November as harvest moves forward

Australia agribusiness monthly

RaboResearch Food and Agribusiness

November 2024

Rabobank

Disclaimer

Please read the disclaimer below prior to reviewing this publication.

This publication is for information purposes only. The contents of this publication are general in nature and do not take into account your personal objectives, financial situation or needs. As such, the contents of this publication do not constitute advice and should not be relied upon as a basis for any financial decisions. Rabobank Australia Limited ABN 50 001 621 129 AFSL 234700 and Coöperatieve Rabobank U.A. (Australia Branch) ABN 70003917655 AFSL 238446 (collectively referred to as, '**Rabobank Australia**') recommend that you seek independent financial advice from your accountant or financial adviser before making any financial decisions related in any way to the contents of this publication. The information and opinions contained in this publication have been compiled or arrived at from sources believed to be reliable. Any opinions, forecasts or estimates made are reasonably held, based on the information available at the time of publication and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed are subject to change at any time. No representation or warranty, either expressed or implied, is made or provided as to the accuracy, reliability or completeness of any information or opinions contained within the publication. You should make your own inquiries regarding the contents of this publication. Rabobank Australia does not accept any liability for any loss or damage arising out of any error or omission in the publication or arising out of any reliance or use of this publication or its contents or otherwise arising in connection therewith.

This report is based on information available as at 6/11/24

Commodity outlooks

Climate

ENSO remains neutral. The rainfall outlook for the rest of the year looks positive for the continent.

Sustainability

The world is a long way off track from the goals of the Paris Agreement, as current national policies and commitments fall short of the reductions required to limit warming to well below 2 °C.

Wheat and barley

Prices are back to a rangebound behaviour as the Black Sea winter seeding is almost done despite poor crop development so far. The supply and demand balance seems rather satisfactory due to large stocks of corn, allowing little room for upside. A pale forward curve is likely to alter grain market strategy this season.

Canola

Favourable conditions in the palm oil market and strong export activity from Ukraine lifted prices during October. The outlook for farmgate prices remains positive in Australia. However, more questions need to be addressed before this trend loses momentum.

Beef

Cattle prices have drifted lower, and with record export volumes, we may be reaching safeguard trigger volumes that might just require a management of volumes and possibly softer prices over the remaining months of the year.

Sheepmeat

Lamb prices continue to hold well as we move through the traditionally high-volume point of the season. With processors back online, demand may just be strong enough to match supply and maintain current prices.

Wool

Wool prices continued to rise of their lows in October. The Eastern Market Indicator rose 3%. Meanwhile, the Western Market Indicator was up a more modest 1.3%.

Dairy

The global dairy commodity market edged higher in October across most products. The underlying fundamentals remain well-balanced, with prices expected to remain mostly stable in the near term. The approaching spring peak in Oceania milk production has started strong.

Cotton

ICE #2 Cotton futures declined 4% MOM, as US harvest pressure and Brazil gearing up for another season of enormous exports weighed on prices.

Consumer foods

The latest Australian Bureau of Statistics' quarterly Consumer Price Index data showed mixed results across the average food basket. Overall food inflation was up 3.3% YOY for the September quarter, remaining flat compared to the previous quarter. Cooking oils, fresh produce, confectionery, and eggs posted the strongest increases.

Farm inputs

Urea and phosphate prices both rose month-on-month. The biggest increase was for urea amid strong Indian demand. Meanwhile, China remains absent from the export market.

Interest rate and FX

Market pricing has converged on RaboResearch's forecast that the first RBA rate cut won't arrive until May next year. Longer-term interest rates have been rising, and the AUD has fallen due to a broad strengthening of the USD.

Oil and freight

Oil traded in a tight range in October, but the outlook for the rest of the year is likely to be dominated by competing pressures of current market oversupply versus geopolitical risks in the Middle East, which have the potential to materially curtail supply.

Climate

It’s getting hot in here

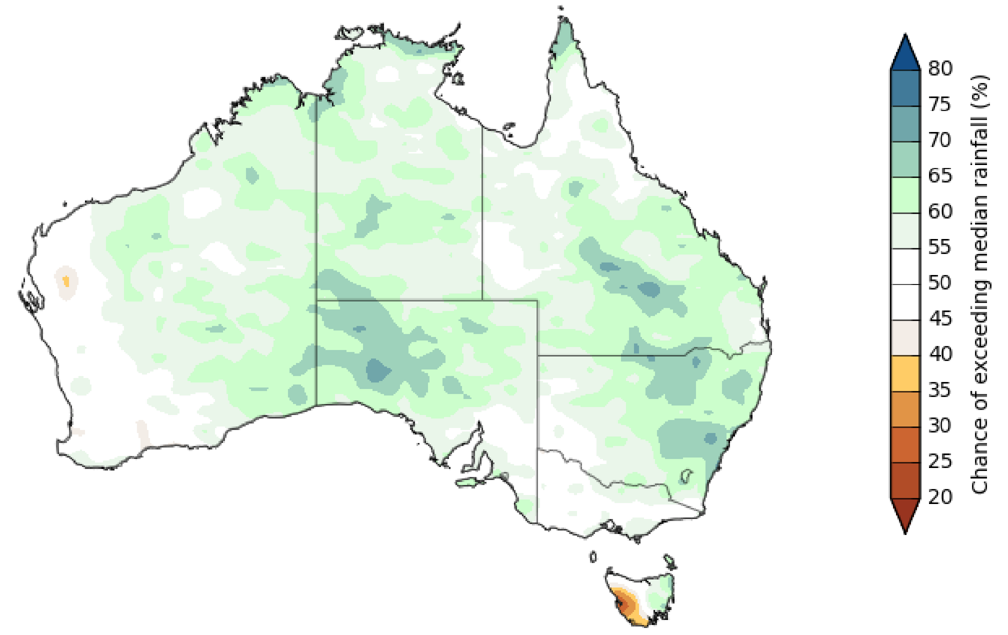
Australia's climate has already warmed by an average of 1.51°C since national records began in 1910. The Commonwealth Scientific and Industrial Research Organisation’s State of the Climate 2024 report highlighted a continued decrease in cool season rainfall across southern Australia and more extreme hot days, which will place greater pressure on agricultural production systems.

El Niño-Southern Oscillation (ENSO) remains neutral, with only one of seven international models predicting La Niña thresholds will be met in December and January.

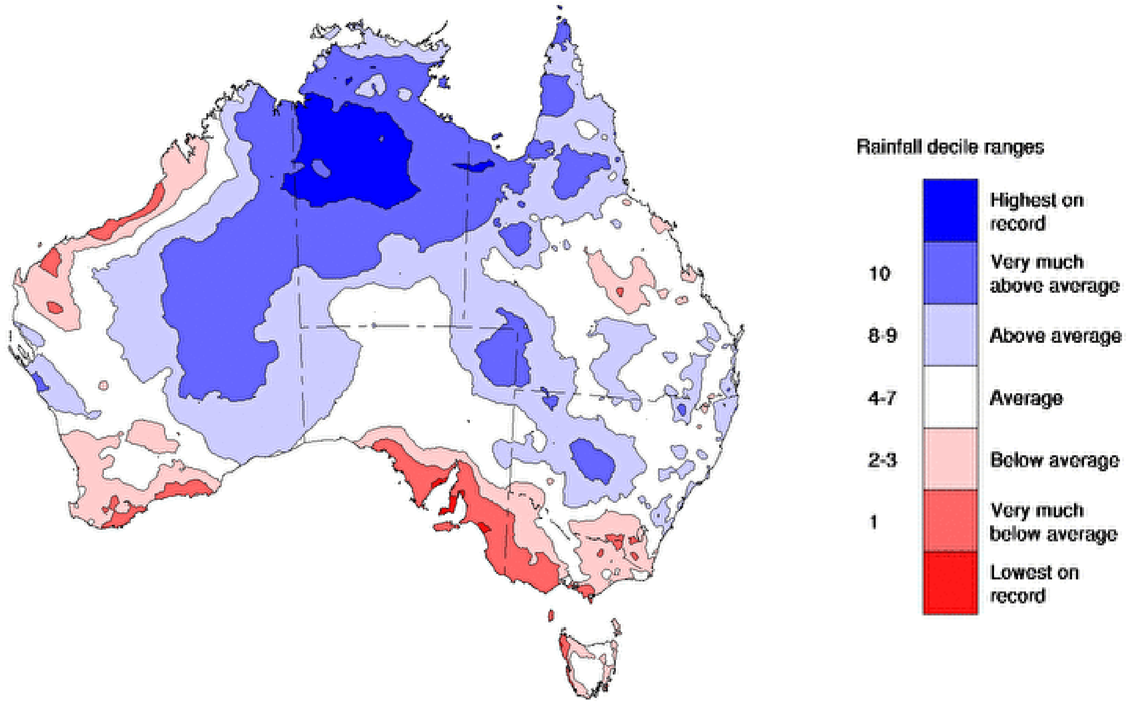
The Indian Ocean Dipole (IOD) remains neutral, but the index is expected to temporarily exceed negative IOD thresholds in November. As the index is expected to return to reach neutral again in December, this will not be classified as a negative IOD event. The recent period of sustained warm sea surface temperatures suggests that climate patterns may not behave as they have in the past. This may affect the ability to predict ENSO and IOD events.

National rainfall in October was 18.4% below average, with only Western Australia recording an above-average month. The Bureau of Meteorology (BOM) reports that over the next three months, rainfall is likely to be at or above average for most of the continent. Murray-Darling Basin water storage levels decreased over the month of October and are currently at 77% of capacity as of 23 October 2024.

November-January 2024/25 rainfall outlook



Rainfall deciles, January-October 2024

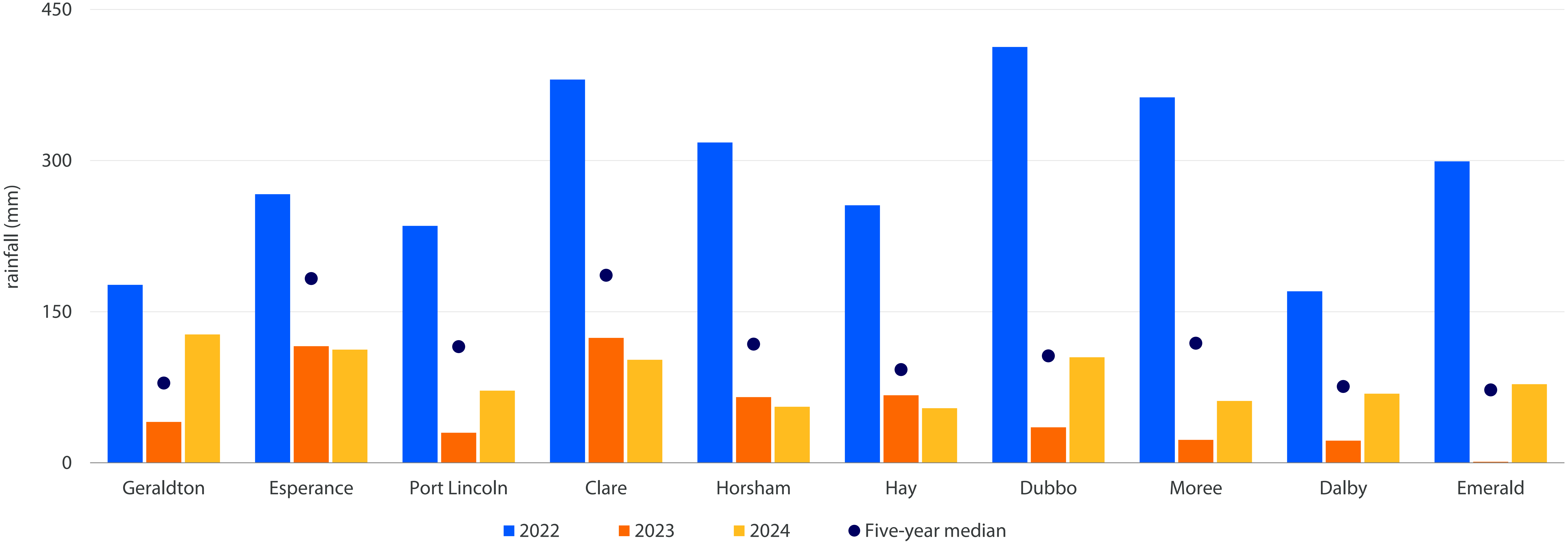


Source: BOM, RaboResearch 2024

Climate

Agricultural regions' late season rainfall

Rainfall (August-October)



Source: *BOM, RaboResearch 2024*

Rabobank

Anna Drake
Sustainability Analyst

Anna.Drake@rabobank.com
X: @itsadrake

Sustainability

More ambition required to meet global climate targets.

The United Nations has released its Emissions Gap Report for 2024, providing a global assessment of whether the world's climate policies and commitments are sufficient to reach the Paris Agreement's target of limiting global warming to 1.5°C. According to the report's modelling, **the world is on track for best-case global warming of 2.6°C this century.**

The emissions gap is the difference between the level of global greenhouse gas (GHG) emissions resulting from the full implementation of country-level policies and measures and the GHG levels under the emissions reduction pathways aligned with the Paris Agreement temperature goal.

The UN Emissions Gap report is relevant in the context of the next round of Nationally Determined Contributions (NDCs), which countries that are signatories of the Paris climate agreement are required to submit every five years. NDCs present each country's national efforts to reach the goal of limiting warming to well below 2°C. The next round of NDCs is to be communicated by February 2025 and will include mitigation targets for 2035.

If governments take the findings into account, a ratcheting up in the level of climate ambition can be expected. Pressure on governments to do more and raise their level of ambition in connection with climate action is unlikely to ease.

The report also found that the Agriculture, Forestry and Other Land Use (AFOLU) sector globally can more than pull its weight in emissions mitigation. The sector is responsible for 18% of global emissions in 2023 but holding 31% of the total mitigation potential to 2035. The report also highlights a considerable increase in investment required in the sector, with a large gap between funding needs and actual funding flows needed to reach a 1.5°C trajectory and mitigation potential.

Although it is still technically possible to get on a 1.5°C pathway, it becomes increasingly challenging as time passes. Overcoming any policy, governance, institutional, and technical challenges and barriers would require significant global mobilisation by both governments and the private sector.

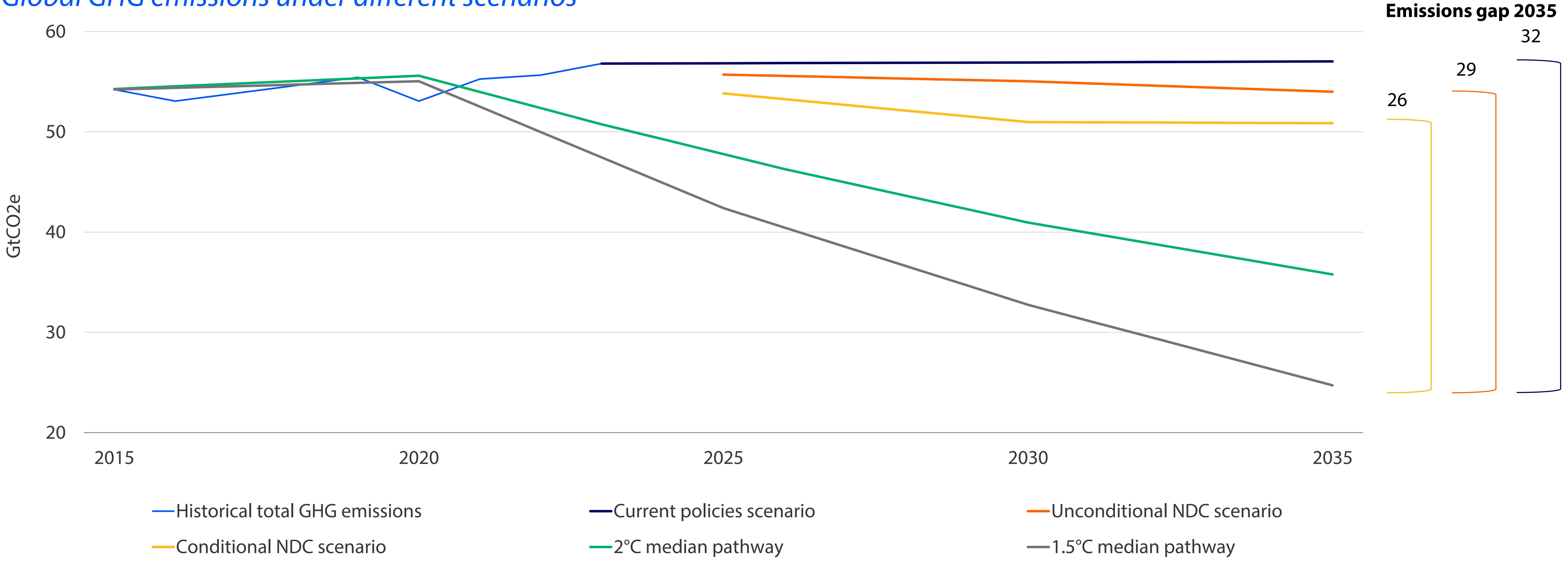
What to watch:

- **The Taskforce on Nature-Related Financial Disclosures (TNFD) has published draft guidance on nature transition planning –** This guidance outlines how corporates and financial institutions can develop and disclose nature-related impacts and dependencies in line with the TNFD's recommended disclosures.

