Feeling under the weather

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Commodity outlooks

Climate

June rainfall was plentiful for most growing regions. ENSO remains neutral, with three global models predicting La Niña by September, which could bring additional beneficial rains later in the season.

Sustainability

The state of play around governmental approaches towards driving agricultural emissions reductions is shifting, with the Danish government announcing plans to introduce the world's first agricultural emissions tax from 2030.

Wheat and barley

Wheat prices showed a major reversal and erased all the gains made in May. The Russian late frost was not as detrimental as initially expected. Australian wheat prices followed suit, but basis has improved. There is room for global price upside as we are on track to have another global net supply deficit.

Canola

June rainfall in Canada and a recovery in the Panama Canal water levels are expected to alter the global trade for canola in the coming months. Global supply remains limited and there are positive signs that prices will be supported by year-end.

Beef

Cattle prices continue to perform well, remaining relatively steady despite ongoing large numbers of cattle in the market – particularly restocking age cattle. Prices in the US suggest there is some upside to Australian export prices, which should continue to provide support and possible lifts for finished cattle and cow prices.

Sheepmeat

Finished lamb (trade and heavy lamb) prices continue to trend up. Without any indication of strong demand improvement, we are seeing this as a possible indication that lamb supplies are starting to contract. If this is the case, then further upside to finished lamb prices can be expected.

Wool

Wool prices continue to track sideways. With an extra couple of weeks before the winter recess, sale volumes may be more moderate and therefore support prices at current levels before heading into the recess.

Dairy

Global dairy markets have never felt "butter" as the spot prices for bulk butter reached record highs in June. Tight global fundamentals are the main driver. If sustained, these prices are likely to flow through to consumer prices, leading to higher input costs for some food manufacturers.

Cotton

ICE #2 Cotton futures collapsed to 18-month lows as funds quickly exited their massive net long position over the course of April in anticipation of a strong global 2024/25 supply outlook and sluggish demand.

Consumer foods

On top of the risk of rising prices for butter and other dairy products like cream, egg limits are in place and prices are also on the rise. Suddenly breakfast is potentially looking more expensive. Perhaps smashed avocado is a very affordable and nutritious option.

Farm inputs

China export restrictions, Houthi shipping attacks in the Red Sea, and the procurement period in South America are expected to lift global fertiliser prices. On the other hand, the agrochemical industry is dealing with high inventory numbers that have no exit route in the short term.

Interest rate and FX

A hotter-than-expected May monthly inflation report has shocked the market into contemplating the possibility of an RBA rate hike in August. The Australian dollar picked up some ground against the US dollar in June, and we believe it will head higher in the second half of 2024.

Oil and freight

Brent crude oil rose by more than 5% in June to post the fifth monthly gain of the year. Front month Brent futures are currently trading at USD 85/bbl. Containerised freight rates continue to be pressured higher by port congestion and capacity constraints, while bulk rates are also trending higher.

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Climate

Rainfall kickstarts growing season

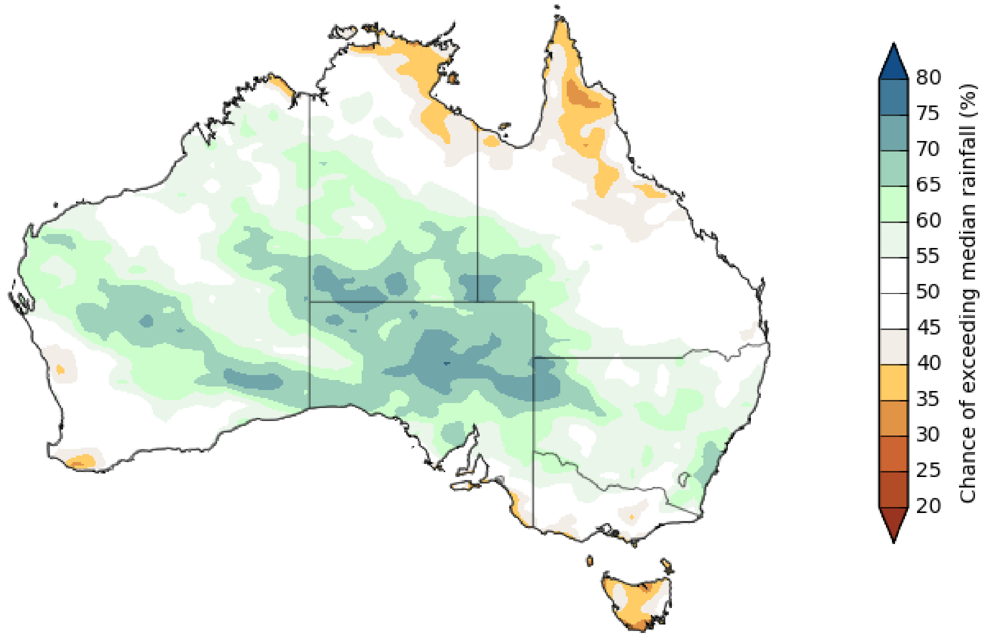
ENSO remains in neutral but there are early signs of La Niña forming later in 2024 as sea surface temperatures in the Pacific cool. Three out of seven international models are predicting a La Niña by September. Despite this, global sea surface temperatures have been the warmest on record for each month between April 2023 and May 2024. This period of unprecedented warm temperatures is impacting the reliability of model predictions.

The Indian Ocean Dipole is neutral, and most climate models expect the IOD to remain neutral during winter, though model accuracy is low at this time of year.

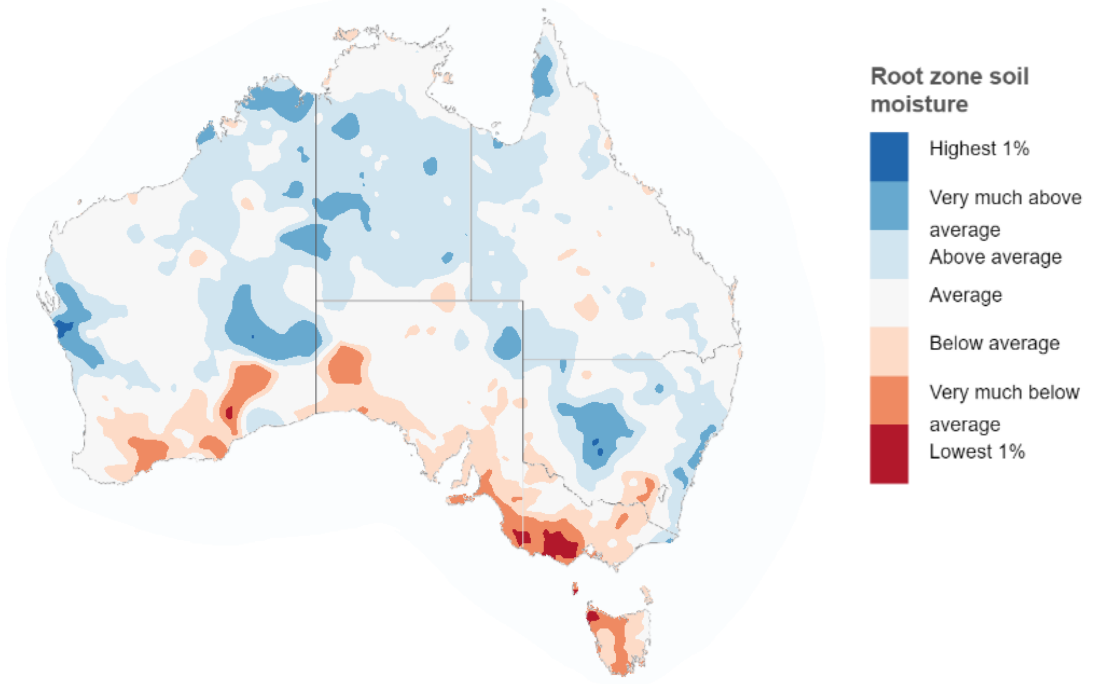
National June rainfall was 9.2% above average. Rainfall was below average for Victoria, while heavy rainfall fell on the Mid West region of Western Australia and parts of the east coast of New South Wales and Queensland.

The BOM reports that over the next three months rainfall is likely to be within the typical range for eastern, northern, and western Australia. Water storage levels have increased over the month of June and are currently at 77% for the whole Murray-Darling Basin.

July-September rainfall outlook



Relative soil moisture, June 2024

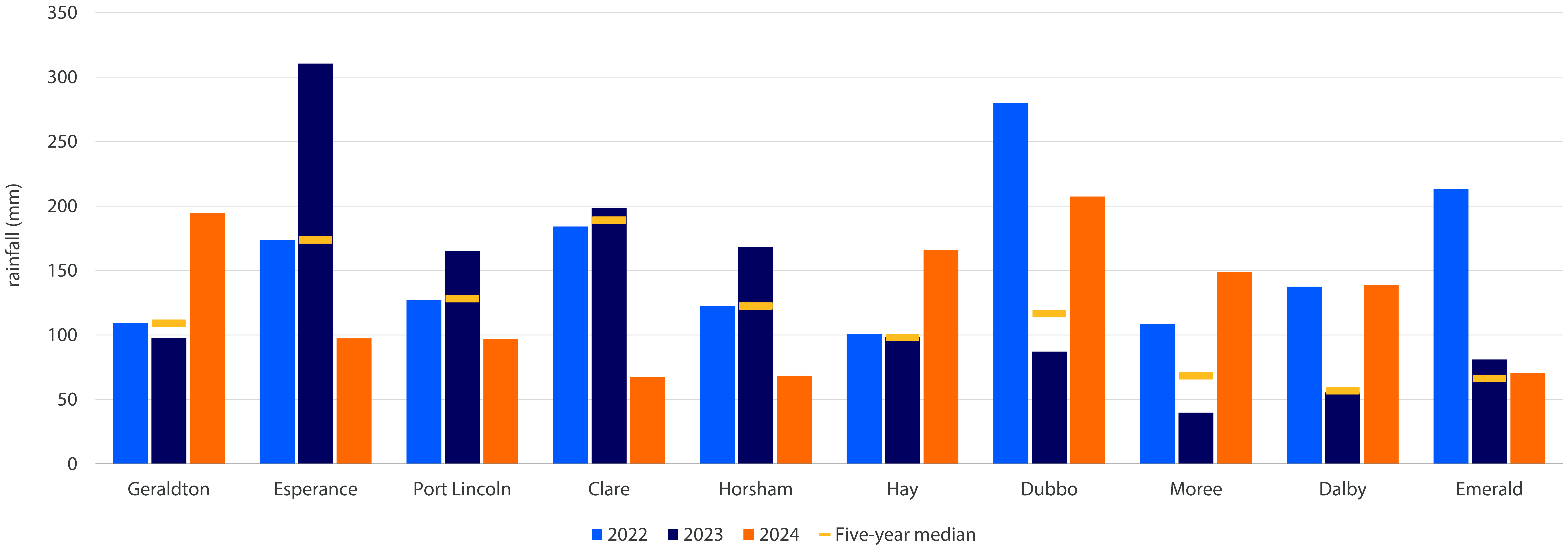


Source: BOM, Rabobank 2024

Climate

Agricultural regions' rainfall – June brings plentiful rainfall for most growing regions

April-June rainfall



Source: *BOM, Rabobank 2024*

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Sustainability

Is Denmark about to implement an agricultural emissions tax?

The Danish government has announced **plans to introduce an agricultural emissions tax from 2030.** If the tax passes parliament, Denmark will be the first country to have an agricultural emissions tax in place.

Denmark has a legislated emissions reduction target of 70% by 2030 compared to 1990 levels. This is a more rapid reduction than Australia's target of 43% by 2030 compared to 2005 levels.

The tax will impose a cost per tonne of carbon dioxide equivalent of AUD 65 in 2030, which will increase to AUD 162 in 2035. However, it will be partially offset by a 60% income tax deduction which will bring the actual cost to AUD 26 in 2030 and AUD 65 in 2035. The agricultural sector's share of Denmark's total emissions has increased from 15.6% in 2014 to 22.4% and is forecast to reach 46% by 2030 as other sectors decarbonise.

The revenue raised from the tax will be pooled into a fund and used in 2030-31 to support the industry's transition and lower emissions, with the longer-term use of proceeds still to be determined. The agreement also plans to provide AUD 8.6bn in funding for nature restoration.

Implementing an agricultural emissions tax has proven politically challenging in other countries, with the New Zealand government recently scrapping plans to include agriculture in the country's emissions trading scheme after pushback from the industry. The NZ government has shifted towards committing funding to accelerate the commercialisation of emissions reduction technologies and research.

The move by the Danish government **signals a potential shift in the direction of policy action aimed at creating financial signals to drive agricultural emissions reductions.** It offers an example of the implementation of economic disincentives when current action is considered insufficient to meet targets.

As deadlines for medium-term emissions reduction targets approach, the nature and extent of government intervention in agricultural industries globally is evolving.

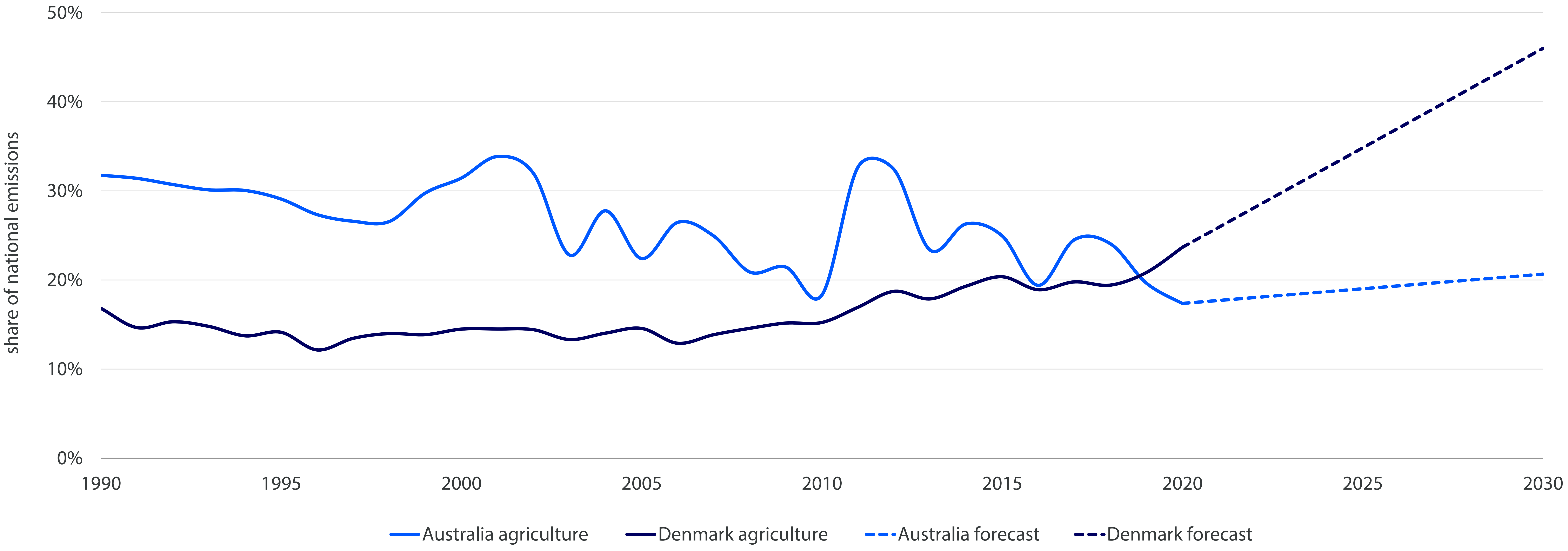
What to watch:

- **The Science Based Targets initiative's (SBTi) offsets approach** – In April the SBTi received backlash after announcing plans to expand use of offsets towards meeting scope 3 targets. This move was seen as conflicting with the group's position on offsets and potentially undermining the credibility of the scheme. A discussion paper with a draft proposal of the potential changes is expected to be released in July.

