ANZ RESEARCH

AGRI FOCUS

JUNE 2021

WHEN IT RAINS IT POURS

This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.

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

Publication date: 4 June 2021

Feed supplies across New Zealand are becoming increasingly tight as we head into the colder winter months. The extensive flooding in Canterbury has caused massive damage to farms and wiped out a lot of winter feed.

The feed situation is also tight in other parts of the east coast in both islands, where extremely dry conditions have restricted pasture production. Although these areas have now received some rain, it is a case of too little, too late for many of these farms.

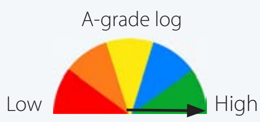
Store markets for lambs and cattle remain subdued due to the limited feed available. Meanwhile it will be a record year for milk production as conditions for pasture production have been much more favourable in the dairy-producing regions, or have been able to be boosted by irrigation.

Schedule prices are poised to rise further as the quantity of finished stock eases, while international market prices firm. Strong competition between the US and China for beef is putting upward pressure on prices. Winter lamb contracts are at favourable prices too, which is boosting industry confidence.

Log prices are at exceptionally high levels as global demand for timber skyrockets at a time when supply has tightened.

Freight disruptions are unlikely to abate anytime soon, continuing to cause havoc for our exporters and importers. Freight prices aren't the only prices on the rise, with inflationary pressures now showing up nearly everywhere in the economy.

The RBNZ is one of the first central banks to signal that if the economy continues on its current trajectory then a lift in inflation rates won't be too far away.

Prices at farm/orchard level relative to 10yr average		
Dairy	Dairy markets are very strong, which has bolstered our milk price forecast to $7.75/kg MS for the current season while we anticipate $7.70/kg MS for next season.	
Sheep	Lamb prices have firmed and this trend is set to continue through to the spring due to limited numbers of lambs available.	
Beef	Beef prices are benefiting from strong international demand and limited supply from the main beef exporting nations.	
Forestry	Log prices are setting new records both in-market and at the wharf-gate, while strong domestic demand for timber is exceeding available supply.	

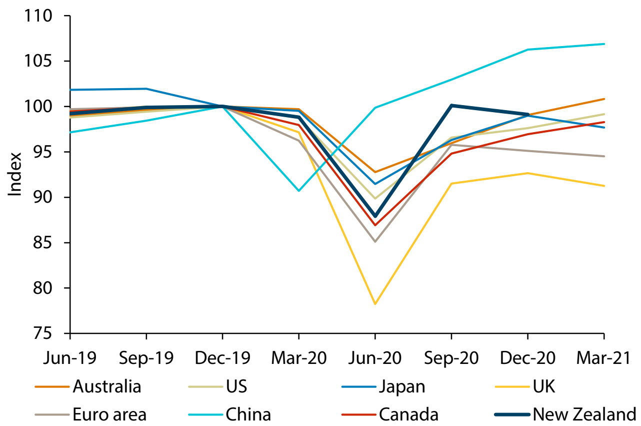
ECONOMIC OVERVIEW

IMPROVING

New Zealand's economy is recovering although the road ahead is still highly uncertain. Supply chain disruptions continue to create challenges moving goods around the world.

New Zealand is one of the best-performing economies amongst its key trading partners primarily because we have had success eliminating and keeping out COVID-19 due to our isolation and tight border controls.

GDP LEVELS (Q4 2019 = 100)



Source: Macrobond, ANZ Research

Much of our economy is back operating at full steam, which is largely making up for the sectors that are not. The change brought about by the pandemic was very abrupt, and has altered both the level and the composition of spending in New Zealand and overseas.

Consumption globally has been bolstered by an unprecedented amount of temporary fiscal support. With many economies locking down, people have naturally traded restaurant/experience/travel spending for purchases of more stuff, including online. This compositional shift towards manufactured goods was unexpected and abrupt, and it's creating significant headaches for global supply chains, seeing shipping costs lift – significantly.

JUST (NOT) IN TIME

Supply chain disruptions are challenging the world's "just in time" approach that has been a dominant feature of global trade these past few decades. Reduced air cargo means there's more for ships to carry, and port congestion mean ships are spending too much time sitting idle. How long these disruptions persist is anyone's guess, but global inventories will eventually be rebuilt (and possibly kept permanently higher) and supply chain kinks ironed out. That could happen as soon as the end of this year but more likely the supply challenges will persist well into 2022.

As cost pressures unwind we should see inflation pressures ease both here and around the globe, which is why policymakers are looking through inflationary pressure for now.

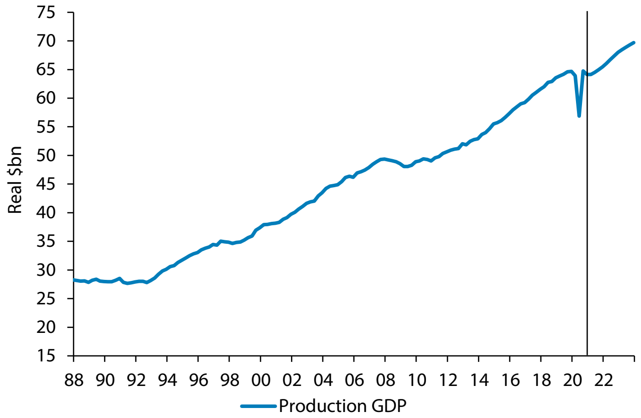
There is no doubt the New Zealand economy has performed much stronger than we dared hope. Much of the strength economy can be attributed to a handful of key factors:

- Successful containment of COVID-19, which has provided kiwis the freedom and confidence to go out – and spend.
- Fiscal policy stepping up to the plate, essentially putting a healthy chunk of Q2's lost production on its balance sheet - largely via the wage subsidy – which meant incomes did not fall anywhere near as much as production GDP did.
- Low interest rates stimulating the economy – admittedly largely via housing, as opposed to business investment.

ECONOMIC OVERVIEW

Economic growth is expected to remain subdued through 2021 but pick up in 2022 as global economies improve and fewer border restrictions allow growth in sectors of the economy that are severely stifled at present, such as tourism and foreign education.

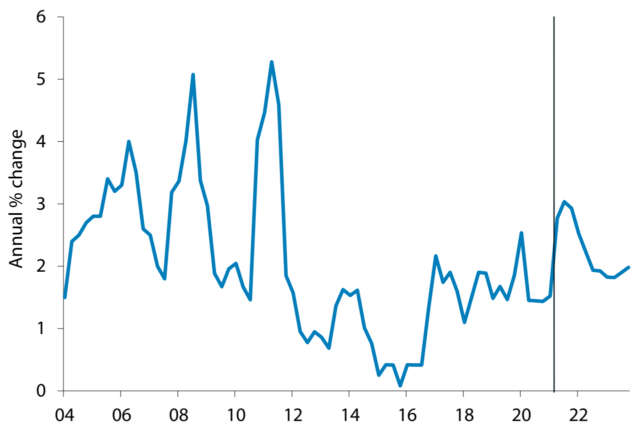
GDP FORECAST



Source: Statistics NZ, ANZ Research

Cost pressures associated with the supply disruption are expected to eventually dissipate and give way to a demand-driven lift in inflation. This will be driven by a tightening of other resources including labour and natural resources.

INFLATION FORECAST



Source: Statistics NZ, ANZ Research

HELPING THE ECONOMY

The combination of monetary policy support and fiscal stimulus has provided a significant cushion to the economy, which has helped facilitate the vigorous bounce-back seen to date. On the monetary side, the RBNZ:

- lowered the OCR to a record low of 0.25%,
- introduced the Large-Scale Asset Purchase Programme (LSAP, or "QE"),
- implemented a bank Funding for Lending Programme (FLP),
- prepared the banking system for negative interest rates if required.

On the fiscal side, stimulus has been most potent from the wage subsidy, which protected jobs and incomes and provided a degree of certainty during disruption, albeit at enormous cost. A range of other temporary policy supports accompanied it. Now that the wage subsidy has rolled off, fiscal policy is pivoting towards the likes of infrastructure spending, which will support the level of economic activity.

Overall, monetary and fiscal policy settings are expected to be "expansionary" for a while yet.

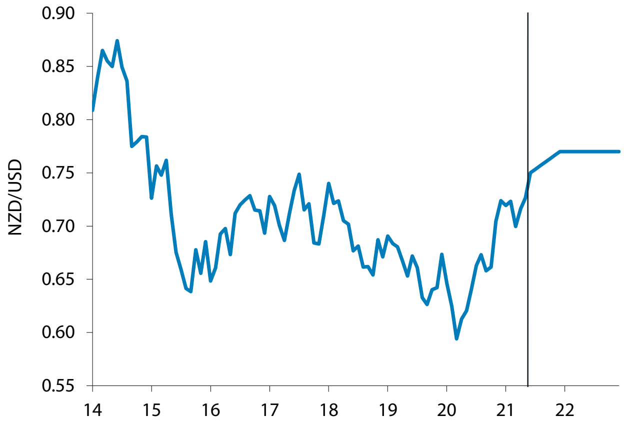
We expect that the RBNZ will maintain a cautious approach to removing stimulus in line with their "least regrets" approach. Policy normalisation will be a gradual, multi-year process.

