

ANZ RESEARCH
AGRI FOCUS

APRIL 2023

A FURTHER LIFT REQUIRED



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INSIDE

Economic overview	1
Dairy	3
Lamb & wool	5
Beef	8
Deer	11
Grain	12
Forestry	14
Horticulture	16
Rural property market	18

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The Reserve Bank of New Zealand (RBNZ) has made it clear that their battle with inflation is far from over. Inflation is not yet under control despite strong efforts from the central bank to curb demand through deploying higher interest rates. Given it takes considerable time for OCR changes to work their way through the economy, the debate over "how much is too much" is only likely to get louder over the months ahead, as the impacts of past tightening become more evident beyond the housing market.

Rural sector businesses are facing very tight margins as they juggle lower incomes, higher operating costs and increased interest rates.

Autumn weather has generally been favourable for pastoral farms, with the exception of those regions still trying to get back on their feet following the massive February floods.

The harvest of horticultural produce this autumn will be considerably lighter than usual for two of our major export crops, apples and kiwifruit. Reduced output is expected to be somewhat supportive of prices, but returns are not expected to be exceptional due to global economic challenges.

Meat prices have benefited from China's reopening but dairy prices are yet to bounce back as increased global milk supplies weigh on the market.

Labour remains a challenge for the primary sector, and this is expected to result in a bottleneck in meat processing this autumn. A backlog of cattle is already building as processing weeks shorten due to the Easter and ANZAC holidays.

Prices at farm/orchard level relative to 10yr average

Dairy	Dairy commodity prices have continued to weaken despite improving demand from China. Our milk price forecasts have been revised down to \$8.25/kg MS for the current season and \$8.50/kg MS for next season.	<p>Milk price</p> <p>Low High</p>
Sheep	Lamb returns at the farmgate level have lifted slightly despite large numbers of lambs still to be processed this season.	<p>19kg lamb</p> <p>Low High</p>
Beef	Beef prices have recovered strongly with improved demand in both of our major markets: the US and China.	<p>Prime steer</p> <p>Low High</p>
Forestry	Log returns at the wharfgate have improved, bolstered by additional demand from China. Meanwhile local demand for timber has softened.	<p>A-grade log</p> <p>Low High</p>



ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

The Reserve Bank of New Zealand (RBNZ) has made it clear that its battle with inflation is not done yet as it ratchets up rates more quickly than expected. Markets and analysts alike were surprised by the 50bp lift in the Official Cash Rate (OCR) in April which pushed rates to 5.25%.

This was the level we previously expected rates to peak at, but we now expect one more 25bp hike from the RBNZ in May, taking the OCR to 5.50%.

Global economic growth is clearly slowing. China is the exception, as its economy is expected to bounce higher as the removal of the zero-COVID policies allow it to jump up a gear or two for a time.

FALSE SUMMIT

The RBNZ trumped market expectations for a 25bp lift, raising the OCR 50bp to 5.25% at its April Monetary Policy Review. This OCR has not been this high since 2008.

We have banked the surprise in our forecasts, and still expect one last 25bp lift at the next review in May. This implies the OCR peaking at 5.50% rather than 5.25%.

There were three key reasons cited by the RBNZ for choosing a larger hike:

- The risk that the Budget in May will be more expansionary and therefore more inflationary.
- The inflationary impacts of Cyclone Gabrielle are now estimated to be larger. In the short term, higher prices for the likes of food could support inflation expectations; further out the rebuild efforts will strain resources, but exactly how inflationary that proves will depend on how the Government plans to pay for it, ie will they make cuts to other planned spending or increase borrowings?

- Concern that mortgage rates could fall. Falling wholesale rates (driven primarily out of developments in the US, rather than local factors) combined with competition between banks for a shrinking number of new home loans meant there was a risk carded home loan rates could start to fall. The RBNZ made it clear they feel it is too soon for this to happen.

Inflation is still a major challenge for the New Zealand's economy. While there are some indications that prices are not rising quite as quickly as previously and that demand is starting to ease (including for labour), the RBNZ will want to see more solid evidence of progress in cooling both activity and inflation expectations before easing rates.

DEMAND STARTING TO SOFTEN

The latest NZIER Quarterly Survey of Business Opinion indicated that an increasing number of businesses are starting to see the level of demand as the main constraint on expansion. This is actually the usual state of affairs. But over the past year or so, businesses were mainly being constrained by supply-side factors, particularly shortages of labour. That's a highly inflationary state of affairs. Now more businesses are reporting that the main driver of activity is shifting back to the demand side of the economy. That's due to both the supply side of the economy continuing to normalise, and demand beginning to weaken in response to tighter monetary policy.

The unemployment rate is still low but some firms are finding it easier to recruit staff, indicating the labour market is not quite as tight as it was. The reopened border and significant loosening in immigration policy are no doubt significant drivers. But it's also the case that some firms are starting to let go of staff as demand eases, particularly in the most interest rate sensitive parts of the economy, such as construction.



ECONOMIC OVERVIEW

Unfortunately, most businesses operating in the primary sector are still finding it very challenging to recruit sufficient staff. Some businesses continue to report higher-than-normal levels of absenteeism. This will not be helped by the recent rise in COVID-19 cases.

Companies such as meat processors are finding they need to have more labour units booked than normal to ensure they have sufficient staff to run their scheduled number of processing chains on any given day.

We continue to expect a mild recession later this year, with the unemployment rate to start to lift towards 5% as consumption and business investment weaken in response to higher rates.

INTERNATIONAL DEMAND A LITTLE WEAKER

International demand remains steady but not exceptional for most of our export goods. The economies of most of our trading partners are slowing and this has impacted demand for goods – particularly high-end goods.

China is the exception. Its economy is expected to grow more in 2023 than in 2022 when it was hampered by its zero-COVID policy. The reopening of China has bolstered demand for most goods, and this is particularly evident in prices for beef and lamb. Dairy prices have not responded positively, as while demand from China is growing, it has not regained its previous highs. But demand for logs is strong, and prices have lifted, helped along by reduced supply from New Zealand.

Click [here](#) to access our latest forecasts.



DAIRY

RETURNS SOFTEN AS SUPPLY GROWS

Dairy commodity prices have gone against expectations and continued to weaken over the past few months. Global milk supplies are growing and this is putting pressure on prices. However, returns at the farm level are not particularly high anywhere in the world and this is expected to help rein in supply growth in coming months.

Farmgate prices have been revised down locally and market expectations for next season have softened. However, this could all change quickly if we do see a recovery in demand combined with easing global milk supplies.

Dairy commodity prices have continued to trend down, with earlier glimpses of a recovery in the market not being sustained. Prices have been steadily weakening over the past 12 months, with the GlobalDairyTrade (GDT) Price Index having fallen 40% since it peaked in March 2022.