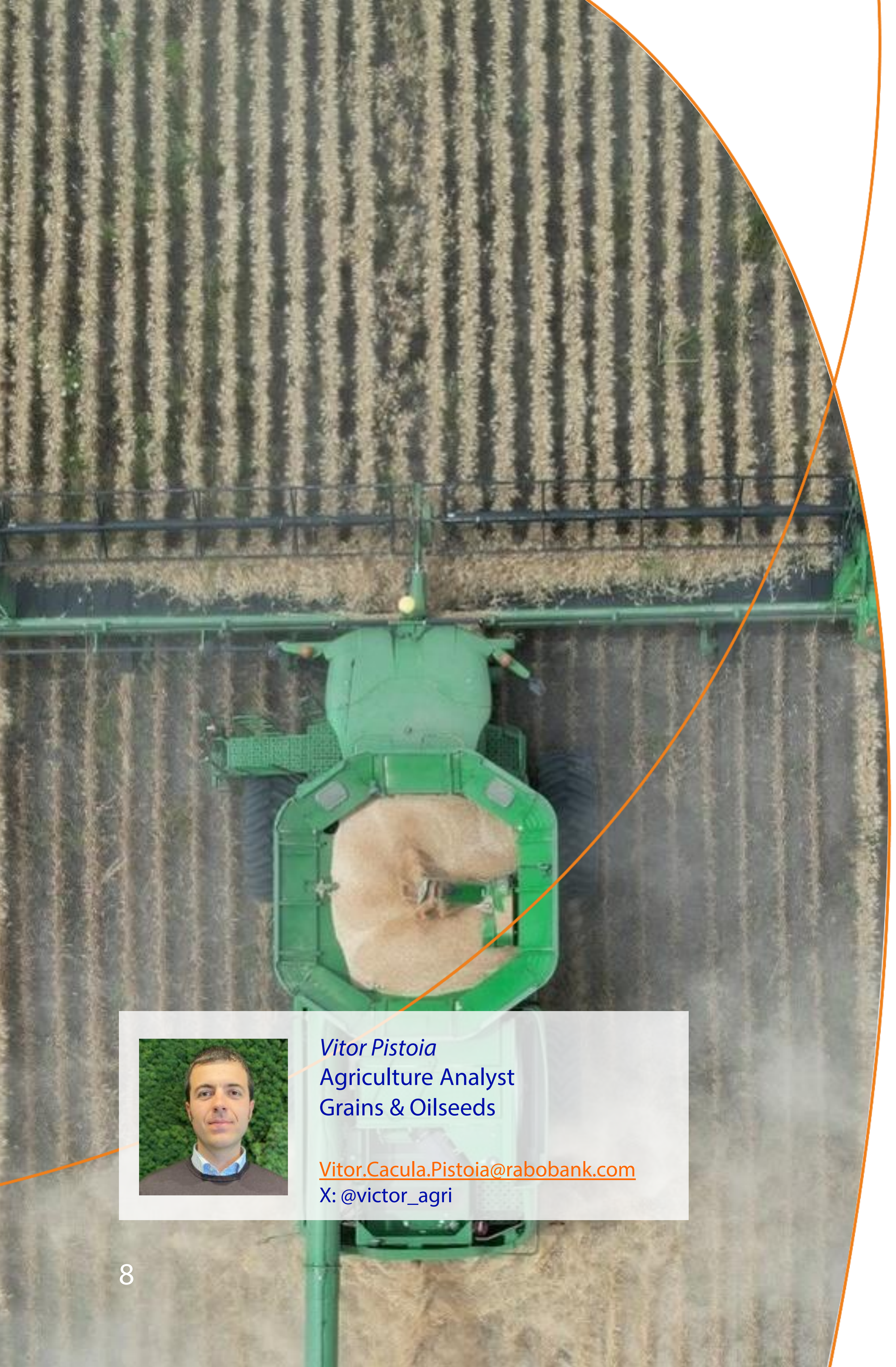
Sustainability

Agriculture's emission contribution creeps up in Denmark

The rising share of agricultural emissions



Source: *Climate Watch, Rabobank 2024*



Wheat and barley

A wild ride

During June CBOT Wheat futures lost all the gains made in May. The Dec 24 CBOT contract lost 18.6% of its value MOM, after rising 14.6% in May. In Australia, ASX Jan 25 future showed a similar trend but at lower rates: It dropped 11% in June versus a surge of 9% during April. The primary reason for such a downward correction is that yield losses due to weather in Russia are not as big as initially expected, at least for the first harvest figures released. Current forecasts are in the range of 80m to 83m tonnes, better than the worst-case scenario of around 70m tonnes. Before the region experienced dryness and late frosts, the initial forecast was 93m tonnes. **A positive change during June is that the ASX basis is now in the positive. ASX's Jan 25 basis is at AUD 18/tonne after starting the month at AUD -10/tonne.**

The market's focus is now split between the Black Sea and the US wheat harvest. The US harvest is occurring at a faster pace than usual. By the last week of June 40% of the cropped area had been threshed – in the last five years the average has been 25% for the same period. USDA forecasts yields to be 3.32 tonnes per hectare, 2.5% above the five-year average. As harvest pressure builds up in markets, it is no surprise to see depressed prices. Additionally, Canadian soil moisture has recovered from the winter drought and the May price surge boosted Argentina's cropping intentions. July will be a defining moment to consolidate Northern Hemisphere harvest expectations and grain quality, especially in the EU bloc, and provide a better understanding of Southern Hemisphere potential.

Despite all the changes in crop statuses in recent weeks, we are heading to the fifth consecutive year of net deficit in global wheat supply compared to demand. Rabobank expects a small upside correction in CBOT Wheat prices until year-end based on this. ASX basis is likely to remain positive, and future prices are expected to mirror the global market. Australia's role as an exporter following Black Sea yield issues supports this relative increase.

What to watch:

- **The American corn crop** – The US growing conditions remain outstanding for summer crops. The spring was warm with plenty of rain, even with flooding in some regions, and more is expected for early summer. Above-average yields are likely and are expected to increase US and global corn stocks year-on-year. Moving south, the Brazilian corn harvest is underway, and figures are likely to be higher than the official forecast of 114m tonnes. Wheat and corn prices have a high historical correlation and many feed millers swap between them. Late June CBOT Corn spot prices equate to AUD 221/tonne, which is AUD 114/tonne less than the Kwinana feed barley price. This lack of price competitiveness on the global market reinforces Australian feed barley's dependency on the local market.

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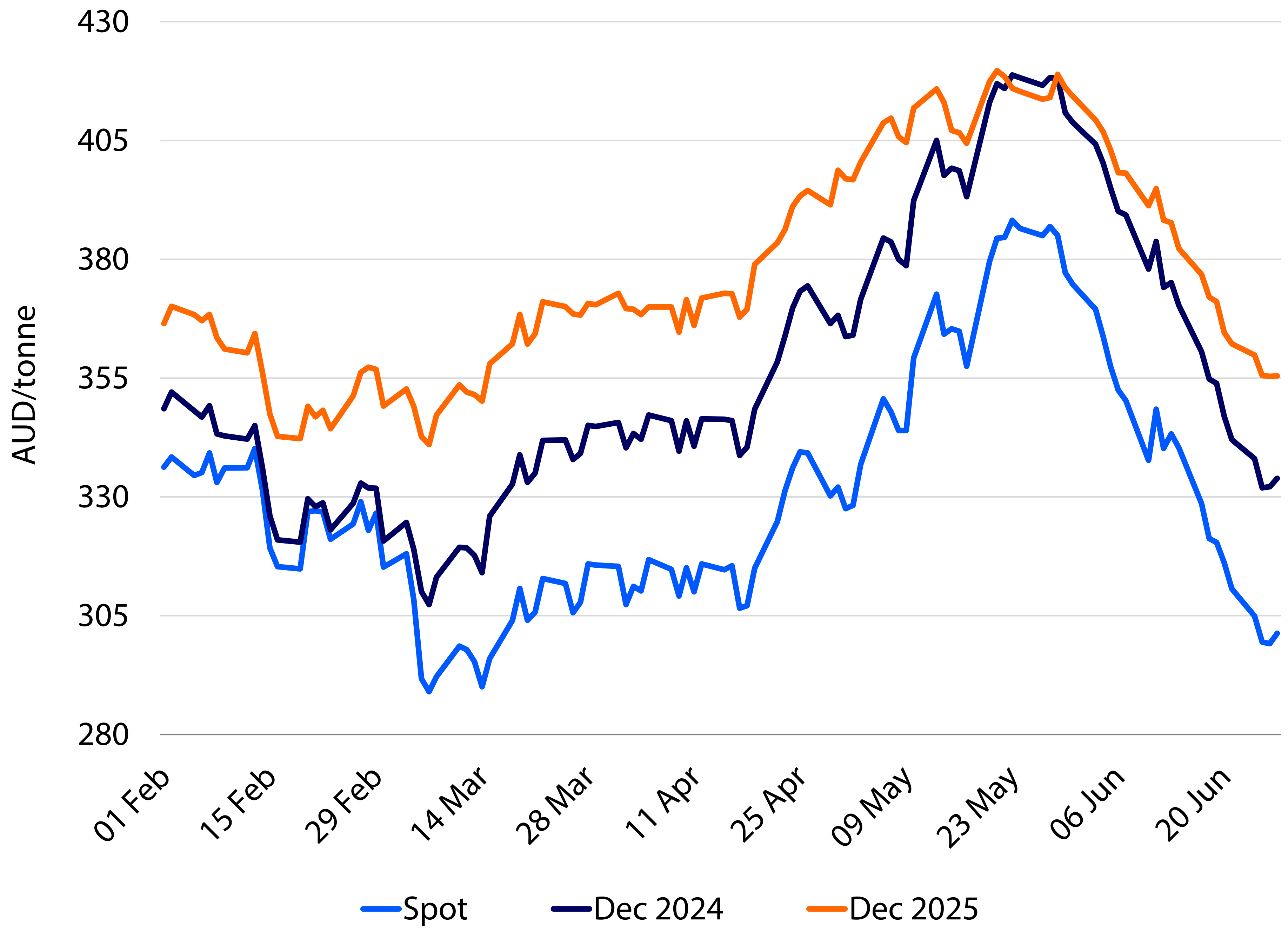
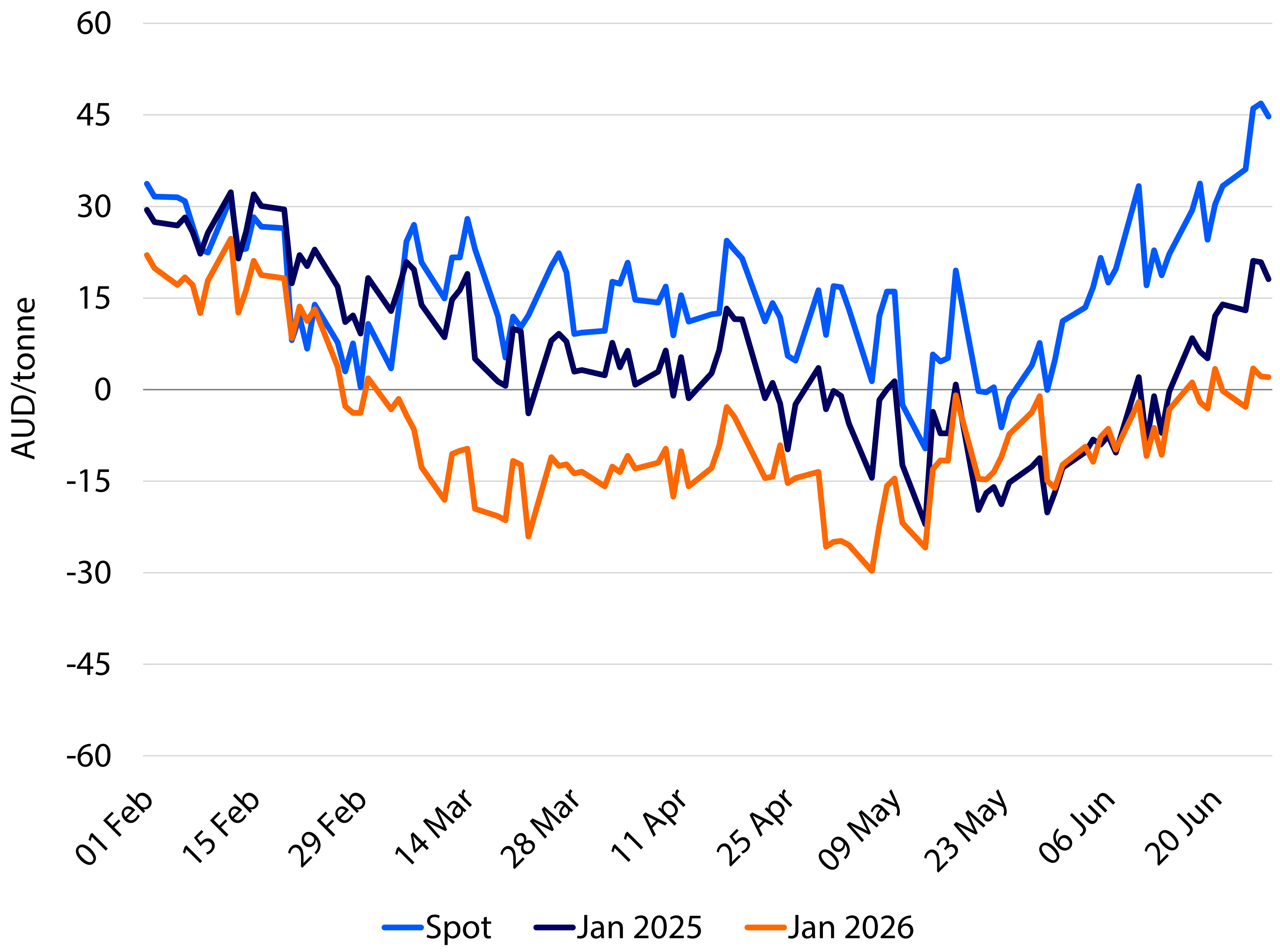
Wheat and barley

As the world keeps losing tonnes, Australian production is rewarded

CBOT Wheat prices dropped as fast as they surged



ASX basis is expected to remain positive



Source: *Bloomberg, Rabobank 2024*

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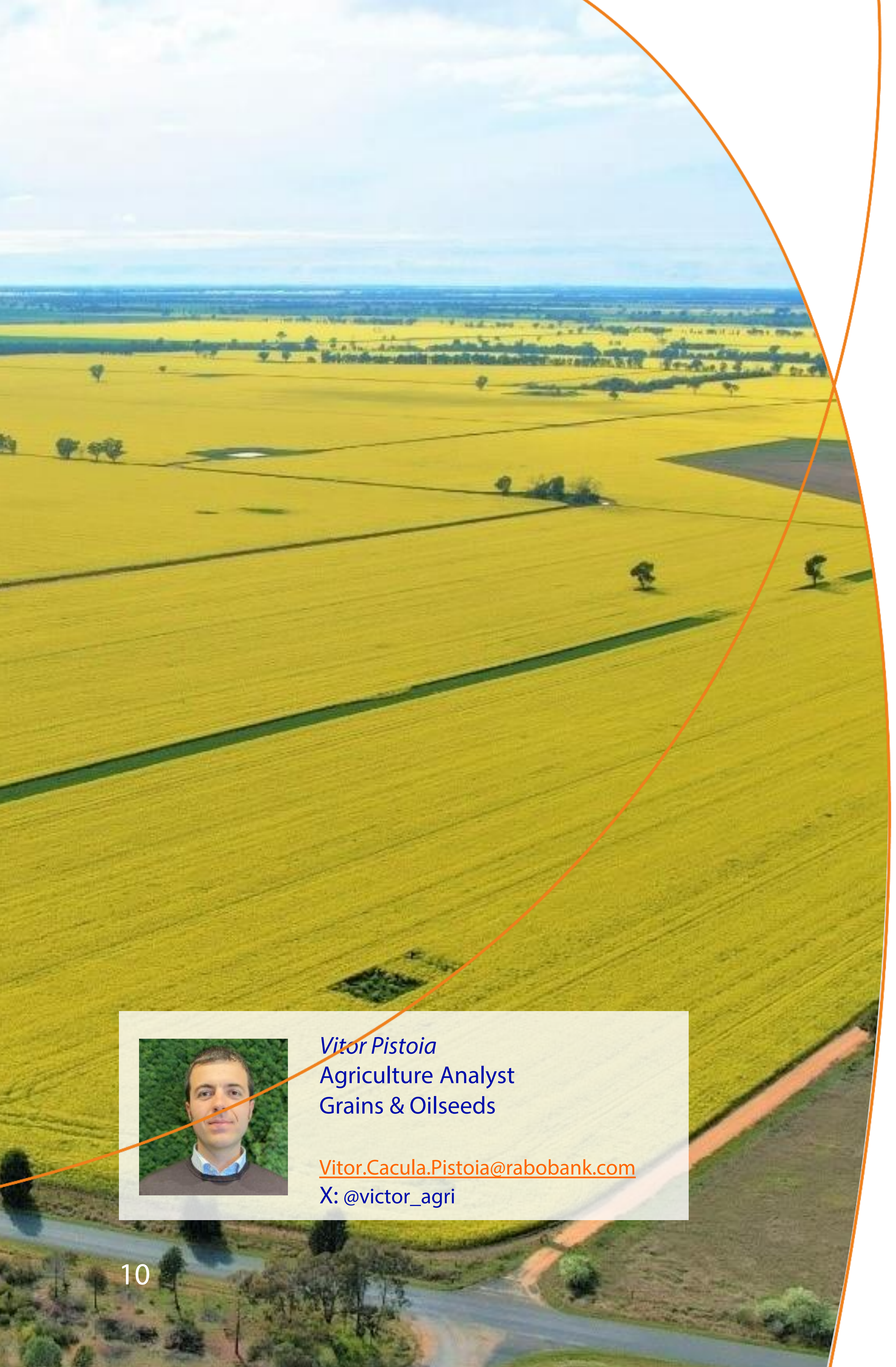

Canola

Rainfall is about to change the supply and demand balance

The dryness in Canada belongs in the past. In the last weeks of June, many regions in the Prairies registered rainfall greater than 100mm. This has fully replenished soil moisture levels and is already causing concerns about crop diseases. The oilseed market moved accordingly. **ICE spot contracts dropped 7% MOM, now at AUD 649/tonne. MATIF dropped 2% MOM to a spot value of AUD 755/tonne. The market has also reacted to the news that Canadian farmers will farm more canola this year. The official figure is now at 8.9m hectares, an increase of 2.8% from the previous forecast.** If we consider that yields are likely to be equal to the 10-year average, this would put production at 20m tonnes, 1.9m above the printed numbers a few weeks ago.

