ANZ RESEARCH

AGRI FOCUS

APRIL 2020

STORM CLOUDS ABOVE

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INSIDE

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Economic growth rates in New Zealand and globally have been slashed as we all hunker down to avoid the spread of COVID-19.

Under lockdown rural New Zealand feels like a relatively safe place to be, and on our farms daily life is continuing in a much more normal manner than in the cities. Having daily tasks to attend to is a good antidote to worrying about something you can do little about. It's also a pretty cool place to be a kid when school is shut down for an extended period of time.

Recent rains have also helped relieve tensions for the agricultural sector, although a few more dry weeks would be welcomed by those busy harvesting apples and grapes. Although the drought has now broken in most parts of the country, it will be some time before there is sufficient feed on hand to eliminate the need for supplementary feed.

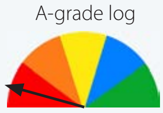
New Zealand is fortunate to produce enough food to feed ourselves eight times over so the supermarket shelves won't ever be bare, but our choices may be a little curtailed from time to time. And despite the forestry sector shutting down for now we aren't going to run out of toilet paper any time soon either.

But we can't avoid the economic fallout of this horrid virus. Our own GDP forecasts have been slashed, with a sharp contraction forecast for Q2 and negative economic growth assumed for the next 12 months. Unemployment rates are also expected to lift to levels not seen since the early 1990s. Global economic conditions are also expected to be dire; as a trading nation we can't escape the fallout.

The tourism sector has come to a sudden stop and our borders will have to remain closed until this global pandemic is under control. This will also impact our rural communities who have integrated tourism into their farming operations by providing rural accommodation and experiences.

Countries that have opted for a less stringent approach to managing COVID-19 than NZ has are now starting to pay the price as infection rates rocket, but the debate about how best to manage such an unprecedented and uncertain situation will no doubt only get louder as the economic costs mount.

Prices at farm/orchard level relative to 10yr average

Dairy	Dairy prices have softened globally but international supply is constrained, which will limit downside risks. We have retained our milk price forecast at $7.15/kg MS for the current season but have cut next season's forecast to $6.45/kg MS.	Milk price 
Sheep	Lamb prices are still reasonable but the drought has made it a challenging season to finish lambs in many regions.	19kg lamb 
Beef	Beef prices have softened as weaker international markets and a lack of feed locally take their toll on demand for livestock.	Prime steer 
Forestry	Log markets will potentially benefit from the current shutdown, which will cut supply and therefore allow in-market stocks to be worked through before exports resume.	A-grade log 

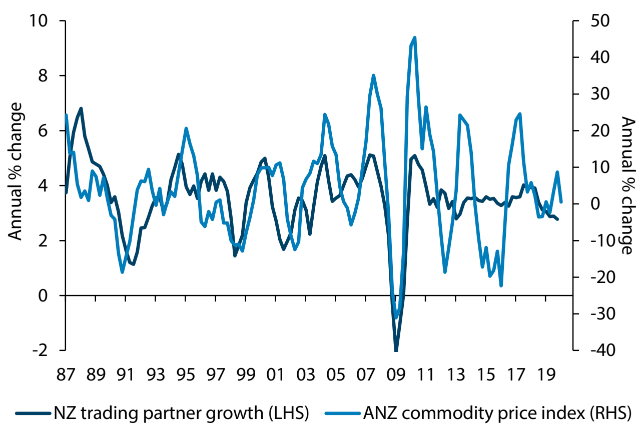
Just a couple of months ago our high reliance on China as a trading partner was being highlighted as a vulnerability, but as China reopens as other nations close down it is once again being hailed as a relatively bright spot in an otherwise gloomy global economy. That said, they are an export-oriented economy, and the global slowdown will hit their growth hard.

It is true that the world's population will still need to eat, even shut in their houses, making food currently a safer bet than other types of goods exports, whether they be commodities or manufactured goods. However, when it comes down to it, people only need to eat basic foods, and when times are tough luxury goods tend to be foregone.

In many of the markets we supply our food exports fit more into the luxury end of the market than they do the 'daily staple' category. Over the longer term this is definitely where we want to be positioning our food, as that's where you can command the premium prices and really build a brand, but it does mean that demand for our goods may not be quite as inelastic as we like to think it is.

While the relationship hasn't been as close in recent years, global GDP and New Zealand's commodity prices do tend to move together, despite the fact that the global population was indeed eating steadily throughout (see graph below). When people feel better off, they are more likely to splash out on nice food. And vice versa, unfortunately.

GLOBAL GDP GROWTH AND NEW ZEALAND COMMODITY PRICES



Source: Bloomberg, ANZ Research

The current global environment really tests the depth of our trading relationships. Those with strong long-term relationships will come out through this crisis in better shape than those who don't.

One of the biggest challenges facing our exporters at present is the logistics of getting product to market. This is particularly the case for high-value foods that need to be kept cool. Cool storage capacity in New Zealand is limited, meaning we are highly reliant on shipping goods out of the country almost as quickly as we produce them. At present there is a shortage of refrigerated containers in New Zealand due to ports not being cleared as quickly as normal – initially in China and now elsewhere. In New Zealand ports, essential goods like food exports are being prioritised, but containers holding non-essential imported goods are currently not being emptied and therefore returned into circulation as quickly as needed.

Airfreight options have been greatly reduced due to the drastic cutback in flights into and out of New Zealand. This situation is not likely to change any time soon, so any cargo that needs to be airfreighted will need to go on a flight specifically chartered for that purpose, which will add to the cost.

The cost of shipping by sea, however, has fallen, due to the drastic drop in oil prices. This will help to keep our exports competitive and will be particularly welcomed by sectors such as forestry that export large quantities of relatively low-value goods. Not that any logs are being shipped right now as forestry is not deemed an essential service, but low oil prices seem likely to persist for some time.

A lack of cool storage space and a potential shortfall of workers means some apples and kiwifruit may not be picked this season. There is a real risk that pack-houses and processing plants that operate with a large number of people in a relatively confined area will be subjected to regular shut-downs as they try to limit health risks. Workers are being spaced out more than usual to minimise risks, but this also means productivity levels are immediately reduced, even halved. Automated technology solutions will become a lot more valuable this season.

Livestock processing is continuing but at lower capacity than normal. Delays and backlogs of stock are inevitable, making forward planning a must this season.