Reduced demand from China during their lockdowns has been a major factor explaining the lower prices. Demand from this market is now improving, but recent purchase levels won't make up for the lack of buying earlier in the season.

China typically imports large volume of milk powder early in the calendar year due to reduced tariffs during this period, but this year there was no spike in buying.

Fortunately, whilst China was buying smaller volumes on GDT, buyers from other regions increased their purchases. However, we are now seeing reduced demand from regions such as South East Asia and the Middle East, as they currently have plenty of stock on hand.

GLOBAL MILK SUPPLIES HAVE LIFTED

At present milk production in the Northern Hemisphere is at, or near, its seasonal peak. This means more cheese, butter and skim milk powder is becoming available, which is putting downward pressure on prices.

Financial conditions for farmers in the US and the EU are not particularly favourable, implying that the surge in milk production we are currently seeing may not be sustained for particularly long. However, farmers are coming off a period of higher-than-normal returns, so it will take longer for the lower prices to impact their business profitability. Some US and European farmers will have hedged both their milk price risk and some of their costs such as feed and fertiliser, and therefore won't be immediately exposed to lower returns.

European milk production has lifted a little recently, but growth is generally contained and is expected to ease once we pass the seasonal peak in supply, which typically occurs in May. Official milk production data for the 27 EU member states shows marginal growth in the 12 months to January 2023. Production for the month of January was up 0.9% y/y.

In percentage terms the strongest growth in European milk production has come from Romania, Bulgaria and Poland – no doubt fuelled by cheap grain supplies (see [Grain](#) section). In volume terms, the greatest growth has come from the big dairy-producing nations of Germany and the Netherlands, offsetting lower output from France.

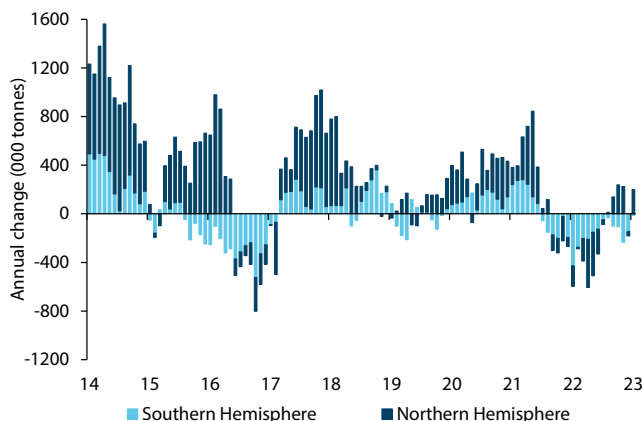
Milk production in the US expanded by 1.1% y/y during the first two months of 2023. Output has been steadily growing since the middle of 2022. However, demand for milk has definitely softened. Farmgate pricing is no longer as favourable as it was, and the number of dairy cows being culled has lifted. Milk flows are therefore expected to slow as the year progresses.



DAIRY

The extra milk being produced in the US is being manufactured into goods that can readily be exported, and this is putting some pressure on global markets at present.

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



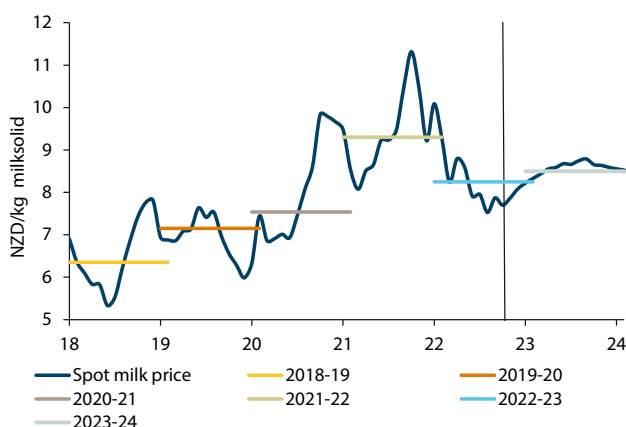
Source: DCANZ, Dairy Australia, EuroStat, USDA, CLAL

IMPLICATIONS AT THE FARMGATE LEVEL

We recently [revised down our milk price expectations](#) for both the current season and the season ahead. Our milk price forecast for the 2022-23 season is now \$8.25/kg MS. On April 3 Fonterra revised their milk price forecast range for the current season down to \$8.00 to \$8.60/kg MS. That puts the mid-point of the forecast, \$8.30/kg MS, 20c lower than the previous forecast.

Looking ahead to the 2023-24 season, a lower effective exchange rate helps support our forecast of \$8.50/kg MS.

FARMGATE MILK PRICE HISTORIC AND FORECAST



Source: Fonterra, ANZ Research

Again, there is a wide range of forecasts for next season. Milk price futures for the 2023-24 season dropped sharply in late March, falling nearly \$1 to last trade at \$7.70/kg MS.

FONTERRA SHARES

Fonterra's share price peaked at \$3.08 at the end of March, which was its highest price since June 2022. Shares had been trading near \$2.60 until Fonterra released its mid-year results on 16 March. At that time they announced a lift in profits and advised that they plan to return 50c to share and unit holders from funds earned from divesting assets. The share price immediately jumped by nearly 50c, peaking at \$3.08 on 31 March. Typically share prices fall by a similar amount to the proposed dividend once the ex-dividend date has passed, ie the date you are required to be a shareholder in order to receive the dividend payment.

Fonterra also updated their earnings forecast: they expect to earn 55-75c per share. Based on their current policy of distributing between 40% and 60% of net profit as a dividend, this would imply that a full-year dividend in the range of 22-45c per share. A 10c interim dividend was announced.

Fonterra farmers are no longer required to hold a share for every kilo of milksolid supplied. The Co-op moved to its new flexible share standard policy on 28 March. The minimum shareholding is now one share for every 3kg MS supplied, up to a maximum shareholding of four times the amount of MS supplied.

Fonterra has set aside \$300 million to support liquidity in the market during the transition period. The programme, known as Transitional Buyback, will be used by Fonterra to buy shares at market prices throughout the 11-week transitional period.

The volume of shares traded in early April increased, but has not been any higher than busy trading days earlier in the year. The Transitional Buyback programme will run until 9 June 2023, during which time Fonterra will be able to purchase up to a maximum of 75 million shares, which is less than 5% of the shares on issue.

LAMB & WOOL

LAMB MARKETS IMPROVE

International markets for lamb and mutton have improved. The price of major export cuts have all lifted, helped along by improved demand from China.

Farmgate prices for both lamb and mutton have firmed. The lift in farmgate prices is driving confidence and strong prices at the sale yards, although this is being tempered by more store lambs becoming available.

Feed availability varies considerably from region to region, and this is determining both the quantity of lambs being finished and the weights they are achieving.

