



ANZ RESEARCH
AGRI FOCUS
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REAPING THE REWARDS



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The year has started in a positive manner for most of our primary industries. The agreed upgrade of free trade agreement with China will help facilitate trade with our largest trading in the years ahead. Achieving this upgrade is particularly symbolic given China's relationships with many other trading partners have deteriorated.

The dairy sector has started the year very strongly, which has resulted in milk price forecasts for the current season being revised up.


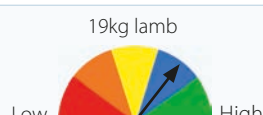

The fortunes of the meat sector are mixed – returns certainly aren't as healthy as we have seen in recent years, but some sectors are improving.

Demand for our produce generally remains strong in most markets. The biggest challenge is actually getting it there. Logistics are difficult at present as containers are difficult to source and ships are being delayed. Our exporters are having to get product onto the water earlier than normal in order to meet client orders. Flying product into market to meet immediate demand isn't really an option due to the limited numbers of planes flying international routes. These challenges look like they will stick around for some time.

While most of the recent focus has been on the pandemic, the Climate Change Commission has been steadily penning its report on how New Zealand is going to meet its obligations. The good news is the Commission believes we can get there with existing technology, but it will require a reduction in livestock numbers and more trees to be planted. Both of these trends are already in play. While little detail was provided, the Commission thinks New Zealand farmers will be able to maintain output whilst also reducing stock numbers – implying more productivity gains required.

The Commission sees a need to rapidly move our energy consumption towards cleaner electric sources, including vehicles. It makes it clear we shouldn't become over-reliant on exotic forests to soak up our emissions and that we need to plant a lot more natives over the longer term. Changes to the Emissions Trading Scheme are expected to help facilitate this, but at this point it is not clear what those changes will be or how they will be brought about.

Prices at farm/orchard level relative to 10yr average

Dairy	Dairy markets have started the year strongly. Fonterra and Synlait recently upgraded their milk price forecast to \$7.20/kgMS – aligned with our forecast.	Milk price 
Sheep	Farmgate prices for lambs have stabilised, as lamb throughput has eased and in-market prices have improved.	19kg lamb 
Beef	Beef prices have stabilised helped by stronger international prices and a slight softening in the NZD.	Prime steer 
Forestry	Log prices are doing well on the back of strong economic activity in China and plenty of new homes and renovations occurring locally.	A-grade log 

ECONOMIC OVERVIEW

ECONOMY ON THE IMPROVE

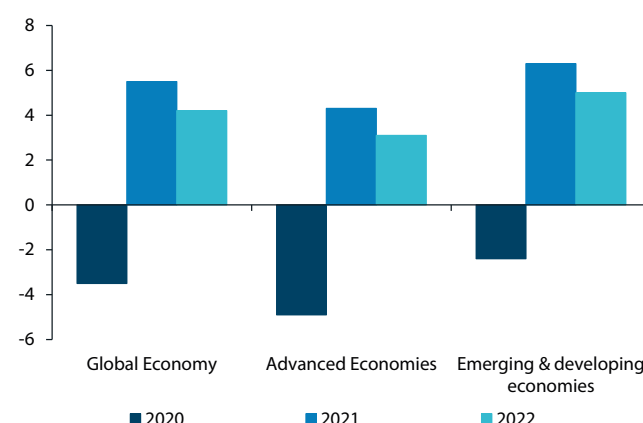
Global economic growth remains constrained due to the ongoing challenge of combating COVID-19. Many economies are, however, faring better than expected, largely due to the sizeable portions of 'recovery pie' dished out by central banks and governments. The monetary stimulus, along with government initiatives, has mitigated some the impact of the fact that economies are not running at full strength, allowing more jobs to be retained. How economies perform in 2021 is highly dependent on the course the pandemic takes, how quickly vaccines can be rolled out, and how well they work. New Zealand is doing better than most at this point, but herd immunity remains a relatively distant prospect with vaccinations yet to start.

GLOBAL ECONOMIC FORECASTS UPGRADED

The International Monetary Fund (IMF) has upgraded its economic forecasts for 2021. The global economy is now expected to grow at 5.5% this year and 4.2% in 2022, having entered 2021 in a stronger position than previously anticipated.

The major risks for the global economic recovery are a renewed surge in infection rates, possibly due to new strains of the disease, resulting in additional or prolonged lockdowns, and/or a delay in the rollout of the vaccine programs, or a decline in the vaccines' effectiveness as the virus evolves. The rollout of vaccines is occurring at differing rates, with most countries targeting frontline health workers and vulnerable people first. Vaccines are expected to become more widely available in developed countries and some developing nations later this year, whilst other countries won't be able to obtain sufficient quantities to allow for an extensive vaccination programme until 2022.

WORLD ECONOMIC OUTLOOK GROWTH PROJECTIONS



Source: IMF World Economic Update

NO MORE CUTS

Central banks are expected to maintain their accommodative policy settings well into 2022. We anticipate the Reserve Bank of New Zealand (RBNZ) will no longer feel the need to add further stimulus, as recent economic data has been better than anticipated. Growth in the housing sector has largely offset falls in tourism and service sectors, in an aggregate sense.

We expect the RBNZ will continue to fund the Large Scale Asset Purchase (LSAP) program for some time. At this stage we see no need for the RBNZ to lift interest rates anytime soon – rather, it can be patient and see where the economy heads from here.

ECONOMIC HEADWINDS REMAIN

While New Zealand has enjoyed a V-shaped recovery, it won't necessarily be plain sailing from now on. Headwinds to the economic outlook, especially related to the closed border, are expected to weigh on employment this year. The unemployment rate is expected to peak near 5.5% in mid-2021 (see [labour market preview](#)). But this is much better than was originally feared.



ECONOMIC OVERVIEW

Many tourism-related businesses are currently struggling and this will only get worse when schools reopen and domestic tourism slows.

Improvements in the labour market are expected to be gradual until herd immunity is reached and the border opens, with faster declines in the unemployment rate possible once economic activity normalises and the recovery accelerates and evens out.

While [business sentiment and activity have improved](#), costs are also starting to rise. Inflationary pressures are expected to erode business margins, which will in turn impact business confidence.

COMMODITY PRICES RISING

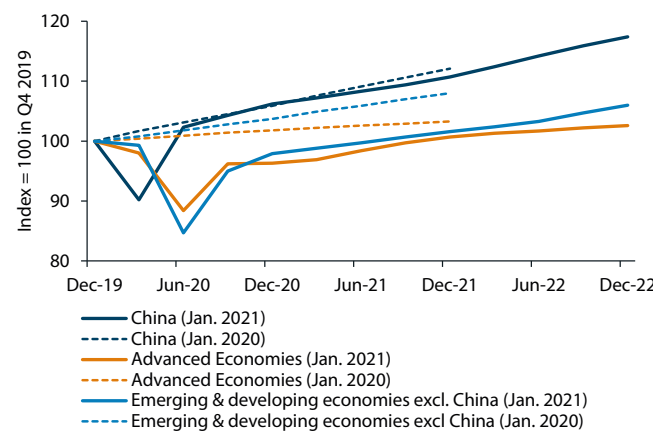
Inflation remains subdued in most countries but commodity prices are starting to rise. Oil prices are forecast to lift 20% this year, while the IMF estimates non-fuel commodities will increase by 12.8% in 2021.