Sale yards are closed, but livestock agents are still operating and listings on online platforms are expected to jump. The technology to sell livestock online has been operational for years but the willingness to trade stock in this manner hasn't necessarily been there. These online platforms don't provide the banter and social experience that a sale yard does, but they do have some advantages such as reduced transportation costs and improved animal welfare outcomes, as well as being compatible with social distancing.

ECONOMIC OVERVIEW

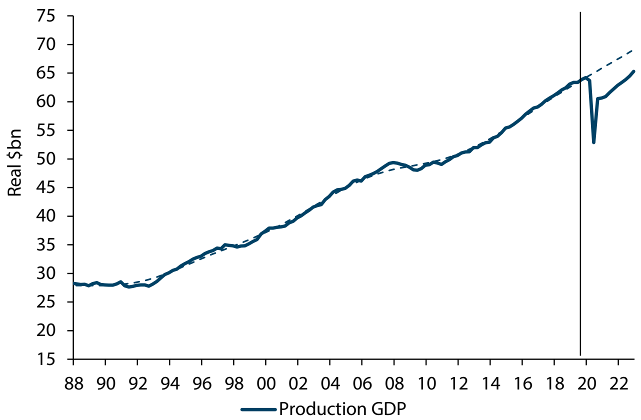
GLOBAL SHOCK

Global economic growth has been slashed as much of the world is implementing lockdowns in order to fight COVID-19. Cases are still rising exponentially in the US and parts of Europe. The shutdown in New Zealand was put in place rapidly with relatively stringent measures implemented. Hopefully this will lessen the physical and economic impact of the disease. However, we won't escape the global economic fallout that is now occurring.

ECONOMIC GROWTH SLASHED

The economic outlook for New Zealand looks gloomy, particularly in the short term. We anticipate GDP will fall by 5-6% in 2020, and 17% in Q2 as lockdown measure stifle output and spending. These forecasts assume a four-week lockdown period but judging by the experience of other countries there is a high probability that this lockdown will be extended.

PRODUCTION GDP



Source: Statistics NZ, ANZ Research

Under lockdown conditions the economy is operating in a very constrained manner with just essential services operating. These essential services do include most of the primary sector.

Our current forecasts see the unemployment rate more than double to over 8%. Unemployment rates have not been at this level since the early 1990s, when the unemployment rate spiked to 11.2% in Q3 1991.

Tourism earnings are expected to be minimal this entire year as border closures will need to remain in place until the global pandemic is brought under control or a vaccine is found. Neither of these solutions are expected to happen quickly.

Aside from the primary sector and tourism, the education sector is a major earner of overseas funds. International student numbers have plunged with many students not making it into New Zealand before the academic year commenced. Some students will continue to study at New Zealand institutions via correspondence, but many will pursue educational courses in their home countries instead.

The service and retail sectors in New Zealand are taking a major hit whilst the country is in shutdown mode. It is realistic to assume that not all businesses will reopen after the restrictions are lifted. The online service sector is expected to grow, initially as a result of physical shops and offices being shut down but as consumer behaviour changes during the shutdown period we may find that the new habits formed are actually more convenient than our old habits.

Most of the primary sector is fortunate enough to be able to continue to operate through the shutdown period, although in a slightly different way. Livestock and wool sales have been cancelled but online platforms already exist for this purpose and this may be the time for these industries to make a leap forward.

MITIGATING THE ECONOMIC DAMAGE

There has been a combined fiscal and monetary policy response to try to reduce the economic damage that COVID-19 is leaving in its wake. The Official Cash Rate has been slashed 75 bps to just 0.25%, its effective floor given operational constraints in the financial system. The RBNZ

ECONOMIC OVERVIEW

has promised to leave the OCR at this extreme low for at least the next 12 months, but accessing credit, rather than the price of credit, will be the main constraining factor going forward.

Both the Reserve Bank and the Government are focusing on finding ways to prevent credit shortages and keep the money-go-round turning.

What the Reserve Bank has done:

- Cut the OCR 75bp to 0.25% and promised to maintain this level for at least 12 months;
- Announced large-scale asset purchases of NZ government bonds, a program worth $30bn;
- Delayed the start of increased capital requirements for banks by at least a year – was due to increase in June 2020;
- Reduced banks' core funding ratio from 75% to 50%.
- Announced measures to ensure markets continue to function smoothly, including a term auction facility, funding for FX swap markets, re-establishing a USD swap line with the Federal Reserve, supporting liquidity in the government bond market, and accepting corporate bonds as collateral in repo operations, thereby providing banks with an incentive to buy them.

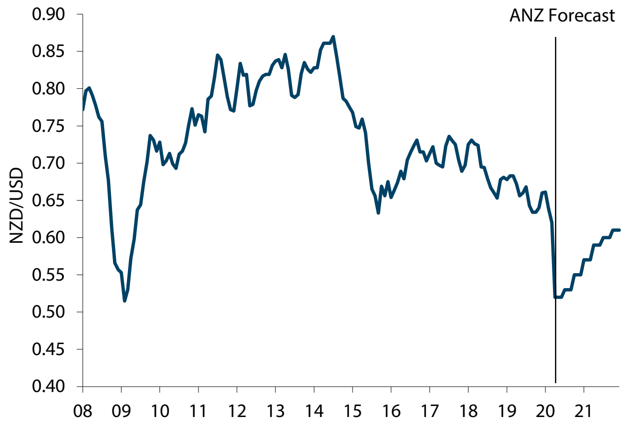
What the Government has done:

- A fiscal package initially worth $12.1bn (4% of GDP), but scaled up further a week later and more expected to come. Includes wage subsidies for businesses, health sector spending, business tax changes.
- Government guaranteed scheme worth $6.2bn for banks to provide mortgage holidays and business finance.
- Additional spending on infrastructure projects is also expected in the May Budget.

NEW ZEALAND DOLLAR TRENDS DOWN

The NZD has softened considerably in recent months as global uncertainties have taken their toll on 'risky' currencies such as the NZD. Where the NZD goes from here really depends on how NZ's economy performs relative to other parts of the globe. Our tourism sector will be hit harder than most economies due to our high reliance on international tourists. On the other hand, New Zealand's primary sector is a strength, as food commodities tend to outperform during global economic slowdowns relative to other commodities such as metals and oil.

NZD BUYS USD



Source: Bloomberg, ANZ Research

Freight rates have fallen considerably due to reduced demand for imports and also due to lower oil prices having a direct impact on the price of fuel. This reduces the tyranny of distance for our exporters considerably, but we remain at the mercy of our trading partners.

