



ANZ RESEARCH
AGRI FOCUS
DECEMBER 2020

FREIGHT CHALLENGES ABOUND



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Publication date: 4 December 2020

Global uncertainty remains heightened, making it difficult to forecast returns for the season ahead. Generally commodity prices are holding up better than expected in the current environment. Meat prices are expected to come under more pressure as larger volumes of stock are processed.

Disruption to normal supply patterns has now resulted in congestion in shipping as buyers panic about restocking shelves with consumer items. This is resulting in congestion at ports and reduced access to shipping containers due to longer turnaround times. Congestion at our local ports is not helping either.

The rising NZ dollar is also eroding returns.

Trade tensions remain high on a global scale with tensions between Australia and China recently escalating. NZ politicians and diplomats need to continue to build relationships in China so they can make their concerns heard without putting our trading relationship at risk. The recent signing of the [RCEP trade](#) agreement won't deliver much in terms of tariff reductions for our exporters but will certainly help facilitate trade.

Brexit uncertainties remain. It looks like the EU quota for NZ sheepmeat, dairy and beef will be split on December 31 between the UK and the remaining 27 member states based historic export volumes. This reduces the flexibility around supply to each of these markets in the future and is not the outcome desired by our exporters.

Despite the uncertain times, demand for NZ export goods remains steady, but returns this season will not be exceptional for any industry.

Horticultural goods have generally fared reasonably well. Next season's export volumes may be curtailed if sufficient labour can't be recruited for the harvest period. The Government has recognised the importance of foreign workers and has recently allowed some workers to enter New Zealand, but nowhere near enough to fill the current shortage.

Weather conditions have been favourable for pasture production this spring, which is reflected in elevated milk output and current demand for store stock. Many farms remain understocked after last season's drought, which is making it harder to control pasture quality.

Prices at farm/orchard level relative to 10yr average

Dairy	Dairy markets continue to display resilience, which provides some upside risk to our milk price forecast of \$6.70/kg MS for the 2020/21 season.	<p>Milk price</p> <p>Low High</p>
Sheep	Farmgate prices are holding for now but are expected to fall sharply as larger volumes of new season lambs start to become available. Plenty of feed and lower stocking rates is reducing the urgency to offload.	<p>19kg lamb</p> <p>Low High</p>
Beef	Beef returns are being supported by a lack of stock available for processing due to the high quantity of pasture currently available.	<p>Prime steer</p> <p>Low High</p>
Forestry	Log prices have continued to trending up again. There has been strong local demand for timber for housing and while demand from China also remains robust.	<p>A-grade log</p> <p>Low High</p>



ECONOMIC OVERVIEW

DOING BETTER THAN EXPECTED

Economic uncertainty remains elevated as the world continues to focus on managing the health risks associated with COVID-19. In the Northern Hemisphere a second wave of lockdowns and ongoing elevated infection rates remain a concern. News that a vaccine may be on its way is certainly welcome, but this is not expected to be widely available until late 2021. In the interim, movement restrictions are still the main tool to contain the spread of the disease and prevent health systems from being overrun. But the New Zealand economy is certainly doing far better than looked likely six months ago.

New Zealand's economy has outperformed expectations this year, as both fiscal and monetary policy have leapt into action to support incomes and activity. The labour market has remained much more resilient than expected and the strength of the housing market, while having lots of unfortunate side effects, has certainly created a buzz on the street and supported spending.

The strength of the housing market, along with a sharp rebound in business activity indicators, make [it less likely further OCR cuts will be required](#). However, we aren't completely out of the woods yet. Some policies such as the generous wage subsidy program have now run their course. A vaccine is on the horizon but for now, renewed lockdown measures are hammering Northern Hemisphere economies anew. And the tourism story is only just starting to play out. The impact of the closed borders will be felt most acutely during the summer months. With no inbound tourists our hospitality and tourism sectors will struggle.

Kiwis are currently spending like there is no tomorrow due to the income cushion provided by the wage subsidy, the substitution of domestic spending for overseas holidays, and the paper wealth boost for homeowners from the housing boom. Anecdotally the labour market has also tightened up again, meaning job security is far better than looked likely some months ago. But the fact is, domestic tourists can't fill the gaping hole left by high-

spending foreigners. A barbeque while camped at the beach doesn't add a whole lot to GDP – for all it is great for wellbeing!

The hole in our economy created by the closed borders will be difficult to fill, and a mismatch in skills between sectors shedding staff and those looking to hire will exacerbate the problem. The primary sector is doing remarkably well in the circumstances, but export returns are generally softening. Export volumes are also likely to be lower this season. Many farms have lower than normal livestock numbers due to last season's drought. Horticultural exports may also be compromised by a lack of staff to harvest fruit.

Even sectors that are tracking along alright are finding it much more challenging than normal to secure orders and get product to markets.

DISRUPTIONS TO SHIPPING

Shipping of goods into and out of New Zealand is being disrupted due to a global shortage of shipping containers. There has been an uplift in demand for goods moving across the Pacific from east to west, ie from Asia (mainly China) to the US, as US retailers restock shelves ahead of the festive season. Consequently, ships and containers are being diverted to this part of the world and port throughput has slowed in many parts of the world. The result is that many goods sit in containers for longer periods of time – adding to the shortage of containers. Delays and backlogs at ports have exacerbated the shortage of shipping containers by preventing them from being efficiently recirculated.

This has resulted in delays in getting goods into New Zealand and we are already seeing some lines of goods simply run out of stock. Exporters are also finding it challenging getting goods to market. Dairy product exports are near their seasonal peak volumes and exporters are finding they need to plan to ship goods much earlier than normal to allow for delays at ports, and disrupted sailing schedules.



ECONOMIC OVERVIEW

Accessing containers is becoming challenging – particularly the refrigerated containers (reefers) required to export meat, fruit and some dairy products. The main exporting season for meat and fruit is yet to get underway, but it is looking like the logistics could be even more challenging than last season when these industries operated in Level 4 lockdown conditions.

The quantity of goods being traded globally now is now playing catch-up after trade volumes slowed earlier in the year due to COVID-19 and rising trade tensions. The RWI/ISL Container Throughput Index, which measures the quantity of containers going through 60% of the world's ports, is at record levels.

WORLD RWI/ISL CONTAINER THROUGHPUT INDEX



Source: RWI, Macrobond, ANZ Research

PORT ISSUES NOT HELPING

Ongoing delays and extra charges at the Auckland port are having flow-on effects as goods are being diverted to Tauranga or ships are simply bypassing our ports altogether. The extra volume moving into Tauranga is

CONTAINER FREIGHT RATE INDEX - CHINA TO AUSTRALIA/NZ SERVICE



Source: RWI, Macrobond, ANZ Research

putting pressure on the rail and road infrastructure to Auckland.

There is also severe port congestion elsewhere. Port congestion charges have also been added by shipping companies to containers going to several Chinese ports to compensate for the delays getting boats unloaded. This is adding at least USD1000 to the cost of shipping a container. There are options to use other ports that are less congested, but that is likely to result in extra internal freight charges.

