Price resistance across key commodities

Australia agribusiness monthly

RaboResearch Food and Agribusiness

October 2024

Rabobank

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Commodity outlooks

Climate

ENSO remains neutral, with three global models predicting La Niña by October. The rainfall outlook for the rest of the year looks positive for the continent.

Sustainability

A new review of Australia's pathways to net-zero emissions across six sectors highlights strategies and barriers to achieve national 2050 emissions targets. Pathways entail modest reductions in agricultural emissions and emphasise the importance of land-based removals as a counterbalance for residual emissions.

Wheat and barley

Global cereal supply might suffer a drawback following dry spells in key producing and exporting countries. Not only might 2024 production be revised down, but 2025 production potential could be lower. The bearish feeling in the market has reduced, which has supported prices.

Canola

Unexpected dryness in the principal Brazilian soybean region has struck the global oilseed complex. This has supported other oilseeds, which, combined with European and Black Sea weather issues, leaves the door open for sustained prices in the coming months.

Beef

Cattle prices continue to hold, although higher numbers of cattle through saleyards caused a slight drop at the end of September. If higher numbers of cattle hit the market – particularly out of Queensland, given the higher cattle inventory and relatively weak live export markets – we may see cattle prices drift a little lower in the next month.

Sheepmeat

Lamb prices fell slightly in late September, and we expect that they will continue to soften as the new season lambs arrive on the market in sufficient numbers.

Wool

Wool prices improved marginally in September, with the both the Eastern Market Indicator and Western Market Indicator rising month-on-month. Australian exports for July were disappointing, with volumes down 14% YOY.

Dairy

September was a positive month for Oceania spot commodity prices with US dollar gains across the basket of products (excluding butter). The butter price has fallen from the high-water mark set in June 2024 but nonetheless remains elevated.

Cotton

Global cotton prices pushed higher in September, as Managed Money made a dramatic cut to its large net short position amid adverse US weather and an improving macroeconomic picture.

Consumer foods

The latest ABS retail trade data showed a slowdown in total food expenditure in July. The consumer food market remains very dynamic, with consumers increasingly on the hunt for value while tightening the belt on total food expenditure.

Farm inputs

Urea prices rose 4% MOM amid a surprise Indian tender, which boosted the global demand picture. Meanwhile, natural gas shortages in Egypt once again had an upside impact on prices.

Interest rate and FX

The US Federal Reserve cut interest rates by half a percentage point in September, but the RBA is not expected to follow quickly. The narrowing interest rate differential has spurred the Australian dollar to trade above 69 US cents.

Oil and freight

RaboResearch has adjusted its price forecast for Brent Crude down to USD 71/bbl for the final quarter of 2024. The market is tilting into oversupply as weaker demand in the US and China collides with rising output.

Climate

Drivers remain in neutral gear

El Niño-Southern Oscillation (ENSO) remains in neutral, with potential for La Niña to develop in late 2024. However, it is forecast to be relatively weak and short lived. Three out of seven international models are predicting La Niña conditions by October.

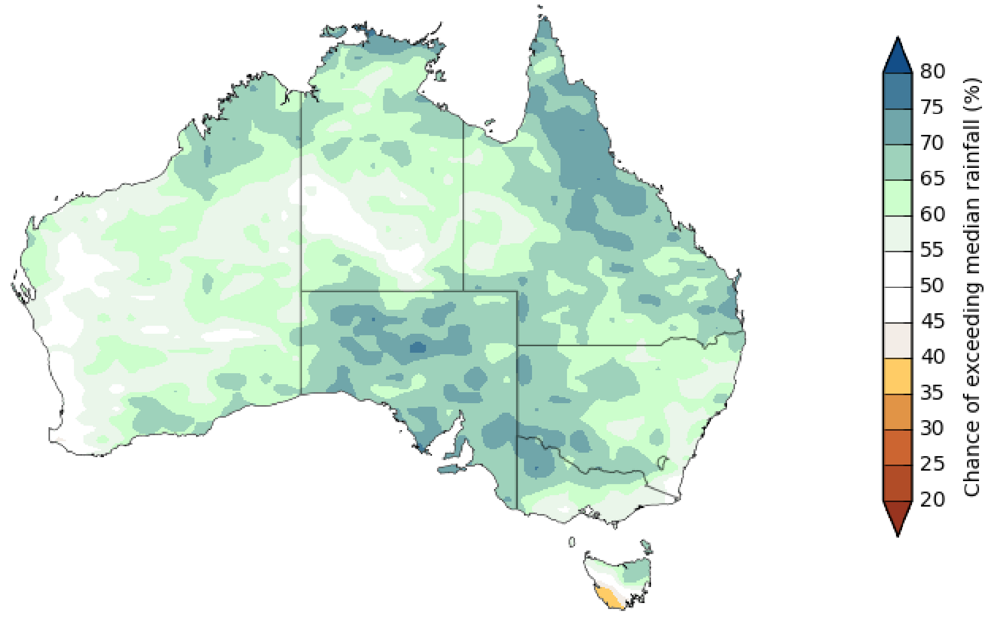
The Indian Ocean Dipole (IOD) remains neutral, with most climate models expecting the IOD to remain neutral for the rest of the year.

The recent period of sustained warm sea surface temperatures suggests climate patterns may not behave as they have in the past. This may affect the ability to predict ENSO and IOD events.

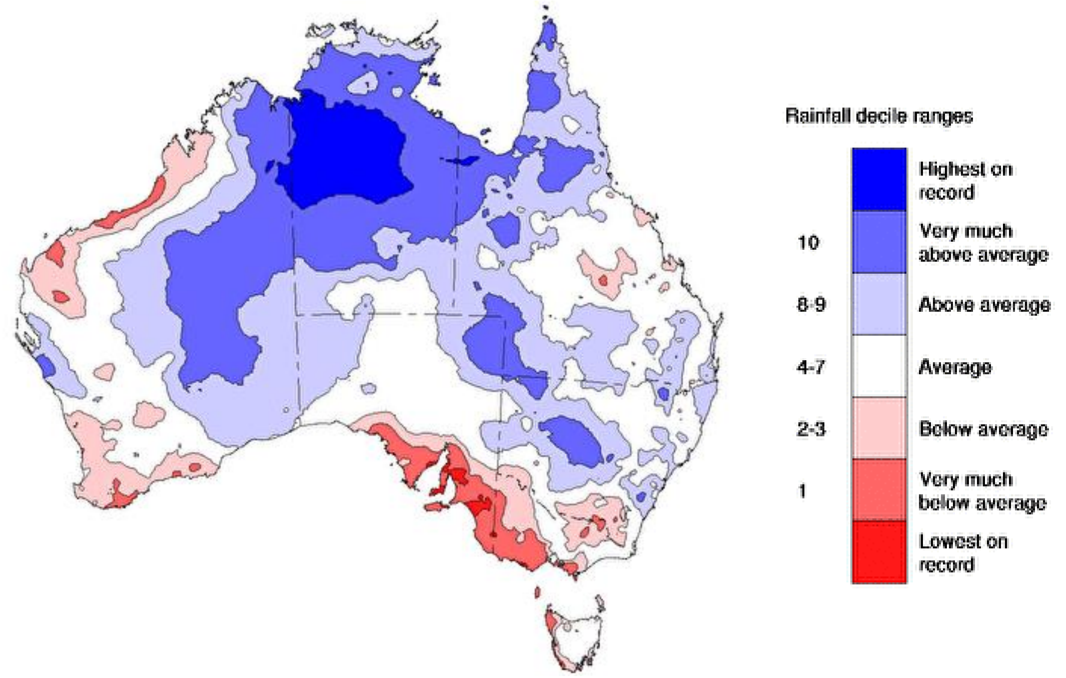
National rainfall in September was 23% above average. Rainfall was above average for Tasmania and the northwest of Australia and below average for southwest WA and southeast SA.

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 September and are currently at 80% of capacity as of 25 September 2024.

October-December 2024 rainfall outlook



Rainfall deciles, January-September 2024

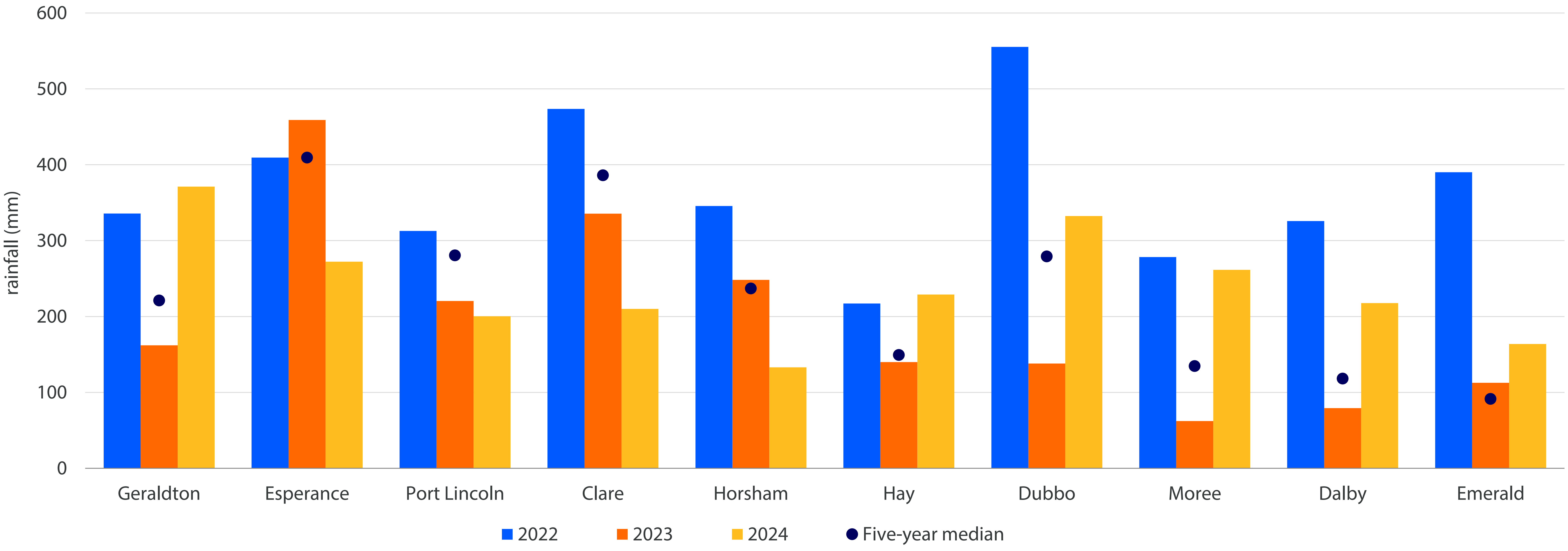


Source: *BOM, RaboResearch 2024*

Climate

Agricultural regions' rainfall – Growing season rainfall was mixed across regions

Growing season rainfall (April-September)



Source: BOM, RaboResearch 2024

Sustainability

Clearer path to net-zero emissions by 2050

The Climate Change Authority (CCA) has published its review of potential emissions reduction pathways that support Australia's transition to net-zero emissions by 2050.

It assessed six sectors, including agriculture and land, and identified the range of emissions reductions that can be achieved through current and prospective technologies. It outlines barriers, opportunities, and enablers across each sector.

Based on the review's modelling, agricultural emissions are expected to remain stable around current levels to 2035, followed by modest reductions to 2050 as new, low-emissions technologies become commercially viable. Key technologies identified include methane-reducing feed supplements, slow-release or nitrification-inhibitor-coated fertilisers, and renewable-fuel-powered vehicles and machinery.

It also highlights the importance of land-based removals, with sequestration in the land sector more than doubling between 2025 and 2050 under the modelled scenario.

Growing pressures on land resources are flagged as a potential challenge, with the sector facing the need to balance food security, economic value, healthy ecosystems, and provision of land-based removals.

The CCA examined the role of land-based removals as offsets. It observed a low level of understanding among carbon market participants of the finite nature of land-based removals. It also signalled potential to put policy guardrails in place to ensure removal potential is used in ways that optimise economic and environmental outcomes.

Outside agriculture, the review expects the most steep and rapid reductions for the electricity and energy sector, due to the relative availability of mature and scalable technologies.

The review was commissioned by the Australian Parliament and is designed to support the development of the government's Net Zero Plan. Its findings could inform how the Australian government approaches action on climate change.

What to watch:

- **Australia will host the first Global Nature Positive Summit in Sydney on 8-10 October 2024 –** The summit aims to build consensus on the economic settings needed to increase investment in nature, showcase best practice, and explore pathways to better valuing nature. Outcomes from the summit will provide insights into the potential future direction of nature-related policies and markets.

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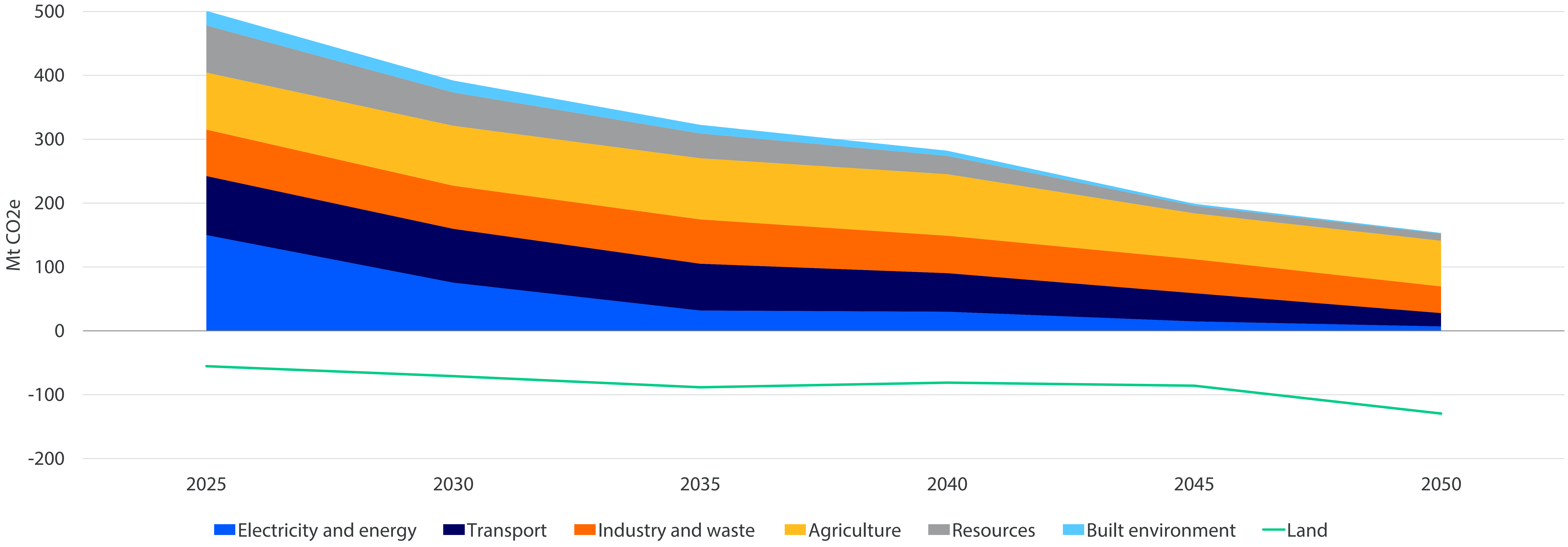
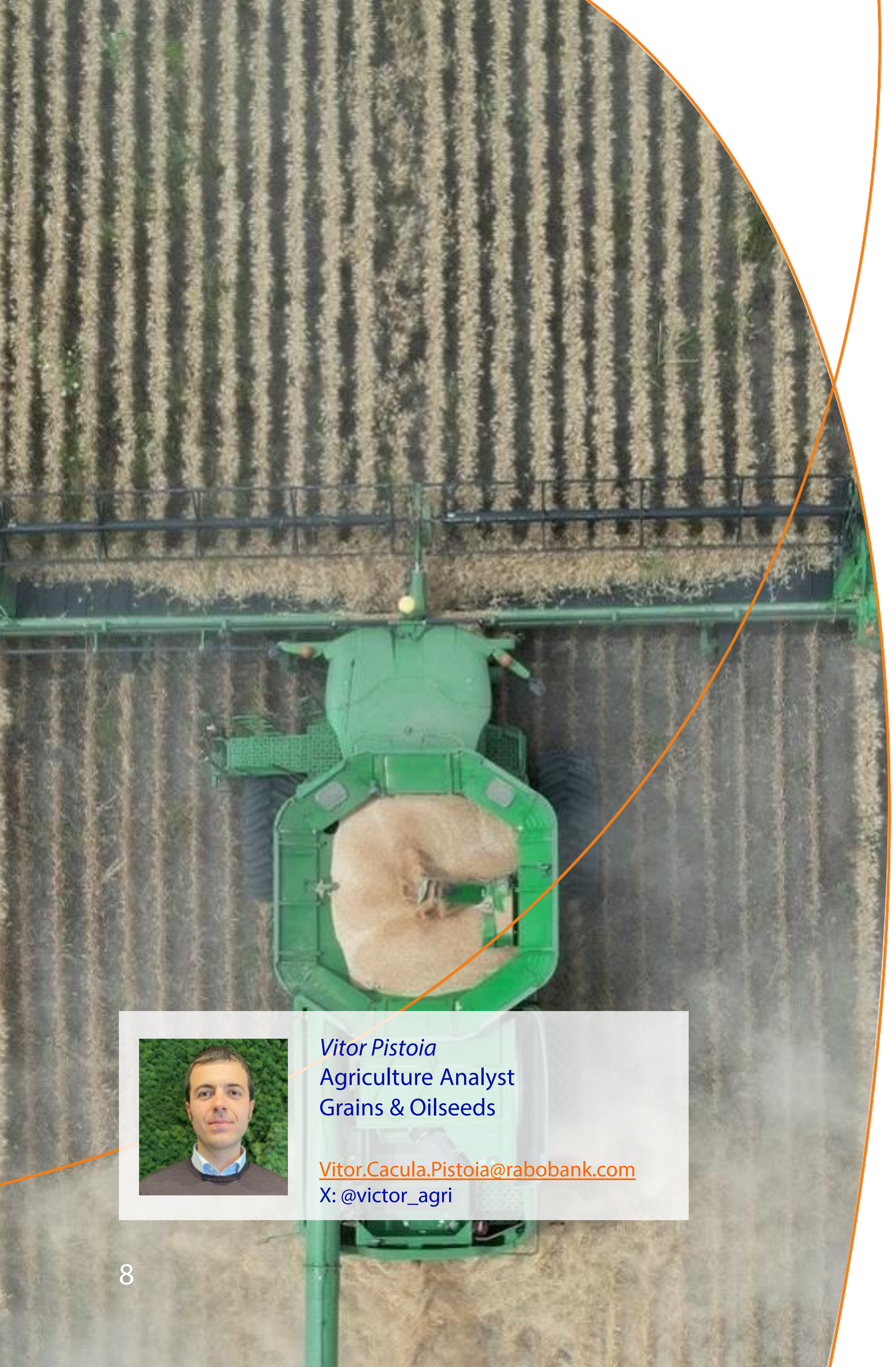
Sustainability