The RBNZ is forecasting that they will start lifting the OCR in August 2022, which is consistent with our own forecasts. Risks are skewed to this being a little earlier, but the RBNZ will want to wait for the data to settle before kicking off a tightening cycle. Assuming no dramatic developments in terms of COVID or global financial markets, wage growth and inflation expectations are the key data to watch in terms of the medium-term inflation outlook and therefore the likely path for the OCR and interest rates more generally.

ECONOMIC OVERVIEW

At present the NZD remains a "market darling" and reflation remains the main theme driving currency. The NZD lifted following the latest RBNZ Monetary Policy Statement, with the RBNZ projecting lifting the OCR a bit earlier than expected (being a bit braver than their global counterparts in that regard). We continue to expect the NZD will appreciate and have maintained our forecast that it will reach USD0.77 by the end of the year.

NZD BUYS USD



Source: Bloomberg, ANZ Research

FORECASTS

Calendar Years	2019	2020	2021(f)	2022(f)	2023(f)
New Zealand Economy					
Real GDP (ann avg % chg)	2.4	-3.0	3.8	3.5	3.1
Real GDP (ann % chg)	1.7	-0.9	2.1	3.9	2.5
Unemployment Rate (Dec quarter)	4.1	4.9	4.7	4.0	3.9
CPI Inflation (annual %)	1.9	1.4	2.9	1.9	2.0
Terms of Trade (OTI basis; ann %)	7.1	-1.7	1.4	1.9	1.9
NZ Financial Markets (end of Dec quarter)					
NZD/USD	0.67	0.72	0.77	0.77	--
NZD/AUD	0.96	0.94	0.94	0.94	--
NZ$ TWI	73.7	75.2	78.3	77.3	--
Official Cash Rate	1.00	0.25	0.25	0.75	1.25
90-day bank bill rate	1.29	0.27	0.40	0.90	1.40
10-year govt bond rate	1.65	0.99	2.40	2.85	3.50

Source: Statistics NZ, Bloomberg, ANZ Research

DAIRY

FARMGATE PRICES BENEFIT FROM STRONG GLOBAL MARKETS

Farmgate milk price forecasts for next season are at record opening levels and the 2020-21 season was also a record season for milk production. Despite these indicators being extremely positive, the mood in the industry remains subdued as the focus is on paring back debt and setting farms up to reduce their environmental footprint.

The industry is going through a period of rapid change, and the associated uncertainty is bringing its own challenges. There are also challenges at the processing level. Fonterra is trying to simplify and strengthen its capital structure to better prepare it for the future, whilst Synlait has hit a rocky patch due to its high reliance on The a2 Milk Company, which is experiencing challenges selling its infant formula due to disruption to its usual channels.

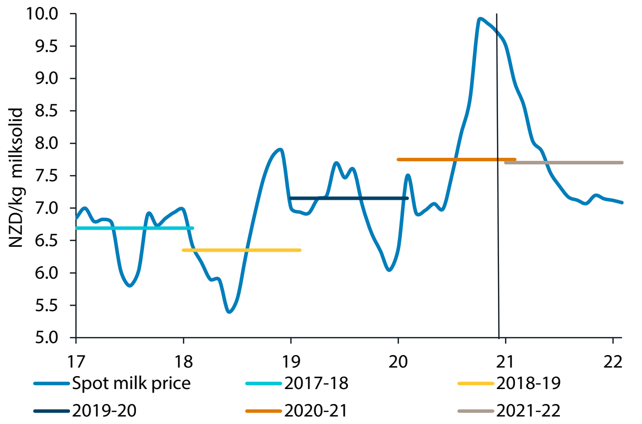
Farmgate returns are extremely buoyant but we are a tad more cautious about the outlook given the massive degree of uncertainty in the global markets at present.

STRONG OPENING MILK PRICE

Our farmgate forecast milk price for the 2020/21 season sits at $7.75/kg MS following our recent upwards revision. This is now above Fonterra's forecast of $7.45-$7.65/kg MS (recently revised down 5c).

It is unusual at this late stage of the season to have such a large range of forecasts in the market. The lack of transparency around the price of non-GDT sales may be the reason for the large discrepancies we are seeing. Other areas where our calculations may differ are on the currency conversion and phasing of sales.

MILK PRICE – HISTORIC AND FORECAST



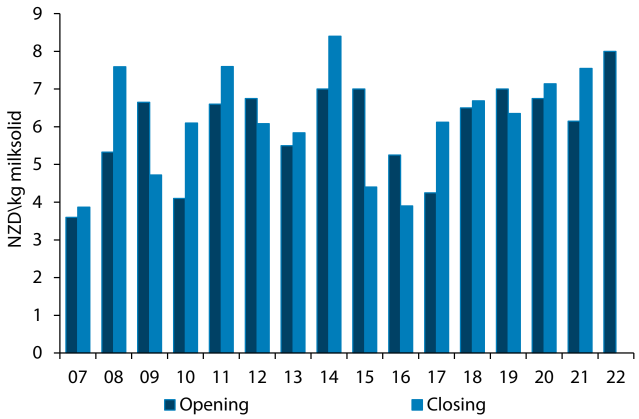
Source: Fonterra, NZX, ANZ Research

Looking ahead to next season, we have forecast a farmgate milk price of $7.70/kg MS. For the 2021/22 season Fonterra has adopted a wide forecast range of $7.25 - $8.75/kg MS, which encompasses most of the forecasts currently in the market and potential outcomes. The mid-point of this range, $8/kg MS, is the highest-ever opening forecast for the Co-op and is 30c above our forecast. While commodity prices are currently very strong we have made a greater allowance for prices to fall between now and July 2022.

We have also taken a relatively conservative approach in relation to the exchange rate. We anticipate the NZD will generally appreciate as the season progresses. While some of this risk will be mitigated by hedging programmes, the general increase in the value of the NZD will limit returns at the farmgate level.

DAIRY

FONTERRA OPENING AND CLOSING MILK PRICES



Source: Fonterra, ANZ Research

SYNLAIT MATCHES FONTERRA

Synlait has opted to increase its milk price forecast to $7.55/kg MS for the current season, up from its previous forecast of $7.20/kg MS. This increase in the forecast milk price comes despite the recent announcement that the company now expects to make a substantial loss this season.

Synlait has also opted for an $8/kg MS milk price for the 2021-22 season, but due to the higher levels of uncertainty it plans to release its advance payments at a slower rate.

FONTERRA CAPITAL RESTRUCTURE

Fonterra suppliers have an important decision to make regarding the capital structure of their Cooperative. The structure preferred by the board is a buy-back of the Fonterra Shareholders' Fund (FSF), or capping the fund and allowing it to continue to trade. Either way, units in the fund and Fonterra shares will no longer be interchangeable – a measure that has already been put in place whilst the proposed structures are being discussed. This means Fonterra shares (FCG) and FSF units are no longer subject to the same factors influencing their price.

The proposed structure provides more flexibility to suppliers in terms of their shareholding in the Co-op. This can be from as little as a quarter of the volume of milk being supplied, up to four times the volume of milk. Voting rights will be linked to shareholding but capped at milk supply shareholding levels. More flexibility in the number of shares held should help to encourage new suppliers to Fonterra and help stem the flow of suppliers leaving the Co-op in favour of companies that don't require the same degree of capital investment in shares.

Limiting the shareholding to suppliers will reduce liquidity in the trading of shares. Factors that will influence the value of shares going forward will be the balance in supply and demand for shares. Demand will be determined by those willing to buy shares to either back milk supply, ie new suppliers, or suppliers who want to hold a larger shareholding due to this providing more voting power and/or competitive returns on investment through the dividend payment.

The supply of shares will be determined by the number of farmers ceasing to supply Fonterra or reducing their milk supply, farmers selling down shareholdings due to financial pressures, and those that want to invest their capital elsewhere.

Therefore the key factors in determining the value of shares will be: future actual and expected returns on investment (ie dividends), and any changes in the quantity of milk being supplied to Fonterra.

Fonterra has acknowledged that its milk supply is likely to fall in the future as NZ's total milk supply contracts and it is forecasting further loss of market share. Two scenarios depicted by Fonterra show its milk intakes falling by 15% and 21% over the decade with the largest reduction assuming it continues to lose market share at a similar rate to recent years. The reduction in NZ's milk supply is assumed to account for approximately 10% of the lower milk intakes whilst the remainder depends on Fonterra's ability to retain suppliers.

While there is no doubt NZ's milk supply will fall, these scenarios appear to give little credit to the ability of the proposed capital structure change to actually stem the flow of suppliers moving to other dairy companies, so appear on the conservative side.

