ANZ RESEARCH

AGRI FOCUS

JUNE 2024

BRIGHTER DAYS AHEAD

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INSIDE

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OVERVIEW

Global economic markets remain subdued, and this is impacting demand and returns for New Zealand's export products.

Some industries are faring better than others, and small but positive signs are emerging as global supply and demand rebalance.

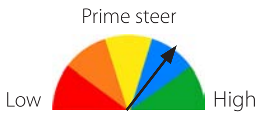
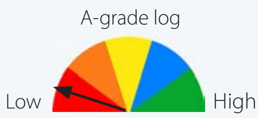
This is apparent in the dairy industry where next season's milk price is forecast to be stronger than returns for the 2023-24 season.

Slower economic growth in China is weighing on industries with a high exposure there, including logs and mutton. These industries are diverting some produce to other markets, but China is still their main buyer.

Consumer demand in the US is proving more resilient, particularly where exporters can tap into wealthier segments prepared to pay for high-quality, healthy products.

Autumn and early winter in New Zealand have been cooler and drier than usual, making it tough for regions hit hard by drought last year. But the drier conditions have been favourable for harvesting.

Most of the country is expected to have a drier-than-normal winter, meaning drier soils in eastern and northern regions, while western regions are expected to normalise.

Prices at farm/orchard level relative to 10yr average[1]		
Dairy	Dairy commodity prices have been trending higher and support our milk price forecast of \$7.85/kg for milk solids (MS) for 2023-24 and \$8.50/kg MS for the 2024-25 season.	
Sheep	Export returns for lamb and mutton are expected to remain below average for the season ahead.	
Beef	Beef returns have eased slightly but are expected to be strong next season as global supplies tighten.	
Forestry	Demand for logs has not improved much and any lift in in-market prices has been eroded by higher freight costs and the stronger NZD.	

[1] All prices are in New Zealand dollars, except where otherwise indicated.

ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

Domestic inflation pressures are starting to ease as the softness in the economy feeds through into the labour market and the services sector. Accordingly, we expect the Reserve Bank of New Zealand (RBNZ) will be able to cut the Official Cash Rate (OCR) in early 2025, considerably earlier than it currently anticipates.

Monetary policy is starting to loosen in some major global economies. New Zealand is expected to be late to the party compared to the European Union (EU) and the US. This has put upward pressure on the NZD recently, and we expect to see further appreciation of the currency during the second half of this year.

MONETARY POLICY TO REMAIN FIRM IN 2024

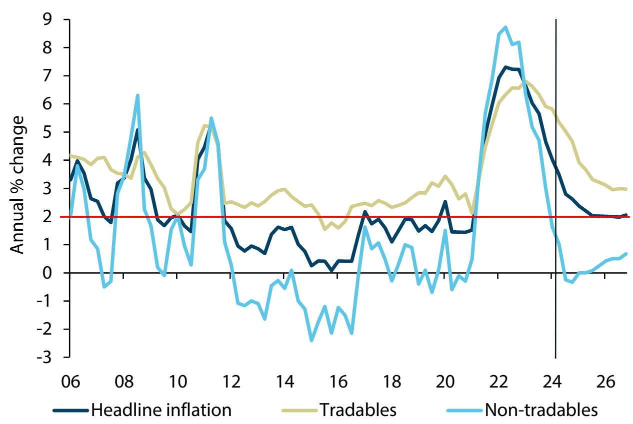
Monetary conditions are tight, curtailing economic growth, and this is affecting some sectors of the economy more than others.

Tighter monetary policy has had a large impact on the rural sector via higher interest rates. Most farming businesses carry relatively high debt levels, much of which is structured on floating rates. Increases in interest rates pass through to floating-rate borrowers more quickly than to those on fixed rates.

INFLATION SLOWLY EASING

Inflation has taken some time to come under control but is now moving in the right direction. Non-tradable inflation – driven by what is happening in New Zealand's economy rather than offshore – has been particularly sticky, but with wage pressures now easing substantially we see more meaningful progress over coming quarters that will pave the way for OCR cuts eventually.

CPI INFLATION COMPONENTS



Source: Stats NZ, RBNZ, ANZ Research

The Government has recently tightened its fiscal strategy, which will help reduce inflationary pressures. Lower government spending is likely to impact the labour market faster than any positive bump associated with tax cuts, so we don't expect the RBNZ to view the overall stance of fiscal policy as making their inflation-fighting job harder.

Once inflation is under control and the RBNZ is confident it will stay that way, we should start to see an easing of monetary policy. At this stage, we anticipate the RBNZ will be able to reduce the OCR in February 2025. But the timing of cuts will depend on how the economy and inflation performs in coming months.

NZ DOLLAR APPRECIATES

Over the past couple of months, the NZD has generally strengthened, but it remains at a relatively low level when considered over the longer term.

ECONOMIC OVERVIEW

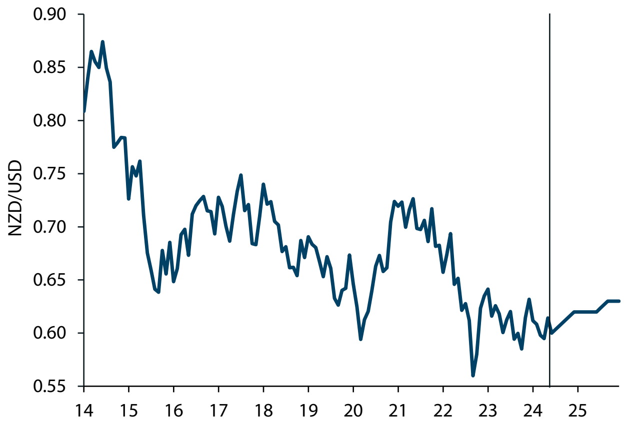
Global uncertainty and market volatility have eased recently, which has assisted the NZD. When risk and uncertainty are high, investors tend to favour the USD, which is considered a safe-haven investment, rather than riskier currencies such as the NZD. Accordingly, the recent easing in volatility has supported the recent appreciation of the NZD.

Another factor supporting the NZD is interest rates. Monetary policy loosening is underway in some major economies. The European Central Bank recently cut rates. The US Federal Reserve is yet to cut, but is expected to start doing so later this year, and likely earlier than the RBNZ.

This means New Zealand's interest rates are expected to remain high for longer than some other economies, which will attract investors who are seeking higher returns. This generally increases demand for the NZD and puts upward pressure on the currency.

Increases in the currency erode export returns at the farmgate level. However, we expect the NZD won't move significantly higher this year and are forecasting an exchange rate of USD0.62 at the end of the 2024 calendar year.

NZD/USD



Source: Bloomberg, ANZ Research

Click here to access our latest forecasts.

DAIRY

POSITIVE VIBES FOR DAIRY

Dairy product prices continue to firm. Milkfat prices are exceptionally high; and, while they are expected to fade a little from here, average returns are expected to be favourable in the year ahead.

Current milk price forecasts by dairy companies are conservative, reflecting a high level of uncertainty around market demand. This is due primarily to the massive impact China has on global dairy markets.

Winter feed conditions are variable, as dry conditions have persisted throughout the autumn in many regions.