Sector-level emissions reductions and increased land-based removals needed to get to net zero

Trajectories to national net zero under a scenario consistent with Australia achieving its current emissions reduction targets



Source: *Climate Change Authority, RaboResearch 2024*



Wheat and barley

Dry spells in the Black Sea and the US alter the outlook

The last few weeks saw a shift in expectations for global grain stocks following poor rainfall in key producing regions during critical crop moments. In North America, the potentially record-high corn crop is likely to be "just" a big crop due to a soft finish. **Many areas of the Corn Belt experienced 50% to 75% of the usual rainfall during grain filling. In the Black Sea region, low rainfall volumes – only 20% of the long-term average – and hot temperatures in the second half of the summer are reducing winter sowing rates.** The optimal sowing window goes until mid-October, but it is unlikely Ukrainian and Russian paddocks will have the usual planted hectares before the first frost and snowfall. The market reacted to these possible reductions in supply. **The Dec 2024 CBOT Wheat contract rose from AUD 285/tonne to AUD 318/tonne, an 11.5% increase. The ASX Jan 2025 contract also recovered, from AUD 307/tonne to AUD 330/tonne, a 7.7% rise.**

Managed Money changed its position as well. In the last four weeks, the net short for corn dropped by 45% and wheat by 55%. Funds are still bearish about grain commodities in general, but **this cut in "bearishness" might be an indication that the worst is behind us for this year concerning prices.**

The global barley market is heading to an overall 2024 production total similar to last year's figure, around 142m tonnes. Part of the area reduction in the Black Sea has been offset by a positive spring barley yield in Europe. The EU season might finish with 4.4 tonne/hectare, 7.8% above the five-year average. The global supply will not be enough to increase stocks. Ending stocks might finish the season around 15.5m tonnes, which represents a stock-to-use ratio of 10.5%. In general, this would be a low stock-to-use level for grains and signals that prices should be strong for malting barley. **Overseas, prices are higher than in Australia, but geography is not helping local barley farmgate prices. Compared to Canadian malting barley, Geelong port prices are down by AUD 110/tonne.**

What to watch:

- **Black Sea winter sowing –** The continuation of the dry spell could severely reduce winter sowing rates, which would likely reduce the production potential of the region's 2025 wheat harvest. Ukraine and Russia export roughly 30% of the world's wheat every year, and the 2025 season might see more hectares moving from cereals to oilseeds.
- **Post-frost impacts on wheat basis –** A mid-September series of frosts that caused significant damage to all crops has impacted Australia's expected 2024/25 production. The full extent of the damage is still to be fully understood, but Jan 2026 basis has shown a positive trend since then, gaining AUD 11/tonne in the last month. As we move closer to the expiry date of a contract, volatility follows suit.

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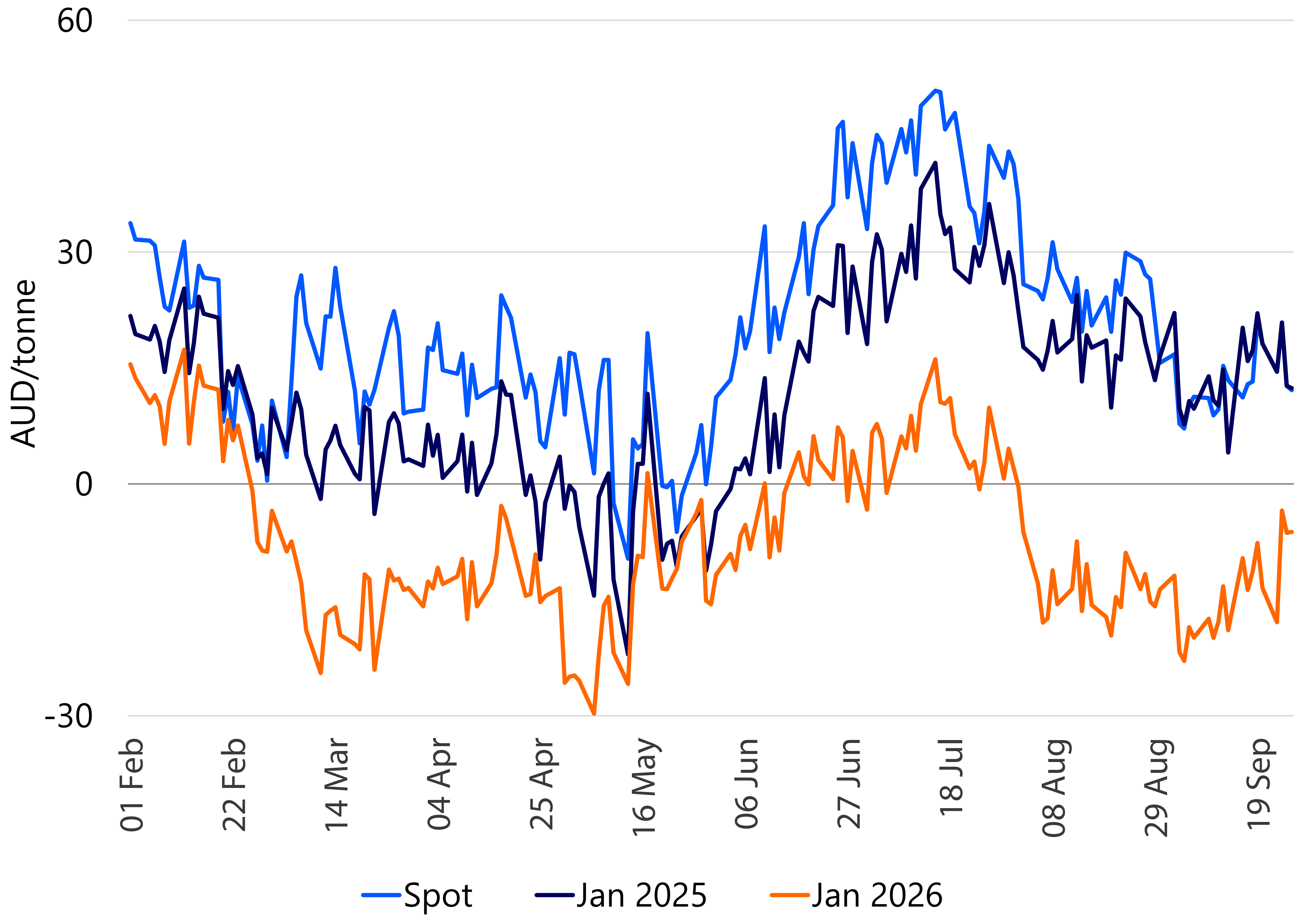
Wheat and barley

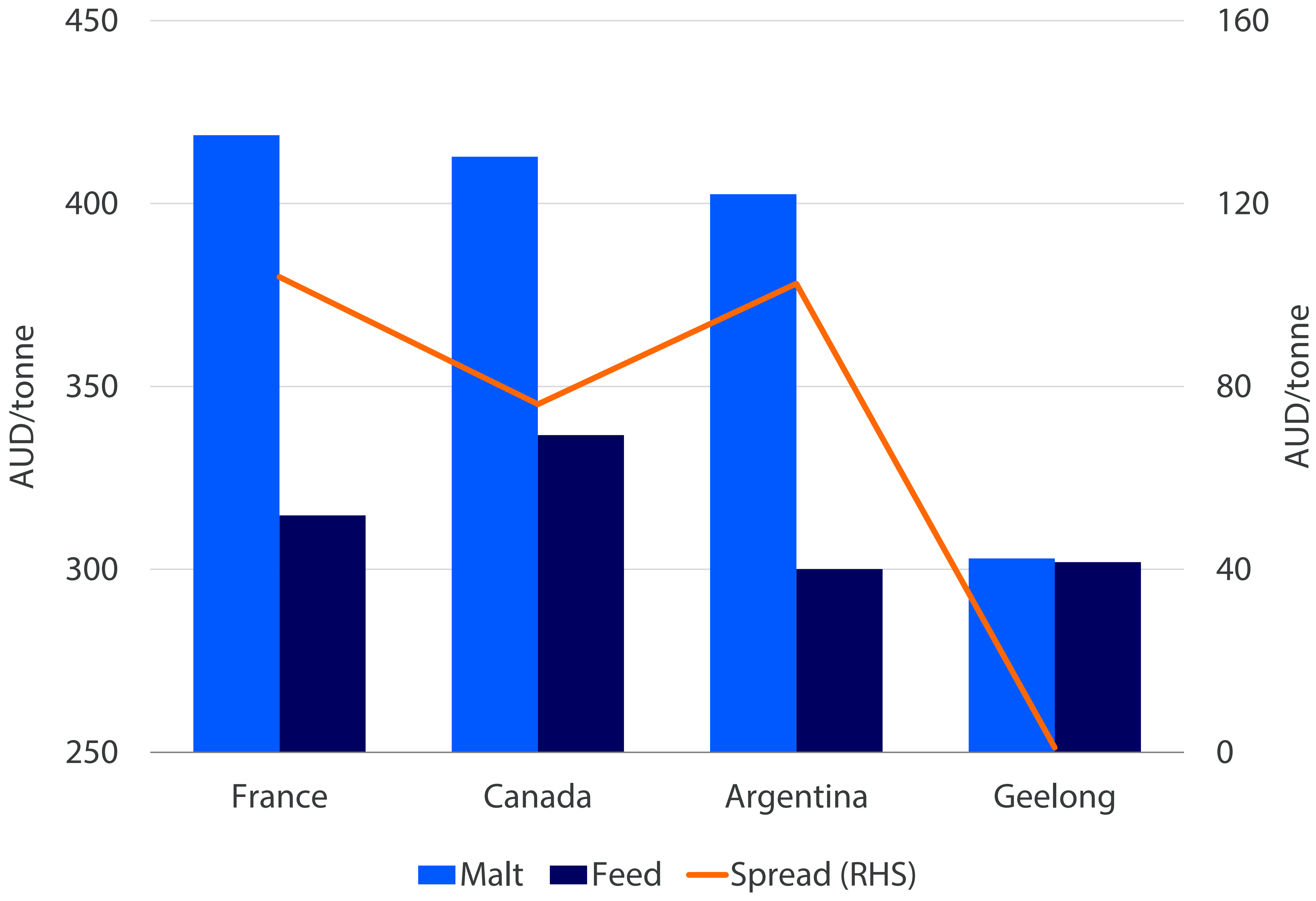
Australian grains prices are performing OK compared to their competitors

ASX-CBOT wheat basis improved on the back of weather problems



Source: *Bloomberg, RaboResearch 2024*

The distance to key buyers is taking a toll on local malting barley prices



Source: *Bloomberg, RMI, RaboResearch 2024*

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Canola

Tailwind from soybeans and dry eastern European summer

The oilseed supply and demand puzzle become much more complex in the last 30 days following a late season break in South America. This holdup is causing severe bushfires and delays in soybean planting in central Brazil. There is time to finish sowing within the optimal window until late October, but the concern is that area and yield might be impaired, which could reduce both production and stocks of the most produced and traded oilseed in the world. **This worry has supported the whole vegetable oil complex over the last month. The CBOT Soybean Jan 2025 contract rose by 8.2%. The MATIF Canola Feb 2025 contract followed with a rise of 5.1% to AUD 794/tonne, and ICE Jan 2025 grew by 3.4% to AUD 675/tonne. In Australia, non-GM canola at Kwinana port remains stable at AUD 725/tonne, and Geelong grew 5.8% to AUD 704/tonne.**

In addition to this relevant potential shift in the soybean situation, **updates from Europe are not promising.** The final EU sunflower yield might be at 2.0 tonne/hectare, or 8% under the five-year average, due to the hot and dry summer in eastern European countries such as Bulgaria and Romania. **This drop roughly offset the increase in area for the whole EU this season and does not provide any relief for tight oilseed stocks.**

For the 2025 season, Black Sea dryness is also an important topic. **The eastern half of Ukraine and Russia's North Caucasus region have had poor rainfall volumes since July.** This led to a lack of adequate soil moisture for winter canola sowing. Late September reports indicate Ukraine's farmers have sowed 700,000 hectares of canola out of an intended 1,100,000 hectares. **There is still time to finish sowing before the first cold snaps, though the crops' adequate development are the main concern.**

In the face of such challenges matching supply with demand, one could ask why prices have not escalated even higher. The Northern Hemisphere is wrapping up its harvest, and crude oil prices softened during September. **For now, oilseed prices might be restrained, but as the weather and the economy evolve, and stocks go lower, market fundamentals should play out.**

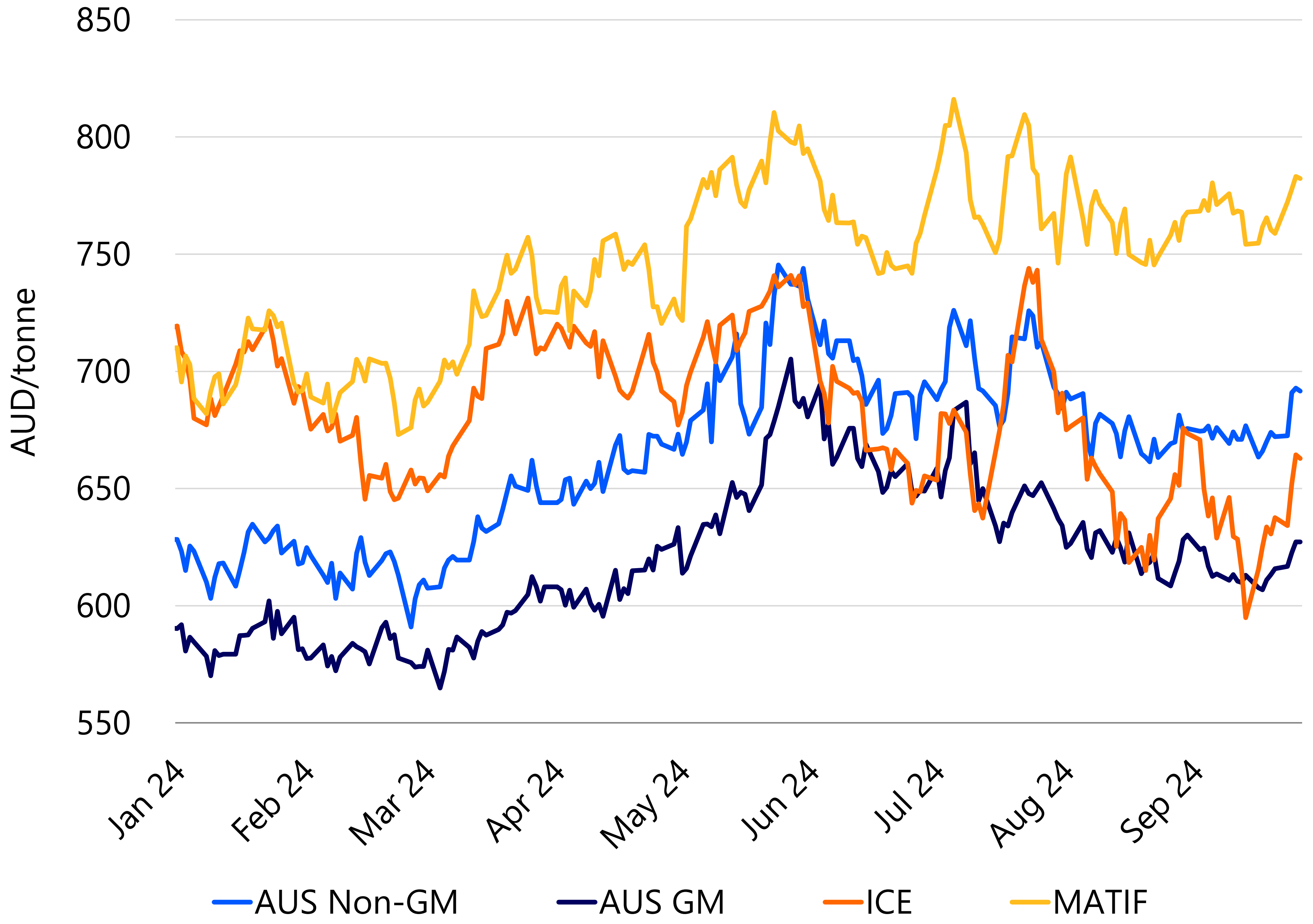
What to watch:

- **European oilseed crushing rate** – The halt of EU imports of oilseed meal and oil from Russia and Belarus boosted crushers' margins. Thus, crushing is moving at a strong pace. A bottleneck in coming months could be a lack of feedstock by Q1 and Q2 of 2025, as Ukrainian and Australian supplies are unlikely to fill the gap left by a smaller EU crop. Further, the mid-September frosts in Australia are still to be fully quantified and included in supply and demand balance sheets. If EU crushers keep going at the current pace, a partial substitution in crushing feedstock from canola/sunflower to soybean is expected. This would help to sustain oilseed prices throughout 2025 and certainly impact next season's split between cereal and oilseed acreage worldwide.