The current logistical challenges are resulting in additional freight costs for both exporters and importers. The cost of shipping a 40ft container has doubled in the past year.

DOWNWARD PRESSURE ON RETURNS

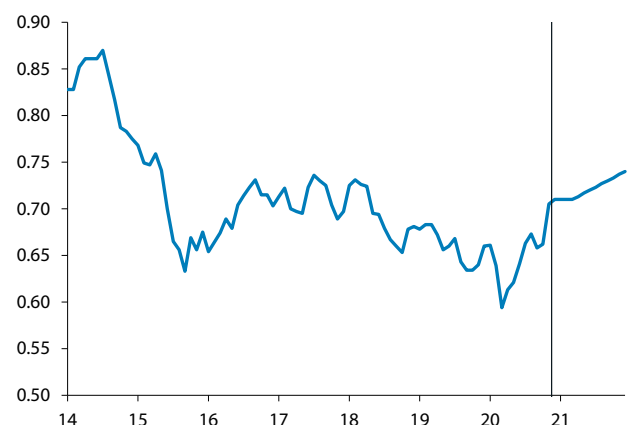
Overall, the cost of exporting goods is becoming more expensive and this will ultimately be borne by the producer. Further eroding returns at the farmgate level is the appreciating NZ dollar. The NZD is now trading above USD0.70 and will potentially trend higher from here as New Zealand remains a good news story and the USD remains under pressure.

This lift in the NZD will directly reduce returns at the farmgate level – particularly for products which are typically sold on the spot market with limited foreign exchange hedging in place.

The lift in the NZD has been driven primarily by a broader reduction in the value of the USD. The currencies of many of our trading partners have also appreciated against the USD, meaning their purchasing power versus New Zealand hasn't diminished as much. But overall the NZD is firmer, with the Trade Weighted Index (TWI) gaining 5% over the past two months.

We expect the NZD will continue to appreciate and now forecast it a lift to USD0.74 by the end of 2021.

NZD BUYS USD



Source: Bloomberg, ANZ Research

DAIRY

RESILIENCE

Dairy markets continue to surprise to the upside, though heightened levels of uncertainty remain. But we are now far enough through the current dairy season to gain some degree of certainty over the milk price payout. Our milk price forecast for the current season was upgraded in November to \$6.70/kg MS. Strong milk production volumes are expected to put downward pressure on commodity prices, but exactly when this will occur depends on the strength of underlying consumer demand for dairy products.

GLOBAL MARKETS DOING WELL

Global markets for dairy products are outperforming other products. We have seen some volatility in pricing on the Global Dairy Trade platform through November, but overall prices for milk powders are doing very well considering the state of the global economy.

Risks remain high on both the supply and demand side of the equation. Demand has thus far brushed aside the deteriorating economic situation but a reduced consumption of dairy products remains a real risk.

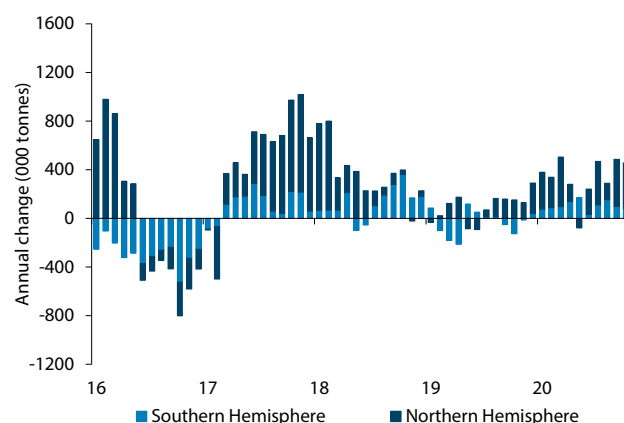
China's economy is performing better than most, which is extremely helpful given it is by far the world's largest importer of dairy products. However, it is always difficult to judge just how much product is actually being consumed in this market and how much is being stored. If stocks are building, then demand for imported products could wane early in the New Year.

MILK SUPPLY GROWTH IN MAJOR EXPORT REGIONS

The other major risk is the growth in milk supply in the main dairy-exporting countries. New Zealand, the EU, and the US dominate global exports of dairy products. Growth in milk supply in New Zealand is modest at present and this trend is expected to continue for

the foreseeable future, as tightening environmental standards and reduced reliance on imported feeds curb milk production.

MILK PRODUCTION GROWTH MAIN EXPORTING COUNTRIES



Source: DCANZ, Dairy Australia, Eurostat, USDA, CLAL, ANZ Research

In Europe, the milk supply is also expanding. September volumes were up 1.3% y/y but more recent data from some member countries show output has eased in October. The rate of growth is still enough to put pressure on pricing, given demand is compromised somewhat by the reoccurring lockdowns that continue to disrupt food service businesses.

The United States is one region where we are seeing significant growth in milk output. This growth has been driven by strong returns at the farmgate. Dairy commodity prices in the US have been supported by aid programs aimed to supply food to the poor. Dairy products are not often included in these packages but when COVID-19 hit the US earlier this year an extensive food aid package was delivered, which included cheese.



DAIRY

CHEESE PRICES VOLATILE

Cheese pricing has been extremely volatile in recent months in the US. Cheese prices spiked in July, normalised in August, and then spiked again in September – driven largely by extensions to the aid program. But prices then came crashing down in late November as markets finally recognised that rapid milk supply growth, weak cheese exports and subdued domestic demand don't make for a strong picture.

Milk production in the US grew by 2.3% y/y in both September and October. This is a really strong rate of growth and well above the average rate of growth over the past decade of 1.4%.

There has been an increase in the volume of dairy products exported from the US, but this has mainly been in the form of whey. The US is a large supplier of feed grade whey to China, primarily used to feed pigs. As China's pig numbers recover following the African Swine Fever outbreak, demand for feed has increased.

MORE US SKIM MILK POWDER IN ASIA

The other trend in US exports is the growth in the volume of skim milk powder being exported to Asia. Demand from Mexico is currently weak so US exporters are pushing more skim milk powder into the Asian markets. That directly impacts New Zealand. Most of the US powder is going into south-east Asia, with some extra product moving into China.

New Zealand and the US have always competed in these markets. NZ product tends to be favoured by buyers looking for a consistently high-quality product, while US product is often favoured by more price-sensitive buyers.

Overall the growth in global milk production is a trend that we are watching closely. It is difficult to envisage prices lifting any time soon given the volumes of milk being produced. It is much easier to see reasons for prices to soften.

Futures markets show a relatively flat forward pricing curve for milk powders, but there is some expectation that butter prices could firm further from here. However, the markets are not pricing in any substantial fall in pricing occurring any time soon.

