Rain brings some relief

Australia agribusiness monthly

RaboResearch Food and Agribusiness

June 2024

Rabobank

Disclaimer

Please read the disclaimer below prior to reviewing this publication.

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

Commodity outlooks

Climate

Rains arrived across several of the dry areas in western and southern Australia, but more showers will be needed. ENSO remains neutral, with three global models predicting La Niña by September, which could bring additional beneficial rains later in the season.

Sustainability

New research has improved understanding of the emissions mitigation potential of feed additive 3-NOP in grazing systems. Trial results find that the feed additive reduced emissions while also improving weight gain rates in backgrounding cattle.

Wheat and barley

Fundamentals in the global wheat markets changed from oversupply to potential tightness, which saw a robust rally of double-digit growth MOM on the back of Black Sea dryness and late frost. Australian prices also grew, though at a smaller rate because of the previous seasons' carryover.

Canola

The European decision to impose duties on Russia's and Belarus' oilseeds imports might tighten meal and oil availability in the EU and could become a key price-supporting element. Globally the stock-to-use ratio of canola is expected to slide as bad weather takes tons away from the global inventory.

Beef

Prices continue to track sideways with many cattle categories now surpassing cattle prices from a year ago. Drier conditions in southern Australia heading into winter may cause some prices to ease a little in the coming months.

Sheepmeat

Finished lamb (trade and heavy lamb) prices are seeing a gradual trend upwards which is in line with a more traditional trend. We think this should continue as lamb volumes decline but dry conditions in southern Australia may see restocking, merino and mutton prices slip over the coming months.

Wool

Wool prices expected to remain steady but EOFY and the winter recess may cause some small fluctuations in the market over the coming months.

Dairy

Minimum milk prices for the 2024/25 season have been announced and are broadly in line with Rabobank's expectations. Lower milk prices are on the cards for southern production regions, which will likely mean that there is margin pressure needing to be budgeted for leading into the new season.

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

The Australian food market is still facing some headwinds. The latest monthly data showed food inflation remains sticky, while combined turnover in food retail and foodservice continues to show signs of softness by historical comparison.

Farm inputs

Farm input markets remain quiet as demand is soft and supply outputs are steady. On the other hand, high freight prices are negatively impacting further farmgate price reduction.

Interest rate and FX

The Federal budget and various state budgets last month included big new spending commitments that add to aggregate demand while reducing measured CPI. Much will depend on how the RBA chooses to respond in June. Rabobank forecasts two more rate hikes in August and November and no cuts in 2024 and 2025.

Oil and freight

Brent crude oil as well as Australian diesel prices eased and Rabobank forecasts some more price pressure for brent crude oil. Container freight jumped >50% in May to a new 2024 high due to congestions in major global ports, which will likely make imported goods into Australia more expensive.

Climate

Here comes the rain?

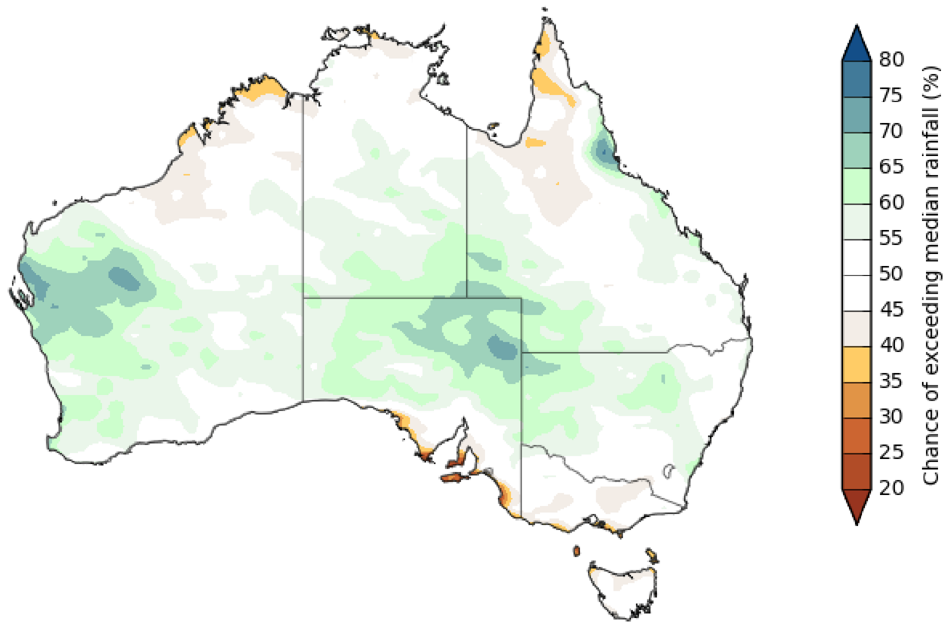
ENSO remains in neutral but there are early signs of La Niña forming later in 2024 as sea surface temperatures in the Pacific cool. Three out of seven international models are predicting a La Niña by September. Despite this, global sea surface temperatures have been the warmest on record for each month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

The Indian Ocean Dipole is neutral, and models expect a positive IOD formation in winter, however, model accuracy is low at this time of year. A positive IOD usually means below-average rainfall for Western Australia and South Australia.

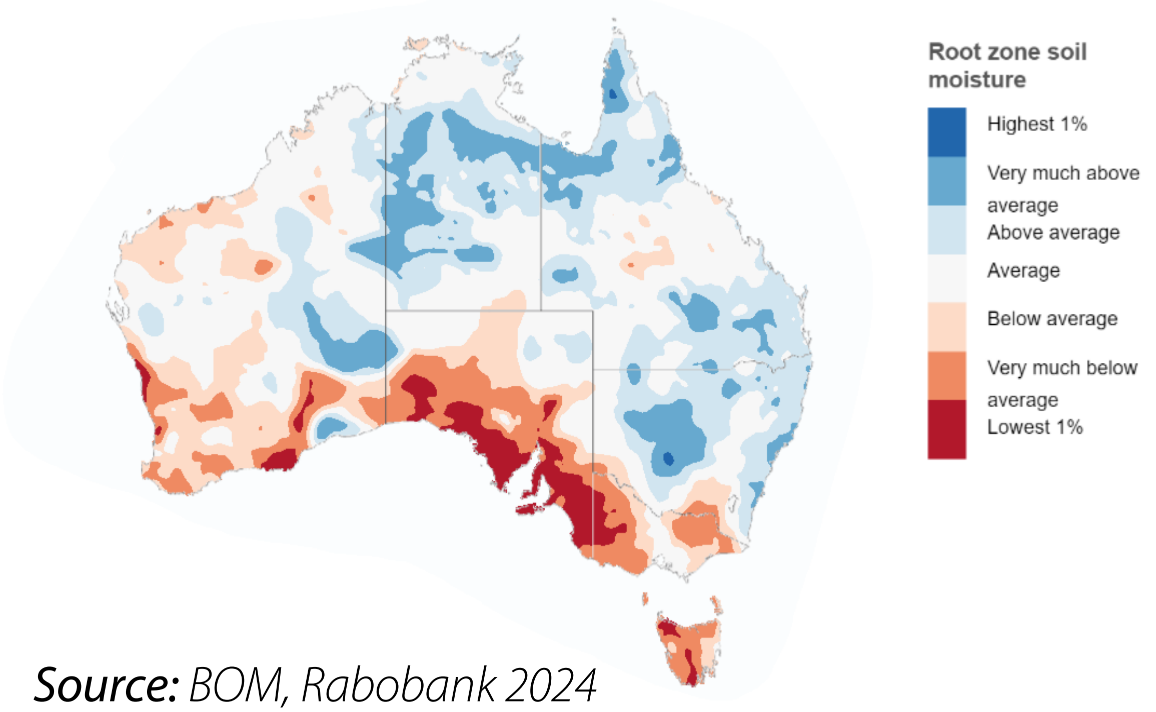
National May rainfall was 34.9% below average. Rainfall was very much below average for South Australia and Western Australia, while heavy rainfall fell on the east coast of New South Wales and Queensland's tropical north.

The BOM reports that the chance of exceeding median rainfall during the June to August period remains moderate in most regions and low for northern Australia. Water storage levels remain high but are slowly declining, currently at 75% for the Murray-Darling Basin.

June-August rainfall outlook



Relative soil moisture, May 2024

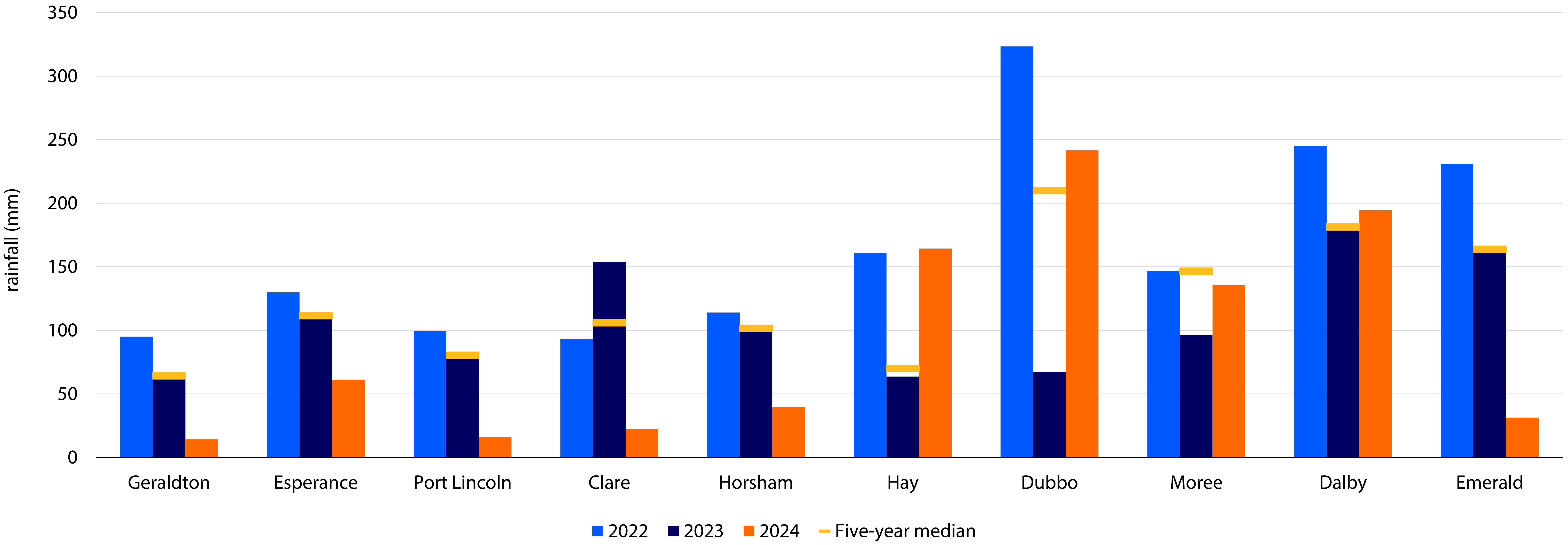


Source: BOM, Rabobank 2024

Climate

Agricultural regions' rainfall – Dry start for Western and South Australia

March-May rainfall



Source: *BOM, Rabobank 2024*

Rabobank

Anna Drake
Sustainability Analyst

Anna.Drake@rabobank.com
X: @itsadrake

Sustainability

New research shows win-wins for feed additive

Promising results have emerged from new industry research trialling methane-reducing feed additives for beef cattle.

Meat and Livestock Australia (MLA), the red meat industry research and development body, has published results from a trial run by the University of Queensland. The research found that **use of the additive Bovaer (3-NOP) reduced methane emissions while also increasing average daily weight gains.**

The trial involved feeding Bovaer to backgrounding cattle using a pellet system. The cattle were split into three groups – one grazing pasture only, one grazing pasture and receiving an energy pellet, and one groups also receiving Bovaer in the energy pellet.

The results, as reported by MLA, showed the additive considerably reduced the amount of methane emitted for each kilogram of weight gained. This meant that **animals reached their target weights faster than without the additive** and achieved a reduction of 340kg of CO_2e per head.

The **economic results were also positive**. The cost of the additive was found to have been more than paid for in the ACCU value of methane reductions and productivity improvements.

With enteric methane accounting for around 70% of Australia's agricultural emissions, options to mitigate these emissions can have a significant impact on the sector's overall emissions footprint.

This is the first time results of this nature have been released in an Australian grazing system context. Previous MLA research on a different type of feed additive (Asparagopsis) in feedlot systems showed more mixed results, where, although methane emissions were reduced, liveweight also declined resulting in no change in methane intensity.

Further research is required to address challenges around delivery mechanisms across different types of production systems. These **results indicate potential productivity benefits associated with the use of the additive** 3-NOP under the conditions in the research.

[1]National Inventory Report, 2022

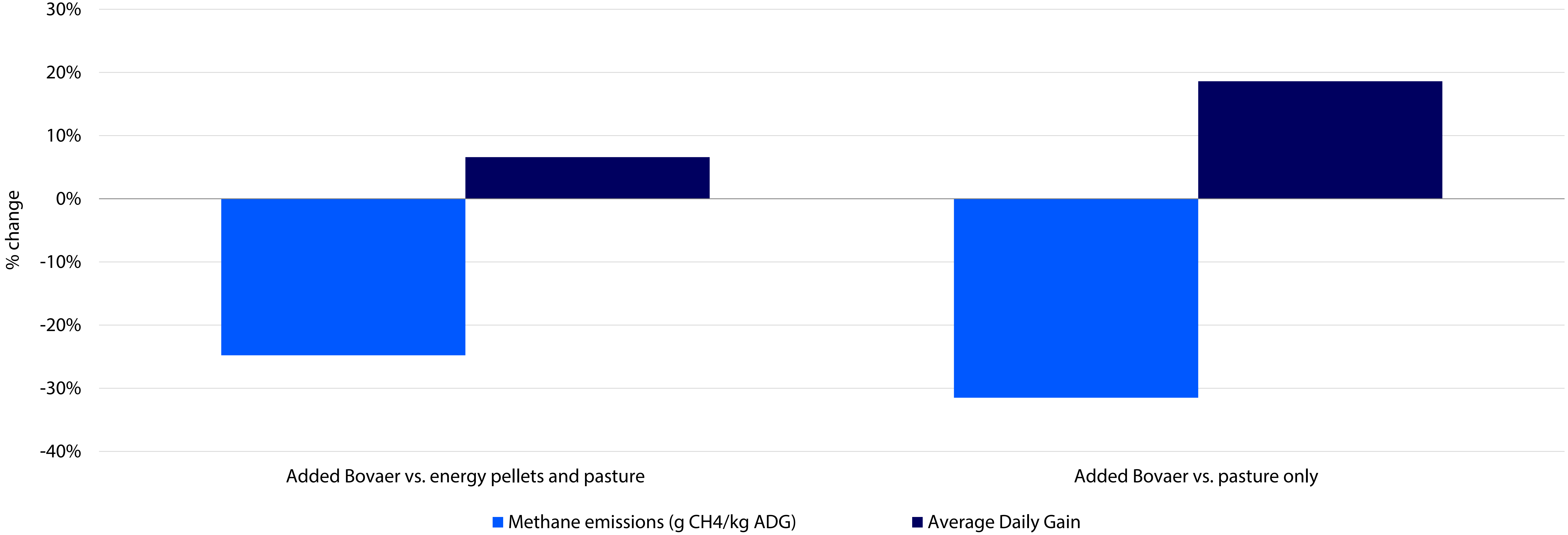
What to watch:

- **The federal budget** – The Australian government announced AUD 63.8m over 10 years to assist the sector's transition to net zero. The package includes funding for research through the Zero Net Emissions from Agriculture Cooperative Research Centre (ZNE Ag CRC), training independent advisors, and improving GHG accounting at both national and farm levels.

