ANZ RESEARCH

AGRI FOCUS

APRIL 2022

MIXED BLESSINGS

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INSIDE

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Widespread autumn rain has devastated many arable and fruit crops, but has been welcomed by pastoral farmers.

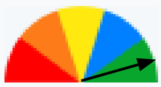
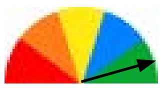
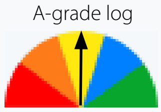
Food commodities are in short supply globally. New Zealand will also export less produce than normal this season as production of most of our export commodities is impacted for various reasons. Milk output is expected to be back about 5% this season. Meat exports will also be constrained by lower stock numbers and delays processing stock due to labour shortages.

Our horticultural industries are desperately trying to recruit sufficient staff for this season's harvest. Kiwifruit exports should hit record levels this season, providing most of the fruit is able to be picked and packed. Some apples will no doubt be unpicked for the second season in a row.

Meanwhile, weather issues have played havoc with the grape harvest, so both volume and quality of wine is expected to be compromised this year. Grain harvesting has also been severely impacted by the weather.

Reduced supply from both New Zealand and other regions has pushed prices to extremely high levels. However, this may be detrimental to long-term demand, as some items may end up being priced off menus or consumers may simply find ways to cut back their consumption.

At present the high prices are helping farmers become more financially and environmentally sustainable. But rapidly increasing costs are taking the gloss off the high farmgate returns and eroding margins. It is not only NZ farmers that are facing rising costs, with more intensive farming systems experiencing higher cost increases than less extensive farming systems due to the massive increases in inputs such as labour, fuel, fertiliser and grain.

Prices at farm/orchard level relative to 10yr average		
Dairy	Dairy prices have eased a tad recently but our milk price forecast of $9.70/kg MS for this season, and $9.30 for next season remain safe.	Milk price Low  High
Sheep	Lamb returns have remained high despite the challenges the meat processors are having as processing capacity is constrained due to labour shortages.	19kg lamb Low  High
Beef	Beef prices continue to be supported by tight global supply and solid demand.	Prime steer Low  High
Forestry	Log returns are trending back up again, largely due to limited supply to China from most log exporting regions.	A-grade log Low  High

ECONOMIC OVERVIEW

INTEREST RATES TRENDING HIGHER

Inflation is rocketing away and risks becoming further entrenched, which means it is time for the Reserve Bank of New Zealand (RBNZ) to apply the tools they have to rein in monetary policy. This means still-higher interest rates are on their way.

The labour market remains extremely tight at present with more positions available than people to fill them. Unfortunately, as our border restrictions start to ease, labour availability may well worsen before it improves.

The global supply of commodities has tightened even further since Russia invaded Ukraine. These countries are large producers and exporters of grains, and Russia also supplies a large portion of Europe's energy requirements. These shortages are pushing up the price of producing food and other commodities right across the globe.

TIME TO TIGHTEN MONETARY POLICY

Rampant inflation is a key economic problem that most central banks now need to address. Inflation is making a comeback in most economies and is particularly strong in New Zealand. We now anticipate inflation will peak at 7.4% in the middle of this year. That is way, way above the RBNZ target range of 1–3%.

Inflation in New Zealand has been fuelled by shortages of labour and goods, along with strong demand. Consumer demand was extremely strong, fuelled by supportive fiscal and monetary policy and a booming housing market, whereas a lasting negative confidence impact had been anticipated.

While this is easy to see in hindsight, it does mean the RBNZ now needs to urgently tackle the inflation problem. The RBNZ has already started tightening rates but has a lot of work ahead of it.

More urgent action is needed. We think the RBNZ now needs to deliver two back-to-back 50bps hikes in the OCR in April and May. That would double the OCR, from 1% to 2%. After that we expect 25bp steps will be the preferred pace, with the OCR eventually reaching 3.5% by the mid-2023.

The challenge for the RBNZ is to try to stop inflation in its tracks without causing undue damage to the economy. It won't be easy to achieve this, but the risk is that high inflation will continue to snowball if left to run its own course, and that would be even more economically damaging in the medium term than the short-term medicine needed to contain inflation.

The RBNZ is not alone in its challenge to rein inflation in. The Federal Reserve is also facing similar challenges in the US. They are also embarking on their journey towards tighter monetary policy with at least 50bp leap also on the cards in imminent meetings.

LABOUR CHALLENGES UNLIKELY TO EASE ANYTIME SOON

The very low unemployment rate, and a skills mismatch between jobs on offer and potential employees, is making it increasingly hard to source labour. This is a particularly challenging time for meat processors and horticultural operations in terms of sourcing the additional seasonal labour they require, particularly given the limited foreign workers available. This does mean some processing plants are running under their usual capacity.

GLOBAL SUPPLY CHAIN CHALLENGES INCREASING AGAIN

The supply-chain issues that have plagued global logistics throughout the pandemic are showing no signs of letting up. Shipping costs have been further exacerbated by the Ukraine situation and the lockdowns in China. Oil prices jumped due to Europe's huge reliance on Russian energy exports: oil, and particularly, gas.

ECONOMIC OVERVIEW

The Ukraine conflict has also brought about concerns of a global shortage of grain. At present, there is plenty of wheat in stock to cover immediate requirements, but shortages could occur if grain cannot be harvested this year in Ukraine. Additionally, China is reporting it is expecting low yields for its own grain harvest and therefore is expected to buy more grain on global markets.

China's demand for imported food remains extremely high. Some of this additional buying may be building buffers to make the country more resilient in the future, but part of it will also be due to steady consumption. Disentangling the two demand streams is challenging and we will probably only know when China has enough product in store when it stops, or drastically cuts back on, its purchases.

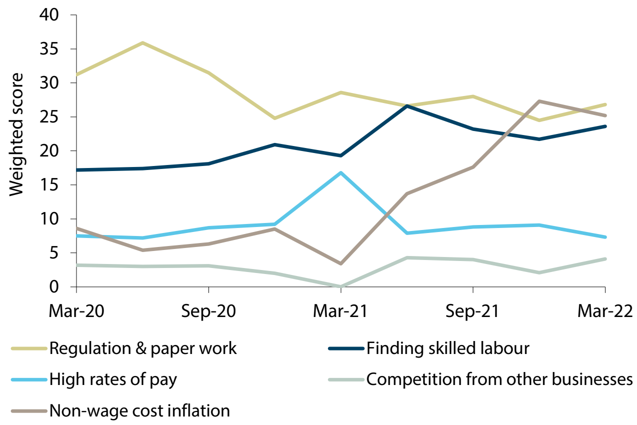
Logistics within China are currently challenging, as several ports, airports and indeed entire cities have been locked down to try to control the spread of COVID-19. The Chinese are better than most at obeying lockdown orders, but it will be interesting to see if the latest measures can control the highly contagious Omicron variant.

China's economy is now forecast to grow at a more modest pace. We anticipate it will expand by just 5.0% this year, but that rate of growth should still stimulate additional demand for imported goods – particularly food imports.

The additional demand from China for imported food, combined with tight global supplies of nearly all types of protein, has pushed the price of many commodities to record levels. This is certainly benefitting New Zealand farmers right now, with very strong prices on offer for dairy, beef and lamb.

High grain costs are making importing this product very expensive for poorer countries, which may therefore result in grain shortages in some regions. It also makes for expensive animal feed and therefore provides a cost advantage to pasture-produced meat and milk. There is no doubt that our own farmers have also been hit with very big cost increases. While NZ farmers aren't generally facing massive feed bills for grain to stock, they are facing higher interest costs and large increases in the cost of fuel, fertiliser and labour. These additional costs, combined with ongoing government policy changes, mean we are no longer experiencing production growth in most parts of our primary sectors. Agricultural businesses cited inflation as their biggest problem in the latest ANZ Business Outlook survey.