DAIRY PRICES SUPPORT HIGHER MILK PRICES

Global dairy prices are trending higher, with milkfat products hitting record levels. Milk powder prices are more subdued but also trending higher.

The volume of whole milk powder (WMP) offered to the market in June via Global Dairy Trade is lower than at the same time last year. This means the supply of WMP is relatively tight. This is expected to support the market price in the near term, and buyer depth will not really be tested again until offer volumes lift in a few months.

Overall, the mood and direction of the market is positive, and we are confident that prices will stay near current levels for the season.

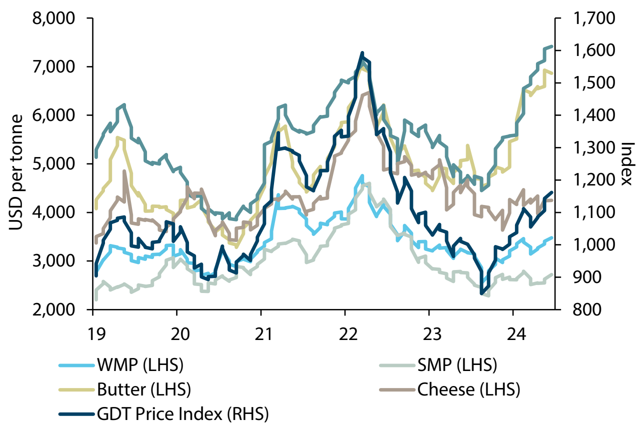
Global dairy markets are volatile, and uncertainty around China's import volumes are a risk for forecasters. At present, softer demand there is being offset by subdued global milk supplies.

MILK PRICE RANGE TIGHTENS

The season's financial year does not end until 31 July but milk collections conclude at the end of May, allowing most of the milk to be processed and sold prior to the end of the financial year.

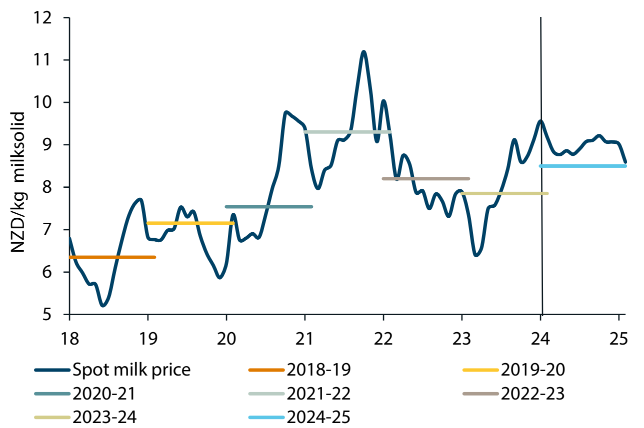
Fonterra also recently updated its milk price forecast for the 2023-24 season to a range of $7.70 to $7.90/kg MS. This puts the mid-point of the forecast at $7.80/kg MS, 5 cents below our forecast of $7.85/kg MS.

DAIRY COMMODITY PRICES



Source: Global Dairy Trade, ANZ Research

FARMGATE MILK PRICE FORECAST



Source: Fonterra, ANZ Research

DAIRY

Our milk price forecast for the 2024-25 season is $8.50/kg MS. This is higher than the mid-point of Fonterra's opening forecast for the season of $7.25 to $8.75/kg MS (mid-point $8.00/kg MS). However, Fonterra concedes it has taken a cautious approach to next season's forecast.

At present, we see greater upside than downside risks around our milk price forecast, but a lot could happen between now and the end of the 2024-25 season. It is not surprising that forecasters are erring on the side of caution.

Synlait announced a $8.00/kg MS milk price forecast for next season, which it says is a conservative approach.

Milk price futures are currently trading closer to the ANZ milk price forecasts than Fonterra's forecasts, indicating market participants support our view of the market.

MILK PRICE FUTURES PRICES AND FORECASTS

Season	ANZ forecast $/kg MS	Milk price futures (20 June)	Fonterra forecast range May2024	Fonterra forecast mid-point May 2024
2023-24	$7.85	$7.87	$7.70 - $7.90	$7.80
2024-25	$8.50	$8.42	$7.25 - $8.75	$8.00

Source: NZX, Fonterra, ANZ Research

We expect demand from China will be steady in coming months, as current prices mean it will be cheaper for Chinese companies to import milk powder than produce it locally. But it seems unlikely that demand will be strong enough to bring about a massive lift in milk powder pricing.

STRONG DEMAND FOR DAIRY FATS

Demand for milkfats is particularly strong, with anhydrous milkfat (AMF) trading at a record price. This is basically pure fat that is sold in 200 litre and 1,000 litre containers. It is a liquid when heated but solidifies at lower temperatures, making it a versatile product for the manufacture of goods such as ice cream, pastries, chocolate, processed cheese and recombined dairy products.

New Zealand is the largest exporter of AMF. Many dairy producing nations have strong domestic demand for dairy fats so tend to export non-fat products such as skim milk powder. Dairy factories set up to produce butter and cheese don't manufacture AMF.

New Zealand supplies 85% of the AMF exported from the five largest dairy exporting regions, the other four being the EU, US, Australia and Argentina. New Zealand supplies about 50% of globally traded butter and 75% of the WMP.

Southeast Asia took just over 25% of New Zealand's AMF exports in the past year. The next-largest markets are China 20%, North Africa 20% and the Middle East 15%. These four regions are also the largest markets for butter. China is still the largest market overall.

Both the EU and US are big producers and consumers of butter. Sometimes tariffs mean prices in these markets differ considerably from product traded globally, limiting the flow of imports. At present, however, the price of butter is similar in the global market to the EU and US domestic markets.

Futures prices indicate the strength in AMF and butter prices may be relatively short-lived, with the forward curve showing prices falling away relatively quickly. That said, even if prices drop somewhat, they will still be relatively strong.

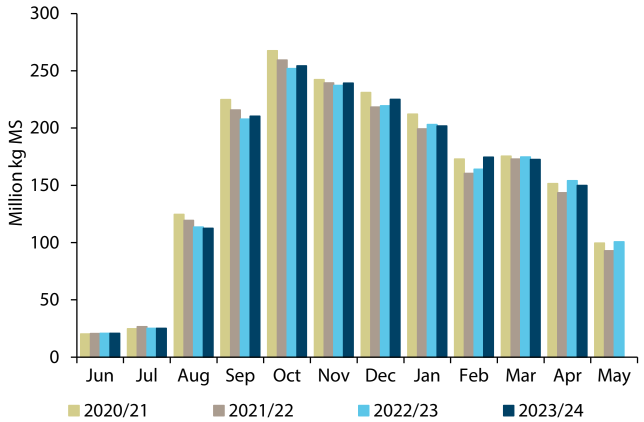
The contribution of butter and AMF to NZ's farmgate milk price is not nearly as significant as that of milk powder. That said, the current strength of milk fat products is worth an additional 80c/kg MS compared to a year ago.

SOLID AUTUMN MILK PRODUCTION

New Zealand's milk production season had a reasonably strong finish. For March and April, production was not quite as strong as the previous season but remained above the five-year average. May production data are not yet available but are expected to show a similar trend.