Fruit and dairy products have generally increased in value, and forestry products have also recovered very well. Returns for meat and wool have been more subdued depending on their main consumption channel.

CHINA RECOVERING QUICKLY

China continues to be a significant driver of global demand for commodities. Its economy has recovered extremely quickly from the challenges thrown at it by the pandemic.

DIVERGING ECONOMIC RECOVERY

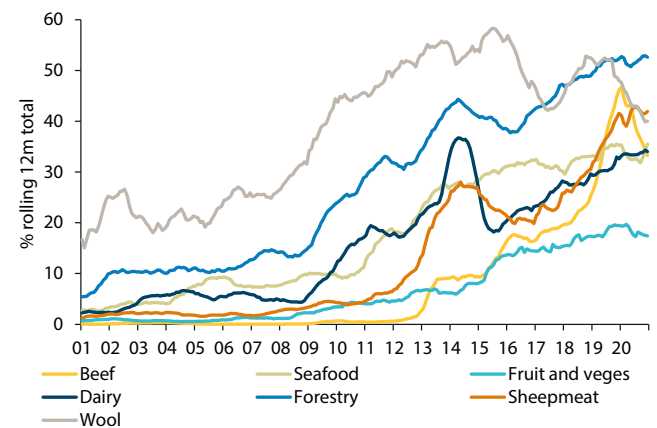


Source: IMF World Economic Update

China's economy is virtually back on track, whereas the economies of other countries remain well behind pre-pandemic forecasts. The rapid recovery of China's

economy bodes well for our primary sector exports given China is a major purchaser of nearly all of our primary products.

SHARE OF NZ EXPORTS TO CHINA



Source: StatsNZ

China was one of just a few countries who managed to grow its economy in 2020, albeit at a modest pace, and it is forecast to expand by 8.1% in 2021.

Demand from this country for timber products has improved significantly, resulting in a partial recovery of log prices. China also has an insatiable appetite for food products and feed for livestock. New Zealand is a relatively small supplier of most commodities to China, but we are a major supplier of dairy products.

LOGISTICAL CHALLENGES TO STICK AROUND

One problem that continues to plague global growth is getting product to where it is needed. These logistical issues show few signs of abating. Very few planes are flying international routes, meaning the reliance on shipping is higher than ever.

Demand for most goods has remained intact throughout the pandemic; it has been the service sector that has taken the brunt of the pain associated with lockdowns and physical distancing measures.

Shipping costs are rising rapidly. Shipping schedules are constantly changing, with numerous schedules being cancelled or containers being rolled over, ie simply not being collected. This has left many empty containers stranded well away from where they are most needed, with refrigerated containers particularly difficult to source. Shipping times are being extended due to delays at ports, resulting in product shortages and buyers bringing orders forward in order to offset the delays.



ECONOMIC OVERVIEW

SHIPPING COSTS ON THE RISE

As many international routes are experiencing, the cost of shipping containers between New Zealand and China has skyrocketed. Shipping lines are ultra-busy and are incurring additional costs due to extended wait times to unload and load goods at ports. Oil prices are also on the rise, which is increasing the cost of fuelling these vessels.

CONTAINER FREIGHT RATE INDEX - CHINA TO AUSTRALIA/NZ SERVICE



Source: RWI, Macrobond, ANZ Research

Competition between shipping lines is also diminishing as companies consolidate. Pacific International Lines (PIL) is in financial trouble and the loss of this shipping company would further reduce competition.

There have also been calls to reduce container loading or reduce shipping speeds following two incidents where large numbers of containers were lost overboard in heavy seas. If additional safety measures are adopted then this will also add to the cost of shipping goods.

Higher costs of shipping show no signs of abating anytime soon.

HIGH NZD NOT HELPING

The lift in shipping costs and the strong NZD are eroding returns at the farmgate level. The NZD is anticipated to continue to trend up in the near term, with USD0.74 the level expected to be reached by the end of the year. No doubt this won't be a steady climb – currencies don't do straight lines, as shown in the chart below – but rather a jagged course as the USD fluctuates on economic news.

NZD BUYS USD



Source: Bloomberg, ANZ Research

CHINA FTA UPGRADE

The FTA upgrade is a really positive symbol of the strategic importance of trade between China and New Zealand, and that both countries highly value the trade relationship.

While on the surface it may appear there has been little change to tariff rates or quota-free allowances, what it does provide is an avenue to facilitate the movement of New Zealand goods into China, and access to high-level officials should challenges occur.

Part of the agreement is focused on reducing the time it takes goods to pass through to customs – highly important when trying to get fresh goods through highly congested ports. Provision has been made for these types of goods to be cleared through customs within six hours.

Forestry is one of the industries set to benefit from the upgrade of the trade agreement. Under the new agreement, 99% of wood products will eventually be able to enter China without incurring a tariff; however, there is a 10 year implementation period over which tariffs will gradually be removed.

The dairy industry is already nearing the end of scheduled time period when the safeguards are due to be removed on New Zealand product entering China. At present tariff-free access applies to only approximately 22% of the milk powder exported to China, with the remainder incurring the 10% standard tariff that most other nations pay. Similarly, New Zealand exports nearly 100,000t of butter and anhydrous milkfat (AMF) to China, but less than 20% of this enters China at the reduced tariff rate.



ECONOMIC OVERVIEW

In 2024 all New Zealand dairy products will be tariff free. It was hoped this date could have been brought forward in the new agreement but there was also a risk that the Chinese would extend it further. To mitigate this risk this issue wasn't brought to the table, which effectively locks in the 2024 date to fully eliminate tariffs on dairy products.

BREXIT

The UK officially left the EU just over a year ago, but it wasn't until late last year that details of the new relationship were agreed. Under the new rules tariffs are basically identical across both the UK and the EU. This – in theory – means goods should flow between the two regions as they have in the past.

This means there has not been a significant disruption to the flow of sheep meat from the UK to EU, nor beef and dairy products from the EU to the UK. The extended time it took to negotiate the deal and the uncertainty this caused has seen some European countries start to diversify into other markets. For example, Ireland has increased its exports of dairy products to China.

One issue yet to be resolved is the meat quota. It has been proposed that the quota available to New Zealand exporters be split between the UK and the EU. Despite the quota being well under-used in recent years exporters are reluctant to accept this proposal, as it reduces the flexibility they have in accessing each of these markets (high tariffs make it extremely prohibitive to send meat into the EU/UK outside of the quota). Negotiations are continuing to resolve this issue.

DAIRY

STRONG RETURNS FORECAST THIS SEASON

Dairy markets commenced 2021 in a stronger position than previously anticipated and have continued to rise. This puts dairy companies in a favourable position to be able to pay a milk price of at least \$7/kg MS this season – we're expecting a final price of \$7.20/kg MS.

Thus far global dairy demand is keeping up with the growth in supply. However, we do expect some slowing in dairy commodity prices towards the middle of 2021, which will have a greater impact on next season's farmgate milk price.