BIGGEST PROBLEM FACED BY AGRICULTURAL BUSINESSES



Source: ANZ Research

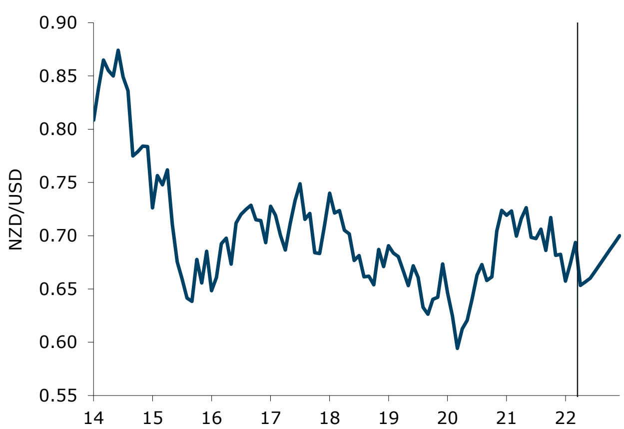
IN OUR FAVOUR

The NZ dollar has climbed since the beginning of the year, but is still priced below USD0.70, which is helpful for our export sector. A low NZ dollar means a larger portion of overseas earnings makes it back to our farmers, though it makes imported inputs more expensive.

The euro has weakened since the Russian invasion of Ukraine, which has meant the Kiwi has appreciated against this currency during the past couple of months. This is good news for anyone importing machinery from Europe, but not such good news for exporters who send produce to this market.

Our forecast is that the NZD will head up to about USD70c and stabilise at that level. But there is a lot of global uncertainty at present, all of which can impact our currency.

NZD BUYS USD



Source: Bloomberg, ANZ Research

Click here to access our latest forecasts.

DAIRY

DAIRY PRICES EASE A TAD

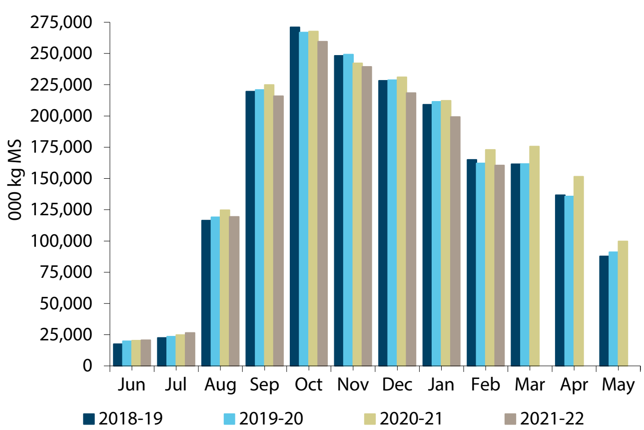
Global dairy prices have come back down a little from the lofty levels they reached in early March, but remain at very favourable levels for our producers.

Global milk supplies remain tight, which should limit how far prices retreat. The current correction is likely to be more sentiment-driven, meaning we may see prices plateau again soon.

Whole milk powder (WMP) prices have eased about 10% in the past month. The lower prices attained at the 15 March Global Dairy Trade (GDT) event was the trigger point for the downward correction in WMP and butter prices.

But this fall in pricing won't necessarily impact our farmgate milk price forecasts, as we had already assumed prices would ease at some point. The degree of the correction in prices will be limited by the tight global milk situation.

NZ MILK PRODUCTION



Source: DCANZ

Milk production in New Zealand is on track to be 5% lower than last season. This is partially weather-related, but also reflects total milk output from New Zealand has peaked. Milk intakes up to February are down 4% for the season, and this number is expected to worsen over the later months, as it will be very challenging to match last season's production.

Pasture conditions have improved in the later part of the season and the typical seasonal cow cull will be delayed due to the lack of processing capacity. These factors may increase milk output a little in the final months of the season, but output is still expected to be well below last season.

Operating a dairy farm is becoming increasingly complex. Regulations are tightening and compliance is becoming more complicated and time consuming. Costs are also rising and labour has become increasingly difficult to source.

There is also still a degree of uncertainty as to the price that will need to be paid for methane emissions, despite options being laid out as to how emissions may be calculated.

Yet to come is more reform regarding water allocations which may impact the water available to some irrigated properties.

The net impact of these changes and challenges is that we are seeing a small degree of consolidation in the dairy sector.

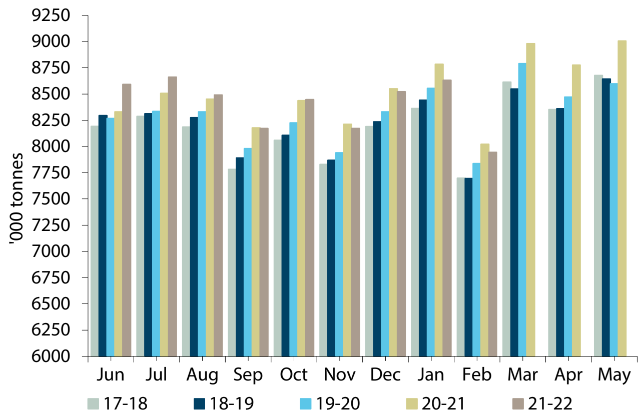
GLOBAL SUPPLY REMAINS TIGHT

We are also seeing relatively tight milk supplies in most parts of the world, although we are now heading towards peak seasonal production for Northern Hemisphere producers.

DAIRY

Milk output in the United States has been tracking behind the same time last season since November. There are fewer cows in milk but output per cow is relatively stable. The high costs of feed mean US dairy farmers may be reluctant to increase feed levels.

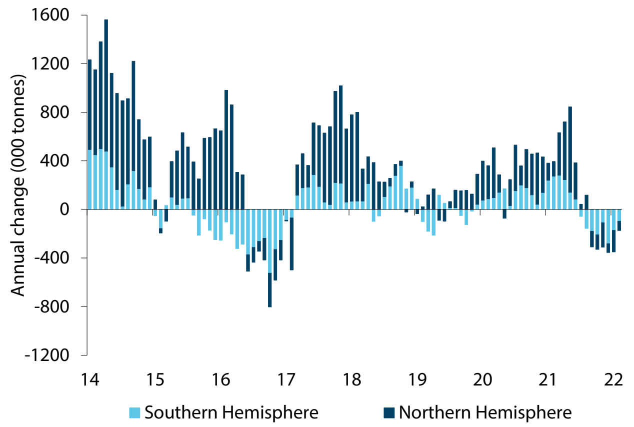
US MILK PRODUCTION



Source: USDA

European milk output has also been constrained by environmental considerations. Farmers will also be directly impacted by the Ukraine situation as a lot of corn and wheat is traditionally sourced from Ukraine and Russia. Sourcing feed from further afield will tend to be more expensive. Grain prices have lifted sharply due to the uncertainty regarding the next harvest. This will increase the cost of producing milk in most regions, and provide a small comparative advantage to pasture- based dairy farms. Although pasture-based farmers are also facing much higher costs, the cost increases are expected to be greater for the more intense operations that are highly reliant on grain, fertiliser, diesel and labour to feed their livestock.

MILK PRODUCTION – MAJOR DAIRY-EXPORTING COUNTRIES



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

Similarly, we are not seeing any significant growth from Australia or Uruguay, but Argentina has increased its output somewhat, which will help to increase WMP availability.

