ANZ RESEARCH

# AGRI FOCUS

OCTOBER 2019

# MEATING DEMAND

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

## 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


Publication date: 9 October 2019

**International market demand for our main export products is generally strong. Combined with the low NZ dollar, this is delivering record farmgate returns for sheep and beef farmers, and decent returns in most other sectors.**

**However, business confidence in the primary sectors is dismal as food producers grapple with finding optimal solutions to meeting future expectations of 'how' food should be produced.**

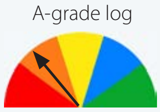
**There is still considerable uncertainty as to where the environmental goal posts lie and how to reach these goals. This uncertainty is hindering confidence and investment.**

There are further regulatory changes ahead which will further impact the rural sector and test perceived property rights. These include the review of freshwater allocation and the Walking Access Act. A review of the entire Resource Management Act is also underway.

Spring has delivered a lift in dairy returns and the mood of the dairy farming sector. Fonterra's more open and honest approach to the challenges it faces have been welcomed by its shareholders. Fonterra's share price has lifted since its results announcement and the milk price outlook has been buoyed by strength in the commodity prices and the softer NZD.

Mutton and lamb prices are at record levels and beef prices are not far below records which is driving positivity in the red meat sector. Venison returns are back from last year but still remain high.

Forestry returns are slowly creeping up following the sharp mid-winter price correction. The horticulture sector is in a growth phase with more kiwifruit vines and apple trees being planted.

| Prices at farm/orchard level relative to 10yr average | | |
|---|---|---|
| Dairy | Dairy prices are creeping up as seasonally high offerings are being matched by demand, bolstering our farmgate milk price forecast to $7.15/kg MS. | Milk price <br> Low  High |
| Sheep | Mutton prices have hit record levels, as have lamb returns. Strong offshore prices are being supported by the weaker NZ dollar. Brexit risks remain on the table but are diminishing. | 19kg lamb <br> Low  High |
| Beef | China demand continues to underpin beef markets. Returns are currently very healthy at both the international and farmgate level. Store markets are strong but are yet to see the sharp lift that is typically associated with spring pasture growth. | Prime steer <br> Low  High |
| Forestry | Log prices are clawing their way back up following the sharp price correction in June. The domestic market is supporting prices for now, but the industry remains vulnerable to slow global economic growth. | A-grade log <br> Low  High |

# DAIRY

## BACK TO BASICS

Our milk price forecast for the current season has been increased by 15c to $7.15/kg milksolid, as confidence in commodity prices builds while the NZD retreats. The strength in the milk price combined with positivity surrounding Fonterra's new 'back to basics' strategy has provided a much needed boost to sentiment. Recently released policy initiatives such as the policy statement for freshwater have provided a clear high-level direction for improving freshwater but the details and the impact on individual farmers remain ambiguous, meaning the future of some farms is uncertain.

Dairy commodity prices pushed higher at the second GlobalDairyTrade (GDT) event held in September and this upward momentum was maintained at the early October event, albeit at a slower pace. Whole milk powder is now priced at approximately USD3,150/t, which is about USD400/t stronger than year-ago levels.

Dairy futures show a relatively flat outlook. This market is either not pricing in expectations of tightening global milk supplies, or believes this will be offset by the weakening conditions in the global economy.

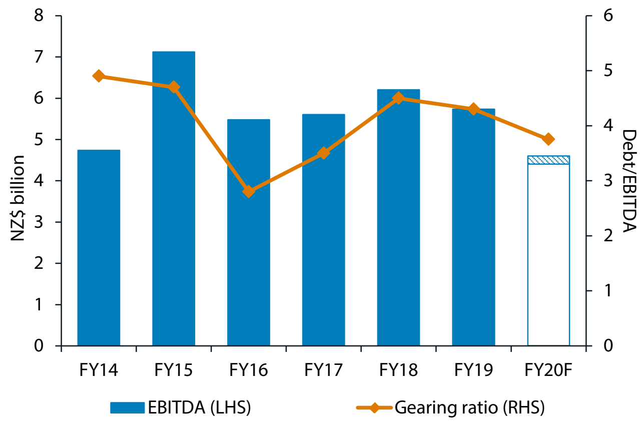
Global economic growth has waned but the main drivers of dairy consumption – population growth and rising incomes – remain strong in the main Asian economies. This growth is expected to underpin global demand for dairy commodities; meanwhile supply is expected to stay relatively tight in the short term.

## NZ MILK PRIORITY FOR FONTERRA

Fonterra's recently released updated strategy indicates the cooperative will redirect its focus onto its New Zealand milk pool. Investment in overseas assets has proven to be an expensive exercise, with many of these investments failing to yield the hoped-for returns.

Assets the company continues to hold, but which are no longer considered strategic, include its Chinese investments, Beingmate and the China Farms, and Dairy Partners America (DPA) in Brazil. These assets are expected to be divested at some time in the future. Other offshore assets whose future is less clear include manufacturing assets held in Chile and Australia. While Fonterra and its board are comfortable with the write downs made to date, questions do remain as to whether these assets could actually be divested at their current book values if the company chooses to go down that path.

### NET INTEREST-BEARING DEBT AND GEARING RATIO




Source: Fonterra

At the end of FY19, Fonterra's debt had been reduced to $5.7bn from $6.2bn a year earlier. Debt is currently 4.3 times greater than earnings but Fonterra aims to reduce this debt/earnings ratio to below 3.75x within the current financial year. The sale of DFE Pharma provides about half of the debt reduction forecast for FY20. The remainder is forecast to come from further asset sales, lower capital expenditure and improved earnings.

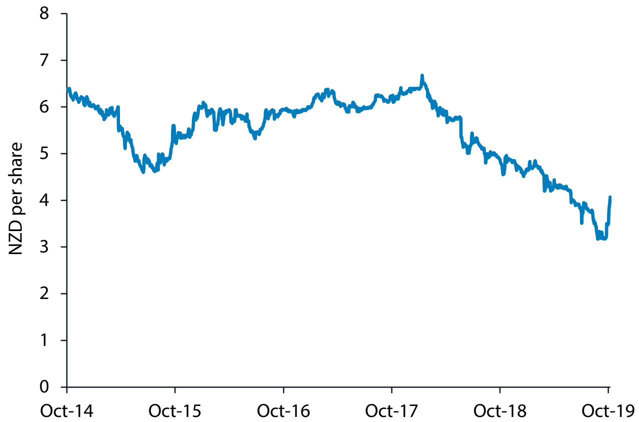
Click here for more analysis of Fonterra's results announcement.

# DAIRY

## NEW DIVIDEND POLICY

Fonterra plans to retain a greater portion of earnings in the future than they have previously. The new policy is to pay between 40% and 60% of earnings as a dividend, versus 65-75% previously. Fonterra has forecast earnings for FY20 at 15-25 cents per share, indicating a dividend in the range of 6 to 15 cents will be paid.