STRONG START TO 2021

Global markets for dairy products have started the year in a strong position. The price of whole milk powder (WMP) – the main dairy export commodity for New Zealand – is now at its highest price since 2016.

Demand has been steady from most markets throughout the pandemic but the recent buying has been driven primarily by China. Buyers also appear to be buying extra product to build a buffer against logistical issues.

There are currently delays getting product into some markets due to tight availability of shipping containers, delays at ports, and erratic scheduling of ships. Whilst this has fortunately not had a major impact on our dairy industry directly, it is influencing buyer behaviour.

Until the current pandemic is under control we are likely to see further logistical challenges with both moving product between countries and moving it around within countries.

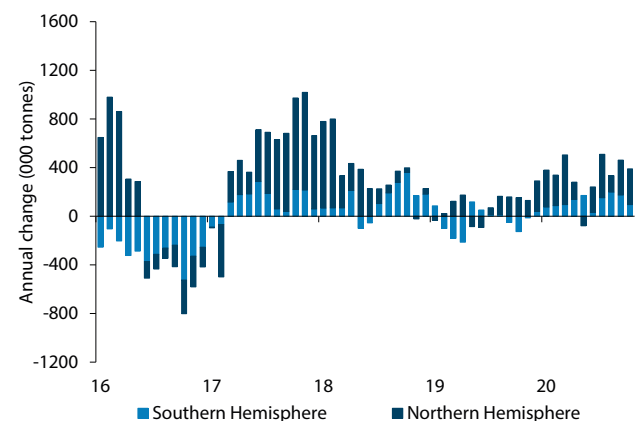
MILK SUPPLY GROWTH IN MAJOR EXPORT REGIONS

Global milk supplies are growing, but thus far the pace of growth is being met by demand. The main exporting countries expanding their output are the US and some European countries.

In the US milk supply expanded by over 3% y/y in November and December. This is nearly double the long-run growth rate, indicating the extra product will eventually impact the supply of globally traded dairy products. For now, internal buying programs are soaking up extra product but the size of these programs is starting to be wound back.

In Europe milk supply data is not finalised for last year but the rate of growth is trending near 1%, which is about the long-run rate. This moderate level of growth should be able to be absorbed mainly by the EU domestic market.

MILK PRODUCTION GROWTH MAIN EXPORTING COUNTRIES



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

CHEESE PRICES CONTINUE THEIR ROLLERCOASTER RIDE

Cheese pricing has been extremely volatile over the past year in US internal markets and this has flow-on implications for the rest of the world. Cheese is one of the products that has been included in the US government-funded food parcels that are given to the needy.

Each time a new round of funding is announced cheese markets either skyrocket or crash – particularly when the results are unexpected. The latest announcement was



DAIRY

bearish for cheese prices as the size of the program was smaller than expected, and there is also uncertainty as to how long the funding will continue. Funding has been announced for February and it is expected funds will also be available for March and April.

When cheese prices spiked in the US last year this had a direct flow on into the price of Class III milk – essentially the milk used for cheese production. This stimulated additional milk production and is one of the reasons why we are currently seeing an expansion of the US dairy herd.

While the latest round of funding has had the opposite effect, it will be several months before we start to see the momentum in US milk flows ease. This means when milk output peaks in the Northern Hemisphere in April/May then we are likely to see some softening in global dairy commodity pricing.

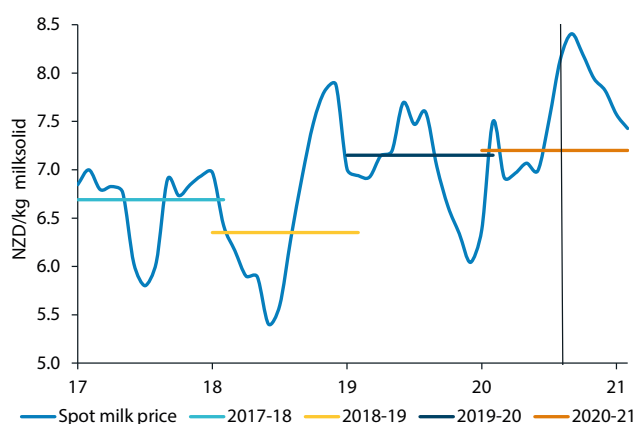
An easing in commodity prices at this time would impact next season's New Zealand farmgate milk price but we are confident the current season's milk price will exceed \$7/kg MS.

MILK PRICE SECURE FOR THIS SEASON

In January we revised our [milk price forecast](#) for the 2020-21 season to \$7.20/kg MS. Since this time we have seen Synlait and Fonterra revise their forecasts to this level as well. Fonterra now have a milk price forecast range of \$6.90 - \$7.50/kg MS, with their advance rate payment schedule based off the \$7.20/kg MS mid-point.

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 \$7.33/kg MS for the 2020-21 season and at \$7.06/kg MS for next season

MILK PRICE – HISTORIC AND FORECAST



Source: Fonterra, NZX, ANZ Research



LAMB & WOOL

BETTER THAN EXPECTED

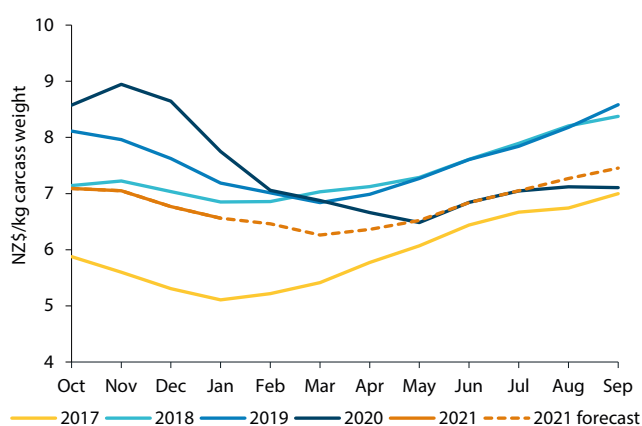
Lamb returns at the farmgate level happily haven't dropped as fast as expected. Lamb throughput has eased a little, while international markets have marginally improved. This has resulted in farmgate prices stabilising in recent weeks and a rebuild in confidence in store lamb markets.

FARMGATE RETURNS SUBDUED

Farmgate returns for lamb are currently stronger than previously anticipated. Prices are holding near \$6.50/kg CW. In our January [forecast update](#) we anticipated prices would drop as far as \$6/kg CW. While further cuts in schedule pricing can't be ruled out, it now looks like there may not be much more downside.

We remain cautious and now forecast farmgate lamb prices to reach a low point of \$6.25/kg CW next month.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

The relative stability is being driven by a combination of factors. Firstly, international market prices are generally holding, our currency has stabilised, and there are not vast quantities of lambs coming forward for processing.

Stocking rates are still lower than normal in some regions where destocking of capital stock occurred during last season's drought. Pasture growth conditions have also been more favourable this season. This, combined with fewer mouths to feed, and more crops grown, has reduced the urgency to offload stock.

It is now getting dry in the eastern regions – particularly in the North Island, and it is very dry in Northland. But farms are generally well set up and lambs are now grazing crops.

More lambs are expected to come through for processing soon, and space has reduced due to the recent spate of short weeks due to regional and national holidays. This may put some further downward pressure on schedule prices, but for now prices are holding at about \$6.50/kg CW in the North Island and about \$6.40/kg CW in the South Island.

