ANZ RESEARCH

AGRI FOCUS

FEBRUARY 2019

UP AT THE CRACK OF DAWN

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INSIDE

CONTRIBUTORS

Susan Kilsby
Agriculture Economist
Telephone: +64 4 382 1992
Susan.Kilsby@anz.com

Sharon Zollner
Chief Economist NZ
Telephone: +64 9 3574094
Sharon.Zollner@anz.com

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The primary sectors are generally doing well at the moment with strong production and prices across the majority of sectors. In-market prices are generally above long-run averages and the relatively low NZ dollar is resulting in greater returns for farmers and growers.

Excellent growing conditions have bolstered milk production this season. Meat processing has been delayed as farmers hold onto livestock for longer, meaning heavier stock for processing when they eventually come forward.

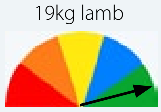
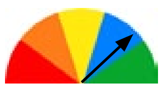
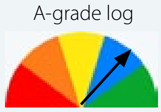
In-market prices are average or above for virtually all sectors – with wool the only major exception. China continues to become a more and more important market for New Zealand's primary produce. The flipside of opportunity is vulnerability: we are increasingly exposed to the risks associated with a slowing of this economy, but for now demand from this market is unabated.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) came into force at the beginning of this year for the seven nations that have ratified the agreement. Our dairy sector stands to gain the most from this agreement, with tariff reductions for this sector estimated to be worth $86m per annum once fully implemented. However, in percentage terms it is the meat and horticultural sectors that have the most to gain, primarily due to improved access into Japan and Canada.

Horticulture is in the limelight at the moment with extra investment occurring – particularly in gold kiwifruit. However, the horticulture sector is feeling the brunt of the current labour shortage, with concerns that there will be insufficient hands to pick fruit this season. Dairy and meat processing is also struggling with a lack of labour, which is putting upward pressure on costs.

The uncertainty associated with tightening environmental regulations is taking a toll on dairy industry confidence, with property prices in this sector starting to wane.

Prices at farm/orchard level relative to 10yr average

Dairy	The lift in international dairy prices indicates potential for higher milk prices than currently forecast for the 2018-19 season.	Milk price Low  High
Sheep	Lamb and mutton farmgate prices are being supported by good in-market prices and tight supply. Lamb prices are holding due to premiums for chilled Easter market supply for Easter.	19kg lamb Low  High
Beef	Steady returns from the US, combined with strong demand from China and an excess of pasture, have seen schedule prices stabilise.	Prime steer Low  High
Forestry	International markets continue to absorb the high volumes of logs being felled in NZ. Prices remain buoyant in the face of an increased risk of a reduction in demand from China.	A-grade log Low  High

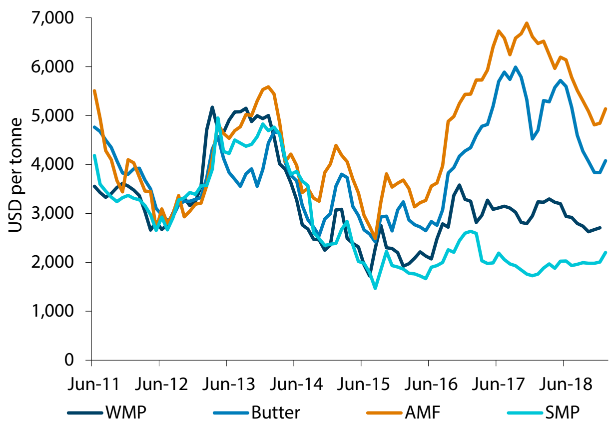
DAIRY UPTURN

Dairy commodity prices turned a corner in late 2018 to make up some of the losses incurred in the first half of the season. If prices continue to trend up our $6.10/kg milksolid (MS) forecast will prove too low.

At present markets are being supported by both a slowing in global milk supply and steady demand. The easing of global milk supply growth is expected to be maintained through the latter part of this season, but the demand side of the equation is a little more uncertain.

Commodity prices are being maintained largely by strong buying from China – our largest market for virtually all of our major export commodities. Demand from this market was strong in the latter part of 2018, making up for the lack of demand seen earlier in the year.

DAIRY COMMODITY PRICES



Source: GlobalDairyTrade

CHINA PROVIDING SUPPORT – FOR NOW

Recent economic data from China looks grim, with the US-China tariff war adding further drag to an economy that was already facing headwinds. This would indicate that at some point we could see a correction in demand for our commodity products – including dairy – but not yet, it seems.

The recent surge in buying from China may be in response to a shortage of its own domestic milk supply. Production costs have been pushed up in recent months due to additional tariffs being applied to the cost of imported feed (soybeans and alfalfa) as a result of the trade war with the US. Feed is by far the largest cost associated with running a dairy farm in China. Operating margins for Chinese dairy farms tend to be slim at the best of times, meaning any increases in cost discourage additional milk production.

We have seen strong participation from Chinese buyers in recent GlobalDairyTrade events. At this point there is nothing definitive to say this won't continue, but the risk of a drop in buying from this market is heightened by the indicators showing the potential for a sharp slowdown in the Chinese economy.

Elsewhere in the world we are seeing milk supply growth drop to moderate levels. New Zealand is an exception, with strong growth this season primarily a function of the fantastic season for pasture production.

GLOBAL MILK SUPPLY SLOWING

The growth in global milk supply has slowed to a rate below growth in demand. This has allowed stocks to clear and prices to rise.