DAIRY COMMODITY PRICES SOFTEN

Despite the general constraints on milk output, dairy prices have eased in the past few weeks. Admittedly these prices are coming off extremely high levels and it was clear that these high prices would be unsustainable for consumers, so an easing was expected at some point. However, the fall in WMP prices comes at the time of the season when global export supplies are easing, as Southern Hemisphere production falls, while SMP production is increasing. The price reaction has been the opposite, with SMP prices still firming while WMP prices dropped.

The challenges China is currently facing, in terms of trying to control the spread of Omicron, will be having some impact on sentiment. But whether the strict lockdown conditions in China will actually have a noticeable impact on economic growth remains debatable. China's economy isn't expected to grow as quickly as it has previous done, but the 5% growth currently forecast would far outperform most developed countries.

As China is by far the world's largest importer of dairy products, the state of its economy is paramount for the health of the dairy industry.

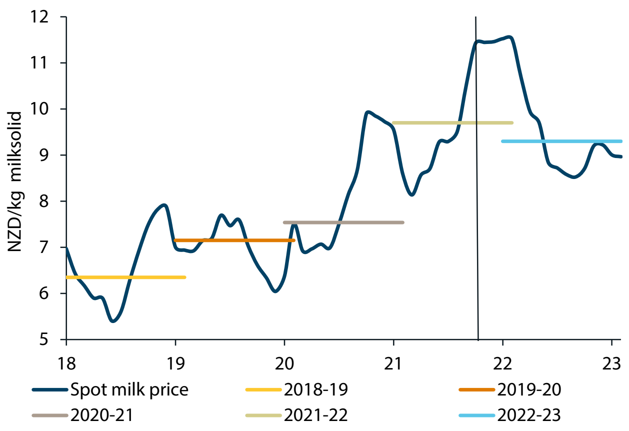
DAIRY

Demand for basic and healthy food products has been robust throughout the pandemic so there is no reason why this should change significantly now. No doubt the high prices will potentially burn off some demand, particularly amongst poorer nations, but the underlying desire to purchase dairy products is expected to remain.

FARMGATE PRICE EXPECTATIONS UNCHANGED

Despite the recent downturn in dairy commodity prices, our milk price expectations for both the current season and next season are unchanged. We continue to forecast a milk price of $9.70/kg MS for the current season which is 10c above the mid-point of Fonterra's forecast range. However, a lot of the slack we built into this season's milk price has now been utilised so if prices don't stabilise soon near current levels then there may be a little downside risk in our current forecast price.

FARMGATE MILK SPOT PRICE AND FORECAST



Source: Fonterra, ANZ Research

Looking ahead to the 2022-23 season, our milk price forecast of $9.30/kg MS still looks achievable. This forecast incorporated a generous margin for dairy commodity prices to recede so our forecast remains viable at today's prices and indeed, there is still some room for commodity prices to ease further.

LAMB & WOOL

PROTRACTED LAMB-PROCESSING SEASON

There will be fewer lambs to process this season but the processing season will be more protracted. Meat processors are running below capacity due to increased rates of absence amongst workers as Omicron sweeps through the country.

Farmgate prices remain at very robust levels, which will be welcomed by farmers, as it has been a difficult season to achieve the desired weight gain for lambs.

The number of lambs that have come forward for processing in the North Island is tracking well behind last season. On a season-to-date basis numbers are back about 16%. That's officially 770,000 fewer lambs killed this season compared with last, although more up-to-date anecdotal figures put this number at a reduction of more than 1 million lambs.

Capacity at processing plants is starting to increase, with several processors now reporting that as staff levels have improved they have been able to add extra shifts or chains. But not all processing plants are back at full capacity and some won't be able to get there unless they can recruit additional staff.

Beef and Lamb New Zealand (B+LNZ) estimate there will be 0.3% fewer lambs available for processing this season (but that's only about 55,000 less than last season) so there are still a lot more lambs to process.

There were 2.3% fewer lambs tailed this season, according to B&LNZ estimates, with most of the decline occurring in the South Island where ewe numbers have fallen.

In additional to the processing constraints there are other reasons why the lamb kill is so much slower this season. Lambs haven't done particularly well, with daily weight gain compromised due to poorer-quality feed. Lambs have therefore taken much longer to reach optimal weights for processing.

Lambs have been processed at lower average carcass weights for much of this season. The average carcass weight for this season to date is 18.4kg versus 18.64kg at the same time last season. The most recent processing data shows lambs are being killed at less than 18kg carcass weight (CW) on average, with North Island lambs typically lighter than those coming forward in the South Island. So the processing delays that we have been experiencing certainly aren't resulting in heftier lambs as yet.

The recent widespread rains in the North Island mean most farms have reasonable levels of pasture on hand, which has certainly been helpful given the processing delays. Pasture and crops are generally in good condition across most of NZ aside from Southland, which could do with some additional rain.

WORKS COMPROMISED BY OMICRON

Throughput at the works is expected to remain compromised while Omicron spreads throughout our communities. We therefore expect to see a very drawn-out processing season this year, with higher-than-usual numbers of lambs processed in May and June.

There have been some extra lambs supplied to the store market in recent weeks as some farmers look to lighten their stocking rates, but most farms have sufficient feed on hand to manage the extra numbers.

Store market prices remain buoyant. Lambs continue to trade near the $4/kg liveweight (LW) level which is not particularly surprising given schedules are still above $8/kg CW.

LAMB & WOOL

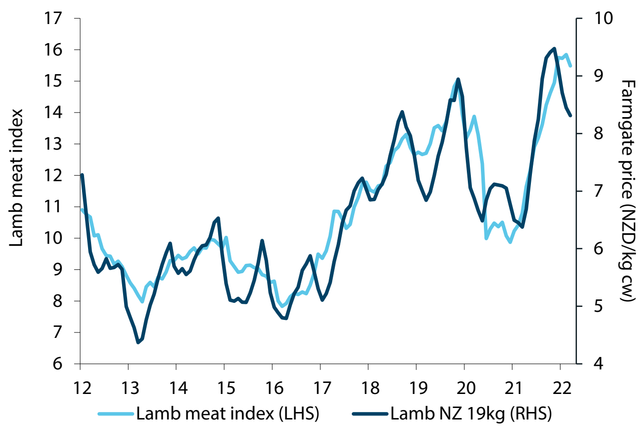
The market for replacement ewes remains tight. The number of mutton animals processed this season is 10% behind last season across the North Island. Some of this will be due to the processing delays, but there is also a greater incentive to hold onto ewes for another year given the high price of replacement stock.

Additionally, if farmers are still holding onto ewe lambs, and struggling to secure replacement ewes, we may see more ewe lambs carried through and possible mated as hoggets.

FARMGATE PRICES FOR LAMBS HOLD

Meat processors have managed to hold lamb prices at elevated levels despite this now being the peak processing season when we would typically see a sharper decline in prices being offered at the farmgate.