Canola

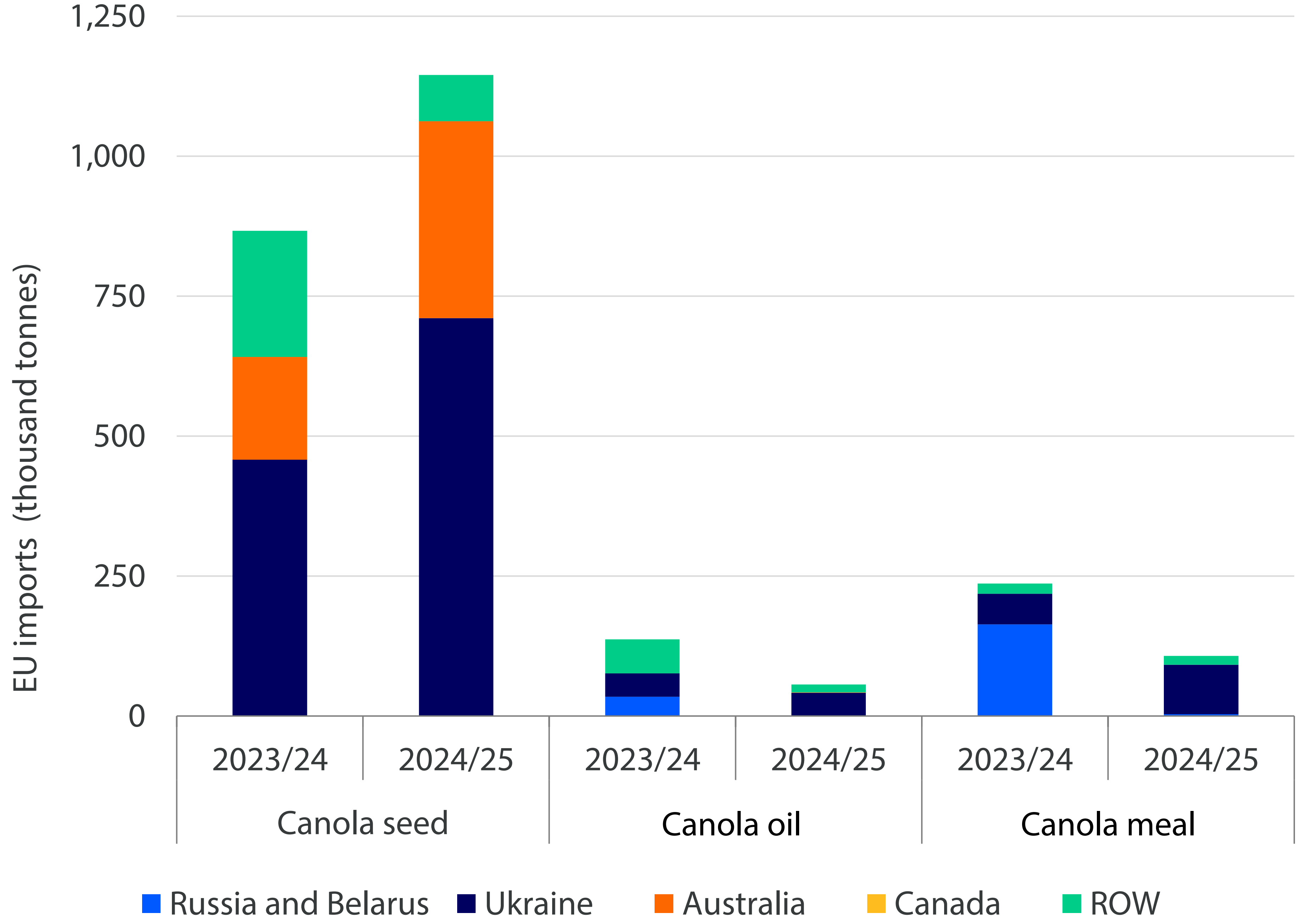
Strong European demand is poised to back positive canola prices

Canola prices found more support in the last month



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

EU tariffs are benefiting Ukraine and Australia's canola exports



Note: Data is from the first 12 weeks of each year.
Source: *European Commission, RaboResearch 2024*

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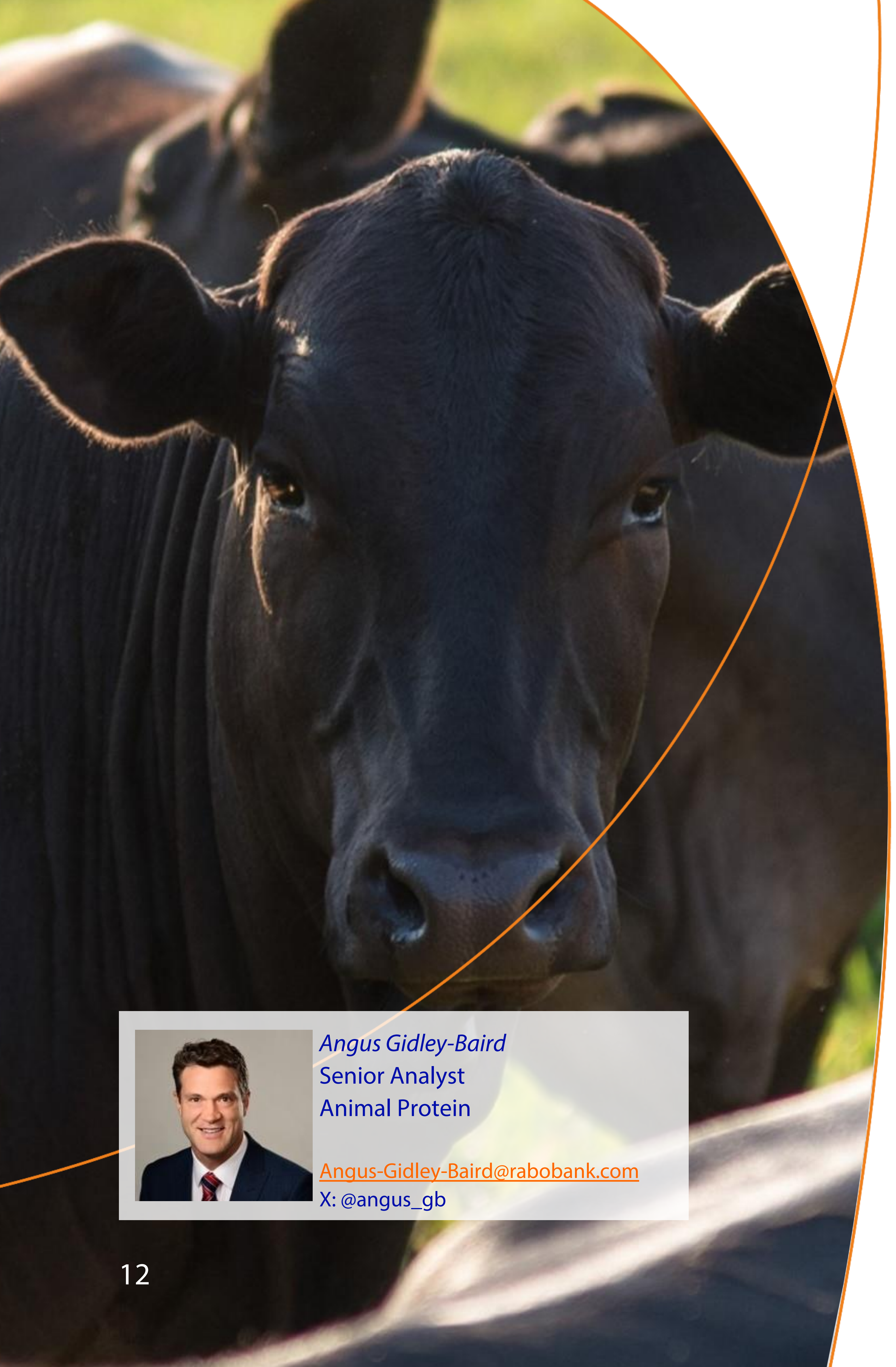

Beef

Cattle prices hold, but sale cattle numbers starting to lift

Australian national saleyard cattle prices dipped slightly at the end of September after holding relatively steady for most of the month. Given the high saleyard numbers since mid-August, a slight dip could be expected. All other key market influences remained steady with slaughter numbers stable, seasonal conditions good, and US import prices still strong. The EYCI fell 5% through September and was sitting at AUc 650/kg on 29 September. All cattle classes apart from processor cows continue to sit below the five-year average with processor cows right on the five-year average. **We don't expect the current situation to change much over the next month and, therefore, expect cattle prices to hold.** Queensland feeder cattle numbers through saleyards for September were up 9% on last year. Traditionally, numbers increase towards the end of the year, and with live export cattle prices low compared to domestic feeder cattle prices, **we may see increased Queensland feeder numbers move into the domestic market. With weak Asian markets, feeder cattle prices could remain static or drift lower** towards the end of the year.

Weekly slaughter numbers continue to remain very flat at 140,000 head per week. Slaughter has remained within 4% of this number for the last three months. Saleyard numbers jumped in the last week of September to the highest number since mid-April. Numbers in Queensland and New South Wales both rose while Victorian numbers have continued to remain high for most of the year.

Australian beef export volumes for the month of September dropped compared to August but were still 16% higher than 2023 volumes. Volumes to the US and Japan, while dropping month-on-month, were still higher than 2023 volumes. Meanwhile, volumes to South Korea were down 4% YOY. Live cattle exports in August were down 8% MOM but up 28% YOY. Volumes to Indonesia are up 63% YTD, while volumes to Vietnam are up 14%. Ongoing weak economic conditions in Asian markets, however, are not seeing strong price competition, and live export cattle prices remain subdued at about AUc 300/kg for feeder steers out of Darwin.

What to watch:

- **US import prices** – US import prices for Australian beef continue to hold at historically high levels. 90CL lean trim prices were USc 286/lb for the week of 20 September, down from the yearly high of USc 291/lb in August. An appreciation of the Australian dollar has seen prices drop a little more in Aussie dollar terms. US lean trim prices tend to decline heading into the US winter as US cow slaughter lifts with seasonal cow culling. But US cow slaughter is down 15% for the first six months of 2024 compared to 2023, and we expect it to remain low given low inventory levels, which should continue to support imported trim prices.

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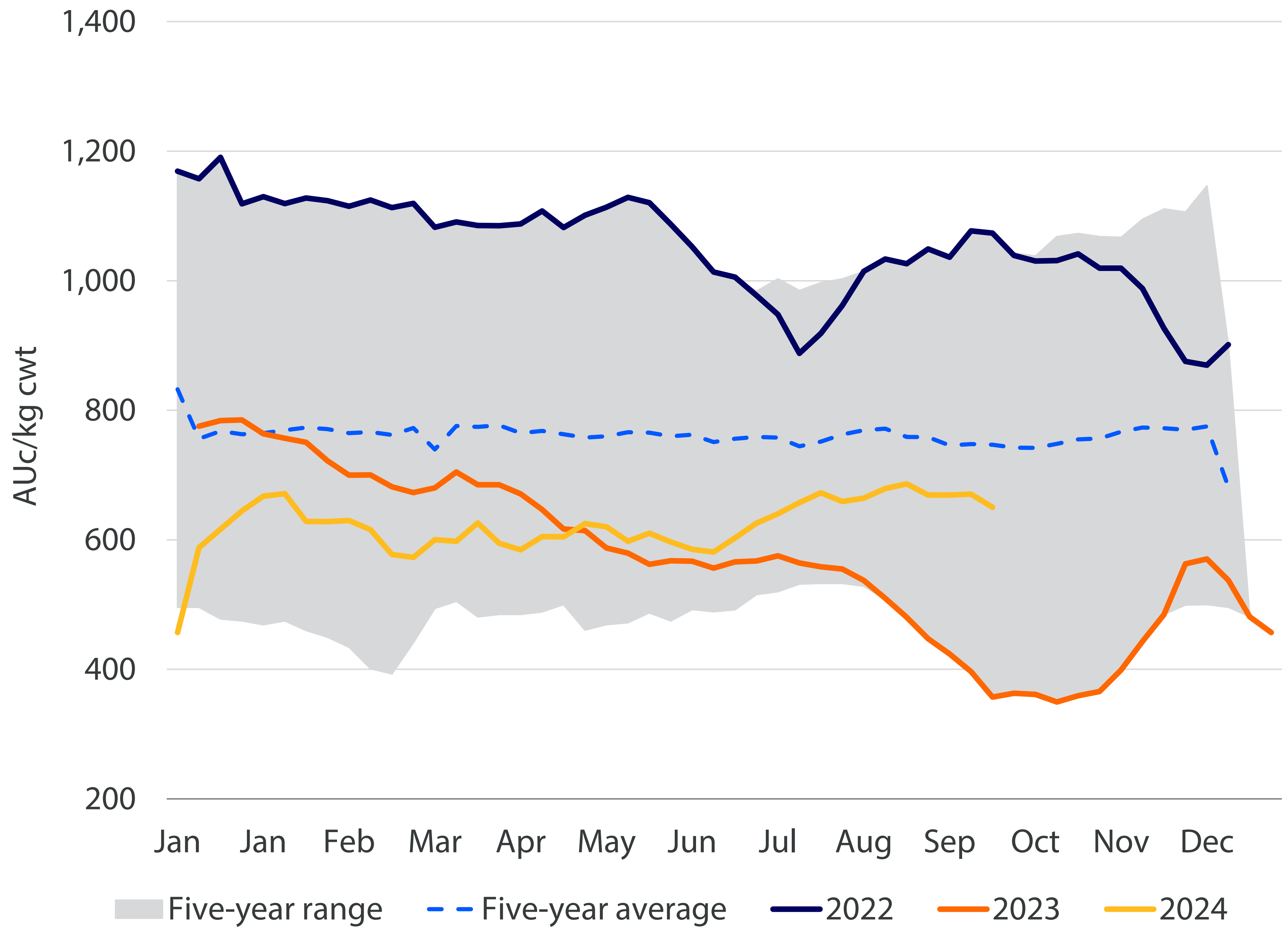
Beef