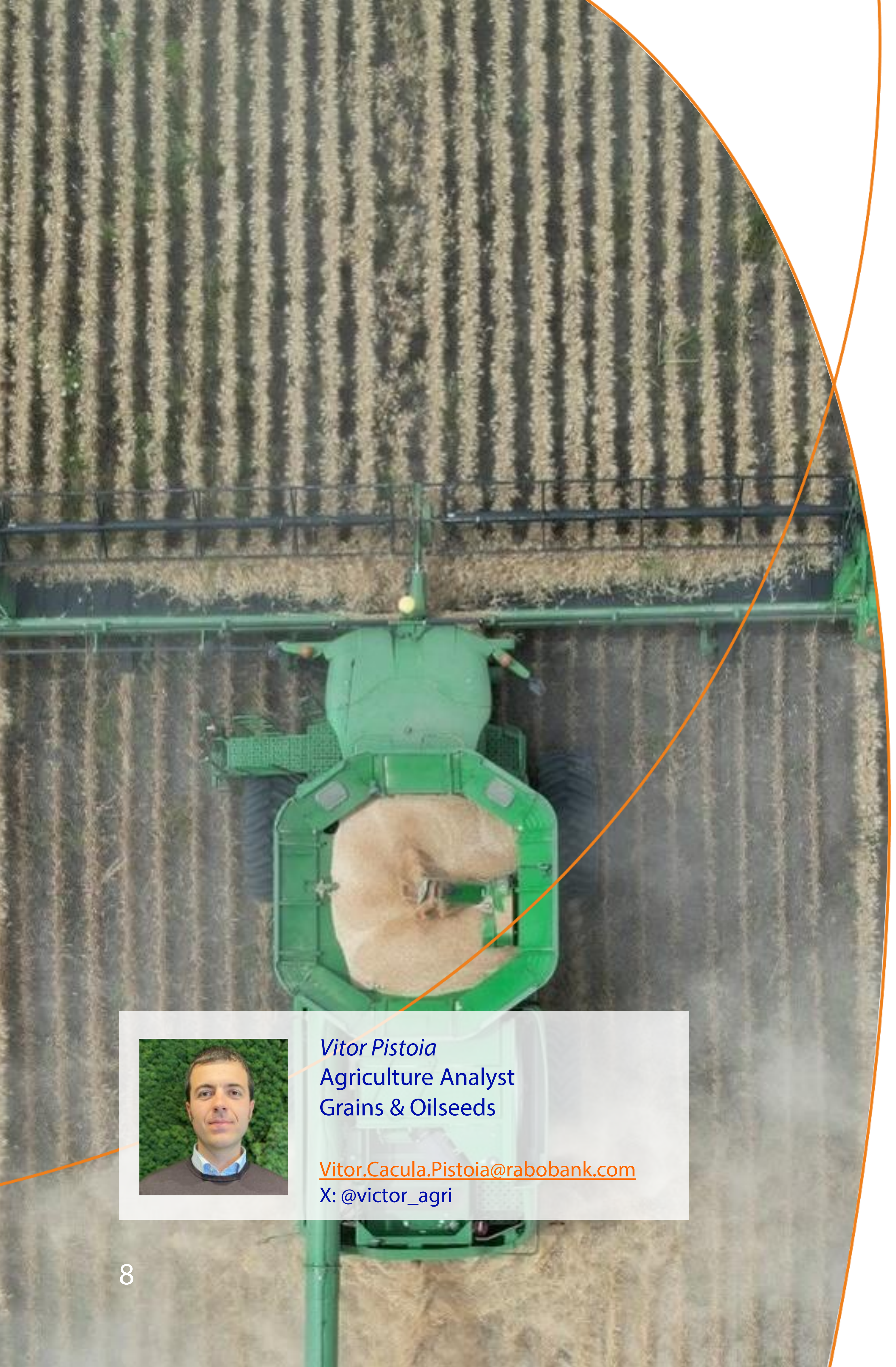
Sustainability

Gap remains between global policies and commitments and warming targets

Global GHG emissions under different scenarios



Source: *United Nations, RaboResearch 2024*



Wheat and barley

Steady prices despite wheat production cuts

The positive price trend of September did not continue into October, and wheat prices remain rangebound. The latest USDA report indicated a cut in global wheat production but also a cut in demand, leaving ending stocks for the 2024/25 season virtually stable. This has prompted Managed Money to reinstate some of its recent bearishness toward wheat. Reports from the Black Sea further support this lack of enthusiasm for price increases. Sowing rates are close to the historical average despite the dry spell and suboptimal soil moisture. For instance, by the last week of October, Ukraine had sown 4.7m hectares of winter cereals out of a potential of 5.2m hectares. **Comparing 31 October prices to the first day of the month, the Dec 2024 CBOT wheat contract fell from AUD 320/tonne to AUD 317/tonne, a minimal drop of 0.9%. The ASX Jan 2025 contract also showed a slight movement, increasing from AUD 329/tonne to AUD 330/tonne.**

Looking 12 months ahead, the forward curve numbers are reinforcing a pale price perspective, especially for ASX wheat. The ASX Jan 2025 contract basis (using the Dec 2024 CBOT Wheat contract as reference) is up only by AUD 9/tonne and the Jul 2025 contract is down by AUD 1/tonne. One interpretation is that Australia's traditional buyers – Asian countries such as Indonesia and Vietnam – are not willing to build stocks because there is sufficient supply not only from Australia but also from the US and Canada.

Australian exports for the 2023/24 season are on track to finish between 19.5m tonnes and 20m tonnes, from a 26m tonnes crop. This is just enough to reduce stocks by a couple of hundred thousand tonnes, which are expected to see a robust inflow from the 2024/25 harvest. **We forecast the new crop to be 27.5m tonnes, with the bulk of exportable surplus in Western Australia and Northern New South Wales. For East Coast grain producers and consumers, this is a new trend compared to recent years and undoubtedly requires a new marketing strategy, which also reverberates in the feed barley market.** The global outlook for wheat production in 2025 is unclear, given the considerable time until the next Northern Hemisphere spring.

What to watch:

- **Ukraine and Russia to use price floor –** Both countries have announced plans to implement an export price floor. Ukraine is set to start this in December, using the previous month's custom data as a baseline minus 10%. Russia recommended that grain traders market wheat at AUD 374/tonne in November and AUD 382/tonne by December. While this seems rather bullish, price floors have not been adhered to in recent years.

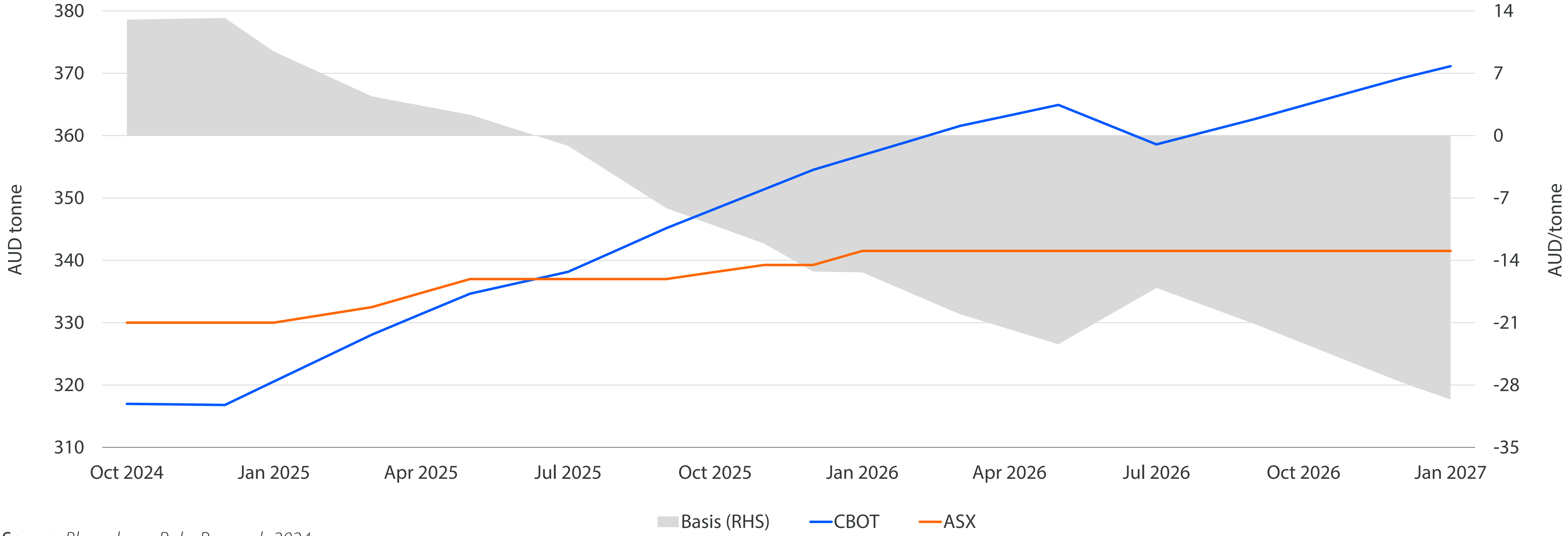
Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

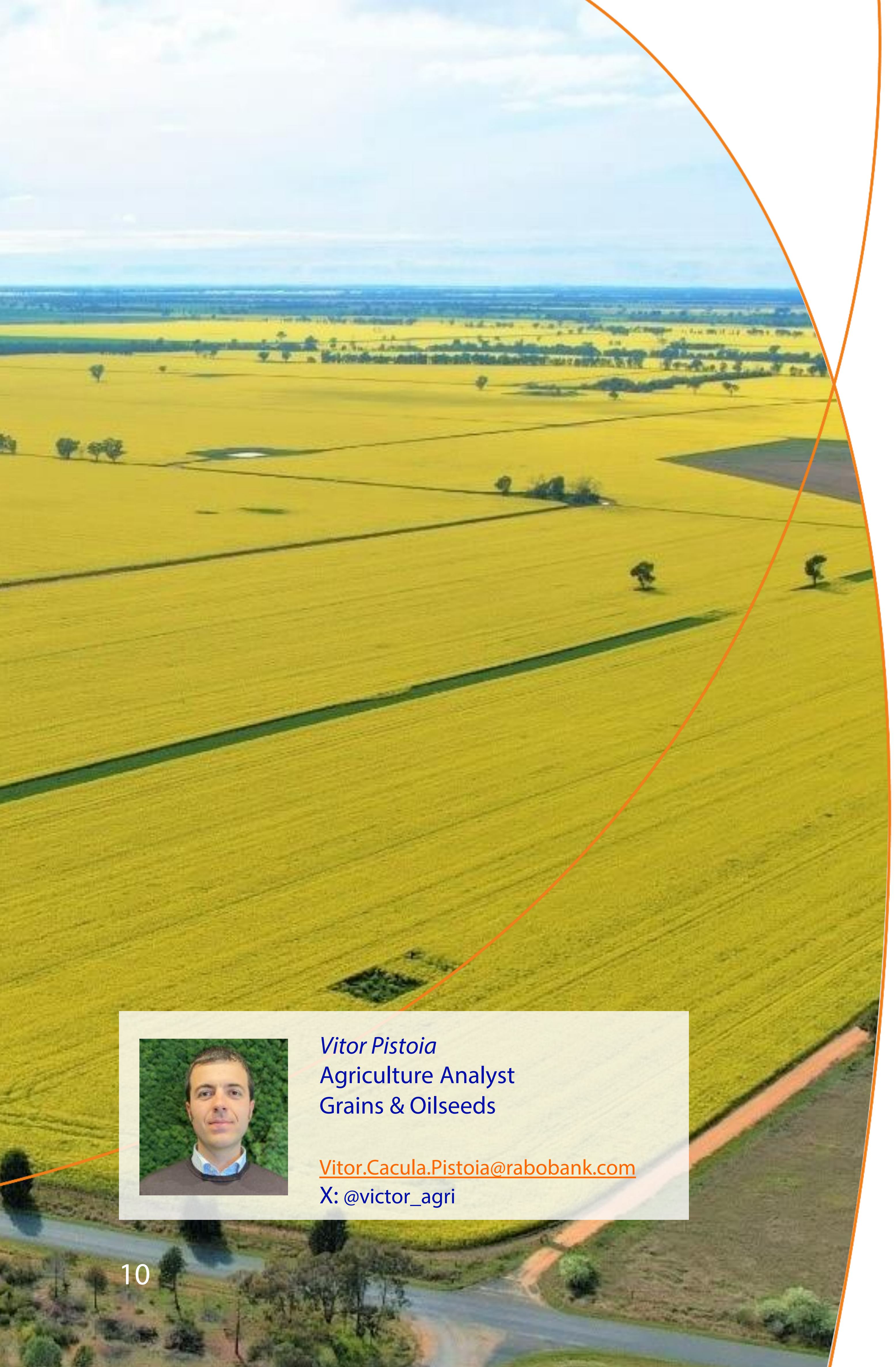
Wheat and barley

A slim carry incentive in the wheat forward curve into 2025

Sufficient stocks until next harvest despite lower year-on-year production in the EU and the Black Sea region



Source: *Bloomberg, RaboResearch 2024*
Note: *values as of 31 October*



Canola

Price rises as other oilseeds move to a bullish trend

The already complex scenario due to low global oilseed stocks has been aggravated by possible changes in Indonesia's biodiesel policy. The Asian country reiterated its ambition to increase the biodiesel mix in diesel by 5%, reaching 40% in total by early 2025. **The market reaction was strong, with Kuala Lumpur palm oil prices jumping 15.0% during October. This surge also helped improve canola prices. The MATIF Canola Feb 2025 contract rose by 10.4% to AUD 863/tonne, and the non-GM canola at Geelong port grew to AUD 782/tonne. As expected, GM canola showed smaller volatility. The ICE Jan 2025 contract increased by 5.5% to AUD 709/tonne, and the Kwinana GM canola port price also improved, by 10.3% to AUD 764/tonne.**

All these price improvements for oilseeds were partially buffered by a remarkable recovery in Brazil's soybean seeding rate. In Mato Grosso state, which accounts for roughly 27% of the country's planned 47.3m hectares of soybean planting, the seeding rate was 55.8% in the last week of October, compared to a five-year average of 62.2%. By mid-October, the figures were 8.8% and 23.7% respectively. Consequently, the CBOT soybeans' spot price dropped by 7.1% during the month, also supported by an increase in the global crush, which has expanded the supply of soybean oil and meal. **This seems to be the logical breakpoint for the upward trend for canola prices: A scenario where cheaper alternatives, like soybeans, become more attractive.**

However, substituting one oilseed for another assumes there is enough feedstock, and for canola this is not likely. **Ukraine's 2024/25 exports are progressing at a strong pace. During the July-October period, the EU bloc had already imported 1.37m tonnes from Ukraine, or 38% of a total harvest estimated at 3.6m tonnes.** Local crush is expected to be at least 0.6m tonnes, leaving 1.6m to be split into stocks and exports until mid-2025. **RaboResearch's view is that Australia is poised to have a smaller canola crop this year, at 4.7m tonnes instead of 5.9m tonnes as in the previous year. This reduction supports canola prices and could lead to further upside.**

What to watch:

- **South American soybeans crop** – November is a crucial month for South American soybean fields. Significant seeding needs to be completed in Brazil, Argentina, and Paraguay, making adequate soil moisture essential. Any further delays, whether due to excessive or insufficient moisture, will support soybean prices and boost other oilseeds, including canola.
- **US elections results reactions –** Depending on the outcome, we might see significant economic reactions from key global economies, such as China, which could impact crude oil, currency, and trade. This is particularly relevant as Australia is harvesting and planning for the new crop season.

