ANZ RESEARCH

AGRI FOCUS

FEBRUARY 2020

SUN SETS ON GOLDEN RUN

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: 5 February 2020

The sun is setting on the golden run for our food exports. While the global supply of dairy and meat products is expected to remain constrained, new global risks are now impacting demand.

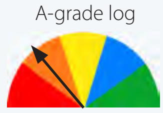
Meat prices eased already late last year as China took its foot off the purchasing accelerator. This coincided with a lift in the volume of livestock being processed in New Zealand, resulting in a sharp drop in schedule prices. This drop has been further accentuated by the spread of the new coronavirus in China, which has now claimed hundreds of lives and disrupted the Chinese New Year holiday plans of millions of citizens. The human impact of the new coronavirus is very worrying and our thoughts are with those affected.

Travel restrictions and an extension to the official Chinese New Year holiday period mean containers of produce and logs are piling up on wharves in China, with chilled storage space is now at a premium within China and also here in New Zealand.

The New Zealand dollar firmed over November and December but a large portion has since retraced, and volatility can be expected. A slightly higher NZD has resulted in a small downward revision to our milk price forecasts. Our current season forecast is now aligned with Fonterra's at $7.15/kg MS (previously $7.45), while our 2020-21 forecast has been revised down to $7.10/kg MS (previously $7.60), on the back of lower dairy prices, with prices at the latest GDT auction falling 4.7%.

Farm sales remain subdued; the number of farms on offer well exceeds the number of interested buyers, putting downward pressure on land values in some regions. Financial resilience at the farm business level is now a core focus and in many cases this is being strengthened by a greater focus on debt repayments. A close watch on costs on the part of dairy farmers is helping to build profit margins, but is hindering the arable sector as demand for supplementary feed has decreased. The quality of grain produced this season is expected to be high as growing conditions have generally been very favourable.

Milk output is not expected to match the level achieved last season. Soils continue to dry out, meaning the gains made in the early part of the season are expected to be lost though the late summer and autumn.

Prices at farm/orchard level relative to 10yr average		
Dairy	Dairy prices have firmed as expected but so has the NZ dollar. Global risks are elevated. We have cut our milk price forecast to $7.15/kg MS for the current season and to $7.10/kg MS for next season.	Milk price Low  High
Sheep	Prices for lamb and mutton have eased from record levels but prices at the farmgate level still remain ahead of where they were a year ago.	19kg lamb Low  High
Beef	Beef prices have corrected sharply as buying from China eased at the same time as supply from NZ lifted. Prices are still strong in historic terms but uncertainty is high.	Prime steer Low  High
Forestry	Log prices have stabilised in recent months and are expected to remain near current low levels. Global markets remain oversupplied and domestic demand has not been sufficient to make up the shortfall.	A-grade log Low  High

DAIRY

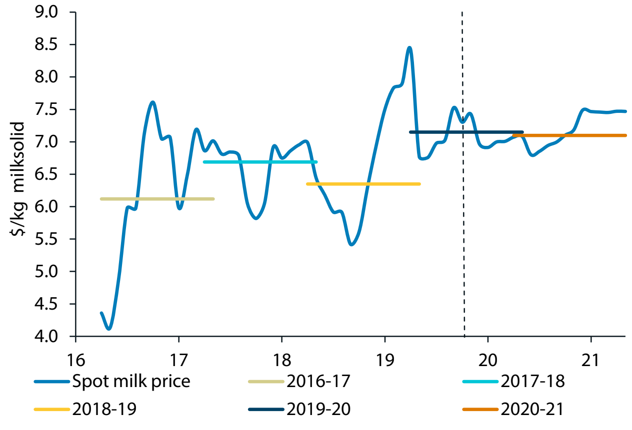
RISING RISKS

Global dairy markets have softened as the uncertainties associated with the outbreak of coronavirus weighs on the market. This has put a dampener on milk prices and broader commodity prices alike. Meanwhile closer to home the most immediate threat is the impeding drought.

Our milk price forecast for the current season has been revised down to $7.15/kg MS from our previous forecast of $7.45/kg MS. Likewise our forecast for next season (2020-21) has been revised down 50c to $7.10/kg MS. This was due to the NZD firming over the past couple of months combined with a weaker market outlook for commodity prices as coronavirus weighs on market sentiment.

Our revised forecast for the 2019-20 season is now below the mid-point of Fonterra's forecast but still within their forecast range of $7.10-$7.60/kg MS, indicating that their relatively conservative stance on the direction of the market was a good call.

FARMGATE MILK PRICES



Source: ANZ Research, GDT

Milk price futures for this season and next have bounced along over the past couple of months before easing sharply in the past fortnight as the seriousness of the coronavirus outbreak became apparent. Open positions in next season's contract have started to build as farmers mitigate future revenue risks.

Dairy commodity prices are generally expected to remain above the long-run average so long as global supply remains constrained, but this will depend how global demand holds up in the coming months. Milk production growth rates are modest in all of the main dairy-exporting nations, meaning there is not an abundance of surplus dairy products to export.

The greatest current risk to international prices is the novel coronavirus outbreak in China. China is by far the largest importer of dairy products, so any change in demand from China directly influences prices – particularly the price of whole milk powder.

The virus outbreak could not have come at a worse time as it coincides with Chinese New Year – a period of celebration with families and feasting together. Foods are often gifted as well, making this a massive consumption period for luxury goods, which includes New Zealand fruits, meats and dairy products. The virus outbreak has curtailed travel and discouraged public outings, including reducing restaurant dining. Even home deliveries of food has decreased due to the perceived risk that delivery staff may be spreading the disease.

Food service is a major channel for dairy products with dairy ingredients such as mozzarella, cream cheese, and butter mainly being sold into the restaurant trade. Dairy products tend to be a luxury good in China rather than a food staple like in New Zealand, meaning any reduction in the number of meals taken at restaurants will flow on to reduced demand for imported dairy products.

DAIRY

The coronavirus outbreak may have a larger impact on China's economy than the US-China trade war, but the impact is difficult to quantify at this time. It will most certainly have a greater impact on New Zealand dairy market than the trade war did.

Let alone accurately predicting the impact, it may be difficult to even estimate in real time exactly how demand for dairy imports is being impacted by the virus, as it is normal to see a reduction in import demand over Q1. That's because Chinese importers tend to stock up in January, ahead of Chinese New Year, when tariff rates are lower.

As part of the NZ-China free trade agreement a specified quantity of dairy products is can be imported at a reduced tariff rate. The standard tariff rate is 10%, but in 2020 170,606t of milk powders can enter China at a nil tariff. In the past 12 months New Zealand exported more than 830,000t of milk powder to China, so the majority of the milk powder going to China does incur the higher tariff rate.

US DAIRY PRODUCTS UNLIKELY TO REPLACE NZ SUPPLY

New Zealand's exports of dairy products to China are not expected to be displaced by US products as a result of China agreeing to buy more agricultural products from the US. At present the US mainly supplies China with whey-based products, which are primarily used to feed pigs.

