



ANZ RESEARCH
AGRI FOCUS
DECEMBER 2023

LONG, HOT SUMMER AHEAD



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OVERVIEW

Global commodity markets currently vary in performance from 'weak' to 'improving'. Dairy and log prices have lifted, both supported by relatively subdued supply. Meat prices remain under pressure, however, as global supplies are generally strong, whilst demand is still subdued.





Looking ahead, both demand and supply conditions should improve in 2024, although it may not be until later in the year for some sectors.

Weather conditions for pastoral farming have been favourable through spring, with most farmers now managing excess pasture growth. The presence of El Niño means a hot summer is probable, which will favour horticulture production, particularly grapes.

Horticultural markets for New Zealand's main exports vary. A smaller than normal kiwifruit crop has kept prices elevated this season, but the market for wine is oversupplied, and this is pushing down prices and returns for wine producers.

New Zealand's newly elected Government has vowed to limit new regulations. All coalition partners are well represented in the agricultural space. The addition of new ministers with agricultural knowledge is expected to feed into more pragmatic regulations.

Prices at farm/orchard level relative to 10yr average¹

Dairy	Dairy commodity prices have started to improve, and our milk price forecast has lifted to \$7.70/kg milk solids (MS) for the current season. We also forecast \$8.50/kg MS for the 2024-25 season.	
Sheep	Lamb farmgate returns continue to weaken and are expected to fall quickly as a large volume of new-season lambs hits the market after Christmas.	
Beef	Demand for beef is steady, but elevated supplies of beef in the US, South America and Australia are putting downward pressure on pricing.	
Forestry	Log returns have improved slightly but are still relatively low. New Zealand's dependence on China means prices won't lift substantially until demand there improves.	

¹ All prices are in New Zealand dollars, except where otherwise indicated.

ECONOMIC OVERVIEW

THE MACROECONOMIC BACKDROP

Global economic conditions remain challenging, impacting demand for New Zealand's exports. This is expected to continue throughout 2024. Commodity markets generally are under pressure. However, we are starting to see prices improving in some of our major markets, mainly where the supply of goods is constrained.

Interest rates in New Zealand are expected to remain near current levels for much of next year before gradually easing. While we don't see the RBNZ cutting the OCR until early 2025, to the extent financial markets anticipate this, longer-term rates are likely to fall in advance.

GLOBAL DEMAND MIXED

Global economic conditions are deteriorating, but in an orderly manner. This slowdown is evident in the reduction in demand for commodities. Oil prices have softened recently, and these tend to be a good barometer for global economic activity.

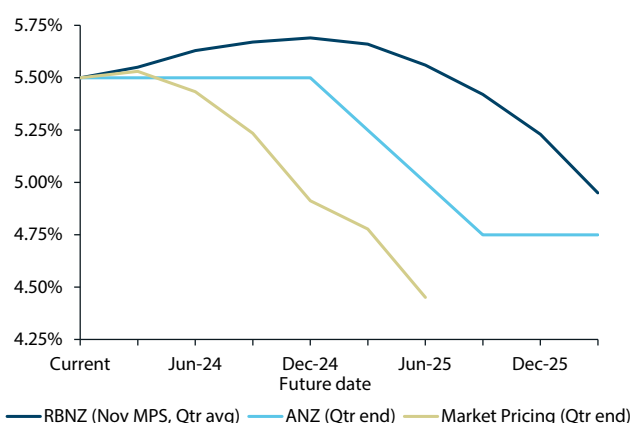
The Bloomberg Commodity Price Index is 7% weaker than a year ago but is considerably stronger than during the pandemic, when demand for energy-related commodities was very low. Food commodities did okay through the pandemic but have not escaped the consequences of the monetary policy tightening implemented in most parts of the world to battle inflation.

The global interest rate hiking cycle is considered to be near a peak. Inflation is now falling, albeit not quite as quickly as most central banks would prefer.

Whether or not the Reserve Bank of New Zealand will need to raise the Official Cash Rate (OCR) again is uncertain. It has warned it may well do so to ensure inflation is conquered in a timely manner should any more unpleasant surprises emerge regarding how long it is likely to take to return inflation to target. At this point,

we **expect** it to conclude that holding the OCR at 5.5% will do the job, but the trade-off for not having raised rates as far as they now wish they had is that they will need to hold rates high for longer.

OFFICIAL CASH RATE FORECAST



Source: Bloomberg, RBNZ, ANZ Research

There is still a risk the economy will rebound more quickly than anticipated, adding inflationary pressure that will need curbing. High immigration is certainly resolving labour shortages and keeping the wheels of our economy turning, but people need dwellings and more demand for housing will put upward pressure on rents and house prices, which is inflationary. Fiscal policy is also still highly stimulatory, and it will take time to turn that ship.

At this stage we anticipate the OCR won't start retreating until 2025.

GLOBAL ECONOMIC DEMAND

Demand is subdued in almost all our major export markets, though some are doing better than others. In this environment it is challenging to sell export products at high prices, even where there is demand.



ECONOMIC OVERVIEW

Several of our export sectors also face competition from other suppliers. This is particularly the case for beef and lamb. The combination of increased supply and weak demand tends to result in particularly low prices. That said there are some glimmers of hope, with demand starting to improve in some markets.

CHINA DEMAND IMPROVING A LITTLE

China continues to buy large quantities of virtually all of New Zealand's export goods, but not as much as in the pre-pandemic years. This means exporters are working hard to get product into markets they may not have done a lot of business with recently.

China's appetite for New Zealand's exports is picking up, but whether this will be enough to firm up prices remains to be seen. Dairy prices have already firmed, and log prices appear to have lifted off the floor. But the same can't be said for meat. Demand for beef generally is robust, however, with the US continuing to buy large volumes and exporters diverting some supply elsewhere. Lamb and mutton are the hardest to divert, due to the limited number of markets that buy these products.