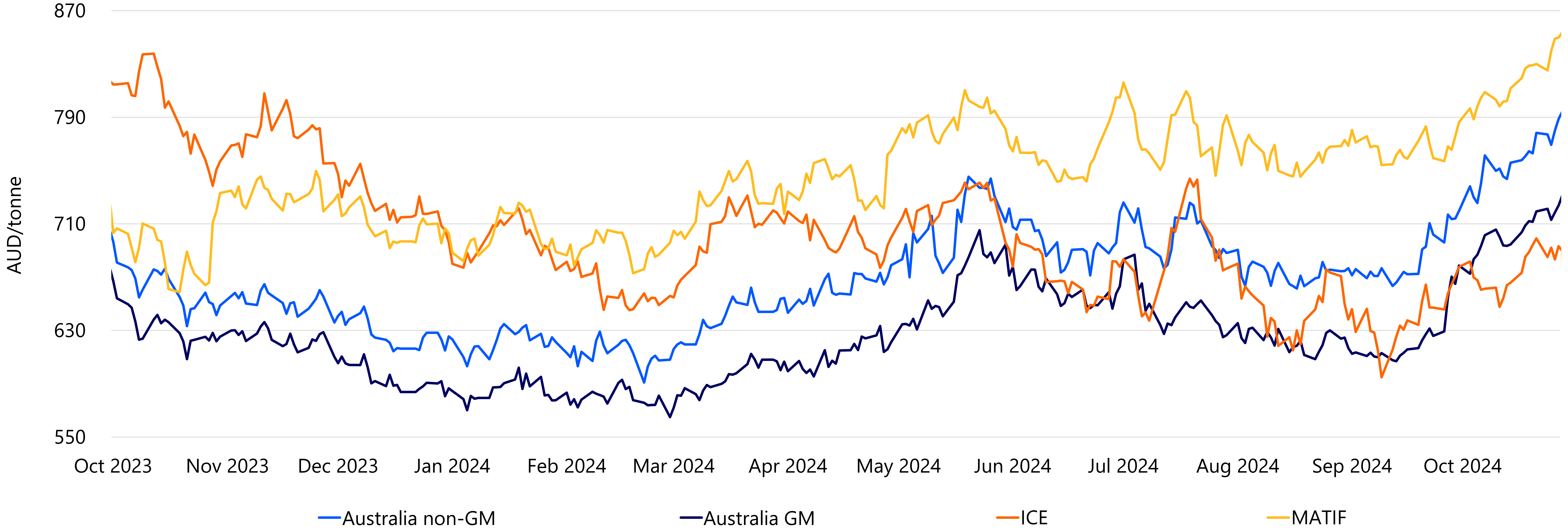
Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

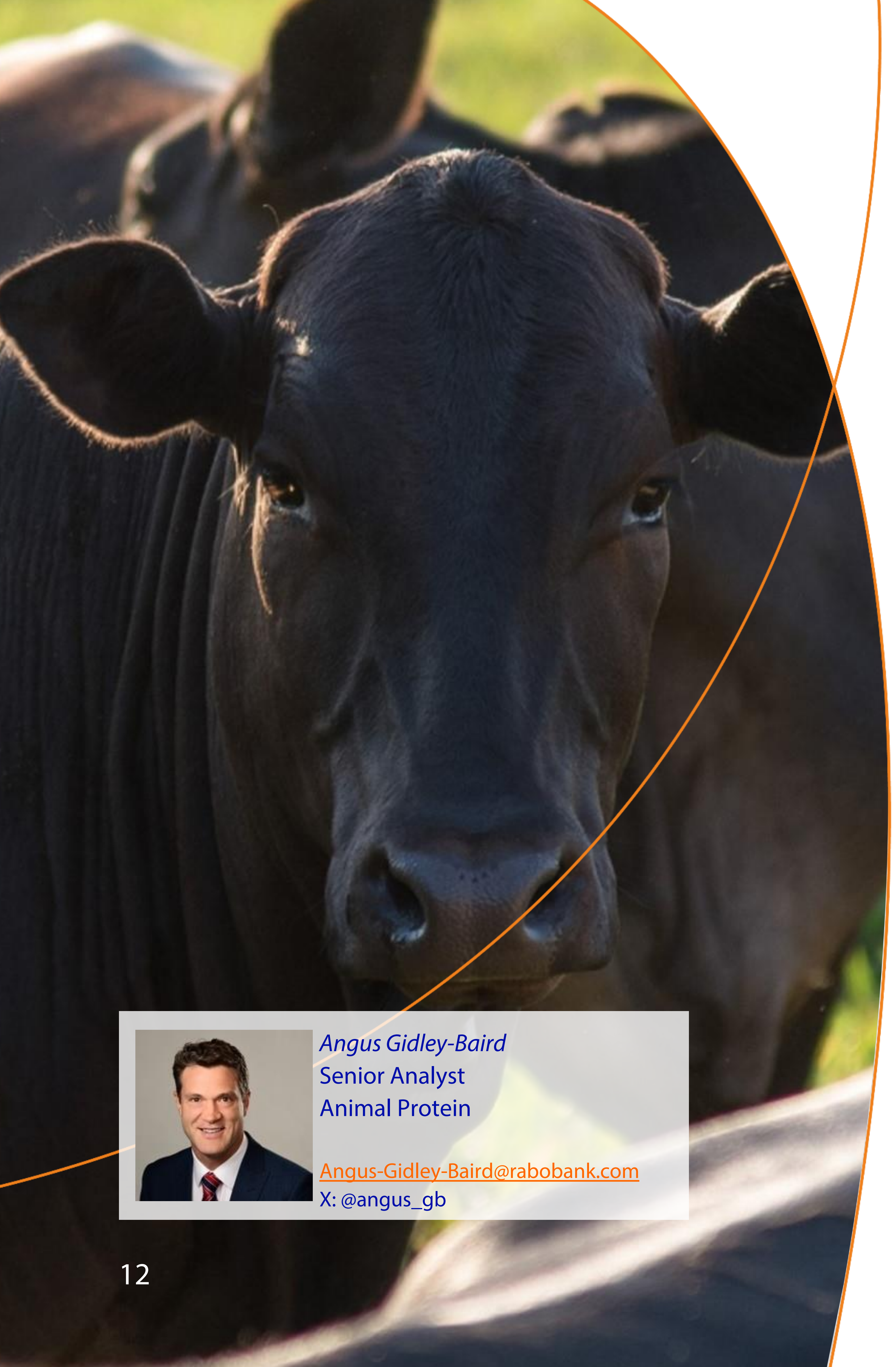
Canola

Global tailwinds continue to boost prices

Strong oilseed crushing and demand expected to reduce year-on-year stocks of canola and substitutes



Note: *Australian prices are the average port price for canola.*
Source: *Bloomberg, RaboResearch 2024*



Beef

Record export volumes impacting the market

Australian saleyard cattle prices drifted a little lower through October. Most prices were down 3% to 7% at the beginning of November compared to a month earlier. Prices for heavier steers and cows dropped more than those for restocking cattle, possibly reflecting high volumes into some of our key export markets and reaching safeguard trigger levels. The EYCI was sitting at AUc 633/kg on 3 November, almost unchanged from a month earlier. **With high cattle numbers in the system and Australian beef exports at record levels, approaching safeguard trigger levels, we may see cattle prices drift slightly downward over the coming months as processors manage inventory levels and trade volumes.**

Weekly cattle slaughter numbers have pushed to their highest levels this year. With 145,337 head slaughtered in week 43 ending 25 October, it was the highest volume since the beginning of 2020. Although we don't believe this indicates a herd liquidation, like in 2019, it does reflect the high volumes of cattle in the system. Victoria has seen the highest increase in volumes for the year to date, up 40% on the same period in 2023. All other states, except Queensland, show a less than 10% increase. Queensland is up 13%.

October saw Australia export its largest volume in history, with 130,048 tonnes swt exported, 24% above the volume in October 2023 and slightly higher than the recent record in July. Volumes to the US reached the highest level since 2014. At these volumes, we are approaching some of the safeguard triggers contained in our trade agreements with major trading partners. Approaching these safeguards may cause some market adjustments to manage volumes. As at 31 October, Australia had exported 79% of its allowed beef quota to the US (448,214 tonnes). Volumes to China (175,283 tonnes, according to September Chinese import data) are nearing the safeguard measure of 202,240 tonnes. Likewise, volumes to South Korea (163,048 tonnes swt YTD in October) are getting close to the safeguard volume of 188,437 tonnes.

What to watch:

- **Brazil production and exports** – RaboResearch expects Brazilian beef production to fall by 5% in 2025. This is expected to lead to a decline in export volumes to China. While Australian export volumes to China are down 10% for the fist nine months of the year, Chinese imports from Brazil are up 10%. A reduction in Brazilian beef production could create competitive tension in the global market, potentially causing global prices to more closely reflect the high US prices, which could then influence Australian beef prices. Brazilian cattle prices have risen 30% (in USD terms) over the last three months. As we approach the key buying season for China's Lunar New Year festival, this tension may see global prices rise.

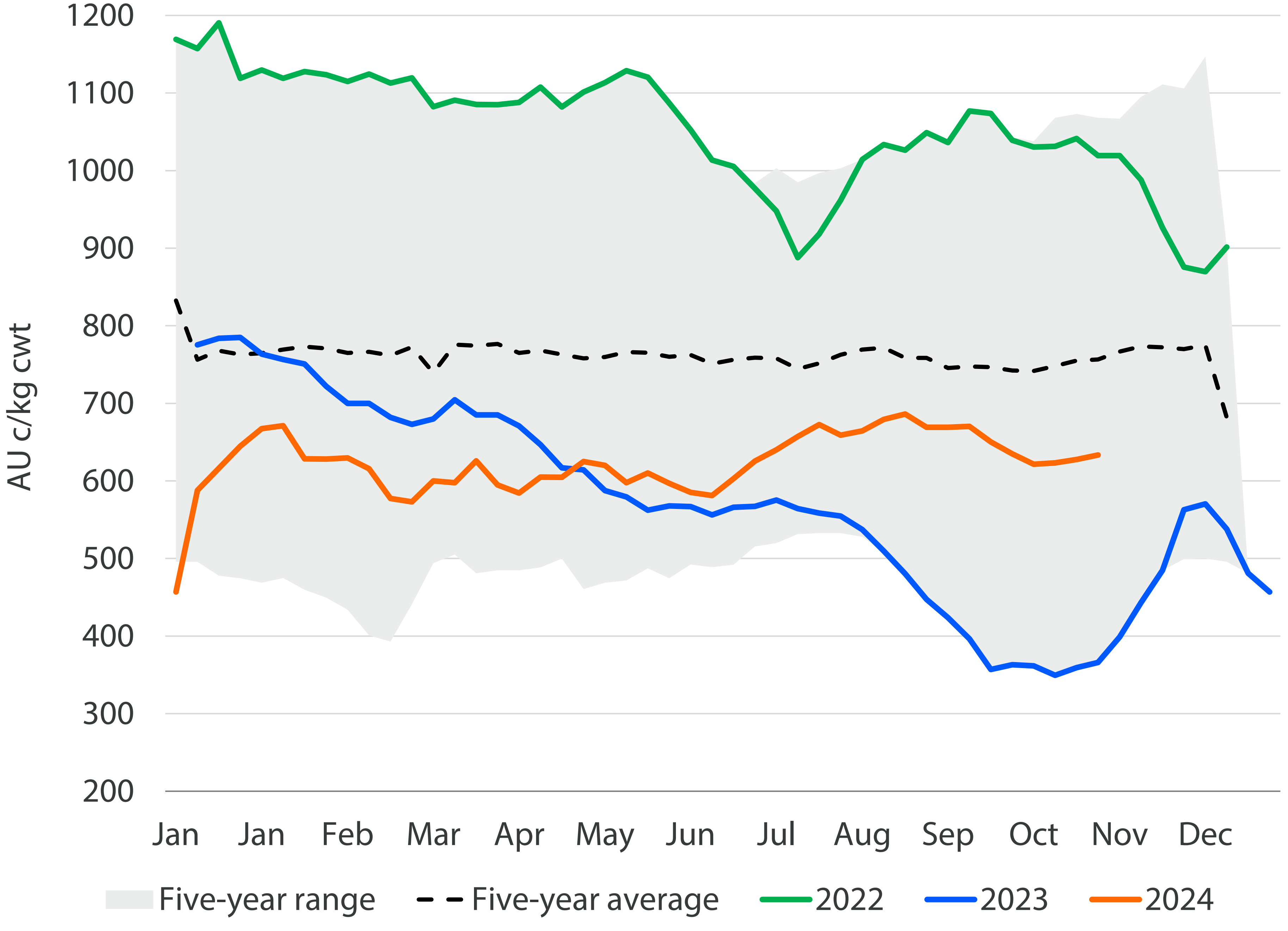
Angus Gidley-Baird
Senior Analyst
Animal Protein

Angus-Gidley-Baird@rabobank.com
X: @angus_gb

Beef

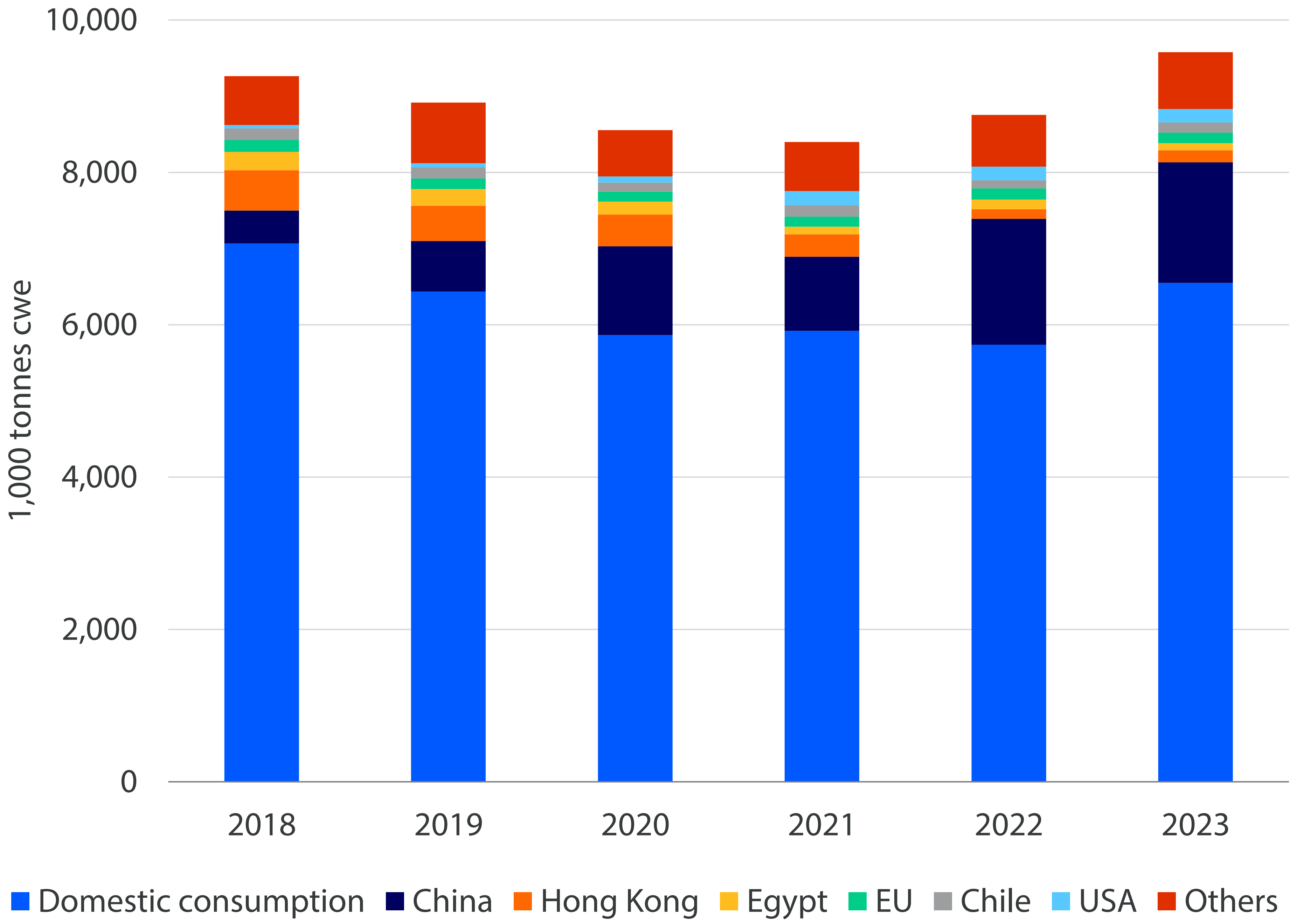
Australian cattle prices drifted a little lower as focus shifts to Brazil's production and exports

EYCI drifted a little lower



Source: *MLA, RaboResearch 2024*

After record high Brazil's production projected to decline



Source: *Conab, Secex, RaboResearch 2024*

Rabobank

Sheepmeat

Lamb prices holding, but sheep slaughter rising

All lamb and sheep saleyard prices started November higher than at the same time in October, except for merino lambs, which fell by less then 1%. The National Trade Lamb Indicator was at AUc 807/kg for the week ending 2 November, up 2% from one month earlier. Mutton prices were AUc 310/kg, up 8% on a month earlier. While lamb numbers through saleyards and processors have trended up for most categories across the month, merino numbers through saleyards have been the exception due to the normal seasonal decline at this time of year. The lift in prices may reflect some processing plants returning to full operations after scheduled maintenance. **With lamb prices remaining relatively firm for this time in the season and slaughter numbers returning to higher levels, RaboResearch believes prices could hold through the coming month and into the year end.** As we move into the historically high slaughter month and with processing plants back online, demand appears to be matching supply.