MUTTON PRICES FIRM

Mutton prices have actually firmed slightly, with \$5/kg CW being the going rate in the North Island and marginally less in the South Island. More cull ewes have now found their way to the processors so buyers are having to dig a little deeper in order to secure the stock they require to meet overseas orders. The demand for mutton continues to be driven by buying activity from China.

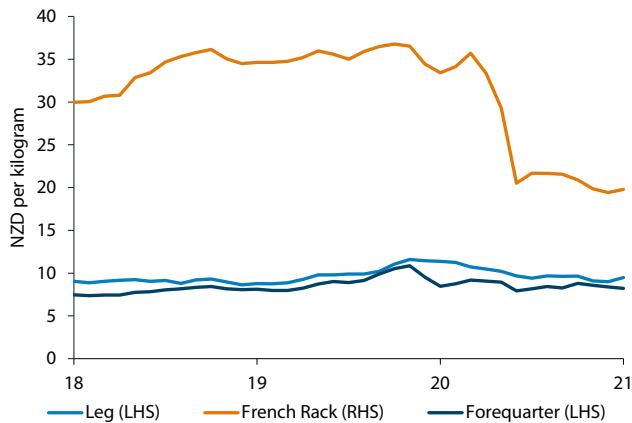
Japanese buyers have also been more active recently with their demand centering on lamb racks – which are good buying at current prices. The price of French rack lifted marginally at the start of this year but pricing is still about 33% below pre-pandemic levels.

Our traditional European markets for lamb are also performing better than hoped. The Brexit deal finally delivered some certainty and this has resulted in renewed demand from this market. Lockdowns continue to plague demand from the restaurant sector, but those working from home are finding it easy to put a roast on for dinner.



LAMB & WOOL

LAMB CUT PRICES



Source: AgriHQ

There has been a small uptick in pricing of the cuts being exported to the UK and the EU, with lamb legs now at their highest price point since March 2020.

Brexit resulted in NZ's quota being split between the UK and the EU. Negotiators continue to work to get a better outcome for exporters that would allow greater flexibility between these markets. However, with no tariffs on product moving between the UK and the EU, and New Zealand export volumes not coming anywhere near the quota levels in recent years, the quota split is not restraining trade at present.

Demand for chilled lamb for consumption at Easter is steady. Getting product to market is more challenging than usual due to shipping delays and limited access to refrigerated containers. The volume of lamb supplied into this market may therefore be a little less than normal.

NUMBERS UP, WEIGHTS DOWN

Processing data up until early January shows the average carcass weight for a lamb this season is 18.8kg vs 19.3kg at the same time last season. The number of lambs processed at this time was very similar to the previous season in the North Island but is running 13% ahead in the South Island.

More recent anecdotal evidence suggests lamb throughput has now slowed, which is one of the factors that has supported the recent stabilising in schedule prices.

The confidence of store lamb buyers also appears to have lifted recently with firmer prices on offer at the yards. Replacement stock is also in demand, with replacement ewes generally trading at higher prices than last year.

WOOL - STILL A CHALLENGE

Wool prices are trending up at present but it remains to be seen if this trend persists. Prices are still at very low levels, with returns from the coarser grades of wool not even covering shearing costs.

Even the better grade crossbred wool is not making \$2 per kg. Average quality crossbred wool or shorter length second shear wools are trading at about \$1.70 - \$1.80/kg.

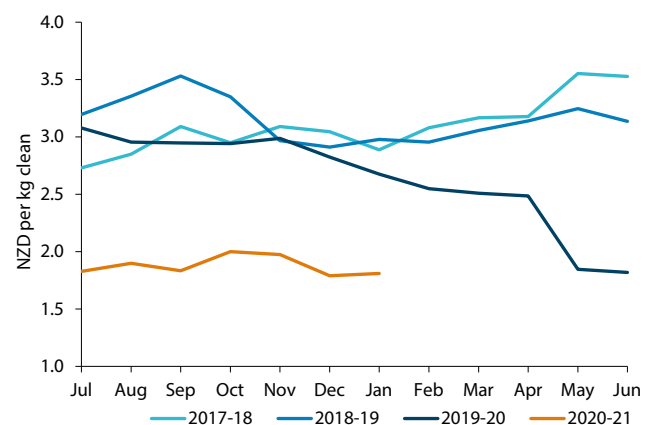
Pricing at particular auctions is highly dependent on the volume on offer and the appetite of buyers on the day. This has resulted in some movement of prices from week to week but overall the market is yet to show any indication of a persistent lift in pricing.

There is still quite a lot of wool to move that is either stored in wool stores or on farm, so this will prolong the period of low prices. When we start to see pricing lift more wool is likely to come to market.

Shearing is also in full swing, which is adding to volumes. Lambs tend to do better out of the wool so any remaining lambs still carrying a full fleece will soon be shorn.

The outlook remains challenging for the industry.

STRONG WOOL (>35MM)



Source: NZWSI, PGG Wrightson

BEEF

FARMGATE RETURNS STABILISE

Farmgate beef prices have stabilised as the recent as international markets show tentative signs of recovery and supply from competing markets eases. There is limited volumes of store stock being traded at present as cattle are being utilised to clean up pastures which are rapidly losing quality as soil moisture levels rapidly deplete.

The supply of manufacturing grade beef from NZ is starting to slow, which has been supportive of prices in international markets. At the farmgate level pricing has stabilised after falling quite rapidly over the past few months. Farmgate prices for prime stock tend to fall most years until about February before gradually picking up. Meanwhile prices for manufacturing cow usually remain soft until winter – after the main dairy cow-culling period.

The recent plateauing of schedule price has also been supported by a slowdown in the volume of stock available for processing. As summer temperatures rise, feed reserves are drying out quickly, making pastures more suitable to feed cattle than fatten lambs.

The dairy cow-cull season may also be slightly later than normal, as strong milk prices and relatively good pasture cover levels encourage farmers to milk cows a little longer than otherwise.

The rate of culling has slowed since the beginning of October. This is being driven primarily by fewer beef cows being culled, rather than a significant change in the number of dairy cows being culled. However, this early season data doesn't necessarily provide much of a read on the overall situation, as the main culling season occurs from March until May.

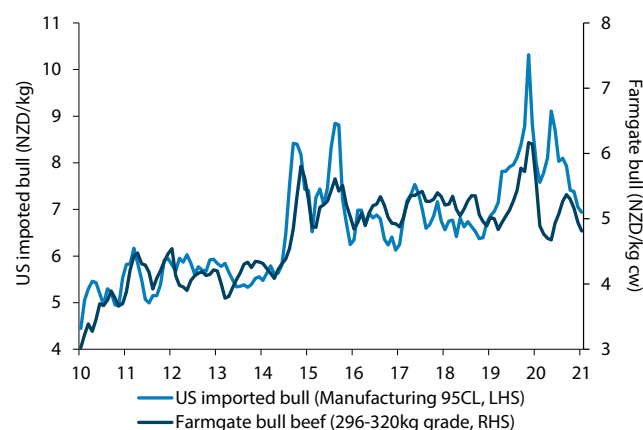
The number of prime stock and bulls that have already been processed this season is well up on last season. This is one of the reasons why we are now seeing a slight lull in the availability of stock.