The US doesn't produce much whole milk powder (WMP) and it tends to have limited quantities of skim milk powder (SMP) suitable for high-end applications. The primary dairy export from the US is non-fat dry milk, which, although very similar to SMP, does not have minimum protein levels and therefore can't be used in applications that require these, such as infant formula. That said, SMP is a product where we can expect to see some direct competition from the US with over time.

Cheese is another product of which the US is a major producer and therefore over time it is likely that we will see additional US cheese entering China. Butter is typically higher priced within the US domestic market than in international markets, however, so there is not a lot of incentive for the US to increase butter exports to China.

Over time it is expected the US will gain a greater share of the Chinese market for imported dairy products, but as the total size of this market is expected to continue to grow, the supply from the US is not likely to displace the volume of dairy products currently supplied by New Zealand. However, there is likely to be more price competition in certain basic commodities such as cheese and SMP.

EXPECT THE UNEXPECTED

Dairy farmers have been taking advantage of current profit margins to prepare their farms for future challenges either by repaying debt or upgrading facilities.

While milk price forecasts currently look rosy, you can be certain they won't always remain favourable. History tells us to expect the unexpected, and the novel coronavirus may just be one of these unforeseeable threats. Hopefully the impact will be short, but it could be sharp. Uncertainty is extreme.

Operating costs have lifted in recent years and are expected to continue to increase, which means profit margins will be very thin at lower milk prices.

Strong cost discipline is needed to allow for financial strengthening of balance sheets via the repayment of principal. Reducing debt is an important consideration for many businesses as they look to improve the financial resilience of their businesses, particularly with land values under downward pressure, potentially reducing equity levels.

MILK OUTPUT SLOWING

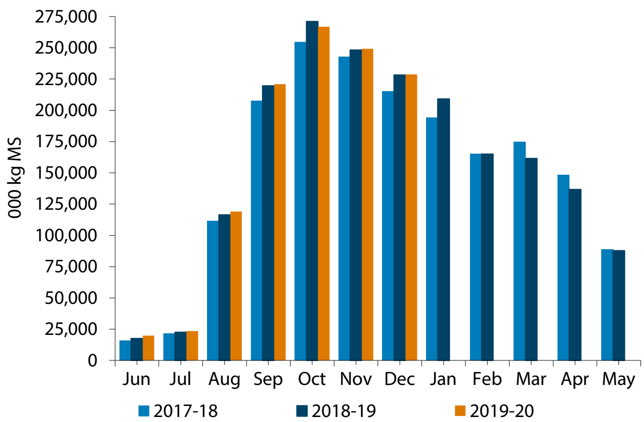
There is downside risk to milk production forecasts for the current season as drought edges its way down the country. While we are yet to see an 'official' drought declared, most of Northland and parts of the Waikato are now extremely dry.

The dry conditions are expected to unwind the gains made in milksolid production in the first half of the season. Milk production was up 0.4% y/y on a milksolid basis from June to December. However, the dry conditions mean summer and autumn production is expected to be curtailed – particularly in the North Island – meaning total output for the season will most likely be about 0.5% less than the previous season.

Drying off a portion of the herd is now becoming a reality for farmers faced with feed shortages. Unfortunately culling cows early is unlikely to be an option this season. At present there is approximately a one month delay in getting stock processed. This bottleneck could grow further if the supply of meat into China is not able to resume soon. With the main culling season due to commence next month farmers need to be prepared to find alternative grazing or supplementary feed for stock if they are not able to reduce feed demand by culling.

DAIRY

NZ MONTHLY MILK PRODUCTION



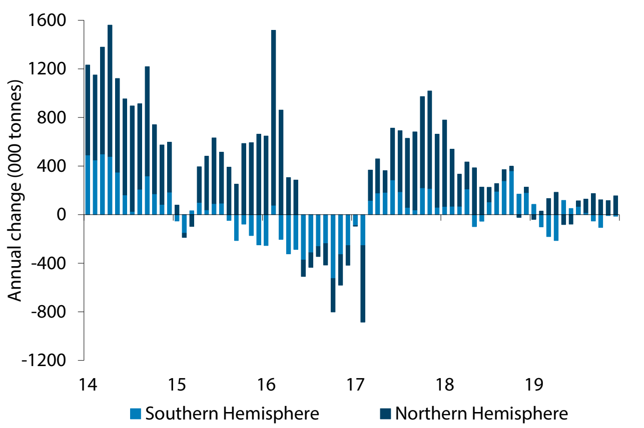
Source: ANZ Research, GDT

Elsewhere in the world milk production growth remains modest. In the US, milk output increased by just 0.3% during 2019 and there is little to suggest growth will be much higher than this in 2020.

In Europe production has increased by 0.6% across the EU28. Like in the US, growth is at a level where domestic consumption can be expected to absorb most of the extra milk available.

Meanwhile in Australia, milk intakes continue to ease as drought-affected regions start to dry off more cows, and as bushfires impact production and milk collection in some regions. Milk intakes have expanded a little in Argentina and Chile, but are contracting in Uruguay and stable in Brazil. This means there is not a lot of growth in output from this region either, but Argentina will export a little more WMP.

MILK SUPPLY – MAIN DAIRY EXPORTING COUNTRIES



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

Milk production is expanding in Russia, following years of falling output, while intakes are also expected to rise in India. But domestic demand is expected to grow just as quickly as supply increases. China's milk production is hard to accurately judge, but there is little to suggest their domestic production will expand in the coming years due to the very high costs of producing milk in this country.

Overall supply side factors are favourable for pricing but this may not be sufficient to keep prices afloat should demand weaken considerably

LAMB & WOOL

LAMB PRICES FALL BUT HISTORICALLY HIGH

Lamb prices have dropped sharply in the past couple of months but are still at record levels for this time of the season. A lift in slaughter numbers, weaker prices in certain markets and a slightly stronger NZD are the main drivers of the reduction in farm-gate prices. The novel coronavirus is currently causing major disruption at Chinese ports. It is near impossible to get killing space for mutton and there is a backlog of lambs that isn't likely to clear for another month.

Schedule prices for lamb peaked at $9/kg carcass weight (CW) in late November, but farmers are now being offered about $7.35/kg CW for finished lambs. Despite the sharp fall, prices are still at record levels for this time of the season, though the schedule is expected to fall a lot further in the coming weeks.

LAMB DIVERTED TO ALTERNATIVE MARKETS

Demand from China for virtually all imported products has ground to a halt as the country deals with the logistical challenges brought about by measures to stem the spread of coronavirus. Produce including lamb and mutton is backed up on ports in China. It is normal for some congestion to occur around the Chinese New Year holiday period but this year the congestion is much worse due to: official holidays being extended in many provinces; workers being stranded in other parts of the country; and very little end user demand, meaning stocks have built throughout the supply chain.

Containers are piling up on wharves and cold storage facilities within China are filling up fast, with much less meat being consumed than normal during the festive season and consumers electing to avoid public spaces.

As much lamb as possible is being diverted to alternative markets but since China has been the main market for mutton for a number of years, there are now limited alternative options available for this meat.