Fonterra no longer focuses on the volume of milk it is processing, rather focusing on the value it can extract from that milk. As milk supply falls it has acknowledged it may need to close some of its processing plants, but doesn't expect this will impact its financial position as these assets are likely to be fully depreciated.

Because the company is no longer expanding it says it no longer needs to access additional investment capital; hence it is in a position to buy back the Fonterra Shareholders' Fund.

The proposed capital structure provides full farmer control of the Co-op, and much more flexibility in terms of shareholding. The trade-off is a less-liquid market for shares, which potentially will result in a lower share price should there be limited appetite amongst shareholders to buy any shares that become available from farmers exiting the industry or choosing to reduce their shareholdings.

DAIRY

It is likely that we will see some further tweaks to the capital structure proposal before it is voted on. One change that has been discussed is extending the period to sell down shareholdings for farmers who plan to exit the industry. An extension to the deadline to exit shareholdings could potentially support the share price in the shorter term. Other ideas discussed include retaining the shareholders fund.

GLOBAL MARKETS

Dairy markets have been very strong in recent months. Prices have been largely maintained on the Global Dairy Trade (GDT) market over the past three months with prices particularly favourable for whole milk powder relative to other product streams.

WMP demand is still dominated by China, for which importing milk powder tends to be a cheaper option than producing milk themselves. China's demand for nearly all categories of dairy products remains very strong. This includes whey powder, which is in strong demand for use in animal feeds, particular food for pigs.

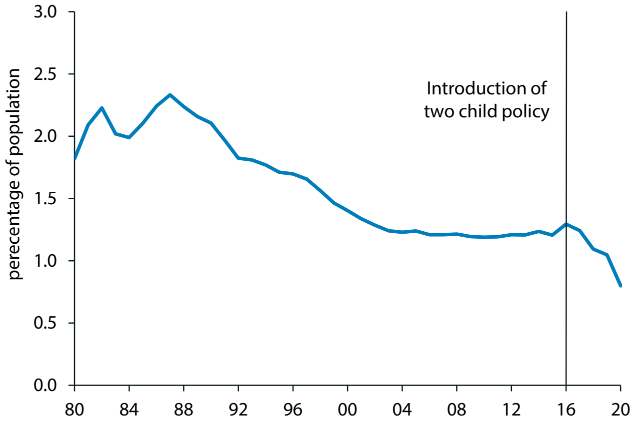
The only dairy category for which China is importing less is infant formula. Official imports have fallen by 20% y/y in Q1 and there has also been much less product entering China through the daigou channel. Daigou buying has been impacted by the dearth of Chinese travelling abroad, who often brought home infant formula for family and friends, and the number of foreign Chinese students living abroad who are often contracted to buy infant formula from shops in countries like Australia and post it to their clients in China.

This sales channel has dried up due to the lack of tourists and foreign students. The current delays in posting product around the world, and the uncertainty surrounding supply earlier in the pandemic, have led to more Chinese parents using domestically produced infant formula.

The slowing birth rate is also responsible for reduced demand for infant formula.

China's birth rate continues to rapidly decline. The introduction of the two-child policy in 2016 did little to address the issue and the recent policy change to allow some families to raise three children is also unlikely to have a meaningful impact. Many couples are worried about the cost of raising additional children. Most Chinese of child-bearing age have themselves grown up as an only child and therefore see this sized family as being 'normal'. The number of women of child-bearing age is now reflecting the decline in births in previous decades.

CHINA BIRTHRATE



Source: NBS, Macrobond

The declining birth rate is currently being blamed for the lack of China's demand for imported milk powder. While there is no doubt this is a contributing factor we have also seen an increase in the acceptance of locally produced infant formula as the melamine scandal which broke in 2008 starts to fade.

The lower demand for imported infant formula and the reduction in activity in the daigou channel has been financially challenging for The a2 Milk Company, which has had flow-on impacts for Synlait.

Synlait has again downgraded its earnings forecast as it now expects to make a tax loss of in the vicinity of $20 to $30 million for FY21.

GLOBAL MILK PRODUCTION

High dairy commodity prices typically encourage additional milk supply. We are seeing some supply response from the stronger returns, but farmers in many of the key exporting regions are also facing higher operating costs, as grain prices have risen substantially.

Global growth in the main dairy-exporting regions supply is expanding at about 1.5%. A bounce-back from last year's drought means the Southern Hemisphere has been responsible for most of this growth – a trend that will not persist into next season. Meanwhile growth in the Northern Hemisphere has been pretty subdued, but output in the United States has picked up in recent months.

In March US milk production increased by 2.1% y/y while in April output shot up 3.3% y/y. US milk is forecast to grow by 2.1% in 2021 but if the current rate of growth persists it will exceed that level.

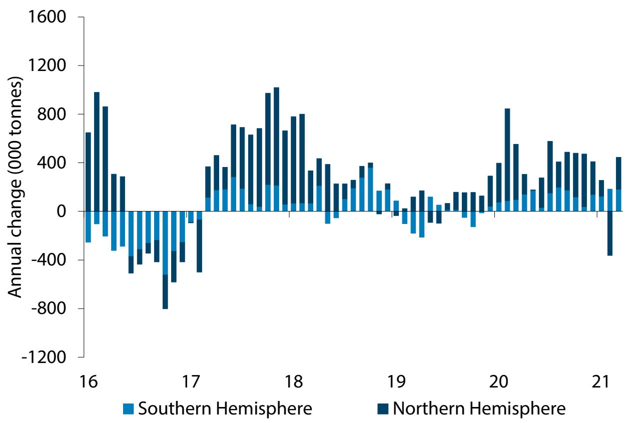
DAIRY

One factor that could slow output is that grain is expensive at present, meaning US dairy farmers who haven't hedged their feed costs will find their profit margins under pressure.

Milk production in Europe is expected to expand at a modest rate of about 1% in 2021. This year to date milk production in both Germany and France is well behind the same period last year.

New Zealand dairy farmers have had a strong end to the production season. Milk collections throughout the autumn have well exceeded normal levels and certainly look particularly strong compared to last season. For the season to date (June-April) milk production is up 2.5% with output on track for another record season.

MILK PRODUCTION GROWTH MAIN EXPORTING COUNTRIES



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

Farmers are benefiting from both a strong production season and a high milk price. These factors don't often coincide. Despite the strong returns, the sector is expected to shrink as higher operating costs erode production, particularly on farms with high nutrient output relative to the ability of the catchment to handle the nutrient loading. In the areas with high nutrient loading a reduction in stocking rates or change of land use will most likely be required.

Measures that will need to be taken to reduce greenhouse gas emissions also mean we may need to reduce stock numbers further, with the rate of change dependent on what other mitigation options can be implemented now, or will become available in the future.

LAMB & WOOL

PRICES FIRMING

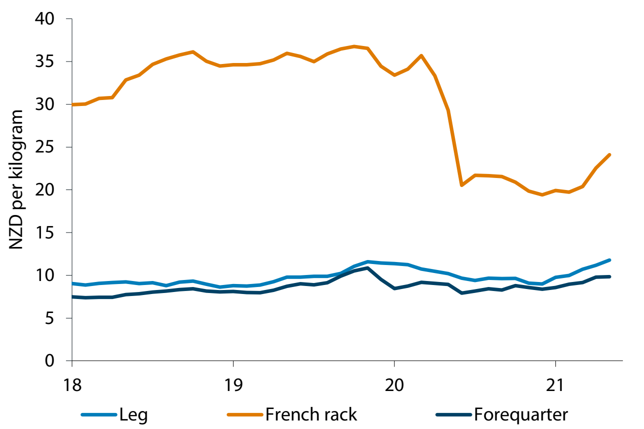
Lamb returns at the farmgate level are now trending up, supported by improvements in the international markets and tight supply. International markets are expected to continue to improve as vaccines are rolled out.

LAMB RETURNS LIFTING

International prices for lamb have started to improve as economic conditions and dining opportunities increase in the US and Europe. These are our main markets for our higher-value lamb cuts. It has been the price of the higher-value cuts that have been under pressure over the past year.

Lower-value cuts of lamb, as well as mutton, have been well supported by strong demand for sheep meat from China throughout the pandemic. However, this market is not interested in paying hefty prices for what westerners deem to be high-value cuts of lamb.