CHINA'S ECONOMY SLOWING

China is reopening its factories but closing its borders as its own efforts to fight COVID-19 have largely been successful. The majority of its recent cases have been imported from other countries as its own citizens flock back home. Like New Zealand, China's economy is also influenced by the fate of its trading partners. When global demand for products slows, China's exports fall and its economy suffers. The unemployment rate in China surged to 6.2% in February (1% higher than December) with an additional 8 million people now out of work. The Chinese Government reacted to the 2008 sharp US slowdown with an enormous infrastructure spend-up, providing a lifeline to Australia and New Zealand along the way, but that is a trick that they are unfortunately in no position to repeat.

China's GDP is estimated to have contracted by 9.4% y/y during Q1 this year. A partial resumption of work is expected to help Q2 numbers with fall in GDP of between -0.4% and 2.1% y/y forecast. China's own economic picture will depend on how the rest of the world performs. Q2 exports could decline as much as 20 – 50% y/y. Imports for March are forecast to be down 10%.

The Chinese Government has announced a number of fiscal spending projects designed to help stimulate its economy, but these are not expected to be sufficient to offset the global forces. Previously China's spending has concentrated on physical infrastructure projects like roads and high speed railway lines. But now the government spend is now focusing on improving technological infrastructure.

DAIRY

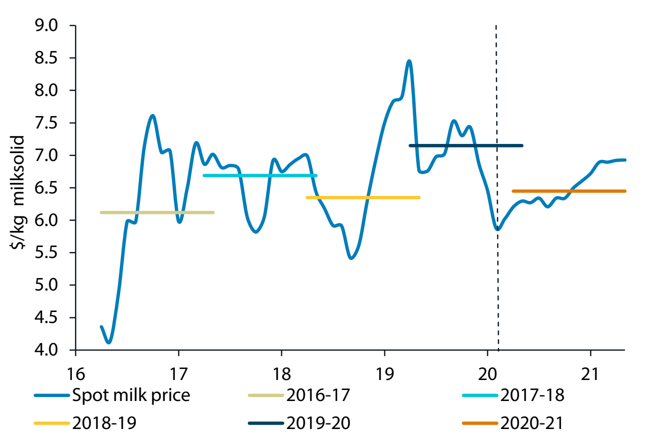
Global dairy prices have fallen as COVID-19 takes its toll on global economic growth. Dairy product prices have been driven down primarily due to the rise in global economic risk. Financial markets, including equities, bonds and commodity markets, have all fallen away and dairy prices have been no exception.

MILK PRICES SOFTEN

Our milk price forecast for the current season remains $7.15/kg MS. This compares to Fonterra's forecast of $7.00 to $7.60/kg MS, for which they are paying based on the midpoint of $7.30/kg MS. Our forecast for next season (2020-21) has been revised down to $6.45/kg MS (previously $7.10).

Next season's milk price is highly volatile as both dairy commodity prices and the NZD have been moving rapidly. However, at this point a more moderate milk price is anticipated for next season.

FARMGATE MILK PRICES



Source: ANZ Research, GDT

The GDT Price Index has eased about 12% since January. Whole milk powder futures are now trading in a USD2550-2800 range, indicating there may be a little more weakening of prices to come before some stability is found. Demand for dairy products is expected to be negatively influenced by the current global economic situation, but demand and therefor pricing is expected to be more robust than some other products.

SLOWING PRODUCTION SUPPORTIVE OF PRICES

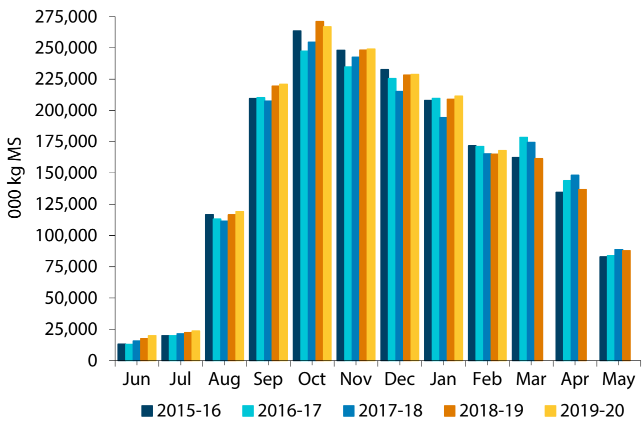
A decent chunk of demand for dairy products is not particularly sensitive to the economic cycle, and global milk supplies are starting to contract. The balance between these two factors will determine where prices head from here on.

The New Zealand milk production season is drawing to a close a little faster than normal due to drought limiting the quantity of feed available. While rain has now fallen across most of New Zealand it will be another month before this has the potential to impact milk flows. By then we will only be a month off the end of the season. But the greening up of pastures may mean a few more cows will be kept in milk than would otherwise be the case.

Getting space for cull cows at the processors is going to be a challenge this season due to the plants operating at lower capacity than normal. If cows are having to be retained on farm anyhow, then milking them on longer than had been initially planned may occur, particularly if that allows other younger stock to be dried off and moved to winter grazing earlier.

DAIRY

NEW ZEALAND MONTHLY MILK PRODUCTION



Source: DCANZ

MILK STARTING TO SLOW IN NEW ZEALAND

Milk production for the season to the end of February is still tracking ahead of last season by 0.7% on a milksolid basis. Milk production in February was back 1.8% when adjusted for leap year. Volumes are expected to trail behind last season for the final three months of the season.

We anticipate the total volume of milk collected in the season to May 2020 will be 0.5% less than the previous season. This is consistent with milk collections for the final three months of the season being 5% back on the same period last year.

At about this time of the year global dairy markets start to be less interested in what is happening in the Southern Hemisphere and refocus their attention on the Northern Hemisphere producers. European production finished 2019 in growth mode, with output for January up 1.7% on the same time last season. The five largest milk producers – Germany, France, Netherlands, Italy and Poland – have all started the year in a strong position. However, this growth in milk supply has come at a time when milk processors are struggling to staff their factories due to restrictive measures put in place to contain COVID-19.

VOLUNTARY MILK REDUCTION PROGRAM FOR EUROPE

The European Milk Board has proposed a voluntary milk reduction programme known as the Market Responsibility Programme. Under this programme an early warning would be called if dairy prices fall 7.5%; a crisis will be called if dairy prices fall by 15%; and obligatory cutbacks will occur should prices fall by 25%. The early warning system would trigger private storage options and incentives to rear calves on cows. At the crisis level tenders would be called for compensation for voluntary production cuts, while at the obligatory cut-back level everyone would have to cut production by a specific amount.