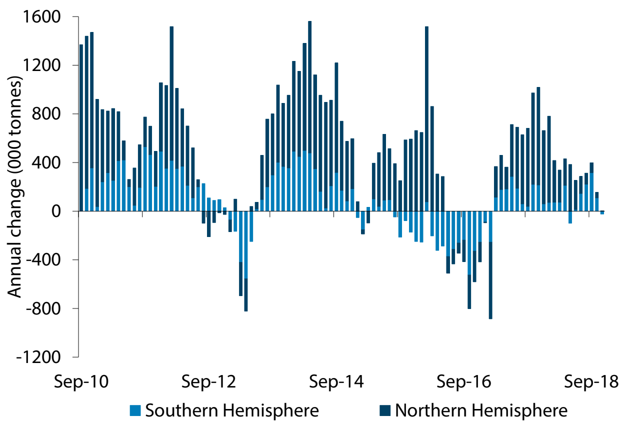
The stocks of skim milk powder (SMP) held in the European Commission intervention programme have been sold much more quickly than expected. These stocks have overshadowed the market for the past couple of years, causing the prices of SMP to be particularly depressed but also pulling down whole milk powder (WMP) prices. As they

DAIRY

dissipate, prices become more sensitive to current market forces; hence the recent bounce in SMP prices.

Milk supply growth is expected to remain at moderate levels in both Europe and the US in 2019 as lower farmgate prices suppress output. Some of this slowdown in Northern Hemisphere supply has been offset by strong growth from New Zealand.

GLOBAL MILK PRODUCTION



Source: ANZ, Dairy Australia, DCANZ, CLAL, Datum, USDA.

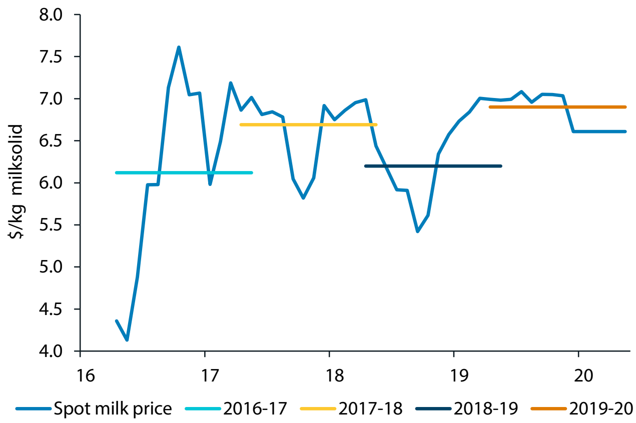
New Zealand's milk supply is up 5% for the season to date but this rate of growth is expected to ease back to nearer 3.5% across the full 2018-19 season as growth rates slow in the latter part of the season.

The growth in milk supply is primarily due to the excellent pasture growth conditions experienced this season.

MILK PRICE UPSIDE

The recent lift in Global Dairy Trade prices bodes well for a potential lift in the milk price. For now we are holding our forecast at $6.10/kg MS for the current season. Spot returns are now above our current forecast. If prices continue to improve at or above the rate currently indicated by the NZX futures market then a higher milk price is achievable. The chance of the milk price ending the season below $6/kg MS is now low.

FARMGATE MILK PRICE



Source: ANZ, NZX, GDT

Looking ahead to the 2019-20 season an even higher milk price may be on the cards. If commodity prices are able to be maintained and milk processors are able to take advantage of a lower NZ dollar then a milk price in the $6 range is on the cards. Caution should be applied to this preliminary forecast given it is reliant on commodity prices remaining strong for the next 18 months and the NZ dollar weakening further, both of which are highly uncertain. However, it certainly looks like the 2019-20 season has the potential to deliver a stronger milk price than the current season.

This confidence is yet to be reflected in the value of milk price futures. The Sep 20 contract (for next season) was priced at just $6.16/kg MS in late January. This may reflect wariness about the outlook for the Chinese economy, which is the main risk to global milk prices at this juncture.

INDUSTRY CONFIDENCE WEAK

Business confidence remains weak in the dairy sector. The recent improvement in returns combined with solid production growth will bolster short-term sentiment, but higher operating costs associated with tighter environmental rules and a shortage of labour is marring sentiment about the longer term.

Negative public perception of the sector is also a major concern for the industry. While difficult to measure, the exact impact it is certainly making it more difficult to attract labour to the sector and impairing investor confidence.

LAMB & WOOL

LAMB PRICES HOLDING

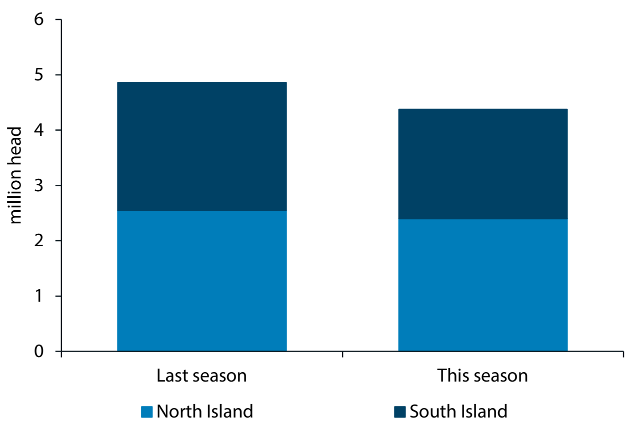
Lamb prices are holding at high levels with store prices particularly strong due to the excess of feed available. Schedule prices remain above $7/kg carcas weight (CW) but are expected to resume their typical seasonal decline once supply for the European Easter trade is finalised.

Strong demand for lambs and ewes due to the excess of feed on hand is supporting store-market prices. Sales, both on-farm and through the yards, have been extremely well supported by buyers. Store lambs are worth 20-30% more than they were this time last year, with prices for smaller lambs lifting more than heavier lambs.

FEED DRIVING STORE PRICES

The abundant feed on hand means farmers are more confident of being able to finish smaller lambs. This has resulted in fewer trade lambs available and stronger demand from finishers.