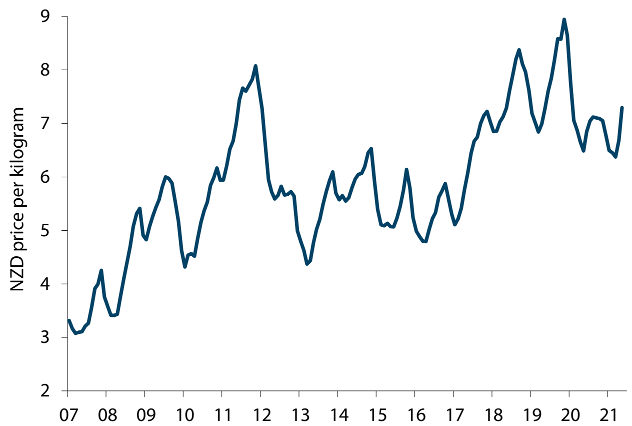
LAMB CUT PRICES



Source: AgriHQ

The improved market sentiment, combined with relatively modest volumes of lamb available, have boosted farmgate returns. Schedule prices for lamb have jumped 70c in the North Island to about $7.70/kg CW, while South Island prices have risen even further, to currently sit at $7.60/kg CW.

FARMGATE PRICE 19KG LAMB



Source: AgriHQ

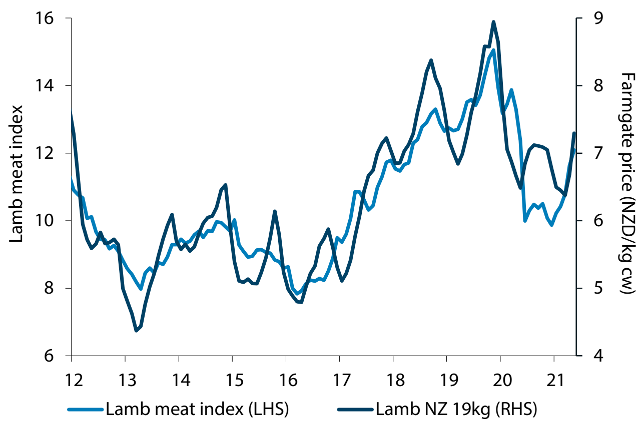
Prices are currently closely aligned with international market prices, but any further lift in international returns is also expected to show up in our local prices.

Store lambs remain highly sought after, with the price of lambs being traded in the yards or paddocks lifting in line with recent movements in schedule prices. Store lambs are currently trading anywhere between $3.40/kg and $4.00/kg LW, with prices generally a little firmer in the North Island, where supply is tighter.

There are still quite a few later lambs becoming available in the South Island, which were eagerly snapped up ahead of the flooding. However, with so much feed in the South Island recently damaged the market for lambs is expected to be quite soft in coming weeks.

LAMB & WOOL

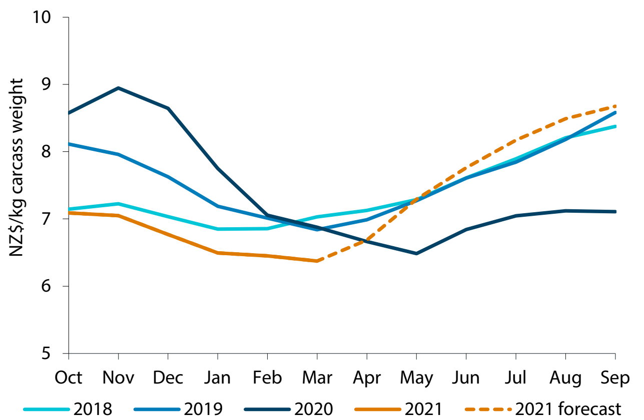
FARMGATE PRICES VS INTERNATIONAL MARKET PRICES



Source: AgriHQ, ANZ Research

Looking ahead, schedule prices are now expected to continue to trend up as we move through the winter months. We anticipate farmgate prices will be near $8.50/kg CW by August.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ

WOOL PRICES HAVE REACHED A BOTTOM

Coarse wool has been trading at extremely low prices for a year now. Pricing was already trending down before the pandemic hit, but dropped even further at that time.

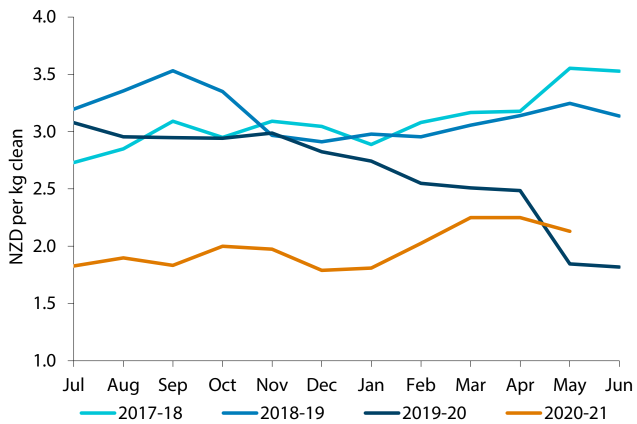
We did see prices improve a little earlier this year but generally prices continue to bounce around at low levels.

The good news is that international buyers remain active and the wool that is being shorn is continuing to move through the supply chain. Wool brokers are now more confident that prices won't slide further and will gradually recover.

Buyers are certainly active but at this point there is not sufficient competitive pressure to push prices higher. Some buyers were well forward contracted for their wool requirements, meaning they are only now benefitting from the lower prices.

Carpet makers should now be turning a reasonable profit on wool carpets and some may be in a position to discount prices to consumers to help stimulate additional demand or look for ways to deliver greater returns back to wool growers.

STRONG WOOL (>35MM)



Source: NZWSI, PGG Wrightson, ANZ Research

Buyers remain active in the market – particularly Chinese buyers, who are our largest market for wool. More recently, buying activity from India and Nepal has been more subdued – possibly due to the health challenges these countries currently face as they try to control COVID-19.

There is very little fine (Merino) wool being traded in NZ at this time of the year, but prices for similar wool on offer in Australia have been steady. Merino prices took a hit last year but have since stabilised. Prices are still at quite high levels and this is expected to be sustained when NZ supply ramps up again.

NZ exporters are finding it more challenging to find a home for mid-micron grade wools such as lamb wool. When prices for fine wool were extremely high some buyers turned to slightly coarser wools in order to keep prices in check. As prices for Merino wools have softened, buyers have switched back to these finer wools, leaving a gap in the market for the mid-micron wools.

FARMGATE RETURNS STABILISE

Farmgate prices for beef are poised to rapidly improve. International prices are strong, and as the flow of cattle to processors slows, a larger portion of these returns will be passed down to the farmgate level. Unfortunately, a lack of feed in both islands is putting a dampener on cattle prices at present. This is particularly evident for younger cattle and dairy-bred cattle.

The price for imported bull meat in the US market has lifted sharply in the past month, having consistently trended higher throughout the year. Prices are now well above pre-pandemic levels, though yet to reach the dizzying heights attained in late-2019.

Meanwhile prices paid for imported cow meat have also firmed considerably despite this being the peak supply period for cow meat from NZ and Australia.

The supply of imported beef is very tight. Domestic supply has been boosted by large numbers of stock placed into feedlots but recent disruptions to processing have tightened supply considerably. A cyber-attack on JBS – the world's largest meat company – resulted in many of their plants being temporarily shut down which has reduced the volume of meat available in the US and may have ramifications elsewhere. China is the largest export market for JBS, whose headquarters are based in Brazil.

Additionally, the supply of imported beef available in the US is tight. NZ, Australia and Uruguay are the main suppliers of beef to the US. The grass-fed beef produced in these regions is in high demand to blend with fatty trimmings of the locally produced beef, in order to get the right blend of meat and fat needed to produce hamburger patties.

At present there is limited supply of beef from Australia as they rebuild herds. Australia's cattle numbers were severely compromised by the droughts, floods and fires that occurred last year so it is taking time to rebuild numbers. Meat and Livestock Australia estimate there will be 11% fewer cattle killed this year.

Australia has maintained its exports to South Korea, but volumes to its other main markets – Japan, China, and the US – are considerably lower this year.

Meanwhile, a lot more beef from South America is now making its way to China. China's demand for imported beef has shot up as it looks for alternative proteins to fill the gap left by diminished pork production.

China's pork industry has been battling African Swine Fever (ASF) for several years. Less than a month ago (May 12th) China's Ministry of Agricultural and Rural Affairs officially advised that China had detected an ASF outbreak in Inner Mongolia. ASF outbreaks are common in China, as are a number of other diseases that impact livestock.

In order to prevent the spread of ASF it is now illegal to move live pigs between regions. For the purpose of disease containment, the country has been divided up into five regions.

Previously a lot of pigs were raised in the northern and eastern regions, then trucked south to the heavily populated areas in the south-east for processing. The new rules mean this movement of pigs is no longer allowed, meaning more pig farms will need to be established in the south-east and more processing facilities will be needed in the northern and western regions.

The Government has also worked hard to establish large pig farms, often multi-story production facilities, and eliminate backyard farming. This is similar to the situation that evolved in the dairy industry following the melamine scandal, when it was deemed that monitoring a lesser number of larger farms would be easier than trying to educate and monitor the hygiene practices of backyard farmers.

The net impact of these changes is higher production costs for pork, which is increasing demand for beef.