If this program does go ahead then we could see milk production in Europe curbed through the peak of their season, which occurs in May.

SOME US STATES STRUGGLING TO PROCESS

In the United States some large milk-producing regions including Wisconsin are struggling to process all of the milk being produced. Uptake of liquid milk production and cheeses has fallen and a surplus of products is building. Meanwhile in California there has been a lift in demand for bottled milk as consumers stock up at home. Milk production across the US has been growing a little stronger in recent months than last year when growth was relatively subdued. At present all the milk is being processed, but in some area companies have asked farmers to voluntarily reduce output so they are not overwhelmed with raw milk.

TIMING GOOD FOR NZ DAIRY

The COVID-19 lockdown in New Zealand comes at a relatively good time in the season for the dairy industry. Milk production is easing back at this time of the season so processing facilities are operating well under capacity, which eases the pressure on storage facilities. The biggest short-term disruption dairy farmers are expecting is delays getting cull cows away. It is still possible that we will be under some form of lockdown when the season concludes at the end of May. June 1 is known as Gypsy Day due to there being a lot of movement of dairy farmers and their livestock and equipment between jobs. MPI is making plans to make sure these movements can occur at that time, although the process is expected to be a little different to normal.

LAMB & WOOL

LAMB RETURNS EASING

Lamb returns may have fallen but they have now stabilised at a level that would have looked pretty rosy just a few seasons ago. Diverting some lamb to the Middle East and Europe whilst the China market was disrupted by COVID-19 shutdown, and now pushing product back into China, has generally worked well for exporters. However, a lack of market options for both mutton and wool has made selling these products more challenging.

Delays getting lambs processed has only added to the challenging on-farm conditions brought about by a lack of feed. Whilst the drought may now have broken across much of the country, the quantity of feed available to finish lambs remains meagre.

FINISHING LAMBS A CHALLENGE

In the past few months there have been few options available for farmers to move stock to greener pastures due to the geographical extent of the drought. Eventually drought was declared across all of the North Island and the north-eastern parts of the South Island. While rain has now fallen in most regions it will still be some time before pastures and crops have recovered to the point that lambs will be able to attain the growth rates needed to reach finishing weights.

Widespread rain has fallen across most of the country within the past couple of weeks, effectively breaking the drought in most regions. Hawke's Bay mostly remains dry, as do parts of Northland, but most other regions have received sufficient rain to spur pasture into life. Just how much growth can be achieved before the cooler winter weather sets in is yet to be determined, however.

A shortage of feed through winter and into spring now looks likely as supplementary feed normally designated for winter feed has already been consumed. Winter crops are not expected to deliver the usual quantity of feed due to either being planted later than normal or simply not striking early due to the lack of soil moisture.

PROCESSING DELAYS ONGOING

The drought has meant the quantity of lambs available for processing has slowed recently. Meat processors prioritised the processing of lambs over ewes earlier in the season. Even so, the number of lambs processed remains back on last season. The number of lambs processed season-to-date was up 2% at the end of February, with the North Island further ahead than the South Island.

One upside of the tougher season is fewer overweight lambs are being presented for processing, but the overall drop in lamb weights will also impact incomes. The average carcass weight of lambs processed in the final week of February was just under 18kg in the North Island and 18.2kg for the South Island. On average carcass weights are back about 300g on the same time last season.

Meat processors are continuing to operate through the lockdown period, as they are deemed an essential service. However, the challenge of operating in a way that minimises health risks to workers means reduced productivity is inevitable. To maintain a safe distance between workers, most chains are having to remove every second worker, which basically halves processing capacity. The configuration of some processing chains means they won't be able to open at all during the shutdown period.

Should any member of a shift be diagnosed with COVID-19 then the entire shift would be required to be stood down. Therefore ongoing delays in getting stock processed can be expected. Ongoing cancellations of bookings are highly probable as processors negotiate their way through operating in this new environment.

LAMB & WOOL

SCHEDULE PRICES STEADY

Farmgate prices for lambs heading to the processors have steadied near the $7/kg CW level. This is about the same level that was being paid at this time last season, and it is surprising schedules have held at this level given the turmoil in the global markets.

An easing in the number of lambs ready for processing is helping to keep prices elevated, as is the weak NZD. Both of these factors are likely to dissipate somewhat in the near future and therefore we are likely to see some further softening in lamb prices before winter premiums kick in.

SALE YARDS CLOSED

Store market prices have softened considerably due to the combination of a lack of feed and market uncertainty. Male lambs are priced between $2.50 and $2.70 in the North Island and $2.70 - $2.90/kg in the South Island with slightly lower prices offered for ewe lambs in both islands.

Paddock sales and online sales are now the only options for store stock as sale yards are currently closed due to the risk of spreading COVID-19. There are a number of companies offering online sales platforms for clients and the closure of the yards is likely to be the impetus needed to change buyer and seller behaviour. The social aspect of sale yards is one of the main reasons they have continued to receive strong support. But if sale yards remain closed for an extended period of time then we could well see a permanent change in buyer and seller behaviour, in favour of the online platforms.

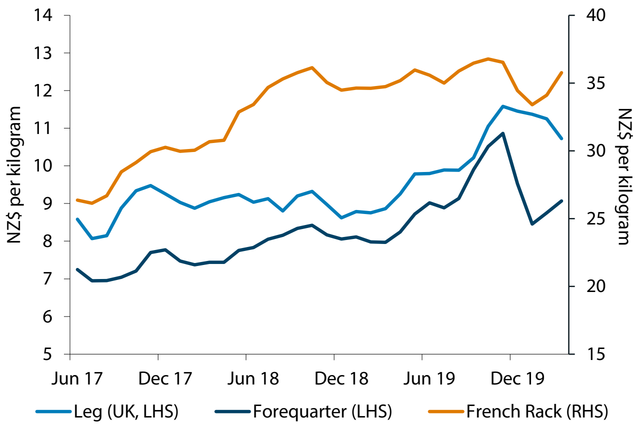
MARKET OPPORTUNITIES

China is again looking like the bright spot for sales of lamb and mutton products. China is gradually recovering and steadily reopening, which is assisting with demand for food products. However, the demand lost whilst businesses were closed during the extended Chinese New Year holiday won't be made up. Restaurant demand is still extremely weak but demand from supermarket channels has lifted. That said, this has been a massive shock to China's economy and further economic shocks will occur as global demand slows. In this environment consumers will be much more cautious about spending, so demand is expected to be somewhat subdued for quite some time.