LOWER VOLUMES SUPPORT PRICES

The reduction in the quantity of meat being produced is supportive of prices in markets. There is also less beef available from Australia as herd sizes are being rebuilt following sharp reductions due to the fires and droughts that plagued Australia last year.

The tighter supply has been particularly supportive of pricing for manufacturing grade beef being exported to the United States.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

Prices have been trending near the 5-year average level but have now started to firm. Whilst prices for manufacturing grade cow and bull meat still remain well below the heady levels achieved in late 2019, returns are still quite good in USD terms. But the strength of the NZD means prices at the farmgate level here in New Zealand are more modest.

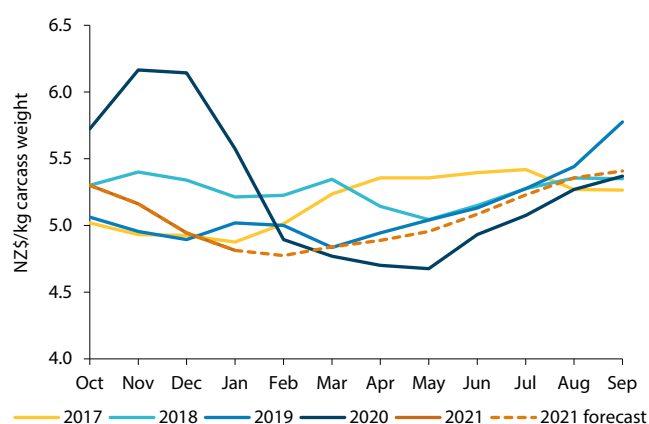
Whether prices can be maintained at current levels when New Zealand exporters have more product to offer remains debatable.



BEEF

At present, farmgate prices for manufacturing bull are sitting just below \$5/kg CW in the North Island and at \$4.60/kg CW in the South Island. It now appears pricing will be maintained near current levels for the medium term, which is marginally stronger than we previously anticipated.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

Demand from China for beef has also been strong. New Zealand is a relatively small supplier of beef into this market, holding only about 8% of the share of imported beef. China has been buying a lot more beef from Brazil this year, but demand for New Zealand beef remains robust.

There have been some logistical challenges with product entering China, due to congestion. Buying activity from this market will slow through the Chinese New Year period and the gauge of the market will then be how much buying activity there is after the holiday period.

LIMITED STORE STOCK AVAILABLE

There aren't a lot of cattle being traded through yards at present. Those with cattle to hand are tending to hold onto them to tidy up pastures. While conditions have dried off significantly – particularly in the eastern and northern parts of the North Island – there is still feed on hand due to good growth earlier in the year.

Some farms remain a little understocked following last season's drought, so are preferring to hold onto the cattle they have on hand than move them on.

Store cattle prices are still cheaper than normal for this time of the season, but prices are on the increase due to the limited supply and strength of international markets. Buys are now a little more optimistic than we saw prior to Christmas.

But this mood is dependent on region. Northland is now very dry. While dry summers are the norm for this region it is particularly dry this year, which is resulting in calls for an official drought to be declared.



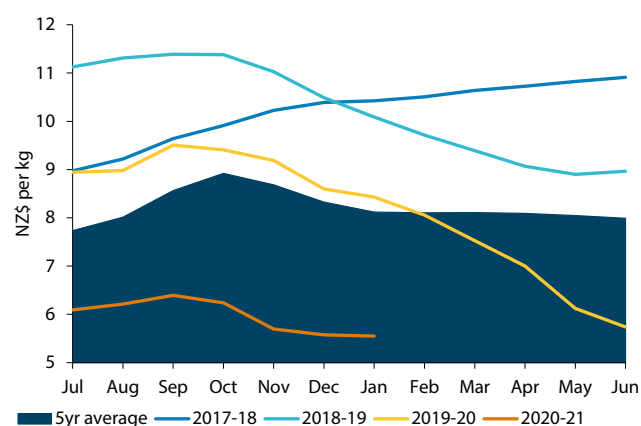
DEER

VENISON SCHEDULES FLATTEN

The traditional markets for venison remain challenging and this is reflected in the schedule prices on offer. Venison processors are starting to increase their focus on the domestic market and also on exports to China. Meanwhile, velvet demand remains robust due to its perceived ability to boost immunity.

The season for chilled venison was relatively short. Farmgate prices for venison eased in November as the early-season premiums for chilled product came off. Weak demand in the underlying markets resulted in a relatively short season for chilled product with the focus now moving back towards frozen product.

FARMGATE VENISON PRICE (60G STAG)



Source: AgriHQ

Farmgate prices for venison have now plateaued at about \$5.50/kg CW for a young stag with prices for hinds slightly softer. Schedule prices are about 30% below the 5-year average.

Lockdowns continue to plague our main European and US venison markets. This has reduced dining out opportunities, which is where venison is mainly consumed.

Some of our exporters have increased their focus on our domestic market. Silver Fern Farms has increased the range of products offered in our local supermarkets to account for the growing demand for highly nutritious food that can be prepared relatively quickly.

GROWING OPPORTUNITIES IN CHINA

Chinese market opportunities continue to be explored. This market has been steadily growing in recent years. Venison is not a meat that has been traditionally consumed in China, but there is a growing acceptance and demand for this product with restaurants the main area of focus.

Velvet demand remains robust. End users seem keener than ever to get their hands on this product, which is perceived to have immune-boosting properties. The end market for velvet has traditionally been Korea, although we sell a lot of velvet into China that is then on-sold to Korea. Several New Zealand exporters of velvet are now working together to try to grow demand from Chinese consumers for this product.

GRAIN

HARVEST UNDERWAY

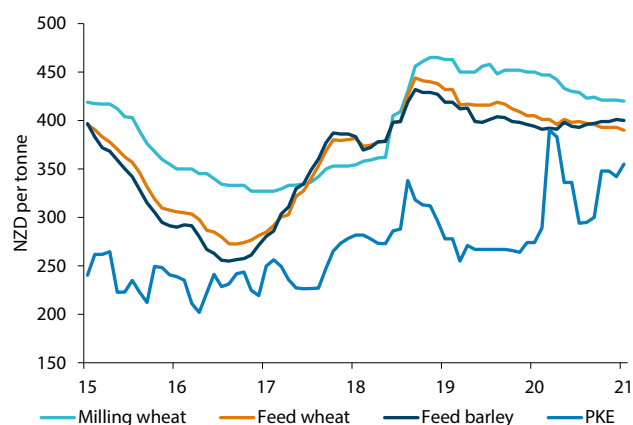
Growers are currently focused on the harvest as crops reach maturity. Early indications are positive for yields. Grain prices are firming compared to this time last season for feed barley and oats, while both milling and feed grade wheat is trading at a discount.

The new-season harvest has kicked off in Canterbury and Southland. Early indications are positive in terms of yields being achieved. Warm summer days have helped dry crops but the smattering of cooler, wetter days has slowed the harvest at times.

Feed oats are currently priced a little higher than a year ago. Feed barley is trading at a wide differential depending on region, with grain grown in Southland and the North Island trading at a premium to that grown in Canterbury – the main grain-growing region.