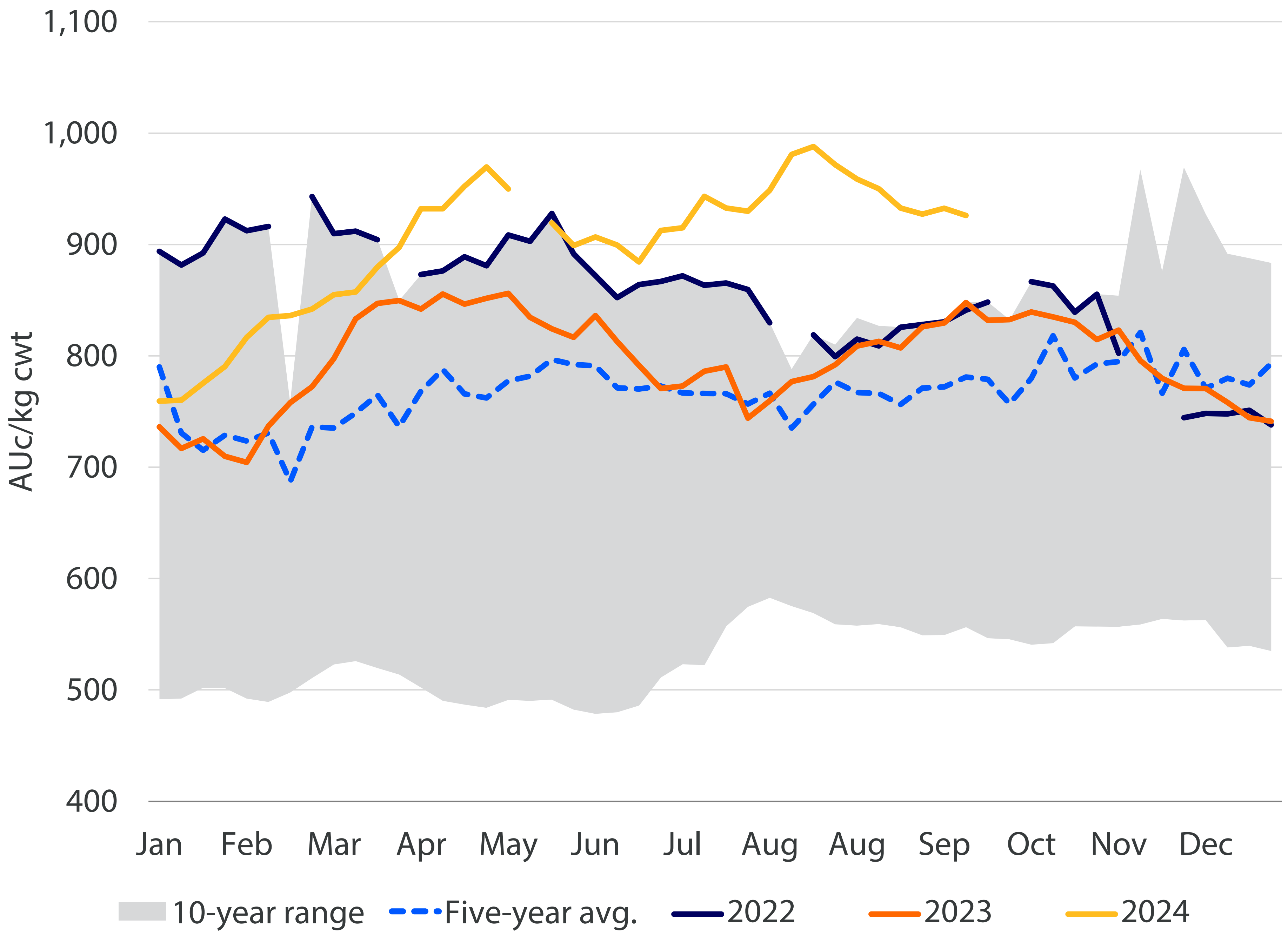
Australian cattle prices ease somewhat as US import prices dip slightly

After holding for the month, the EYCI takes a slight dip



Source: MLA, RaboResearch 2024

US imported beef prices slip slightly (in AUD terms)



Source: MLA, RaboResearch 2024

Sheepmeat

Lamb prices possibly trending softer as numbers lift

All lamb and sheep saleyard prices drifted lower in the last weeks of September. The National Trade Lamb Indicator was at AUc 770/kg for the week ending 29 September, down 5% from one month earlier. Mutton prices were AUc 286/kg, down 22% on a month earlier. The recent contraction might reflect the market identifying that a good supply of lambs remains to come this season.

Our modelling had suggested lamb prices were too high at the August price levels. **With what appears to be a good supply of lambs for this season, and with seasonal pressures in southern states, lamb prices may ease a little further over coming months as increasing numbers arrive on the market.** New Zealand's lamb slaughter – which is very seasonal compared to Australia's – starts to pick up in September. Although New Zealand is expecting the 2024/25 season to produce fewer lambs, we may start to see increasing volumes of New Zealand lamb in the global market, which will provide competitive pressure – especially into markets such as China, the EU, and the UK.

Weekly lamb slaughter volumes lifted again in mid-September after dipping in late August. We understand that some processing plants have shut for scheduled maintenance, which might be a reason for some of the volatility in numbers. Weekly lamb slaughter numbers got back up to 445,000 head in mid-September before dropping again to 423,000 head for the week of 20 September. Lamb slaughter volumes in Victoria continue to remain elevated – the highest in the last 10 years – and only dropped below 2023 volumes for the first time this year in the week of 20 September. New South Wales volumes have returned to around the five-year average, as have South Australia, Western Australia, and Tasmanian numbers. Sheep slaughter nearly reached a 10-year high in late September with elevated levels out of Victoria as producers decide whether to off-load sheep given poor seasonal conditions.

Lamb export volumes dropped for the month of September, following the drop in lamb slaughter. Volumes to all markets dropped slightly.

What to watch:

- **New season lamb numbers** – The true impact of poor seasonal conditions in southern states and high sheep slaughter through late 2023 and early 2024 on new season lamb numbers is still unclear. Processor plant shutdowns and abnormal sales patterns in southern states due to seasonal conditions are influencing slaughter and saleyard numbers, making it hard to identify how many lambs are in the market. However, the easing of prices in recent weeks could be a sign that buyers feel confident that good volumes will be available.

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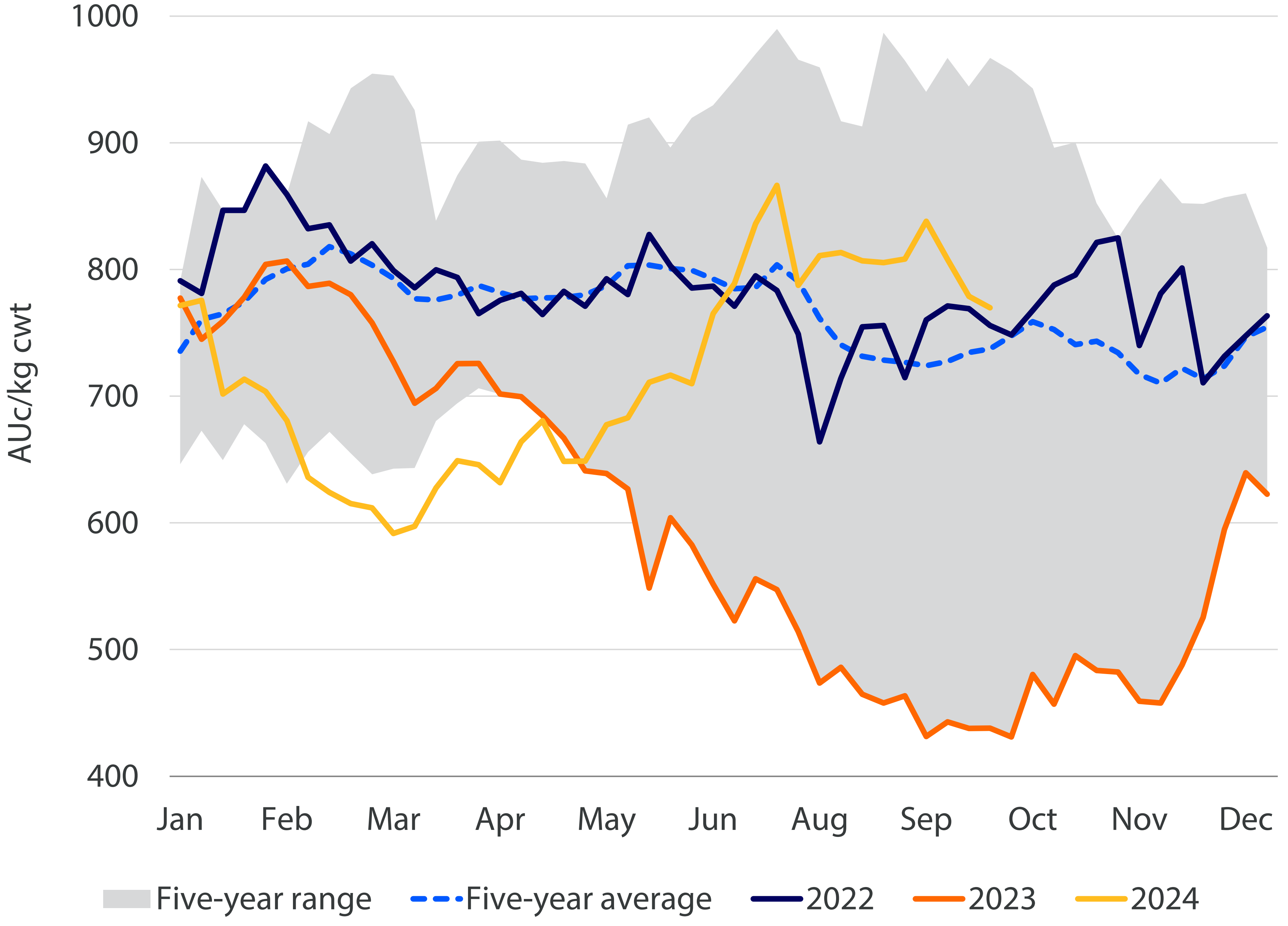
Sheepmeat

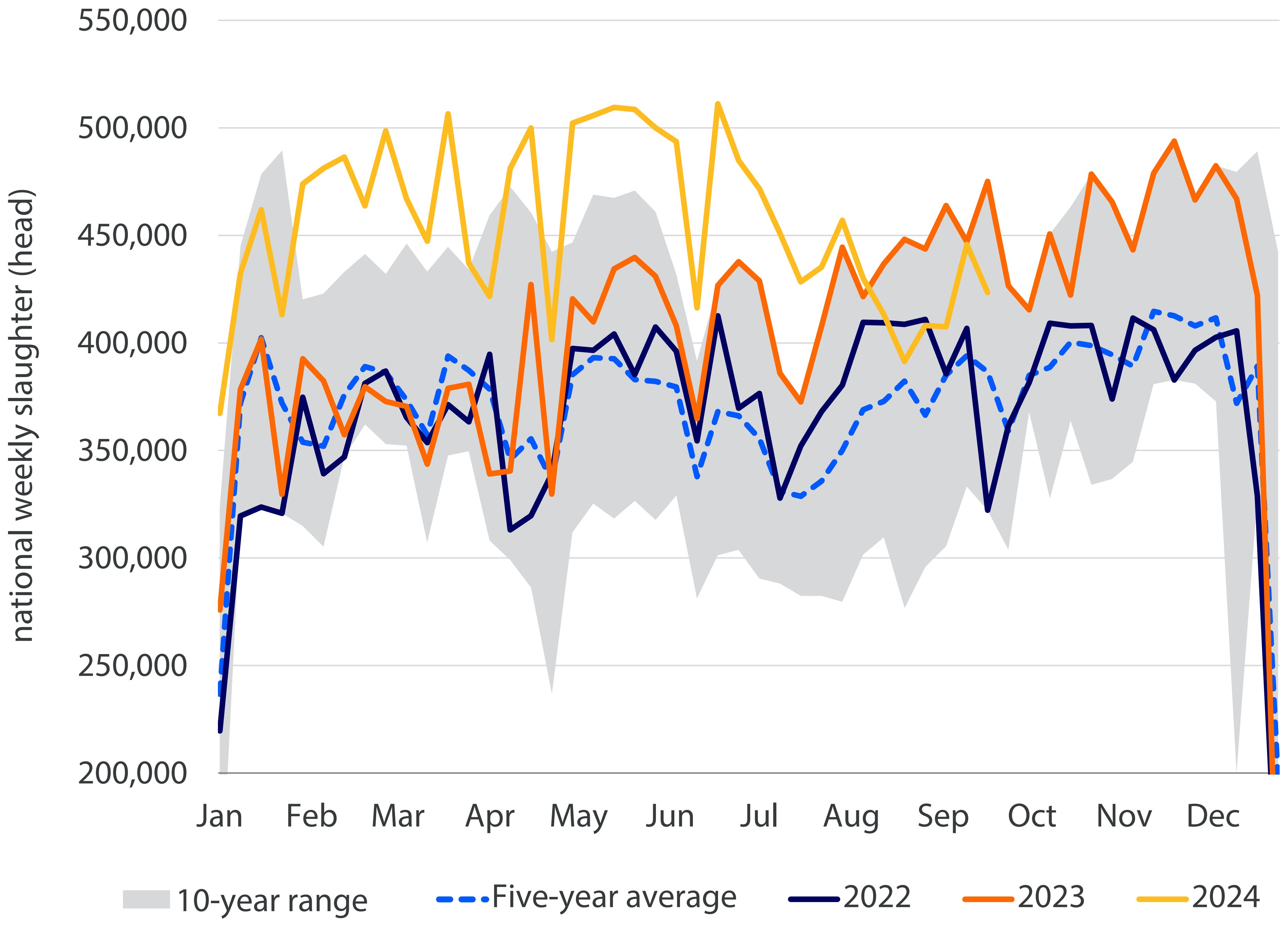
Lamb prices drift lower as we start to see new season lambs enter the market

NTLI drifts lower



Source: MLA, RaboResearch 2024

Lamb slaughter numbers on the rise but volatile



Source: MLA, RaboResearch 2024

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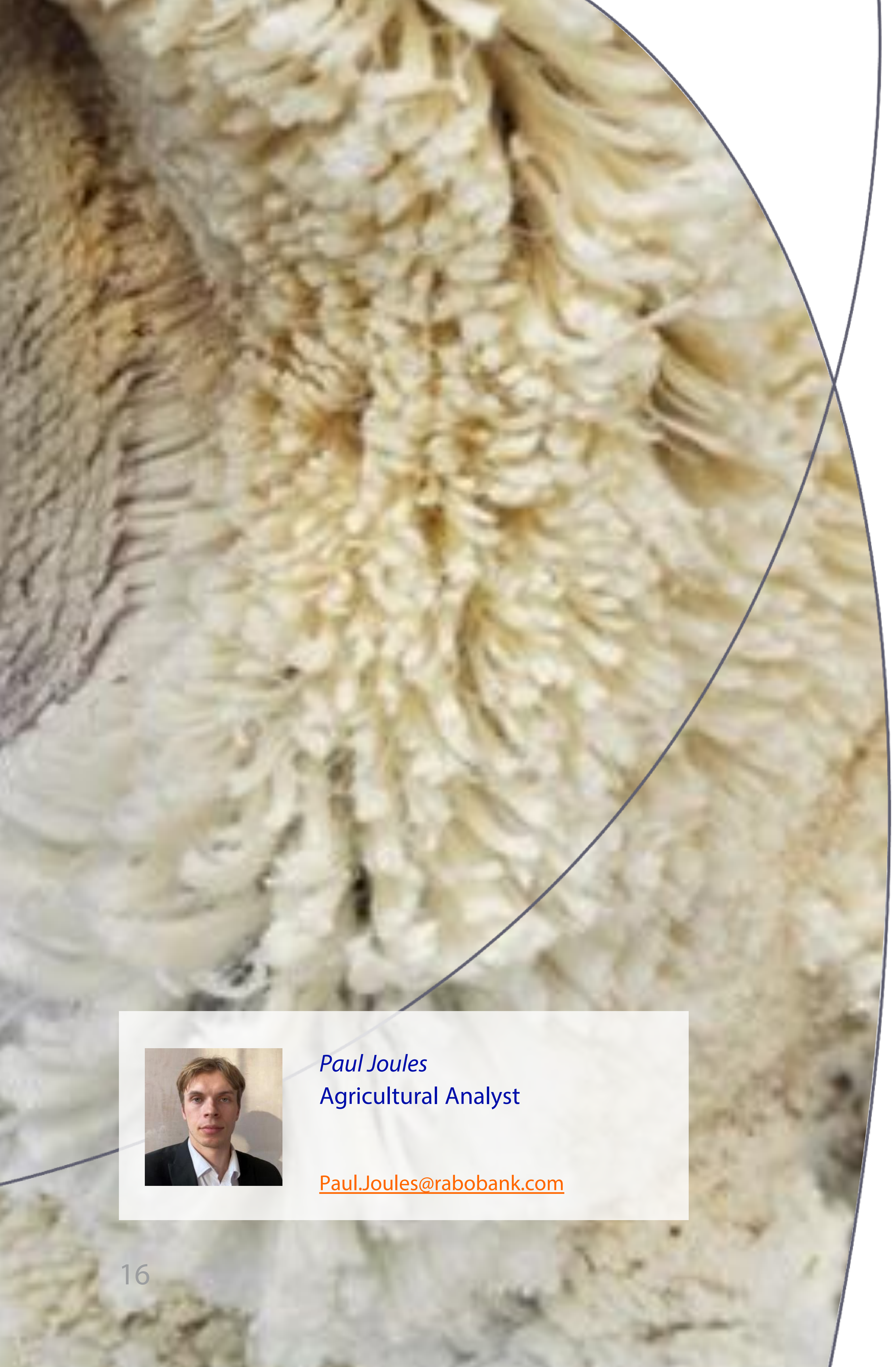

Wool

Wool prices push marginally higher following August lows

September provided minor relief in terms of wool pricing, with the Eastern Market Indicator (EMI) rising marginally from the four-year lows seen in late August (AUc 1,087/kg). As of 24 September, prices are now around AUc 1,098/kg. Despite the modest increase, prices remain subdued and sit 20% below the five-year average. Western Market Indicator (WMI) prices rose a modest 0.9% in the first 24 days of September to trade around AUc 1,234/kg, or 16% below the five-year average. There was price movement variation within the micron ranges month-on-month, with the 17-micron category declining 0.7%, 18 microns rising 1%, and 19 microns up 0.9%. For 25 microns, prices declined 1.7%, while prices for 30 microns rose a notable 1.6%.