### FONTERRA SHARE PRICE




Source: Reuters

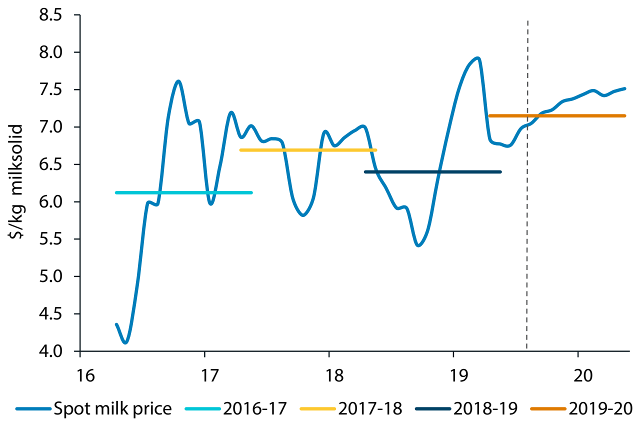
The Fonterra share price lifted 28c to close at $3.50 on the day Fonterra released its FY19 results, as investors responded to expectations a dividend will be paid in FY20 as well as higher future earnings expectations. Fonterra is targeting earnings per share of 50c in its five-year plan, indicating they are targeting a dividend in the vicinity of 20 to 30 cents. Fonterra shares are now trading above $4.

## MILK PRICE STABLE

Our milk price forecast for the 2019-20 season has been revised up by 15c to $7.15/kg MS. Dairy commodity prices are starting to respond to the relative tightness in global milk supply. The milk price forecast is also supported by a lower NZD. We have factored in higher operating costs, in line with the increase in costs apportioned by Fonterra to the milk price last season.

Fonterra has retained the $1 range in its milk price guidance of $6.25-$7.25/kg MS. This milk price range remains plausible, but hitting the bottom end of the range is now looking unlikely. The milk collection and processing costs used in the calculation of the 2018-19 milk price were 10c/kg MS higher than the previous year. These costs are benchmarked against the actual costs incurred by Fonterra. Some of the costs are considered one-off in nature but we assume in our milk price calculation that much of this cost increase will continue to negatively impact the milk price in future seasons.

### FARMGATE MILK PRICE




Source: ANZ Research, GDT

Milk price futures for the current season have gained 10c during September, spiking to $6.90/kg MS just ahead of Fonterra's annual results announcement, before easing to close the month at $6.85/kg MS. The price of this contract lifted further in early October.

The New Zealand dollar has continued to weaken over the past couple of months. The 50bp reduction in the Official Cash Rate kicked along the softening trend already in play. While hedging policies limit the immediate impact on the milk price, as it is early in the season there will be some positive impact on this season's milk price, and the lower currency also bodes well for next season.

Milk price futures for the 2020-21 season have gained more than 25 cents over the past month to trade above $6.50/kg MS. Farmers trading this contract are looking for a degree of certainty in their future income stream.

## STRONG START TO THE SEASON

The new production season has gotten off to a strong start. The winter was generally mild, meaning cows and pastures were in good condition ahead of calving. Growth rates through August have generally been strong, although some regions are still finely balanced, with growth rates not yet sufficient to exceed demand and allow pasture covers to build. Meanwhile silage is already being cut in some regions.

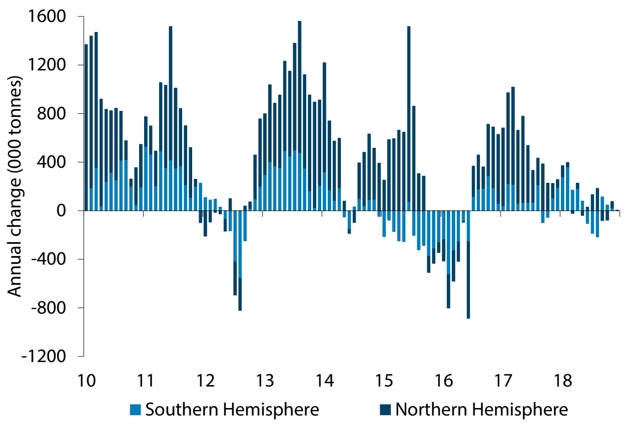
Milk production through the first three months of the season is ahead of last season by 4%, due primarily to extra winter milk. August production was up 2.2% on a milksolid basis, with Fonterra's milk intakes up 1.1%. New Zealand's milk production across the full 2019-20 season is expected to be marginally down on last season.

# DAIRY

## GLOBAL MILK FLOWS CONTAINED

Global milk production growth remains subdued, which will be supportive of dairy commodity prices this season. Milk supply is constrained for various reasons in different markets. Commodity prices have been relatively stable in recent years but they are not high enough to encourage expansion in the big milk-producing regions in Europe and the United States.

### MILK SUPPLY – MAIN DAIRY EXPORTING COUNTRIES




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

European milk production is up 0.4% this year to date, but US production has grown by only 0.1%. US milking cow numbers are back 71,000 head from a year ago. Replacement heifer numbers are also down, indicating little opportunity for significant expansion in the dairy herd anytime soon.

The quantity of dairy products exported from the US has trended down this year, partly due to a reduction in exports of animal feed grade whey to China. Meanwhile the volume of dairy products imported by the United States has risen.

Returns to US dairy farmers at the farm level have lifted slightly this year and are expected to continue to trend up. However, this is not expected to trigger a supply response any time soon.

Ongoing drought and high water costs have hampered the viability of dairy farms in Victoria, Australia's main milk-producing state. Industry confidence is low and milk output is expected to continue to retreat.

Reduced output combined with growing domestic demand means Australia is now only a minor player on the globally traded dairy markets. The surplus of dairy products that Australia has to export now equates to roughly 25% of its total milk supply, whereas 20 years ago they exported half of their dairy production.

## COMMODITIES STABLE WITH UPSIDE RISK

Dairy commodity prices have been stubbornly stable in recently but are posed to lift, assuming global demand holds up. Global economic data is weak but thus far demand for dairy products remains robust.

Prices for fat products, such as butter and anhydrous milkfat, have been under pressure in recent months but there are tentative signs this market has now stabilised, with prices posed to lift.

Skim milk powder prices have closed the gap on whole milk powder prices marginally, and this gap is expected to close further. Despite the recent weakness returns for fats combined with skim milk powder still exceed whole milk powder returns. This indicates any lift in fat prices should also be supportive to whole milk powder.


## RECORD LAMB PRICES

Lamb prices are exceptionally strong in international markets as well as at the farmgate level. However, processing volumes are seasonally low at this time of the year. Winter and spring conditions have generally been favourable, which will assist survival rates for new season lambs. This season's lamb crop is expected to be similar in size to the previous season.

A disorderly Brexit remains a key risk to returns for the season ahead, although the likelihood of a no-deal Brexit occurring appears to have diminished.

Schedule prices for lamb and mutton are at record levels. Volumes processed at this time of the season tend to be low but there has been a small surge in throughput due to the high prices and the desire to process last season's lambs before they cut their teeth and are therefore downgraded from the lamb category to mutton.

Prices are expected to hold relatively well and this is reflected in contract prices and forward guidance given by meat processors. Alliance has advised they expect to pay somewhere between $7 and $8.60/kg carcass weight for lambs processed in the three months leading up to Christmas, and $6.70 to $7.10/kg CW from January to March.

The number of lambs processed this season to the end of August was 7% less than the same time last season. A surge in late-season processing will have reduced this gap marginally. The lower lamb numbers have been partially offset by heavier weights. Lambs processed this season have averaged just shy of 19kg CW, which is 0.5kg heavier than the previous season.

