A hot spring: Opportunities and risks

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Rabobank

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Commodity outlooks

Climate

ENSO remains neutral, with three global models predicting La Niña by October, which could bring additional beneficial rains to Australia later in the season. The spring rainfall outlook looks positive for the east coast, while drier conditions are expected in Western Australia.

Sustainability

New agriculture-specific emissions reduction targets from a major local retailer are expected to drive a focus on supply chain emissions measurement and decarbonisation action.

Wheat and barley

Little has changed for global wheat and feed grains in recent months. The plentiful North American corn and wheat harvest is on track, and challenges for EU and Black Sea wheat do not appear strong enough to alter the outlook for sufficient ending stocks.

Canola

Climatic problems across Europe and the Black Sea are tightening canola and sunflower supplies and might support canola import demand from the EU. Trade tensions between Canada and China could lead Canada searching for alternative options to market its GM canola crop.

Beef

Cattle prices continue to slowly track upward with processor cow prices the first category to break above the five-year average. High female slaughter numbers are creating questions about whether the herd is in liquidation. We don't think this is the case. Instead, we believe the slaughter numbers reflect higher numbers of cattle in the system.

Sheepmeat

A dramatic drop in lamb slaughter volumes through August helped rebalance the supply-demand equation. We believe this will support prices at current levels. The question remains whether the total lamb drop will be lower this season or just delayed.

Wool

Wool prices declined in August as demand headwinds pushed prices lower. Australian export data disappointed amid a notable decline in Chinese shipments.

Dairy

There were signs of life in dairy commodity markets in August. However, the global fundamentals remain evenly balanced, and more upside is required to push up farmgate prices. The key focus is on New Zealand milk supply as the season ramps up and the ongoing rebalancing of milk supply in China.

Cotton

Global cotton prices found support in August, with the ICE #2 Cotton contract rising modestly. The primary driver for recent price action is weather issues in Texas. However, global demand headwinds will likely limit major upside going forward.

Consumer foods

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

Farm inputs

Month-on-month price movements were modest across fertilisers as uncertainty regarding global demand kept prices trading range-bound. On the supply side, China remains absent from the export market and natural gas prices remain volatile.

Interest rate and FX

Unemployment ticked higher in August and the monthly inflation series suggested some moderation. Nevertheless, the RBA signaled a 2024 rate cut is not on the cards and the Aussie dollar rallied in response.

Oil and freight

Oil prices continued to moderate in August and could slide further in September as demand shows signs of easing. Seasonal demand patterns are expected to place upward pressure on freight rates in the near-term before increased container supply provides longer term relief.

Climate

Positive rainfall outlook stepping into spring

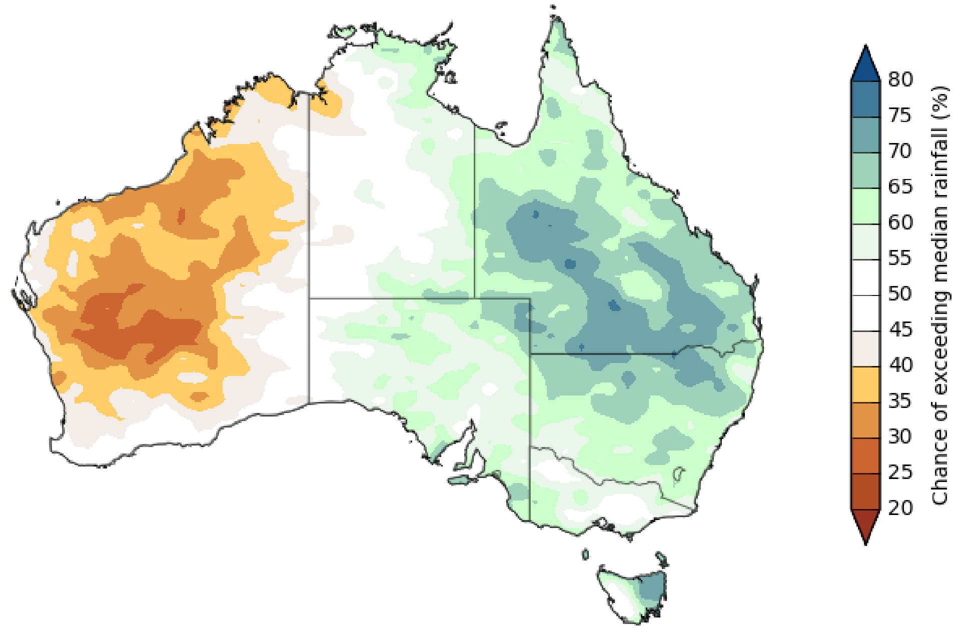
El Niño-Southern Oscillation (ENSO) remains in neutral, with potential for La Niña to develop in late 2024. Three out of seven international models are predicting La Niña conditions by October. Record-warm sea surface temperatures from April 2023 to June 2024 have resulted in an unprecedented pattern of sea surface temperatures, affecting the ability to predict ENSO and Indian Ocean Dipole (IOD) events.

The IOD remains neutral, with most climate models expecting the IOD to remain neutral through spring. However, model accuracy is low at this time of year.

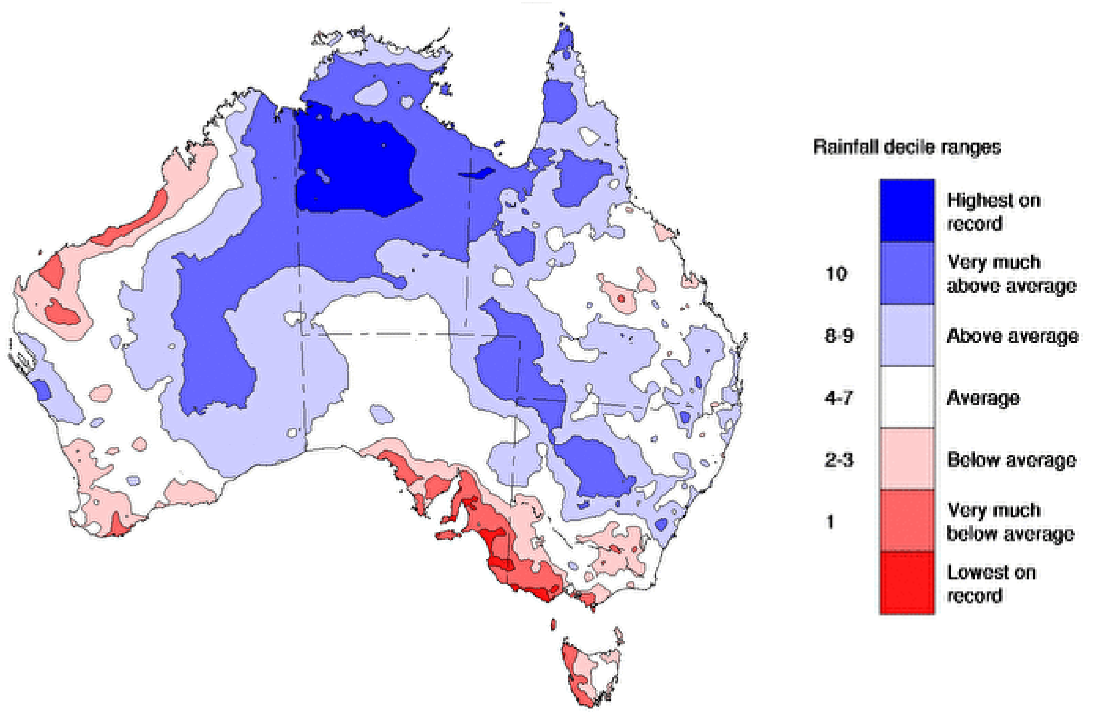
National rainfall in August was 4.8% below average. Rainfall was below average for southeastern Australia. Meanwhile, there was high rainfall along the coast of Queensland and parts of central and southern Western Australia.

The Bureau of Meteorology (BOM) reports that over the next three months rainfall is likely to be above average for the east coast of Australia, with a lower chance of above-average rainfall in Western Australia. Murray-Darling Basin water storage levels increased over the month of August and are currently at 82% of capacity as of 14 August 2024.

September-November 2024 rainfall outlook



Rainfall deciles, January-August 2024

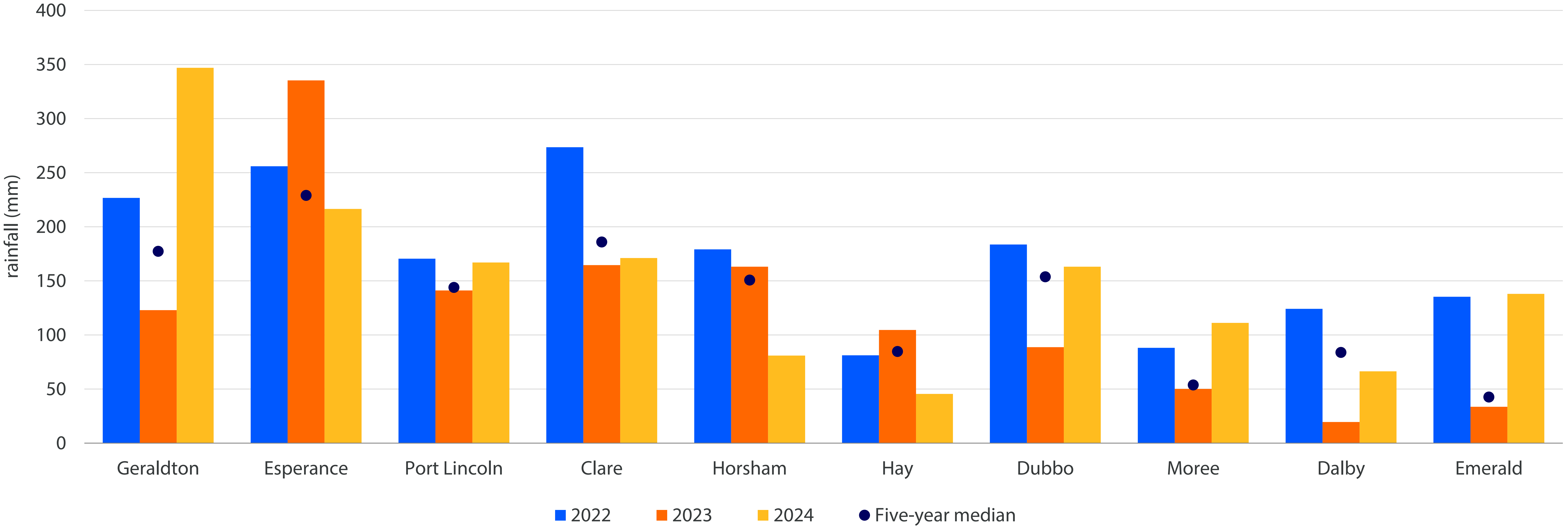


Source: *BOM, RaboResearch 2024*

Climate

Agricultural regions' rainfall – Winter rainfall was mixed across regions

June-August rainfall



Source: *BOM, RaboResearch 2024*

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Sustainability

Key retailer sets new agricultural emissions reduction target

More agricultural products entering the domestic retail market are now covered by agriculture-specific greenhouse gas (GHG) emissions reduction targets. Woolworths Group published its 2024 sustainability report, which contains new scope 3 emissions reduction targets.

According to the report, **scope 3 emissions, which are indirect emissions from the value chain, represent 95% of Woolworths Group's total GHG emissions footprint.** Of these scope 3 emissions, around half are from agricultural production, with the other half from energy and industrial sources, including post-farmgate processing, packaging, transport, and downstream waste.

The new scope 3 targets include a specific target for forestry, land, and agriculture (FLAG) scope 3 emissions and a separate target for scope 3 energy and industrial emissions. The separation of scope 3 targets is in line with the Science Based Targets initiative's (SBTi) guidance and reflects the different decarbonisation pathways for these sectors.

Woolworths Group's previous scope 3 target was a 19% reduction by 2030 from a 2015 base year. **The new near-term target is a 40% reduction in absolute scope 3 FLAG GHG emissions by 2033 from a 2023 base year.** The SBTi has validated this target as being aligned with a pathway to curb global warming to 1.5 degrees Celsius. Under this target-setting approach, the company can use land-based removals (e.g., carbon sequestration in vegetation) to support target progress.

This follows Coles Group's announcement last year of its target to require 75% of its suppliers by spend to set science-based emissions reduction targets by 2027.

The growth in ambition level and granularity of supply chain targets highlights a shift by downstream companies towards more actively managing their indirect emissions. These companies will need to develop initiatives to engage and collaborate with suppliers to achieve their established targets.

What to watch:

- **Australia's mandatory climate reporting legislation has passed in the Senate –** The passing of the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 requires certain entities to report on climate-related risks and opportunities. Impacts to the agriculture sector can be expected to be felt primarily through the requirement for reporting entities to report on scope 3 emissions from the second year of reporting.

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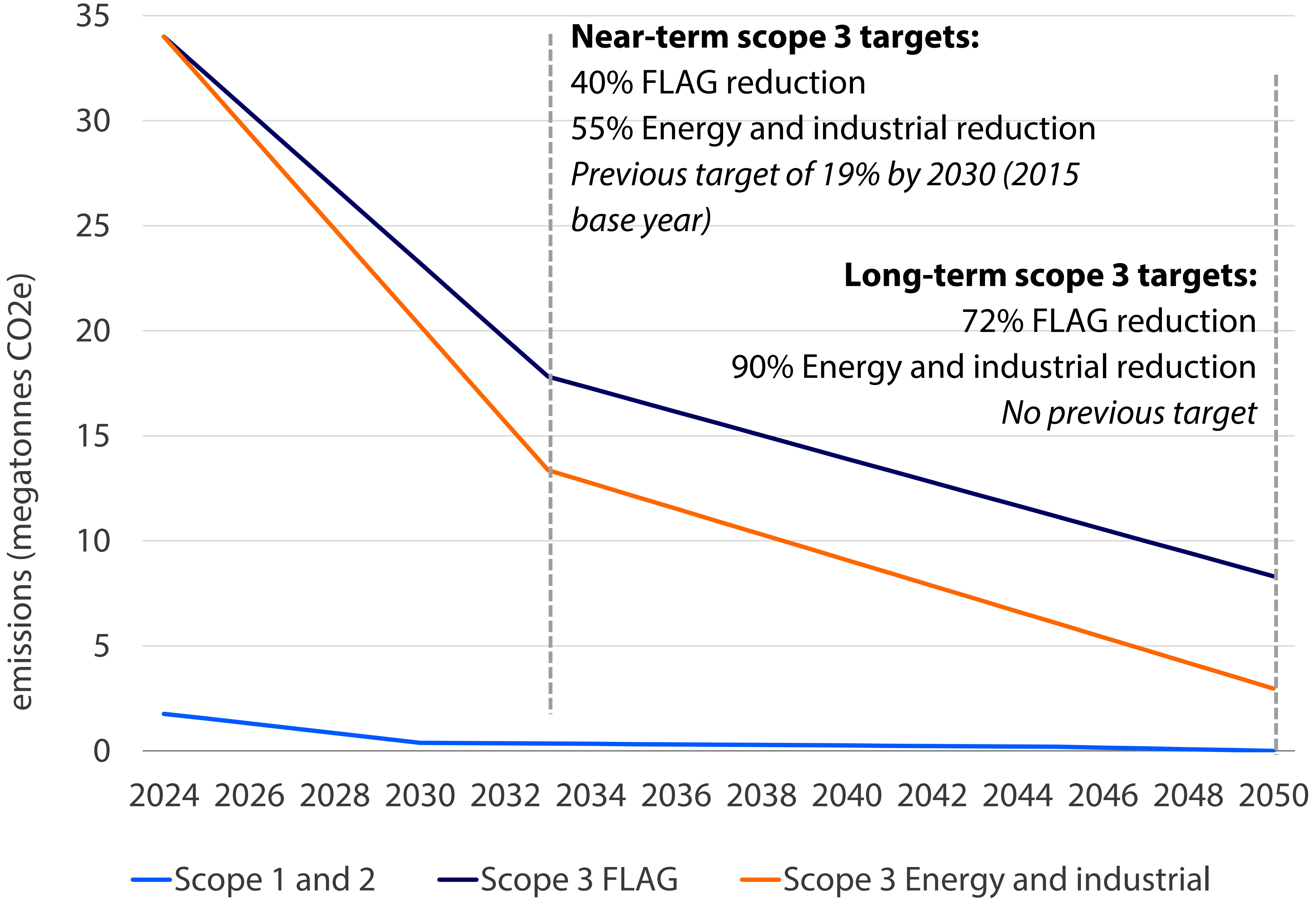
Sustainability

