ANZ RESEARCH

AGRI FOCUS

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SLOW BOAT TO CHINA

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INSIDE

CONTRIBUTORS

Susan Kilsby
Agriculture Economist
Telephone: +64 21 633 469
Susan.Kilsby@anz.com

Sharon Zollner
Chief Economist NZ
Telephone: +64 27 664 3554
Sharon.Zollner@anz.com

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Commodities are leading the global economic recovery. International demand for grains, dairy and forestry products is extremely strong – driven primarily by increased demand from China.

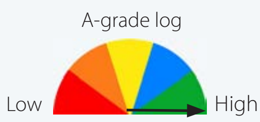
Demand for products such as fruit is also robust, but finding sufficient labour to pick and pack the fruit is a major challenge. Container shortages and disrupted shipping schedules are also making it extremely challenging to deliver goods to market on time and in tip-top condition. It is particularly difficult for chilled products with a limited shelf life.

Demand for higher-value produce, which tends to be consumed in restaurants rather than at home, is expected to lift as lockdown restrictions are reduced.

The US and Europe are on track to have a large proportion of their population vaccinated within 3-4 months. As long as the vaccines prove effective at combating new strains of COVID-19, and infection rates actually fall, these nations can look forward to more freedoms than they have had in the past year. This will not only bolster demand for our products like venison steaks and lamb racks, but will also boost consumer confidence in general.

Similarly, the travel bubble with Australia may do more for morale than it will directly add to GDP, given it'll boost services imports as well as exports. But it certainly provides a brighter light at the end of the tunnel for the tourism businesses that rely on overseas tourists.

Mother Nature has also been kinder to farmers this season than last. The east coast of NZ is still drier than normal, but this season's drought is not as widespread as last season, which has provided more options to offload stock where necessary.

Prices at farm/orchard level relative to 10yr average		
Dairy	Dairy markets are very strong, which has bolstered our milk price forecast to $7.70/kg MS for the current season.	
Sheep	Farmgate prices for lambs are now firming again, which has driven an air of optimism into the store markets.	
Beef	Beef prices are benefiting from reduced international competition in the US but increased competition in China.	
Forestry	Log prices are have lifted further but most of the gain is being eroded by the sharp lift in shipping costs.	

ECONOMIC OVERVIEW

UNEVEN RECOVERY

Economies are improving but the recovery is uneven. Markets are more optimistic than central banks regarding the persistence and the degree of the recovery. Commodity markets are doing extremely well, driven by insatiable demand from China. This demand has bolstered our export sectors, but returns are being somewhat eroded by high shipping costs.

Economic growth expectations are improving on the expectation that vaccinations will lead to some form of normality returning. Social distancing measures of some form or another have been in place in many countries for over a year now.

These restrictions won't be lifted until enough people are vaccinated and COVID-19 infection rates abate. Vaccinations are rolling out quite quickly in the developed world, with the US and even Europe expected to achieve herd immunity levels by July/August. However, vaccination rates are still very low in many developing nations, where infection rates and deaths from COVID-19 continue to climb.

But most consumers are optimistic about the future. Anticipation of reopening is also building an air of optimism in financial markets. While central banks have consistently said the economic recovery has some way to go, this has done little to quash market optimism.

Longer-term interest rates bounded up a month ago and inflationary pressures are starting to mount.

Central banks will welcome some inflation but are wary that economies still have a long way to recover before they are consistently growing at a sustainable rate.

The lift we are seeing in headline inflation is being driven by both supply disruptions and increased demand for goods. Exactly where the balance lies is hard to disentangle but inflation pressure is now clearly evident in many commodity markets. Supply chain constraints, including a lack of availability of ships to move freight, are putting upward pressure on prices.

This is particularly evident in the international grain markets, where prices of some grains have skyrocketed (see page 12). Dairy prices have also lifted substantially and global demand for logs shows no signs of slowing.

The common factor driving most of the global demand for commodities is China. China is ahead of the curve in getting the virus under control and therefore allowing its economy to flourish.

China's economy is forecast to expand 8.8% this year. Growth is being driven by solid consumer spending and a revived manufacturing sector. Exports from China for the first two months of this year lifted 60% y/y, more than making up for a 17% fall this time last year.

In contrast to the common perception, China did not abandon its annual GDP target at the National People's Congress (NPC). The plan is to announce a reasonable annual target as opposed to an annual target for five years. Employment targets are also now a consideration. China is aiming to add 11 million jobs in 2021, after having added slightly more than this last year, despite it being a challenging year from both health and economic perspectives.

SHIPPING IN DISARRAY

Strong demand for commodities from China, and for consumer goods from the western world, has put massive pressure on the global shipping industry.

The shipping industry is in disarray as demand to move goods out-paces the supply of vessels (with issues being exacerbated by delays at ports).

ECONOMIC OVERVIEW

The global shipping industry is continuously operating in catch-up mode. There simply aren't sufficient ships available to move all the goods around the globe when port turnaround times are extended. The shipping industry really only has enough capacity to keep up with demand when everything is running smoothly.

Unfortunately many ports are currently operating below capacity, often due to COVID-19 induced labour shortages, and empty containers aren't being transferred back to where they are most needed. This is causing delays that have pushed up the cost of moving goods across the globe because goods are staying on ships longer than normal. This isn't a good situation for New Zealand to be in when we are so far away from our end markets.

Fortunately, demand for our goods remains strong, so importers are currently picking up most of the increases in shipping prices. This means returns back to our producers are being maintained and are even lifting for some products.

The typical market response to high shipping prices would be to send more goods by alternative means such as air, road or rail. More goods are being moved by rail across continental Europe, Russia and Asia. Some companies are also using a combination of rail and sea so that goods can be offloaded at ports that are less congested.

However, New Zealand exporters don't have a lot of options to get goods to market given so few planes are flying to NZ. As ships try to stick to their schedules, many are opting to avoid stopping at some ports altogether. This means we are seeing more product being offloaded at Tauranga – our largest port, and Whangarei, as ships avoid Auckland.

It also means some South Island ports are not being visited as frequently. South Island exporters are finding it increasingly challenging to get product to market. Not only are international ships missing ports; coastal ships aren't always meetings connections with international ships due to the disruption in schedules.

At this stage it appears the situation will get worse before it gets better. It is particularly difficult for exporters of fresh product such as chilled meat and fruit and vegetables. The fruit export season is now in full swing but getting product to market this season looks even more challenging than last season, when we were operating under Level 4 restrictions.

UNEVEN ECONOMIC RECOVERY

New Zealand's economy is recovering with some sectors doing really well, but others struggling. Tourism businesses that are heavily reliant on international visitors have done it tough. Businesses have relied on government support schemes and attracting local tourists, but it's not an easy living right now. The recently announced travel bubble with Australia is welcome news, particularly for the Queenstown region, which is gearing up for the ski season.

Those desperate to reconnect with family and friends are likely to fill most of the seats in the first plane loads that take advantage of the travel bubble. The value of this type of travel to the economy tends to be relatively low in a monetary sense, as they tend to not require commercial accommodation, and eat out less than other types of tourists. Therefore the economic impact won't be huge initially, but it will be fantastic to see families reunited. It's unclear at this stage how off-putting the risk of getting stuck will prove for travellers in both directions.