BEEF

And to compensate for the shortage of domestic pork production, China has been importing more pork and more beef.

China's pork imports lifted 22% in Q1 2021. While it is difficult to judge just how much pork is, or isn't, being produced in China, it is clear that the quality of the breeding herd had deteriorated as pigs initially destined for slaughter were instead used as breeding sows. This has negatively impacted feed conversion ratios for the remaining pigs, meaning they need to be fed more to attain similar growth rates.

Meanwhile China's own beef production is projected to increase. But this industry, similar to its dairy industry, is reliant on imported feed, meaning it is generally more expensive to produce beef in China than it is to import it. Further investment in beef farming is expected in China as they aim to move towards their goal of self-sufficient protein production. But this goal appears unrealistic given the limited area available to grow feed crops in China. And it's going the other way: in 2020 China increased its imports of beef by about 30%, following an even larger lift the previous year.

Much of the additional beef being imported by China has been supplied by South American countries. Brazil supplied 43% of beef imported by China last year. Large volumes were also supplied by Argentina and Uruguay.

The volume of beef being exported from these countries has put severe upward pressure on the price their own consumers are having to pay for meat at a time when their domestic economies are being hit hard by the spread of COVID-19. Argentina has reacted by imposing a 30-day ban on beef exports in an attempt to make more supply available for its own people. This ban from Argentina is putting further upward pressure on demand from China for imported beef.

A DOLLAR EACH WAY

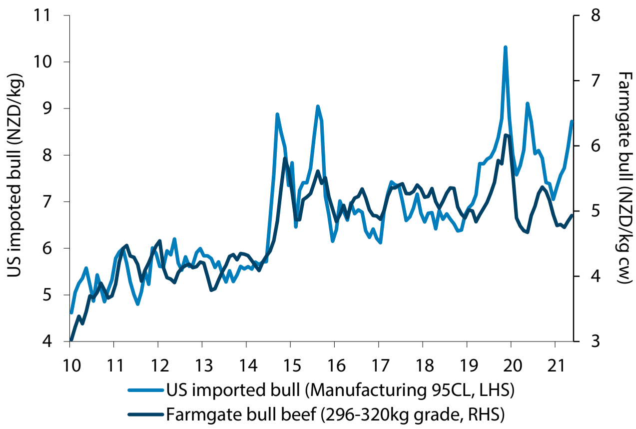
New Zealand's beef exports have been relatively evenly split between China and the US. This means we have lost market share in China as its total beef imports have grown. But it also means we have been able to supply large volumes of beef to our traditional market, the US.

Meanwhile beef demand in the US typically lifts around Memorial Day as the grilling season gets underway. The competing demand for beef from both the US and China is pushing up returns for beef at a time of the season when prices are usually weak, and bodes well for prices in the coming months.

FARMGATE PRICES STARTING TO LIFT

The past few weeks have seen upward pressure on schedule prices for most grades of cattle. The price for bull, steers and heifers has generally increased about 20c/kg CW over the past month. However, the price for manufacturing cows is yet to move.

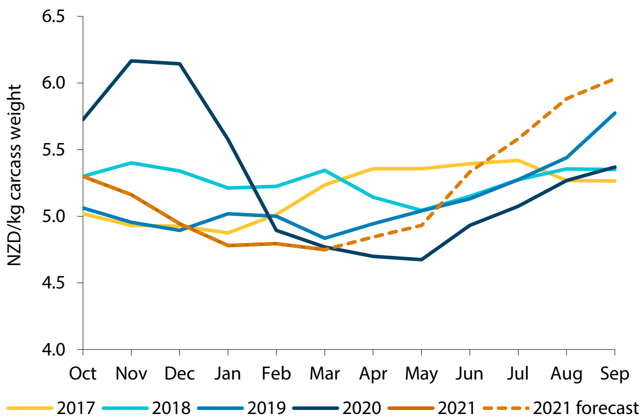
FARMGATE MANUFACTURING COW PRICE VS OVERSEAS MARKET PRICE



Source: AgriHQ

Based on the international prices for both bull and cow there is room for schedule prices to firm further. There is potential for the schedule price for bull beef to head towards $6/kg CW by spring, when schedule prices tend to be higher than they are now.

FARMGATE BULL BEEF PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

COW PROCESSING NEARLY COMPLETE

Dairy farmers were quick to offload cattle back in the summer as dry weather started to loom. However, excellent growing conditions during the autumn in

BEEF

most dairying regions – particularly those with access to irrigation, combined with the strong milk price – meant cull cows hit the processors later than normal.

This has resulted in a backlog of stock still to be processed in the South Island. Processors have had a tough season balancing available cattle supply with market demand, securing labour, and getting product to market. At times this has meant cool store capacity has come under pressure. These challenges have been more acute in the South Island where the ports have not been as well serviced by ships as those in the North Island.

However, the last of the cows are expected to be processed within the next few weeks. After that time there will be room for schedule prices to lift further as processors will have to dig a little deeper in order to secure supply.

LIMITED FEED IMPACTING PRICES AT THE YARDS

Store market prices have eased in most regions as feed levels are lower than optimal as we head into winter. The east coasts of both islands were exceptionally dry until the end of May. This situation was abruptly rectified in the South Island with a deluge that caused extensive flooding across much of Canterbury.

This flooding will unfortunately further reduce the quantity of feed available for livestock as we head into winter.

In the eastern regions of the North Island there is now a real lack of cattle feed. The never-ending summer meant paddocks have been skinned out. The late-autumn rains recently received will result in a little growth, but soil temperatures are rapidly falling away, meaning the volume of feed that will be produced will be minimal.

The lack of available feed has been sharply felt at the yards. Whilst traditional beef breeds are still selling relatively well, it is difficult to find buyers for younger cattle and dairy-cross cattle.

There is a little more feed in the western and northern regions of the North Island, so these areas are taking some additional cattle to winter.

Meanwhile, store cattle markets in the South Island are looking extremely weak. The recent deluge and flooding in Canterbury will only make it harder to find new homes for stock this winter. The feed situation appears quite dire at present.

Therefore, despite strong end markets we are unlikely to see any lift in store stock prices before winter ends.

DEER

ENHANCED REPUTATION

Venison prices remain subdued while velvet has managed to largely maintain its value through the pandemic. Freight issues have been challenging for both venison and velvet exporters.

The deer industry is taking a proactive approach to improving animal welfare and ensuring farmers are also taking a responsible approach to environmental sustainability.

Velveting of deer is now governed by regulation, rather than simply being subject to a Code of Welfare. This is expected to make it easier to enforce rules and a new electronic tracking and tracing system for velvet was recently introduced. The system, called VelTrak, is designed to track and trace velvet from the farm to the market. Velvet growers began registering their farms in the new system in May, and it is expected to be fully up and running before the next velvet harvest.

VelTrak also connects vet records, farms, velvet buyers and warehouses which provides much more transparency along the supply chain and will be invaluable at providing proof that velvet has been sourced from NZ. NZ velvet trades at a premium price, but there is always the risk that velvet sourced elsewhere will be mixed with our product or passed off for NZ product. The new system is expected to enhance NZ's reputation in the market as the bar codes will be applied by farmers will provide traceability as that velvet travels to market.

Only velvet produced by certified growers that are registered with VelTrak will be able to be sold for human consumption. At present a lot of the velvet we sell goes to China where it is further processed before being sent to Korea, and there has been a risk that this velvet will gets mixed with velvet from other countries.

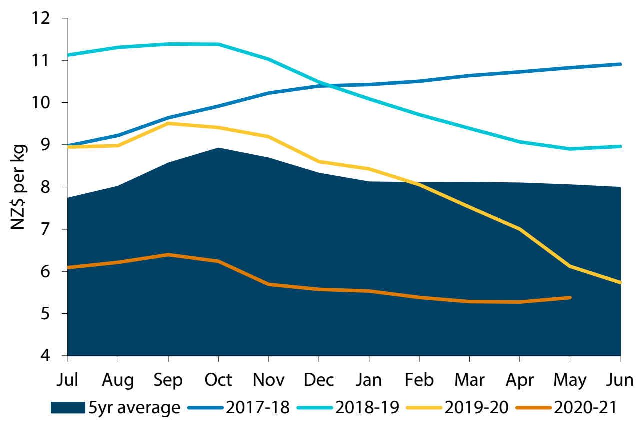
The industry is also working hard to grow demand within China for NZ velvet through the China Velvet Coalition – a partnership between three NZ key velvet exporting companies. Farm environment plans (FEP) is another area which DeerNZ is focusing on to provide a market advantage for both velvet and venison. FEP's help to share best environmental practices amongst farmers and show that market requirements are being achieved. At present more than 60% of deer farmers have a FEP with the industry good body are targeting 100% by 2023.