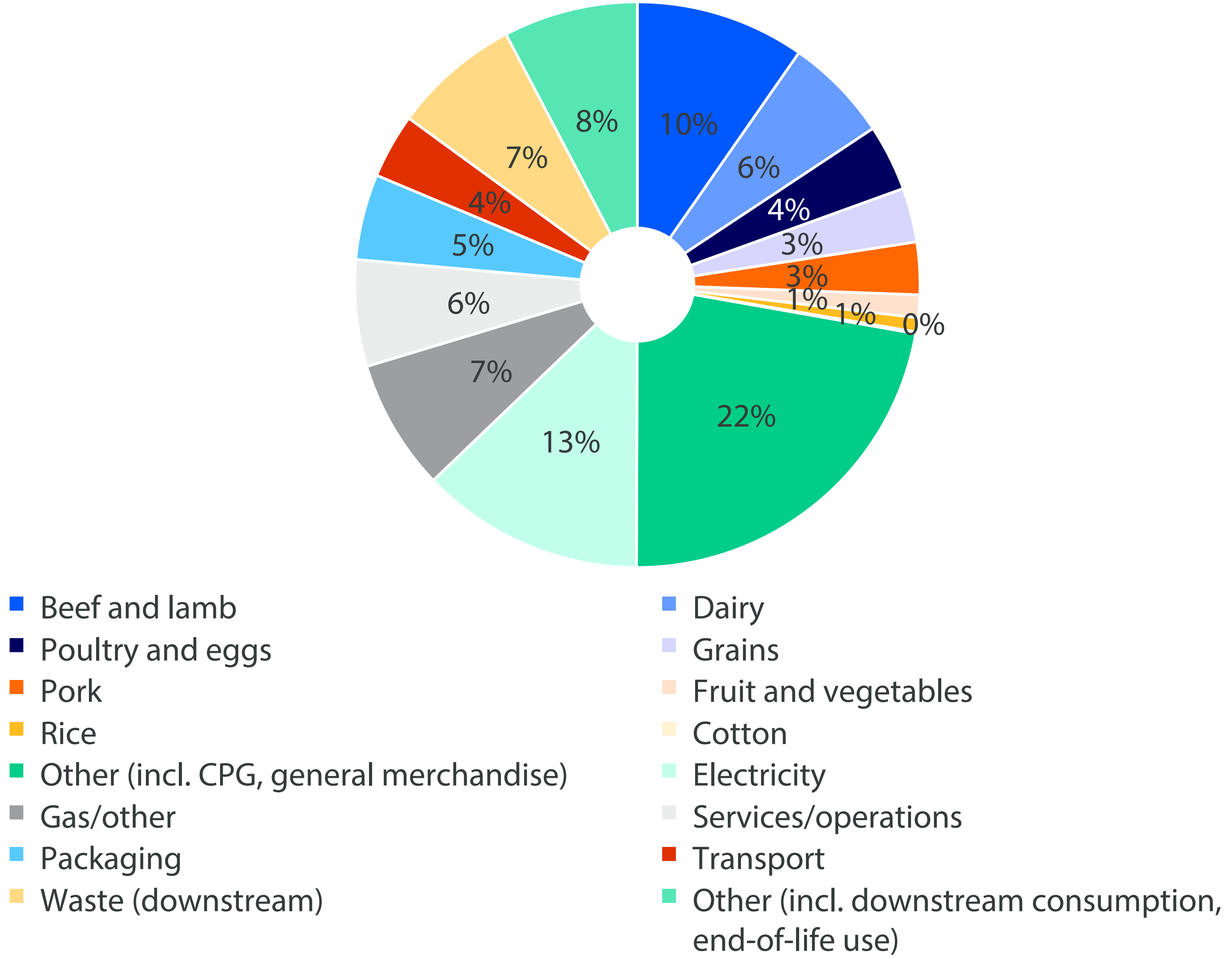
Woolworths Group announces new targets for agricultural emissions

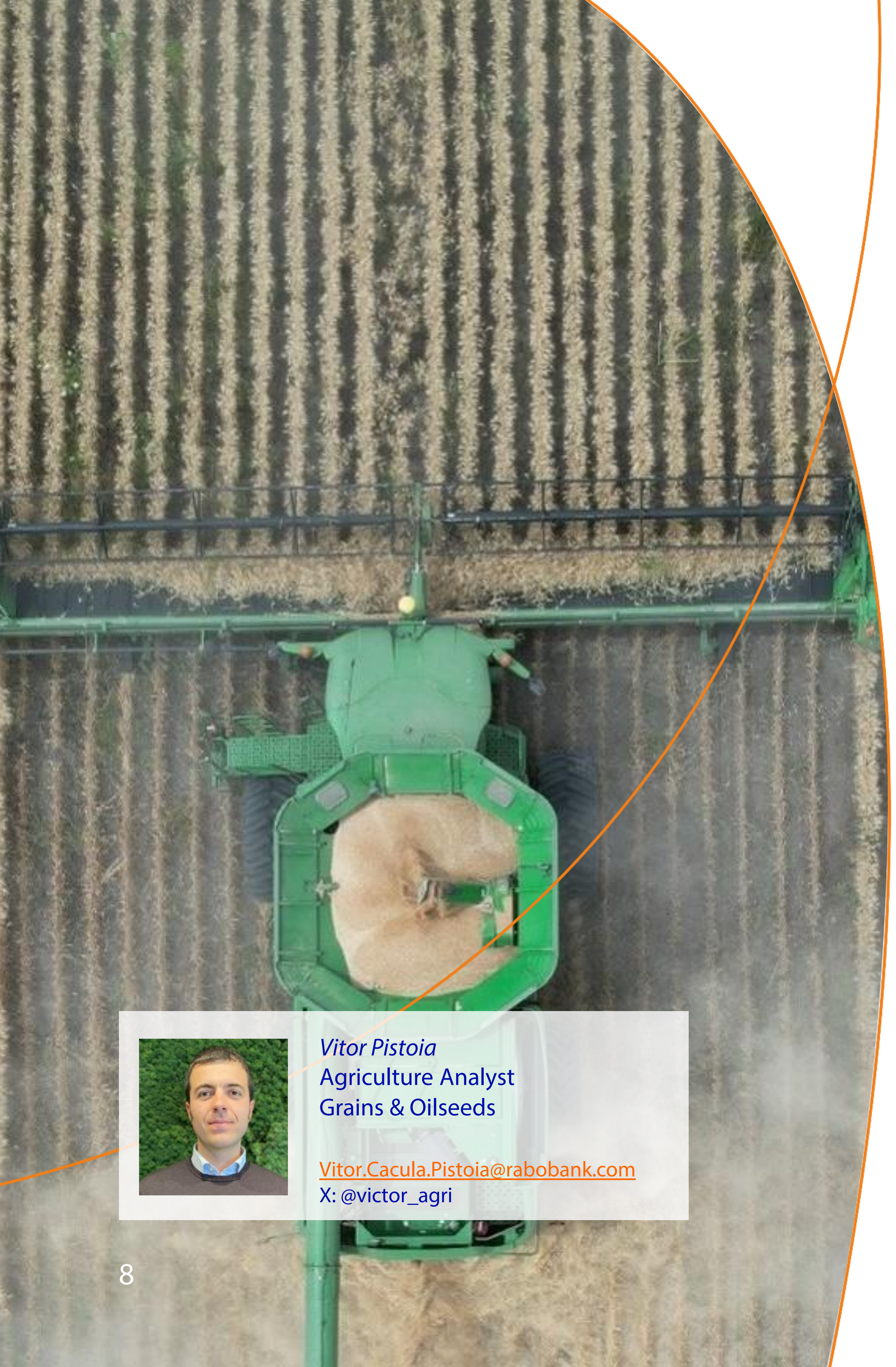
Woolworths Group's near- and long-term emissions reduction targets



Source: Woolworths Group, RaboResearch 2024

Woolworths Group's scope 3 emissions profile





Wheat and barley

The Northern Hemisphere harvest leaves little room for upside

Key forecasts and field survey results released in August leave little room for price upside. The downward price trend in global corn and wheat continues as stocks seem to be enough to meet current demand. The CBOT Wheat Dec 2024 contract fell from AUD 338/tonne to AUD 334/tonne in August. In the meantime, the ASX Jan 2025 contract also became softer, falling from AUD 337/tonne to AUD 316/tonne.

Wheat's 2024/25 price nemesis, corn, should have record-high yields, according to a private survey done by Pro Farmer in the US. **The forecast yield of 11.4 tonnes/hectare in the US is likely to add 5.2m tonnes to the US's corn stocks, while global stocks are likely to remain unchanged year-over-year**. This yield forecast confirms market speculation and gives Managed Money more confidence to maintain its bearish position in futures contracts, setting the general mood for soft commodity prices.

The wheat market also has new figures to analyse. The European Commission's August JRC MARS Bulletin indicates an overall European wheat yield of 5.47 tonnes/hectare, a 3.0 % reduction compared to the five-year average. Such a drop could mean a drop of at least 4m tonnes in the EU's production potential. The Euronext forward curve has included this yield reduction for some time, but, unfortunately, it has not been strong enough to alter the global price trend. **As the harvest advances, we may see further crop issues arise, especially from a quality perspective, but other regions are on track to offset the lower yield from the EU and Black Sea.**

Agriculture and Agri-Food Canada also updated its figures. The abundant rainfall in the first half of the season boosted crop performance: Yields for all wheat grades are set to jump by 8.3% YOY, with durum up by 41.1%, and barley by 1.5%. **Canadian wheat production is likely to expand 7.5% YOY, of which durum will see a 49.3% increase, supporting the global supply of milling wheat.**

In the short to medium term, only a black swan event could alter the current supply and demand balance – or the bearish price trend – for milling and feed grains.

What to watch:

- **Spring weather –** Australia is on track to have above-average wheat and barley crops, according to satellite images and yield modelling tools. September conditions will be more important than usual due to late crops in Victoria and South Australia. Heatwaves could jeopardise crop performance, thus granting a price upside bias. New South Wales and Western Australia are expected to have bountiful crops. Thus, if Victoria and South Australia have bad weather, they could experience the worst of both worlds: lower yields and handicapped prices.

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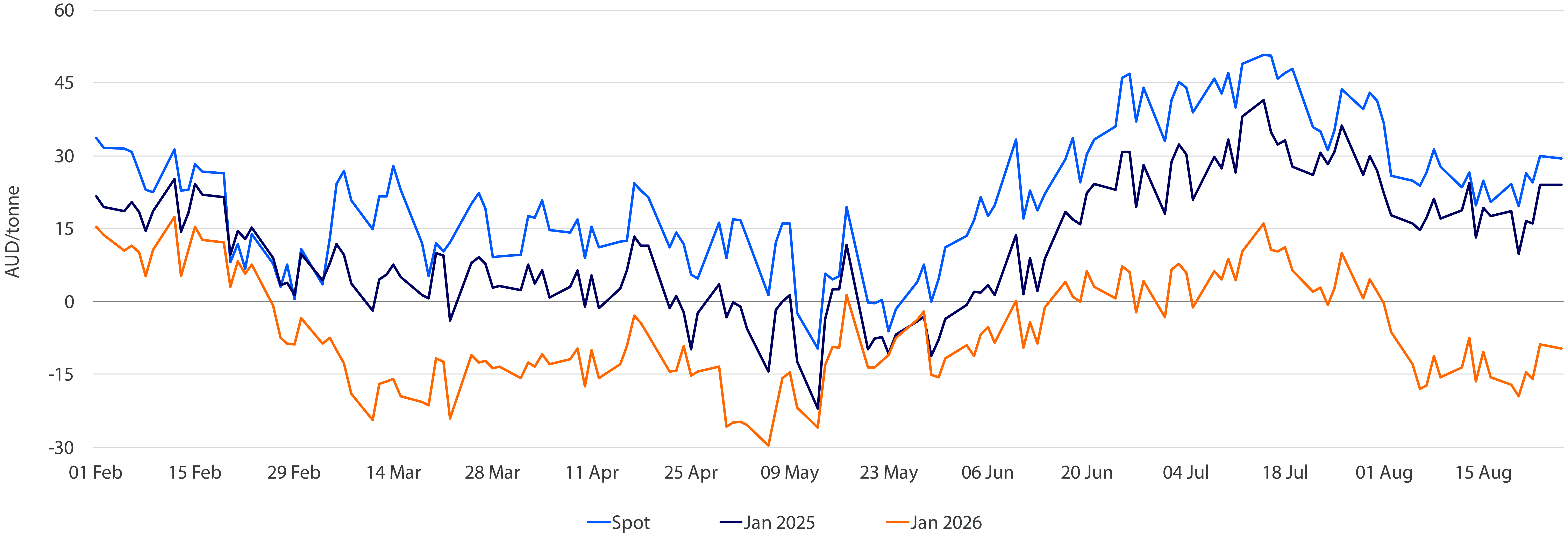
Wheat and barley

For a potentially above-average wheat crop, Australian basis is performing well so far

The EU's poor yield and downgraded quality are boosting Australia's wheat prices (ASX-CBOT)



Source: *Bloomberg, RaboResearch 2024*

Canola

Tight stocks make room for price upside, but not for GM canola

As the canola harvest concludes in Europe, a tighter supply situation becomes clearer. Euronext's November contract was virtually stable at AUD 781/tonne, an increase of 0.2% MOM. The EU is likely to harvest 17.3m tonnes of canola, a reduction of 13.5% compared to the previous season. ICE's November contract also remained nearly stable, dropping only 1.5% MOM to AUD 671/tonne due to the strengthening of the Australian dollar versus the Canadian dollar. However, the forecast of a large global soybean supply weighs on canola markets.

Not only will EU production likely be smaller year-on-year, but also the EU's imports of oilseeds and coproducts from Russia and Belarus are set to end following economic sanctions taken earlier in the year. The 50% tariffs have proved to be effective so far. The EU is likely to curb its annual canola crushing and switch to crushing more soybeans. The EU is likely to struggle more than last season to find canola, as Ukraine's crop is also smaller and its exports should slow down late in 2024.

Globally, the canola stock outlook is equally concerning. Production in 2024/25 could be 4m tonnes smaller than the previous season, down by 5.4%. EU, Ukrainian, and Indian crops are expected to drop by a combined 4.8m tonnes YOY, while Canada is forecast to show a small year-on-year increase from 18.3m to 18.6m tonnes. **Agriculture and Agri-Food Canada reduced its local demand estimate by 0.5m tonnes for the 2024/25 season, improving the country's export potential**.

Global consumption of major vegetable oils is expected to surpass production for the third season in a row in 2024/25. **Canola prices have not yet shown more upside, because there are plenty of soybeans available on the market and crushers have an** imbalance in demand for oilseed oil and oilseed meal, reducing their margin potential. At the end of day, global animal feed demand for oilseed meal is not keeping up with output.

What to watch:

- **A new trade war, now between Canada and China** – Canada is poised to impose 100% tariffs on Chinese electric vehicle imports and 25% on steel and aluminium starting 1 October 2024. Canada's exports to China amounted to USD 22.6bn in 2023, with farming products (not including fertilisers) accounting for 5.94bn, or 26.3% of exports to China. In retaliation, China recently announced a probe of Canadian canola imports. In the 2023 calendar year, Canada exported 7.1m tonnes of canola, of which 4.6m went to China. If this economic conflict unfolds, Canada might have to find other markets for its GM canola exports, widening the global price spread between GM and non-GM canola. This would also create room for more Australian exports to China.