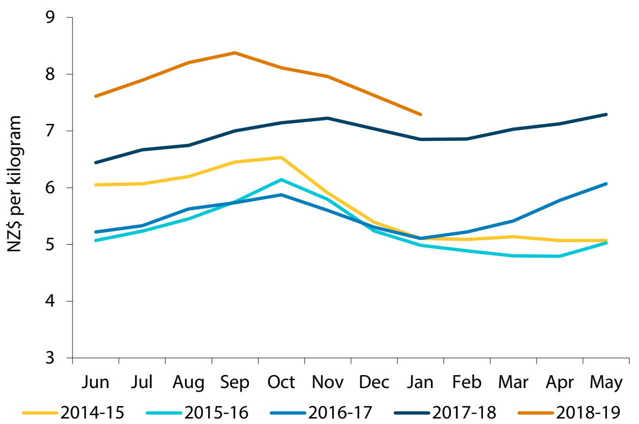
LAMB SLAUGHTER, SEASON TO DATE



Source: MIA, AgriHQ

Store lamb prices are at levels that can't really be justified by current schedule prices. Schedule prices have been slowly receding since they peaked in September but still remain 25-30c/kg carcass weight (CW) above year ago levels.

LAMB FARMGATE RETURNS (19KG PRIME)



Source: AgriHQ

Overseas prices for lamb cuts are marginally below year-ago levels but are comfortably above the 5-year average. Demand from both continental Europe and the UK has been reasonable, with traders relatively happy with the prices negotiated for the Easter chilled trade, albeit they are slightly down on last year.

Demand from China was strong for product to supply the Chinese New Year holiday period, and enquiry levels are also robust for later supply periods.

Brexit remains a potential disruptor for lamb markets. At present NZ supplies relatively similar volumes of lamb into the UK and into continental Europe, while the UK exports lamb into the rest of Europe. If no deal on Brexit is reached prior to the March 29 deadline, and the deadline isn't extended, than hefty tariff rates could be put in place on UK lamb entering the EU. This would potentially decrease UK demand for NZ lamb due to resulting oversupply of

LAMB & WOOL

domestic production, but demand from the EU may well increase. At this point it is proposed that NZ's EU lamb quota of 228,389t will be split between the UK and the rest of the EU. While this could provide some constraints for our exporters, NZ farmers are in a better position than their UK counterparts if a no-deal Brexit occurs.

Aside from the disruption of trade, the UK withdrawal from the EU will also bring a change to the support payments UK farmers receive. For grazing farmers these subsidies make up over 90% of their income. Under new UK agriculture policy these direct payments will be gradually phased out and replaced by payments designed to provide better environmental outcomes. The current direct payment subsidies will be maintained for a couple more years so there won't be an immediate impact, but beyond that time it is expected that subsidies will result in a drop in lamb supply in the UK as less-efficient farms are driven out of business.

EWES COMMANDING HIGH PRICES

Back home ewe prices are very strong, with very few quality replacement ewes selling under $200/hd. Ewe numbers fell last year by 2.1%, so some flock rebuilding will be required this year to stabilise sheep numbers. The sheep industry is no longer losing ground to the dairy industry with conversions grinding to a halt. However, some land is expected to be lost to forestry in the coming years.

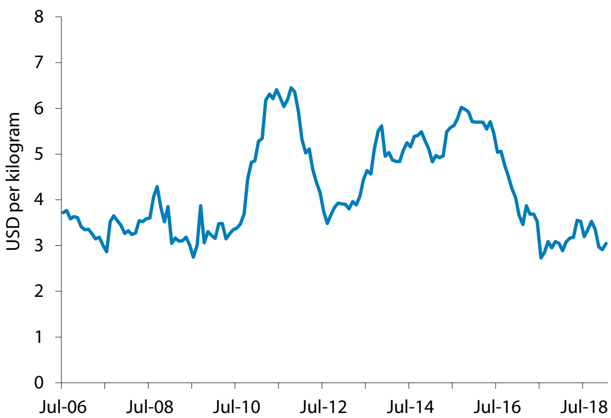
Ewe prices are being underwritten by strong schedule prices for mutton. Chinese demand for mutton is keeping schedules firm with prices up about 50c/kg from a year ago to approximately $5/kg CW. This means lighter cull ewes are returning around $100 per head with even better returns for heavier ewes at the works.

WOOL – NO SIGNS OF RECOVERY YET

Strong wool prices continue to disappoint, although lamb wool and fine wools are faring better. International market demand for coarse wool remains dismal.

Good-quality coarse wool is slightly more sought after than poorer-quality coarse wool, but unfortunately due to the wet summer a lot of the wool on offer is of inferior quality. Prices for coarse wool at the early January wool sales were marginally above year-ago levels but are still 32% below the five year average. It is unlikely we will see a turnaround in this market any time soon.

STRONG WOOL (>35 MICRON)



Sources: ANZ, NZWSI, PGG Wrightson

New-season lamb wool is attracting more buyer attention than other classes but it remains to be seen if this will continue as higher volumes become available. The volume available at present is lower than normal due to delays in shearing because of the wetter weather.

The recent lift in shearing costs and poor returns for greasy wool means some farmers are opting to try to finish more lambs with wool on. More ewes are also being culled woolly, which has resulted in an increase in the quantity (and length) of slipe wool.

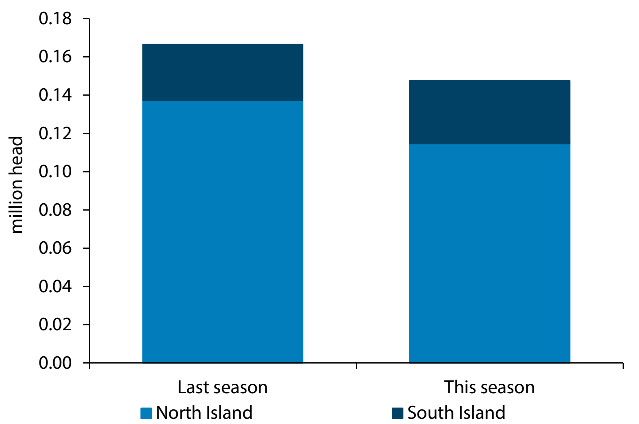
Fine wool markets remain firm but there is virtually no fine wool on offer at this time of the season.