FARMGATE PRICES VS INTERNATIONAL MARKET PRICES



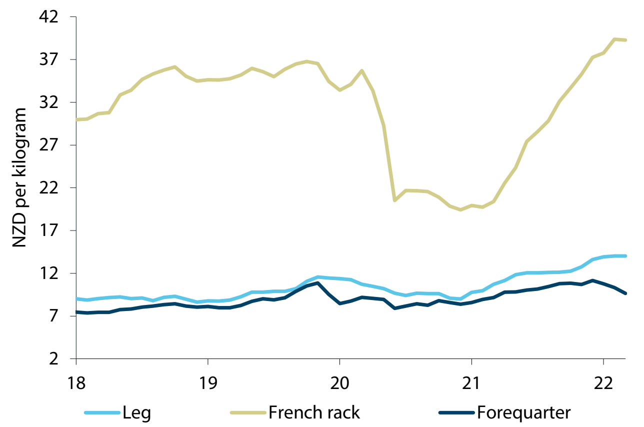
Source: AgriHQ, ANZ Research

The tighter-than-usual capacity at the works means processors certainly have no need to compete hard to secure lambs right now. But overseas lamb prices are at exceptional levels, and even at today's farmgate prices there should still be a reasonable margin for processors.

Most cuts of lamb are currently returning much stronger in-market prices than achieved this time last year. When these prices are then translated into NZD terms the increase is even larger due to the relatively weak NZD.

The biggest price improvement has been attained in the higher-value cuts such as French rack and short loin, which have been bolstered by improving demand from restaurants.

LAMB CUT PRICES

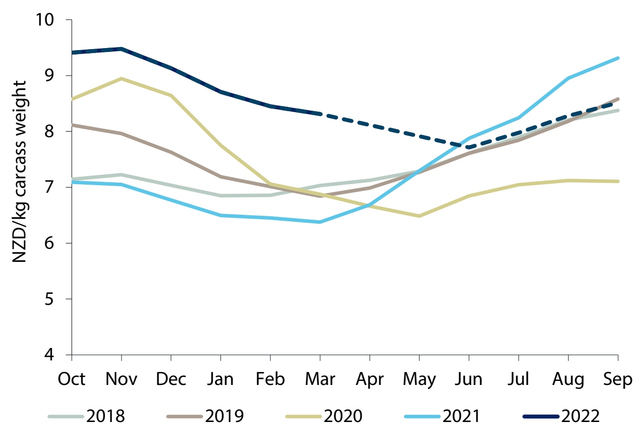


Source: AgriHQ

A reduction in the volume of product being stored in-market has helped bolster these prices. Minimal competition from Australian lamb has also helped. The number of lambs being processed in Australia is still low relative to the longer-term trend, but slaughter numbers are picking up. Exports to the US are increasing as well, indicating NZ exporters can expect to see much stronger competition from Australia in this market this year.

Meat and Livestock Australia (MLA) have forecast an 8% lift in lamb exports in 2022. Whether this can be achieved or not is debatable, but it is clear that we should count on a little more lamb coming out of Australia than we have seen in the past couple of years.

FARMGATE LAMB PRICE TREND AND FORECAST



Source: AgriHQ, ANZ Research

But at present lamb returns are certainly very strong ,and record average farmgate prices for lamb will be achieved.

LAMB & WOOL

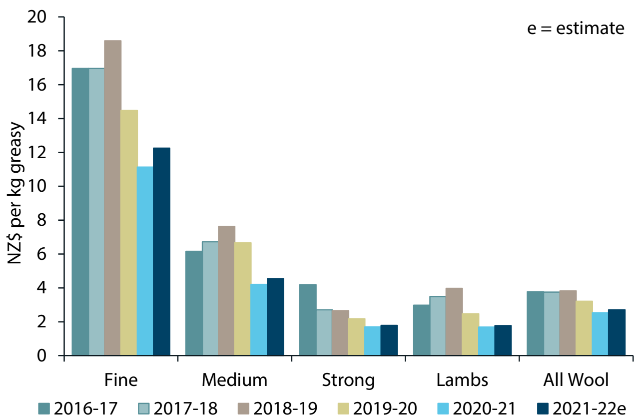
WOOL MARKET STILL CHALLENGING

Coarse wool prices have improved a little but the industry still has a long way to go before the net returns from coarse wool will be on the right side of farmers' ledgers. Shearing costs exceed the returns most farmers are making from their wool, and this deficit will only grow as record-low unemployment contributes to higher wages and entices shearers into alternate careers.

We have seen some improvement in wool prices in the past couple of months, but prices fell again at the South Island auction held on 17 March. South Island auctions have been run weekly lately, as is typical in the main selling season. Limited demand from Chinese buyers resulted in a decline in prices across all styles of wool offered, with the biggest decline seen in lambs-wool. The improved feed conditions haven't necessary been great for wool quality, and buyers have had the luxury of ample offerings of wool lately and have heavily discounted any wools of poor colour or containing excess vegetation matter.

B+LNZ say the outlook for wool is uncertain, but strong wool is doing better than last season and there is solid demand for fine wools – particularly for manufacture into apparel for active sports and casual wear.

WOOL PRICE – SEASON AVERAGE AT AUCTION



Source: B+LNZ

Looking across the ditch, the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) has forecast wool prices will steadily improve over the next five years. This is despite the increase in Australia's sheep flock, meaning there will be more wool available. The increased returns forecast are largely driven by better prices for fine wool, which is in demand for use in apparel. Australia produces finer wool than NZ does, and a much larger portion of their wool clip sits in the 'fine' category.

Coarse wool – used primarily for carpets – is unfortunately not seeing the resurgence in demand that fine wool has.

On a slightly brighter note, the large stocks of wool that built up both in New Zealand and Australia and in-markets have now been cleared, so the market for all grades of wool is slightly better positioned.

The recent outbreak of Omicron in China is likely to ease demand from this region in the very near term. Unfortunately, Russia's invasion of Ukraine is very unlikely to spark demand for wool like the Korean war did in the 1950s. That said, high oil prices do push up the cost of synthetic fibres, which will help to reduce the price differential between wool and synthetic carpets.

BEEF

GLOBAL DEMAND ROBUST

Global demand for beef remains very strong, and this is having a positive impact on farmgate returns. The strong prices have also allowed for increased processor margins whilst still delivering good returns to farmers.

Wait times for processing stock have increased, and given demand for processing has also increased during April and May this situation is unlikely to sort itself out until winter.

We are seeing some farmers offload additional stock through the yards, but there are plenty of farms with feed on hand, which means store stock prices are still holding at reasonable levels.

FARMGATE PRICES STILL REALLY STRONG

Beef markets continue to deliver solid returns, and this is reflected in our farmgate prices. Schedule prices and store stock prices remain robust, although both have eased slightly in recent weeks. But overall, prices are considerably stronger than normal for this time of the season.

As we enter the main cow cull season prices tend to drop away, but this season processors have been able to continue paying higher prices due to the strong global demand for beef.

CHANGING TRADE PATTERNS

Over the past few years there has been quite a change in the global trade of beef. The majority of our beef, particularly manufacturing grade beef, used to be exported to the US. But now we export more beef to China than the US.

The US previously relied on importing beef from NZ, Australia and Uruguay, as they did not trust the safety of beef from many other countries. Now Brazil is the largest supplier of beef to the US market.

Brazil was shut out of the US market for decades but US import restrictions have been gradually lifted, with the market fully reopening to beef from Brazil in early 2020. This occurred at a time when global beef prices had hit record levels due to increased demand from China, which diverted supply away from the US.

Brazil is also the largest supplier of beef to China, a market which has grown exponentially in recent years. Beef from Brazil was banned by China in September 2021 but trade resumed in December.

These temporary disruptions have altered the global trade patterns. However, the overall size of the globally traded market for beef has grown due to the increased imports from China, and this has ultimately resulted in solid demand for beef in general.

NZ has good market access and reliably delivers safe beef, so this has also worked in our favour in recent years.