CHINA DEMAND IMPROVES

Demand for cuts of lamb and mutton has improved since China ended its zero-COVID policy, but is not yet back to the levels seen prior to the pandemic. Over the past month the increase in demand has resulted in an uptick in pricing across the major cuts of lamb and mutton. Demand from the food-service sector in China has increased as consumers are able to dine out again.

Consumer confidence does remain a little dented due to the financial impact the lockdowns have had on many people. However, Chinese authorities are committed to stimulating the economy through job creation and investment in technology. China is one of the few economies that should grow faster in 2023 than 2022.

Reopening of the borders has also lifted demand for NZ lamb from hotels and restaurants geared toward western visitors.

CONSUMER DEMAND BEING ERODED BY INFLATION

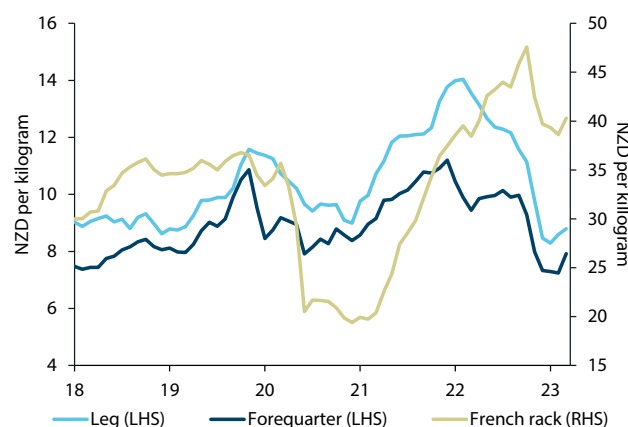
Inflationary pressures continue to erode consumer buying power across most markets outside of China. This does mean it is a more challenging environment for selling higher-priced proteins such as lamb.

Demand for lamb for the Easter period was steady from the traditional European and UK markets. Buyers will now be assessing Easter consumption levels before committing to further orders.

US demand is also a little subdued. As consumers try to stretch their buying power they tend to favour lower-priced proteins such as chicken and beef, rather than lamb. Lamb is a more niche product, but it is favoured by consumers who value quality food and find the free-range attributes of NZ lamb appealing.

Buyers in the Middle East are reported to be particularly price sensitive and will only buy product up to a certain price point.

LAMB CUT PRICES



Source: AgriHQ, ANZ Research

FARMGATE PRICES FALL

Farmgate prices have started to trend a little higher recently. This has coincided with improved international prices, which have bolstered confidence in the sector. The volume of lambs available for processing has been lower than normal. In the South Island, farmers are



LAMB & WOOL

finding lambs are taking a little longer to finish than is typical. In the North Island the excess feed available is incentivising farmers to grow lambs to heavier weights.

The ongoing challenges regarding access to properties in the Hawke's Bay and Gisborne regions mean there is still stock on farms that can't be moved off until roads and bridges are repaired. Some farmers are resorting to droving stock out, but this certainly has its own challenges!

Also creating a logistical challenge have been the disruptions to the Cook Strait ferries. Schedule prices in the North Island tend to be higher than in the South Island, but the differential has been much greater than usual in recent months. This situation tends to occur when there is greater procurement pressure (or a lack of it) in one part of the country. At present North Island processors are finding it hard to fill their plants but lambs have not been able to flow as freely as normal between the islands due to the ongoing disruptions with the ferry services.

STORE MARKET

Plenty of lambs are now showing up at the sale yards. The emergence of winter contracts for lambs is making it easier for buyers to assess price risk. Demand for lambs remains relatively robust, but the extra supply is keeping prices in check.

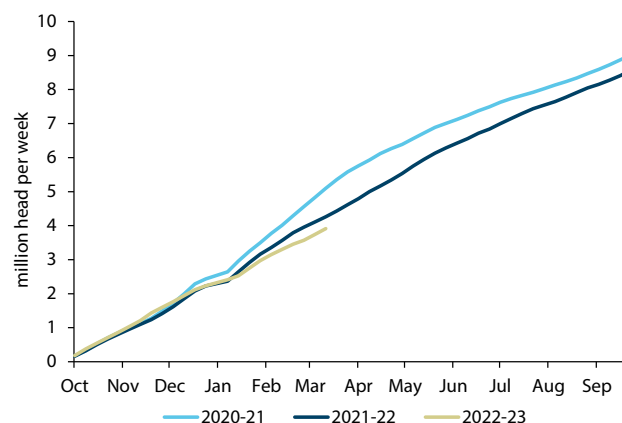
BOTTLENECK AHEAD?

The number of lambs processed up to the end of February was approximately 7% fewer than at the same time the previous season. Based on Beef + Lamb NZ's estimates of lamb numbers, adjusting these to account for losses from the recent floods, there will be about 500,000 fewer lambs to process this season.

That implies that the number of lambs available for processing in the second half should be similar to last season's numbers. However, the distribution between islands varies considerably. In the North Island there may be about 4% more lambs than normal still to process, while in the South Island there will be 6% fewer.

The lambs that have been processed to date have been heavier than normal and this trend is expected to continue, particularly in the North Island. Dry conditions in Southland are making it more challenging to finish lambs to heavier weights.

LAMB PROCESSING NORTH ISLAND - CUMULATIVE



Source: NZ Meat Board, AgriHQ

For the season to date, lamb carcase weights have averaged 18.9kg in the North Island and 18.7kg in the South Island. That puts North Island weights up an extra 0.55kg and South Island up 0.3kg.

In recent weeks the lambs processed in the North Island have been, on average, 0.7kg heavier than South Island lambs.

The extra weight means that despite lamb numbers being lower, exporters have still had plenty of product. The heavier weights don't come without their challenges though, as it can be more challenging to meet the specifications required by the food-service sector when lambs are coming in larger than expected.

FARMGATE PRICES TRENDING UP

Farmgate prices are expected to trend up as the season progresses. However, the rate of gain will be tempered by the volume of lambs still to process.

Processing capacity is still partially constrained by available labour. This could become an issue as we move through the season and may see a bottleneck in the volume of stock coming through for processing. However, this is more likely to be an issue for cattle than lambs.

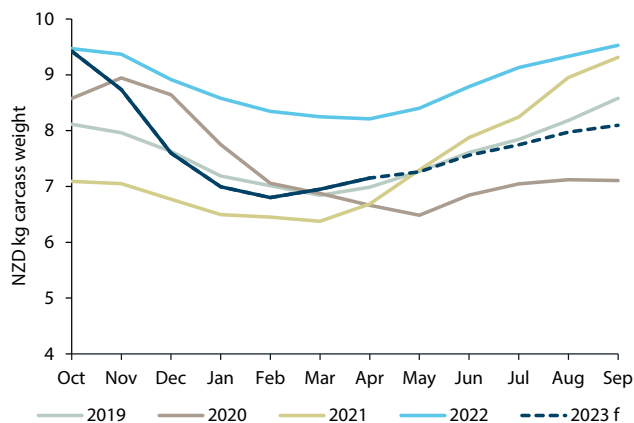
We previously expected schedule prices to bottom out at about \$6.20-\$6.50 per kg CW in March/April, but prices were stronger than expected, with schedule prices not going below \$6.50/kg CW.