Mutton contracts above $6/kg CW are currently available, which will encourage drafting of dry ewes at docking and getting cull ewes away immediately after weaning.

Store markets are relatively quiet at this time of the season as trade in last season lambs draws to a close. Heavy lambs remain sought after but lighter lambs are now selling at a discount.

Ewes with lambs at foot are trading through the yards at strong prices – generally slightly higher than year-ago levels.

### LAMB SURVIVAL RATES

Lamb survival rates have thus far been good, but lambing is far from over in the South Island and there will still be hoggets' to lamb.

Scanning rates were reported to be lower than normal in some parts of the country but strong lamb survival rates could offset this. The actual size of this season's lamb crop will be clearer in a few months when docking is completed.

Despite the current buoyancy in the industry sheep numbers remain stable. Beef & Lamb NZ estimate a small decrease in breeding ewe numbers but this is offset by higher hogget numbers, resulting in stability in the overall sheep population. The number of lambs born this spring is estimated to be back on last year but fewer lambs are expected to be retained for replacements, meaning more lambs available for processing. Whether the situation will actually play out like this is yet to be determined but more accurate numbers won't be available until after lambs are counted at docking.

### INTERNATIONAL MARKETS STRONG

China's appetite for lamb and mutton remains strong as they look for alternative protein sources to fill the void in domestic pork production. The demand from this market for mutton and the cheaper lamb cuts continues to underpin schedule prices. In-market prices for the higher-value cuts such as French racks and legs are at their highest level in several years.

# LAMB & WOOL

The market strength in both traditional markets and Asia combined with the relatively low New Zealand dollar has allowed meat processors to deliver relatively bullish forecast prices for the season ahead.

## BREXIT RISK REMAINS

A disorderly Brexit remains a key risk for the lamb market. The clock is ticking towards the 31 October deadline and there is not much more certainty about how this process may occur than there was six months ago.

All options remain on the table, including pushing out the Brexit date, a no-deal Brexit on October 31, or Brexit being delivered, with a deal, on October 31. Boris Johnson's power has been eroded recently with Parliament being recalled and a decrease in his support base in the house. Therefore the likelihood of a no-deal Brexit occurring has now decreased, but it still can't be ruled out.

A no-deal Brexit would cause the greatest disruption to lamb markets as lamb would no longer be able to be freely moved between the UK and EU member countries.

The number of lambs being processed in the UK is tracking ahead of normal. This is due to good growing conditions earlier in their spring and summer, combined with an incentive to finish lambs prior to Brexit in order to minimise potential disruptions.

The surge in early-season processing in the UK means the volume of lambs currently being processed has eased. This has coincided with a lift in demand for imported lamb. Exporters are reporting renewed interest in New Zealand lamb from UK buyers after a long period of lacklustre demand.

## WOOL

There is little positive news in the wool industry. Prices continue to retreat with coarse wool prices about 10% weaker than a year ago.

Demand from Asian buyers is weak as supply chains remain full in China. Bales are still being shipped out of New Zealand at normal rates but are now building in market. There are also heavy volumes of processed wool and finished goods in China.

Buying from India has improved as this market tends to buy more when prices are low.

Mid-micron wool continues to be in demand.

Finer, merino grade wool experienced a price correction a couple of months back, but prices are still at the upper end of the historic price range. Prices for this grade of wool are currently volatile and likely to remain this way for some time yet.

### STRONG WOOL (>35 MICRON)


Source: ANZ Research, NZWSI, PGG Wrightson

# BEEF

## CHINA UNDERPINS BEEF PRICES

Beef continues to benefit from the swine flu disrupting China's pork industry. China has now become our largest trading partner for beef, reducing our reliance on the United States.

The strong demand from China is underpinning prices at the market and processor level. Prices for store stock are aligned with year-ago levels, with demand starting to take off in areas where pasture production is getting ahead of demand.

The number of cattle processed in the 2018-19 season (up to the end of August) was up 0.7% on the same time the previous season. Steer and heifer slaughter is up 4% and 3% respectively but cow numbers are back 3% with a sharp fall in North Island numbers. Bull processing is up 2% with a strong lift in South Island numbers offsetting a small fall in North Island numbers.

Early-season data shows a fall in the number of bobby calves processed, indicating there may be more calves available for rearing. Markets for four-day calves have been a little weaker than in previous years, although early dairy-beef crossbred calves with good biosecurity records attracted a premium.

With beef cattle values remaining strong there is still demand for dairy cross calves.

The store markets are delivering variable returns at present but prices in general are on par with year-ago levels. Good quality older cattle are in demand as pasture production is poised to take off. Poorer quality cattle are harder to move..

## GOOD PRICES AT THE WORKS

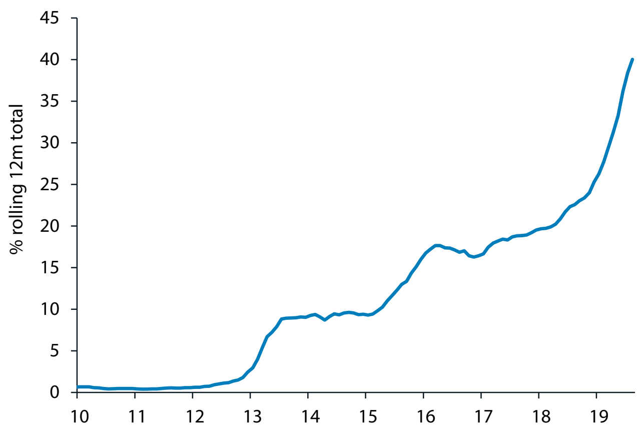
Schedule prices for all classes of beef are just shy of record levels. Local trade heifers and steers are priced near $6/kg CW with North Island prices slightly stronger than what is being offered in the South Island.

Prices for manufacturing grade beef are also strong, with prices for cows and bulls just shy of the levels achieved in the winter of 2015. Good demand from China is supporting manufacturing prices.

## RECORD IN-MARKET PRICES

Manufacturing grade imported bull and cow meat is trading at record prices in the US market. Prices have remained strong throughout the winter months as US buyers have had to compete with demand from Chinese buyers. This is not a situation which the US buyers are used to, as traditionally they have been the dominant buyers. In recent months China has imported more beef from New Zealand than the US has.

### PROPORTION OF NZ BEEF EXPORTS GOING TO CHINA




Source: Statistics NZ

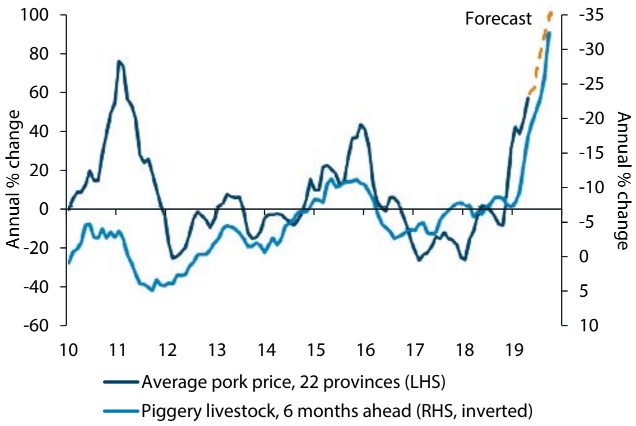
The low New Zealand dollar means these prices are even greater in our local currency terms; hence the strong prices on offer by processors at present.