LOW NEW ZEALAND DOLLAR

The NZD remains relatively low against the currencies of most of our trading partners. This is helping lift returns to producers but means imported goods and overseas holidays are more expensive. Prices for imported fuel and fertilisers are likely to remain elevated in the medium term.

NZD/USD



Source: Bloomberg, ANZ Research

Click [here](#) to access our latest forecasts.

DAIRY

MILK PRICES REVISED HIGHER

Dairy markets have rebalanced. Milk supplies have tightened, and demand has improved a little. This has allowed dairy commodity prices to firm.

Global milk supplies are expected to remain subdued in the coming months, as winter and low returns curb supplies in the northern hemisphere, and warmer conditions slow pasture growth in New Zealand.

We have revised up our milk production forecasts for the current dairy season and have released a preliminary forecast for the 2024-25 season.

Dairy commodity markets are steadily lifting, with market dynamics starting to favour sellers. Global milk supplies are growing, but only modestly, which is helping to prevent oversupply in the face of subdued demand for dairy products.

Consumers in many markets are struggling with higher living costs or are lacking the confidence to spend beyond essentials, or both. This is impacting demand for some high-end dairy products.

Dairy commodity prices may not continuously lift in the coming months, but the overall trend is expected to be upward.

Since August, the price of whole milk powder has risen 22%, supported by relatively soft global milk production figures. New Zealand's milk production started the season slowly but posted gains during peak production months. For the season to October, milk solids production was up 0.6%, but there is a risk of a dry summer ahead that could curb supply. Some buyers are building buffer stock. If we have an excellent milk-producing season, 2024 prices could soften.

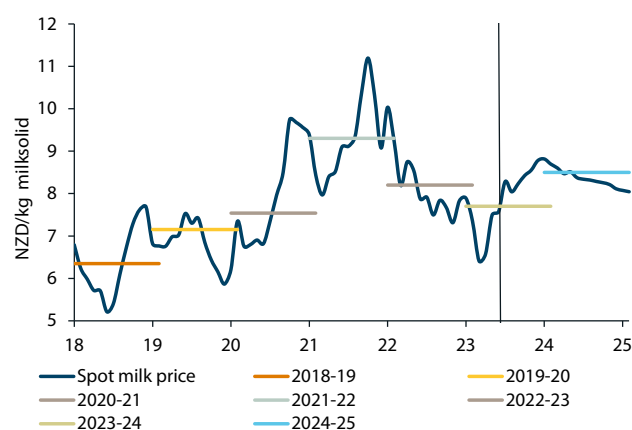
Our milk price forecasts assume dairy commodity prices will lift 5% before the end of the season. The increase is modest, but prices won't move in a linear manner and are likely to bounce around in coming months.

MILK PRICE FORECASTS REVISED UP

Recently we revised up our milk solids forecast for the 2023-24 season from \$7.15/kg MS to \$7.70/kg MS. This forecast price is just slightly below the level at which milk price futures contracts are currently trading.

Fonterra also revised up its milk price forecast by 25c. Its forecast range is now \$7–8, with a mid-point forecast range of \$7.50/kg MS. It has also upped its earning expectation by 5c to 50–65c per share, noting that normally about half of these earnings are retained and the rest paid as dividends.

FARMGATE MILK PRICE FORECAST



Source: Fonterra, ANZ Research

While there is still some time before the 2023-24 average milk price can be determined (next September), a large portion of the price risk is already locked down. By the end of December, about two-thirds of the season's milk will have been produced, and the sales curve is usually not far behind. Much of the risk associated with movements in the NZD will be averted through futures and options.

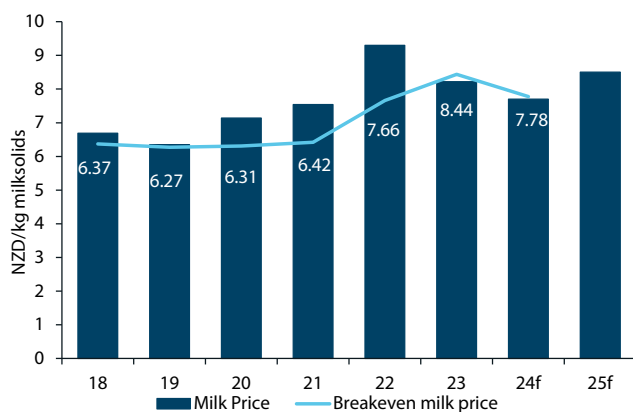


DAIRY

Accordingly, forecasting the season's average milk price tends to be more accurate in the second half of the season. That said, the second part of the season has the greatest season-on-season variation in milk production volumes.

DairyNZ's latest breakeven price for the current season is \$7.78/kg MS. The expected higher milk prices this season mean a larger proportion of farmers may break even. However, budgets for many producers will remain very tight.

FARMGATE MILK PRICE VS DAIRYNZ BREAKEVEN PRICE*



Source: Fonterra, DairyNZ, ANZ Research

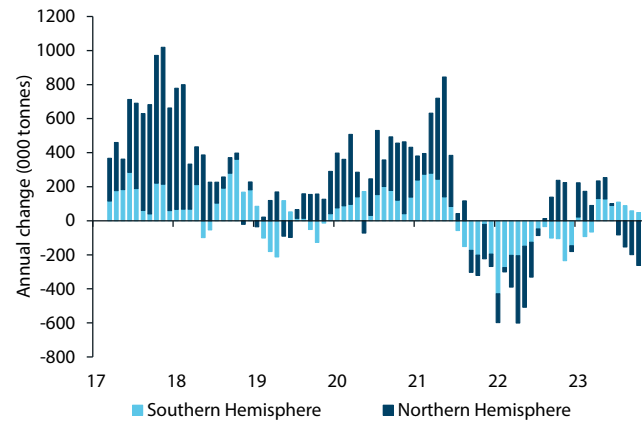
* DairyNZ only produces breakeven milk price forecasts up to the current season

EL NIÑO HERE TO STAY

New Zealand is experiencing an El Niño weather pattern, but this is yet to cause drought conditions (unlike in parts of Australia). The National Institute of Water and Atmospheric Research (NIWA) has advised there is a 100% chance of El Niño persisting through to January and an 80% chance of it continuing through the southern hemisphere autumn.