Most regions have entered winter in a relatively good position in terms of feed on hand, with some exceptions. Soils are particularly dry across much of Canterbury and Marlborough/Tasman/Nelson. Dairy farms in these regions tend to have access to irrigation, but feed levels are less than ideal. Growth through the winter will be limited, as temperatures have been cooler than normal.

NEW ZEALAND MILK PRODUCTION



Source: DCANZ

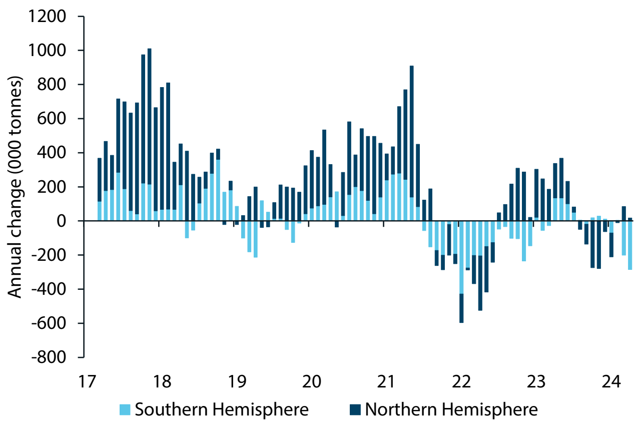
DAIRY

Feed is available to supplement pasture production, and stock can be moved to other regions for short-term grazing, but these mitigations come at a cost. Fortunately, the milk price for next season is looking more favourable than for the current season.

MILK PRODUCTION EXPANDING, BUT SLOWLY

The European Commission forecasts milk supplies will increase by 0.4% in 2024. This forecast assumes cow numbers will decrease by 0.5% but milk yields will increase by 0.9%. Once this forecast is adjusted to account for the extra day in 2024 (a leap year), the growth in milk production is minimal (0.1%).

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



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

Europe's exports of WMP are expected to fall in 2024, while their exports butter and skim milk powder rise slightly. The region is expected to export quite a lot more cheese and whey powder. This trend is evident in the price of WMP relative to skim milk powder. The tighter supply of WMP means this product is trading at a premium.

US milk production is down 0.3% y/y for the 12 months to April. The USDA is still projecting the US will increase its milk supply by 0.4% y/y in 2024, although this trend is not yet evident in the data. It also anticipates growth of 0.9% in 2025 due to improved profitability at the farm level in 2024. However, it is forecasting lower milk prices in 2025, which could curb output.

Milk production in Argentina has been particularly weak this year, with the latest data showing a drop of approximately 14% year to date. Production is expected to improve in the coming months as the climate improves, but relatively low returns will stem output.

Overall, milk output in the Northern Hemisphere's exporting nations is similar to last year, whereas output in the Southern Hemisphere is weaker. Global milk production growth is expected to be weak in the coming months, which will help support commodity prices and returns to New Zealand's farmers.

LAMB & WOOL

NO IMPROVEMENT IN SIGHT

Farmgate returns for lamb remain low as we head into winter. Demand from China is subdued, and alternative markets are becoming saturated. Global markets are well supplied with lamb from Australia.

Schedule prices are expected to remain subdued throughout the 2024-25 season. A second season of low returns will be very challenging for farming businesses.

VARIABILITY IN MARKETS

Lamb markets remain weak, due primarily to softer demand from China. China accounts for about 80% of the mutton exported from New Zealand and 40% of lamb exports.

Consumer confidence in the China market has waned as economic growth rates have slowed, investments (mainly in apartments) have faltered, and employment prospects have worsened.

China's consumers are spending less on highly priced forms of protein such as lamb, preferring to trade down to cheaper sources such as pork and chicken.

Confidence amongst Chinese consumers is expected to improve only gradually in the coming years. This will limit opportunities to achieve higher prices from this market.

While China is still buying relatively large quantities of lamb and mutton, the market is more price sensitive than we have seen in recent years. That means that while lamb and mutton can still be sold into this market, it must be at prices deemed favourable to buyers.

The quantity of lamb New Zealand supplies to China is tiny in terms of their total meat consumption. There are therefore opportunities to penetrate this market more deeply and target specific customer groups who are less price sensitive, but this may require more in-market investment.

Exporters are looking for alternative markets to reduce their exposure to China. More lamb and mutton has been exported to the Middle East this year, but most exporters are still very reliant on China. Finding alternative markets to absorb the volume of lamb and mutton not purchased by China in recent years is near impossible in the short term.

The Middle East is well supplied with both New Zealand and Australian lamb at present, making it difficult to push more product into this market.

European markets are looking a little more positive. Lamb consumption is currently relatively strong in the UK, supporting demand for imported product. European demand has been steady, but as temperatures get warmer in these markets, demand for lamb, which is traditionally roasted, wanes.

PLENTIFUL SUPPLY OF AUSSIE LAMB

The volume of sheep meat (lamb and mutton) exported from Australia fell significantly in 2021 and 2022 but has increased recently as Australia's sheep numbers lifted. In 2019 drought and fires, and in 2020, flooding affected Australia's sheep-grazing regions. After that, the rebuild of the national flock took several years, during which fewer lambs and sheep were slaughtered. But the rebuild was strong and sheep numbers are now at record levels.

Lamb slaughter in Australia hit record levels in Q1 2024, according to data from the Australian Bureau of Statistics (ABS). Nearly seven million lambs were slaughtered, 32% more than the same quarter last year. Adding to this, heavier kill weights mean lamb production (the volume of lamb meat) lifted 48% y/y during the first quarter of 2024. Kill weights were back to the five-year average of 24kg carcass weight (CW), which is significantly heavier than New Zealand's kill weights.

LAMB & WOOL

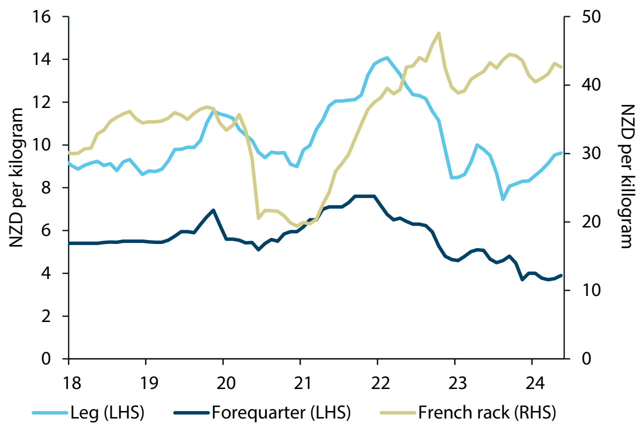
Mutton production also lifted 5% to reach another quarterly record. Australia's sheepmeat production (lamb and mutton combined) is at the highest level since 1987.

Drought conditions are again plaguing Western Australia, prompting more lambs to be slaughtered.

Data from the Organisation for Economic Co-operation and Development (OECD) indicates Australia will continue to export large volumes of lamb and mutton in the coming years. However, Meat and Livestock Australia is forecasting a small reduction in Australia's sheep flock. Sheep numbers are expected to drop by 2.9% to 76.5 million by the end of 2024. Lamb production in 2025 is forecast to decrease by 6%, following a 9% increase in 2024.

The upshot is that competition from Australia will be fierce in the coming years, and this will be a drag on farmgate prices in New Zealand if exporters are not able to tap higher-value markets.