Weekly lamb slaughter numbers jumped back up to over 440,000 head in the last week of October, marking only he second time since July that this level has been reached. Planned maintenance at several plants had caused a drop in slaughter volumes, but with plants now coming back online, numbers are lifting. It will be interesting to see over the coming weeks if numbers return to the high levels seen at the beginning of the year, or if the high sheep slaughter numbers over the last 12 months and poor seasonal conditions in the southeast have led to a reduction in lamb numbers. Sheep slaughter numbers hit 246,524 in late October – the largest weekly volume in the last 10 years. While some of this may have been making up for a drop in lamb slaughter, RaboResearch has also heard reports of southeastern producers offloading large numbers of ewes. This is due to dry conditions earlier in the year impacting pasture quality and availability, as well as expectations of low fodder availability through summer.

Lower production volumes saw October lamb export volumes drop 3% from September volumes, down 13% compared to October in 2023. In contrast, mutton export volumes jumped by 25% from September, following increased slaughter volumes. Both China and the US are taking higher volumes of mutton.

What to watch:

- **Sheep slaughter numbers** – RaboResearch had anticipated higher sheep slaughter volumes to come as southern producers offloaded ewes following lambing, due to the poor season to date and the outlook of insufficient feed. However, the actual volume exceeded expectations. East coast sheep slaughter reached 198,783 – the highest number since 2002. Volumes were up in most states, with Western Australia and Victoria approaching volumes close to 10-year highs, while New South Wales saw the highest number since 2006. It is unclear if this is just a short term increase due to decisions made before summer, or whether the high volumes will persist. Either way, it raises questions on the impact on future lambing volumes.

Angus Gidley-Baird
Senior Analyst
Animal Protein

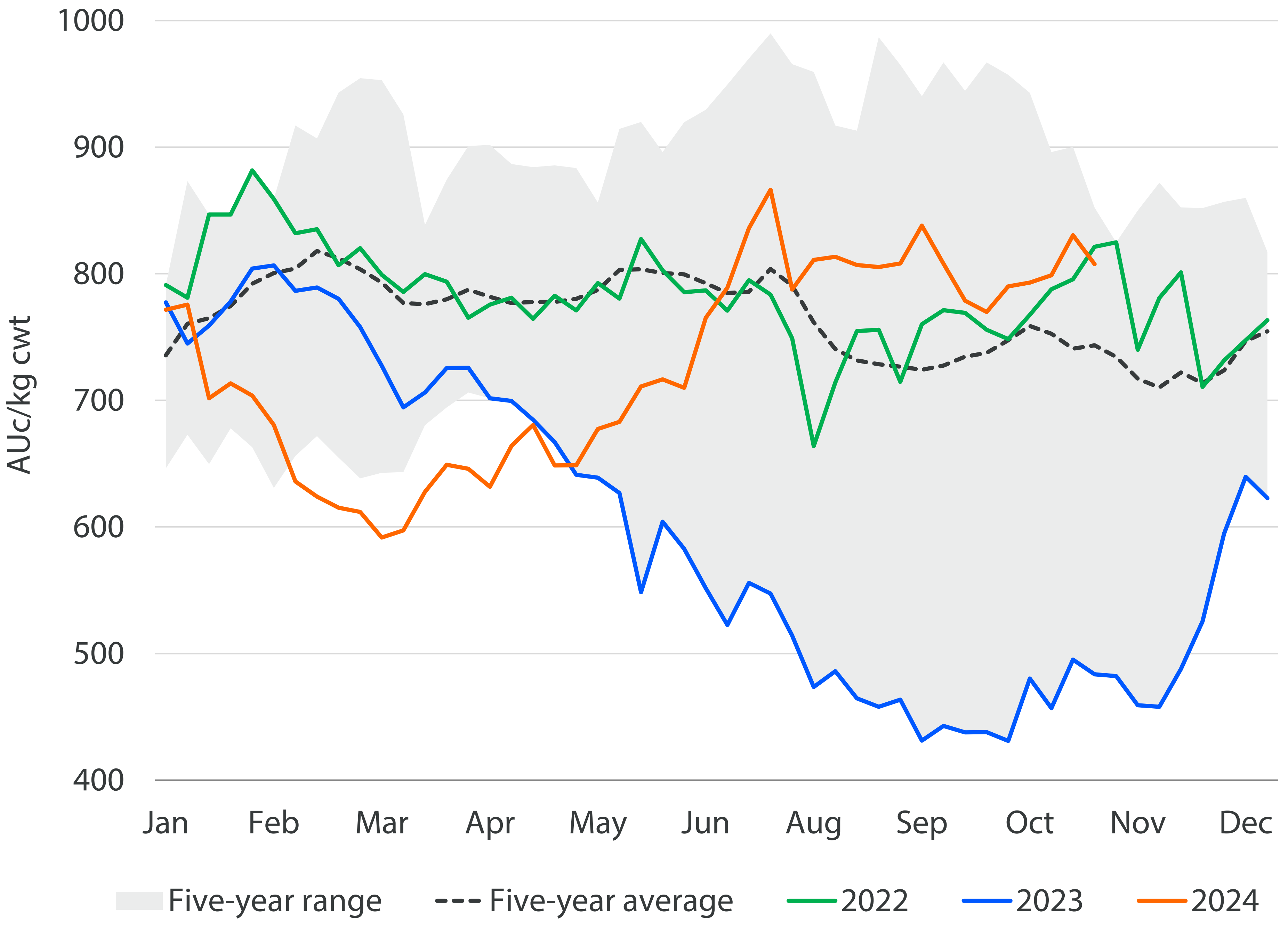
Angus-Gidley-Baird@rabobank.com
X: @angus_gb

Rabobank

Sheepmeat

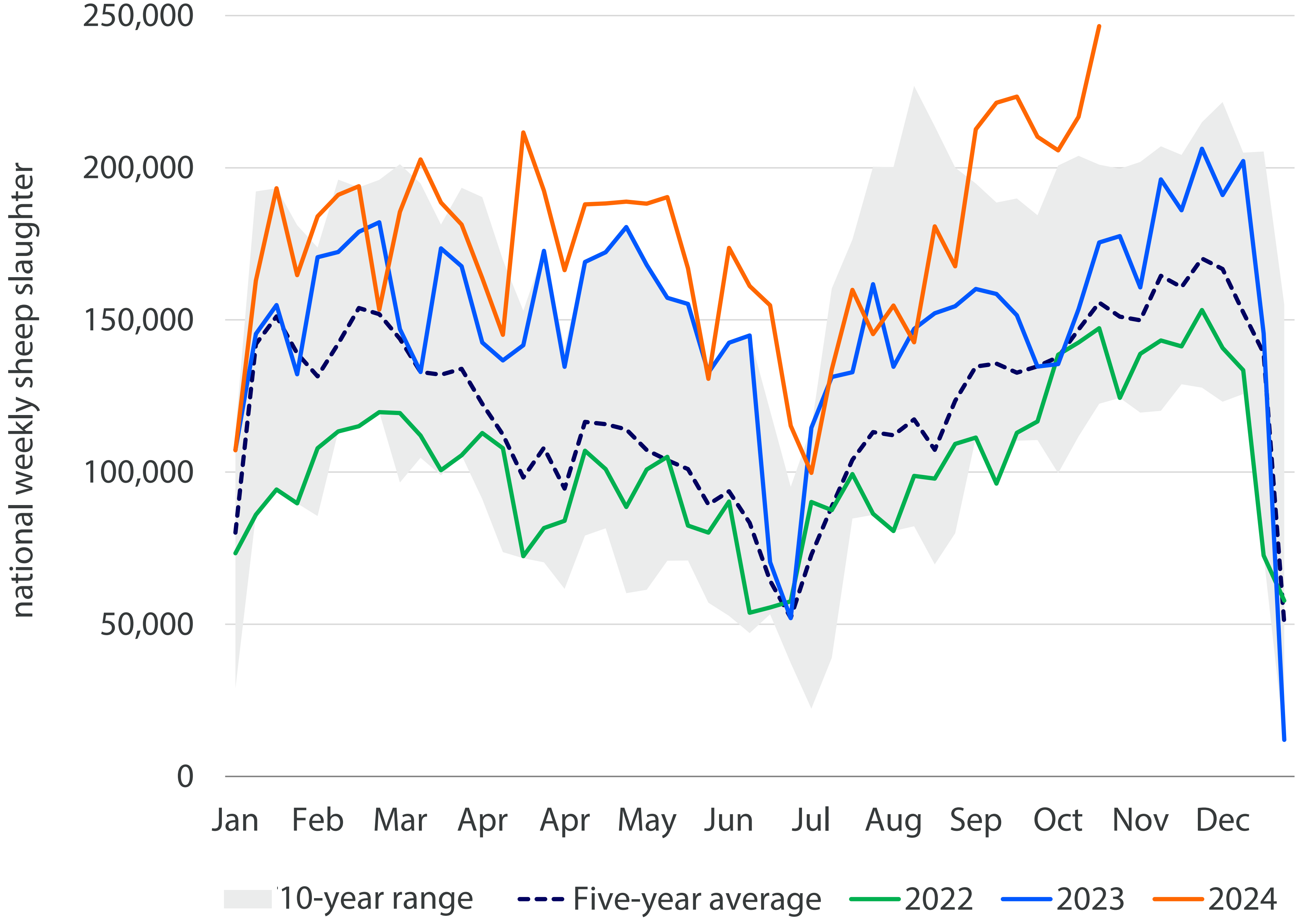
Lamb prices are holding as sheep slaughter numbers reach historic highs

NTLI holds around 800 as lamb numbers lift

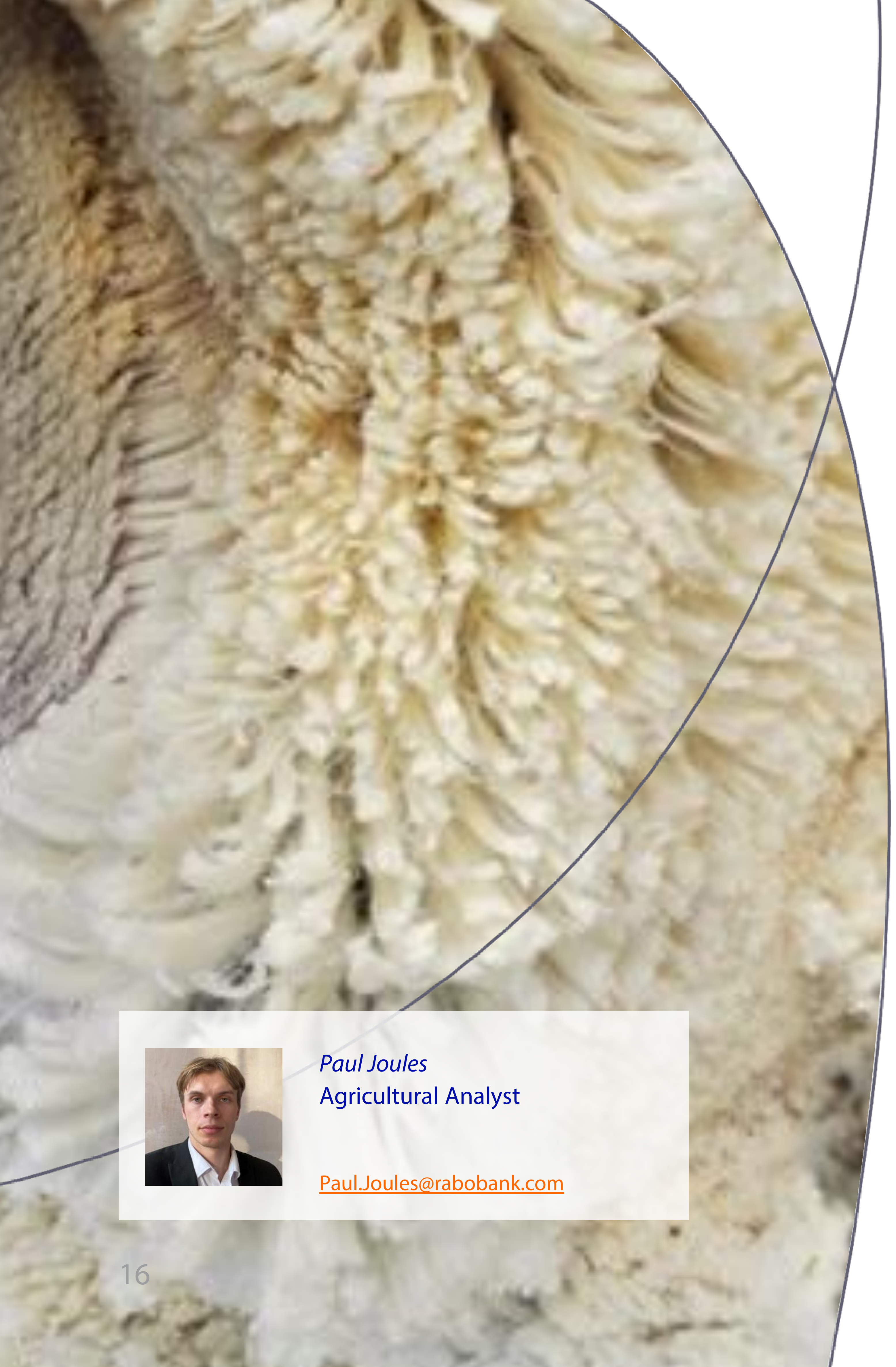


Source: *MLA, RaboResearch 2024*

Sheep slaughter hits highest volume in 10 years



Source: *MLA, RaboResearch 2024*



Wool

Wool prices continue to steadily rise off recent lows

October marked a positive month for wool prices, with the Eastern Market Indicator rising by 3% to AUc 1,125/kg as of 31 October. The Western Market Indicator saw a slightly more modest increase, rising by 2% in October. Prices for the 17-micron category recorded a 3% increase, while 19 micron (+4%), 20 micron (+3%), and 21micron (+3%) prices also increased within the same timeframe. Coarser microns performed particularly well in October, with 28 micron up by 6%, and 30 micron up by 5%.

The dramatic weakening of the AUD/USD exchange rate likely contributed to the price increase, as Australian wool suddenly became much more attractive for international buyers. The other fundamental driver is shifting sentiment around the Chinese macroeconomic outlook. The stimulus package announced last month appears to have had a positive impact on consumers, with retail sales rising 3.2% MOM (although this number was inflated by a subsidised trade-in program for old appliances). The big question is whether this recent growth can be sustained against the backdrop of historically low consumer confidence.

August export data showed trade was up 30% YOY at 19.3m kg, although it was 28% lower than July levels. A 32% MOM drop in exports to China was the primary driver. However, MOM declines in exports to India (-20%), the Czech Republic (-6%), Italy (-14%), and South Korea (-23%) also influenced the weak headline figure. On the other hand, we saw increased volumes for the UK (+36%) and Egypt (+155%). Looking forward, we expect data in the coming months to reflect the improving macroeconomic picture in China. If September/October data shows increased demand from China, other buyers could feel the pressure to secure inventory, likely providing further price support.

Analyzing the Australian Wool Testing Authority's micron data over the past 10 seasons, we see that finer microns (16.6um-21um) have been flat in terms of growth, as declines in the 20um-21um range have been offset by increased growth in the 16.6um-18um range. In contrast, coarser microns (22um-30.5um) have declined by 18.83m kg over the 10-year period (at a CAGR of -2%), with 30.5um being the only micron within that range to record higher production in 2023/24 than in 2013/14.

What to watch:

- **The approaching US elections could cause further volatility in the US dollar**, which could subsequently impact the AUD/USD exchange rate. We mentioned how prices were impacted by the drop in the Australian dollar this month, further volatility could be on the horizon.