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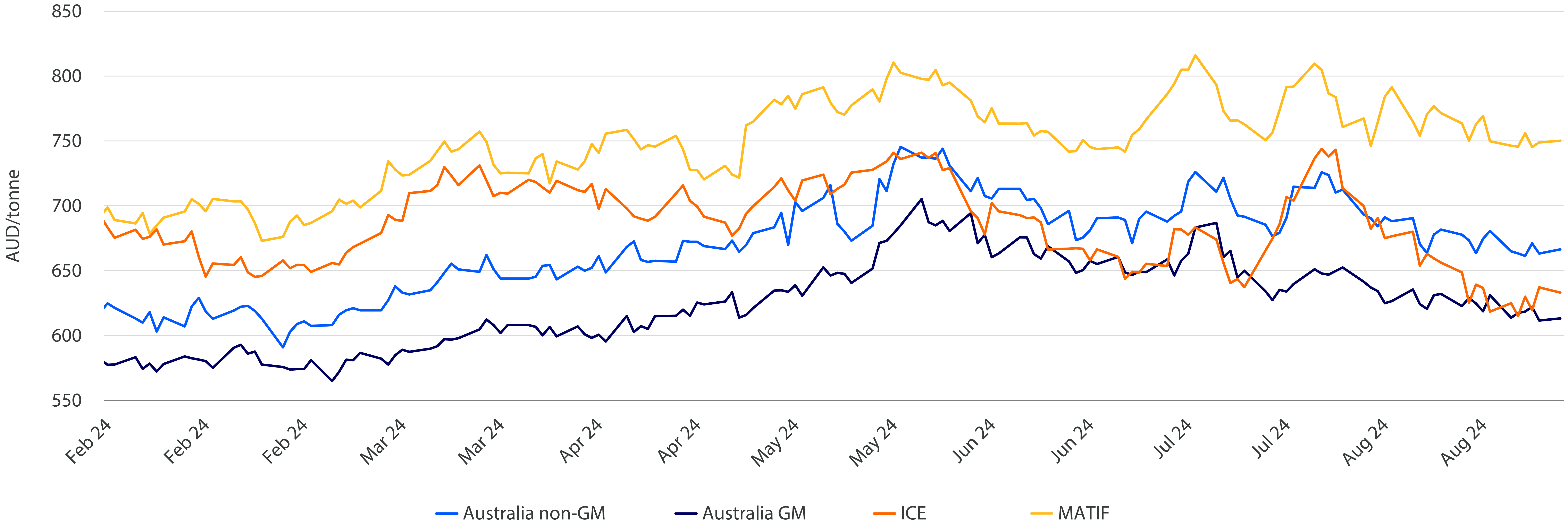
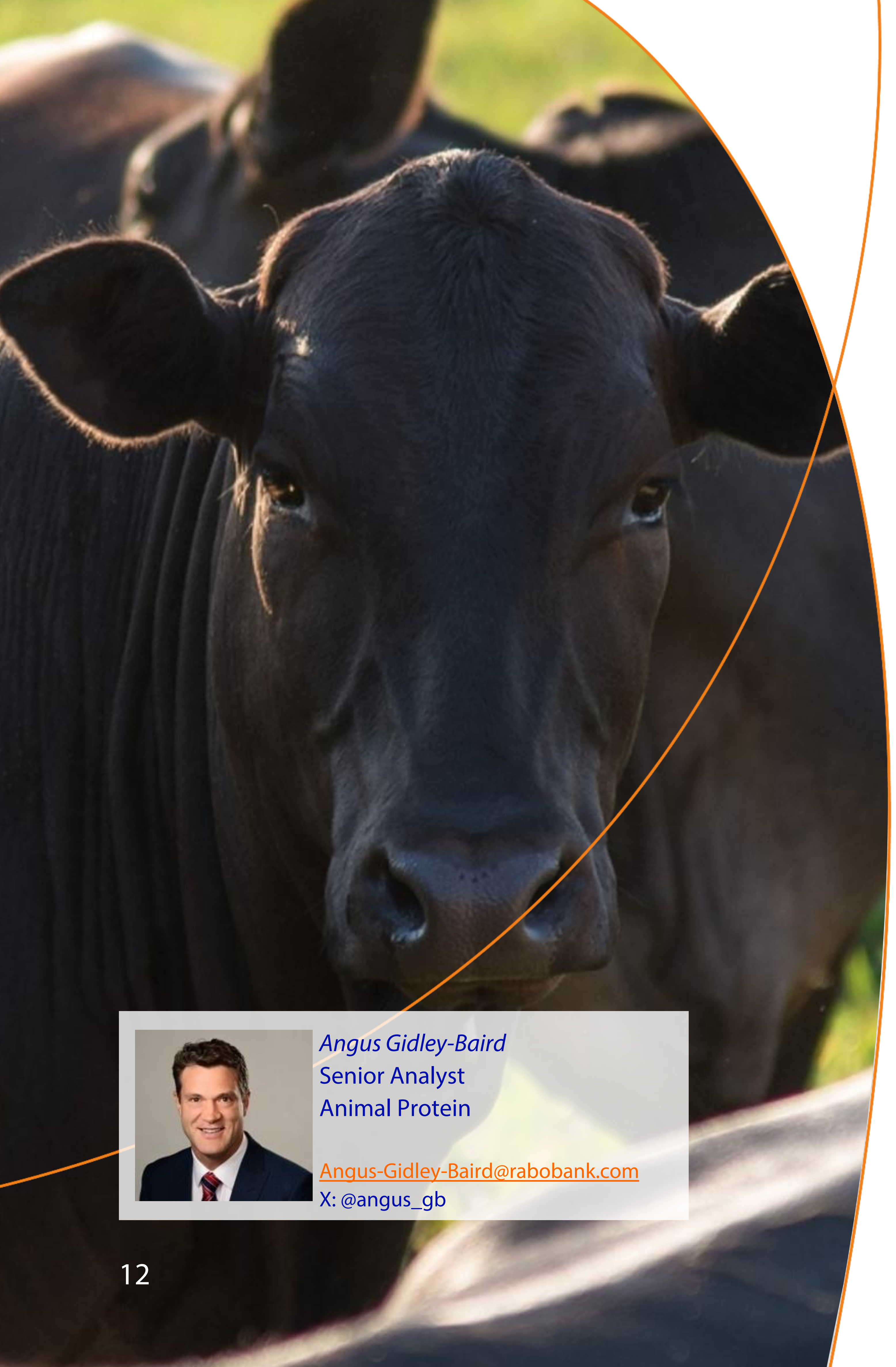
Canola

The 2024/25 season is showing different trends for GM and non-GM canola, worldwide

While the EU non-GM canola supply is tight, Canada's good crop and robust stocks are pressuring GM prices worldwide



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



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Beef

Cattle prices remain on the up, but female slaughter lifting

Australian cattle prices continued to edge higher. National saleyard heavy steers were up 2% over August to AUc 344/kg, and processor cows were up 5% to AUc 292/kg. Processor cow prices are the only category to break through the five-year average – reflecting the strong US demand for lean trimmings. An appreciation of the Australian dollar saw the US imported lean trimmings price drop to AUc 950/kg towards the end of August after being AUc 988/kg at the beginning of the month. The EYCI rose 2% through the month of August and was sitting at AUc 681/kg on 2 September. **We don't expect the current situation to change much over the next couple of months and, therefore, expect cattle prices to continue their trend upward, with cows and finished cattle showing slightly stronger rises.**

The ABS released quarterly production data in August. Male slaughter numbers for Q2 were up 11% YOY, and female slaughter numbers were up 36%, taking total cattle slaughter up 23% to 2.13m head, the highest volume since Q4 2019. Carcass weights were down 3% YOY at an average of 304kg. This was also 1% below the five-year average for Q2 and possibly reflects the higher number of females slaughtered and the increasing proportion of grass-fed cattle. Total beef production for the quarter was up 19% at 648,763 tonnes. Weekly cattle slaughter numbers continue to sit around 140,000 head per week.

MLA also released cattle on feed numbers in August, showing another record of 1.42m head on feed in Q2 (up 13% YOY). Growth was strongest in Queensland (+13% YOY), New South Wales (+14%), and South Australia (+39%). Cattle turned off feed (734,096 head) was only up 7% YOY, with New South Wales numbers down 3%, suggesting an increase in long-fed programs. South Australia saw a 79% increase in cattle turned off.

Australian export volumes dipped slightly (-6%) in August compared to July but were up 19% on volumes from August 2023. All markets followed the same trend except the US, which continued to rise month-on-month with a new highest volume recorded since 2015.

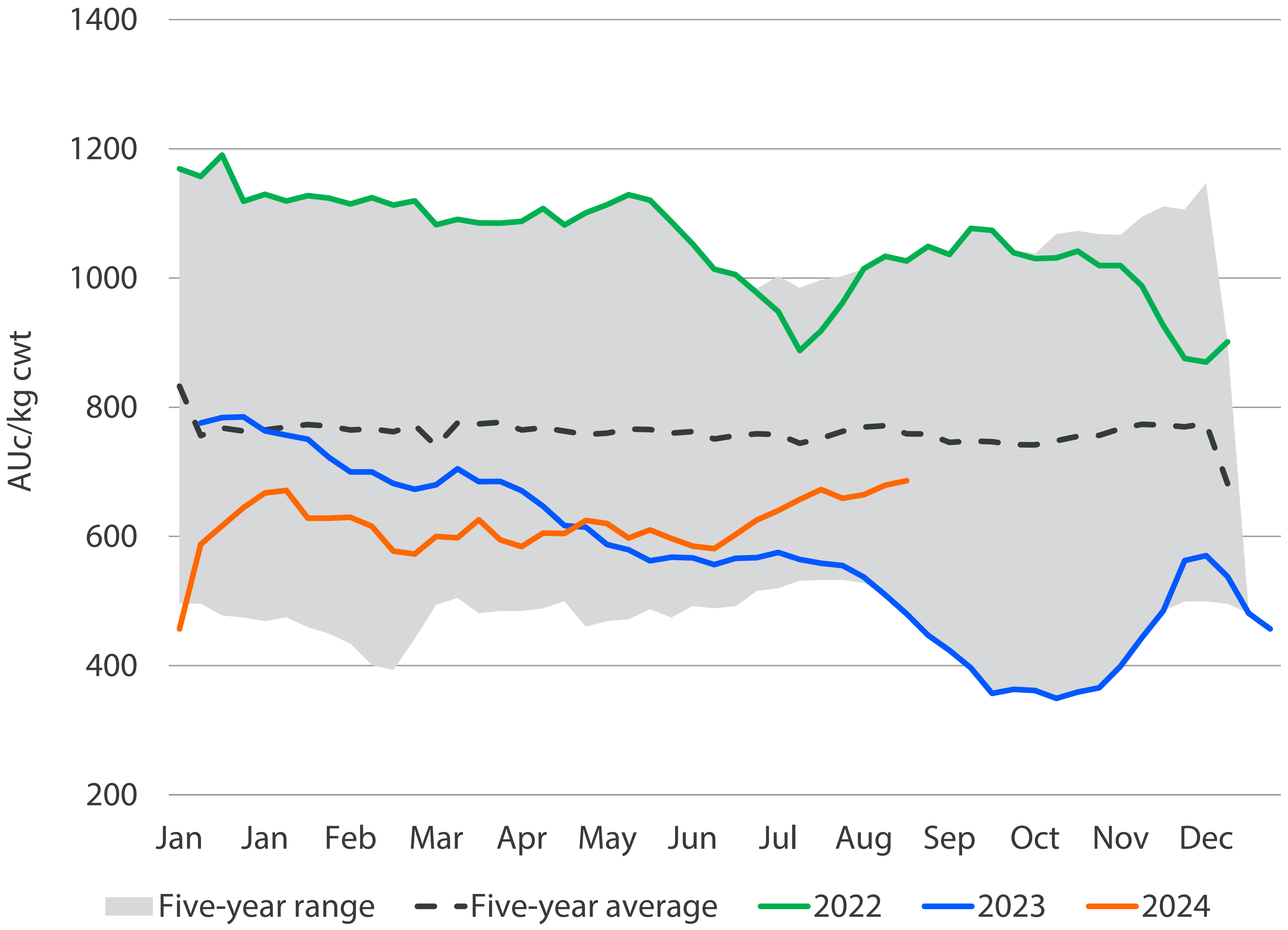
What to watch:

- **Are we liquidating?** – ABS quarterly production data showed that the female proportion of the total slaughter was 53% in Q2 – the highest since September 2020 – and the fifth quarter in a row when the percentage has been above 47%. This is an industry convention to indicate whether the herd is in a state of rebuild or liquidation. This high female proportion is unusual given the seasonal conditions. On a weighted national average basis, rainfall was reasonable over the last three quarters. Are we genuinely liquidating the herd or are the high female numbers just a reflection of higher cattle numbers, a younger breeding herd, and higher female turnover? We believe it is the latter, but this is something to keep an eye on.

Beef

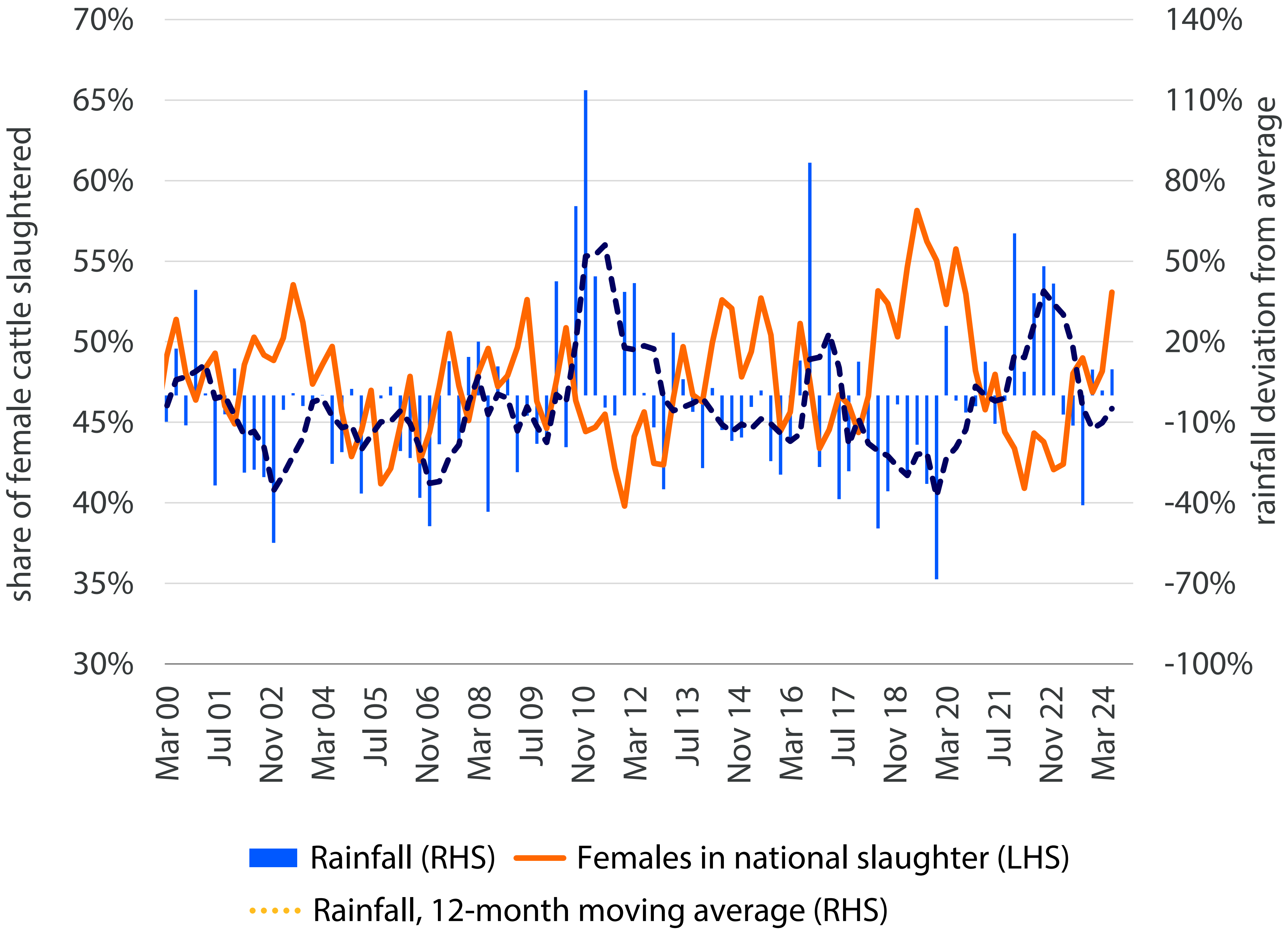
Cattle prices continue to edge up slowly as female cattle slaughter reaches unusually high levels

EYCI continues to track up slowly



Source: MLA, RaboResearch 2024

Unusually high female slaughter given seasonal conditions



Source: ABS, BOM, RaboResearch 2024

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Sheepmeat

Where have all the lambs gone?