Sustainability

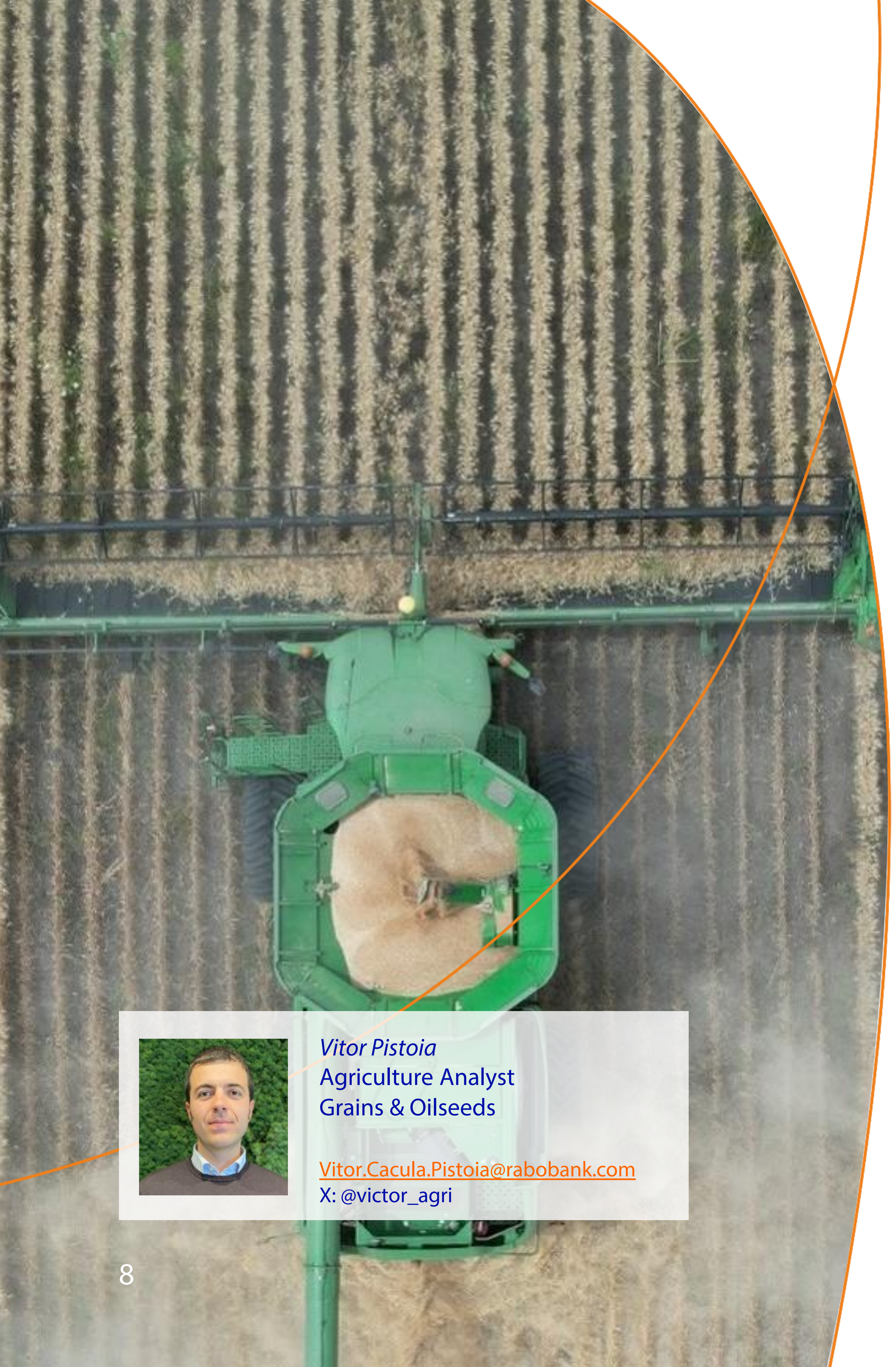
New research shows win-wins for feed additive

Feed additive Bovaer found to reduce methane emissions while increasing daily weight gain in backgrounding cattle



Source: *MLA and the University of Queensland, Rabobank 2024*

Rabobank



Wheat and barley

Rallying on bad weather

Global wheat prices experienced intense rallies in the last 30 days. MATIF Dec/24 future rose by 16.5%, followed by CBOT Dec/24 at 15.6%. The main reason for this is considered to be adverse weather in the Black Sea wheat belt, especially related to the mid-May frost in Russia, an area that was already going through a dry spring. This is expected to tighten global availability. By late March, the expectations were for Russia's wheat crop to reach 90m to 95m tonnes. As of late May, the analysts are trying to quantify by how much the crop might fall below the 81m tonnes mark. The drop of at least 9m tonnes in the 2024/25 crop would be equivalent to a 4% reduction of global wheat exports. **More price volatility is expected in June as the Black Sea and other regions' crop surveys will be updated.**

The ASX Jan/25 price jumped to AUD 393/tonne, a surge of 8% MOM, leading to a negative basis of AUD 24/tonne, compared to CBOT. Despite Australia's exports being on track to move the 2023/24 crop out of the country and to not increase the carryover YOY, the global market seems not to be too concerned with the late season break in WA, SA and Western VIC. The crop impact is hard to quantify and more price upside in the coming months cannot be ruled out once the real impact of the late start becomes clearer.

Australian feed barley prices rose to AUD 326/tonne, using the Adelaide port zone as a reference, putting it as a costly global feed option. US reference corn prices are at the AUD 250/tonne mark and the Brazilian ones are at AUD 290/tonne. Such a difference indicates that the local feed market, and not the overseas one, is considered to be the needle mover for feed barley. On this front, there are signals that Australia's feedlot demand can increase in the coming weeks, which is set to support prices in the near future.

Factoring in all the necessary adjustments in the global grains balance sheets, the ASX wheat outlook seems much more solid than 30 days ago. Rabobank predicts that a price range of AUD 370 to 410/tonne for the next crop and for feed barley of AUD 330/tonne to AUD 350/tonne for Adelaide port.

What to watch:

- **India tariffs removal** – India is expected to remove its import tariffs of 40% on wheat imports, similar to what was done for pulses. The country's supply and demand are predicted to fall 2m to 4m tonnes short this year, at a time when India's ending stocks are at the lowest point in the last 18 years. To make the Indian government's job even more difficult, the official minimum price policy is under market values, fuelling farmers' disappointment and reluctance to sell their crops.
- **US and Canadian wheat and corn crops** – The North American crops are on track to deliver average to above-average yields following good weather. This is acting as a price buffer on the market, mainly because wheat is 'expensive' compared to corn from a historical price-spread perspective. If the weather in the coming weeks is not as positive as it has been, further wheat price upside is possible.

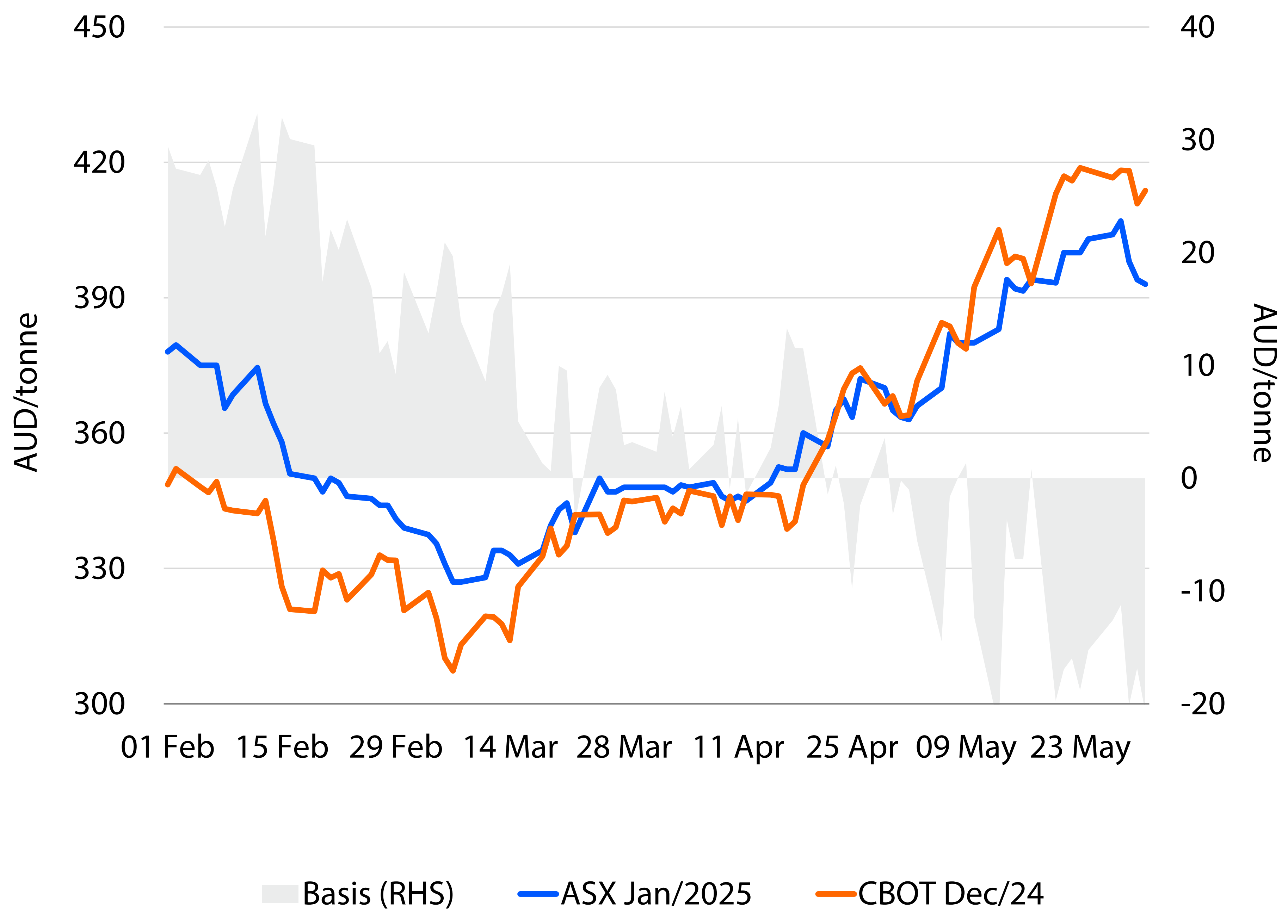
Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

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

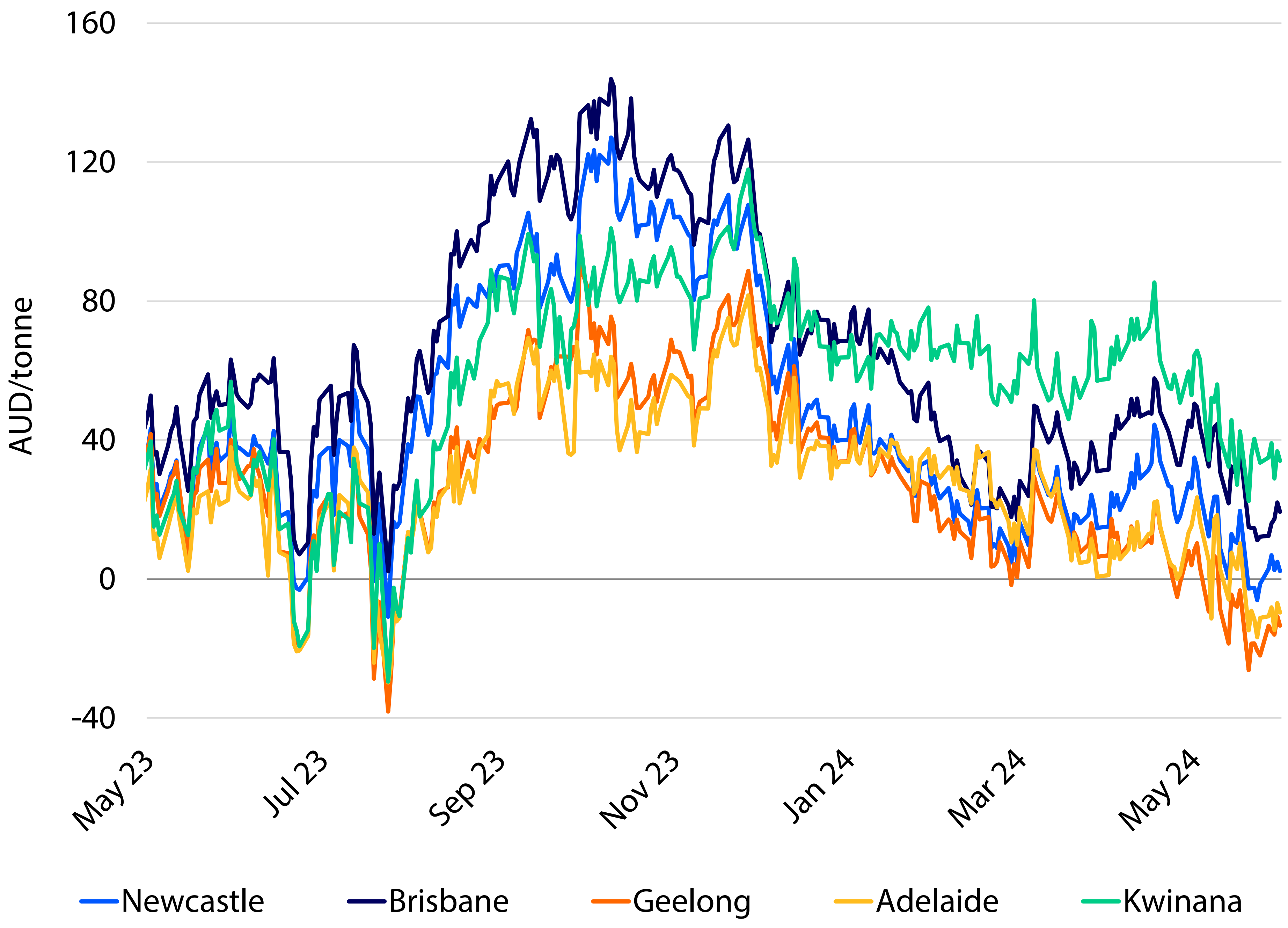
Wheat and barley

Local spot and future wheat prices are being pressured by a bullish Northern Hemisphere market

Next crop basis should bounce back up due to the late season start



Spot port basis are also under pressure



Source: *Bloomberg, Rabobank 2024*

Canola

Black Sea's war and weather might support prices further

Worldwide oilseeds showed higher prices MOM, following weather issues. MATIF canola rose 10.5% as paddocks are muggy in many EU countries and the Black Sea dryness has lowered canola and sunflower production forecasts. ICE canola followed with a 7% boost, to AUD 724/tonne and the Geelong GM port price rose 9% to AUD 689/tonne, reducing the negative basis. **The global availability for major oilseeds has become tighter as bad weather reduces production and the demand is steady for the vegetable oil complex.** The outlier is soybeans, forecast to reach the biggest stock-to-use ratio in the last seven years, with some consumers potentially replacing canola and sunseed with soy.