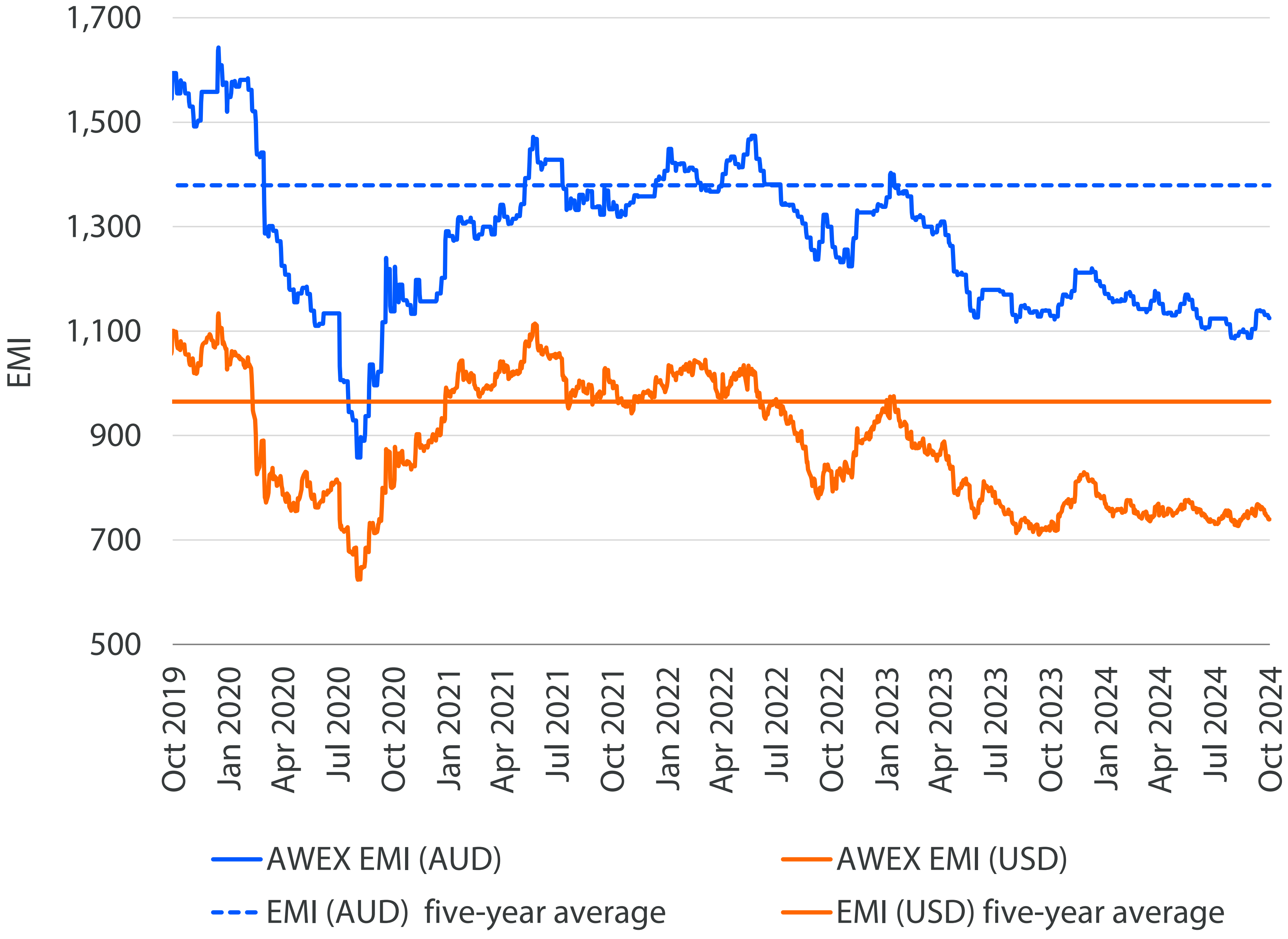
Paul Joules
Agricultural Analyst

Paul.Joules@rabobank.com

Wool

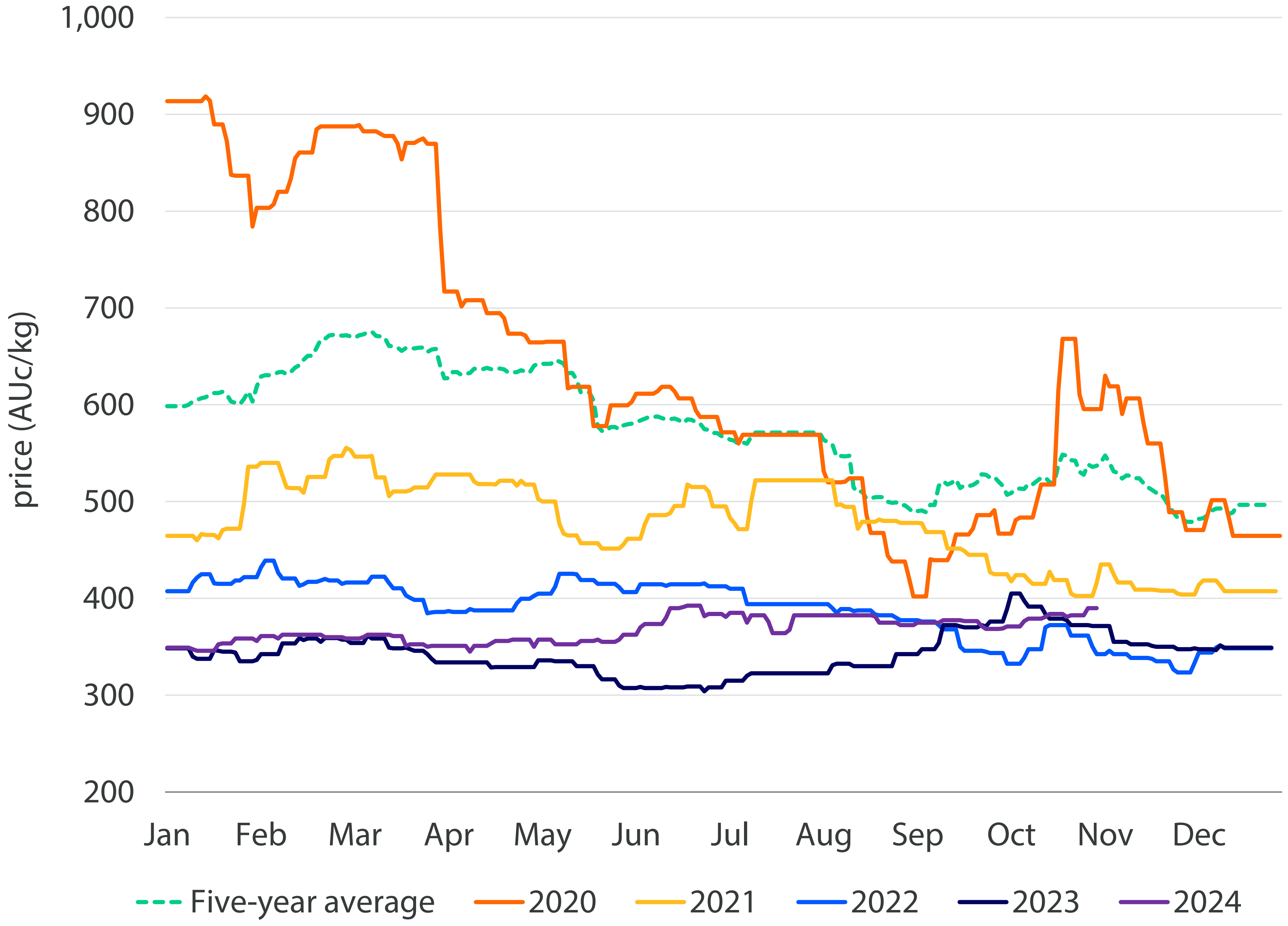
Overall, it was a positive month for wool prices, with the coarser microns performing notably well

EMI pushed higher MOM



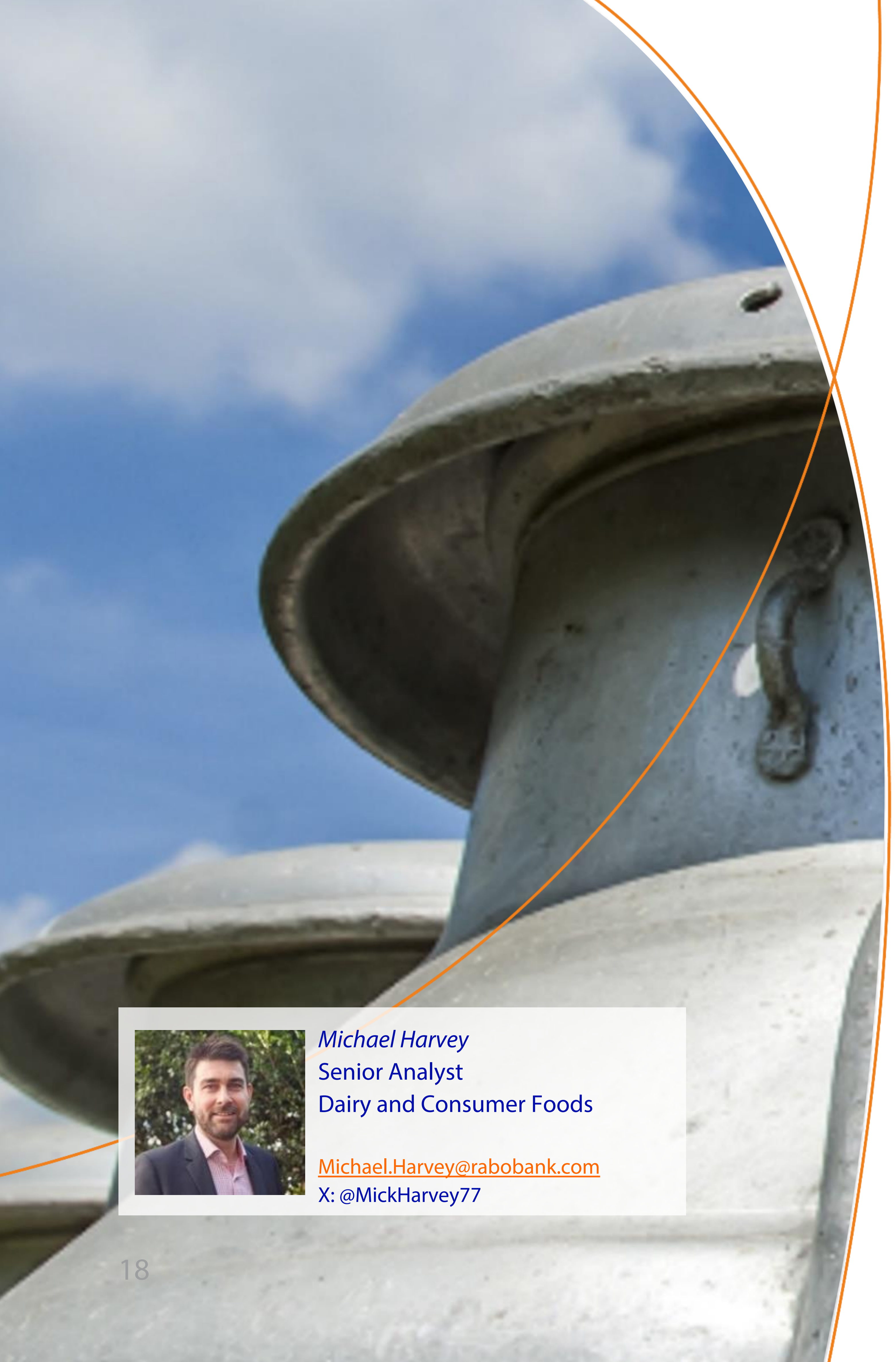
Source: *Bloomberg, RaboResearch 2024*

28-micron prices rose 6% MOM



Source: *Bloomberg, RaboResearch 2024*

Rabobank



Dairy

Oceania spring peak has its strongest start in a decade

Mostly balanced global market fundamentals are leading to a neutral commodity price environment. Oceania SMP spot prices have decreased from their peak last month, now sitting 10% below the five-year average. Conversely, spot butter prices remain elevated, 26% above the five-year average, with spot prices holding steady over September. Cheese markets have trended higher, supported by firming US cheese markets.

Australian milk production has grown by 1.9% so far in the 2024/25 season up to September, equating to an additional 39m litres of milk across the industry. Results have been very mixed across regions. Unfavourable seasonal conditions are taking a toll on milk production in western Victoria and Tasmania.

In contrast, milk production remains strong in the Riverina region of northern Victoria and southern NSW, up over 6% season-to-date in the combined regions. Milk production growth is also strong in eastern Victoria, with a 4.9% increase season-to-date.

New Zealand milk production for September has shown a very strong start. The fourth month of the season, September, saw robust milk supply, with growth up 5.2% YOY on a milksolids basis. While milk flows in New Zealand have now passed their peak, the data is yet to be announced.

The combined milk production results for August and September for Australia and New Zealand indicate this is the strongest start to a season in more than a decade.

Winter rainfall across many key dairy regions in Australia was average or below average. The latest rainfall outlook from the Bureau of Meteorology has a mostly positive rainfall outlook for key dairying regions.

According to the Australian Bureau of Statistics Consumer Price Index (CPI data, there are early signs of deflation in local dairy aisles. In the September quarter, cheese was deflationary for the first time since 2021 (at -2.2%).

Lower retail drinking milk prices seen on some supermarket shelves in recent weeks will be reflected in the December quarter CPI data.

What to watch:

Upside – China milk supply contraction

- After a multi-year period of strong milk supply growth in China, the tap has been turned off. The slowdown has come quickly in 2H 2024 and is expected to continue into 2025. A significant slowdown in China's milk supply can lead to short-term shortages of ingredients, necessitating an increase in import purchases.

Downside – Broad-based milk supply growth

- On top of a strong start locally in Australia and New Zealand, US milk production returned to growth in August. Milk production is also recovering in parts of South America, leaving the EU as a laggard in terms of milk supply recovery.

Michael Harvey
Senior Analyst
Dairy and Consumer Foods

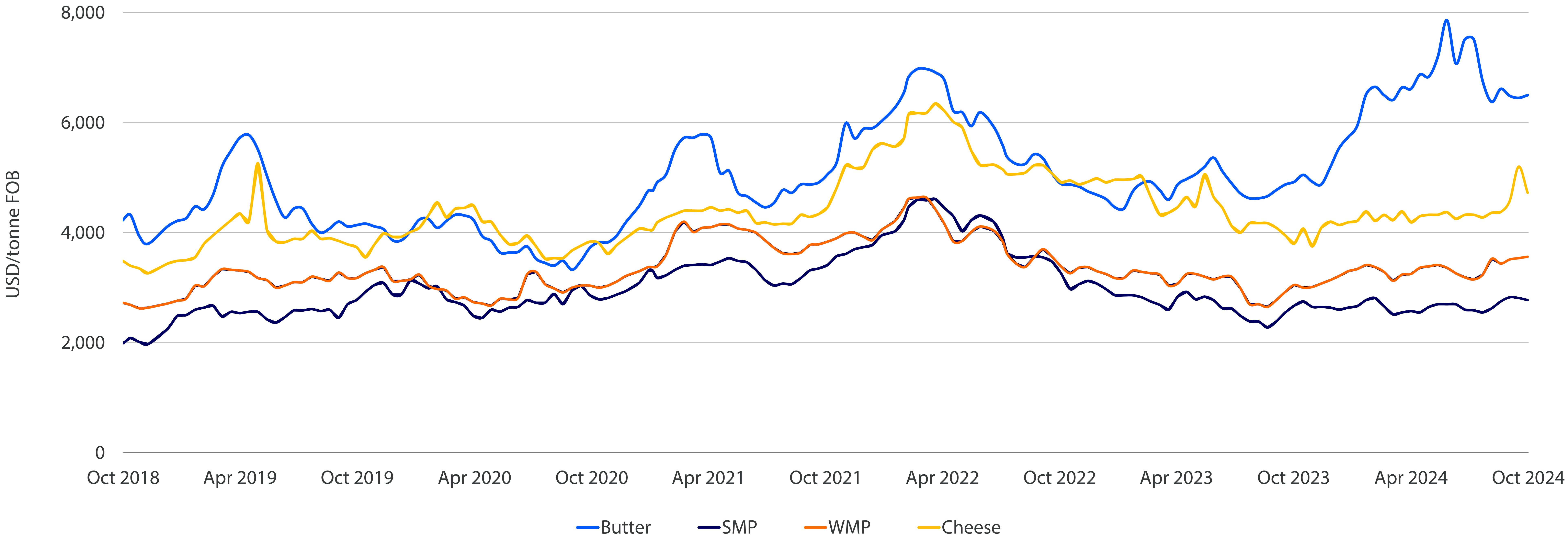
Michael.Harvey@rabobank.com
X: @MickHarvey77

Rabobank

Dairy

Further dairy deflation for Australian consumers

Oceania spot prices for dairy commodities



Source: USDA, RaboResearch 2024

Cotton

US harvest pressure and Brazilian exports weigh on prices

ICE #2 Cotton prices declined 4% MOM (as of 4 November). Meanwhile, 2025 Australian cash prices are hovering around the AUD 600/bale mark – the highest level since May. Cash prices are likely being supported by US futures successfully trading above the psychologically important USc 70/lb level despite a temporary dip below that level in late October.

One of the key fundamental drivers behind this is the fast pace of the US harvest. Although adverse weather has cut production potential, the volume of cotton entering the market is likely weighing on prices. Meanwhile, Brazil is in the early stages of exporting its record crop.