Australian wool exports totalled 26.1m kg in July. This is 1m kgs lower than June's depressed levels. On a year-on-year basis, the decline is 14%, or down 4.4m kg. Month-on-month increases in exports to Italy, Bulgaria, and Czechia were not enough to offset a 6.5% decline in volumes heading to China. In Australian dollar terms, July exports totaled AUD 226.2m, up AUD 3.95m MOM. 19 micron or below trade was down by 4.5% MOM, while trade within the 20-to-23-micron range was up 2.4% MOM. We also saw a big month-on-month decline in the 28+ micron trade with volumes down by 23.3%.

In terms of price direction, Chinese demand will clearly be one of the key drivers, but the picture remains unclear. Despite recent monetary easing in China (in the form of lowering minimum cash reserve requirements for banks, alongside cutting interest rates on existing mortgages), **there are concerns that consumer demand will struggle to pick back up anytime soon – which ultimately isn't good news for the textile industry.** Cotton did get a boost this month, which can partially be attributed to the US Federal Reserve's decision to cut interest rates by 50 basis points. However, because the wool market is underpinned by the Chinese economy (as opposed to the wider economy), we didn't see much of a reaction in wool prices.

What to watch:

- **Prices pushed modestly off their lows from last month, but questions about demand remain** – We don't expect to see significant upside in the short or medium term given Chinese economic weakness and low consumer confidence there. The latest two months of export data (June and July) showed pronounced weakness in Chinese trade. The market will be assessing whether a recovery can be made in the coming months, despite macroeconomic weakness.

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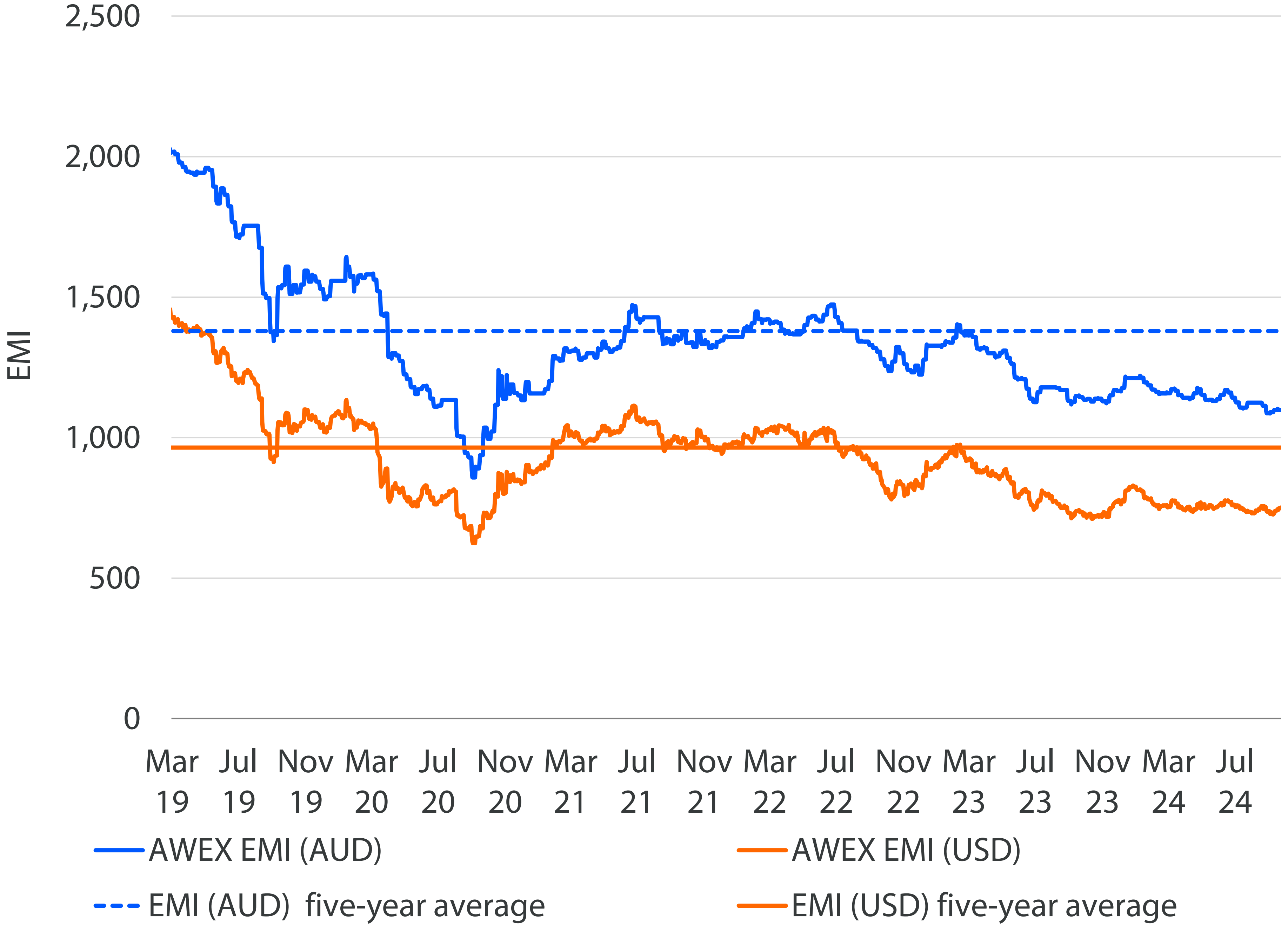
Wool

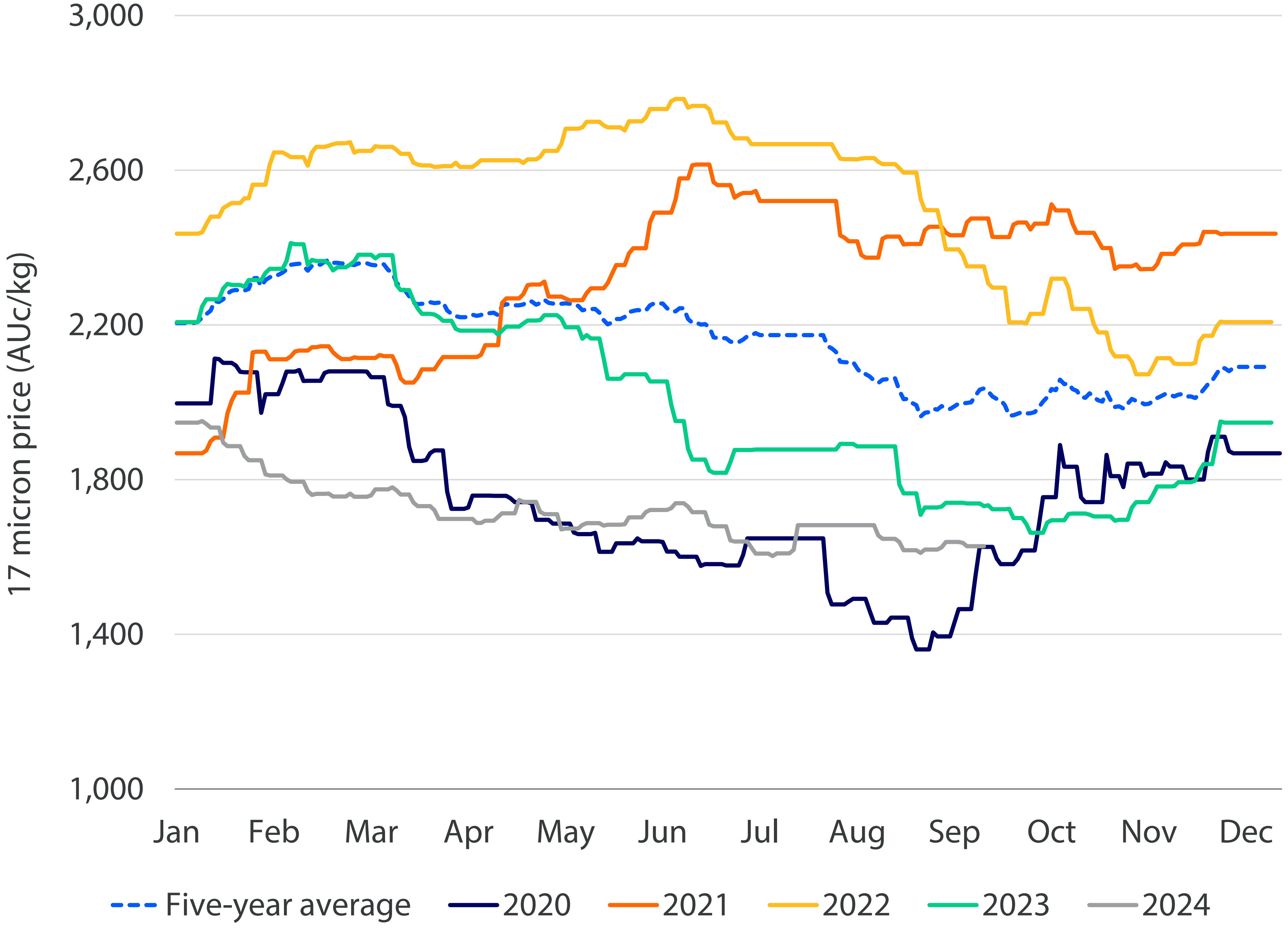
Month-on-month variability in terms of finer micron prices, with 17 down, but 18 and 19 up

EMI drifts slightly lower

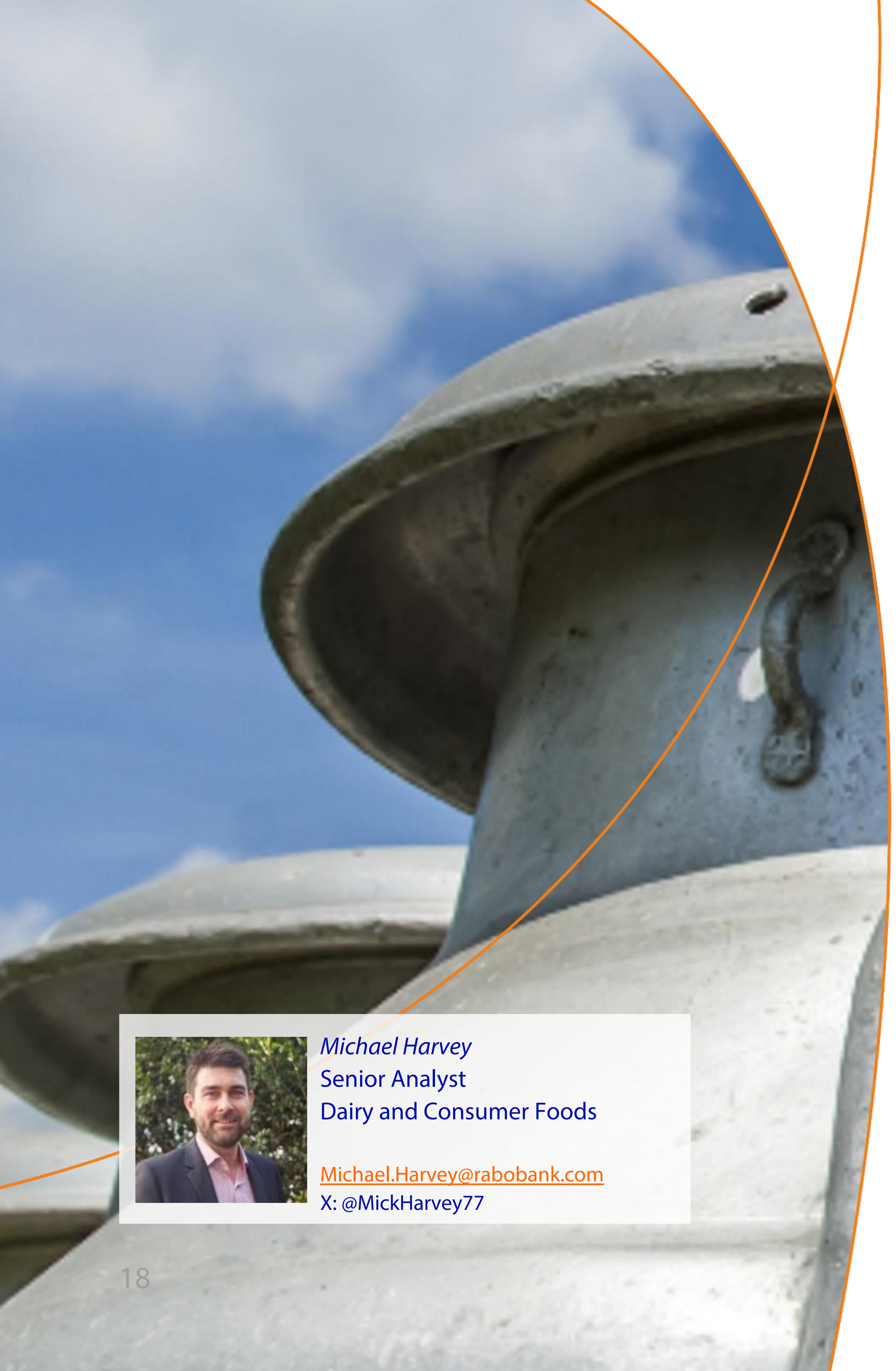


Source: Bloomberg, RaboResearch 2024

17 micron prices declined in September



Source: Bloomberg, RaboResearch 2024



Dairy

A positive lift in commodity prices

The 2024/25 production season is formally underway. For the month of July, milk production was 1.6% higher YOY. It was a mixed bag in terms of growth across the states.

Production was higher in New South Wales and Victoria but marginally lower in South Australia and Western Australia. Poor seasonal condition took a heavy toll on milk flows in Tasmania at the start of the season.

The drinking milk market increased marginally in 2023/24. Total drinking milk consumption rose 0.7% YOY, reaching 2.383bn litres, driven by growth in full cream milk.

The Australian export sector had a solid season in 2023/24. For the full season, Australia exported 705,000 tonnes of dairy products. This was 1% higher YOY. Cheese export volumes were buoyant, as were SMP and butter trade. Soft demand in China saw a 24% drop in Australia's liquid milk exports.

The value of trade was lower, despite higher volumes, as exporters confronted softer commodity prices. In total, dairy trade reached AUD 3.6bn (-1.9% YOY)

September was a positive month in Oceania for spot commodity prices, with gains across the basket of products (excluding butter) in US dollar terms. The Oceania spot butter price has fallen from the high-water mark reached in June but remains above the five-year average. Global market fundamentals remain well balanced.

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.

The latest monthly CPI data showed further deflation across Australian supermarket dairy aisles. For a second consecutive month, monthly dairy deflation came in at -0.2%, led by lower cheese retail prices. Local consumer are still paying more for the main dairy products than they were two years ago, but they are at least enjoying some relief.

What to watch:

Upside – EU milk production

- Eyes remain on the EU in terms of milk production. A blue tongue outbreak is creating some uncertainty around potential milk production losses, and weather risks also linger in the background, which could dent milk volumes.

Downside – Sluggish foodservice foot traffic

- In many economies around the world, the performance of foodservice channels is sluggish as consumers cope with cost-of-living pressures. This is driving foot traffic lower and could have a negative impact on dairy demand for products like cheese.