The recent EU ruling to impose 50% duties on Russia and Belarus' oilseeds imports, with the exception of the linseed complex, starting on 1 July might support canola prices in 2H 2024 and early 2025. These two countries account for 68% of all canola meal and 49% of canola oil imports made by EU member states in the last five years. 2023/24 EU canola meal imports of over 500,000 tonnes are the equivalent of 900,000 tonnes of raw canola. And the consequences for sunflower demand also seem significant. EU imports of sunflower meal from Russia and Belarus are nearly 800,000 tonnes, or 31% of 2023 imports, meaning there might be some substitution among canola, sunflower, soybeans and other oilseeds due to reduced stocks. **The bottleneck, however, will likely be the GM meal split. The EU animal protein sector trades any GM meal with a discount, meaning that local crushers will prefer non-GM imports to fill the gap or they might switch to using soy.**

In such a scenario, Australian canola is likely to triumph, as the non-GM share is significant for national production and seaborne exports do not have to go through the expensive Panama Canal crossing. **Rabobank's non-GM canola price forecast for the next harvest stands at AUD 680 to 730/tonne, with Western Australia at the top of the range due to a shorter inbound to Europe.**

What to watch:

- **Northern Hemisphere summer**– Many EU countries will harvest their canola crops in June, while sunflower and soybeans are growing. Any weather issue, especially heatwaves, can negatively impact yields and support higher oilseeds prices in the next months. Across the North Atlantic, June is also a key period as Canada will finish the canola seeding and, so far, it has a better soil moisture profile than a couple of months ago. Canada is likely to reinforce its position as the key global canola exporter, following Australia's smaller area YOY and the EU duties decision on Russian imports.

Vitor Pistoia
Agriculture Analyst
Grains & Oilseeds

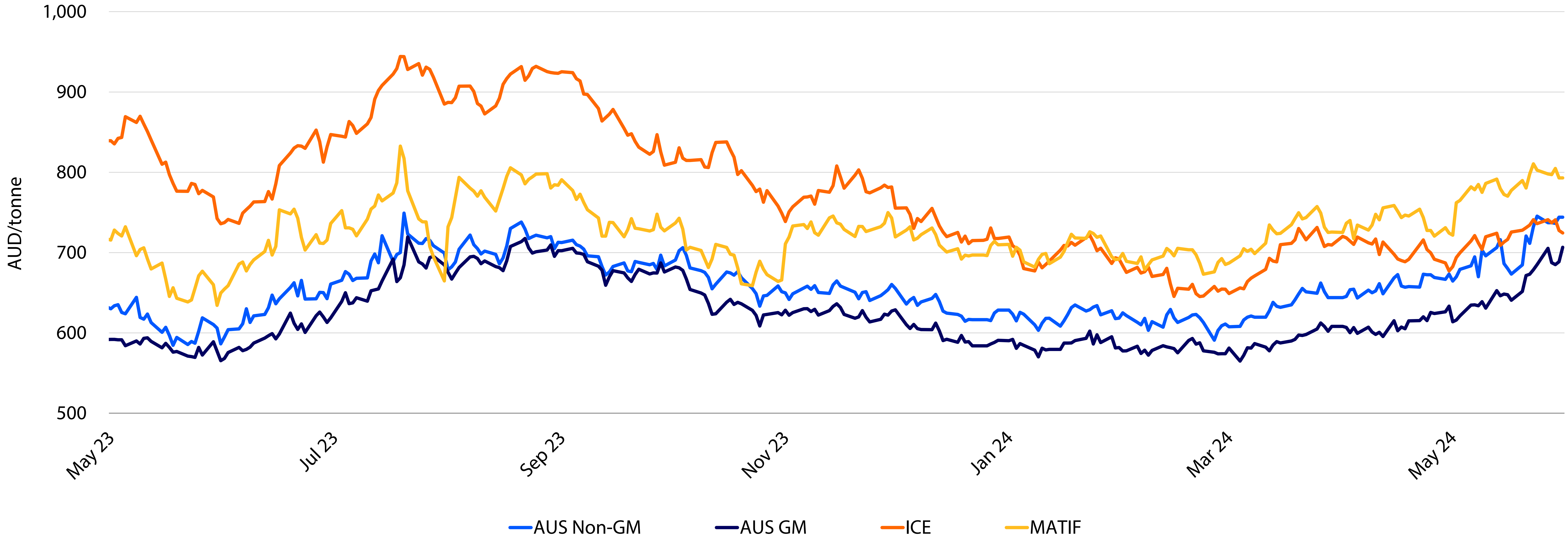
Vitor.Cacula.Pistoia@rabobank.com
X: @victor_agri

Rabobank

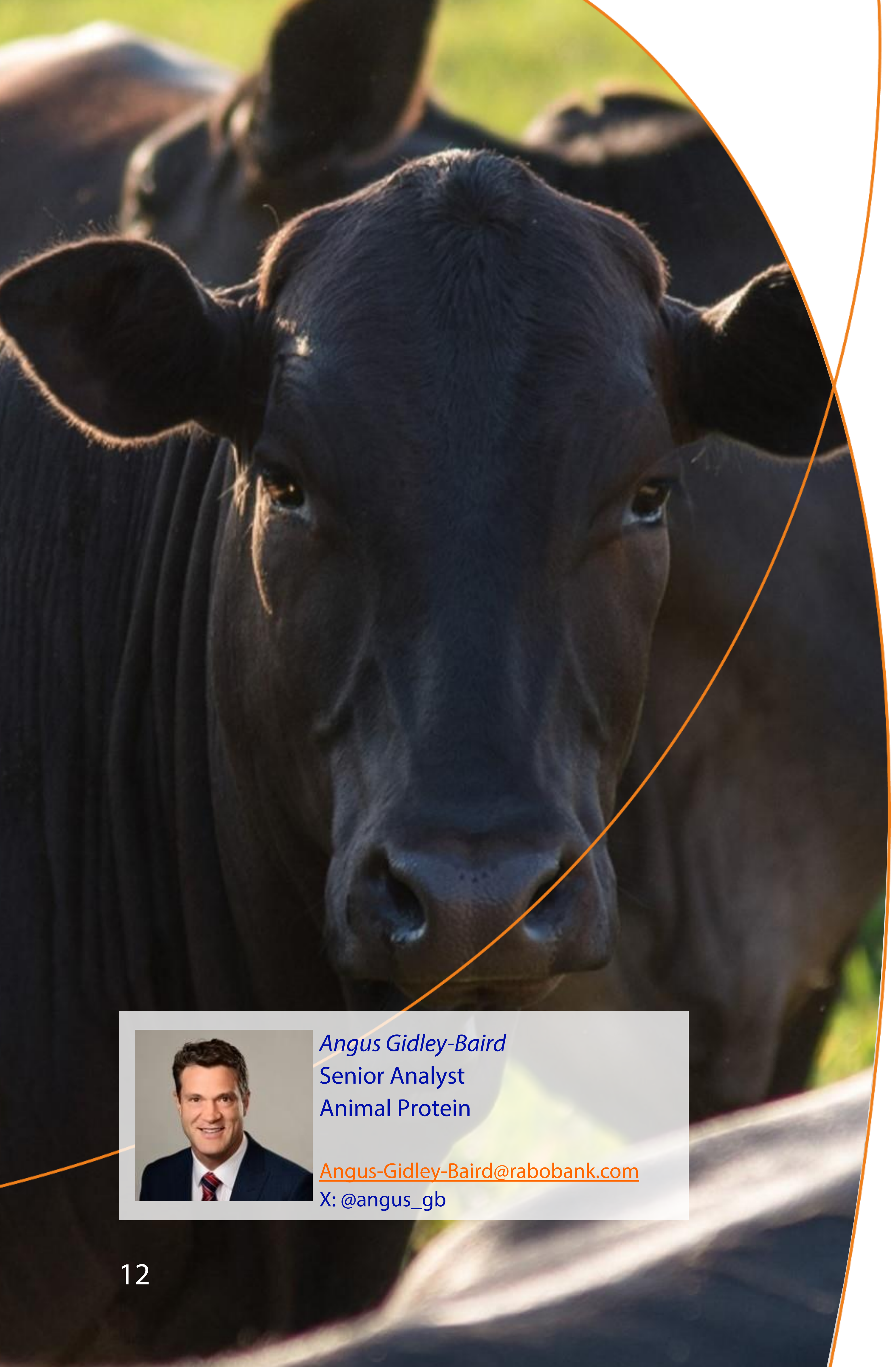
Canola

Prices are improving as global stocks dwindle

Black Sea dryness is boosting canola prices as EU crushers will have to look overseas to secure the supply



Source: *Bloomberg, Rabobank 2024*



Beef

Steady prices now in line with same time last year

Cattle prices continue to track sideways. Most cattle prices have been trading in a very tight band of between AUc 25-AUc 40 since about March, with heavy steers and cull cow prices at the higher end of the range. We believe this reflects a relatively balanced marketplace. At the end of May, the EYCI was AUD 5.97/kg cwt, down 1% for the month and up 3% compared to the same time last year. This now puts most cattle prices in line with prices at the same point last year. **While conditions suggest the market is relatively balanced, dry conditions in southern Australia could see a few more cattle on the market through winter that might lead prices to slip a little.**

ABS Q1 slaughter volumes were released in mid April. Cattle slaughter volumes were up 17% YOY at 1.8m head and production was up 15% at 570,681 tonnes. **These are close to our projections of a 15% increase in slaughte**r. Male slaughter volumes were up 8% and female slaughter volumes were up 30%, with females accounting for 47% of the overall slaughter. While this proportion is close to levels associated with herd liquidation, we believe that it represents the general increase in cattle numbers, age of the herd and lower restocking activity, rather than destocking. Weekly slaughter numbers have been tracking between 130,000 and 135,000 in April with total slaughter for the year-to-date up 15% on the same period last year.

Provisional export volumes up to 30 May show Australian beef exports to be up 20% YOY for the month of May at 109,970 tonnes swt. Export volumes are sitting above the five-year average for Japan and South Korea and are the highest monthly volume since 2019. Volumes to Japan and South Korea are performing well despite the soft demand in these markets, with strong volumes believed to be largely due to reduced volumes from the US into these markets. Volumes to the US continue to increase, up 67% YOY for May at 30,005 tonnes swt – the second-highest volume after December 2023 since 2015. Live cattle export volumes were up 9% YOY in April. Volumes to Indonesia and Vietnam for the first four months of the year were up 68% and 44%, respectively. We believe these increased numbers reflect the increase in cattle numbers in northern Australia.

What to watch:

- **Cattle on feed numbers hit new record** – Cattle on feed numbers hit a new record at 1.35m head in Q1 2024, a 17% increase on Q1 2023. South Australia saw the biggest YOY increase, up 53% to 65,102 – possibly reflecting drier conditions in SA. Queensland numbers rose 24% to 802,451 while WA and Victorian numbers dropped 8% and 2%, respectively. Feedlot capacity remained constant from Q4 2023 but utlisation rates edged up from 81% to 85%. Despite a 15% YOY increase in grainfed cattle turnoff, numbers are only 3% above the five-year average reflecting the higher number of long-fed cattle programs.

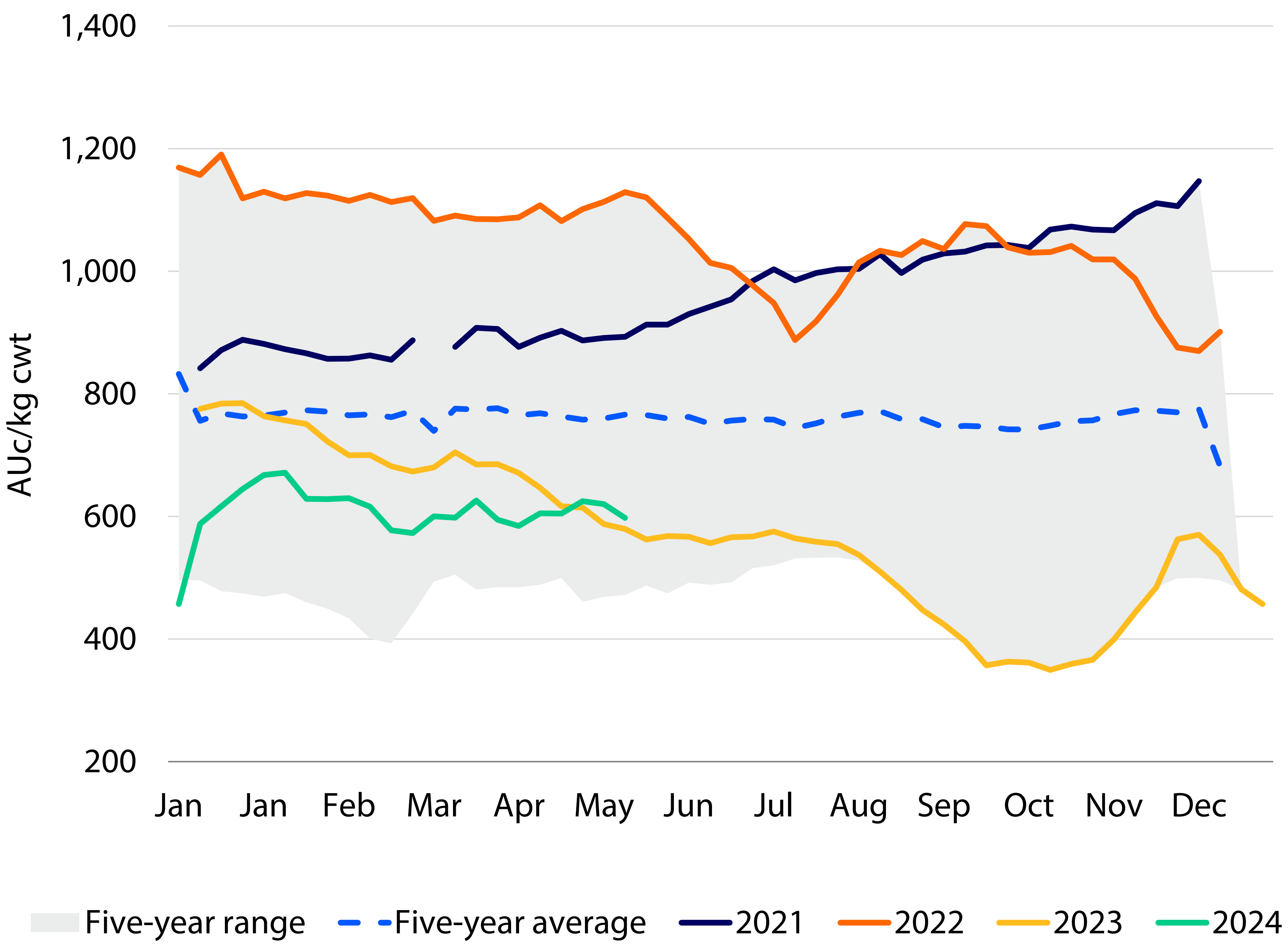
Angus Gidley-Baird
Senior Analyst
Animal Protein