Wheat prices have been relatively stable in recent weeks, but pricing is generally a bit weaker for both feed and milling wheat than was achieved this time last year.

NZ GRAIN PRICES



Source: AgriHQ

Palm kernel prices have continued to firm, whilst the price of wheat has retreated. Barley prices have firmed slightly, with this feed being favoured by some users over wheat. Overall, the differential between PKE and other grains is now considerably smaller than it has been previously – when measured solely on a per tonne basis without taking into consideration the differences in nutritional value.

The rise in the price of PKE, the relatively goods volumes of feed on hand, and the reduced social acceptance of this product is starting to reduce its appeal to buyers.

GOOD PASTURE GROWTH

Pasture-growing conditions have generally been more favourable this season, which has reduced demand for feed grains. However, many farmers are still looking to secure their normal requirements and a lot of the barley being harvested is being transported directly to end users. The favourable milk price for this season may also boost some demand for grain to help extend the milking season.

Demand for feed for wintering is also expected to lift as closer scrutiny of wintering systems starts to occur. Limitations on the depth of pugging etc mean farmers will be looking to have a 'Plan B' in place, in case the unfavourable weather makes it difficult to graze winter crops.

SOIL MOISTURE EVAPORATING

Very hot summer temperatures have resulted in soil moisture levels being rapidly depleted in the eastern and northern regions of the country. Whilst the situation is nowhere near as dire as last year, it is still a concern. Most of the South Island is still wetter than normal but the North Island is generally drier than normal, with the exception of coastal Taranaki and parts of the Manawatu and Rangitikei regions.



GRAINS

GLOBAL GRAIN STOCKS RELATIVELY TIGHT

The quantity of grain available globally has been revised down in the latest World Agriculture Supply and Demand Estimate (WASDE) report prepared by the USDA. Corn yields have been revised down, but so has demand, with the net result being slightly softer pricing – although prices are still higher than normal for grain already harvested. Demand for corn for use in ethanol production decreased in 2020 as fuel consumption fell due to the lockdowns in place to combat the spread of COVID-19. Oil prices have firmed recently but are still considerable lower than pre-pandemic levels.

The global supply of wheat is expected to fall this year, due to lower production in China and Argentina. Russia has produced a record crop but has also imposed export tariffs, which is likely to restrict the quantity of wheat that leaves the country.

China continues to be a dominant importer of grain. China is expected to produce a little less corn this year due to typhoons damaging some corn in the main growing area. Meanwhile, demand for feed grain is rising again as pig numbers are increasing. Therefore, China is expected to remain an active importer of grain. However, it continues to shun Australian-produced barley.

AUSTRALIA FINDS OTHER MARKETS FOR BARLEY

Australia has, however, managed to find plenty of alternative takers for its barley. International demand is outpricing Australia's domestic demand for barley, with locals delaying purchases in the hope prices will moderate later in the year.



FORESTRY

FORESTRY PART OF CLIMATE CHANGE SOLUTION

Log returns are trending up due to strong demand in both the local and international market. Demand for planting trees to offset carbon emissions is expected to continue, with the Climate Change Commission noting we will need to see a lift in plantings of both exotics (in the shorter term) and natives (over the longer term) to meet our climate change obligations.

Forests are expected to play an important role in meeting New Zealand's climate change commitments. However, the latest report from the Climate Change Commission (CCC) recognises forestry is a short-term solution only that should not be relied on too heavily to meet long-term commitments.

Sequestration rates for exotic trees – particularly pines – tend to be very high in the short term. However, when the forest reaches maturity, carbon sequestration rates stabilise. Under the Emissions Trading Scheme (ETS) rules, pinus radiata forests are considered to soak up additional carbon for just 20 years.

Planting more exotic trees will help meet our short-term climate commitments, but it could result in an even larger deficit in the long term if alternative ways to reduce CO2 emissions are not put in place.

In 2018, forests removed 9.5 Mt CO2 from the atmosphere, effectively offsetting 14% of total emissions. By 2023 forestry is expected to remove 14.5t of CO2, but this will require more land to be planted in trees.

The CCC report acknowledges that afforestation rates are driven largely by the value of carbon credits, while other government incentives, export prices for logs, and land prices also contribute to the economics. Current policy settings and sector infrastructure heavily favour the planting of pinus radiata over other species for the purpose of gaining carbon credits.

Under the path proposed by the CCC the area planted in exotic forests will need to increase by 25,000 ha per year out to 2030, before easing. That increase in plantings equates to about 1.5% of the total area of land currently in planted production forest.

MPI estimate there was 19,000 ha of new plantings in 2019, so planting rates will need to lift to meet these targets.

The report suggests native plantings should increase by 16,000 ha per year by 2025 and 25,000 ha per year from 2030 to at least 2050. This would help offset CO2 emissions over the longer term – but at a much slower rate than the pinus radiata plantings.

There are concerns the current ETS settings may incentivise more large-scale plantations than desired, but it's acknowledged that any amendments to the ETS would need to be carefully explored and analysed to avoid unintended consequences.

The uncertainty associated with potential changes to the ETS may erode investor confidence and therefore slow the flow of investment funds into carbon forests. In many cases the returns from carbon farming far outweigh those of traditional sheep and beef farming, but this is highly dependent on the time scale considered and the productivity of the land.

JOBS CREATED ACROSS THE VALUE CHAIN BY LAND USE

	Full time equivalent jobs per 1,000 hectares
Production forestry	38
Permanent carbon forestry	1-2
Sheep and beef	17

Source: PwC

The report acknowledges the concerns many rural communities have over entire farms being planted in exotic pines. Previously, concerns have been voiced about



FORESTRY

the differing levels of employment between farming and forestry and the impact this has on rural communities. Analysis completed by PwC as part of the CCC report acknowledges the differences in the labour requirements for forests planted for harvesting and permanent forests.

This analysis clearly shows production forests provide more jobs than sheep and beef farms, but forests that are simply planted as a carbon sink provide little in terms of ongoing employment.

The CCC sees a role for permanent native plantings in providing a long-term carbon sink to offset any long-lived emissions that are difficult to reduce through other means.

If permanent native forests are planted on land that has limited value for farming, then the economic and social impact will be considerably less than if it displaces farm production. Other benefits of permanent plantings include reducing erosion and nutrient runoff.

It is acknowledged that further tweaks to the ETS, such as allowing smaller planting to count for carbon credits, could encourage more on-farm plantings of permanent native forests.

The other role that forestry products are anticipated to have is to provide biomass, which can be used as an alternative energy source to coal or gas. Coal boilers are still frequently used in food processing such as milk powder driers, but are gradually being converted to electricity or biofuel. The report says the equivalent of two large dairy factories need to convert to biomass each year.

HOUSING CONSTRUCTION VERY STRONG

Domestic demand for timber for home building remains very strong. This fact was underlined by labour market data that showed the construction sector has added more jobs than any other sector post-COVID, and is so strong it has virtually offset the reduction in tourism jobs caused by the closure of our border.

The number of building consents issued in the three months to November (latest available data) hit a record level. Most of the additional activity was in Auckland, but there was also strong growth in residential housing permits issued in Canterbury. Consents were granted for 38,600 new dwellings in the year to November 2020.