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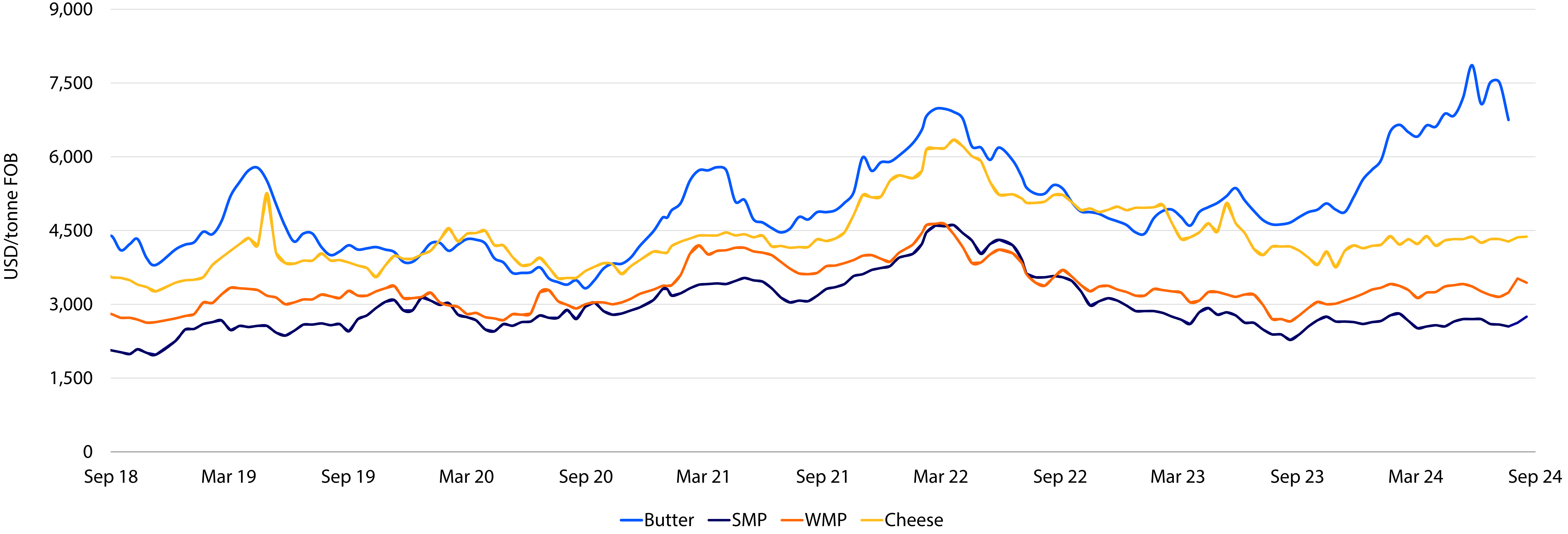
Dairy

Further dairy deflation for Australian consumers

Oceania spot prices for dairy commodities



Source: *USDA, RaboResearch 2024*

Cotton

Positive price action for cotton

After many months of price weakness, we are finally seeing some positive price action for cotton futures. ICE #2 Cotton Dec 2024 futures have risen 5.7% MOM (as of 2 October) and are now trading at around USc 73.2/lb. This has helped push Australian cash prices up from their lows with prices now hovering around AUD 585/bale.

For the last few months, RaboResearch had been highlighting the mammoth net short position funds have been holding on ICE Cotton futures. We noted that this level of positioning leaves the market susceptible to short covering, which would subsequently push prices higher. The latest five weeks of Commodity Futures Trading Commission data showed funds cut their net short position by an enormous 34,300 lots. What triggered this? Alterations to the macroeconomic picture and global supply and demand outlook likely explain the switch in sentiment.

In the US, the USDA has shaved 2.5m bales off its July estimate for the 2024/25 crop, and now expects production to come in at 14.5m bales amid recent heat and dryness, which have impacted the crops' condition. There is now concern regarding what impact Hurricane Francine will have on the crop given harvest is now underway. The macroeconomic picture has also played a role in recent price action. The US Federal Reserve's 50-basis-point cut also likely had an impact on prices. As the cost of holding inventory reduces, it could ultimately have a positive effect on demand. Meanwhile, the declining US dollar (-4.9% over the past three months) has likely also played a role in supporting futures prices.

In terms of Australian trade, the latest export data showed July was a strong month for exports, with 796,000 bales exported. This puts exports 9% behind the pace of last season, but 54% above the five-year average. Recent AUD strength may prove a headwind going forward. Given that we expect the AUDUSD cross to rise to USc 0.72 on a 12-month view, remaining competitive with Brazil and the US will be a challenge.

What to watch:

- **Fund activity on ICE #2 Cotton futures.** We've seen a clear change in speculative sentiment in recent weeks, which is likely a consequence of recent adverse US weather alongside an improving macro-outlook. We don't expect to see huge upside from current levels, but if the US outlook continues to deteriorate, we could see prices push modestly higher as funds continue to cover their shorts.

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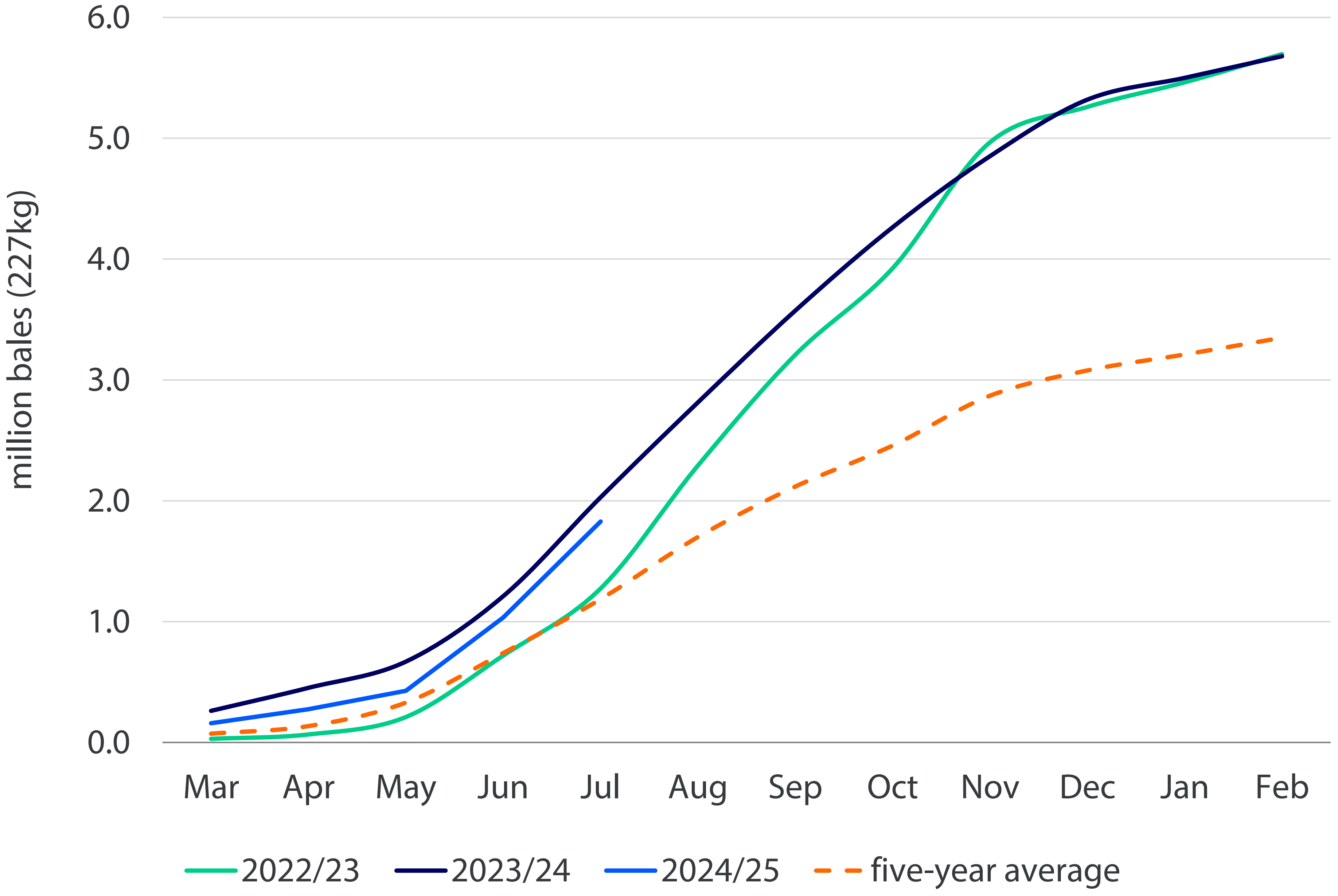
Cotton

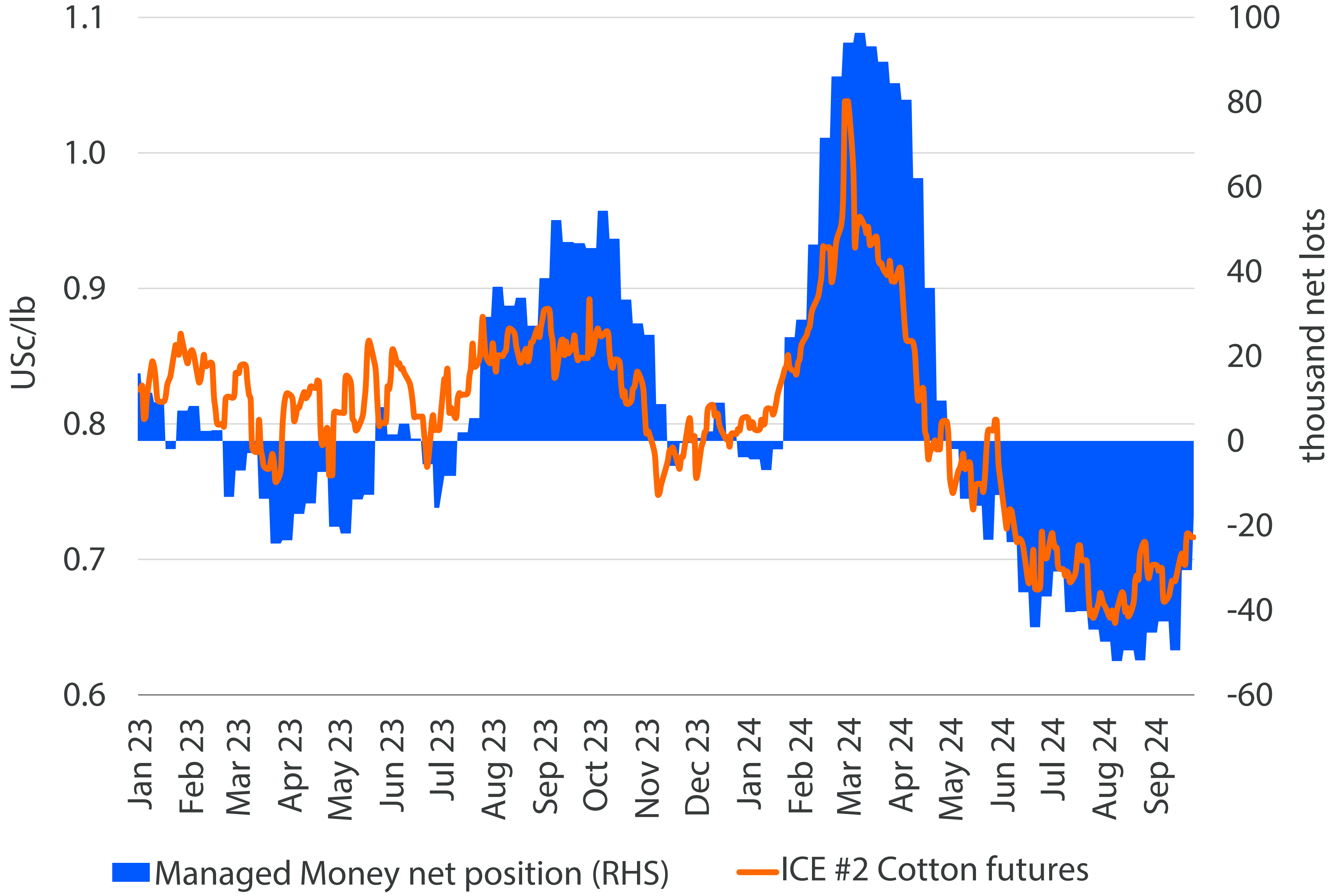
Funds have retraced from their record net short position on ICE #2 Cotton as the global outlook shifts

Australian cotton exports are marginally behind the very strong pace of last year



Source: *ABS, RaboResearch 2024*

Managed Money purchased over 34,000 net lots over the past five CFTC weeks



Source: *CFTC, Bloomberg, RaboResearch 2024*

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Consumer foods

A population boost for the consumer market

The Australian Bureau of Statistics (ABS) monthly release of CPI data showed a further moderation in food and beverage inflation. For the month of August, food and beverage inflation was 3.4% higher YOY. This compared to the 3.8% YOY growth recorded in July. There was a slowdown in all categories except fresh produce, which is cycling weak prior-year comparables.

A growing population continues to provide volume support to the Australian food market. The latest population data from the ABS showed Australia's population surpassed 27m as of March 2024.

In a 12-month period ending in March 2024, the annual increase reached 2.3% equating to 615,300 people. Population growth in Western Australia, Victoria, and Queensland led the charge with annual rates of growth of 3.1%, 2.7%, and 2.0%, respectively. Tasmania saw the lowest growth, at 0.4%.

A recent RaboResearch report warns that the worst is yet to come when it comes to soaring chocolate prices. Cocoa commodity prices remain at elevated levels due to a global cocoa shortage, and the massive cost hikes are pressuring chocolate producers.

Significantly higher chocolate prices are likely to hit shelves over the coming months and into 2025.

Australian consumer confidence levels remain weak. The most recent read from the ANZ-Roy Morgan Consumer Confidence rating showed that the index has now been below the 85 mark for a record 85 straight weeks.

What to watch:

- **A cooling housing market –** According to CoreLogic's latest housing market update, the pace of growth in Australia's house price index was just 0.5% in July. While this marked 19 consecutive quarters of rising values, the rate of growth has slowed. A cooling housing market will have the potential for a negative wealth effect for homeowners, only adding to the sluggish consumer confidence levels.