Overall though, there are a lot more Aussies than kiwis, and that will work in our favour. We ran a positive tourism balance with Australia before, and would expect that to be the case now too. Even if muted from a pure GDP perspective, the opening of the travel bubble is a positive for our economy and will certainly boost morale.

SLOW DOWN

New Zealand's economy slowed in the final quarter of 2020 by 1.0%. Activity was weaker than anticipated following a sharp recovery the previous quarter.

Activity related to the housing market boom has accounted for much of the recent growth, but recent tax policy changes are expected to temper growth in house prices.

The most unexpected change was the removal of the deductibility of mortgage interest for property investors. There is some anecdotal evidence than some property investors are now looking to move funds into commercial property instead. There may also be some additional investor demand for rural property.

IS INFLATION A RISK?

As the global recovery progresses, concerns are mounting that rising inflation could force central banks to act much earlier than they currently intend, by raising interest rates and withdrawing other stimulus measures.

ECONOMIC OVERVIEW

At present the RBNZ is sitting tight and watching to see how the economy performs and we don't expect this position to change any time soon. It will take some time for the economy to fully recover and the recovery will continue to be quite uneven. We are currently seeing some sectors doing well while other sectors are really struggling. It's not clear that still-lower interest rates would help the economy adjust any faster, given the lopsided economic response to record-low rates has itself caused some of the stresses and strains. And with inflation pressures rising but inflation expectations comfortably around target, sitting tight is a very defensible strategy.

NZD VOLATILE

The NZ dollar appreciated earlier in the year but has eased back a little in March. The NZD is anticipated to continue to trend up in the near term, with USD0.77 expected to be reached by the end of the year.

NZD BUYS USD

Source: Bloomberg, ANZ Research

FARMGATE PRICES BENEFIT FROM STRONG GLOBAL MARKETS

Dairy markets shot up in March, driven by strong buying from China, amongst challenging conditions to deliver product to market. Since this time prices have stabilised near current levels, encouragingly, despite more product being added to the GlobalDairyTrade sales channel.

The recent strength in global markets, combined with a slight softening in the NZD, has been supportive of farmgate milk prices. We are forecasting $7.70/kg MS for this season and $7.30/kg MS for next season.

STRONG FINISH TO THE SEASON

Dairy farmers are benefiting from a stronger production season and a high milk price. Our milk price forecast for the 2020/21 season sits at $7.70/kg MS, boosted by the recent strength in global dairy commodity prices which has more than offset the stronger NZD.

Global demand for dairy products remains strong. Immediate demand is being inflated by buyers making additional purchases to ensure they don't run out of stock. Stock levels were generally run down earlier in the pandemic as buying activity slowed a little due to uncertainty around the level of consumer demand.

However, consumers have continued to buy dairy products at similar rates to pre-pandemic levels. The economy of China – the world's largest dairy importer – has recovered quickly from the pandemic which has helped boost dairy demand. Demand has also been supported by the rising consumer perception that dairy is a healthy food choice as many people have become more health conscious as a result of the pandemic.

GLOBAL MILK SUPPLY STEADILY INCREASING

Global milk supplies are steadily growing, but thus far the growth is not sufficient to impact prices negatively. We are now entering the peak production season for Northern Hemisphere dairy producers.

Milk production in the US is growing at a rate of about 2% p.a. at present. This growth should be able to primarily be absorbed by the US domestic market, particularly if lockdown measures are able to be removed. The US has one of the highest vaccination rates in the world and it is hoped that this will soon curb the infection rate and allow more social interactions to occur. But if milk supply does keep growing and domestic demand remains weak there is a risk we may see more product being pushed into the global markets.

In Europe milk production is growing a little more modestly. At present we are seeing growth of about 1%, which shouldn't be enough to disrupt global markets. Demand from within the EU nations is expected to be steady but economic growth in this region is also expected to be subdued. The rollout of vaccines in the EU has been slow and economic growth was already subdued prior to the pandemic. Therefore the economic recovery from the pandemic is expected to be more gradual in that region.

Turning to the Southern Hemisphere, we are again seeing only modest growth in milk output.

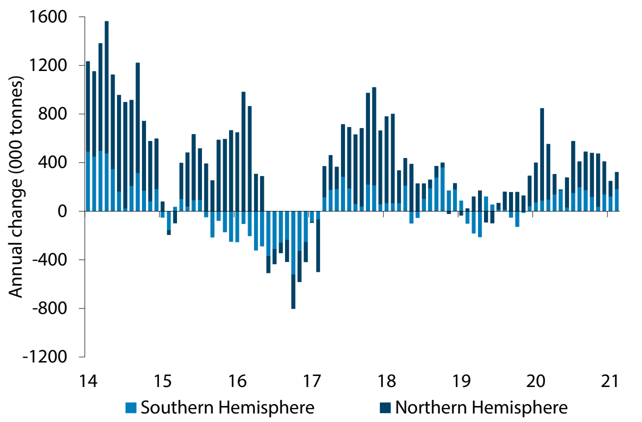
New Zealand is having a more typical dairy season, following a tough season last year where drought plagued most of the country. Growth in the latter part of the season is expected to look strong relative to last season. February output was a little stronger than anticipated, with 6% y/y growth recorded (after accounting for the leap year last season). Output across the full season is expected to expand by 1.5%, which assumes stronger production in March and April than last season.

In Australia milk production is relatively stable. Dairy Australia is forecasting milk production for the season to be between -1% and +1%. For the season to date production is up about 1%, with stronger growth recorded in recent months. Production is therefore

DAIRY

expected to be at the upper end of the Dairy Australia forecast. However, this will not result in much change in exports, as Australia's domestic market absorbs more and more product every year, which typically leaves smaller volumes available for export.

MILK PRODUCTION GROWTH MAIN EXPORTING COUNTRIES



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

LOGISTICS CHALLENGES

It is challenging getting products to market at present but NZ dairy exports are continuously being shipped to market to fulfil orders. There have been delays getting some product offloaded but generally our dairy sector is facing fewer challenges than some of the other sectors – but it certainly isn't an easy time for exporters.

One export channel that has been majorly impacted by the pandemic is the daigou channel. This is where tourists or local buyers (often foreign students) buy product from local shops and post it back home.

This channel has been particularly important for infant formula, because prices for a given product in China tend to be significantly higher than elsewhere in the world. In addition, the various food scandals that have plagued China over the years mean goods produced offshore (and intended for western consumption) are often more trusted than locally produced brands. This perception is gradually changing as the trustworthiness of many Chinese brands improves but is still something many consumers consider.

However, during the pandemic there are fewer international students and cross-border tourism has completed dried up. Therefore the daigou channel is considerably smaller than it once was.

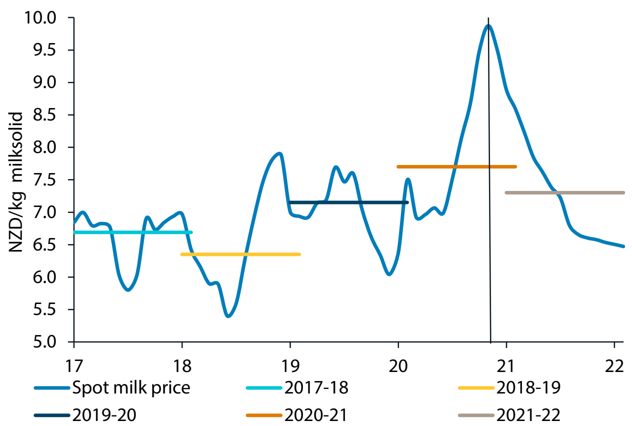
This daigou channel is much more prominent in Australia than in NZ due to differences in regulations. But it is still impacting our producers. The Australian daigou channel has been an important export channel for A2 products. As this channel has shrunk so has demand for its A2 infant formula, which is produced by Synlait.