Concerns about high sheep slaughter and poor seasonal conditions reducing the availability of lambs appear to be playing out. Weekly lamb slaughter levels have dropped dramatically from record levels back to almost the five-year average in a number of weeks. This drop in volumes is helping to rebalance the supply-demand equation, and prices remained more stable in the latter half of August. The National Trade Lamb Indicator was at AUc 808/kg on 1 September, relatively unchanged from four weeks earlier. Most other sheep prices followed a similar trend, levelling out in the last couple of weeks. Mutton prices were at AUc 366/kg on 1 September. **The contraction in lamb supply should provide support for prices at current levels, and we believe current prices should hold for the coming month.**

ABS released quarterly production data in August. Lamb slaughter for Q2 (7.22m head) was the highest volume on record for a quarter and 19% higher than Q2 in 2023. This takes lamb slaughter for 1H to 14.2m head – 22% higher than in the same period last year. Although average slaughter weights increased from Q1 to 24.52kg in Q2, they were 1% below Q2 2023 and down 2% on the five-year average for Q2. Poorer seasonal conditions in southern areas may just have prevented lambs from reaching weight in Q2. Sheep slaughter numbers for Q2 reached 2.7m head, down on Q1 numbers but still 7% higher than in Q2 2023. After Q1 2024, sheep slaughter was the highest it has been since Q4 2019 and 74% above the five-year average.

Lamb export volumes dropped in August, down 10% on July volumes and down 5% versus August 2023. These volumes reflect the August drop in slaughter volumes for lamb. Month-on-month, export volumes dropped across all markets, but the Middle East and the US remain up on August 2023 volumes. Mutton exports lifted slightly (+2%) in August compared to July, reflecting the ongoing high slaughter volumes for sheep.

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What to watch:

- **New season lamb numbers** – While weekly slaughter numbers dropped dramatically in the last weeks of August, the question remains whether this is an indication of a smaller lamb drop or whether poorer seasonal conditions are preventing lambs from being finished within their usual time frames. The next couple of months will reveal what the correction in lamb production will be. In contrast, sheep slaughter volumes are still 20% above the five-year average at a healthy 150,000 per week. Processors may be using sheep numbers to keep plants running in anticipation that more lambs will become available soon.

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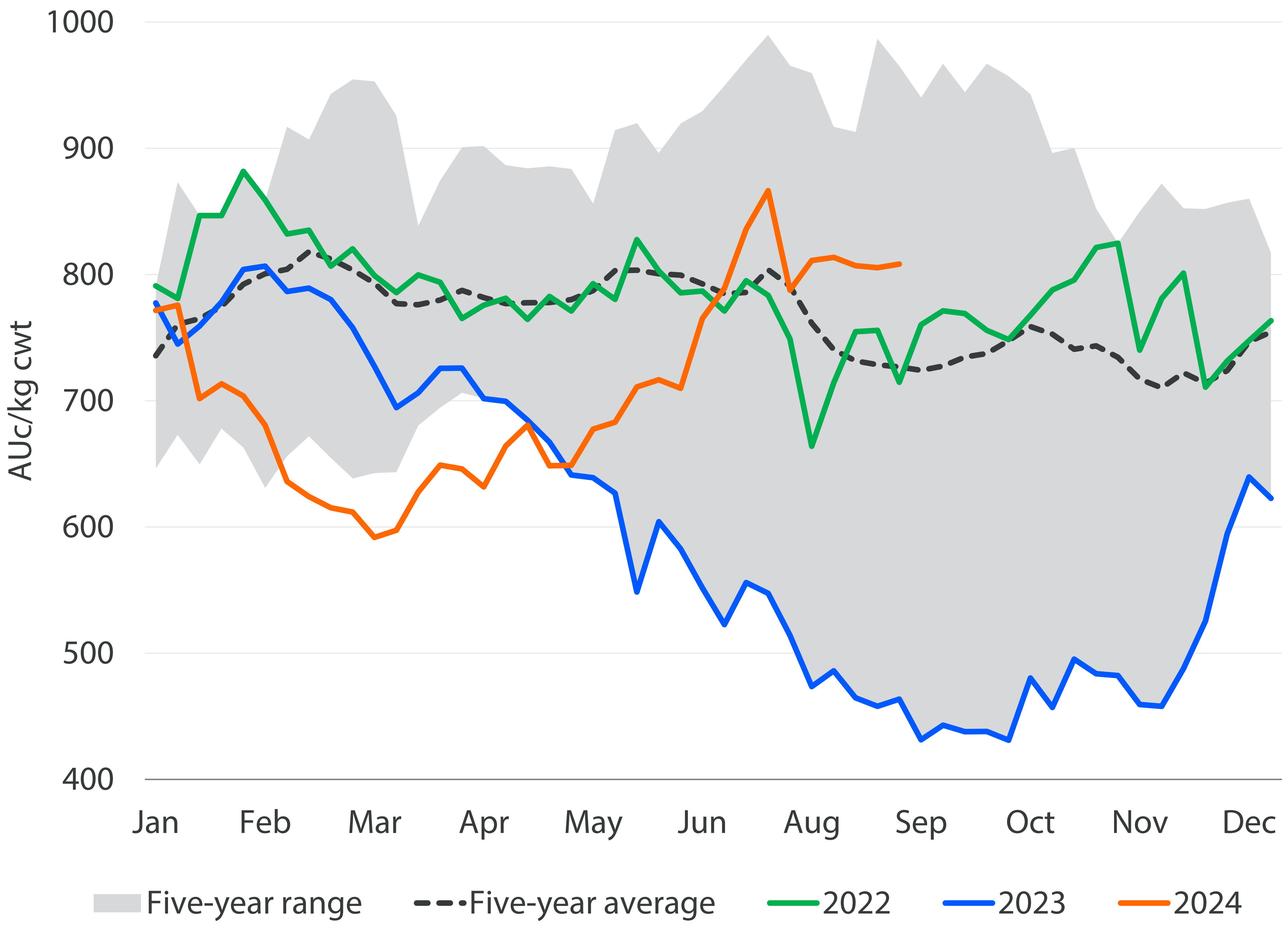
Sheepmeat

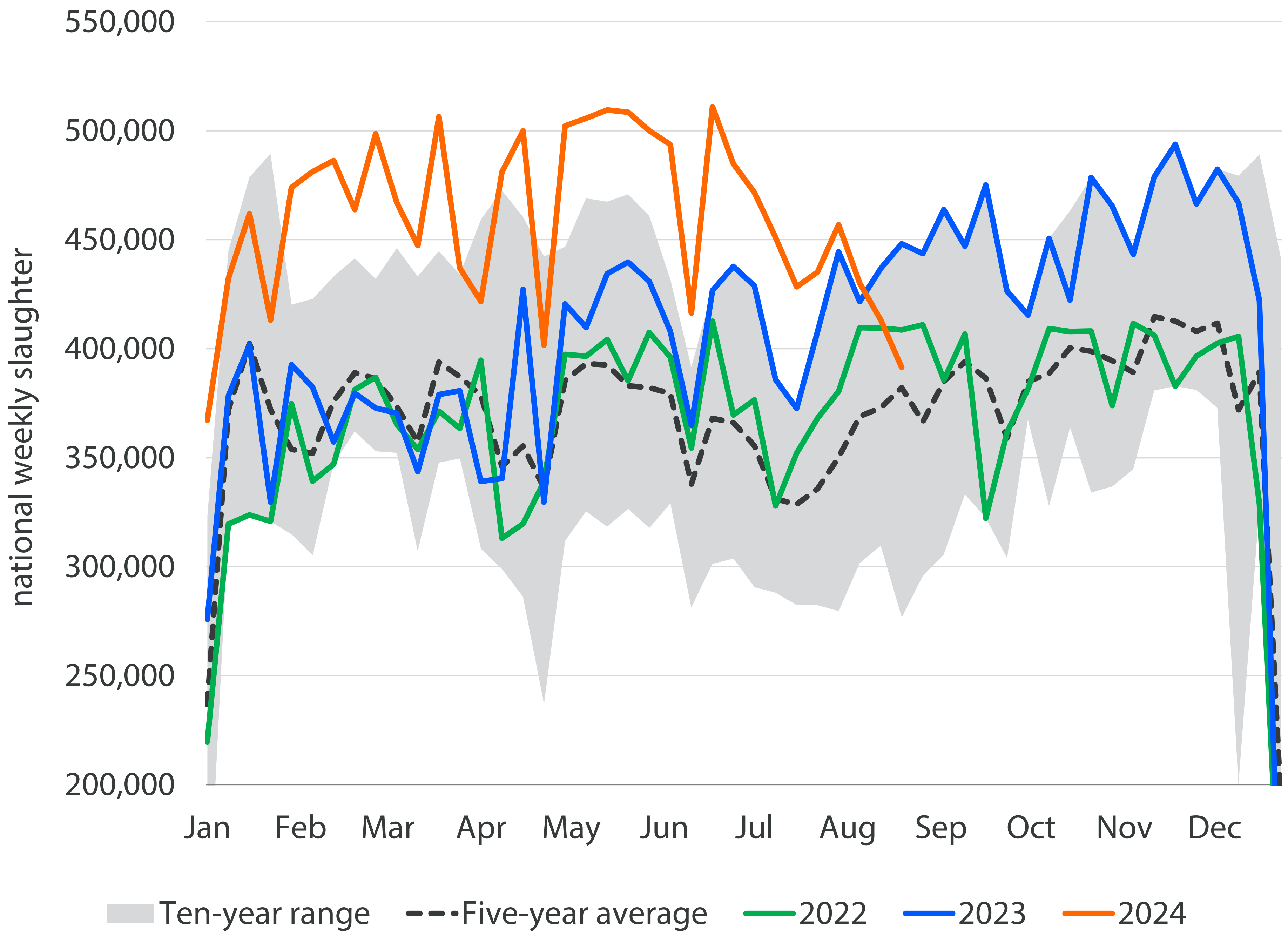
Sheep and lamb prices hold steady as supply volumes drop dramatically

NTLI holding steady



Source: *MLA, RaboResearch 2024*

Lamb slaughter numbers dropped dramatically



Source: *MLA, RaboResearch 2024*

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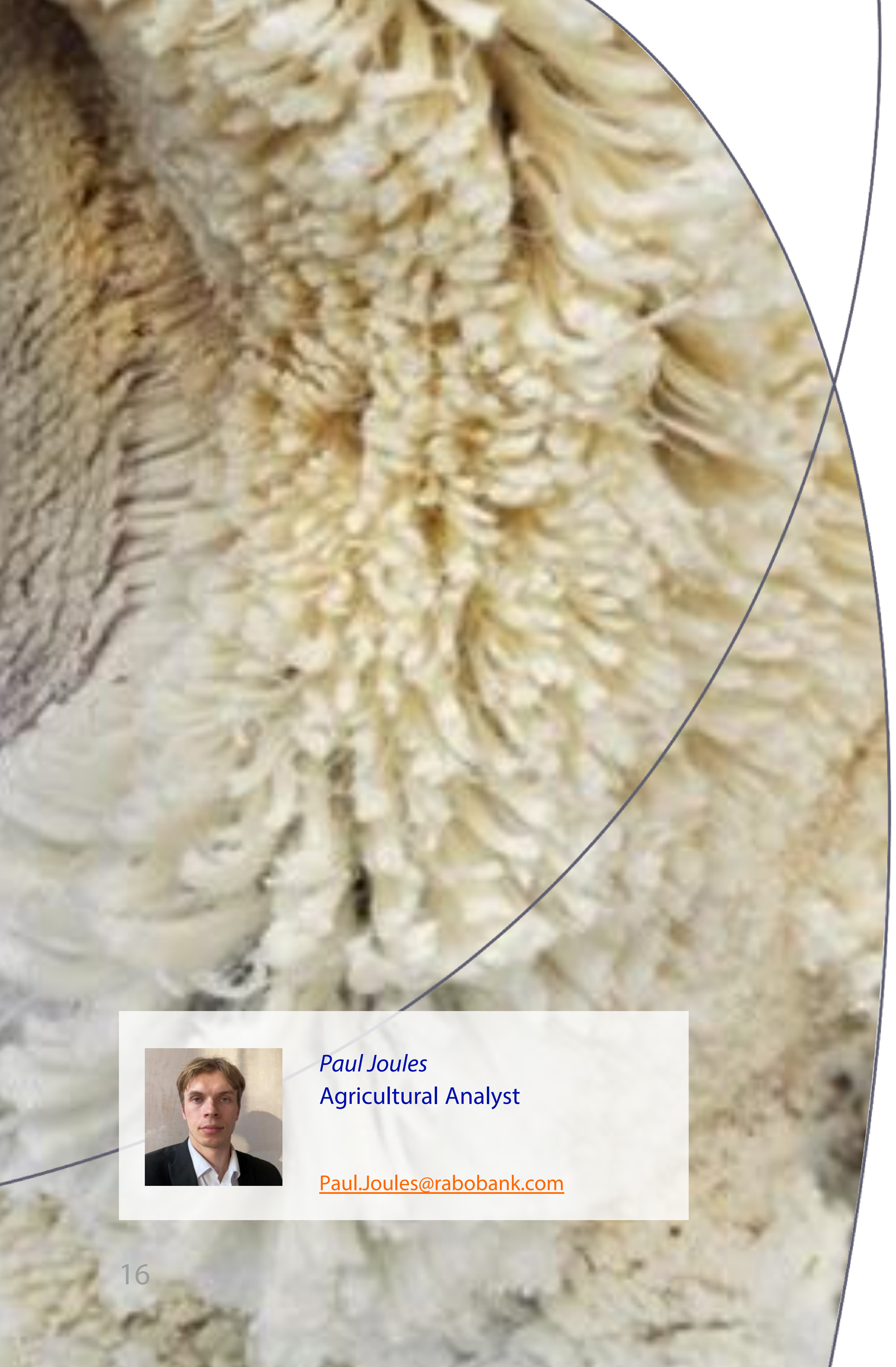

Wool

Wool prices slip lower amid demand headwinds

It was a disappointing month for wool prices, with the Eastern Market Indicator (EMI) sliding down 3.3% from the month prior to AUc 1,087/kg as of 29 August. This is the lowest price recorded since October 2020. The Western Market Indicator (WMI) also declined, with prices trading at AUc 1,223/kg (down 2.5% MOM) as of 29 August. The finer microns declined the most, with 17 microns dropping 3.8% MOM.

The weak price data is largely a reflection of demand headwinds, not just for wool, but across the textile space. Both cotton and, from our understanding, polyester markets have struggled for price support lately, so it's not a huge surprise to see wool also tracking lower. China's influence as a major buyer but also major consumer of wool cannot be understated. Given consumer confidence scores in China remain low and GDP growth is underwhelming, it's difficult to get too excited about demand prospects going forward. It's not just China where consumer activity is a cause for concern. In the UK, textile, clothing, and footwear stores performed slightly worse in July, year-on-year, with a total of GBP 4.2m worth of retail items sold. Looking forward, the market needs to see clear signs of global demand picking up for prices to push higher.

Australian wool exports totalled 28.04m kg in June. On a month-on-month basis, this is a sharp 22% decline in exports. Exports to India were down 7%, but the real blow to trade was a 7.7m (-24%) MOM reduction in exports to China. Given that the country has represented 86.4% of Australian wool exports so far in 2024, any adjustments there have major consequences to Australian export figures. In Australian dollar terms, the lower total export volumes contributed to a 24% MOM drop in value to AUD 222.25m. In terms of microns, the export split was relatively similar to last month. 51.8% were less than 19 microns, while 34.6% were between 20 and 23 microns. 6% of exports were 24 to 27 microns, while 7.6% were 28 microns.

What to watch:

- **How will current macro headwinds impact trade, especially within the key market of China?** – Data showed a huge drop in trade to China in June, so one of the key factors to watch this month is whether trade can rebound. The July data will be released later this month, and the market will be paying close attention to the outcome.

