand into the coming season.

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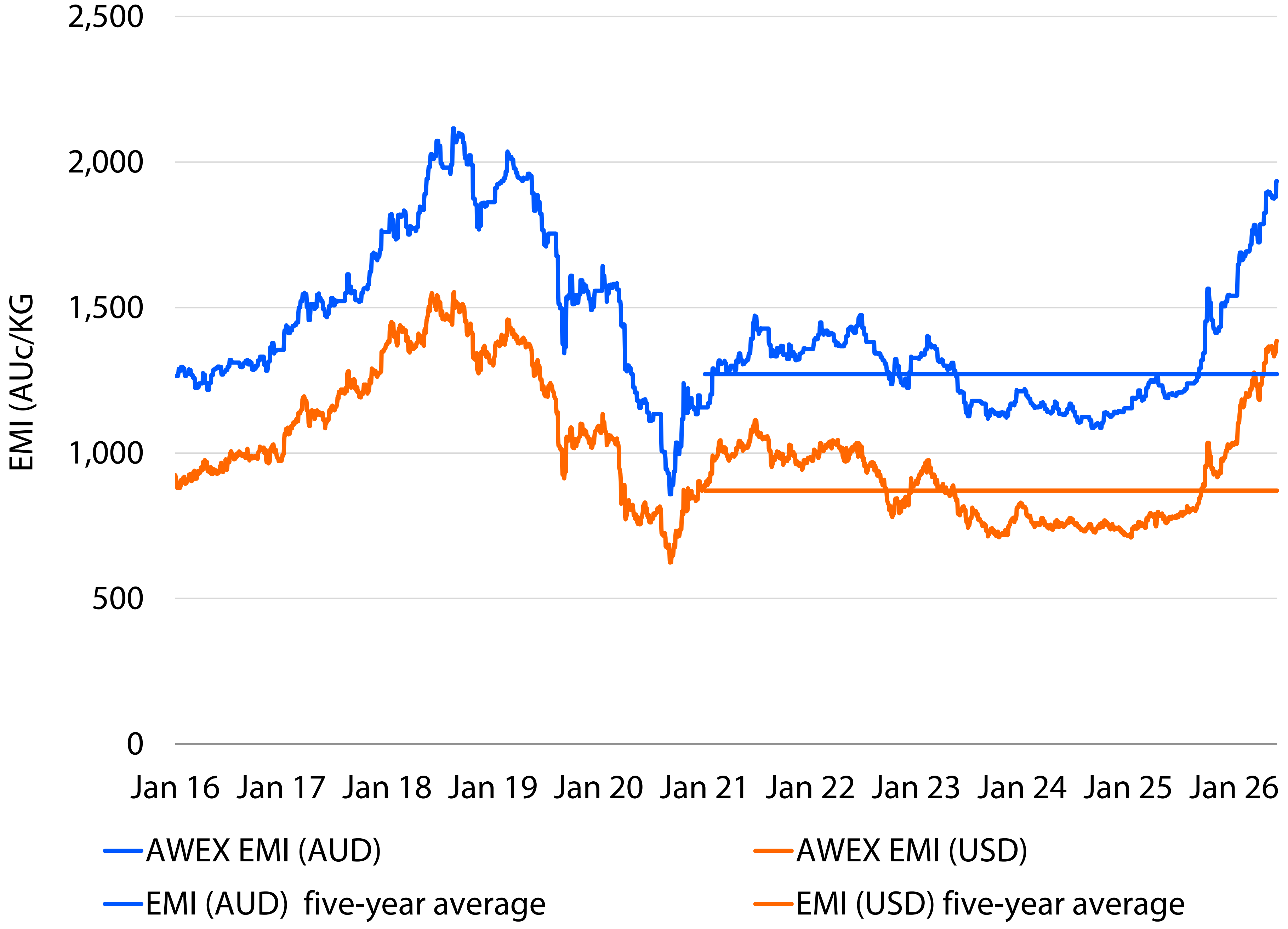
Wool

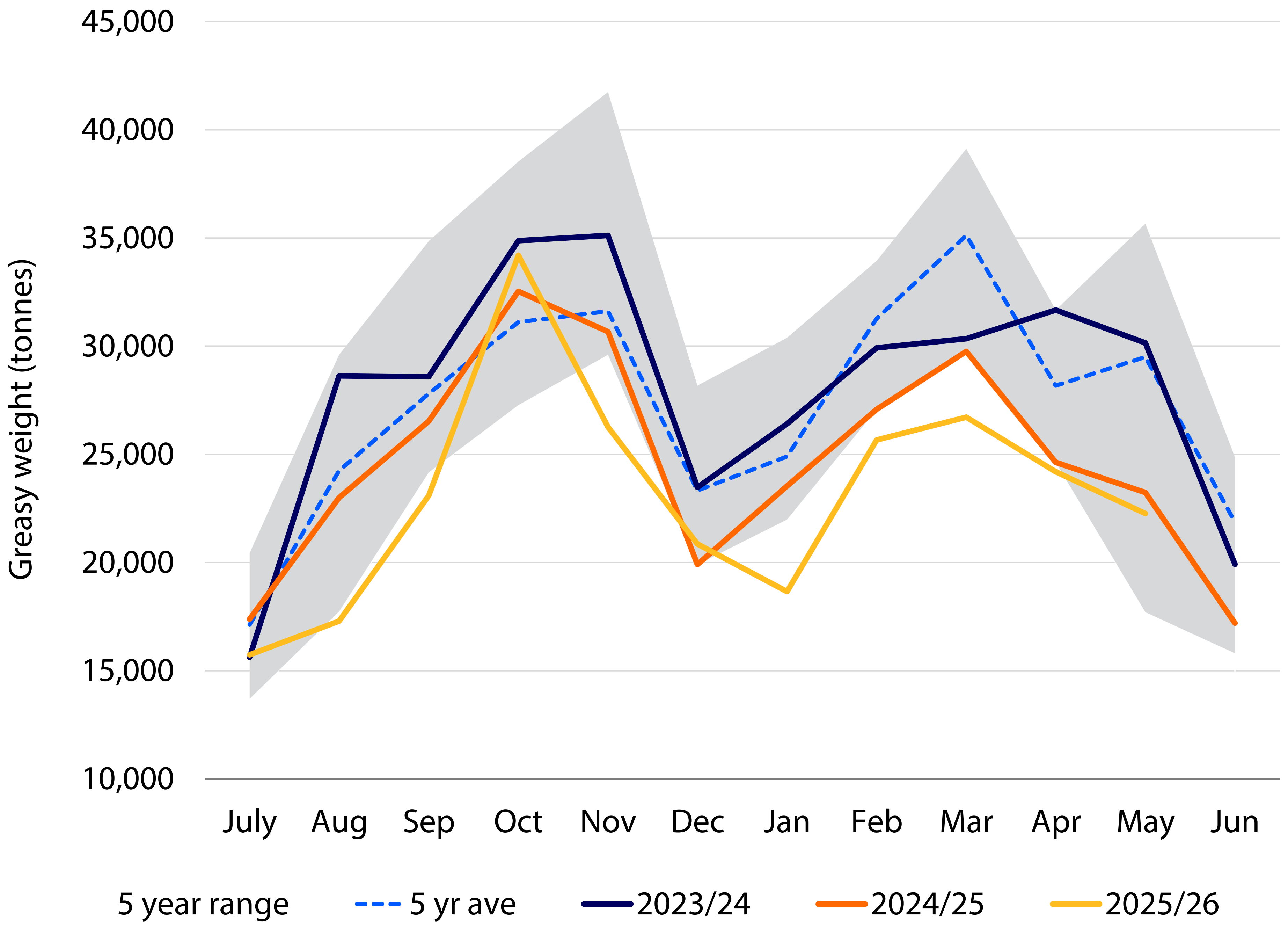
Markets remain strong as volumes remain low

EMI continues to rise



Source: *Bloomberg, RaboResearch 2026*

Wool tested volumes remain low



Source: *AWTA, RaboResearch 2026*

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Cotton

Subdued market as US receives rainfall

After briefly touching the mid-80s in early May, US cotton futures have eased back into the mid-70s. Month-over-month, ICE cotton no.2 dropped 3.6% to USc 77.0 per pound. This remains comfortably above the low 60s seen through 2025 and broadly aligns with breakeven levels in Texas, the largest producing state.