Soils across most of New Zealand's North Island are still wetter than normal, but some areas are starting to dry out and irrigators are in full swing in drier regions. In the South Island, Marlborough, parts of Canterbury and most of Southland are already drier than normal.

MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS



Source: Fonterra, DairyNZ, ANZ Research

US MILK PRODUCTION SLOWS

US year-on-year milk production for the four months to October is down, with high costs and relatively low milk prices taking a toll. Smaller-scale farms are struggling financially, and some are going out of business. The margin between the milk price and feed costs was extremely low during June and July but has improved a tad as milk prices lifted a little and feed costs eased marginally.

Official US Department of Agriculture milk production forecasts have been pared back, as the number of dairy cows is expected to fall. Milk yields per cow are expected to continue to grow, but at a slower rate.

US-sourced skim milk powder and cheese are still competitive on global markets, so that supply is likely to continue. However, there is less incentive for the US to export butter at current prices, so its supply to global markets is expected to fall.

EUROPEAN MILK SUPPLIES SUBDUED

Milk production in Europe is expanding, albeit at a slow pace. Official forecasts expect there to have been a 0.3% increase in milk supply across 2023. Growth rates were slightly ahead of this earlier in the year, but year-on-year monthly production has been falling since September.

European farmers are facing challenges similar to those of New Zealand's farmers. Milk prices are relatively low, costs are inflated and high interest rates are a burden.

Milk production is now falling in most of major dairy-producing countries in the European Union. A 0.2% increase in production is officially forecast by the European Commission for 2024, but we are not likely to



DAIRY

see any growth occurring in the coming months. Milk supplies are currently subdued, meaning European dairy companies won't be pushing more product onto the global markets than normal.

MARKETS REBALANCING

The overall softening in milk supply globally is helping the market rebalance and has allowed prices to firm a little. As yet, the price increases are not enough to encourage extra supply, but they are helping farmgate returns.

New Zealand's dairy farmers are also benefiting from a low NZD. While it does increase farm imported input costs, it also lifts the milk price.

2024-25 MILK PRICE FORECAST

Looking ahead to the 2024-25 season, ANZ has released a farmgate milk price forecast of \$8.50/kg MS. A lot could happen between now and the end of the 2024-25 season, so any forecast this far in advance needs to be read with caution.

Our forecast assumes some improvement in dairy commodity prices and only a minor increase in the value of the NZD. But looking at the market today, we expect to see returns improve, supported by milk production continuing at low volumes.



LAMB & WOOL

LAMB AND MUTTON MARKETS WEAK

Selling lamb and mutton remains challenging, as demand is weak relative to supply. Additional lamb and mutton from Australia is putting downward pressure on global prices, particularly in China and the Middle East.

Farmgate lamb prices are dropping rapidly and are not expected to stabilise until we get past the peak supply period.

Wool pricing had improved but is also now heading south again, meaning a very tough season ahead for sheep farmers.

STRONG EARLY SUPPLY SUPPRESSING PRICES

Markets for sheep and lamb meat are oversupplied and pricing is weak. It is proving difficult to find buyers for lamb and mutton, so pricing has been under pressure. This is expected to become even more challenging as the season progresses and large volumes of new-season lamb hit the market.

Lamb production on farm in New Zealand is generally going well. Lambing percentages were generally high and early-season conditions for pasture production have also been good, although that varies from region to region. So far, early-season lambs presented for processing are in good condition and at good weights.

Farmers have been actively trying to get lambs away as early as possible and selling store lambs slightly earlier than normal. The expectation that schedule prices will fall after Christmas is driving this trend.

While most farms are battling excess pasture growth rather than a lack of growth, El Niño conditions have increased the chance of a hot dry summer. This weather system was forecast well ahead, so this has also been a factor in farmers' decisions to quit stock early.

Many North Island east coast farms are still recovering from flooding and landslides earlier in the year. Many are carrying less stock than usual and are still repairing fences, which is making it challenging to manage feed quality.

AUSSIE LAMB FLOODS THE GLOBAL MARKET

There has been more Australian lamb and mutton on global markets this year than there has been for some time. By the end of last year, sheep numbers in Australia had recovered after droughts, fires and floods a few years ago severely depleted stock. But many regions faced challenging conditions again earlier this year, which resulted in a cull of stock. Whilst the number of animals being slaughtered has now normalised, Australian meat processors have had much more meat to export.

Australia and New Zealand tend to export meat to similar markets, although Australia has not been as reliant on the European markets as New Zealand has.

China is the largest market for mutton and lamb from both countries. For many years it has been a strong buyer of New Zealand's mutton and lower-priced cuts of lamb. However, demand from this market has waned, as low consumer confidence has stifled enthusiasm for relatively highly priced forms of protein.

Exacerbating the reduced demand, Australia is now selling a lot more lamb and mutton to China, which has put considerable downward pressure on pricing. Exports of Australian lamb were 9% higher for the first 11 months of 2023 than for all of 2022, while mutton exports are 31% higher for that same period. A larger proportion of Australia's mutton has been directed to China, resulting in a 50% increase in mutton exports this year.