Synlait recently downgraded its profit expectations for the current season primarily due to decreased demand for consumer packaged infant formula and a significant reduction in demand for and production of infant formula base powder.

FARMGATE RETURNS BUOYANT

Our farmgate forecast milk price for the 2020/21 season sits at $7.70/kg MS, while we are forecasting $7.30/kg MS for the 2021/22 season.

MILK PRICE – HISTORIC AND FORECAST



Source: Fonterra, NZX, ANZ Research

While the season still has some time to run it is now highly unlikely the milk price for the current season will end up being below $7.50 per kg milksolid (MS).

We remain optimistic about global dairy commodity markets but we do expect to see some softening in the markets during the second half of 2021. NZ dairy products are currently selling at a premium to product from other dairy-exporting countries. While premiums are likely to be maintained through the winter months while our production is low, these premiums are likely to be eroded when we start seeing the new season's output.

Our milk price forecasts assume dairy commodity prices will soften from here. By the end of the 2021 calendar year we anticipate whole milk powder (WMP) prices will have eased back to about USD3500 per tonne and the NZD will be at USD0.77.

LAMB & WOOL

PRICES STARTING TO FIRM

Lamb returns at the farmgate level are now trending up, which is a little earlier in the season than normal. This has translated to more confidence in the store markets, despite some regions still being tight on lamb feed. But overall pasture conditions this season are a lot better than last season. International markets are also expected to improve as vaccines are rolled out. Of course there are challenges getting product to market and this does pose a risk for farmgate returns.

AIR OF OPTIMISM

Rising schedule prices and relatively high prices for winter supply contracts have seen optimism return to lamb markets.

International market demand has been stronger than expected, and exporters are hopeful that demand will improve further as more restaurant dining is allowed.

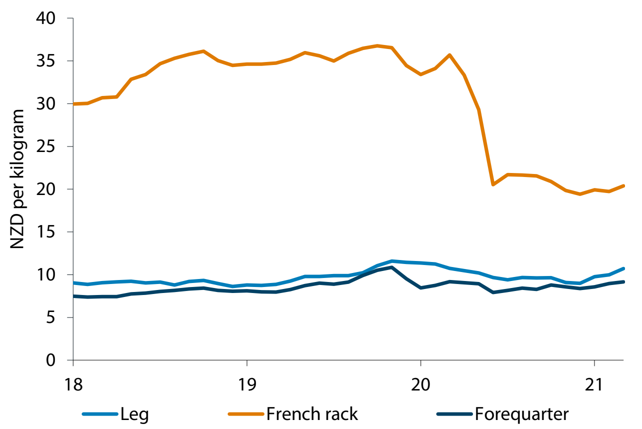
Throughout the pandemic demand for lower-priced lamb cuts and mutton has remained extremely robust. However, there was a sharp fall in the price of the higher-value lamb cuts when social distancing restrictions resulted in the closure of restaurants in Europe and the United States.

On the other hand, China is our main market for mutton and also the largest buyer of cuts such as flaps and forequarters. China's economy is recovering quickly and this has helped underpin demand for our lamb and also helped keep schedule prices high.

Another factor providing support to the market is a lack of competition from Australian lamb. Australian farmers are rebuilding flocks following the devastating fires and floods last year, so there is a lot less lamb being exported from Australia. Lamb slaughter rates across 2021 are expected to be slightly higher than last year, but still well below 2019 levels.

Sheep slaughter numbers in Australia fell 30% in 2020 and are expected to increase only slightly in 2021.

LAMB CUT PRICES



Source: AgriHQ

LESS LAMB FOR EXPORT

The number of lambs available for processing locally is also smaller than normal this season. Beef + Lamb NZ estimate a 4.5% reduction in export lambs this season. Surveys indicate there were 300,000 (1.2%) fewer lambs tailed this season and it is estimated there will be 900,000 fewer lambs available for export production.

Lamb processing rates have been slower than normal throughout the season and this is expected to continue for the remainder of the season. Fewer lambs available for processing is one of the reasons why we are seeing some added competition between processors to secure lambs.

Winter lamb contracts are now available with $8/kg CW on offer from some processors for early winter supply (May to July). This has provoked buyers to assume schedule prices may be at similar levels by winter.

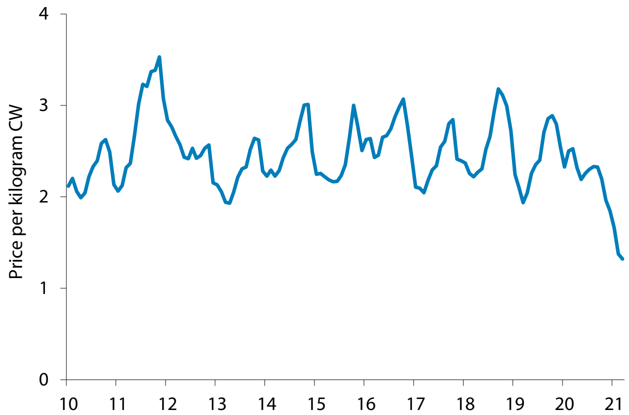
LAMB & WOOL

The strength in the winter contracts has also stimulated demand for store stock. At the Fielding sale prior to Easter lambs returned quite a wide range of prices, but most lambs traded in the $3.60 to $3.80/kg range. On a per head basis lambs averaged $120.

CULLS WORTH AS MUCH AS LAMBS

The strength in the market for mutton, driven by strong demand from China, means the price differential between mutton and lamb has diminished considerably.

FARMGATE DIFFERENTIAL BETWEEN LAMB AND MUTTON



Source: AgriHQ, ANZ Research

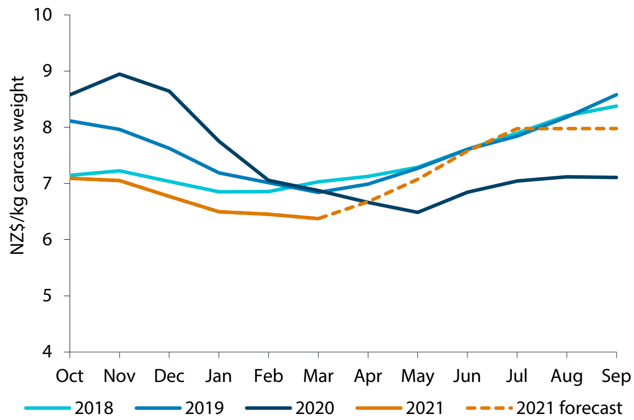
As ewes are typically culled at a heavier weight than lambs, the two classes of stock are now worth about the same on a per head basis. B+LNZ forecast that both lambs and ewes will return $122 per head, on average, during the year to September 2021. The price of ewes, relative to lambs, has never been this high.