Improved weather conditions have been a key driver. Timely rainfall across much of the US cotton belt has alleviated earlier concerns, allowing prices to retrace towards levels more consistent with prevailing fundamentals. While soil moisture deficits persist in parts of the Southeast, forecasts point to good rainfall volumes over the coming weeks, supporting a favourable start to the 2026 crop. **In Texas, conditions remain relatively dry, but the prospect of incoming rainfall has helped steady market sentiment.**

On the demand side, US old-crop export commitments are largely complete, while new-crop sales remain rangebound. **In Brazil, export performance has been robust in March and April, exceeding typical levels for this time of year. This aligns with market expectations for a modest year-on-year recovery in global cotton demand in 2026**, with further room to grow on the back of higher synthetic fibres prices.

With US weather becoming more accommodating and Brazil's center-south harvest ending, market attention will now turn toward production in the Eastern hemisphere. Earlier this year, it was anticipated that policy shifts in China could push Xinjiang cotton area down by as much as 10% but with improved prices we now anticipate the decline will be closer to 5%. **In India meanwhile, both the USDA and the Cotton Association of India anticipate modest increases to planted area there, with the more searching question becoming how much yields are impacted by a below-average monsoon and rising farm inputs costs.**

In summary, the story for 2026 points to a global tightening of stocks with continued support for prices as high farm inputs prices cap area expansion and rising crude oil improves cotton's competitiveness relative to synthetic fibres.

What to watch:

- **Rainfall in the US and India –** Rainfall over the coming weeks will be critical in shaping market expectations for global cotton supply. In the US, the season is off to a mixed start, with some regions facing early moisture stress while others remain well supported. A shift towards drier conditions would quickly tighten supply expectations and leave prices exposed to further upside. Beyond the US, weather risks in India remain an important watchpoint. Monsoon projections have consistently pointed to a softer pattern since early 2026, raising concerns over crop development. Any deterioration in rainfall outlooks could reinforce supply risks and provide additional support to global cotton prices.

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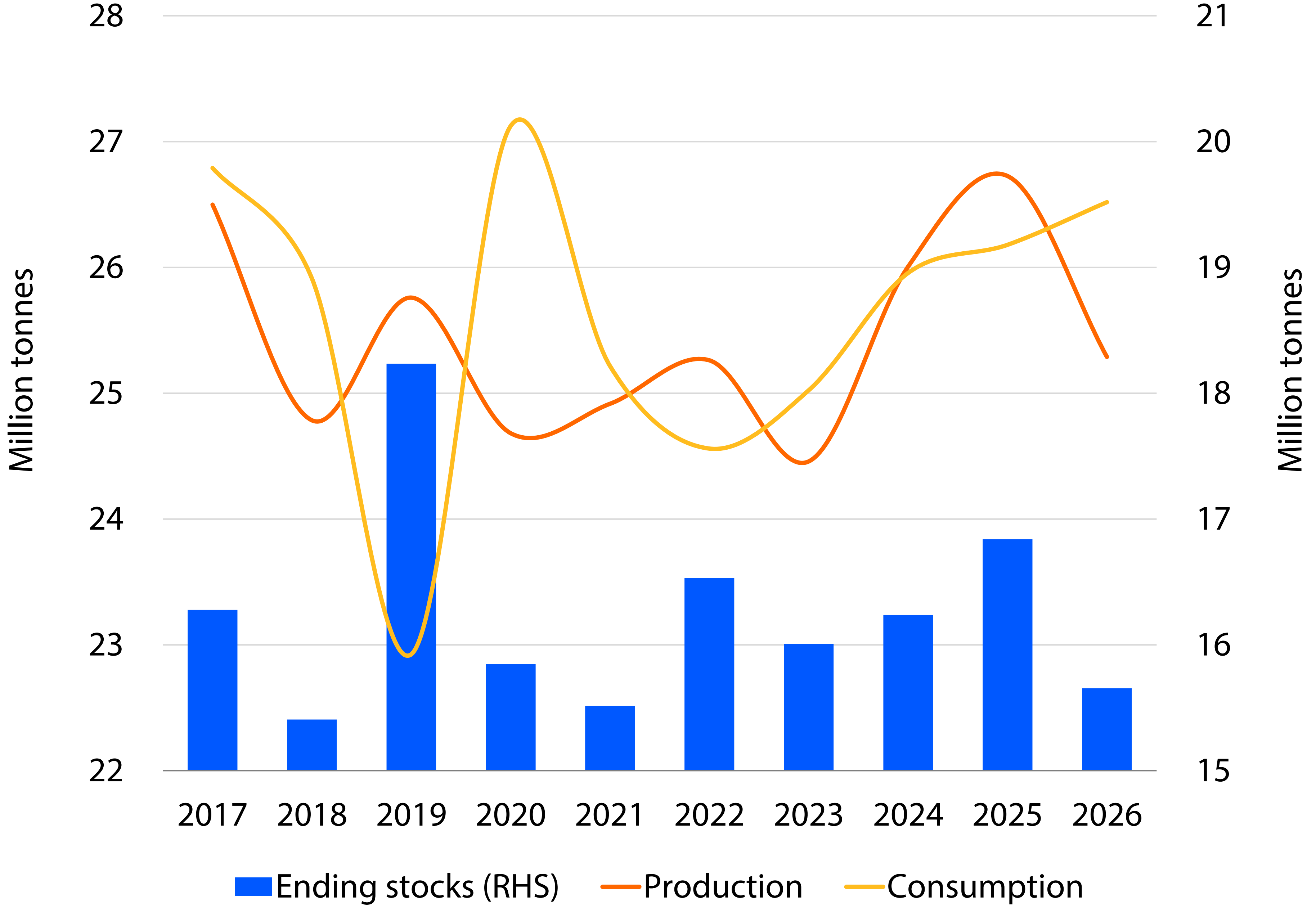
Cotton

Tighter cotton stocks are likely to push prices into a sustained positive trend

World's cotton stocks are poised to drop this year due to rising consumption and reduced supply



Source: USDA, RaboResearch 2026

ICE cotton no.2 prices are showing an upward price trend from early February

***Source:** Bloomberg, RaboResearch 2026*

Farm inputs

Price pressure remains in place

Farm input markets remain defined by elevated and volatile prices, with limited prospects for near-term relief, as the conflict in the Strait of Hormuz remains unresolved. Across the nutrient complex, nitrogen presents the greatest upside risk, reflecting its sensitivity to energy markets and ongoing supply constraints. Phosphates remain structurally tight, supported by elevated sulphur costs and production curtailments, reinforcing expectations of sustained high prices. Potash markets appear more balanced by comparison, although still trending modestly higher in response to broader energy inflation. Since late February, Egypt's urea price has risen by 48.6%, Morocco's DAP by 29.2 %, and Canadian potash by 5.6%.

General affordability continues to deteriorate, as fertiliser prices outpace crop returns, placing sustained pressure on farm margins. This dynamic is likely to continue to drive demand rationing worldwide.

Recent softness in urea prices reflects a temporary lull in demand rather than improved supply fundamentals, suggesting renewed upward pressure as key buying regions return to the market in the coming months, such as South America preparing for the 2026/27 summer crop. The recent Chinese decision to allow urea exports brings relief to market on the supply side, but not on the price front. This year's allocations have been established at USD 670/tonne for granular urea, 81% up compared to 2025 price of USD 370/tonne.

Agrochemical prices are also rising in response to energy shocks, although longer supply chains compared with fertilisers are slowing price transmission due to multiple manufacturing and storage stages. Taking agrochemical intermediates – the building blocks of final products, such as herbicide – as an example, **Chinese prices for methanol have risen by 38% since the start of the conflict, and toluene by 31%. In response, technical glyphosate prices have increased by 28% over the same period.**

Overall, **tight supply, policy constraints, and rising production costs indicate that farm input prices are likely to trend upward for the remainder of 2026**, shaping this season in a manner analogous to 2023/24, when softening commodities prices and elevated input costs undermined farm profitability.

What to watch:

- **Geopolitics beyond the Strait of Hormuz –** Russia has enacted a "temporary cessation" on rail shipments of Kazakh-origin sulphur bound for Russian seaports. This move is set to tighten an already constrained global sulphur market, increasing feedstock procurement challenges for phosphate fertiliser producers, including key exporters such as Morocco. As supply frictions intensify, upward pressure on prices is likely to persist.
- **More tenders in India –** India issued a 1.7m tonne urea import tender for July shipment, extending the current run of state-led procurement. The outcome is pivotal to confirm near-term price signals and give better visibility of how available supply is to be traded in H2 2026.