VENISON DEMAND SHOULD IMPROVE

Venison demand should improve as restaurants start to reopen as vaccination rates increase in Europe and the US. The US economy is recovering quickly. European markets remain relatively slow to recover but should improve as the year progresses which in turn should increase demand for venison in Europe towards the end of this year which is when venison consumption tends to peak.

Venison schedule prices have lifted 30c/kg CW in the past couple of months, although there is very little processing at this time of the season. Farmgate prices remains about 30% lower than the 5-year average for this time of the season.

FARMGATE VENISON PRICE (60KG STAG)



Source: AgriHQ

GRAIN SUPPLY TIGHT

Grain availability is relatively low at present. The recent flooding in Canterbury will not help the situation. Whilst it is too early to estimate the losses, a lot of winter crops have been lost.

Meanwhile, changes in the procurement process for milling wheat have caused a lot of headaches for the industry and ultimately resulted in less milling wheat being planted this autumn.

The Arable Industry Marketing Initiative (AIMI) grower survey report for the 2021 cereal harvest showed why there is less grain available. When survey results were combined across the main crops, yields were back 3% and the area harvested was also 3% lower, resulting in 6% less grain harvested.

There was a small decrease (-1%) in the volume of milling grade wheat harvested. Feed grain volumes were considerably lower with wheat down 9% and barley back 5%.

YIELDS BY CROP AND SEASON (T/HA)

Harvest	Milling wheat	Feed wheat	Malting barley	Feed barley	Milling oats	Feed oats
2020	9.0	10.2	6.7	7.5	5.7	5.2
2021	8.4	9.6	8.0	7.3	6.4	5.0

Source: AIMI

The survey also indicated reduced carryover stocks and lower volumes of unsold grain.

Looking forward, the AIMI survey participants indicated they would be planting 1763 fewer hectares in milling wheat this autumn/winter, a 21% reduction on last season. Uncertainty around contracts has been cited as one of the reasons why planting intentions were lower.

Milling wheat is now virtually all being contracted via Wilmar, rather than directly through the flour companies such as Champion and Mauri. Previously these companies supplied large volumes of flour to Goodman Fielder (who is owned by Wilmar). Now that these companies no longer have contracts to supply flour to Goodman Fielder they have limited requirements for supply from farmers.

Wilmar is contracting its wheat requirements directly from farmers and using the mills to process this wheat into flour on its behalf. This has benefitted some mills but others now find themselves with much more capacity than they require. Overall there is excess milling capacity in the industry.

Other significant changes in plantings include a 60% reduction, or 2400ha less allocated to malting barley. Changes in the other crops are less significant with 1% less land allocated to feed wheat and 1% more land going into barley. Feed barley has been trading at a small premium to feed wheat for some time, which will have had some influence on planting intentions.

Overall there is a 7%, or 4,390 hectare, reduction in the area allocated for planting wheat, barley and oats this year. Aside from a lack of confidence in the milling wheat sector there are other reasons why farmers may not be planting the main arable crops this autumn. The international market for ryegrass seed is very strong, so more land is expected to be utilised for this in the spring. There is also growth in other higher-returning vegetable seeds, which are typically grown in alternate hemispheres to amplify the multiplication process for new varieties.

GRAIN PRICES RELATIVELY STABLE

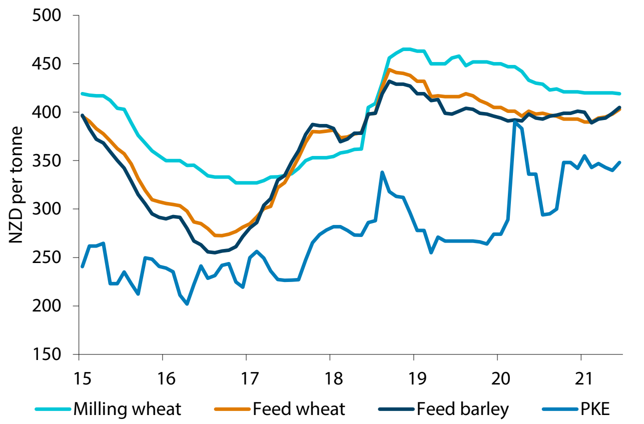
Prices for locally produced grains are generally flat to easing. Feed wheat contracts for next season are available at $380/tonne.

Feed barley continues to trade at a small premium to feed wheat.

GRAINS

Local grain prices have generally trended down, whilst international prices (excluding Australia) are trending up. There isn't a strong correlation between Northern Hemisphere prices and our local market. We import about 60% of our total requirements and much of this is sourced from Australia, so this market does have some influence on local prices.

NZ GRAIN PRICES



Source: AgriHQ

A record harvest in Australia has tempered prices and this is making Australian grain some of the cheapest available on the global markets. NZ mainly imports wheat and barley from Australia along with some maize and sorghum. But increasingly we are looking to the US to supply maize grain and sorghum.

Stocks of corn and soybeans in the US are less than half what they were a year ago. This has resulted in a sharp lift in prices.

China has imported a lot more grain in the past year as they look to build up buffer stocks. Their internal demand for grain to feed both humans and animals continues to increase, which has also put upward pressure on demand for imported grains. Import volumes are expected to ease this year, but are unlikely to fall back to previous levels due to growing domestic demand.

The lift in global grain markets means the cost of producing milk and meat has risen considerably in containment systems (ie most Northern Hemisphere farming systems), providing a relative cost advantage for pasture-based producers.

The upward pressure on US grain prices, combined with the relatively low prices in Australia, may mean importers favour sourcing imports from Australia this year.

Feeding additional supplement should be profitable for most NZ dairy farms at the milk price forecast for the season ahead. The breakeven point does vary considerably from farm to farm, and if feeding supplement means pasture goes to waste then this quickly becomes an expensive option.

Feed that is contracted ahead of time is normally a lot cheaper than trying to source feed on the spot market. Fieldays tends to be a good time to secure supplies for the season ahead.

Palm kernel extract (PKE) is an imported product and freight disruptions are expected to continue throughout 2021, which make the price of this product vulnerable.

Spot prices for PKE are currently sitting around $340/tonne but forward contracts are more in the vicinity of $325/tonne (ex. store).

FORESTRY

GLOBAL TIMBER DEMAND EXCEEDS SUPPLY

Timber is a highly sought-after commodity at present as building activity is at elevated levels in many markets. Meanwhile log supply is not as abundant as it once was, which has pushed up the price of timber and raw logs.

Felling of forests in NZ is occurring at higher levels than ever before, but most of this is being exported as logs, leaving the domestic market supply tight. This is a function of both limited domestic processing capacity and enticingly high international prices. There are also limited supplies of high-grade pruned timber suitable for high-grade timber production.

TREE FELLING AT RECORD LEVELS

The quantity of forests being harvested is running at elevated levels at present as the high prices on offer for logs are enticing more small-woodlot owners to liquidate their asset. MPI data shows the quantity of logs felled during Q1 2021 was 8.87 million m3, a record harvest volume. The industry will struggle to increase harvest rates further from here due to both labour constraints and limitations in terms of harvesting machinery and logging trucks.

While harvesting rates are extremely high, the same can't be said for timber production. MPI data shows just 984,700m^3 of sawn timber was processed in the first quarter of this year, down 6% y/y. Production of timber sheets (ie plywood/fibreboard/particleboard) increased by 2% y/y in the latest quarter, but production of structural timber has fallen.

Timber is in short supply at a time when housing construction is booming. The additional time people spent in their homes during the lockdown sparked demand for renovations, as did the trend towards working from home, which has sparked a need for home-office space.

Overall there remains a shortage of homes in NZ, and we anticipate it will take at least three years for this shortage to dissipate, assuming building continues at a similar pace to now and border closures keep net immigration in check. See our latest Property Focus for more details.

International demand for construction materials is also elevated for the same reasons. This is noticeable in both the US and China. US lumber futures have hit record levels. A campaign is underway to try to get the US Government to reduce the import tariffs imposed on Canadian lumber.

US LUMBER FUTURES

Source: NRCan. Macrobond

Meanwhile China's demand for logs remains insatiable, and log off-take from wharves remains elevated. NZ is now by far the largest supplier of raw logs to China, having supplied 31% of the logs imported into China in the three months to April. China alone accounts for over 90% of our log exports at present, with Korea making up most of the difference. Exports to India have stalled as supply chains have been compromised by the recent spread of the pandemic.

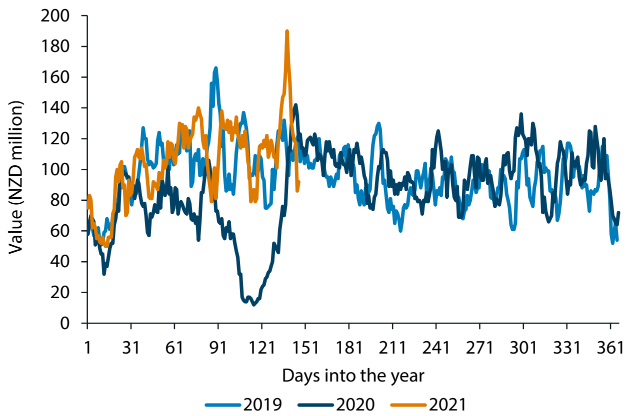
FORESTRY

Exports of logs from Europe remain stable. Russia is currently supplying about 10% of the logs China imports. A ban on Russian log exports is expected to be imposed in 2022, which would further reduce China's options for supply. The ban aims to support Russia's own timber-processing industry.