In China, buyers don't tend to place a higher value on a younger animal. The methods they use to prepare and cook meat, and consumer preference for a stronger-tasting meat, means mutton is just as sought after as lamb.

FARMGATE RETURNS FOR LAMB STRONGER THAN EXPECTED

Farmgate returns for lamb have not fallen away as quickly this season as normal. This is partly due to the improvement in the overseas markets, but also due to there being insufficient processing space in most parts of the country. Space has been a little tight in some areas but delays have not been prolonged.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ

Schedule prices in the South Island moved down to the $6.25/kg CW level we previously forecast, but in the North Island prices held near $6.50/kg CW.

From here on we expect prices will firm, with North Island prices expected to head towards $8/kg CW by winter.

WOOL PRICES ON THE RISE – FINALLY!

Wool prices have trended up further over the past couple of months but prices for coarse wool still have quite some way to go before the industry will once again be profitable.

Returns from the coarser grades of wool are not even covering shearing costs. Shearing costs lifted substantially a couple of seasons ago, but finding shearers is still challenging in some regions.

Strong wool prices have virtually caught up with last season's prices in at the South Island auctions but the North Island still has some way to go.

What is encouraging is that international demand is certainly stronger, and we are starting to see some confidence return to the markets.

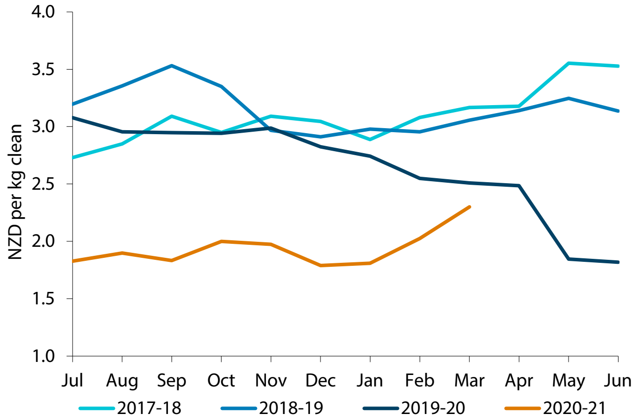
In the North Island average grade cross-bred wool is trading at about $2.20/kg, while in the South Island prices are a little stronger at closer to $2.40/kg. Prices are very dependent on the quality of the wool on offer.

Lambs wool and finer wools continue to attract better demand, as do the better quality crossbred fleeces.

Most of the wool from the main shear in the South Island has now been sold so the volumes on offer will start to ease from now on.

LAMB & WOOL

STRONG WOOL (>35MM)



Source: NZWSI, PGG Wrightson

B+LNZ estimate that in the 2020-21 season wool will contribute just 4.2% of gross farm revenue.

On a more positive note there are a number of products in the pipeline that may help to bolster demand for wool in the future, so fingers crossed that some of these innovations make it to market.

BEEF

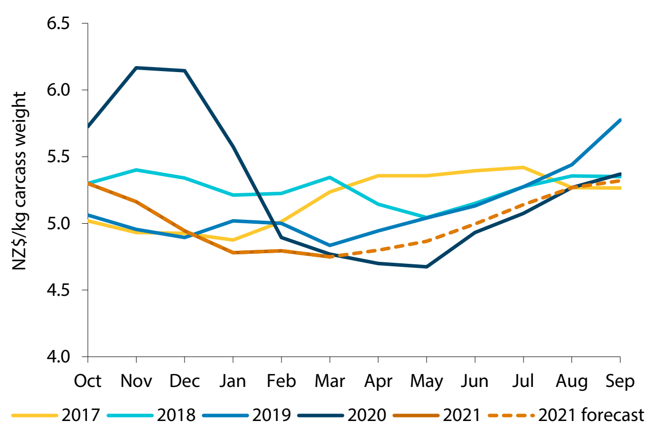
LOW SUPPLIES SUPPORTS PRICES

Farmgate prices for beef have generally eased over the past month, but this is not unusual for this time of the season. International market prices have firmed a little but the relatively high NZD and higher costs of shipping are taking their toll on the prices being paid to producers.

The supply of manufacturing-grade beef from NZ is starting to slow, which has been supportive of international prices. Similarly, the ongoing limited supply of beef from Australia has helped. Australian farmers are still rebuilding herds following the droughts and fires last year so the volume of cattle being processed is much lower than normal.

At the farmgate level in NZ prices have stabilised after falling quite rapidly over the past few months. Farmgate prices for prime stock tend to ease 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.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

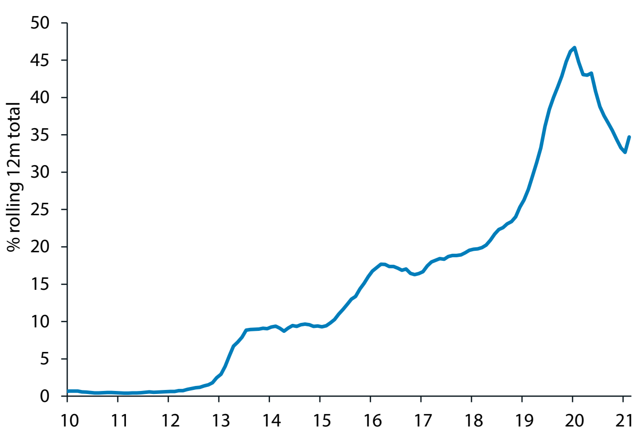
Therefore farmgate prices for prime heifers and steers and bulls are expected to lift a little in the coming months. Processors may be forced to dig a little deeper in order to secure sufficient stock if they want to keep plants full until more cull cows become available.

INTERNATIONAL PRICES STRONG

International prices for beef are above the 5-year average but are well below the really high levels prices moved to in later 2019. At that time there was strong buying pressure from both the US and China, which resulted in prices rapidly appreciating.

Demand from China is still strong, but not strong enough to compete aggressively with US buyers. China is now sourcing a large proportion of its beef requirements from Brazil, Argentina and Uruguay. Overall, China's demand for beef keeps growing and there are good opportunities for NZ in this market where we currently supply about 8% of the beef imported by China.

PROPORTION OF NZ BEEF EXPORTS TO CHINA



Source: StatsNZ

BEEF

China's demand for beef has not waned despite its pork industry recovering somewhat – although further outbreaks of African Swine Fever (ASF) have recently been reported. For several years China has tried to stop pork producers feeding food waste to pigs as it is considered this may be a way disease is spread. Last year China substantially increased its imports of wheat and corn, much of which is used to feed pigs.

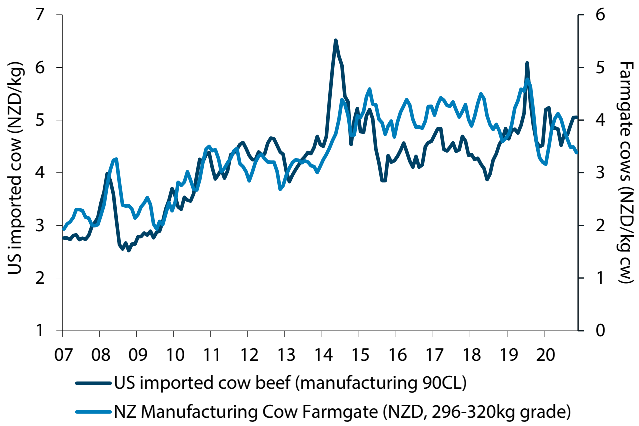
Pork prices are currently high in both China and the US, with US pork prices now at a 7-year high. Beef is still more expensive than pork but the premium has reduced. The high pork prices should bolster demand for beef.