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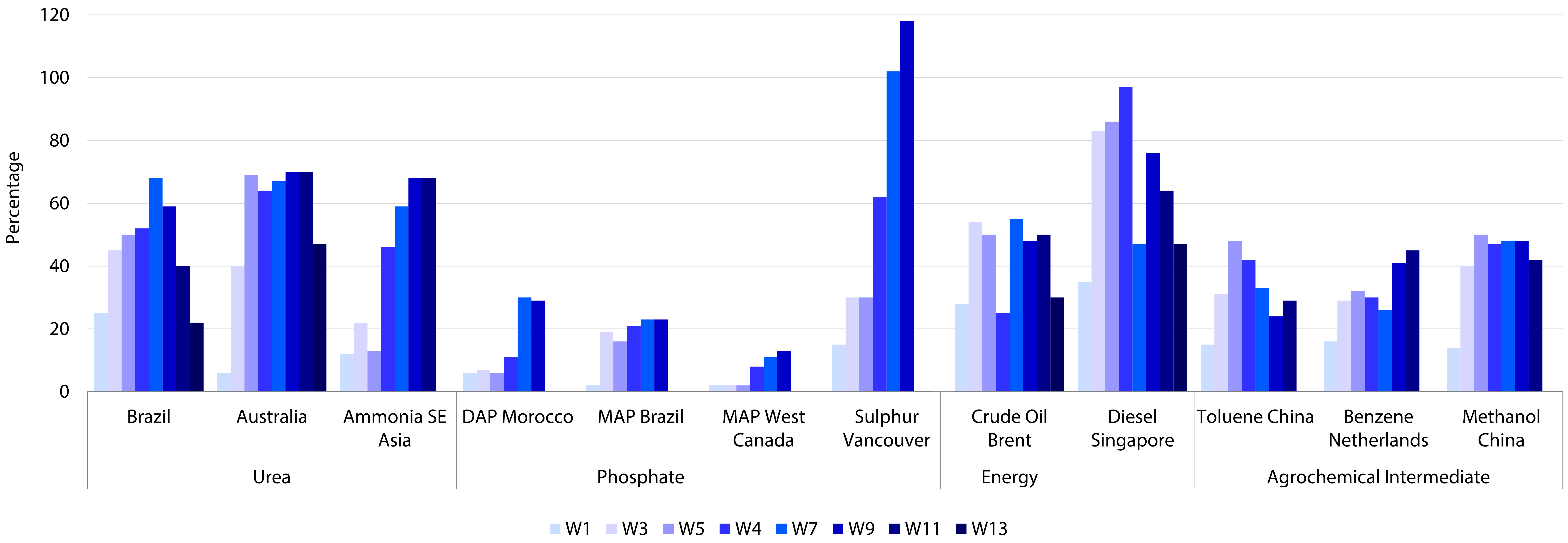
Farm inputs

Price surge is consistent across the board

Cumulative price changes since 27 February



Source: *Bloomberg, CRU, RaboResearch 2026*

Rabobank

Sugar

Sugar prices driven more by weather than by oil prices

Sugar and oil market dynamics continue to drive short-term movements in sugar prices. ICE nearby contract fell 4.4% in the last 30 days, largely reflecting volatility in crude oil markets and Brazilian liquid fuel economics. Ongoing uncertainty around Iran and the Strait of Hormuz has kept the market moving in all directions. Oil prices briefly fell on positive US-Iran negotiation signals, before rebounding following reports of renewed tensions in the Strait of Hormuz.

In Brazil, policy developments remain key. The proposed increase in the ethanol blending mandate to 32% has yet to be confirmed, while gasoline subsidies of BRL 0.44/litre are still pending finalisation. These factors are critical for domestic ethanol demand and sugar millers' price outlook. The Centre-South harvest continues to progress strongly, with sugarcane crushing up 123% year-on-year in the second half of April. Sugar output rose 109%, while the sugar mix declined to 40.4%. Ethanol prices have stabilised after recent declines but remain significantly below late-March levels. Ethanol parity prices continue to sit below front-end sugar futures, while the pump price ratio has fallen to a multi-year low, further pressured by gasoline subsidies, which may encourage millers to produce marginally less ethanol and more sugar in the near term. On the flip side, late wet season rainfalls have delayed harvest in the key producing region of São Paulo.

Overall, weaker ethanol economics could encourage a higher sugar mix, posing a downside risk to sugar prices. **However, changes to domestic policies could alter this outlook. In India, the export ban has been extended to end-September,** although its market impact is limited given already weak export incentives. Meanwhile, the southwest monsoon is approaching, and the outlook is for below-average rainfall across the summer, raising production risks across India and Southeast Asia. **The silver lining for sugar markets is that biofuel mandates are ramping up in response to the liquid fuel price shock, which may bring a much-needed increase in demand for sugarcane and corn.**

What to watch:

- **South Asia monsoon –** Many weather models call for rainfall deficits and yield losses across South Asia during Q2 and Q3 of this year. A material downside to production could shift the market from surplus toward deficit faster, tightening trade flows and lifting prices, in a scenario where biofuel mandates are already on the rise in response to high energy prices.
- **Brazil ethanol parity and sugar mix –** The interaction between crude oil and refined products prices, Brazilian fuel policy, and ethanol parity are likely to be even more relevant for sugar prices in coming weeks. Ethanol economics are weakening , which may push mills closer to a heavier-sugar mix, capping price upside.

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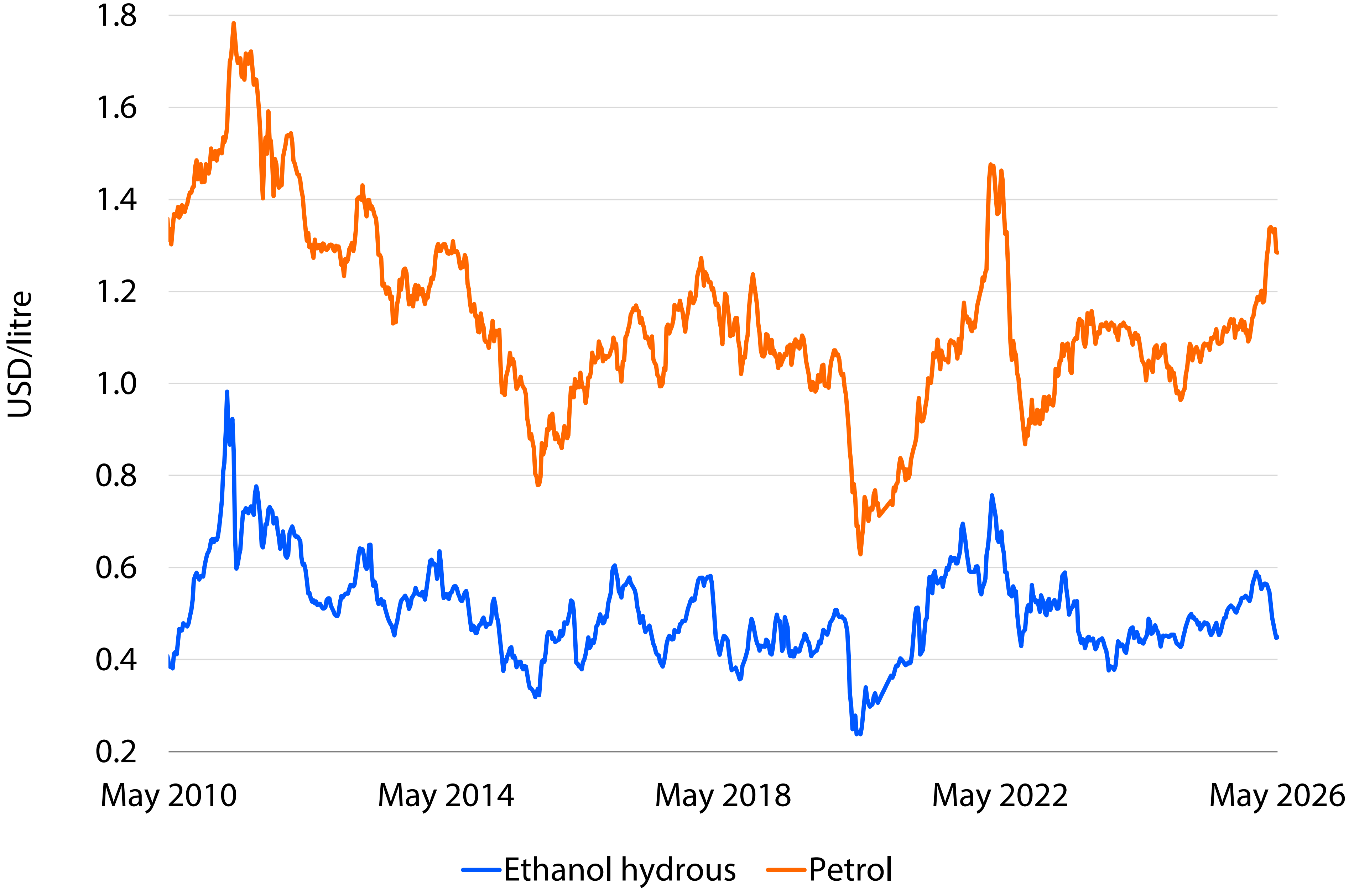
Sugar