This situation is not price supportive, as Canada is already showing an increase in carryover – at an almost 1m tonne increase YOY – due to the Panama Canal's low water levels since late 2023. The restrictions in daily crossings increased the cost of using the canal, forcing Canadian canola exports to compete in the Asian oilseed markets. **But this situation is about to reverse, as the Panama Canal authority is allowing more vessels to use the canal after a recovery in water levels.** Australia can therefore expect an increase in competition to supply the EU market.

Across Europe, the spring and early summer have seen intense rainfall as well. This may put canola and sunflower yields in line with the five-year average. Thus, it is expected that the EU bloc will have to increase its imports year-on-year to meet its growing demand for vegetable oil. This is also due to the recent decision to impose 50% duties on Russia's and Belarus's oilseed imports. There is a tightness in global oilseed markets – except for soybeans – following the increasing demand for vegetable oil from the biofuels sector. **This leads us to believe there will be price support for Australian canola in the coming months, especially by harvest time in Australia when EU harvest pressure will be over.**

What to watch:

- **Black Sea canola and sunflower harvest** – Ukraine's and Russia's paddocks received up to 50mm of rainfall during June. This was too late to benefit wheat, but not the case for canola and sunflower. We may revise these crop figures up, which would put downward pressure on EU oilseed prices. The unknown element is where Russia is going to allocate the export volumes that were historically sent to the EU bloc. Russia could also self-impose a quota on its exports to reduce food inflation, which would be beneficial for Australia's exports outside the EU market.

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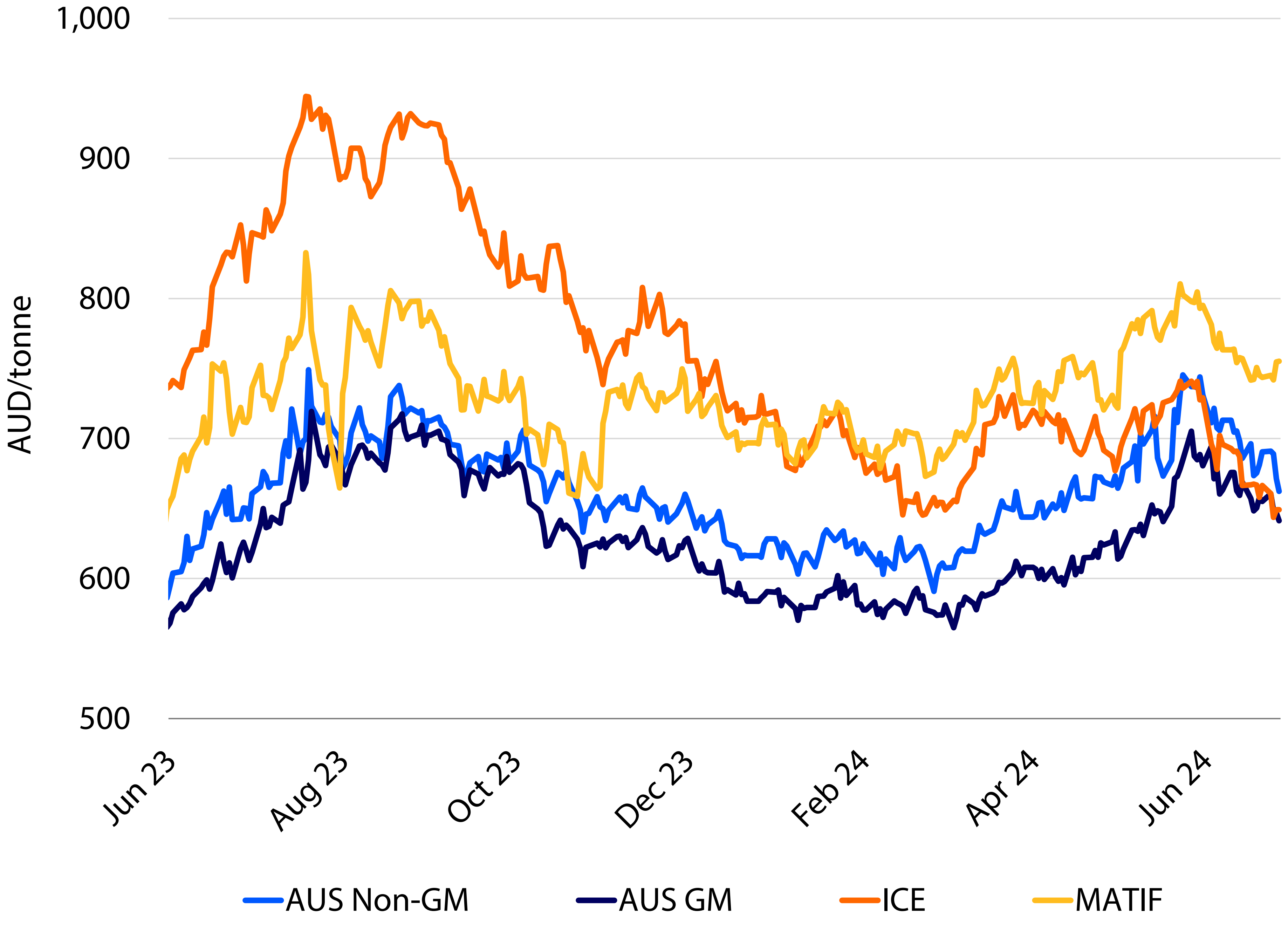
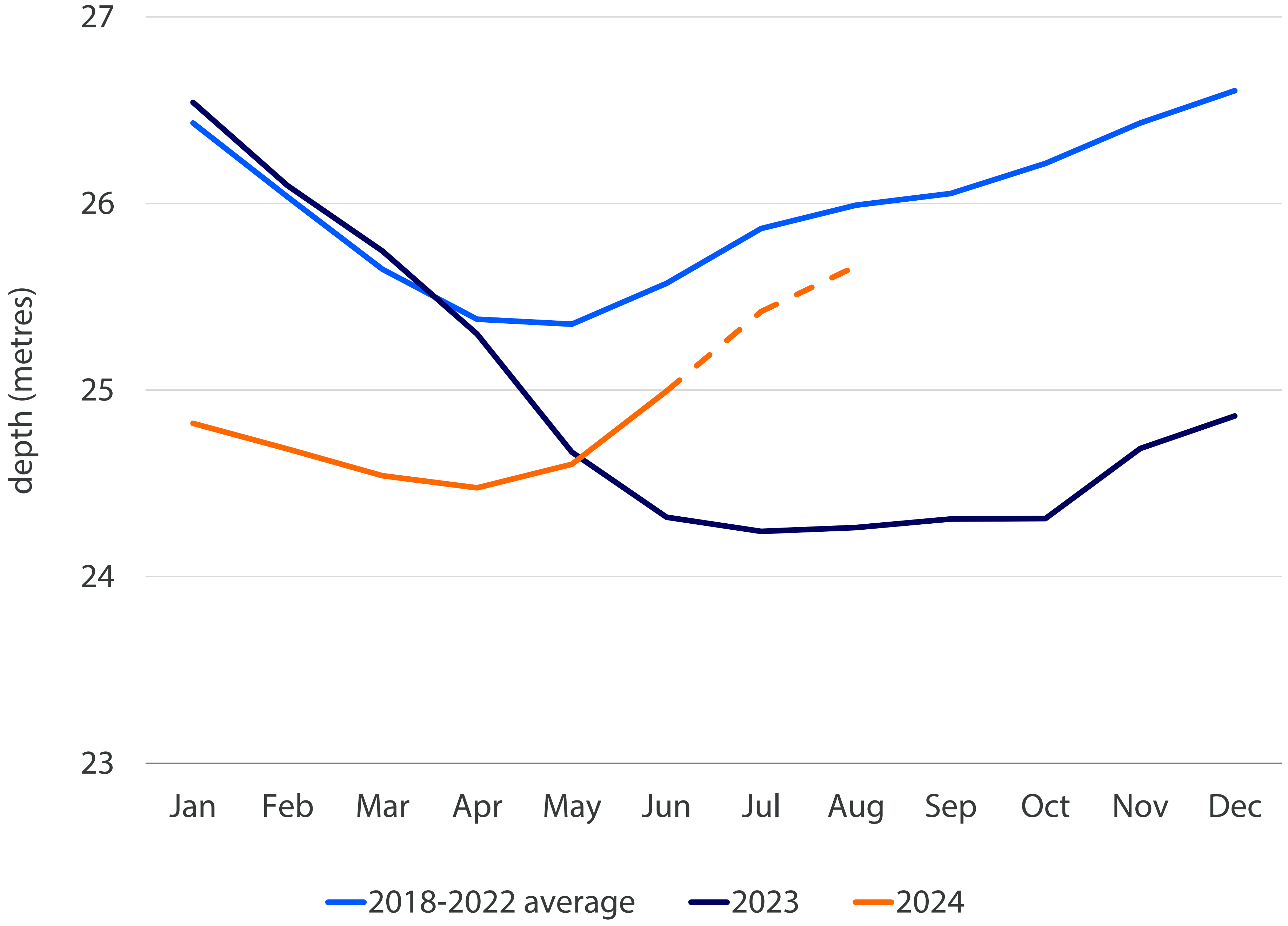
Canola

Canada is on track to regain global market share as the Panama Canal situation improves

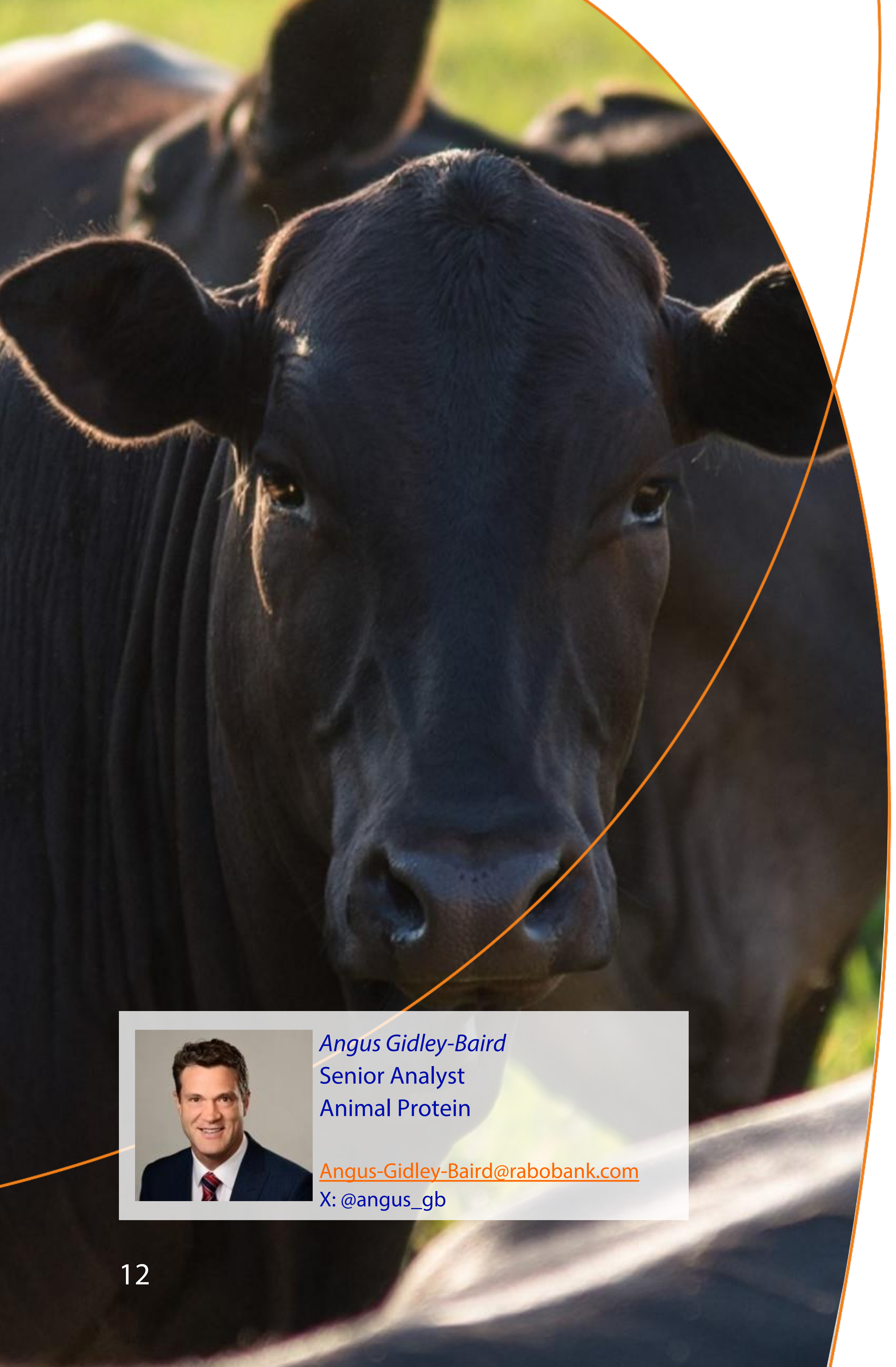
A likely increase in the global supply dropped prices



Panama Canal water availability is set to recover



Source: *Bloomberg, Rabobank 2024*



Beef

Prices steady with ongoing high cattle slaughter

Most Australian cattle prices continued to track sideways through June. Cow and finished steer prices sit slightly above prices at the same time last year, but restocker cattle prices have dipped slightly below last year's prices. We've seen a big run of restocker steers through saleyards over the last two months with numbers on average 36% higher than at the same time last year and up 58% on the five-year average. Large numbers of cattle out of Queensland and the drier areas in southern Australia are expected to be the cause. Despite such numbers, prices continue to hold well. **The fact that prices are holding with current cattle numbers in the system and with an average to above-average rainfall forecast, leads us to believe cattle prices should hold at current levels with some upside for finished cattle and cows.**

Weekly cattle slaughter numbers recovered after the shorter processing week in early June to see numbers push back to over 140,000 head per week. Year-to-date slaughter numbers remain 15% higher than in the same period last year. The female percentage of total slaughter for Queensland and New South Wales has pushed up to 50%.

Some may suggest this indicates liquidation of the herd. However, while it has been dry in southern areas, we do not believe producers are being forced to sell large numbers of cattle at the moment.