US ECONOMY REBOUNDING

The rapid rebound in the US economy should help support demand for meat. About 40% of the population in the US are has now received at least one shot and about 75% of the population should be fully vaccinated by July. This will allow more social interactions to occur, including more restaurant dinner and barbeques, which should be supportive for meat demand.

International prices are tracking above the 5-year average but farmgate prices are marginally lower. This is particularly the case for manufacturing-grade cows, and as the supply of this class of stock lifts there could be a little further downside pressure on prices. However, the quantity of manufacturing cow produced this season is expected to be well down on last season. B+LNZ anticipate the quantity of cow meat available for export will by 7.1% lower than last season and also well below the two previous seasons. The lower supply from NZ, combined with a similar situation in Australia, should provide some support to prices both at the international and local levels.

FARMGATE MANUFACTURING COW PRICE VS OVERSEAS MARKET PRICE



Source: AgriHQ

Meanwhile. farmgate prices for prime stock are exactly at the long-term average for this time of the season. Bull prices are a little below normal in the North Island.

LIMITED STOCK AT THE YARDS

In the more immediate term a lack of availability of finished cattle is helping to support prices at the farmgate level.

The recent rains have boosted pasture production across much of the country, meaning there isn't a lot of stock coming through the yards. Dairy farmers are also making the most of the good pasture=growing conditions and the strong milk price by milking cows a little longer than they may have otherwise. This does mean there will be a massive rush of culling when cows are dried off and we may again see the cull cow processing season spill into the winter months.

Dairy cow numbers are expected to ease a little further in the coming years as some dairy farms are being converted to beef units as the regulatory environment in the dairy space tightens. Stocking rates are also expected to be reduced, which may also reduce demand for grazing dairy cows off farm during the winter months.

Replacing dairy cows with bulls is an option some farmers are considering to reduce the amount of nitrogen entering waterways.

LOWER BEEF SUPPLY

The number of cattle available for processing this season (to September) is expected to fall. Beef + Lamb NZ are forecasting a 2.6% decline in the number of cattle processed this year and a similar decrease in the volume of beef produced, indicating no change in average slaughter weights.

For this season to date (Oct- early Mar) the processing of prime stock is well ahead of last season, but the cow kill is well behind. Last season cows were culled in earnest earlier in the season due to the extremely dry conditions. Processing of bulls is running slightly ahead of last season as well. Based on the B+LNZ estimates of stock numbers there should be about 6% fewer cattle available for processing in the remainder of the season. The lower numbers also help to explain why there is currently a bit of a lull in cattle processing.

DEER

VELVET RETURNS STRONG

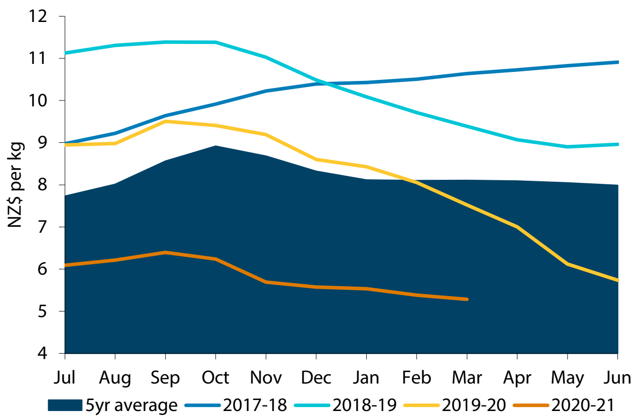
Velvet growers have benefited from this product being associated with health and wellbeing, and also from being highly exposed to the Asian markets, whose economies are outperforming other parts of the world.

Meanwhile, venison markets remain very challenging as opportunities for dining out in European and US restaurants remain limited. This is unlikely to change until vaccination rates lift and COVID-19 infection rates drop substantially.

Venison schedule prices have eased a further 10c/kg CW in March. Farmgate prices are now about 35% lower than the 5-year average for this time of the season.

Our traditional end-user markets for venison remain subdued as people movements are still being restricted to manage the risk of spreading COVID-19. As vaccines are rolled out restaurants are expected to start to reopen, but this will mainly be in the second half of the year – all going well!

FARMGATE VENISON PRICE (60G STAG)



Source: AgriHQ

Vaccination rates in the US are quite high, but so are daily infection rates. Meanwhile in Europe the vaccination program roll-out is painfully slow. By the end of March 16% of the US population was fully vaccinated with three times that number having received at least one shot. At current vaccination rates it is expected to take another 4 months for 75% of the population to be vaccinated, so it's likely to take about this long before most restaurants reopen.

But in Germany and Belgium – some of our largest venison markets – the vaccination rate is yet to reach 5%.

VELVET DEMAND ROBUST

Velvet remains in vogue as a product for which demand has remained strong throughout the pandemic. Returns for this product remain robust but there have been challenges getting product to market.

Some exporters have faced considerably delays obtaining space for product, meaning delivery times have been pushed out, causing frustrations for both exporters and buyers.

Uncertainty as to market conditions, particularly earlier in the year, has also resulted in more product being exported to China rather than to Korea. While Korea remains the end market for much of the velvet exported from NZ, a large portion of this product is further processed in China.

Chinese consumers are also a growth market for NZ velvet. Exporters are looking to further develop this market in coming years by having a dedicated market development manager on the ground. Developing relationships in China is a long game and therefore patience may be required before results are visible.

GRAIN

HARVEST NEAR COMPLETE

The local grain harvest is near complete, with yields generally lower than last season. Prices for locally produced grain are relatively stable. In Australia a record harvest has tempered prices, which is making Australian grain very competitive in global markets. Global grain supplies are forecast to be lower, while demand is strong, which has put upward pressure on prices.

The cereal harvest is now completed on most farms, or nearing completion. Yields for wheat have been mixed, although most dryland farms are reporting lower yields than last season, when yields were particularly high. There tends to be less variability between seasons for irrigated arable crops as soil moisture levels are able to be maintained at near optimal levels.

The barley harvest is also mostly completed. Yields are reported to be pretty good, as is the quality of the grain.

Harvesting of maize grain in the North Island is just kicking off. There are some reports of low yields, particularly in northern regions where conditions were dry earlier in the growing season.

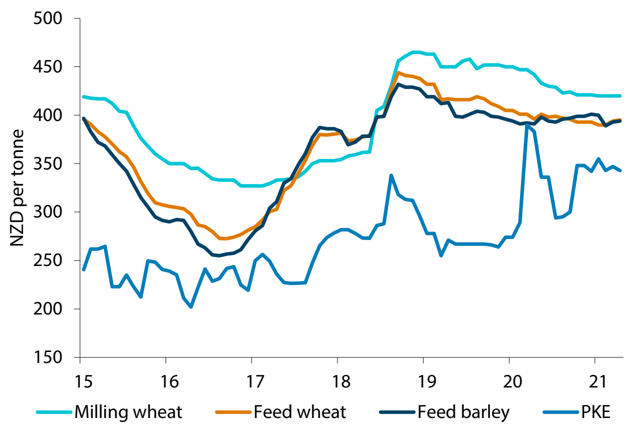
The maize silage harvest is also underway. Good yields are being reported and this is helping many dairy farmers to extend their milking season to make the most of the high milk prices.