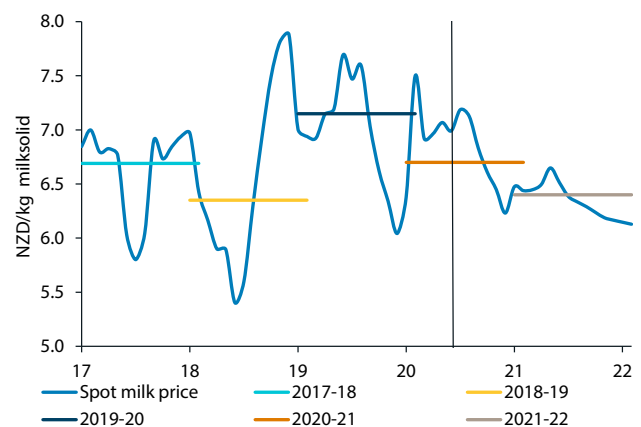
MILK PRICE FUTURES ABOVE FORECAST

NZX milk price futures are actually trading considerably higher than our own forecast for the current dairy season and next season. Milk price futures are currently priced at \$7.00/kg MS for the 2020-21 season and at \$6.80/kg MS

for next season. Meanwhile we have forecast \$6.70/kg MS for the current season and \$6.40/kg MS for next season.

The recent uptick in commodity prices has been partially offset by the stronger NZD, however currency hedging also mitigates the impact on the current seasons' milk price. Based on pricing for the season-to-date there is some upside risk in our current milk price forecast. We have chosen to take a slightly more conservative view due to the extreme levels of uncertainty which currently exist.

MILK PRICE – HISTORIC AND FORECAST



Source: Fonterra, NZX, ANZ Research

Given this global uncertainty, growth in global milk supplies, and the recent upward pressure on the NZD it is surprising to see milk price futures currently priced well above the long-run average milk price. This is particularly pertinent to the 2021-22 milk price futures.

The farmgate milk price has averaged \$6.25/kg MS over the past decade and prices have only exceeded \$6.70/kg MS three times in the past decade.

Fonterra has recently narrowed its milk price forecast to \$6.70 - \$7.30/kgMS which lifts the mid-point 20c to \$7.00/kg MS. The Co-op says it has a good portion of its sales contracted which has provided the confidence to lift its forecast farmgate milk price. Fonterra says its financial performance is on track to deliver within its forecast earnings range of 20c – 35c per share. It says it is currently tracking above the mid-point of the earnings range. Only a portion of earnings is returned to shareholders, but at this stage there is some upside risk in our dividend forecast of 10c per share.

LAMB & WOOL

AVERAGE SEASON AHEAD

Lamb prices at the farmgate level have been relatively steady for the past couple of months. International prices have stabilised, but we expect downward pressure on schedule prices once large volumes of new season lambs become available.

FARMGATE RETURNS SUBDUED

Farmgate returns for lamb will be subdued this season, but this will be partially offset by heavier kill weights. We anticipate lamb schedules will dip below \$6 early in 2021 once substantial numbers of lambs become available. International market prices simply do not justify processors paying higher prices. Margins are also being eroded by the appreciation of the NZD.

There will be less lamb available for export this season. The downward trend in ewe numbers has continued, with last season's drought speeding the rate of decrease. Many east coast farms remain understocked.

Dry conditions at mating time last season negatively impacted conception rates, and fewer hoggets were put to the ram, reducing the number of lambs born this season. Beef & Lamb NZ estimate 1 million fewer lambs (-4.2%) were docked (tailed) this spring, despite good lamb survival rates. The national lambing percentage is estimated at 132%, its lowest rate in five years.

Most farms currently have plenty of feed to hand. Conditions were drier than normal during the winter and spring, which minimised pasture damage, but there has now been sufficient rain in most regions to ensure good spring growth. The lower stocking rates on many farms have also resulted in more feed on hand.

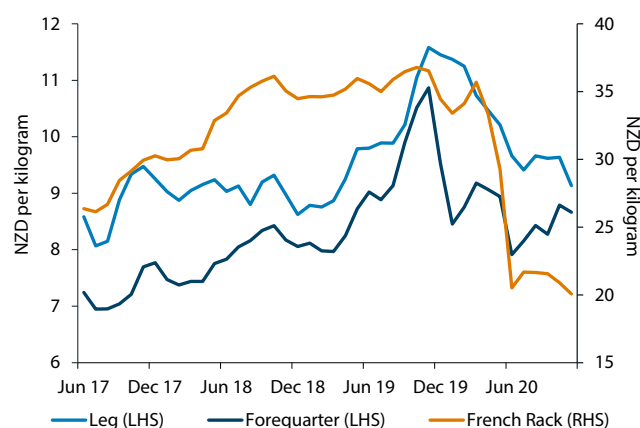
Lambs are generally growing well, so we expect to see a lift in the average weight at which lambs are processed this season – particularly compared to last season where extensive droughts meant some lambs were killed at weights lighter than optimal.

Weather conditions have generally been favourable for planting summer feed crops. Relatively dry conditions early in the season allowed paddocks to be cultivated earlier than normal, while recent rains have helped crops get established. Soil moisture is generally low. This has not been a problem so far but remains a risk for summer production.

GLOBAL RETURNS STILL WEAK

At present global returns for lamb cuts barely justify the current prices being paid at the farmgate. There is always strong procurement pressure for early-season lambs and this is certainly evident in current pricing. However, once larger volumes of lambs start to flow into the processors, we expect schedule prices to soften fairly quickly – particularly if the NZD appreciates further.

LAMB CUT PRICES



Source: AgriHQ

International markets for most lamb products remain relatively weak and stocks continue to overhang the market. The cuts that are normally sold into the European and US markets have been challenging to move. Restrictions to manage COVID-19 have reduced demand



LAMB & WOOL

for restaurant-style meat cuts. Frenched racks are priced about 35% lower than their 3-year average, whereas leg prices are back only about 5%.

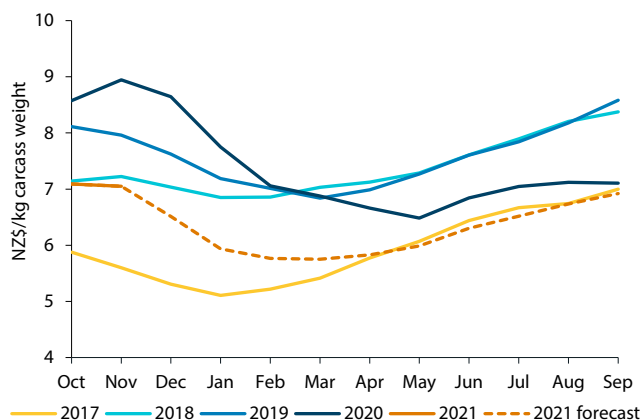
Cuts that are generally sold into the Asian markets are generally doing a lot better as the economic recovery in this region continues. Lamb forequarters have lifted in value over the past couple of months but are still down 14% y/y.

Brexit is still under negotiation but no progress has been made on the NZ quota situation. At this stage the quota will be split between the EU and UK based on the traditional sales split. This will limit the flexibility to deliver product to one market or another. That said, in the near term, given the poor state of the UK and EU economies, overall demand for lamb may be weak anyhow.

LOWER RETURNS IN 2021

There is no doubt that lamb returns won't be as good this season as they have been in the past couple of years. We expect schedule prices will dip below \$6/kg CW during the first quarter of 2021. This means prices will be about \$1/kg CW lower than the level achieved in recent years during the peak supply months.