LIFT IN PROCESSING DEMAND

The drop in demand from China has coincided with a lift in supply from New Zealand. Dry conditions are prompting farmers to offload lambs to the processors as quickly as possible. The number of lambs processed in the North Island prior to Christmas was down 33,000 head, so there are now even more lambs ready to be processed. Processing space has been tight since late December, and this situation is not expected to change until the quantity of finished lambs eases back. This could happen quite rapidly in some areas as pastures dry out.

Wait times of more than three weeks are normal and this could increase further should processors be forced to cut back on killing capacity, which is a distinct reality given the shortage of cold storage facilities both in New Zealand and in China.

The recent sharp downward correction in schedule prices has also heightened the urgency to get lambs away. As soils dry out in many regions, beating the retreating price schedule by adding more weight to lambs is challenging. A 20c reduction in the weekly schedule would require liveweight gain of more than 1.2kg (or 170g/day) to offset the falling schedule. While this weight gain is feasible if grazing quality leafy pastures or crops, it will be very difficult to achieve on dryland pastures.

NO ROOM FOR CULL EWES

Due to China being out of the market, there is now no market for mutton. And with no market for the product, processors have elected to focus on lamb production leaving the remaining cull ewes lingering on farms.

At this stage it is very uncertain when mutton processing will resume. This is particularly concerning for farms where feed reserves are low.

LAMB & WOOL

MORE COMPETING MEATS

In order to stem food price inflation, in late 2019 China approved access for various meats from numerous sources, sped up approvals for processing plants, and is reported to be taking a more lenient stand on the 'grey-trade' i.e. product being imported through unofficial channels.

While the majority of the extra meat that has recently entered China is beef, pork and chicken, this extra supply was the initial catalyst for lowering the price of mutton and the cheaper lamb cuts.

This additional supply helped offset the reduction in China's domestic pork production caused by the spread of African Swine Fever. The US is reporting that it has developed a vaccine for this disease, going a long way to clearing a path to normalcy for China's domestic pork production, though it will take considerable time to implement.

GLOBAL LAMB SUPPLY LIMITED

In other markets, lamb and mutton prices have also been supported by limited supply due to a decrease in ewe numbers in the main lamb-exporting countries including New Zealand, Australia, and the UK.

Elsewhere in the world, demand for lamb remains robust. Lamb flaps that were previously heading to China are being diverted to the Middle East – once the main market for this cut. The drop in demand from China has seen the price of lamb flaps come back by approximately 45% in the past few months.

European demand for lamb is strong. This is supporting lamb leg pricing, which has lifted slightly in recent weeks. Lamb legs being sold into the UK market are only slightly below record levels when considered in GBP terms. The recent strength in the kiwi has taken the edge off these prices when converted back to NZD.

FEWER BRITISH LAMBS

Farmgate prices for locally produced lambs in the UK and other parts of Europe have firmed recently. The quantity of lambs available for processing in the UK in 2020 is expected to be down 5%. Fewer old-season lambs have been carried into 2020 and a smaller breeding flock is expected to result in fewer lambs being born this season.

The reduced supply, along with a reduction in Brexit concerns, is expected to keep UK demand for imported lamb constant. Brexit officially happened on January 31, with trade arrangements remaining unchanged in the meantime. A trade deal between the UK and the EU is expected to be negotiated before the year end, so there is still potential for trade disruptions later in the year if negotiations don't go smoothly. New Zealand trade negotiators are also looking to secure a deal with the UK and the EU as soon as possible but it's unlikely we will see these agreements made until the UK-EU deal is finalised.

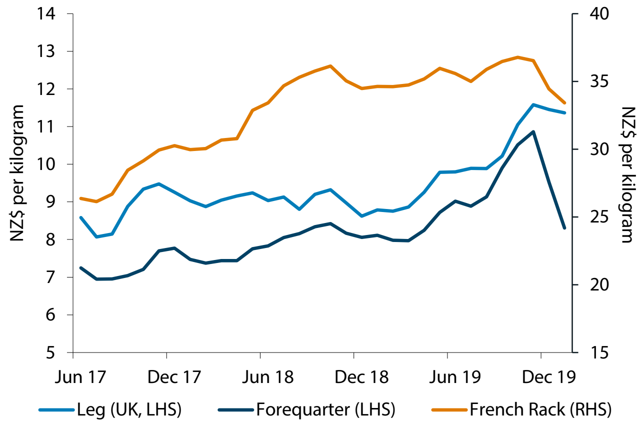
AUSTRALIA BATTLES DROUGHT AND FIRES

The ongoing drought in Australia has hit farming confidence as feed and water sources dry up. The areas affected by the recent fires are major sheep-producing regions containing as much as 12% of Australia's total sheep. While actual losses aren't clear yet, up to 1.5% of animals may have been lost. In addition, finding feed is becoming increasingly challenging. The more significant long-term impact will be whether or not farms are able to recover from this setback.

Lamb export from Australia actually lifted significantly in the final quarter of 2019 despite lower-than-normal lamb slaughter rates during this time. The lift in exports was driven by strength in the Chinese market, which came partially at the expense of the Middle East and US markets. The lift in exports despite no increase in processing volumes indicates stocks of lamb held in Australia – and its traditional lamb markets like the Middle East and the United States – are likely to be lower than normal.

The longer-term outlook for lamb production in Australia has softened as the national sheep flock continues to diminish following recurring droughts. The number of sheep farmed in Australia is expected to decrease by 3% to 64.9 million head this year. This will limit lamb production in the coming seasons, and if farmers choose to rebuild flocks, this will further reduce the number of lambs available for processing.

LAMB CUT PRICES



Source: AgriHQ

LAMB & WOOL

STORE PRICES DROP AWAY

The store market for lambs in New Zealand has eased off as demand from finishers wanes. The lack of feed currently available, combined with the falling schedule prices, means there has been an even greater correction in the price of store lambs. Store lamb prices have dropped by nearly 30% in the past six weeks to now trade at $2.80/kg LW in the North Island, while in the South Island prices are holding up better with $3.40/kg LW the going rate. This price remains above the 5-year average for this time of the season but is about 30-60c/kg LW below year-ago levels. A larger price correction has been seen in the North Island where prices had been more elevated.

REPLACEMENT EWES

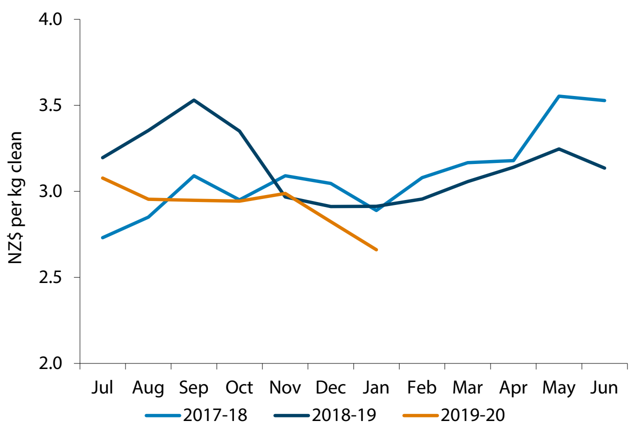
Replacement ewe prices are softer than last year. Quality stock was selling in excess of $200/head at the earlier ewe fairs indicating there is still plenty of confidence in the industry, however, price have eased as the season has progressed and poorer-quality ewes difficult to move. This end of the market had previously been underpinned by the exceptionally strong prices being paid by processors for cull ewes, but this market has now disappeared.