Looking forward, other than some potential quality issues in the US, the production picture seems unlikely to be the real market mover for domestic and international prices. However, global demand remains uncertain. The Chinese stimulus package announcement was certainly a boost to markets, and recent Chinese retail data was also supportive, with September retail sales rising by 3.2% YOY. The key question is whether the package will enable sustained consumer spending. Low consumer confidence may pose a challenge, and the cotton market (in addition to other textile markets) will be paying close attention to Chinese sales data in the months to come. In Vietnam, demand is sub-par as importers are largely buying only what they need for immediate use, likely due to the availability of Brazilian and US supplies and the expectation of lower prices.

One of the key factor's RaboResearch had been highlighting in recent reports is the enormous short position Managed Money adopted on ICE #2 Cotton, which heightened the risk of short covering. However, funds have now reverted to a more neutral position, at -10,000 net lots. Over the past 18 years of CFTC data, speculators have averaged a long position. However, until we see a clear catalyst indicating improving fundamentals, funds will likely remain fairly neutral at these levels, and we expect rangebound trading in the short to medium term.

What to watch:

- **Recent positive Chinese consumer sales data offers a hopeful sign for the cotton market**. The key question now is whether this trend can be sustained. The market will be paying close attention to retail data in the months to come.

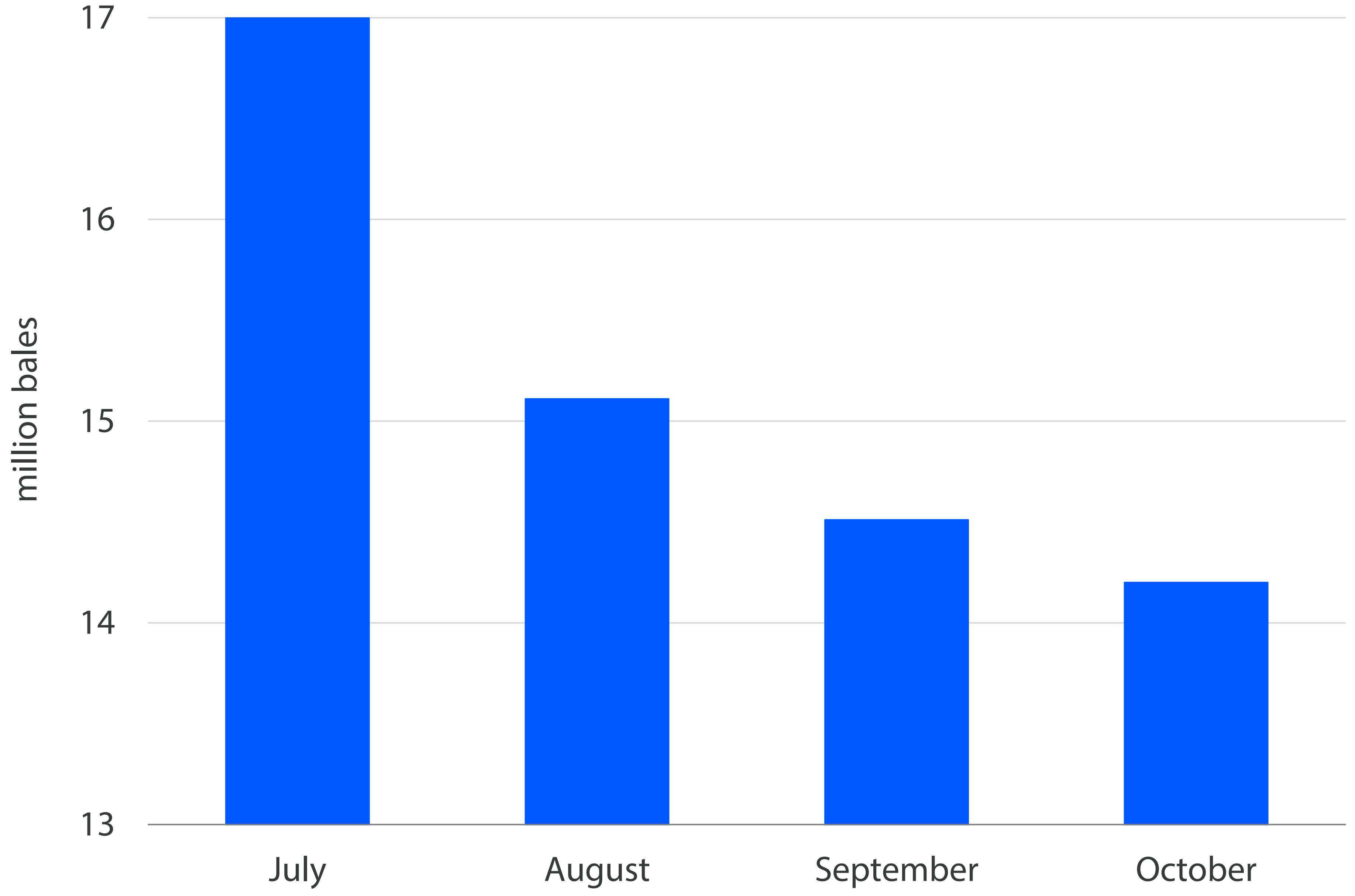
Paul Joules
Agricultural Analyst

Paul.Joules@rabobank.com

Cotton

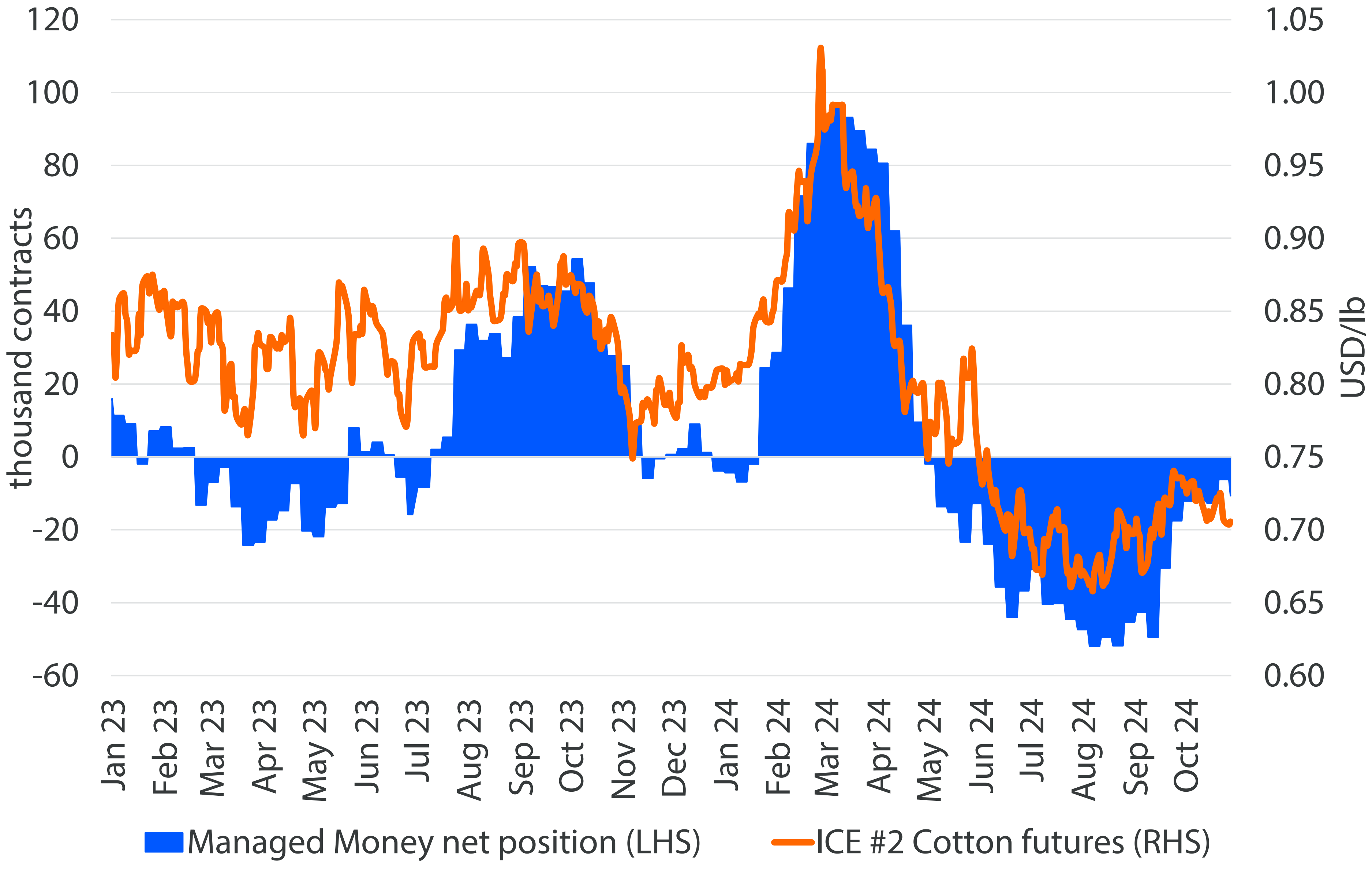
ICE #2 Cotton futures declined 4% MOM, despite declining US prospects and recent fund buying

The USDA's US 2024/25 production estimate decreased for the fourth consecutive month in October



Source: *USDA, RaboResearch 2024*

Given the pronounced net-buying by Managed Money in recent weeks, the risk of short covering has eased



Source: *CFTC, Bloomberg, RaboResearch 2024*

Rabobank

Consumer foods

Minimal relief for consumer in the cost of the food basket

While overall headline inflation eased in the latest quarter, the annual rate of food price inflation remained steady at 3.3%, according to the latest quarterly Consumer Price Index (CPI) data from the Australian Bureau of Statistics (ABS). This rate was still higher than the 10-year average of 2.7%.

There were some problematic categories when it came to food prices. Cooking oils remain a significant concern for consumers, with an annual inflation rate of 9.4%. This follows two years of high inflation in this category, with a cumulative quarterly price inflation reaching +42% since March 2022. This reflects the impact of global supply shocks in cooking oil. Prices for fresh produce, including berries, grapes, tomatoes, and capsicum, also increased due to unfavourable growing conditions.

Annual inflation in the food service category moderated to 2.9% in the September quarter, compared to the June quarter.

There were minimal signs of recovery in food spending based on the ABS monthly retail trade data. The combined spend in September for food retail and food service was up 2.7% YOY on a seasonally-adjusted basis. However, this data is not adjusted for population growth and inflation, suggesting that Australian consumers continue to reduce their total expenditure on food. A possibly bright spot was in foodservice, where the year-on-year increase was 1.4% (versus 0.4% in August), likely influenced by the start of spring and warmer weather.

Australia's two major retailers released their Q1 2025 results. Comparable sales growth for Coles Group reached 2.4% versus the previous year, a slowdown on Q4 2024 results (+2.6%). Woolworths reported comparable sales growth of 2.3% for the same quarter, driven by more aggressive promotions. Both retailers noted that the cost of living remains a challenge for Australian households and have focussed on entertaining at home ahead of the upcoming festive season. For Coles, supermarket price inflation was 1.5%, steady with the previous quarter. In contrast, average prices for Woolworths in Q1 2025 declined -0.3% compared to the prior year.

What to watch:

- **Lead indicators continue to point to a lacklustre foodservice sector in many economies.** McDonald's reported its Q3 2024 results, revealing a decline in comparable global sales for the quarter. The actual figures show that the global comparable sales fell -1.5% YOY for the quarter, marking the worst result since the height of the global pandemic, which severely impacted consumer mobility at the time. The company flagged soft results in many major markets, including Australia.

Michael Harvey
Senior Analyst
Dairy and Consumer Foods

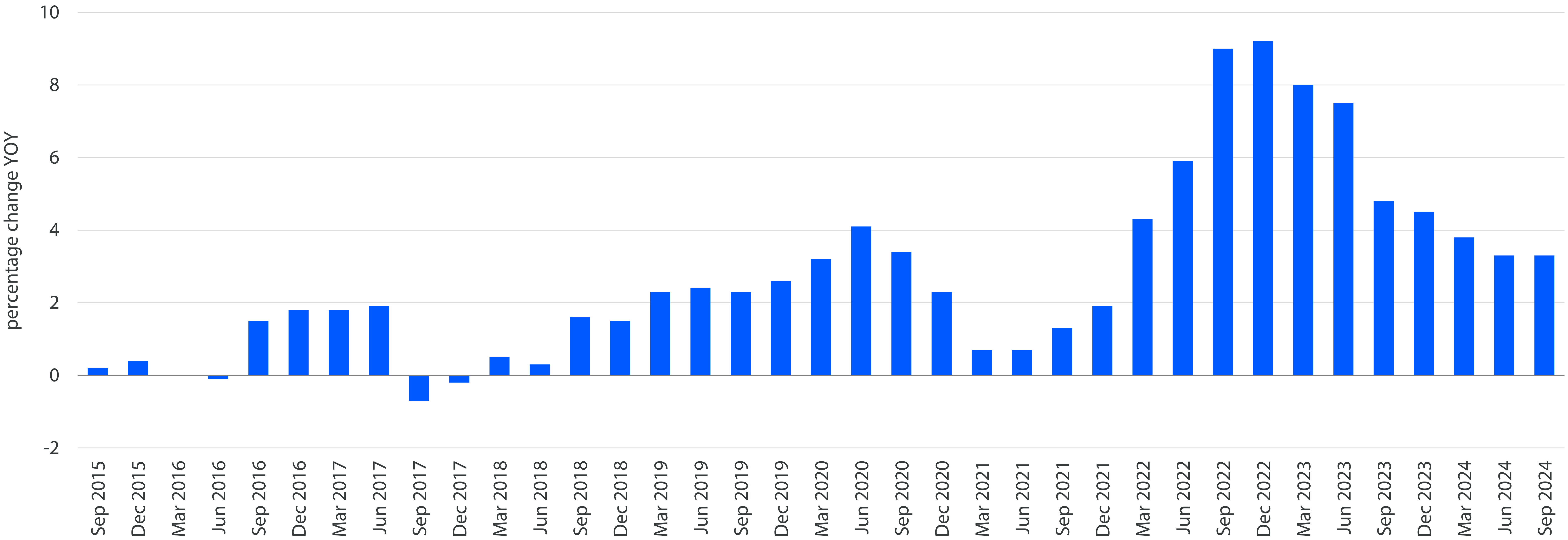
Michael.Harvey@rabobank.com
X: @MickHarvey77

Rabobank

Consumer foods

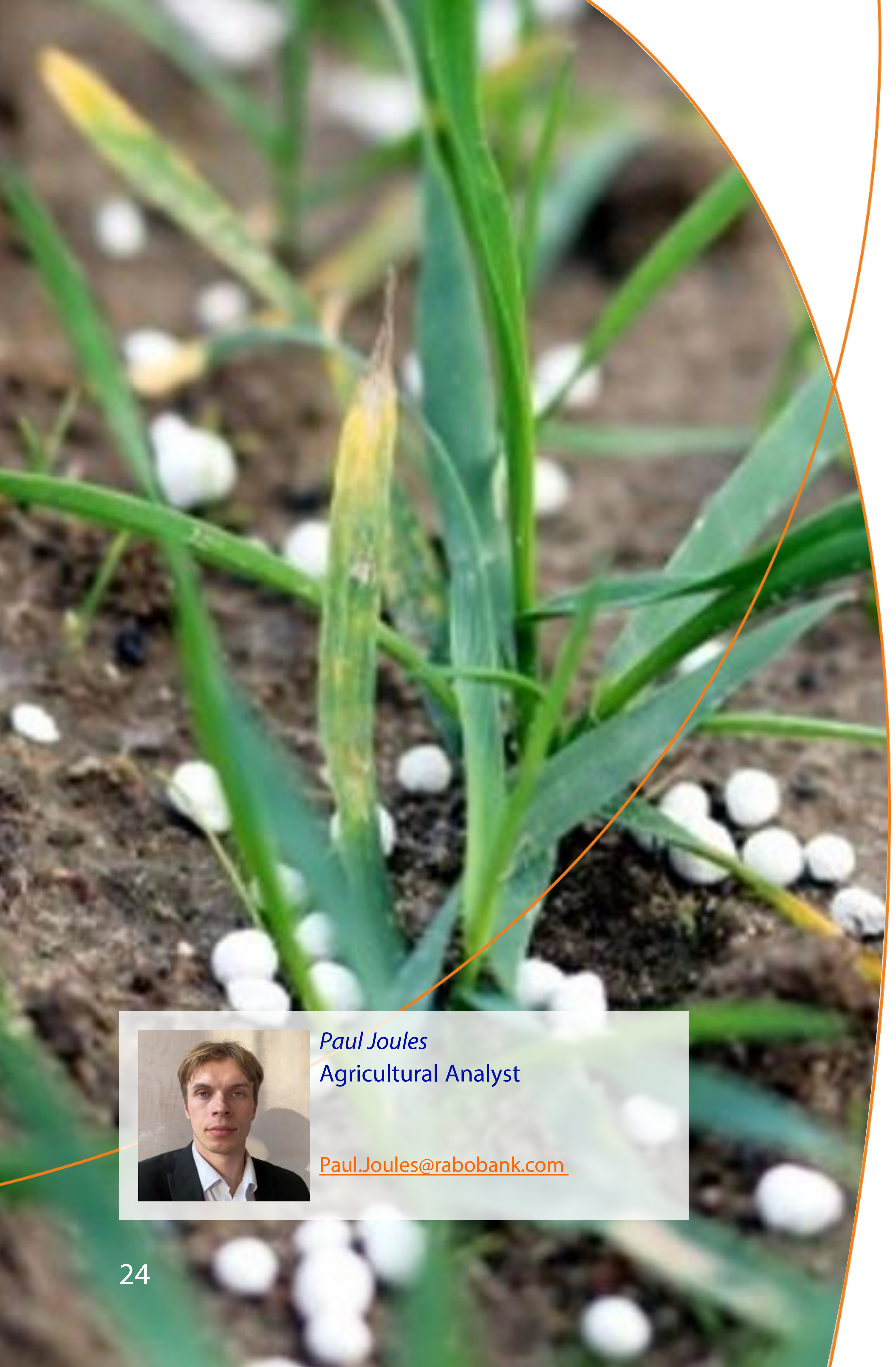
Food inflation remains sticky, with minimal deflation across the basket

Quarterly food and beverage inflation, percentage change from corresponding quarter of previous year



Source: *ABS, RaboResearch 2024*

Rabobank



Paul Joules
Agricultural Analyst
Paul.Joules@rabobank.com

Farm inputs

Urea prices continue to rise amid renewed Indian demand

It was a volatile month for fertiliser markets, with urea, phosphate, and potash prices all rising from early October levels.