NZ currently supplies similar volumes of beef to China and the US. Our market share in the imported beef market in each of these countries is less than 10%. So while these are both very important markets for NZ manufacturing beef, we are a relatively small player in each of these markets.

The strong demand for beef from both US and China has really helped support farmgate prices in the past few years. This trend looks to continue, at least in the short-to-medium term.

Normally by this time of the season we would see a sharp decline in schedule prices, particularly for manufacturing beef, as large number of cull cows come forward for processing. This prices have remained very robust despite the restricted processing capacity.

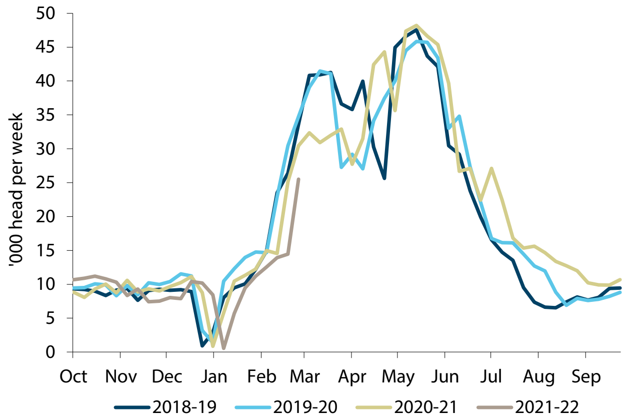
BEEF

COVID REDUCES PROCESSING CAPACITY

Most meat processors are operating with far fewer staff than normal for this time of the season, as COVID infections and isolations, as well as extremely low unemployment, reduce the number of available workers.

This means meat processors are certainly not keeping schedule prices high to attract stock, but rather just passing on high earnings from overseas markets. Considering just how strong earnings are, the portion that is being passed through to the farmgate level is certainly lower than normal. But processors will need to take into consideration the logistical and operating challenges which means their costs have spiralled upward, particularly wages and shipping.

NEW ZEALAND WEEKLY COW SLAUGHTER NUMBERS



Source: MIA, AgriHQ

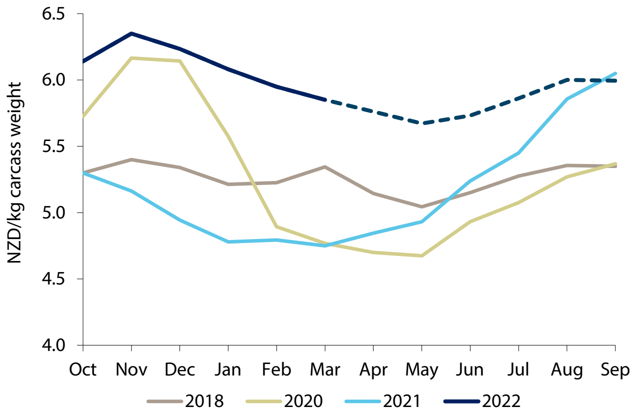
The latest meat processing data (which has about a four-week lag) shows the cow kill for the season to date is running about 20% behind, and this has been more pronounced recently. In the four weeks to early March, 35% fewer cows were processed than at the same time last year. As can be seen in the graph above, during February the cow cull is only just getting underway, so if processing capacity remains below normal in April and May then there will still be a large number of cows to cull when winter sets in.

Luckily the eastern regions of the country have received much more rain than normal. Too much, too quickly in some places, unfortunately, but there is generally plenty of feed available for cattle this autumn. This has taken some of the pressure off farmers who are well positioned to hold onto stock longer than normal. And for those that are tight on feed there are generally still plenty of options to offload stock with cattle still selling well through the yards.

FARMGATE PRICES EXPECTED TO REMAIN ELEVATED

Farmgate returns for all classes of beef stock are expected to remain at elevated levels throughout this season. A wee bit of a seasonal decline in pricing is expected, but this is likely to be much more muted than normal due to the strength in the underlying demand for beef.

FARMGATE BULL BEEF PRICE TREND AND FORECAST

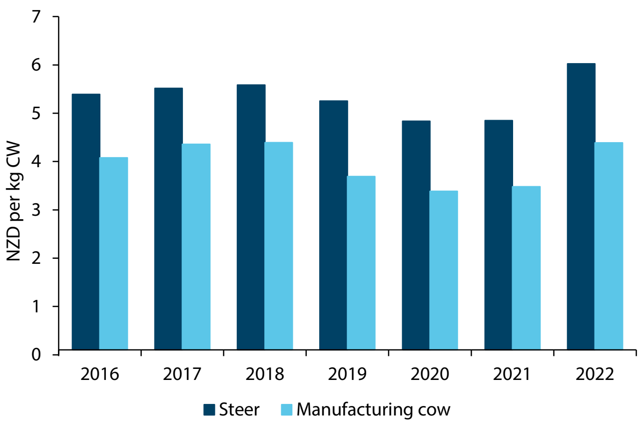


Source: AgriHQ, ANZ Research

This means farmgate returns for beef this season are forecast to be 15% stronger than the 5-year average. Beef has delivered consistently strong returns since 2015 with schedule prices averaging above $5/kg CW for bull beef every season since.

Farmgate prices for all grades of beef reached record levels for March. This season's prices are currently 20-30% higher than they were last March depending on cattle class.

FARMGATE BEEF PRICE – MARCH AVERAGE



Source: AgriHQ, ANZ Research

BEEF

Demand from China for beef is not expected to let up anytime soon. A poor grain harvest means they will have less feed than ever for their own cattle, and the cost of producing beef within China will also rise.

The high cost of grain in general will put upward pressure on the price of all grain-fed beef, whereas the cost of producing beef on pastures will be less affected. New Zealand is only a small player in terms of global beef production so the current environment is certainly working in our favour.

The challenge we currently face is getting cattle processed and shipped to our global markets.

DEER

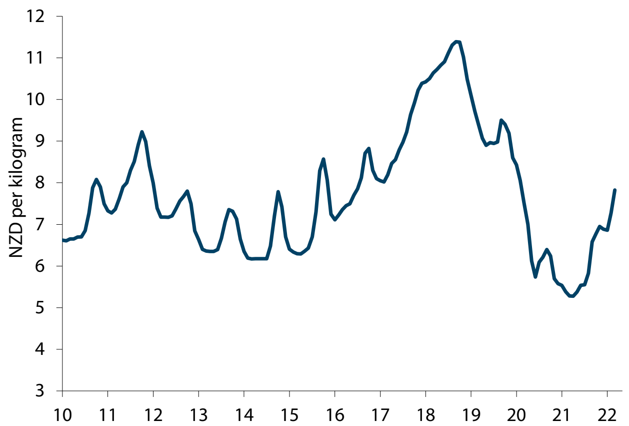
BOUNCING BACK

Venison returns have now rebounded to pre-pandemic levels, with a strong lift in demand from overseas buyers.

In-market stocks have now been worked through and demand for venison has lifted across most market segments, which is now being reflected in higher farmgate prices.

The farmgate price for venison is now back above $8/kg, which is pretty similar to where it was in early 2020.

FARMGATE VENISON (YOUNG 60KG STAG)



Source: AgriHQ

But unlike other forms of protein, venison prices are still well below the levels attained in 2018. As other forms of protein are now trading at record levels this does make venison more attractive to buyers.