LAMB PRICES, BY CUT



Source: AgriHQ, ANZ Research

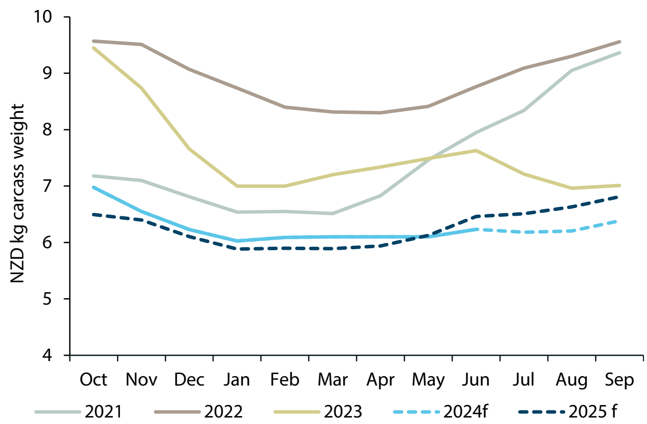
OUTLOOK FOR 2024-25 SEASON

Due to the elevated supply and the stock in market at present, we do not expect any significant improvement in pricing in the 2024-25 lamb production season.

At this point we do not see any significant downside risk to current prices. However, this will depend on whether current inventories are able to be sold into global markets without a major downward correction in pricing. Thus far, global market prices have been sustained in the western markets but prices of goods being sold into the China and Middle East markets are relatively weak.

If market prices weaken, we could see a bigger correction in farmgate pricing than we are currently forecasting, but this is not our central forecast.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

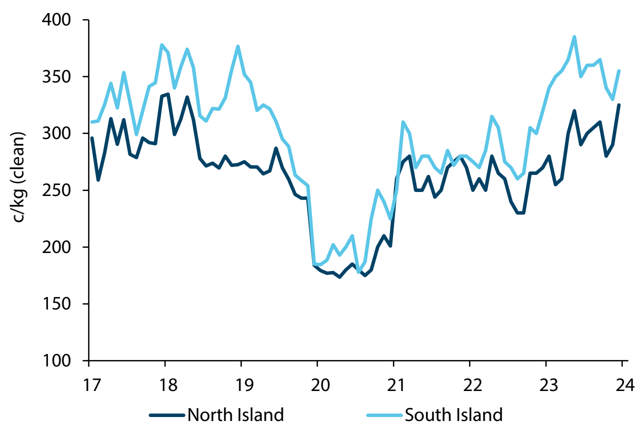
DECENT LIFT IN WOOL PRICES

Strong wool prices improved over the past month. Reduced supply combined with more urgency from buyers has resulted in strong clearance rates at recent auctions.

Prices for coarse wool have improved in the last couple of months. North Island auction prices are the strongest in about five years, whereas in the South Island, where prices are typically stronger, prices are back to levels of a few months ago.

There is still some way to go before coarse wool is adding to rather than detracting from profits, but at least pricing is heading in the right direction.

STRONG WOOL PRICES



Source: PGG Wrightson, ANZ Research

BEEF

STRONG BEEF RETURNS ANTICIPATED

Beef markets are expected to be strong in the year ahead. This is in stark contrast to the struggling lamb and mutton markets.

Tighter global supply combined with firm demand is keeping beef returns elevated.

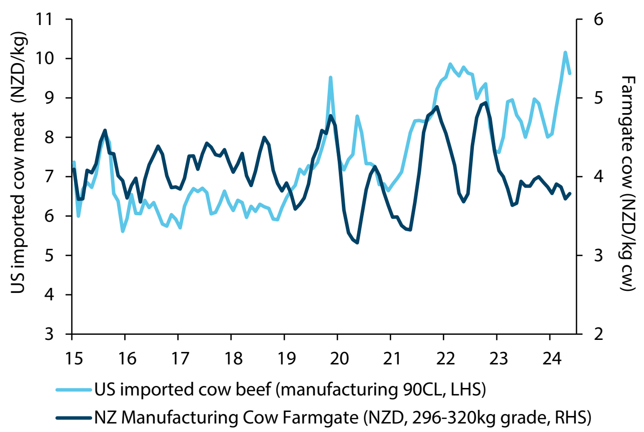
OVERSEAS PRICES HOLDING UP WELL

US prices for imported beef have eased slightly in recent months and the recent strength of our currency has also reduced returns in NZD terms. But beef returns are still about 5% stronger than a year ago for bull beef and 12% stronger for cows.

Schedule pricing remains relatively strong despite the lift in processing in this part of the season.

The typical oscillating returns for manufacturing grade cows occurred again this season, although competition for stock saw prices firm earlier than normal.

COW MEAT PRICES



Source: AgriHQ

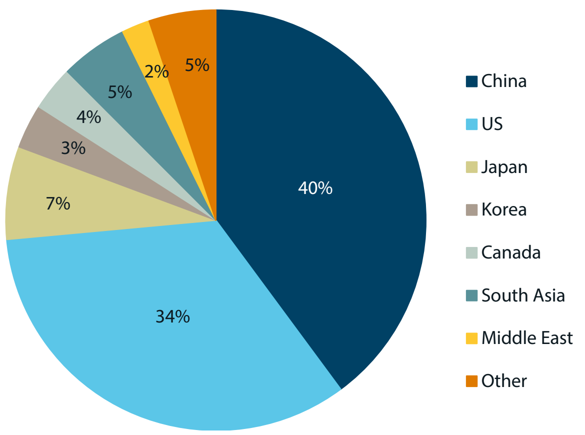
Uncertainty about the volume of stock expected for processing means there is still a reasonable amount of competition between processors for the remaining supply.

Farmgate prices didn't lift as much as they could have earlier in the season, which gave processors very little margin to work with as international returns eased.

Beef returns are expected to be relatively strong for the season ahead, due primarily to relatively tight global beef supply.

A slowdown in production in the US market is expected to boost US demand for imported beef and also curb competition from US beef exports in the Asian markets.

NZ BEEF EXPORTS OCTOBER 2023 TO APRIL 2024 VOLUMES



Source: B&LNZ

RECORD PRICES FORECAST FOR US BEEF MARKET

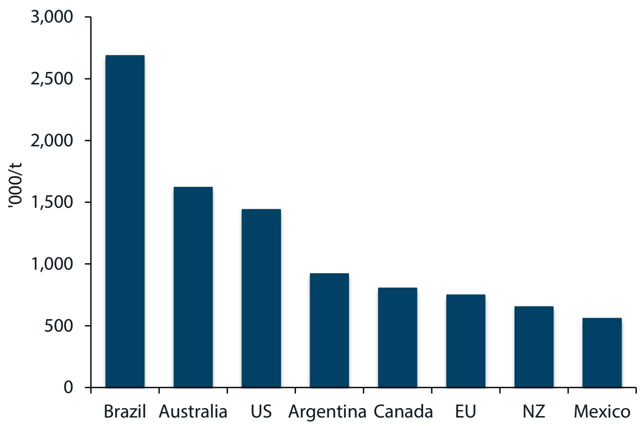
Over the past 12 months, the US has increased its beef production but has reduced cattle numbers. The USDA estimates US beef production will fall 6% in 2025 to

BEEF

its lowest level in a decade. The US is the third-largest exporter of beef behind Brazil and Australia, so any change in production in this market will be significant and should support global prices.