Prices are now well above \$7 and expected to trend towards \$8 in coming months.



LAMB & WOOL

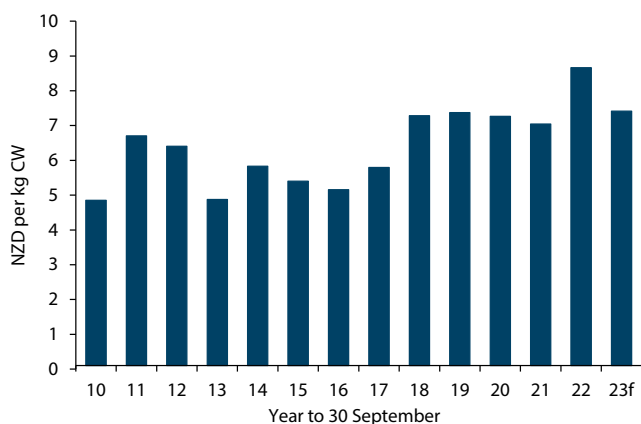
FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

This will put the weighted average price of lamb for the 2022-23 season at \$7.30/kg CW, which is about 10c below the 5-yr average.

WEIGHTED AVERAGE FARMGATE LAMB PRICES



Source: AgriHQ, ANZ Research

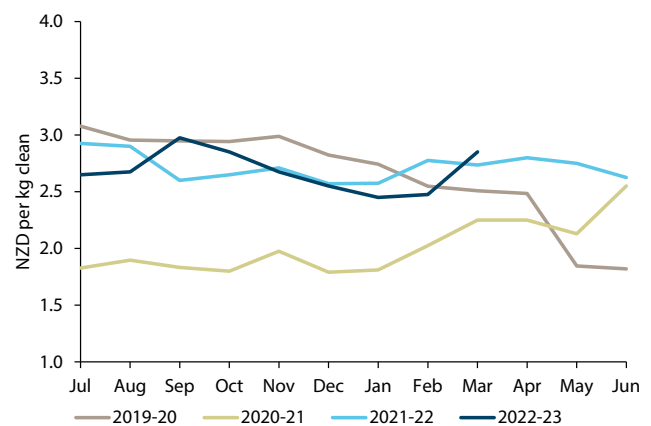
COARSE WOOL PRICES LIFT

Course wool prices did improve considerably in recent months but the lift in returns may be fleeting. A reduction in the volume of wool on offer helped push prices up at recent auctions, but the latest North Island auction was not well supported. Wool auctions in the North Island took an unscheduled break in late February/early March due to the impact of the flooding.

When auctions resumed buyer appetite was initially stronger, resulting in a considerable lift in the overall indicator prices. South Island auctions followed suit, with strong demand for quality wool. However, a large proportion of the wool on offer has been of lower grade and has been much more challenging to sell.

Wool discolouration has been particularly bad this season due to the extra feed available from the wetter than normal spring and summer.

COARSE WOOL PRICES



Source: PGG Wrightson, ANZ Research



BEEF

INTERNATIONAL MARKET FIRMS

Global demand for beef is improving, and this has resulted in a steady uptick in beef export prices. Exporters are relatively confident that these prices will be maintained through the autumn when processing volumes increase.

There are some concerns about processing space through the peak of the season. Fewer cattle have been killed in the North Island in the early part of the season, meaning more stock are expected to come forward during the peak period for cull cows.

SUPPLY AND DEMAND GROWING

Market dynamics are starting to move more in favour of sellers. Following a lengthy period of strong supply (in the US market) and reduced demand (from China) the fundamentals are now improving.

Prices are generally firming as buyers from China and the US compete for our manufacturing-grade beef.

The supply of domestic beef in the US is also slowing. Beef supplies in the US were elevated earlier due to the drought forcing farmers to destock. That surge in supply has now eased as the volume of beef entering processors in the US slows. Domestic supply within the US is not expected to pick up substantially any time soon.

Brazilian beef exports to China were suspended in late February due to a case of Bovine Spongiform Encephalopathy (BSE) – more commonly known as mad cow disease – being detected. Further investigations found the case to be atypical, meaning it did not represent a risk. In late March, Chinese officials agreed to resume imports of Brazilian beef. Approximately two-thirds of the beef exported from Brazil typically goes to China and China is very reliant on this supply.

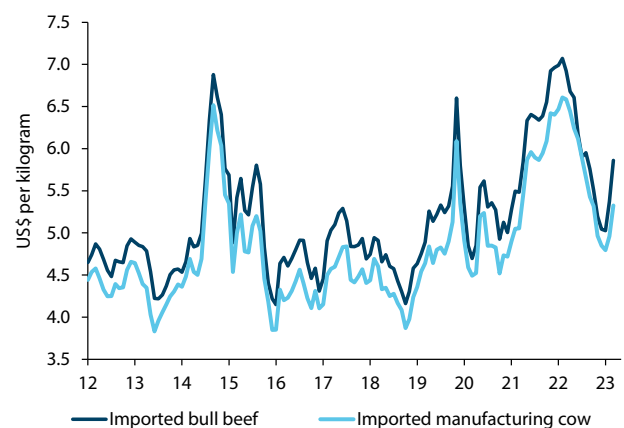
Demand from Chinese importers for beef has improved since the zero-COVID policy was lifted. Importers are also reported to be relaxing rules for testing meat for COVID-19.

Despite the recent absence of Brazilian beef from China, demand for imported meat is only steady. In-market stocks appear to have been sufficient to bridge the 4-week gap in supply from Brazil.

US MARKET STRENGTHENING

Demand from the US for imported beef should be stronger than normal in coming months due to the lack of domestic supplies, particularly lean beef. However, it remains to be seen whether or not this will translate into higher prices. It will be somewhat dependent on the volume of beef offered into this market from other beef-exporting nations.

US IMPORTED BEEF PRICES



Source: USDA, AgriHQ



BEEF

Australia is estimated to have supplied 50% more beef into the US in March this year than March 2022. There are also concerns that additional supply from Brazil could put pressure on the US market.