BEEF

BEEF – STABLE RETURNS

Beef schedule prices have held relatively steady over the past month. The volume of stock available for processing is less than normal due to the extra feed on hand. This is particularly the case in the North Island, where lower stock numbers are keeping schedule prices near year-ago levels. In the South Island, where processing numbers are more closely aligned with the seasonal norm, prices are down by 10 to 25c/kg. Store markets remain very strong in both islands, with demand exceeding supply at the majority of sales.

BULL SLAUGHTER, SEASON TO DATE



Source: MIA, AgriHQ

In the ever-important US market, imported 95cl (bull meat) has steadily recovered in price over the past three months, with prices now aligned with both year-ago levels and the five-year average for this time of the year. Supply out of New Zealand has been slower than typical, with the bull kill running 11% behind normal from October to December. Now that conditions are starting to dry off on the east coast processors have reported a pick-up in the number of bulls becoming available for processing.

The price of imported 90cl (cow meat) has also trended up in recent months, but has some way to go to catch up to year-ago levels. The differential between US domestic prices and the price of imported meat of this grade is considerably less than usual. US beef supplies are expected to expand again in 2019, which could put pressure on prices in this market later in the year.

CHINESE DEVELOPING TASTE FOR BEEF

China's demand for imported beef is rapidly rising as consumption of beef becomes more popular. This growing demand from China is helping to underpin global beef markets.

The USDA forecasts China's beef consumption at about 6kg per capita this year. OECD data is more conservative at 4kg per capita, but whatever the figure, beef consumption is certainly on the rise. In 1990 consumption was closer to 0.5kg per person. Pork accounts for 60% of meat consumption, while poultry accounts for 25%. Swine flu has hit China's pork sector hard, reducing supply and pushing up prices. It is also putting some consumers off eating pork.

BETTER MARKET ACCESS

The CPTPP will assist with beef access into Japan and Canada. Tariffs on NZ beef exports to Japan will reduce from 38.5% to 9% over 16 years, the best outcome Japan has given to any trade agreement partner. This immediately removes Australian beef exporters' current tariff advantage over New Zealand in the Japanese market. Japan is Australia's largest market for beef, whereas it is currently NZ's third largest market, behind the US, China and Canada. Access into Canada will also improve, with the 26.5% beef tariff being eliminated by 2023.

DEER

VENISON & VELVET RETURNS DELIGHT

Deer farmers are benefiting from continual strength in both venison and velvet prices. The industry is in a rebuilding phase, reducing the number of hinds being slaughtered and therefore the volume of venison available to market.

Venison prices shot up to exceptional levels in late 2017 and further gains were made in early 2018.

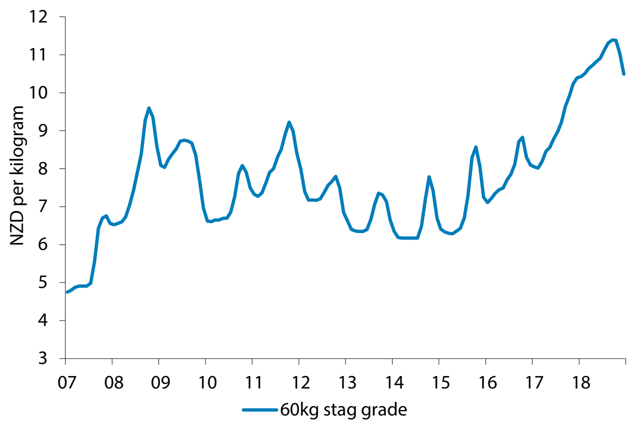
Strong marketing initiatives to align supply with consumer preferences are paying off for the industry, with a larger proportion of supply now being sold at premium prices.

Venison schedule prices have eased slightly in recent months, but are aligned with year-ago levels and remain 33% higher than the 5-year average for this time of the season. There is some price pressure in European markets as in-market stocks are slightly larger than normal and this is reflected in the schedule prices.

For venison to be marketed as Cervena it now must be certified as GM-free. While most of our venison isn't genetically modified, it does mean farmers must now ensure any imported supplementary feed used is certified GM-free. The move is in response to customer expectations and to ensure market premiums are sustained.

The market for velvet is also strong, with returns this year expected to be similar to last year. Higher returns are now being supported due to a larger proportion of velvet now been processed within New Zealand. This is allowing for direct supply to high-end food and medicine companies.

NZ VENISON FARMGATE (STAG GRADE)



Source: AgriHQ

Approximately 25% of velvet is now marketed to food companies for use in high-value food products sold primarily to wealthy consumers in South Korea. China is our largest export market for velvet, but the majority of velvet imported by China is further processed then sold to South Korea. The industry is striving to sell more product directly to end markets in order to maintain supply-chain control.

The traditional use of velvet has been in oriental style medicine, where it is prescribed for a wide range of ailments.