US demand for imported beef is expected to reach record levels, and the USDA forecasts the US will export 11% less beef next year. US domestic beef prices are forecast to reach record levels.

MAJOR BEEF EXPORTING COUNTRIES

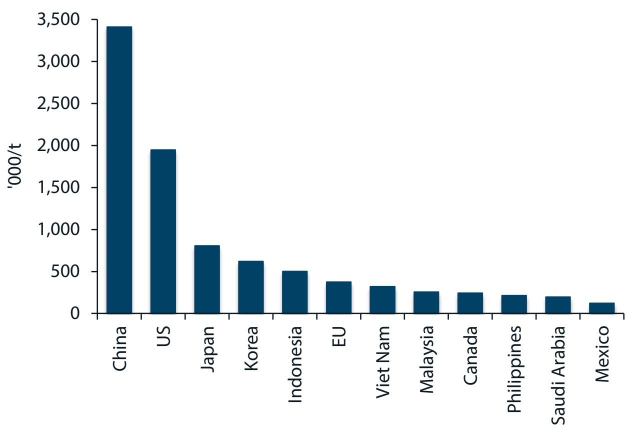


Source: OECD

New Zealand is a relatively small supplier of beef into global markets and is highly focused on two markets – the US and China.

China is by far the largest importer of beef. China's demand for imported beef has risen exponentially in recent years.

MAJOR BEEF IMPORTING COUNTRIES



Source: OECD

China's demand for imported beef may have stabilised but it is still a massive driver of the market. Beef imported by China comes mainly from Brazil and Argentina. New Zealand is a small supplier, accounting for about 7% of total imports. This differs from our dairy trade with China, where we have more market power. For beef, we are reliant on China as a major buyer to a much greater extent than it is reliant on us as a supplier. That said, if China sources more beef from other countries, opportunities will open up in other markets for New Zealand's exporters.

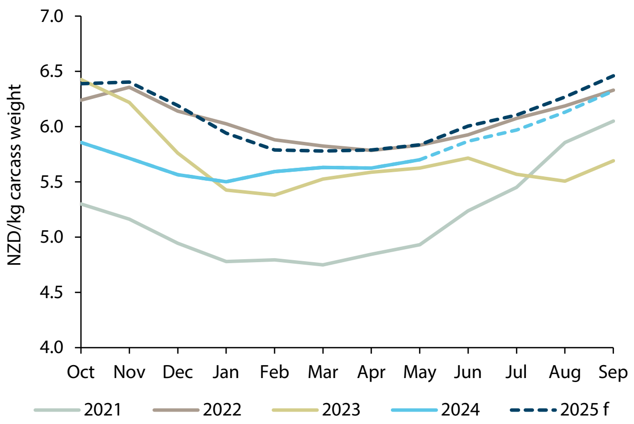
New Zealand supplies about 13% of the beef imported by the US, whose largest suppliers are Canada, Brazil and Australia. New Zealand ranked fourth this year, having exported more beef to the US than Mexico.

OUTLOOK FOR BEEF PRICES

The outlook for international beef prices is still relatively strong due to the expected increase in demand from the US market. Competition from Australia is also expected to ease as cattle numbers in Australia are forecast to decline over the next two seasons.

We anticipate local farmgate beef returns for the 2024-25 season will be a little stronger than the current season, particularly leading up to Christmas.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

Average farmgate returns across the full season are expected to be similar to the 2021-22 season.

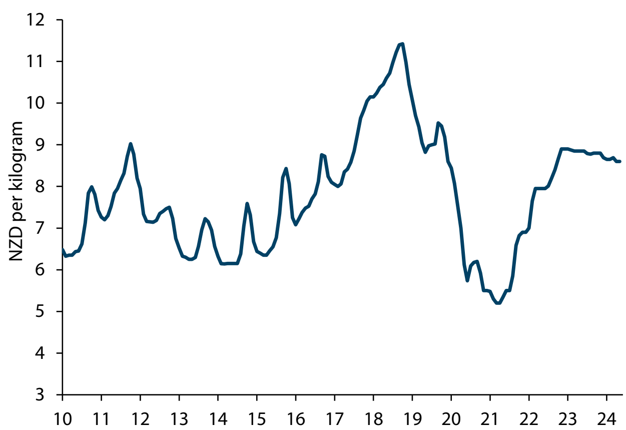
EXPORT RETURNS IMPROVE

Farmgate prices for venison remain stable. Export returns have improved as more product is diverted from the EU markets to the US and China. Access for frozen velvet into China still needs to be resolved, and the industry remains focused on getting this sorted as soon as possible.

Farmgate prices for venison have been stable for the past couple of months. Schedule prices in the North Island are currently near $8.60/kg carcass weight (CW) for young stags, with slightly softer prices in the South Island.

Returns at the farm level are slightly weaker than a year ago, but not a lot of venison is processed at this time of the season. Exporters have been working hard to diversify market risk. This involves becoming less reliant on the traditional EU markets. Much of the marketing focus has been on the lucrative US market and greater China. Venison export returns from these markets have increased by 34% and 36% respectively over the past couple of years.

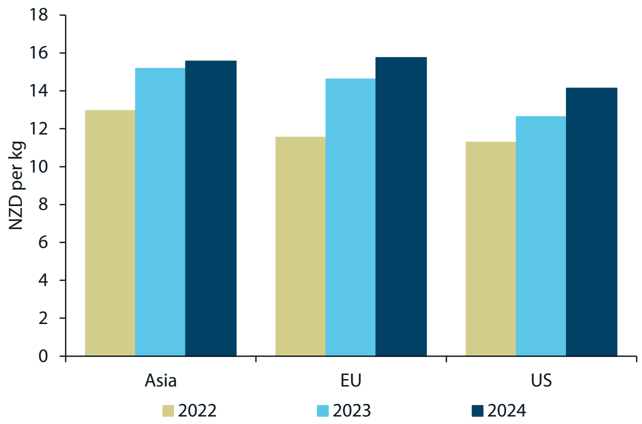
VENISON FARMGATE PRICES (BASED ON 60KG STAG)



Source: AgriHQ

In the year to April 2024 the volume of venison exported to the EU fell 8%, but returns have remained consistent, indicating that restricting volumes has supported better prices. In fact, returns have improved across all major markets, which is a massive achievement given challenging global economic conditions and easing protein prices.

AVERAGE EXPORT PRICES FOR MAJOR MARKETS (12 MONTHS TO APRIL 2024)



Source: Statistics NZ, ANZ Research

VELVET ACCESS TOP PRIORITY

For the velvet industry, regaining access for frozen velvet into China is a key focus. Since 1 May 2024, only dried velvet has been allowed into China. Frozen velvet requires reclassification so that it complies with China's pharmaceutical rules.

Officials are working to make this happen before the new export season gets underway later this year. Last year, temporary access was negotiated through to the end of April, so the velvet harvested last season could be exported to China.

Regulatory change is required for permanent access into this market. If this is not achieved in a timely manner it will be a problem for producers, as New Zealand has limited drying capacity. More velvet could be exported to South Korea, which has been the major destination market for much of the velvet processed in China.