Australian beef exports were up again in June (according to data reported 28 June). Volumes to Japan continue to improve after contracting last year and currently sit slightly higher than the five-year average. Likewise, volumes to South Korea are above the five-year average. Volumes to these markets are likely to be benefitting from reduced US export volumes into these markets – down 7% and 12%, respectively, for Japan and South Korea for the first four months of the year. Australian export volumes to the US are close to our second-highest volume ever exported to the US in the month of June.

Live cattle export volumes for May increased 26% YOY with volumes to Indonesia up 30% and volumes to Vietnam up 97%. Year-to-date volumes are up 36%, reflecting the increased cattle numbers in northern Australia.

What to watch:

- **US import prices** – US domestic lean trimmings prices have jumped to new record levels at USD 3.46/lb. While US cow slaughter is down and similar to levels in 2014, it is not the lowest in history. The higher prices appear to be a combination of lower production and strong domestic consumer demand in summer grilling season. The US domestic trimmings price may have jumped but the imported lean trimmings price is lagging at USD 2.76/lb (AUD 9.15/kg), meaning the spread between these two prices has opened to almost the highest in history. Australian export volumes to the US are high, likely contributing to the weaker imported trimmings price, but such a spread should be good news for Australian prices and will possibly lead to Australian prices rising further.

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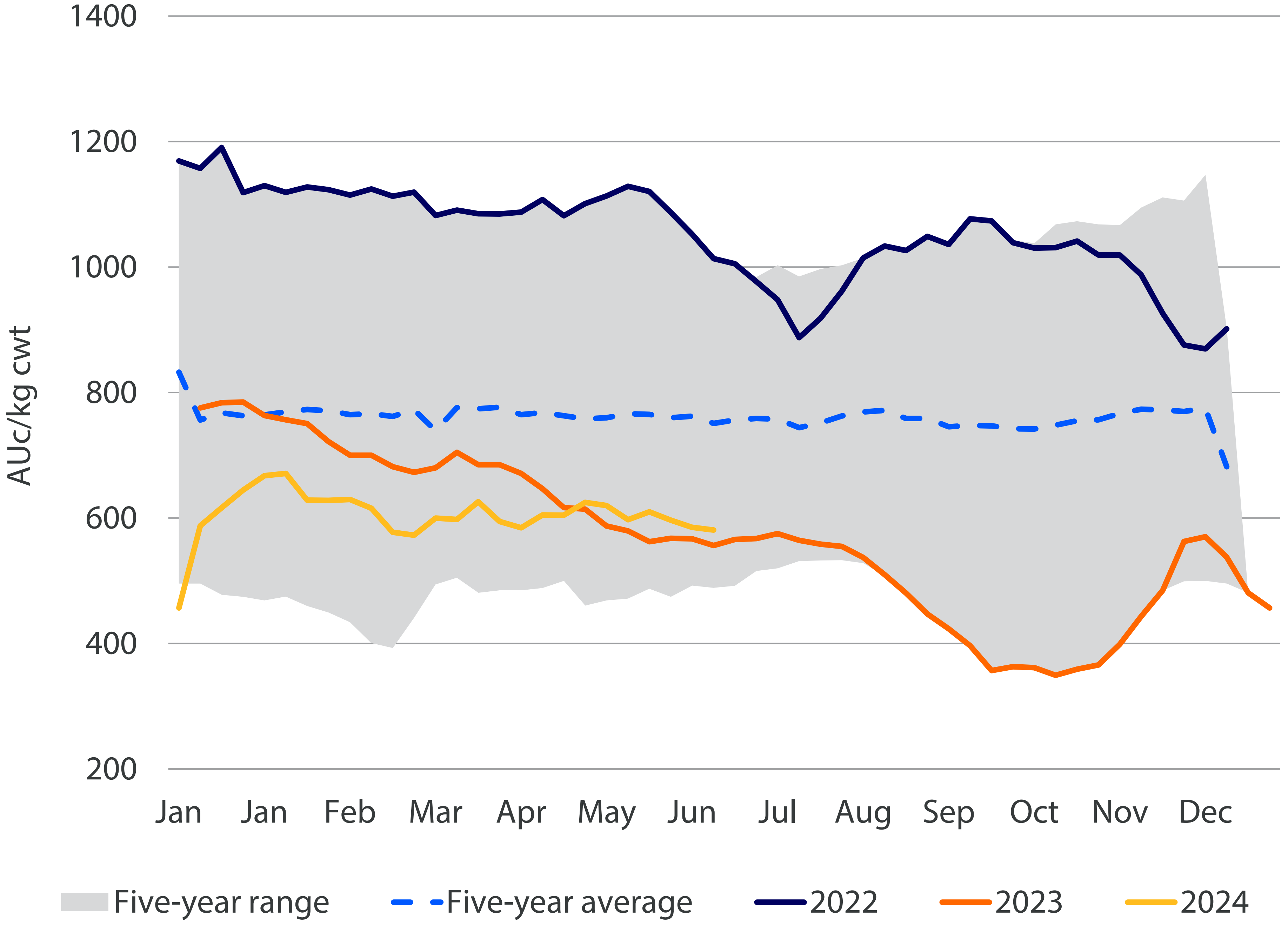
Beef

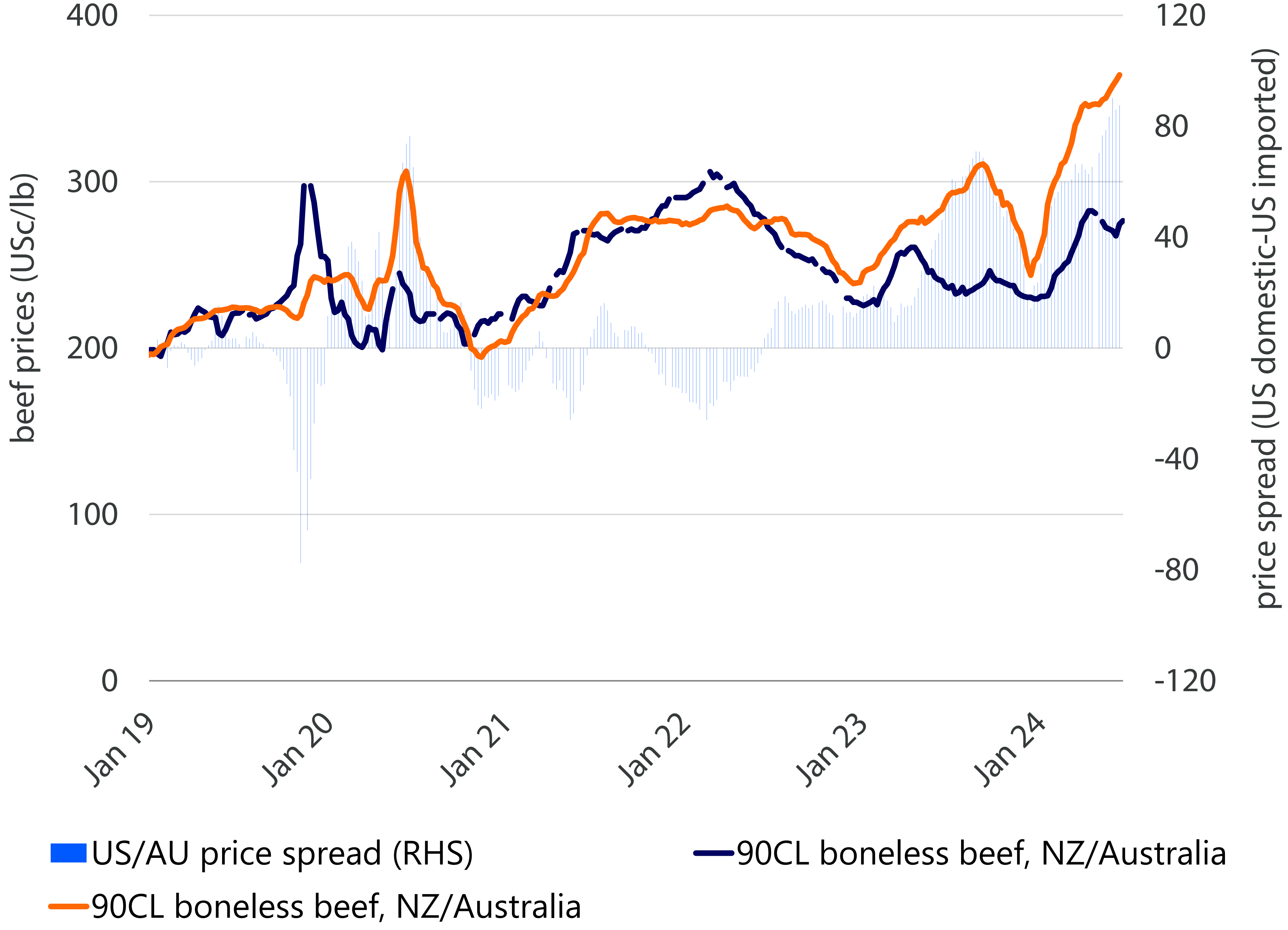
Cattle prices holding while US market creates upward pressure on global beef prices

EYCI holding but drifting slightly lower



Source: *MLA, Rabobank 2024*

US domestic lean trimmings prices push to new records



Source: *MLA, Rabobank 2024*

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Sheepmeat

Are numbers starting to run out?

Australian sheepmeat prices have continued to perform well with all categories increasing over the month of June. While trade and heavy lamb prices continued to rise, finishing June at AUc 742/kg and AUc 735/kg, merino lambs, restocker lambs and mutton took a breather in the last week of June, trending sideways and down, possibly reflecting the higher numbers through saleyards for this time of year. Merino lambs in particular have seen numbers through the saleyards rise. The last two years have seen merino lamb numbers below the five-year average for the months of May to July, but this year numbers have returned to a more normal path, closer to the five-year average and up about 20% on the same period last year. **Price trends are suggesting that availability of slaughter weight lambs are starting to decline, particularly given little change on the demand side of the market. That being the case, we believe slaughter weight lamb prices will at least hold if not rise further over the next month.**

Weekly lamb slaughter numbers showed a 2% decline for the month of June. Although there was a lift in weekly slaughter numbers for the week ending 21 June, taking the total back above 260,000, this was possibly compensating for the shorter week prior. There was a particularly large jump in Western Australia lamb slaughter in the middle of the month, with numbers above 61,000 head for the first time this year. Sheep slaughter was down 16% MOM but is still trending 16% higher year-to-date. Although numbers remain high, pricing signals suggest that volumes could be starting contract.

Australian lamb exports for the month of June (reported 28 June) were up 4% YOY at 29,736 tonnes. Volumes to the Middle East and the US continued to be strong while volumes to China again saw a year-on-year contraction for the second month in a row. Similarly, mutton volumes were down with volumes to the US and the Middle East up while volumes to China were down.

What to watch:

- **Lamb numbers** – Although lamb slaughter numbers continue to remain at record levels, pricing signals suggest that numbers may be starting to run lower. There is no indication that demand has increased so we are assuming the price improvements are related more to contractions in supply. Trade lamb numbers sold through saleyards over the last six weeks are, on average, 12% down on last year's volumes and down 25% on the five-year average. Heavy lambs, on the other hand, are higher than last year's numbers but almost in line with the five-year average. With winter now in full swing, the number of heavy lambs historically trends lower from June onwards.

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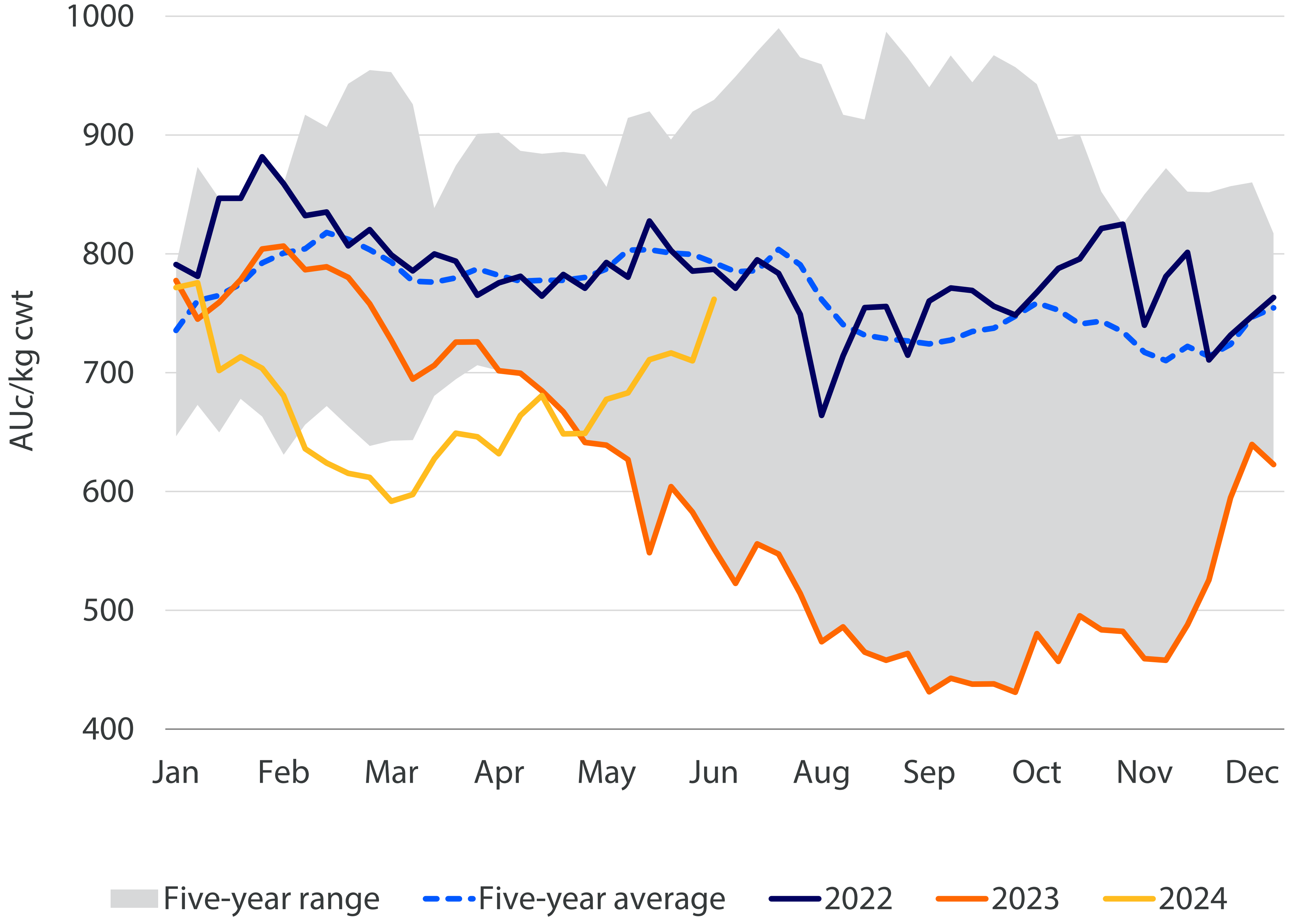
Sheepmeat