FARMGATE LAMB PRICE TREND AND FORECAST

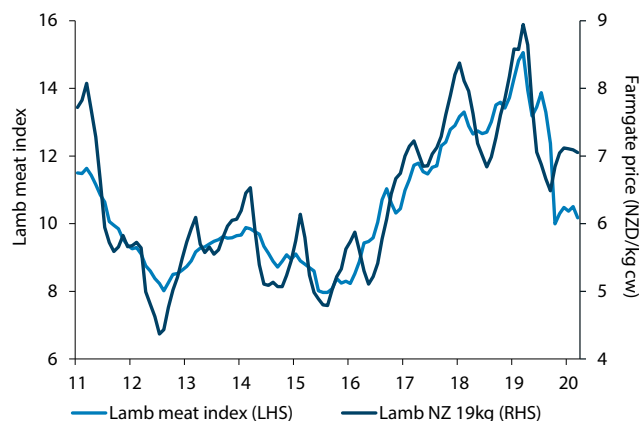


Source: AgriHQ, ANZ Research

Our forecast is less bullish than Beef & Lamb NZ, who forecast a weighted average farmgate price of \$6.65/kg CW in their New Season Outlook for the 2020-21 season.

This season there will be a real trade-off between getting lambs away early at reasonable prices, versus growing lambs out to heavier weights but taking on more market uncertainty.

FARMGATE PRICE VS OVERSEAS MEAT PRICES



Source: AgriHQ, ANZ Research

WOOL - STILL A CHALLENGE

Wool returns remain extremely low. Prices are bouncing about but levels remain very low. Returns have lifted a little in the past couple of months but the most recent auctions prices have softened again.

STRONG WOOL (>35MM)



Source: NZWSI, PGG Wrightson

There is little positivity in the industry due to the stocks that have built throughout the supply chain. The quantity of wool exported in the year to July 2020 was down about a third on the previous season, which helps to explain why wool stores have plenty of inventory.

But there are still buyers in the market and wool is selling – just at weak prices.

Wool will continue to move into the supply chain as sheep need to be shorn despite this being an unprofitable practice. We do expect a few less lambs will be shorn prior to slaughter this season due to the low wool prices relative to cost of shearing.

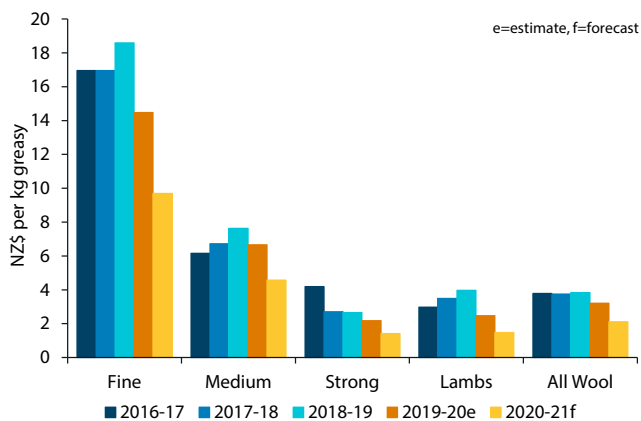


LAMB & WOOL

Shearing may be delayed slightly by a lack of labour. Restrictions at the border mean it is near impossible for Northern Hemisphere shearers to come to New Zealand for the shearing season. If the labour shortage situation doesn't change we may see a few more shepherds and farm owners manning a stand in order to get sheep shorn.

The graph below depicting Beef & Lam NZ's forecasts shows just how weak prices are. Prices for all grades of wool are being impacted. The good news is that at present wool prices aren't quite as dismal as those forecast below. Prices did firm a little during October, but this upward momentum hasn't been maintained.

WOOL PRICE - SEASON AVERAGE



Source: B&LNZ

Merino wool fleeces (18 micron) traded at \$17.90/kg at the November 5 wool auction, while crossbred wool is currently priced closer at about \$2.25/kg. Prices are generally about 30% lower than they were a year ago.

The outlook remains extremely uncertain for the industry.



BEEF

CATTLE DEMAND HIGH

Strong pasture production means cattle are highly sought after at present. Demand is strong for both store and prime stocks. Processors are having to work hard to fill their plants, as most farmers are in a position where they would rather hold onto stock a little longer.

Cattle are highly sought after due to the recent surge in pasture growth. Relatively low stocking rates on many east coast farms mean they are now struggling to control feed.

The weather has been favourable for pasture growth lately with regular rain falling and warm soils being the perfect mix to grow grass.

The need for cattle to munch through feed reserves is making it difficult to processors to procure cattle at present.

PRICES SOFTER THIS SEASON

Prices being offered for prime and store stock are well down on last season. Meat processors schedules are generally tracking about \$1/kg CW lower than last season across all grades of stock. Local trade prices have held up a little better but are still tracking 10-15% lower than last season.

Stock traded at the yards or in the paddock are generally attracting better prices than they were a month ago. This is being driven by the volume of feed on hand at present. Nothing has really changed in the underlying markets.

LIMITED DEMAND FOR YOUNG STOCK

Younger cattle (yearlings) are still trading at quite a discount. Demand for this class of cattle has been weaker than normal due to the greater uncertainty associated with the longer time it takes to finish these stock and therefore get a return on them. Also fresh in the minds of many buyers are the challenges of last season, where it

was near impossible to grow suitable feed for these stock. Buying additional supplementary feed was an expensive exercise and even finding sufficient feed at any price was incredibly difficult and stressful. So it is no wonder that demand for this grade of stock has taken a bit of a backward step this year.

This softer demand has also seen in the price of calves that have been raised for the beef market. Demand for 100kg Friesian bulls is very weak this season, meaning many rearers will barely cover their costs. In the South Island these calves are trading between \$350-400 per head, while in the North Island prices are closer to \$450.

OLDER CATTLE MORE IN VOGUE

Two-year cattle are certainly more sought after than younger cattle at present due to their ability to clean up pastures, gain weight rapidly, and reach finishing weights relatively quickly.

Prices being paid at present for older cattle do look on the expensive side relative to where schedule prices are and the level of underlying markets. Margins on these cattle may be minimal, but given the sheer volume of pasture currently growing it is not surprising to see higher prices being paid.

As anticipated, schedule prices have softened recently, but further downward pressure on pricing looks inevitable. But this probably won't happen until pastures are back to more manageable levels.

INTERNATIONAL PRICES REASONABLE

The US market for imported bull beef is performing okay. Prices are nowhere near the level seen last season but overall demand is holding up. However, returns are being somewhat eroded by the strong NZD. Prices are current 22% lower than they were a year ago in USD terms, but in NZD terms the difference is 28%.