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

Beef

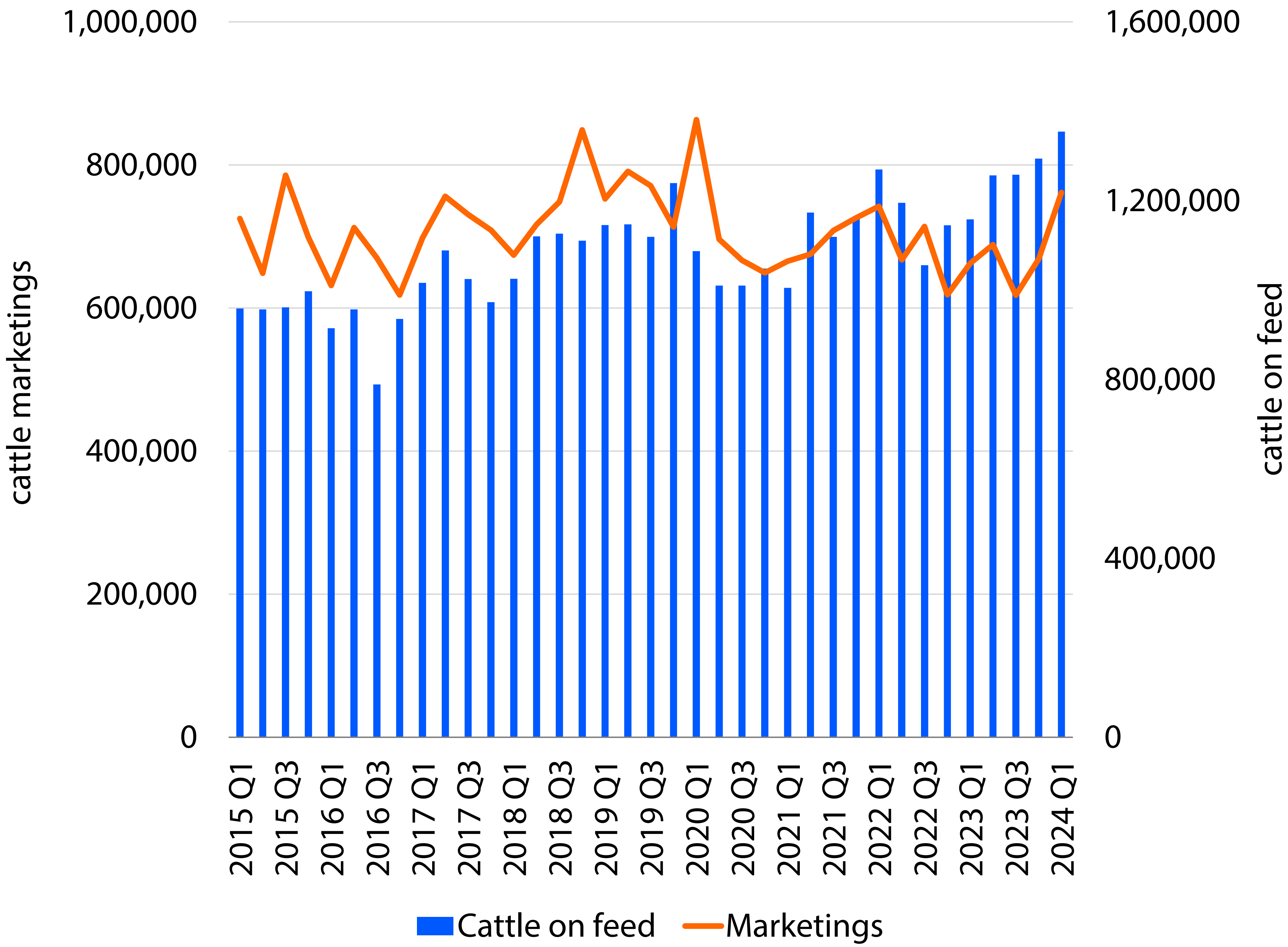
Prices continue to hold while cattle on feed hits new record volumes

EYCI pushes above year-ago levels



Source: *MLA, Rabobank 2024*

Cattle on feed set a new record, marketings increase 15% YOY



Source: *DAFF, Rabobank 2024*

Rabobank

Sheepmeat

Finished lamb prices continue to hold an upward path

Finished lamb prices continue to follow a rising trend, while restocking lambs and mutton trend sideways. This seems reflective of a more normal pricing trend at this time of year and possibly resembles some normality returning to the market. Trade and heavy lambs have managed to move above year-ago prices, now sitting at 16%, and 10% higher than last year's prices. The national trade lamb indicator was at AUD 6.77/kg on 30 May, similar to late April prices. Mutton prices are trading at AUD 2.68/kg, 30% behind last year's prices and reflective of high numbers and drier seasonal conditions in southern Australia. Saleyard numbers of trade and heavy lambs appear to be falling slightly, although the weeks to come will reveal if this trend materialises. Meanwhile, saleyard numbers of restocker, merino and mutton are all tracking similar to 2022 and 2023 numbers. **There are some positive signs in the US market and, together with a possible decline in trade and heavy lamb volumes, we believe current trade and heavy lamb prices should continue to hold at current levels and possibly rise over the coming months. However, drier conditions in southern Australia together with high inventory numbers lead us to believe restocker, merino and mutton prices may slip a little in coming months.**

ABS Q1 slaughter volumes were released in mid-April. Lamb slaughter volumes hit an all-time record of 6.93m head, up 24% YOY. Sheep slaughter volumes were the highest since 2019, up 14% YOY. Combined, these numbers are the highest since the late eighties when there was large sheep slaughter. Weekly slaughter numbers to 24 May show year-to-date lamb slaughter is up 24% and sheep slaughter is up 14% with large increases in Tasmania.

Preliminary export volumes for May show a lift in lamb exports of 23% and a lift in mutton exports of 7% compared to 2023. Lamb volumes to the US have lifted YOY for the seventh month in a row, providing a positive indication that the US market is recovering. Total live sheep exports are up 3% for the first four months of the year at 249,202 head.

What to watch:

- **US lamb market** – The latest quarterly US lamb report was released in May, reporting on the 2023 year. It showed that lamb sales by volume and value declined in 2023, down 2.1% and 6.4% respectively. The drop in revenue from lamb was driven primarily from the drop in the price of lamb, with the average price per pound falling 4.5% between 2022 and 2023. There was a trend away from shoulder cuts to ground lamb cuts, which may be a reflection of a more cost-conscious consumer. The positive news was that volume sales in Q4 2023 increased 5.7% compared to Q4 in 2022, which may be an indication of a recovering market.

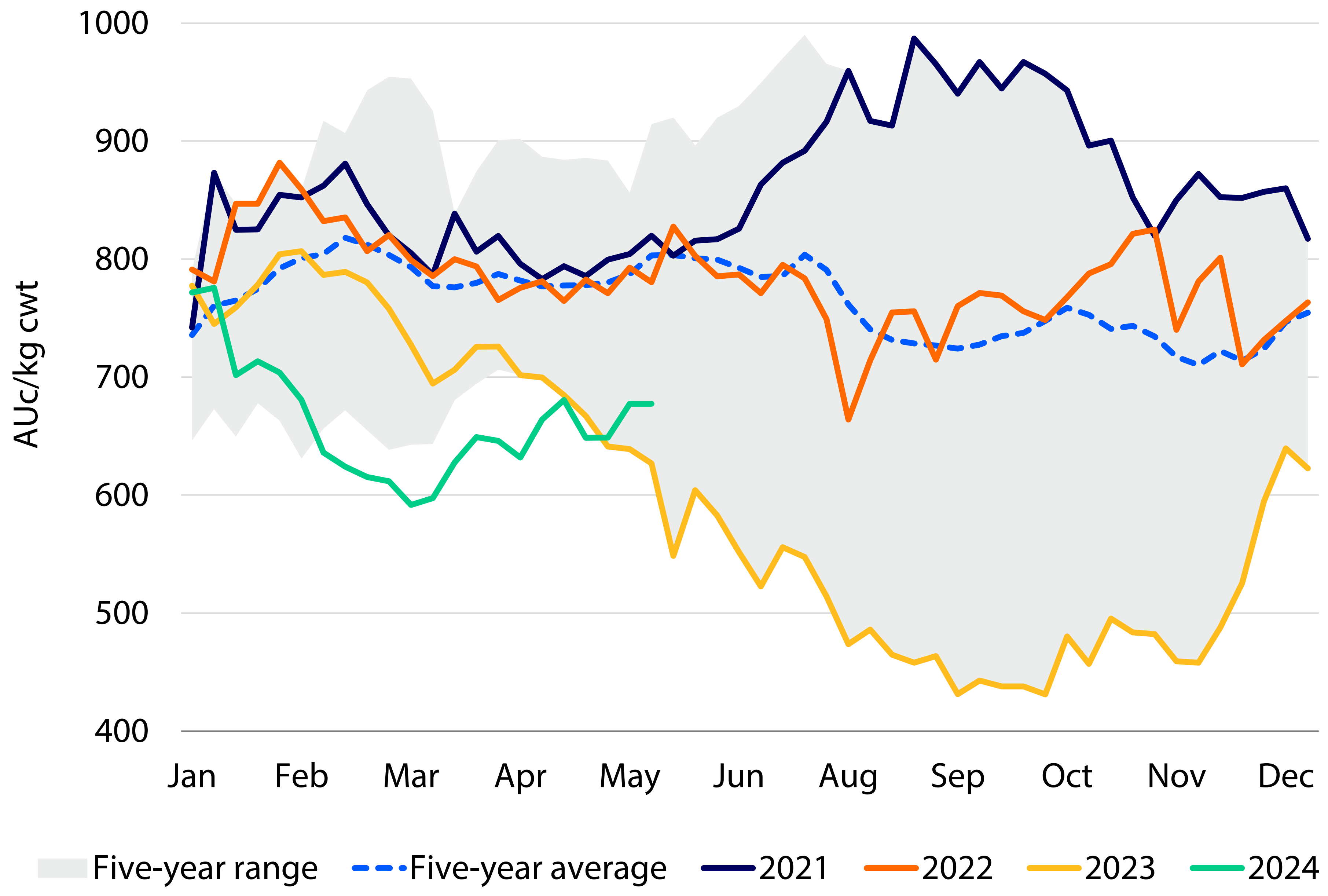
Angus Gidley-Baird
Senior Analyst
Animal Protein

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

Sheepmeat

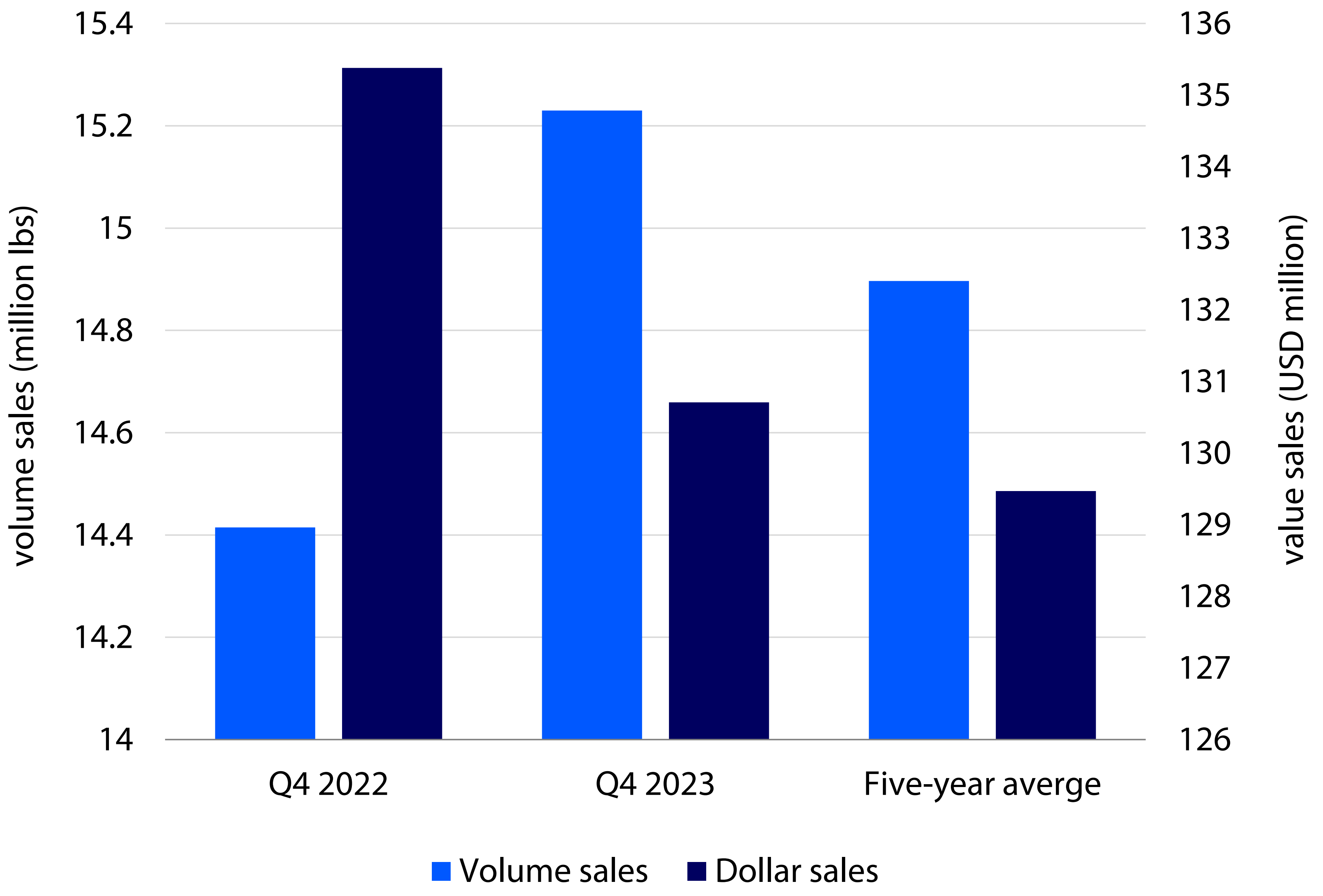
Finished lamb prices continue slow trend up while US market improves

National Trade Lamb Indicator (NTLI) holding upward momentum



Source: MLA, Rabobank 2024

US lamb volume sales rise 5.7% but value down 3.5% YOY in Q4 2023



Source: American Lamb Board, Rabobank 2024

Rabobank

Wool

Prices steady but approach of EOFY may cause some bumps

Australian wool prices have remained largely rangebound for the last four months. The EMI has traded between AUc 1130/kg and AUc 1177/kg since the beginning of February, one of the most stable periods we have seen in the last ten years. On 30 May it was AUc 1137/kg, down 1% from the end of April. The finer microns (less than 21 micron) followed a similar path and were generally down 1%-2% on prices from the end of April. The coarser microns (25 and 28) bucked the trend, rising 2% and 4% respectively over the time period. Wool price deciles show most of the finer (less than 21) microns are trading in or near the 40%-50% decile, with the coarser microns in the bottom decile. **With no strong retail demand movements, we expect wool prices to maintain their current steady trend and slightly drift lower. Although the end of financial year and approaching market recess may lead to some volatility around this trend.**

Australian wool tested volumes dropped 5% MOM in May. After the highest testing volumes recorded for April in the last 10 years, May volumes dropped to 30,150 tonnes greasy weight, down 15.5% compared to May 2023. The volume tested year-to-date is down 3%.

Australian wool exports totaled 33.97m kilograms in March, down 4.6% on March 2023. China remains the largest buyer with 86.2% of the total volume (83.5% by value). India and Italy remain second and third with 4.9% and 5.6% by volume, respectively. Compared to the same period in 2023, total volumes for the year-to-date are up 2%. The average export unit value has dropped from AUD 10.09/kg to AUD 7.95/kg between March 2023 and March 2024. A slight broadening of the clip is evident with the less-than-23-micron accounting for 79.3% of the volume in March 2024, compared to 83.8% in March 2023.