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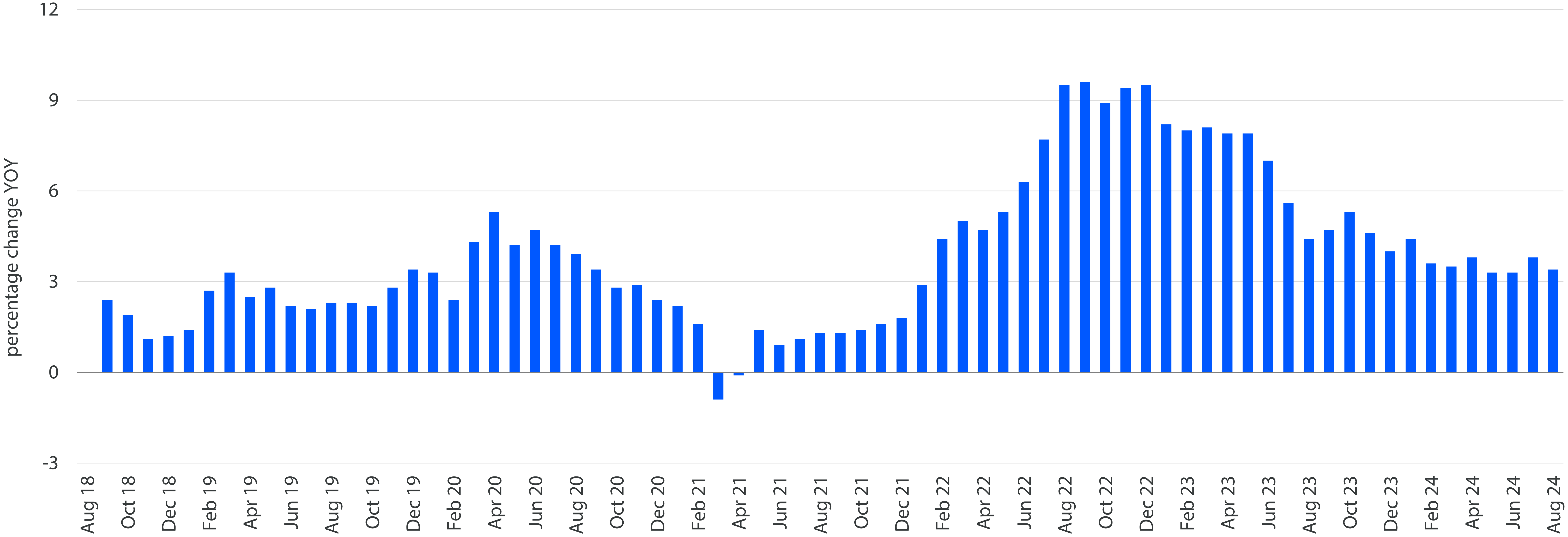
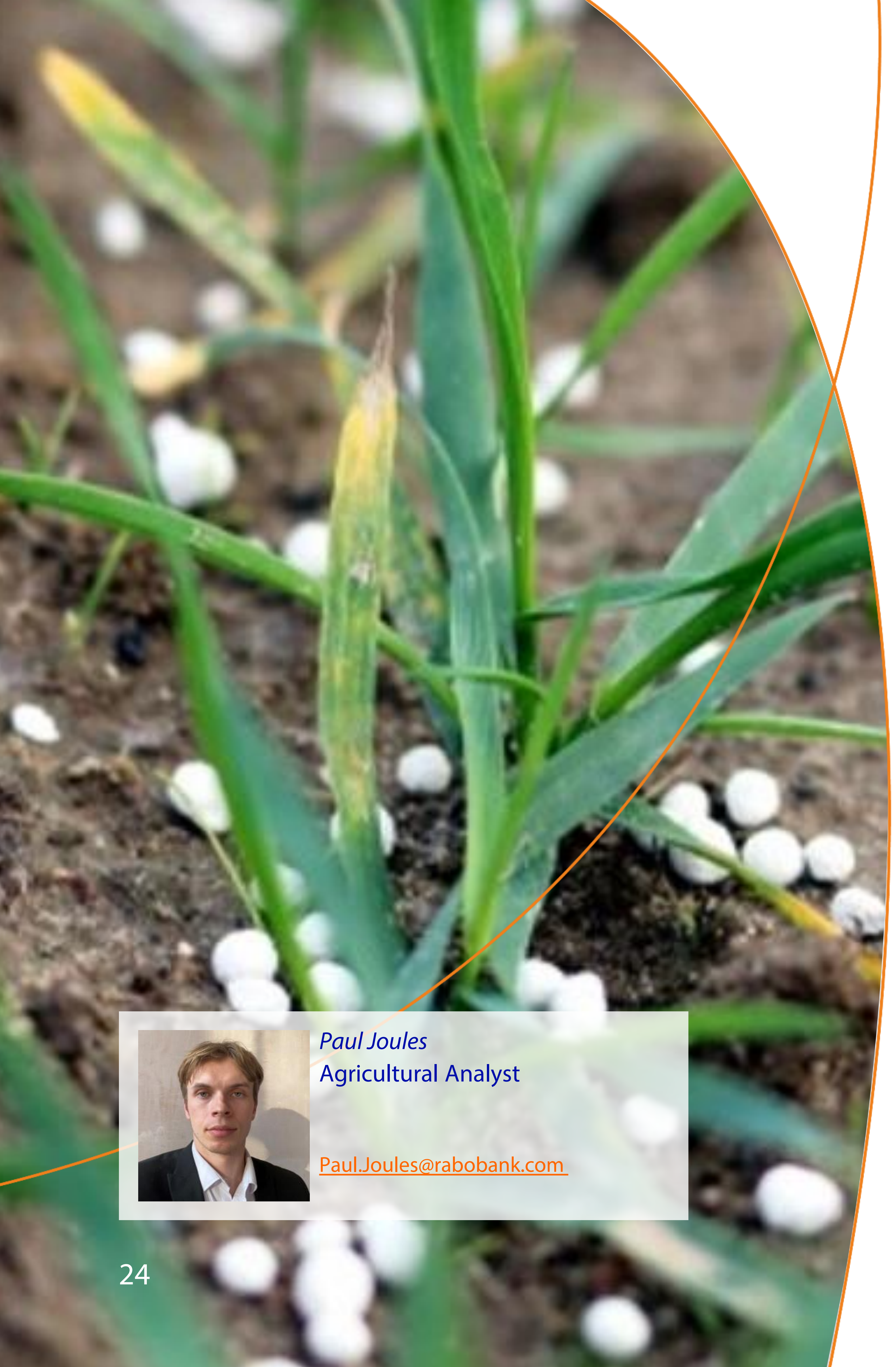
Consumer foods

Moderate slowdown in monthly food inflation

Monthly food and beverage inflation, percentage change from corresponding month of previous year



Source: *ABS, RaboResearch 2024*



Farm inputs

Urea prices push higher amid India's urea tender

Urea prices rose 6.5% from late August to AUD 481/tonne (as of 26 September). We previously highlighted the risk that India could come back to the market and push prices higher, and its recent surprise tender did just that. Despite the uptick in demand, we don't expect to see significant upside from current levels in the short term. Other key buyers, such as Europe and Brazil, remain quiet in the market. However, demand is expected to increase, which could provide price support.

Recent supply-side issues also provided price support for urea in September. Natural gas shortages in Egypt resulted in production slumps earlier in the year, and once again the country is experiencing natural gas issues amid a drop in domestic supplies. Egypt's reliance on natural gas imports will likely continue to pose questions around urea production reliance going forward. This supports our recent six-month forecast, which calls for modestly higher prices.

The other point of note is China, as it remains absent from the export market. Although Chinese domestic prices are declining as inventories build, it remains unclear when we will see exports resume. For now, China's absence, plus the issues in Egypt and fresh demand from India, will likely limit downside. Although Brazilian imports have been fairly muted of late, there is the expectation that demand will pick up ahead of the safrinha crop planting. If demand turns out to be stronger than anticipated, then prices could continue to creep up in 2024.

DAP (phosphate) Morocco bulk FOB prices were flat, month-on-month, at AUD 896/tonne. Prices continue to remain stuck in a range above their historical average, and recent Indian purchases and limited global supplies are resulting in a tight global supply and demand outlook. Although there are limited signs of the fundamental situation improving over the next six months, expectations that the Australian dollar will strengthen should provide a small amount of price relief for farmers.

What to watch:

- **Egypt will be a key factor to keep an eye on for urea supplies** – The return of natural gas issues has spooked the market. Prices could push higher should this persist.
- **Indian and Brazilian demand are key factors to keep a close eye on –** Further surprises on the demand side will likely lead to sharp price volatility.

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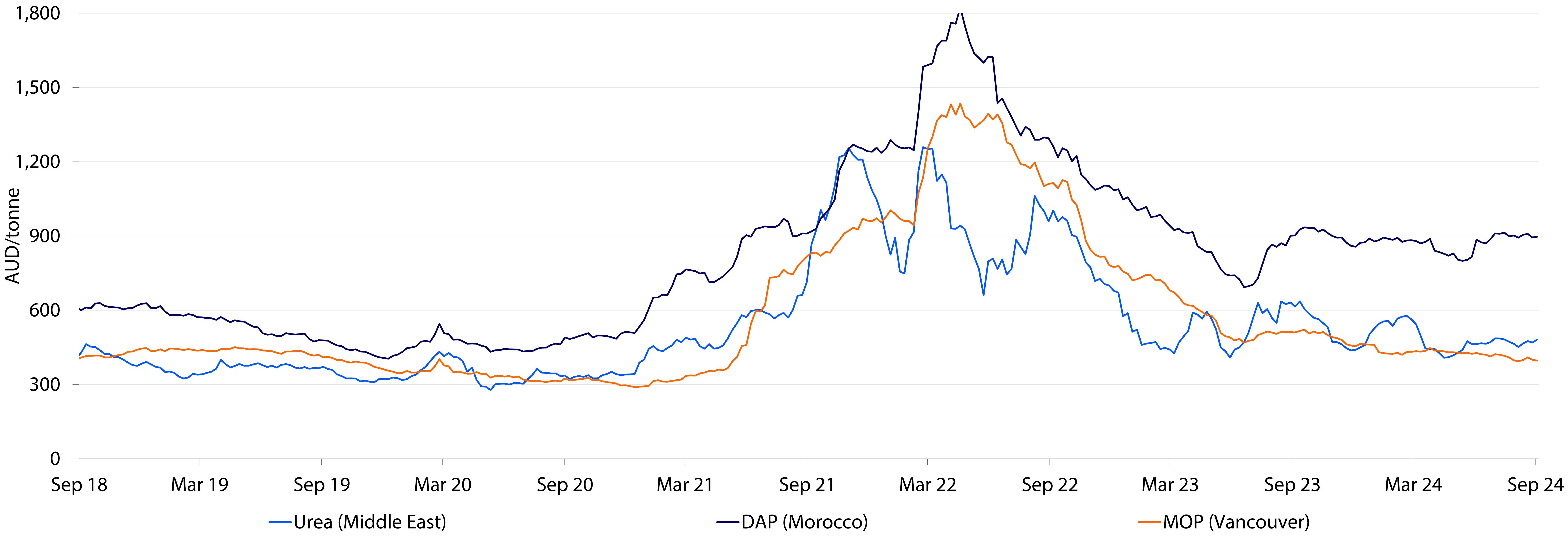
Farm inputs

No signs of price relief for urea and phosphate markets

Urea prices pushed slightly higher from late August levels following India's urea tender



Source: *CRU, RaboResearch 2024*

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Interest rate and FX

Another domino falls

The US Federal Reserve cut the Fed Funds rate by a supersized 50 basis points in September, prompting many to ask: "When is the RBA going to follow?"

Borrowers may be disappointed to hear that RBA leadership continues to communicate its expectation that it will not be able to cut the cash rate before Christmas.

In the judgement of the RBA, Australia is in a different situation than the United States because we still have overall demand running ahead of overall supply in our economy, creating persistent upward pressure on prices (especially in the services side of the economy).

That's the case despite the monthly inflation gauge for August dipping back into the 2% to 3% target range. The RBA is "looking through" this result, as lower inflation has in large part been driven by temporary government subsidies.

Australia and the US have similar unemployment rates, but the pace of hiring is much stronger in Australia and the US's greater labour market flexibility allows it to run a lower unemployment rate without generating upward pressure on prices.

The Australian dollar strengthened considerably against the US dollar over the course of September. The Australian dollar was up more than 2% on the month and is trading above USc 69 at time of writing, compared to USc 0.6542 at the end of July.

The Aussie dollar's strong run was helped along by announcements of substantial government and central bank stimulus in China towards the end of September.

The People's Bank of China cut key lending rates and the amount of capital that commercial banks are required to hold against loans. Meanwhile, the central government promised support for household consumption, the stock market, and the real estate sector.

The stimulus "bazooka" helped some commodities to reverse earlier losses and should help to support Australia's balance of trade in the months ahead.

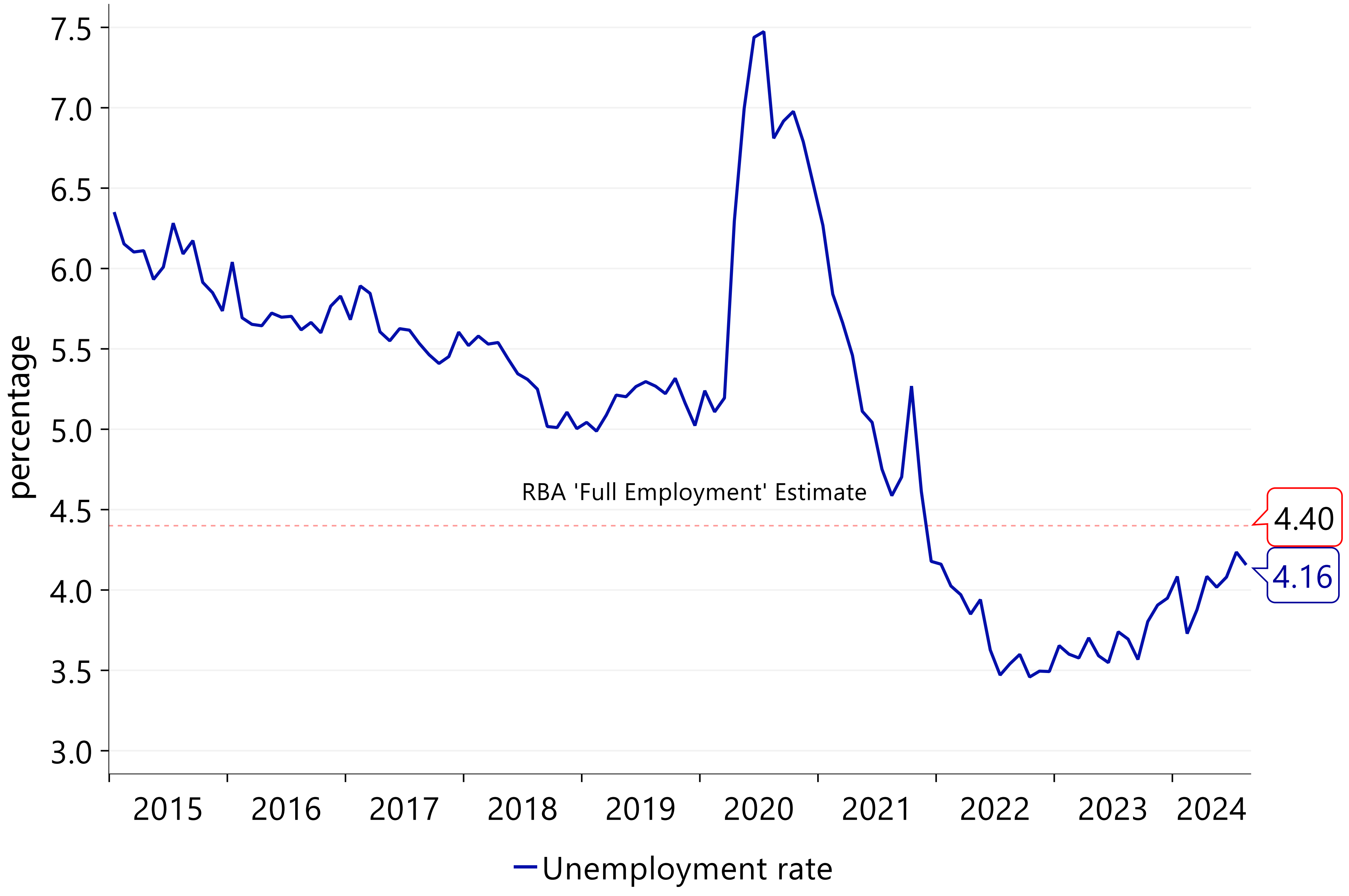
What to watch:

- **Q3 CPI Inflation Report, to be released by ABS on 30 October** – The Q3 CPI report will be very important for solidifying market expectations of the path of the RBA cash rate. Substantial falls in the headline inflation rate are expected due to the introduction of new subsidies, but we will need to see progress in services and core inflation.
- **September labour market report, to be released by ABS on 17 October** – The labour market is part of the RBA's dual mandate. Hiring has been strong to date, but a sharp drop-off in employment could be a catalyst for earlier rate cuts if it were to occur.

Interest rate and FX

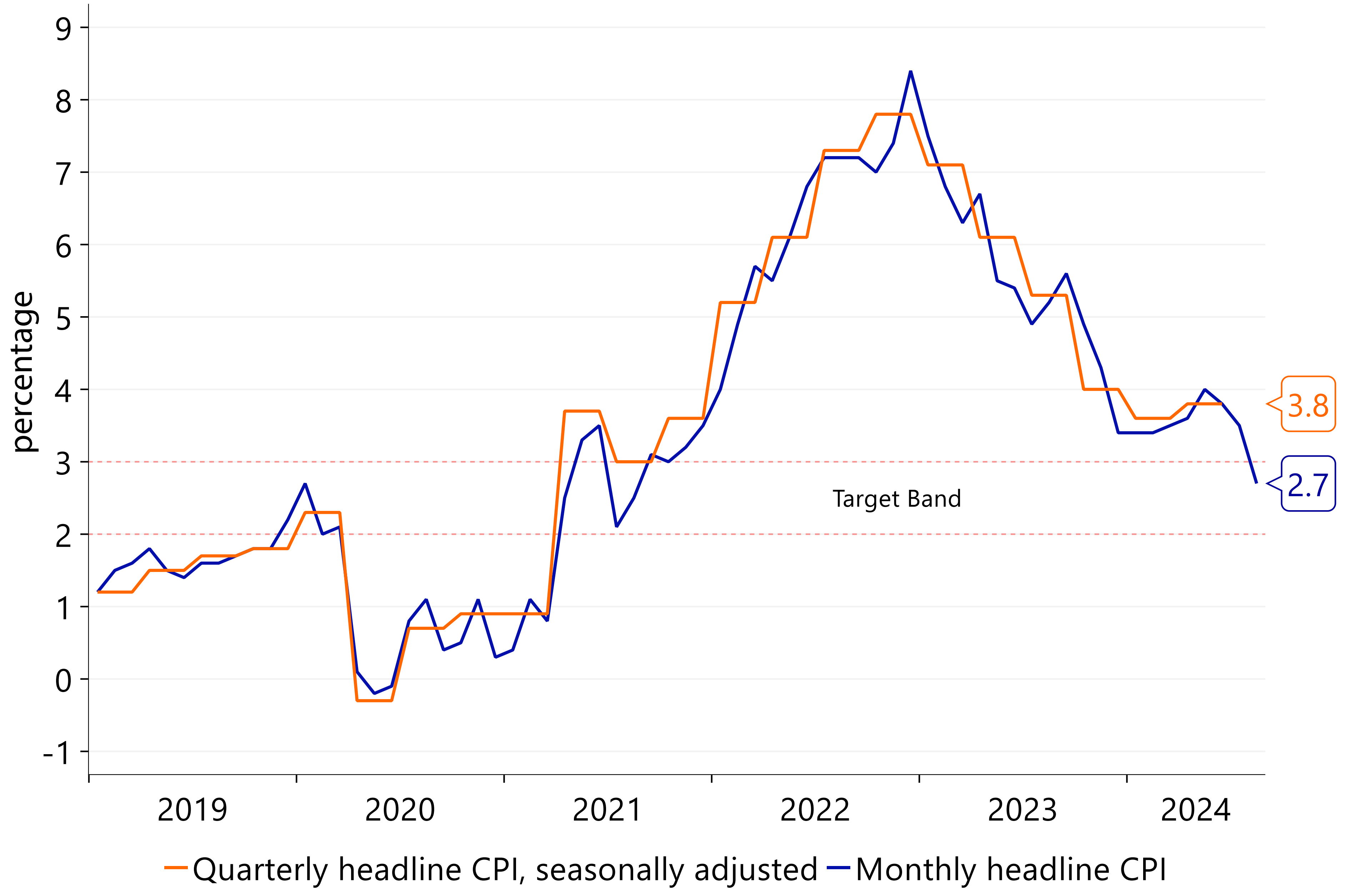
Monthly inflation dipped into the target band, but is it "sustainable"?