China is not currently importing logs from Australia. However, the supply of logs from Uruguay to China has increased again. It is only profitable for this trade to occur when log prices are at elevated levels, as they are now.

Shipping costs for logs are elevated but the increase hasn't been as large as for goods in containers. Export returns from logs are running at record levels, as seen in the graph below. The elevated returns reflect both high export volumes and high prices. The graph also clearly shows the impact of the shutdown that occurred during the lockdown last year.

WEEKLY LOG TRADE EXPORT RETURNS



Source: Statistics NZ, Macrobond, ANZ Research

Log prices have continued to firm over the past couple of months. As global freight prices have stabilised, albeit at elevated levels, a larger portion of the increase in in-market prices is making its way back to NZ exporters.

In-market prices in China are at all-time highs with logs priced at USD180 per JASm^3. Pruned log prices are even higher, with these logs now consistently trading above USD200 per JASm^3.

Prices at this level seem unsustainable over the longer term, and there is a general expectation that in-market pricing will ease at some stage. There is certainly a risk that in-market prices will fall well ahead of any reduction in freight rates. This, combined with the stronger NZD, would put downward pressure on wharf-gate prices.

UNPRUNED A-GRADE IN-MARKET PRICE

Source: AgriHQ

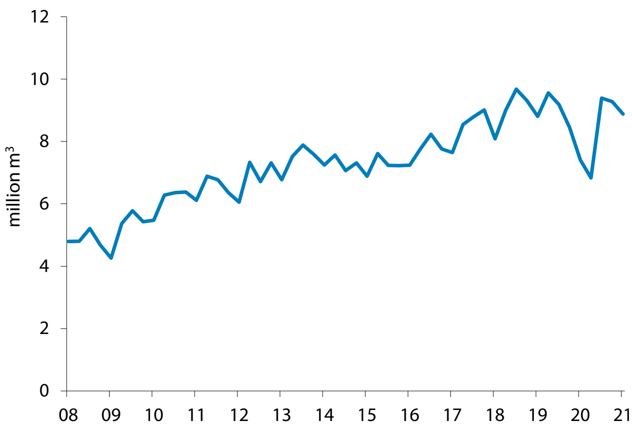
FORESTS HARVESTING ACTIVITY ELEVATED

Forests in NZ are being harvested at elevated rates. Harvesting activity ceased during the lockdown last year, but has resumed at consistently high rates.

Capacity is limited by the number of forestry workers available, truck drivers, and availability of trucks and harvesting machinery.

The high returns on offer at present has resulted in more small woodlots being offered for harvest. The larger-scale woodlots tend to be harvested at a consistent rate and supply volumes are not driven by prices like the smaller holdings are.

ROUNDWOOD REMOVALS – QUARTERLY VOLUME



Source: MPI

FORESTRY

The harvesting of smaller woodlots should help lift the volume of higher-grade timber available, as a larger portion of the smaller lots have been pruned relative to the larger-scale forests.

Nevertheless there is still a shortage of timber available in our domestic market to construct houses. This is a function of the reduction in trees that have been pruned, milling capacity, and high export prices.

The demand for timber in our local market is expected to remain elevated for some time. Residential building consents are at record levels, indicating a strong pipeline.

The shortage means some suppliers and builders are building up stocks of timber to avoid construction delays. Builders are having to either order supplies months in advance or juggle multiple builds in order to keep their teams busy. Delays in construction tend to result in lost productivity and additional costs, which have to be absorbed by either the consumer or the building contractor. This environment is not conducive to eliminating the housing shortage any time soon.

HORTICULTURE

LABOUR SHORTCOMINGS LIMIT RETURNS

The labour shortage our horticultural industries are facing this harvest has heightened the need to invest in labour-saving technology to future-proof our production systems. With the borders closed it has been extremely difficult to find sufficient labour to pick and pack fruit this harvest. Export returns for some industries will be severely compromised this year because fruit simply wasn't able to be picked.

Actually replacing labour with technology is easier said than done. At this stage most of the technology that is able to be deployed is in post-harvest processing. But this is actually the area where it is easier (if not easy) to find willing locals to work. It is the harvesting and orchard management roles that tend to be more physically demanding where it is more difficult to attract workers. The sector has become reliant on overseas workers and it has been therefore very difficult to fill jobs this season.

WINE: SMALL VINTAGE

Margins for wine-makers are being squeezed by easing export returns and high prices for grapes. The 2021 grape harvest was one of the smaller in recent years as severe weather events reduced the volume of grapes that reached maturity. Marlborough and North Canterbury were hit particularly hard, while the impact in Hawke's Bay was much more modest. Hawke's Bay volumes weren't as large as the previous couple of vintages but weren't too far off the long-run average.

A severe frost during the vulnerable flowering period in the spring wiped out a large volume of grapes. Overall it is estimated that 20-30% less grapes were harvested but the impact on individual growing blocks ranged from zero to completely wiped out. At the winery level the impact is estimated to range from minimal to a halving of volumes.

The lack of grapes meant the harvest was one of the quickest in recent years and the industry was less affected by the lack of availability of foreign workers than it normally would have been. Had it been a larger harvest not all of the grapes would have been able to be picked due to the labour shortage associated with our closed borders and the limitations to the Registered Seasonal Employer (RSE) scheme. Some additional RSE workers are expected to be available for the next harvest, but the usual flow of backpackers will remain constrained, meaning labour availability is expected to remain tight for the 2022 harvest as well.

Pricing for wine exports held up during 2020 but there are indications that prices are beginning to slip. The situation should improve as the economies of our main exporting partners improve and vaccinations allow for more social interactions and occasions to consume wine.

Margins for some wineries are being squeezed by high grape prices relative to wine prices. Wine income varies hugely between varieties and whether it is being sold bulk or branded, overseas or local, and via trade or direct to consumer.

Globally, wine sales channels have altered since COVID-19 hit, with direct-to-consumer channels (online, supermarket) outperforming the service sector (restaurants, airlines etc). Therefore individual winery exposure to various channels has had a large influence on prices received.

Export volumes and prices were largely maintained throughout 2020, but export volumes are forecast to fall sharply this year due to the small harvest. Prices should be maintained due to the high quality of this seasons vintage and the lower volumes available. Exports to lower returning markets like the UK are expected to be hardest hit.

HORTICULTURE

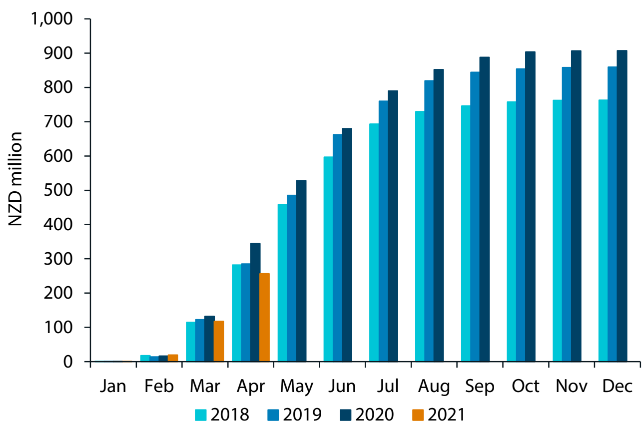
The price of grape juice, which tends to be traded between wineries, has also skyrocketed this year due to the lower volume of grapes harvested. Some wineries face absorbing higher costs in the shorter term in order to meet customer demand.

APPLES: EXPORT RETURNS SUFFER

The quantity of apples exported this year is well down on last year. Exports to date indicate it may be difficult to reach even the downwardly revised estimate made by NZ Apples & Pears Inc (NZAPI). The industry-funded body forecast a 14% reduction in export volumes compared with last year.

With insufficient labour to pick the entire crop, the focus has gone on harvesting the higher-value fruit. This means lower-returning varieties such as Braeburn have been hit the hardest. Braeburn exports are forecast by NZAPI to be 44% lower this season.

APPLE EXPORT CUMULATIVE RETURNS



Source: Statistics NZ

Overall about 3 million fewer cartons of apples were expected to be exported, meaning export returns will be down by about $100 million. Apple export returns to April are down 25% on the same time last year. That's $88 million less apples exported by value, indicating the industry forecast of a drop of $100 million over the full season may be conservative.