On a per capita basis the highest volume of consents issued occurred in the Tasman region, followed closely by Auckland and Canterbury. Consent rates were also high in Waikato and Otago.

There is some upward pressure on the prices of logs used by mills to produce structural grade timber for the local market. Most grades of logs are priced above their five-year average after a turbulent year for pricing in 2020.

STRONG APPETITE FOR LOGS

Demand from China for logs remains very strong. Logs are disappearing quickly from wharves, indicating strong end-user demand. The in-market price for pruned logs in China has lifted by approximately 25% over the past six months and is now at its highest level since prior to the big crash in prices in mid-2019. Prices for other grades of logs have increased at similar rates.

LOG PRICE (UNPRUNED A GRADE)



Source: AgriHQ

The quantity of logs being imported by China remains elevated. New Zealand supplies nearly 30% of the logs imported by China, while the EU has been supplying slightly larger quantities in recent months. NZ preliminary export data indicates the volume of logs exported from New Zealand in January was a little higher than normal. Activity in this market usually grinds to a halt over Chinese New Year, but we may see workers taking slightly shorter holidays this year as the government is trying to limit long-distance travel in order to limit the risk of spreading COVID-19.

TRADE AGREEMENT UPGRADE POSITIVE

The recent upgrade of the China-NZ FTA is positive for the forestry industry. Although tariffs on log exports were eliminated when the original FTA came into play in 2008, under the new agreement China will eliminate tariffs on 12 additional lines of wood and paper products. These tariff reductions will be phased-in over a ten year period.



HORTICULTURE

CHALLENGES KEEP COMING

The challenges for the horticultural industry show no signs of easing up. Extreme weather conditions have taken their toll on a number of crops this year. Labour shortages continue to be a challenge – although slightly alleviated by the reduction of fruit to pick. Getting product to market is also a mission due to shipping delays and a lack of access to refrigerated containers. The bright spot is that consumer demand for our products is generally robust – providing we can get the product to them!

WEATHER WOES

Extreme summer weather has thrown a few challenges at our horticulture industries. Hail on Boxing Day took its toll in the Tasman region with many kiwifruit and apple orchards impacted. Several hop gardens were decimated, as were many glasshouses. Meanwhile, extreme wet weather in Central Otago over the New Year period caused cherries to burst, with as much as half of the crop impacted. Summer fruits such as apricots were also damaged by the heavy rain.

CHERRY HARVEST DECIMATED

Cherries were expected to have a boomer season this year due to more trees coming into production and a good season for yield. Therefore, despite the losses, total cherry production this season is likely to be only 30% down on last season. However, the impact on individual growers varies significantly.

Ironically, the industry was facing a crisis of not having sufficient air cargo space to get all the product to market, with flight schedules regularly changing. The reduced crop now means there should be sufficient space to get the cherries into China in time for Chinese New Year celebrations. The Chinese New Year falls on Feb 12th this year, considerably later than last season.

DAMAGE TO HOP GARDENS REDUCE HARVEST

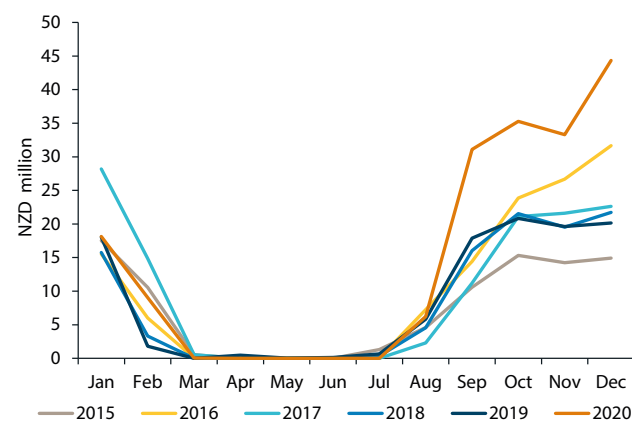
The severe weather of the Christmas period wiped out about 25% of hops. Hops are particularly vulnerable to wind and heavy rain, as the plants are grown up a tall string. The industry has been rapidly expanding, so after losses are accounted for the harvest may not be much smaller than last season. In 2020 there was nearly 1,232 tonne of hops harvested, which was 18% more than the previous season.

AVOCADO: SMASHING IT

The avocado industry is also experiencing rapid growth. Export volumes were at record levels in 2020 due to the rapid expansion in plantings, and the tendency of avocados to yield significantly more every second year meant it was always destined to be a large export season.

Getting product to Asian markets was logistically challenging. However, domestic production was low in our main export market – Australia – so they welcomed any extra fruit that could be supplied by New Zealand.

AVOCADO EXPORT RETURNS



Source: StatsNZ



HORTICULTURE

In 2020 we exported 60% more avocados to Australia than in 2019, with this market accounting for 88% of our total exports.

The industry is expected to continue to grow rapidly as new plantings start to bear fruit. We are currently extremely reliant on Australia as an export destination, and demand from this market could abate if they have a good domestic production season and/or start to import more fruit from Chile. However, New Zealand is an extremely small producer of avocados by global standards and consumer demand for avocados is experiencing strong growth in most markets, providing plenty of new opportunities for our exporters.

APPLES: LESS FRUIT TO PICK

Securing sufficient pickers is still a priority for many growers. However, some South Island growers don't have a lot left to pick after hail storms caused extensive damage to the current-season crop in some Nelson/Tasman orchards.

Overall, the area damaged is estimated to be about 3% of the total harvest when considered right across New Zealand. More fruit will also be downgraded to either local use, or will only be suitable for juicing or stock feed.

The Cedenco juicing plant in Nelson is no longer operating. Some fruit is expected to be sent to their Hastings plant for processing into juice or diced but there will be limited capacity to do this, meaning some fruit simply won't be picked.

Orchards that have secured RSE workers but have encountered extensive damage to their crops have not found it difficult to find other orchards to take these staff on.

KIWIFRUIT: CHALLENGES IN CHINA

Zespri is continuing to try to protect its plant variety rights for SunGold fruit. Over 4,000 ha of illegal plantings have been identified in China, but it is not easy to pursue this through the legal system in China. Zespri's plan to partner with Chinese growers to buy and market some of the fruit from the illegal planting, was supported by the Chinese Government and appeared to be the best way for Zespri to progress.

However, the New Zealand regulator, Kiwifruit New Zealand (KNZ), has rejected the proposal. KNZ agreed that the trial was likely to enhance the performance of Zespri but had concerns surrounding the risk it posed to NZ growers.

There is a definite risk, but it exists whether or not KNZ approves Zespri's attempt at finding a 'win-win' solution, as there is also significant risk in not engaging with the Chinese growers.

The fruit grown in China will be counter-cyclical to the fruit produced in NZ, and therefore does provide an opportunity to expand the overall market and have Zespri-branded fruit available year round.

Zespri are now looking to either revise their proposal and/or get producers to vote on it.

Finding sufficient pickers and packers for this season remains a challenge for the industry. Unemployment rates have not lifted as previously expected, meaning there is not a surplus of locals available. The number of RSE scheme workers entering NZ this year is limited and they are costlier due to the costs of quarantine and paying workers whilst in quarantine.