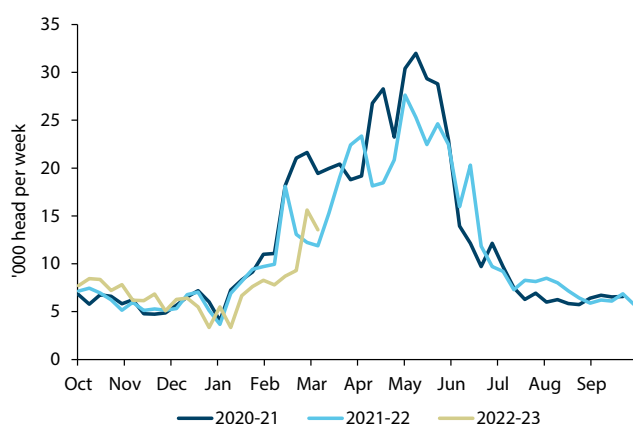
At present prices in the US market for imported bull and cow meat are about down about 13% y/y. New Zealand exporters are reasonably confident that prices for beef will at least hold, if not lift in coming months.

SUPPLY BOTTLENECK LOOMING

There are concerns that the quantity of cattle yet to be processed in New Zealand will put pressure on capacity in the coming months.

Cattle processing is on par with last season in the South Island, but in the North Island the number of cattle processed this season to date is 8% behind the same time last season. This is particularly evident in cow numbers, which are back 13% for the North Island.

CATTLE PROCESSING PER WEEK – NORTH ISLAND



Source: NZ Meat Board, AgriHQ

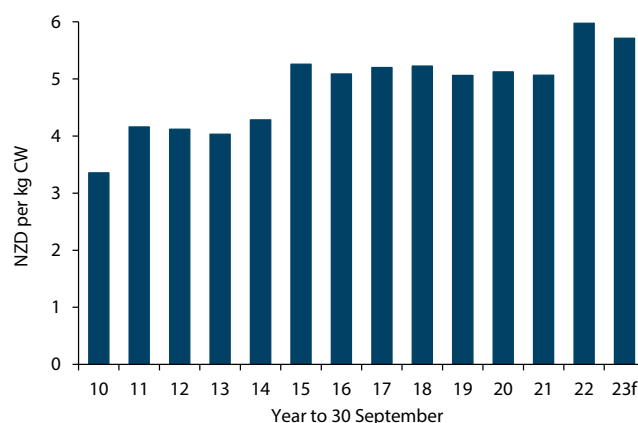
There is a risk that not all cattle will be processed in a timely manner. While the extra feed available, at least across the lower North Island, is providing an incentive to hold stock for longer, this may change quickly as temperatures drop and pasture production slows.

There are also concerns that the quantity of supplements made this year was well down on the last season due to wet conditions preventing harvesting of grass for hay and balage. This could be a concern later in the winter when feed availability tightens.

FARMGATE PRICES

Schedule prices should gradually tick up, but prices are likely to stall as processing capacity is tested.

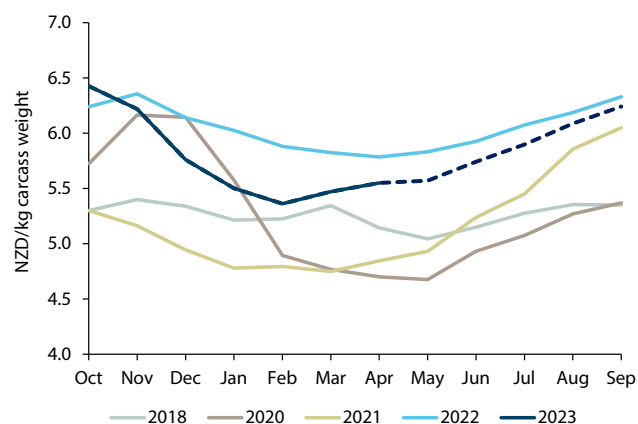
FARMGATE AVERAGE PRICES



Source: AgriHQ, ANZ Research

Overall, farmgate returns for beef are not expected to be quite as strong as they were last year, but price levels are still relatively high.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

Farmgate prices did lift during February and March at a slightly quicker rate than expected. Improvements in the international markets, combined with a relatively weak NZD and relatively tight stock availability, helped bolster prices.



BEEF

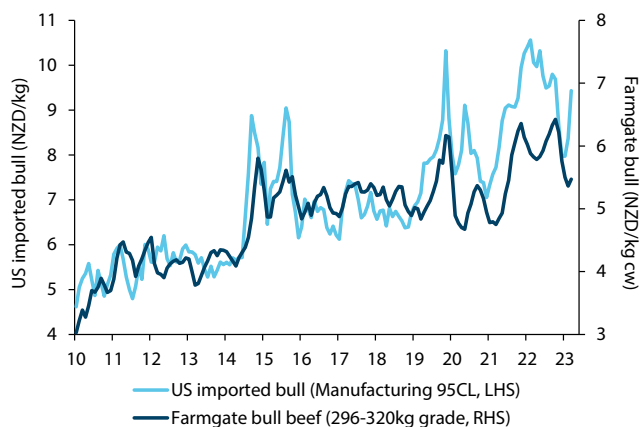
STORE MARKET REMAINS TIGHT

The market for store cattle in the North Island remains very tight. Farmers are holding onto cattle due to having plentiful feed. In addition, some farms impacted by the February floods have not been able to move cattle off farm. Road access remains an issue for many properties whose owners are waiting on repairs to bridges and slips. Damage to on-farm infrastructure such as fences and farm tracks is also posing challenges.

The lack of stock supply is keeping prices firm for all classes of cattle. The recent weaner fairs saw strong sales, with prices about 12% stronger than last year. Steers have been averaging over \$4/kg LW at several recent weaner sales.

Paddock prices for older cattle have softened a tad recently but prices are still about 5-10% stronger than a year ago.

FARMGATE BULL BEEF VS OVERSEAS MARKET PRICE



Source: AgriHQ



DEER

PRODUCERS CALLING FOR HIGHER RETURNS

Farmgate prices for venison are flat quite far below the level producers say they require to make venison production sustainable. As breeding hind numbers start to stabilise, this will take some pressure off the industry.

Velvet returns remain favourable, although there are some concerns that inventory is starting to build.

Farmgate prices for venison have been very stable in recent months, with most processors opting to hold schedule rates at the level achieved in the pre-Christmas market.

Venison producers have struggled with low returns in recent seasons. Schedule price have lifted about a \$1 from a year ago. There is now talk of some processors targeting a \$10 schedule price for next season.

The market strategy – implemented during the pandemic – to diversify away from the EU wholesale market is delivering dividends to the industry, but will need to deliver even more to reach producer expectations.

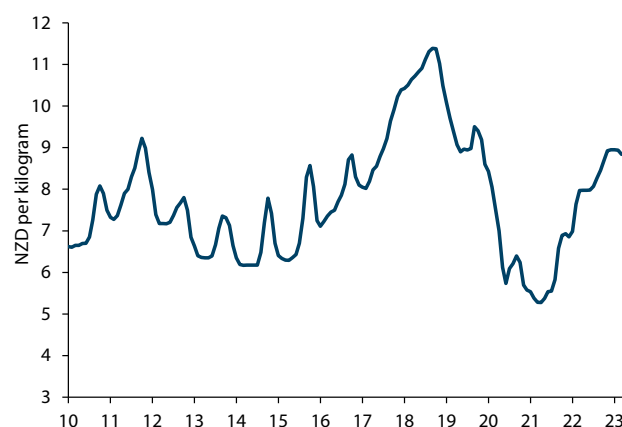
European markets continue to be impacted by tight economic conditions and high levels of inflation. However, demand for middle cuts is still relatively strong in this market.