The steady lift in demand for beef from China is due to the protein shortage in this market due to African Swine Flu decimating their pork industry. Swine flu is rampant

# BEEF

not only in China, but also Russia, Eastern Europe, and other parts of Asia. The disease has been present in eastern European countries such as Romania and Bulgaria for at least a decade.

### CHINA PORK PRICES AND PIG NUMBERS




Source: Wind, ANZ Research

Pork prices in China have already risen 50% due to the shortage in product, which means the price premium for beef (and lamb) over pork has decreased. This price movement, plus the reduction in pork availability, is fuelling the demand for imported beef. New Zealand is supplying only a small proportion of the beef being consumed in China and an even tinier proportion of the total protein consumed. So there is plenty of upside potential but prices for beef are unlikely to lift a great deal further from their current elevated levels as some price resistance is now being encountered.


## SLIGHT SOFTENING IN RETURNS

Venison schedule prices are more subdued than last year but remain well above historical levels. The prices being obtained in the main European markets are slightly weaker than last year when they reached lofty levels. The easing of in-market prices is reflected in the current schedule and contract prices.

Velvet returns remain strong but are expected to be slightly down on last season as it becomes difficult to maintain the very high prices from last season as export volumes lift.

The venison schedule price this year is expected to peak in late October as it traditionally does. In the past few seasons the schedule has been relatively flat, with returns still strong in the later part of the production season. This has encouraged a later kill pattern, which has allowed stock to grow out to heavier weights and also allowed for a cut of velvet from the spikers prior to slaughter.

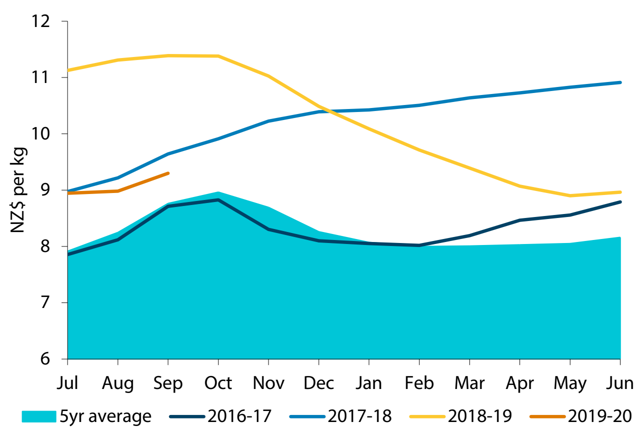
However, this season exporters are looking to incentivise early-season production in order to have sufficient chilled product available to meet demand from the lucrative Christmas markets. To reach market in time for Christmas stock will need to be processed by the end of October and shipped soon after, although some product may be air freighted at a later date if there is sufficient demand.

Schedule prices are currently sitting at about $9.50/kg CW for young stags, although price for contracted supply for current delivery is above $10. Contracted prices then progressively decrease with prices easing back to $8.50/kg CW for slaughter in early 2020. Schedule prices are expected to follow a similar pattern to the contract prices

Schedule price are currently nearly $2/kg CW weaker than a year ago, but are still nearly $1 above the five year average.

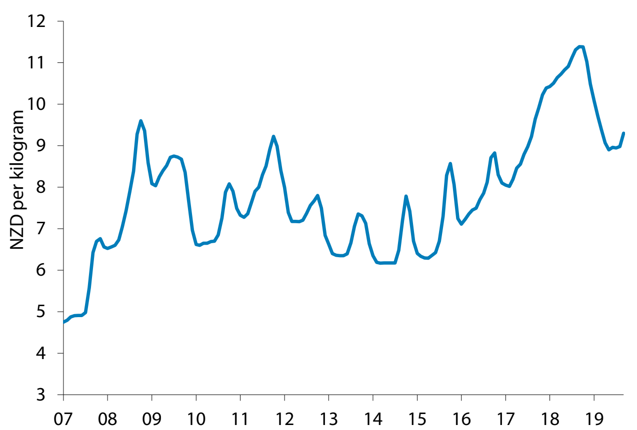
In-market prices have eased back a little. Economic woes in Germany, our largest market, are expected to impact the price paid for venison at both the restaurant and supermarket level. There is still some frozen stock sitting in Germany left over from last season, which will also limit demand. Demand for venison from the UK market has all but dissolved as Brexit concerns steer importers away from niche high-end products such as venison.

### FARMGATE RETURNS 60 KG STAG




Source: ANZ Research, AgriHQ

### FARMGATE RETURNS 60KG STAG




Source: ANZ Research, AgriHQ

# DEER

The Brexit concerns for venison don't relate to potential tariffs but rather just general economic and logistical concerns. The UK market has only ever been a very small market for venison; however, trouble would still leave the industry with more volume to move into alternative markets.

Asian markets for co-products remain strong, but demand from the pet food industry has waned due to the high price points reached last year.

## VELVET RETURNS

Velvet returns remain elevated but prices this season at both the market and farm levels are expected to be marginally down on last season. Volume continues to grow, driven by the high returns for velvet in recent years and strong productivity gains, which mean considerably more velvet is being cut from each stag.

The high-end health market in Korea now accounts for about a quarter of total velvet sales. This market is very stable and is not impacted by economic conditions.

The rest of the velvet tends to be more dependent on relationships with traders. This market is more sensitive to changes in supply and demand conditions. As the New Zealand industry grows it becomes increasingly difficult to extract exceptionally high returns for all product. Therefore a slight easing in velvet prices at the farmgate level is anticipated this season. However, the industry still remains extremely profitable.

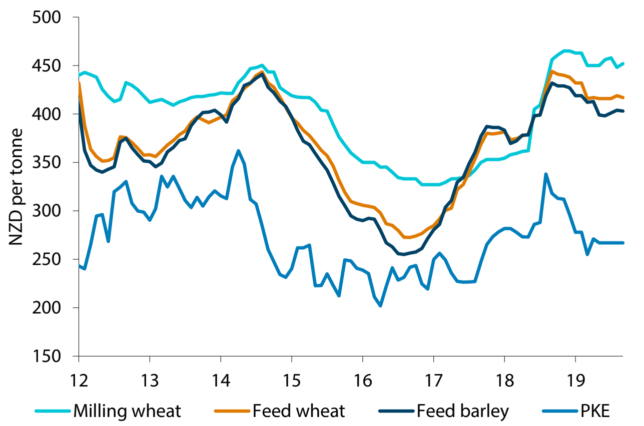
# GRAIN

## ARABLE PRICES STABLE

Cereal prices are relatively stable at present at a level favourable for growers. Winter crops are in good condition. Planting of spring crops is well underway but some planting has been slightly delayed due to wet conditions underfoot.

Grain prices are relatively stable at present. Feed wheat and barley continue to trade near $400/t on the spot market, though pricing does vary based on quality. Last season's harvest was variable, resulting in a wide range in the quality of the feed grain harvested and a wide range of pricing.

### NZ GRAIN PRICES




Source: AgriHQ

## NEW SEASON CROPS

Milling wheat contracts for the 2020 harvest generally range in price from $430-$450/t. The current spot price for milling wheat is slightly higher.

Feed wheat is being contracted near the $400/t level, a price at which most growers can generate a reasonable return.