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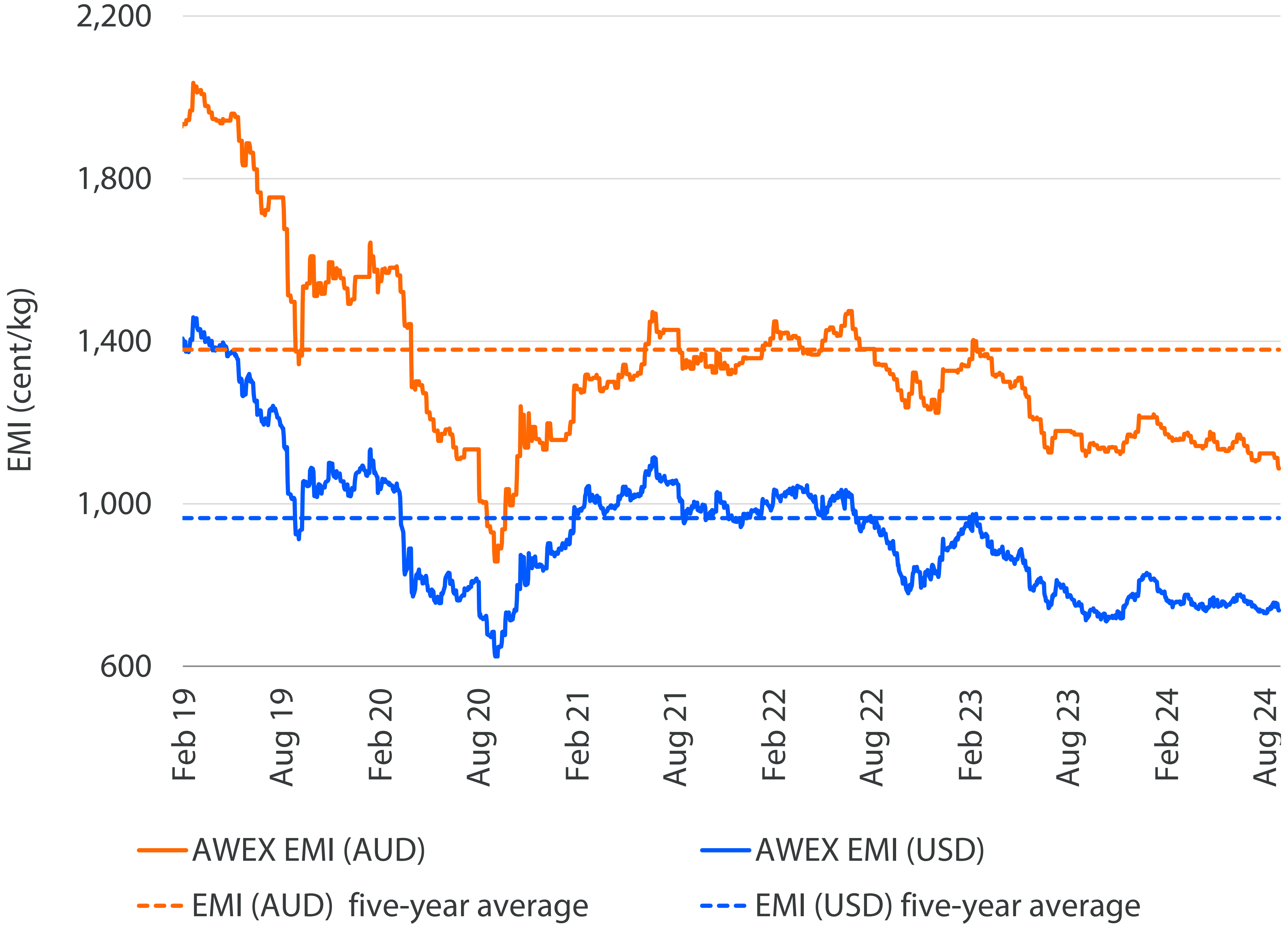
Wool

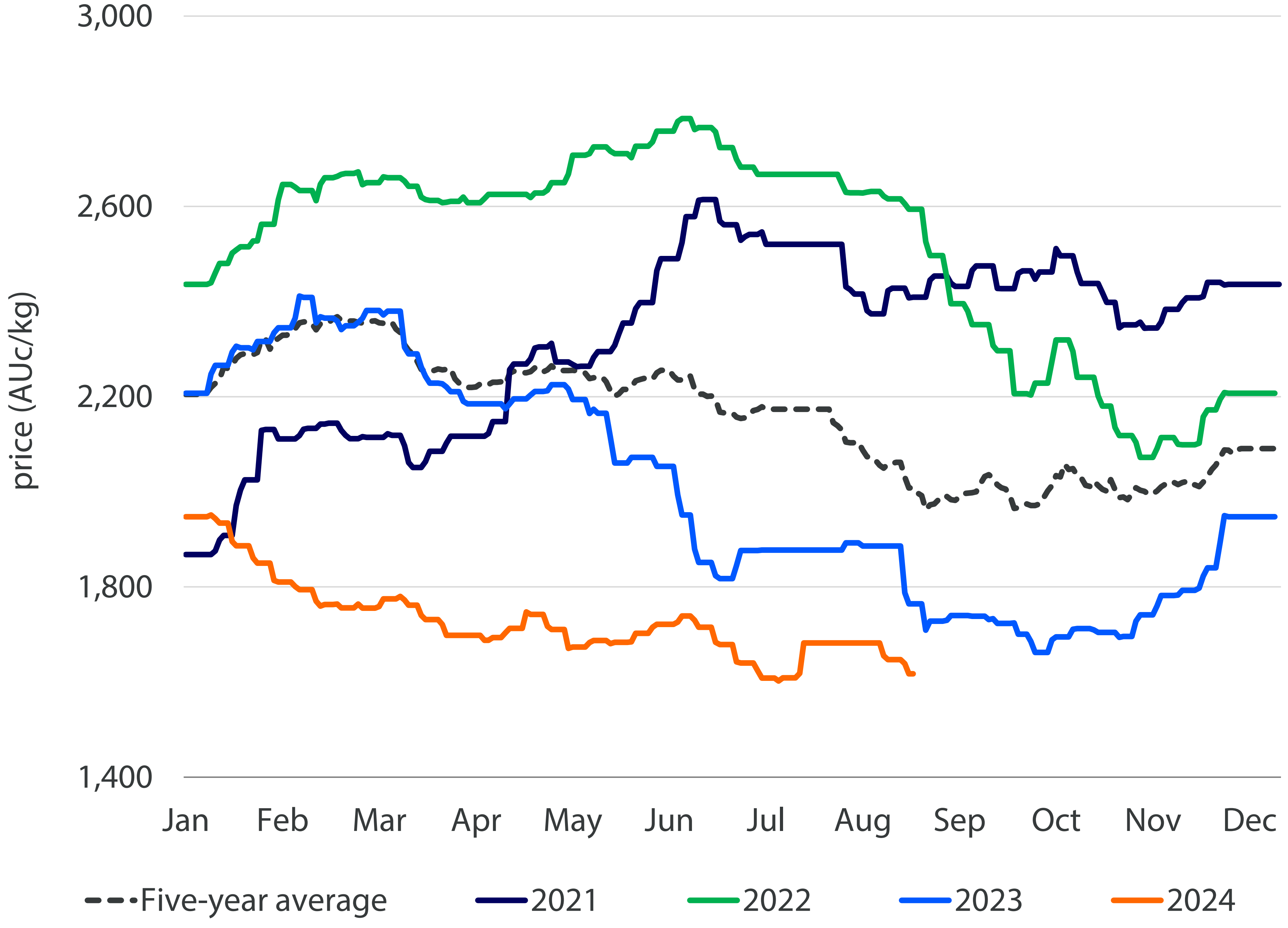
The finer microns recorded the largest losses, month-on-month

EMI drifts slightly lower



Source: Bloomberg, RaboResearch 2024

17 micron prices are trading well below the five-year average



Source: Bloomberg, RaboResearch 2024

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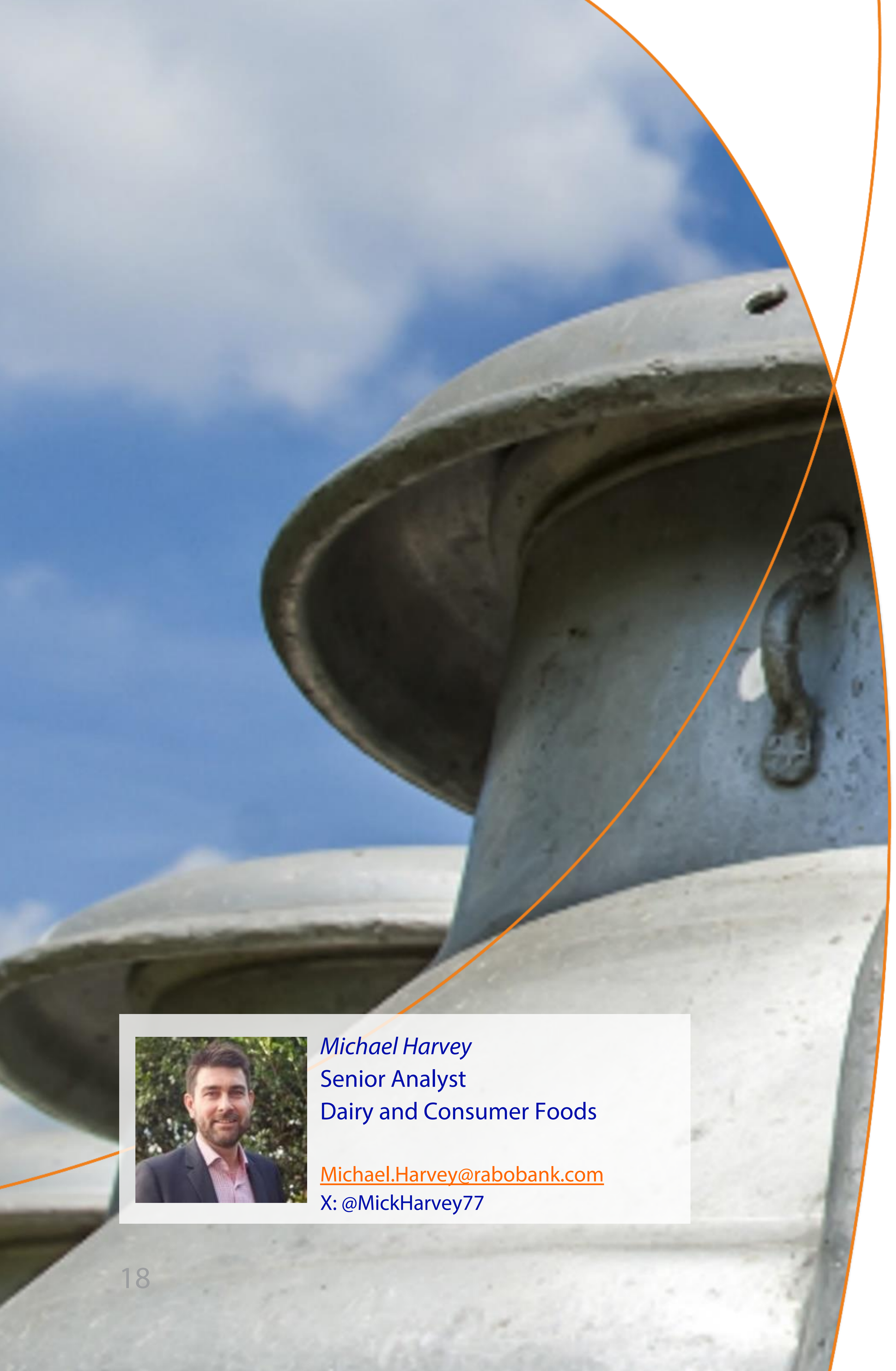

Dairy

Australian milk production growth to moderate in 2024/25

Australian milk supply continues to recover. For the full 2023/24 season, which ended in June, milk production was 3.1% higher than the previous season, at 8.4bn litres. This represents an increase of 249m litres. Milk supply growth has been widespread, with growth in all states and regions, excluding only Western Victoria. On a percentage increase basis, New South Wales leads the charge with growth of 5.3% for the 2023/24 season.

Australian exports finished the 2023/24 season on a high note, helped by increased milk availability. For the season, total exports were 1% higher YOY of a volume basis, led by strong growth in cheese, skim milk powder, and whey.

The milk production forecast expects growth again in 2024/25, albeit at a lower rate. RaboResearch is currently forecasting a 1.5% increase in milk production for 2024/25 season.

In New Zealand, milk production ended the 2023/24 season down by just over 1% YOY on a tonnage basis. National collections were unable to make up the loss from a wet, cold start to the season in the North Island.

Favorable winter weather in the North Island has set sound supply conditions for the 2024/25 season. The South Island has had a more challenging start. **Based on current forecasts, RaboResearch suggests a small increase in national milk collections is possible for 2024/25**.

According to the ABS monthly inflation data, local retail channels posted the first deflation in over three years (since May 2021). This was led by the cheese category with a lift in promotional and discount activity.

Global dairy commodity markets were mixed in recent weeks. In August there were some small gains for cheese, whole milk powder, and whey but small falls for butter and skim milk powder.

Further strength is US dollar pricing for dairy commodities will likely be needed in the coming months to lift farmgate milk prices in southern Australia in the 2024/25 season.

What to watch:

Upside – Global supply growth underperforming

- At a global level, RaboResearch anticipates that milk production momentum across the export engine will continue into 2025, with the US leading the charge. However, weather risks and any impact on farm margins from a spike in feed costs could derail this trend and see a tightening in global market fundamentals.

Downside – China's import demand

- RaboResearch expects China's 2024 net dairy imports to be down by 12% YOY. This would be three consecutive annual falls in import volumes. The country's extended dairy downcycle could continue to impact import volumes in 2025.

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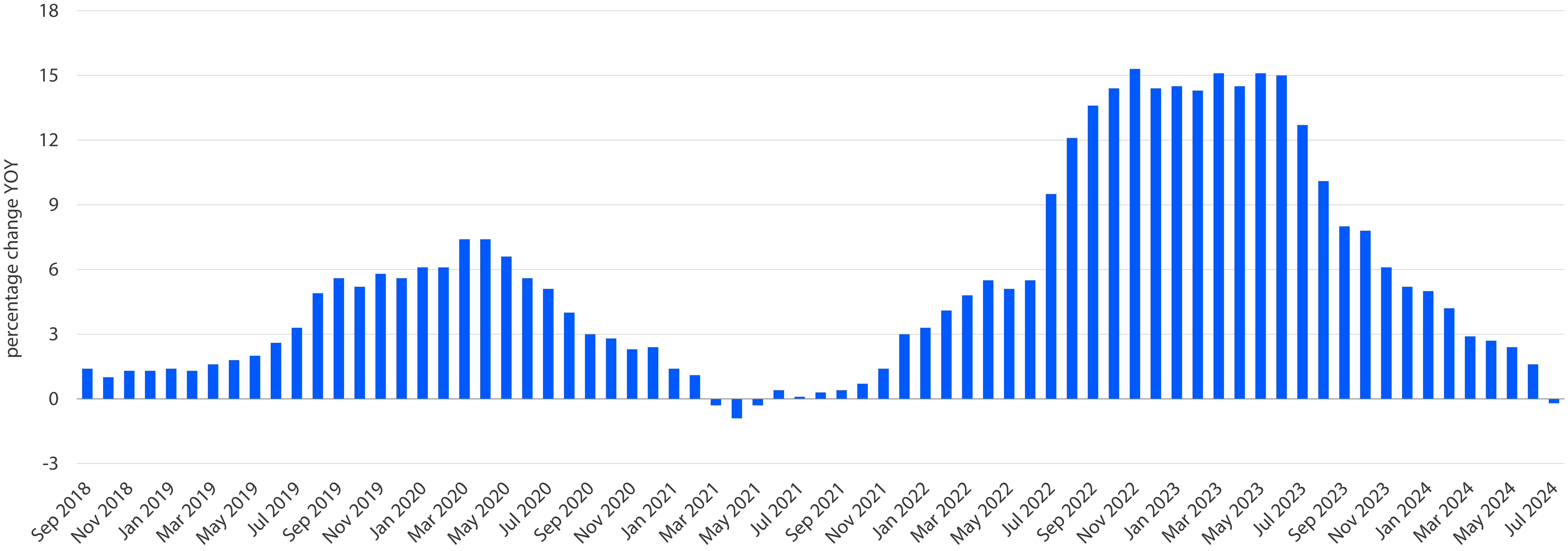
Dairy

First signs of dairy deflation in three years

Monthly dairy inflation, percentage change from corresponding quarter of previous year



Source: ABS, RaboResearch 2024

Rabobank

Cotton

Global cotton prices find support

Cotton prices found support in recent weeks, with the December ICE #2 Cotton contract now trading around USc 70/lb (+1.5% MOM). The primary driver behind recent price support is US weather, particularly in Texas. Crop conditions in the key US cotton-growing state continue to be highly volatile. At present, 41% of the crop is rated either poor or very poor (five-year average: 36%) following recent adverse weather. Conditions for the state are mixed in the 6-to-10-day outlook, with above-normal precipitation in the south and more normal levels expected in the west.