What to watch:

- **Wool sales as end of financial year approaches** – Average wool prices generally dip in late July early August as the market has its recess. Last year, prices didn't drop as much as the average in late July, August. But rather, they lifted slightly in early July and then held through to the end of August. Although there are no clear signs of a dramatically improved retail outlook, in our view, the closure of markets and end of financial year trading might just be enough to cause some movement in what is currently a very stable price period.

Angus Gidley-Baird
Senior Analyst
Animal Protein

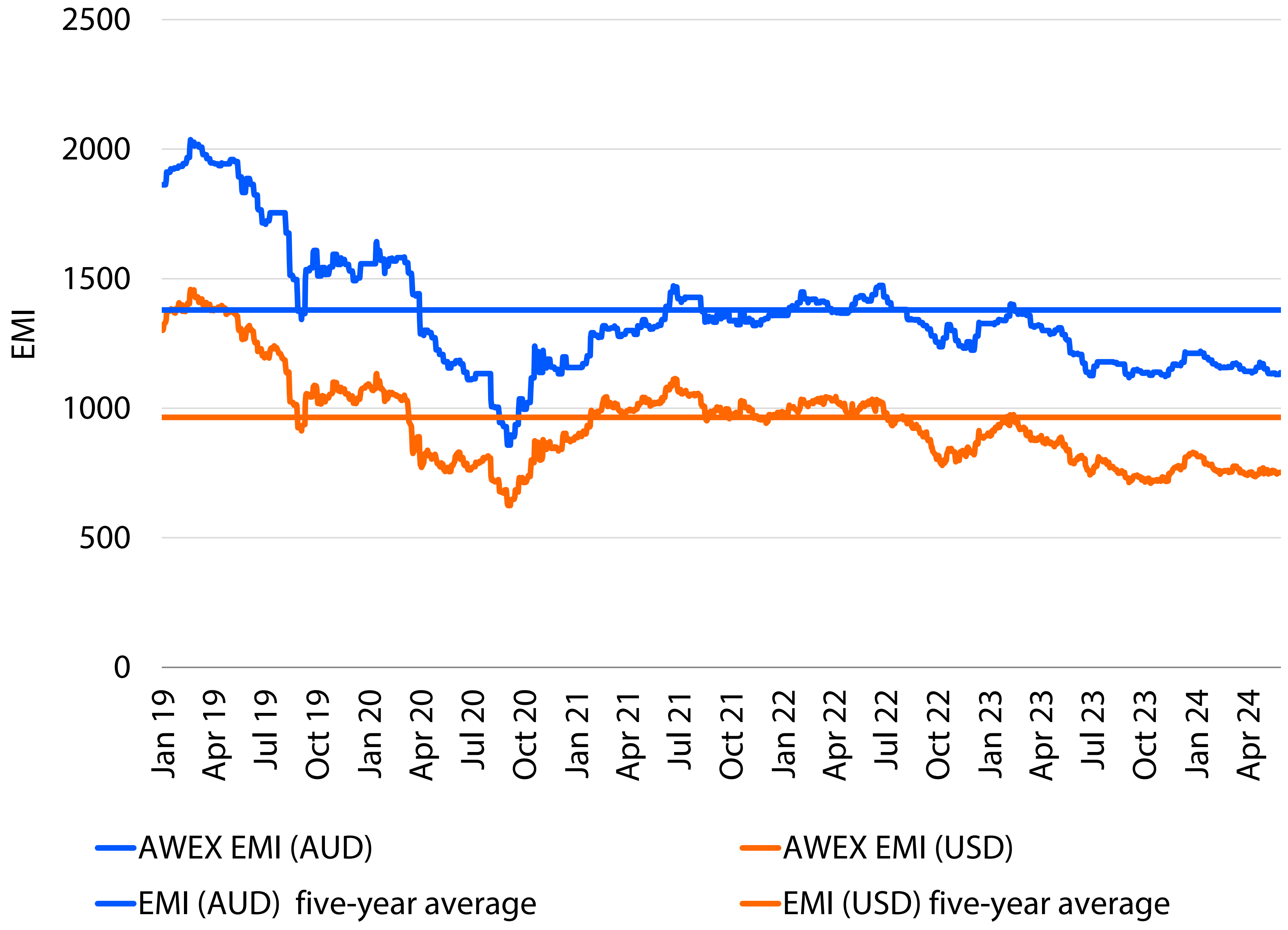
Angus-Gidley-Baird@rabobank.com
X: @angus_gb

Rabobank

Wool

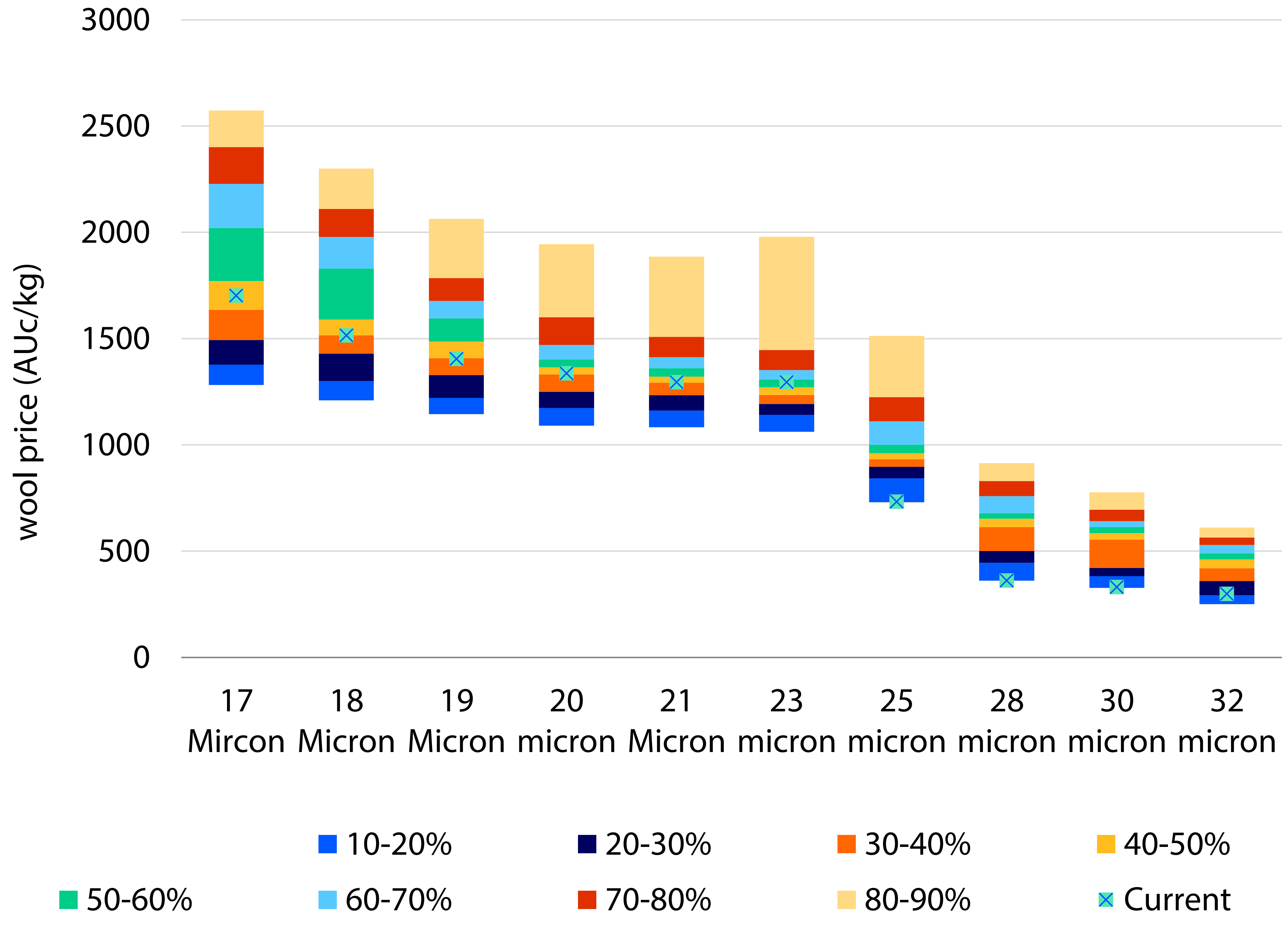
Market holding in one of its most stable periods in the last 10 years

Australian EMI continues to track sideways



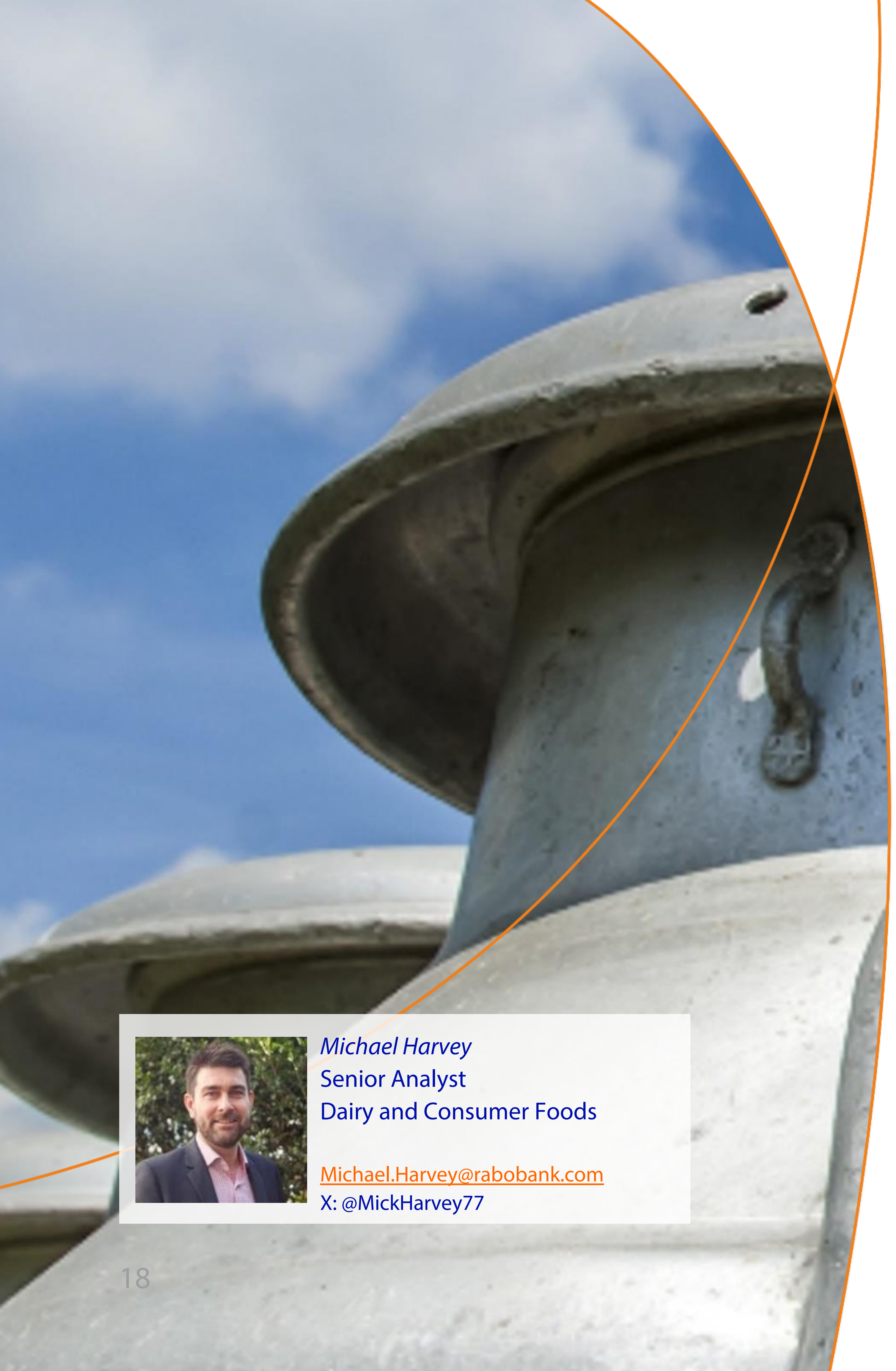
Source: *Bloomberg, Rabobank 2024*

Wool price deciles (2010 to current)



Source: *Bloomberg, Rabobank 2024*

Rabobank



Dairy

2024/25 milk pricing hit the market

Rabobank has modelled minimum farmgate milk prices across the southern Australian manufacturing pool to range between AUD 8.00 and AUD 8.20/kgMS, down ~11% from the current pricing.

Formal minimum milk prices have been released for the 2024/25 season. Across the industry, new season milk prices are broadly in line with market expectations.

From this point, upside to minimum prices will likely need to come from further commodity market recovery.

Soft China import demand remains a drag on the global market. **Rabobank forecasts China's net imports to be 8% lower in 2024 compared to 2023. This will mark the third-consecutive fall in import volumes.**

The combination of stronger milk production and weaker consumer demand will likely diminish the domestic deficit to around 11m metric tonnes (LME) in 2024.

Australian milk production is tracking higher in the 2023/24 season. April production was 2.5% higher than April 2023. This brings season-to-date production growth to 3% but with mixed results across the regions, and Gippsland leading the charge.

Rabobank is expecting milk production to continue to grow into the 2024/25 season. But the rate of growth is expected to lose some momentum as dry conditions in some key milk production regions put the brakes on feed growth.

Fonterra has announced an opening payout range for the 2024/25 season in New Zealand. **The payout range is NZD 7.25-NZD 8.75/kgMS, with a midpoint of NZD 8.000/kgMS.** This current midpoint in the payout is equivalent to AUD 7.40/kgMS.

What to watch:

Upside – New Zealand milk flows

- Milk production for the 2024/25 season is likely to be moderately stronger, due to expected improved weather and weak comparable values.

Downside – Highly pathogenic avian flu

- This is infecting cows in a range of US states. Milk supply has not declined measurably, but the spreading infection remains a key factor to watch from both the supply and consumer demand perspective.