Getting space for cull ewes at the processors is near impossible so we are likely to see a greater number of low-quality ewes coming through the yards.

WOOL REMAINS WEAK

Wool prices remain subdued. This situation has now prevailed for a number of years and there is no indication that this will change in 2020.

STRONG WOOL (>35 MICRON)



Source: Beef & Lamb NZ

Prices have trended down further over the past couple of months with the lift in the NZD not helping. As has been the case for some time, the better-quality wools continue to attract buyers whereas the poorer quality bales are much harder to shift. That said, there are buyers for this wool and pass-in rates have not been excessive at recent auctions. The wool is moving – just at low prices.

STRONG WOOL (>35 MICRON)

Source: ANZ Research, NZWSI, PGG Wrightson

The amount of wool produced in Australia this year has been revised down further as their ewe flock shrinks and fleece weights have been negatively impacted by the recent drought.

Australian wool production is now forecast to fall by 9% across the 2019-20 season, on top of a fall of 12% last season. Despite the reduced volume, not all of this wool is finding its way to international markets. Stocks of wool remaining in growers' possession are increasing, which will delay any improvements in pricing.

Over the longer term, the reduction in the volume of wool being produced in Australia is positive for New Zealand growers, although only the finer grades of New Zealand wool compete directly with Australian wool.

BEEF

RETURNS SOFTEN

Returns for beef have fallen in international markets and this has flowed on to prices processors are paying at the farm-gate, prices being offered at the yards, and prices in the paddock for store stock. Despite this reset in markets, current prices being offered are not low in a historical context.

Beef prices have fallen by approximately 20 to 25% over the past couple of months in international markets. Further easing of prices is expected as more meat is diverted away from China.

In-market prices for manufacturing-grade bull and cow meat were pushed to record levels in late 2019 due to unprecedented demand for beef from China. However, we saw an easing in pricing in the Chinese market ahead of Christmas. This took the pressure off US importers of New Zealand beef, who had been forced to match the prices offered by Chinese importers in order to gain the supply they required.

The reduction in prices offered by Chinese buyers has been influenced by a number of factors, including a directive from central Government. Importers were asked to release any stocks of meat they held into the market in order to boost supply and therefore curb the food price inflation resulting from African Swine Fever.

The early timing of Chinese New Year will have also been a factor. With the country virtually shutting down through this period and an increase in food consumption during these festivities there tends to be strong demand for imported foods in the build-up to the holiday, followed by reduced before buying recommences post-holiday. Therefore it won't be until late February before there is a clearer steer on future demand. As for lamb, consumption of beef this holiday season is expected to have been significantly curtailed by the outbreak of the novel coronavirus, which means there may have been less restaurant meals consumed than normal.

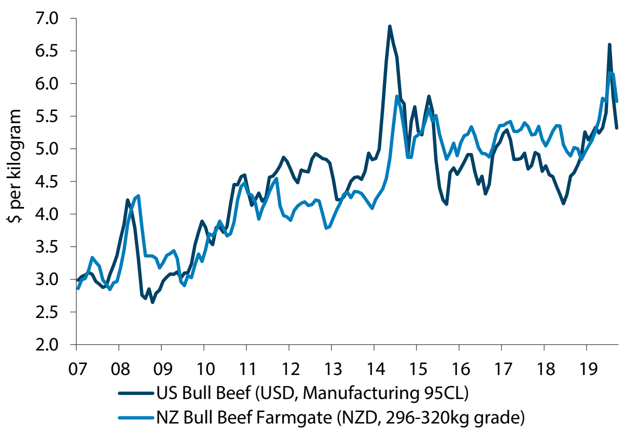
The extension of Chinese New Year and the lack of demand for meat from the restaurant trade means there are unclaimed containers of meat being left on Chinese wharves. This is a major concern given its perishable nature and payment may not be received for this product.

BEEFING UP SUPPLY TO UNITED STATES

As much beef as possible is now being diverted to our traditional market for manufacturing beef, the US. Processors are also trying to limit supply by reducing the throughput of livestock. At present it is near impossible to get killing space for prime stock, and even bulls and cows face hefty delays.

Whether this processing bottleneck will clear before the main cow cull season commences next month is unclear. If conditions remain dry on farm, then this will further accentuate the backlog of stock waiting to be processed.

BULL BEEF RETURNS



Source: AgriHQ

BEEF

US BEEF SUPPLY TO CHINA TO RESUME

In the future it is possible that we will see some US beef entering China, as increasing imports of agricultural products was agreed to under phase 1 of the US-China trade agreement. US beef was shut out of China in 2003 due to the outbreak of BSE (mad-cow disease) in the US. China retained these restrictions for over a decade before finally relaxing imports in mid-2017. However, very little US beef actually entered China before trade tensions escalated and tariffs on US beef were lifted by 12 to 47% - effectively stemming all trade. The tariffs on US beef are yet to be lifted, so it is unlikely we will see significant quantities of beef flowing into China any time soon. Sales channel relationships will also have to be built and this can take some years in China.

AUSSIE CATTLE HERD DECREASES

Years of drought are taking their toll on livestock numbers in Australia. This year the Australian cattle herd is forecast to reach its lowest level since the early 1990s. When destocking was occurring there was more Australian meat competing with NZ meat in export markets. We could see some additional beef being exported from Australia this year as more stock is culled due to the drought, but the total quantity of beef exported by Australia this year is expected to be lower than in 2019.

FARMGATE RETURNS

At the New Zealand farmgate level, prices have dropped by 15-20% over the past two months. Schedule prices are still marginally lower than they were a year ago but are expected to continue to trend down in the coming months.

The lower farmgate returns have been driven not only by the reduction of prices in international markets, but also by the lift in cattle becoming available for processing.

Reduced pasture production due to soils rapidly drying out has resulted in more cattle heading to processors. In the month leading up to Christmas the quantity of cattle processed was 30% higher than at the same time last season. On a season-to-date basis (Oct-Dec) cattle processing lifted 10%.

Processing numbers are up for all classes of cattle but bulls in particular are making their way to the works in greater numbers than usual. The mating season for dairy herds is now complete so we are seeing more sire bulls heading to the processors, but it is the lift in finished bulls that has made the biggest seasonal difference.

At present the processors have cattle backed up for about a month. Demand at the yards has also been subdued due to the lack of available feed, particularly in the upper and eastern North Island where it is especially dry. Store stock are typically selling a little more cheaply than they were a year ago for all classes of stock, but North Island prices for weaner and lighter yearling bulls have taken the greatest hit.

The industry will be keeping a close eye on potential disruptions to China's import supply chains from the novel coronavirus.