A similar trend is expected to play out in other markets. Demand for food products will of course continue, but demand for high-end food products – especially those consumed in restaurants – will remain subdued.

Exports of lamb to China in February fell 41% compared to the previous month. The volume of product directed into Taiwan and Malaysia more than doubled, while exports to Europe and the United States also lifted significantly. We expect this trend will reverse in the coming months as access into Europe and the United States gets more difficult, whilst access into China improves.

LAMB CUT PRICES



Source: AgriHQ

The price of leg cuts in the UK has held up relatively well to date, with prices back just 10% from their peak. This is likely to change in the coming weeks. Prices for the lower-grade cuts going into China/Middle East didn't fare as well, but on the whole pricing is not so much the issue – it's getting the product through the supply chain to the consumers that is the challenge.

The recent weakening of the NZD is helping to support prices in local currency terms. But it is realistic to expect a lower proportion of overseas earnings will flow through to farmgate prices as supply chain disruptions and processing restrictions reduce the efficiency at which the processing and export industry is able to operate.

MUTTON BACKLOG CLEARED

Mutton processing has now peaked for the season, and this is expected to help underpin pricing in international markets going forward. Most farmers experienced considerable delays getting ewes away this year but the backlog of ewes has now largely been cleared – just as well considering processing capacity is now compromised.

At the processor level mutton prices have stabilised in the past month, with $4.60/kg CW the going rate in the North Island while South Island farmers are being offered $4.10/kg CW.

LAMB & WOOL

Mutton processing in the North Island was tracking 16% behind the same time last season at the end of February. Over the same time period the number of lambs processed in the North Island was up 3%, which effectively offset the reduction in the number of ewes culled. Throughput of ewes relative to lambs increased in March, clearing the backlog. In the South Island the kill pattern of both lambs and ewes has tracked much more closely to normal, with numbers marginally up for both classes.

WOOL REMAINS WEAK

The wool market has ground to a halt with the cancellation of wool sales. Wool brokers are no longer accepting wool into stores due to the restrictions placed on them under the Level 4 COVID-19 response.

Shearing is able to be carried out under the animal welfare provision, but shearing gangs must operate under strict protocols to reduce health risks. This is not a particularly busy time of the season for shearing, but should the restrictions be extended then this could become a lot more challenging.

The international wool markets will generally benefit from a temporary reduction in supply. Leading up to the shutdown prices for strong wool continued to plummet.

STRONG WOOL (>35 MICRON)

Source: Beef & Lamb NZ

BEEF

GLOBAL ROUNDABOUT

Beef markets are directly feeling the disruptions associated with global spread of COVID-19. Demand from China initially collapsed as ports and vital infrastructure were shut down as parts of the country were quarantined. Beef destined for China was diverted to the US and the lack of competing buyers saw prices fall sharply.

Now we are seeing beef moving back into China as Europe and the US take over as the COVID-19 global hotspots.

SHIFTING POWERS OF GLOBAL MARKETS

Having well-established relationships in the US beef markets were certainly useful when product needed to be diverted away from China at short notice. In this instance the spot buying nature of the US market for manufacturing beef was a blessing, as more product was able to be quickly redirected to this market. However, now that the US is being overwhelmed with its own COVID-19 challenges, we are seeing more beef being directed back into China.

Globally we are seeing much greater demand for the types of beef that can be consumed at home, rather than the cuts which are typically consumed at restaurants. As parts of the US went into shut-down mode there was a run on beef at the supermarkets, with domestic beef wholesale prices shooting up dramatically. Unfortunately, these heady prices were not extended to the market for imported beef, as consumers were primarily looking for fresh cuts of beef that they could then freeze down at home.

The New Zealand beef supplied into the US is typically in frozen format and then ground down and combined with local meat (usually fat trimmings) to get the right consistency for burgers. In the US, fast food restaurants such as McDonalds are still operating but in-store dining options have been removed, leaving just drive-thru and home-delivery options.

The US beef market is primarily supplied by its own domestic beef, but this is supplemented by imported lean beef primarily from Australia, New Zealand and a little from Uruguay. In late February Brazil – the world's largest beef exporter – regained access to the US market. In 2019 Brazil exported nearly 1.6b tonne of beef with about 700,000t being exported to China.

In comparison, NZ exports about 400,000t of beef each year, with the US traditionally accounting for about half of this volume. Last season the volume exported to the US plummeted to just 133,500t, whilst beef exports to China nearly doubled to 171,500t.

Brazil could potentially displace beef exports from both New Zealand and Australia destined for the US. However, to do this they may end up giving up some market share in China.

New Zealand exporters will need to carefully consider where they decide to sell their produce in the future.

The disruptions to markets caused by COVID-19 has highlighted that no matter what market you are supplying, in a crisis period, what really counts is the strength of relationships held along the supply chain. Understanding and traceability of the supply chain from farm to consumer is paramount when trying to get product into market in challenging times, and also to extract maximum value at any time.

AFRICAN SWINE FEVER STILL AN ISSUE

The problem of African swine fever (ASF) has not dissipated. Outbreaks are continuing in many countries with Papua New Guinea being one of the latest added to the list.

In China government support is mainly being directed towards the larger-scale industrial farming operations, with many of the backyard pig farming operations going out of business. This is a similar response that that seen in the dairy industry post the melamine crisis.

BEEF

Protein shortages still exist in China, but were partially alleviated but lower consumption during the Chinese New Year period.

IMPORTED FEEDS GETTING EXPENSIVE

The cost of feed for cattle and pigs is also expected to increase globally as food production is favoured over feed production. The problem is not that the feed hasn't been grown; it is just that it is not in the countries where it is needed. Getting products like soymeal from Argentina to China is becoming more challenging as ports prioritise essential goods over feed export and imports.

As feed costs rise, there is a greater incentive to import meat rather than feed. Therefore it is expected that China will continue to need to fill its protein hole with imported products. However, as jobs security falls, consumers will be warier of spending earnings on luxury-type goods – a definition that for many Chinese consumers will include beef. Therefore demand for imported beef is expected to grow much more slowly in the future than seen in the past couple of years.