The high milk prices have not stimulated demand for supplementary feed such as grain to be fed in sheds, or palm kernel. Dairy farmers are generally doing a better job of making sure they are fully utilising pasture and supplementary feed before purchasing more feed in. In some cases stocking rates are being reduced on dairy farms, which has reduced demand for feed grown off-farm. These changes are generally in anticipation of tighter environmental regulations in relation to water quality and greenhouse gas emissions.

LOCAL MARKET STABLE

The prices of locally produced grain are quite similar to year-ago levels. Prices for all grains are above their five-year average. There hasn't been a lot of movement in wheat prices recently. Feed barley prices have firmed a little.

NZ GRAIN PRICES



Source: AgriHQ

Most of the incremental demand for feed comes from the dairy industry. Demand this season for grain is relatively subdued, considering the strength of the milk price.

Palm kernel prices have stabilised over the past few months. Demand for this product is starting to ease, although it will remain a feed source that is used tactically on many farms to manage short-term feed deficits.

It is no longer the extremely cheap product that it once was. The wholesale price of PKE imports is currently nearly 20% higher than it was a year ago, but the product is being offered to farmers at a lower price than last year. This is a reflection of the current demand situation relative to the volume of product that is on hand.

GRAINS

AUSTRALIAN GRAIN CHEAPER

Grain sourced from Australia is relatively cheap at present and is certainly cheaper than our locally produced grain. Australia's harvest this season is thought to be even bigger than the record harvest last year. At present Australian wheat and barley is priced about 20% lower than a year ago.

This is making Australian grain very competitive both here in NZ and in other international markets.

INTERNATIONAL GRAIN PRICES RISING

Elsewhere in the world grain prices are increasing. A recently released USDA report has forecast considerably lower plantings of both corn and soybeans than expected. While there is still some debate about how accurate this report is, it has certainly been supportive of corn and soy prices.

The lower-than-expected plantings in the US are occurring at a time when demand from China for imported grains has skyrocketed. However, it has more recently been revealed that China has been bolstering its storage of grain to avoid any potential food shortages.

The need to increase storage capacity was documented in its latest 5-year plan, which detailed the need for increased food security. In addition to having enough feed on hand avoid starvation risks, China's demand for livestock feed has also increased. China is rebuilding its pig numbers and now favours large-scale operations over backyard operations and is trying to limit the practice of feeding food waste to pigs. This, in turn, has increased the demand for imported grains.

FORESTRY

STRONG DEMAND PUSHING UP PRICES

International log prices are at record levels due to strong demand from China as other supply lines dry up. But the high in-market prices are being offset by expensive shipping, meaning returns at the wharf-gate have only lifted a tad.

Domestic demand remains strong but some mills are struggling to run at a profit. Most don't compete directly for logs as mills typically source high-grade pruned logs, while unpruned logs are exported. However, export prices do underpin the price that mills need to pay for logs. Supply differs by region, with some regions having few pruned logs available where forest owners have elected to focus on export markets rather than producing a higher-quality log.

HIGH OVERSEAS PRICES ERODED BY SHIPPING COSTS

Returns at the wharf gate level for export-grade logs have lifted marginally. In-market prices are now at record highs but extremely high shipping prices mean little extra return to NZ exporters.

The cost of moving logs from New Zealand to China and Korea, our main markets, has doubled over the past year. It now costs as much as USD50/JASm^3 to move logs to Asia, which accounts for about a third of the value of the product. A year ago shipping costs were closer to 20% of the total value.

So far, the higher shipping costs are being absorbed by the importers, meaning returns at the wharf-gate level in NZ haven't changed a lot. The lift in shipping costs is being driven by the general congestion in global shipping, which means it is taking longer for ships to get loaded and unloaded.

Container ships are particularly in short supply, but the port congestion also impacts other types of ships, and some cargo that was previous moved in containers is now being moved as break-bulk cargo. This is cargo that is packaged (on pallets etc) but has to be loaded individually into the ship's hull. In recent years this type of product has generally been moved in containers to reduce handling requirements. However, now that containers are in short supply, at least in the places they are needed, more cargo is being moved as break-bulk, which competes with logs for space on ships.

Shipping costs are expected to remain elevated for months to come, so it is fortunate that demand, particularly from China, is currently strong enough to absorb these additional costs.

One of the reasons demand remains robust is the fact that Chinese importers have limited choices as to where they can source logs.

LOG PRICE (UNPRUNED A GRADE)

Source: AgriHQ

It looks like China won't be opening its market to Australian logs any time soon. China started rejecting Australian logs in November after it was reported live

FORESTRY

pests were found in the logs. Australian authorities dispute this claim, but it appears dialogue between the two countries is virtually non-existent. This has led to speculation that it may be years before Australian logs are able to be exported to China again. Prior to the ban 90% of the logs exported from Australia headed to China. Australia is now relying on exporting more logs to India and supplying its own domestic market, where needs are growing. But production of logs has slowed in Australia as a result of the export ban, although more logs are being chipped as they are still able to be exported to China in this form.

There has also been a major reduction in the volume of logs being supplied to China by Russia. Russia has imposed a ban on the export of logs as a way to boost its own timber-processing industry. Exports of timber relative to logs were already increasing ahead of the ban.

This time last year Russia was supplying about 13% of the logs imported by China, while Australia was supplying 9%. New Zealand and Europe are the largest suppliers of logs to China each, roughly accounting for about a third of the supply. New Zealand's share has been quite steady in recent years while additional supply from Eastern Europe has offset the reduction in supply from elsewhere. In the past couple of years there have also been more logs supplied to China from South America – particularly Uruguay - but this trade only makes sense when log prices are high due to the higher cost of shipping.

DOMESTIC DEMAND STRONG

Local demand for timber for new homes and home renovations is incredibly strong at present. Mills are generally able to source sufficient timber for their requirements, although supply is tight in some regions.

However, there are delays getting timber treated due to delays in importing the required chemicals used in this process.

As yet, it is not clear what the impact of the recently announced housing policy changes will have on demand for building. The extra spending the Government has planned for infrastructure to support housing development should have a positive impact, but this will be rolled out over several years. Meanwhile, the tax changes designed to tilt the market more in favour of first home buyers than investors are likely to reduce investor appetite for housing and therefore may also reduce appetites for new developments, though new builds have been carved out of the some of the changes to attempt to pivot investors towards these and protect the housing pipeline.

At present builders are extremely busy and this puts a constraint on the rate at which homes can be built – this problem won't be solved until a large number of new tradies are trained or borders reopen and foreign builders can be used to boost resources.

MILLS STILL CLOSING

The milling industry in NZ has gradually declined over the past couple of decades as sawmills and paper mills have struggled to turn a profit.