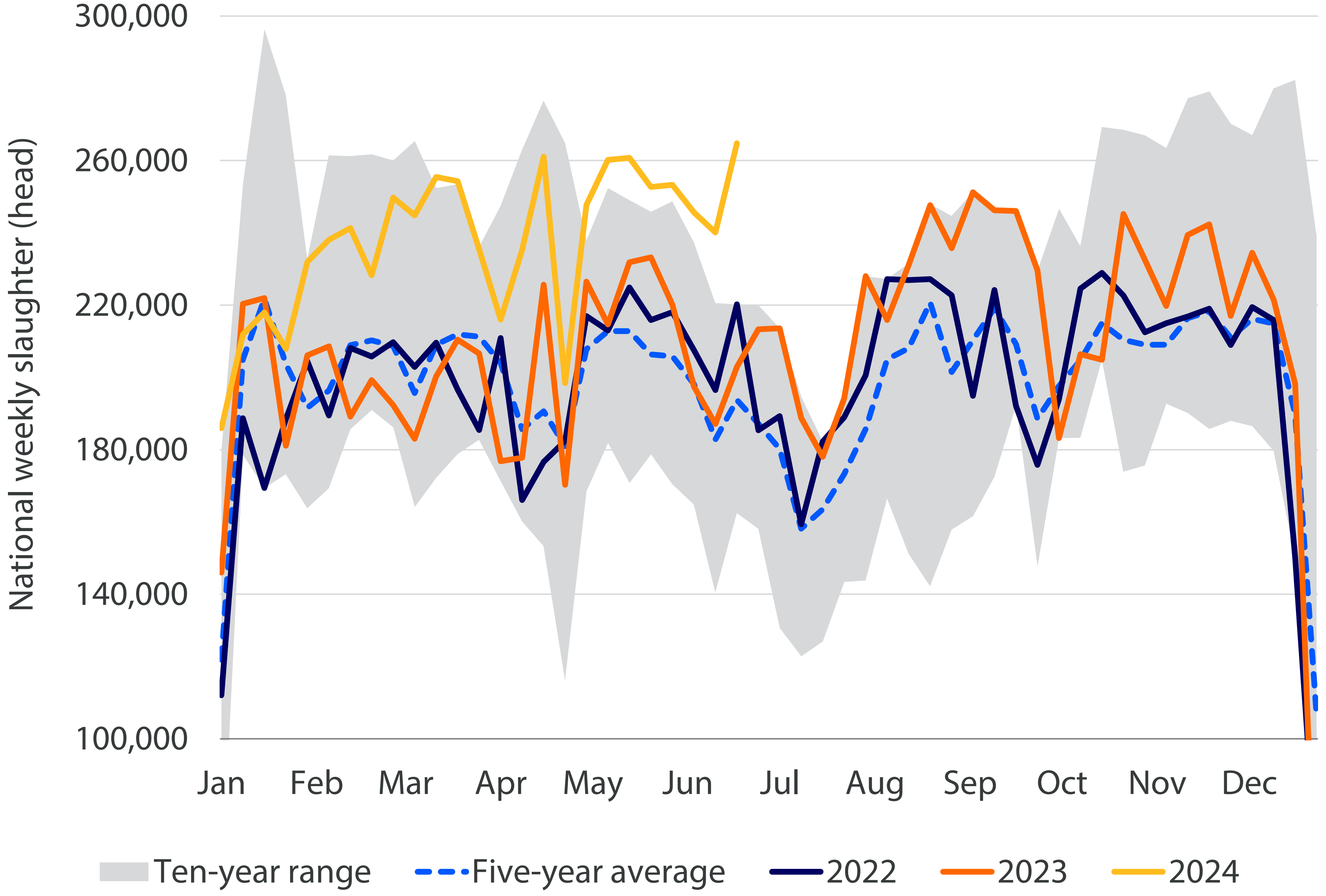
Strong lamb prices suggest that volumes are starting to contract

National Trade Lamb Indicator (NTLI) continues to rise



Source: MLA, Rabobank 2024

Although still at record levels, lamb slaughter numbers may be about to trend down



Source: MLA, Rabobank 2024

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Wool

Prices continue to hold as winter recess approaches

Australian wool prices continue their relatively flat run with most microns finishing the month of June – and the 2023/24 season – generally within 2% of where they finished the month of May. The Eastern Market Indicator (EMI) was AUc 1,142/kg on 28 June, 0.4% higher than the end of May and up 1.4% on the end of June 2023. While most microns tracked within a narrow band, 28 micron prices (AUc 384/kg) have increased 6% compared to the end of May and are up 25% on the prices at the end of June 2023. This is one of the few micron categories to be higher than year-ago prices. **With four sales scheduled for July before the winter recess – unlike the normal two – the opening sales are not as large as previous years. This may support prices before heading into the winter recess, although we continue to look for recovery in demand to provide any strong price upside.**

Australian wool tested volumes dropped 34% MOM in June – down 20% on June 2023 values and reaching the second-lowest volume for the season behind July 2023. The volume tested was the lowest volume for June since the 2019/20 season. At 334,738 bales, the total wool tested for the 2023/24 season was down 4% on 2022/23 and the lowest volume in three years. In the 2023/24 season 1.82m bales were put through the auction system – a reduction of 2.6% on the previous year. Although difficult to say given the ability for on-farm wool storage, the higher sheep slaughter numbers over the past 12 months may have started to have an impact on wool production. It will be interesting to see the results from the upcoming sheep producer sentiment survey to get a feel for the wool production outlook.

Wool exports for the month of April were up 2% in volume terms but steady in value terms. The average export price per unit was AUD 8.99/kg down 2% on April 2023. Volumes to China were up 7% YOY for April but down 31% and 60% to India and Italy, respectively.

What to watch:

- **Freight costs** – Freight costs are an external factor to the wool industry but nonetheless important in wool trade. Global freight rates have risen sharply in recent months, and with ongoing challenges in the Suez, the diversion of ships around the bottom of Africa adds significant time and cost. This is not such a large cost for Australia, but it can add significant costs for vessels travelling from China to Europe, which would impact any top, yarn, fabric, or garment traffic between China and Europe.

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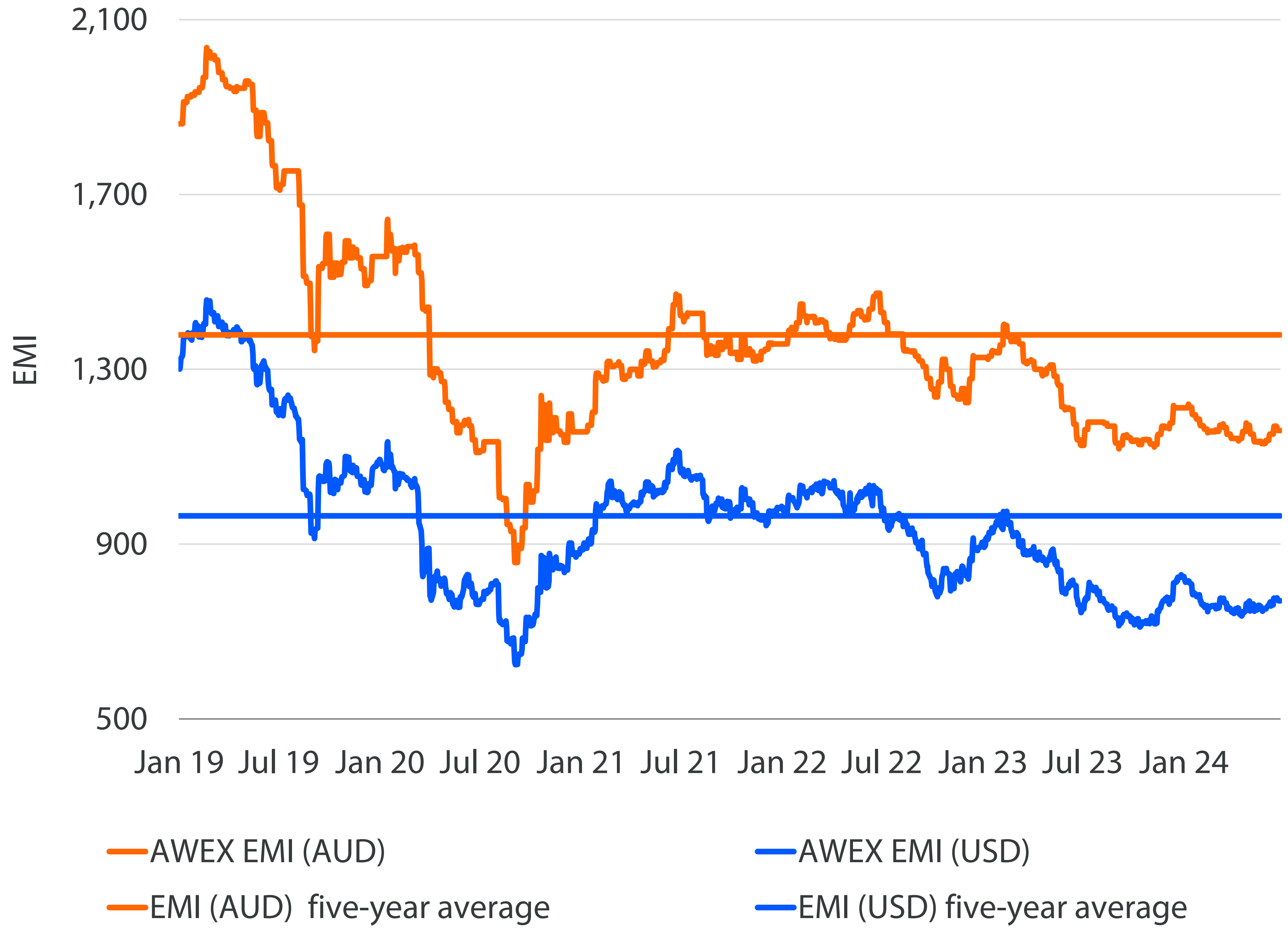
Wool

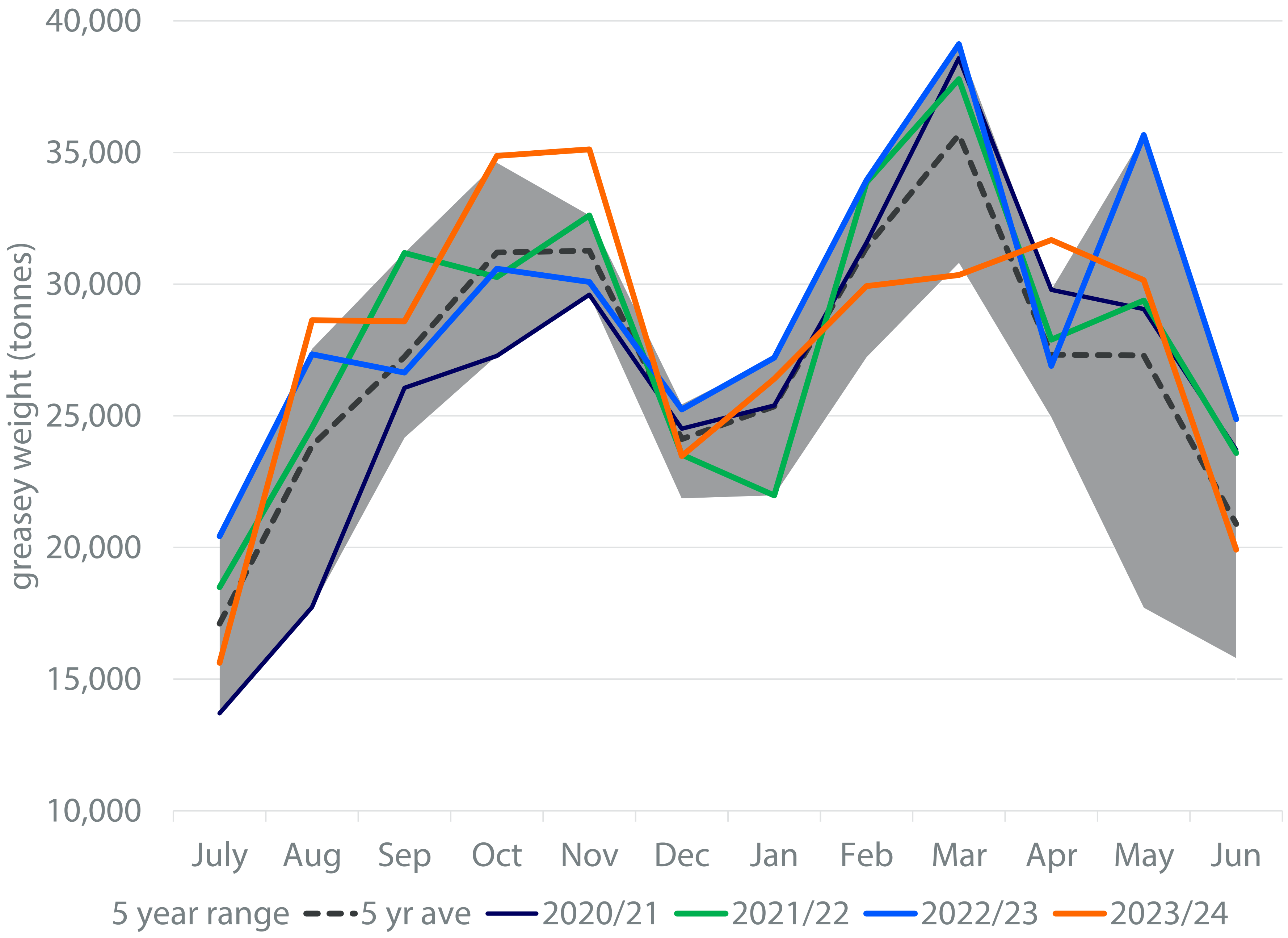
Prices maintain stable pattern as wool testing volumes drop

Australian EMI continues the steady state

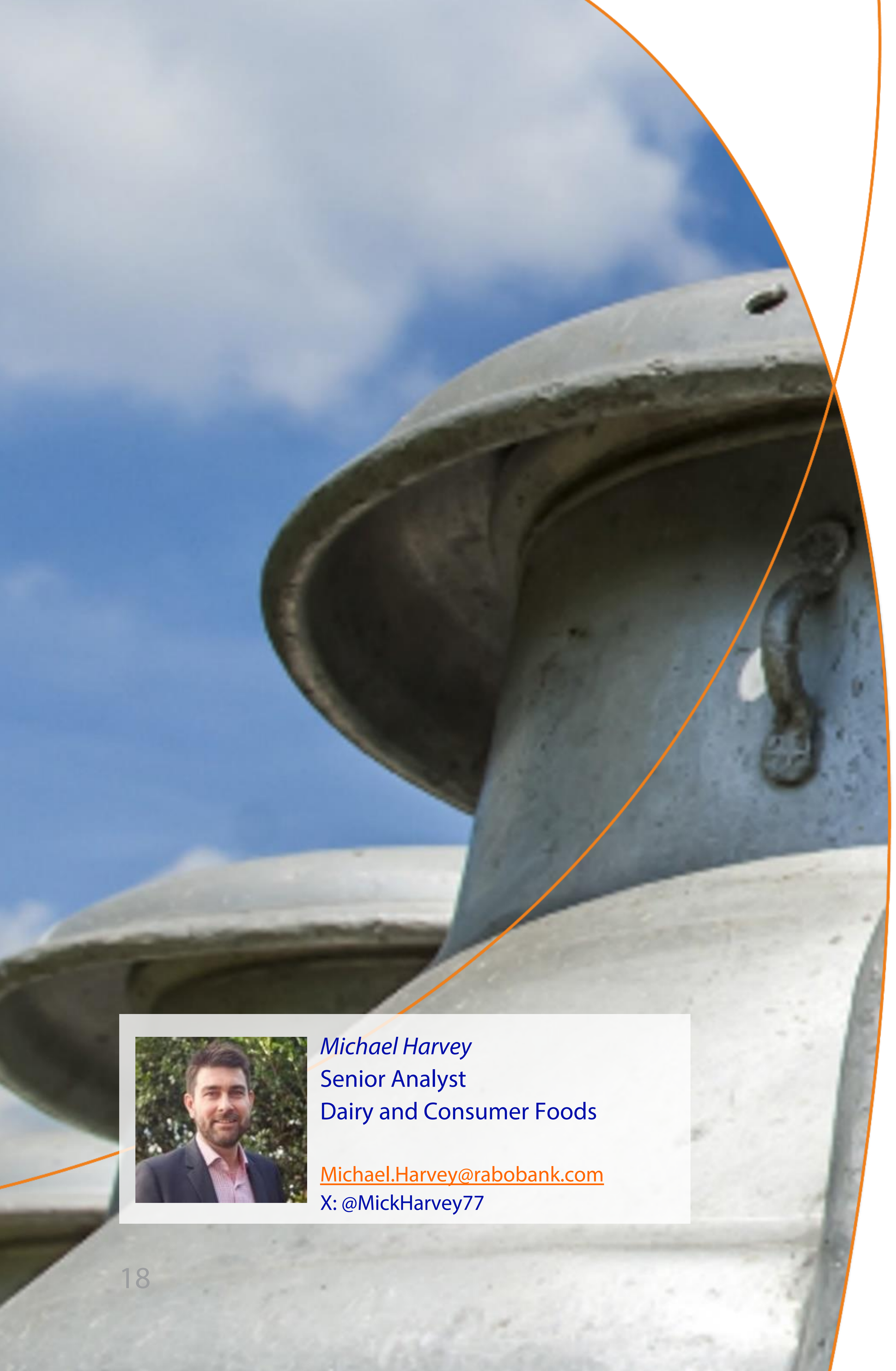


Source: Bloomberg, Rabobank 2024

Wool testing volumes drop in 2023/24



Source: AWTA, Rabobank 2024



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Dairy

Global butter prices surge to record levels

The Oceania spot butter price hit a record high in June 2024, surging past USD 7,000/tonne FOB for the first time. Since the start of the year, the Oceania butter price has risen 34% to these eye-watering levels.