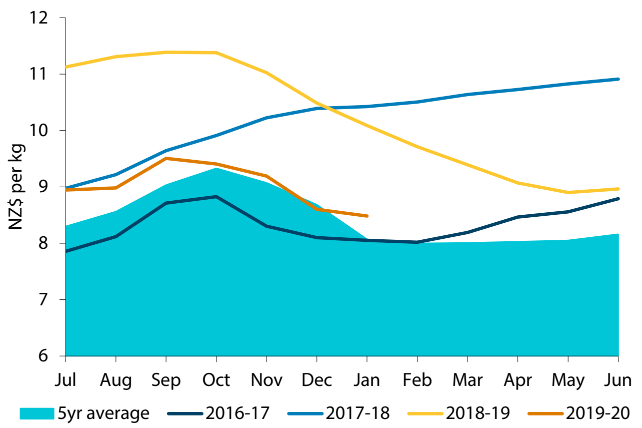
DEER

RETURNS SOFTEN BUT REMAIN ELEVATED

Venison and velvet prices have both retreated this season, but industry confidence in both sectors remains high. Farm-gate returns for venison are just above at the five-year average, while velvet returns have come back a little from the exceptional prices achieved a year ago.

The venison price schedule peaked in late September before trending down as expected. Farm-gate returns for young stags are currently averaging about $8.40/kg CW in the North Island and $8.25/kg CW in the South Island. Prices are back about $1.70/kg from a year ago but remain above the 5-year average.

FARMGATE RETURNS 60 KG STAG

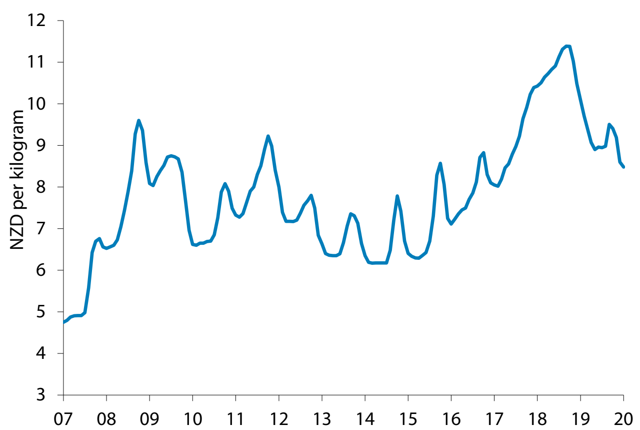


Source: ANZ Research, AgriHQ

The seasonal movement in schedule prices has been typical. Prices peaked in spring due to seasonal demand from Europe for chilled product. Prices then eased as the proportion of frozen product traded increased relative to chilled.

Another factor that has contributed to the reduction in the schedule is the well-documented reduction in prices offered for venison used in pet-food. Prices for offcuts used for this purpose reached all-time highs more than a year ago. End-user demand for pet-food containing venison remains high, but the prices available have now dropped to a more sustainable long-term level. This adjustment alone has taken as much as $1/kg out of the schedule price.

FARMGATE RETURNS 60KG STAG



Source: ANZ Research, AgriHQ

European consumption of venison is reported to be steady, but a build-up of stocks of frozen product within this market is currently impacting returns. Exactly how much stock is in-market and how quickly it will be worked through is uncertain at this stage.

Demand from the US market for venison is continuing to grow, as is demand from China. Prices being obtained in China have lifted substantially with a mixture of grades of venison products now being exported to this market. Venison remains a novel product in China with consumption levels very low, but some chefs are now regularly featuring venison on menus in high-end

DEER

restaurants. A potential near-term reduction in dining out in China may cause some fluctuations in demand, but the long-term outlook is good.

VELVET DEMAND STABLE

Velvet returns this season have eased by about 5- 10% from a year ago. Last season returns were exceptionally strong and current returns continue to make velvet a very viable product to farm. Reports from markets show prices and demand at the consumer level have not changed. This is particularly encouraging given that the volume of velvet being exported has approximately doubled over the past decade.

Tariffs on New Zealand velvet products entering South Korea continue to decrease each year as per the Free Trade Agreement. A tariff rate of 12% applies for 2020 – a significant reduction from the standard tariff rate of 20%. Under the agreement, tariffs on New Zealand velvet will be fully phased out by 2029.

The confidence in the velvet industry can be seen in the record price of $102,000 recently paid by a North Island buyer for a very good-quality breeding stag. However, it is fair to say that returns from the sire stag sales this year have been mixed.

GRAIN

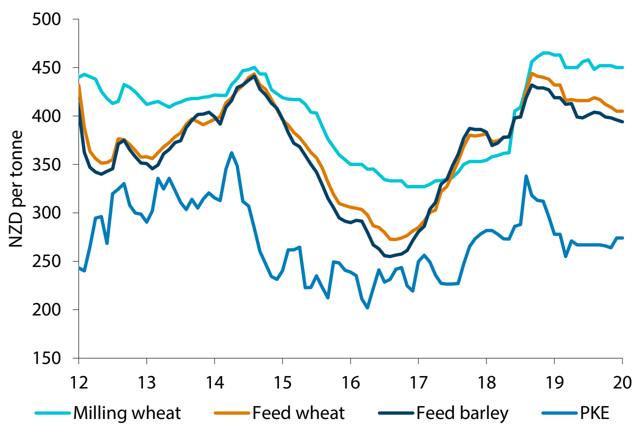
ARABLE

An abundance of feed grains is putting downward pressure on prices as the summer harvest kicks off. Growers have been trying to clear silos ahead of the new-season harvest but at this stage there is still grain from last season to move.

FEED GRAIN PRICES SOFTEN

Prices for feed grains have softened over the past few months as growers look to sell the remainder of last season's harvest. Prices for all feed grains are slightly below year-ago levels. Palm kernel (PKE) prices have firmed a little in the past month due to tighter supply in South East Asia. Demand from end users for PKE has eased this season.

NZ GRAIN PRICES



Source: NZX

QUALITY HARVEST

Expectations are high for this season's cereal harvest as weather conditions have been much more favourable this season than in recent years. Early barley is starting to be harvested and reports thus far have been pretty good in terms of quality. North Island maize crops also appear to be in good condition.

DAIRY DEMAND SOFT

Demand for feed grain from the dairy sector remains soft despite milk prices being favourable. Reduced confidence in the dairy industry in general is resulting in much more scrutiny of all expenditure, and supplementary feed is no exception. Pasture production has also been favourable for most of this season, which has limited incremental demand for supplementary feed. We may see a little more feed demand in the next few months as soils continue to dry out – providing the price of grain remains favourable for buyers, milk prices remain elevated and there is a genuine profit to be made.

MORE PLANTINGS IN ALTERNATE CROPS

This season a smaller area was planted in feed barley and feed wheat. This trend is expected to continue next season as growers adjust to the reduced demand for feed grains from the dairy industry.

Prices for ryegrass seed have been favourable for growers this season due to strong demand from Europe for replanting following the European drought last year. In some cases, ryegrass has been planted instead of wheat.

There have also been more contracts available this season from flour mills for food-grade wheat, and demand for brewers' barley continues to expand as the craft beer market grows.

Durum wheat for food production is been trialled in the Wairarapa. Local users are now trialling this wheat with the long-term aim of being able to produce enough to meet the requirements of local users.

The area planted across New Zealand in alternative crops such as hemp is also increasing, but overall volumes are still very small compared to the likes of barley and wheat production.