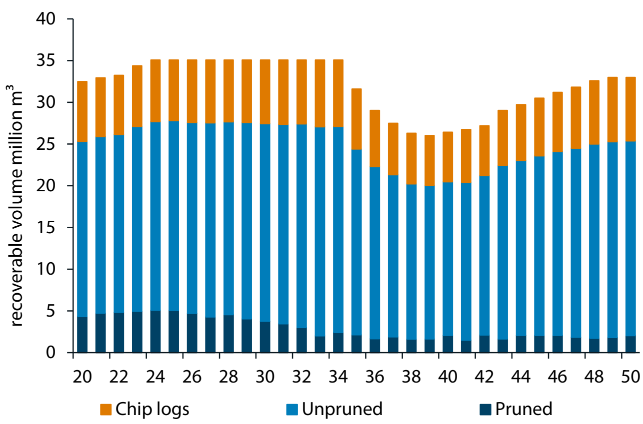
Despite demand for lumber in NZ being at an all-time high, mills are still closing. Mills must compete with export markets for the supply of timber, but seem to struggle to pass on any cost increases to the buyers of paper, cardboard and lumber. Labour to run the mills is also becoming increasing difficult to source – and more expensive.

Most sawmills have been able to source the timber they require, but in some regions the supply of logs is limited, particularly pruned logs.

Logs need to be pruned to provide the high-quality timber required for many building products, whereas the export markets generally only require unpruned logs. Strong demand from China has pushed up the price of unpruned logs, reducing the premium growers receive for pruned logs.

This made some growers question the need to prune young stands of pines due to the additional costs incurred, which is why we are now seeing more unpruned stands of trees being harvested.

LOG TYPES AVAILABLE FOR HARVEST



Source: MPI

FORESTRY

The volume of pruned logs set to become available over coming years is expected to diminish due to more forests being managed as unpruned rather than pruned forests.

In most regions the supply of logs is expected to increase over the next five years or so due to the large number of trees planted in the 1990s. However, in some regions most of these trees have not been pruned, meaning there is limited supply of logs suitable for milling. Very few pine forests in Northland have been pruned, which is why the Carter Holt Harvey closed its Whangarei mill last year.

CARBON FARMING OPPORTUNITIES

Demand for land for planting trees specifically to sequester carbon is underpinning land prices. In some regions carbon farming has become the highest-returning land use. At present MPI is consulting on changes to the Emissions Trading Scheme (ETS) on how the quantity of carbon sequestered is accounted for. Traditionally carbon credits were earned as the forest grew and then most of these credits had to be repaid when the forest was harvested. A new 'averaging' system was proposed to eliminate the need to repay carbon credits at the time of harvest, so long as the land is replanted in the same species. Under the proposed averaging system credits would be able to be earned up to 16 years.

This provides cash-flow opportunities as credits can start to be earned soon after the forest is planted. However, the earnings are limited to the first 16 years of the forest's life, assuming it is a pine forest that is not harvested. Harvesting timber adds another income stream.

Small forests (under 100ha) use a standard carbon sequestration table to work out how many credits can be earned, and this differs by region. Larger forests are individually assessed for their carbon sequestration potential.

At present carbon returns from pinus radiata plantations far exceed other species. This species can also be harvested for timber and its ability to perform in NZ conditions is well known. That is why this is the main species being planted.

However, it probably isn't the most suitable species for permanent forests as natives and some other exotics tend to persist better over a long period of time.

HORTICULTURE

LOGISTICALLY CHALLENGING

Harvesting of our main horticultural crops is now well underway. The grape harvest is finished in most regions, apples are in the thick of it, and kiwifruit picking is well underway. The biggest challenges are finding sufficient labour to pick and pack the fruit, and securing containers and shipping space to get the product to market. International demand remains robust and so do prices, but many growers will be faced with lower returns due to less fruit being harvested and higher logistical costs.

The labour shortages our horticultural industries have been warning about for months are now hitting home. There is strong competition between our horticultural industries to secure staff, and in some cases workers are being sourced from other primary industries. Any further openings of our borders to the Pacific islands, will certainly be welcomed, but won't come early enough to provide additional hands for this season's harvest. It would, however, allow workers who have been stuck in New Zealand the opportunity to return home, and some new workers to be rotated in.

Labour costs are rising rapidly across all the primary industries. This is partially due to the increases in the minimum wage, but also simply due to the shortage of labour in general. The productivity levels of less-experienced staff, particularly some of our local labour force, is significantly lower than those with a few years picking experience under their belt. As remuneration is generally linked to the quantity of fruit picked, slow pickers are struggling to pick at a rate equivalent to the minimum wage, which means their wages then need to be topped up. This makes it considerably more expensive for orchards and vineyards to harvest their fruit.

WINE: LOW YIELDS, EXCELLENT QUALITY

The main grape harvest is virtually complete. In Marlborough a larger volume of grapes were machine harvested and there was less fruit to pick in any case, due to frost damage earlier in the year.

The quantity of grapes harvested is generally back about 20-30%, but depending on the variety being grown and the exact location, some blocks are even worse off than this. The earlier-flowering varieties such as Chardonnay and Pinot were hit harder than Sauvignon Blanc – which accounts for the bulk of the wine produced in Marlborough.

If yields were higher this year there wouldn't have been enough labour to pick all the grapes in any case. Favourable growing conditions and the smaller harvest resulted in virtually all the grapes being picked in March, significantly earlier than normal.

Grapes are still being picked in Central Otago and this region is really struggling for labour this year due to the dearth of backpackers.

Although yields are really low, the quality of the 2021 vintage is reported to be excellent. We can therefore look forward to lovely wine being produced. Wineries will have to be more selective as to what wines they make and who they supply. It is always challenging to grow markets when you are not able to consistently supply product. Therefore, the small vintage this year could have longer-lasting impacts on the industry if we lose customers.

APPLES: BRAEBURN LEFT ON TREES

The apple harvest is in full swing in the main apple-production regions, those being Nelson and Hawke's Bay. Labour shortages will limit the volume of apples that are harvested this season.

NZ Apples & Pears Inc (NZAPI) is forecasting a 14% reduction in exports volumes compared with last year. Meanwhile many orchards have advised an even larger reduction in their expected harvest.

HORTICULTURE

Initially the export crop was downgraded due to the hail that occurred earlier in the year in the Nelson region, which coincided with flowering. As a consequence, less apples have been produced. The average size of the apple crop is also smaller than usual.

Orchards that are not able to secure sufficient staff are having to decide which fruit to leave unpicked. In many cases this will be the lower-returning varieties such as Braeburn. The larger apple-growing operations are better positioned in terms of labour than many of the smaller growers. Some growers have virtually no pickers, which is putting huge strain, both mentally and physically, on the owners who are trying to pick as much fruit themselves as possible.

Braeburn exports are forecast by NZAPI to be 44% lower this season. That equates to about 1.5 million fewer export cartons. Braeburn apples are typically exported to Europe, whereas most of the newer apple varieties tend to be exported to Asian markets.

Getting the fruit to market this year is partially challenging. Securing refrigerated containers is really challenging at present, as is getting space on ships. Ongoing delays in getting product to market make it difficult to get the product onto the shelves in-market at the most optimal time.

KIWIFRUIT: A TONNE OF FRUIT TO PICK

Picking of kiwifruit is underway, with the Sungold variety mainly being harvested. The small quantities of the new Zespri Red variety will have already been harvested as it is an early-maturing variety. Some of the earlier-maturing green is also being picked at the moment.

The first ships laden with Kiwifruit set sail in mid-March, so NZ fruit should now be in the hands of consumers in Japan and Korea.