Diversifying more venison into the retail sector and other geographies remains a key focus for venison marketers. Demand from the US is reported to be good.

The deer industry has long been subjective to boom-bust cycles. When deer numbers are reduced this adds to the volume of venison to market, which tends to put further downward pressure on prices.

If stock numbers start to stabilise this will take some pressure off exporters and should help lift farmgate prices.

FARMGATE VENISON (YOUNG 60KG STAG)



Source: AgriHQ

VELVET RETURNS STILL STRONG

Velvet returns remain strong, although there are some concerns that stocks in local cool-stores are increasing.

Some farmers are switching towards velvet production and away from venison production due to the more attractive returns. Higher velvet production will require exporters to identify new market opportunities.

NZ velvet remains a sought-after product, but maintaining product integrity in international markets remains a challenge as some importers look to blend high-quality velvet with inferior product sourced from other markets.

GRAIN

GRAIN PRICES CONTINUE TO SOFTEN

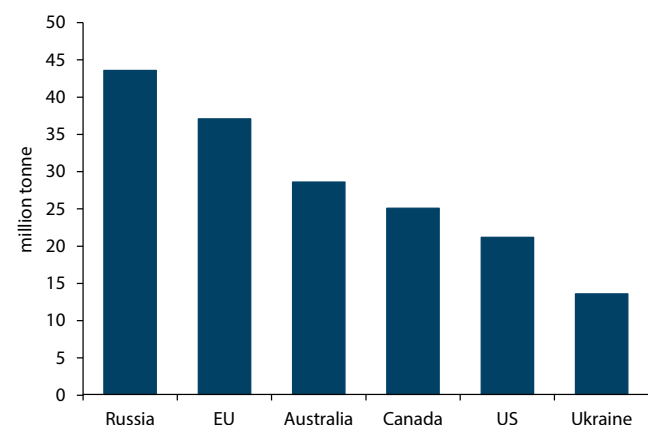
Grain prices in our local market are now easing, following the lead of international markets.

POTENTIAL GLOBAL SUPPLY DISRUPTIONS

Increased volumes of grain from Ukraine are being moved overland into eastern European countries. These countries previously agreed to facilitate the movement of grain but are now faced with oversupply, putting pressure on grain storage facilities. The extra supply is also pushing down the price their own farmers receive for grain.

The Black Sea Grain Initiative, the agreement arranged by the United Nations to facilitate shipments of grain from Ukraine, was recently extended for a further 60 days. However, there are still challenges to getting grain out of Ukraine ports and many shipping companies are not keen to transport the grain, so more Ukrainian has been transported overland.

WHEAT EXPORTS 2022-23 SEASON



Source: USDA estimates

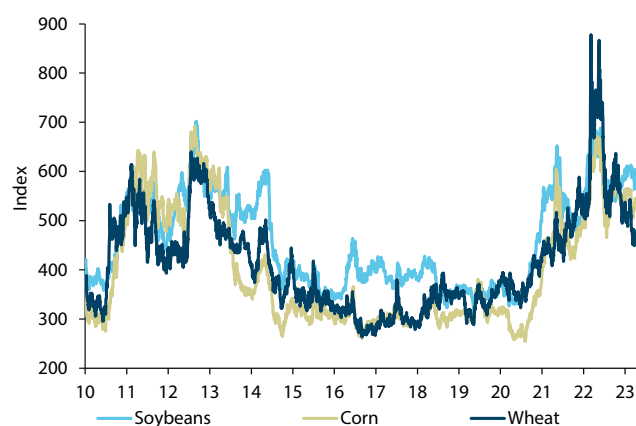
The major global grain traders are starting to pull out of the Russian market. Viterro has said it will stop shipping grain from Russia in July and Cargill has indicated it is planning a similar move, while Archer-Daniels-Midland Company and Louis Dreyfus are considering their options.

Local firms are expected to pick up some of the business left behind as western firms disassociate with Russia. Food products are not part of the international sanctions on trade with Russia; however, reputational risk is putting pressure on western firms to exit this market.

Russia is still forecast to be the largest global exporter of wheat this season. But the withdrawal of the large traders from this market may result in supply disruptions for grain.

Globally, grain prices have generally eased since the start of the 2023 calendar year, but may rise higher in the coming months as stocks tighten.

WORLD GRAIN PRICE INDICES



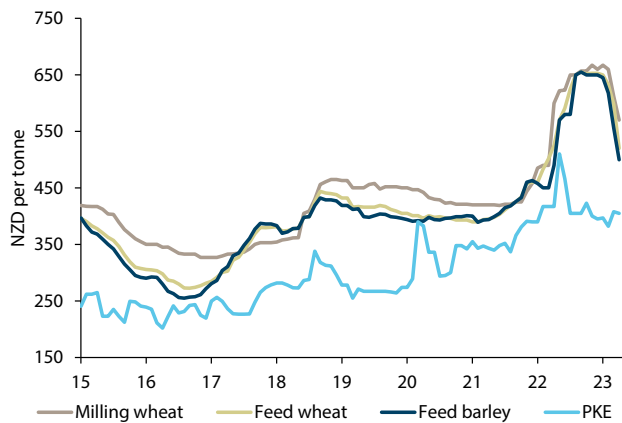
Source: SPDJI, Bloomberg, ANZ Research



GRAINS

Local grain prices are still strong but are trending down from the lofty levels achieved last season. Australian prices are curbing local grain prices in New Zealand as grain can potentially be imported at cheaper prices than produced locally.

NEW ZEALAND GRAIN PRICES



Source: NZX

Grain prices have eased recently. Feed wheat is currently priced at approximately \$520/t while feed barley has now dropped below \$500/t.

This puts South Island grain prices below the price of landing equivalent product from Australia into the North Island. Australian feed wheat is currently priced at about \$575/t (delivered to Auckland) while imported feed barley can be secured for about \$535/t.

FORESTRY

DEMAND LIES OFFSHORE

International demand for logs has improved but domestic demand has waned. Increased activity in China since the end of their zero-COVID policy has increased the demand for logs.

Meanwhile our local mills are finding very limited demand for sawn timber. The rapid slowing of the construction sector in New Zealand means demand is very weak.

The carbon market is in disarray as participants try to second-guess the implications of the current review of the Emissions Trading Scheme.

CHINA DEMAND REBUILDS

Demand for export logs has lifted considerably as the manufacturing sector in China leaps back into action following the relaxation of policies to keep COVID-19 at bay.