FORESTRY

Export log markets are experiencing their second major disruption in less than a year as coronavirus has cut demand from this market for logs. Exactly how this impacts pricing is yet to be seen but a number of contracts have already been cancelled. Log felling activity is being cut back here in New Zealand in order to reduce export supply and log piles are expected to grow on both our wharves and those in China.

Market prices for export logs have stabilised in late 2019 after regaining about half the loss that occurred in the middle of the year. In-market pricing in China is now about 10% lower than it was a year ago, but another fall in prices is anticipated.

There is virtually no demand from China at present due to the extension of the Chinese New Year holiday, so it won't be until later in February before we get a clear steer on future demand from this market.

Locally we are seeing forestry crews being laid off as forestry companies look to slow up supply as much as possible. Given the market is still in recovery mode from the disruptions in mid-2019, we could see crews stood down for even longer periods of time this time around.

The ongoing stream of spruce timber coming out of Eastern European forests will also keep a lid on pricing for the foreseeable future.

Demand from India remains subdued, as has been the case for some time, and this market is also being supplied by cheaper timber from South America.

On the domestic front prices for pruned logs have firmed slightly, buoyed by the lift in returns for export-grade logs. But overall the market is relatively stable. Current contracts for structural grade logs are priced at similar levels to the previous quarter. Roundwood and pulp prices are also pretty stable at present.

LOG PRICE (UNPRUNED A GRADE)

Source: AgriHQ

End-user demand for timber in New Zealand is steady, with plenty of building activity happening through the summer months following a recent lift in building consents. Due to the weakness in export markets, more timber is being directed into the local market, which is keeping prices in check despite the lift in end-user demand.

The quantity of logs harvested in Q3 2019 was down 3% y/y as harvesting slowed following the price correction in the middle of last year. Ministry of Primary Industries data shows stocks of sawn timber hit a record level at the end of September. Stocks of pulp, paper, and plywood were also elevated.

The quantity of trees expected to reach maturity in 2020 would normally have kept harvest volumes elevated throughout the year. But with limited end-user demand then, more trees are expected to be left standing.

The replanting of land recently harvested, combined with initiatives to plant additional land in trees, is keeping planting crews and plant nurseries busy. As part of the 1 billion trees initiative, the Government has a goal of 200 million native trees being planted by 2028. To achieve

FORESTRY

this figure, native tree nurseries will need to double their current output of 10.6 million trees per annum, according to a study by the NZ Plant Producers Inc. This could potentially be achieved by nurseries producing native plants instead of exotics, as exotics currently make up the bulk of the trees being grown.

TWEAKS TO EMISSIONS TRADING SCHEME

Further changes have been made to the Emissions Trading Scheme to refine the regulations. The method of 'averaging' carbon returns across a forest's lifespan is now the method that must be used for forests registered after 2020, whereas older forests must use the traditional 'saw-tooth' method of accounting for carbon. The latter provides the potential to earn more carbon credits but some of these must then be repaid at harvest. Under the 'averaging' methodology, carbon credits are earned only up to the point where they will not be required to be repaid at harvest, assuming the forest will be replanted.

A new category of 'permanent post-1989 forest' has been established for newly-established forests that won't be harvested. This category will suit native plantings and also creates the potential to register plantings such as poplars, which are planted densely enough for their canopies to achieve 30% coverage. This may be a good option for paddocks farmers that don't want to fully retire from grazing, but would benefit from having poles planted densely to assist with soil stability. Being able to attain carbon revenue from these plantings could offset a reduction in pasture production.

In the future we expect to see more forestry initiatives integrated with existing farming practices, making trees complementary rather than a competing land use.

HORTICULTURE

HORTICULTURE DOING WELL

The outlook for the horticulture sector remains positive in terms of both the current production season and the longer-term outlook. The growing season has been favourable for the main horticultural export crops.

Due to the timing of harvest the horticulture sector has generally had less exposure to the disruptions caused by coronavirus than other sections. One exception is cherries as many growers specifically grow fruit to supply the lucrative Chinese New Year market. This year, demand from China for cherries has been very limited.

APPLES: GOOD HARVEST EXPECTED

The pipfruit industry is posed for a good production season. Growing conditions have generally been favourable in the Nelson/Motueka region. As yet there are no water restrictions in place so sunny days are being welcomed by growers as the fruit steadily matures.

The labour challenges that the industry faced last season don't appear to be such an issue this season. Whether the expected slow-down in global travel -associated with fears of the spread of coronavirus - impacts the number of backpackers coming to New Zealand is yet to be seen. Backpackers play a pivotal role in providing labour for many horticultural industries, particularly the picking and processing of apples and grapes.

Last season our apple exporters benefited from increased demand from China where the prices offered were stronger than most other markets. This increased demand is partially related to the growing demand from the Chinese middle class for healthy foods sourced from trusted origins. A smaller domestic apple crop in China last year also contributed to this additional demand. Given current market conditions, it would be risky to assume this demand from China will be able to be maintained this season.

VITICULTURE: SMALLER HARVEST EXPECTED

Viticulturists will be hoping for hot sunny days through to harvest in order to maximise fruit quality. This season's harvest is now looking okay. Earlier reports indicated yields could be down but a good flowering period has improved expectations.

Last season Marlborough vineyards had to content with drought and water restrictions being put in place early in January. While water restrictions are now looking likely on some schemes, improved storage facilities mean most vineyards are a lot better off than they were last season.

At this stage growers and winemakers are hopeful of a good harvest in terms of quality. Whether this occurs or not will depend on the weather conditions through the latter summer months. The current period of hot dry conditions should bode well for this season's harvest.

HOPS: RECORD HARVEST EXPECTED

The hop harvest is expected to be at record levels due to the size of the industry virtually doubling in recent years. NZ Hops Ltd, the grower-owned co-operative, expects to process record volumes of hops this season. In 2019 NZ Hops processed 1,046t of hops, which was a 45% increase on the previous season. Last season there was 763 ha of hop gardens owned by 27 growers.

In addition there is also growth outside of NZ Hops primarily from investments by MyFarm and Freestyle Hops. The size of the hop industry has virtually doubled in recent years.

KIWIFRUIT: ALL THAT GLITTERS IS NOT GOLD

A new red kiwifruit is the latest variety that Zespri plans to commercialise. Zespri plans to licence 150 ha of Zespri Red in 2020 in addition to 700 ha of conventional SunGold licences and 50 ha of organic SunGold. Further details on the tender process for licencing will be released on March 6.

Demand for SunGold licenses is expected to be very strong again this season.

The newer red variety carries a higher level of production risk as it is more difficult to grow than either green or gold fruit. The crop is more susceptible to wind and to PSA, and therefore requires a warm and sheltered site to perform well. Timing of crop management practices is also more critical.

The red fruit doesn't store as well as other varieties, but should not be difficult to sell given the excellent customer feedback received from the limited releases of the fruit in Singapore and locally last year. On a price per tray basis, returns from the red fruit is likely to outperform gold but achieving high yields will be more difficult.

AVOCADO: A GROWTH INDUSTRY

The avocado sector continues to expand. More than 1000 ha have been planted in avocados in Northland in the past year. This is a significant increase in plantings as last season there was 3,795 hectares of avocado orchards.