For some Nelson and Motueka kiwifruit orchards labour is no longer an issue due to the extensive crop losses that occurred following the hailstorms early in the year. The hail particularly impacted SunGold, which is a more delicate variety than Hayward, the main green variety.

Approximately 2.2 million trays of Sungold and 300,000 trays of Green kiwifruit were lost. This equates to about 3% of NZ's total Sungold crop and 1% of the green crop.

Zespri has confirmed it will be releasing an additional 750 hectares of SunGold license this year, with 50ha of this being organic. There will also be 350ha of license to grow Zespri Red, although the exact volume for this variety may be limited by the availability of budwood. Applications for licenses opens on 26 March and bids will close on 7 April.

VITICULTURE: SMALLER HARVEST AHEAD

The wine industry has had its fair share of weather challenges as well this season. Back in the spring heavy frosts decimated some of the early-flowering varieties in Marlborough and Martinborough.

However, the heavy rains that fell in Central Otago earlier this year were well timed for wine growers. This rain occurred after flowering but while the grapes were firm enough to withstand the downpour. This has increased soil moisture levels resulting in excellent growth, which has increased the size of grapes.

The labour shortage is not so much of a concern for picking grapes, as most of the larger-scale vineyards machine-pick their grapes. However, finding sufficient experienced staff to make the wine this year has been a challenge. Fortunately, some overseas staff that remained



in New Zealand have been able to get visas extended, and numbers have been buoyed by more kiwis entering the industry, meaning there should be just enough staff available.

Demand for New Zealand wine has remained robust throughout the pandemic, with increased sales through retail and direct channels offsetting reduced demand from restaurants. Data collated by Nielson indicates sales of New Zealand wine via retail channels in the UK in 2020 grew significantly in volume but also returned higher prices than normal. Sales of both red and white wines lifted strongly, but sales of rose grew the most.

Marketers have had to become more inventive, making use of technology to provide virtual vineyard tours and virtual tastings to international audiences. A combination of this technology, along with traditional face-to-face meetings, is expected to be continued once borders are reopened



RURAL PROPERTY MARKET

ACTIVITY INCREASING

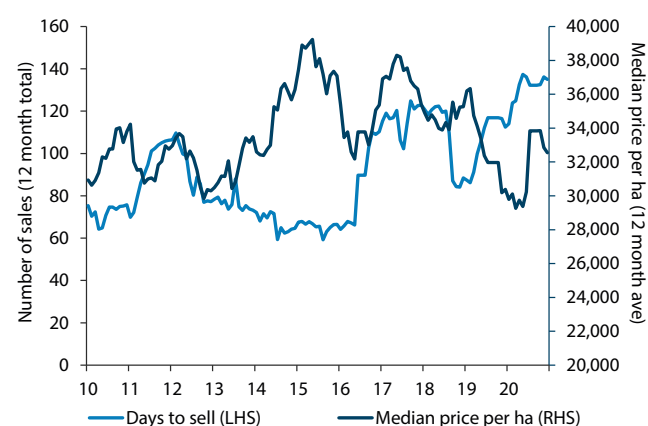
There has been a little more activity in rural real estate markets. In 2020 the number of properties traded was 10% higher than in 2019, with a notable lift in the number of dairy and forestry property sales. Prices have also lifted when measured on a per hectare basis across NZ, but this data is heavily influenced by the quality and type of properties traded.

MORE DAIRY FARMS SELLING

The number of dairy farms changing hands is starting to pick up. The number of farms that sold in 2020 exceeded those sold in 2019. However, sales activity is still less than a quarter of that seen 20 years ago.

Prices are continuing to soften, so the increase in sales activity is primarily being attained by a reduction in price expectations from sellers. There is a group of buyers who are starting to see value in farms at current price levels. The current strength in the farmgate milk price is assisting demand, but this is being mitigated somewhat by buyers being realistic about the impact that tighter regulation will have on future costs and profitability.

DAIRY FARM SALES



Source: REINZ

DAIRY INDEX TRENDS DOWN

The dairy price index continues to bounce around from month to month, despite this index being seasonally adjusted and the adjustments made to account for differences between farms sold. In the later part of 2020 this index trended down and finished the year 10% below its 10-year average.

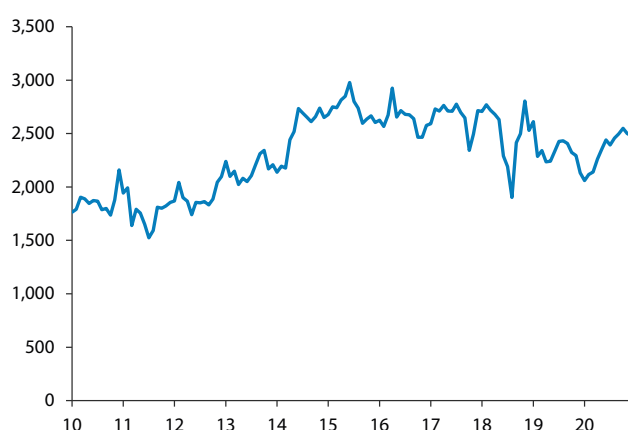
The median price index averaged over the final quarter of the year fell 15.8% in 2020 vs 2019. This will be driven partially by the size of the farms changing hands. More farms sold in Waikato in 2020 than any other region.

Despite more farms selling, the length of time it is taking to sell a farm remains elevated. There is a constant stream of farms coming to market. This is driven both by the rising average age of farmers and the tightening environmental regulations requiring more time to be dedicated to compliance – a task not favoured by many.

PRICES STILL SOFT

The REINZ All Farm Price Index continues to bounce around but the general trend over the past five years has been mildly downward.

ALL FARM PRICE INDEX



Source: REINZ



RURAL PROPERTY MARKET

Forestry, horticulture and grazing properties are tending to sell more quickly than dairy and arable properties. On a regional basis, rural properties in Hawke's Bay and Marlborough are selling the quickest, with properties being listed on average for 62 days and 71 days respectively in 2020. On the other hand, regions where properties took over 100 days on average to sell include Northland, Auckland, Waikato, Bay of Plenty, Taranaki, Wellington, Tasman, Canterbury, West Coast, and Southland. Incidentally, 100 days is the average time it took to sell a rural property (excluding lifestyle blocks) last year.

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	146	119	206	↑	↓
	Median Price (\$ per ha)	32,544	30,375	33,809	↑	↓
Livestock	Number of Sales	834	801	976	↑	↓
	Median Price (\$ per ha)	20,375	16,617	17,509	↑	↑
Horticulture	Number of Sales	173	170	179	↑	↓
	Median Price (\$ per ha)	234,818	245,167	185,030	↓	↑
Arable	Number of Sales	62	80	93	↓	↓
	Median Price (\$ per ha)	30,183	26,010	35,084	↑	↓
Forestry	Number of Sales	60	35	51	↑	↑
	Median Price (\$ per ha)	11,141	14,200	7,189	↓	↑
All Farms	Number of Sales	1,393	1,256	1,516	↑	↓
	Median Price (\$ per ha)	24,700	23,183	23,662	↑	↑

Source: REINZ

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