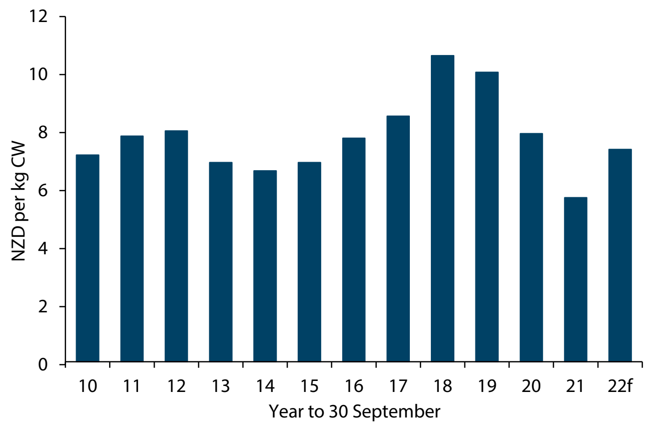
We are seeing improved demand for venison across most categories and markets. The North American market continues to expand as restaurants reopen and consumer confidence improves. The pet-food market is also improving again. This market for trimmings really helps to boost overall returns.

European markets are also improving, but it is a little too early to say whether the Ukraine situation will dent restaurant dining demand in our traditional European markets such as Germany and Belgium.

Venison returns really need to be higher than they currently are, relative to lamb, to encourage ongoing support of the sector from a farm economic perspective, particularly giver deer is more challenging to farm, from an environmental point of view than sheep.

As rules tighten relating to nutrient emissions and stock exclusion from waterways, and greenhouse gas emission costs are introduced, this will put additional cost pressures on deer farmers. There is still a lot of debate as to the actual GHG emissions of deer, and DeerNZ are questioning the way it has been calculated. But generally the numbers aren't particularly favourable for deer.

AVERAGE FARMGATE VENISON PRICE (YEAR TO SEPTEMBER)



Source: AgriHQ, ANZ Research

New markets are continually evolving for venison. Not a lot of venison is eaten in China, but this is gradually changing as more high-end restaurants add venison dishes to their menus. Venison may not be a traditional Chinese cuisine but it does fit well into their ethos of consuming healthy products. Unfortunately with Shanghai currently in lockdown, this will limit any opportunities to grow this market in the immediate term

GRAIN

STRONG PRICES, LOW YIELDS

The price of locally produced grain has lifted sharply, driven up by the low yields from the recent harvest and strong international prices. Internationally there are now concerns there may be a shortage of wheat later in the year.

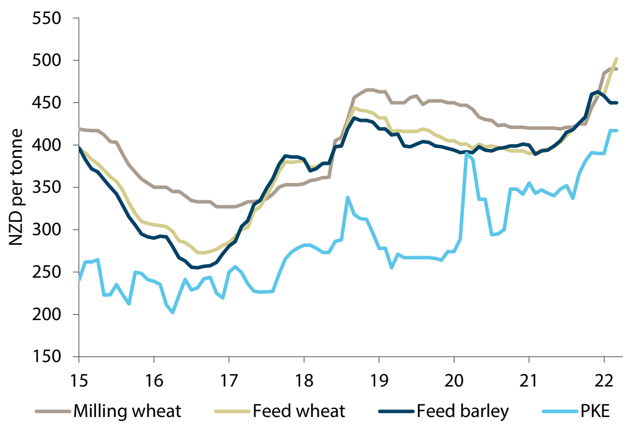
LOW YIELDS, HIGH PRICES

Grain prices have shot up further as it becomes increasingly likely that international grain markets will be in short supply this year.

Prices in our local market don't always move in tandem with the global markets, but the tight supply situation, both internationally and locally, is currently working in the favour of our grain growers.

It has certainly been a challenging season for our arable farmers this year. Excessively wet conditions ahead of harvest meant some grain was not able to be harvested at all, and a larger portion was downgraded to feed quality.

NEW ZEALAND GRAIN PRICES



Source: NZX

In addition to the quality issues, yields are also expected to be very low. The local supply of local milling wheat is tight. Australian milling wheat landed in NZ has been priced at as much as NZD600/t and we are now seeing similar prices on offer in the local market for premium varieties.

Feed-grade wheat is now trading at about $525/t. Feed-grade barley is a little cheaper, but most farmers are not willing to sell below $500/t. Demand from dairy farmers remains firm, buoyed by strong milk prices.

Grain prices are now about 25% to 40% stronger than a year ago. The largest increases have come in the higher-grade varieties, which are in short supply locally due to the poor weather at harvest time.

POTENTIAL GLOBAL GRAIN SHORTAGE

There are increasing expectations that global grain markets may be in short supply this year. This poses a risk that some of the poorer countries, who rely on imported grain, may go hungry.

Ukraine and Russia collectively supply about a quarter of the world's wheat and about 20% of its corn. It is now looking increasingly like the grain harvest will be significantly smaller this year, and trading will be compromised due to damage to infrastructure such as Ukraine ports. And many countries have now shut off trade with Russia.

China is also forecasting its worst grain harvest in decades and has indicated it will need to buy more grain from the global market. This may potentially displace supply that would have gone to other parts of Asia or the Middle East.

FORESTRY

PRICES LIFT DUE TO SUPPLY CONSTRAINTS

Wharfgate returns have lifted again as demand lifts and supply remains constrained. Supply, both locally and internationally, has been curtailed, which has helped the market recover from the recent period of lower prices.

China has limited options as to where it can source logs from, which is working in the favour of our exporters at present.

Locally harvesting activity is still subdued due to limited availability of harvest teams, but the slow-down in harvesting is helping returns to lift again.

PRICES LIFT AS VOLUMES FALL

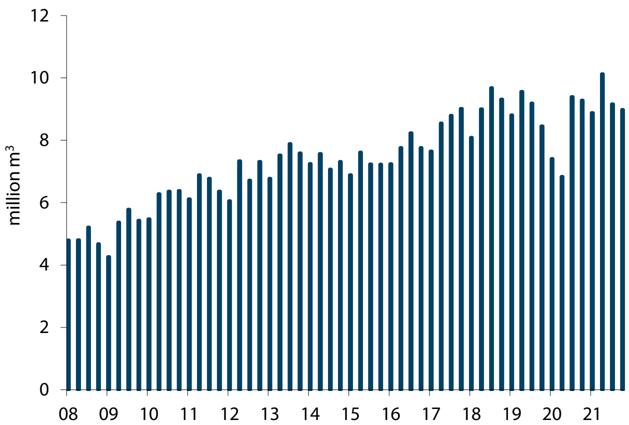
Omicron is impacting the forestry industry, both locally and internationally. Locally, harvesting crews have been impacted which has slowed down harvesting of trees. Harvesting had already slowed late last year in response to lower prices but was starting to pick up again.

Omicron has also disrupted activity in our main export market for logs – China – which has locked down entire cities, and closed some ports completely. This is disrupting shipping and has caused delays in getting ships unloaded.

Meanwhile the offtake of logs from wharfs in China lifted again, as expected, after Chinese New Year. Despite the woes in China's housing market there still seems to be plenty of demand for raw timber for infrastructure construction.

Also working in our exporters' favour is the limited volume of logs being supplied from other regions. The quantity of spruce logs heading to China from Europe has slowed as the quantity of beetle-infested forests has fallen. Due to the early harvesting of large tracks of forest to stem the spread of the beetle there will be less timber to fell in the coming years. It is expected that Europe may actually have to start importing more timber in the coming years to make up for the shortfall in domestic supply. The logical place for Europe to source timber from would be Russia, but that won't be an option in the current political climate.

ROUNDWOOD REMOVALS – QUARTERLY VOLUMES



Source: MPI

The supply of pine logs from North America to China also hit a stumbling block when China updated quarantine requirements for pinewood imports from countries where pinewood nematode is present. The new regulations came into effect from the beginning of February, and are effectively preventing supply from North America.