Australia has also exported more into the Middle East, including Saudi Arabia, Dubai and Oman. Given that Australia exports about twice as much mutton as New Zealand, this has put pressure on markets.



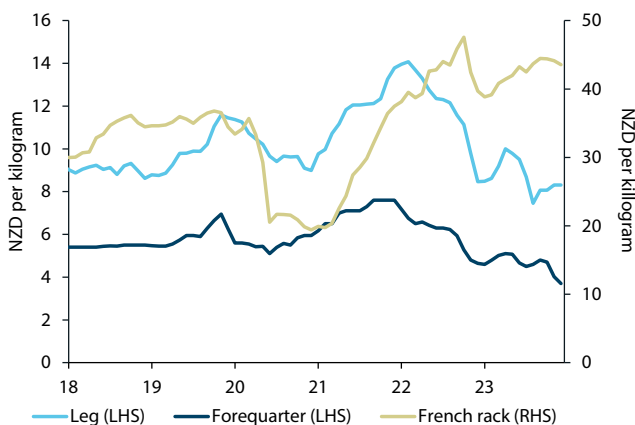
LAMB & WOOL

For lamb, the US has been one of the better performing markets this year, but it tends to purchase only the higher-quality cuts. Australia exported less lamb this year to the US, while New Zealand exported more.

In general, markets are expected to remain oversupplied this season, so it will be challenging for exporters to get the returns they are after.

Pricing for the various cuts differs markedly, and is also influenced by the markets they are being sold into. Without doubt, the US market for French racks is the standout for price. Unfortunately, this is only a small part of the lamb carcass, and the other cuts need to be sold into less lucrative markets.

LAMB CUT PRICES



Source: AgriHQ, ANZ Research

FARMGATE PRICES EXPECTED TO KEEP FALLING

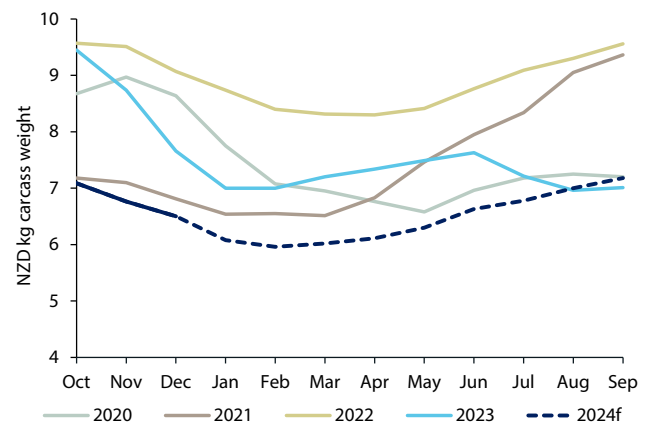
The farmgate price for lamb is forecast to recede as the season progresses. While this is normally the case, the fall in schedule prices started earlier than normal and prices are expected to drop below \$6/kg carcass weight (CW) by Christmas.

Across the October 2023 to September 2024 season, we are forecasting a 17.5kg lamb will return, on average, \$110/head. This is \$20 less than last season and \$40 less than the 2021-22 season.

Meanwhile, returns from mutton are expected to be even more dismal, at about half the five-year average.

This sharp drop in returns at a time when farm operating costs are high is putting pressure on producers' cashflows. This is particularly the case for farms reliant on lamb. Other income streams, such as beef and wool, are also weaker than normal at present.

FARMGATE LAMB PRICE TREND AND FORECAST

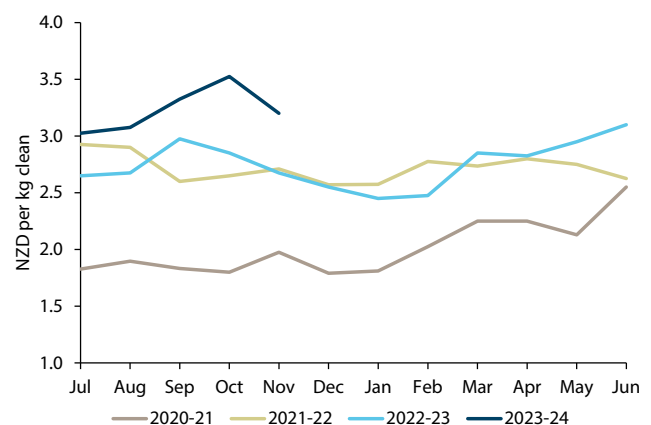


Source: AgriHQ, ANZ Research

WOOL PRICES TRENDING LOWER AGAIN

Wool prices are about 20% higher than they were this time last year, but still low in absolute terms. It is also disappointing that wool prices are trending down again as greater volumes of wool start to become available.

STRONG WOOL PRICES



Source: PGG Wrightson, ANZ Research

International buyers have had to compete harder for wool in recent months, and this pushed prices up to a peak in October.

There is less scoured wool available from New Zealand at present due to flood damage to the Napier scouring plant earlier in the year. The smaller volumes have helped lift returns. It has also meant higher than normal exports of greasy wool.



LAMB & WOOL

One factor working in favour of exporters has been the fall in shipping costs this year. However, these may rise again, which could limit the volume of greasy wool exported in bales pressed on farm. Normally bales are repacked to compress volumes to reduce shipping costs; but when shipping costs are low and labour is scarce, it can be more economical to export in the farm-baled state.

Looking ahead, shearing season is cranking up again, although frequent bursts of wet weather in eastern North Island regions have slowed the start of the shearing season.



BEEF

HIGH SUPPLY PUTS PRESSURE ON PRICES

Global beef prices have softened as international markets are well supplied. Prices are expected to improve in coming months, which will coincide with the seasonal increase in beef supply from New Zealand.