There has been an increase in investment in large scale orchards owned by corporates or trusts, in addition to the typical 4 ha type blocks owned by individuals.

Last season 43% of the produce was sold into our local market with the remaining trays exported. Australia is our main export market for avocados but exporters are looking to increase exports into parts of Asia. Due to the limited shelf life of avocados, exports are limited to markets with relatively short shipping times.

RURAL PROPERTY MARKET

SALES VOLUMES REMAIN LOW

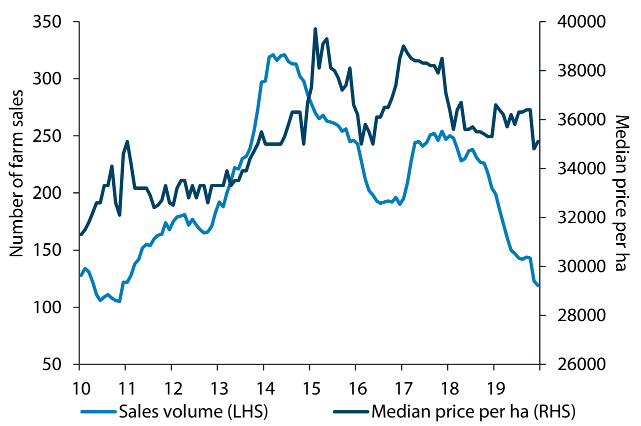
The rural real estate market remains a buyers' market as the number of properties for sale far exceeds current buyer demand. Prices are slowly retreating but expectations between sellers and buyers still vary considerably in some regions.

DAIRY LAND SLOW TO SELL

The number of dairy properties changing hands remains subdued despite a lift in the number of farms on the market. The total number of dairy farms and dairy support farms traded in 2019 was less than half the volume that traded at the dairy industry peak in 2014.

Regional numbers vary but in Canterbury sales of dairy farms have been virtually non-existent, with just seven dairy-related properties changing hands last year.

DAIRY FARM SALES – 12 MONTH ROLLING AVERAGE



Source: REINZ, ANZ Research

PROPERTY VALUES WANE

Dairy land values are falling. Dairy farms traded at an average price of $35,100/ha in 2019, based on REINZ data for which per hectare values were reported. Reported prices have been quite stable in recent years but the lack of sales points to a further price correction in the pipeline.

FARM PRICE INDICES

Median price (sa)		Current Period	Previous Period	Last Year	Chg. P/P
Dairy	Median price (per ha)	2,257	2,275	2,389	↓
	Median price	2,053	2,163	1,828	↓
All farms	Median price (per ha)	2,094	2,433	2,495	↓
	Median price	3,619	3,777	3,677	↓

Source: REINZ

Good-quality properties in favourable locations are holding their value better than properties with low productivity levels. Properties of questionable viability under tighter environmental rules or those that will potentially require significant capital investment to meet tightening standards are being heavily discounted and/or are proving difficult to sell.

GRAZING AND ARABLE SLIGHTLY SOFTER

Prices for sheep and beef farms have softened and transactions are also slightly lower than normal. The weakness in the dairy sector will also be indirectly influencing this sector as demand for support blocks wanes.

Arable properties traded in the past 12 months have also traded at a discount. Tightening environmental legislation is also impacting this sector. Sales volumes have been low and individual sale prices do vary considerably, meaning the median sale price doesn't necessarily provide a good steer for this sector.

RURAL PROPERTY MARKET

FARM SALES BY FARM TYPE

Annual average/total		Past 12 months	Previous 12 months	10 - Year Av.	Chg. Y/Y	Chg. P/10yr
Dairy	Number of Sales	119	204	207	↓	↓
	Median Price ($ per ha)	35,100	35,300	35,297	↓	↓
Livestock	Number of Sales	791	968	960	↓	↓
	Median Price ($ per ha)	16,800	18,800	17,056	↓	↓
Horticulture	Number of Sales	170	181	178	↓	↓
	Median Price ($ per ha)	241,000	217,000	172,117	↑	↑
Arable	Number of Sales	80	88	88	↓	↓
	Median Price ($ per ha)	26,500	37,700	32,907	↓	↓
Forestry	Number of Sales	35	57	49	↓	↓
	Median Price ($ per ha)	11,900	7,390	6,440	↑	↑
All Farms	Number of Sales	1,240	1,498	1,484	↓	↓
	Median Price ($ per ha)	23,600	24,900	23,274	↓	↑

Source: REINZ

HORTICULTURE BUOYANT

The horticulture sector remains buoyant with strong demand for land suitable for kiwifruit planting. There is also growing demand in other sectors such as apples, berries, cherries and hops.

WEAKER TONE

The REINZ All Farm Price Index median price has softened by 16% over the past year. Further easing in prices is generally expected given the volumes of farms for sale relative to the number of potential buyers. Tight credit conditions and the exclusion of foreign buyers are also likely having an impact.

ALL FARM PRICE INDEX

Source: REINZ

ECONOMIC OVERVIEW

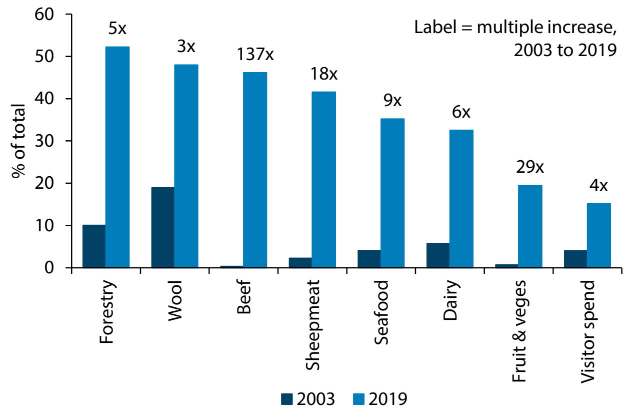
GLOBAL ECONOMIC RISK PREVAIL

Global economic growth continues to slow but New Zealand's economy is showing tentative signs of improving. The impact of the novel coronavirus is a new global risk that is likely to have a much greater (hopefully short-lived) impact on New Zealand's export sector than the trade tensions between the US and China.

No sooner was the Phase 1 US-China trade agreement signed then a new global risk arose. The novel coronavirus that has emerged in China is the most prominent global risk for New Zealand's exporters at present. The human toll is very worrying and the economic impacts could be significant.

Economic effects of the outbreak are extremely uncertain. But it could not have come at a worse time in the year for New Zealand's food exports – coinciding with the Chinese New Year holiday period of travel and feasting.

PROPORTION OF NZ EXPORTS GOING TO CHINA



Source: Statistics NZ, ANZ Research

Consumption of luxury foods and the number of meals eaten at restaurants may fall significantly in the near term in China as residents opt to avoid public places to reduce the risk of contracting the deadly disease. Much of the food exported by New Zealand to China goes into the food service channel. If dining numbers are down, then we could see a temporary reduction in demand for imported goods whilst existing stocks are worked through. The magnitude and longevity of the potential impacts are highly uncertain.