Recent US dollar strength is certainly playing a key role in influencing prices, as the USD/AUD exchange rate is now down 3% MOM. Currency volatility can be expected in the coming weeks given the sensitivity of the US political landscape amid the approaching US election – this could translate into dollar-denominated farm input price volatility.

For urea (Bulk FOB Middle East netbacks), prices rose by a notable 6.6% in October (as of 31 October) to reach AUD 511/tonne – a level not seen since March. Although part of the rally can be attributed to the weakening Australian dollar, prices were also up in US dollar terms (2% MOM). We can attribute this price action to the expectation that India will return to the market with another tender, following recent purchases. Looking forward, the short-term market direction will likely be influenced by India's purchasing activities – given that India's domestic sales are up, and production is down year-on-year, Indian import demand could be strong.

In China, domestic prices continue to ease. Nevertheless, China remains absent from the export market. There is still no indication on when it will return to the export market, but 2024 seems unlikely.

For phosphates, prices rose by 4.4% MOM to reach AUD 936/tonne – the highest level since October 2023. High prices largely reflect the tight global supply situation. Adding to the supply issues, there have also been some production and shipping issues in the US as a result of the recent hurricane. **As with urea prices, Indian demand will be a key influence on short- to medium-term price action. On the supply side, there's little evidence to suggest any improvement for now, so downside over the coming months seems limited.**

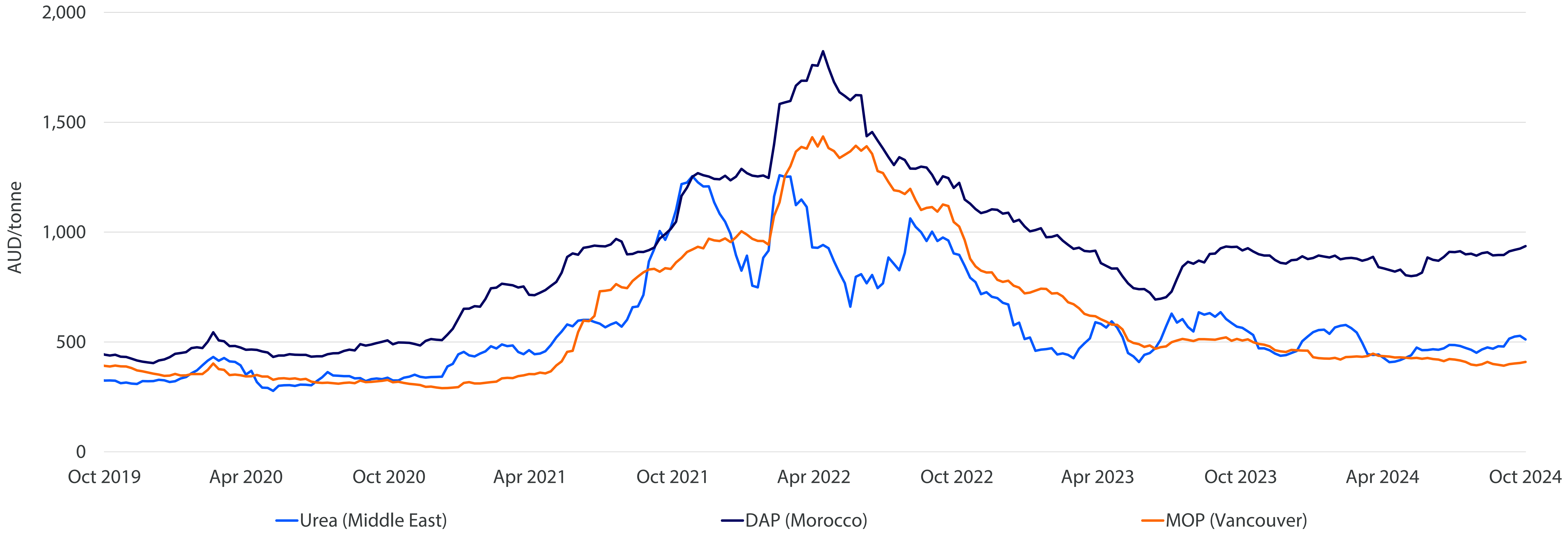
What to watch:

- **The market will be closely watching India.** If we see further signs of rising demand from this key buyer, prices could continue to rise.
- **Another factor to keep an eye on is the USD/AUD currency fluctuations.** The Australian dollar has weakened this month, but with the US elections approaching, we could well see further volatility.

Farm inputs

Phosphate prices remain elevated, while urea prices rose notably month-on-month

Urea prices rose sharply month-on-month with renewed Indian demand the primary catalyst



Source: CRU, RaboResearch 2024

Rabobank

Interest rate and FX

Holding pattern

On the final trading day of September, the futures market had almost two 0.25 percentage point rate cuts priced in for the February 2025 RBA meeting, and more than four rate cuts in total for the entire year of 2025.

The futures strip now suggests that the first 0.25 percentage point cut won't arrive until May of next year. **That's much later than most market analysts have been predicting, but matches RaboResearch's forecast, which we have held since the start of August.**

In 2024, RaboResearch has been much more conservative than other analysts in predicting the likely quantum and timing of RBA rate cuts. Earlier in the year, we believed that the RBA would have to hike rates again, but in July, the RBA made it clear that they had little appetite for another increase and would instead hold the cash rate steady for an extended period.

Now, after dampening hopes for rate cuts all year, we find ourselves in the curious position of forecasting more cuts in 2025 than the futures market implies.

RaboResearch is forecasting three 0.25 percentage point cuts in 2025, to be delivered at consecutive meetings starting in May. If that view plays out, the cash rate will bottom at 3.60% in August (there is no meeting in June).

The futures market now has only two cuts priced in for 2025. The first in May, and the second not fully priced in until right at the end of the year in December.

The dramatic re-pricing in rate cut expectations comes on the back of a very strong employment report for September, which confirmed the continuation of Australia's stellar run of job creation, along with the Q3 CPI inflation report.

The latter showed headline inflation back in the target band, but this figure is flattered by temporary government subsidies. Underlying inflation of 3.5% YOY is still uncomfortably above the RBA's 2% to 3% target band and should be enough to convince the RBA to remain on hold for longer while the job market remains strong.

What to watch:

- **October labour market report, to be released by ABS 14 October** – Australia's labour market has been on a stellar run of job creation over the last six months. While the labour market remains very strong, the RBA has less latitude to cut interest rates. A tick higher in the unemployment rate would be an indication that the labour market is gradually softening and could increase hopes of a potential rate cut in Q1 next year.

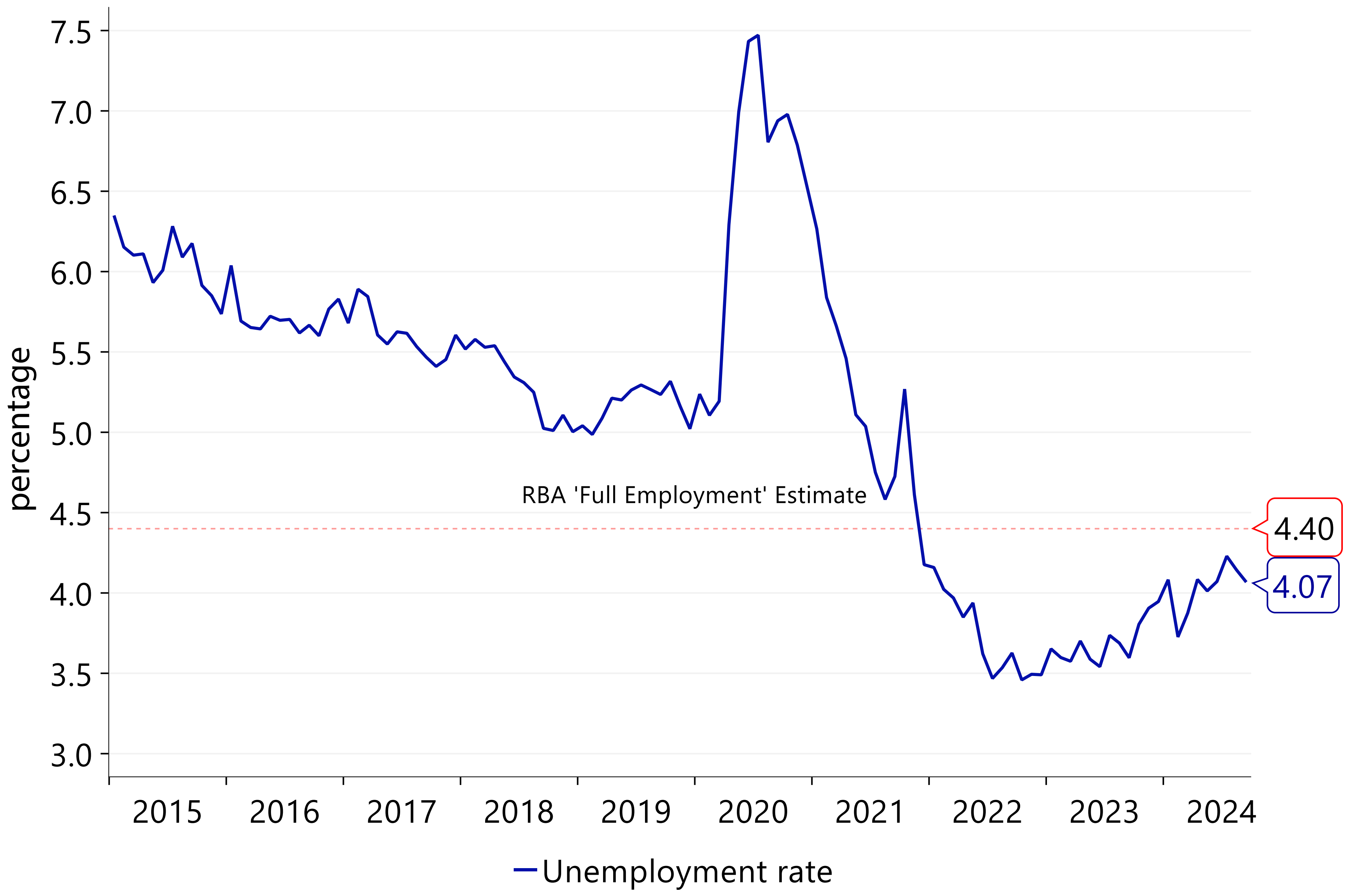
Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Interest rate and FX

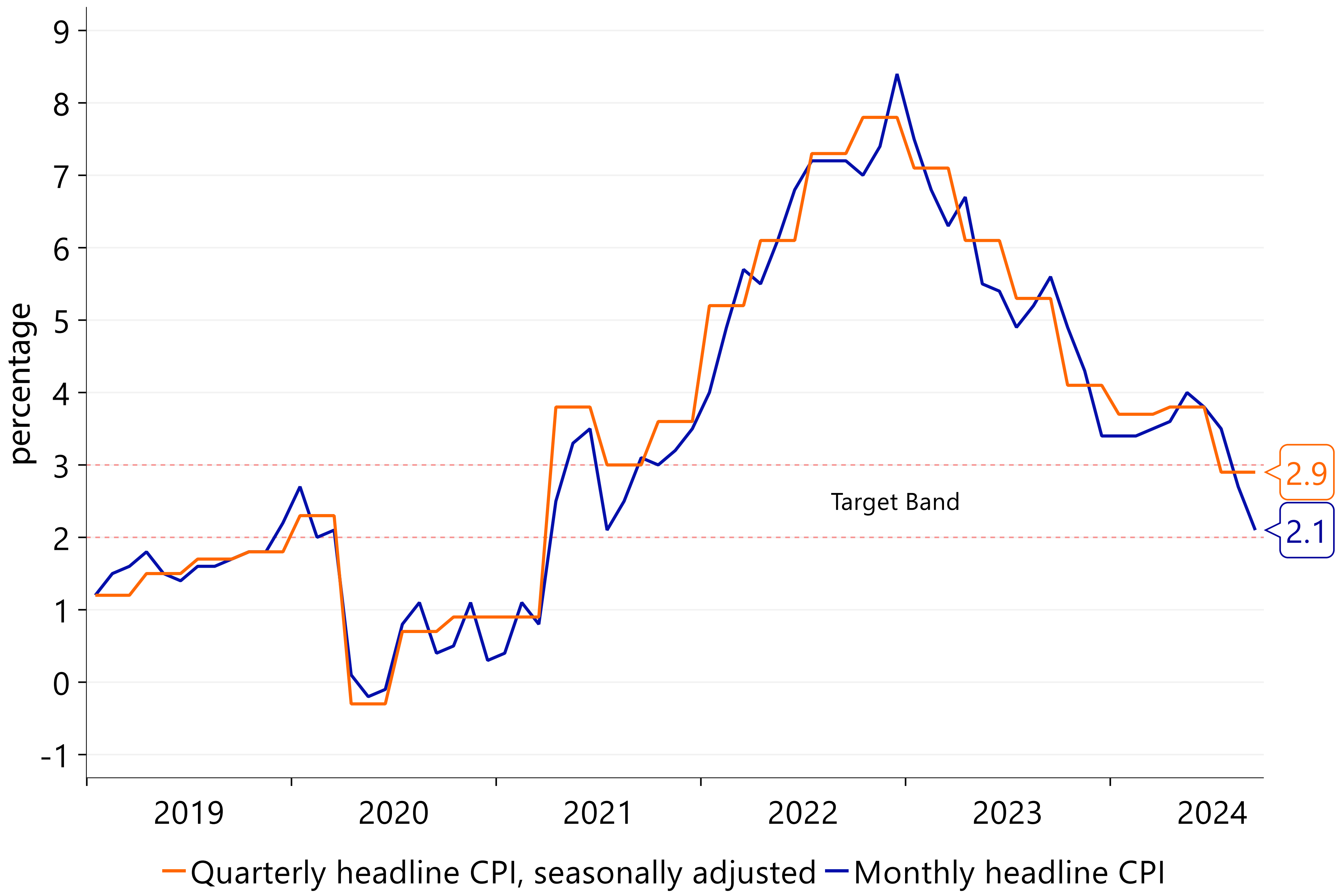
Inflation back at target, at least superficially