BEEF

MANUFACTURING GRADE BULL BEEF

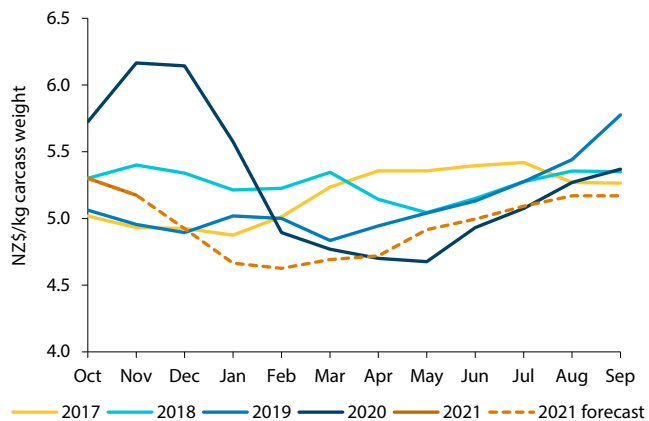


Source: AgriHQ

Further upward pressure on the NZD, softer in-market prices, or a reduction in procurement pressure will all lead to a reduction in farmgate returns.

Based on current prices, the expectation of the NZD appreciation and the typical seasonal movement in prices, we anticipate the schedule for bull beef will fall to about \$4.65 per kg CW by February.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research



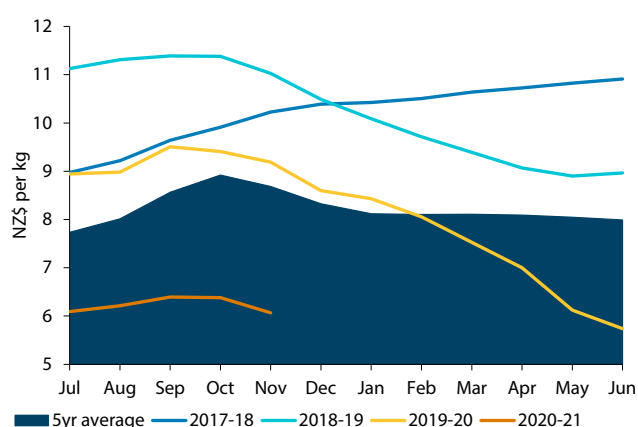
DEER

TOUGH TIMES FOR VENISON

Venison markets continue to be extremely challenging as lockdowns restrict dining-out opportunities and demand. More product is being diverted into retail markets, but returns remain subdued. Velvet is doing okay but is also not immune to the challenges brought about by the global economic downturn.

Farmgate prices for venison are easing in line with the typical seasonal pattern. However, this season the premiums for early-season chilled product were very subdued, reflecting weak underlying market conditions.

FARMGATE VENISON PRICE (60G STAG)



Source: AgriHQ

Venison products have been difficult to move due to the disruption to opportunities to dine out in major European and US markets. With COVID-19 continuing to play havoc in these markets lockdowns are a regular feature, which has had a major detrimental impact on high-end dining. Vaccine developments offer light at the end of the tunnel but some extremely difficult months lie ahead.

Processors are looking to move more product into retail channels, and actively pursuing opportunities in both the domestic and international markets. Breaking into new sales channels is challenging, but some diversification of product is really needed.

HEALTH BENEFITS OF VELVET A VIRTUE

The perceived health benefits of velvet are helping to keep this product top of mind for high-end consumers. Most of the velvet sold out of New Zealand ends up in the hands of high-end Korean consumers, although a portion goes to China. Well-off consumers purchase velvet-based products for their perceived immunity benefits, which are certainly sought after in the current health crisis.

But it hasn't been plain sailing for velvet, and returns at the farmgate level are a little softer than those seen in recent years. Some traders remain cautious about over-committing to purchases in the current economic environment. Financing transactions also isn't quite as easy as it once was.

Logistical issues are also more challenging, including getting product to market, clearing customs, and avoiding delays at ports. These all create financial hurdles which ultimately reduce farmgate returns.

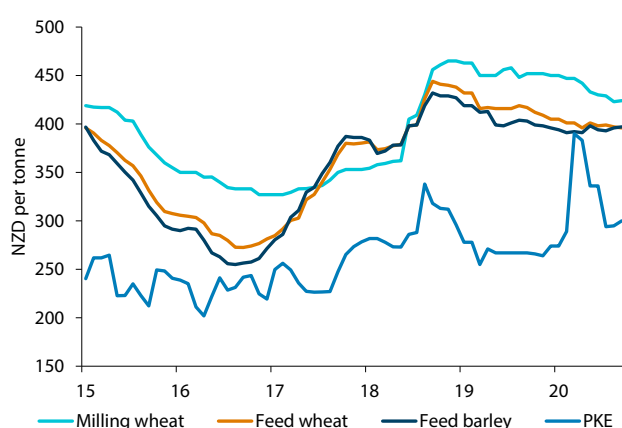
GRAIN

SURPLUS OF FEED WHEAT

Grain pricing is a tad softer this year. The area of land planted in feed barley and feed wheat are similar to last season but there has been a distinct reduction in the land planted in malting barley. Beer consumption has eased, reducing demand, and there is plenty of Australian malting barley looking for a home after being shut out of China.

Prices for feed barley have firmed a little while the opposite has been seen the market for both feed and milling grain wheat.

NZ GRAIN PRICES



Source: AgriHQ

There has been good demand from the dairy industry for barley but little demand for wheat. This has resulted in feed barley trading at a premium to feed wheat, which doesn't typically happen.

SOIL MOISTURE REMAINS A CONCERN

The weather has generally been favourable for planting, although throughout the east coast farmers are still concerned about the lack of soil moisture. Most regions have now received good rainfall, which have been

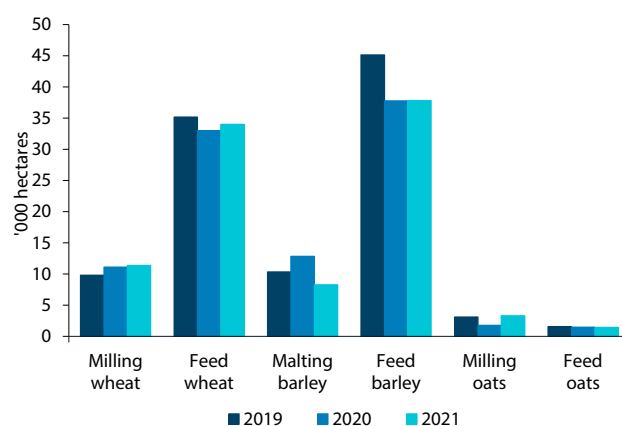
sufficient to get crops established. However, the lack of water to recharge aquifers means irrigated regions may not get the water they require when they need it – a potential risk for some arable crops.

On the other hand the La Nina weather that is forecast may deliver tropical storms later in the summer. This may resolve soil moisture levels but will cause havoc if they arrive near harvest time.

The latest AIMI survey (October 2020) shows the area either planted, or intended to be planted in 2020, is about 2% less than the previous season. More land has been dedicated to wheat, but there has been a sharp fall in the area planted in malting barley. The milling oats area is up sharply but similar in size to plantings two years ago.

With the exception of 2017, the area planted in cereals this year is the lowest in the past decade. At the time of the survey (10 Oct) 25% of the feed barley was yet to be planted.

ESTIMATED AREA PLANTED (YEARS BASED ON HARVEST TIMING)



Source: AIMI Survey (Oct 2020)



GRAINS

The survey indicates there is less feed barley unsold than there was at this time last season, and also less 'sold' grain stored on-farm than last year.