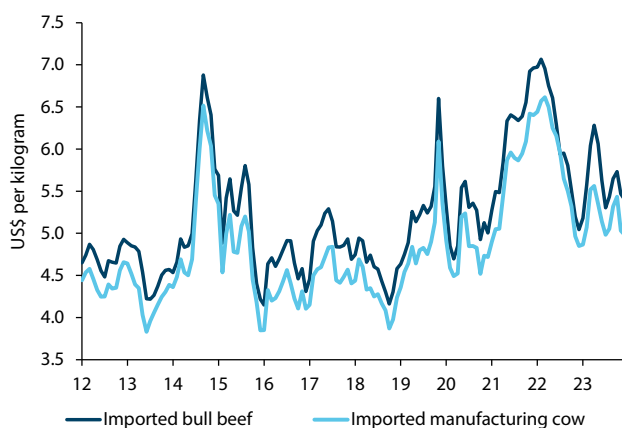
Overall demand for beef is steady and is expected to remain so. Demand from China has improved a little, which is particularly encouraging.

US DOMESTIC SUPPLY LIFTS

Global markets are well supplied with beef at present, which is putting some pressure on prices. Demand in the US is solid and in China is improving, which is a positive sign.

US domestic meat supplies are at elevated levels and are putting downward pressure on pricing. Current prices for imported bull and cow meat entering the US market have softened by 6% and 8% respectively in the past two months.

US IMPORTED BEEF PRICES



Source: USDA, AgriHQ

Drought in several parts of the US has resulted in more cattle coming off pastures and entering feedlots. The surge in feedlot stock means buyers know they will have adequate supplies to meet short-term needs. But it also means the domestic beef supply will slow down in a few months. And this will fortuitously coincide with New Zealand's seasonal cull of dairy and beef cows.

CHINA DEMAND IMPROVING

China's demand for imported beef is strengthening. As yet, this is not enough to lift prices, but it is making it a little easier to achieve sales. The positive sentiment also bodes well for the future.

New Zealand's beef exporters have diverted some supply away from their two main markets, the US and China, into secondary markets such as Japan and Canada. Japan is a big importer of beef but it mainly buys grain-fed beef from the US and Australia. New Zealand used to sell a lot more beef into this market, but the rise in demand from China in recent years soaked up supply that previously headed to other Asian markets such as Japan and South Korea.

GLOBAL SUPPLIES STILL STRONG

In addition to the extra beef being produced in the US, there is also a lot of South American beef available in global markets. Some from Brazil has been stored frozen for a long time and is being offered at a discount. The presence of this cheap meat is containing potential price improvements. Supply from Uruguay is also high, but Argentina is processing less than normal.

In the US, market prices are poised to improve once domestic supplies ease, which is forecast to occur in a few months.



BEEF

The volume of beef being processed in Australia has slowed now that many drought-hit regions have received rain. The volume of beef exported from Australia this year has been exceptionally large, and is competing with New Zealand supplies in both the US and China.

FARMGATE PRICES TO STABILISE

The volume of beef being processed locally is relatively small for this time of the season. Schedule prices have eased a little in the past few months for most grades of beef, but the decreases have been modest relative to movements in international prices.

Cattle processing is a little slower than normal. Many North Island farms are finding themselves with more feed than anticipated, prompting farmers to hold onto cattle.

At present there is plenty of processing space available, but this is expected to tighten as we head into the holiday period when plants operate on reduced schedules for a few weeks. From January it may be harder to get space, but this will depend on weather conditions and available feed.

GRAIN

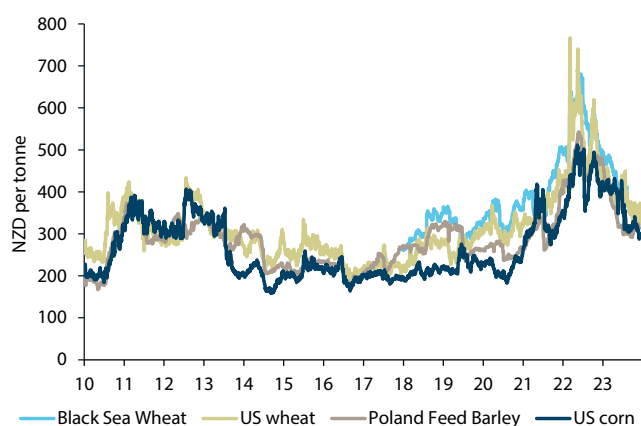
GRAIN PRICES RETREATING

Grain prices are generally trending lower in international and domestic markets, although milling wheat prices have firmed a little recently in New Zealand. Local dairy-industry demand for feed grains may improve a little during summer following the recent upward revision in milk prices.

Global wheat supplies are expected to tighten in 2023-24, as exports from Russia and Australia are forecast to be lower. Australia had a bumper production season last year, so this year's volumes are expected to be lower despite recent upward revisions to forecast volumes. Less wheat is expected from Ukraine this year, as the initiative to safely export grain through the Black Sea has now expired. Most of the grain leaving Ukraine now is going via Romania or through Europe. Romania has upgraded its rail links with Ukraine so more grain can be freighted to its port of Constanta to be shipped elsewhere.

Although global wheat supplies are forecast to be lower, production of coarse grains such as maize and barley is expected to be greater. China is expected to import more grain, primarily to feed pigs and cattle.