Australian labour force indicators, 2015-2024



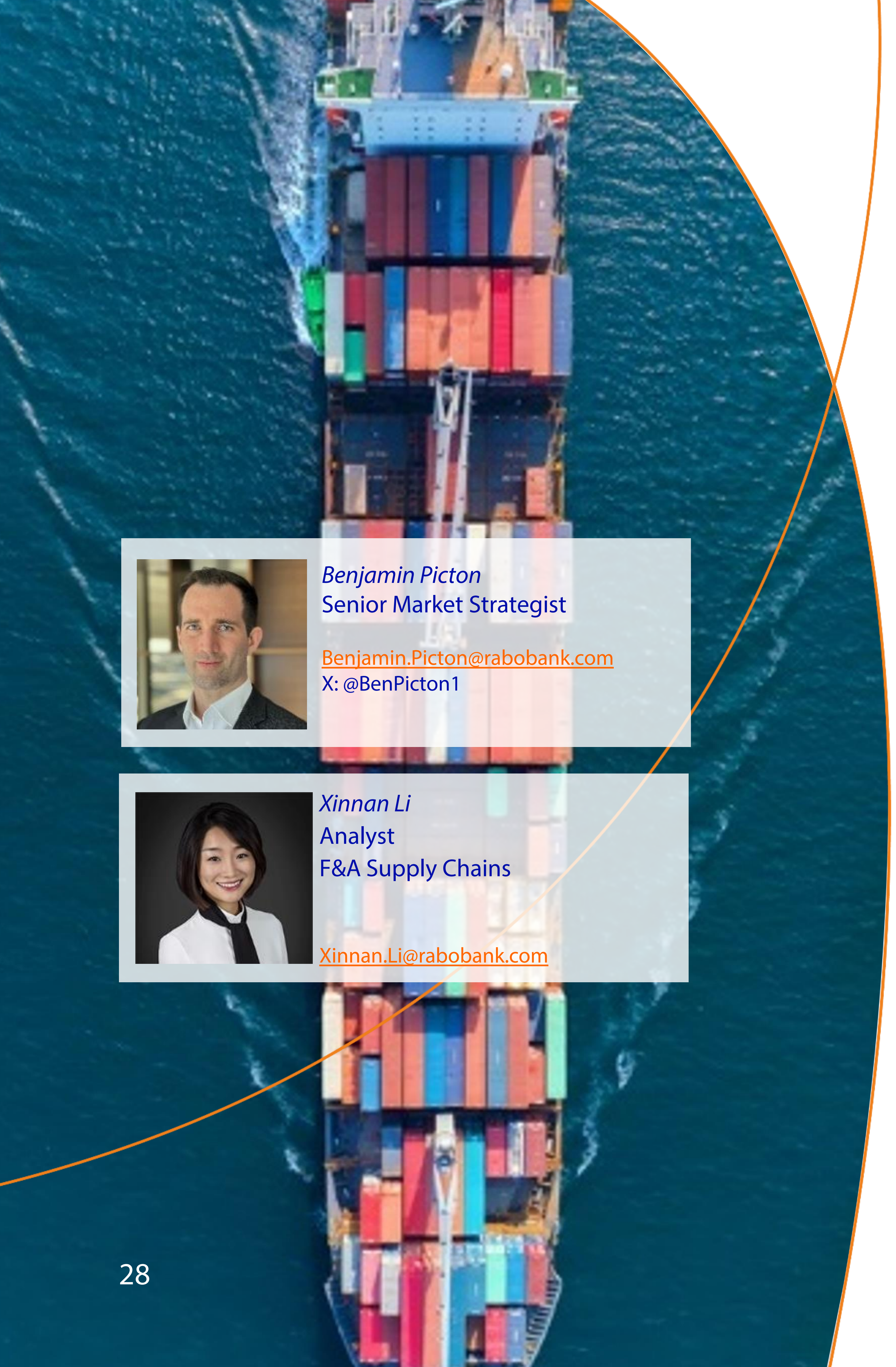
Source: Macrobond, ABS, RaboResearch 2024

Australian inflation indicators, 2019-2024



Source: Macrobond, ABS, RBA, RaboResearch 2024

Rabobank



Benjamin Picton
Senior Market Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Xinnan Li
Analyst
F&A Supply Chains

Xinnan.Li@rabobank.com

Oil and freight

Push and pull on the supply side

Brent crude recorded its first monthly gain since June in October. Prices were up 1.89% to USD 72.81/bbl, a gain of around USD 1.35/bbl since the beginning of the month.

The Middle East continues to play a significant role in risk determinations for energy pricing. The region accounts for approximately 30% of global oil production, and interruptions to supply from the ongoing back-and-forth strikes between Israel and Iran have the potential to significantly impact prices.

Given these risks, our energy analysts suggest that traders have been reluctant to bet heavily on lower oil prices, despite signs that the market is currently in a state of oversupply and is likely to remain so in 2025.

In December, the 180,000 barrel/day production cuts agreed by OPEC+ producers are due to expire. This should mean that quite a bit more oil will be entering a market where demand is already looking tepid, as the US and Chinese economies show continued signs of slowdown.

Temporary labour agreements were reached at the US East and Gulf Coasts after a three-day strike, but many issues must be resolved by 15 January 2025. One key issue is port automation, which further threatens port operations. Automation is essential to improve efficiency and reduce congestion. With US ports experiencing high labour costs and low productivity, continued modernisation is likely, despite pressure from labour unions against automation. US ports are modernising, though at a slower rate than their peers in Asia and Europe. Schedule reliability across global ports continues to be challenged, recovering to around 60% from the pandemic low of 35%, but far behind the pre-pandemic normal of 80%. Congestion and the dislocation/shortage of containers continues to threaten the normality of global shipping.

The Baltic Panamax index (a proxy for grain bulk freight) is trending downward, with the index dropping 16.4% in October from the previous month. Bulk shipping is under negative pressure across vessel types due to weak demand.

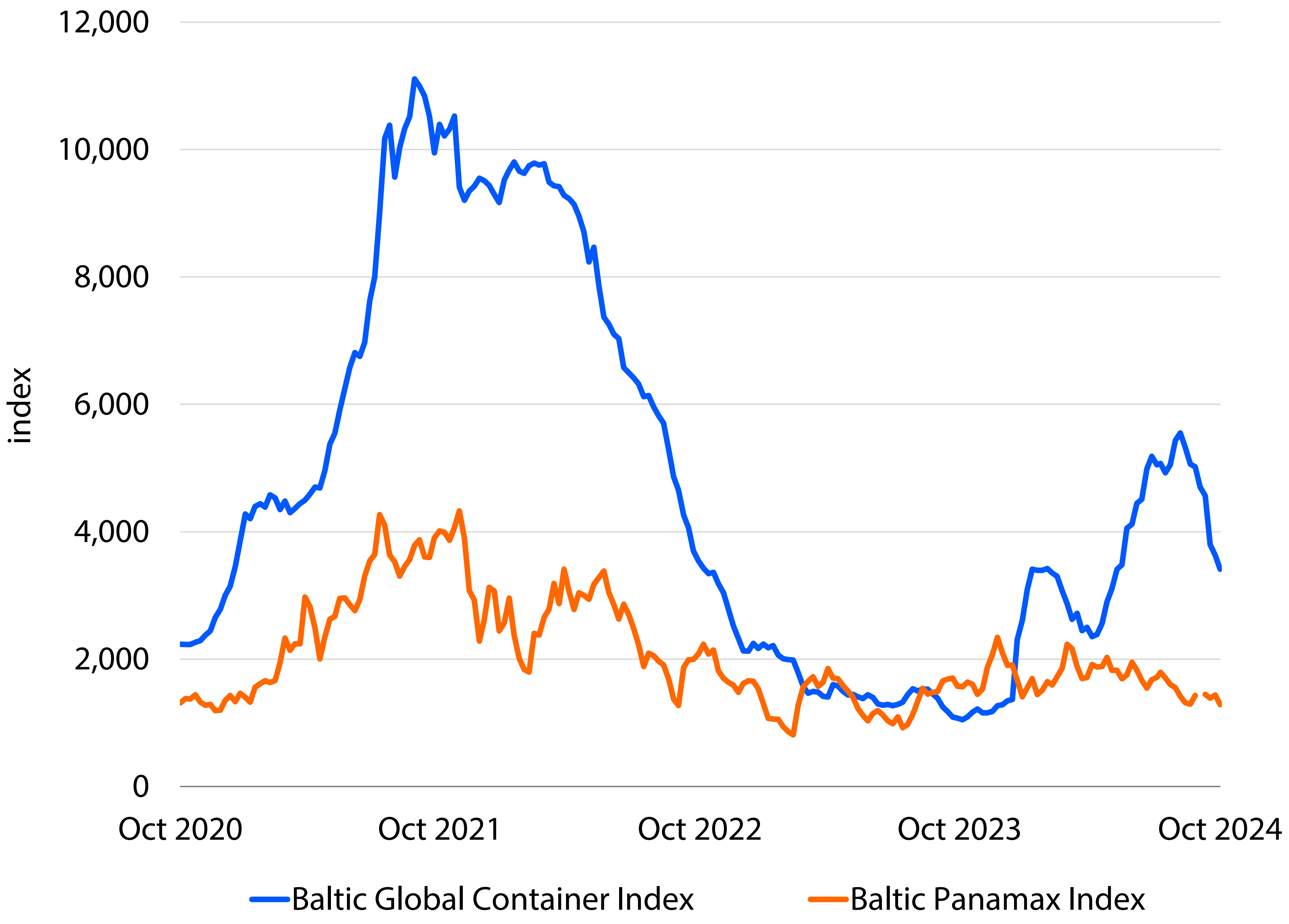
What to watch:

- **Middle East tensions** – Iran has vowed severe retaliation to recent Israeli strikes. This back-and-forth cycle of attacks increases the risk of escalating the conflict that could lead to strikes on Iranian oil infrastructure, thereby interrupting supplies flowing to global markets.

Oil and freight

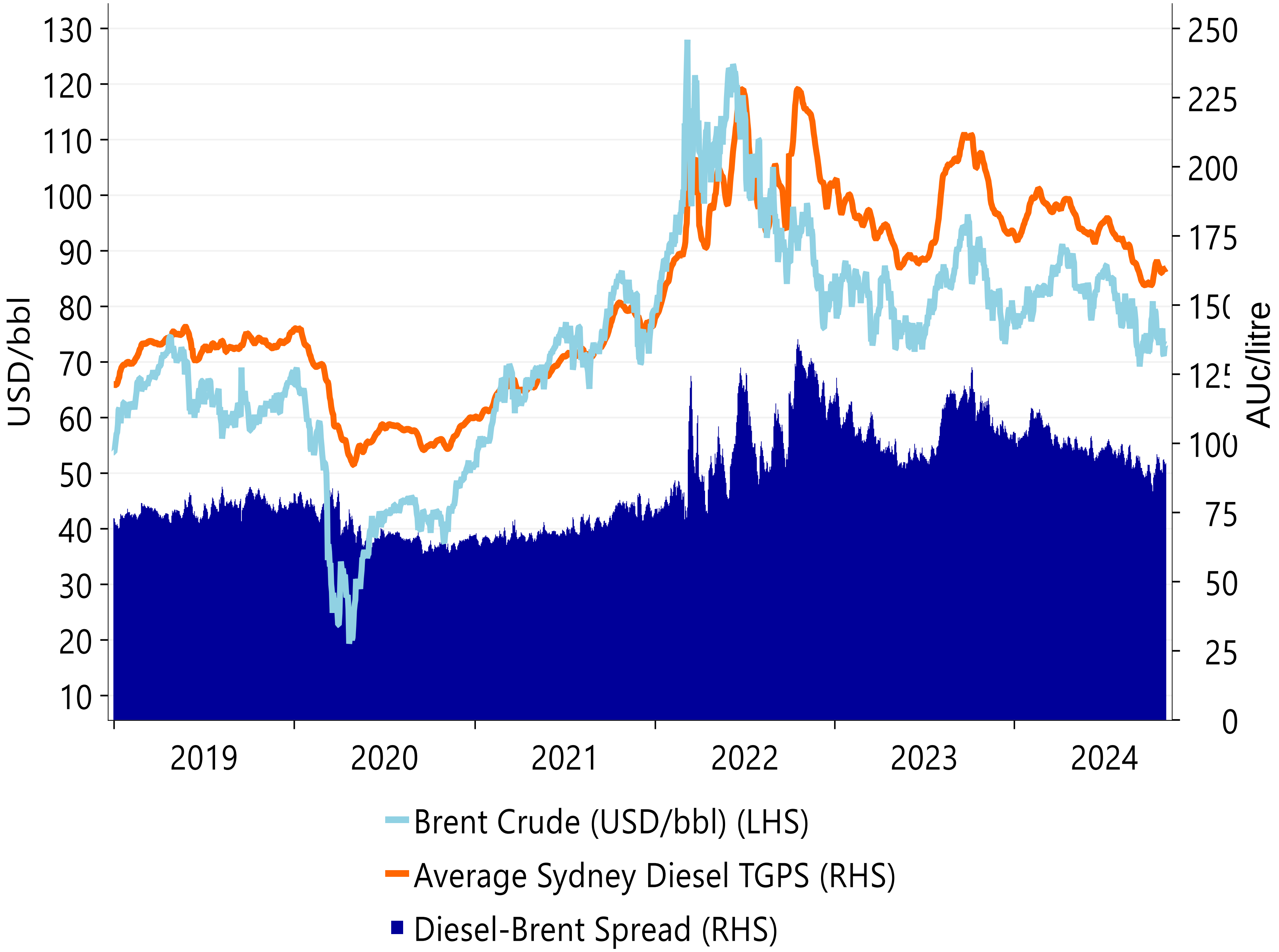
Prices continue to slide

Baltic Panamax Index and Dry Container Index, Oct 2020-Oct 2024



Source: *Baltic Exchange, Bloomberg, RaboResearch 2024*

Brent crude versus Sydney diesel prices, 2019-2024



Source: *Macrobond, ICE Exchange, AIP, RaboResearch 2024*

Rabobank

Agri price dashboard

01/11/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	568	615	573
CBOT soybean	USc/bushel	▼	983	1,056	1,328
CBOT corn	USc/bushel	▼	415	433	477
Australian ASX EC Wheat Track	AUD/tonne	▼	326	331	383
Non-GM Canola Newcastle Track	AUD/tonne	▲	772	707	648
Feed Barley F1 Geelong Track	AUD/tonne	▼	303	306	334
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	634	638	366
Feeder Steer	AUc/kg lwt	▼	339	358	205
North Island Bull 300kg	NZc/kg cwt	▲	705	700	605
South Island Bull 300kg	NZc/kg cwt	▲	670	645	550
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	830	770	487
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	795	780	670
South Island Lamb 17.5kg YX	NZc/kg cwt	▼	805	815	680
Venison markets					
North Island Stag	NZc/kg cwt	•	980	980	880
South Island Stag	NZc/kg cwt	▲	950	935	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,500	6,488	4,925
Skim Milk Powder	USD/tonne FOB	▼	2,775	2,825	2,675
Whole Milk Powder	USD/tonne FOB	▲	3,563	3,513	3,050
Cheddar	USD/tonne FOB	▲	4,725	4,575	3,800

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

01/11/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	81.7	84.9	92
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	70.2	73.2	80
Sugar markets					
ICE Sugar No.11	USc/lb	▼	22.1	22.7	27.8
ICE Sugar No.11 (AUD)	AUD/tonne	▲	742	726	830
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,125	1,104	1,129
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	365	353	386
DAP (US Gulf)	USD/tonne FOB	•	610	610	570
Other					
Baltic Panamax Index	1000=1985	▼	1,199	1,364	1,448
Brent Crude Oil	USD/bbl	▼	73	74	85
Economics/currency					
AUD	vs. USD	▼	0.656	0.689	0.651
NZD	vs. USD	▼	0.596	0.626	0.600
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	▼	4.75	5.25	5.50

Source: *Baltic Exchange, Bloomberg, RaboResearch 2024*

Keep Up to Date With the Latest Food & Agribusiness Insights

Tune in to our RaboResearch Podcast series

Make our insights your advantage

Meet our RaboResearch Food & Agribusiness Australia and New Zealand team

Stefan Vogel

General Manager, RaboResearch Australia and New Zealand
+61 419 782 452
Stefan.Vogel@rabobank.com

Angus Gidley-Baird

Senior Animal Protein Analyst
+ 61 424 266 909
Angus.Gidley-Baird@rabobank.com
@angus_gb

Ben Picton

Senior Market Strategist
+61 408 571 012
Benjamin.Picton@rabobank.com
BenPicton1

Emma Higgins

Senior Agriculture Analyst
+64 27 600 5549
Emma.Higgins@rabobank.com
@emhiggins

Jen Corkran

Senior Animal Protein Analyst
+64 21 2412 139
Jen.Corkran@rabobank.com

Michael Harvey

Senior Dairy & Consumer Foods Analyst
+61 409 488 485
Michael.Harvey@rabobank.com
@MickHarvey77

Anna Drake

Sustainability Analyst
+61 437 772 949
Anna.Drake@rabobank.com

Pia Piggott

Analyst
+61 460 734 578
Pia.Piggott@rabobank.com
@piapiggott

Vítor Caçula Pistóia

Agriculture Analyst
+61 473 862 667
Vitor.Cacula.Pistoia@rabobank.com
@victor_agri

Paul Joules

Agriculture Analyst
Paul.Joules@rabobank.com

Rabobank Australia **Nearest branch call 1800 025 484 | www.rabobank.com.au**