Global energy shocks are yet to help sugar prices

Brazil's petrol-ethanol dynamics are a global sugar price driver, as it influences sugar-ethanol production mix



Source: *Bloomberg, RaboResearch 2026*

Sugar prices, ICE #11, are still trending lower due to ample stocks

Source: *Bloomberg, RaboResearch 2026*

Rabobank

Dairy

New season milk pricing broadly in line with expectations

National milk production has remained slightly below prior-year levels in 2025/26, with total output declining by 0.3% year-to-date to April (7.11bn litres). This reflects a weak start to the season, driven by significant declines in key southern regions, although production has shown clear signs of recovery in recent months, including a strong April increase of 4.1% year-on-year. Production trends vary by state. New South Wales and Queensland have been the strongest performers.

Heading into the 2026/27 season, Australian milk production growth is expected to become constrained, with cautious on-farm decision-making limiting expansion, coupled with the likelihood of less favourable seasonal conditions.

New season milk prices have been announced for 2026/27. RaboResearch was anticipating minimum prices to be broadly in line with prevailing prices. Guaranteed prices announced on June 1 by dairy processors are mostly unchanged from current prices in the 2025/26 season.

In New Zealand, output is running more than 4% ahead year-on-year. The 2025/26 season has New Zealand firmly on track to deliver record milk production through April, exceeding the previous peak set in 2020/21. This growth reflects a highly supportive operating environment, including mild weather, strong pasture growth, excellent herd condition, and the ability to supplement with imported feed under favourable milk price conditions. In New Zealand, milk price prospects for 2026/27 remain firm, with Fonterra announcing an opening midpoint price of NZD 9.75/kgMS which is equivalent to AUD 8.12/kgMS.

Global milk production growth has begun to moderate in Q2, following four consecutive quarters of expansion, exceeding 2% across the Big-7 regions. Year-on-year output growth peaked at a notable 5.2% in Q4 2025 – one of the strongest increases on record. Rabobank estimates global milk supply will be up 1.5% year-on-year this quarter, before easing to flat in Q3 2026 and contracting by 1.6% in Q4 2026.

Dairy inflation in Australia was mixed in April. Liquid milk inflation reached 4.2% year-on-year, reflecting recent increases in private label retail prices. Meanwhile, cheese remained in deflation for a third consecutive month, declining 1.4% year-on-year in April, as discounting and promotional activity remain high.

What to watch:

- **Yoghurt boom continues –** Latest data from Dairy Australia shows that the local yoghurt category is growing at 7.5% on a volume basis and 10.9% on a value basis, reflecting consumers' willingness to spend more on higher-value products. The high protein boom is a strong tailwind for the category.
- **Disease outbreak in China –** In China, an outbreak of food-and-mouth disease was detected this quarter and temporarily impacted milk production on some herds. The disease is currently controlled, but further disruptions are possible. RaboResearch forecasts Chinese milk production to be broadly flat in 2026 versus 2025.

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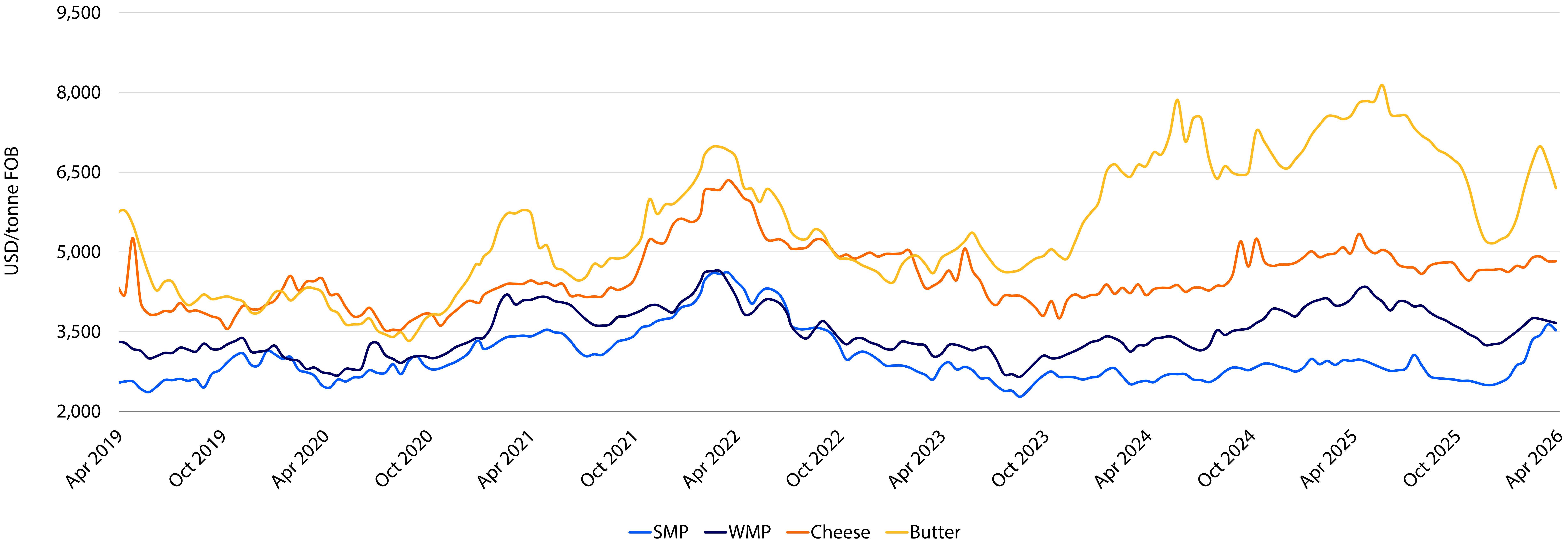
Dairy

Protein price rally loses some momentum

Oceania spot prices for dairy commodities, May 2019-May 2026



Source: *USDA, RaboResearch 2026*

Consumer foods

Food inflation drops to lowest level since December 2021

Discretionary spending takes a hit with consumer incomes under pressure. The ABS data for April 2026 shows overall household spending fell 1.1% month-on-month but remained up 4.9% year-on-year, with the decline driven by weakness in discretionary categories.

Food spending continues to reflect ongoing price-driven growth, despite constrained household budgets, although it declined 1.3% over the month. In contrast, foodservice (hotels, cafés and restaurants) rose modestly by 0.5% month-on-month, highlighting its more volatile and discretionary nature.

Overall, the data reinforces a cautious consumer environment, with essential food spend holding up better than discretionary dining.

The ABS Consumer Price Index release for April 2026 showed food and non-alcoholic beverages inflation at 2.8% year-on-year, below headline CPI, indicating a continued easing in grocery price growth. This is the lowest annual rise in food prices since December 2021.

This reflects a broader normalisation in food inflation following earlier peaks, although food remains a meaningful contributor to overall inflation.

The annual increase was driven by beef and veal (+11.9%) and lamb and goat (+14.6%), reflecting strong overseas demand for Australian red meat. Fruit and vegetable prices rose 0.1% in the 12 months to April 2026, down from a 1.8% increase in the year to March 2026. This marked moderation was driven by a decline in fruit prices. On a monthly basis, fruit prices fell 2.2%, led by tropical fruits such as bananas and avocados.

Looking ahead, some upward pressure is likely to re-emerge in coming months as higher input costs across the food supply chain are gradually passed through to retail prices.

Consumer confidence is stabilising but remains deeply depressed, reflecting ongoing cost-of-living pressures and weak household financial conditions.

ANZ-Roy Morgan Consumer Confidence results show Australian consumer confidence was broadly unchanged at 66.1, remaining near historical lows.