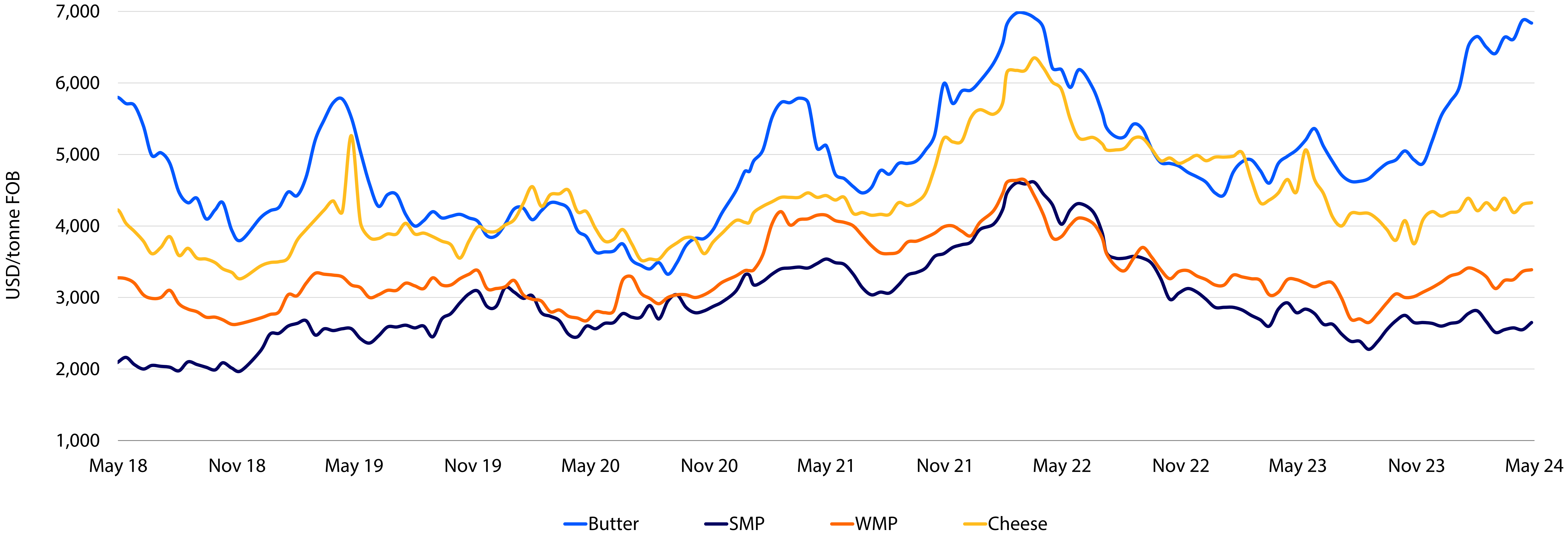
Michael Harvey
Senior Analyst
Dairy and Consumer Foods

Michael.Harvey@rabobank.com
X: @MickHarvey77

Dairy

The pace of recovery in dairy commodity markets continues to slow

Oceania spot prices for dairy commodities



Source: *USDA, Rabobank 2024*

Rabobank

Cotton

Cotton futures hit 18-month low on strong supply outlook

ICE #2 Cotton futures collapsed massively since early April, to 18-month lows. The all-important May WASDE, which provided the USDA's first projections for 2024/25 supply and demand turned out to be a mildly bearish print. From a US perspective, production was pegged at 16m bales (170k bales higher than average analyst estimates) and well above last year's drought-reduced output. Meanwhile, US ending stocks are expected to swell by 1.3m bales YOY to 3.7m bales.

In a similar vein to the US outlook, the USDA is calling for rising global supplies next season, with global production expected to increase by 5.5m bales YOY to a five-year high of 119m bales. The US (+3.9m bales YOY to 16m) and Brazil (+2.1m bales YOY to 16.7m) account for the lion's share of additional supplies. For Australia, initial projections were flat YOY at 5m bales, while worldwide beginning stocks (-0.8m bales to 4m) and exports (-0.7m bales to 5.3m) are both expected to slip YOY. To balance the extra supply, the world would need to grow demand, a task not easy in times of high inflation and economic headwinds.

The US planting campaign made excellent progress in May, with 59% of the crop planted, which is 7pp higher than the five-year average. Although recent above-average rainfall in the Southeast and Texas might lead to minor planting delays, the recent pace helps to alleviate market concerns, and the moisture will benefit crop growth.

Non-Commercials flipped into a net-short position in late April and have since extended it to a 14-month record of -28.2k net lots. The rosy 2024/25 global supply outlook provided by USDA in its May WASDE report, alongside favourable US weather largely explains the switch in speculative sentiment.

What to watch:

- **Current fund positioning leaves ICE #2 Cotton futures susceptible to short-covering,** any signs of late-stage US planting issues or Brazilian harvest problems could act as catalysts. For now, the supply-side picture (painted by the USDA) looks fairly bearish, but that could change…

Paul Joules
Agricultural Analyst
paul.joules@rabobank.com

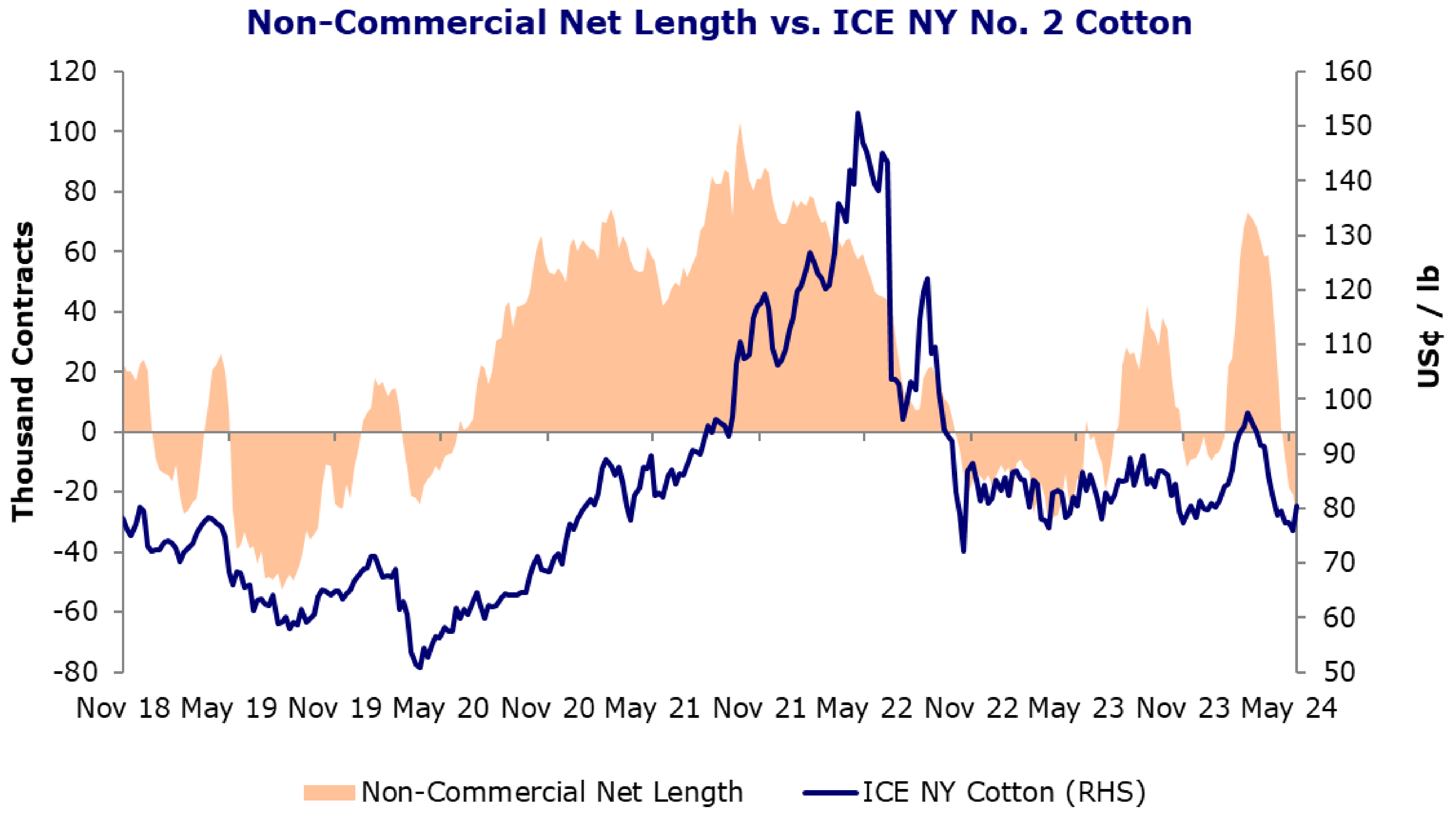
Cotton

Prices reacted to USDA picture of plentiful 2024/25 global cotton supplies released in the May WASDE

ICE #2 Cotton prices collapsed since early April, hitting the lowest point in 18 months as speculators cut their net long positions

Source: *Bloomberg, Rabobank 2024*

Non-Commercials have recently flipped into a new short-position



Source: *Bloomberg, Rabobank 2024*

Rabobank

Consumer foods

Waiting and needing some income relief

The latest ABS monthly food inflation data surprised on the upside. For April 2024, food inflation rose 3.8% versus April 2023 and was sequentially higher versus the March result.

Overall, food inflation is still expected to trend lower in the coming months but energy prices, commodity prices and local weather disruptions to supply could make it a bumpy ride.

Across the broader economy, Australian retail spending continues to grind further down. Performance of the food market is no exception. In April, food retail trade turnover declined 0.5% month-on-month, while foodservice turnover was marginally higher (0.3%).

The combined result was that total food market spend slowed by 0.3% in April versus the previous month.

This result is in nominal terms and not factoring in inflation and population growth.

An average Australian food basket size will remain under pressure in the near-term and products competing for the share of a smaller wallet. ABS data show that food inflation is outperforming some non-discretionary categories such as clothing and footwear.

Suggested tax cuts, some wage growth and a further moderation in inflation, consumer spending should see better times ahead eventually. A tight labour market is providing some support for households.

Michael Harvey
Senior Analyst
Dairy and Consumer Foods

Michael.Harvey@rabobank.com
X: @MickHarvey77

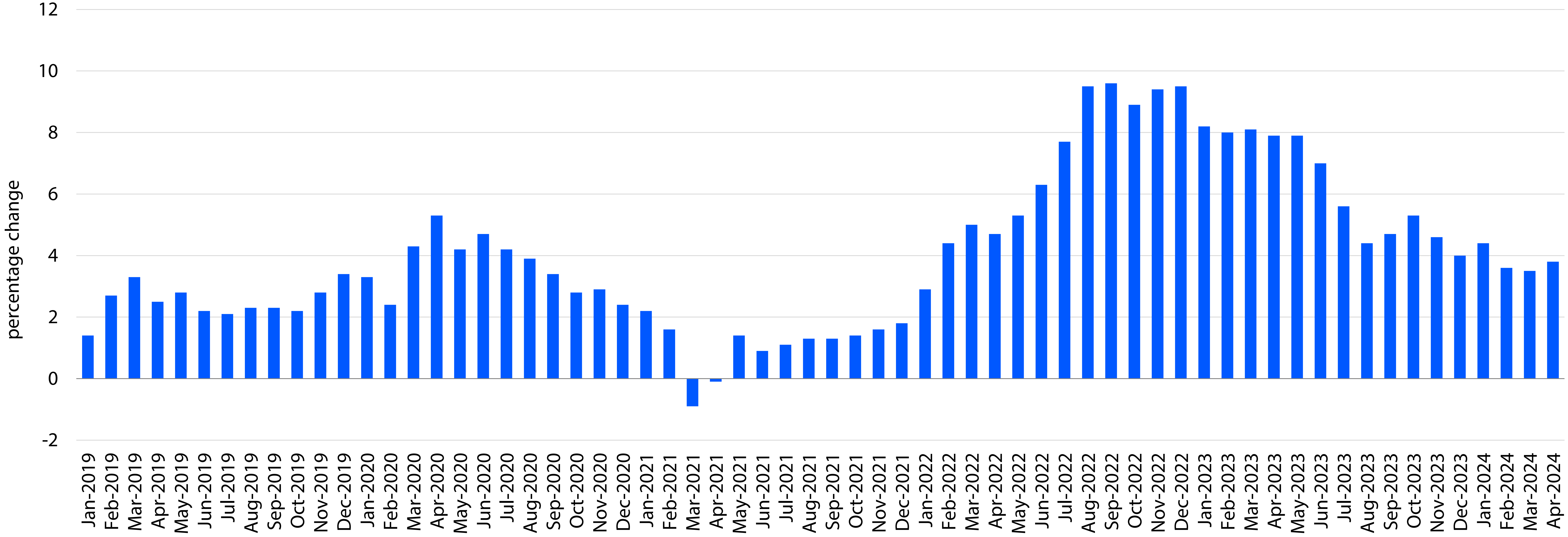
What to watch:

- **A shakeup in Australian dairy aisles** – The announcement by Fonterra Co-operative Group of a potential sale of their Australian dairy business grabbed news headlines. The potential sale of the Australian dairy business is significant in size, with Fonterra operating a foodservice and ingredients business locally, and also being the owner of some well-known retail brands in the cheese case and butter aisle, such as Perfect Italiano and Western Star, respectively. It is unlikely to be a speedy sale.

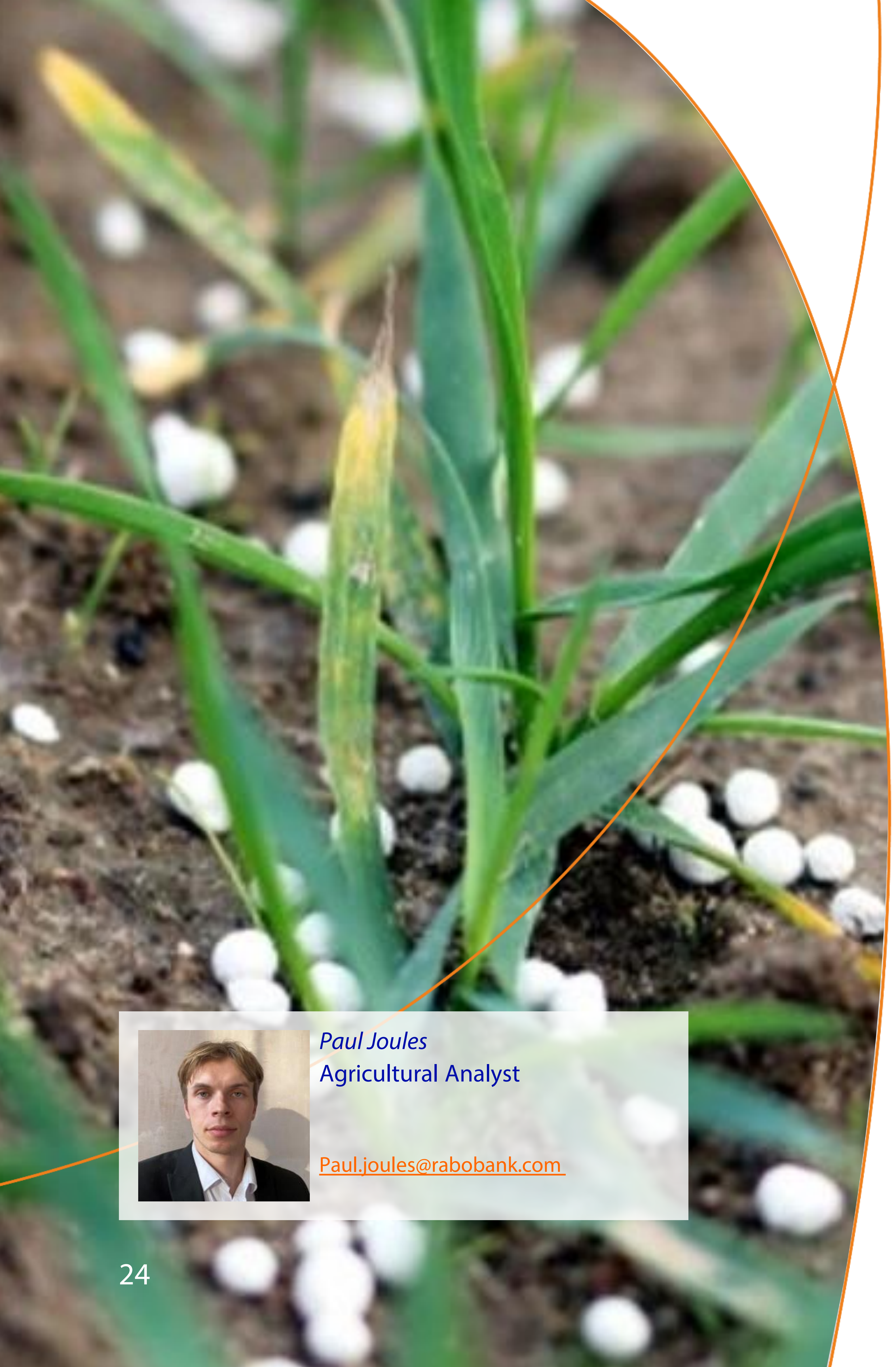
Consumer foods

Food inflation rise, food market turnover remains sluggish

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



Source: *Earning reports of listed FMCG companies, Rabobank 2024*



Farm inputs

A rally in container shipping rates could impact prices

For fertilisers, May was a relatively quiet month on the global front. Ammonium Nitrate FOB Baltic Sea Spot was fairly flat month-on-month, and subpar demand will likely keep it that way in the short term. UAN-30 prices in France also remained weak with very limited transactions taking place in recent weeks. US nitrate prices stabilized over the past couple of weeks following a decline earlier in the month amid waning demand.