This year Zespri will be utilising three charter ships that were specifically designed to carry kiwifruit. Zespri normally charters ships for much of its shipping needs, but uses general container ships as well. This season Zespri has planned 57 chartered shipments, compared to 49 last year. Of the planned shipments, 40 will be destined for Asia, 12 to the Mediterranean and five to North Europe.

A record kiwifruit harvest is forecast. Zespri expects to export 177 million trays or 700,000 tonnes of fruit this year. This is a significant increase from the 157 million trays, or about 600,000 tonnes exported last year. However, this will be conditional on finding sufficient pickers and labourers to staff the post-harvest facilities.

It is generally easier to find people to work in the pack houses than out in the orchards.

The busiest time for picking is normally May and June, so this will be crunch time in terms of getting all the fruit harvested. A lack of labour could mean some fruit is not harvested at the optimal time which will then impact both the quality of the fruit and grower returns.

Overseas market returns remain favourable for NZ-grown kiwifruit and this continues to result in strong orchard gate prices. The orchard gate prices for the new season production are similar to last season.

FORECAST ORCHARD GATE RETURNS

Fruit type	2021/22 per tray	2021/22 per ha	2020/21 per tray	2020/21 per ha
Green	$6.00-$7.00	$68,000-$83,000	$7.27	$74,263
Organic Green	$9.00-$10.50	$64,000-$75,000	$10.31	$65,074
Sungold	$10.00-$12.60	$151,000-$164,000	$12.26	$175,002
Organic Sungold	$12.00-$14.00	$134,000-$164,000	$14.99	$154,789
Green14	$8.00-$10.00	$55,000-$69,000	$9.84	$55,210

2021/22 guidance released in March
2020/21 forecast released in February
Source: Zespri

Zespri is currently in the process of allocating licenses for new plantings of Sungold and Zespri Red fruit. Tenders closed on April 7 for licenses to grow 750ha of Sungold, including 50ha of organic, and 350ha of Zespri Red available. Zespri has been placed in a trading halt whilst the tenders are being analysed. Successful bidders will be advised in early May.

The illegal plantings of Sungold fruit in China continue to be a major issue the industry needs to confront. Zespri now plans to ask kiwifruit growers to vote on whether it should go ahead with the proposed one-season trial that would involve up to 200,000 trays of Chinese-grown Gold3 fruit.

RURAL PROPERTY MARKET

MORE FARM SALES

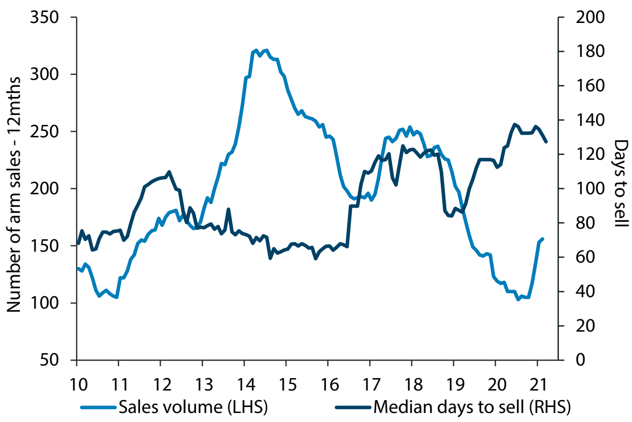
There has been an increase in sales activity, and prices have firmed a little. The recent lift in dairy commodity prices has provided the impetus needed to spur buyer confidence, while the ever-increasing complexity of compliance requirements has convinced some sellers that now is the time to exit the market.

MORE DAIRY FARMS SELLING

TIn the year to February, 170 dairy farms changed hands across NZ. This is the highest number of sales seen for a few years. Anecdotal evidence suggests sales activity remained high in March as well, as more farm transactions are secured ahead of the typical dairy farm changeover date of 1 June.

Not all farms being sold will continue to be used as dairy farms. Some farms are being converted to beef – a simple change, particularly if the farm infrastructure required for dairying, such as effluent systems and the milking shed, are heading towards the end of their useful life.

DAIRY FARM SALES



Source: REINZ

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	170	118	206	↑	↓
	Median Price ($ per ha)	31,644	30,113	33,809	↑	↓
Livestock	Number of Sales	894	790	976	↑	↓
	Median Price ($ per ha)	20,575	17,292	17,509	↑	↑
Horticulture	Number of Sales	179	167	179	↑	↓
	Median Price ($ per ha)	275,000	234,083	185,030	↑	↑
Arable	Number of Sales	55	81	93	↓	↓
	Median Price ($ per ha)	33,050	24,300	35,084	↑	↓
Forestry	Number of Sales	57	41	51	↑	↑
	Median Price ($ per ha)	10,537	13,733	7,180	↓	↑
All Farms	Number of Sales	1,470	1,256	1,517	↑	↓
	Median Price ($ per ha)	25,333	22,925	23,661	↑	↑

Source: REINZ

RURAL PROPERTY MARKET

The REINZ dairy price index rebounded a little this month. Despite the index being designed to adjust for misleading market signals it still bounces around considerably from month to month. It is certainly far too early to say prices are on the rise!

Dairy farms (including support blocks) traded over the past 12 months sold at an average price of $31,645 per hectare.

HORTICULTURAL LAND INCREASING RELATIVE TO PASTORAL

The price of horticultural land relative to dairy land is at its greatest differential in at least 20 years. At the beginning of this century horticultural land was worth about 5x as much as dairy land. Today that difference has increase to nearly 9x.

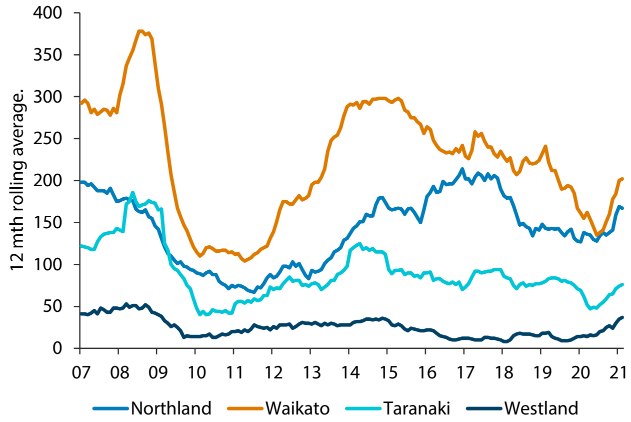
Meanwhile the difference in the price of dairy farms relative to farms used for grazing other livestock has reduced significantly. On average dairy farms are now selling at a 50% premium to grazing farms, whereas over the past decade dairy farms have, on average, been worth twice as much as grazing properties.

These differentials do vary considerably from region to region. In some regions, particularly where dairy farms are highly productive and have good infrastructure, the differential is considerably more than other regions where the returns from dairy relative to other uses such as finishing are considerable less.

MORE SALES IN DAIRYING REGIONS

There has been a definite uptick in the number of properties changing hands in some of the traditional dairy-farming regions.

FARM SALES FOR SELECTED REGIONS (12 MONTH ROLLING AVERAGE)



Source: REINZ

As noted previously, not all of these farms are continuing to be used as dairying blocks, although the majority are. The graph above shows the level of activity in farms sales is still well below the frenzy of activity seen in 2007 and 2008 but the number of properties changing hands is returning to more normal levels.

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