In its August WASDE update, the USDA placed US abandonment at 23%, which is a 6 percentage point increase from last month. The headline figure from the release was a 1.89m bale cut to 2024/25 production expectations. The potential for a smaller exportable surplus in the US is supportive for Australian prices. However, it is important to remember that even with the projected cut, global supplies are still likely to be strong, especially given the expectation of a bumper Brazilian crop.

Last month we highlighted the record net-short position held by speculators, and how such positioning could leave the market susceptible to short covering (which would provide support for global prices) in the event of weather issues. **Despite some net buying last week, Managed Money continue to hover around a near-record net short position, which means more short covering is possible.** One factor that could induce some covering is any adjustments to Brazilian production estimates. Initial yields are slightly below expectations, so a minor revision to the current USDA estimate is plausible. However, outside of US and Brazilian weather concerns, there is not a huge amount of bullish news for the market to get excited about in the short or medium term. Demand question marks remain, particularly in China, as recent US export data shows a notable decline in exports. **The bearish demand picture will likely keep a lid on significant price rallies (and keep speculative sentiment bearish), unless we see major alterations on the supply front.**

What to watch:

- **Weather in Texas** – Australian cash prices remain comfortably below the AUD 600/bale mark. Looking forward, the market will be seeing if prices can push higher, given the supply issues in the US. The key factor here will be weather in Texas, as any signs of further declines in production have potential to push prices higher. That being said, demand headwinds and a massive Brazilian crop will likely keep a cap on upside.

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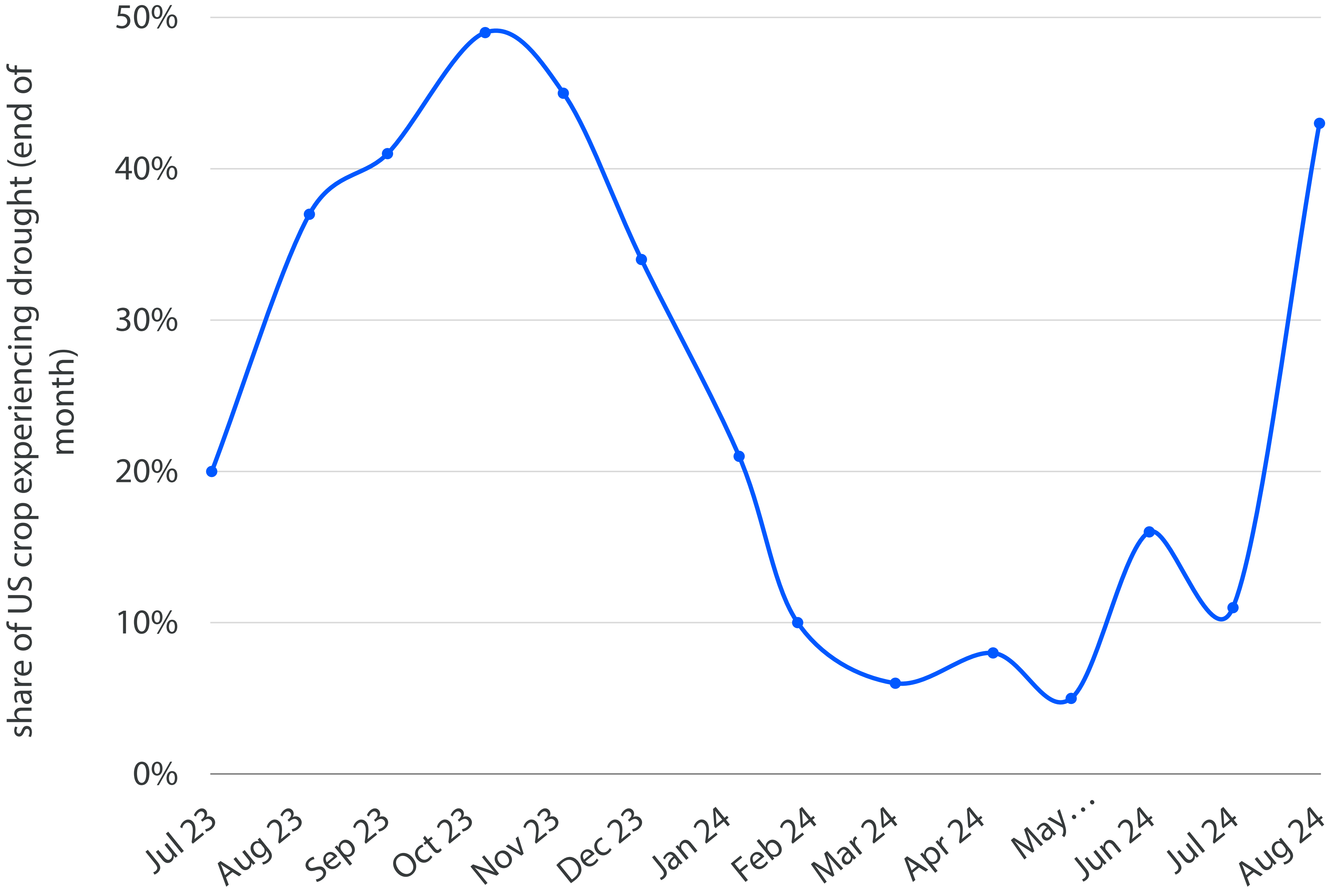
Cotton

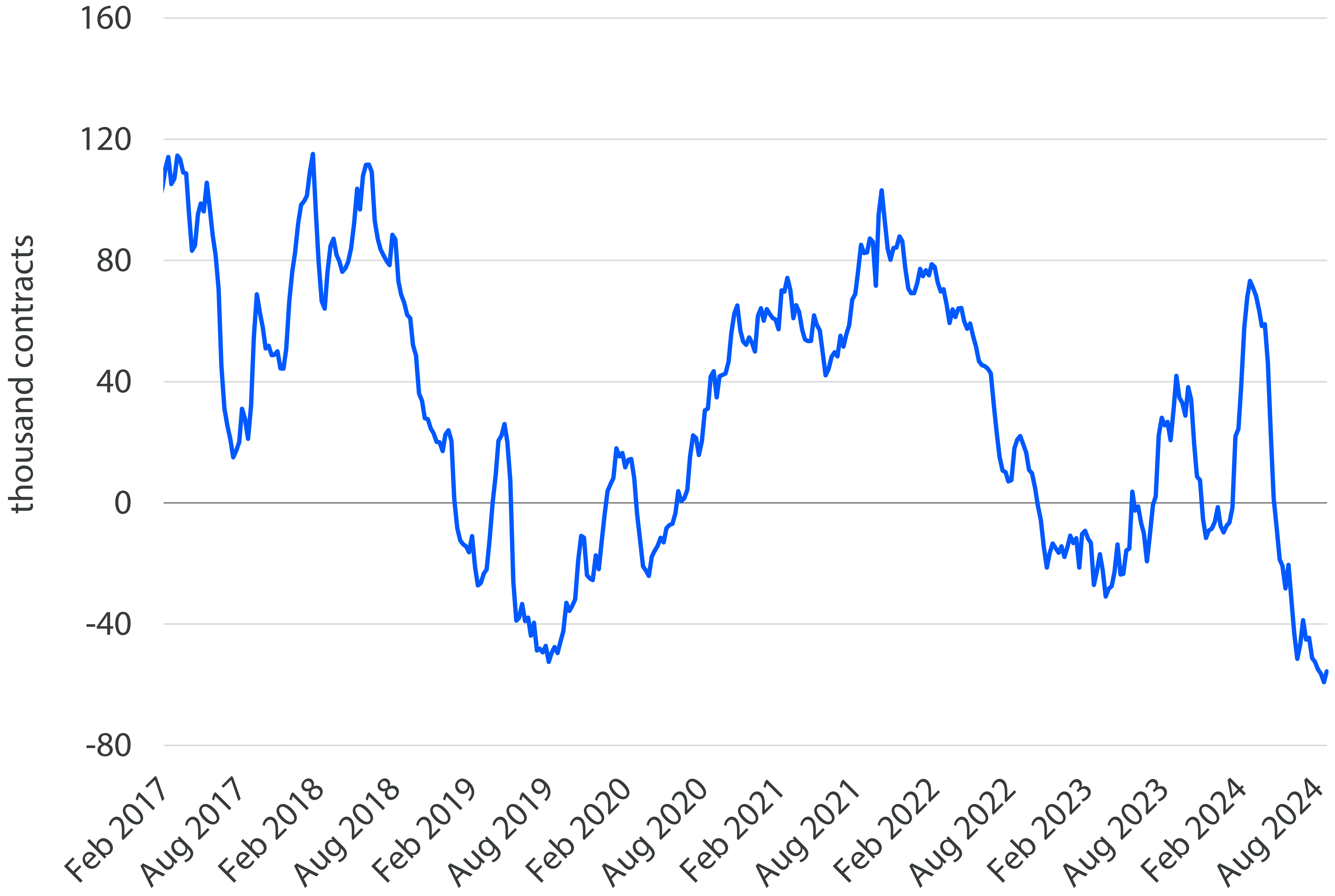
US weather issues may prevent cotton prices from slipping lower

The percentage of the US cotton crop experiencing drought increased sharply in August



***Source:** USDA, RaboResearch 2024*

Non-Commercials continue to hold a mammoth net short position



***Source:** CFTC, Bloomberg, RaboResearch 2024*

Consumer foods

A fierce battleground between the major retailers

The battle between the two major retailers heated up in Q2 2024. For the June quarter, the Coles supermarkets comparable sales grew by 2.6% YOY. This compared to 1.3% comparable sales growth for Woolworths in the same period. Both companies also reported a slowdown in food inflation across their business in Q2 2024 versus Q3 2024. Woolworths posted 1.6% inflation for the quarter versus 1.5% for Coles.

Woolworths reported some challenges in its New Zealand business. According to company reports, in FY 2024, the financial performance in New Zealand continues to be materially impacted by wage inflation and trading down by consumers in a highly competitive market.

Both companies highlighted the dynamic consumer behaviour in response to food purchasing decisions. According to the reports, the retailers continue to see signs of customers shifting from out-of-home to in-home dining and highlighted convenience meals as a high-growth category.

The latest ABS retail trade data for July showed a slowdown in total food expenditure. The combined turnover of seasonally adjusted food retail and foodservice saw a 2.3% increase versus July 2023 (not adjusted for inflation). This was compared to the 2.4% growth rate in June.

Looking closer at the data, retail sales of liquor and on-premise dining (versus takeaway) were drags on total food spend. This further confirms that value-conscious consumers are eating out less and reducing alcohol consumption to manage household budgets.

The monthly ABS data for inflation slowed a mild uptick in food inflation for July. For the month, food inflation rose 3.8% YOY, which was higher than the 3.3% recorded in June.

Fresh produce pricing was the main contributing factor. The ABS specifically noted prices of strawberries, grapes, broccoli, and cucumbers as leading to the higher inflation numbers.

What to watch:

- **Softening in cheese prices according to the RaboResearch heatmap –** RaboResearch's retail price index for all dairy categories showed that the price inflation across the dairy aisles has passed its peak. The lift in retail prices for dairy has been widespread and signs of deflation are now emerging. Discounting and promotional activity is on the rise, but it is unclear whether there will be deep discounting across the category moving forward.

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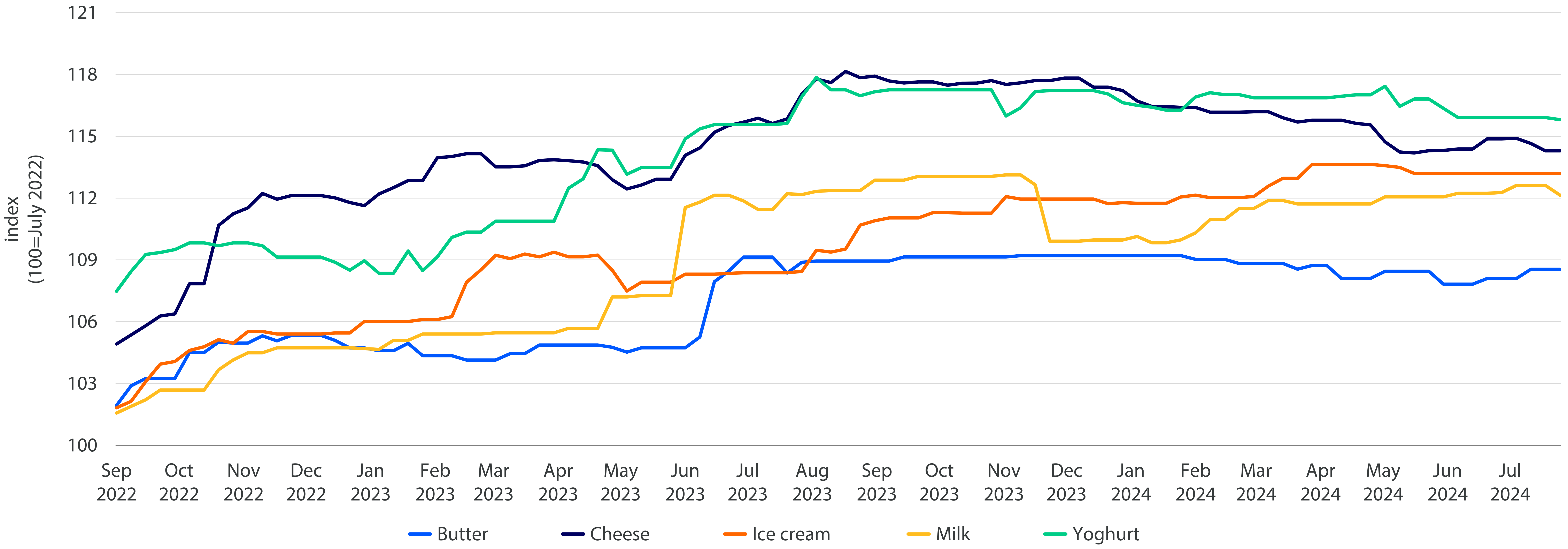
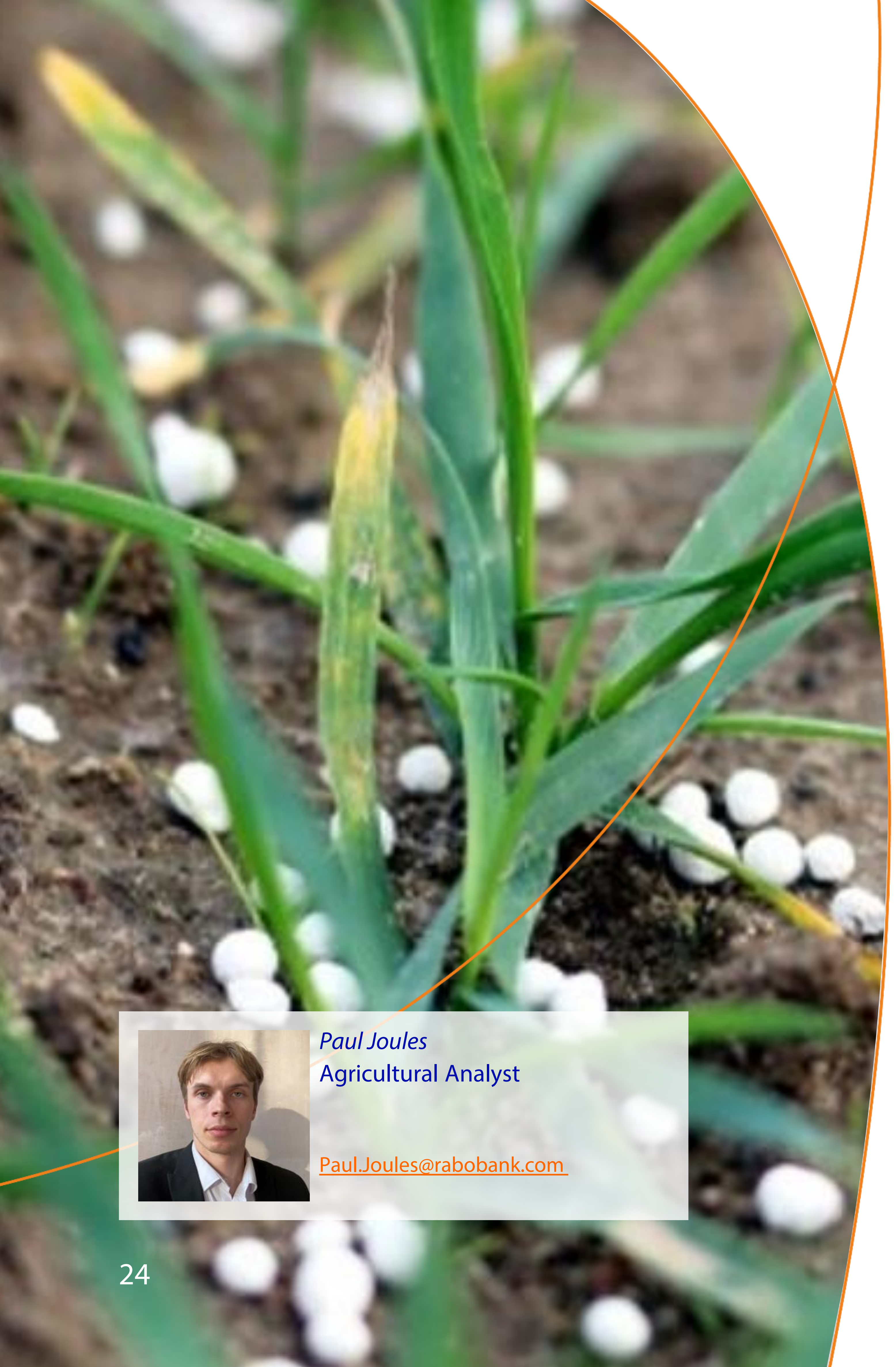
Consumer foods