WORLD GRAIN PRICES



Source: CME Group, Polish Ministry of Agriculture & Rural Development, ANZ Research

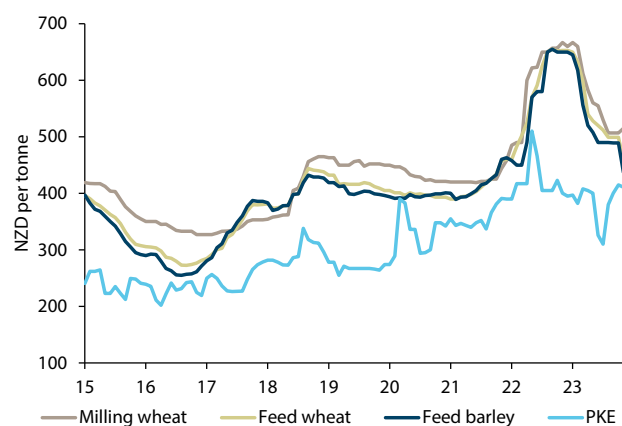
LOCAL MILLING WHEAT PRICES UP

The market for milling wheat has been uncertain for the past couple of years due to changes in contract terms and availability. This year not a lot of milling grain has been contracted. Last year the price paid for milling wheat was only marginally higher than feed wheat, resulting in many growers opting to produce for the feed market, as it incurs lower production costs.

This season, the margin between milling and feed wheat has widened considerably. On average the premium for milling wheat tends to be about \$25/t, but the premium is now at least twice this amount.

Feed wheat and feed barley prices have been negatively impacted by reduced dairy industry demand. Margins on dairy farms are slim or in many cases non-existent, so farmers are looking to reduce costs where they can. Feed is now a large expense for many dairy farmers, so they are trimming purchases. Favourable conditions for pasture have alleviated some short-term need for feed. But heading into the drier part of the season, with milk price forecasts revised up, dairy farmers may renew their interest in feed grain.

NEW ZEALAND GRAIN PRICES



Source: NZX



DEER

FARMGATE PRICES HOLDING

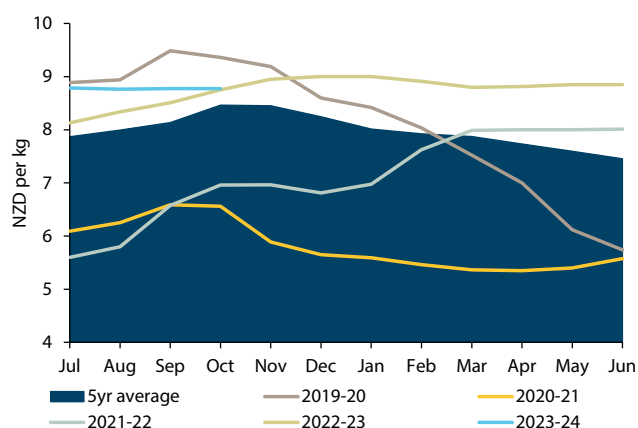
Farmgate prices are holding steady, despite the seasonal shift from chilled to frozen venison. It remains to be seen if pricing will need to be revised down now that the window for selling chilled venison to the lucrative European Christmas market has closed.

Farmgate prices for venison continue to hold up at levels a little above the five-year average. Processors have been paying about \$8.80/kg CW for young stags. While this is still below the heady levels of 2018, when the price exceeded \$11/kg CW, it is significantly higher than the \$5.20/kg CW seen during the pandemic, when demand from European restaurants plummeted.

Most venison producers are aware that it is unrealistic to expect \$11/kg CW, but would like to see returns a tad higher than they are currently.

The stability in farmgate pricing is certainly welcomed by the industry but whether meat processors will be able to continue to pay these prices is debatable.

VENISON FARMGATE PRICES (BASED ON 60KG STAG)



Source: AgriHQ

Processors will now be freezing most of the meat being processed.

Venison has been outperforming other red meats in recent times, but it will be challenging to maintain returns given the tightening economic conditions in many markets.

The decision to diversify away from the European markets and sell more into the US and China is paying off. The US market in particular is proving more resilient than other global markets at present.

New Zealand's venison exporters are no longer as reliant on European markets – particularly Germany – as they once were. This will help support pricing, as buyers will have to compete with other regions to secure supply.

REGULATORY UNCERTAINTY FOR VELVET

There are challenges around future access for New Zealand velvet into China. A review of regulations is underway, as existing rules have been interpreted differently by various Chinese authorities. As the regulations stand, only dried velvet will be allowed into China from 1 June 2024.

Velvet is typically exported from New Zealand in frozen form, then processed in-market. China is our largest buyer, but much of this is then exported to South Korea. New Zealand exports some velvet directly to South Korea.

New Zealand has limited drying facilities so is not able to process all the velvet it currently produces. Exporters are confident the issues will be resolved, as Chinese importers are also keen to continue importing frozen velvet.

In the short term, we may see an increase in the volume of velvet exported directly to South Korea. Until the issue is resolved, there will be uncertainty for velvet producers. But over the longer term, clearer rules are likely to help the industry.



FORESTRY

LOG PRICES IMPROVE

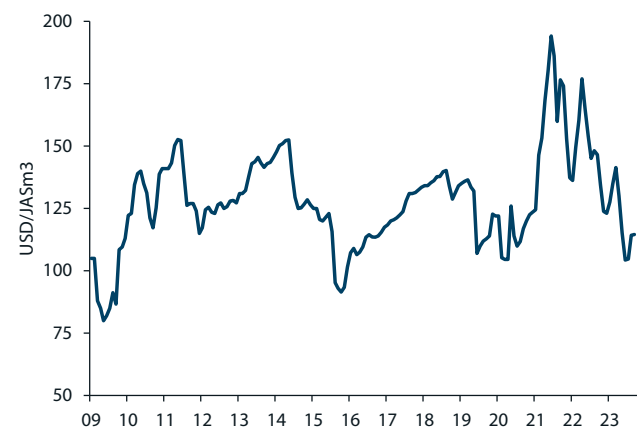
Log prices have improved a little as export demand firms. There is also more interest from local mills for timber as New Zealand heads into summer and building activity increases.