In late April, Russia announced the extension of its fertiliser export quotas, which will run from 1 June to 30 November. The new quota is for 19.7m tonnes of fertiliser, of which 12.4m tonnes is nitrogenous fertilisers, which should not limit global availability much.

Australian demand at present remains fairly muted. However, the devastating flooding in Brazil's Rio Grande do Sul state could provide a boost for demand as soil nutrients are suffering there. According to industry data, Brazil will Import around 135,000 tonnes in May.

One factor which may impact FOB fertilizer prices in Oceania is global container rates. The WCI index increased 56% in May, surpassing the previous 2024 high of late January. The risk premium can largely be explained by a combination of continued shipping delays/diversions amid the ongoing Red-Sea crisis and concerns regarding a US-China trade war.

Australia and New Zealand remain sensitive to global nitrogen pricing given parts of both countries have experienced adverse weather, which has resulted in less purchasing than normal, meaning more buying is still to come especially as rains in WA and SA might improve farmer confidence there.

What to watch:

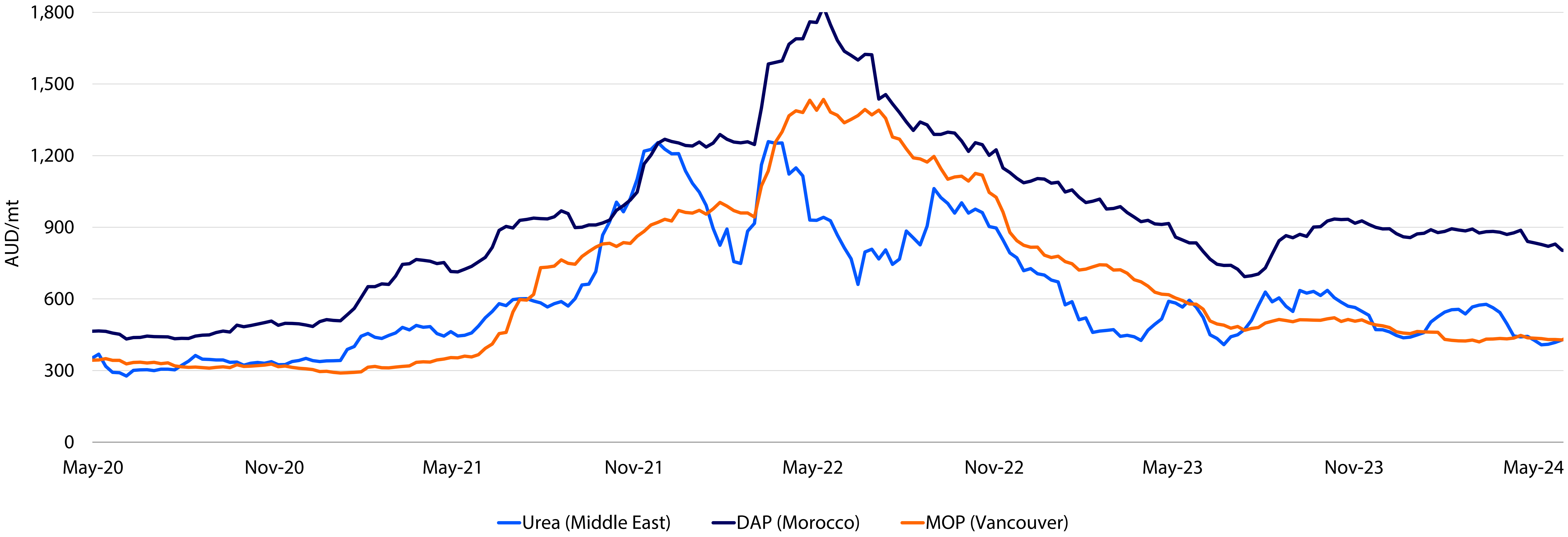
- Keep an eye out for Brazilian demand in the coming weeks amid the ongoing flooding. This has potential to impact global markets.
- We expect shipping rates to be highly volatile amid the ongoing Red-Sea crisis, which could have repercussions for farmgate fertiliser prices.

Paul Joules
Agricultural Analyst
Paul.joules@rabobank.com

Farm inputs

Price stability is 2024's middle name, so far

Global fertiliser prices are still showing comfortable supplies, thus, little room for price upside



Source: *CRU, Rabobank 2024*

Rabobank

Interest rate and FX

Depends how you look at it

The Federal Budget delivered in May was more expansionary than many economists expected, raising the stakes in the fight against inflation. The Federal government expects to spend an extra AUD 20bn over the next two years, not including the AUD 24bn cost of the stage 3 tax cuts that are due to take effect in just a few weeks time.

Various state governments have also loosened the purse strings as they approach elections. The cumulative effect is adding many billions of dollars in fresh demand while the economy is already operating beyond capacity, and inflation remains above the RBA's 2%-3% target band.

There was some bad news on the inflation front last month when the ABS's monthly CPI inflation report for April showed price growth accelerating from 3.5% to 3.6% on the headline reading. On the core reading (the one that the RBA pays most attention to), price growth accelerated from 4% to 4.1%, the third month in a row where prices rose at a faster clip.

The RBA now faces a dilemma of sorts as much of the new government spending is being directed into subsidies for energy, public transport, rents and medicines that will reduce the recorded Consumer Price Index, even though they add to underlying inflation pressures through their effect on aggregate demand.

Markets will be watching the June RBA meeting for clues as to whether the RBA will look through the official CPI numbers to the underlying inflation pressures, or whether they will take a more black-letter approach of being happy to leave rates unchanged so long as recorded CPI is falling.

It is Rabobank's view that underlying inflationary pressures remain sufficiently acute to justify a careful approach from the RBA. Consequently, we updated **our official forecast last month to include two more rate hikes in 2024 (August and November)** to incorporate this view. Our AUD/USD forecast stands at 0.68 on a six-month view and look for a move to 0.70 early next year.

Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

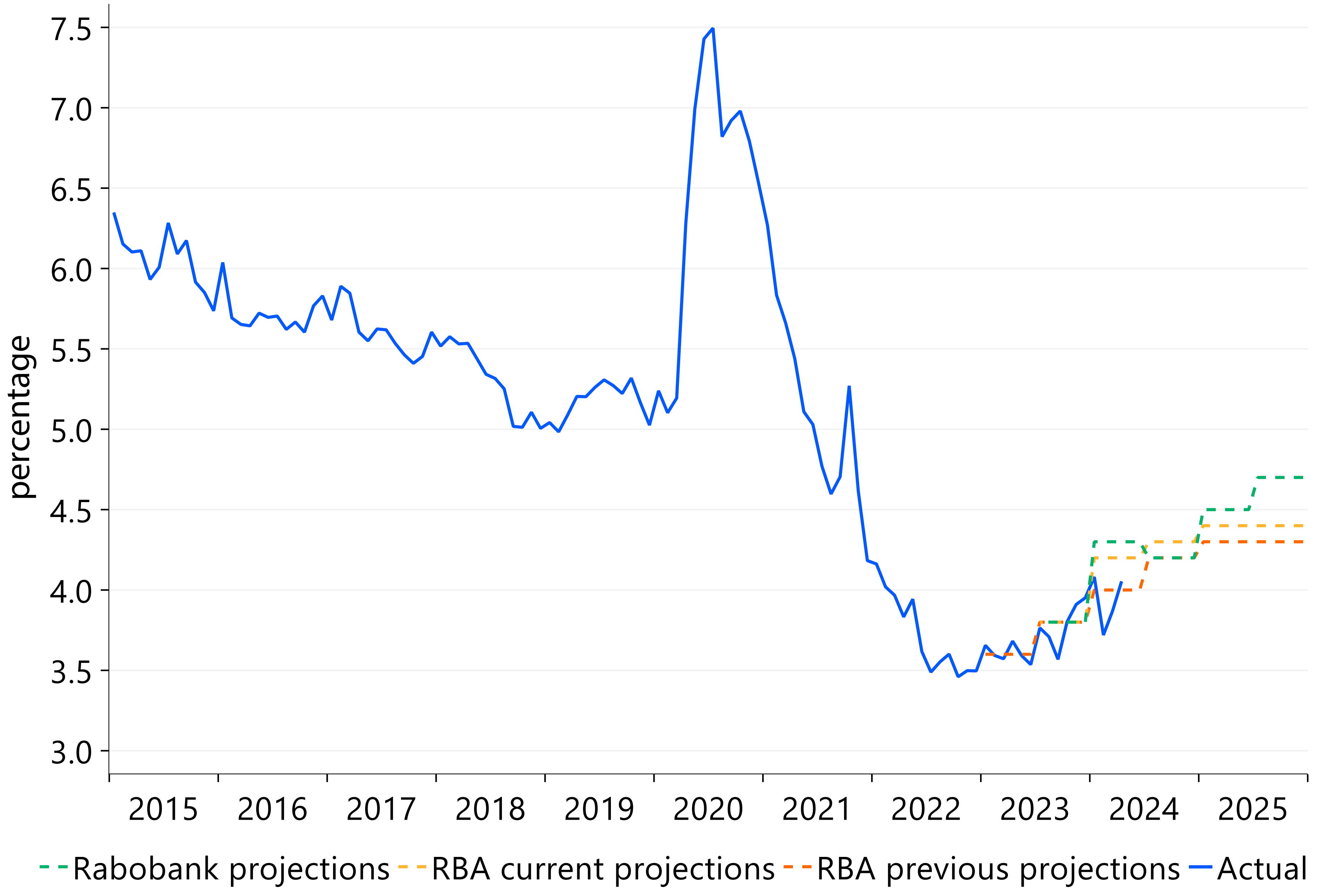
What to watch:

- **May labour force report, 13 June** – The labour market has been gradually loosening since early 2023 but remains extremely tight by historical standards and beyond the RBA's definition of 'full employment'. Another strong jobs report would be a concern for the inflation fight.
- **RBA policy rate decision, 18 June** – The June policy rate decision ought to give some clues on how the RBA views governments using subsidies to reduce the Consumer Price Index. Will they see that as genuine inflation reduction, or will they look through the numbers to the underlying inflation pressures in the economy?

Interest rate and FX

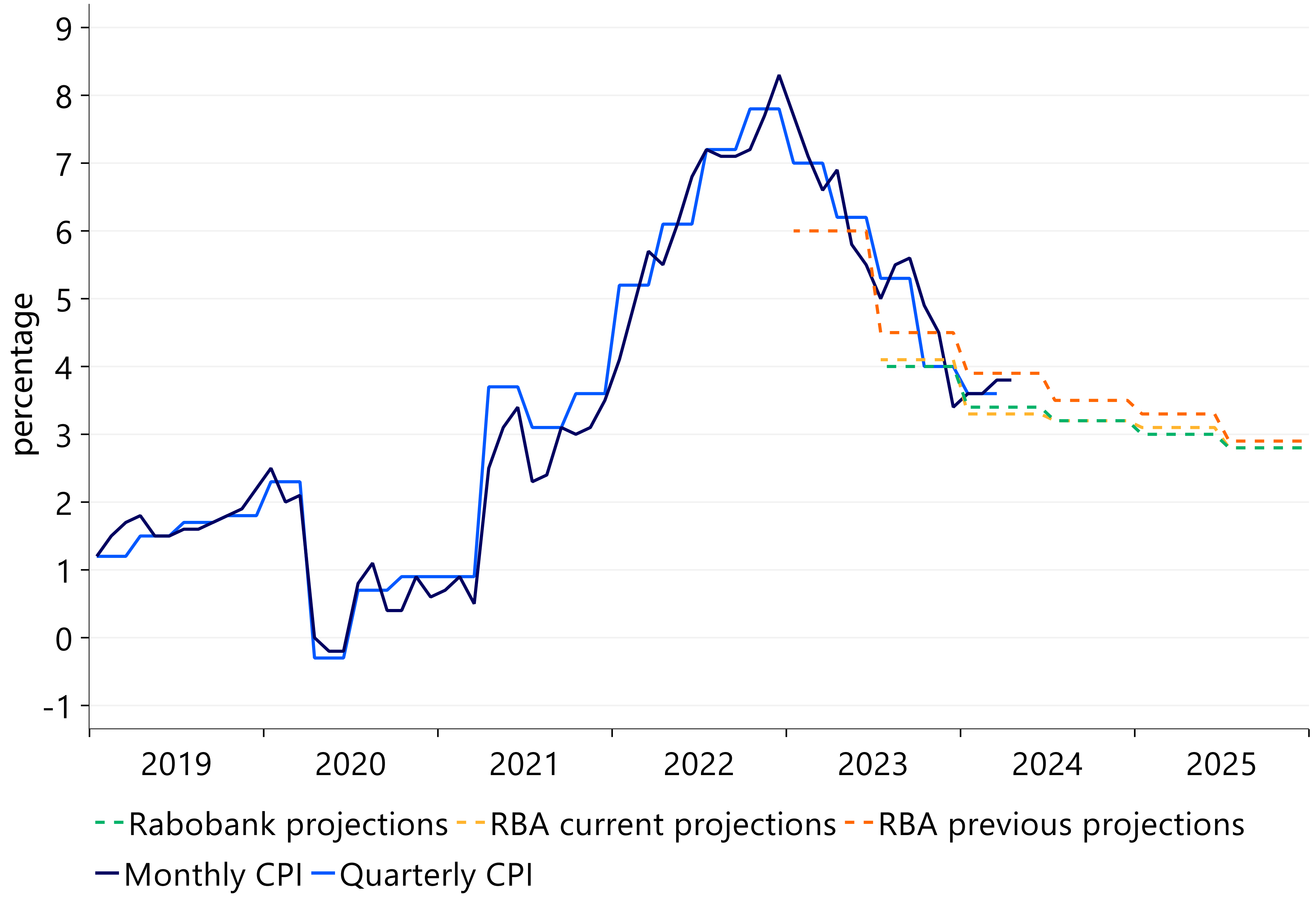
Is higher inflation a blip, or a new trend?