GRAIN

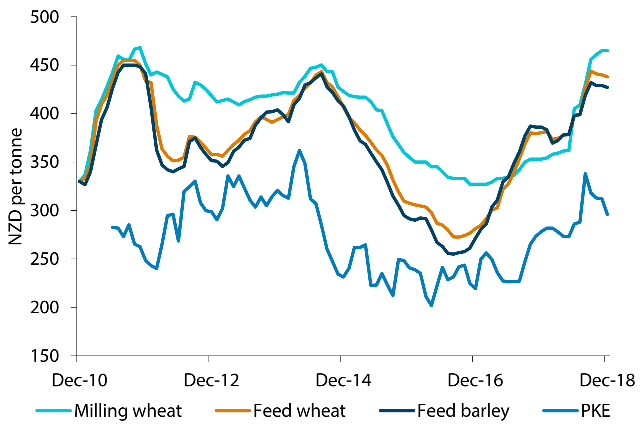
Grain prices are strong as we commence 2019, in both the international and local markets. Local milling wheat prices are about 30% higher than a year ago while feed wheat is up 15%. The last time prices were this strong was in the middle of 2014. The lift in feed barley pricing has been a little weaker, but nevertheless prices are up, despite low demand for feed from the dairy industry. Demand for grain for milling, and from the pork and poultry industries, tends to be relatively stable, whereas dairy industry demand for grain fluctuates considerably, depending on pasture growth rates and milk prices.

Excellent conditions for pasture production this season have limited dairy demand for grain. Maize grain and maize silage are in oversupply due to the massive harvest last season. Industry survey data estimates a 53% lift in the volume of maize grain harvested due to strong yields and a 20% increase in the area planted. Maize silage volumes were up 13% on a similar land area. The area currently planted in maize silage is estimated to be down on the previous season with the wet spring delaying planting and some farmers cutting volumes due to difficulties selling last season's silage.

The quantity of feed grain currently for sale is high. Prices may need to soften further in order to clear grower silos prior to the new season's crop is harvested.

Palm kernel prices have weakened on the back of reduced demand and lower in-market prices.

NZ GRAIN PRICES



Source: AgriHQ

FORESTRY

LOG RETURNS BUOYANT

The forestry sector is looking in good shape for 2019 with export log prices holding up at high levels and plenty of timber being felled. Export demand continues to be unpinned by strong demand from China.

The volume of logs stockpiled on wharves in China is lower than normal, indicating additional buying activity in the coming months will be required to replenish stocks.

Thus far the slowing of China's economic growth has not transpired into lower demand for imported logs, but this remains a key risk.

China's economy is being negatively impacted by the reduction in export activity as a result of the trade war with the United States. While it is now reasonably clear China's economic growth is easing, how this will impact demand for our logs is less clear.

Typically a slowing of economic activity would result in lower demand for housing. But investing in housing in China is also considered a 'safe asset' as it holds its value during times of inflation or currency devaluation. Also supportive of housing demand is the ongoing trend of urbanisation, which is increasing housing demand.

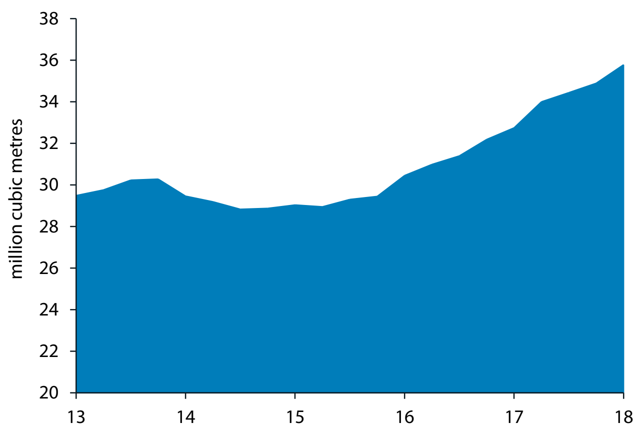
China's government spending on infrastructure projects is expected to increase in order to stimulate the economy, offsetting some of the weakness seen elsewhere in the economy. Therefore strong demand for New Zealand logs – often used for boxing concrete – may well continue.

New Zealand exporters are also benefiting from less competition from Russia. Russia is electing to process are larger proportion of its logs into lumber, reducing its supply of logs for export.

Japan is New Zealand's fourth-largest export market behind China, Korea and India. Demand from this market has waned in recent years but may get a boost as more homes are being built and import tariffs are reduced. Under the CPTPP all tariffs on forestry products will be eliminated by 2033, with tariffs on fibreboard and sawn wood now fully eliminated.

Log prices are currently 20% higher than the 5-year average, which is encouraging additional felling activity. Roundwood removals for the quarter to September 2018 were 24% greater than the 5-year average. Annual felling rates increased by 1.7m m^3 roundwood in the year to September 2018 – equivalent to an extra 63,000 truck & trailer loads.

ROUNDWOOD REMOVALS



Source: MPI

The strength of the market means there is strong competition for supply. Local timber mills need to match international market prices to secure supply, which is putting pressure on operating margins.

HORTICULTURE

TRADE AGREEMENT BENEFICIAL

Horticulture sectors are generally performing well. The CPTPP is forecast to deliver tariff reductions worth $33 million per annum once fully implemented. Improved access into Japan is especially welcome for a number of horticultural industries with preferential access attained for many fruit and vegetables. This includes tariffs on cherries entering Japan being eliminated within six years, while tariff-free access has already been granted into Canada and Mexico.

Both the pipfruit and kiwifruit industries expect to have larger crops to harvest this year, but the potential for a severe shortfall in seasonal workers is a huge concern.

KIWIFRUIT – TRENDING TO GOLD

The kiwifruit industry continues to grow, with greenfield development occurring as well as newer varieties being grafted onto existing vines. This season an additional 3m trays are expected to be processed as a result of more vines reaching harvest maturity.

The proportion of gold fruit continues to grow – primarily at the expense of green varieties but some greenfield development has also contributed, with investment in gold fruit is continuing. In the Bay of Plenty vines are being planted on some land previously used for dairying, due to the potential for considerably higher returns. Zespri is releasing licenses for a further 700ha of conventional SunGold and 50ha of Organic SunGold this year, with applications closing in late March. Zespri expects to be able to allocate licenses for a further 700ha each year to 2022.