CHINA DEMAND IMPROVES

Demand from China for imported logs has lifted as the volume of logs stacked at Chinese ports diminishes. End-user demand for logs in China remains steady at relatively normal levels for this time of the year. This is positive given the widely publicised slowdown in China's construction sector, as it indicates there is additional demand for softwood from other users.

Demand for logs from this market is expected to continue to improve. A stimulus package announced by the Chinese government last month, designed to support cheaper financing for construction, is expected to support demand for logs in the medium term.

UNPRUNED A-GRADE LOG PRICE



Source: AgriHQ

LOGS HEAD TO INDIA

Exports of New Zealand logs to India stalled some years ago when it required all imported logs to be fumigated with methyl bromide. This gas is no longer approved for use in New Zealand, so the regulation shut our logs out of the market. At the time the regulatory changes were made, demand for logs from China was relatively strong, so logs previously destined for India were simply diverted to China.

Now that demand from China has eased, exporters are again looking at India. To get around the regulations, logs can be fumigated on ships at sea. To do this, ships must carry logs in the hull. Other freight can be carried on deck, but it is more expensive to ship logs this way.

A recent trial shipment has landed in India, but exporters are still working through the financial viability of this market. If demand from China improves, we may not see many logs shipped to India.

LOCAL DEMAND LIFTING

Local mill demand for timber is improving as we enter the busy summer construction period. Commercial builders tend to be busy framing up houses while the weather is good. The DIY crowd also makes the most of the summer weather and holidays for small construction jobs such as new decks and fences.

This is pushing up end-user demand for timber locally and mills are experiencing additional demand. Most mills are still finding finances challenging, particularly those focused on the export sector. Labour is expensive, and some mills will shut down over summer to save on costs and to help retain staff.

REGULATORY CHANGES

New Zealand's newly formed Government has committed to [numerous regulatory changes](#) that will impact forestry.



FORESTRY

The Government plans to stop the review of the Emissions Trading Scheme. Additional rules are expected to limit the planting of trees on highly productive flat land.

The review has caused uncertainty, particularly in the carbon markets, and has therefore reduced the quantity of trees being planted. Just stopping the review won't necessarily fix that problem.

Other changes the new Government has committed to include:

New government commitments	Possible impacts
Amending the Resource Management Act 1991 to make it easier to consent new infrastructure and housing Green	This may increase local demand for timber
Letting farmers offset sequestration against on-farm emissions.	This may encourage more planting and retention of existing trees on farms.
Amend the National Environmental Standards for Plantation Forestry regulations to place a duty on harvesters to contain and remove post-harvest slash	These changes were already largely occurring as part of the social licences the industry must adhere to.

Todd McClay now holds the Government's agriculture and forestry portfolios, so any further regulatory change is likely to be done in a manner that considers the implications for both sectors.

NZ CARBON PRICE



Source: Bloomberg, ANZ Research

The [6 December auction of carbon credits](#) once again resulted in no units traded. This means the units allocated by the Government for release in 2023 via the quarterly auctions will now be written off. This will tighten the total number of units in circulation, which in theory should support prices. However, the market still has a surplus of units, so we have not seen prices firm. In fact, pricing in the secondary markets has actually fallen below \$70/NZU since the December auction.



HORTICULTURE

KIWIFRUIT RETURNS HIT RECORD LEVELS

Kiwifruit returns will be strong this season, with Zespri recently revising its forecast price for Green variety to a record level.

Wine is currently more challenging to sell than kiwifruit, as consumer spending in high-end restaurants remains subdued.

KIWIFRUIT: STRONG RETURNS FORECAST FOR GROWERS

Orchard-gate prices for all categories of kiwifruit have been revised up. All fruit is now in market, and sales are almost complete, which has given Zespri the confidence to lift its forecast ranges and mid-points.

ORCHARD GATE FORECAST PRICES - NOVEMBER 2023

Kiwifruit variety	2023-24 per tray forecast	2023-24 per tray forecast range	2023-24 per ha forecast	2023-24 per ha forecast range
Green	\$9.00	\$8.75 - \$9.25	\$61,916	\$60k - \$64k
Organic Green	\$12.00	\$11.75 - \$12.25	\$53,708	\$53k - \$55k
SunGold	\$12.35	\$12.10 - \$12.80	\$140,451	\$138k - \$143k
Organic SunGold	\$13.10	\$13.90 - \$14.40	\$109,154	\$107k - \$111k
Sweet Green	\$10.25	\$10.00 - \$10.50	\$48,057	\$47k - \$49k
RubyRed	\$26.10	\$25.60 - \$26.60	\$40,371	\$40k - \$41k

Source: Zespri

The smaller-than-normal crop this season allowed fruit to be distributed and sold earlier.

The forecast price for Green variety is a record \$9 per tray. SunGold is forecast to return \$12.35 per tray, well above the prices achieved last year. But higher prices have been paid in two other seasons.

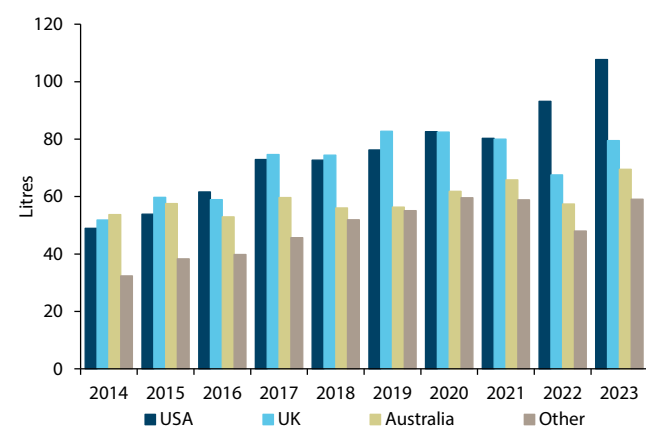
Fruit quality has improved considerably, which is what dragged down last season's returns to growers. The faster distribution, along with extensive checks throughout the supply chain, assisted with quality management.