Retail cheese prices softening

Australian weekly retail food index, select dairy products, Sep 2022–Aug 2024



Source: *RaboResearch 2024*



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Farm inputs

Global demand remains a question mark

In Australian dollar terms, we saw modest month-on-month declines across urea, DAP, and potash markets. We are beginning to see some signs of an increase in global demand. In mid-August, it was announced that India agreed a deal to import 500,000 tonnes of Moroccan DAP. This led to a USD 13/tonne increase MOM in Middle East spot netbacks. However, the Aussie dollar rally seen over August shielded importers from the increase, with prices, in fact, falling AUD 8/tonne due to the currency strength.

For urea, the demand picture is less clear. The key questions are: When will India reenter the market, and how large will its tender be? If the tender is larger than the market is anticipating, we could see price volatility upon the announcement. That being said, outside of the potential of a large Indian tender, global urea demand continues to look weak, and given that prices for grains and oilseeds (among other agri commodities) continue to slide lower, we're unlikely to see major alterations to the current tepid global demand outlook in the short and medium term. This is likely to keep a lid on price rallies.

In terms of urea supply, China remains largely absent from the export market, and there continues to be little indication regrading its return. The other talking point is Egypt, as it continues to struggle with natural gas issues. Although most plants are back in operation, the potential for blackouts remain.

One of the key risks for urea pricing going forward is volatile natural gas prices. TTF natural gas prices have risen sharply over the past couple of months. However, we don't expect to see major upside from current levels over the next 12 months, given high inventory levels and the trend of warmer winters. Ultimately, this means urea prices are unlikely to be pushed notably higher by natural gas rallies.

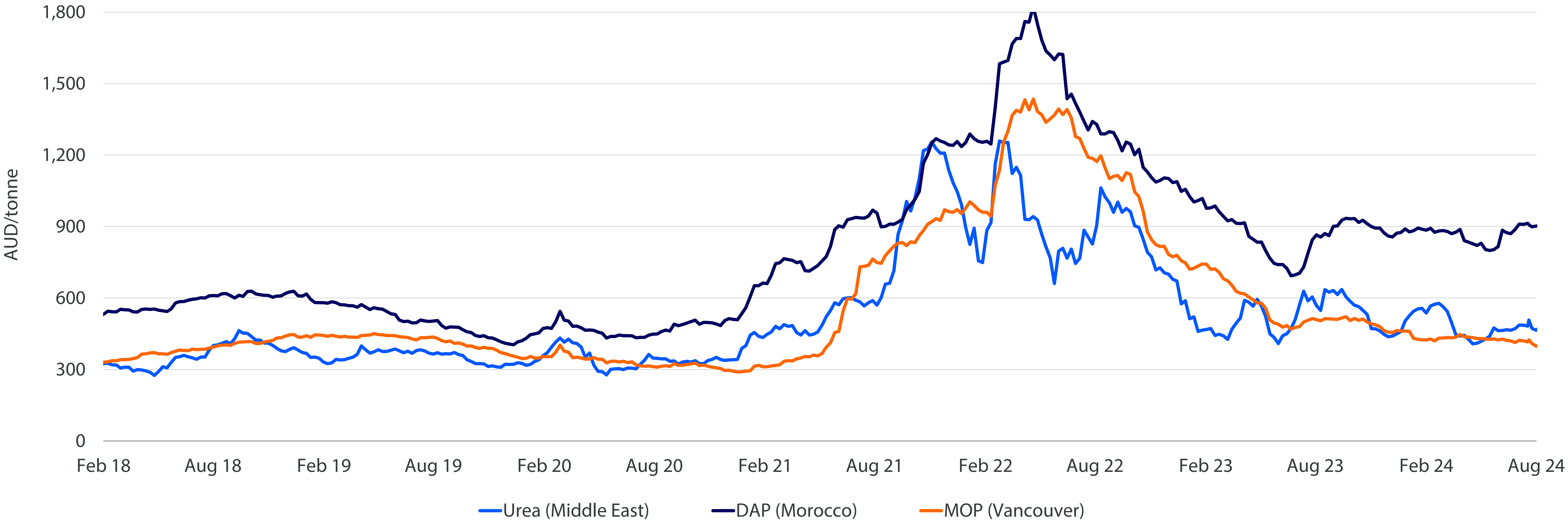
What to watch:

- **India entering the urea market** – The biggest potential driver for price to keep an eye on in this month whether we see a big urea tender from India. This could potentially cause volatility within urea markets in the short and medium term.
- **Chinese urea exports –** The other factor to keep an eye on is Chinese urea exports. There is no indication of when China will return to the market, so this remains an unknown.

Farm inputs

DAP prices find support amid Indian tender

Most fertiliser markets continue to lack direction amid demand question marks



Source: *CRU, RaboResearch 2024*

Rabobank

Interest rate and FX

Steady as she goes

The RBA left the cash rate unchanged at 4.35% in August and is widely expected to do so again in September.

In the governor's press conference, Michele Bullock told assembled journalists that the board is still worried that overall demand in the economy still outstrips supply, generating upward pressure on prices. The board *did* consider raising rates in August, but ultimately decided that holding rates at current levels for an extended period would be a better way to balance the risks that the economy faces.

Having established that the board expects to leave the cash rate unchanged for a long time, Bullock broke the unwelcome news that *"a near-term reduction in the cash rate doesn't align with the board's current thinking."* She later went on to define the "near term" as anything this side of Christmas.

While the RBA was warning not to bank on a rate cut anytime soon, the US Federal Reserve sent a clear message that it intends to begin cutting interest rates in September.

With the RBA holding firm and the Fed flagging cuts, the Australian dollar rallied nicely over the course of August. It closed the month at 0.6765 after bouncing off 0.6800 a couple of times, but we expect further upward momentum in the months ahead.

RaboResearch is forecasting the AUD/USD exchange rate to reach 0.7000 on a six-month view and 0.7200 on a 12-month view. We expect the US Federal Reserve to cut the federal funds rate four times by January, while the RBA won't get going on cuts until May next year.

RBA cuts could come a little earlier if the economy slows more than expected or the unemployment rate lifts unexpectedly. Signs of a weak growth outlook in China are also a negative risk factor that has the potential to lead to earlier rate cuts in Australia.

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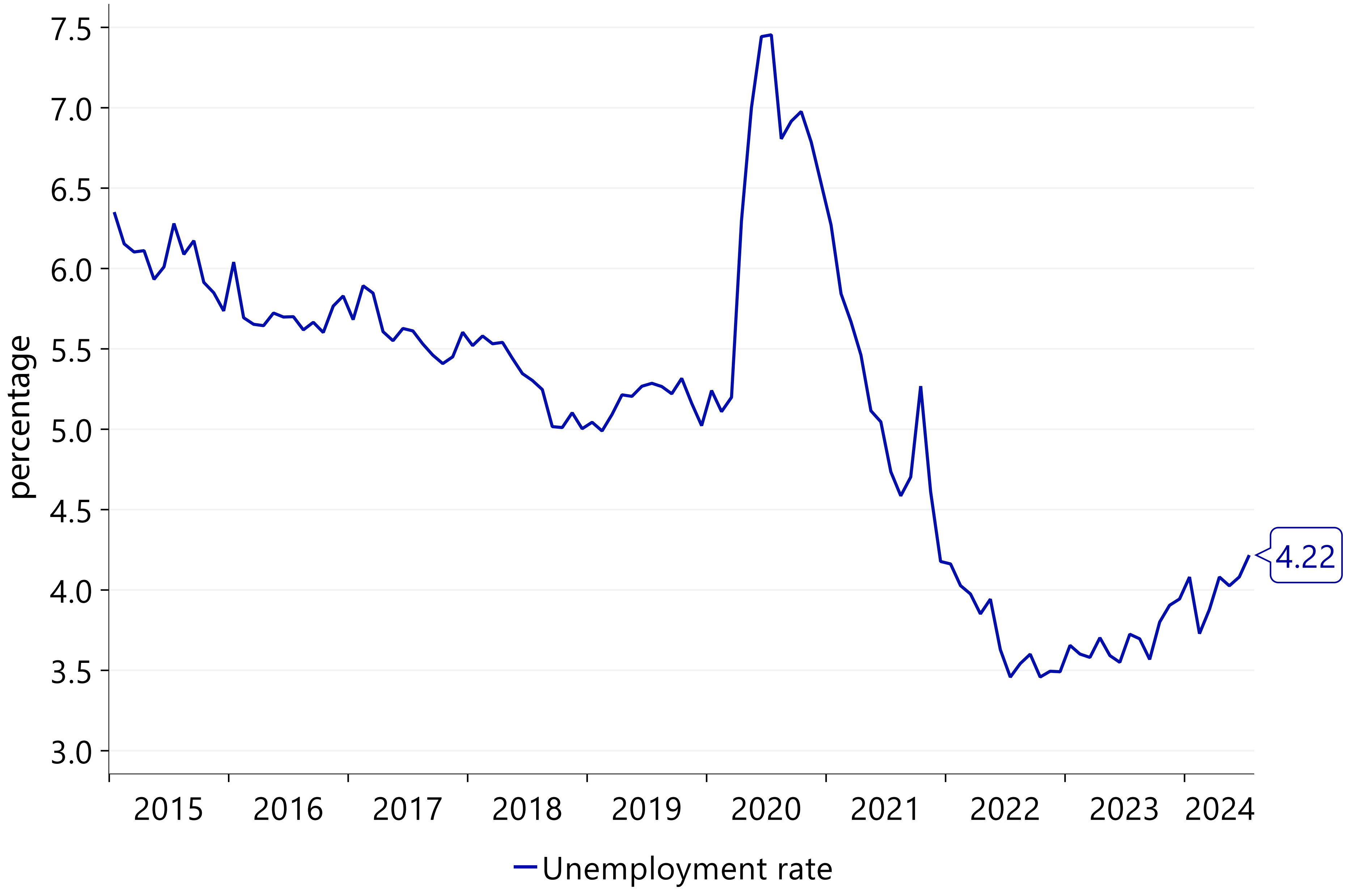
What to watch:

- **August Labour Force Survey, to be released 19 September** – The unemployment rate rose further than expected in July, despite continued strong hiring in the month. Another lift in the unemployment rate in August would be negative for the Australian dollar and prompt traders to ponder earlier rate cuts in Australia.
- **September RBA cash rate announcement, to be released 24 September** – The cash rate is almost certain to remain unchanged at 4.35% in September, but the focus will be on the language of the board's press release. If the RBA signals that it is growing more comfortable that inflation pressures are abating, earlier rate cuts could come into frame.

Interest rate and FX

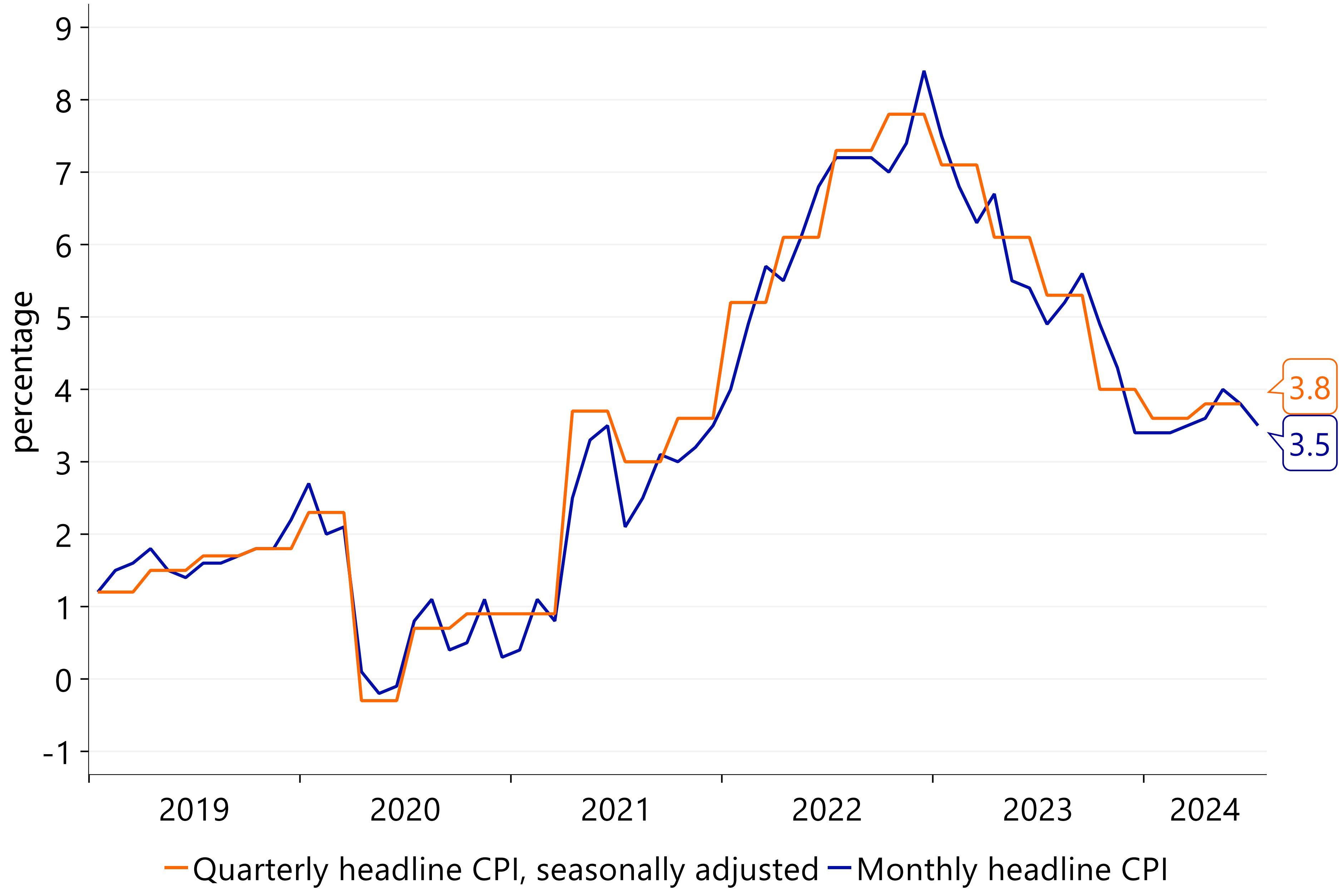
Inflation pressures slowly receding as unemployment grinds higher