Last season Gold varieties accounted for 43% of the volume of fruit processed and 39% of the productive land area. The proportion of Gold fruit is expected to increase to about 47% this season.

Orchard gate returns for the 2018-19 season are forecast to be $140,195/ha for the SunGold variety (including organic). This compares to $63,796/ha for Green. Actual returns to growers can vary considerably due to premium and incentive payments. SunGold returns are up 22% on the previous season while Green returns are up 6.5%.

The kiwifruit industry will benefit from the CPTPP as all tariffs on kiwifruit are eliminated under the agreement. Previously a 6.4% tariff applied for Japan – our third-largest market behind the EU and China. The CPTPP nations collectively account for 28% of New Zealand's kiwifruit exports by value. The tariff reductions are estimated to be worth at least NZ$26m a year.

APPLES – PICK ME PLEASE

This season's apple crop is expected to be larger than last season. Growers are concerned they may not have sufficient labour available for picking. This is particularly the case in Hawke's Bay – our largest apple-growing region – where growers are reporting a lack of enquiries from backpackers. The picking season starts in February with some of the earlier maturing varieties such as Cox and Gala, but it will be March before the picking season hits full swing and the potential labour shortage kicks in.

The CPTPP will also benefit the apple industry. Tariffs on apples will be eliminated within 11 years. This will put New Zealand on a level playing field with Australian exporters for entry into Japan. A 17% tariff has applied to New Zealand apples entering Japan; this is now reduced to 12.7% and will fall to 11.4% in April.

WINE

IMPROVED MARKET ACCESS

The viticulture industry continues to expand. The area planted in grapes increased by 2% to 37,969 ha in 2018. Sauvignon Blanc accounts for 77% of the land area, with the area planted in this variety continuing to grow. Pinot Noir is the next most popular variety grown, followed by Chardonnay and Pinot Gris.

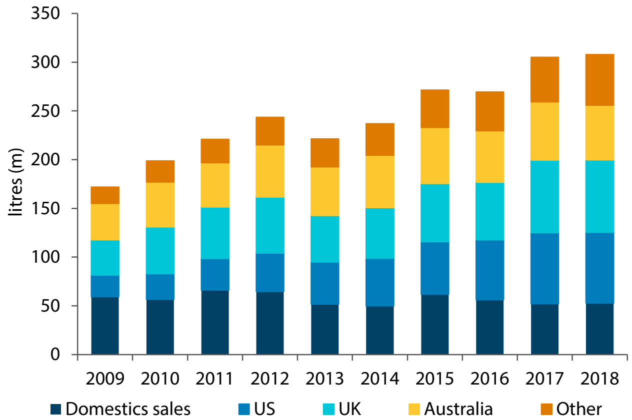
These four varieties collectively accounted for 96% of the wine exported last season with Sauvignon Blanc alone accounting for 86% of export volumes.

Wine exports will benefit from the lower tariff rates brought about by the CPTPP. Exporters now have duty-free access to Canada – New Zealand's fourth largest wine market behind the US, UK, and Australia. Last season Canada accounted for 5% of New Zealand's wine exports.

Japan currently sits at number ten in export market rankings, but reduced tariffs will certainly be welcomed by wine exporters. The price of wine exported to Japan is nearly twice the average due to the relatively large proportion of bottled, rather than bulk, wine sold to this market. Japan also buys a larger portion of red wine (27%), whereas red wine only account for 6.5% of New Zealand's total wine exports. Japan's tariffs on our wine have already been cut by 33% and will be progressively reduced until eliminated by April 2025.

China is also a market with huge potential. At present China is our sixth most valuable market for wine but only accounts for 1% of exports by volume. Wine exports to China command a higher price point than many other markets, partially due to a larger portion of bottled red wine. As volumes to this market grow, China has the potential to become a much more important export destination.

NZ WINE SALES



Source: Statistics NZ

WINE EXPORTS BY VARIETY (MILLION LITRES)

	2014	2015	2016	2017	2018
Sauvignon Blanc	160.6	177.8	181.9	217.9	220.1
Pinot Noir	10.7	10.9	12.2	12.5	13.2
Pinot Gris	4.7	4.5	4.7	7.2	7.7
Chardonnay	4.6	5.3	6.1	6.2	4.8
Rosé	0.7	0.8	0.9	2.4	3.7
Merlot	1.8	1.7	1.9	2.3	2.1
Sparking	1.7	1.4	1.4	1.1	1.2
Other	2.98	3.05	3.44	3.65	3.18

RURAL PROPERTY MARKET

SUMMARY

The rural property market delivered mixed results in the December quarter. Farm sale volumes have lifted and the median price of farms changing hands hasn't moved too much from year-ago levels. The mood in the market continues to vary from sector to sector. In the dairy sector farms for sale continue to outnumber buyers, while the mood is brighter in other sectors. This market sentiment is muted in the industry data released by the Real Estate Institute of NZ (REINZ) as the median price data doesn't paint the full picture.

MORE FARMS SELLING

The number of farms changing hands did lift in the December quarter. A total of 440 farms sold in the final three months of the year, more than the same time the previous year. The REINZ price index data reflects the general weakness in the market. Indices are below year-ago levels on a per hectare basis for all farms and also for the dairy subsector.

Dairy farm values are under pressure and farms are taking longer to sell than normal. In the final three months of 2018 just 24 dairy farms changed hands, which is considerably less than normal and well down on last season. Typically we would see closer to 40 dairy farms changing hands at this time of the season.