China is still receiving some logs from Russia despite a ban being placed on the export of raw logs by Russia. This ban was put in place to try to encourage additional processing of timber within Russia and eventually increase the exports of lumber. There is some talk that this ban may not apply to all grades of logs, or rules may not be being strictly adhered to, but nevertheless it has considerably slowed the overall supply of logs from Russia.

FORESTRY

At current shipping prices it is difficult to justify shipping logs from South America to China. More logs from Uruguay and Argentina are heading to India, which is a market NZ has barely supplied any logs to in recent months and throughout last year supply to this market was very sporadic.

Looking ahead, there is expected to be more than enough demand from China to absorb the quantity of logs NZ is able to supply.

The recent supply constraints from NZ have worked in our favour in terms of boosting export prices.

DOMESTIC LOG MARKET

NZ housing construction is slowing due to supply issues for many materials. This means homes are taking longer, and are also more expensive to build. Stricter lending conditions and rising interest rates are also expected to curb investment in new homes.

Expectations that house prices will fall is also causing some uncertainty. We anticipate house prices will, on average, fall 10% this year. House prices are already trending down, and auction clearance rates have slowed, indicating limited buyer demand at current prices.

Prices for logs for milling have been relatively stable. Local production of sawn timber has also been disrupted due to staffing shortages reducing throughput at the timber mills. But at present supply of sawn timbers is generally keeping up with demand, but speciality timbers such as plywood are in short supply. The overall delays to construction are likely to restrict the number of new builds started this year and will certainly increase build times.

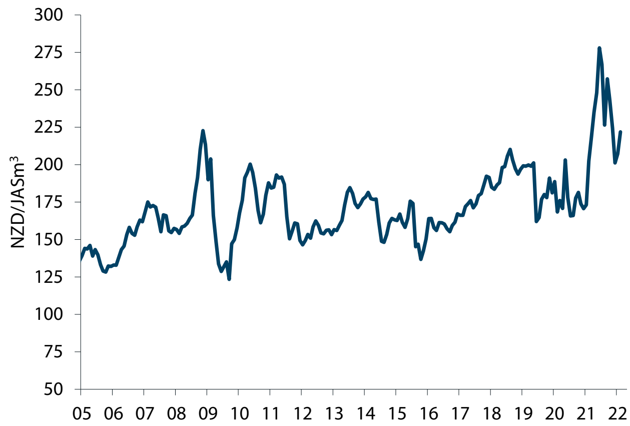
WHARFGATE RETURNS IMPROVE

Returns at the wharfgate level have been extremely volatile throughout the pandemic. But at the moment prices are trending back up again as export demand increases.

Prices at the wharfgate are expected to remain relatively robust as end-user demand is expected to remain strong – primarily due to limited alternative supply.

Logistical challenges are likely to be the biggest disruptors again this year as ports close, and blank sailings occur regularly. Shipping costs are still elevated and are contributing to over a third of the cost of landing a log in China.

UNPRUNED A-GRADE IN-MARKET PRICE



Source: AgriHQ

REGULATORY CHANGES FOR PERMANENT FORESTS

Recent changes in government regulations have been made to reduce the incentive to plant pines as permanent forest. A new permanent forestry category in the ETS is due to come into force at the beginning of 2023, but the government is currently consulting on excluding exotics from this category.

This change has been made due to concerns that blanket planting of pinus radiata for permanent forests may not be the best use of land. These changes will not impact pines being planted for timber and there will still be an opportunity to earn carbon credits from those plantings.

Regulatory changes have also been made in relation to overseas investments in forestry. In 2018, rules were introduced which made it easier for overseas investors to purchase land in New Zealand for the purpose of forestry.

But in February it was announced that these rules are being unwound, meaning if farmland is being purchased by overseas investors then they will need to pass the 'Benefit to New Zealand' test rather than being assessed under the more streamlined 'special forestry test'.

Overseas investors intending to purchase an existing forest will still be able to be assessed under the 'special forestry test'.

HORTICULTURE

WEATHER, SHIPPING AND LABOUR WOES

Labour shortages, disrupted shipping schedules and inclement weather are the biggest challenges as the harvest season gets into full swing for our major horticultural industries.

The chronic labour shortage is making it extremely challenging to get fruit picked and processed. The grape harvest is near completion and the apple harvest is in full swing. The kiwifruit harvest is also underway, with the early maturing Ruby Red and Sungold varieties now being picked.

The weather is not helping the labour situation, with rain interrupting picking and causing damage to fruit – particularly grapes.

KIWIFRUIT: LABOUR BIGGEST CURRENT CONCERN

Zespri expects its latest commercial variety – Ruby Red – to be priced considerably higher than Sungold. Its recently released price guidance puts orchard gate returns (OGR) for Ruby Red in the range of $15.50 - $19.00 per tray. This is about 50% higher than Sungold is expected to return, and about three times as much as Green.

While this new variety has been extremely well received by customers, and hence commands a premium price, it is more difficult to grow. Being a relatively new variety it will also take time for growers to figure out the optimal management plan to deliver the best yields.

FORECAST ORCHARD GATE RETURNS

Fruit type	2022/23 per tray (Mar)	2022/23 per ha (Mar)	2021/22 per tray (Feb)	2021/22 per tray (Nov)
Green	$5.00- $7.00	$54.000-$75,000	$6.25	$6.34
Organic Green	$8.50-$10.50	$65,000-$80,000	$9.49	$9.54
Sungold	$10.00-$12.00	$153,000-$184,000	$11.27	$11.05
Organic Sungold	$11.00-$13.00	$144,000-$176,000	$12.42	$12.23
RubyRed	$15.50-$19.00	n/a	n/a	n/a

Source: Zespri

Ruby Red is an early-maturing variety so these fruit are now being picked and will be exported to our Asian markets, which have a shorter shipping time than, say, sending these fruit to Europe. This will hopefully result in the fruit arriving in market in optimal condition.

Zespri has already commenced exporting new-season fruit. The first shipment of the year was scheduled to reach Japan on 28 March 28.

Getting all the fruit picked and packed is now the major challenge for the industry. Packhouses are particularly short-staffed due to absenteeism resulting from the recent Omicron outbreak.

At this stage Zespri is budgeting for 190m trays of kiwifruit to be picked, but there are some doubts to whether this will be achieved given how severe the labour shortage is. The kiwifruit industry estimates it will require 24,000 seasonal workers for picking and packing this year, but expects to be about 6,500 short of this number, meaning it will be the worse labour shortage the industry has experienced.

HORTICULTURE

APPLES: PICKING CHALLENGES

The pipfruit industry is facing up to the reality of yet another season where it is extremely difficult to employ the labour required to pick. It is clear that not all of the apples will be picked this year and we can expect to see some apples outside of their optimal time as outbreaks of Omicron further thin out picking crews. At this stage, the labour challenges look greater in the Hawke's Bay than in Nelson, but all regions are suffering.

The ongoing labour challenges is encouraging more automation – particularly in packhouses where it is easier to automate functions than it is out in the orchards.

Logistical challenges still plague the industry. Shipping schedules are continuing to be disrupted by outbreaks of Omicron. Our local ports are doing well to keep operating by using daily Rapid Antigen Tests (RATs). But a further round of port closures in China is causing further disruption in global shipping. The majority of apples exported from NZ are now destined for Asian markets.

Russia has traditionally purchased apples from New Zealand. Last year it accounted for about 1.5% of total apples exports, so it is not a major market.