FARMGATE PRICES TREND DOWN SHARPLY

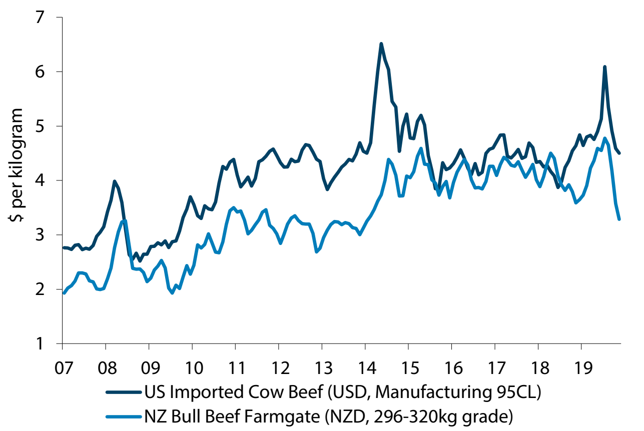
The price of imported beef has fallen about 12% in international markets in the past three months. However, at the farmgate level the price of manufacturing grade cow is back about 30% and bull is down 22%. This differential is partially due to a decrease in procurement pressure.

EXPECT DELAYS FOR CULL COWS

The cull cow season is really just getting underway, with the weaning of beef calves and dairy cows being progressively dried off from now until the end of May. Delays in processing are highly likely as the meat processors are not able to work at full capacity during the lockdown period, as discussed. For the season to date (October to February) the number of cows processed is already 11% up on the same time last season but the main culling season is only just getting underway.

Due to the restrictions in the processing capacity, alongside strong demand to get stock culled, further decreases in schedule prices are anticipated.

COW MEAT PRICES



Source: AgriHQ

DEER

TOUGH TIME TO SELL HIGH-END PRODUCTS

Farmgate returns for venison are trending down as global conditions for selling high-end products like venison are very challenging. Velvet returns have also eased a little, but in-market prices remain favourable.

The main processing season for both venison and velvet is over, so the current market disruptions are not having as drastic an impact at the farmgate level as they would at the height of the processing season. However, with global economic conditions expected to be subdued for years to come, it will become a much more challenging environment to market high-value goods such as velvet and venison.

RESTAURANT TRADE GRINDS TO A HALT

It is not a great time to be selling a high-end product – one primarily consumed at restaurants – to countries that are mainly in lockdown. Europe is the largest market for venison, followed by the United States. These markets, now the epicentre for the COVID-19 outbreaks, are in various stages of lockdown and therefore their restaurant trade is virtually non-existent.

Venison exporters are pushing product into retail channels, but there would have to be a major step-up in at-home consumption to offset losses from the restaurant trade. As venison is priced higher than many other forms of protein it is not likely to be the first meat to be placed in the supermarket trolley by budget-conscious shoppers. That said, its low-fat properties are likely to be favoured amongst health-conscious consumers and the more adventurous home chefs.

Outside of Europe the main growth markets for our venison have been the United States and China. The United States now has its own battles with COVID-19 and there are still issues getting venison into China.

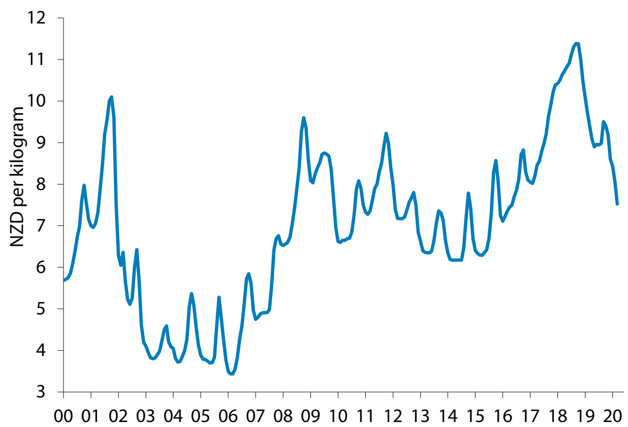
DEMAND FOR VELVET AS MEDICINE

Velvet continues to be sold into China and South Korea. Demand for velvet is expected to be underpinned by its use as a traditional medicine, but in recent years much of the marketing effort has been to move velvet into high-end health foods. These foods are expensive, and demand for these goods is therefore likely to be negatively impacted by the economic shocks these countries are currently experiencing.

FARMGATE PRICES LOWEST IN FIVE YEARS

Farmgate prices for venison have fallen to $7.30/kg CW for young stags. This is the lowest level seen since March 2016. Farmgate prices are currently 15% lower than they have averaged in March for the past five years.

FARMGATE VENISON PRICE (60G STAG)



Source: AgriHQ, ANZ Research

GRAIN

PKE IN SHORT SUPPLY

Prices for feed grains have generally eased slightly in the past month, although maize grain and maize silage prices have firmed. Meanwhile prices for palm kernel (PKE) have skyrocketed due to supply issues.

CONDITIONS FAVOURABLE FOR HARVEST

Dry weather through the main harvest period helped with the delivery of a quality harvest. Yields were generally favourable with the exception of some Southland farms that were impacted by the flooding earlier on.

The drought has kept supplementary feed front of mind for many dairy farmers, but purchasing supplement is now being done in a much more prudent manner, with feed only added where a definite result is to be gained.

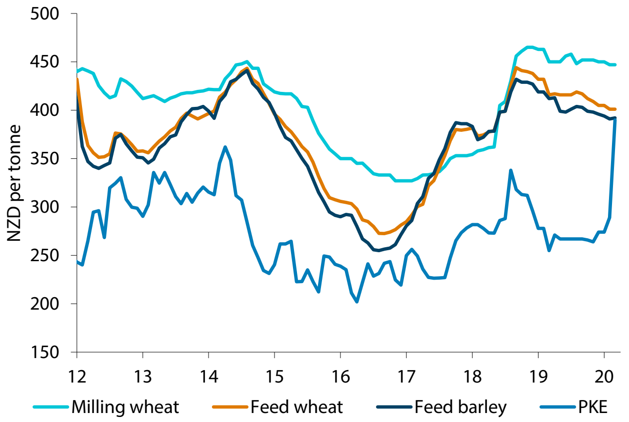
PKE HARD TO SOURCE

Palm kernel pricing has shot up in recent weeks, with latest quotes around the $390/t level. The supply of PKE coming into New Zealand is temporarily interrupted, as harvesting of palm oil in Malaysia and Indonesia has ground to a halt due to movement restrictions put in place to stem the spread of COVID-19. If no palm oil is harvested then there will be no by-product to export.

However the harvest of palm oil is now deemed essential so will continue despite the shutdowns. This means the availability of PKE may only be temporarily disrupted. While supplies remain uncertain prices are expected to remain elevated.