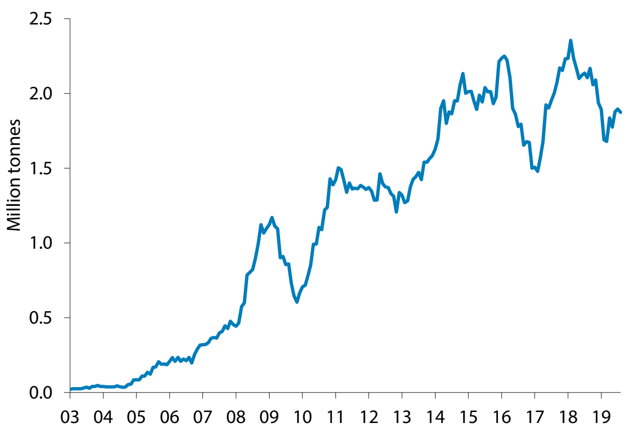
Planting of most crops is well underway, although wet soils means there has been inconsistent access onto paddocks, which has been frustrating for both growers and contractors.

Winter crops – planted in the autumn – are in good condition due to the relatively mild winter boosting growth rates.

## TREND AWAY FROM PALM KERNEL

Demand for palm kernel expanded rapidly in line with general growth in the dairy industry, but now its use is starting to wane.

### PKE IMPORT VOLUMES ROLLING 12 MONTH AVERAGE

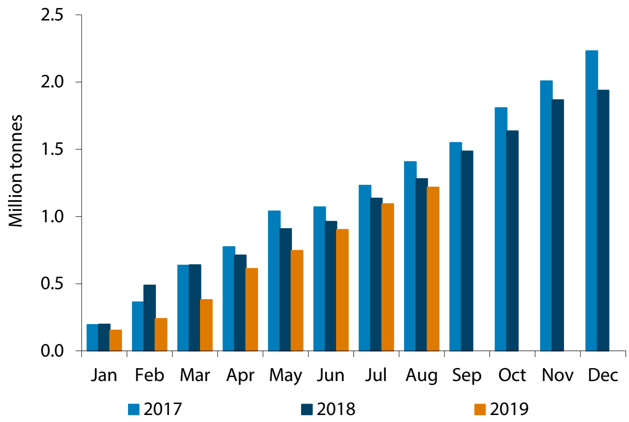



Source: AgriHQ

Import data shows the quantity of palm kernel imported in recent years has decreased. However, palm kernel remains the 'go to' feed for many dairy farmers (and some deer and beef farmers) to plug short-term gaps in pasture production. This is due to the relatively low price point, how easy it is to purchase at short notice, and the limited equipment needed to store and feed it.

# GRAINS

## PKE IMPORT VOLUMES – CUMULATIVE




Source: Statistics NZ

The trend away from palm kernel is being driven in the short term by incentives and disincentives from processors. The fall in demand for palm kernel hasn't had any positive impact on demand for locally grown grains, but there has been an increase in demand for distillers dried grains (DDGS), typically imported from the US or Australia. In the longer term, the reduction in stocking rates as a result of tighter regulations for nitrogen and phosphate emissions is expected to decrease the overall demand for supplementary feed. Lower stocking rates will make it more challenging to manage pasture surpluses during the peak growing season, which is likely to increase the amount of grass silage harvested on-farm.

# FORESTRY

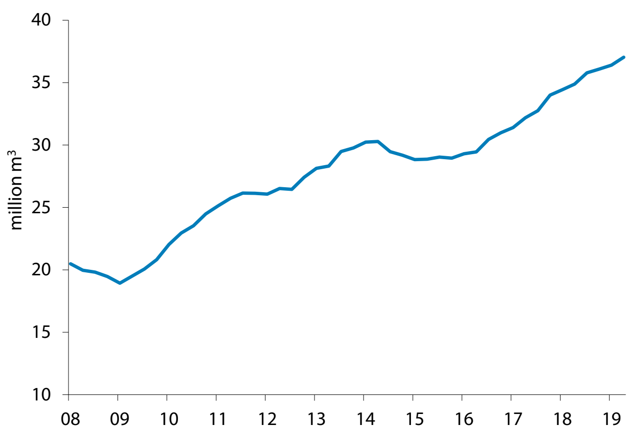
## HARVESTING ACTIVITY SLOWS

Felling activity has slowed following the fall in export prices back in June. Up to 25% of harvesting crews are reported to be without work. In-market prices are gradually recovering while domestic prices are tending to ease now that they are no longer being underpinned by strong export prices.

The sudden drop in export log prices that occurred late in June resulted in a decrease in harvesting activity. As many as 25% of harvest crews are currently without work as small woodlot owners look to delay felling until market conditions improve. The rate of felling won't have decreased by as much as the fall in employment, due to harvesting of the larger forests continuing at planned rates. The large forestry blocks tend to operate more productive harvesting regimes than those harvesting smaller plots, and the more productive crews remain in work, while less-productive crews have been dropped.

The decrease in harvesting is expected to be in the range of 10-20%. But this decrease comes off a high base as harvest activity has lifted considerably in recent years.

### ROUNDWOOD REMOVALS – ANNUAL RATE TO JUNE 2019




Source: MPI

During Q2 2019 the annual harvest rate was running at 37 million $m^3$, 16% higher than the five year average.

In-market prices for China are gradually recovering, with logs now trading around the USD114/JAS$m^3$ level. Prices are expected to continue to track upward, although how quickly prices will lift from here on remains debatable.

### LOG PRICE (UNPRUNED A GRADE)


Source: AgriHQ

The lift in returns to exporters has also been supported by the weaker NZD. Both the NZD and the Chinese renminbi (CNY) have lost value against the USD but the NZD has fallen by a greater extent.

Supplies of logs on Chinese wharves are decreasing, which is a positive sign for the industry. Uptake rates off the wharves have lifted seasonally as construction activity starts to increase again. The rate of uptake is at levels considered normal, so there is no current concern about end-user demand.

However, stocks of lumber in China remain high, and this will keep demand for New Zealand logs subdued in coming months. Lumber prices in China have continued to ease, which means supply of product from Europe is no longer profitable, but supply of logs from Russia remains feasible at current price levels.

# FORESTRY

## HIGHER SHIPPING COSTS TO COME

One concern for New Zealand exporters is shipping rates. Freight rates have increased and are expected to increase further as tightening environmental regulation increases the cost of operating ships and also decreases the availability of ships.

The cost of shipping logs from New Zealand to China has ranged from 23-30/JASm$^3$ over the past couple of years. Shipping prices are now heading back to the upper end of this range and could go even higher as the new low-sulphur regulations for fuel come into play at the beginning of 2020. The Baltic Dry Index (BDI) has lifted considerably in recent months, although it has eased slightly over the past month. The direction of this index tends to align with freight rates for logs but the BDI tends to be more volatile than the actual cost movements. The general consensus is shipping rates for logs will lift, but by how much is still unknown.

### BALTIC DRY INDEX


Source: Reuters

## DOMESTIC MARKET SUPPORTING PRICES FOR NOW

The prices of logs being used in the NZ domestic market have been relatively stable in recent months but prices are expected to ease as the year progresses. This market has so far been underpinned by strong construction activity in New Zealand. Earlier in the year local mills were forced to match global market prices in order to secure supply. However, now that the global market prices have eased, this is no longer underpinning prices in the domestic market.