Properties traded in the final quarter of 2018 sold at a median price of $34,500/ha – relatively similar to year-ago values. However, the median price data provides little flavour as to what is actually happening in the market. Similarly, the REINZ data shows a lift in the average land price per kg milksolid (up 10% from a year ago) but this most likely reflects that higher-quality farms are selling more readily than poorer quality farms, and tend to change hands earlier in the season Anecdotal evidence shows good-quality farms are holding their value relatively well, with sales to date being aligned or marginally down on year-ago levels. However, poorer-quality properties are struggling to sell, with those actually moving selling at discounts of up to 25%.

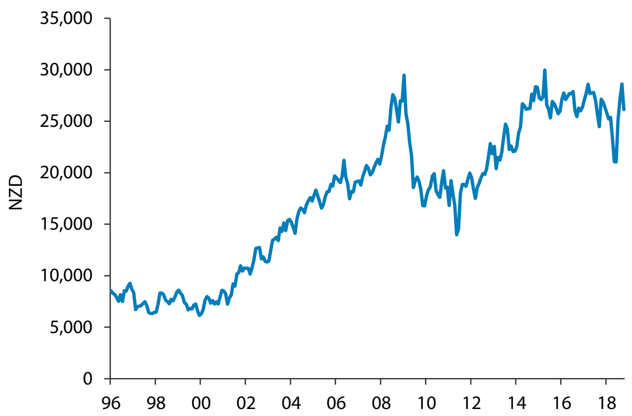
Properties that carry risk in relation to future access to water for irrigation or nutrient emission regulations are also being heavily discounted. Changes to environmental regulations may mean changes to stocking policies for some farms, ie reduced stock numbers in order to meet restrictions on nutrient run-off or changes to the way stock are wintered. Stricter rules may also result in higher operating costs and/or the uncertainty associated with requiring ongoing permits in order to farm. These additional risks are currently being priced into the market as best they can be given that rules are still evolving in many regions. Whether the market has over- or under-compensated for these risks won't be known until regulations are more clearly defined.

Waikato properties are generally selling well, with plenty of dairy and sheep & beef properties changing hands. This is reflected in the median time it is taking to sell a property falling to just 36 days in the three months to December. Properties have also been selling relatively quickly in Bay of Plenty and Otago, whereas properties are taking longer to sell than normal in Taranaki and the Tasman/Marlborough regions.

Demand for finishing and grazing properties is being bolstered by a couple of seasons of strong returns for sheep and beef, and also the strength of the forestry sector. A small number of grazing properties have been sold to be planted in trees.

As yet this additional demand is not consistently being reflected in higher median sale prices for grazing or finishing properties. However, the price differential between dairy and finishing properties is waning and we are starting to see a few dairy farms being converted to finishing farms. While we have often seen this happen on smaller-scale farms, particularly where farmers are older with low debt levels, we are now seeing this happening on a larger scale – and not just as a stepping stone to retirement or for lifestyle reasons.

MEDIAN PRICE PER HECTARE



Source: ANZ, REINZ

FARM PRICE INDICES

3-Month Seasonally Adjusted		Current Period	Previous Period	Last Year	Chg. P/P	Chg. Y/Y
Dairy	Median Price ($ per ha)	2,345	2,905	2,350	↓	↑
	Median Price	1,798	1,767	1,798	↑	↓
All farms	Median Price ($ per ha)	2,559	2,835	2,748	↓	↑
	Median Price	3,649	3,873	3,681	↓	↑

ECONOMIC OVERVIEW

GLOBAL ECONOMY

Evidence is mounting that the global economy is slowing. Europe, the US and China have been the main drivers of growth in recent years. Europe is now sluggish, China is slowing and the outlook for the United States is not as positive as previously.

Restrictions on global trade and political tensions remain. The US-China trade war is becoming a drag on both of these economies. The ongoing uncertainty associated with Brexit is also a concern for the UK economy and its main trading partners, who sit primarily within the EU.

The direct impact on New Zealand of both the US-China trade war and Brexit is minimal, with even some short-term positives. But of greater concern is the indirect impact from a slowing of these economies.

NEW ZEALAND ECONOMY

Our own economy is doing okay but growth rates are tending towards the mediocre, at least on a per capita basis. Annual GDP growth is forecast to continue moderating from 2.6% in Q3 2018 to 2.2% by Q2 2019 before gradually ticking up and stabilising at 2.6% by the end of 2020.

Business sentiment generally improved slightly in the final quarter of 2018. However, businesses remain wary of rising costs. The tight labour market is impacting all businesses, increasing operating costs and adding costs to capital development projects. The unemployment rate fell to 3.9% in Q3.

The agricultural and horticultural sectors, which rely on seasonal labour, are really struggling to secure the number of workers they require. This is affecting the primary sector at both the grower and processor level. Fruit packhouses are expecting severe labour shortages later this year, while meat processors were struggling to get labour prior to Christmas. The throughput of livestock has been a little slower this year, which has allowed some meat processors to run less shifts than normal, but it does also mean even more stock to process at the peak of the season.

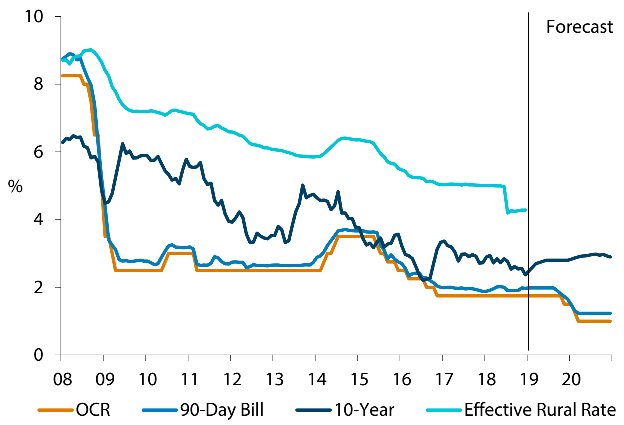
Orchardists are worrying about securing labour for this season's harvest, while the negative sentiment surrounding the dairy industry is making it more challenging to find staff to milk cows.