What to watch:

- **Foodservice traffic at risk as inflation bites and confidence slips –** The risk of a renewed slowdown in foodservice foot traffic is rising, with performance expected to remain uneven across formats. Consumer confidence remains fragile and alongside continued discretionary tightening, is driving increasingly value-oriented behaviour.

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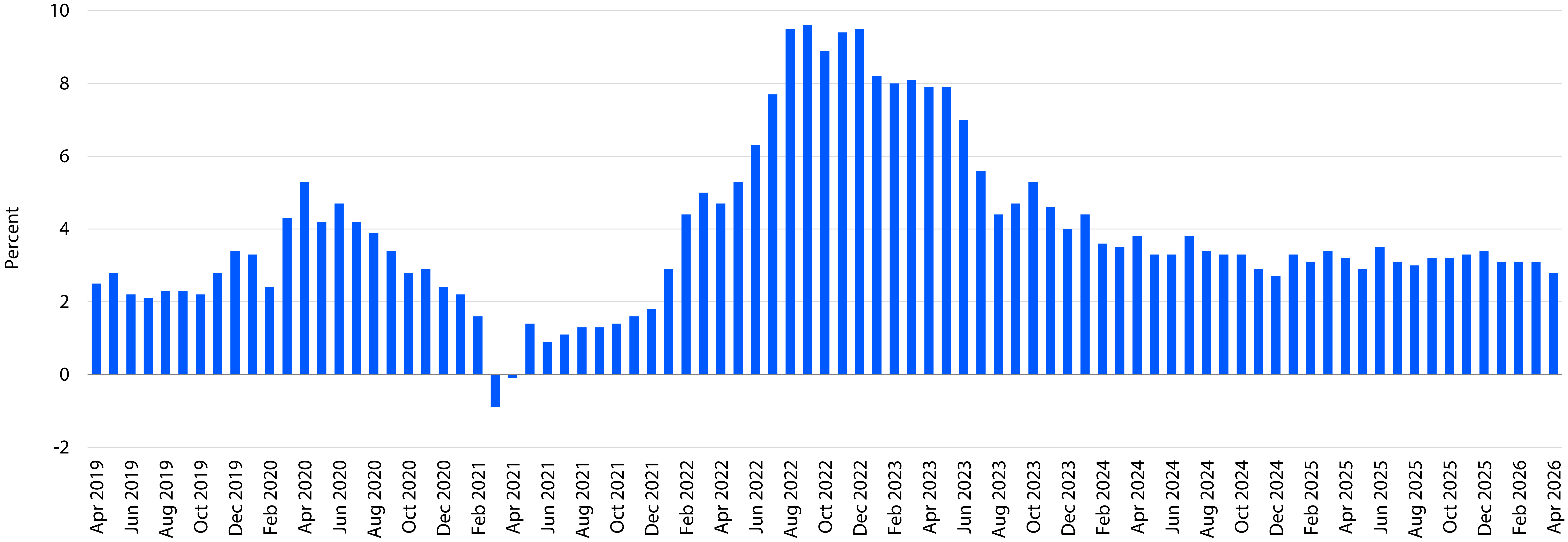
Consumer foods

Red meat and out-of-home meals drive food inflation

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



Source: *ABS, RaboResearch 2026*

Interest rate and FX

Still playing the waiting game

As we predicted last month, the Reserve Bank of Australia raised the official cash rate by 0.25 ppts in May to 4.35%. This places the cash rate equal to the previous cycle high, and the decision was accompanied by some interesting comments from RBA Governor Bullock at her press conference that seem to indicate that the RBA thinks it might be near the end of the hiking cycle.

Governor Bullock said that the Board now judges the level of the cash rate to be “a bit restrictive”, and that it feels “like we’re in a position where we’ve got space to be alert now to both sides of the risk”. Markets took these comments as forward guidance of sorts that a follow-up rate hike in June is unlikely, and that there is now a chance that the hiking cycle might be over.

It is currently the case that futures markets are no longer totally convinced that the RBA will raise rates again. This is a change from early May, when markets were pricing a terminal cash rate of approximately 4.75%.

A second consecutive weaker-than-expected CPI inflation print – this time for the month of April – prompted a bit of a pullback in the implied cash rate peak, as did a weaker-than-expected labour force report. The latter saw the unemployment rate rise from 4.3% in March to 4.5% in April, despite a one-tick fall in the participation rate, which would typically make it harder for the unemployment rate to rise.

There are plenty of signs of slowing activity in the economy, whether it be weakening household spending figures, lower capacity utilization among business, falling auction clearance rates or softening purchasing managers’ indices. Higher interest rates and lower real incomes are expected to slow economic activity, as will the impacts of the oil price shock on Australia’s trading partners in Asia.

Nevertheless, RaboResearch isn’t yet convinced that the hiking cycle is over. We have recently updated our baseline Strait of Hormuz forecast to incorporate an extended closure of the Strait through to September. If this does turn out to be the case, it will place further pressure on the liquid fuels, petrochemicals and fertilisers supply chain, which could in turn prompt the RBA to tighten monetary policy to keep longer-term inflation in check. We continue to forecast a final 0.25ppt hike at the August meeting.

What to watch:

- **RBA cash rate decision, 16 June –** We do not expect that the RBA will raise interest rates in June, but the meeting will be notable for any further guidance on whether the RBA believes we have already reached the top of the cash rate cycle, or whether further rate hikes are in the offing. Much will depend on the status of the Strait of Hormuz at the time (we expect it to remain functionally closed), and how well domestic demand is holding up in the face of cost pressures.

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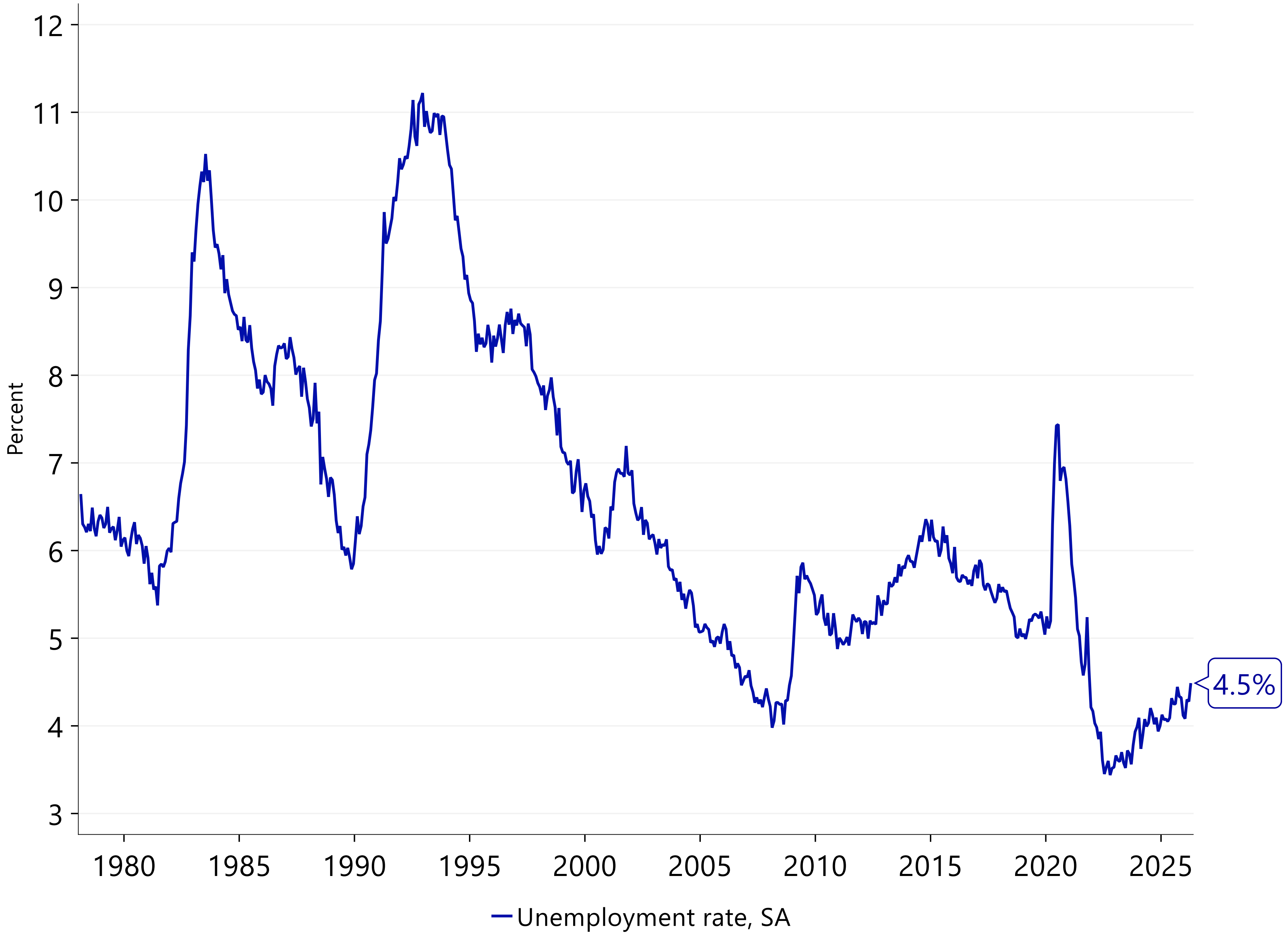
Interest rate and FX