Behind these prices is a combination of supply and demand fundamentals for fat and cream. Sluggish milk supply growth in the Northern Hemisphere during the seasonal flush is limiting surplus milk available for manufacturing and pushing wholesale prices higher. There is also a seasonal increase in demand for fat products such as ice cream in the Northern Hemisphere. Also, inventories in international supply chains are not excessive, leaving spot purchasing vulnerable.

Zooming out, butter pricing is outperforming the broader dairy complex. In June 2024, spot prices for the other main dairy commodities were flat to slightly higher. A sluggish price for SMP means the return for SMP/butter manufacturing is not at the record levels reached back in 2022. Nonetheless, it is currently the best-performing stream compared to cheese/whey and WMP.

Record spot prices for butter will likely present some opportunities for local Australian exporters to ride this butter wave. However, it will be a question of product availability and timing.

Australia's milk supply is growing on a year-on-year basis, but we are cycling a seasonal low in production. Nonetheless, surplus milk is likely to be allocated to SMP/butter production.

Australian milk production is tracking 3.0% higher in the 2023/24 season up to April. In terms of manufacturing, SMP and butter production are up 13.3% and 8.0%, respectively, to March 2024.

Given Australia is a net importer of butter, consumers potentially need to brace for higher prices of butter and coproducts, such as cream, at the checkout. Rapidly rising butter prices will be a headache for some food and bakery manufacturers.

What to watch:

Upside – New Zealand milk flows

- On a milksolids basis, New Zealand production grew by 0.2% for the 2023/24 season (also adjusted for leap year). A close eye is now on the approaching spring flush.

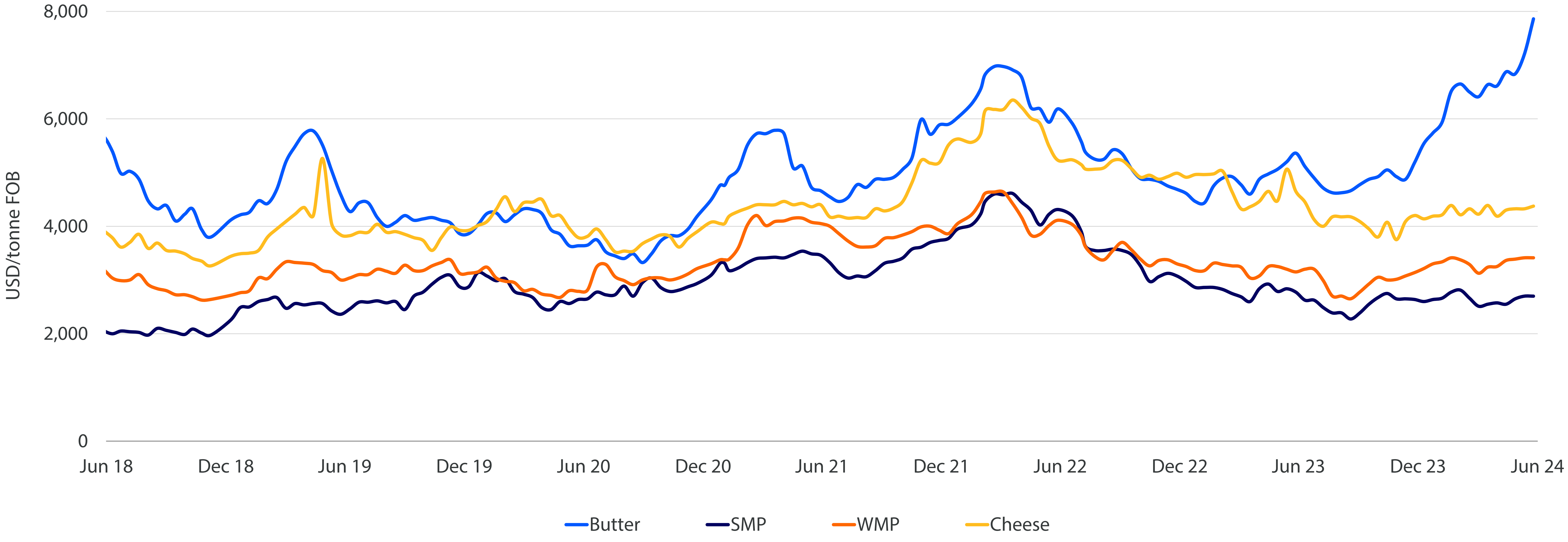
Downside – China imports

- China's import volumes in 2024 have been soft on a year-on-year basis. This is not surprising, but until there is a meaningful lift in China's import volumes, global markets are likely to remain well-balanced with prices range-bound at current levels.

Dairy

Markets are feeling “butter” than ever

Oceania spot prices for dairy commodities



Source: USDA, Rabobank 2024

Cotton

Cotton futures trade lower amid ample global supplies

Managed Money continued to aggressively sell ICE #2 Cotton future in June. In fact, during the first three weeks of the month they sold a mammoth 31,200 net lots. This puts the net-short position at 44,000 lots, which is the shortest funds have been since August 2019.

One element undoubtedly attributing to the bearish speculative sentiment is recent WASDE reports. **The newly released crop numbers for May showed expanding global supplies, year-on-year, and June revisions have created an even more bearish supply and demand picture.** The most noteworthy change was the 400,000-bale increase to US 2024/25 ending stocks, which pushed projected world ending stocks to 83.5m (a five-year high). For Australia, beginning stocks (+200,000 bales to 4.15m bales) and exports (+100,000 bales to 5.4m) were revised upwards.

Another key component to recent price action is US crop conditions, which look good. At present, the crop is rated 56% good/excellent, which is 7% higher than last year. Meanwhile, squaring is 30% complete, which is 5% higher than at the same time last year.

Speculators are largely behind recent price action, and although fundamentally there are limited factors for bulls to get excited about, short covering remains a risk. This is particularly true given the large net short position held by Managed Money on ICE #2 Cotton futures. Futures have declined 12% since early April levels, and with prices trading below the 20-day moving average, we may be heading for a modest technical correction.

What to watch:

- **WASDE** – The market will be keeping a close eye on whether the USDA makes any revisions to the global balance sheet in next month's WASDE report.
- **Fund sentiment** – This will also be a key factor over the next month following the aggressive net selling we have seen on ICE #2 Cotton futures in recent weeks.

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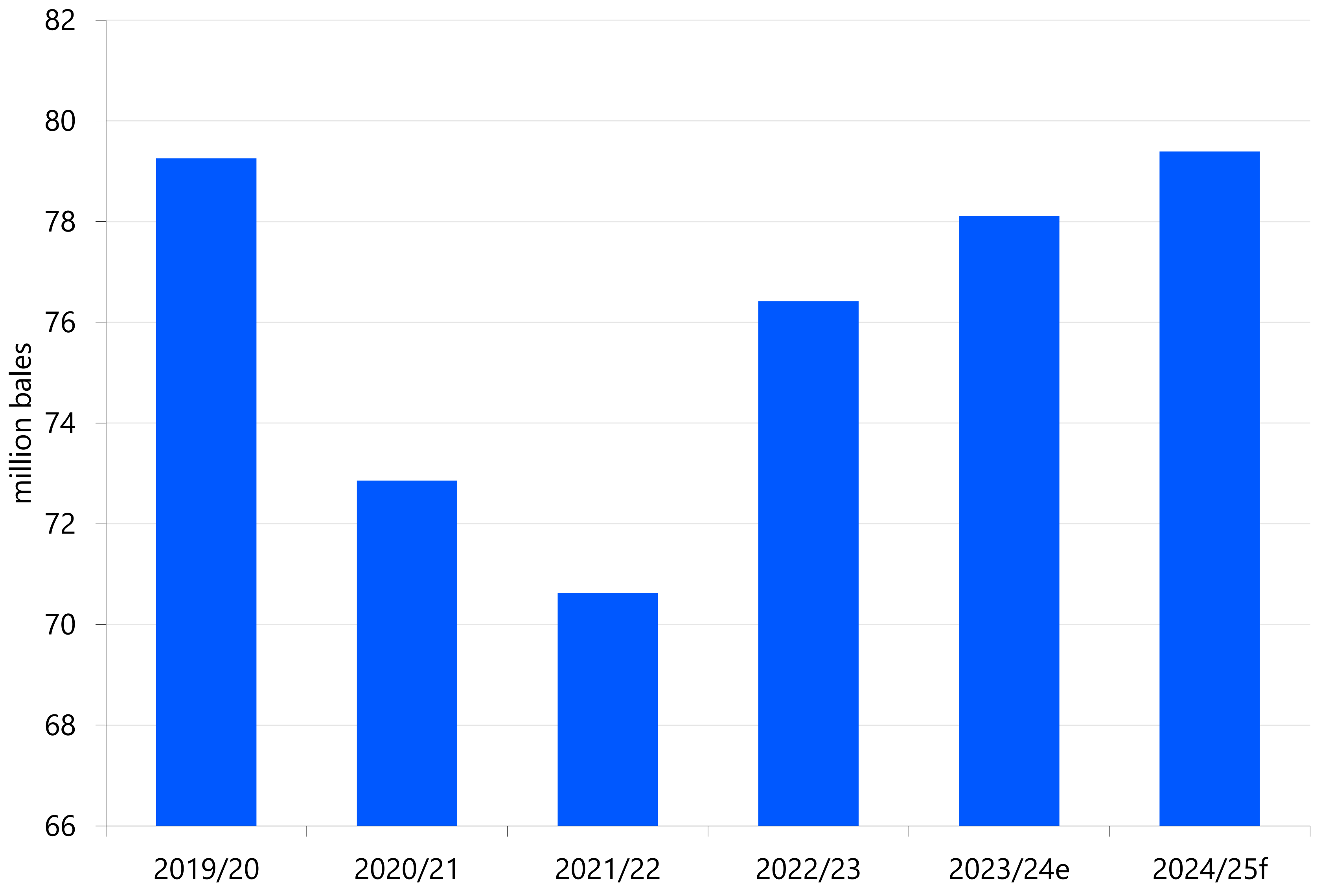
Cotton

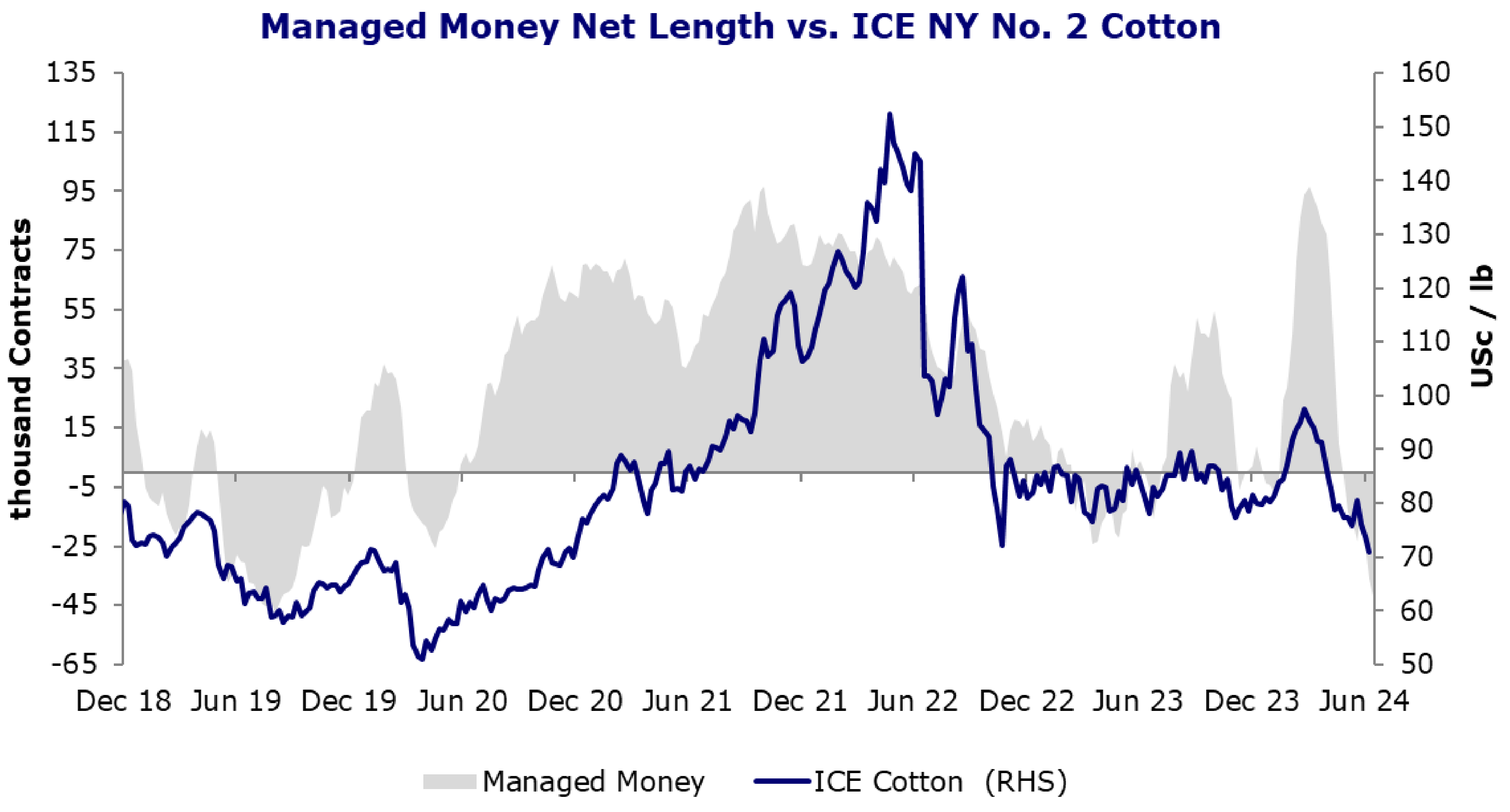
Bearish market fundamentals have pushed funds into a large net short position on ICE #2 Cotton futures

2024/25 global ending stocks are expected to swell to five-year highs, according to the USDA



Source: *USDA, Rabobank 2024*

The Managed Money net short position is at its largest since August 2019



Source: *CFTC, Bloomberg, Rabobank 2024*

Consumer foods

Food inflation risk ahead

The monthly read on inflation provided by the Australian Bureau of Statistics (ABS) showed food inflation moderated in May. For the month of May, food and non-alcoholic beverages rose 3.3% versus May 2023. This compares to the monthly food inflation of 3.8% YOY measured for the month of April. This was the lowest monthly rate since January 2022.

Looking inside the food basket, the rate of deflation for red meat was steady at -0.6% for May. There were consecutive months of deceleration in inflation for key categories bread and dairy.

However, fruit and vegetables recorded the largest annual rise since April 2023 (+4.4%) with ABS listing higher prices for grapes, strawberries, blueberries, tomatoes, and capsicums as the culprits.

Metcash released some full-year results, which provided a glimpse into the broader performance of the food market. The company noted a weak macro environment for Australian consumers. This led to strong performance for private label in their business with sales increasing 15% in the year. According to the company, foot traffic was strong as consumers turned to dining in. But the company also noted that the average basket size was down and cited a steady lift in sales of supermarket items on promotion versus those not.

Consumers need to keep an eye on olive oil retail prices. Global olive oil price indicators remain at elevated levels and the eastern Australia olive harvest has been impacted by less favourable growing conditions.

Consumers are keeping a close eye on egg availability and prices. Major supermarkets have introduced purchase limits on eggs for the east coast following avian influenza infections at a number of egg properties. According to news reports, retail egg prices are on the rise and further increases are possible.

While Australian food inflation is trending lower, there are reminders in the chilled section that food inflation risks lay ahead for certain categories.