Exports returns for apples shipped to Asia are down 18% year-to-date, whilst exports to Europe are down 63%. It is extremely challenging getting product to Europe at present, whereas moving product to Asia is slightly easier. Some of the larger exporters have opted to charter ships to ensure they can get product to Europe. But even our largest companies struggle to fill an entire ship, meaning industry collaboration is needed to make this viable. It tends to be more expensive to charter ships, but it is a much more reliable way to get produce to market.

Other exports simply have to utilise space when it is available, which sometimes means that the available destination determines what is packed, rather than the usual reverse decision-making.

The lack of refrigerated containers (reefers) has put pressure on cool store capacity as well. Containers of inbound freight are taking priority over empty reefers, exacerbating the shortage.

KIWIFRUIT: LABOUR MAY LIMIT GROWTH OPPORTUNITIES

Demand for NZ-grown kiwifruit remains strong but access to labour may constrain future growth. It has been difficult to find sufficient labour this season and this problem will only increase as the industry grows unless there is investment in more automated solutions.

Demand for new licenses was strong again this season with the volume bid for far exceeding the quantity of licenses available. SunGold licenses attained a median price of $550,000/ha up nearly 150,000/ha from last year. The volume allocated was unchanged at 700ha. The median price for Organic SunGold licenses was $305,000, up 39% on last year, while licenses for Red attained a median price of $74,979/ha for the 350 hectares allocated, up from $62,500 for the previous year's 150ha.

Zespri has released its financial results for last season, which showed the company managed to achieve record sales. It sold 181.5 million trays of kiwifruit, resulting in $3.58 billion in revenue from fruit sales – up 14% from the previous season. An after-tax net profit of $290.5 million was achieved, up from $200.8 million.

FORECAST ORCHARD GATE RETURNS

Fruit type	2021/22 per tray	2021/22 per ha	2020/21 per tray (final)	2020/21 per tray (final)
Green	$6.00-$7.00	$68,000-$83,000	$7.51	$76,722
Organic Green	$9.00-$10.50	$64,000-$75,000	$10.53	$66.453
Sungold	$10.00-$12.60	$151,000-$164,000	$12.46	$177,846
Organic Sungold	$12.00-$14.00	$134,000-$164,000	$15.36	$158,599
Green14	$8.00-$10.00	$55,000-$69,000	$10.14	$56,853

2021/22 guidance released in March
2020/21 final payment released in May
Source: Zespri

HORTICULTURE

Payments have now been finalised for last season's fruit. Payments have been revised up from earlier forecasts for all classes of fruit. Prices are also considerably stronger than those achieved last season when measured either per tray or per hectare.

Prices for Zespri Green were 12.5% higher than last season, while returns for Sungold were 5% higher. Organic Sungold fruit sold at a 23% premium to standard Sungold fruit but returns on a per hectare basis were 11% lower due to the lower yields.

Price guidance for the current season remains unchanged, with returns for all varieties expected to be down on the record levels achieved last season.

It is shaping up to be a record production season in volume terms, assuming that all of the remaining fruit is able to be successfully picked, packed and shipped. Labour shortages continue to plague the industry with workers difficult to source for both orchard operations and in the packhouses.

In-market sales programmes are said to be going well, but disruptions to shipping is making it more challenging to get the fruit to market.

RURAL PROPERTY MARKET

MORE DAIRY FARMS TRADING

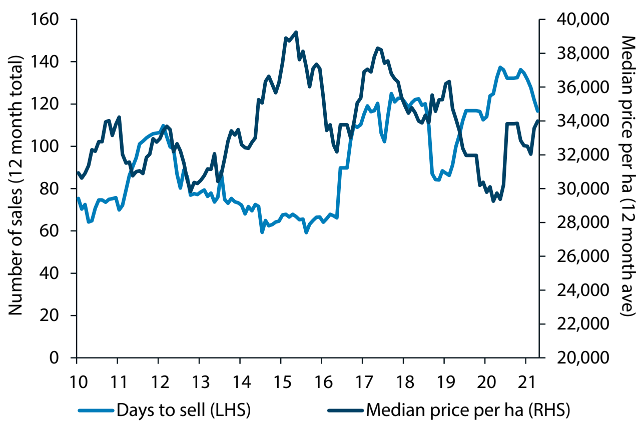
The property market remains mixed, but overall activity has increased. Prices remain variable in the dairy sector but in general prices are lifting across all sectors. The total number of farms selling has lifted with only the arable sector trailing the long-run average in terms of sales activity.

MORE DAIRY FARMS SELLING

The number of dairy farms that have changed hands in the past year is more than double the previous year. In the 12 months to April 2021, 237 dairy farms were traded, well above the 10-year average of 206 farms. There has been some pent-up demand to exit the dairy industry, which did result in a mismatch of supply and demand in recent years. Demand for dairy farms has lifted as returns have improved and interest rates have fallen. But the reduction in seller expectations has also been key in allowing more farms to transact.

Dairy farm median prices are now slightly above the 10-year average. In the past year the average monthly median sales price has lifted to $34,000 per hectare.

DAIRY FARM SALES ACTIVITY



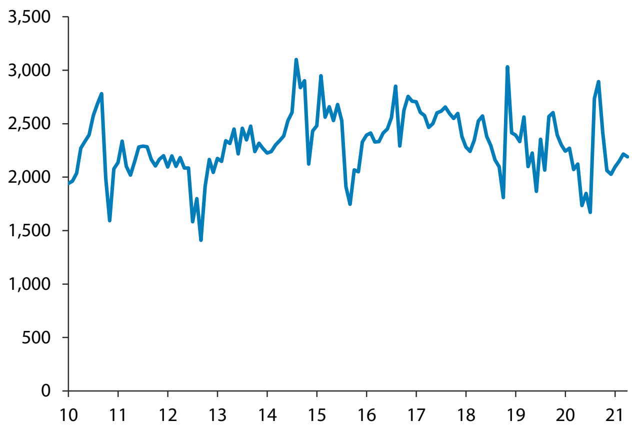
Source: REINZ

Prices range significantly across regions but also between individual farms, depending on the quality of the farm and its future prospects.

Good-quality farms with infrastructure in place to effectively manage environmental risks are well sought after. Lesser-quality farms with tired infrastructure and environmental risks are more difficult to sell. Some of these properties are being converted to other uses, such as beef farms.

The length of time it is taking to sell a dairy farm has trended down in recent months. However, it still remains elevated relative to the 10-year average. At the same time, we are seeing average sales prices begin to lift. The REINZ Dairy Price Index shows a less convincing trend that the dairy farm market is improving. The construction of this index attempts to account for one-off factors and aims to compare like with like. As the graph below shows this measure doesn't show any trend at all.

DAIRY PRICE INDEX



Source: REINZ

RURAL PROPERTY MARKET

LIVESTOCK PROPERTIES

The livestock sector remains buoyant despite prices for lamb and beef easing in the past year. Overall there is strong demand for quality properties to farm. This sector is also being underpinned by demand for land to plant trees in order to harvest carbon revenue.

HORTICULTURAL LAND

Activity in the horticultural market remains elevated relative to other sectors. There were 197 horticultural properties traded in the past year. Median prices are also high relative to historic levels but this is more of a function of the type of horticultural properties trading than an accurate reflection of the change in prices.

The market for kiwifruit orchards, and property suitable to plant kiwifruit on, is very active, and prices are elevated due to the returns the sector is currently achieving.

This year Zespri released an additional 1100 ha of licenses for Zespri varieties including Red, Sungold, and Sungold Organic. Similar levels of licenses are forecast to be released in subsequent years, although final offerings will depend on market conditions. Zespri is currently assessing the capacity of the industry to accommodate further growth, which may in turn determine how much demand there will be in the future for extra land to develop into kiwifruit orchards. Particular areas of concern are post-harvest packing capacity and access to sufficient labour.

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	237	110	206	↑	↑
	Median Price ($ per ha)	34,000	29,738	33,809	↑	↑
Livestock	Number of Sales	963	713	976	↑	↓
	Median Price ($ per ha)	20,725	17,450	17,517	↑	↑
Horticulture	Number of Sales	197	141	179	↑	↑
	Median Price ($ per ha)	299,167	222,727	185,038	↑	↑
Arable	Number of Sales	67	76	93	↓	↓
	Median Price ($ per ha)	34,343	23,800	35,084	↑	↓
Forestry	Number of Sales	59	44	51	↑	↑
	Median Price ($ per ha)	10,288	9,867	7,180	↑	↑
All Farms	Number of Sales	1,649	1,153	1,517	↑	↑
	Median Price ($ per ha)	26,283	22,925	23,682	↑	↑

Source: REINZ

IMPORTANT NOTICE

Last updated: 9 April 2021

This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The opinions and research contained in this document are (a) not personal advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and does not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request. This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This material is for information purposes only and is not financial advice about any product or service. We recommend seeking financial advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 10, 171 Featherston Street, Wellington 6011, New Zealand, Ph 64-4-382 1992, e-mail nzeconomics@anz.com, http://www.anz.co.nz