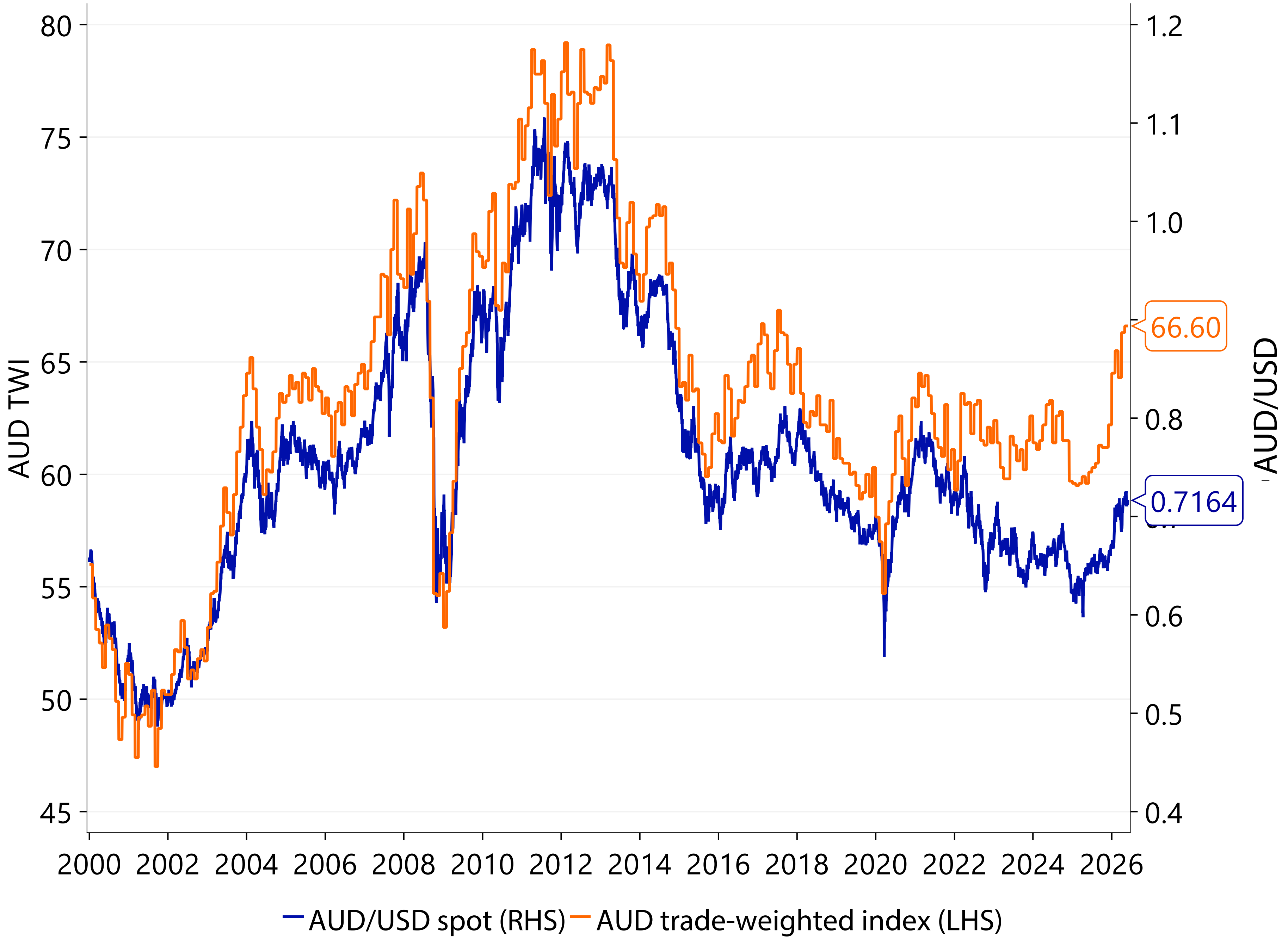
Australia's unemployment rate rose sharply in April, prompting speculation over the path of the cash rate

Australian unemployment rate

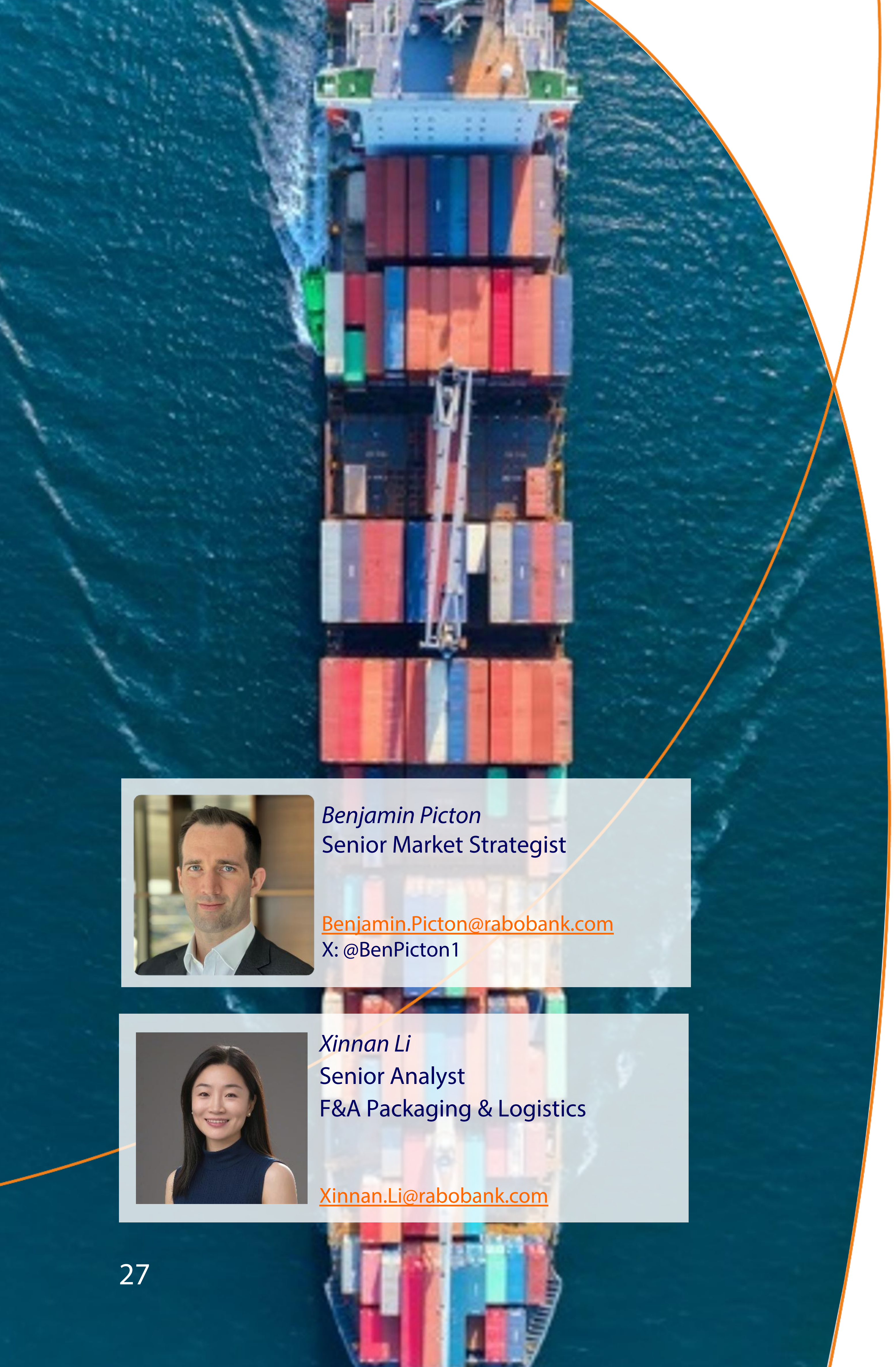


Source: *Macrobond, ABS, RaboResearch 2026*

Australian dollar versus US dollar and trade-weighted index



Source: *Macrobond, ABS, RBA, RaboResearch 2026*



Oil and freight

Relief, but for how long?