Australian labour force indicators

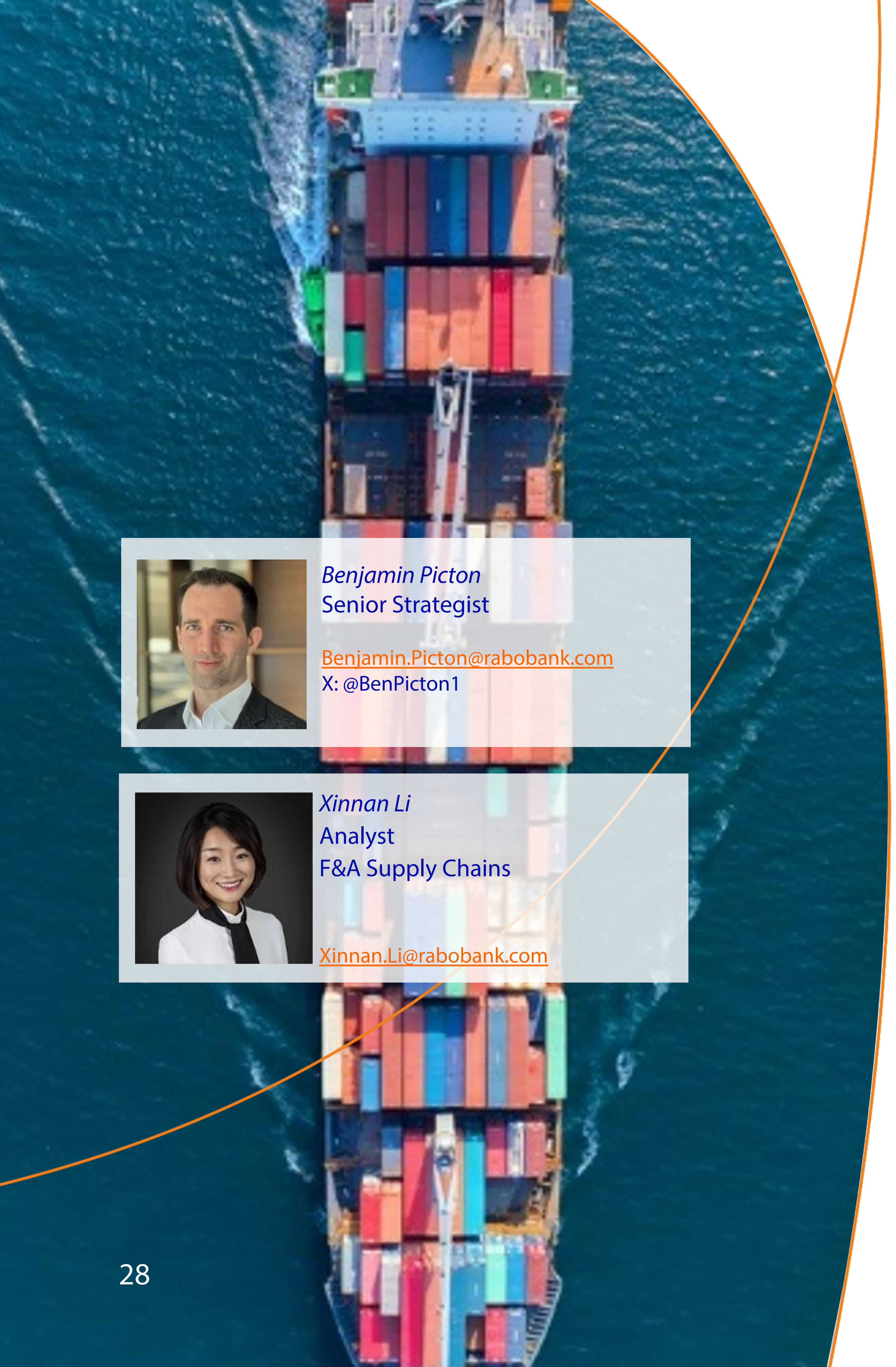


Source: *Macrobond, ABS, RBA, Rabobank 2024*

Australian inflation indicators



Source: *Macrobond, ABS, RBA, Rabobank 2024*



Benjamin Picton
Senior Strategist

Benjamin.Picton@rabobank.com
X: @BenPicton1

Xinnan Li
Analyst
F&A Supply Chains

Xinnan.Li@rabobank.com

Oil and freight

Finally, some good news as oil prices ease

Brent crude recorded its first monthly loss of the year in May. The active futures contract closed the month down 5.26% to USD 81.11/bbl as soggy economic data from the US and disagreement between producers over further production cuts took momentum out of the market.

Rabobank's energy analysts expect crude prices might experience further weakness in the short term, with prices in the high 70s to be tested. Over a longer timeframe, we remain relatively bullish as we expect production in the US to deteriorate and interest rate cuts in key markets to drive increased demand.

Diesel prices also remained under pressure in May.

Freight: As global and regional trade demand recovers, congestion arises at key ports in Asia and the Western Mediterranean. This drives up global freight rates as vessels get tied up due to congestion. Global freight rates normalised earlier this year after the initial shock from the Red Sea situation but are now reaching a tipping point again. Vessels are forced into blank sailing at congested ports, further shrinking the available vessel capacity that is already tight from re-routing the Red Sea. We do expect the congestion to slowly resolve and vessel capacity to expand as new vessels come online throughout the year, but the currently tight capacity leaves hardly any room for future disruptions. Watch out for volatility.

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.

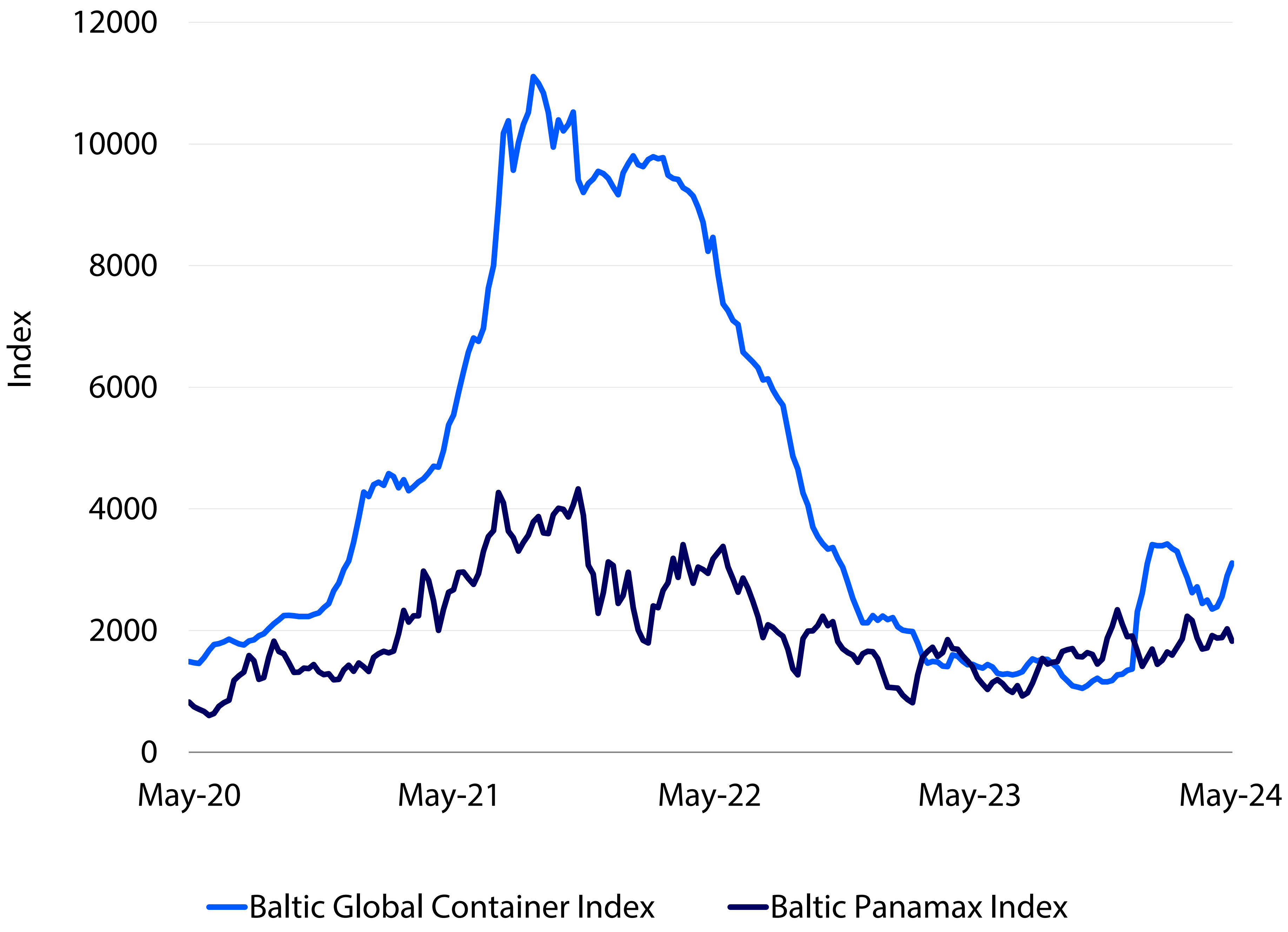
What to watch:

- Will rains improve the Panama Canal reduced shipping capacity and pressure container freight rates?
- Can brent crude oil break below USD 80/bbl and remain there?

Oil and freight

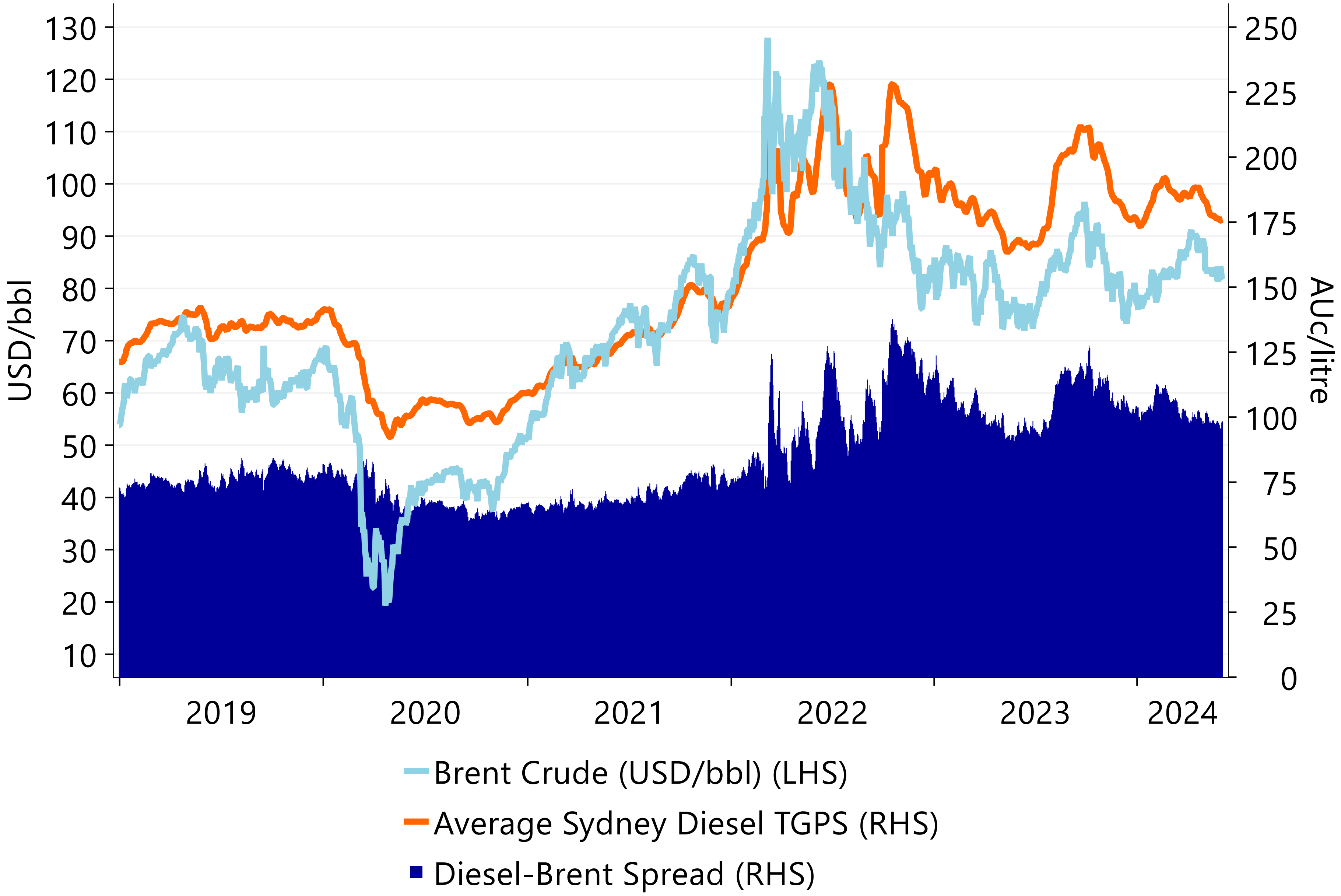
Container rates jump 50% in May and diesel prices moved sideways despite slight easing of crude

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*

Agri price dashboard

30/05/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	684	585	611
CBOT soybean	USc/bushel	▲	1,216	1,146	1,330
CBOT corn	USc/bushel	▲	455	440	593
Australian ASX EC Wheat Track	AUD/tonne	▲	385	341	379
Non-GM Canola Newcastle Track	AUD/tonne	▼	641	657	596
Feed Barley F1 Geelong Track	AUD/tonne	▲	334	322	323
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▼	597	599	580
Feeder Steer	AUc/kg lwt	•	318	318	324
North Island Bull 300kg	NZc/kg cwt	▲	605	590	590
South Island Bull 300kg	NZc/kg cwt	▲	545	535	540
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	681	664	627
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	630	615	755
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	625	590	760
Venison markets					
North Island Stag	NZc/kg cwt	•	860	860	885
South Island Stag	NZc/kg cwt	•	850	850	885
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▲	6,838	6,613	5,063
Skim Milk Powder	USD/tonne FOB	▲	2,650	2,575	2,788
Whole Milk Powder	USD/tonne FOB	▲	3,388	3,250	3,250
Cheddar	USD/tonne FOB	▲	4,325	4,188	4,475

Source: Baltic Exchange, Bloomberg, Rabobank 2024

Agri price dashboard

30/05/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	89.6	88.3	94
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	81.1	77.9	86
Sugar markets					
ICE Sugar No.11	USc/lb	▼	18.4	19.7	24.9
ICE Sugar No.11 (AUD)	AUD/tonne	▼	612	661	748
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,137	1,154	1,209
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	▲	303	293	328
DAP (US Gulf)	USD/tonne FOB	•	570	570	520
Other					
Baltic Panamax Index	1000=1985	▼	1,762	1,845	1,030
Brent Crude Oil	USD/bbl	▼	84	88	74
Economics/currency					
AUD	vs. USD	▲	0.661	0.647	0.657
NZD	vs. USD	▲	0.611	0.589	0.607
RBA Official Cash Rate	%	•	4.35	4.35	3.85
NZRB Official Cash Rate	%	•	5.50	5.50	5.50

Source: *Baltic Exchange, Bloomberg, Rabobank 2024*

Keep Up to Date With the Latest Food & Agribusiness Insights

Tune in to our RaboResearch Podcast series

Make our insights your advantage

Meet our RaboResearch Food & Agribusiness Australia and New Zealand team

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

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

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

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

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

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

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

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

Vítor Caçula Pistóia
Agriculture Analyst
+61 473 862 667
Vitor.Cacula.Pistoia@rabobank.com
X @victor_agri

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