However, the opposite is true for feed wheat, where unsold volumes are higher than last season and there is also slightly more 'sold' grain stored on farm. Overall on-farm storage is estimated to be 15% greater than a year ago.

The quantity of grain to be harvested in 2021 that has been forward sold is less than this time last season.

BEER CONSUMPTION FALLS

There is currently less demand for malting barley, as beer consumption has fallen due to COVID disruptions. The barley is already planted, but if not contracted for malting then is likely to end up in the feed market. The uncertainty makes it difficult to optimise management processes, as growing malting barley is all about quality, whereas feed barley is more about yield.

At present there is also a lot of malting barley from Australia looking for alternative markets after China imposed an 80.5% tariff on imports in May, before shutting imports off completely. Some Australian barley has reached China via its 'economic exclusive zones' where the barley is unloaded and malted before leaving the exclusive zone, thus avoiding the tariff.

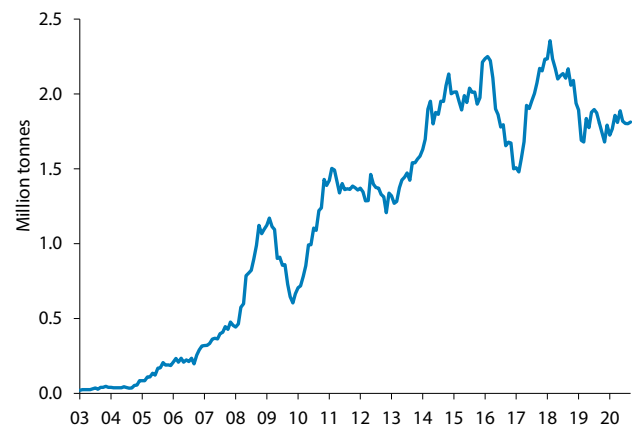
But no doubt more Australian grain will make it to our shores. Australia is expected to have a very large wheat harvest this year, which will help keep a lid on wheat prices in our local market.

PKE PRICES LIFT, IMPORTS STABILISE

Palm kernel expeller (PKE) pricing is on the rise again and is now priced nearly 30% higher than a year ago. On a per tonne basis it is still cheaper than other feed grains, but these other feeds generally have a higher nutritional value.

We are continuing to see milk processors encourage their suppliers to limit the use of PKE through either incentives for grass-fed production or disincentives for excessive usage. Fonterra has recently sold its 50% stake in Agrifeeds, but the company will continue to supply its Farm Source stores.

PKE IMPORT VOLUMES - 12MTH ROLLING AVERAGE



Source: StatsNZ

Imports of PKE into New Zealand have stabilised at an annual rate of about 1.8 million tonnes. Assuming all of this PKE is consumed by dairy cows, then approximately 7% of NZ's total milk supply can be attributed to PKE. Actual conversion rates will vary considerably due to feeding regime, substitution effects, wastage etc. On most farms it is used strategically to fill seasonal feed shortages and it is often favoured over other supplementary feeds as it is very easy to source and feed.

FORESTRY

HOUSING DEMAND PUSHES UP LOG PRICES

Log returns continue to lift due to strong demand from both the domestic and international markets. Construction activity remains elevated, both locally and in our main export market. This end-user demand is expected to underpin pricing in the near term. Reduced supply from competing countries is also expected to underpin returns in both the short and medium term.

BUILD MORE HOUSES

Domestic demand for timber for home-building continues in line with the strength seen in the housing sector in general. House prices have defied expectations, with low interest rates trumping the economic slowdown.

In fact, house prices have been so strong that the Finance Minister Grant Robertson has asked the RBNZ to consider what it can do to dampen down this overheated market by “avoiding unnecessary instability” in house prices (along with the exchange rate and output) while pursuing its inflation and employment targets. Importantly, the Minister is not suggesting that the RBNZ target house prices, but the letter certainly does show the political heat associated with the housing market at present.

The lack of housing supply, relative to demand, is the primary issue and will really only be fixed by building more houses. This requires councils to find ways to free up more land for housing construction as well as encouraging denser housing developments.

Building permits for residential construction remain at elevated levels. New dwelling consents have lifted 3.5% in the year to September 2020. However consents for non-residential properties have fallen. There are fewer new shops, offices, hotels, factories and schools planned.

This overall growth in the housing sector bodes well for domestic demand for structural timber. Mills are reporting record levels of output. This is leading to more confidence in the sector and more long-term supply contracts.

LOG PRICE (UNPRUNED A GRADE)



Source: AgriHQ

CHINA STILL BUILDING

China's demand for logs also remains strong. Construction activity within China remains at elevated levels. This has resulted in steady uptake of logs from ports with the inventory on ports having reduced. Ongoing uptake of logs is expected to continue at a similar rate over the next few months.

China is one of the few countries that will grow its economy this year.

ALTERNATIVE SUPPLY TIGHTENS

Demand for New Zealand logs will also potentially be boosted by a reduction in supply to China from other regions. In the short term the suspension of exports of logs from some parts of Australia will further increase



China's reliance on NZ logs. China has banned the importation of timber from exporters in Victoria and Queensland on the basis of preventing the spread of bark beetle. However, the real reason is generally considered to be the deterioration in the relationship between the two countries.

Any disruption to the supply of logs from Australia will see Chinese importers looking to secure more logs from New Zealand. Australia exports about 10% of logs that China imports whereas NZ supplies about 25% – the volume being supplied from Australia had increased this year.

Over the longer term there is also expected to be a reduction in the volume of logs supplied from Europe and Russia to China. Russia has said it will ban the export of logs from the beginning of 2022 in order to encourage further processing of timber within Russia. Whether this ban will actually happen and whether it will apply to all grades of timber remains to be seen. At present a lot of logs from Russia enter northern China through its land border. Supplying logs this far north would be more costly than supplying logs to the more southern east coast ports which are currently supplied. Therefore we may see European logs filling this supply gap.

However, it is also likely that the supply of logs from Europe may slow towards the end of next year. At present supply is elevated as vast areas of forests are being felled in order to stop the spread of spruce bark beetle. But felling rates are expected to peak later in 2021, which could see the supply of these logs start to ease.

STRONG NZ DOLLAR

The current strength of the NZD is taking the shine off returns at the wharf-gate level, but due to strength in the underlying market prices wharfgate pricing is still trending up.

Another factor that has the potential to reduce returns is higher shipping costs. At present there is congestion in shipping and delays in getting some ships loaded and unloaded in our local ports. Auckland Port is the worst impacted, but this is not a major dispatch centre for logs. However, more freight has been diverted to Tauranga, which is causing some congestion – although the main issues relate to container freight rather than logs which are loaded directly onto ships.



HORTICULTURE

PICKERS AND CONTAINERS IN SHORT SUPPLY

Finding sufficient workers to pick this season's crop is still a major concern for the horticultural industry. The recent decision from the Government to allow some skilled workers into the country is certainly welcome but only partially solves the shortage of pickers.

Getting product to market is the other major issue at present as a lack of shipping containers and disruption to freight schedules has increased the risks of fruit not reaching consumers in peak condition.