Brent crude prices declined almost 20% in May to finish the month at USD 92.05/bbl. Optimism over the prospects for a deal between the United States and Iran was the main driver of lower prices, but a deal has not yet been struck and the obstacles of Iran's highly enriched uranium stockpile and ongoing enrichment ambitions remain a sticking point.

A draft agreement had reportedly been reached leading into the final weekend of May. The agreement was awaiting signoff from President Trump, but Trump has reportedly sent the draft back to the Iranians with changes requested. While the negotiations remain ongoing, traffic through the Strait has quietly risen, but remains a long way below the pre-war level of approximately 130 transits per day.

Price declines in the futures market notwithstanding, global stockpiles of crude oil and refined products have been declining at a fast pace and the spread between physical crude for immediate deliver and futures has again widened.

RaboResearch now expects Brent to average USD 120/bbl in Q3 and USD 100/bbl in Q4 as Hormuz remains functionally closed through to September.

RaboResearch has recently extended our baseline forecast for the Strait of Hormuz closure until September, with disruption to global shipping, especially in the bulk and energy sector, expected to persist. The closure has also added new urgency to Australia's long-awaited Maritime Strategic Fleet program, which is designed to provide sovereign maritime capacity during national crisis and supply chain disruptions.

On the demand side, recovery continues. Strong regional cargo volumes, buoyant market sentiment, and rising bunker costs are collectively signaling upward pressure on intra-Asia freight rates. Adding to the positive tone, the USTR has suspended for one year the planned 100% tariffs on China-built and China-owned ships. This is a meaningful near-term relief for shippers who had mounted significant resistance to the measure.

The Baltic Panamax index (a proxy for grain bulk freight) remains modestly elevated, supported by broader bulk shipping dynamics and disruptions linked to the Strait of Hormuz.

What to watch:

- **Iran peace negotiations –** The reopening of the Strait of Hormuz is the critical point for global energy markets. The status of Hormuz will hinge on Iran/US peace negotiations, particularly the sticking point of Iran's nuclear program.

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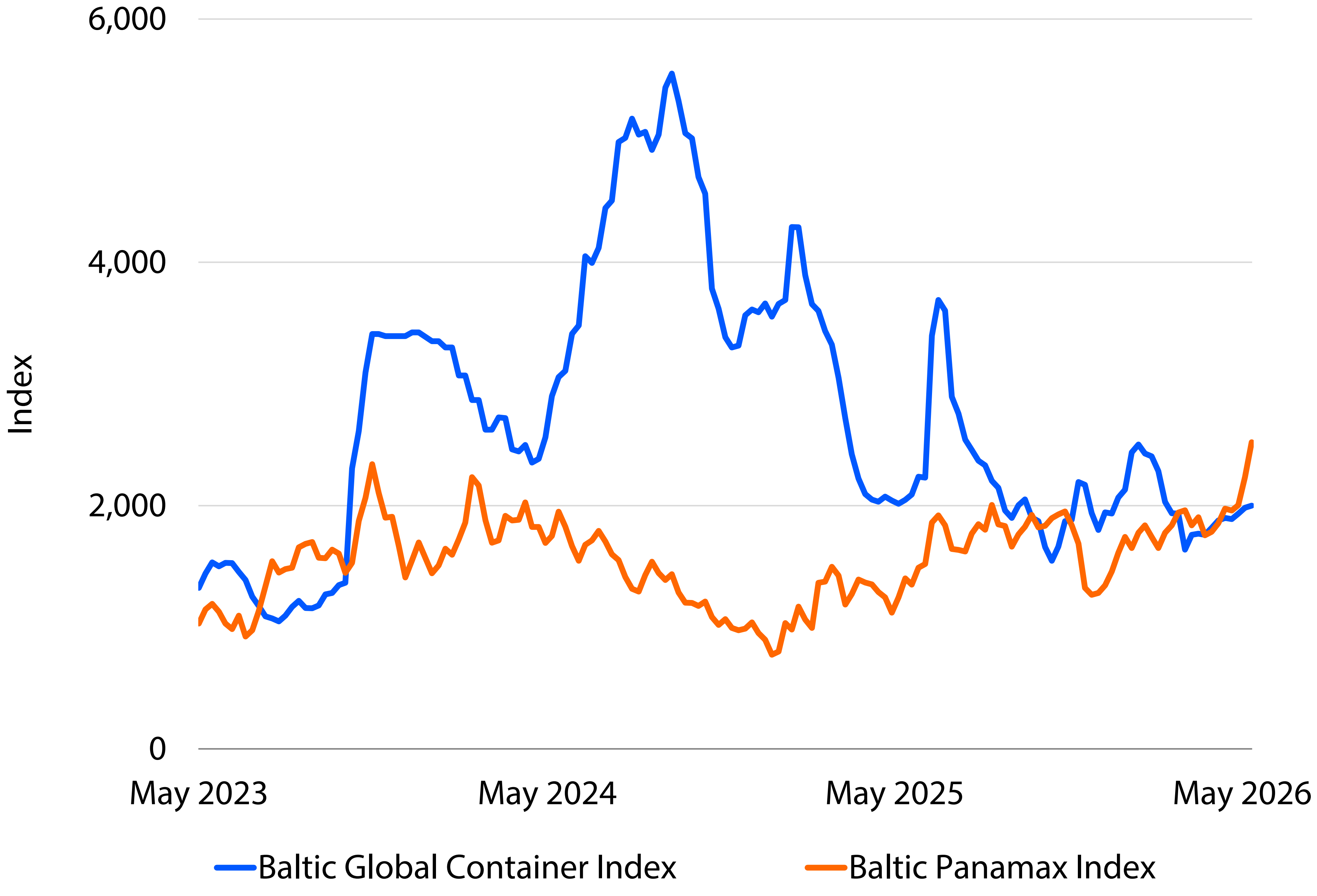
Oil and freight