Prices for logs delivered to China continue to improve and are now at their highest level in approximately six months. Shipping costs have eased back as well, which has helped bolster wharfgate prices even further.

Demand from China is often weak during the Chinese New Year holiday break as factories shut down and workers take their main annual holiday. In the months leading up to the festive season this year demand was also very weak due to the lockdown measures that were in place to prevent the spread of COVID-19.

This year the holiday period occurred relatively early. Chinese New Year fell on 22 January, with the extended holiday period running through to the Lantern Festival on 5 February.

There is now hope that with lockdowns and the festive period behind us demand will start to build from here on, but it may be some time before this demand actually materialises.

We may therefore see some ongoing weakness in wharfgate prices for a while yet, but the situation should improve as the year progresses.

UNPRUNED A-GRADE IN-MARKET PRICE



Source: AgriHQ

SHIPPING COSTS EASE

The cost of moving logs has dropped significantly. The supply chain issues that caused delays at many ports across the globe should be largely behind us – touch wood (so to speak). Labour shortages were the main factor causing the delays, and now that COVID-19 restrictions have been removed virtually everywhere, these issues are unlikely to reoccur at the scale previously experienced.

The other major factor influencing supply chains is the reduction in demand for consumer goods, relating to tighter economic conditions in most parts of the world. This has reduced the demand for shipping services, contributing to lower prices. At the same time, some new ships have now come on stream.



FORESTRY

DOMESTIC DEMAND SLOWS

Domestic demand for timber has also slowed. Higher interest rates and falling house prices are reducing demand for new housing and home renovations. We expect further weakening in home prices in the coming months. House prices have eased by 15% since November 2021, which is about two thirds of the 22% peak-to-trough decline we expect (see [Property Focus](#) for more details).

The lack of demand for timber for housing means our timber mills are much quieter than usual. Demand for structural trusses is extremely weak, indicating very few new homes are now being started. This means timber demand will be weaker than normal for some time to come. Most of the building activity that is occurring is finishing partially built homes or small home renovations.

Some timber mills have shut down for longer than normal during Easter due to the lack of demand for timber.

Any changes to the rules could have major implications for the forestry industry. We may also see additional rules added that are outside of the ETS.

The uncertainty may have been a factor in why no units were sold at the Government's March quarterly auction of NZUs.

The price of units has generally been trending down since December, but there have been some upticks along the way. NZUs are currently trading just below \$60 on the secondary markets.

CARBON MARKET CHANGES AHEAD

Carbon markets are currently awaiting the results of the Government review of the Emissions Trading Scheme. The review is looking at what changes may be needed to increase the focus on reducing gross emissions rather than simply offsetting emissions via sequestration from trees. It is also looking at ways to rebalance the incentives between exotics and natives. At present, the financial incentives heavily favour pines due to their ability to grow fast and therefore sequester higher quantities of carbon earlier in their growing cycle.

NZ CARBON PRICE



Source: Bloomberg, ANZ Research



HORTICULTURE

FRUIT EXPORT VOLUMES DOWN

Fruit harvesting is well underway in both the kiwifruit and apple sectors, and the grape harvest is just kicking off.

Seasonal labour is less of an issue this season but is still not plentiful. The volume of apples that needs to be picked and packed this season will be well down on last season due to the damage in the Hawke's Bay.

Kiwifruit volumes will also be lower due to adverse weather events at critical growth stages. The reduced volumes are expected to be supportive of prices this season.

APPLES: LOWER HARVEST TO SUPPORT PRICES

Apple exports will be significantly lower this season due to the impact of the Hawke's Bay floods. The quality of the apples that have been able to be harvested is reported to be good. Nelson growers are reporting a good season from a yield perspective.

Global markets remain a little uncertain. The lower volumes forecast to be exported from New Zealand this season will no doubt help prices somewhat. However, many markets are facing tougher economic times, and this is expected to influence demand for the higher-priced fruit.

Asian markets are generally expected to outperform European markets, which may favour the newer varieties bred specifically for Asian markets. China's economy is one of the few expected to perform better in 2023 than 2022.

Demand from the US for New Zealand apples is expected to be stronger this year due to reduced supply into that market from Chile. The US typically accounts for only about 5% of New Zealand apple exports.

If export volumes are down about 20%, and more fruit heads to the US, then this could considerably tighten up supply into other markets. Growers are hoping these dynamics will be favourable for pricing after facing some challenging seasons recently. Weather and markets conditions have not been favourable for growers in recent years.

HOPS: GROWING PAINS

Recent hop-harvesting is reported to have delivered good yields on the whole; however prices are variable depending on the variety grown and the market for which it is destined.

The hop industry has expanded quickly in recent years and has experienced some challenges selling product. Market conditions are not favourable for some of the traditional varieties and there was some debate as to whether it was even worth picking some hop gardens this season.

The global market for hops came under pressure during the pandemic as beer sales fell. NZ exporters are better suited to supplying niche markets, as we will never be able to produce hops as cheaply as the large-scale European and US producers can.

KIWIFRUIT: NEW SEASON FRUIT HEADS TO MARKET

The kiwifruit harvest is well underway, and early shipments have already been sent to Japan and China. This season's very first shipment set sail from Tauranga in March carrying 2,500 tonne of kiwifruit. This was a considerably smaller shipment than the first consignment in 2022 which contained 4,100 tonne of fruit.



It has been a relatively slow start to the season due to weather impacts earlier in the year. Packhouses are also being extremely vigilant regarding fruit quality to make sure the issues experienced last season don't arise again. Last season the combination of wet weather and labour shortages did mean some poorer-quality fruit was exported, although the issues were picked up prior to the fruit reaching consumers.

The fruit quality issues did result in a sharp downwards revision in payments to growers, which has had a detrimental impact on both cash-flows and profits.

This season Zespri has released guidance on new-season orchard-gate returns earlier than previously. Returns for all varieties are expected to be substantially better than last season. Forecast ranges are relatively wide at present.

FORECAST ORCHARD GATE RETURNS

Fruit type	2023/24 per tray (March forecast)	2022/23 per tray (Feb forecast)	2023/24 per ha (March forecast)	2022/23 per ha (Feb forecast)
Green	\$6.50-\$8.50	\$5.55	\$52,000-\$68,000	\$55,395
Organic Green	\$9.00-\$11.00	\$8.04	\$51,000-\$63,000	\$56,398
Sungold	\$10.50-\$12.50	\$9.79	\$124,000-\$148,000	\$134,962
Organic Sungold	\$11.00-\$13.50	\$11.58	\$94,000-\$116,000	\$125,909
Sweet Green	\$7.50-\$10.00	\$6.31	\$34,000-\$36,000	\$38,366
Ruby Red	\$17.00-\$20.00	\$21.99	\$27,000-\$31,000	\$41,543

Source: Zespri

A new process for allocating licenses comes into effect this year in the form of an online auction. The appetite to purchase existing orchards and to convert more land to SunGold has eased this season, and this is expected to be reflected in the license prices.