Imports of PKE been this season have been lower than usual as the dairy industry is starting to use this feed in a more restrained manner and importers have avoided buying they may not be able to sell. Imports in the six months to February 2020 were down 100,000t, or about 12% on the same time the previous season.

NZ GRAIN PRICES



Source: NZX

FEED INDUSTRY IS OPERATING

The feed service industry is able to continue to operate through the Level 4 lockdown as they are considered an essential industry.

Given the shortage of pasture at present, demand for PKE did strengthen as dairy farmers in particular looked to plug their feed shortages in order to keep cows in milk. It is looking highly likely that the milk price that will be paid this season will be well above next season's price. In this situation there is an incentive to maximise current season production, even if it has a small detrimental impact on next season's production.

PKE prices were quite low earlier in the season and at those prices adding some PKE to the daily intake of cows to extend the production season would have made financial sense, and many farms did contract supply at reasonable prices. However, now that prices have lifted in such a spectacular fashion, moving to a higher-quality feed grain would be a more favourable option when considered solely from a value perspective. Of course in practice it isn't quite so easy to quickly switch between feed types, which is why there was still reasonable demand at the higher recent prices.

FORESTRY

FORESTRY

Felling of trees has ground to a halt as forestry is deemed one of the few primary industries that is not an 'essential service'. It's not all bad; the timing of the shutdown will allow markets to work through their abundant existing supplies, which may be supportive of prices in the longer term. Meanwhile a focus locally to rebuild our domestic market processing capability may result in a lesser long-term reliance on export markets.

Log felling in New Zealand has shut down while the Level 4 restrictions are in place. Leading up to the shutdown the industry was already working at a lower level than normal due to low log prices making it not profitable to fell some stands of trees.

GOVERNMENT PACKAGE PROVIDES SHORT-TERM RELIEF

The government relief package that helps support incomes while there is no work has been welcomed by forestry workers and the industry alike. Aside from the general relief package which supports businesses to retain employees, a specific $100m package for the forestry industry was announced. The forestry-specific package included redeploying forestry workers into other sectors such as conservation activities and roading work and maintenance.

PORTS CLOSED FOR LOG EXPORTS

The shutdown also applies to exports of logs. Ships that were in the process of being loaded when the shutdown was announced were able to continue to on-board logs, but remaining logs were not able to be loaded. This means that some logs that have been felled may end up sitting around for several months, which is not ideal as the quality of the logs start to deteriorate once felled.

Slowing exports from New Zealand will drastically cut incomes for log exporters, and will have short-term financial implications. However, it will provide an opportunity stocks to clear that have built up in-market and caused depressed prices. Stocks of logs on Chinese ports increased significantly while parts of China were in shut-down mode.

WORK RESUMES IN CHINA

Now that work is resuming in China, demand for logs is picking up again. The improved demand combined with reduced supply will allow stocks to be worked through and is expected to be supportive of prices.

WORK RESUMPTION INDEX

	25-Feb	3-Mar	10-Mar	17-Mar
Resumption index	24.03	52.41	63.62	69.39

Source: Baidu, ANZ Research

Prices for some grades of logs have lifted slightly in the past month, primarily due to improvement in the China market.

There is some risk that New Zealand will lose market share in China to our competitors during the shut-down period, but supply from many other regions is constrained as well. Felling of timber in Europe has also largely ceased due to their own challenges with COVID-19.

WARM WINTER FOR RUSSIA HINDERS LOG EXPORTS

Record-warm temperature in Russia this winter has made it difficult to move logs, which is restricting exports. The industry relies on ice roads in some regions, while in other regions permanent roads and bridges are

FORESTRY

collapsing due to the widespread melting of permafrost. The land border between Russia and China was closed due to the COVID-19 outbreak in China, which restricted movement of people between the countries and ongoing closures are expected.

Uruguay pushed more logs into India when it was difficult to export to China. However, the profitability of exporting logs from Uruguay at current prices has to be questioned. India has now moved into shutdown mode to try to fight COVID-19. It will be an extremely challenging time for India and therefore demand for logs from this market is expected to be very limited for an extended period of time.

TARIFFS ON US LUMBER SCRAPPED

One factor that may impact demand from China for New Zealand logs is the removal of tariffs on lumber sourced from North America. As part of the US-China phase 1 trade agreement lumber tariffs have been scrapped. This lumber indirectly competes with logs sourced from New Zealand, as some of the better-quality logs we supply are used to manufacture furniture and plywood.

INFRASTRUCTURE INVESTMENT IN NEW ZEALAND

Government spending on infrastructure projects is expected to significantly increase in the coming years as the Government looks to propel growth to offset some of the economic damage done by COVID-19. These projects will include traditional roading and transportation projects, but we may also see increased investment in social housing, hospitals, schools and environmental projects. This may create some increased domestic demand for timber, but also for the skills and machinery currently held within the forestry sector.

HORTICULTURE

LOGISTICS CHALLENGES FOR EXPORTERS

Harvest is in full swing for our main horticultural export crops – apples, kiwifruit and wine. Crops are in good condition with excellent yields expected – the challenge will be getting all the fruit picked and processed.

Operating conditions are challenging, as is securing sufficient labour. Whilst the sector can operate under lockdown, strict rules are in place limiting how close people can stand, which will limit throughput in the pack-houses.

There are also fewer workers available due to some regular staff unable to work due to family circumstances, RSE workers not making it into New Zealand, and fewer back-packers being available. Displaced workers from other sectors are filling some of these vacancies, but a labour shortage means it is likely that some fruit won't get picked.

Another limiting factor is a lack of cool-storage facilities and a shortage of refrigerated containers (reefers), which is likely to slow-down exports. Cool-store space has not kept up with the growth in the number of orchards, resulting in a high reliance on quickly moving goods to market. This is now proving challenging due to a shortage of reefers.

APPLES: WEATHER FAVOURABLE

The growing season has generally been favourable for the pipfruit sector. Plenty of sunshine has resulted in good fruit colour. Access to water for irrigation was generally sufficient in both the Nelson/Motueka region and Hawke's Bay.

The pear season is now complete, but the number of pears being grown continues to decline in favour of apples. The apple harvest is in full swing in all regions. It is going to be a really challenging season this year from a logistics point of view, with pickers and packers already in short supply. This situation will only get worse should any cases of COVID-19 break out within picking and packing teams. All feasible preventative measures are being taken but can't fully eliminate risks.

Local displaced workers are stepping in to pick apples in some instances, but it takes a while to learn the ropes, with productivity levels generally quite low in the first few weeks on the job.