GRAIN STOCKPILES RISE

Grain prices are trending down as excess inventory puts pressure on storage and market prices.

Less land is likely to be planted this season due to the higher-than-normal amount of grain still unsold from last season.

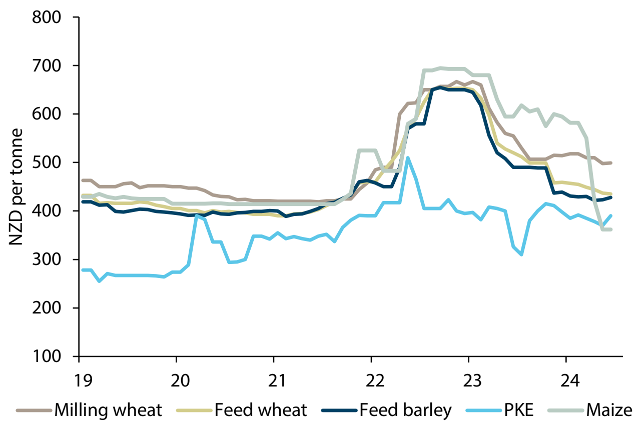
International prices have firmed as less grain is expected to be harvested in Russia, Ukraine and Europe this year

PRICES UNDER PRESSURE DUE TO LARGE STOCKPILES

Data from the latest Arable Industry Marketing Initiative survey of cereal growers revealed strong yields for the 2024 harvest. Slightly less land was planted with cereal grains last season, but strong yields nonetheless resulted in a 3% increase in the tonnage of grain harvested.

The amount of unsold grain carried over from last season was higher than normal at harvest this year, and there is now a lot more unsold feed-grade grain available. Unsold feed wheat is up 46% y/y, whilst feed barley stocks are 6% higher.

NEW ZEALAND GRAIN PRICES



Source: NZX

These stockpiles will have influenced growers to reduce planting of arable crops this autumn/winter. This is particularly so for feed barley, which is expected to drop by 2700ha, and feed wheat, which is expected to drop 1,900ha.

Demand for maize silage this autumn was weaker than normal, so some crops were harvested for grain instead. A lot more maize is still standing heading into winter than normal, and some of this may not be harvested due to a lack of storage.

Domestic grain prices continue to trend lower for most grains, although prices have now stabilised in some regions.

Maize pricing has fallen 40% in the past year and is the cheapest it has been in at least six years. Milling wheat prices are down 10% y/y, while feed wheat and feed barley are down 16% and 13% respectively.

The cost of palm kernel expeller (PKE) has risen, which will encourage farmers to consider buying local grains instead of PKE where it is practical to do so.

INTERNATIONAL GRAIN PRICES RISING

By contrast, international prices for grain are generally trending higher. A shortage of grain has been supporting prices in recent months.

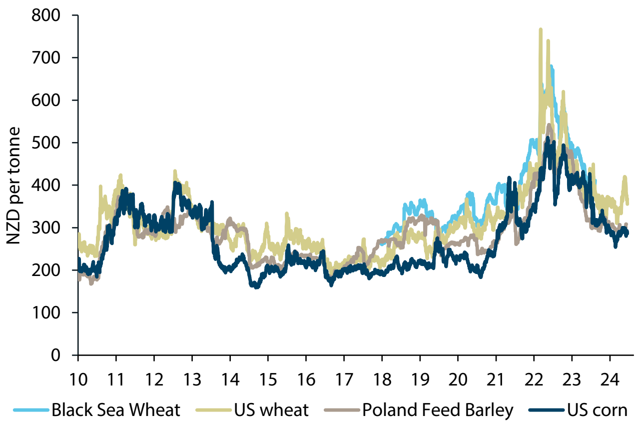
Russia is expected to produce less grain this season due to both frost and drought. Conditions have been colder than normal across Russia, Ukraine and other parts of Europe. US growing conditions have been favourable, which has partially offset smaller crops elsewhere.

The US Department of Agriculture (USDA) assessed global grain stockpiles to be the lowest in nearly a decade. India's demand for imported wheat is expected to rise this year as it is due to cut import tariffs to supplement its depleted wheat stocks.

GRAINS

Russia is the largest exporter of wheat and India is the second-largest importer (behind China), so this combination of low supply and high demand is likely to put upward pressure on international prices.

WORLD GRAIN PRICES



Source: CME Group, Polish Ministry of Agriculture & Rural Development, ANZ Research

STRONG PRODUCTION EXPECTED FROM AUSTRALIA

Australia is forecast to increase its grain production in the 2024-25 season, but planting conditions thus far have been mixed. While some regions are too wet to plant crops, conditions are more favourable elsewhere. The Australian Bureau of Agricultural and Resource Economics and Sciences is forecasting a 12% increase in wheat production and a 7% increase in barley production, but less canola.

Australia's increase in production will put more grain into the export market later in the year, limiting possible price rises for New Zealand's crops. Many of the major users of grain in New Zealand, such as pig and poultry farmers, import grain from Australia. This is particularly the case for North Island farms. Trucking grain from the South Island is relatively expensive and imported grain tends to be more consistent in quality and available in large quantities.

FORESTRY

LOG PRICES STILL SUBDUED

Demand for export logs remains subdued, and the industry is managing this by keeping supply in check.

Sawmills are enjoying less competition for logs from exporters, but face the challenge of slower domestic construction activity.

Carbon prices have also trended lower, as slower economic growth has reduced demand to hold New Zealand Units (NZU) to offset future emissions, and the market is well supplied in units.

LOG PRICES STUCK AT LOW LEVELS

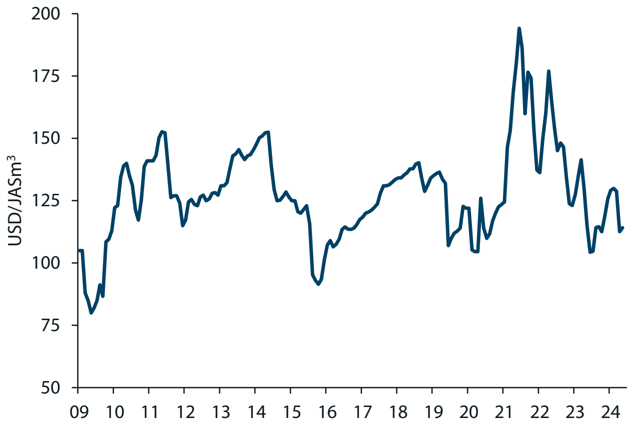
The export market for logs remains very quiet. There are a few glimmers of hope emerging, but these are yet to translate into higher prices. Exporters are relatively confident that prices will not deteriorate in the coming months.

Stocks of logs on Chinese wharves are decreasing, but off-take rates are forecast to fall as summer progresses and it becomes too hot for construction workers to work outdoors for the entire day. The supply of logs heading to China is also decreasing, but it's too early to say whether reduced supply will be sufficient to offset lower demand.

One factor that is expected to support the Chinese market is government investment in the "three major projects," which includes construction of social housing and public infrastructure (like hospitals and shelters) that can be requisitioned for emergency use. However, this fiscal stimulus is unlikely to offset the general decline in China's property market.