What to watch:

- **The Food and Grocery Code of Conduct Review** – The final report has been handed down. Key recommendations include making the code mandatory for all supermarkets (above a revenue threshold), introducing an anonymous complaints mechanism, and adding tweaks to the penalty system for any breaches. This announcements follows a report from the Senate Select Committee on Supermarket Prices, which handed down 14 recommendations. Next up is the ACCC supermarket inquiry with an interim report due to be provided to the Australian government no later than 31 August 2024.

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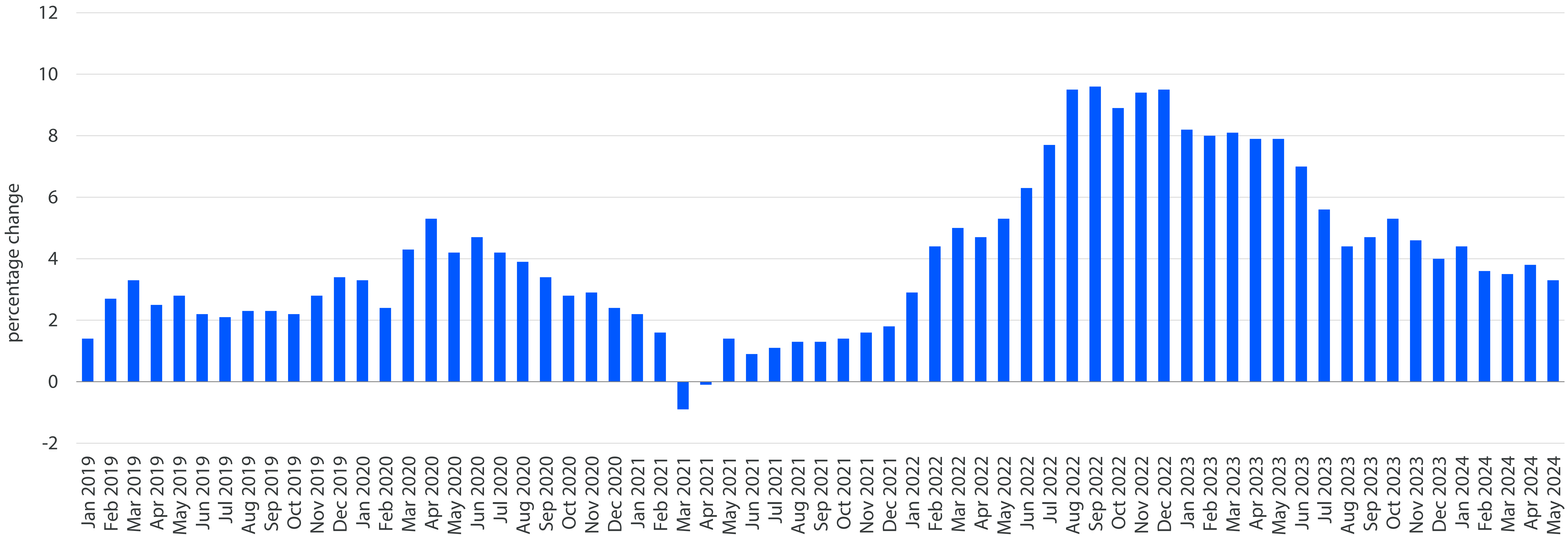
Consumer foods

Lowest monthly read on food inflation since January 2022

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



Source: *ABS, Rabobank 2024*

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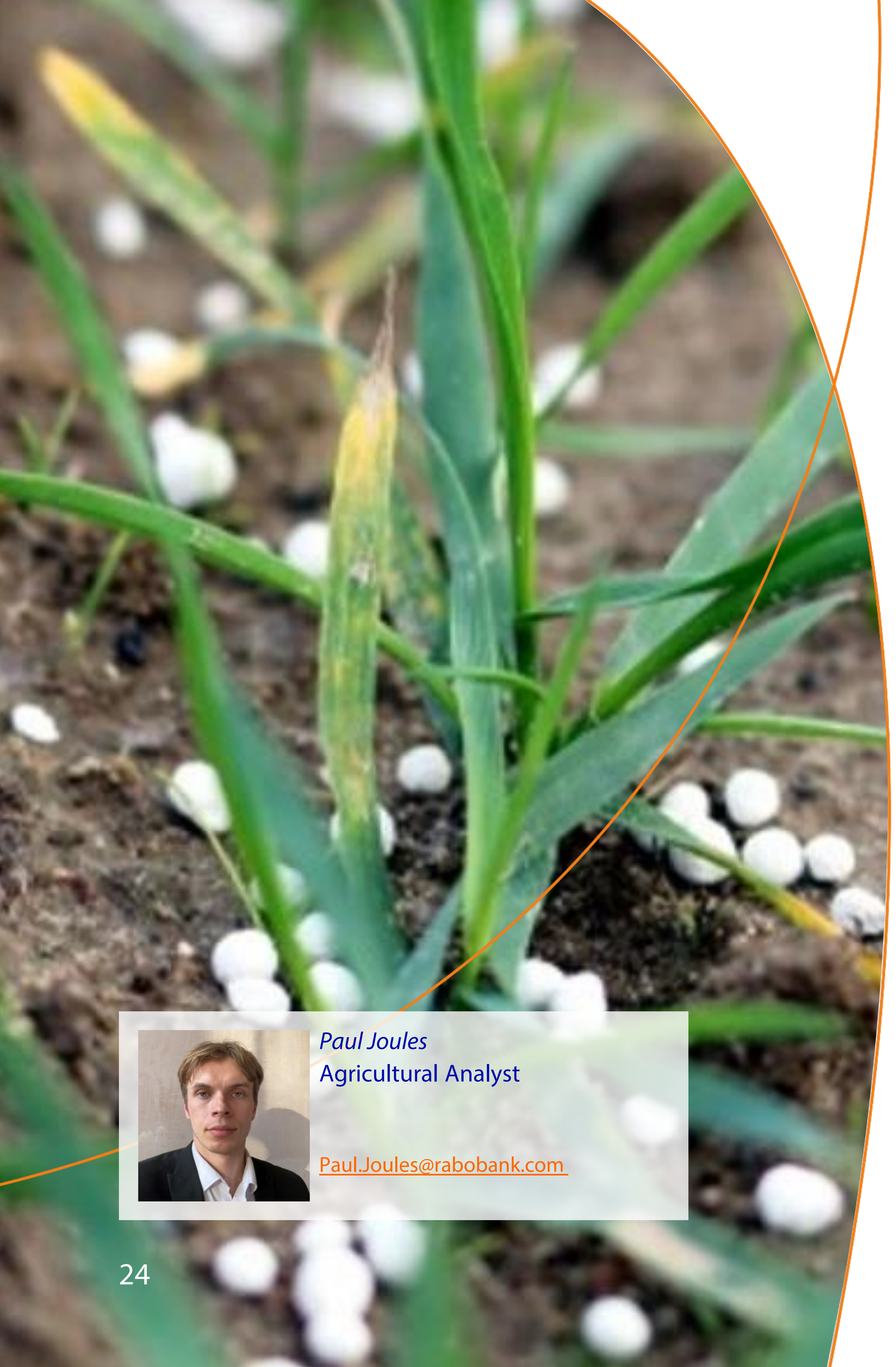

Farm inputs

China's urea export restrictions push prices higher

Urea prices ticked higher in June. Recent price action has turned more bullish, and one factor that will likely continue to provide support is China. The country has placed further restrictions on urea exports. Initially the expectation was for exports to resume in August but it's now unclear how long the halt will last.

One factor you would expect to add some downward pressure to global pricing is Egyptian plants, which are now back online. The news is a boost to global supply, especially given uncertainty regarding how long the disruptions would last.

Last month we highlighted the risk of rising container shipping rates, which could result in higher farmgate prices for farm inputs. So far in June, the WCI shipping index has continued its dramatic rise and is now trading at levels not seen since September 2022. The ongoing Red Sea crisis is continuing to absorb capacity, and the Houthis are intensifying their attacks (as visible in the most recent drone/missile attack in mid-June). Meanwhile, port congestion remains a problem across several regions.

From an agrochemical standpoint, companies across Asia, South America, and North America continue to face the challenge of high inventories. The surge in grain and oilseed pricing during 2022, which was a consequence of the outbreak of the Russia-Ukraine war alongside three consecutive La Niña events, initially boosted demand. However, the situation has since changed. G&O prices have fallen dramatically as global supply woes subsided. Meanwhile, product price inflation has intensified the decline in farmers' operating margins. This has led to a buildup of high-priced inventory, which will take time and new strategies to destock. Likely this will be an ongoing issue throughout 2024 and early 2025 and will have an impact on farmgate prices. Under macroeconomic inflationary pressures, there is not much room to maneuver high stocks while positive margins are sustained.

What to watch:

- **Chinese urea exports** – The timing of when China will resume urea exports is pivotal for the global balance sheet and could have a significant impact on farmgate pricing.
- **Container shipping rates** – The Red Sea crisis alongside port congestion across several different regions is causing the WCI index to sharply rise. The situation must be closely watched, as FOB values will likely continue to be very volatile.

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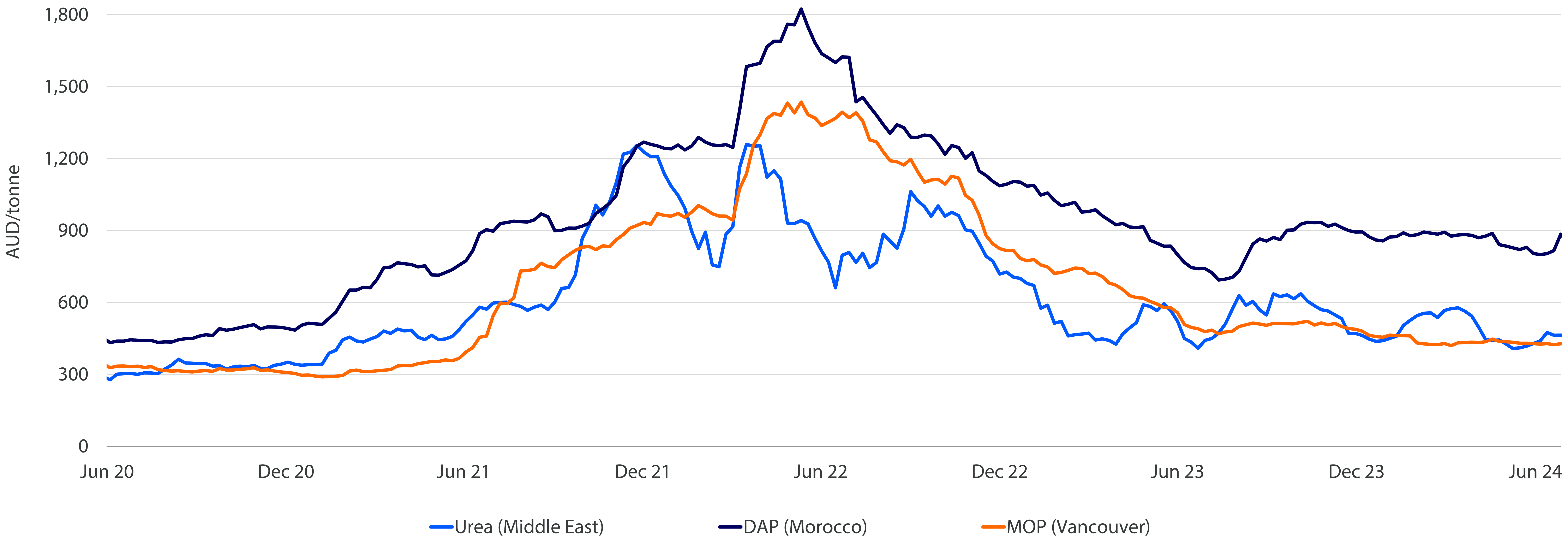
Farm inputs

Supply constraints down the road are not impacting prices, yet

Urea export restrictions from China are expected to negatively impact farmgate prices



Source: *CRU, Rabobank 2024*

Rabobank

Interest rate and FX

A turning of the tide?

The Australia Bureau of Statistics' monthly inflation report for May has upended the consensus on the path forward for the RBA cash rate. Regular readers will be aware that on 1 May we adopted a contrarian forecast of two more rate hikes from the RBA this year (in August and November). At the time, the overwhelming consensus of other bank analysts, and financial markets, was that the next move in the cash rate would be down.

This has changed after **a sizeable minority of forecasters have now joined us in predicting a rate rise at the RBA's August board meeting**. The May inflation report provided the catalyst for the change of heart as it showed headline inflation exceeding expectations by two-tenths of a percentage point for the second month in a row. Even more troubling, the trimmed mean inflation measure rose for the fourth month in a row and now stands at 4.4%, up from 3.8% in January.

It's not just economists getting in on the act either. The futures market (a barometer of the views of traders) now implies that the probability of a rate hike in August is a touch under 40%, compared to less than 10% odds before the release of the inflation report. The market-implied probability of at least one 25-basis-point rate hike by the end of November is now almost 60%.

The prospect of further rate hikes in Australia combined with another strong labour market report in June is likely to see the Australian dollar climb 0.26% against the US dollar. The AUD/USD exchange rate is currently 0.6670, and we remain bullish on the Aussie dollar's prospects over the next 9 to 12 months as we expect the US to begin cutting rates before Christmas and the RBA to raise interest rates further.

We expect that the narrowing interest rate differential between the two economies will encourage more offshore capital into Australia, raising the value of the Aussie dollar.

What to watch:

- **The Q2 quarterly CPI report, 31 July** – This will be the major data point of note in the month of July, and we suspect it will be a "make or break" number for the chances of an August rate hike from the RBA. If inflation in the second quarter comes in at 1% or higher, we think the probability is strong that the RBA will be hiking next month.

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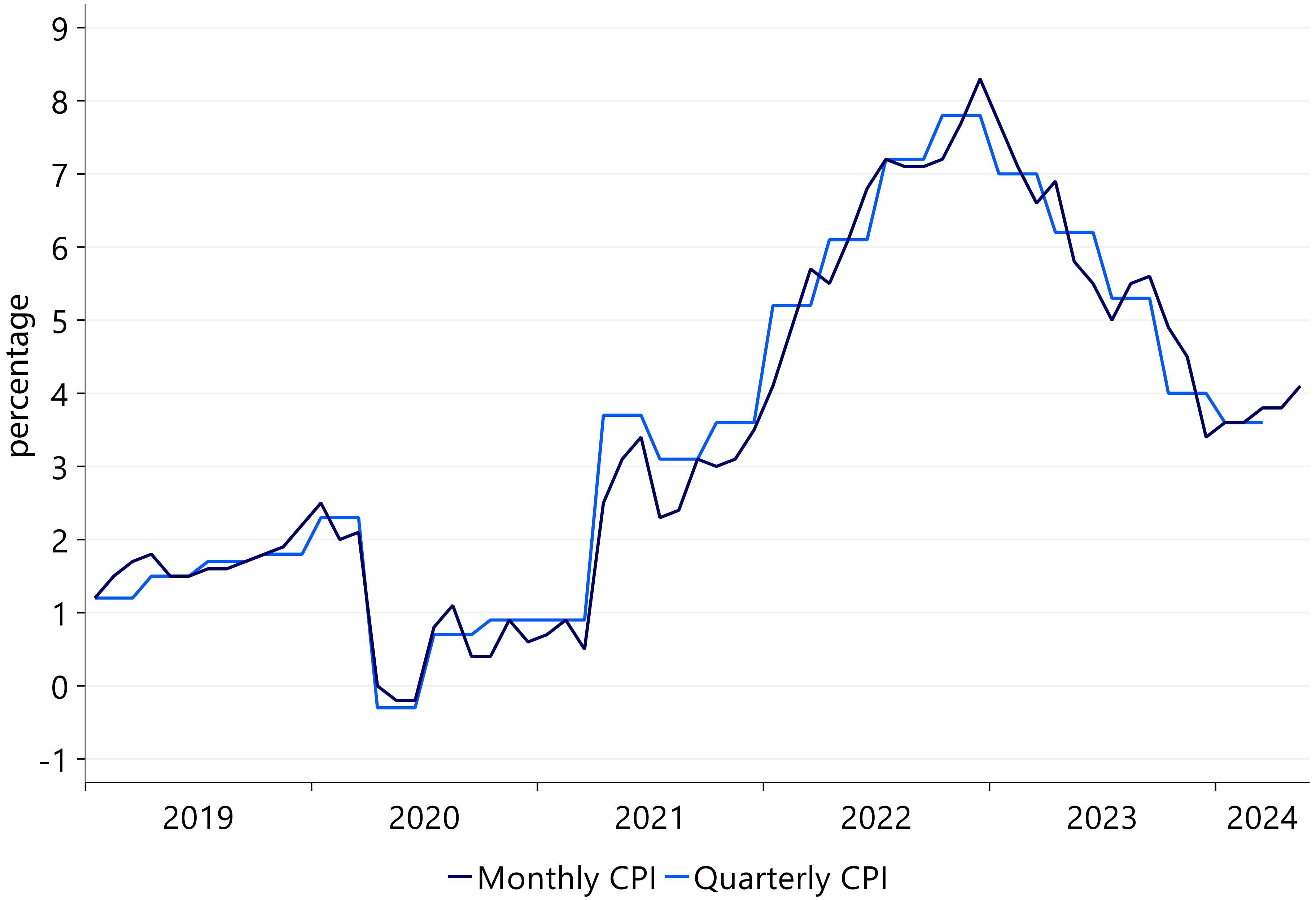
Interest rate and FX