Export prices are expected to remain robust for apples, but the increased costs of packing fruit and getting it to market are expected to put some downward pressure on pricing.

2022 VINTAGE COMPROMISED

It has been a challenging season for wine producers this year. Weather conditions in many regions have been particularly unfavourable. Frost caused some damage earlier in the season, but it has been the warm, wet conditions at harvest that have been particularly challenging, along with the labour shortage.

This has resulted in an explosion of fungal infections, with a high presence of botrytis, meaning many grapes are worthless. The damage is so bad some vines won't even be picked. Those hand-picking have the option to discard the damaged fruit but this really slows down picking, which is challenging given how difficult it currently is to source casual labour.

Marlborough – the main wine-producing region of New Zealand – is well through its harvest. The largest challenge for this region has been securing staff for not only picking the grapes but also to produce the wine. There is a lot less skilled labour available this year, which is making it very difficult.

Central Otago has escaped the worst of the weather conditions so we expect to see this region still producing some great Pinots this year.

Martinborough vineyards have had a really challenging season. Rain just prior to harvest damaged a lot of the fruit and caused issues with botrytis. Disease within the fruit has made for very difficult picking conditions. These smaller vineyards tend to hand-pick, which allows diseased fruit to be removed immediately, but this does make picking slower and a costlier exercise. This has been particularly challenging given there has been major staffing shortages.

The warm summer meant the harvest was relatively early in the Hawke's Bay, but rain did make conditions for picking less than ideal.

Overall it is expected there will be more grapes harvested this season compared to last year, when the harvest was down 20%. However, the quality of the wines made from this season's harvest is unlikely to match the exceptional quality achieved last season.

HOP HARVEST VIRTUALLY COMPLETED

The hop harvest for the year is virtually complete. This industry is continually expanding, with some large-scale hop gardens currently being developed and further gardens planned, including some outside of the traditional growing region.

During the pandemic consumption of beer decreased, but it is expected to increase again this year. This has decreased global demand for hops, which has made selling conditions in our international markets more challenging.

The US is the largest export market for our hops. New Zealand is a small supplier in terms of quantity to the global hop markets, but it is renowned for its quality. Our hops typically command a premium price, but when the market is oversupplied it still does put downward pressure on prices.

RURAL PROPERTY MARKET

MORE ACTIVITY

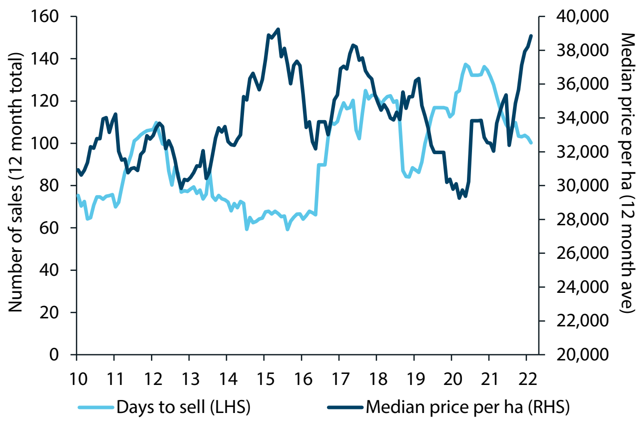
The number of properties trading has increased over the past year, and prices have also lifted a little across most categories. The upward shift in interest rates has not yet dented demand but may have some impact on the market later in the year.

The number of rural properties that has changed hands in the past year has increased on the previous year, with the number of properties transacting now nearly back to the 10-year average.

Prices across all sectors have lifted in the previous year, with the strongest increase occurring in the dairy, arable and horticultural sectors.

Particularly noticeable has been the surge in sales of dairy farms. There have been 281 dairy farms change hands in the past year. These properties have traded at a median price of $38,850 per ha.

DAIRY FARM SALES (12 MONTH ROLLING AVERAGE)



Source: REINZ

Interest in dairy farms is mixed. The strength of the current milk price and expectations for the coming seasons have certainly helped bolster demand, particularly for properties that are well set up for the future.

However, the future of some existing dairying properties is less certain as the rapid changes in environmental regulations will make it untenable for some properties to continue to operate as they currently do. What is less clear is how many of these properties will be able to evolve their operating systems so they meet future requirements.

There is a lot to consider when purchasing a property. Typically, looking at past performance has provided a good guide for future performance. But as regulations continue to evolve it is more important than ever to be looking forward and considering what future production may look like under differing scenarios.

LIVESTOCK PROPERTIES

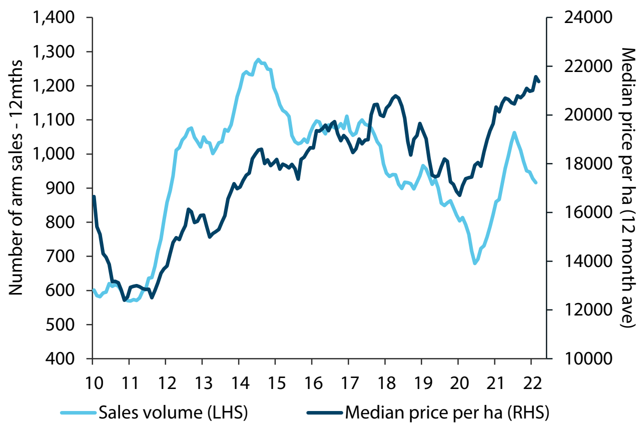
Sales of grazing properties have eased in the past year, but the median price has increased. Returns from sheep and beef farming have lifted, which has been particularly beneficial, but this sector has faced some really tough climatic conditions. Most grazing properties located on the east coast regions such as Gisborne, Hawke's Bay, Wairarapa, Marlborough and Canterbury are looking much greener this season than we have seen in the past couple of years, when consecutive droughts posed a massive challenge. These east coast properties are certainly looking in prime condition now and this may induce additional buyer interest.

Luckily enough, protein prices have been relatively strong throughout the pandemic, which has offset some of the lost production.

RURAL PROPERTY MARKET

Unfortunately, properties in Southland are not faring so well this season. Soil moisture levels in Southland are some of the lowest on record. Pasture production has clearly suffered. While some rain has fallen and conditions have greened up, pastures are extremely short and are unlikely to recover before winter.

LIVESTOCK FARM SALES (12 MONTH ROLLING AVERAGE)



Source: REINZ

HORTICULTURAL INTEREST STILL STRONG

Demand for horticultural properties remains relatively strong and land continues to be converted to horticultural uses. This is very region dependent, but we are starting to see more land being used to grow kiwifruit outside the main growing region. This additional demand is being driven by the exceptional returns this industry has delivered in recent years and the high prices being attained for existing orchards.

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	281	191	217	↑	↑
	Median Price ($ per ha)	38,850	32,044	34,117	↑	↑
Livestock	Number of Sales	905	914	1,007	↓	↓
	Median Price ($ per ha)	21,375	20,500	18,339	↑	↑
Horticulture	Number of Sales	186	181	189	↑	↓
	Median Price ($ per ha)	352,583	276,000	202,844	↑	↑
Arable	Number of Sales	58	55	95	↑	↓
	Median Price ($ per ha)	38,560	30,300	36,442	↑	↑
Forestry	Number of Sales	59	57	52	↑	↑
	Median Price ($ per ha)	10,970	10,537	7,782	↑	↑
All Farms	Number of Sales	1,578	1,513	1,582	↑	↓
	Median Price ($ per ha)	30,708	25,042	24,643	↑	↑

Source: REINZ

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Last updated: 28 February 2022

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