Australian labour force indicators, 2015-2024



Source: Macrobond, ABS, RaboResearch 2024

Australian inflation indicators, 2019-2024



Source: Macrobond, ABS, RBA, RaboResearch 2024

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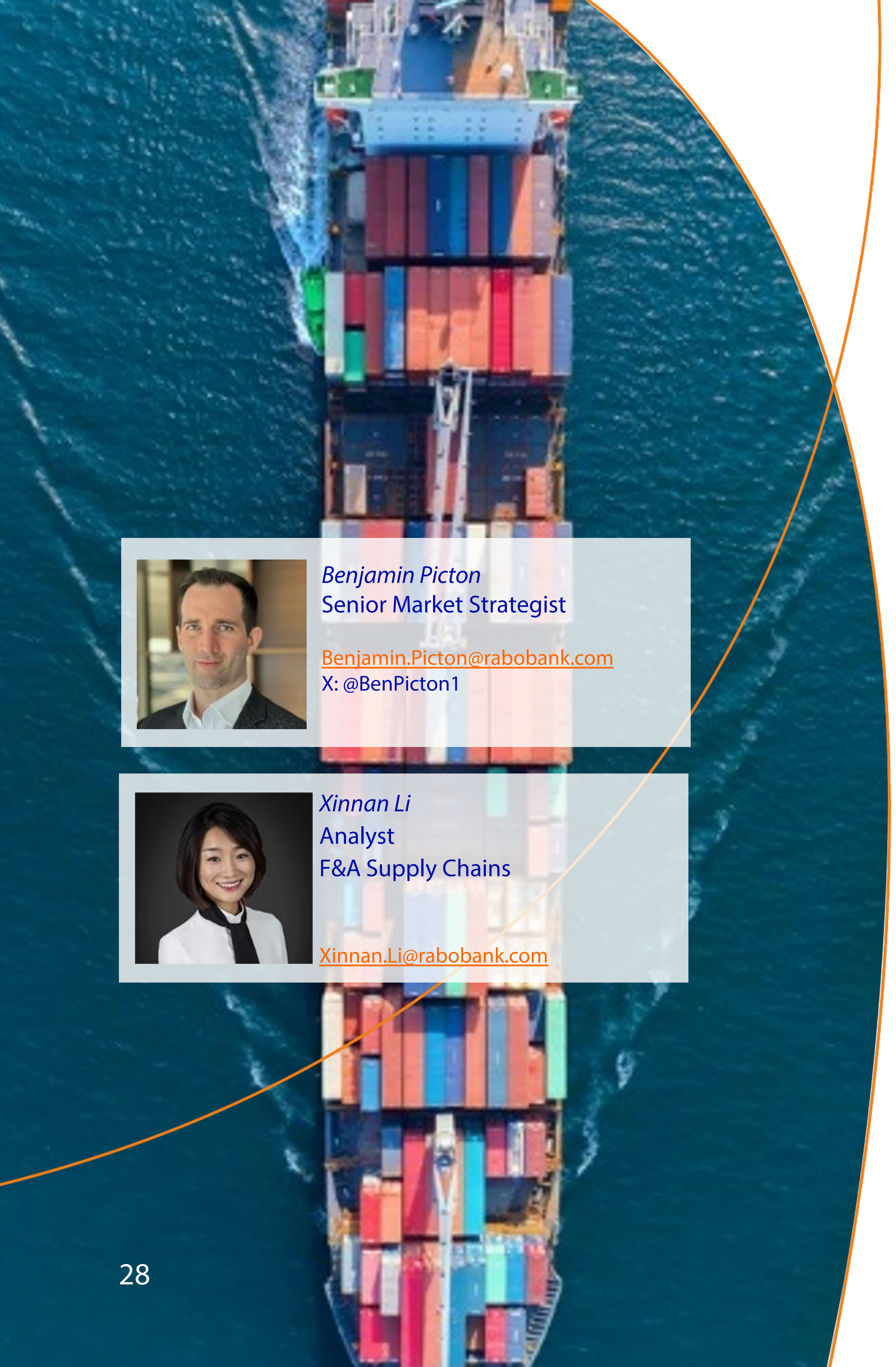

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Oil and freight

Crude markets tilting into oversupply

Benchmark Brent crude prices fell 1.7% MOM, despite an increase in the intensity of the conflict in the Middle East – which sparked a price spike on 1 October.

Prices briefly dipped below USD 69/bbl at one point before recovering most of their month-on-month losses amid recent Iranian missile strikes on Israel, which instigated a rally. Nonetheless, prices remain weaker than levels seen in August due to a burgeoning oversupply of crude oil in the market.

RR recently revised our forecasts for 2025 from a balanced market to a daily oversupply of 700,000 barrels.

Weakening demand out of the US and China has been met with strong supplies out of the US and OPEC+ members, some of whom appear to have exceeded voluntary caps on supply that will be expiring in December.

During September, Saudi Arabia abandoned its unofficial USD 100/bbl price target, suggesting that the kingdom will seek to pump more oil to regain lost market share.

Strong electric vehicle take-up in China continues to be a structurally bearish influence on oil prices. **RaboResearch expects Brent crude to average USD 71/bbl in the final quarter of 2024.**

Labour disruptions continue to impact supply chain reliability across key ports. Labour union negotiations for dockworkers at US East and Gulf Coast container terminals could seriously impact schedule reliability as we head into the holiday season. A strike is possible as early as 1 October. Shippers are looking at cargo diversion options along the West Coast, which would add additional costs and delays from congestion and additional inland transportation.

On the reefer side, while prices (on a blended contract and spot price basis) are staying deflated, equipment shortages could become imminent as we head into the peak season for shipping perishables.

The Baltic Panamax index (a proxy for grain bulk freight) seems to have stabilised over the last month around sub-2000 levels as the market lacked near-term momentum..

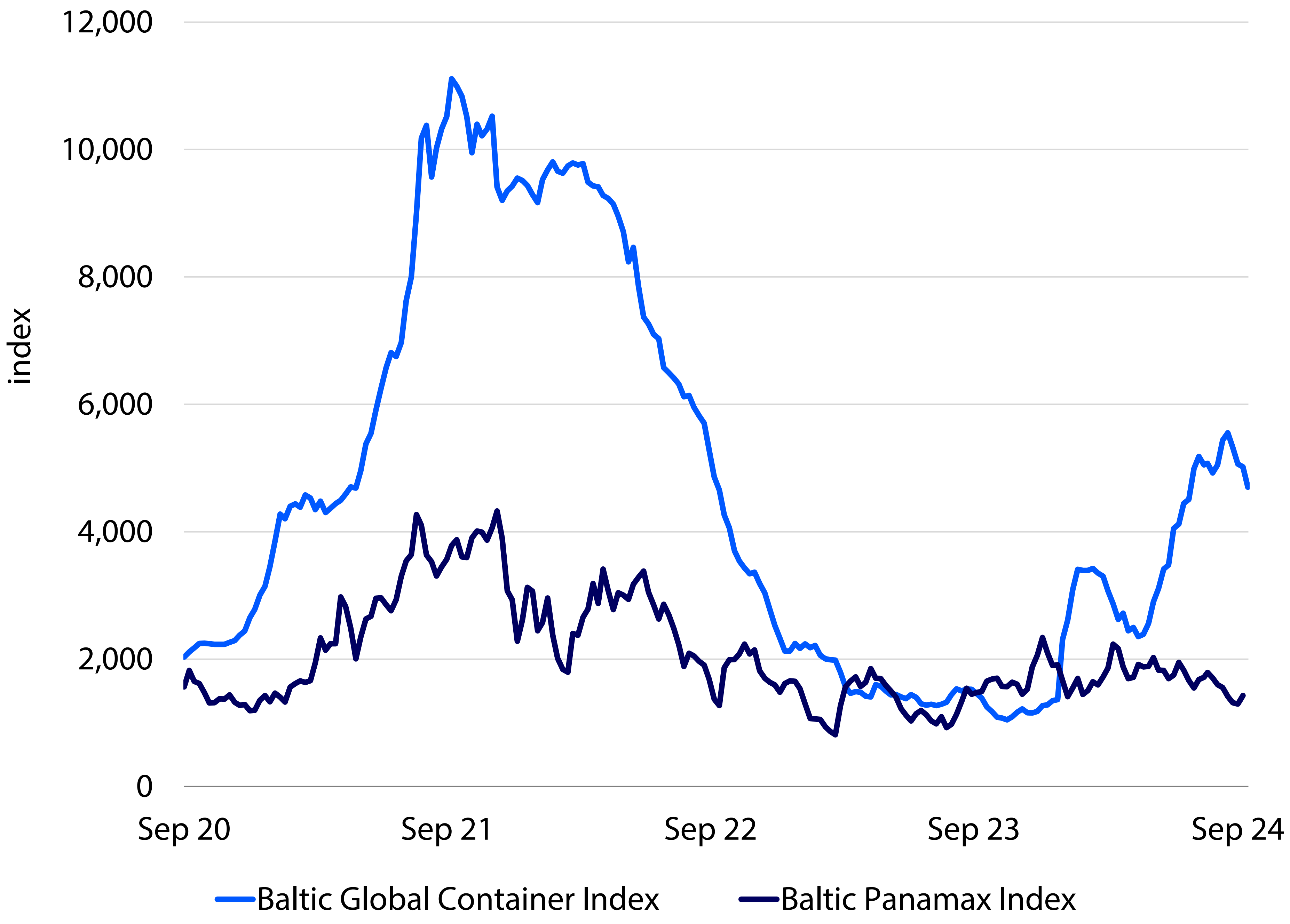
What to watch:

- **Middle East tensions** – Middle East tensions have heightened further following the assassination of Hezbollah leader Hassan Nasrallah. Energy markets have little risk premia built into pricing, so there is still potential for prices to shoot higher if energy flows out of the region are significantly impeded.
- **Chinese economic data** – The "bazooka" stimulus announced by China in September is designed to provide a boost to growth. This has the potential to pressure oil prices higher, since weak Chinese growth has been a major bearish influence.

Oil and freight

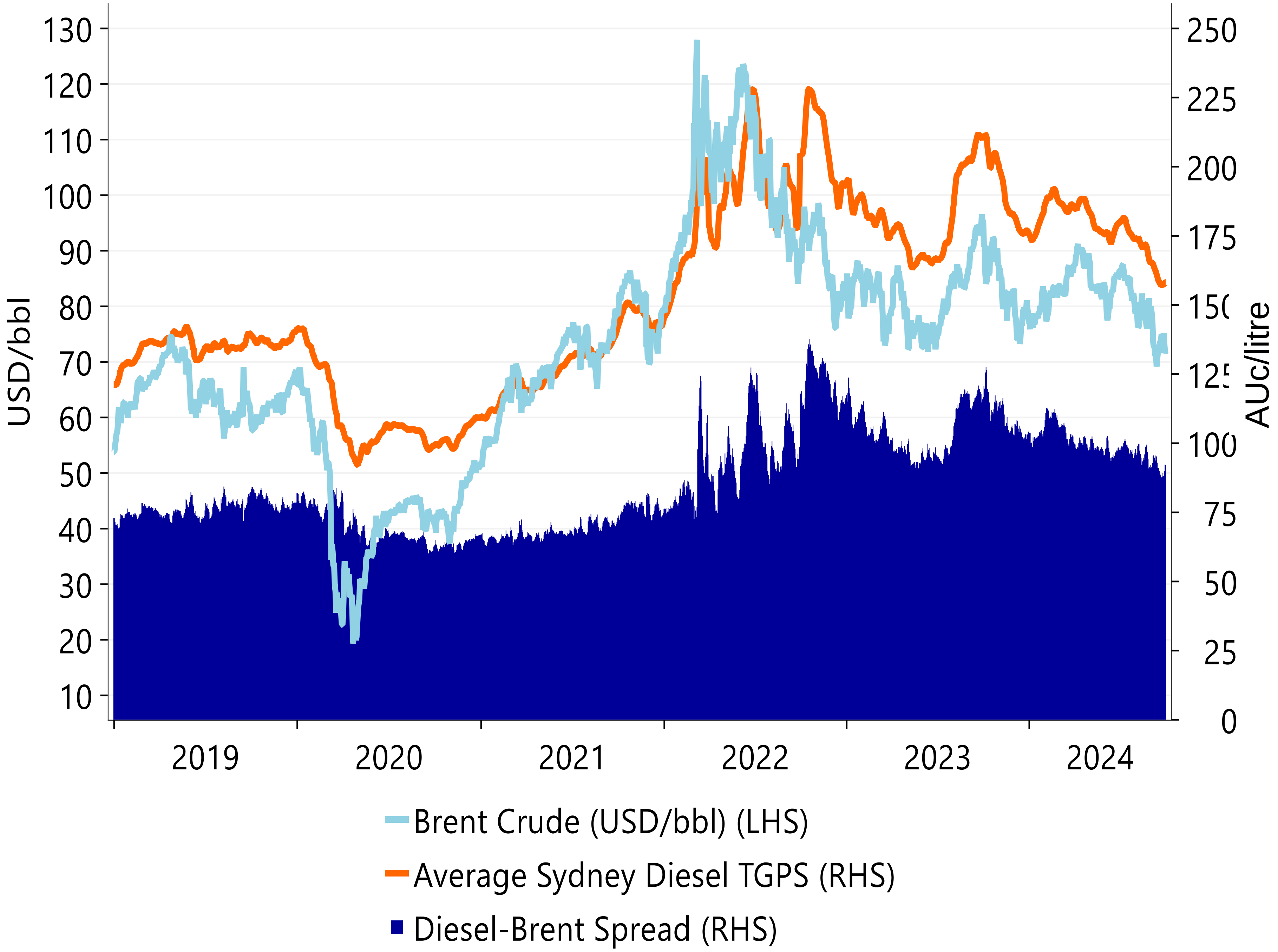
Energy prices continue to fall as the market enters oversupply

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



Source: *Baltic Exchange, Bloomberg, RaboResearch 2024*

Brent crude versus Sydney diesel prices, 2019-2024



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

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Agri price dashboard

27/09/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	580	514	542
CBOT soybean	USc/bushel	▲	1,066	959	1,275
CBOT corn	USc/bushel	▲	418	365	477
Australian ASX EC Wheat Track	AUD/tonne	▲	332	305	414
Non-GM Canola Newcastle Track	AUD/tonne	▲	710	665	675
Feed Barley F1 Geelong Track	AUD/tonne	▲	295	293	347
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	650	686	357
Feeder Steer	AUc/kg lwt	▼	369	371	240
North Island Bull 300kg	NZc/kg cwt	▲	700	685	600
South Island Bull 300kg	NZc/kg cwt	▲	645	615	555
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	810	807	437
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	780	730	710
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	815	725	690
Venison markets					
North Island Stag	NZc/kg cwt	▲	980	965	880
South Island Stag	NZc/kg cwt	▲	935	925	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,613	6,750	4,775
Skim Milk Powder	USD/tonne FOB	▲	2,750	2,550	2,388
Whole Milk Powder	USD/tonne FOB	▲	3,438	3,238	2,775
Cheddar	USD/tonne FOB	▲	4,375	4,275	4,088

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

27/09/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	84.7	81.5	99
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	73.5	68.7	87
Sugar markets					
ICE Sugar No.11	USc/lb	▲	22.8	19.5	26.3
ICE Sugar No.11 (AUD)	AUD/tonne	▲	723	645	815
Wool markets					
Australian Eastern Market Indicator	AUc/kg	•	1,087	1,087	1,135
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	353	343	383
DAP (US Gulf)	USD/tonne FOB	▲	610	550	570
Other					
Baltic Panamax Index	1000=1985	▲	1,446	1,350	1,701
Brent Crude Oil	USD/bbl	▼	72	79	95
Economics/currency					
AUD	vs. USD	▲	0.690	0.679	0.644
NZD	vs. USD	▲	0.634	0.624	0.600
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	•	5.25	5.25	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

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