Other global risks include an escalation of trade tensions between the EU and the US as they look to resolve differences of opinion. The US continues to try to negotiate more access for its agricultural products but at the same time is keeping its own protective tariffs in place.

The Phase 1 deal negotiated between the US and China is expected to lift the volume of soybeans exported from the US to China but the impact on other sectors such as meat and dairy will not be as great due to China keeping tariffs in place on these goods and sales channels being less developed.

WAIT AND SEE

New Zealand's domestic economy has been performing better than previously expected. Due to signs that growth is now bottoming out, we no longer expect the Reserve Bank to make any cuts to the Official Cash Rate this year, subject to our assumption that the impact of the coronavirus proves short-lived. Of course, this is very uncertain, and the RBNZ will provide further stimulus if required.

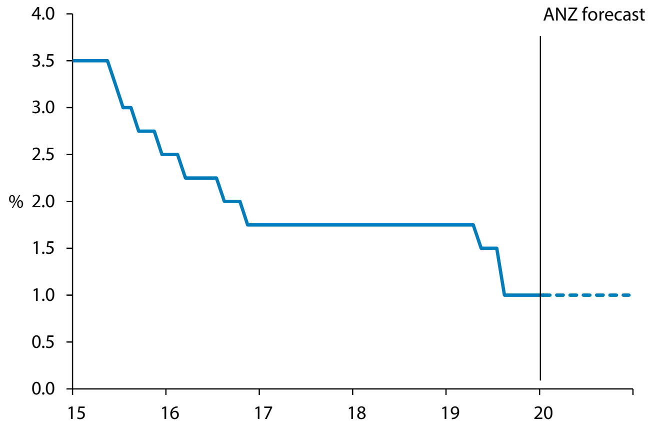
The Government has announced a significant infrastructure spend that will provide some fiscal stimulus to the economy over the medium term and will also potentially improve sentiment.

ECONOMIC OVERVIEW

Global factors plus the weather provide the main downside risks, with the domestic economy regaining momentum, partly as a result of the OCR cuts delivered by the RBNZ last year. Housing in particular is responding vigorously. Business confidence remains weak, which is a concern, but consumer confidence remains resilient.

We are not seeing the level of stimulus to the economy that would typically be associated with high milk prices, as costs are also increasing and there is now a focus on debt repayment that is soaking up spare cash-flow.

RBNZ OFFICIAL CASH RATE

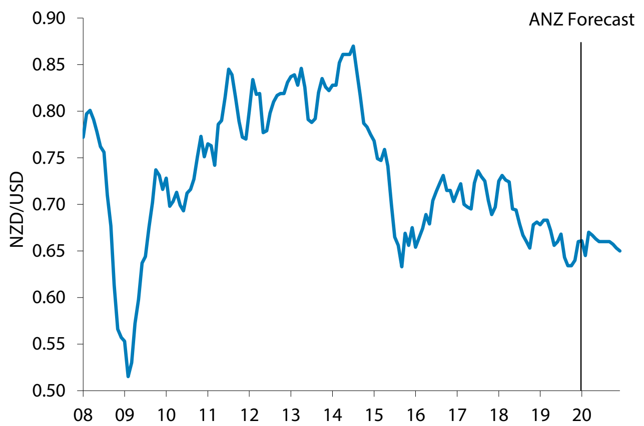


Source: RBNZ, ANZ Research

NZD TO TREND DOWN

The New Zealand dollar is expected to remain steady against the USD in the near term before weakening slightly later in the year. The recent strength in the NZD reflects an improved domestic dataflow, but the NZD trades as a proxy for China risk and the new coronavirus has weighed in recent weeks.

NZD BUYS USD



Source: ANZ, Bloomberg

The NZD is expected to weaken slightly to USD0.65 in the latter half of 2019 with concerns about poorer global economic performance weighing it down. While anything can happen with currencies, the risks currently appear tilted to the downside. In particular, the impact of the coronavirus containment efforts on China's economy could be significant, though hopefully short-lived, with New Zealand highly exposed.

KEY FORECASTS

FX RATES	ACTUAL			FORECAST (END MONTH)					
	Dec-19	Jan-20	5-Feb	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZD/USD	0.674	0.646	0.649	0.67	0.66	0.66	0.65	0.65	0.65
NZD/AUD	0.961	0.966	0.964	0.97	0.97	0.97	0.97	0.97	0.97
NZD/EUR	0.600	0.583	0.588	0.62	0.60	0.60	0.58	0.58	0.57
NZD/JPY	73.10	70.04	71.04	74.4	73.9	73.9	72.8	72.8	72.8
NZD/GBP	0.511	0.489	0.498	0.51	0.50	0.49	0.48	0.47	0.47
NZ TWI	73.70	71.63	72.09	74.6	73.4	73.3	72.0	71.8	71.6

INTEREST RATES	ACTUAL			FORECAST (END MONTH)					
	Dec-19	Jan-20	5-Feb	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZ OCR	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
NZ 90 day bill	1.29	1.26	1.26	1.28	1.28	1.28	1.28	1.28	1.28
NZ 10-yr bond	1.65	1.30	1.32	1.55	1.67	1.65	1.30	1.30	1.25
US Fed Funds	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
US 3-mth	1.91	1.75	1.74	1.90	1.90	1.90	1.90	1.90	1.90
AU Cash Rate	0.75	0.75	0.75	0.75	0.50	0.25	0.25	0.25	0.25
AU 3-mth	0.92	0.88	0.89	0.70	0.45	0.45	0.45	0.45	0.45

ECONOMIC INDICATORS	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
GDP (% q/q)	0.7	**0.5**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**
GDP (% y/y)	2.3	**1.7**	**2.0**	**2.5**	**2.4**	**2.5**	**2.4**	**2.5**	**2.6**
CPI (% q/q)	0.7	0.5	**0.5**	**0.5**	**0.5**	**0.2**	**0.6**	**0.5**	**0.6**
CPI (% y/y)	1.5	1.9	**2.2**	**2.1**	**2.0**	**1.7**	**1.9**	**2.0**	**2.0**
LCI Wages (% q/q)	0.6	0.6	**0.4**	**0.8**	**0.5**	**0.6**	**0.4**	**0.9**	**0.6**
LCI Wages (% y/y)	2.3	2.4	**2.5**	**2.5**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**
Employment (% q/q)	0.2	0.0	**0.3**	**0.5**	**0.4**	**0.5**	**0.4**	**0.4**	**0.3**
Employment (% y/y)	1.0	1.0	**1.3**	**1.1**	**1.3**	**1.7**	**1.8**	**1.7**	**1.6**
Unemployment Rate (% sa)	4.1	4.0	**4.1**	**4.0**	**4.0**	**3.9**	**3.8**	**3.8**	**3.8**
Current Account (% GDP)	-3.3	**-3.3**	**-3.4**	**-3.5**	**-3.5**	**-3.6**	**-3.7**	**-3.7**	**-3.7**
Terms of Trade (% q/q)	1.9	**-0.1**	**1.7**	**-0.6**	**0.5**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% y/y)	1.0	**4.3**	**5.0**	**2.9**	**1.6**	**1.8**	**0.2**	**0.9**	**0.4**

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