For now, supply constraints and strong building activity have kept prices firm. However, reduced demand from export markets along with risk of a slowing in domestic construction sector activity means some easing in domestic log prices is likely.

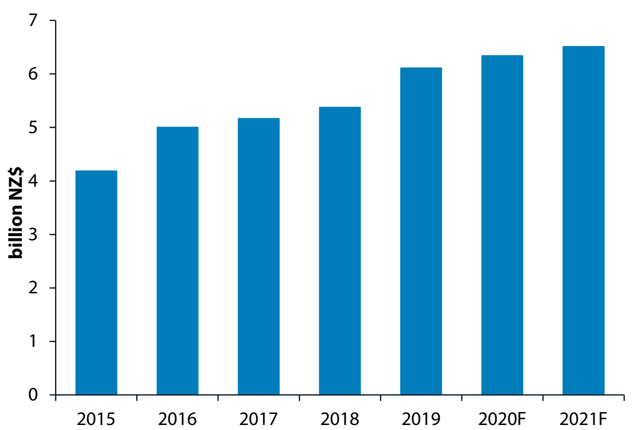
Building permit approvals remain at elevated levels, but the recent demise of several construction firms has reduced market confidence and speculative building activity is declining. Economic activity is forecast to ease further and so far the low interest rate environment has not spurred along construction activity. House price inflation is falling, which has eased the urgency for first home buyers to enter the housing market. Underlying demand for housing remains strong, particularly at the lower end of the market. However, buyers are more price sensitive and less desperate to secure a property.


## HORTICULTURE SECTOR RETURNS LIFT

The horticulture industry continues to attract attention from investors and strong growth is occurring in a number of sectors. Growth in output, combined with favourable prices, is expected to result in higher export returns from the horticulture sector in the future.

The Ministry of Primary Industries (MPI) has forecast export returns of $6.3bn in the year to June 2020, which equates to a 4% lift on the returns achieved in the previous year. If achieved, this will potentially lift export returns from horticulture above forestry returns, making it the third-largest primary sector behind dairy, and meat & wool. And this forecast from MPI is relatively conservative, given the sector increased its returns by 19% last year.

### HORTICULTURE SECTOR EXPORT RETURNS – YEAR TO JUNE




Source: MPI, StatsNZ

## WINE: EARLY SEASON FROSTS A CONCERN

The new grape-growing season is just getting underway. Early varieties are now budding, which is causing some concern due to the recent cold snap. The later varieties, including the main Marlborough Sauvignon Blanc crop, are yet to bud so as yet there is no major risk to overall returns from the sector. But production of some of the early varieties may be impacted.

Vineyards have had to fight frost to protect early varieties such as Chardonnay, where small but not insignificant losses have already been reported. Further cold snaps are forecast, which is a concern.

Aside from the frost risk, this season we would expect to see modest growth in production volumes. The area in grapes is relatively stable at present but recent replanting mean yield gains are still occurring as the newer plantings mature.

## APPLES: INDUSTRY POSED FOR GROWTH

Export returns from apples and pears are forecast to increase. In the year to June 2019 apples and pears export returns exceeded $800m. MPI forecasts this revenue will continue to increase and exceed $1bn by 2023.

Investment interest in apple orchard is very strong at present. More land is being dedicated to apples in the main apple-growing regions of Hawke's Bay and Nelson. We are yet to see significant expansion of apples in other regions but there is potential for this to occur.

Prices for traditional varieties, such as Braeburn, have recently eased in the European markets. This has generally been balanced out by better returns from the Asian markets, where demand for apples has been strong in recent years. This market particularly favours the sweeter varieties.

# HORTICULTURE

## KIWIFRUIT: YIELDS VARIABLE BUT GENERALLY DOWN

The kiwifruit harvesting season is complete. While most fruit is already in export markets there is still a lot of fruit either in transit or awaiting shipment. The remaining fruit will make its way out of the pack-houses and onto ships over the next month or so.

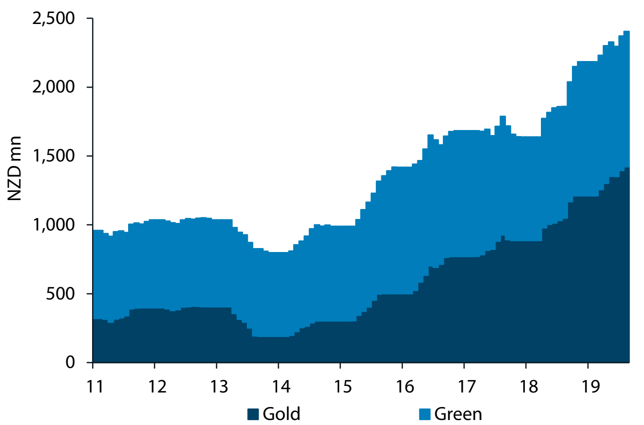
Yields have generally been down this year for green varieties and slightly back for gold varieties. However, there have been large variances in yields between individual orchards, indicating opportunities to lift yields with improved management practices.

Sales for green kiwifruit have been a tad slow this season and there is actually less unsold volume at present than at the same time last season. Smaller-sized fruit are more challenging to market due to consumer preferences for larger fruit.

Sales of SunGold fruit are tracking ahead of last season with 85% of the crop sold as at mid-September.

Kiwifruit grown in the Northern Hemisphere is just starting to hit markets. China is exporting a red variety into some of the markets which New Zealand operates in such as Singapore and Vietnam and also into other markets like Canada.

### NZ KIWIFRUIT EXPORTS




Source: Statistics NZ, ANZ Research

Despite the slight decrease in yields orchard gate returns are still high. SunGold is returning about $150,000 per canopy hectare (ha) while returns for green varieties remain healthy at approximately $65,000 per ha.

Zespri's share price has continued to rise in recent months. In early October it was priced at $8.90. Zespri now has a market capitalisation of just over $1.63bn.

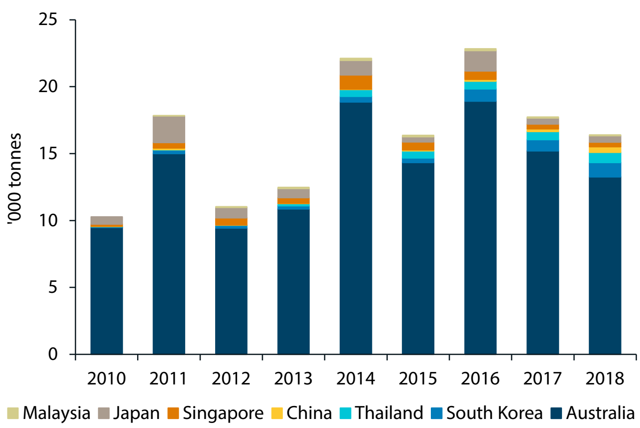
## AVOCADO: POPULARITY CONTINUES TO GROW

As avocado consumption around the globe continues to increase, keeping up with demand is one of the challenges for the industry. Avocado trees tend to produce a lot of fruit one year and very little the next. This irregularity of fruit-bearing makes it challenging to consistently supply markets.

The New Zealand avocado production season is in full swing and there is no shortage of fruit in New Zealand at present. But shortages are being reported in Europe due to less fruit being supplied from South America. Europe is the world's second-largest consumption region for avocado, behind the US. Latin America accounts for 70% of global avocado production.