In-market log prices have increased marginally in the past couple of months, but all of the increase has been eroded by higher shipping costs and the stronger NZD.

IN-MARKET LOG PRICES



Source: AgriHQ

The supply of logs from New Zealand is decreasing, which is typical in winter as access to some of the smaller woodlots becomes unfeasible. Harvesting crews have also worked their way through most of the timber in the Central Plateau regions that was blown over during the February 2023 storms.

Exporters are looking for opportunities other than China. This month there are three shipments of logs scheduled to depart for India. This will only account for about 5% of log exports, but any supply diverted away from the China market will help alleviate the pressure on this market.

It remains to be seen whether India will recover as a significant market for New Zealand logs after a hiatus due to fumigation regulations, but at least access to this market has reopened.

MORE LOGS PROCESSED LOCALLY

Relatively weak global demand means a larger share of pruned logs is being processed locally, keeping local prices down. This is helping to keep mills operating, as local demand for timber is falling as fewer houses are being built or renovated.

FORESTRY

The quantity of timber milled in Q1 2024 was higher than the same quarter last year, but local timber production has been generally low over the past year.

Relatively high interest rates are keeping a lid on demand for new homes. There are, however, plenty of listings of existing houses, as highly leveraged investment properties don't stack up in this high interest rate environment.

Property investors are also finding the cashflow on their investments less tolerable in an environment of flat-to-falling house prices. Changes to the Taxation Bright-line Test for Residential Land will reduce the number of properties liable for capital gains tax from 1 July, and therefore may result in a surge of listings into spring.

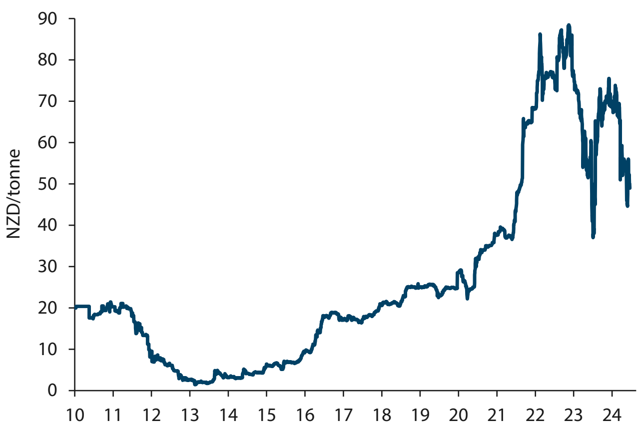
As long as the property market remains subdued, demand for timber to build new homes or renovate existing homes will also remain subdued.

More details about the housing market can be found in our latest Property Focus report.

CARBON MARKET

Carbon pricing remains weak. Uncertainty in this market is ongoing, as regulations evolve. There is still quite a large stockpile of NZUs for the market to work through. The slowdown in our economy means many investors are looking to offload some of their holdings and this includes investments in the carbon market.

NZ CARBON PRICE



Source: Bloomberg, ANZ Research

Without further regulatory changes to the Emissions Trading Scheme, the market is likely to remain oversupplied in units for some time. The lower carbon price on offer at present reduces the incentive to convert land to forestry. However, returns from sheep are also woeful at present; hence in many cases planting trees to harvest carbon will remain a favourable option.

HORTICULTURE

GOOD WEATHER FOR HARVESTING

Kiwifruit volumes are up this season, and processing of the additional fruit is going smoothly. Final returns to growers for the previous season were stronger than had been forecast.

Unfavourable conditions earlier this year have reduced apple sizes, which is negatively impacting returns.

Less wine will be produced this year as grape production is well down on last season. However, the quality of the fruit is excellent, which should result in some great wines this year.

KIWIFRUIT: MORE FRUIT TO HARVEST

International sales are tracking ahead of last season in percentage terms, despite the increase in the volume of fruit to harvest this season. Zespri forecast there will be 197 million trays packed this season of which about 193 million are expected to be exported.

Almost all fruit has now been picked and the industry is now concentrating on selling and delivering to market.

Final prices paid to growers for fruit produced last season were even stronger than previously forecast. Growers are welcoming the higher prices, as their incomes were impacted by lower harvests last season. This was in stark contrast to the previous year, when orchard-gate returns were revised down late in the season.

Last season 137.1 million trays were produced, which was well down on the 165.9 million trays in 2022. This season the industry expects to produce nearly 20% more fruit than last season, with growth concentrated in the SunGold variety.

Thus far, packing and exporting of kiwifruit has gone well, despite the higher volumes putting pressure on packhouse capacity. Good weather for harvesting has helped.

SunGold licenses for 250 hectares (ha) were auctioned earlier this year. Most growers were able to attain the licences they required either via the 150ha allocated for cutover from Hayward/Green 14 varieties or via the 100ha of unrestricted licences.

The restricted pool sold at its opening price of $393,000 per ha, while the price of the unrestricted pool was bid up to $424,000 per ha. These prices were considerably lower than last year with the restricted pool price down 33% and unrestricted licences trading 30% lower on an annual basis.

The reduced prices for licences reflects a number of factors that could impact future profits, including higher operating costs, higher interest rates, and some uncertainty as to future market returns.

Early-season fruit is typically worth more than late season and Zespri pays a premium for fruit delivered early, which is a benefit to growers.

Payments to growers for this season are expected to be lower on a per tray basis, compared to last season, but with higher yields forecast this should deliver higher returns per hectare.

ORCHARD GATE FORECAST PRICES

Kiwifruit variety	2023-24 per tray (final)	2024-25 per tray (March forecast)	2023-24 per ha (final)	2024-25 per ha (March forecast)
Green	$9.55	$7.00 - $8.50	$65,717	$52,000 - $68,000
Organic Green	$12.53	$9.50 - $11.50	$56,086	$51,000 - $63,000
SunGold	$12.92	$10.00 - $11.50	$146,987	$124,000 -$148,000
Organic SunGold	$14.71	$12.00 - $14.00	$113,449	$94,000 - $116,000
Sweet Green	$10.63	$8.00 - $9.50	$49841	$34,000 - $36,000
RubyRed	$26.34	$16.00 - $18.00	$40,741	$27,000 - $31,000

Source: Zespri

HORTICULTURE

APPLES: SMALLER FRUIT SIZE A CONCERN

The apple harvest is virtually complete, and it has been another challenging season for growers. Whilst weather conditions have been favourable for the picking season, conditions earlier in the season were not so good, meaning apples have tended to be smaller than normal. A lack of irrigation water was a problem in some areas.

This means there are fewer large apples available for the lucrative Asian markets. These markets tend to pay a premium for larger apples that have visual appeal. This season produced more mid-sized apples, which are harder to sell.

Meanwhile, European markets should be more favourable. Production of apples in the EU for the 2023-24 season is estimated to be at a three-year low. Its planting area has shrunk and unfavourable weather has lowered yields.

Apple production has fallen significantly in Germany, France and Poland this year with total EU production expected to be down 6.3% y/y, some 3.6% below the five-year average.

But apple consumption in the EU is also expected to fall as consumers face tougher economic conditions. The EU is expected to export fewer apples this year but will import similar volumes.

New-season apples help fill a between-season gap in fresh local produce, but this gap has diminished as better technology is allowing longer storage.