Australian labour force indicators

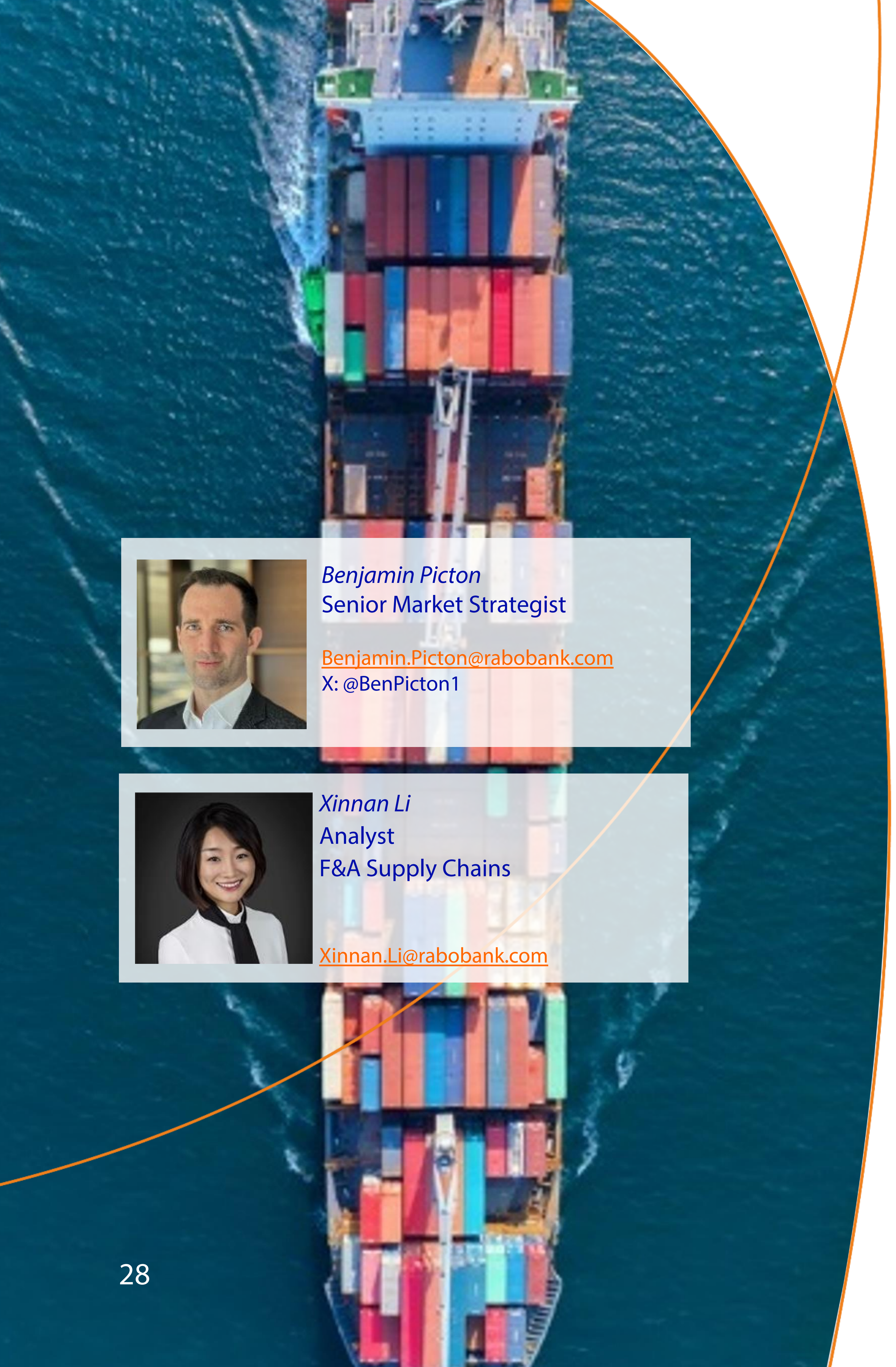


Source: Macrobond, ABS, RaboResearch 2024

Australian inflation indicators



Source: Macrobond, ABS, RBA, RaboResearch 2024



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Oil and freight

Crude and diesel prices continue to fall

Benchmark Brent crude oil prices fell for a second straight month in August, closing the month at USD 78.80/bbl.

A soft demand outlook continues to weigh on prices as Chinese growth stutters, the United States continues to exhibit signs of economic slowdown, and risks of supply interruptions in the Middle East appear modest.

US supply growth has slowed and OPEC+ producers are planning to increase supply in Q4 of this year, when the voluntary production cuts agreed to in July will be tapered. Questions are now being asked about the market's capacity to absorb that increased supply.

BloombergNEF released its road fuel outlook in August, suggesting that continued strong take-up of electric vehicles in China, Europe, and California could help to see road fuel demand peak as early as 2027. The market is already swinging into oversupply, so demand destruction courtesy of EV take-up would provide a bearish influence.

As shippers and carriers prepare for the peak holiday season, moderate demand increases lead to continued inflation in pricing. Though there may be a temporary softening of demand during the Northern Hemisphere summer, increased seasonal demand leading into the holiday period will soon be felt, especially for outbound lanes from Asia. This will, in turn, have a ripple effect on other routes globally, impacting container availability and pricing.

As of 12 August, only 0.6% of the global fleet was idle, including the 2m 20ft equivalent units (TEU) of new capacity that entered the market this year. Another 1m TEU of capacity is planned to come online during the remainder of 2024 and 2m TEU during 2025. This will provide a buffer for any short-term disruptions, help relieve capacity constraints before the Red Sea situation resolves and push the global market into overcapacity afterward.

The Baltic Panamax index (a proxy for grain bulk freight) seems to have stabilised in the recent month around sub-2,000 levels, as the market lacks near-term momentum.

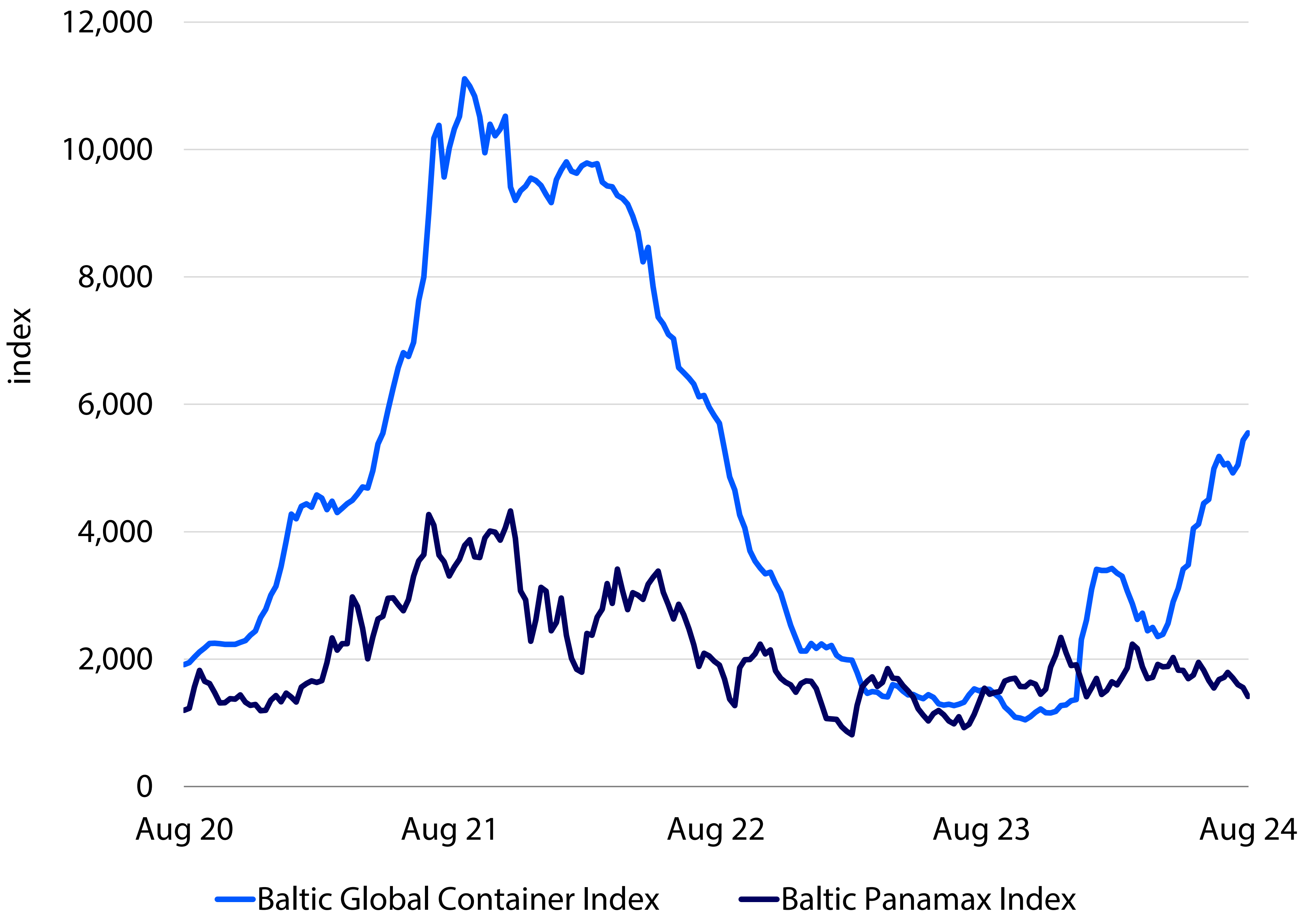
What to watch:

- **US Federal Reserve** – The Fed is widely expected to begin cutting interest rates in September, with some suggestions that it may begin with a supersized 50bp cut. Chairman Jerome Powell's comments on the state of the economy will be worth paying attention to, as they may contain clues about the demand outlook for transport fuels.

Oil and freight

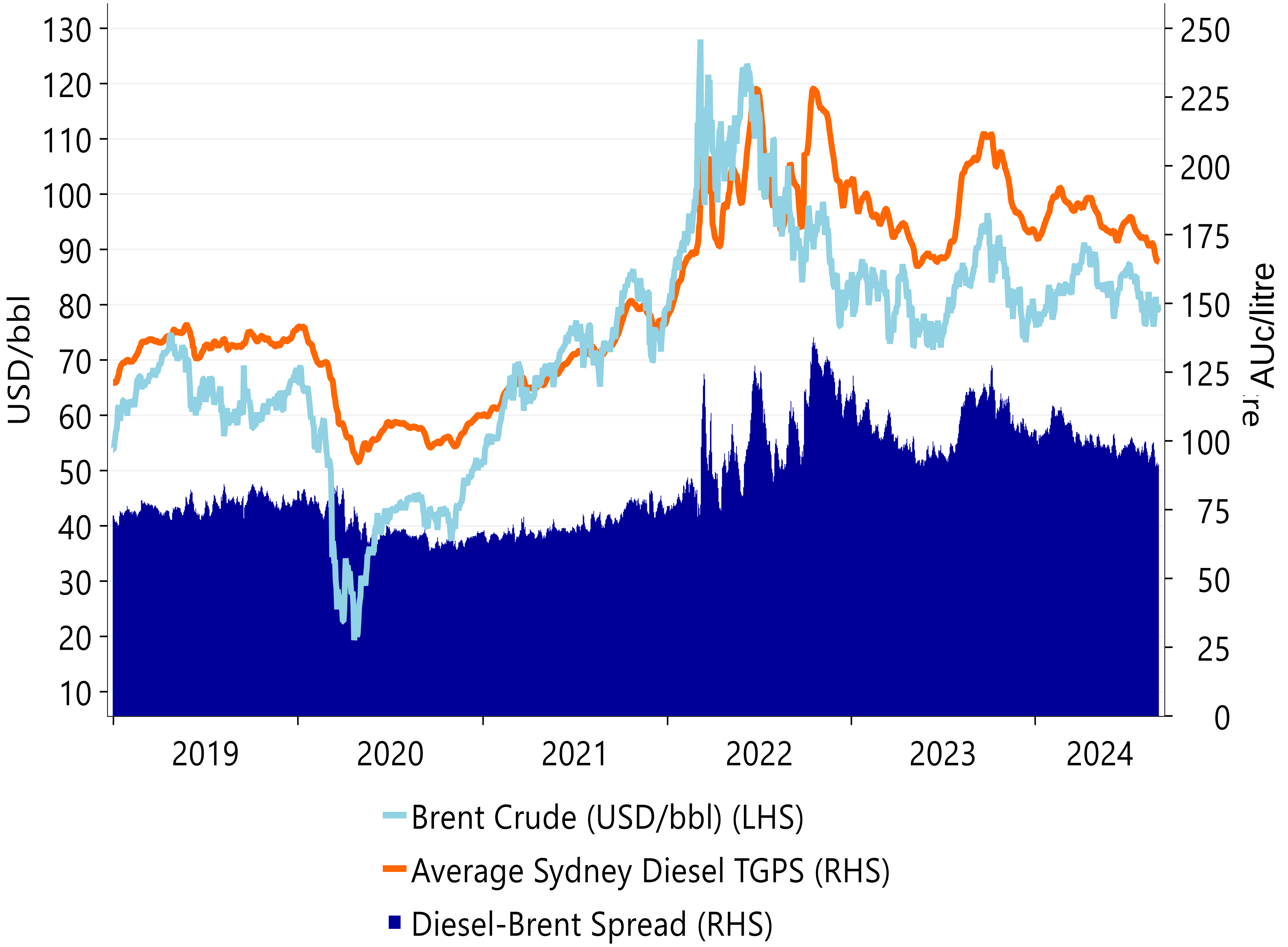
Weak demand outlook weighs on energy prices

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



Source: *Baltic Exchange, Bloomberg, RaboResearch 2024*

Brent crude versus Sydney diesel prices, 2019-2024



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

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Agri price dashboard

04/09/2024	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	552	540	581
CBOT soybean	USc/bushel	▼	997	1,044	1,360
CBOT corn	USc/bushel	▼	386	391	472
Australian ASX EC Wheat Track	AUD/tonne	▼	310	330	390
Non-GM Canola Newcastle Track	AUD/tonne	▼	648	670	690
Feed Barley F1 Geelong Track	AUD/tonne	▼	285	310	345
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	▲	676	671	461
Feeder Steer	AUc/kg lwt	▲	369	359	288
North Island Bull 300kg	NZc/kg cwt	▲	685	660	590
South Island Bull 300kg	NZc/kg cwt	▲	625	600	530
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	810	801	443
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	740	690	695
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	770	700	690
Venison markets					
North Island Stag	NZc/kg cwt	▲	980	860	880
South Island Stag	NZc/kg cwt	▲	925	860	875
Oceanic Dairy Markets					
Butter	USD/tonne FOB	▼	6,378	7,513	4,625
Skim Milk Powder	USD/tonne FOB	▲	2,625	2,588	2,388
Whole Milk Powder	USD/tonne FOB	▲	3,525	3,150	2,700
Cheddar	USD/tonne FOB	▲	4,363	4,325	4,175

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

Agri price dashboard

04/09/2024	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▲	81.2	79.6	99
ICE No.2 NY Futures (nearby contract)	USc/lb	▲	70.8	66.6	86
Sugar markets					
ICE Sugar No.11	USc/lb	▲	19.5	18.1	26.2
ICE Sugar No.11 (AUD)	AUD/tonne	▲	641	613	798
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,086	1,124	1,127
Fertiliser					
Urea Granular (Middle East)	USD/tonne FOB	•	343	343	383
DAP (US Gulf)	USD/tonne FOB	•	550	550	550
Other					
Baltic Panamax Index	1000=1985	▼	1,305	1,697	1,466
Brent Crude Oil	USD/bbl	▼	74	76	91
Economics/currency					
AUD	vs. USD	▲	0.671	0.650	0.638
NZD	vs. USD	▲	0.618	0.594	0.587
RBA Official Cash Rate	%	•	4.35	4.35	4.10
NZRB Official Cash Rate	%	•	5.50	5.50	5.50

Source: Baltic Exchange, Bloomberg, RaboResearch 2024

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