RSE WORKERS WELCOMED

The Government decision to allow 2,000 skilled workers from Pacific nations into New Zealand under the Recognised Seasonal Employer (RSE) scheme is welcomed. But this will only go part way to filling the shortage of pickers. Backpackers also make up a significant part of this workforce and their availability is limited due to the border restrictions. A recruitment drive for locals to help fill the shortages is also in place and government grants are available to those looking to relocate and work throughout the picking season.

Workers coming into the country under the RSE scheme will be required to complete the 14 day mandatory quarantine period within the existing quarantine facilities. The quarantine costs will need to be met by employers and they are also required to pay employees whilst in quarantine.

Even workers coming in from COVID-19 free countries are required to quarantine. Some employers had hoped quarantining could be carried out in their own accommodation facilities but this is not allowed. The lack of quarantine facilities available will mean workers won't be in the country for some months.

Despite the delays and the high costs of quarantining staff, orchardists are welcoming the opportunity to employ RSE workers due to their skills, experience and productivity.

There will still be a massive labour shortage.

At present there is estimated to be 6,500 RSE already in NZ (which is about 1,000 more than normal), and this recent move will allow a further 2,000 workers into NZ.

Normally about 14,400 RSE workers enter the country each year so the quantity of RSE workers available will still be much lower than normal. This means orchards will still be well short of staff particularly considering backpackers are a major source of unskilled, but willing, labour. Hopefully the current recruitment programmes for locals will unearth larger numbers of 'willing workers' than normally is the case.

APPLES: CONSUMPTION STRONG

Apple growers are now focused on the season ahead as the apple-exporting season draws to a close. Securing labour remains a key issue.

Export prices achieved over the past year were okay despite the challenging global market conditions.

It wasn't easy to sell fruit this last season as economic uncertainties meant more markets were buying hand to mouth than is usually the case. Despite these challenges export volumes lifted and prices generally held.

Our main Asian markets being China, Taiwan and Vietnam continue to pay considerably more for fruit than other markets. Prices in the UK and the US markets softened this season.

Last season Europe produced a smaller apple crop which meant earlier demand for NZ apples. Apple consumption has remained strong despite the challenges that



COVID-19 has delivered. Apples are primarily sold through supermarkets and fruit sellers which remained open during lockdowns.

European apple production is forecast to fall this year. This season's crop – which is currently being harvested – is expected to be 1% lower than last season. This bodes well for next season's sales into Europe as when their own harvest is large it becomes much more difficult to sell our early season apples due to European apples still being available. A lack of seasonal workers has also been an issue for European growers.

Finding sufficient staff to pick apples this season remains a key issue despite the recent government decision to allow some RSE workers into NZ. Finding people to work in the pack houses is expected to be a little easier as these roles are more suited to our local work force than the orchard based roles.

KIWIFRUIT: STRONG RETURNS FORECAST

The kiwifruit fruit industry has sent its final shipments of the 2020 crop to market and therefore will be less impacted by the current shortage of containers than many other industries.

Zespri has also been taking more control of its shipments by chartering more ships, although the lift in export volumes means more containers were also used over the past season. In the past year Zespri exported about 600,000t of kiwifruit with SunGold volumes exceeding the volume of green kiwifruit exported.

Looking forward the orchardists are now concentrating on producing next season's crop and securing labour for the season ahead.

Zespri recently signed a memorandum of understanding with a Chinese company which will see a three year trial program launched next year. The pilot program will assist Chinese growers to improve the quality of the fruit they grow. This locally produced fruit will help Zespri achieve its goal of supplying Chinese consumers with its fruit all year round. It is anticipated that as much as 50,000t of Zespri kiwifruit may be produced in China within five years. NZ currently exports about twice this amount of kiwifruit to China.

Medium term forecast returns for growers have been revised up by Zespri. Their 5-yr outlook for orchard gate returns (OGR) are now as follows:

FORECAST GROWER RETURNS 2021 - 2025 (PER TRAY)

Fruit category	March 2020	November 2020
SunGold	\$8.00 - \$10.00	\$8.50 - \$12.50
SunGold Organic		\$10.00 - \$14.00
Green	\$5.50 - \$7.00	\$6.50 - \$8.50
Organic Green	\$9.00 - \$10.00	\$9.50 - \$11.00

Source: Zespri

Zespri have advised their Sungold forecast takes into account the risk posed by the unlicensed fruit that is currently being grown in China.

These five-year forecast returns are favourable and are reasonably closely aligned with returns for the current season.

FORECAST GROWER RETURNS 2020-21 SEASON

Fruit category	Price per tray	Price per ha
SunGold	\$12.05	\$172,083
Organic SunGold	\$14.08	\$150,499
Green	\$7.11	\$72,611
Organic Green	\$9.95	\$62,801
Green14	\$9.71	\$54,465

Source: Zespri (November 2020)

Grower returns have been revised up for the season just completed. Numbers won't be finalised until later in the season but returns are certainly a lot stronger than was envisaged earlier in the year.

Zespri has also announced an interim dividend of 11 cents per share payable on 11 December, based on shareholdings as at 4 December.

VITICULTURE: SMALLER HARVEST AHEAD

There will be fewer grapes to harvest this summer due to the heavy frosts that decimated some of the early flowering varieties earlier in the spring.

Vineyards in Marlborough and Martinborough without frost protection systems in place reported heavy losses. Most vineyards in these regions are expected to have a smaller crop than normal. Meanwhile, Hawkes Bay vineyards did not encounter the early season frost that the lower regions did.

Export demand for NZ wine has remained strong. Export returns for our wine have lifted in recent months and returns for the season to date are tracking well ahead of previous seasons. This is mainly due to strong demand for our wine from the US and the UK.



The lift in export returns is primarily a function of selling more wine than normal rather than achieving particularly good prices. It is good to see prices holding in the current economic environment, particularly as export volumes also increase.

Australia paid lower prices for the wine it imported from NZ this year and prices also fell in Germany. But returns lifted in the US and the UK while Canada remained the highest priced market for NZ wine.

The wine industry also relies heavily on experienced staff who normally travel between the two hemispheres. These staff assist with producing wine, along with backpackers and RSE workers who fill many of the roles in the vineyards and in the wineries. The wine harvest starts a little earlier than kiwifruit and apples. Therefore, it will be difficult to get RSE workers into NZ in time for the harvest given the limited quarantine spaces available.

There will be less fruit to harvest this season but that won't do much to alleviate the staffing shortages.

AVOCADOS: SHIPPING WOES

The avocado export season is well under way. Getting consistent access to shipping containers and then getting product onto ships is really challenging. Australia remains by far our largest export market for avocados. Last season Australia accounted for about 75% of the export market with the remaining avocados mainly heading to Asian markets and small volumes being exported to the Pacific Islands.

Thailand, South Korea, Japan, Singapore and Taiwan are the main Asian markets. Thailand and Korea are both markets that pay good prices for avocados while returns from some of the other Asian markets are lower than those being obtained from Australia.

This season is expected to deliver better export returns to growers than last season.