WINE: QUALITY UP, QUANTITY DOWN

The trade-off between quality and quantity is evident this season. Wine makers have had high-quality grapes to work with, as dry conditions at harvest minimised crop diseases. However, the quantity of grapes harvested was considerably lower than normal. Current estimates put the 2024 vintage down at least 20% on last season, due to unfavourable conditions during the growing season. But a smaller harvest typically improves the quality and taste of grapes. The total area planted in grapes has not changed a lot in recent years.

At present the global wine market is oversupplied, so the smaller volume of wine produced this season will help balance this.

New Zealand is not the only country to produce less wine this year. Several of the big European wine producers also face unfavourable growing conditions. EU wine production for the 2023-24 season is estimated to be down 10% y/y due to massive drops in production in Italy and Spain. Italy received too much rain, resulting in a lot of diseased fruit, while drought in Spain reduced production. Grape production in France was up, but not enough to offset falls in the other two major wine-producing countries.

This means the EU will have less wine to export this year and its excess stock should also diminish somewhat.

RURAL PROPERTY MARKET

RURAL MARKET STILL QUIET

Rural property sales are down, and the market is expected to stay quiet until the new selling season in spring.

Sale prices have fallen quite a lot, and this is evident across virtually all sectors.

FEWER PROPERTIES TRADING

Property sales numbers remained low through the autumn period. We have passed the annual "Gypsy Day" (1 June), when most farms change hands. This is particularly the case for dairy farms, which have a distinct production season, and this is the most convenient time to move large quantities of stock. Some farms change hands at other times, but most sales occur in autumn or winter, unless they are sold as a going concern.

There is typically a lull in selling at this time of the year, with the new season not really kicking in until spring.

Returns for dairy farms are expected to improve this season (2024-25) and this is likely to drive more confidence in the industry, which should assist sales volumes.

Returns for sheep are expected to remain below par this season, although for many farms this may be partially offset by improved returns for beef. That said, the current returns for sheep and beef farmers are not strong enough to encourage investment.

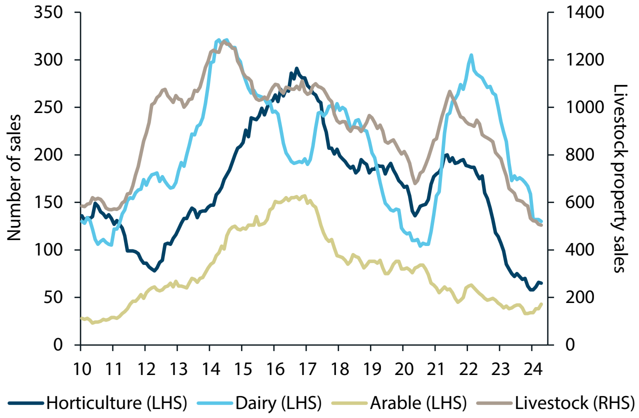
Carbon prices have also retreated recently as uncertainty surrounding future Emissions Trading Scheme rules undermines confidence. Also impacting returns is the large number of units in circulation and the economic downturn, which means investors are generally keener to offload excess units than accumulate them at present.

DAIRY PROPERTIES HARDER TO MOVE

The number of dairy farms traded in the year to April 2024 fell 24% y/y. Numbers were also down 39% on the 10-year average. The average median price also fell by 9%, but this does not always provide an accurate indication of the market as the quality of properties sold is also a factor. That said, the REINZ Farm Price Index for dairy farms fell 11% y/y and this measure adjusts prices to ensure a more like-for-like comparison.

Overall, it is clear that the current dynamic in the dairy property market is subdued and favours buyers over sellers.

PROPERTY SALES VOLUMES BY SECTOR



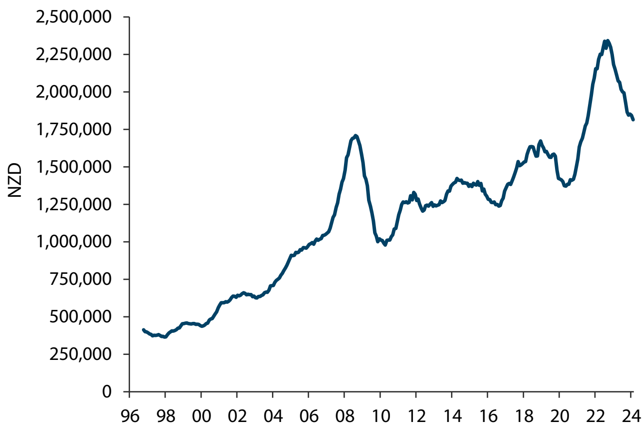
Source: REINZ

The total number of rural properties traded in the 12 months to April 2024 was 44% less than the 10-year average and down 21% y/y.

Sales of all property types were down. Livestock property sales fell 21% y/y, while horticultural property sales are down 19% y/y.

RURAL PROPERTY MARKET

MEDIAN SALE PRICE – RURAL PROPERTIES

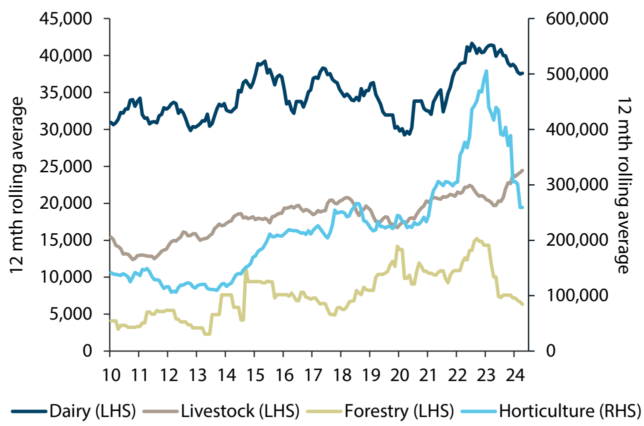


Source: REINZ

There is a clear downward trend in pricing across rural properties. The last time we saw such a sharp drop in pricing was following the Global Financial Crisis.

The livestock sector has been the exception to the recent downtrend. While fewer properties have changed hands, those that have sold have attracted higher returns than in the previous year. Until a year ago, a lot of poorer-quality properties were being sold for tree planting for carbon. This trend has slowed significantly, which will have influenced the median price of grazing properties traded recently.

MEDIAN PROPERTY SALE PRICE, BY SECTOR



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	131	173	215	↓	↓
	Median price ($ per ha)	37,618	41,327	35,915	↓	↑
Livestock	Number of sales	504	658	927	↓	↓
	Median price ($ per ha)	24,442	19,700	19,628	↑	↑
Horticulture	Number of sales	65	80	185	↓	↓
	Median price ($ per ha)	259,083	416,800	264,980	↓	↓
Arable	Number of sales	43	38	89	↑	↓
	Median price ($ per ha)	33,260	42,200	39,798	↓	↓
Forestry	Number of sales	40	40	55	↔	↓
	Median price ($ per ha)	6,350	10,023	9,145	↓	↓
All farms	Number of sales	848	1,073	1,512	↓	↓
	Median price ($ per ha)	29,383	27,775	26,598	↑	↑

Source: REINZ

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Last updated: 20 February 2024

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