The area of unauthorised plantings of Gold3 in China has now been revised up to 7,850ha. Zespri has advised that the rate of planting seems to have slowed but the volume of fruit being produced from these unauthorised plantings will continue to grow as orchards mature.

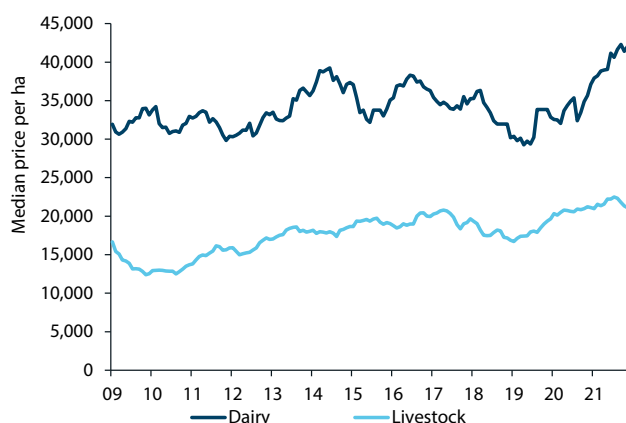
RURAL PROPERTY MARKET

INVESTORS CAUTIOUS

The mood in the land market is cautious at present as investors consider the implications of higher interest rates and inflated operating costs. Ongoing regulatory change has also impacted investor confidence. A review of the Emissions Trading Scheme is currently impacting potential investments in the carbon market.

Rural property sales values did lift a little in the three months to February 2023 according to the REINZ All Farm Price Index, but fewer farms are being traded. The Dairy Price Index continues to oscillate from month to month with no definite trend evident.

DAIRY AND LIVESTOCK PRICES (12 MONTH ROLLING AVERAGE)



Source: REINZ

The price gap between dairy and livestock farms has widened again. The planned introduction of a levy on methane is generally expected to have a greater impact on the profitability of livestock grazing properties than on dairy properties. This is one of the factors impacting the price that buyers are willing to pay for properties.

The Emissions Trading Scheme is also currently being reviewed. It is likely that changes will be made to the ETS to encourage a reduction in gross pollution rather than just offsetting pollution by investing in pine plantations. While the review is taking place there is a lot of uncertainty in the market, which may impact the sale of some properties that were to be planted in pines. There is also a desire to increase the incentive to plant natives, rather than pines. At present the financial incentives are heavily weighted to pines due to their ability to grow fast and therefore sequester large volumes of CO₂ relatively quickly. The other advantage pines have is that they are relatively easy to grow and there is plenty of local knowledge on how to manage the trees. At present native plantings are about four times more expensive to establish and have much higher fatality rates.

DAIRY FARMS SELLING BUT SALES STARTING TO SLOW

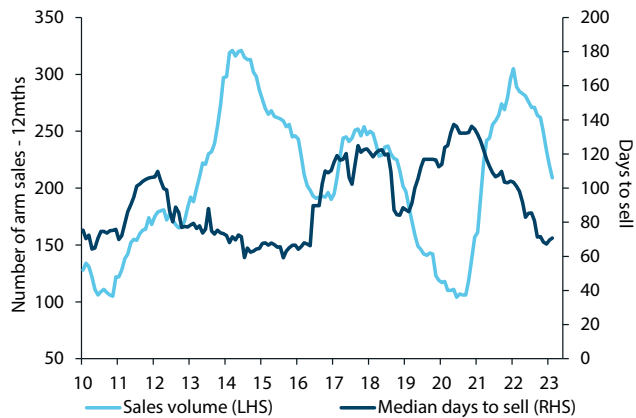
The number of dairy farms being traded is still relatively high but has been steadily falling. Listing times are still relatively short, with the average dairy farm selling in 71 days. Farms in Northland and Taranaki are taking longer than most to sell. There is reported to be a high number of dairy farmers on the market in Taranaki this season.

The number of horticultural properties being traded has weakened further. The lower returns for kiwifruit and avocados, combined with several challenging seasons for apple growers, has impacted investor appetite.



RURAL PROPERTY MARKET

DAIRY FARM SALES (12 MONTH ROLLING AVERAGE)

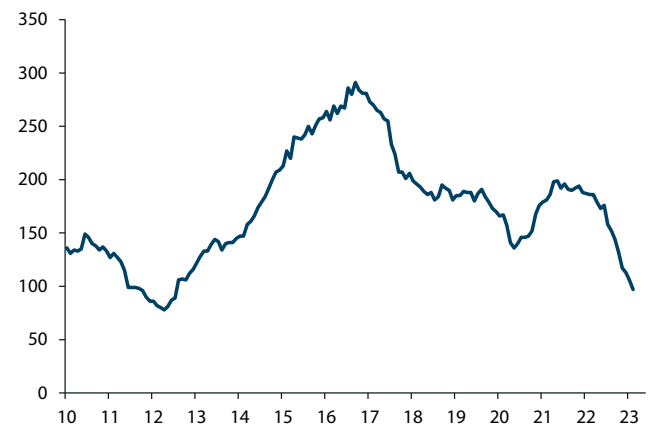


Source: REINZ

The devastation caused by the floods in Gisborne, Hawke's Bay and Northland will also mean a lower number of properties will be traded in these regions this year. Northland was not hit as hard as the east coast regions but still had considerable damage, though most properties should recover relatively quickly. The same cannot be said for the Hawke's Bay.

Many of the apple orchards are unlikely to be replanted as the risk of another flood event makes it difficult to justify the capital investment required.

HORTICULTURE SALES VOLUMES



Source: REINZ

FARM SALES BY FARM TYPE

Annual average/total		Past 12 months	Previous 12 months	10-Year Avg.	Chg. Y/Y	Chg. P/10yr
Dairy	Number of Sales	209	289	226	↓	↓
	Median Price (\$ per ha)	42,436	38,850	35,135	↑	↑
Livestock	Number of Sales	734	925	989	↓	↓
	Median Price (\$ per ha)	20,525	21,367	19,004	↓	↑
Horticulture	Number of Sales	97	186	194	↓	↓
	Median Price (\$ per ha)	447,556	350,917	236,873	↑	↑
Arable	Number of Sales	37	63	94	↓	↓
	Median Price (\$ per ha)	36,250	47,542	38,844	↓	↓
Forestry	Number of Sales	45	66	54	↓	↓
	Median Price (\$ per ha)	14,333	10,896	8,834	↑	↑
All Farms	Number of Sales	1,198	1,622	1,588	↓	↓
	Median Price (\$ per ha)	28,775	30,433	25,812	↓	↑

Source: REINZ

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Last updated: 1 September 2022

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