New Zealand remains a relatively small player in the global avocado market, relying mainly on exports to Australia and our local market. South Korea and China are markets our exporters are focusing on growing.

### AVOCADO EXPORT VOLUMES




Source: MPI

# RURAL PROPERTY MARKET

## DAIRY DEMAND WEAK

Winter is generally a quiet time of the season for farm sales and this year is no exception. In this low volume environment it is difficult to ascertain exact price levels but it is clear that dairy farms are continuing to lose value.

## FARM SALES SLOW IN THE WINTER MONTHS

The number of rural properties changing hands in the three months to August 2019 was less than the same time last year. This year just 265 farm sales were agreed during this period, compared to 323 last year. Property sales tend to be low during the winter months due to the strong seasonality in the pattern of dairy farm sales, as most of these farms actually change ownership on June 1 each year.

Low numbers of dairy farms changing hands accounted for most of the slowdown, but there were also fewer grazing, finishing and arable farms sold.

Uncertainty surrounding the impact of environmental policies such as the recent NPS on Freshwater Management has been blamed for the slow rural property market.

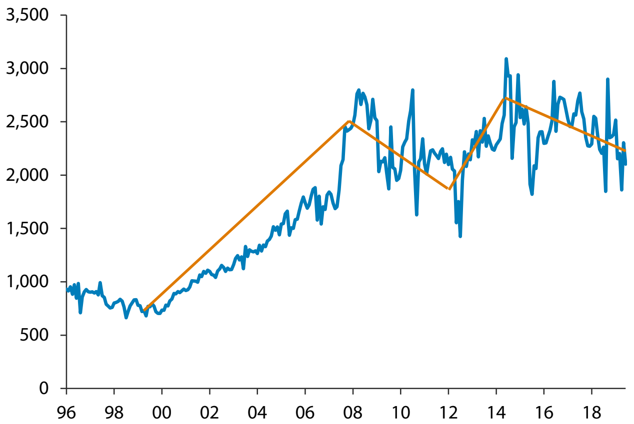
## DAIRY FARM VALUES EASING

The median sale price of dairy farms sold in the three months to August was $29,740 per hectare (ha). This was 4.6% less than the per ha value of properties traded at the same time the previous year.

The limited volume of properties traded means it is difficult to define the exact reduction in dairy land value more generally, but there is no doubt that properties values are easing.

The REINZ Dairy Farm Price Index continues to display high levels of volatility from month to month. The index is designed to account for differences in farm size and location. These differences are not accounted for in the median sale.

### DAIRY PRICE INDEX



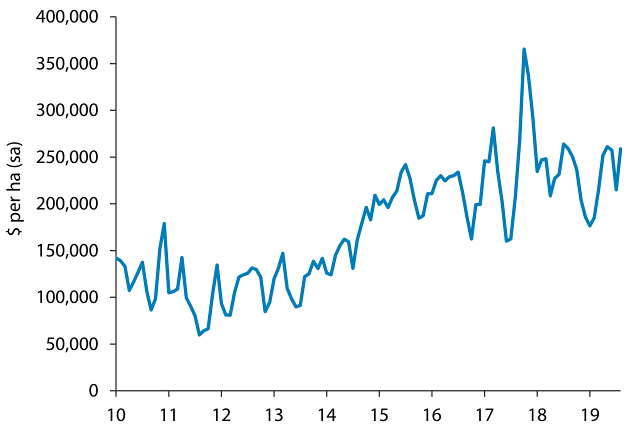

Source: REINZ

Dairy land values have generally trended down after peaking in 2015. In the past year the Dairy Farm Price Index has eased by 4.5%.

## HORTICULTURE SUPPORTING PRICES

Strong demand for horticulture properties is helping support overall values, but the quantity of land being used for horticulture relative to other land uses remains small.

### HORTICULTURE MEDIAN SALES PRICE




Source: 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) | 2,104 | 2,303 | 2,204 | ↓ | ↓ |
| | Median Price | 1,791 | 1,893 | 1,655 | ↓ | ↑ |
| All farms | Median Price (per ha) | 2,470 | 2,398 | 1,927 | ↑ | ↑ |
| | Median Price | 3,934 | 3,862 | 3,774 | ↑ | ↑ |

Source: REINZ

# RURAL PROPERTY MARKET

The number of horticultural properties changing hands in the past year has been consistently higher than the number of dairy farms sold. During the peak demand for dairy properties back in 2013, the number of dairy farms changing hands was three times that of horticulture properties.

The buoyancy in the horticulture sector, along with strong returns for the sheep and beef sector, are underpinning overall rural property values.

The REINZ All Farm Price Index has lifted in the latest three month period. Both the median price and the median price per ha has increased.

## ALL FARM PRICE INDEX


Source: REINZ

# ECONOMIC OVERVIEW

## GLOBAL ECONOMY WEAKENS

Global economic growth remains soft with geopolitical and trade tensions damaging confidence. For the New Zealand economy there is more weakness to come over the rest of the year, which is why we see the need for three further cuts to the official cash rate between November and May.

Trade tensions between China and the United States show no clear signs of letting up. Trade deal negotiations are continuing so we are not yet at 'stale mate' but there is little hope of a deal being concluded any time soon. For New Zealand, the main fallout from these trade tensions is not so much the direct impact on global trade but the negative implications for business sentiment. But it's not just here; business confidence continues to wane across most major economies. This is particularly noticeable in the manufacturing sector. Consumer confidence remains elevated – for now – and this is helping to keep the wheels turning in most economies.

Inflation is running at very low rates in most countries, which means central banks risk missing inflation targets unless they are able to find ways to stimulate their economies. But with firms and consumers in deleveraging mode in many countries, this is proving challenging. Despite the concerns, economic growth is picked to improve next year with global GDP expected to lift from 3.2% in 2019 to 3.5% in 2020. However, economic conditions in both China and NZ are expected to deteriorate further next year.

## INTEREST RATES POISED TO FALL FURTHER

Interest rates are already at very low levels in many countries. Central banks therefore have limited ammunition when it comes to cutting official cash rates, and will want to use this monetary policy tool strategically. A movement in the overnight policy rate doesn't automatically mean a similar movement in interest rates for deposits or loans. Longer-term wholesale interest rates often move differently. Also, banks fund themselves from a variety of sources and competition between banks also plays a role in interest rate decisions. New Zealand banks must fund a certain portion of their borrowing from local deposits. Although cuts in the OCR are forecast, banks may need to hold deposit rates at higher levels so that they can attract sufficient deposits to meet regulatory requirements. This would put offsetting upward pressure on lending rates, all else equal. We expect the Reserve Bank to cut the OCR in November, then again in February and May 2020. This would reduce the OCR rate to just 0.25%.