Adding to the challenge is getting produce through the cool stores, into containers and onto ships in a timely manner. Ports in New Zealand remain open to essential cargo such as fruit, but there is some congestion as non-essential items are not being cleared. Ports will work through these challenges but there is a real risk that there won't be sufficient cool store capacity for what looks to be a bumper harvest.

There is a lack of cool storage capacity in both Hawke's Bay and in the Nelson/Motueka regions, despite significant recent investment in cool store space.

VITICULTURE: GOOD VINTAGE ANTICIPATED

The weather has been favourable for the harvest with long sunny days leading up to picking. The harvest is well progressed, with just some of the later-maturing varieties and later regions still to pick.

While this season's harvest is looking good in terms of quality, the challenge is going to be selling the wine. Export markets are expected to be tough going, and domestic wine sales will also be challenging without tourists and cellar door sales. At-home wine consumption is expected to lift markedly but this is unlikely to compensate for the normal throughput of restaurants and bars.

HORTICULTURE

KIWIFRUIT: CHALLENGING SEASON AHEAD

It will be a challenging season for the industry this year as the COVID-19 lockdown period has coincided with the early harvest period.

Sungold fruit matures earlier than green varieties, and the gold fruit is much more sensitive to the timing of picking and how it is handled and stored. Therefore it is important to minimise delays getting bins to cool storage. Processing or shipping delays could result in a deterioration of fruit quality. The gold harvest is now 20% completed but harvesting of green varieties is just getting underway.

The first shipment of NZ kiwifruit for the season has now reached Japan. Zespri plans to charter 47 vessels this season to carry fruit to its various markets. Chartering vessels provides more flexibility to enter a country through a variety of ports, meaning port congestion can be avoided. Ports in China are nearly operating as normal again but there are likely to be challenges getting fruit into European markets this year as critical logistical infrastructure becomes strained by a lack of available workers.

The release of a further 750 hectares of Gold3 (SunGold) and 150ha of Red19 will proceed as planned this year, but the tender period has been pushed back three weeks. Bids will now open on April 24, and tenders will be submitted electronically.

Orchard gate returns are forecast to be lower this season than last, with current market conditions creating a greater level of uncertainty than normal. This season Organic Gold has its own payment pool, having previously been part of the standard Gold pool.

ZESPRI ORCHARD GATE RETURN FORECASTS AS AT 18 MARCH 2020

Variety	2020 season	2019 season (Feb 2020 forecast)
Green	$4.00 - $6.00	$6.46
Organic Green	$6.00 - $9.00	$9.65
Gold	$7.50 - $11.00	$11.71
Organic Gold	$9.00 - $13.00	N/A
Green14	$4.50 - $7.50	$7.65

Source: Zespri

RURAL PROPERTY MARKET

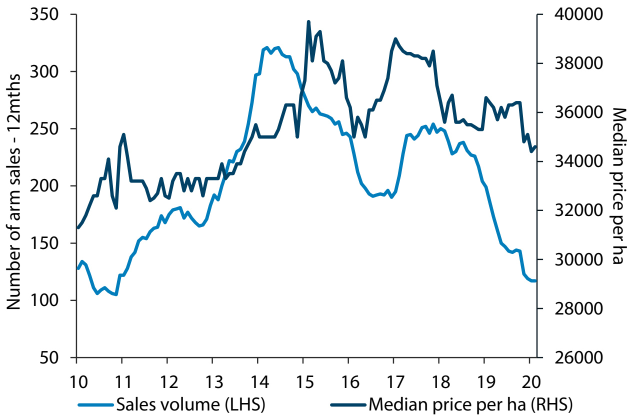
SALES DRY UP

The rural real estate market generally starts to slow down at this time of the season but this year it is expected to come to an abrupt halt as viewing properties becomes increasingly difficult. Weakening farmgate prices will make sales even more difficult in what is already challenging market.

DAIRY LAND SLOW TO SELL

A number of dairy properties have changed hands in the past year, but volumes are back on last year and well below normal levels. In the 12 months to February, 117 dairy and dairy support properties were traded, with no sales recorded for the month of February at all. Prices on average were back about 5% to an average price of $34,600/ha. The median selling prices for dairy farms has declined to $3.45m, from over $4m in 2015. This reflects both the softening of land values on a per hectare basis and also the fact that smaller-sized properties are selling more readily than the larger-scale farms.

DAIRY FARM SALES – 12 MONTH ROLLING AVERAGE



Source: REINZ, ANZ Research

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	117	186	206	↓	↓
	Median Price ($ per ha)	34,600	36,400	35,348	↓	↓
Livestock	Number of Sales	777	938	964	↓	↓
	Median Price ($ per ha)	17,800	18,000	17,097	↓	↑
Horticulture	Number of Sales	166	185	178	↓	↓
	Median Price ($ per ha)	236,000	207,000	173,608	↑	↑
Arable	Number of Sales	80	88	89	↓	↓
	Median Price ($ per ha)	25,900	37,300	32,822	↓	↓
Forestry	Number of Sales	41	55	50	↓	↓
	Median Price ($ per ha)	13,300	7,460	6,570	↑	↑
All Farms	Number of Sales	1,236	1,458	1,490	↓	↓
	Median Price ($ per ha)	23,300	24,600	23,299	↓	↑

Source: REINZ

RURAL PROPERTY MARKET

GRAZING AND ARABLE SLIGHTLY SOFTER

Sales of grazing properties and cropping properties have also waned. In the past 12 months 777 grazing properties changed hands, along with 80 arable properties.

HORTICULTURE

Average price of horticulture properties traded in the 12 months to February also softened a little. But with a wide range of properties on offer in this sector, very little can be read into these numbers.

TAKING LONGER TO SELL

Properties are taking longer to sell than normal. The median number of days dairy farm properties are listed for has increased to 133 days (nearly 5 months), while grazing properties are selling in 85 days. There are also regional differences, with listings in Taranaki taking the longest to sell at 143 days, whilst properties in the Bay of Plenty are being listed for a median of only 52 days. There has also been a significant shortening on the number of days for which properties in the West Coast are listed. This is directly linked to Yili buying Westland Milk Products, which guaranteed suppliers would be paid a milk price competitive with Fonterra's. The median days West Coast properties were listed fell from 280 days last year to just 57 days in the three months to February.

The REINZ All Farm Price Index median price has softened by 14% over the past year. Further weakening in land prices is anticipated over the next 12 months.

ALL FARM PRICE INDEX

Source: REINZ

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