Early season export volumes have been particularly strong. This is partially a function of the recent increase in land being planted in avocados. Returns to growers are highly dependent on the portion of fruit exported and prices obtained in the local market are often less than the export market.

The total size of the export crop is expected to lift by 10% this season but this will depend on quality. Lower grade fruit are not exported but are used domestically. So far there has been a strong lift in exports to Australia but less fruit has been sent to the Asian markets.

Demand from Australia is strong due to reduced domestic production this season. NZ fruit is also available in months where there is limited production in Queensland which is Australia's main growing region. Western Australia also grows a lot of avocados but their production season is more closely aligned with NZ's.

Avocado production in Australia has been growing in recent years but so has consumption. Demand for NZ avocados in Australia remains strong. Australia has also started importing avocados from Chile. These avocados will potentially compete against NZ avocados but at present volumes are small.

The NZ avocado continues to expand at a rapid pace – particularly in Northland. The industry has to contend with strong swings in production due to avocado trees yields fluctuating biennially. However the climate in Northland is conducive to more regular annual production.

The trees that have been planted more recently have also tended to fruit earlier in the season. This 'out of season' production tends to attract a larger premium for growers.

While the industry is not without risks, it is expected to continue to expand along with export markets. The rate of expansion will be determined by returns in the coming years. Grower returns this season are expected to exceed \$20 per tray for export grade fruit.

RURAL PROPERTY MARKET

SMALL INCREASE IN ACTIVITY

There has been a little more activity in the rural real estate markets. Farm sales in the three months to October were up 45% on the same period the previous year. There has also been a slight uptick in some prices but it is not a convincing trend. Typically the better quality properties sell earlier in the season which can tilt prices up.

MORE FARMS SELLING

The number of farms trading has lifted in most regions but transactions are still subdued relative to the quantity of farms trading a few years ago.

Price expectations of buyers and sellers appear to have become more aligned – allowing more farm sales to occur.

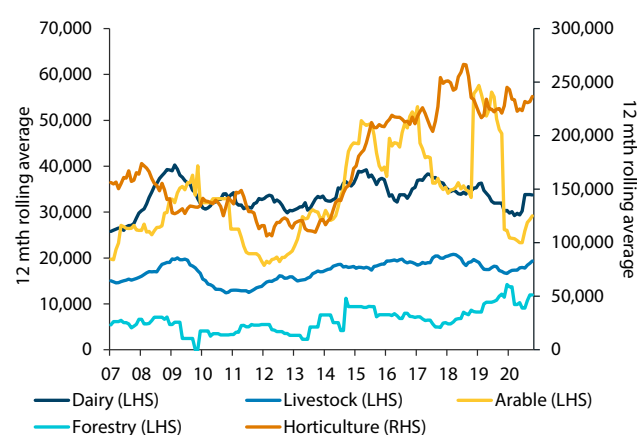
PRICES STILL SOFT

The REINZ All Farm Price Index fell in October. The index was lower than the same month the previous year and was also down on the prior month. This index takes into account differences in farm size, location and farm type. This index indicates that prices aren't rising just yet. Rather the recent lift in median sale prices is more a reflection of the higher quality farms trading.

While there has been a small lift in the median farm price on a per hectare basis, it is too early to call this a sustainable trend.

Most sectors remain cautious. Farmgate returns have been easing for most sectors and at the same time operating costs are rising. There is still considerable uncertainty as to what changes will need to be made on-farm in order to achieve long term environmental sustainability objectives. Some rules are in place and other rules are evolving. However, it will be some years before these rules become crystal clear on what needs to be done to comply.

MEDIAN PRICE PER HECTARE BY SECTOR



Source: REINZ

MORE INTEREST IN HORTICULTURE

Sales of dairy properties remain subdued. The majority of recent sales were grazing properties (sheep and beef). Demand remains strong for horticultural businesses. This is still primarily being driven by acquisitions of kiwifruit properties or properties suitable to convert to kiwifruit. There is also considerable growth in avocados and hops. Apple orchards are seeing renewed investment. Not a lot of new land is being developed.

INVESTMENT SYNDICATES ACTIVE

There has been renewed interest in rural properties as returns from alternative investments begin to wane. With interest rates so low many investors are looking to place their savings somewhere that will generate a higher return.

There are a lot of syndicate type investors looking to invest in farms or loan funds to farms. In some cases investors are looking to purchase farms and lease them back to the original owner. This does provide an opportunity for heavily indebted farmers to reduce their debt burden.



RURAL PROPERTY MARKET

However, the feasibility of such operations are highly conditional on the purchase price of the property and the terms of the lease.

The challenge for syndicate type investments is to create a viable exit path as often the time frames and needs of individual investors differ.

Agricultural investments don't always provide the level of returns many investors are looking for. However, with interest rates now really low, and looking to stay that way for some time, the opportunity cost of investing in lower returning enterprises has reduced.

Carbon farming also provides a relatively steady income stream which suits the needs of many investors. There is certainly opportunity for more trees to be planted as some land currently being used for pastoral farming is providing minimal economic return.

REGIONAL DEVELOPMENTS

The quantity of properties changing hands remains subdued in most regions however some regions are faring better than others.

Property sales over the past 12 months are tracking ahead of the 10 year average in Gisborne, Manawatu-Wanganui, Wellington (includes Wairarapa), and the West Coast.

On the West Coast there have been considerably more properties sold since the sale of Westland Milk Products to Yili just over a year ago. The result was a cash injection to farmers and renewed confidence as milk prices were pegged to Fonterra's farmgate milk price.

WEST COAST FARM SALES



Source: REINZ

Sales of rural properties in other parts of the South Island remain subdued. In the North Island east coast regions including Gisborne, Hawkes Bay, and Wairarapa (including in Wellington regions) have seen a lift in the number of properties being traded. This has been driven by the general improvement in returns from sheep and beef enterprises over the past couple of years and also by interest in land to plant trees.

Sales in more dairy dominated regions such as Northland, Bay of Plenty and Taranaki are still relatively limited. In the Waikato a few more properties are changing hands. In this region we are also seeing a small amount of land use change. Conversions of dairy farms to horticultural uses and sheep milking is happening on a small scale.

FARM SALES BY FARM TYPE

Annual average/total		Past 12 months	Previous 12 months	10-Year Avg.	Chg. Y/Y	Chg. P/10yr
Dairy	Number of Sales	113	142	206	↓	↓
	Median Price (\$ per ha)	33,744	31,963	33,824	↑	↓
Livestock	Number of Sales	773	841	969	↓	↓
	Median Price (\$ per ha)	19,367	17,067	17,279	↑	↑
Horticulture	Number of Sales	150	179	179	↓	↓
	Median Price (\$ per ha)	236,636	221,000	181,636	↑	↑
Arable	Number of Sales	73	88	92	↓	↓
	Median Price (\$ per ha)	29,188	47,140	35,140	↓	↓
Forestry	Number of Sales	56	42	50	↑	↑
	Median Price (\$ per ha)	11,930	12,153	6,913	↓	↑
All Farms	Number of Sales	1,277	1,319	1,502	↓	↓
	Median Price (\$ per ha)	24,017	23,983	23,476	↑	↑

Source: REINZ

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