The challenge for Zespri will be to maintain returns next season when the kiwifruit crop is expected to be significantly larger.

WINE: SURPLUS BUILDS IN-MARKET

Wine exports are proving a little more challenging this season. Slower economic conditions in many markets are making it more difficult to sell wine. Demand from high-end restaurants has slowed, as diners visit less frequently.

NZ WINE EXPORTS BY VOLUME (YEAR TO JUNE)



Source: Stats NZ



HORTICULTURE

Exporters are finding it harder to sell the wine they have on hand, which is putting downward pressure on margins for wine makers. However, returns for growers lifted this season, with more competition between wineries looking to source grapes.

Export volumes are falling, and returns are retreating at a similar pace.

In 2023, New Zealand's vignerons harvested 501,000t of grapes, 6% less than the previous season. Marlborough, which grows 81% of New Zealand's grapes, was down 5%. Production in Gisborne was down 43% and Hawkes Bay fell 4% due to the floods at harvest time earlier this year.

Looking ahead to the next harvest, vineyard managers are generally happy with how the season is progressing. They will be hoping for a long, hot summer to ripen fruit. With El Niño conditions present, that may be delivered.

Marlborough is already drier than normal, as are some parts of Canterbury and Otago. The opposite is happening in the North Island wine-growing regions, with Hawke's Bay and Gisborne wetter than normal.

RURAL PROPERTY MARKET

RURAL PROPERTY MARKET STILL SLOW

Rural property sales remain subdued, and it is a buyers' market.

Prices have lifted a little in some sectors and the change of Government has renewed confidence in some rural sectors, which may translate into a more active property market in the coming months.

SALES ACTIVITY LOW

The property sales market is subdued at present, but we may see increased activity in the coming months now the new Government is in place. Despite no real changes in policy as yet, rural sector confidence has lifted.

The high cost of borrowing is taking a greater toll on the rural sector than on the economy in general. Many in the primary sectors are carrying relatively high levels of debt, which can limit the ability of businesses to invest or expand operations. But for those who are well positioned to buy rural property, it is a buyers' market.

DAIRY FARM SALES NUMBERS DOWN

The lift in forecast farmgate dairy prices means a larger proportion of farms than previously expected will be able to at least break even this season. This may stimulate confidence in the industry.

In the past year, the number of dairy farms traded was 25% lower than the 10-year average. The median price at which dairy farms traded in the past 12-months was 5% below the prior year, on a per hectare basis.

Livestock properties aren't selling as quickly as they were a year ago, but the number of transactions for this class of property still exceeds the 10-year average, selling more quickly than they have traditionally.

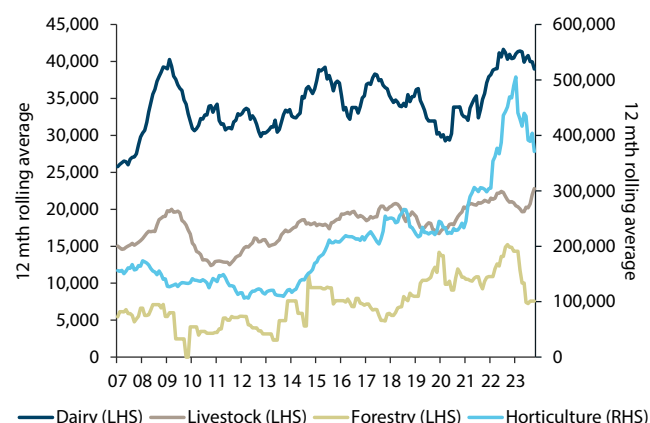
While farm sales have slowed, the median selling price per hectare has risen, indicating there is greater demand for higher-quality properties. There is a massive range of farm types that fall into this category, with everything from flat 'finishing' country to extremely steep hill country.

What has been noticeable recently has been the lack of demand for farms for forestry conversions. This may soon change if the sector becomes more confident in future returns from forestry carbon credits. The Government has advised it plans to abolish the current review of the Emissions Trading Scheme, but it is not yet clear what this means for carbon markets.

HORTICULTURAL SECTOR LESS CERTAIN

Sales of horticultural properties have slowed considerably in the past 12 months. Improved returns for kiwifruit this season are stimulating additional demand in this sector, but overall investor appetite is much more subdued than it was a few years ago.

MEDIAN PRICE PER SECTOR (12-MONTH ROLLING AVERAGE)



Source: REINZ



RURAL PROPERTY MARKET

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	167	263	223	↓	↓
	Median price (\$ per ha)	38,973	40,973	35,649	↓	↑
Livestock	Number of sales	589	857	962	↓	↓
	Median price (\$ per ha)	22,808	20,975	19,309	↑	↑
Horticulture	Number of sales	70	132	190	↓	↓
	Median price (\$ per ha)	371,143	469,500	255,928	↓	↑
Arable	Number of sales	32	49	92	↓	↓
	Median price (\$ per ha)	37,400	35,871	39,505	↑	↓
Forestry	Number of sales	48	45	54	↑	↓
	Median price (\$ per ha)	7,573	14,850	9,163	↓	↓
All farms	Number of sales	986	1,434	1,558	↓	↓
	Median price (\$ per ha)	28,950	28,775	26,280	↑	↑

Source: REINZ

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Last updated: 18 April 2023

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