Rising inflation in May puts an August rate hike in play

Australian labour force indicators

Source: Macrobond, ABS, RBA, Rabobank 2024

Australian inflation indicators



Source: Macrobond, ABS, RBA, Rabobank 2024

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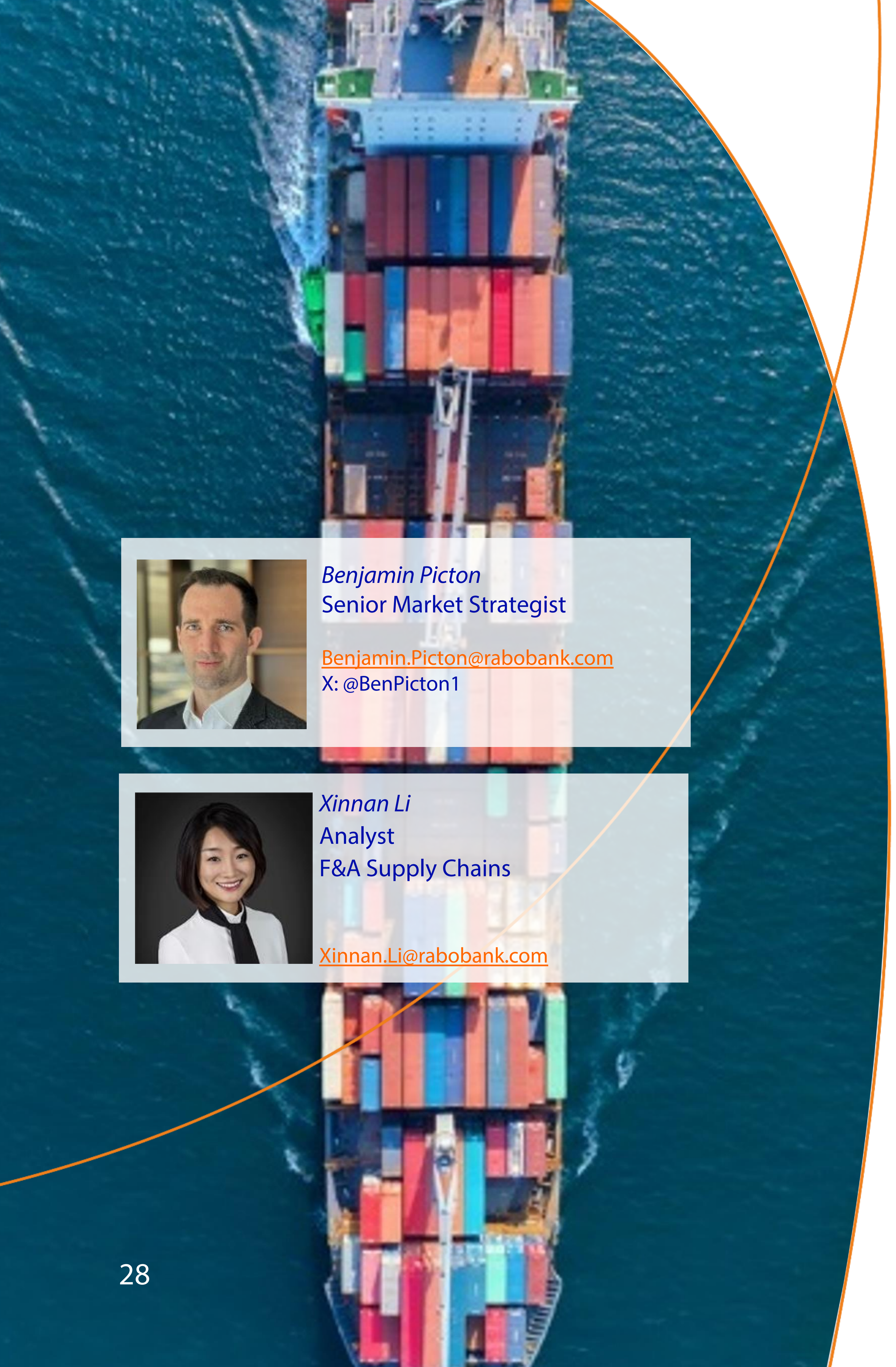

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Oil and freight

Crude rallied again in June

Brent crude rebounded by more than 5% in June despite carrying weak momentum over from May. Prices dipped early in the month after OPEC+ confirmed that it would be extending production cuts but failed to announce any further cuts to output.

Front-month Brent crude futures closed June at USD 85/bbl, but we see limited upside in the near term as the US driving season has gotten off to a sluggish start and demand signals out of China appear to be reasonably weak.

Over the longer term we remain bullish. Our energy analysts believe that prices will trend higher from Q3 onwards as US production begins to wind back.

Ocean container rates continue to surge higher on the back of port congestions in Asia and capacity constraints. Delays of up to five days in the port of Brisbane were also observed in the month of June. The capacity constraints may even spill over to break-bulk vessels as some shippers are exploring the option of moving containers onto break-bulk ships. Container rates around the globe at the end of June had surged over 200% compared to the same period last year, led by routes originating in Asia. Shipping rates for Asia destinations are largely not impacted yet but, as we saw during the pandemic, the rates and availability of these routes may be impacted later if rate gaps continue to grow. Schedule reliability continued to be challenged as a result of the port congestion as well.

The Baltic Panamax index (a proxy for grain bulk freight) has generally been on an upward trajectory for the last twelve months, as global trade volume has been largely recovering across the Pacific and Atlantic sides.

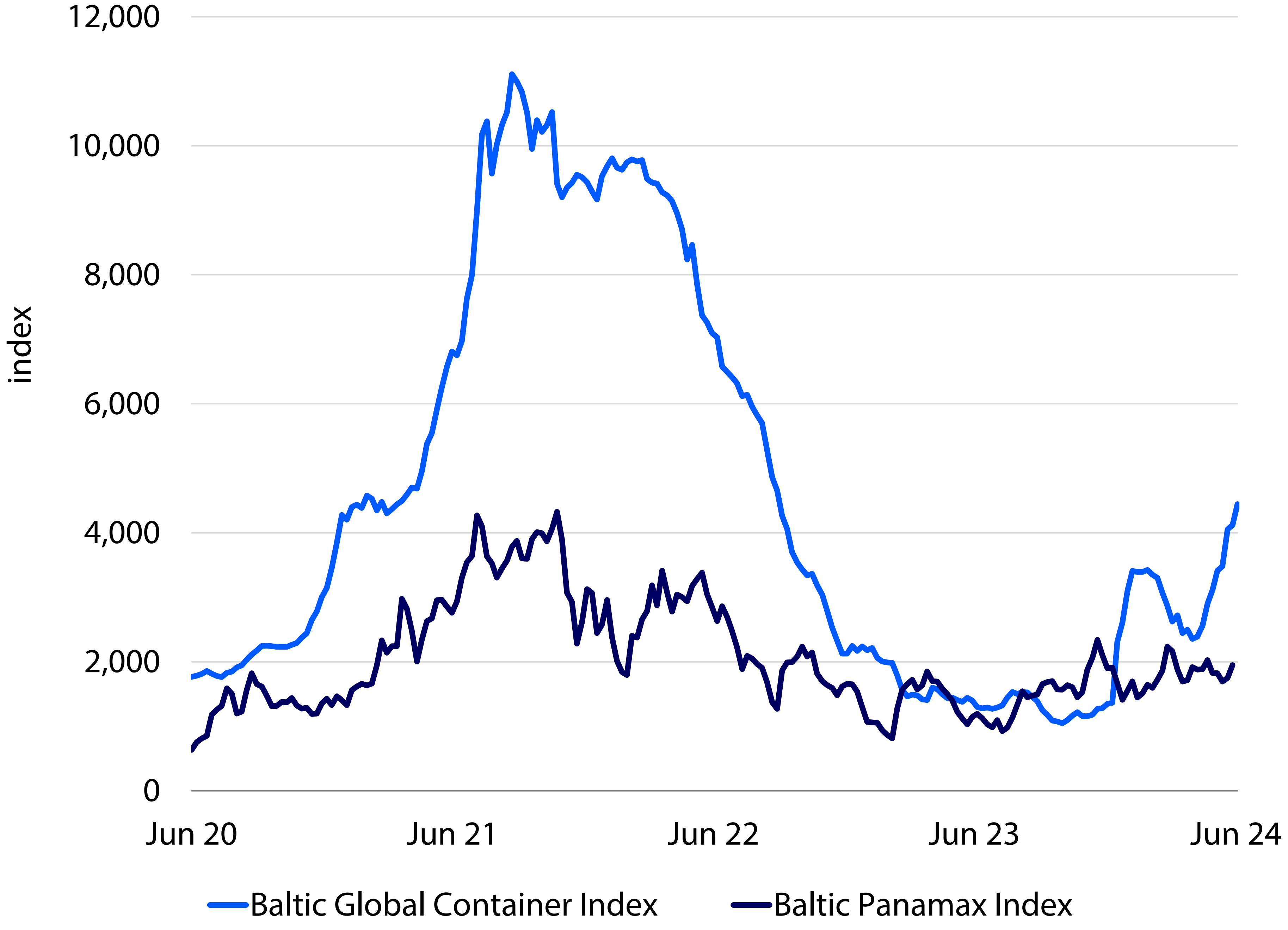
What to watch:

- **US Department of Energy inventory reports** – To be released on 5, 12, 19, and 25 July.

Oil and freight

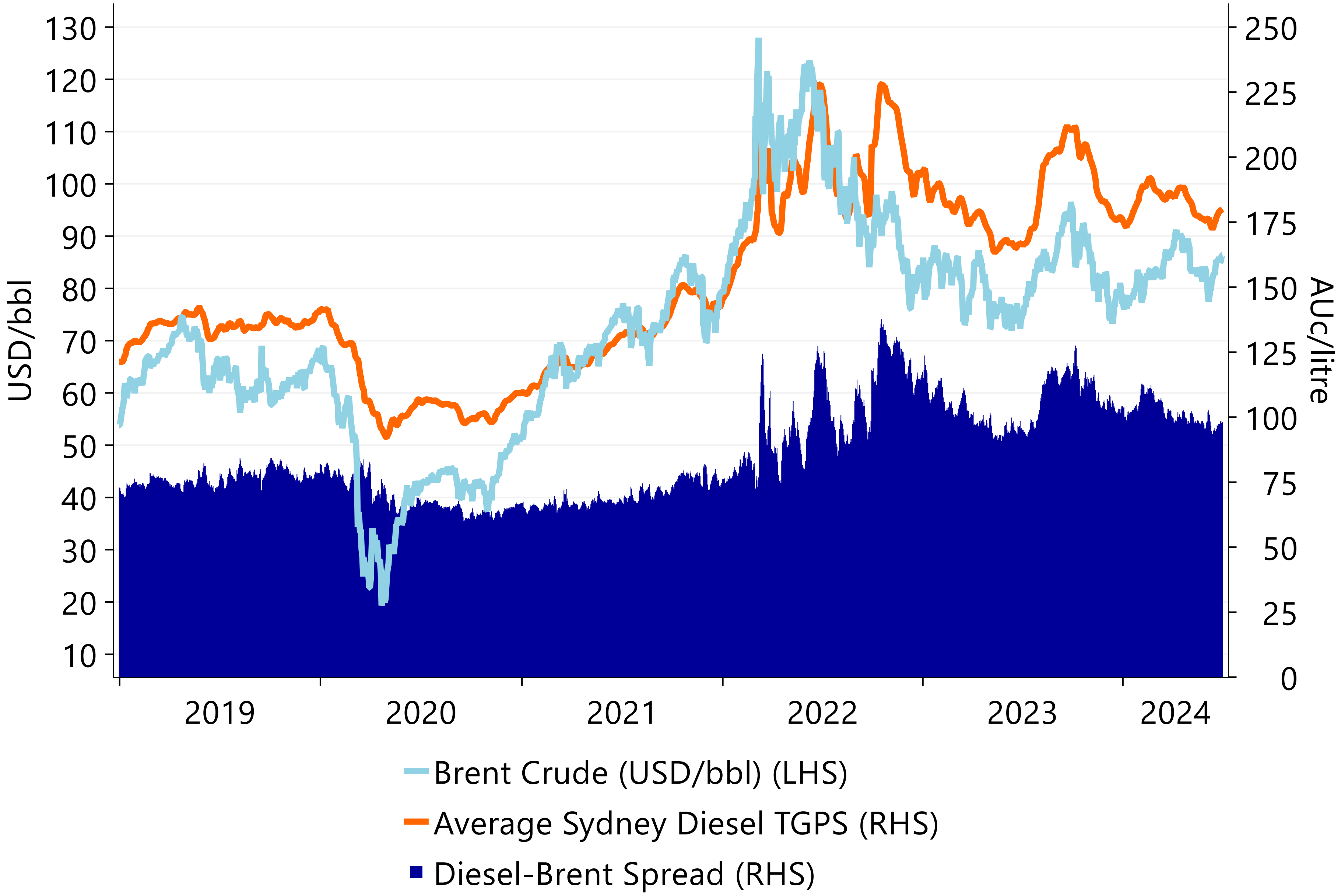
Crude oil resumes upward march

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



Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

Brent crude versus Sydney diesel prices, 2019-2024



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

Rabobank

Agri price dashboard

28/06/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▼	554	693	636
CBOT soybean	USc/bushel	▼	1,151	1,214	1,557
CBOT corn	USc/bushel	▼	397	455	555
Australian ASX EC Wheat Track	AUD/tonne	▼	349	385	386
Non-GM Canola Newcastle Track	AUD/tonne	▼	680	717	642
Feed Barley F1 Geelong Track	AUD/tonne	▼	312	335	316
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	581	597	556
Feeder Steer	AUc/kg lwt	•	318	318	312
North Island Bull 300kg	NZc/kg cwt	▲	625	605	590
South Island Bull 300kg	NZc/kg cwt	▲	560	545	550
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	•	681	681	552
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	650	630	755
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	650	625	755
Venison markets					
North Island Stag	NZc/kg cwt	•	860	860	885
South Island Stag	NZc/kg cwt	▲	855	850	885
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	7,863	6,838	5,363
Skim Milk Powder	USD/tonne FOB	▲	2,700	2,650	2,775
Whole Milk Powder	USD/tonne FOB	▼	3,363	3,388	3,150
Cheddar	USD/tonne FOB	▲	4,375	4,325	4,650

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

28/06/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	84.7	91.3	90
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	69.8	81.1	83
Sugar markets					
ICE Sugar No.11	USc/lb	▲	20.3	18.4	22.9
ICE Sugar No.11 (AUD)	AUD/tonne	▲	671	611	690
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▲	1,142	1,137	1,126
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	353	303	304
DAP (US Gulf)	USD/tonne FOB	▼	550	570	435
Other					
Baltic Panamax Index	1000=1985	▼	1,667	1,762	1,030
Brent Crude Oil	USD/bbl	▲	86	84	75
Economics/currency					
AUD	vs. USD	▲	0.667	0.661	0.666
NZD	vs. USD	▼	0.609	0.612	0.613
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	•	5.50	5.50	5.50

Source: Baltic Exchange, Bloomberg, Rabobank 2024

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