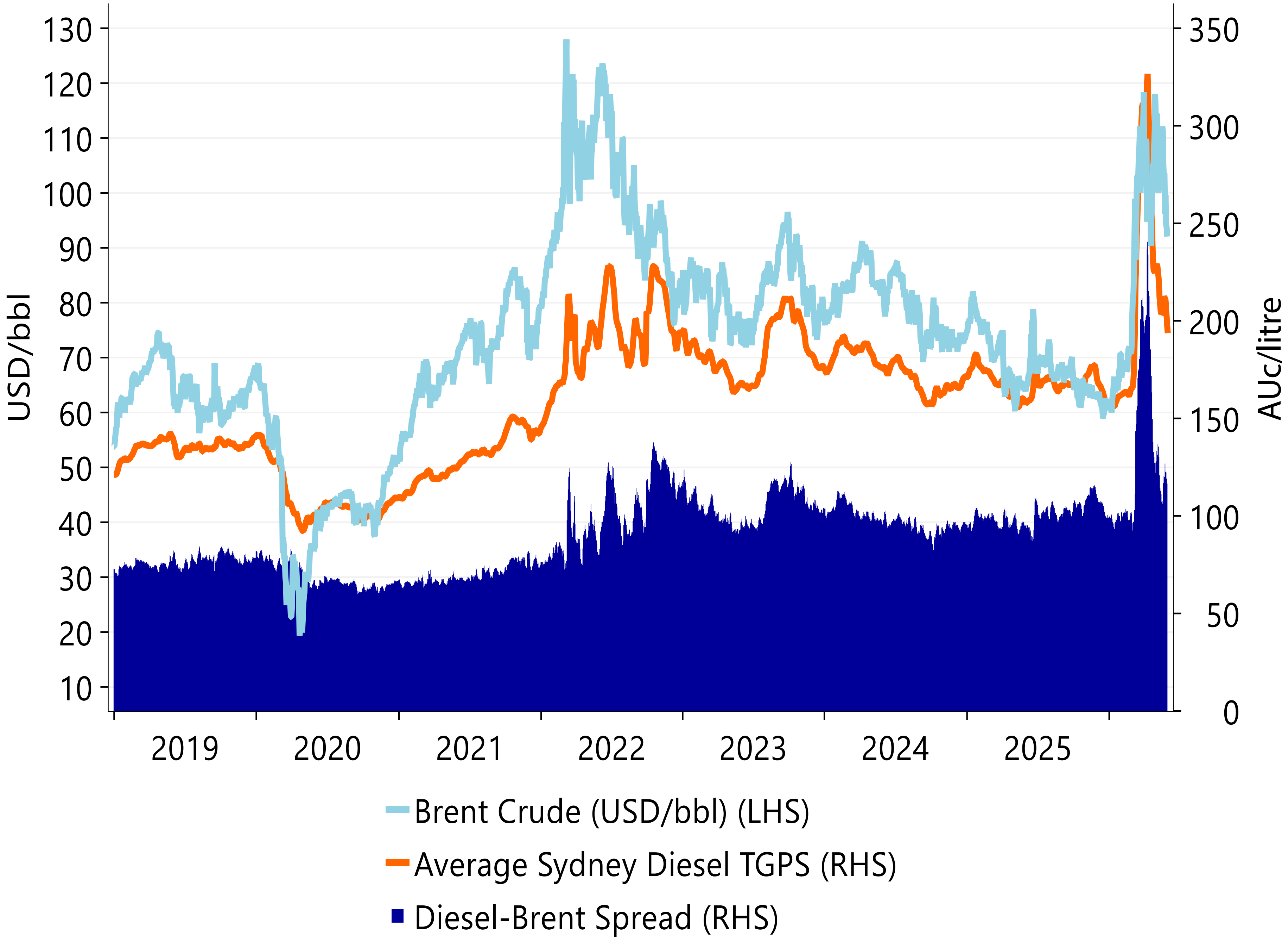
Oil prices were down in May, but with the Strait still closed we expect prices to rise again

Baltic Panamax Index and Dry Container Index, May 2023-May 2026



Source: *Baltic Exchange, Bloomberg, RaboResearch 2026*

Brent crude versus Sydney diesel prices, 2019-2026



Source: *Macrobond, ICE, AIP, RaboResearch 2026*

Agri price dashboard

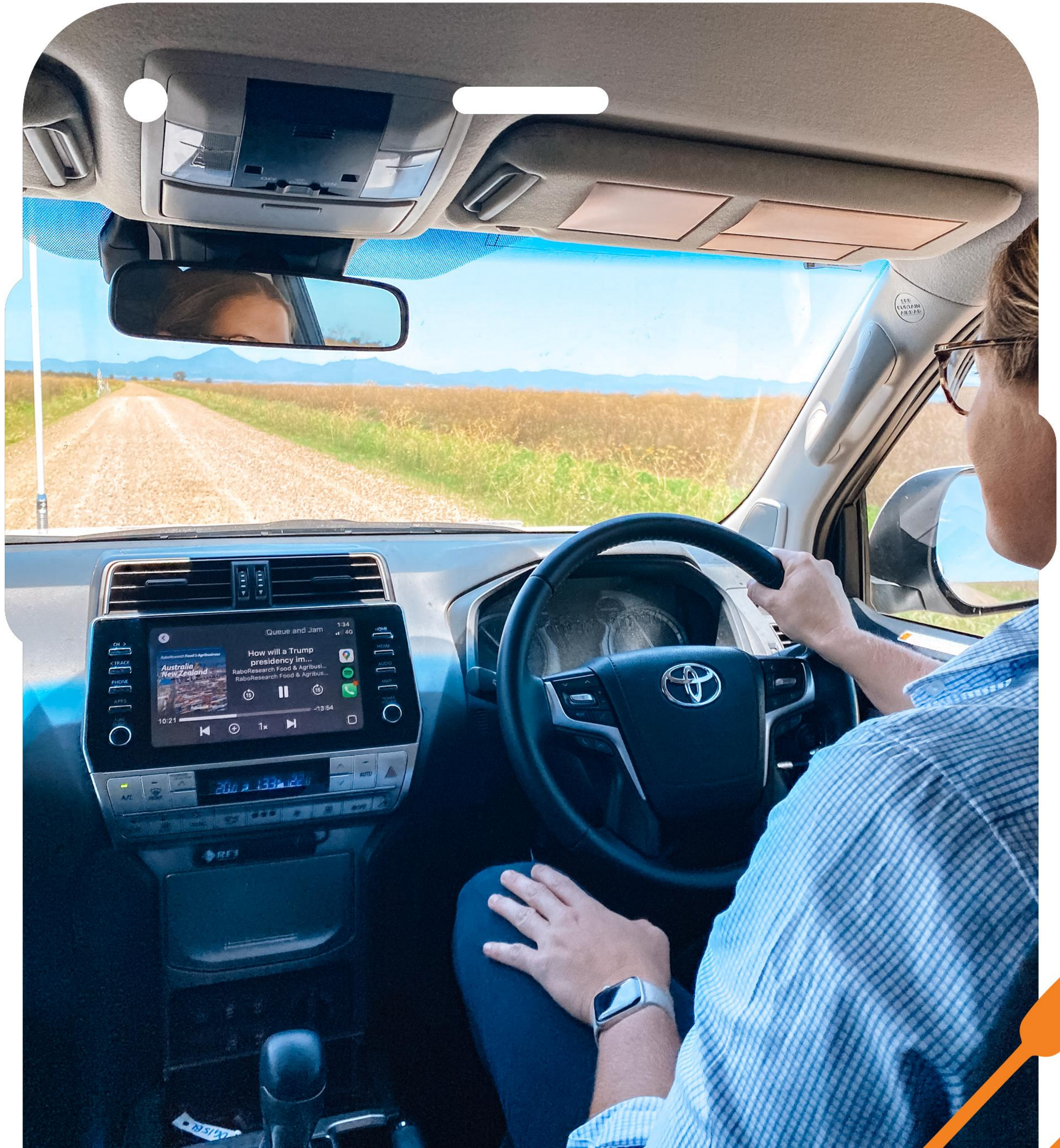
01/06/2026	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	613	625	534
CBOT soybean	USc/bushel	▲	1,189	1,188	1,042
CBOT corn	USc/bushel	▼	448	468	444
Australian ASX EC Wheat Track	AUD/tonne	▼	343	352	325
Non-GM Canola Newcastle Track	AUD/tonne	▼	750	763	755
Feed Barley F1 Geelong Track	AUD/tonne	▼	311	319	341
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	764	829	734
Feeder Steer	AUc/kg lwt	▲	487	452	370
North Island Bull 300kg	NZc/kg cwt	▲	940	935	800
South Island Bull 300kg	NZc/kg cwt	▲	925	915	730
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	1,184	1,182	860
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	1,090	1,055	920
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	1,090	1,050	905
Venison markets					
North Island Stag	NZc/kg cwt	▲	1,090	1,060	930
South Island Stag	NZc/kg cwt	▲	1,090	1,060	920
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	4,863	6,200	7,838
Skim Milk Powder	USD/tonne FOB	▲	3,688	3,525	2,938
Whole Milk Powder	USD/tonne FOB	▲	3,750	3,663	4,338
Cheddar	USD/tonne FOB	▼	4,638	4,825	5,088

Source: Baltic Exchange, Bloomberg, RaboResearch 2026

Agri price dashboard

01/06/2026	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	86.7	92.1	77
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	77.9	81.9	65
Sugar markets					
ICE Sugar No.11	USc/lb	▼	14.1	15.0	17.1
ICE Sugar No.11 (AUD)	AUD/tonne	▼	432	458	584
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,895	1,744	1,191
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▼	683	908	380
DAP (US Gulf)	USD/tonne FOB	•	840	840	695
Other					
Baltic Panamax Index	1000=1985	▲	2,343	2,002	1,119
Brent Crude Oil	USD/bbl	▼	93	108	64
Economics/currency					
AUD	vs. USD	▼	0.718	0.720	0.643
NZD	vs. USD	▲	0.597	0.590	0.596
RBA Official Cash Rate	%	▲	4.35	4.10	3.85
NZRB Official Cash Rate	%	•	2.25	2.25	3.25

Source: Baltic Exchange, Bloomberg, RaboResearch 2026



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