Inflationary measures are yet to take off, indicating both businesses and consumers are holding the purse strings relatively tightly. Inflation rates are expected to settle below the Reserve Bank's target level, indicating a cut to interest rates may be required to boast the economy along. ANZ is forecasting an OCR cut later this year and further cuts in 2020.

INTEREST RATES

Effective rural interest rates eased in 2018, while total borrowing from New Zealand's rural sector increased. The dairy sector is now increasingly focused on debt repayment, with expansionary plans now more the domain of the horticultural sector.

KEY INTEREST RATES

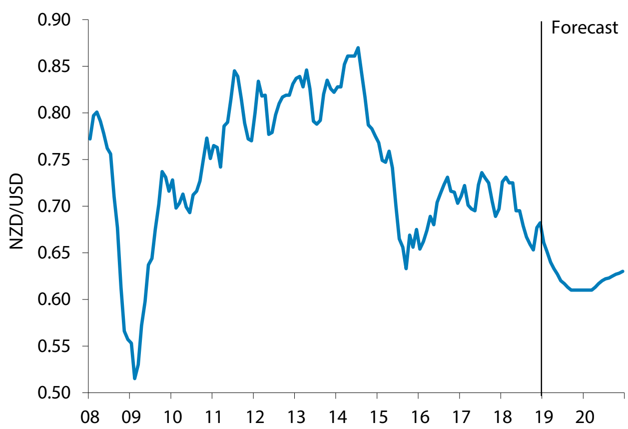


Source: ANZ, RBNZ

EXCHANGE RATES

New Zealand's primary sector has benefited from a weaker currency, which has allowed greater returns to flow back to the farm/orchard gate. The NZD is generally expected to trend down further as we progress through 2019, but this is largely dependent on global economic conditions, and to a lesser extent on how our own economy is performing.

NZD BUYS USD



Source: ANZ, Bloomberg

A slowing of the global economy will see investors wary of holding 'risk currencies' – a category the NZD falls into. At present the NZD is performing better than expected, but some further downward movement is expected to occur before the year is out.

KEY FORECASTS

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Nov-18	Dec-18	31-Jan	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
NZD/USD	0.687	0.672	0.69	0.64	0.62	0.61	0.61	0.61	0.62	0.63
NZD/AUD	0.941	0.953	0.95	0.94	0.93	0.87	0.87	0.87	0.89	0.87
NZD/EUR	0.607	0.586	0.60	0.58	0.57	0.55	0.53	0.51	0.50	0.50
NZD/JPY	78.05	73.70	75.13	70.4	67.0	62.2	61.0	58.6	58.9	59.4
NZD/GBP	0.539	0.527	0.53	0.52	0.52	0.50	0.49	0.47	0.47	0.47
NZ TWI	73.2	71.5	74.4	69.7	67.9	65.2	64.2	62.9	63.1	63.2

INTEREST RATES	ACTUAL			FORECAST (END MONTH)						
	Nov-18	Dec-18	31-Jan	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.00	1.00	1.00
NZ 90 day bill	1.98	1.97	1.92	1.98	1.98	1.90	1.65	1.23	1.23	1.23
NZ 10-yr bond	2.56	2.37	2.29	2.80	2.80	2.80	2.80	2.90	2.95	2.95
US Fed Funds	2.25	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75
US 3-mth	2.74	2.81	2.74	2.90	3.10	3.10	3.10	3.10	3.10	3.10
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
AU 3-mth	1.95	2.09	2.07	2.05	2.00	2.30	2.50	2.50	2.50	2.50

ECONOMIC INDICATORS	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
GDP (% q/q)	0.3	**0.6**	**0.6**	**0.7**	**0.5**	**0.7**	**0.6**	**0.7**	**0.6**	**0.7**
GDP (% y/y)	2.6	**2.5**	**2.5**	**2.2**	**2.4**	**2.5**	**2.5**	**2.5**	**2.6**	**2.6**
CPI (% q/q)	0.9	0.1	**0.4**	**0.6**	**0.5**	**0.2**	**0.6**	**0.5**	**0.5**	**0.2**
CPI (% y/y)	1.9	1.9	**1.8**	**2.0**	**1.7**	**1.8**	**1.9**	**1.8**	**1.8**	**1.8**
LCI Wages (% q/q)	0.5	**0.6**	**0.5**	**0.5**	**0.6**	**0.6**	**0.5**	**0.7**	**0.6**	**0.6**
LCI Wages (% y/y)	1.9	**2.1**	**2.2**	**2.2**	**2.2**	**2.2**	**2.2**	**2.4**	**2.4**	**2.4**
Employment (% q/q)	1.1	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% y/y)	2.8	**2.6**	**2.4**	**2.2**	**1.5**	**1.6**	**1.6**	**1.5**	**1.5**	**1.4**
Unemployment Rate (% sa)	3.9	**4.1**	**4.1**	**4.1**	**4.0**	**4.0**	**4.0**	**4.0**	**3.9**	**3.9**
Current Account (% GDP)	-3.6	**-3.6**	**-3.3**	**-3.3**	**-3.3**	**-3.5**	**-3.6**	**-3.7**	**-3.8**	**-3.9**
Terms of Trade (% q/q)	-0.3	**0.4**	**0.1**	**-0.4**	**0.1**	**0.1**	**0.3**	**0.1**	**0.3**	**0.1**
Terms of Trade (% y/y)	-0.5	**-1.5**	**0.6**	**-0.3**	**0.2**	**-0.1**	**0.1**	**0.7**	**0.8**	**0.8**

Figures in bold are forecasts. q/q: Quarter-on-Quarter, y/y: Year-on-Year

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