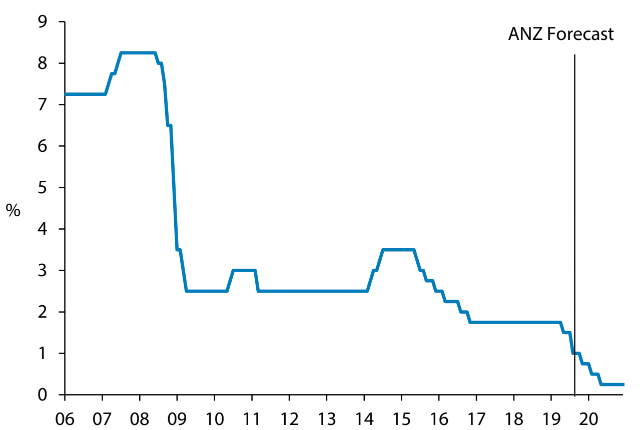
## NZD TO TREND DOWN FURTHER

The NZD has trended down in the past couple of months. Our currency tends to weaken during periods of global economic uncertainty, but this downward trend was encouraged further by the 50 basis point cut in the OCR in August. A rate cut in August was widely anticipated but the market was only expecting -25bp.

Further easing of the NZD is expected as the year progresses. The weak global outlook combined with further OCR cuts together are expected to keep downward pressure on the currency. Interest rate levels in New Zealand relative to other countries also impact the demand for our currency, meaning interest rate cuts overseas put pressure on the RBNZ to follow suit, to avoid an unhelpful tightening in monetary conditions via the exchange rate.

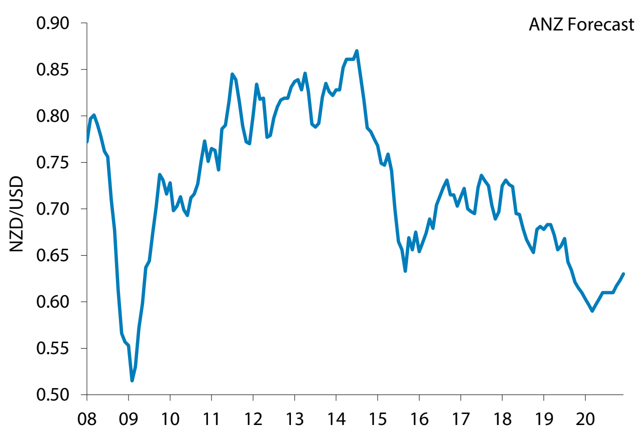
We currently forecast the NZD to fall to USD0.61 by the end of 2019, then ease further to NZD0.59 by the end of Q1 2020 before recovering.

### RBNZ OFFICIAL CASH RATE




Source: RBNZ, ANZ Research

### NZD BUYS USD




Source: ANZ, Bloomberg

# KEY FORECASTS

| FX RATES | ACTUAL | | | FORECAST (END MONTH) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Aug-19 | Sep-19 | 9-Oct | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
| NZD/USD | 0.633 | 0.626 | 0.630 | 0.61 | 0.59 | 0.61 | 0.61 | 0.63 | 0.63 |
| NZD/AUD | 0.940 | 0.927 | 0.936 | 0.94 | 0.89 | 0.90 | 0.88 | 0.90 | 0.90 |
| NZD/EUR | 0.576 | 0.574 | 0.575 | 0.56 | 0.56 | 0.58 | 0.58 | 0.58 | 0.58 |
| NZD/JPY | 67.25 | 67.68 | 67.46 | 65.9 | 62.0 | 64.1 | 64.1 | 66.2 | 66.2 |
| NZD/GBP | 0.521 | 0.509 | 0.515 | 0.50 | 0.49 | 0.50 | 0.50 | 0.50 | 0.50 |
| NZ TWI | 68.7 | 68.2 | 70.60 | 67.2 | 64.9 | 66.8 | 66.6 | 67.9 | 67.9 |

| INTEREST RATES | ACTUAL | | | FORECAST (END MONTH) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Aug-19 | Sep-19 | 9-Oct | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
| NZ OCR | 1.00 | 1.00 | 1.00 | 0.75 | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 |
| NZ 90 day bill | 1.19 | 1.15 | 1.04 | 0.92 | 0.67 | 0.50 | 0.50 | 0.50 | 0.50 |
| NZ 10-yr bond | 1.06 | 1.09 | 1.00 | 0.90 | 1.00 | 1.25 | 1.25 | 1.20 | 1.45 |
| US Fed Funds | 2.25 | 2.00 | 2.00 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| US 3-mth | 2.14 | 2.10 | 2.01 | 2.15 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 |
| AU Cash Rate | 1.00 | 1.00 | 0.75 | 0.75 | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 |
| AU 3-mth | 0.97 | 0.95 | 0.84 | 0.95 | 0.70 | 0.45 | 0.45 | 0.45 | 0.45 |

| ECONOMIC INDICATORS | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 |
|---|---|---|---|---|---|---|---|---|---|
| GDP (% q/q) | 0.5 | **0.4** | **0.5** | **0.5** | **0.5** | **0.6** | **0.5** | **0.6** | **0.6** |
| GDP (% y/y) | 2.1 | **2.2** | **2.0** | **1.9** | **1.9** | **2.1** | **2.1** | **2.2** | **2.3** |
| CPI (% q/q) | 0.6 | **0.7** | **0.1** | **0.6** | **0.4** | **0.5** | **0.2** | **0.6** | **0.5** |
| CPI (% y/y) | 1.7 | **1.5** | **1.5** | **1.9** | **1.7** | **1.5** | **1.6** | **1.6** | **1.7** |
| LCI Wages (% q/q) | 0.8 | **0.6** | **0.6** | **0.4** | **0.8** | **0.6** | **0.6** | **0.4** | **0.8** |
| LCI Wages (% y/y) | 2.2 | **2.3** | **2.3** | **2.4** | **2.3** | **2.3** | **2.3** | **2.4** | **2.4** |
| Employment (% q/q) | 0.8 | **0.3** | **0.3** | **0.3** | **0.3** | **0.3** | **0.3** | **0.3** | **0.3** |
| Employment (% y/y) | 1.7 | **1.0** | **1.3** | **1.7** | **1.2** | **1.2** | **1.3** | **1.3** | **1.3** |
| Unemployment Rate (% sa) | 3.9 | **4.1** | **4.3** | **4.4** | **4.4** | **4.5** | **4.5** | **4.5** | **4.5** |
| Current Account (% GDP) | -3.4 | **-3.4** | **-3.4** | **-3.5** | **-3.7** | **-3.8** | **-3.9** | **-4.0** | **-4.0** |
| Terms of Trade (% q/q) | 1.6 | **0.4** | **-0.1** | **0.3** | **0.0** | **0.0** | **0.1** | **0.1** | **0.1** |
| Terms of Trade (% y/y) | -0.8 | **-0.3** | **2.9** | **2.2** | **0.6** | **0.2** | **0.4** | **0.1** | **0.3** |

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

# IMPORTANT NOTICE

**This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.**

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

**Disclaimer for all jurisdictions:** This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

**Country/region specific information:** Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

**Australia.** ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

**Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan.** This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

**Cambodia.** This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

**European Economic Area (EEA): United Kingdom.** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

**Fiji.** For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

**Hong Kong.** This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

**India.** If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

**Myanmar.** This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

**New Zealand.** This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

**Oman.** ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

**People's Republic of China (PRC).** This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

**Qatar.** This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

**Singapore.** This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

**United Arab Emirates (UAE).** This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (ANZ Representative Office) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

**United States.** Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

**Vietnam.** This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 10, 171 Featherston Street, Wellington 6011, New Zealand, Ph 64-4-382 1992, e-mail nzeconomics@anz.com, http://www.anz.co.nz